ECONOMIC IMPACT OF THE CORONAVIRUS PANDEMIC

27TH FEBRUARY 2021

SAUL ESLAKE

CORINNA ECONOMIC ADVISORY PTY LTD

What's new?

The world

- There were just under 2.7mn confirmed new infections this week, a slight increase on the previous week after six consecutive weekly declines, but the number is still well below the peak of almost 5mn in the second week of January (slide 4)
- More than half the increase in cases over the past week occurred in Europe, with Brazil, India and the Middle East accounting for most of the rest (slide 5)
- Over 90% of Israel's population has now had one shot (and 37% have had both), as have over 28% of the UK's and 20% of the US's (slide 18): the Israeli evidence is increasingly clear that vaccines work (slide 19)
- Although CPI inflation remains low in major 'advanced' economies (slide 40), evidence continues to mount of at least a temporary spike in goods prices, especially in the US (slide 40), prompting a significant rise in bond yields this week (slide 43)
- Fed Chair Jay Powell was *über*-dovish in his semi-annual testimony to Congress this week, and was supported by other Fed officials in re-iterating that it will be a long time before the Fed starts rasing rates (slide 63)
- 40 countries have now reported Q4 GDP estimates, with five showing positive growth from Q4 2019 (slide 25)
- One of those five is India, whose Q4 GDP was 0.4% above Q4 2019, a big turnaround from a 24.4% fall over the year to Q2 (slide 52)
- The New Zealand Government amended the RBNZ's remit to require it to take housing prices into account in its monetary policy and financial stability deliberations (slides 150 and 151)

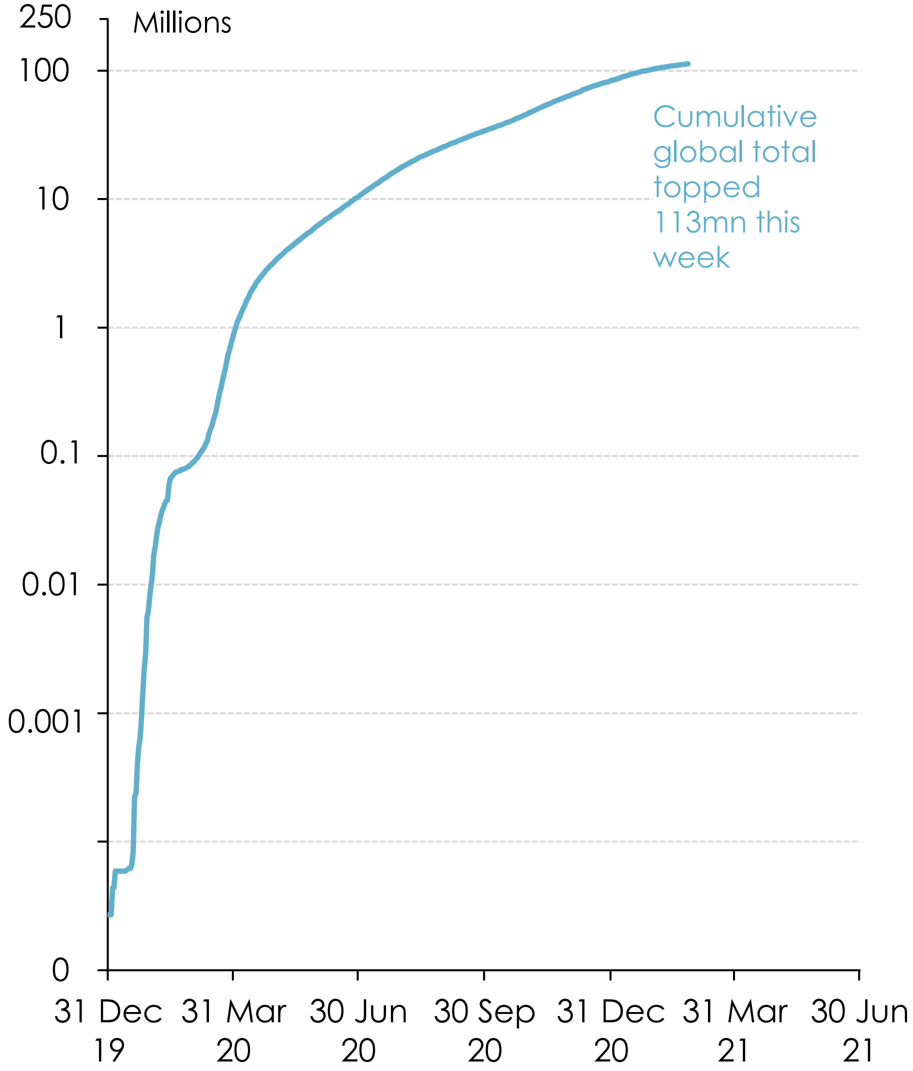
Australia

- Australia recorded 40 new Covid-19 cases this week, 9 more than in the previous week (slide 8) although all but two of those were acquired overseas (slide 9)
- Australia's comparative success in confronting the health and economic challenges of the past year have resulted in a significant increase in trust in government (slide 21)
- As of February, fewer businesses are experiencing falls in revenues and more are planning to increase employment (slide 85) – but it's medium and large businesses which will be the 'engine rooms' of job creation (slide 86) and investment (slide 100), not small ones (despite the huge skew in tax and other incentives towards 'small business')
- Business capex rose 3% in Q4 last year, the first increase in two years (slide 98), and the first survey of capex intentions for FY 2021-22 points to a strong rebound in investment next fiscal year (slide 100)
- New homes sales data for January confirm that at least part of the surge in housing indicators in late 2020 represented a 'bring forward' of demand ahead of the tapering of government grants (slide 106)
- Preliminary merchandise trade data suggests that Australia may have recorded a record trade surplus in January (slide 109) – and the bilateral surplus with China has thus far been little affected by China's trade sanctions (slide 110)
- Wages rose 0.6% in Q4 last year, leaving the annual rate unchanged at a record-low 1.4% (slide 120)
- Financial markets have started to contemplate the possibility that the RBA could raise rates sooner than 2024 (slide 136) even though the RBA bought more bonds this week than at any time in the past 10 months (slide 137)

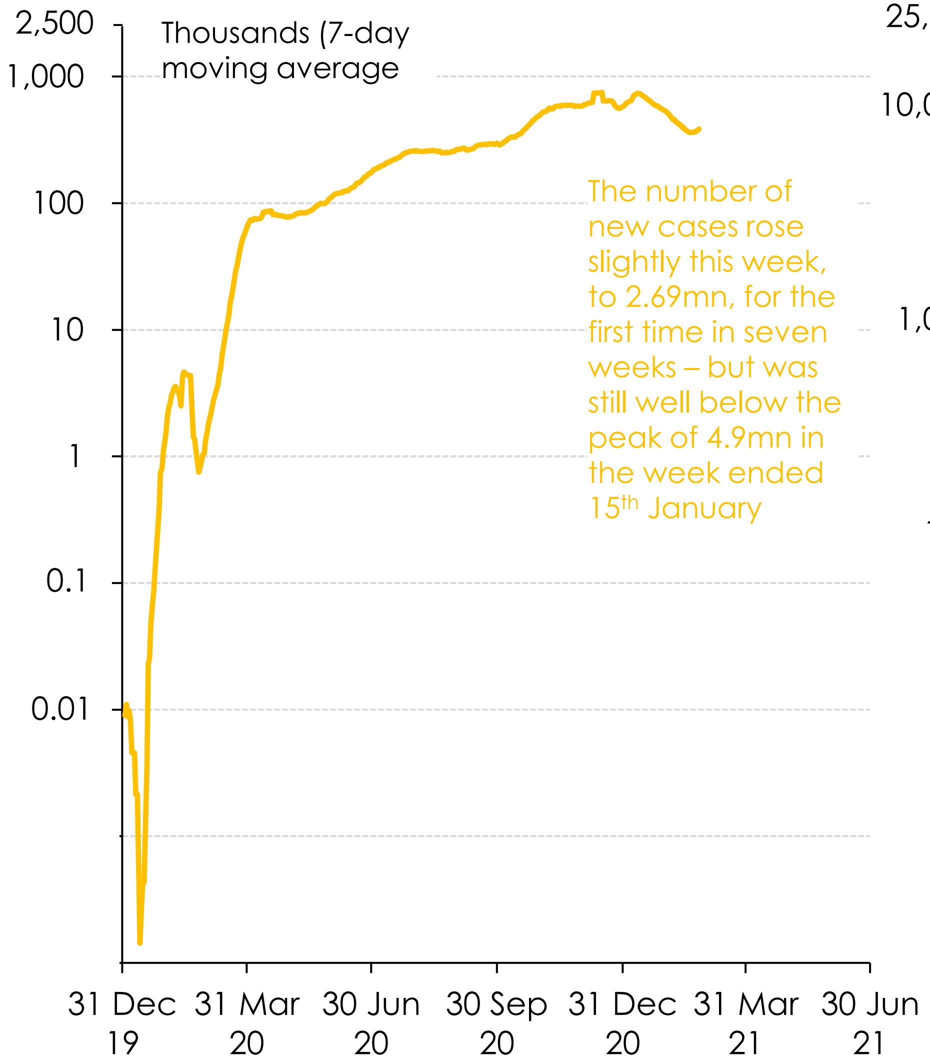
The virus

The total number of new cases world-wide rose slightly this week, but was still well below the peak in early January, while deaths continued to fall

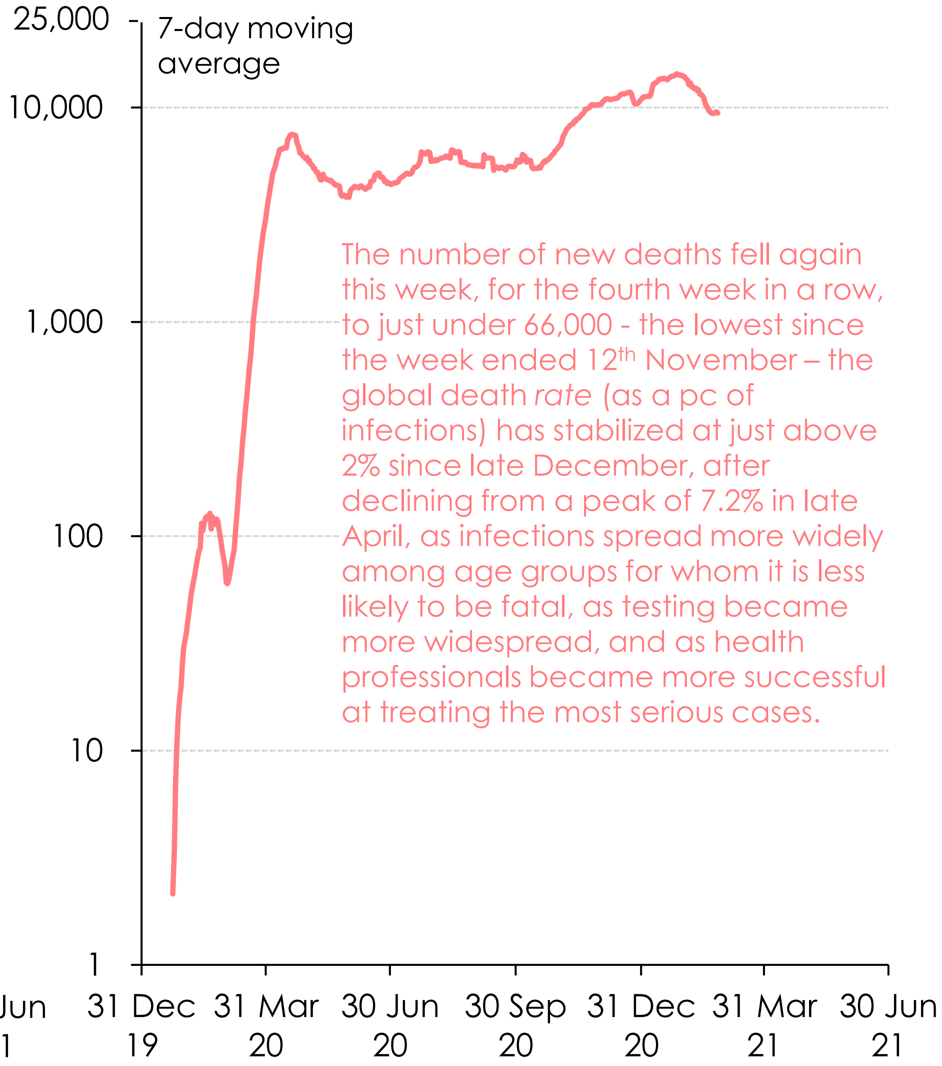
Cumulative confirmed cases – global total



New confirmed cases – global total



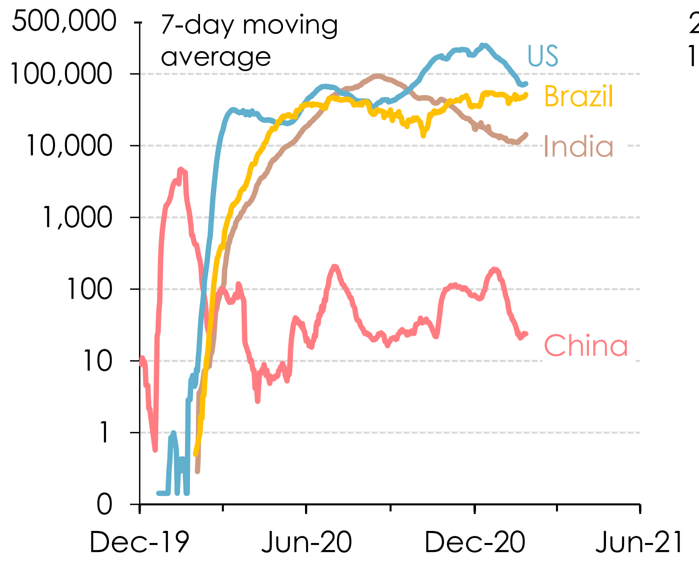
New deaths – global total

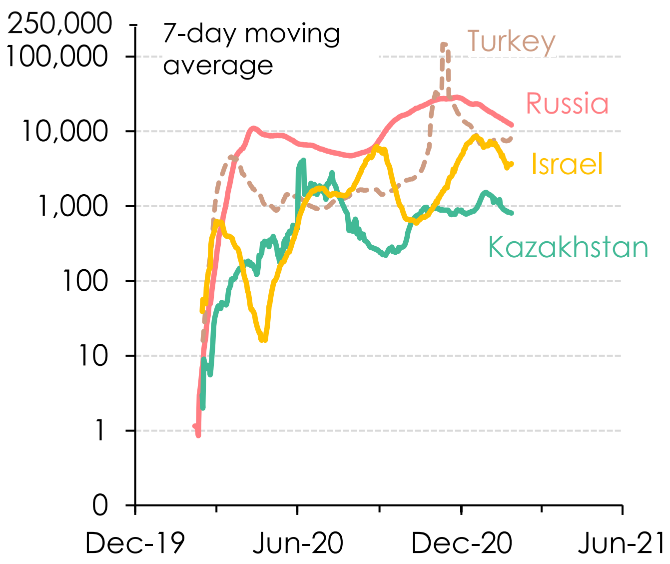


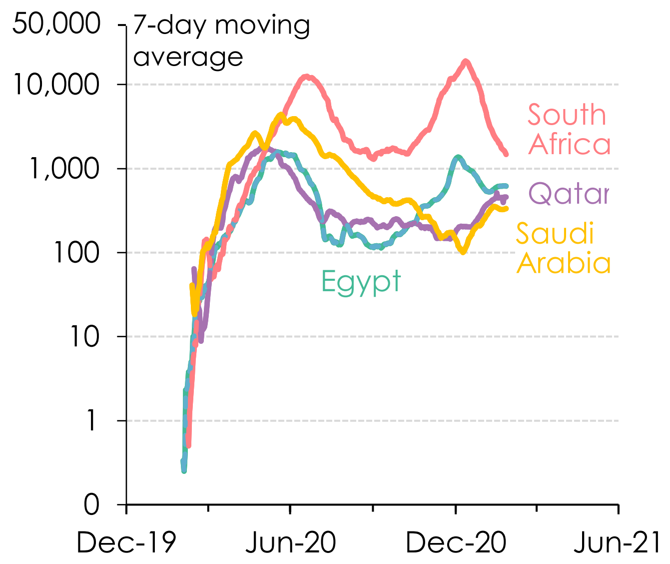
Note: All charts are on logarithmic scales. Data up to 25th February. *Source:* University of Oxford, Our World in Data.

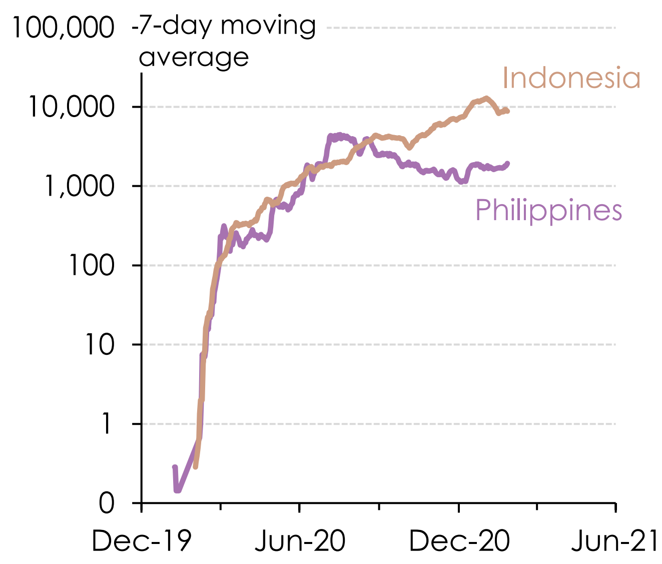
Europe accounted for 52% of the increase in new cases last week, Brazil 26%, India 10% and the Middle East 6%

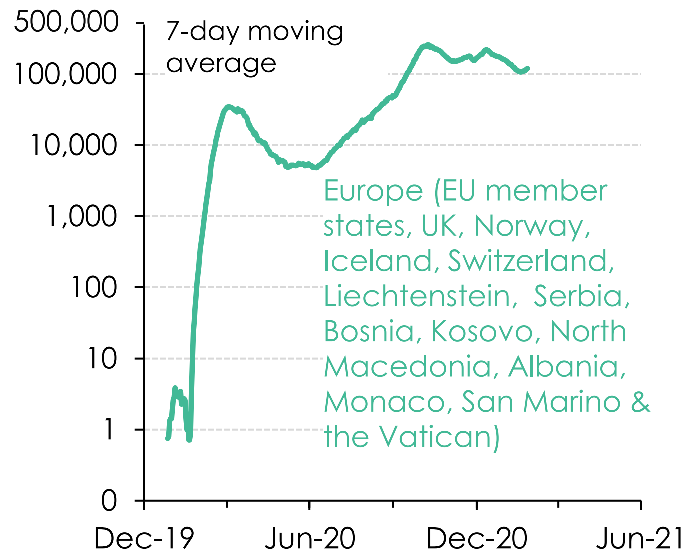
Daily new cases – selected countries with large populations and/or rapid growth in cases

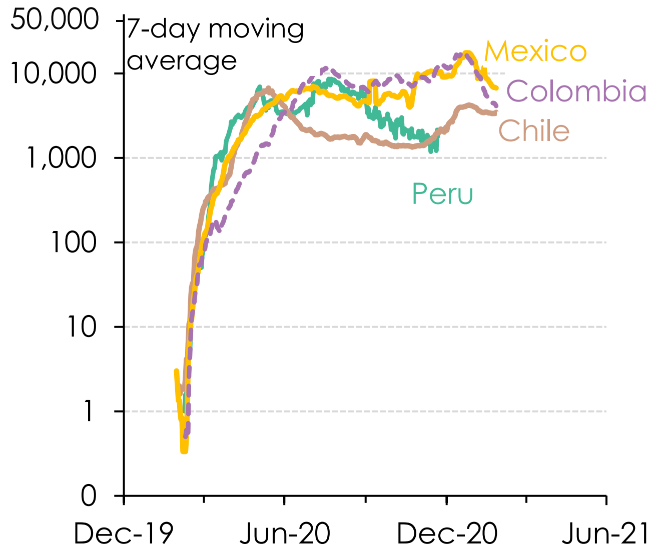


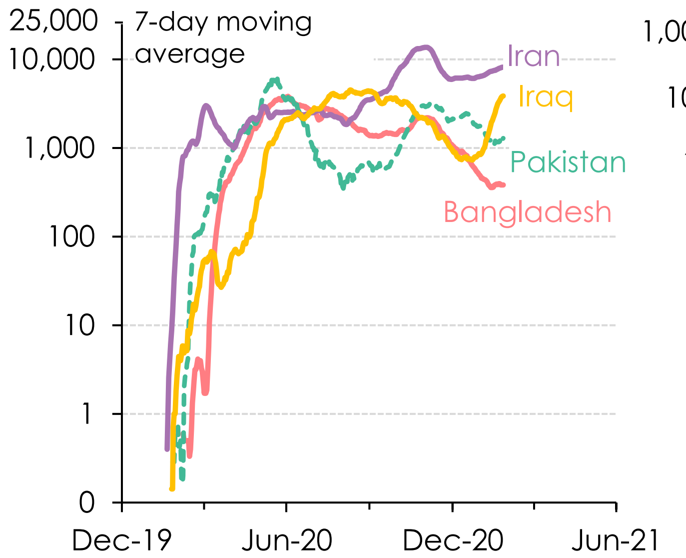


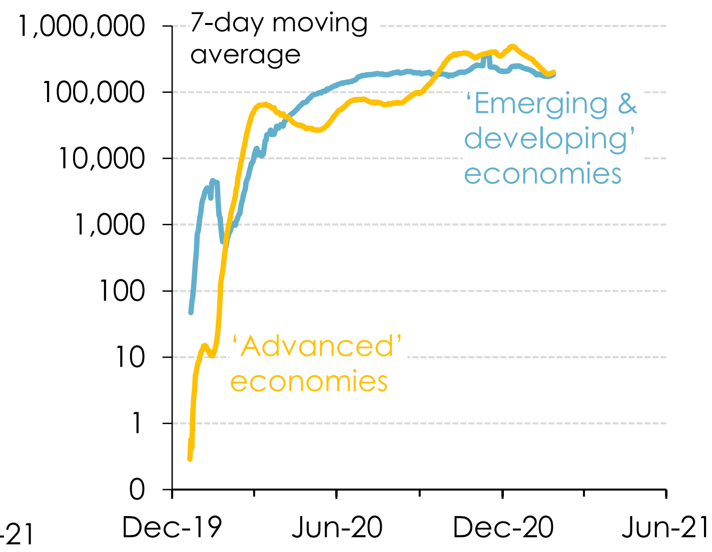










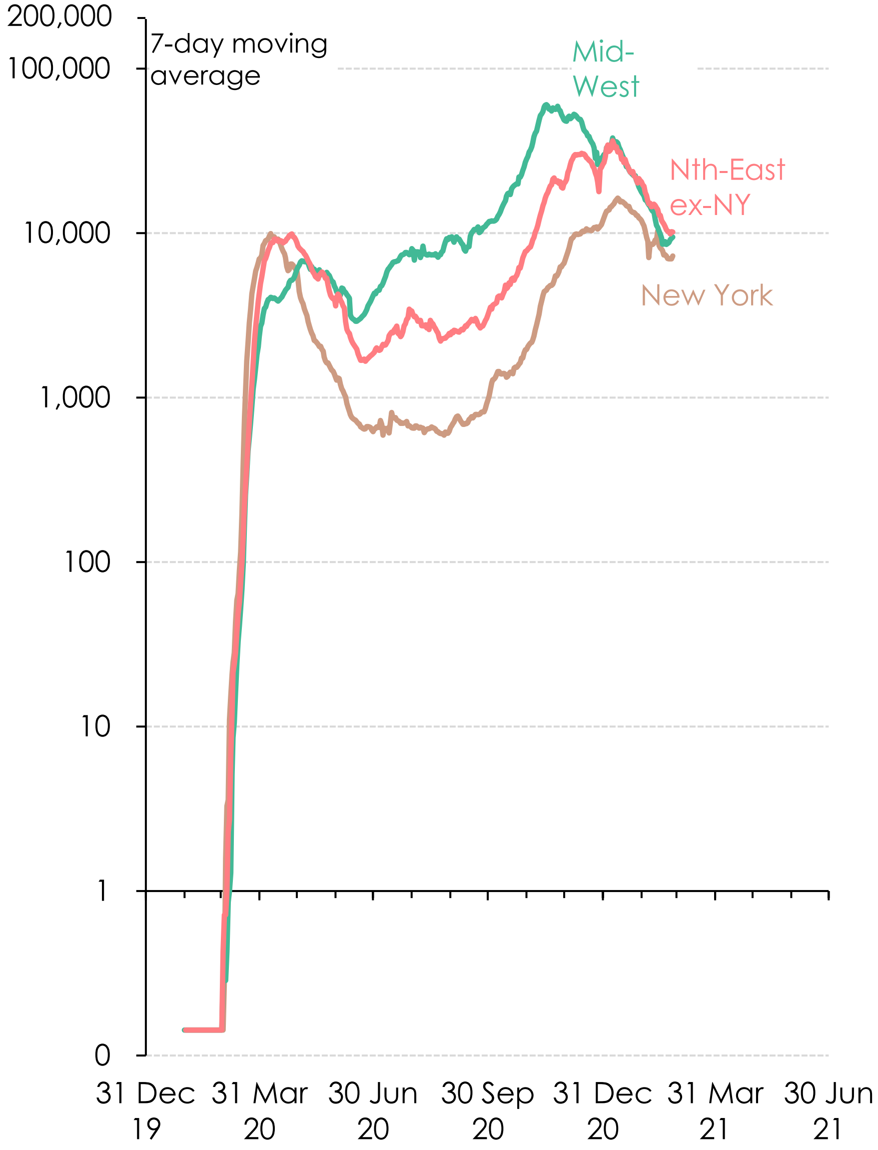


Note: All charts are on logarithmic scales. Data up to 25th February. *Source:* University of Oxford, *Our World in Data*; Corinna. Return to "What's New".

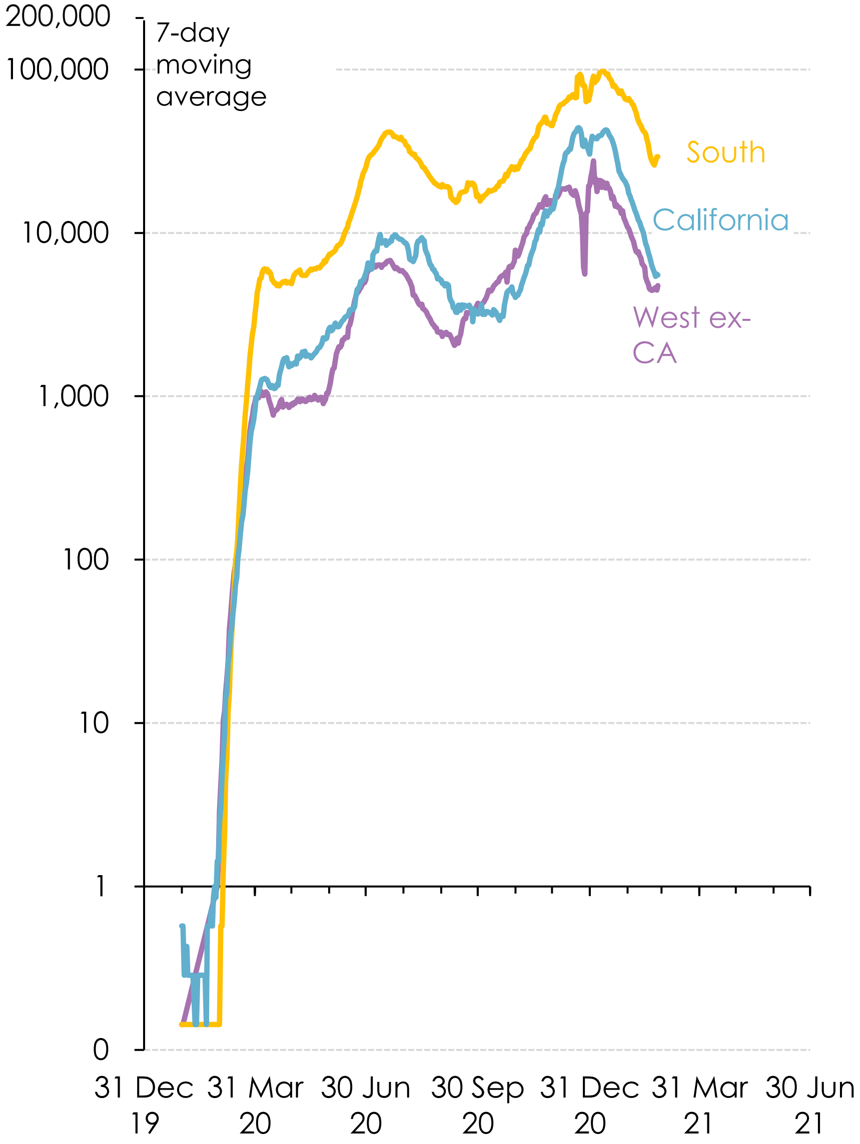
SAUL ESLAKE
CORINNA ECONOMIC ADVISORY

In the US the decline in new infections stalled this week in the South, the Mid-West and the West (ex California) and slowed in New York

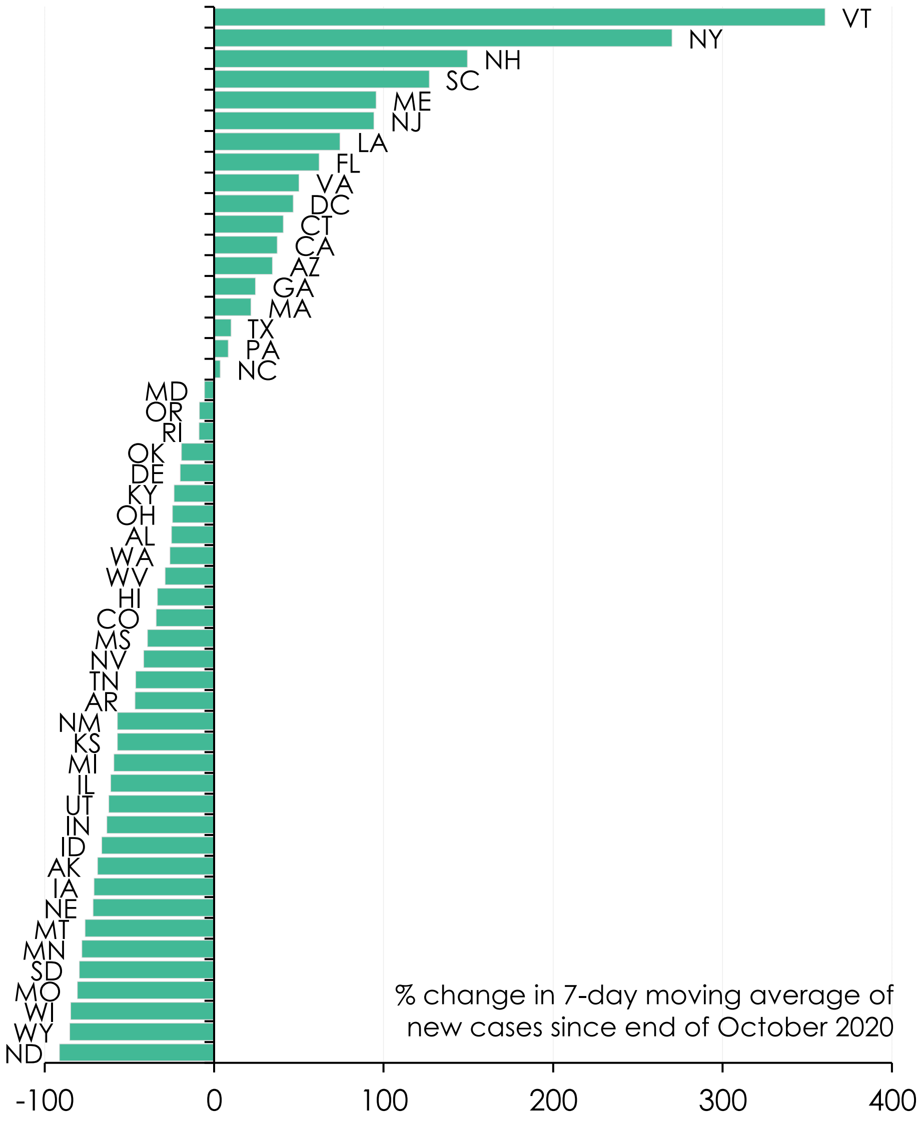
New cases – Mid-West and North-East



New cases – South and West



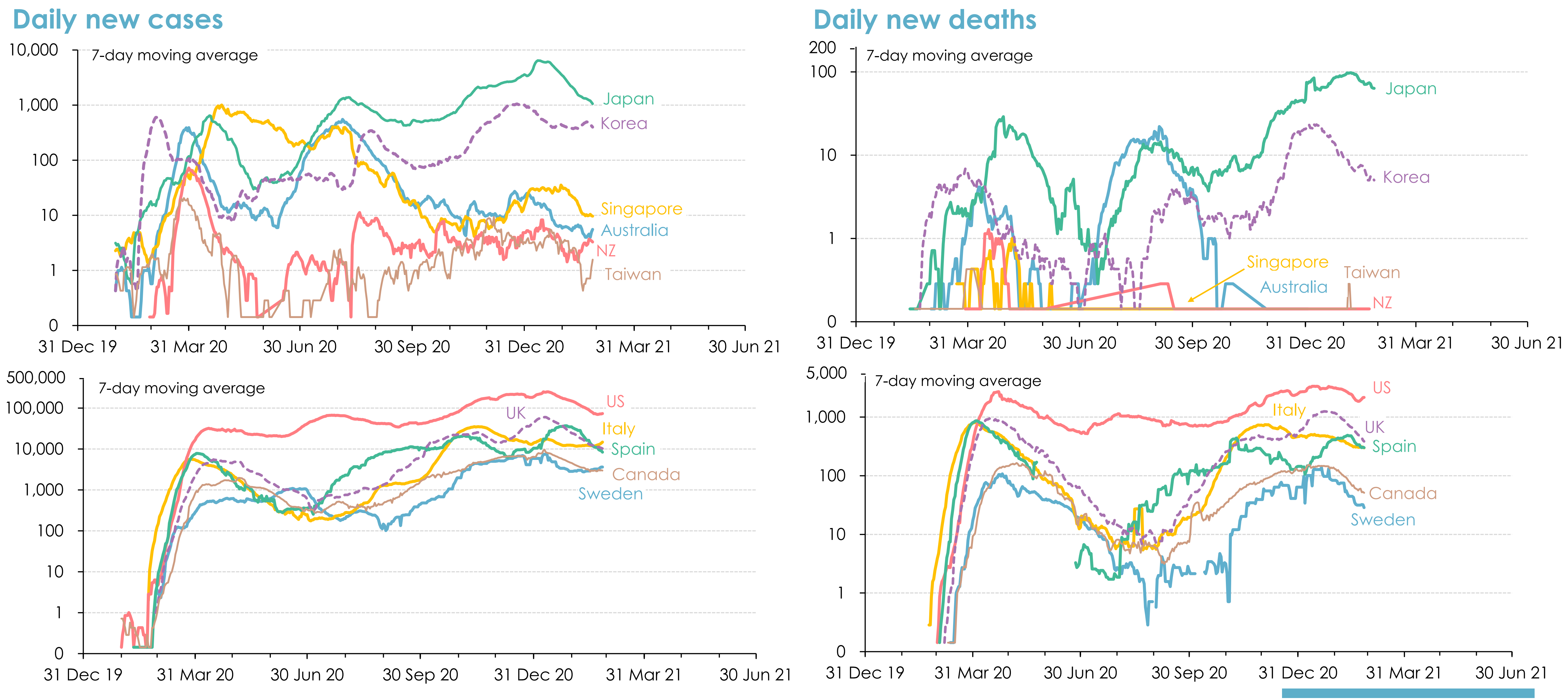
Increase in cases since end-October



Note: First two charts are on logarithmic scales. *Sources:* USAFacts; Centers for Disease Control and Prevention; Corinna. Latest data are for 25th February.
Return to "What's New".

SAUL ESLAKE
CORINNA ECONOMIC ADVISORY

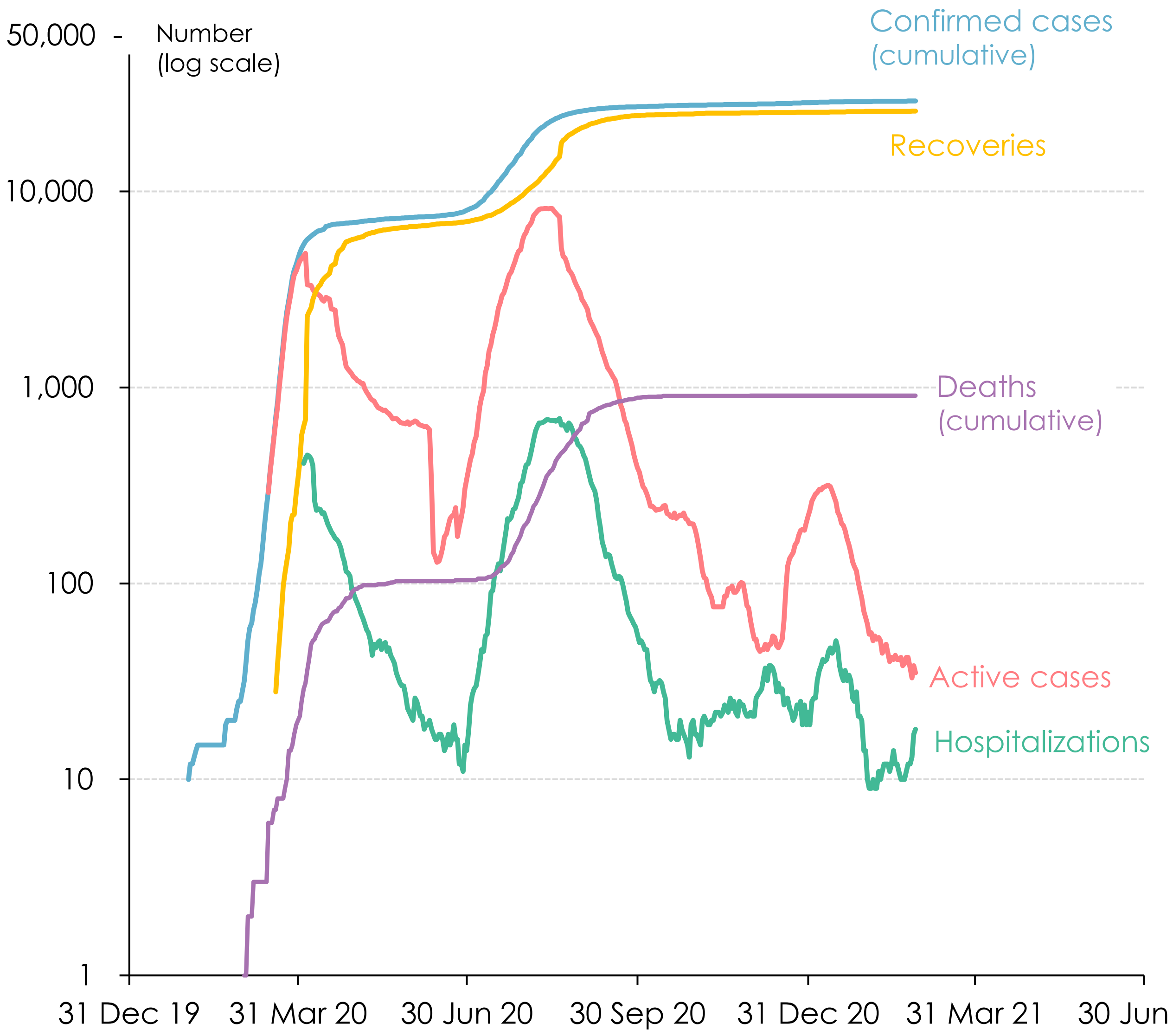
New infections and deaths are now declining in almost all ‘advanced’ economies



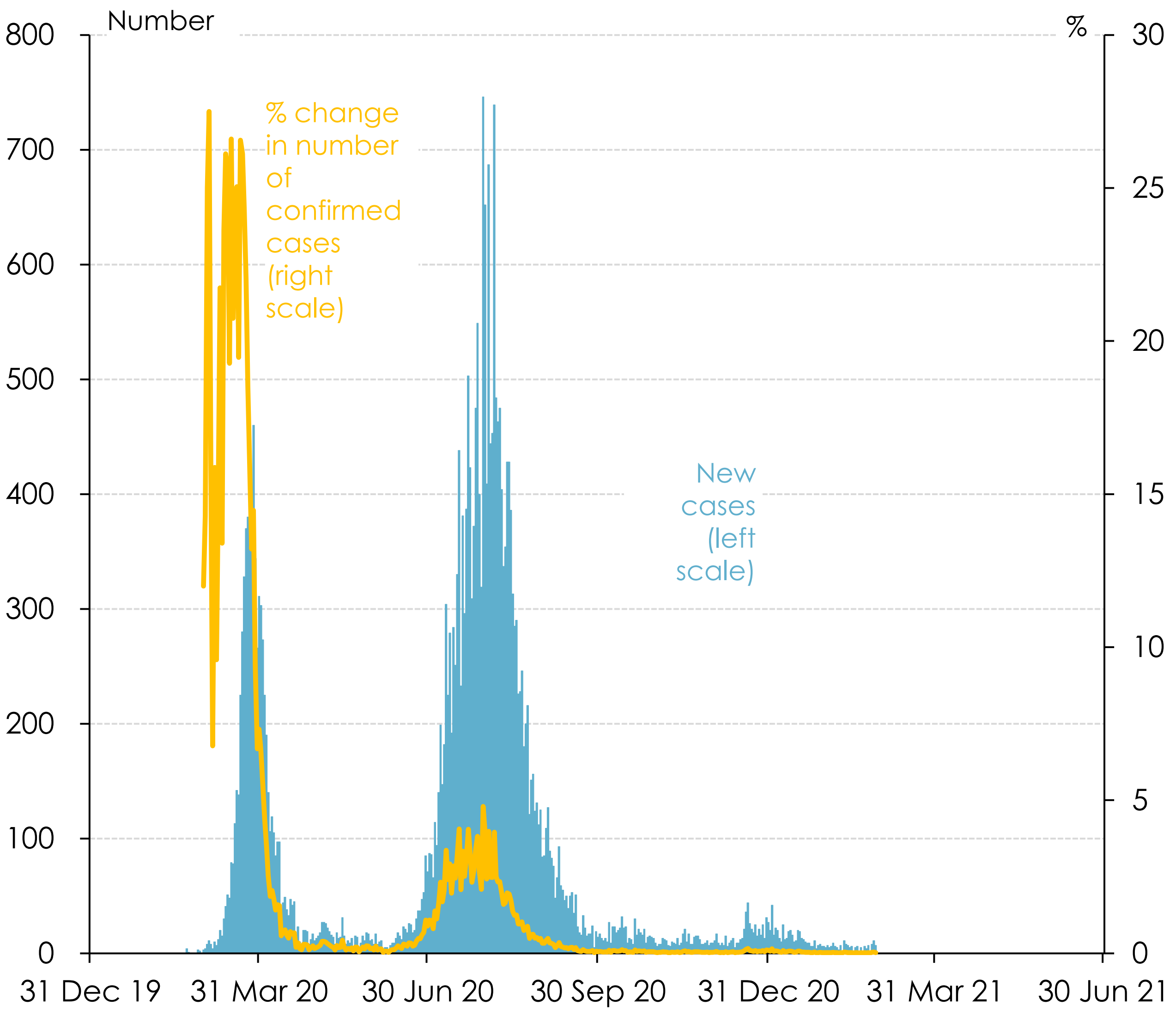
Note: All charts are on logarithmic scales. Data for new deaths in Spain between 25th May and 19th June 2020 not shown because of distortions caused by reclassifications on those dates. Data up to 25th February. *Source:* University of Oxford, Our World in Data; Corinna. Return to "What's New".

40 new cases were recorded in Australia this week – 9 more than the previous week – of which all but two were acquired overseas

Cases, recoveries, hospitalizations and deaths



New cases

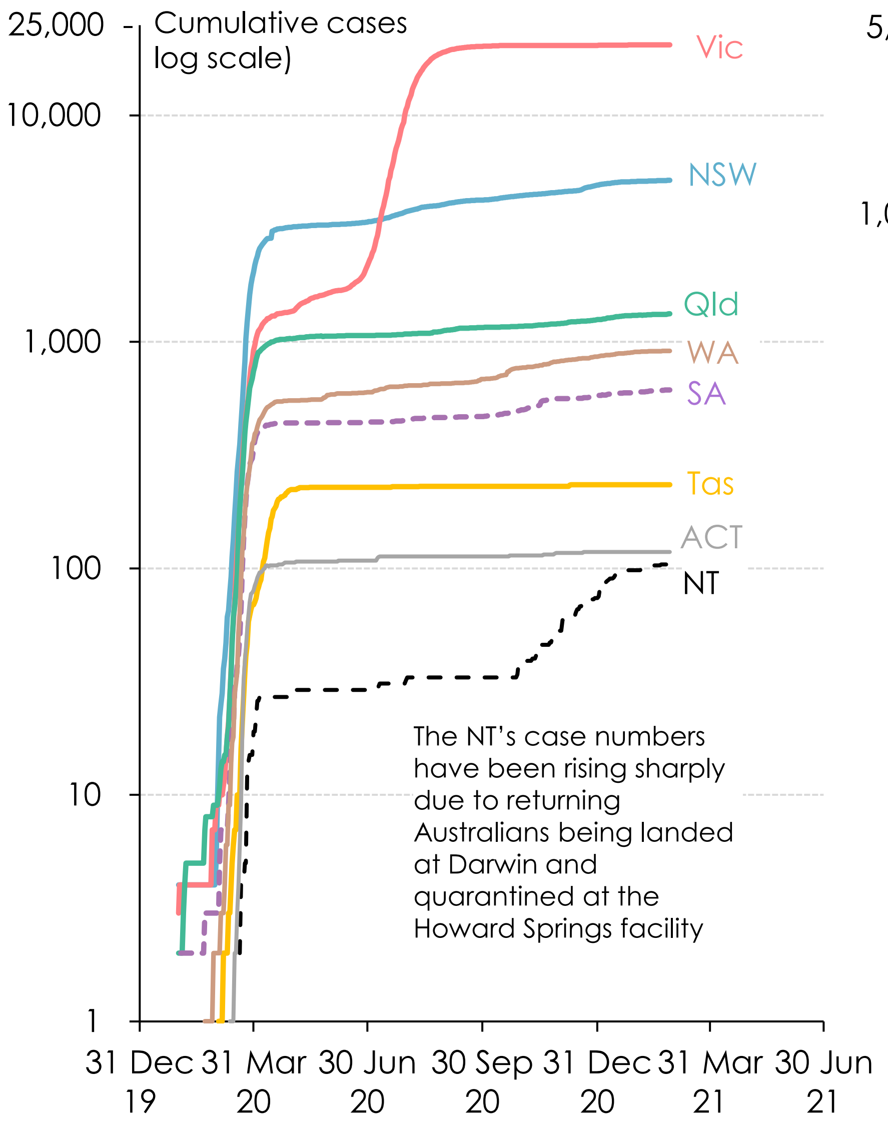


Note: Data up to 26th February. *Source:* covid19data.com.au. Return to "What's New".

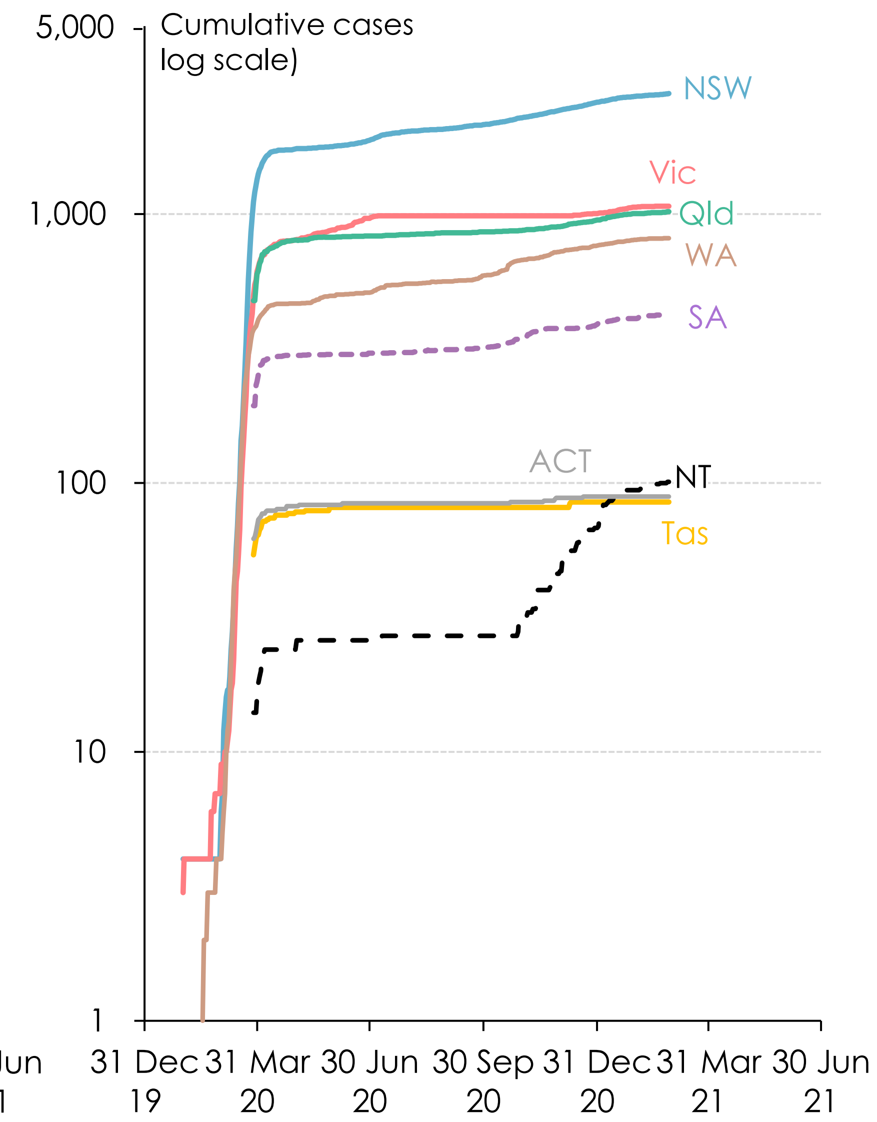
SAUL ESLAKE
CORINNA ECONOMIC ADVISORY

82% of all new cases so far this year have been 'overseas transmissions', 44% of them in NSW (as the principal entry point into Australia)

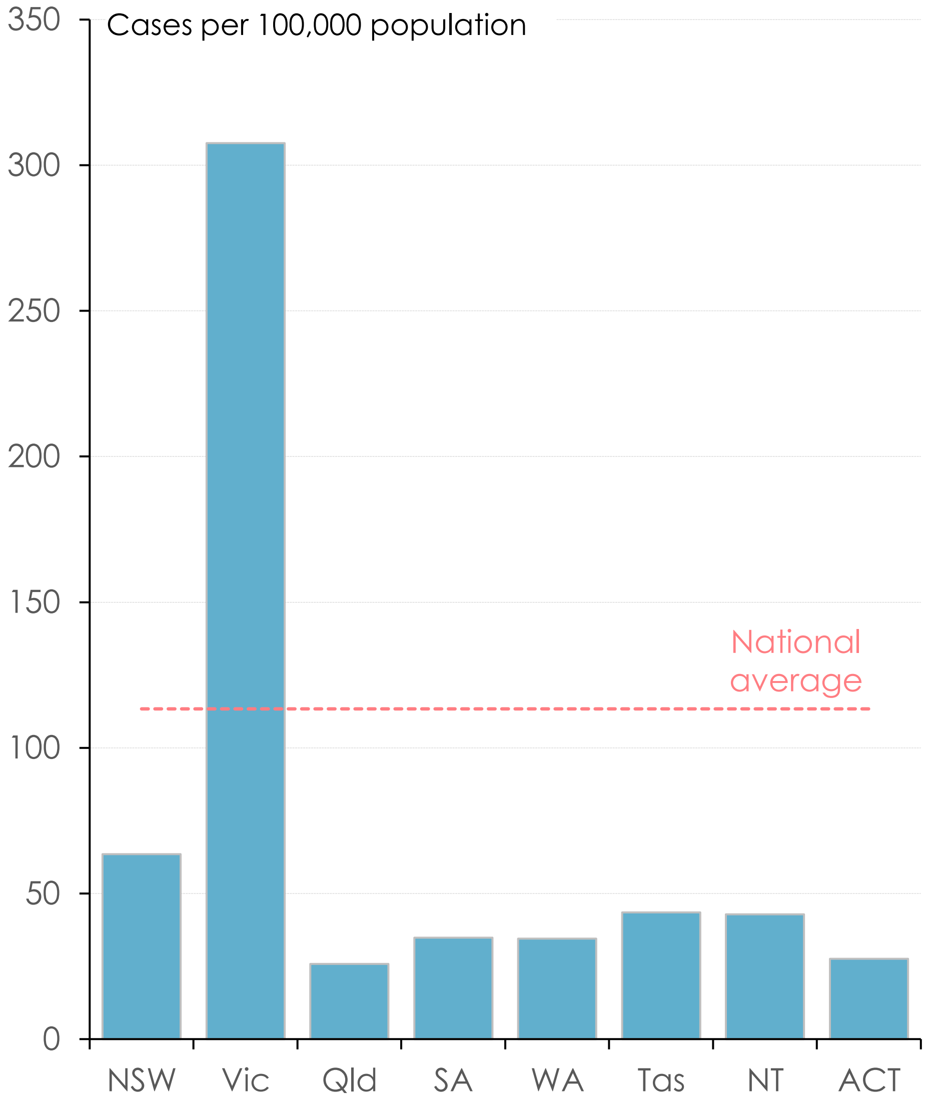
Cumulative cases, by State



Overseas transmissions



Cases per 100,000 population

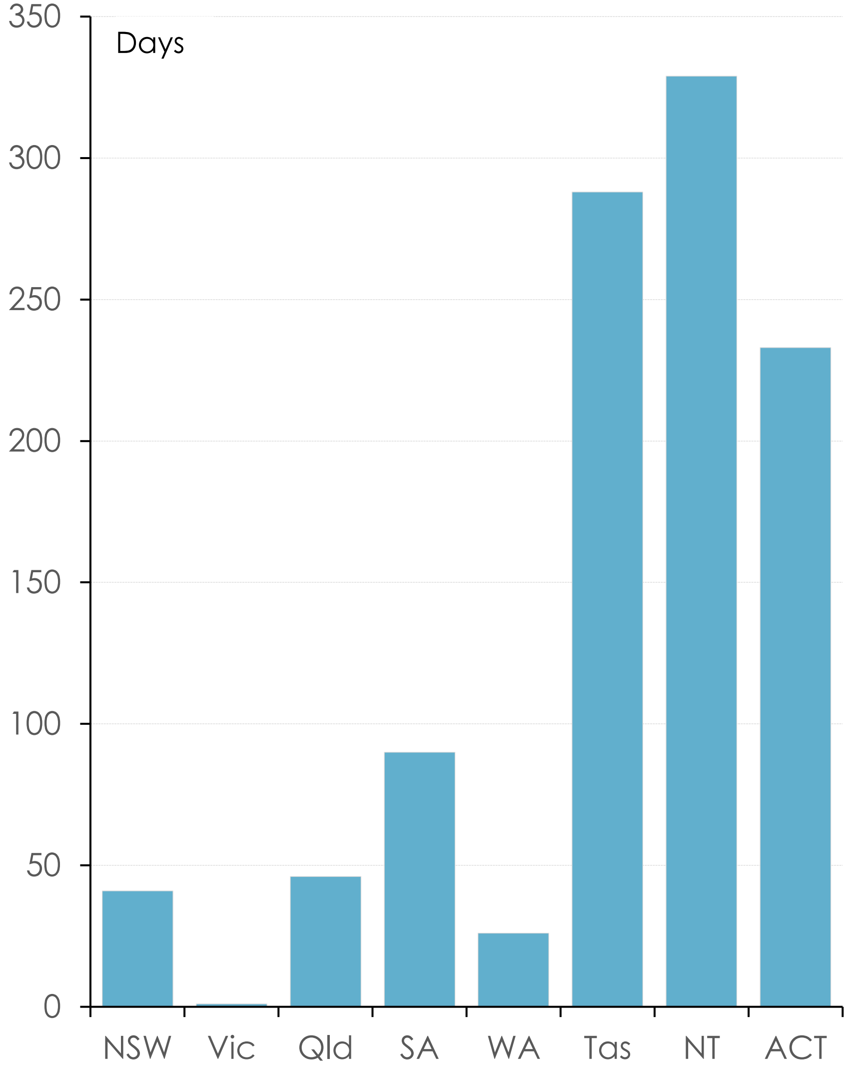


Note: Data up to 26th February. *Source:* covid19data.com.au. Return to "What's New".

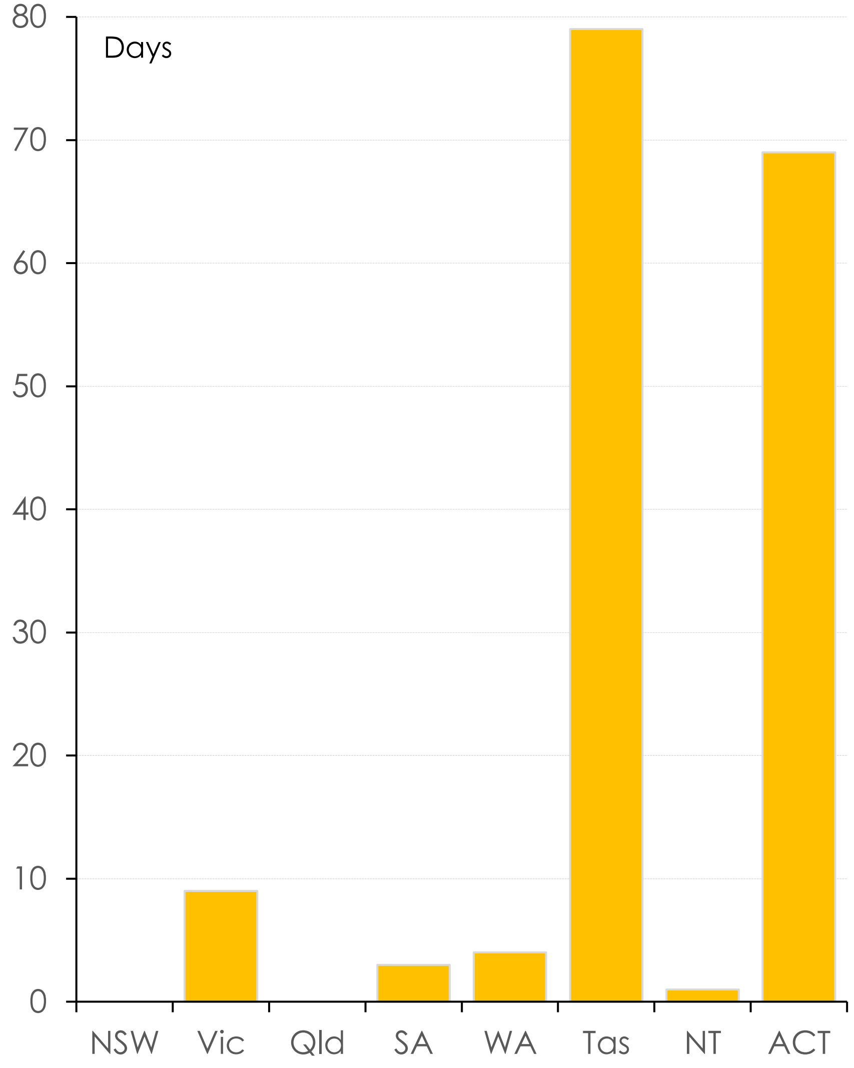
SAUL ESLAKE
CORINNA ECONOMIC ADVISORY

The smaller states and territories have had greater success in keeping the virus at bay (partly because they have no, or few, overseas arrivals)

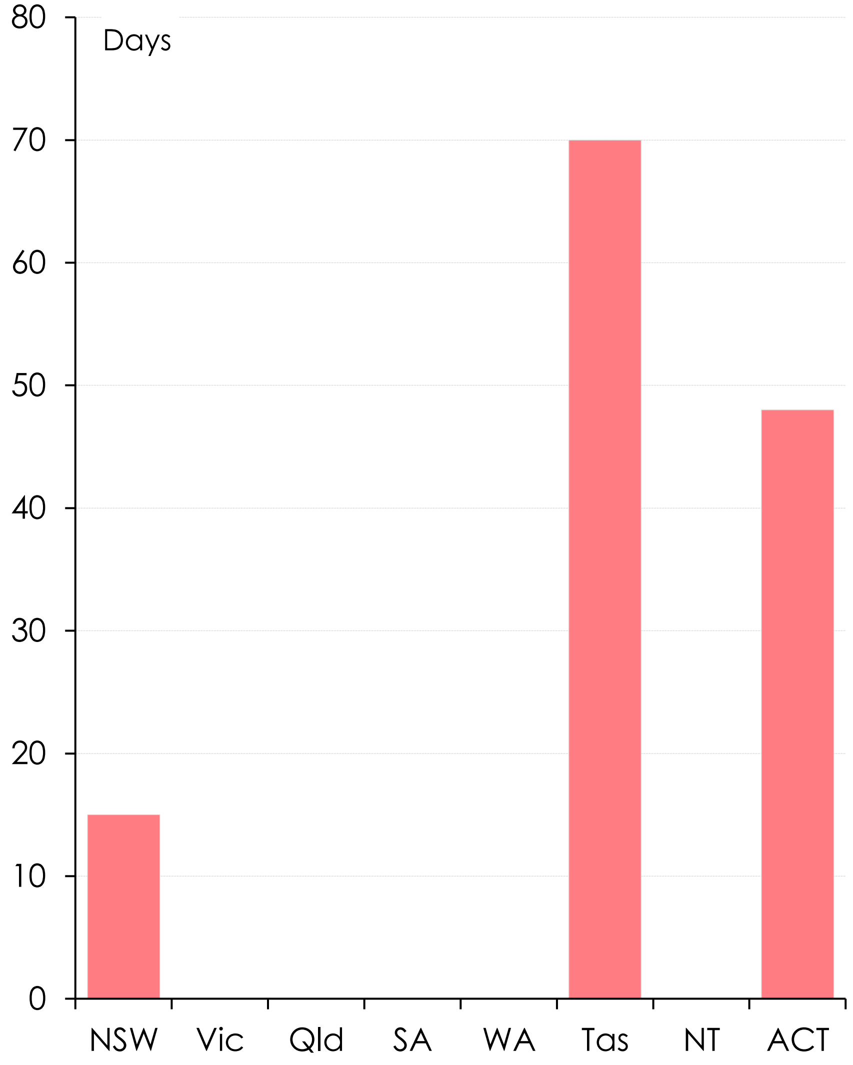
Days since last new locally-acquired case



Days since last new overseas-acquired case



Days since there were any active cases

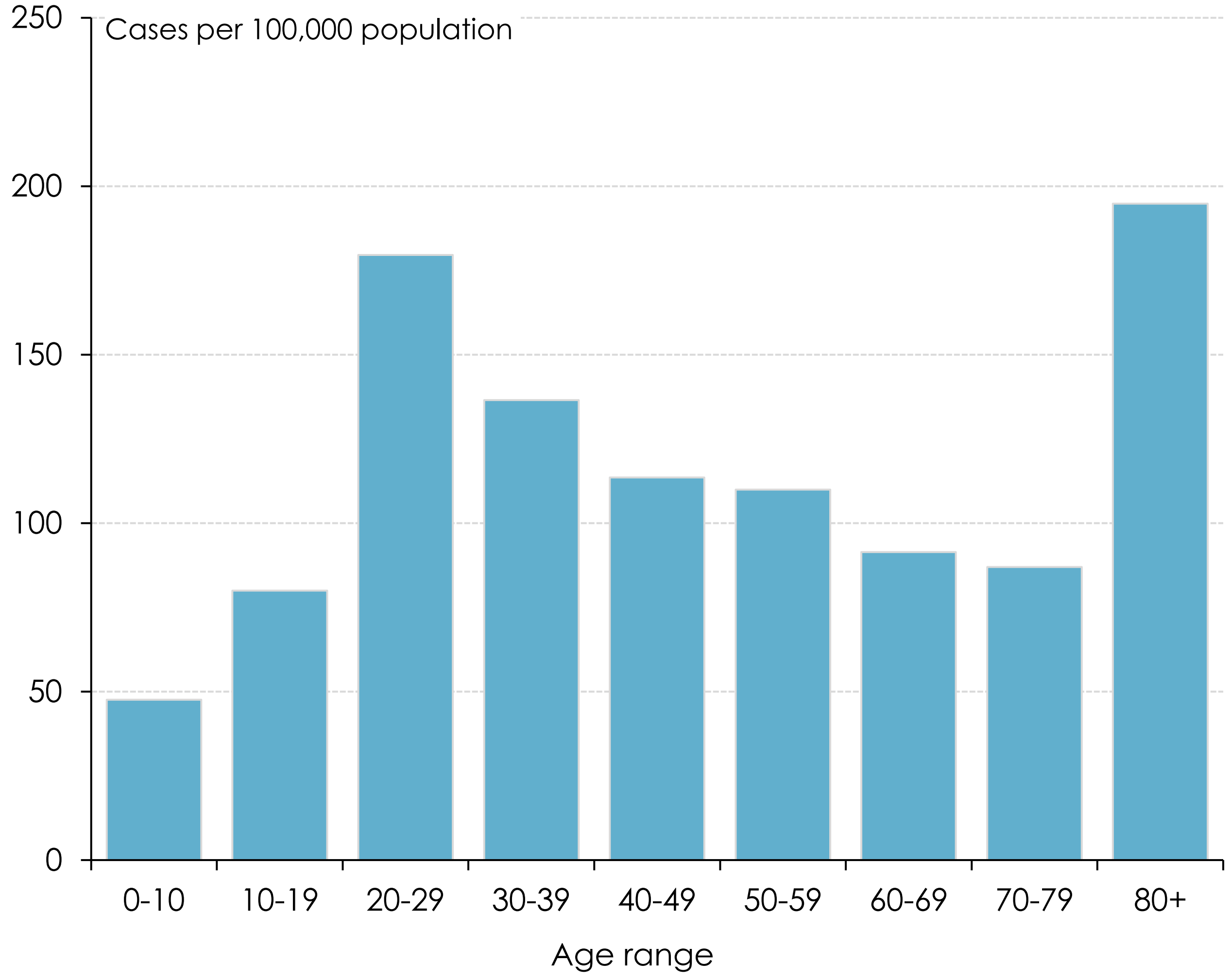


Note: Data are for 26th February. *Source :* covid19data.com.au. Return to "What's New".

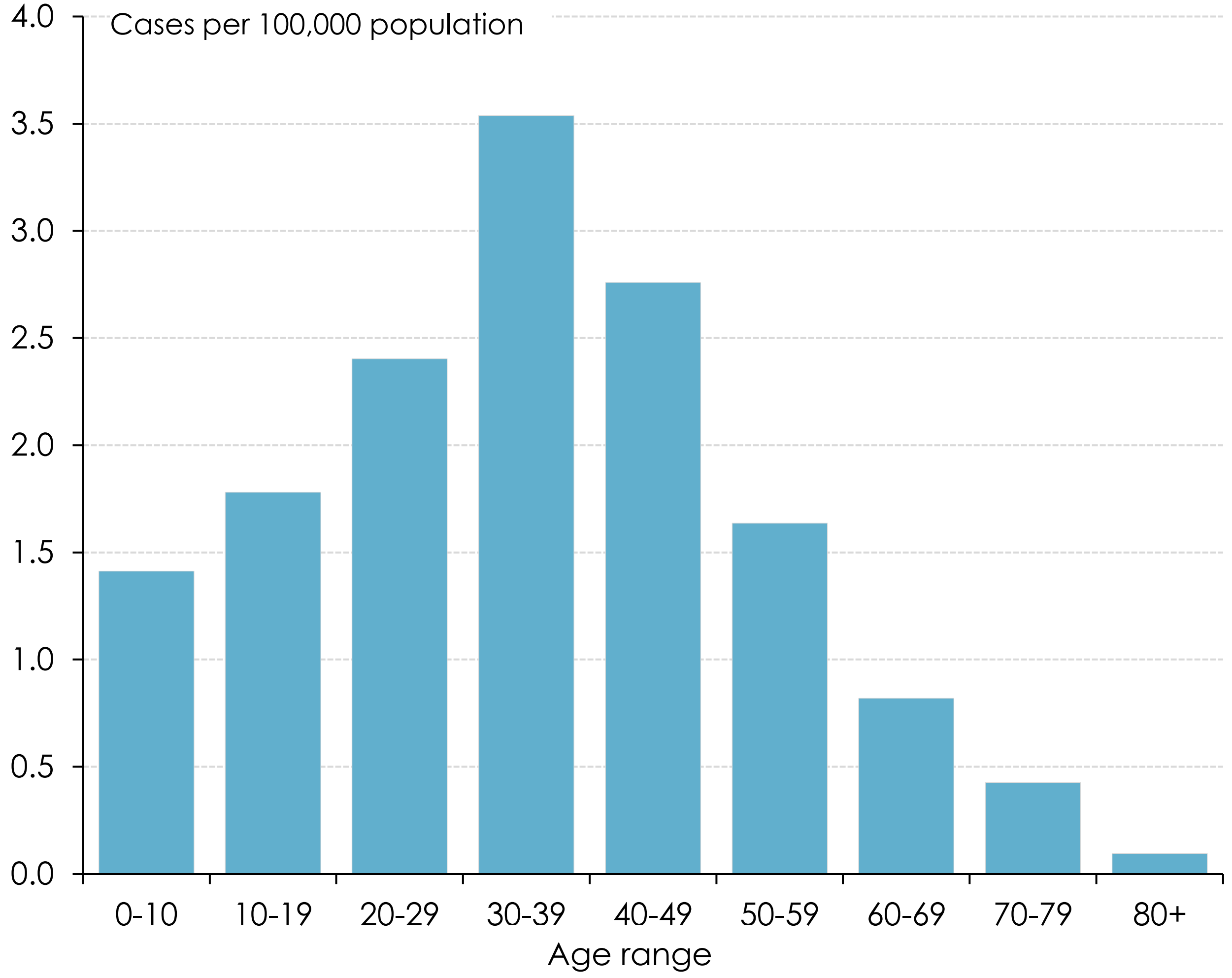
SAUL ESLAKE
CORINNA ECONOMIC ADVISORY

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



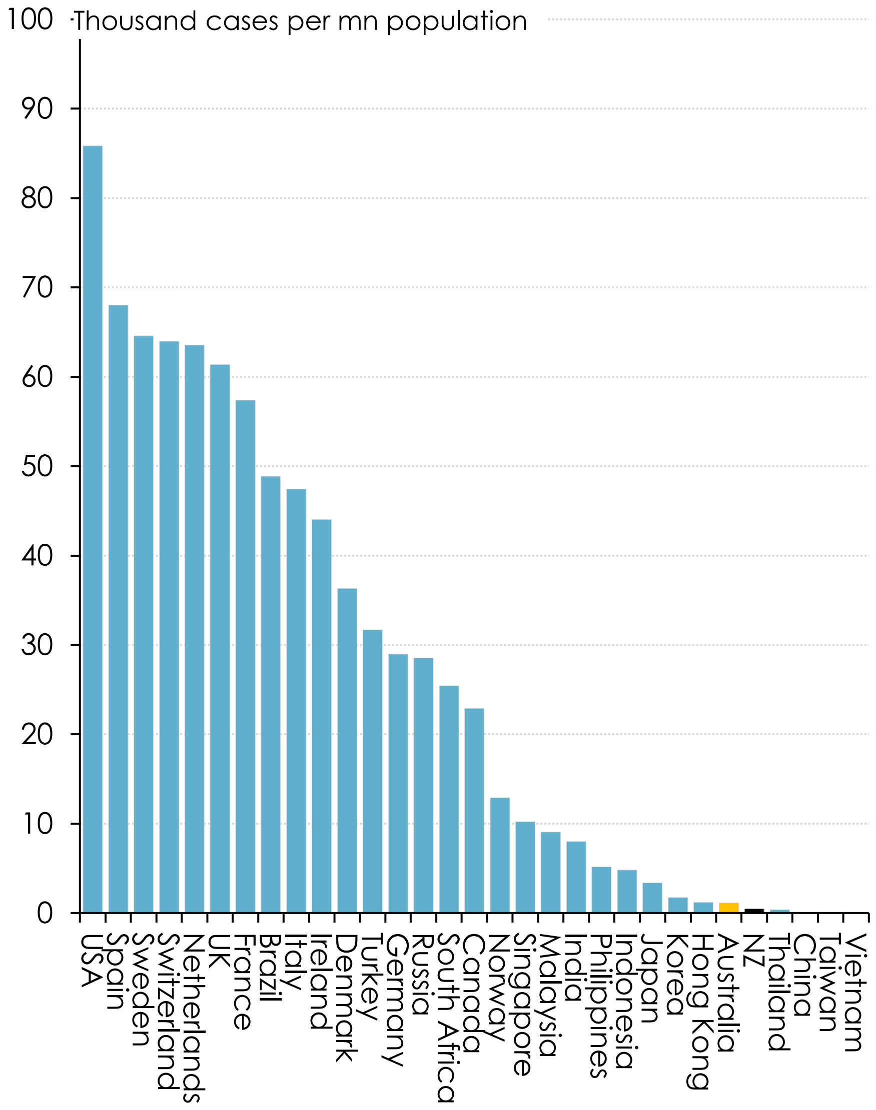
Cumulative confirmed cases per 100,000 population, by age group – 2021 to date



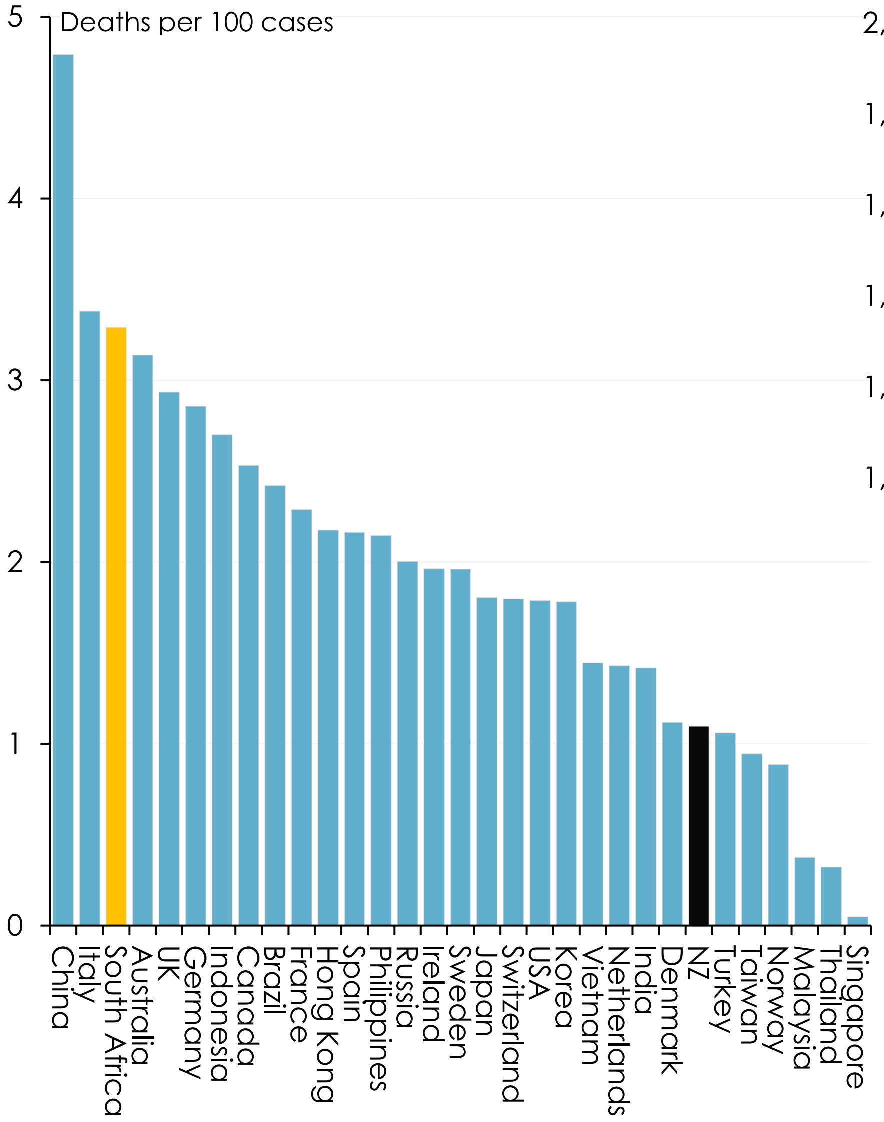
Note: Data up to 26th February. *Source:* Australian Government Department of Health, National Notifiable Diseases Surveillance System; ABS; Corinna.
Return to "What's New".

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

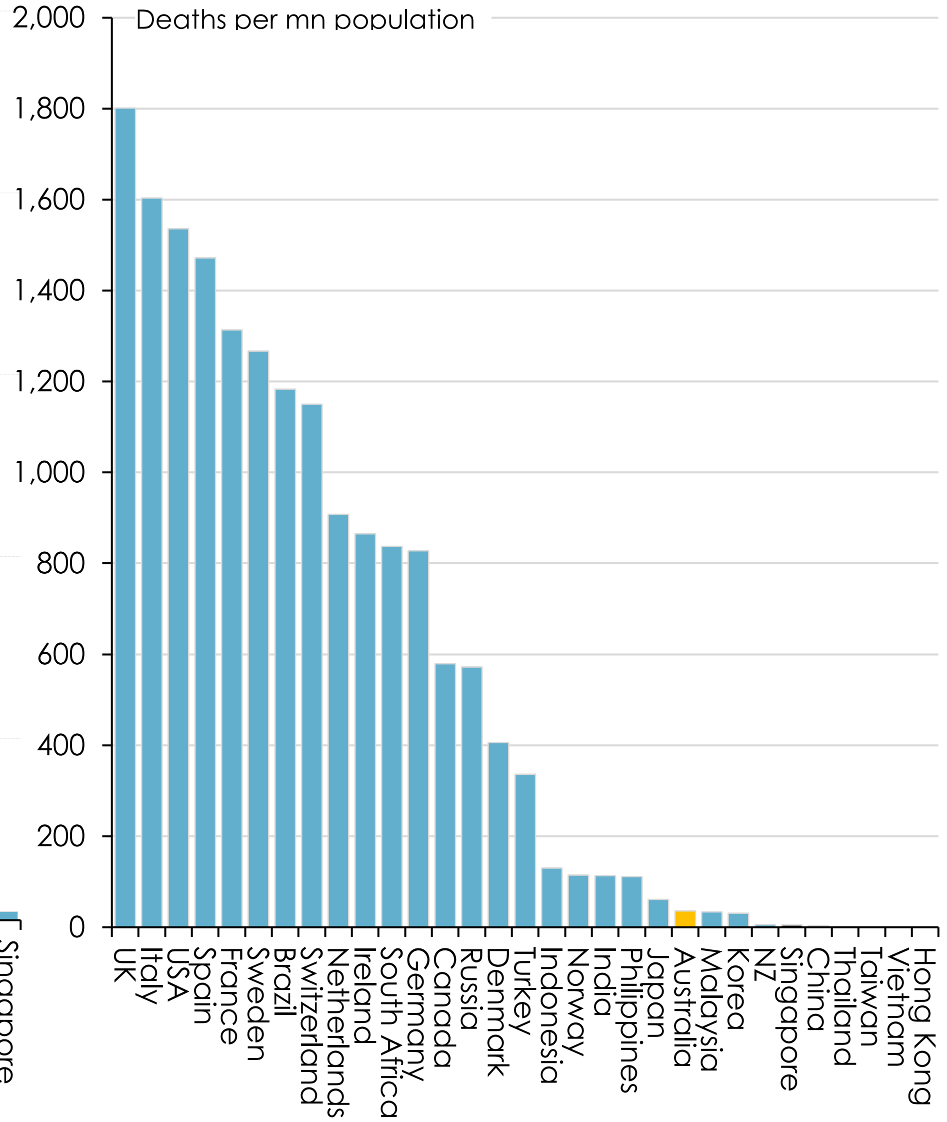
Apparent infection rate



Apparent fatality rate



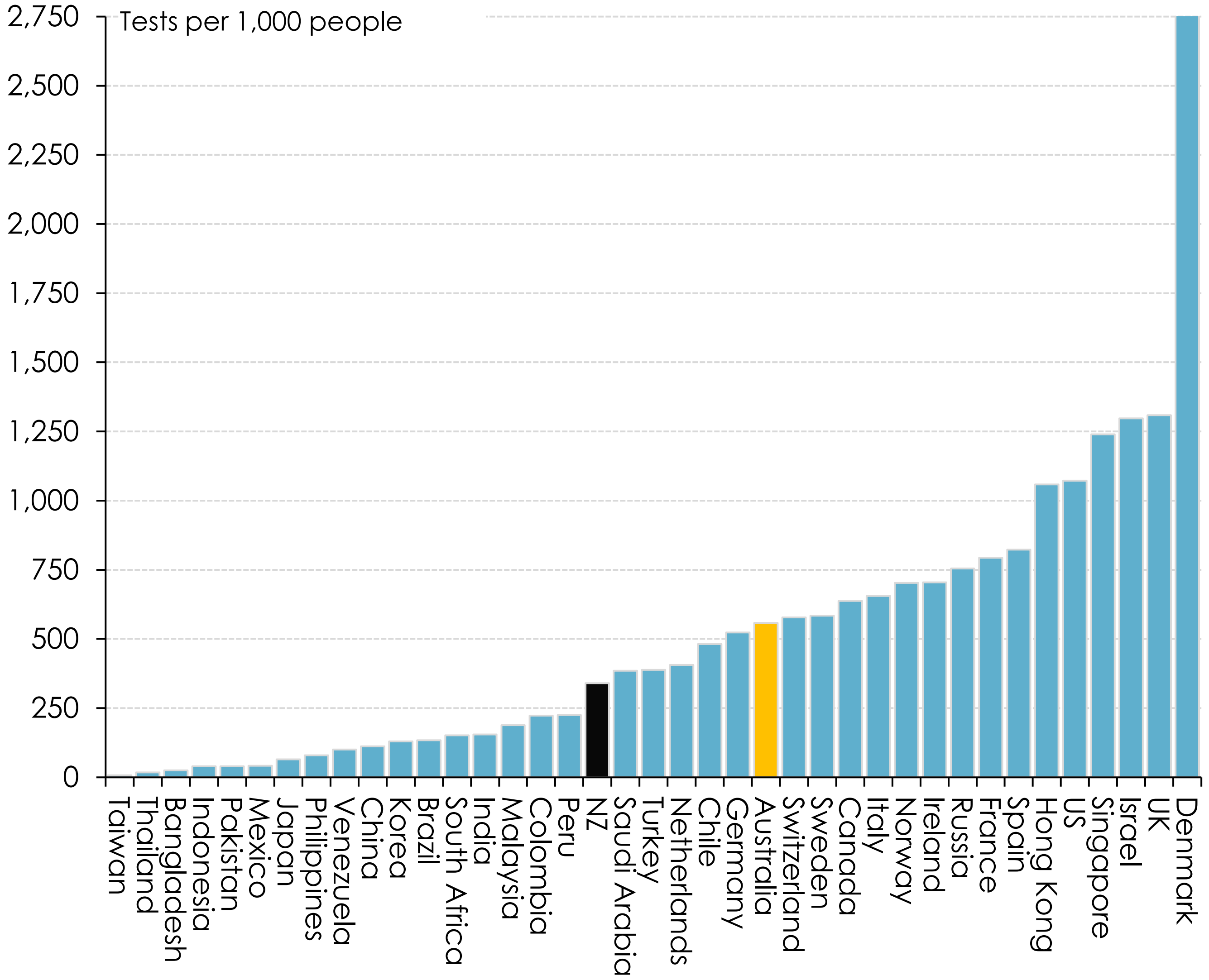
Death rate



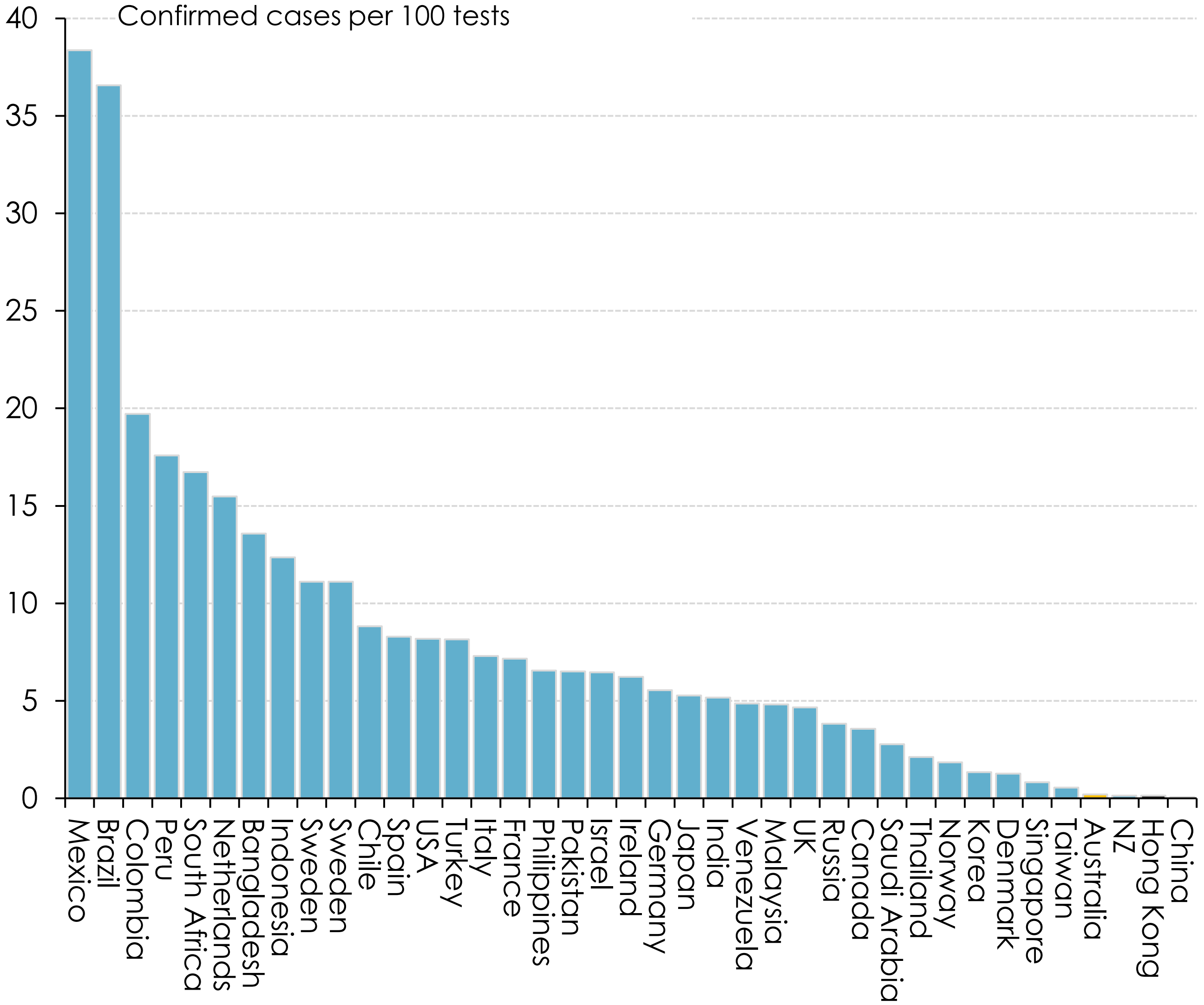
Note: Data up 25th February . *Source:* University of Oxford, Our World in Data; Corinna. Return to "What's New".

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

Tests per thousand of population



Confirmed cases per 100 tests

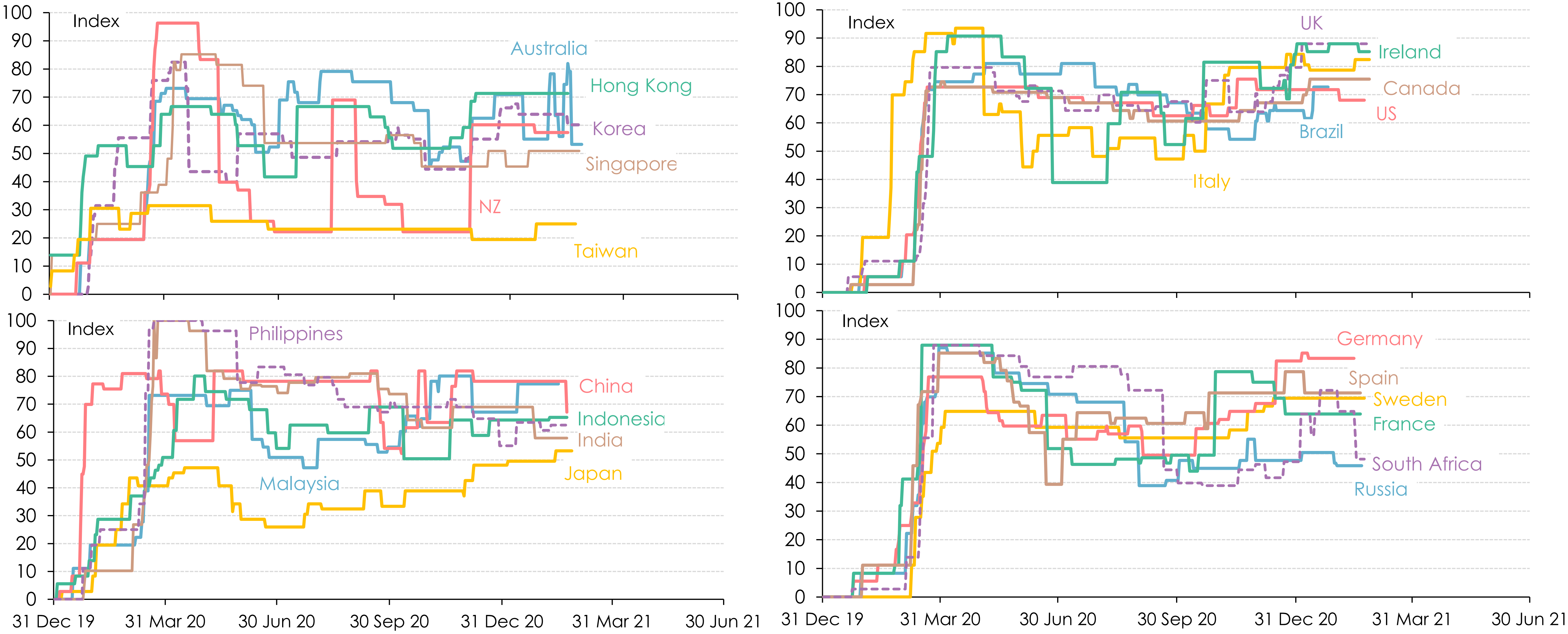


Note: Data up to 26th February (and yes it appears, at face value, that Denmark has tested its entire population twice, and Israel, the UK and Singapore at least once). A high number of confirmed cases per 100 tests combined with a low number of tests per 000 population is (all else being equal) *prima facie* evidence of an inadequate testing regime. *Source:* Worldometers; Corinna. Return to "What's New".

SAUL ESLAKE
CORINNA ECONOMIC ADVISORY

Most of Europe remains under tight restrictions but they are starting to ease a bit in some other parts of the world

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

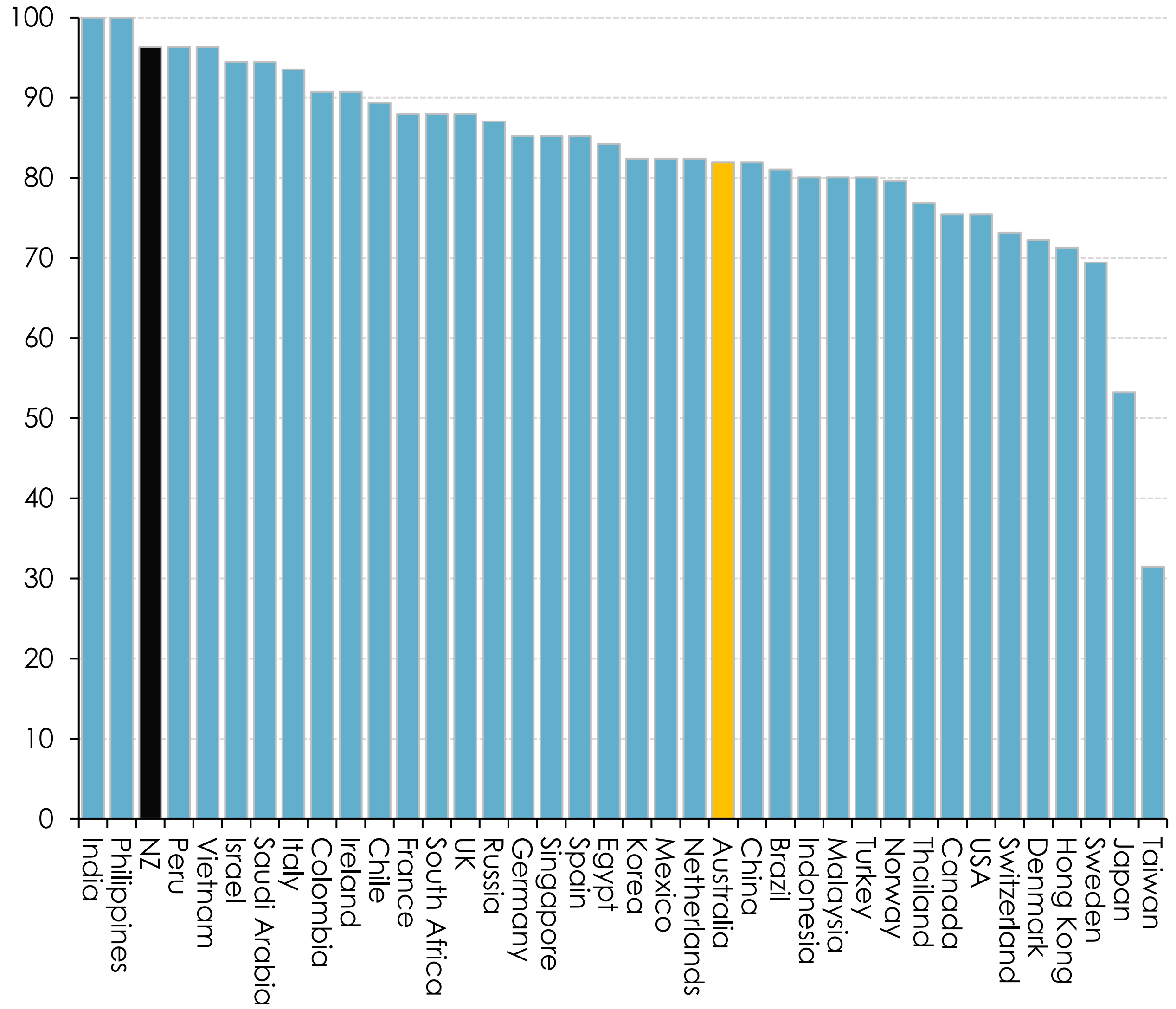


The Oxford COVID-19 Government Response Tracker collects publicly available information on 11 indicators of government response including school and workplace closures, public events cancellations, restrictions on public gatherings, stay at home requirements, public transport closures, domestic and international travel restrictions, public information campaigns, testing and contact tracing. *Source:* Blavatnik School of Government, Oxford University. Data up to 15th – 26th February (except for Brazil for which data are only available up to 15th January). Return to "What's New".

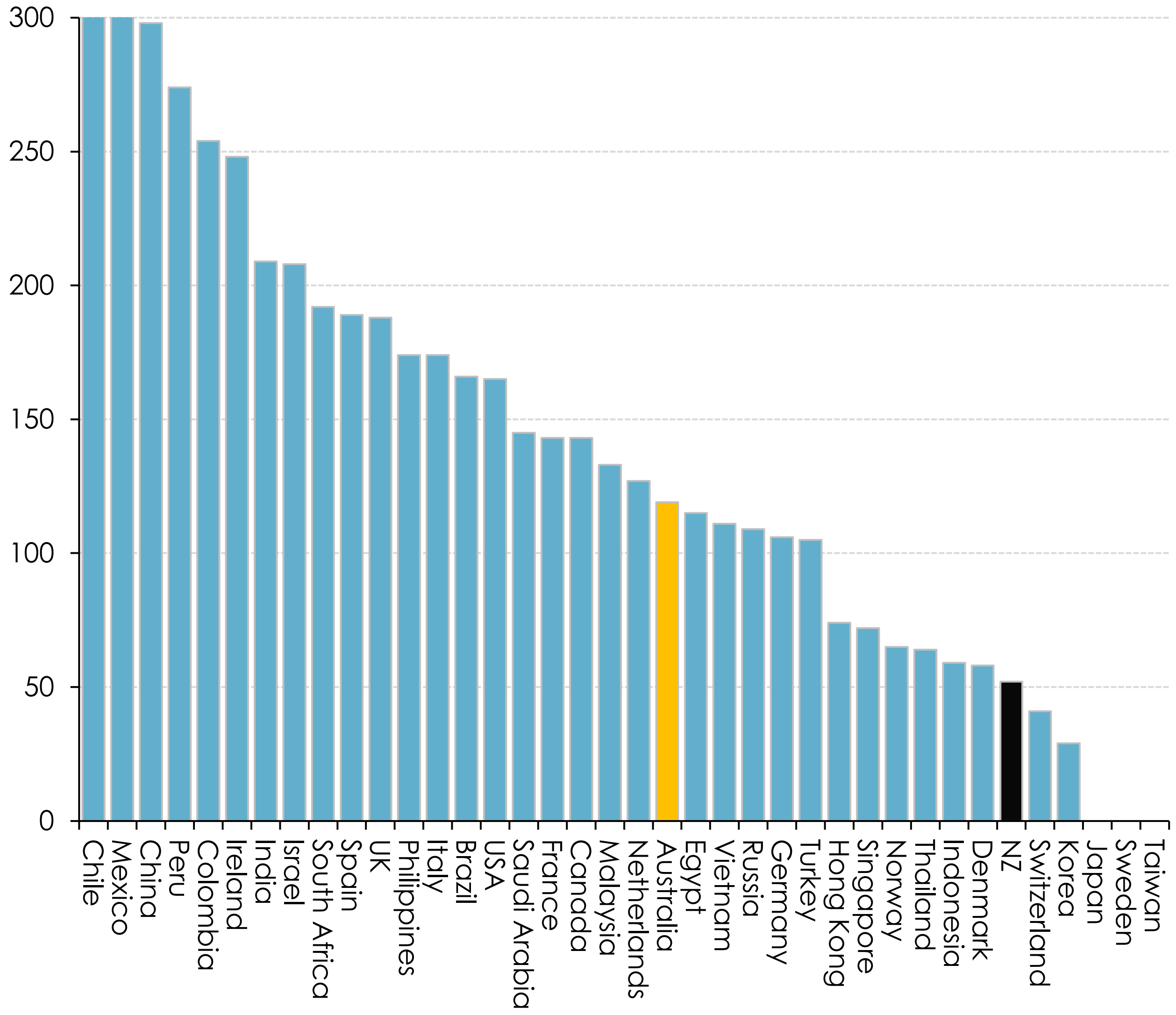
SAUL ESLAKE
CORINNA ECONOMIC ADVISORY

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

Highest level of restrictions imposed



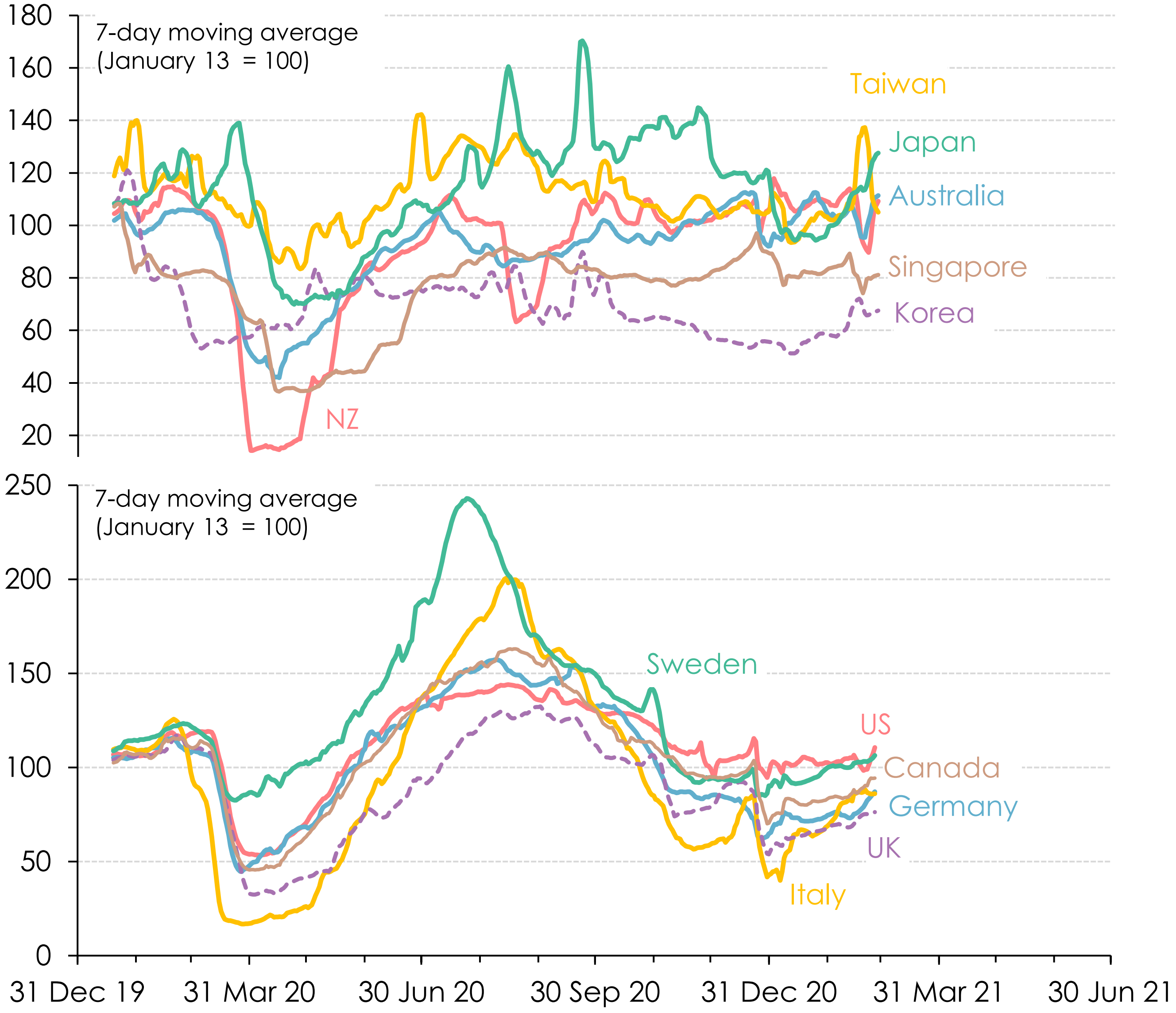
Number of days restrictions above 70 on Oxford index



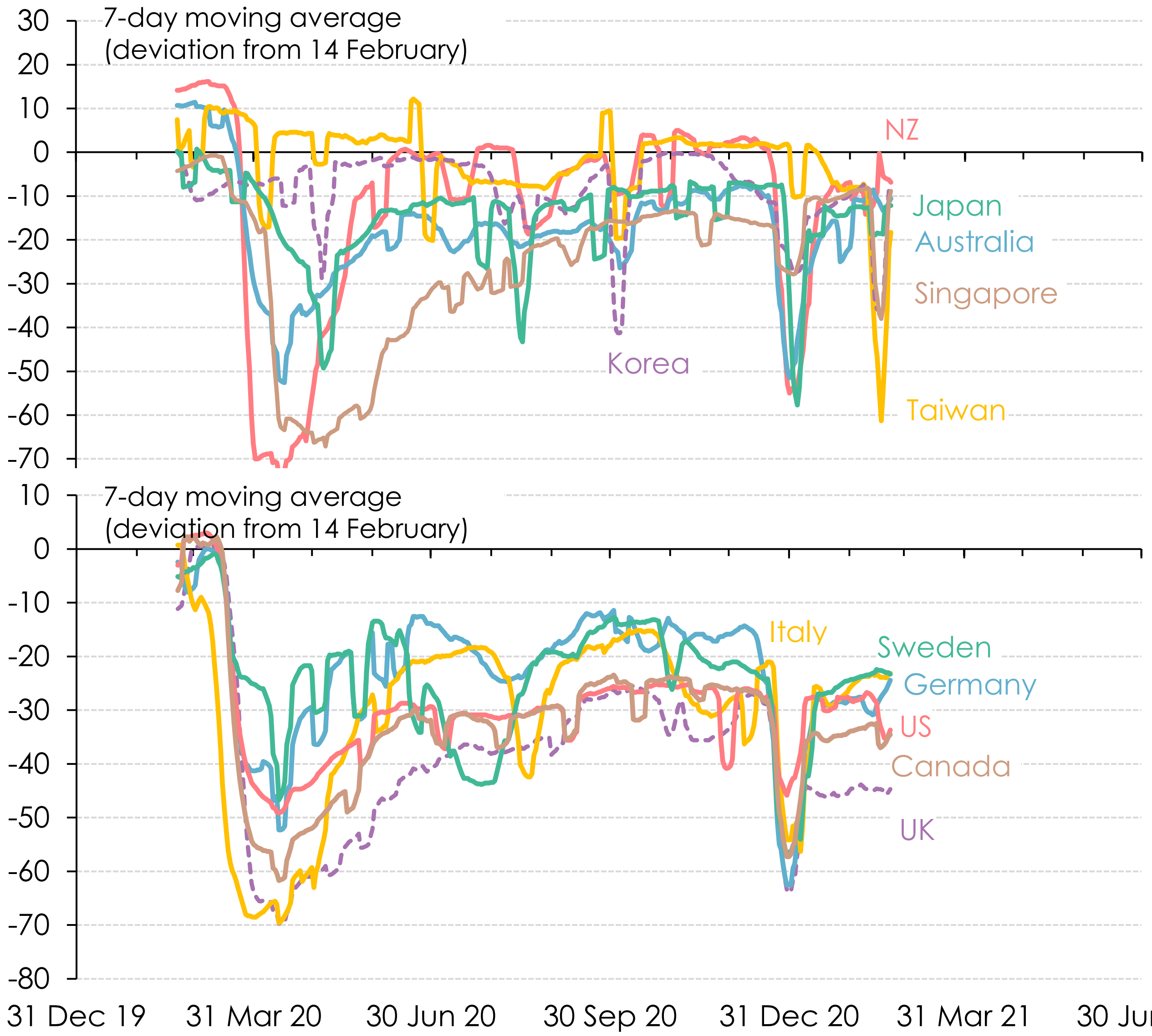
The Oxford COVID-19 Government Response Tracker collects publicly available information on 11 indicators of government response including school and workplace closures, public events cancellations, restrictions on public gatherings, stay at home requirements, public transport closures, domestic and international travel restrictions, public information campaigns, testing and contact tracing. *Source:* Blavatnik School of Government, Oxford University. Data up to 15th – 26th February (except for Brazil for which data are only available up to 15th January). Return to "What's New".

Mobility data also highlights the impact of continuing restrictions in Europe, lunar New Year in parts of Asia, and cold snap in parts of US

Time spent driving



Time spent in workplaces

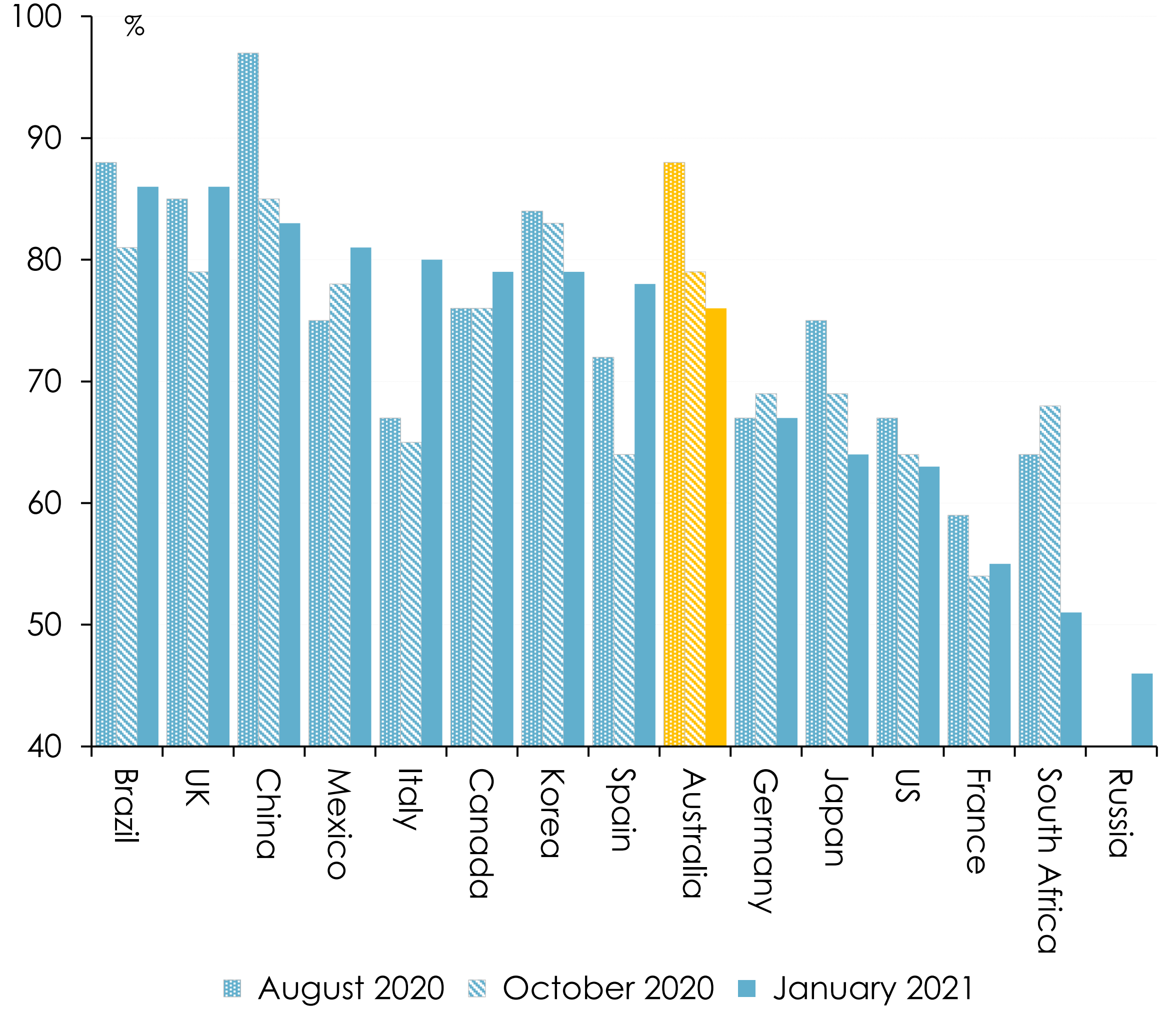


Note: these data will reflect normal seasonal variations in activities as well as the effects of government restrictions and individual responses to the risks posed by the virus. *Sources:* Apple Mobility Trends Reports (data up to 25th February); Google Community Mobility Reports (data up to 21st February). Return to "What's New".

SAUL ESLAKE
CORINNA ECONOMIC ADVISORY

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

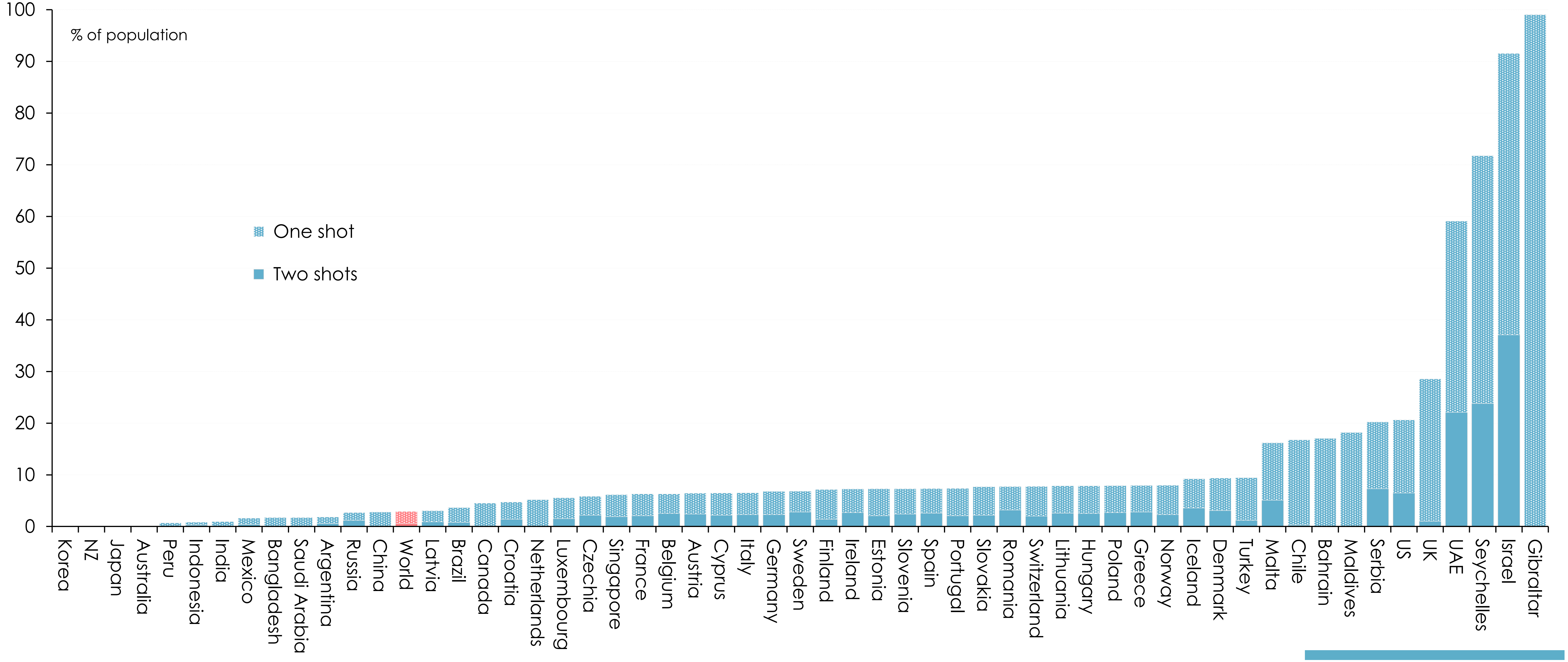


Australians 'strongly agreeing or agreeing' that they would get a vaccine when available, December 2020

Sources: Ipsos Mori, *Attitudes to Covid-19 vaccines*, 25th January 2021; ABS, Household Impacts of Covid-19 Survey, December 2020. Return to "What's New".

Israel has now vaccinated over 90% of its population, the UK 29%, the US over 20%, Europe an average of 7%, but Asia only about 1¾%

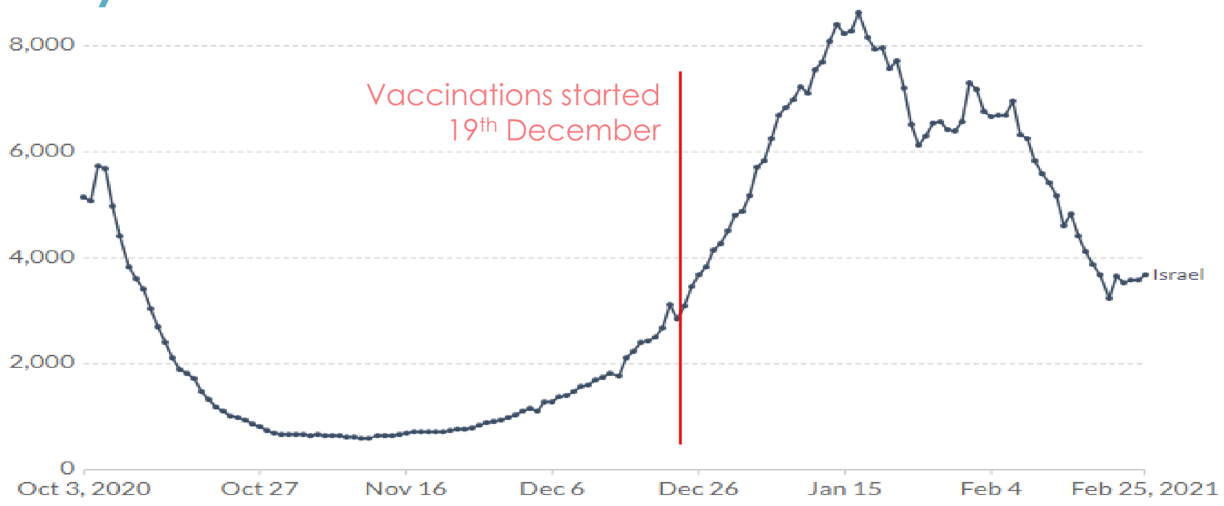
Percentage of population vaccinated as at 25th February



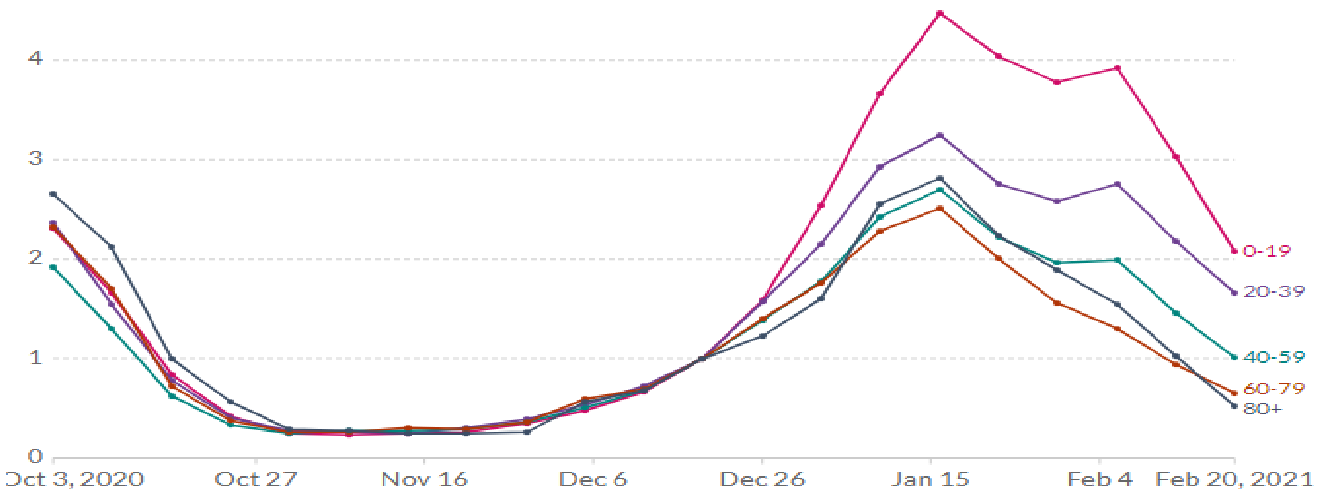
Sources: Our World in Data, Coronavirus (COVID-19) Vaccinations. Return to "What's New".

Israel's experience strongly suggests that Covid-19 vaccines <u>are</u> effective

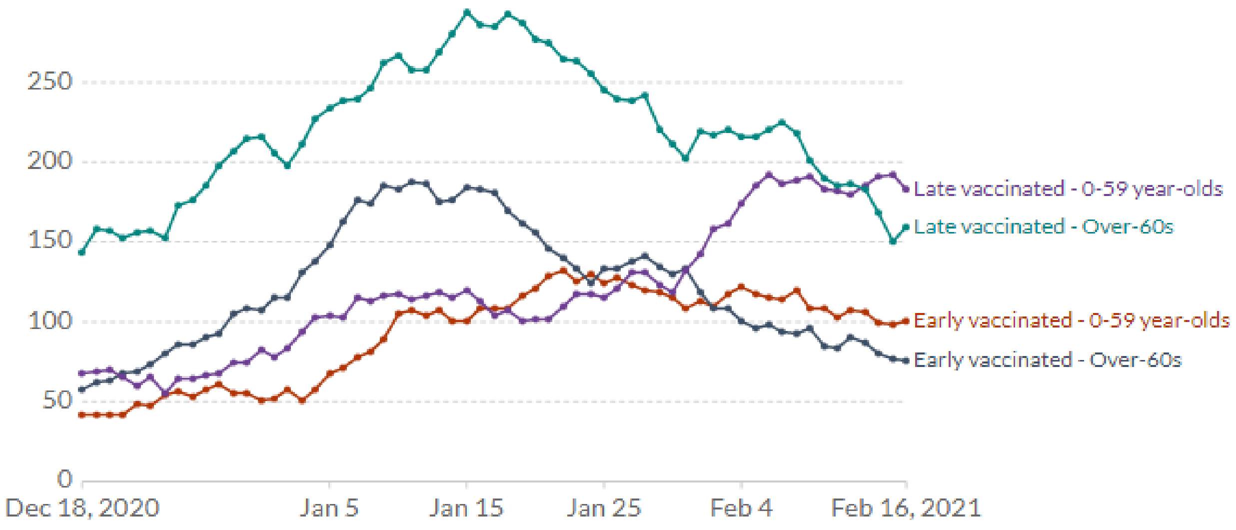
Daily new confirmed cases



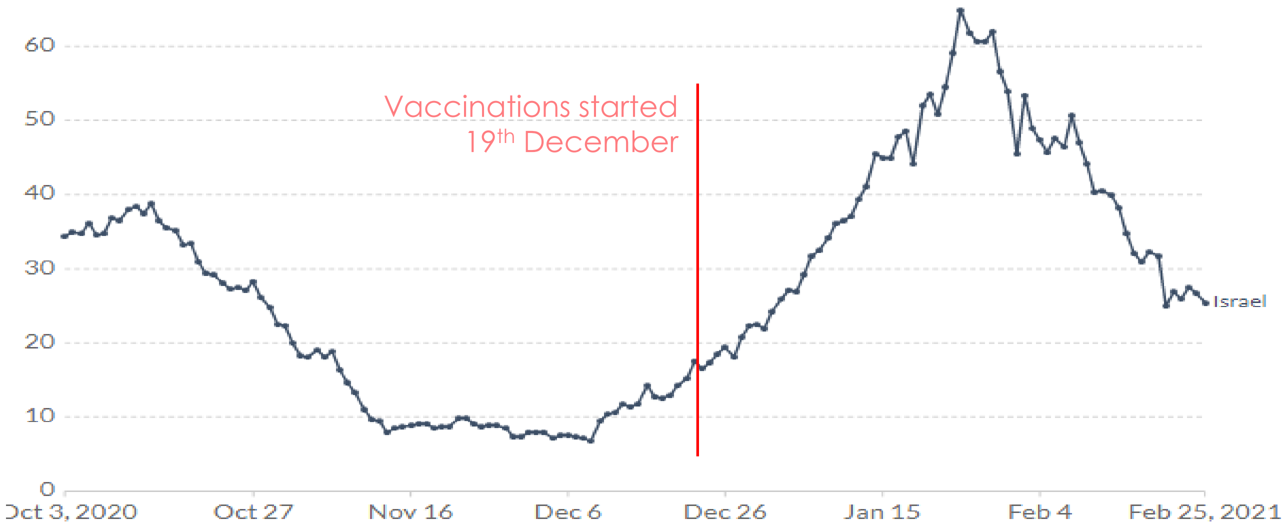
Confirmed cases by age group



Hospitalizations for Covid-19 by age



Confirmed Covid-19 deaths

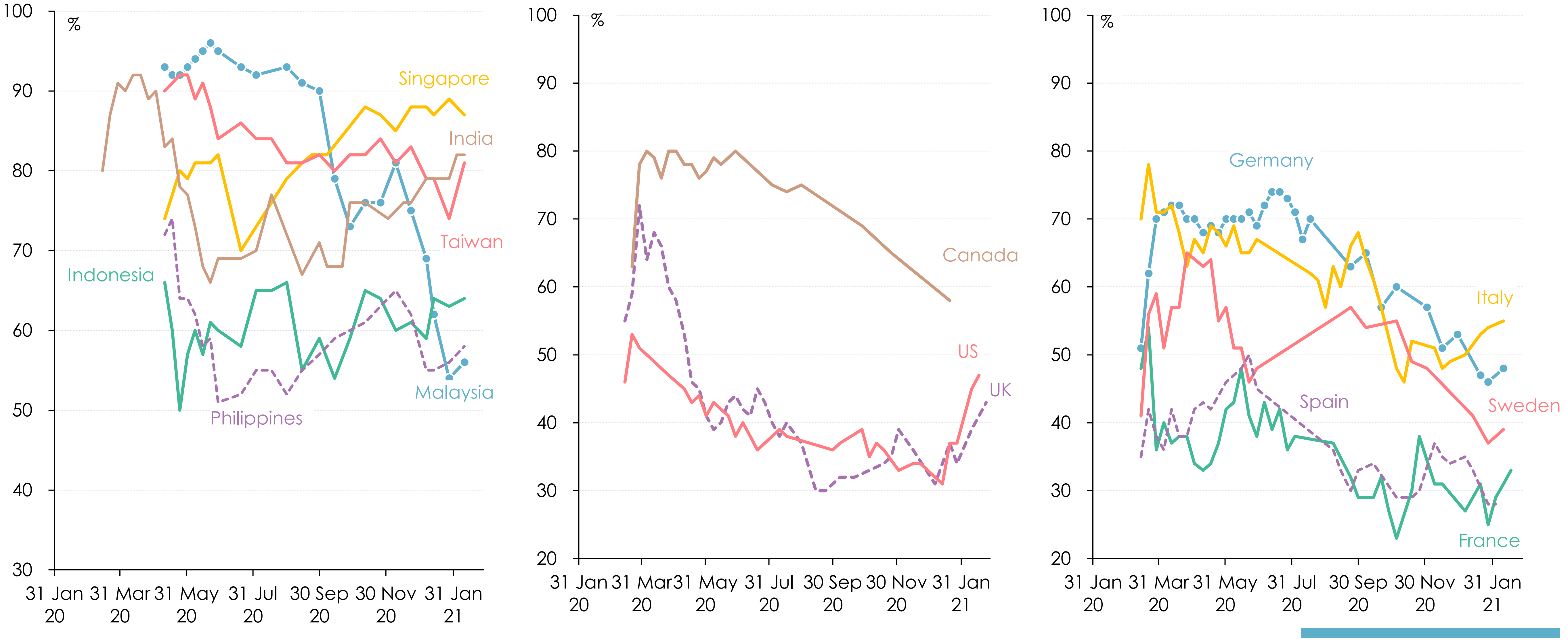


Note: Data up to 25th February. *Sources:* Our World in Data, Coronavirus (COVID-19) Vaccinations; Government of Israel.

SAUL ESLAKE
CORINNA ECONOMIC ADVISORY

US voters are more approving of handling of the pandemic now, and in most of Europe voter sentiment is also improving from a very low base

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

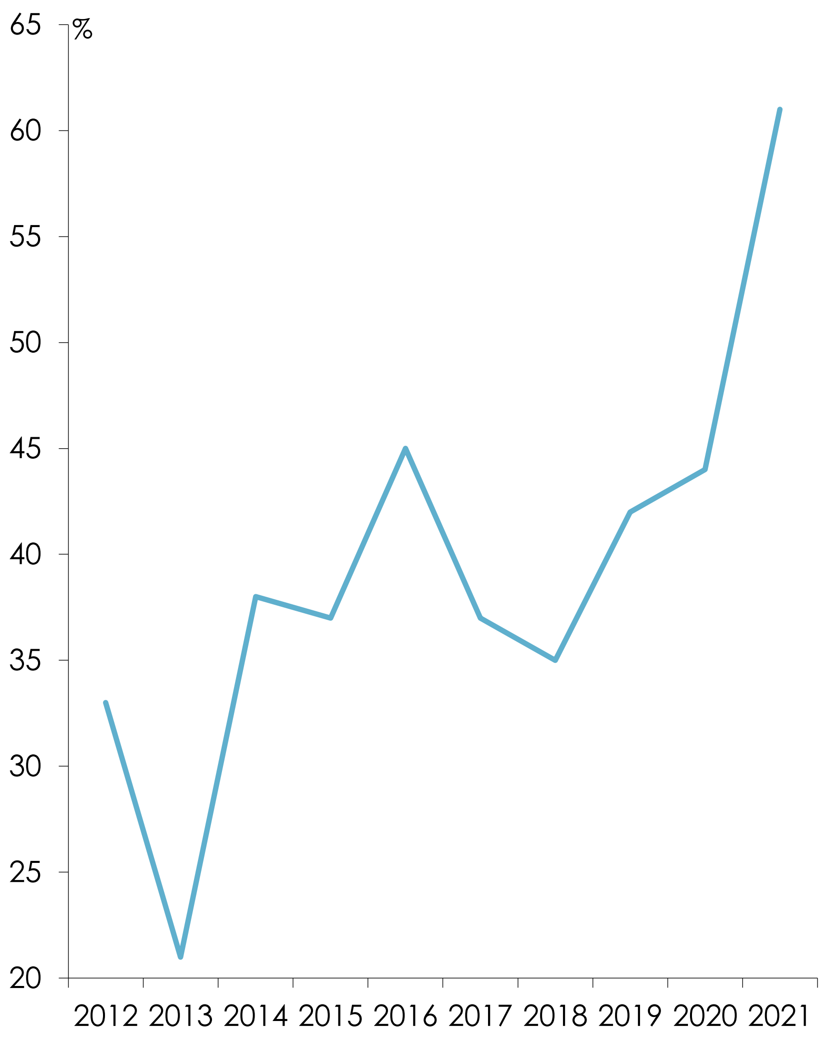


Source: YouGov, Covid-19 tracker: government handling. Return to "What's New".

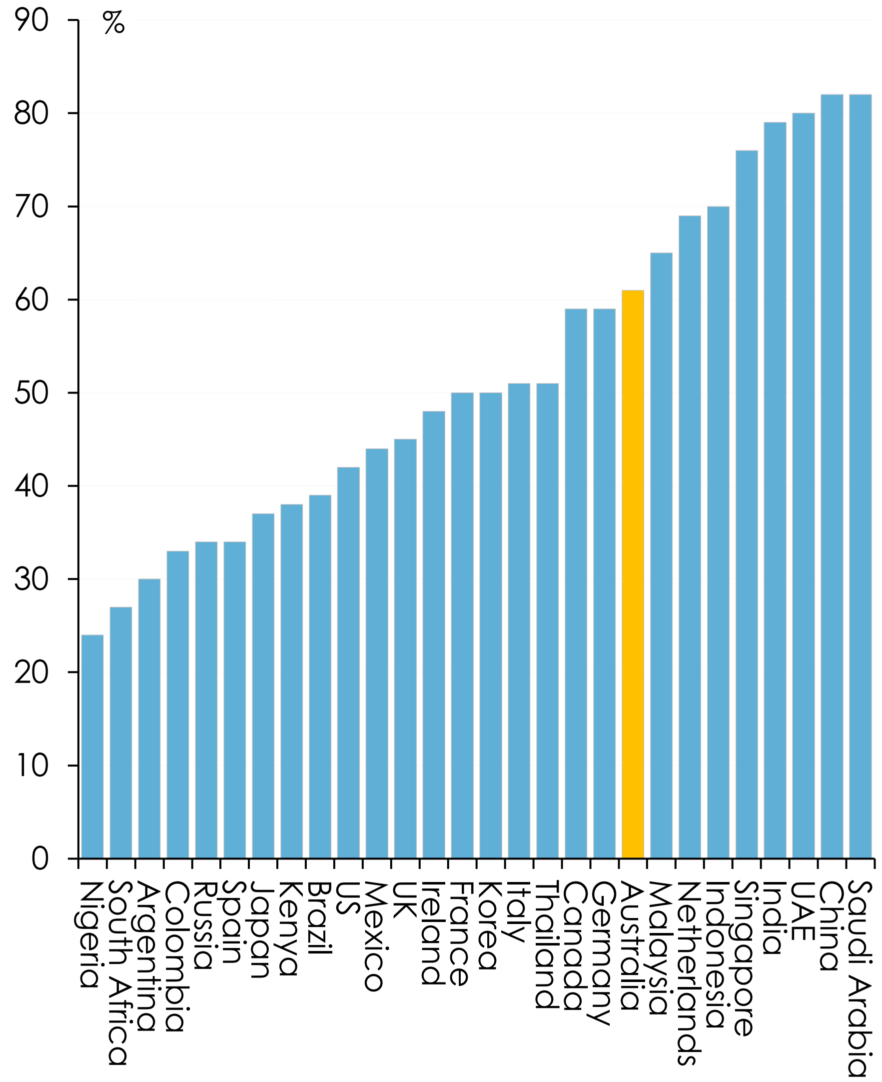
SAUL ESLAKE
CORINNA ECONOMIC ADVISORY

Australia's relative success in confronting last year's health & economic challenges has prompted a substantial rise in trust in government

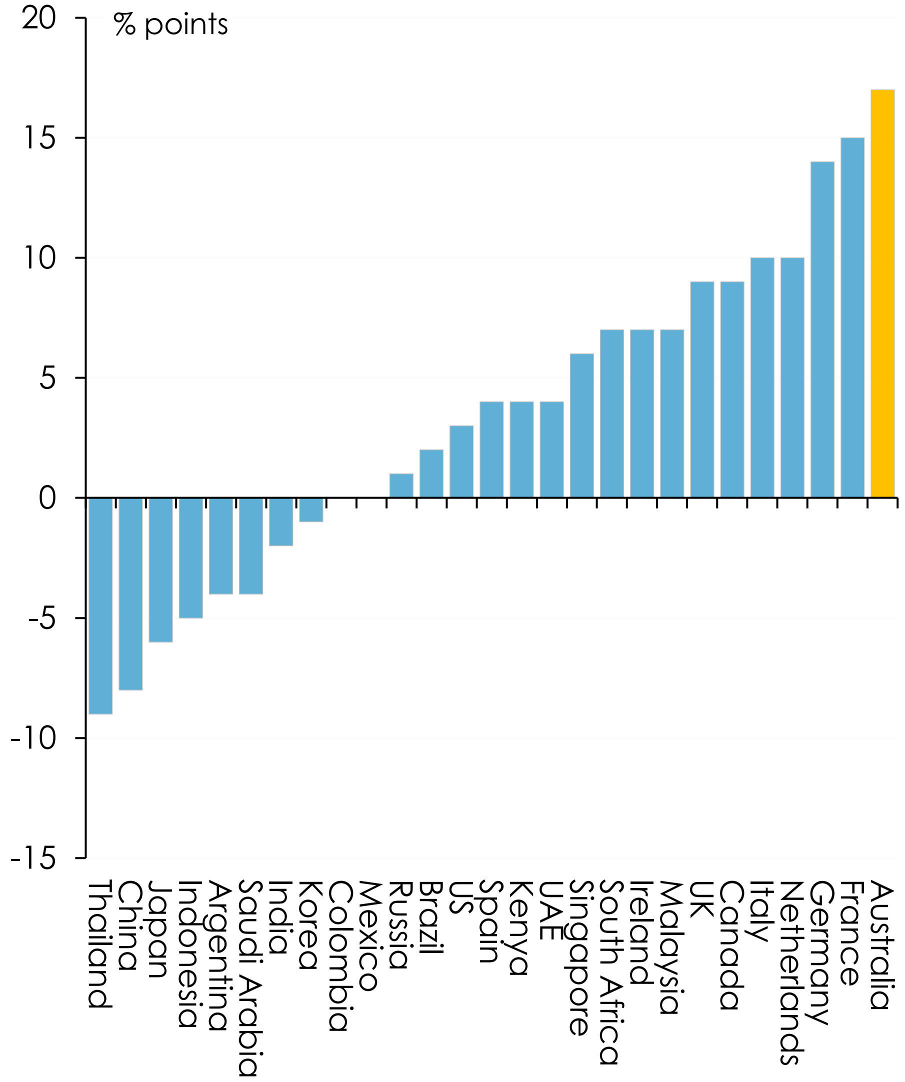
Trust in government in Australia



Trust in government, 2021



Change in government trust, 2021



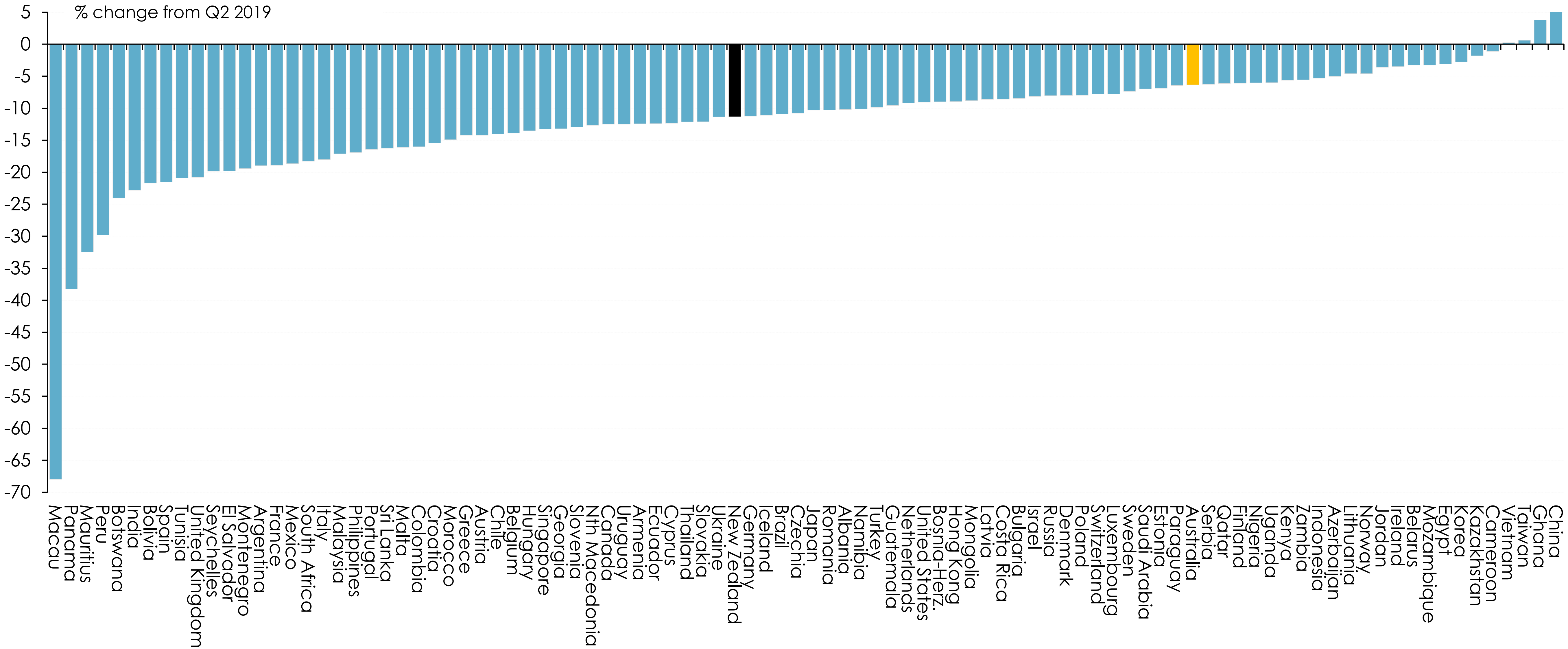
Source: *Edelman Trust Barometer*, February 2021

SAUL ESLAKE
CORINNA ECONOMIC ADVISORY

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

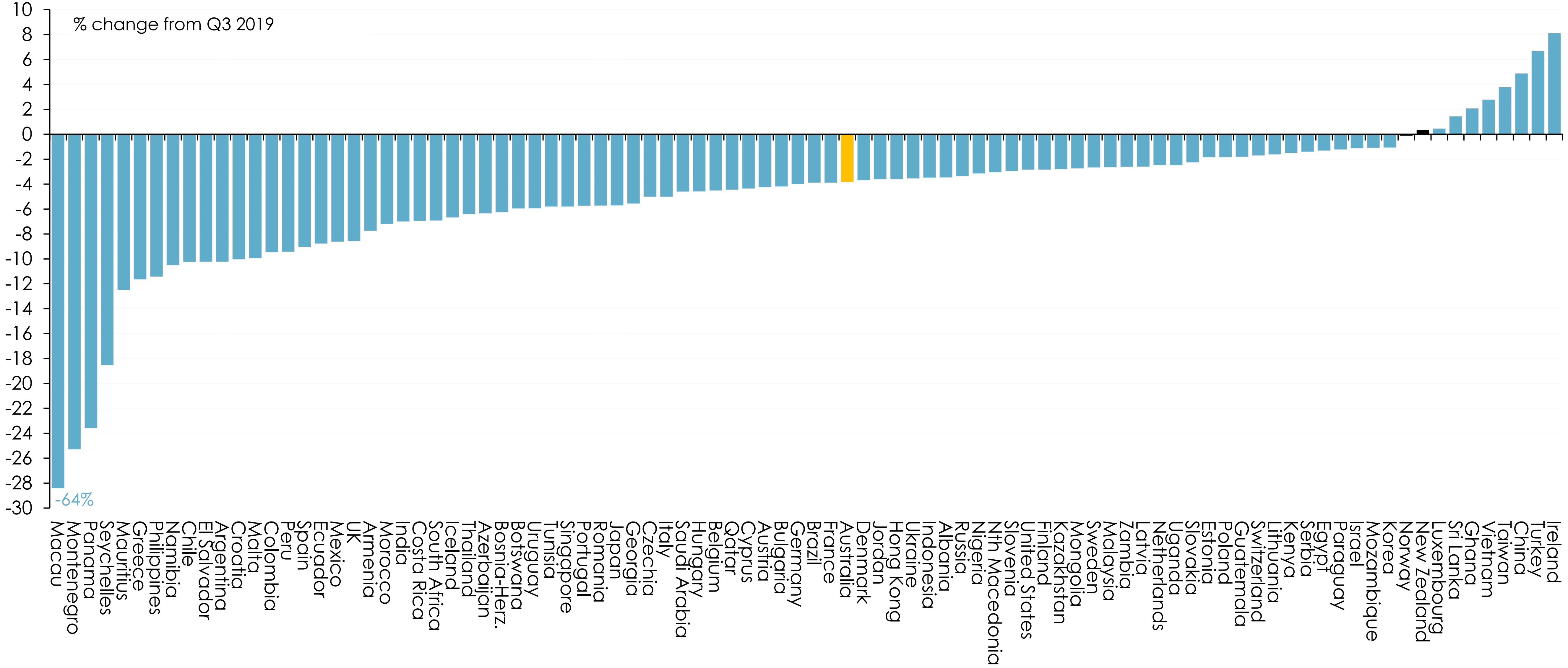


Sources: national statistical agencies and central banks; Refinitiv Datastream; Corinna. Return to "What's New".

SAUL ESLAKE
CORINNA ECONOMIC ADVISORY

… but of 92 countries which have reported Q3 numbers, 9 showed positive growth …

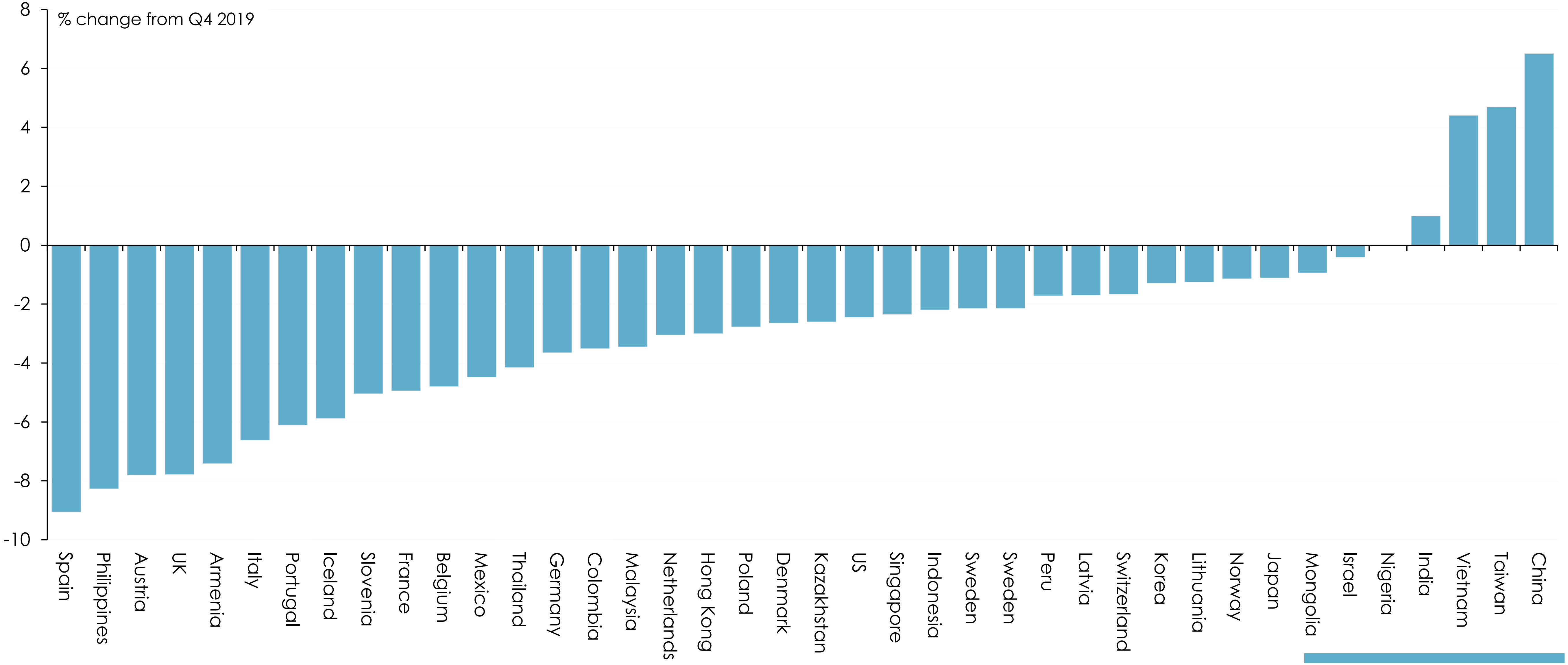
Real GDP growth over the year to Q3 2020



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

… and of the 40 countries which have so far reported Q4 national accounts, five have shown positive growth from Q4 2019, and none less than -10%

Real GDP growth over the year to Q4 2020

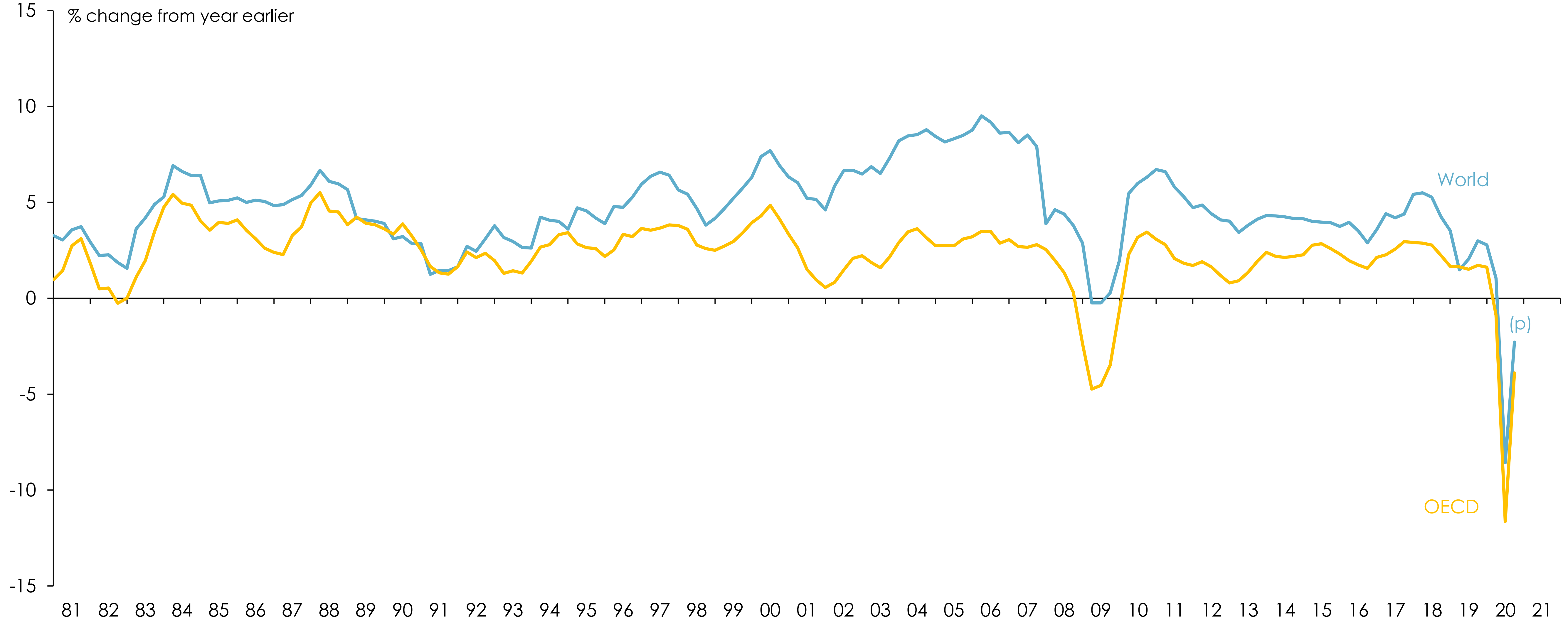


Sources: national statistical agencies and central banks; Refinitiv Datastream; Corinna. Return to "What's New".

SAUL ESLAKE
CORINNA ECONOMIC ADVISORY

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)

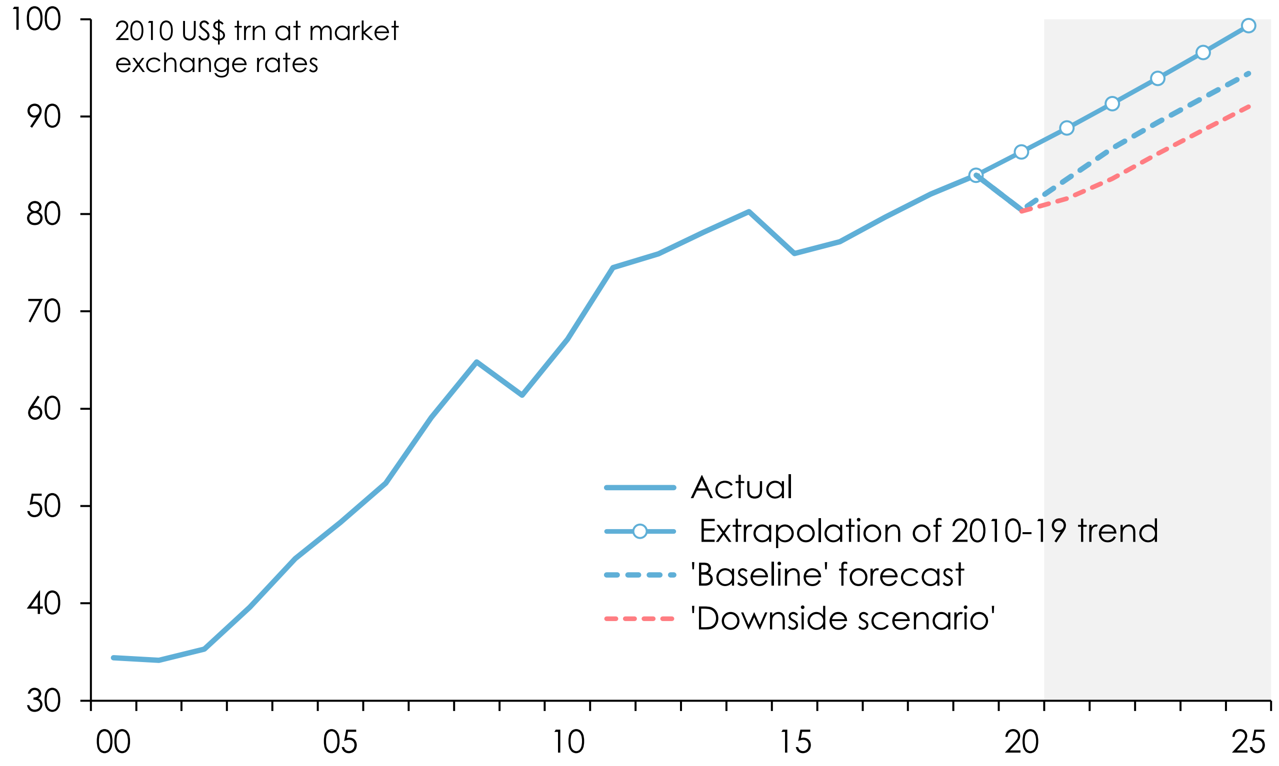
Major global institutions' growth forecasts for 2020, 2021 and 2022 compared

	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.
Return to "What's New".

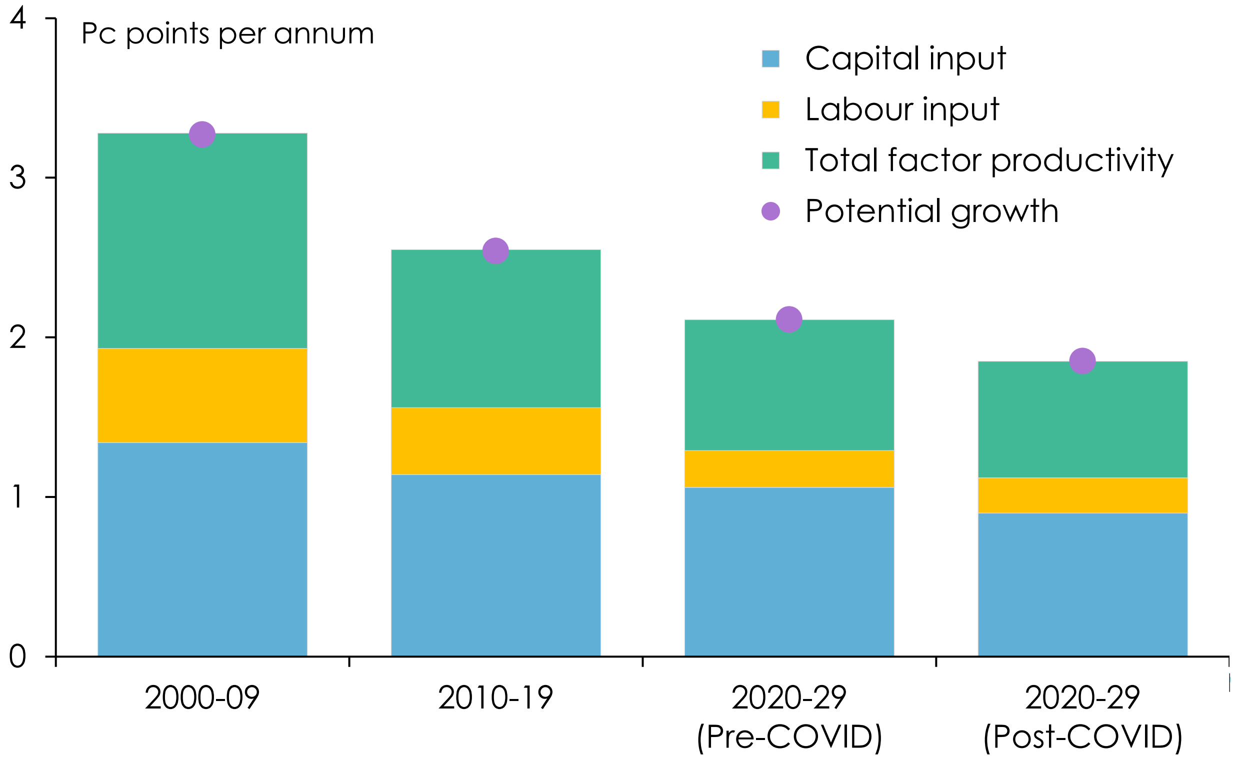
The World Bank's latest forecasts foreshadow a substantial long-term shortfall in economic activity in the aftermath of Covid-19

Global output and World Bank forecasts



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

The slowdown in global potential output growth



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

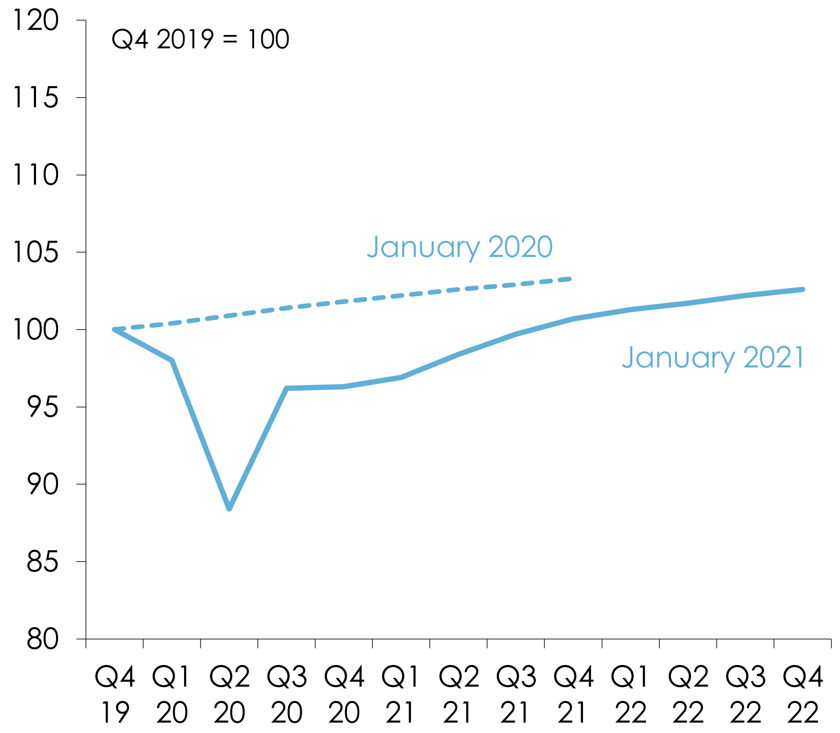
Source: The World Bank, *Global Economic Prospects* (Chapter 3), 6th January 2021. Return to "What's New".

SAUL ESLAKE
CORINNA ECONOMIC ADVISORY

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

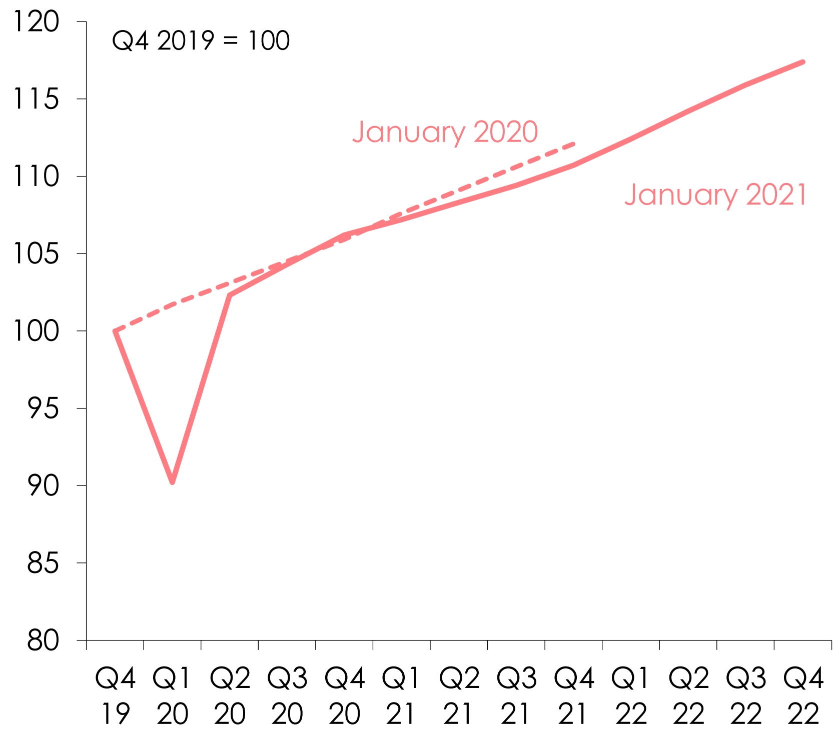
IMF World Economic Update real GDP forecasts – January 2020 and January 2021

'Advanced' economies



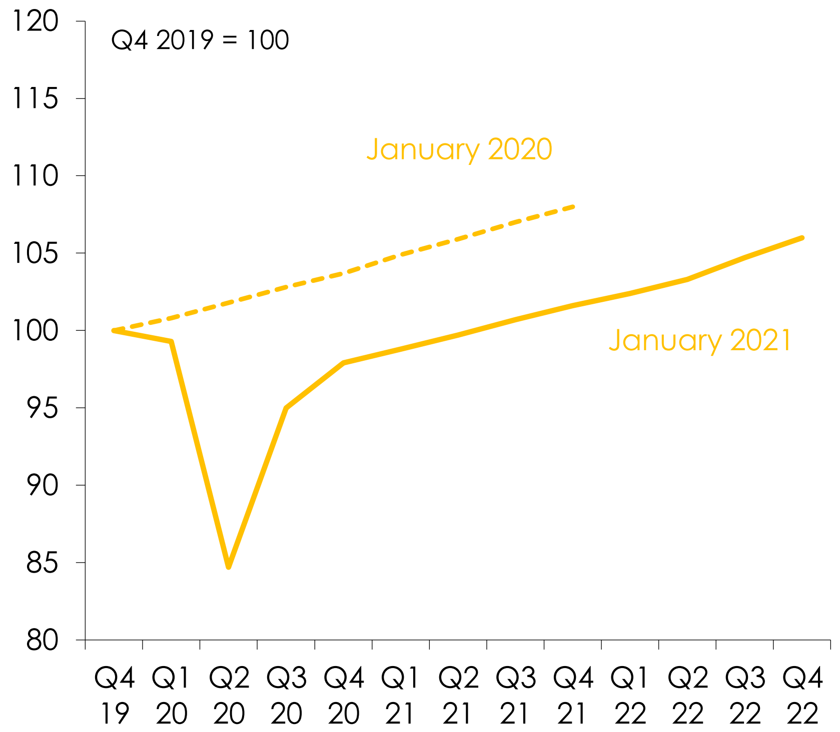
- GDP fell 11½% during the recession, won't regain its pre-recession level until Q4 21, and by Q4 22 will still be ¾% below where last January it had been expected to be in Q4 21

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



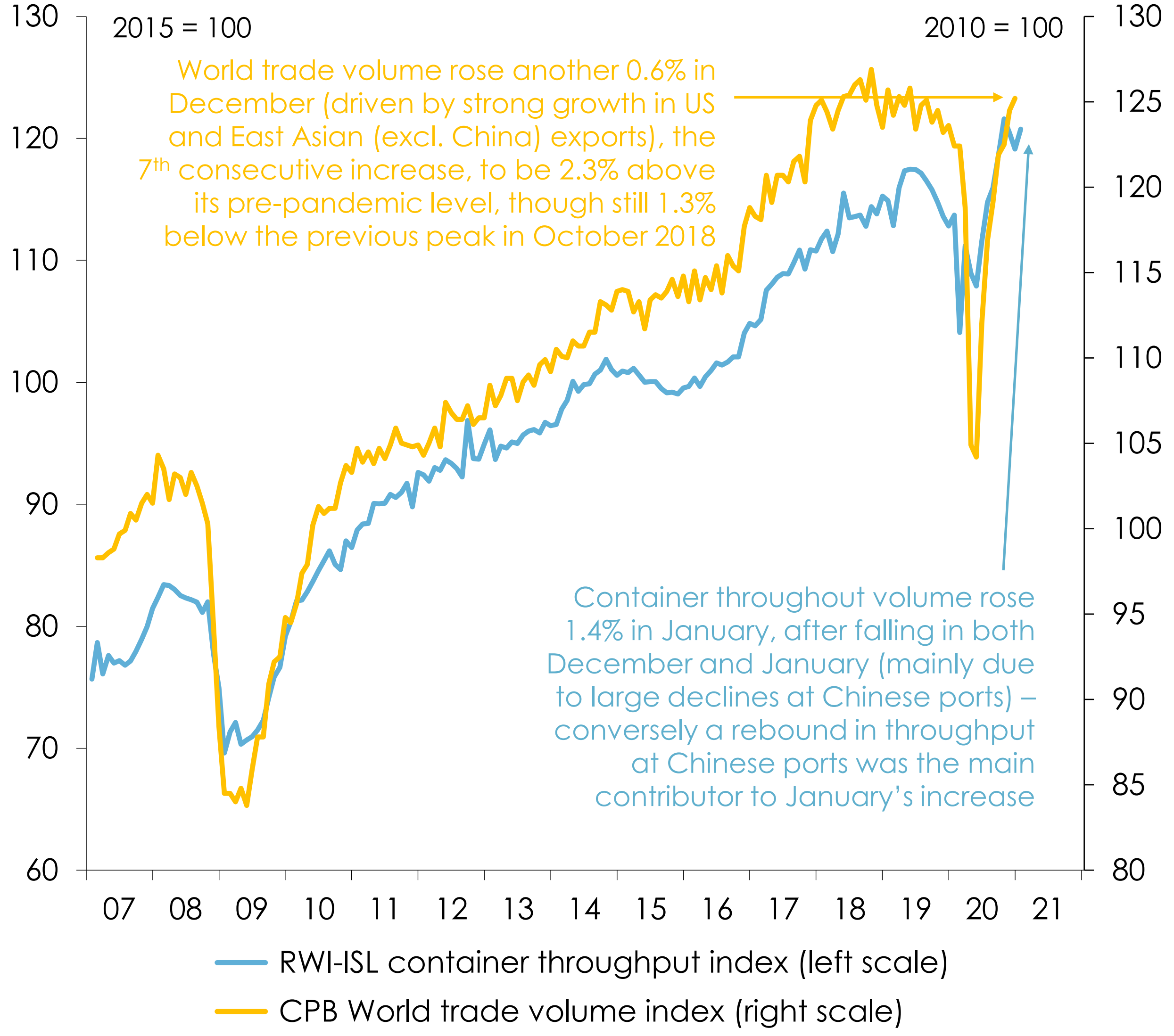
- GDP fell 15¼% during the recession, won't regain its pre-recession level until Q3 21, and by Q4 22 will still be 2% below where last January it had been expected to be in Q4 21

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

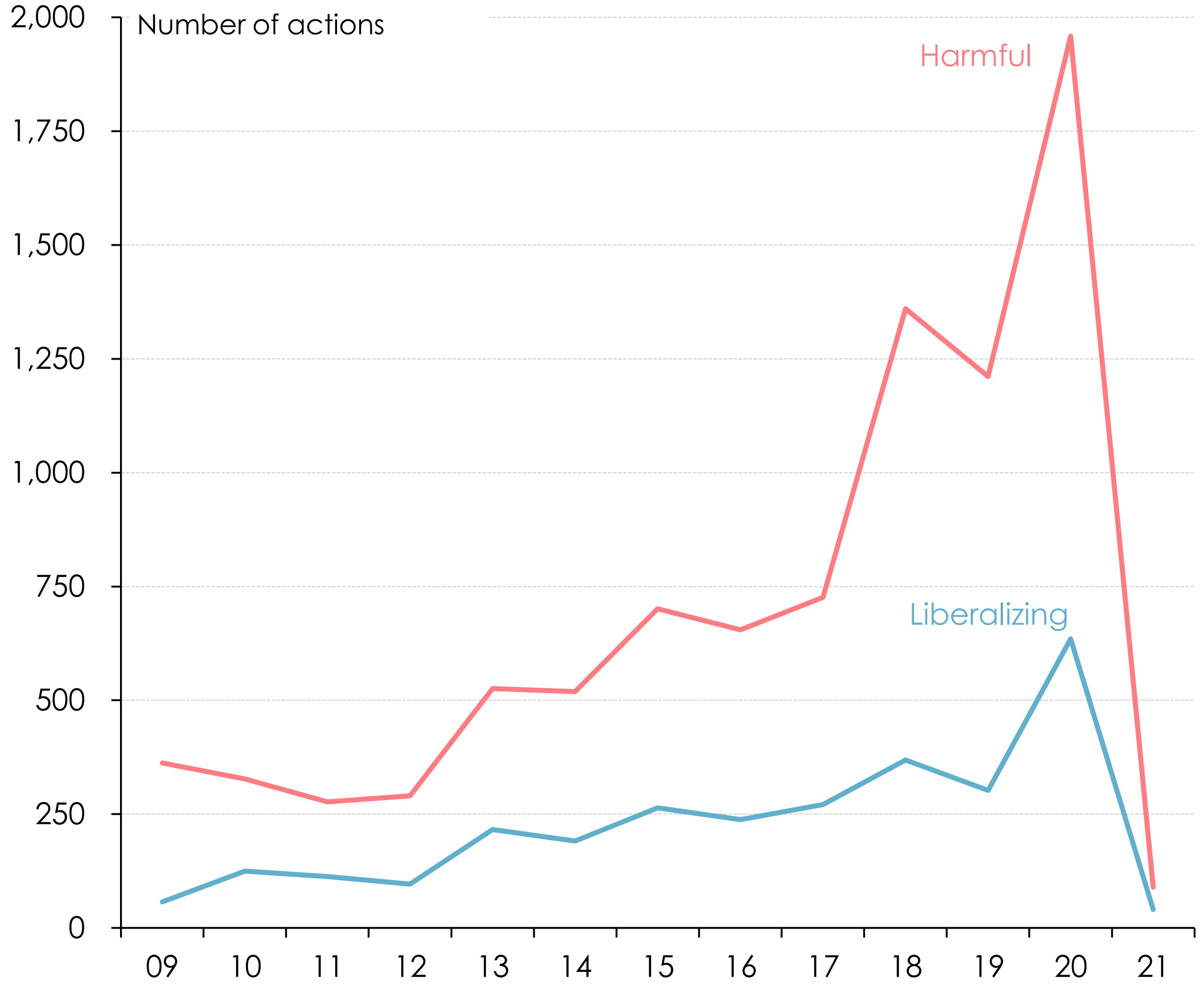
SAUL ESLAKE
CORINNA ECONOMIC ADVISORY

World merchandise trade volumes rose 0.6% in December to be 2¼% above pre-pandemic level though still 1¼% below peak in October 2018

World trade volumes and container throughput



Pro- and anti-trade government policy actions

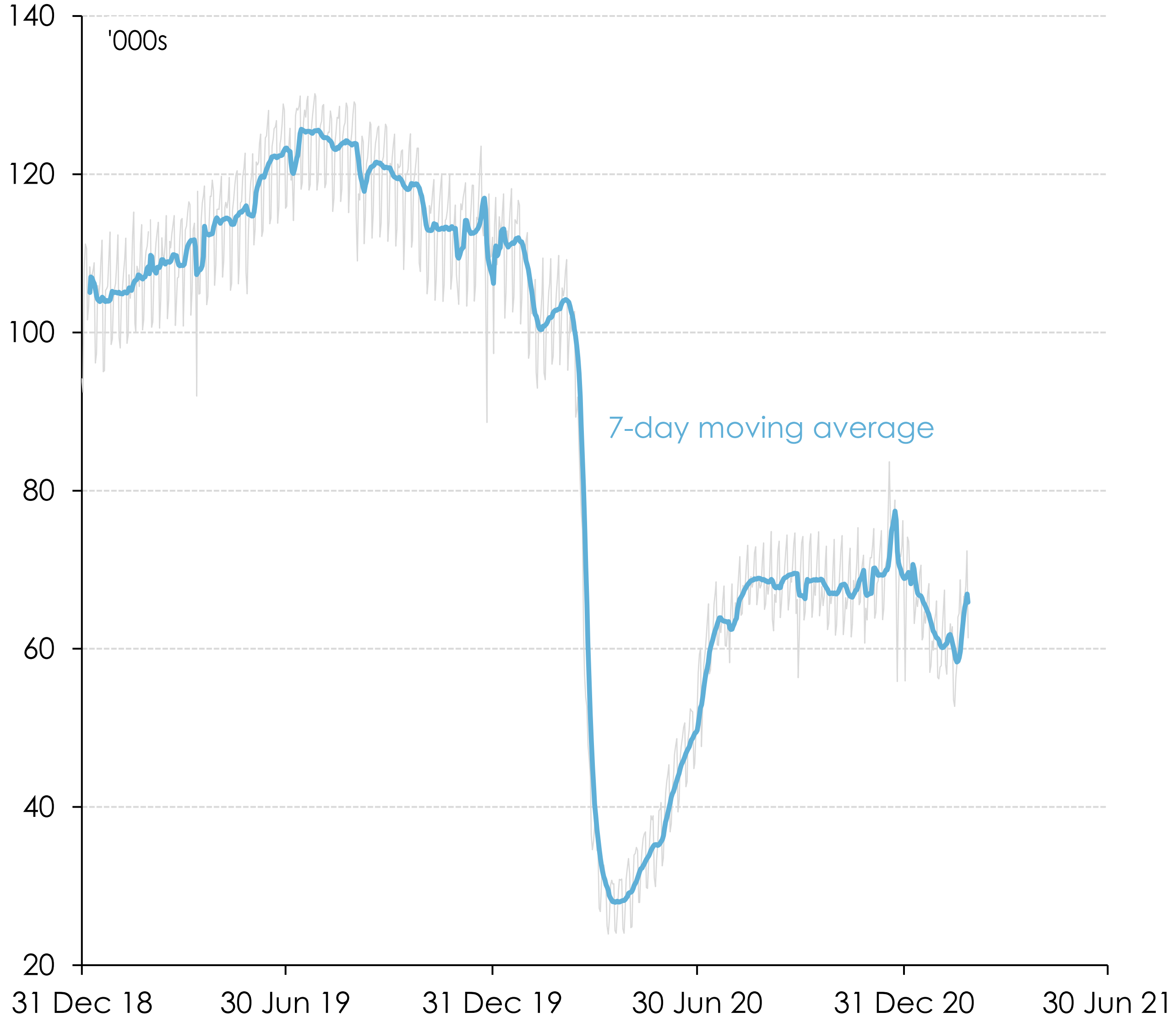


Note: The shipping container throughput index is based on reports from 91 ports around the world handling over 60% of global container shipping.
Sources: CPB Netherlands Economic Planning Bureau, World Trade Monitor (January data to be released on 25th March); Institute of Shipping Economics & Logistics (ISL) and RWI Leibniz-Institut für Wirtschaftsforschung (RWI) Container Throughput Index; Centre for Economic Policy Research, Global Trade Alert *Global Dynamics* (data up to 26th February). Return to "What's New".

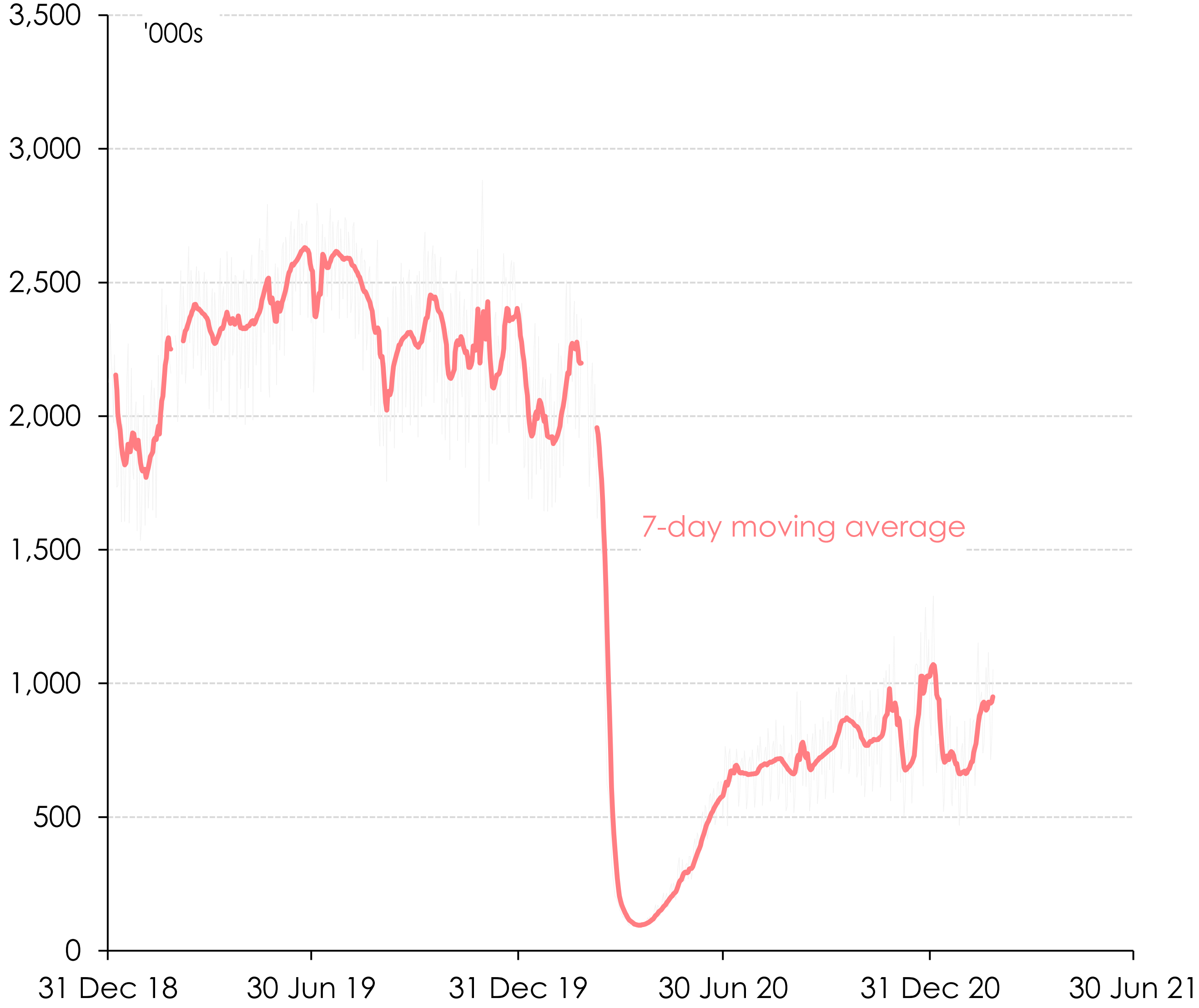
SAUL ESLAKE
CORINNA ECONOMIC ADVISORY

There now seem to be clear signs of a pick-up in commercial aviation traffic which hopefully will be sustained as vaccines are rolled out

Daily commercial flights worldwide



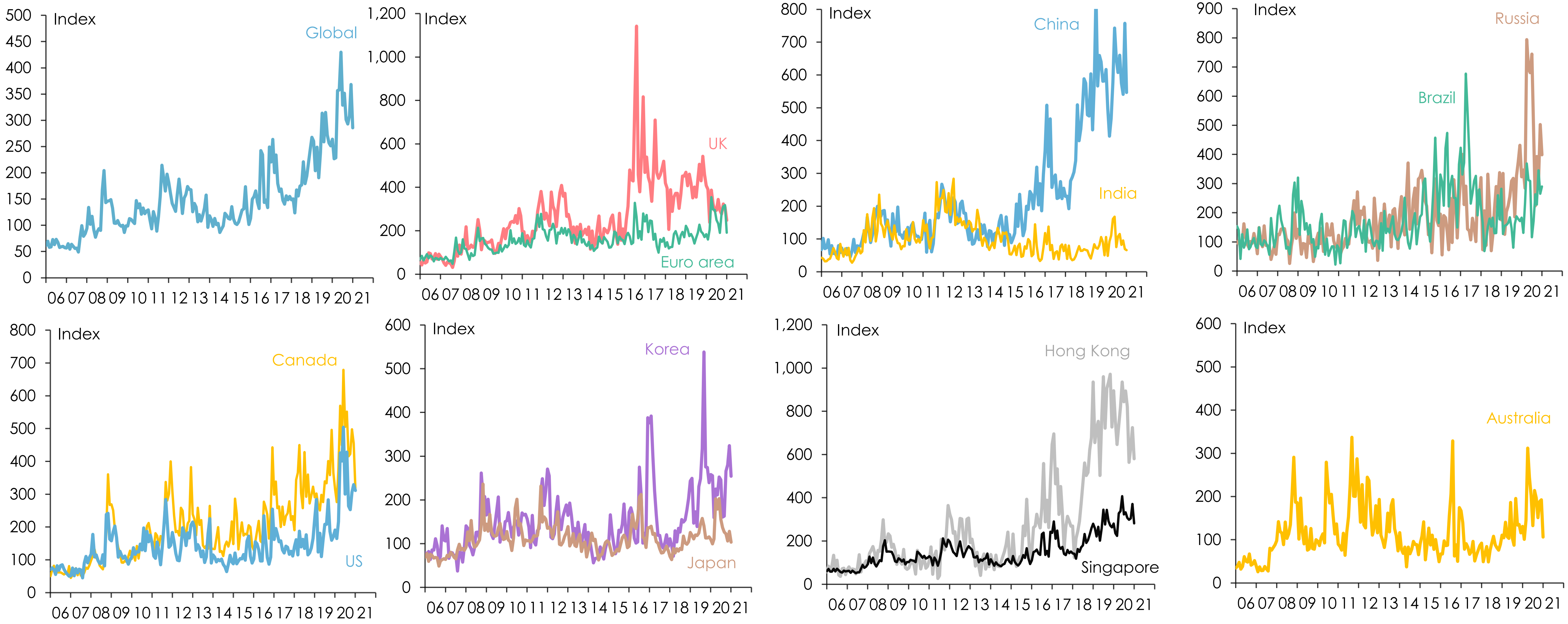
Daily US TSA security checks



Note: Commercial flights include commercial passenger flights, cargo flights, charter flights, and some business jet flights. Data up to 26th February for commercial flights and 25th 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

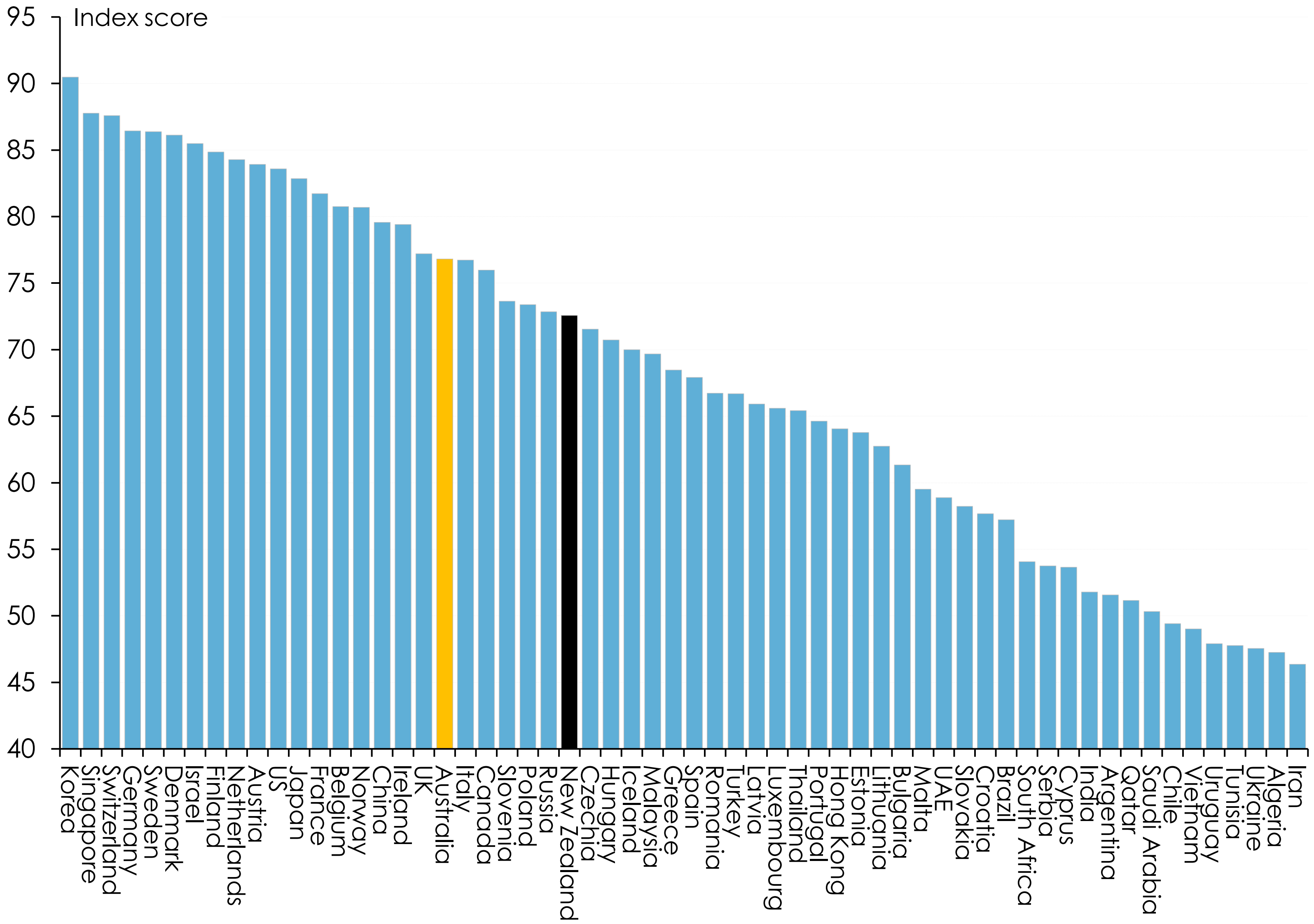
Economic policy uncertainty indices



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



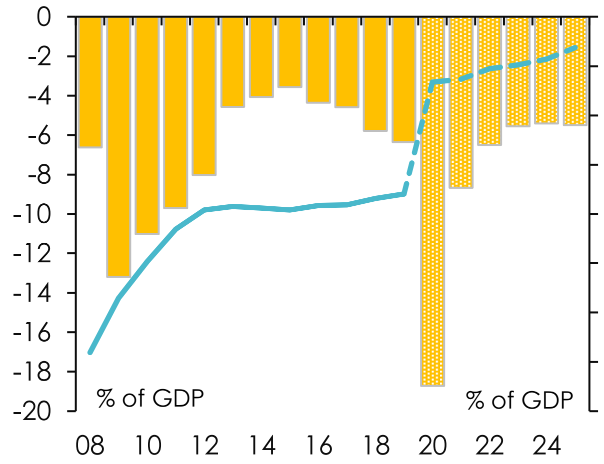
- **Australia ranked 19th (up one place) and New Zealand 25th (up four places) on Bloomberg's 'innovation index' for 2021**
- **Australia ranked 7th for patent activity, 8th (surprisingly) for productivity, and 10th for 'efficiency' of its tertiary education sector …**
- **… but only 20th for R&D intensity, 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.

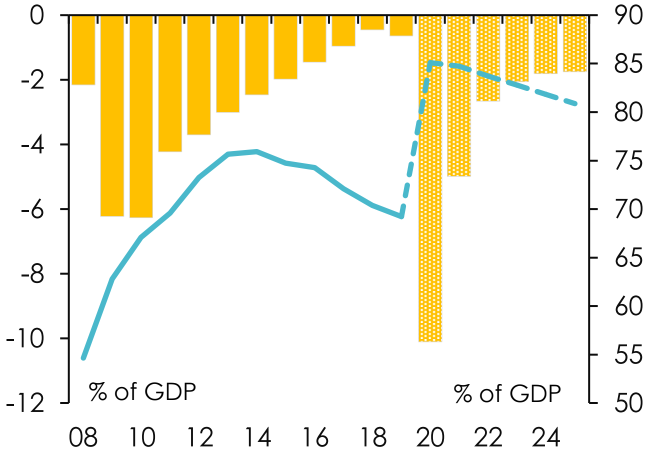
SAUL ESLAKE
CORINNA ECONOMIC ADVISORY

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

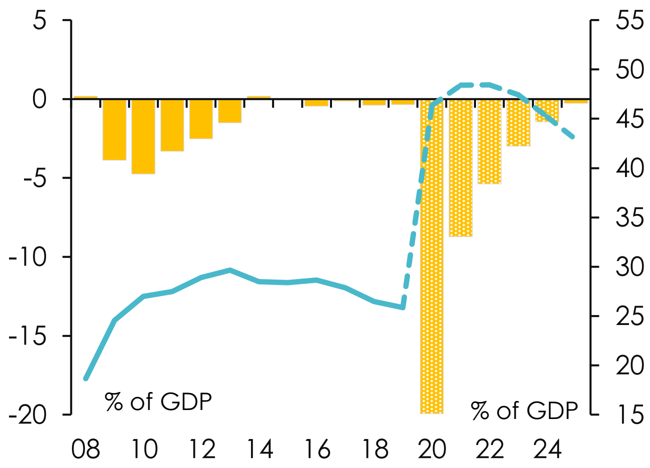
United States



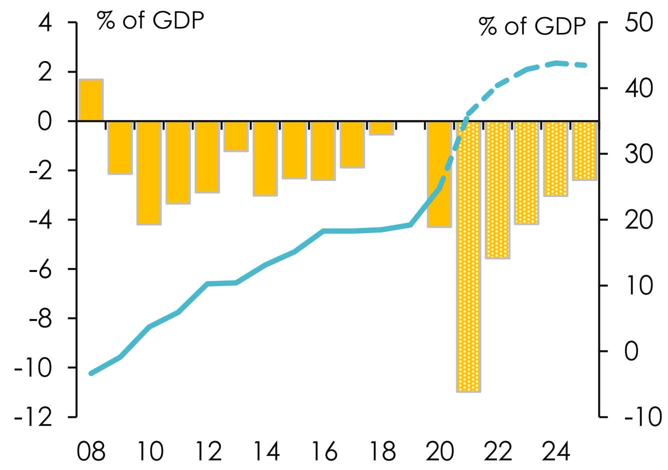
Euro area



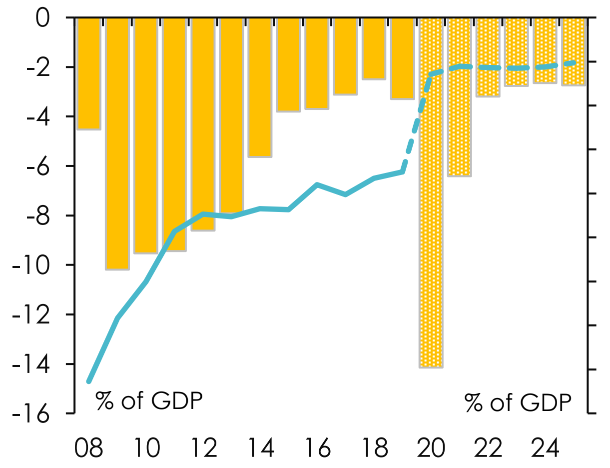
Canada



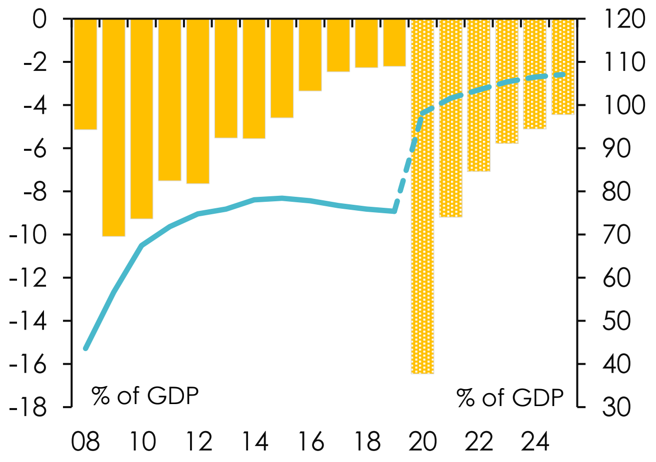
Australia



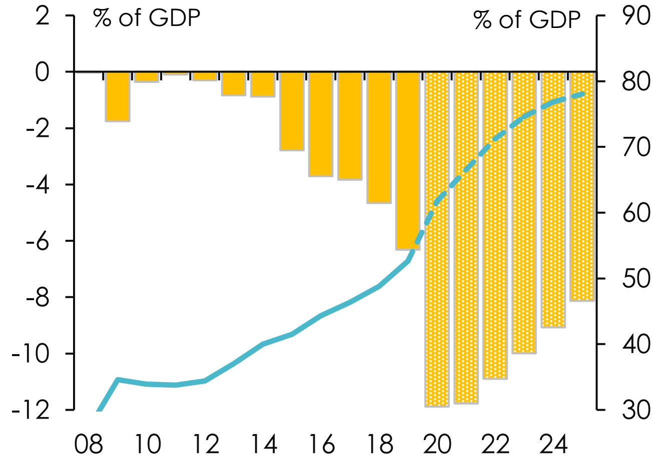
Japan



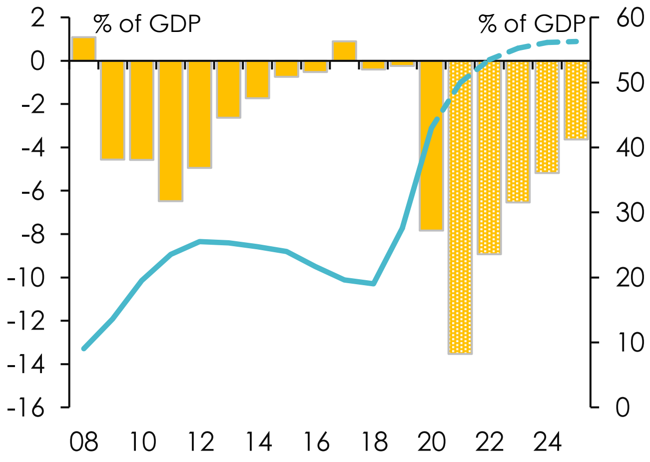
United Kingdom



China



New Zealand

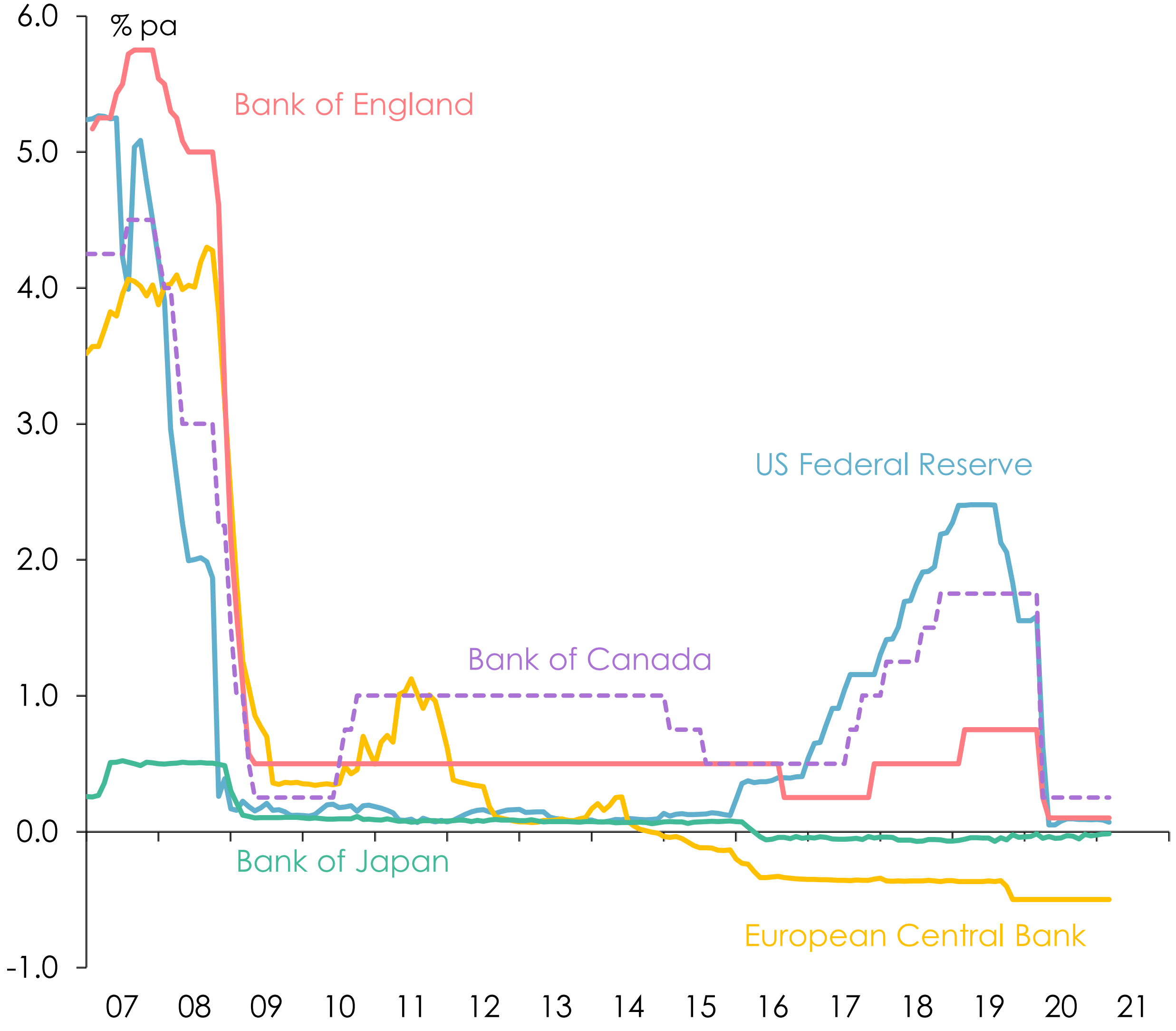


General government overall fiscal balance (left scale) — General government net debt (right scale)

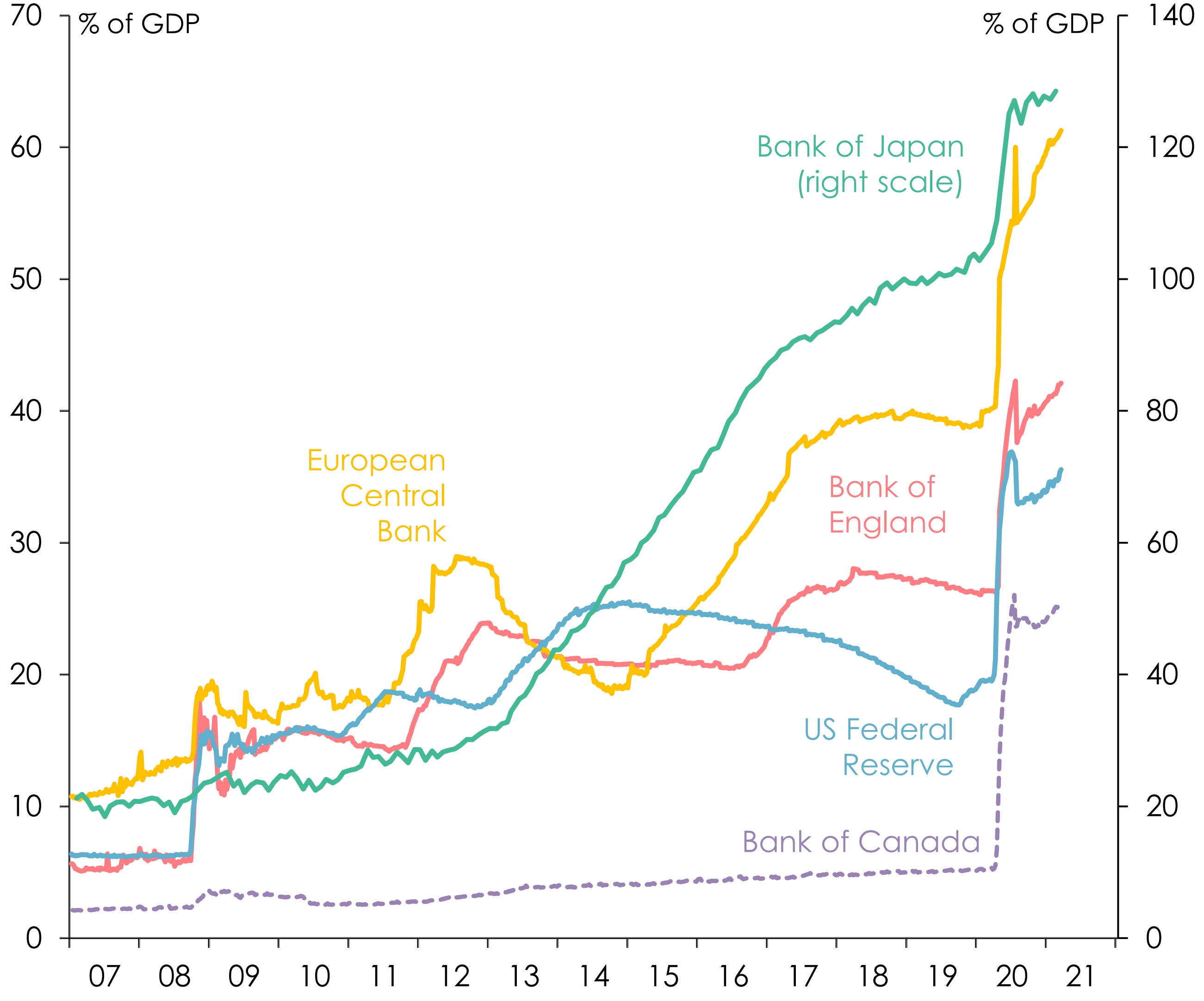
Note: China debt is gross debt, not net; Australian data are for the federal government only and are for fiscal years ended 30th June; NZ data are for fiscal years ended 31st March. *Sources:* International Monetary Fund, *Fiscal Monitor*, and *World Economic Outlook*, October 2020 (both publications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

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

Major central bank policy interest rates



Major central bank balance sheets



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

US Federal Reserve Chair Jay Powell and other senior Fed officials were very 'dovish' in prepared statements this week

- **Fed Chair Jay Powell's semi-annual Congressional testimony this week was *über*-dovish**
  - he articulated very clearly that the Fed *wouldn't* tighten monetary policy *solely* in response to a tighter labour market (as it has done in previous cycles) …
  - … but would rather wait until [price] inflation had been "moderately above 2% for some time, so as to "keep longer-term inflation expectations well anchored at 2" (rather than risk having them fall below 2% as a result of actual inflation having been below 2% for some time)
  - Powell indicated that the Fed would not begin to lift its fed funds rate target until its goals of "maximum employment" and "inflation at 2% and on track to exceed 2% for some time" have been reached, and that it would maintain the present rate of asset purchases (of US$120bn a month) until "substantial further progress" has been made towards those goals
  - Powell emphasized that the economy is "a long way" from the Fed's employment and inflation goals, and that it is "likely to take some time" for "substantial further progress to be achieved"
- **Powell's dovish 'take' on the economic outlook was backed up in a speech by Fed Vice-Chair Richard Clarida …**
  - who re-iterated a point previously made by Chair Powell that "once one factors in the decline in the labour force since the onset of the pandemic and misclassification [of people working zero hours as 'employed'] the true unemployment rate is closer to 10%" (as opposed to the 'official' rate of 6.3%)
- **… and another by Fed Governor Lael Brainard**
  - who fleshed out in considerable detail why the Fed is no longer prepared to tighten monetary policy solely in response to a tighter labour market
  - noting that the 'headline' unemployment rate of 6¼% conceals "Depression-era rates of unemployment of around 23%" among workers in the lowest wage quartile, and that a decline in labour force participation by "prime age women" (largely as a result of the increase in caregiving work at home because of school and day-care shutdowns) was a significant factor in the decline in overall participation rate (something which has been larger and more sustained in the US than in other large 'advanced' economies)

Return to "What's New".

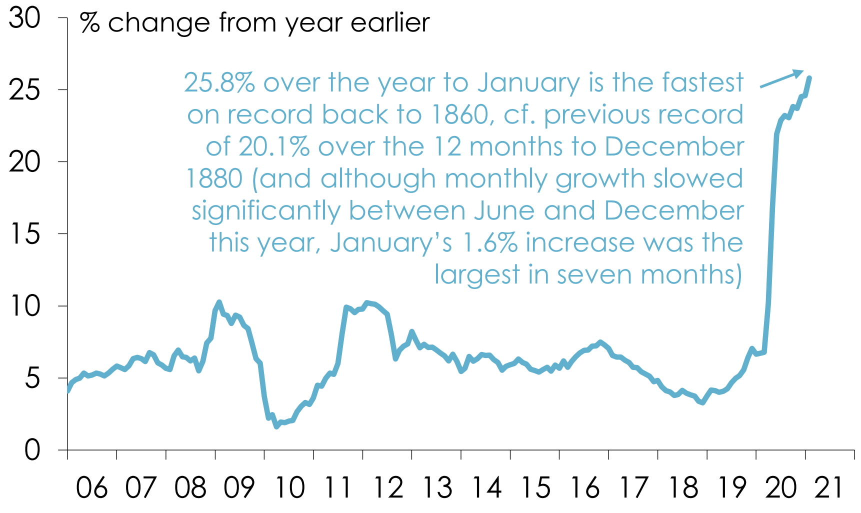
The BoJ, ECB and BoE all left policy settings unchanged at their first meetings for 2021, with the BoJ's Kuroda last week downplaying 'tapering' prospects

- **The Bank of Japan held its first monetary policy meeting for 2021 on 21st January and it also left all its monetary policy settings unchanged**
  - 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"
  - BoJ Governor Haruhiko Koroda last week downplayed market expectations that the BoJ's review of its policy settings to be released next month would lead to any tapering of its QE, noting that risks to Japan's economy remain skewed to the downside and that "it may be difficult for inflation to reach 2% in 2021, 2022 and even 2023"
- **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 England's Monetary Policy Committee left its monetary policy settings unchanged at its first meeting for 2021 held this month**
  - 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 – and 'headline' inflation was expected to pick up rapidly in March-April reflecting higher energy prices and the expiry of the temporary reduction in VAT

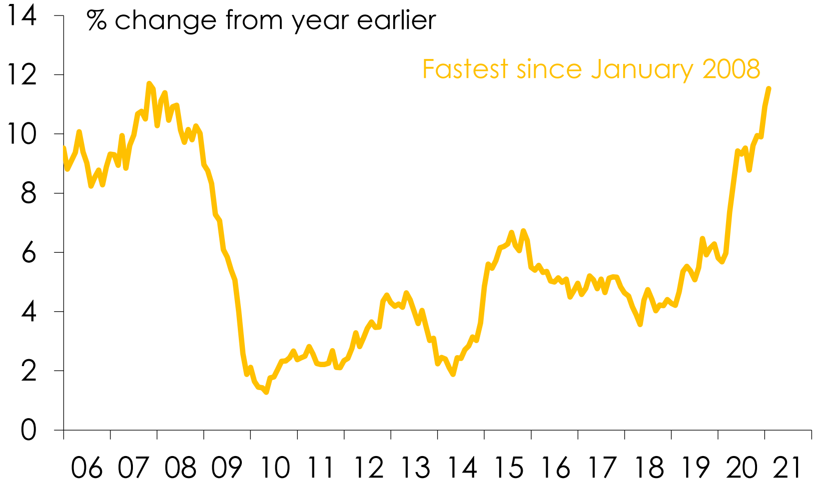
Return to "What's New".

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

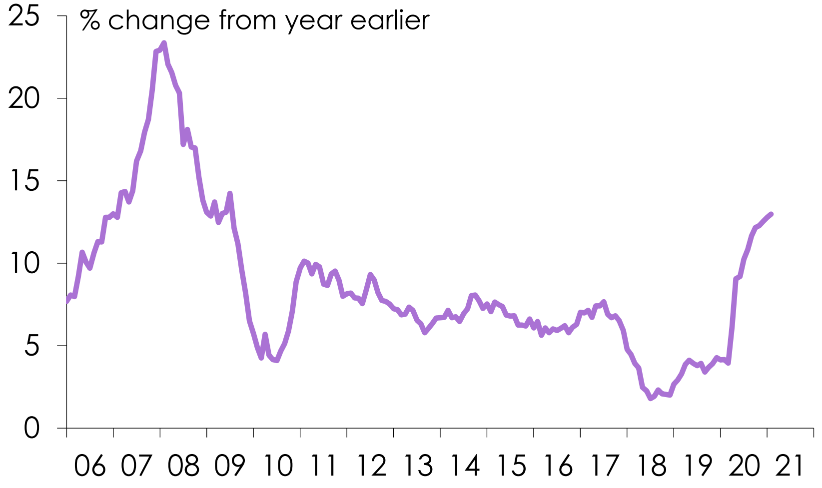
US M2



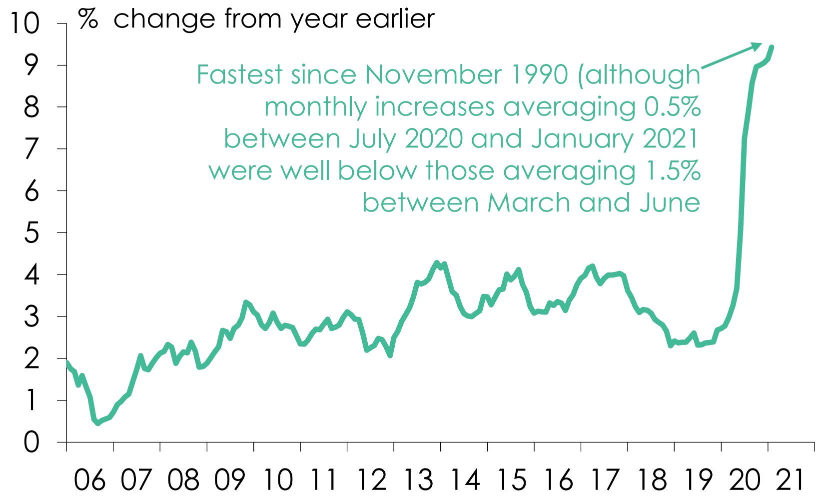
Euro area M2



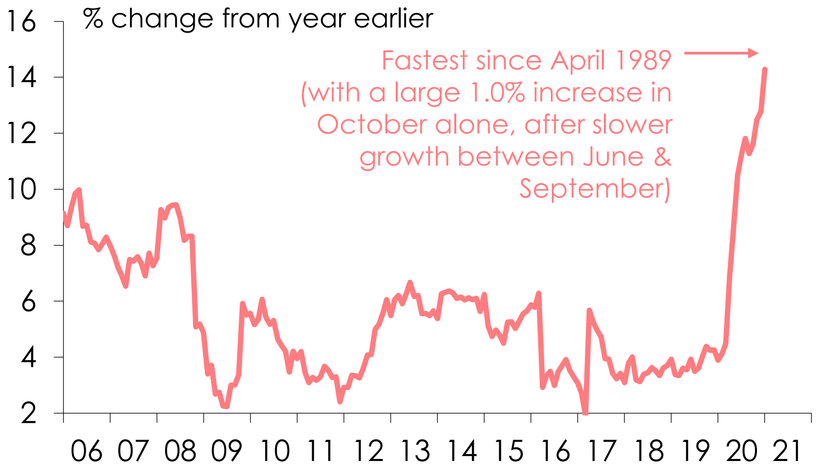
Australia M3



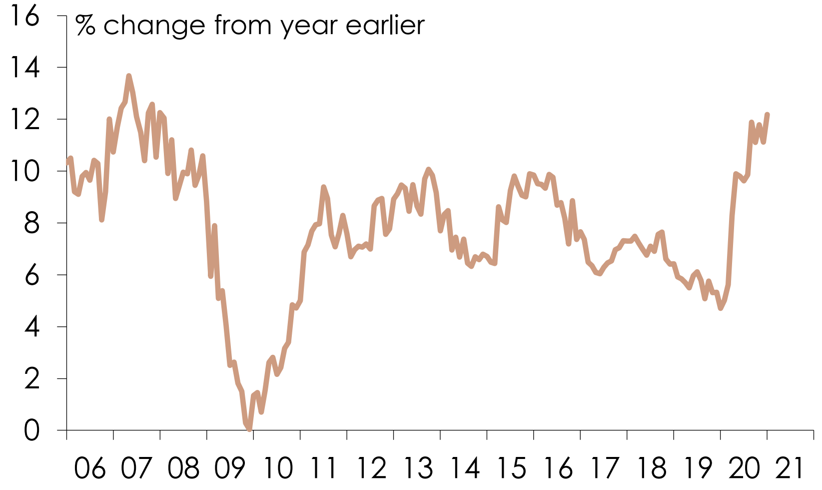
Japan M2 + CDs



UK M2



New Zealand M3

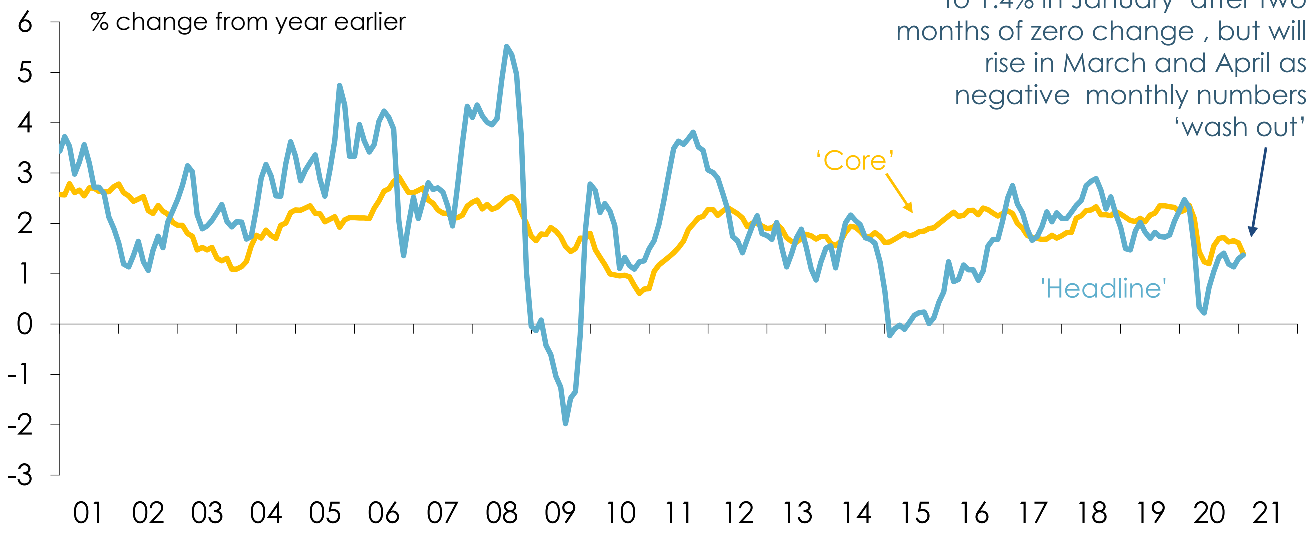


Sources: US Federal Reserve; European Central Bank; Bank of Japan; Bank of England; RBA; RBNZ; Longtermtrends. Return to "What's New".

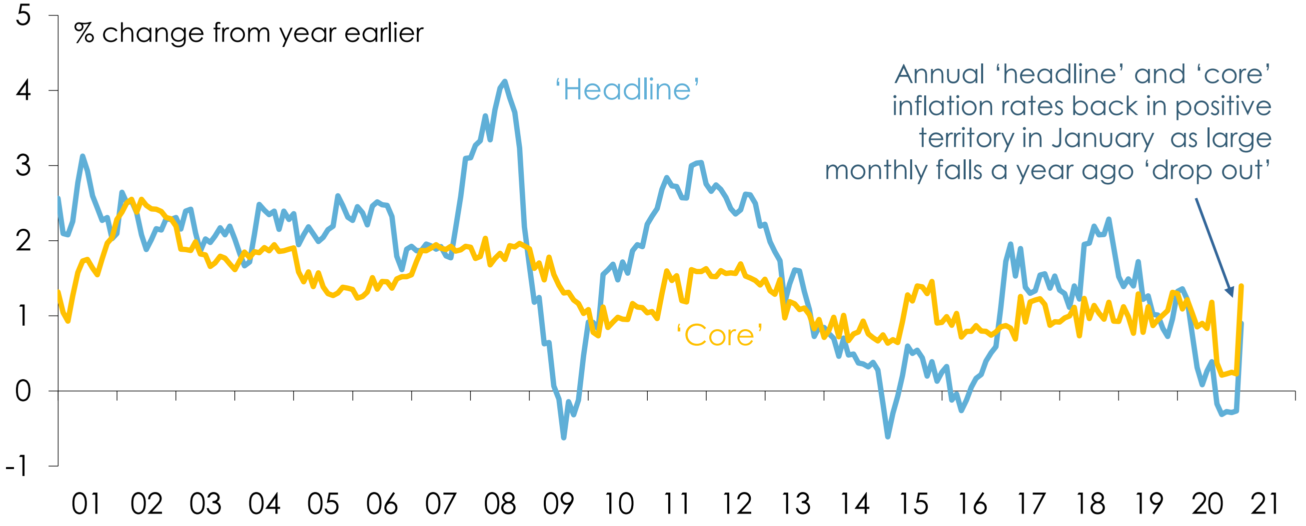
SAUL ESLAKE
CORINNA ECONOMIC ADVISORY

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

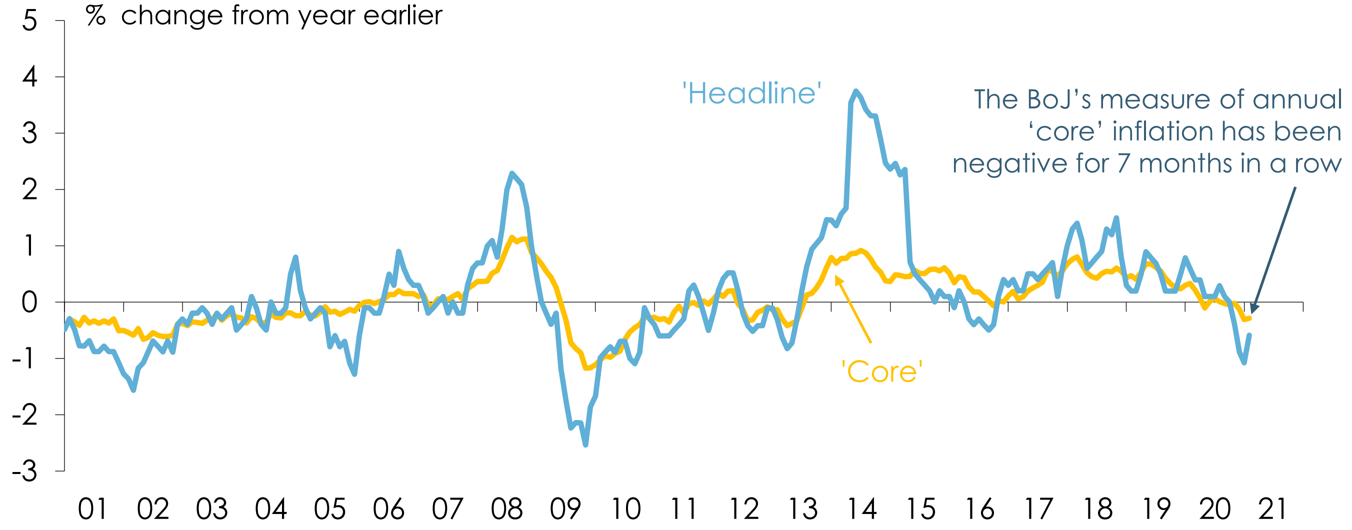
‘Headline’ and ‘core’ inflation - US



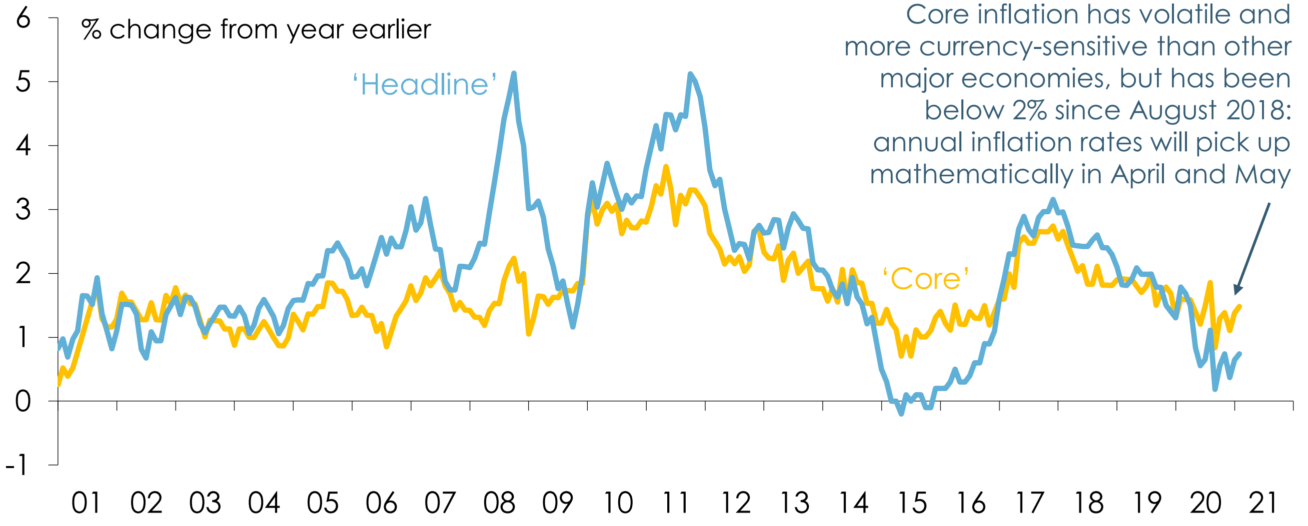
‘Headline’ and ‘core’ inflation – Euro area



‘Headline’ and ‘core’ inflation - Japan



‘Headline’ and ‘core’ inflation – UK

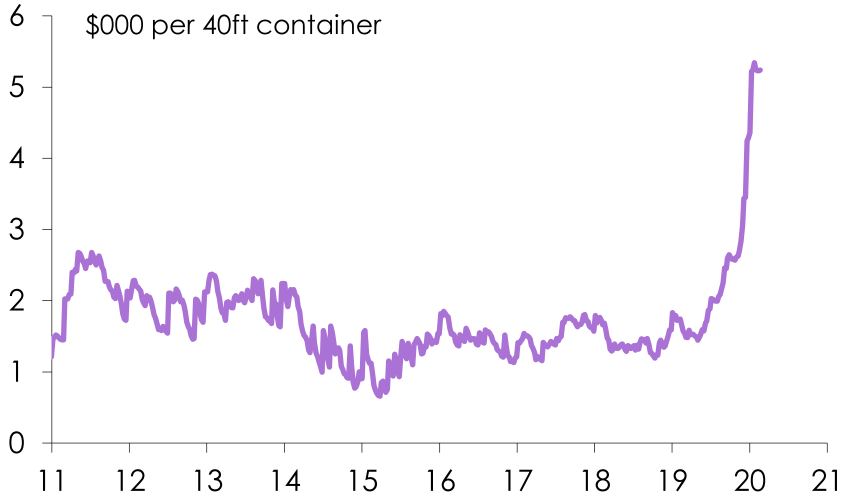


Note: ‘Core’ inflation is the CPI excluding food & energy in the US; excluding food, energy, alcohol & tobacco in the euro area; and excluding energy & seasonal foods in the UK. The ‘core’ inflation measure for Japan is the weighted median CPI calculated by the Bank of Japan (with a lag).
Sources: US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

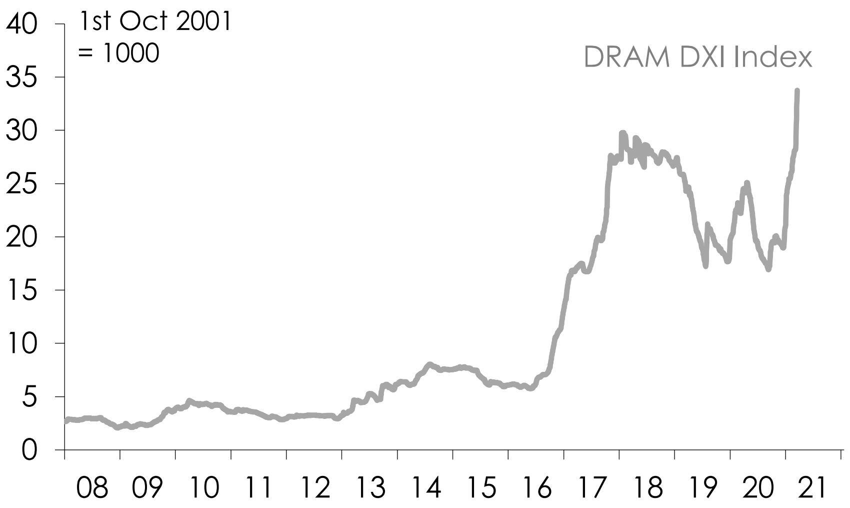
SAUL ESLAKE
CORINNA ECONOMIC ADVISORY

There are undoubtedly some signs of increasing 'upstream' inflationary pressures – in particular in the US

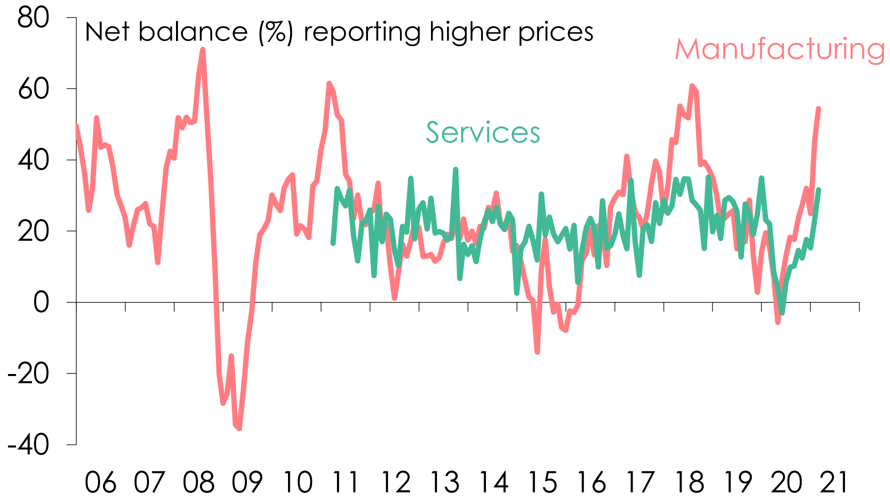
Container freight costs



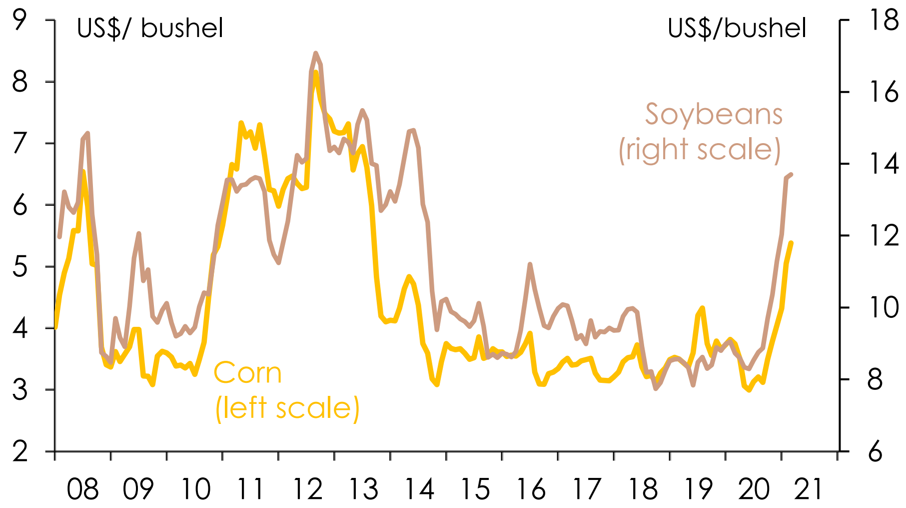
Semiconductor prices



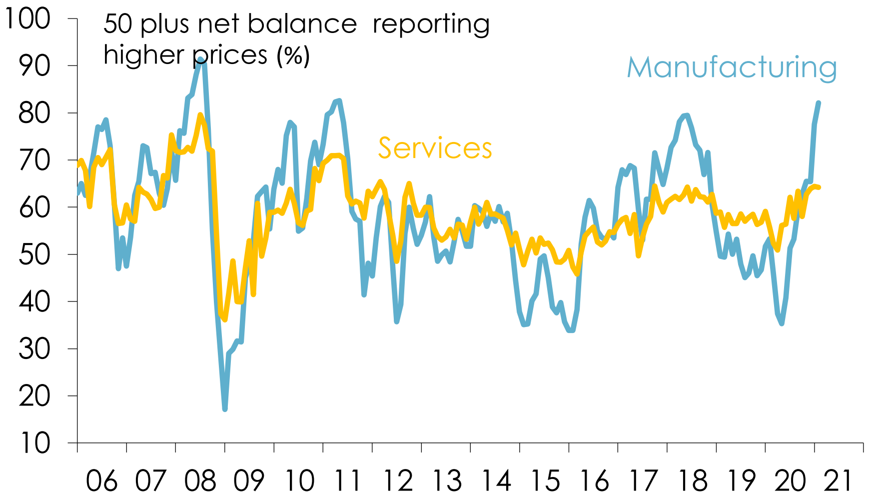
Philadelphia Fed survey prices paid



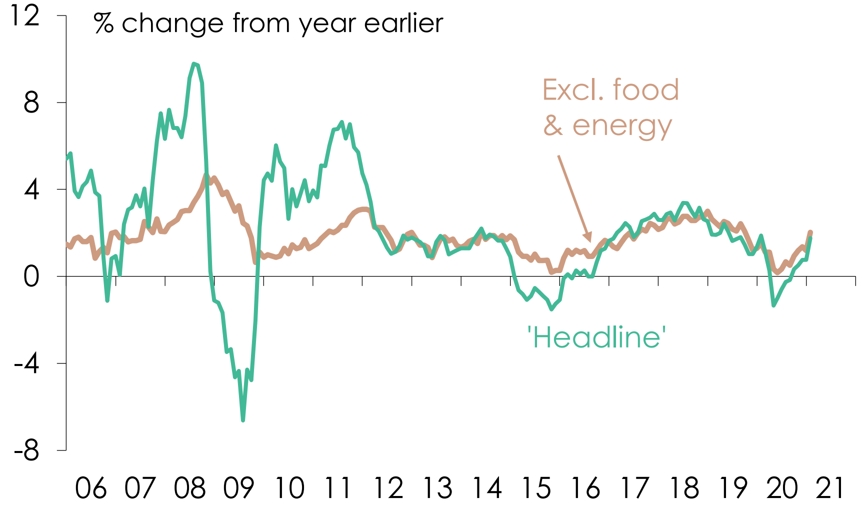
US corn and soybean prices



US ISM prices paid



US producer price index



Sources: Drewry Supply Chain Advisors; Refinitiv Datastream; US Institute for Supply Management; Federal Reserve Bank of Philadelphia; US Bureau of Labor Statistics;.
Return to "What's New".

SAUL ESLAKE
CORINNA ECONOMIC ADVISORY

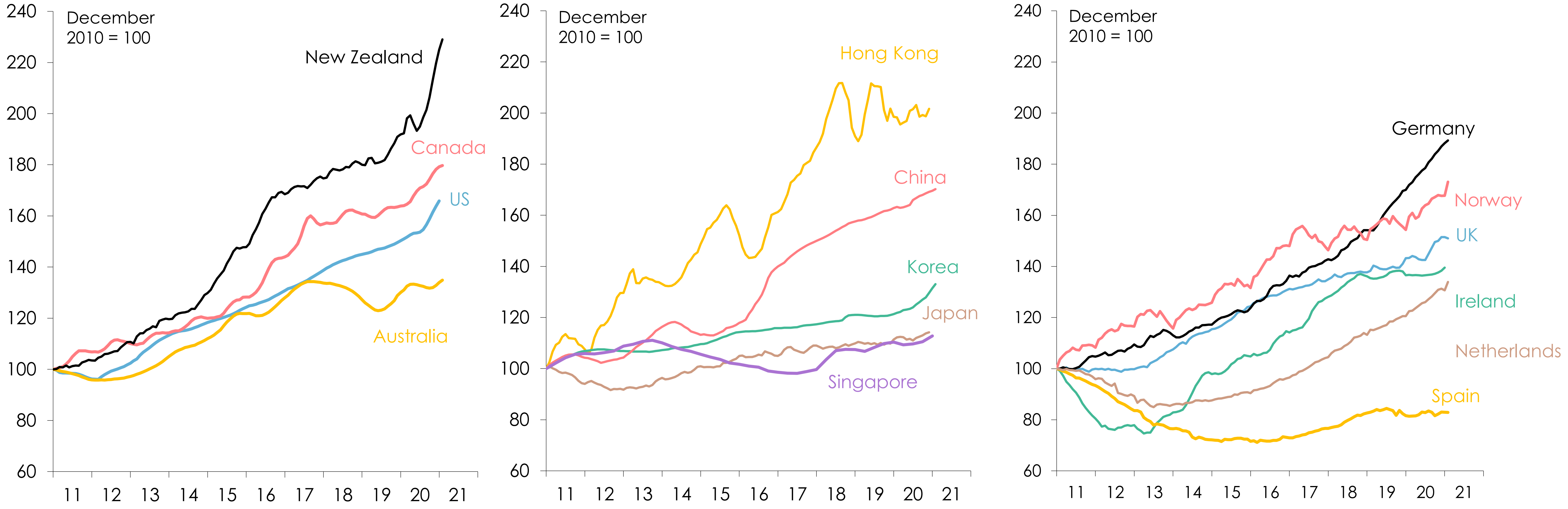
There's been widespread debate over whether the Biden Administration's US$1.9trn fiscal package is 'too big'

- Earlier this month 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, this week was again 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" (see slide 36 for more on Powell's remarks)
- 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".

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

House price indices

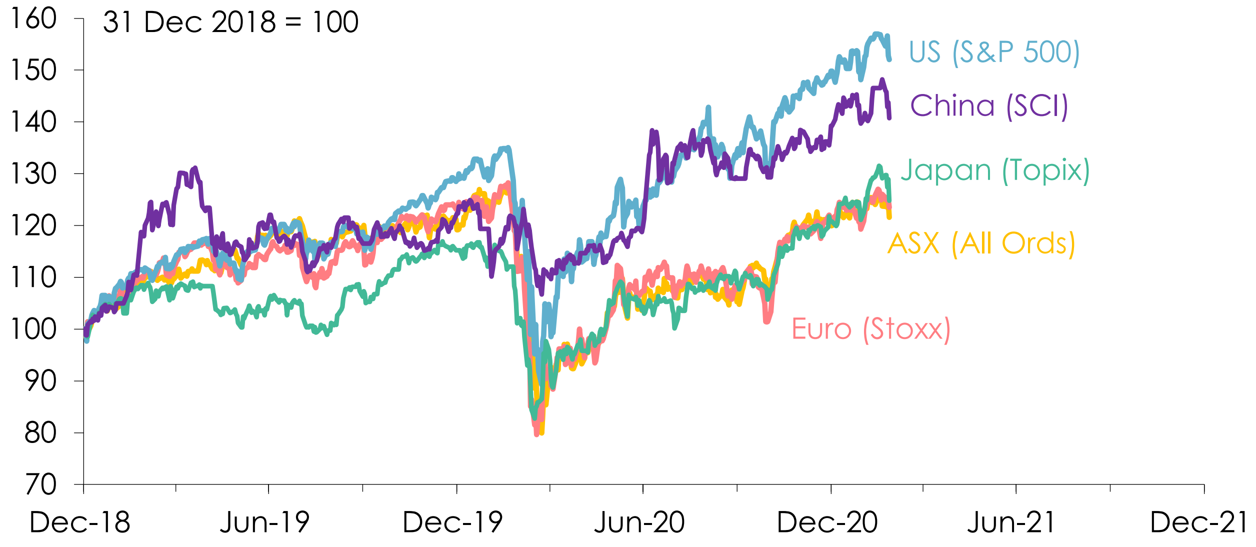


- **This week the New Zealand Government amended the RBNZ's 'remit', requiring it to take 'housing price sustainability' into account in its deliberations about both monetary policy and financial stability' (see slides 150 and 151)**

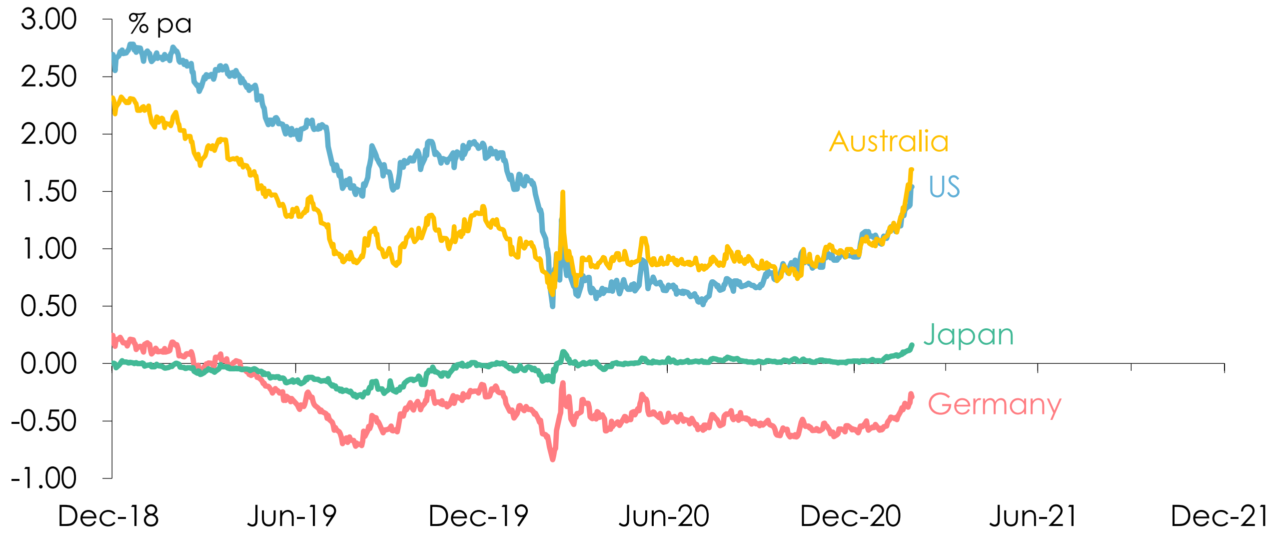
Note: House price indices shown in these charts are those published by S&P-CoreLogic Case Shiller national (United States); Teranet-National Bank (Canada); CoreLogic (Australia); Real Estate Institute of New Zealand; China Index Academy; Japan Real Estate Institute (Tokyo condominiums); Kookmin Bank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

Bond yields rose steeply this week on inflation concerns, prompting falls in stocks (especially tech stocks), a fall in the yen and a rise in the euro

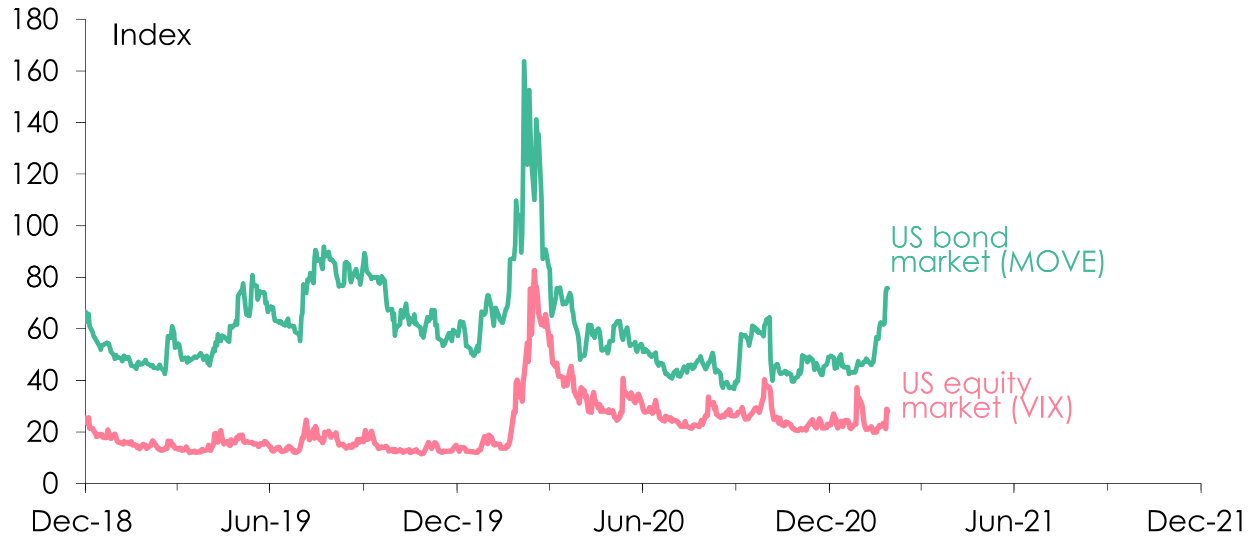
Stock markets



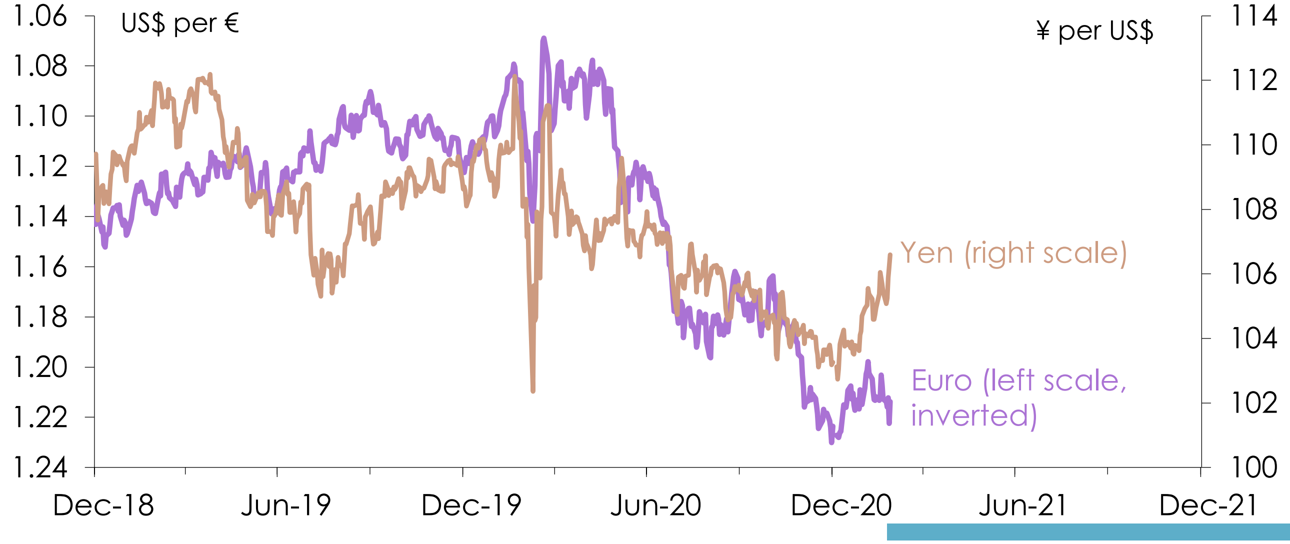
10-year bond yields



Measures of market volatility

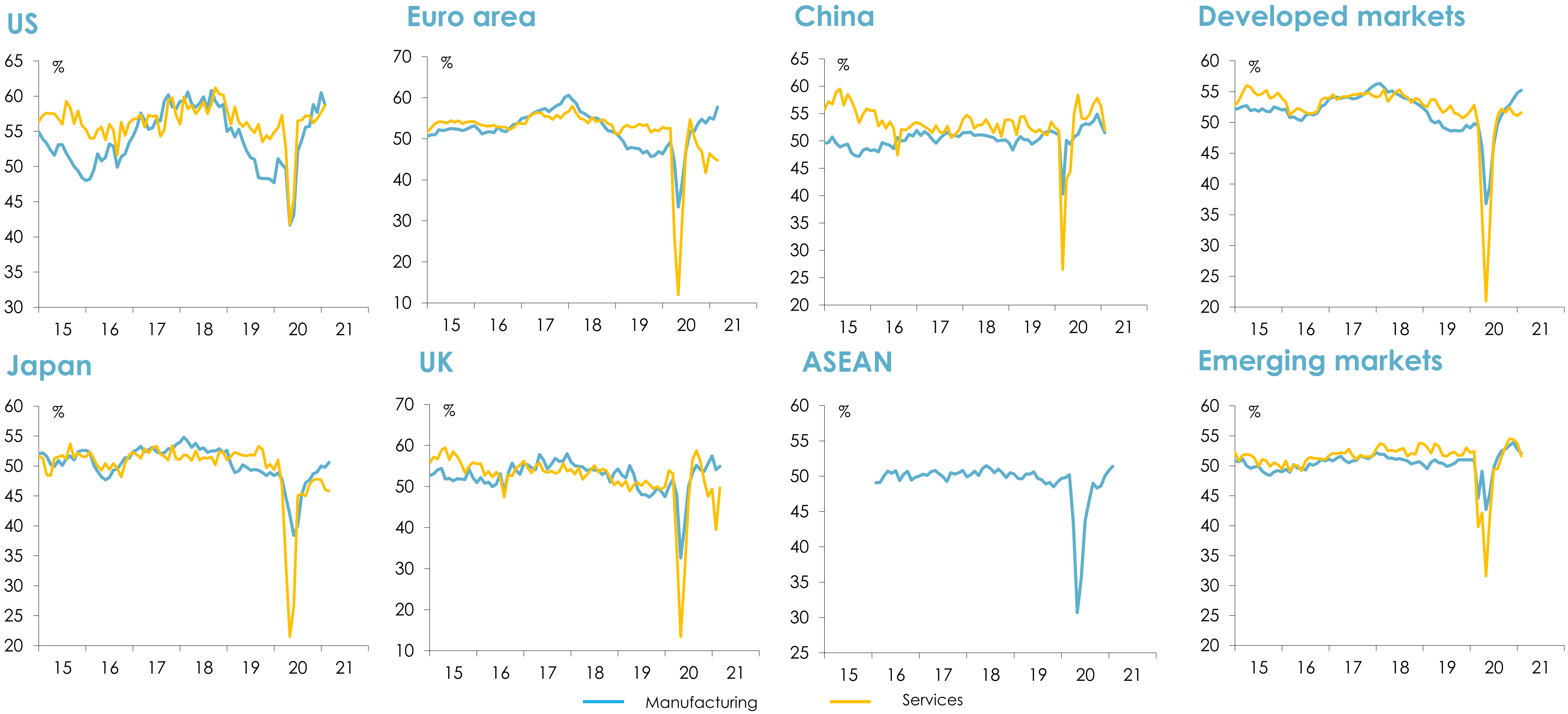


US dollar vs euro and yen



Source: Refintiv Datastream. Data up to 26th February. Return to "What's New".

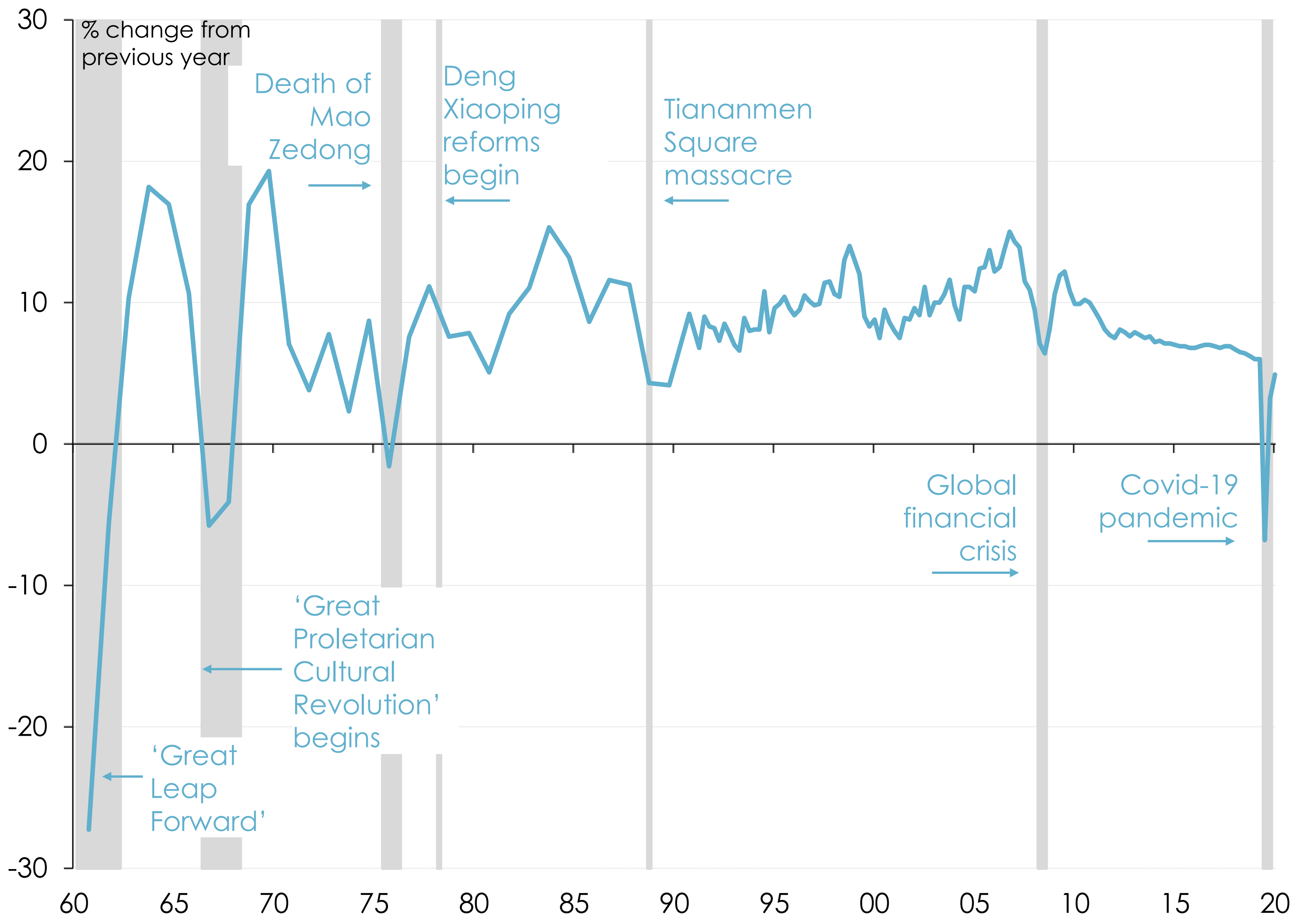
Preliminary PMIs for February show ongoing strength in manufacturing, but further weakness in services (except in the UK)



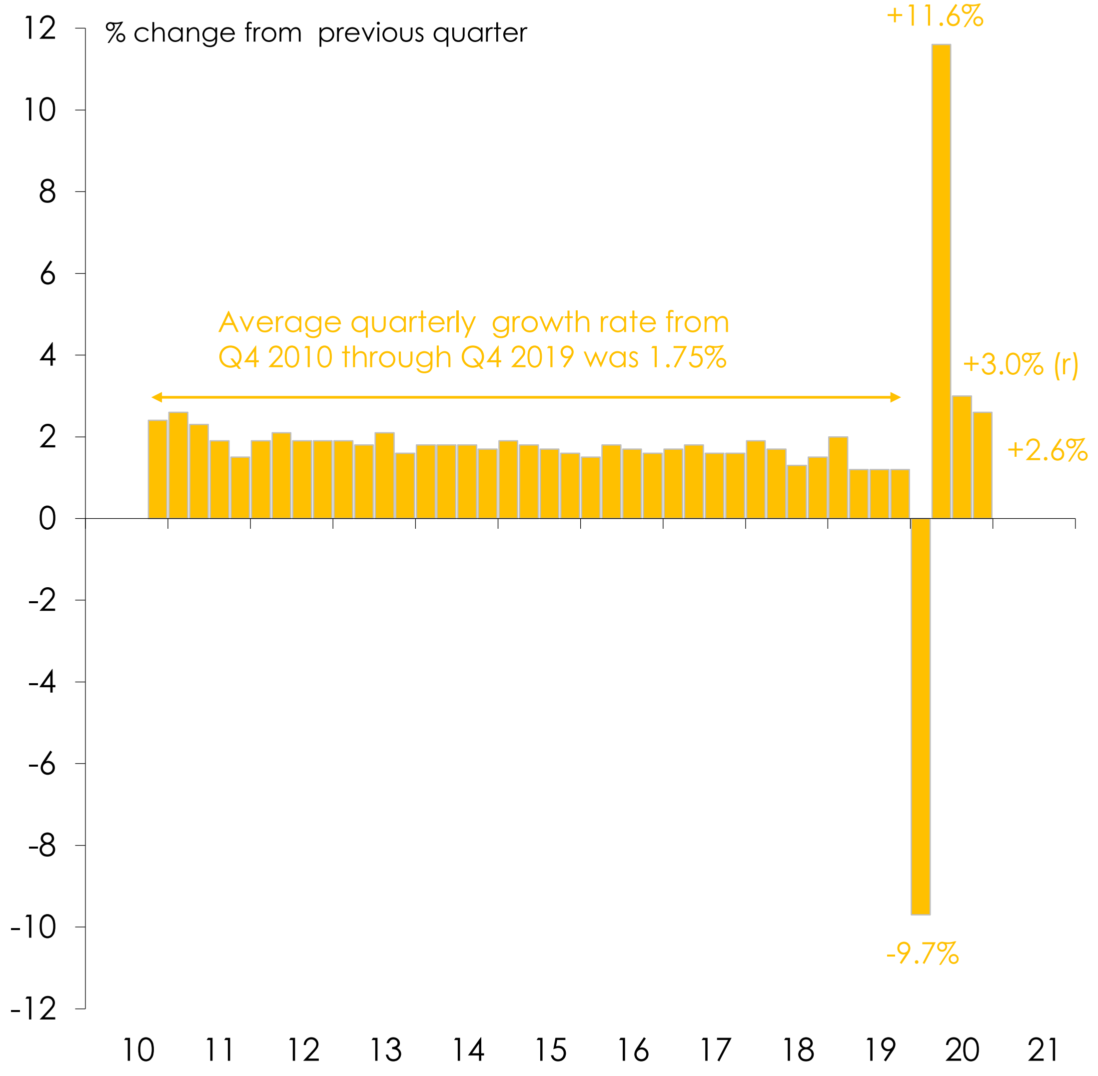
Note: Purchasing Managers' Indexes (PMIs) are derived from surveys of senior executives, who are asked to report whether various dimensions of business activity recorded an increase, decrease or no change compared with the previous month. A reading of 50 indicates an overall increase cf. the previous month, and a reading of less than 50 indicates a decrease. Latest data are for preliminary February for Japan, Euro area and UK; others January. See also PMIs for other Asia-Pacific economies on slide 53. Sources: US Institute for Supply Management; IHS Markit; JP Morgan; Caixin; Refinitiv Datastream. Return to "What's New".

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

Real GDP growth, from year earlier, 1961-2020



Quarterly real GDP growth, 2010-2020

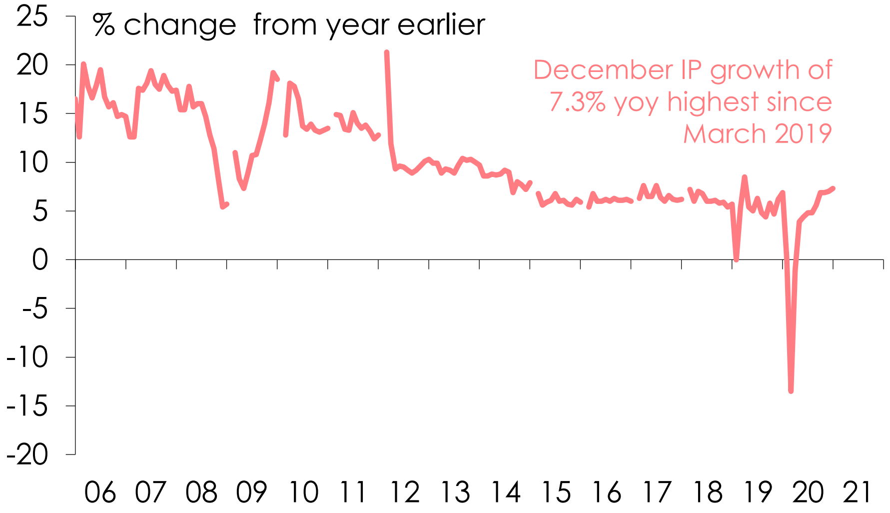


Note: In the left-hand chart, GDP growth rates are annual averages up to the December quarter of 1991, and then quarter-on-corresponding-quarter-of-previous-year thereafter. *Sources:* China National Bureau of Statistics. Return to "What's New".

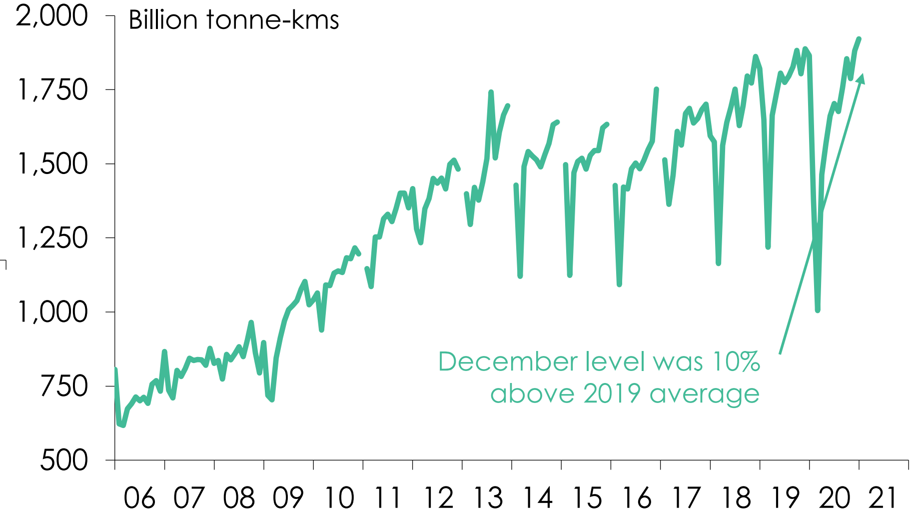
SAUL ESLAKE
CORINNA ECONOMIC ADVISORY

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

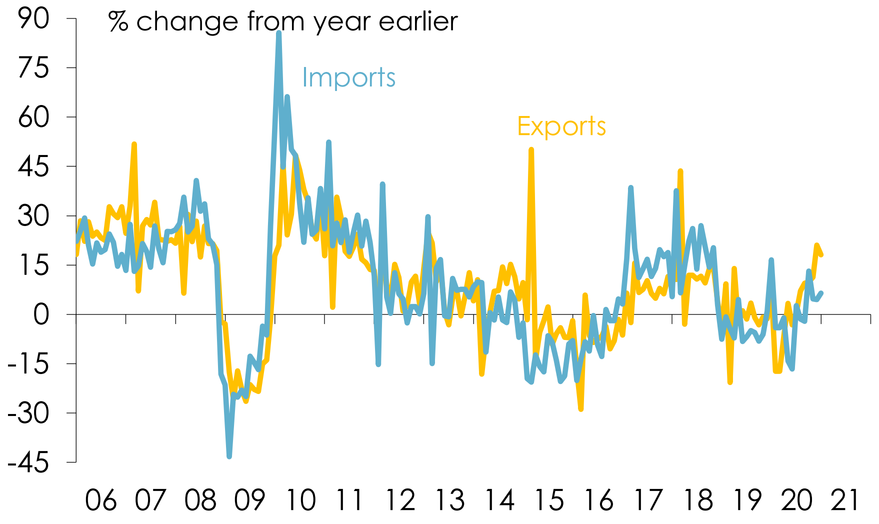
Industrial production



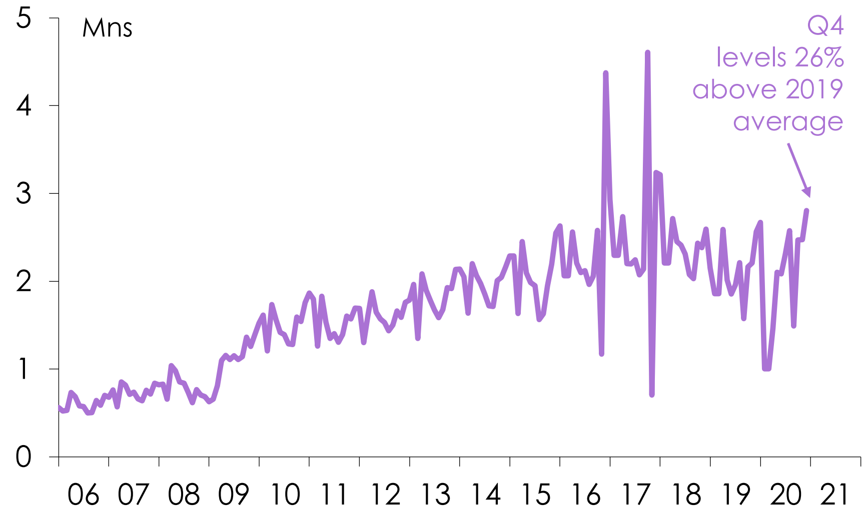
Freight traffic volumes



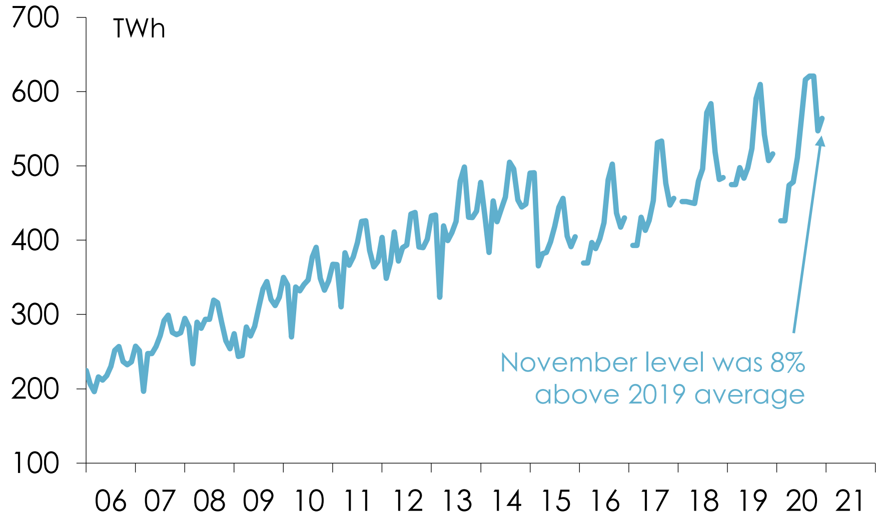
Merchandise trade



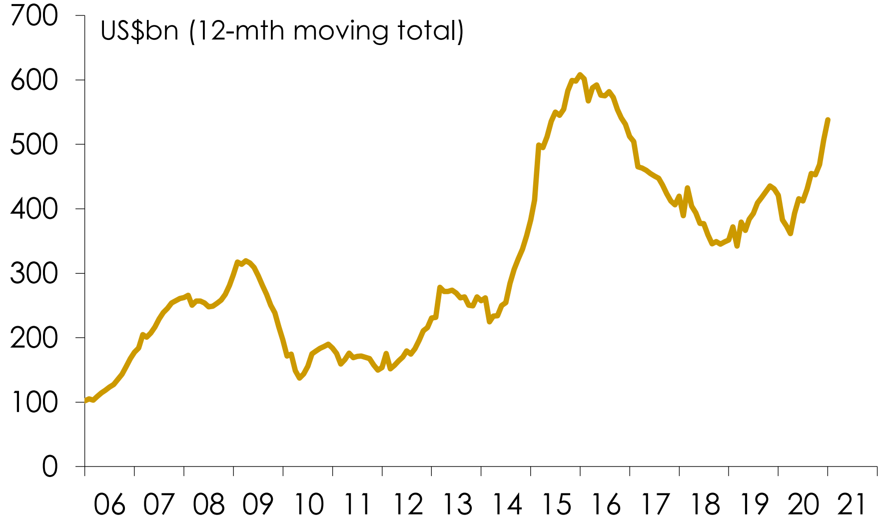
Motor vehicle production



Primary electricity production



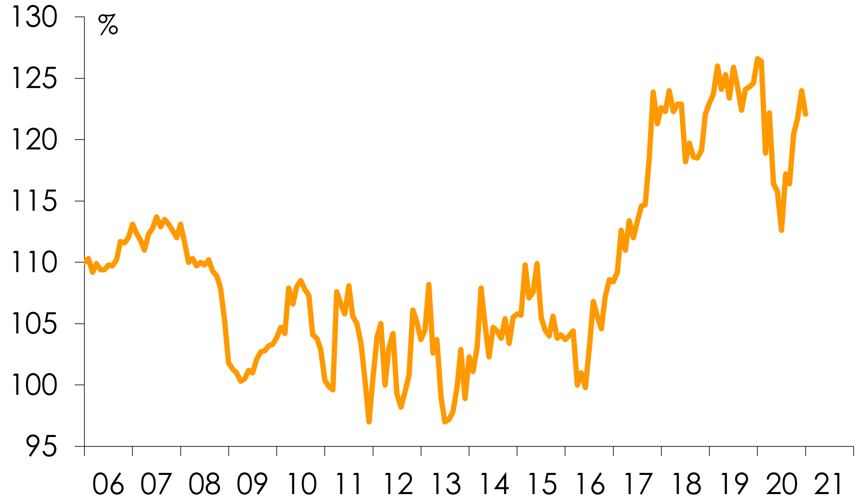
Merchandise trade balance



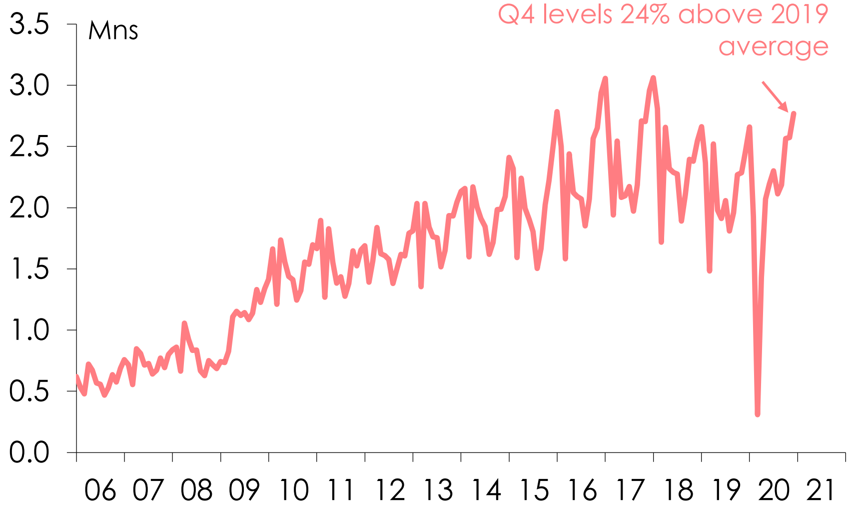
Sources: China National Bureau of Statistics; China Association of Automobile Manufacturers; China General Administration of Customs. Latest data are for December: note that most monthly data for January and February are combined and will be released in the third week of March. Return to "What's New".

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

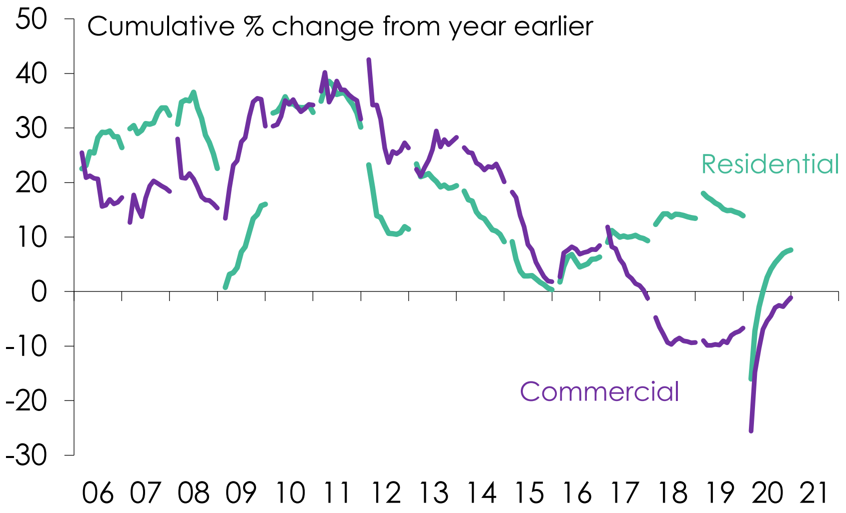
Consumer sentiment



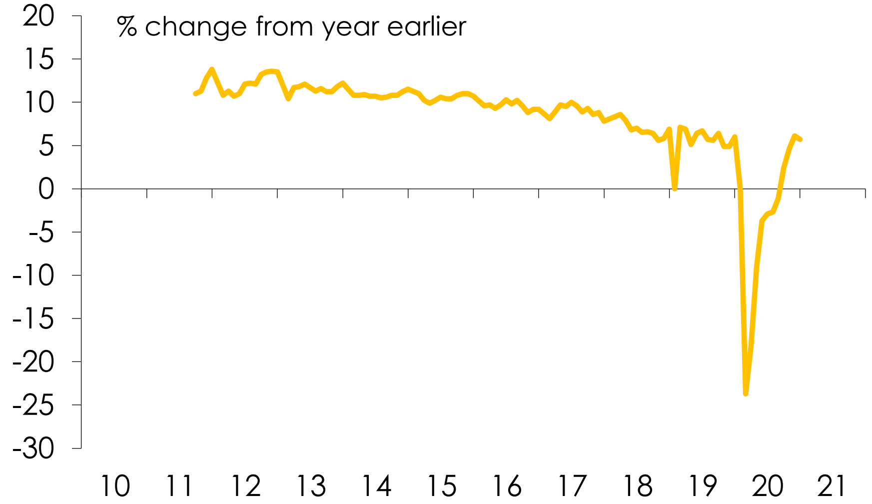
Motor vehicle sales



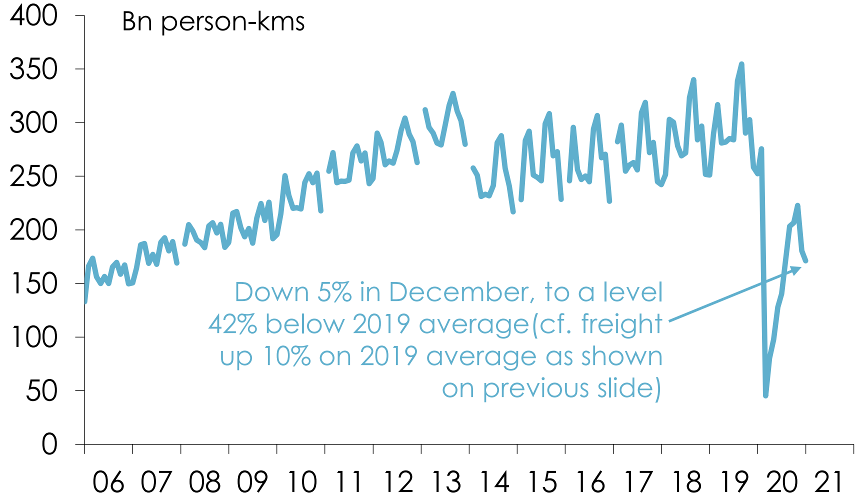
Real estate investment



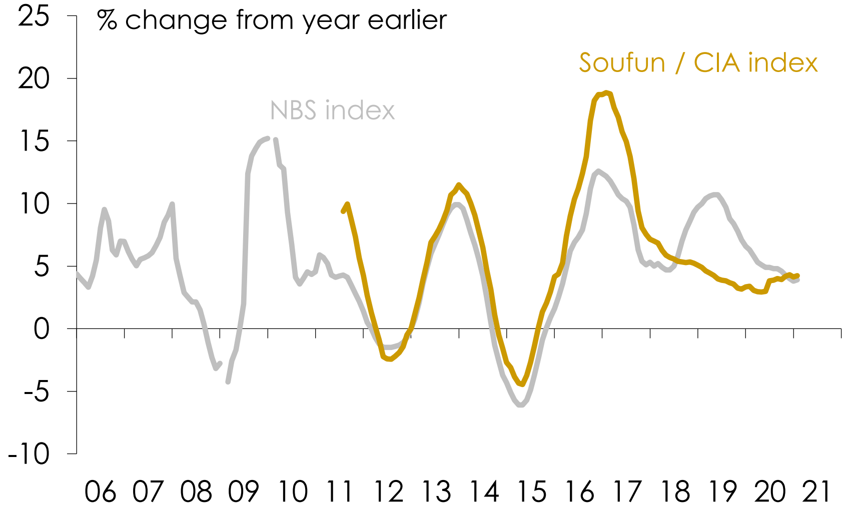
Volume of retail sales



Passenger traffic volumes



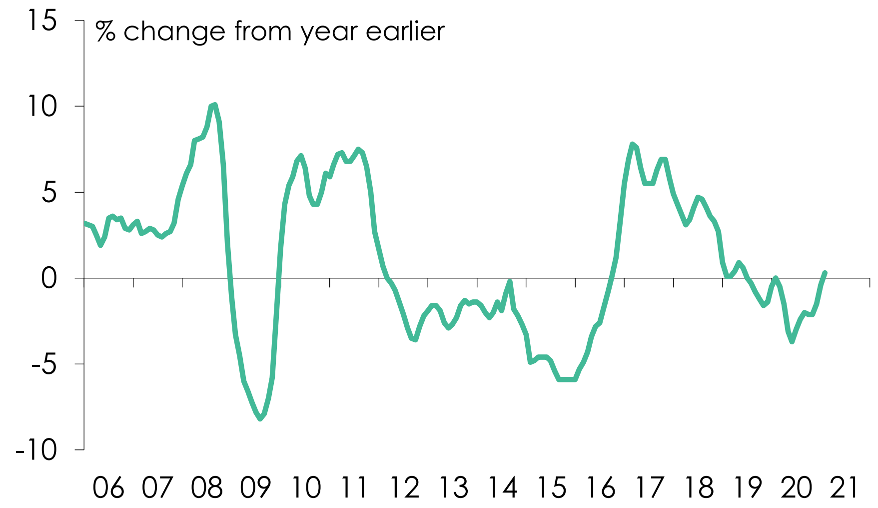
Residential real estate prices



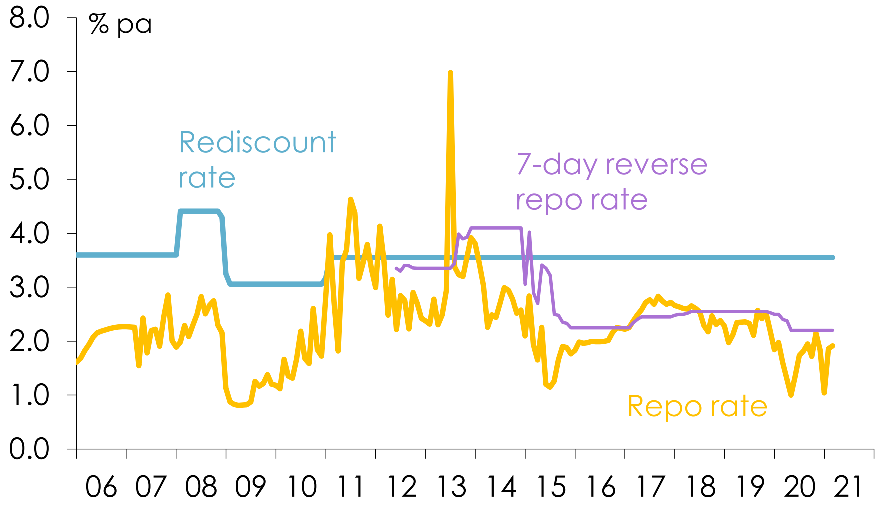
Sources: China National Bureau of Statistics; China Association of Automobile Manufacturers; China Index Academy (CIA). Latest data are for December: note that most monthly data for January and February are combined and will be released in the third week of March. Return to "What's New“.

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

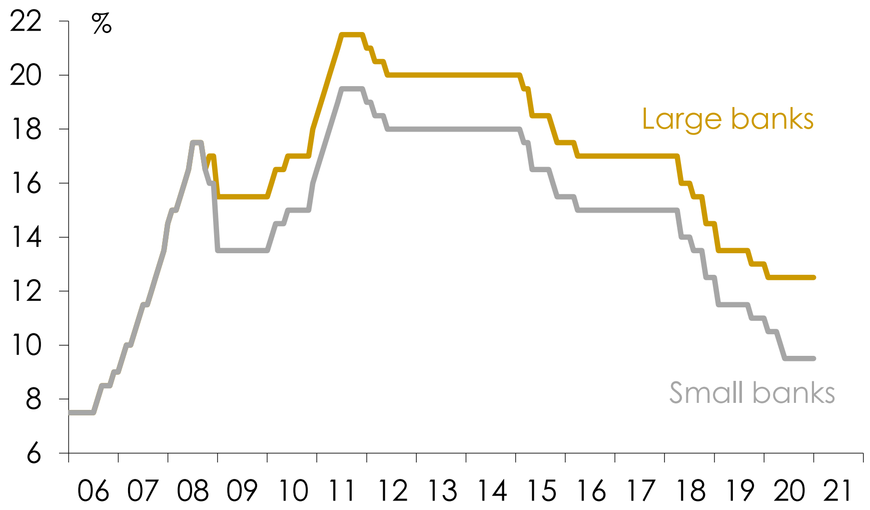
Producer prices



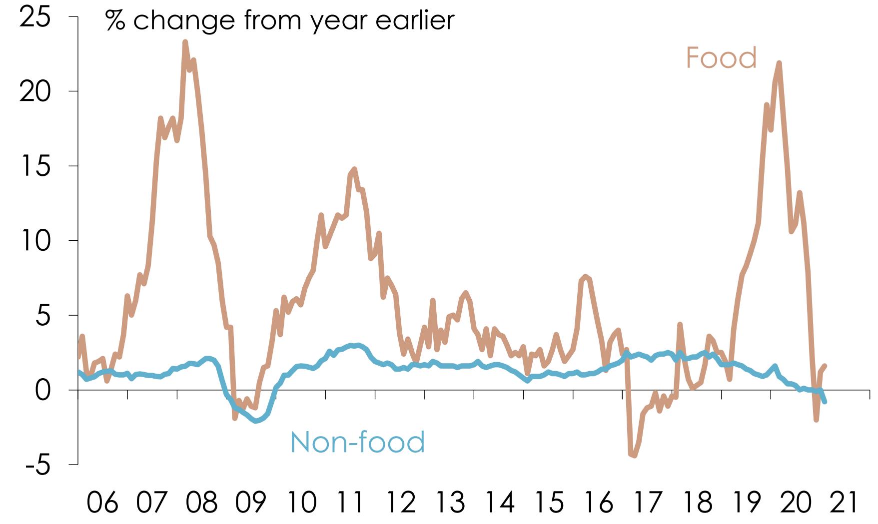
PBoC policy interest rates



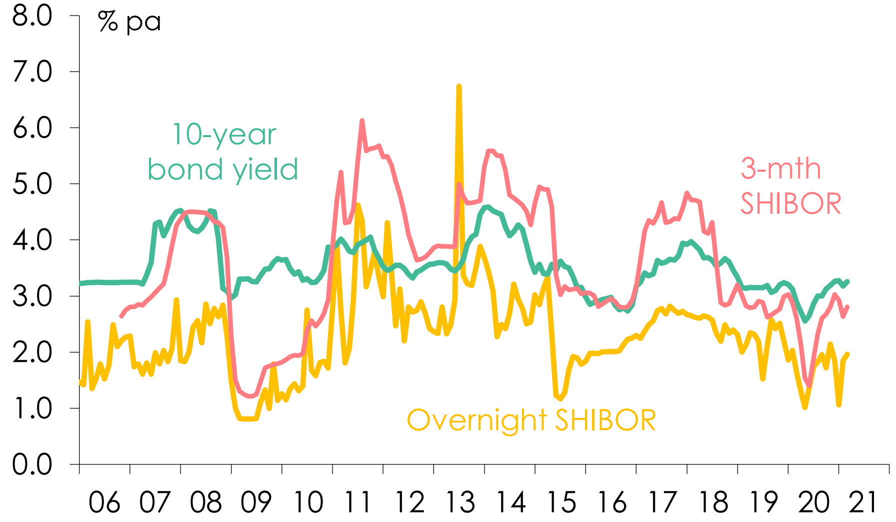
Bank reserve requirement ratios



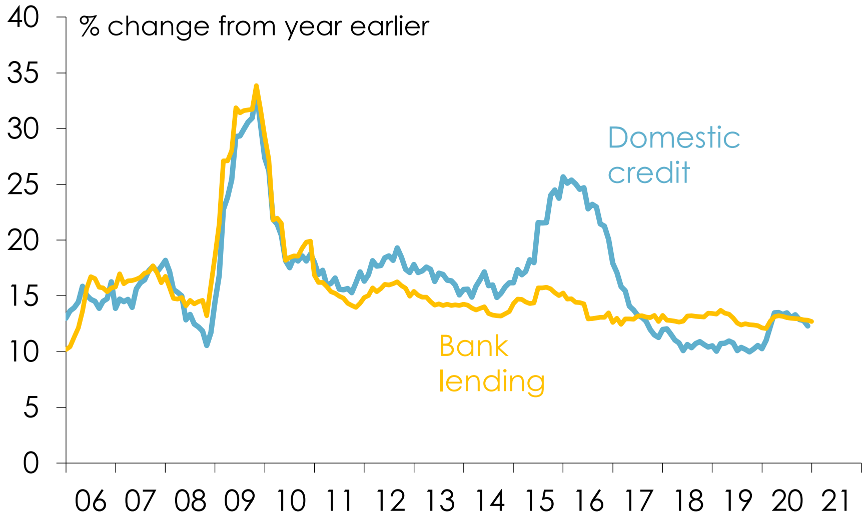
Consumer prices



Market interest rates



Credit growth

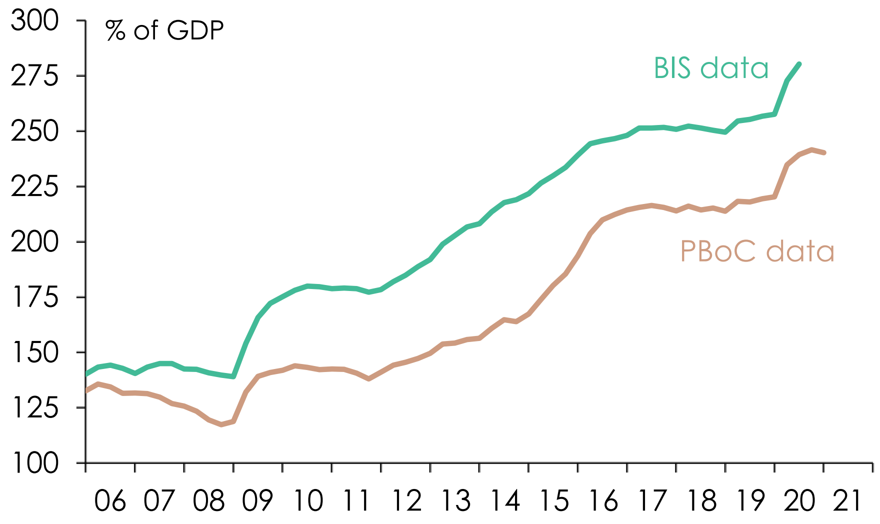


Note: 'SHIBOR' is the Shanghai Inter-Bank Offered Rate.
Sources: China National Bureau of Statistics; Refintiv Datastream; People's Bank of China. Return to "What's New".

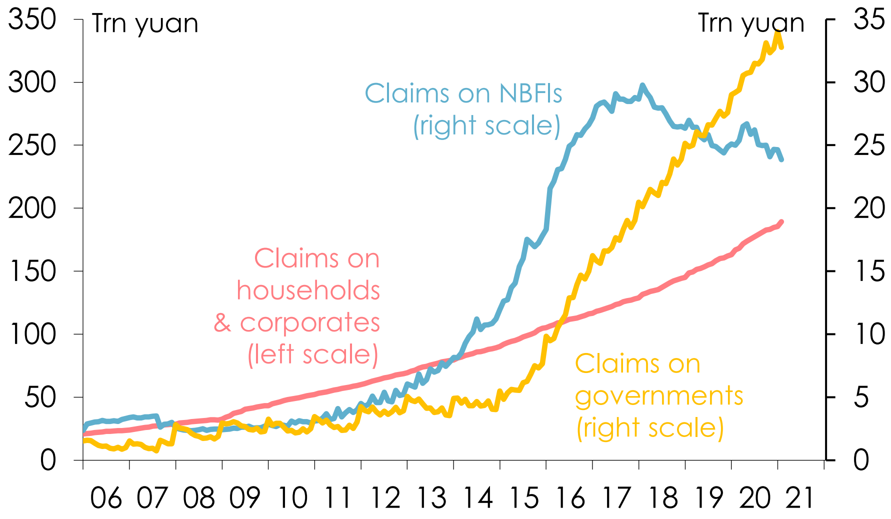
SAUL ESLAKE
CORINNA ECONOMIC ADVISORY

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

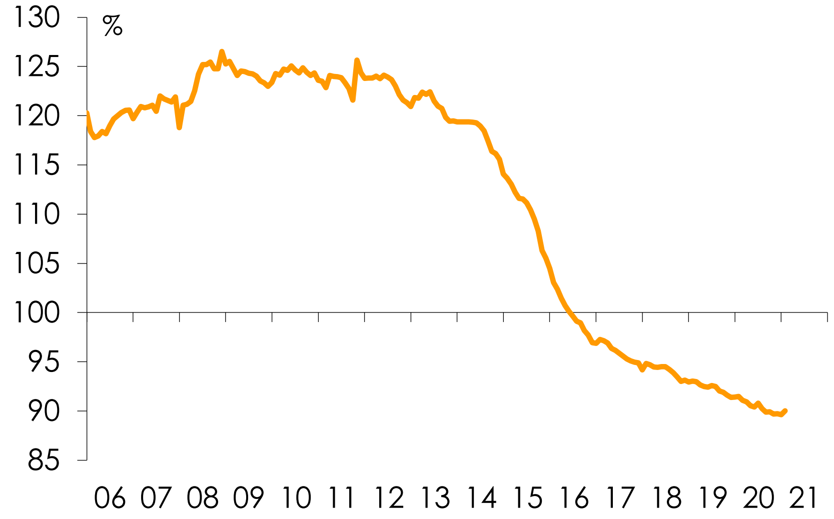
Credit outstanding as a pc of GDP



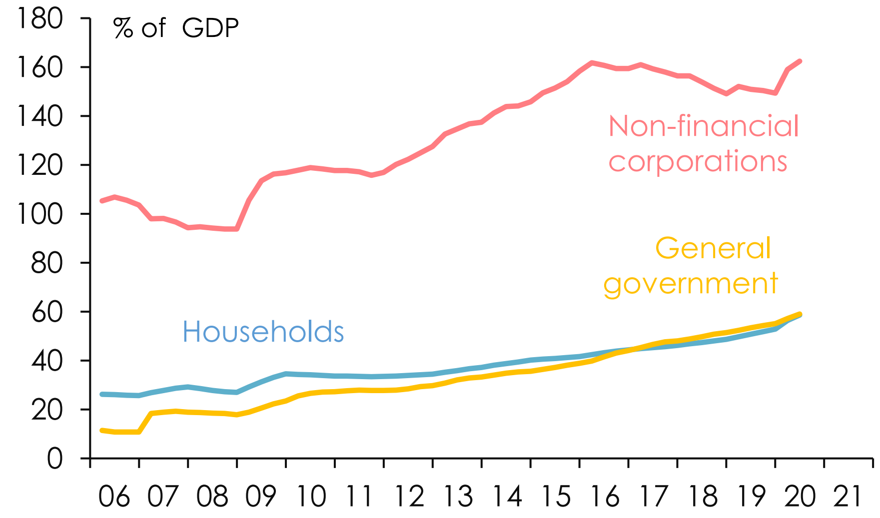
Banks' assets



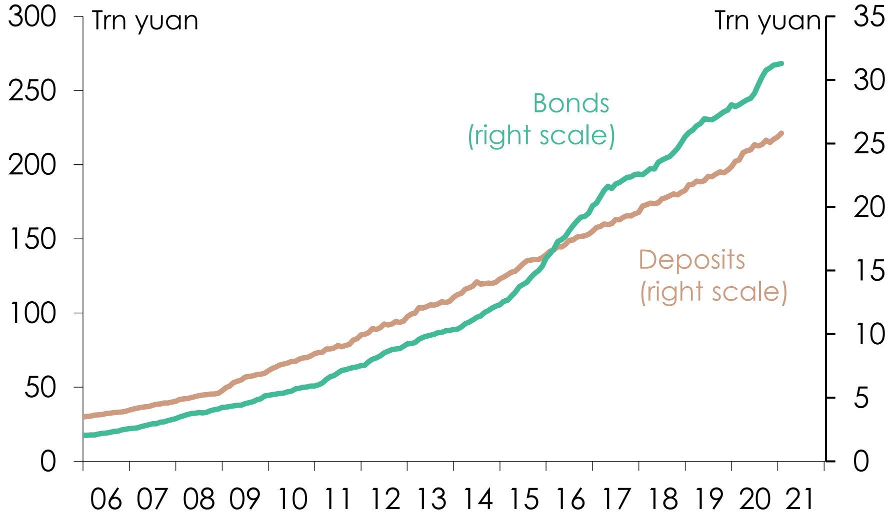
Banks' deposits-to-loans ratio



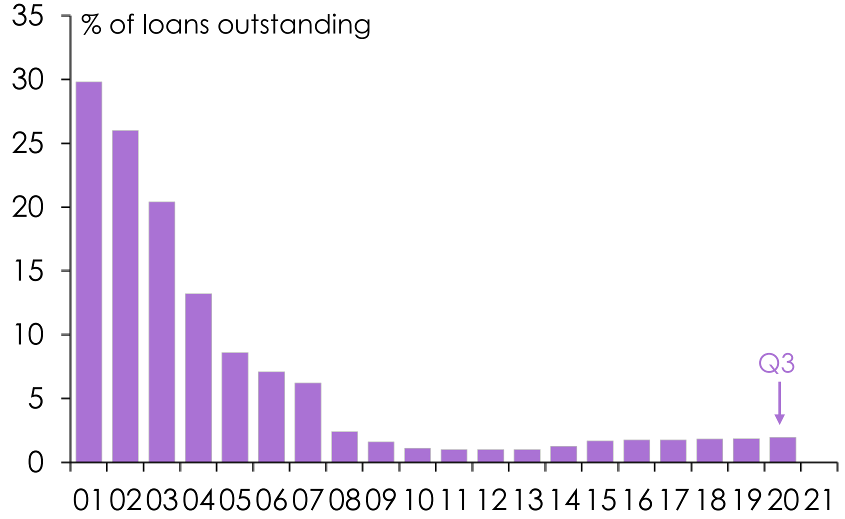
Credit outstanding by sector



Banks' liabilities



Banks NPLs – official estimates

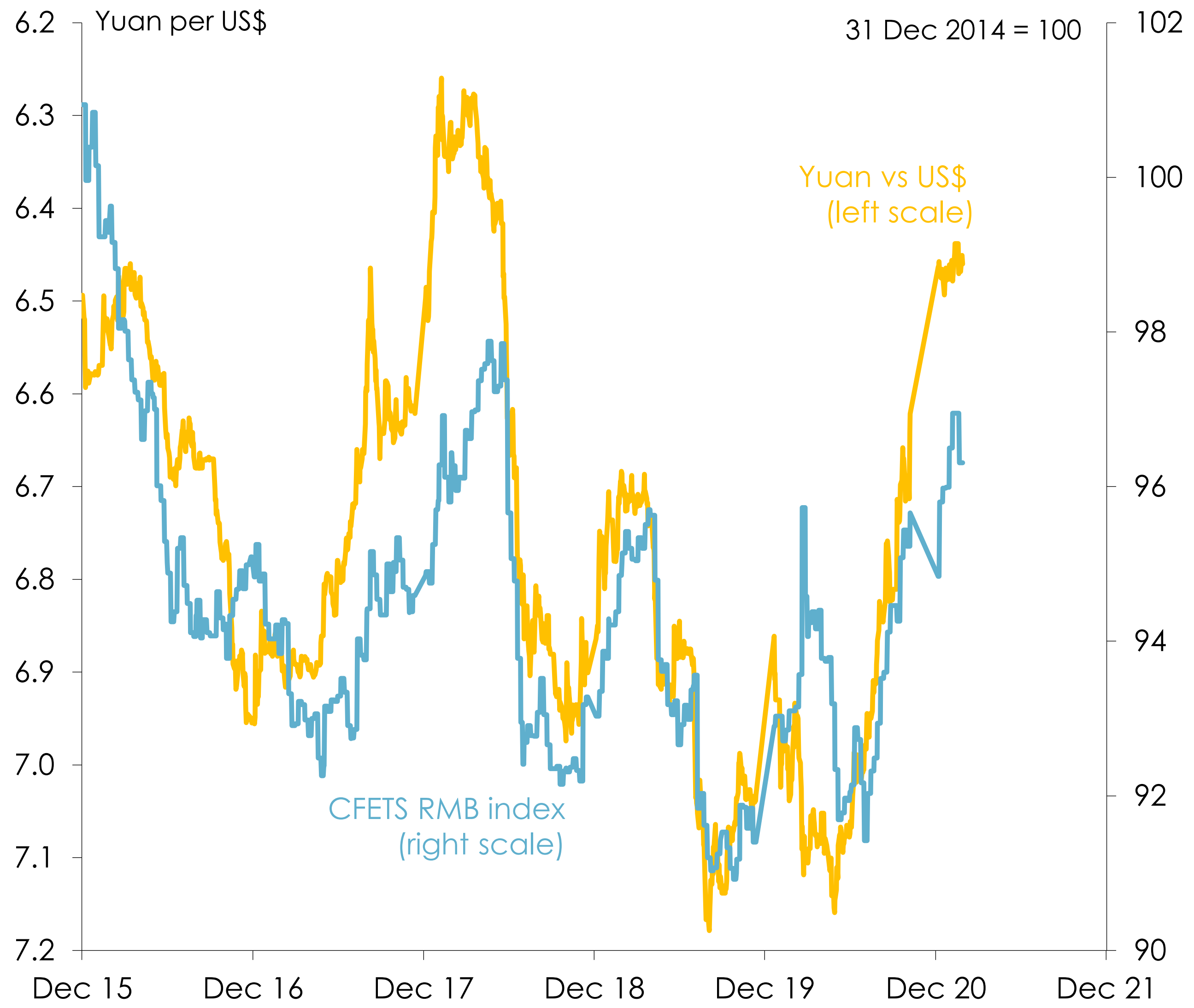


Sources: People's Bank of China; Bank for International Settlements; China Banking and Insurance Regulatory Commission. Return to "What's New".

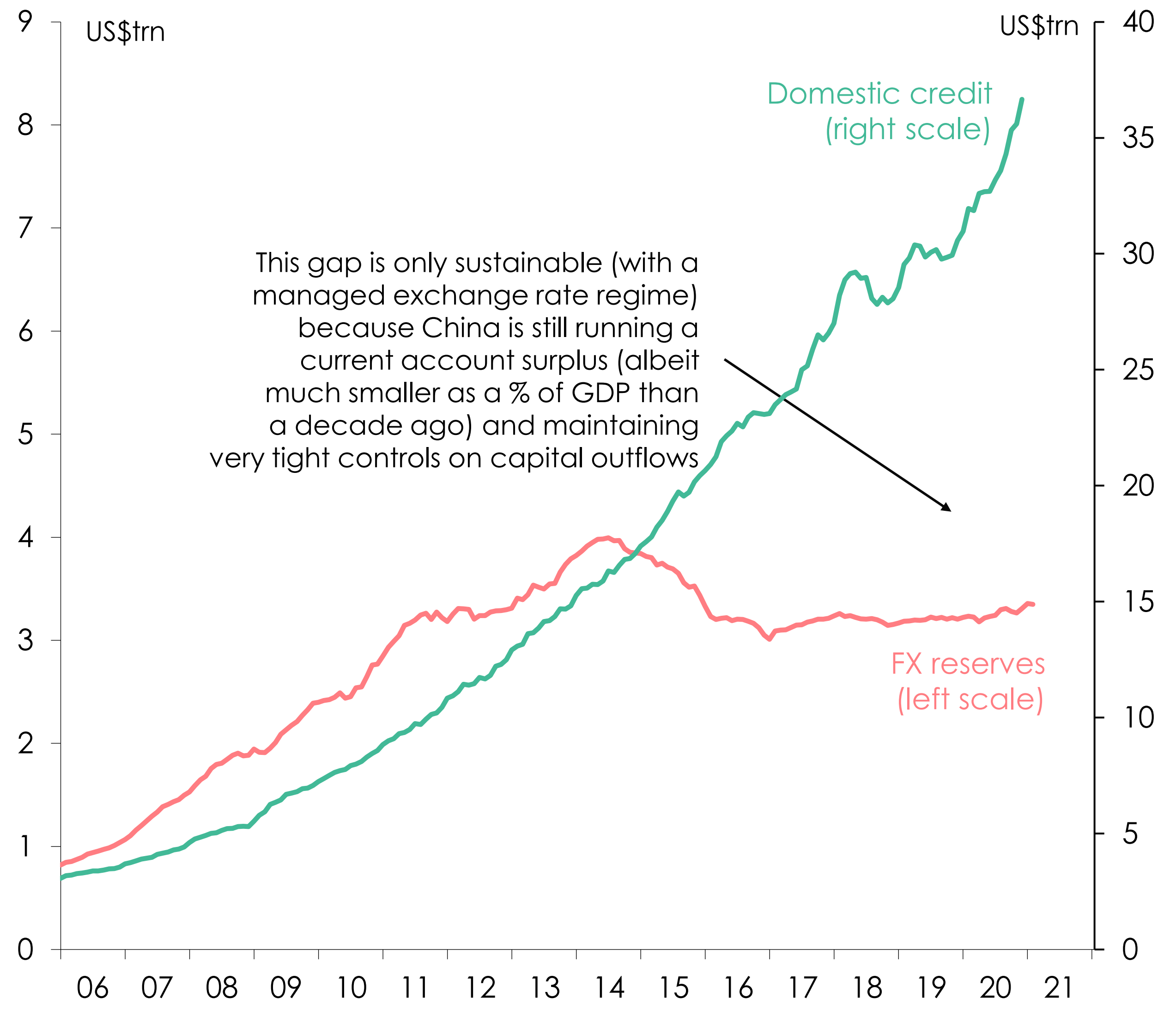
SAUL ESLAKE
CORINNA ECONOMIC ADVISORY

The yuan was stable against both the US$ and the PBoC's TWI this week – but the gap between domestic credit and FX reserves continues to widen

Chinese renminbi vs US$ and trade-weighted index



FX reserves and domestic credit

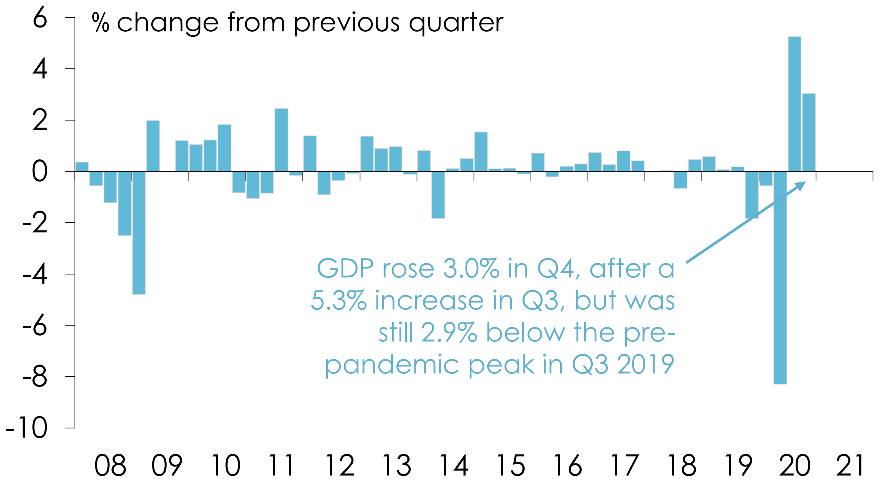


Sources: Refinitiv Datastream; China Foreign Exchange Trading System; People's Bank of China. Exchange rates up to 26th February; credit and FX reserves data up to January. Return to "What's New".

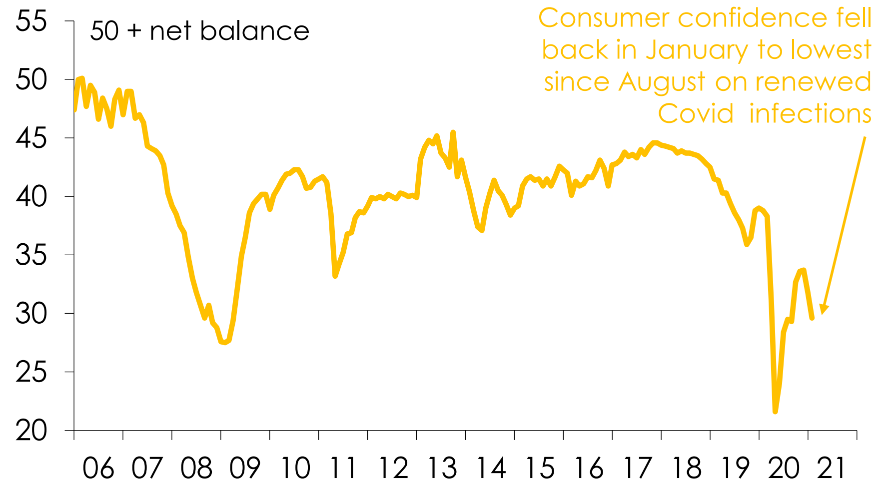
SAUL ESLAKE
CORINNA ECONOMIC ADVISORY

Japan's economy grew another 3% in Q4, after Q3's 5¼%, but was still 3% smaller than in Q3 2019 – while exports are finally reviving, too

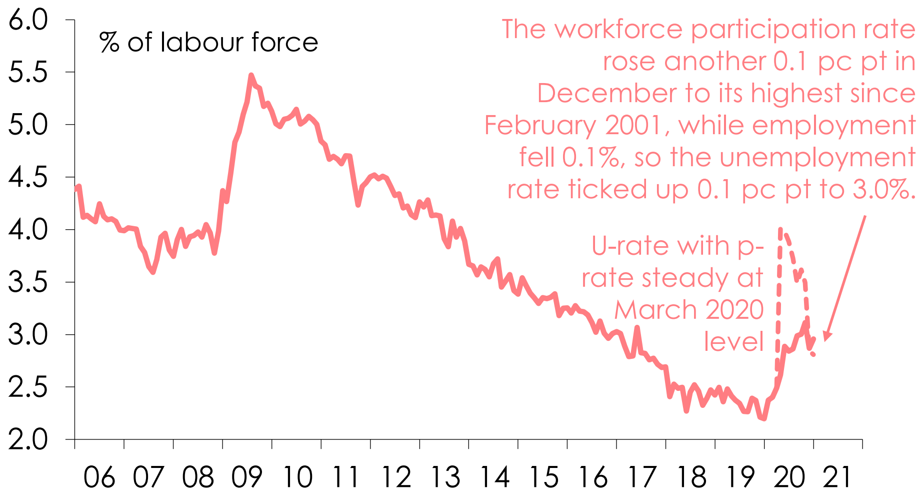
Real GDP



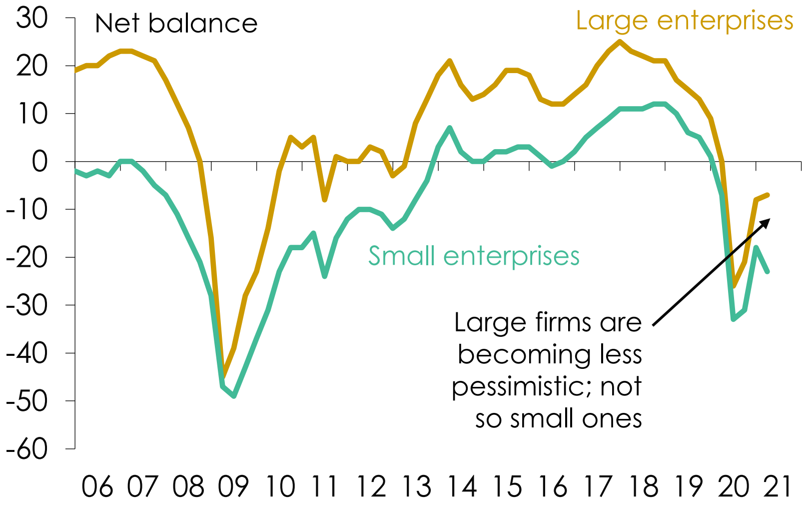
Consumer confidence



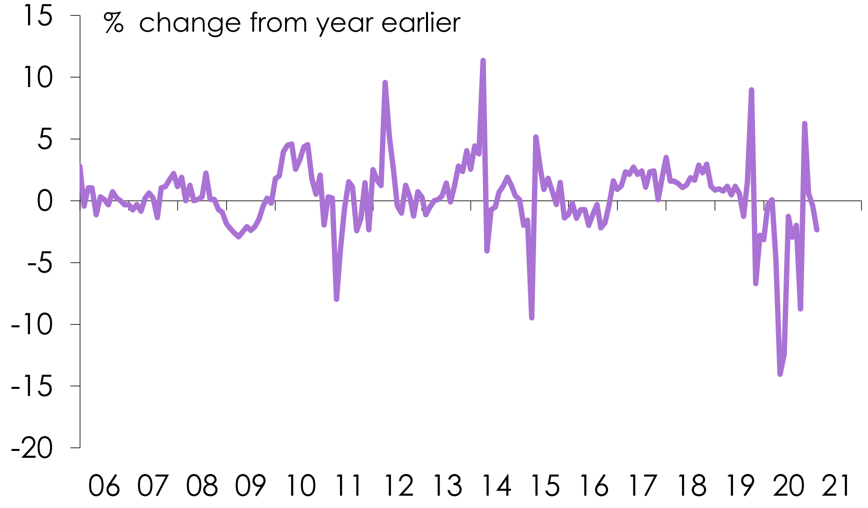
Unemployment



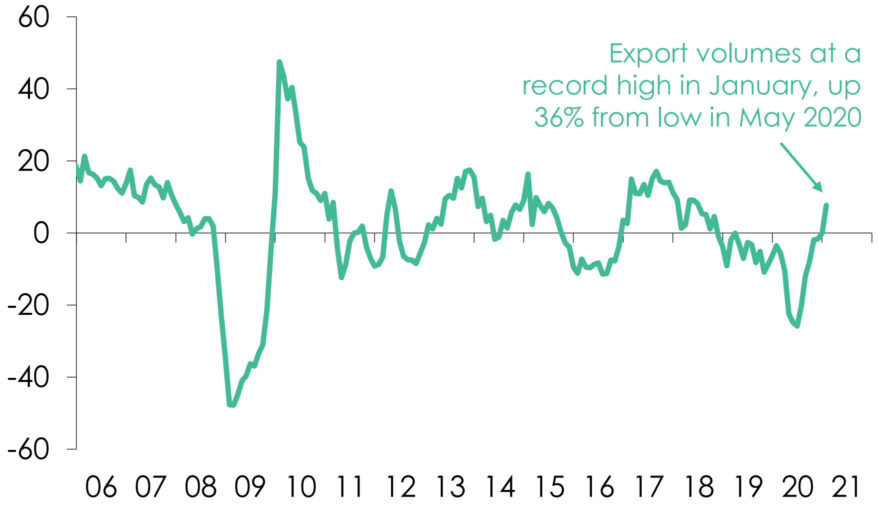
BoJ *Tankan* business conditions



Value of retail sales



Merchandise export volumes

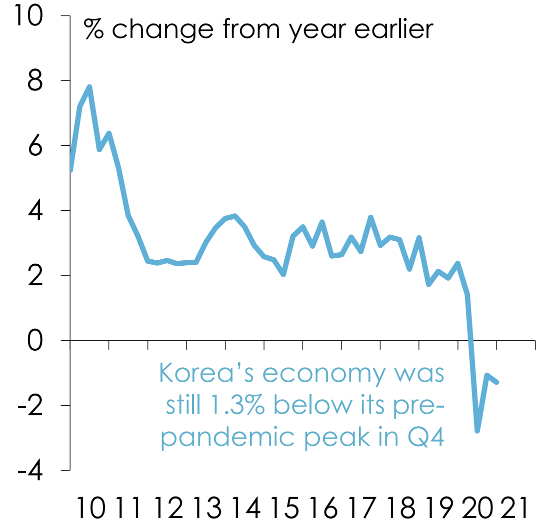


Sources: Japan Cabinet Office Economic and Social Research Institute; Bank of Japan; Statistics Bureau of Japan; Japan Ministry of Finance. Return to "What's New".

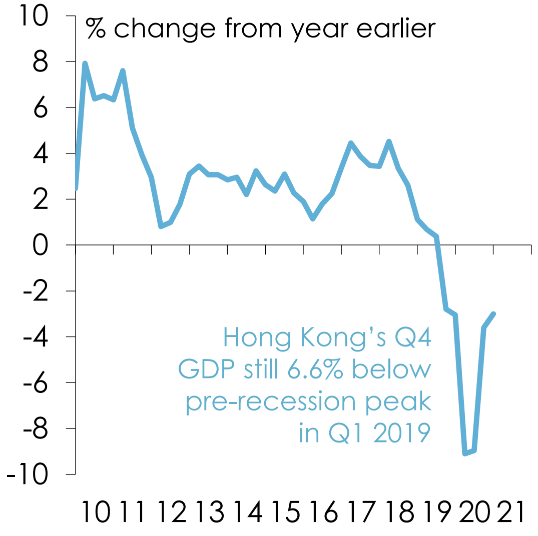
SAUL ESLAKE
CORINNA ECONOMIC ADVISORY

India's economy rebounded strongly in Q4 to be 0.4% higher than a year earlier – one of only five in the world with positive growth over this perod

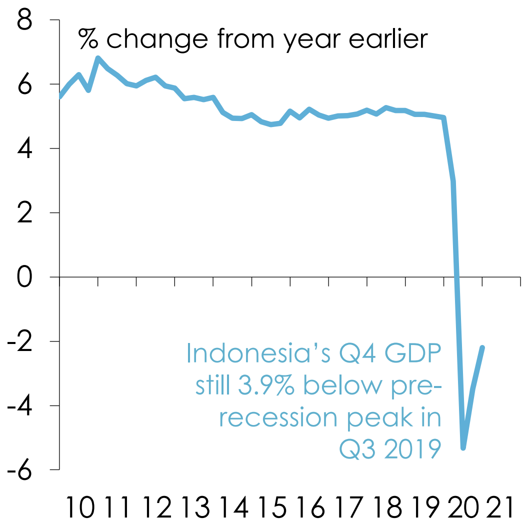
Korea



Hong Kong



Indonesia

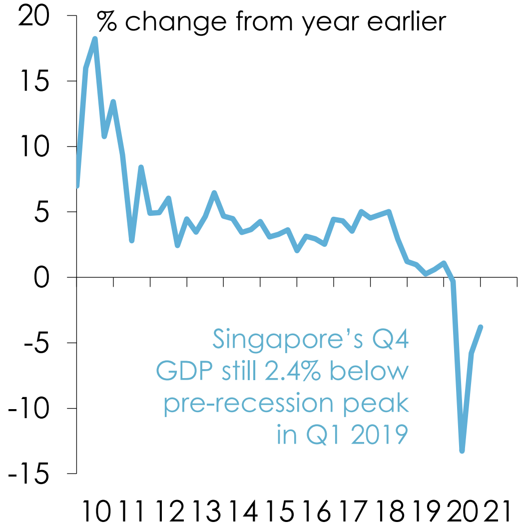


Thailand

Vietnam

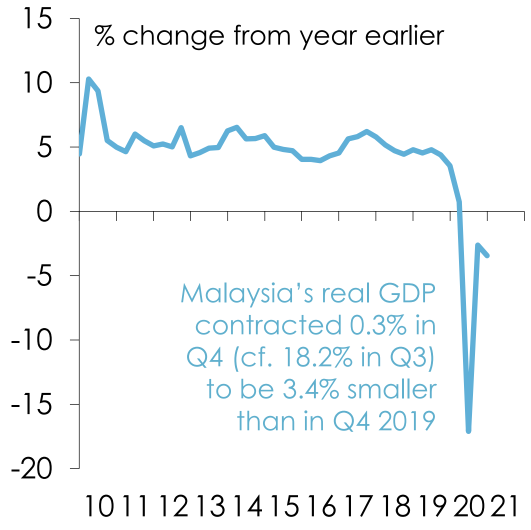
Taiwan

Singapore

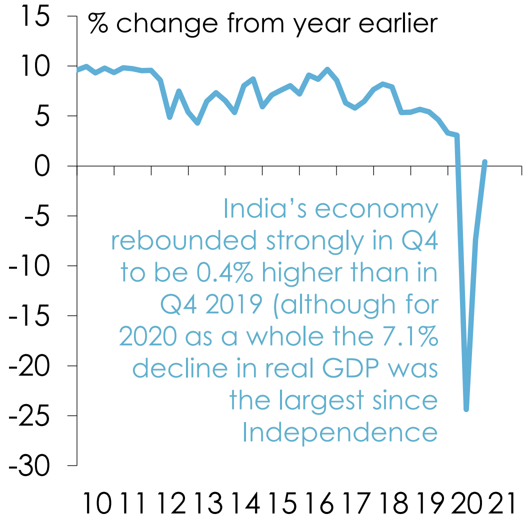


Philippines

Malaysia



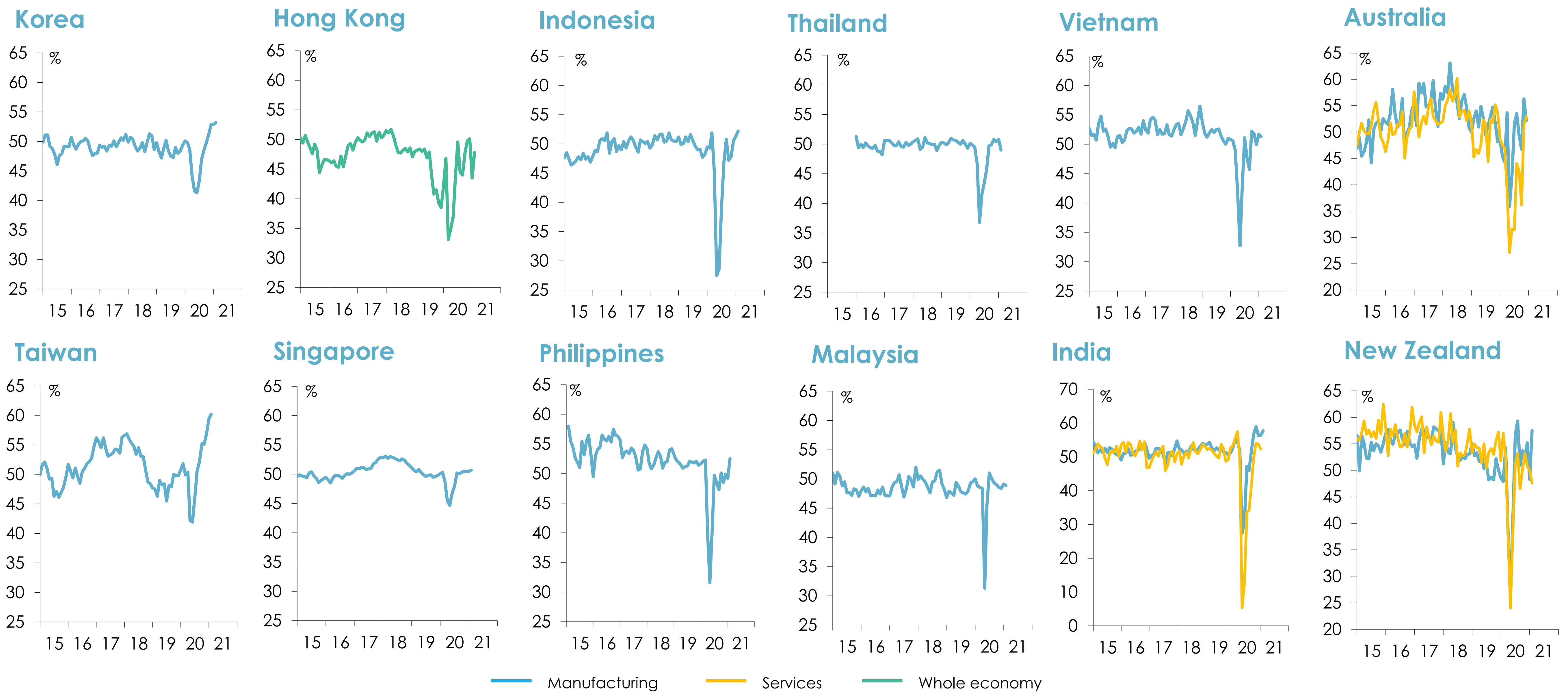
India



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, 18th 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".

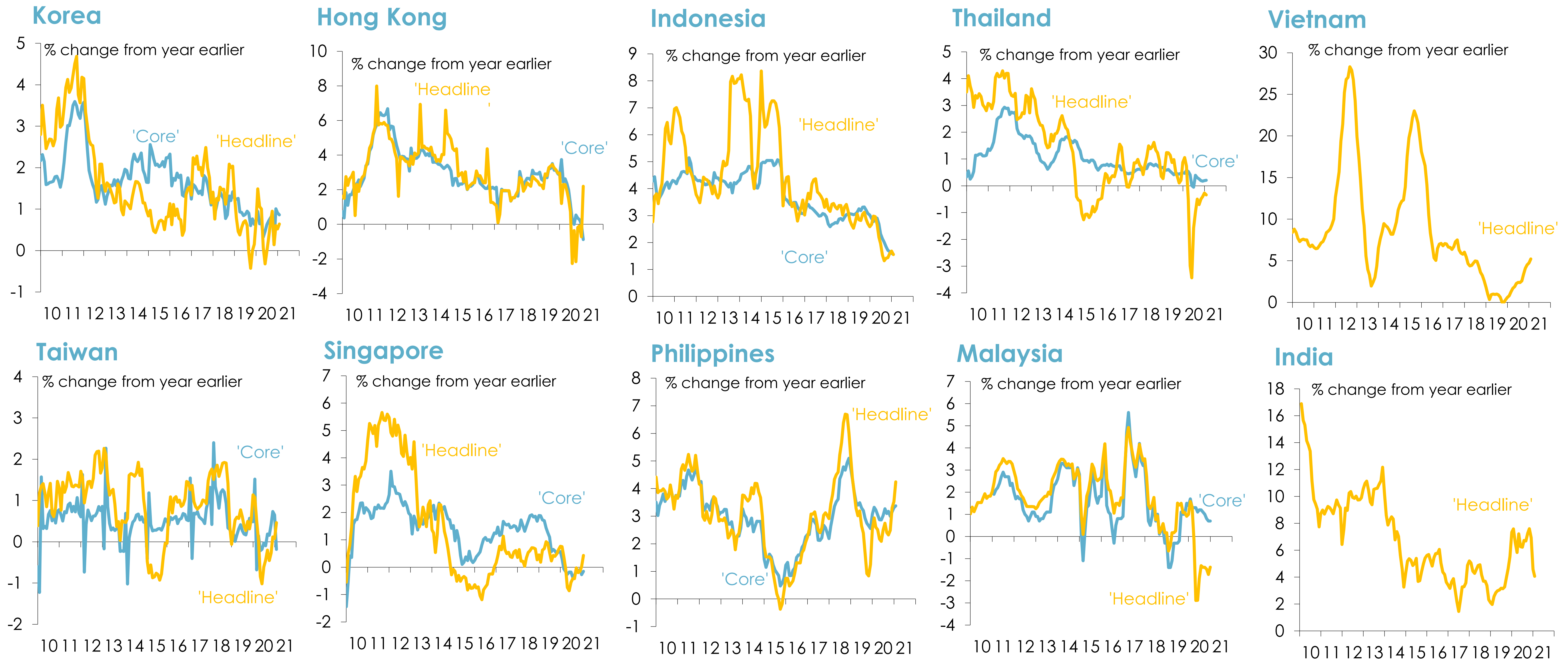
SAUL ESLAKE
CORINNA ECONOMIC ADVISORY

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".

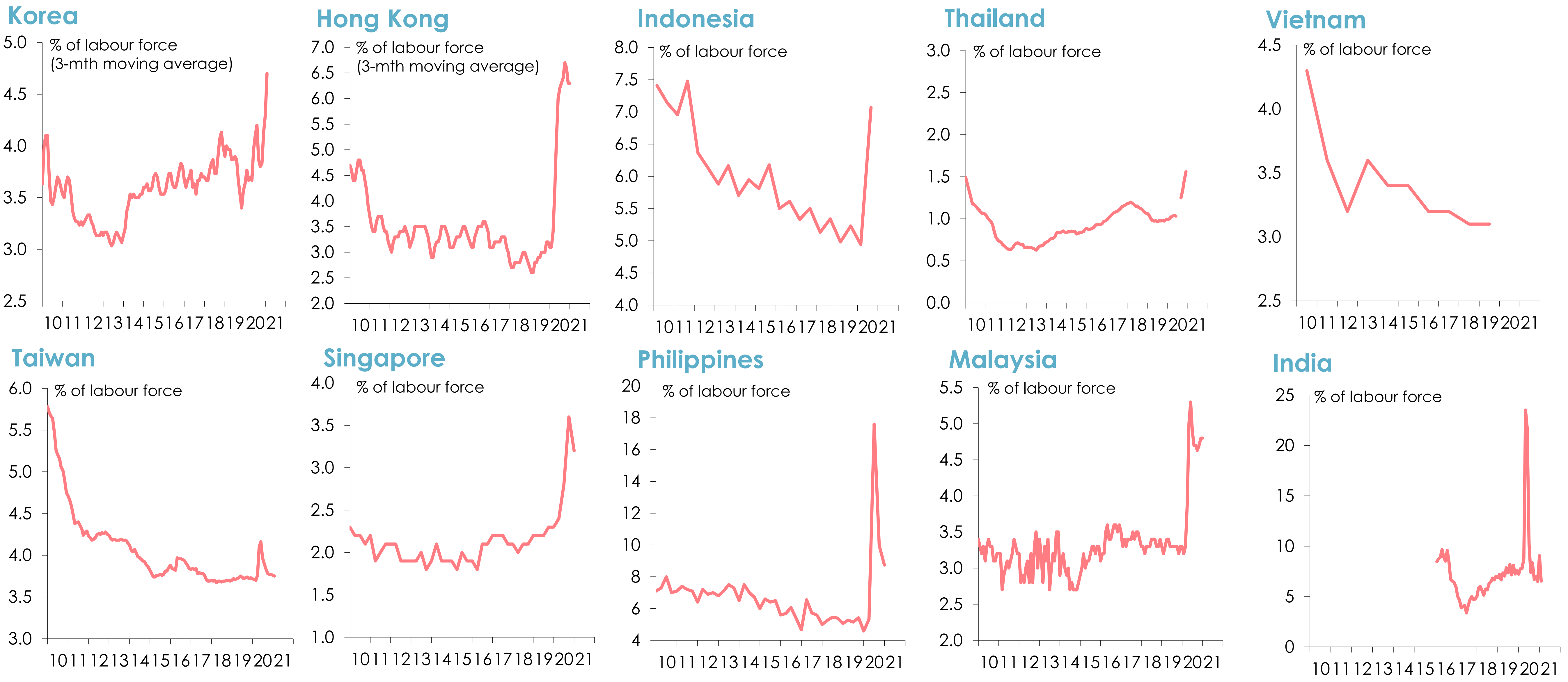
Inflation remains very low across most Asian economies other than India, but has started rising again in Vietnam and the Philippines



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

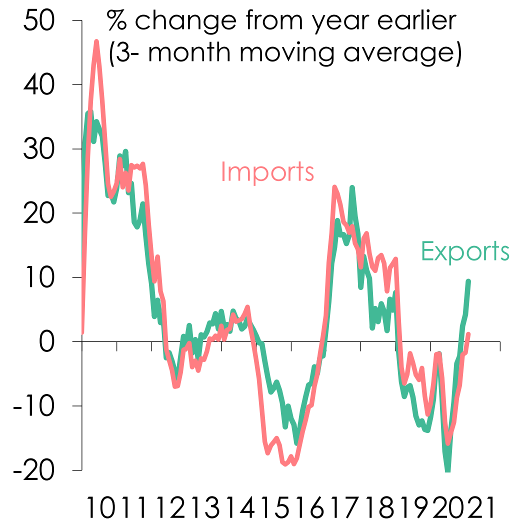


Note: Unemployment data is published monthly in Korea, Taiwan, Hong Kong, Thailand and Malaysia; quarterly in Singapore and the Philippines; semi-annually (February and August) in Indonesia; and annually in Vietnam (with the latest reading being for 2019). There is no official unemployment data in India: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

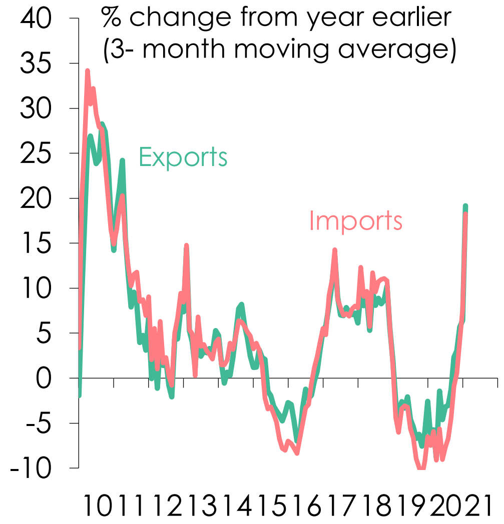
SAUL ESLAKE
CORINNA ECONOMIC ADVISORY

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

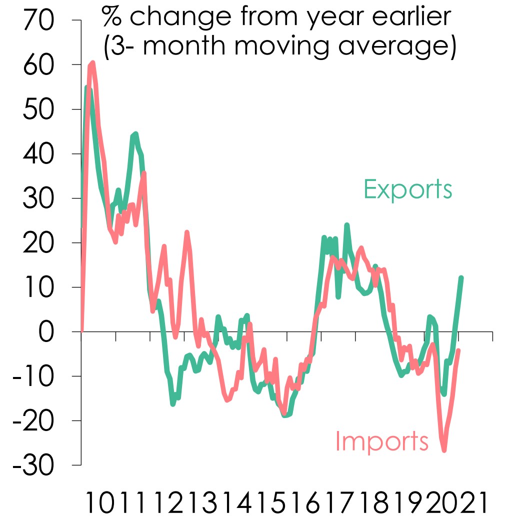
Korea



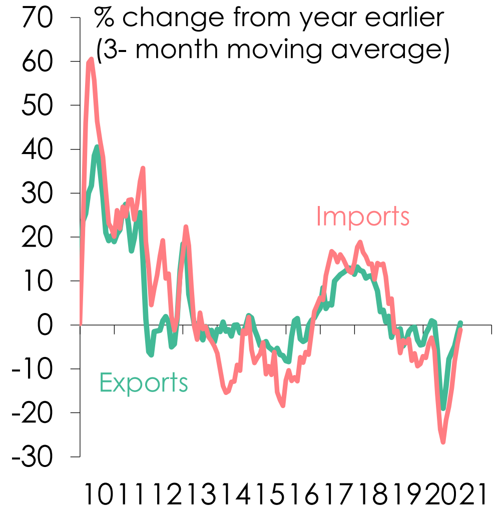
Hong Kong



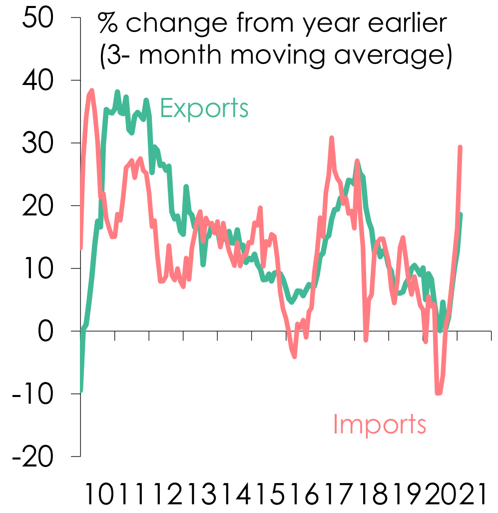
Indonesia



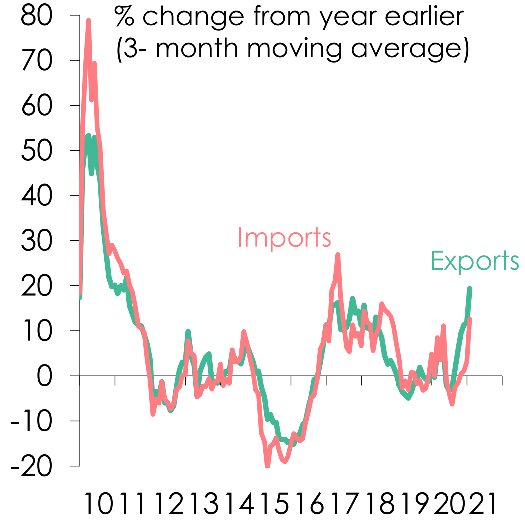
Thailand



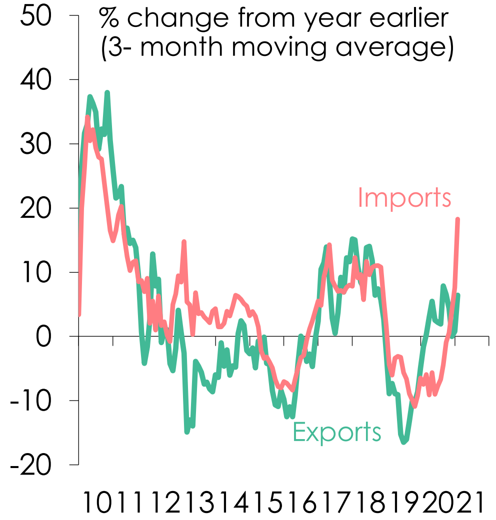
Vietnam



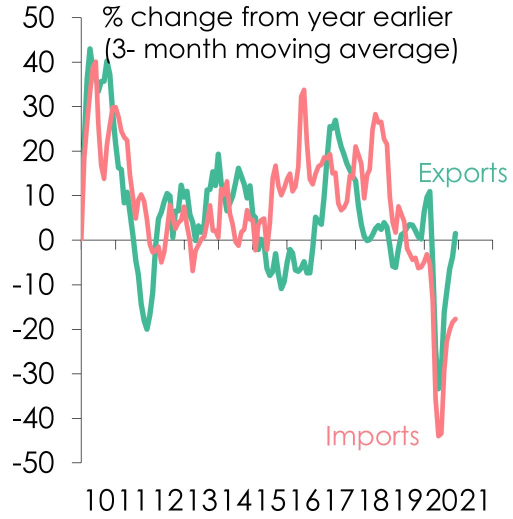
Taiwan



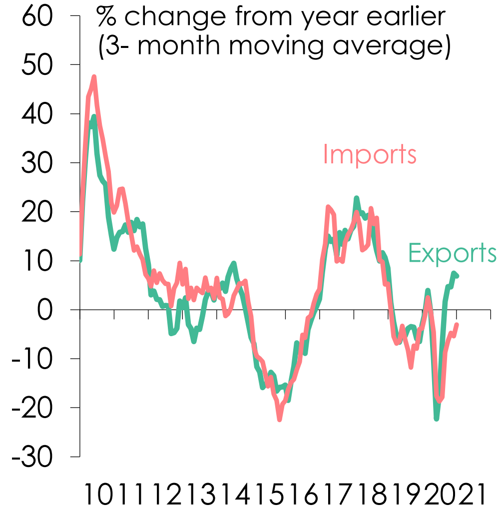
Singapore



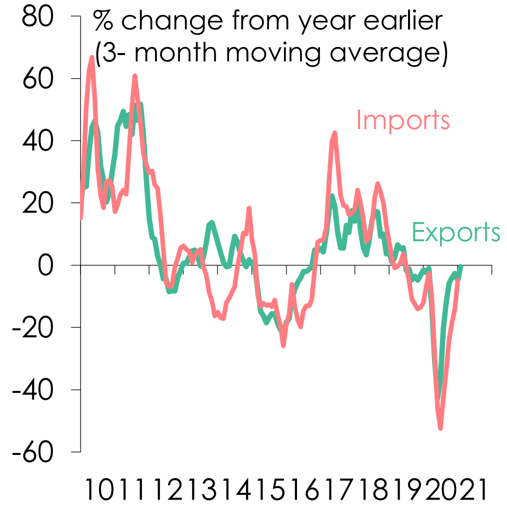
Philippines



Malaysia



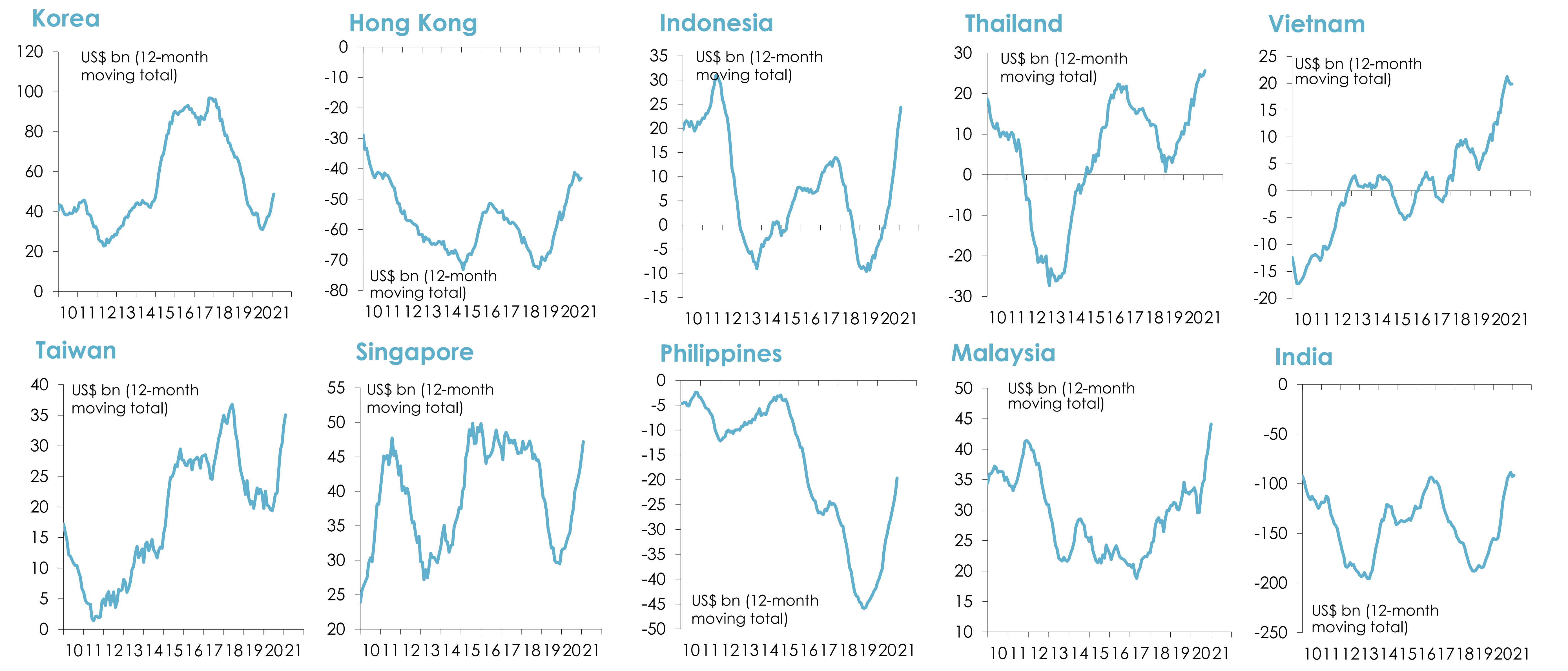
India



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".

SAUL ESLAKE
CORINNA ECONOMIC ADVISORY

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

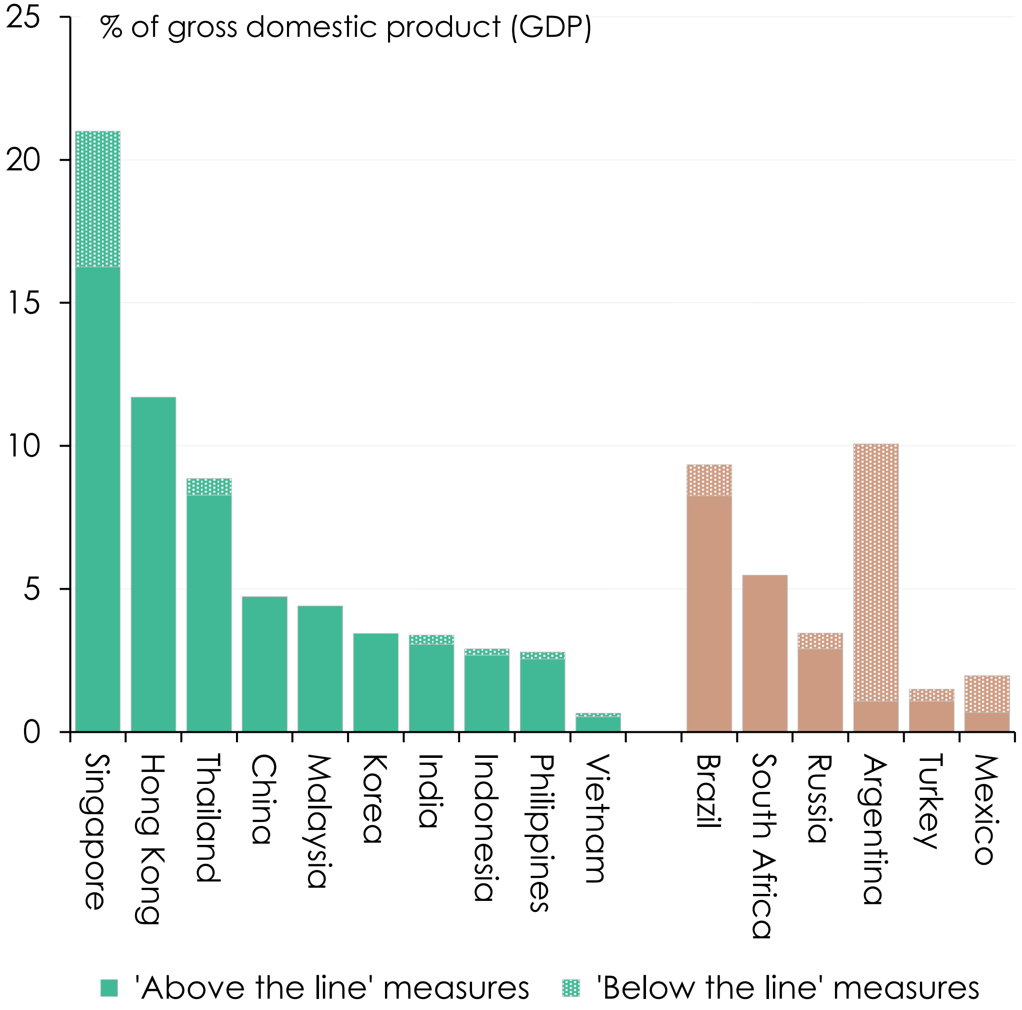


Note: Data for Hong Kong and Singapore published in national currencies and converted to US dollars by Corinna using month-average exchange rates.
Sources: national statistical agencies and central banks. Return to "What's New".

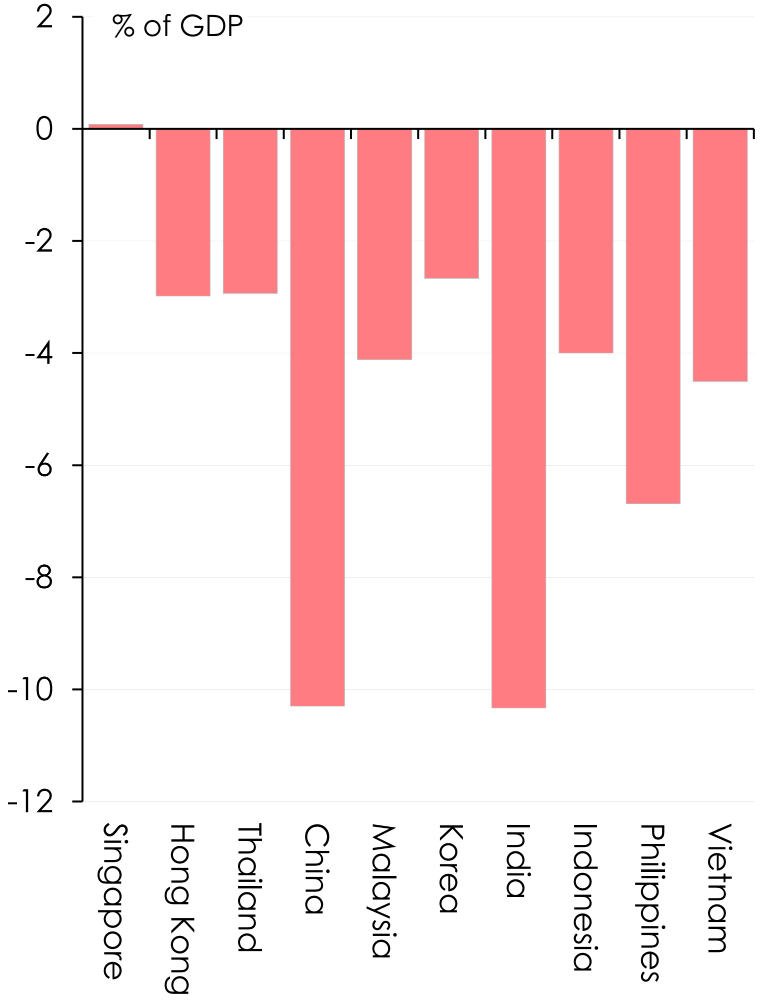
SAUL ESLAKE
CORINNA ECONOMIC ADVISORY

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

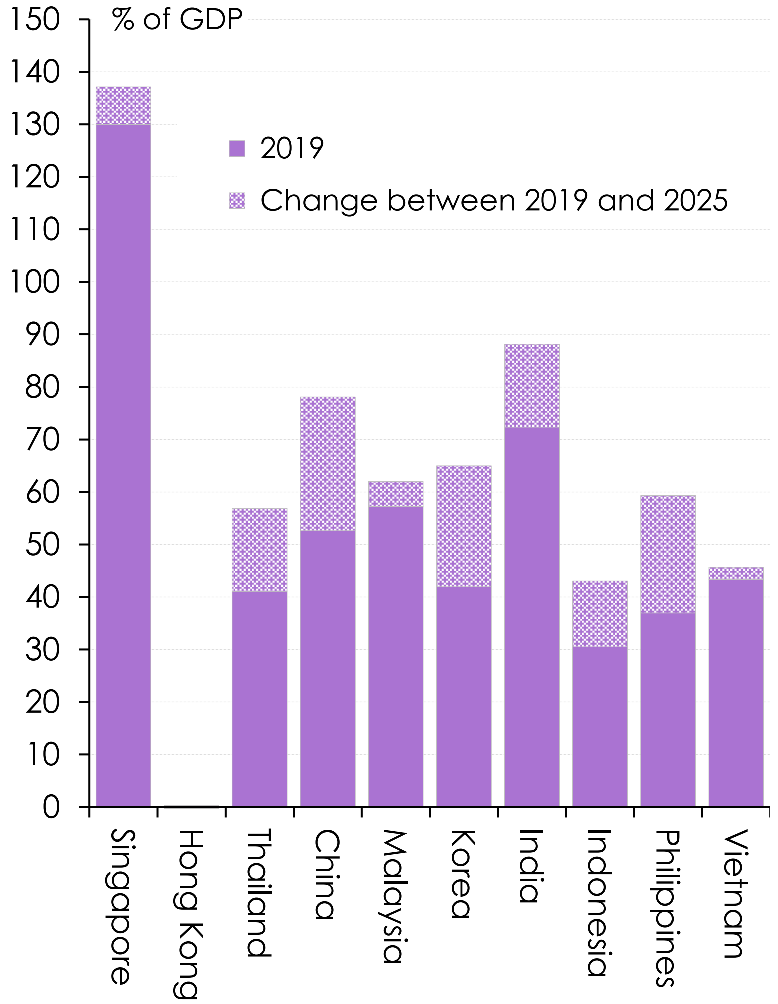
Fiscal policy responses to Covid-19 – Asian & other selected emerging market economies



Budget balances – Asian economies 2020-2025

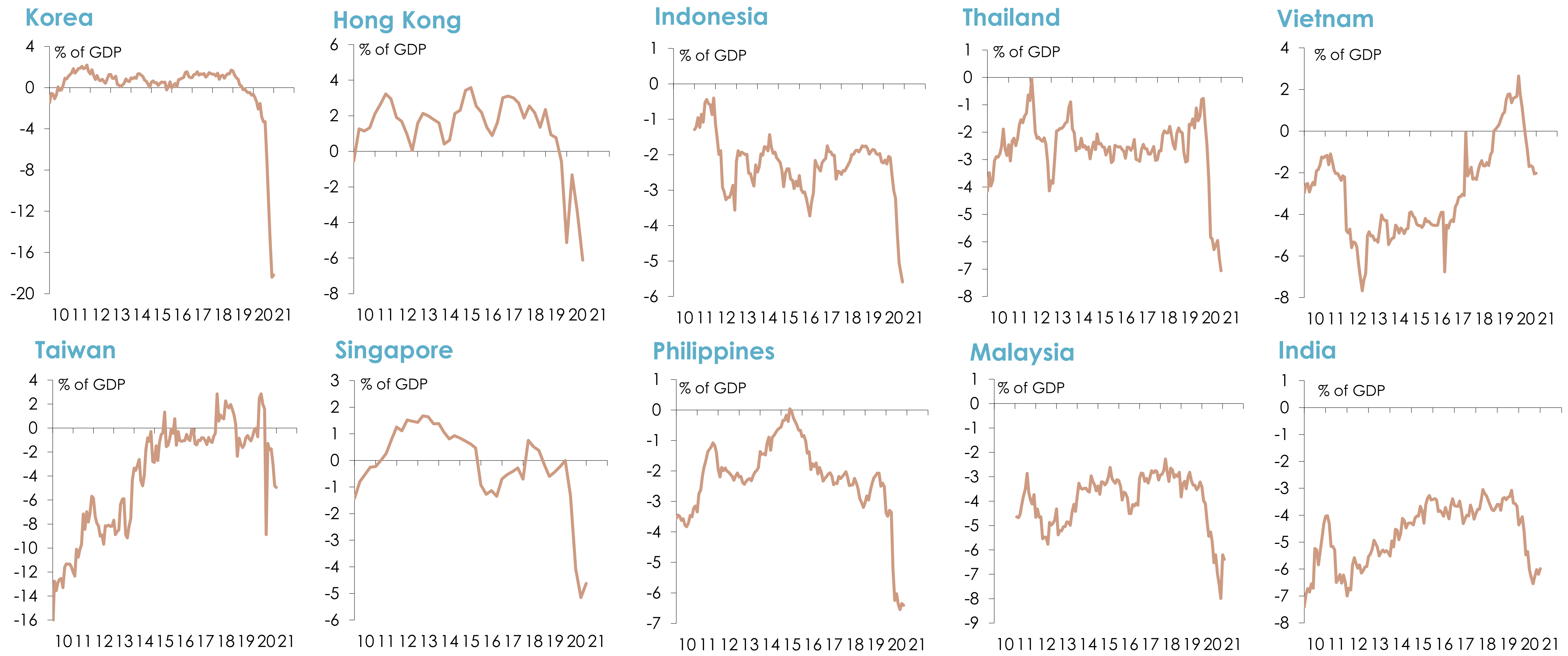


Gross government debt – Asian economies 2019-25



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, 18th February 2021; Fiscal Monitor, October 2020. Return to "What's New".

National government budgetary positions have deteriorated sharply across Asia

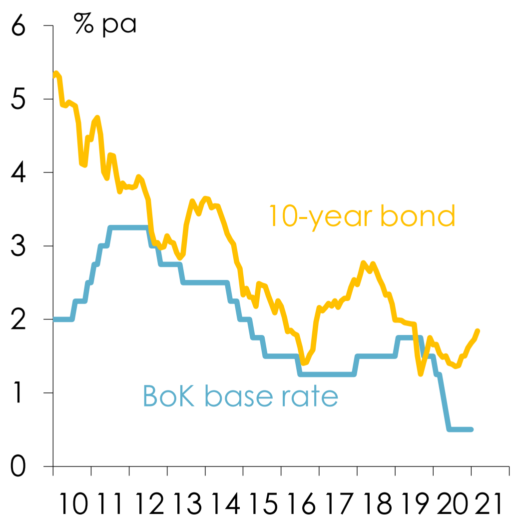


Note: Charts show central government budget balances over rolling 12-month (or in the cases of Hong Kong and Singapore, 4-quarter) periods, expressed as a pc of nominal GDP over the latest available 4-quarter period. *Sources*: National Finance Ministries or Treasuries, central banks and statistical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

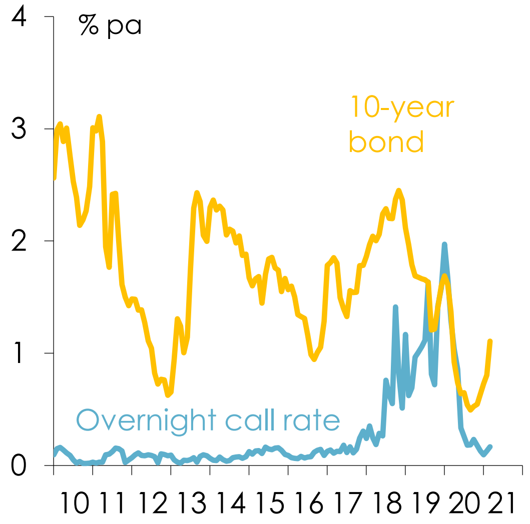
Return to "What's New".

Asian bond markets have been well insulated from the global bond market sell-off this month – except for HK, Singapore and Korea

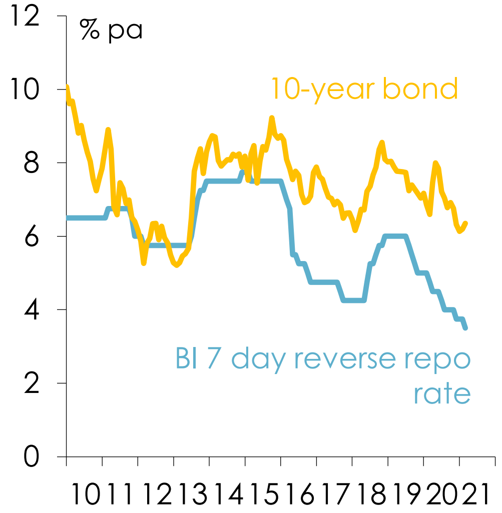
Korea



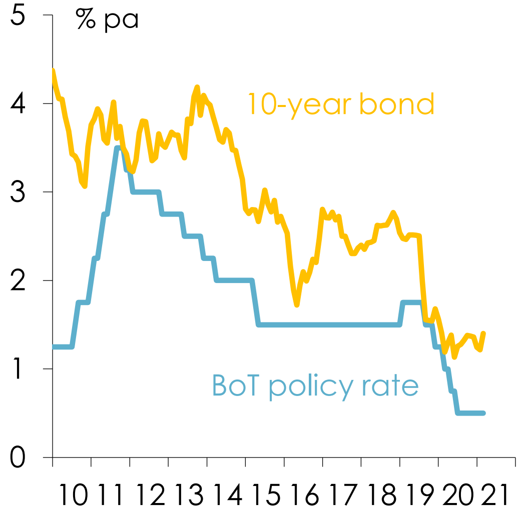
Hong Kong



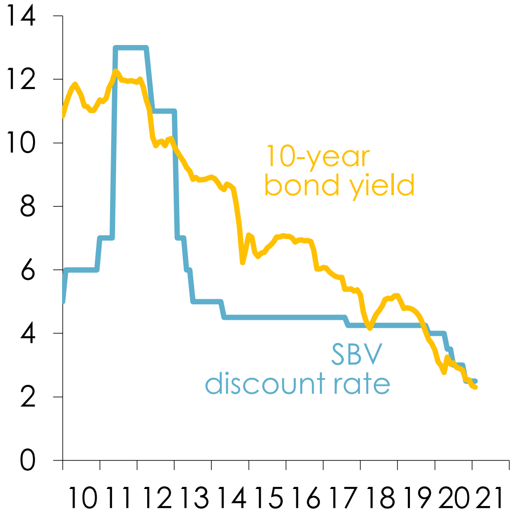
Indonesia



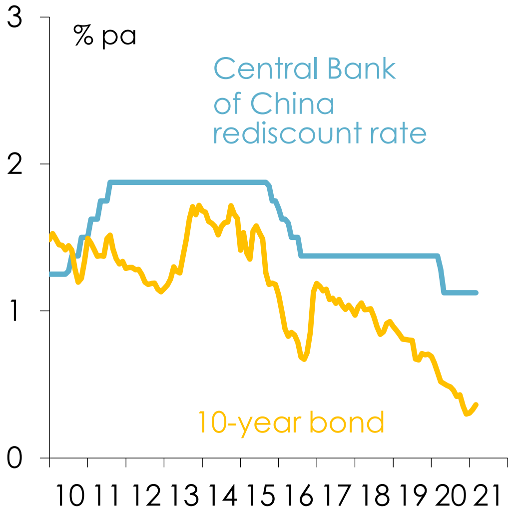
Thailand



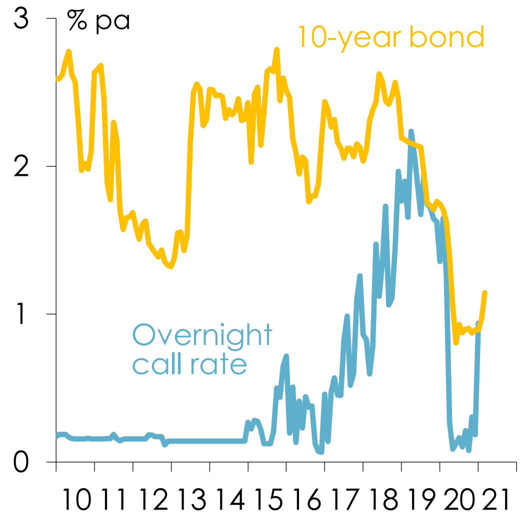
Vietnam



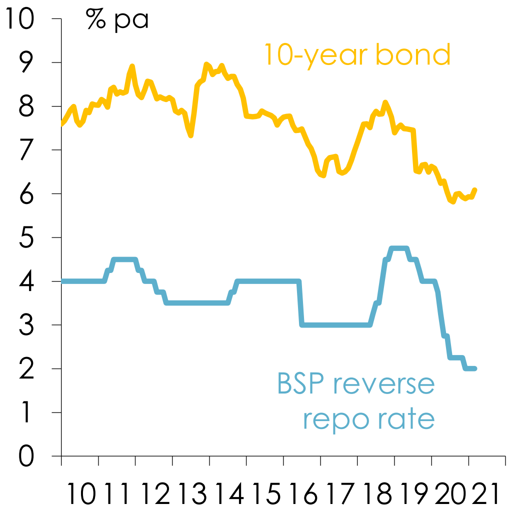
Taiwan



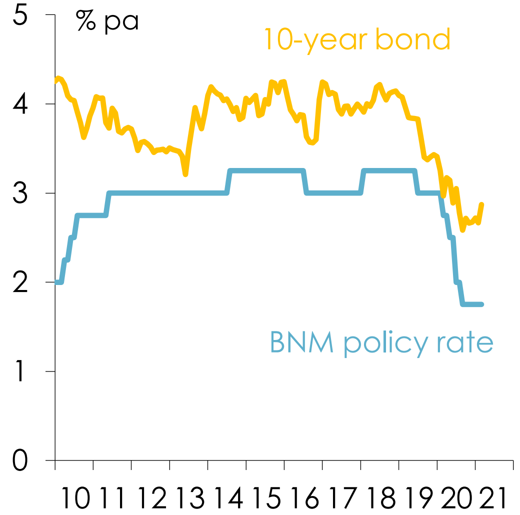
Singapore



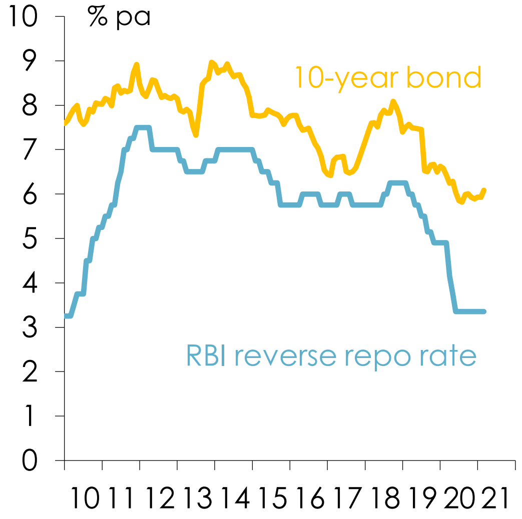
Philippines



Malaysia



India

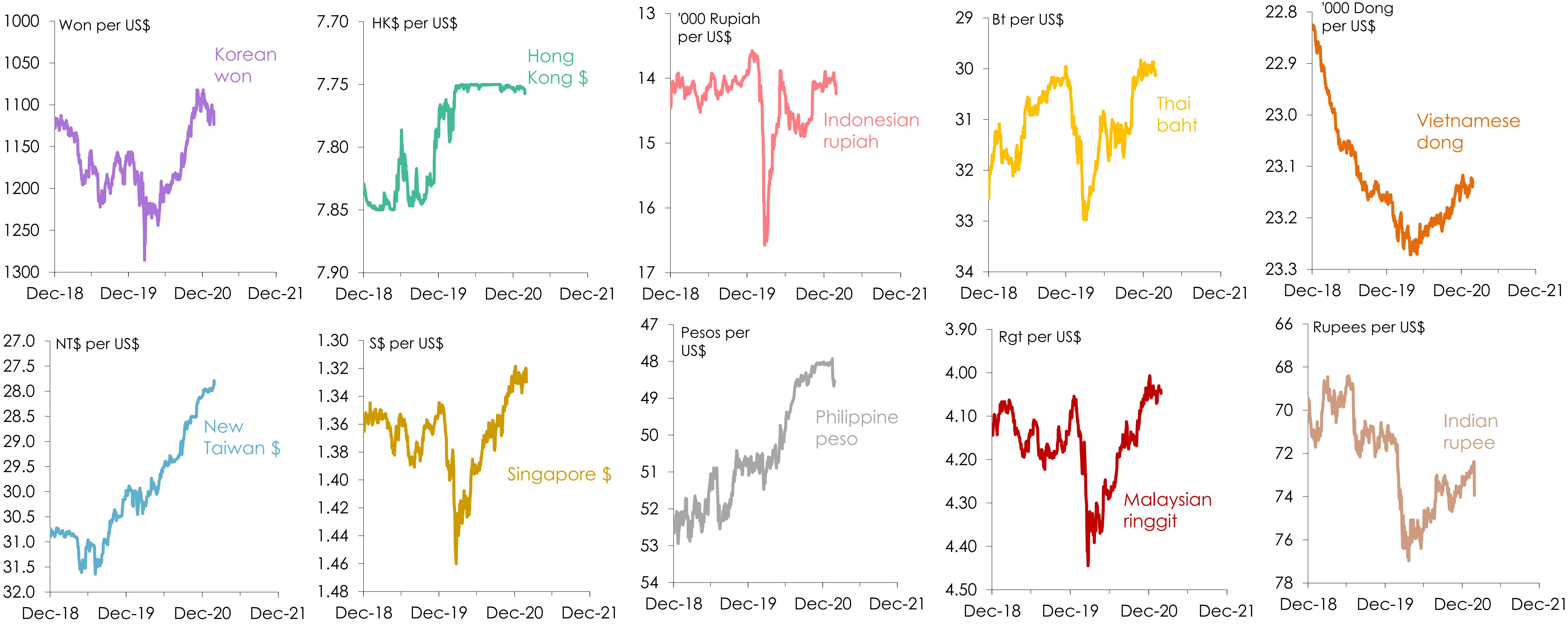


Note: Neither Hong Kong nor Singapore use a monetary policy indicator interest rate. Hong Kong has a currency board system, so HK interest rates track US rates very closely; the Monetary Authority of Singapore uses the (effective) exchange rate as its principal monetary policy interest rate.
Sources: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

SAUL ESLAKE
CORINNA ECONOMIC ADVISORY

The Indian rupee, Korean won and Indonesian rupiah dropped 1¼-1¾% vs the US$ this week, and the Thai baht and Sing $ almost ½%

Asian currency exchange rates vs US dollar

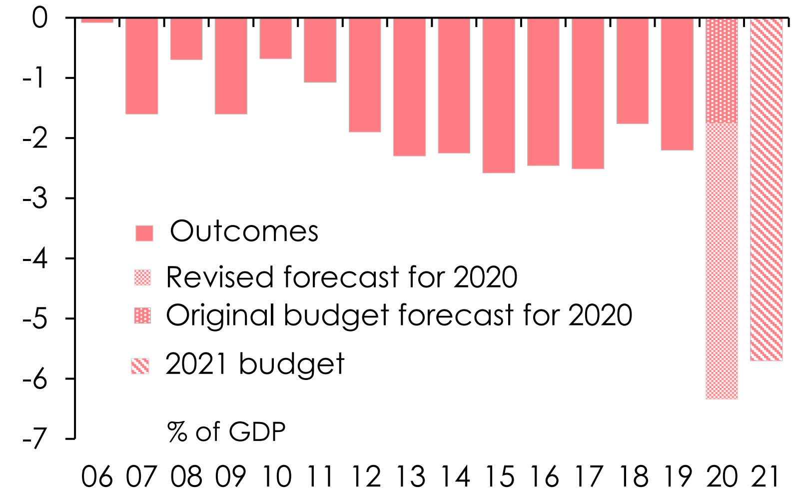


Note: Data up to 26th February. Source: Refinitiv Datastream. Return to "What's New".

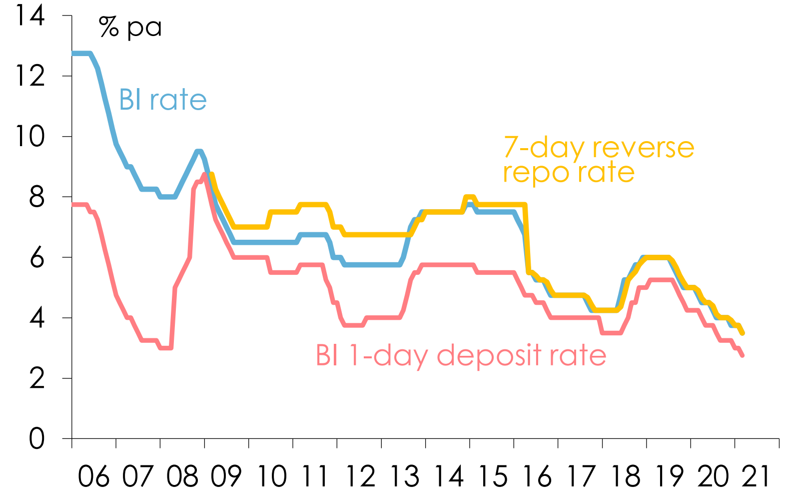
SAUL ESLAKE
CORINNA ECONOMIC ADVISORY

Bank Indonesia cut rates again this month, for the sixth time since the beginning of last year

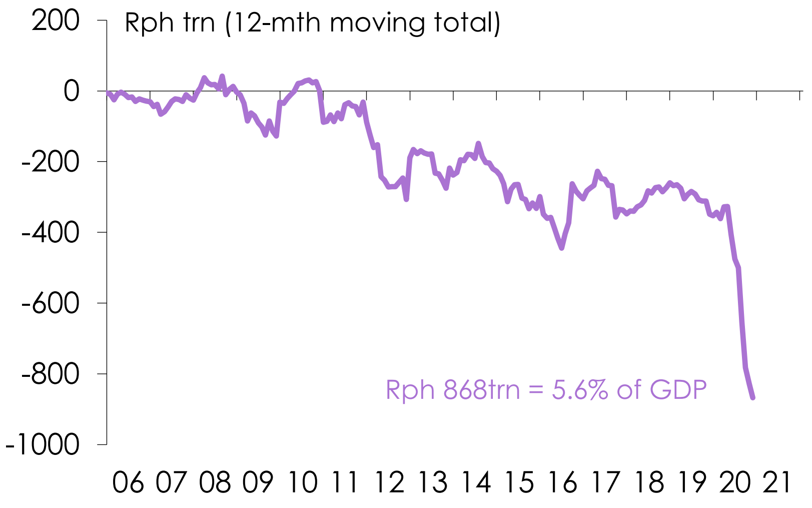
Indonesia budget deficit



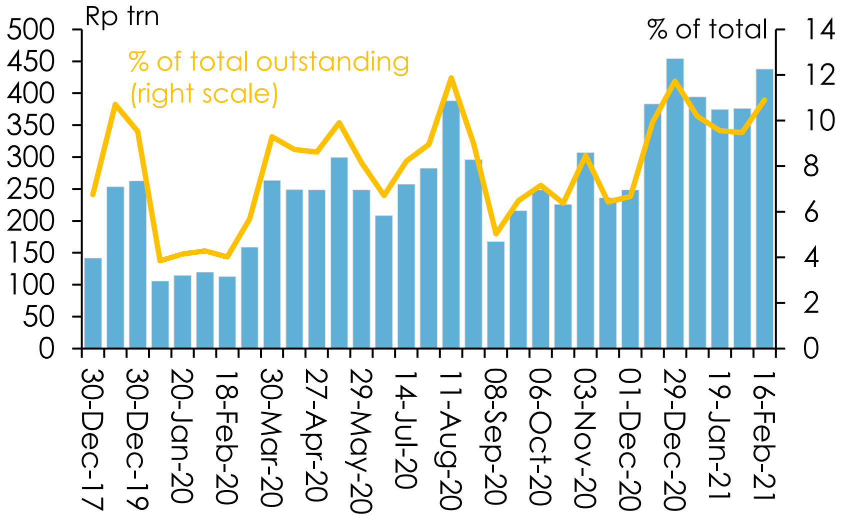
BI monetary policy rates



Central gov't budget balance



BI holdings of tradeable SBNs

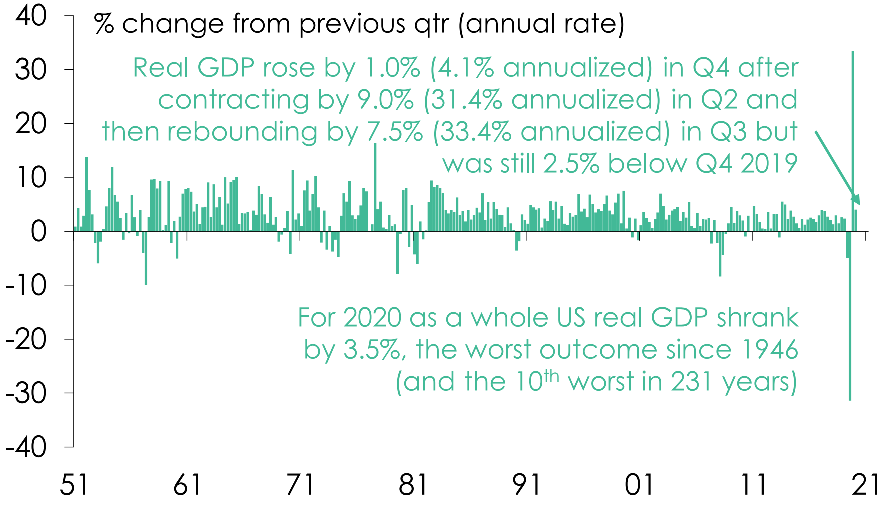


- **In April 2020, the Indonesian Government and Bank Indonesia (BI) agreed to a 'burden-sharing' scheme under which BI will directly purchase bonds equivalent to 25% of this year's budget financing requirement (and return the interest received to the Government), as well as subsidizing interest payments on other bonds**
  - BI calls this 'synergistic monetary expansion'
  - as of 19th BI had purchased Rp72.5 trn of SBN in the primary market, and provided an additional Rp62 trn through 'burden sharing' arrangements with the Government
  - BI has also funded Rp 115trn of lending to SMEs under a separate 'burden-sharing' agreement
- **BI has indicated that it will be a 'standby buyer' for up to one-quarter of government borrowing requirements through 2022**
- **Last week BI cut its 7-day reverse repo rate and deposit rate by 25bp to 3½% and 2¾%**
  - BI Governor Perry Warjiyo characterized this latest move as "consistent with projected low inflation and maintained exchange rate stability" as well as supporting "national economic recovery momentum"
  - BI downgraded its 2021 growth forecast from 4¾-5¾% to 4¼-5¼% following slower-than-expected growth in Q4 2020 (see slide 52)

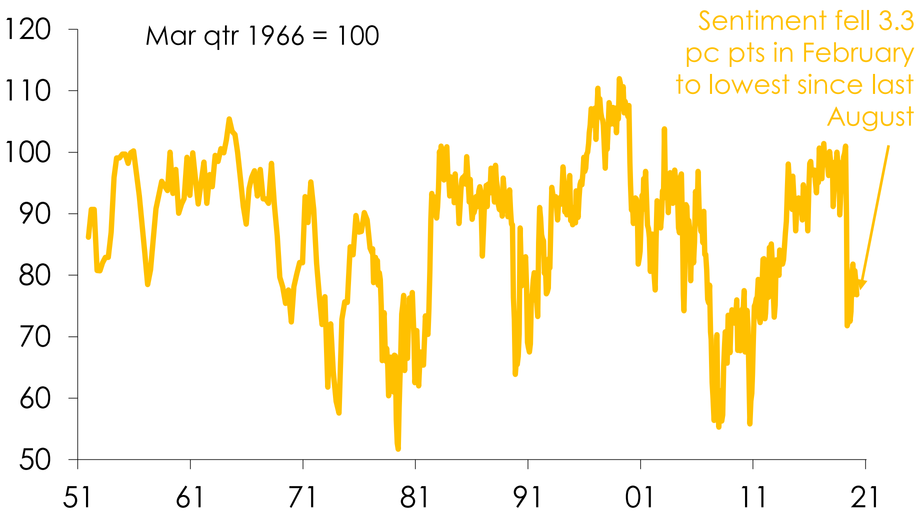
Sources: Indonesia Ministry of Finance (Kementarian Keuangan); Directorate of Government Debt Securities; Bank Indonesia.
Return to "What's New".

US economic growth slowed sharply in Q4 after Q3's strong rebound, but retail sales surged in January as consumers spent stimulus cash handouts

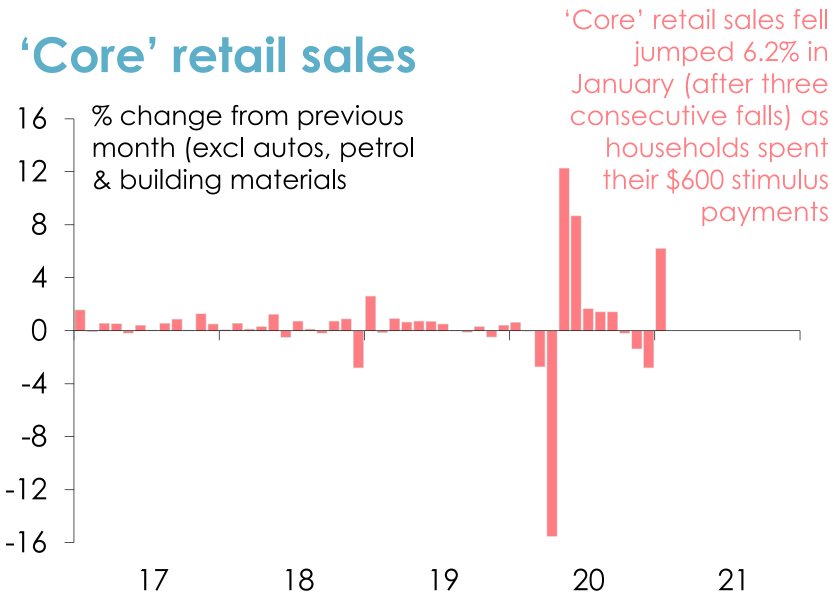
Real GDP



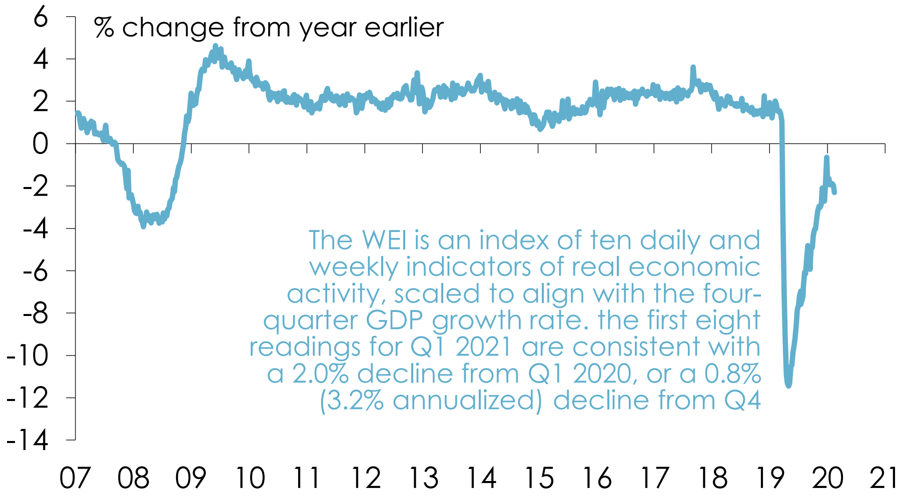
Consumer sentiment



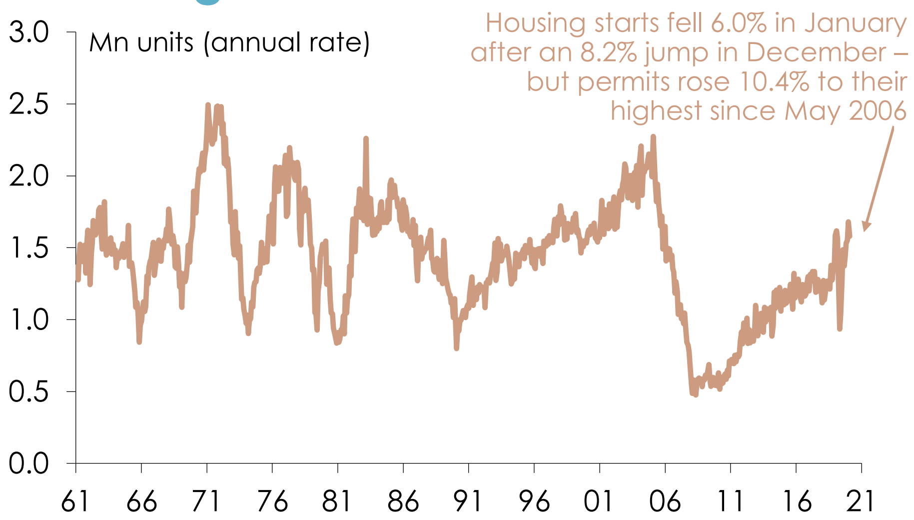
'Core' retail sales



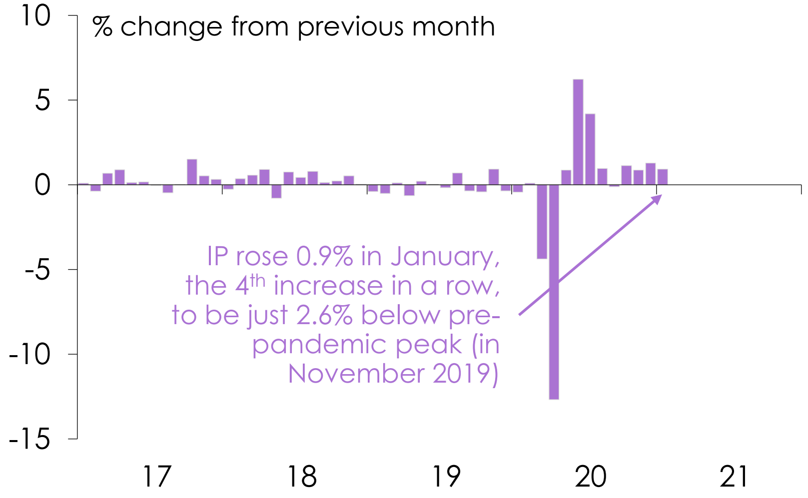
NY Fed weekly economic index



Housing starts



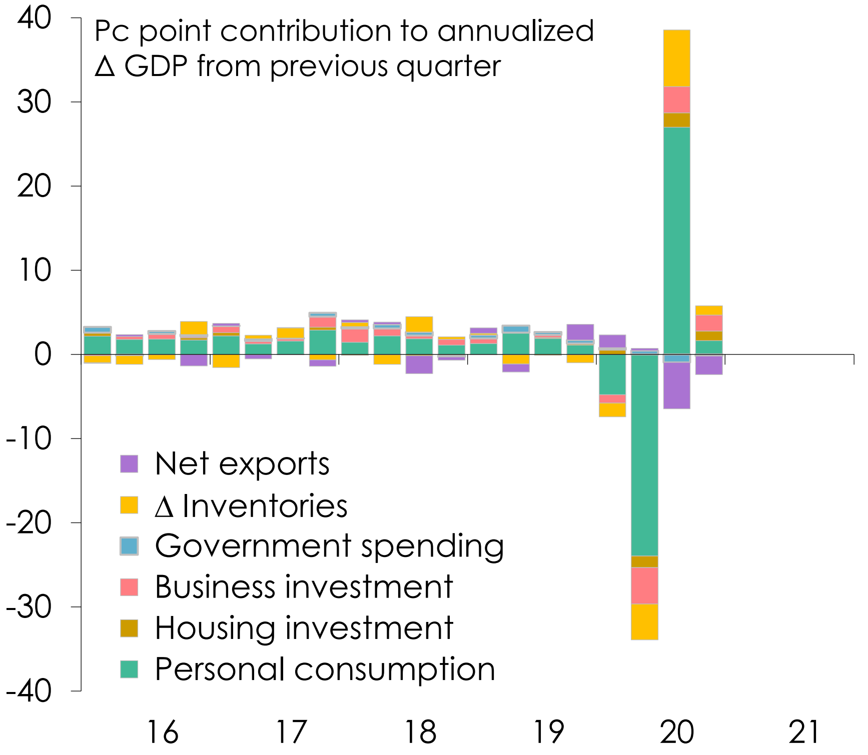
Industrial production



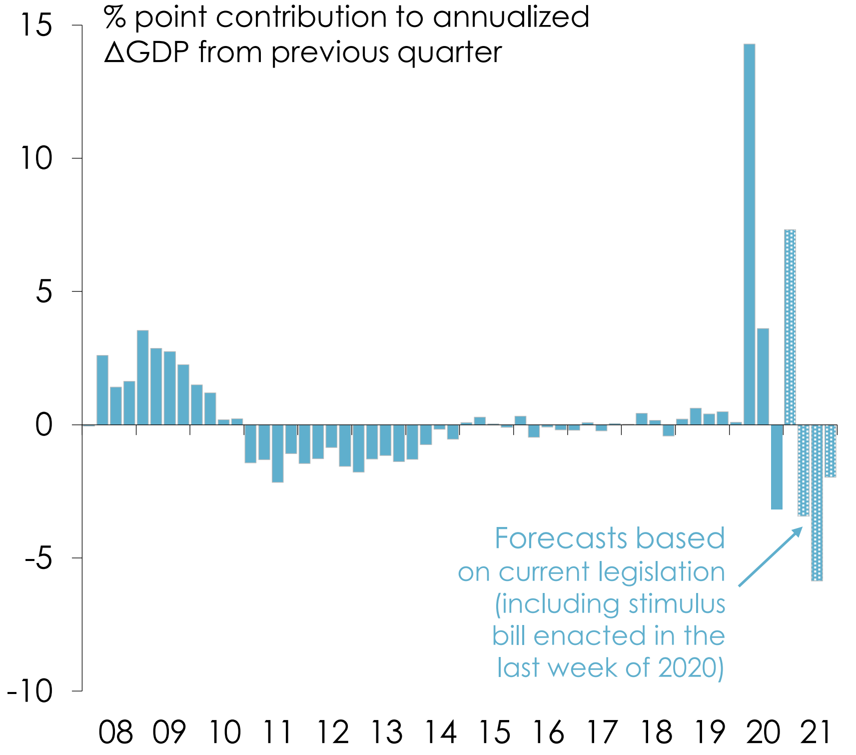
Sources: US Bureau of Economic Analysis; Federal Reserve Bank of New York; Michigan University Survey Research Center; US Commerce Department; Board of Governors of the Federal Reserve System. Return to "What's New".

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

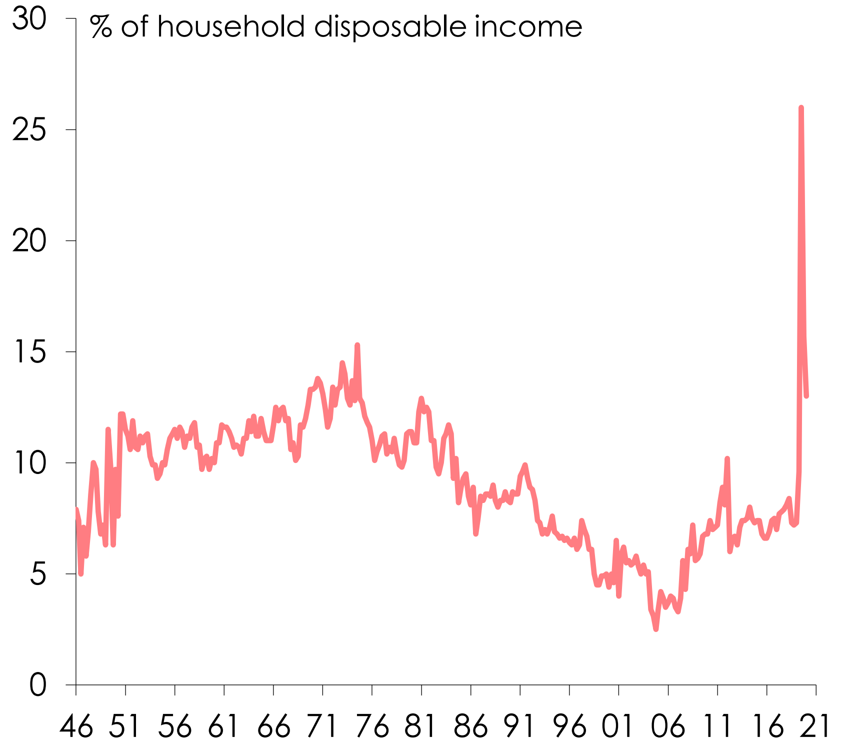
Major expenditure aggregates contribution to quarterly changes in real GDP



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



Personal saving rate



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

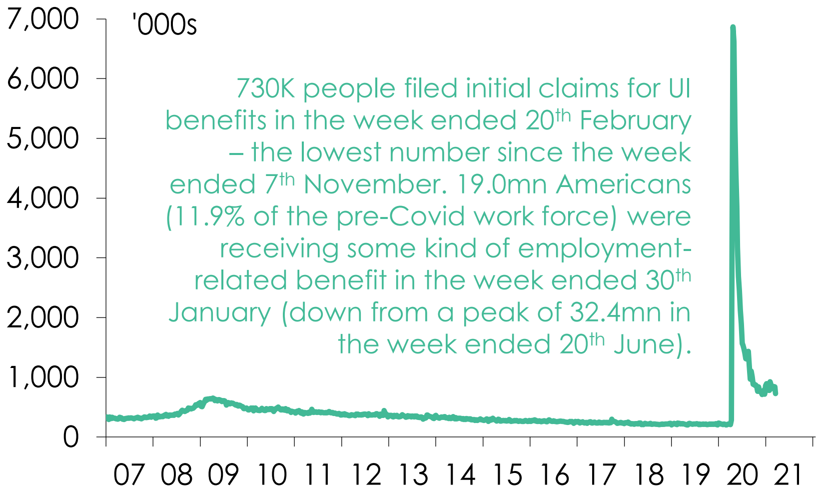
Fiscal policy subtracted 3.2 pc pts from growth in Q4 with the expiry of pandemic measures – but will add 7.3 pc pts to Q1 growth before (on current legislation) subtracting again in Q2-4

The personal saving rate declined again in Q4 to 13% from 26% in Q2 and 16% in Q1 but is otherwise still higher than at any time since the end of WWII

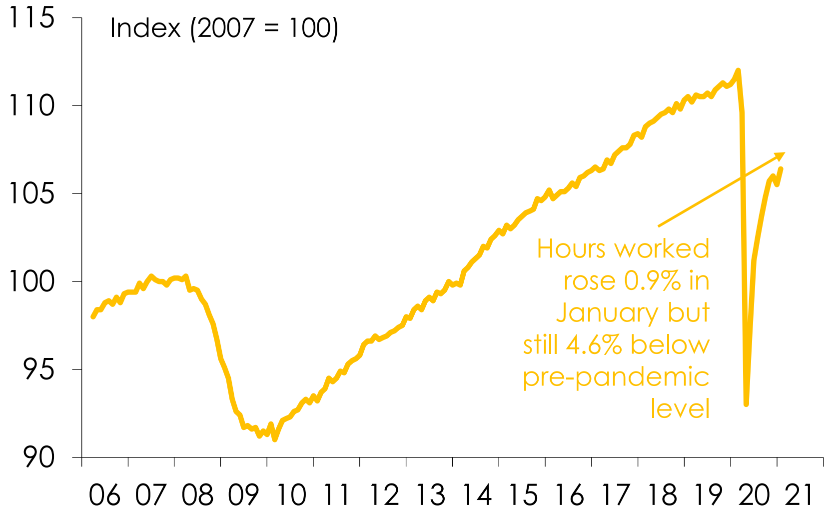
Source: US Bureau of Economic Analysis (estimates for Q4 2020 are preliminary); Brookings, Hutchins Center Fiscal Impact Measure; Corinna. Return to "What's New".

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

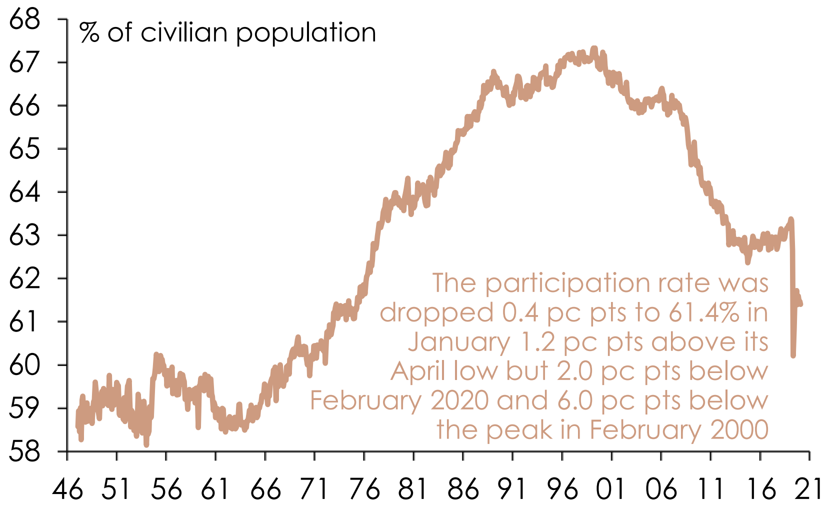
Unemployment benefit claims



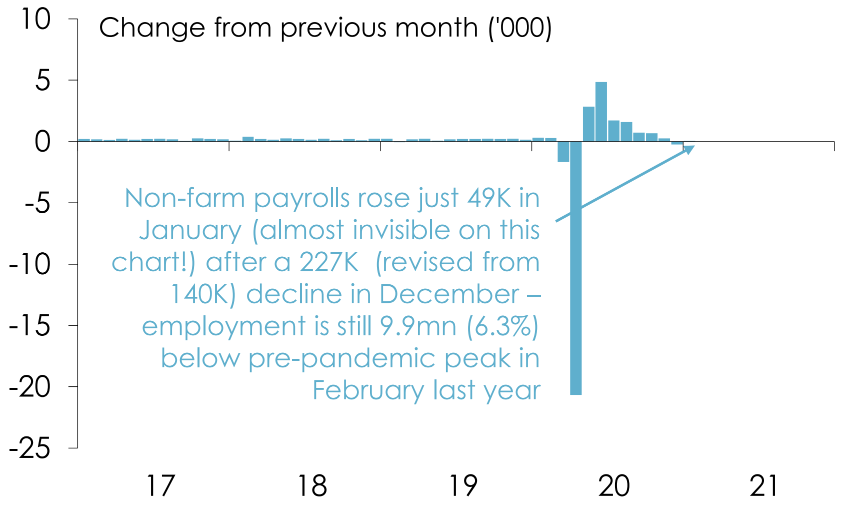
Hours worked (private sector)



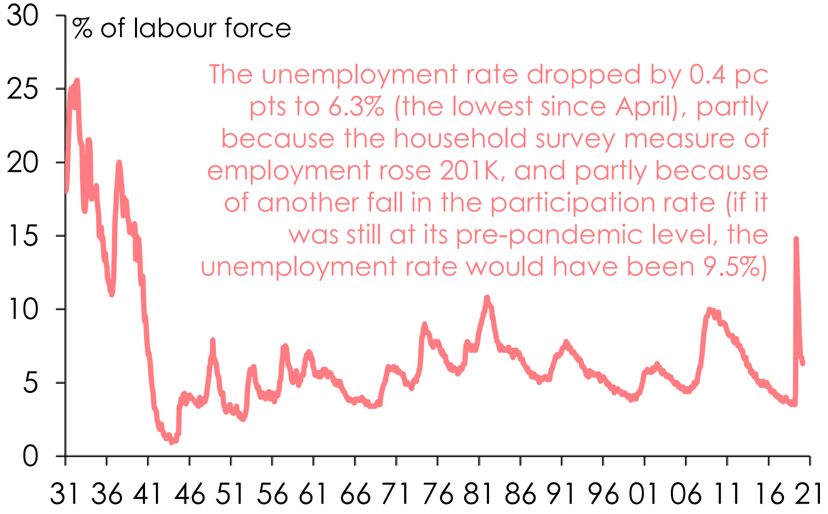
Labour force participation rate



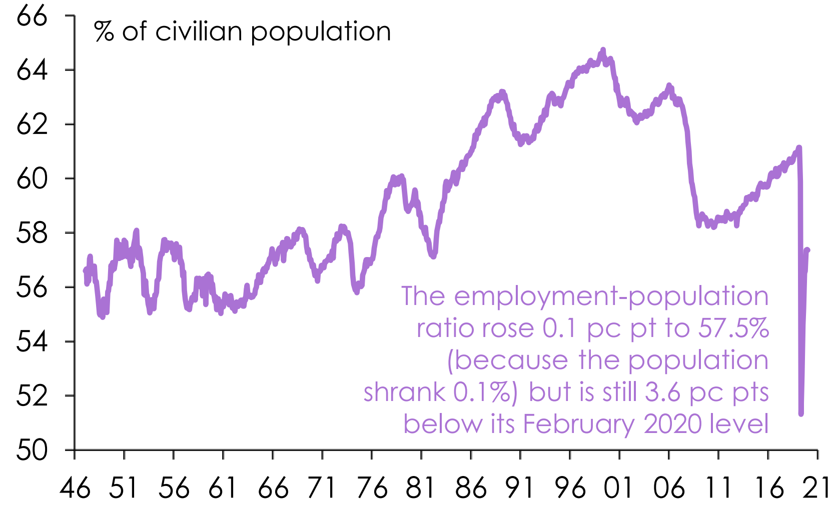
Non-farm payroll employment



Unemployment rate



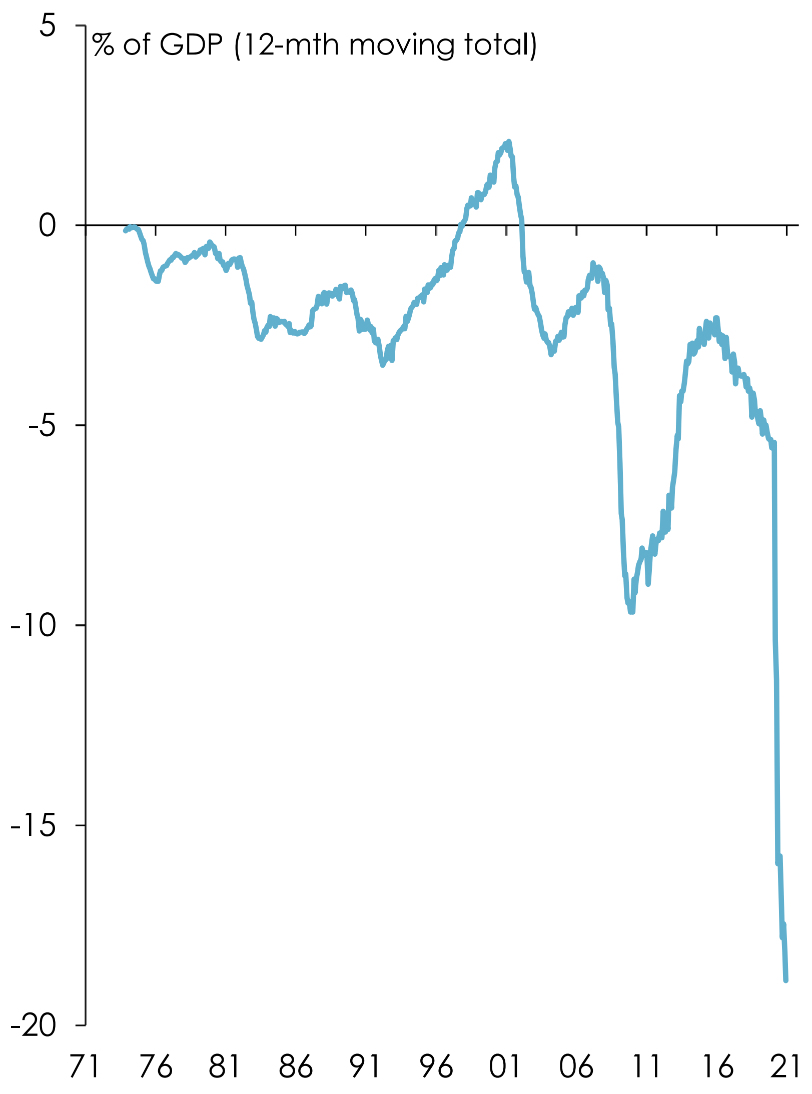
Employment to population ratio



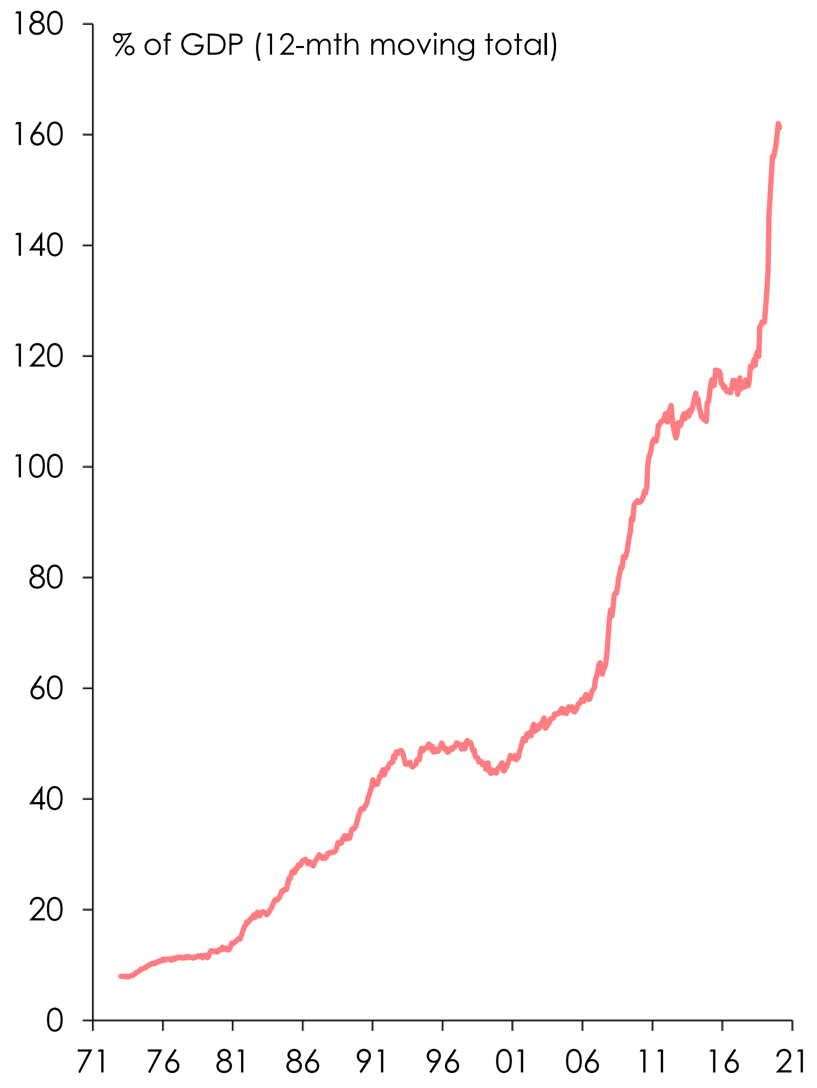
Sources: US Department of Labor; US Bureau of Labor Statistics; National Bureau of Economic Research Macro History database. February employment and other labour force data will be released on 5th March. Return to "What's New".

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

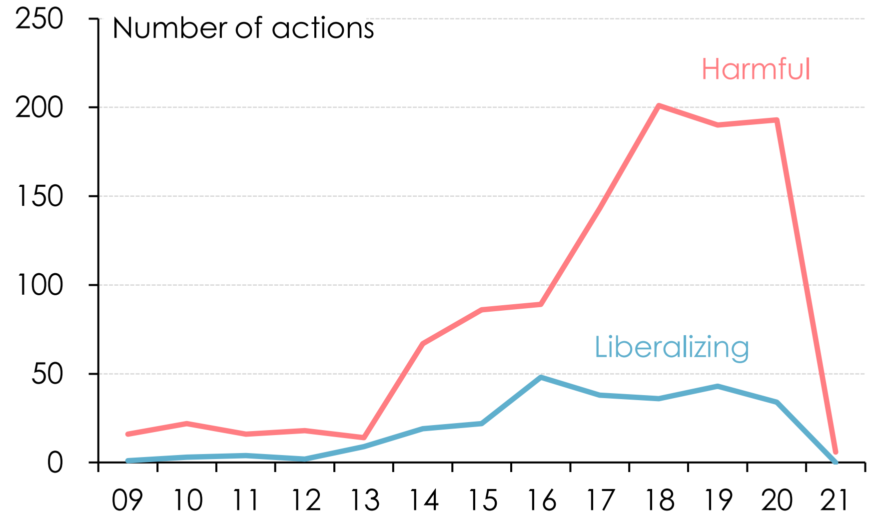


- The US budget deficit widened from US$582bn (3.3% of GDP) in 2016 (Obama's last year in office) to US$1 trn (5.4% of GDP) in 2019, while gross federal debt rose from US$20.4 trn (115% of GDP) to $24.1trn (126% of GDP)
- For CY 2020 as a whole, Federal government spending rose by 49.7% (!) while revenues 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 19th February but some elements (eg cash payments to households) may be modified as part of the 'reconciliation' process

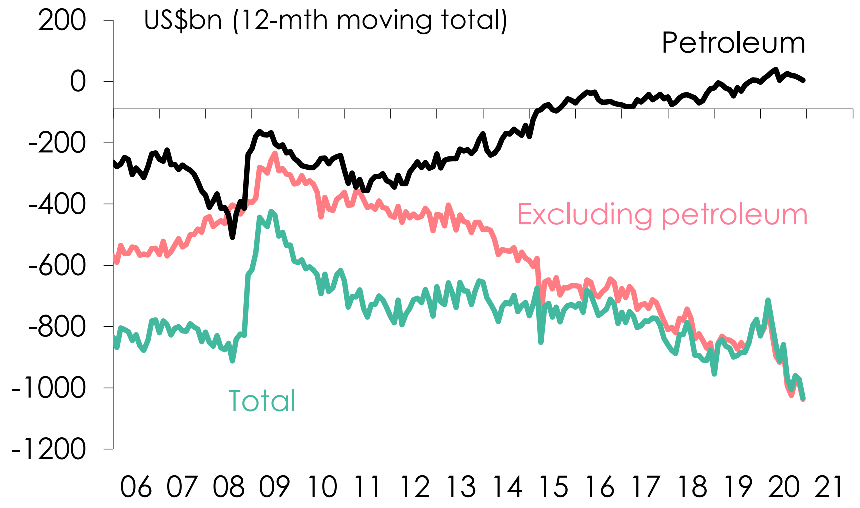
Note: The measure of US gross federal debt is at market value. *Sources:* US Treasury Department; Federal Reserve Bank of Dallas; US Bureau of Economic Analysis; US Congressional Budget Office; Corinna. February budget data will be released on 10th March.
Return to "What's New".

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

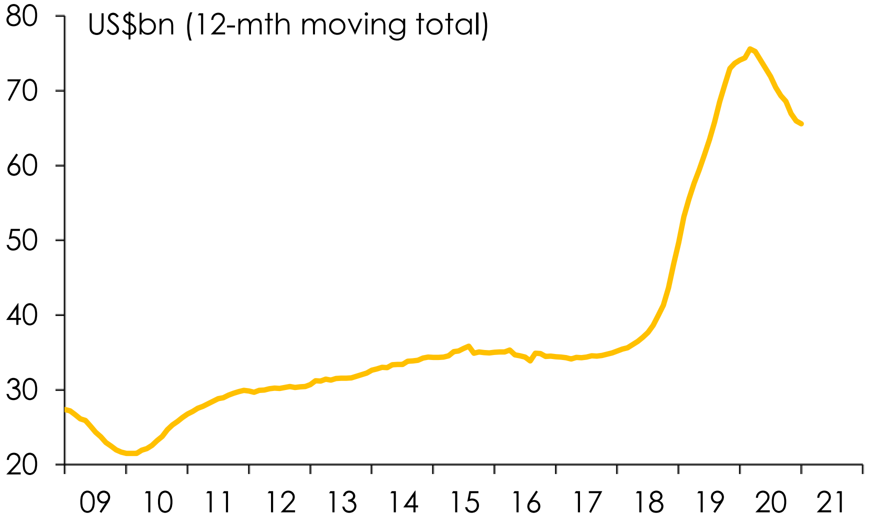
US trade policy actions



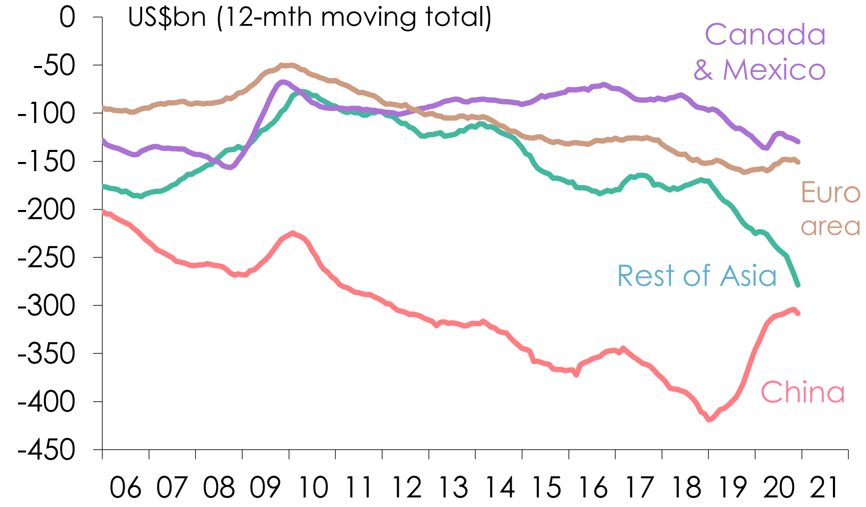
US merchandise trade balance



US customs duty revenue



US bilateral trade balances

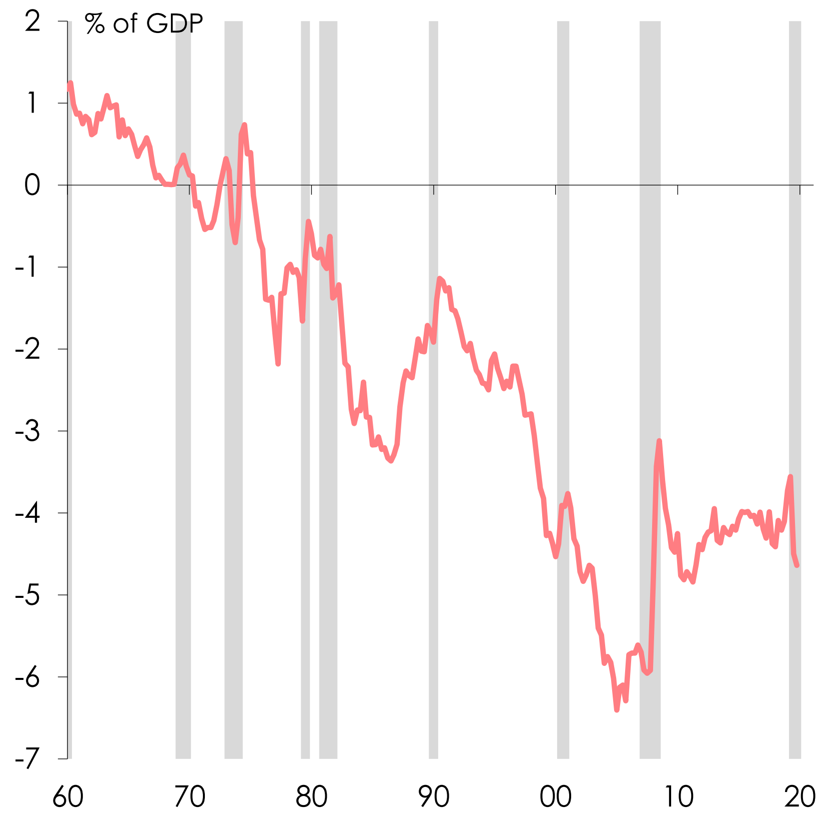


- **A Brookings Institution analysis of the impact of the Trump Administration's trade policies suggests that the average American household paid anywhere between "several hundred" and "a thousand dollars or more" per annum in higher prices due to tariffs**
  - consistent with what is widely understood 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 26th February); US Treasury Department; US Commerce Department. Return to "What's New".

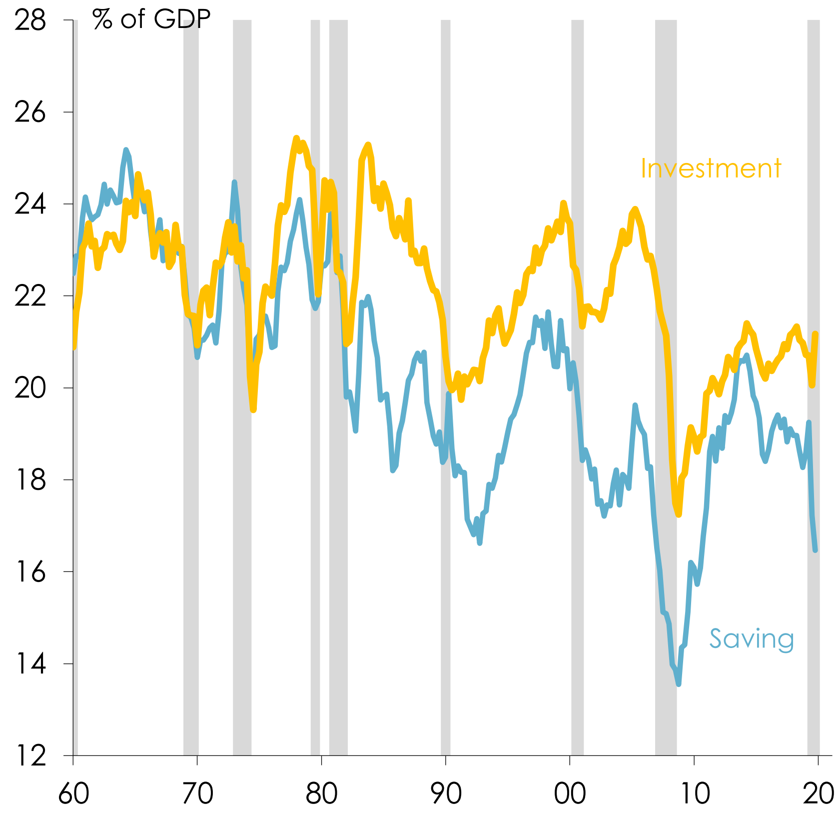
Unusually, the US current account deficit has widened so far during this recession, largely because investment hasn't fallen much

US current account balance



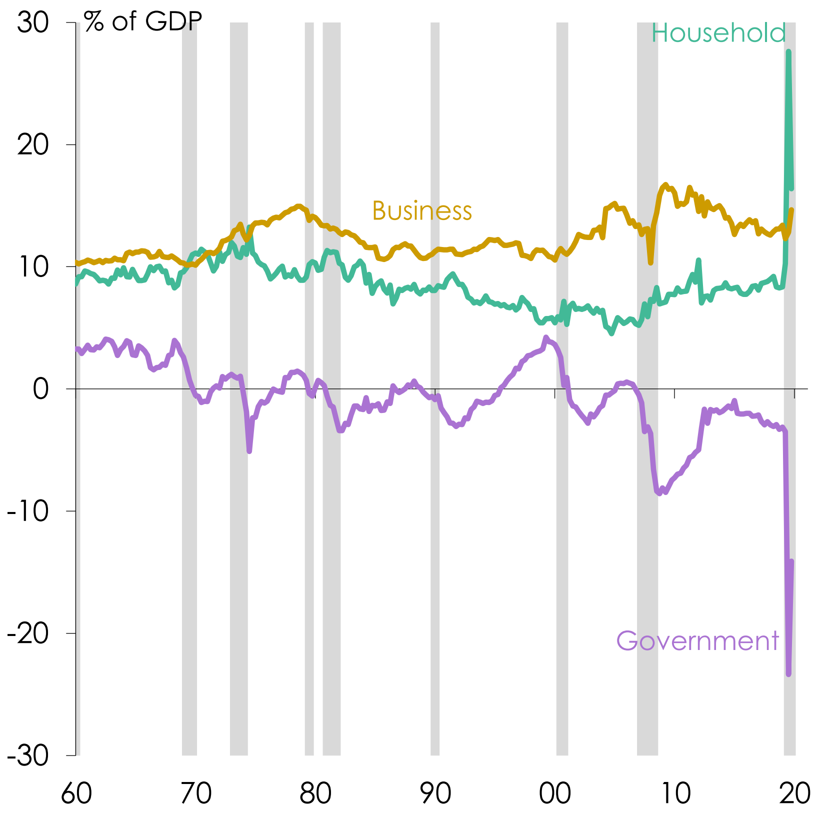
The US current account balance normally improves (ie, the deficit usually gets smaller) during recessions – but in this one it has (so far) widened

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



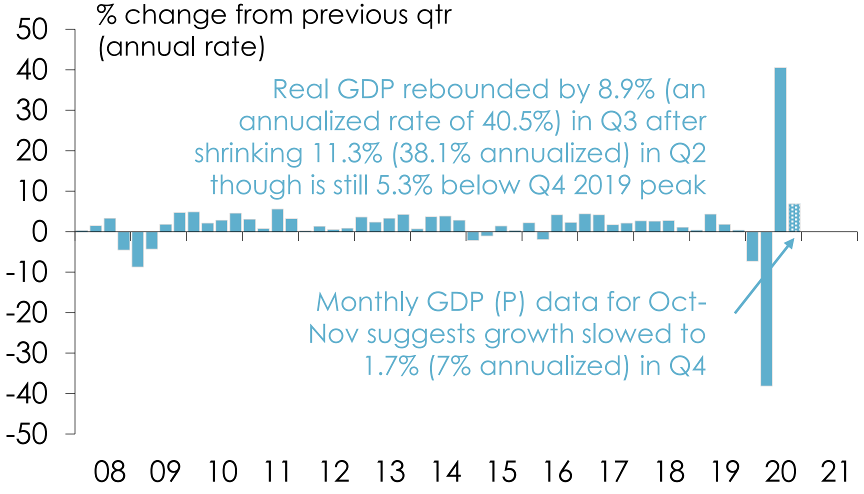
The dramatic increase in the budget deficit has been largely (but not totally) offset by an increase in house-hold saving (though monthly data says household saving fell in Q3

Note: shaded areas denote recessions as designated by the US National Bureau of Economic Research. 2020 Q4 data will be included in these charts with the release of the second estimates of Q4 GDP on 219th February. *Source:* US Bureau of Economic Analysis. Return to "What's New".

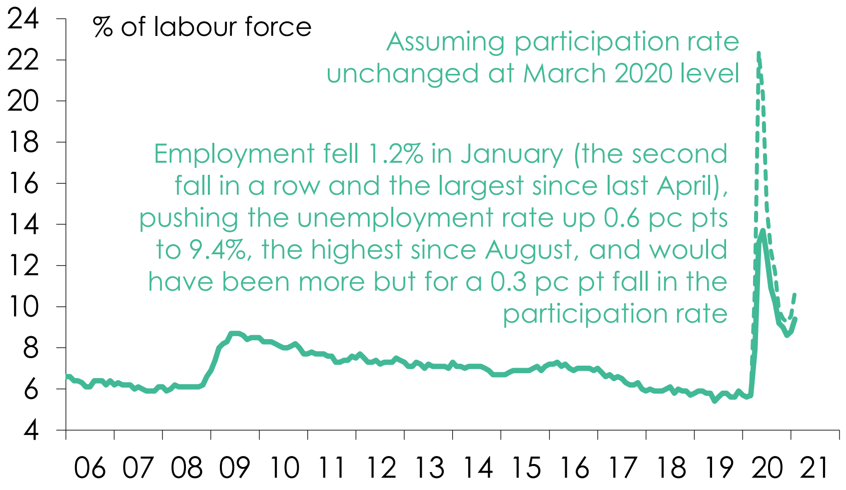
SAUL ESLAKE
CORINNA ECONOMIC ADVISORY

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

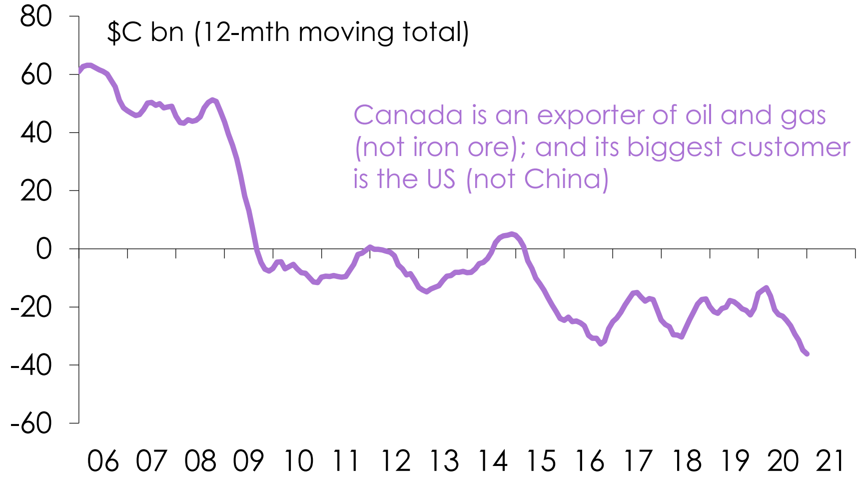
Real GDP



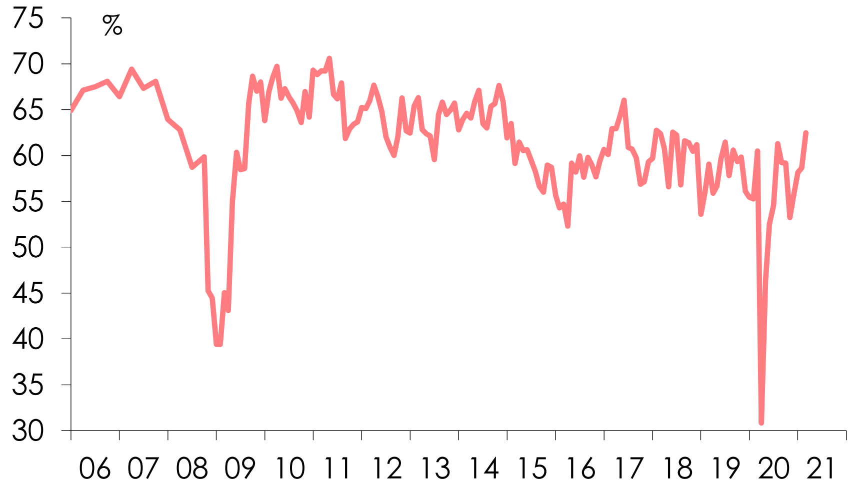
Unemployment rate



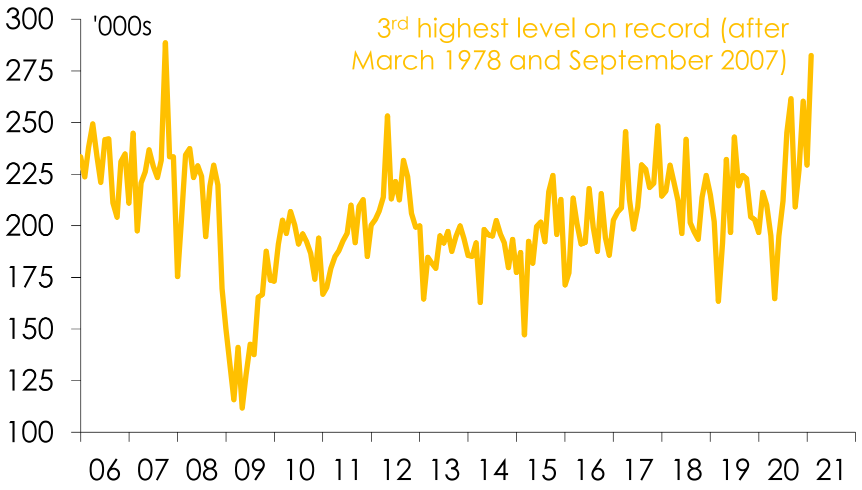
Merchandise trade balance



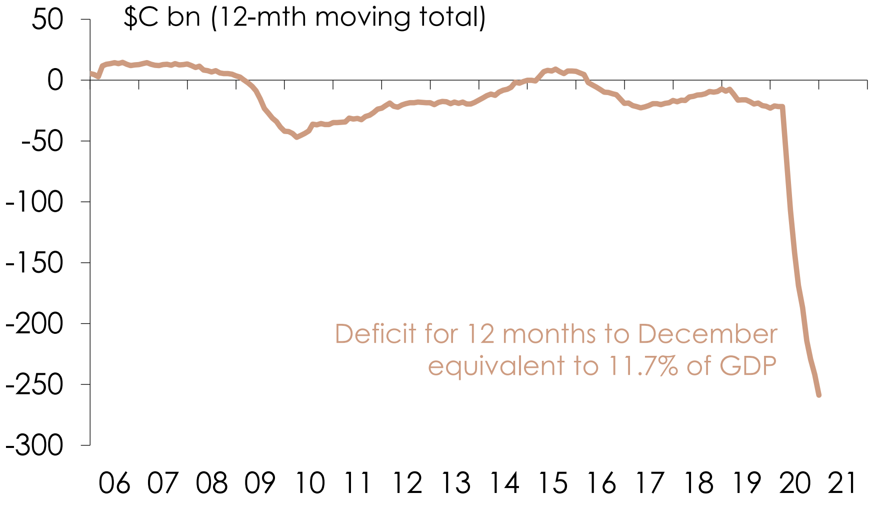
CFIB 'business barometer'



Housing permits



Federal budget balance

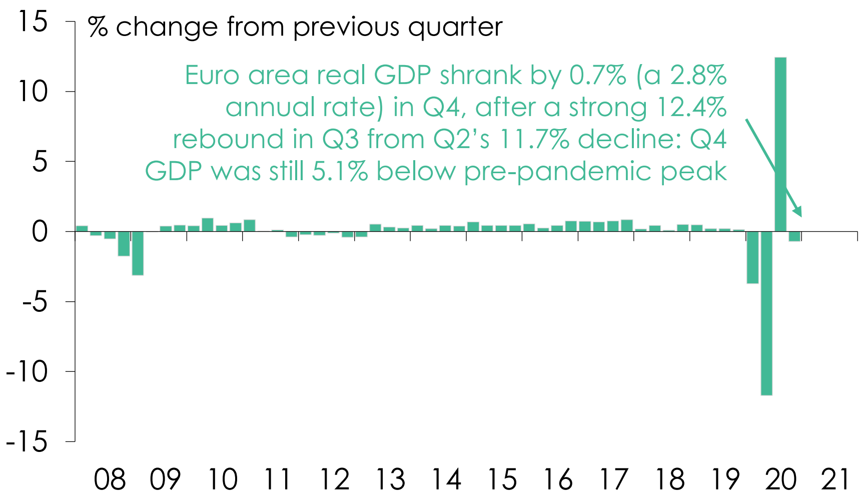


Sources: Statistics Canada; Canadian Federation of Independent Businesses; Teranet-National Bank of Canada; Department of Finance Canada. Return to "What's New".

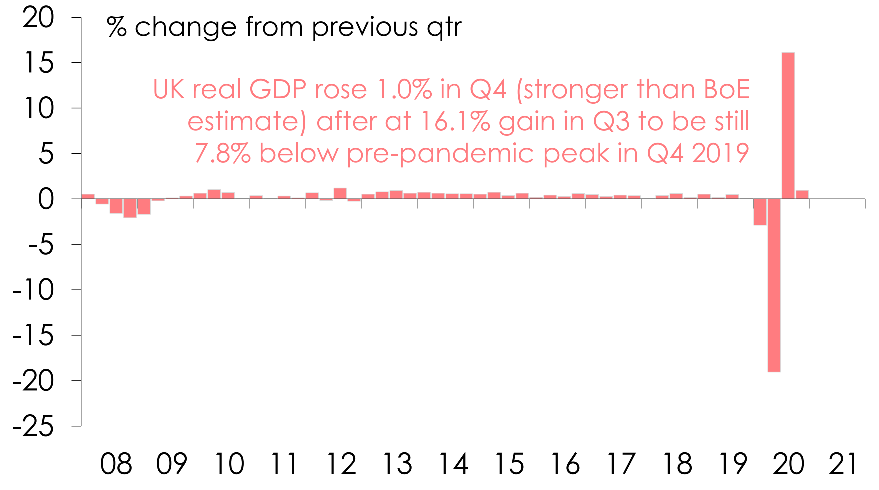
SAUL ESLAKE
CORINNA ECONOMIC ADVISORY

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%

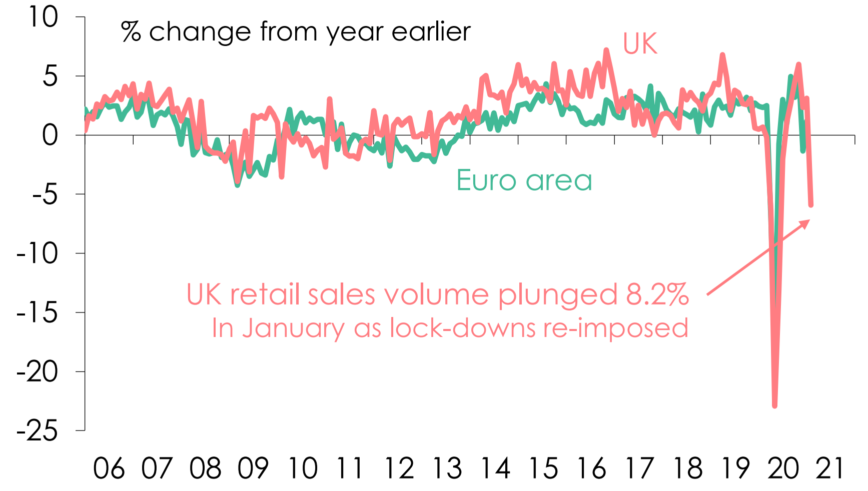
Euro area real GDP



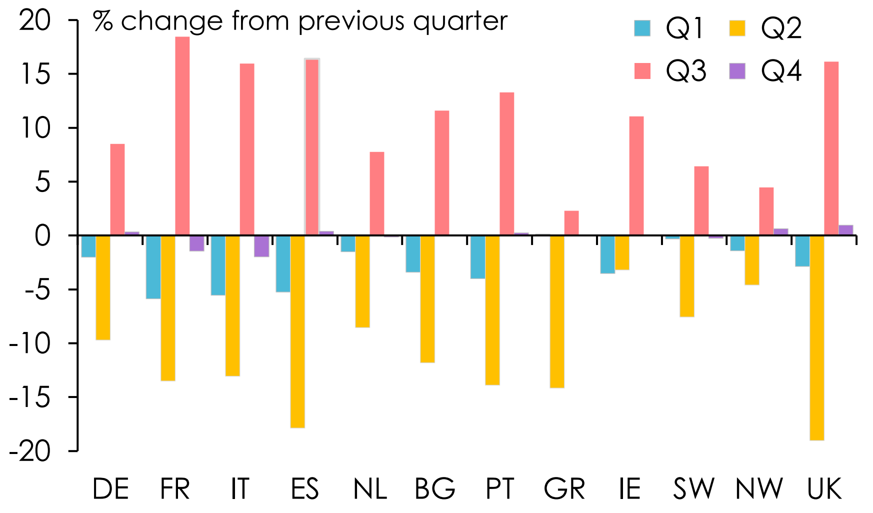
UK real GDP



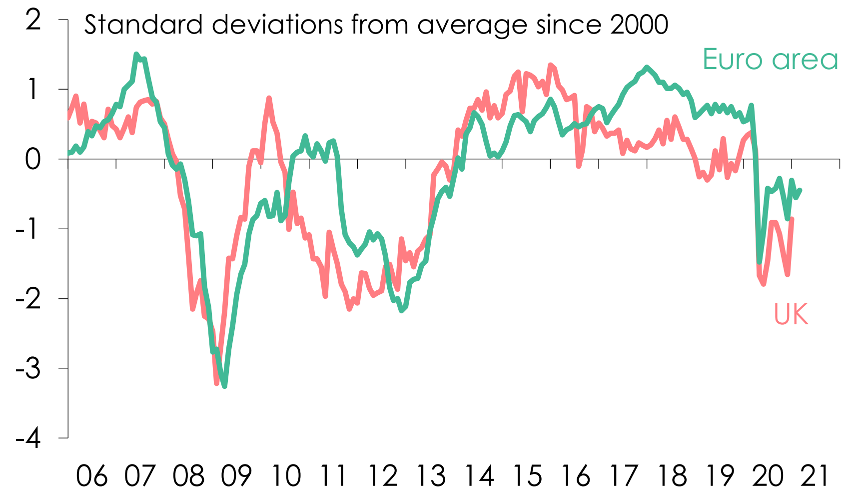
Retail sales volume



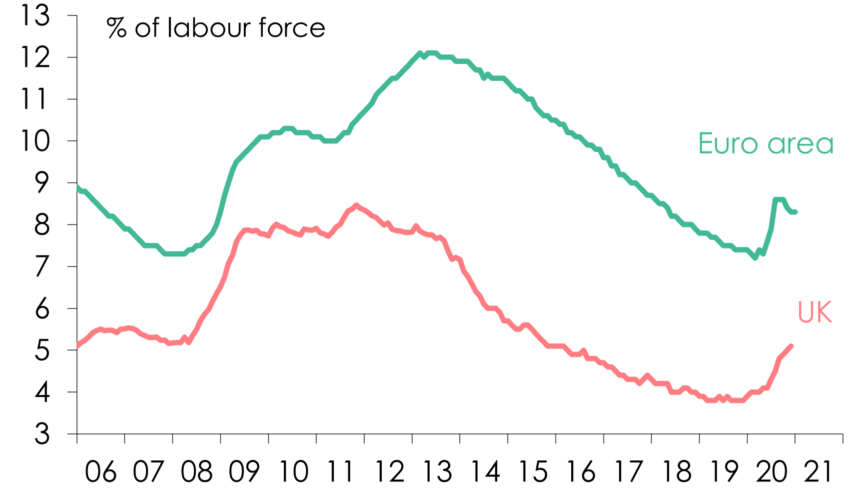
Quarterly GDP by country



Consumer confidence



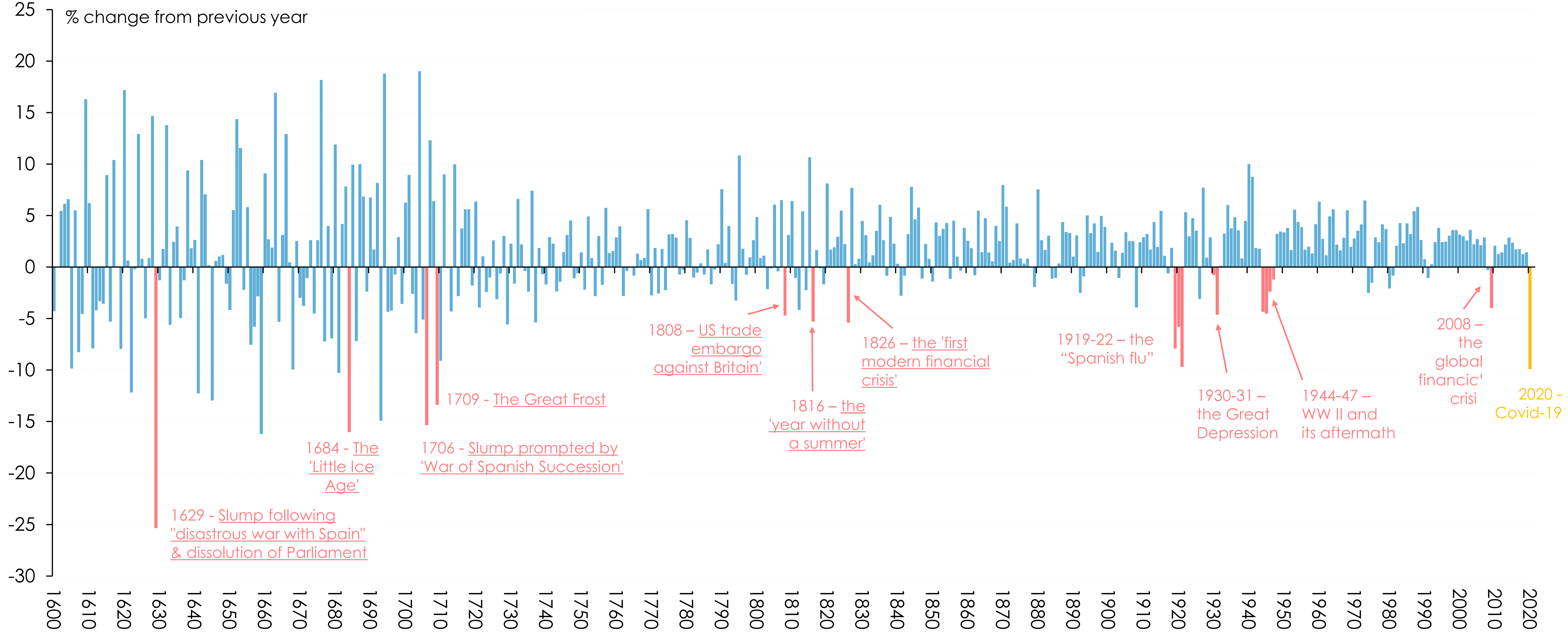
Unemployment



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

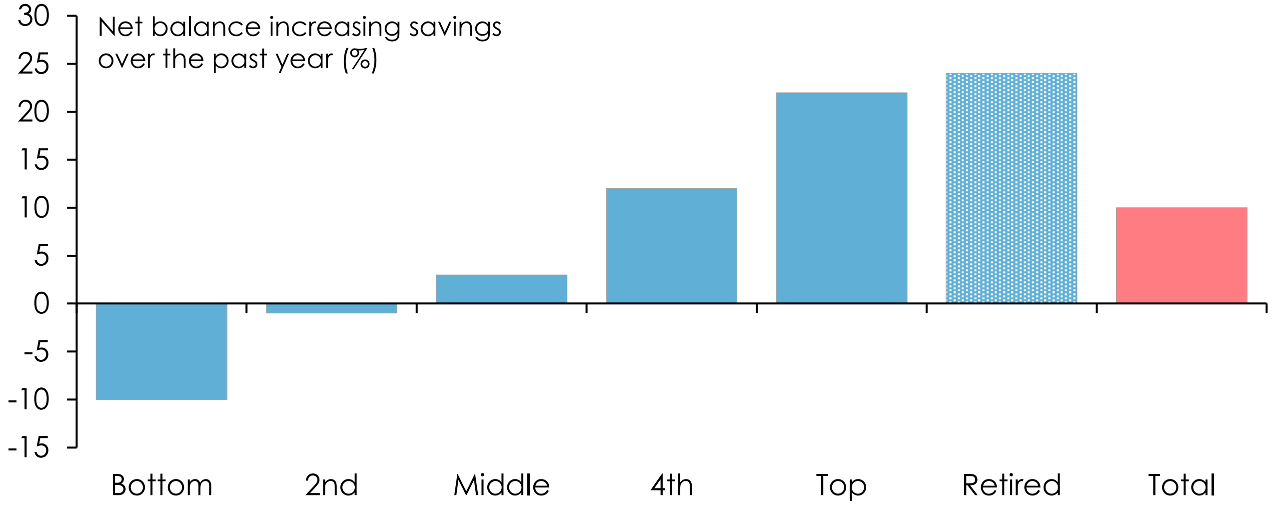


Sources: Bank of England, A millennium of macroeconomic data (2016); UK Office for National Statistics. Return to "What's New".

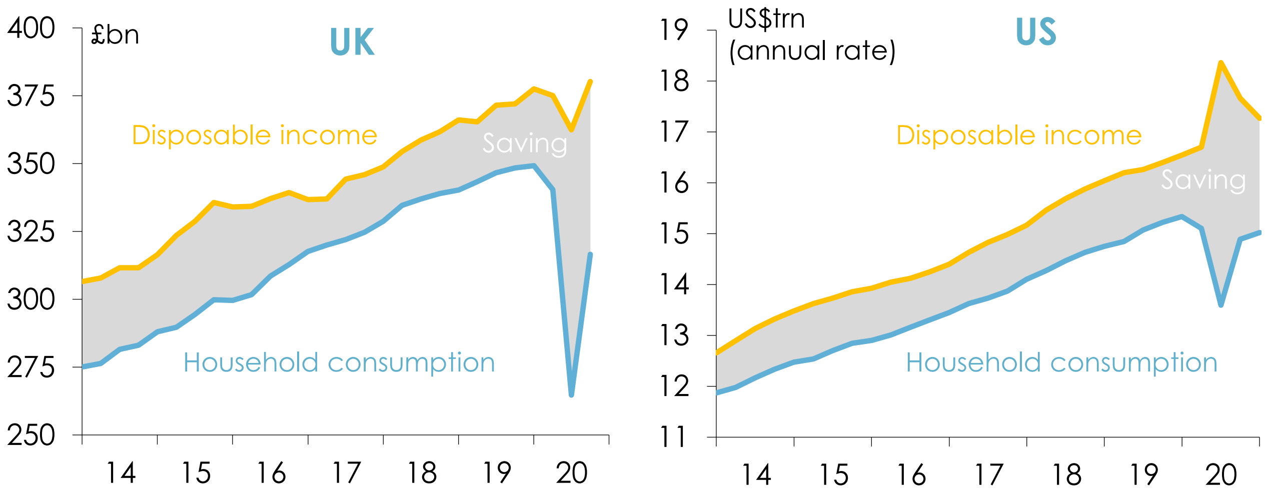
SAUL ESLAKE
CORINNA ECONOMIC ADVISORY

BoE MPC member Gertjan Vlieghe gave an interesting speech this week touching on some contrasts between US and UK experience

Changes in UK household saving by income quintile



Nominal household income, consumption and saving



- **Vlieghe points out that, in the UK at least, the 'excess savings phenomenon' is confined to upper income groups (where income has held up but consumption spending has fallen sharply)**
  - he argues that these households will likely regard this increase in savings as an increase in *wealth* – the propensity to consume out of which is much less than the propensity to consume out of additional *income*
  - and the higher-income households who've gained the most have a lower marginal propensity to consume out of additional income
- **By contrast in the US, higher unemployment benefit payments and 'stimulus payments' to households have led to more widespread increases in incomes relative to the pre-pandemic trajectory**
  - Vlieghe suggests that the resulting increase in savings is more likely to be regarded as additional income (rather than wealth)
  - and for this reason (and because the payments have been more widely spread across the income distribution) are more likely to be spent

Sources: Gertjan Vlieghe, *An Update on the Economic Outlook*, Speech at Durham University, 22nd February; UK Office for National Statistics; US Bureau of Economic Analysis. Return to "What's New".

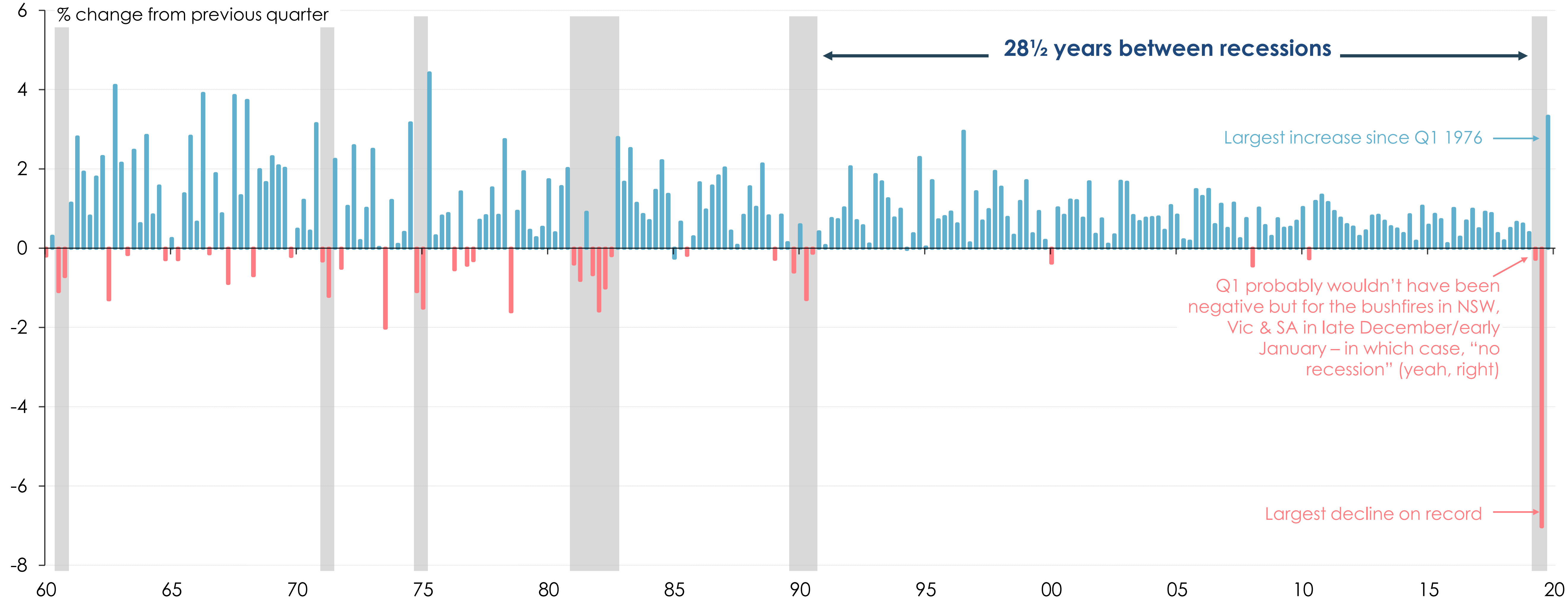
Australia

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

- Australia has done very well in containing the virus (even allowing for Victoria's 'second wave')
  - and the evidence from other countries is that unless the virus is contained, there can't be any <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

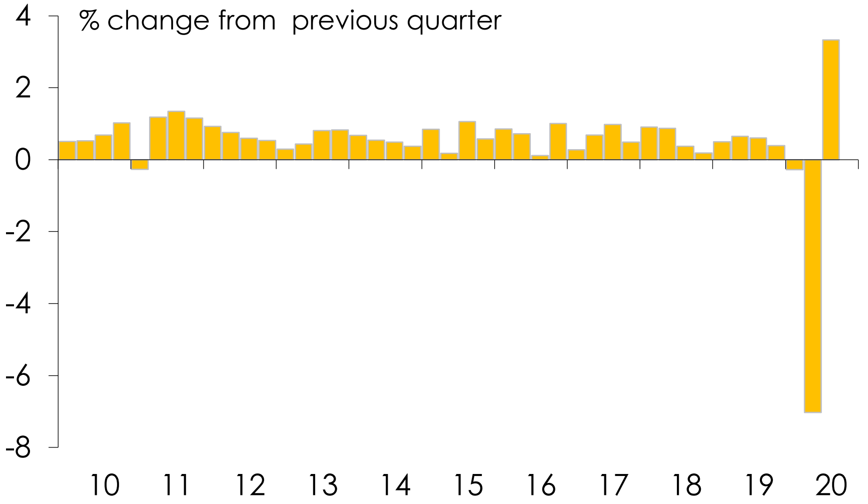
Quarterly growth in Australian real GDP, 1960-2020



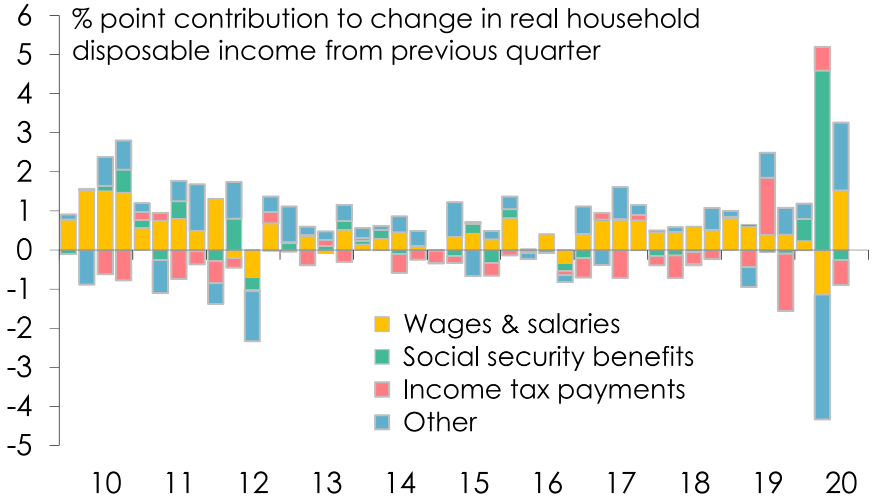
Note: Shaded areas denote recessions. *Source:* ABS, [*Australian National Accounts: National Income, Expenditure and Product*](), June quarter 2020. December quarter (Q4) national accounts will be released on 3rd March. [Return to "What's New"]().

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

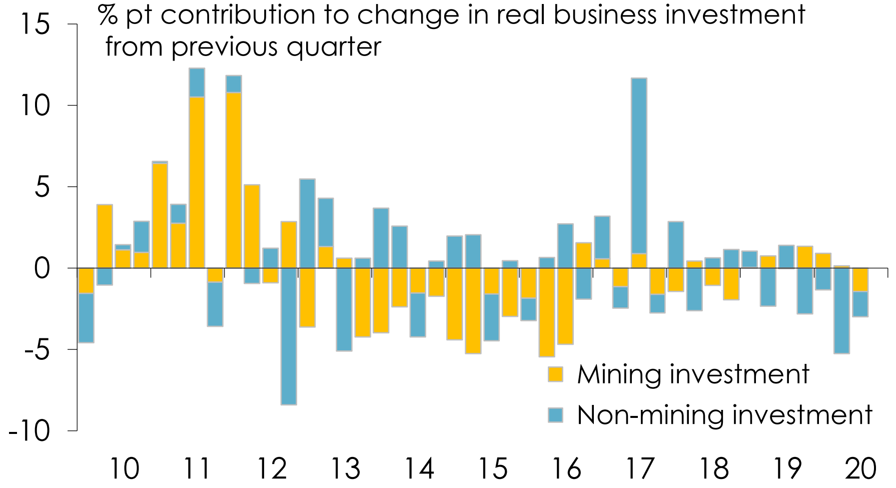
Quarterly change in real GDP



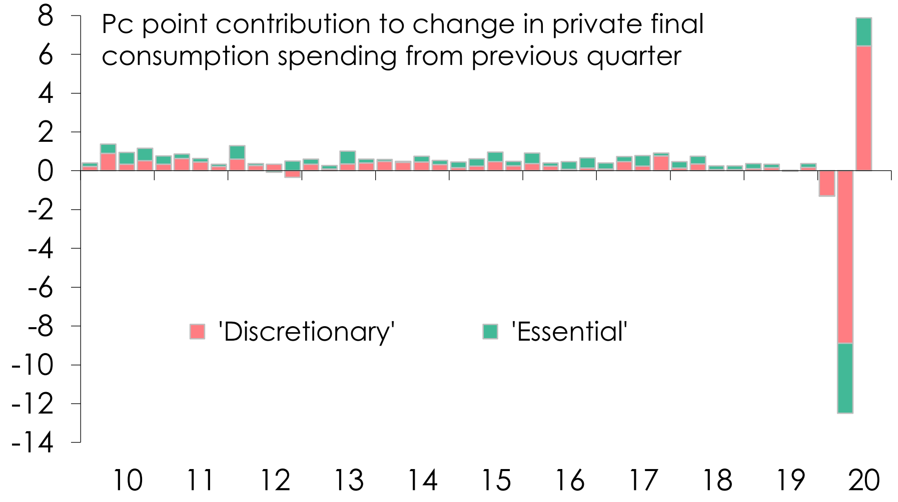
Household disposable income



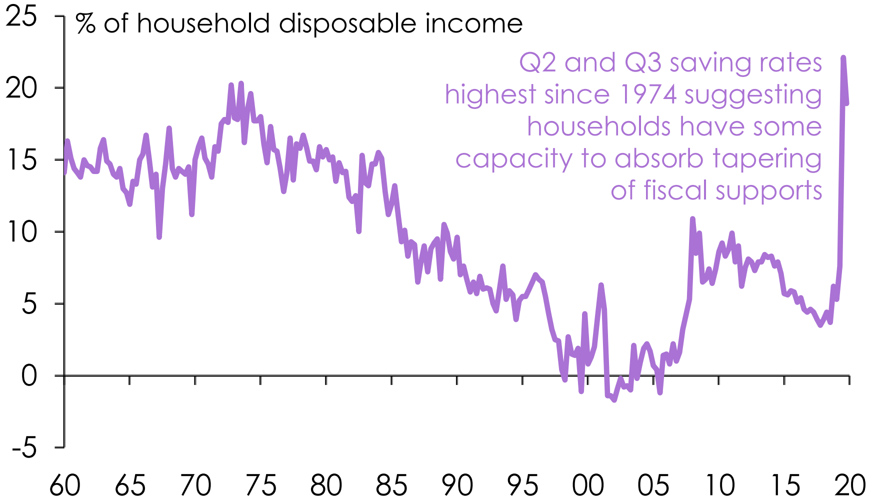
Business investment expenditure



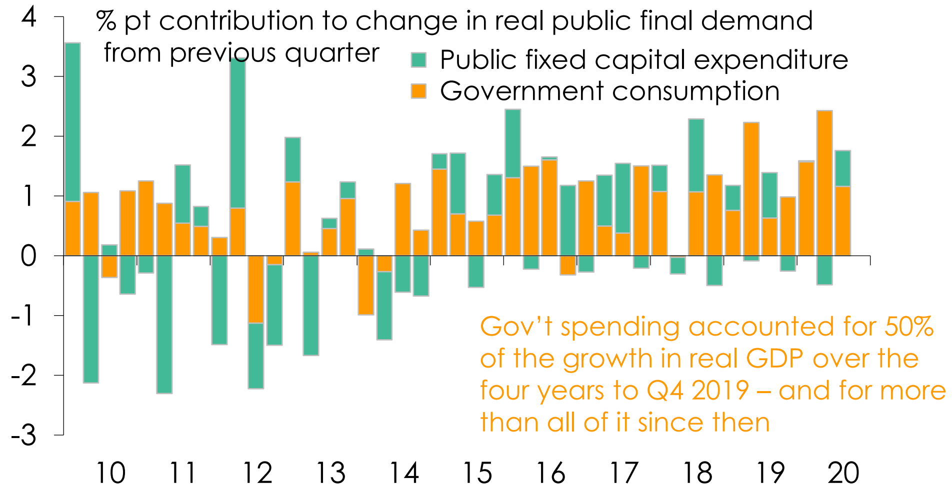
Household consumption expenditure



Household saving rate



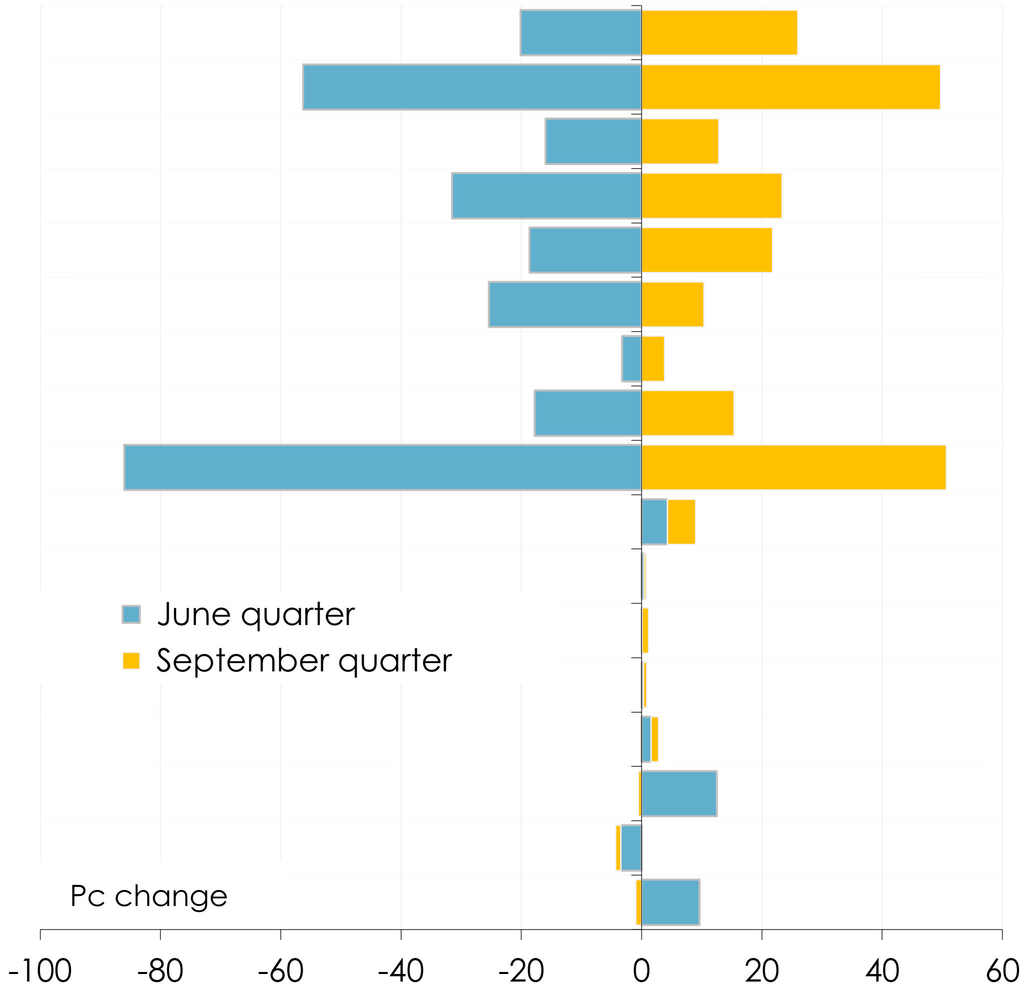
Public expenditure



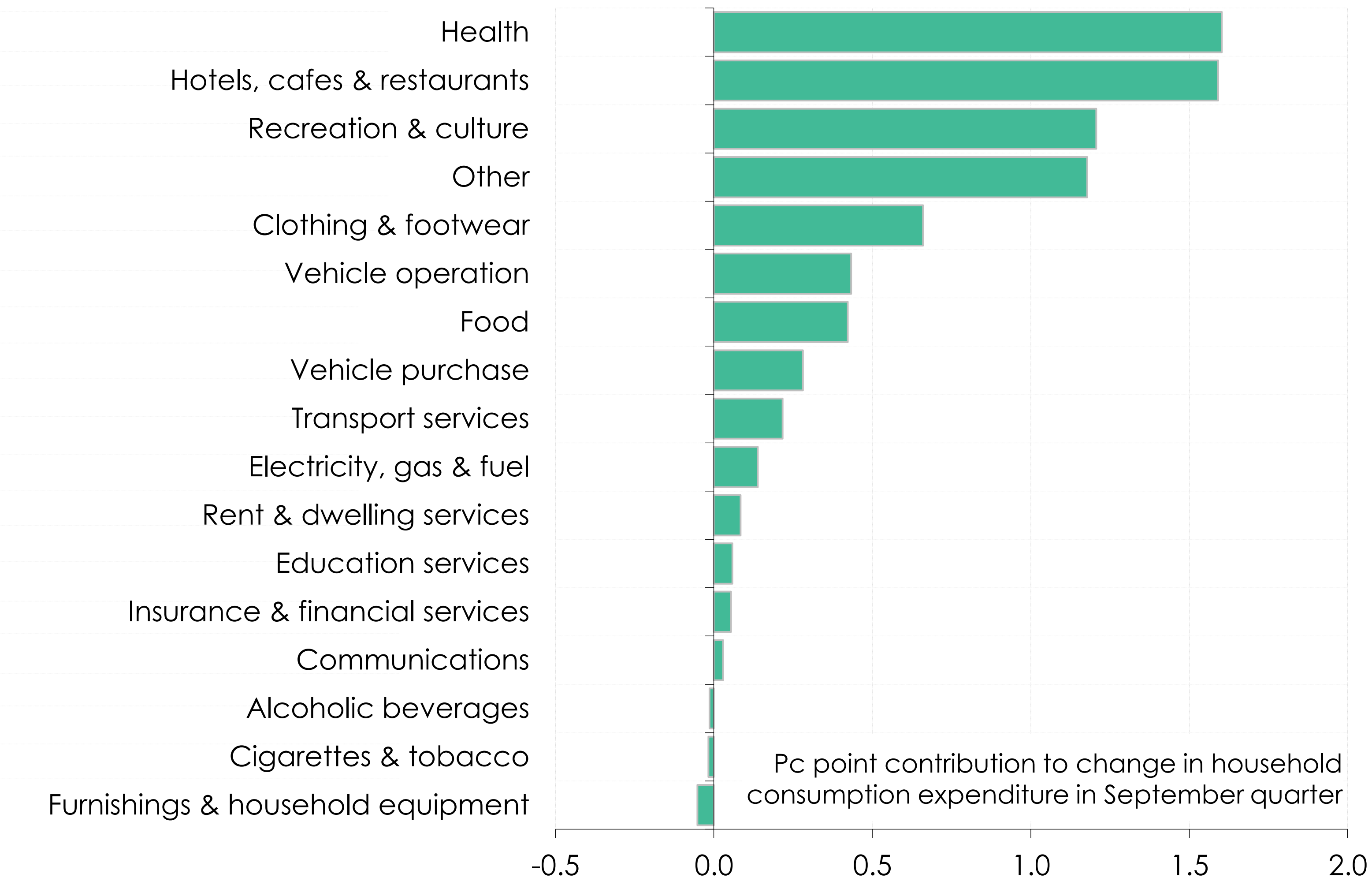
Note: 'Essential' household consumption expenditure comprises food; rent & other dwelling services; electricity, gas & other fuel; operation of vehicles; rail, bus & taxi services; communications; health; education; and insurance & other financial services. Components of household disposable income are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

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

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



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

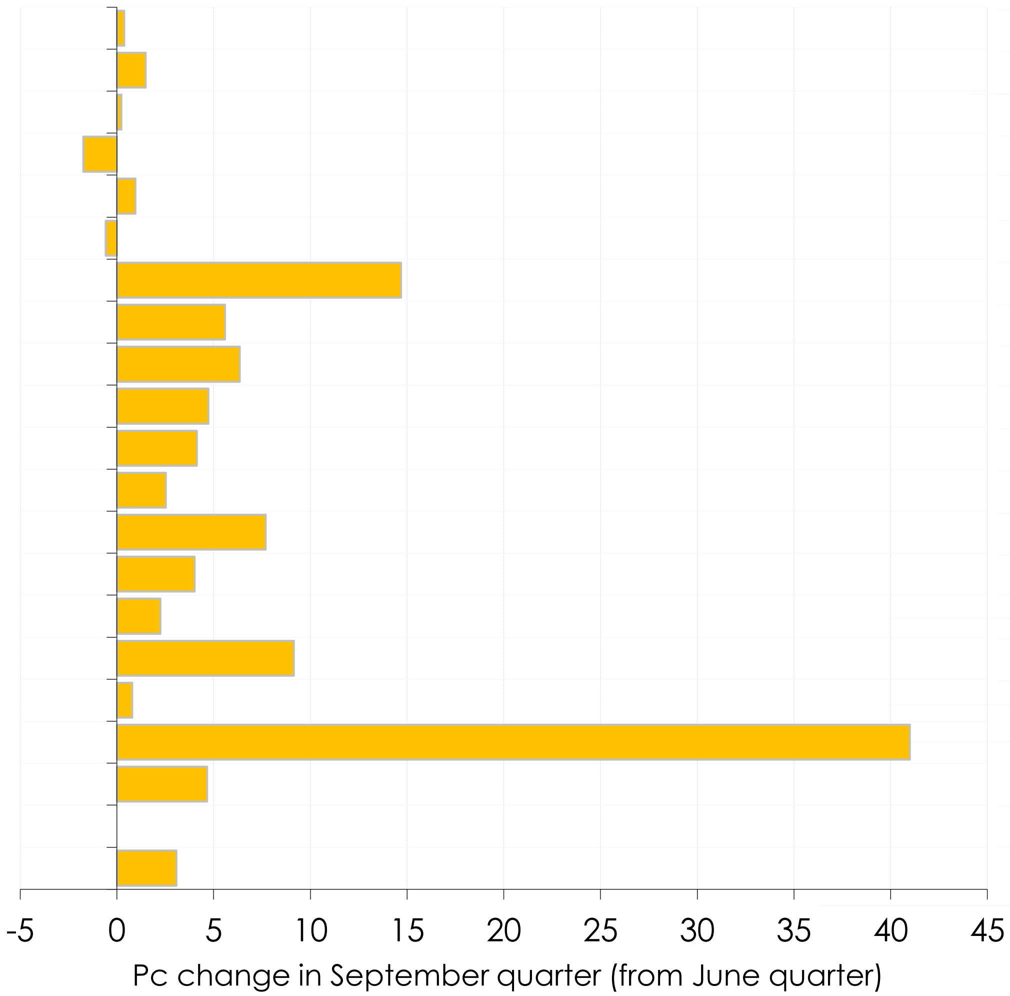


Note: 'Rent and dwelling services' includes the imputed rent which home-owners pay to (and receive from) themselves in the national accounts (so that changes in the home-ownership rate over time don't distort measured household consumption or GDP). *Source:* ABS, *Australian National Accounts: National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

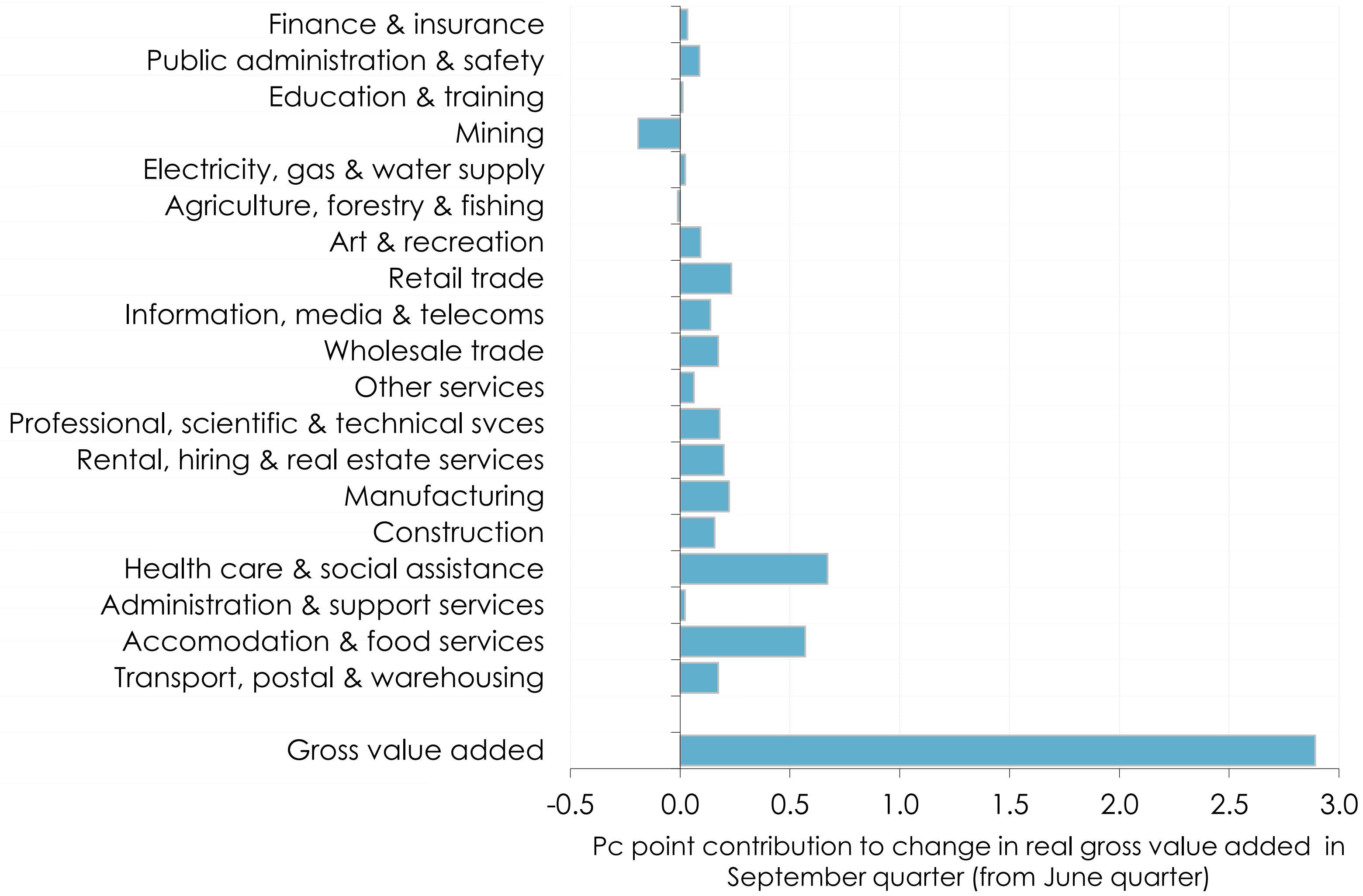
SAUL ESLAKE
CORINNA ECONOMIC ADVISORY

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

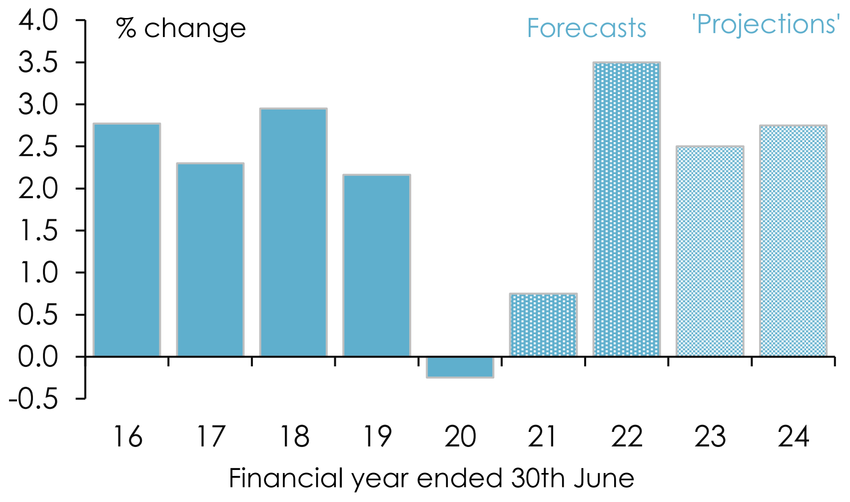


Note: Changes in, and contributions to the change in real GDP from, ownership of dwellings and net indirect taxes are not shown in the above charts.
Source: ABS, *Australian National Accounts: National Income, Expenditure and Product*, September quarter 2020. December quarter national accounts will be released on 3rd March. Return to "What's New".

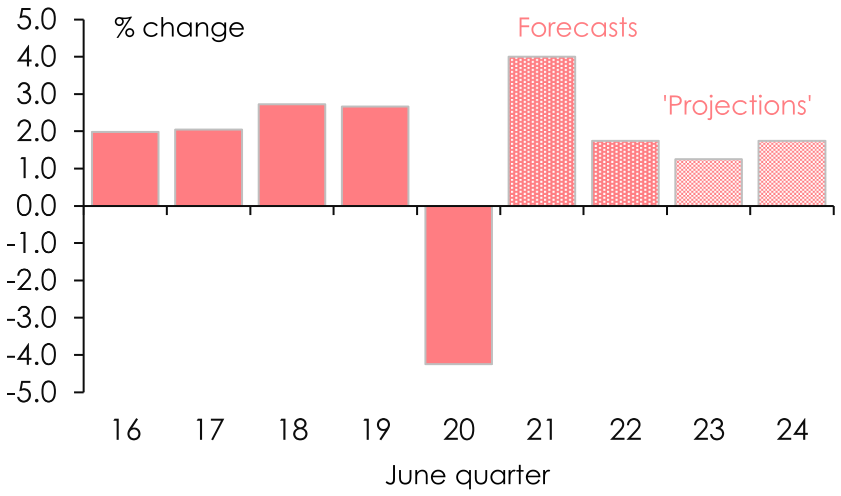
SAUL ESLAKE
CORINNA ECONOMIC ADVISORY

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

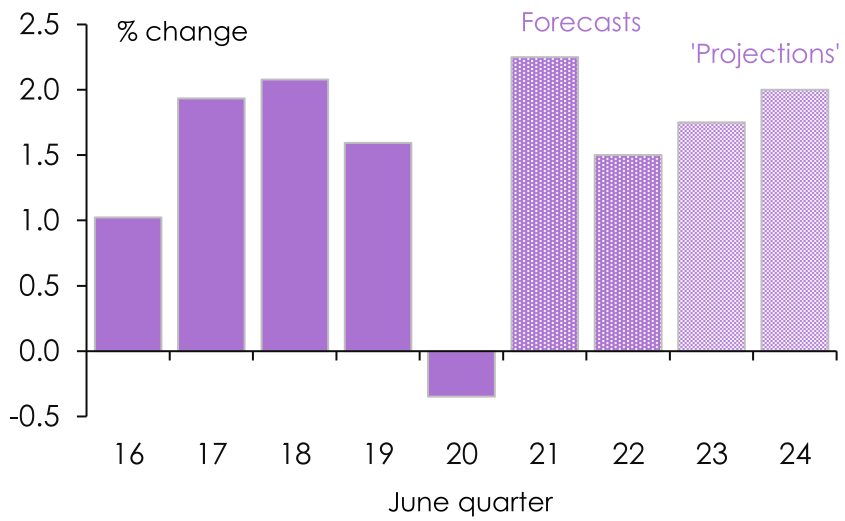
Real GDP



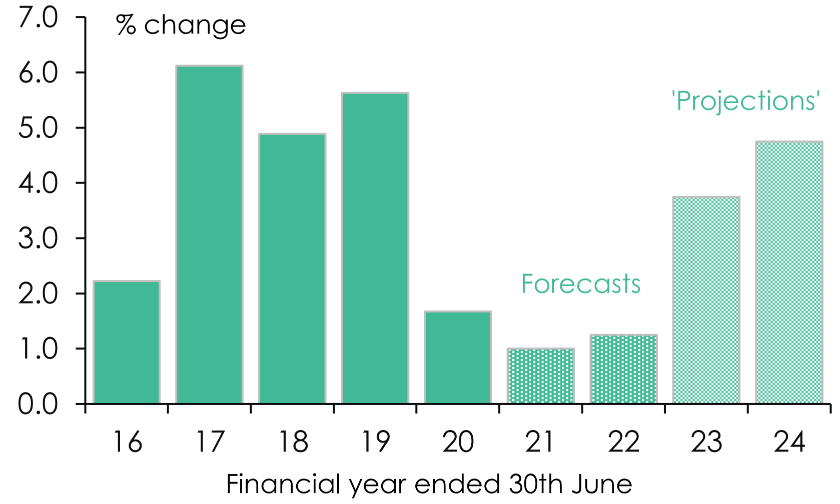
Employment



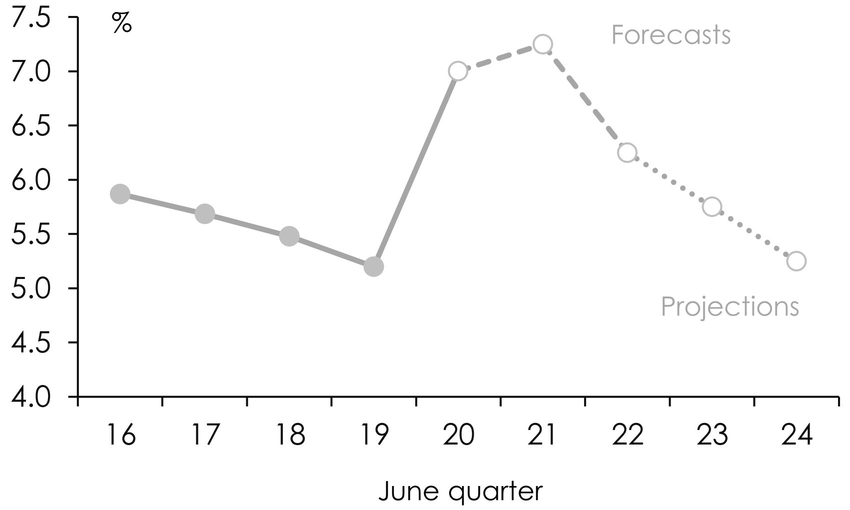
Consumer price index



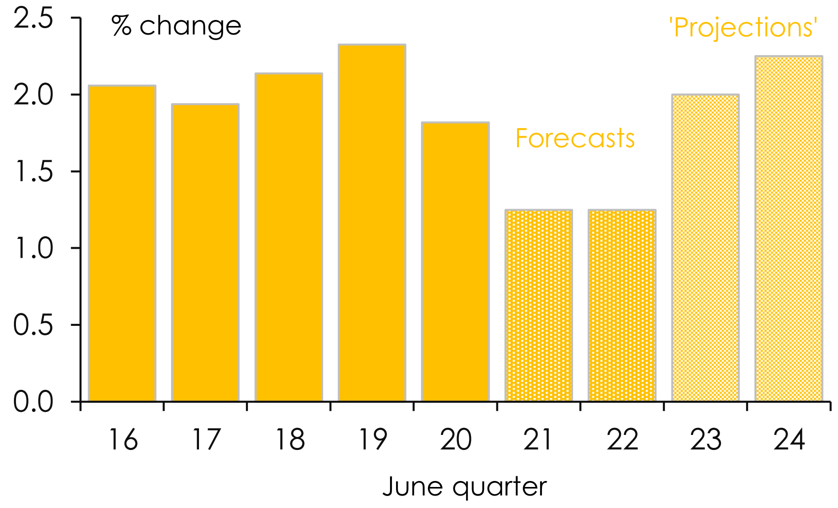
Nominal GDP



Unemployment rate



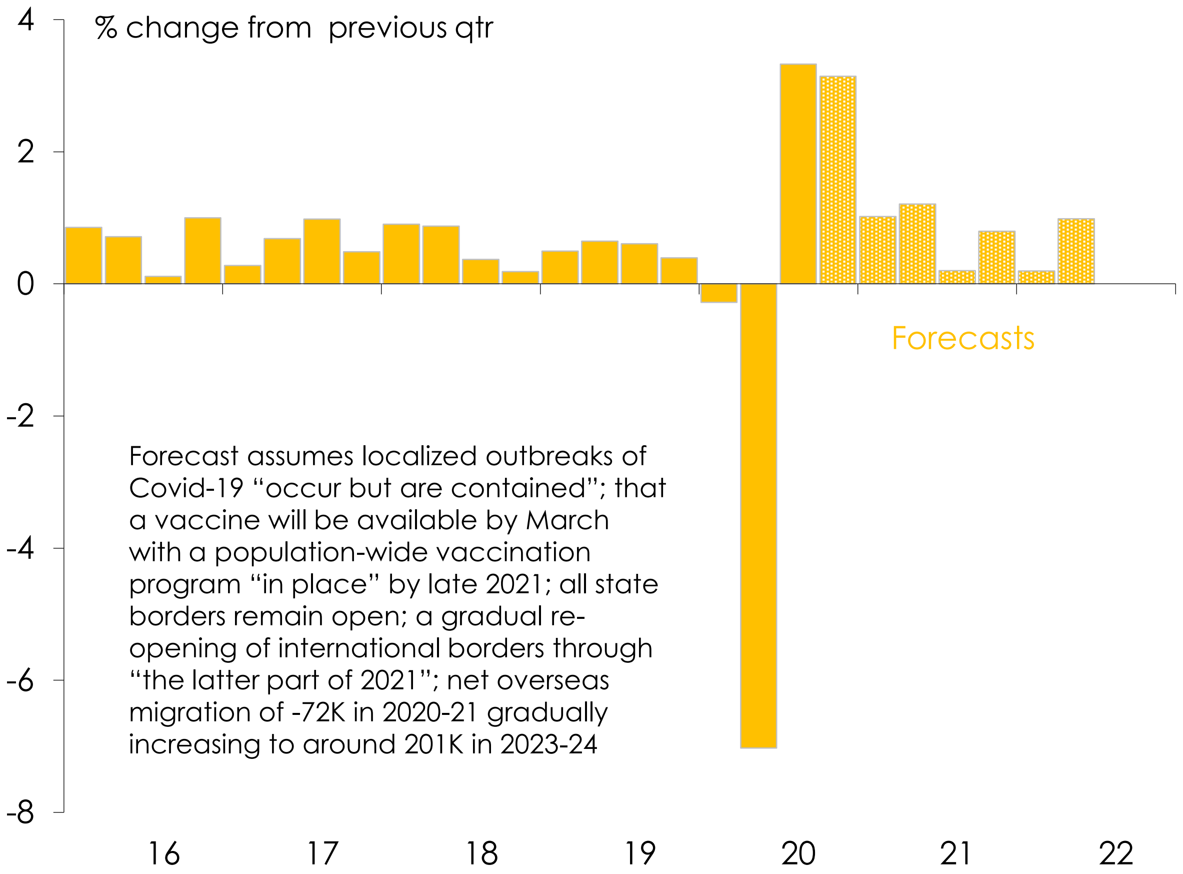
Wage price index



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.

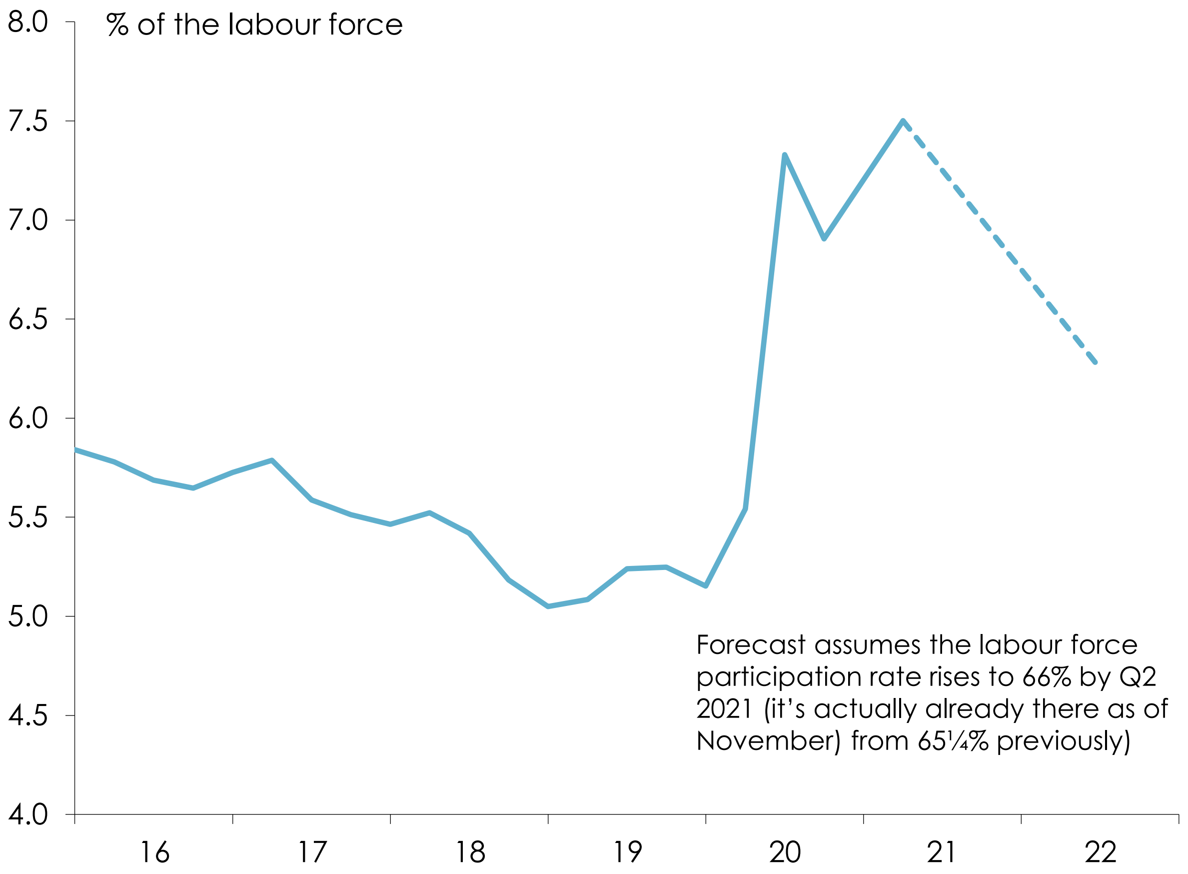
Treasury has revised up its near-term GDP growth forecast (but lowered it a bit for 2021-22) and lowered its unemployment rate forecasts

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



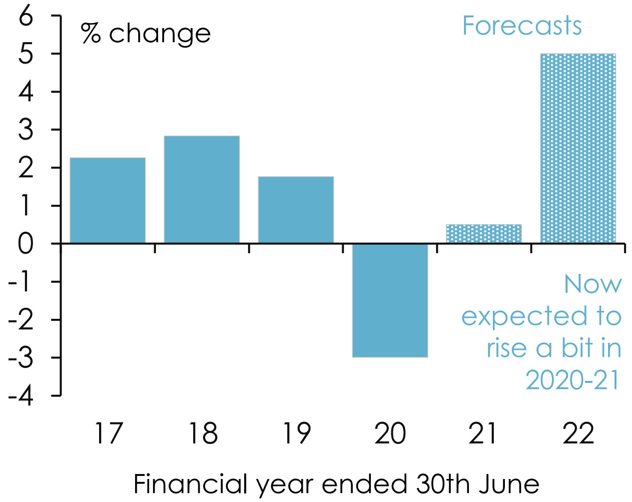
- **Treasury expects the unemployment rate to peak at 7½% in Q1 2021 (cf. 8% in Q4 2020 previously), declining to 6¼% (previously 6½%) by Q2 2022, and 5¼% by Q2 2024**

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

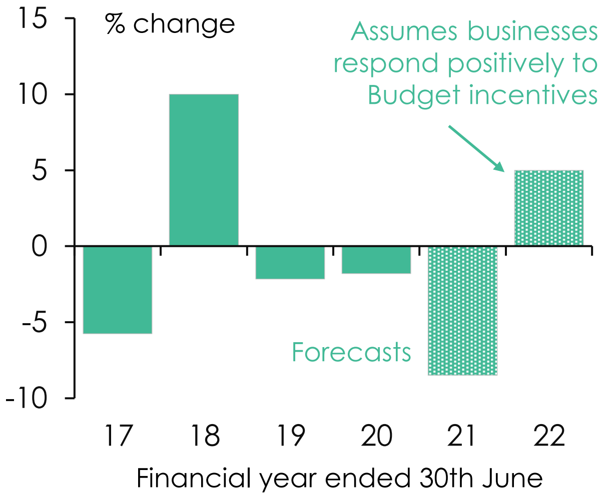
SAUL ESLAKE
CORINNA ECONOMIC ADVISORY

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

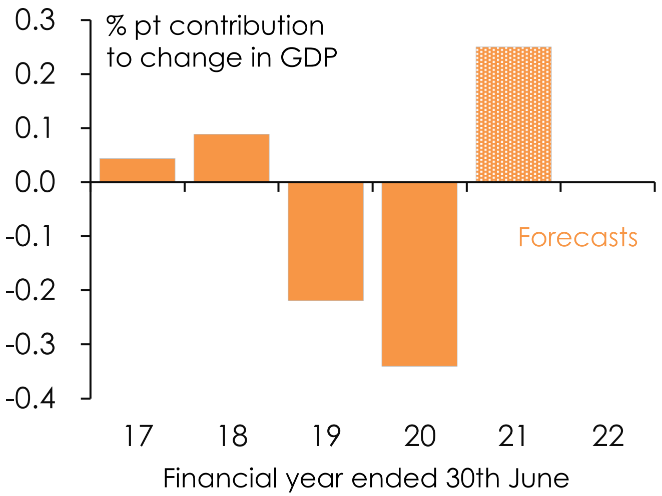
Household consumption



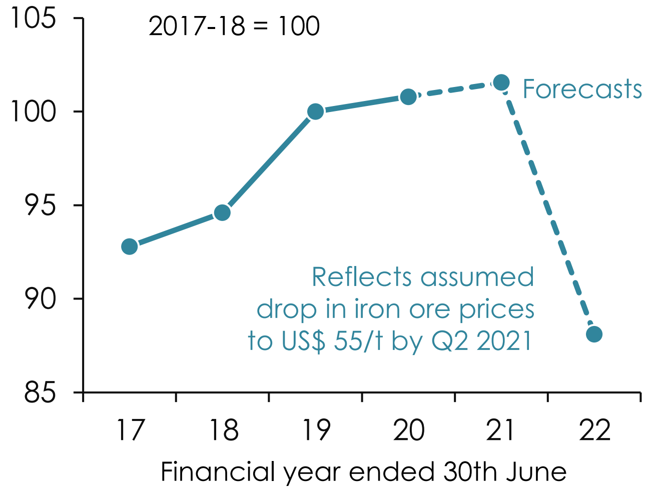
Business investment



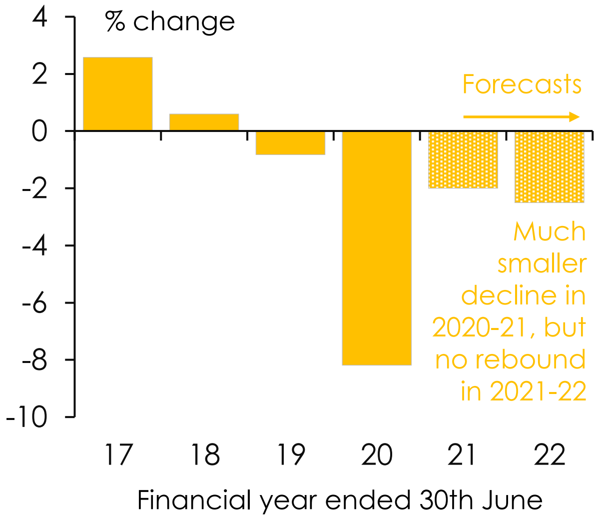
Change in inventories



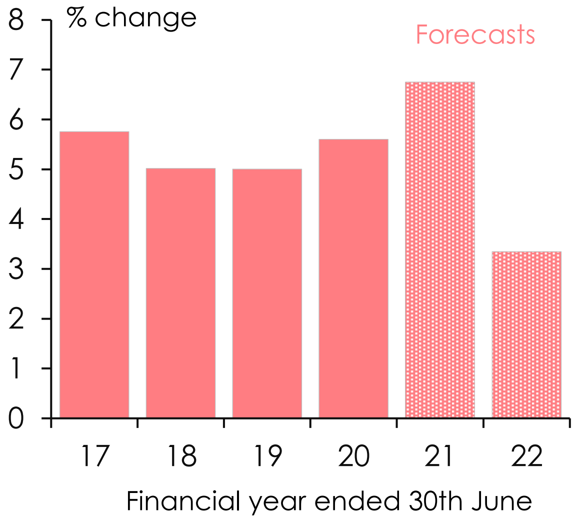
Terms of trade



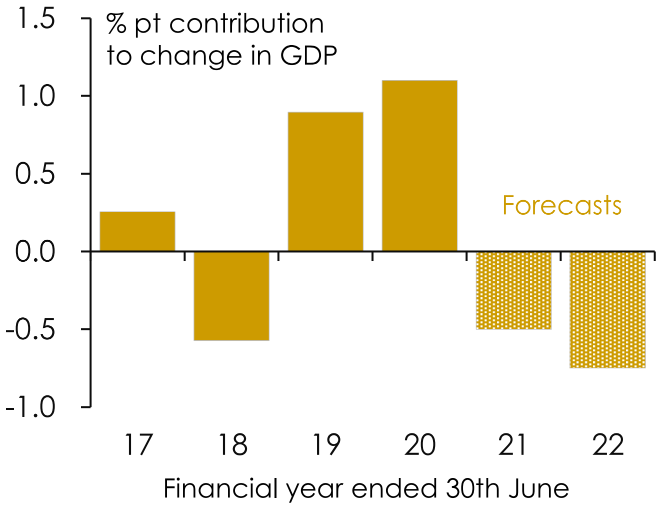
Dwelling investment



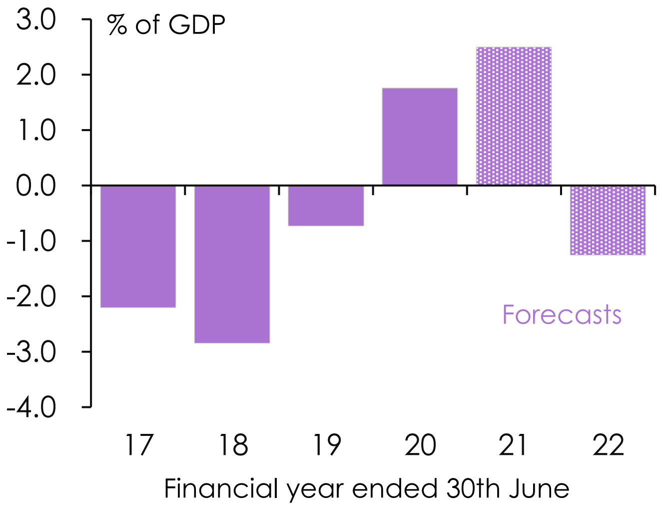
Public spending



Net exports



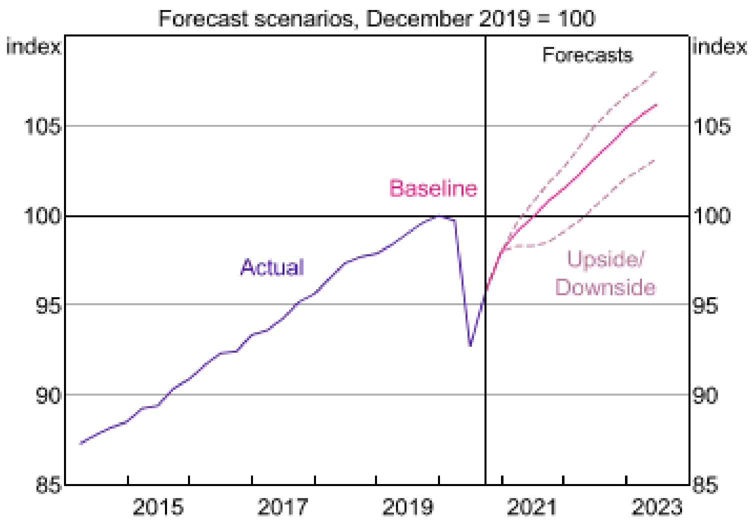
Current account balance



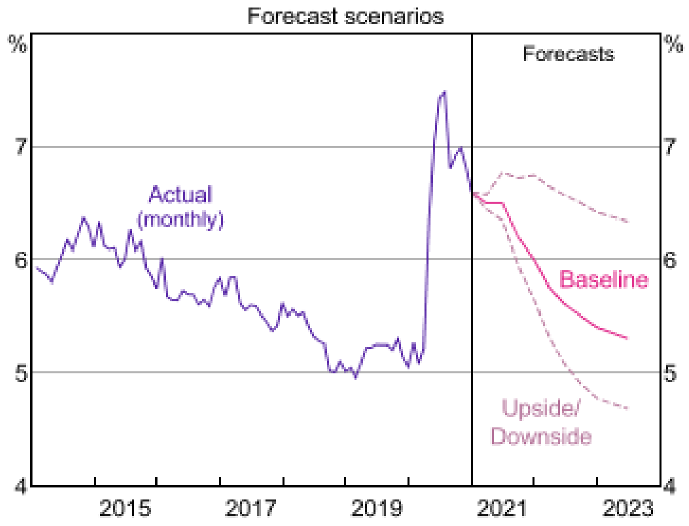
Note: Business investment and public spending exclude transactions in second-hand assets. Employment growth is June quarter on June quarter; unemployment rate is June quarter; all other figures are for financial years. Net overseas migration assumed to fall from 223K in 2018-19 to 154K in 2019-20, -72K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

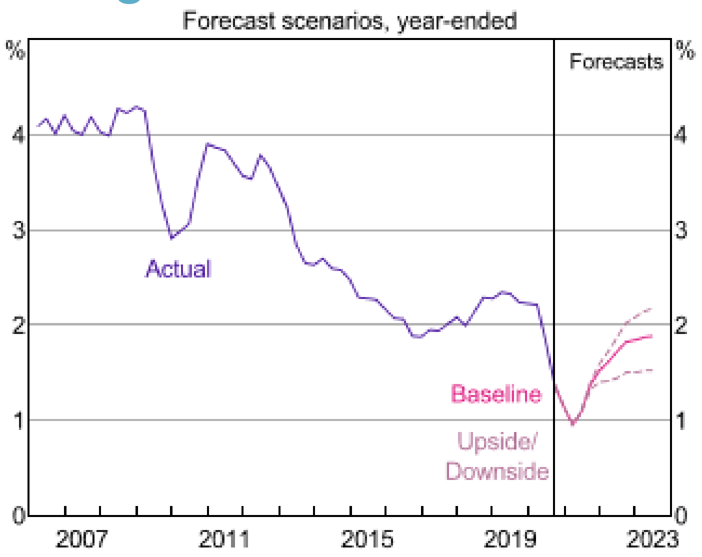
GDP



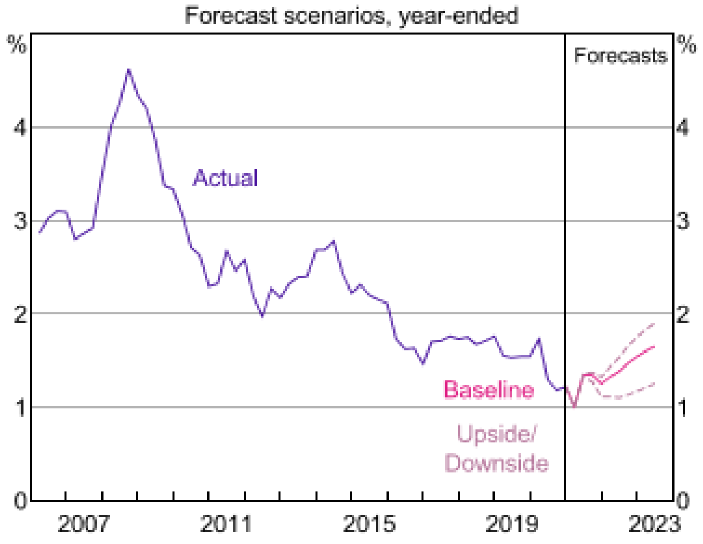
Unemployment



Wages



'Underlying' inflation

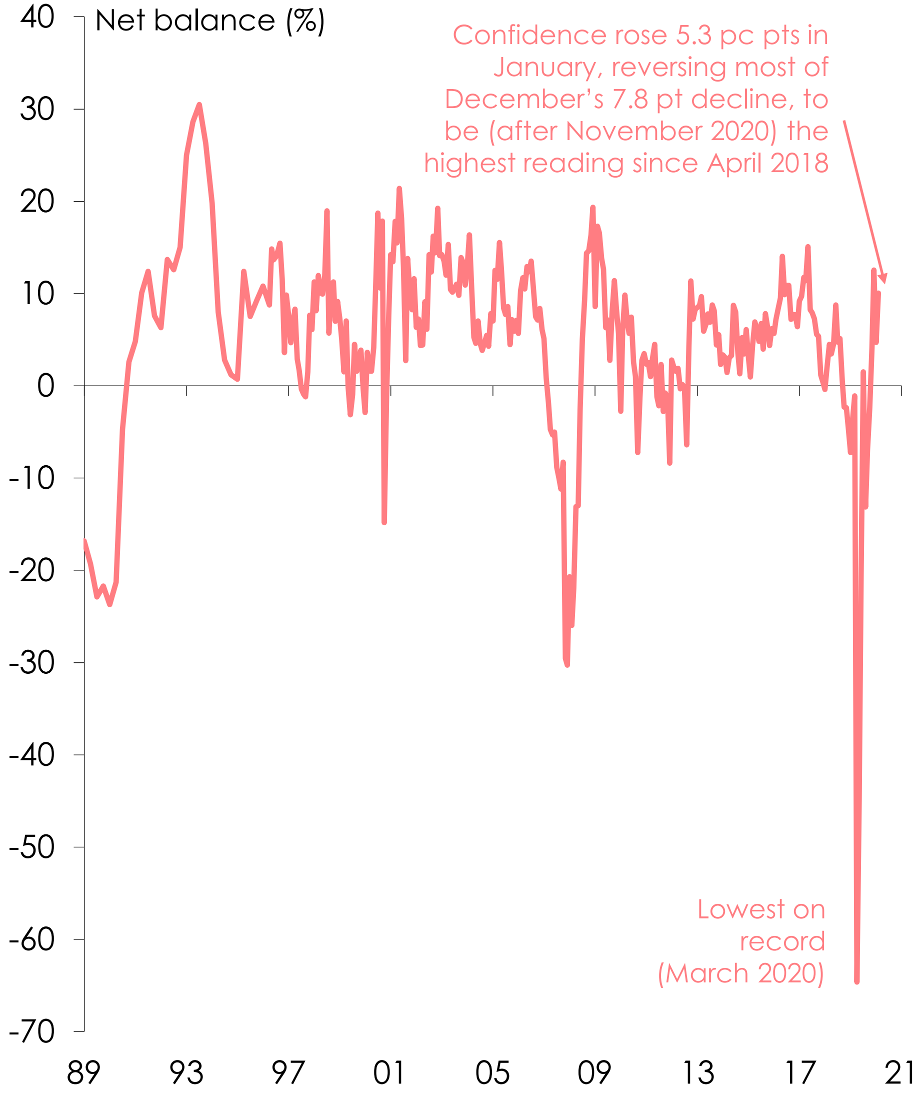


- The RBA now expects GDP to return to its pre-pandemic level by mid-2021, with real GDP growing 8% over the year to Q2 (previously 6%) but then 3½% (down from 4½% previously) over the year to Q4, followed by 3½% (unchanged) through 2022
- Unemployment now forecast to fall to 6½% (previously 7¼%) by 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"

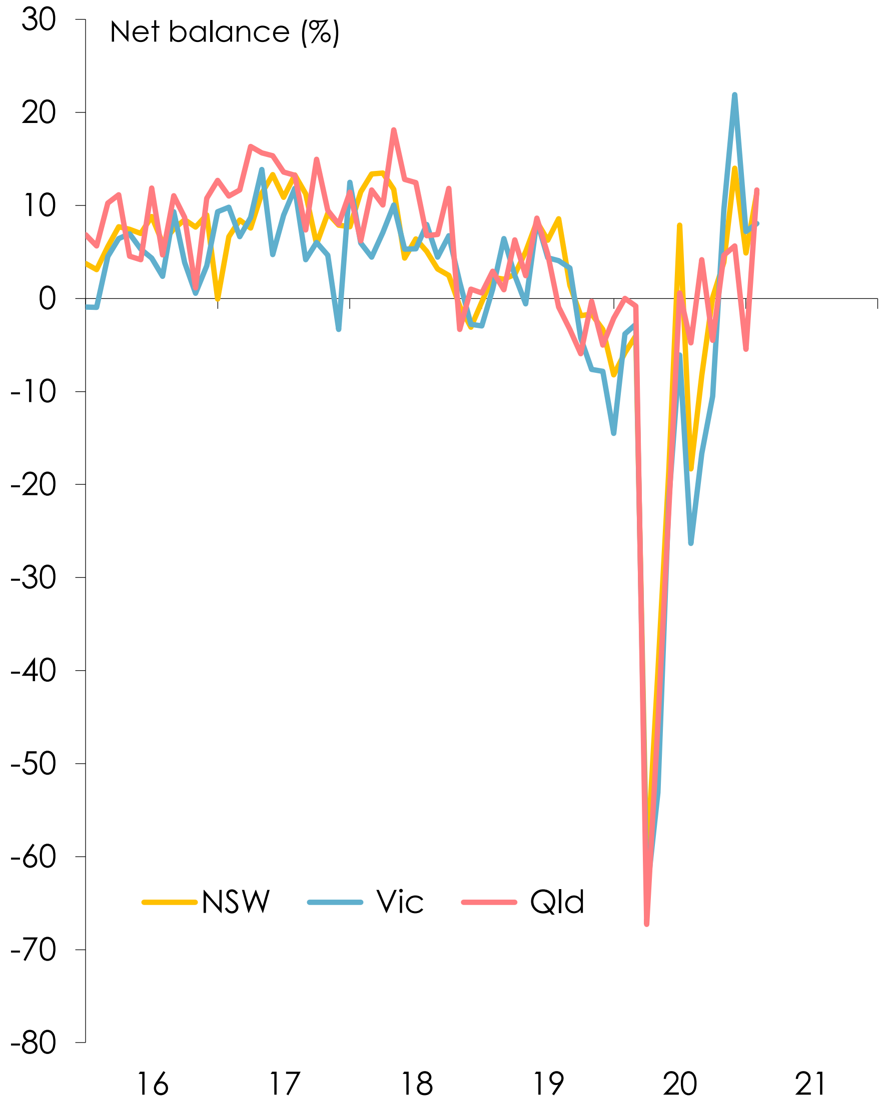
Source: Reserve Bank of Australia, *Statement on Monetary Policy*, 19th February 2021. The RBA's next set of forecasts will be published on Friday 7th May.

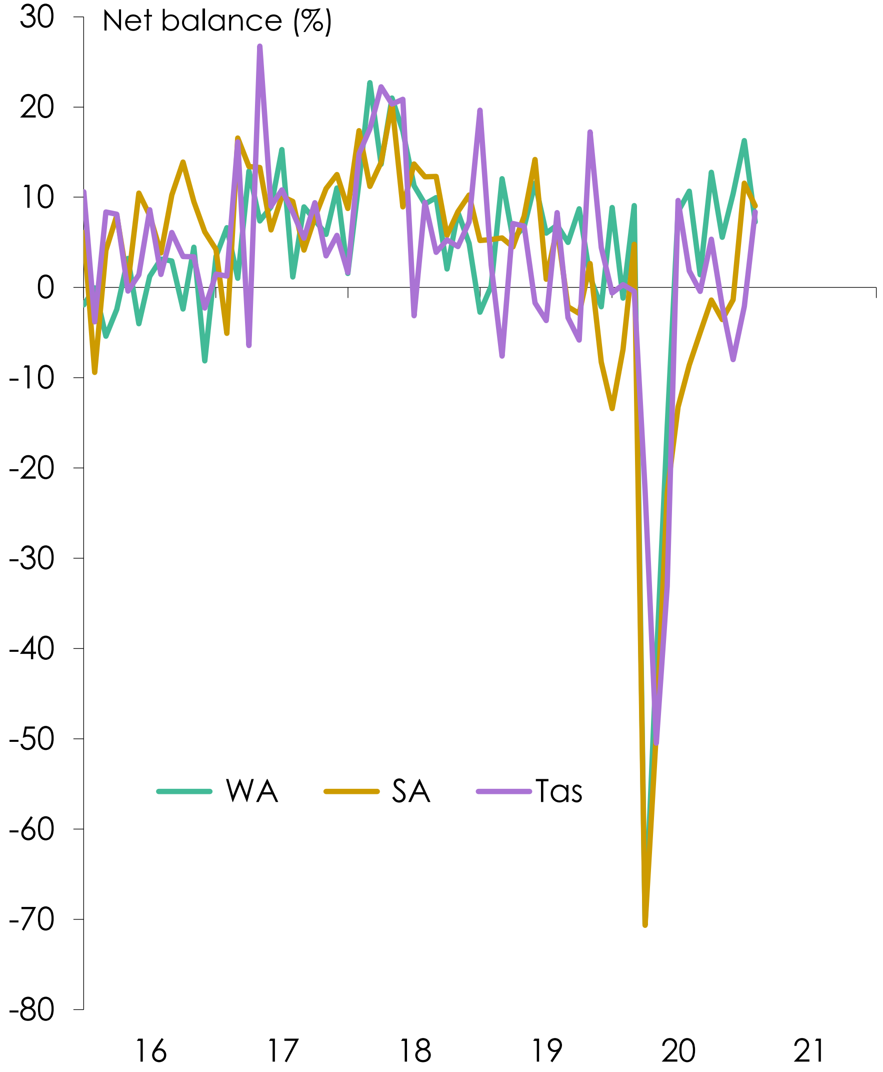
Business confidence improved in January, as Sydney and Brisbane emerged from temporary lockdowns

Business confidence



Business confidence, states and territories



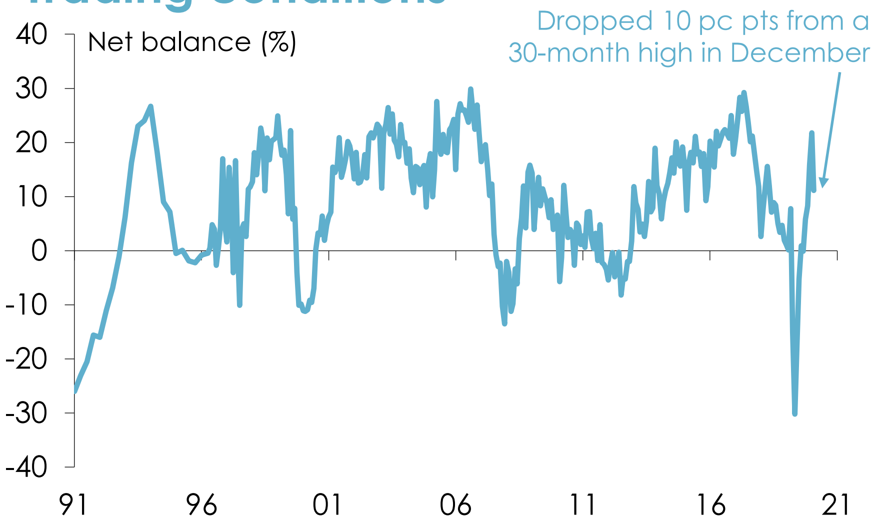


Sources: National Australia Bank. February survey results will be released on 9th March. Return to "What's New".

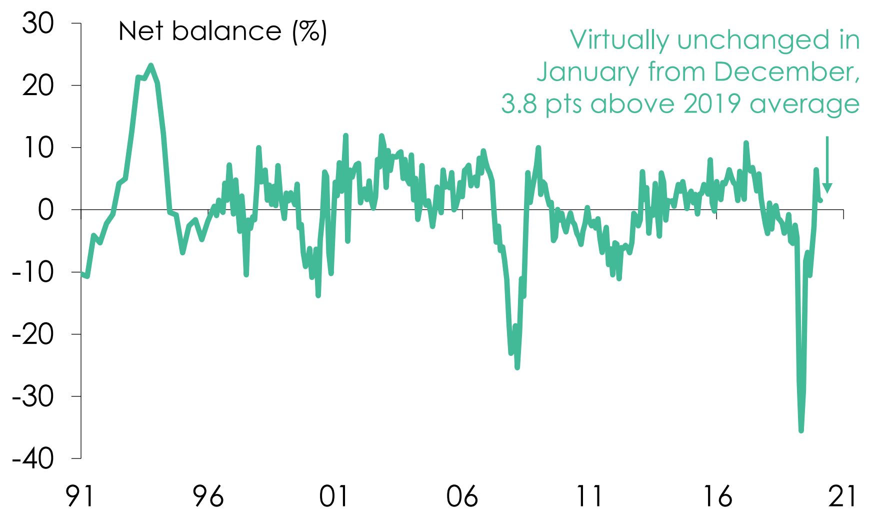
SAUL ESLAKE
CORINNA ECONOMIC ADVISORY

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

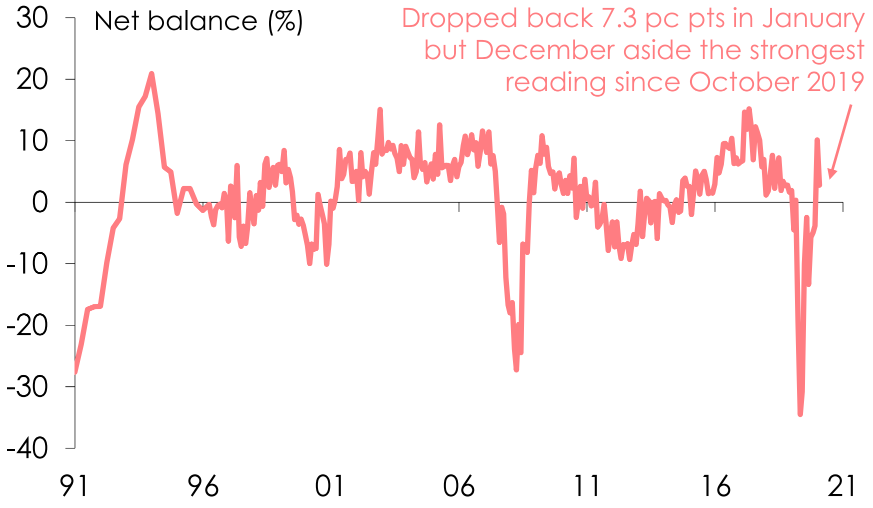
Trading conditions



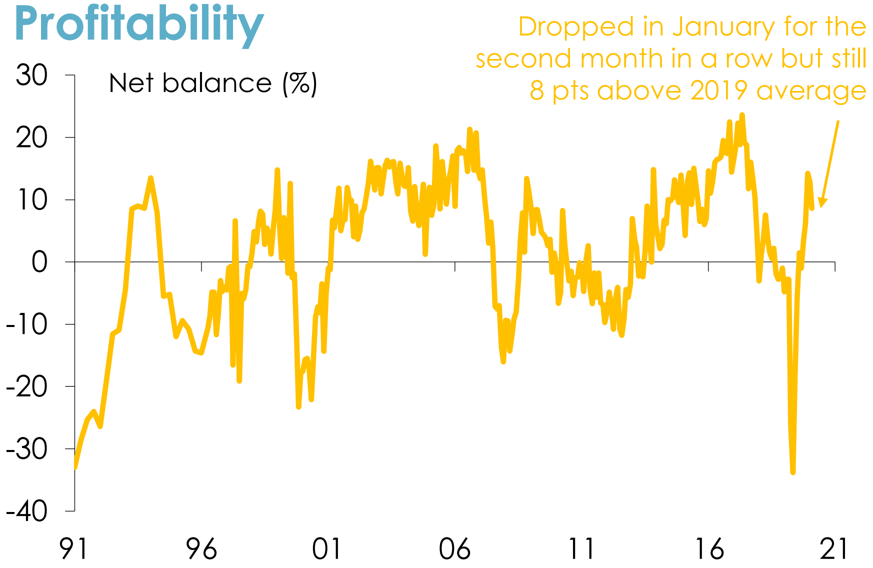
Forward orders



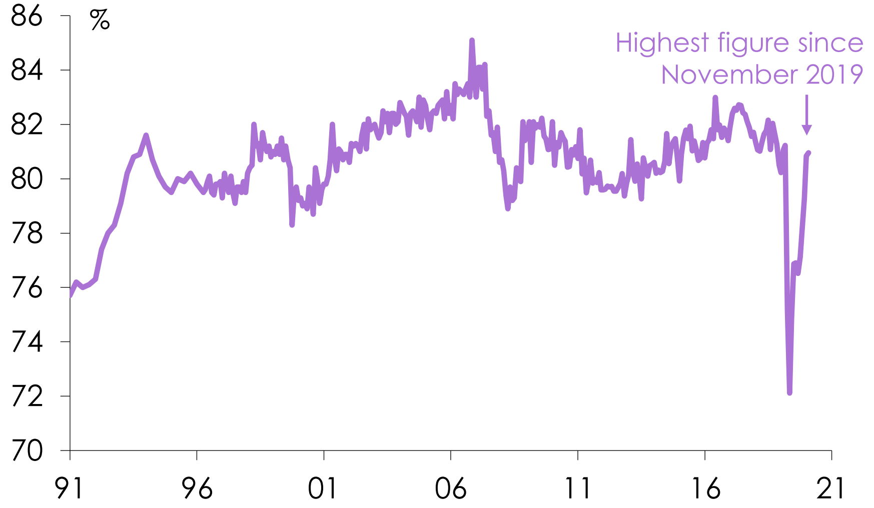
Employee hiring intentions



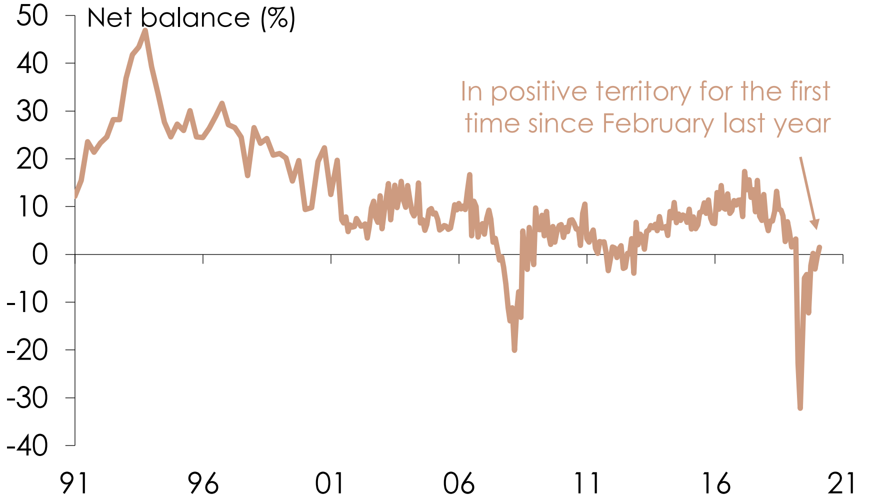
Profitability



Capacity utilization



Capital expenditure intentions

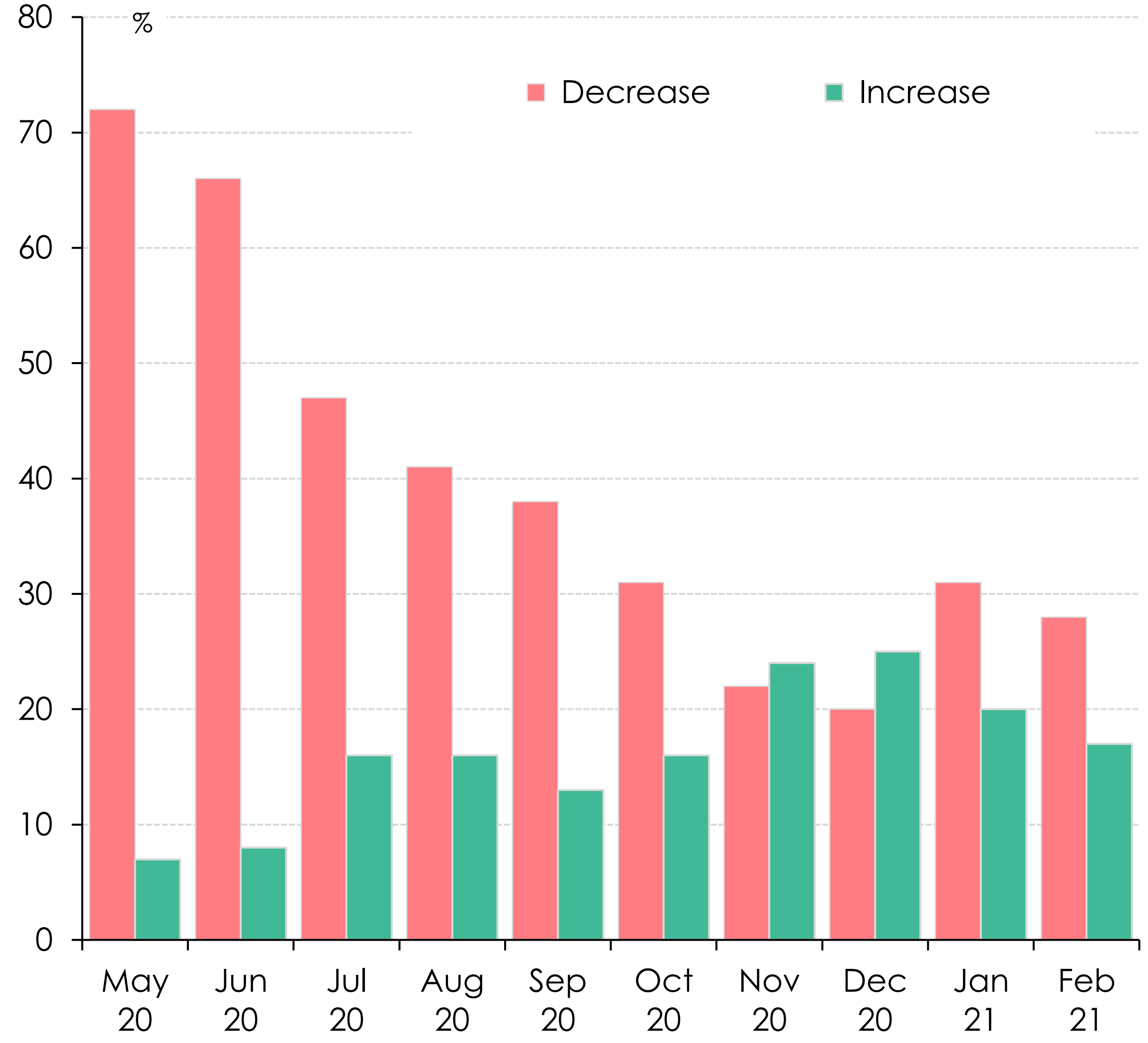


Note: Quarterly data up to March 1997 (May 2002 for capex intentions), monthly thereafter.
Source: National Australia Bank Monthly Business Survey, January 2021; February survey results will be released on 9th March. Return to "What's New".

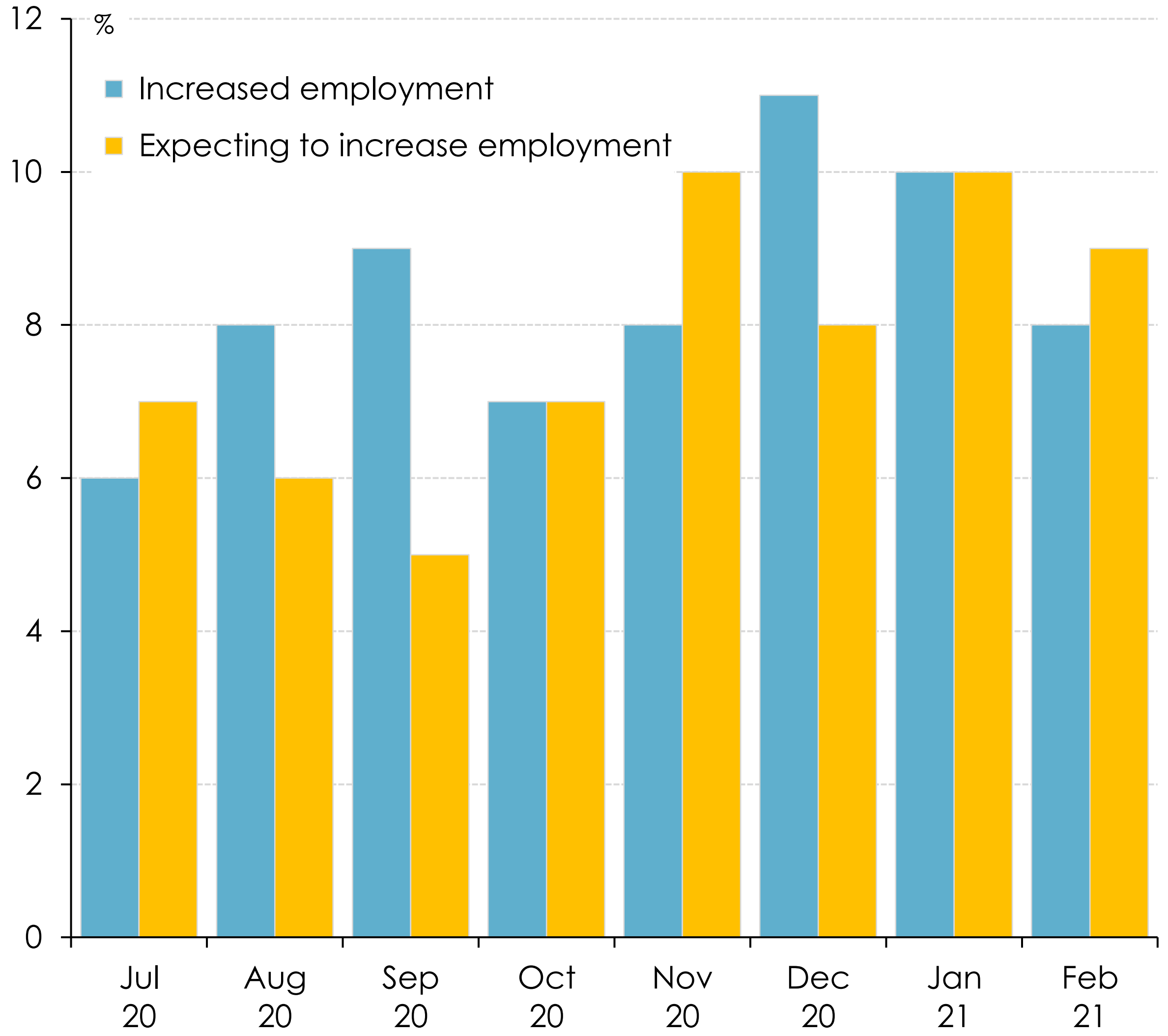
SAUL ESLAKE
CORINNA ECONOMIC ADVISORY

Abstracting from seasonal factors, fewer businesses are experiencing falls in revenues, and more are increasing employment

Proportion of businesses reporting decreases or increases in revenue over past month



Proportion of businesses increasing and expecting to increase employee numbers

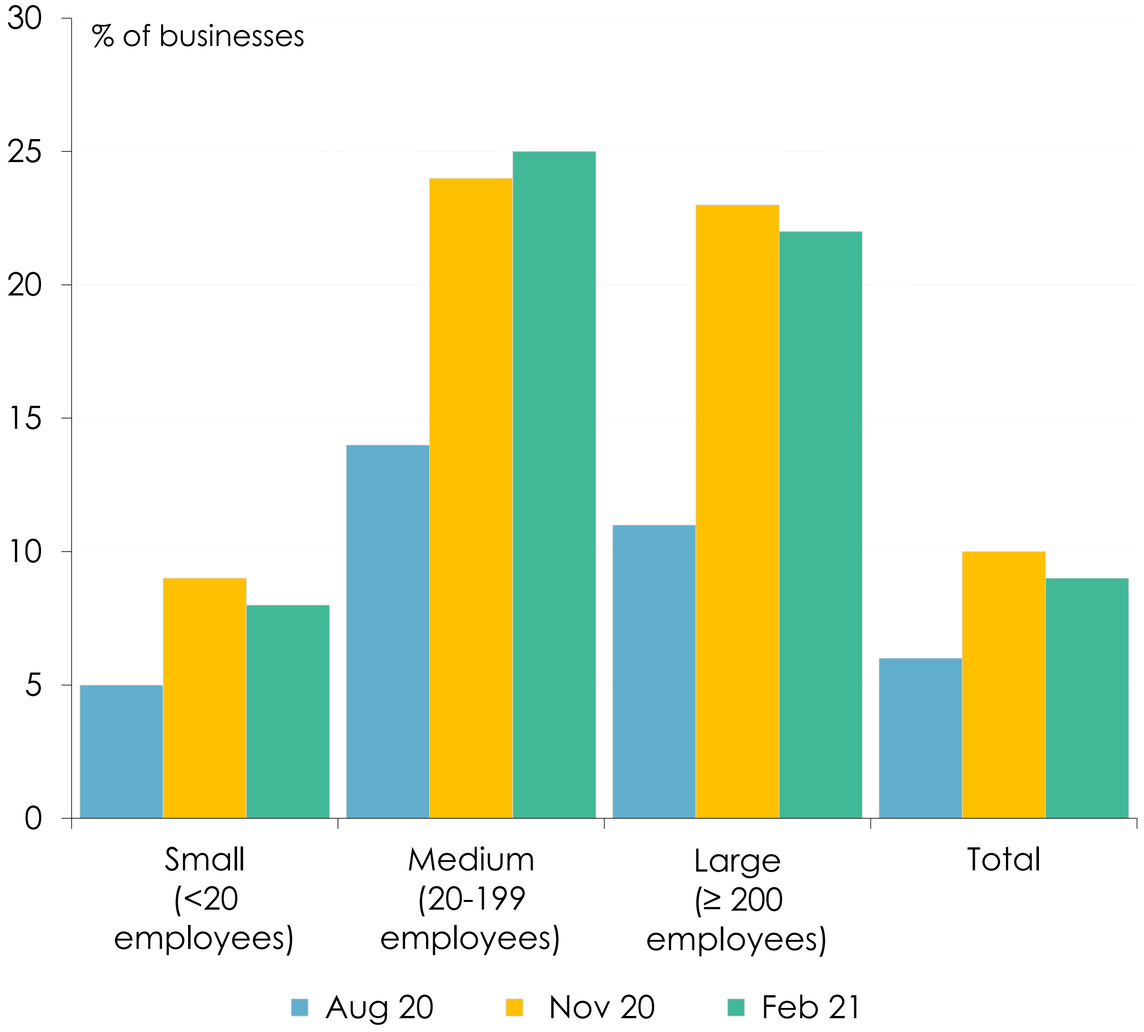


Source: ABS, *Business Conditions and Sentiments*, February 2021. Return to "What's New".

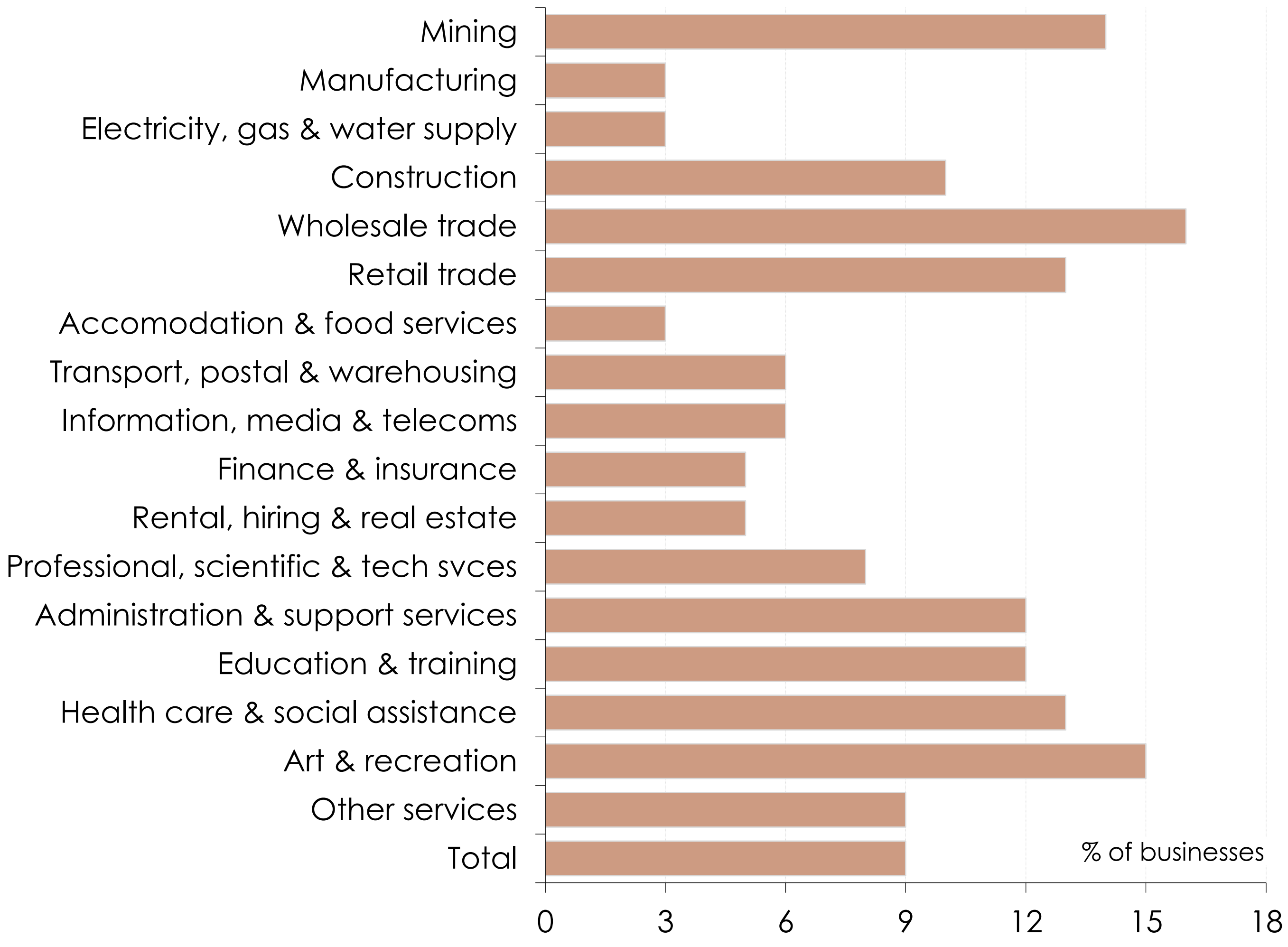
SAUL ESLAKE
CORINNA ECONOMIC ADVISORY

It's medium-sized and large businesses who will be the 'engine rooms' of employment creation this year, not small ones

Proportion of businesses planning to increase employment, by size of business



Proportion of businesses planning to increase employment, by industry, February 2021

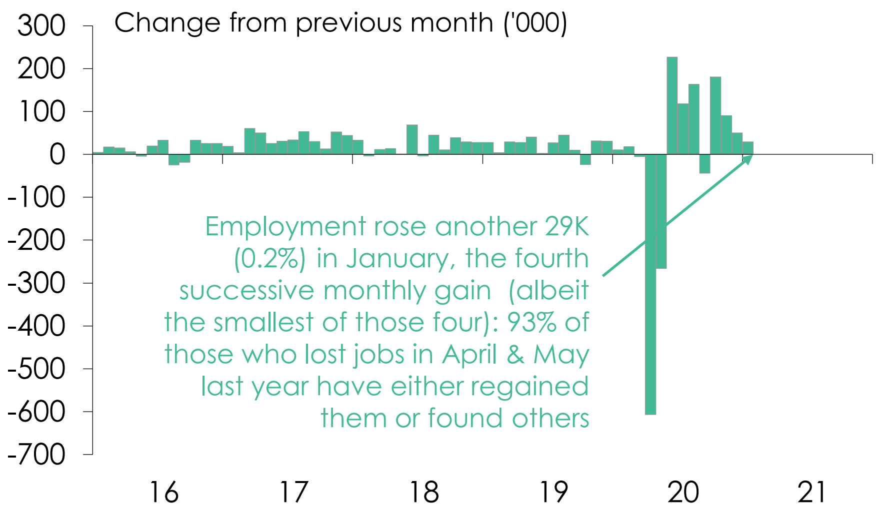


Source: ABS, *Business Conditions and Sentiments*, February 2021. See also slide 100 for data on capex intentions by business size. Return to "What's New".

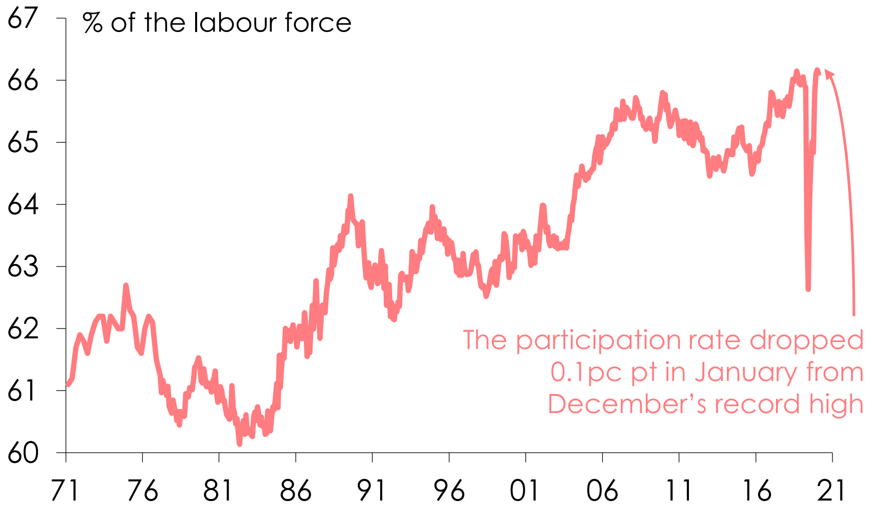
SAUL ESLAKE
CORINNA ECONOMIC ADVISORY

93% of those who lost jobs in April-May last year were back in work by January, and the unemployment rate was down to 6.4%

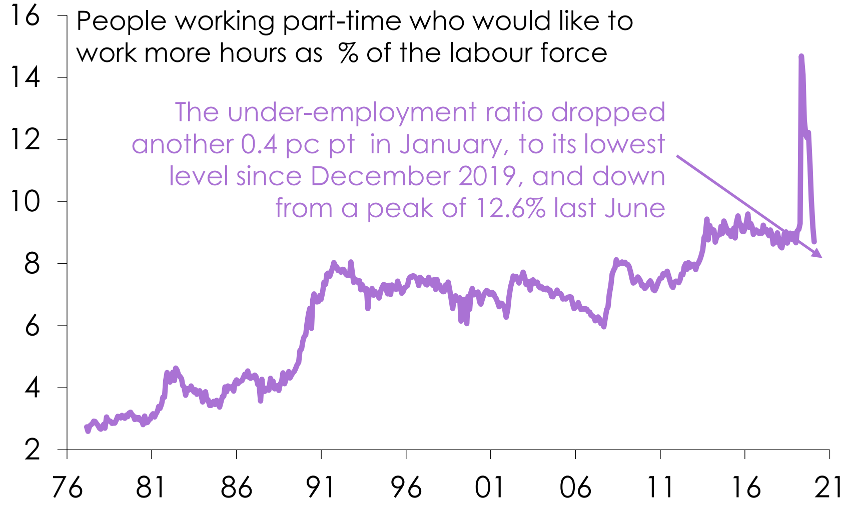
Employment



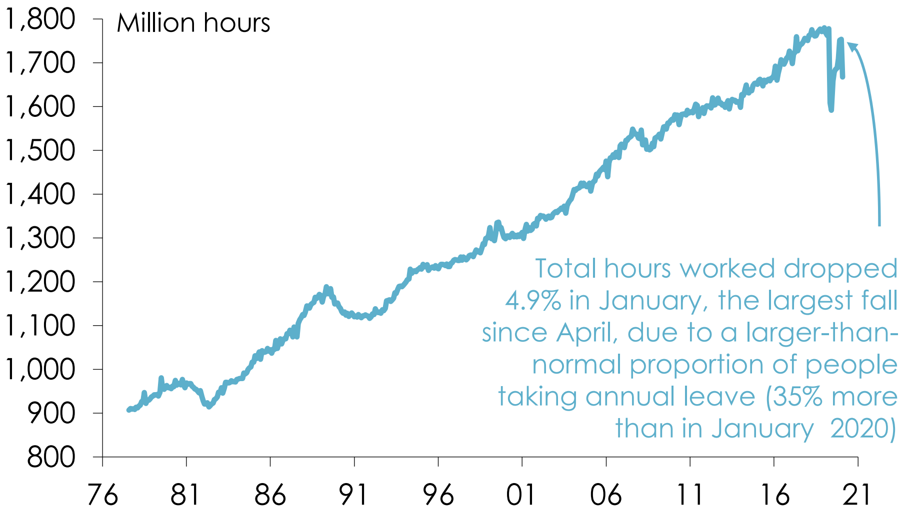
Labour force participation rate



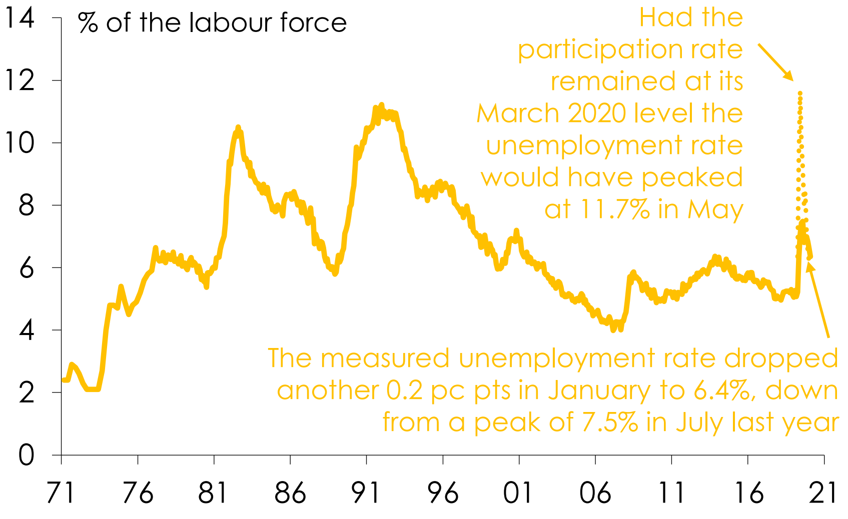
Under-employment ratio



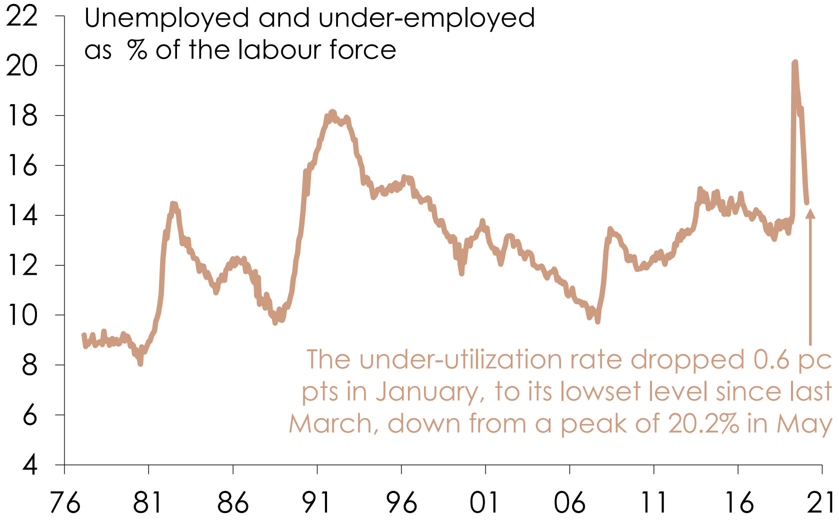
Total hours worked



Unemployment rate



'Under-utilization' rate



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

SAUL ESLAKE
CORINNA ECONOMIC ADVISORY

The 'effective' unemployment rate fell from a peak of 15.3% in April to 7.1% in December and remained at that level in January

Alternative measures of unemployment

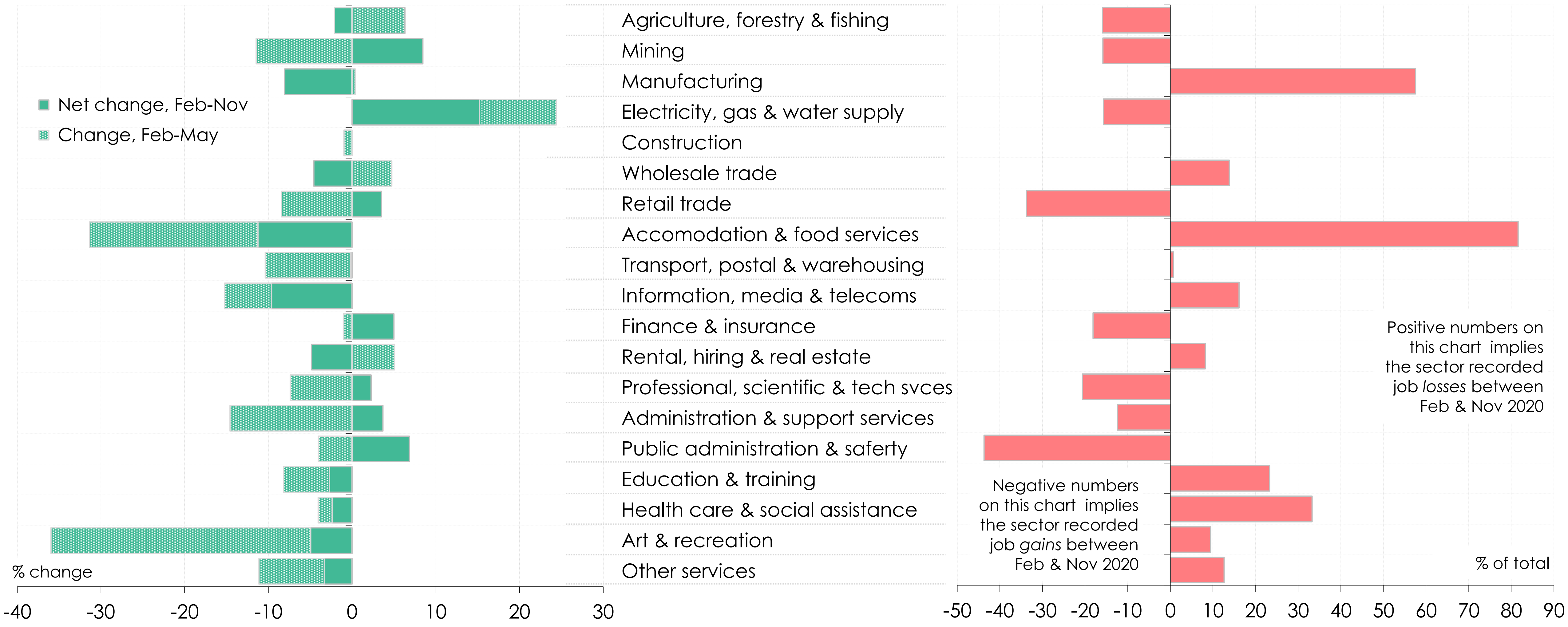
- **The Government's JobKeeper program paid eligible employers a subsidy of $1500 per fortnight for each eligible employee kept on the payroll between 30th March and 27th September (although payments didn't start until the beginning of May)**
- **From 28th September the JobKeeper payment reduced to $1200 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 fell from 767K in April to 65K in December, but rose to 103K in January – note these data are not seasonally adjusted – while the number of people who 'dropped out' of the workforce in the early months of the pandemic fell to zero in November**

Source: ABS, Labour Force, Australia; Corinna. February data will be released on 18th March. 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

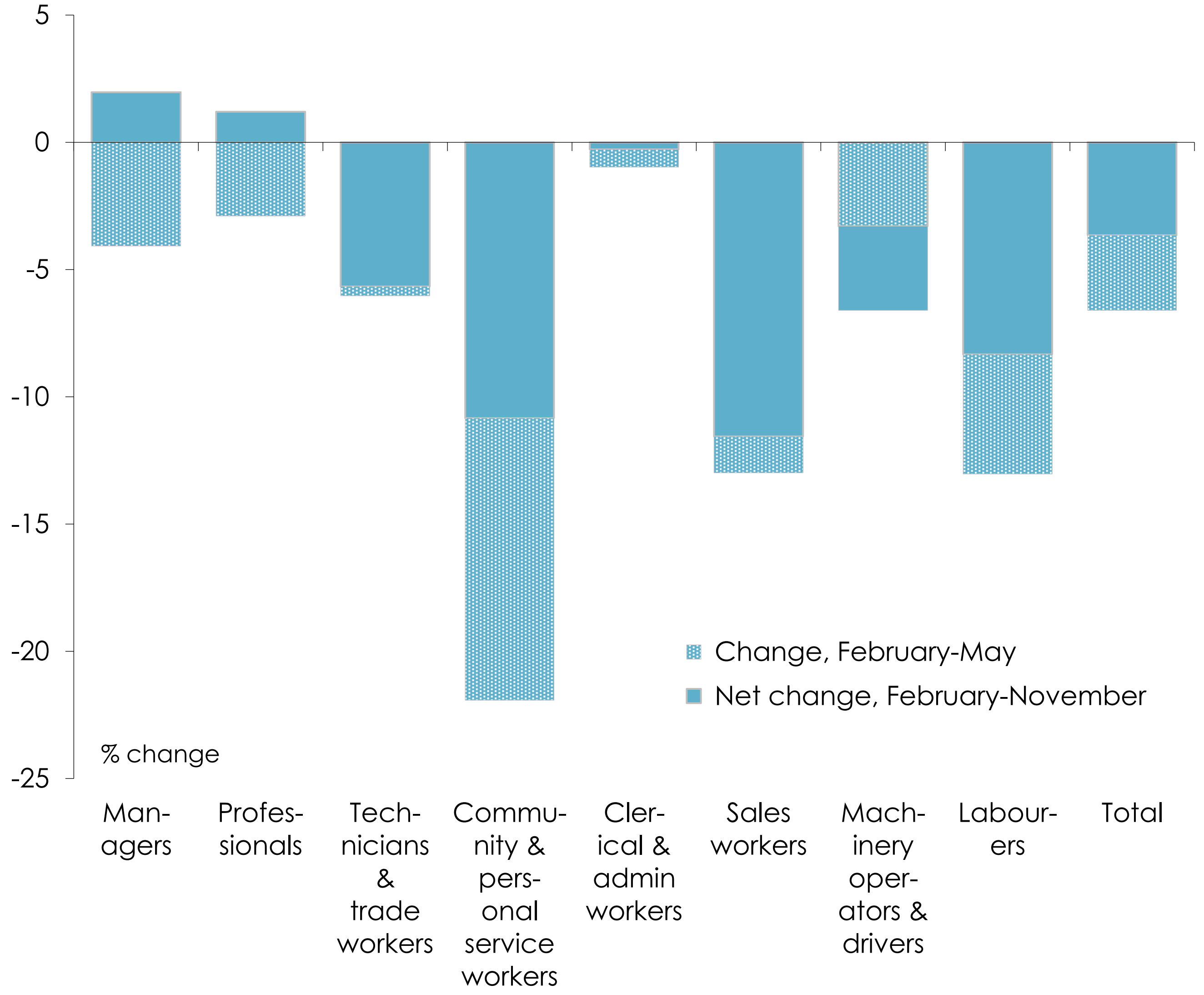


Source: ABS, Labour Force, Australia, Detailed, November 2020. Labour force survey data on employment by industry are available only for the middle month of each quarter: February 2021 data will be released on 25th March. Return to "What's New".

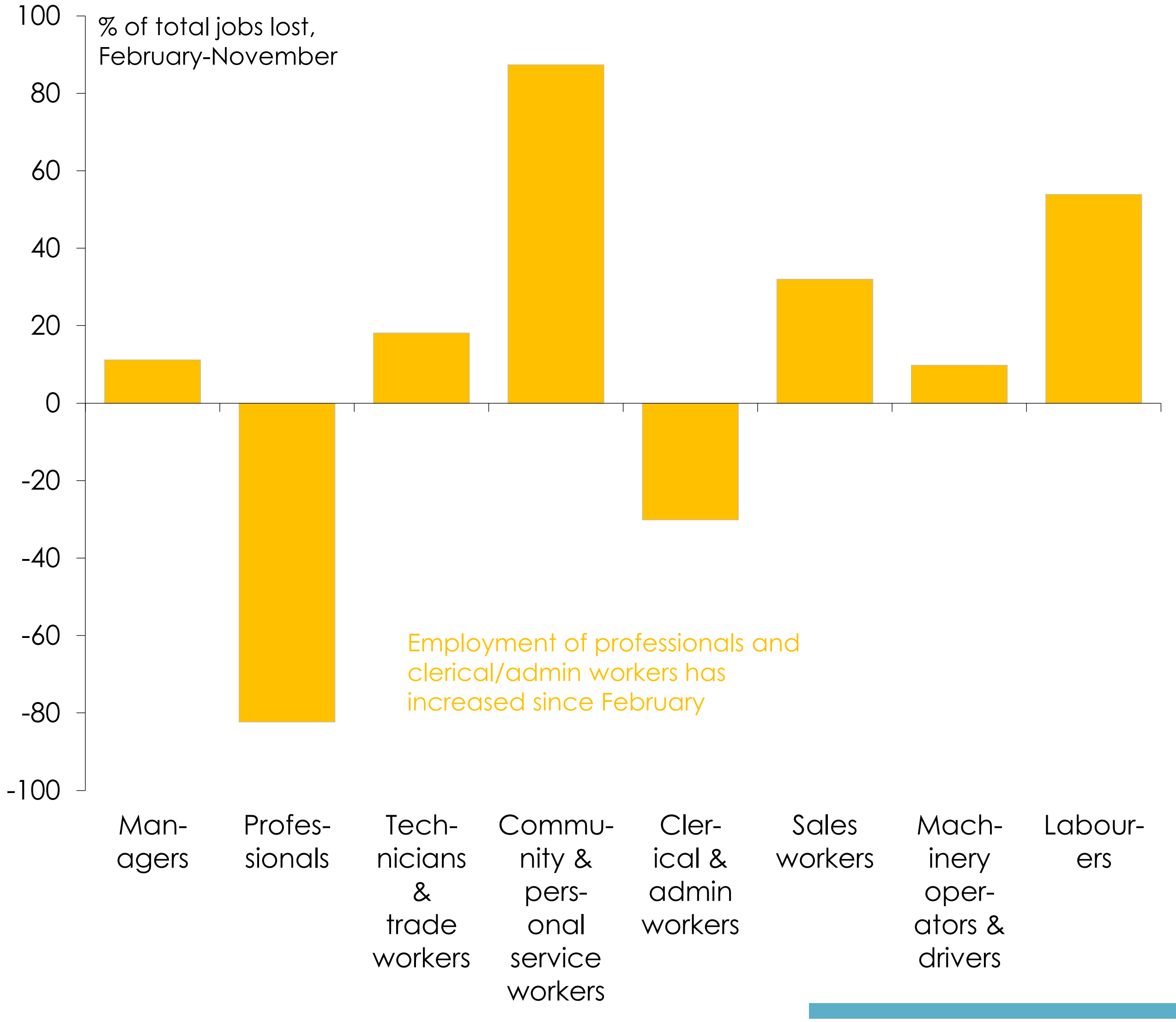
SAUL ESLAKE
CORINNA ECONOMIC ADVISORY

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

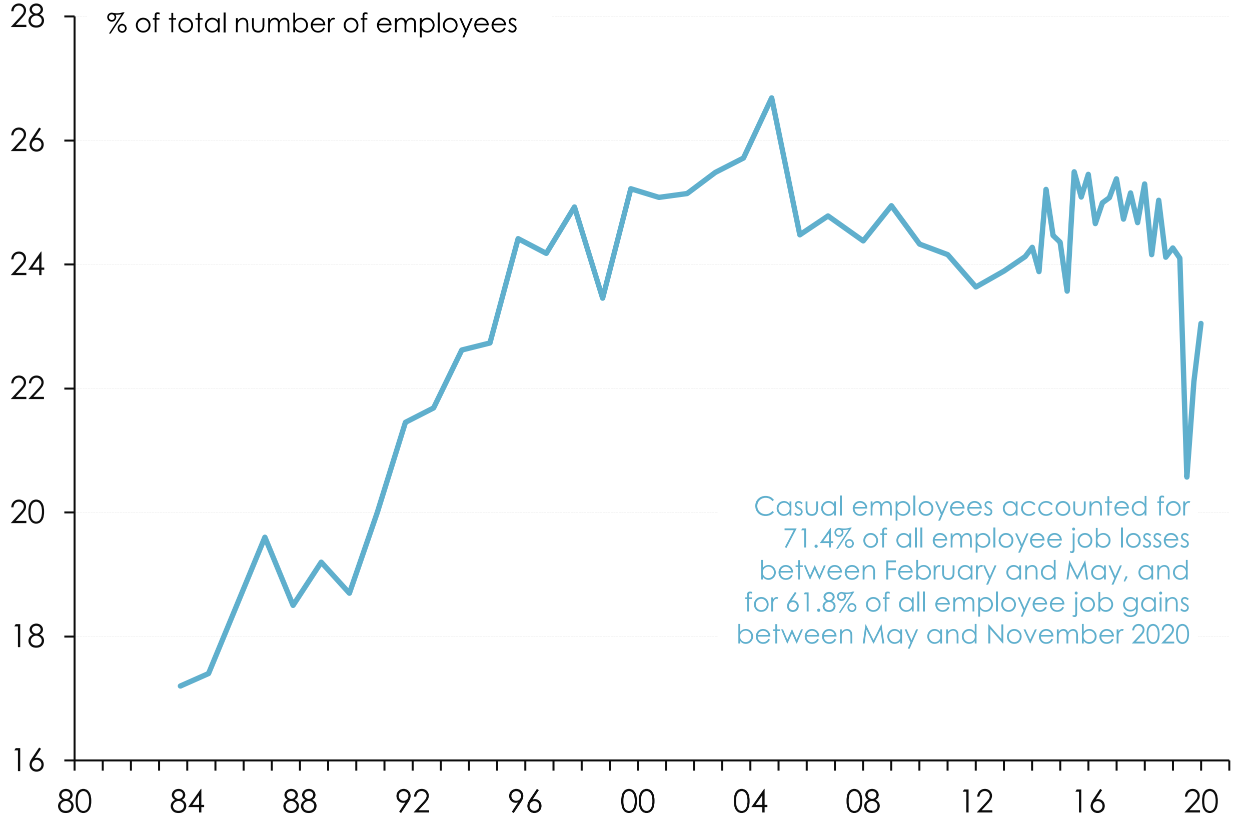


Source: ABS , *Labour Force, Australia, Detailed*, November 2020. Labour force survey data on employment by occupation are available only for the middle month of each quarter: February 2021 data will be released on 25th March. Return to "What's New".

SAUL ESLAKE
CORINNA ECONOMIC ADVISORY

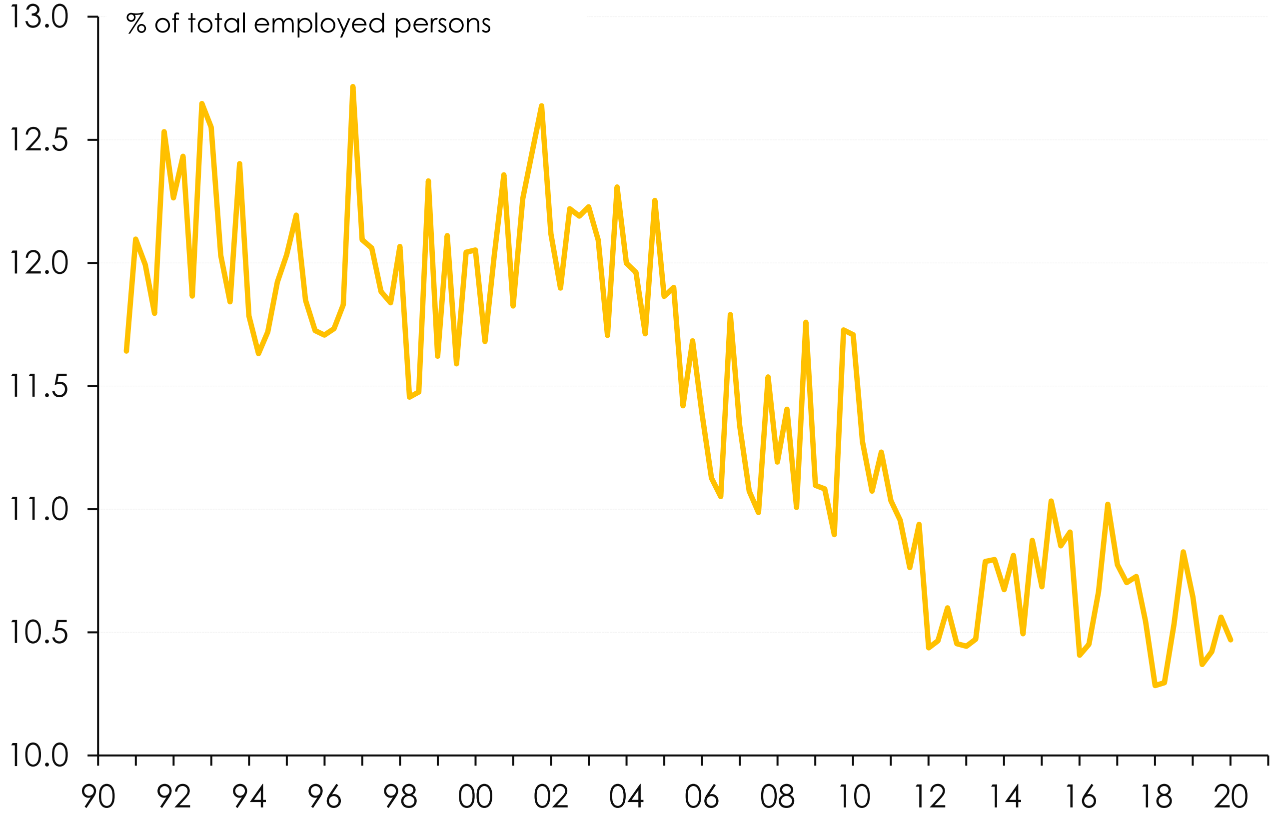
Contrary to popular belief neither casual jobs nor ‘gig economy’ jobs have become more commonplace during the past two decades

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



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

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



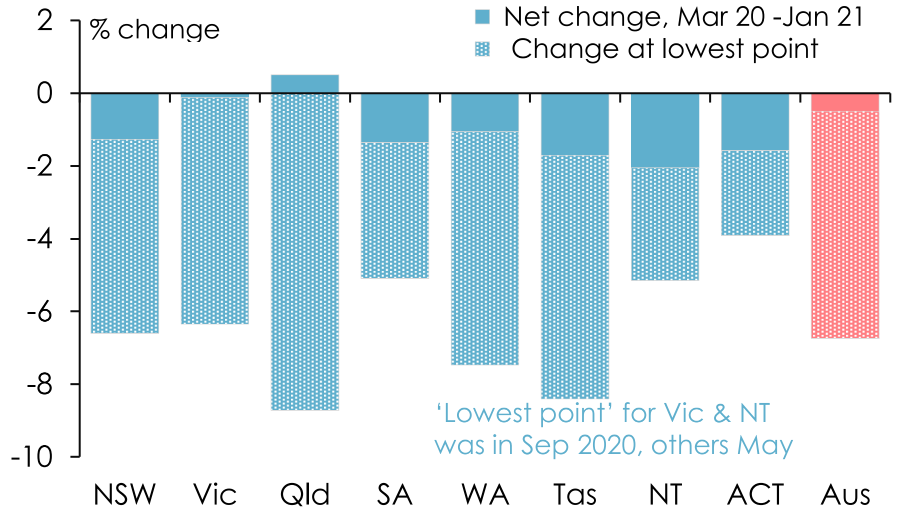
- ‘Independent contractors’ have actually declined as a share of the workforce since the early 2000s – had haven’t increased during the current recession

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

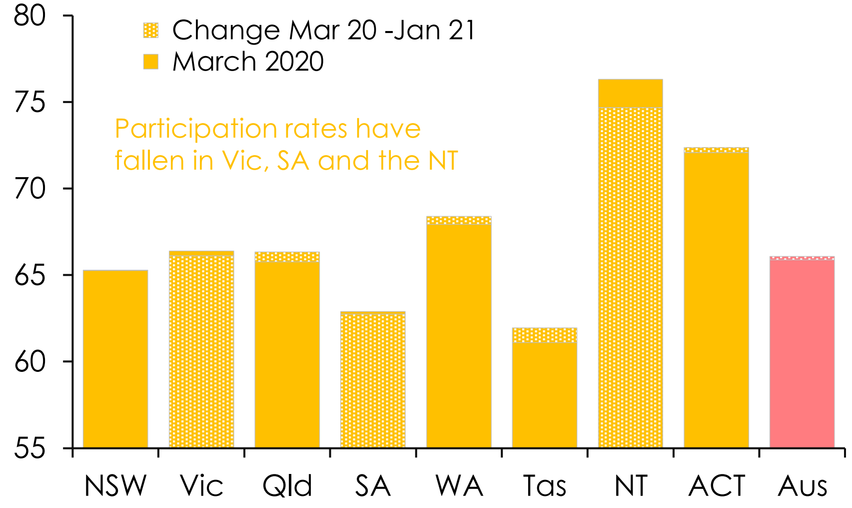
SAUL ESLAKE
CORINNA ECONOMIC ADVISORY

Employment has fallen in NSW in the past two months while Victoria has continued to recover, but Qld and WA have had the strongest recoveries

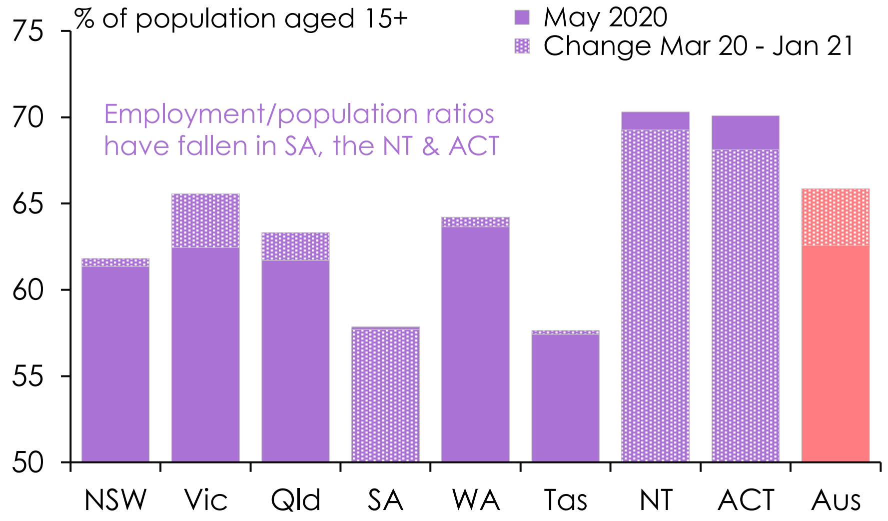
Employment



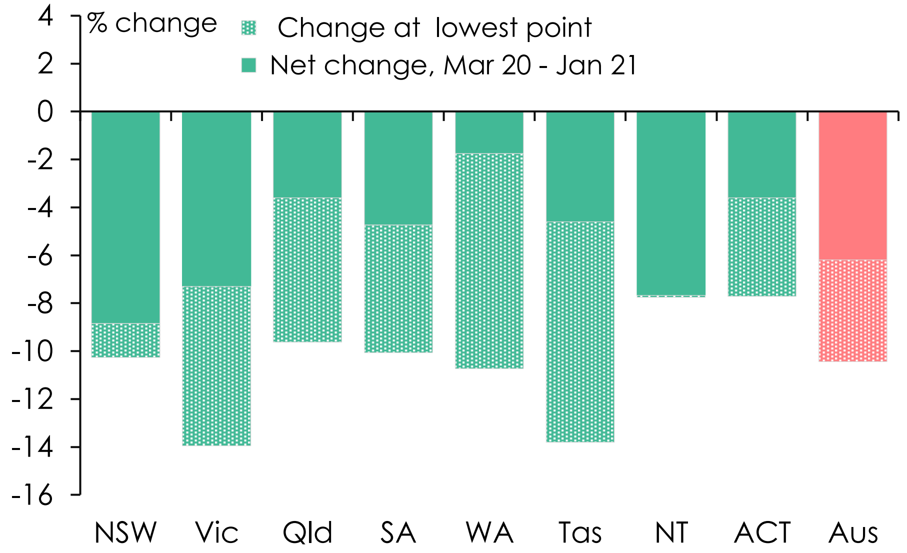
Labour force participation rate



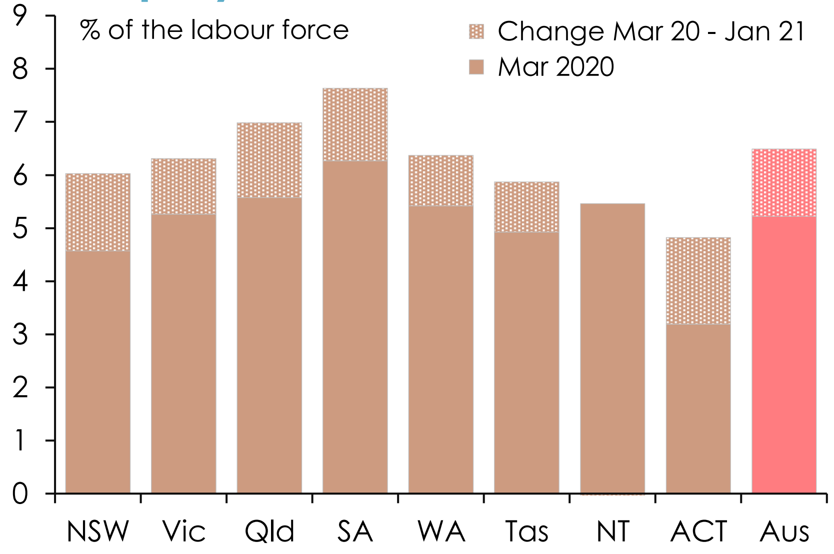
Employment-population ratio



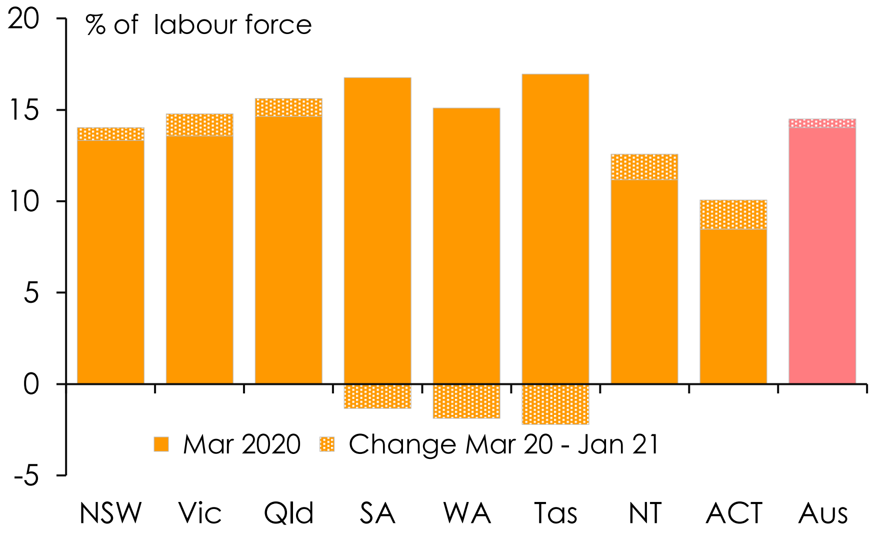
Total hours worked



Unemployment rate



'Under-utilization' rate



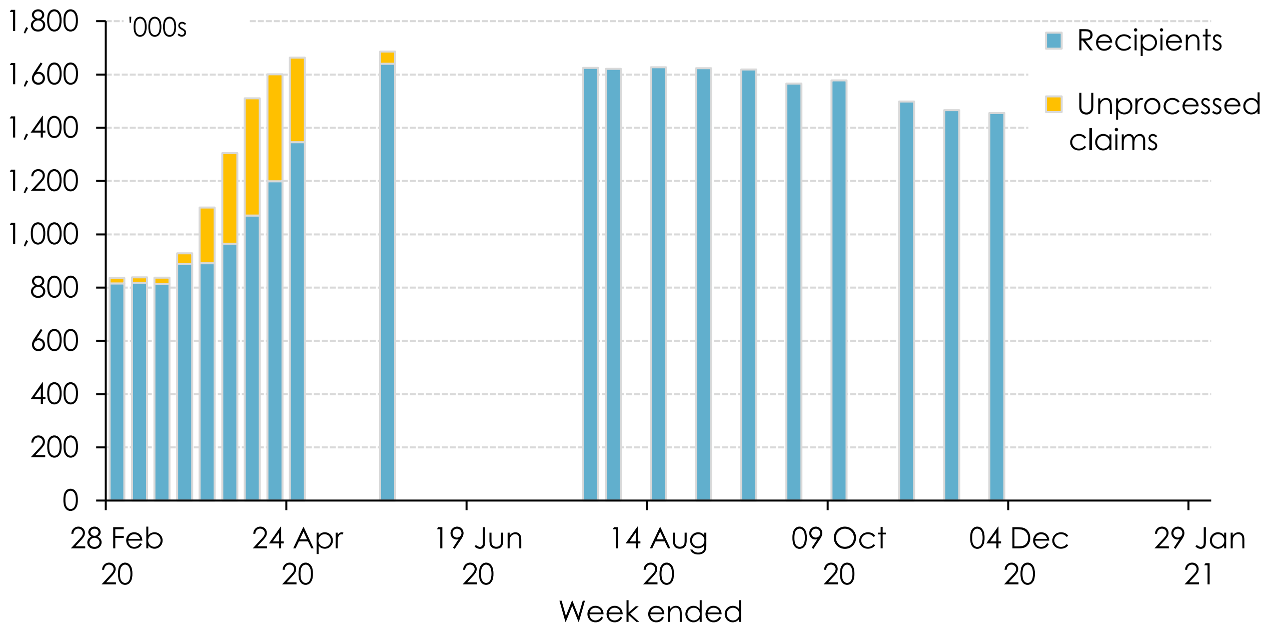
Note: The 'under-employment ratio' is the percentage of employed persons who are working fewer hours than they are willing and able to work. The 'under-utilization rate' is the proportion of the labour force who are unemployed or underemployed. *Source:* ABS, Labour Force, Australia. February data will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

Return to "What's New".

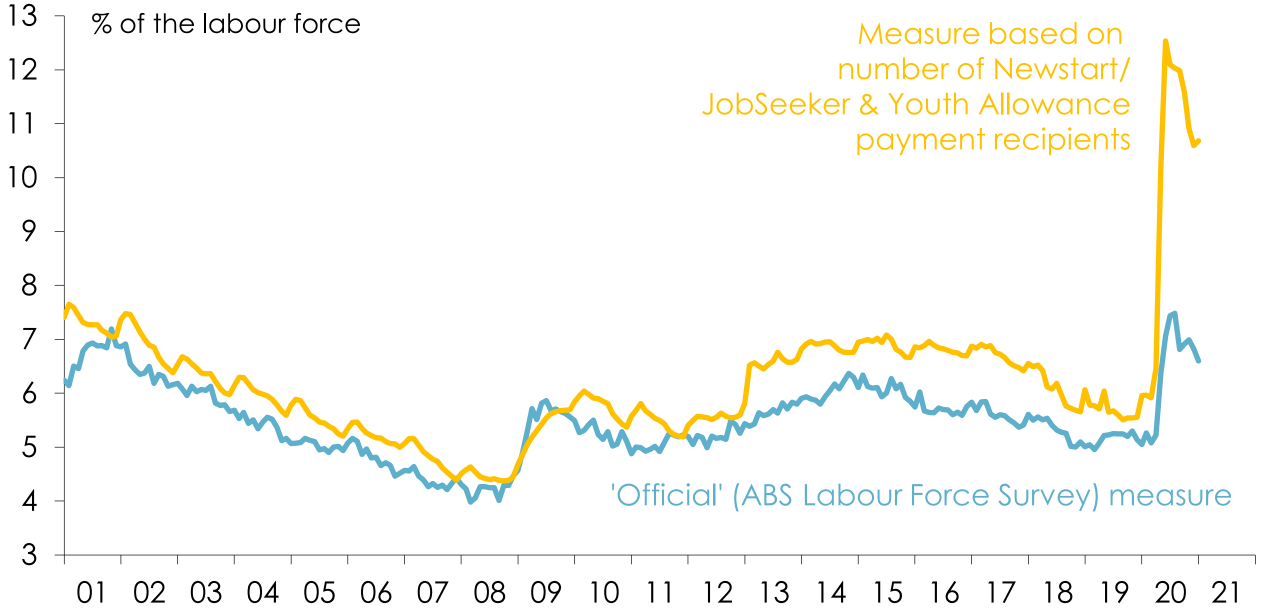
SAUL ESLAKE
CORINNA ECONOMIC ADVISORY

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



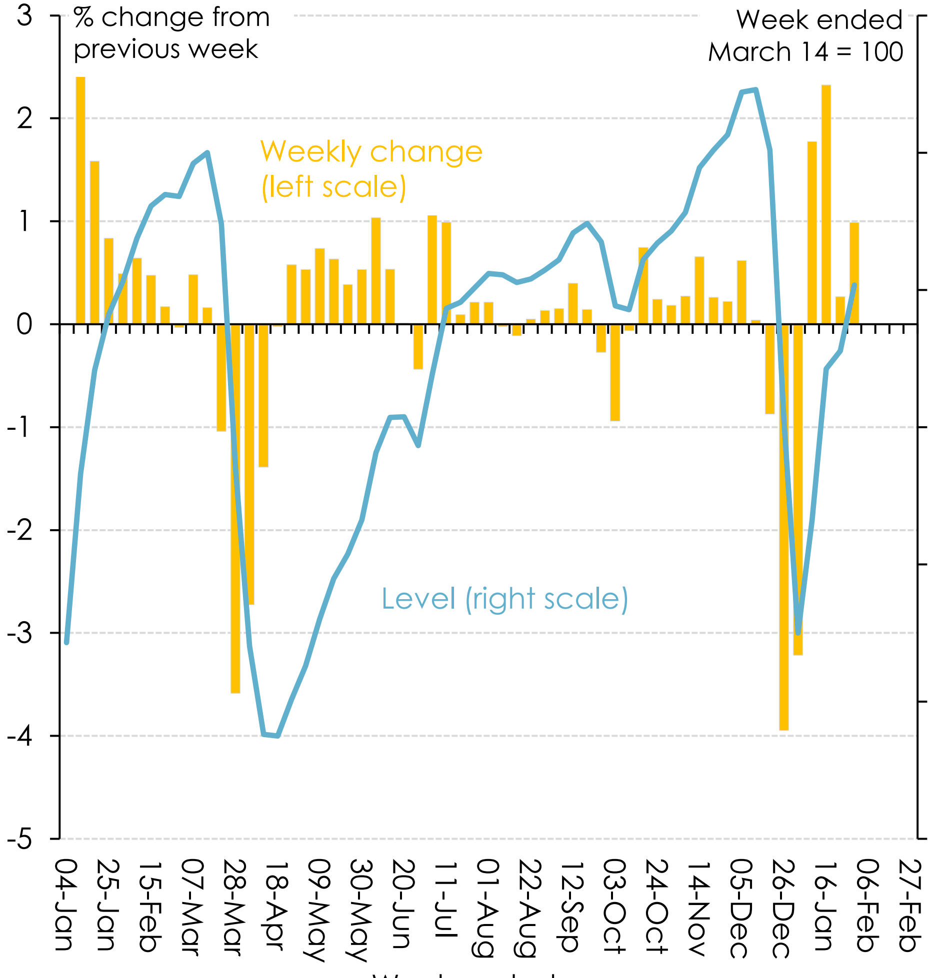
- **The Department of Social Services (DSS) compiles weekly data on the number of people receiving JobSeeker and Youth Allowance (Other) payments, which are supplied to Ministers; historically, only monthly data has been made publicly available**
- **On two occasions last year the Secretary of DSS provided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

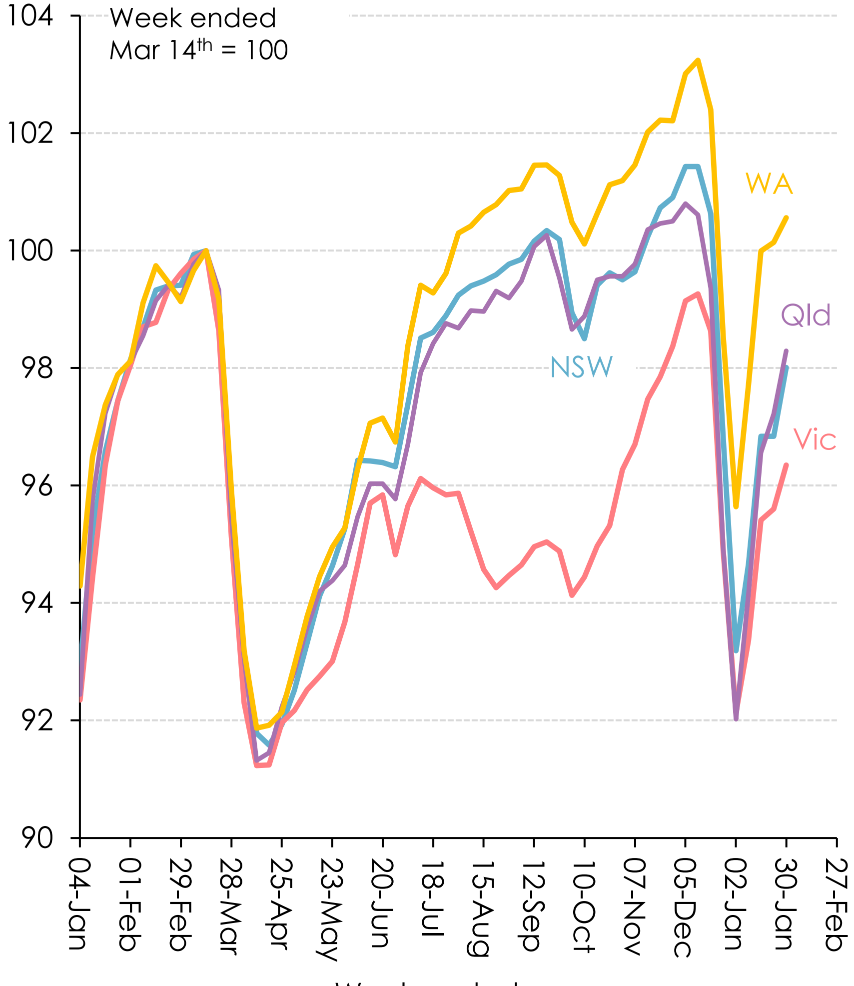
SAUL ESLAKE
CORINNA ECONOMIC ADVISORY

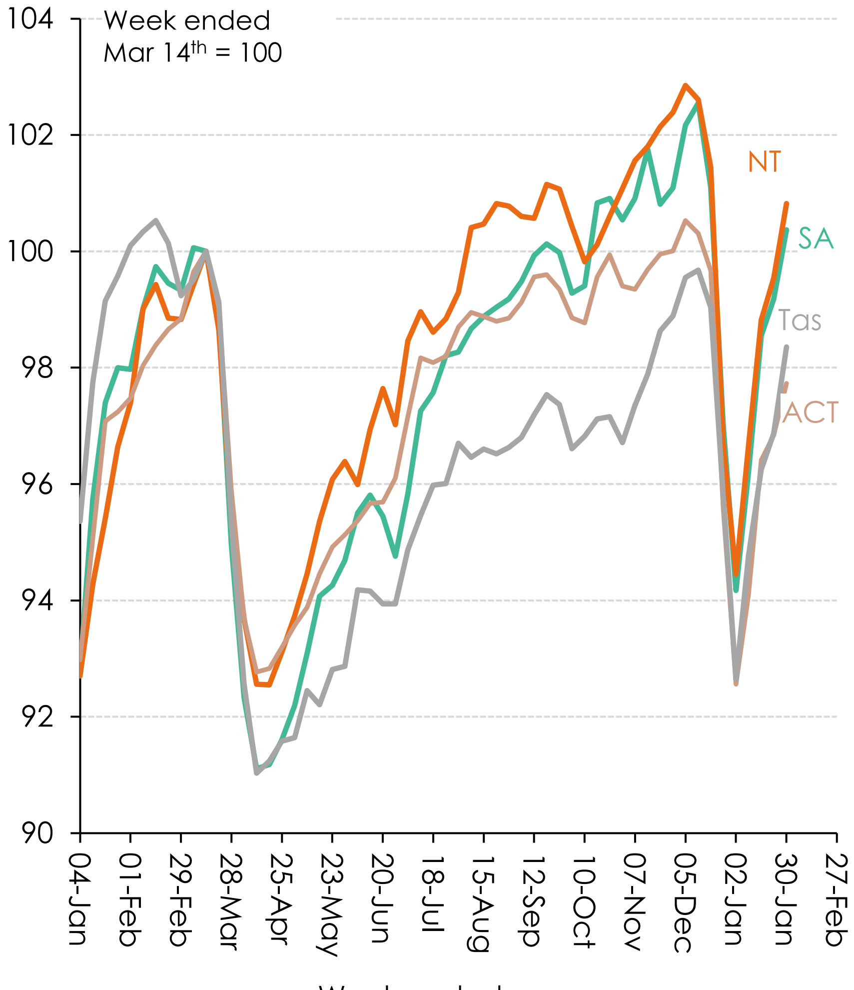
Payroll jobs have rebounded after the usual holiday slowdown to be 1.9% below pre-pandemic levels by the last week of January

Level and weekly change in the number of payroll jobs



Payroll jobs by State & Territory



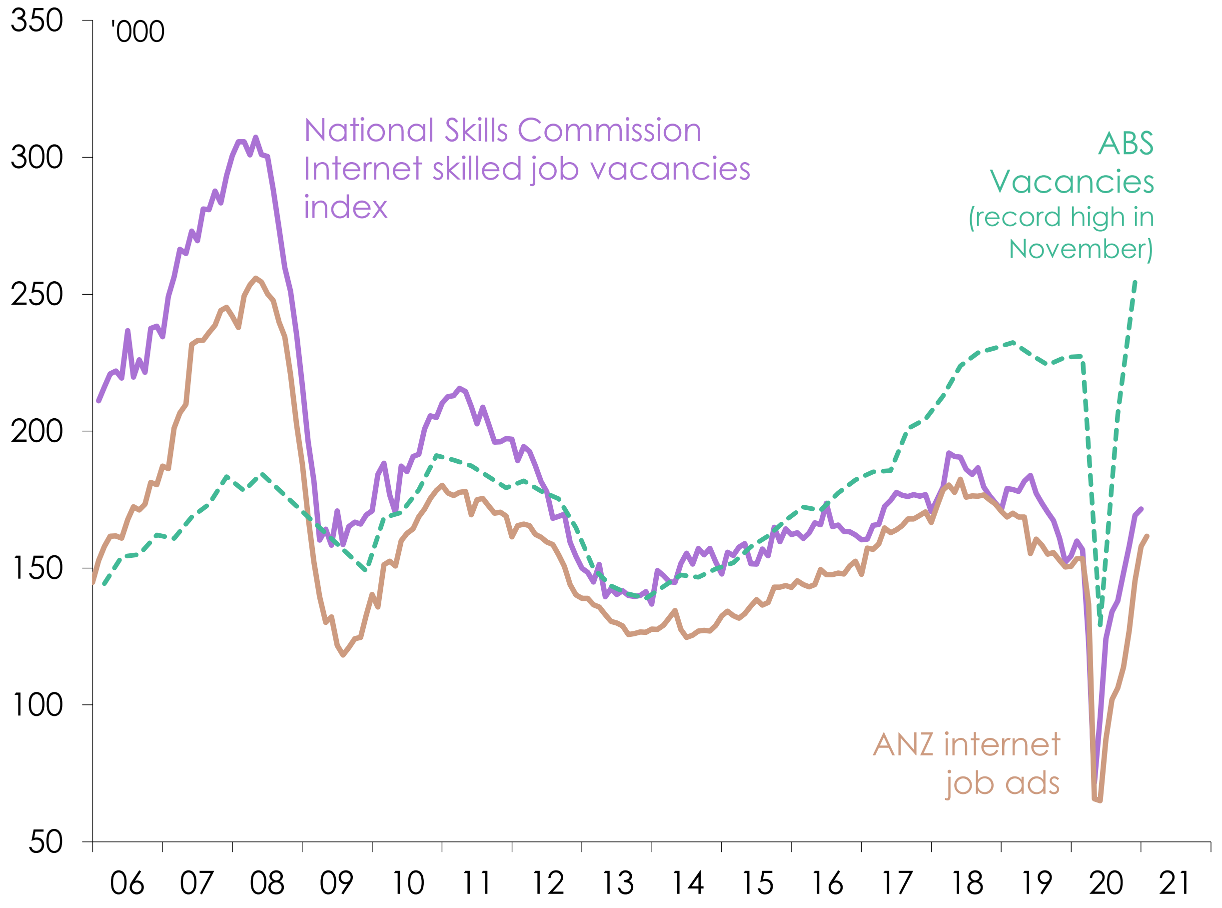


Source: ABS, Weekly Payroll Jobs and Wages in Australia. Data refers to the number of payroll jobs at businesses participating in the Australian Taxation Office's Single Touch Payroll system, which covers 99% of employers with 20 or more employees and about 71% of smaller employees. People with two or 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 3rd March. Return to "What's New".

SAUL ESLAKE
CORINNA ECONOMIC ADVISORY

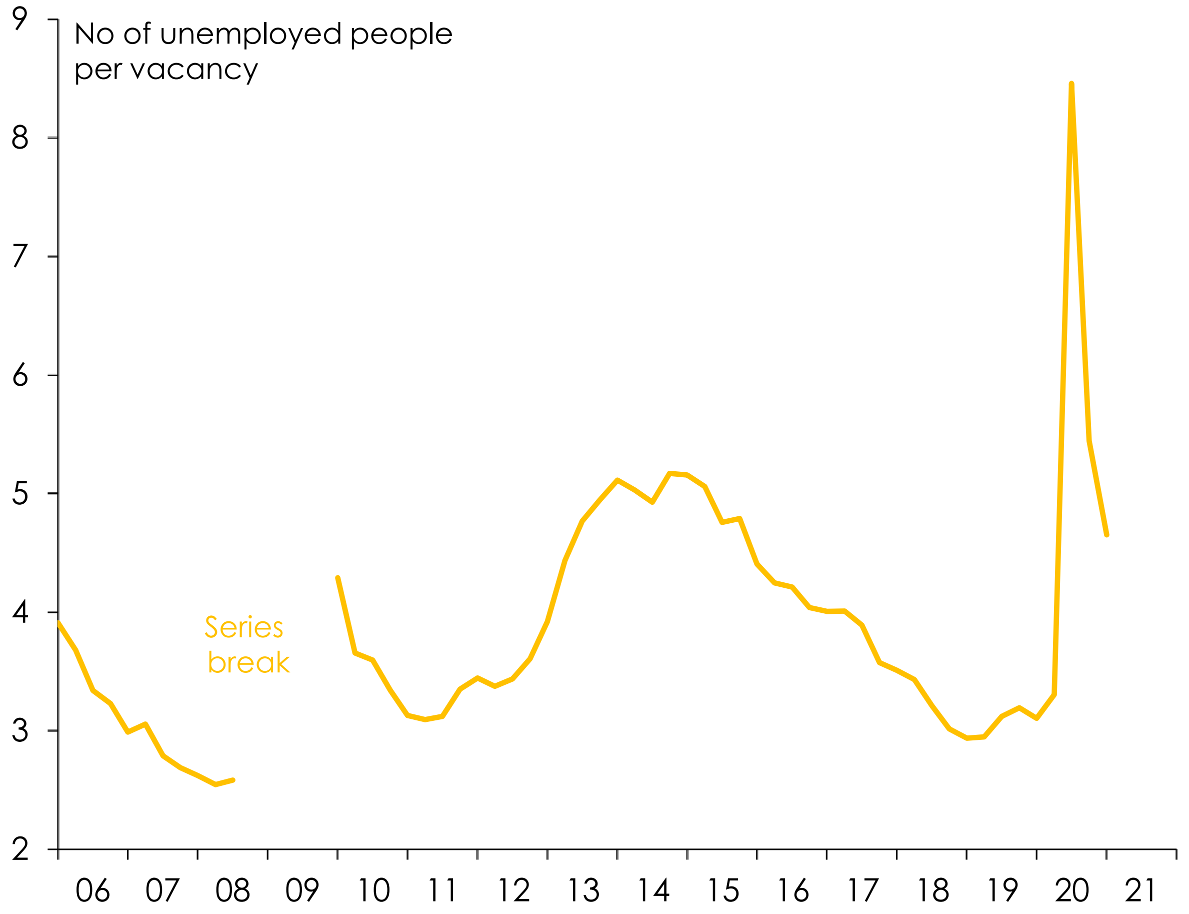
Job vacancies have rebounded swiftly from their recession lows, although there are still almost 5 unemployed people for every job on offer

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



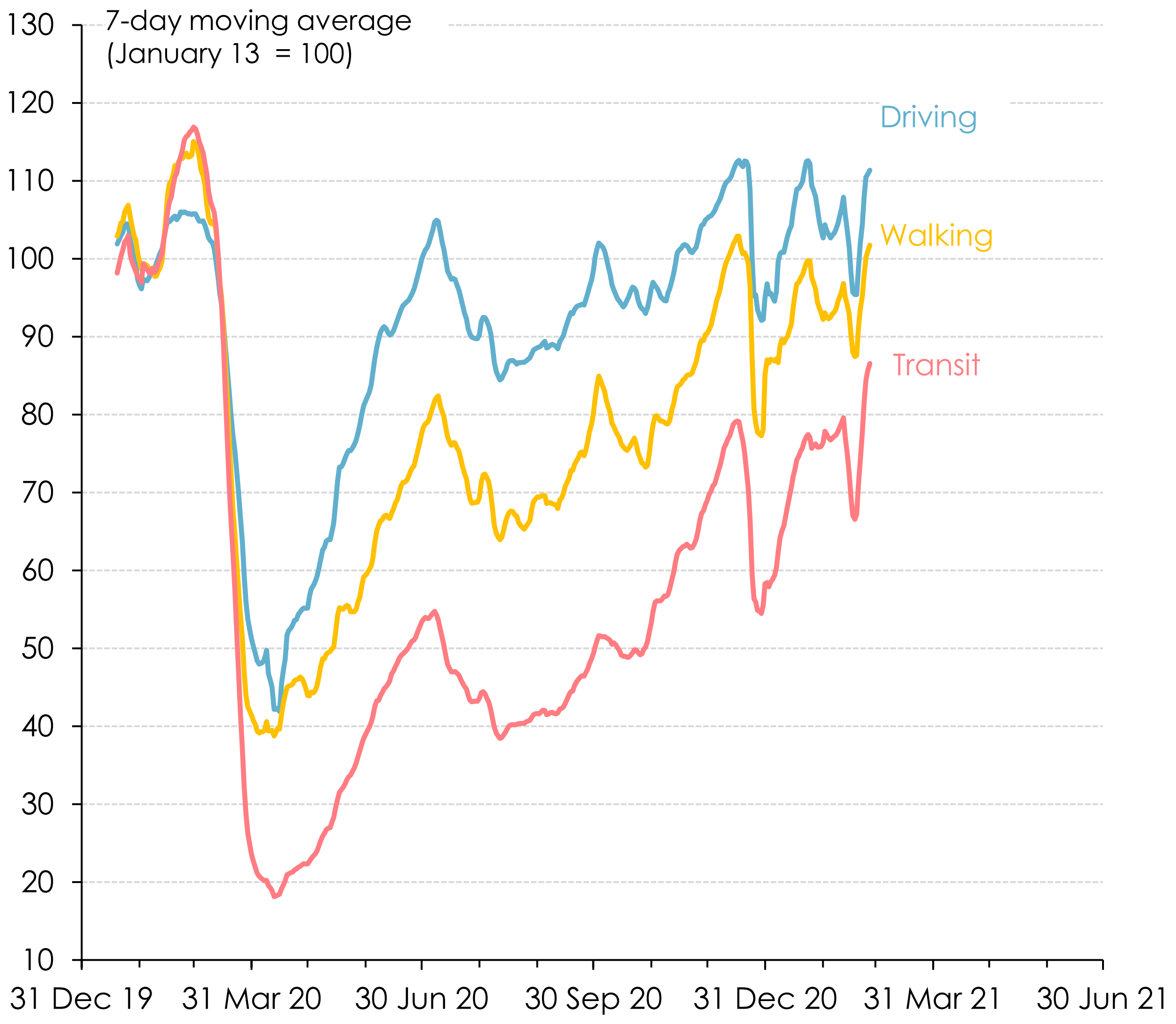
- In November there were roughly 4¾ unemployed people for every vacancy reported to ABS – down from a peak of 8½ in May but above the decade average of 3.9

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

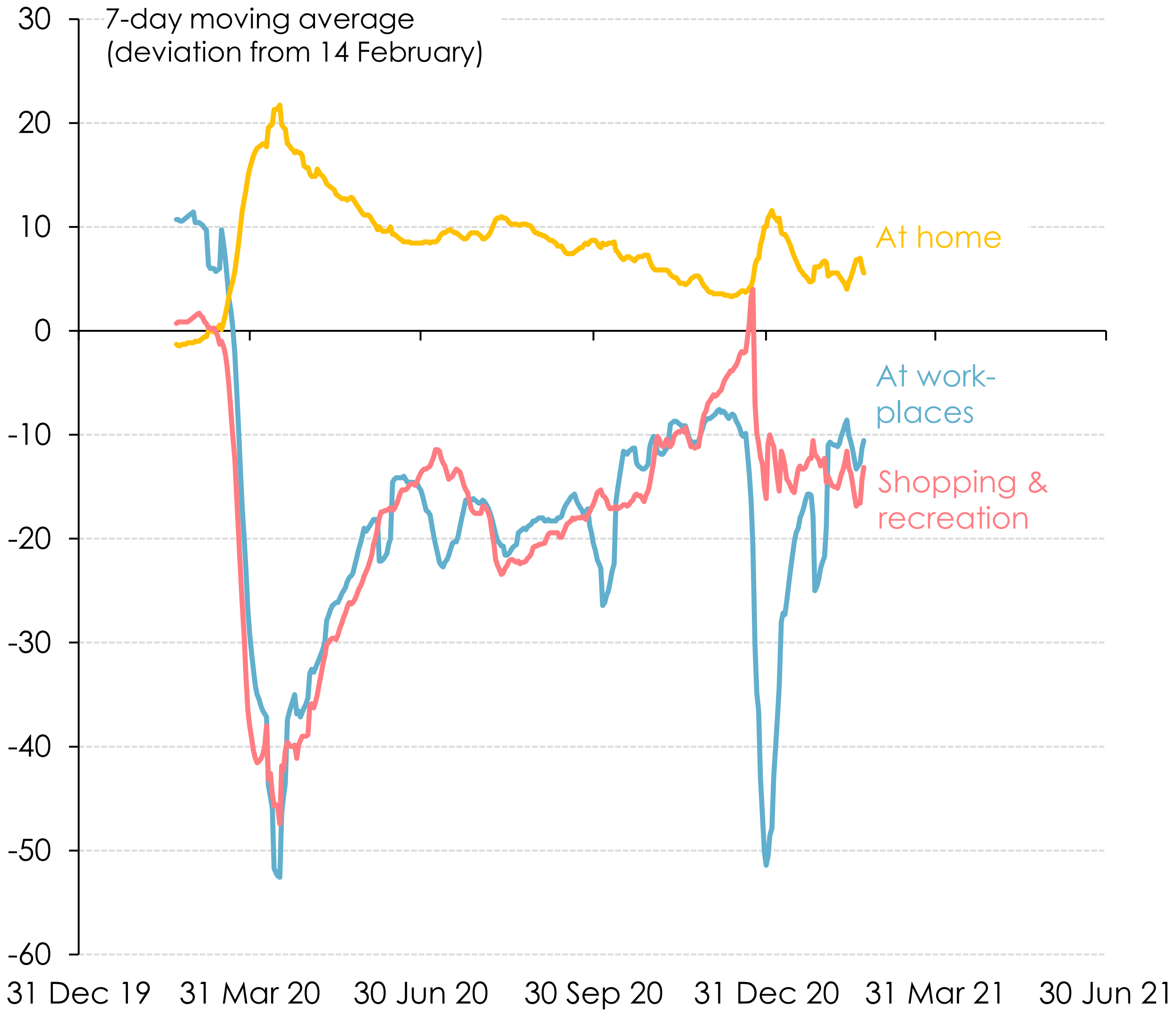
SAUL ESLAKE
CORINNA ECONOMIC ADVISORY

Mobility indicators have rebounded since the end of the 5-day lockdown in Victoria, and with continuing low case numbers across Australia …

Time spent driving, walking and in transit



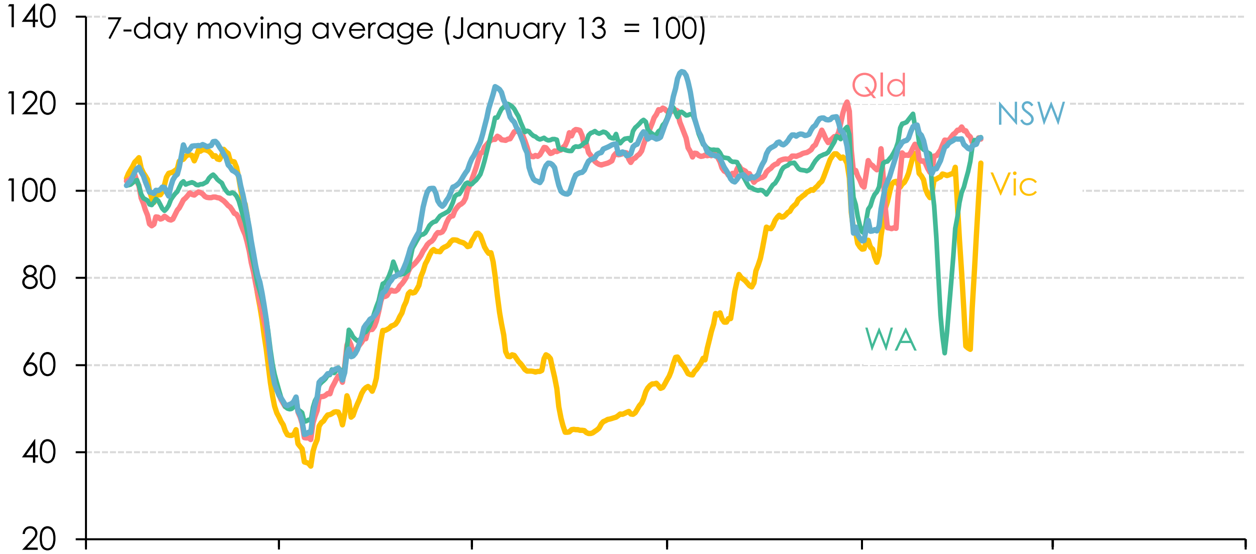
Time spent working, at home, shopping & playing

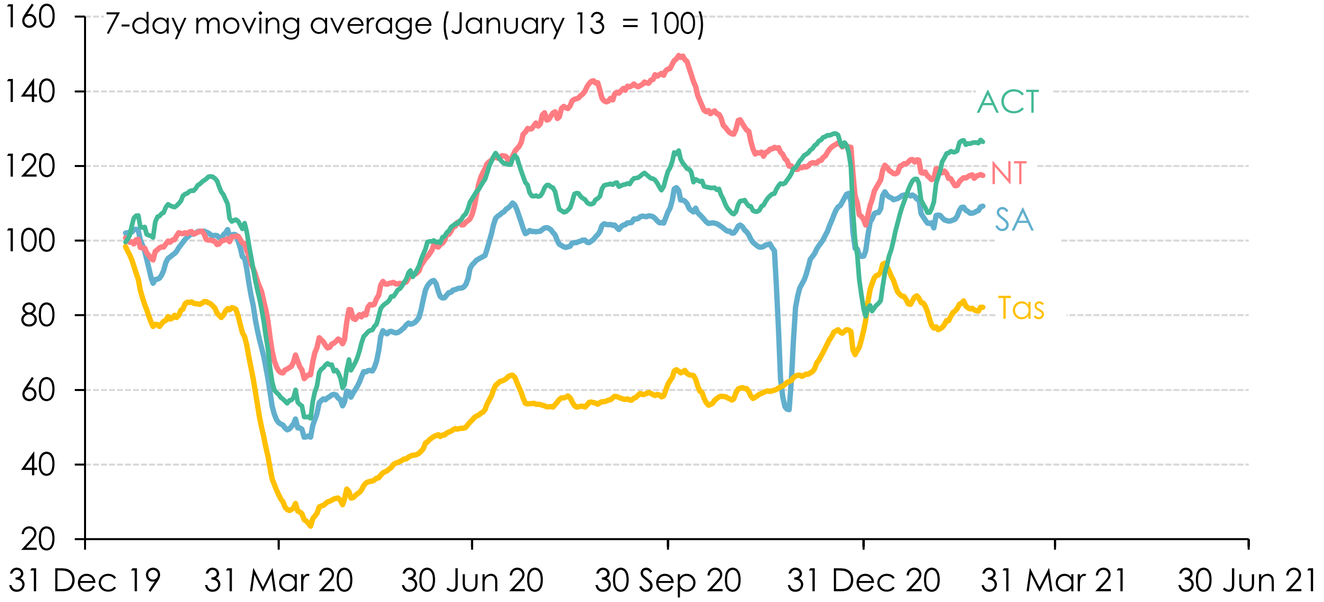


Note: 'transit' means using public transport. Note also that these data will reflect normal seasonal variations such as Christmas-New Year and 'Sydney Day' (26th January) in activities as well as the effects of government restrictions and individual responses to the risks posed by the virus. *Sources:* Apple Mobility Trends Reports(data up to 25th February); Google Community Mobility Reports (data up to 21st February). For state-level data see next slide. Return to "What's New".

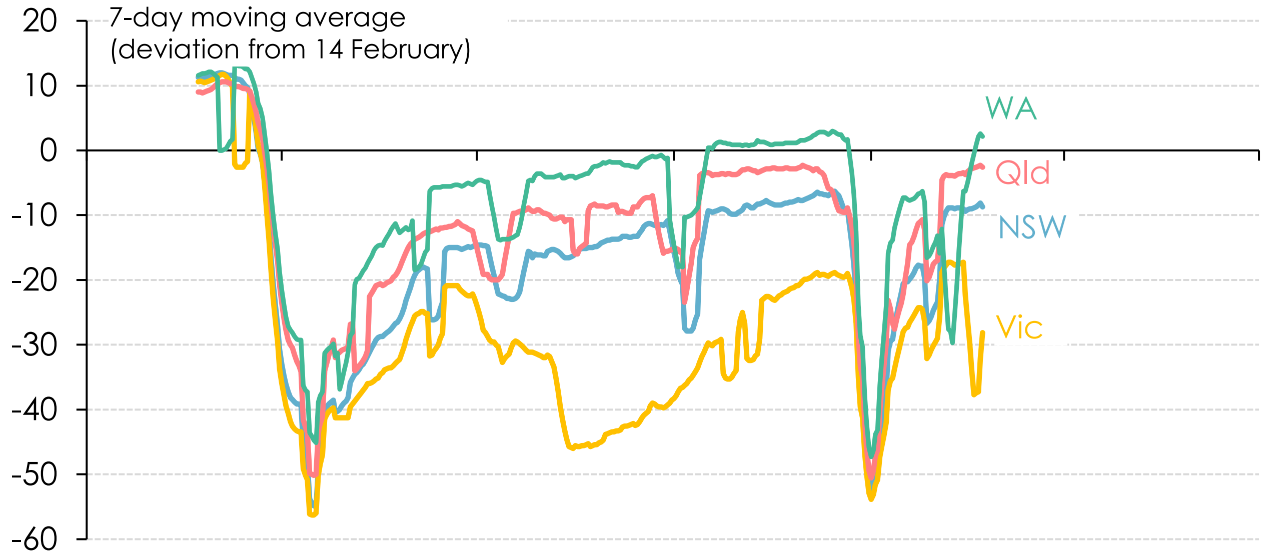
… as can be more readily seen in the state data (which also highlights the impact of the lockdown in WA a week earlier)

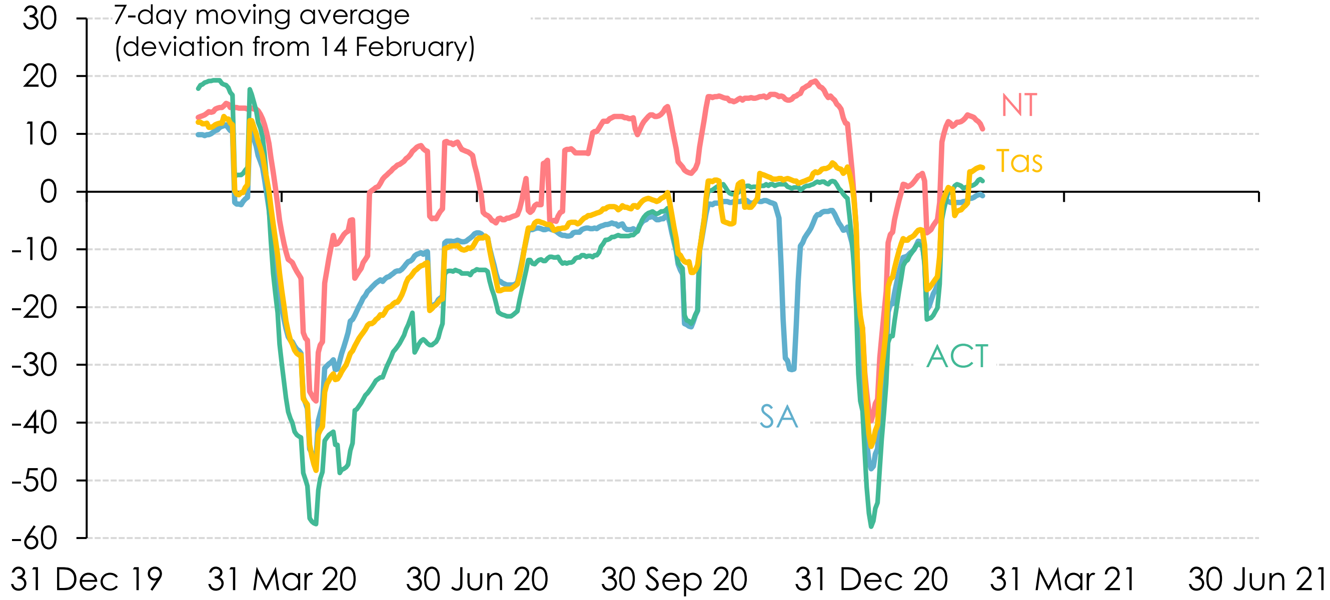
Time spent driving, by State and Territory





Time spent in workplaces, by State and Territory



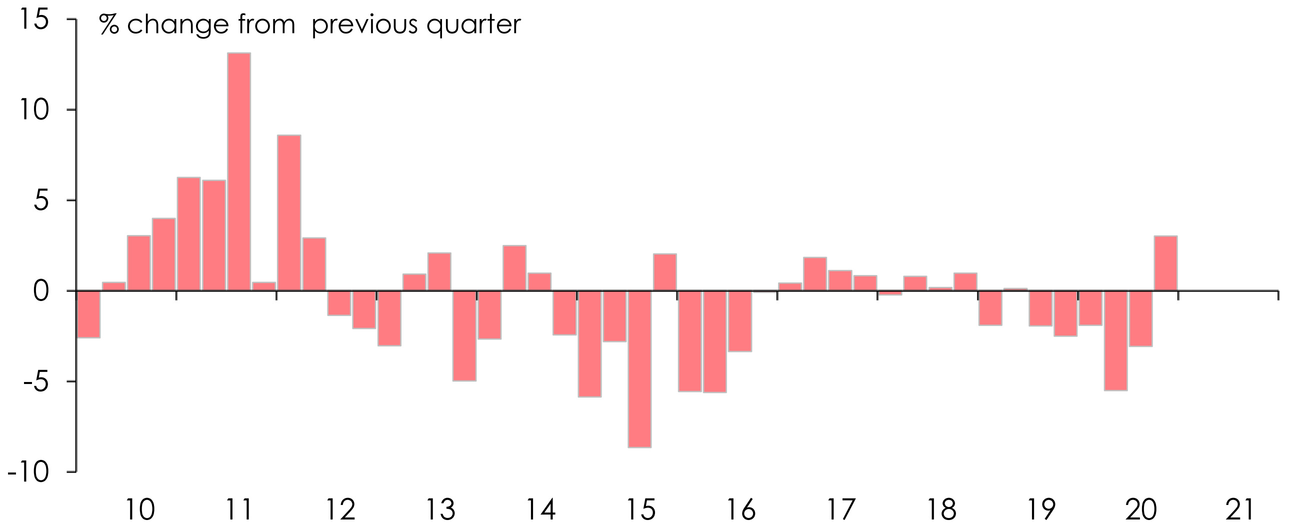


Note: these data will reflect normal seasonal variations in activities as well as the effects of government restrictions and individual responses to the risks posed by the virus. *Sources:* Apple Mobility Trends Reports (data up to 25th February); Google Community Mobility Reports (data up to 21st February). Return to "What's New".

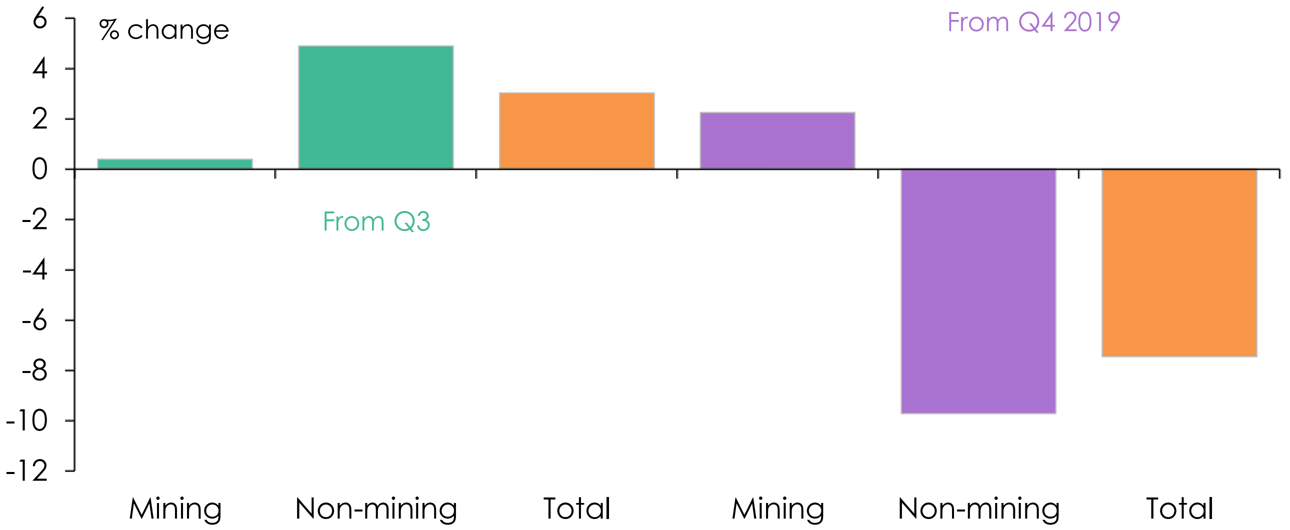
SAUL ESLAKE
CORINNA ECONOMIC ADVISORY

Business capex rose in Q4 2020 for the first time in two years, largely driven by the construction and transport sectors, and despite a fall in mining

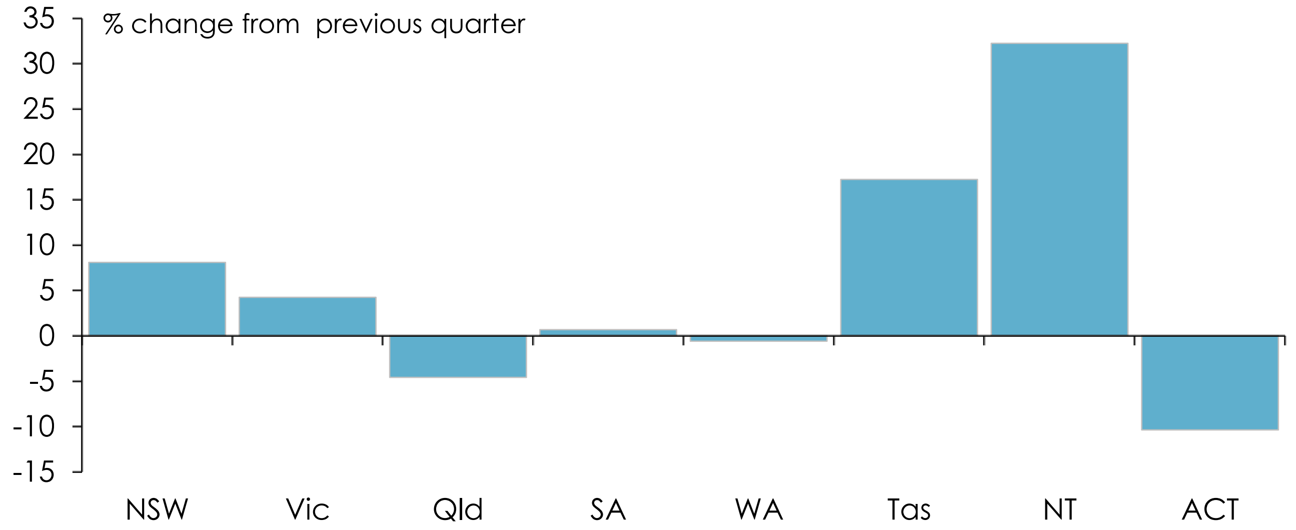
Real business new fixed capital expenditure



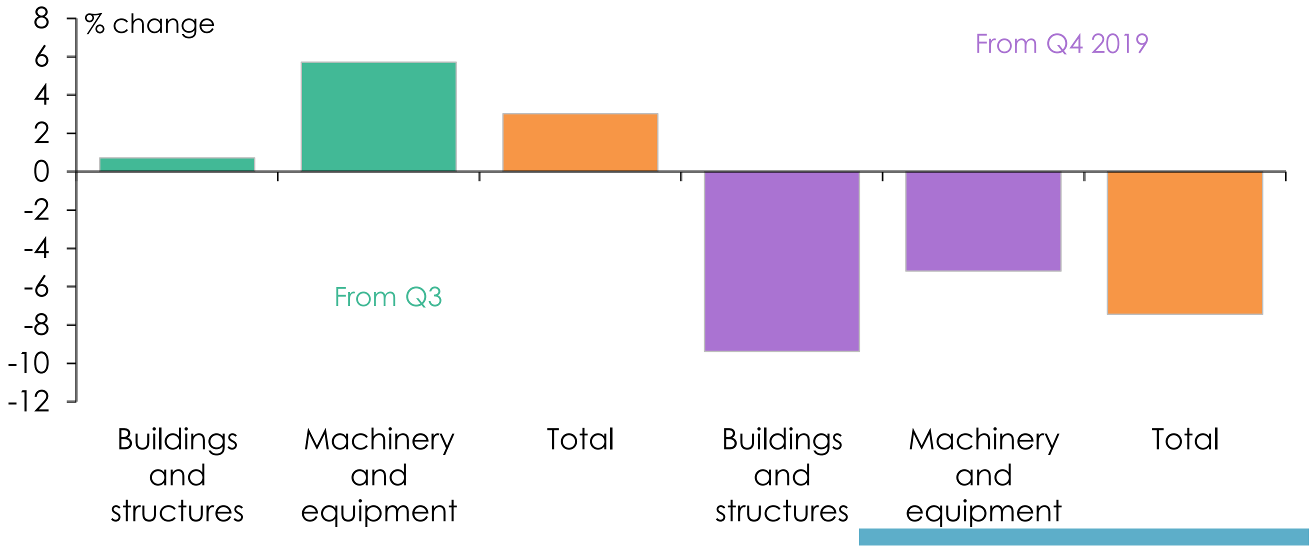
Real business new fixed capex, by industry, Q4



Real business new fixed capex, by state, Q4 2020



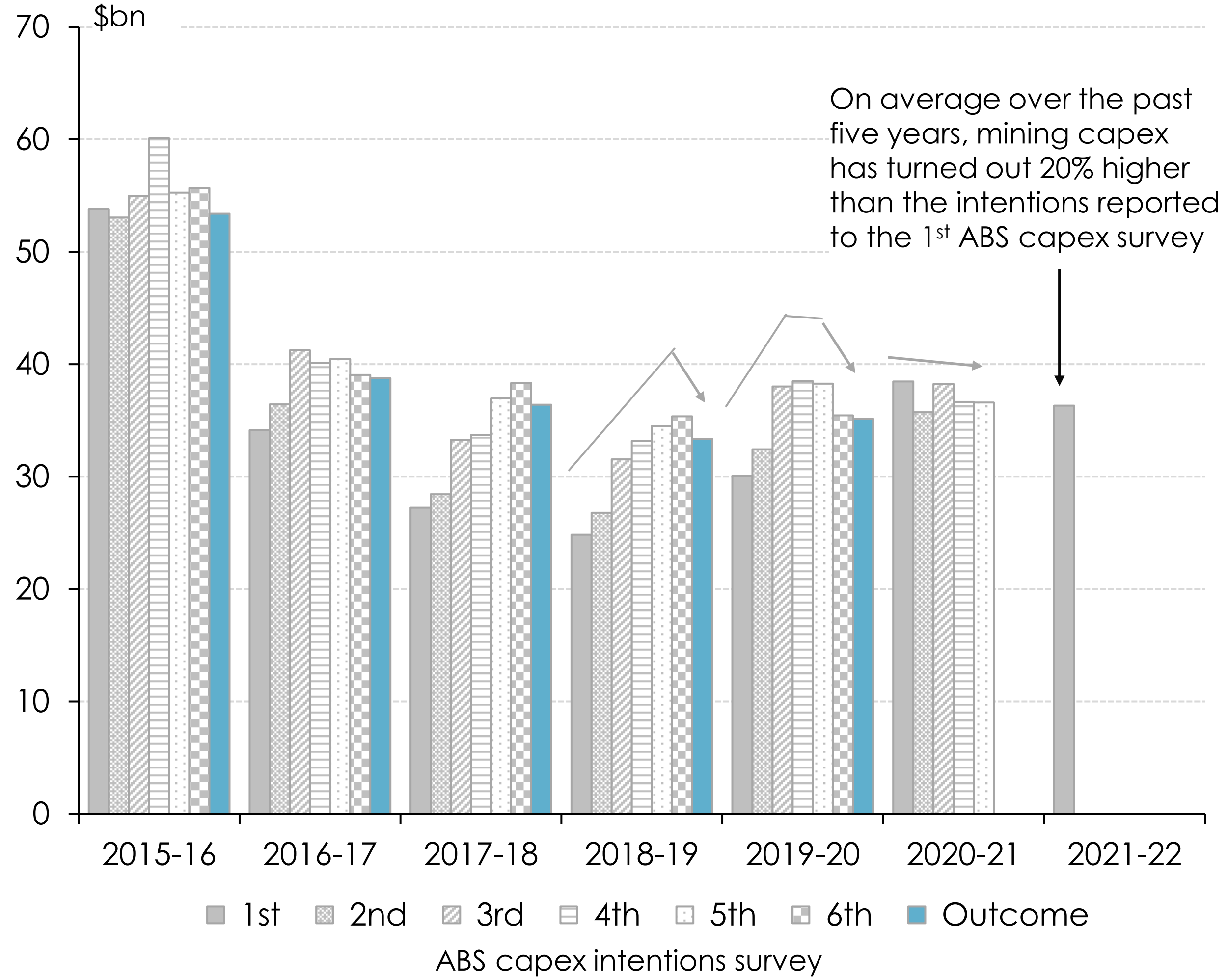
Real business new fixed capex, by asset, Q4



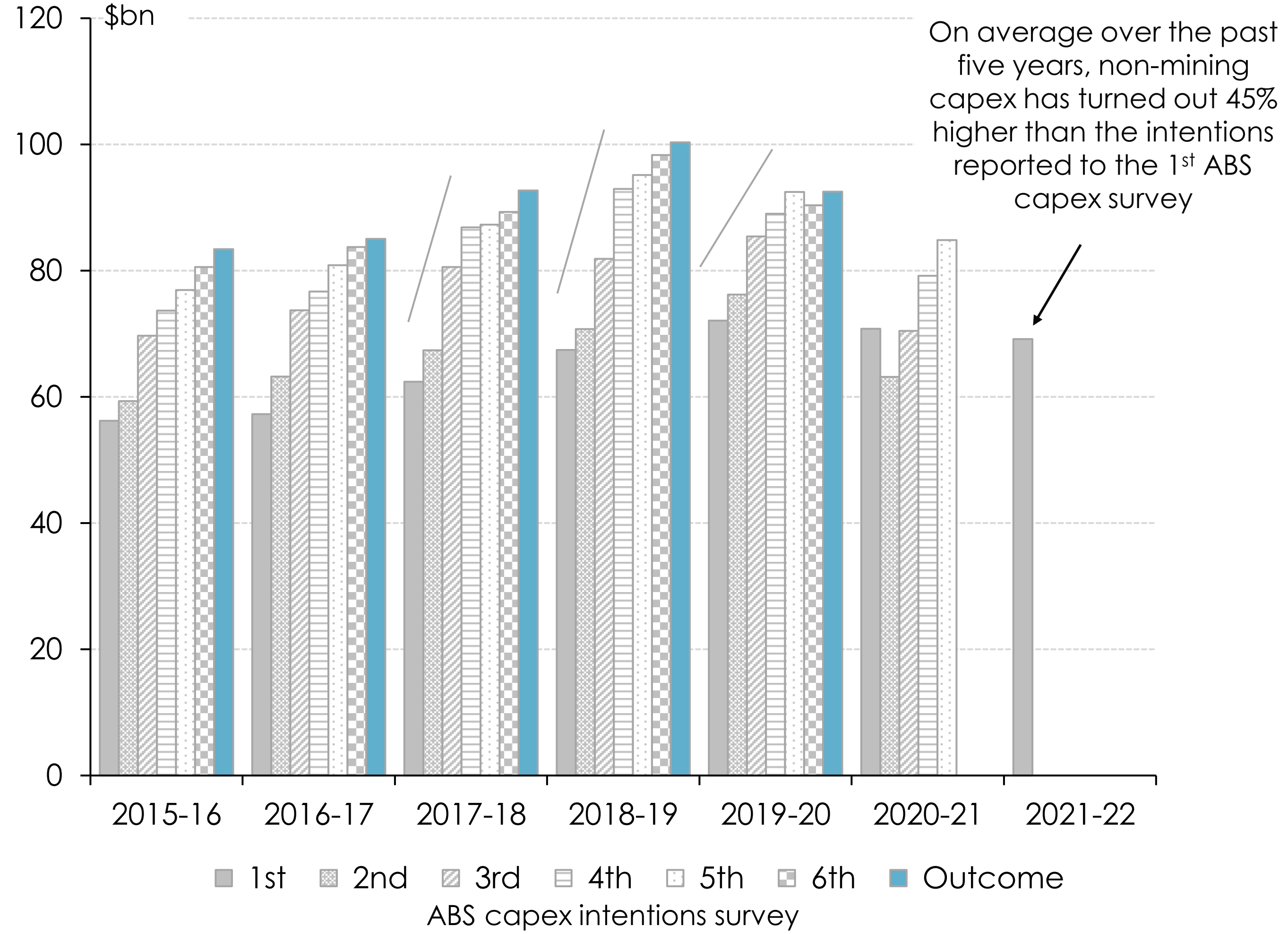
Note: the ABS Survey of New Capital Expenditure excludes the agriculture, forestry & fishing, and public administration & defence sectors, and superannuation funds.
Source: ABS, Private New Capital Expenditure and Expected Expenditure, Australia; March quarter data will be released on 27th May. Return to "What's New".

Business capex now looks like falling a bit less than previously suggested in FY 2020-21, while the first estimate for 2021-22 points to a strong rebound

Capital expenditure intentions - mining



Capital expenditure intentions – non-mining

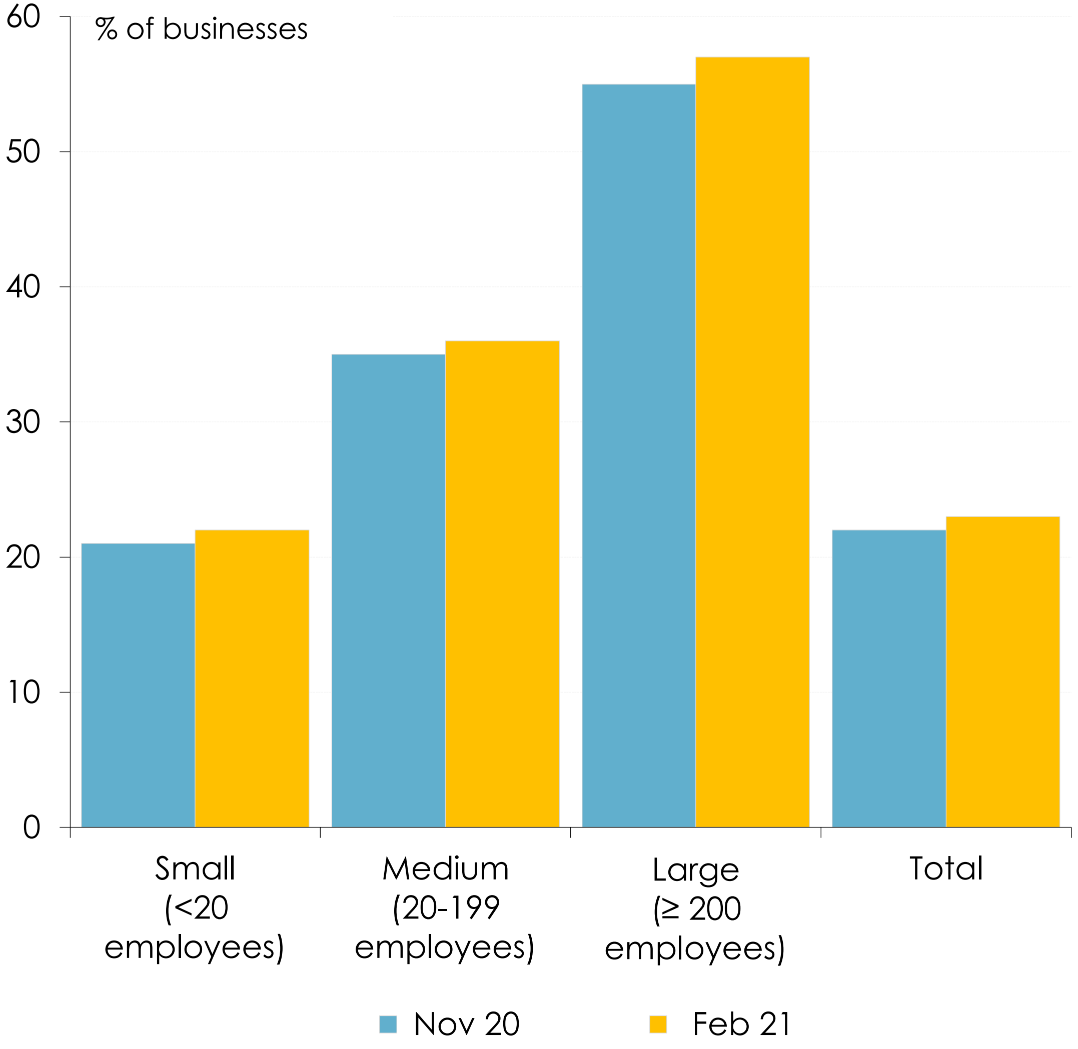


Note: The ABS conducts six surveys of business' capital expenditure intentions in respect of each financial year. The first is conducted in January & February prior to the commencement of the financial year, the second in May & June, the third in July & August of the financial year, the fourth in October & 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. From the December quarter 2020 the survey includes the education & training, and health care & social assistance sectors.
Source: ABS, Private New Capital Expenditure and Expected Expenditure, Australia (next update 27th May).

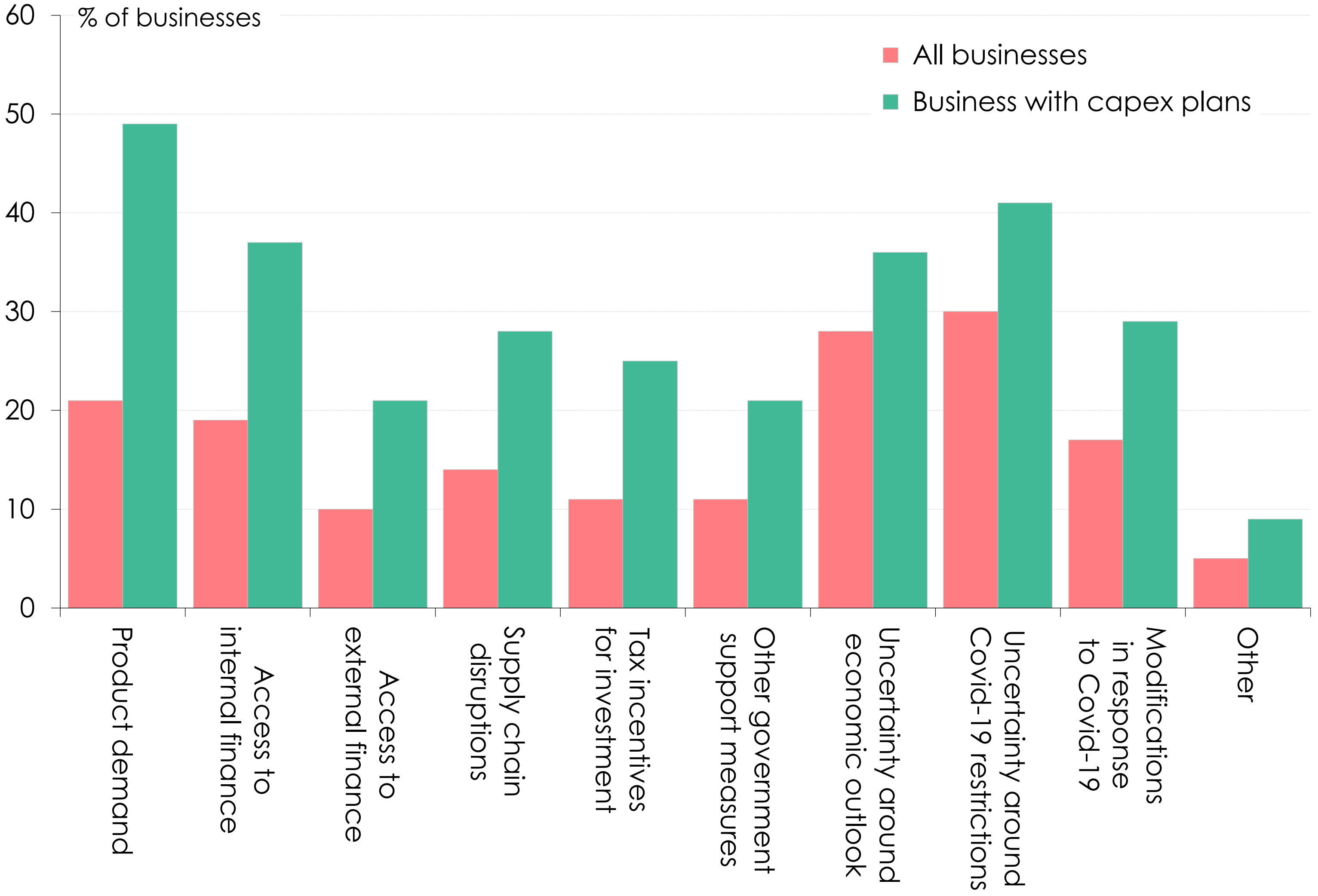
SAUL ESLAKE
CORINNA ECONOMIC ADVISORY

Medium-sized and large businesses will be the 'engine rooms' for capex (as well as job creation), not small ones

Proportion of businesses planning to increase capital expenditures, by business size



Factors affecting business capital expenditure decisions, February 2021



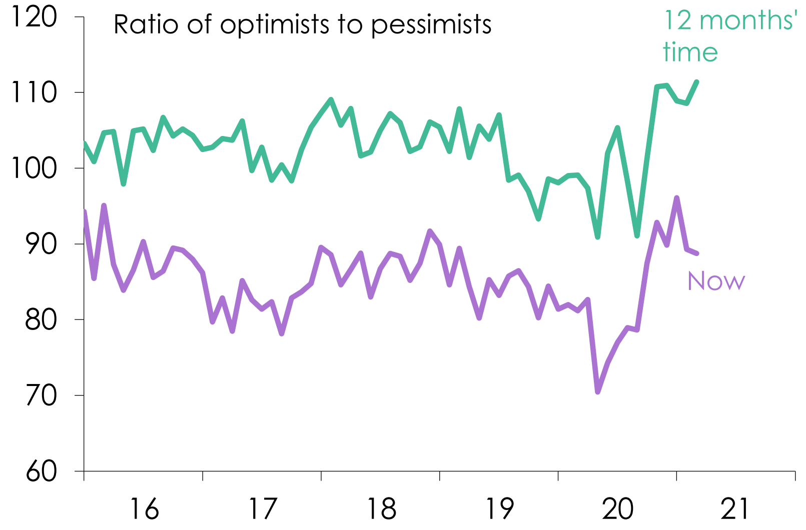
Source: ABS, *Business Conditions and Sentiments*, February 2021. See slide 86 for data on employee hiring intentions by business size. Return to "What's New".

SAUL ESLAKE
CORINNA ECONOMIC ADVISORY

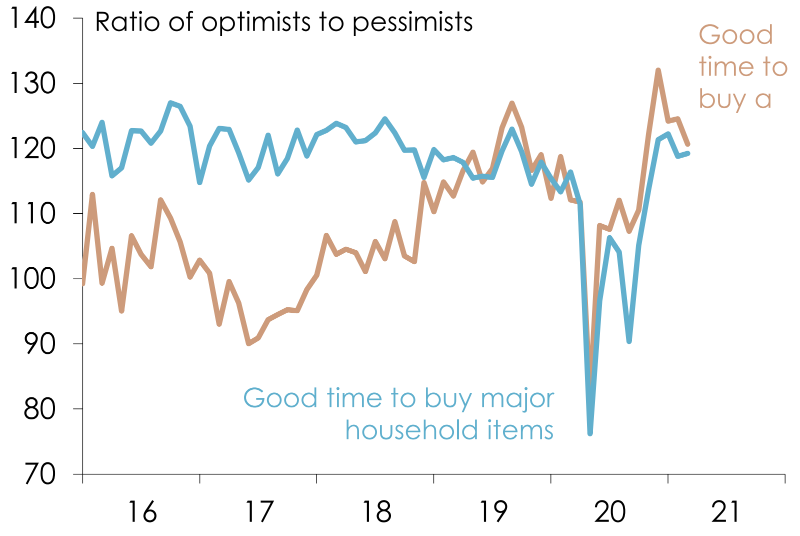
Consumer confidence rose a little in February to the second-highest since in over 7 years, would have been more but for falls in Queensland and WA

Consumer confidence index

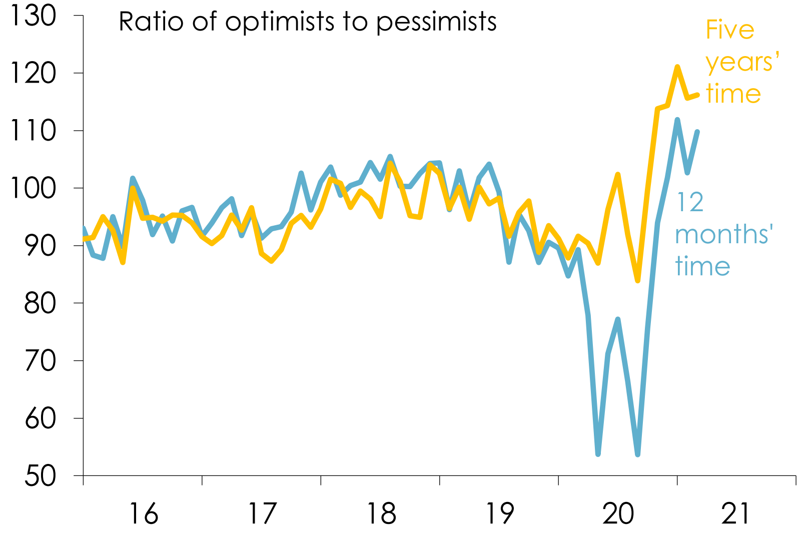
Household finances assessment



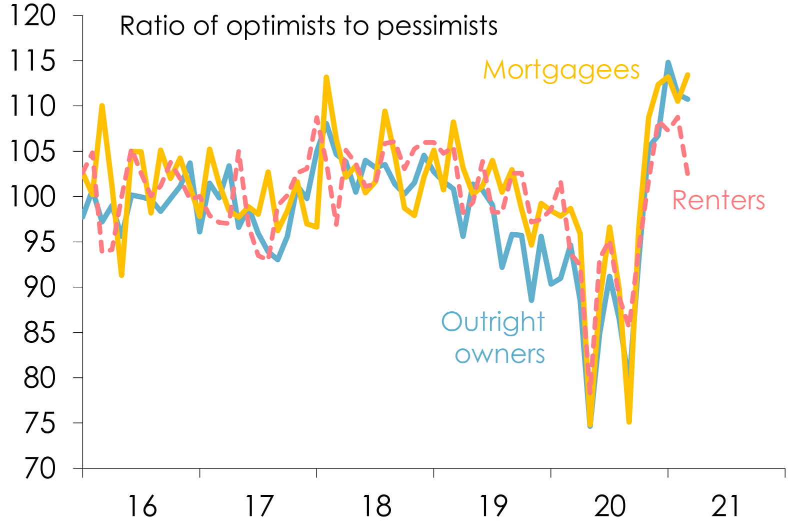
Buying conditions assessment



Economic conditions assessment



Confidence by housing tenure

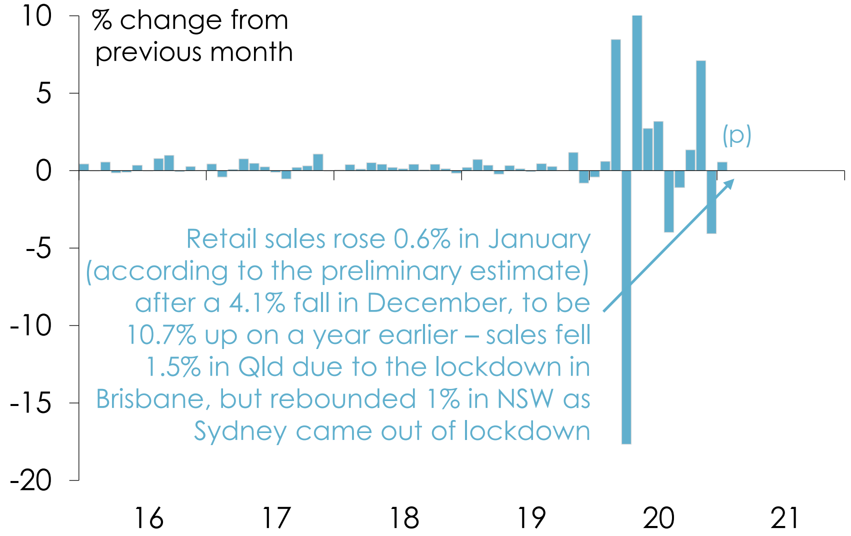


Source: Westpac Banking Corporation. March consumer confidence will be released on 10th March. Return to "What's New".

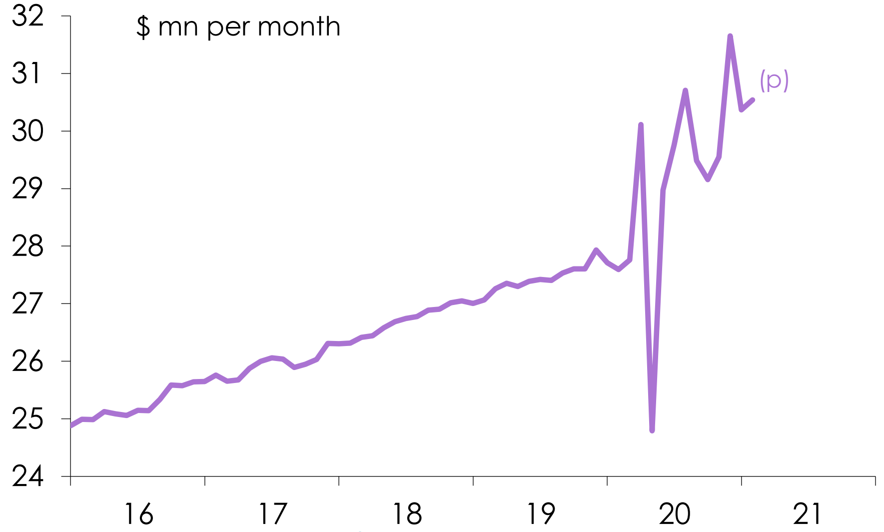
SAUL ESLAKE
CORINNA ECONOMIC ADVISORY

Retail sales rose 0.6% in January (weighed down by the lockdown in Brisbane), while new motor vehicle sales fell 6% (after four large rises)

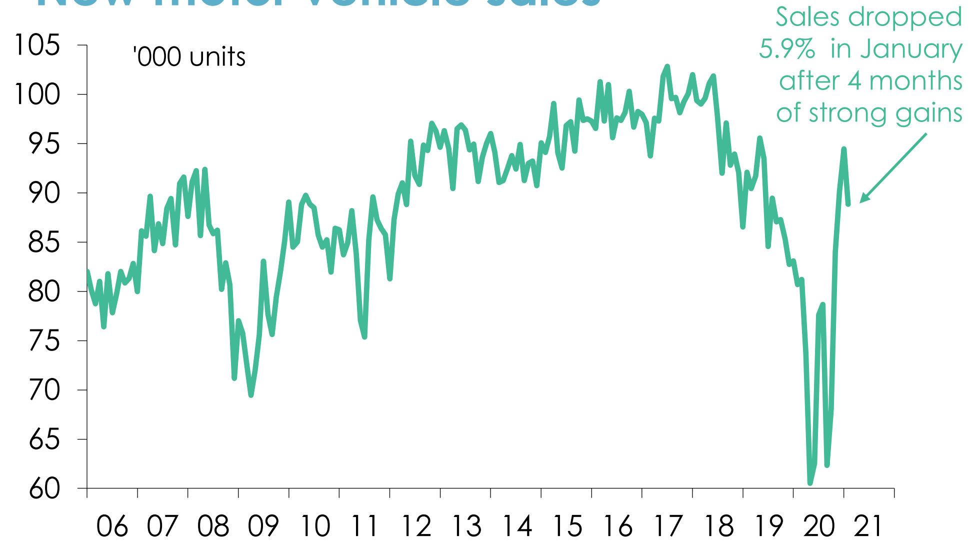
Monthly retail sales



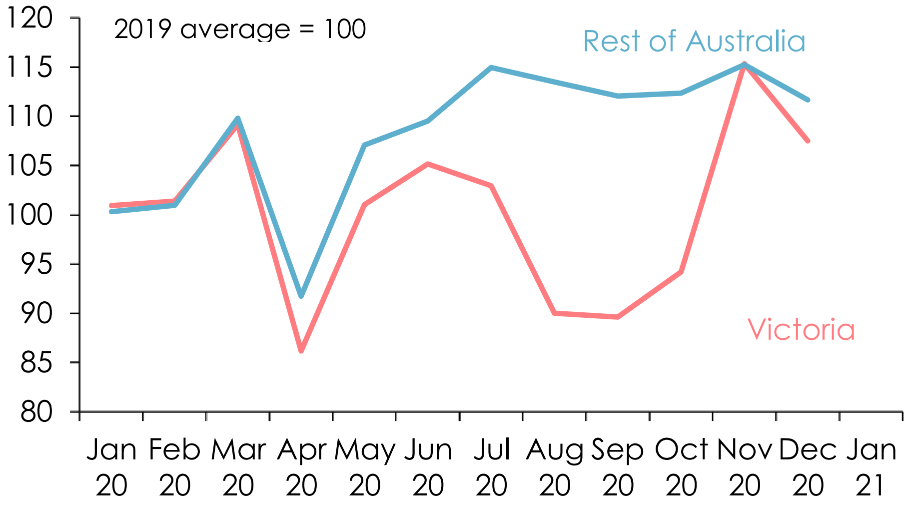
Level of retail sales



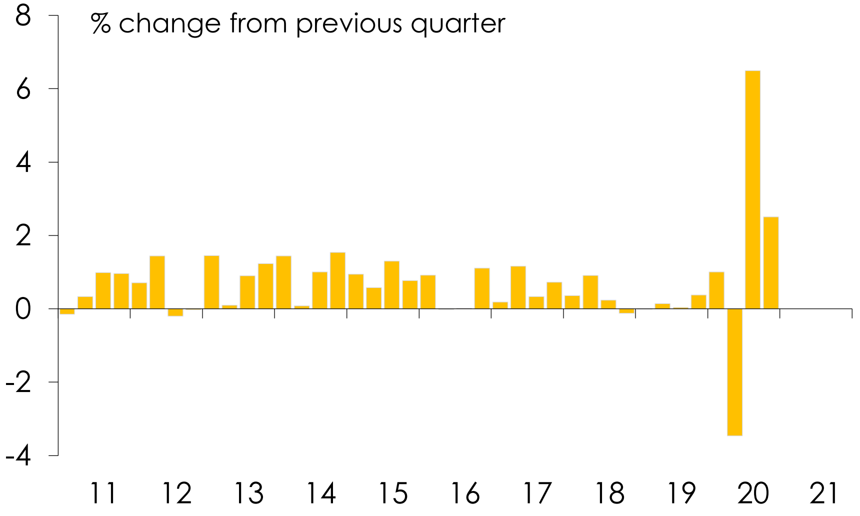
New motor vehicle sales



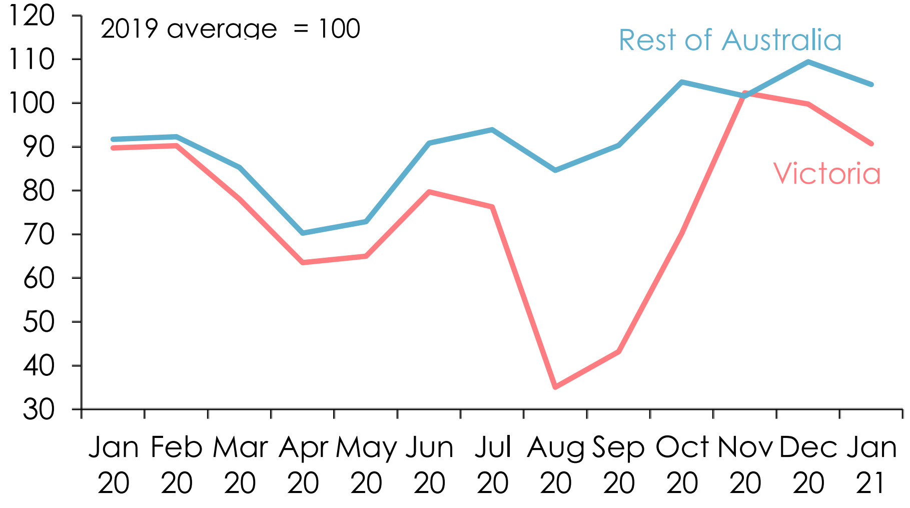
Retail sales – Victoria & the rest



Quarterly retail sales volumes



Vehicle sales – Victoria & the rest

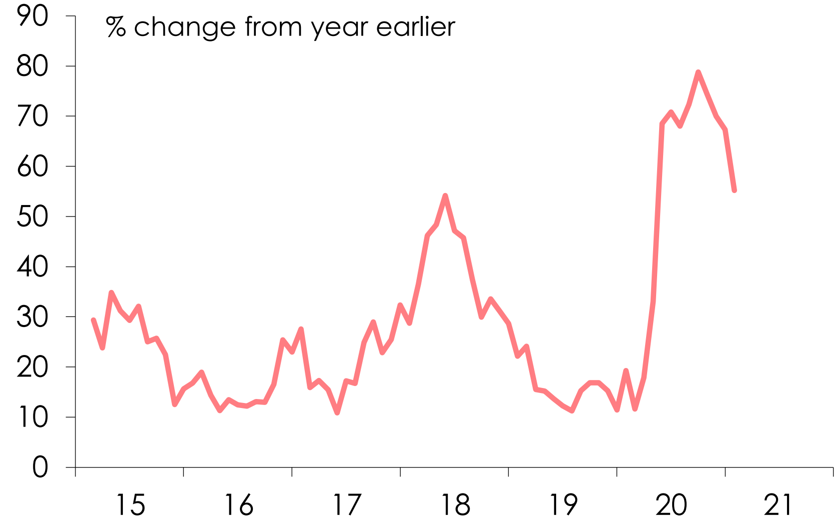


Sources: ABS, Retail Trade, Australia; Federal Chamber of Automotive Industries VFACTS (seasonal adjustment of FCAI data by Corinna). Final January retail sales data will be released on 4th March ; February motor vehicle sales data will be released in mid-March. Return to "What's New".

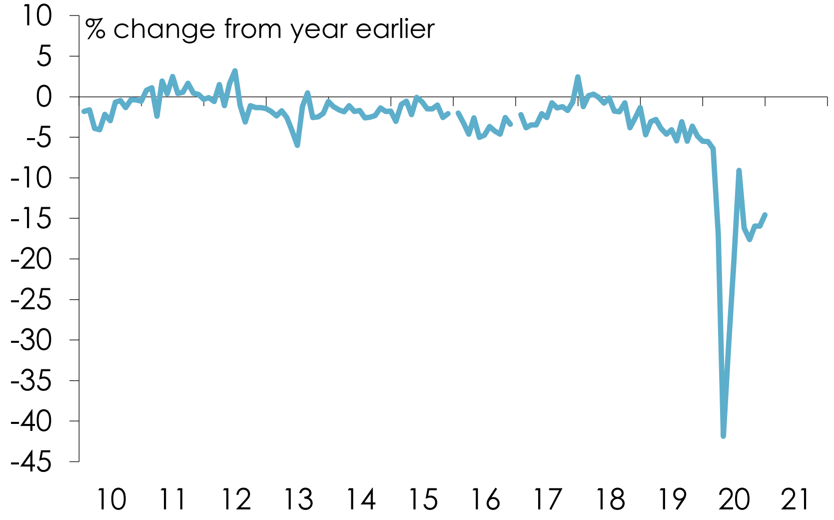
SAUL ESLAKE
CORINNA ECONOMIC ADVISORY

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

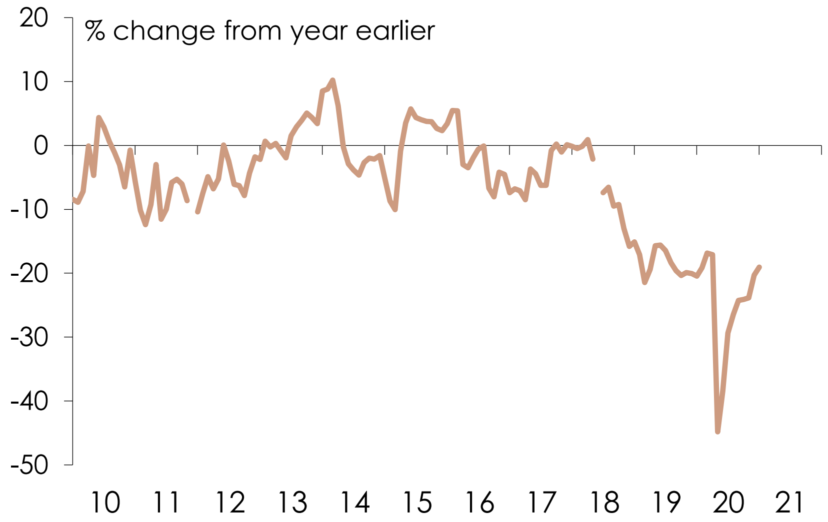
Growth in online retail sales



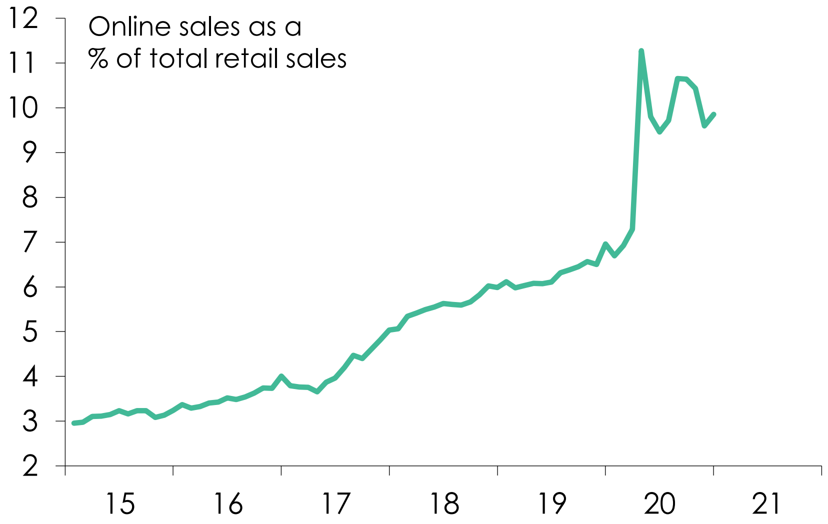
ATM cash withdrawals



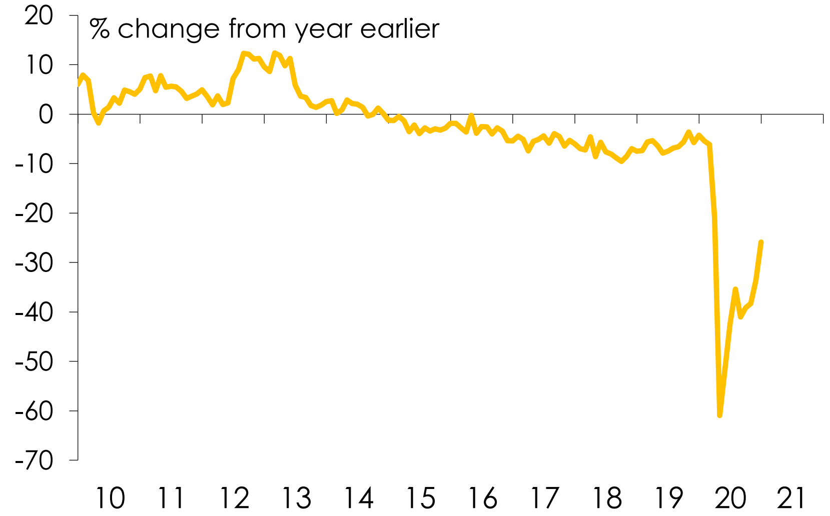
Credit card cash advances



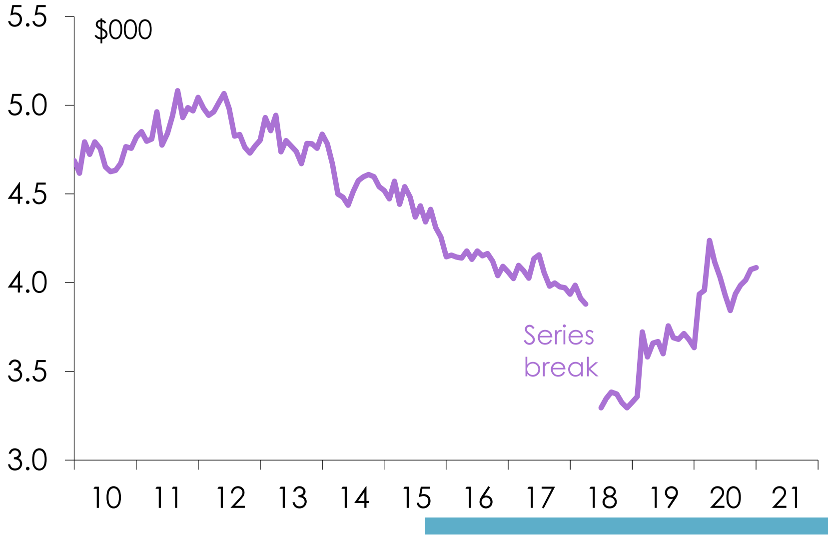
Online retail 'market share'



Debit card cash-outs



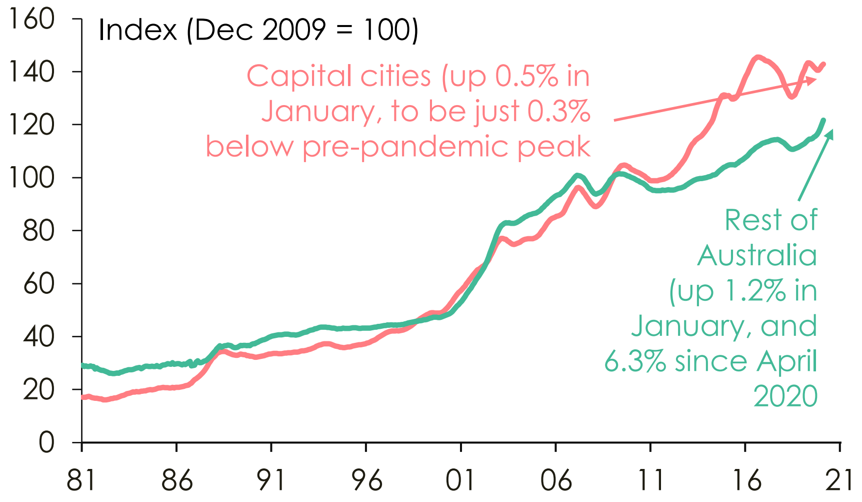
Direct entry payments



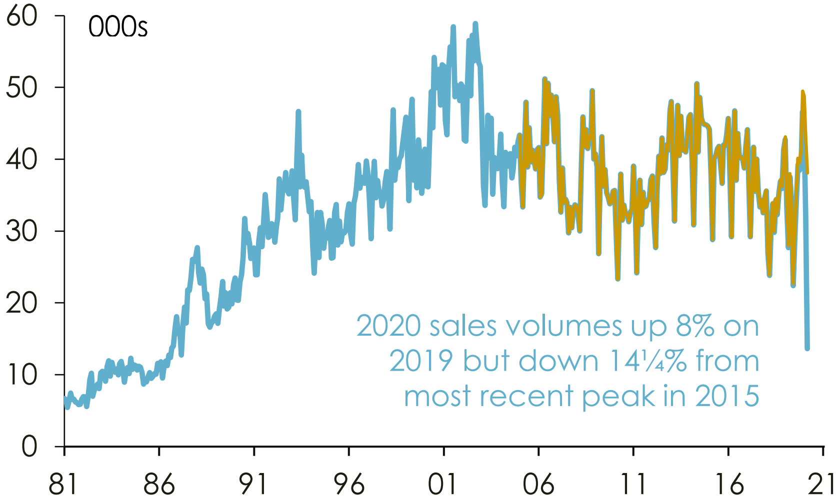
Sources: ABS, Retail Trade, Australia; RBA, Statistical Tables, C1, C2, C4 and C6. Latest data are for December: January data on online retail sales will be published on 4th March, and January data on the payments system on 8th March.

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

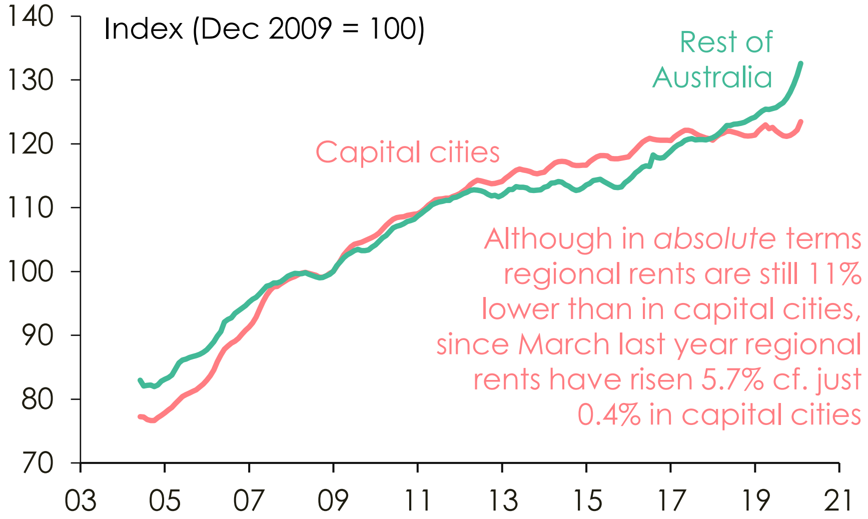
Residential property prices



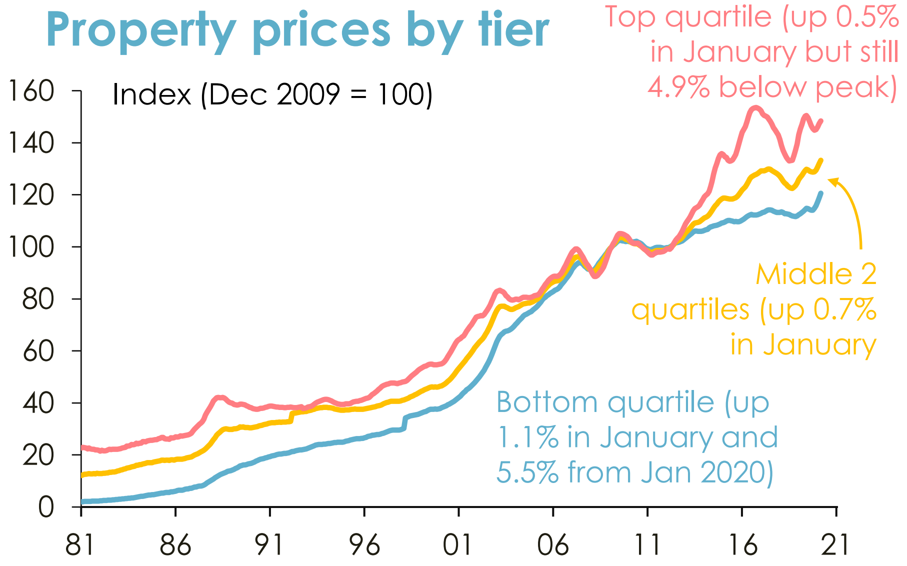
Residential property sales volumes



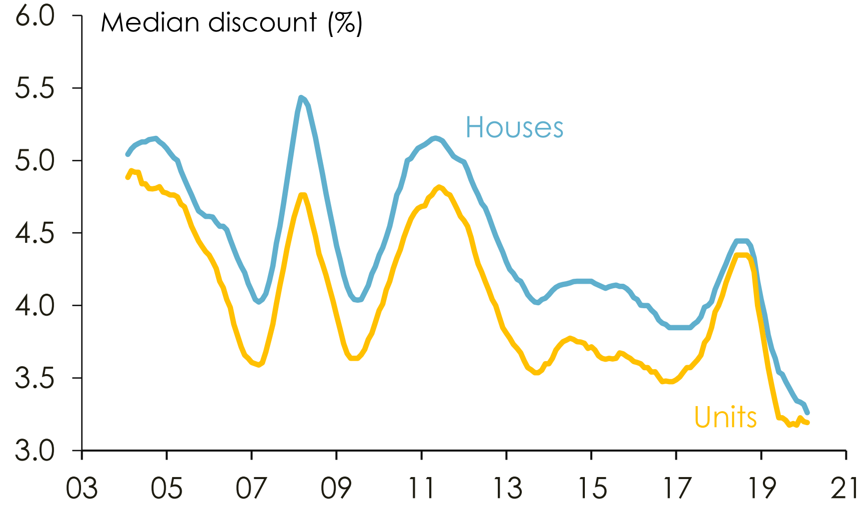
Residential rents



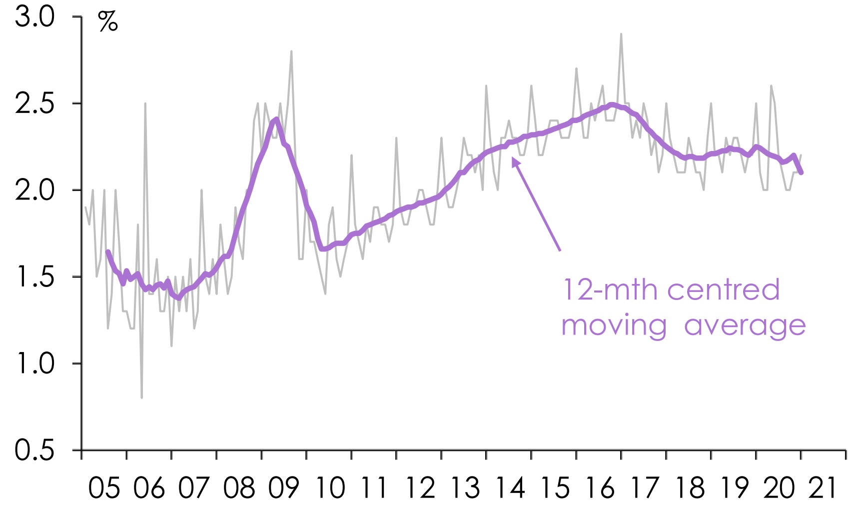
Property prices by tier



Vendor discounting



Capital city rental vacancy rates



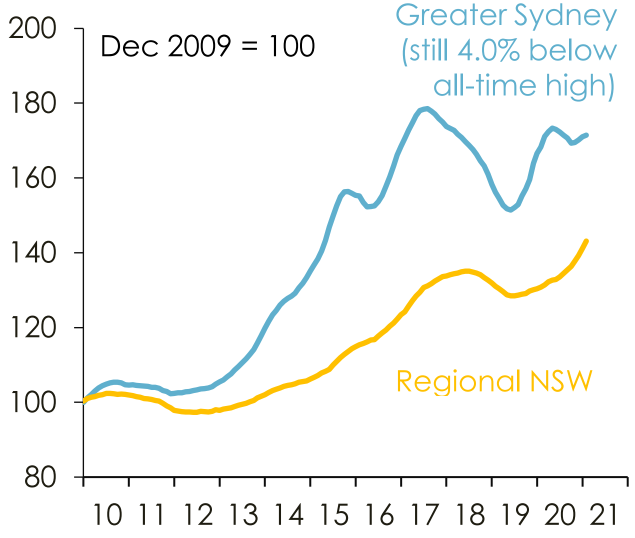
Note: The index of property prices measures the 'organic' change in underlying sales values by using a hedonic regression methodology that takes account of changes in the characteristics of properties being sold from month to month. Property price data are now seasonally adjusted. The index of residential 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".

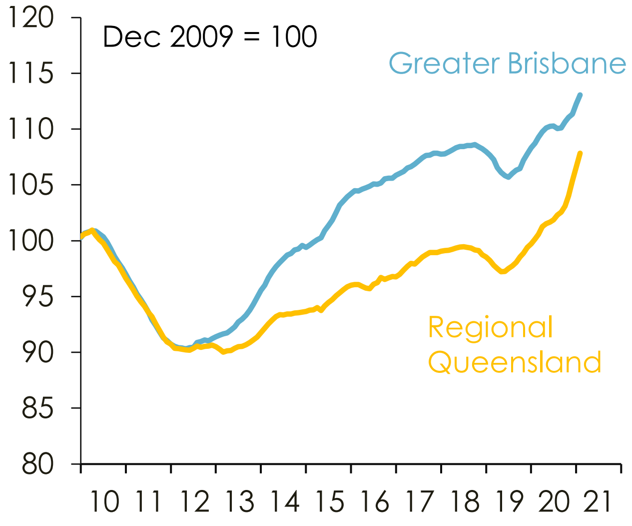
SAUL ESLAKE
CORINNA ECONOMIC ADVISORY

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

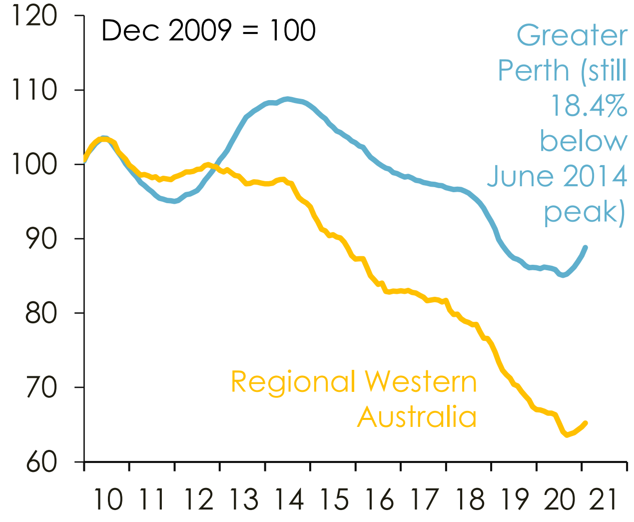
New South Wales



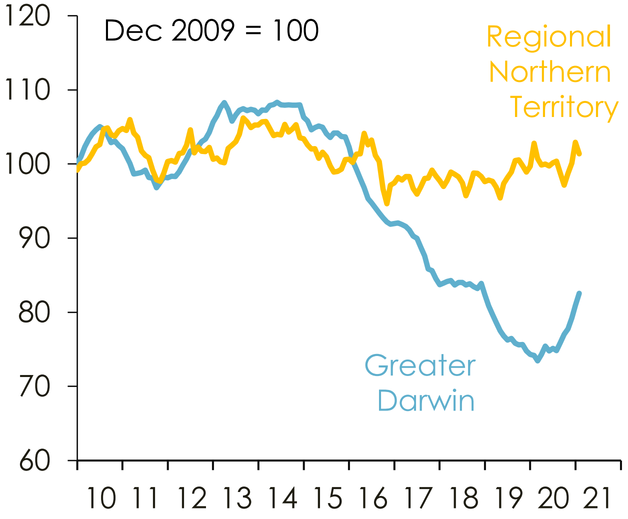
Queensland



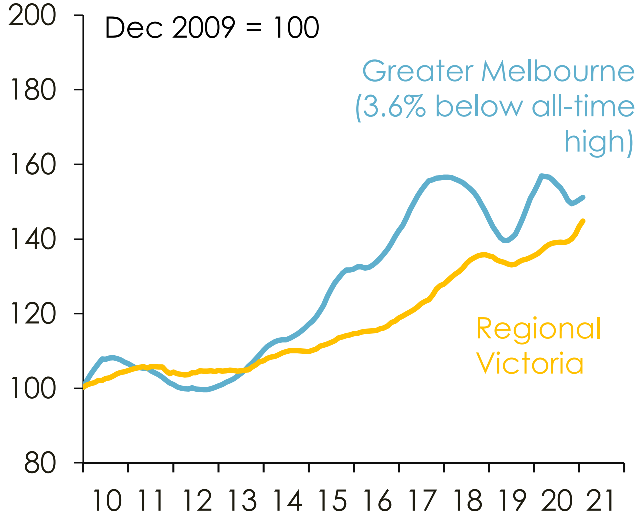
Western Australia



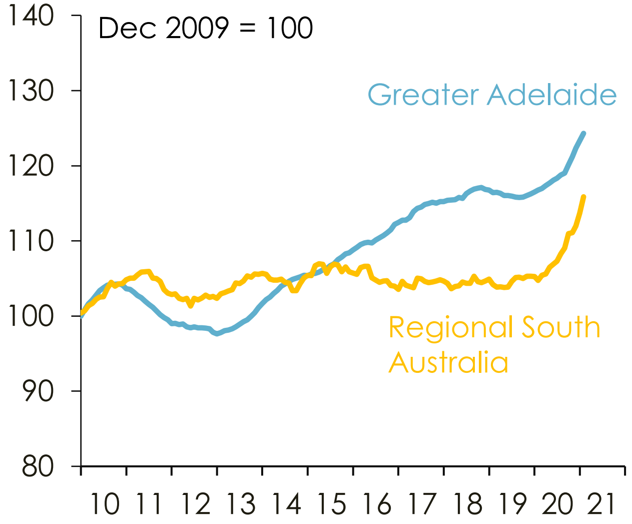
Northern Territory



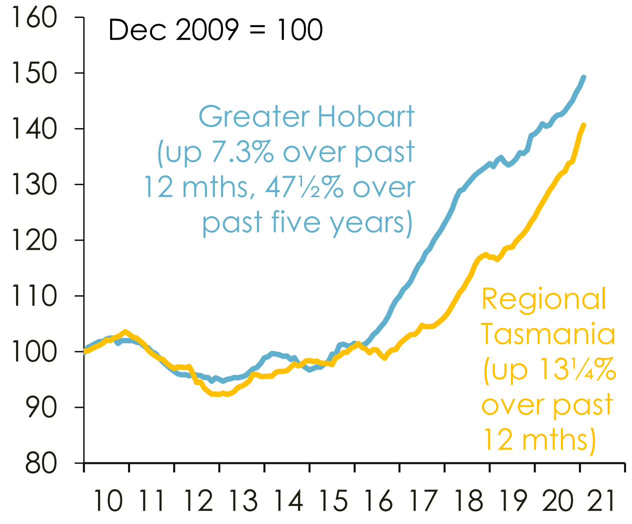
Victoria



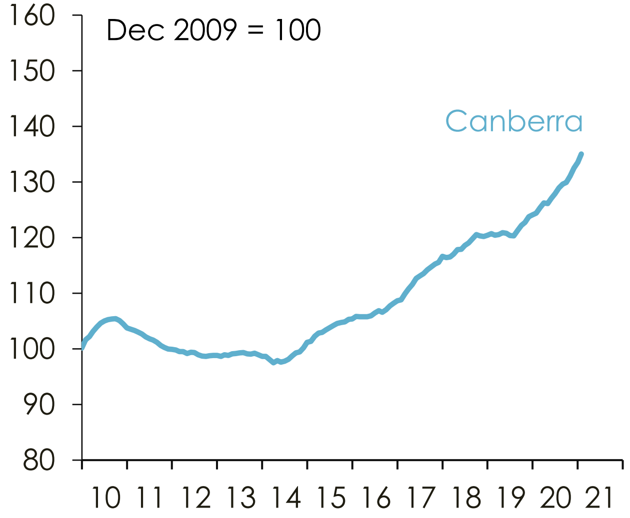
South Australia



Tasmania



Australian Capital Territory

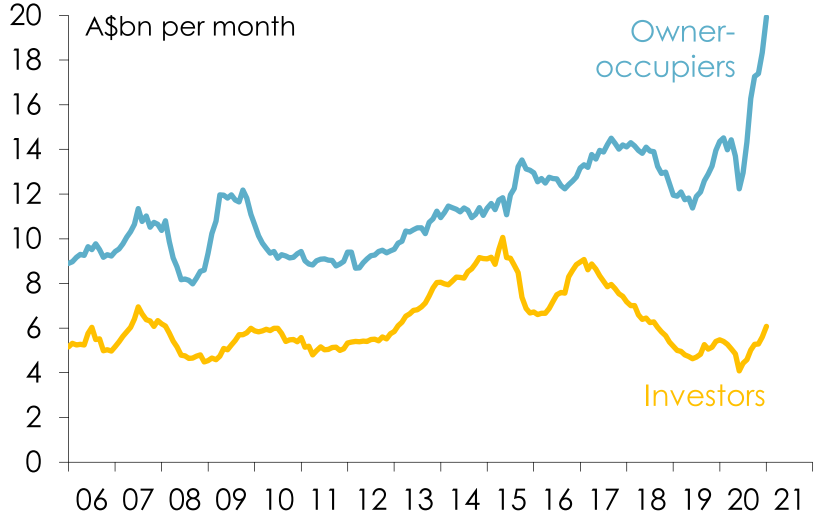


Note: The index of property prices measures the 'organic' change in underlying sales values by using a hedonic regression methodology that takes account of changes in the characteristics of properties being sold from month to month. Property price data are now seasonally adjusted. Latest data are for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

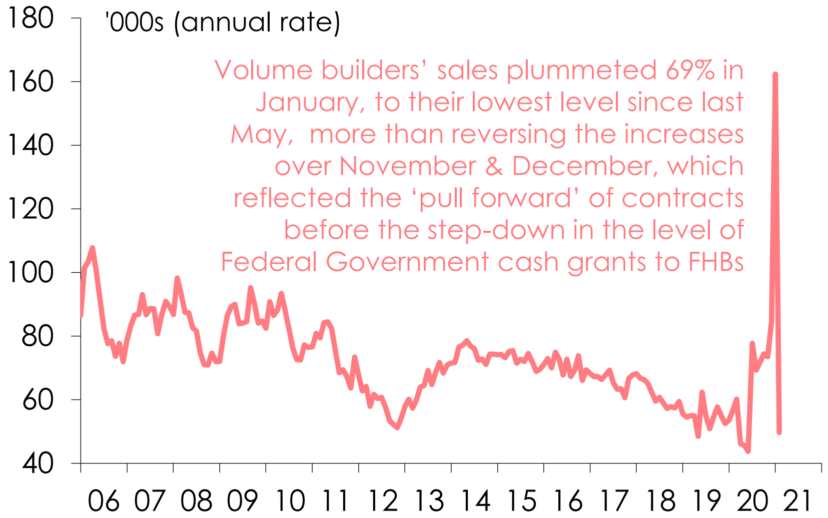
SAUL ESLAKE
CORINNA ECONOMIC ADVISORY

New home sales data for January shows that the strong growth in leading indicators of housing activity reflected ‘pull forward’ by grants to FHBs

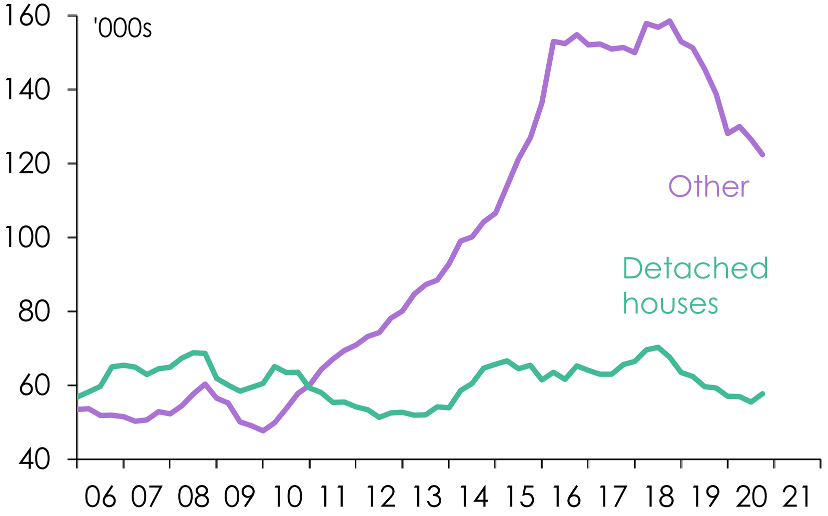
Housing finance commitments



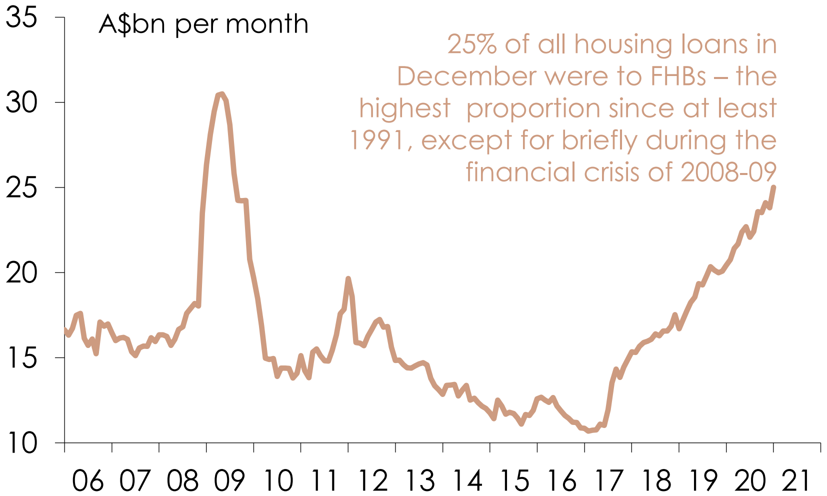
Large builders’ new home sales



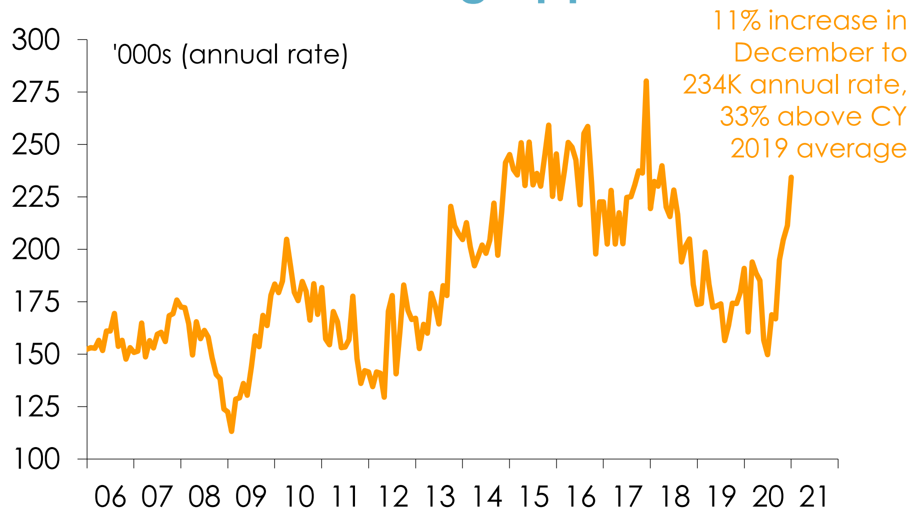
Dwellings under construction



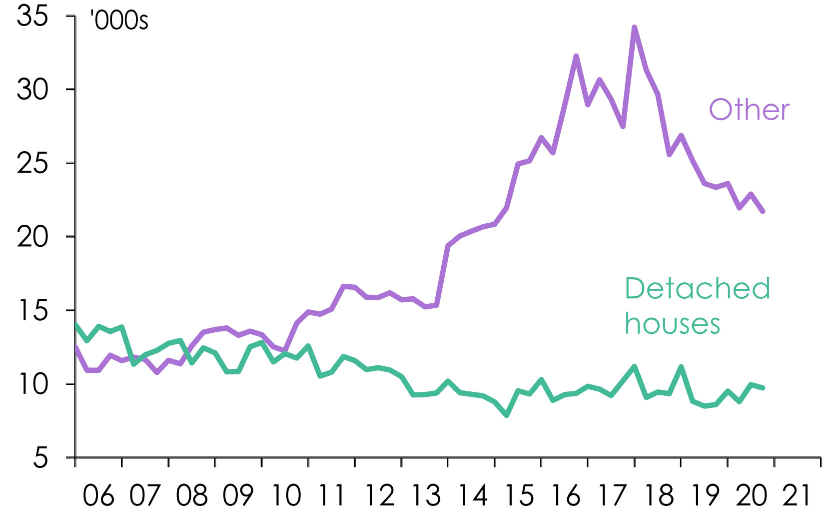
Lending to first home buyers



Residential building approvals



‘Pipeline’ of work yet to be started

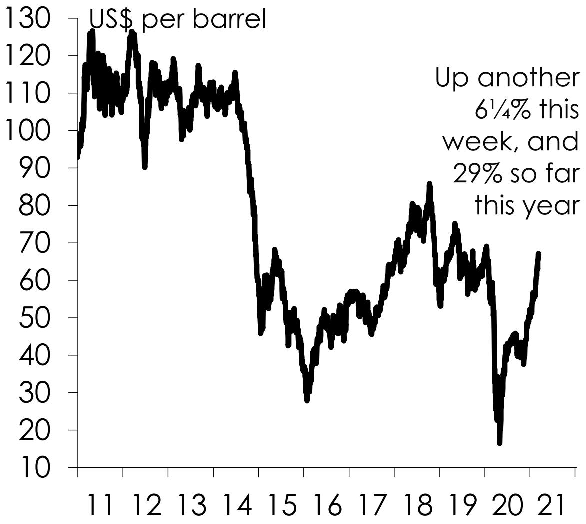


Note: ‘New home sales’ are of detached dwellings only and exclude small-scale builders. *Sources:* ABS; Housing Industry Association. January housing finance data will be released on 1st March; building approvals data on 2nd March; December quarter dwellings under construction and ‘pipeline’ data on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

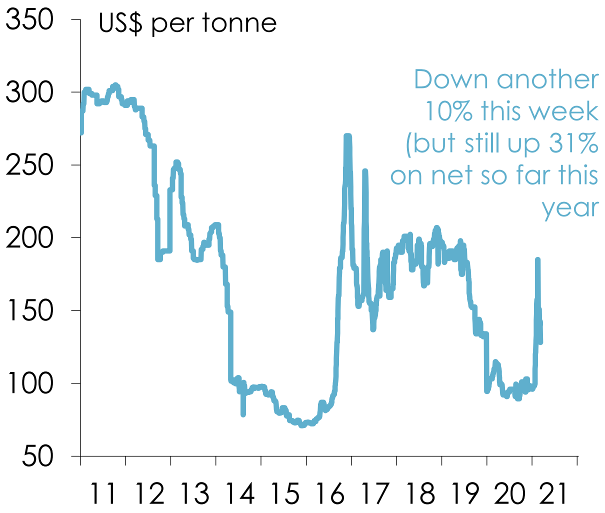
SAUL ESLAKE
CORINNA ECONOMIC ADVISORY

Commodity prices were mixed this week, with iron ore rising a bit more, but met coal, gold and most agricultural commodity prices down

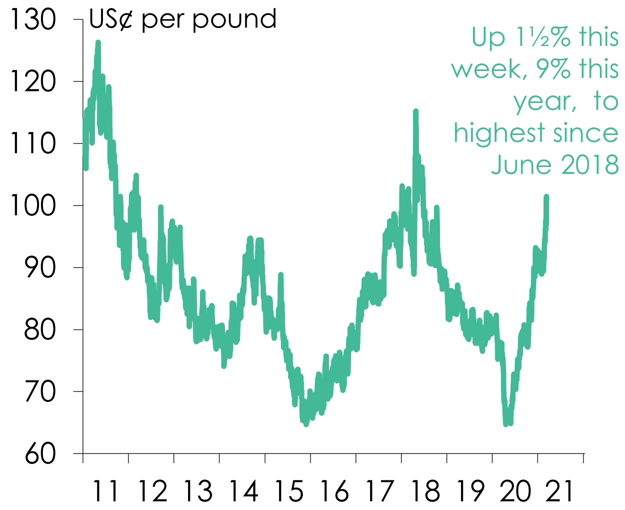
Brent crude oil



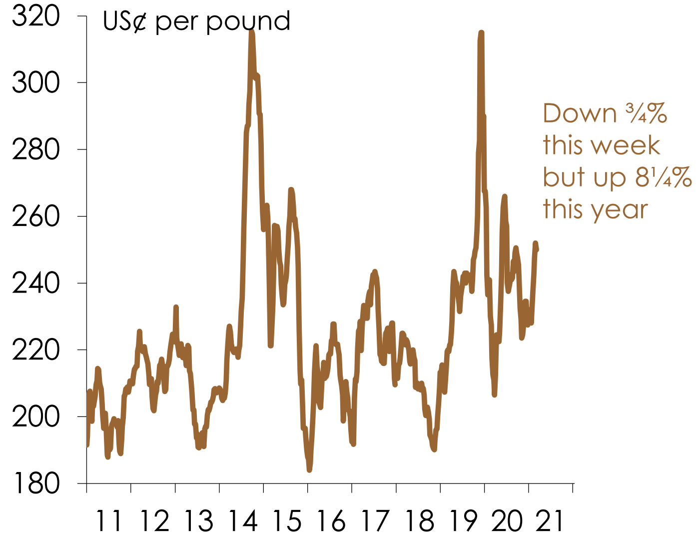
Metallurgical coal



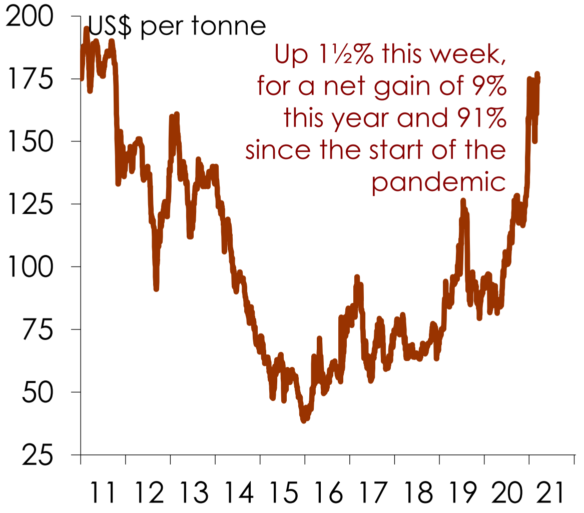
Aluminium



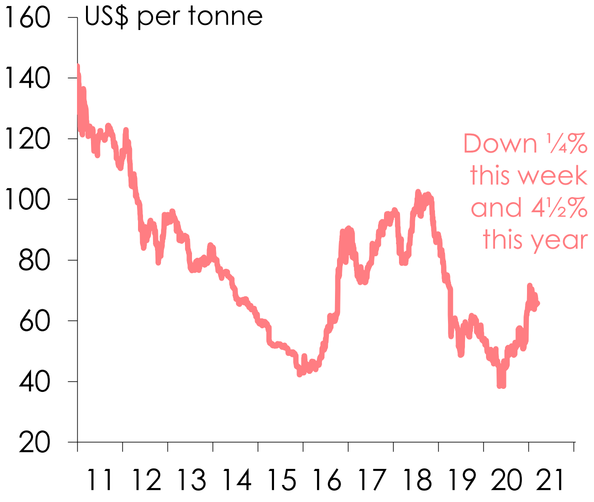
Beef



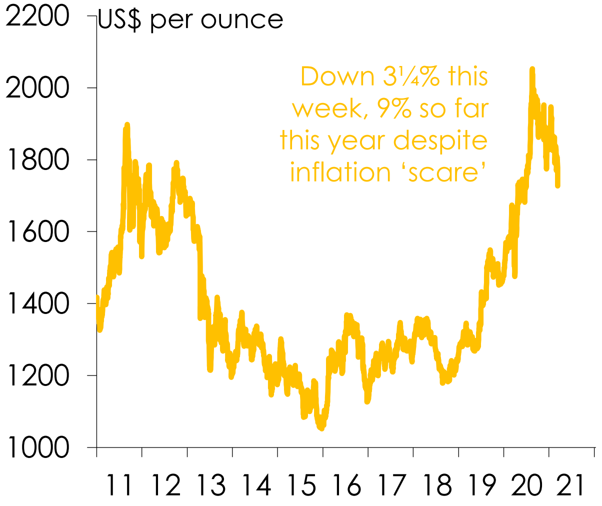
Iron ore



Thermal coal



Gold



Wool

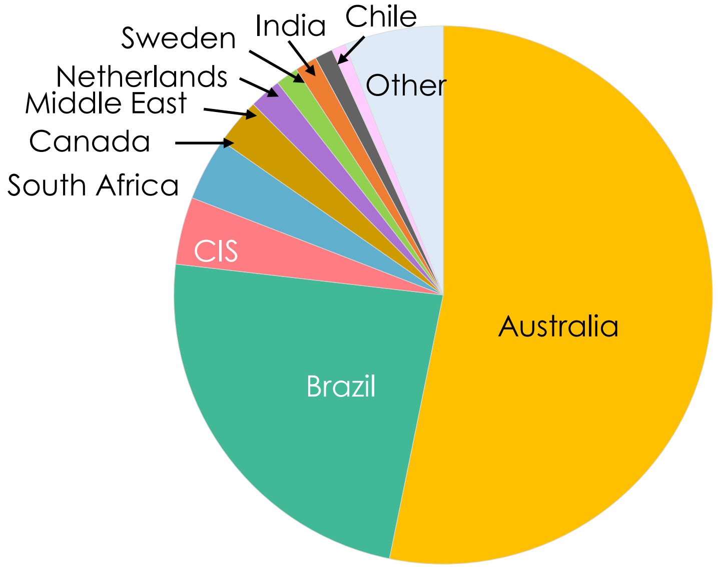
Sources: Refintiv Datastream; Meat & Livestock Australia; Australian Wool Innovation. See next slide for more on iron ore prices. Data up to 26th February.

Return to "What's New".

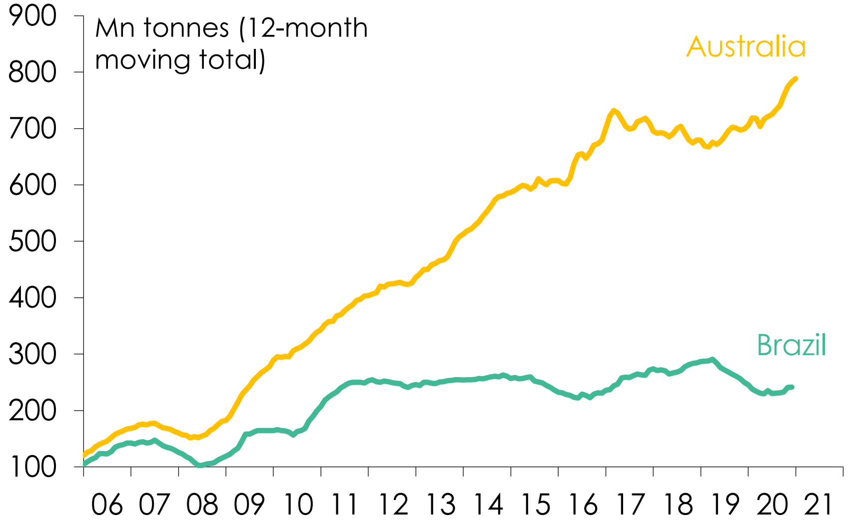
SAUL ESLAKE
CORINNA ECONOMIC ADVISORY

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

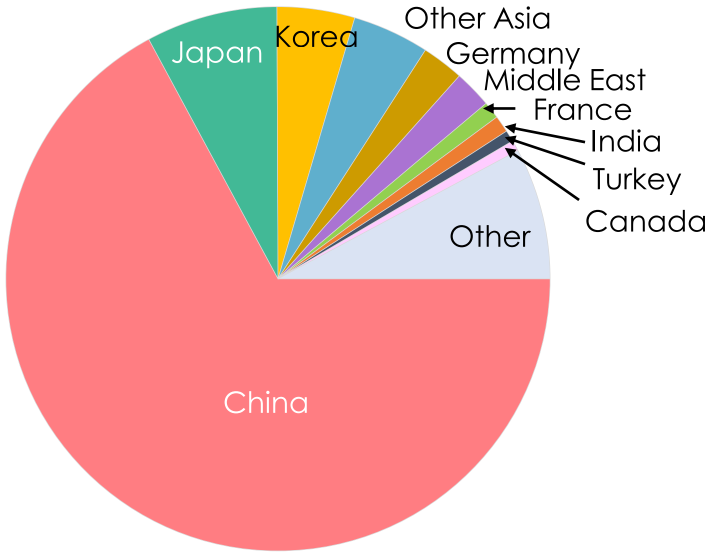
Iron ore exports, 2018



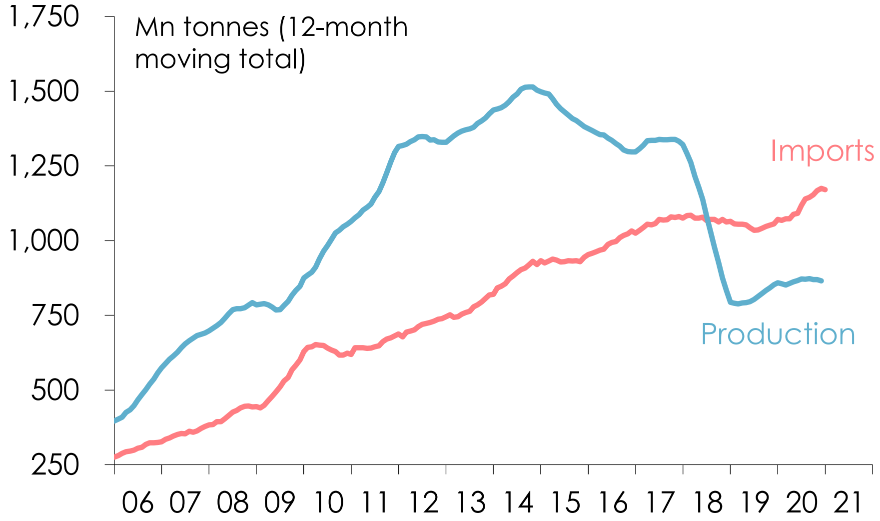
Australia & Brazil iron ore exports



Iron ore imports, 2018



China iron ore production & imports

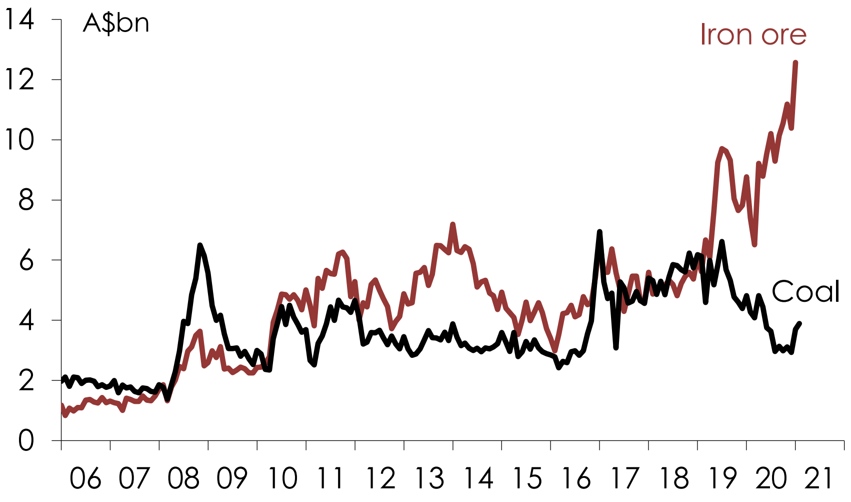


- The global iron ore trade is dominated by shipments from Australia & Brazil to China (which accounts for 53% of global steel production and 51% of steel use) – no other exporter has more than 4% of the global seaborne trade
- Chinese iron ore production has fallen by more than 34% since 2017, largely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

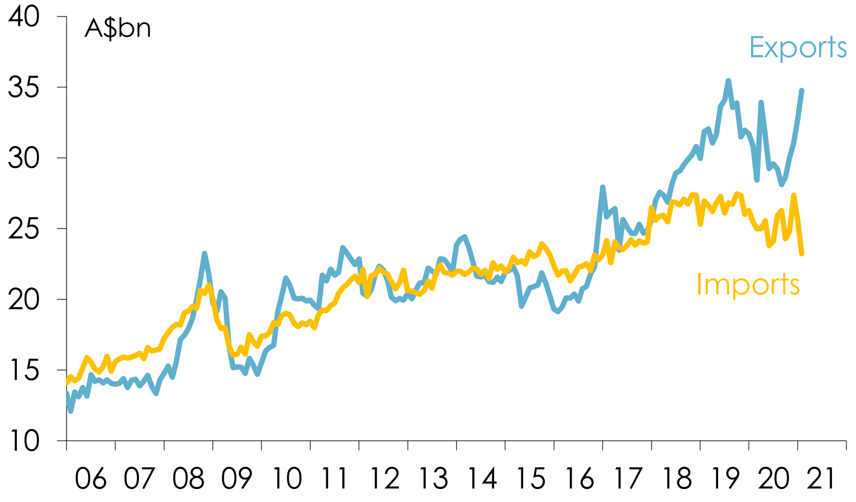
Note: Export volume data for Australia and Brazil derived by dividing export values (in US$) from ABS and IGBE by the average US$ price of Chinese iron ore imports.
Sources: World Steel Association; China National Bureau of Statistics; China General Administration of Customs; Refinitiv Datastream; ABS;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

Preliminary merchandise trade data for January suggest a record goods trade surplus of over $11bn (in seasonally adjusted terms)

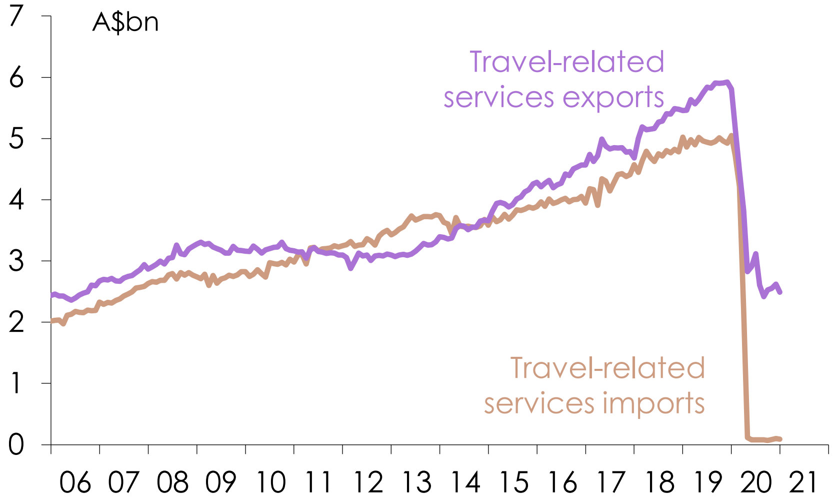
Iron ore and coal exports



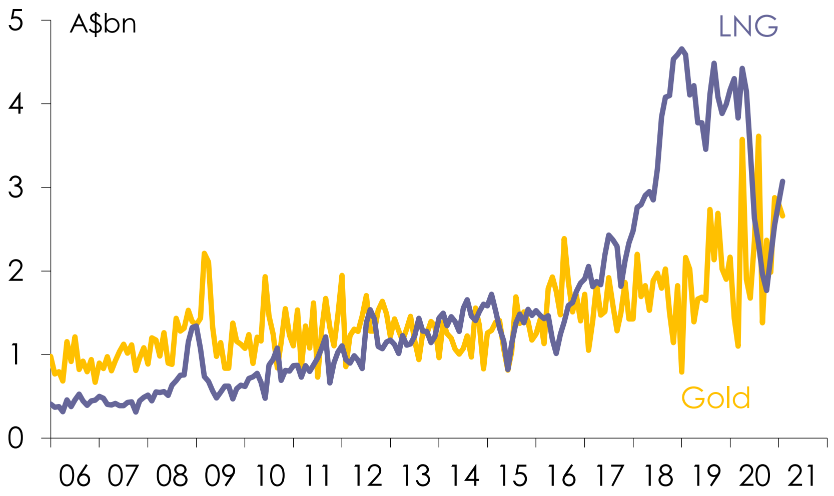
Merchandise exports and imports



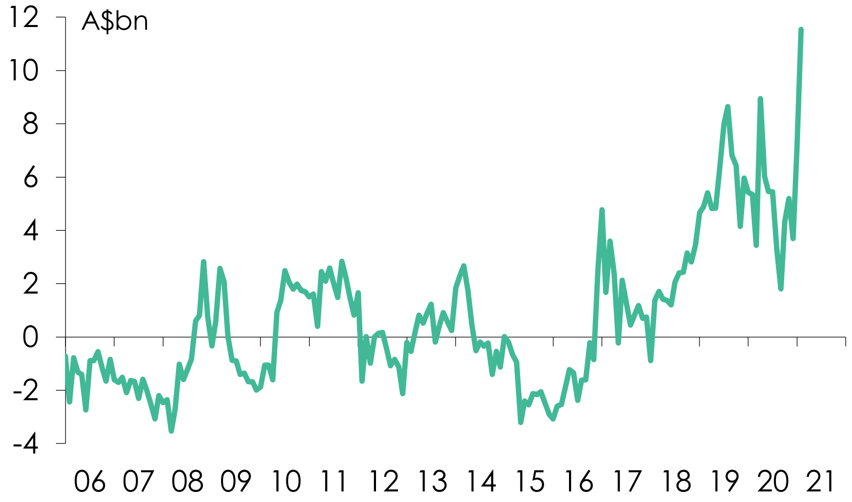
Tourism-related services trade



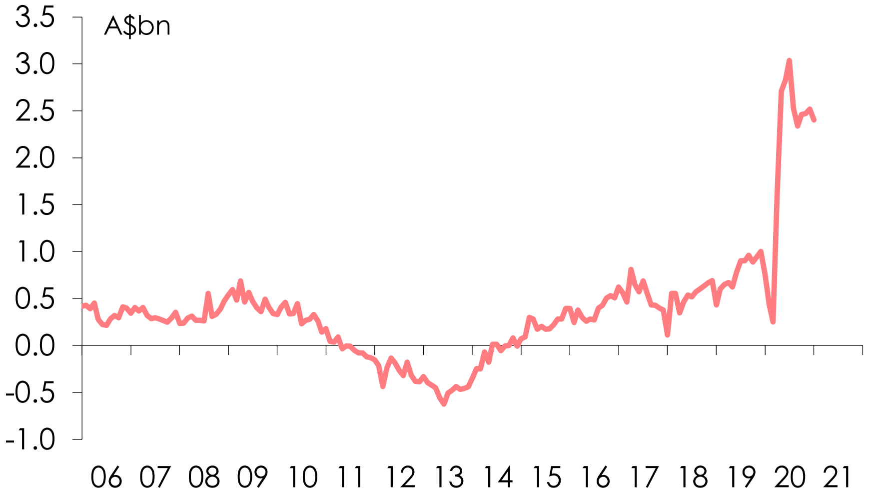
LNG and gold exports



Merchandise trade balance



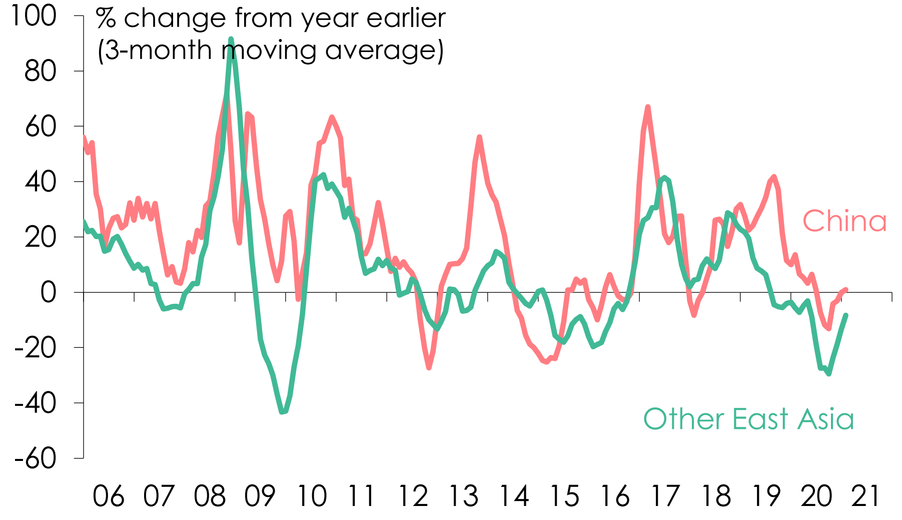
Tourism services trade balance



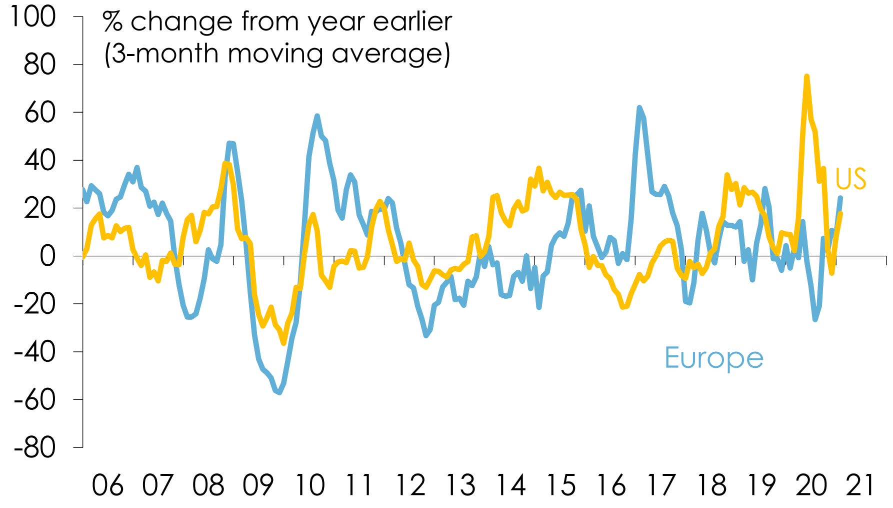
Note: Latest data for merchandise trade are for preliminary January: final data (including for services) will be released on 4th March. Preliminary January data published in original terms have been (roughly) seasonally adjusted using seasonal factors for January 2020. *Sources:* ABS, *International Trade in Goods and Services, Australia* and *International Merchandise Trade, Preliminary, Australia*. Return to "What's New".

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

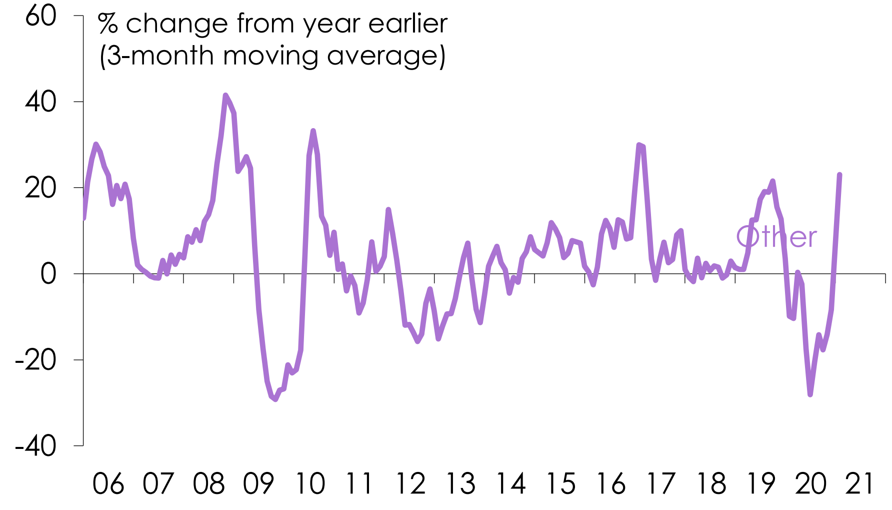
Merchandise exports – East Asia



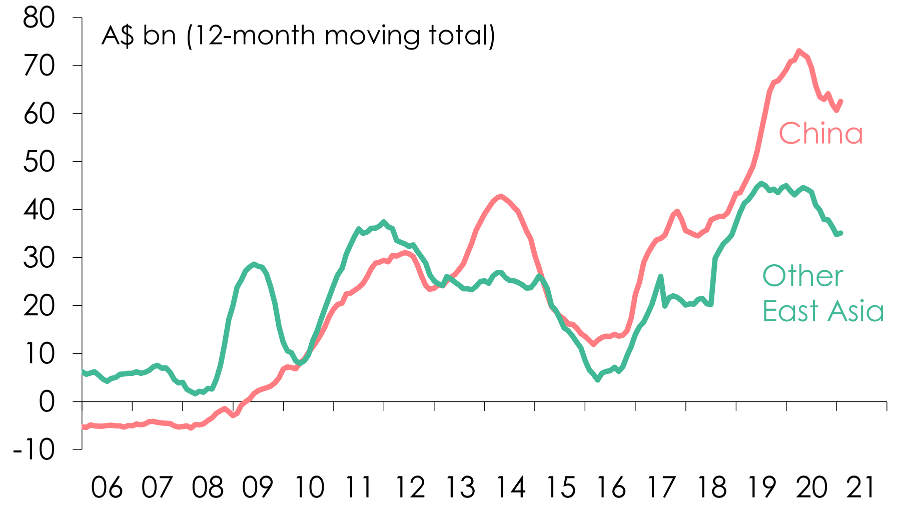
Merchandise exports – US & Europe



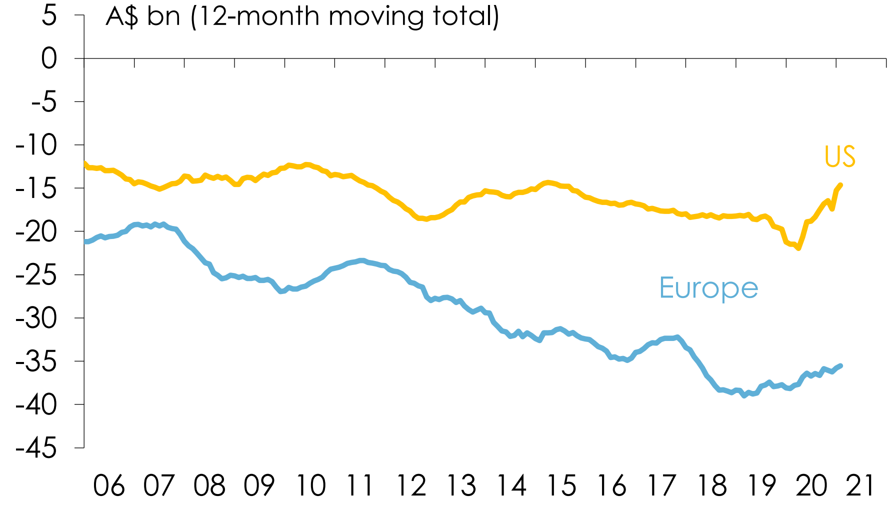
Merchandise exports – other



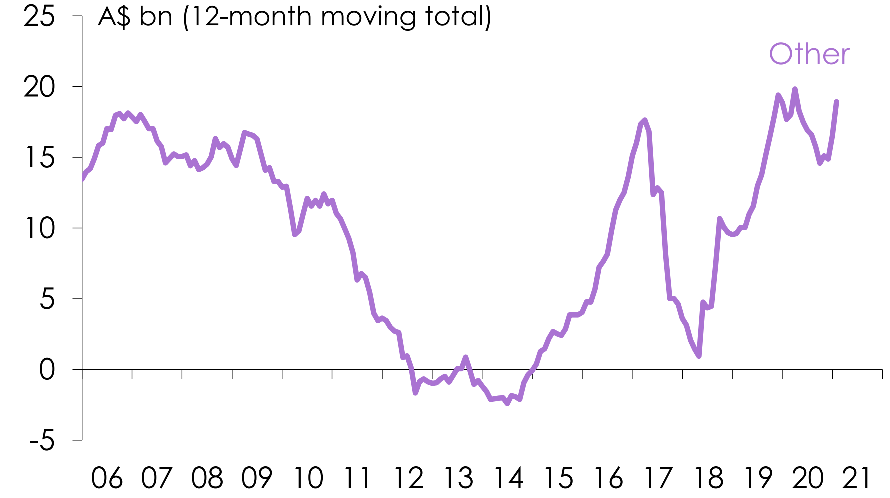
Goods trade balance – East Asia



Goods trade balance – US & Europe



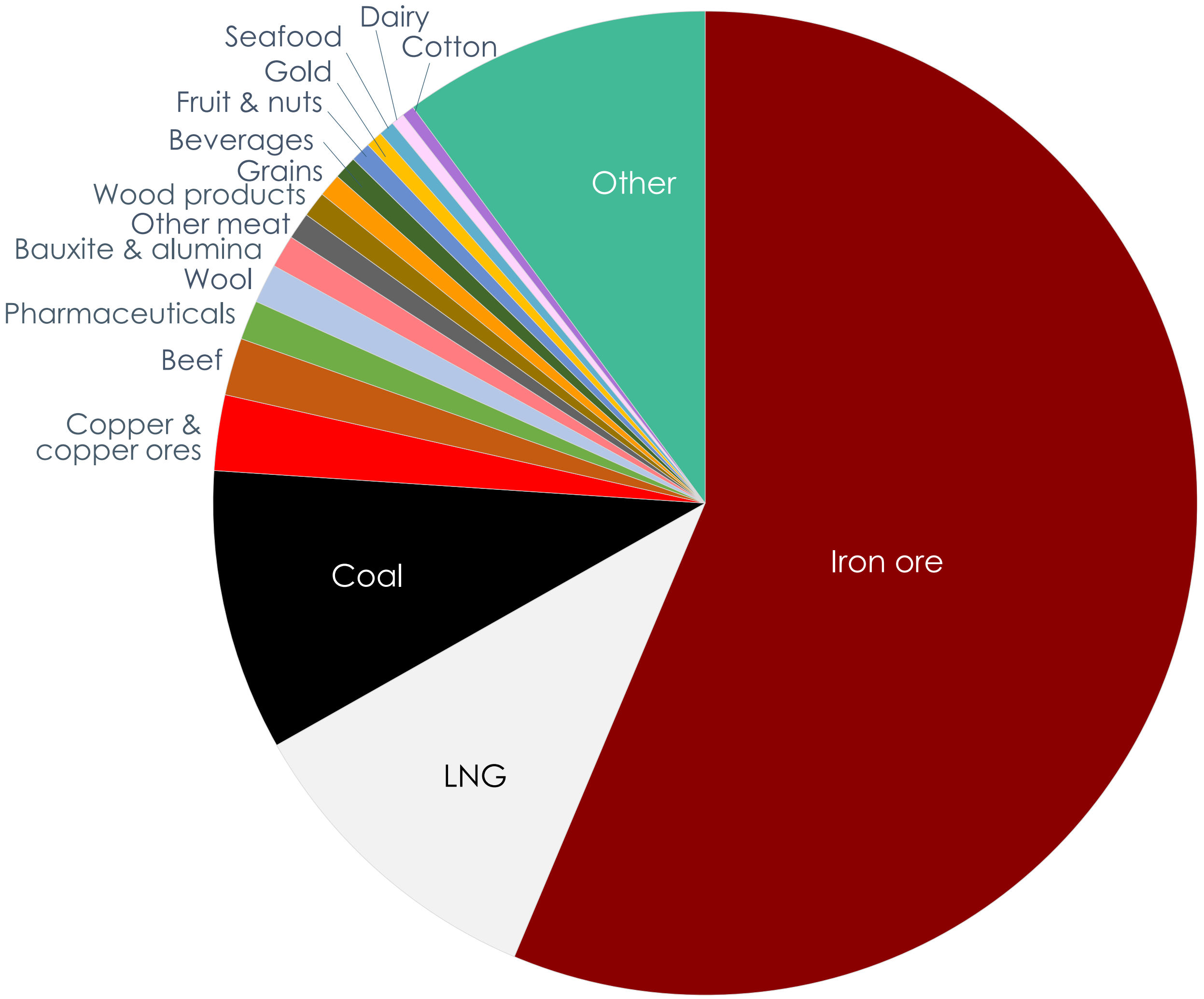
Goods trade balance – other



Note: 'Other East Asia' includes Japan, Korea, Taiwan, Hong Kong and ASEAN. 'Europe' includes the EU, UK and Switzerland. 'Other' includes India, New Zealand and the Pacific, Canada, Latin America, Africa, the Middle East and others not included in the foregoing. Latest data are for January and are preliminary (final data to be released on 4th March. *Source:* ABS, *International Merchandise Trade, Preliminary, Australia*. 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

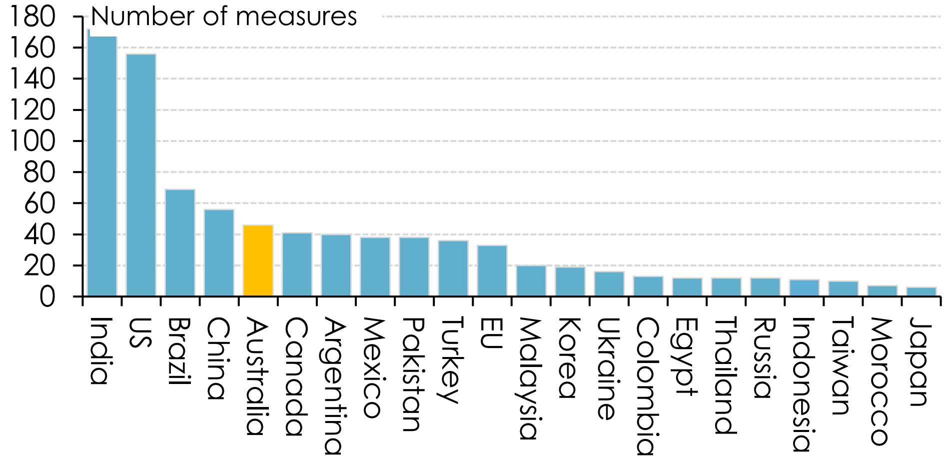


Note: 'Wood' includes wood products; 'dairy' includes milk, cream, butter & cheese; 'seafood' includes crustaceans, fish and processed seafood; 'other' includes confidential items.
Sources: Department of Foreign Affairs & Trade, Trade Statistical Pivot Tables; Corinna.
Return to "What's New".

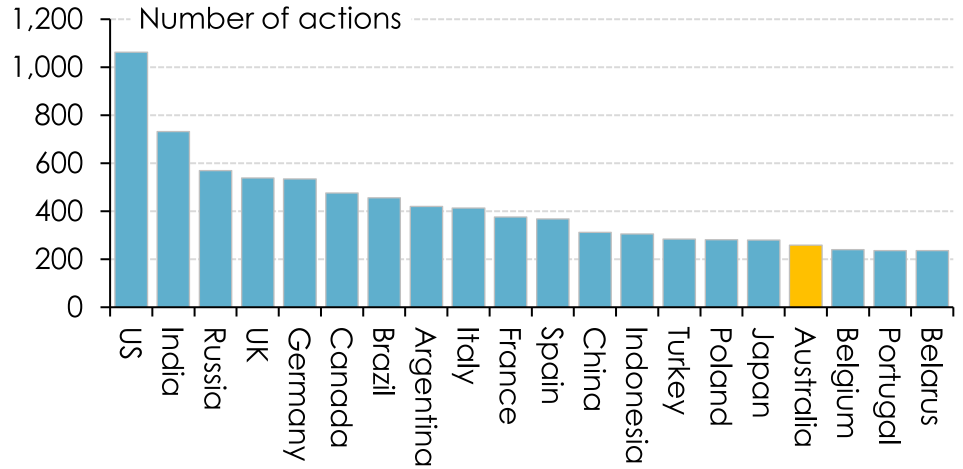
- **China accounted for 39½% of Australia's merchandise exports in FY 2019-20 (the largest proportion any country has since the mid-1950s when 36% of Australia's exports went to the UK)**
  - of which iron ore & concentrates accounts for 56%
- **China also accounted for 19% of Australia's services exports in CY 2019**
  - of which 'travel' (tourism & education) accounted for over 90%)
- **China has no real alternatives to Australian iron ore (slide108)**
- **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

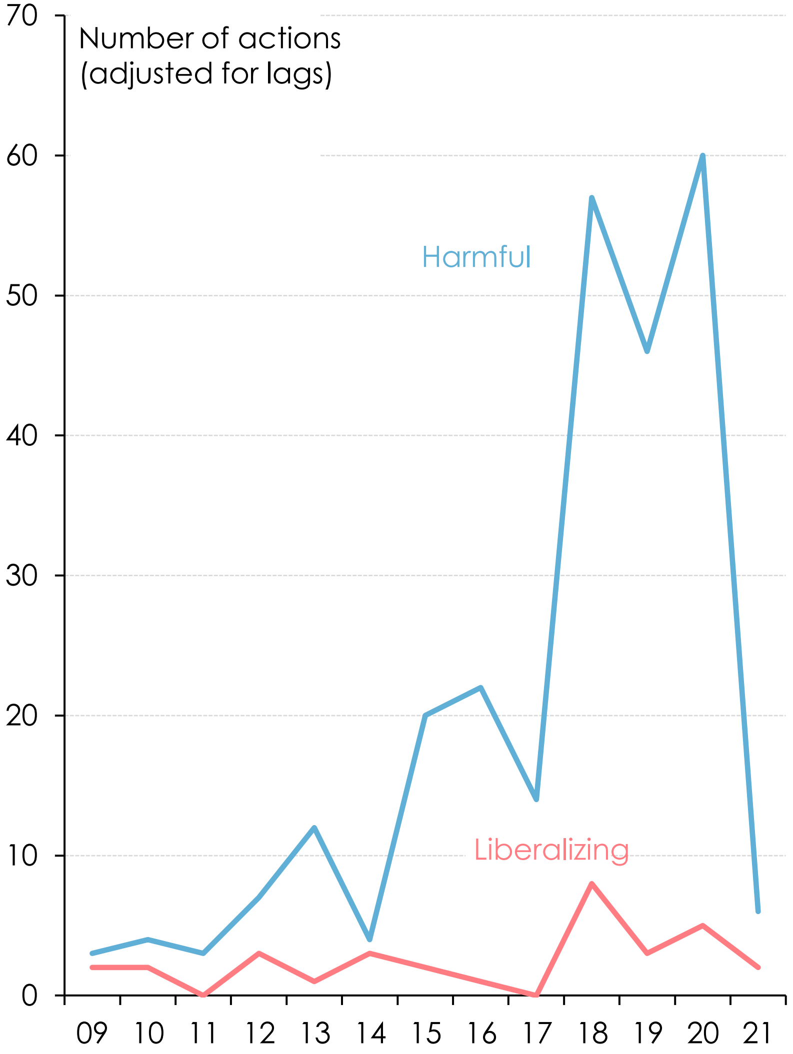
Number of anti-dumping measures imposed, 2015-19



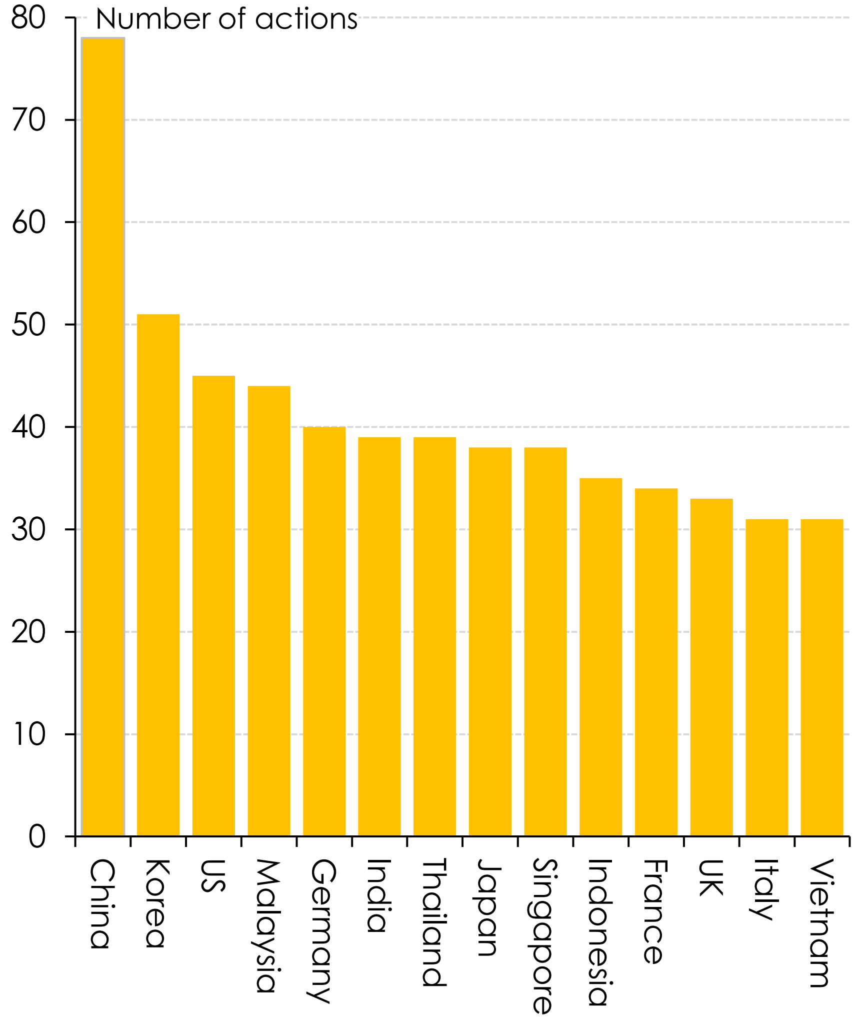
Number of harmful trade policy interventions, 2009-2021



Australian trade policy measures since 2009



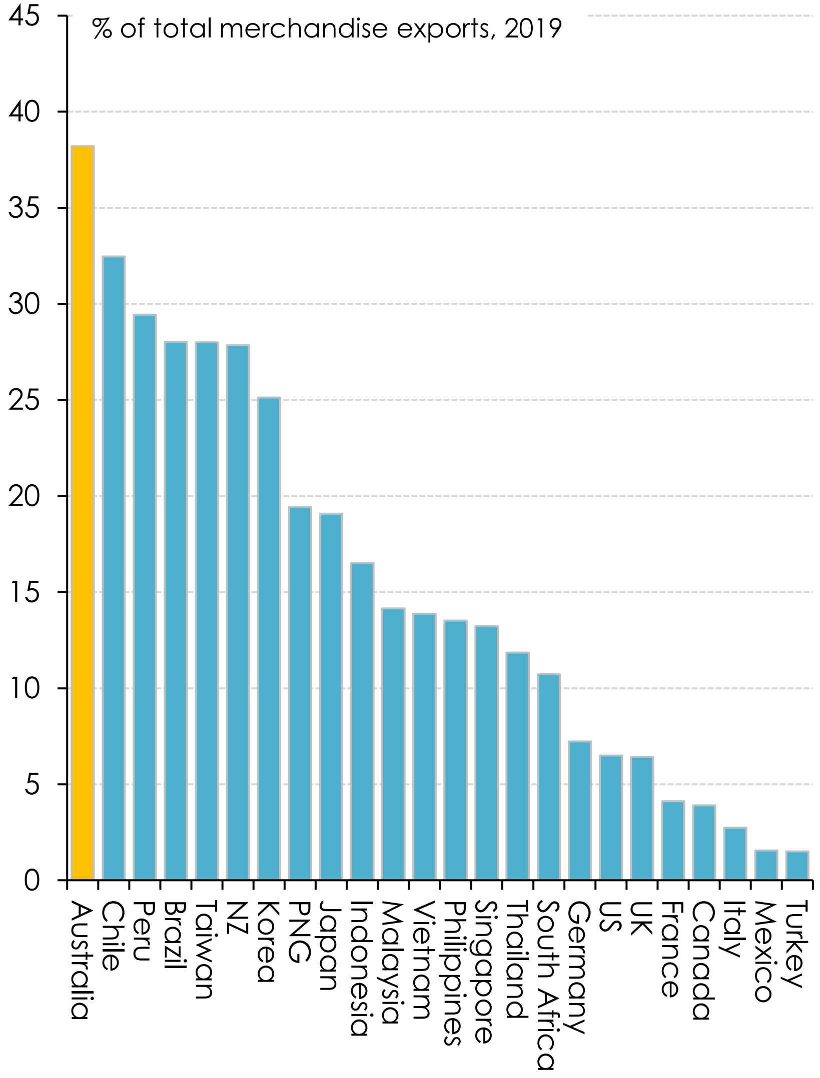
Countries adversely affected by 'harmful' Australian trade actions



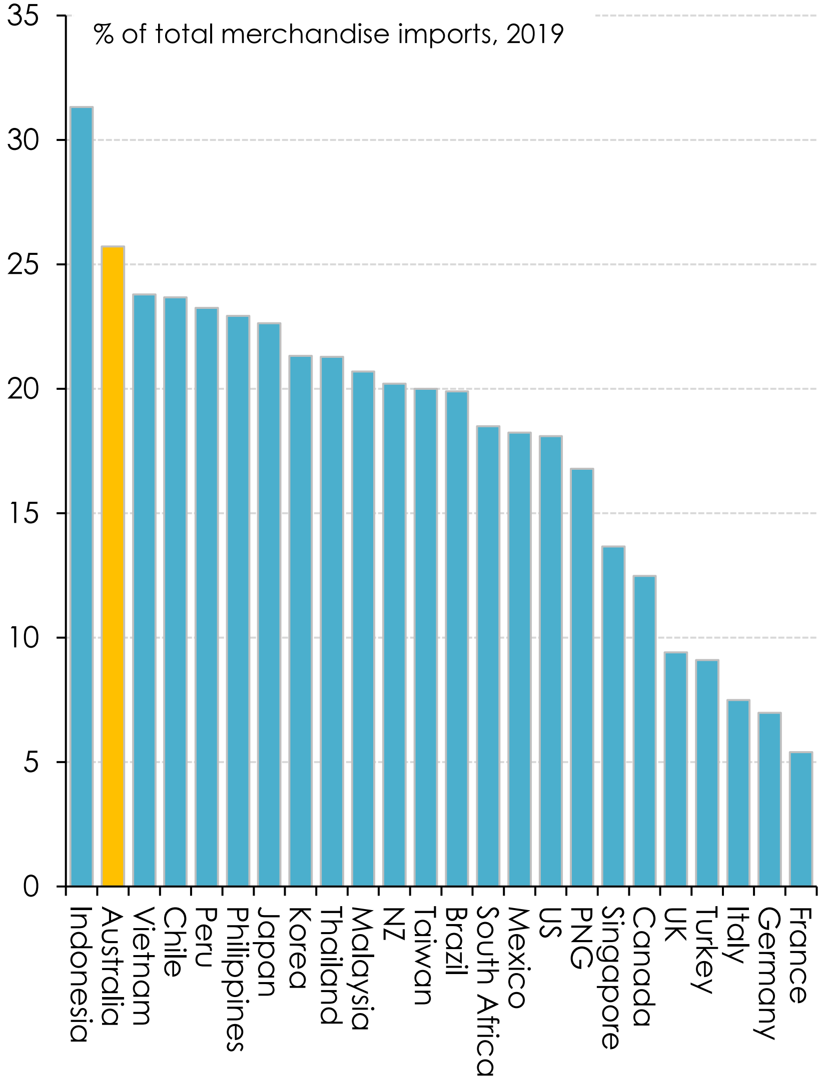
Sources: World Trade Organization; Centre for Economic Policy Research, *Global Trade Alert* (data up to 26th February). Return to "What's New".

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

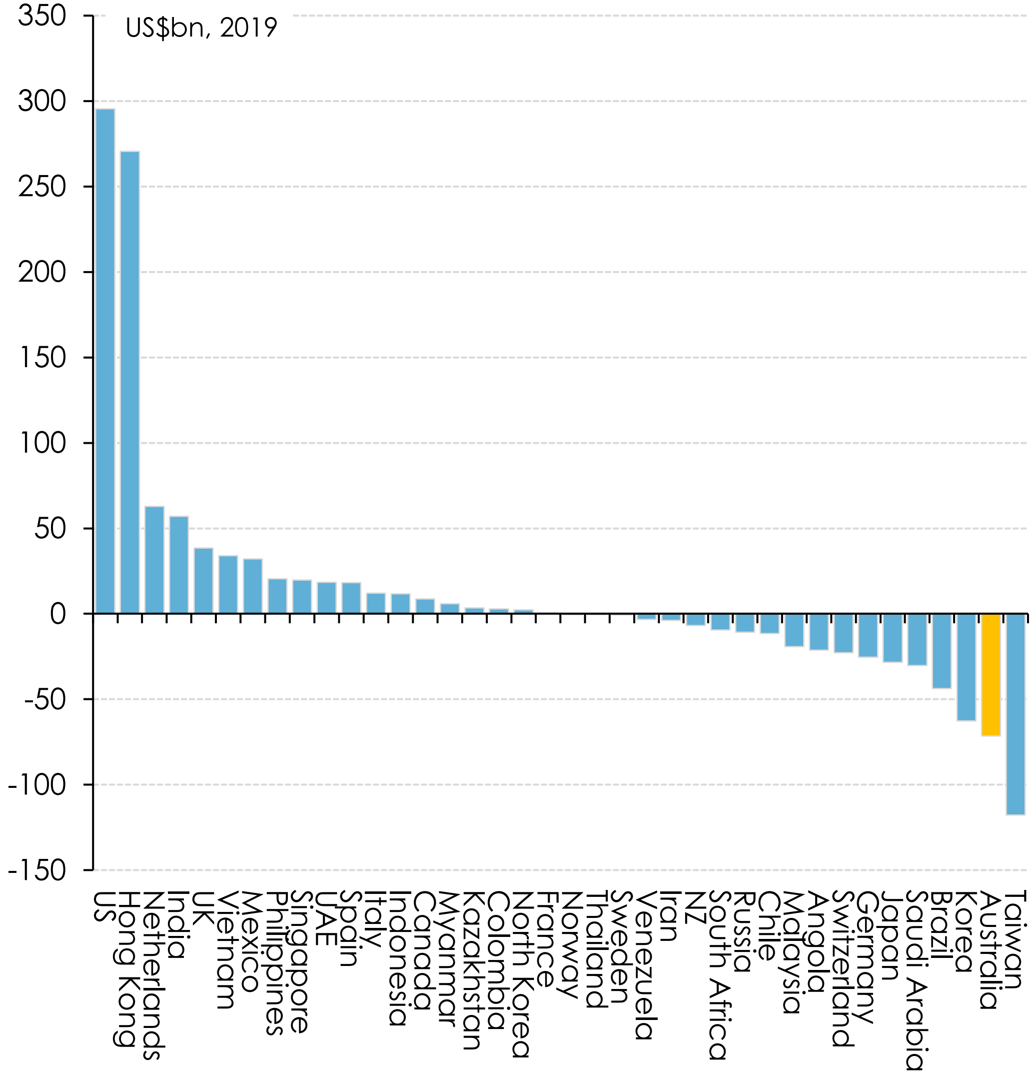
Merchandise exports to China as a pc of total



Merchandise imports from China as a pc of total



China's bilateral merchandise trade balances

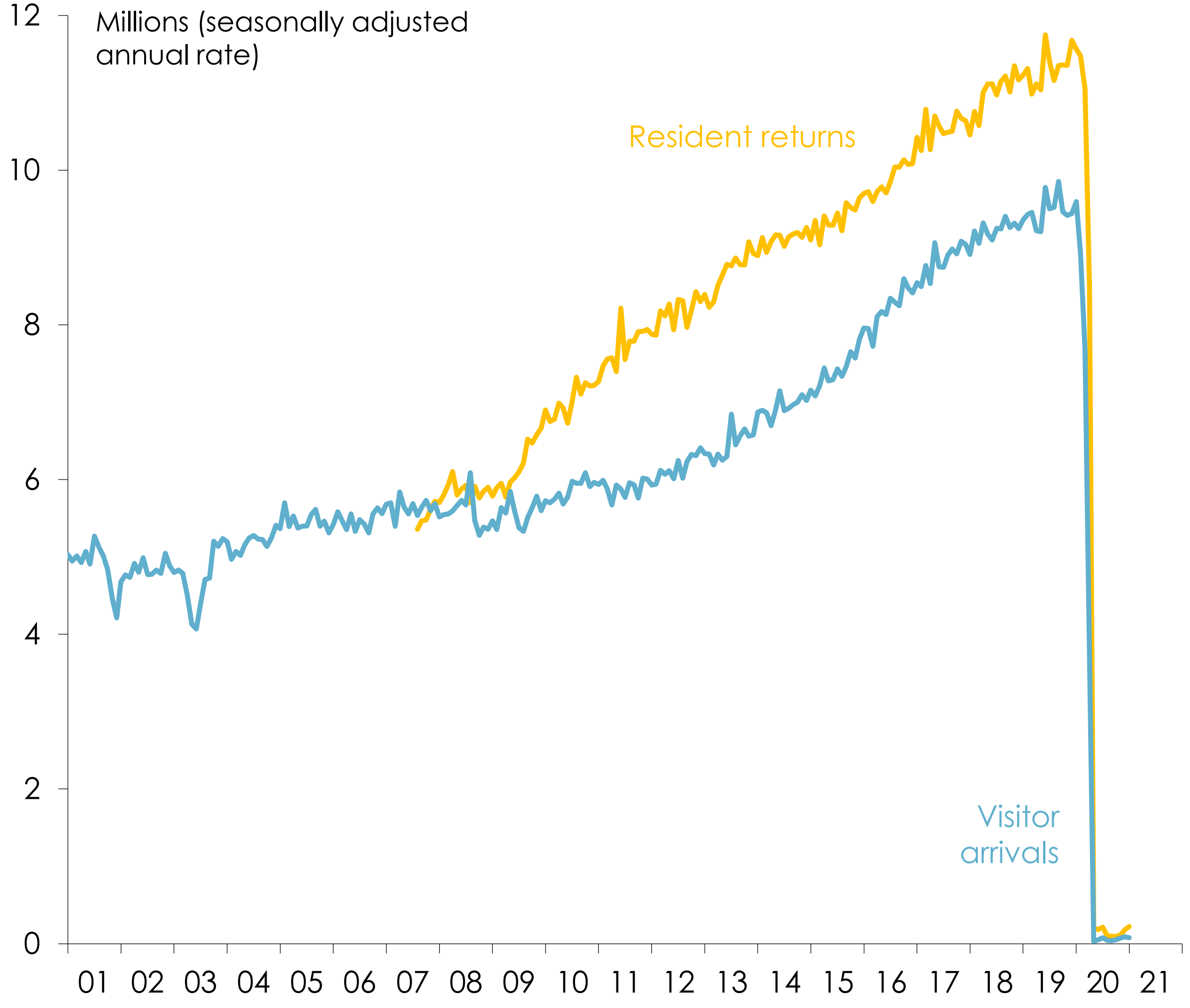


Sources: IMF, *Direction of Trade Statistics*; Taiwan Ministry of Economic Affairs, Bureau of Foreign Trade. Return to "What's New".

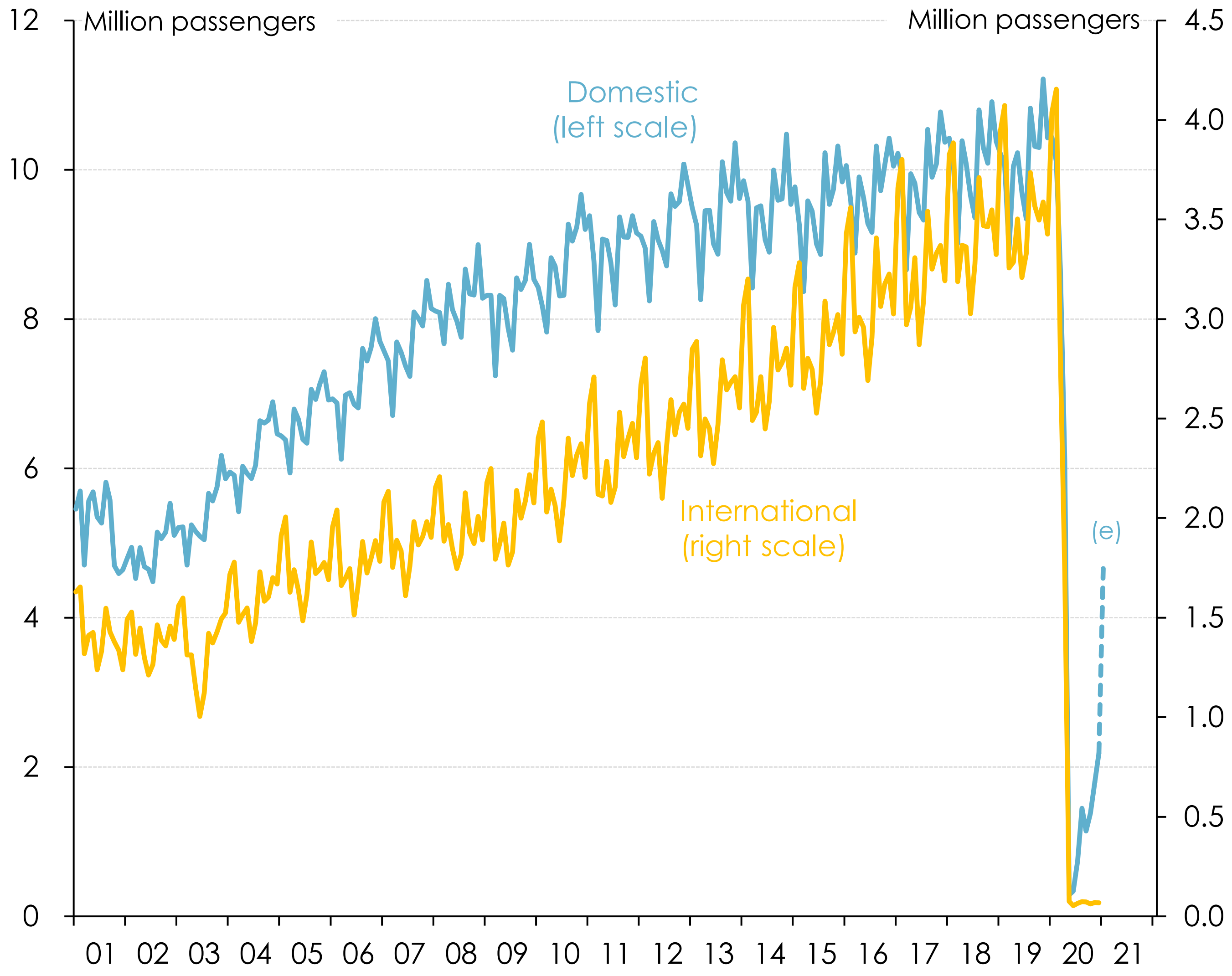
SAUL ESLAKE
CORINNA ECONOMIC ADVISORY

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

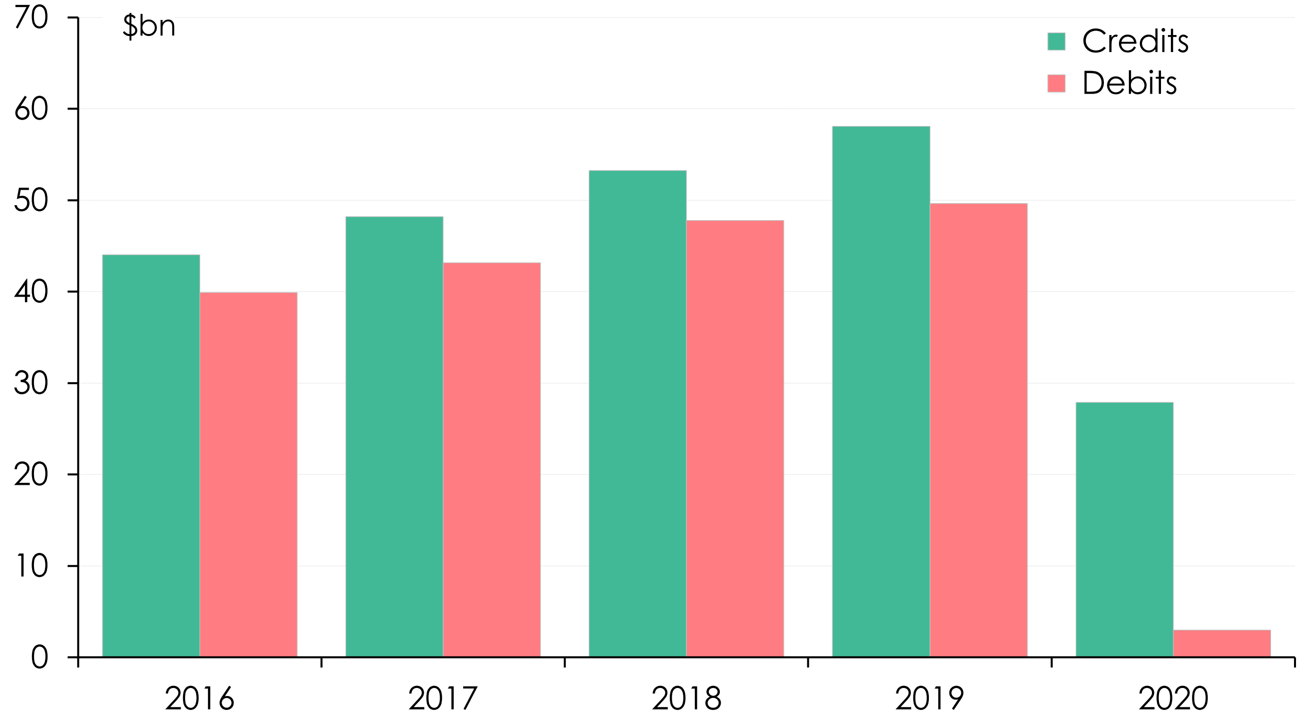


Note: The ABS has suspended publication of seasonally adjusted estimates of short-term visitor arrivals and resident returns, so published original estimates for April 2020 (and beyond) have been seasonally adjusted by Corinna using the same seasonal factors as for the corresponding month of 2019. Latest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

SAUL ESLAKE
CORINNA ECONOMIC ADVISORY

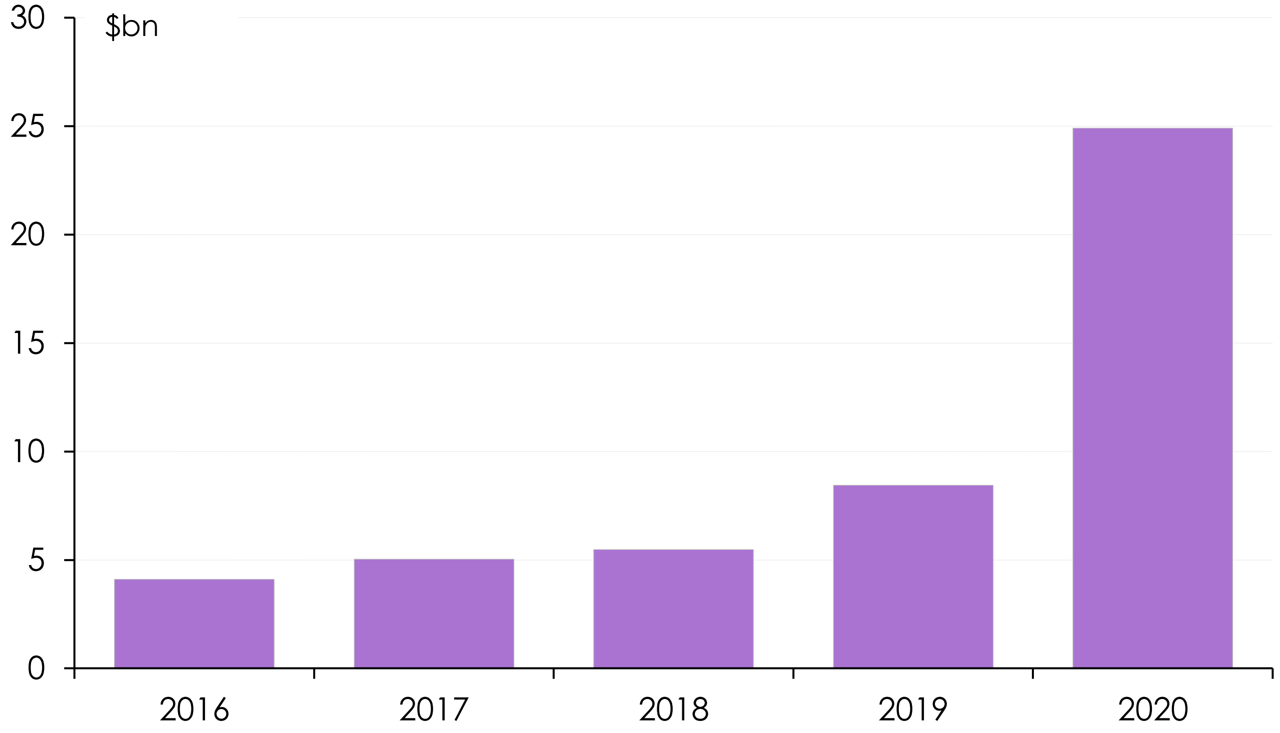
Travel restrictions have been disastrous for the tourism sector, but they may have been worth 1¼% of GDP to the broader economy

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

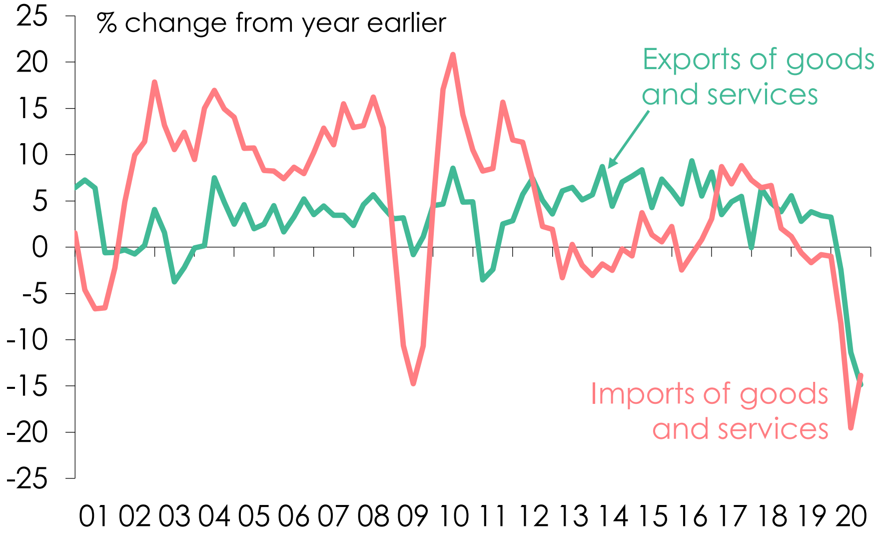


- Despite restrictions, foreigners still spent $28bn in Australia between March and December 2020 (down 45% from the 2016-19 average) implying a *net gain* to Australia during March-December of $19bn by comparison with the 2016-19 average – equivalent to about 1¼% of GDP

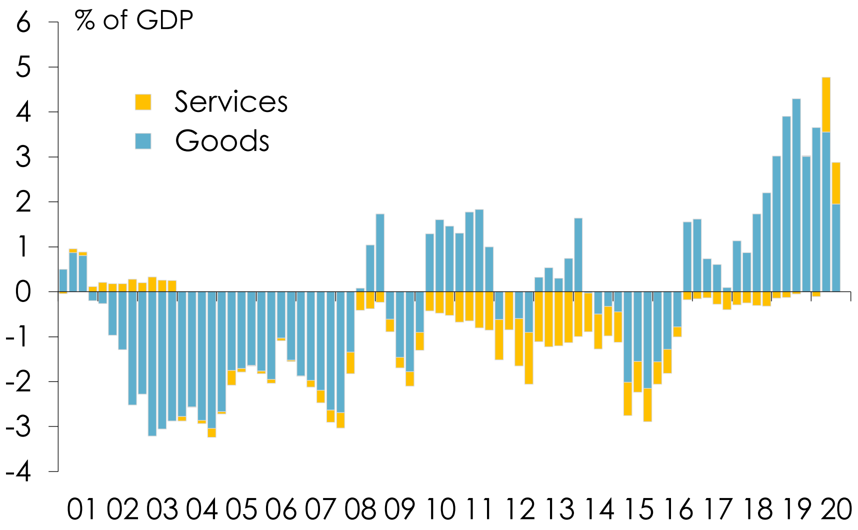
Source: ABS, International Trade in Goods and Services, Australia.

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

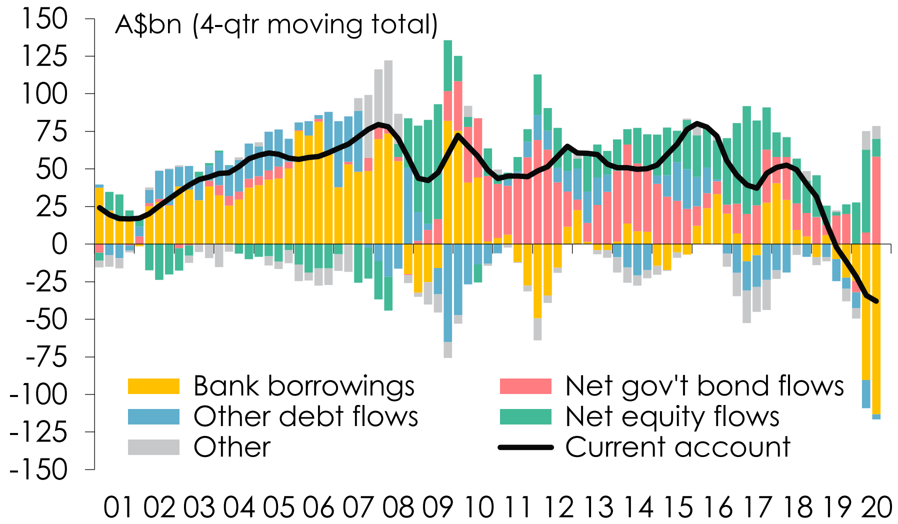
Export and import volumes



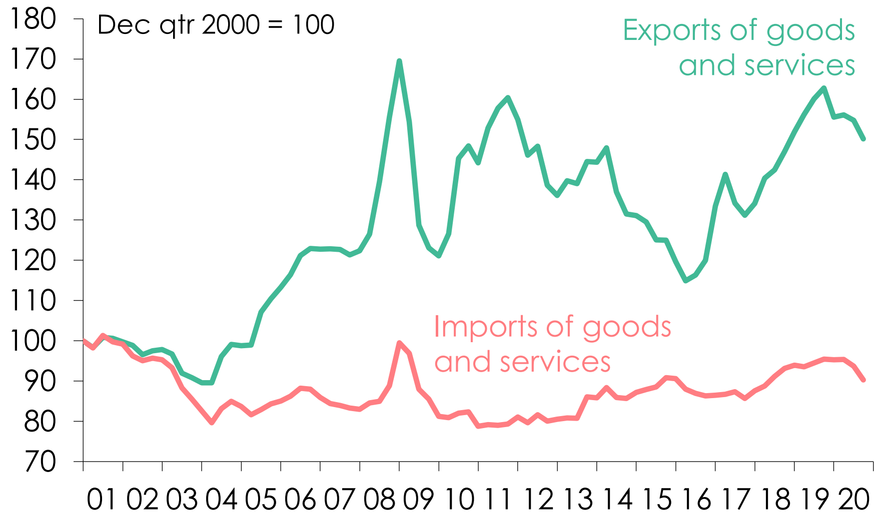
Goods & services trade balances



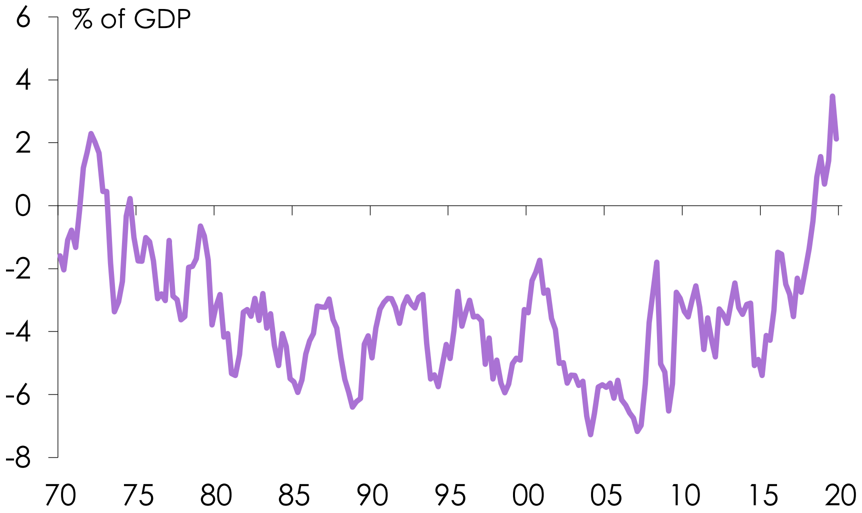
Capital flows



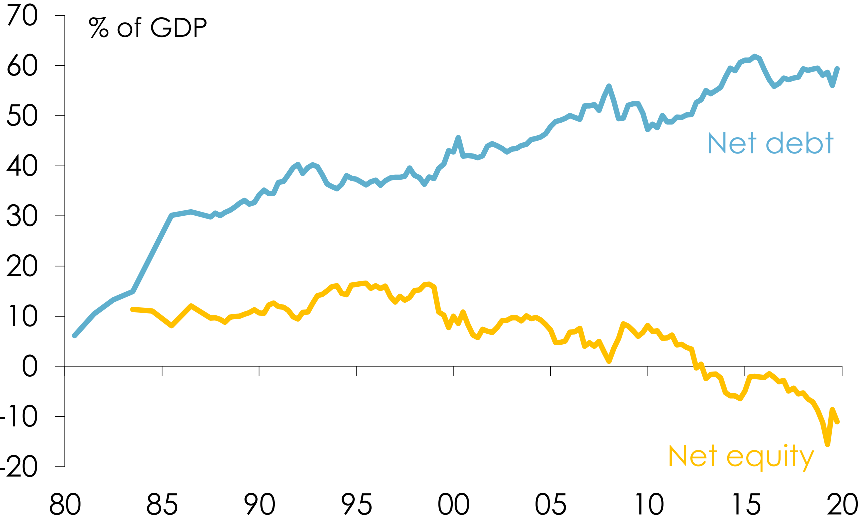
Export and import prices



Current account balance



Net international investment position

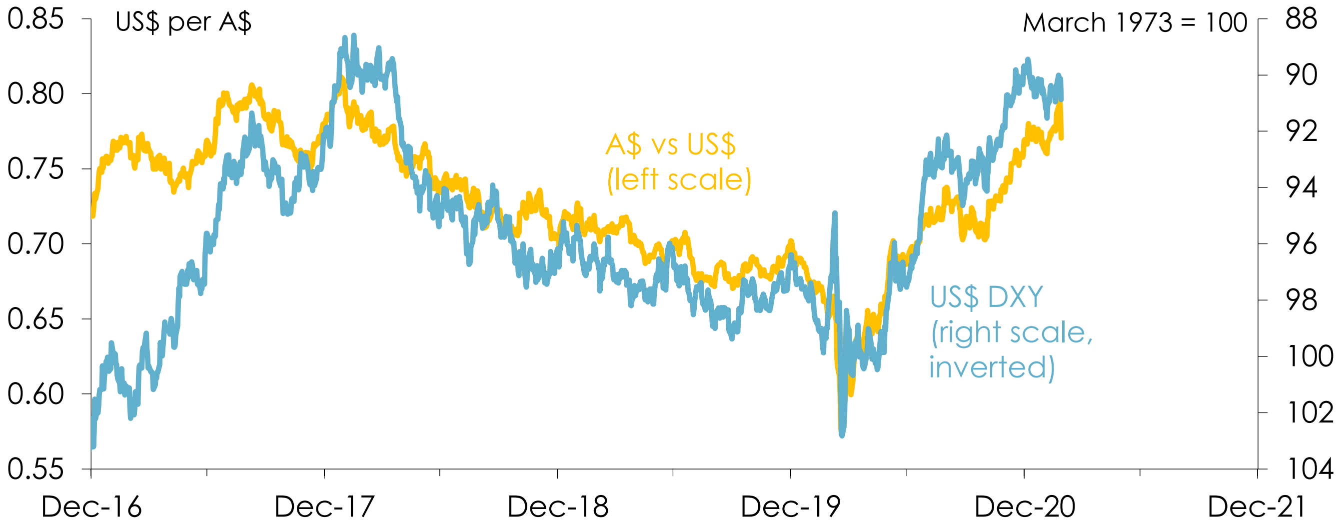


Note: Latest data are for September quarter (Q3); December quarter data will be released on 3rd March 2021. *Source:* ABS, [Balance of Payments and International Investment Position, Australia](). [Return to "What's New"]().

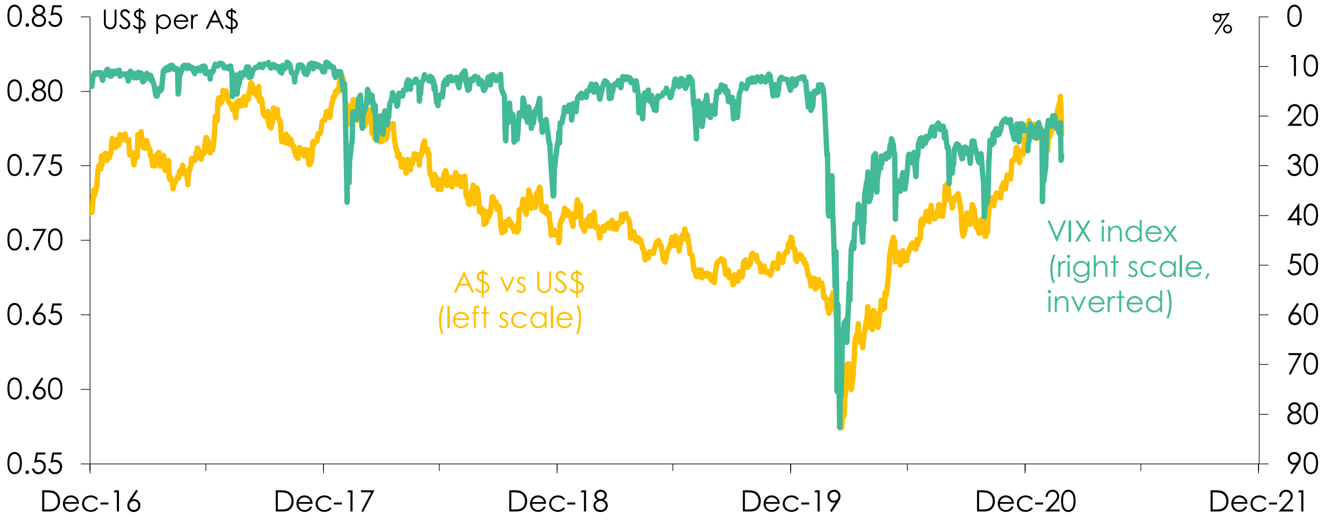
SAUL ESLAKE
CORINNA ECONOMIC ADVISORY

After topping US79¢ early in the week the A$ finished down 2% against the US$ at US77¢ despite higher iron ore prices and wider bond yield spreads

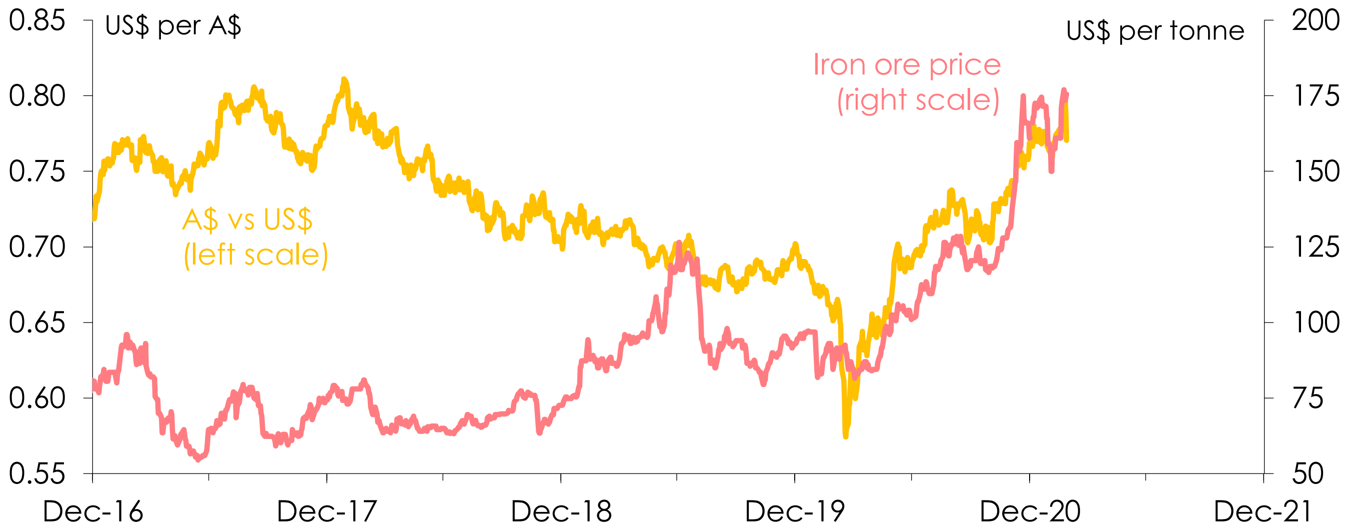
A$-US$ and US$ trade-weighted index



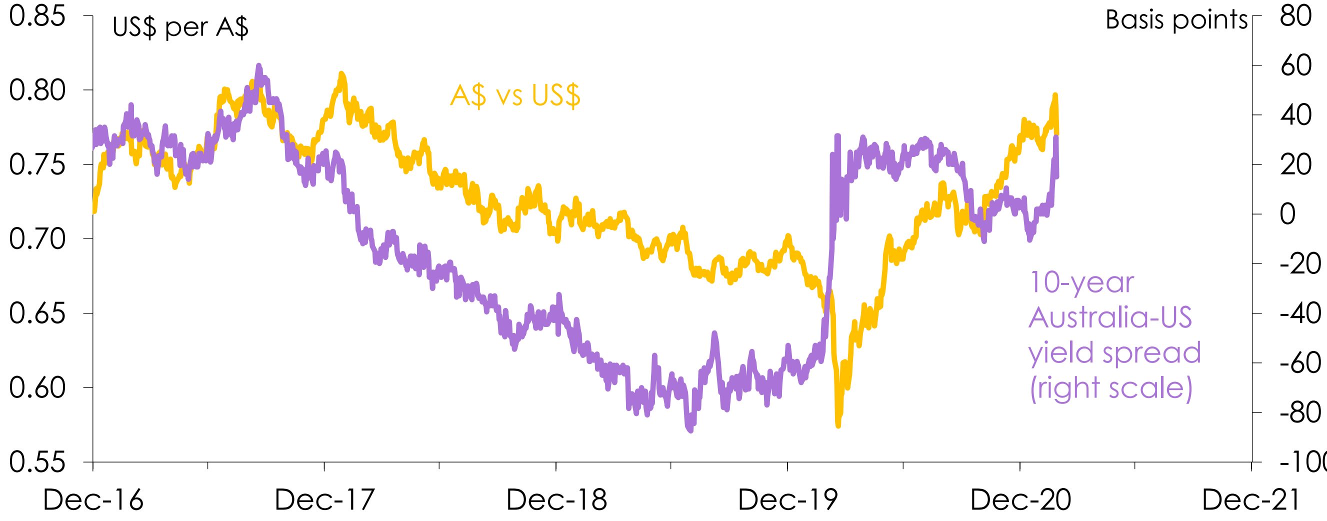
A$-US$ and US equity market volatility



A$-US$ and spot iron ore prices



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

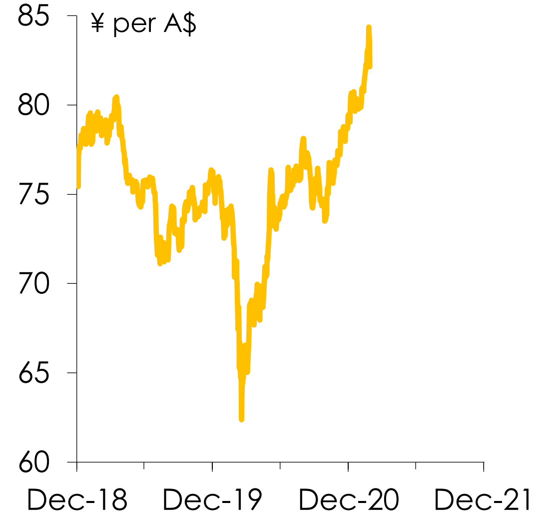


Note: The VIX index is a measure of the implied volatility of S&P500 options and is widely interpreted as an indicator of investor risk appetite or aversion. For an explanation of the factors underpinning the strength in the iron ore price see slide 108. *Source:* Refinitiv Datastream. Data up to 19th February. Return to "What's New".

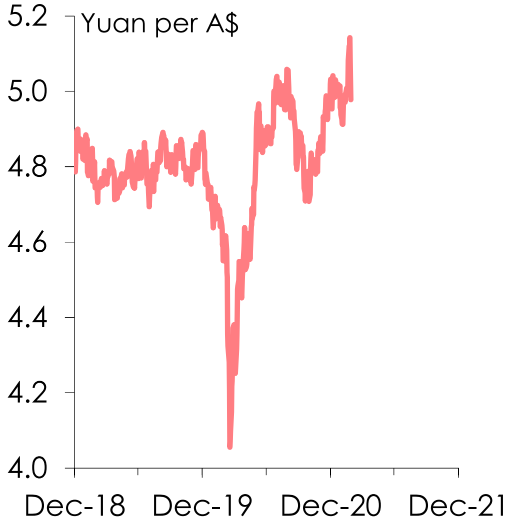
SAUL ESLAKE
CORINNA ECONOMIC ADVISORY

The A$ fell 2% against the euro and the yuan, 1½% against sterling and the Sing$, and 1% against most other currencies this week

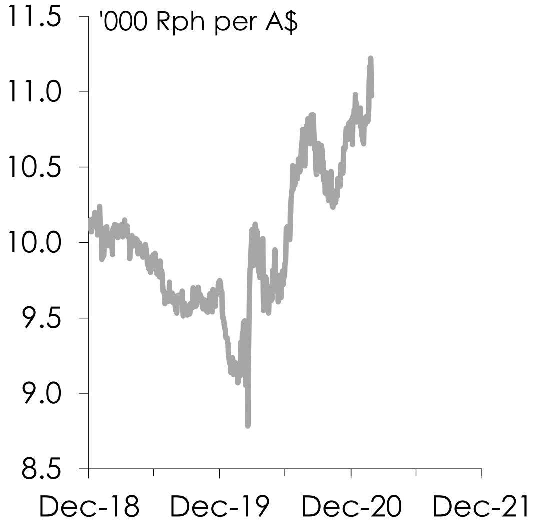
A$ vs Japanese yen



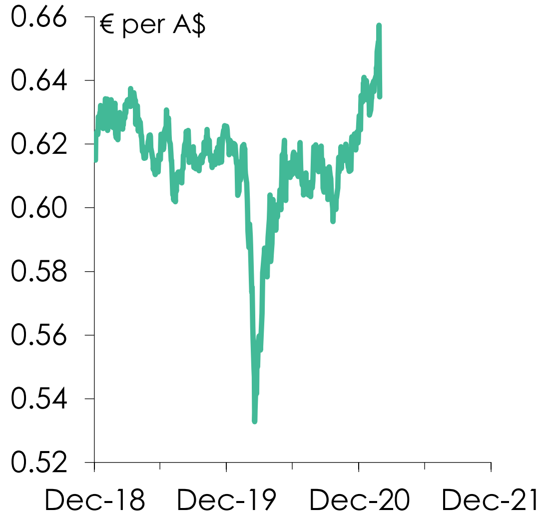
A$ vs Chinese yuan



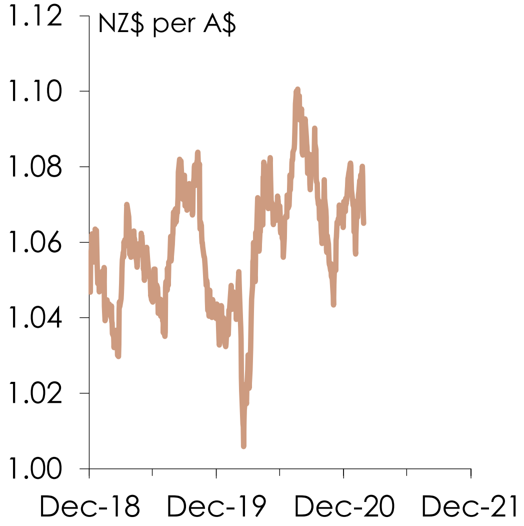
A$ vs Indo rupiah



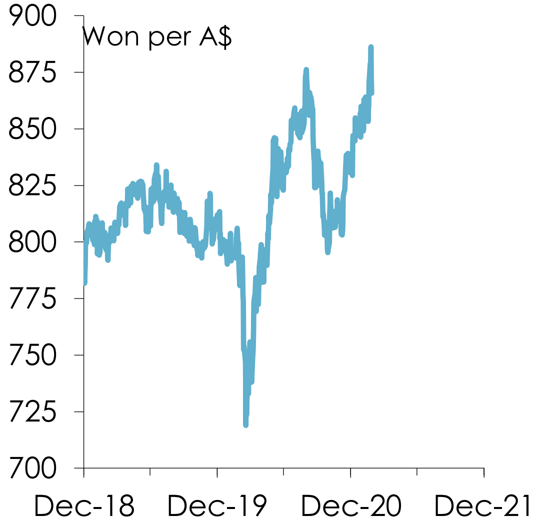
A$ vs Euro



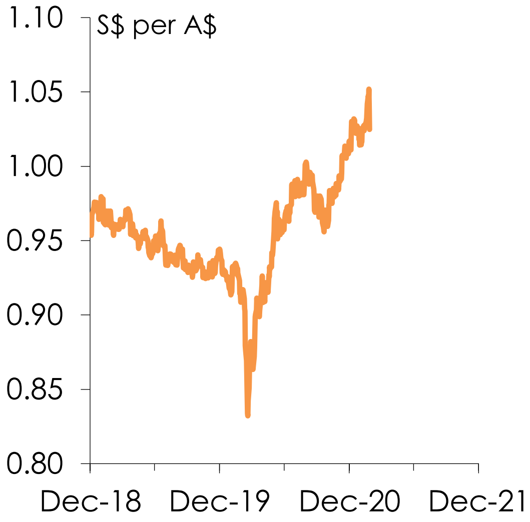
A$ vs NZ$



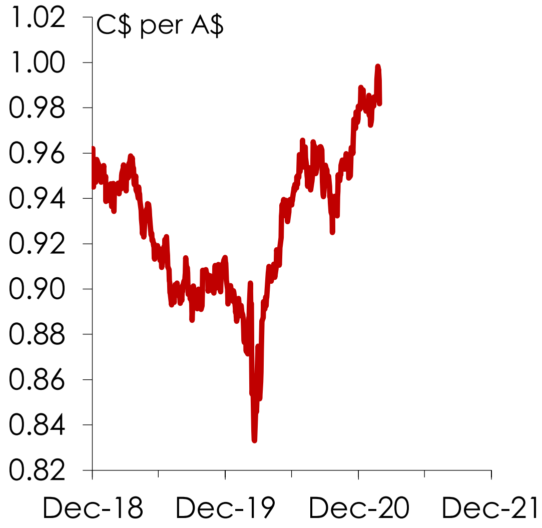
A$ vs Korean won



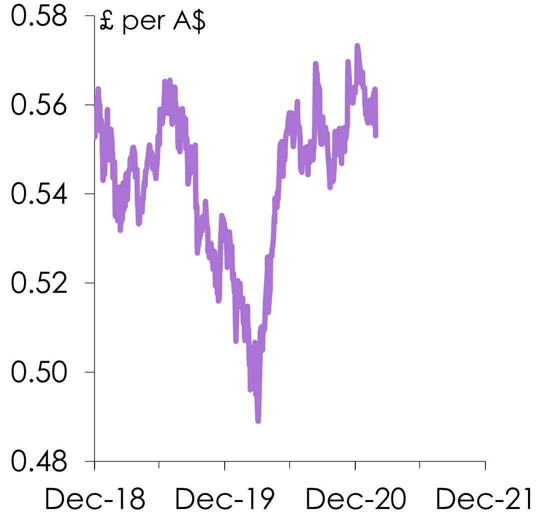
A$ vs Singapore $



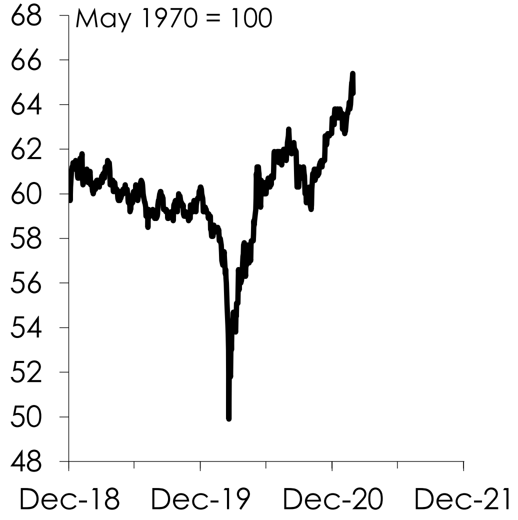
A$ vs Canadian $



A$ vs British pound



A$ TWI

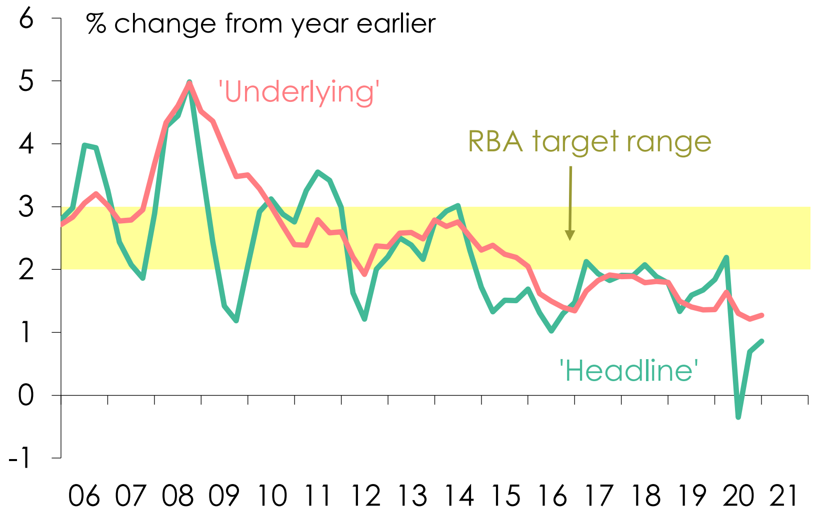


Note: 'TWI' is the RBA's trade-weighted index of the A$. It is calculated at the end of the Australian trading day so its final value for this week does not reflect the large fall in the A$ in New York on Friday night (Australian time). *Source:* Refinitiv Datastream. Data up to 26th February. Return to "What's New".'

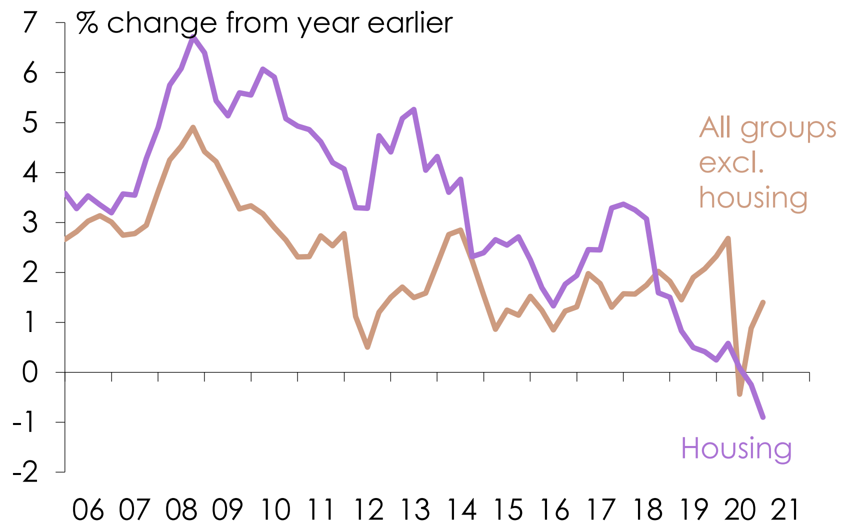
SAUL ESLAKE
CORINNA ECONOMIC ADVISORY

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

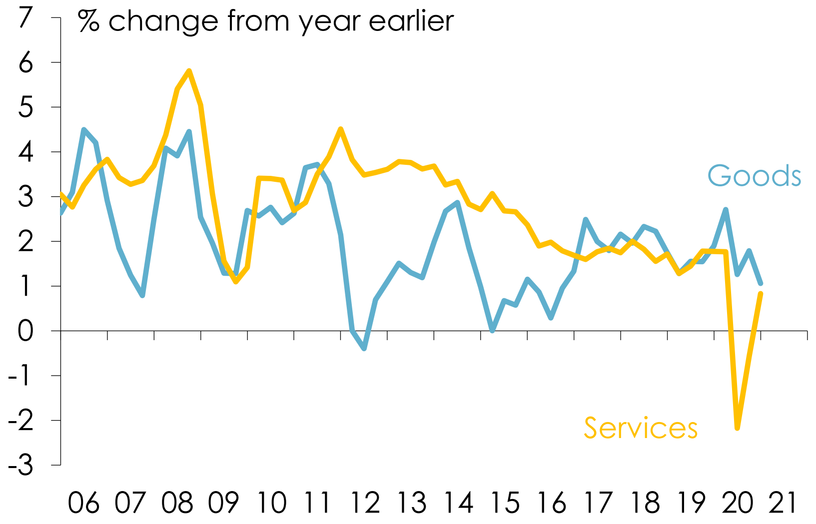
Consumer prices



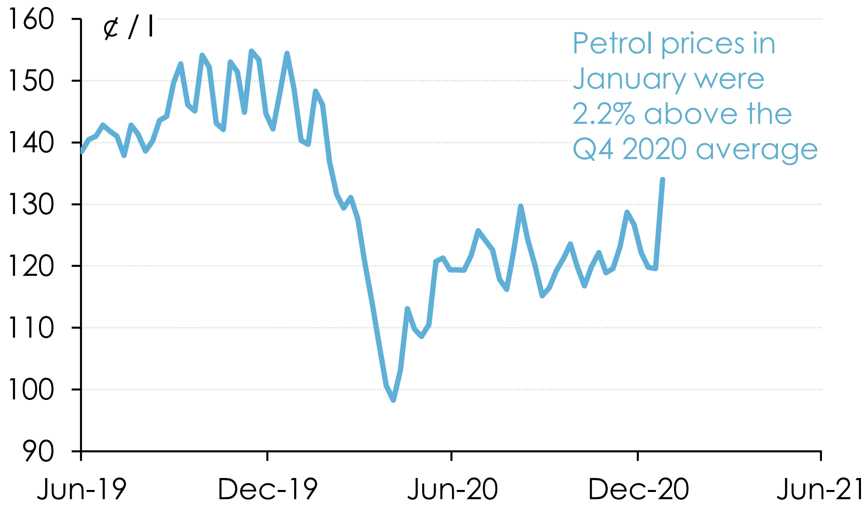
Housing costs



Goods vs services prices



Retail petrol prices



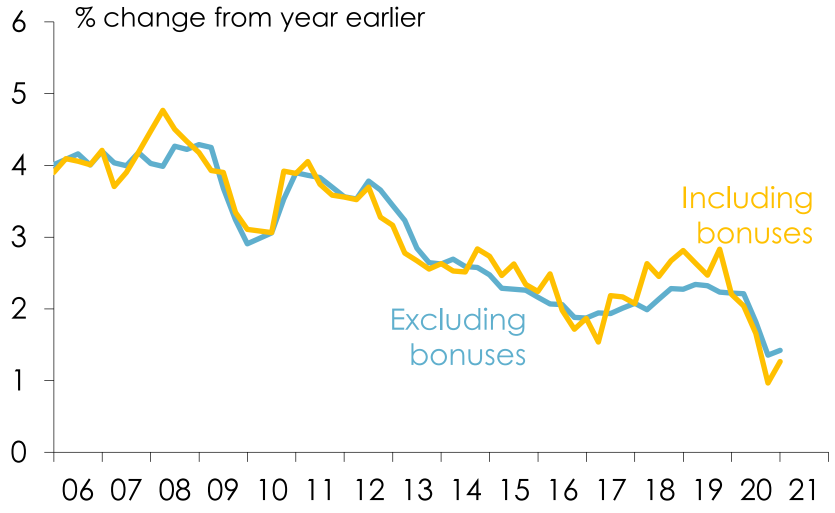
- The CPI rose 0.9% (a little above market expectations of 0.7%) in Q4 2020 taking the annual 'headline' inflation rate up 0.2 pc pts to 0.9%
- Main contributors to the Q4 outcome were a 38% increase in child care costs (reflecting the end to lockdown subsidies), an 11% increase in tobacco prices (due 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".

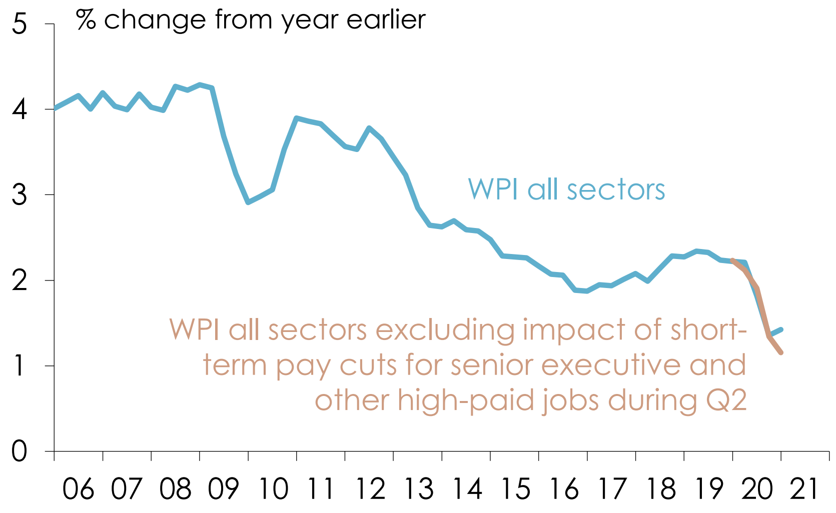
SAUL ESLAKE
CORINNA ECONOMIC ADVISORY

Wages rose by 1.4% over the year to Q4 2020 (unchanged from Q3) – or by 1.2% excluding short-term pay cuts for high-paid workers in Q2 2020

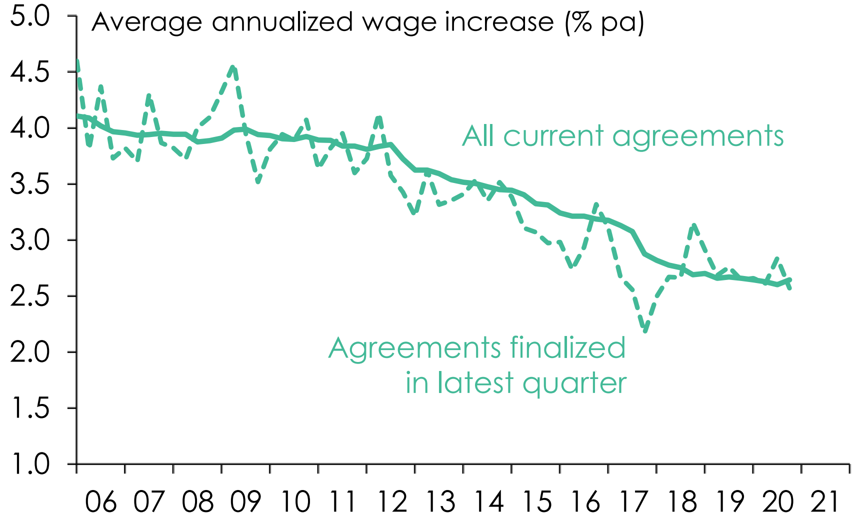
Wage price index – all sectors



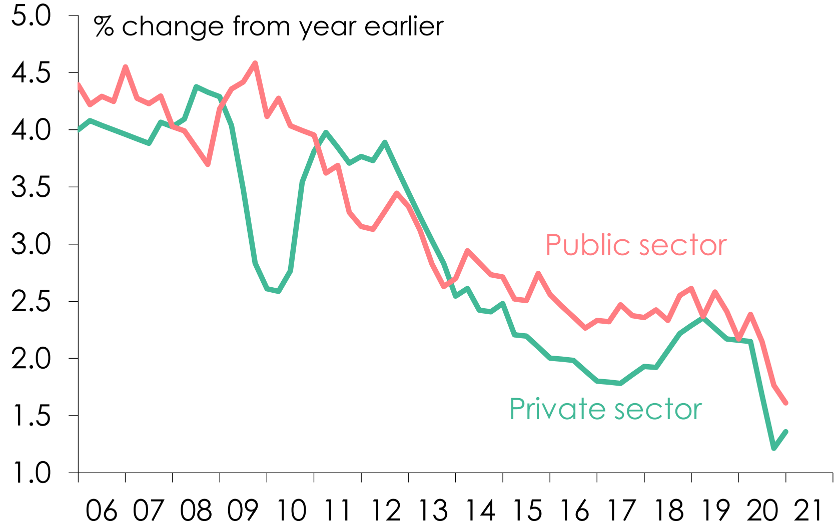
WPI excl. temporary wage cuts



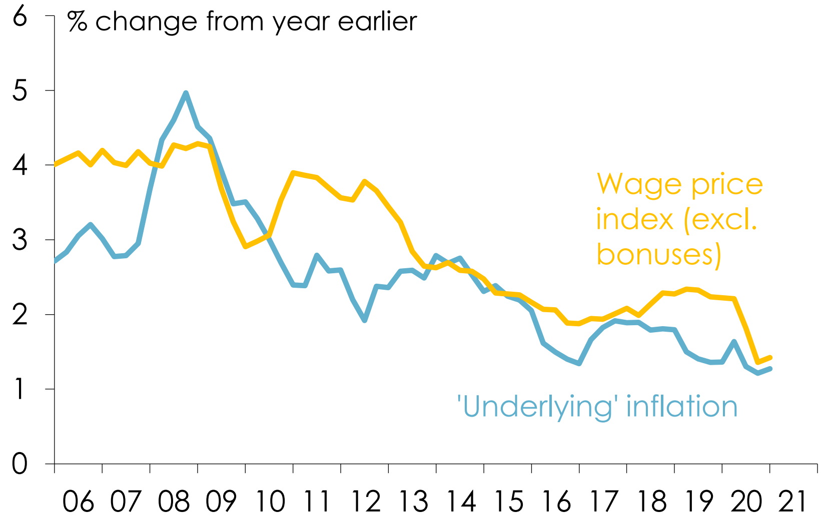
Enterprise bargaining agreements



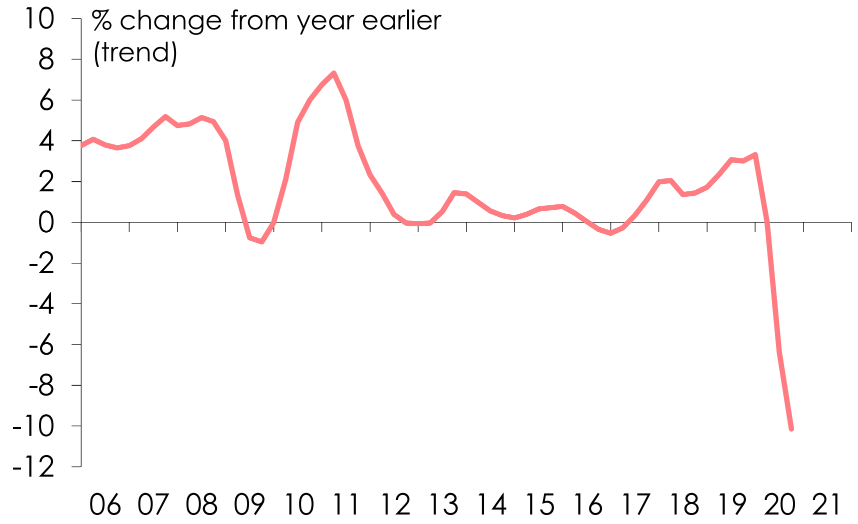
WPI – private vs public sectors



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. March quarter WPI data will released on 19th May.

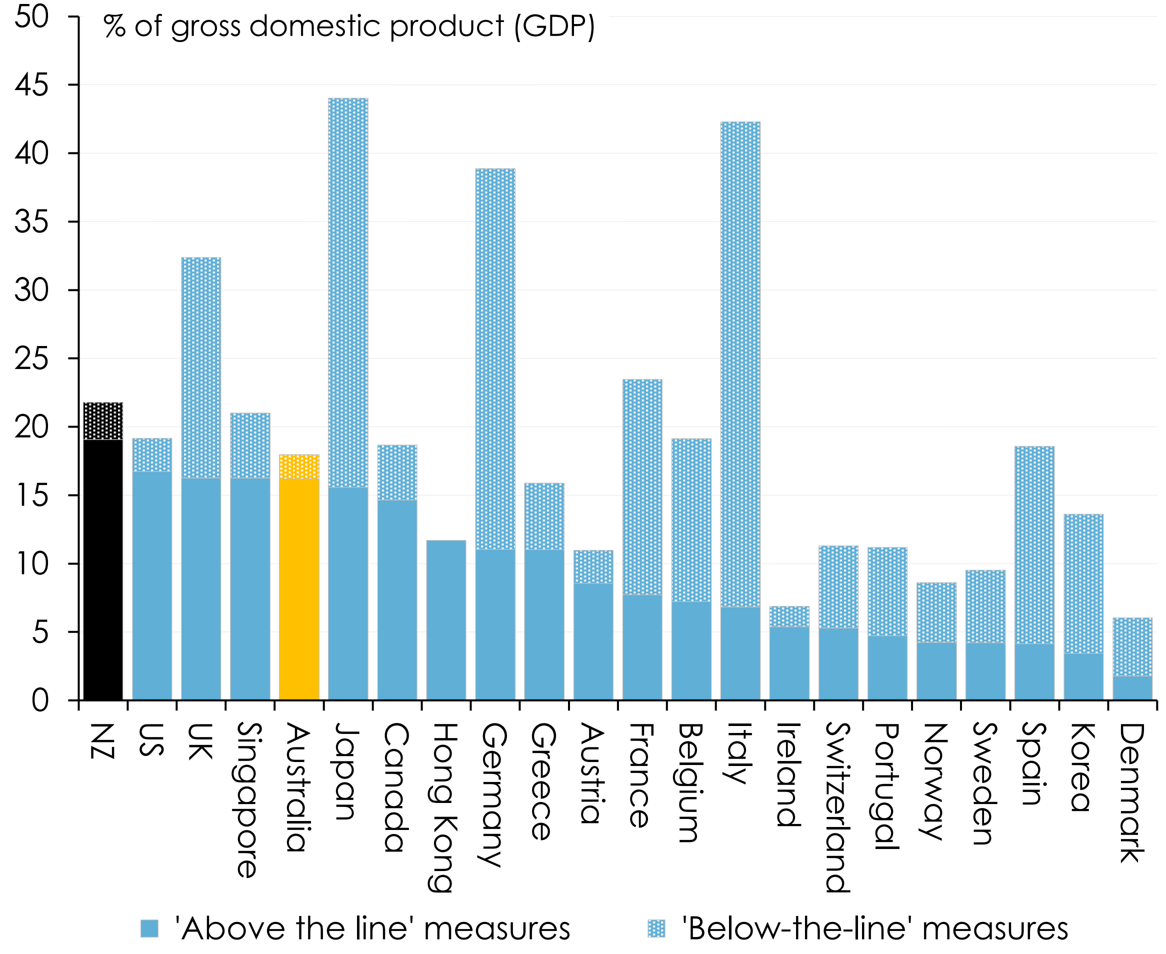
Return to "What's New".

SAUL ESLAKE
CORINNA ECONOMIC ADVISORY

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*, January 2021. Return to "What's New".

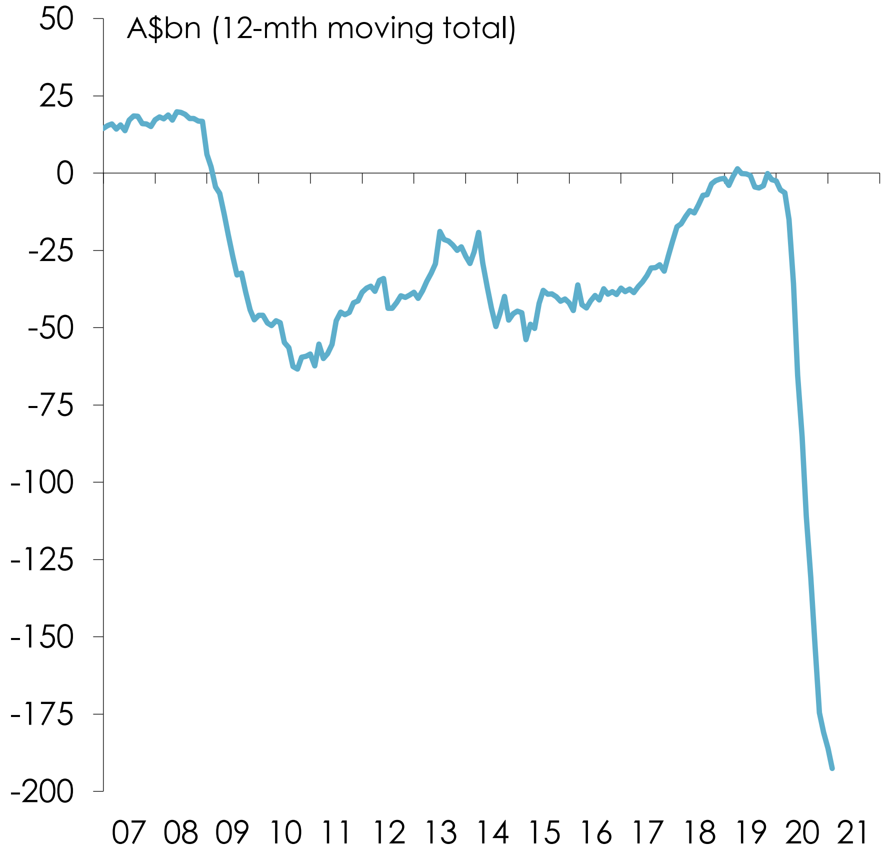
- **Policy measures announced prior to last October's federal Budget totalled A$232bn over FYs 2019-20 and 2020-21 or about 11¾% of one year's GDP – which is large by international standards (and double what was done during the GFC)**
  - the IMF's latest *Fiscal Monitor Update* estimates that measures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

The budget deficit for the first seven months of FY 2020-21 was about $18bn (11½%) lower than the Mid-Year Outlook 'profile' projection

Australian Government revenue and expenses

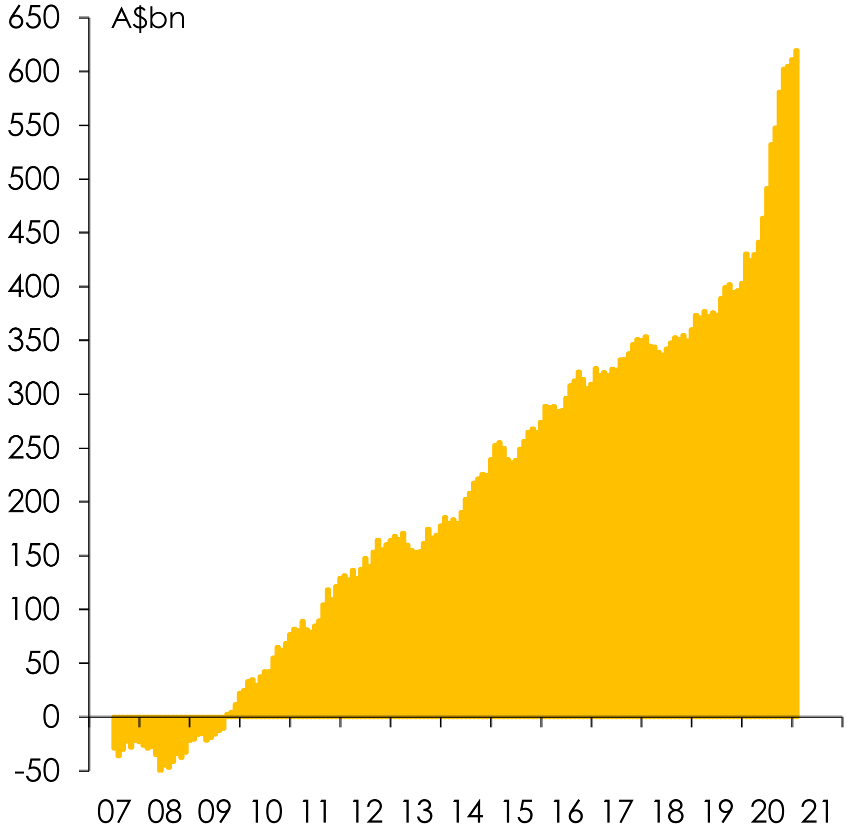
- Growth in expenses is levelling out, while revenue is beginning to turn around as the economy picks up

Australian Government 'underlying' cash balance



- The 'underlying' cash balance for the first 7 months of FY 2020-21 was $137½bn – $17¾bn better than the MYEFO profile

Australian Government net debt



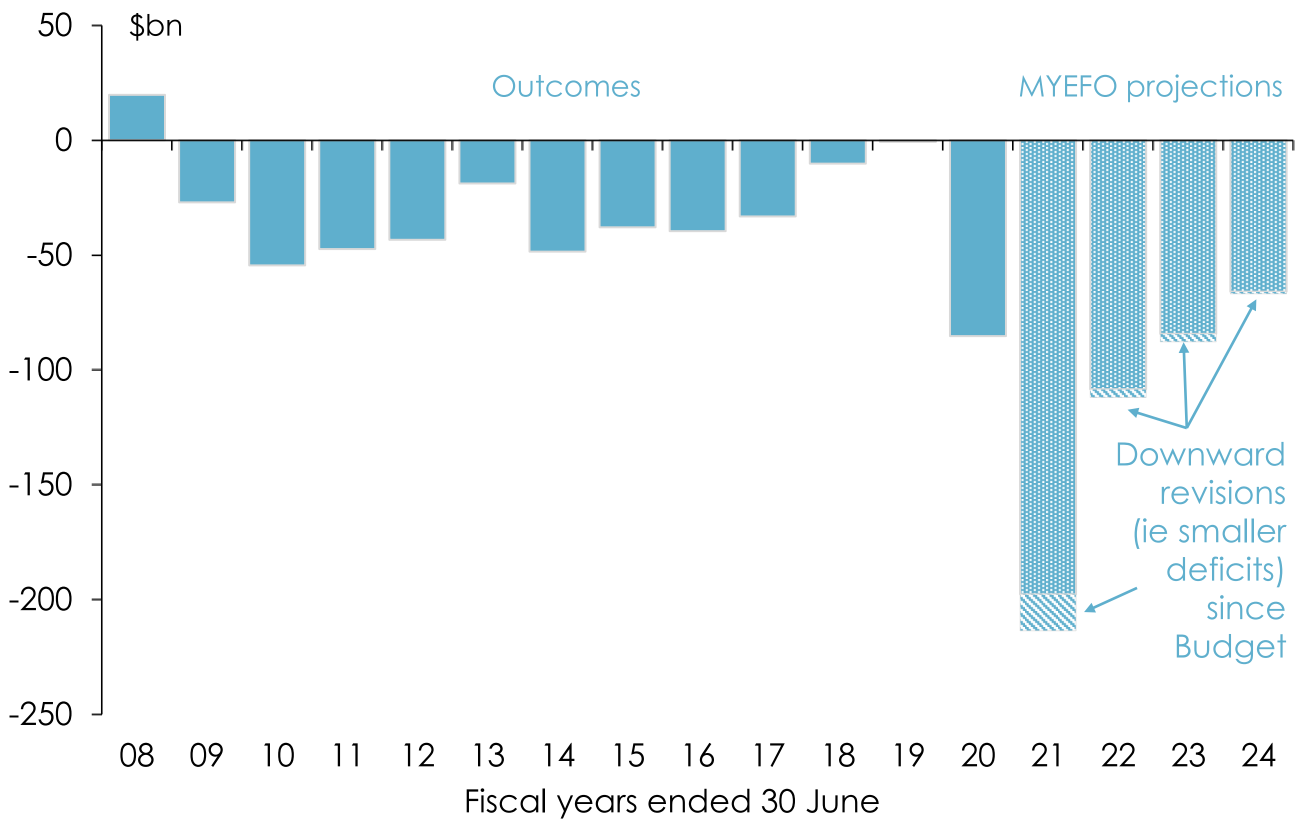
- Net debt as at 31st Jan was $619bn (about 32% of GDP), up $128bn over the first 7 months of FY 2020-21

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

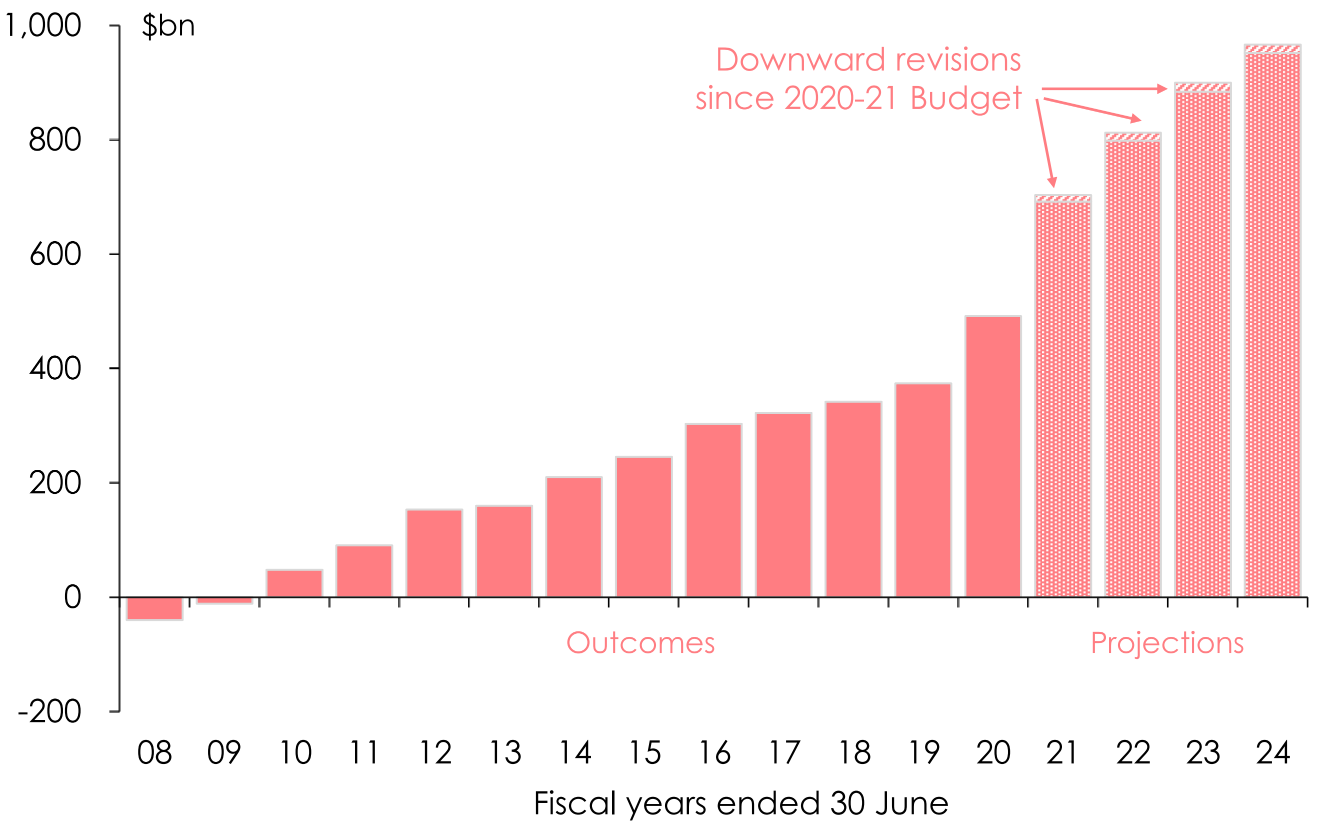
The budget deficits forecast in October's 2020-21 Budget were revised down by about 5¼%, and debt projections by 1½%, in December's MYEFO

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

'Underlying' cash balance



Net debt



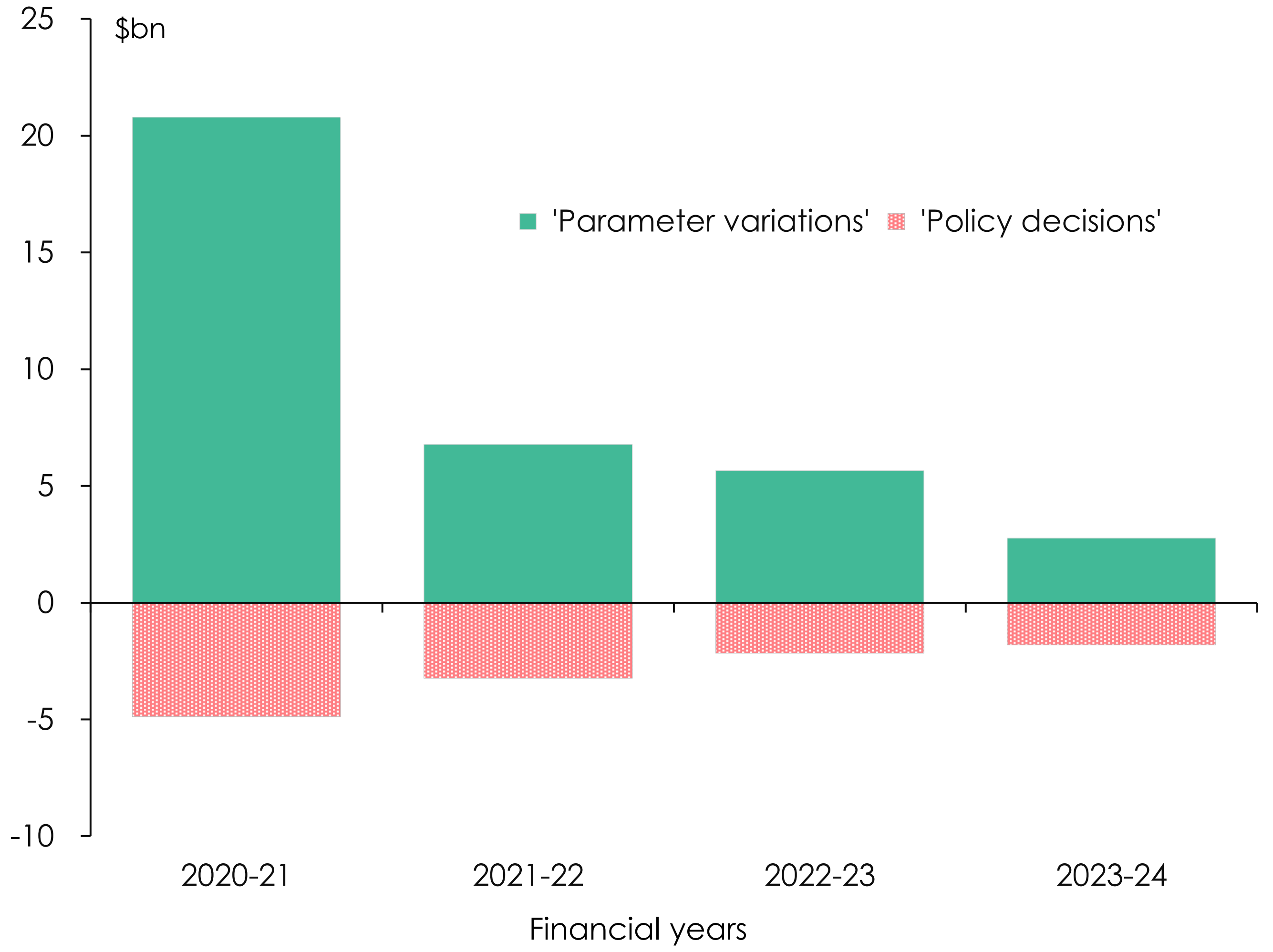
- **Forecast budget deficits over the four years to 2023-24 have been revised downwards by a total of $24bn (5¼%) since the 2020-21 Budget was presented in October**
- **Projected net debt has been revised downwards by an average of just over 1½% over each of the next four years, or by a total of $14bn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

SAUL ESLAKE
CORINNA ECONOMIC ADVISORY

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



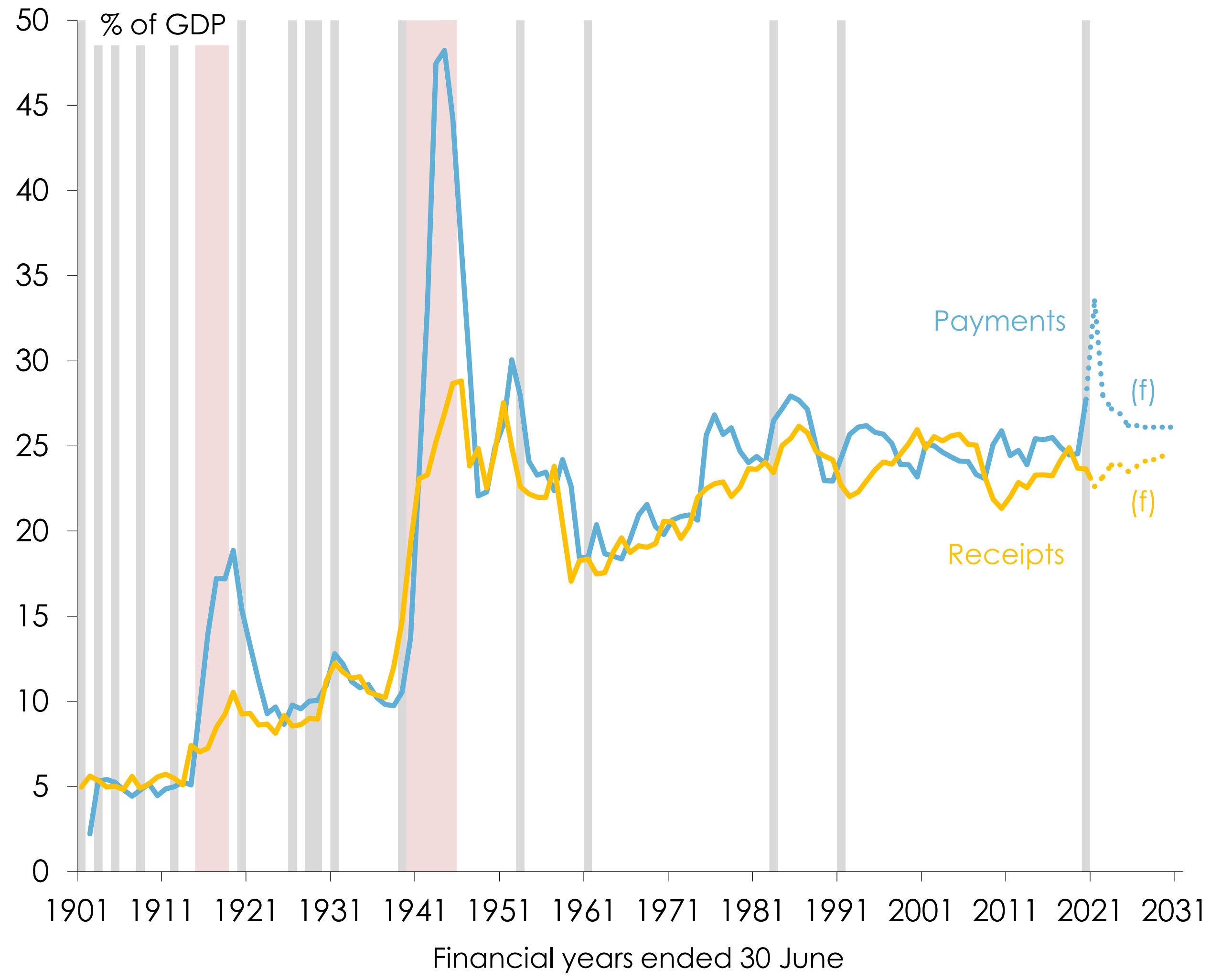
Source: Australian Government, *2020-21 Mid-Year Economic and Fiscal Outlook*; Corinna.
Return to "What's New".

- **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?)

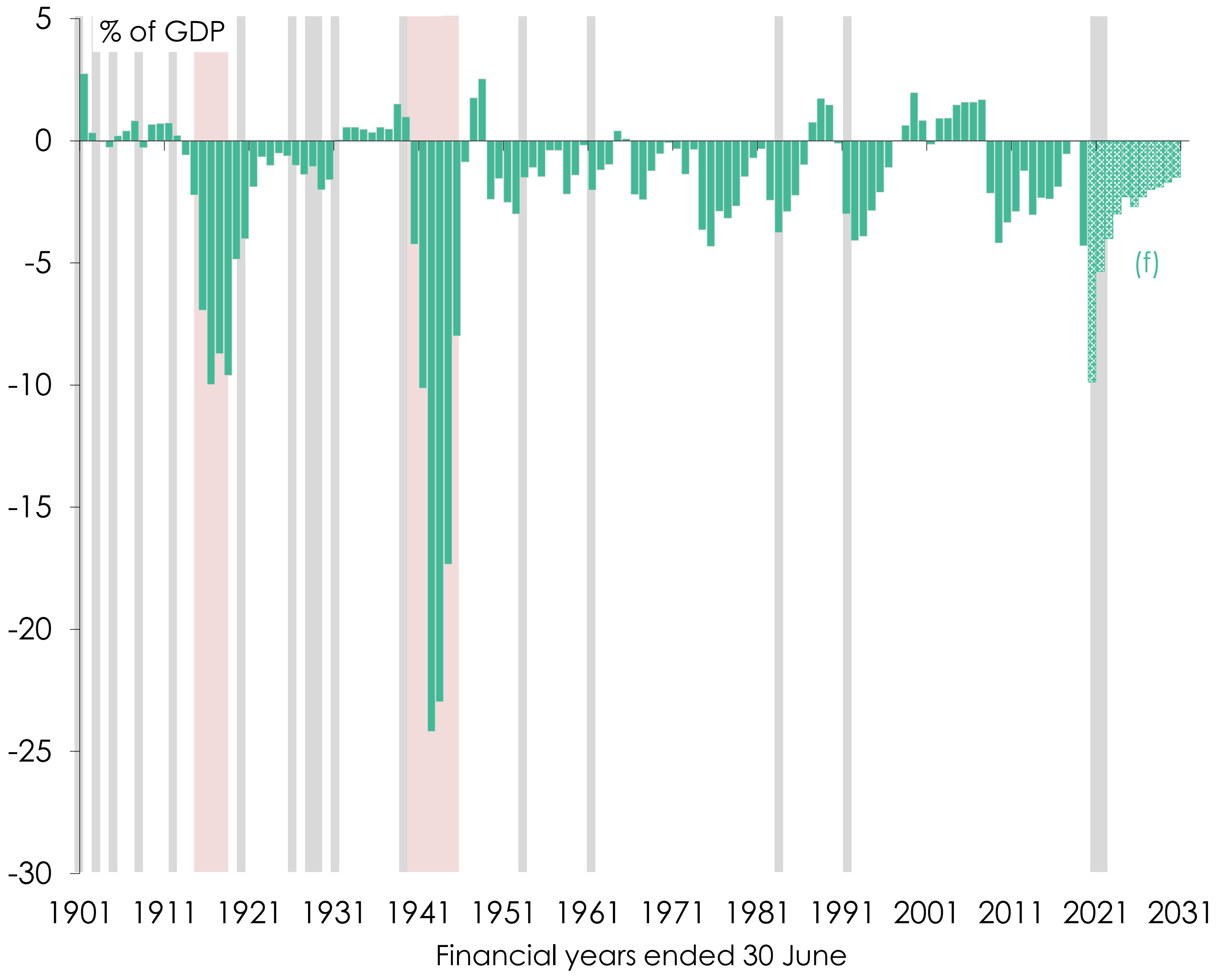
SAUL ESLAKE
CORINNA ECONOMIC ADVISORY

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

Australian Government receipts and payments



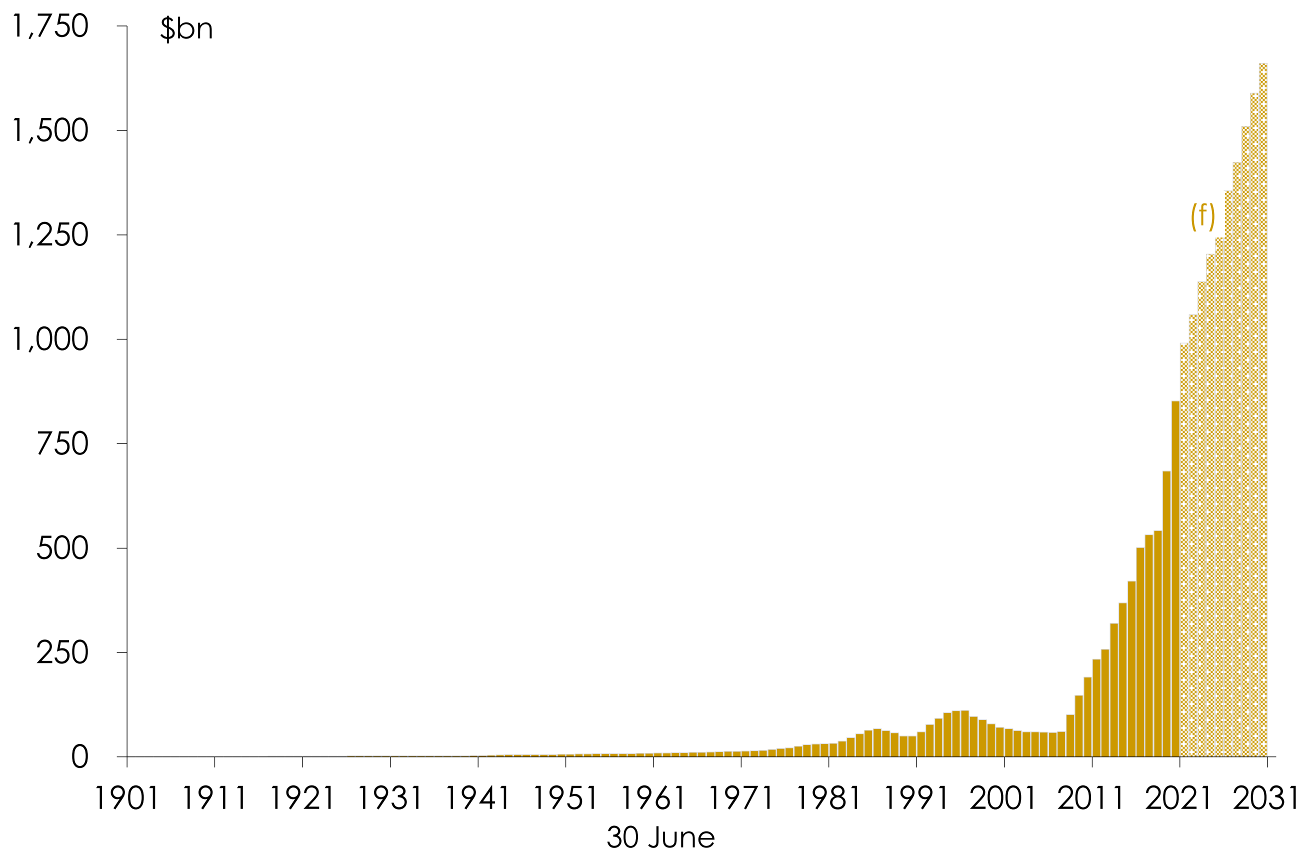
Australian Government budget deficit or surplus



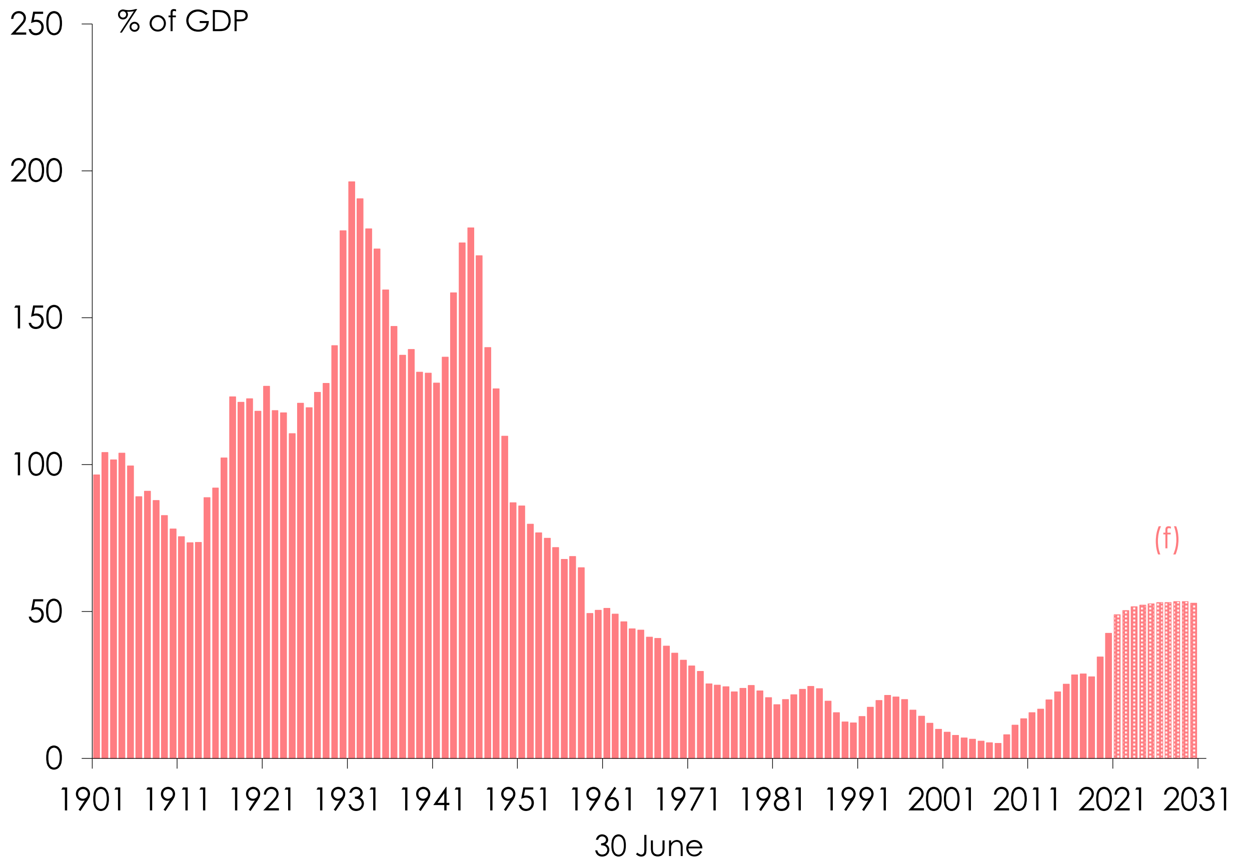
Note: Payments and the budget surplus or deficit are 'underlying' (that is, exclude 'net investments in financial assets for policy purposes') after 1989-90, when state governments became responsible for issuing their own debt, and 'headline' before that. Areas shaded in grey are fiscal years in which real GDP contracted; areas shaded in pink are World Wars I and II. (f) denotes forecasts or projections.
Sources: Global Financial Data; Australian Government, *2020-21 Mid-Year Economic and Fiscal Outlook*. Return to "What's New".

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

Australian Government gross public debt in $



Australian Government gross debt as a pc of GDP



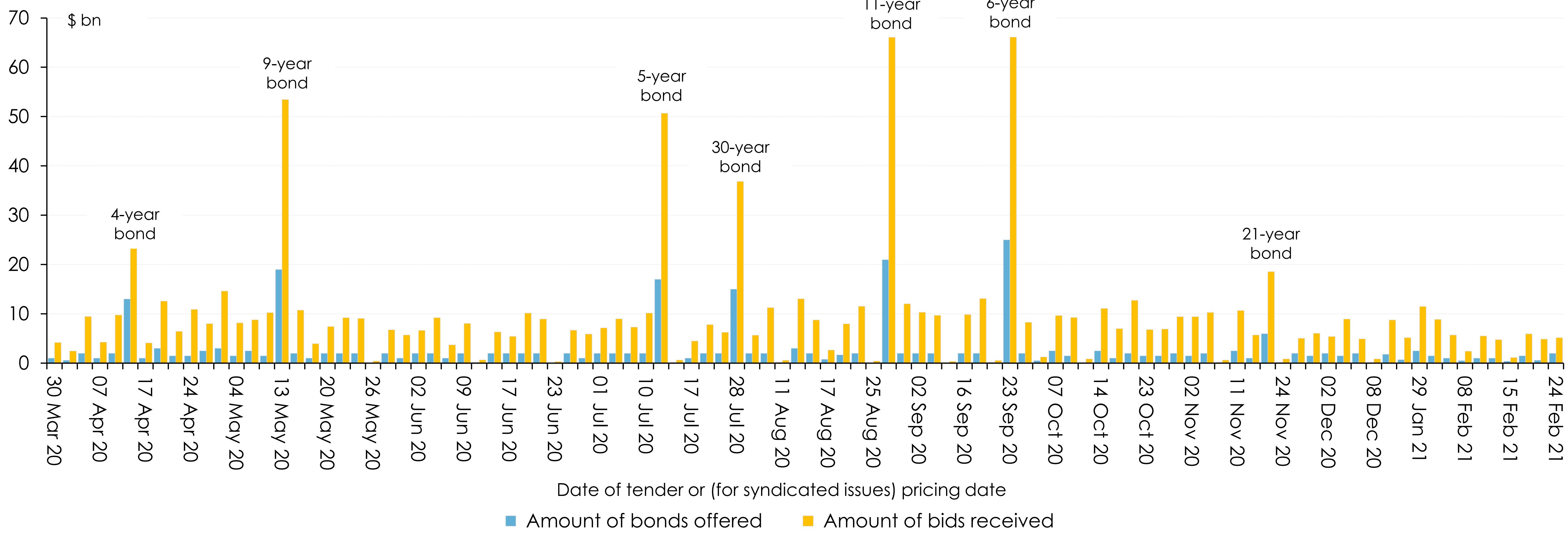
- **The Government's gross debt will top $1 trillion during the 2022-23 financial year (a year later than forecast in October's budget) and exceed $1.6 trillion in 2030-31**
- **However as a percentage of GDP, the Government's gross debt will still be less than it was in any of the first sixty years 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".

SAUL ESLAKE
CORINNA ECONOMIC ADVISORY

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

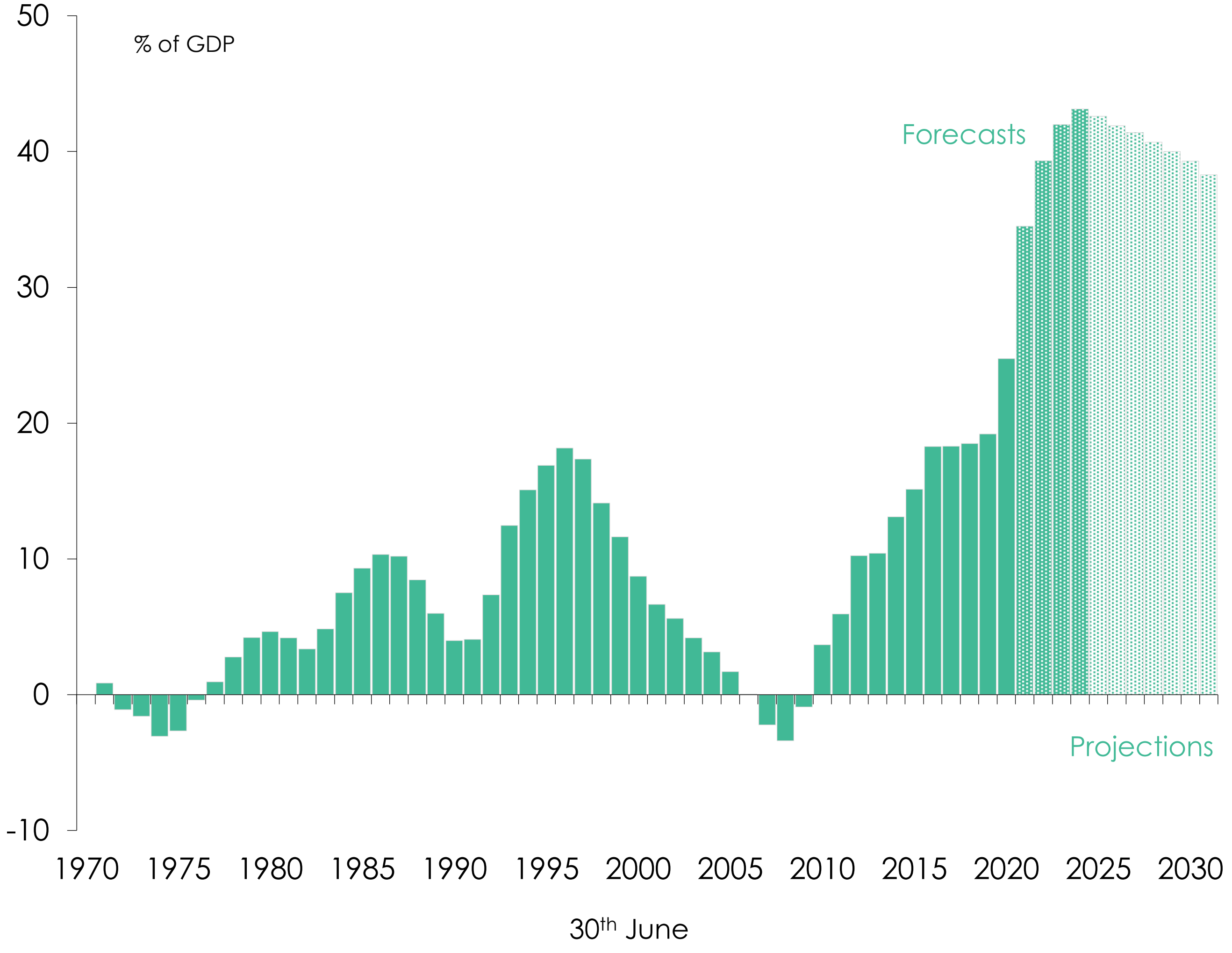


- **Since 30th March 2020, the Australian Office of Financial Management has issued $256.2bn of Treasury bonds – based on the volume of bids received it could have borrowed $949bn with yields at most 4 basis points (0.04 of a pc point) above the highest yields actually accepted**
- **The AOFM only conducted one tender this week, for $2bn of May 2032 bonds, bringing its total issuance since 1st July to $169.3bn (73½% of this financial year's expected total gross issuance of $230bn)**

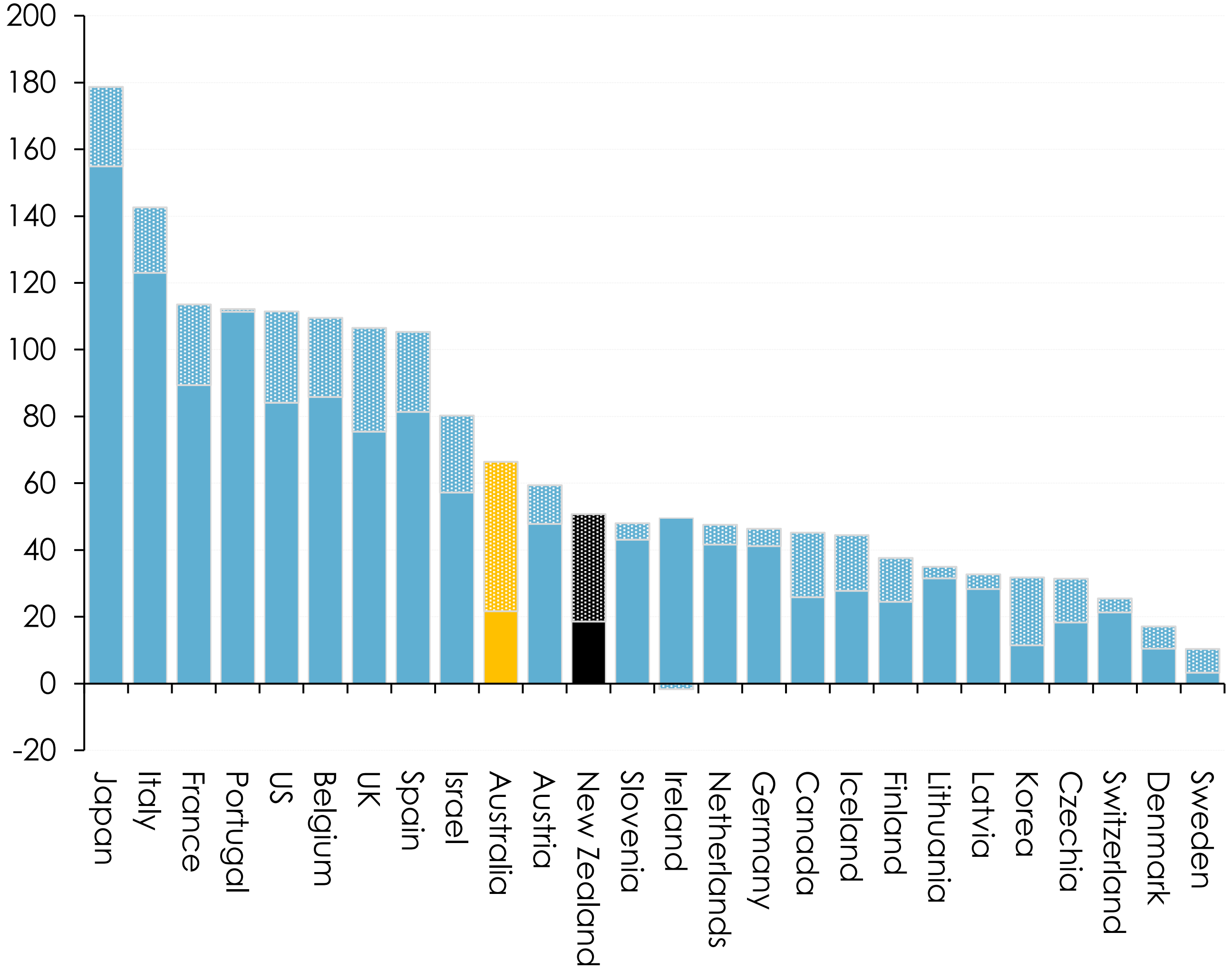
Source: Australian Office of Financial Management data hub; Corinna. Return to "What's New".

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

Australian Government net debt as a percentage of GDP



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

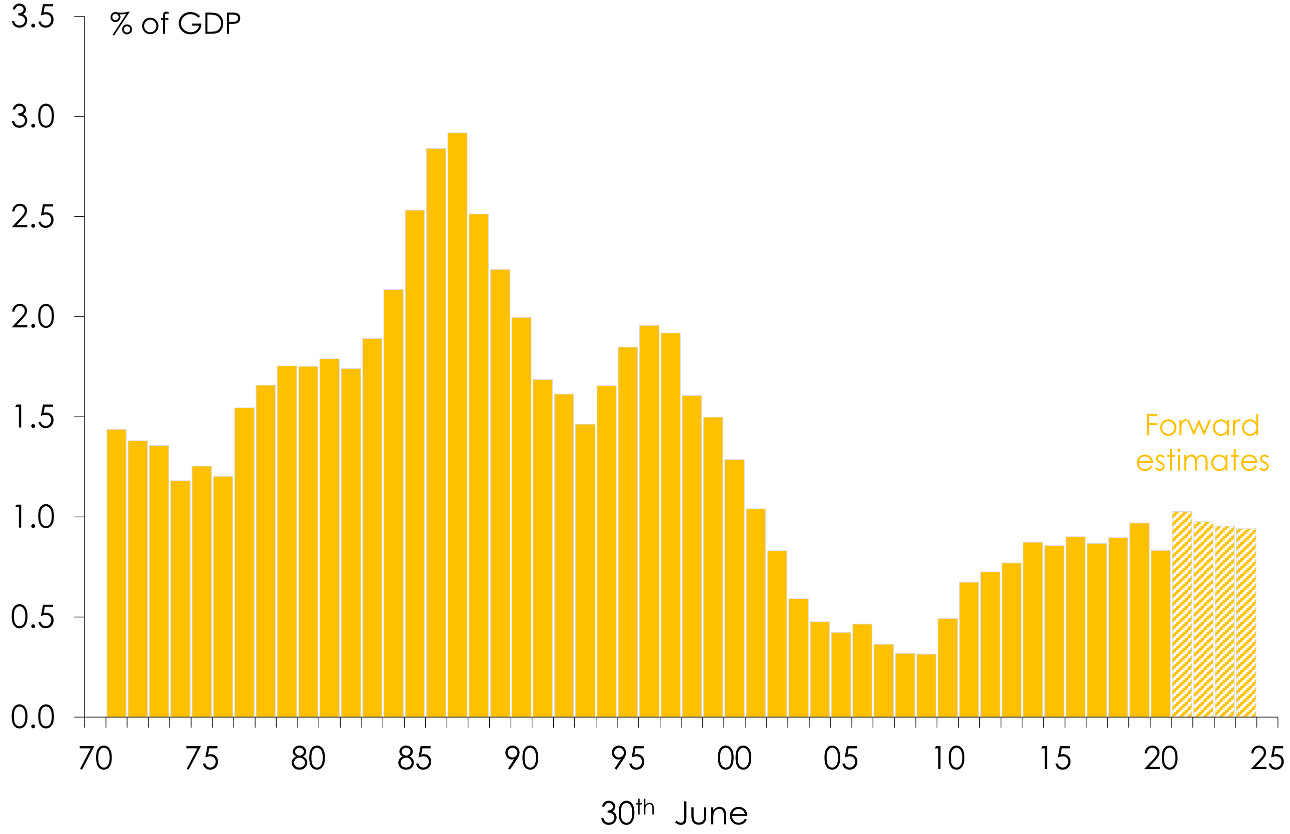


Note: Estimates for Australia in right hand chart include actual and projected net debt of state and territory governments. *Sources:* Australian Government, 2020-21 *2020-21 Mid-Year Economic and Fiscal Outlook*, 17th December 2020; 2020-21 state and territory Budget Papers; New Zealand Treasury, *Half-Year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

SAUL ESLAKE
CORINNA ECONOMIC ADVISORY

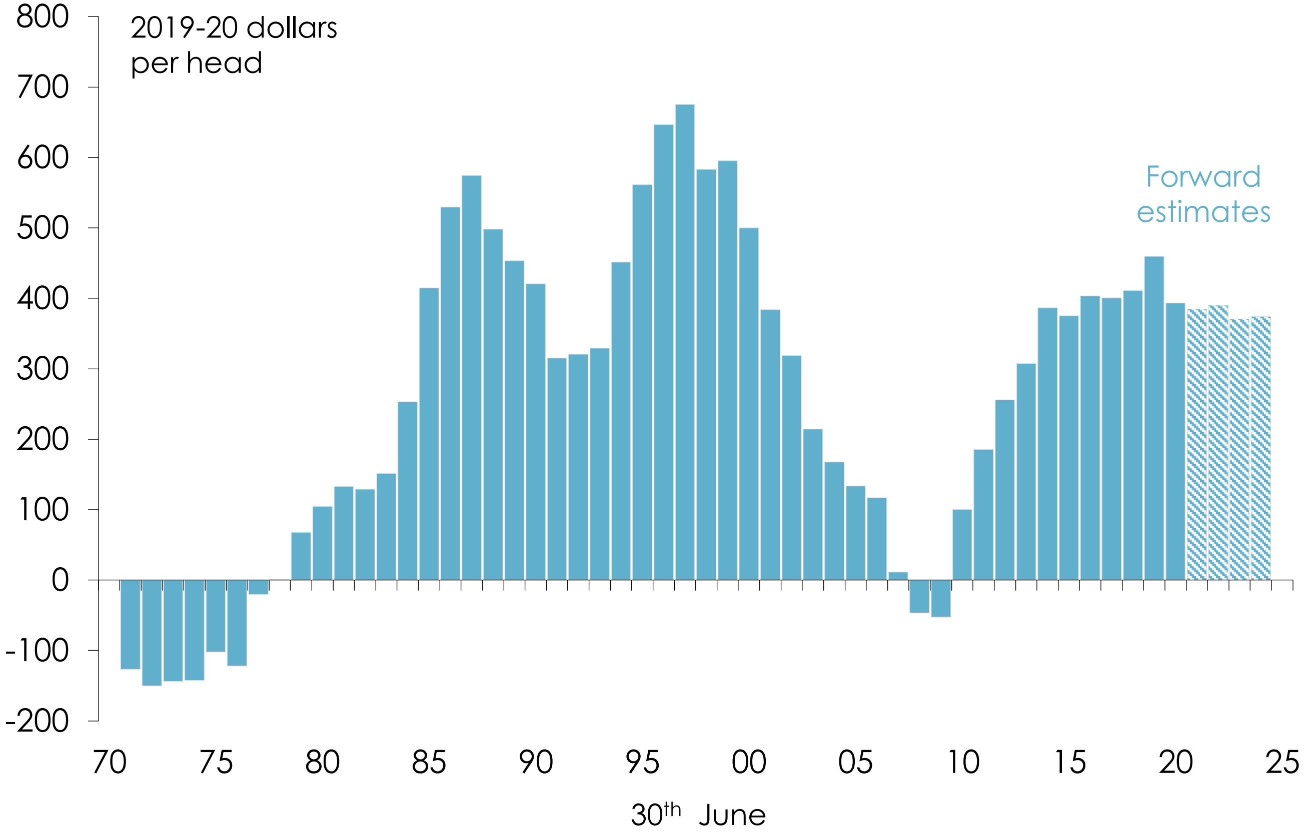
Because interest rates are so low, the cost of servicing the debt which the Government is racking up will be low by historical standards

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



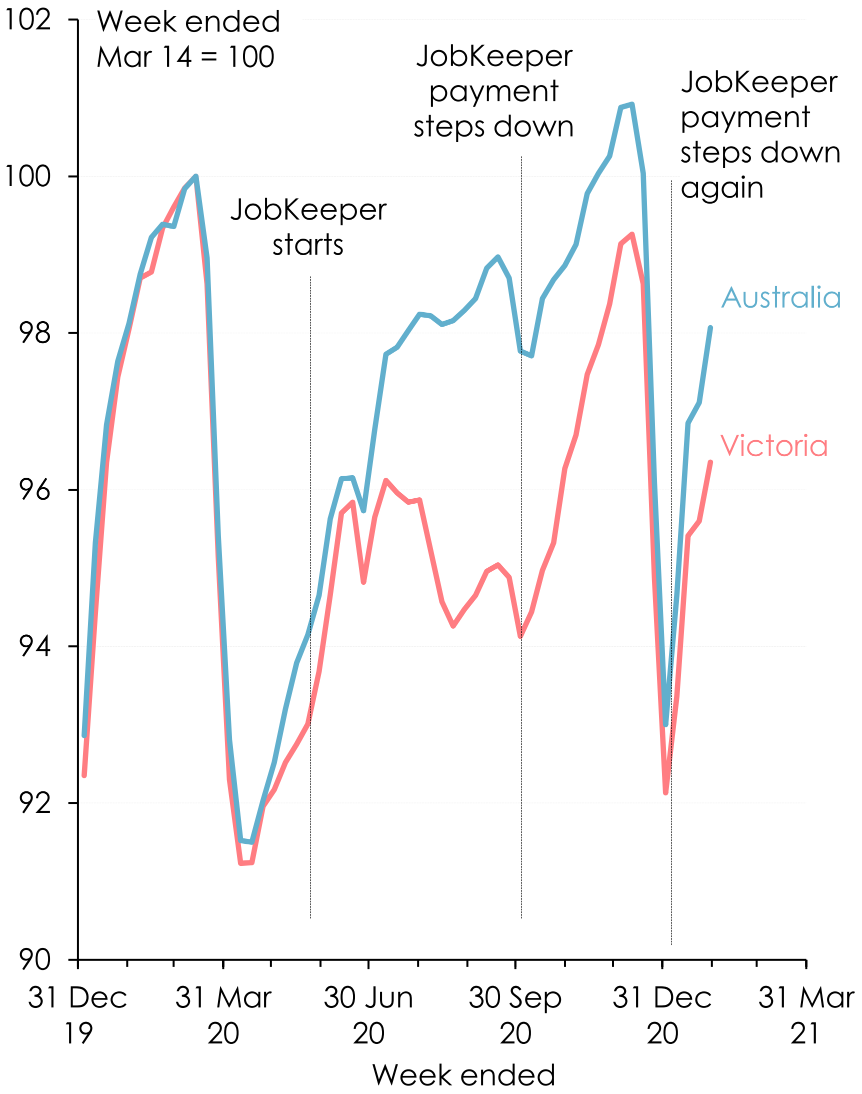
- Net interest payments per head of population will be less than they were in the second half of the 1980s, between 1993-94 and 1999-2000, or between 2015-16 and 2019-20

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

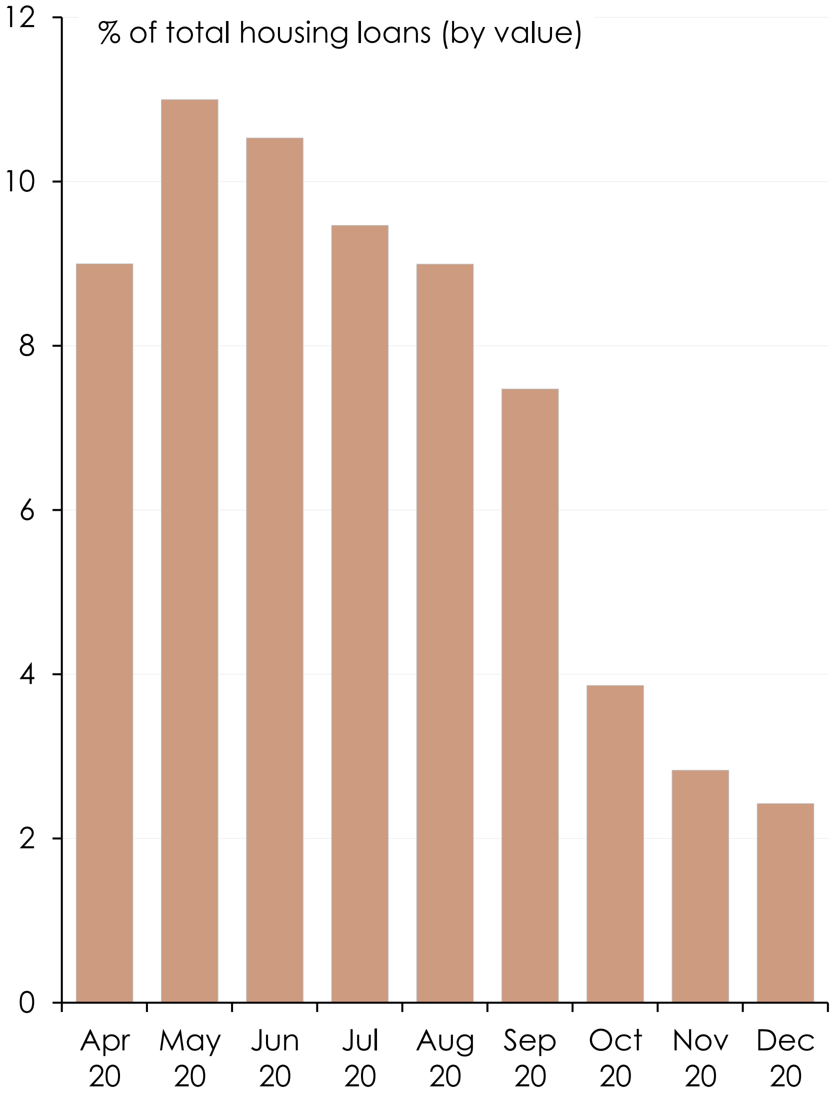
SAUL ESLAKE
CORINNA ECONOMIC ADVISORY

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

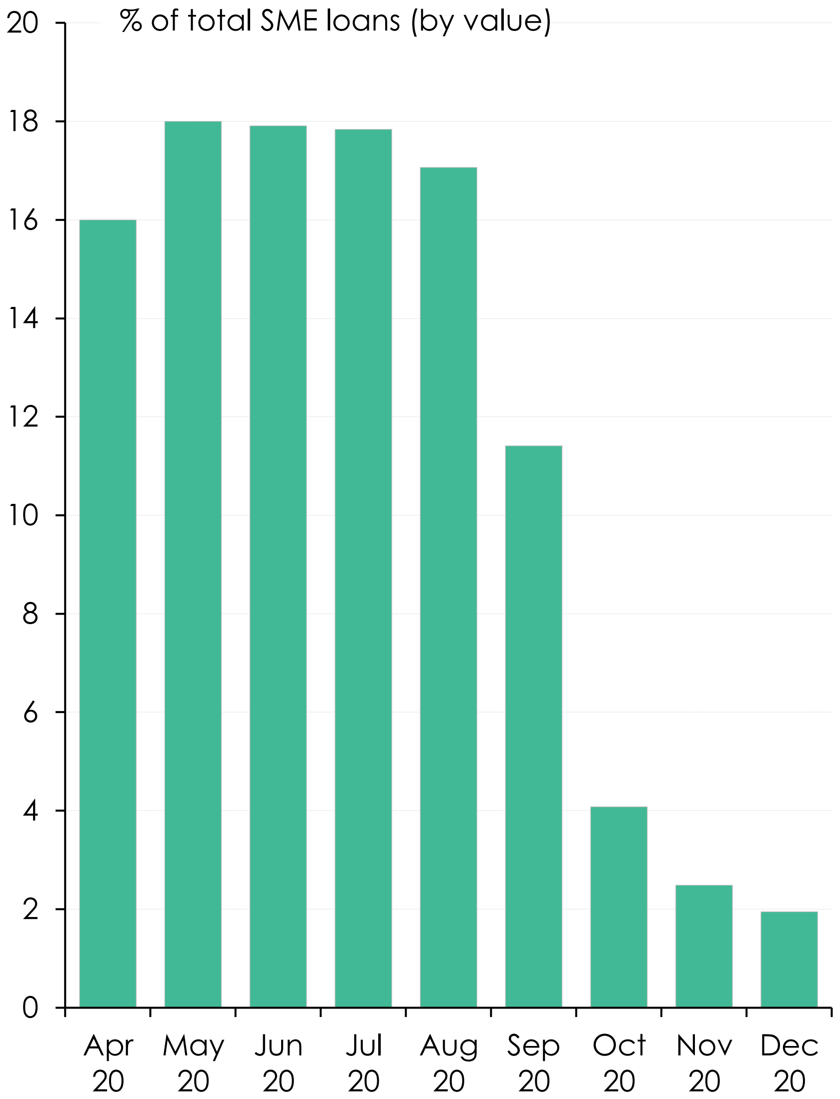
Payroll employment & JobKeeper



Mortgage repayment deferrals



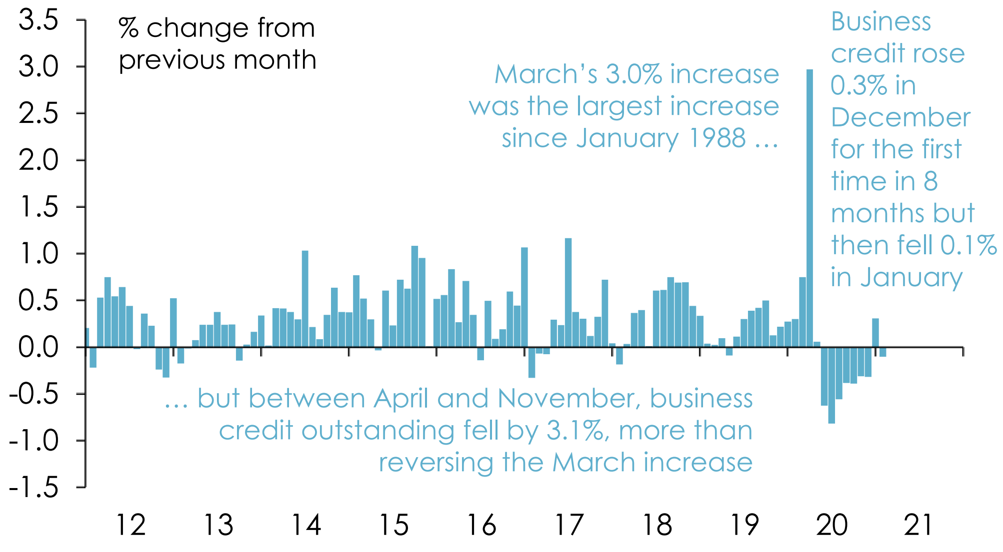
SME loan repayment deferrals



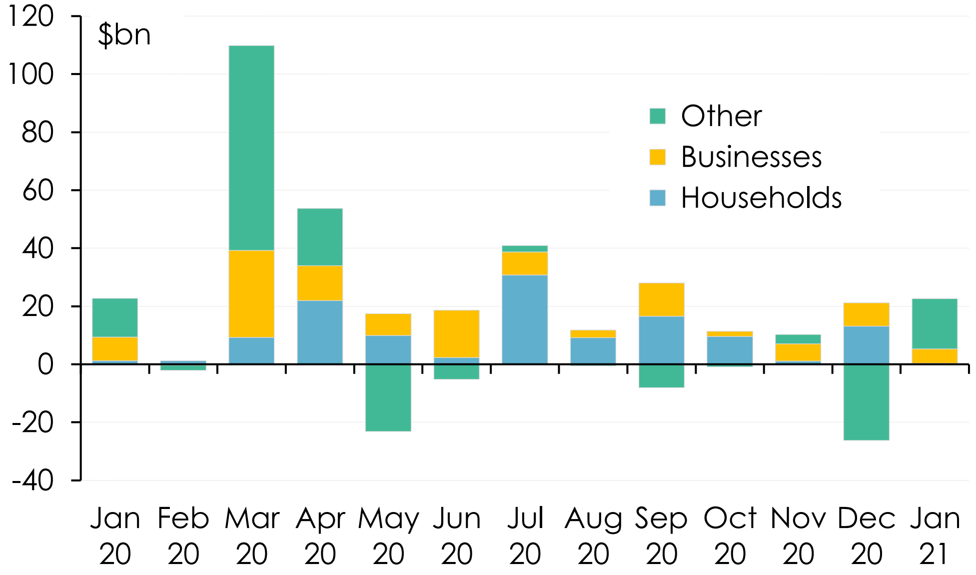
Note: Weekly payroll jobs data are not seasonally adjusted: as noted in slide 94 the decline in the last two weeks of December and first week of January is consistent with normal seasonal patterns. *Sources:* ABS; Australian Financial Security Authority; Australian Prudential Regulatory Authority.

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

Business credit outstanding



Monthly change in bank deposits



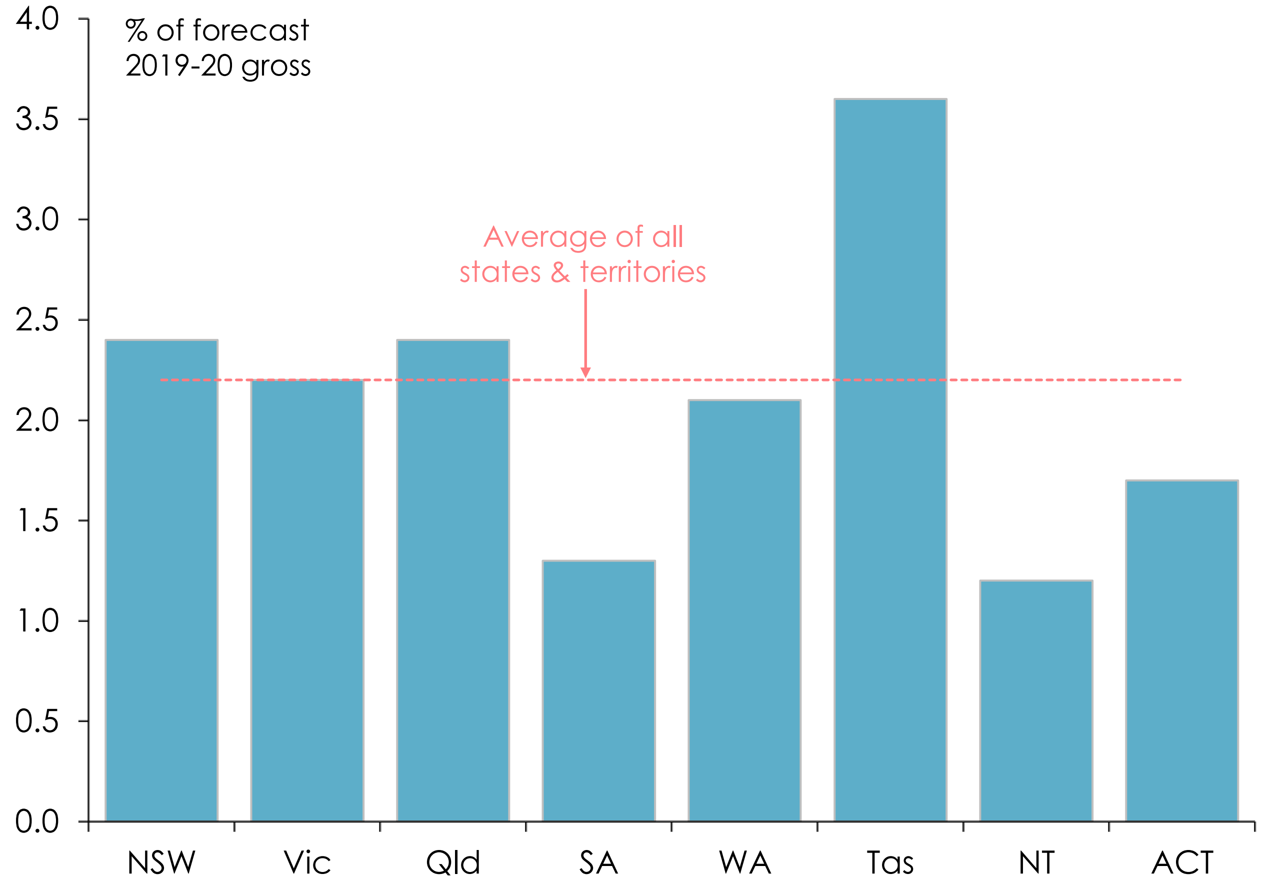
Sources: Reserve Bank of Australia; APRA. Return to "What's New".

- **Banks have cut interest rates on small business loans by more than the official cash rate since June last year (when the RBA started cutting rates again)**
- **Banks have 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 131)
- **Bank deposits have swelled by $281bn (13¼%) 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 laqst February – of which $36bn has been sourced from early release of superannuation savings – while business deposits have risen by $109bn (18¼%)**

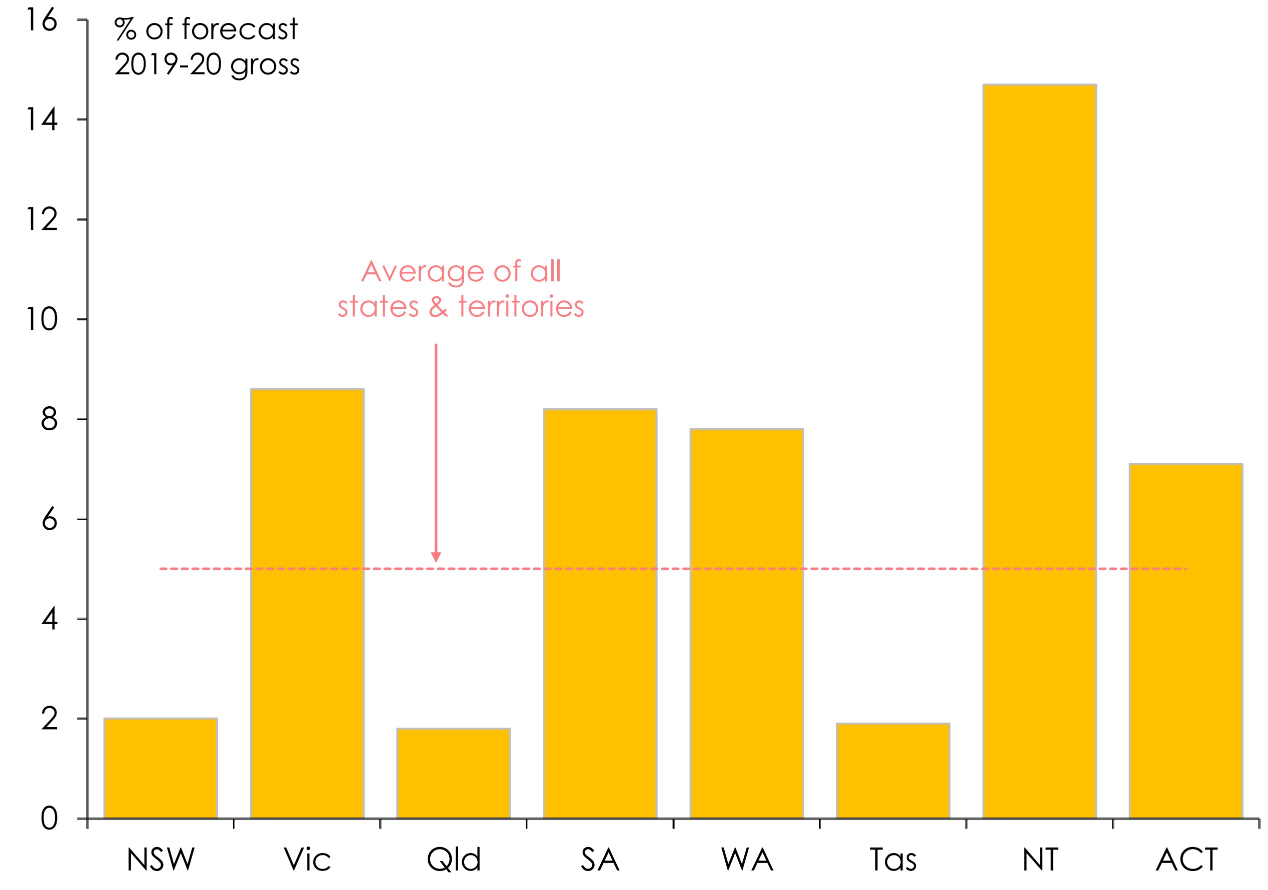
SAUL ESLAKE
CORINNA ECONOMIC ADVISORY

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



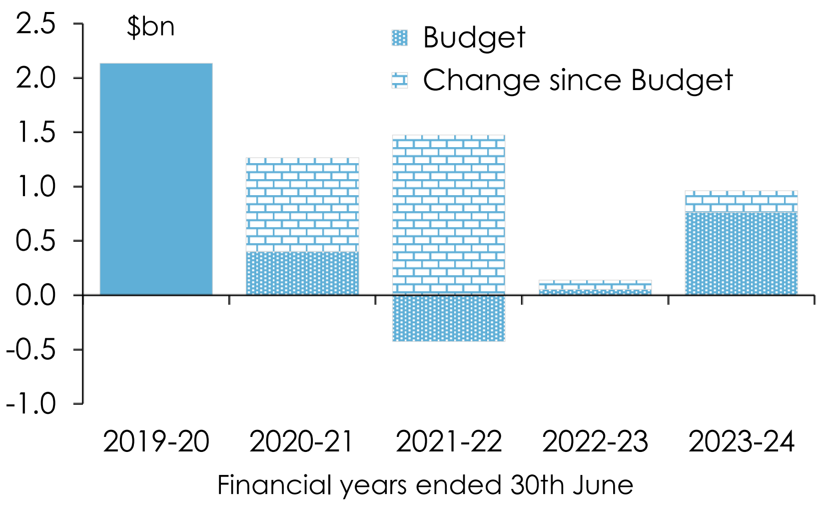
- **In August RBA Governor Phillip Lowe advised state and territory governments to spend an additional $40bn (2% of GDP) on infrastructure investment – an amount which S&P Global Ratings said state and territory balance sheets had "plenty of room to accommodate"**

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

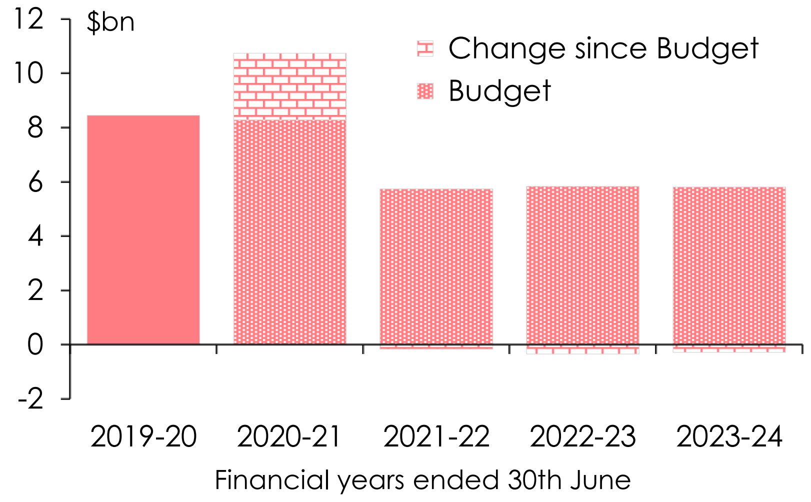
SAUL ESLAKE
CORINNA ECONOMIC ADVISORY

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

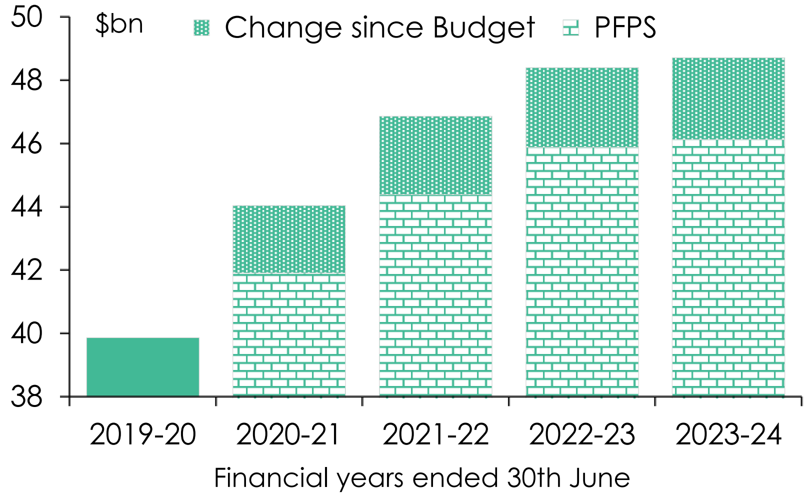
'General government' cash balance



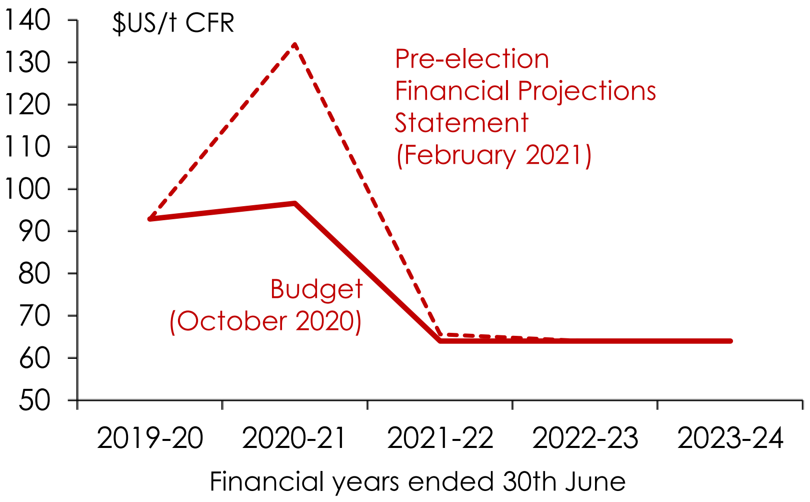
Mineral royalties revenue



Non-financial public sector net debt



Iron ore price assumption

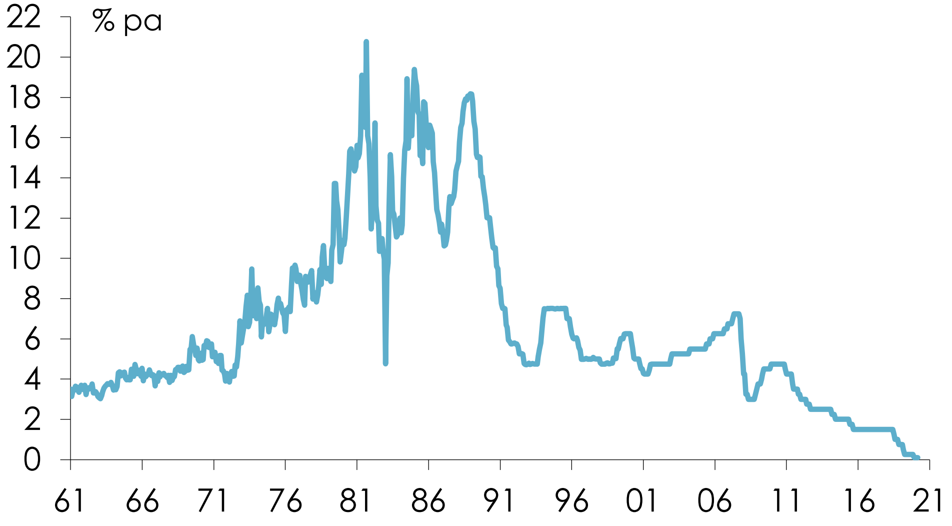


- **Western Australia's might be the only government in the world which *isn't* projecting budget deficits this year and for the foreseeable future**
  - WA Treasury's Pre-election Financial Projections Statement (PFPS) released ahead of next month's state election projects cash surpluses totalling \$3.9bn 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**

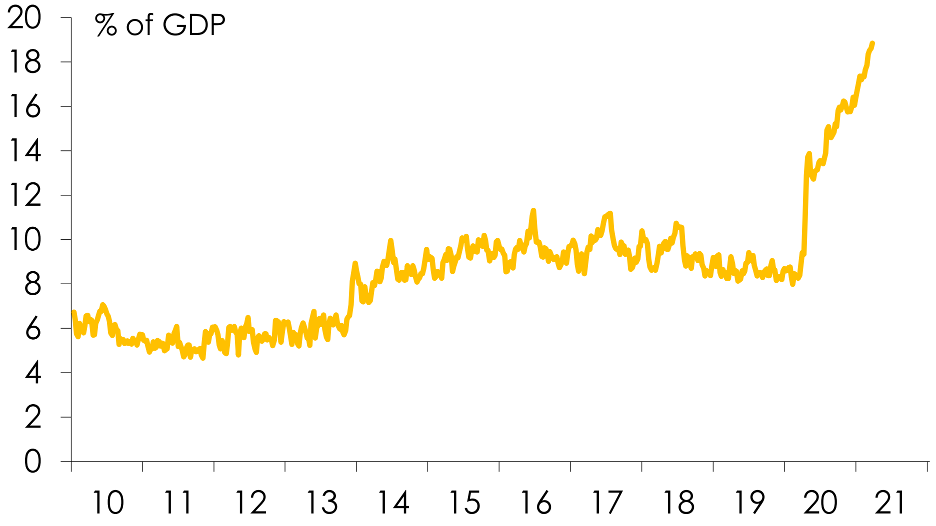
Note: 'CFR' means including freight costs. *Sources:* Government of Western Australia, 2020-21 Budget Paper No. 3: Economic and Fiscal Outlook (October 2020) and Pre-election Financial Projections Statement (PFPS) (February 2021).
Return to "What's New".

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

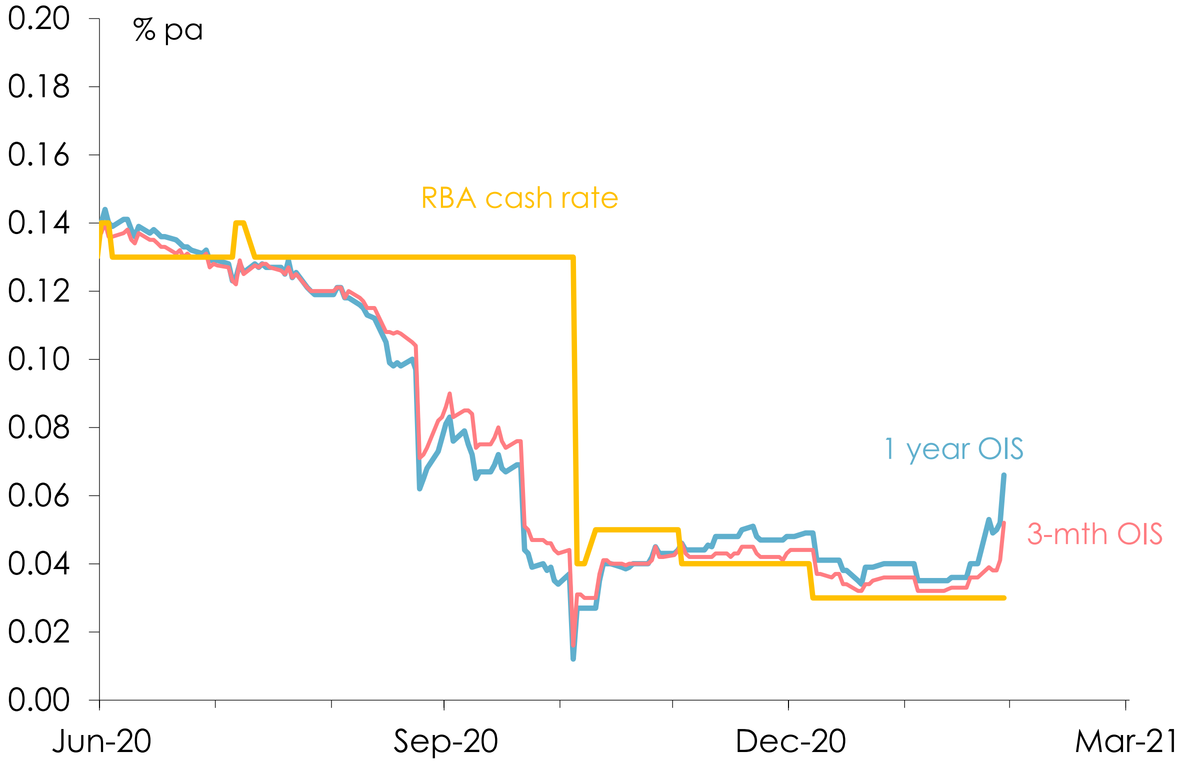


Source: Reserve Bank of Australia, *Statistical Tables* A3 and F1.1.
Return to "What's New".

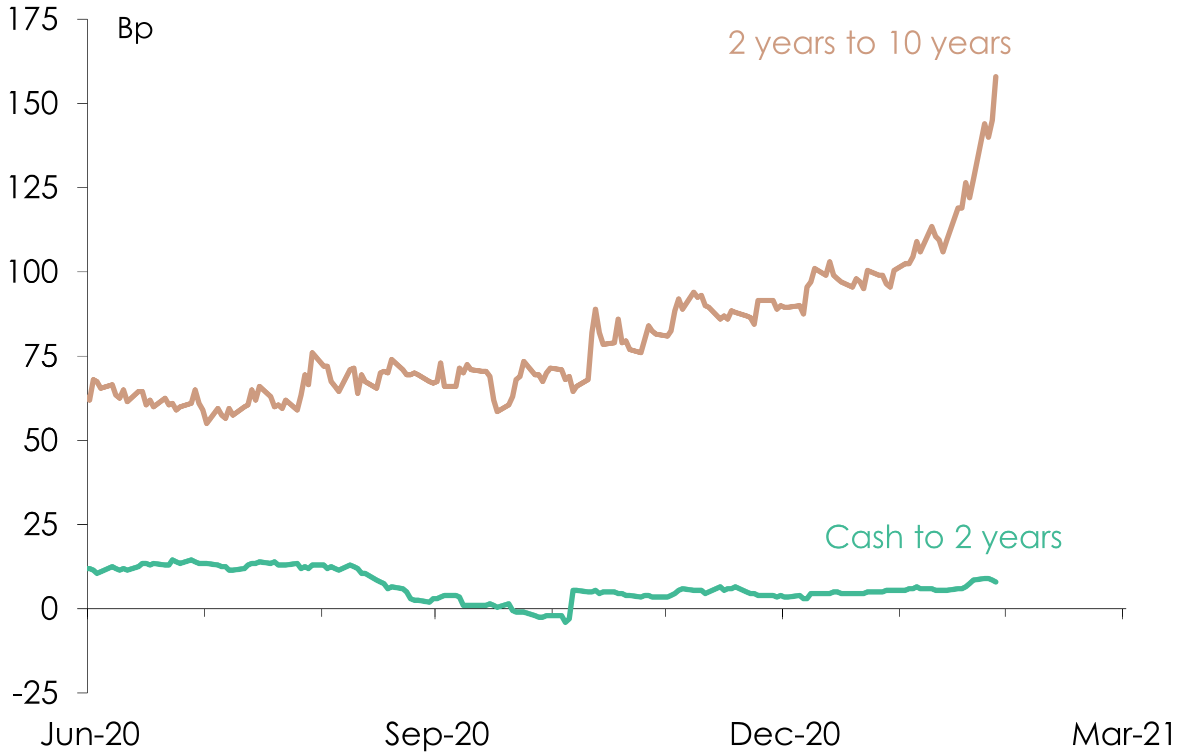
- **Last year the RBA cut its cash rate target from 0.75% to 0.10% (and in practice allowed the cash rate to fall to 0.03%)**
  - the RBA Board left all its monetary policy settings unchanged at its meeting this month, the first for 2021 …
  - and 'tweaked' its 'guidance' as to how long before it would start raising the cash rate from (previously) "at least three years" to "2024 at the earliest"
  - 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 $75bn (including $4bn this week)
  - a Fed or ECB-style 'Bond Purchase Program' targeting 5-10 year yields, under which it has since November purchased $68bn – 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 $90½bn out of a potential $185bn (including $5bn this week)
- **The RBA estimates that its Bond Purchase program has lowered long-term bond yields by about 30 basis points (from what they otherwise would have been)**
  - and (according to Assistant Governor Chris Kent last week the A$ is "as much as 5% lower than it otherwise would have been" (in trade-weighted terms)

This week financial markets began to ponder the possibility that interest rates could rise before '2024 at the earliest'

Overnight index swap rates



Yield curves



- **The 3- and 12-month OIS rates rose by 1bp and 3bp, respectively, over the course of this week – suggesting that financial markets aren't giving much credence to a rise in the cash rate any time soon, but the possibility isn't quite as close to zero as it seemed before this week**

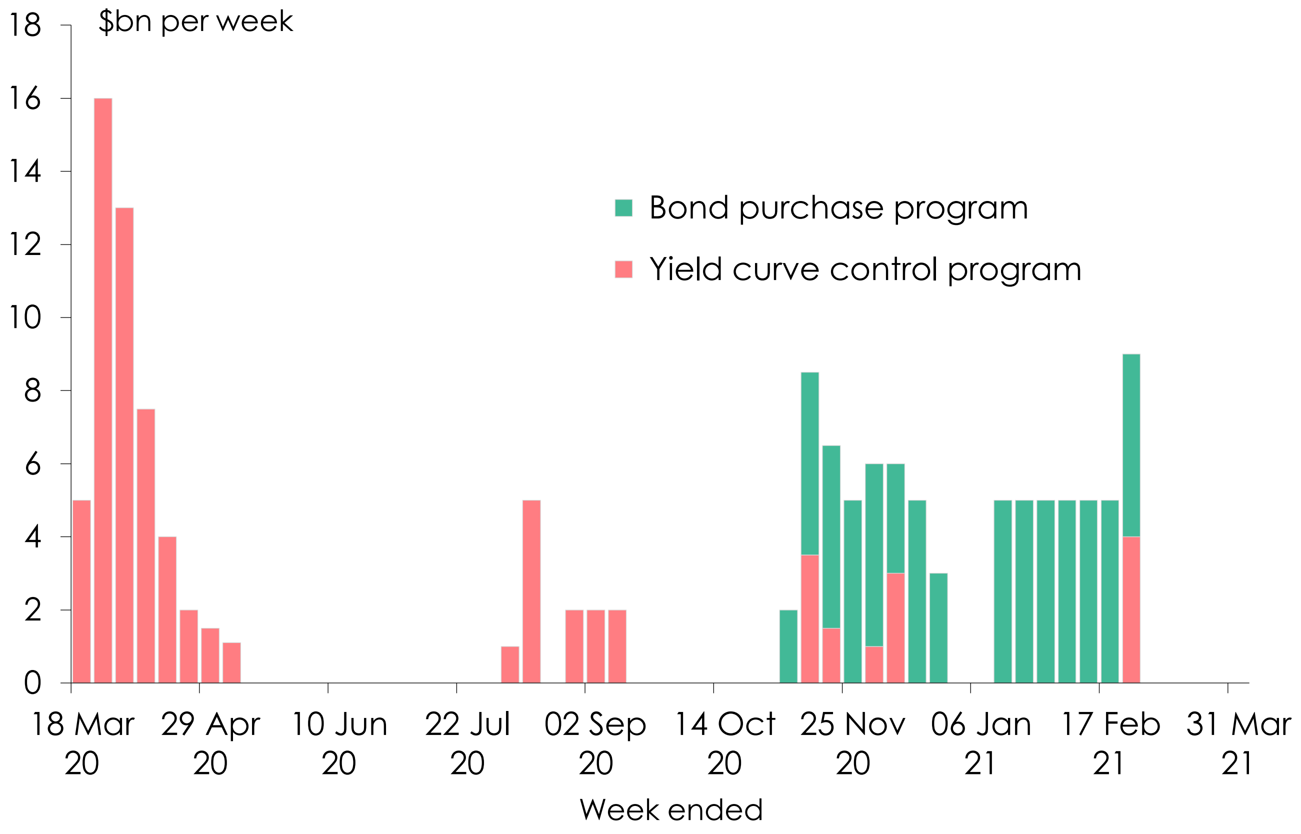
- **The spread between the 2-year bond yield and the cash rate has only risen 2bp over the past week, but the spread between the 10- and 2-year yields widened 30 bp last week and by almost 70bp since the start of the year – implying the markets think there may be some chance of higher rates before 2024**

Source: Refinitiv Datastream. Data up to 26th February. Return to "What's New".`

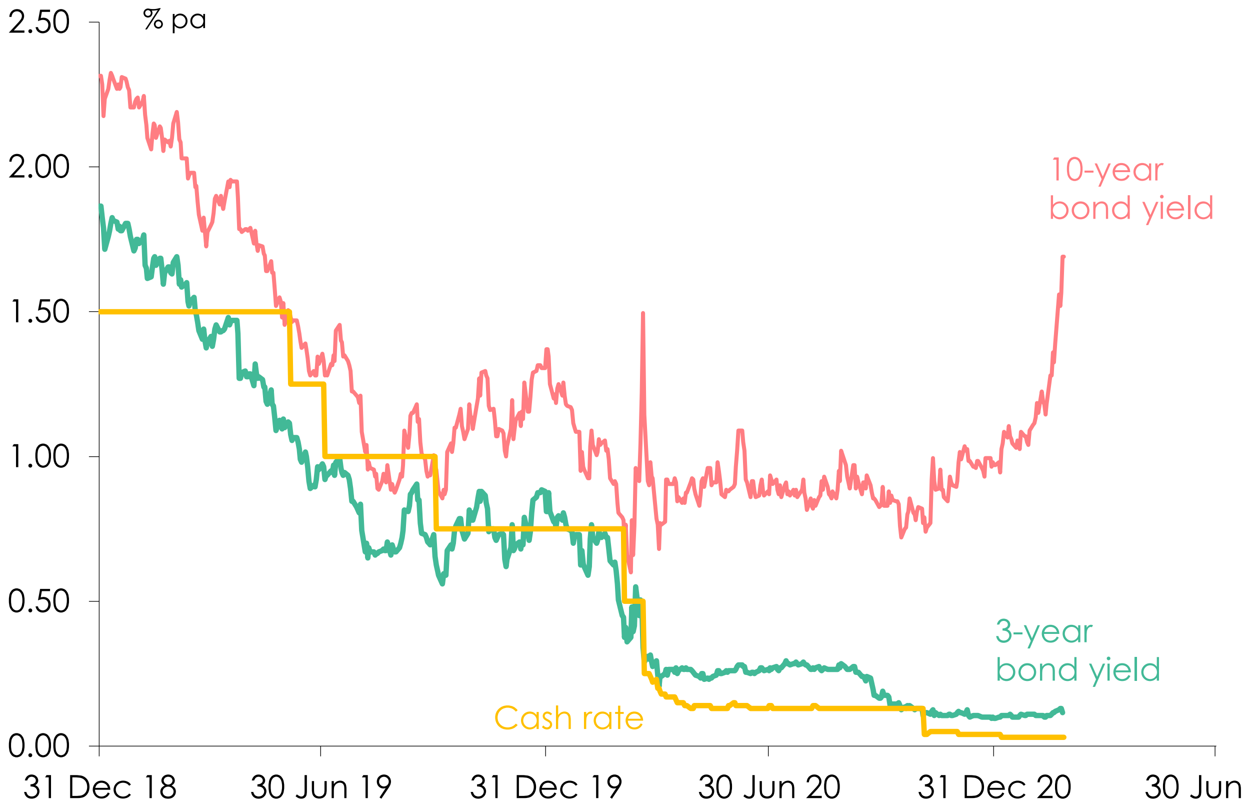
SAUL ESLAKE
CORINNA ECONOMIC ADVISORY

The RBA bought $9bn of bonds this week – the largest amount in eleven months – while 10-year yields hit 1.69%, the highest since May 2019

RBA open market bond purchases



Interest rates



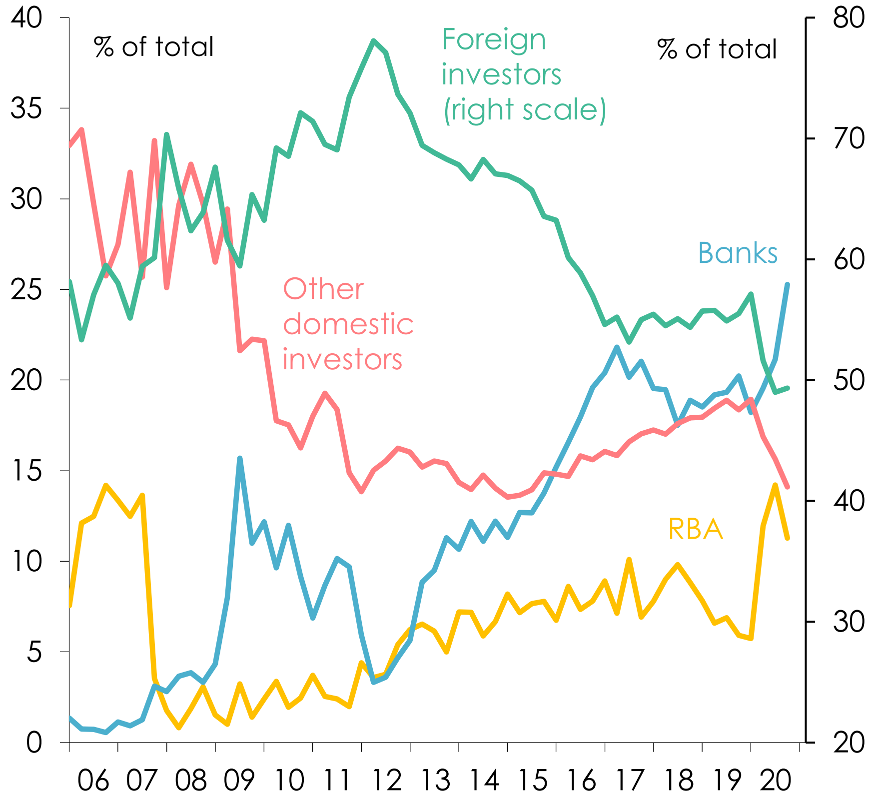
- The RBA this week bought $4bn of bonds under its Yield Curve Control Program for the first time in 11 weeks (and the largest amount since mid-August), in addition to the now-usual $5bn of longer term bonds under its Bond Purchase Program, bringing its total purchases to $143bn (7¼% of GDP)
- 10-year yields leaped 30 bp this week to 1.69%, the highest since May 2019, of which about 25 bp was due to a wider spread vs the US – however the RBA's YCC program kept the 3-year yield to 0.12%, just 2bp above its target (the RBA now owns 54% of the April 2024 bond on issue)

Source: Reserve Bank of Australia, *Statistical Tables* A3 and F2. Data up to 26th February. Return to "What's New".`

SAUL ESLAKE
CORINNA ECONOMIC ADVISORY

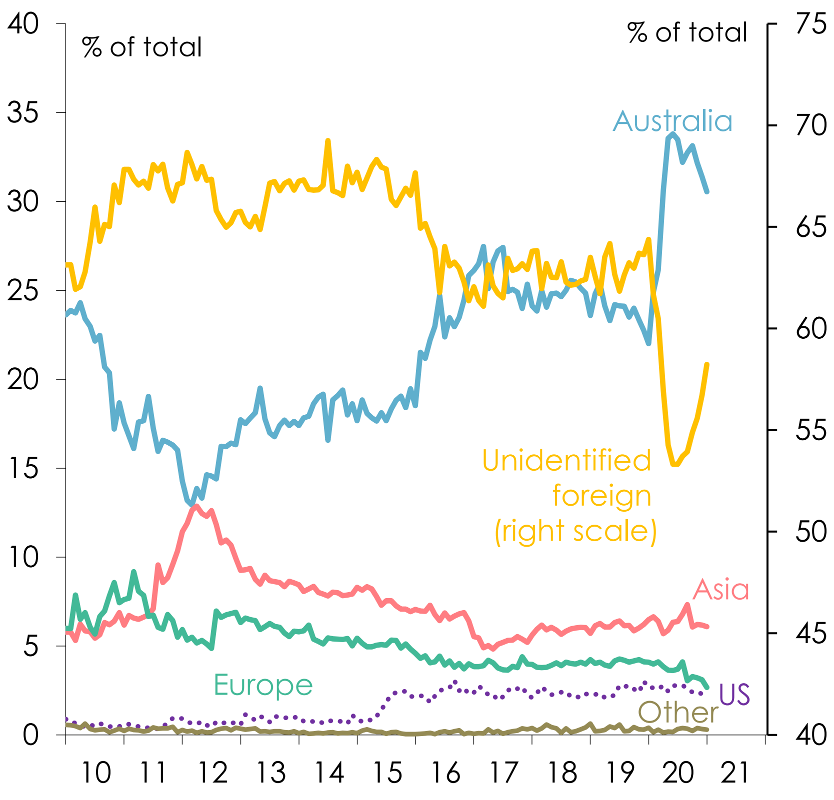
Domestic banks increased their holdings of federal, state and territory government bonds by $160bn over the first three quarters of 2020

Holders of Australian Government bonds



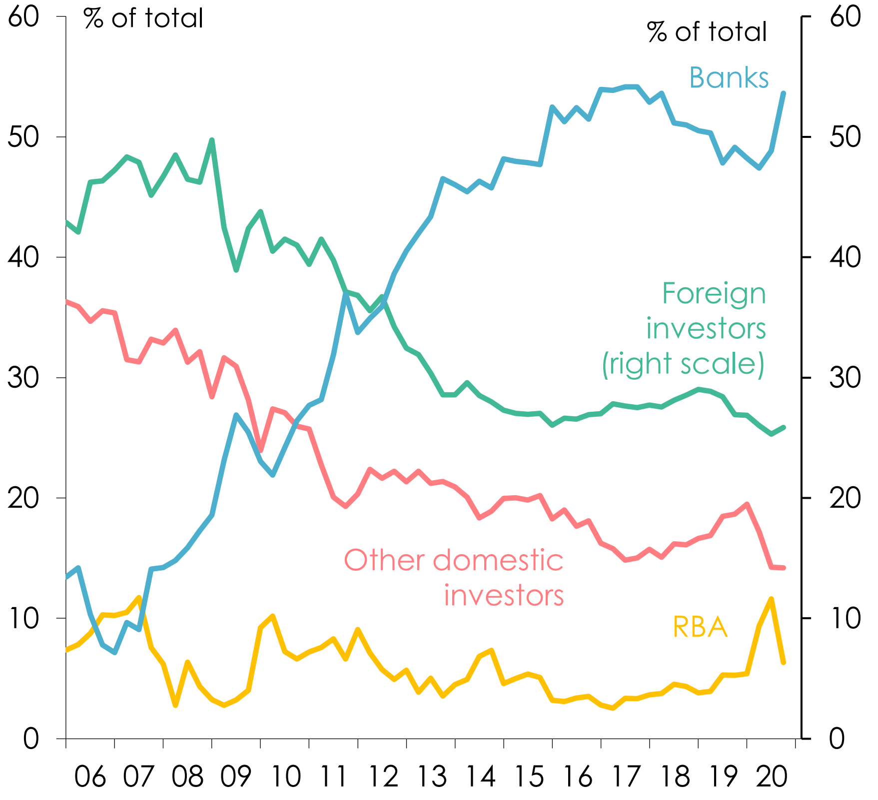
Australian Gov't bonds on issue rose by $221bn over the first three quarters of 2020 – of which domestic banks absorbed $101bn, and the RBA and foreign investors $60bn each

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".

SAUL ESLAKE
CORINNA ECONOMIC ADVISORY

Longer-term considerations for Australia

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

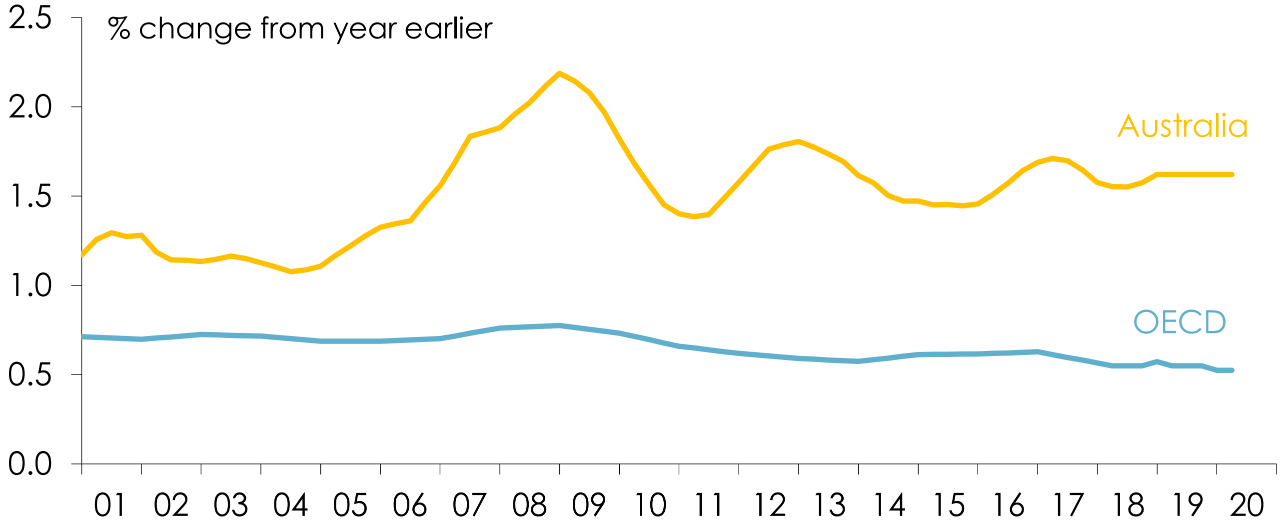
Australia's record-breaking run of almost 30 years without two or more consecutive quarters of negative real GDP growth owed a lot to four factors -

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

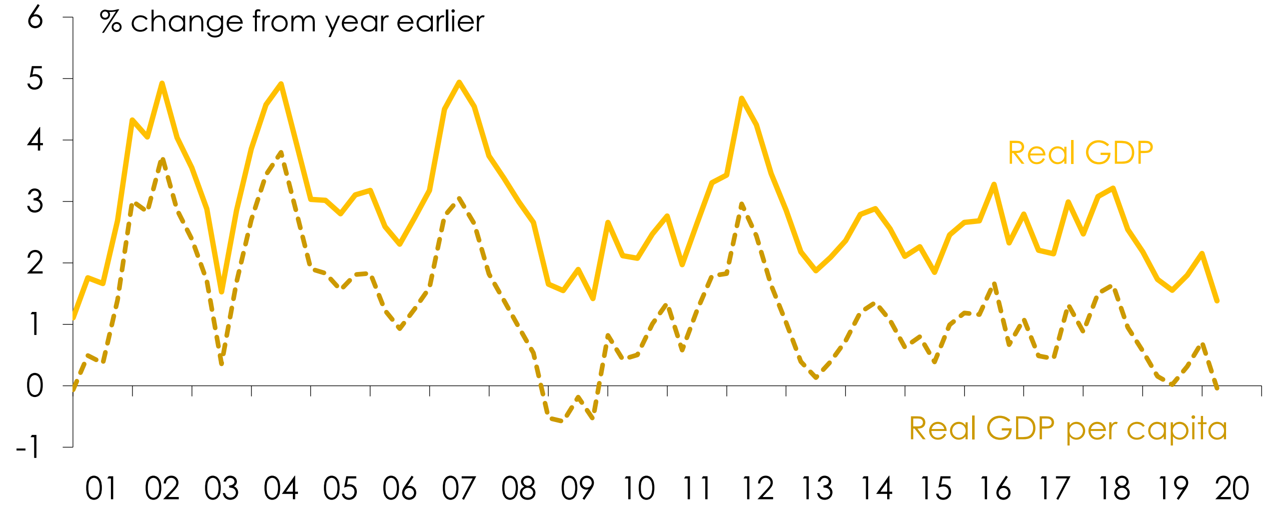
The first three of these are likely to be of less assistance from now on

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

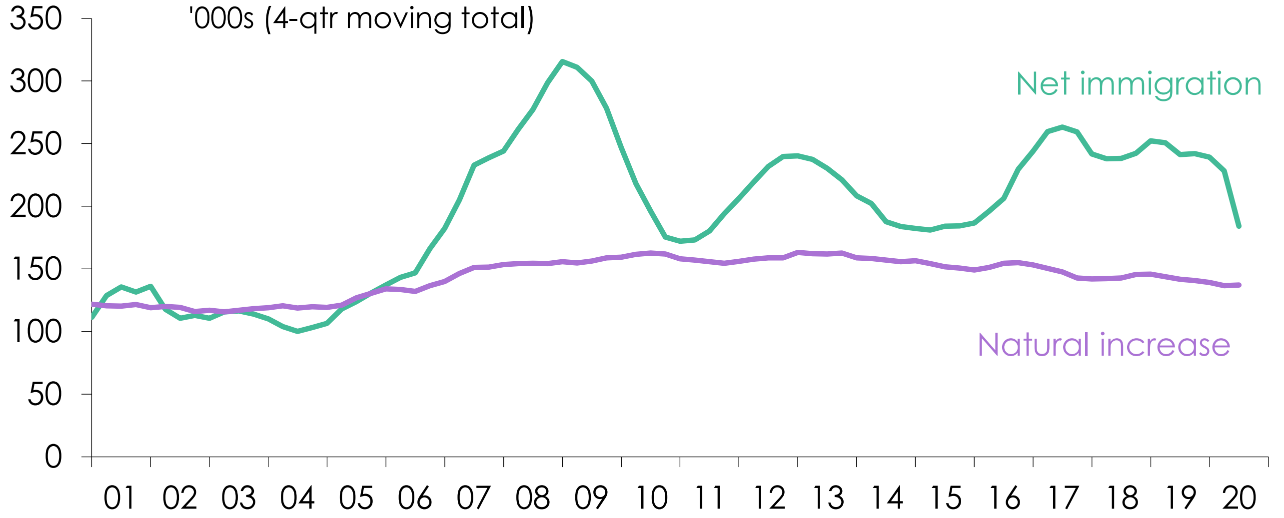
Australia and OECD population growth



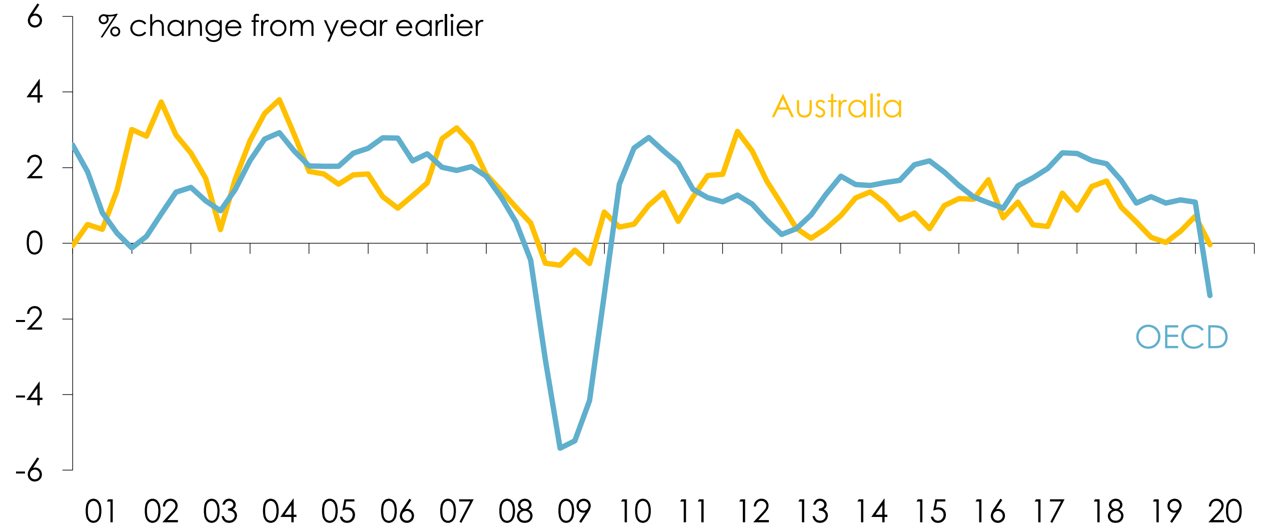
Australian GDP and per capita GDP growth



Sources of Australia's population growth



Australia and OECD per capita real GDP growth

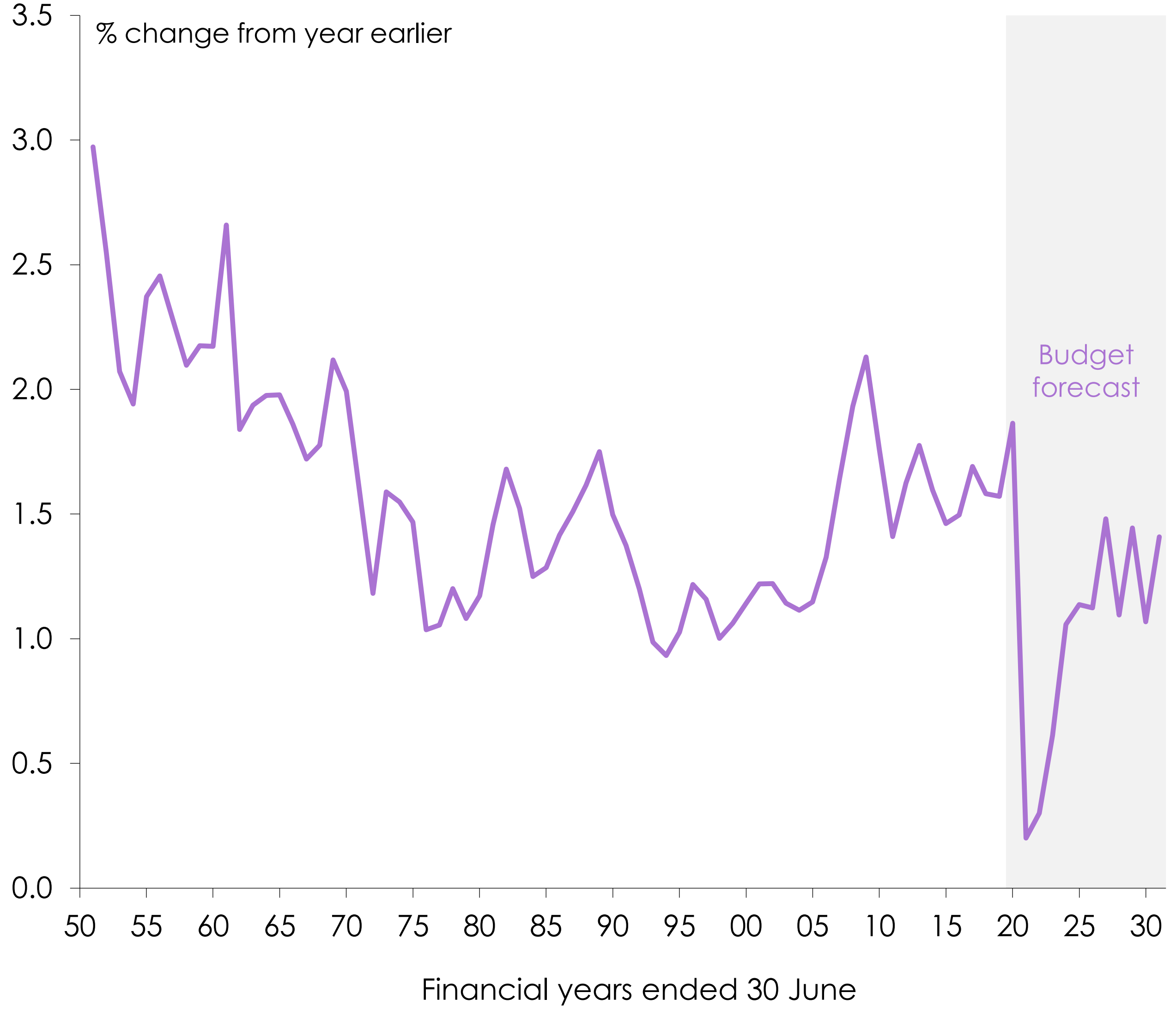


Note: Q2 and Q3 2020 data not shown in the charts of GDP and per capita GDP growth. *Sources:* ABS; OECD. Return to "What's New".

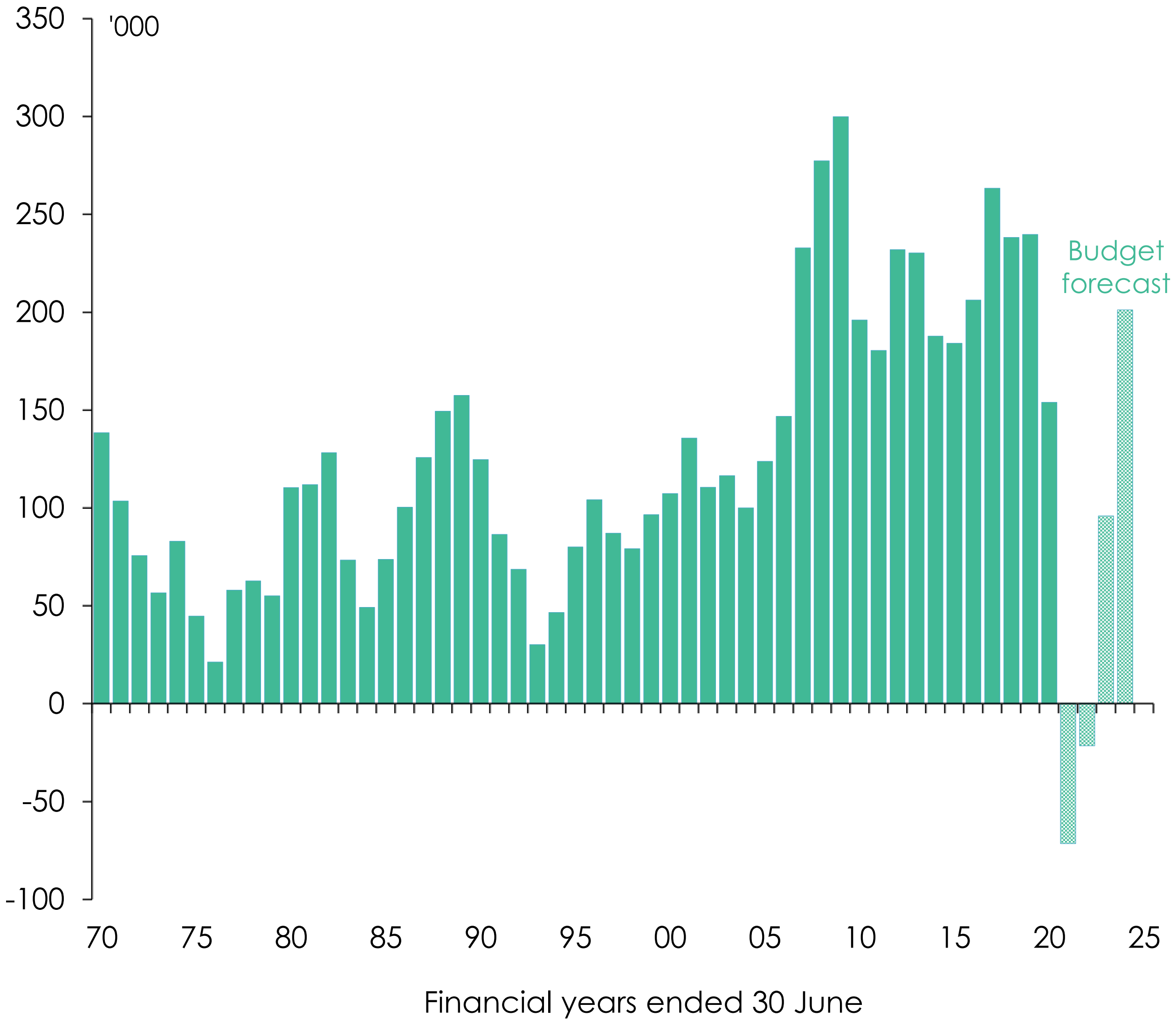
SAUL ESLAKE
CORINNA ECONOMIC ADVISORY

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

Population growth



Net overseas migration

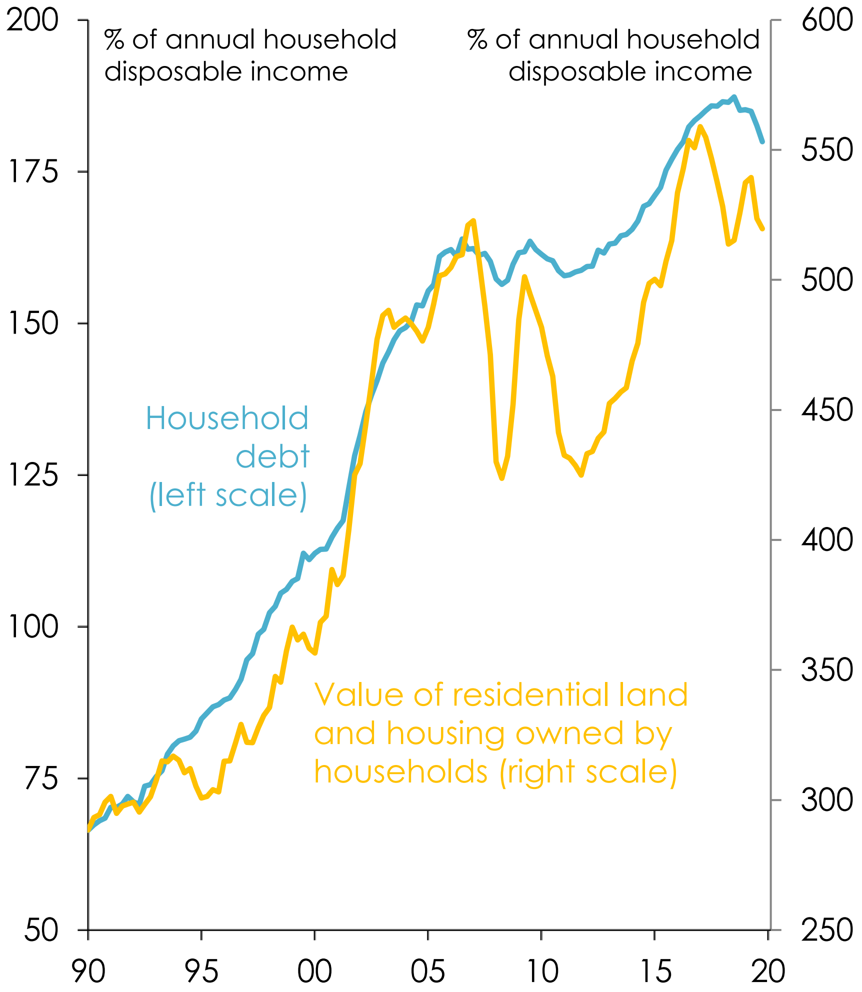


Sources: ABS, National, state and territory population; Australian Government, 2020-21 *Budget Paper No. 1, Statement No. 2* and *Budget Paper No. 3, Appendix A*.
Return to "What's New".

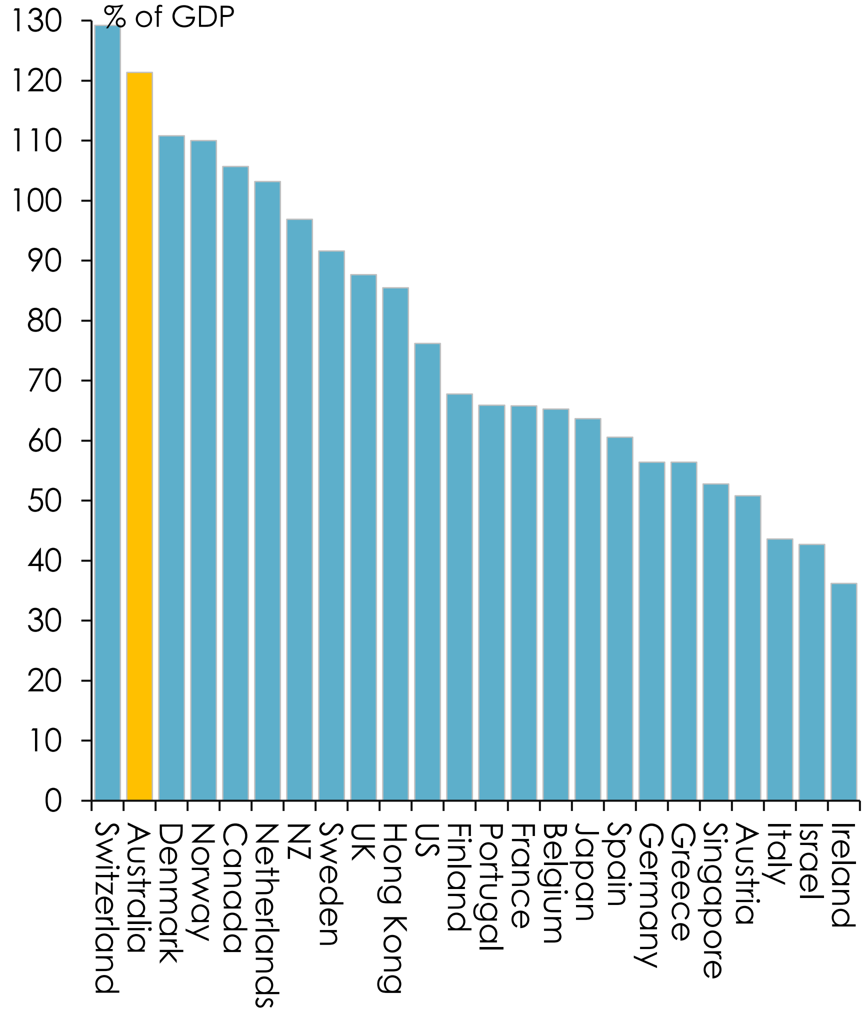
SAUL ESLAKE
CORINNA ECONOMIC ADVISORY

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

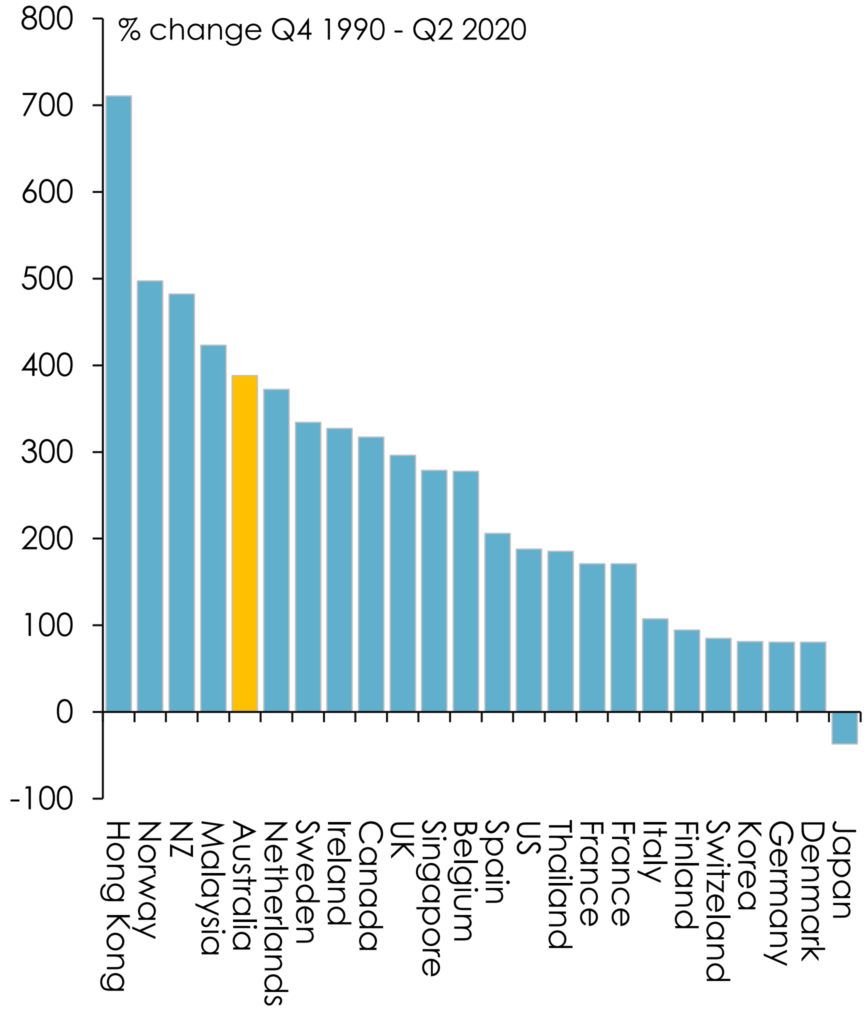
Australian housing wealth and household debt



Household debt as a pc of GDP, June 2020



Increase in residential property prices, 1990-2020

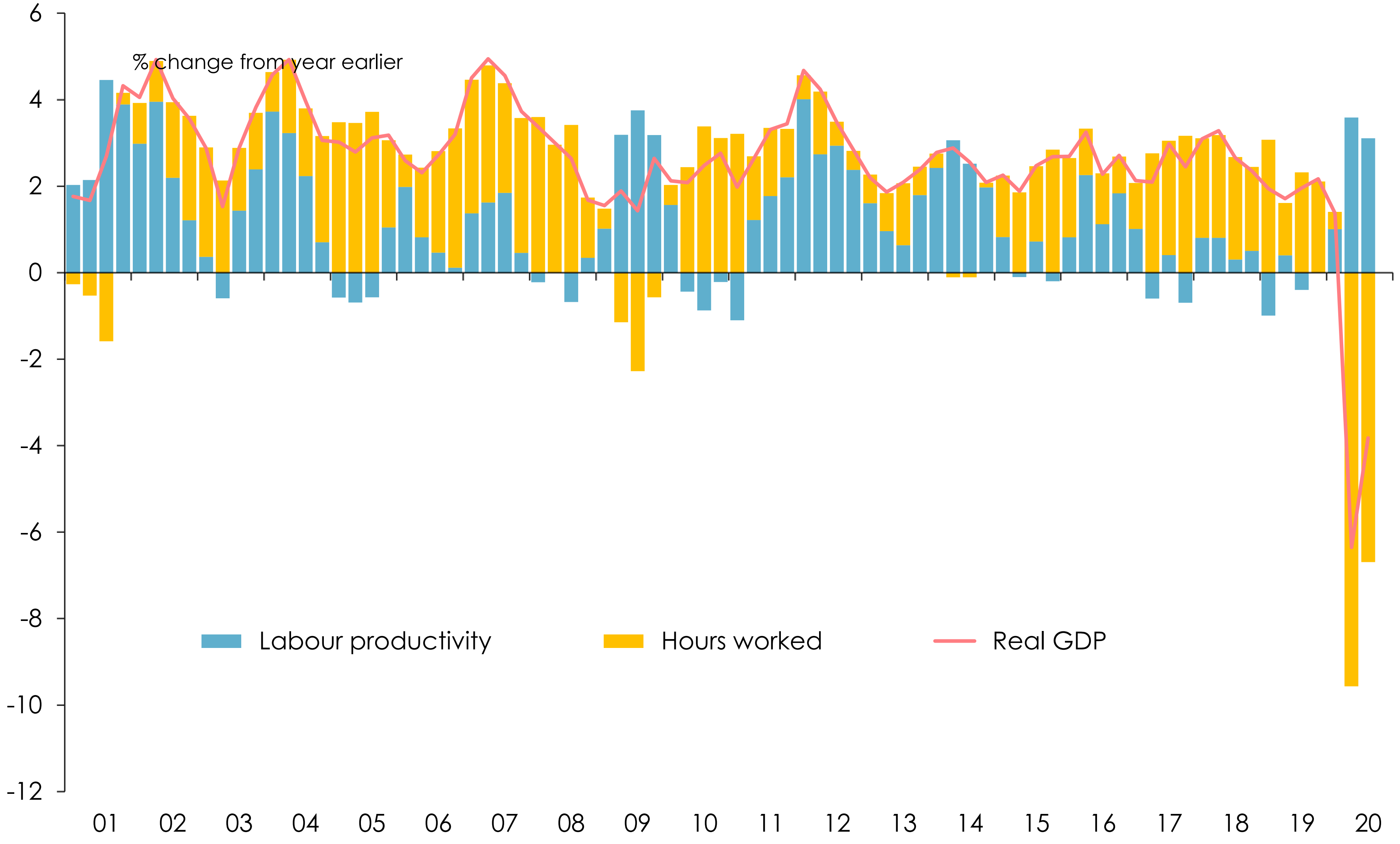


Note: Singapore property price increase is from March quarter 1999. *Sources:* ABS, Australian National Accounts: Finance and Wealth; RBA, Household Finances - Selected Ratios; Bank for International Settlements, Credit to the non-financial sector and Property price statistics. Return to "What's New".

SAUL ESLAKE
CORINNA ECONOMIC ADVISORY

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".

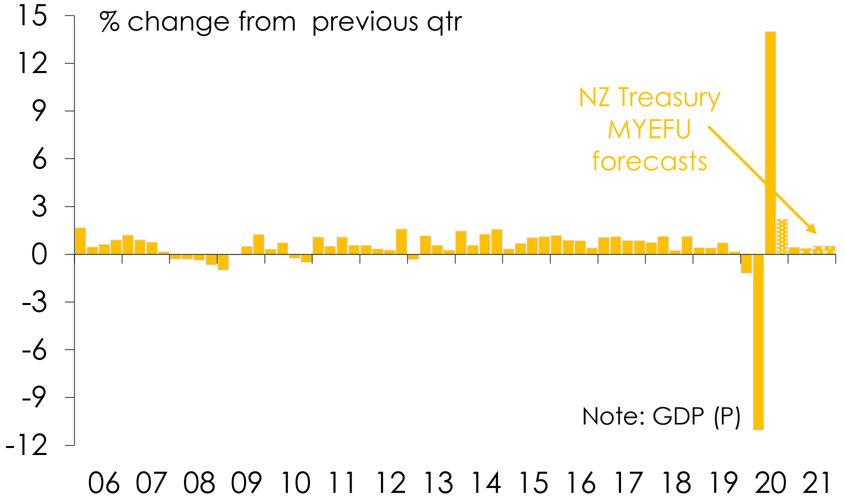
Some other likely / possible longer-term consequences of the pandemic

- **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)

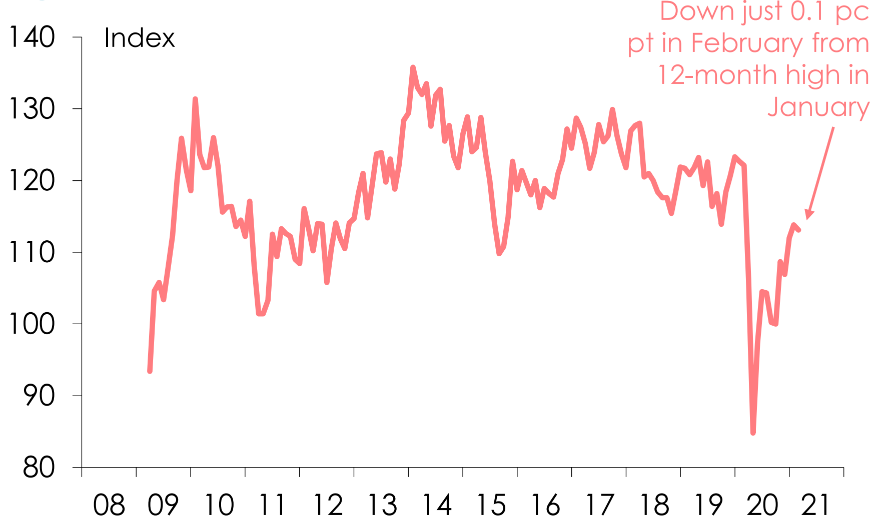
New Zealand

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

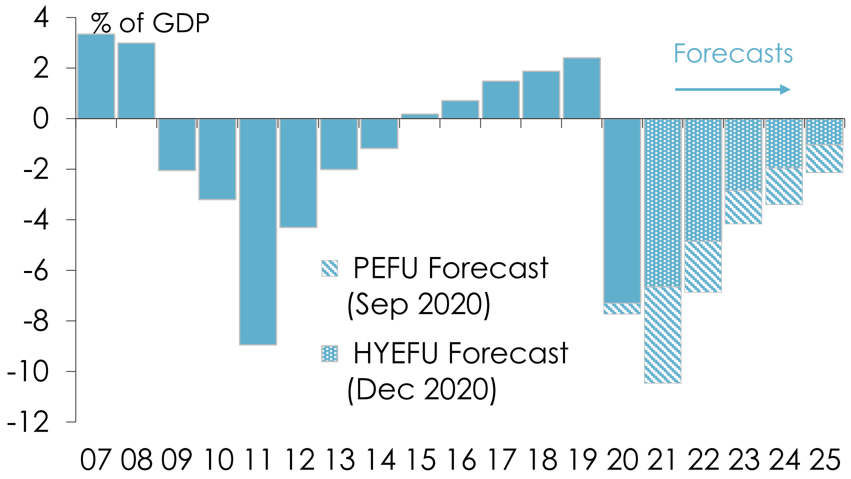
Real GDP



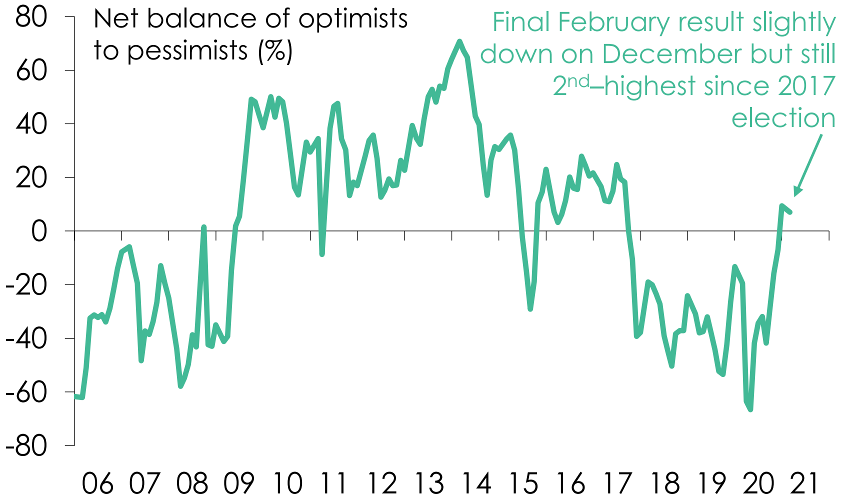
Consumer confidence



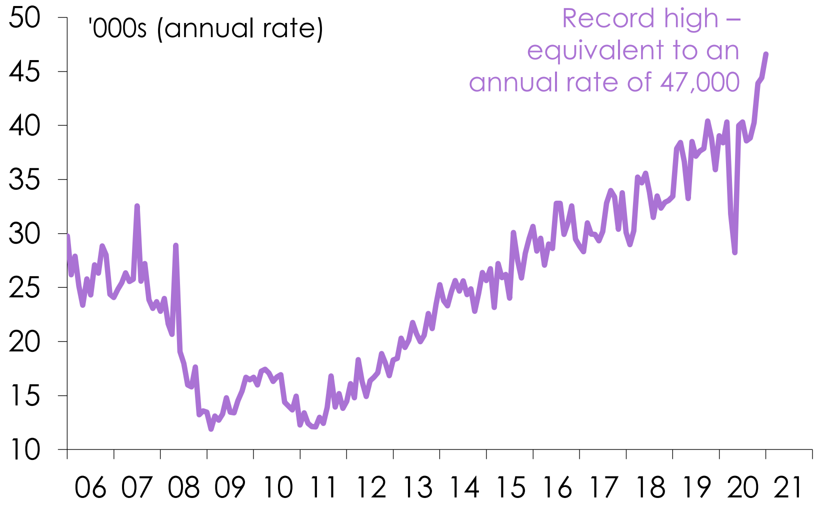
NZ government budget balance



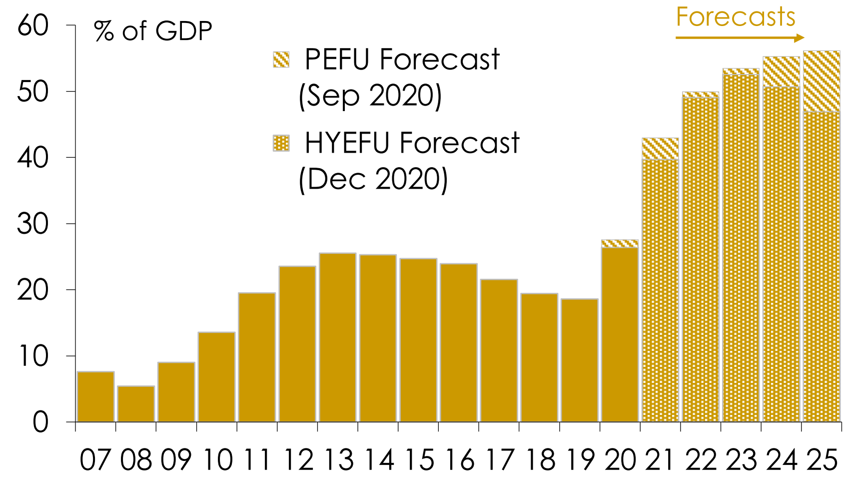
Business confidence



Dwelling 'consents' (permits)



NZ 'core Crown debt'

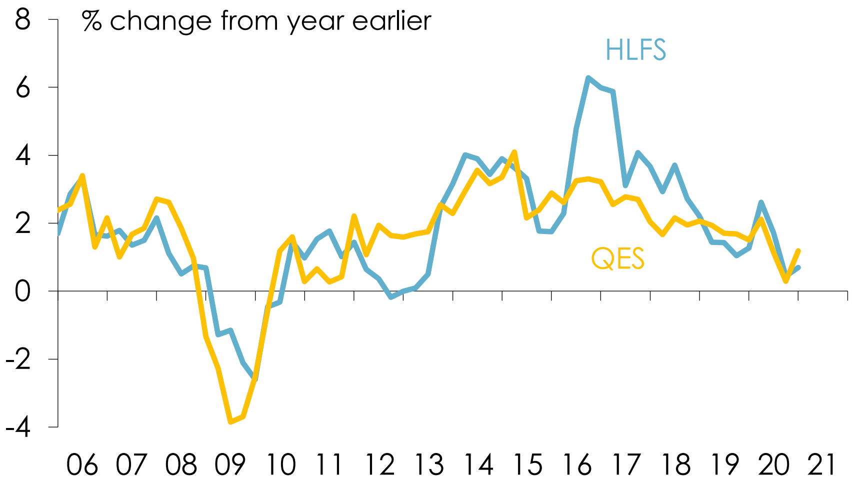


Note: New Zealand uses GDP(P) as its preferred measure of GDP. Unemployment rates are quarterly. The measure of the NZ Government budget balance is 'OBEGAL', which stands for 'operating balance excluding gains and losses' (an accrual accounting measure). Net 'core Crown debt' excludes assets of the NZ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

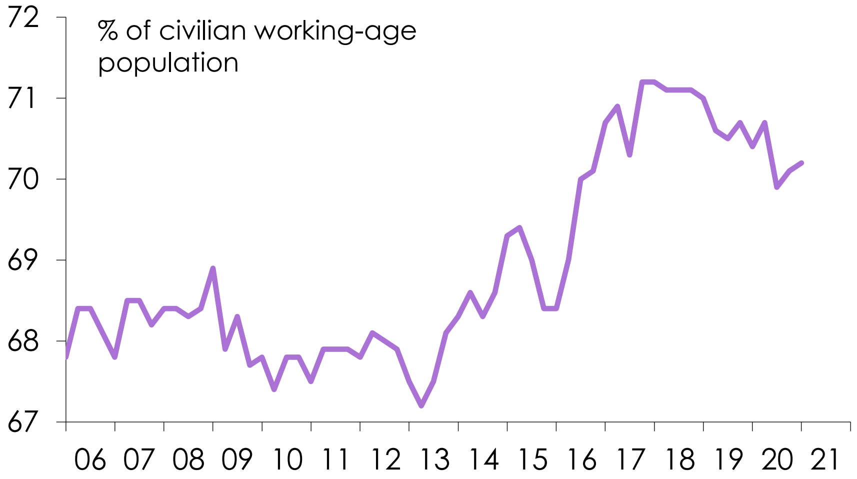
SAUL ESLAKE
CORINNA ECONOMIC ADVISORY

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%

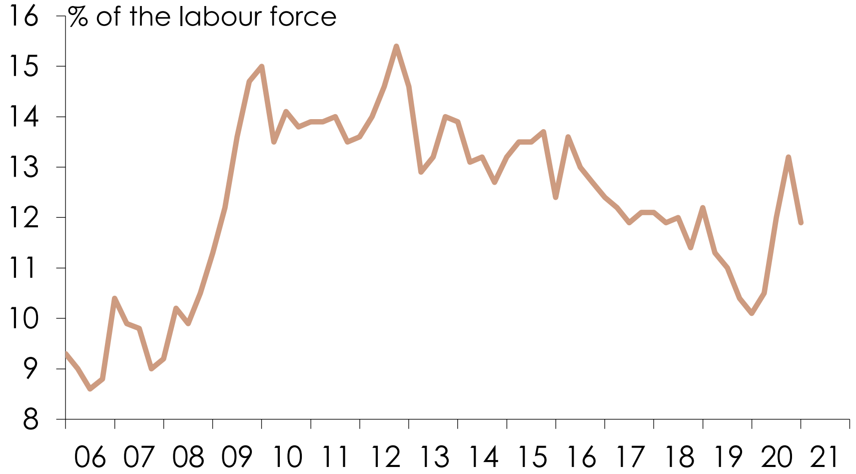
Employment



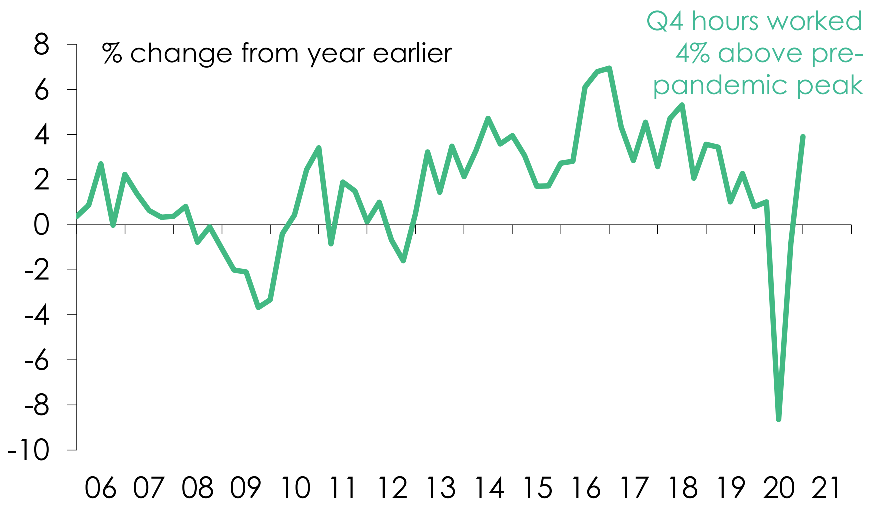
Labour force participation rate



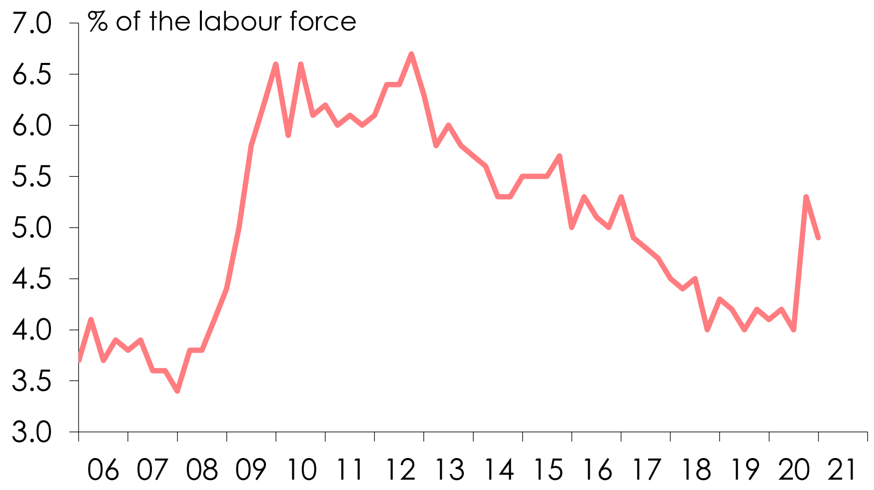
Labour force under-utilization rate



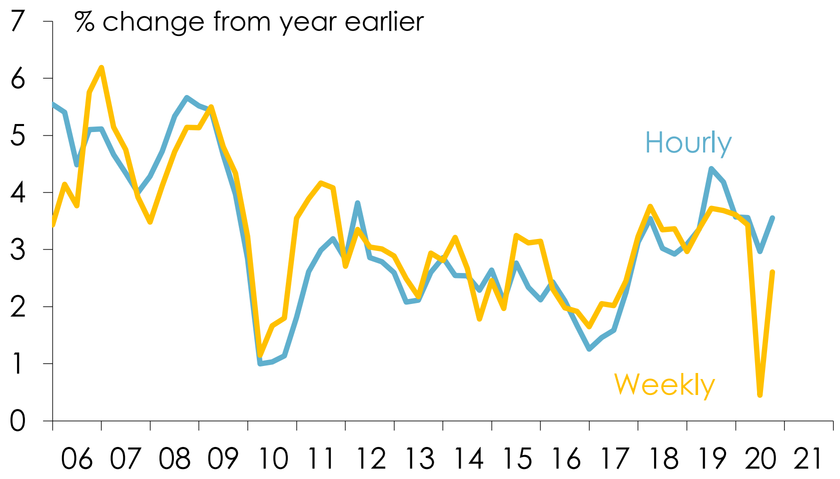
Hours worked



Unemployment rate



Average weekly earnings

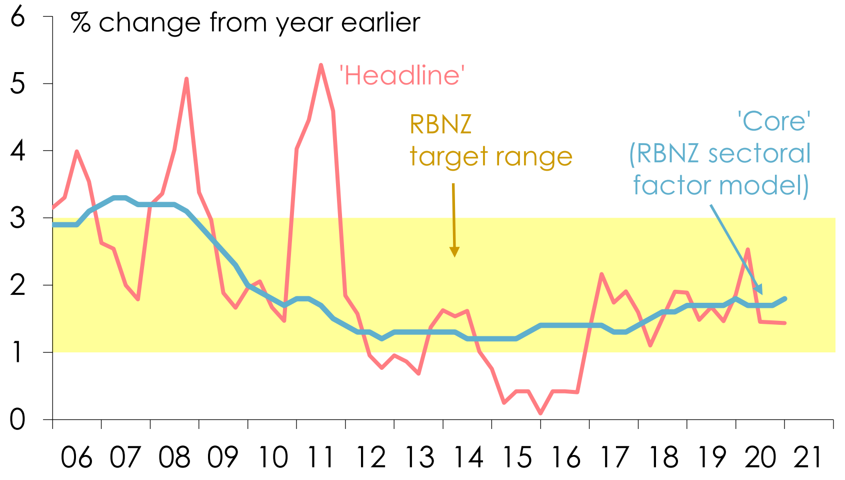


Note: New Zealand labour force data are only published quarterly. There are two 'headline' series on employment – the household labour force survey (HLFS) which counts the number of people in employment during the quarter; and the quarterly employment survey (QES), which counts the number of 'filled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

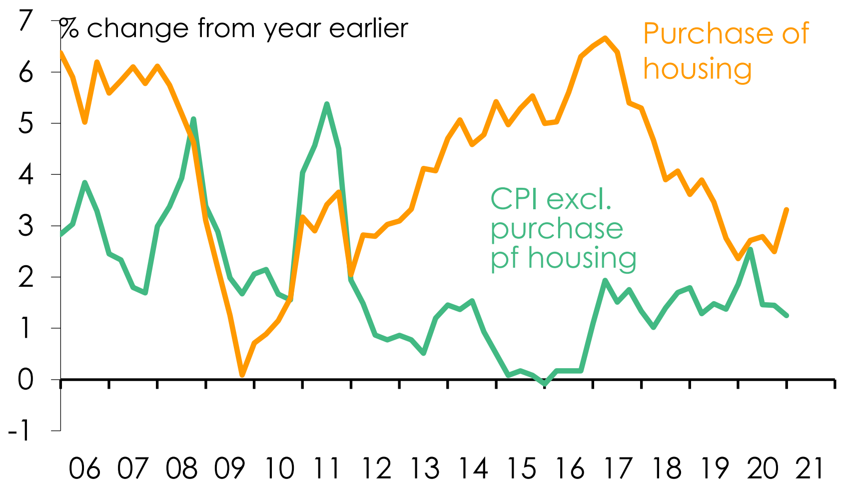
SAUL ESLAKE
CORINNA ECONOMIC ADVISORY

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

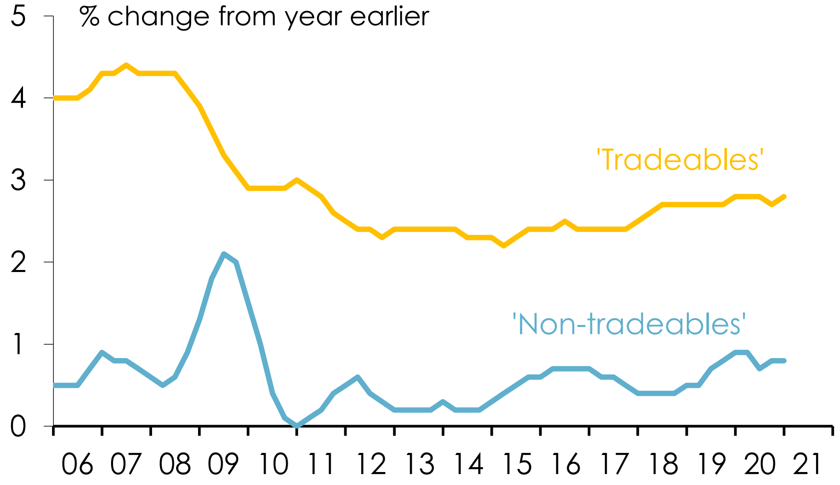
Consumer prices



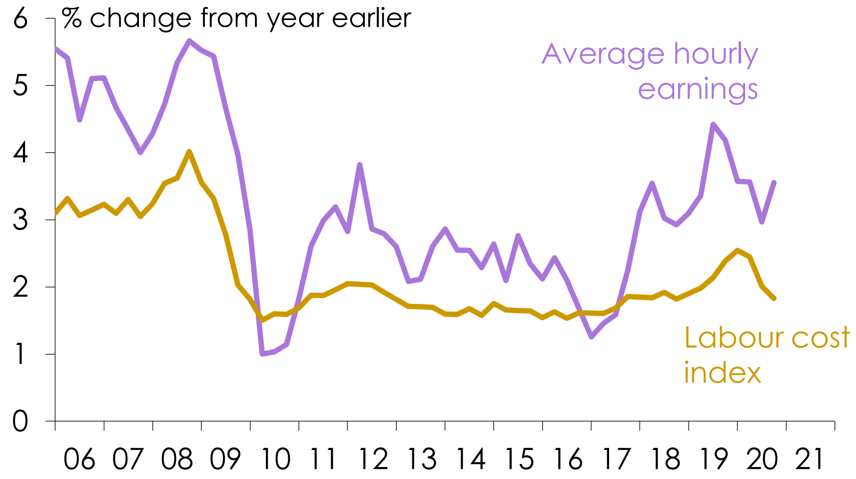
Housing costs in the CPI



Components of 'core' inflation



Labour costs



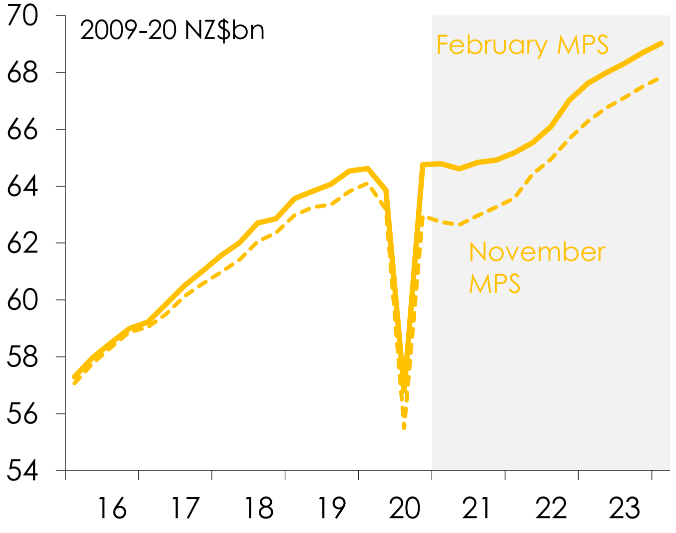
- The CPI rose 0.5% in Q4 2020, after a 0.7% rise in Q3, leaving the annual 'headline' inflation rate unchanged at 1.4%
- Main factors driving the Q4 increase were a 20% increase in 'domestic accommodation' prices (hotels, etc) reversing falls over the two previous quarters, a 4.6% increase in used car 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's latest MPS (see next slide) forecasts 'headline' inflation to rebound to 2½% in the second half of this year (due to "temporary factors" and then to fall back below 2% during 2022

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

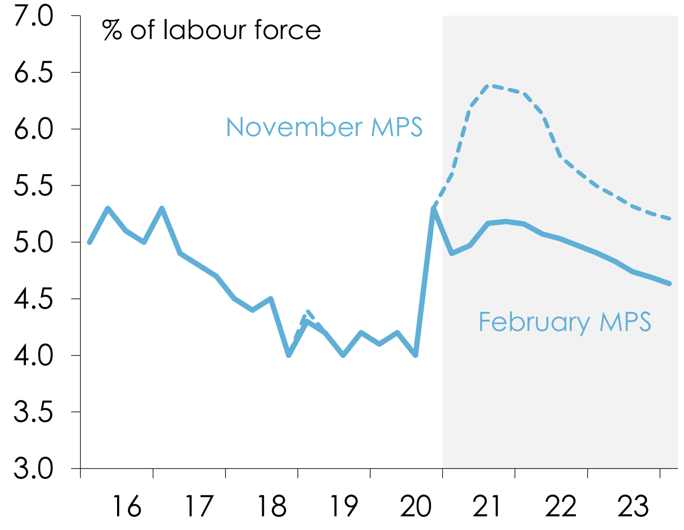
SAUL ESLAKE
CORINNA ECONOMIC ADVISORY

RBNZ this week upgraded its economic forecasts but reiterated it would take 'considerable time and patience' before changing its policy stance

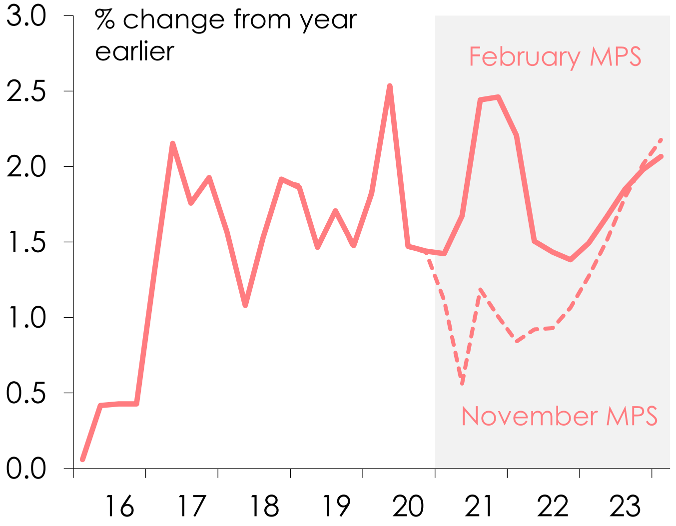
GDP



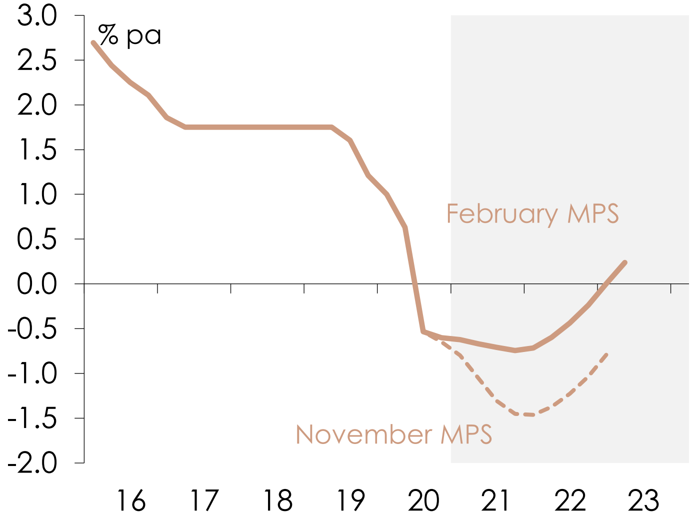
Unemployment



Inflation



'Unconstrained' cash rate

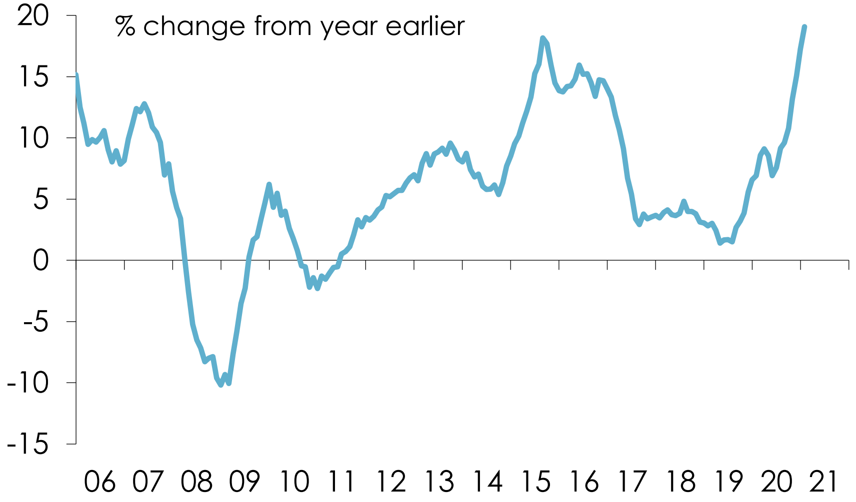


- The RBNZ now expects real GDP to grow 3¾% in 2021 (up from 3¼%) after contracting 2¾% in 2020 (much less than the 4% previously forecast), with unemployment falling to 5¼% by end-2021 and below 5% by end 2022 (cf. 6¼% and 5½% previously)
- Nonetheless, the RBNZ's Monetary Policy Committee believed that "it was important to be confident about the sustainability of an economic recovery before reducing monetary stimulus" …
- … and concluded that "gaining this confidence will take considerable time and patience" (although unlike the RBA it didn't commit to any specific date)
- It committed to "looking through" any "temporary factors driving prices", while also re-iterating a willingness to take the OCR into negative territory "to provide additional stimulus if required"
- Meanwhile the NZ Government formally amended the RBNZ's monetary policy 'remit' to require it to have regard to 'sustainable house prices' in formulating monetary policy, and separately the Finance Minister indicated that house prices would also need to be considered in financial stability decisions

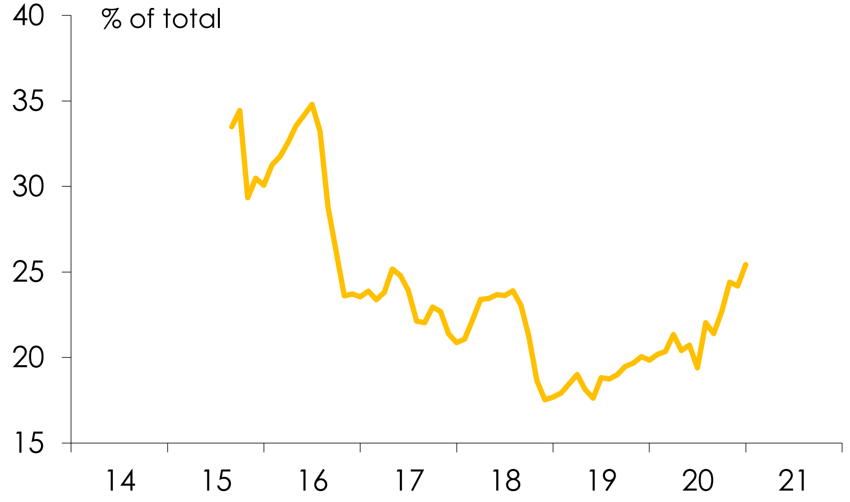
Source: Reserve Bank of New Zealand, *Monetary Policy Statement February 2021*.

NZ's housing price boom is being fuelled by investors, a growing share of whom are borrowing at high LVRs, and 'squeezing' first-time home buyers

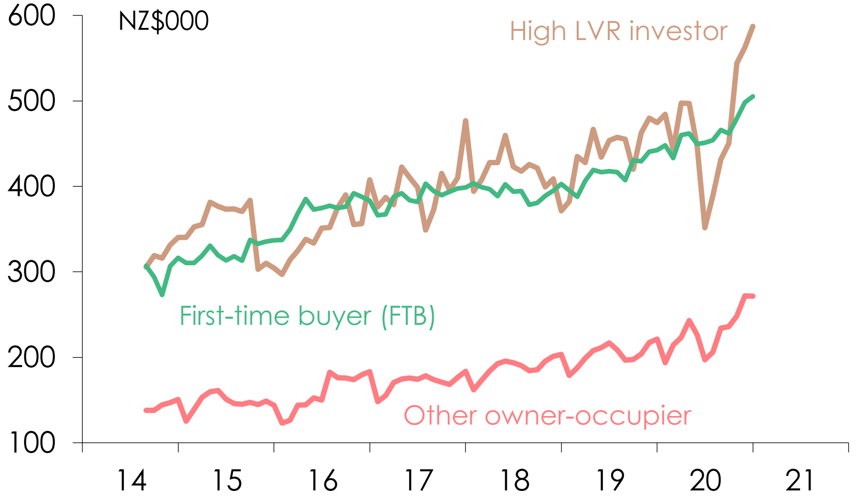
House price inflation



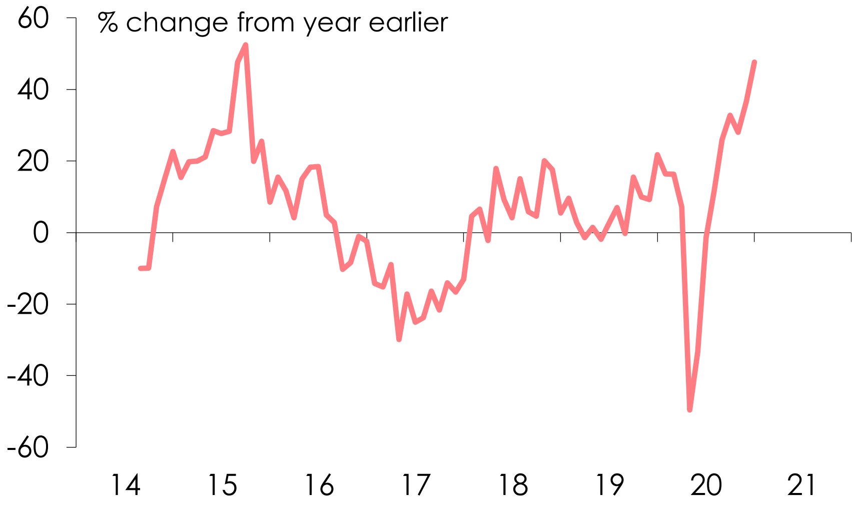
Lending to investors as pc of total



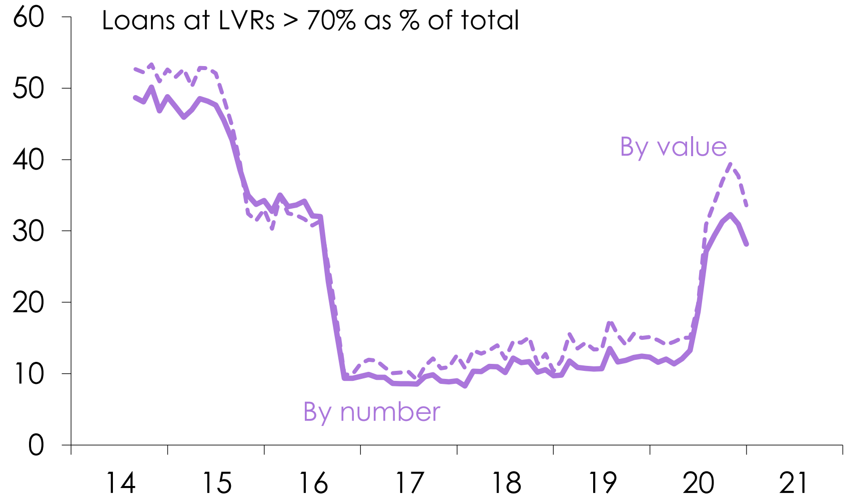
Average new mortgage



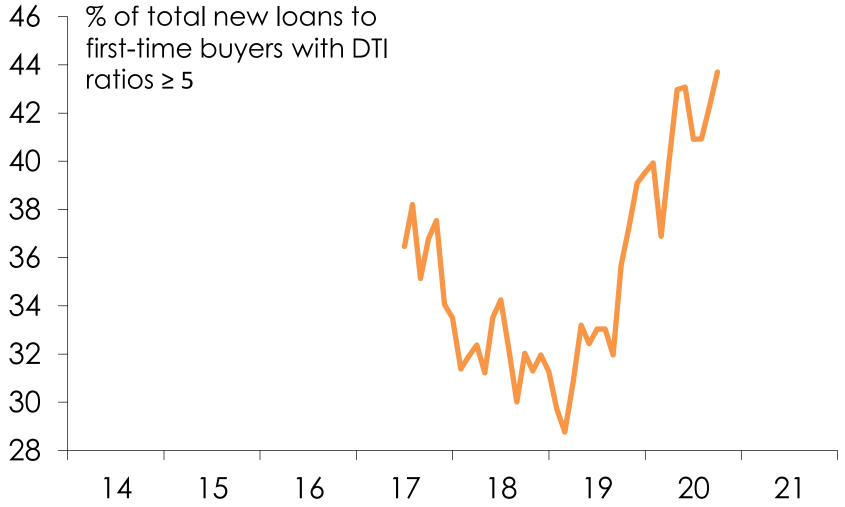
Mortgage lending growth



High-LVR loans to investors



Loans to FTBs at over 5 times income

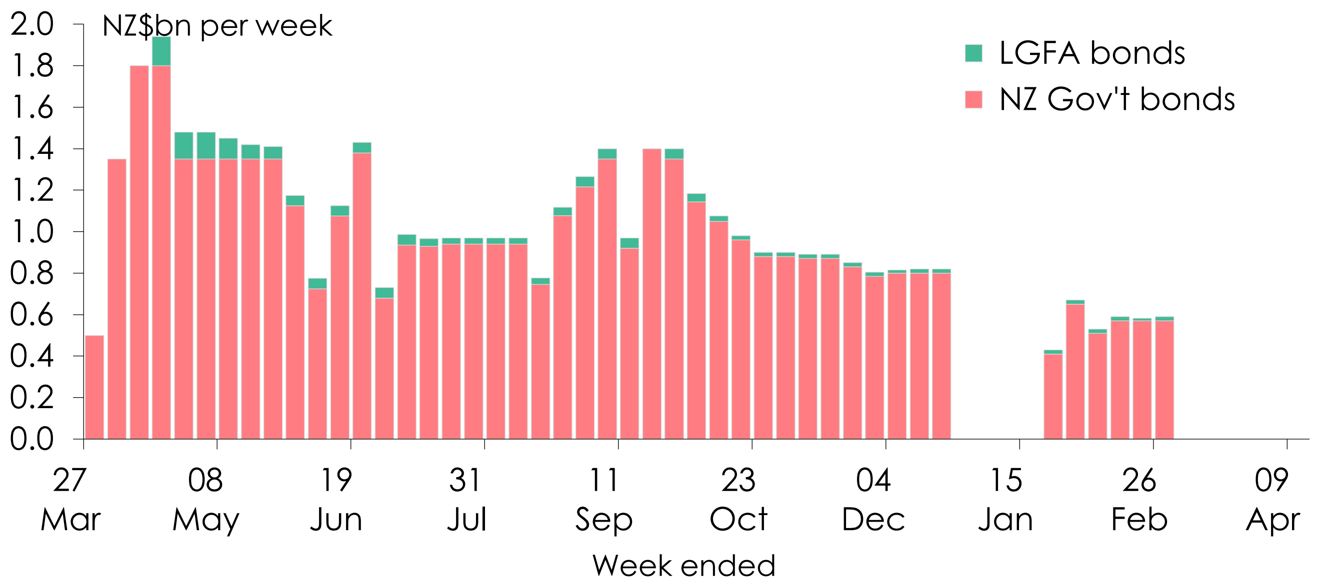


Note: New Zealand's tax system allows 'negative gearing' (ie, investors can offset the excess of interest costs over net rental income against their other income for tax purposes) but does not impose any tax on capital gains, making borrowing for property investment more attractive in after-tax terms than in almost any other 'advanced' economy. *Sources:* Real Estate Institute of NZ; RBNZ (Tables C31 and C40). Return to "What's New".

SAUL ESLAKE
CORINNA ECONOMIC ADVISORY

NZ bond yields again rose more sharply than in either the US or Australia, while further 'macro-prudential' controls on mortgage lending seem 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 – bringing its total purchases to NZ$46.6bn (14.5% of GDP) – while 10-year yields finished at 2.02% (up 51 bp from the previous week, a much larger rise than in the US or Australia), the highest since the third week of March 2019, while 5-year yields rose 38bp and 2-year yields 23 bp
- There have been no drawings from the RBNZ's Funding for Lending facility since 28th January – total amount drawn stands at NZ$1.14bn bn out of $28bn available
- Last week the RBNZ announced tighter limits on lending at LVRs >80% (especially to investors), effective from next Monday – and the Government's announcement this week extending the RBNZ's remit to include house price stability presages more 'macro-prudential tightening' ahead

 Note: LGFA = Local Government Financing Authority. *Source:* Reserve Bank of New Zealand, *Statistics* Tables B2 and D3. Data up to 26th February. Return to "What's New".

Important information

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

This document has been prepared for the use of the party or parties named on the first page hereof, and is not to be further circulated or distributed without permission.

This document does not purport to constitute investment advice. It should not be used or interpreted as an invitation or offer to engage in any kind of financial or other transaction, nor relied upon in order to undertake, or in the course of undertaking, any such transaction.

The information herein has been obtained from, and any opinions herein are based upon, sources believed reliable. The views expressed in this document accurately reflect the author's personal views, including those about any and all financial instruments referred to herein. Neither Saul Eslake nor Corinna Economic Advisory Pty Ltd however makes any representation as to its accuracy or completeness and the information should not be relied upon as such. All opinions and estimates herein reflect the author's judgement on the date of this document and are subject to change without notice. The author and Corinna Economic Advisory Pty Ltd expressly disclaim any responsibility, and shall not be liable, for any loss, damage, claim, liability, proceedings, cost or expense ("Liability") arising directly or indirectly (and whether in tort (including negligence), contract, equity or otherwise) out of or in connection with the contents of and/or any omissions from this communication except where a Liability is made non-excludable by legislation.

Any opinions expressed herein should not be attributed to any other organization with which Saul Eslake is affiliated.

SAUL ESLAKE