

# ECONOMIC IMPACT OF THE CORONAVIRUS PANDEMIC

6<sup>th</sup> MARCH 2021

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CORINNA ECONOMIC ADVISORY PTY LTD

# What's new?

## The world

- ❑ There were just under 2.65mn new cases this week, little changed from the previous week but well down on the peak of nearly 5mn in mid-January, while the death toll continued to decline ([slide 4](#))
- ❑ 'Advanced' economies accounted for just under half the global total of new cases this week, down from a peak of over 65% in early January, largely due to falling numbers in the US – but new case numbers have risen again in continental Europe, Brazil, India, Turkey and the Philippines ([slide 5](#))
- ❑ Almost all of Israel's population has now had one shot (and 42% have had both), as have 32% of the UK's and 25% of the US's populations ([slide 18](#)): the Israeli evidence is increasingly clear that vaccines work ([slide 19](#))
- ❑ February PMIs showed continued strength in manufacturing in 'advanced' economies but a weakening in most 'emerging' ones, and continued softness in services exc in the US & UK ([slides 44 & 53](#))
- ❑ China announced a growth target of 'over 6%' for 2021, compared with 2% (the slowest since 1976) in 2020 ([slide 45](#))
- ❑ US non-farm payrolls increased 379K (0.3%) in January, largely driven by hospitality workers returning to their jobs as restrictions eased – but employment is still 6.2% below its pre-pandemic peak and the 'effective' unemployment rate is over 9% ([slide 65](#))
- ❑ Canada's economy grew 2.3% in Q4 last year but was still 3.2% short of its pre-pandemic peak ([slide 69](#))
- ❑ The 2021 UK Budget included 6-month extensions to a range of supports for households and businesses but also foreshadowed a 6 pc pt hike in the company tax rate in 2023 ([slide 72](#))

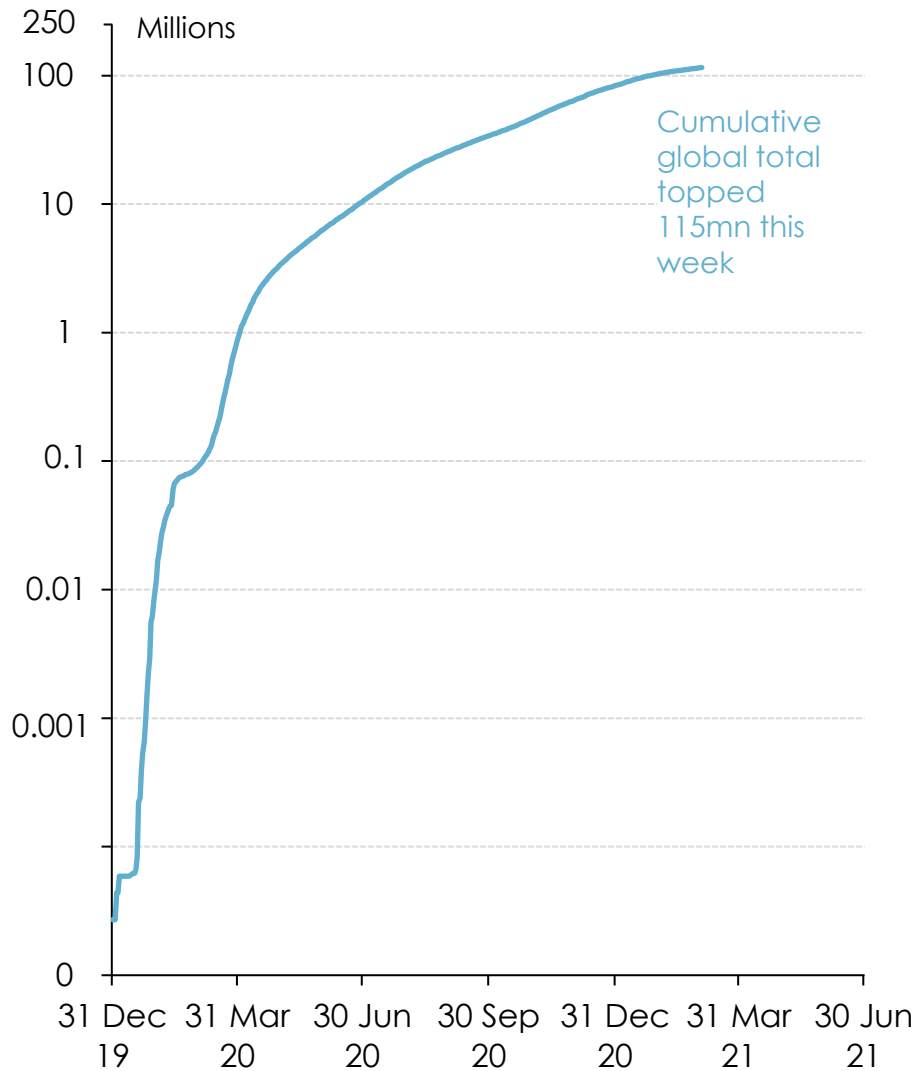
## Australia

- ❑ Australia recorded 62 new Covid-19 cases this week, the most in six weeks ([slide 8](#)) although all of them were acquired overseas ([slide 9](#))
- ❑ Australia's economy grew by 3.1% in Q4 last year, after a 3.3% increase in Q3, to be only 1.1% below the pre-recession peak ([slides 75-76](#))
- ❑ Growth in Q4 was driven by household spending, particularly on discretionary goods and services ([slide 77](#)) – which owes more than generally recognized to the ban on Australians travelling abroad ([slide 114](#)) – and by a surge in farm output following the breaking of the drought ([slide 78](#))
- ❑ From a different perspective the strong Q4 outcome owed much to the rebound in Victoria ([slide 79](#)) as it emerged from its 'second wave' lockdown ([slide 80](#))
- ❑ Residential property prices rose 1.9% in February, the largest monthly gain in 17½ years ([slides 103-104](#))
- ❑ Residential building approvals dropped 20% in January, partly due to a 40% fall in approvals of apartments, but single-family home approvals also fell 12% - in line with other evidence that buyers 'brought forward' purchases to take advantage of time limited government grants – although mortgage finance commitments rose another 10½% in January with 25% going to first-time buyers ([slide 105](#))
- ❑ Australia recorded its second-largest ever current account surplus in Q4, using it to pay down overseas debt ([slide 115](#)), and registered a record trade surplus on goods and services in January ([slide 108](#))
- ❑ As expected the RBA left monetary policy settings on hold this week, but continues to insist that it won't raise rates before '2024 at the earliest, unlike other central banks who aren't specifying dates ([slides 131-133](#))

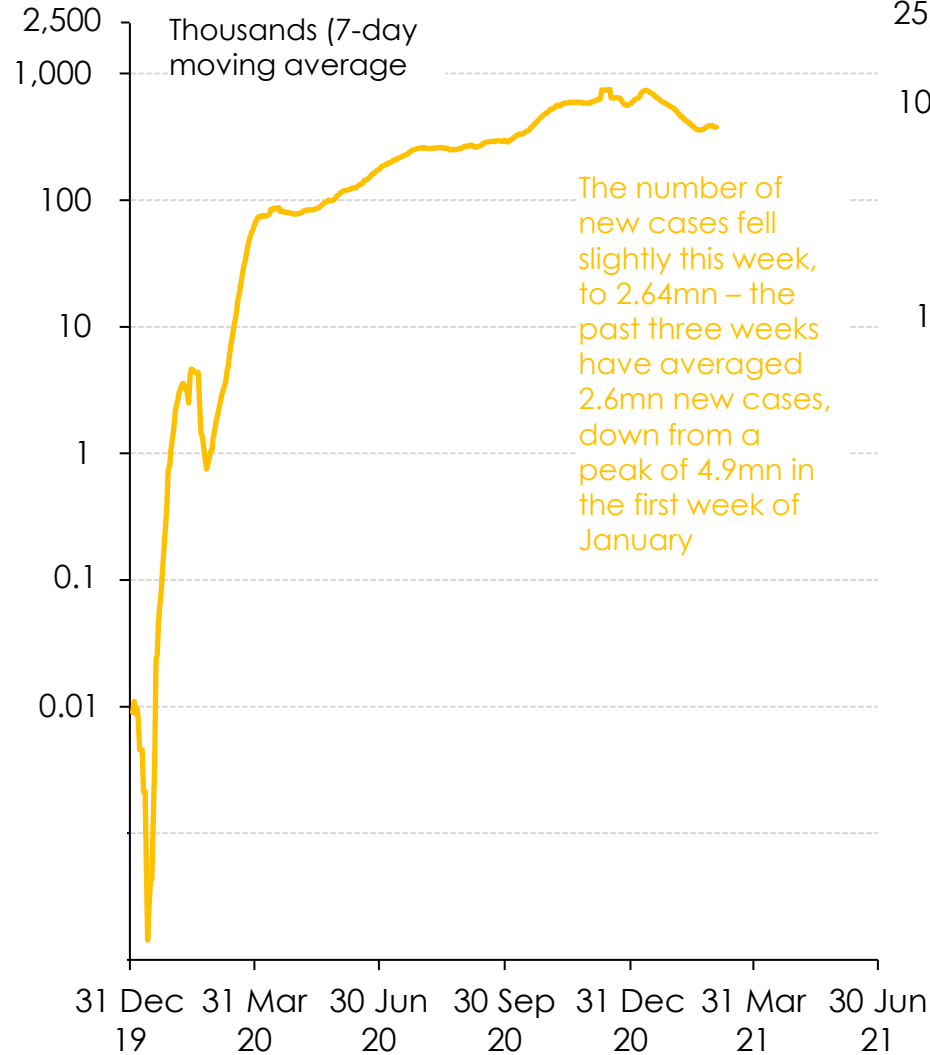
**The virus**

# 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



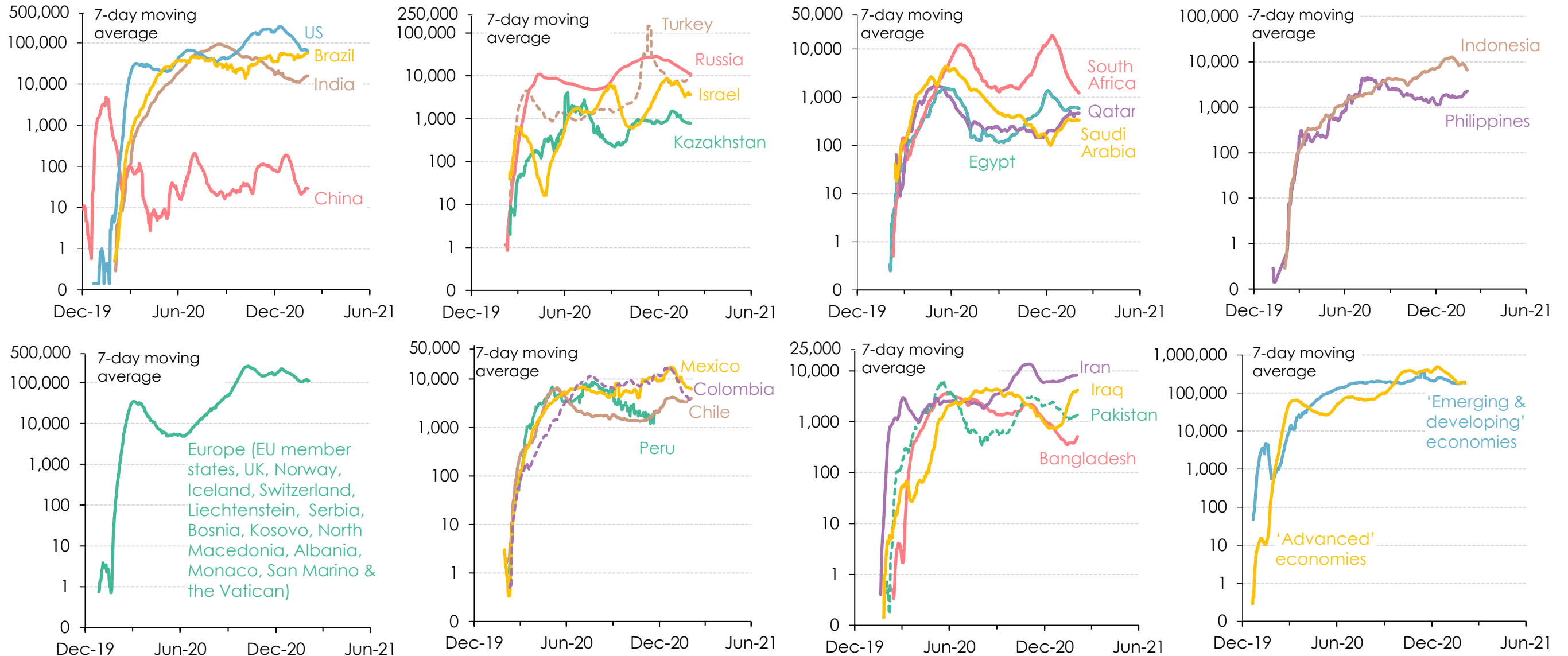
## New deaths – global total



Note: All charts are on logarithmic scales. Data up to 4<sup>th</sup> March. Source: University of Oxford, [Our World in Data](#).

# New cases are declining rapidly in the US, the UK, Russia and South Africa – but are rising again in continental Europe, India, Brazil and the Philippines

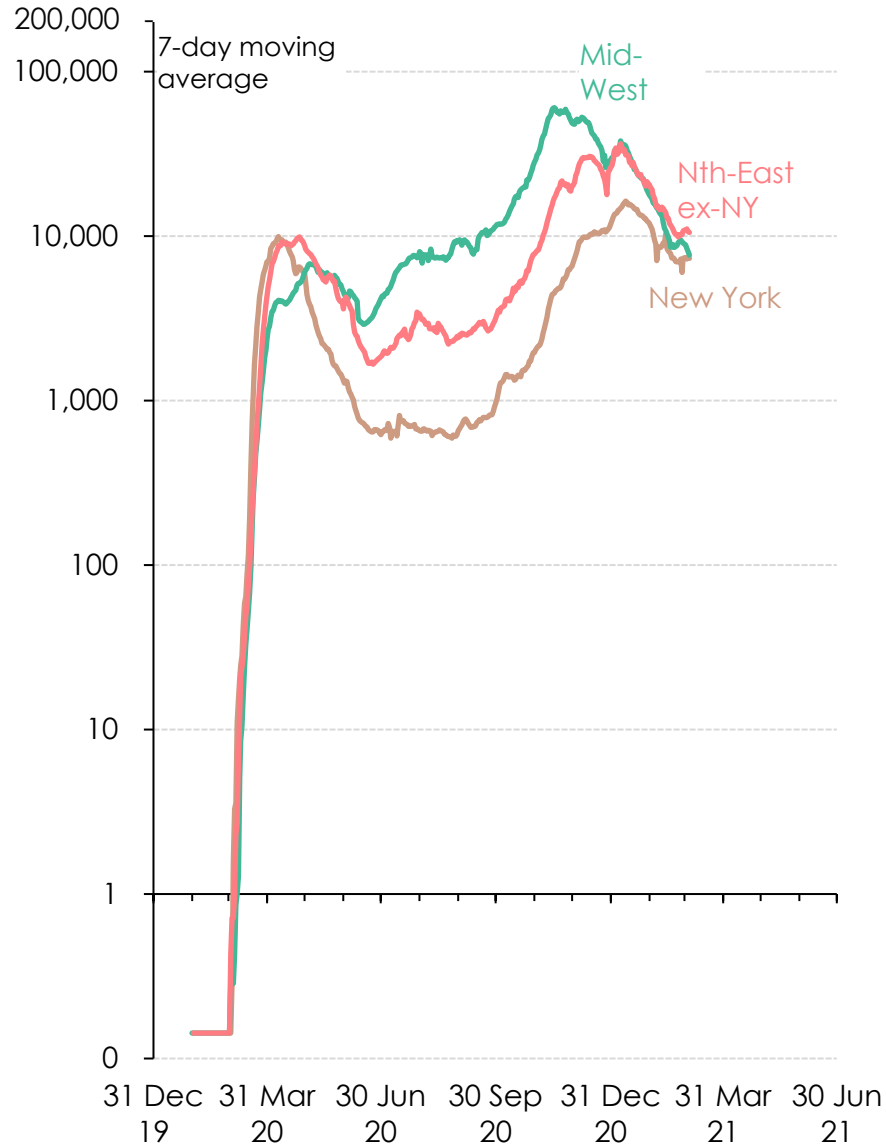
## Daily new cases – selected countries with large populations and/or rapid growth in cases



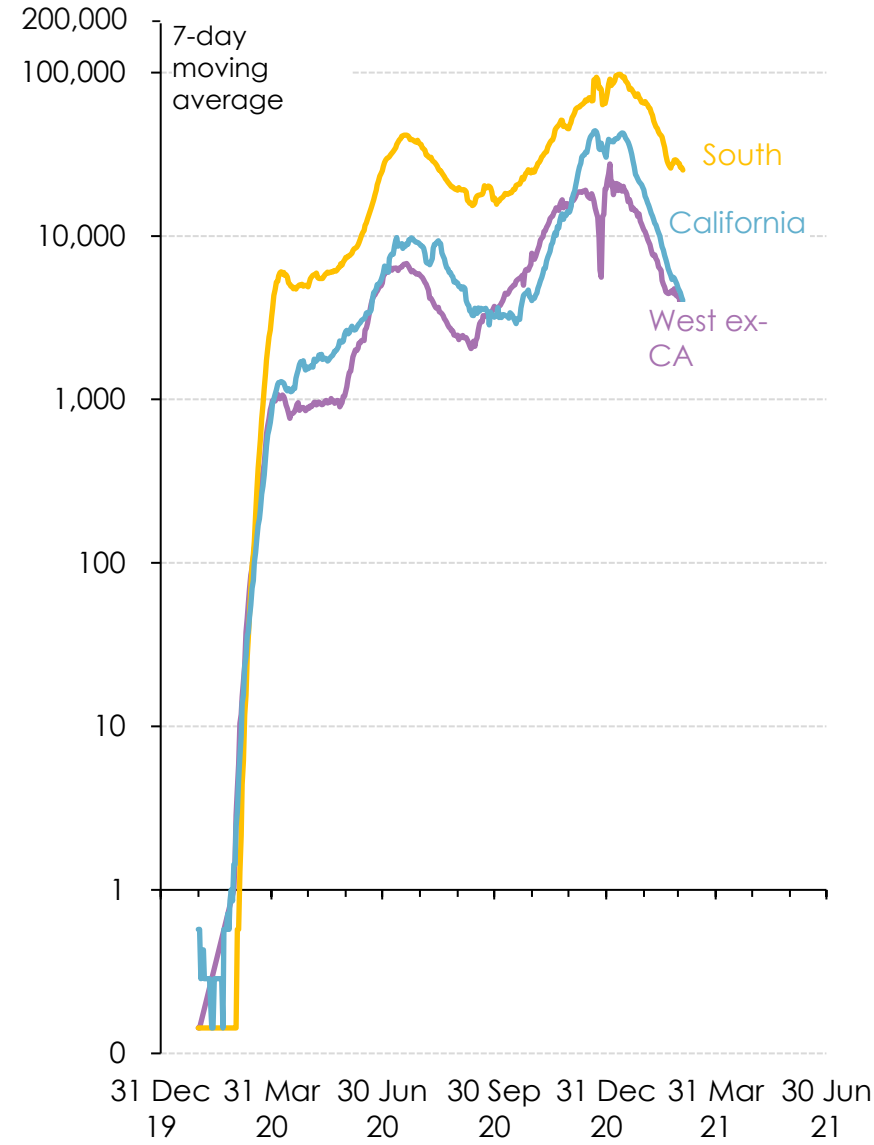
Note: All charts are on logarithmic scales. Data up to 5<sup>th</sup> March. Source: University of Oxford, [Our World in Data](#); Corinna. [Return to "What's New"](#).

# In the US the decline in new infections has stalled in the North-East and in the 'deep South' but is continuing in the Mid-West and West

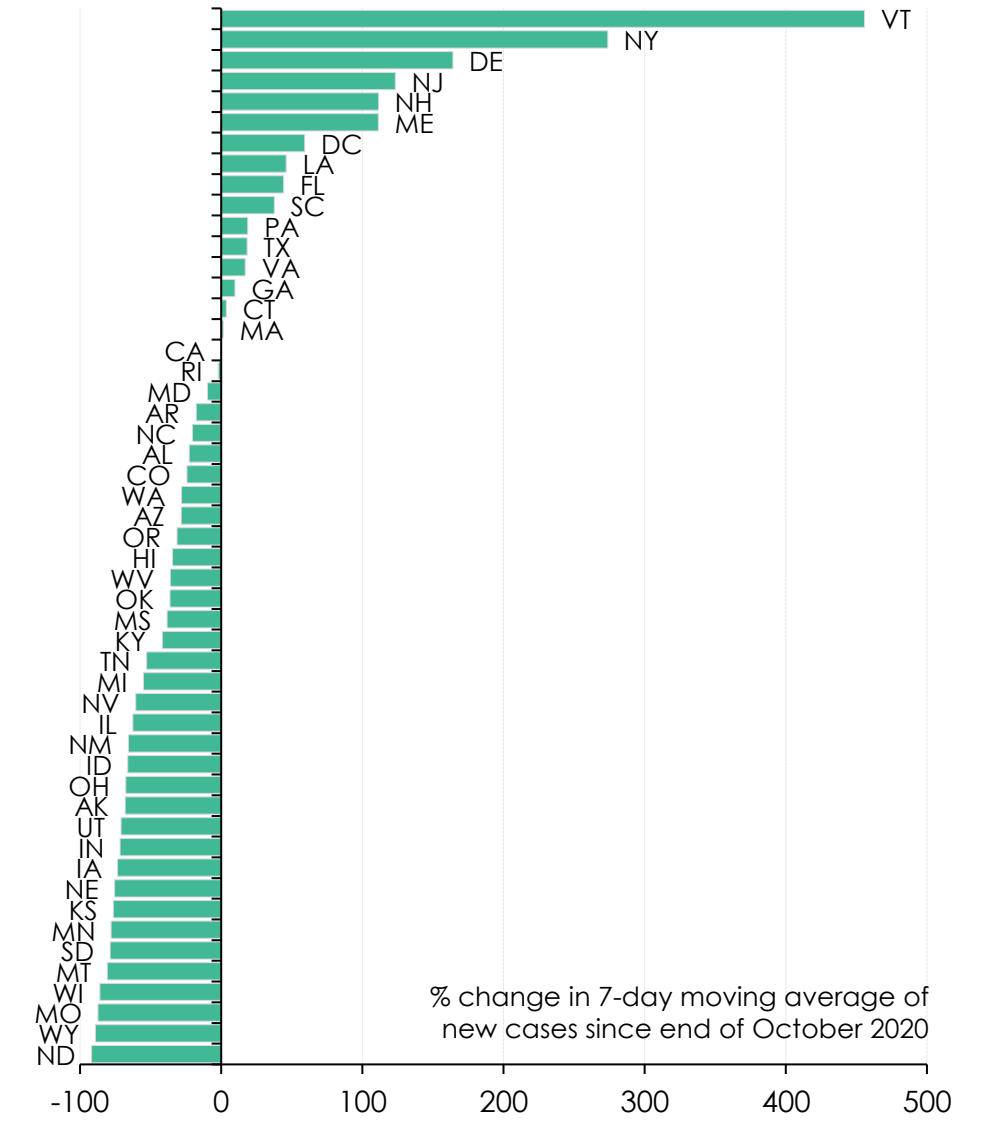
## New cases – Mid-West and North-East



## New cases – South and West



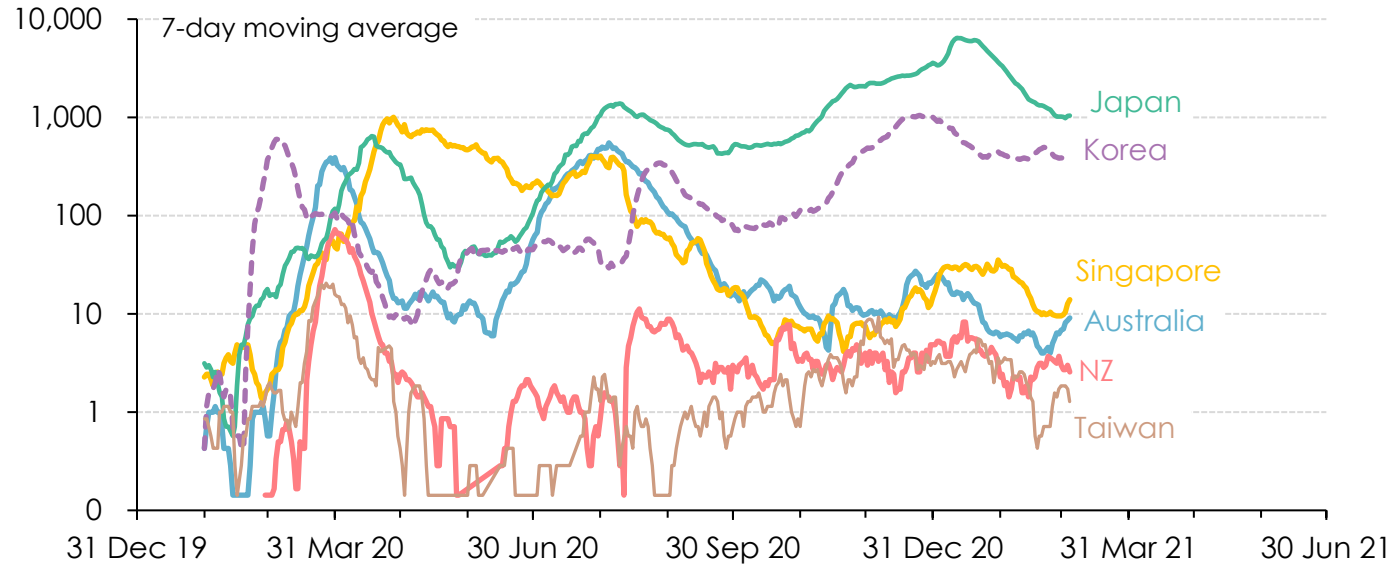
## Increase in cases since end-October



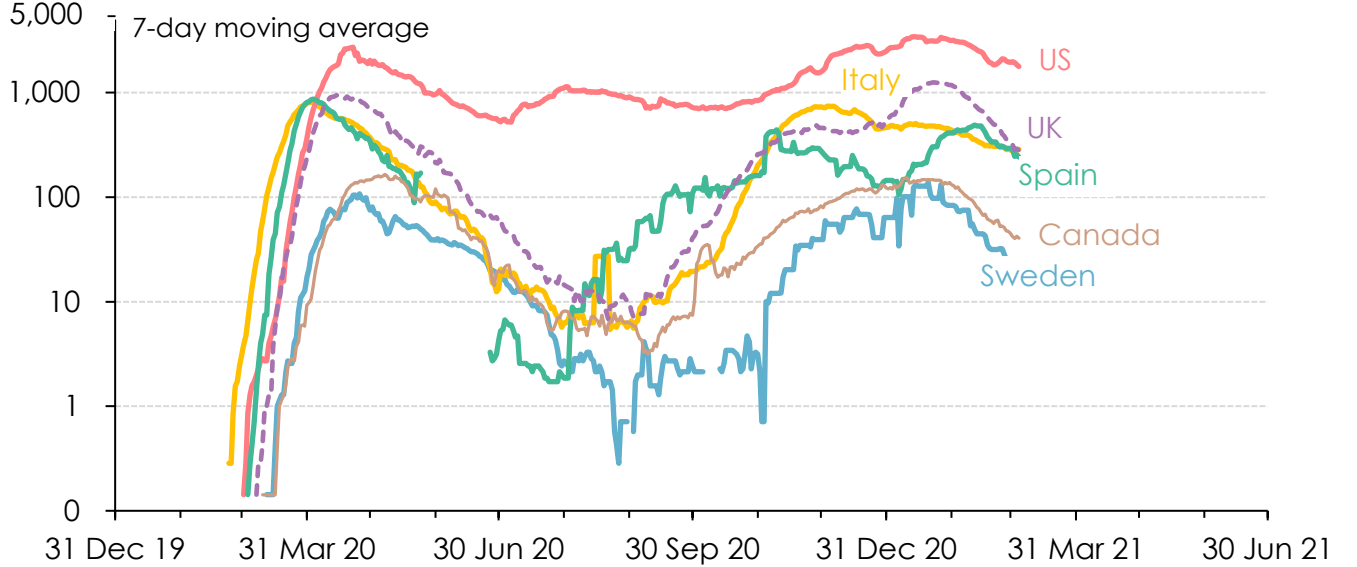
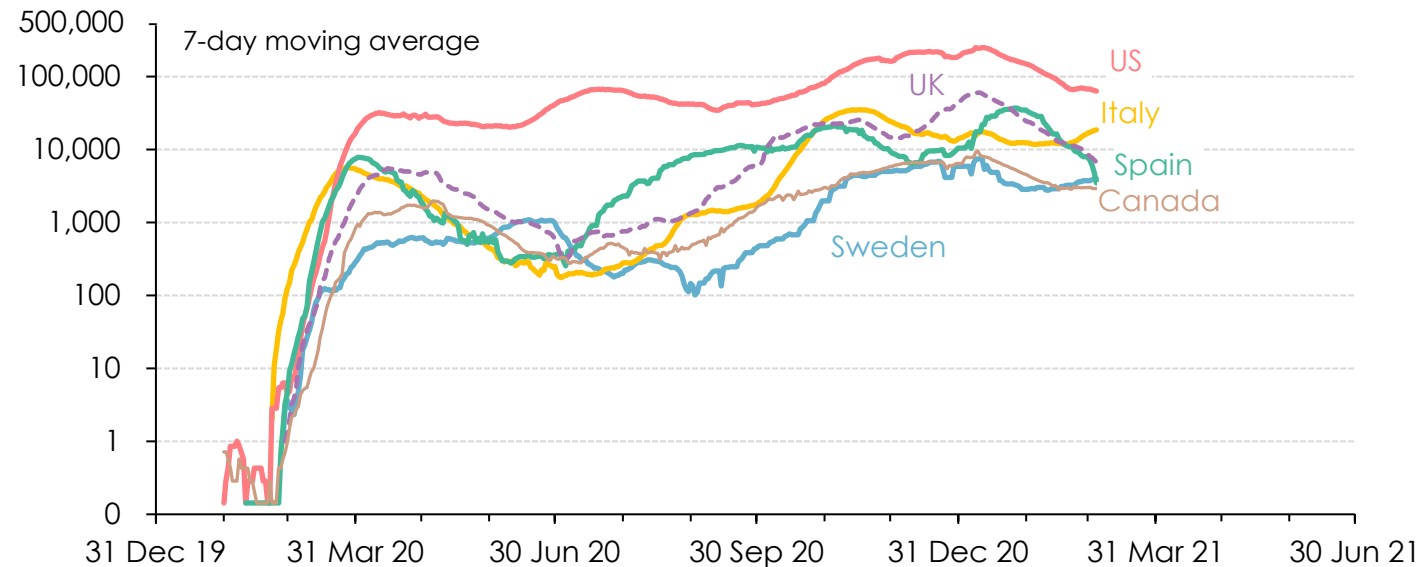
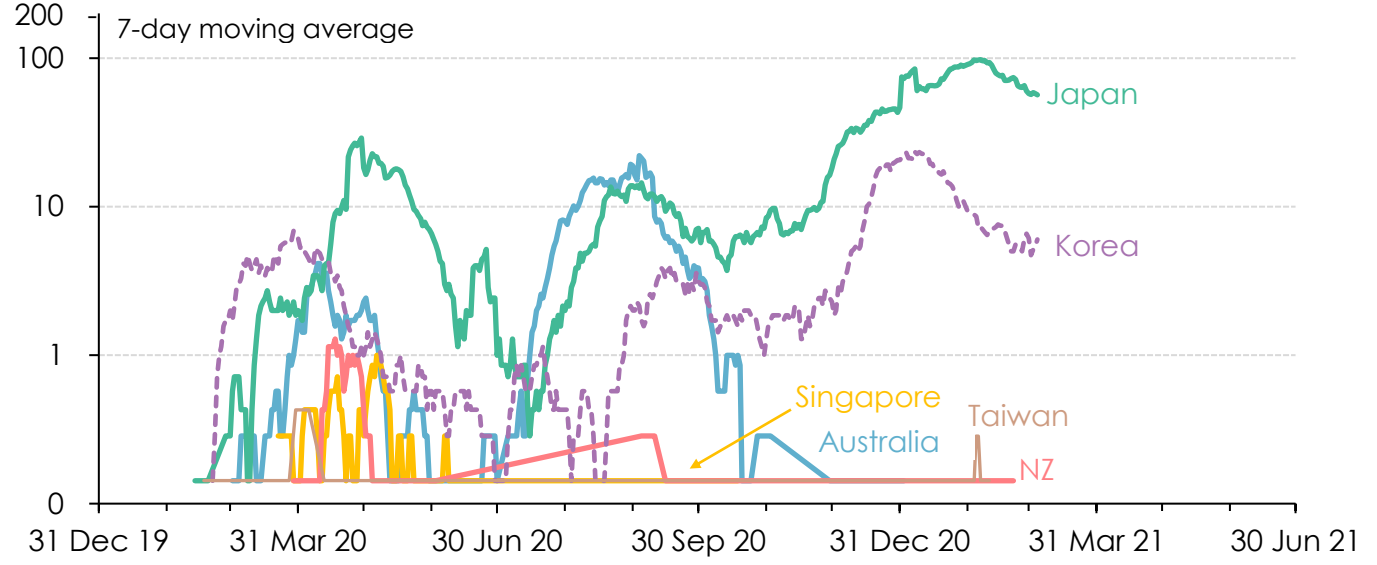
Note: First two charts are on logarithmic scales. Sources: [USAfacts](#); [Centers for Disease Control and Prevention](#); Corinna. Latest data are for 4<sup>th</sup> March. [Return to "What's New"](#).

# Divergences opening up among 'advanced' economies with regard to new infections, rising in some Asian & European countries, falling in others

## Daily new cases



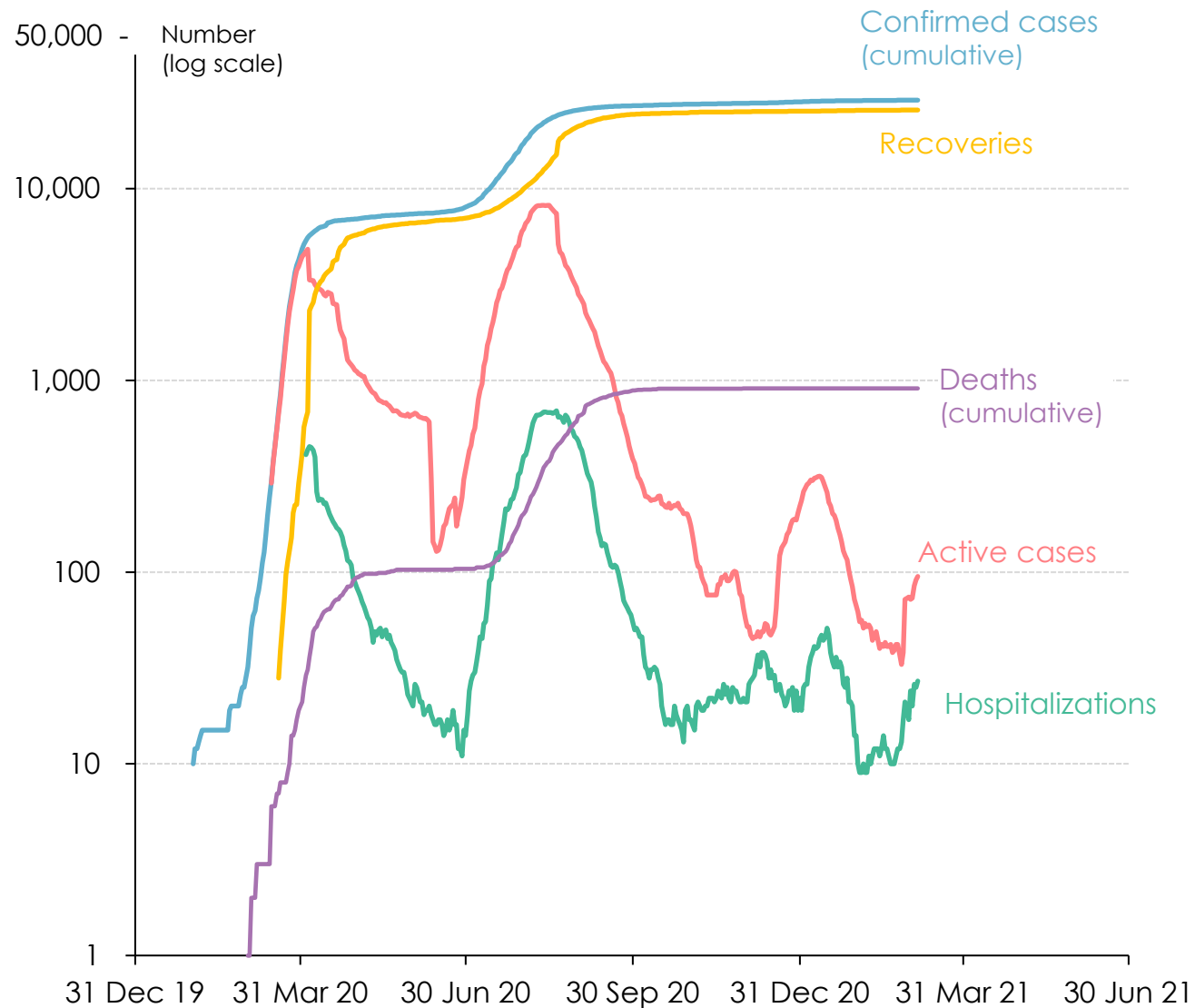
## Daily new deaths



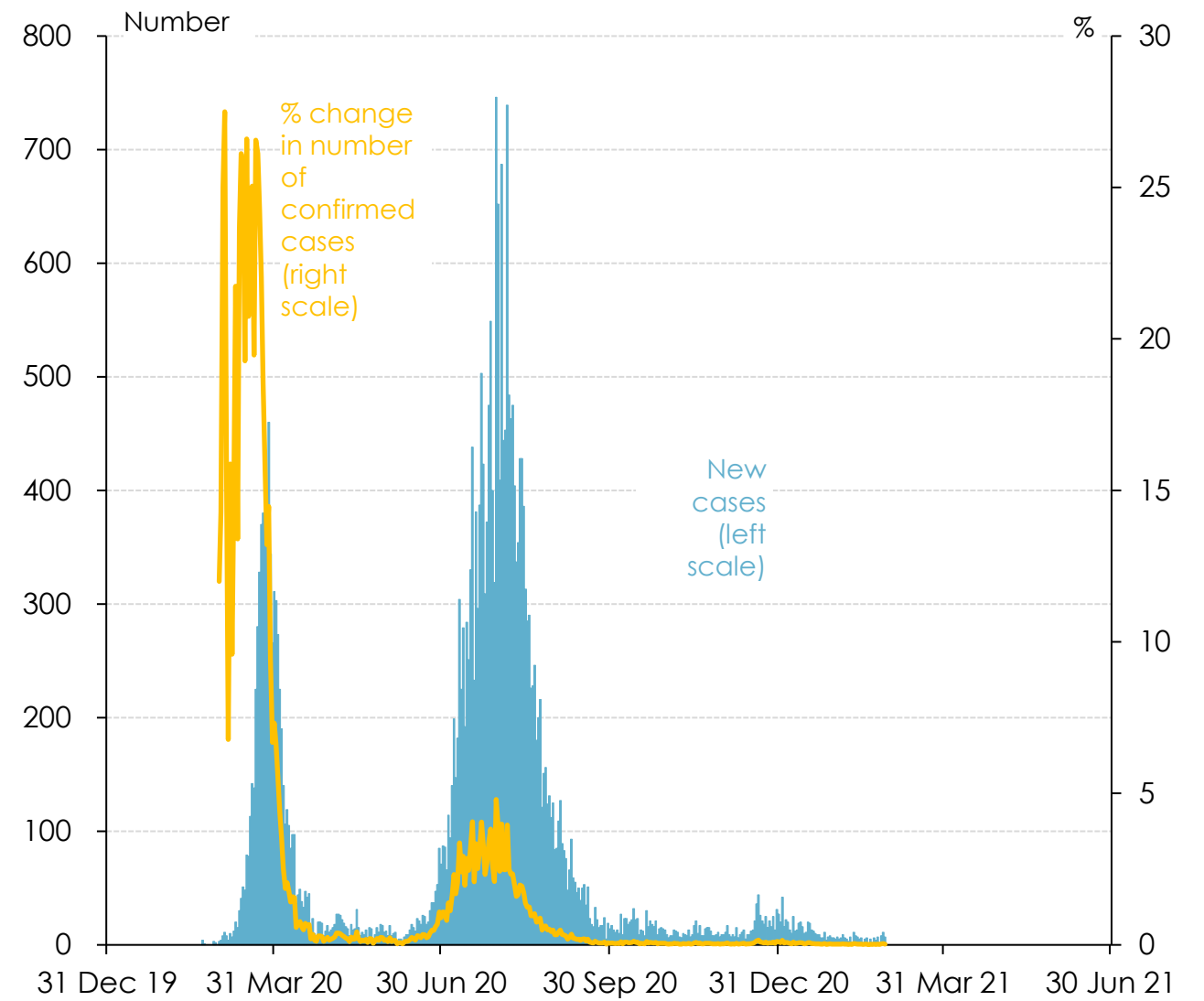
Note: All charts are on logarithmic scales. Data for new deaths in Spain between 25<sup>th</sup> May and 19<sup>th</sup> June 2020 not shown because of distortions caused by reclassifications on those dates. Data up to 4<sup>th</sup> March. Source: University of Oxford, [Our World in Data](#); Corinna. [Return to "What's New"](#).

# 62 new cases were recorded in Australia this week – the most in six weeks – all of them acquired overseas

## Cases, recoveries, hospitalizations and deaths



## New cases

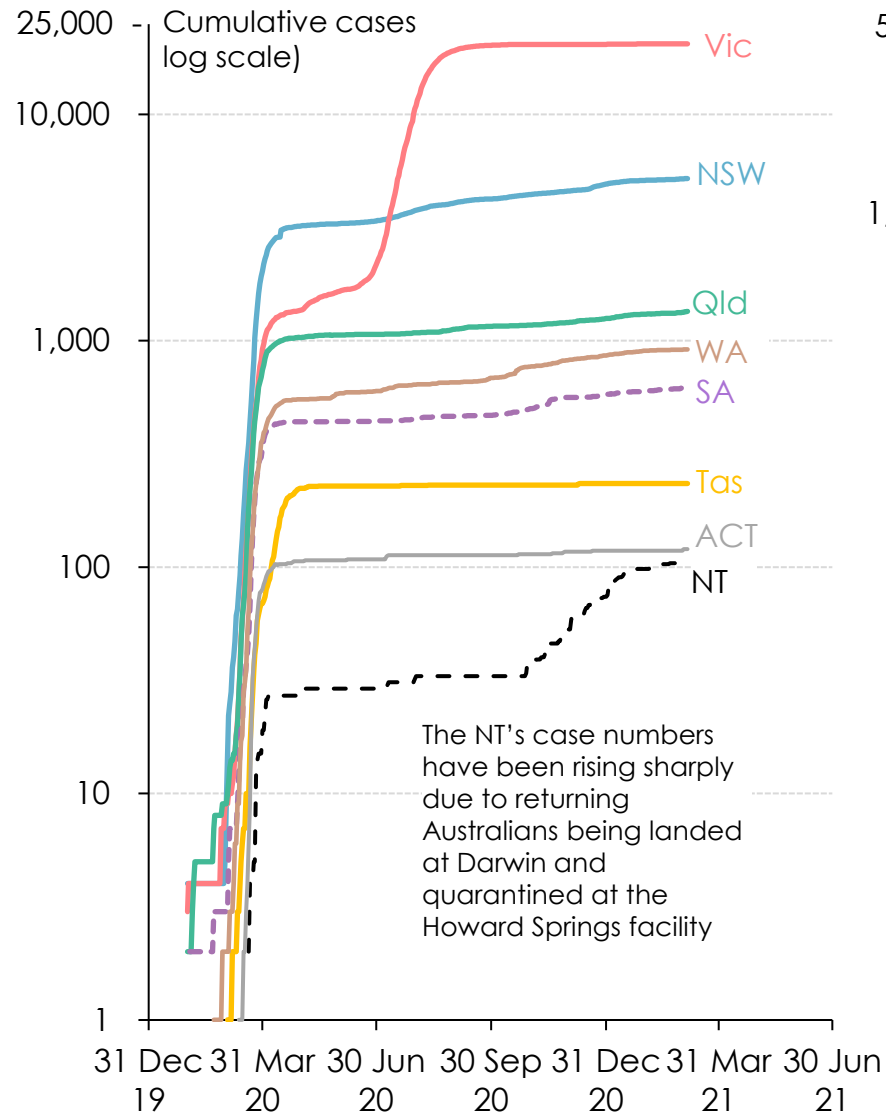


Note: Data up to 6<sup>th</sup> March. Source: [covid19data.com.au](https://covid19data.com.au). [Return to "What's New"](#).

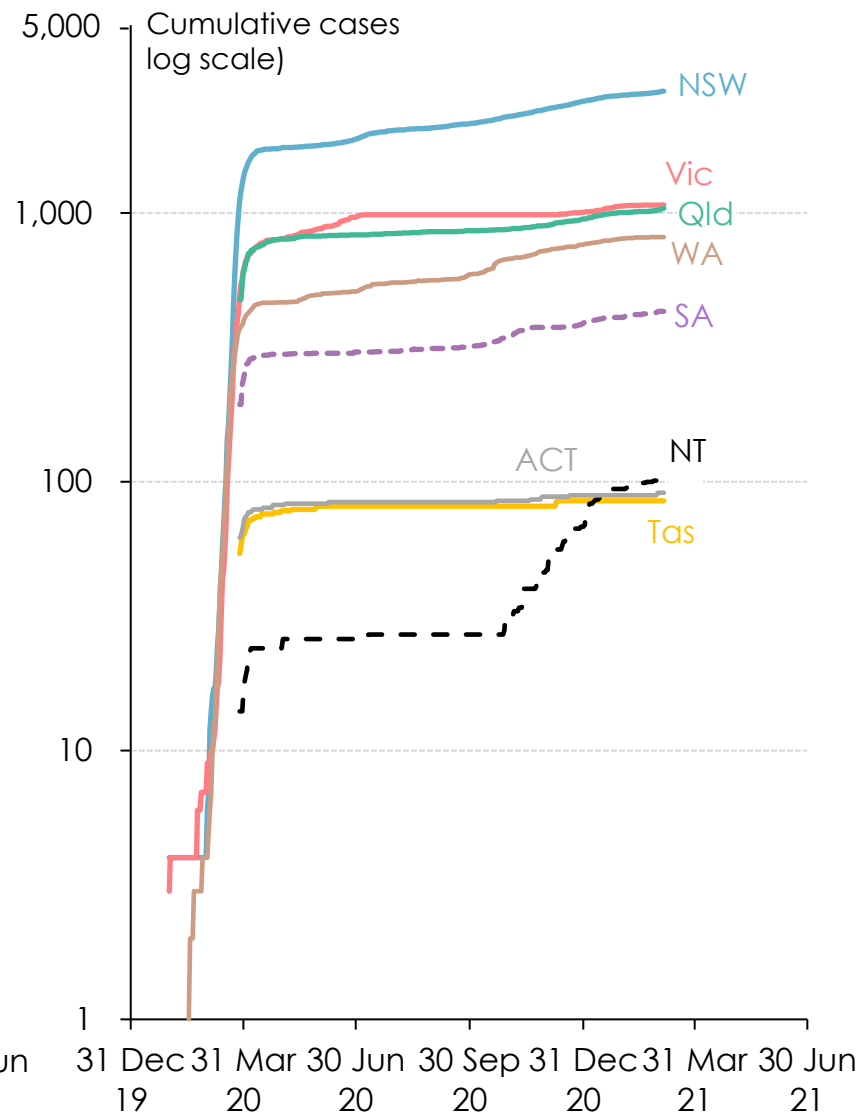


# 84% of all new cases so far this year have been 'overseas transmissions', 46% of them in NSW (as the principal entry point into Australia)

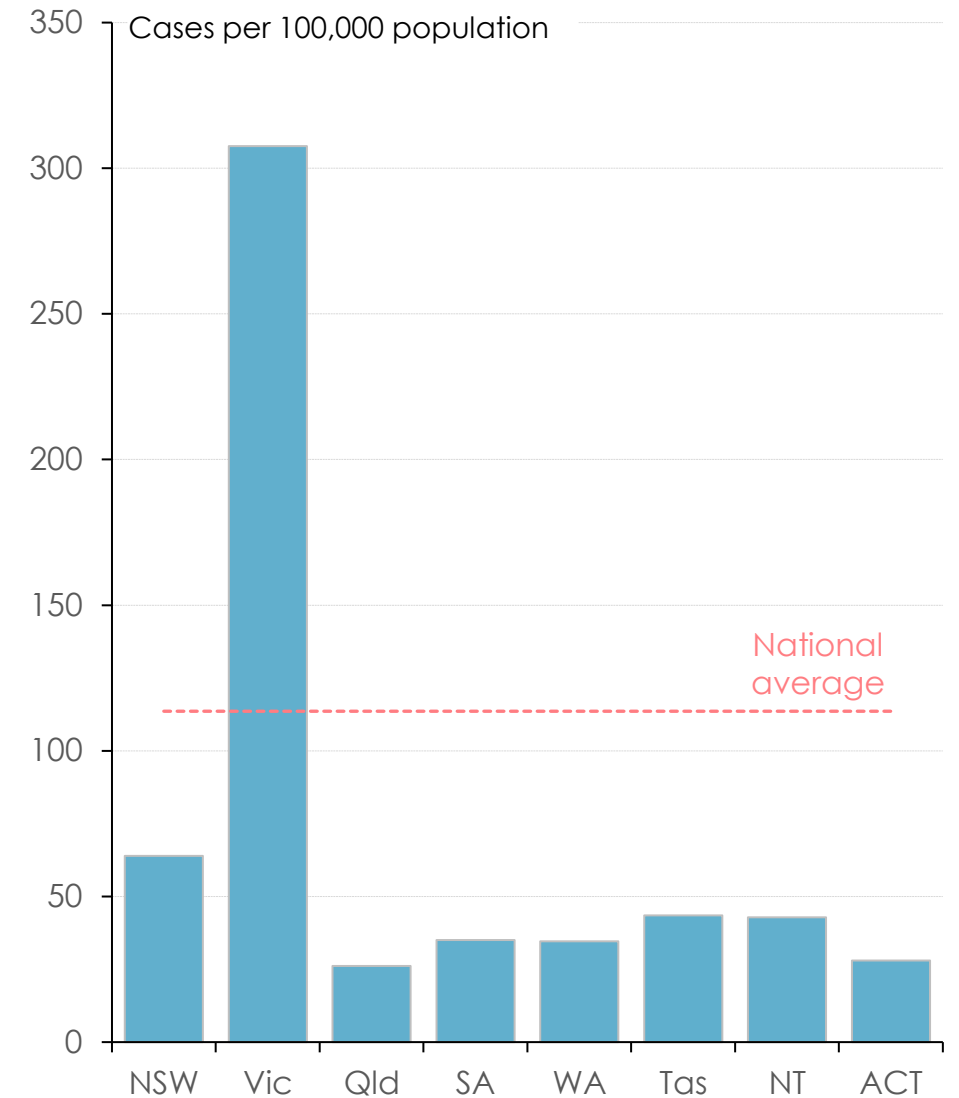
## Cumulative cases, by State



## Overseas transmissions



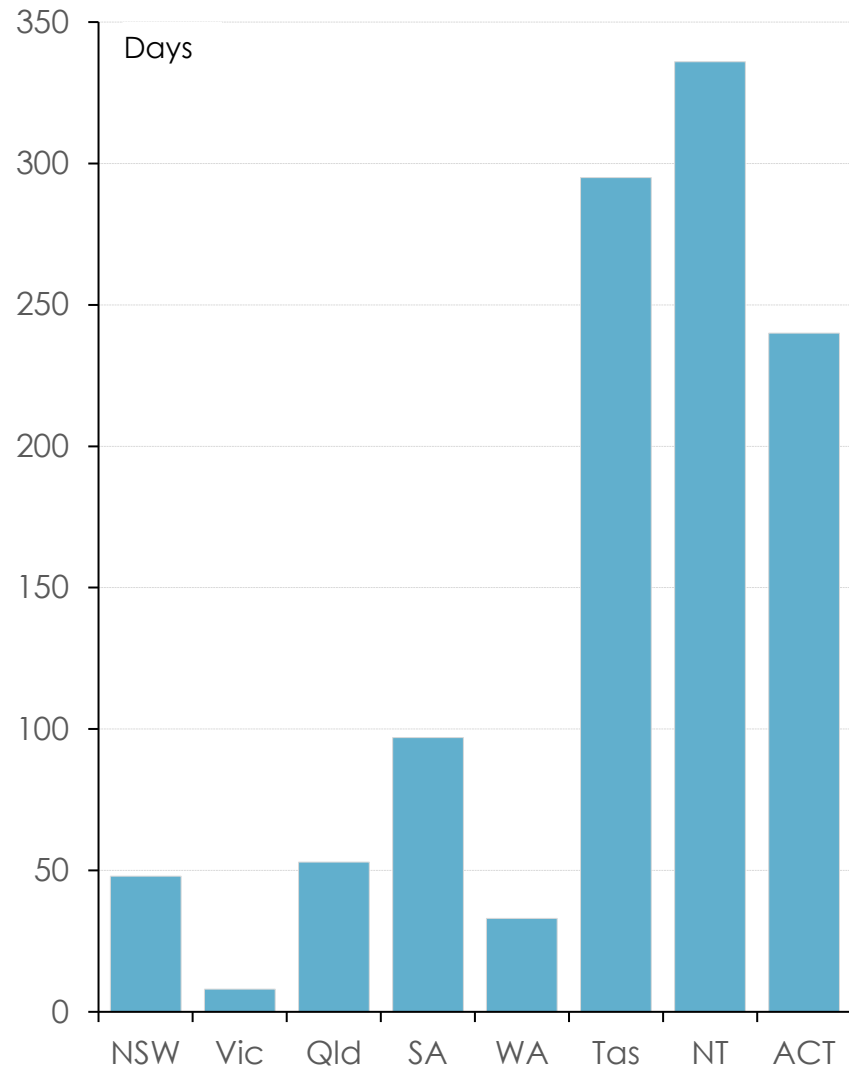
## Cases per 100,000 population



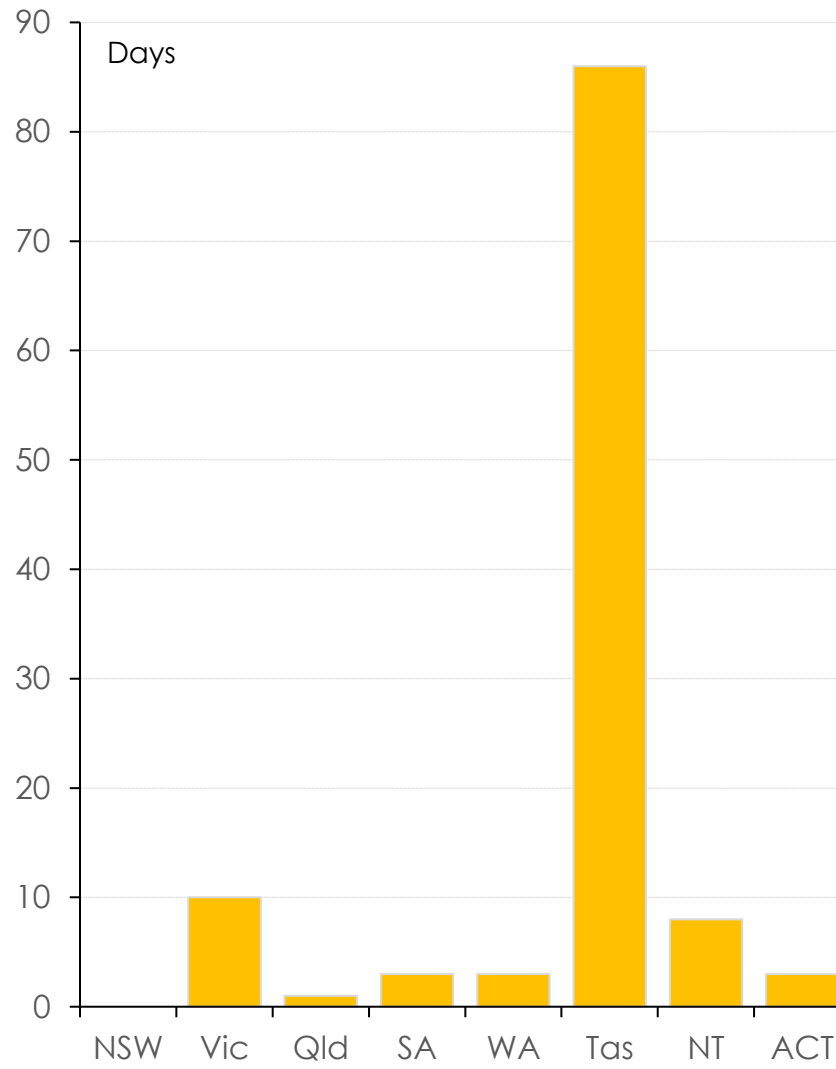
Note: Data up to 6<sup>th</sup> March. Source: [covid19data.com.au](https://covid19data.com.au). [Return to "What's New"](#).

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

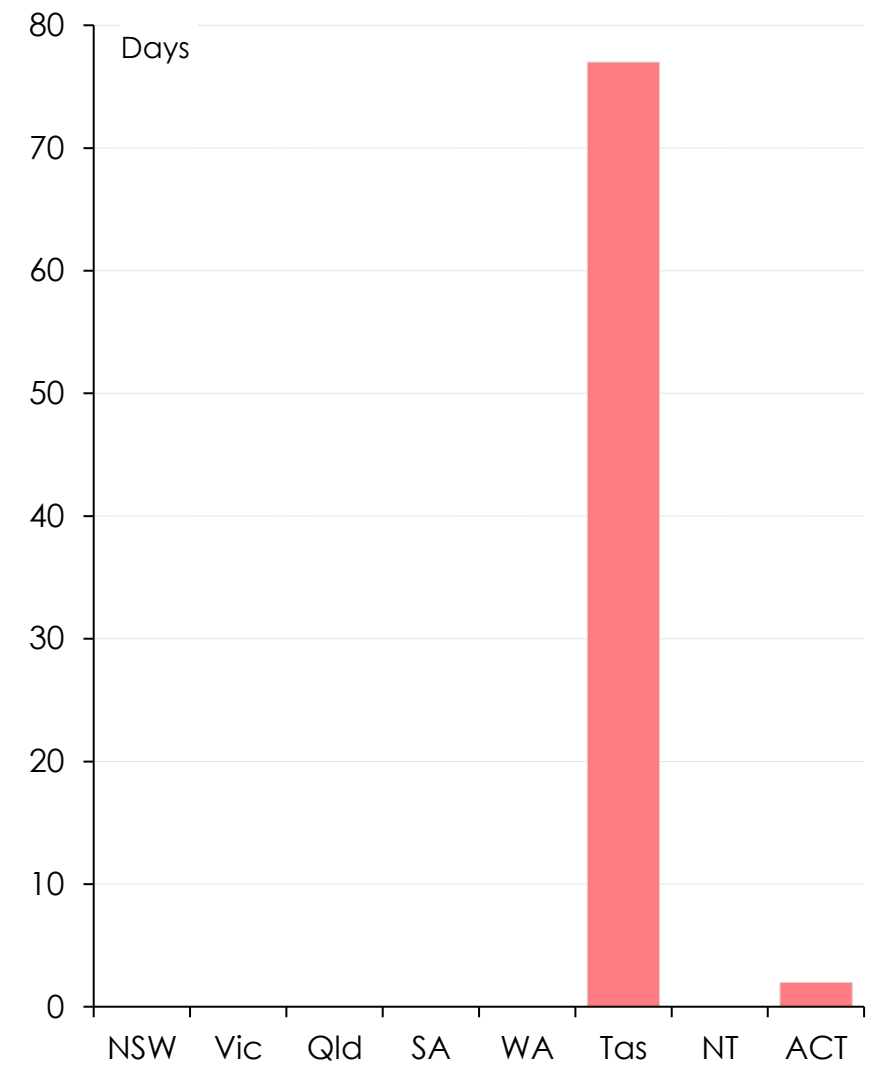
## Days since last new locally-acquired case



## Days since last new overseas-acquired case



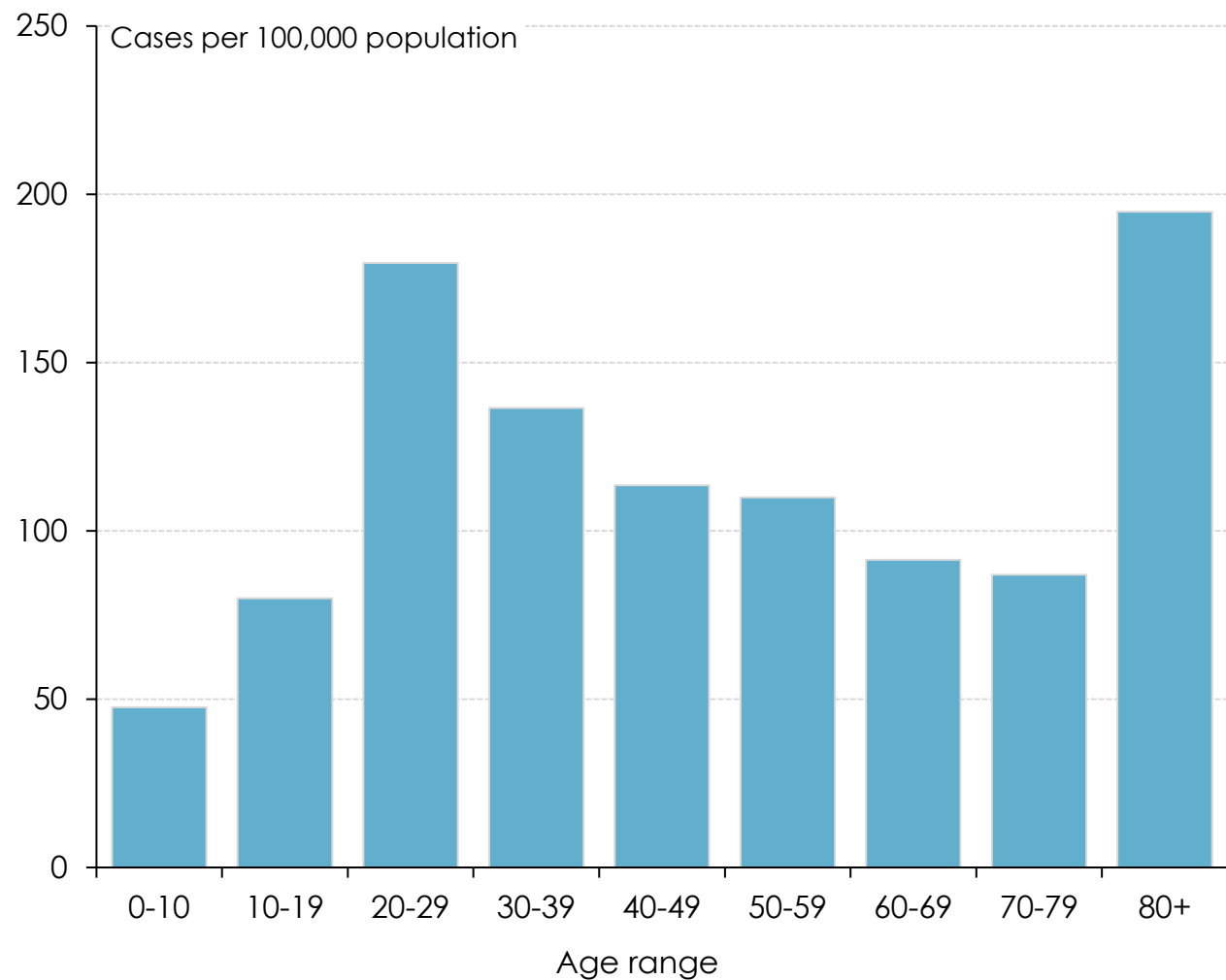
## Days since there were any active cases



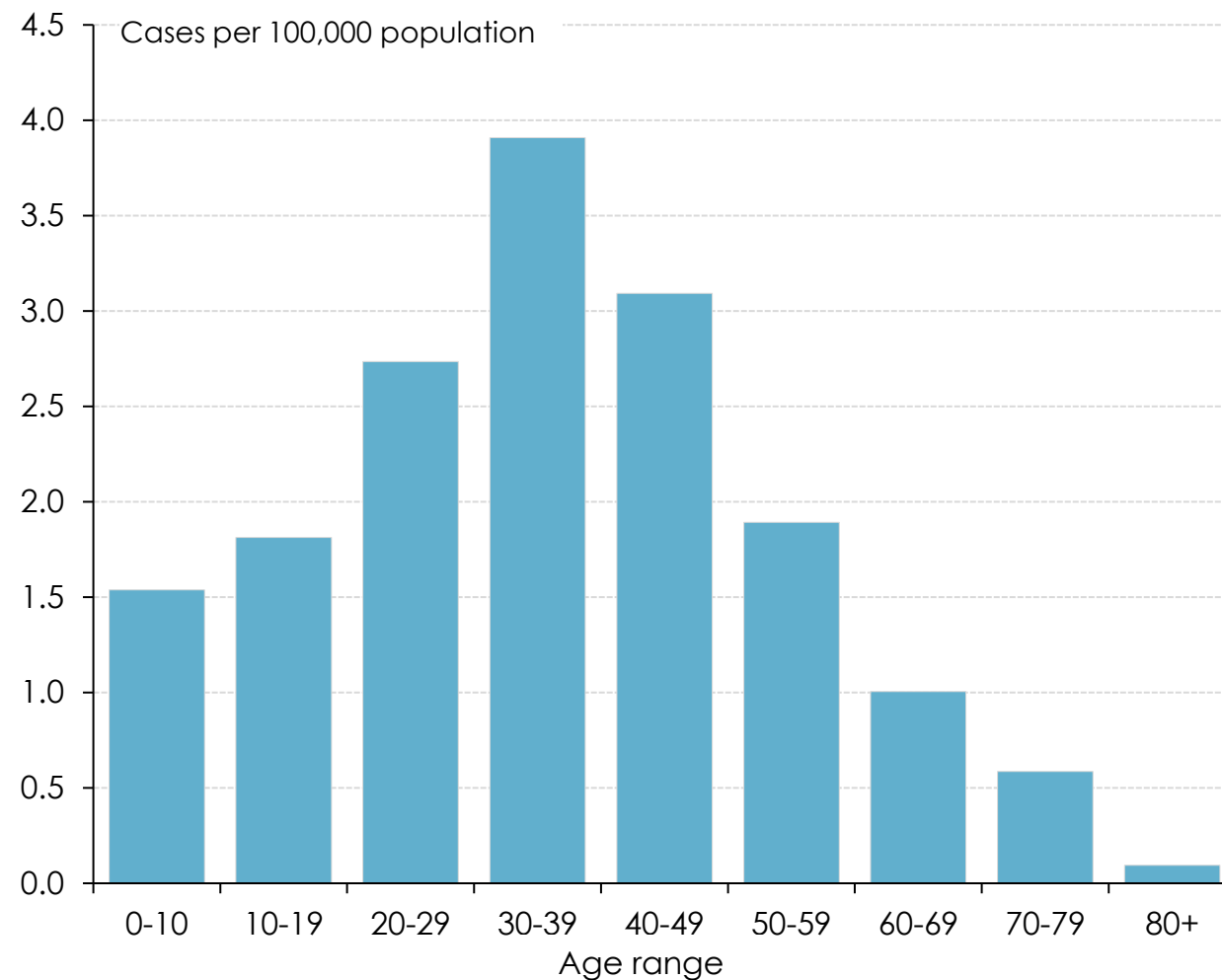
Note: Data are for 6<sup>th</sup> March. Source : [covid19data.com.au](https://covid19data.com.au). [Return to "What's New"](#).

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

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



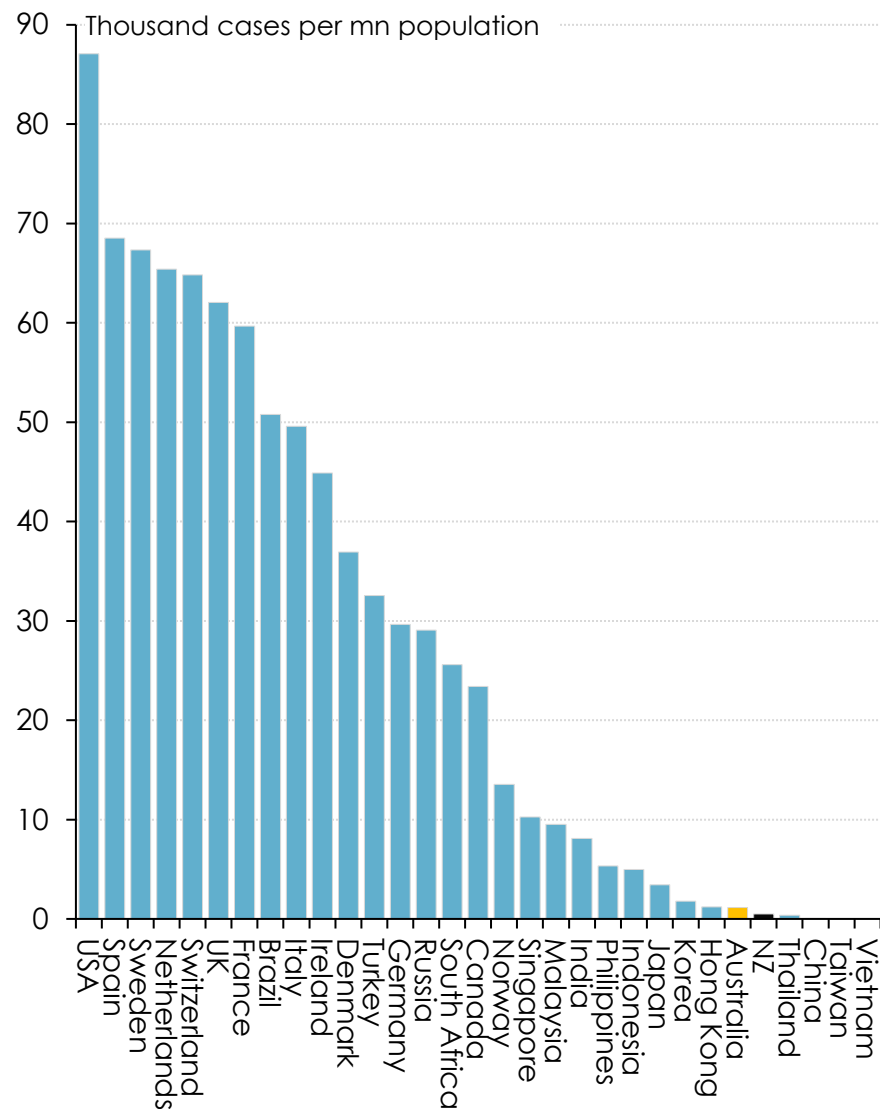
Cumulative confirmed cases per 100,000 population, by age group – 2021 to date



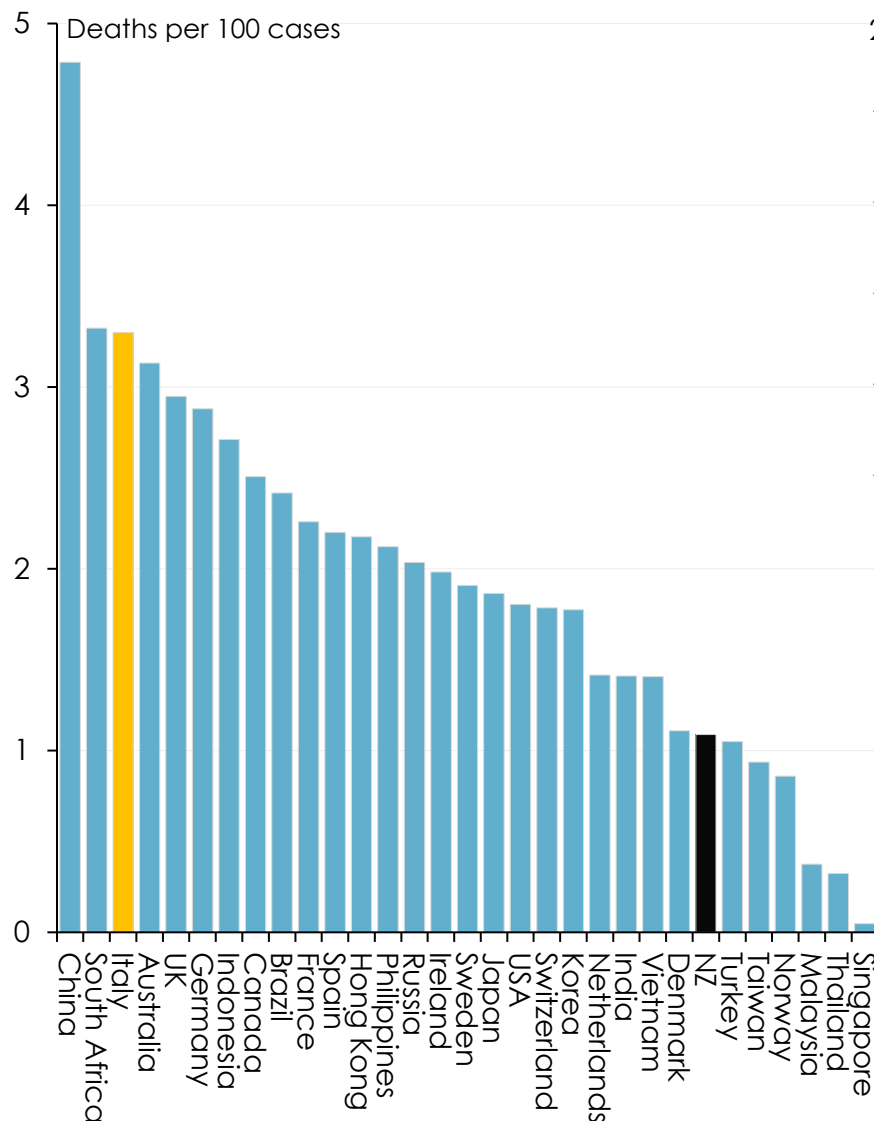
Note: Data up to 5<sup>th</sup> March. Source: Australian Government Department of Health, [National Notifiable Diseases Surveillance System](#); ABS; Corinna. [Return to "What's New"](#).

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

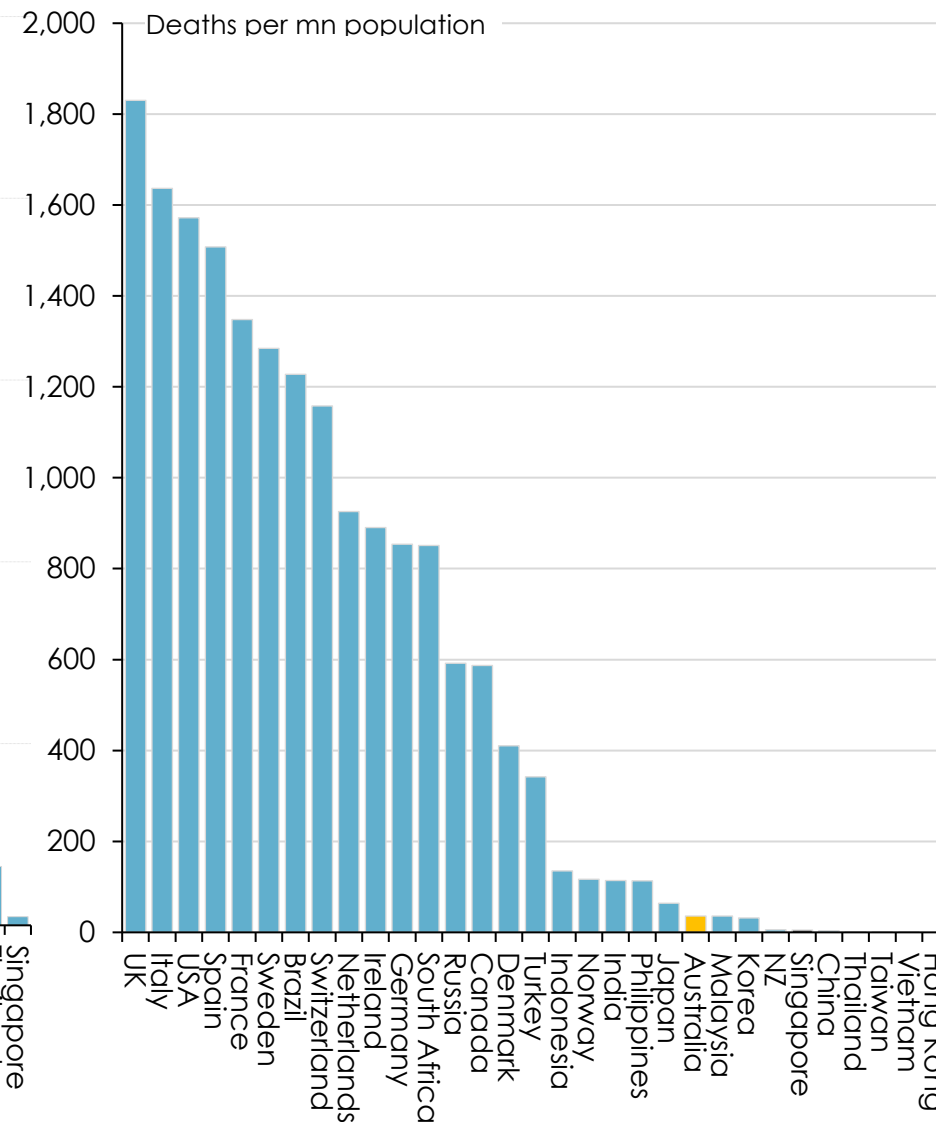
## Apparent infection rate



## Apparent fatality rate



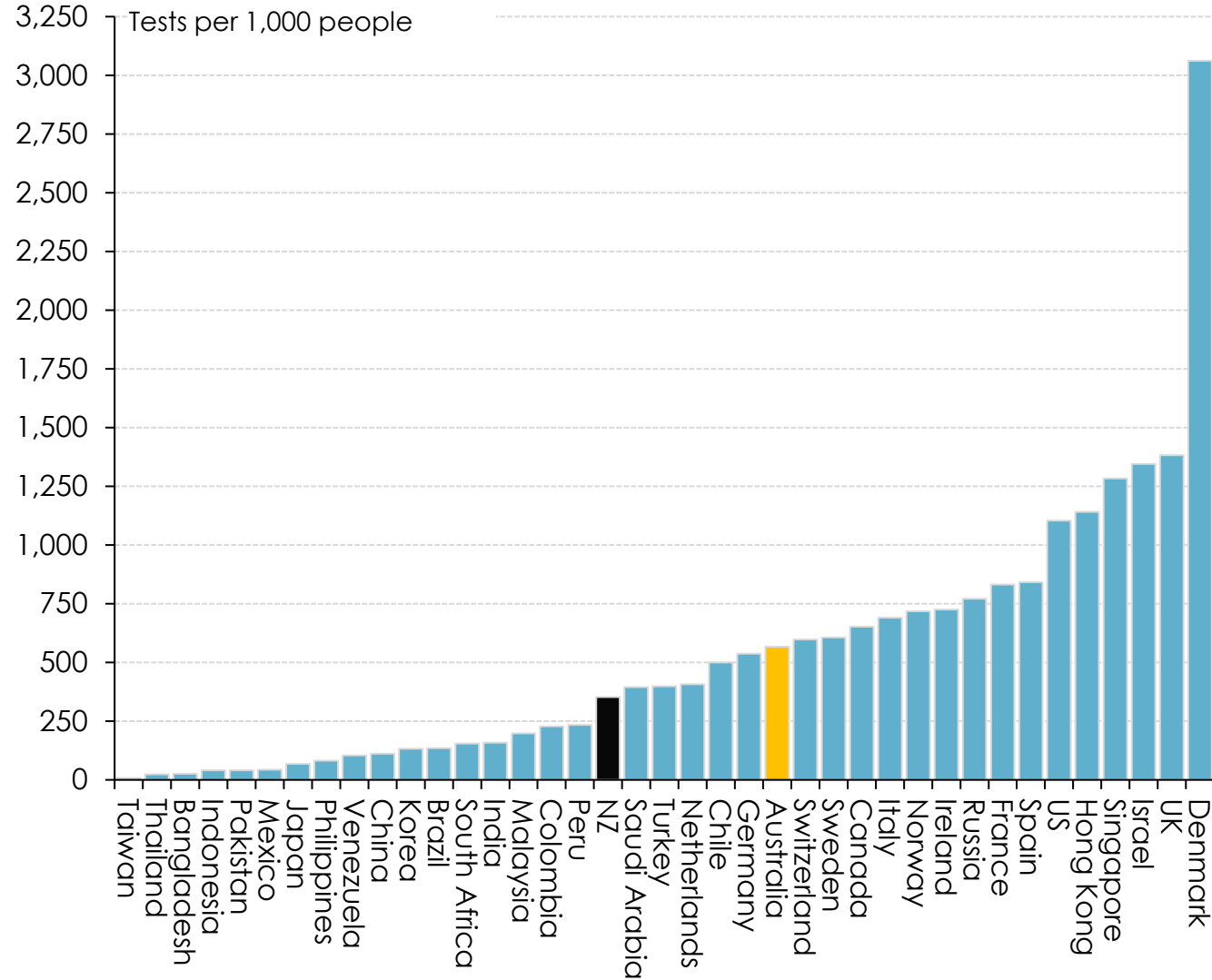
## Death rate



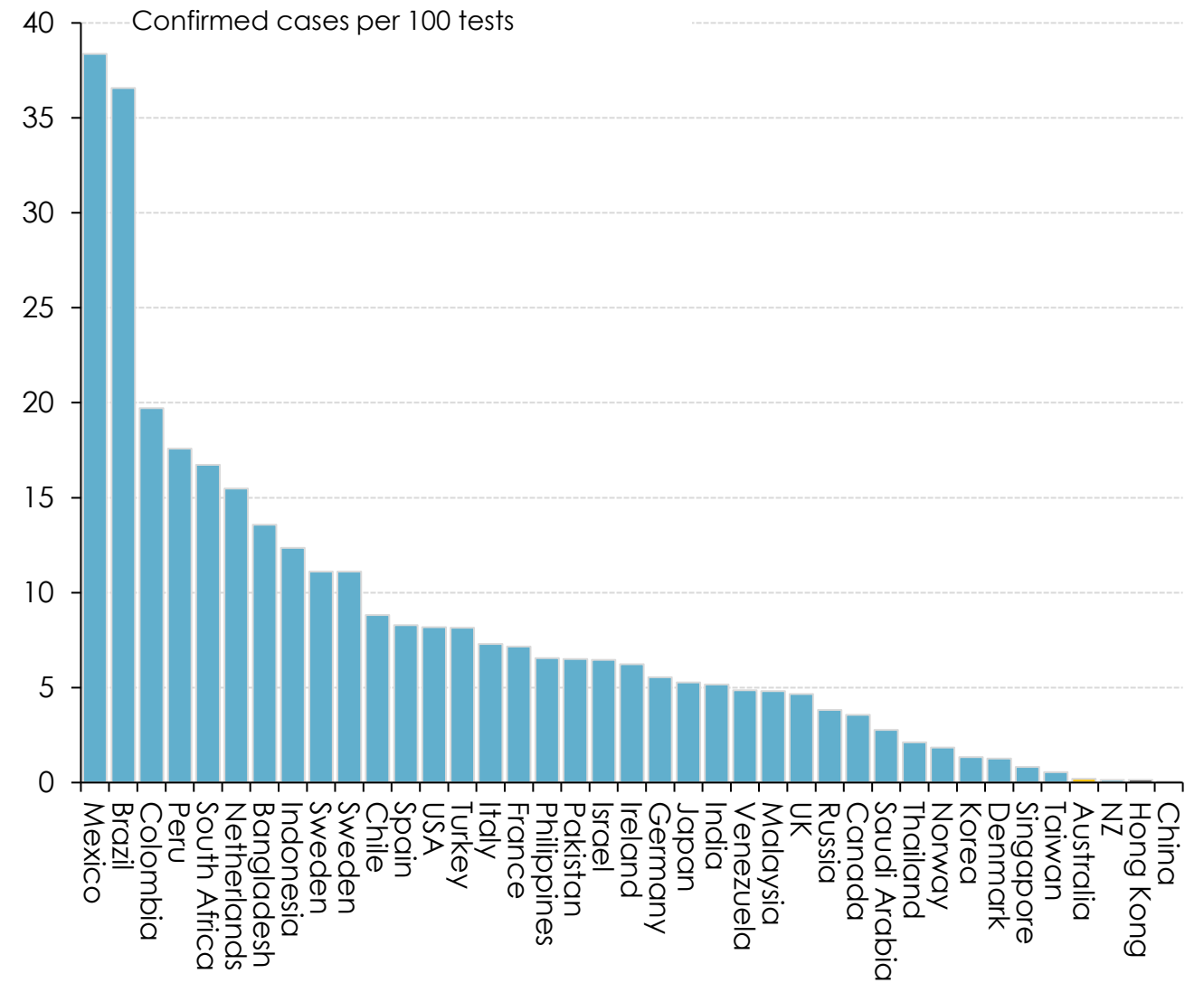
Note: Data up 4<sup>th</sup> March. Source: University of Oxford, [Our World in Data](#); Corinna. [Return to "What's New"](#).

# 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



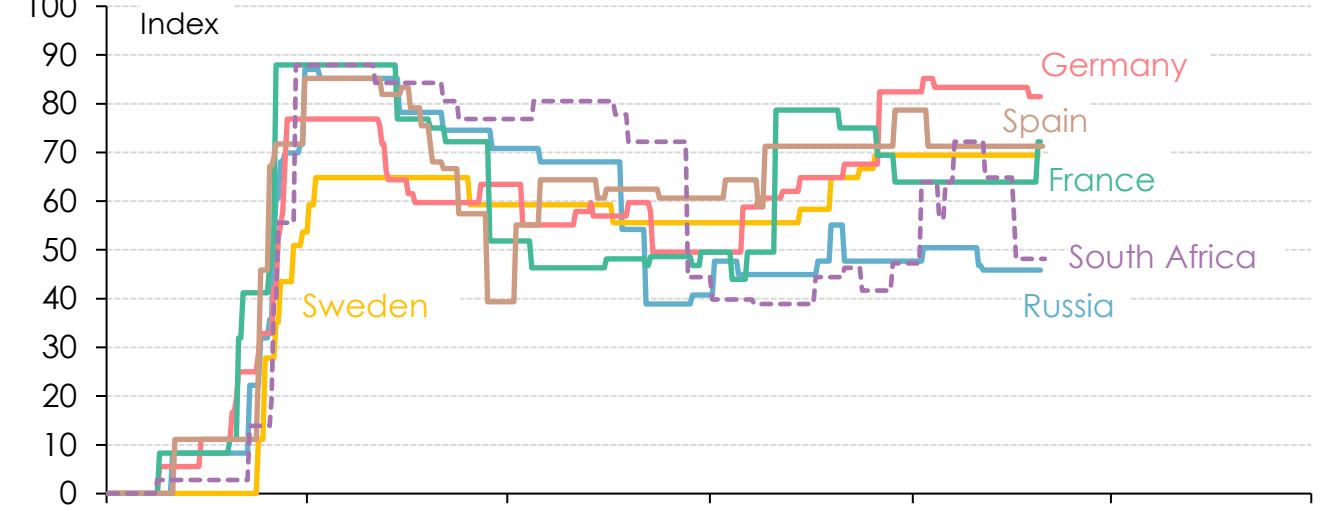
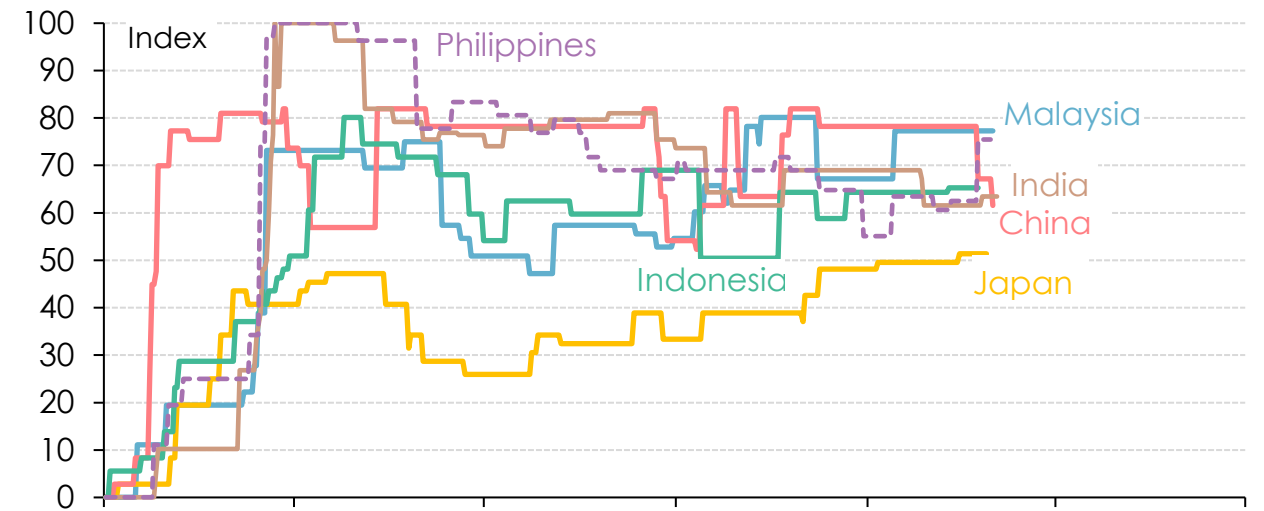
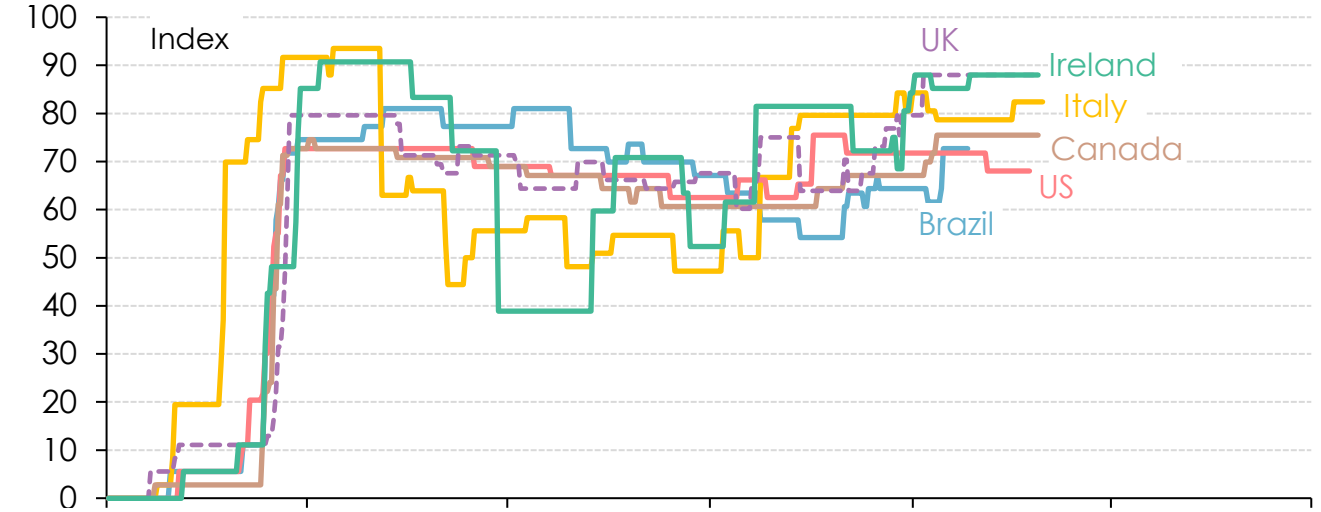
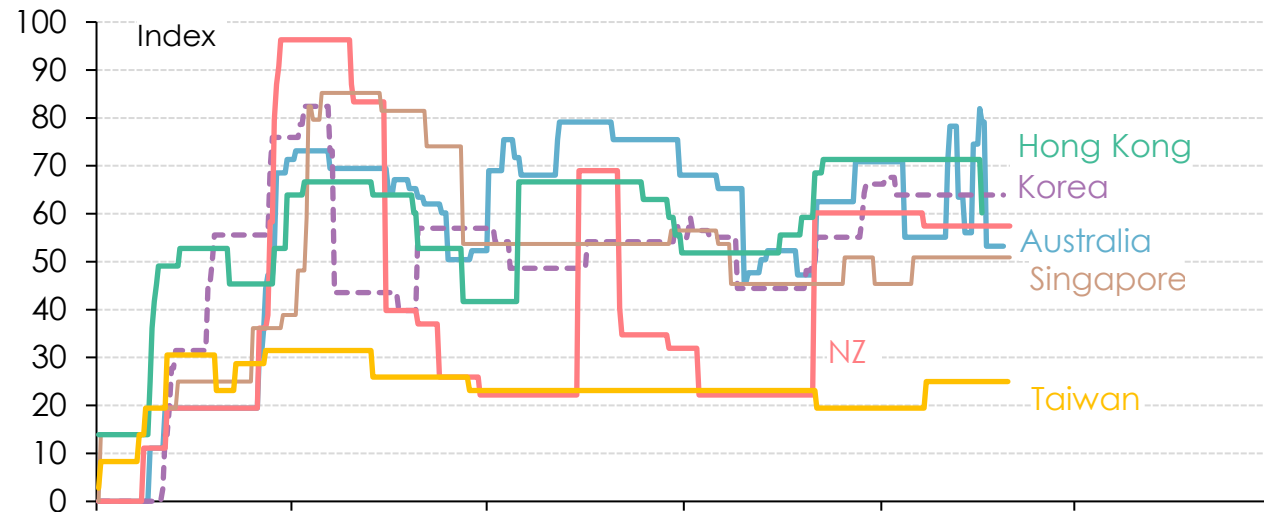
## Confirmed cases per 100 tests



Note: Data up to 26<sup>th</sup> February (and yes it appears, at face value, that Denmark has tested its entire population three times, and the US, Hong Kong, 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"](#).

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

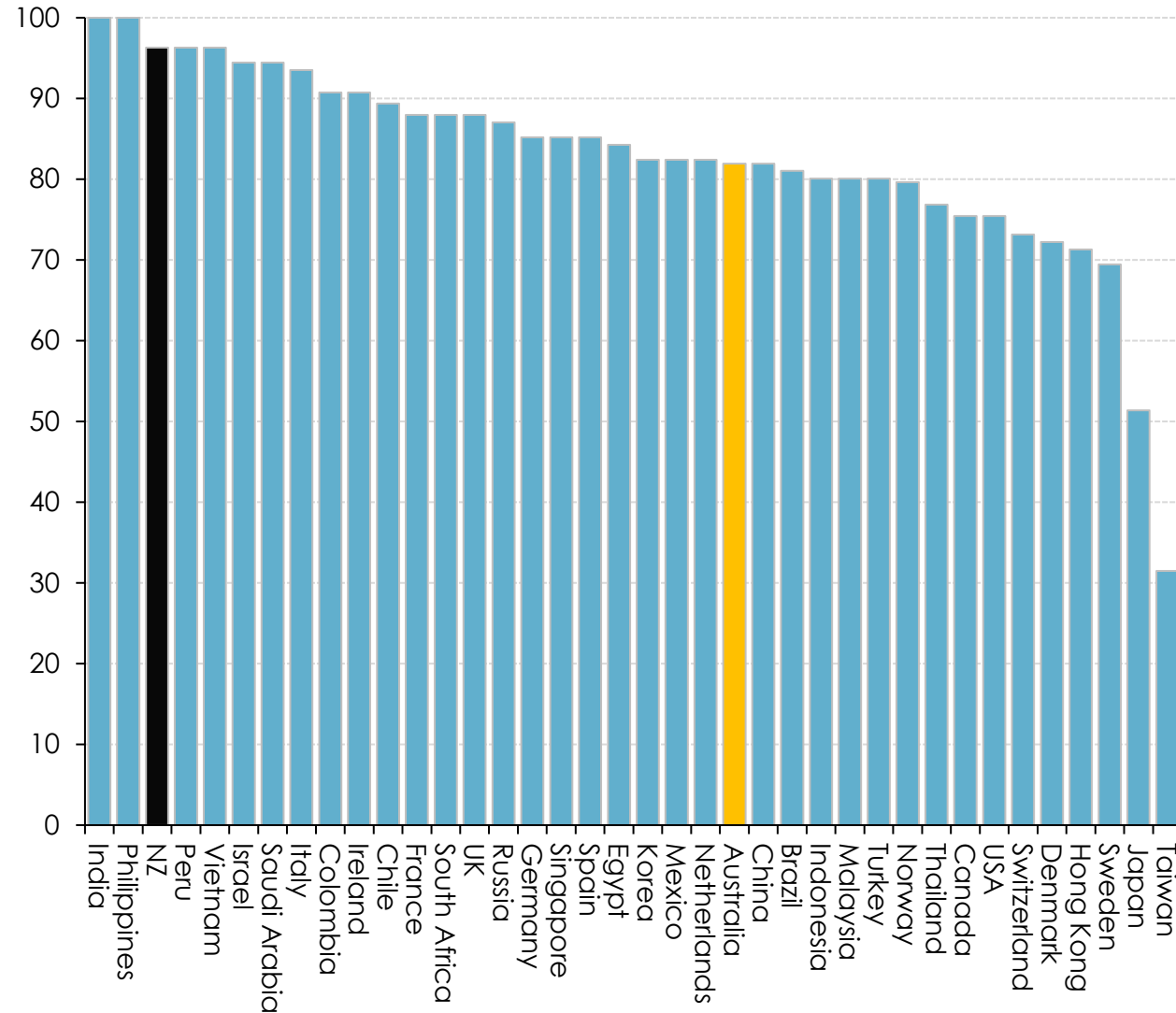
## Timing and severity of government restrictions on movement and gathering of people



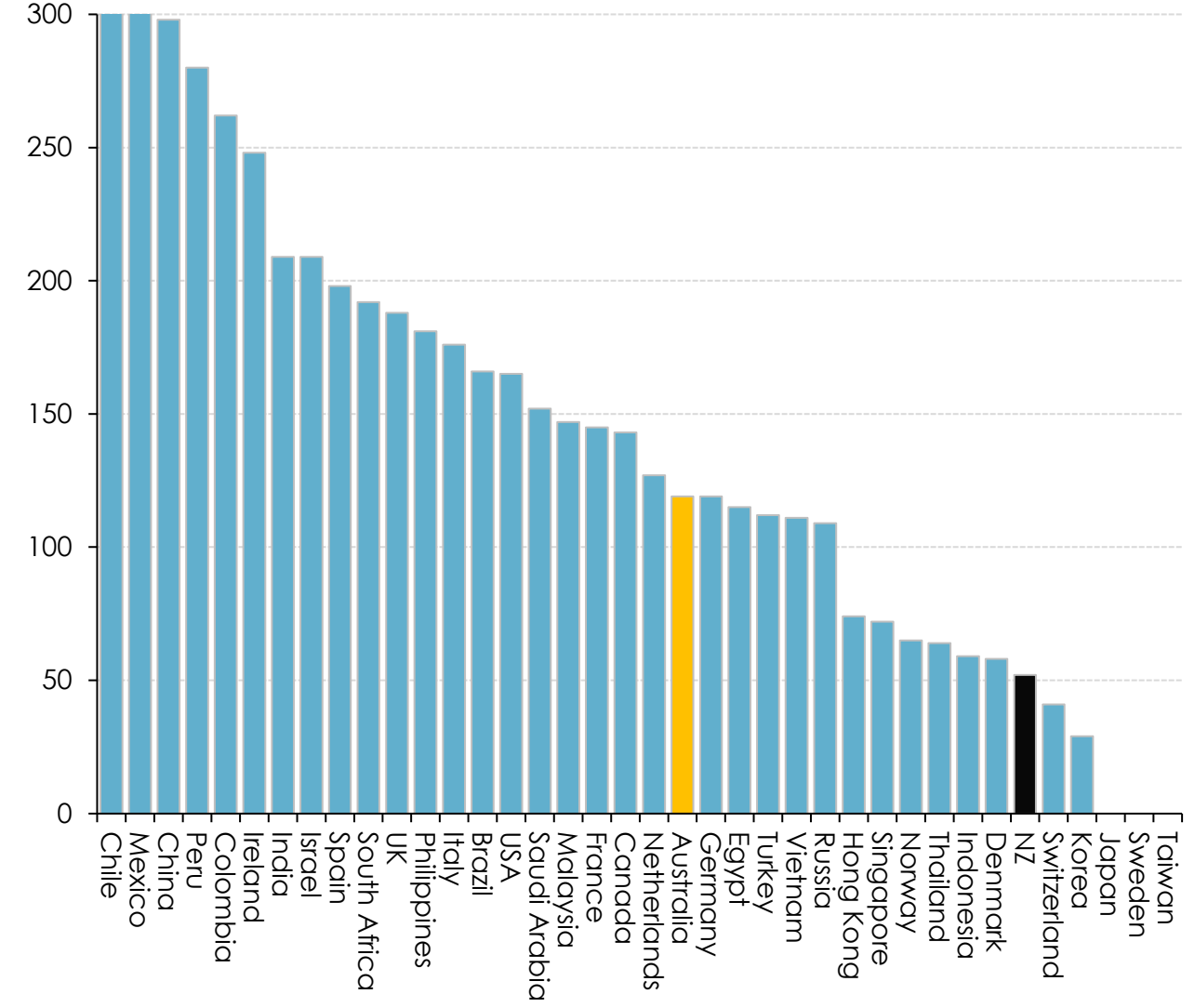
The Oxford COVID-19 Government Response Tracker collects publicly available information on 11 indicators of government response including school and workplace closures, public events cancellations, restrictions on public gatherings, stay at home requirements, public transport closures, domestic and international travel restrictions, public information campaigns, testing and contact tracing. Source: [Blavatnik School of Government, Oxford University](#). Data up to 26<sup>th</sup> February – 1<sup>st</sup> March (except for Brazil for which data are only available up to 15<sup>th</sup> January, Hong Kong 16<sup>th</sup> February and US 22<sup>nd</sup> February). [Return to "What's New"](#).

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

## Highest level of restrictions imposed



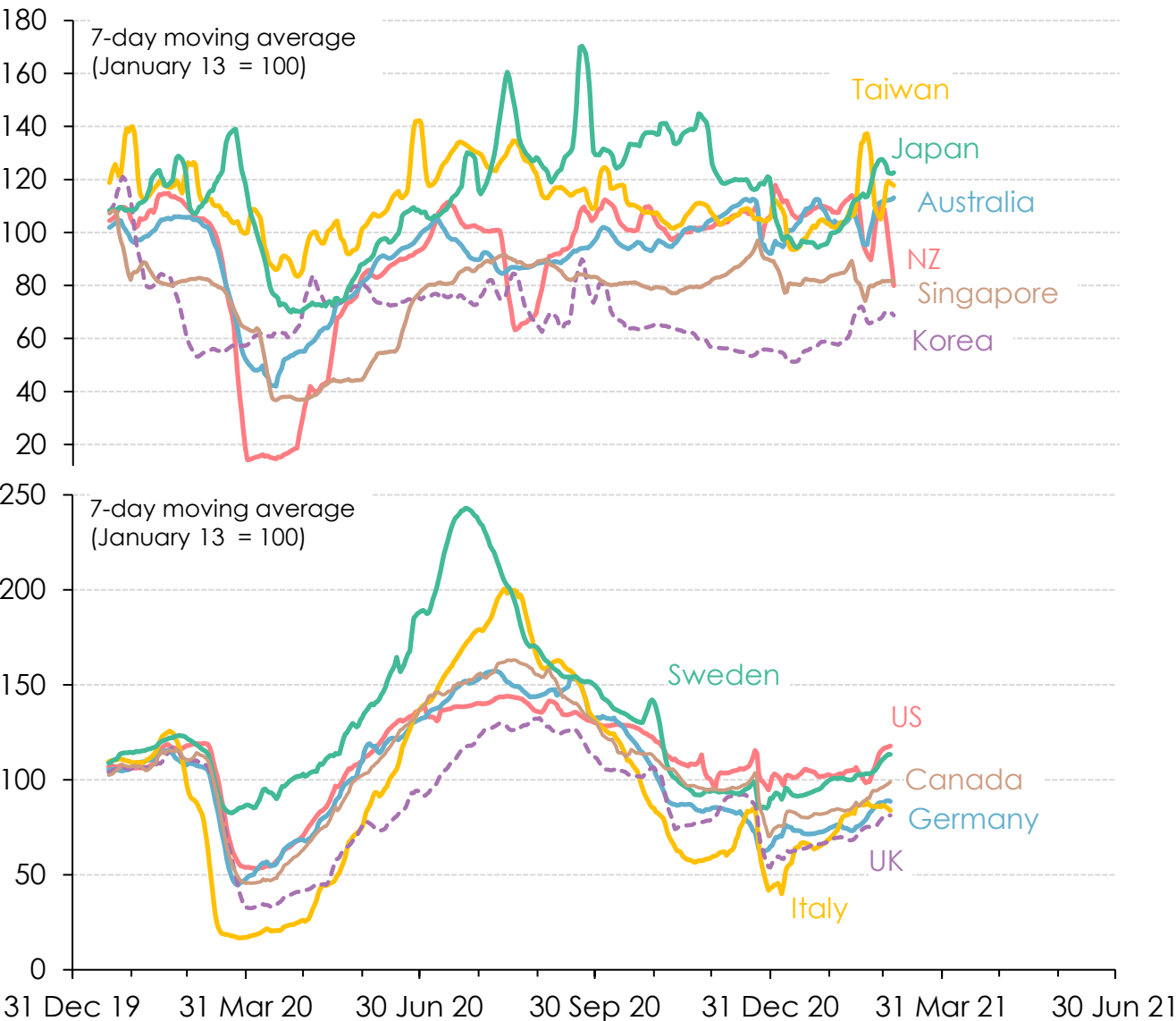
## Number of days restrictions above 70 on Oxford index



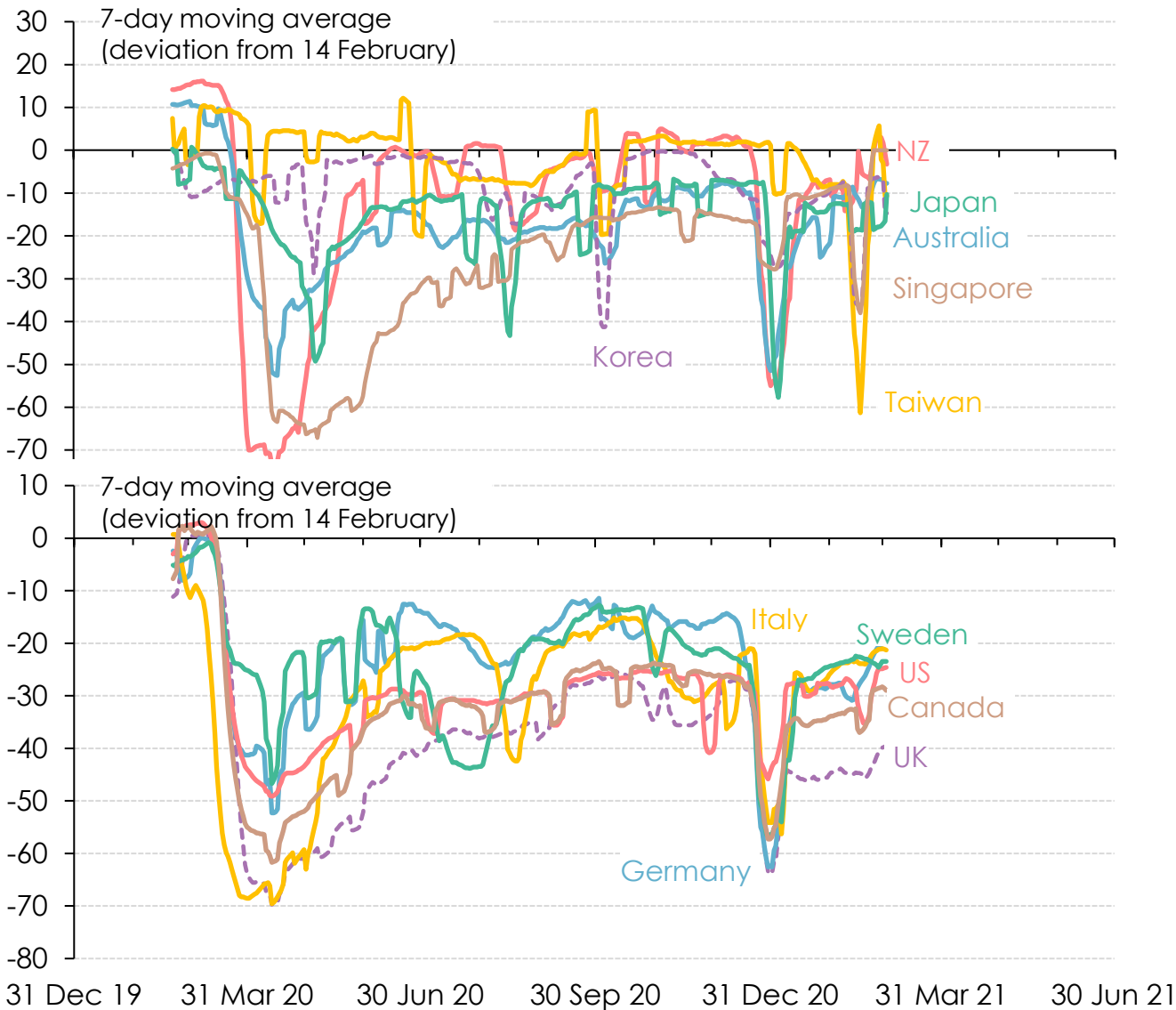
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# Mobility data highlights effects of continuing restrictions in Europe, easing of some restrictions in US, and snap lockdown in Auckland (NZ)

## Time spent driving



## Time spent in workplaces

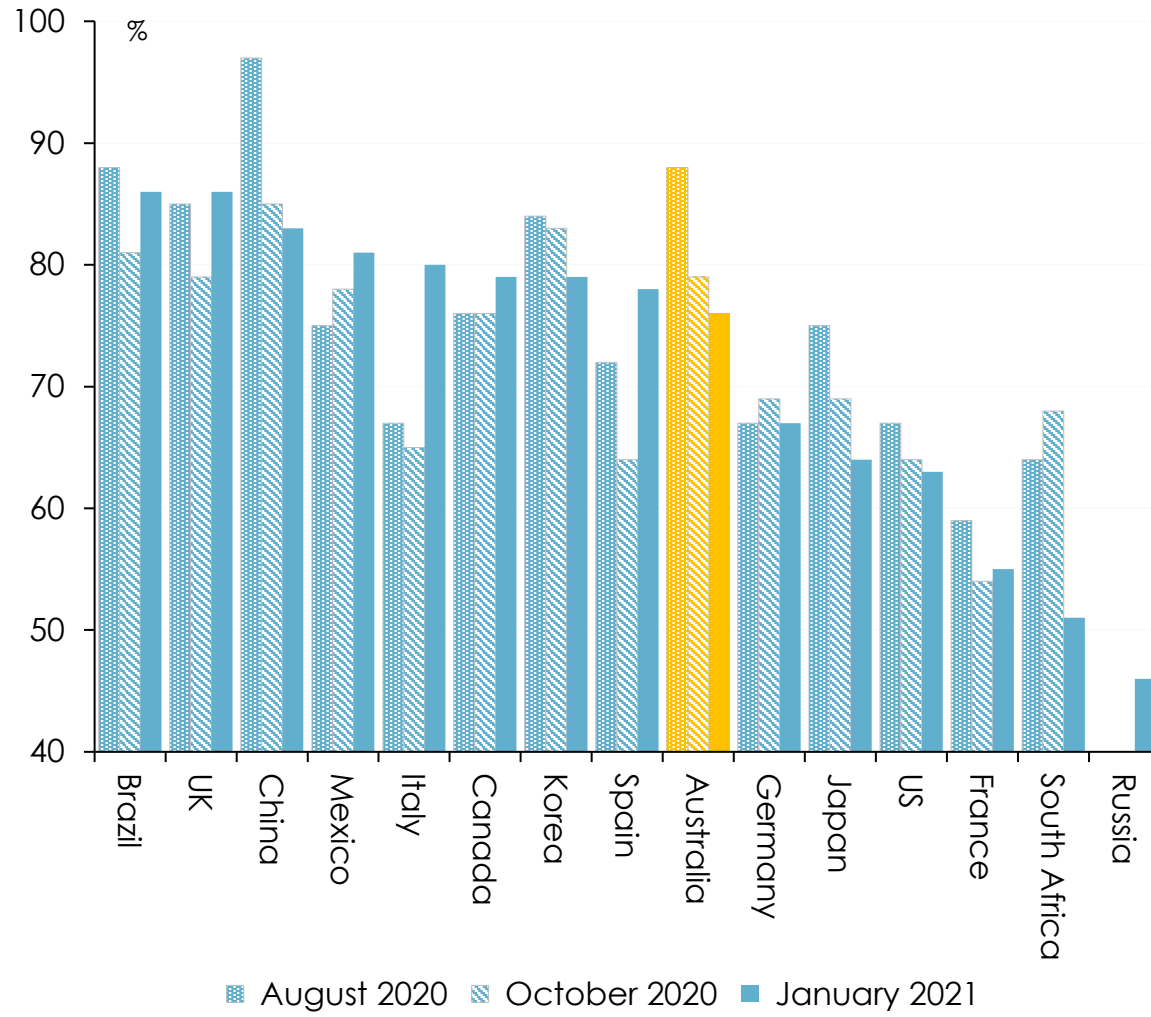


Note: these data will reflect normal seasonal variations in activities as well as the effects of government restrictions and individual responses to the risks posed by the virus. Sources: [Apple Mobility Trends Reports](#) (data up to 4<sup>th</sup> March); [Google Community Mobility Reports](#) (data up to 2<sup>nd</sup> March). [Return to "What's New"](#).

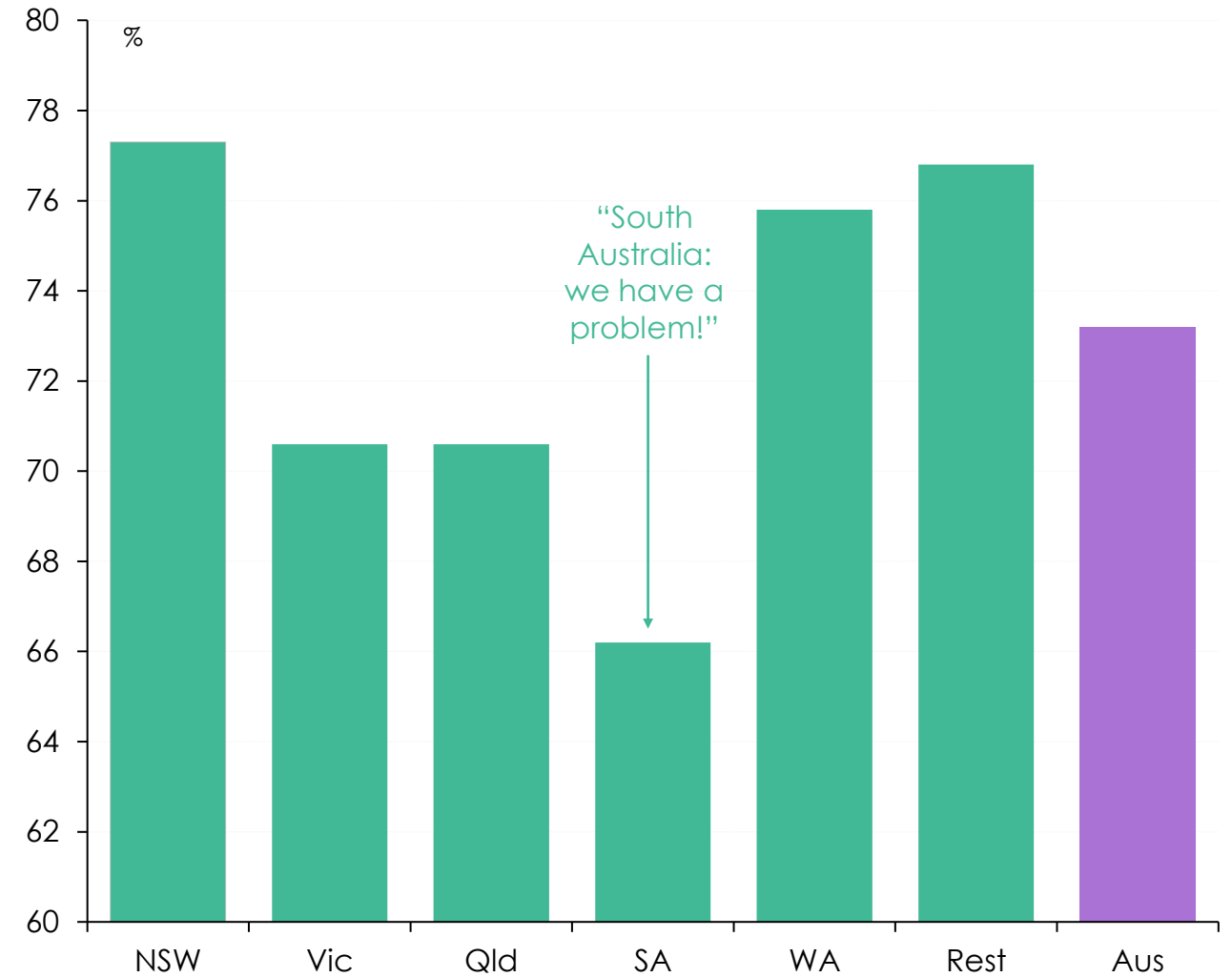


# Effective vaccines will be crucial in allowing people and economies to return to 'normal' – if people are willing to take them, and can get them

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

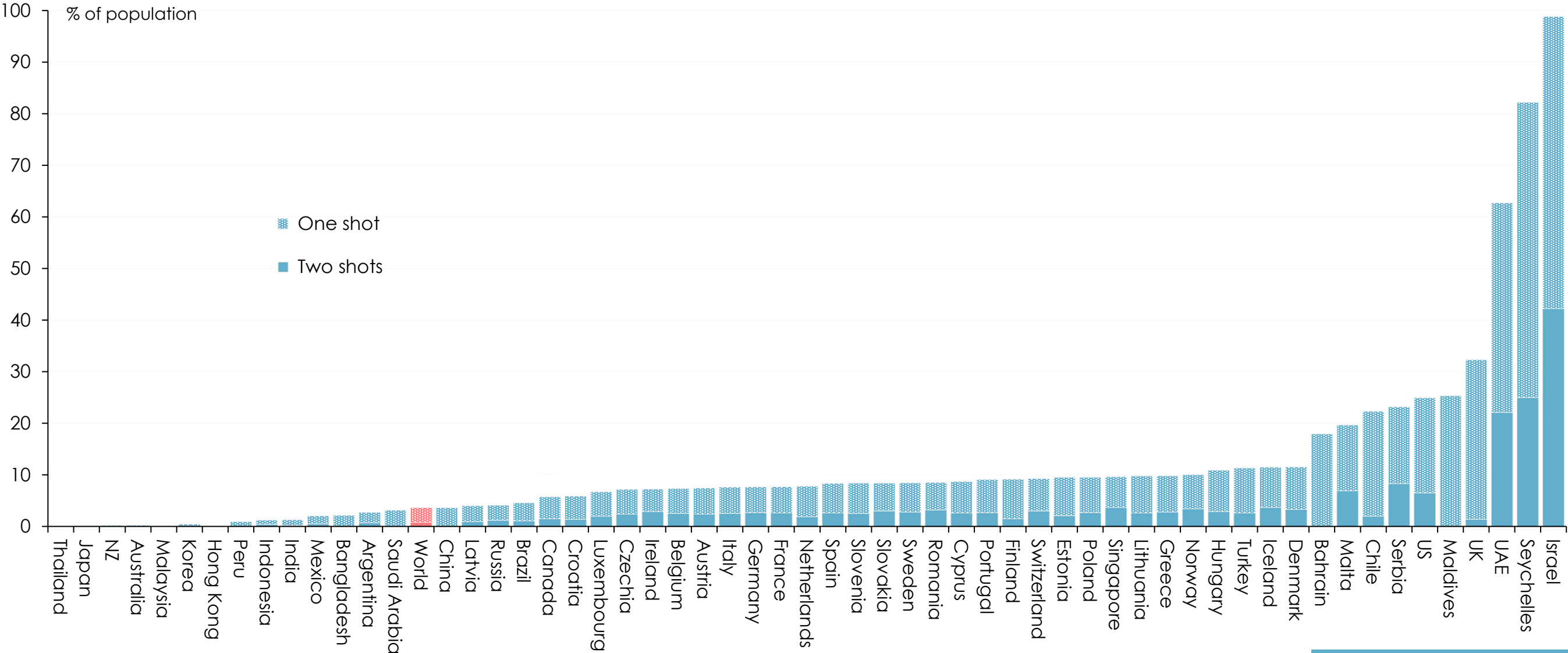


Australians 'strongly agreeing or agreeing' that they would get a vaccine when available, December 2020



# Israel has now vaccinated over 99% of its population, the UK 32%, the US 25%, Europe an average of 9%, but Asia less than 2%

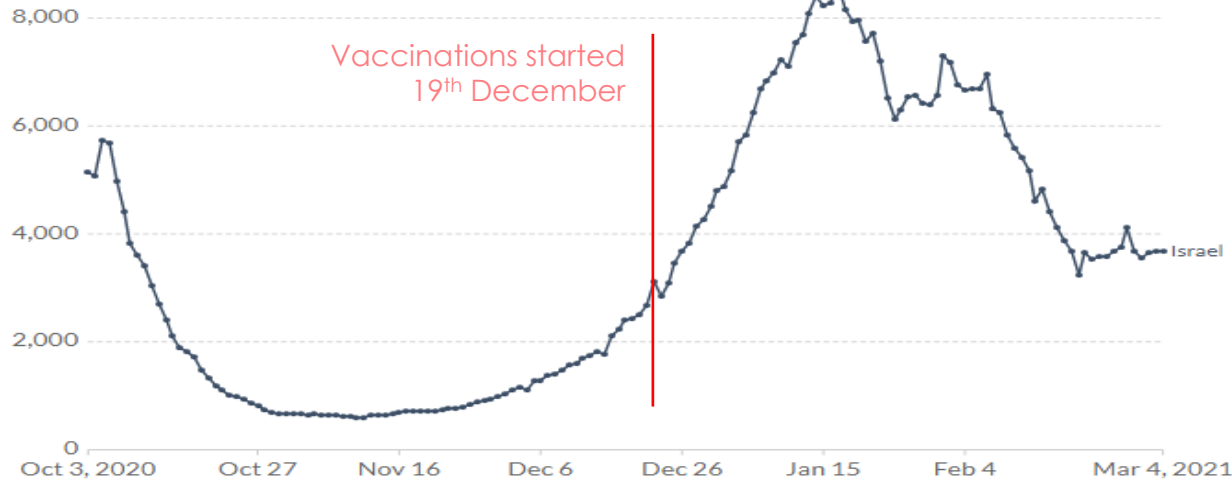
Percentage of population vaccinated as at 4<sup>th</sup> March



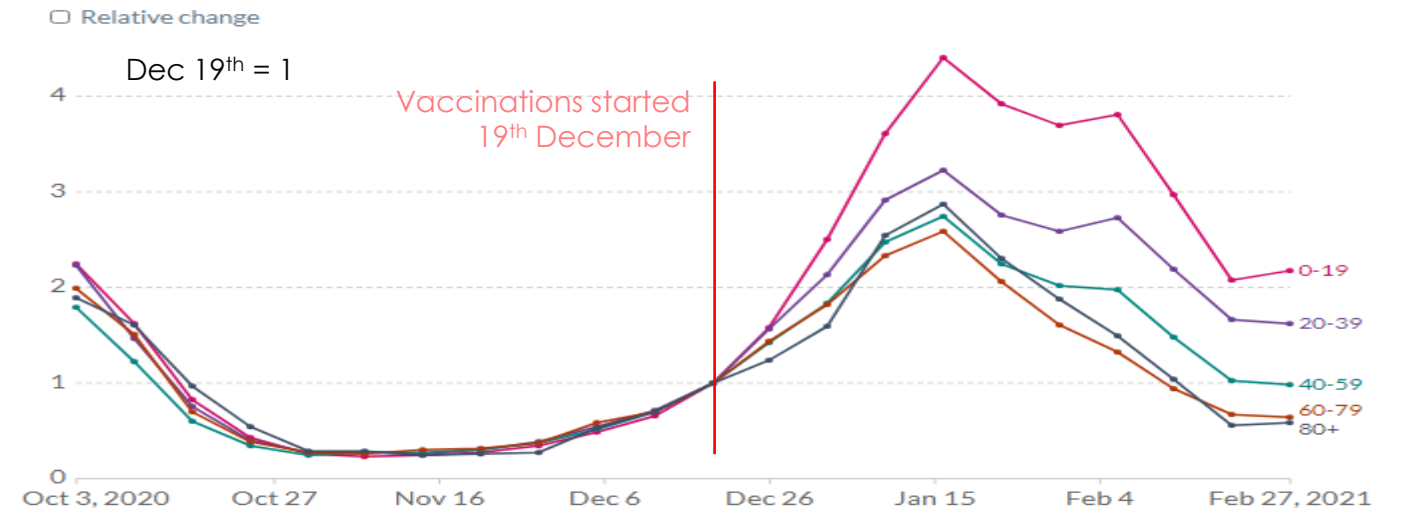
Sources: Our World in Data, [Coronavirus \(COVID-19\) Vaccinations](#). [Return to "What's New"](#).

# Israel's experience strongly suggests that Covid-19 vaccines are effective

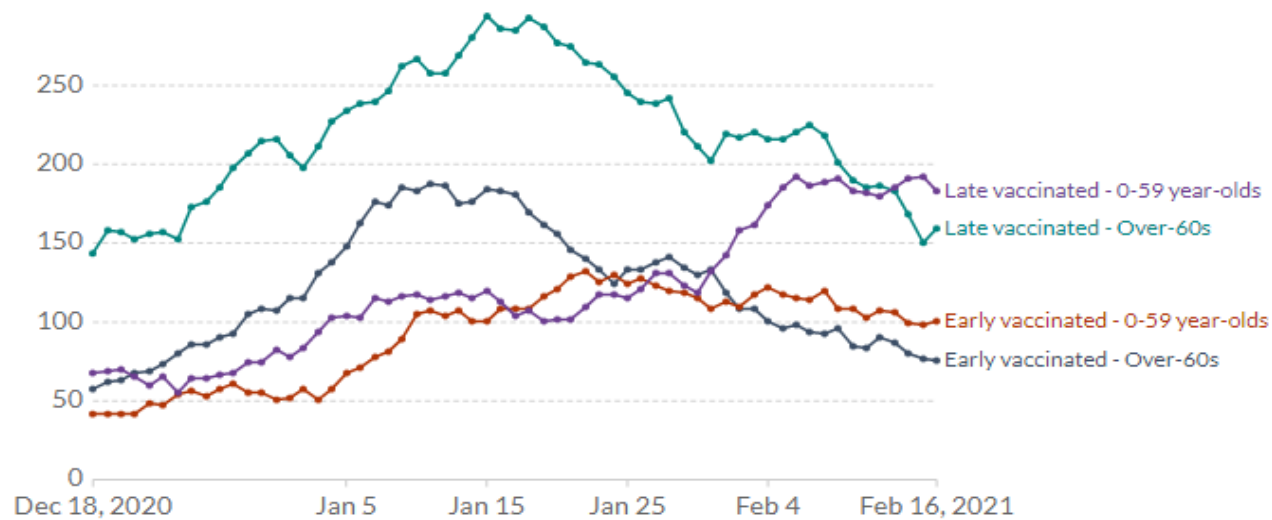
## Daily new confirmed cases



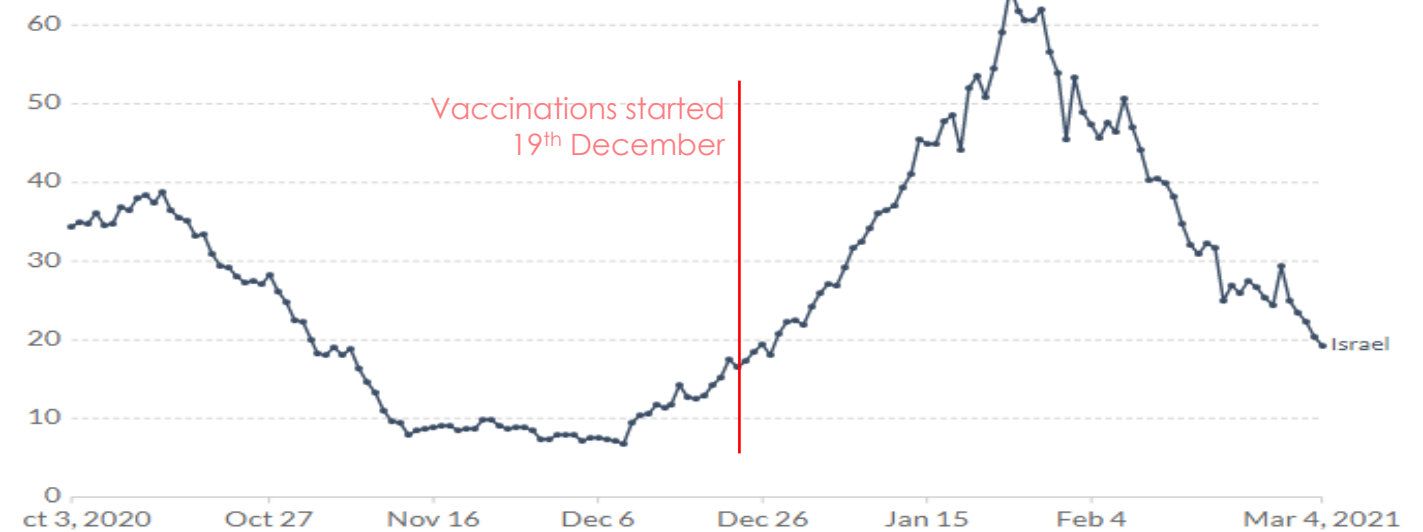
## Confirmed cases by age group



## Hospitalizations for Covid-19 by age



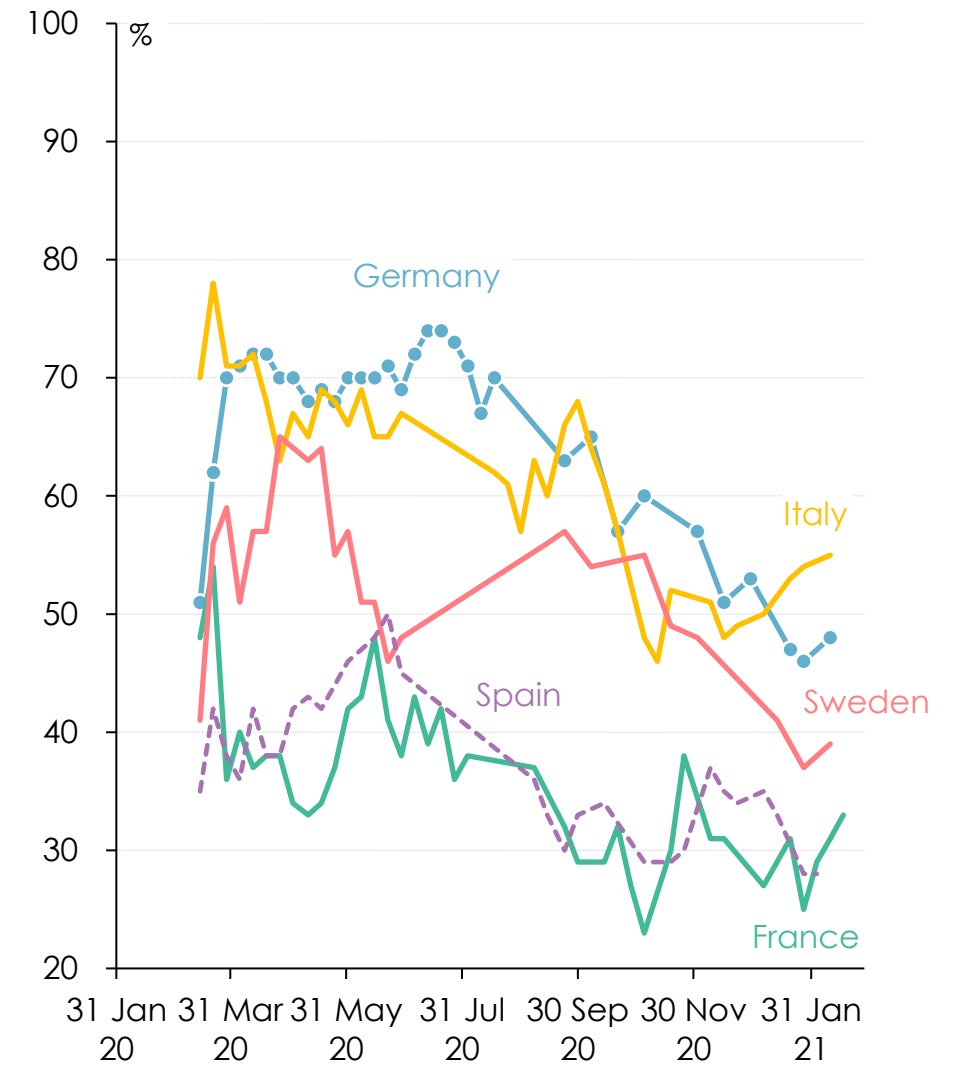
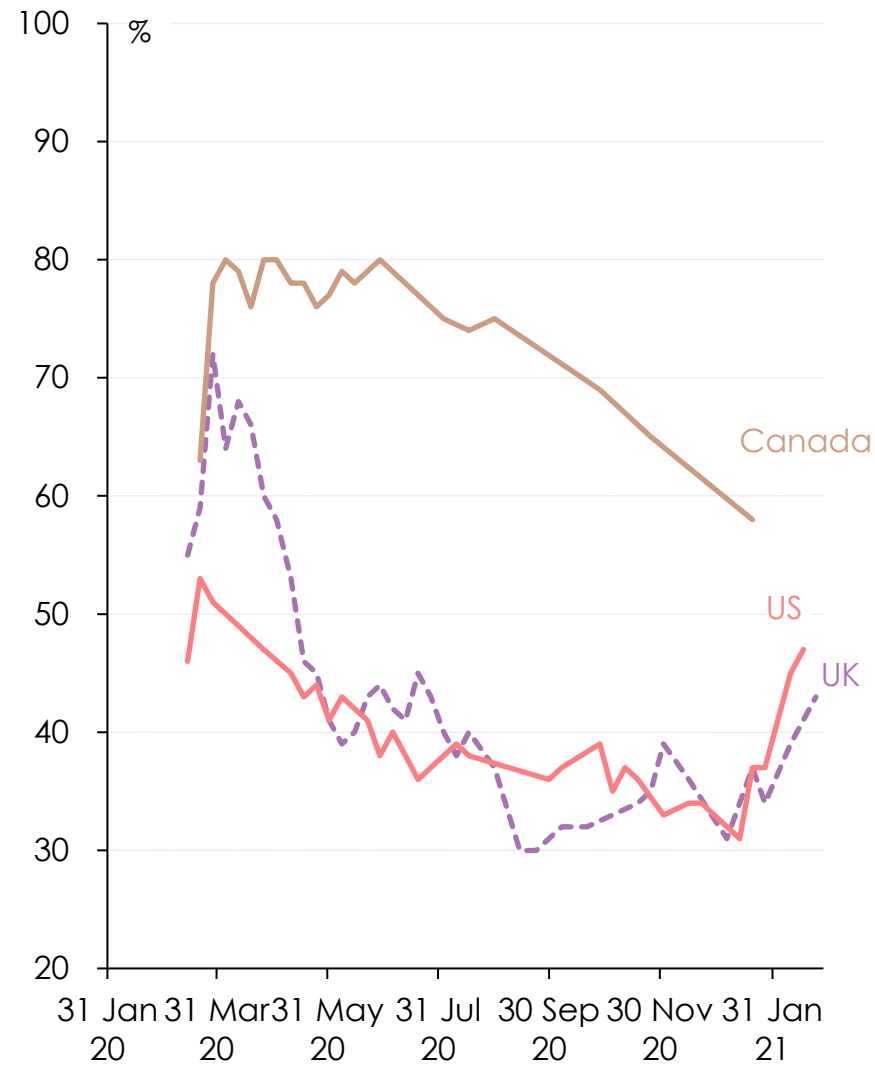
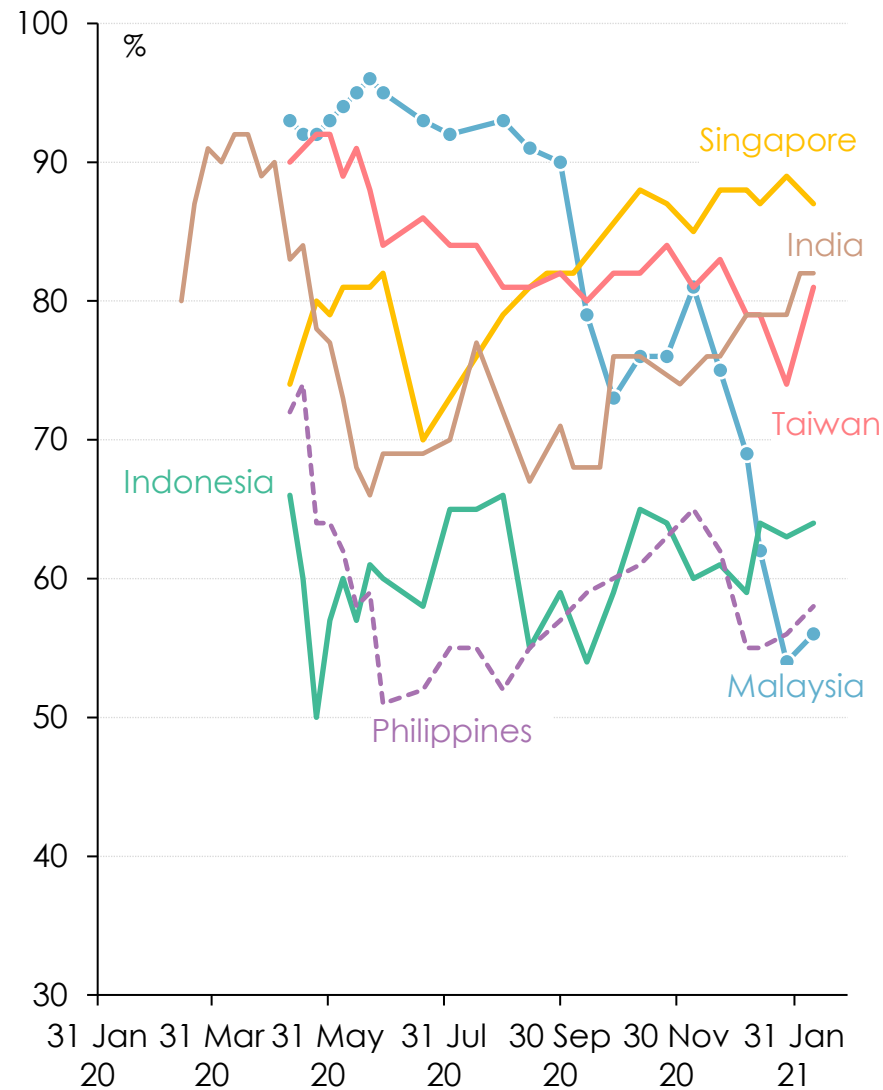
## Confirmed Covid-19 deaths



Source: Our World in Data, [Coronavirus \(COVID-19\) Vaccinations](#); Government of Israel.

# 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

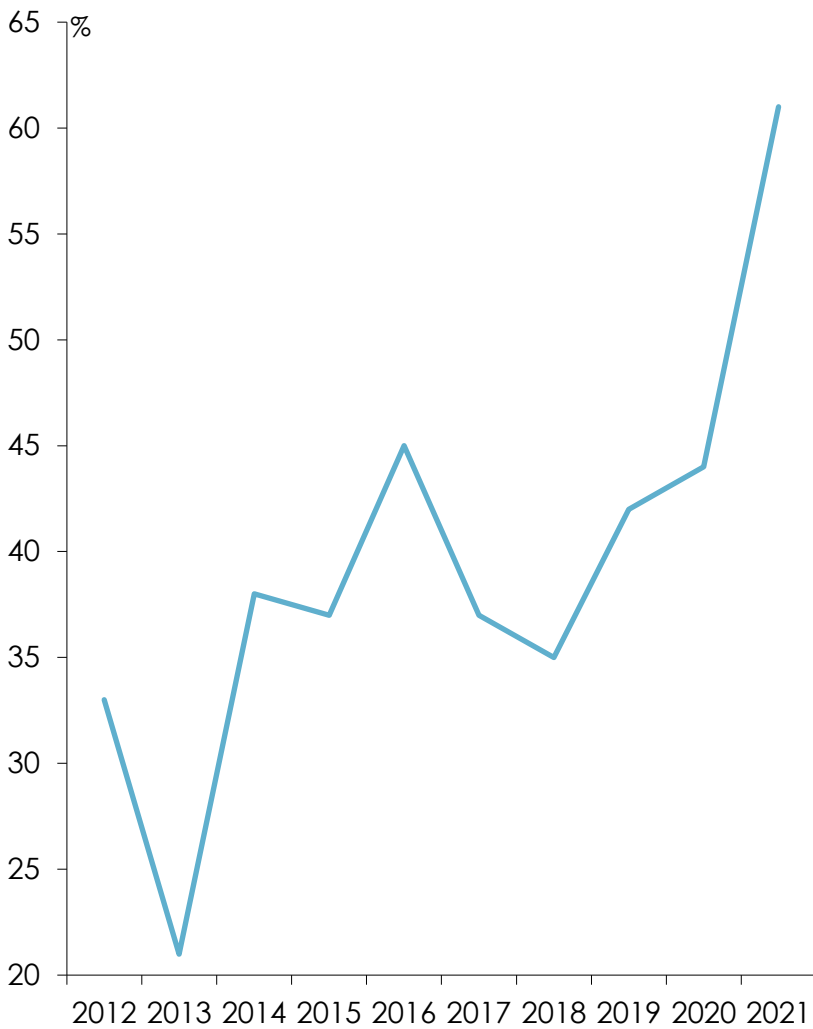
## Voter approval of their government's handling of the coronavirus pandemic



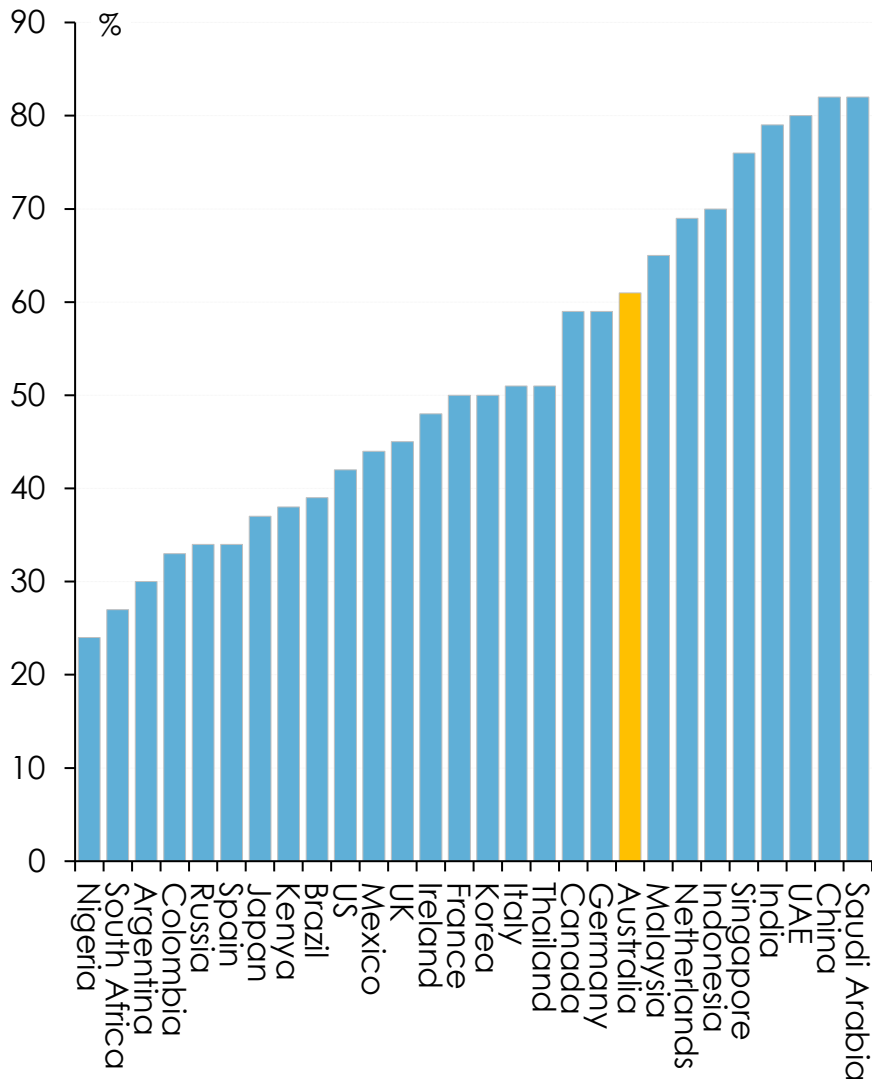
Note: there were no new polls published during the past week. Source: YouGov, [Covid-19 tracker: government handling](#). [Return to "What's New"](#).

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

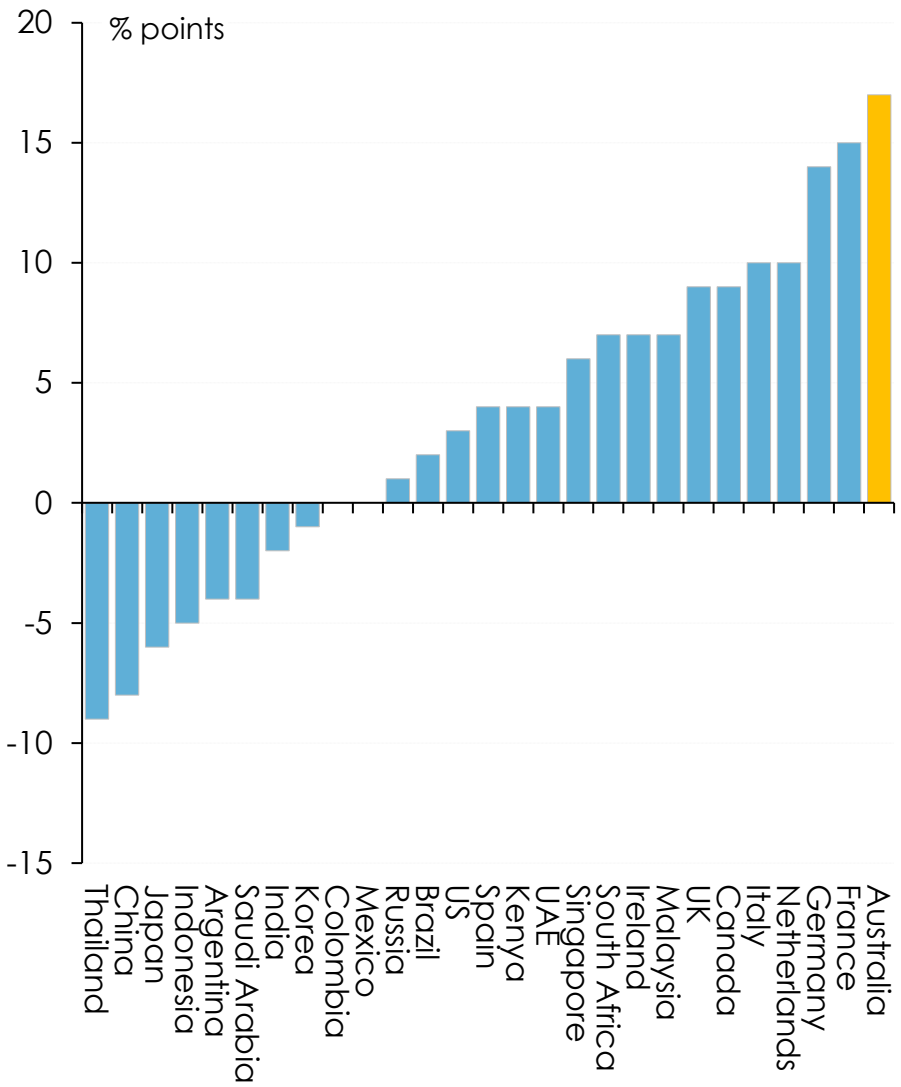
Trust in government in Australia



Trust in government, 2021



Change in government trust, 2021

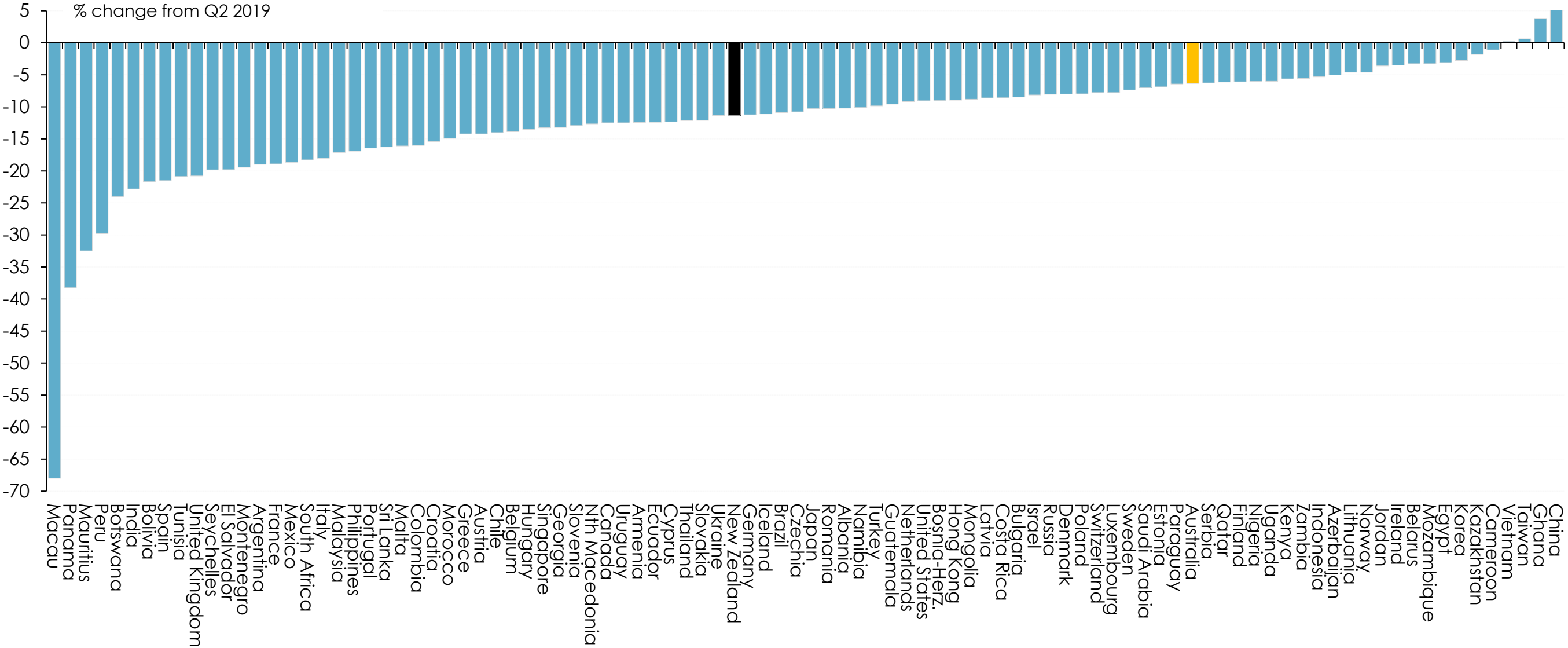


Source: [Edelman Trust Barometer](#), February 2021

**The world**

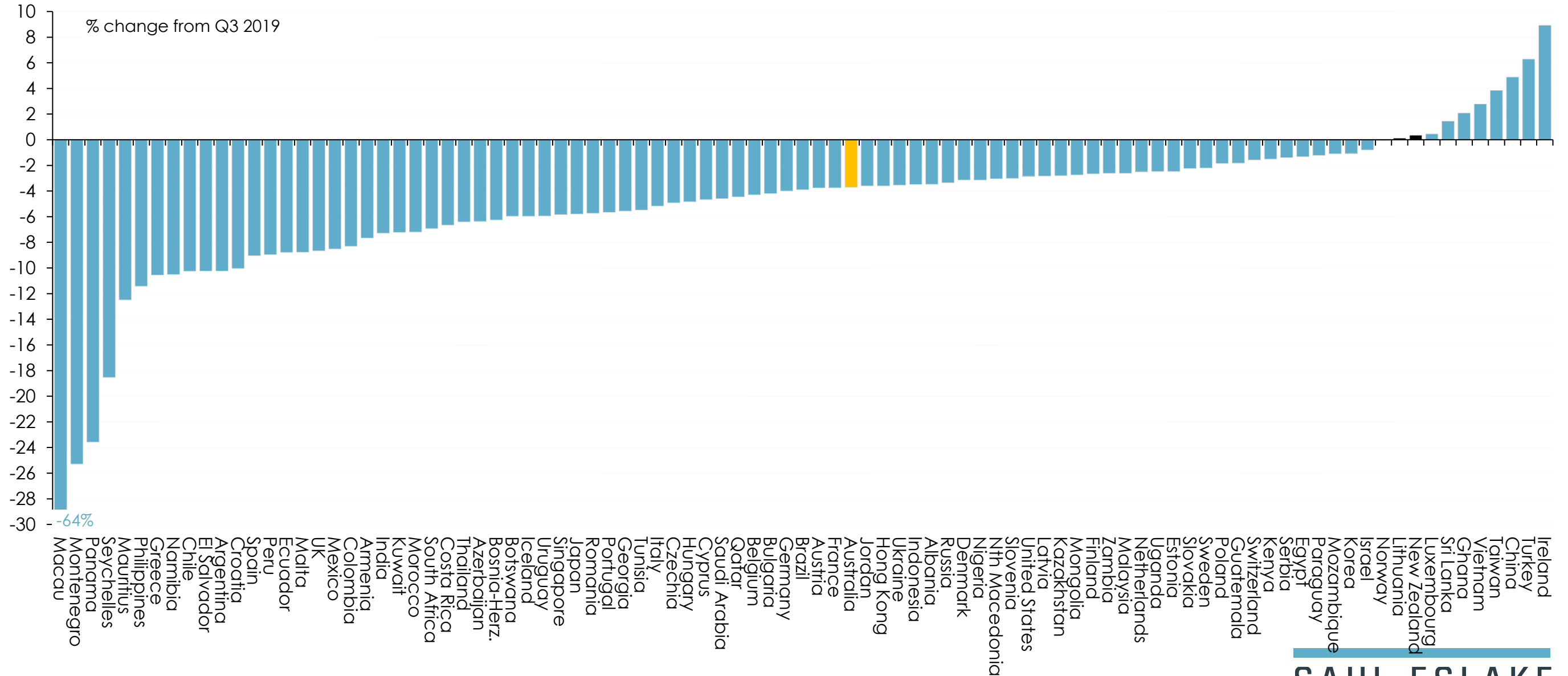
# Only 4 out of 96 countries reported positive GDP growth over the year to Q2, with 10 reporting contractions of more than 20% and 42 of 10-20%

## Real GDP growth over the year to Q2 2020



# ... but of 93 countries which have reported Q3 numbers, 9 showed positive growth ...

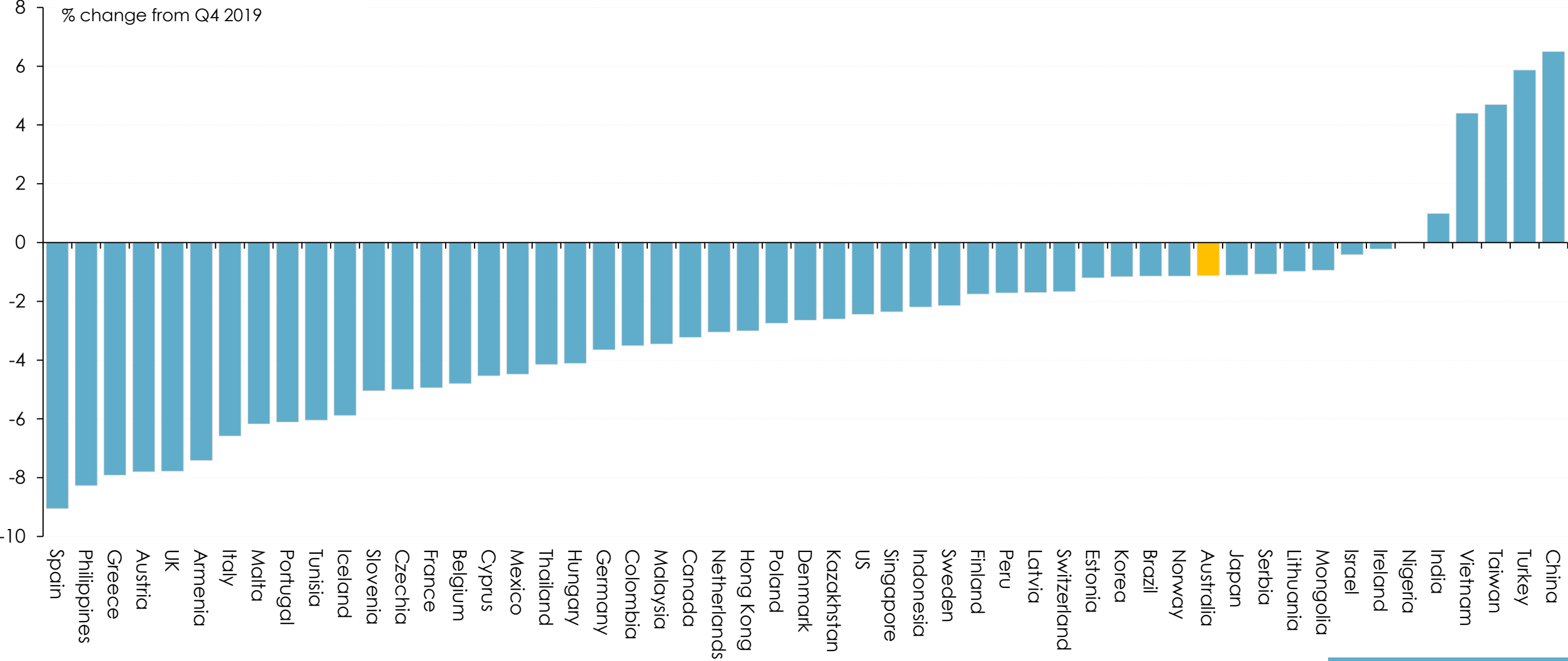
## Real GDP growth over the year to Q3 2020





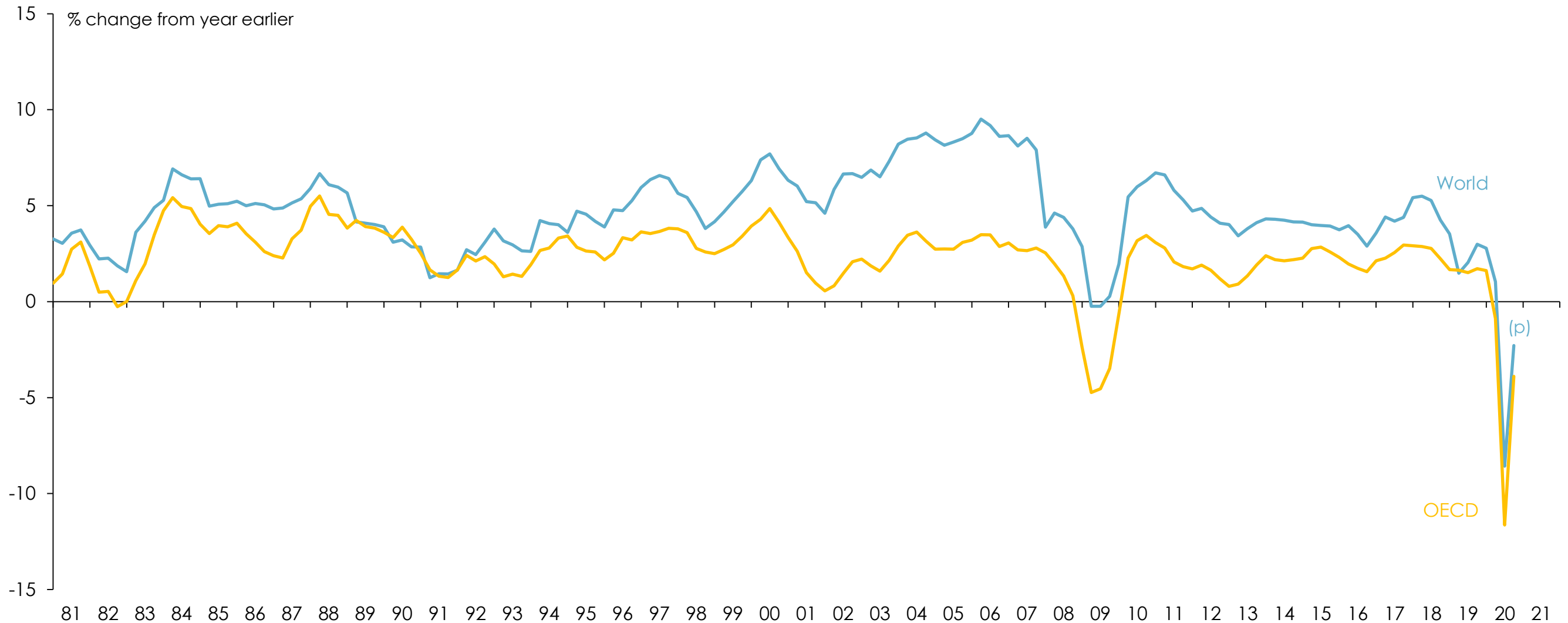
# ... and of the 53 countries which have so far reported Q4 national accounts, six have shown positive growth from Q4 2019, and none less than -10%

Real GDP growth over the year to Q4 2020



# The world economy likely contracted by 2¼% over the year to Q3, a sharp improvement from the 8½% decline over the year to Q2

## World and OECD area real GDP growth



Note: Estimates of global GDP growth compiled by Corinna using data for 100 countries accounting for 94% of 2019 world GDP as measured by the IMF, weighted in accordance with each country's share of global GDP at purchasing power parities in 2019. ; excludes constituents of the former USSR before 1993, the former Czechoslovakia before 1995, and the former Yugoslavia before 1998. (p) Estimate for Q3 is a preliminary estimate based on published results for the 92 countries shown in the [previous slide](#). Sources: national statistical agencies and central banks; Eurostat; [OECD](#); IMF; Corinna. [Return to "What's New"](#).

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

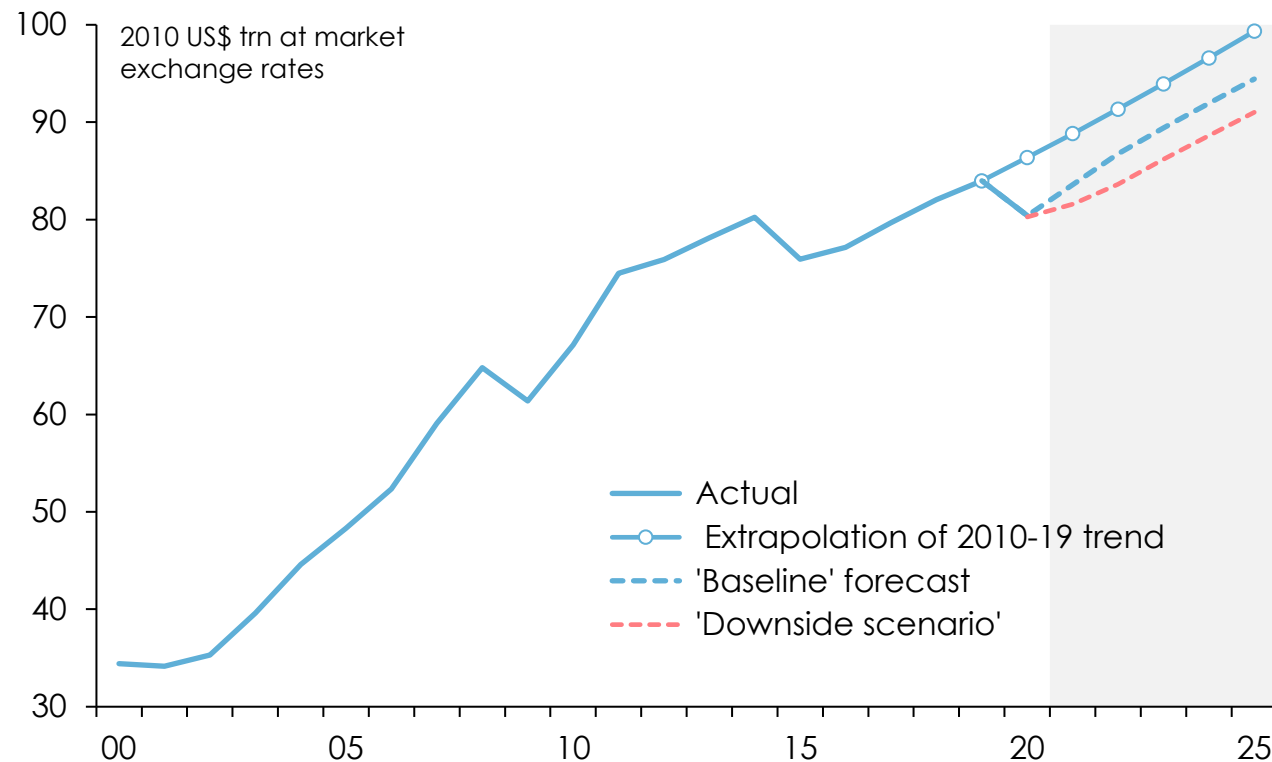
## Major global institutions' growth forecasts for 2020, 2021 and 2022 compared

	<i>Actual</i>	<i>IMF</i>			<i>World Bank</i>			<i>OECD</i>			<i>Australian Treasury</i>		
	2019	2020	2021	2022	2020	2021	2022	2020	2021	2022	2020	2021	2022
US	2.2	-3.4	5.1	2.5	-3.6	3.5	3.5	-3.7	3.2	3.5	-3.8	3.3	3.0
China	6.0	2.3	8.1	5.6	2.0	7.9	5.2	1.8	8.0	5.0	1.8	8.0	5.3
Euro area	1.3	-7.2	4.2	3.6	-7.4	4.5	3.3	-7.5	3.6	3.3	-7.5	3.5	3.3
India	4.2	-8.0	11.5	6.8	-9.6	5.4	5.2	-9.9	7.9	4.8	-7.5	9.0	5.5
Japan	0.3	-5.1	3.1	2.4	-5.3	2.5	2.3	-5.3	2.3	1.5	-5.3	2.8	1.8
UK	1.4	-10.0	4.5	5.0	na	na	na	-11.2	4.2	4.1	na	na	na
Australia	1.9	-2.9	3.5	2.9	na	na	na	-3.8	3.2	3.1	0.8*	3.5*	2.5*
New Zealand	2.2	-6.1	4.4		na	na	na	-4.8	2.7	2.6	1.5 <sup>†</sup>	2.6 <sup>†</sup>	3.7 <sup>†</sup>
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 1<sup>st</sup> July (and finishing 30<sup>th</sup> June following year) † Forecasts by New Zealand Treasury for fiscal years beginning 1<sup>st</sup> July  
Sources : International Monetary Fund (IMF), [World Economic Outlook Update](#), 26<sup>th</sup> January 2021; The World Bank, [Global Economic Prospects](#), 6<sup>th</sup> January 2021; Organization for Economic Co-operation & Development (OECD), [Economic Outlook - December 2020](#), 1<sup>st</sup> December 2020; Australian Treasury, [2020-21 Mid-Year Economic and Fiscal Outlook](#), 17<sup>th</sup> December 2020; New Zealand Treasury, [Half Year Economic and Fiscal Update](#), 16<sup>th</sup> December 2020.  
[Return to "What's New"](#).

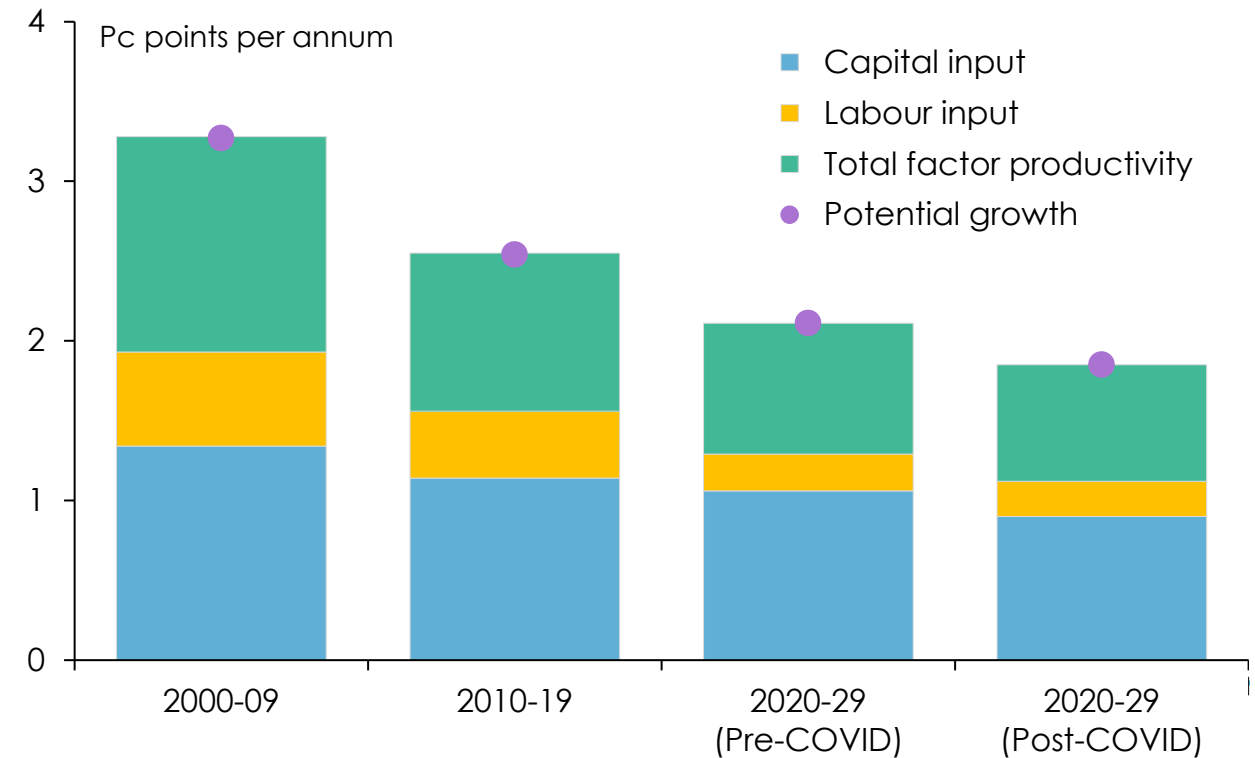
# The World Bank's latest forecasts foreshadow a substantial long-term shortfall in economic activity in the aftermath of Covid-19

## Global output and World Bank forecasts



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

## The slowdown in global potential output growth

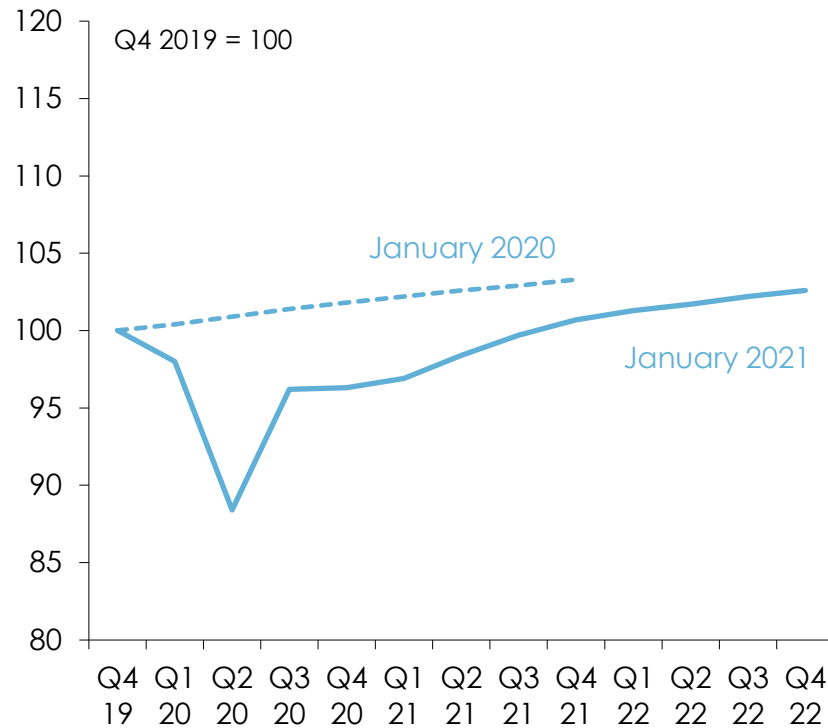


The growth rate of global 'potential output' slowed by 0.7 pc pts pa during the decade following the financial crisis, with all three 'drivers' contributing to the decline – the World Bank estimates that potential GDP growth will slow another 0.7 pc pts pa post-Covid with larger contributions from lower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

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

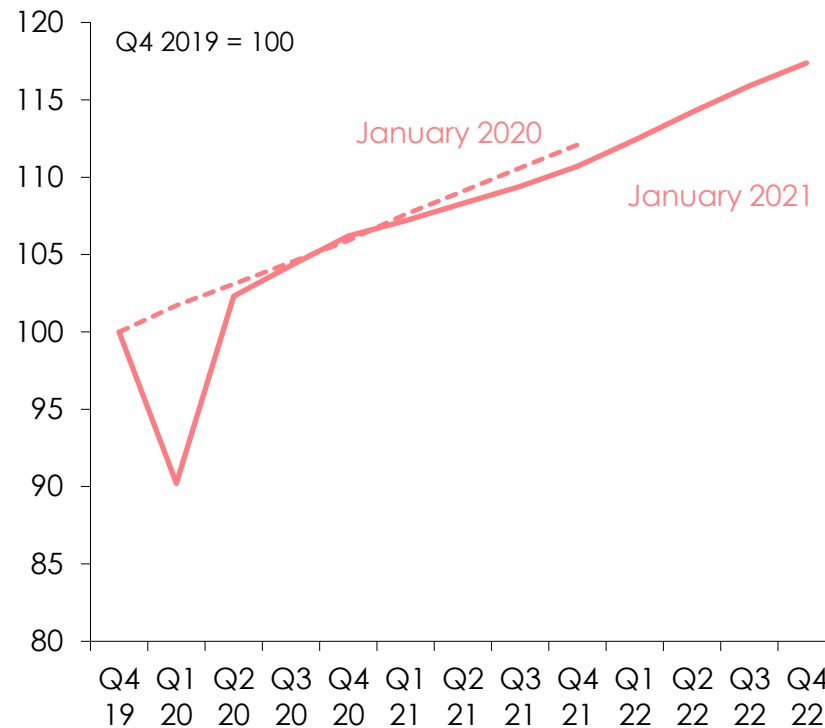
## IMF World Economic Update real GDP forecasts – January 2020 and January 2021

### 'Advanced' economies



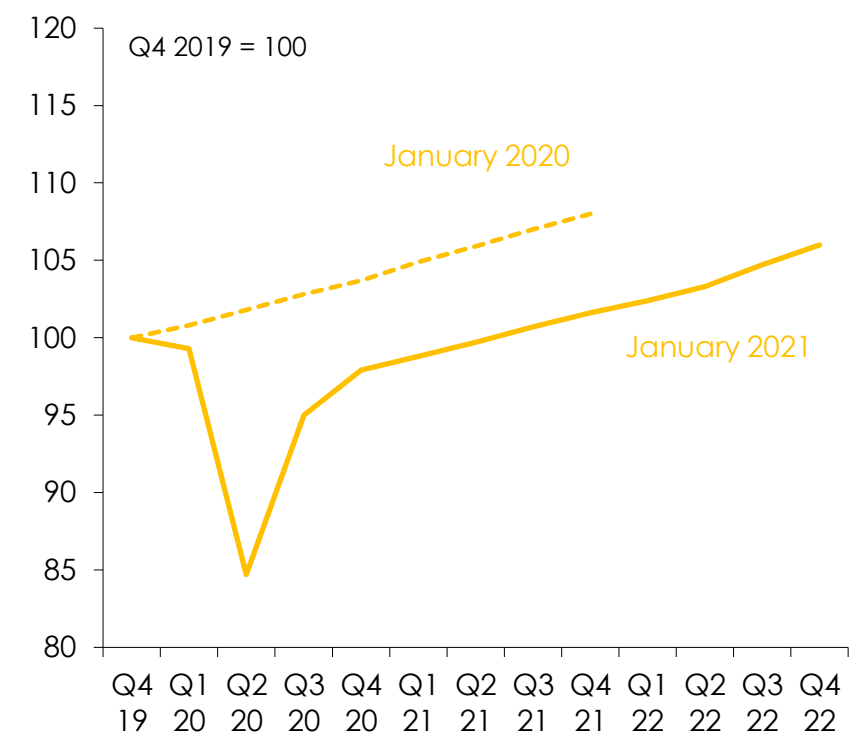
- ❑ GDP fell 11½% during the recession, won't regain its pre-recession level until Q4 21, and by Q4 22 will still be ¾% below where last January it had been expected to be in Q4 21

### China



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

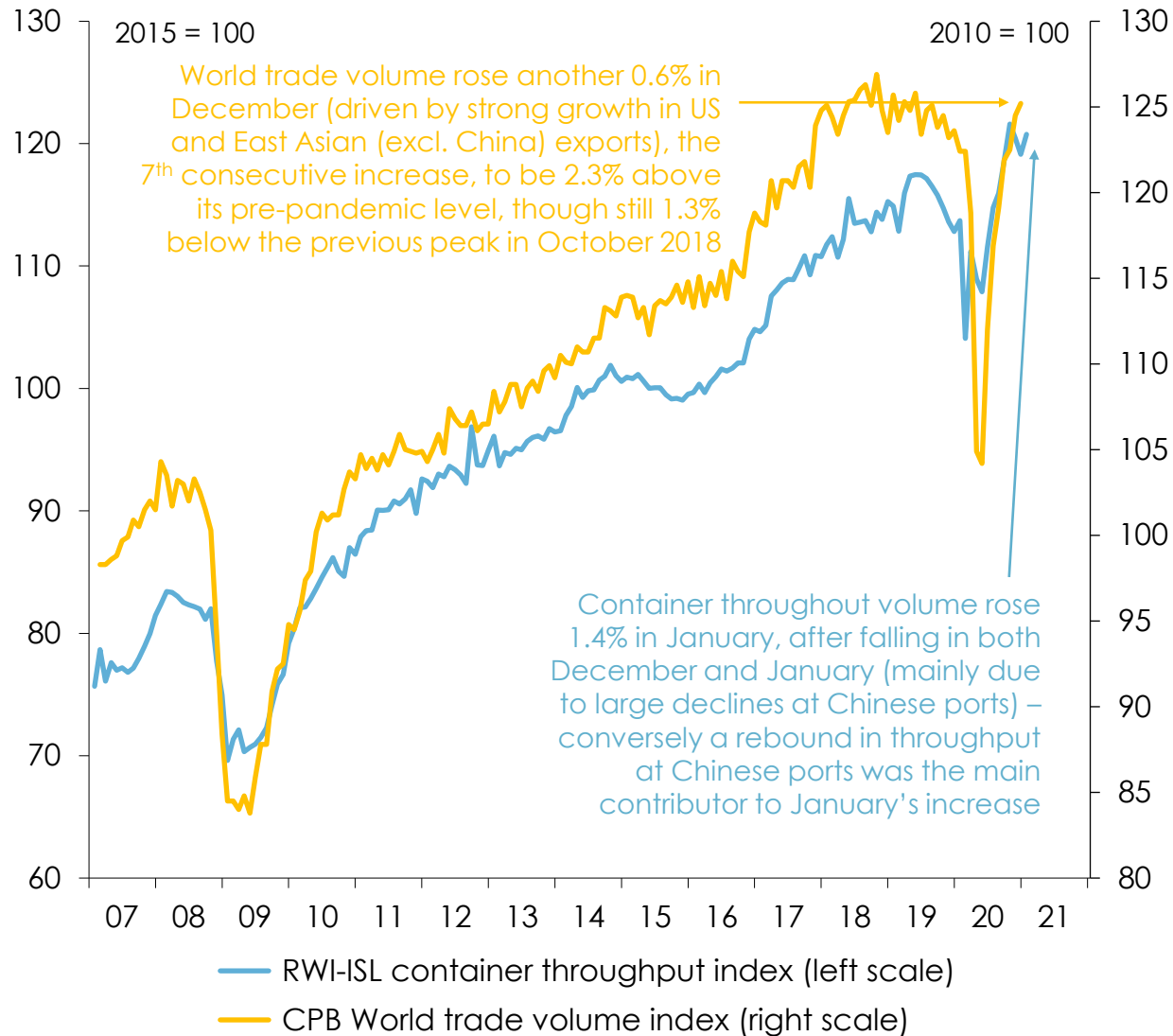
### Other 'developing' economies



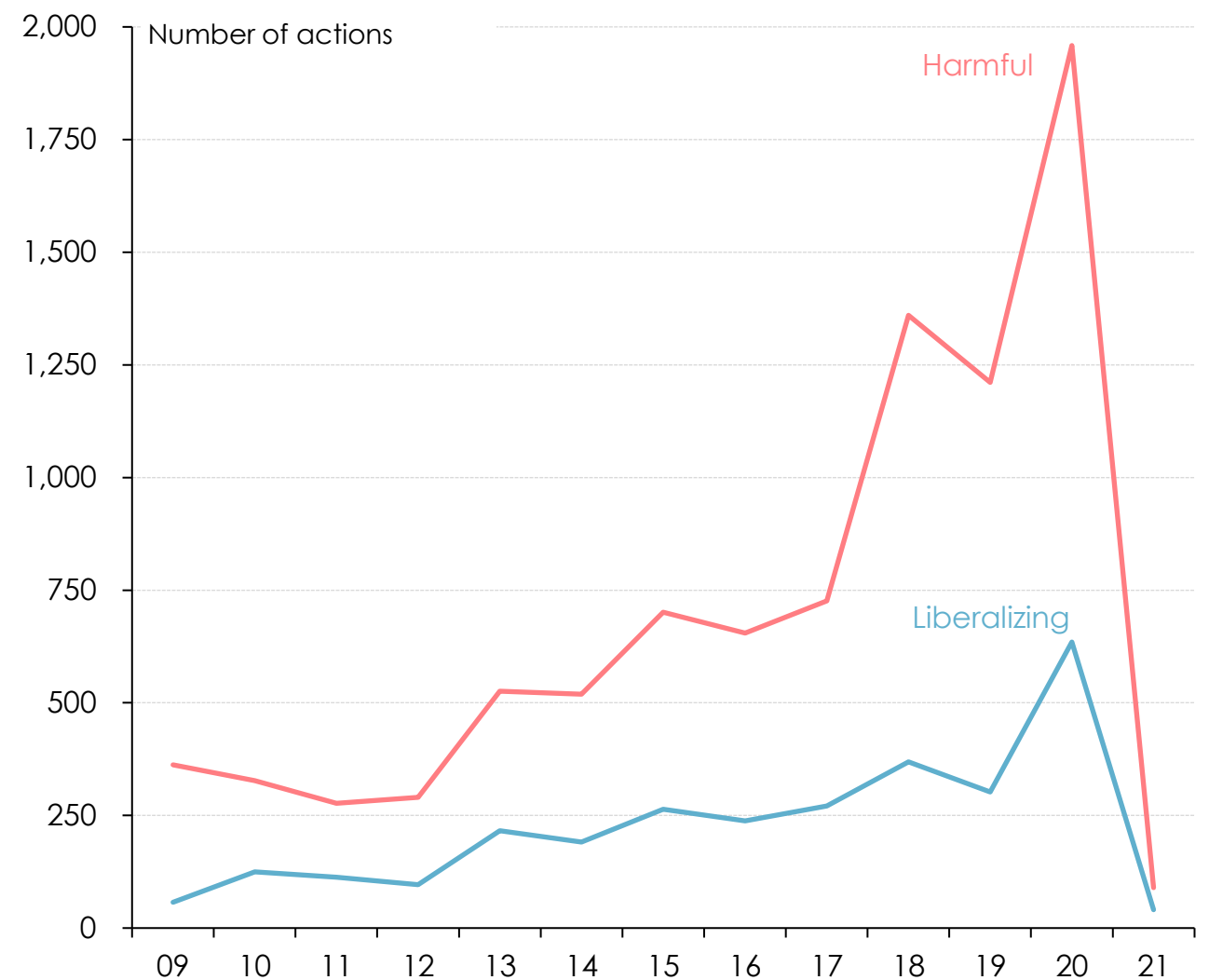
- ❑ GDP fell 15¼% during the recession, won't regain its pre-recession level until Q3 21, and by Q4 22 will still be 2% below where last January it had been expected to be in Q4 21

# World merchandise trade volumes rose 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



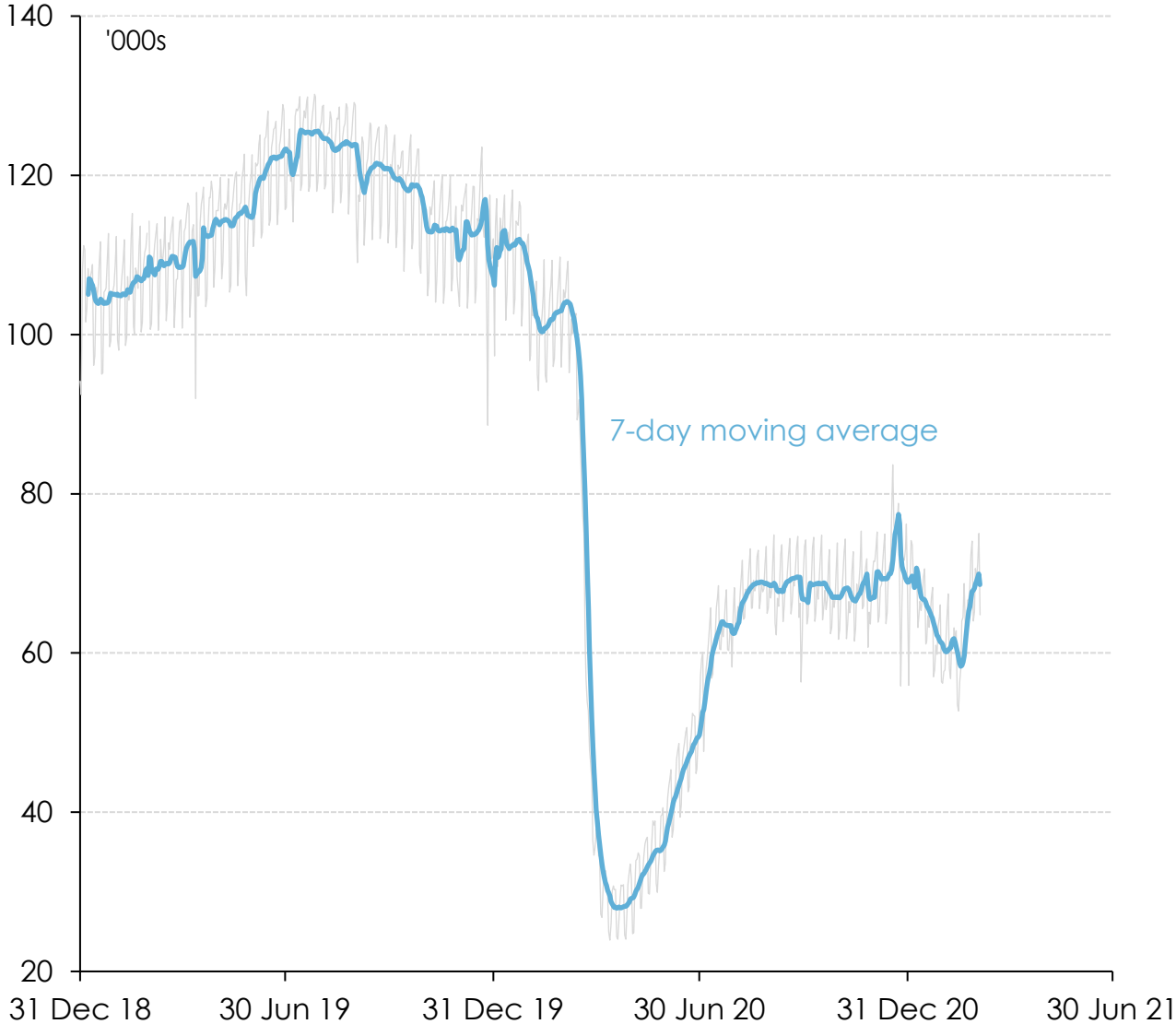
## Pro- and anti-trade government policy actions



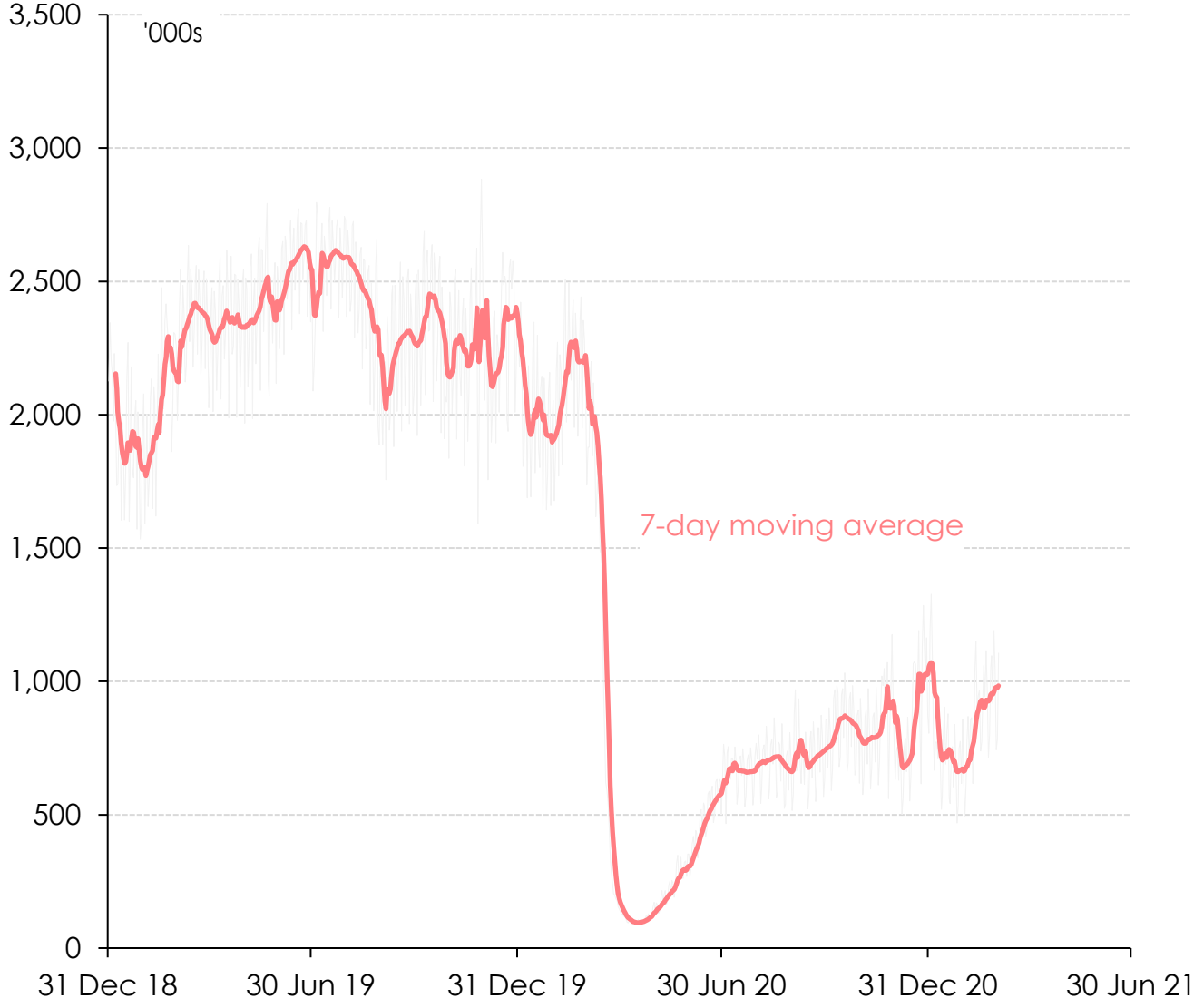
Note: The shipping container throughput index is based on reports from 91 ports around the world handling over 60% of global container shipping.  
Sources: CPB Netherlands Economic Planning Bureau, [World Trade Monitor](#) (January data to be released on 25<sup>th</sup> March); Institute of Shipping 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 26<sup>th</sup> February). [Return to "What's New"](#).

# 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

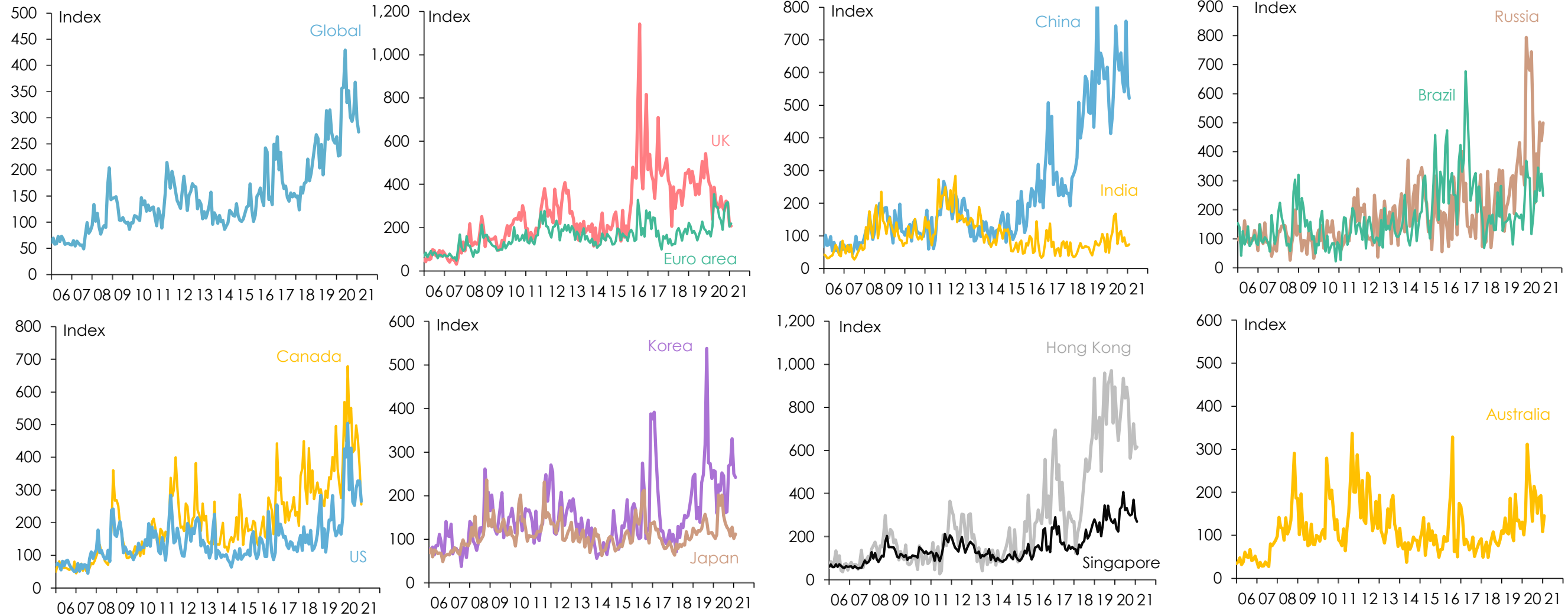


Note: Commercial flights include commercial passenger flights, cargo flights, charter flights, and some business jet flights. Data up to 5<sup>th</sup> March for commercial flights and 4<sup>th</sup> March for TSA checks. Thicker coloured lines are 7-day centred moving averages of daily data plotted in thin grey lines.

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

# Economic policy uncertainty declined in most parts of the world in January except for the euro area, Japan, India and Australia

## Economic policy uncertainty indices

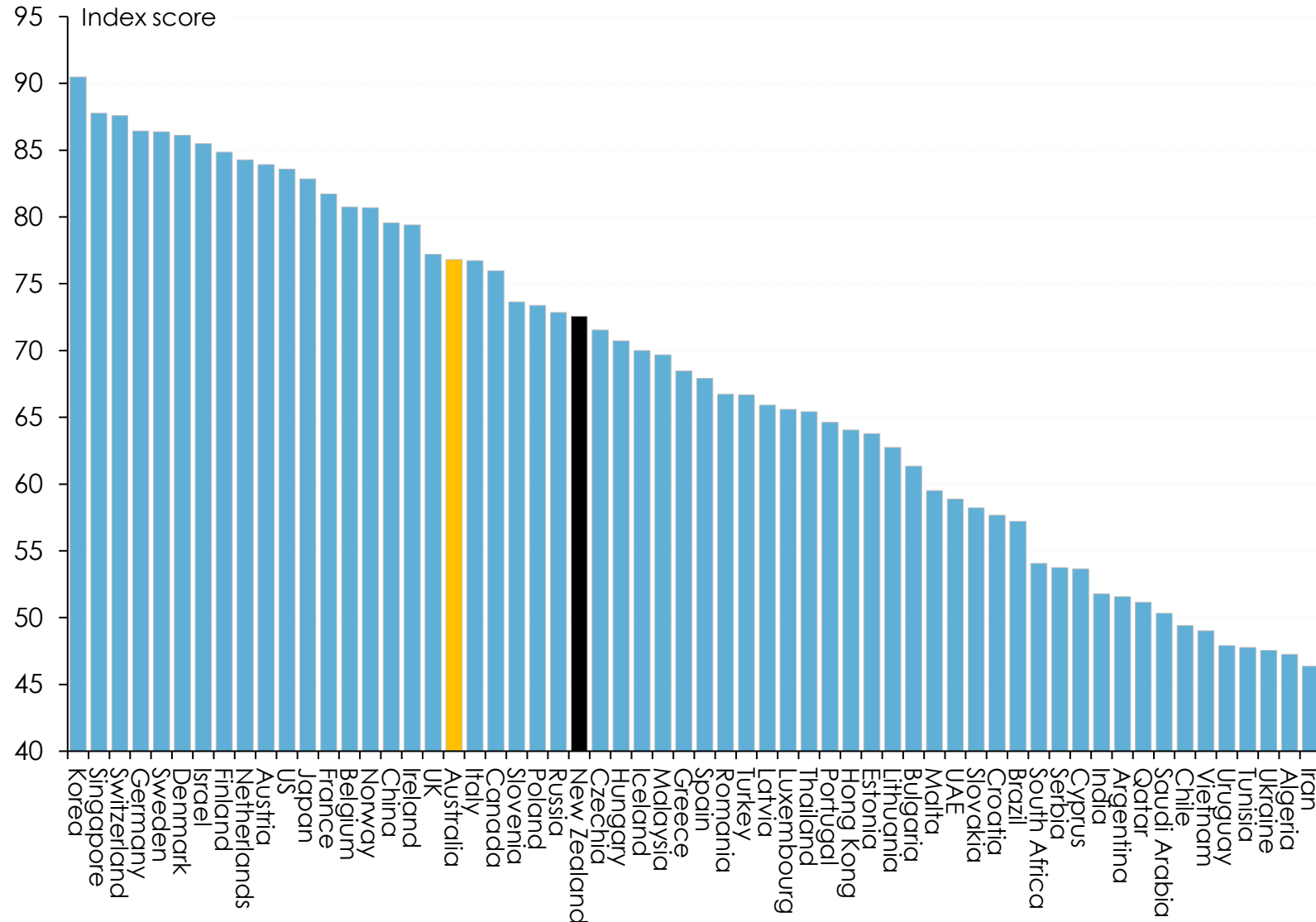


Note: The Economic Policy Uncertainty Index is derived from a count of newspaper articles containing the words "uncertain" or "uncertainty", "economy" or "economic", and policy-relevant terms pertaining to regulation, monetary or fiscal policy, central bank, taxation, tariffs, deficit, budget, etc. The 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 January 2021.  
 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 19<sup>th</sup> and New Zealand 25<sup>th</sup>

## Bloomberg Innovation Index 2021

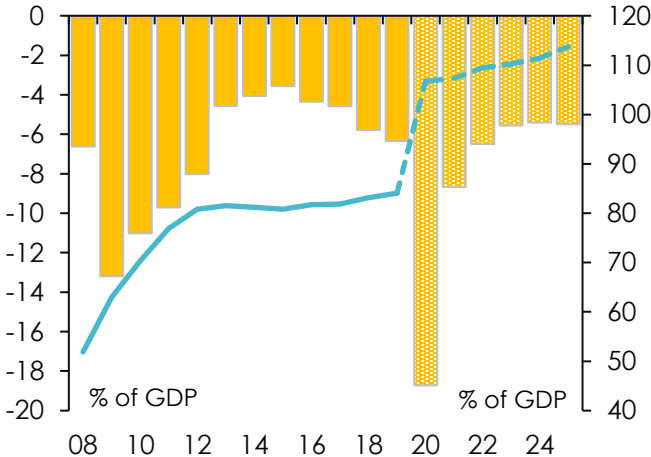


- ❑ Australia ranked 19<sup>th</sup> (up one place) and New Zealand 25<sup>th</sup> (up four places) on Bloomberg's 'innovation index' for 2021
- ❑ Australia ranked 7<sup>th</sup> for patent activity, 8<sup>th</sup> (surprisingly) for productivity, and 10<sup>th</sup> for 'efficiency' of its tertiary education sector ...
- ❑ ... but only 20<sup>th</sup> for R&D intensity, 31<sup>st</sup> for 'researcher concentration' and 55<sup>th</sup> 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 15<sup>th</sup> for 'researcher concentration', but nothing else in the top 20, ranking 41<sup>st</sup> for manufacturing value added (higher than Australia) but only 29<sup>th</sup> for productivity and 40<sup>th</sup> for 'tertiary efficiency'
- ❑ Interestingly topped-rank Korea was only 36<sup>th</sup> for productivity – while US though 1<sup>st</sup> for 'hi-tech density' ranked only 47<sup>th</sup> for 'tertiary efficiency'

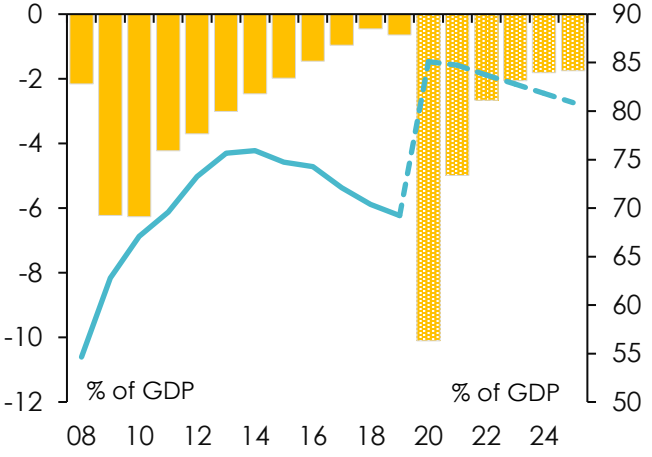
Source: Michelle Jamrisko, Wei Lu, and Alexandre Tanzi, "South Korea Leads World in Innovation as US Exits Top Ten", Bloomberg, 3<sup>rd</sup> February.

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

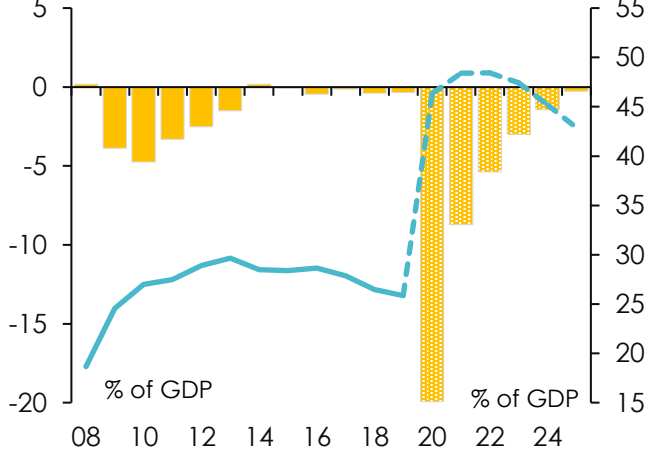
United States



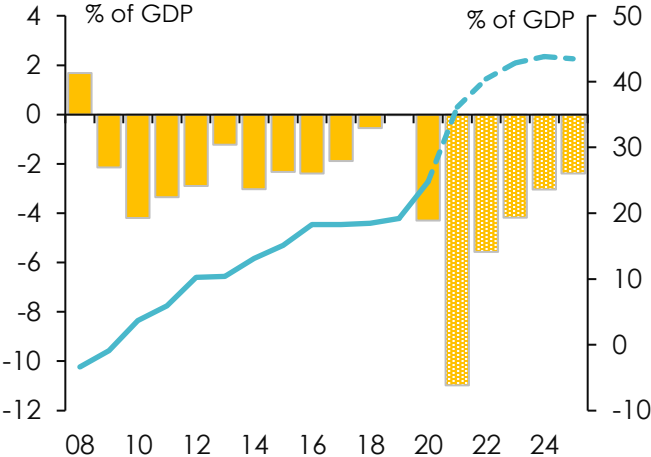
Euro area



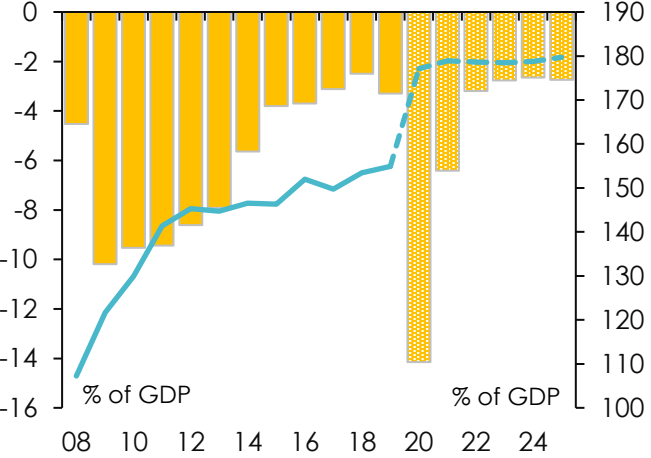
Canada



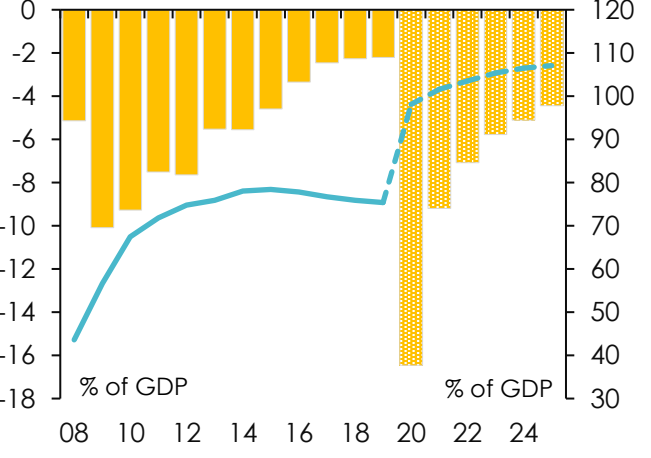
Australia



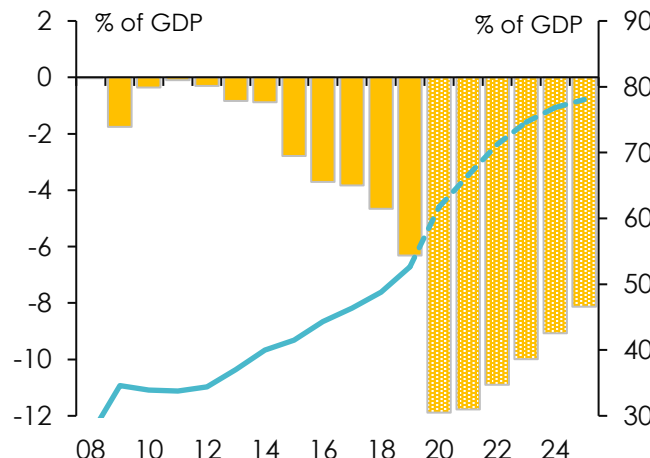
Japan



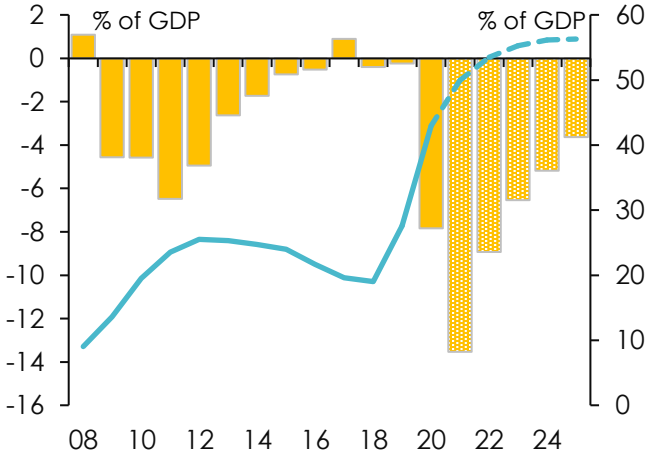
United Kingdom



China



New Zealand

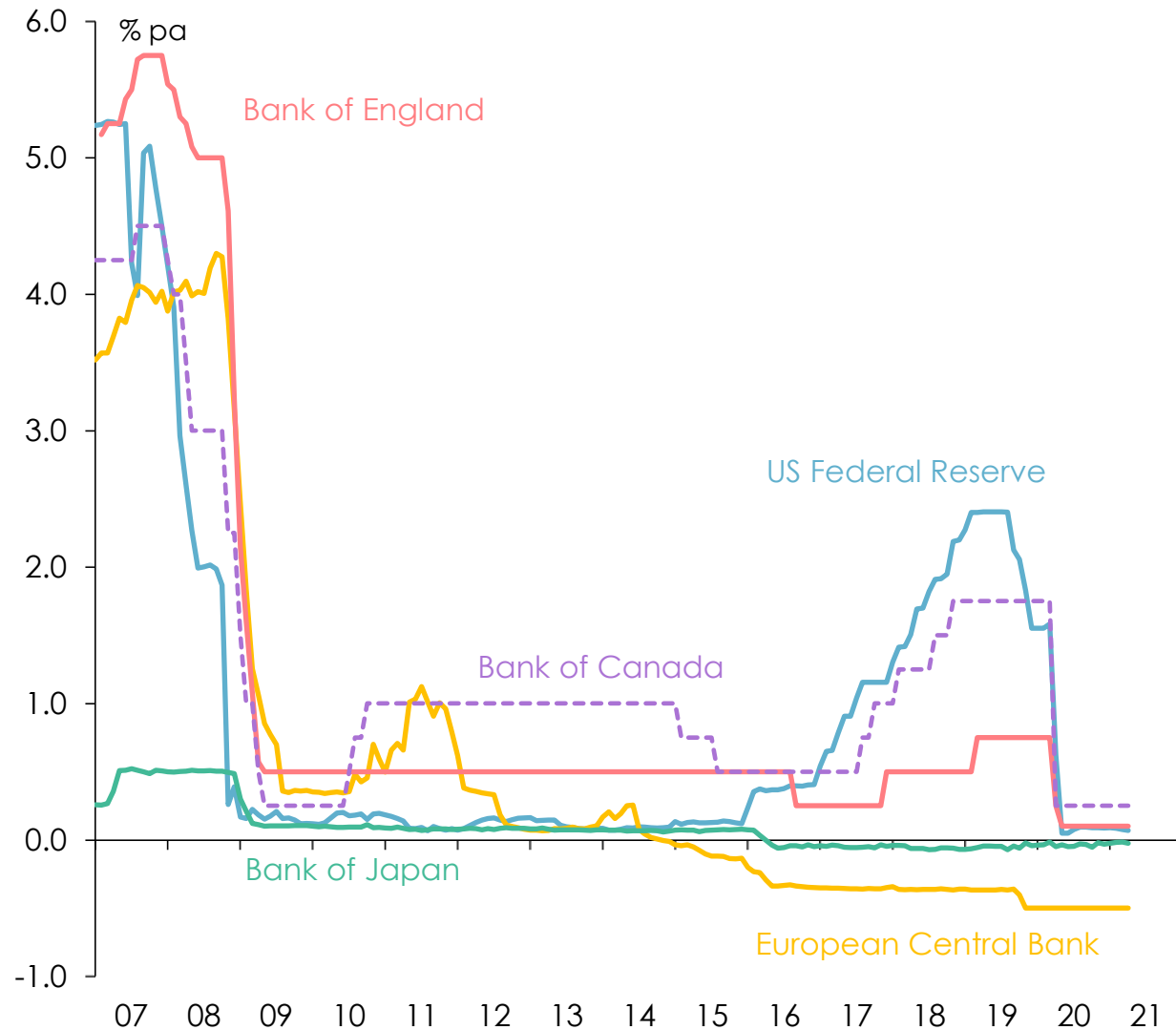


General government overall fiscal balance (left scale)
  General government net debt (right scale)

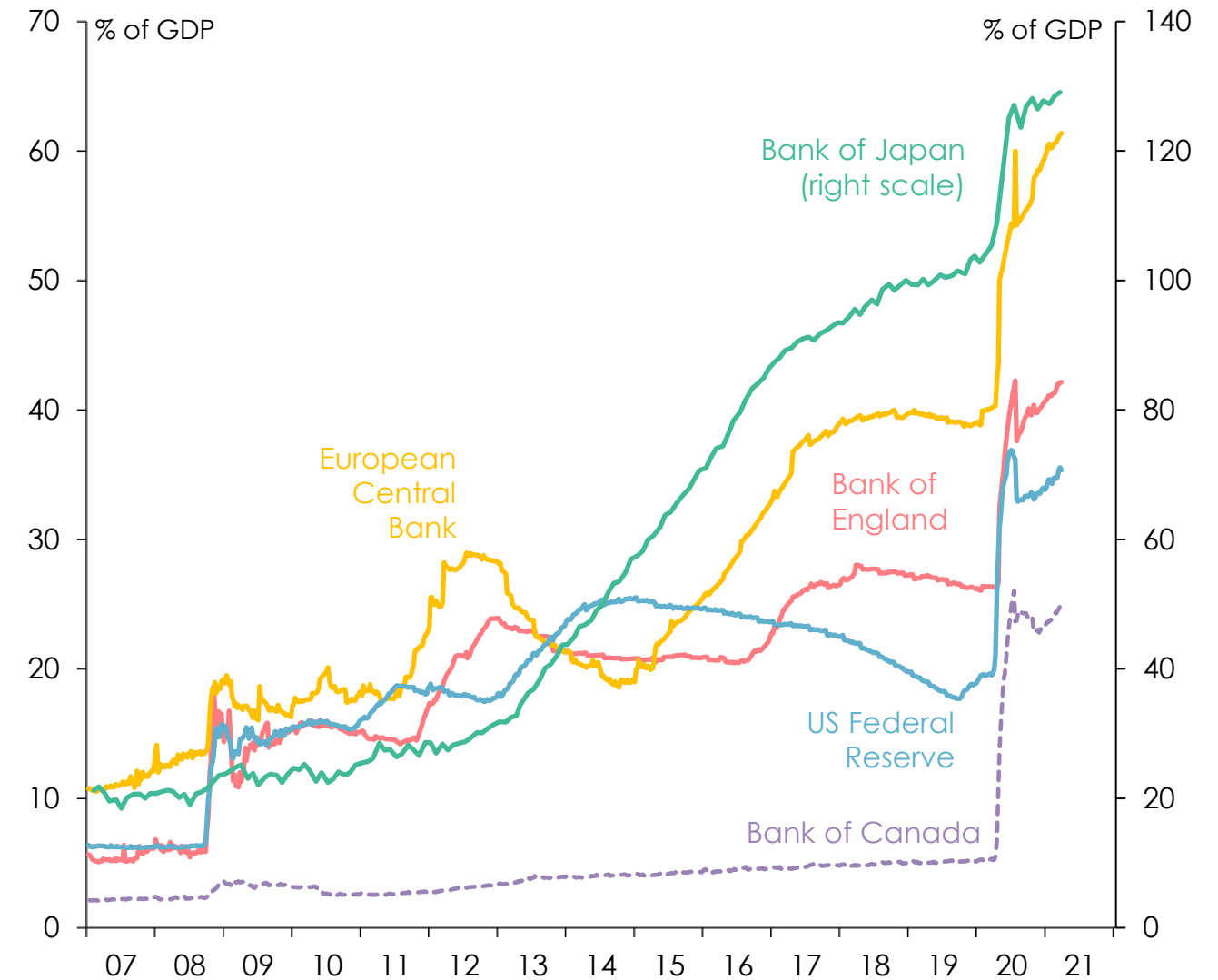
Note: China debt is gross debt, not net; Australian data are for the federal government only and are for fiscal years ended 30<sup>th</sup> June; NZ data are for fiscal years ended 31<sup>st</sup> March. Sources: International Monetary Fund, [Fiscal Monitor](#), and [World Economic Outlook](#), October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

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

## Major central bank policy interest rates



## Major central bank balance sheets



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

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

## ❑ Fed Chair Jay Powell's [semi-annual Congressional testimony](#) last 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

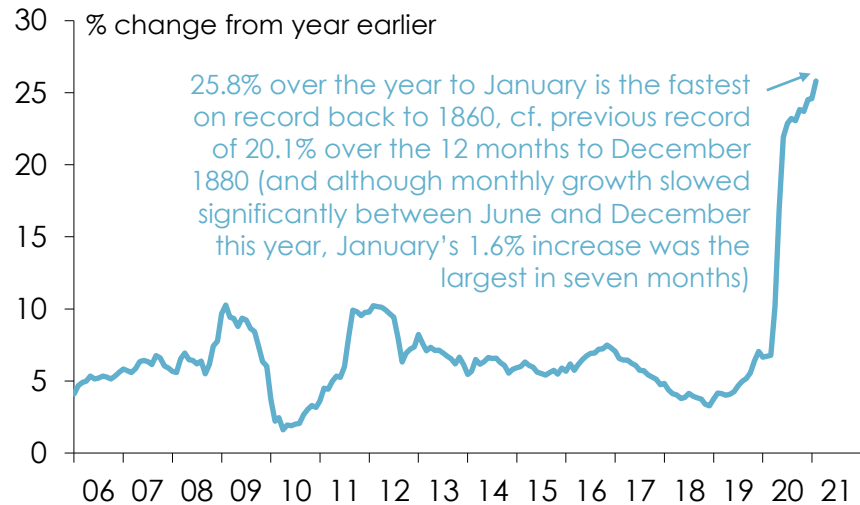
- who fleshed out in considerable detail why the Fed is no longer prepared to tighten monetary policy solely in response to a tighter labour market
- noting that the 'headline' unemployment rate of 6<sup>1</sup>/<sub>4</sub>% conceals “Depression-era rates of unemployment of around 23%” among workers 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)

# 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

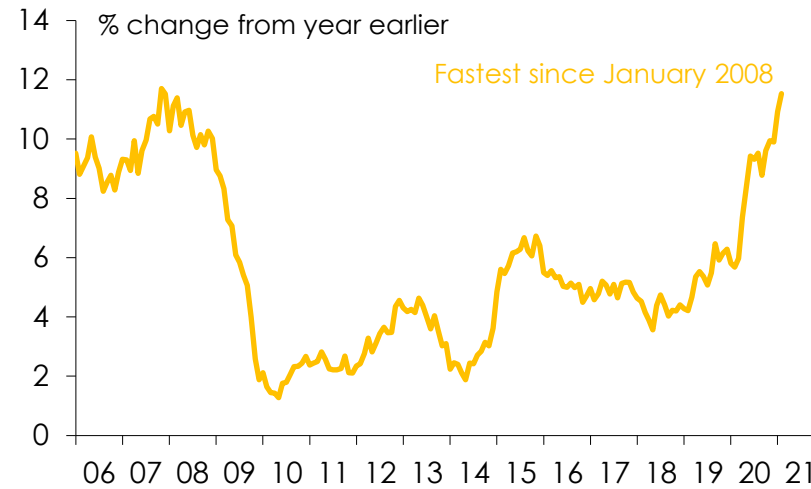
- ❑ **The Bank of Japan held its first monetary policy meeting for 2021 on 21<sup>st</sup> January and it also left all its monetary policy settings unchanged**
  - The BoJ committed to continuing with “Quantitative and Qualitative Monetary Easing (QQE) with Yield Curve Control” until the annual ‘core’ inflation rate (CPI less fresh food) exceeds 2% and “stays above the target in a stable manner”
  - BoJ Governor Haruhiko Kuroda 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 21<sup>st</sup>**
  - 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 last 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

# '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

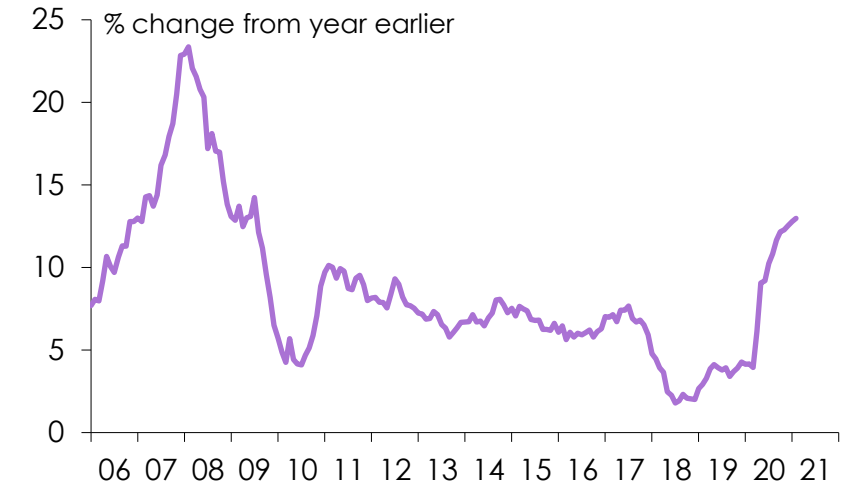
## US M2



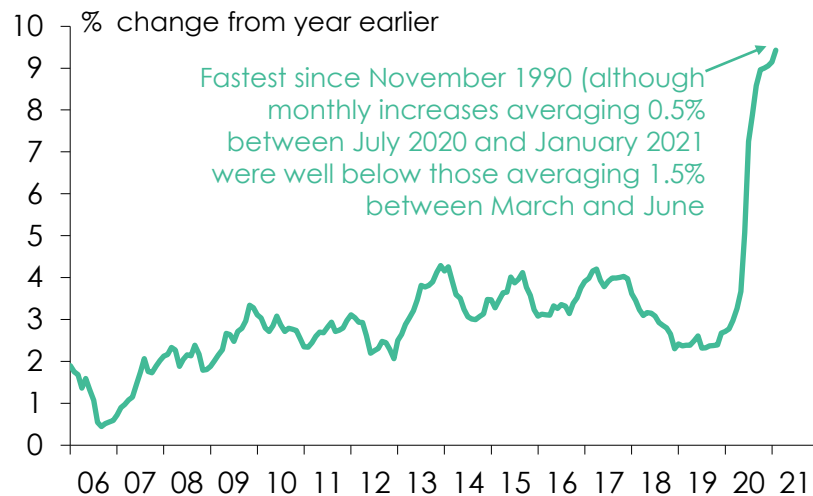
## Euro area M2



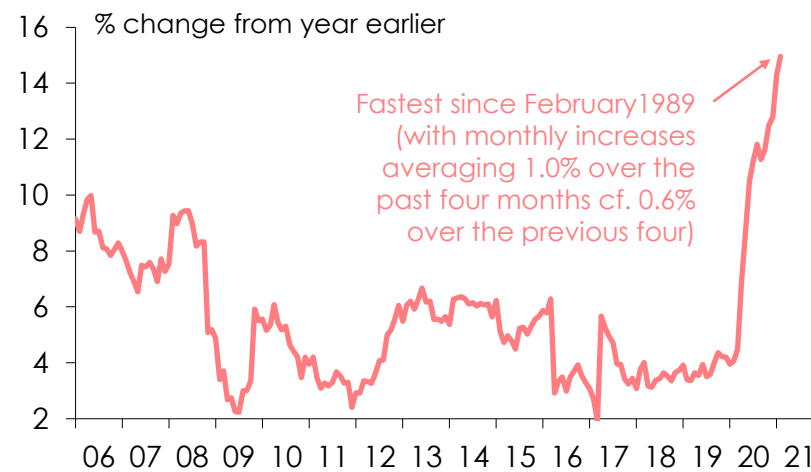
## Australia M3



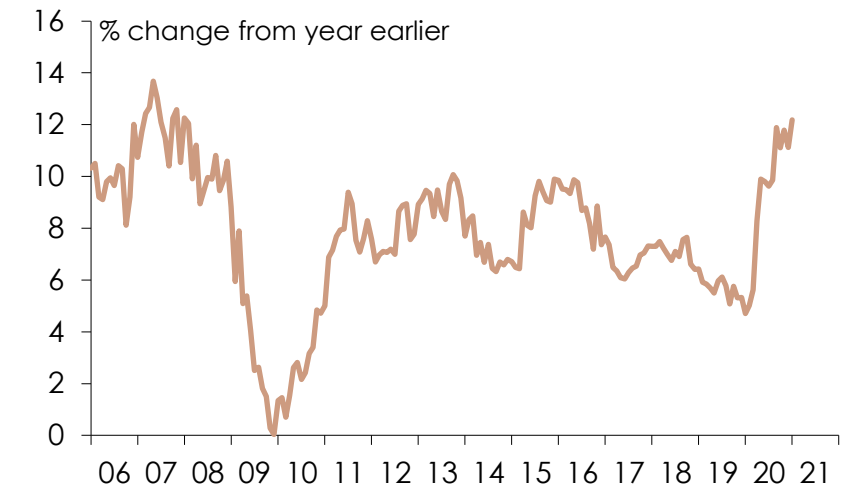
## Japan M2 + CDs



## UK M2

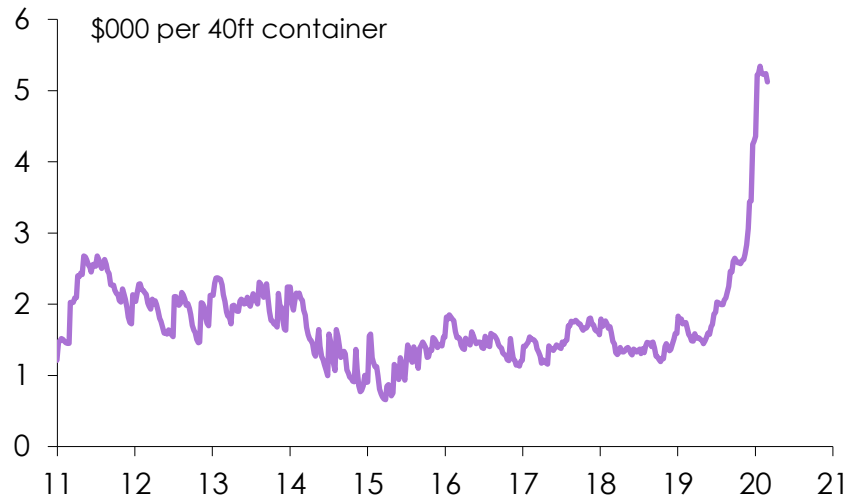


## New Zealand M3

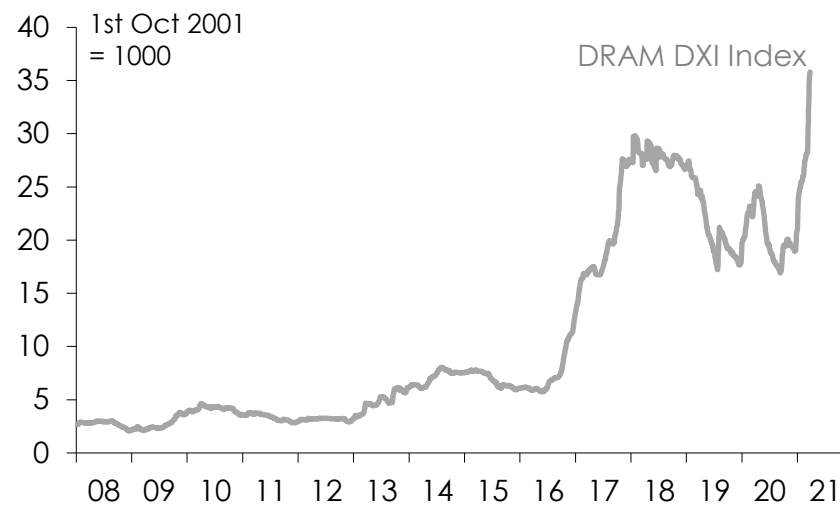


# There are undoubtedly signs of increasing 'upstream' inflationary pressures – in particular in the US – largely a result of supply bottlenecks

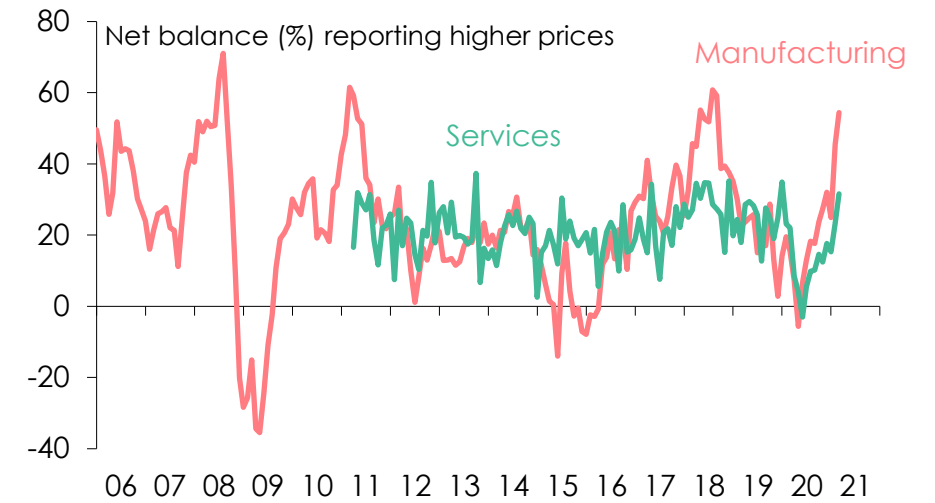
## Container freight costs



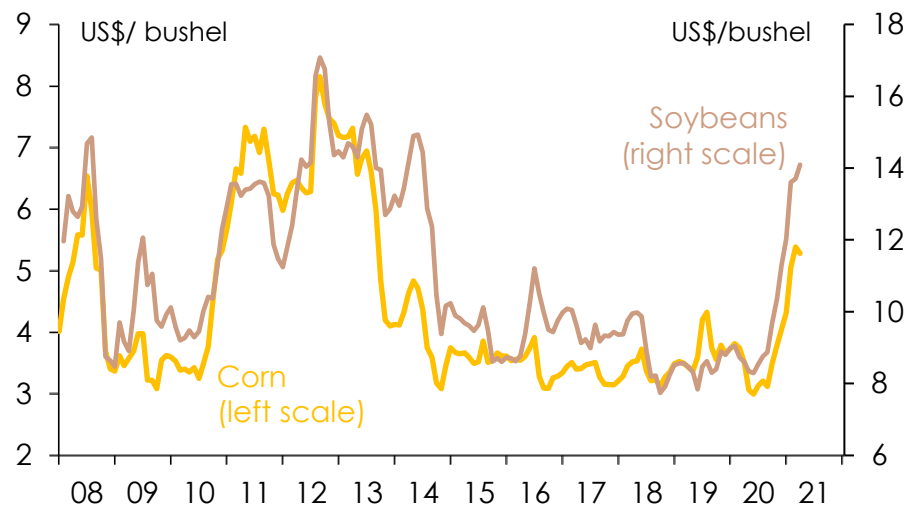
## Semiconductor prices



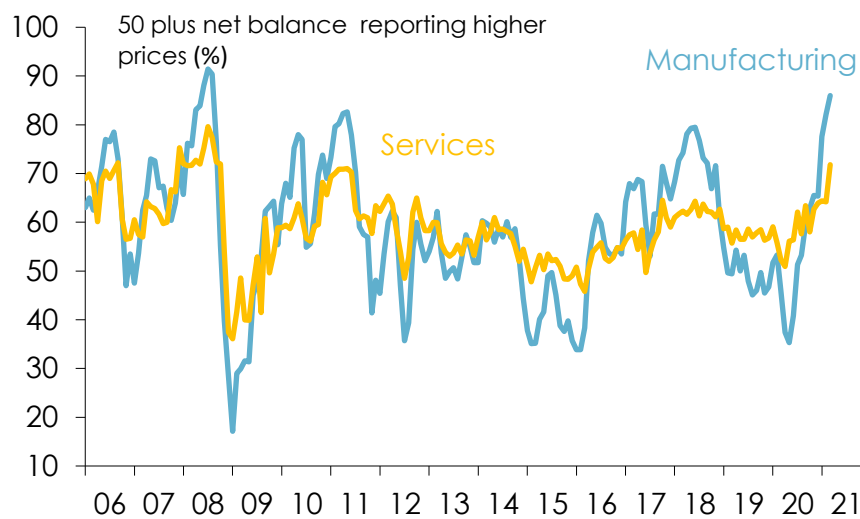
## Philadelphia Fed survey prices paid



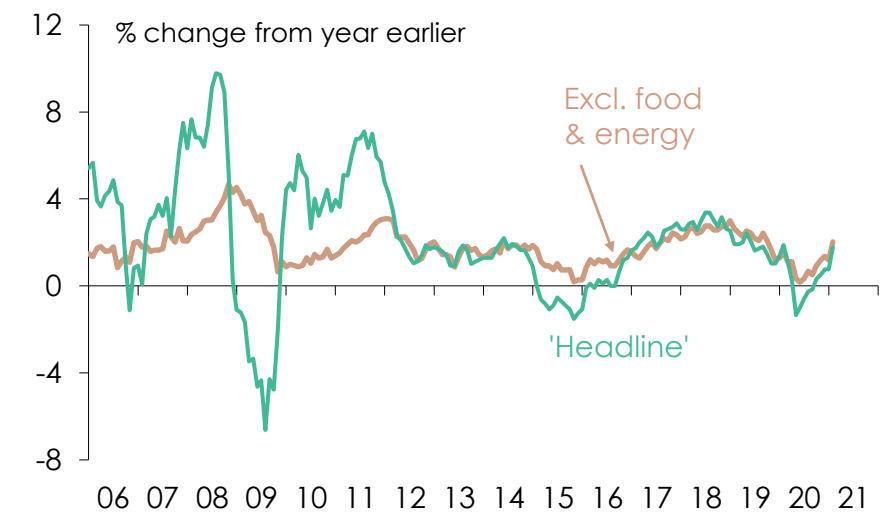
## US corn and soybean prices



## US ISM prices paid

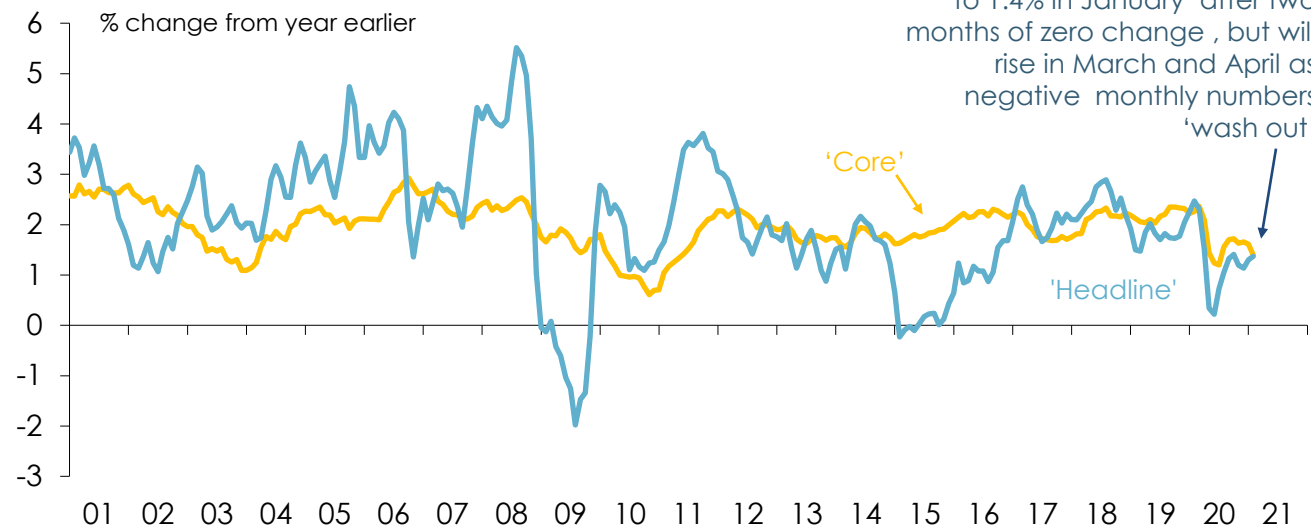


## US producer price index

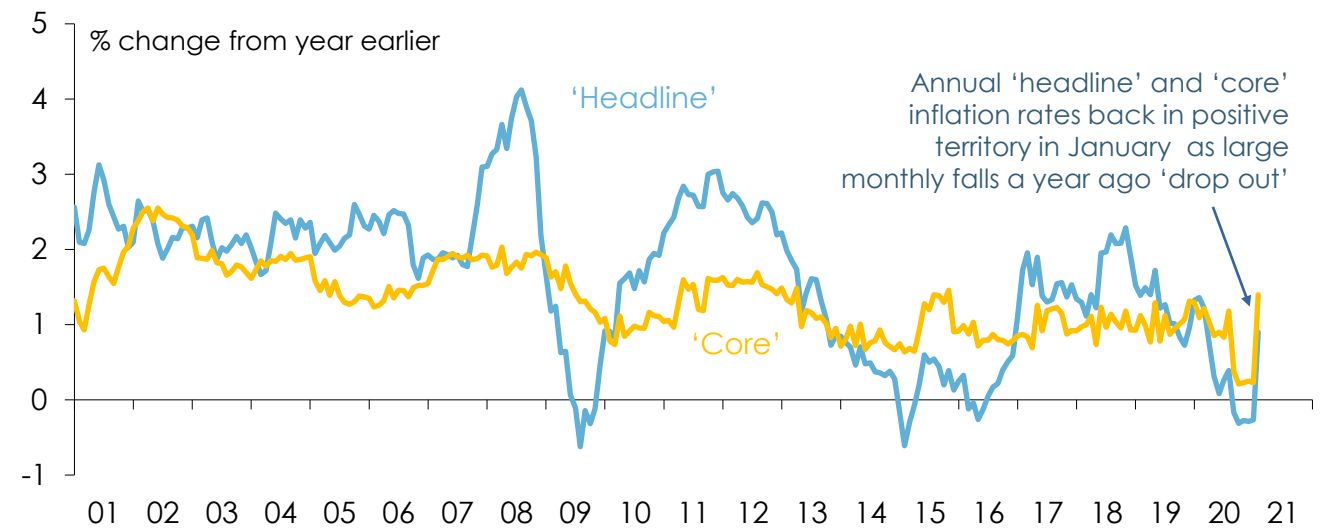


# So far at least, inflation has remained well below central bank targets – and by especially large margins in the euro area and Japan

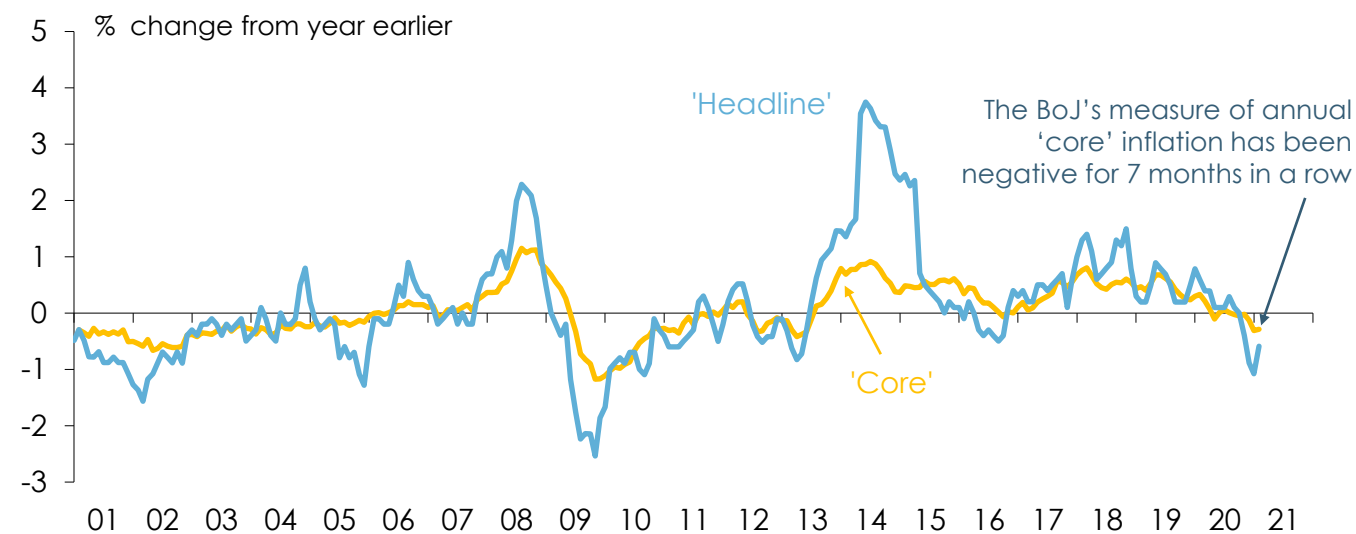
## 'Headline' and 'core' inflation - US



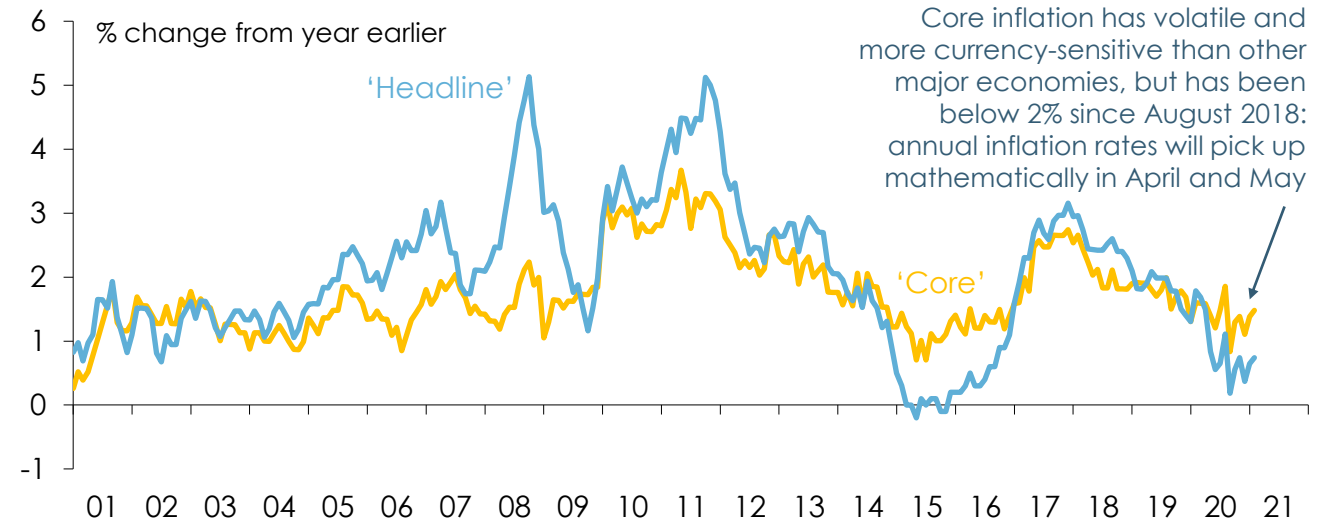
## 'Headline' and 'core' inflation – Euro area



## '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"](#).

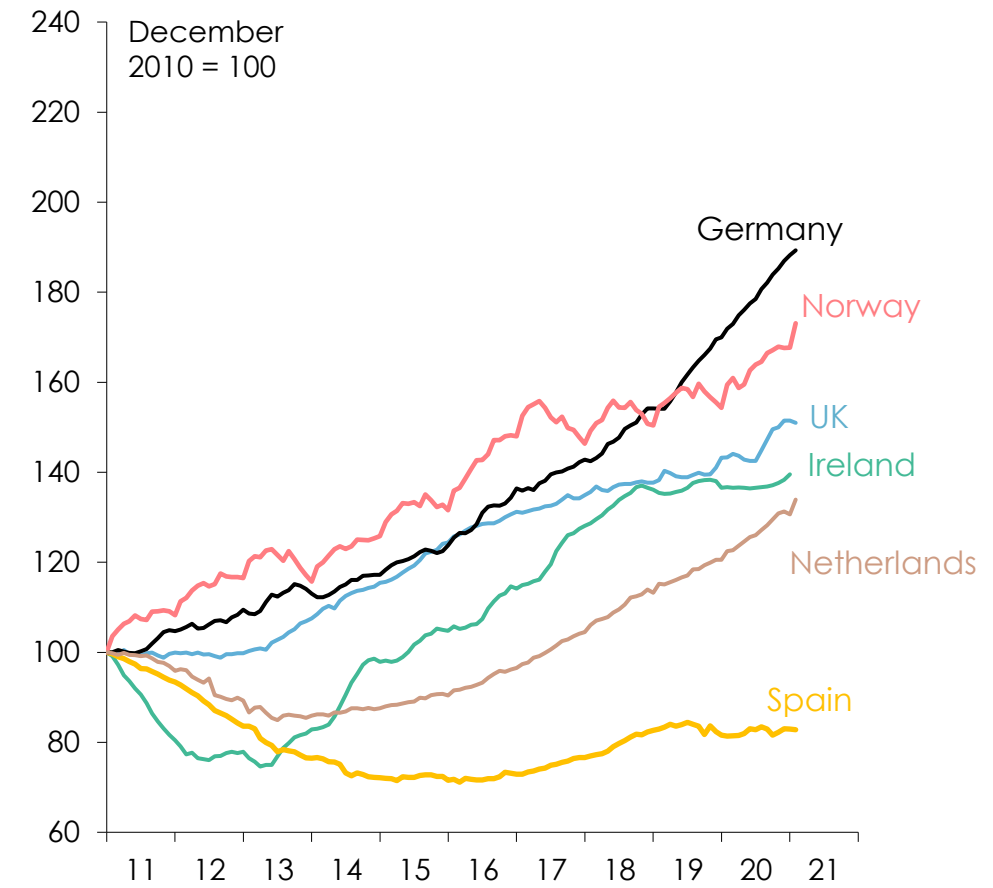
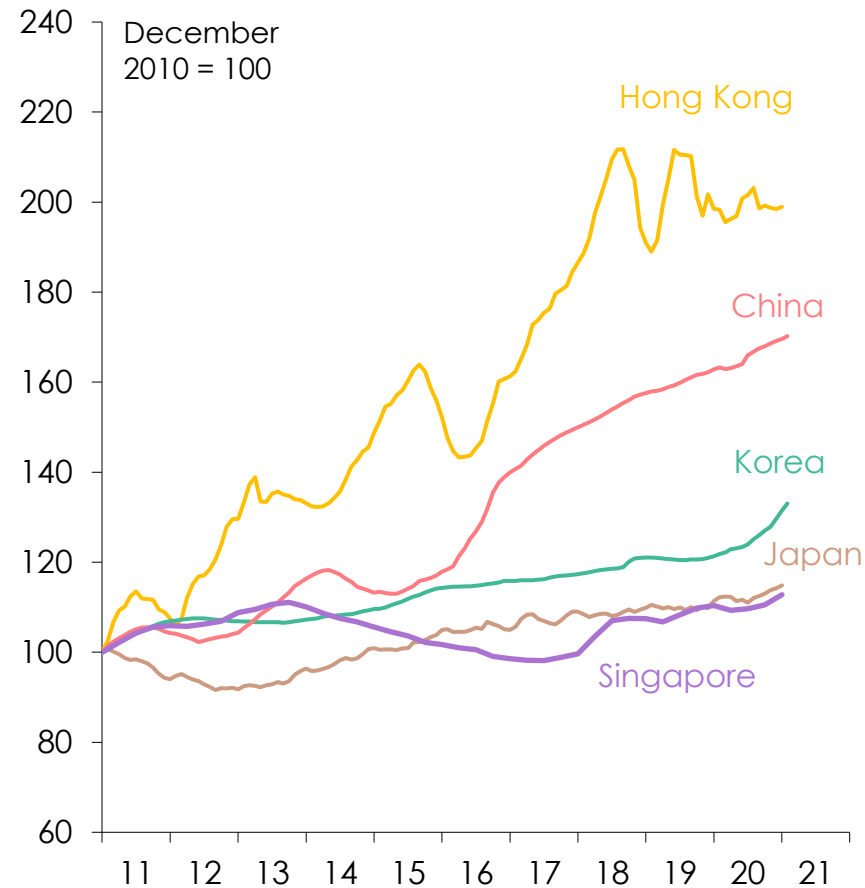
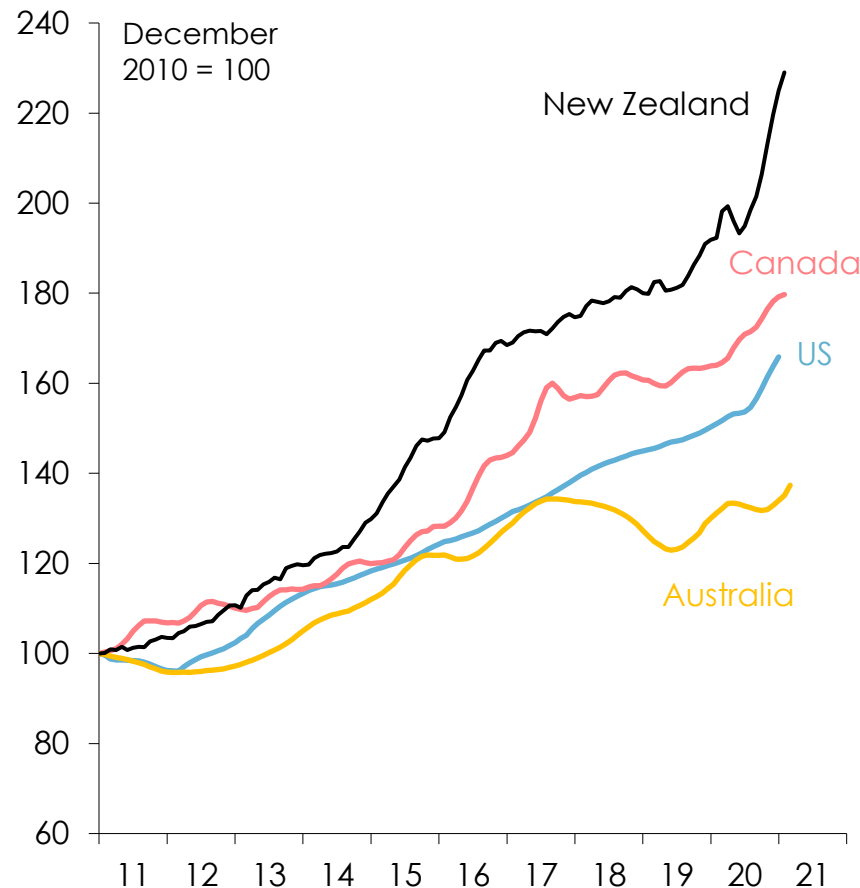


# There's been widespread debate over whether the Biden Administration's US\$1.9trn fiscal package is 'too big'

- ❑ Last 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, remains 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 most recent commentary)
- ❑ 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

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

## House price indices

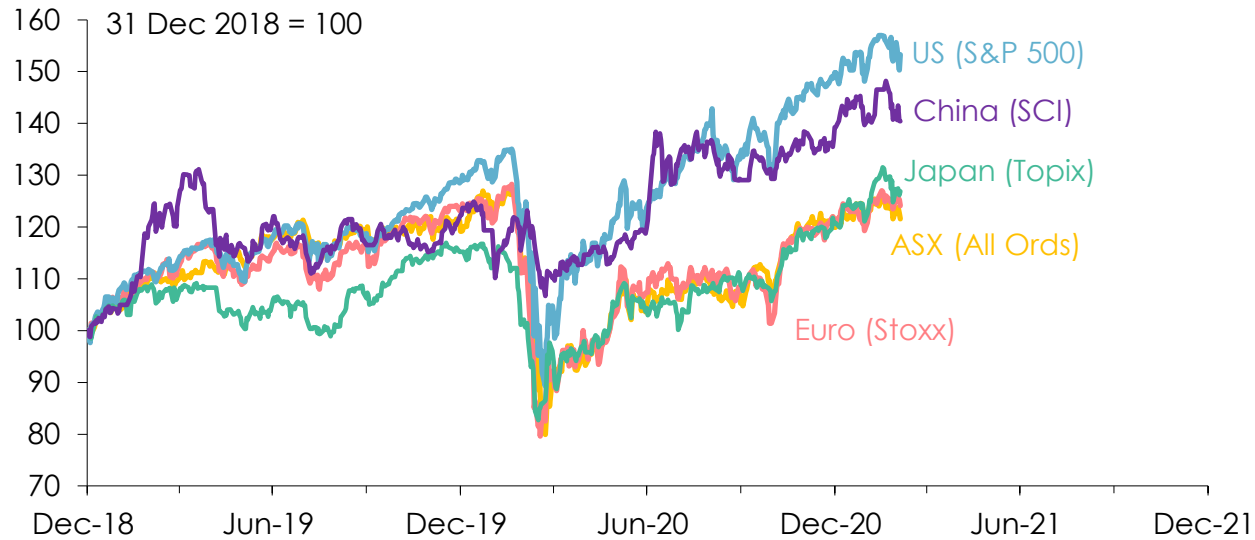


❑ Last month the New Zealand Government amended the RBNZ's 'remit', requiring it to take 'housing price sustainability' into account in its deliberations about both monetary policy and financial stability' (see [slides 147 and 148](#))

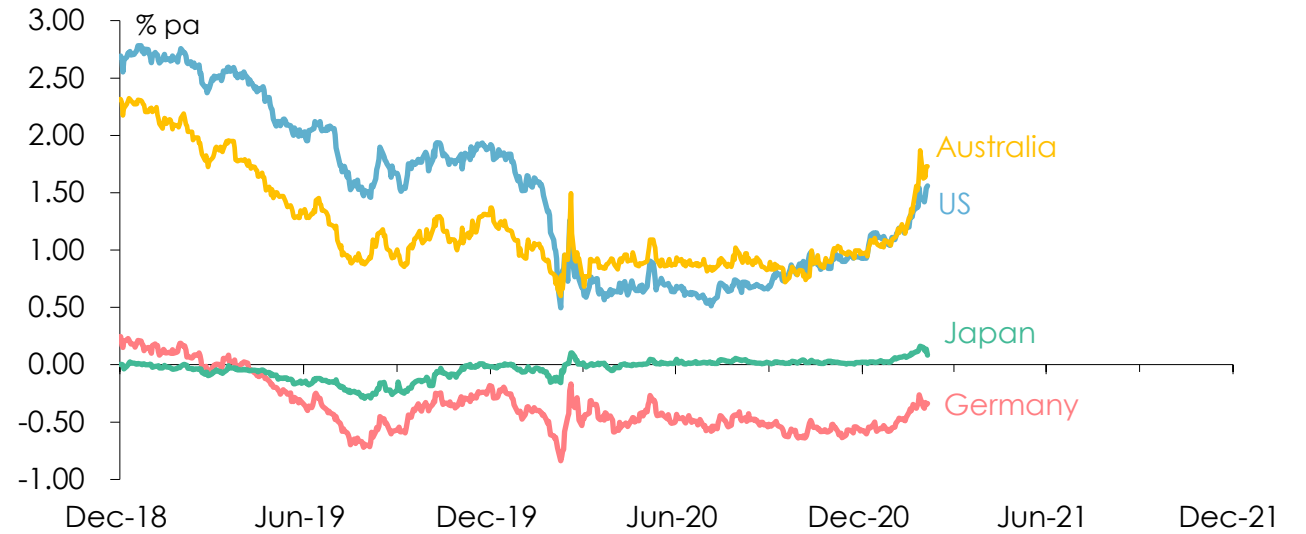
Note: House price indices shown in these charts are those published by [S&P-CoreLogic Case Shiller national](#) (United States); [Teranet-National Bank](#) (Canada); [CoreLogic](#) (Australia); [Real Estate Institute of New Zealand](#); [China Index Academy](#); [Japan Real Estate Institute](#) (Tokyo 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 fell at the beginning of the week but rose again towards the end, despite which stocks (exc tech stocks) rose, and the US\$ strengthened

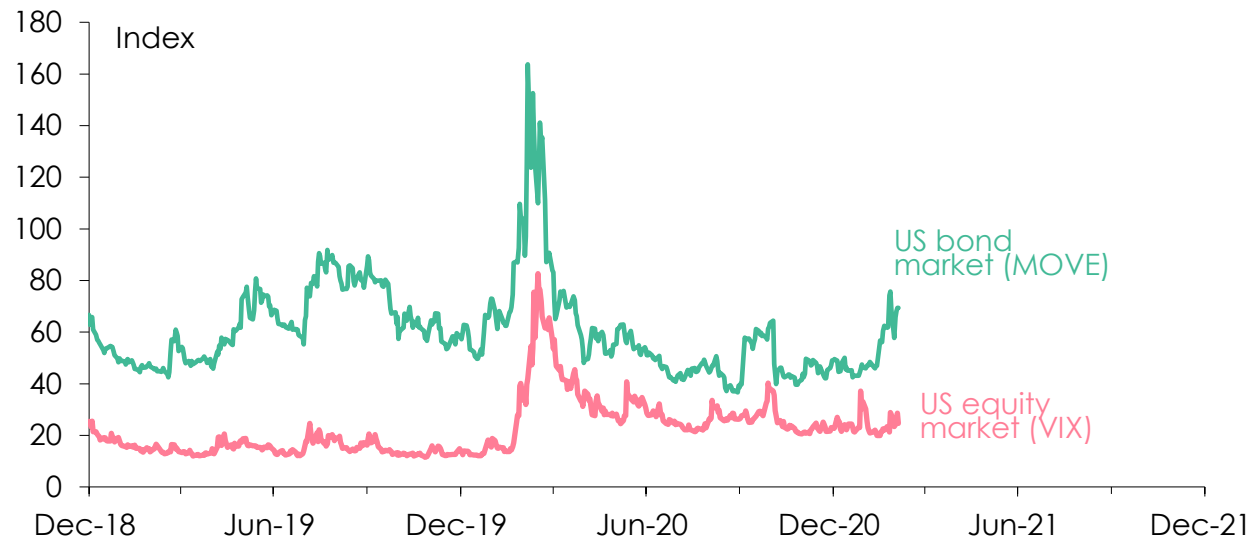
## Stock markets



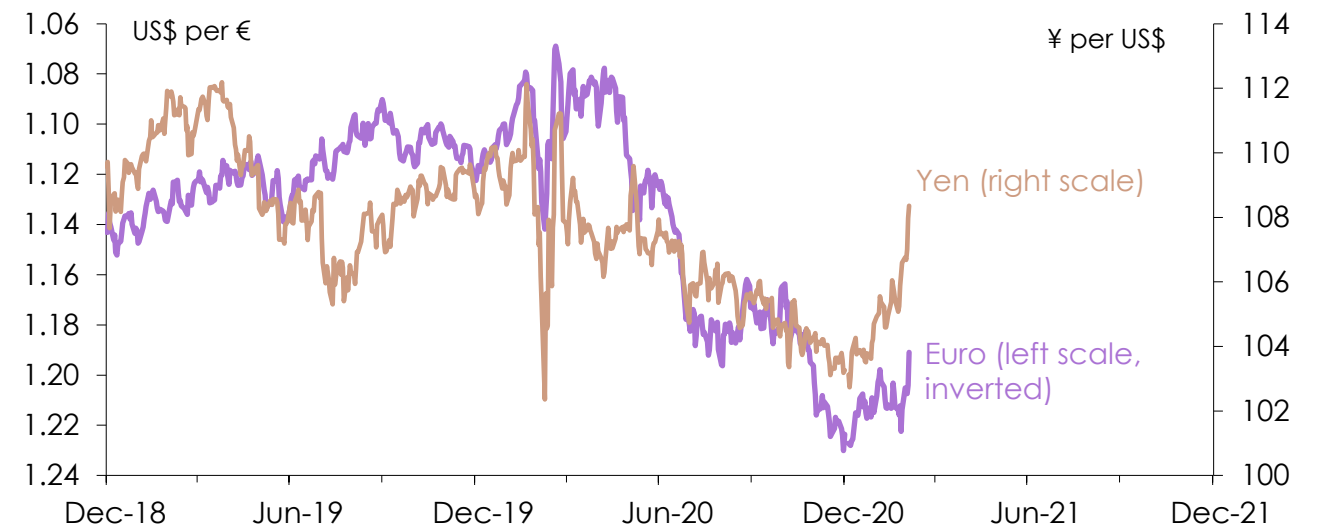
## 10-year bond yields



## Measures of market volatility

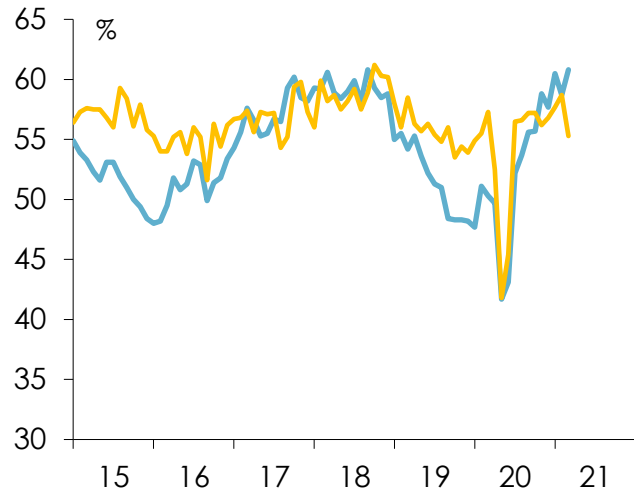


## US dollar vs euro and yen

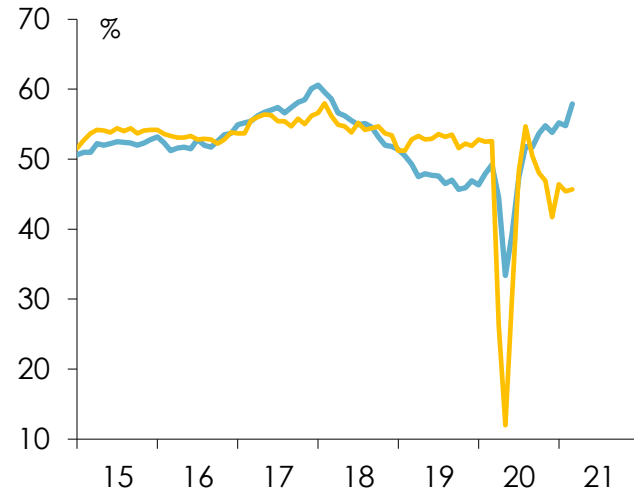


# Manufacturing PMIs strengthened in 'advanced' economies but weakened in most 'emerging' ones in February; services weakened except in the UK

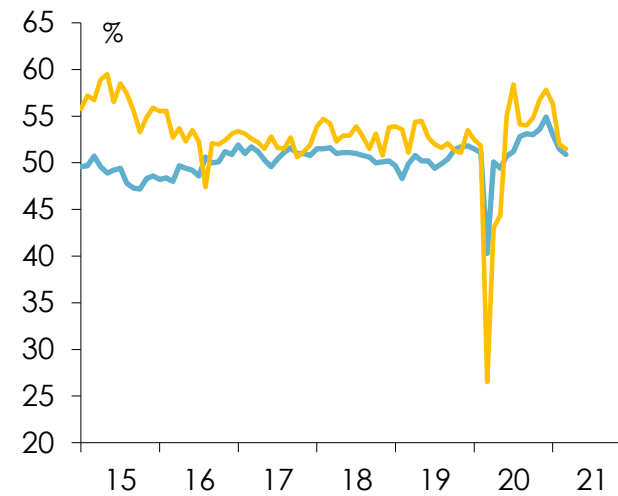
## US



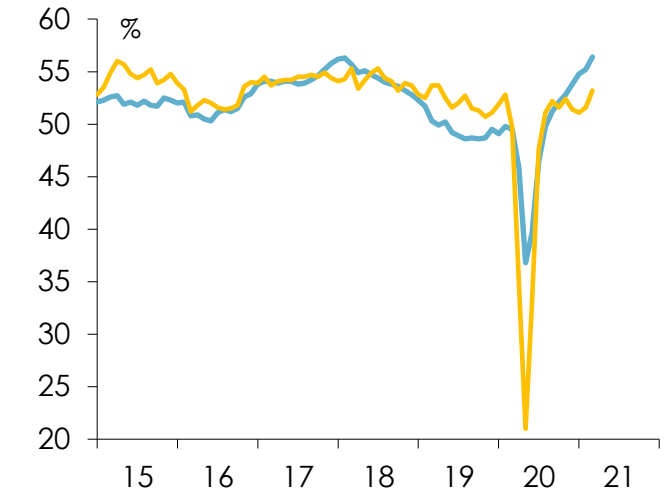
## Euro area



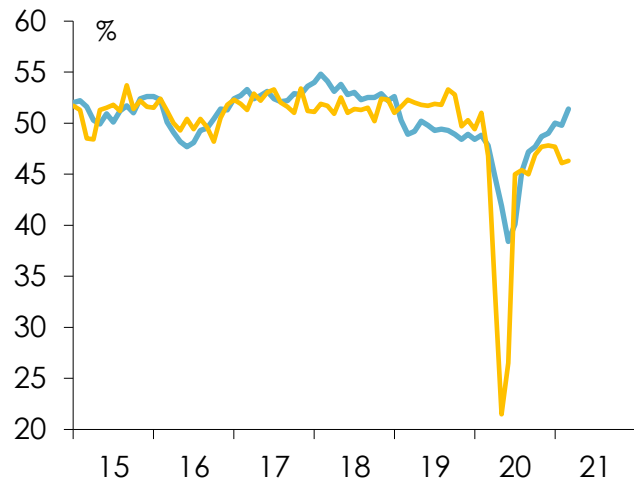
## China



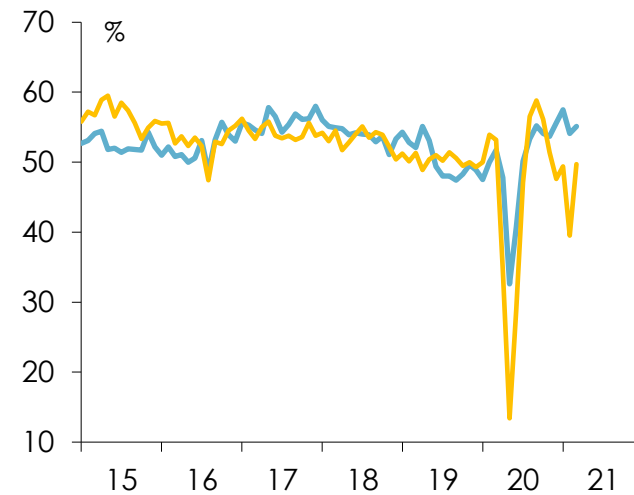
## Developed markets



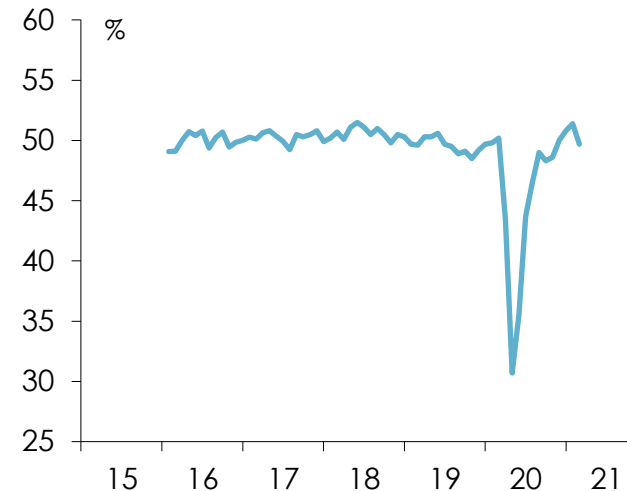
## Japan



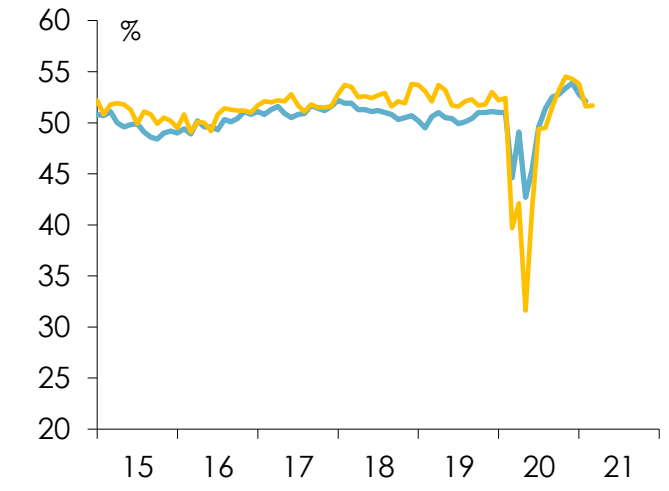
## UK



## ASEAN



## Emerging markets



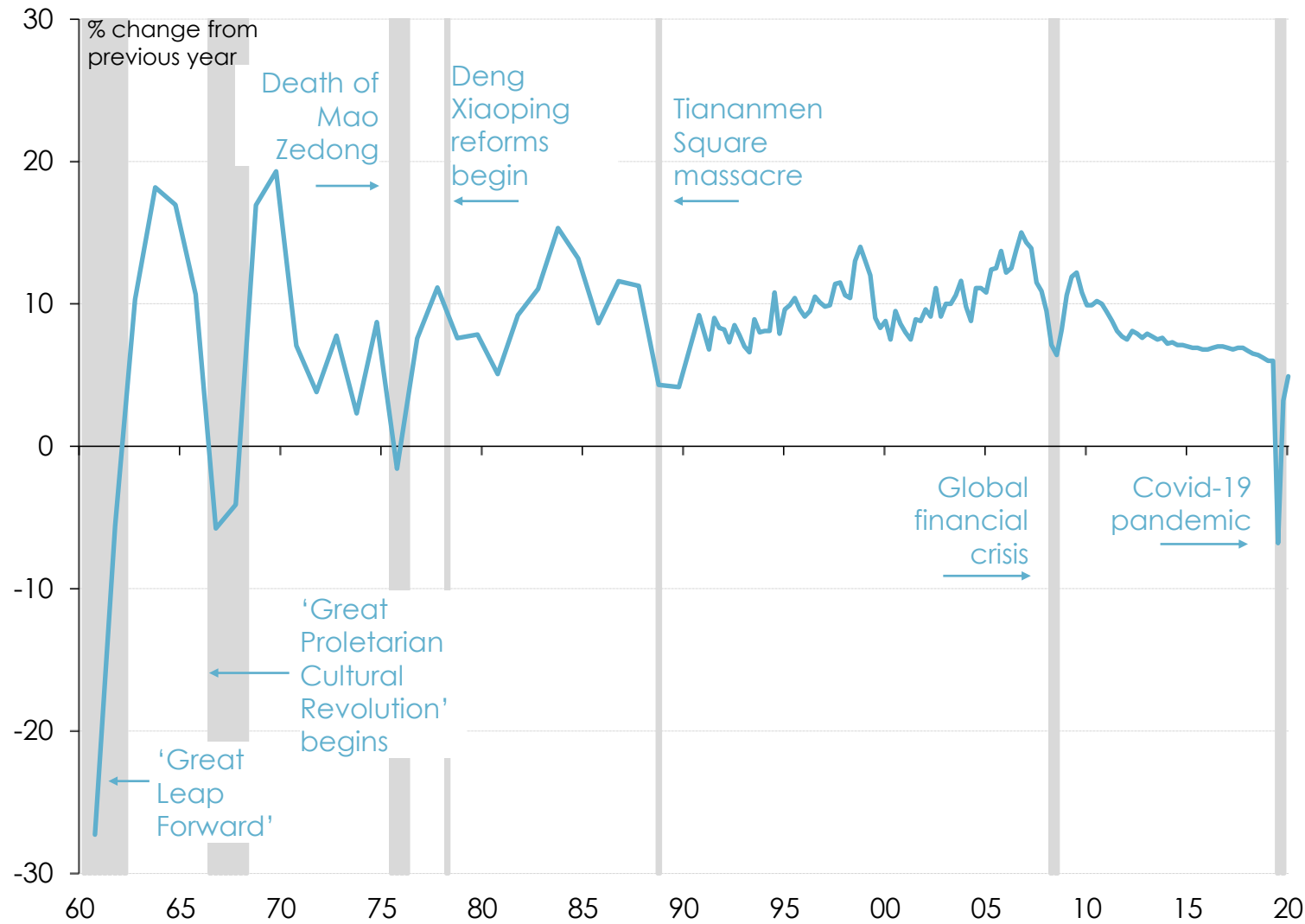
— Manufacturing

— Services

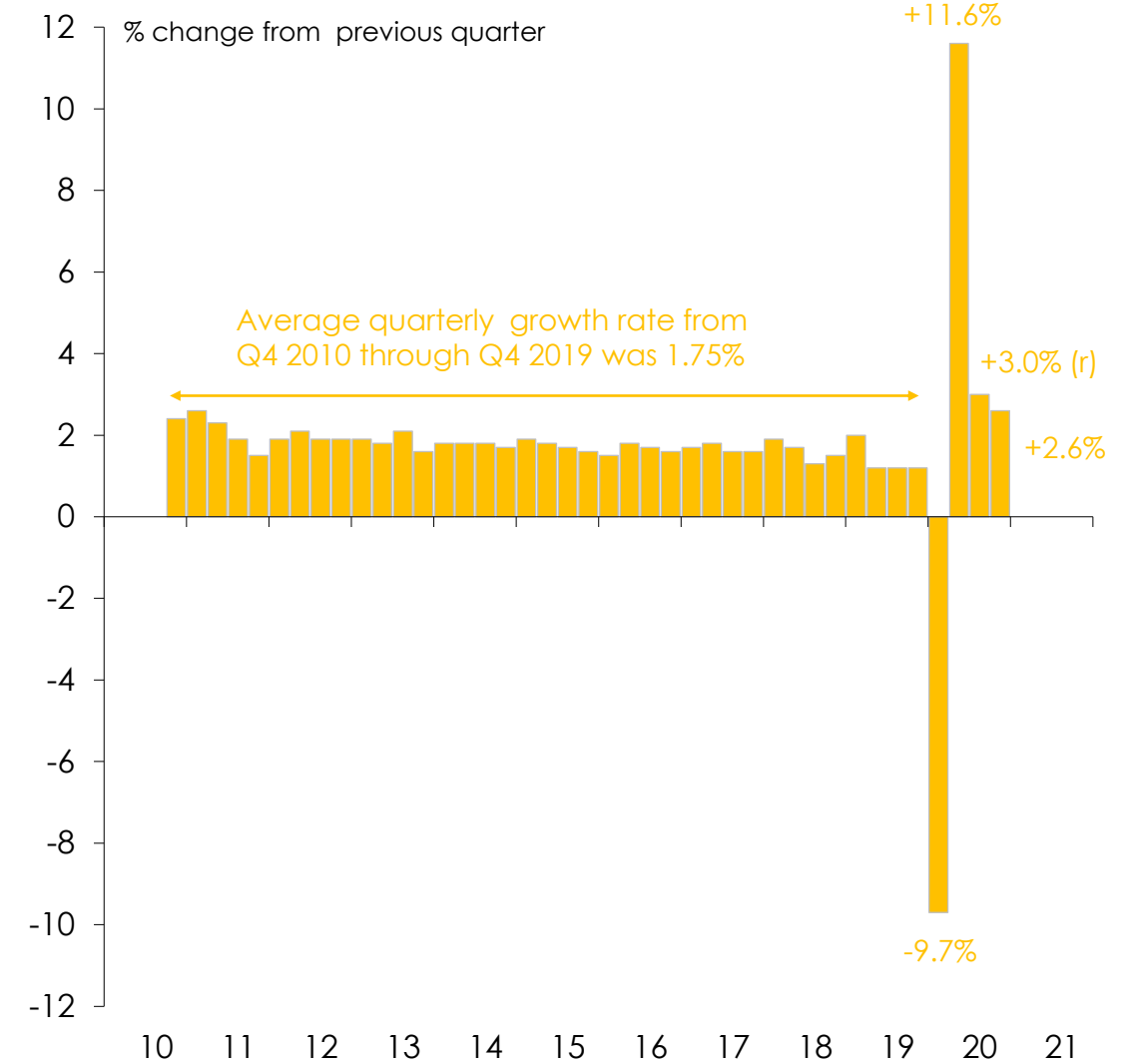
Note: Purchasing Managers' Indexes (PMIs) are derived from surveys of senior executives, who are asked to report whether various dimensions of business activity recorded an increase, decrease or no change compared with the previous month. A reading of 50 indicates an overall increase cf. the previous month, and a reading of less than 50 indicates a decrease. Latest data are for February. 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 this week proclaimed a growth target of 'over 6%' for 2021, after growth in 2020 of only 2% which was the weakest since 1976

Real GDP growth, from year earlier, 1961-2020



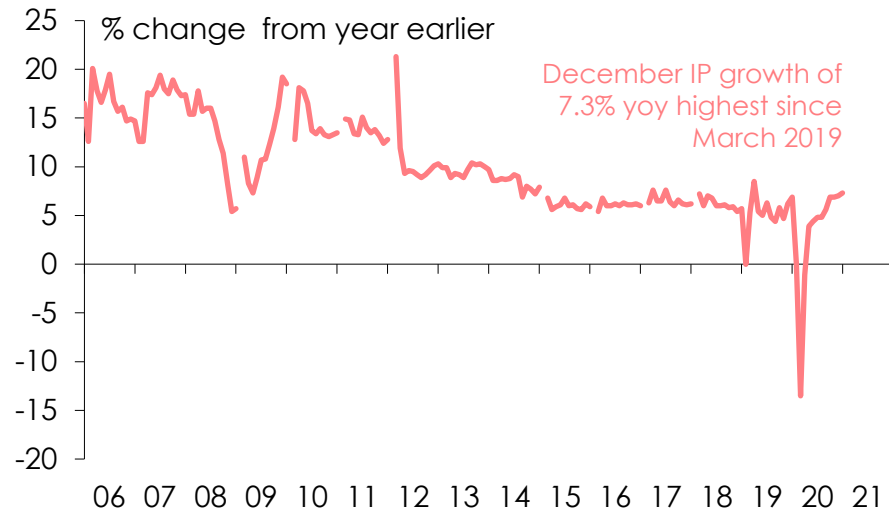
Quarterly real GDP growth, 2010-2020



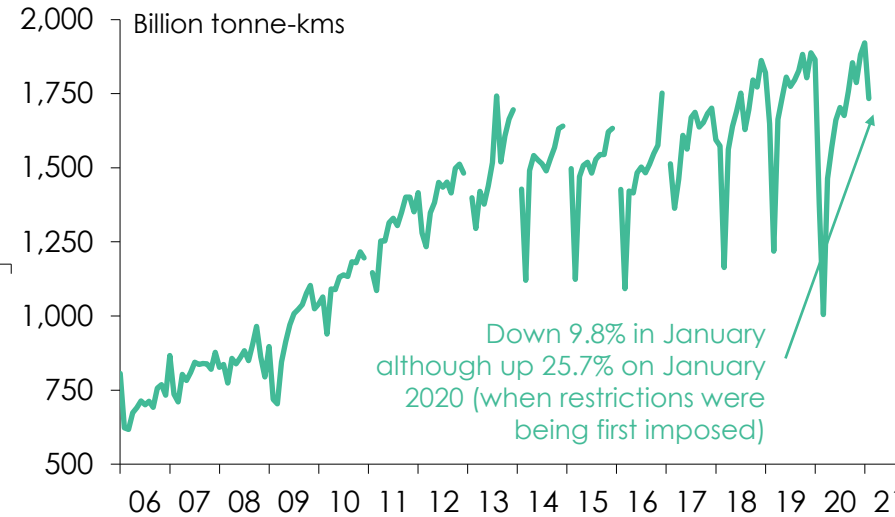
Note: In the left-hand chart, GDP growth rates are annual averages up to the December quarter of 1991, and then quarter-on-corresponding-quarter-of-previous-year thereafter. Sources: China National Bureau of Statistics. [Return to "What's New"](#).

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

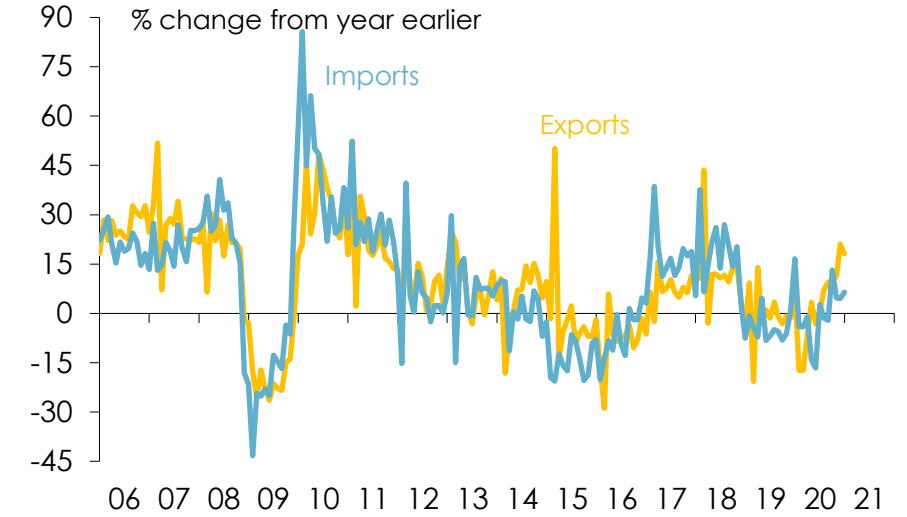
## Industrial production



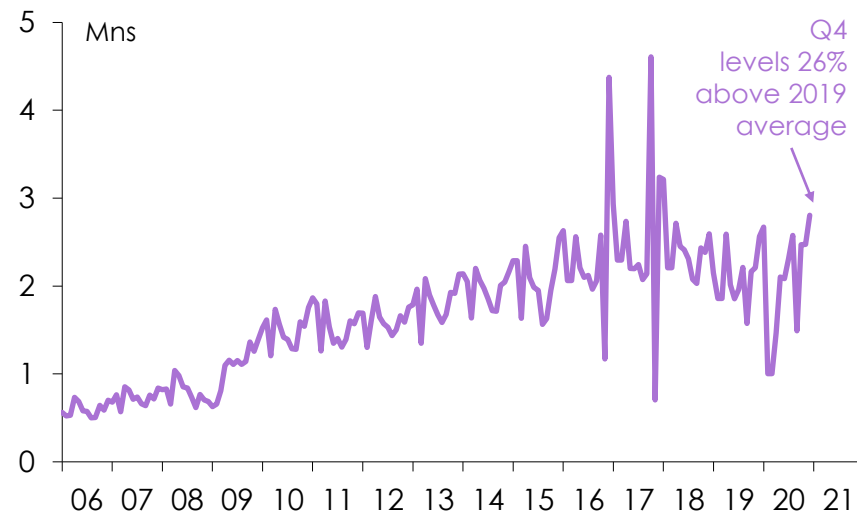
## Freight traffic volumes



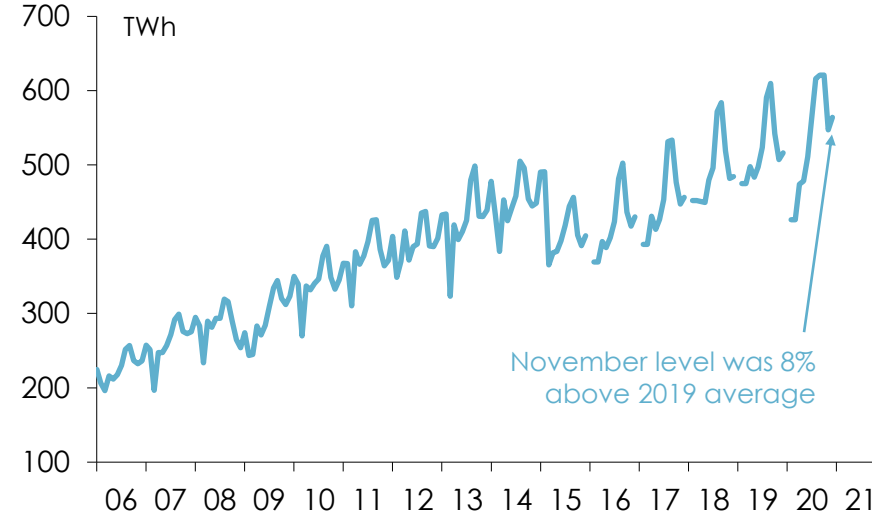
## Merchandise trade



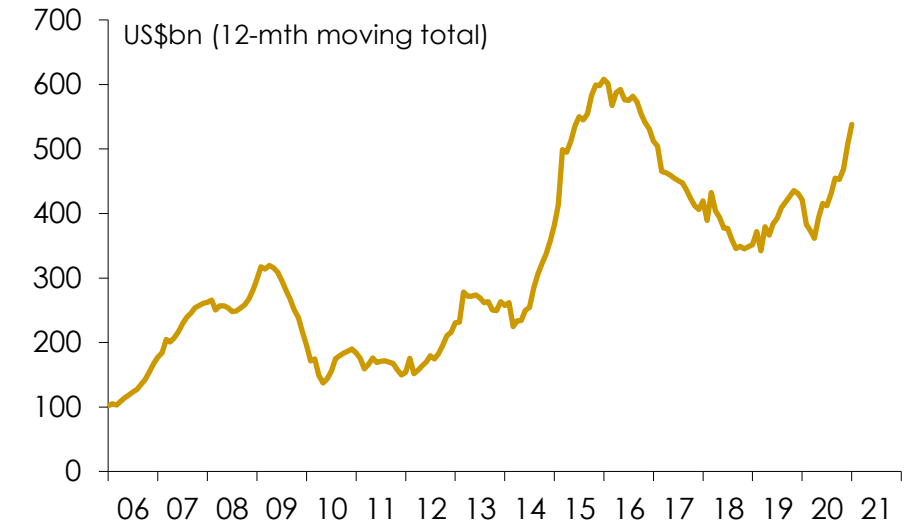
## Motor vehicle production



## Primary electricity production



## Merchandise trade balance



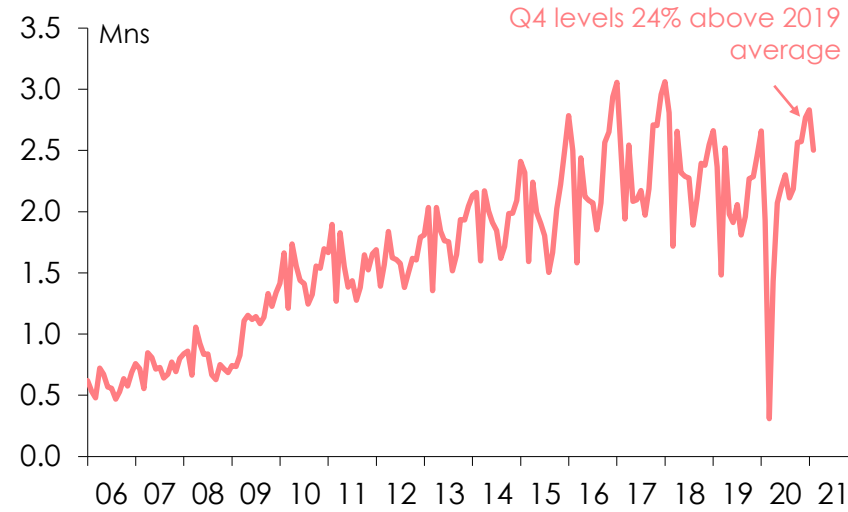
Sources: China National Bureau of Statistics; China Association of Automobile Manufacturers; China General Administration of Customs. Latest data are for December: note that most monthly data for January and February are combined and will be released in the third week of March. [Return to "What's New"](#).

# The 'demand' side of the Chinese economy has been recovering more gradually, and early 2020 data is likely to show renewed softening

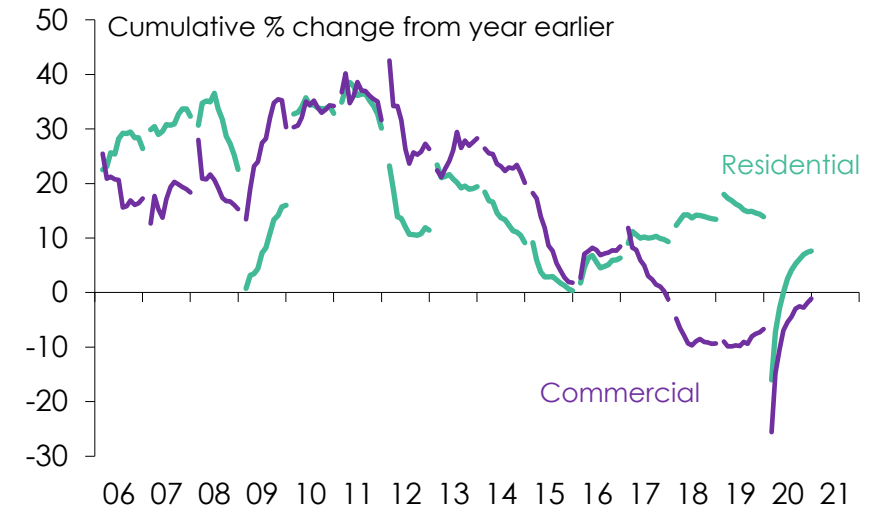
## Consumer sentiment



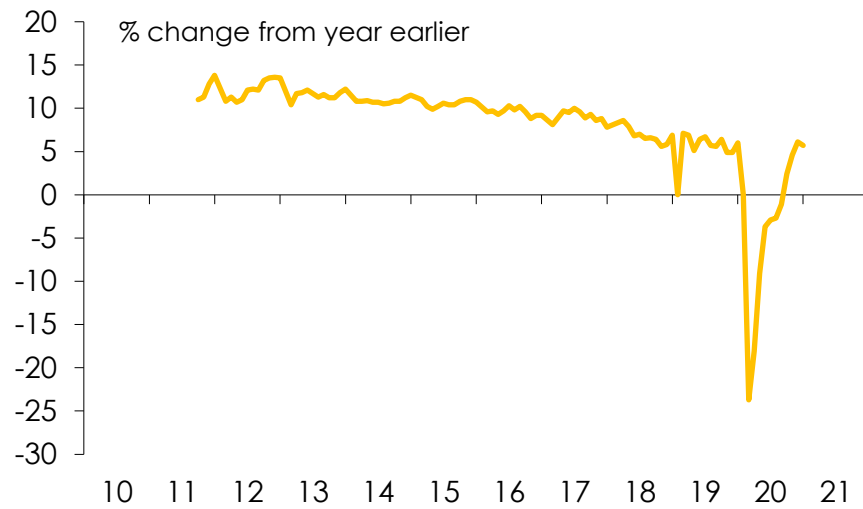
## Motor vehicle sales



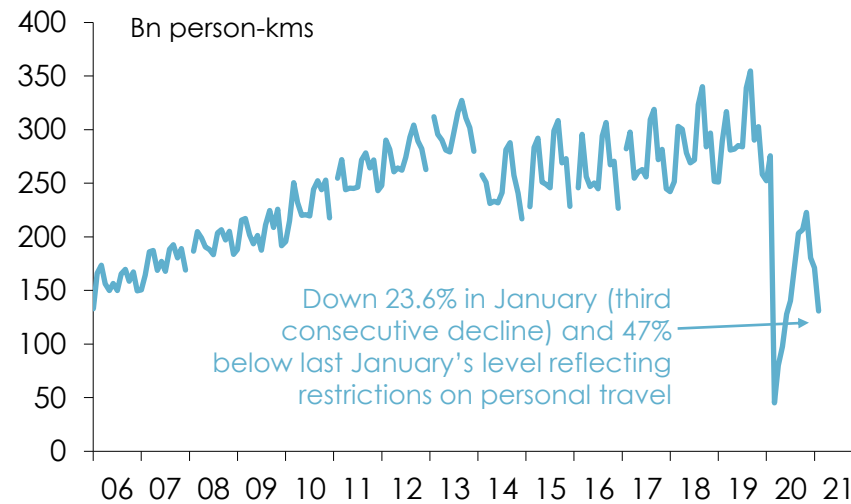
## Real estate investment



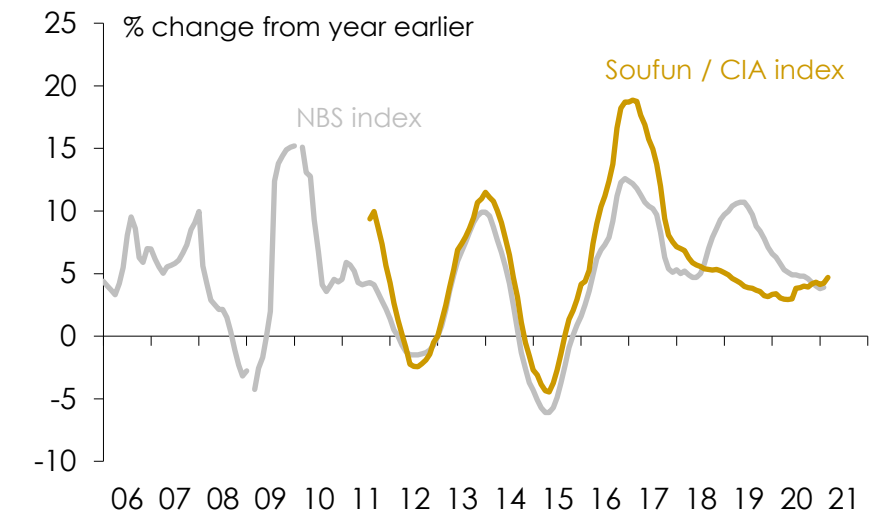
## Volume of retail sales



## Passenger traffic volumes



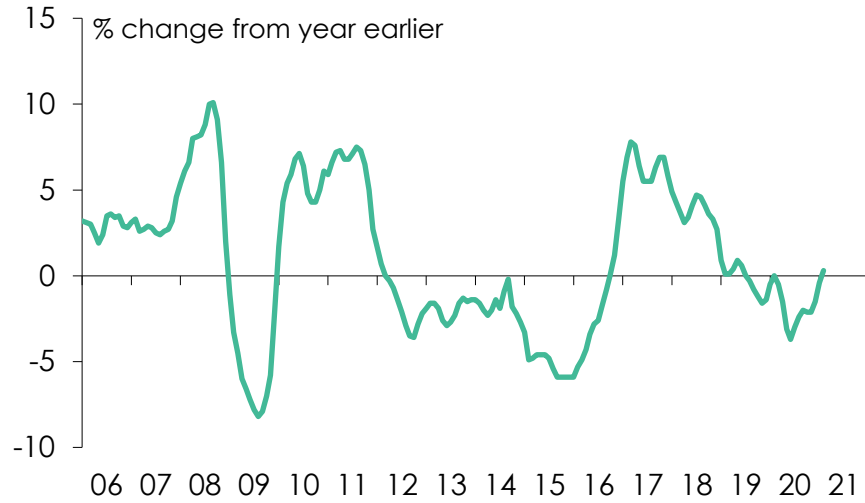
## Residential real estate prices



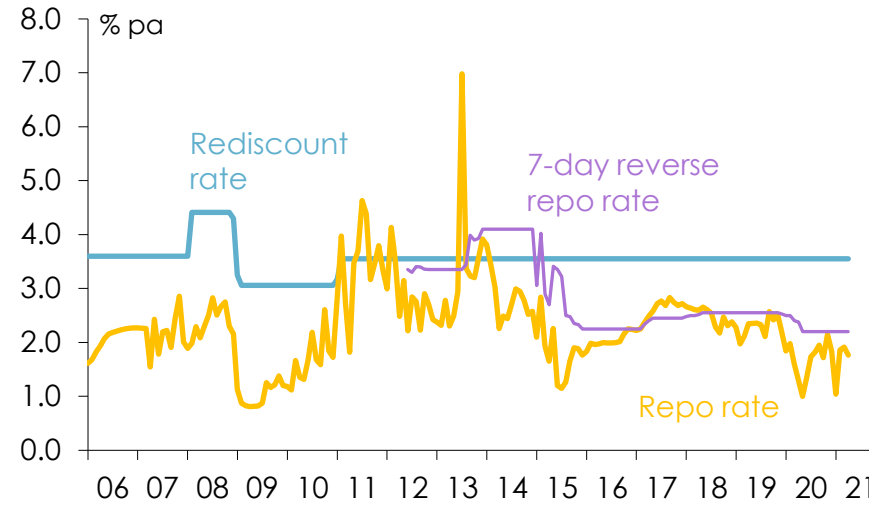
Sources: China National Bureau of Statistics; China Association of Automobile Manufacturers; China Index Academy (CIA). Latest data for motor vehicles sales and passenger transport are for January, others for December: note that most monthly data for January and February are combined and will be released 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

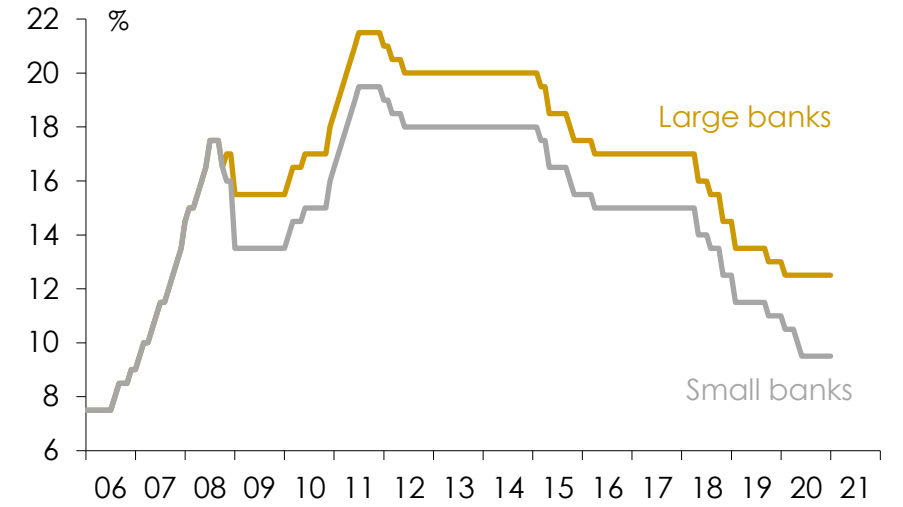
## Producer prices



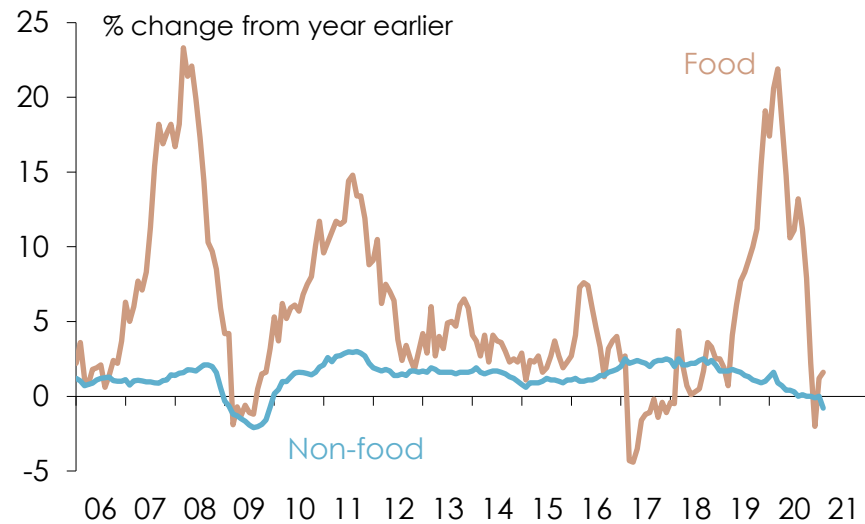
## PBoC policy interest rates



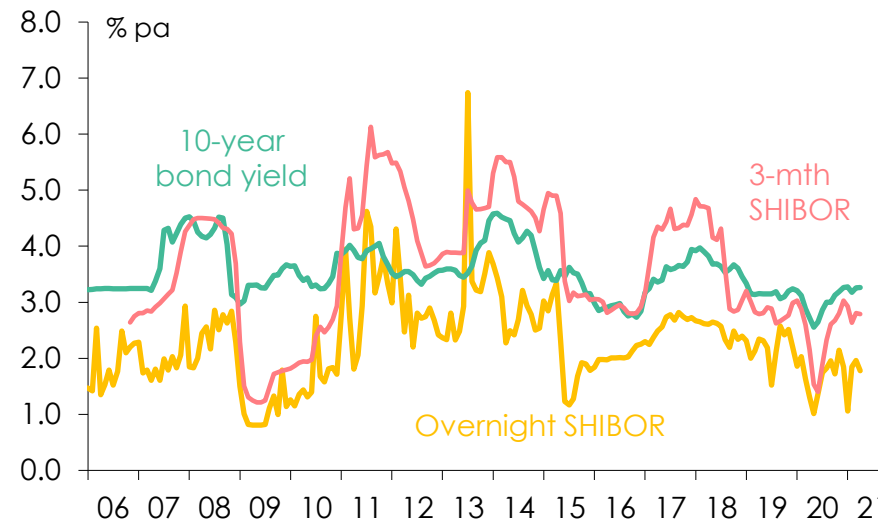
## Bank reserve requirement ratios



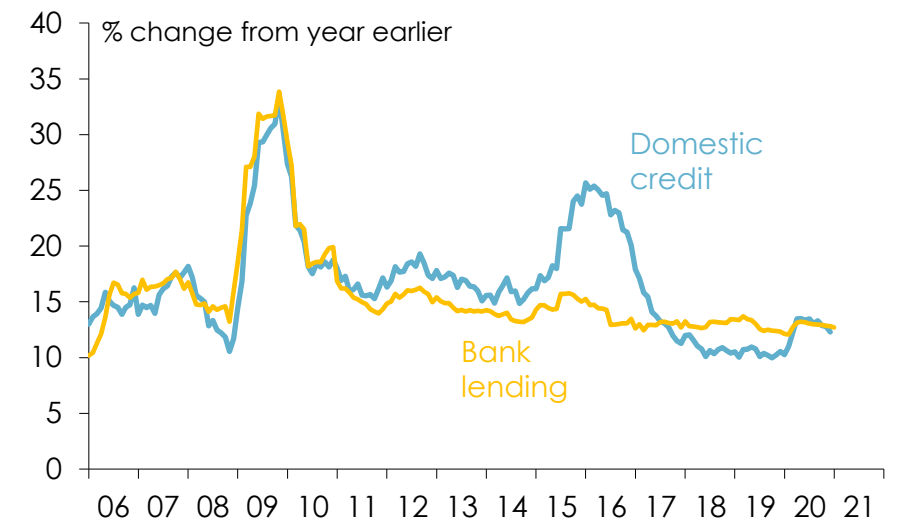
## Consumer prices



## Market interest rates



## Credit growth



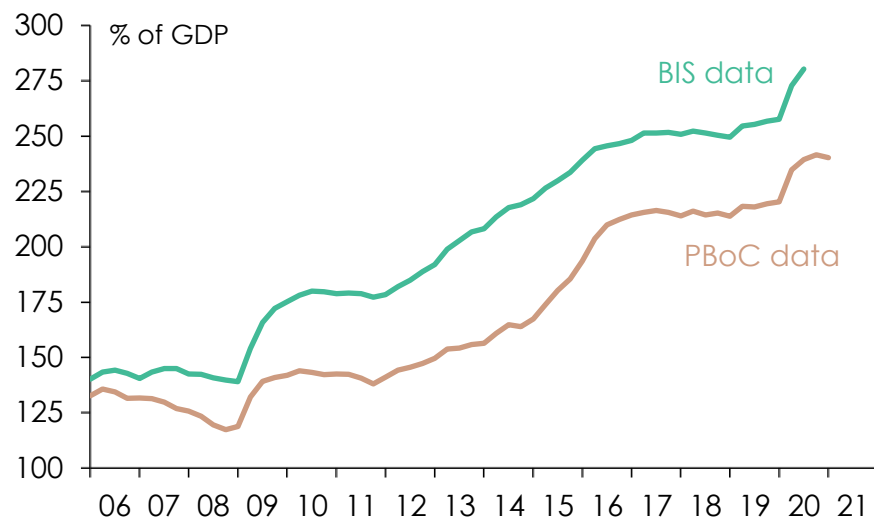
Note: 'SHIBOR' is the Shanghai Inter-Bank Offered Rate.

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

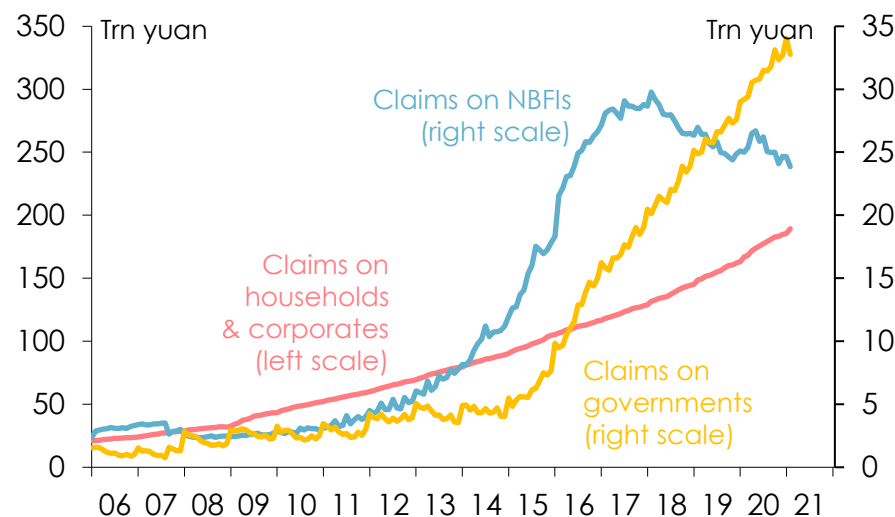


# The Chinese banking system's risk profile has increased significantly over the past decade – particularly on the liabilities side of its balance sheet

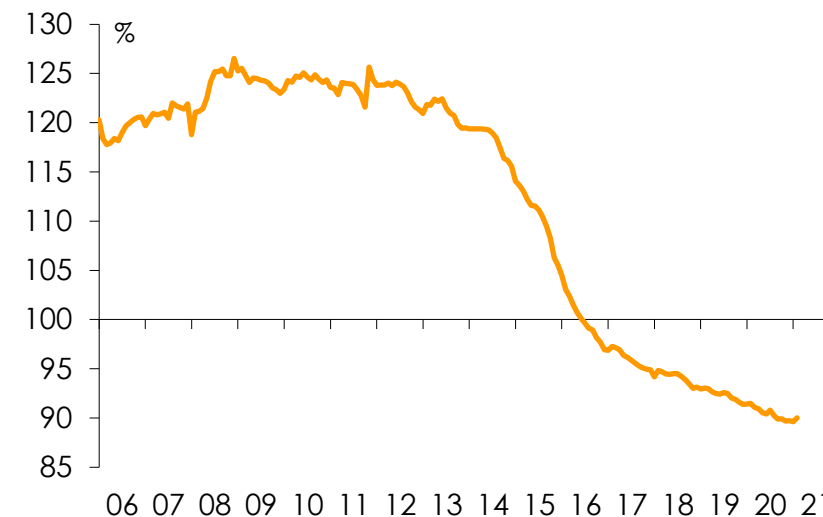
## Credit outstanding as a pc of GDP



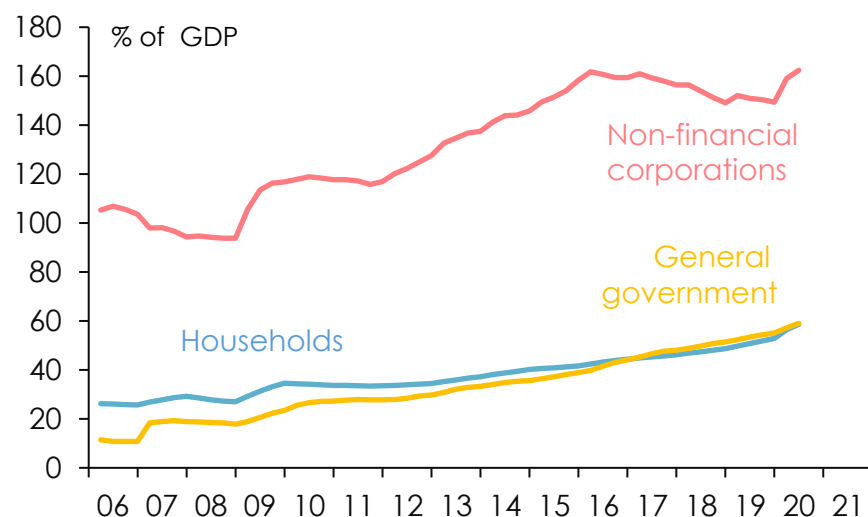
## Banks' assets



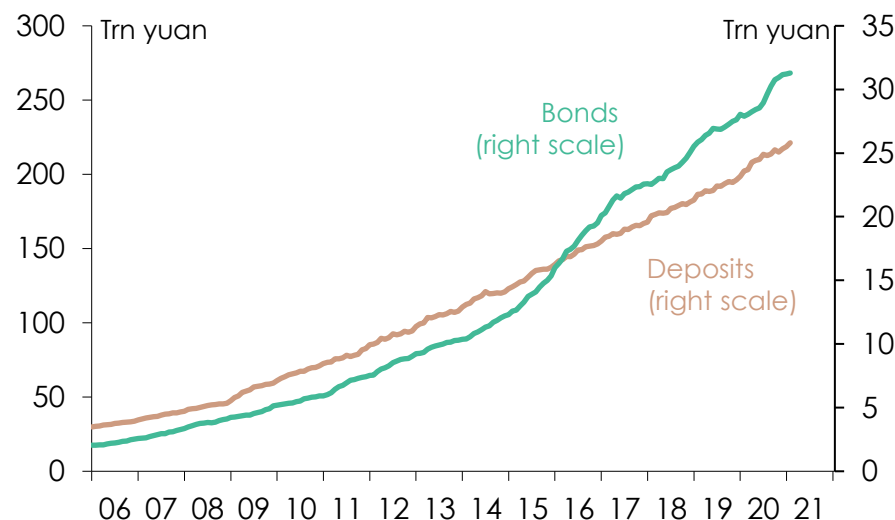
## Banks' deposits-to-loans ratio



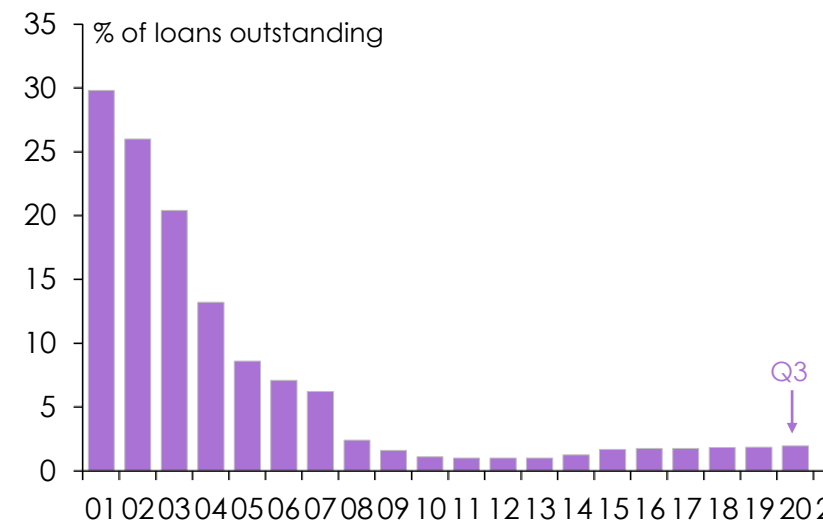
## Credit outstanding by sector



## Banks' liabilities



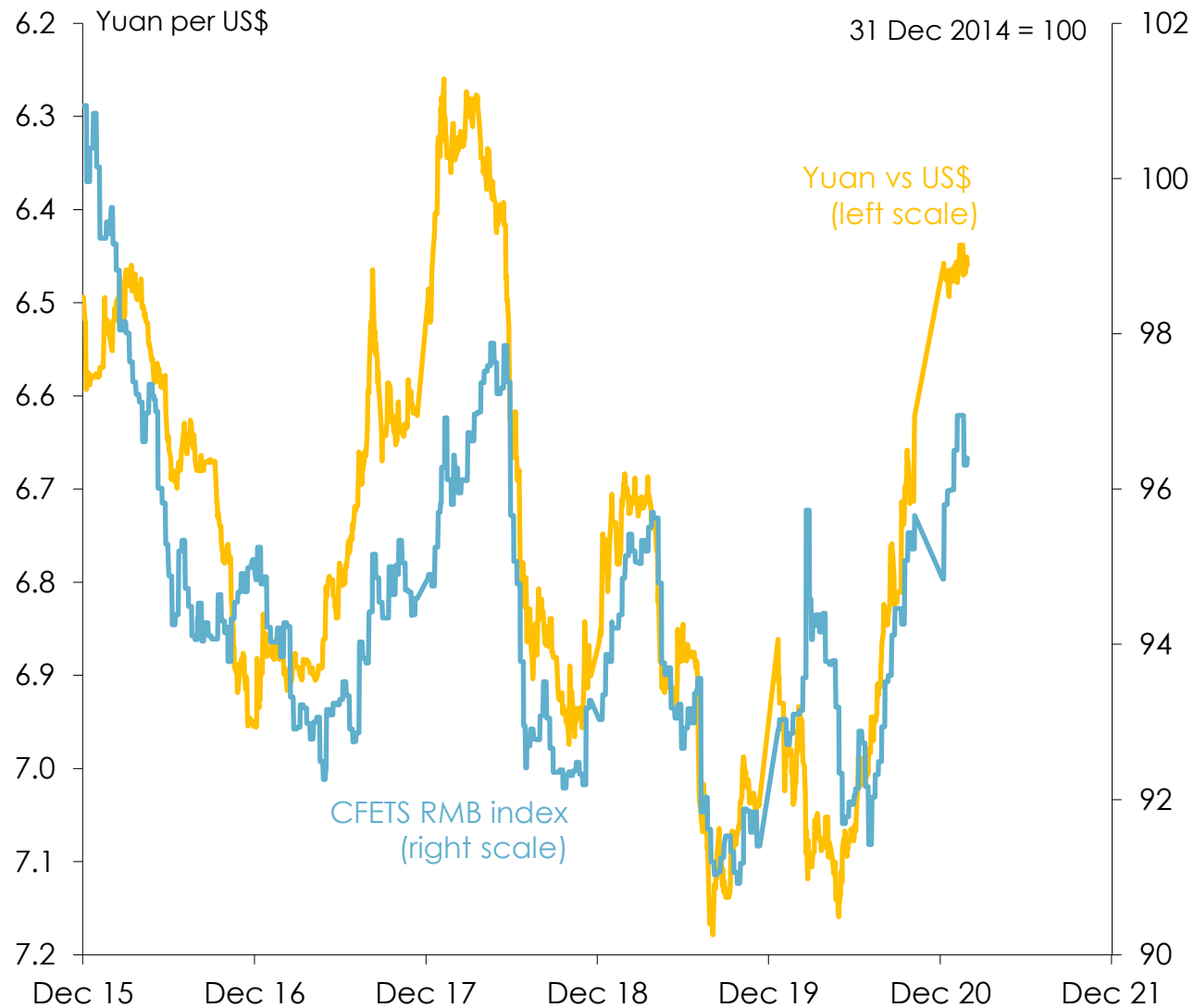
## Banks NPLs – official estimates



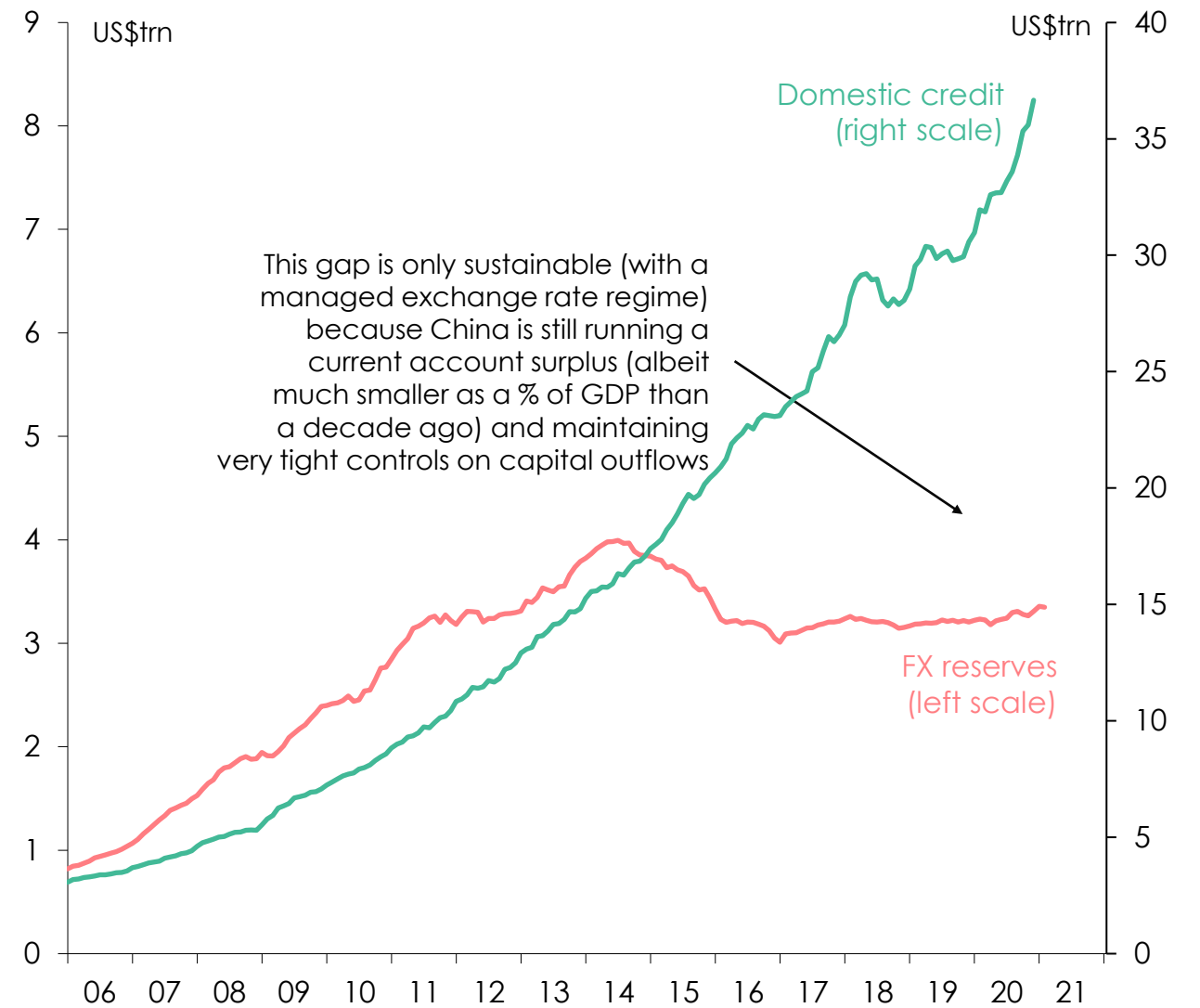
Sources: People's Bank of China; Bank for International Settlements; China Banking and Insurance Regulatory Commission. [Return to "What's New"](#).

# The yuan eased 1/4% against the stronger US\$ this week but was virtually unchanged on the PBoC's TWI (after a 0.7% decline last week)

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



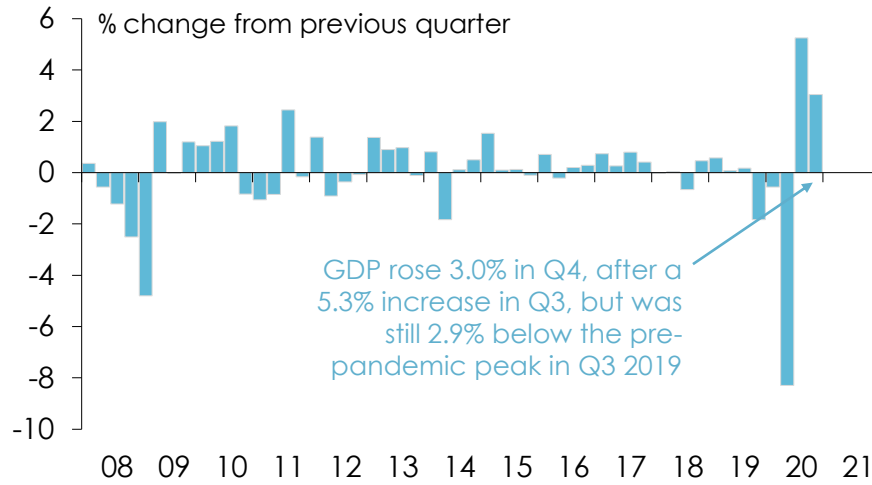
## FX reserves and domestic credit



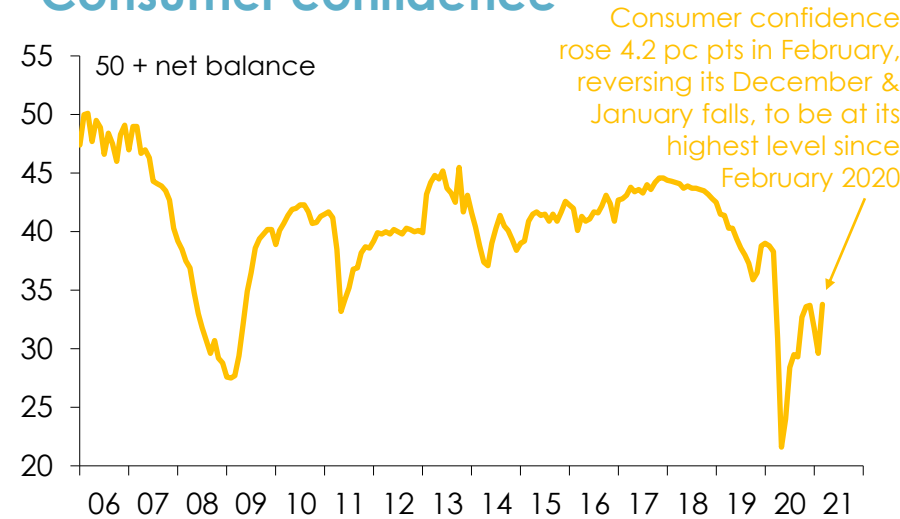
Sources: Refinitiv Datastream; China Foreign Exchange Trading System; People's Bank of China. Exchange rates up to 5<sup>th</sup> March; credit and FX reserves data up to January. [Return to "What's New"](#).

# 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

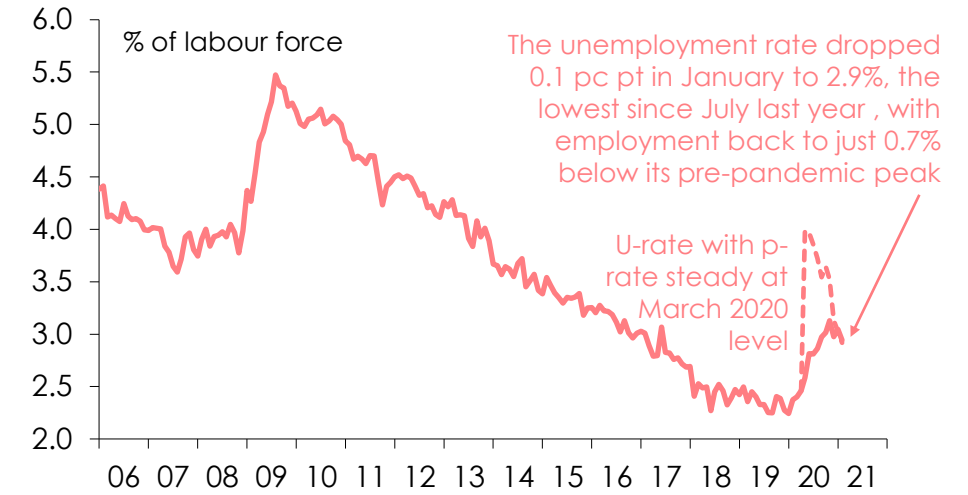
## Real GDP



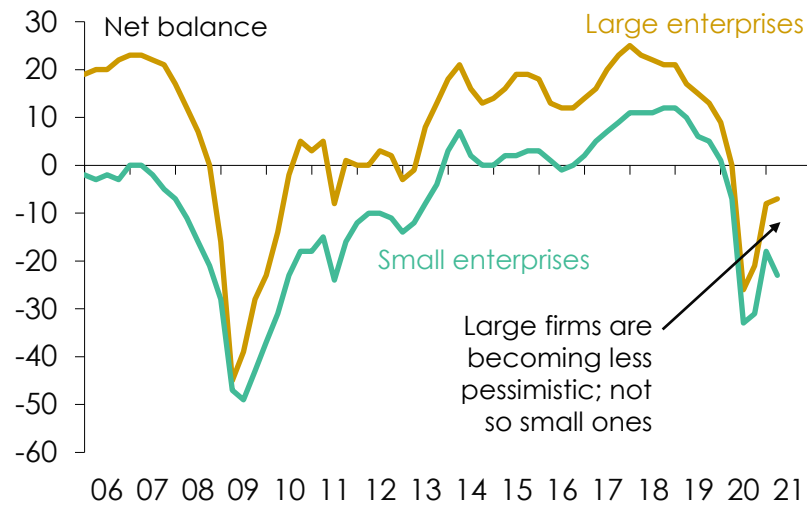
## Consumer confidence



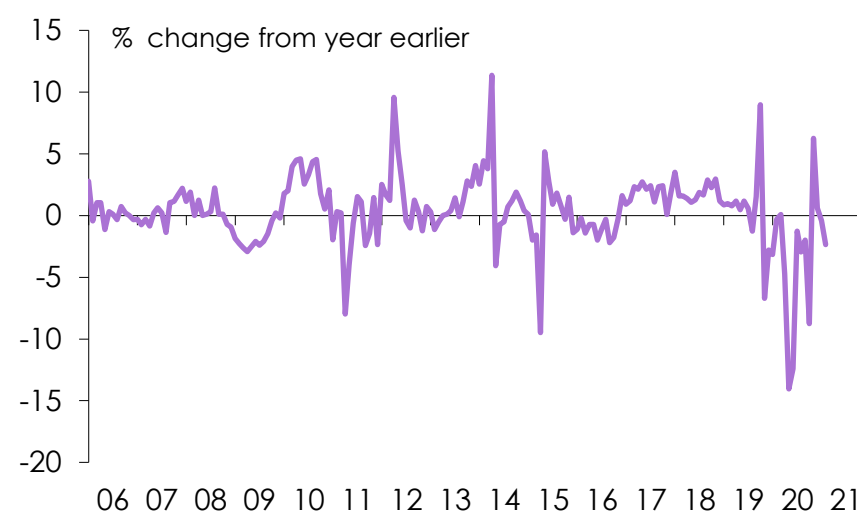
## Unemployment



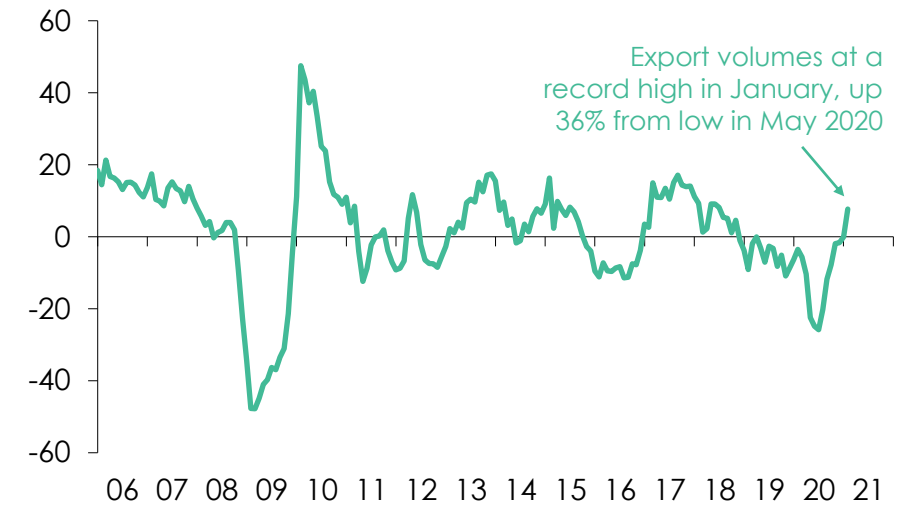
## BoJ Tankan business conditions



## Value of retail sales



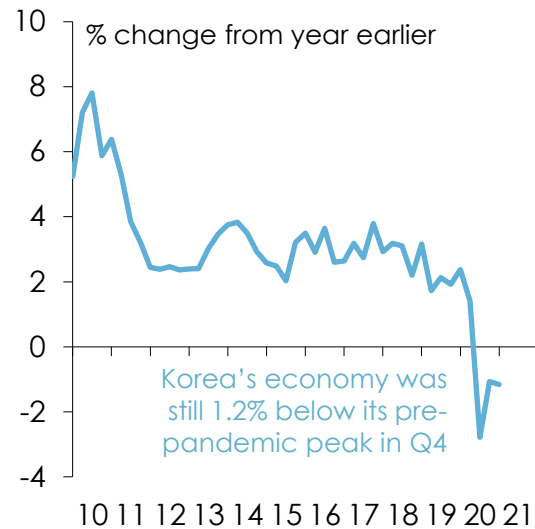
## Merchandise export volumes



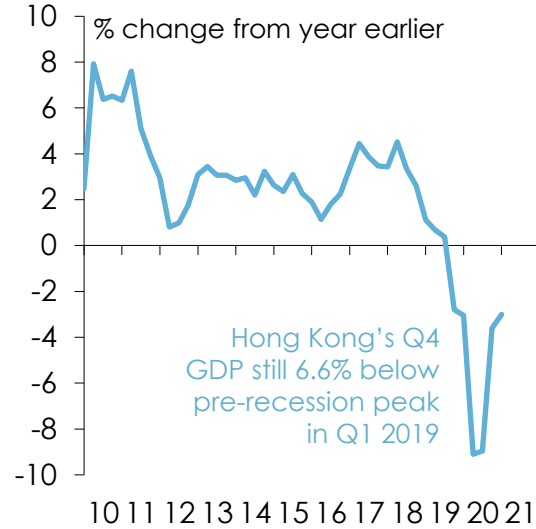
Sources: Japan Cabinet Office [Economic and Social Research Institute](#); [Bank of Japan](#); [Statistics Bureau of Japan](#); Japan [Ministry of Finance](#). [Return to "What's New"](#).

# The strongest recoveries in Asia have been in Vietnam, Taiwan and India, with the Philippines, Hong Kong and Thailand bringing up the rear

## Korea



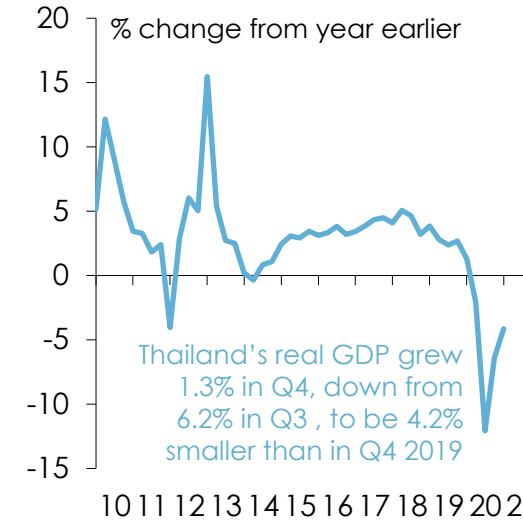
## Hong Kong



## Indonesia



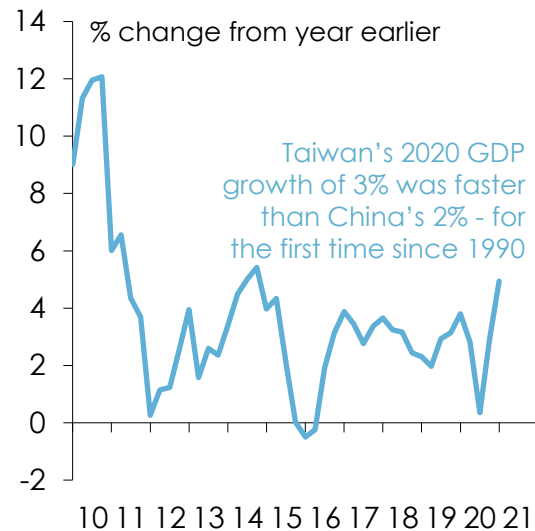
## Thailand



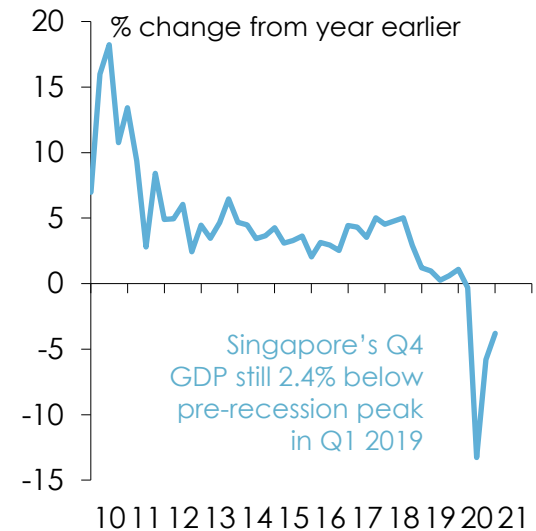
## Vietnam



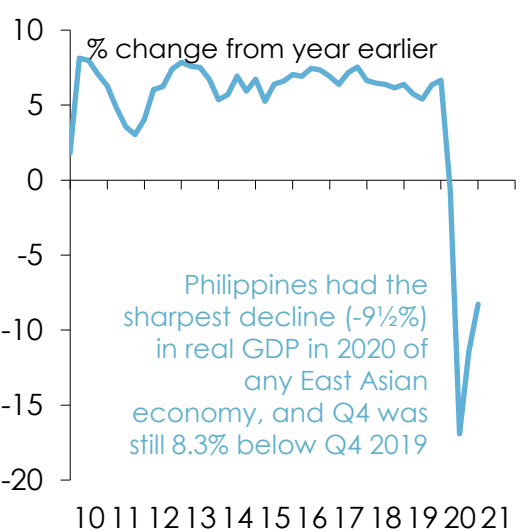
## Taiwan



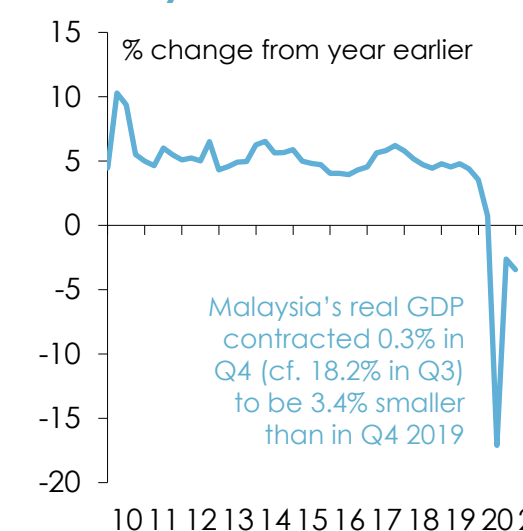
## Singapore



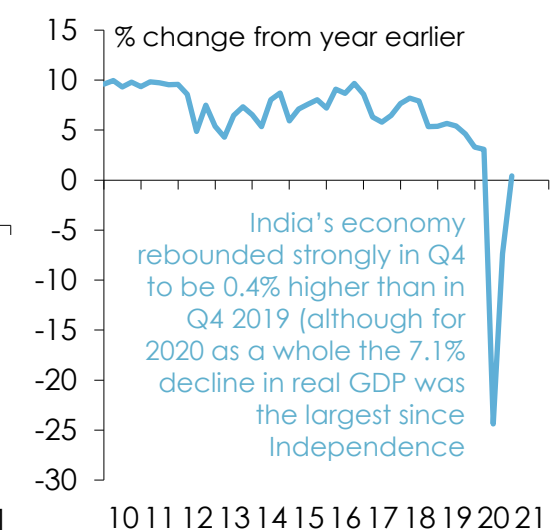
## Philippines



## Malaysia

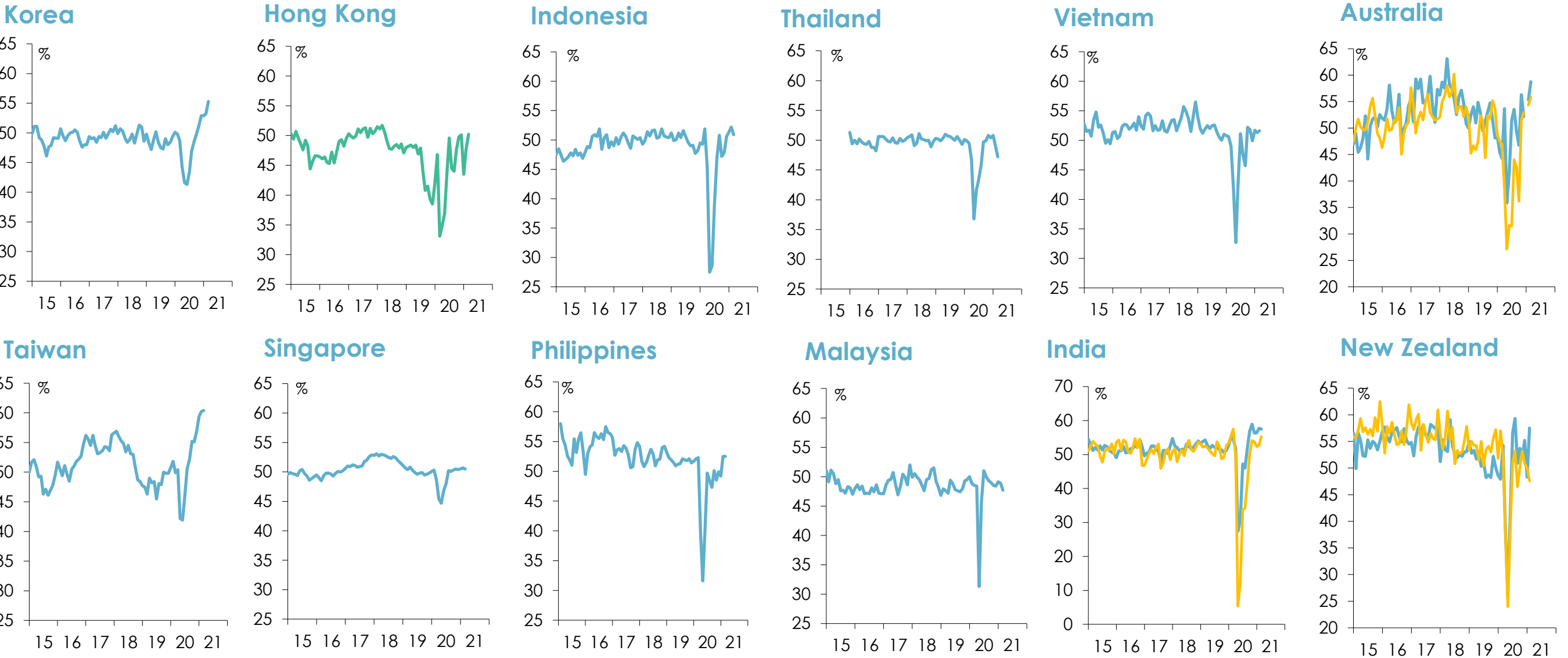


## India



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"](#).

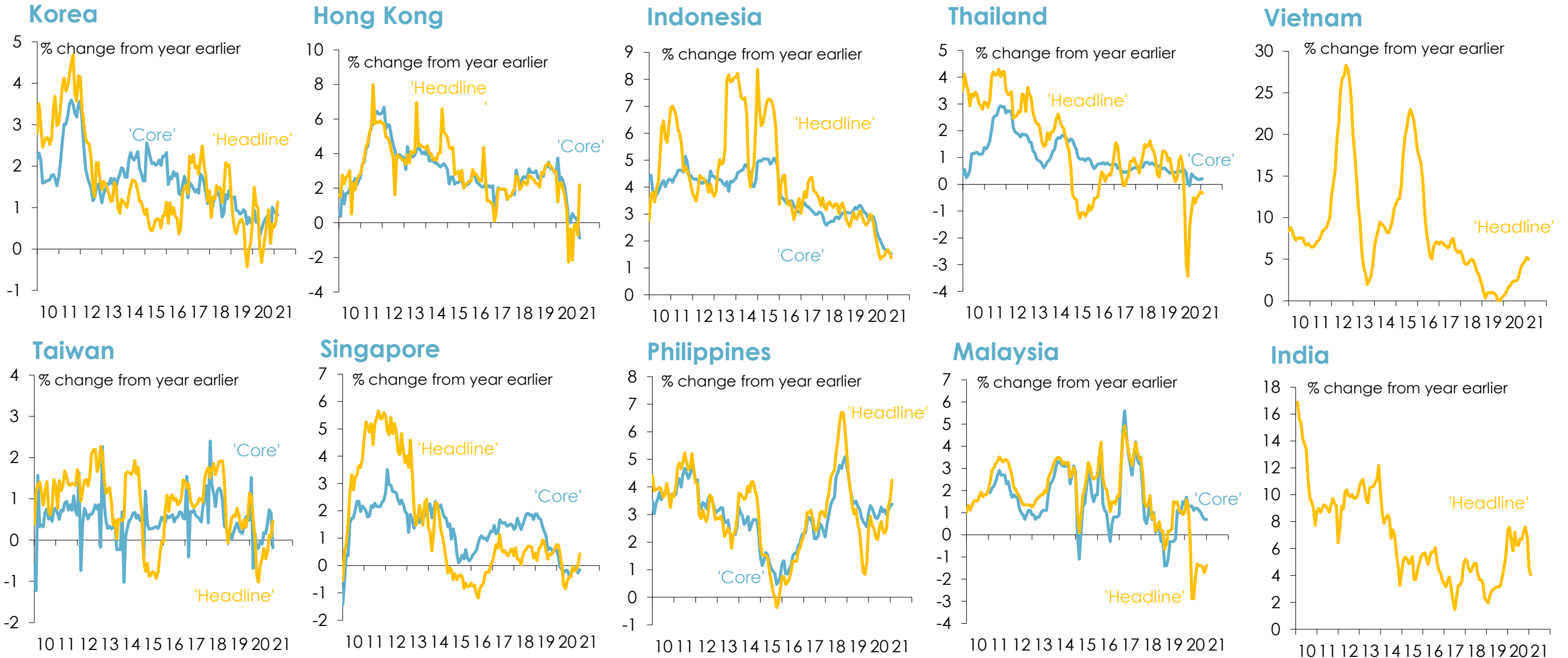
# Korea's and Taiwan's manufacturing PMIs rose to 10-year highs in February but most other Asia-Pacific economies registered declines



— Manufacturing — Services — Whole economy

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

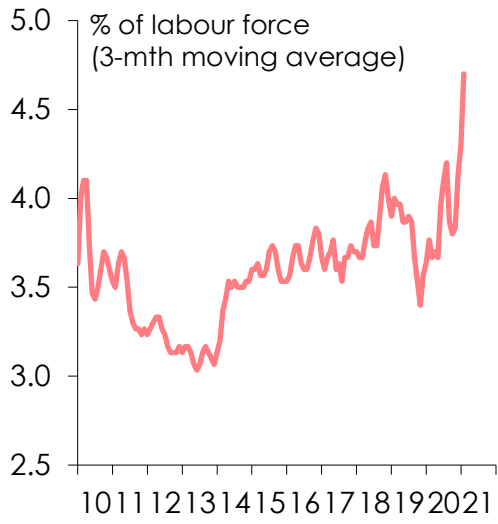
# Inflation remains very low across most Asian economies other than India, but has started rising again in Vietnam and the Philippines



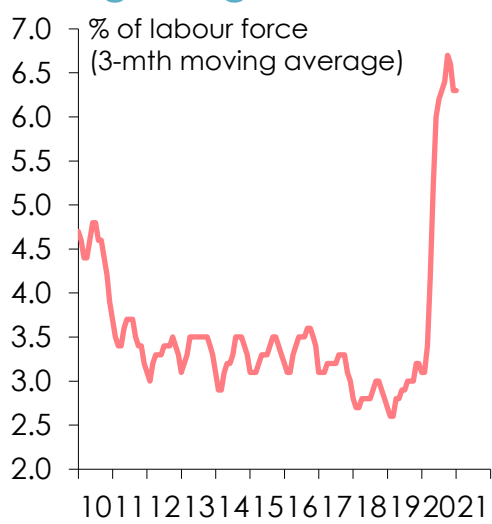
Note: 'Core' inflation in Korea excludes agricultural products and oil; in Taiwan it excludes fresh fruit, vegetables and energy; in Singapore it excludes accommodation and private transport; and in Hong Kong it excludes the effect of 'one-off government relief measures'. 'Core' inflation in Indonesia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

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

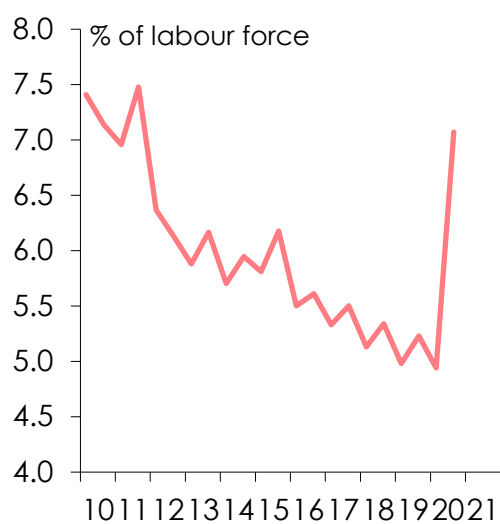
## Korea



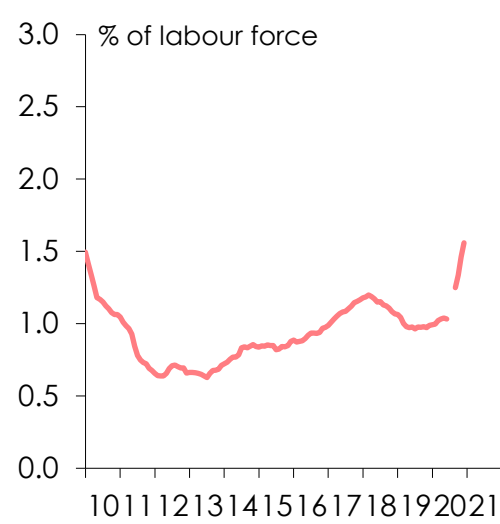
## Hong Kong



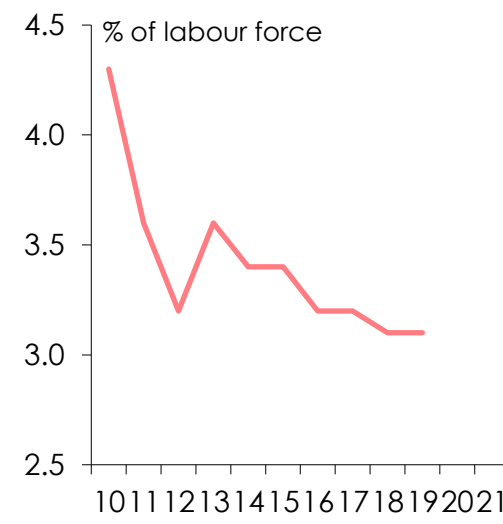
## Indonesia



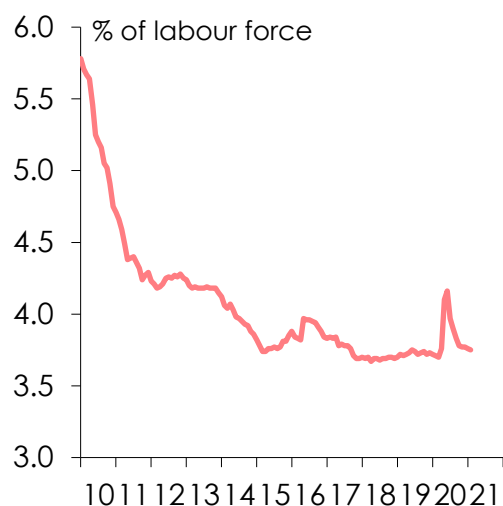
## Thailand



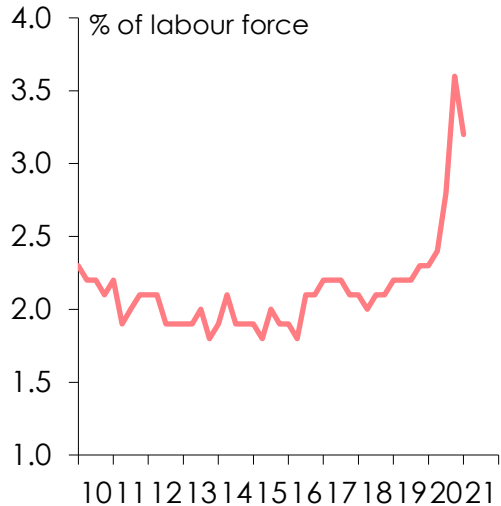
## Vietnam



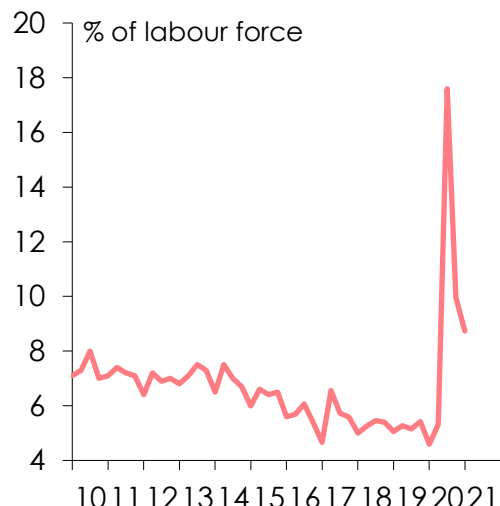
## Taiwan



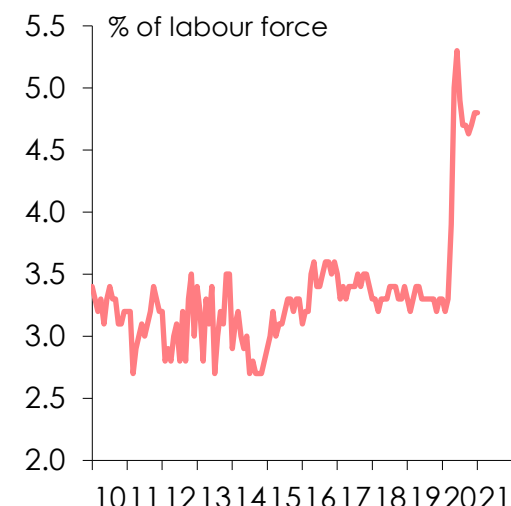
## Singapore



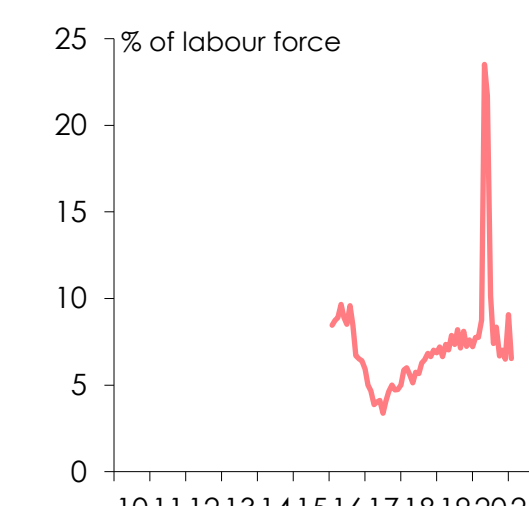
## Philippines



## Malaysia



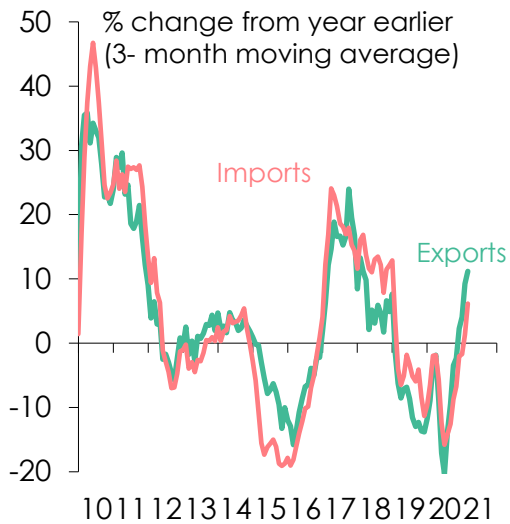
## India



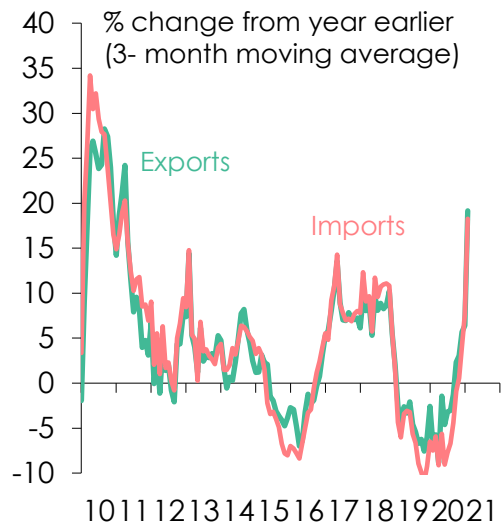
Note: Unemployment data is published monthly in Korea, Taiwan, Hong Kong, Thailand and Malaysia; quarterly in Singapore and the Philippines; semi-annually (February and August) in Indonesia; and annually in Vietnam (with the latest reading being for 2019). There is no official unemployment data in India: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

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

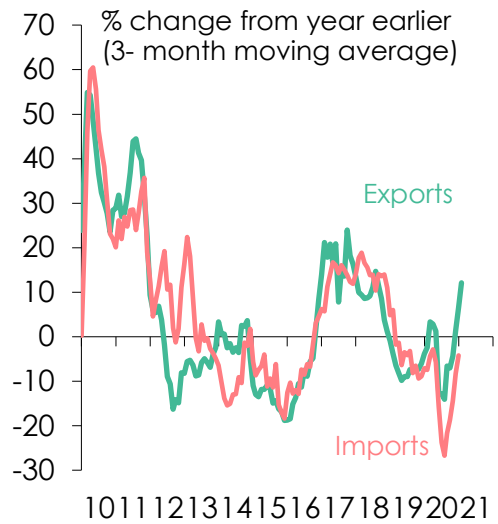
## Korea



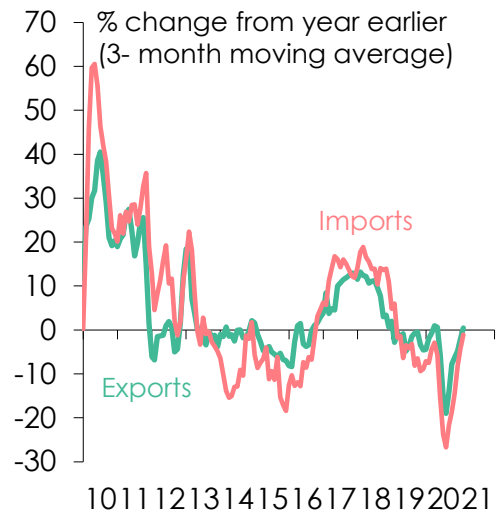
## Hong Kong



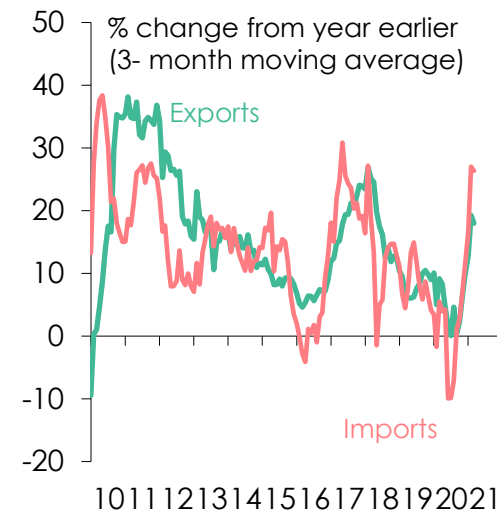
## Indonesia



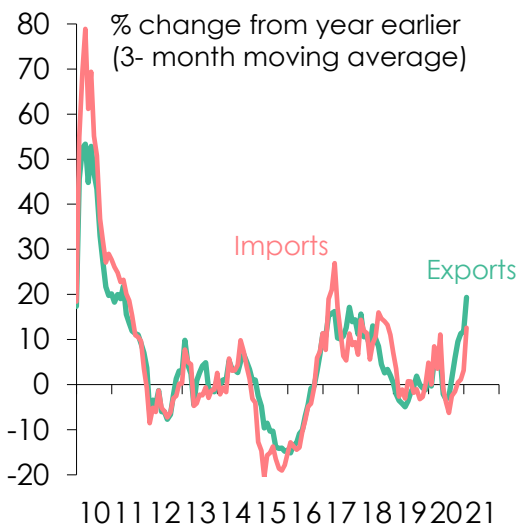
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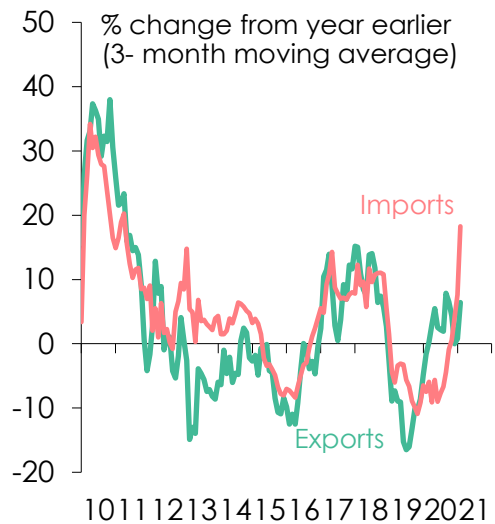
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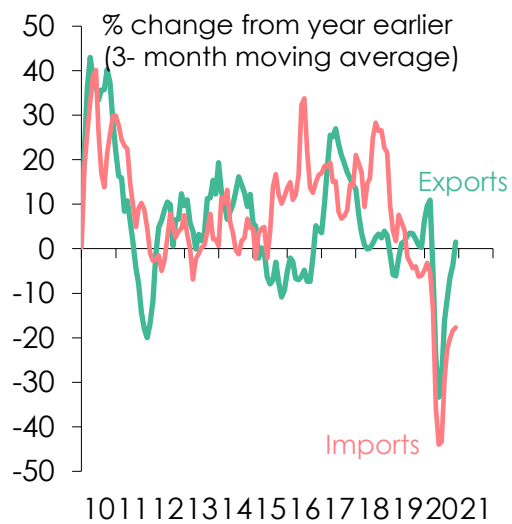
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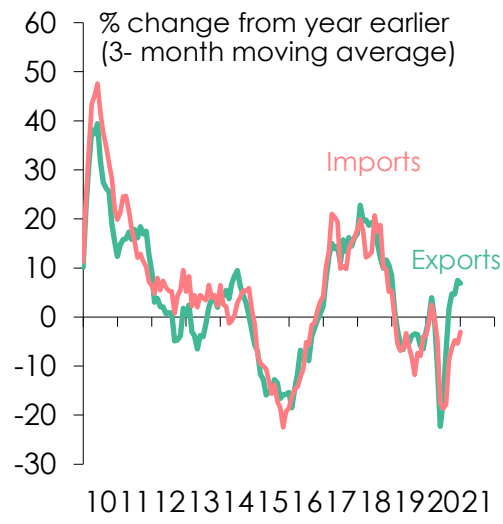
## Singapore



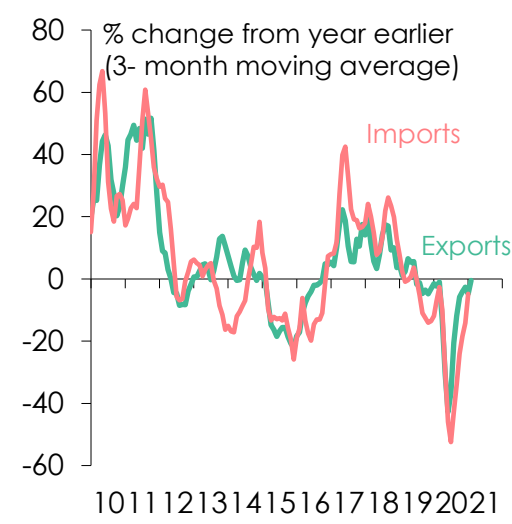
## Philippines



## Malaysia



## India

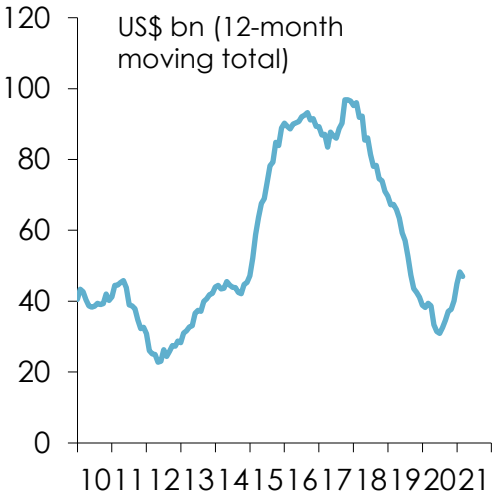


Note: Data for Hong Kong and Singapore published in national currencies and converted to US dollars by Corinna using month-average exchange rates.  
Sources: national statistical agencies and central banks. [Return to "What's New"](#).

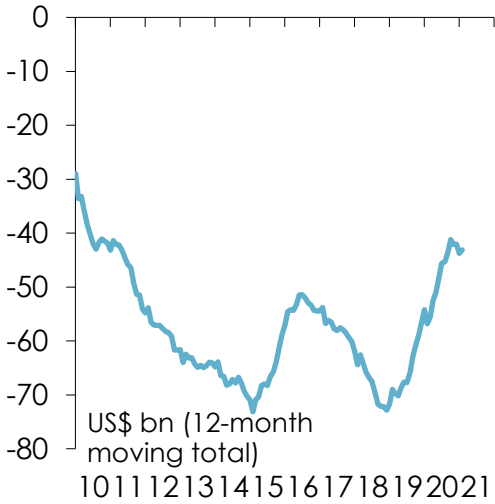


# Most Asian economies have experienced improvements in their trade balances since the onset of Covid-19

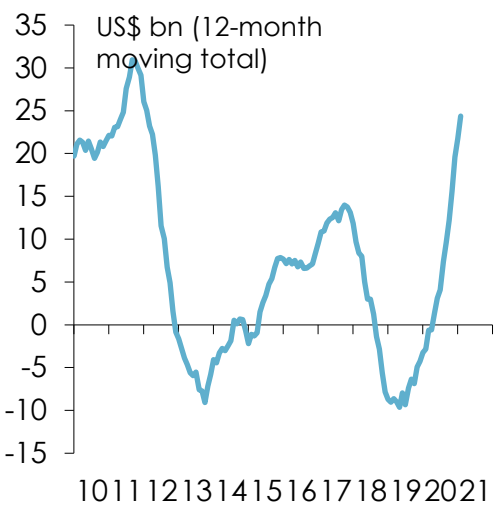
**Korea**



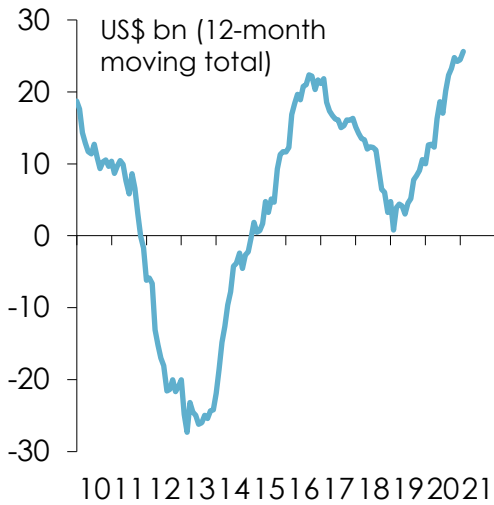
**Hong Kong**



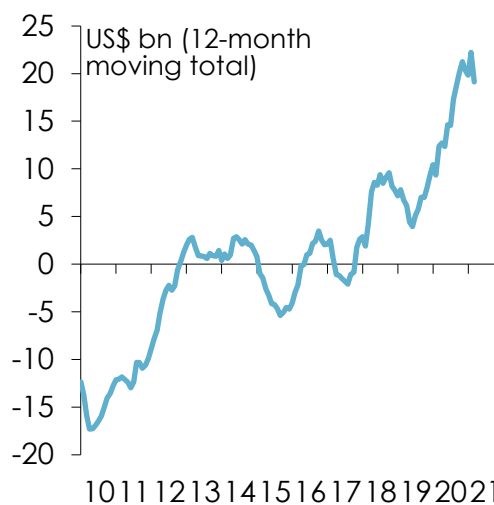
**Indonesia**



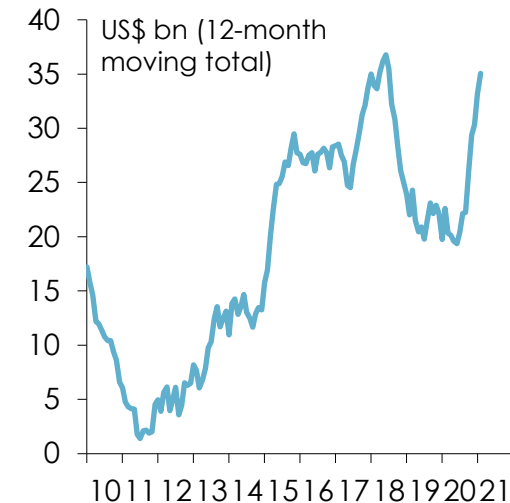
**Thailand**



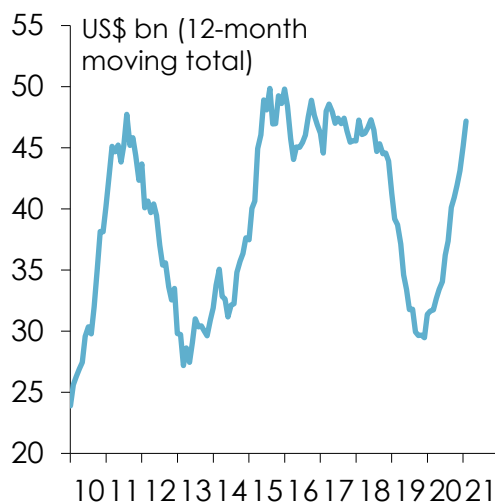
**Vietnam**



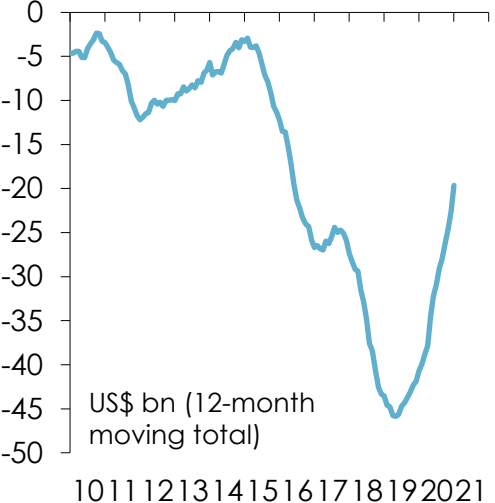
**Taiwan**



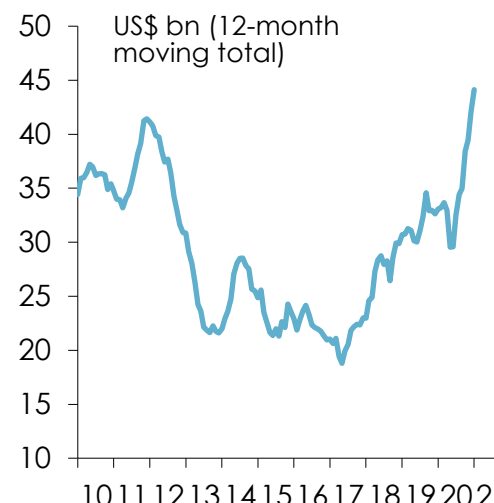
**Singapore**



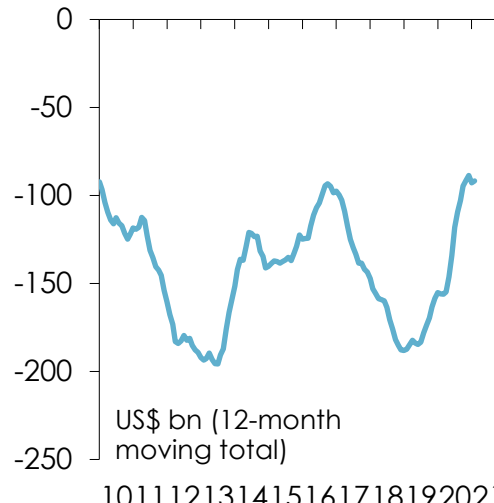
**Philippines**



**Malaysia**



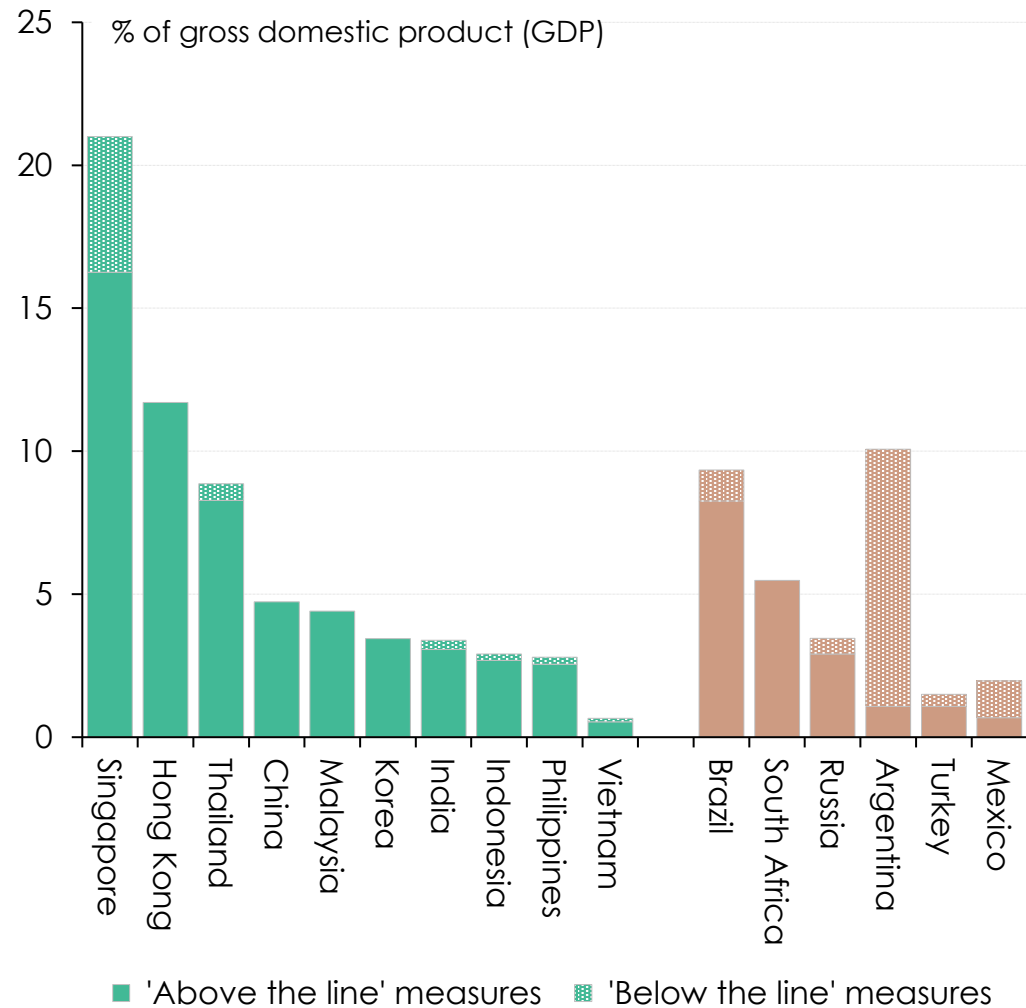
**India**



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

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

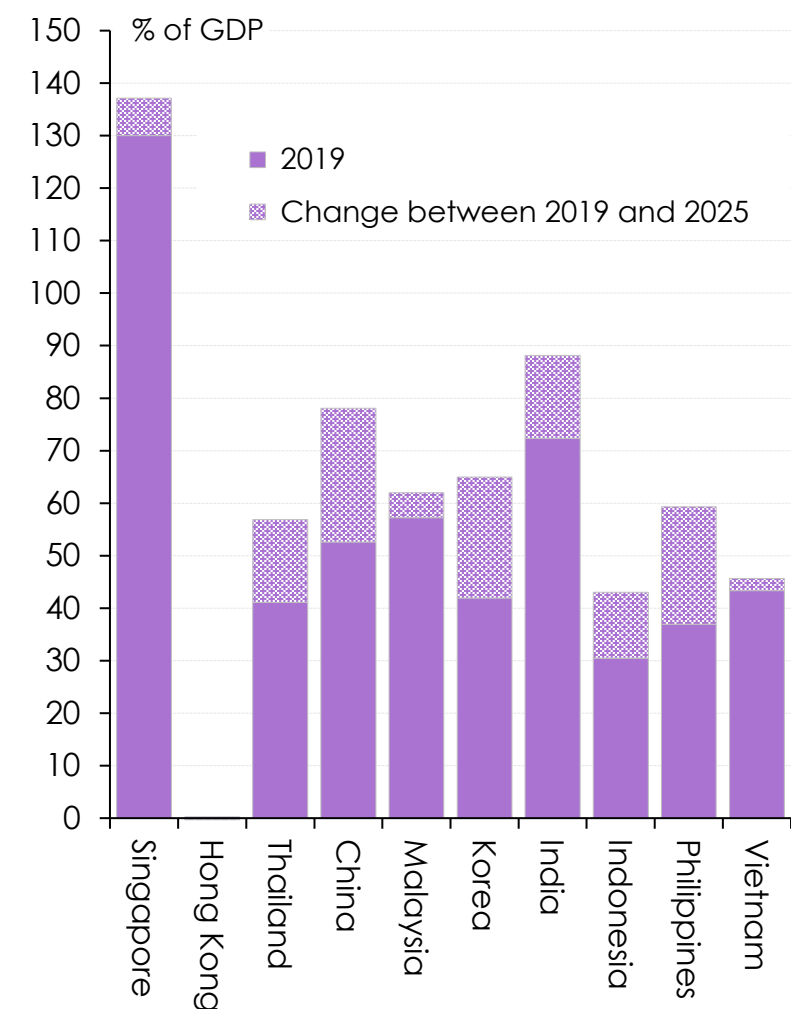
## Fiscal policy responses to Covid-19 – Asian & other selected emerging market economies



## Budget balances – Asian economies 2020-2025



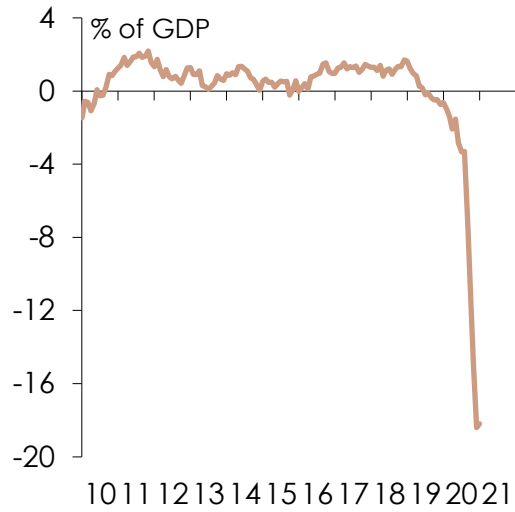
## Gross government debt – Asian economies 2019-25



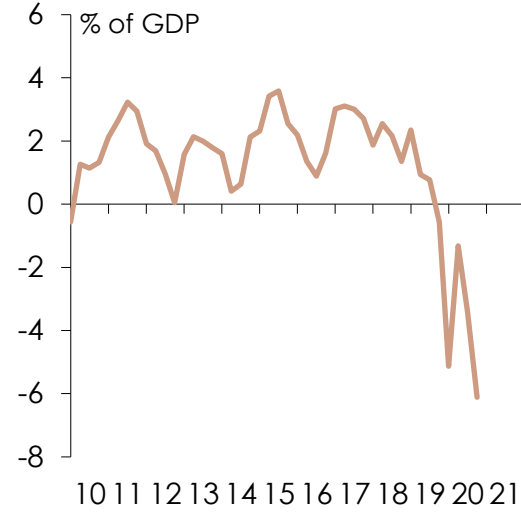
Note: 'Above the line' measures comprise additional or accelerated spending and deferred or foregone revenue. 'Below the line' measures comprise equity injections, loans, asset purchases and debt assumptions, but do not include loan guarantees or other contingent liabilities. 'DMs' means 'developed markets'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

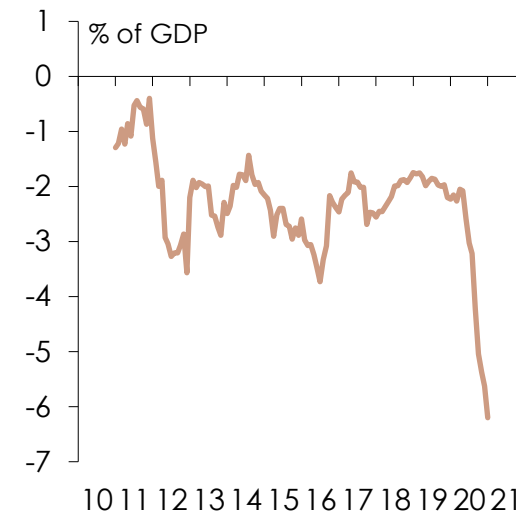
## Korea



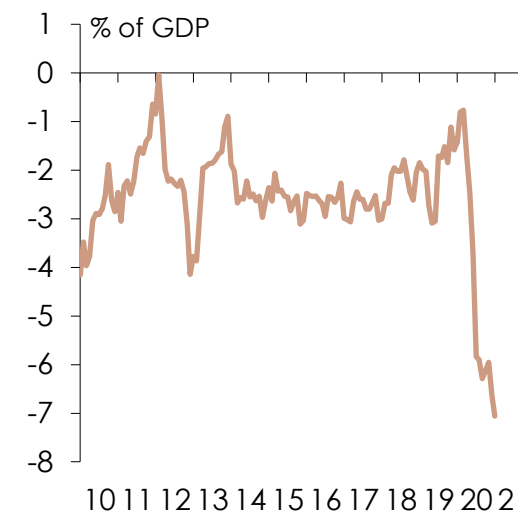
## Hong Kong



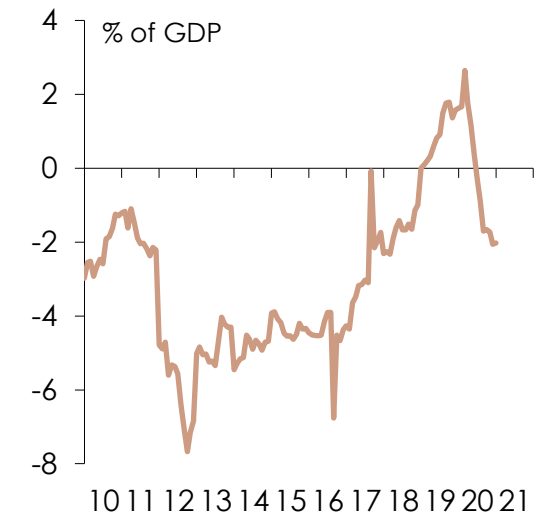
## Indonesia



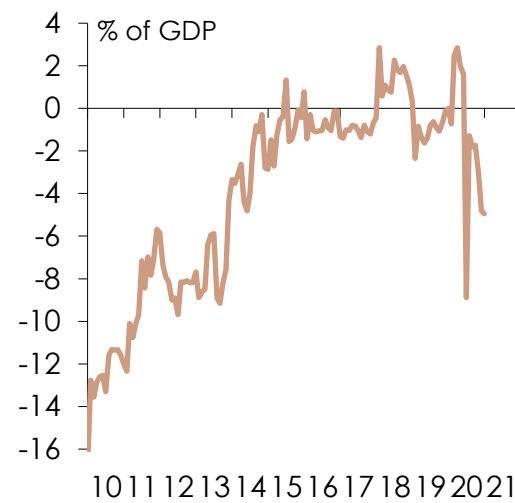
## Thailand



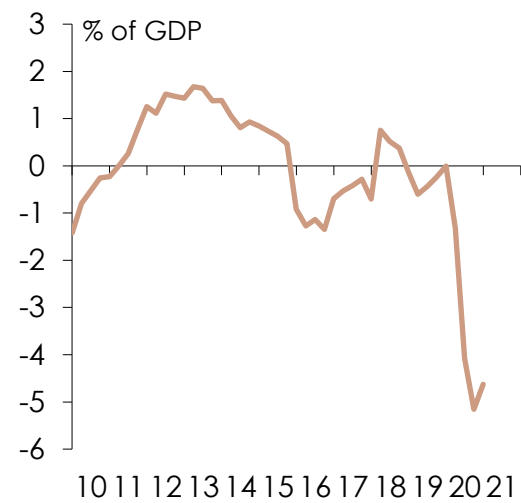
## Vietnam



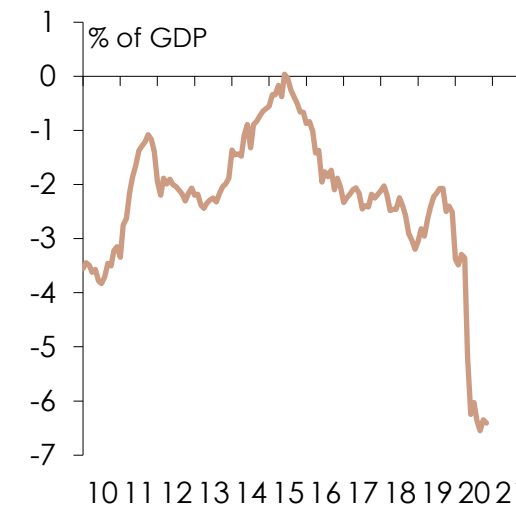
## Taiwan



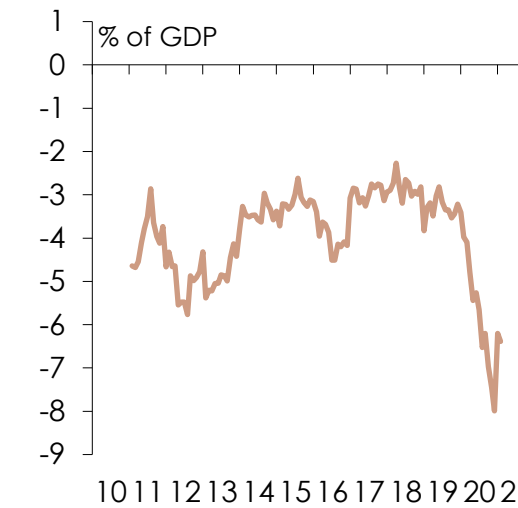
## Singapore



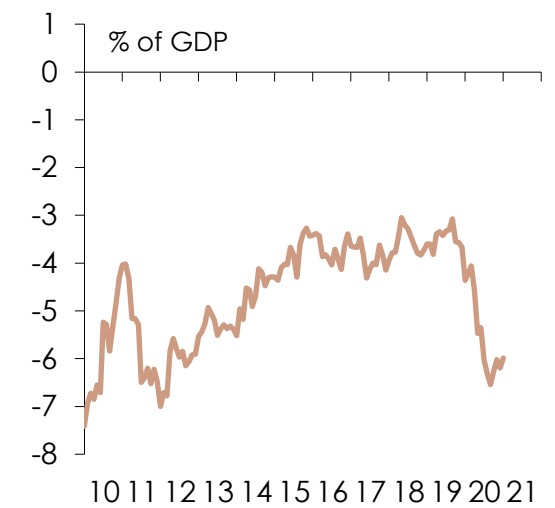
## Philippines



## Malaysia



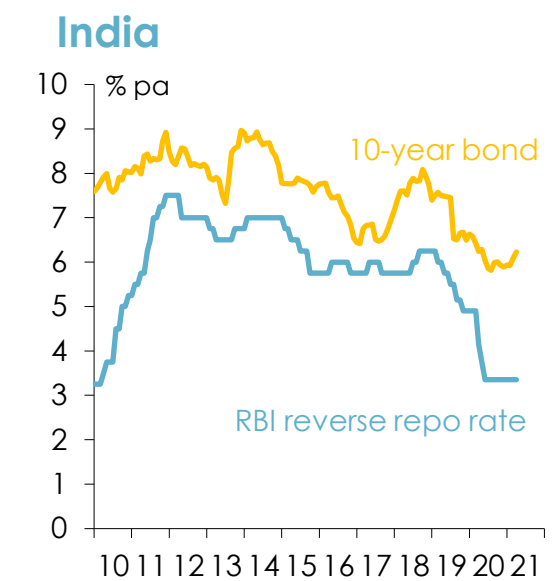
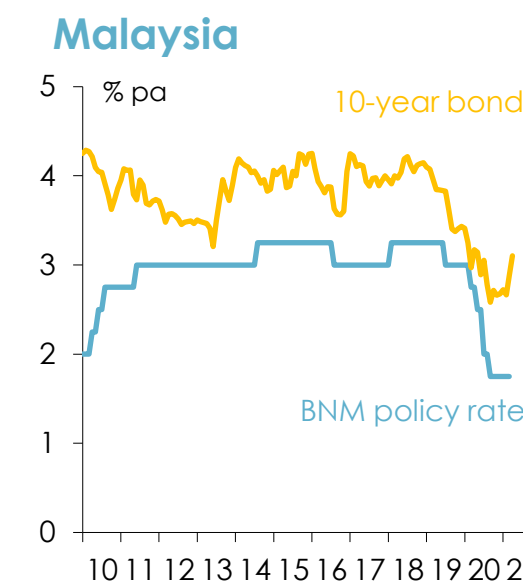
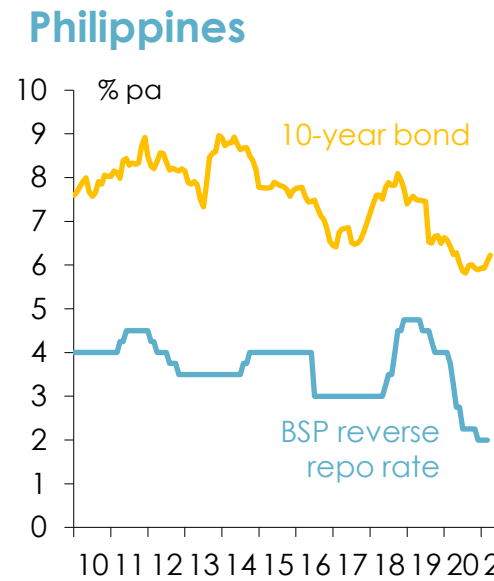
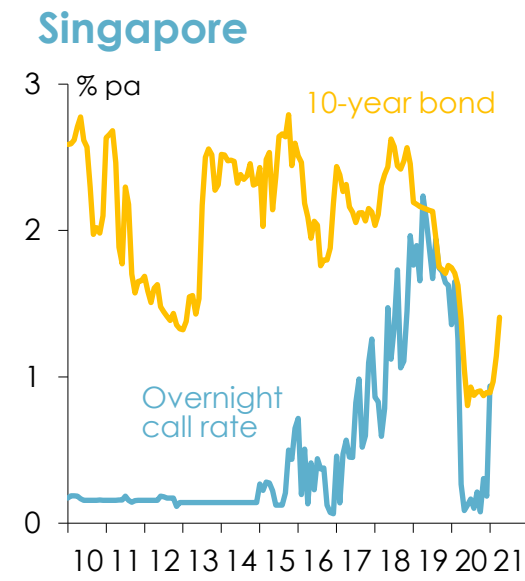
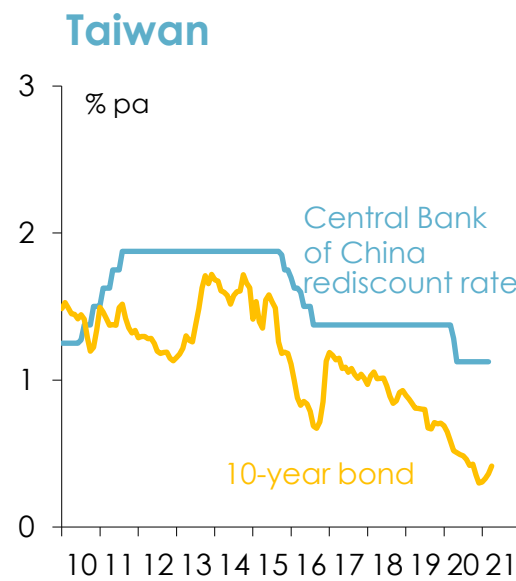
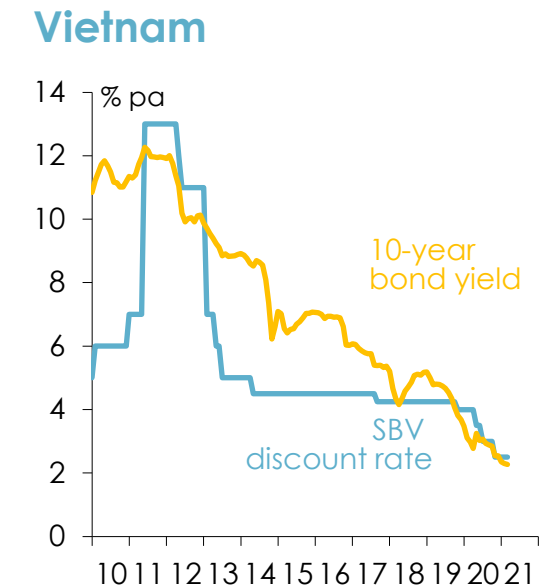
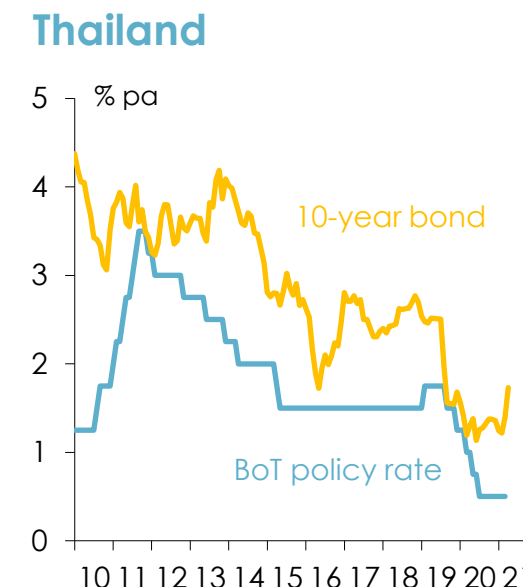
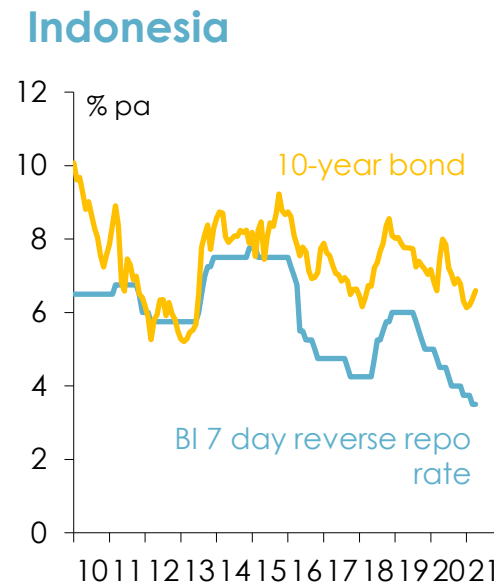
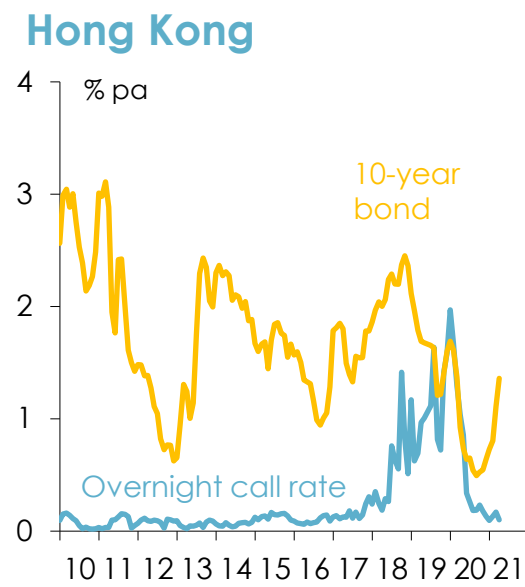
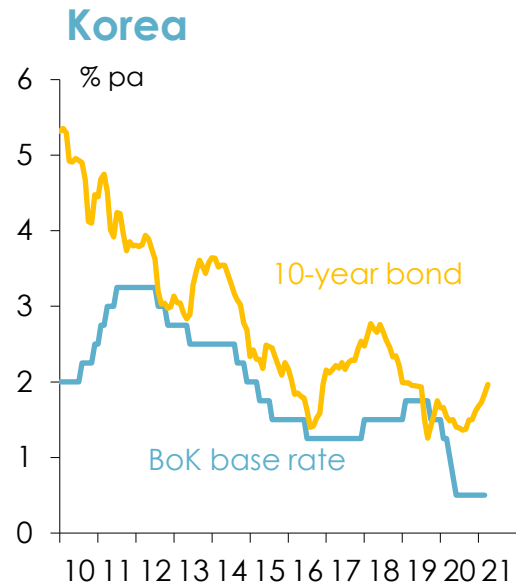
## India



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

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

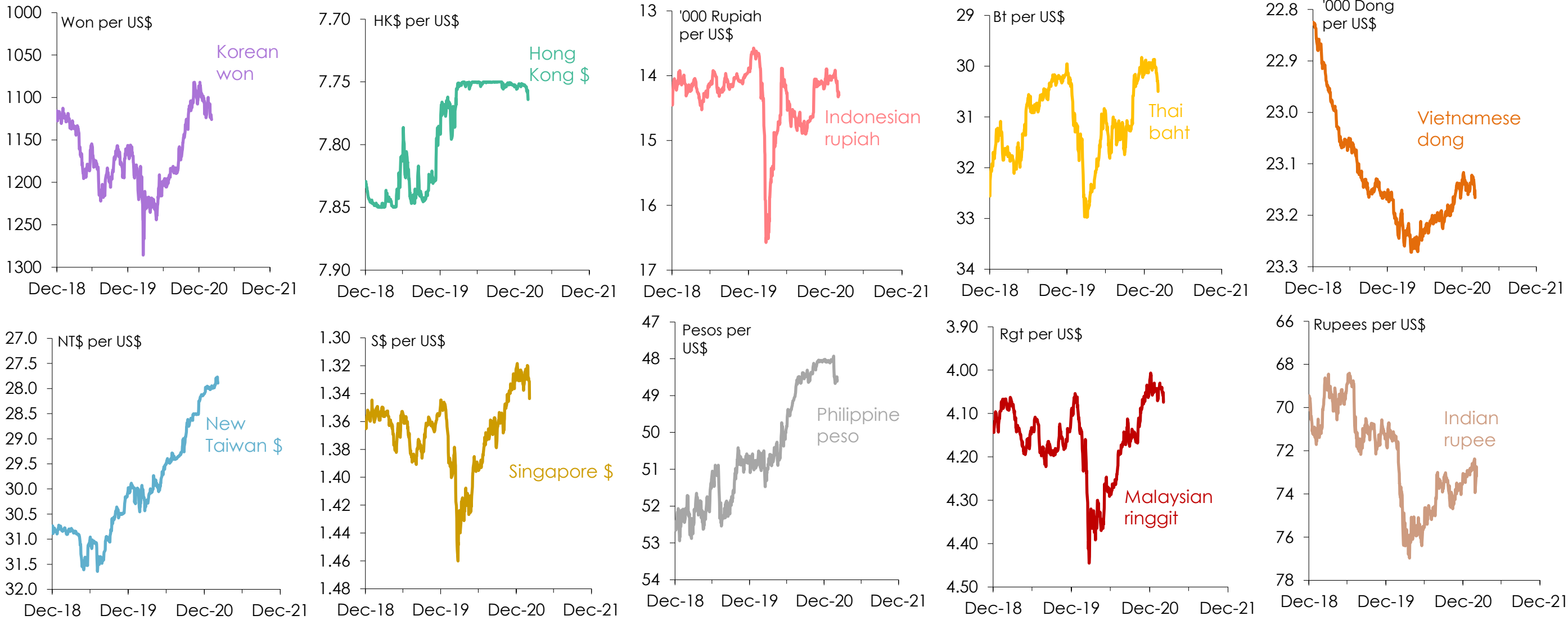
# Asian bond markets have been well insulated from the global bond market sell-off this month – except for HK, Singapore and Korea



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. Data are monthly averages up to March 2021. Sources: national central banks; Refinitiv Datastream. [Return to "What's New"](#).

# Asian currencies fell again this week against a firmer US\$ with the Sing \$ and Thai baht dropping more than 1% although the rupee rose 1%

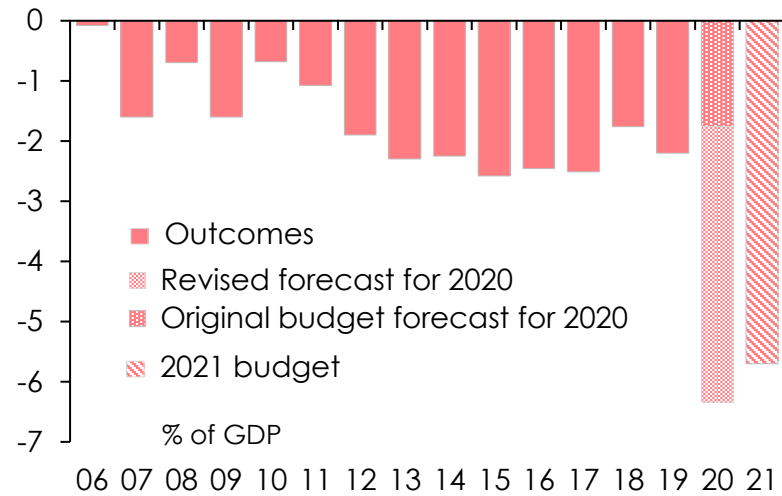
## Asian currency exchange rates vs US dollar



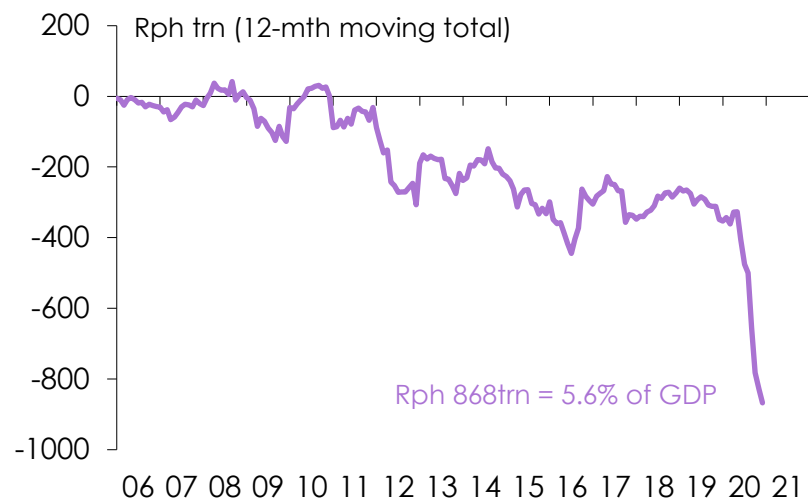
Note: Data up to 5<sup>th</sup> March. Source: Refinitiv Datastream. [Return to "What's New"](#).

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

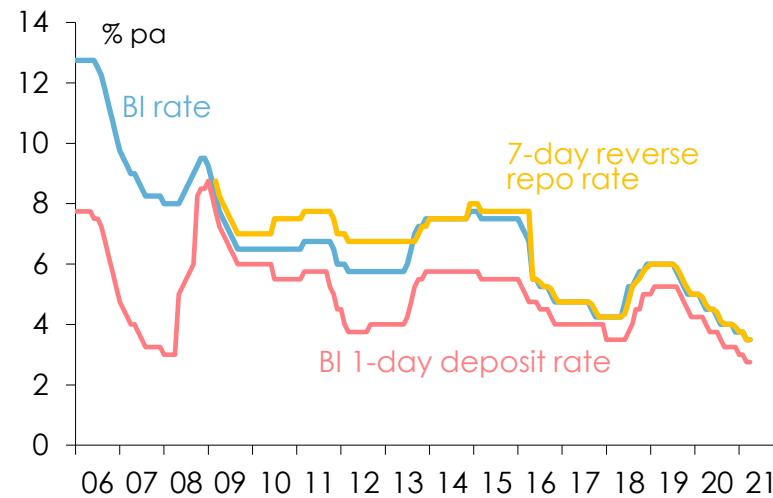
## Indonesia budget deficit



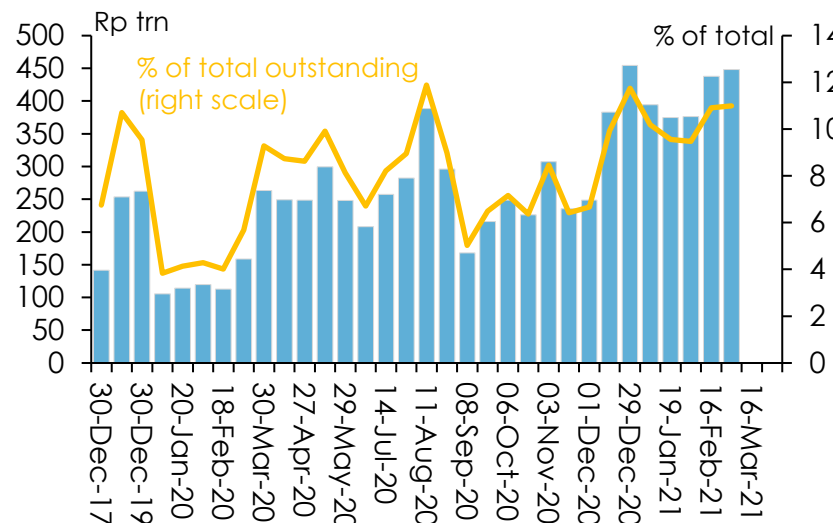
## Central gov't budget balance



## BI monetary policy rates



## BI holdings of tradeable SBNs

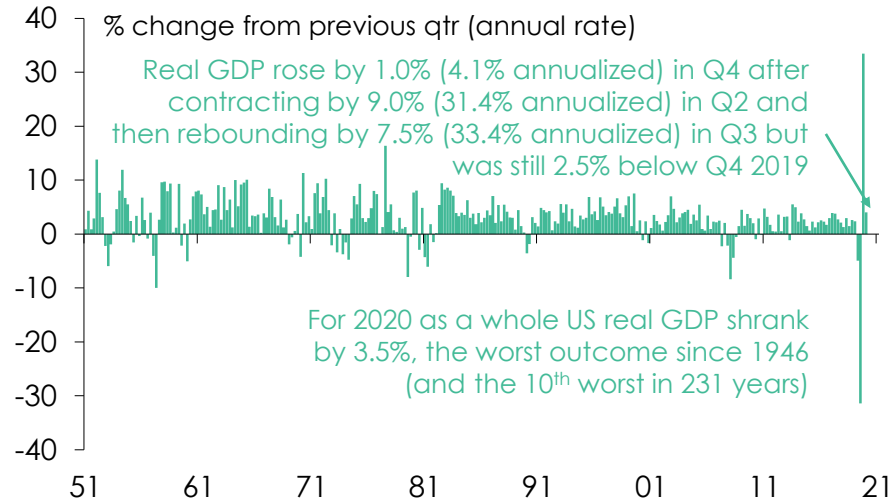


- In April 2020, the Indonesian Government and Bank Indonesia (BI) agreed to a 'burden-sharing' scheme under which BI will directly purchase bonds equivalent to 25% of this year's budget financing requirement (and return the interest received to the Government), as well as subsidizing interest payments on other bonds
  - BI calls this 'synergistic monetary expansion'
  - as of 19th BI had purchased Rp72.5 trn of SBN in the primary market, and provided an additional Rp62 trn through 'burden sharing' arrangements with the Government
  - BI has also funded Rp 115trn of lending to SMEs under a separate 'burden-sharing' agreement
- BI has indicated that it will be a 'standby buyer' for up to one-quarter of government borrowing requirements through 2022
- Last month 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](#))

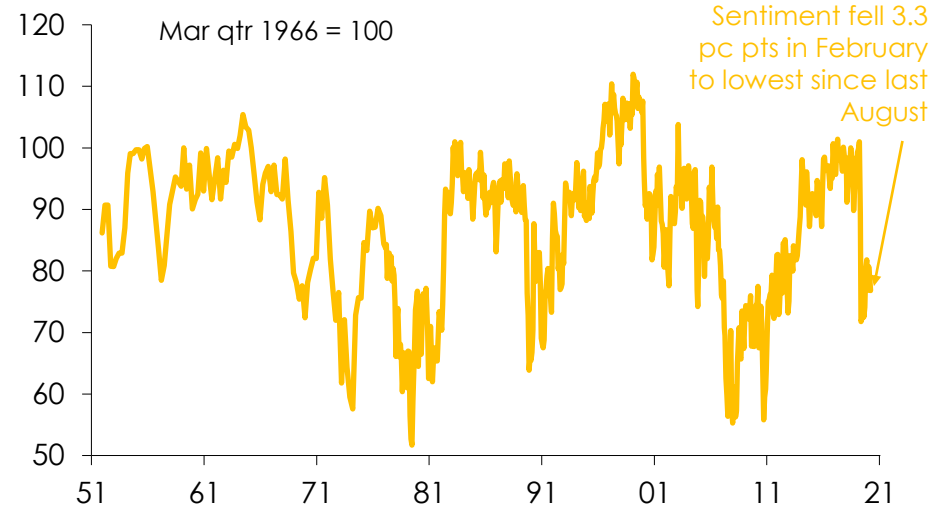
Sources: [Indonesia Ministry of Finance \(Kementerian Keuangan\)](#); [Directorate of Government Debt Securities](#); Bank Indonesia. [Return to "What's New"](#).

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

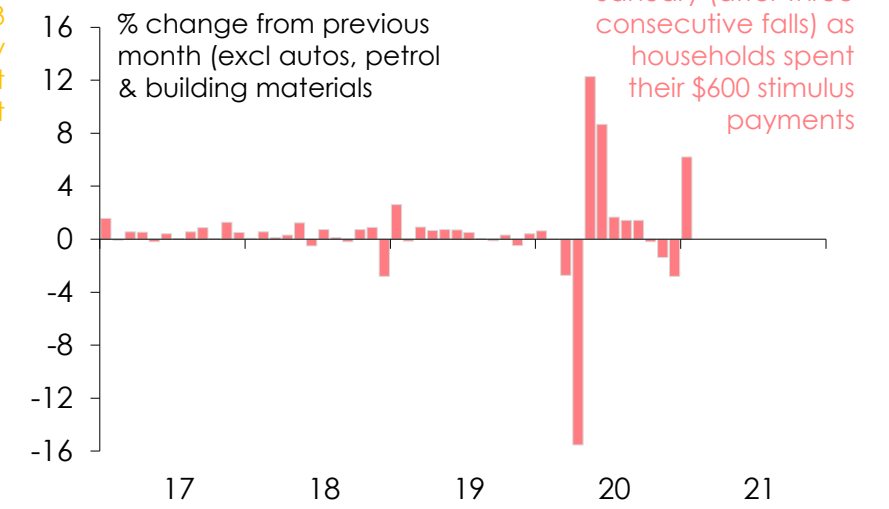
## Real GDP



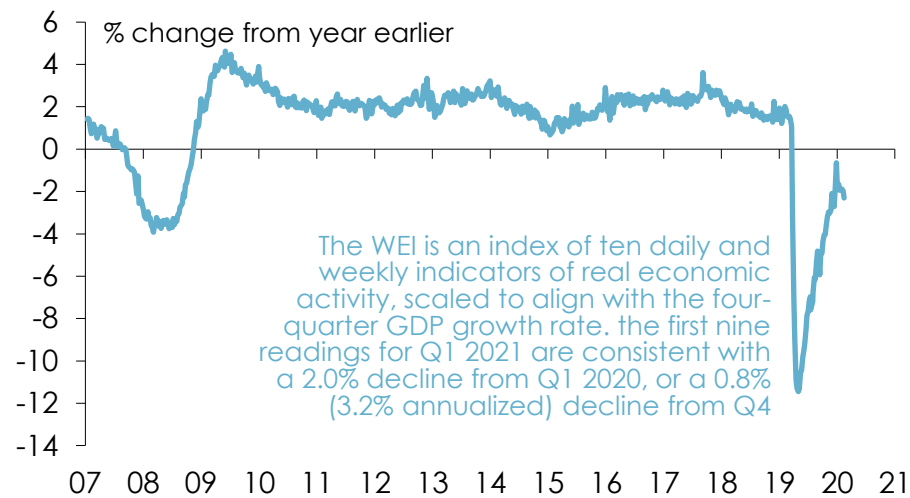
## Consumer sentiment



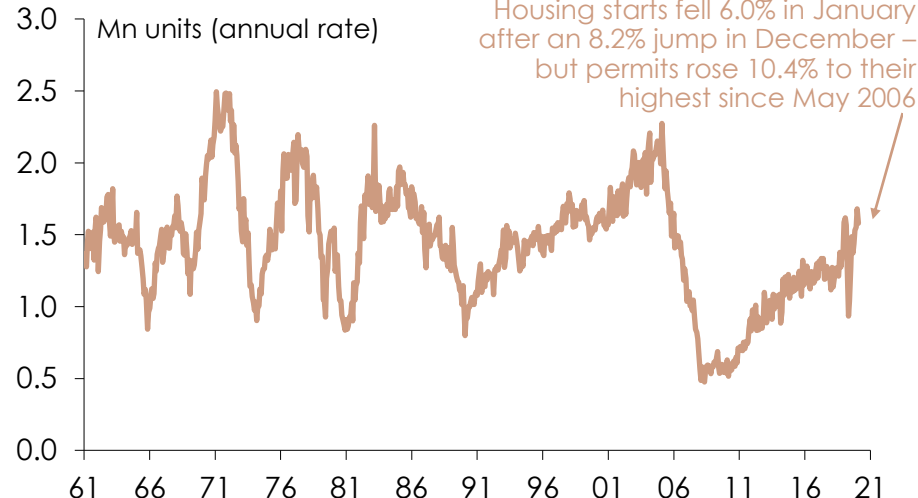
## 'Core' retail sales



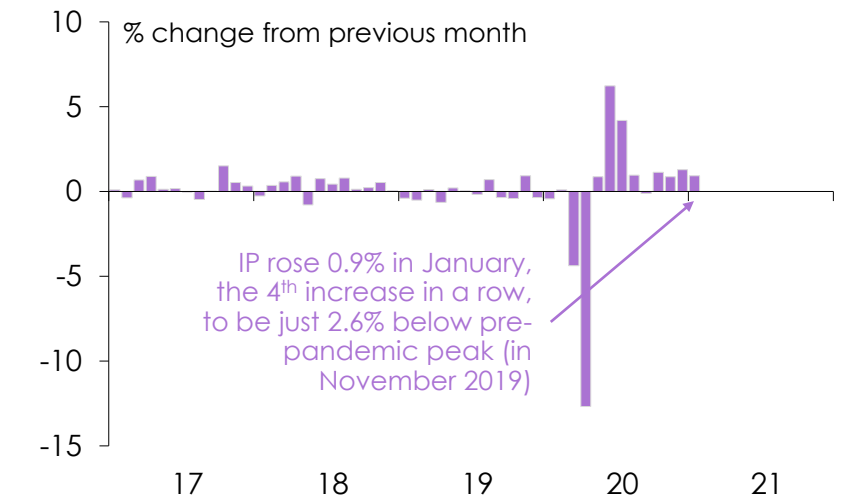
## NY Fed weekly economic index



## Housing starts

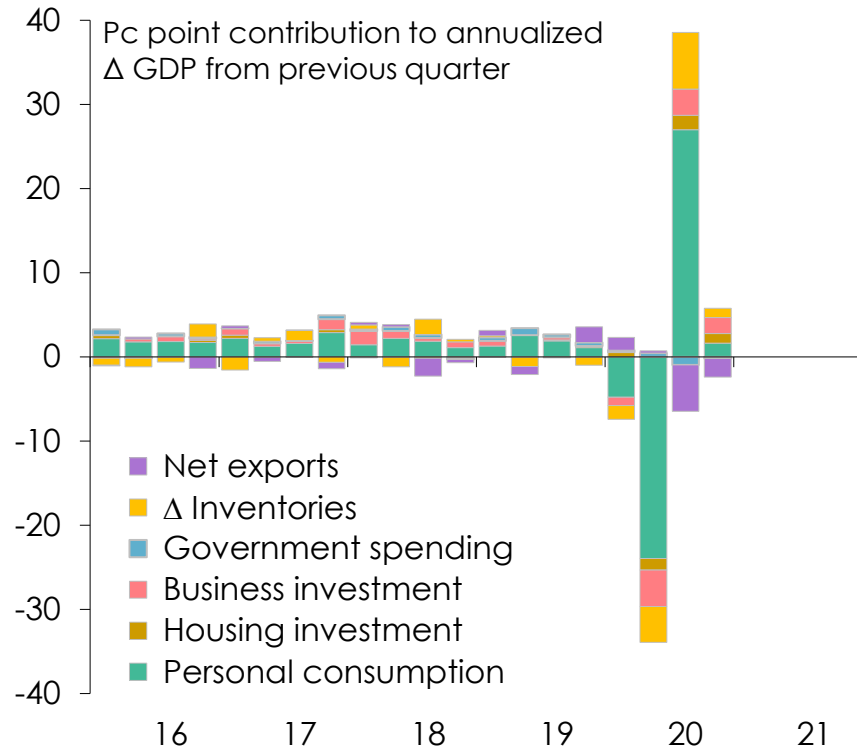


## Industrial production



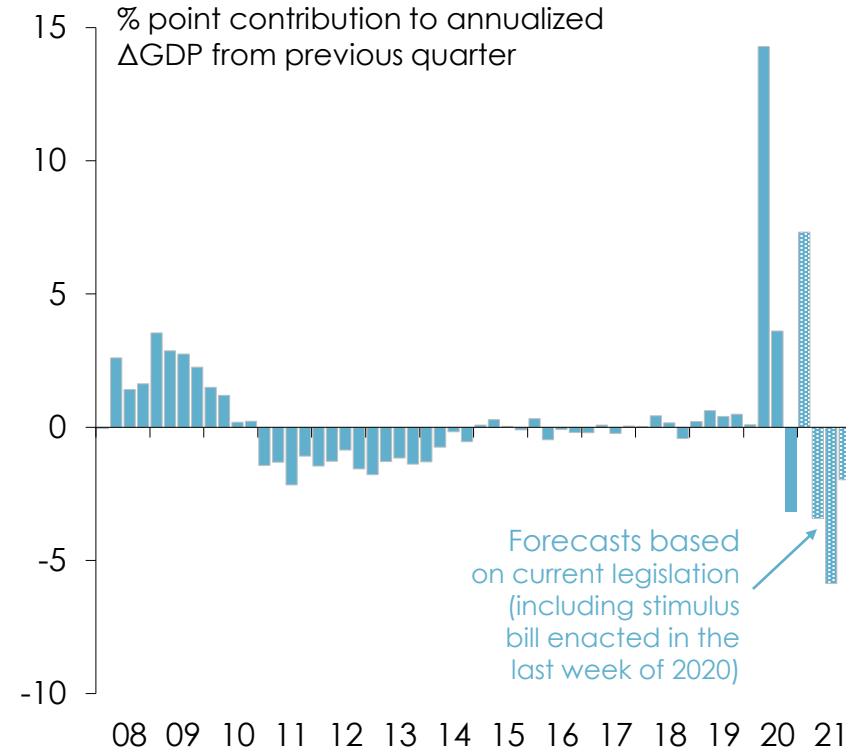
# The huge gyrations in US real GDP during 2020 reflect the effects of restrictions, swings in fiscal policy and in personal saving

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



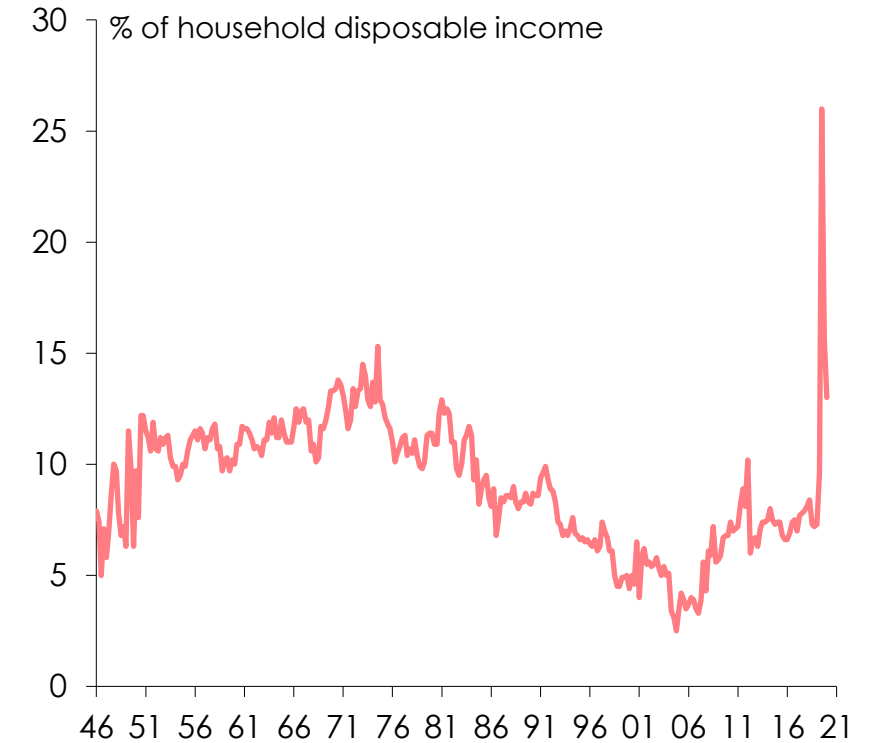
The slowdown in Q4 reflects a stalling in household spending on goods, a second consecutive fall in government spending, and a further drag from net exports

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



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

## Personal saving rate

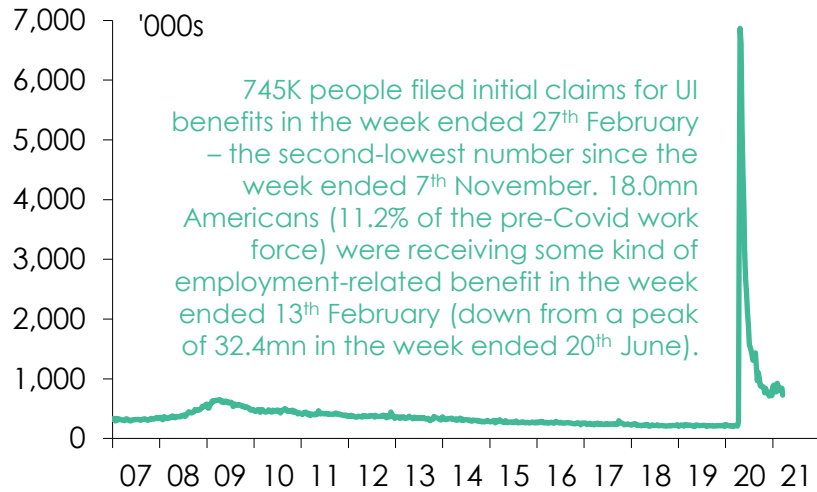


The personal saving rate declined again in Q4 to 13% from 26% in Q2 and 16% in Q1 but is otherwise still higher than at any time since the end of WWII

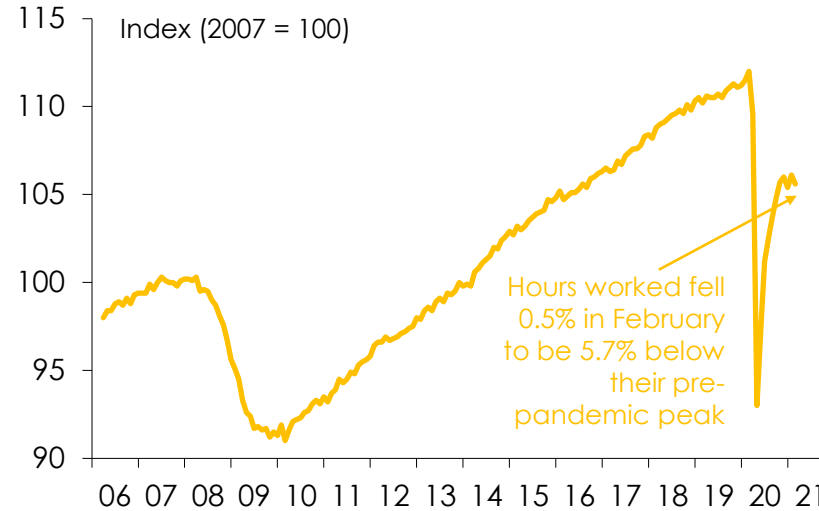


# US non-farm payrolls rose 0.3% in February, as easing of restrictions allowed hospitality workers to return to their jobs

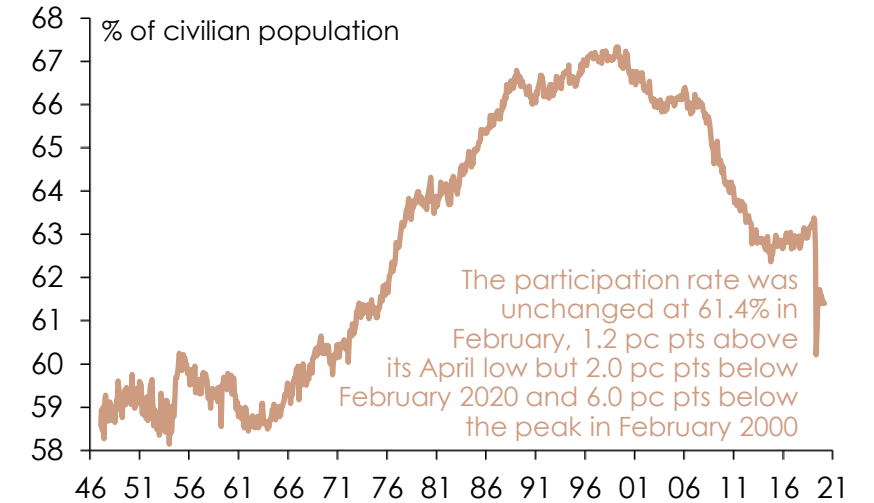
## Unemployment benefit claims



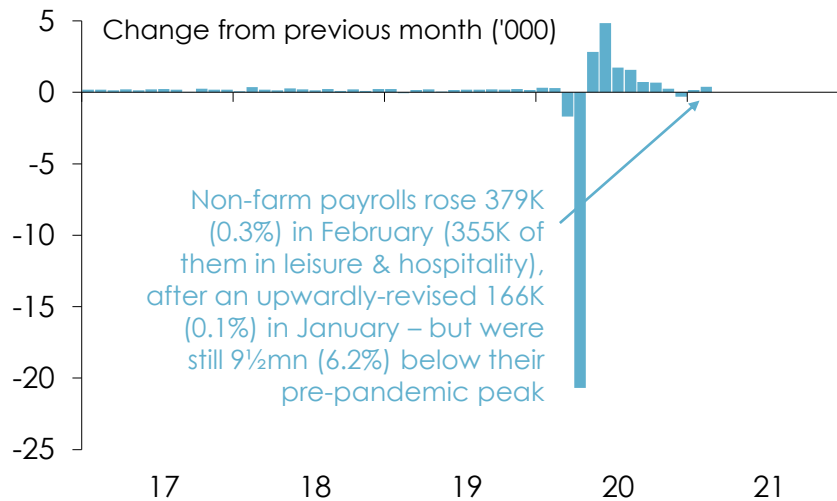
## Hours worked (private sector)



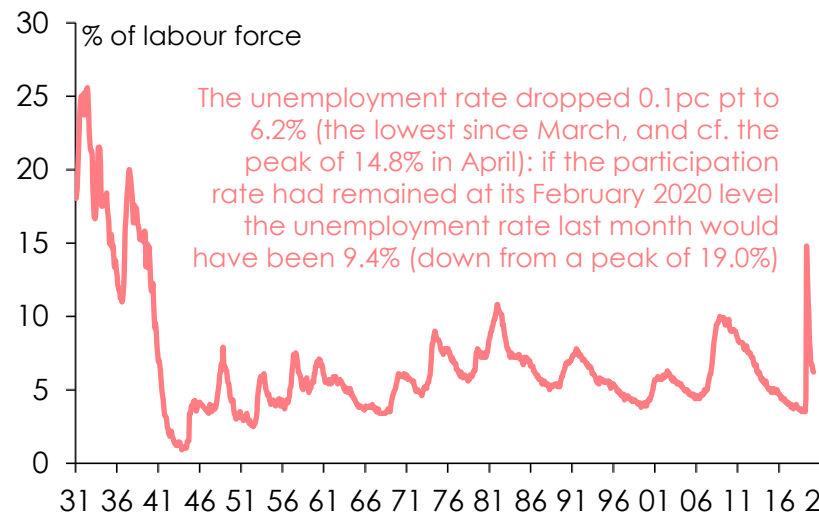
## Labour force participation rate



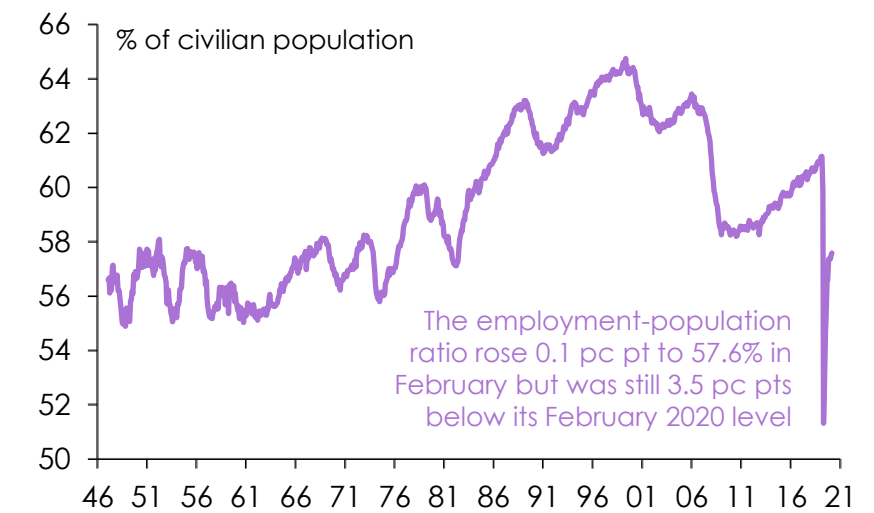
## Non-farm payroll employment



## Unemployment rate



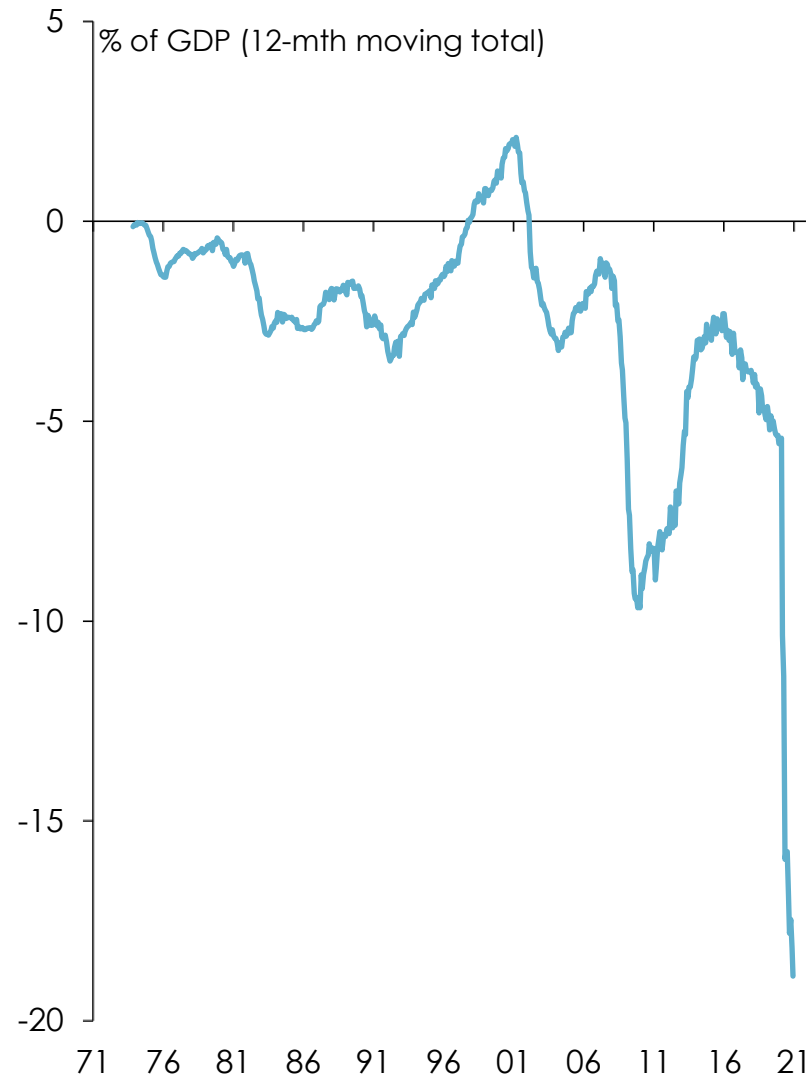
## Employment to population ratio



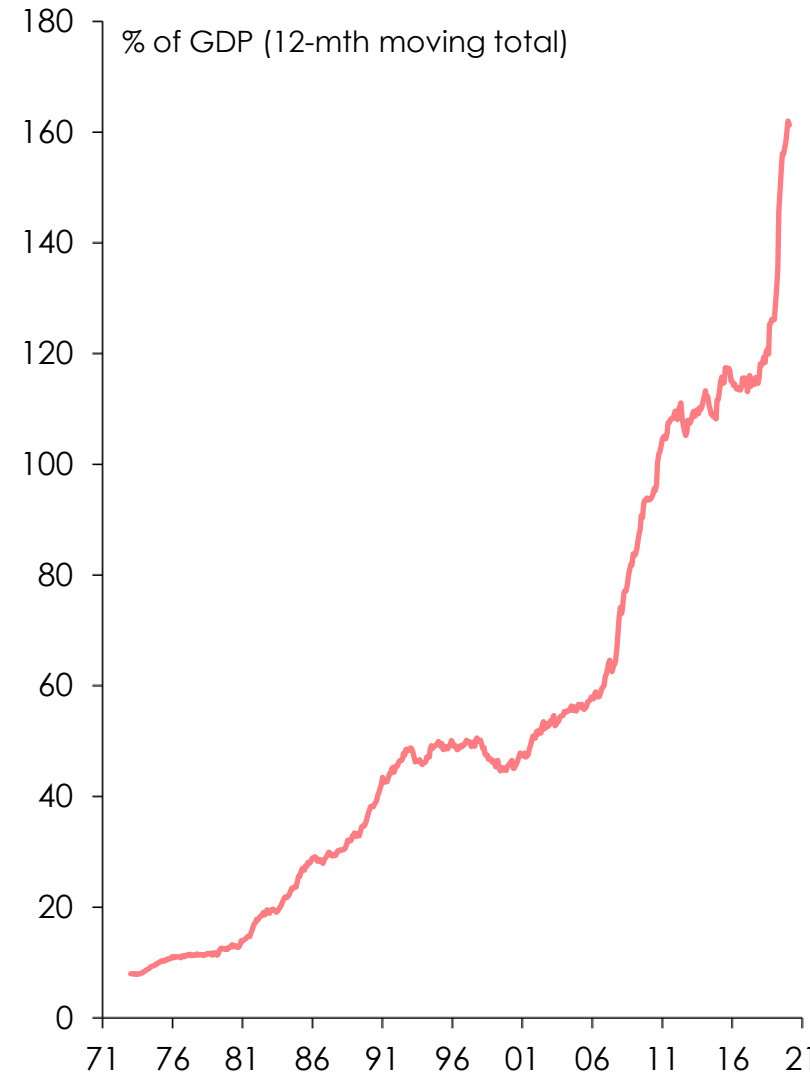
Sources: US [Department of Labor](#); US [Bureau of Labor Statistics](#); National Bureau of Economic Research [Macro History database](#). March employment and other labour force data will be released on 2<sup>nd</sup> April. [Return to "What's New"](#).

# 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

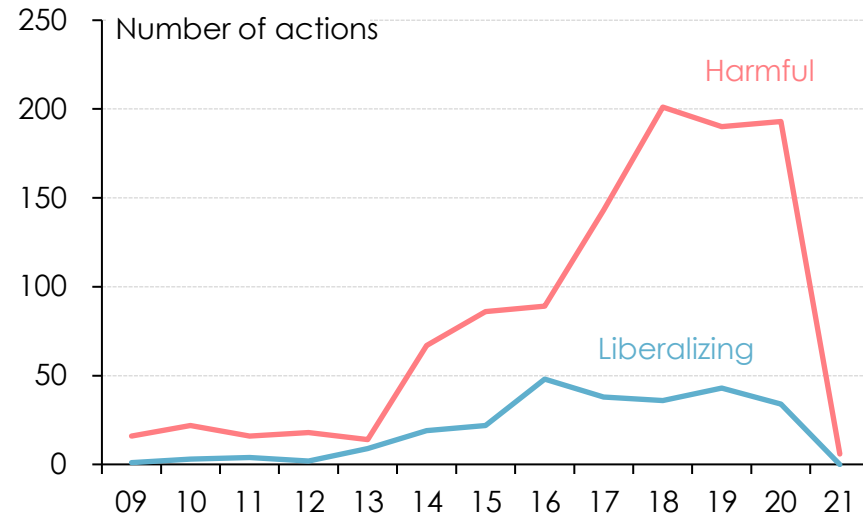


- ❑ The US budget deficit widened from US\$582bn (3.3% of GDP) in 2016 (Obama's last year in office) to US\$1 trn (5.4% of GDP) in 2019, while gross federal debt rose from US\$20.4 trn (115% of GDP) to \$24.1trn (126% of GDP)
- ❑ For CY 2020 as a whole, Federal government spending rose by 49.7% (!) while 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

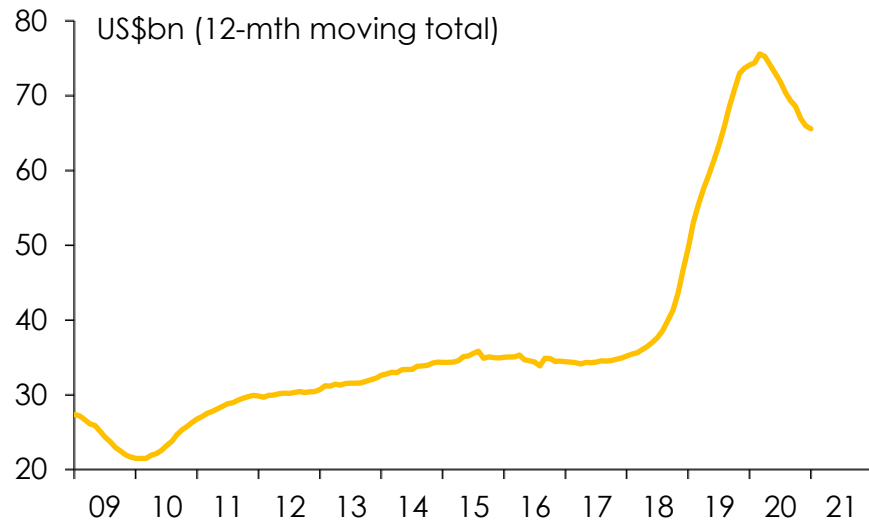
Note: The measure of US gross federal debt is at market value. Sources: [US Treasury Department](#); [Federal Reserve Bank of Dallas](#); US Bureau of Economic Analysis; [US Congressional Budget Office](#); Corinna. February budget data will be released on 10<sup>th</sup> March. [Return to "What's New"](#).

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

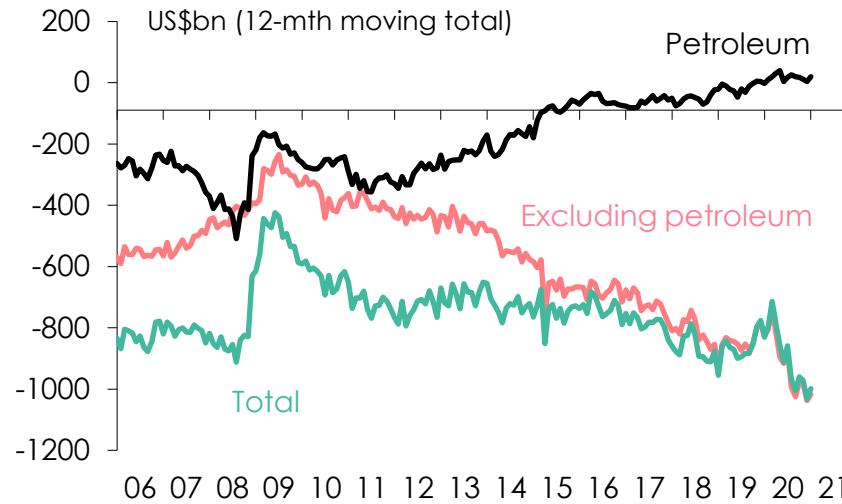
## US trade policy actions



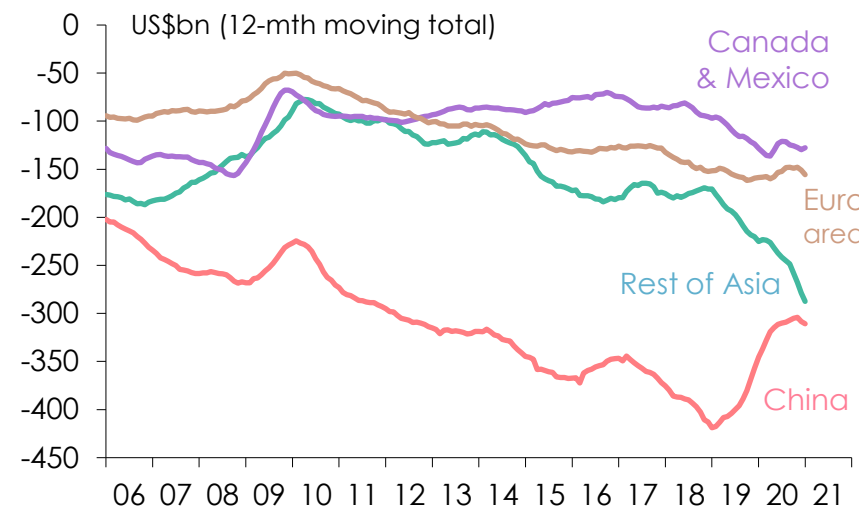
## US customs duty revenue



## US merchandise trade balance



## US bilateral trade balances

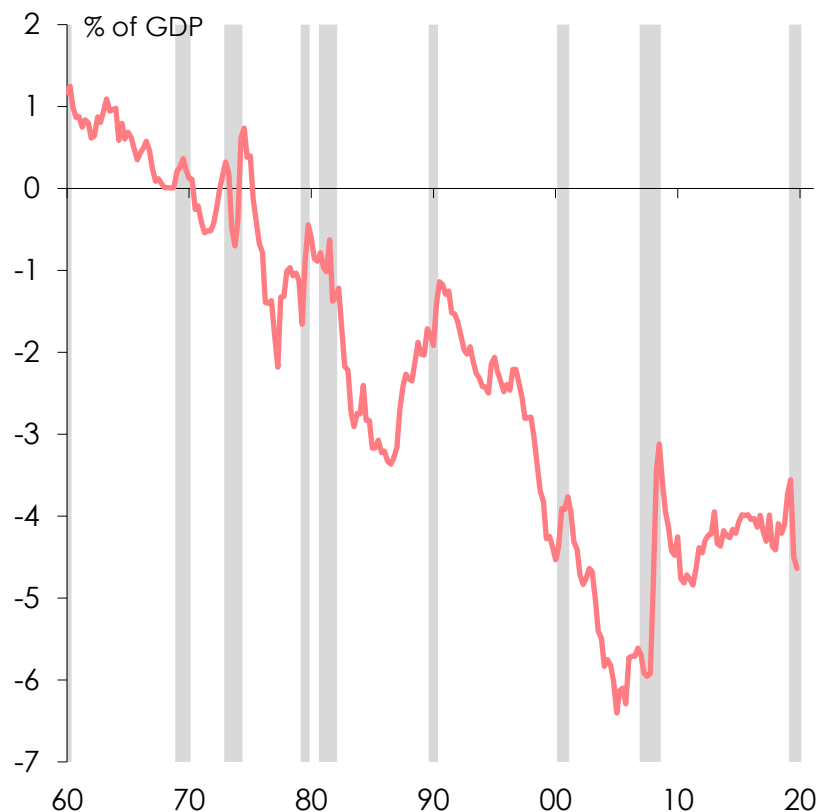


- A [Brookings Institution analysis](#) of the impact of the Trump Administration's trade policies suggests that the average American household paid anywhere between "several hundred" and "a thousand dollars or more" per annum in higher prices due to tariffs
  - consistent with what is widely understood by economists, but (sadly) by few others, that tariffs are *not* something governments make foreigners pay to their goods into a country, but rather something they make *their own consumers or businesses* pay to keep foreign goods out
- The overall US trade deficit continued to widen under the Trump Administration – despite the balance on petroleum products trade moving into surplus
- A US\$110bn decline in the bilateral deficit with China was more than offset by wider deficits with the rest of Asia, Mexico, Canada and Europe

Sources: The Brookings Institution; Centre for Economic Policy Research, [Global Trade Alert](#) Global Dynamics (data up to 26<sup>th</sup> February); [US Treasury Department](#); US Commerce Department. [Return to "What's New"](#).

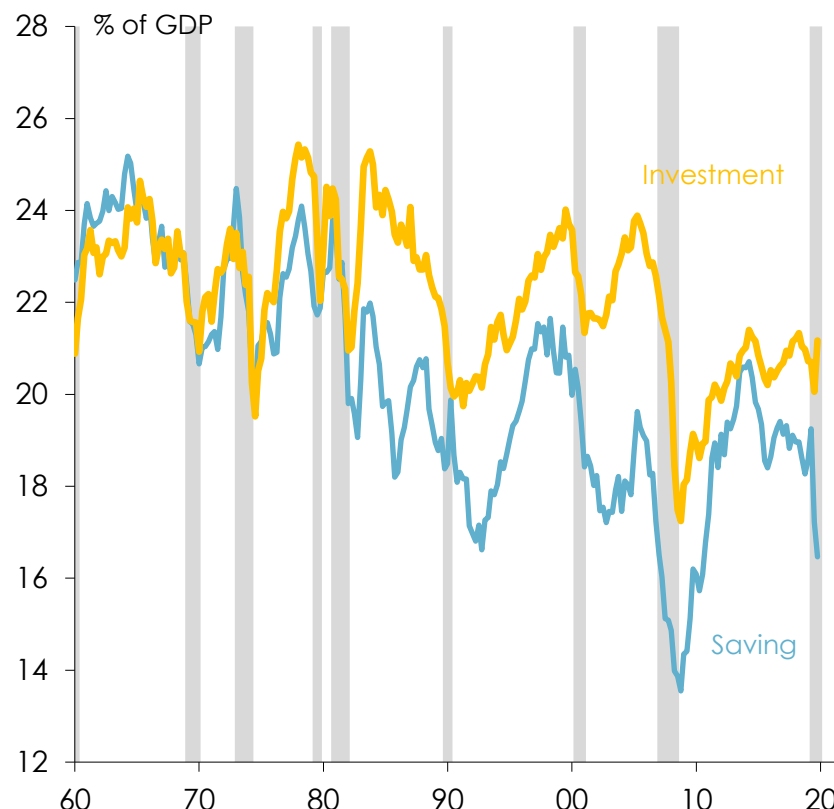
# Unusually, the US current account deficit has widened so far during this recession, largely because investment hasn't fallen much

## US current account balance



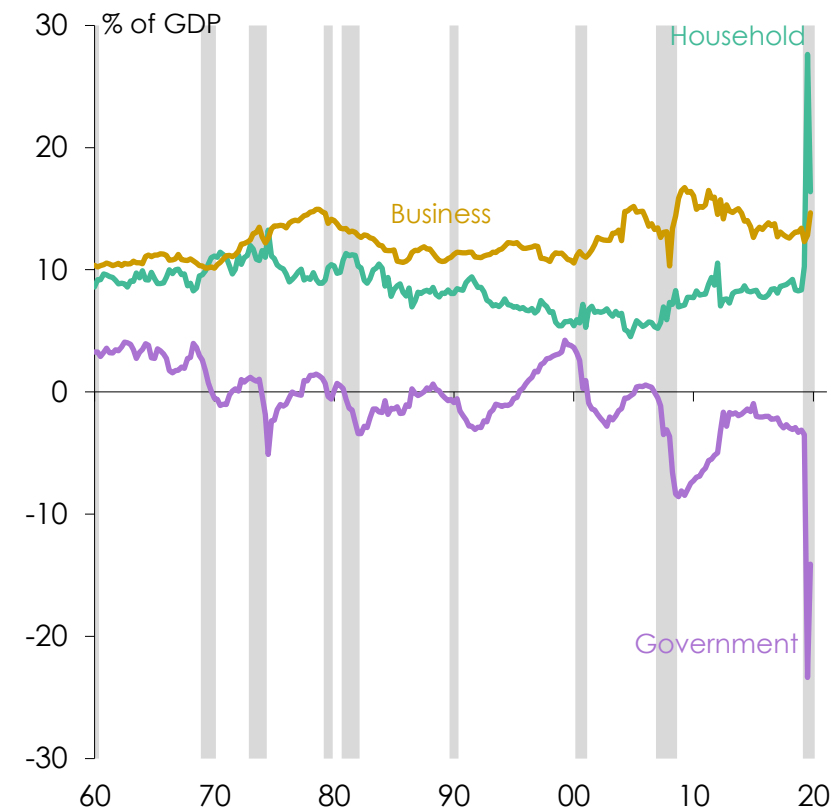
The US current account balance normally improves (ie, the deficit usually gets smaller) during recessions – but in this one it has (so far) widened

## Gross saving and investment



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

## Gross saving by sector

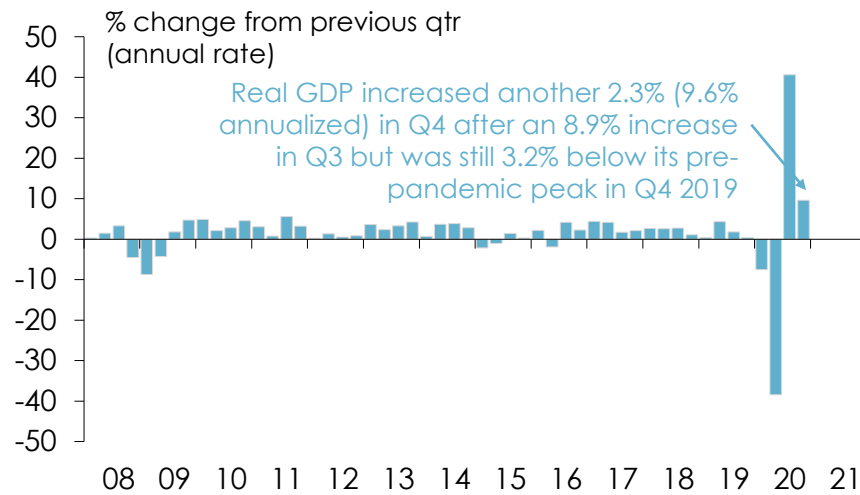


The dramatic increase in the budget deficit has been largely (but not totally) offset by an increase in household saving (though monthly data says household saving fell in Q3)

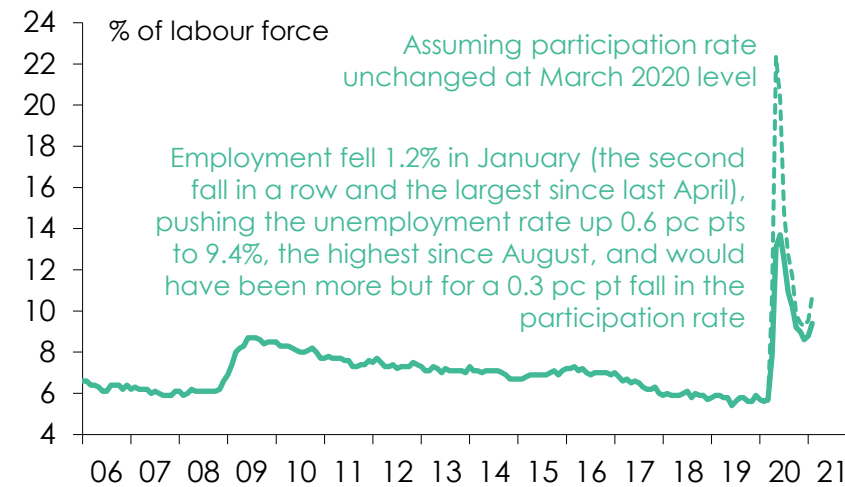
Note: shaded areas denote recessions as designated by the US [National Bureau of Economic Research](#). 2020 Q4 data will be included in these charts with the release of the second estimates of Q4 GDP on 219th February. Source: US [Bureau of Economic Analysis](#). [Return to "What's New"](#).

# Canada's economy grew another 2¼% in Q4 2020 (down from 9% in Q3) but was still 3¼% smaller than at the pre-recession peak in Q4 2019

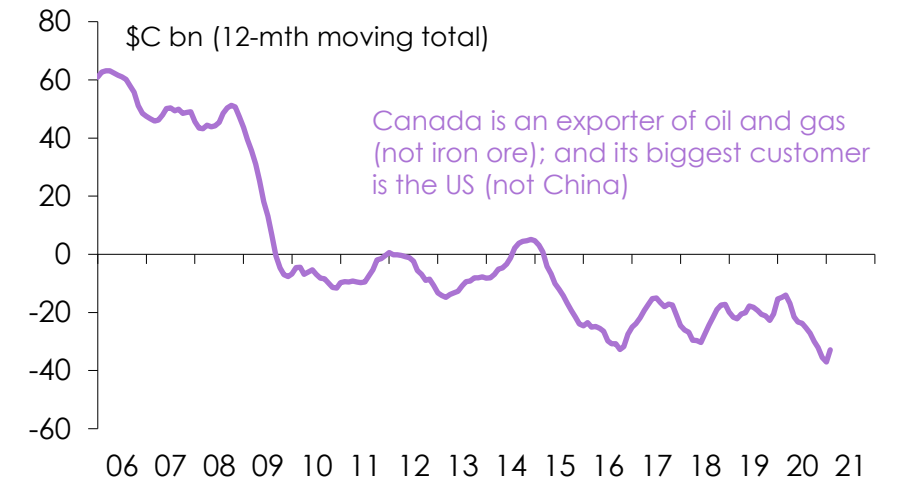
## Real GDP



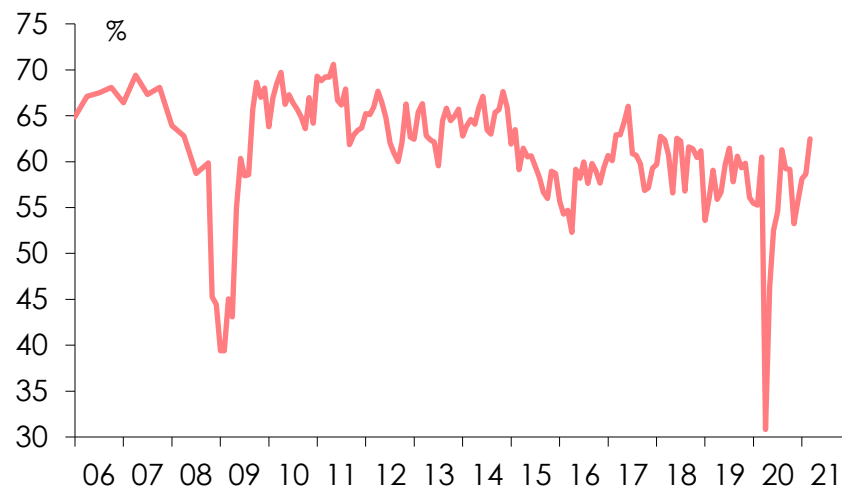
## Unemployment rate



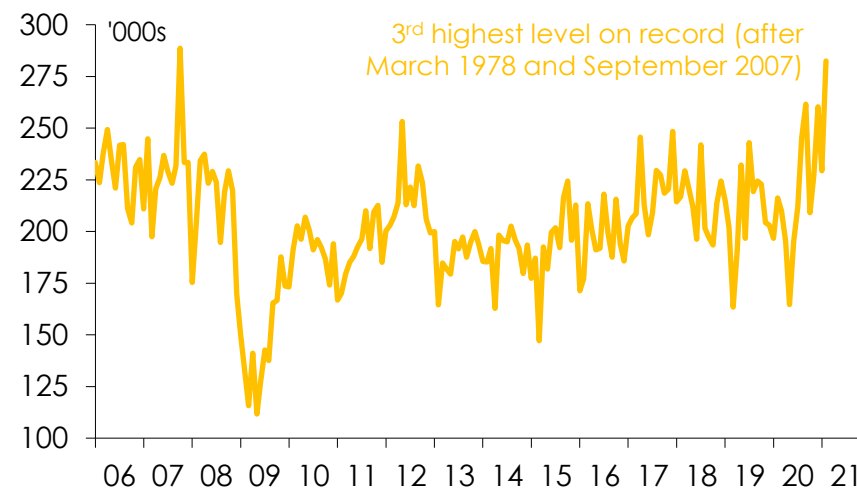
## Merchandise trade balance



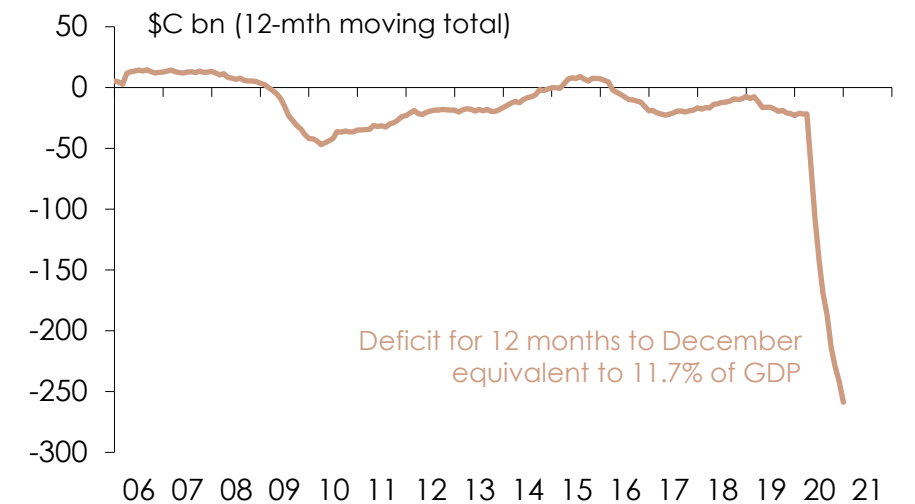
## CFIB 'business barometer'



## Housing permits

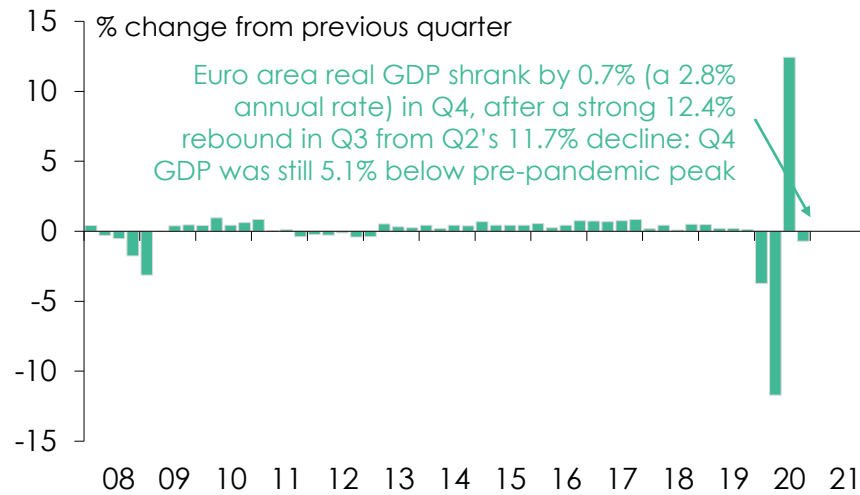


## Federal budget balance

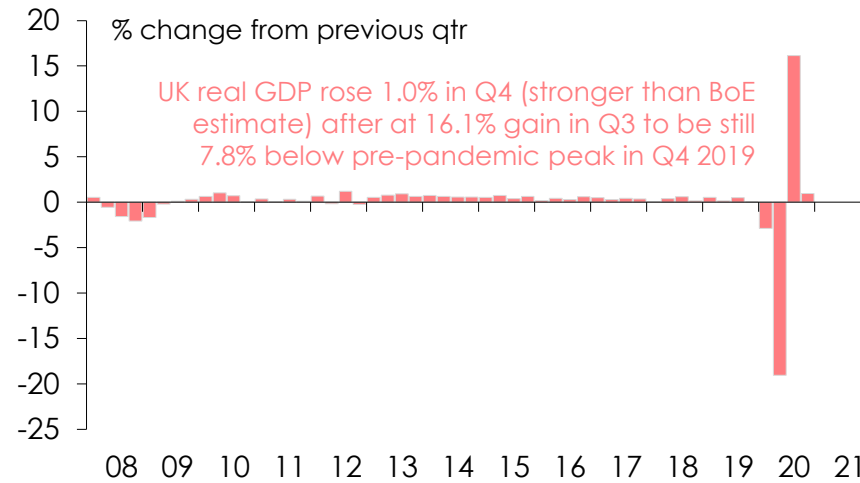


# The euro area economy contracted by 0.7% in Q4 2020 and 5.1% from Q4 2019: corresponding numbers for UK were +0.1% and -7.8%

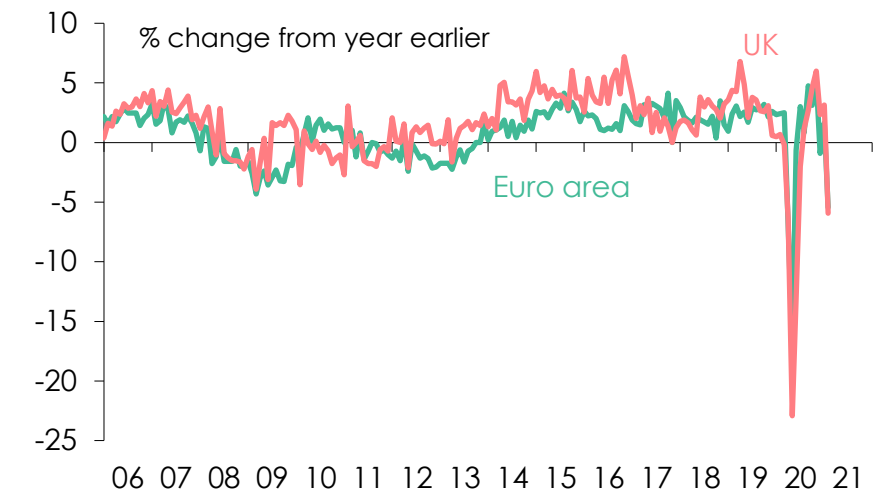
## Euro area real GDP



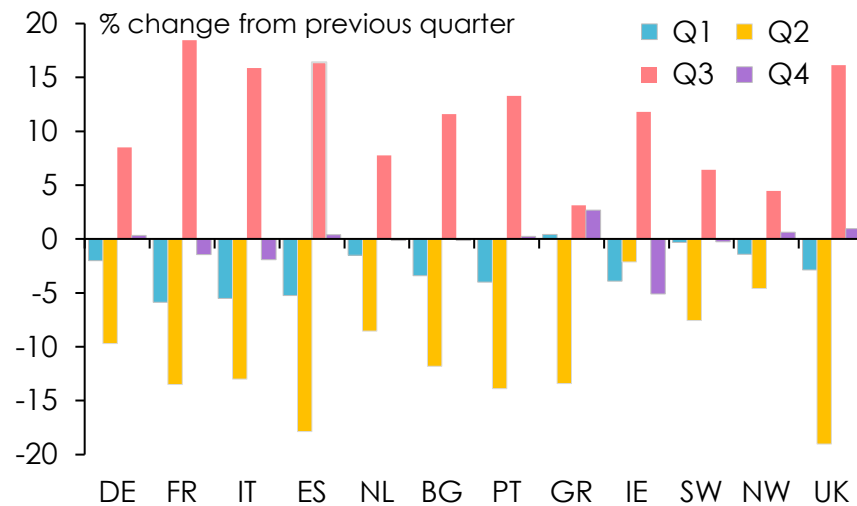
## UK real GDP



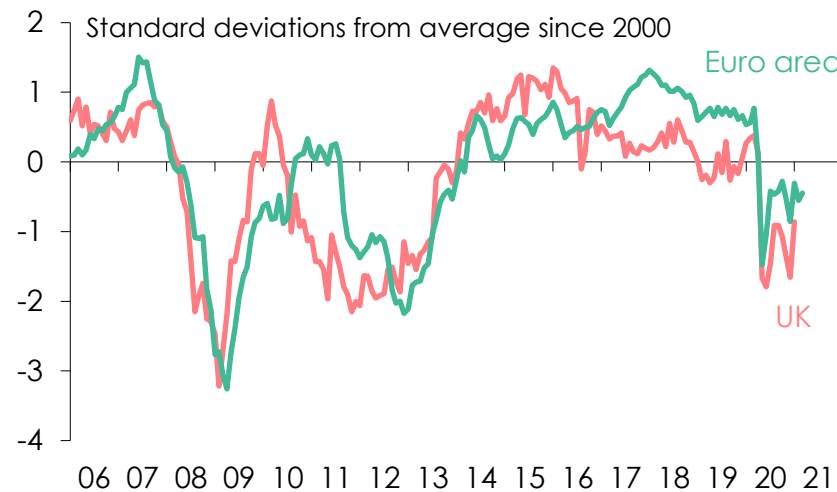
## Retail sales volume



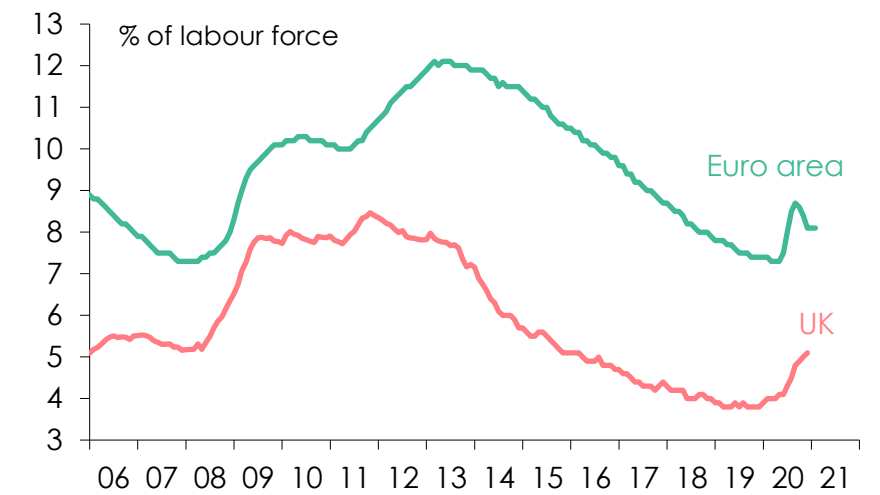
## Quarterly GDP by country



## Consumer confidence



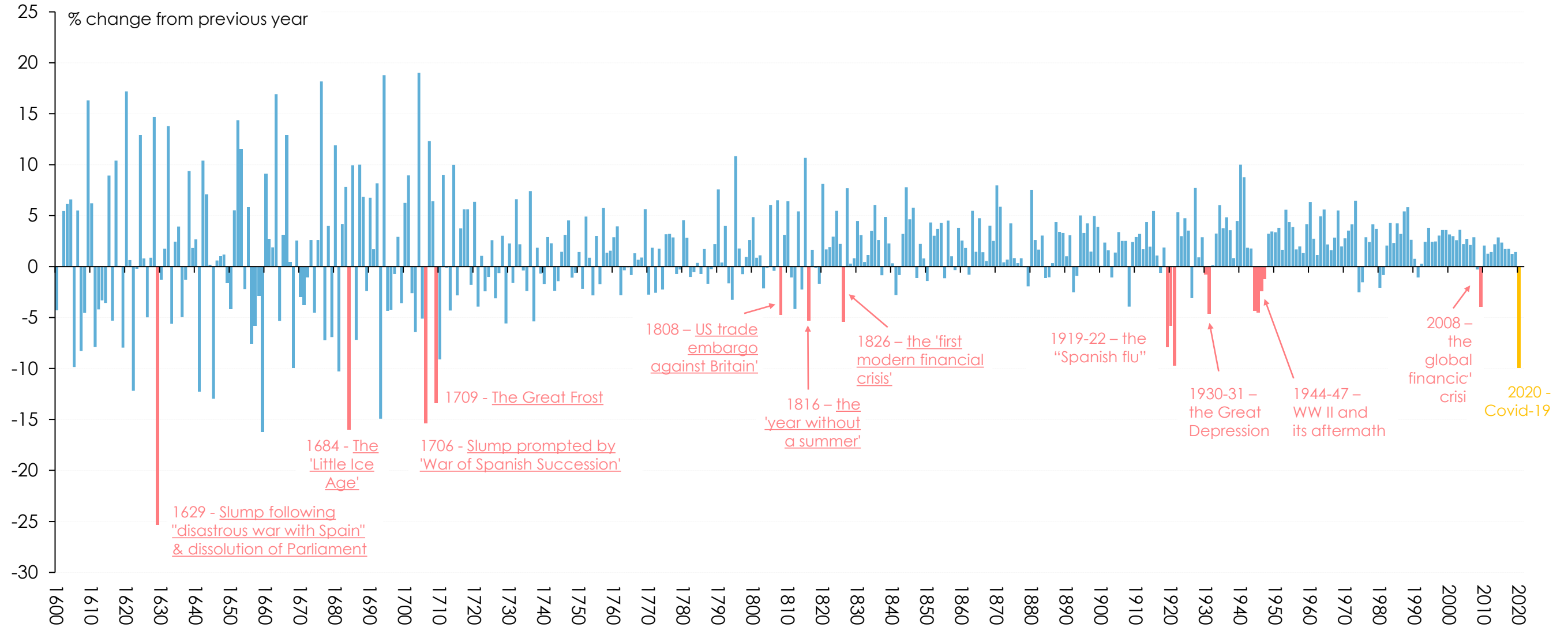
## Unemployment



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

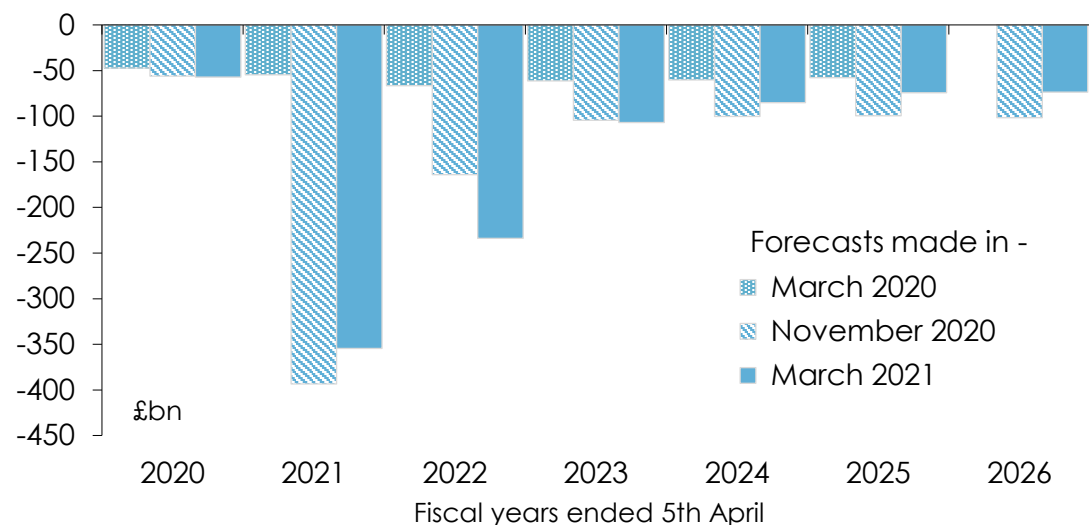
## UK real GDP since 1600



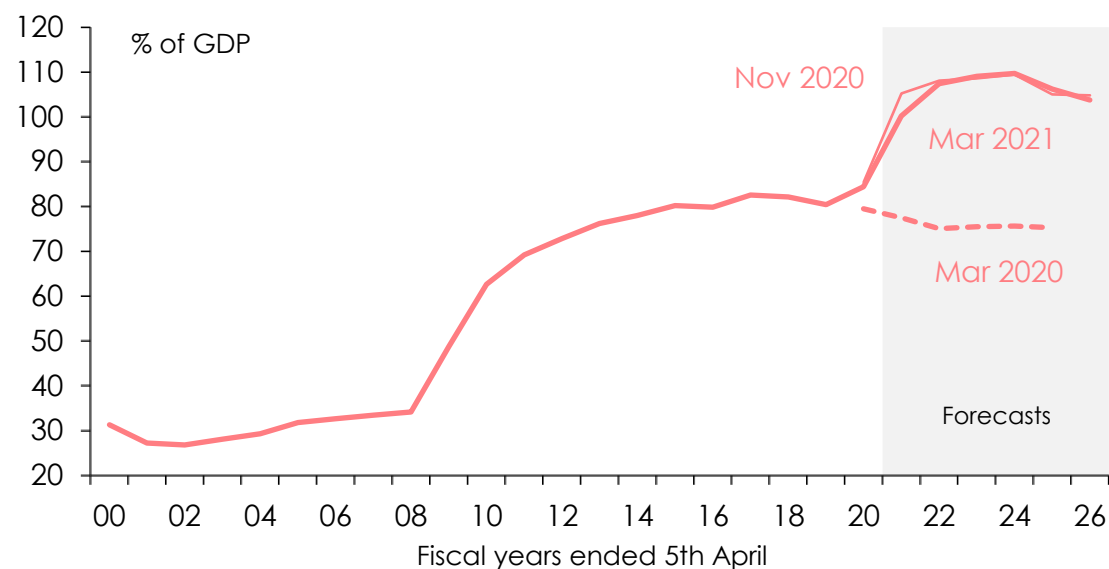
Sources: Bank of England, [A millennium of macroeconomic data](#) (2016); [UK Office for National Statistics. Return to "What's New"](#).

# The 2021 UK Budget extended supports for households and businesses for 3-6 months, but foreshadowed a 6 pc pt rise in company tax in 2023

## UK public sector net borrowing



## UK public sector net debt

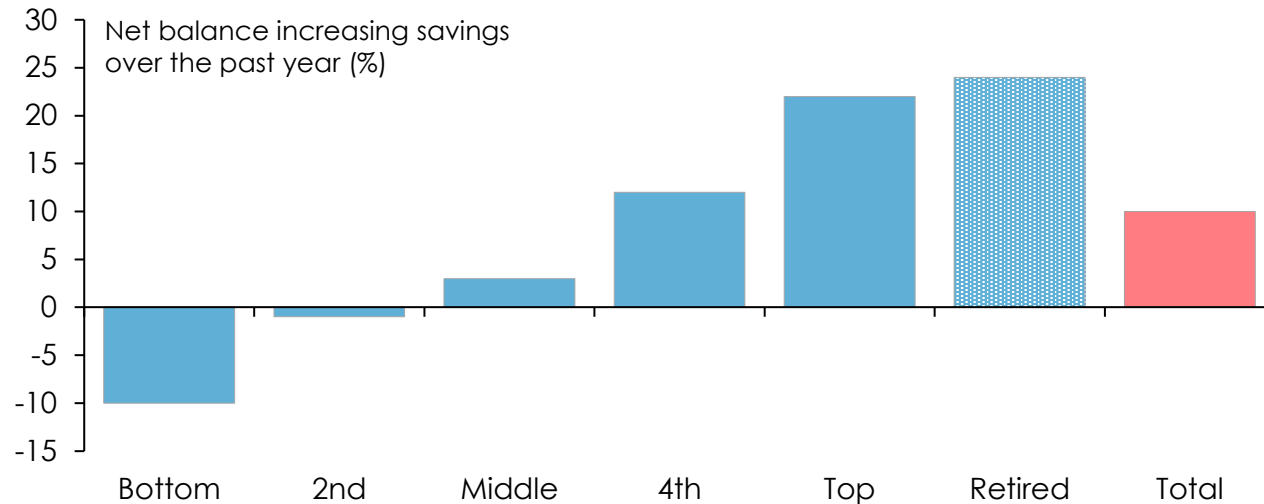


- ❑ The 2021 British Budget forecasts a borrowing requirement (deficit) of £355bn or 16.9% of GDP in FY 2021 (£39bn less than forecast last November) – declining to £234bn or 10.3% of GDP in FY22 (£70bn more than forecast in November) and to £74bn or just under 3% of GDP in FYs 25 and 26
- ❑ Public sector net debt is expected to rise from 84% of GDP at the end of FY 2020 to a peak of 109.7% of GDP in FY24 and then decline to 103.8% of GDP by end FY26
- ❑ The improvement in the forecast deficit for FY21 (since November) largely reflects ‘parameter variations’, while the deterioration in the deficit forecast for FY22 is largely due to ‘policy decisions’ announced in the Budget
  - in particular, extensions of the Government’s furlough scheme, the £20 per week increase in Universal Credit, the reduction in VAT to 5%, and the temporary cut in stamp duty for an additional six months, extension of the business rates holiday for three months, a one-off £500 payment to Working Tax Credit claimants
- ❑ The Budget foreshadowed a 6 pc pt increase in the company tax rate to 25% from 2023 (though only applying to businesses with profits above £250K), partly offset by a 130% tax offset for new equipment investment

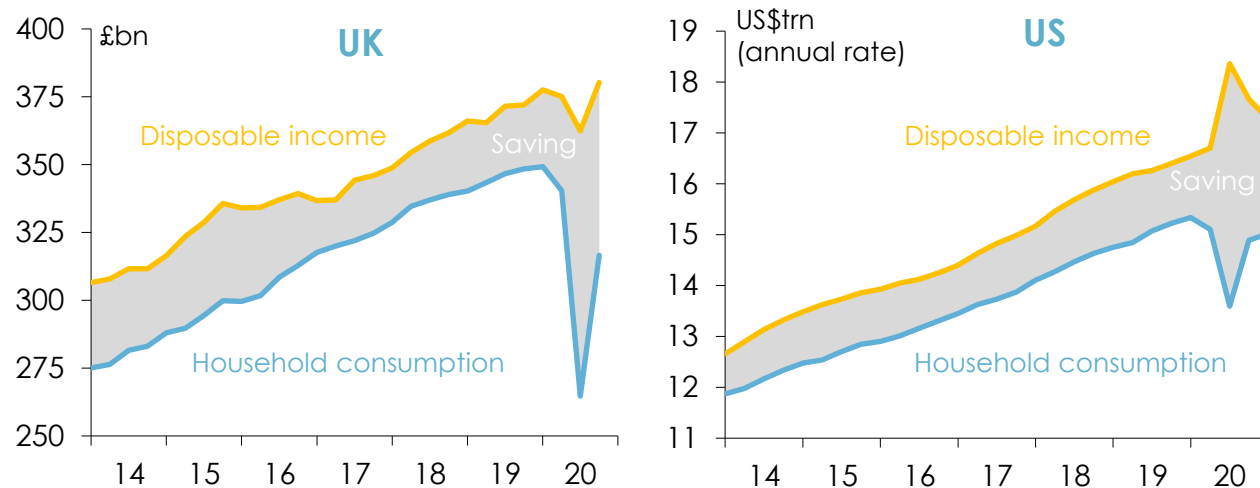


# BoE MPC member Gertjan Vlieghe gave an interesting speech last week touching on some contrasts between US and UK experience

## Changes in UK household saving by income quintile



## Nominal household income, consumption and saving

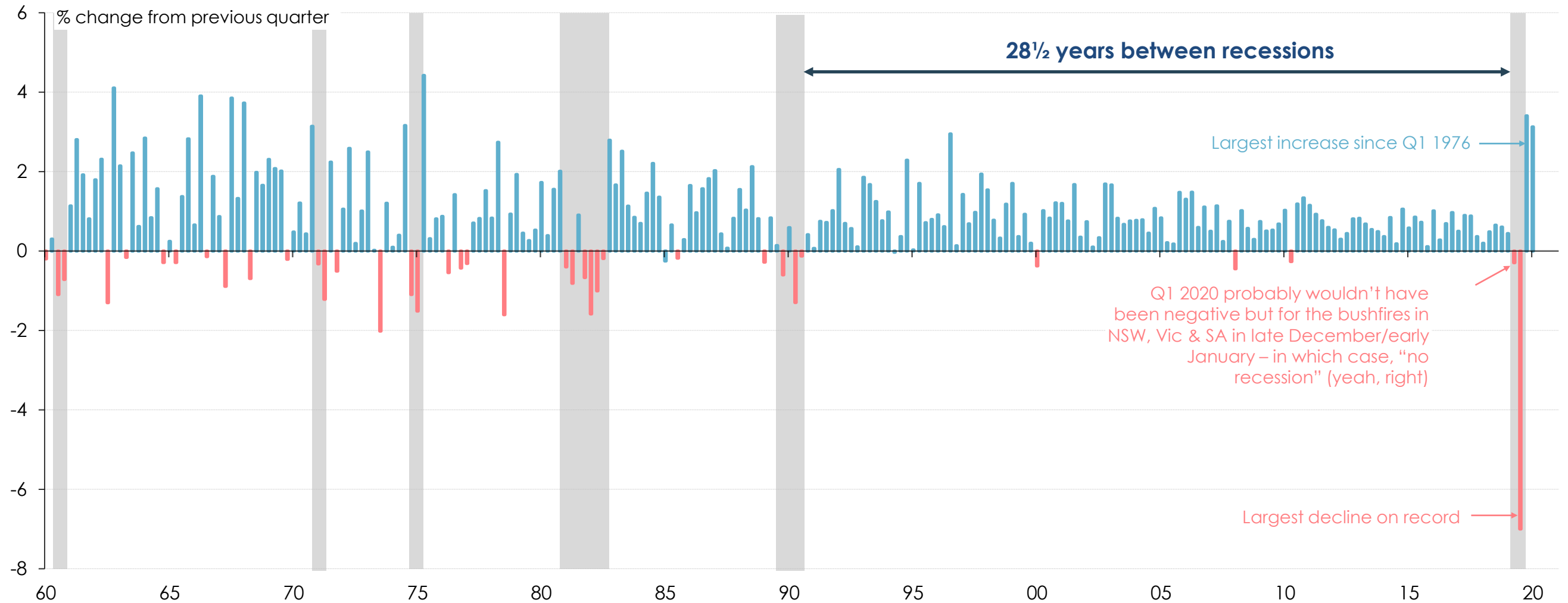


- Vlieghe points out that, in the UK at least, the ‘excess savings phenomenon’ is confined to upper income groups (where income has held up but consumption spending has fallen sharply)
  - he argues that these households will likely regard this increase in savings as an increase in *wealth* – the propensity 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

**Australia**

# Australia is 'officially' out of its first recession in nearly three decades, with real GDP increasing 3.4% in Q3 2020 and 3.1% in Q4

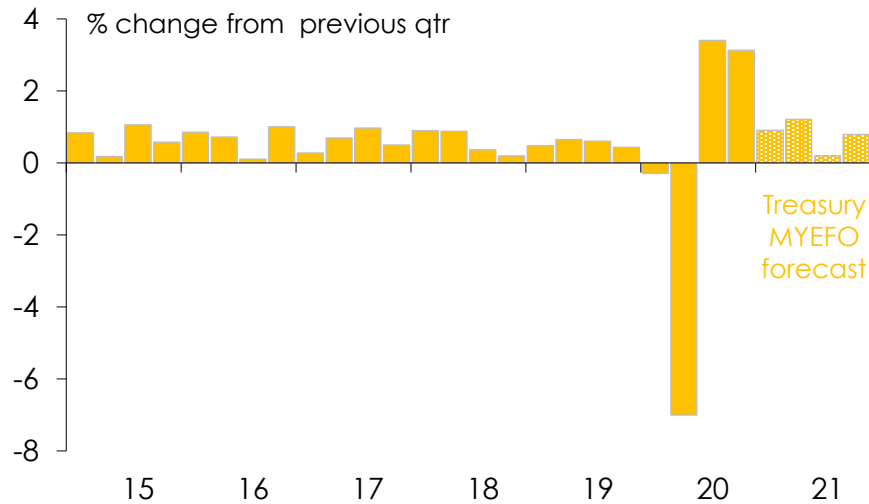
## Quarterly growth in Australian real GDP, 1960-2020



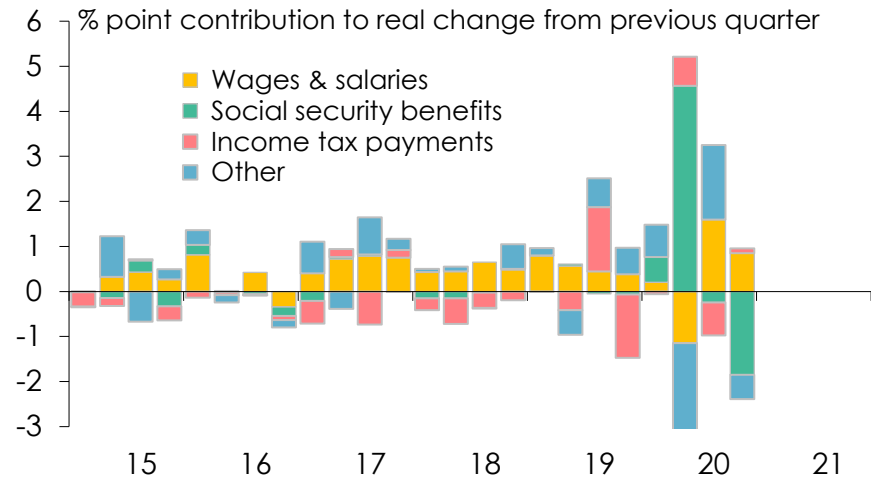
Note: Shaded areas denote recessions. Source: ABS, [Australian National Accounts: National Income, Expenditure and Product](#), December quarter 2020. [Return to "What's New"](#).

# 3.1% growth in Q4 2020 (following 3.4% in Q3) was largely driven by household consumption and dwelling investment

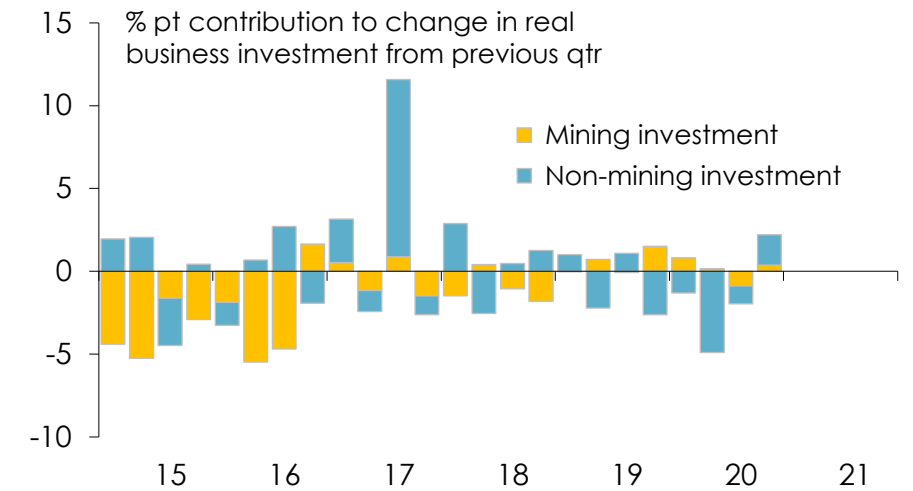
## Quarterly change in real GDP



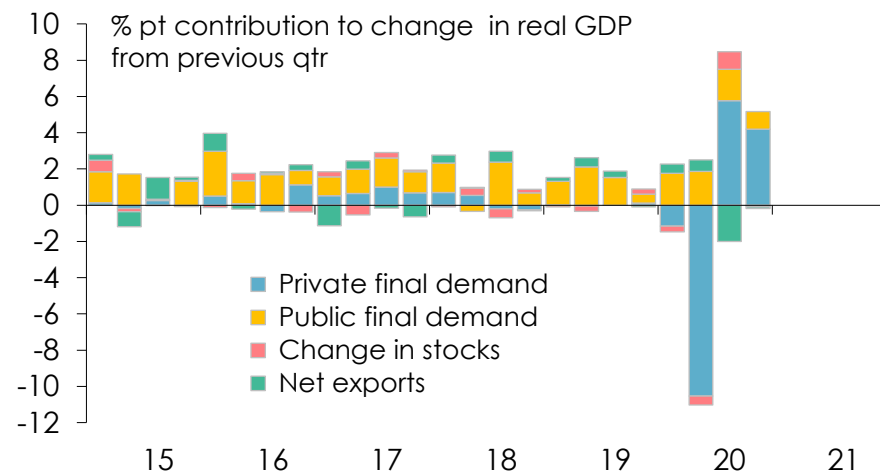
## Household disposable income



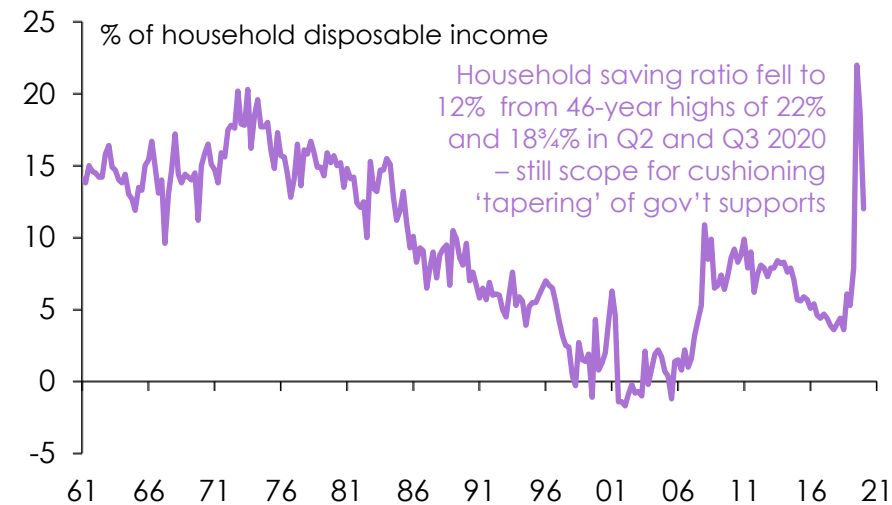
## Business investment expenditure



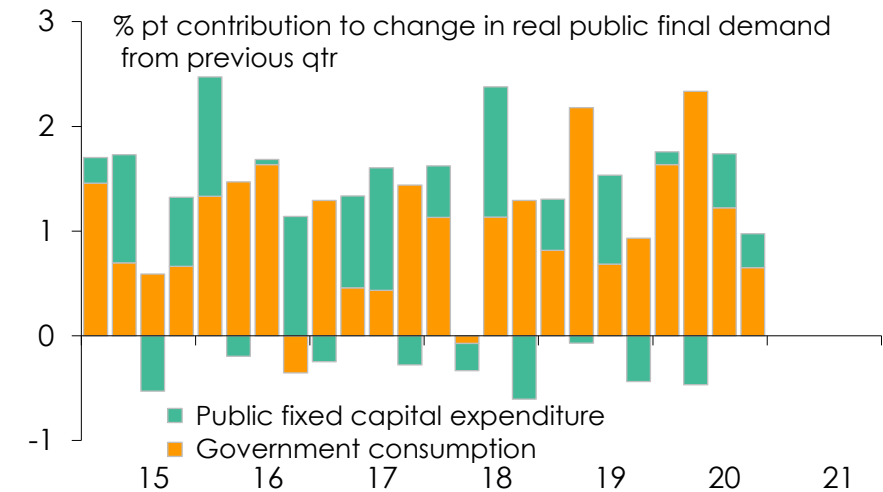
## Contributions to quarterly GDP growth



## Household saving rate



## Public expenditure



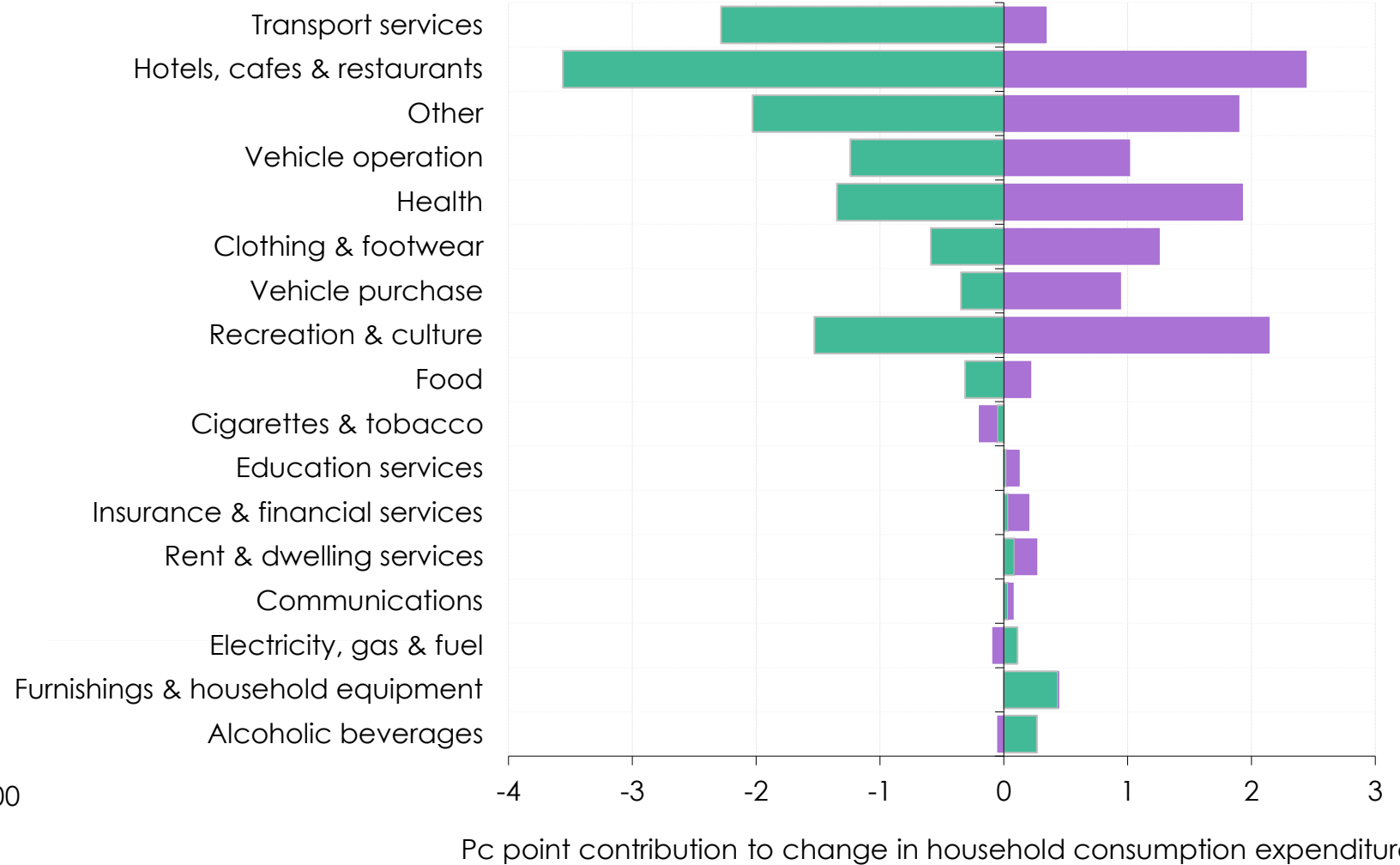
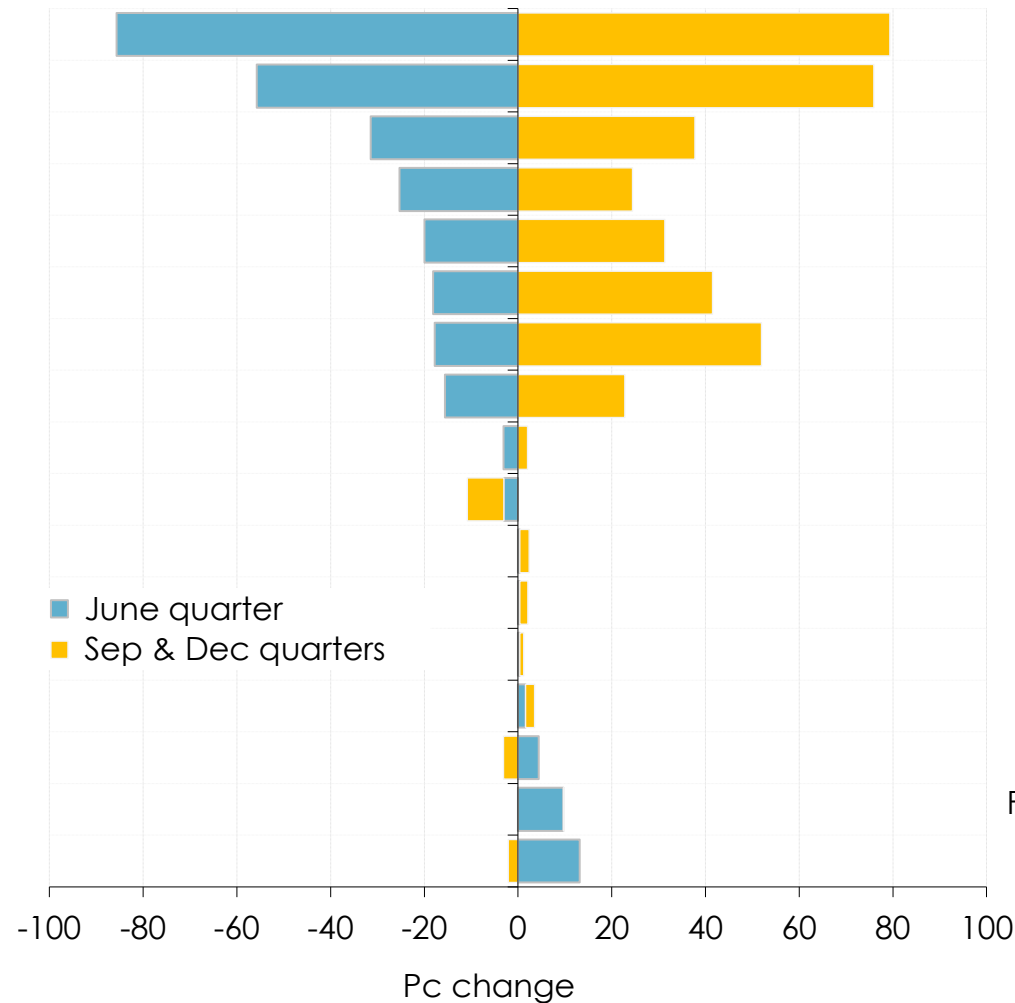
Note: Components of household disposable income are deflated by the implicit price deflator of household final consumption expenditure.

Source: ABS, [Australian National Accounts: National Income, Expenditure and Product](#), December quarter 2020. March quarter national accounts will be released on 2<sup>nd</sup> June. [Return to "What's New"](#).

# The rebound in economic activity in the second half of last year was driven by recoveries in discretionary spending as restrictions eased

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

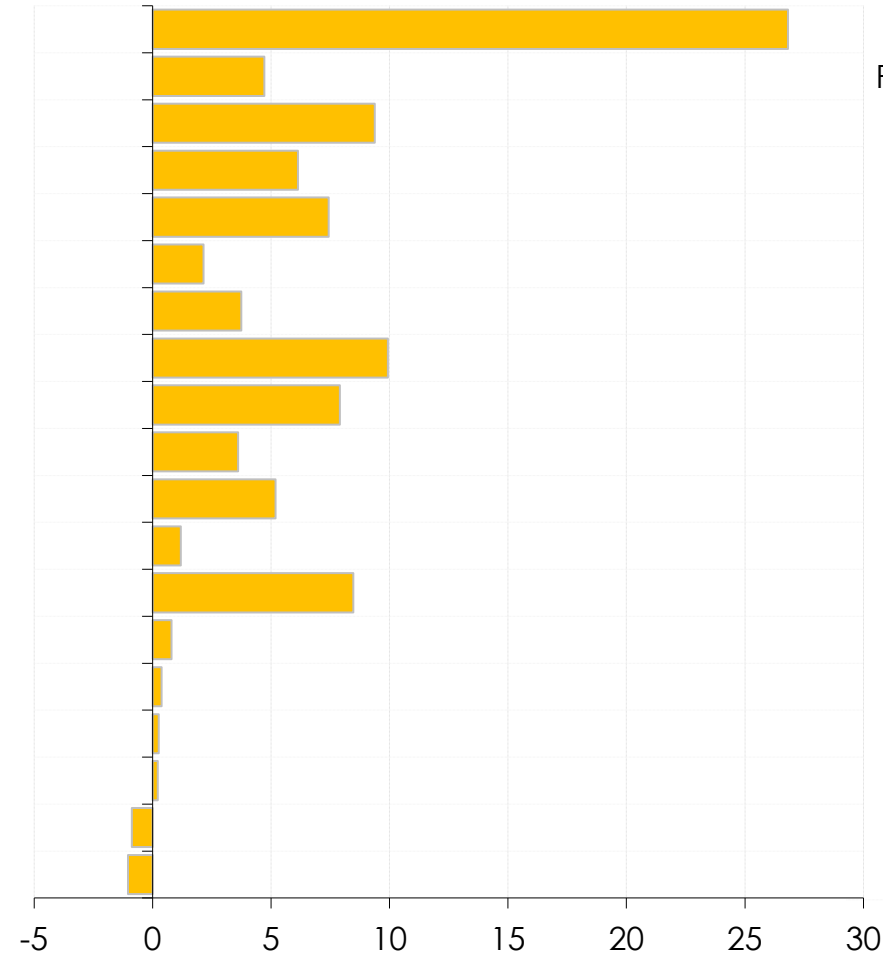
Contribution to change in household consumption spending, by category, June, September & December quarters



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](#), December quarter 2020. March quarter national accounts will be released on 2<sup>nd</sup> June. [Return to "What's New"](#).

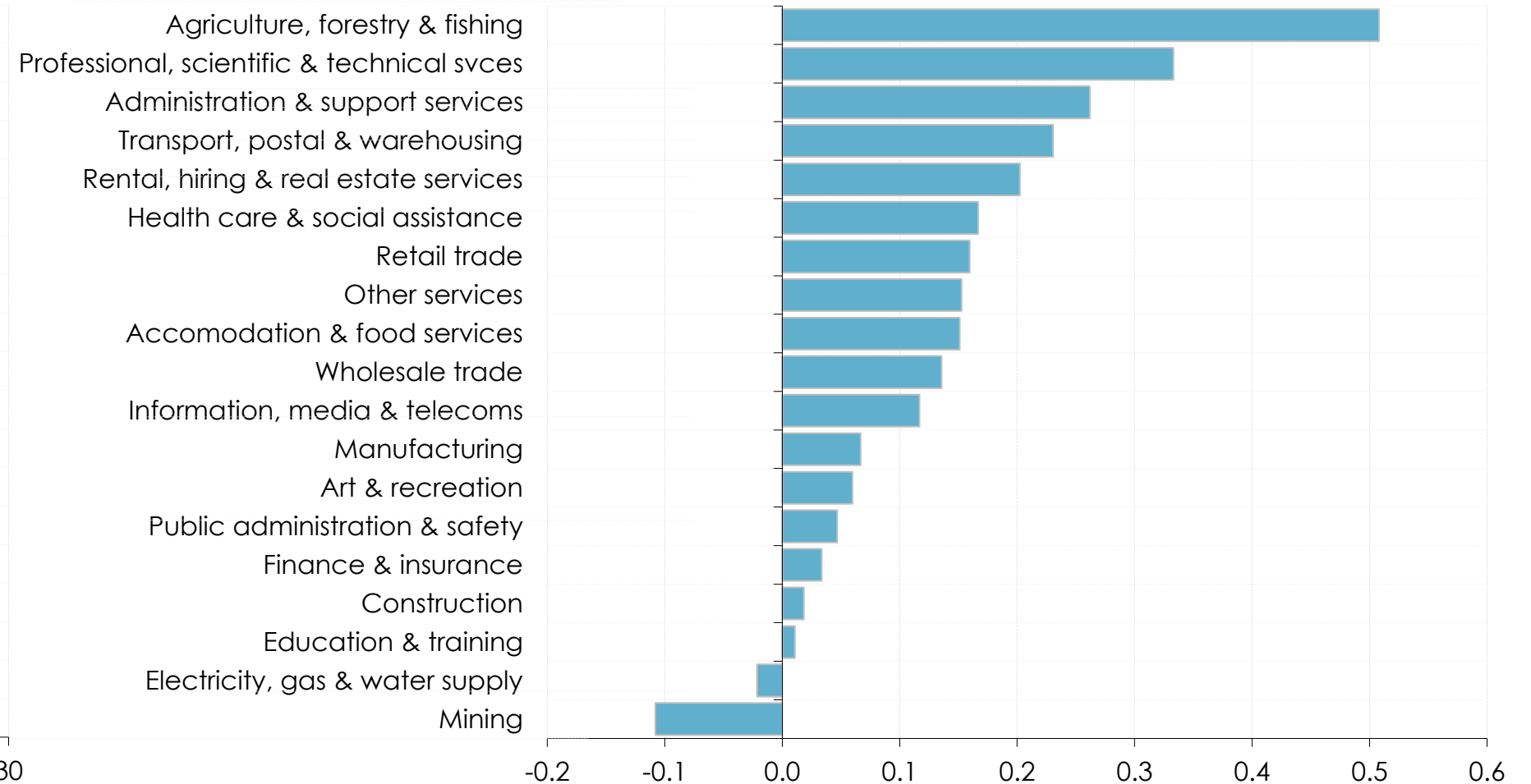
# From an industry standpoint GDP growth in Q4 was driven by the farm sector's recovery from drought, and a range of business services

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



Pc change in December quarter (from September quarter)

Contribution to change in real GDP, by industry, December quarter 2020



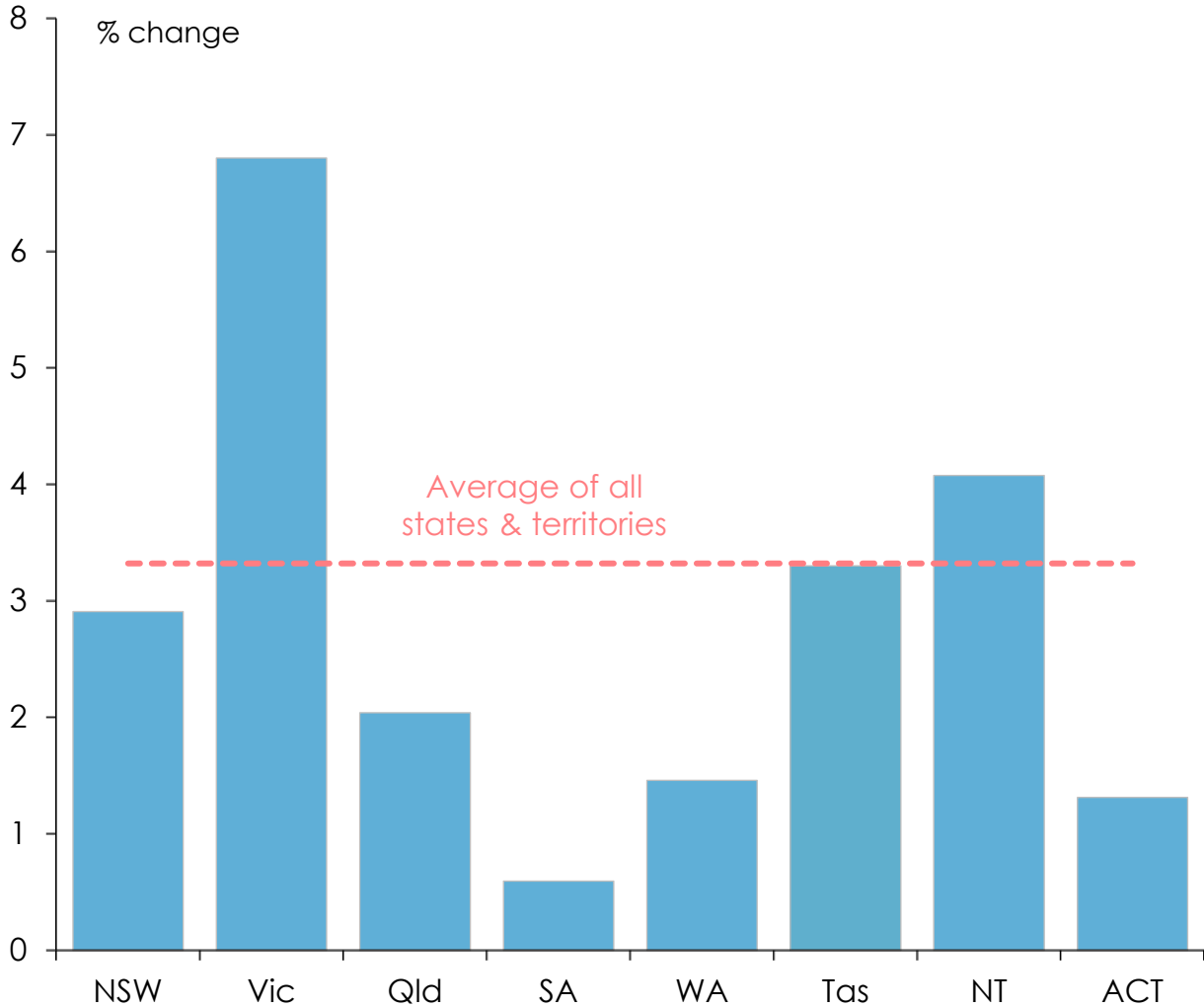
Pc point contribution to change in real gross value added in December quarter (from September quarter)

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.

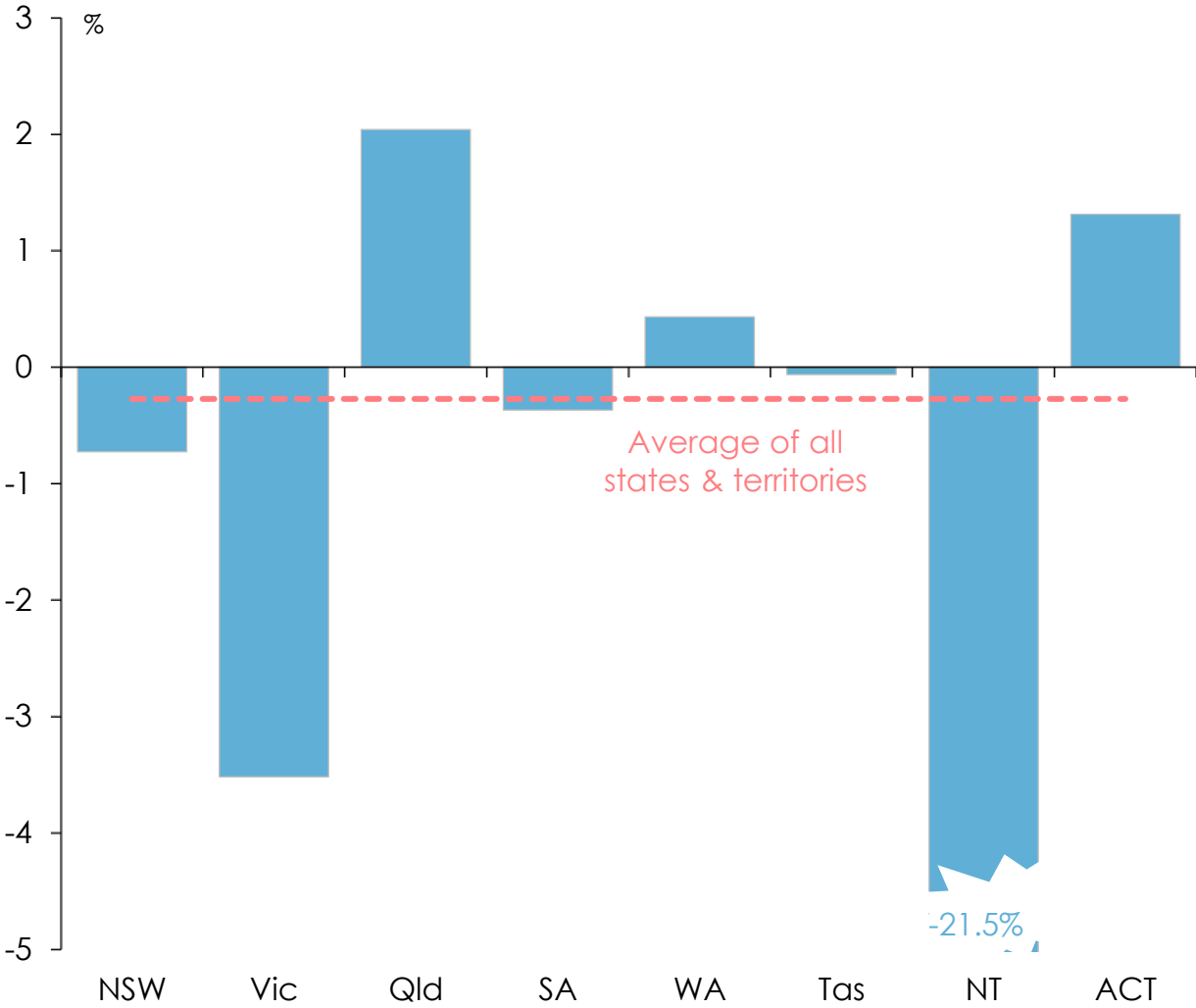
Source: Source: ABS, [Australian National Accounts: National Income, Expenditure and Product](#), December quarter 2020. March quarter national accounts will be released on 2<sup>nd</sup> June. [Return to "What's New"](#).

# Victoria had the strongest growth in final demand in Q4 2020, but also the largest shortfall from its pre-recession peak, apart from the NT

Change in real state final demand, December quarter 2020 compared with September quarter



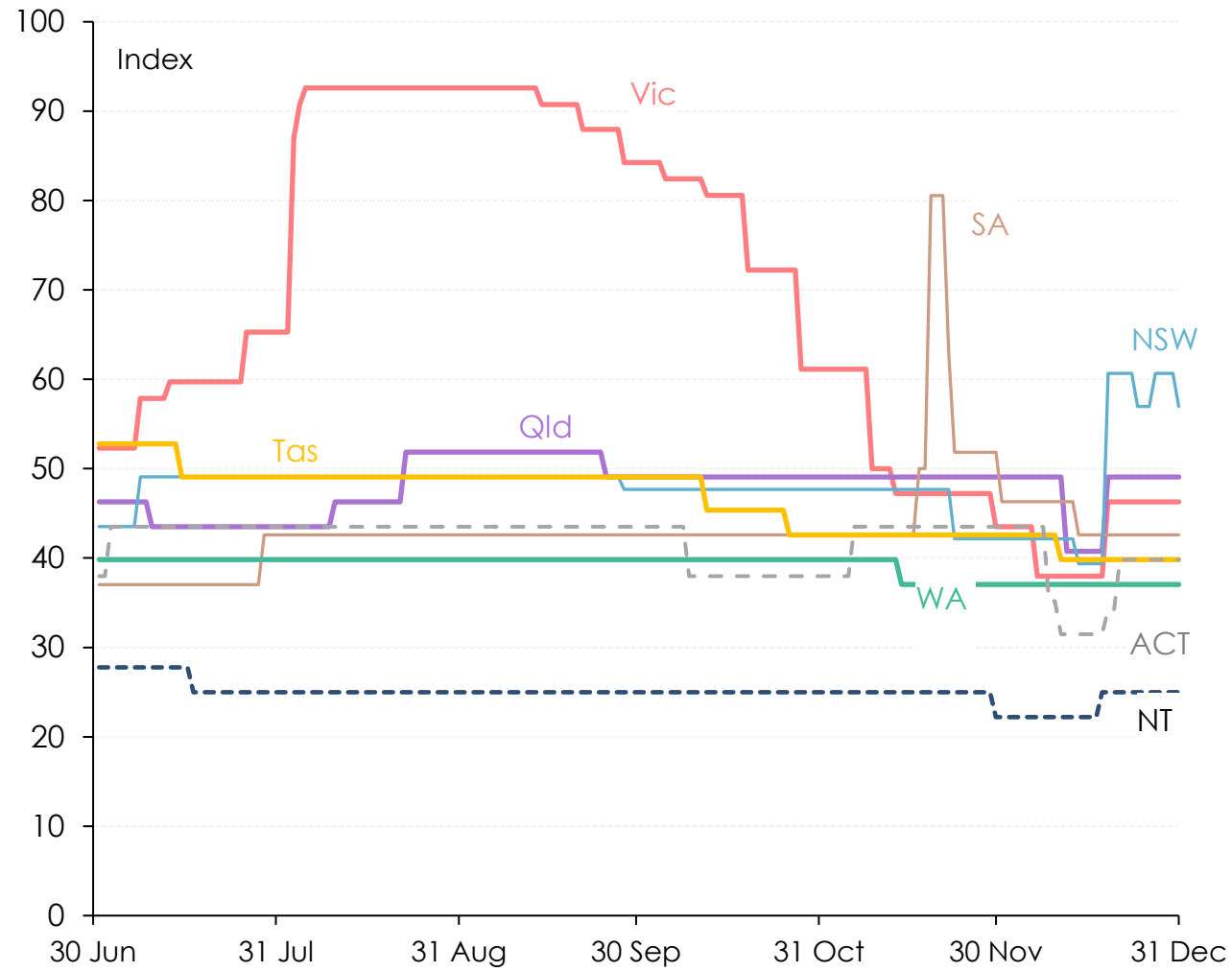
Shortfall between December quarter state final demand and pre-recession peak



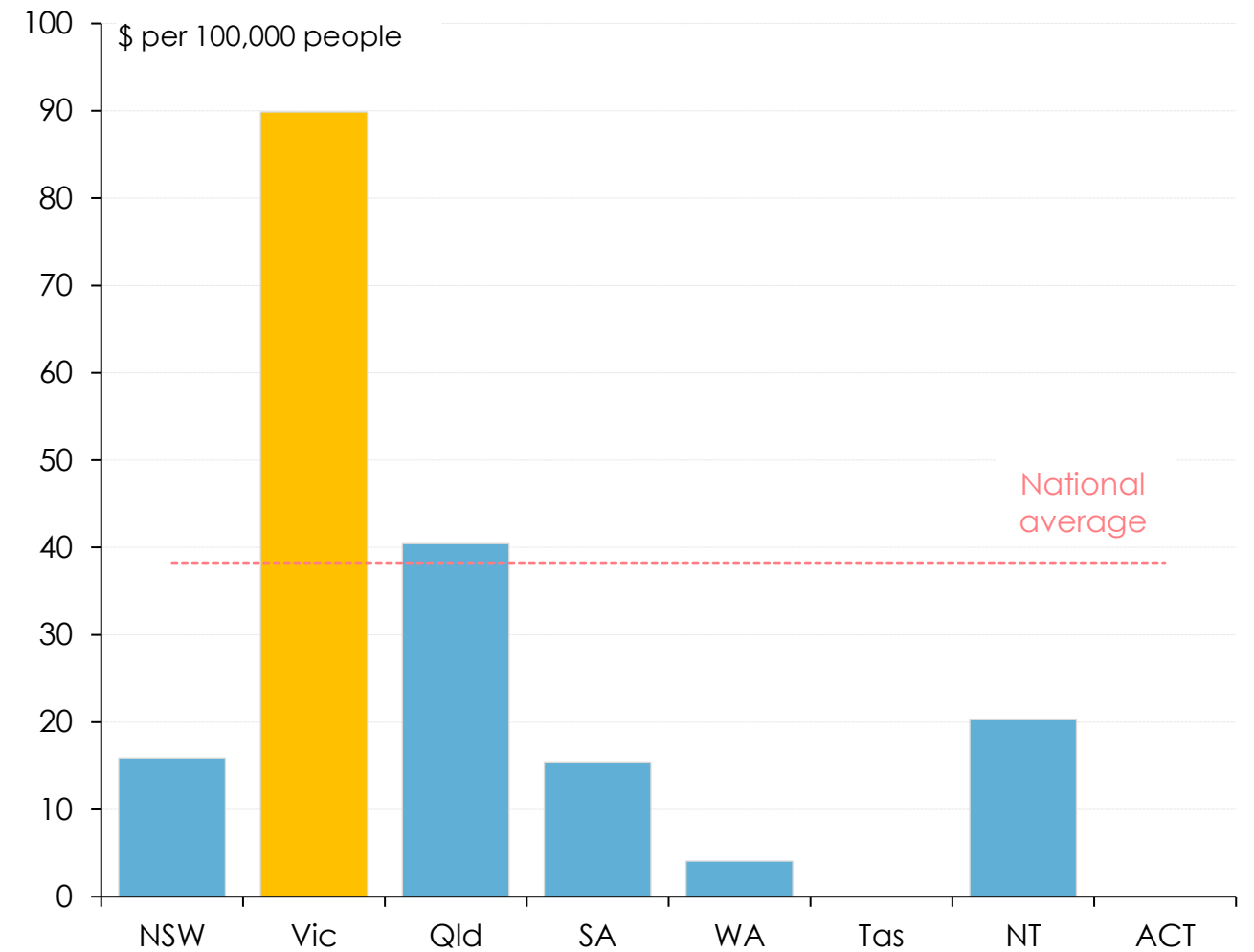
Note: 'State final demand' is the sum of spending by households, businesses and governments within a state or territory's borders: it differs (conceptually) from gross state product (GSP), which is only available on a financial year basis, by the sum of net international and interstate trade, and changes in business inventories. Source: [Australian National Accounts: National Income, Expenditure and Product](#), December quarter 2020. [Return to "What's New"](#).

# Victoria had much tougher restrictions, for longer, than any other state (and was more zealous in extracting money from citizens for breaching them)

ABS stringency indexes for states and territories, September & December quarters



Revenue from fines for breaches of lockdown regulations, 23 Mar-25 May 2020 per 100,000 population

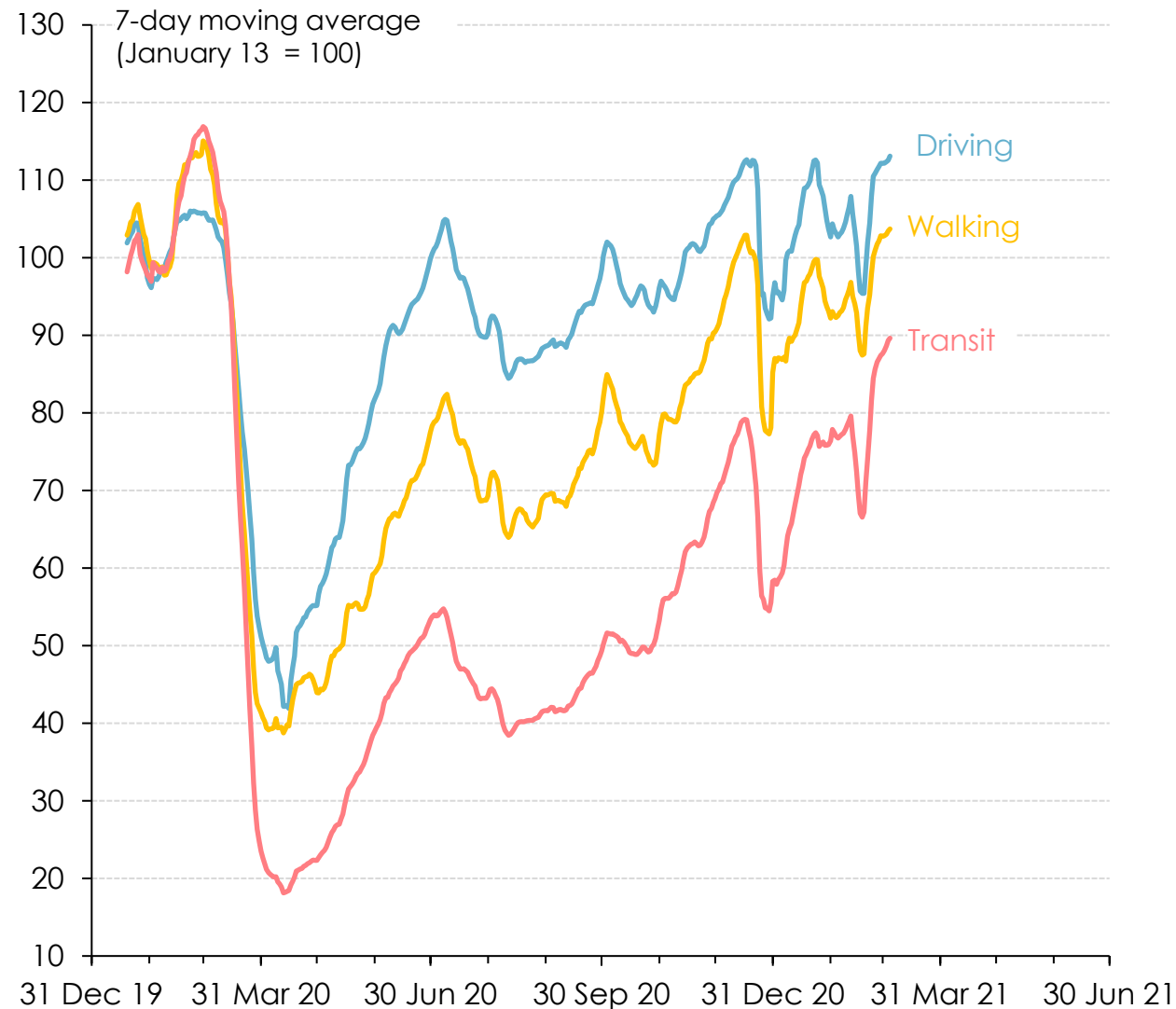


Note: the ABS estimates of the stringency of government restrictions on the movement and gathering of people, etc., are based on the methodology developed for the [Oxford COVID-19 Government Response Tracker](#) (see [slide 14](#)) Sources: ABS, [State economies and the stringency of COVID-19 containment measures, December quarter 2020](#); Tammy Mills, "Victoria leads the nation in lockdown fines", [The Age](#), 27th May 2020; Corinna.

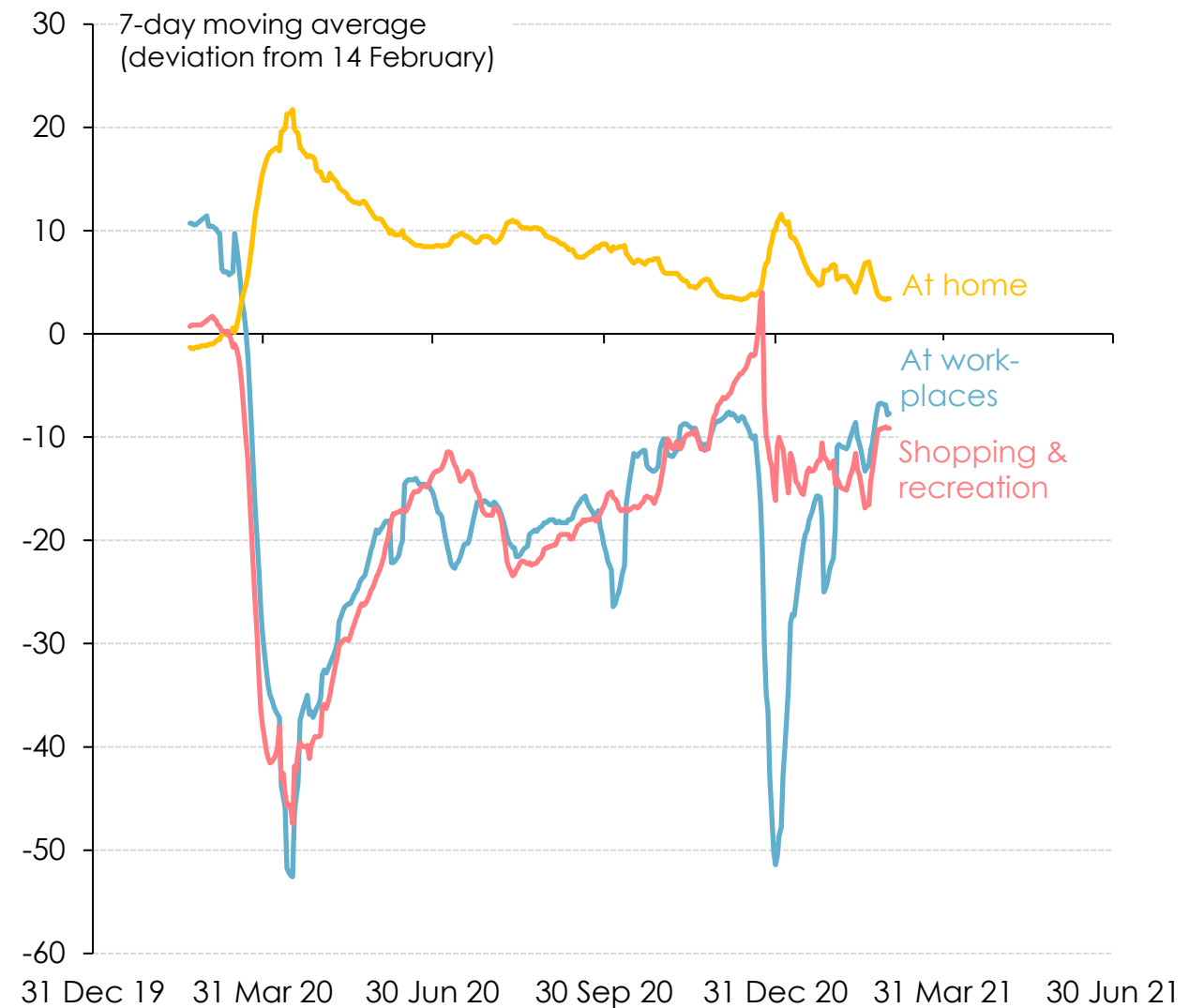


# Mobility indicators have rebounded since the end of the 5-day lockdown in Victoria, and with continuing low case numbers across Australia ...

## Time spent driving, walking and in transit



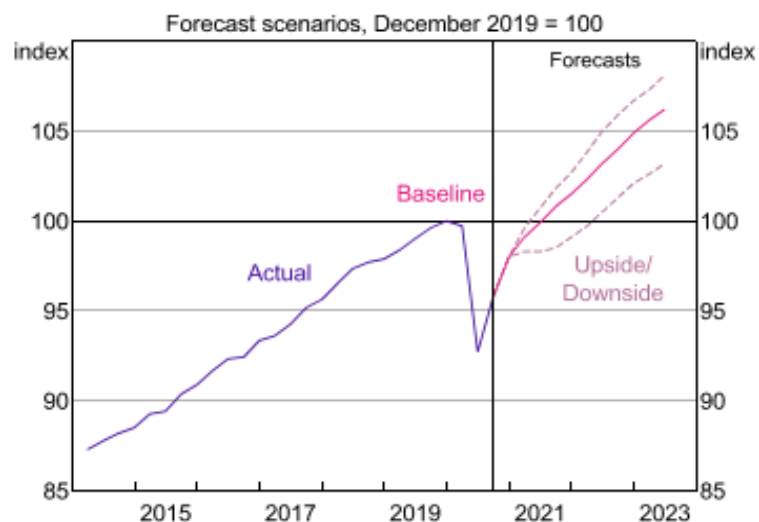
## Time spent working, at home, shopping & playing



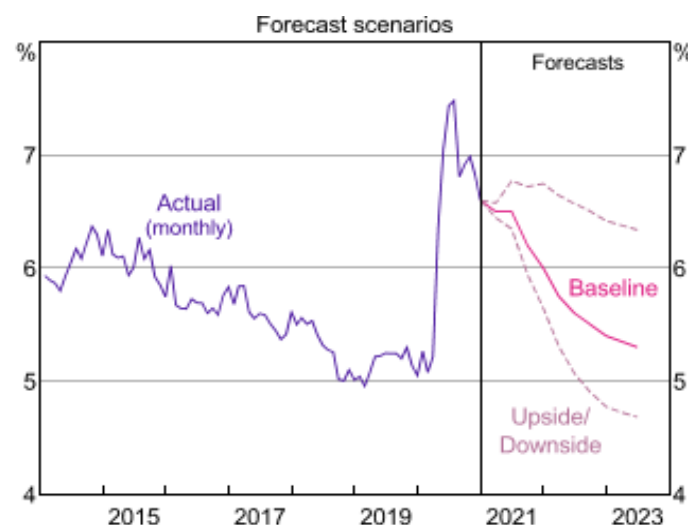
Note: 'transit' means using public transport. Note also that these data will reflect normal seasonal variations such as Christmas-New Year and 'Sydney Day' (26<sup>th</sup> January) in activities as well as the effects of government restrictions and individual responses to the risks posed by the virus. Sources: [Apple Mobility Trends Reports](#) (data up to 4<sup>th</sup> March); [Google Community Mobility Reports](#) (data up to 2<sup>nd</sup> March). For state-level data see [next slide](#). [Return to "What's New"](#).

# The RBA has upgraded its near-term growth outlook, and lowered its forecasts for unemployment, but still sees inflation below target until 2024

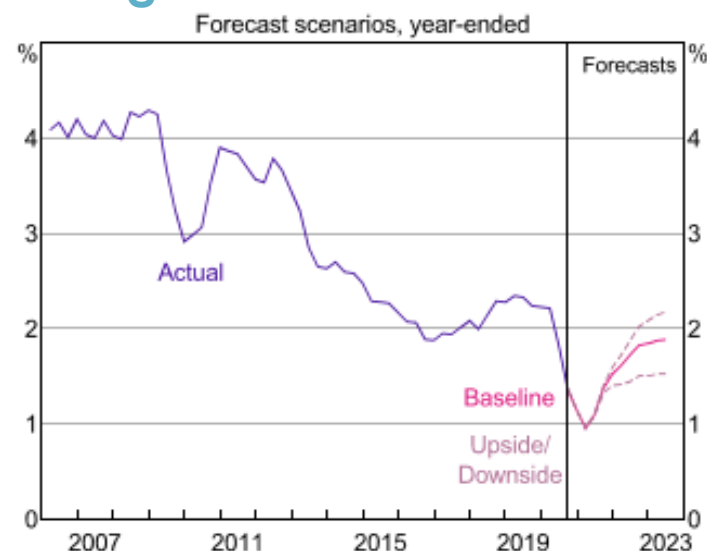
## GDP



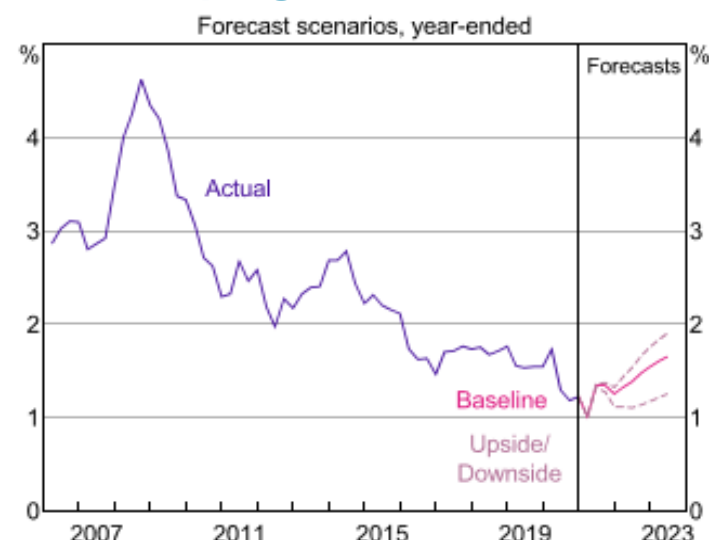
## Unemployment



## Wages



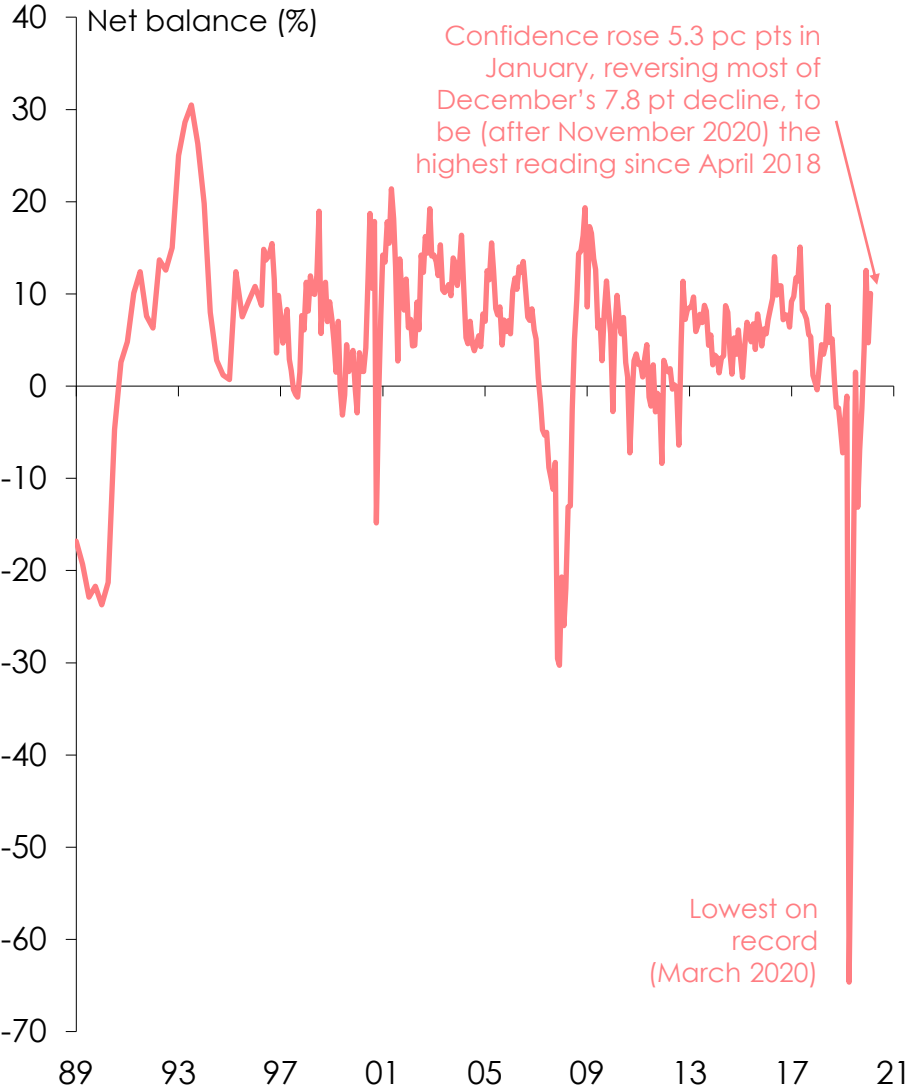
## 'Underlying' inflation



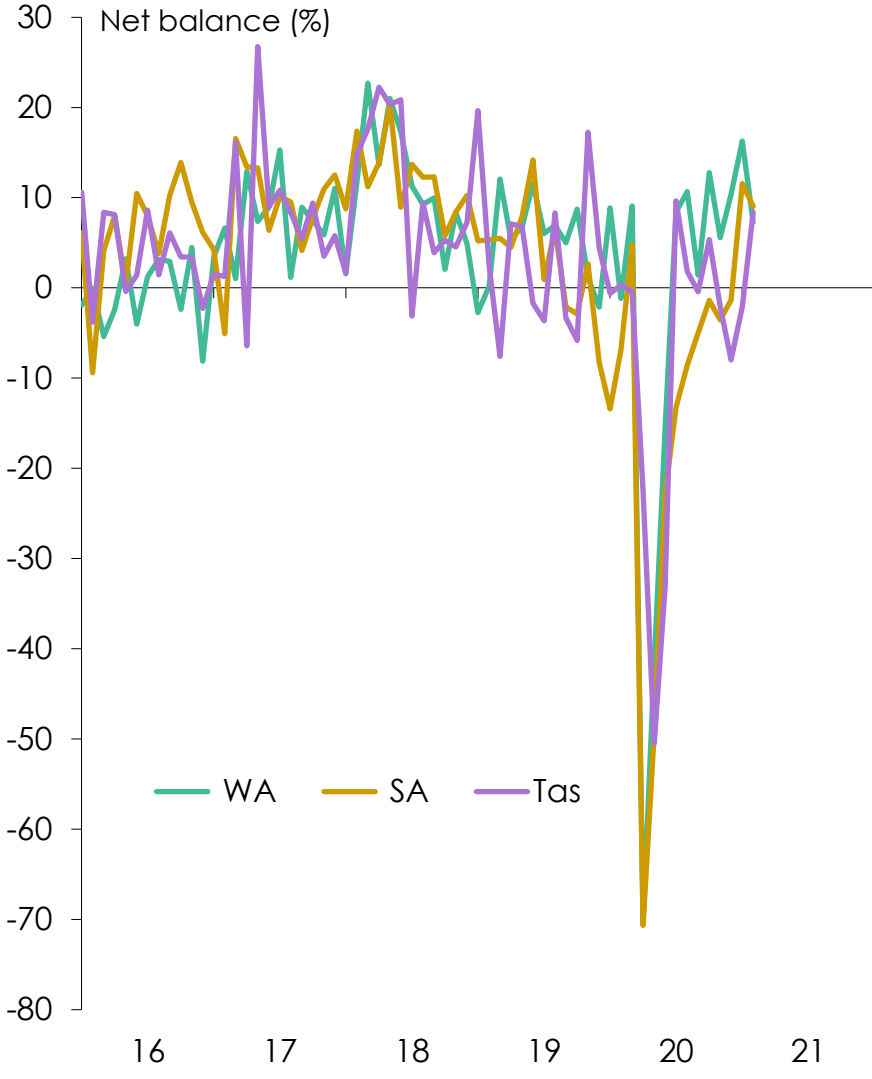
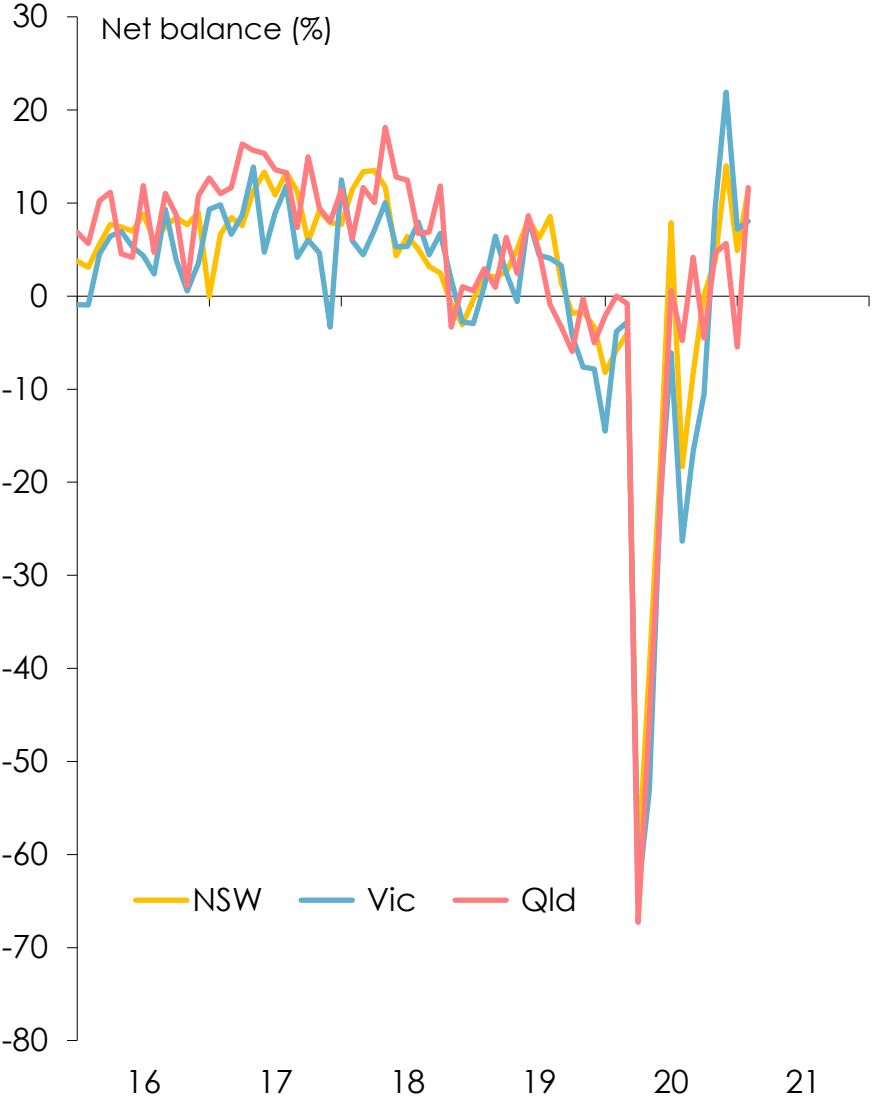
- ❑ The RBA now expects GDP to return to its pre-pandemic level by mid-2021, with real GDP growing 8% over the year to Q2 (previously 6%) but then 3½% (down from 4½% previously) over the year to Q4, followed by 3½% (unchanged) through 2022
- ❑ Unemployment now forecast to fall to 6½% (previously 7¼%)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

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

## Business confidence

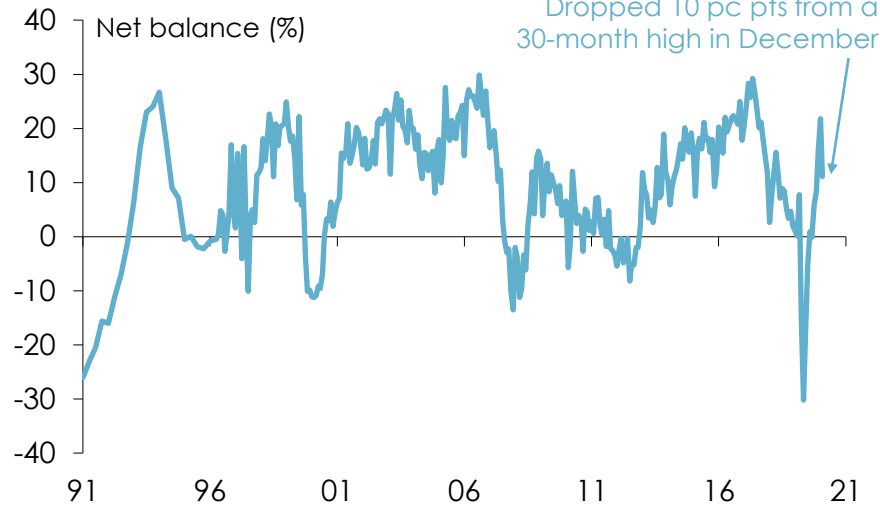


## Business confidence, states and territories

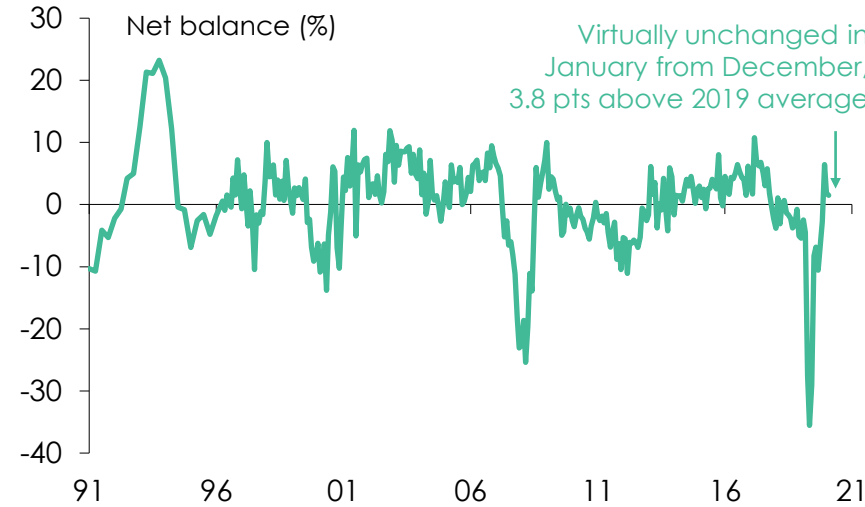


# 'Business conditions' as measured by the NAB survey softened a bit in January but were still mostly positive – including hiring and capex intentions

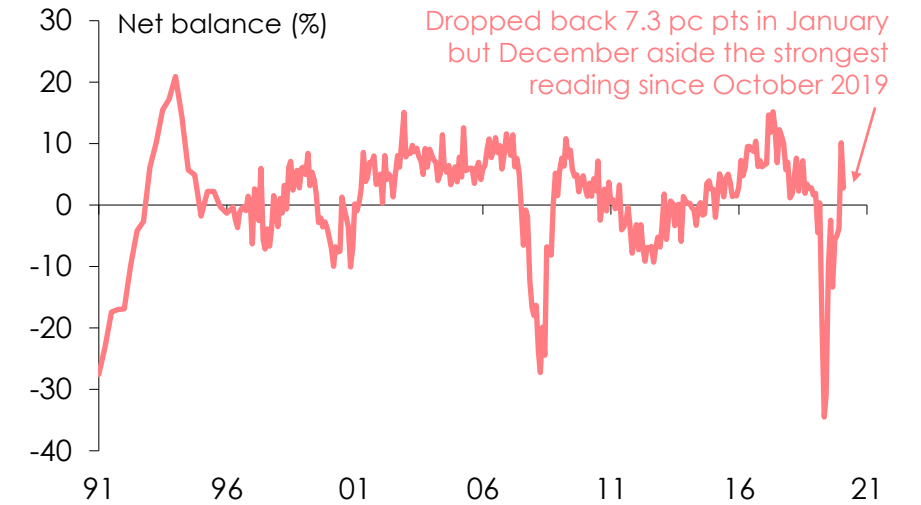
## Trading conditions



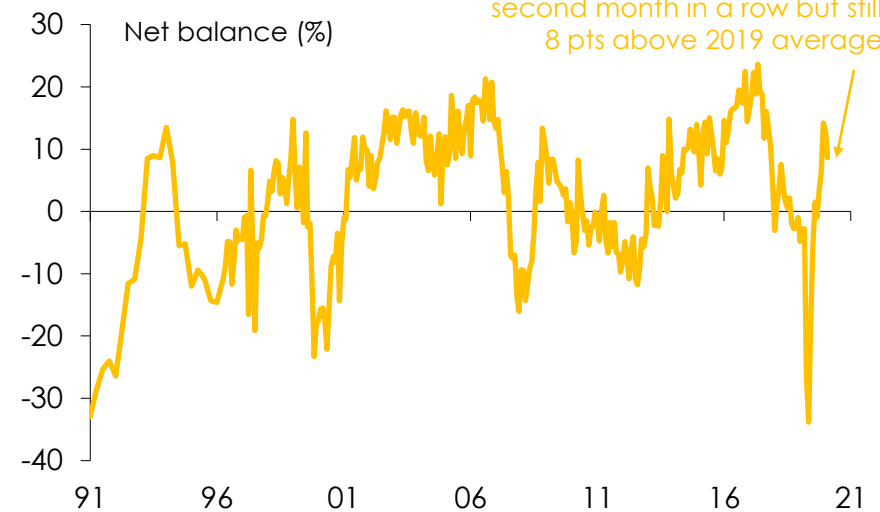
## Forward orders



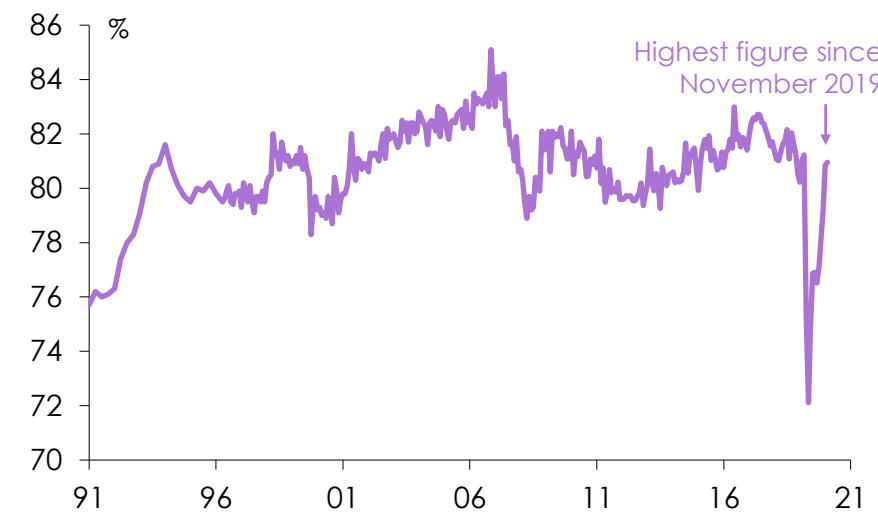
## Employee hiring intentions



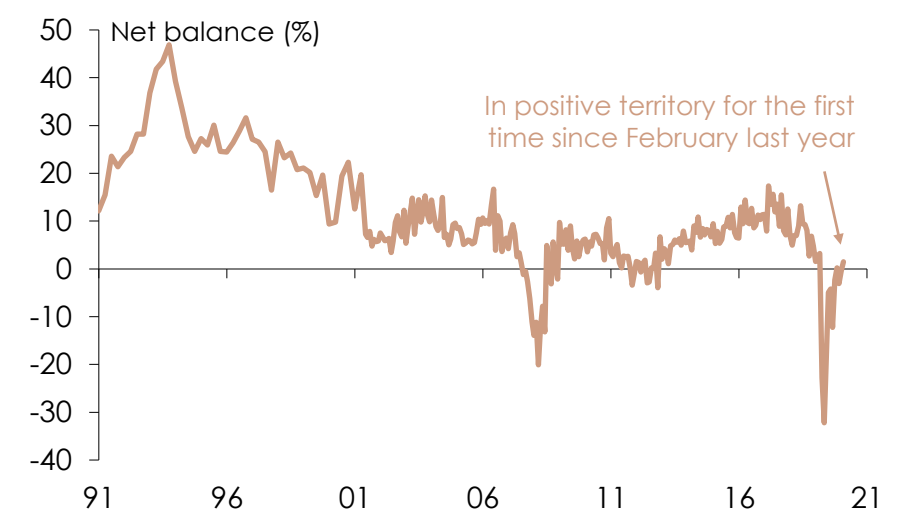
## Profitability



## Capacity utilization



## Capital expenditure intentions

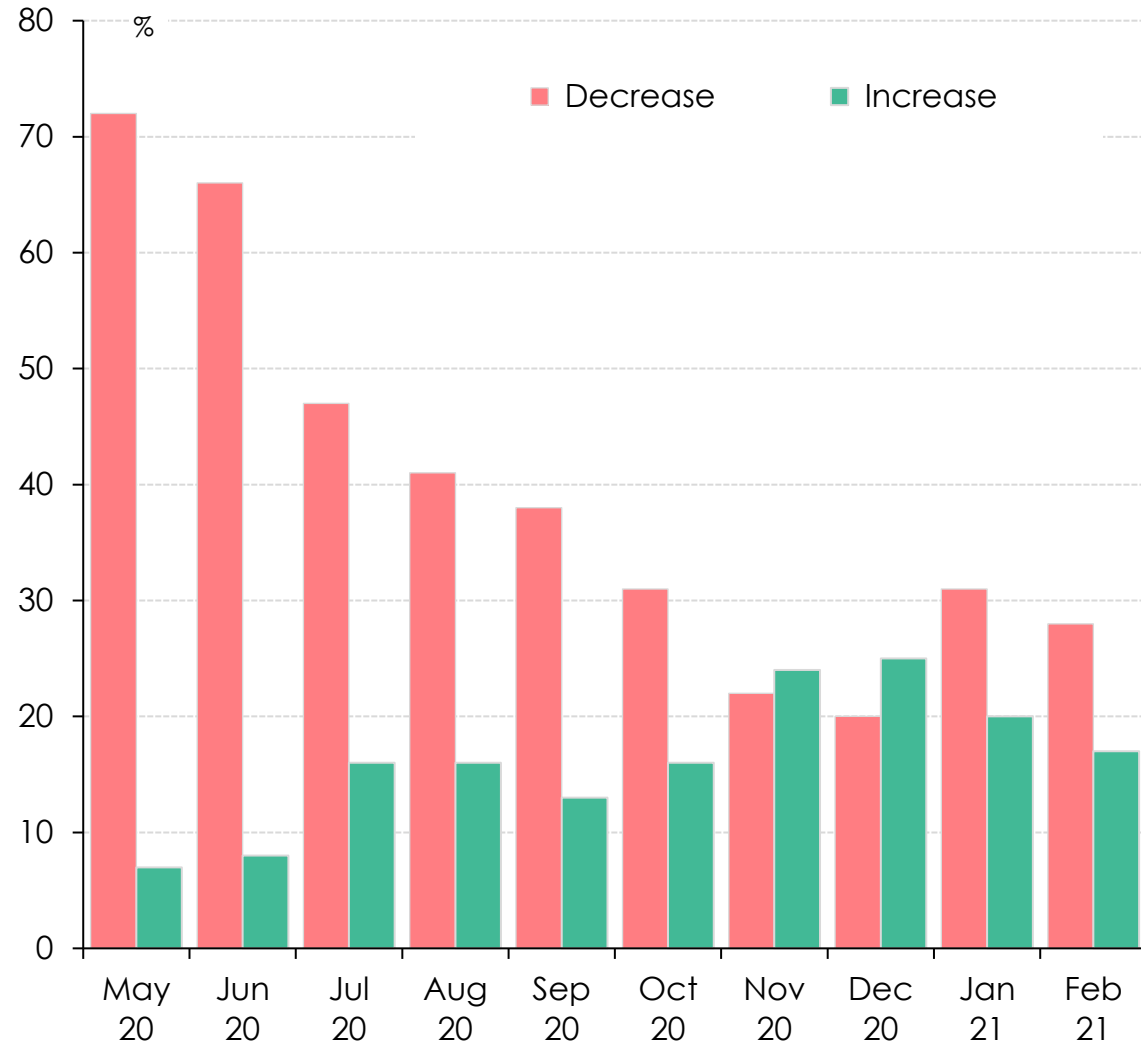


Note: Quarterly data up to March 1997 (May 2002 for capex intentions), monthly thereafter.

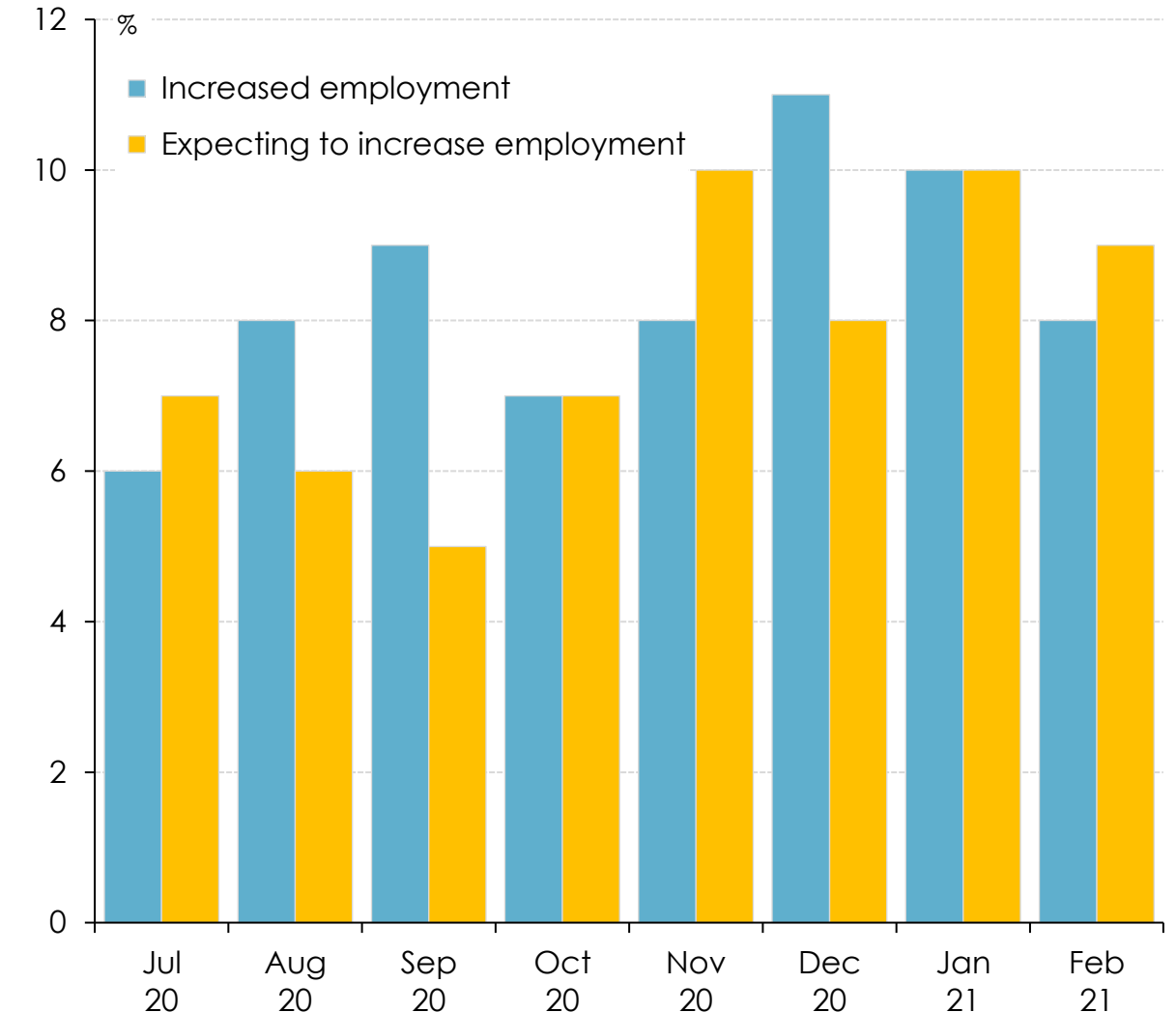
Source: National Australia Bank [Monthly Business Survey](#), January 2021; February survey results will be released on 9<sup>th</sup> March. [Return to "What's New"](#).

# 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



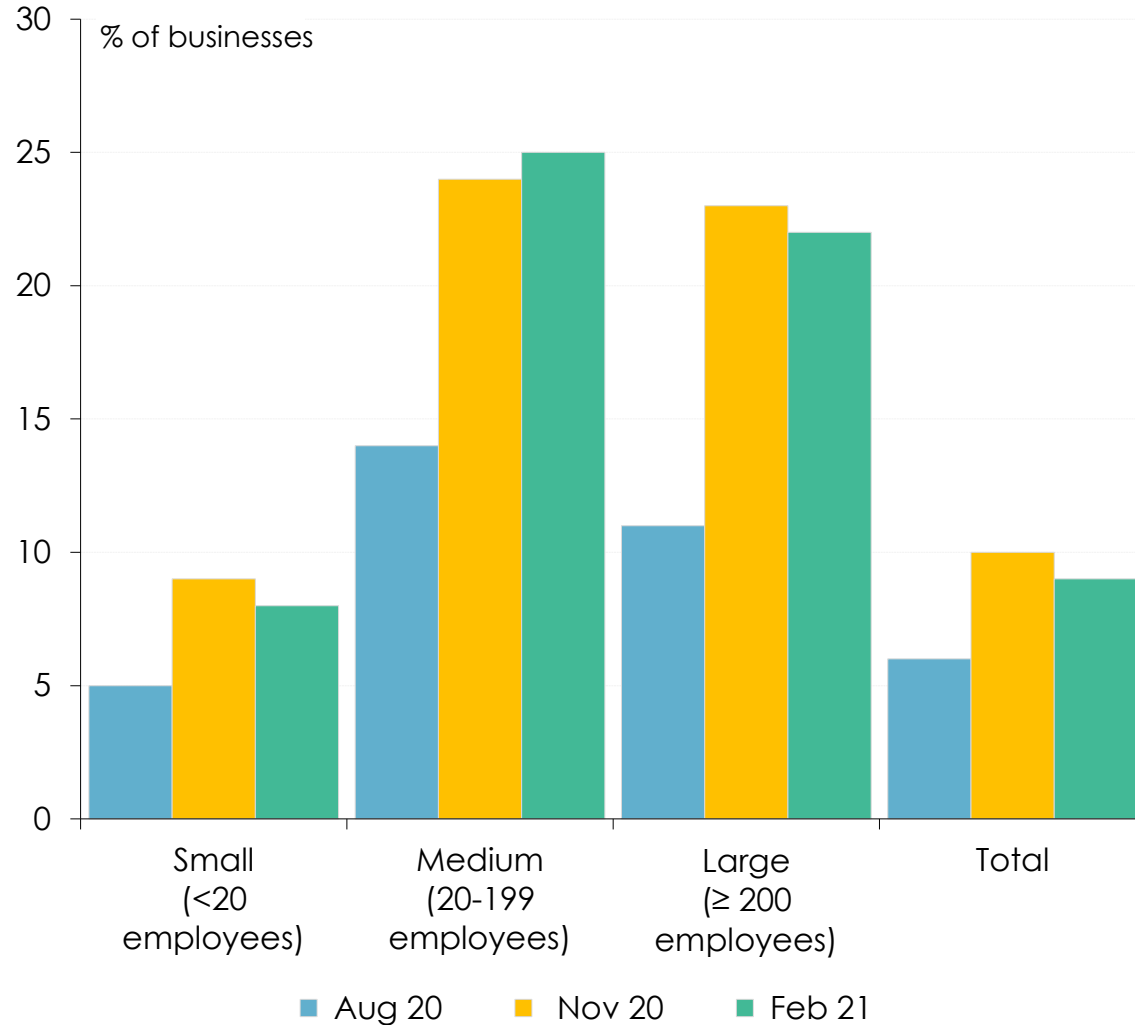
## Proportion of businesses increasing and expecting to increase employee numbers



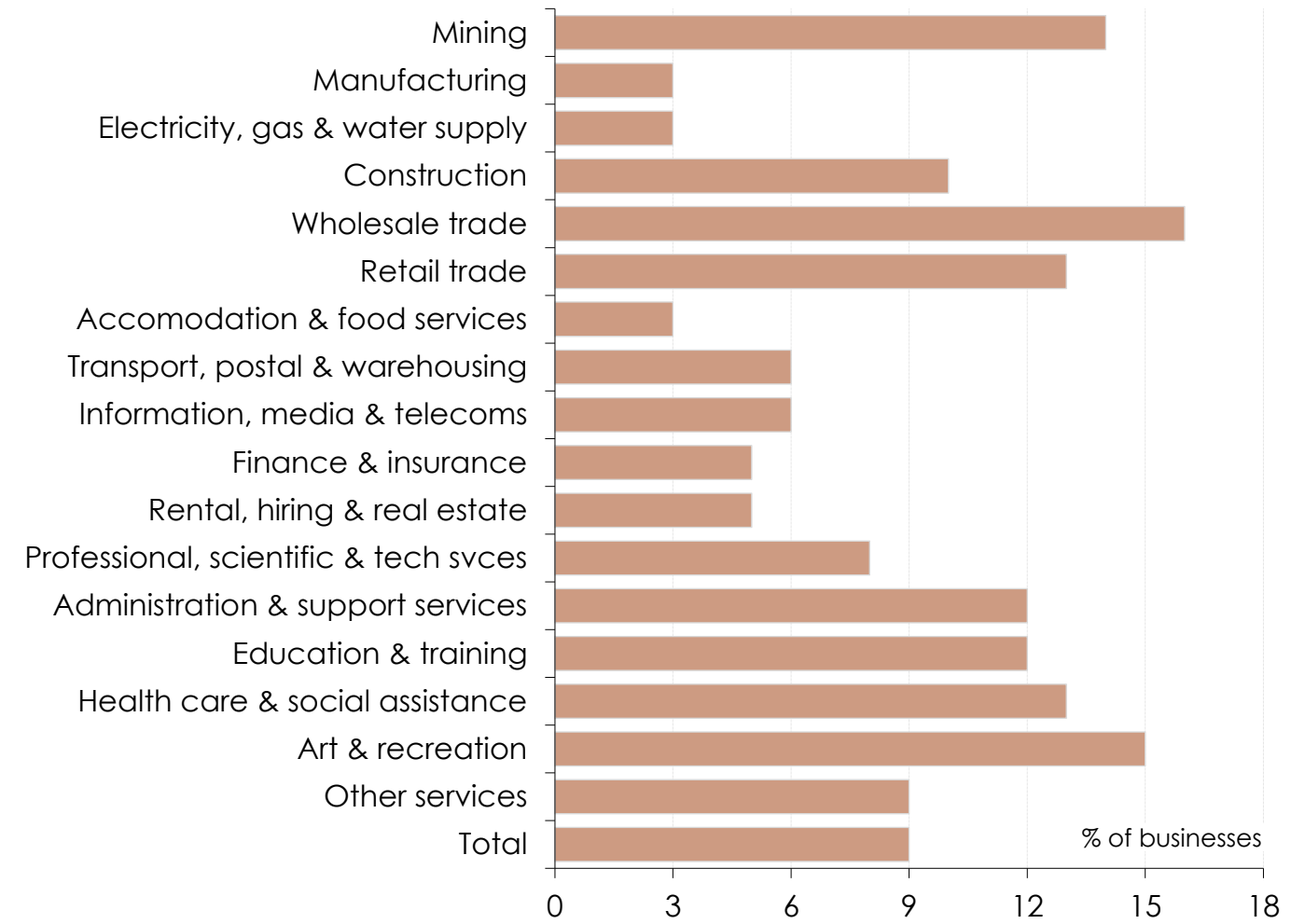
Source: ABS, [Business Conditions and Sentiments](#), February 2021. [Return to "What's New"](#).

# 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



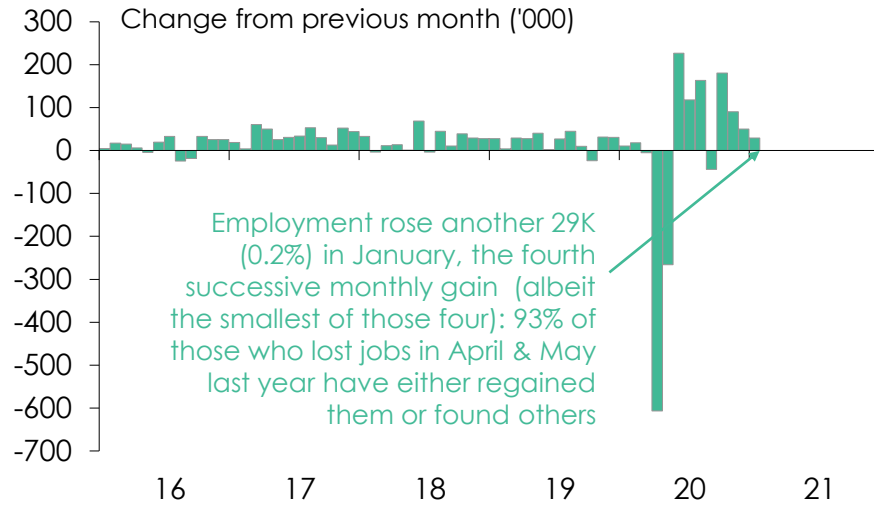
Proportion of businesses planning to increase employment, by industry, February 2021



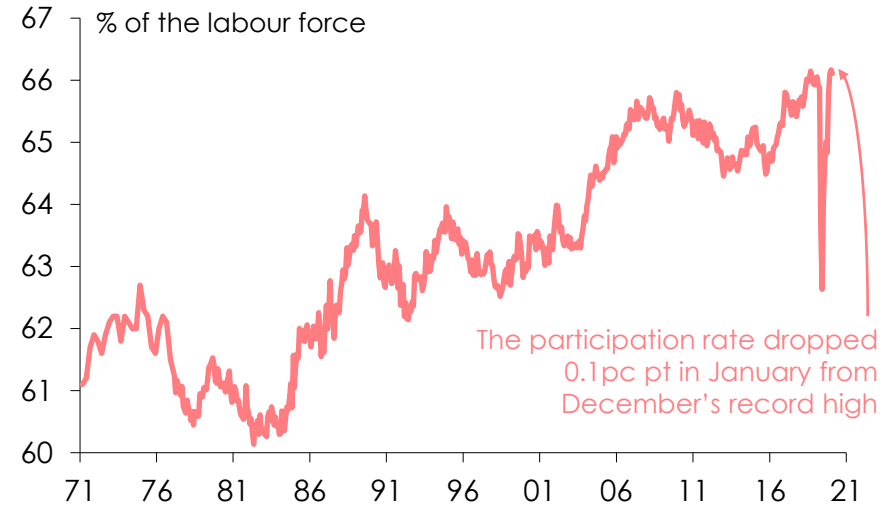
Source: ABS, [Business Conditions and Sentiments](#), February 2021. See also [slide 99](#) for data on capex intentions by business size. [Return to "What's New"](#).

# 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%

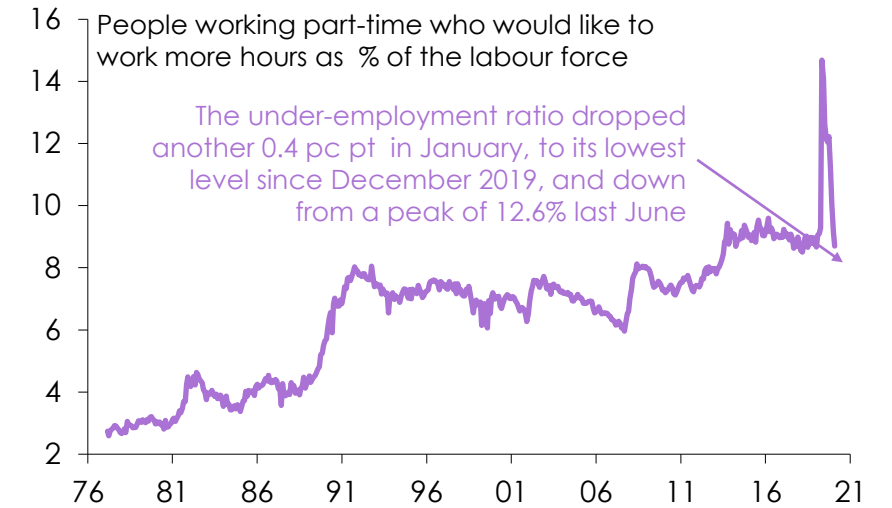
## Employment



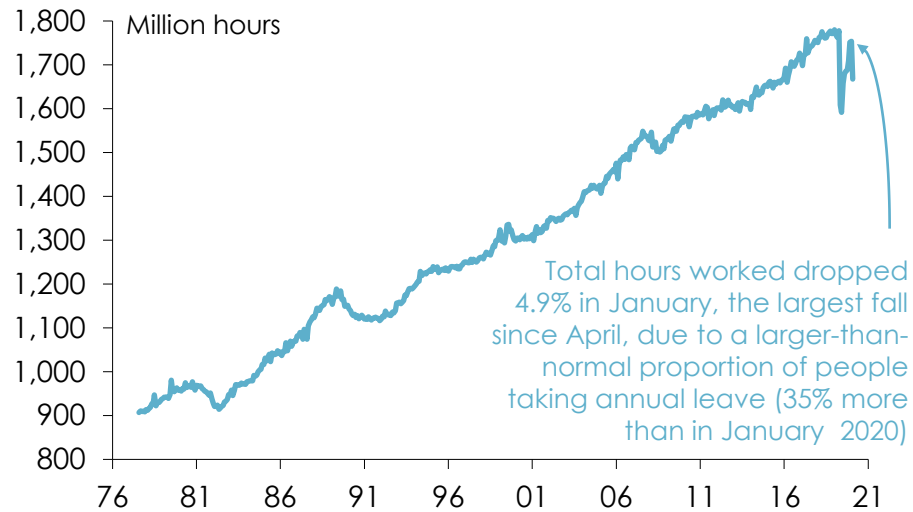
## Labour force participation rate



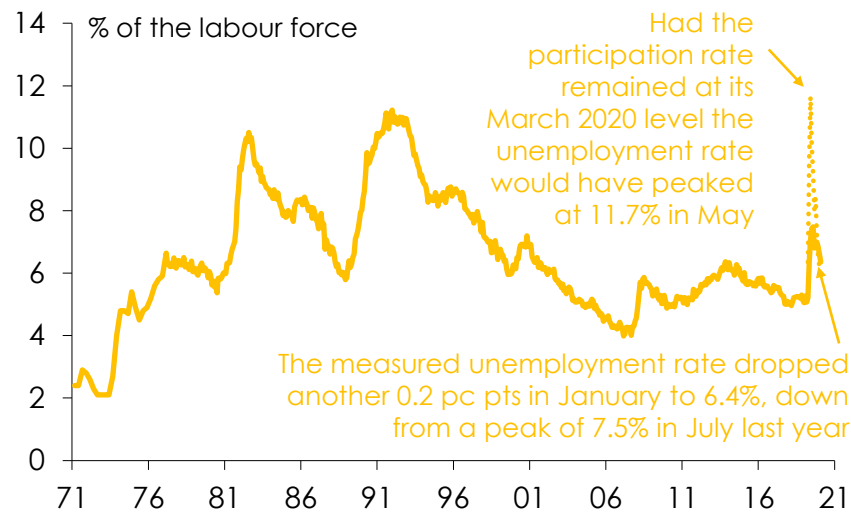
## Under-employment ratio



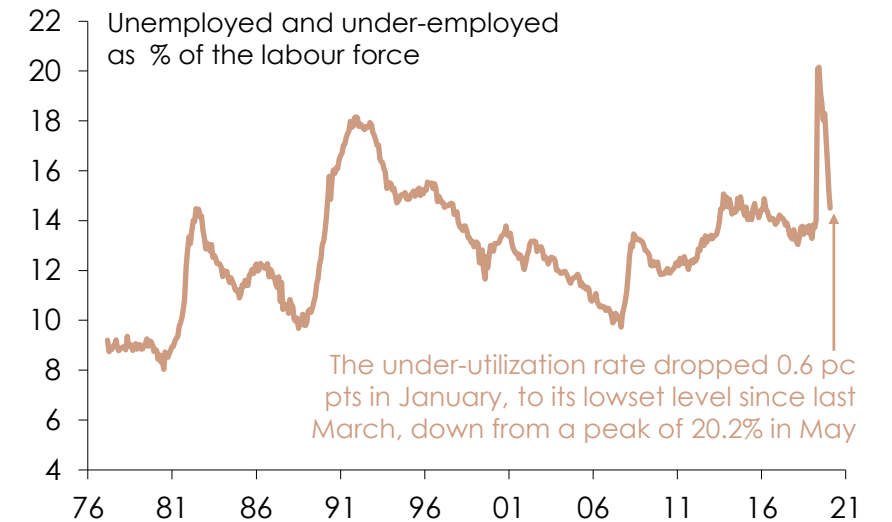
## Total hours worked



## Unemployment rate



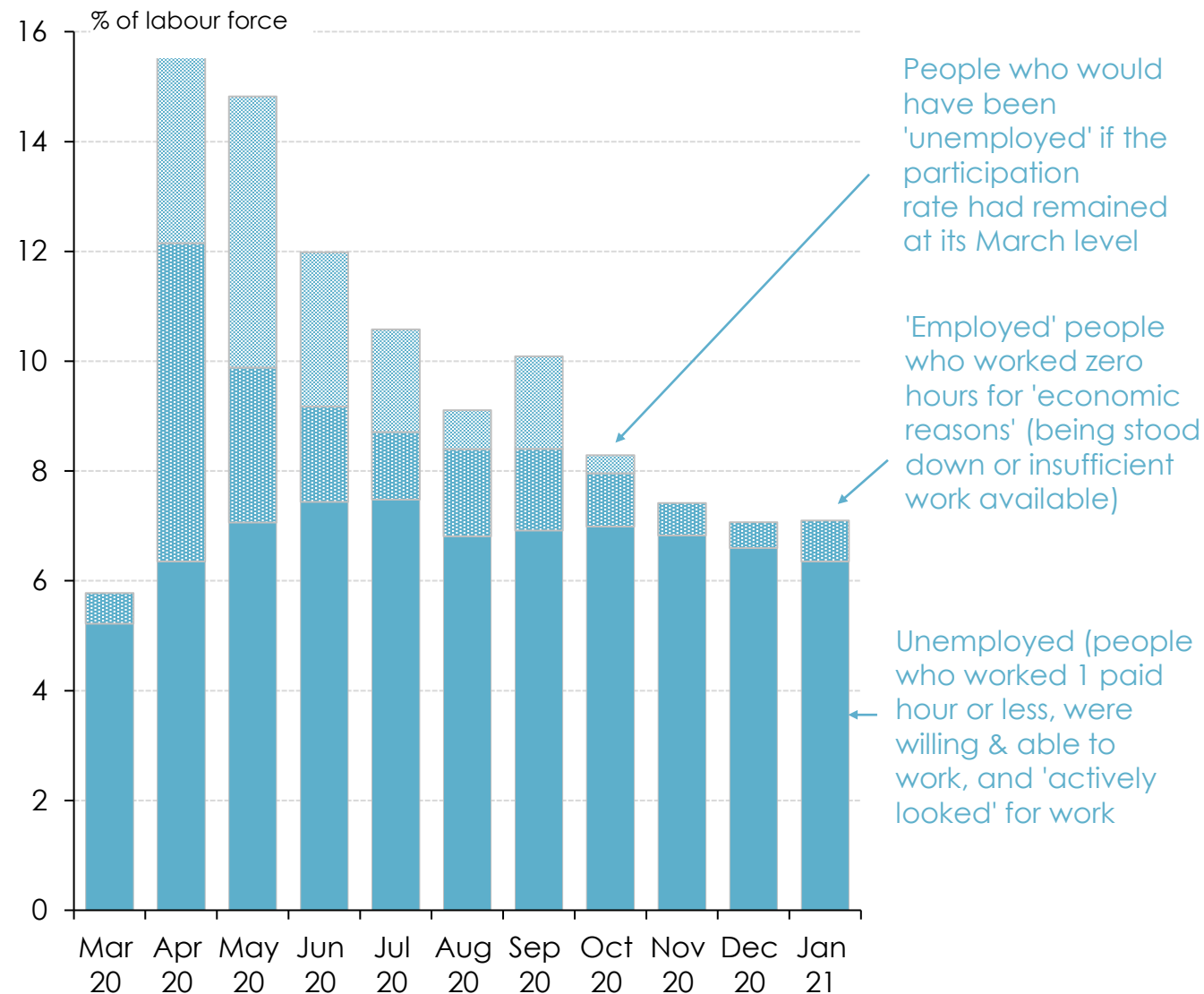
## 'Under-utilization' rate



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

# 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



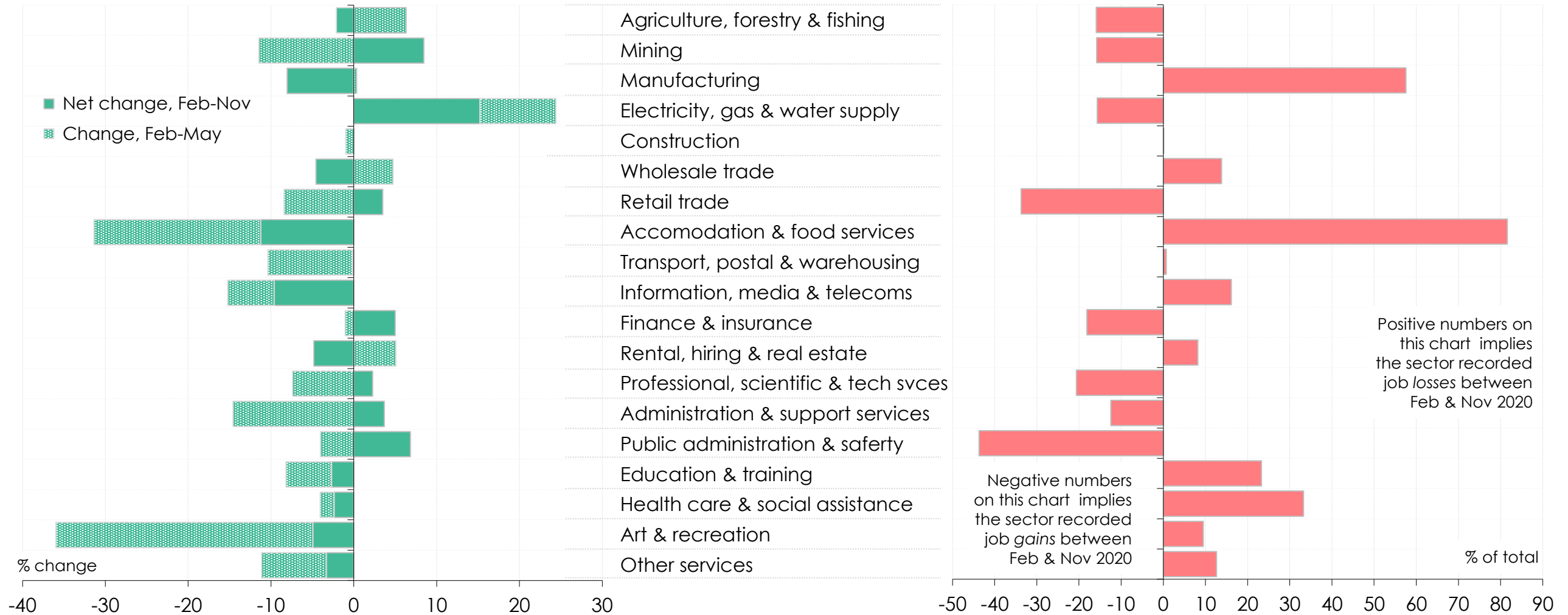
- ❑ The Government's JobKeeper program paid eligible employers a subsidy of \$1500 per fortnight for each eligible employee kept on the payroll between 30<sup>th</sup> March and 27<sup>th</sup> September (although payments didn't start until the beginning of May)
- ❑ From 28<sup>th</sup> September the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



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

Change in employment between February and November 2020, by industry

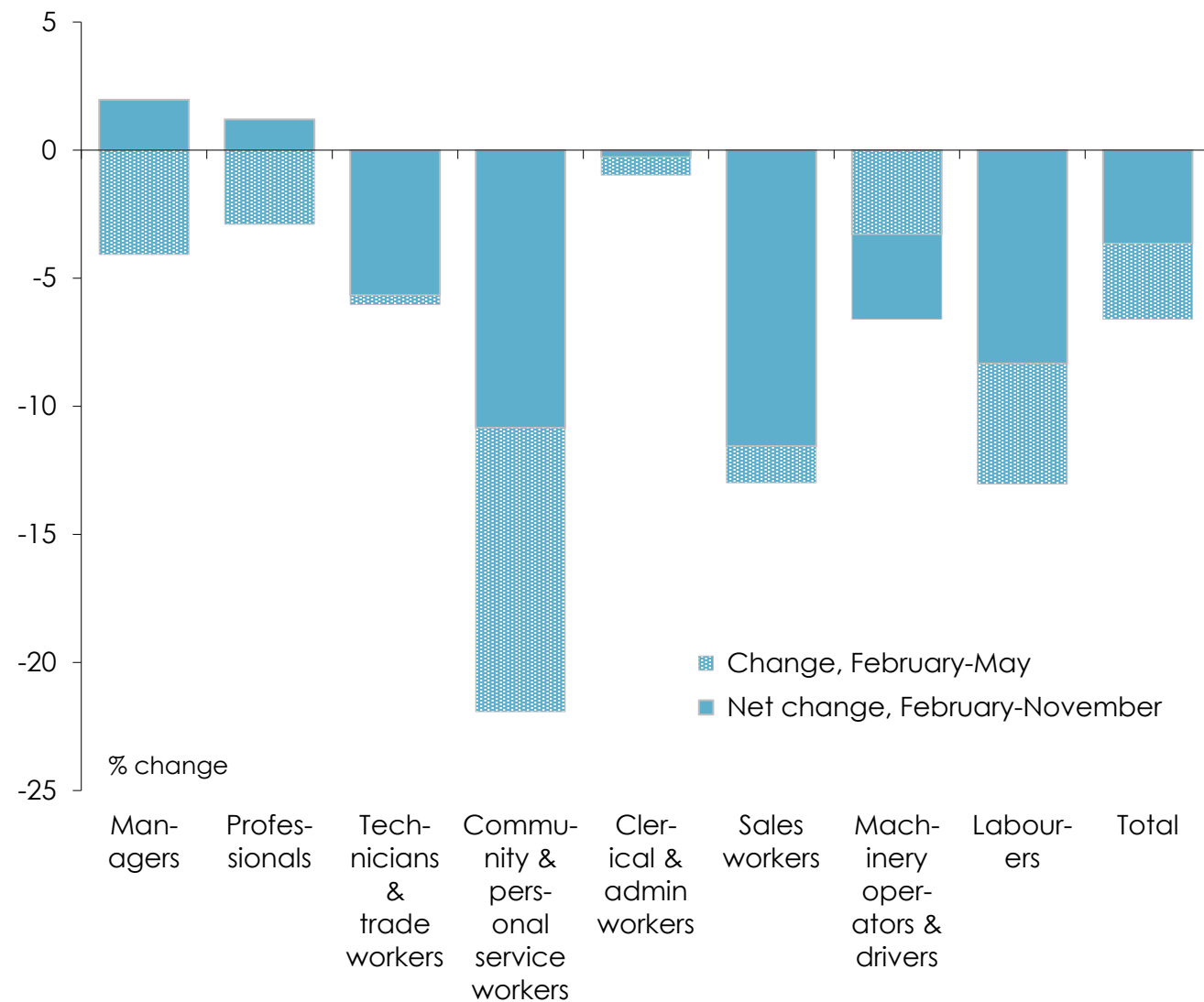
Proportion of change in total employment between February and November 2020, by industry



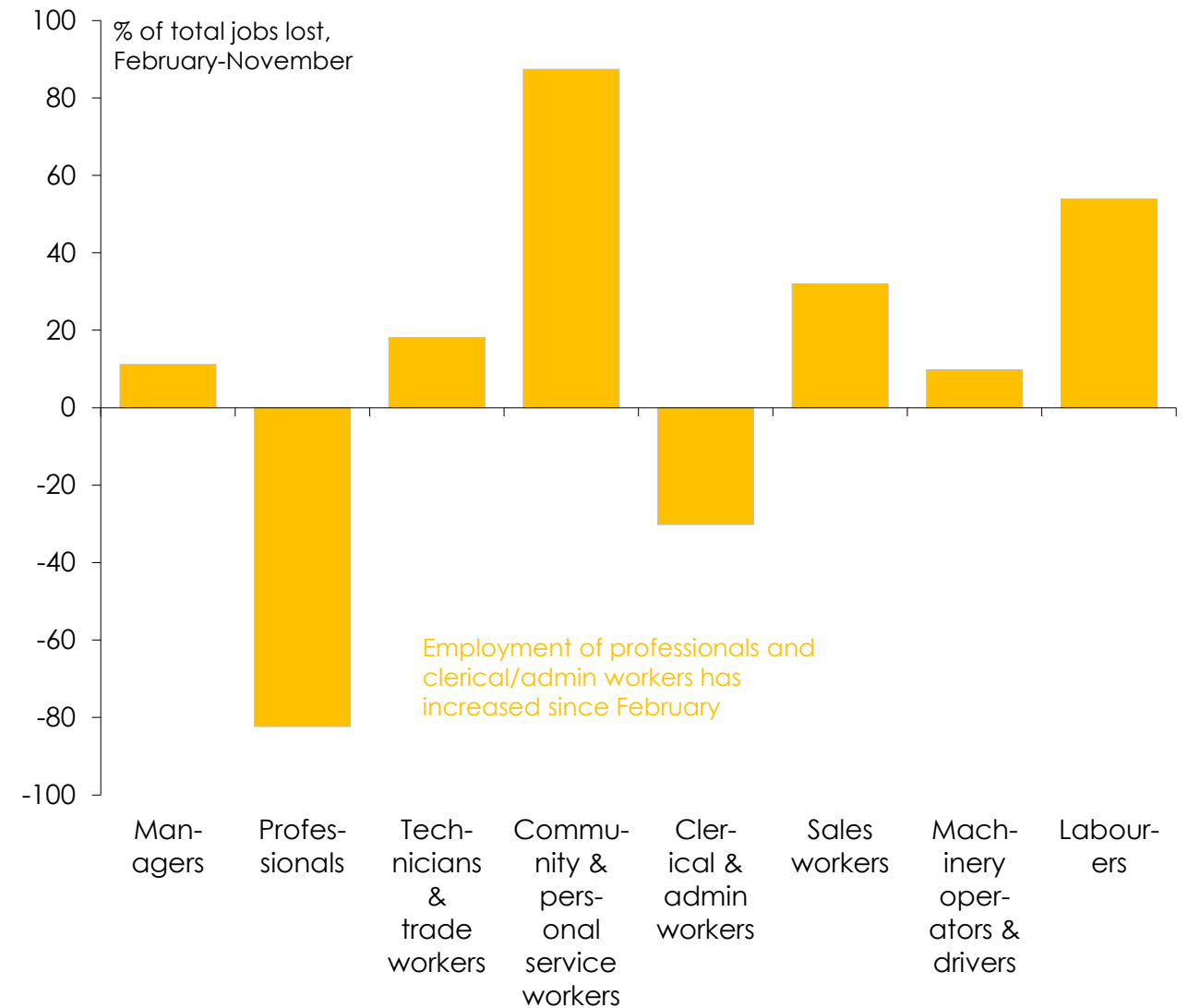
Source: ABS, [Labour Force, Australia, Detailed](#), November 2020. Labour force survey data on employment by industry are available only for the middle month of each quarter: February 2021 data will be released on 25<sup>th</sup> March. [Return to "What's New"](#).

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

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



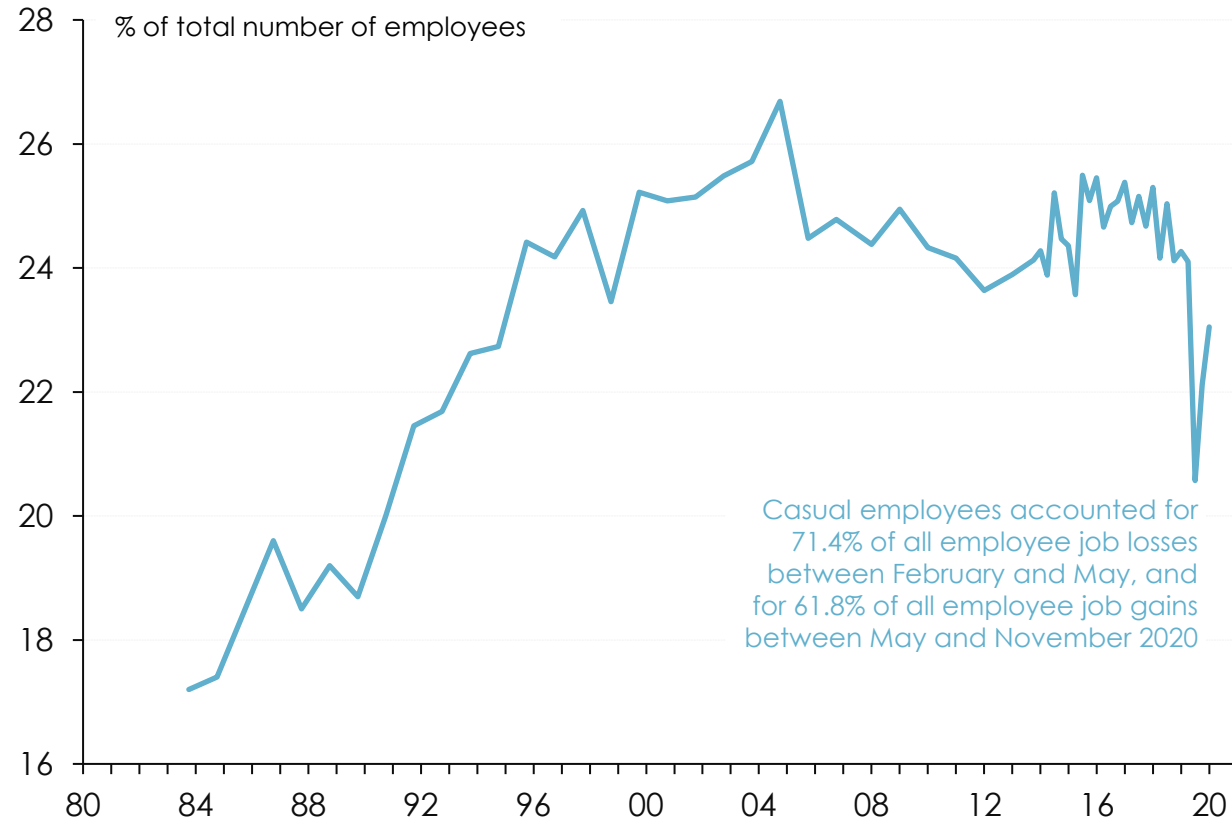
## Proportion of change in total employment between February and March 2020, by occupation



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

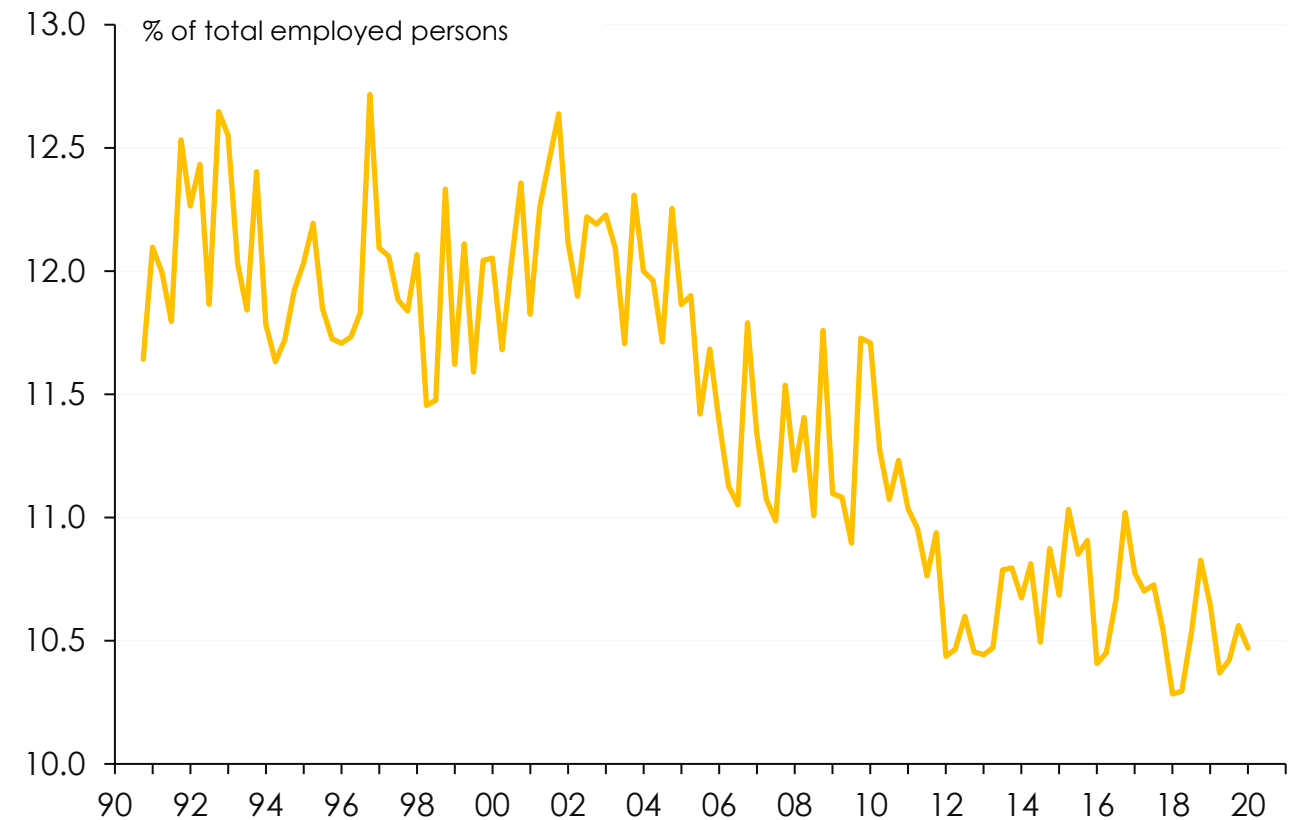
# Contrary to popular belief neither casual jobs nor 'gig economy' jobs have become more commonplace during the past two decades

## '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

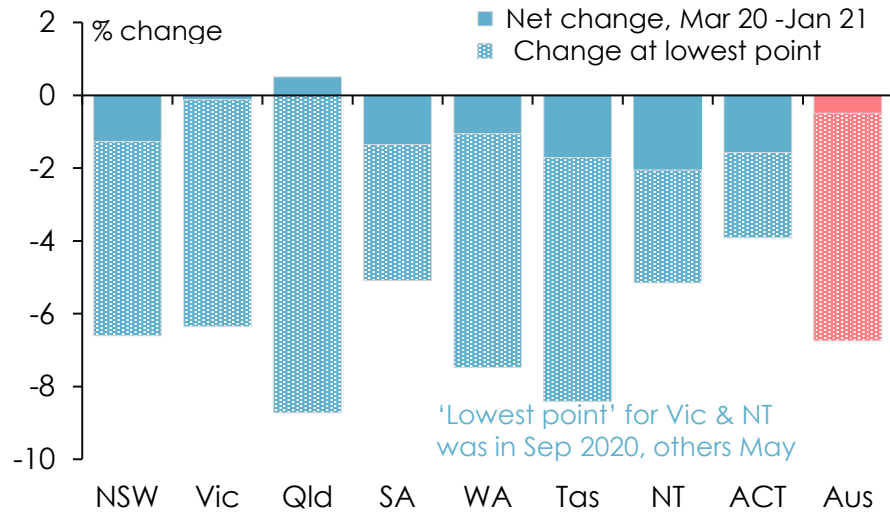


- ❑ 'Independent contractors' have actually declined as a share of the workforce since the early 2000s – had haven't increased during the current recession

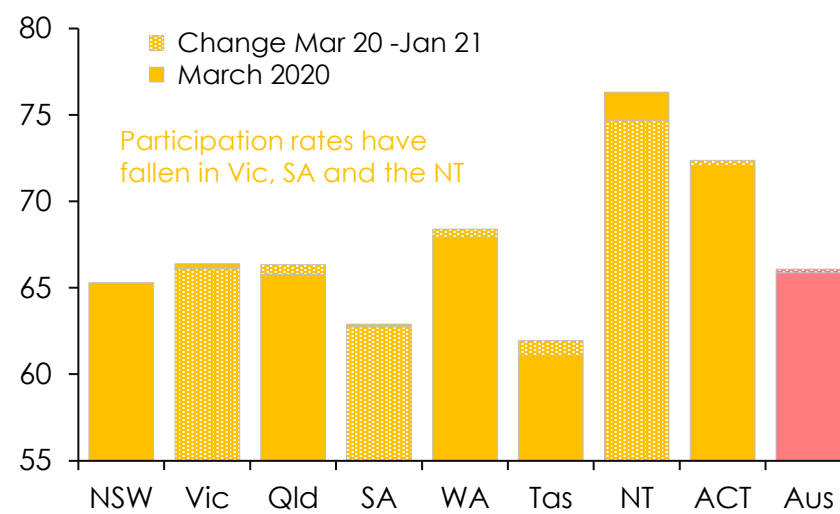
Note: data on casual employment are for August between 1984 and 2008; for November between 2009 and 2013; and for the middle month of each quarter since then; data on owner-managers are for the middle month of each quarter. Sources: ABS, [Characteristics of Employment, Australia](#), and earlier equivalents;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

# 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

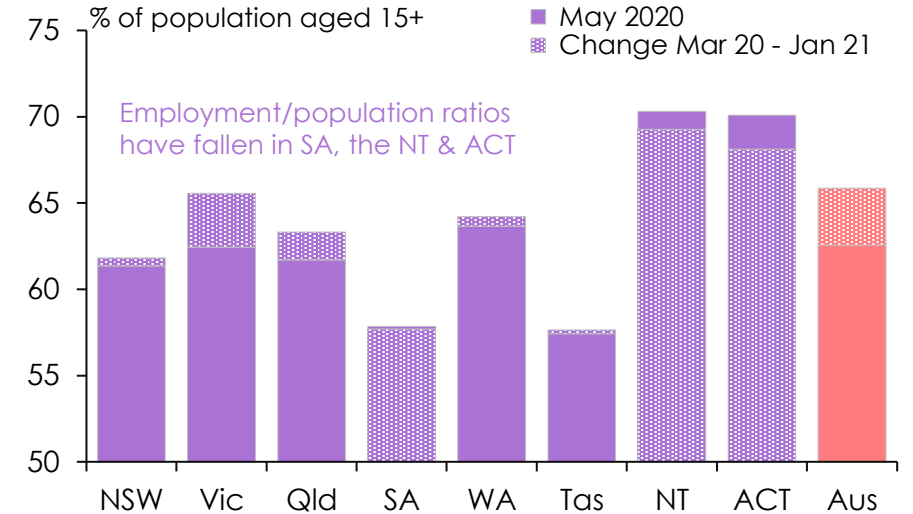
## Employment



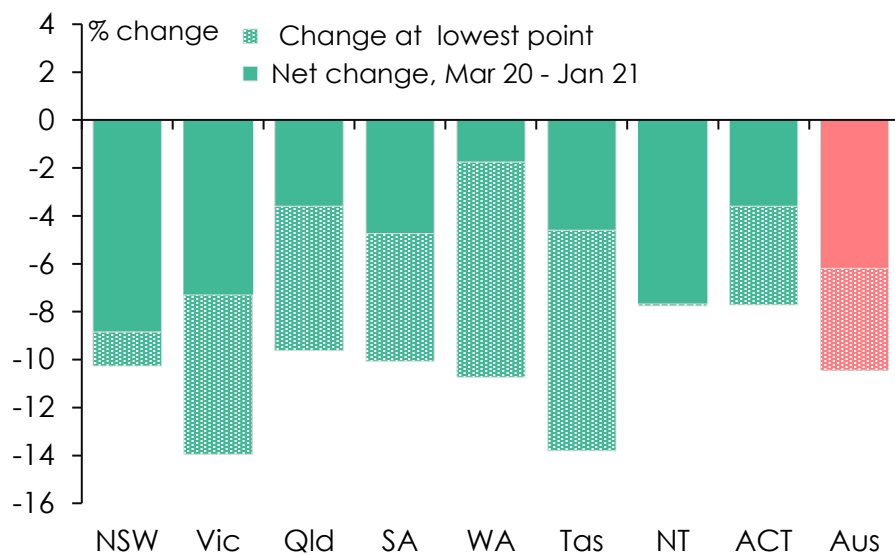
## Labour force participation rate



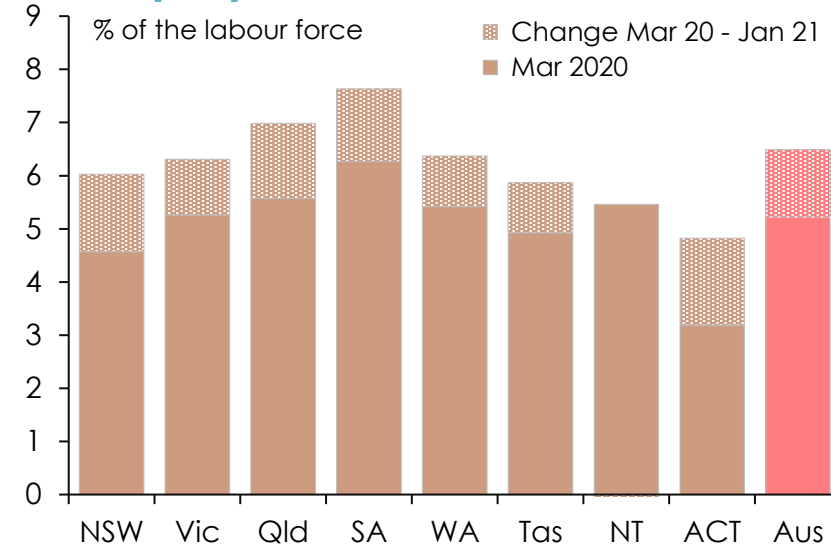
## Employment-population ratio



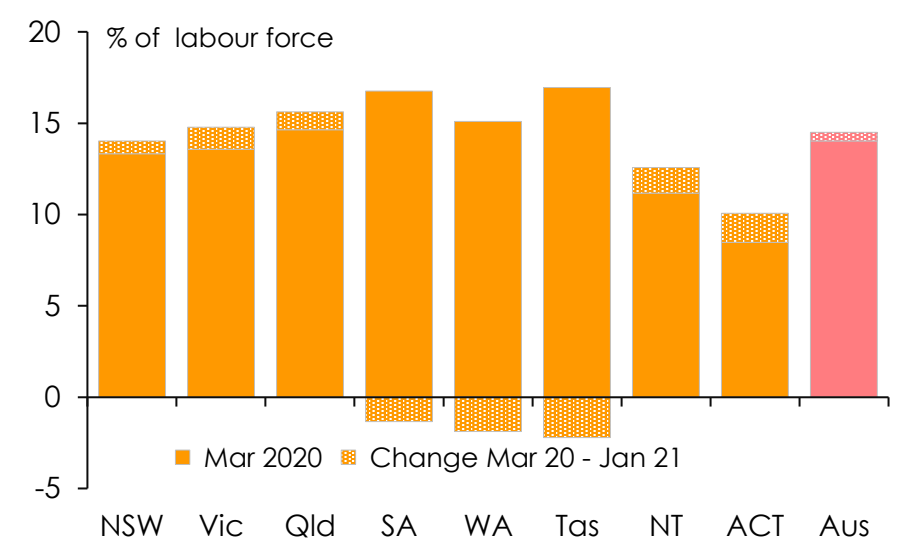
## Total hours worked



## Unemployment rate



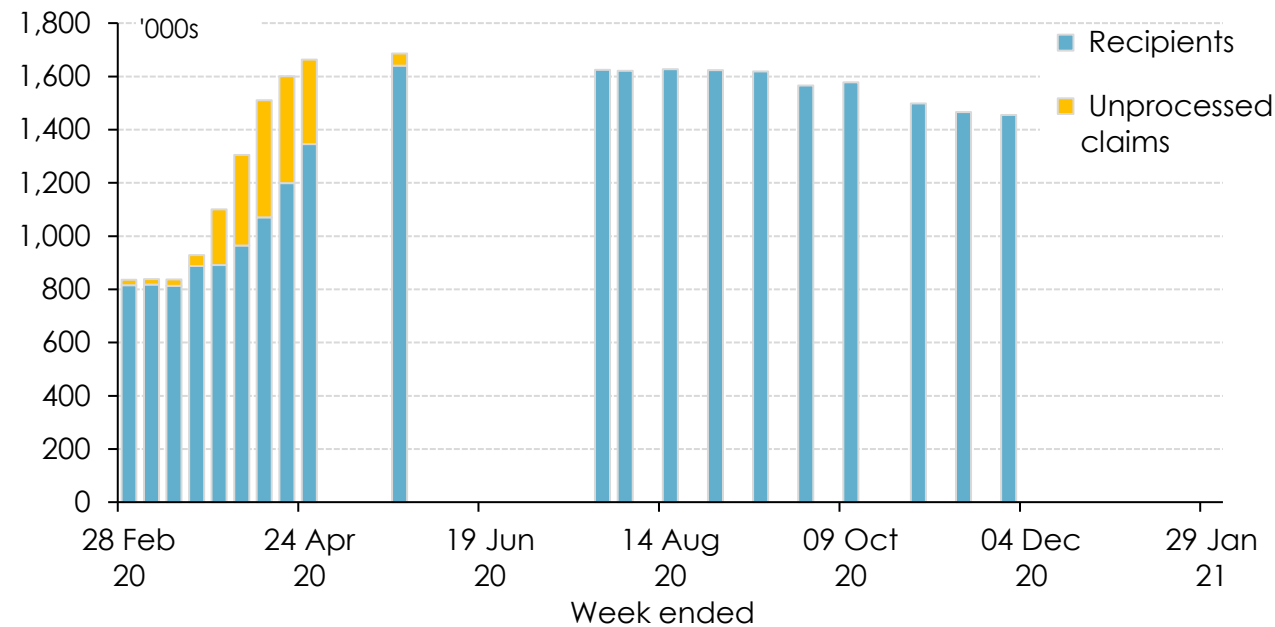
## 'Under-utilization' rate



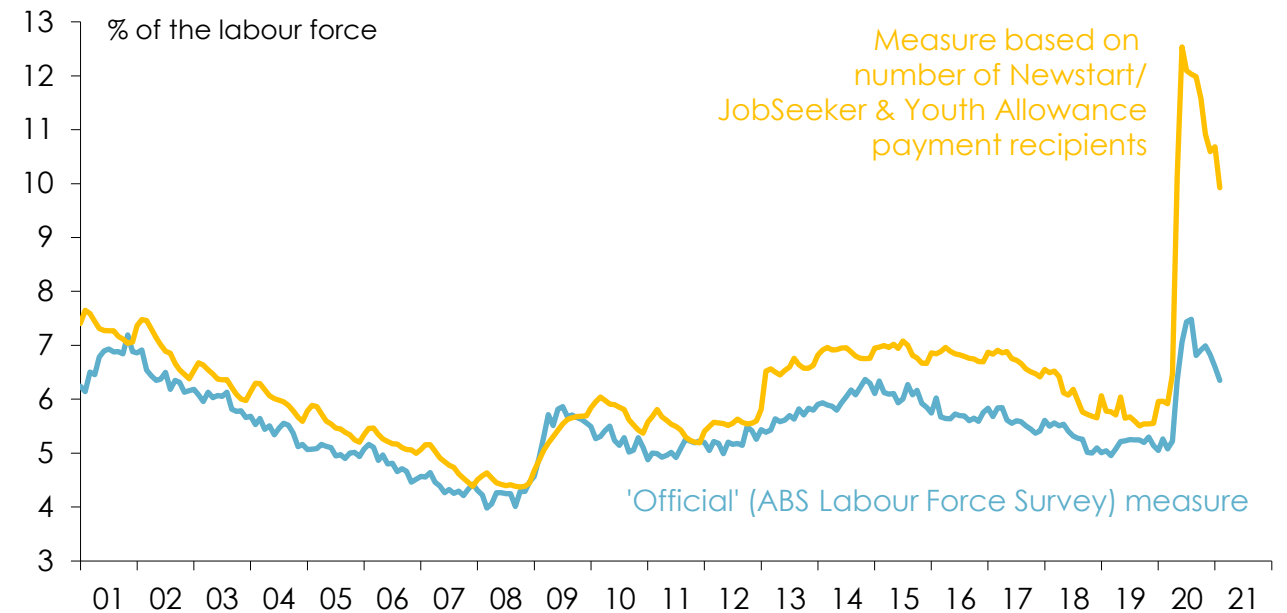
Note: The 'under-employment ratio' is the percentage of employed persons who are working fewer hours than they are willing and able to work. The 'under-utilization rate' is the proportion of the labour force who are unemployed or underemployed. Source: ABS, [Labour Force, Australia](#). February data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

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

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



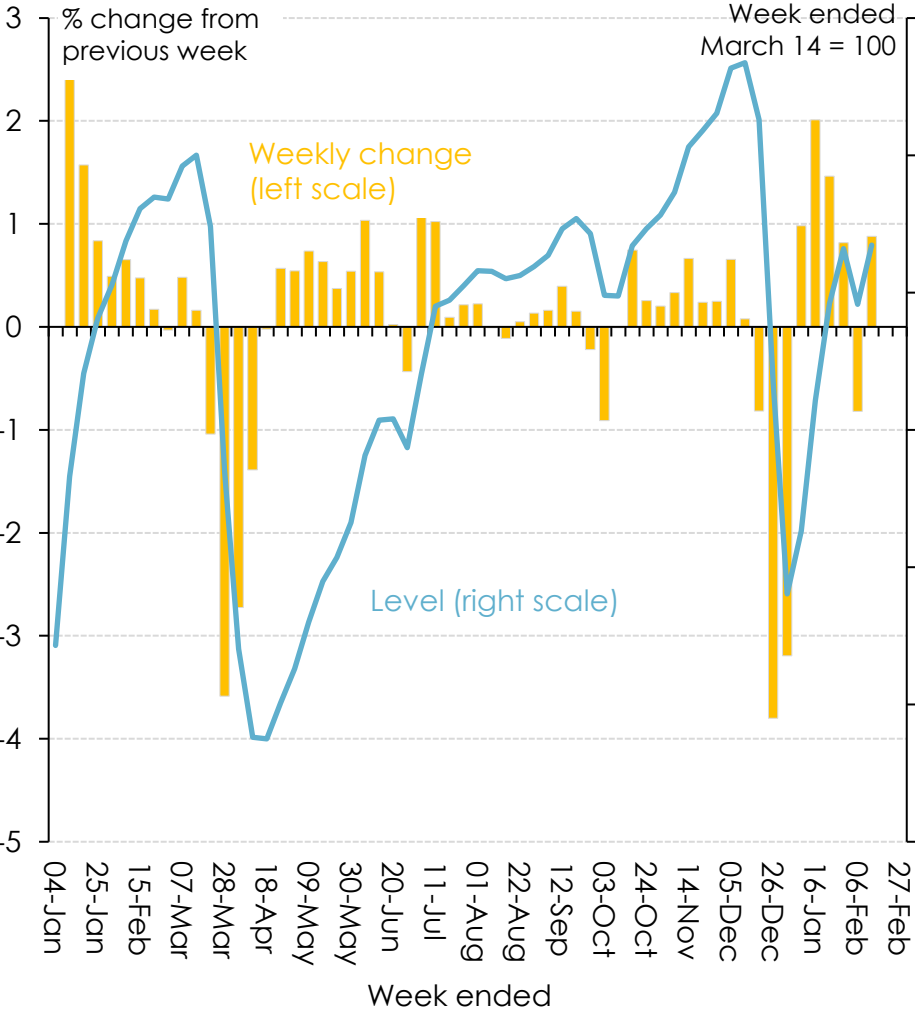
## Jobless income support beneficiaries and labour force survey unemployed as a pc of the labour force



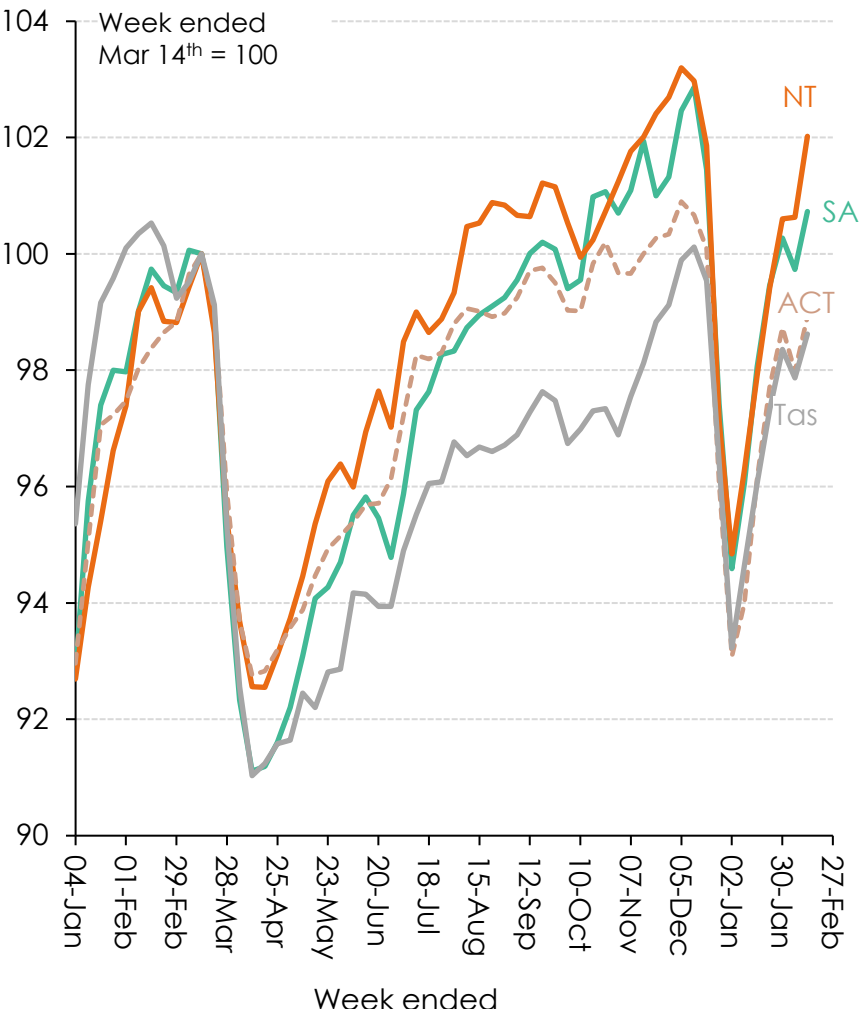
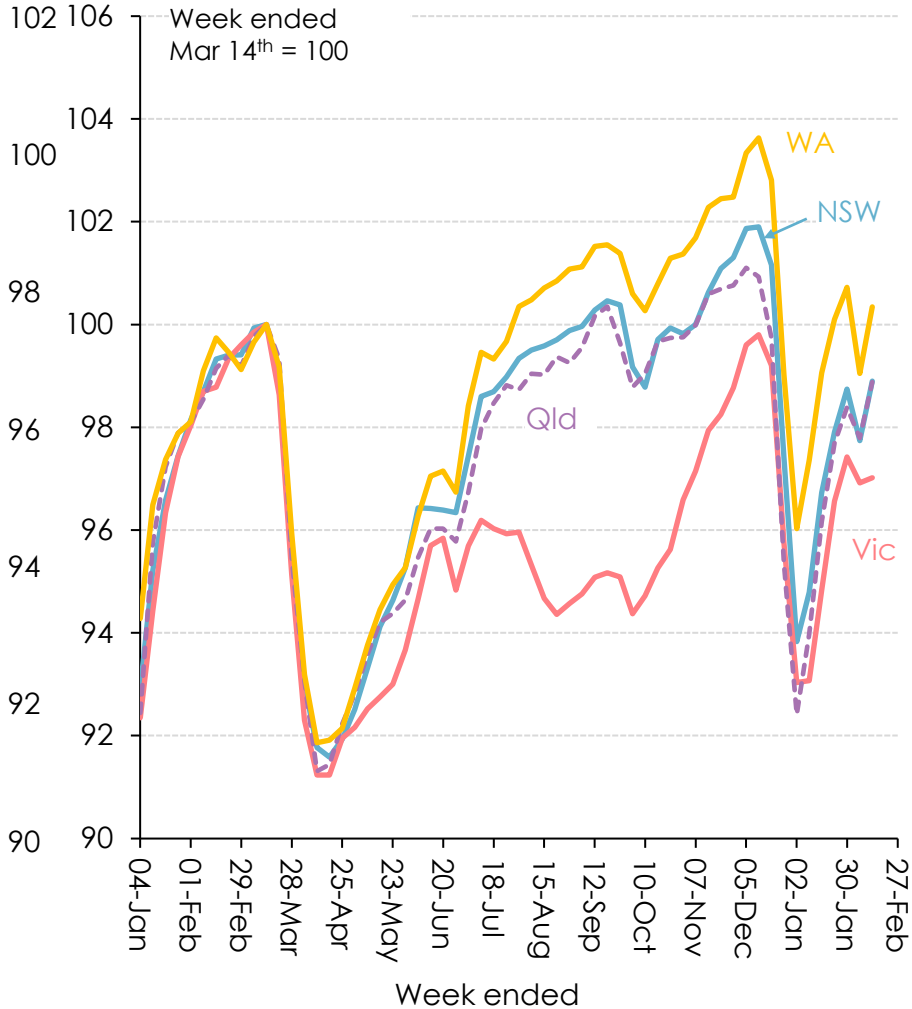
- ❑ The Department of Social Services (DSS) compiles weekly data on the number of people receiving JobSeeker and Youth Allowance (Other) payments, which are supplied to Ministers; historically, only monthly data has been made publicly available (latest is for January 2021)
- ❑ On two occasions last year the Secretary of DSS provided weekly data to the Senate Select Committee on Covid-19, and in July promised to provide fortnightly and monthly data to this Committee; however so far only nine sets of data have been provided, the latest being for 27<sup>th</sup> November, and the Government is keeping the weekly data secret
- ❑ By contrast, the US Labor Department has been making the equivalent data (the 'initial claims' series) available every Thursday morning since 1968: there is no valid reason why Australia shouldn't do the same

# Payroll jobs held steady during the first half of February after recovering from the usual seasonal downturn, and lockdowns in some states in January

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



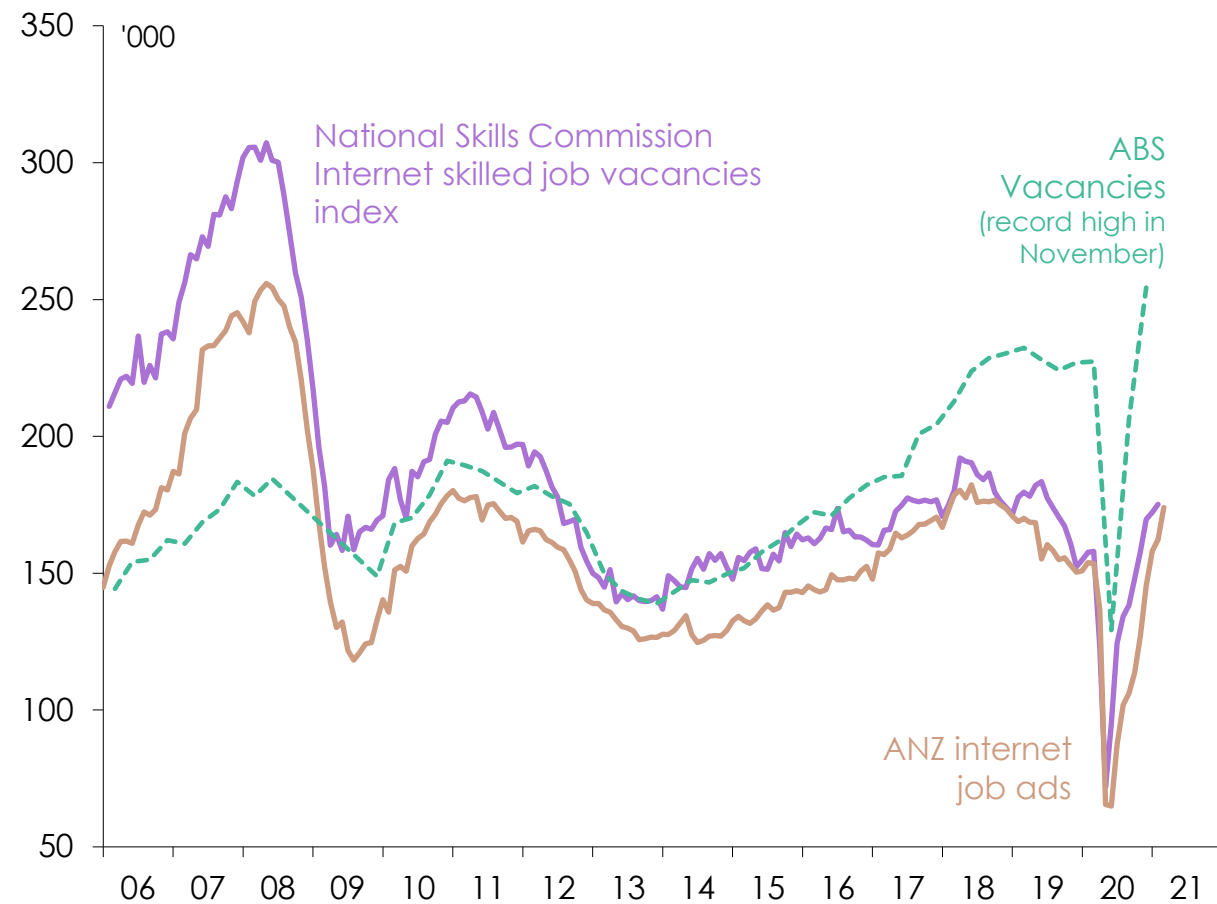
## Payroll jobs by State & Territory



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 27th February will be released on 16th March. [Return to "What's New"](#).

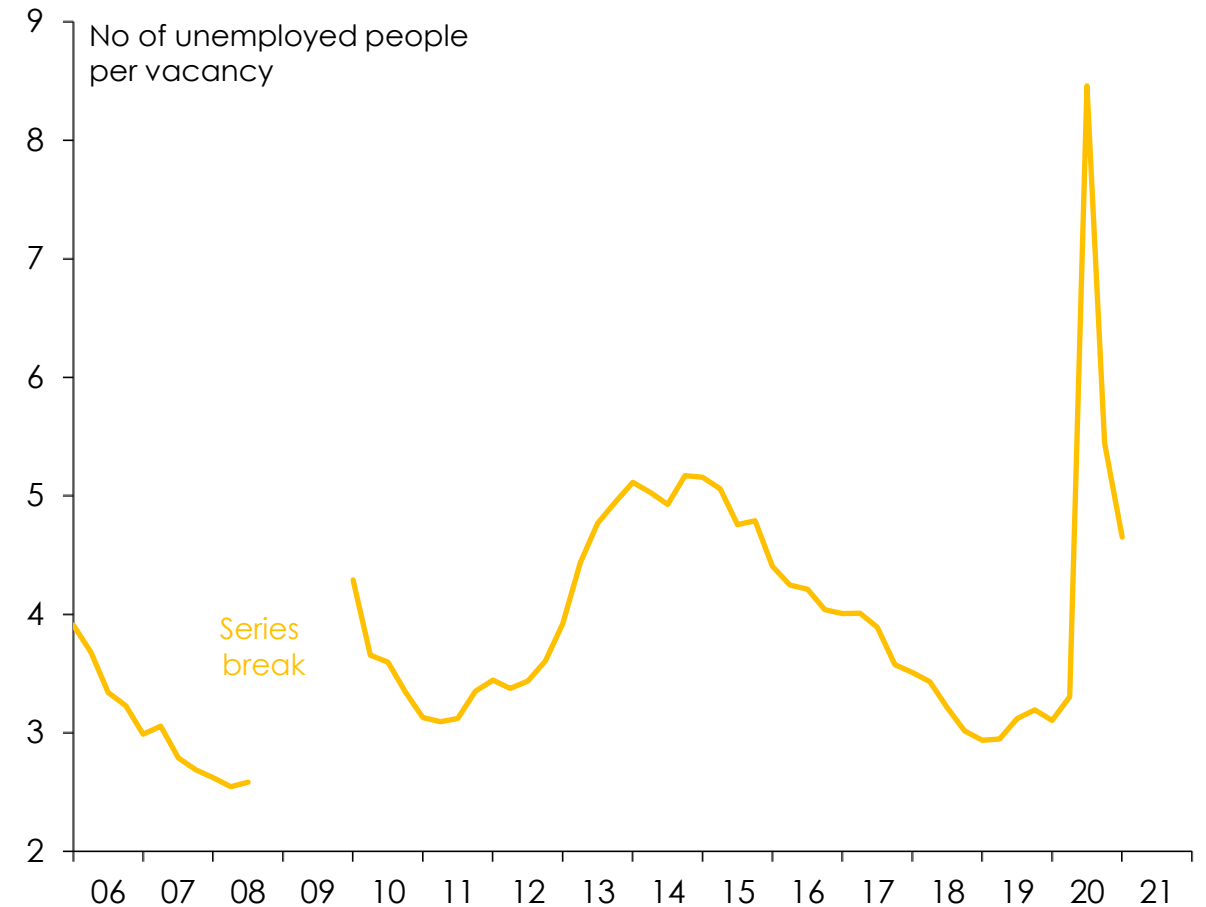
# Job vacancies have rebounded swiftly from their recession lows, although there are still almost 5 unemployed people for every job on offer

## Measures of job vacancies



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

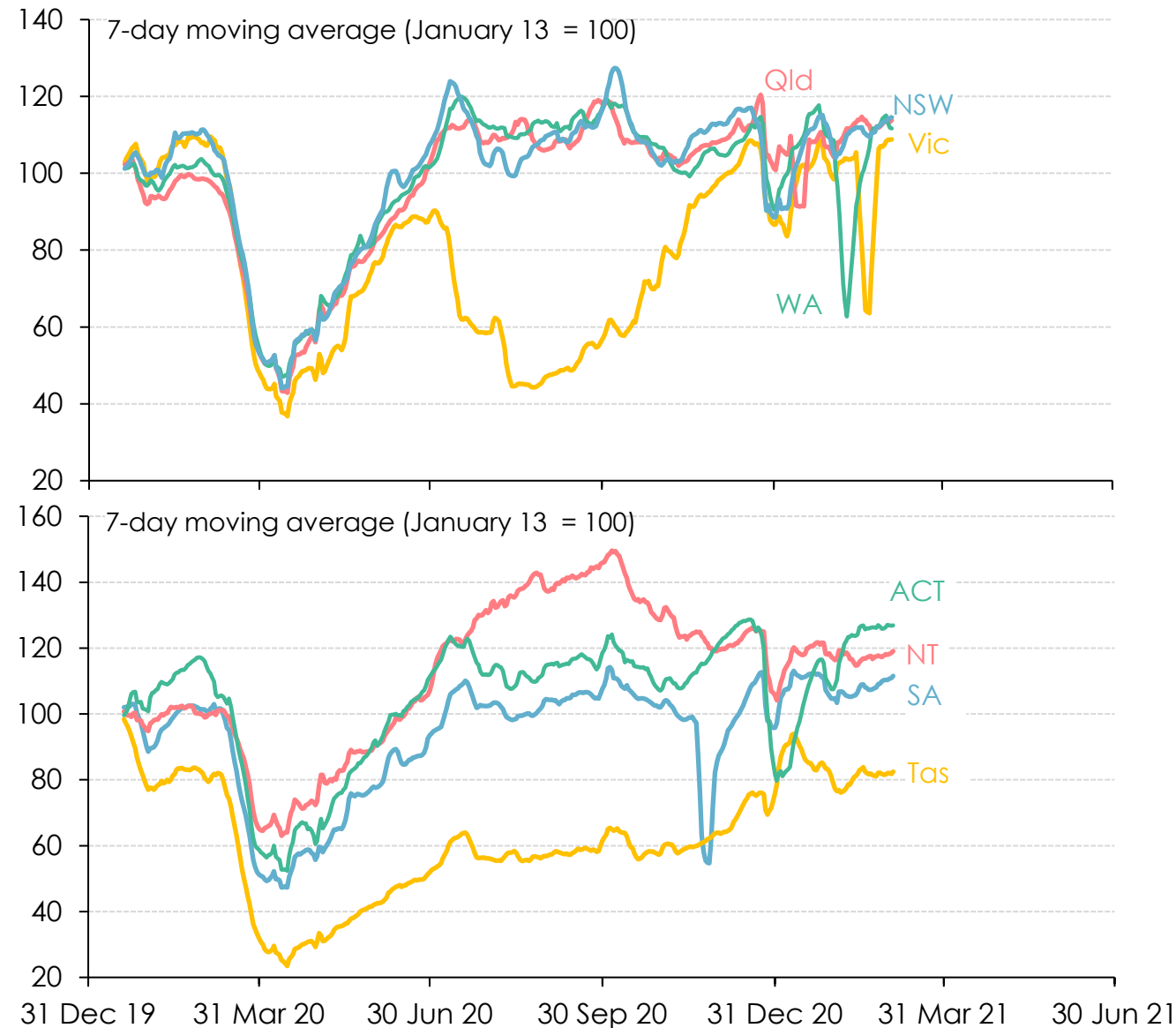
## Ratio of unemployed people to job vacancies



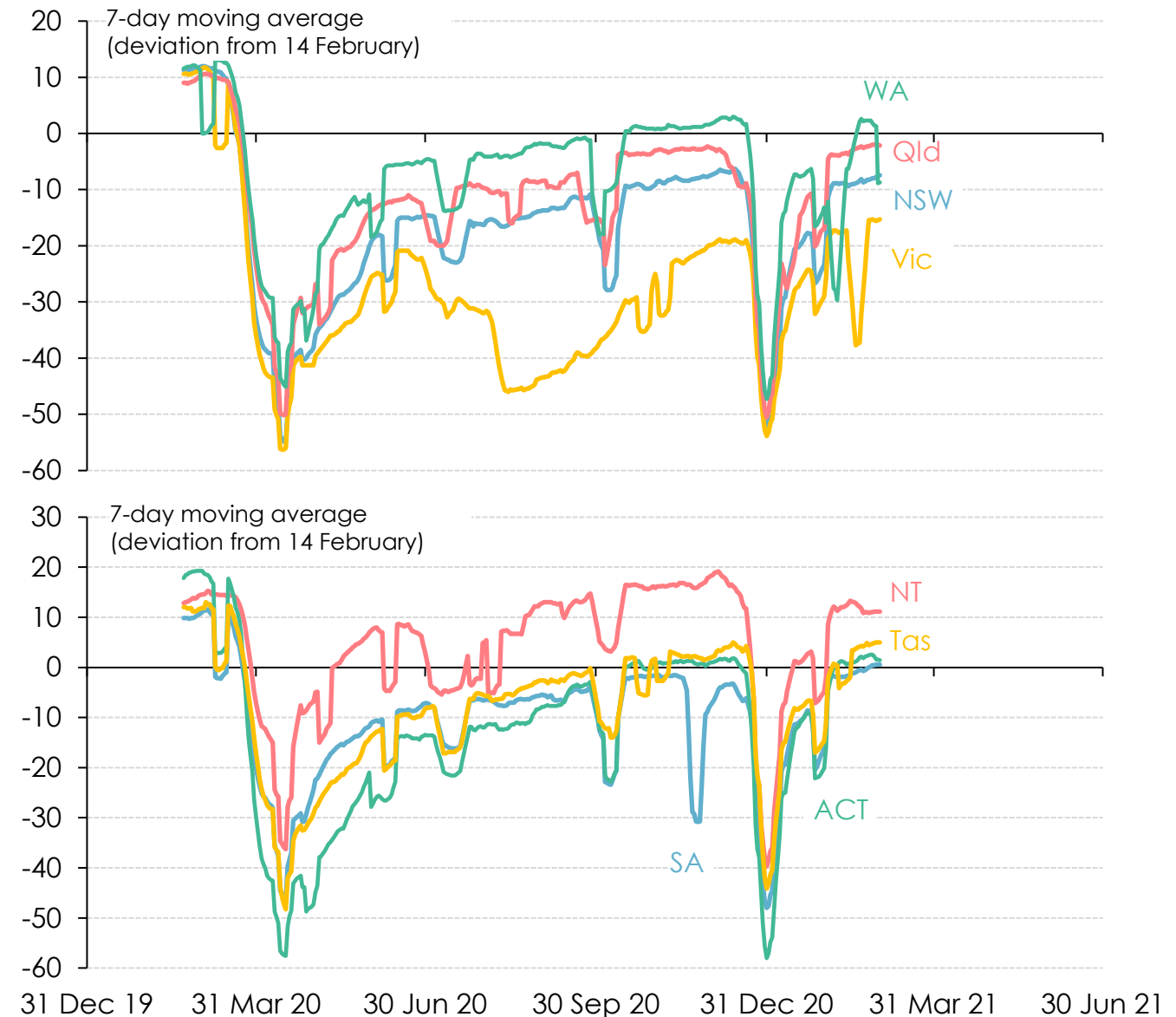
- In November there were roughly 4¾ unemployed people for every vacancy reported to ABS – down from a peak of 8½ in May but above the decade average of 3.9

# ... 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

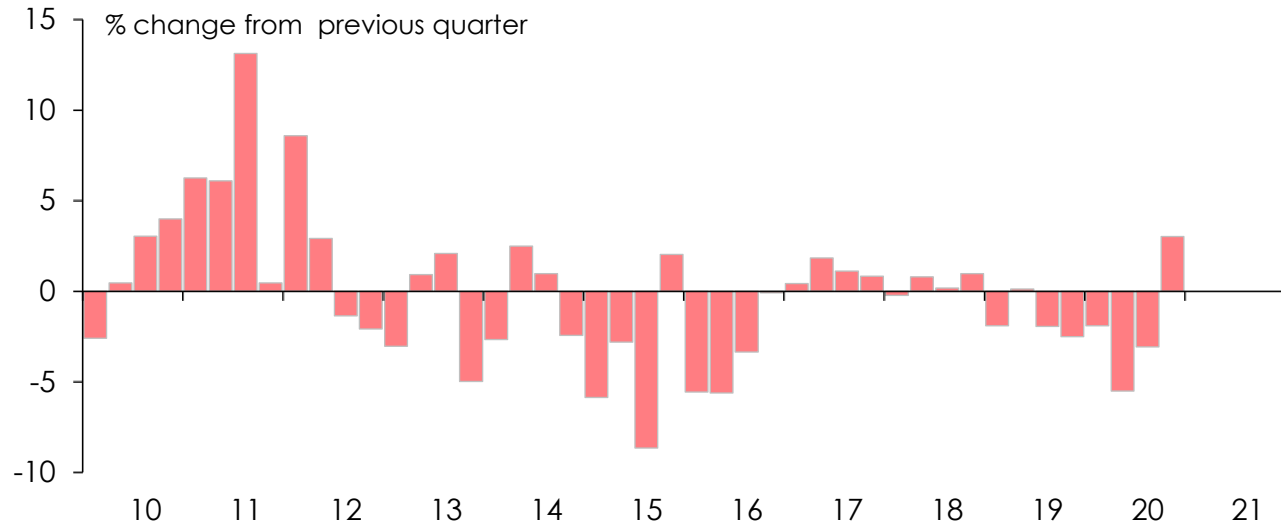


Note: these data will reflect normal seasonal variations in activities as well as the effects of government restrictions and individual responses to the risks posed by the virus. Sources: [Apple Mobility Trends Reports](#) (data up to 4<sup>th</sup> March); [Google Community Mobility Reports](#) (data up to 2<sup>nd</sup> March). [Return to "What's New"](#).

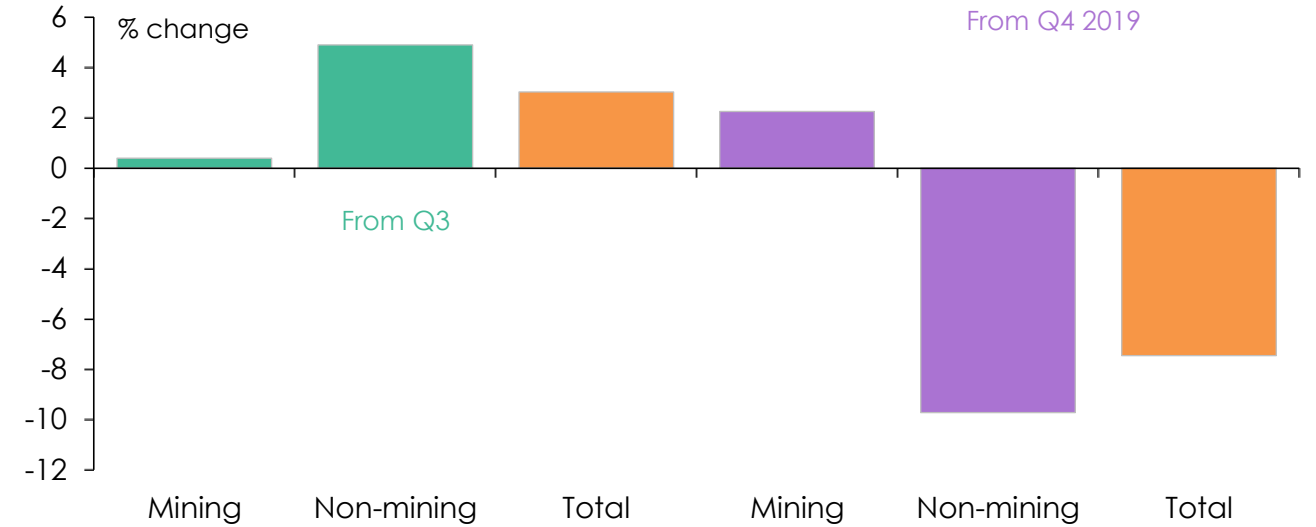


# Business capex rose in Q4 2020 for the first time in two years, largely driven by the construction and transport sectors, and despite a fall in mining

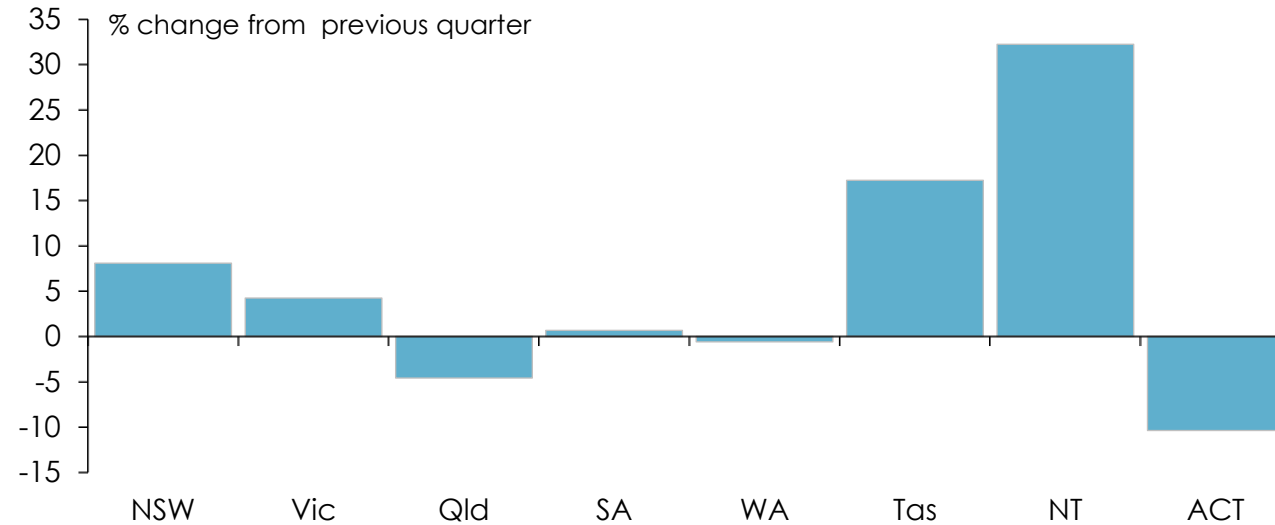
## Real business new fixed capital expenditure



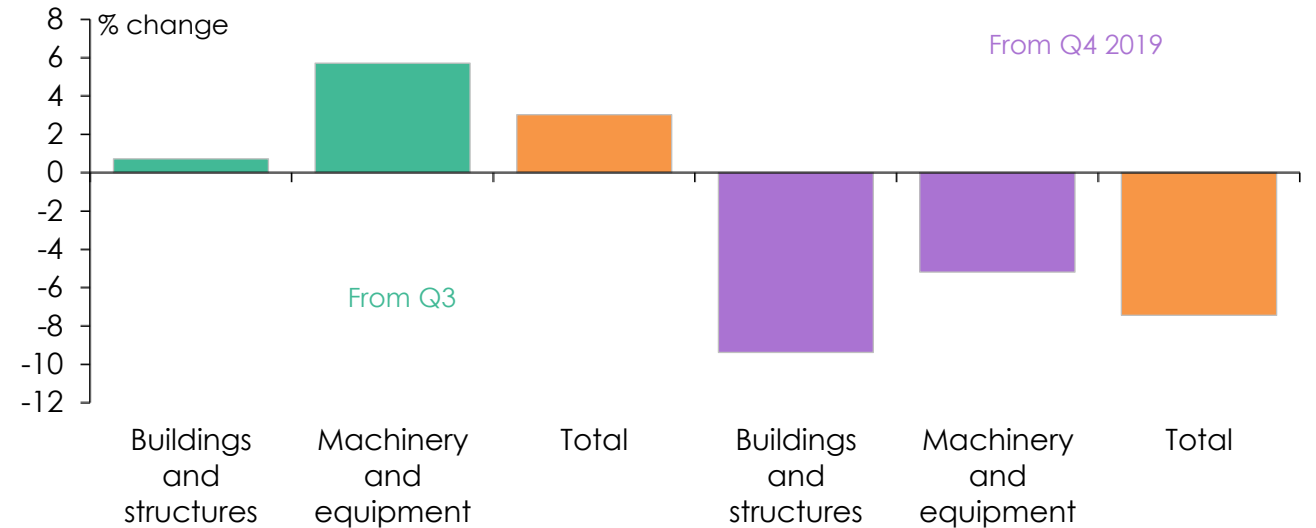
## Real business new fixed capex, by industry, Q4



## Real business new fixed capex, by state, Q4 2020



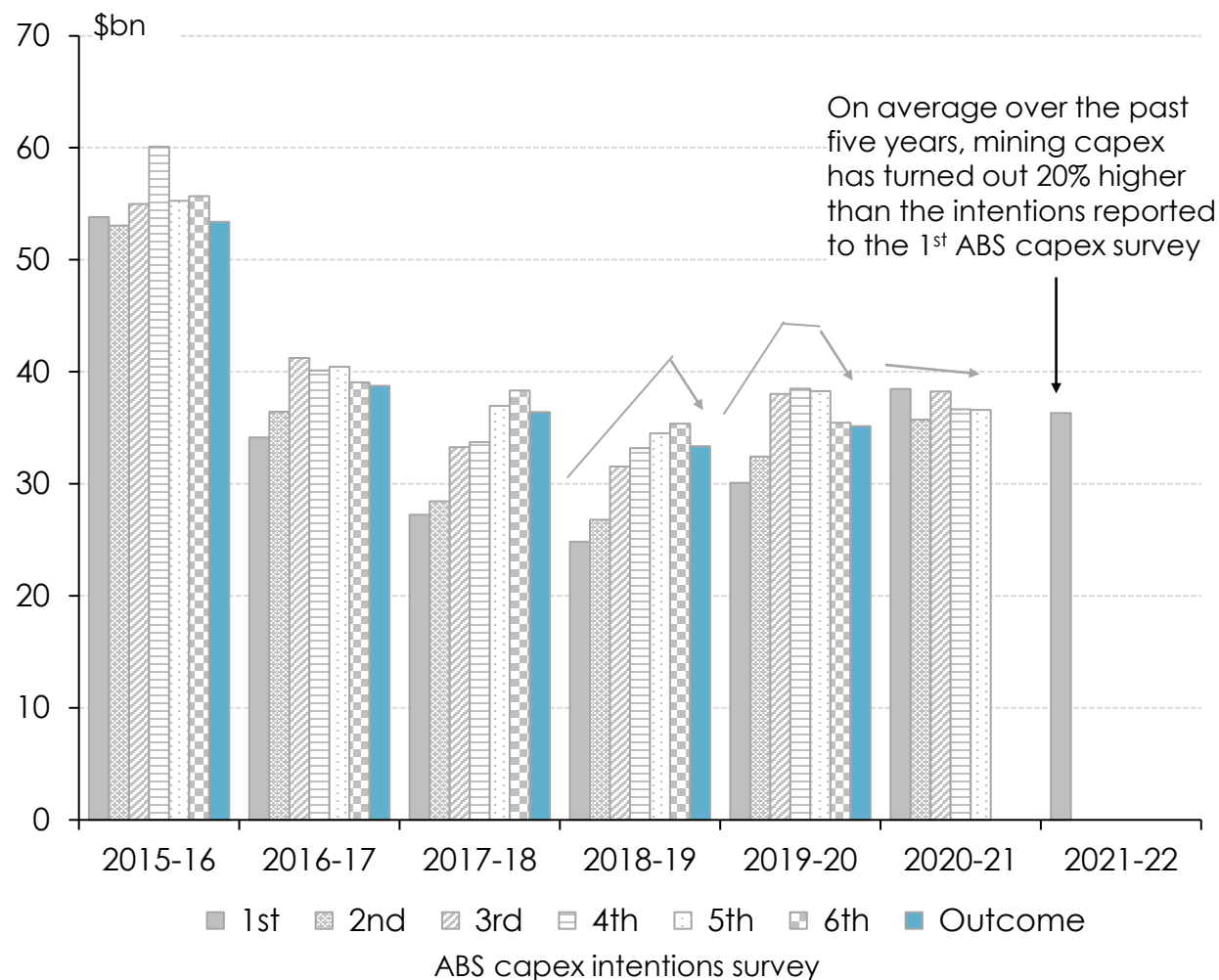
## Real business new fixed capex, by asset, Q4



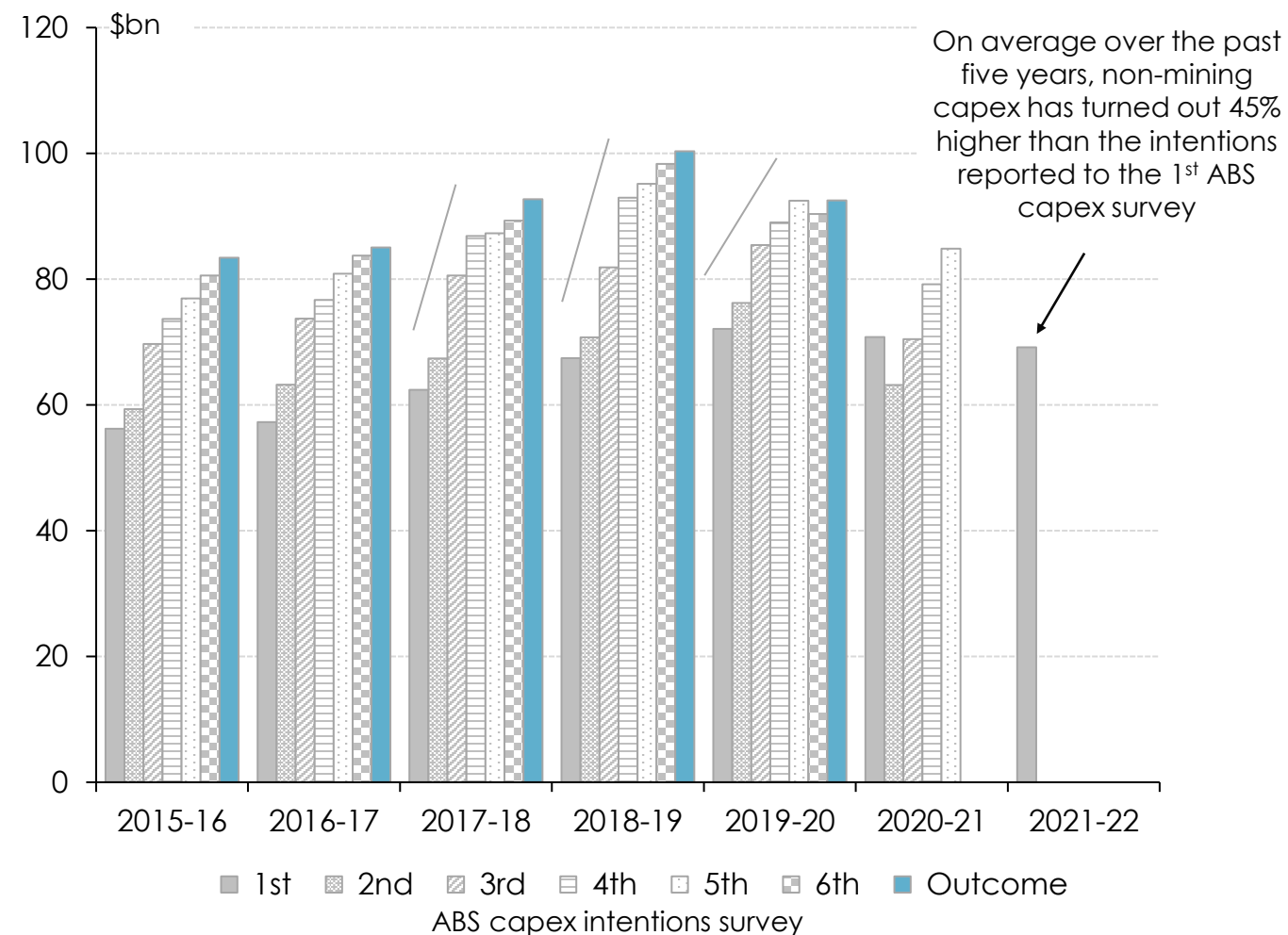
Note: the ABS Survey of New Capital Expenditure excludes the agriculture, forestry & fishing, and public administration & defence sectors, and superannuation funds.  
 Source: ABS, [Private New Capital Expenditure and Expected Expenditure, Australia](#); March quarter data will be released on 27<sup>th</sup> 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



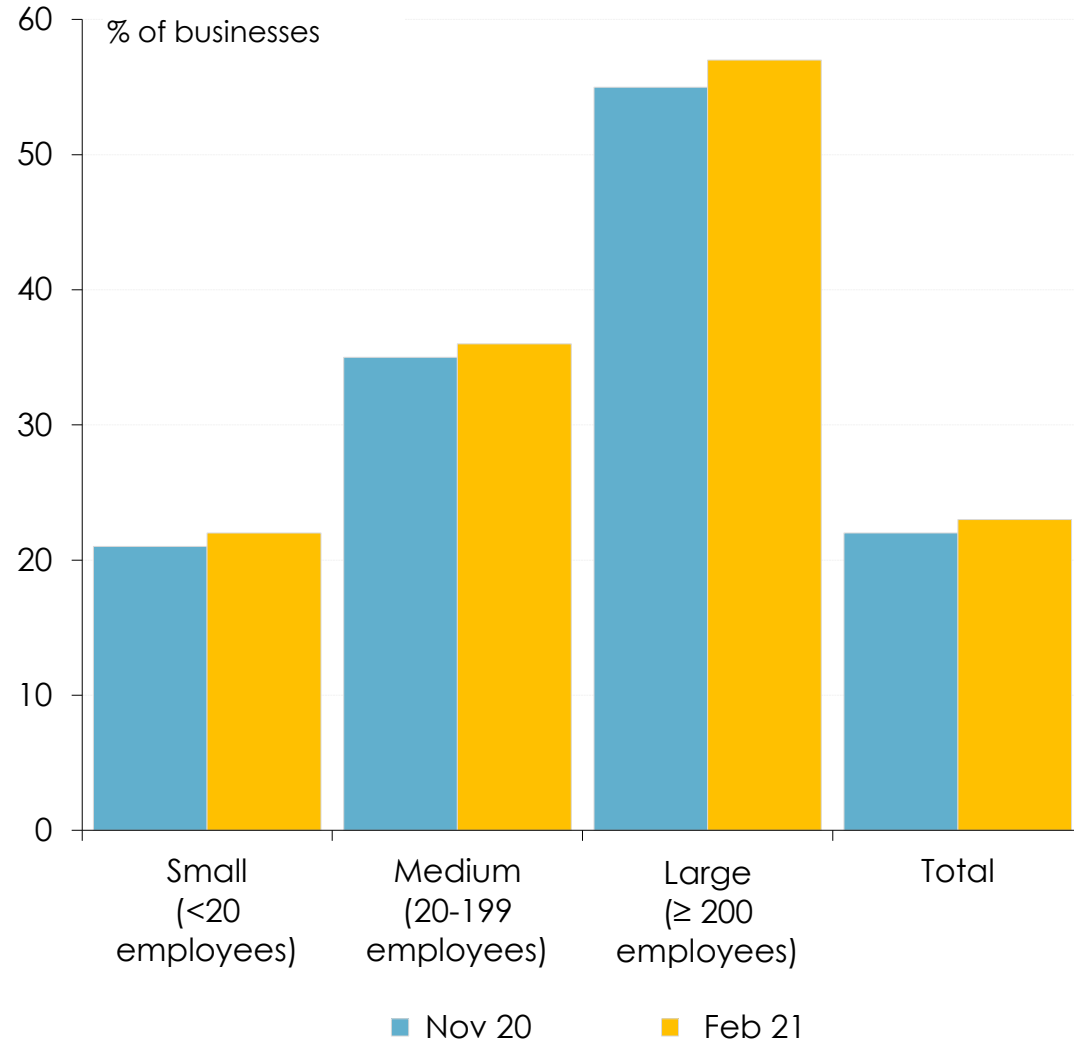
## Capital expenditure intentions – non-mining



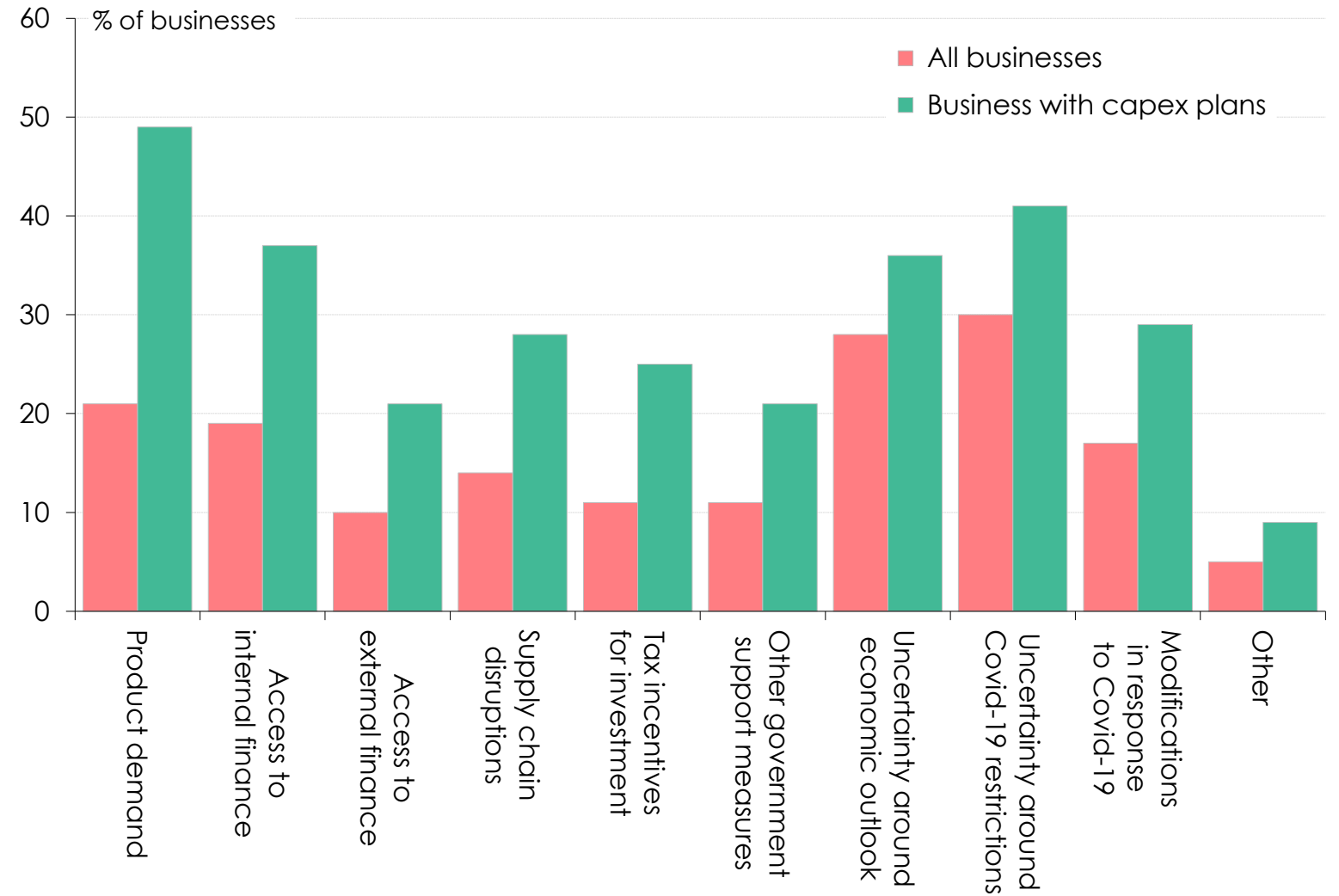
Note: The ABS conducts six surveys of business' capital expenditure intentions in respect of each financial year. The first is conducted in January & February prior to the commencement of the financial year, the second in May & June, the third in July & August of the financial year, the fourth in October & 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 27<sup>th</sup> May).

# 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



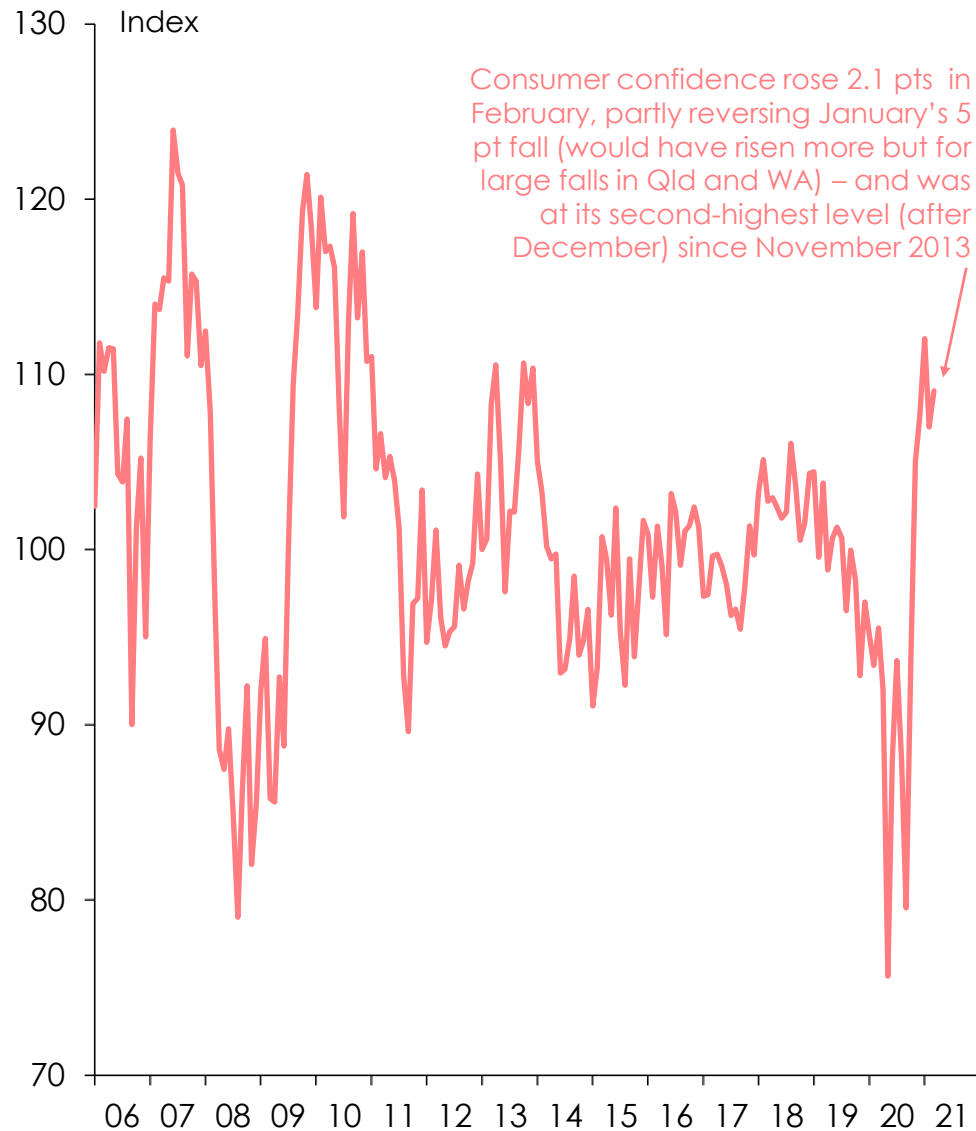
Factors affecting business capital expenditure decisions, February 2021



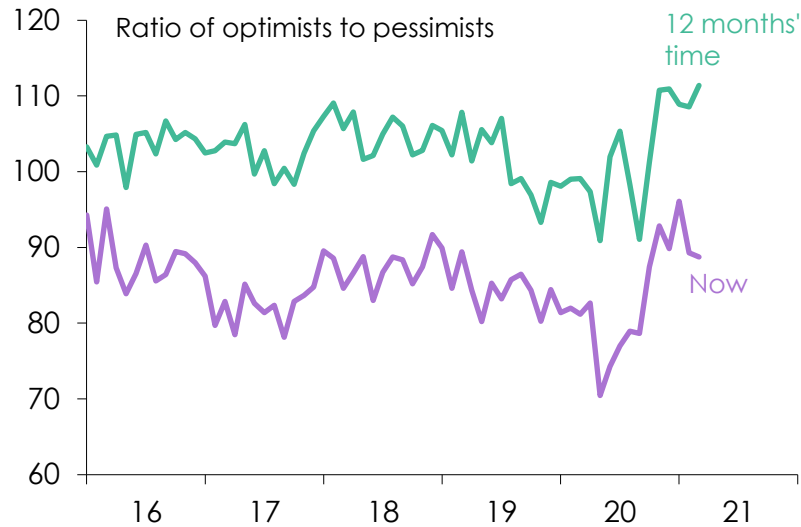
Source: ABS, [Business Conditions and Sentiments](#), February 2021. See [slide 86](#) for data on employee hiring intentions by business size. [Return to "What's New"](#).

# 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

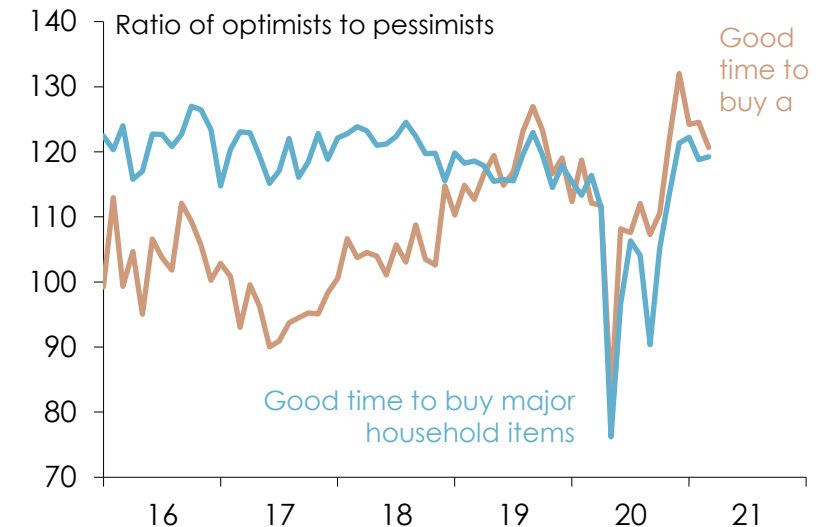
## Consumer confidence index



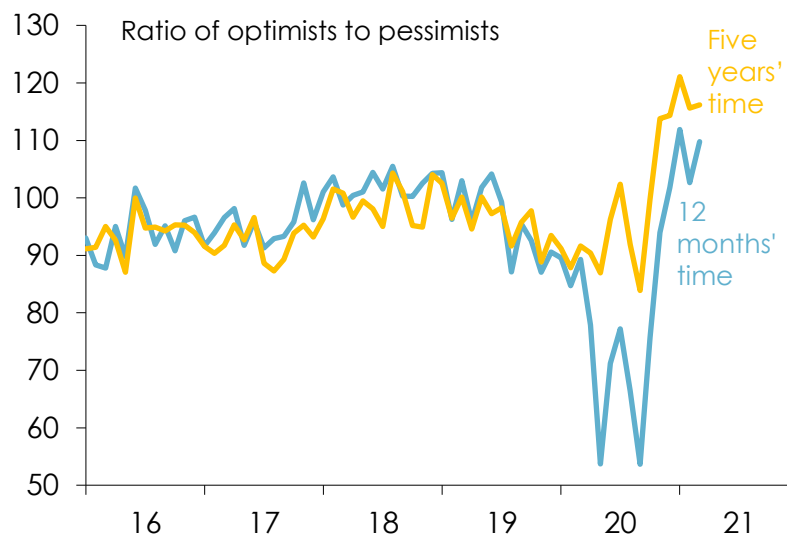
## Household finances assessment



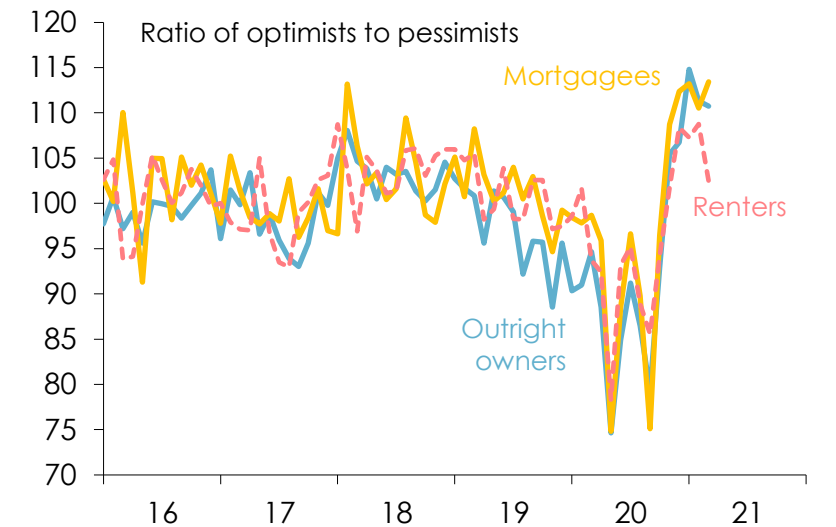
## Buying conditions assessment



## Economic conditions assessment



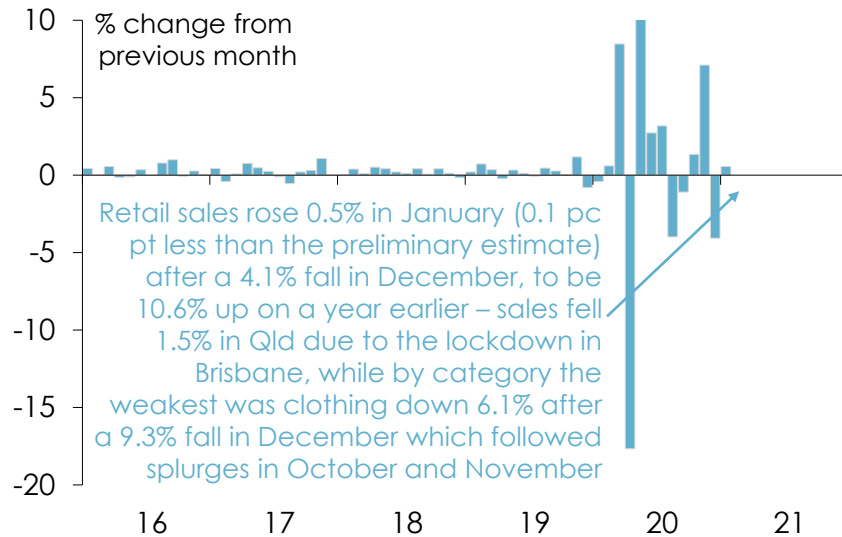
## Confidence by housing tenure



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

# Retail sales rose 0.5% in January (weighed down by the lockdown in Brisbane), while new motor vehicle sales fell 6% (after four large rises)

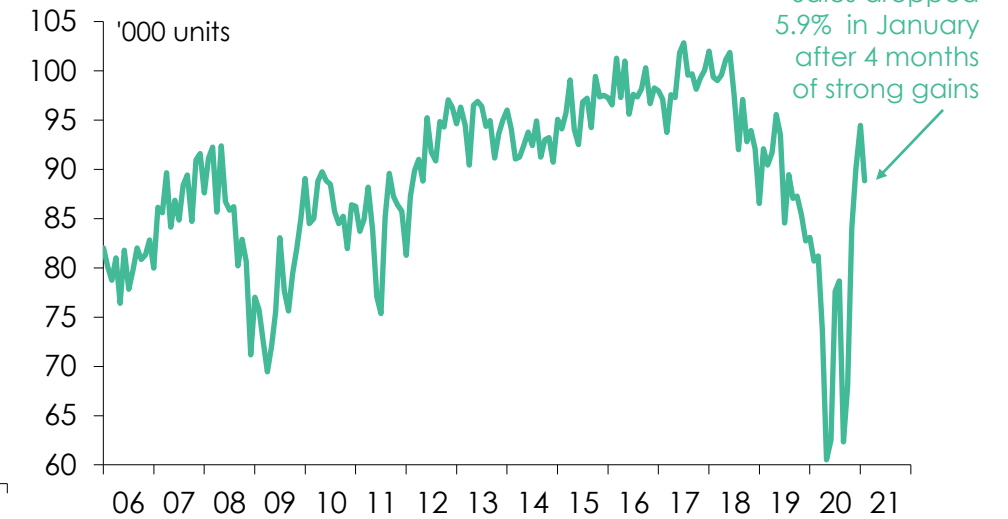
## Monthly retail sales



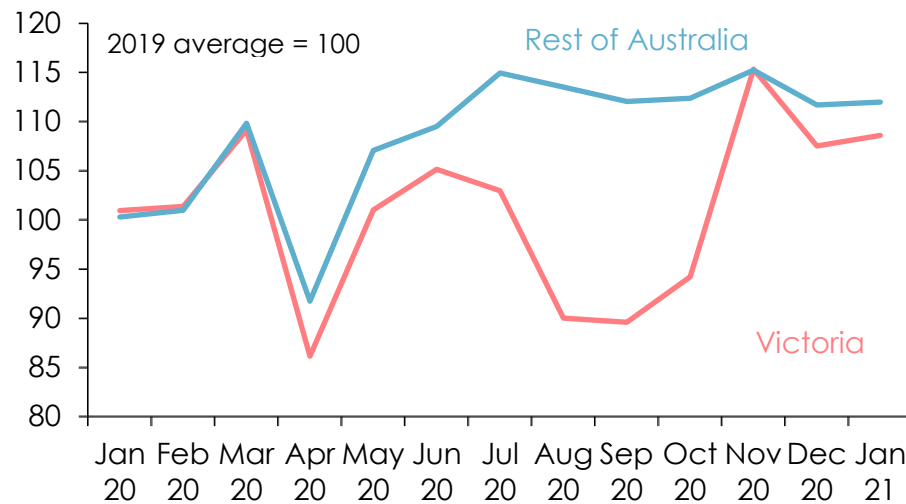
## Level of retail sales



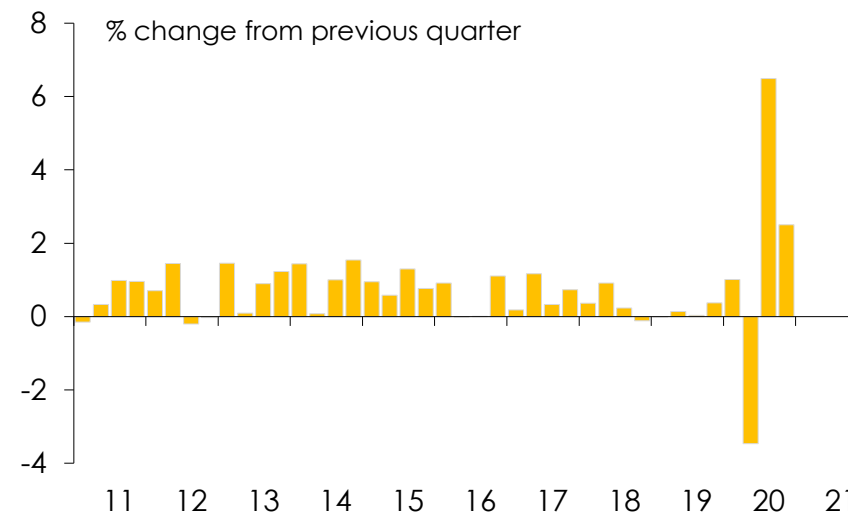
## New motor vehicle sales



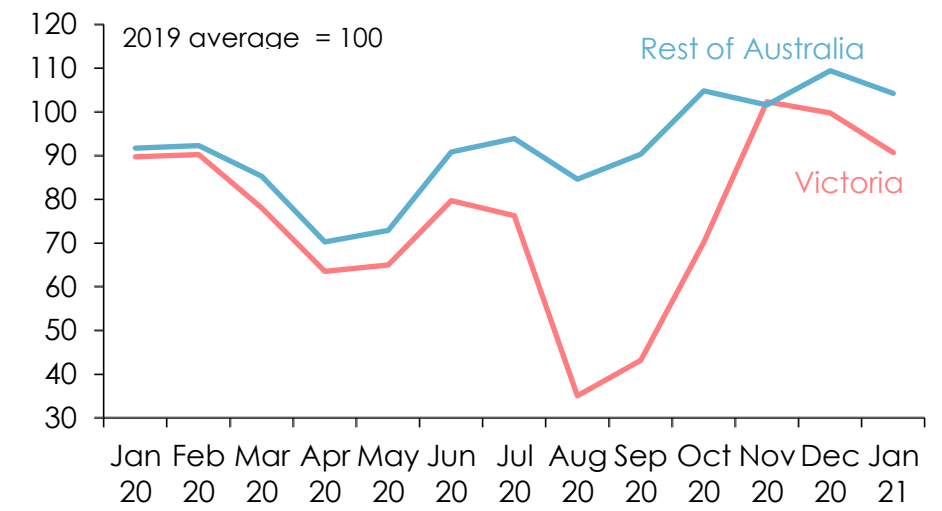
## Retail sales – Victoria & the rest



## Quarterly retail sales volumes



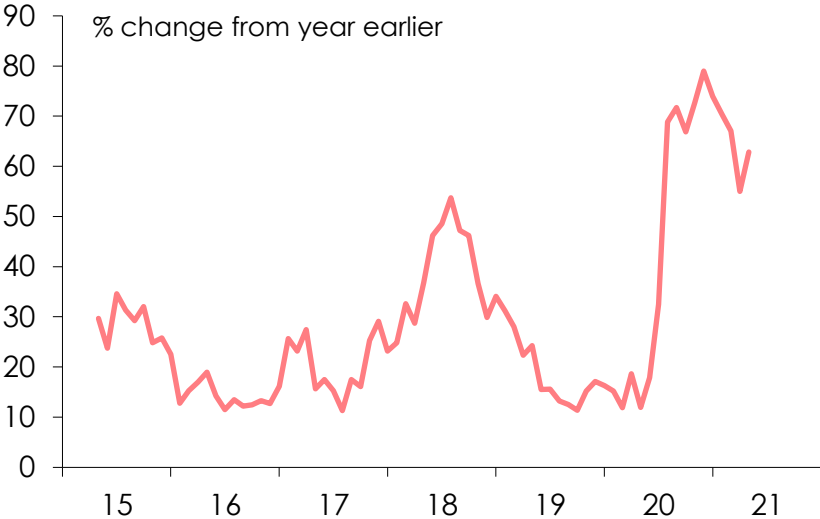
## Vehicle sales – Victoria & the rest



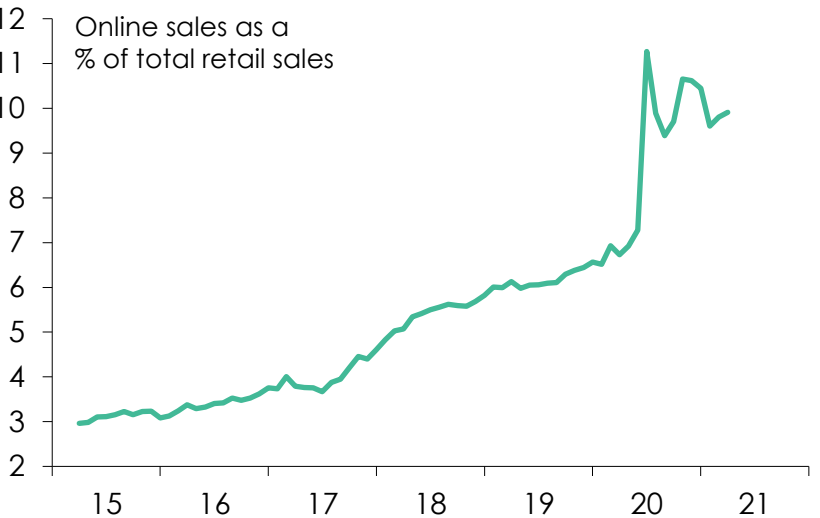
Sources: ABS, [Retail Trade, Australia](#); Federal Chamber of Automotive Industries [VFACTS](#) (seasonal adjustment of FCAI data by Corinna). February retail sales data will be released on 1<sup>st</sup> April (with preliminary data the week before); February motor vehicle sales data will be released in mid-March. [Return to "What's New"](#).

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

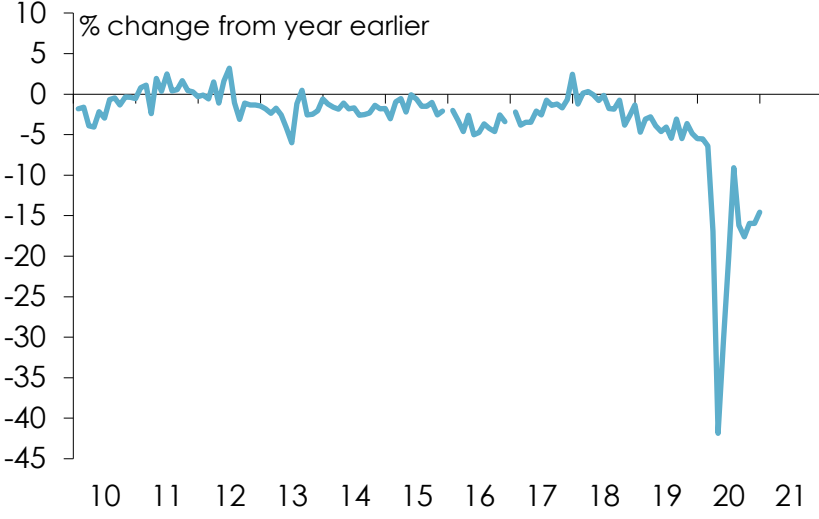
## Growth in online retail sales



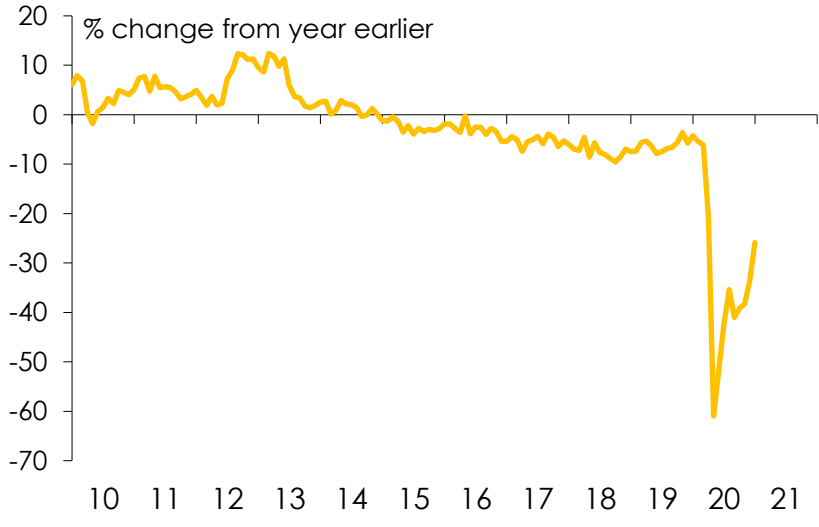
## Online retail 'market share'



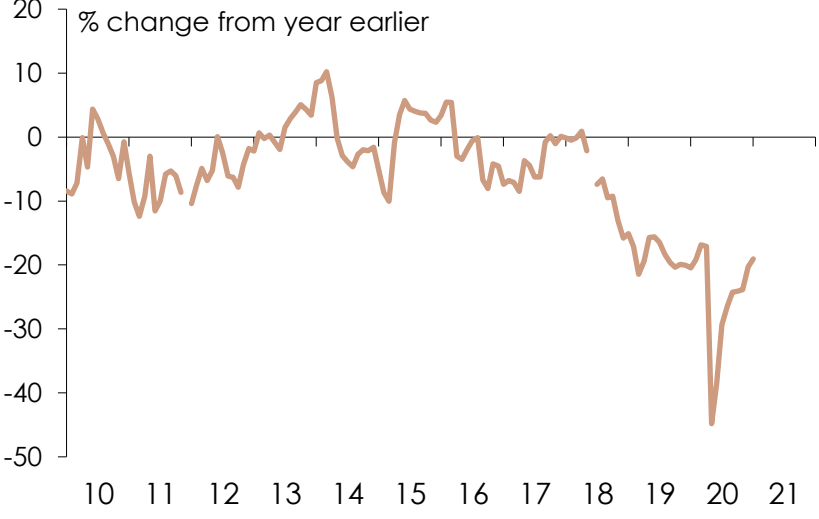
## ATM cash withdrawals



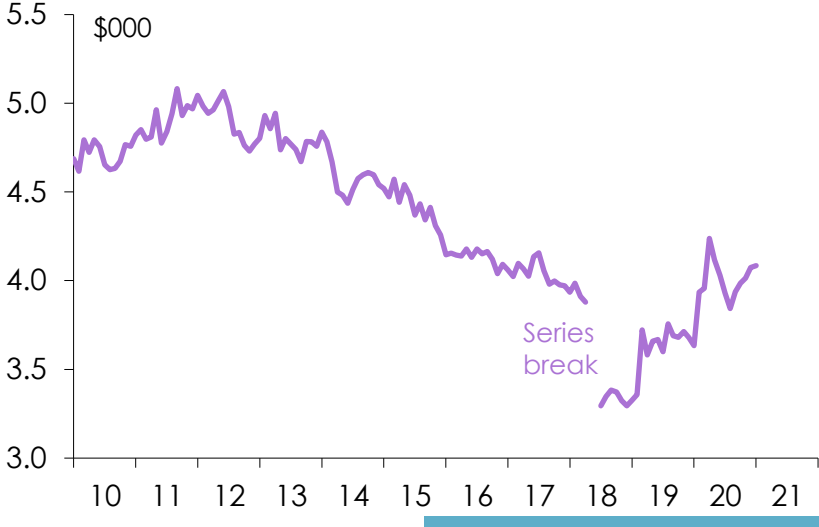
## Debit card cash-outs



## Credit card cash advances



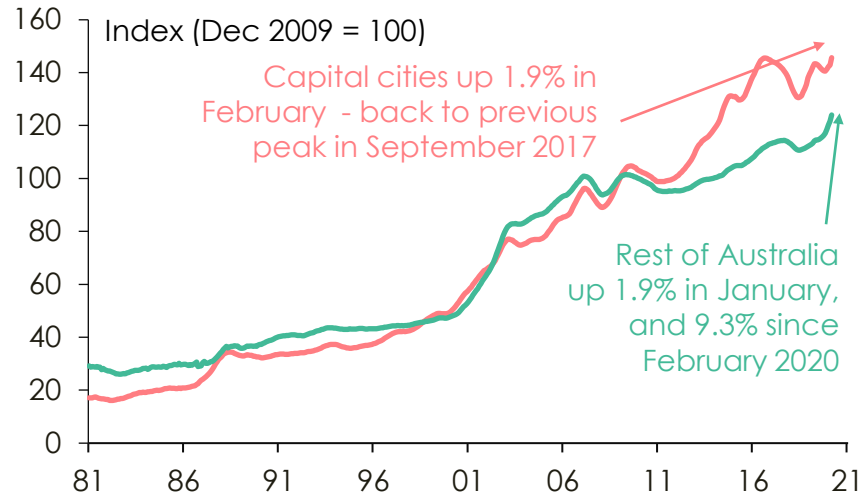
## Direct entry payments



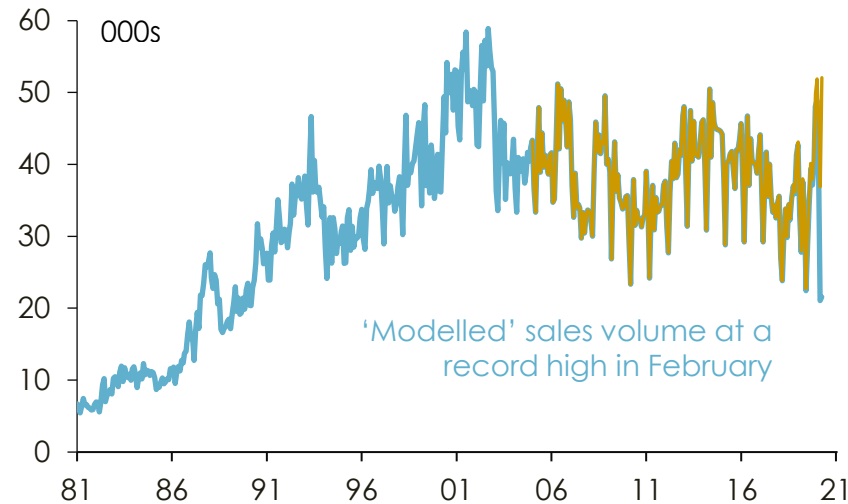
Sources: ABS, [Retail Trade, Australia](#); RBA, [Statistical Tables](#), C1, C2, C4 and C6. Latest data are for January for on-line retail and December for payments system data: January data on the payments system will be published on 8<sup>th</sup> March.

# Property prices rose 1.9% in February, the largest monthly gain since Sep 2003, with capital cities up 2.5% and regions up 9.3% over the past year

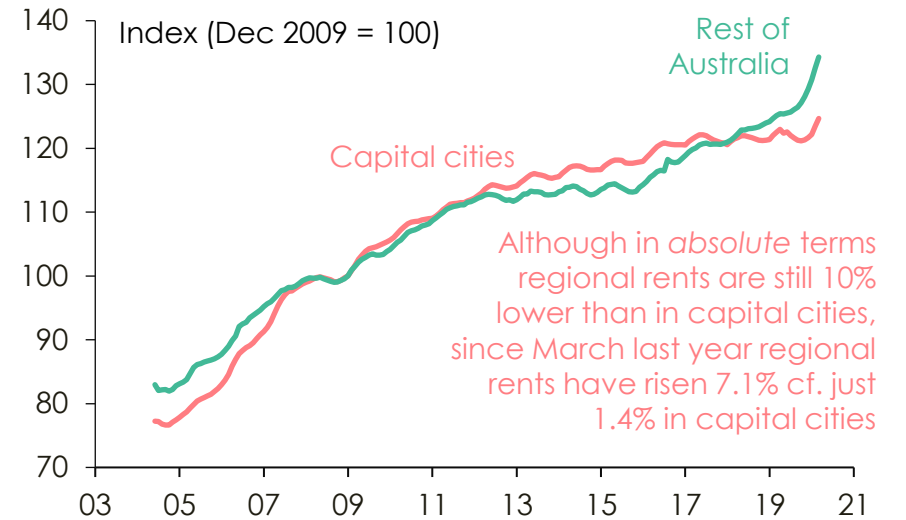
## Residential property prices



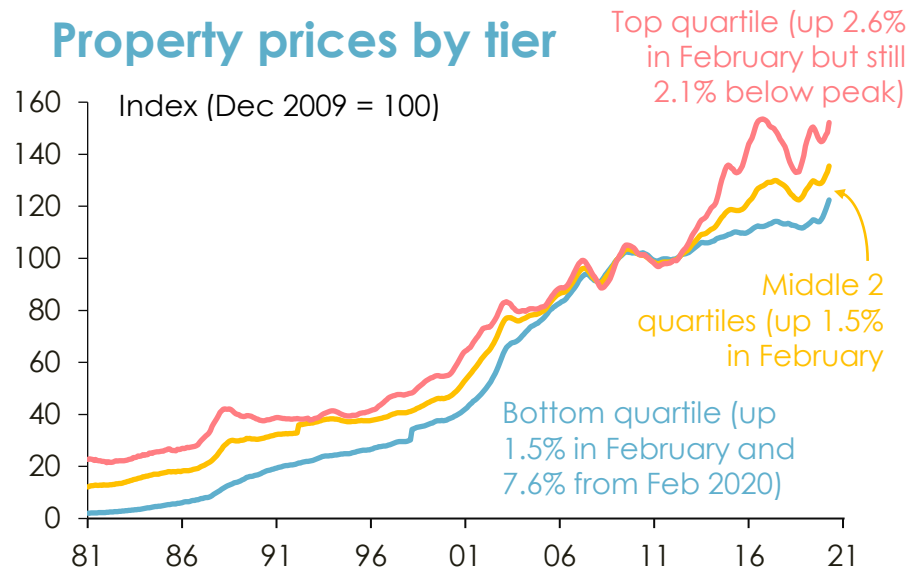
## Residential property sales volumes



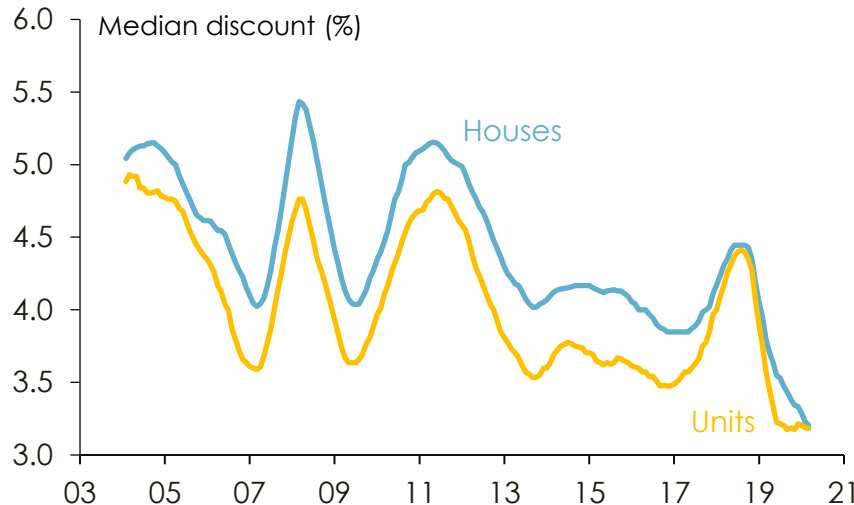
## Residential rents



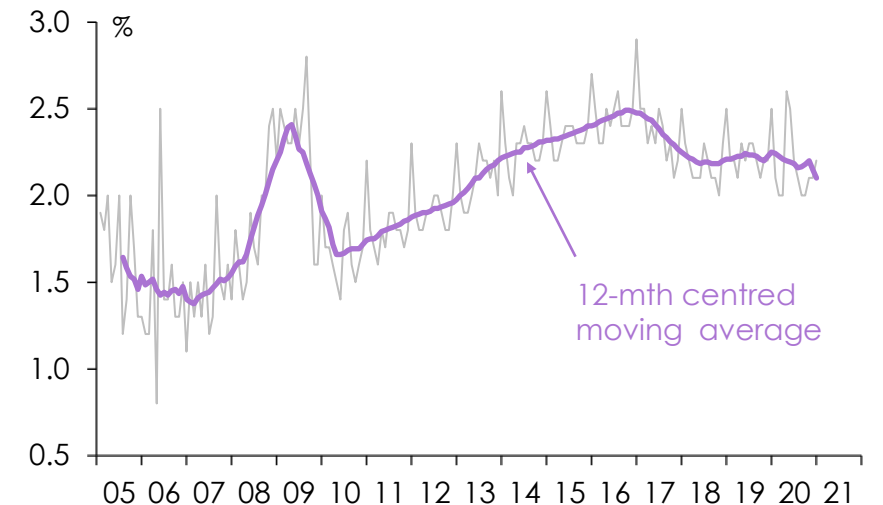
## Property prices by tier



## Vendor discounting



## Capital city rental vacancy rates

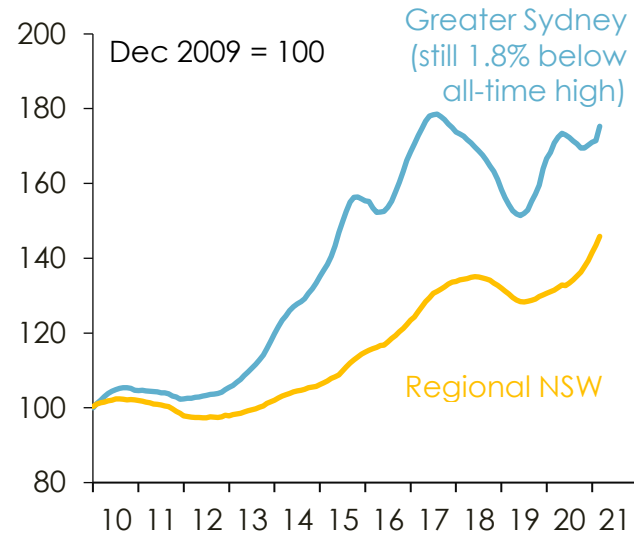


Note: The index of property prices measures the 'organic' change in underlying sales values by using a hedonic regression methodology that takes account of changes in the characteristics of properties being sold from month to month. Property price data are now seasonally adjusted. The index of residential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

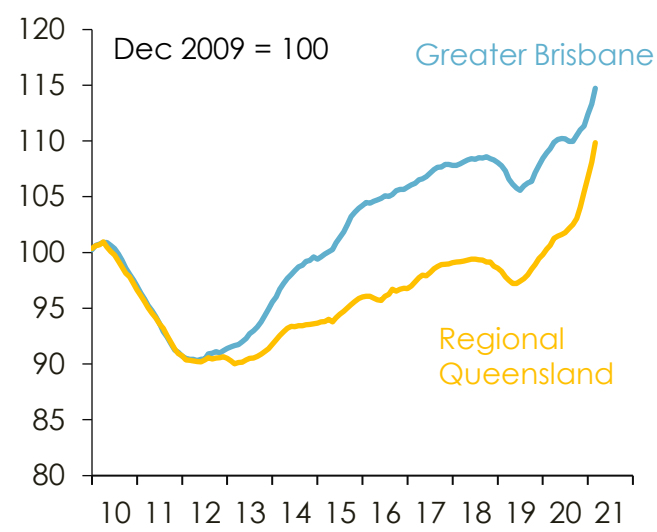
Sources: [CoreLogic](#); [SQM Research](#). [Return to "What's New"](#).

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

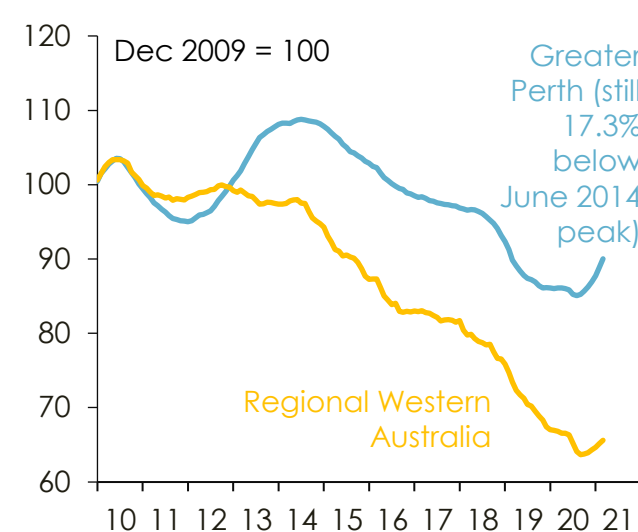
## New South Wales



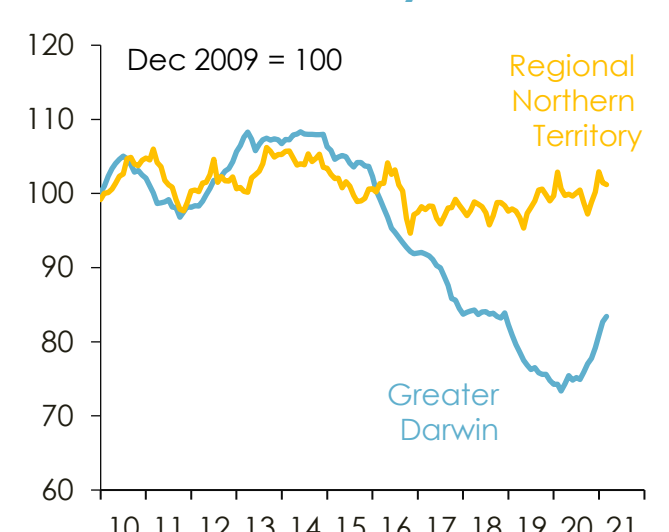
## Queensland



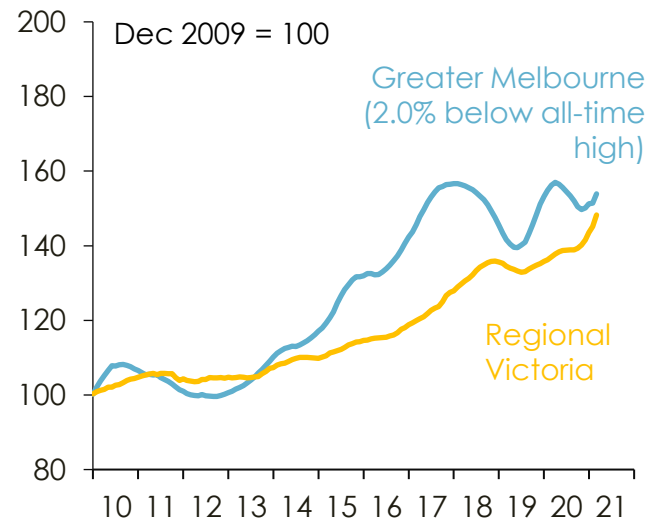
## Western Australia



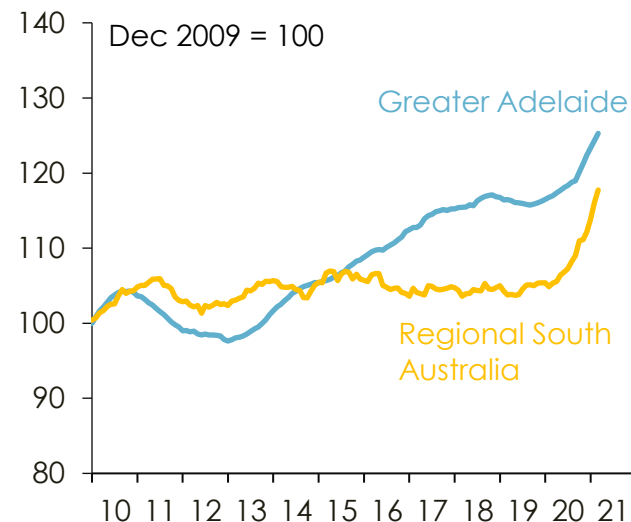
## Northern Territory



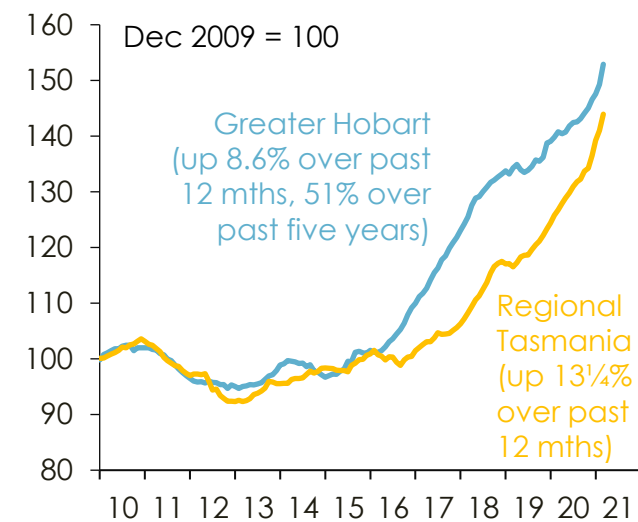
## Victoria



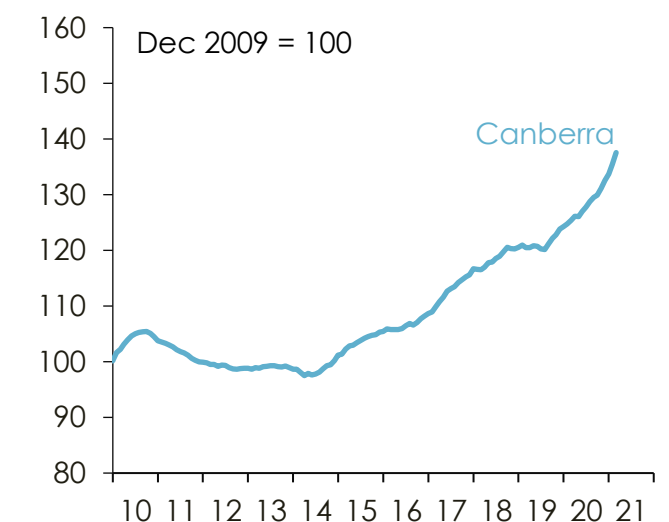
## South Australia



## Tasmania



## Australian Capital Territory

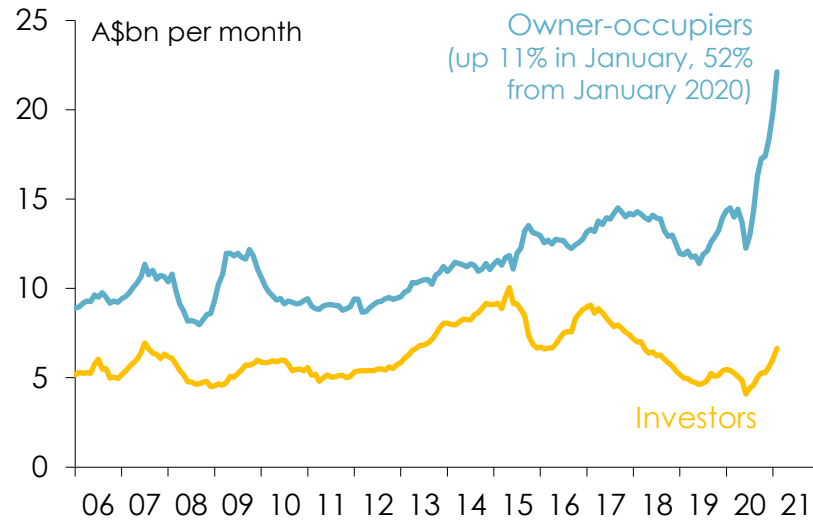


Note: The index of property prices measures the 'organic' change in underlying sales values by using a hedonic regression methodology that takes account of changes in the characteristics of properties being sold from month to month. Property price data are now seasonally adjusted. Latest data are for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

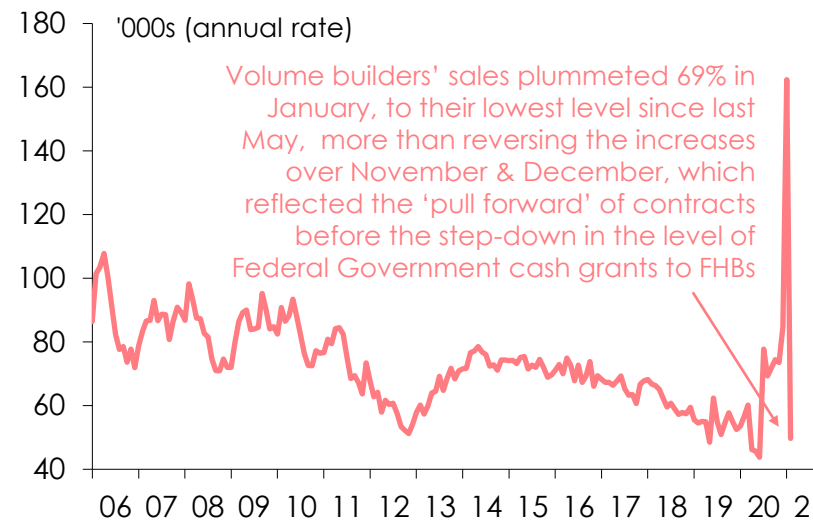


# Large falls in home sales and building approvals in January indicate the extent of the 'pull forward' of demand induced by government grants

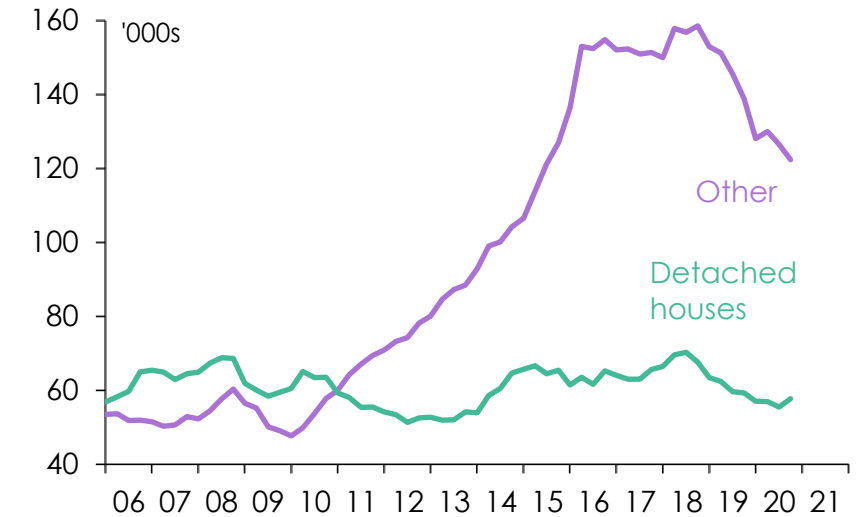
## Housing finance commitments



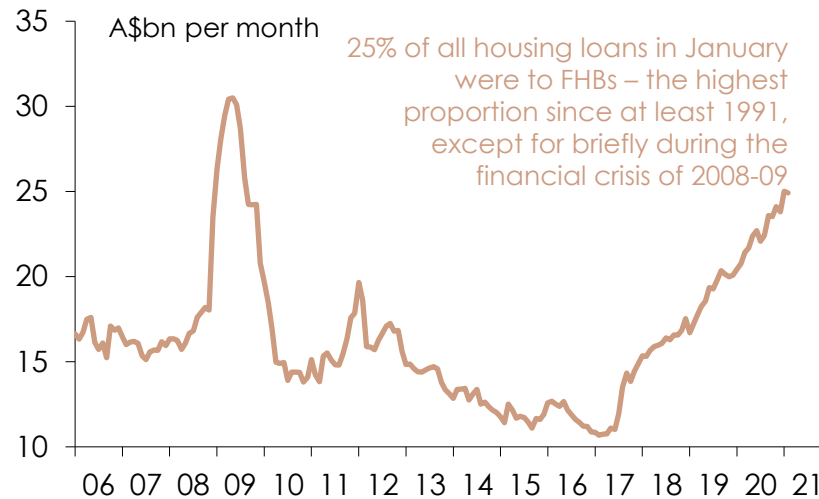
## Large builders' new home sales



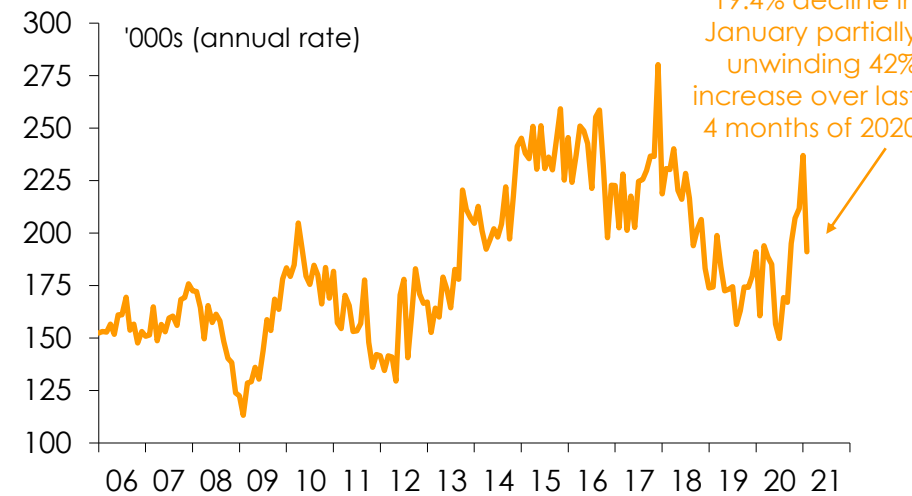
## Dwellings under construction



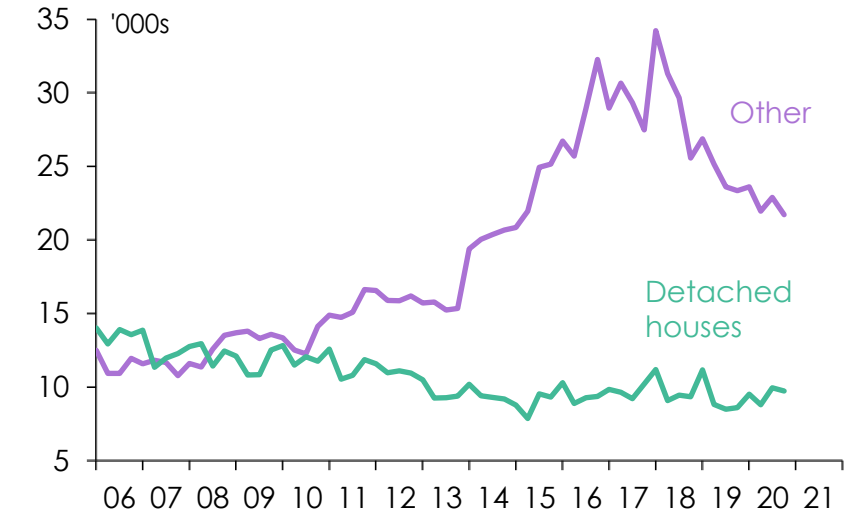
## Lending to first home buyers



## Residential building approvals



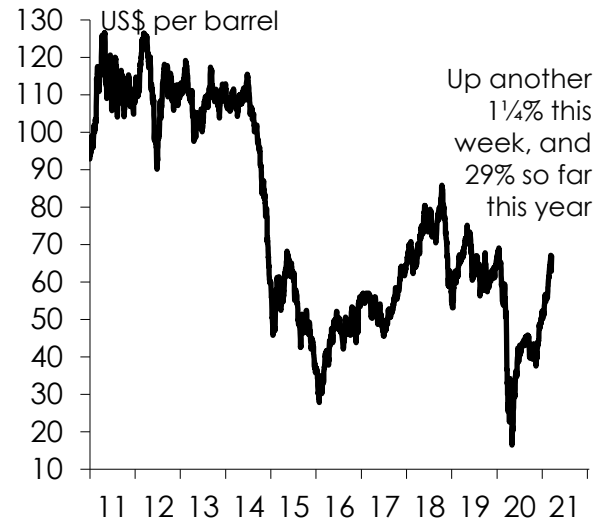
## 'Pipeline' of work yet to be started



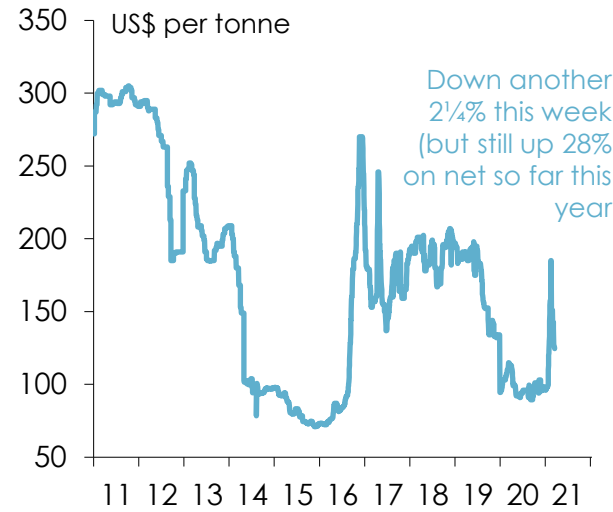
Note: 'New home sales' are of detached dwellings only and exclude small-scale builders. Sources: ABS; Housing Industry Association. February housing finance data will be released on 1<sup>st</sup> April; building approvals data on 31<sup>st</sup> March; December quarter dwellings under construction and 'pipeline' data on 14<sup>th</sup> April. [Return to "What's New"](#).

# Commodity prices didn't move much this week, apart from a 12% plunge in nickel: iron ore unchanged, met coal down 2¼%, aluminium up 1¼%

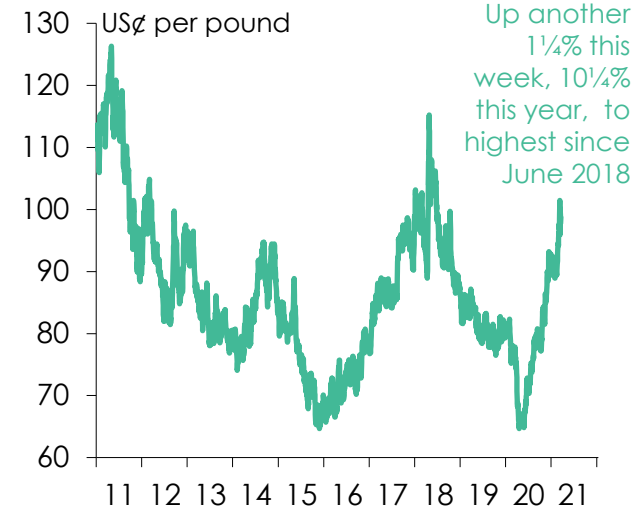
### Brent crude oil



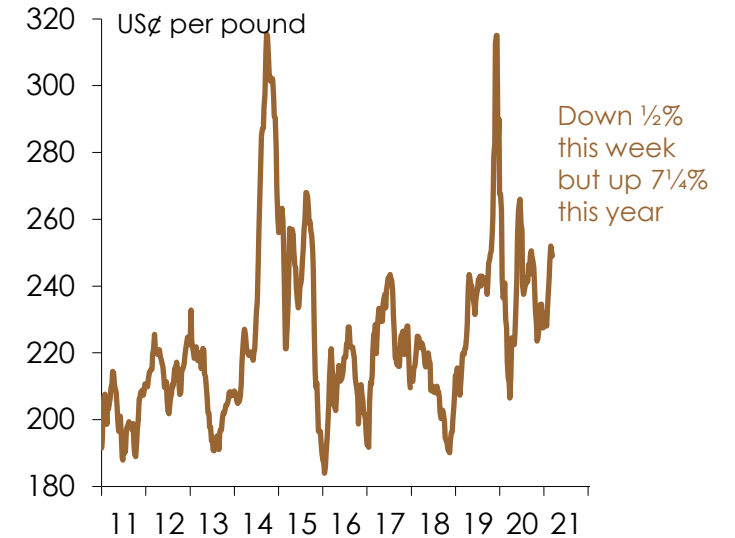
### Metallurgical coal



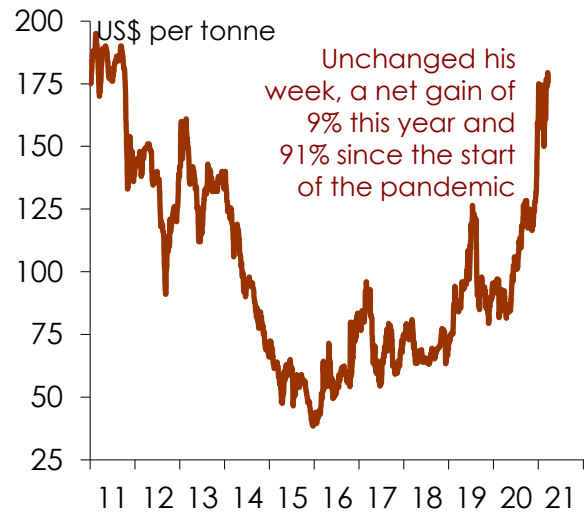
### Aluminium



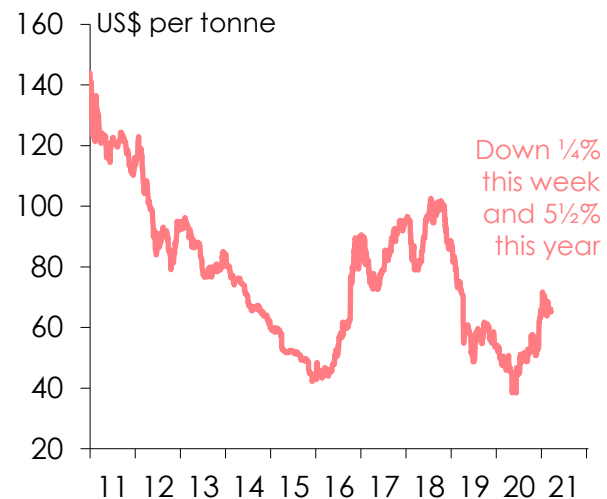
### Beef



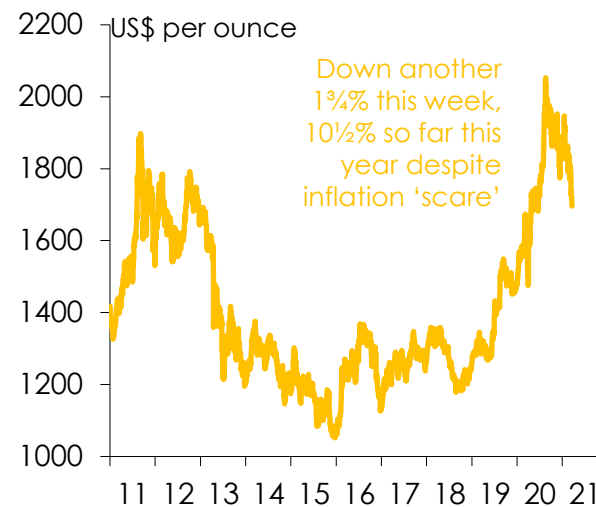
### Iron ore



### Thermal coal



### Gold



### Wool

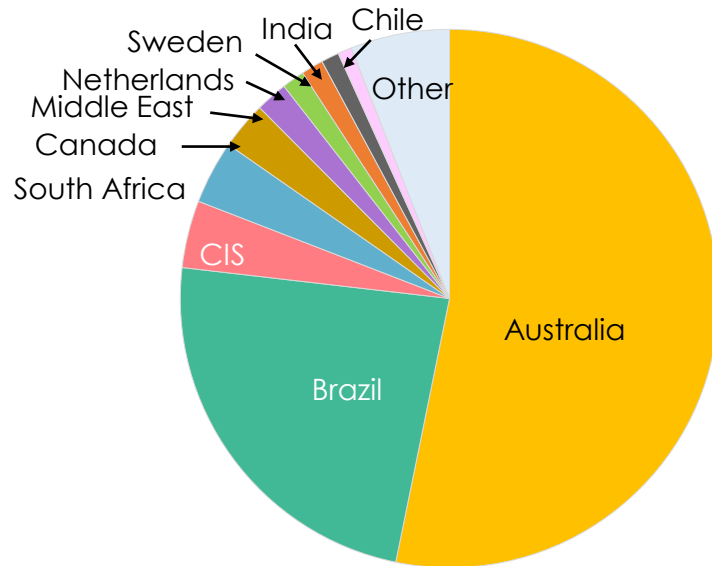


Sources: Refintiv Datastream; Meat & Livestock Australia; Australian Wool Innovation. See [next slide](#) for more on iron ore prices. Data up to 5<sup>th</sup> March.

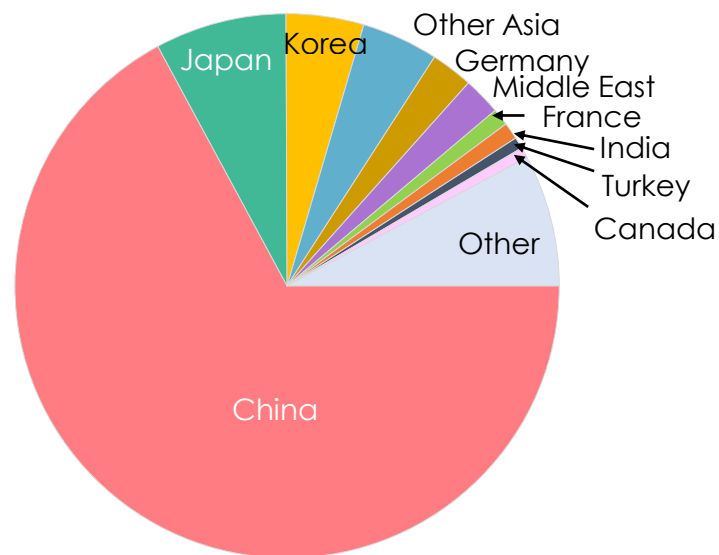
[Return to "What's New".](#)

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

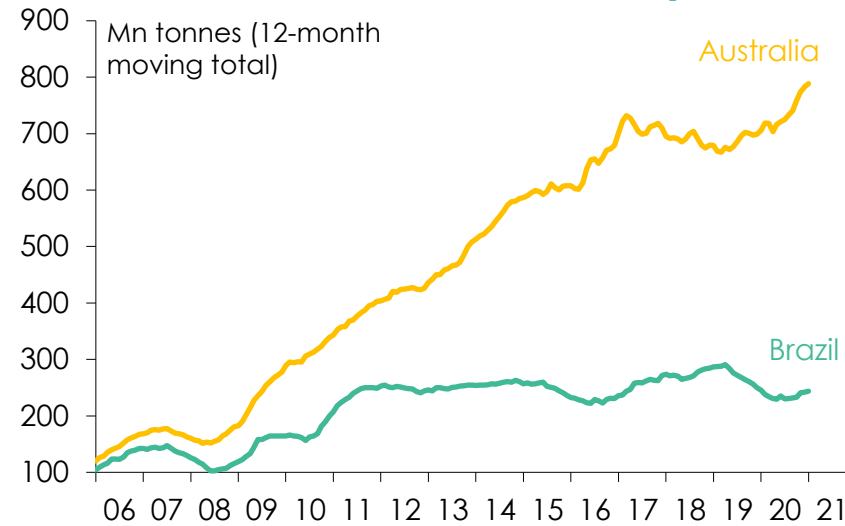
## Iron ore exports, 2018



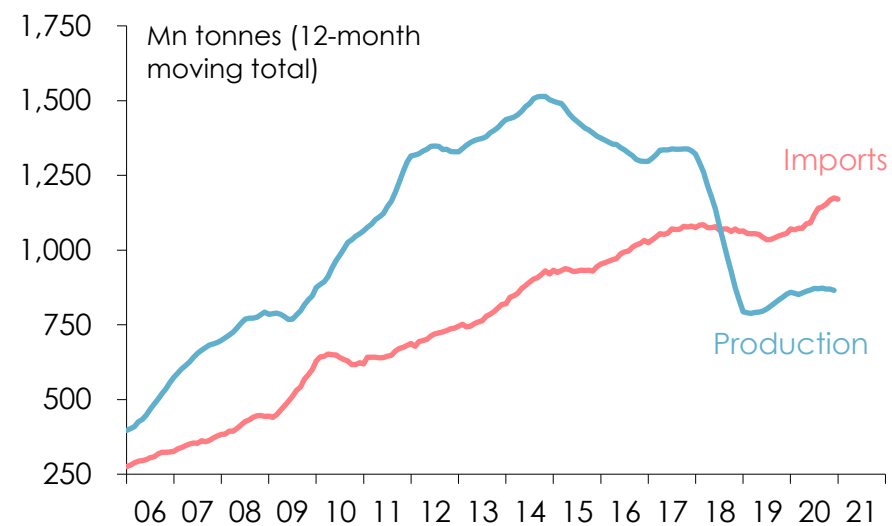
## Iron ore imports, 2018



## Australia & Brazil iron ore exports



## China iron ore production & imports

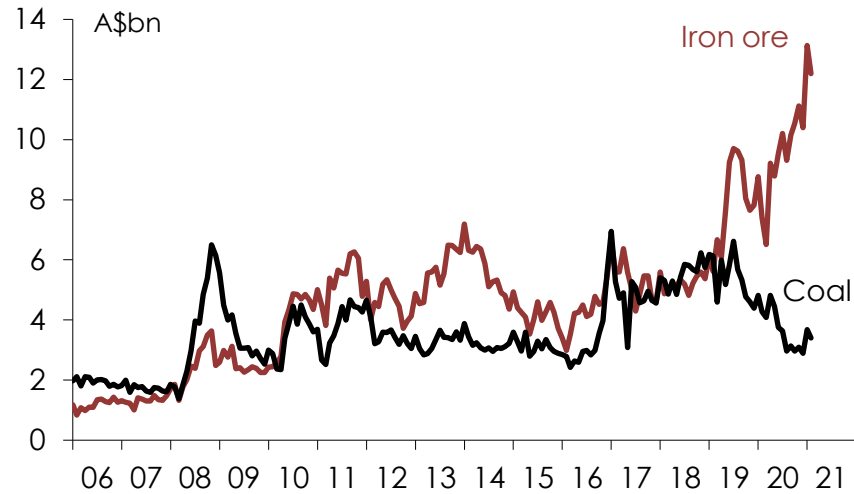


- ❑ The global iron ore trade is dominated by shipments from Australia & Brazil to China (which accounts for 53% of global steel production and 51% of steel use) – no other exporter has more than 4% of the global seaborne trade
- ❑ Chinese iron ore production has fallen by more than 34% since 2017, largely because of rapidly declining quality – forcing Chinese steel mills to become more dependent on imports
- ❑ Brazilian exports have been curtailed by a series of tailing dam collapses over the past five years, and more recently by Covid-19 outbreaks at four large mines
- ❑ China is seeking to develop other sources in West Africa – in particular the [Simandou project](#) in Guinea – although there are big logistical hurdles to be overcome there
- ❑ By 2030, China's demand for iron ore is expected to be lower than today as crude steel production plateaus and the scrap-to-steel ratio rises

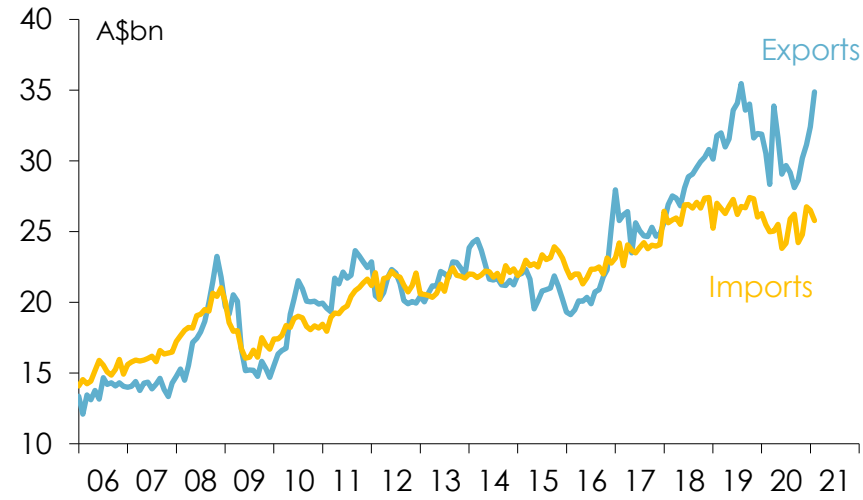
Note: Export volume data for Australia and Brazil derived by dividing export values (in US\$) from ABS and IGBE by the average US\$ price of Chinese iron ore imports.  
Sources: World Steel Association; China National Bureau of Statistics; China General Administration of Customs; Refinitiv Datastream;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

# Australia registered a record trade surplus of A\$10bn in January with exports up 6¼% (largely minerals and metals) and imports down 2¼%

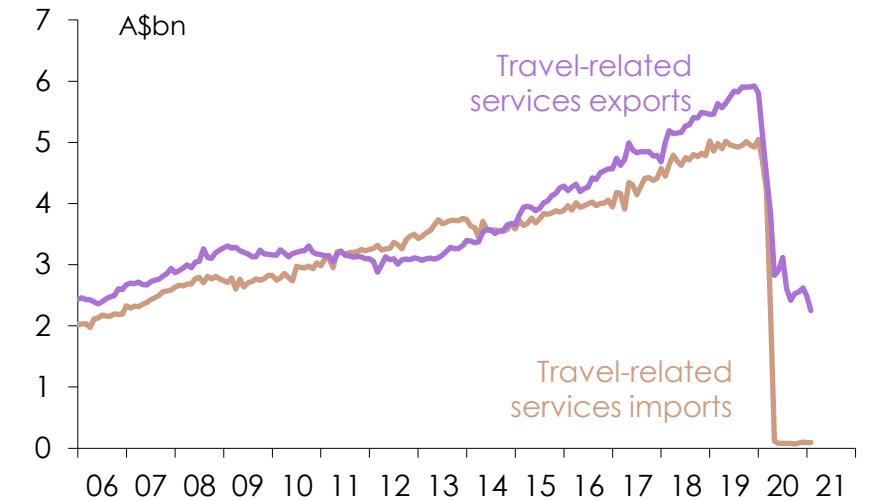
## Iron ore and coal exports



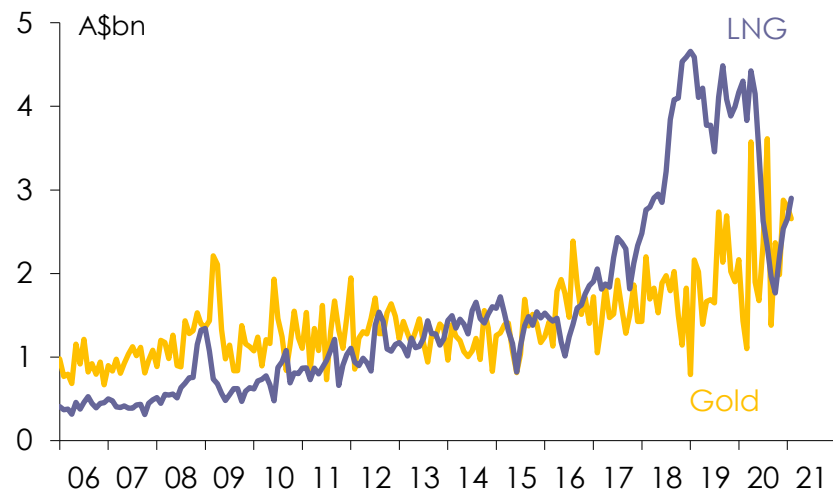
## Merchandise exports and imports



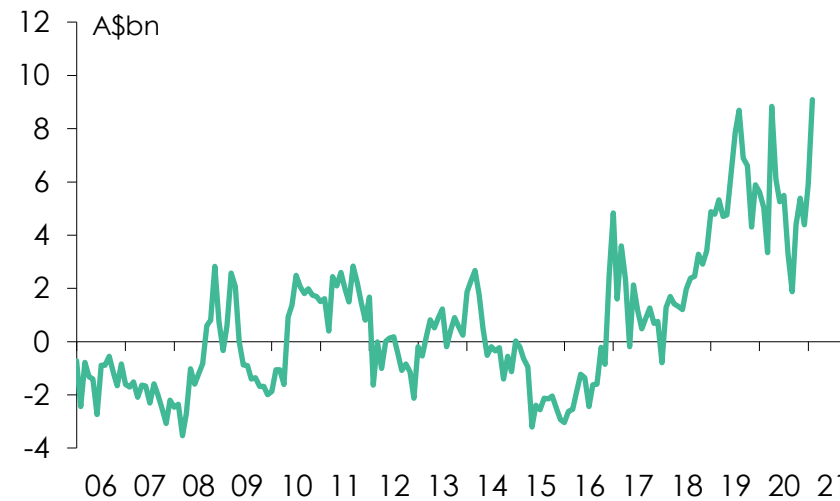
## Tourism-related services trade



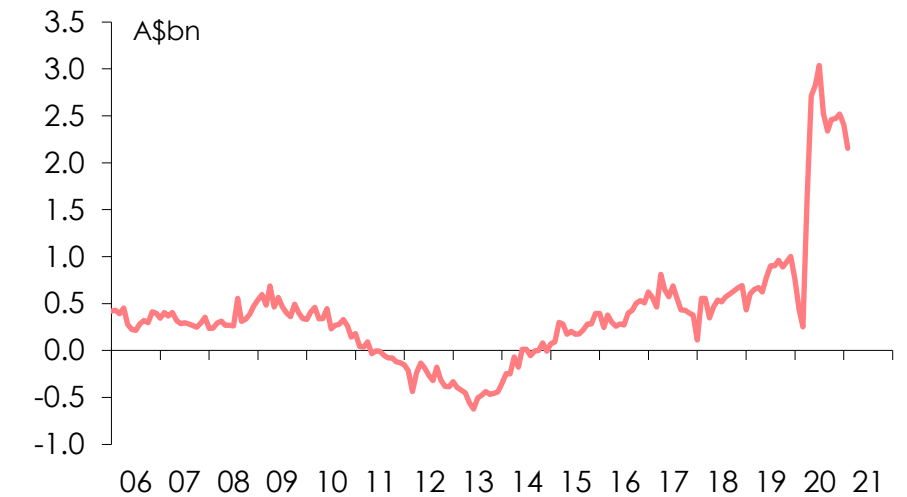
## LNG and gold exports



## Merchandise trade balance



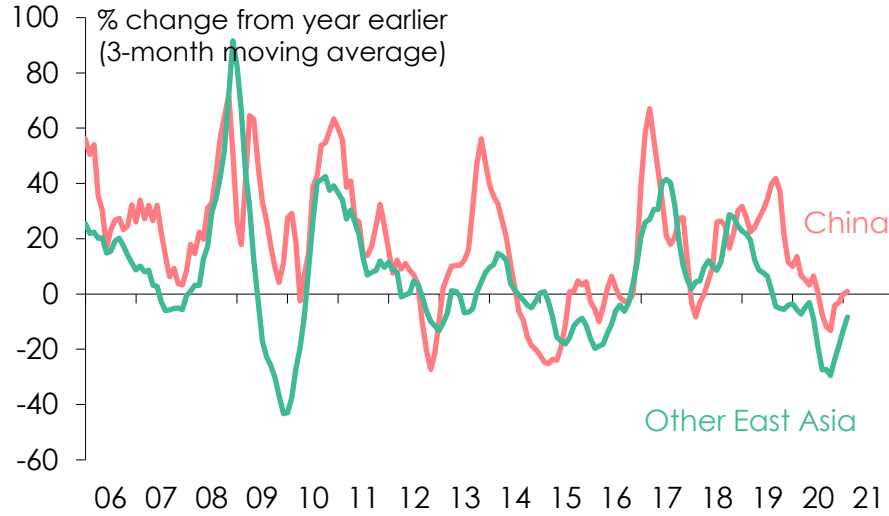
## Tourism services trade balance



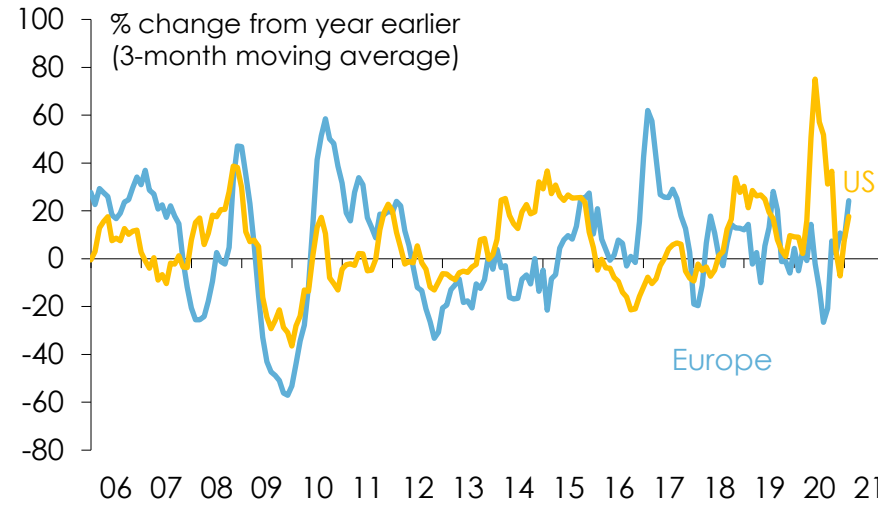
Source: ABS, [International Trade in Goods and Services, Australia](#). February data will be released on 1<sup>st</sup> April (with preliminary, not seasonally adjusted, data on merchandise trade released the preceding week). [Return to "What's New"](#).

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

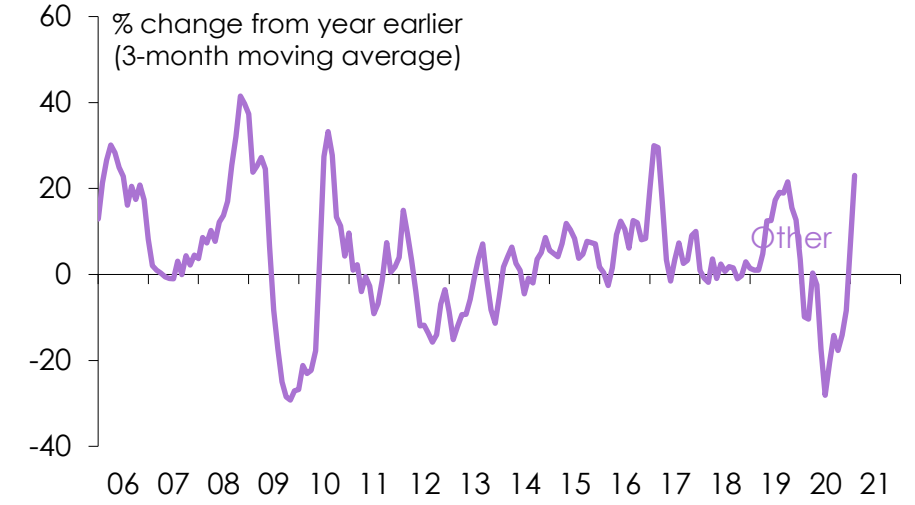
## Merchandise exports – East Asia



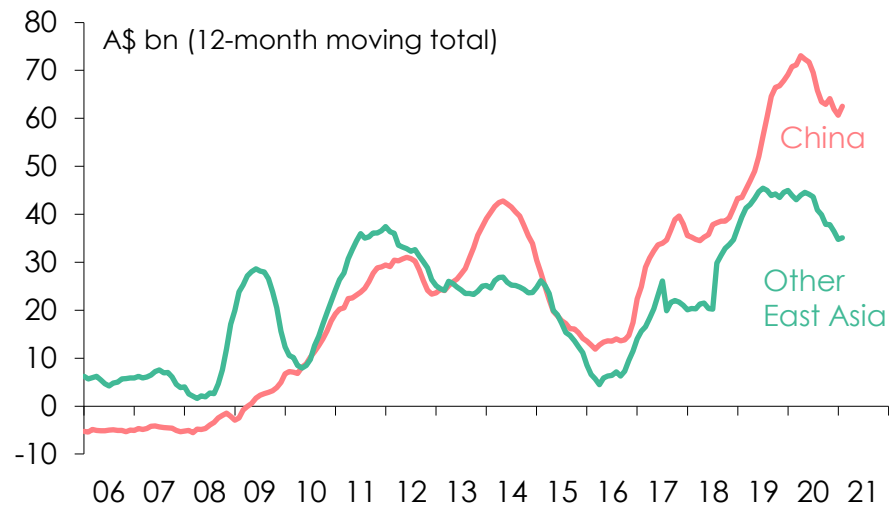
## Merchandise exports – US & Europe



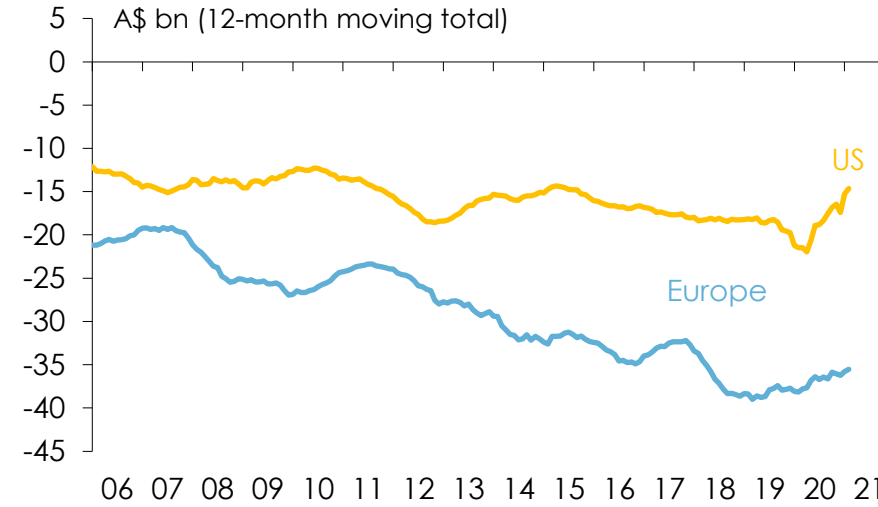
## Merchandise exports – other



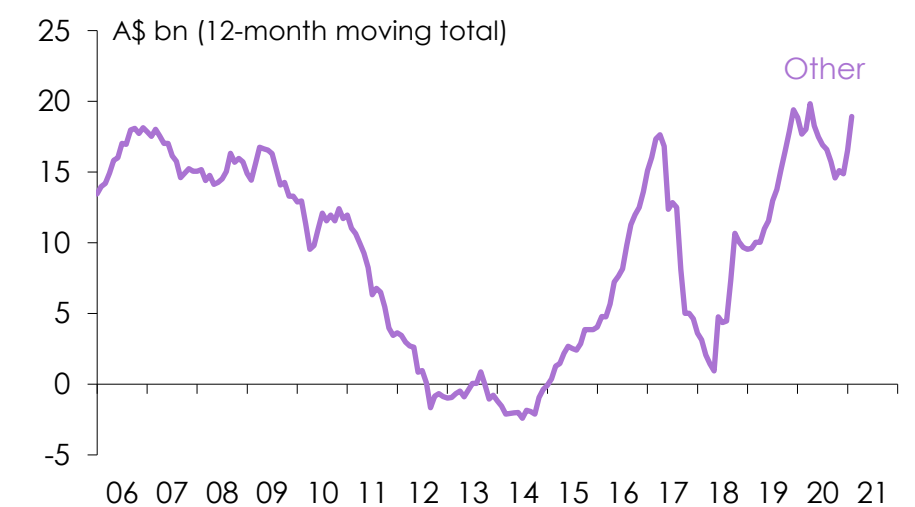
## Goods trade balance – East Asia



## Goods trade balance – US & Europe



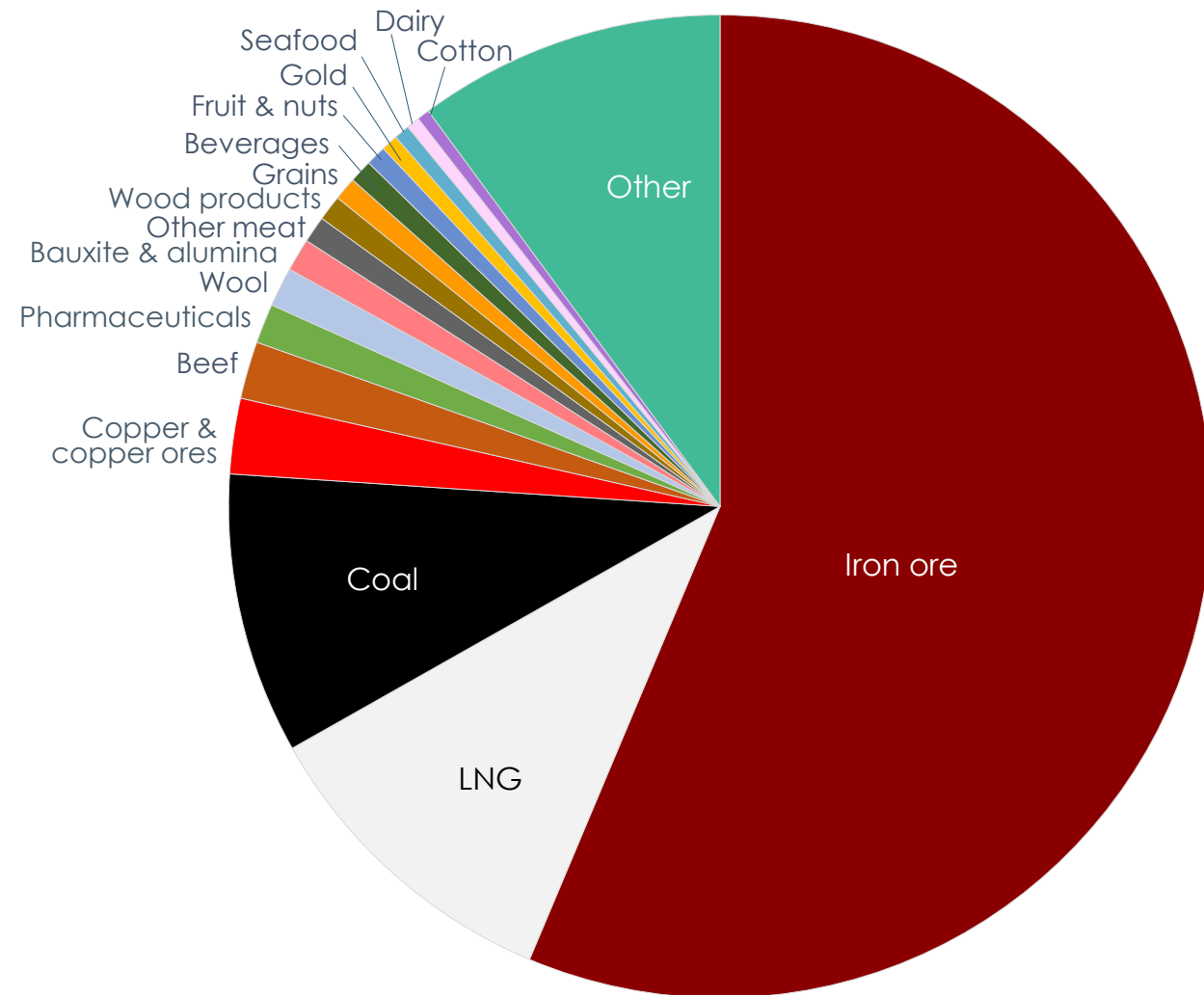
## Goods trade balance – other



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

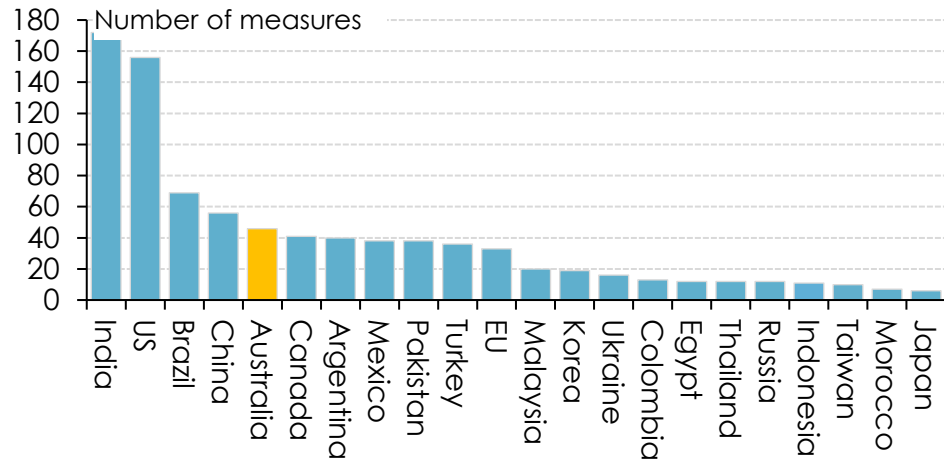


- ❑ China accounted for 39½% of Australia's merchandise exports in FY 2019-20 (the largest proportion any country has since the mid-1950s when 36% of Australia's exports went to the UK)
  - of which iron ore & concentrates accounts for 56%
- ❑ China also accounted for 19% of Australia's services exports in CY 2019
  - of which 'travel' (tourism & education) accounted for over 90%
- ❑ China has no real alternatives to Australian iron ore ([slide107](#))
- ❑ 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](#)")

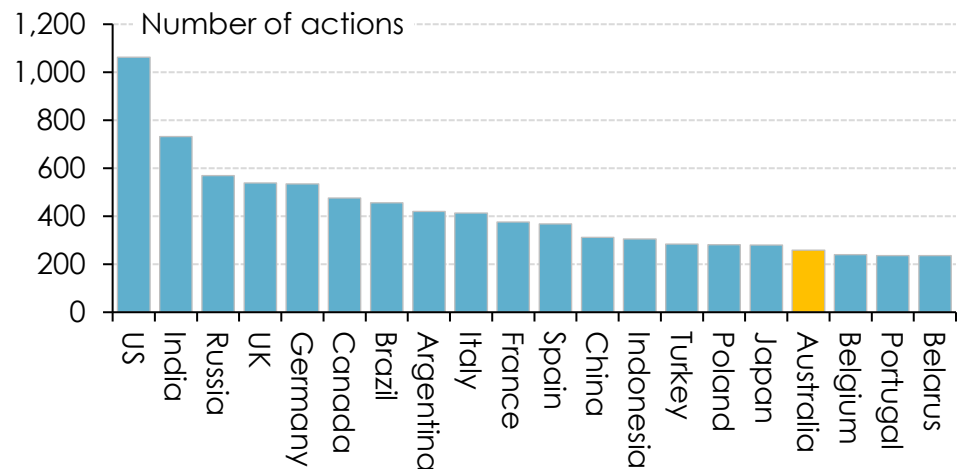
Note: 'Wood' includes wood products; 'dairy' includes milk, cream, butter & cheese; 'seafood' includes crustaceans, fish and processed seafood; 'other' includes confidential items.  
Sources: Department of Foreign Affairs & Trade, [Trade Statistical Pivot Tables](#); Corinna.  
[Return to "What's New"](#).

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

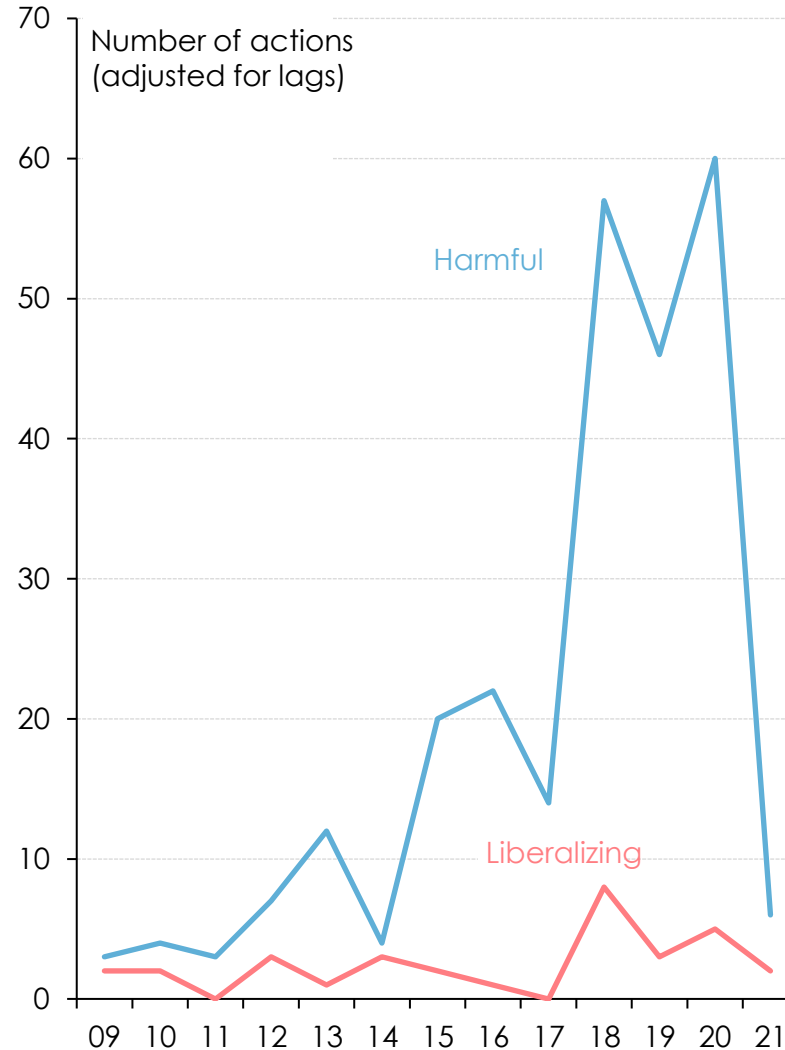
## Number of anti-dumping measures imposed, 2015-19



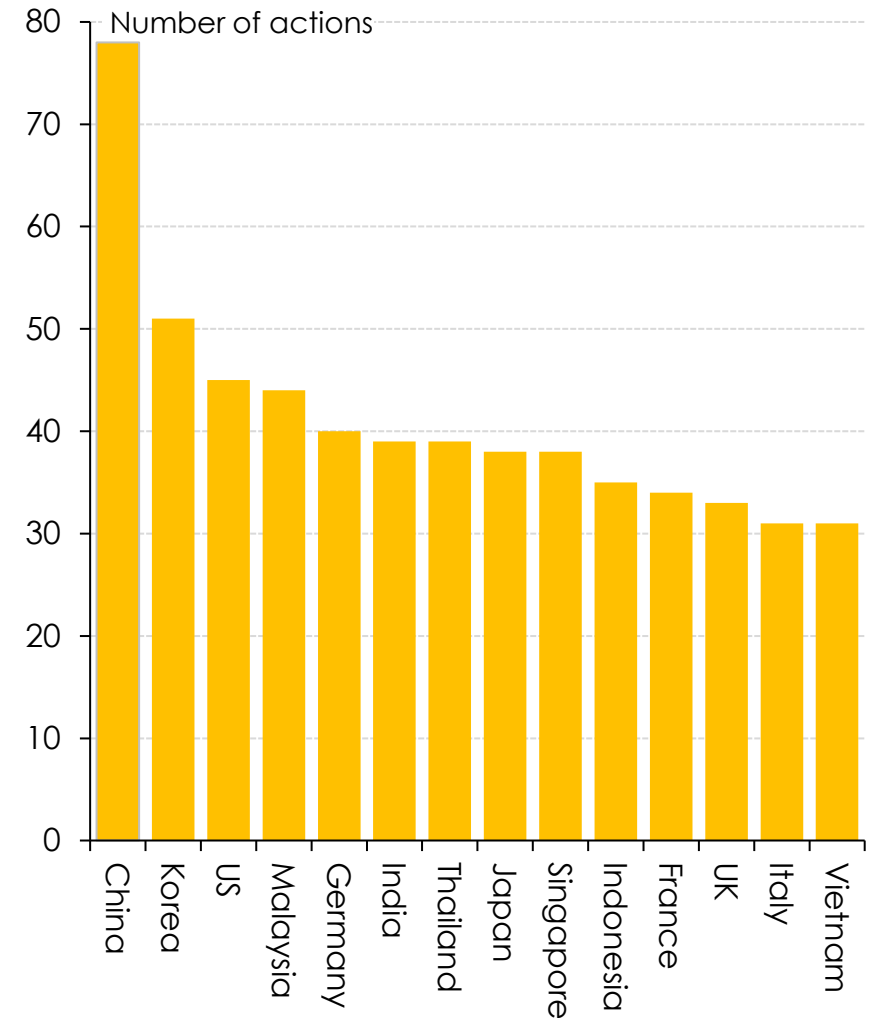
## Number of harmful trade policy interventions, 2009-2021



## Australian trade policy measures since 2009



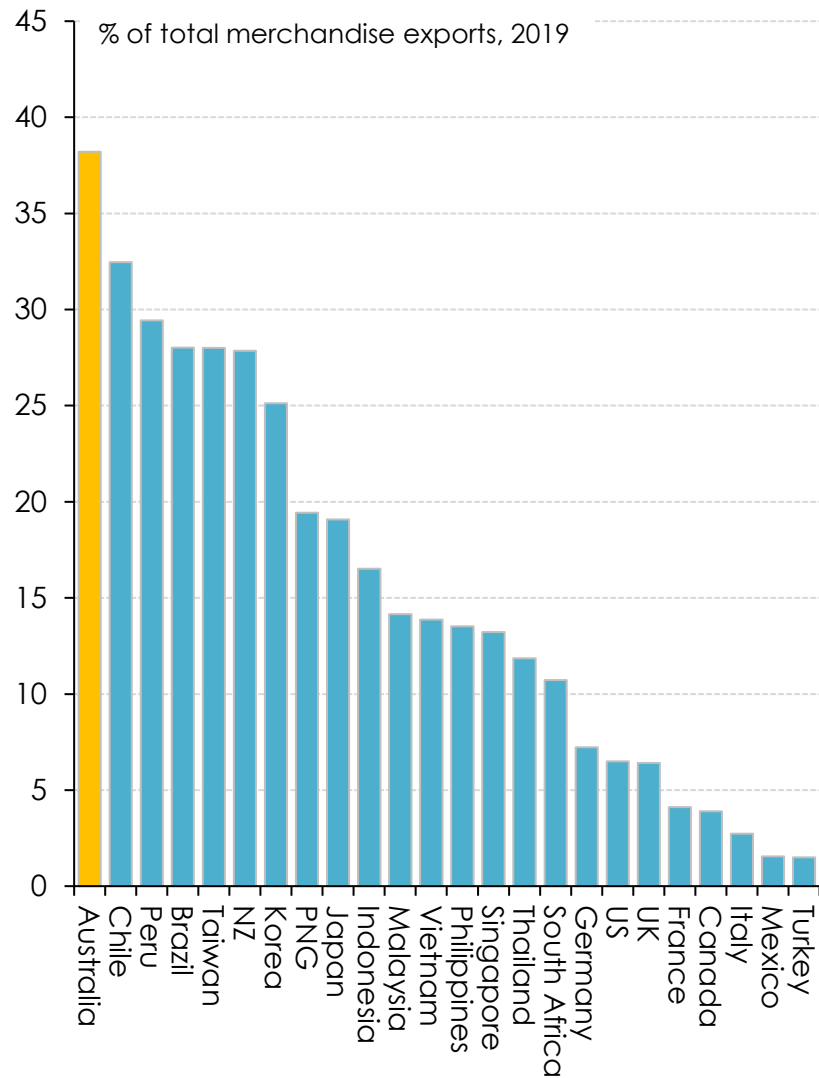
## Countries adversely affected by 'harmful' Australian trade actions



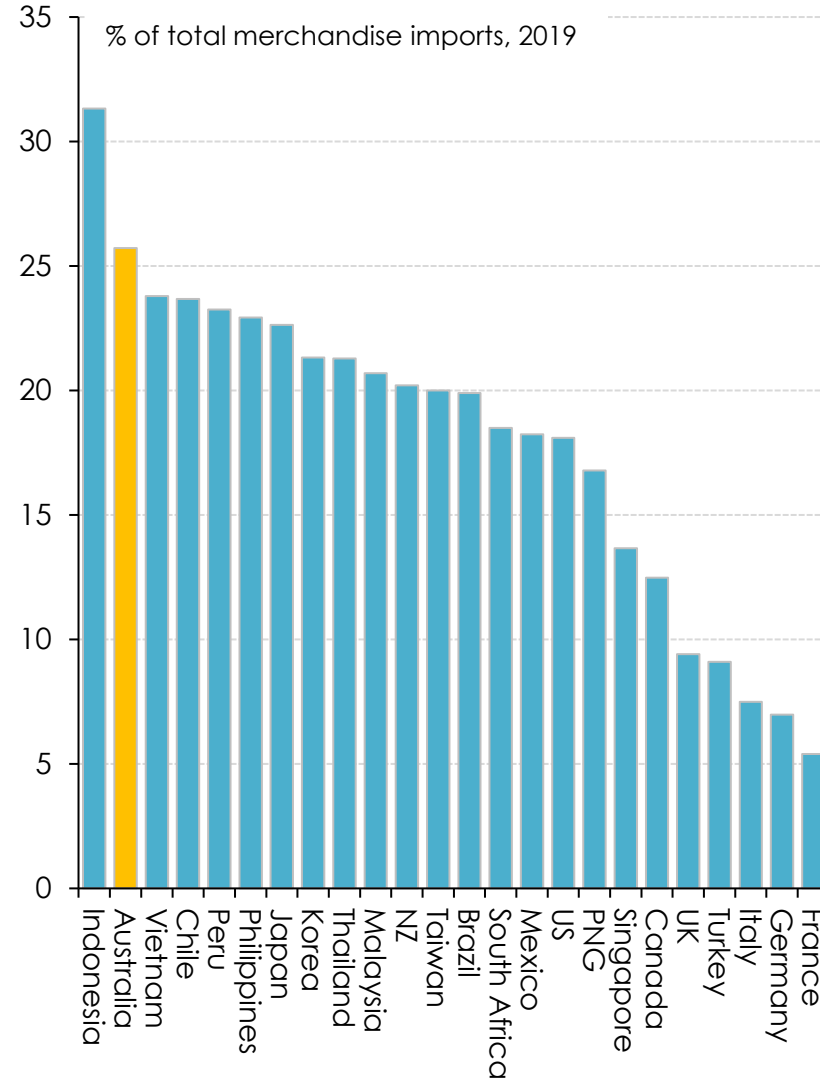
Sources: [World Trade Organization](#); Centre for Economic Policy Research, [Global Trade Alert](#) (data up to 26<sup>th</sup> February). [Return to "What's New"](#).

# 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

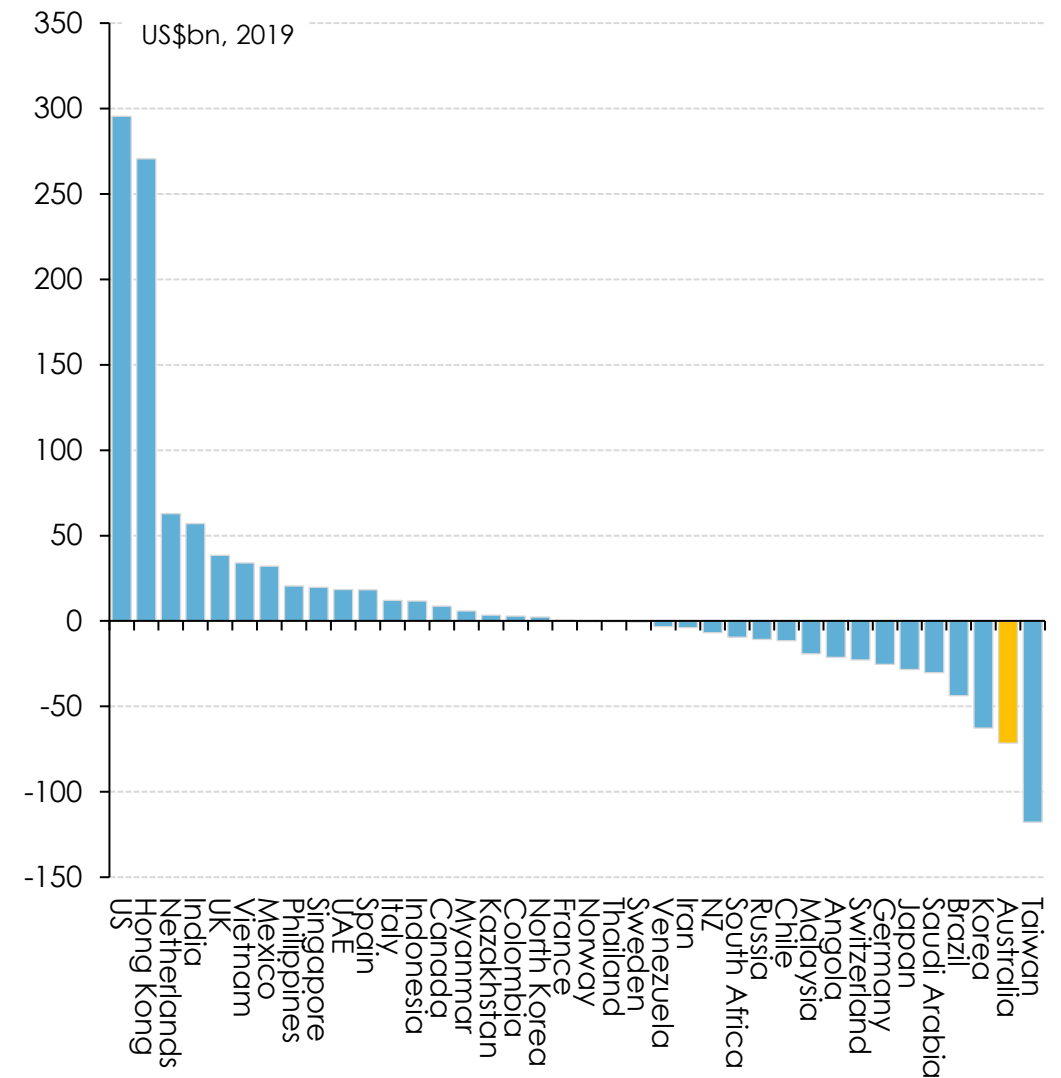
## Merchandise exports to China as a pc of total



## Merchandise imports from China as a pc of total



## China's bilateral merchandise trade balances

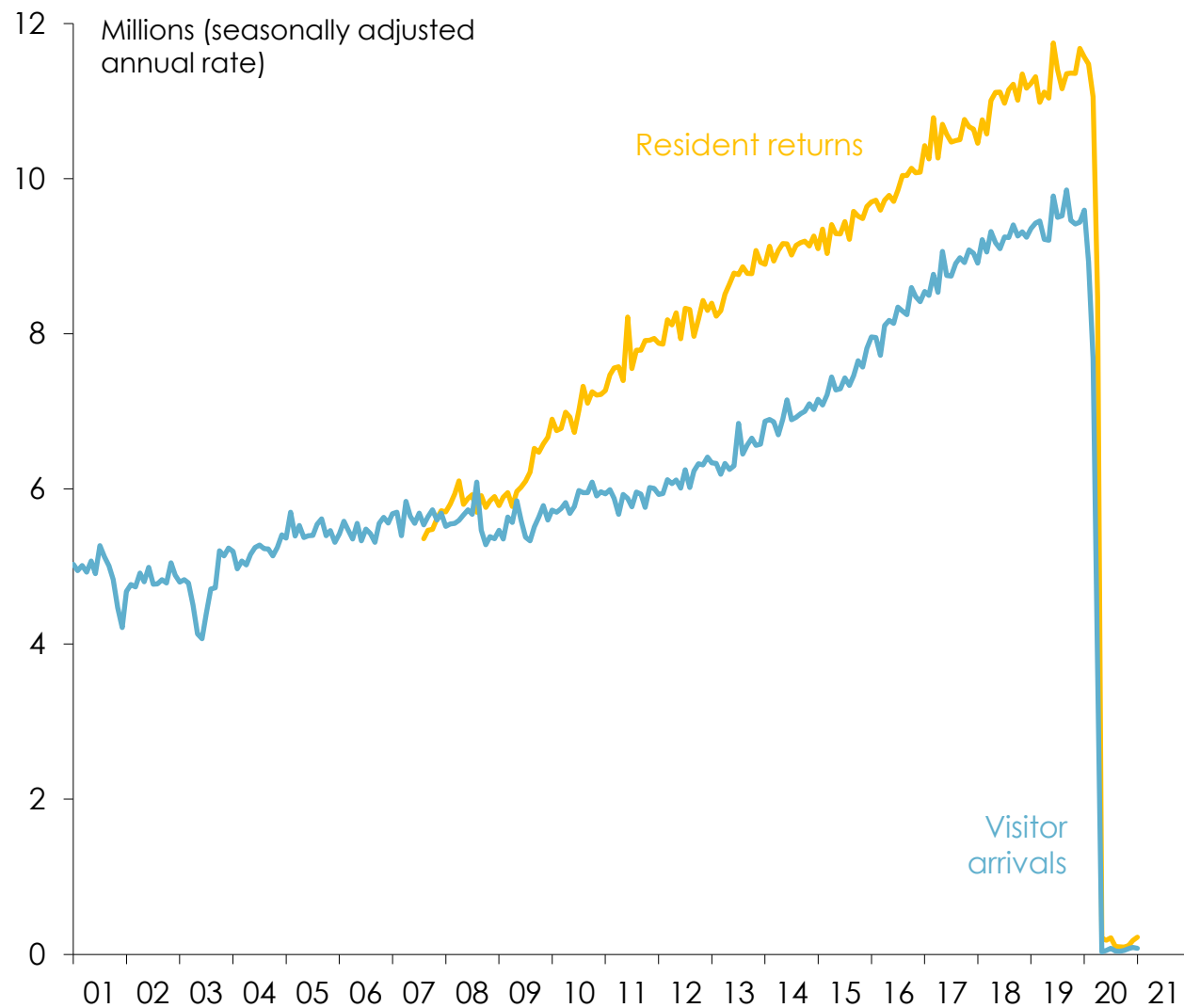


Sources: IMF, Direction of Trade Statistics; Taiwan Ministry of Economic Affairs, Bureau of Foreign Trade. [Return to "What's New"](#).

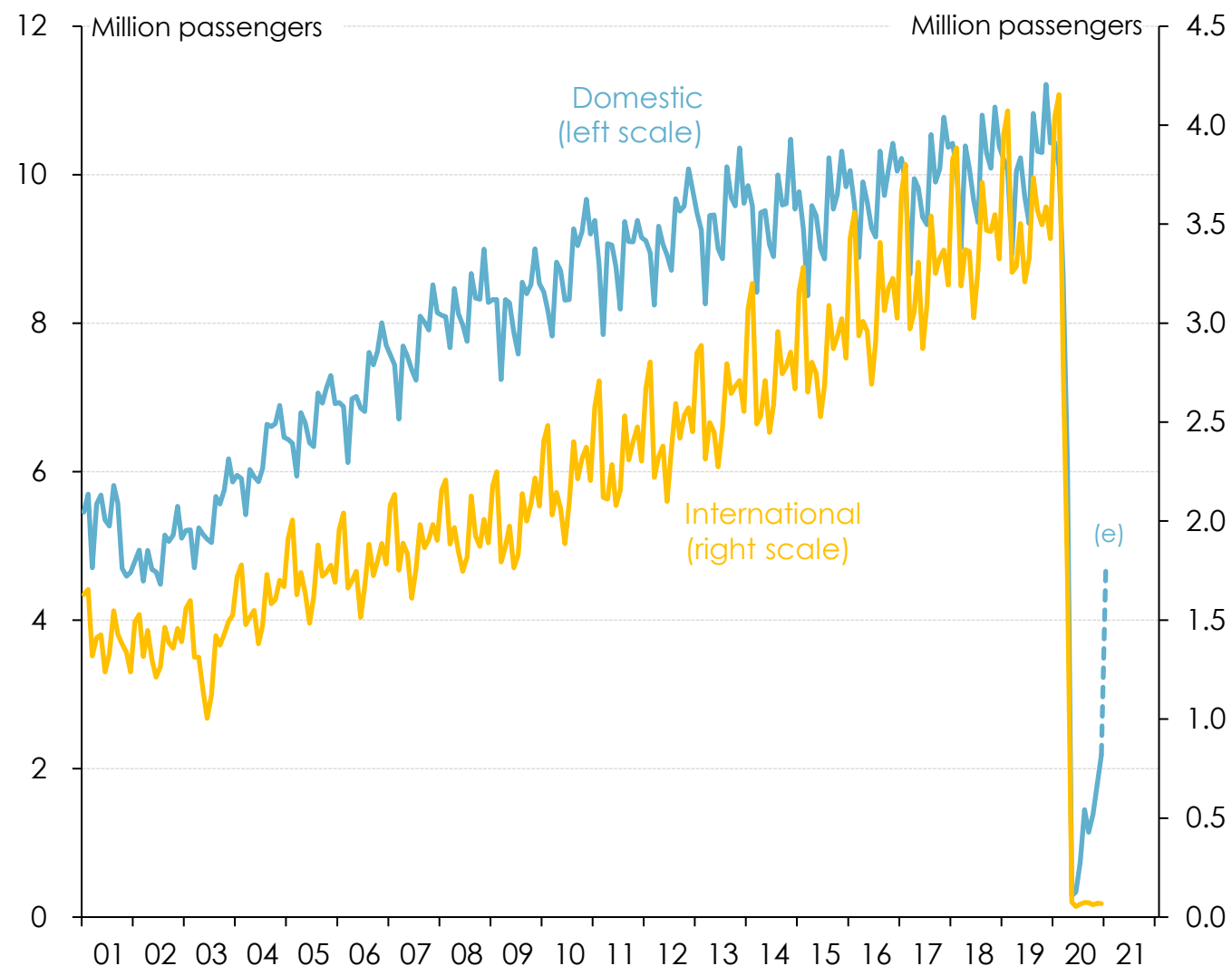


# Domestic aviation traffic has picked up since September (and especially since November), but international movements remain close to zero

## Short-term visitor arrivals and resident returns



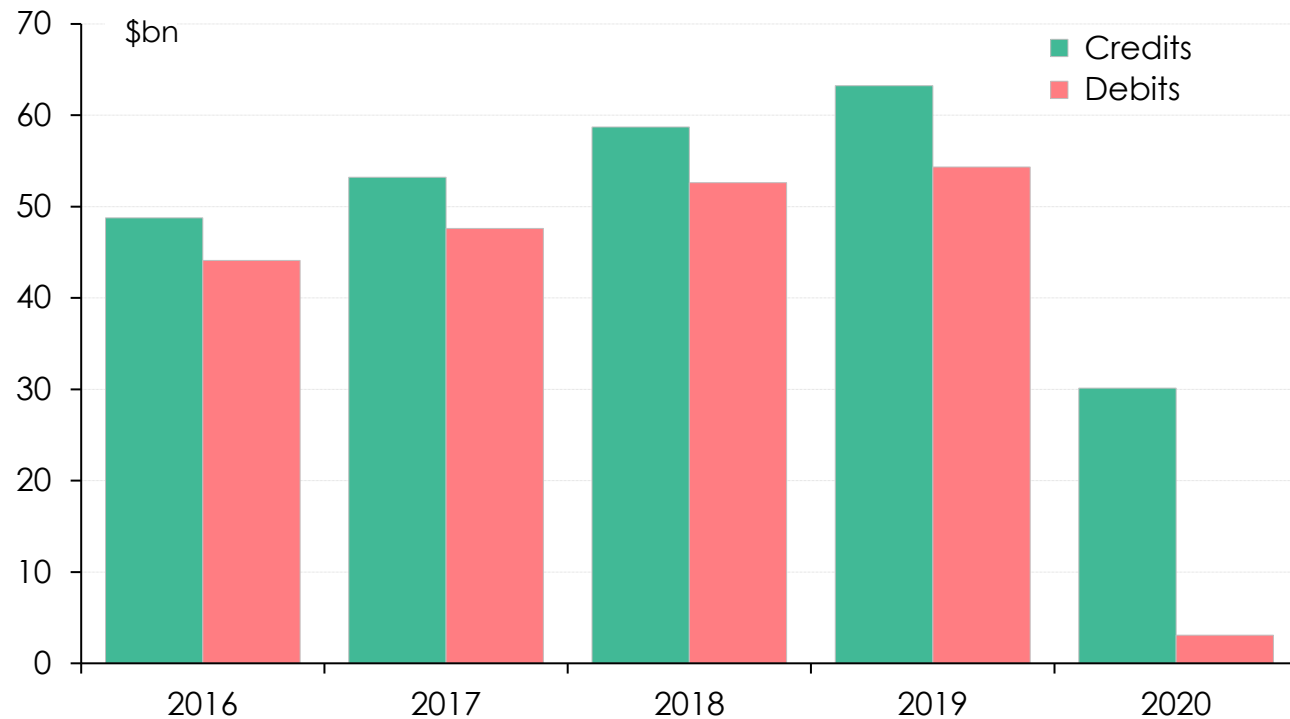
## Airport passenger movements



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"](#).

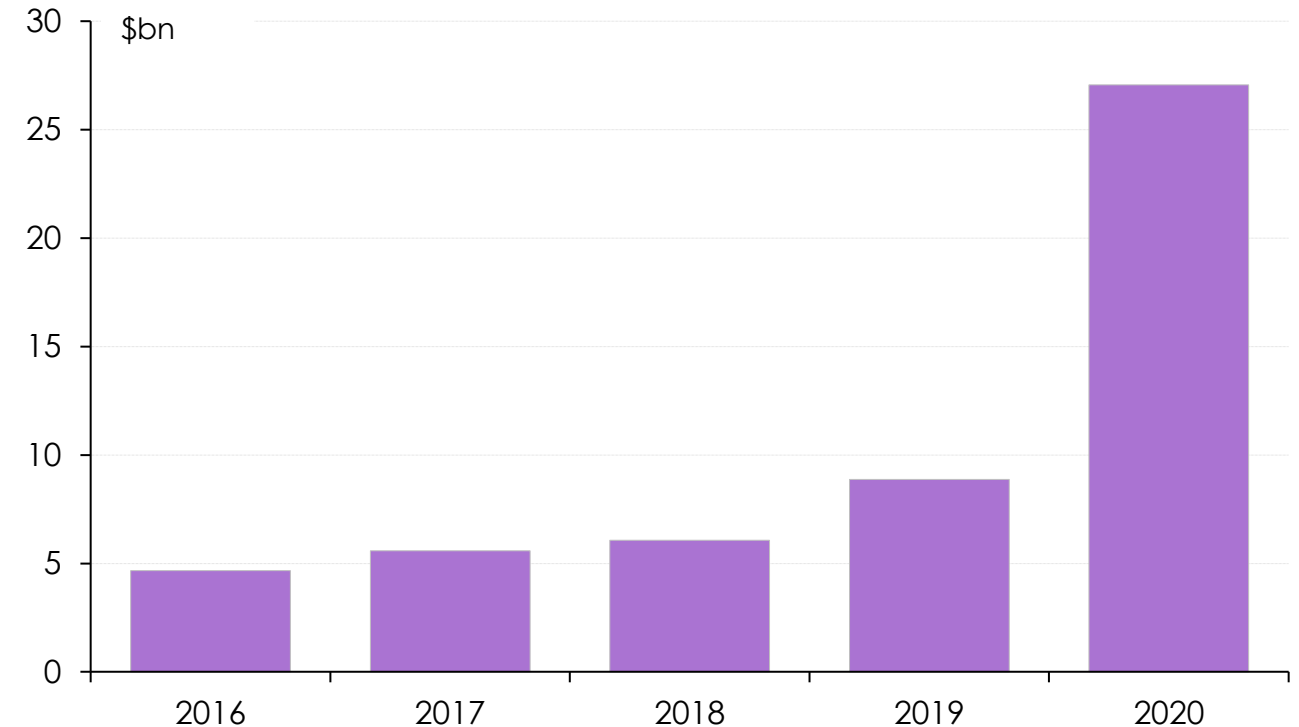
# Travel restrictions have been disastrous for the tourism sector, but they may have been worth up to 1¼% of GDP to the broader economy

Travel credits and debits, eleven months ended January 2016 through 2020



- ❑ In the 11 months ended each of the four Januaries 2016 through 2019, Australians spent an average of \$50bn on overseas travel – as against just \$3bn spend in that way between March 2020 and January 2021, ‘freeing up’ a large amount which appears to have been spent in other ways (electronics, household goods, clothes, cars etc.)

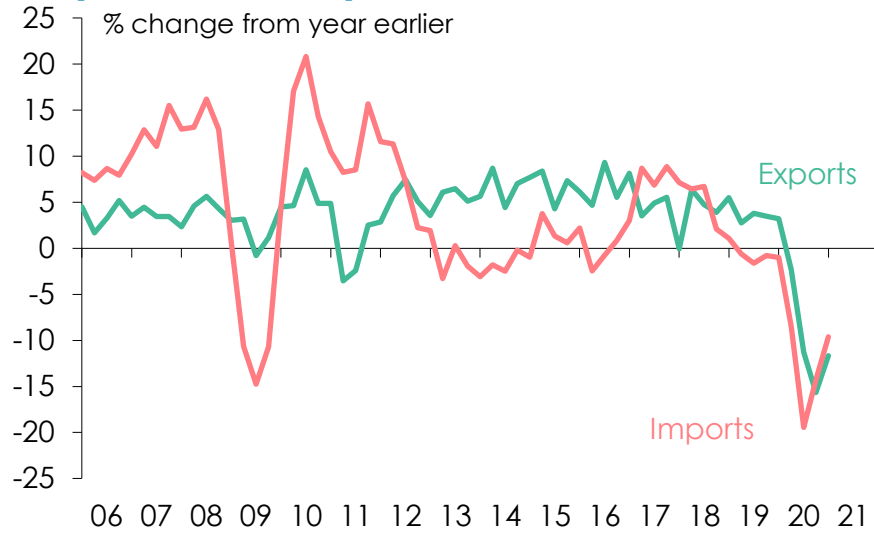
Net travel transactions, eleven months ended January 2016 through 2020



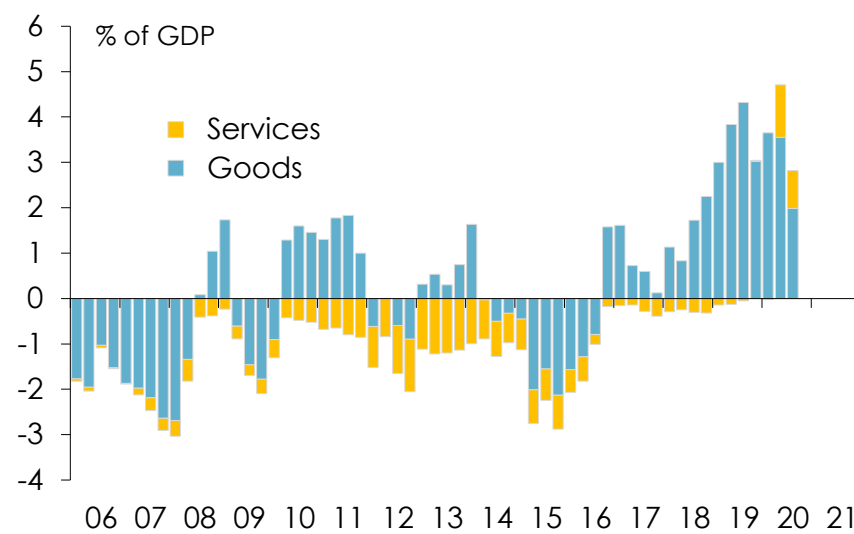
- ❑ Despite restrictions, foreigners still spent \$20bn in Australia between March 2020 and January 2021 (cf. an average of \$56bn in the four corresponding previous periods ) implying a *net gain* to Australia during the 11 months to January 2021 of almost \$21bn by comparison with the 2016-19 average – equivalent to about 1¼% of GDP

# Australia recorded another large current account surplus in Q4, and continues to pay down bank debt and acquire overseas equity assets

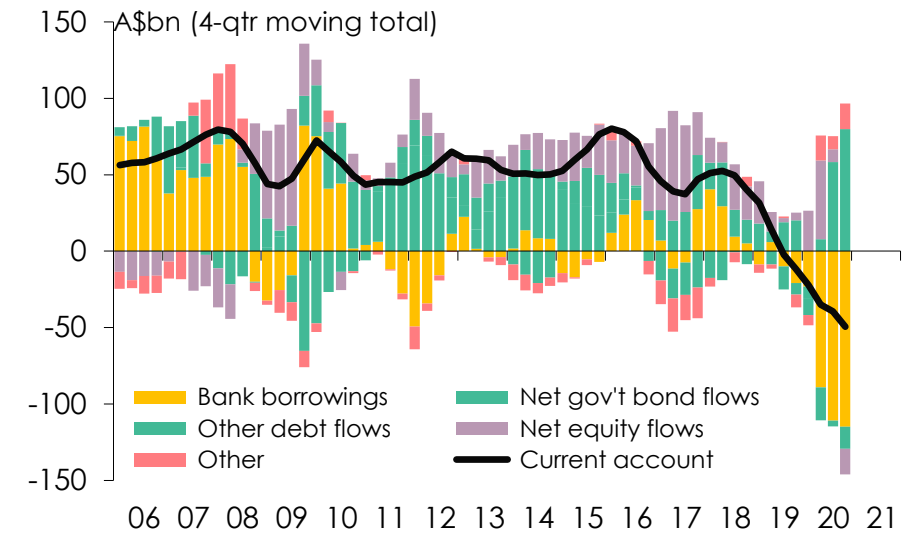
## Export and import volumes



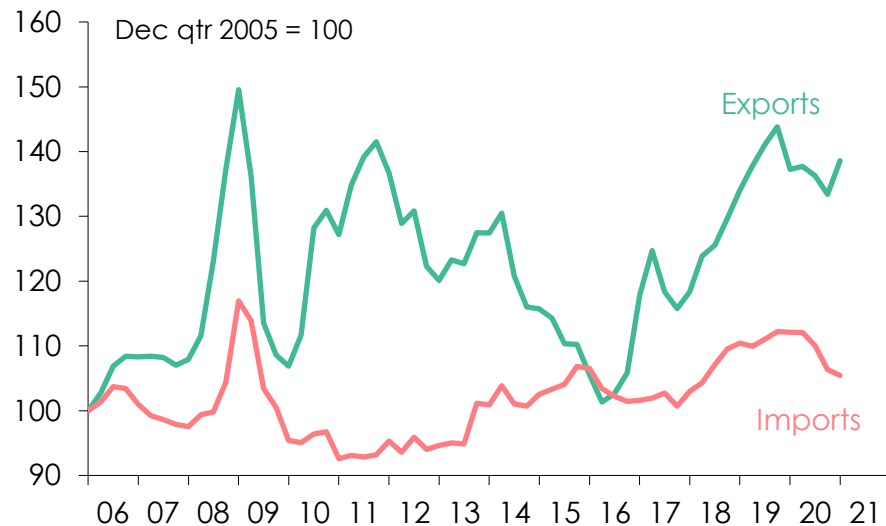
## Goods & services trade balances



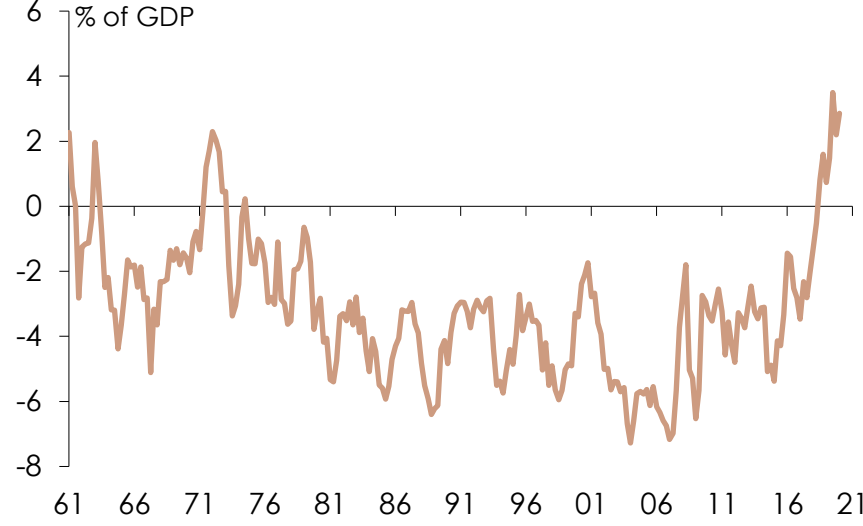
## Capital flows



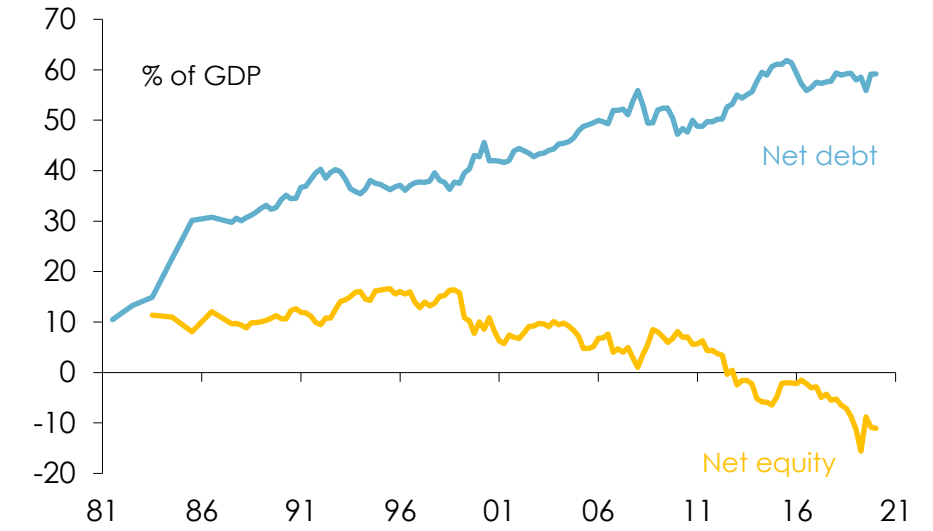
## Export and import prices



## Current account balance



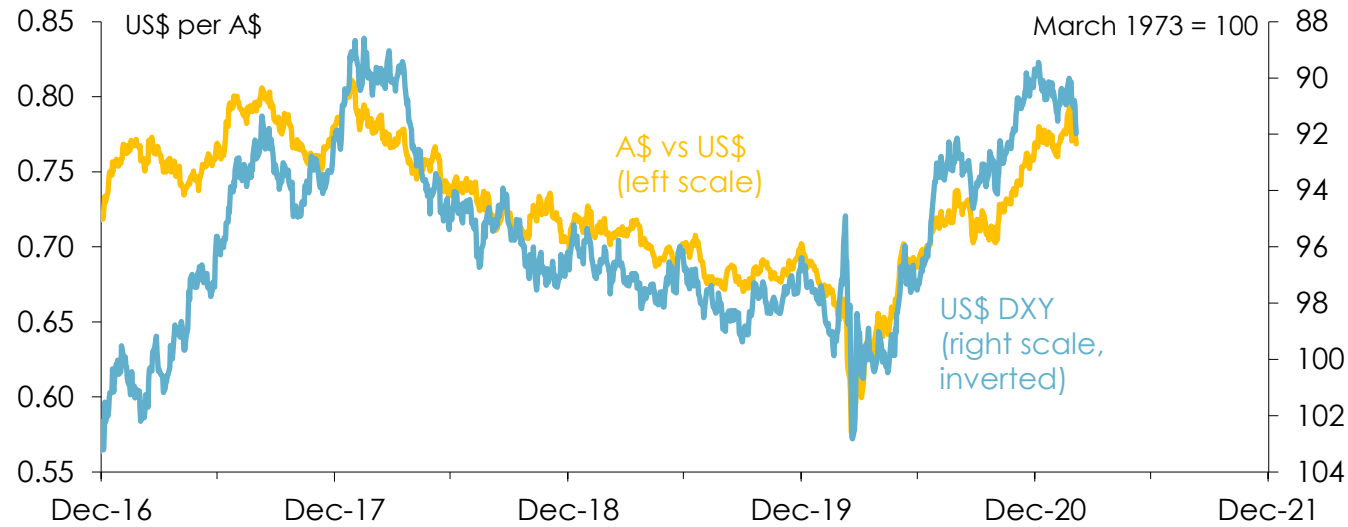
## Net international investment position



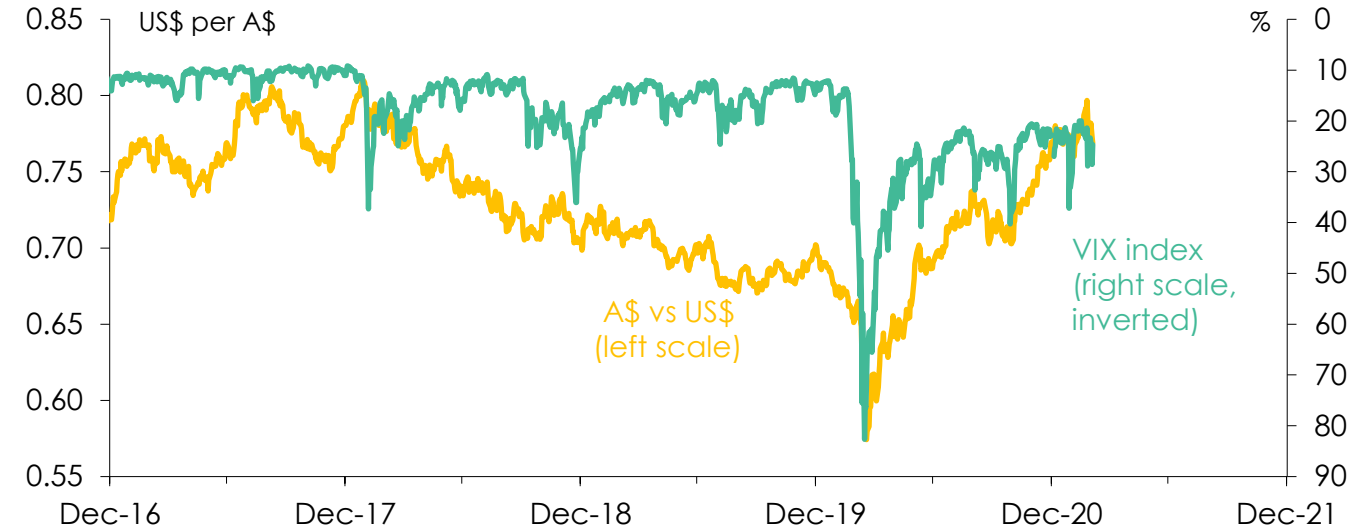
Note: Latest data are for September quarter (Q3); December quarter data will be released on 3<sup>rd</sup> March 2021. Source: ABS, [Balance of Payments and International Investment Position, Australia](#). [Return to "What's New"](#).

# The A\$ fell a further ¼% this week (most of it on Friday night) against a stronger US\$, to a four-week low just below US77¢

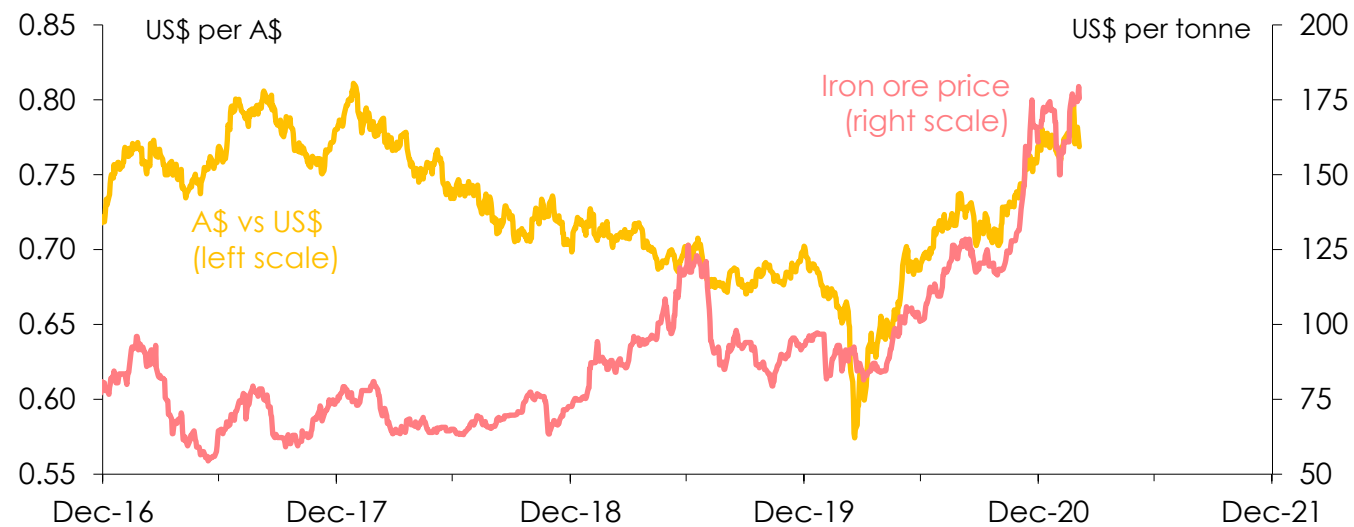
## A\$-US\$ and US\$ trade-weighted index



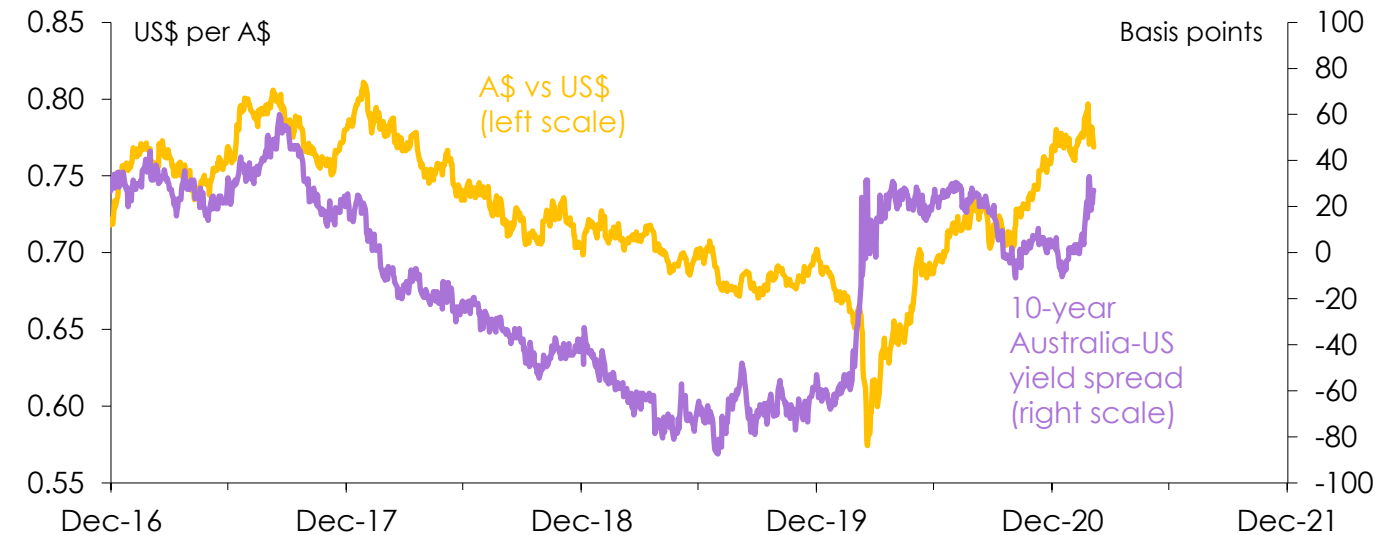
## A\$-US\$ and US equity market volatility



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

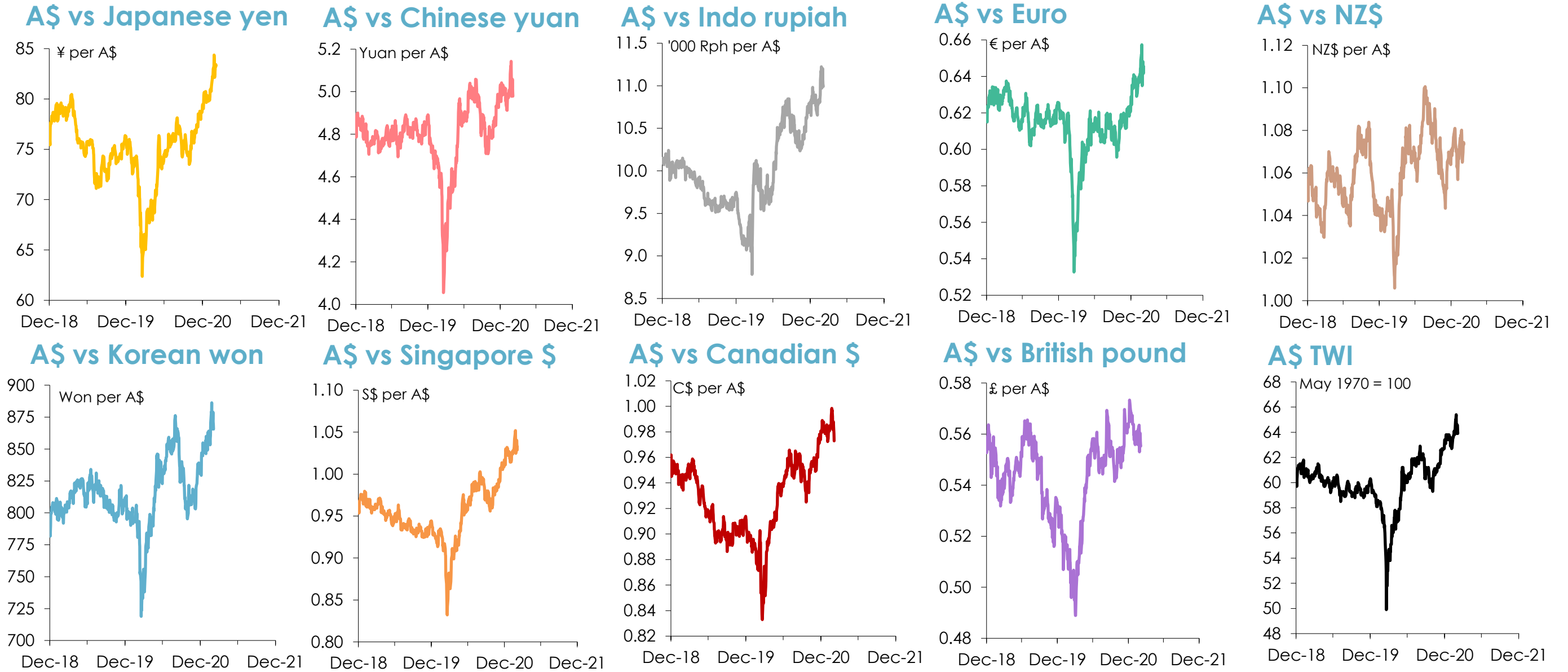


## A\$-US\$ and Australia-US 10-year bond yield spread



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 107](#). Source: Refinitiv Datastream. Data up to 5<sup>th</sup> March. [Return to "What's New"](#).

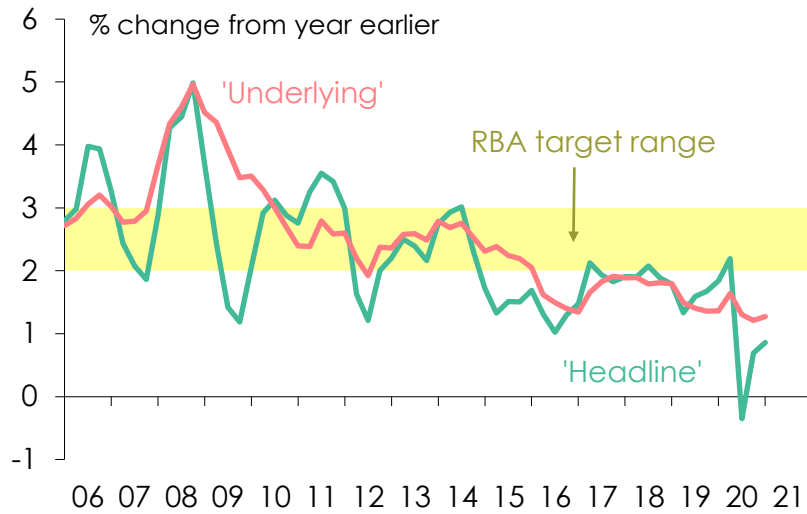
# However the A\$ didn't fall as much against the US\$ as other currencies, and so was stronger on most of the crosses (except for the C\$ and the won)



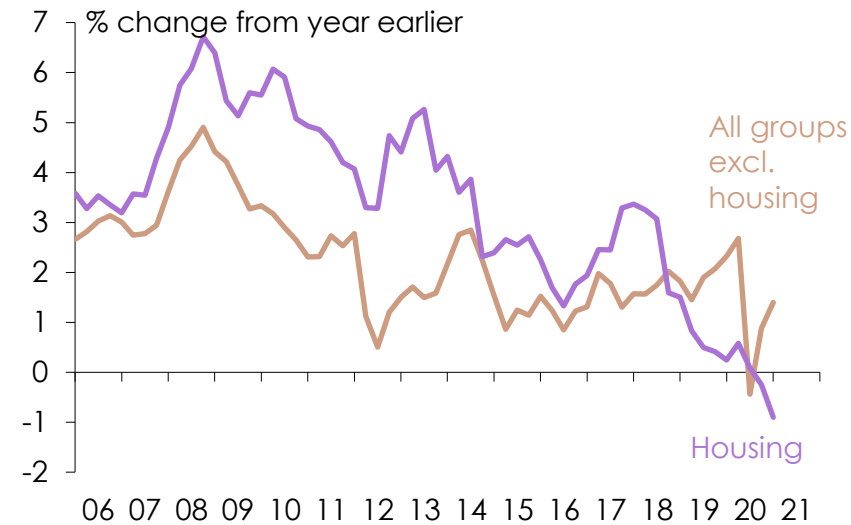
Note: 'TWI' is the RBA's [trade-weighted index](#) of the A\$. It is calculated at the end of the Australian trading day so its final value for this week does not reflect the large fall in the A\$ in New York on Friday night (Australian time). Source: Refinitiv Datastream. Data up to 5<sup>th</sup> March. [Return to "What's New".](#)

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

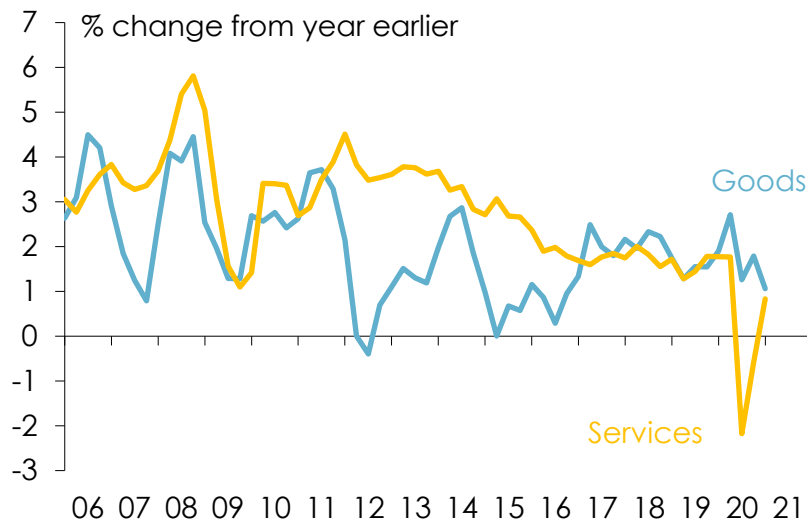
## Consumer prices



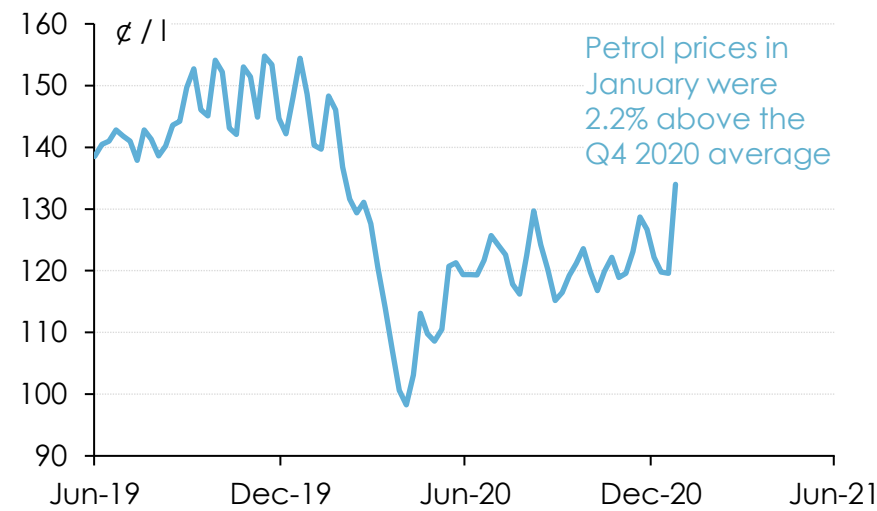
## Housing costs



## Goods vs services prices



## Retail petrol prices



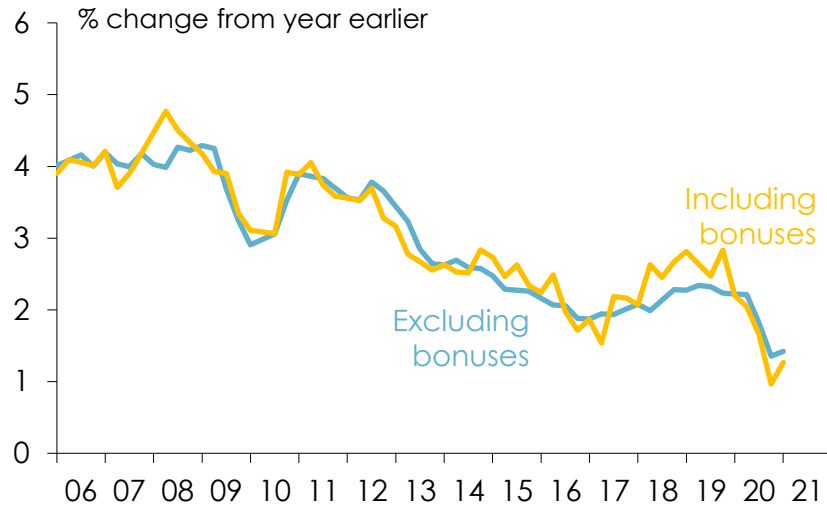
- ❑ The CPI rose 0.9% (a little above market expectations of 0.7%) in Q4 2020 taking the annual 'headline' inflation rate up 0.2 pc pts to 0.9%
- ❑ Main contributors to the Q4 outcome were a 38% increase in child care costs (reflecting the end to lockdown subsidies), an 11% increase in tobacco prices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

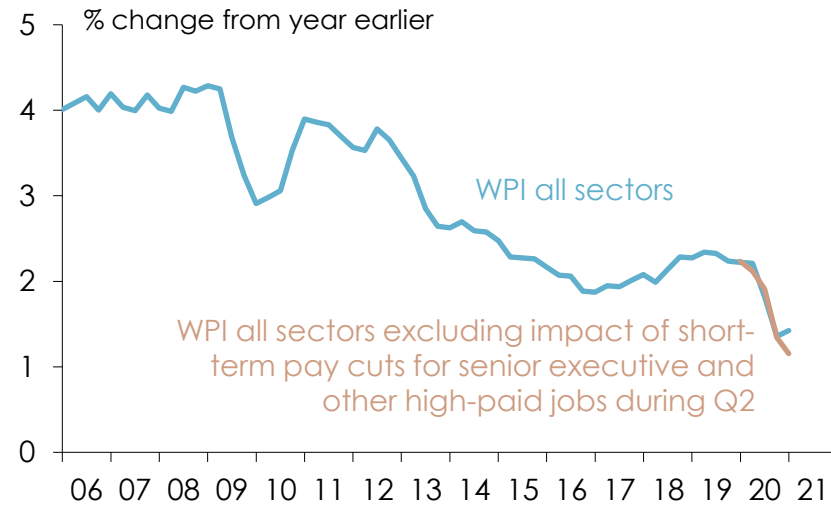
Sources: ABS, [Consumer Price Index, Australia](#); [Australian Institute of Petroleum](#). The March quarter (Q1) CPI will be released on 28<sup>th</sup> April. [Return to "What's New"](#).

# 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

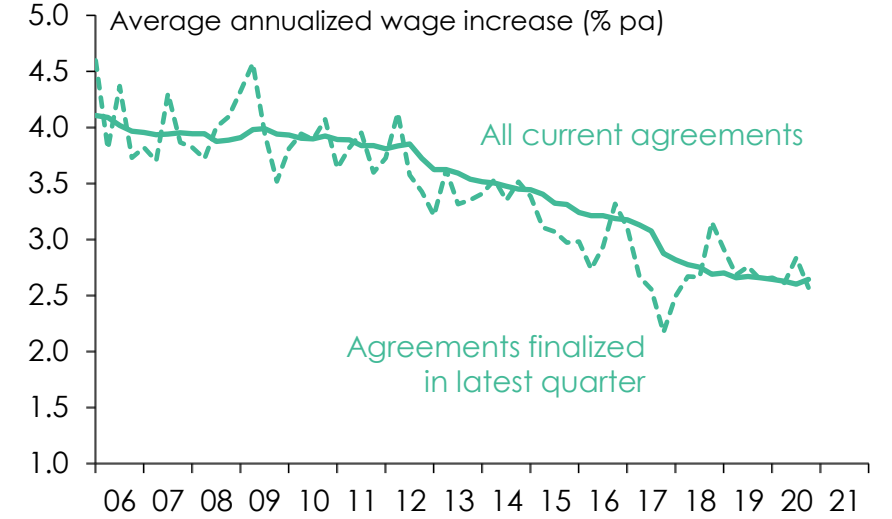
## Wage price index – all sectors



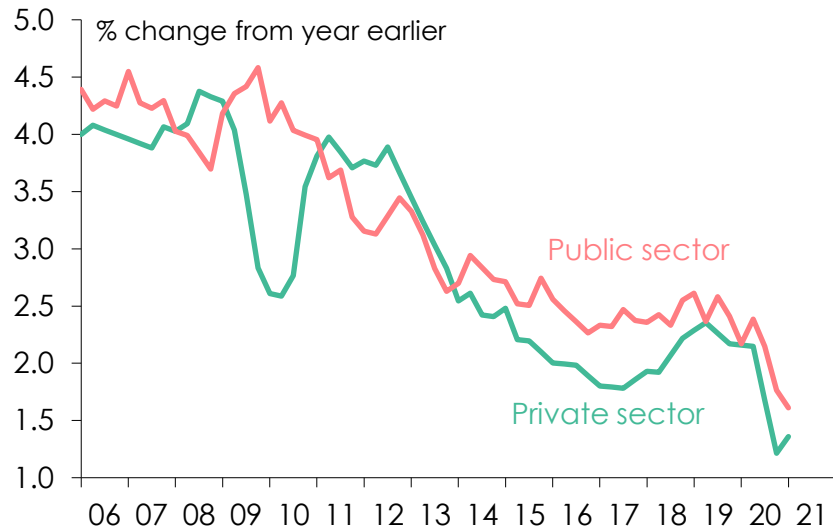
## WPI excl. temporary wage cuts



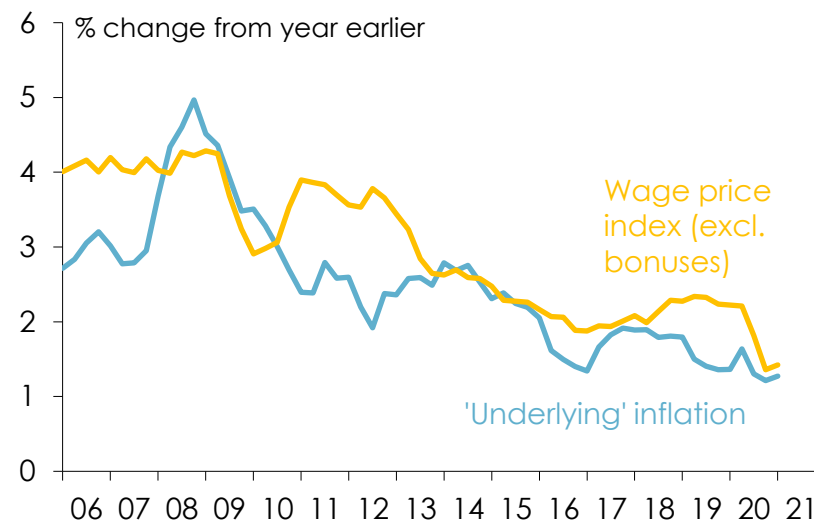
## Enterprise bargaining agreements



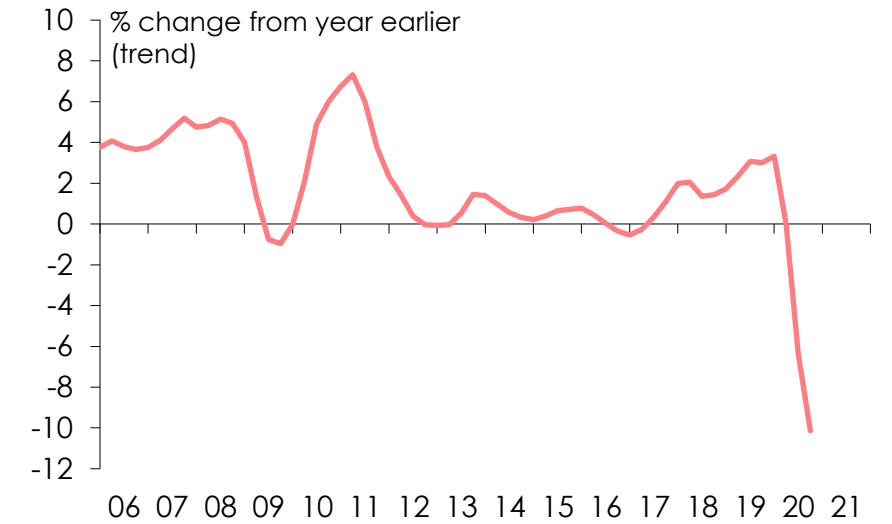
## WPI – private vs public sectors



## 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 be released on 19<sup>th</sup> May.

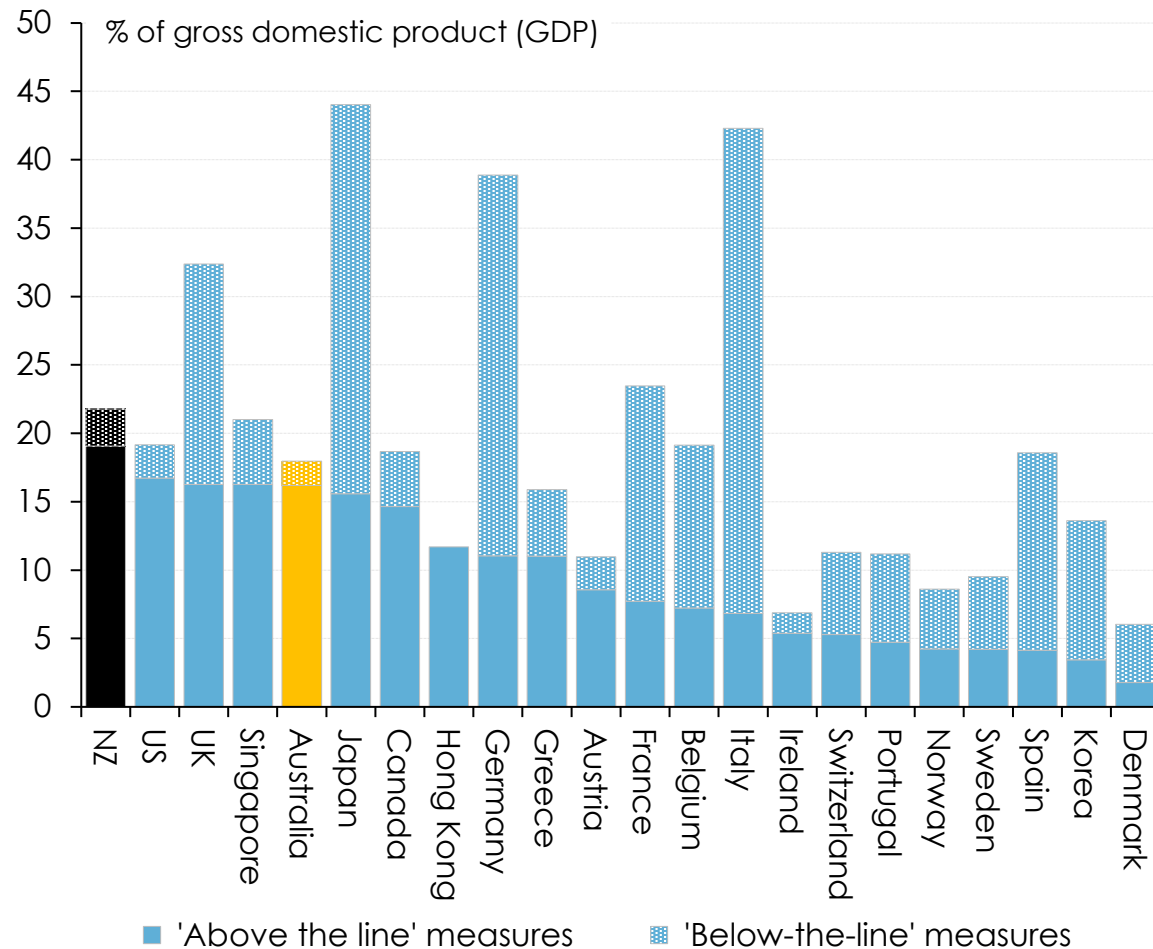
[Return to "What's New".](#)

# Australia's fiscal and monetary policy settings



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

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



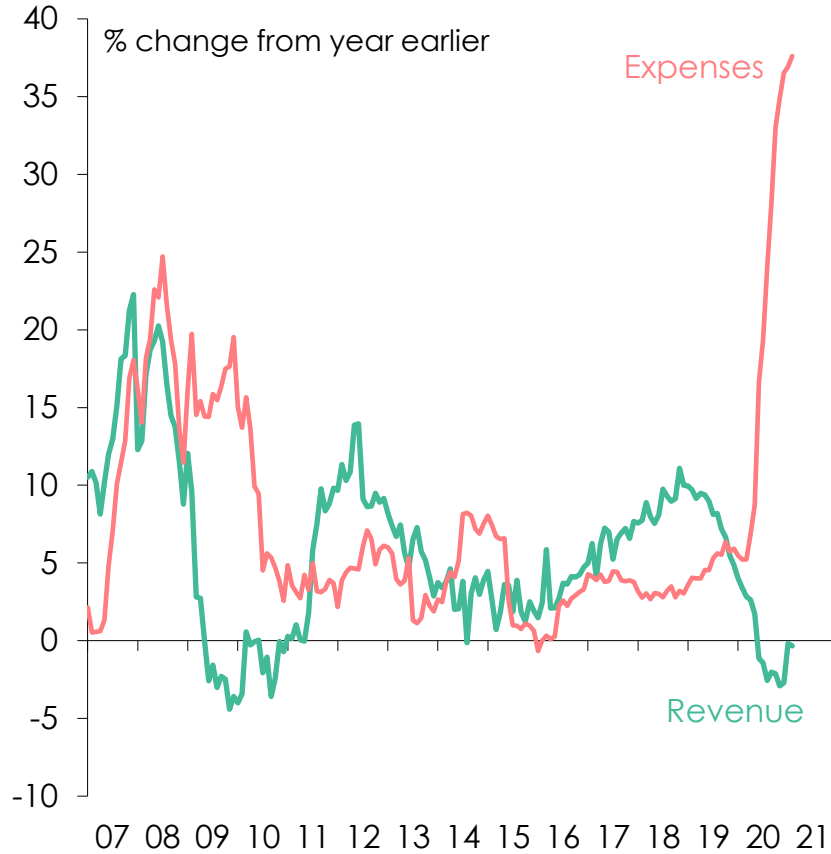
Note: 'Above the line' measures comprise additional or accelerated spending and deferred or foregone revenue. 'Below the line' measures comprise equity injections, loans, asset purchases and debt assumptions, but do not include loan guarantees or other contingent liabilities. 'DMs' means 'developed markets' (or 'advanced economies'). Data includes measures announced up until 31<sup>st</sup> 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 11<sup>3</sup>/<sub>4</sub>% of one year's GDP – which is large by international standards (and double what was done during the GFC)
  - the IMF's latest *Fiscal Monitor Update* estimates that measures announced up to 31<sup>st</sup> December are equivalent to 16<sup>1</sup>/<sub>4</sub>% 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

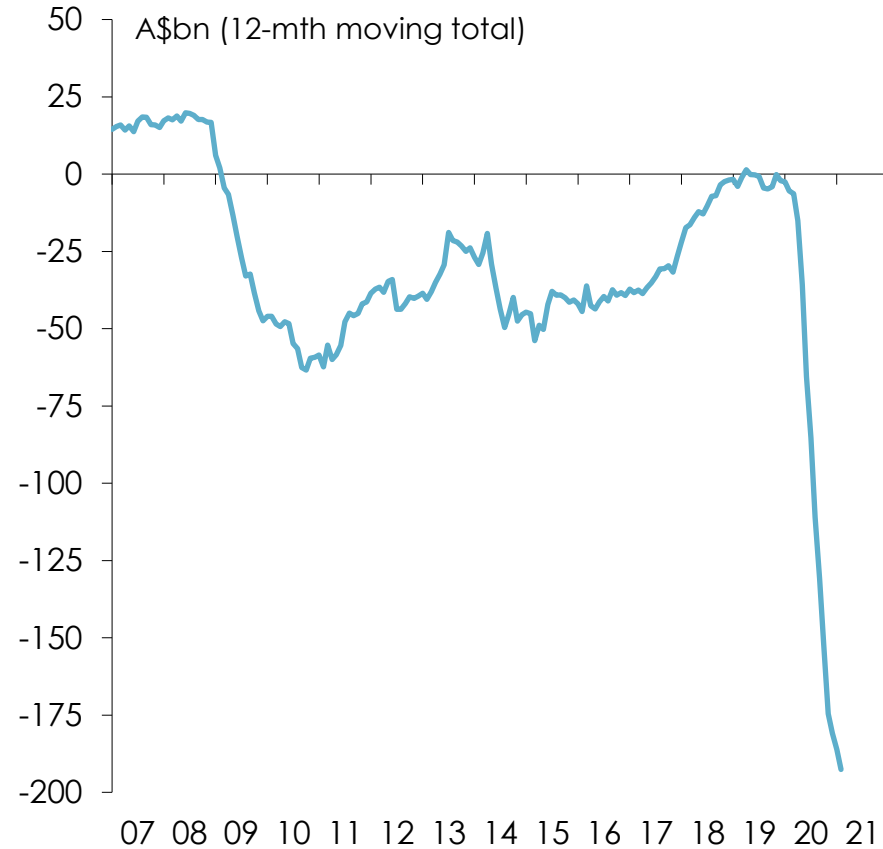
# The budget deficit for the first seven months of FY 2020-21 was about \$18bn (11½%) lower than the Mid-Year Outlook 'profile' projection

## Australian Government revenue and expenses



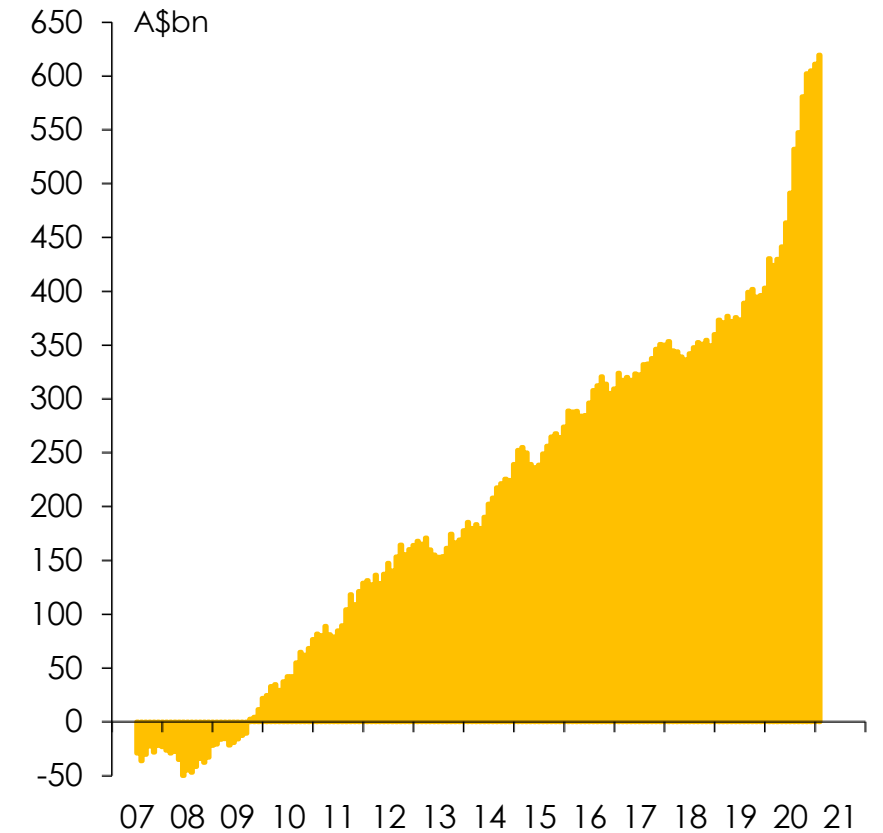
□ Growth in expenses is levelling out, while revenue is beginning to turn around as the economy picks up

## 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



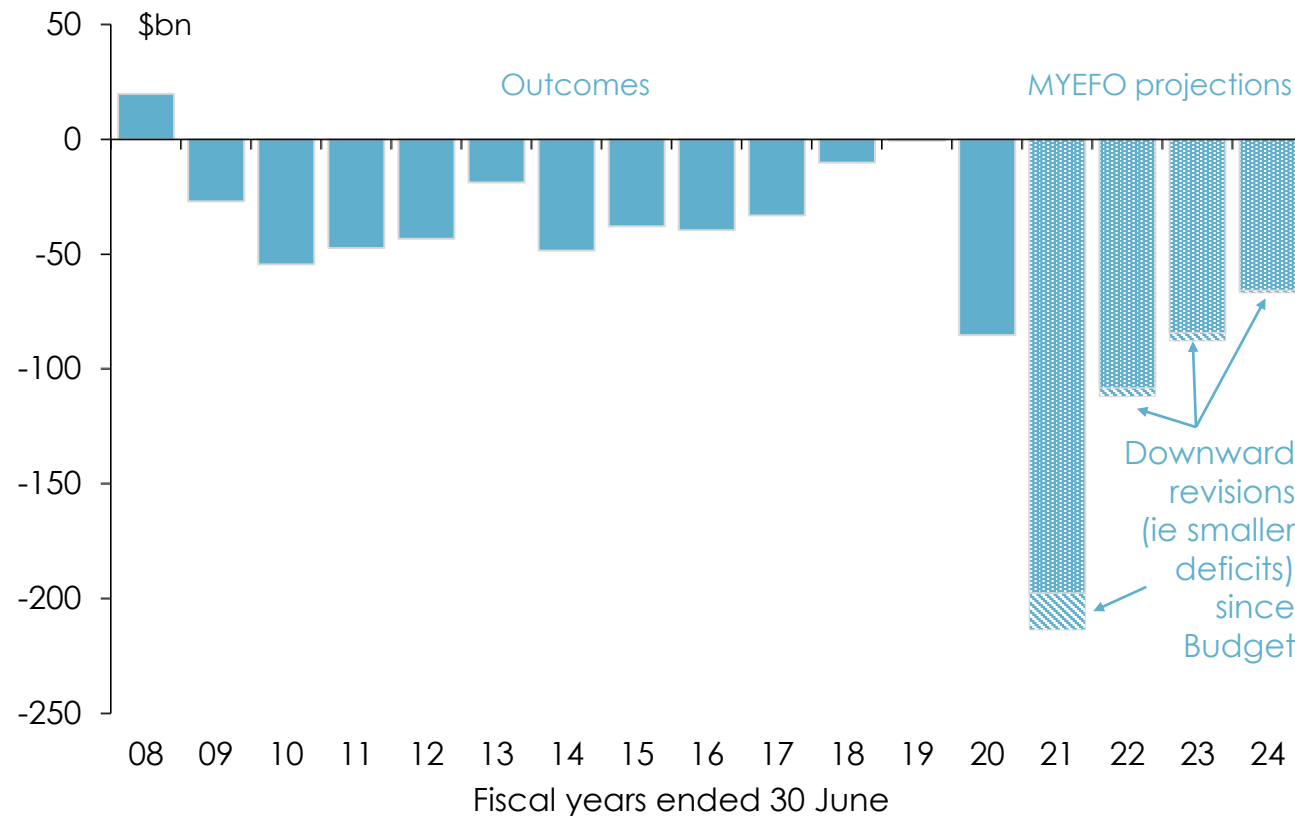
□ Net debt as at 31<sup>st</sup> Jan was \$619bn (about 32% of GDP), up \$128bn over the first 7 months of FY 2020-21

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

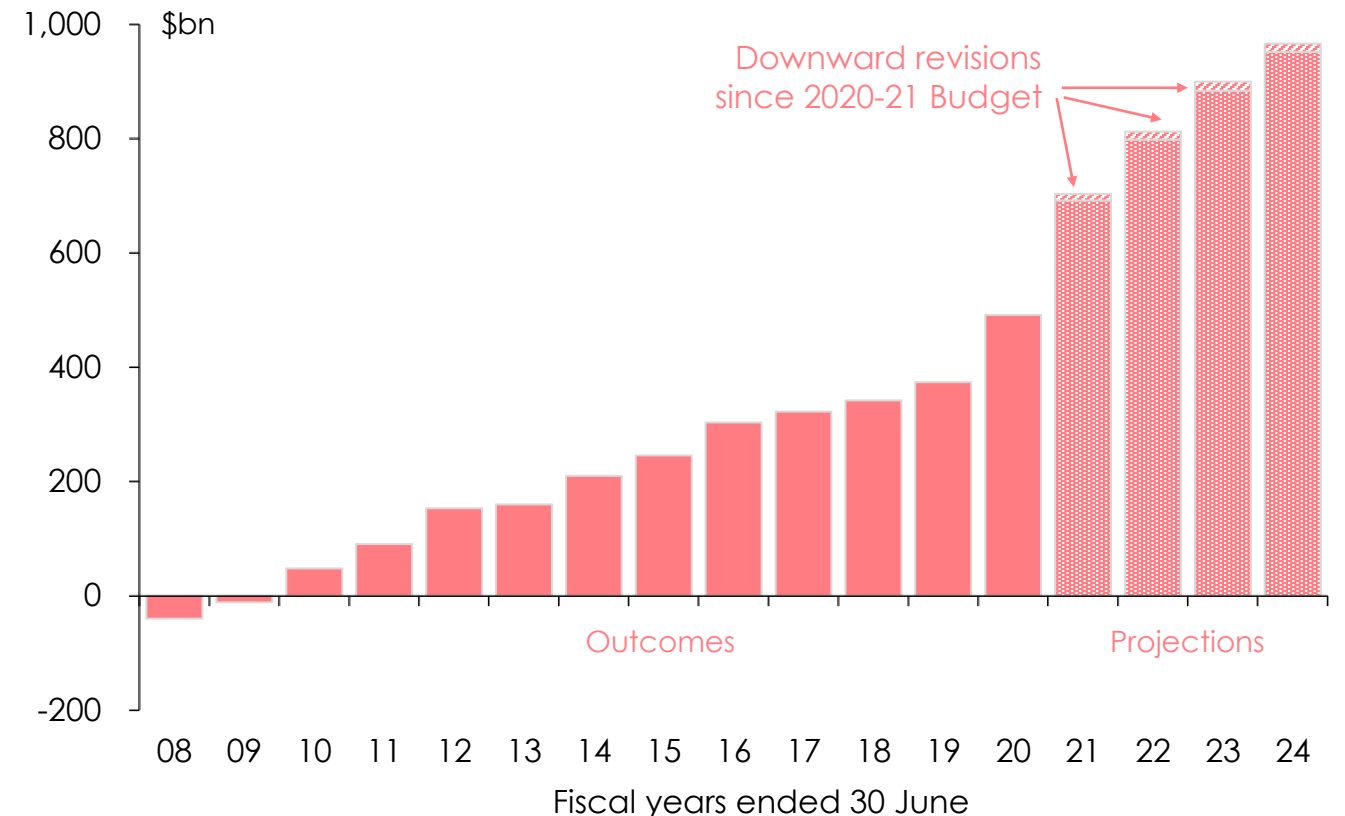
2019-20 Mid-Year Economic & Fiscal Outlook (MYEFO) and 2020-21 Budget forward estimates compared

## 'Underlying' cash balance



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

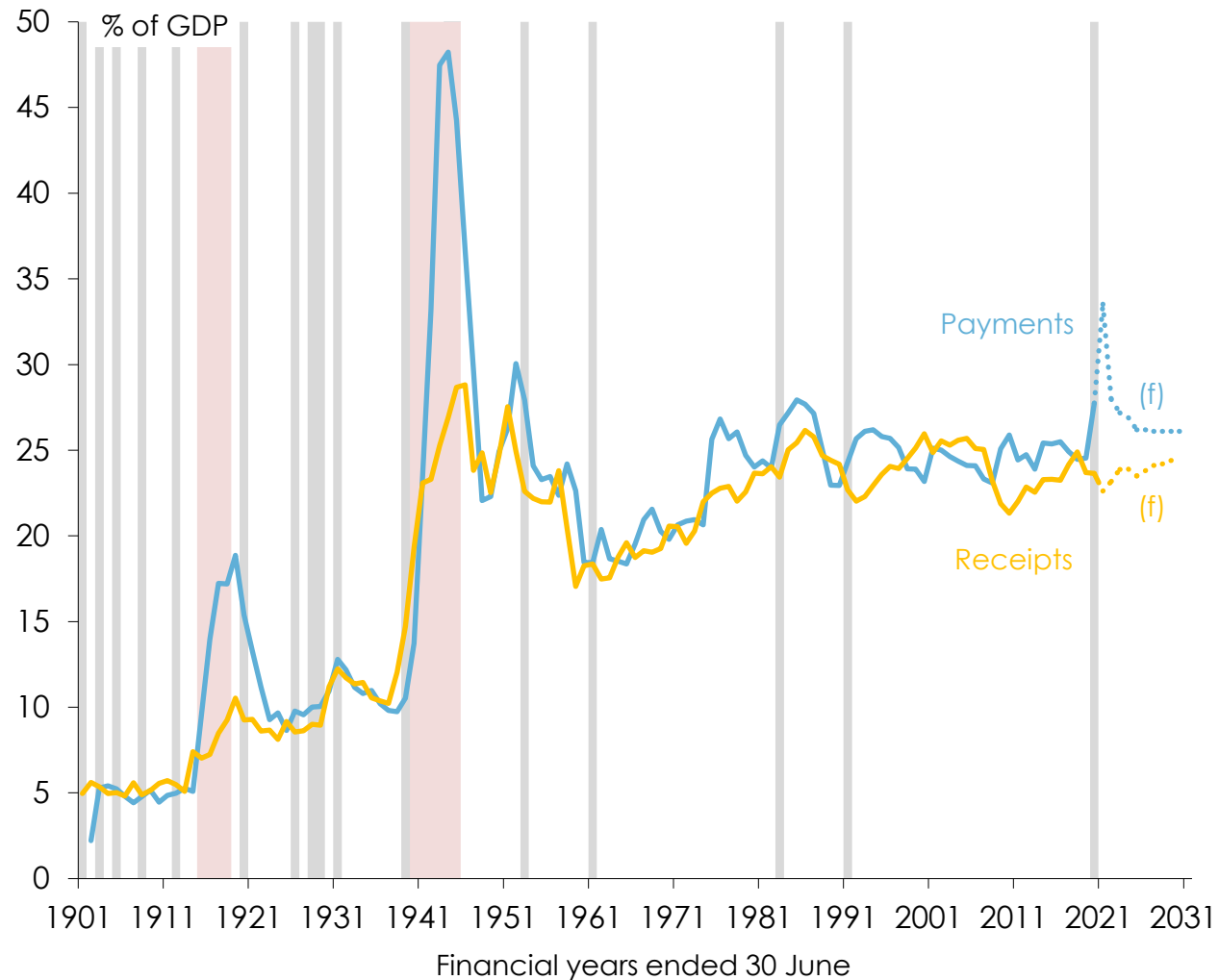
## Net debt



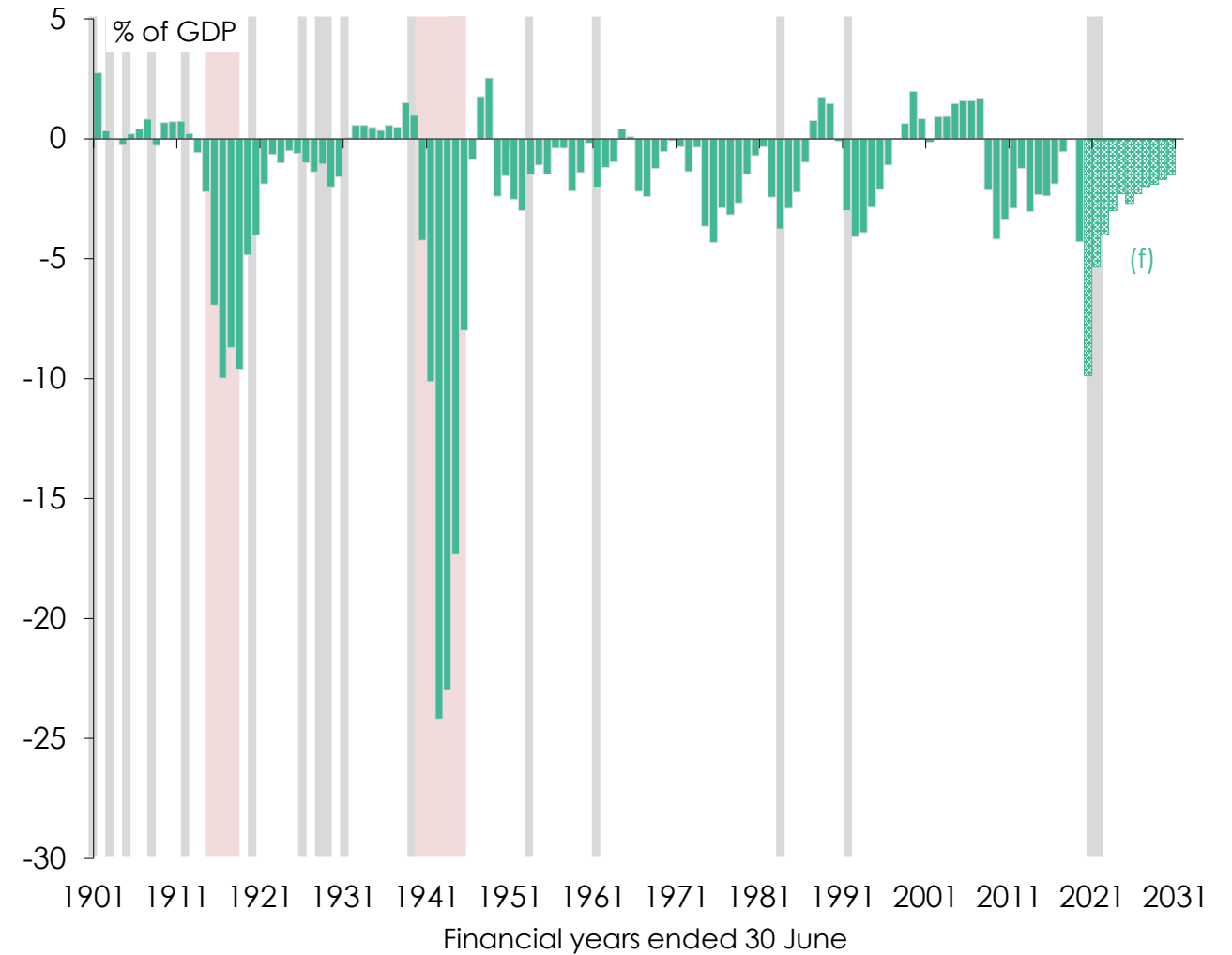
Projected net debt has been revised downwards by an average of just over 1½% over each of the next four years, or by a total of \$14bn by 30<sup>th</sup> June 2024

# The 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

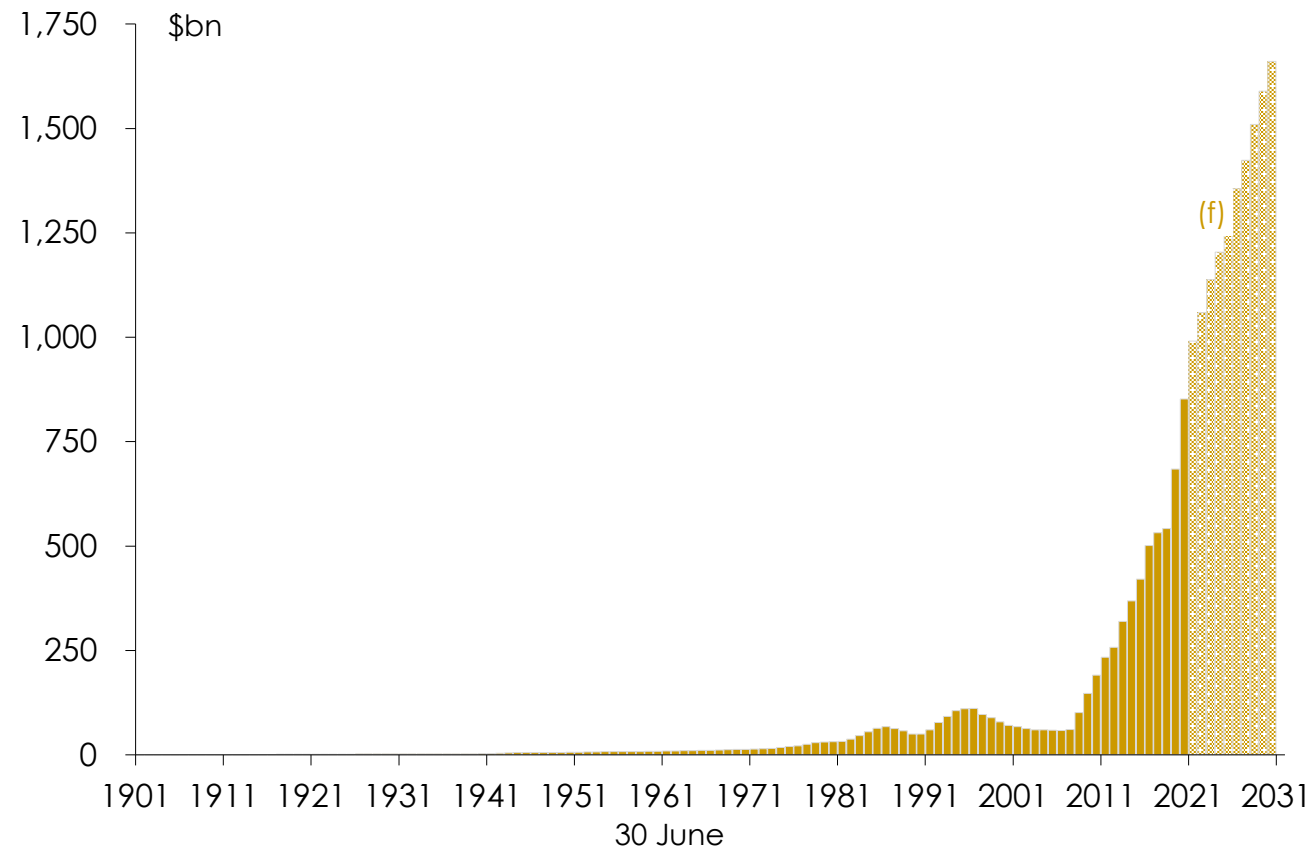


Note: Payments and the budget surplus or deficit are 'underlying' (that is, exclude 'net investments in financial assets for policy purposes') after 1989-90, when state governments became responsible for issuing their own debt, and 'headline' before that. Areas shaded in grey are fiscal years in which real GDP contracted; areas shaded in pink are World Wars I and II. (f) denotes forecasts or projections.

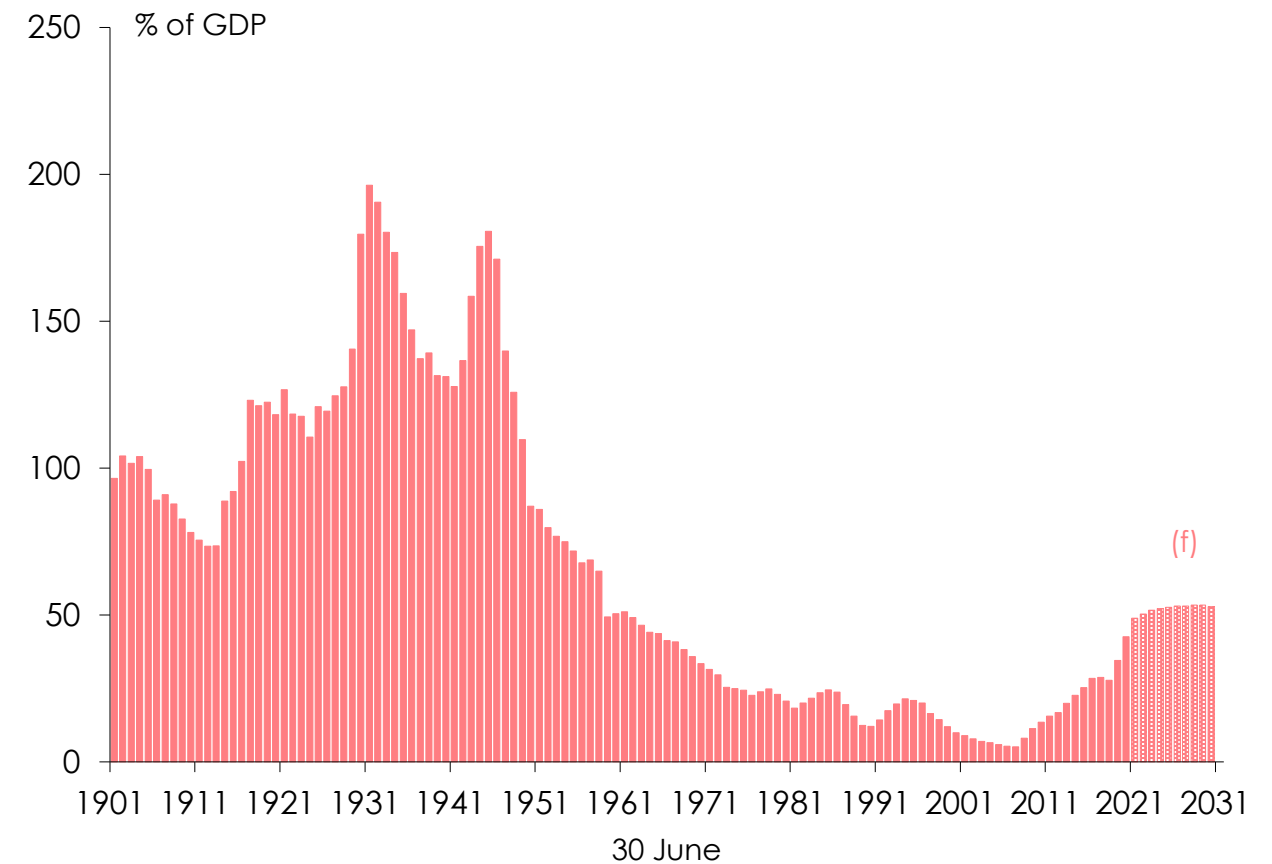
Sources: Global Financial Data; Australian Government, [2020-21 Mid-Year Economic and Fiscal Outlook](#). [Return to "What's New"](#).

# 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



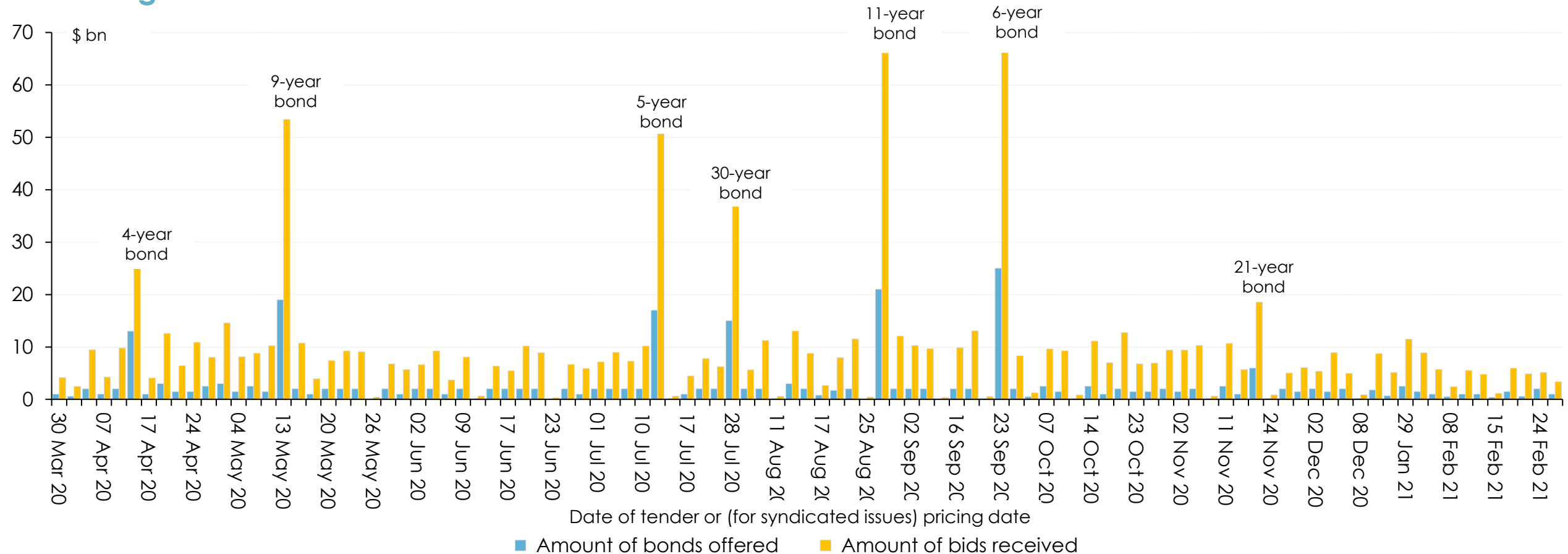
❑ The Government's gross debt will top \$1 trillion during the 2022-23 financial year (a year later than forecast in October's budget) and exceed \$1.6 trillion in 2030-31

❑ 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"](#).

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

## Australian government bond issuance since March 2020

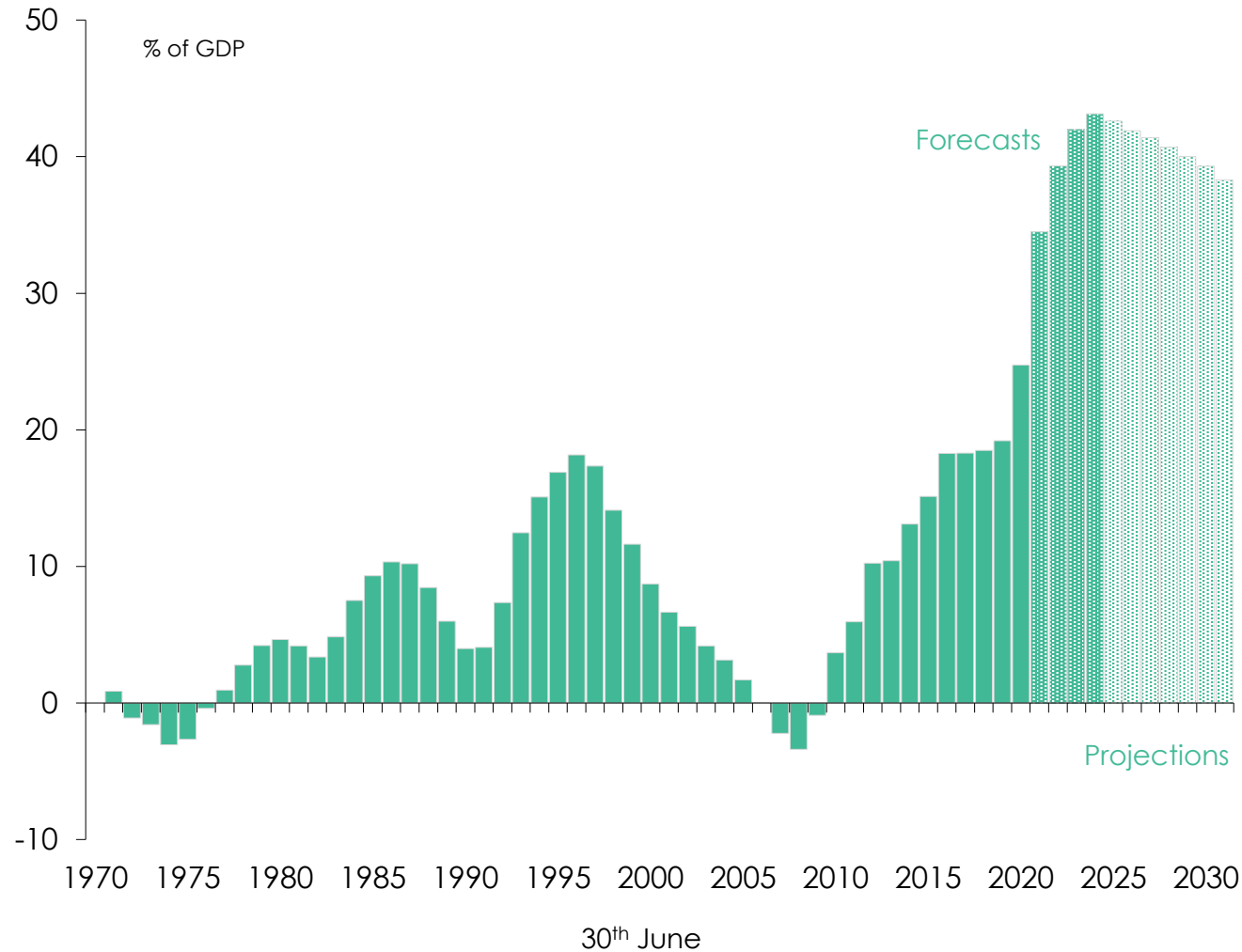


- ❑ Since 30<sup>th</sup> March 2020, the Australian Office of Financial Management has issued \$257.2bn of Treasury bonds – based on the volume of bids received it could have borrowed \$953bn with yields at most 4 basis points (0.04 of a pc point) above the highest yields actually accepted
- ❑ The AOFM only conducted one tender this week, for \$1bn of June 2031 bonds, bringing its total issuance since 1<sup>st</sup> July to \$170.3bn (74% of this financial year's expected total gross issuance of \$230bn)

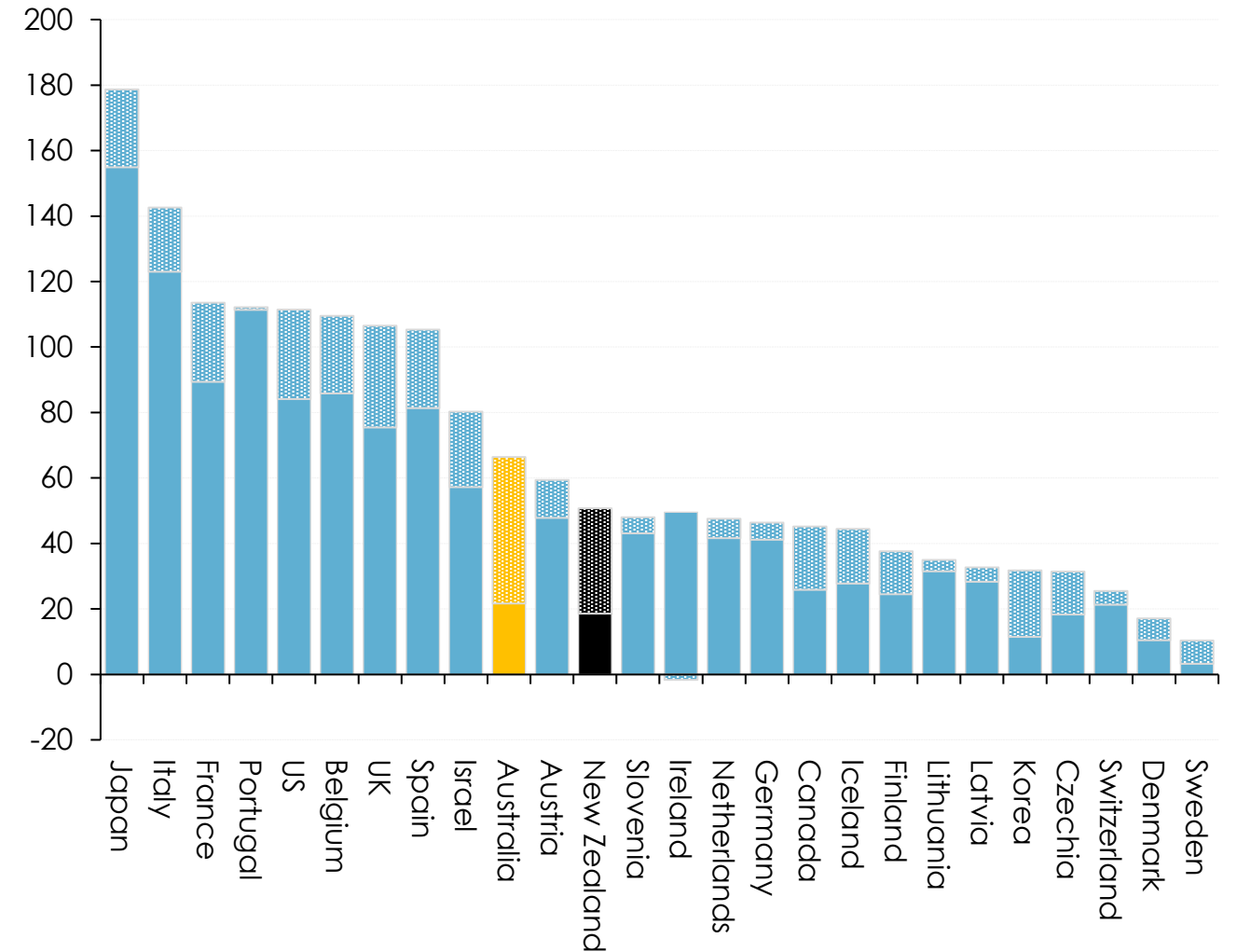
Source: Australian Office of Financial Management [data hub](#); Corinna. [Return to "What's New"](#).

# 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



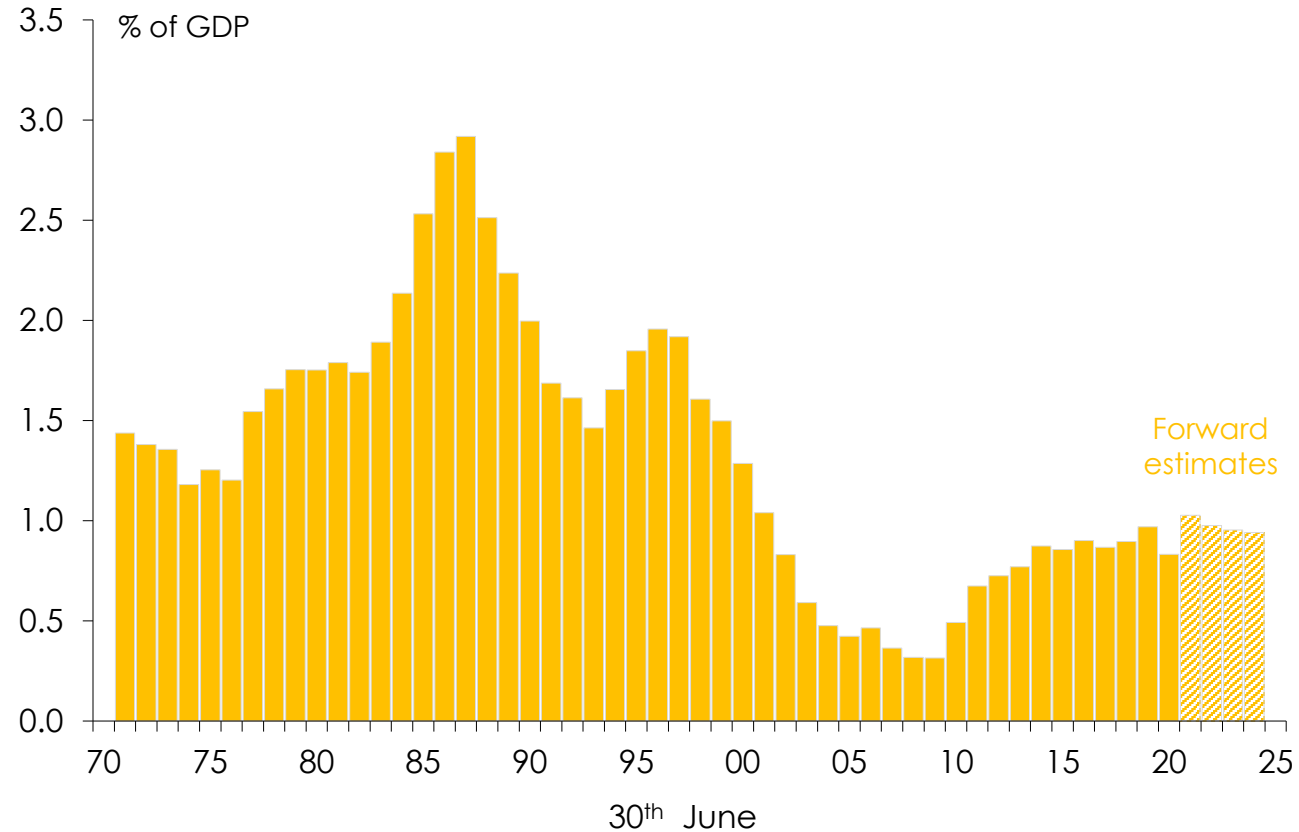
## Net debt of Australian and other 'advanced' economy governments as a pc of GDP, 2019 and projected 2024



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

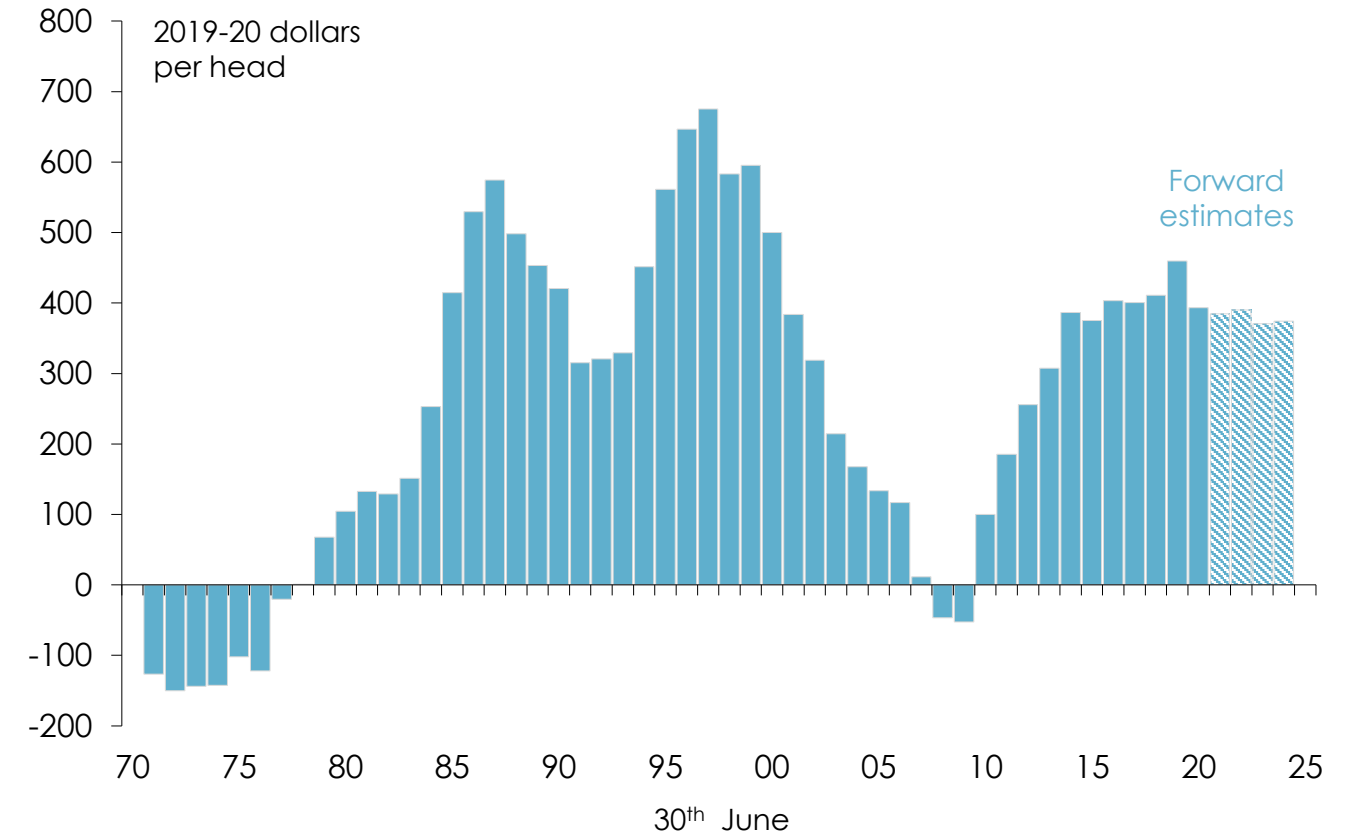
# Because interest rates are so low, the cost of servicing the debt which the Government is racking up will be low by historical standards

Australian Government interest payments as a percentage of GDP



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

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



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

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

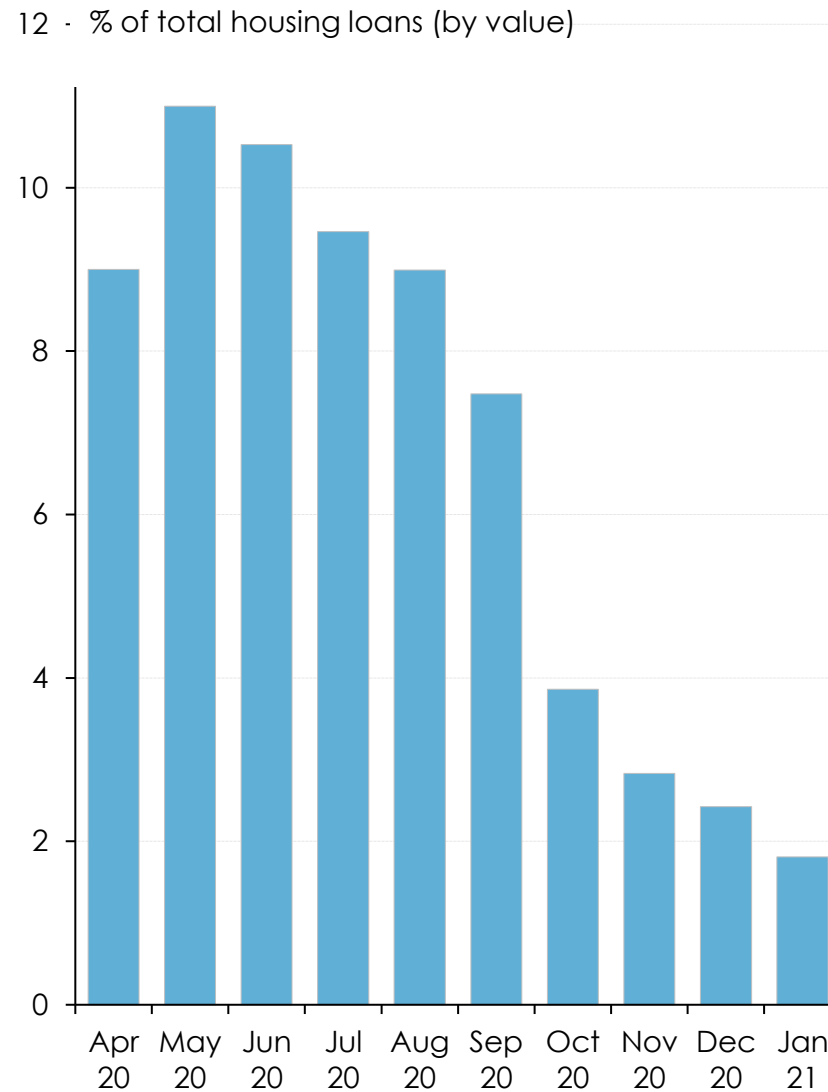


# The transitions away from 'emergency assistance' are so far being accomplished very smoothly

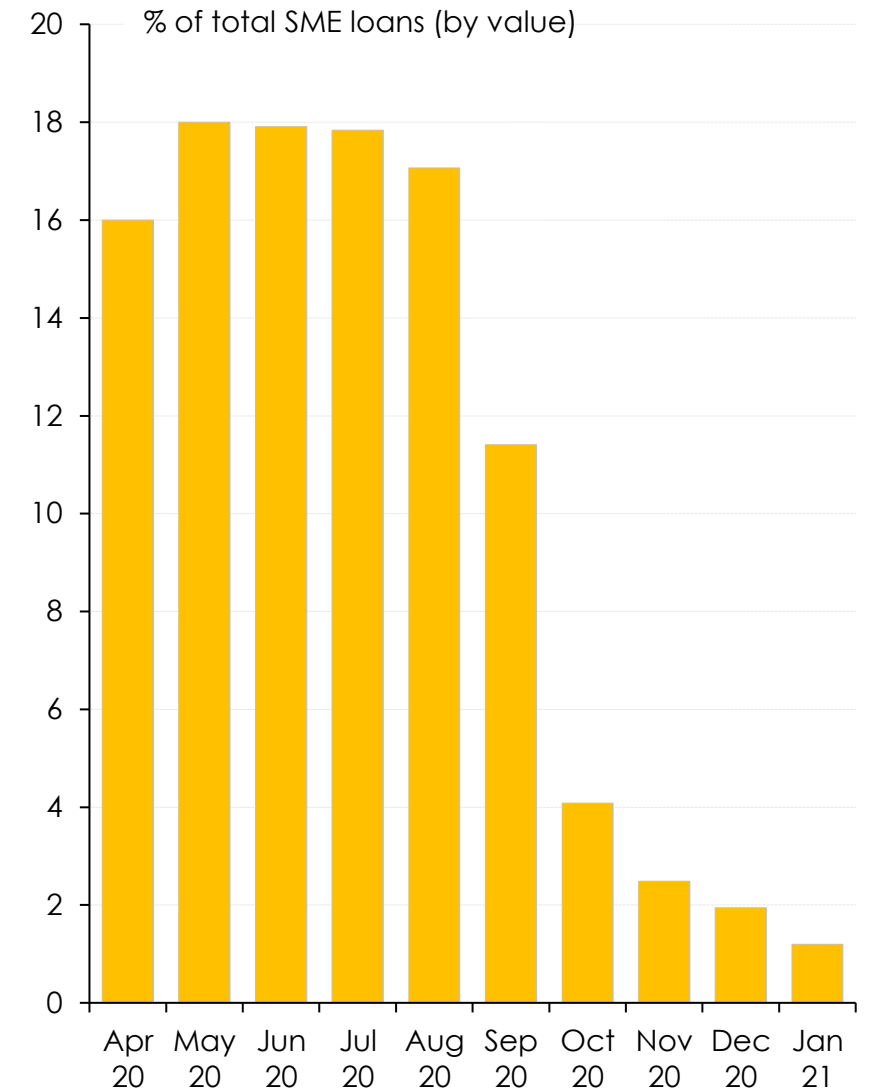
## Payroll employment & JobKeeper



## Mortgage repayment deferrals



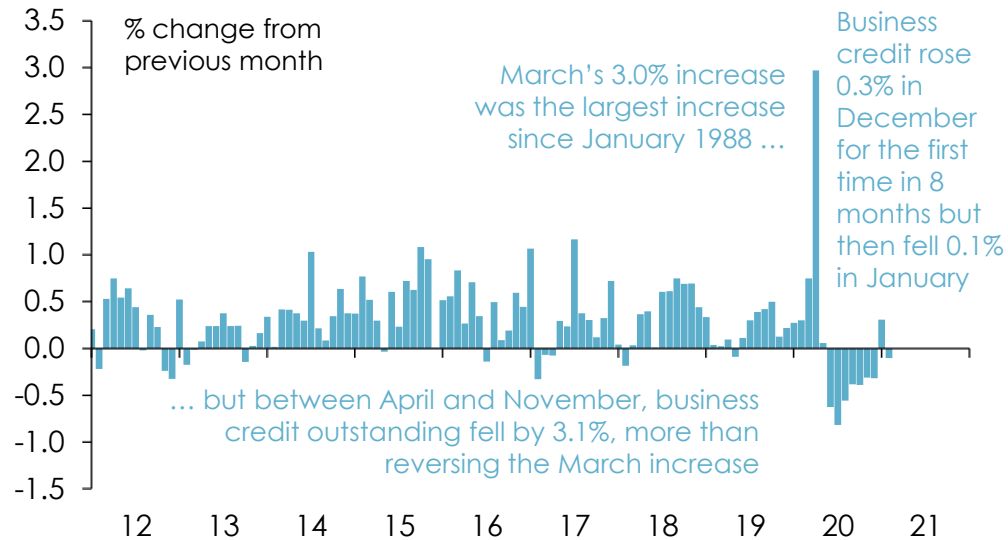
## SME loan repayment deferrals



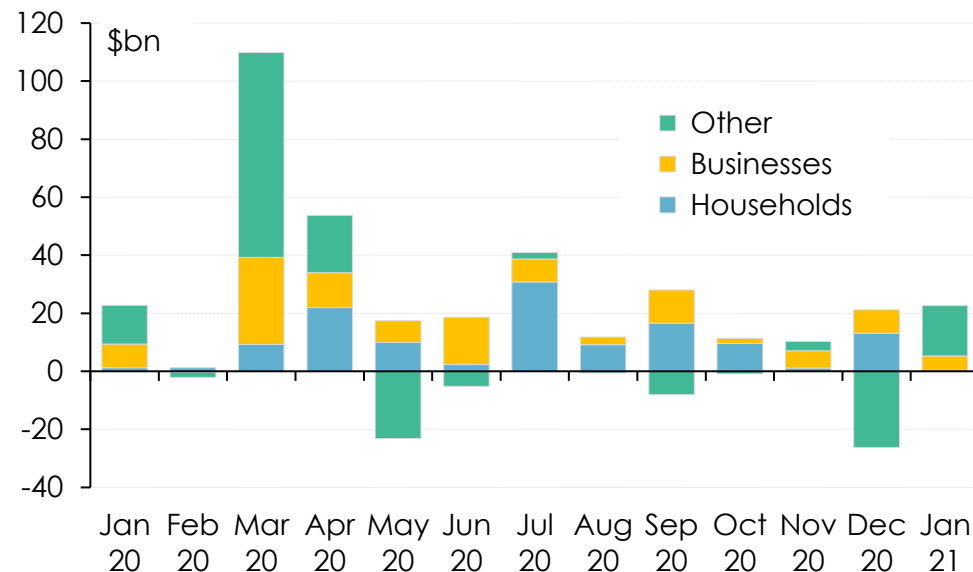
Note: Weekly payroll jobs data are not seasonally adjusted: as noted in [slide 94](#) the decline in the last two weeks of December and first week of January is consistent with normal seasonal patterns. Sources: [ABS](#); [Australian Financial Security Authority](#); [Australian Prudential Regulatory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

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

## Business credit outstanding



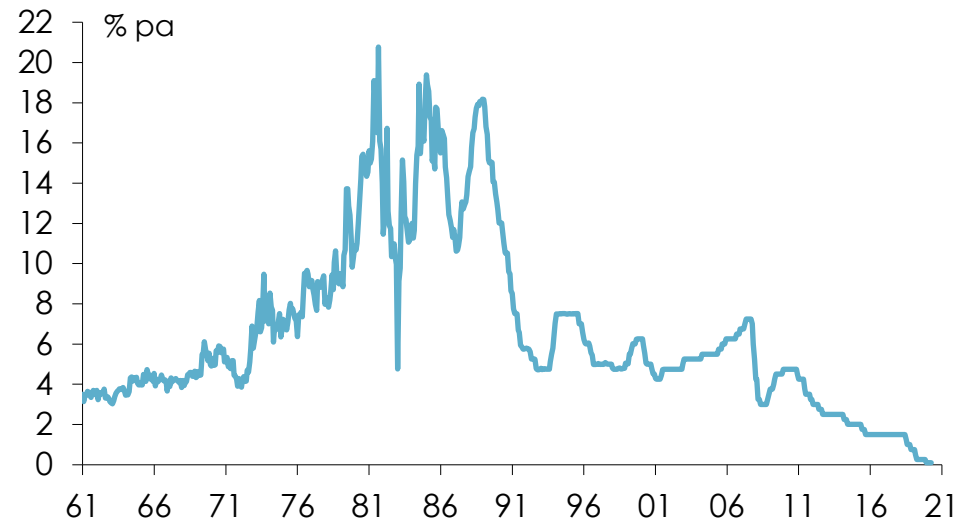
## Monthly change in bank deposits



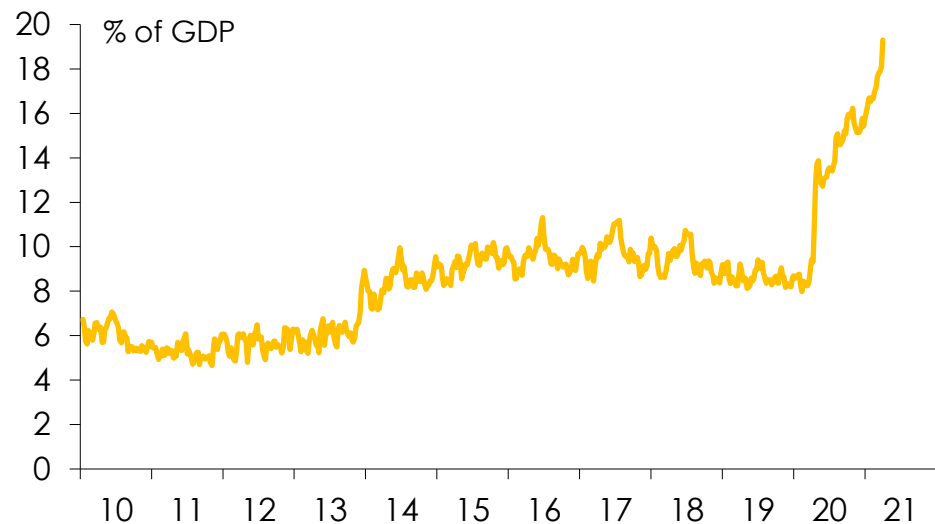
- ❑ Banks have cut interest rates on small business loans by more than the official cash rate since June last year (when the RBA started cutting rates again)
- ❑ Banks have made credit readily available when needed – particularly in the early stages of the pandemic
- ❑ Banks extended ‘repayment holidays’ 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 less than 2% as of end-January (see [slide 129](#))
- ❑ 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 last February – of which \$36bn has been sourced from early release of superannuation savings – while business deposits have risen by \$109bn (18¼%)

# 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

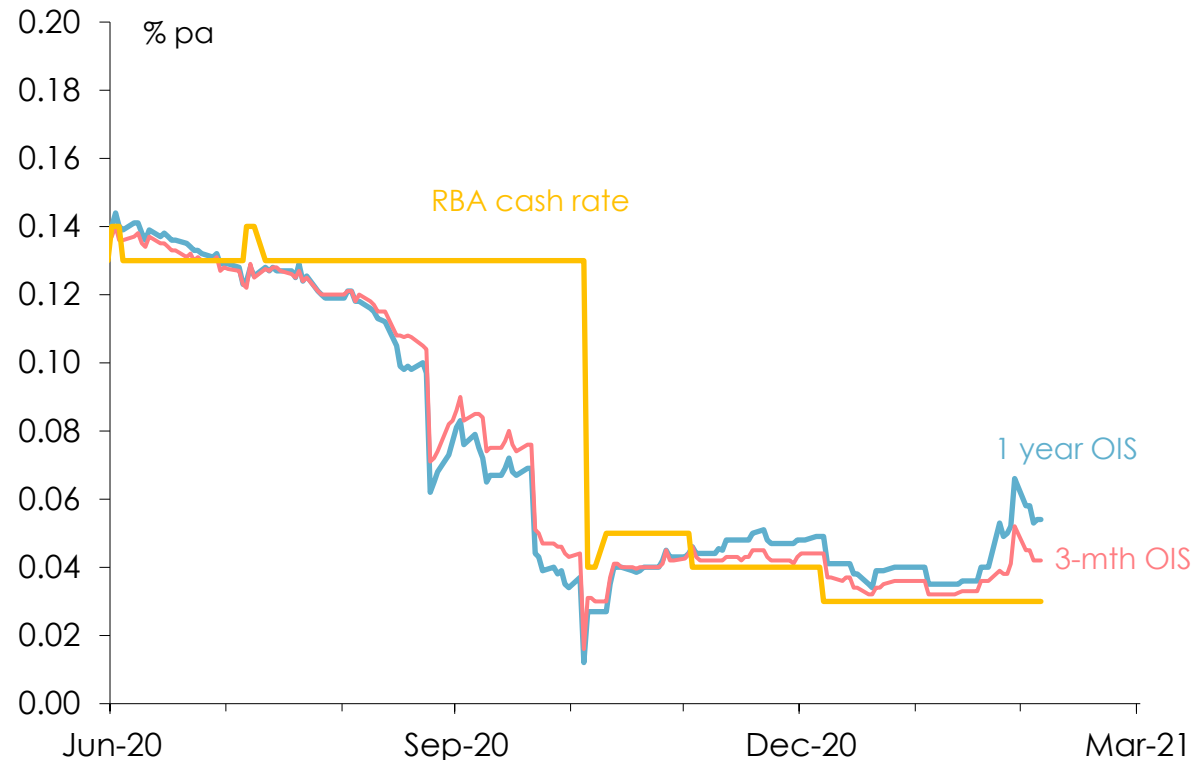


Source: Reserve Bank of Australia, [Statistical Tables](#) A3 and F1.1.  
[Return to "What's New"](#).

- ❑ 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 again left all its monetary policy settings unchanged at its latest meeting this past Tuesday
  - and re-iterated its previous 'guidance' that it will "not increase the cash rate until *actual* inflation is *sustainably* within the 2-3% target range", which would require "wages growth to be materially higher than it is currently" for which "a return to a tight labour market" is a pre-requisite ...
  - conditions which it "does not expect to be met ... until 2024 at the earliest"
- ❑ 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 \$79.3bn
  - a Fed or ECB-style 'Bond Purchase Program' targeting 5-10 year yields, under which it has since November purchased \$77bn – and which it last 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 \$91.4bn out of a potential \$185bn (including \$¾bn 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 the exchange rate by about 5% (from what it otherwise would have been)

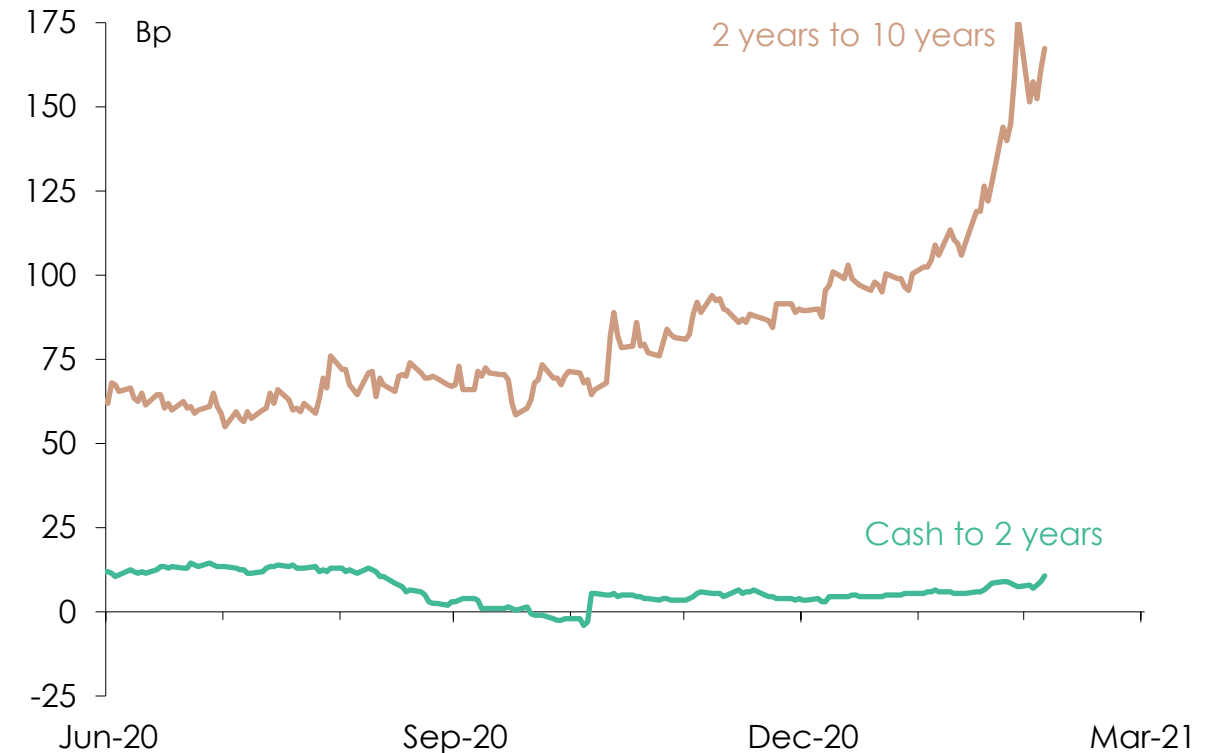
# Last week markets began to ponder the possibility that interest rates could rise before '2024 at the earliest' – this week they stepped back from that

## Overnight index swap rates



- ❑ **3- and 12-month OIS rates eased back 1-2 basis points this week, after rising 2-3 basis points last week – implying markets still see very little chance of rates rising this year (although the probability isn't zero as it was prior to last week)**

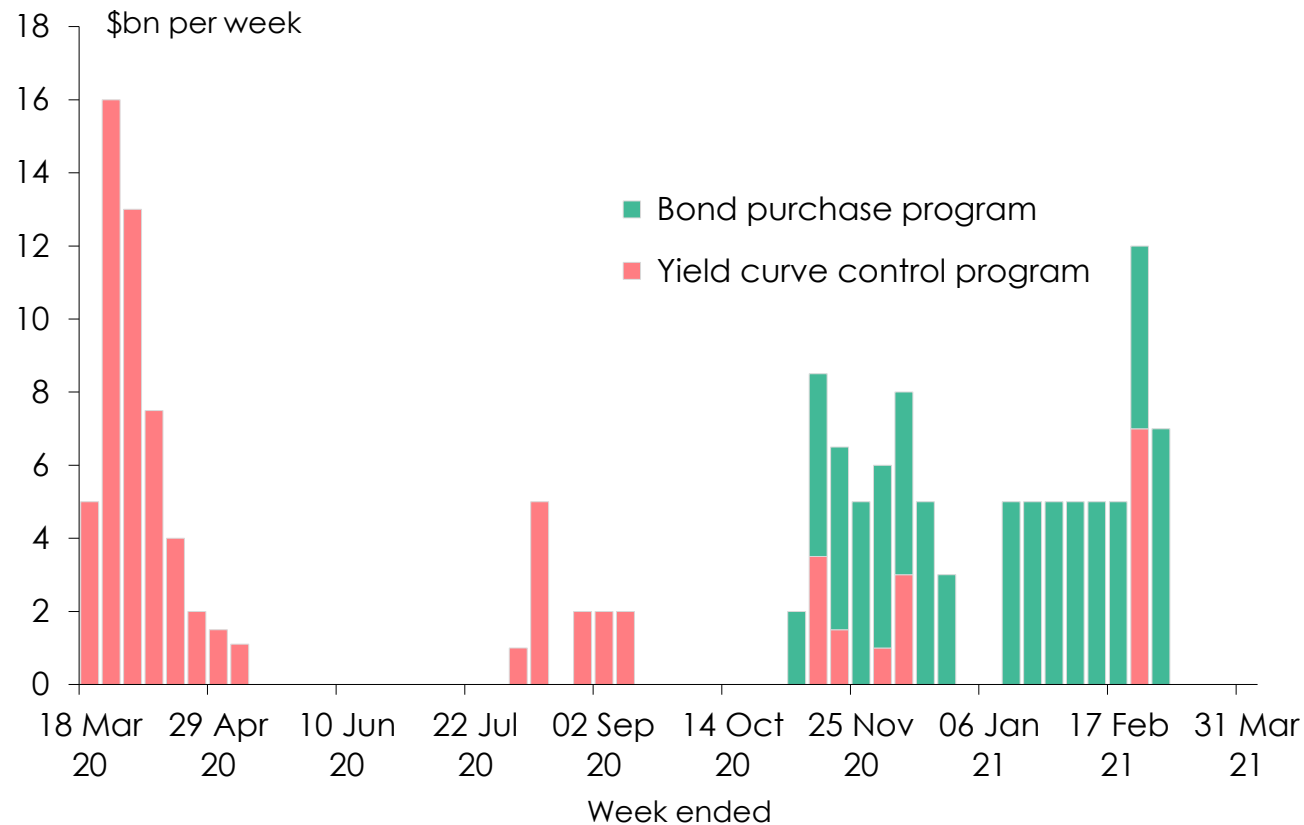
## Yield curves



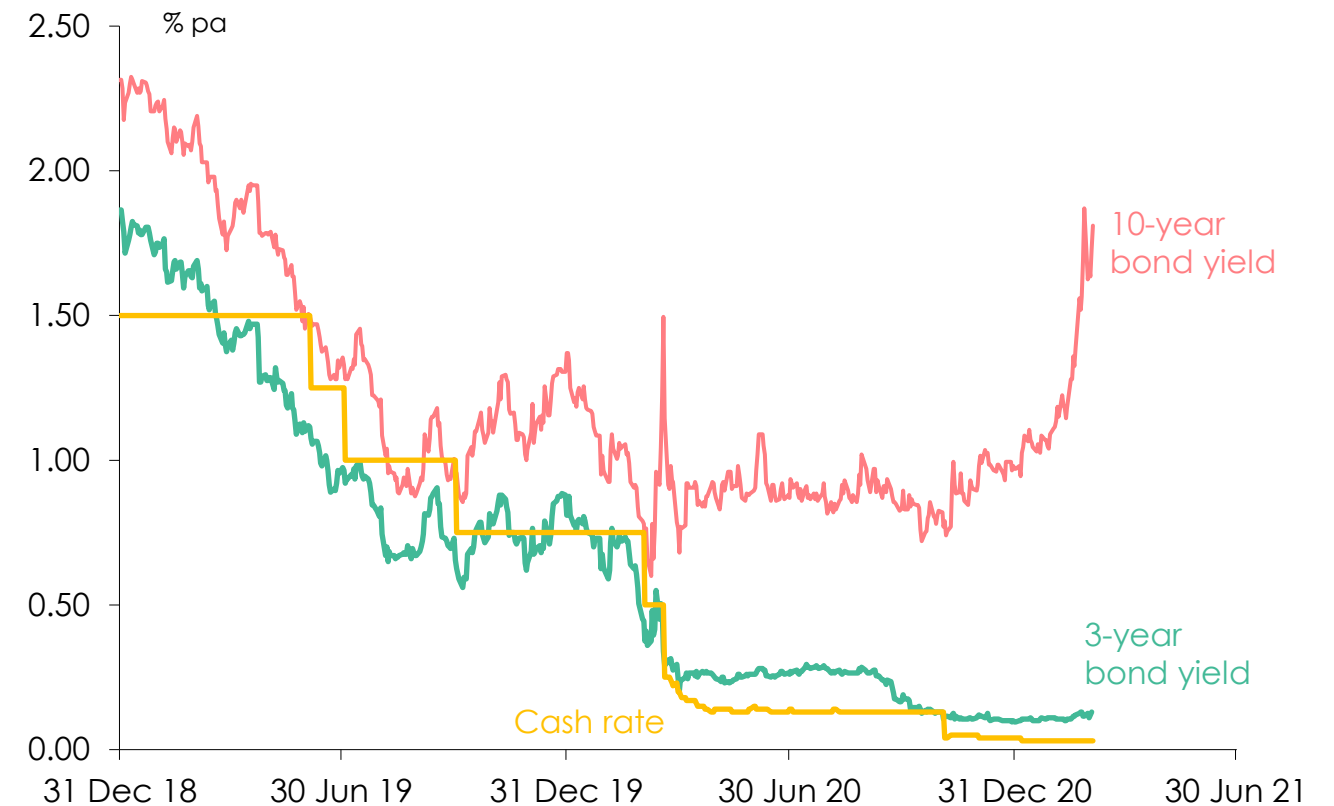
- ❑ **The 2-year / 10-year yield spread narrowed by 9 basis points over the course of this week, reversing about one-third of last week's 30 bp widening – but is still around 70 bp higher than it was at the beginning of the year, implying that markets do see some prospect of rates rising before 2024**

# Big purchases by the RBA at the beginning of this week helped push bond yields down, but they then backed up again over the last two days

## RBA open market bond purchases



## Interest rates

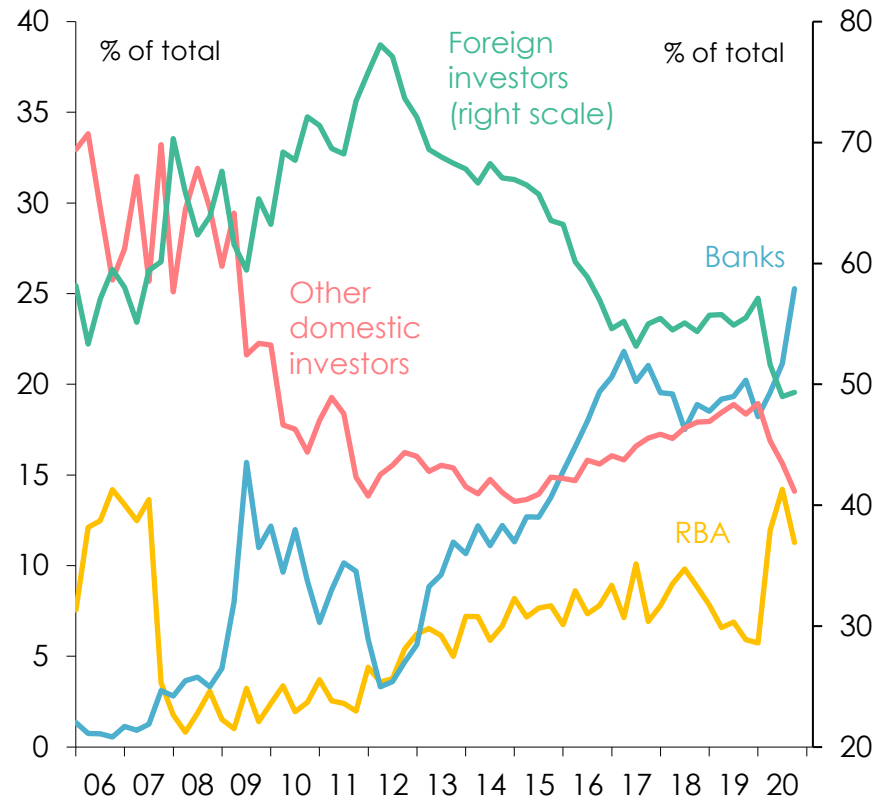


- ❑ The RBA this week bought \$7bn of bonds under its Bond Purchase Program (the biggest total thus far), doubling its normal \$2bn purchase on Monday – but it didn't buy any bonds under its YCC program, after last week's \$7bn outlay (the largest since March last year)

- ❑ 10-year yields dropped 24bp on Monday after the RBA's big purchase on Monday, reversing half of last week's 48 bp rise, but then back up again by 17bp over the last two days of the week to finish at 1.81% - whereas 3-year yields were again little changed

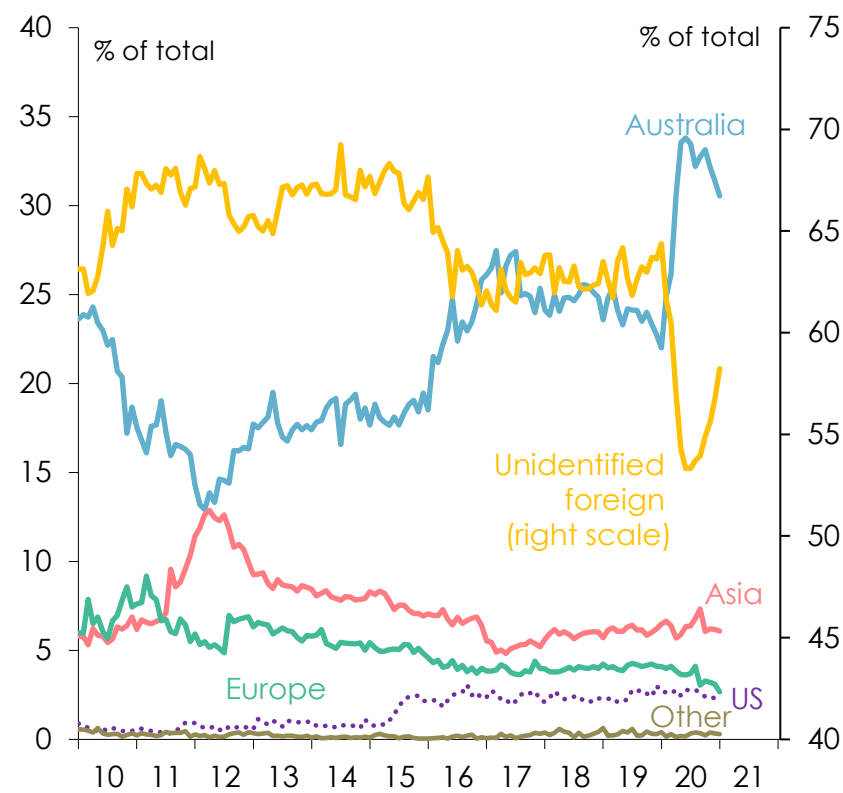
# Domestic banks increased their holdings of federal, state and territory government bonds by \$160bn over the first three quarters of 2020

## Holder of Australian Government bonds



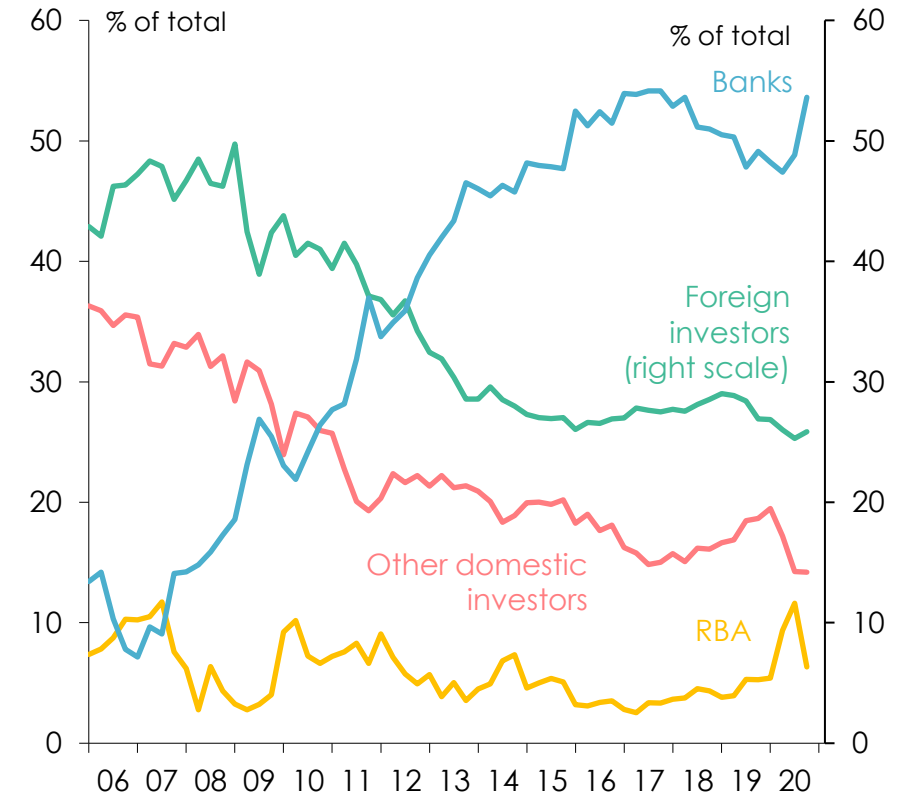
Australian Gov't bonds on issue rose by \$221bn over the first three quarters of 2020 – of which domestic banks absorbed \$101bn, and the RBA and foreign investors \$60bn each

## Nationality of Australian Government bond holders



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

## Holder of State and Territory Government bonds



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

# Longer-term considerations for Australia

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

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

## ❑ Population growth

- Australia's population grew at an average annual rate of 1.5% pa over the 19 years to 2019, compared with 0.6% pa for all 'advanced' economies
- net immigration accounted for 58% of this growth – ie, in the absence of immigration Australia's population would have grown by only 0.7% per annum, on average, and would have aged more rapidly

## ❑ Our unusual (for an 'advanced' economy) economic relationship with China

- China's rapid economic growth, industrialization and urbanization significantly boosted both the volumes and prices of many of our commodity exports, under-wrote the post-GFC mining investment boom, pushed down the prices of many of the things which we import, and contributed significantly to the growth of our tourism and education sectors
- By contrast, China's rapid economic growth undermined the competitiveness of manufacturing industries which account for a much larger share of most other 'advanced' economies, put downward pressure on the prices of their exports and put upward pressure on the prices of commodities which they import

## ❑ The 'housing boom'

- Australia's 'housing boom' started earlier (mid-1990s) and ended later (2017, rather than 2007-08) than in most other 'advanced' economies (some – such as Japan, Italy and France – didn't have a housing boom at all)
- the two-way interaction between rising house prices and rising household debt underwrote stronger growth in household consumption spending, for longer, than would have occurred otherwise

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

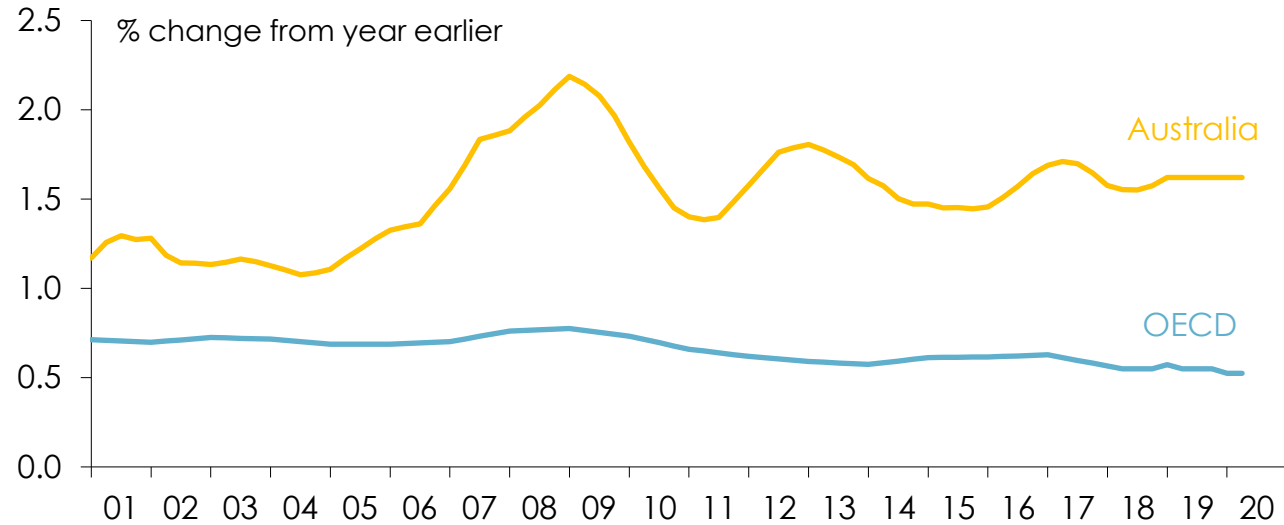
- although we haven't done nearly as well as we once did on the micro-economic front (especially with regard to productivity)

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

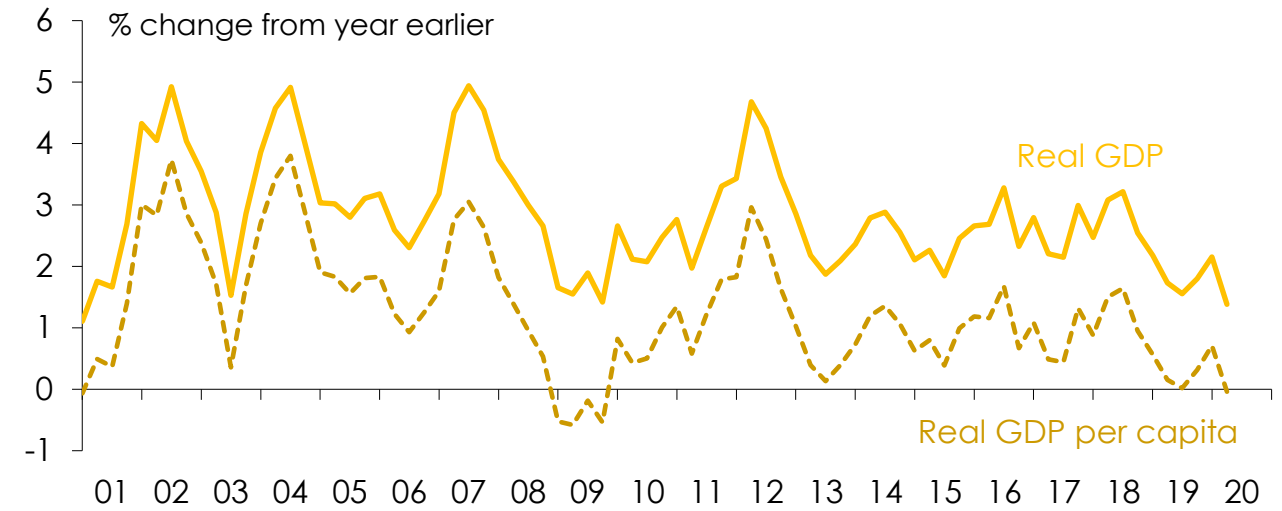


# Australia's above-average economic growth over the past 20 years owes a lot to above-average population growth: that's about to change

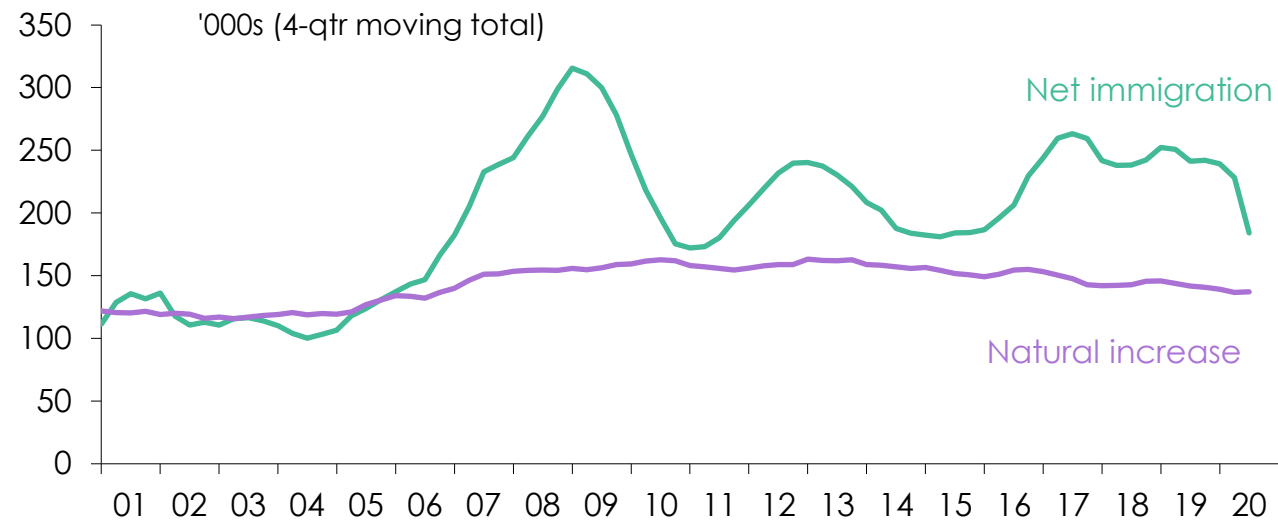
## Australia and OECD population growth



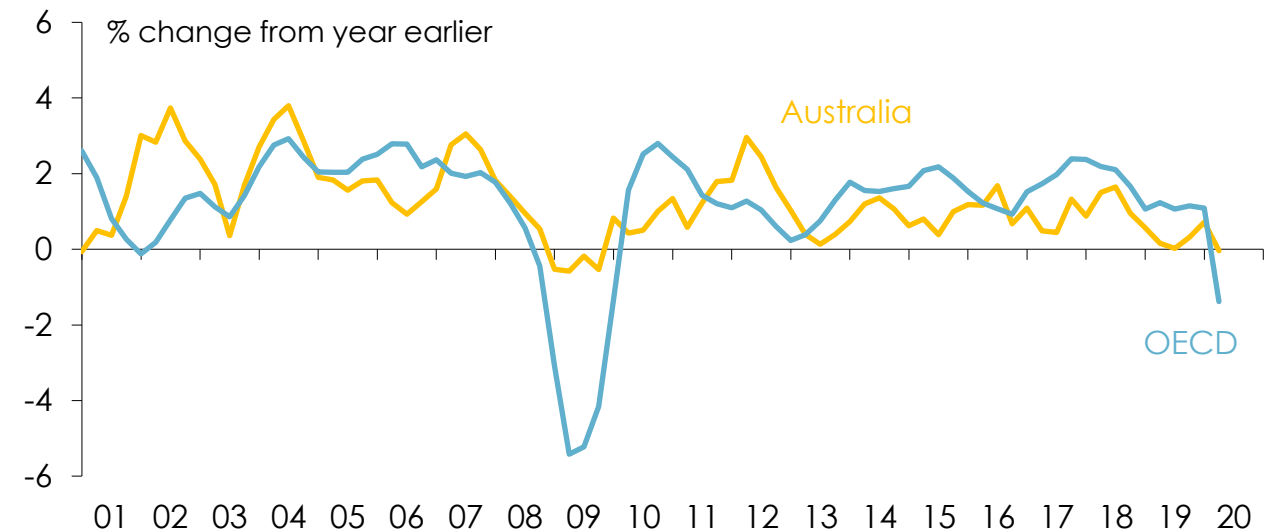
## Australian GDP and per capita GDP growth



## Sources of Australia's population growth



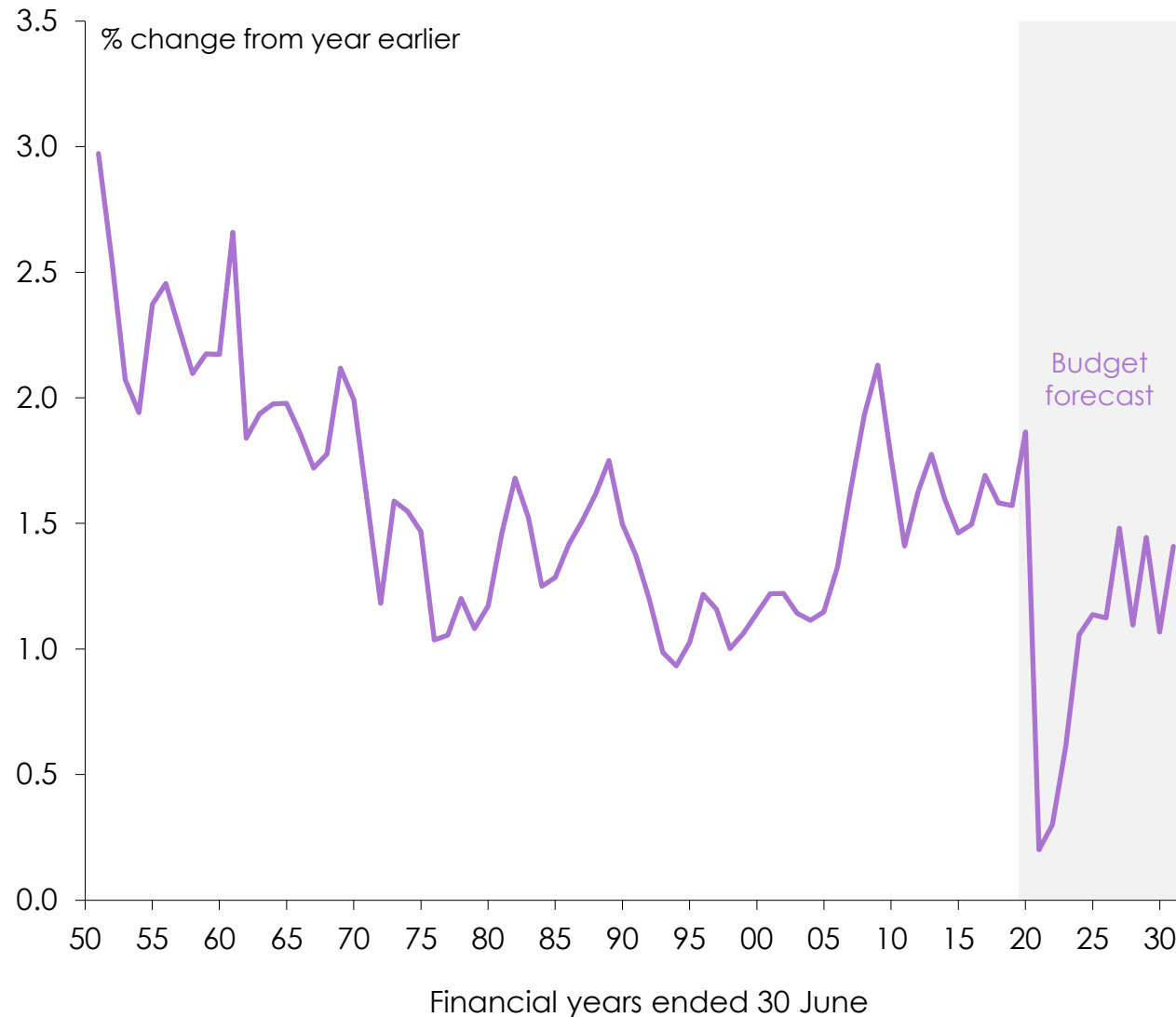
## Australia and OECD per capita real GDP growth



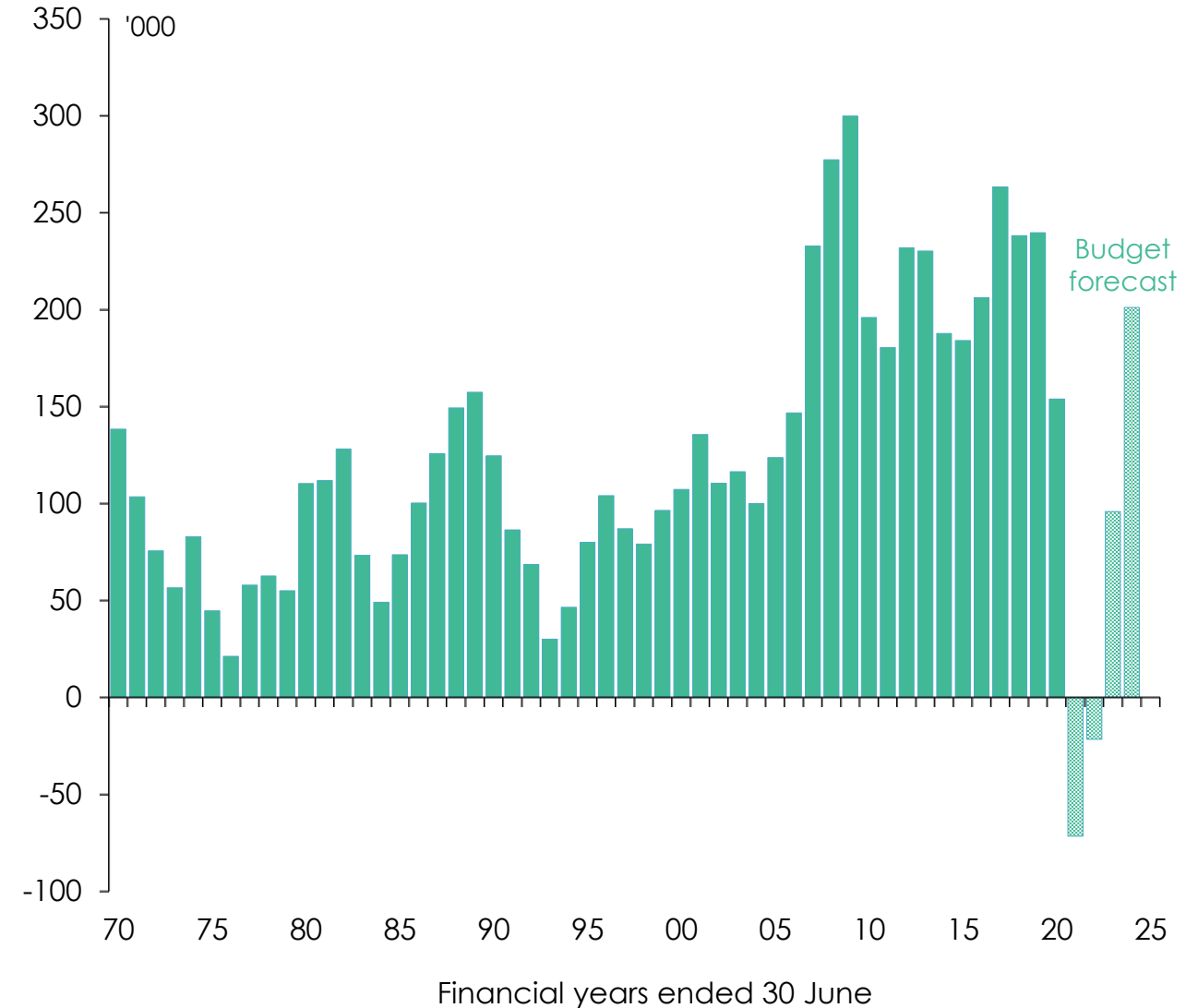
Note: Q2 and Q3 2020 data not shown in the charts of GDP and per capita GDP growth. Sources: ABS; OECD. [Return to "What's New"](#).

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

## Population growth



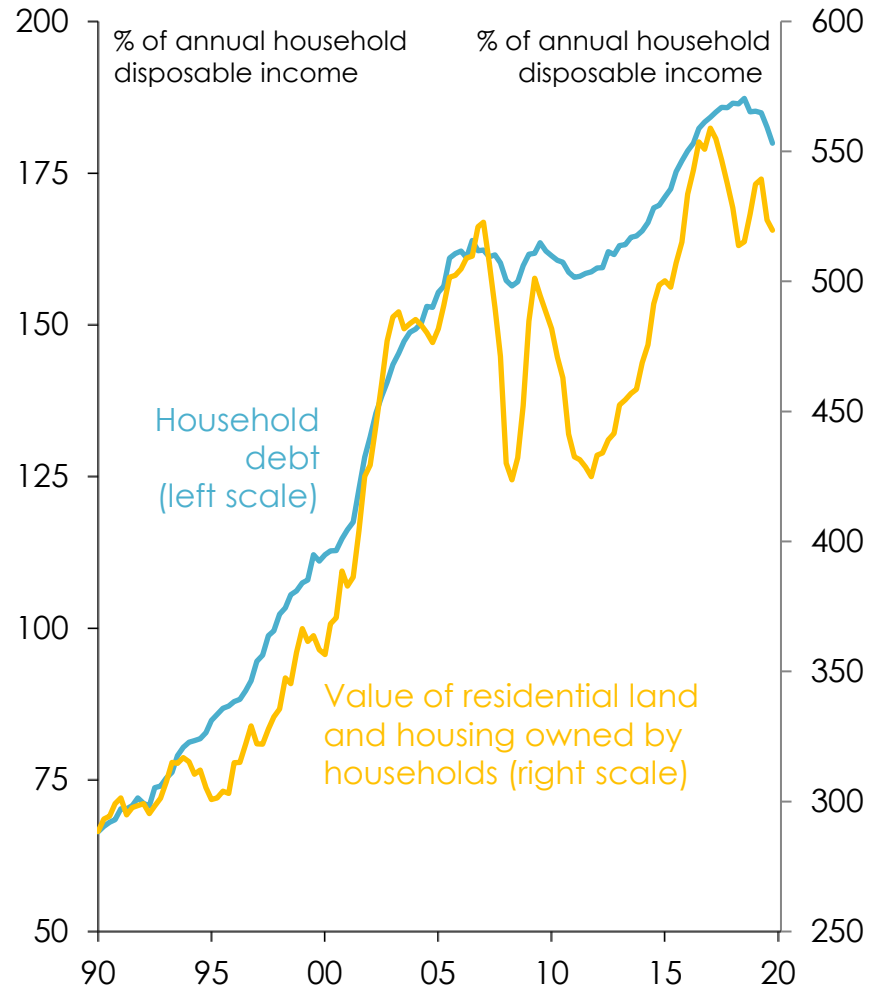
## Net overseas migration



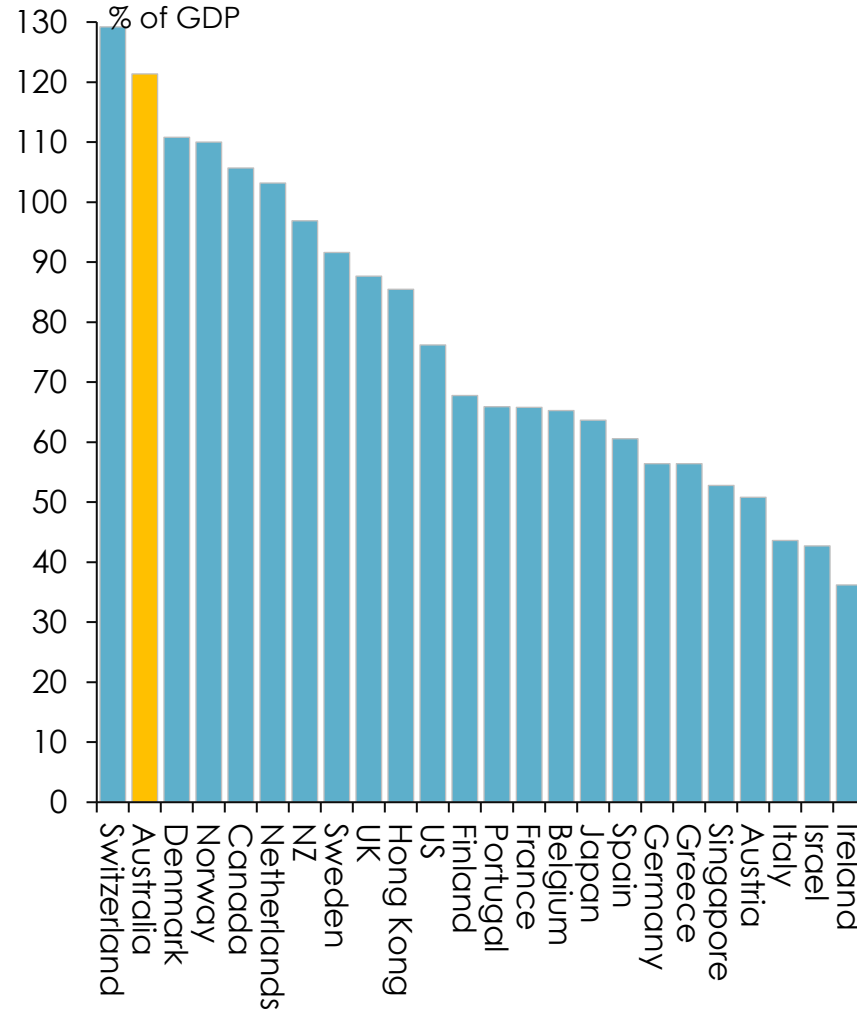
Sources: ABS, [National, state and territory population](#); Australian Government, 2020-21 [Budget Paper No. 1, Statement No. 2](#) and [Budget Paper No. 3, Appendix A](#).  
[Return to "What's New"](#).

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

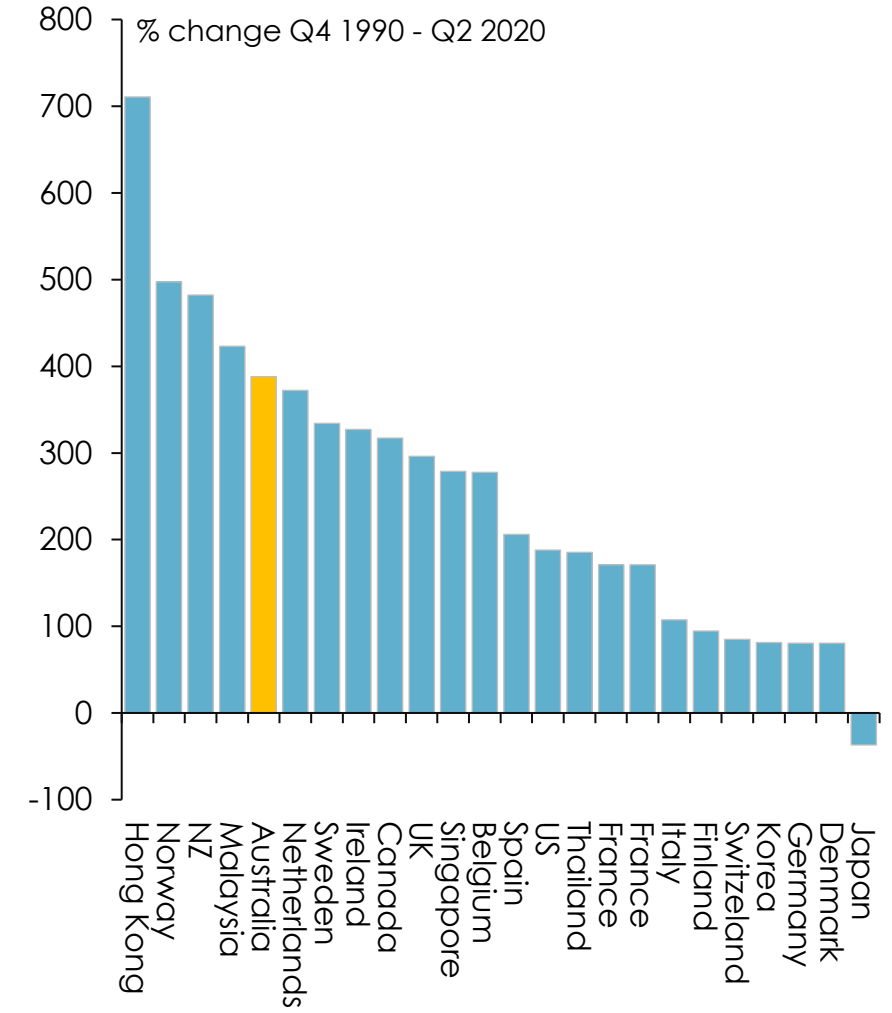
## Australian housing wealth and household debt



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



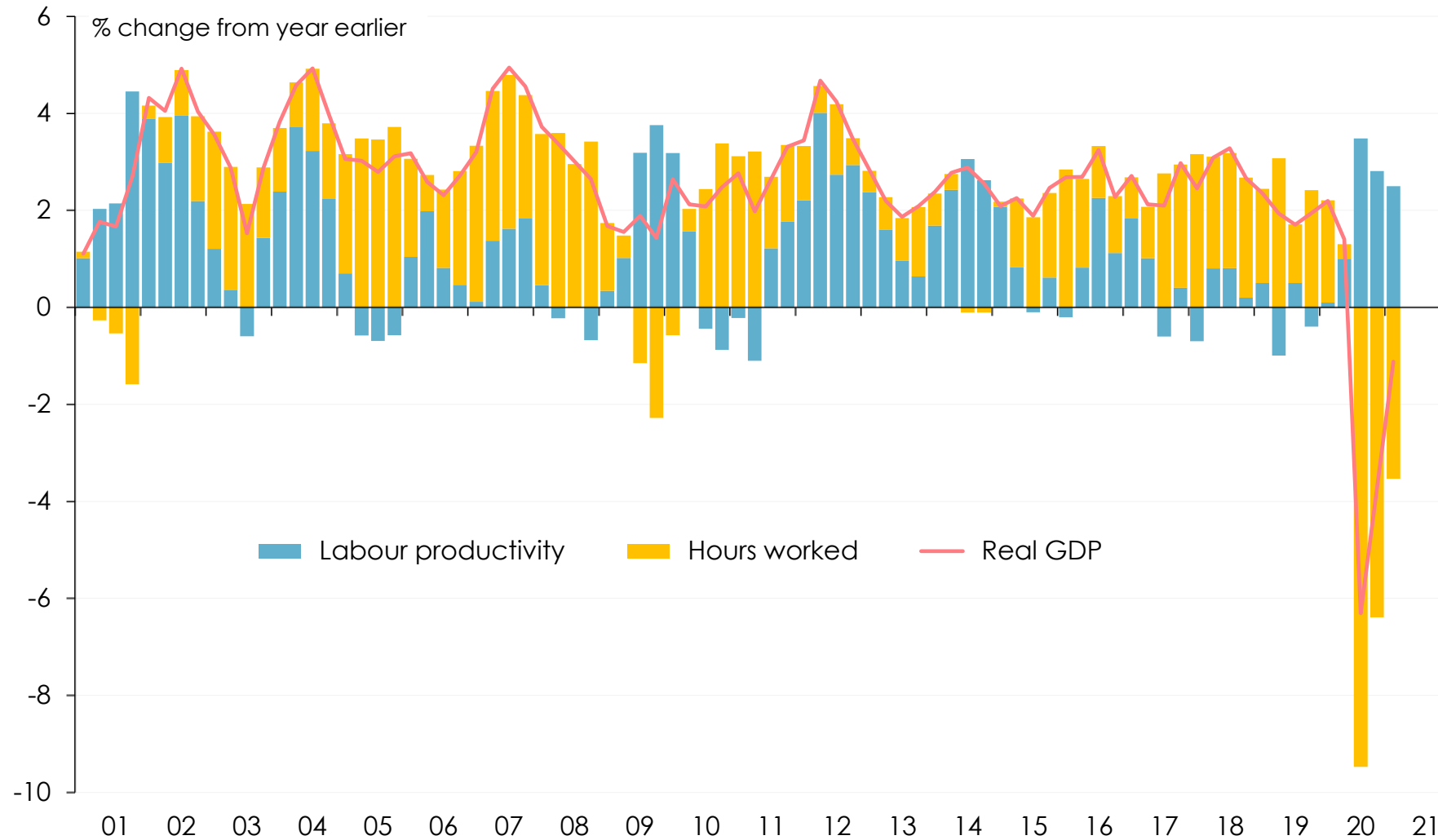
## Increase in residential property prices, 1990-2020



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

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

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



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

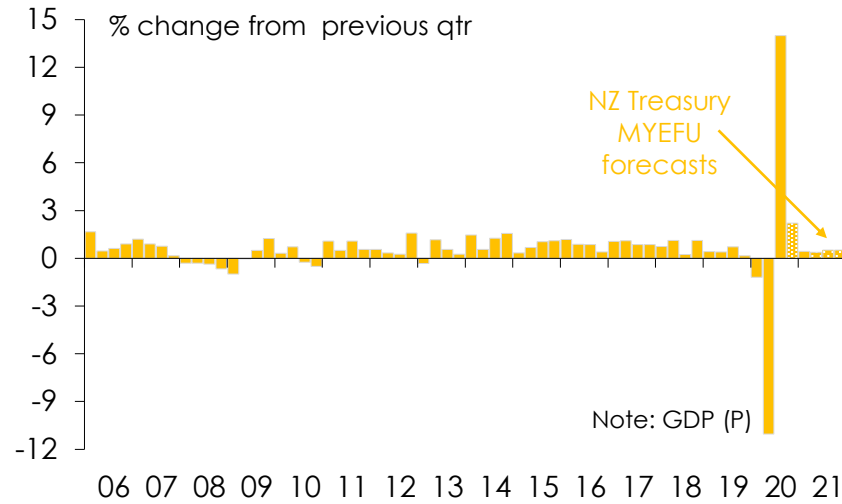
# Some other likely / possible longer-term consequences of the pandemic

- ❑ **An accelerated retreat from ‘globalization’**
  - prompted by mistrust of international supply chains and desire for greater self-sufficiency in ‘essential’ products
  - greater government control over movement of people and capital across international borders likely to persist
- ❑ **Accelerated digitization**
  - more rapid take-up of digital ways of searching for and collecting information, conducting transactions, accessing services (including public services), and organizing work
  - but also raising important equity issues for people who lack access to or confidence in dealing with the digital world
- ❑ **Changes in ways of working**
  - at least some employers and employees are likely to maintain the option of (or preference for) ‘working from home’
- ❑ **Possible reversal of the long-term drift of population to capital cities from regional centres, and within capital cities a decline in the importance of CBDs, as more people choose to work from home and employers let them**
- ❑ **Diminished use of mass transit**
  - obviously urban public transport, but also civil aviation
- ❑ **Accelerated decline in the use of cash for transactions**
  - but (as we are seeing) not necessarily as a store of value (the ‘opportunity cost’ of holding cash is much diminished in an environment of zero or near-zero interest rates)
- ❑ **Greater expectations of government**
  - having done things previously considered ‘unthinkable’ during this downturn, governments may be expected to do more during future downturns – or to respond to other issues (eg climate change)
- ❑ **A reduced role for (conventional) monetary policy in managing economic cycles**
  - implying a greater role for fiscal policy (or, alternatively, bigger and perhaps more frequent cycles)

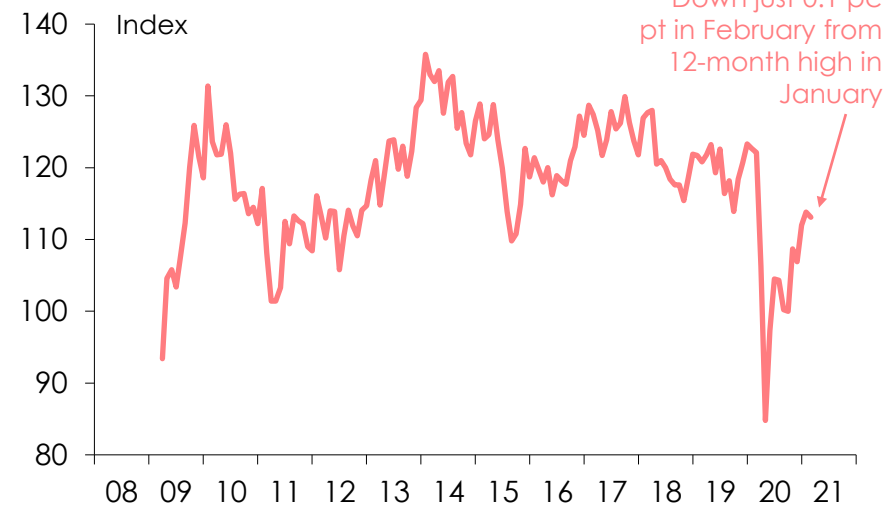
**New Zealand**

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

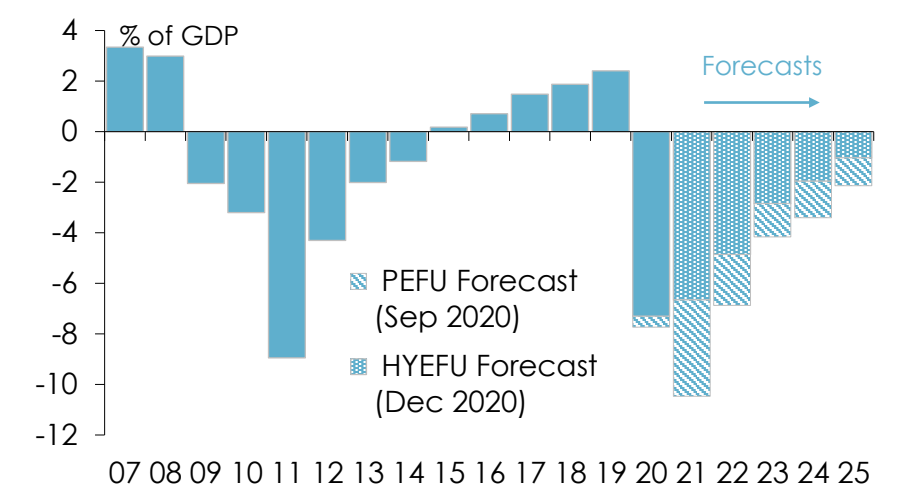
## Real GDP



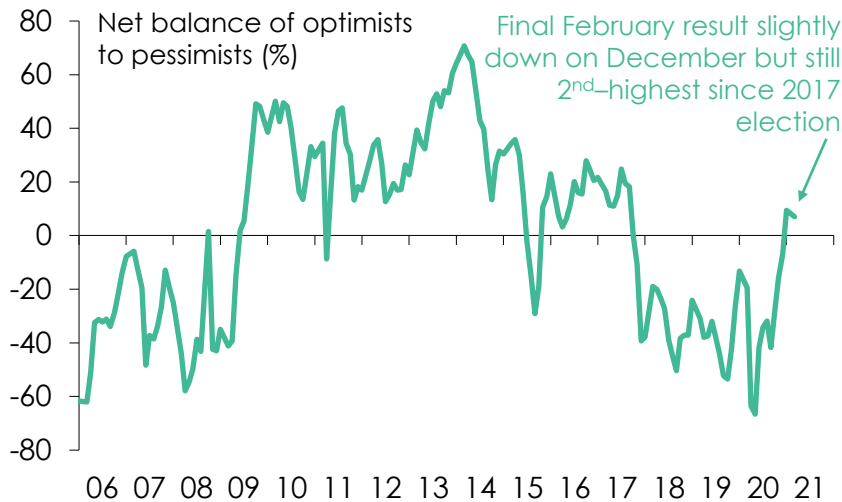
## Consumer confidence



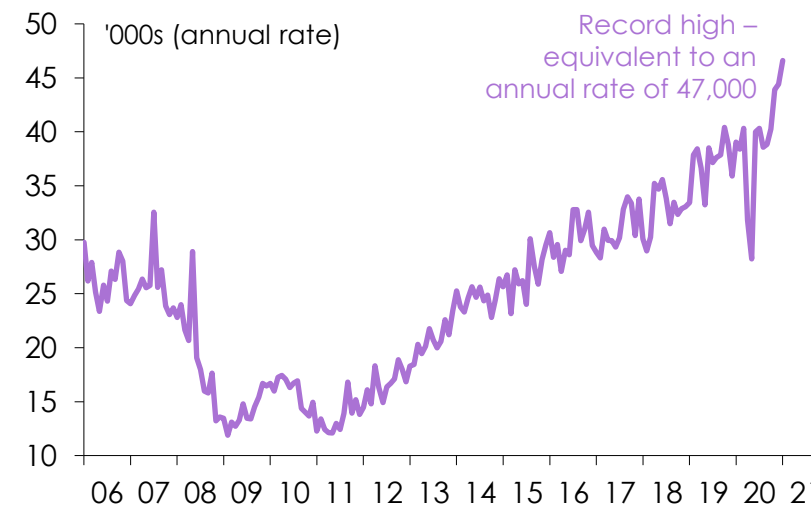
## NZ government budget balance



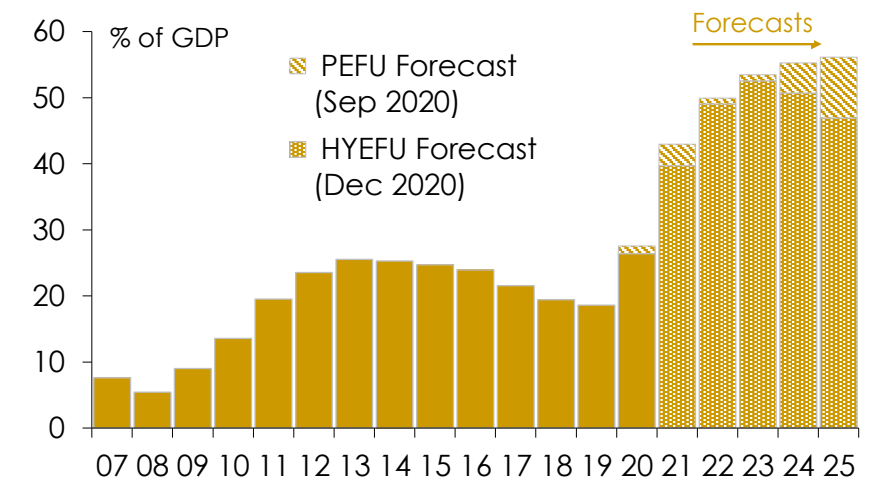
## Business confidence



## Dwelling 'consents' (permits)



## NZ 'core Crown debt'

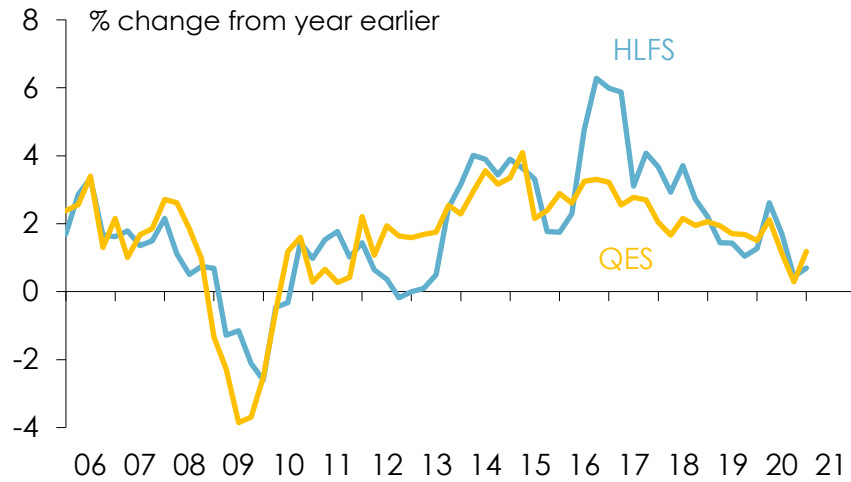


Note: New Zealand uses GDP(P) as its preferred measure of GDP. Unemployment rates are quarterly. The measure of the NZ Government budget balance is 'OBEGAL', which stands for 'operating balance excluding gains and losses' (an accrual accounting measure). Net 'core Crown debt' excludes assets of the NZ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

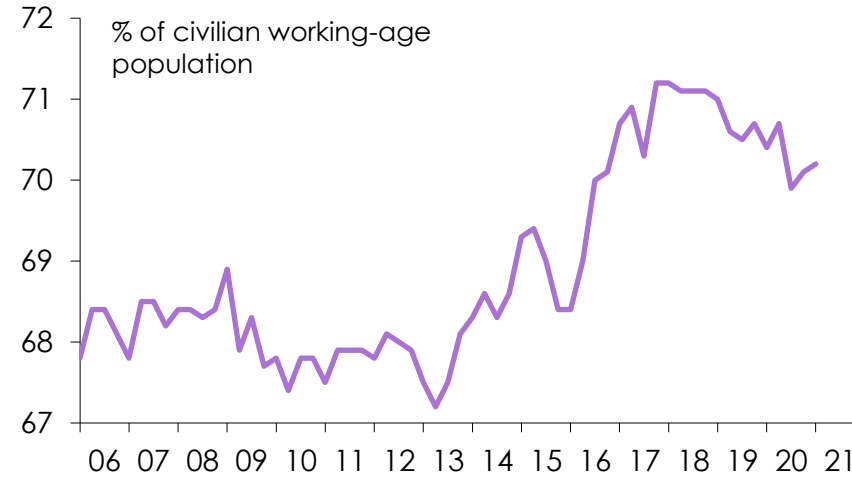
Sources: [Statistics NZ](#); ANZ-Roy Morgan; [ANZ Bank NZ](#); NZ Treasury [Half-Year Economic and Fiscal Update](#) 2020. [Return to "What's New"](#).

# 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%

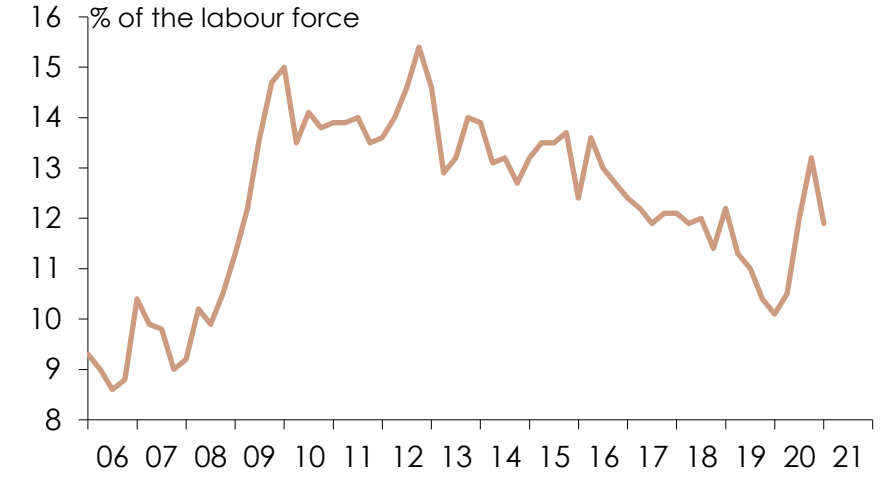
## Employment



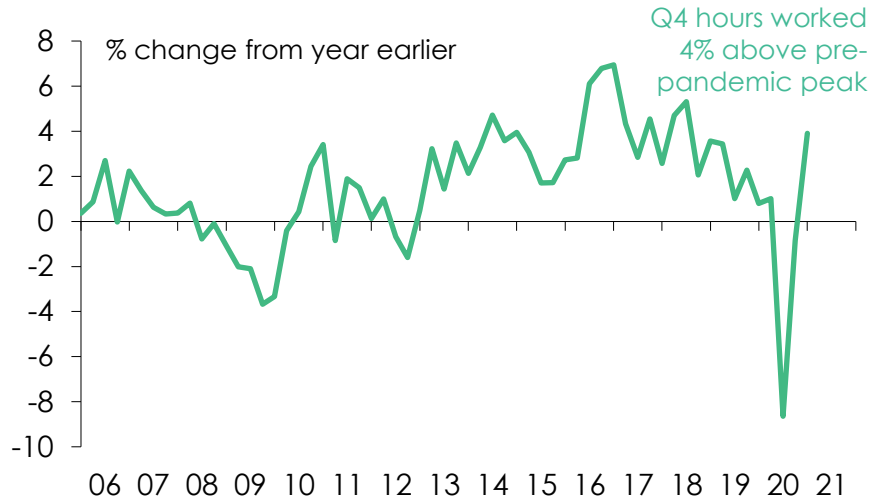
## Labour force participation rate



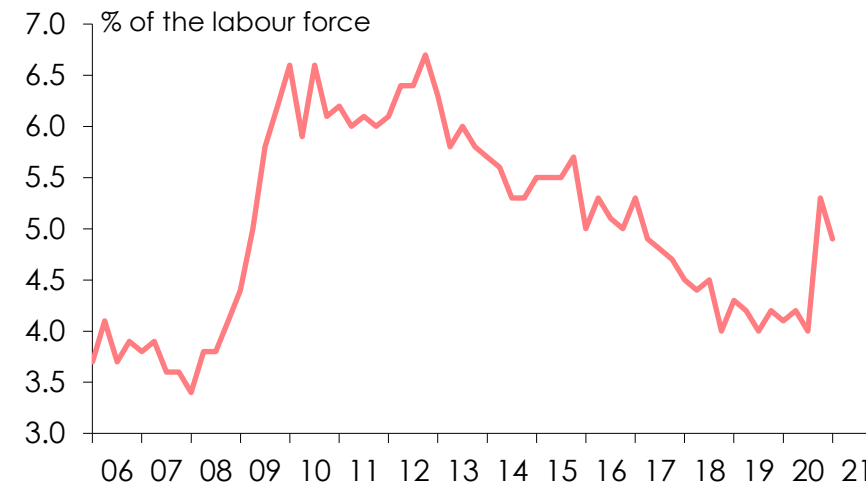
## Labour force under-utilization rate



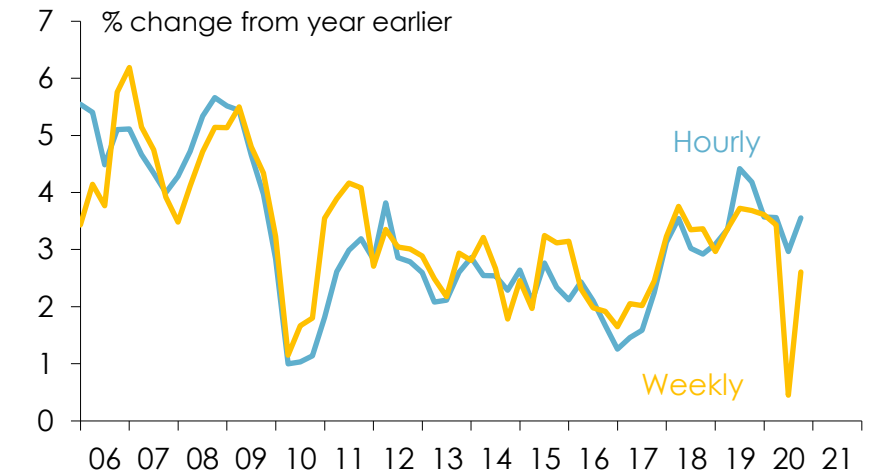
## Hours worked



## Unemployment rate



## Average weekly earnings



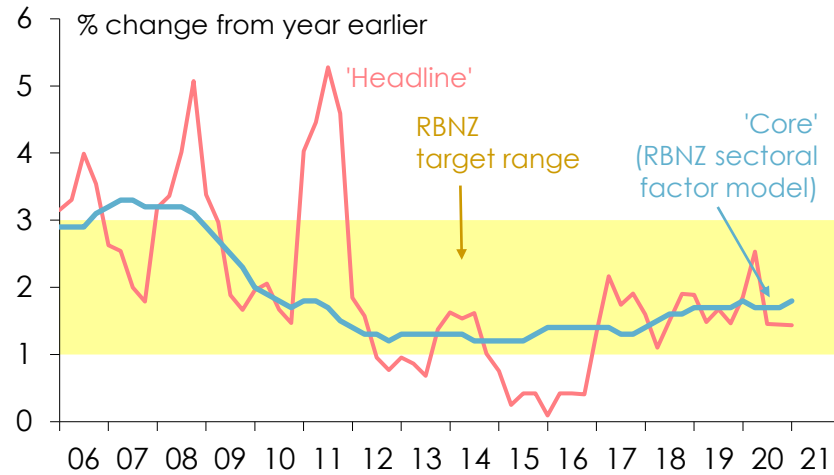
Note: New Zealand labour force data are only published quarterly. There are two 'headline' series on employment – the household labour force survey (HLFS) which counts the number of people in employment during the quarter; and the quarterly employment survey (QES), which counts the number of 'filled 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 7<sup>th</sup> April. [Return to "What's New"](#).

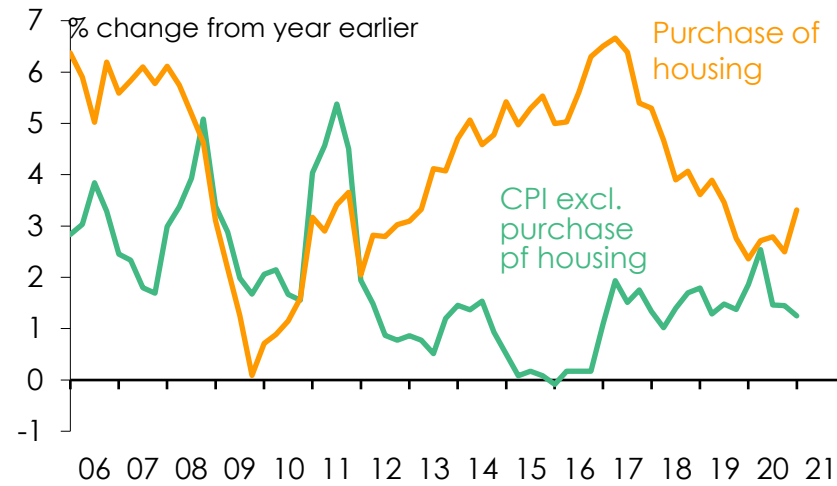


# Consumer prices rose 0.5% in Q4 2020 leaving the annual 'headline' inflation rate unchanged at 1.4%

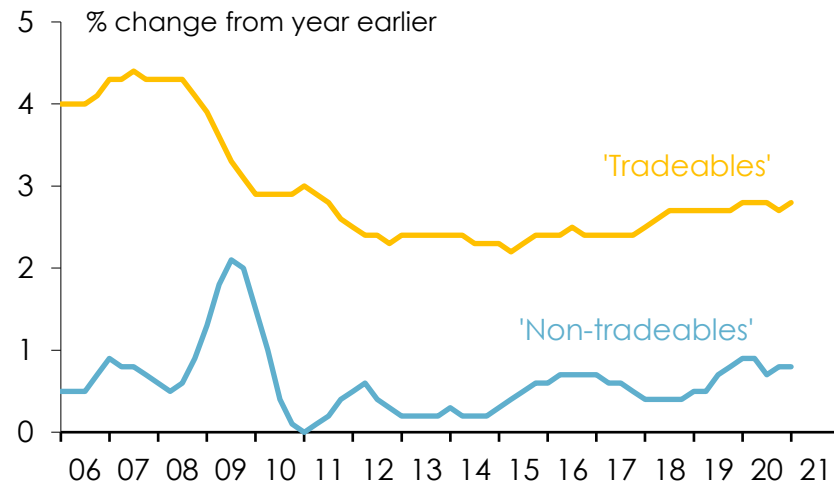
## Consumer prices



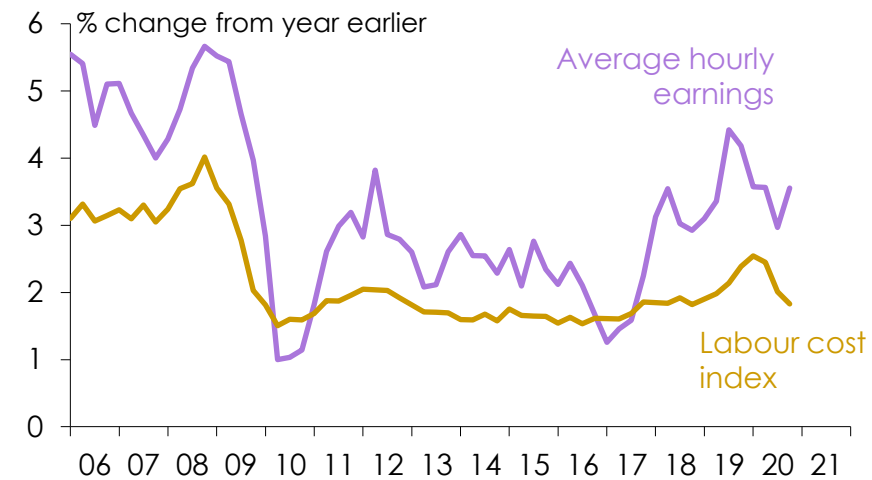
## Housing costs in the CPI



## Components of 'core' inflation



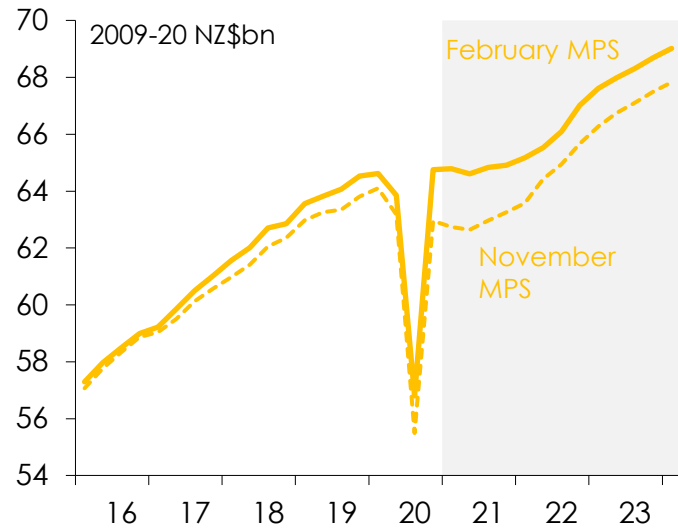
## Labour costs



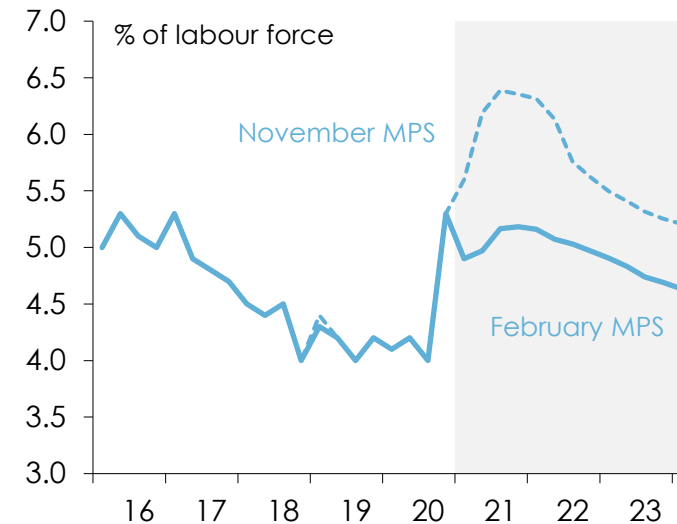
- ❑ The CPI rose 0.5% in Q4 2020, after a 0.7% rise in Q3, leaving the annual 'headline' inflation rate unchanged at 1.4%
- ❑ Main factors driving the Q4 increase were a 20% increase in 'domestic accommodation' prices (hotels, etc) reversing falls over the two previous quarters, a 4.6% increase in used car prices, steep price rises for household furniture and appliances, and international airfares, partly offset by an 1.7% fall in food prices
- ❑ The RBNZ's preferred measure of 'core' annual inflation ticked up 0.1 pc pt to 1.8%, reflecting a marginal increase in core 'tradeables' inflation – but has now been 1.7% or 1.8% for nine consecutive quarters
- ❑ The RBNZ'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

# RBNZ last week upgraded its economic forecasts but reiterated it would take ‘considerable time and patience’ before changing its policy stance

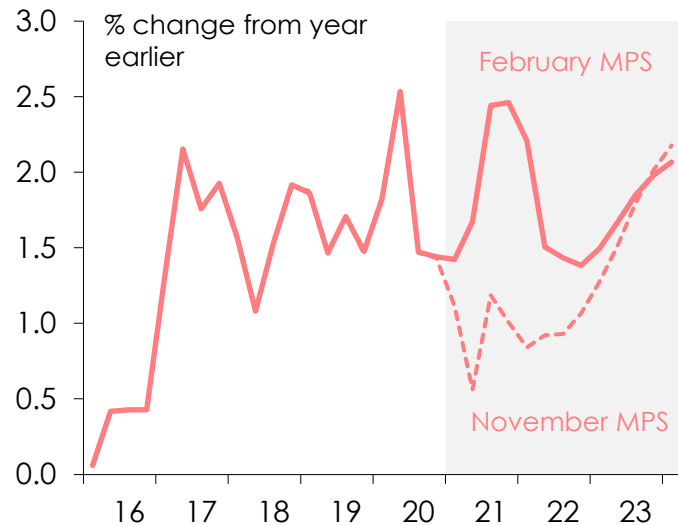
## GDP



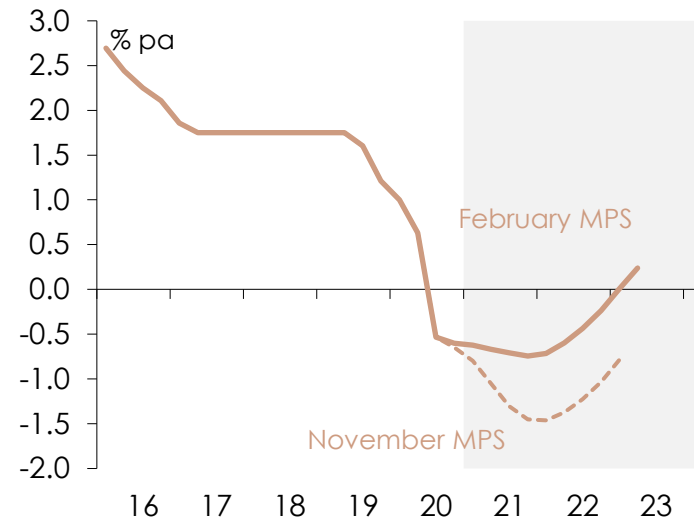
## Unemployment



## Inflation



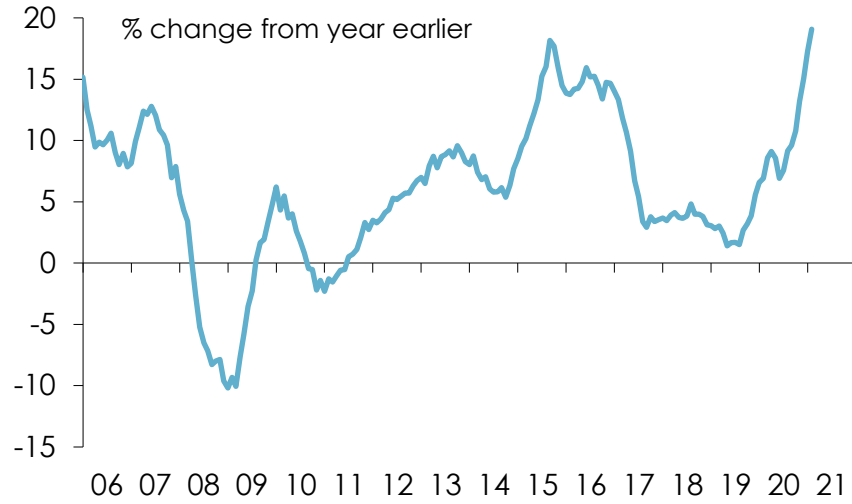
## ‘Unconstrained’ cash rate



- ❑ 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 last month 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

# 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

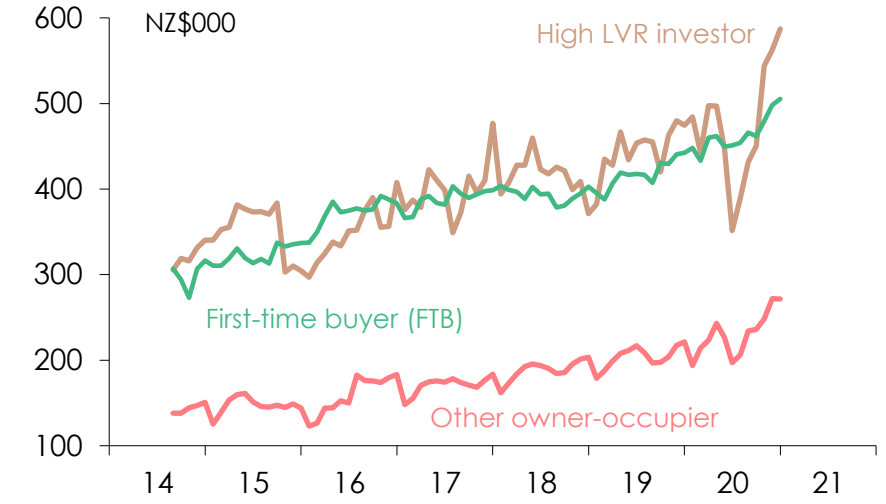
## House price inflation



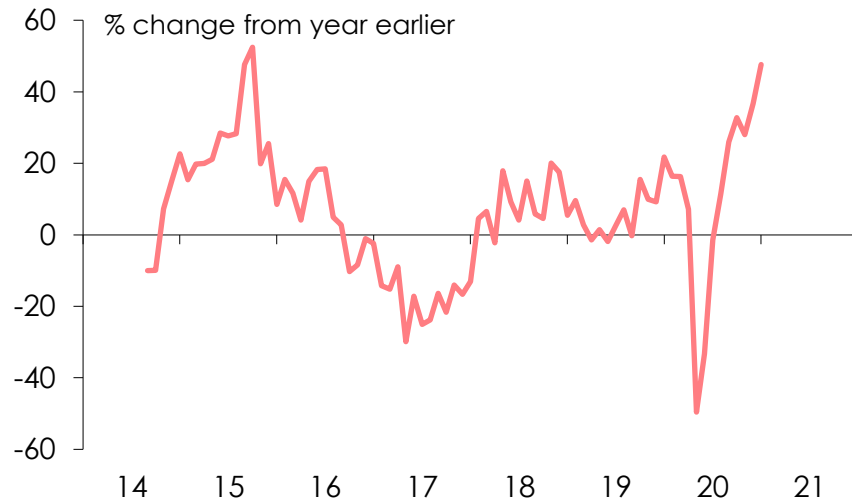
## Lending to investors as pc of total



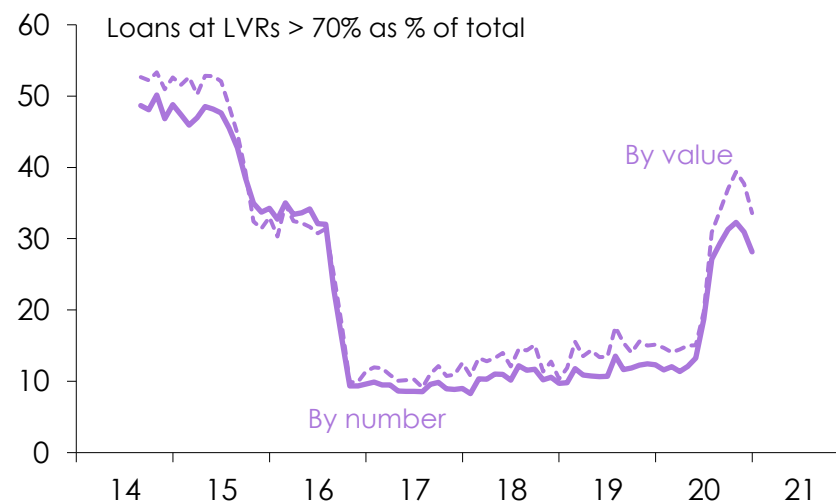
## Average new mortgage



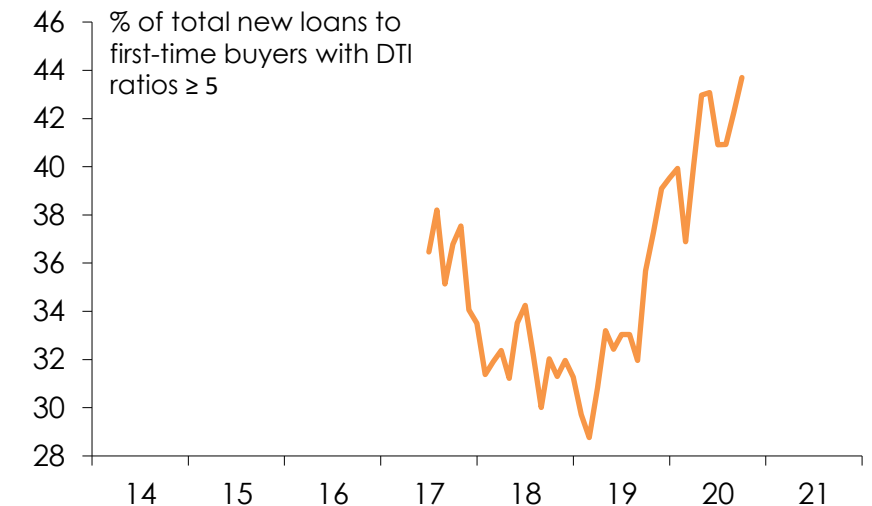
## Mortgage lending growth



## High-LVR loans to investors



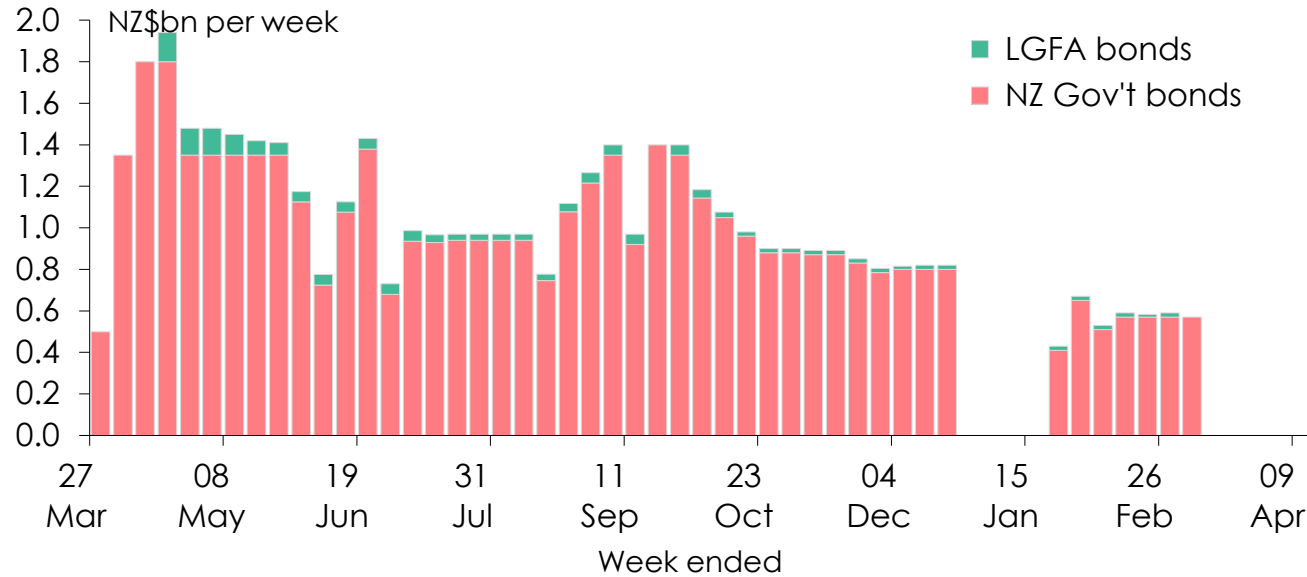
## Loans to FTBs at over 5 times income



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"](#).

# NZ bond yields followed a similar course to the US and Australia this week - 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\$570mn of bonds this week – bringing its total purchases to NZ\$47.1bn (14.7% of GDP) – while 10-year yields declined 26bp at the beginning of the week but then backed up 15bp (to 1.89%) by week's end
- ❑ There have been no drawings from the RBNZ's Funding for Lending facility since 28<sup>th</sup> January – total amount drawn stands at NZ\$1.14bn out of \$28bn available
- ❑ Last month the RBNZ announced tighter limits on lending at LVRs >80% (especially to investors), while last week the Government formally extended the RBNZ's remit to include house price stability, which probably presages more macro-prudential measures (such as limits on debt-to-income ratios) to come

## Important information

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

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