

ECONOMIC IMPACT OF THE CORONAVIRUS PANDEMIC

20TH MARCH 2021

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What's new?

The world

- ❑ There were just over 3.2 mn new Covid-19 cases world-wide this week, the highest number for six weeks (although still well below mid-December's peak of 5.2mn) and the death toll increased for the first time in six weeks ([slide 4](#))
- ❑ One-third of the increase in new infections this week occurred in continental Europe, with most of the rest accounted for by Brazil, Turkey, the US and India ([slide 5](#))
- ❑ More than half of Israel's population is now fully vaccinated, while more than one-third of the UK's and almost one-quarter of the US's have had at least one shot – but the roll-out in continental Europe and Asia remains very slow ([slide 18](#))
- ❑ As expected the Fed left monetary policy settings unchanged this week despite substantial upgrades to its forecasts for 2021 – though unlike the ECB last week it won't seek directly to counter rising bond yields ([slide 34](#))
- ❑ The Bank of England and the Bank of Japan also left their policy settings on hold this week, although the BoJ announced some 'tweaks' to its 'QQE with YCC' framework ([slide 35](#))
- ❑ Two other central banks did do something this week – Norway's central bank foreshadowed rate rises later this year, while Turkey's hiked its main policy rate by 2 pc pts to 19% ([slide 36](#))
- ❑ China's principal partial indicators for January-February were inflated by 'base effects' from last year's shutdown, but continue to show a stronger recovery in 'supply' than in domestic 'demand' – although exports are surging and China's trade surplus is likely to exceed 6% of GDP this year ([slides 45-46](#))

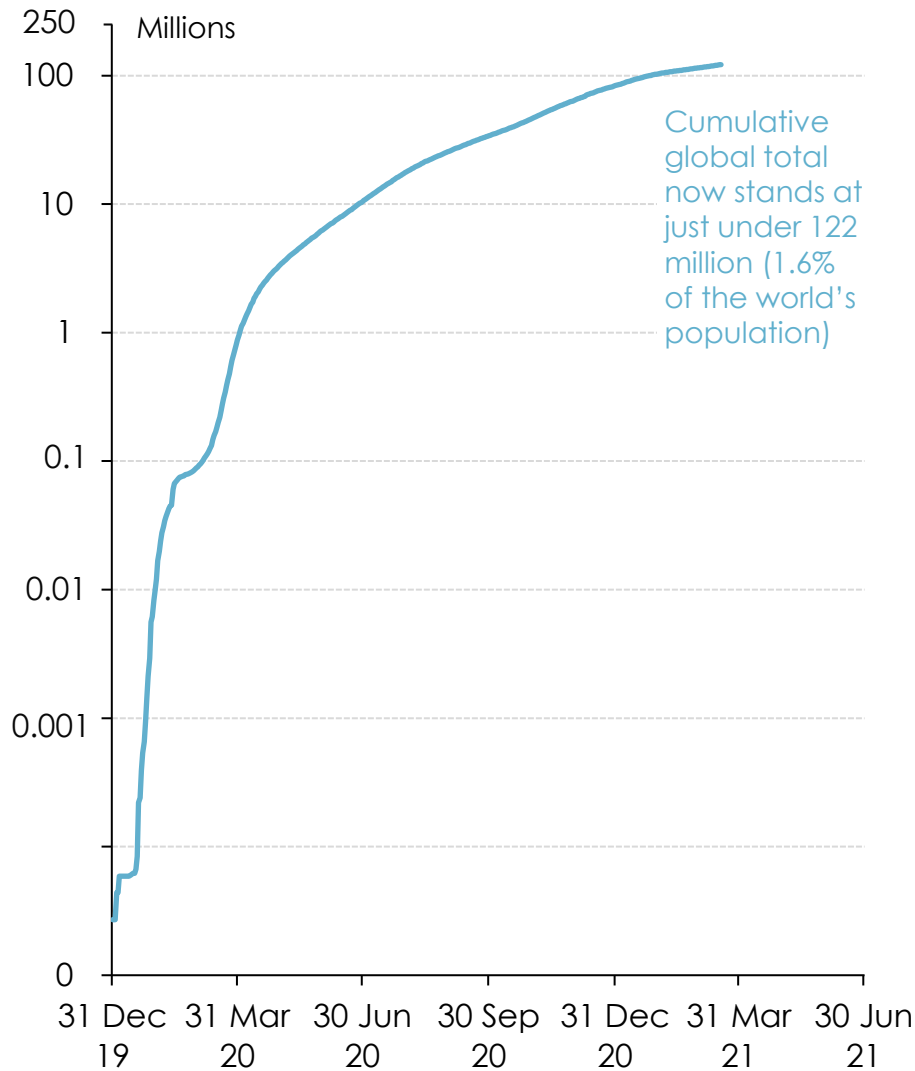
Australia and New Zealand

- ❑ Australia recorded 93 new Covid-19 cases this week, down 2 from last week ([slide 8](#)) with all but four acquired overseas ([slide 9](#))
- ❑ Australia's population growth slowed to its lowest since 1942 over the year to September 2020, with negative net immigration for two consecutive quarters for the first time since 1975 as a result of the closure of Australia's international borders ([slide 83](#))
- ❑ The slowdown in population growth has been particularly acute in Victoria due not only to the stop in overseas migration but also to a turnaround in interstate migration ([slide 84](#))
- ❑ Employment rose a stronger-than-expected 89K (0.7%) in February, taking the level of employment back to just above its pre-pandemic peak, and pushing the unemployment rate down to 5.8% ([slide 90](#))
- ❑ The 'effective' unemployment rate (including people employed but working zero hours) fell 0.4 pc pts to 7.1%, down from a peak of 15.3% last April ([slide 91](#))
- ❑ The 'taperings' of the Government's 'JobKeeper' wage subsidy scheme at the start of Q4 20 and Q1 this year had no discernible effect on employment ([slide 133](#)), although it seems likely that the termination of the scheme at the end of this month will have some temporary impact
- ❑ APRA data suggests that there has been some relaxation in mortgage lending standards since 2019, with over 42%% of all new loans at loan-to-valuation ratios in excess of 80%, although the proportion of new interest-only loans remains low ([slide 109](#))
- ❑ New Zealand's economy contracted by 1.0% in the December quarter last year, following a rebound of almost 14% in the September quarter, driven by a 2.6 pc pt subtraction from net exports (in turn reflecting the absence of international visitors) ([slide 141](#))

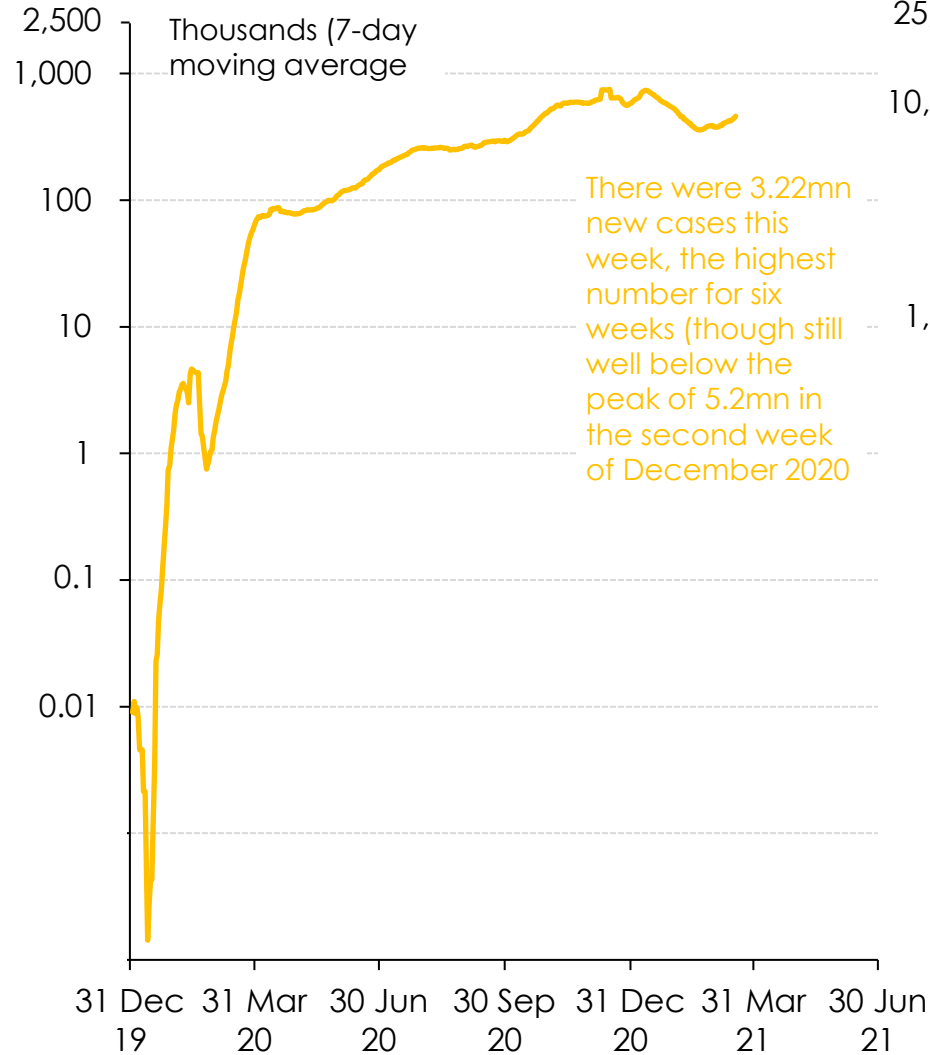
The virus

There were almost 3¼mn new cases this week, the highest total in six weeks, and the global death toll also rose for the first time in six weeks

Cumulative confirmed cases – global total



New confirmed cases – global total



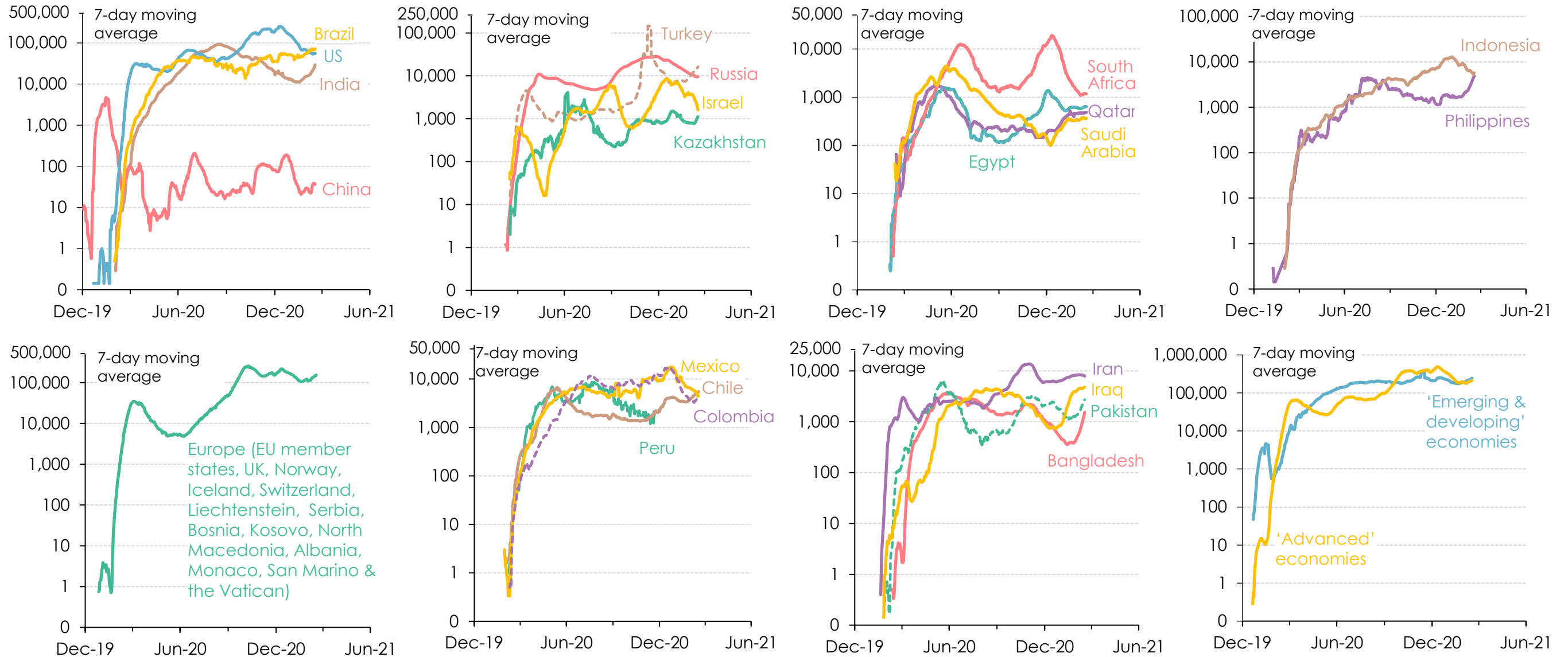
New deaths – global total



Note: All charts are on logarithmic scales. Data up to 18th March. Source: University of Oxford, [Our World in Data](#). [Return to "What's New"](#).

Europe accounted for one-third of the world's new cases this week, Brazil for 16%, the US 12%, India 6% and Turkey 4%

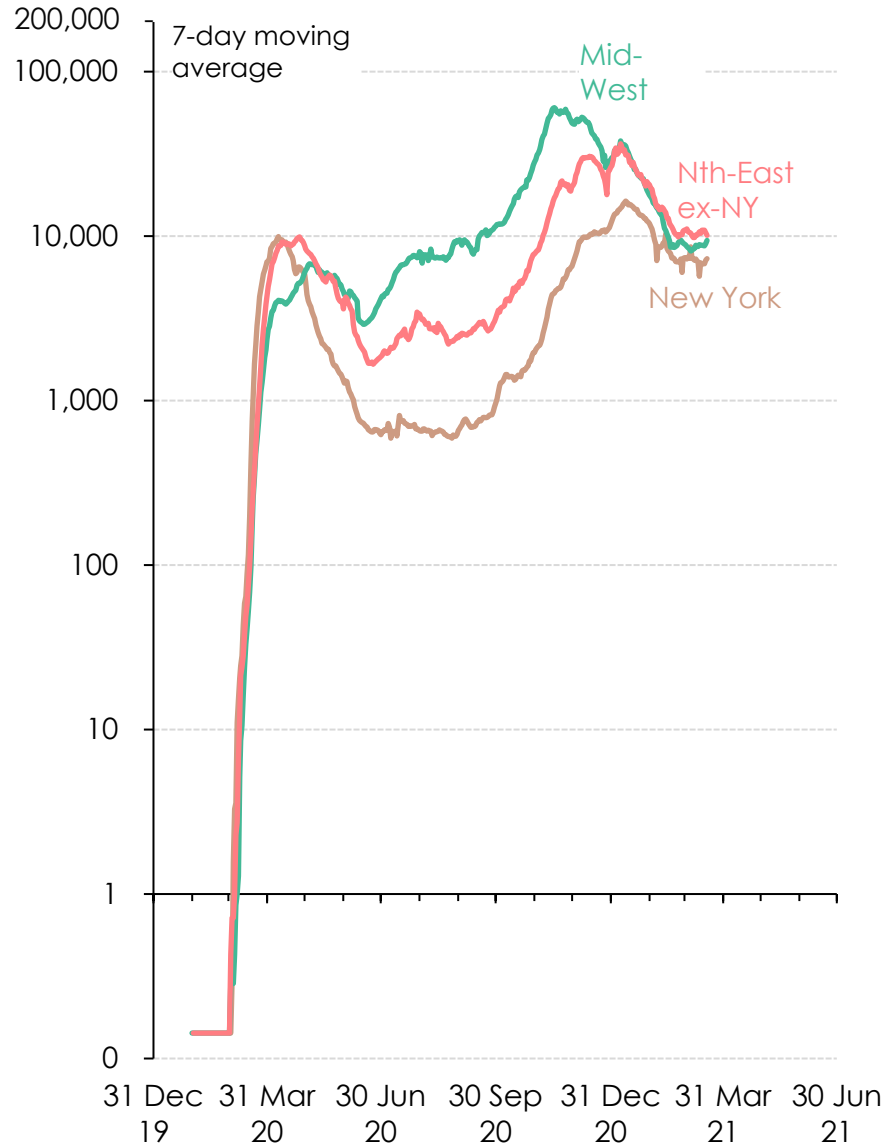
Daily new cases – selected countries with large populations and/or rapid growth in cases



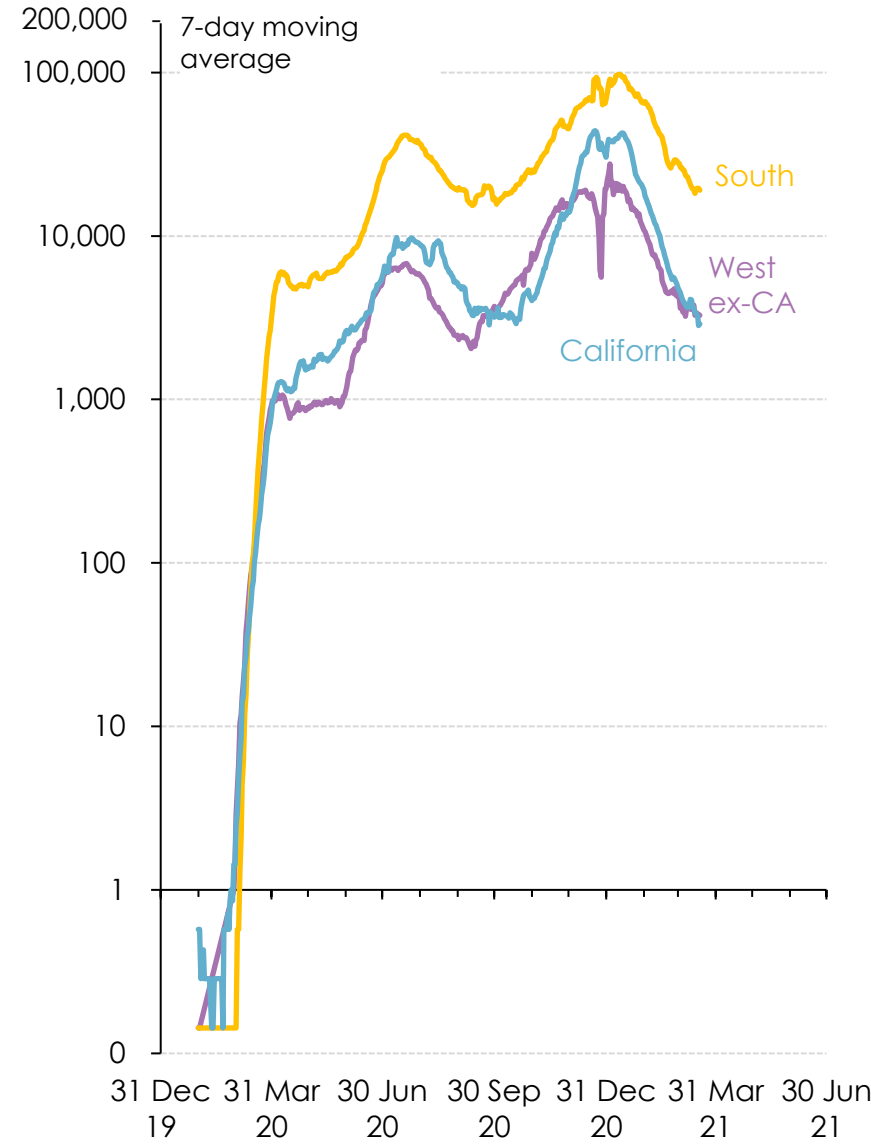
Note: All charts are on logarithmic scales. Data up to 18th March. Source: University of Oxford, [Our World in Data](#); Corinna. [Return to "What's New"](#).

In the US, new infection numbers are falling in the West and most of the South, but still rising in the North-East, and in Florida & Louisiana

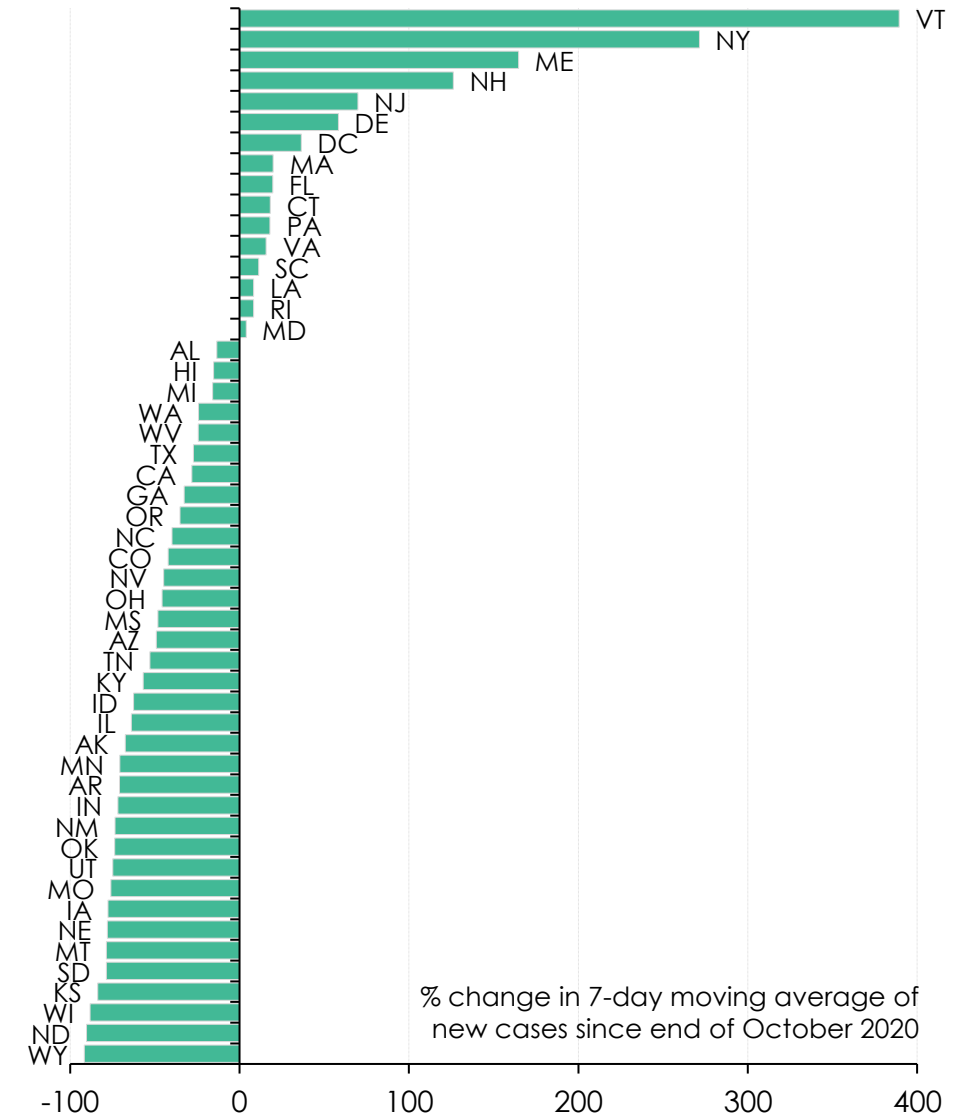
New cases – Mid-West and North-East



New cases – South and West



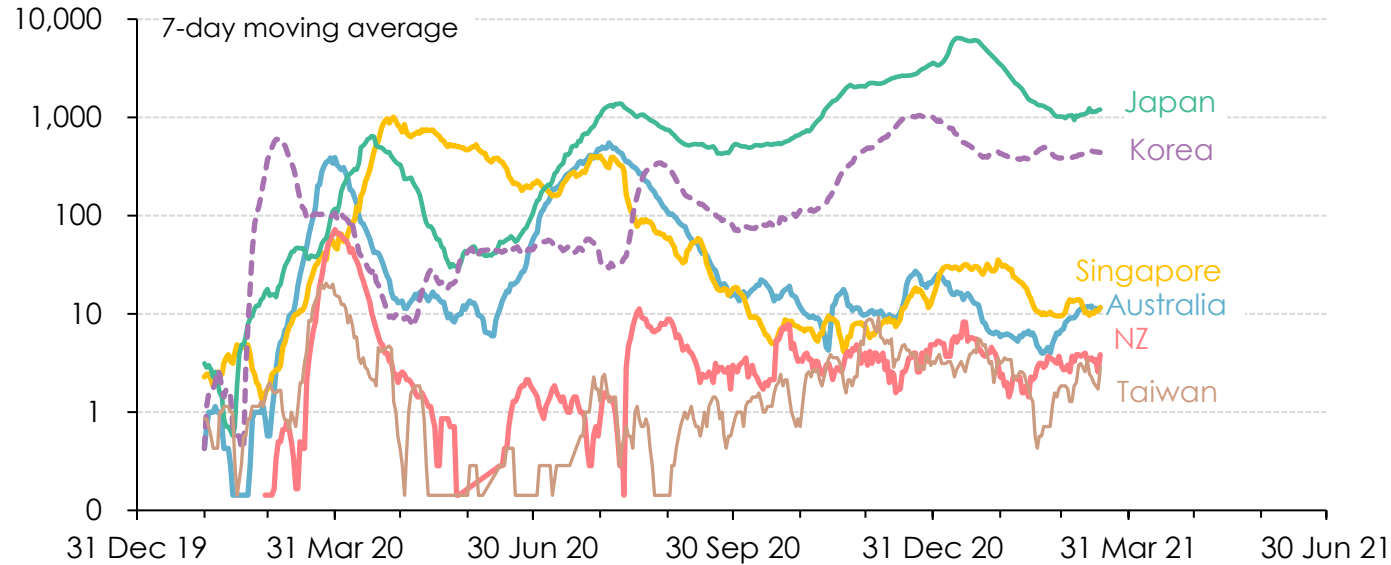
Increase in cases since end-October



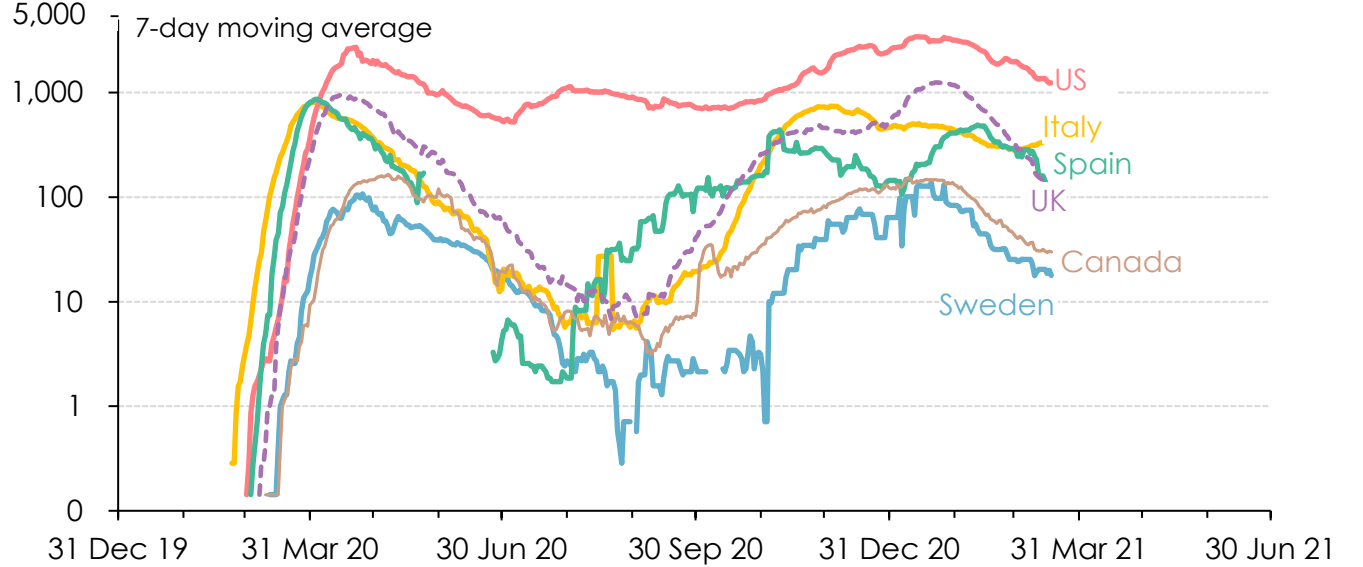
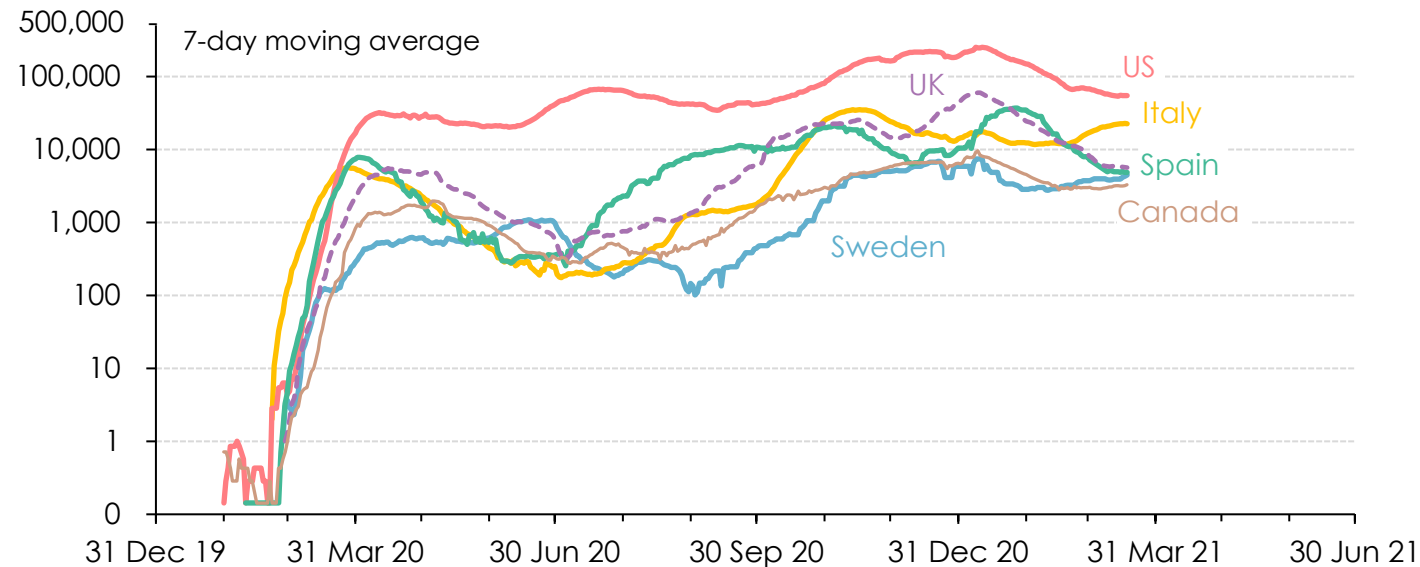
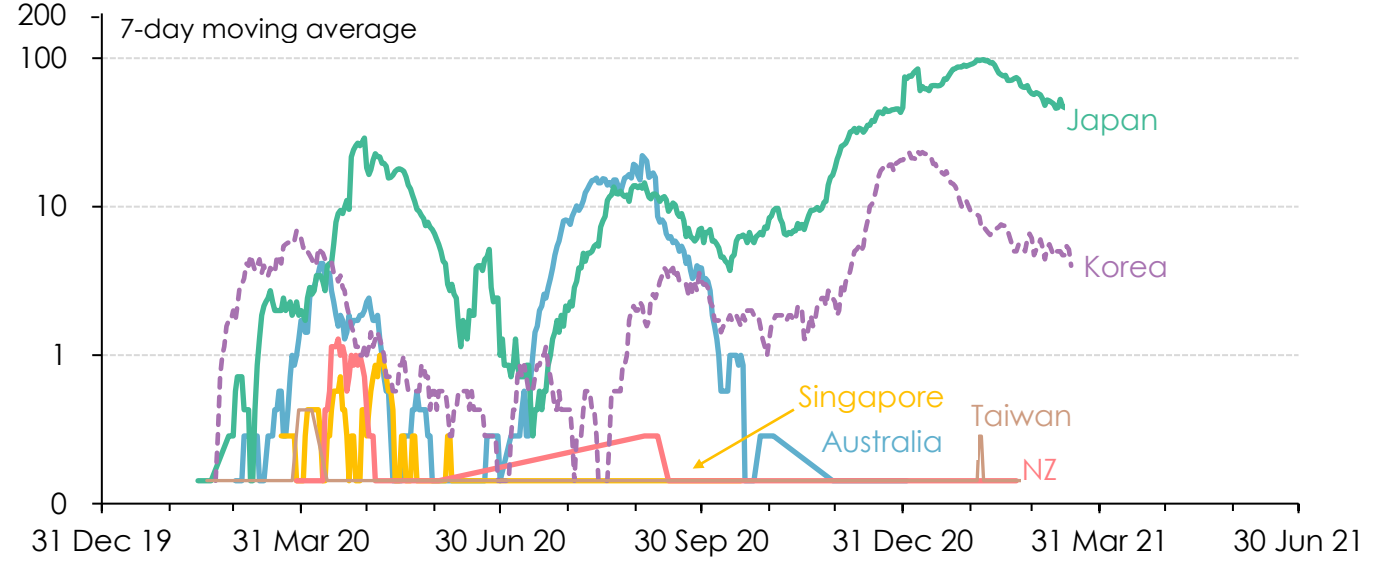
Note: First two charts are on logarithmic scales. Sources: [USA Facts](#); [Centers for Disease Control and Prevention](#); [New York Times](#); Corinna. Latest data are for 18th March. [Return to "What's New"](#).

New cases numbers are rising in Italy (and some other European countries) and creeping up in Japan, but falling in most other 'advanced' economies

Daily new cases



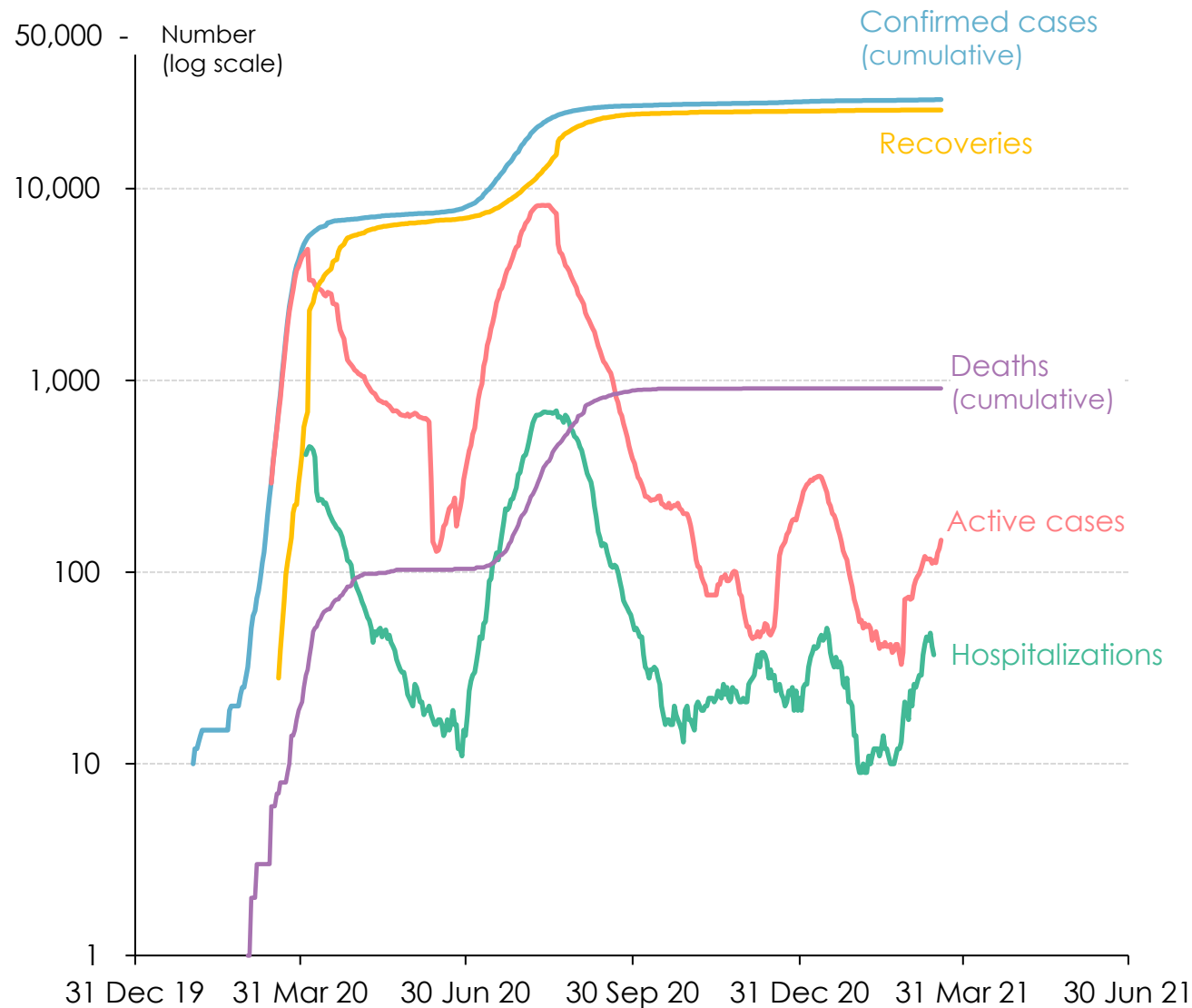
Daily new deaths



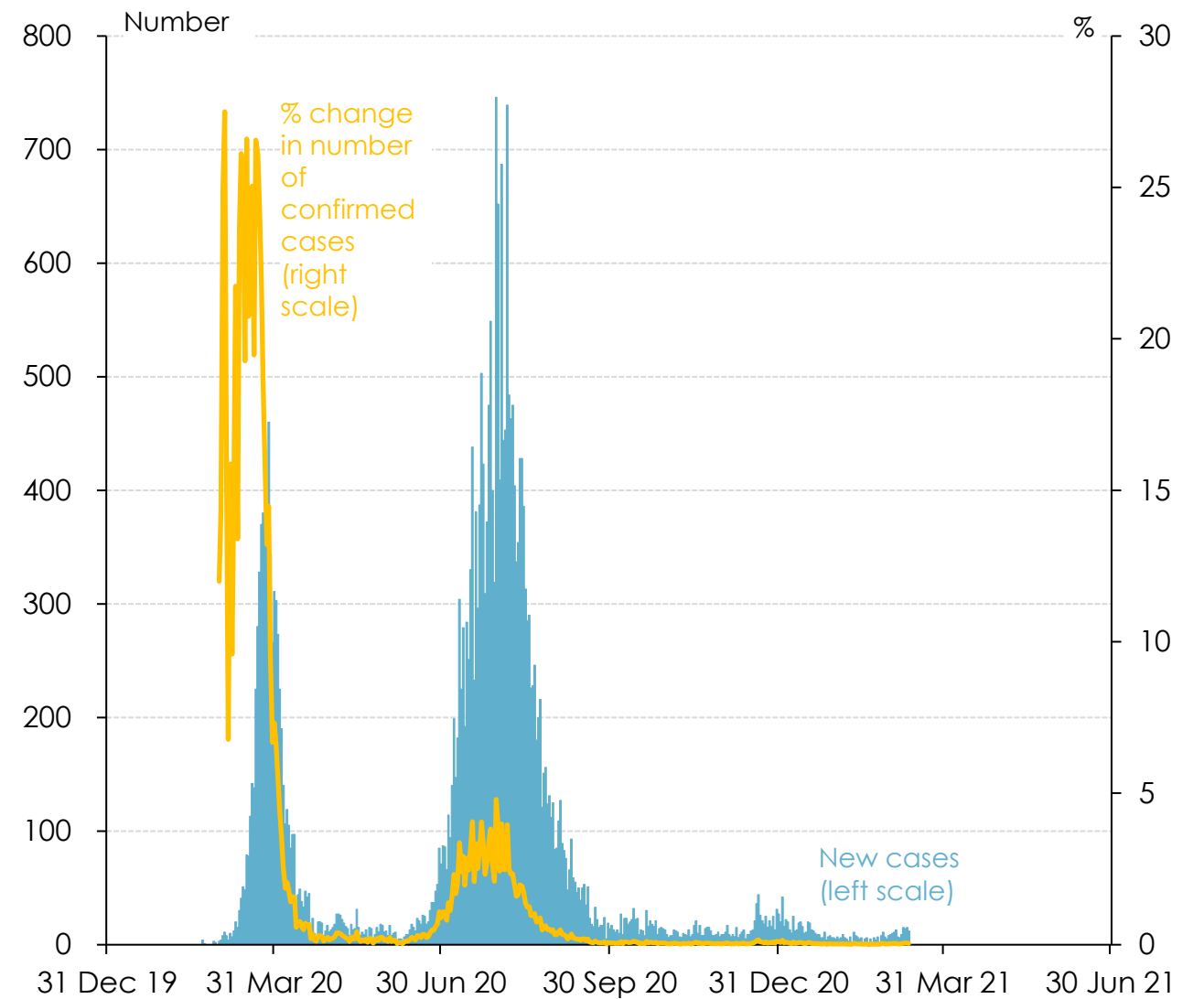
Note: All charts are on logarithmic scales. Data for new deaths in Spain between 25th May and 19th June 2020 not shown because of distortions caused by reclassifications on those dates. Data up to 18th March. Source: University of Oxford, [Our World in Data](#); Corinna. [Return to "What's New"](#).

93 new cases were recorded in Australia this week – two fewer than last week – all but four of them acquired overseas

Cases, recoveries, hospitalizations and deaths



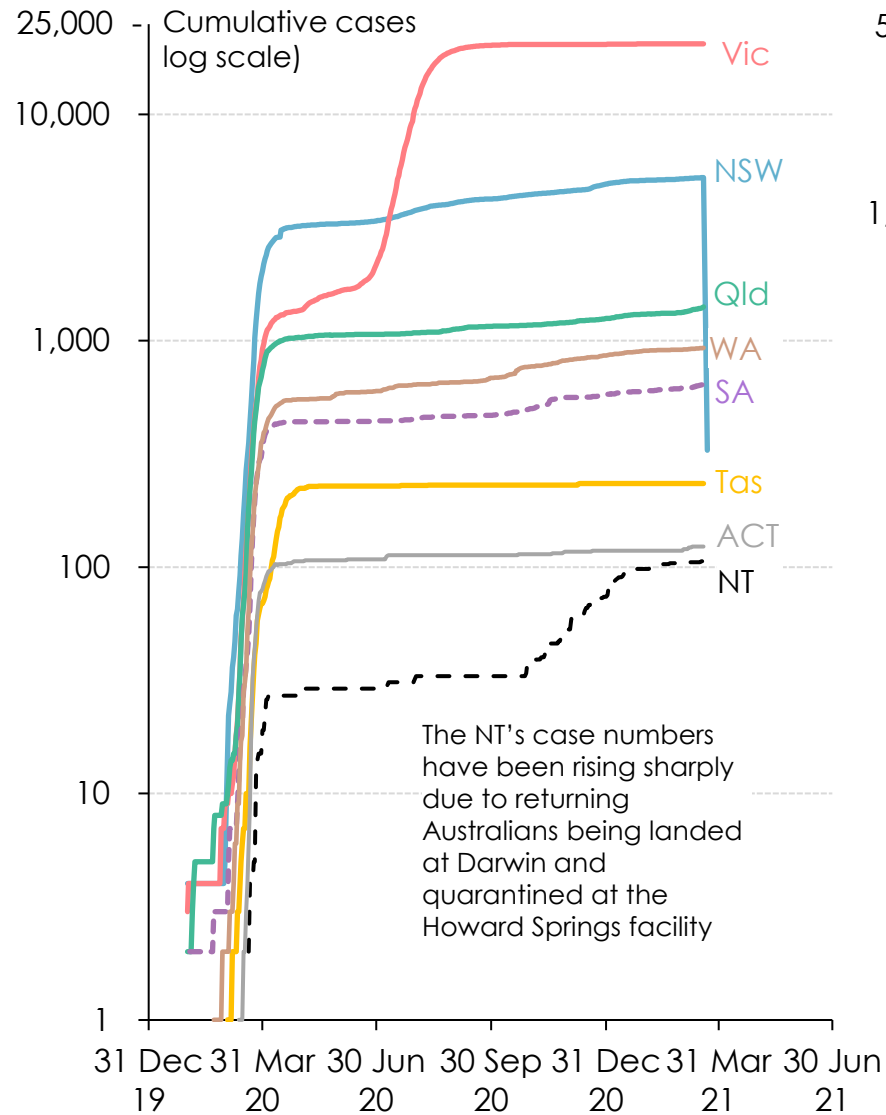
New cases



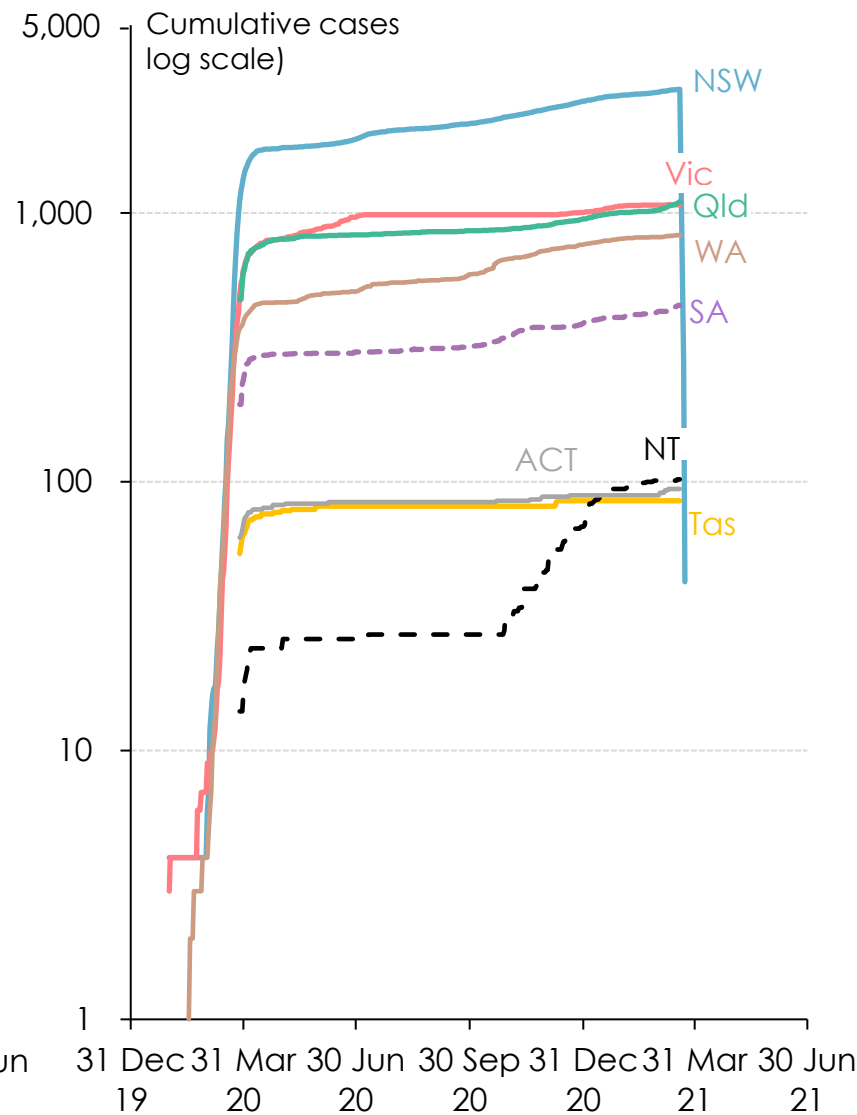
Note: Data up to 19th March (except for hospitalizations, 15th March). Source: covid19data.com.au. [Return to "What's New"](#).

87% of all new cases so far this year have been 'overseas transmissions', 42% of them in NSW (as the principal entry point into Australia)

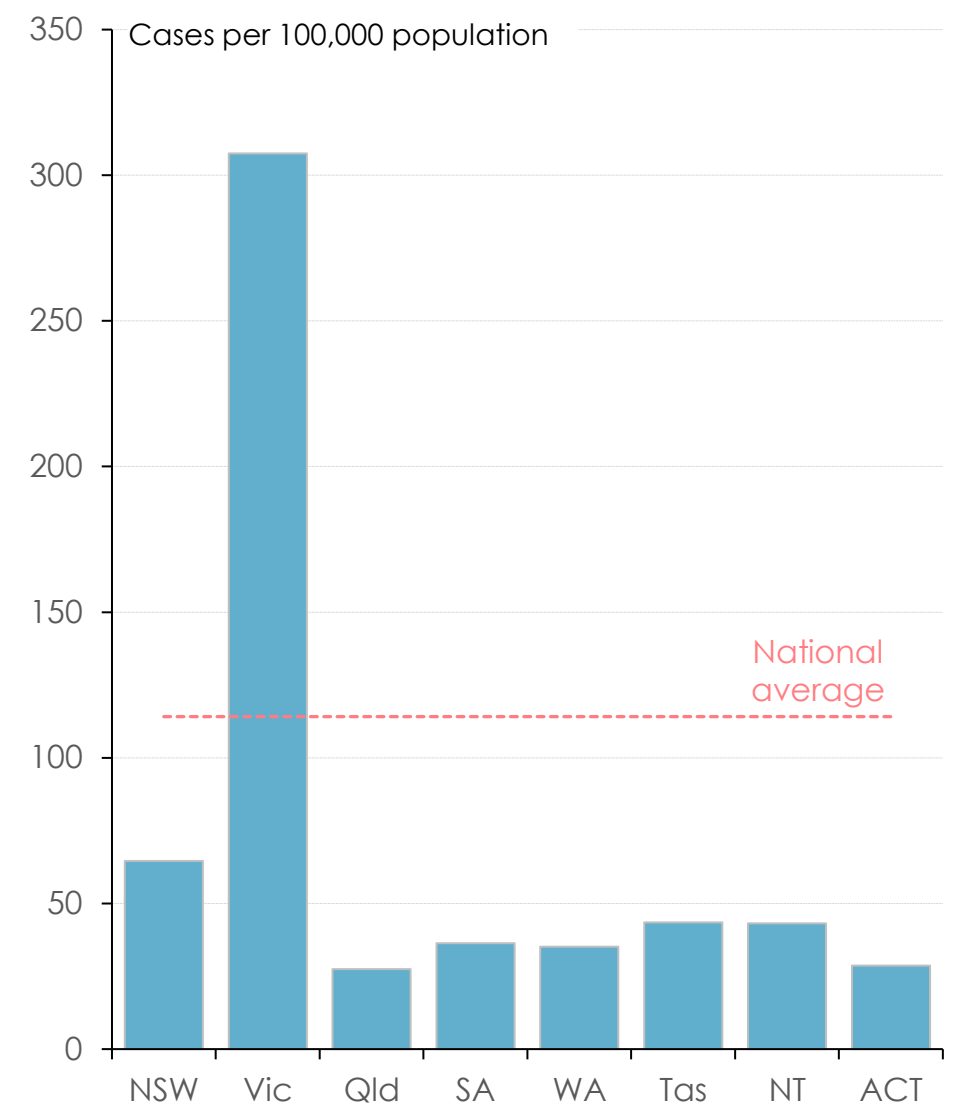
Cumulative cases, by State



Overseas transmissions



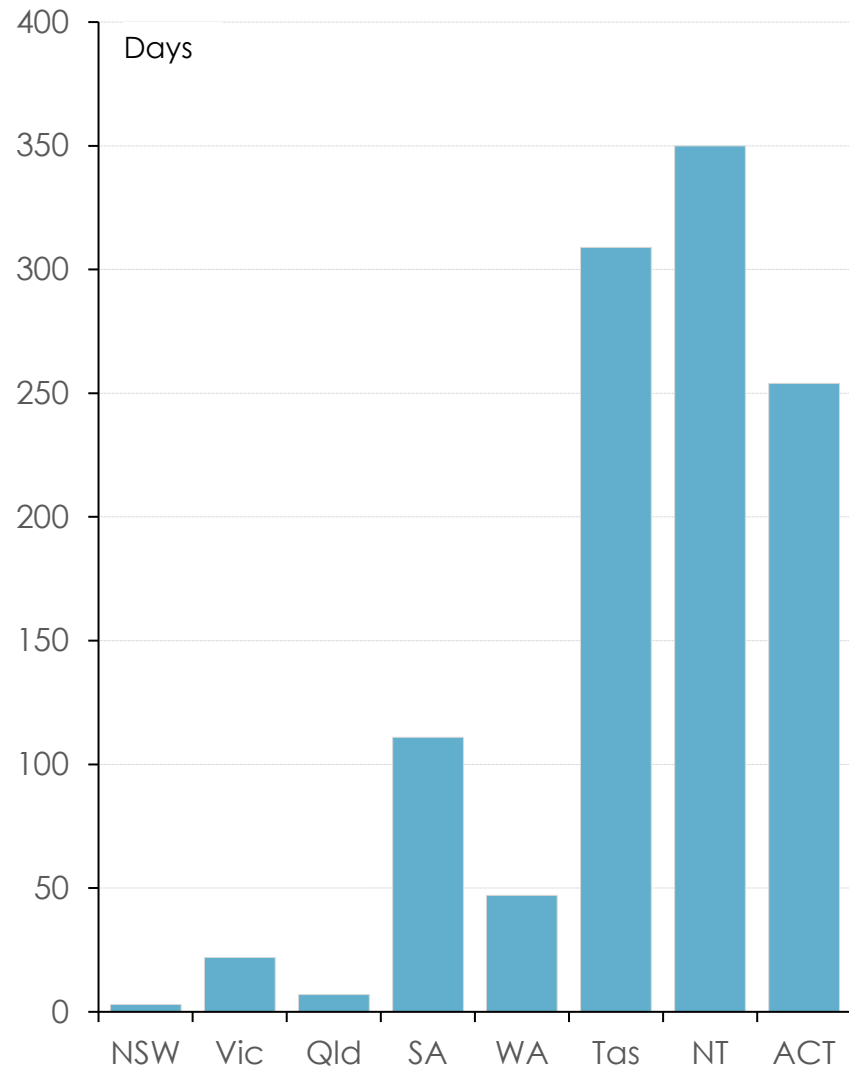
Cases per 100,000 population



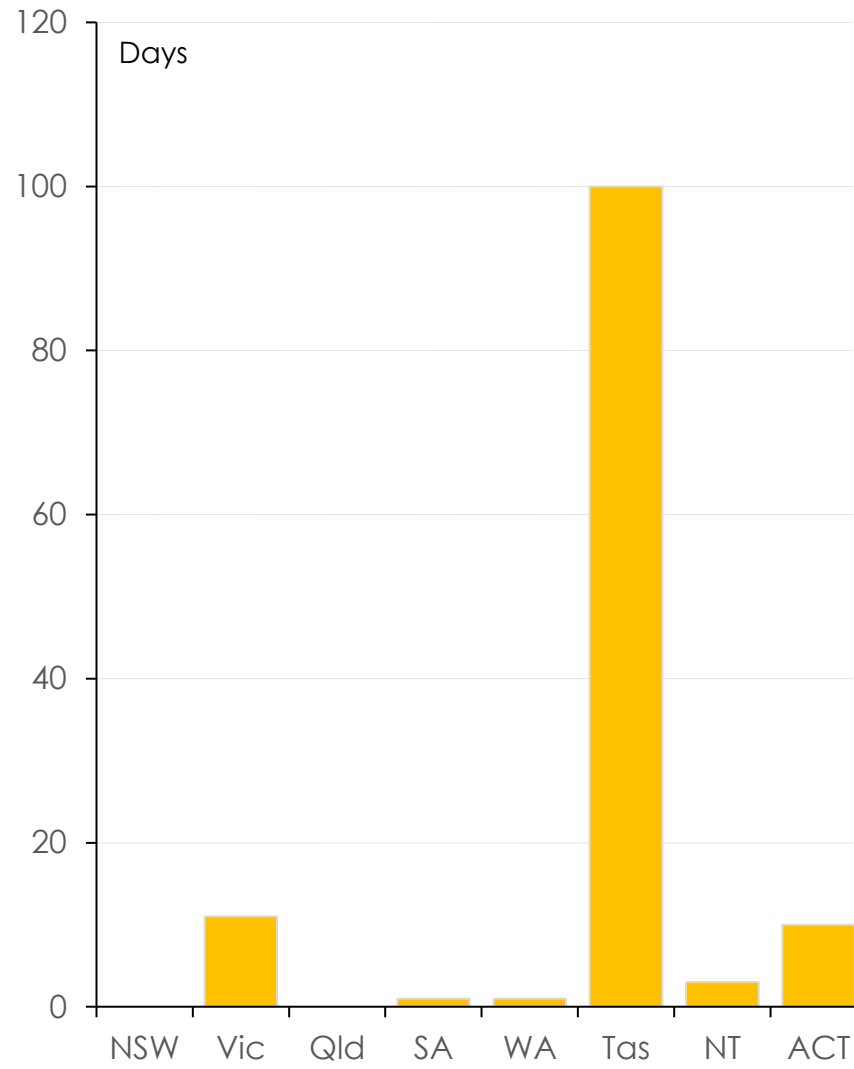
Note: Data up to 19th March. Source: covid19data.com.au. [Return to "What's New"](#).

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

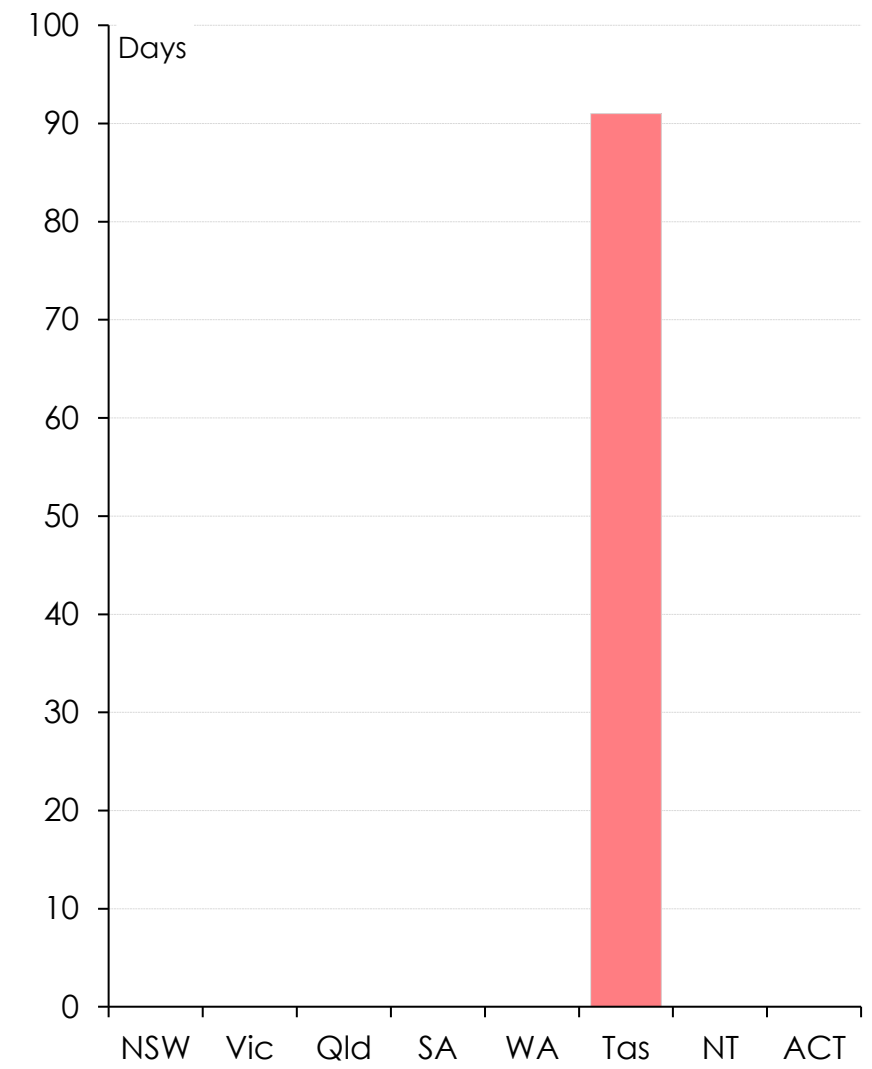
Days since last new locally-acquired case



Days since last new overseas-acquired case



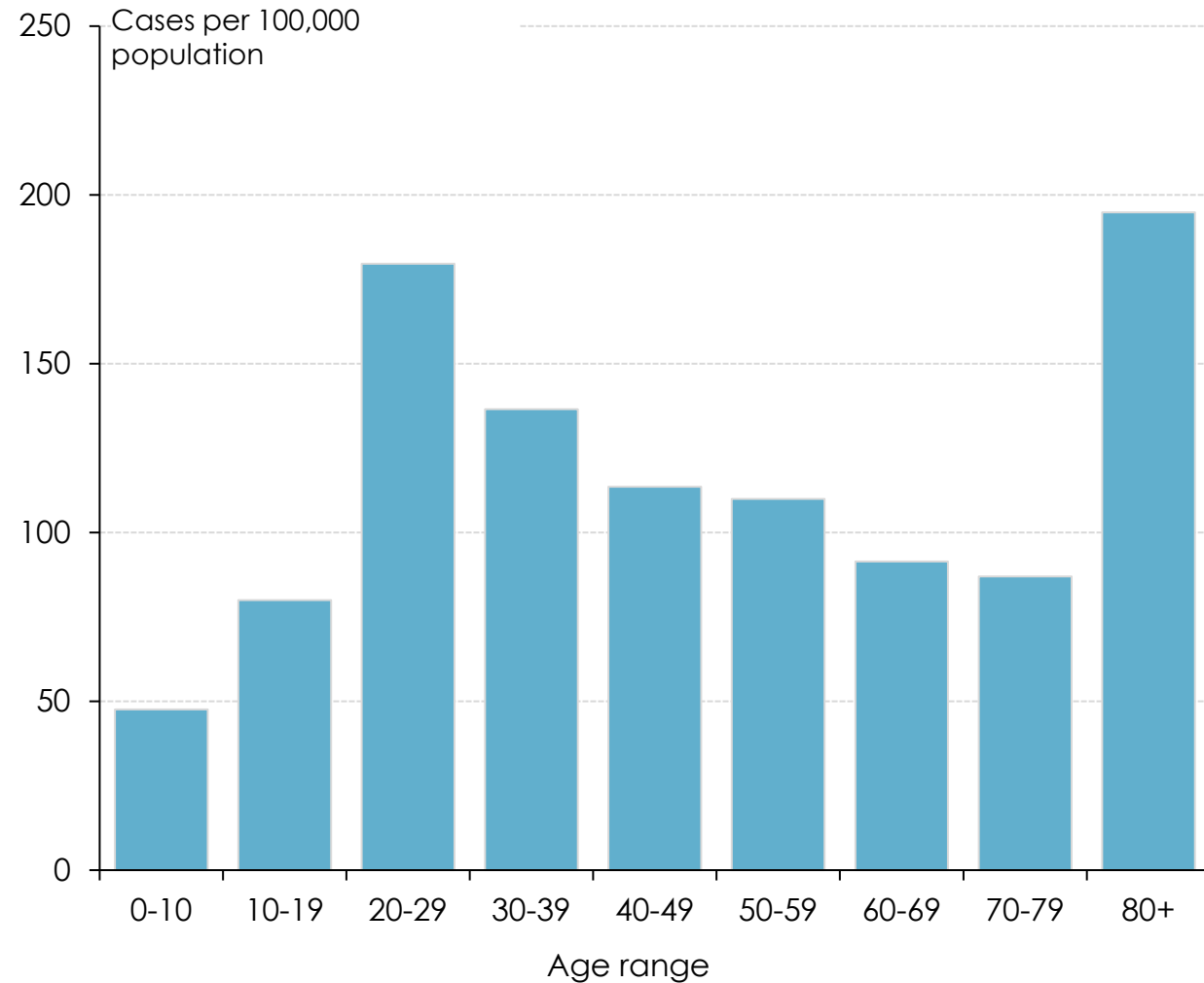
Days since there were any active cases



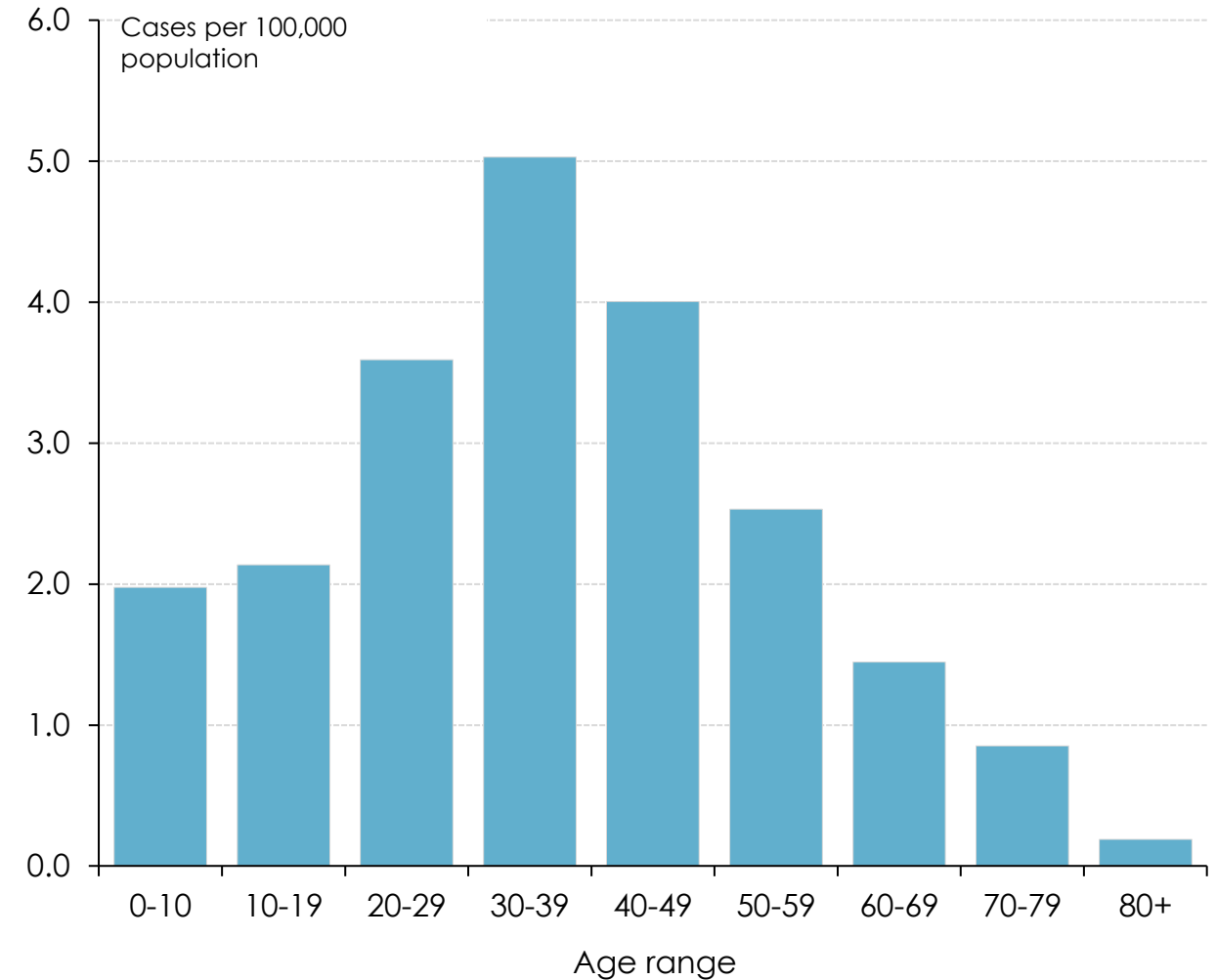
Note: Data are for 19th March. Source : covid19data.com.au. [Return to "What's New"](#).

Unlike last year, this 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



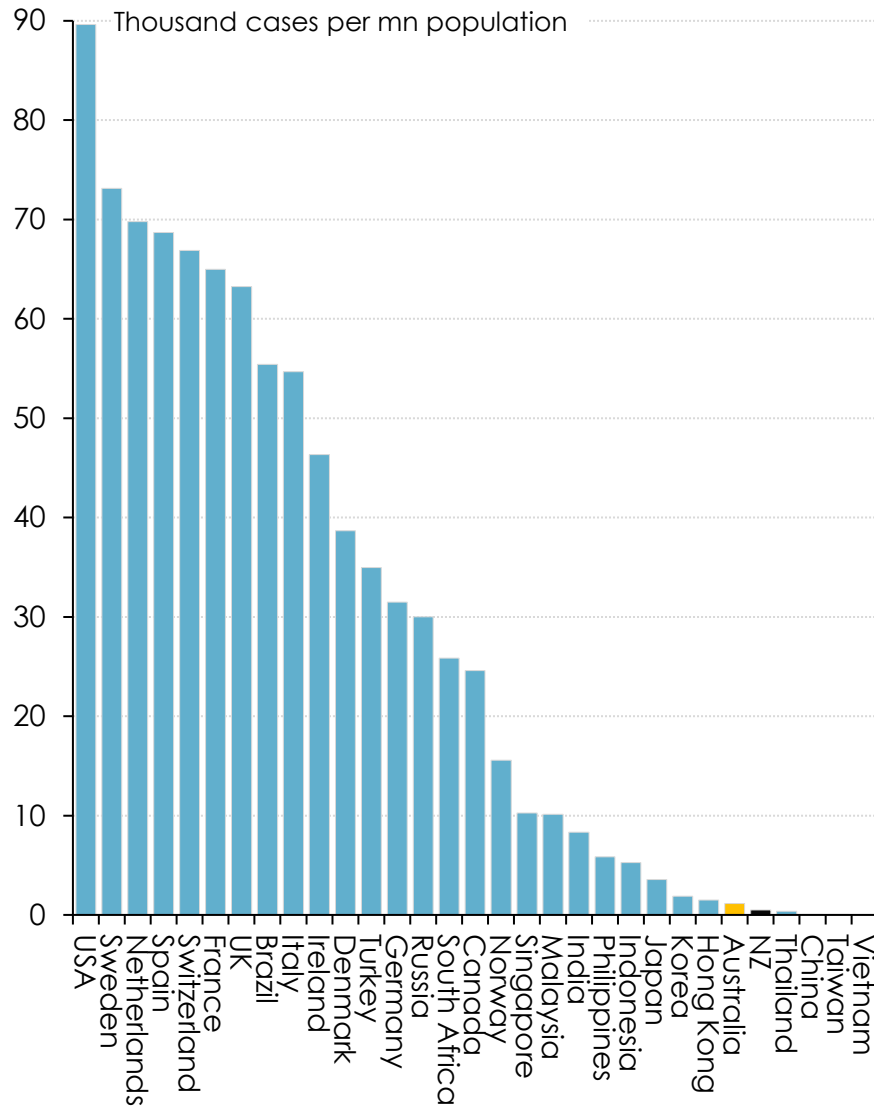
Cumulative confirmed cases per 100,000 population, by age group – 2021 to date



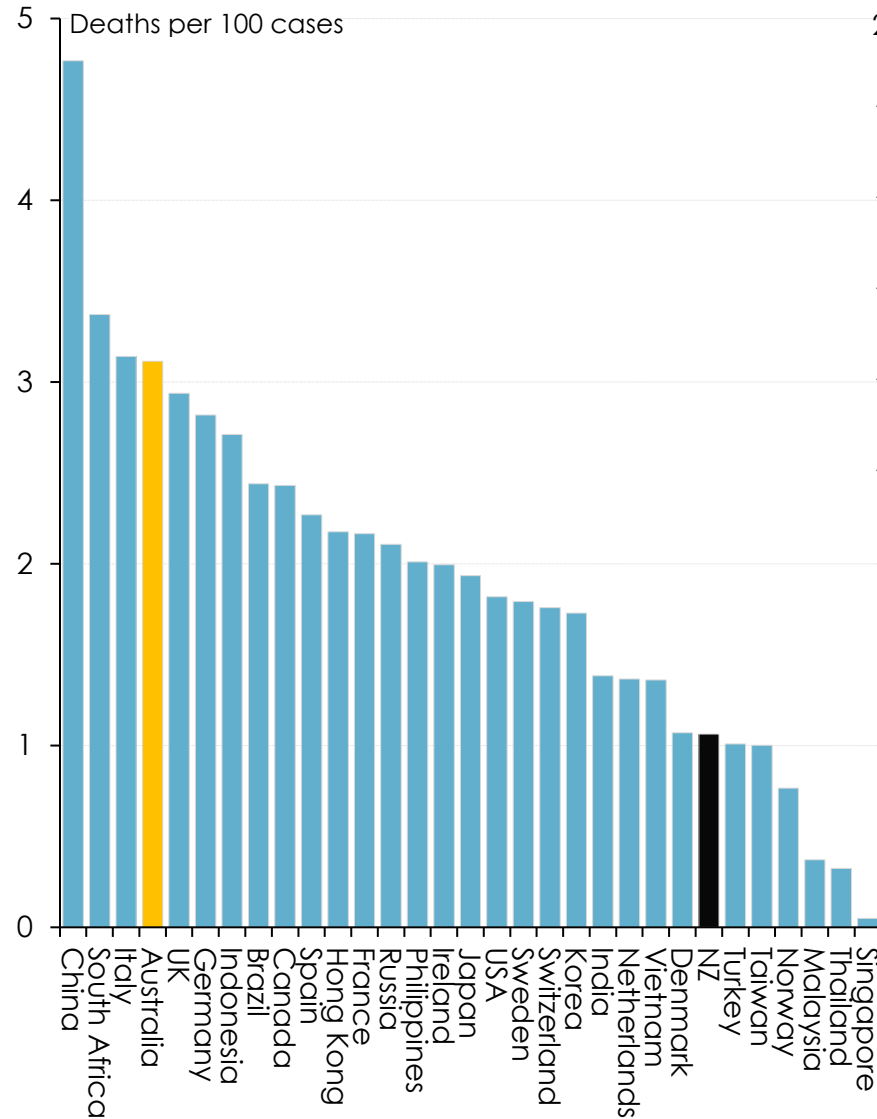
Note: Data up to 19th March. Source: Australian Government Department of Health, [National Notifiable Diseases Surveillance System](#); ABS; Corinna. [Return to "What's New"](#).

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

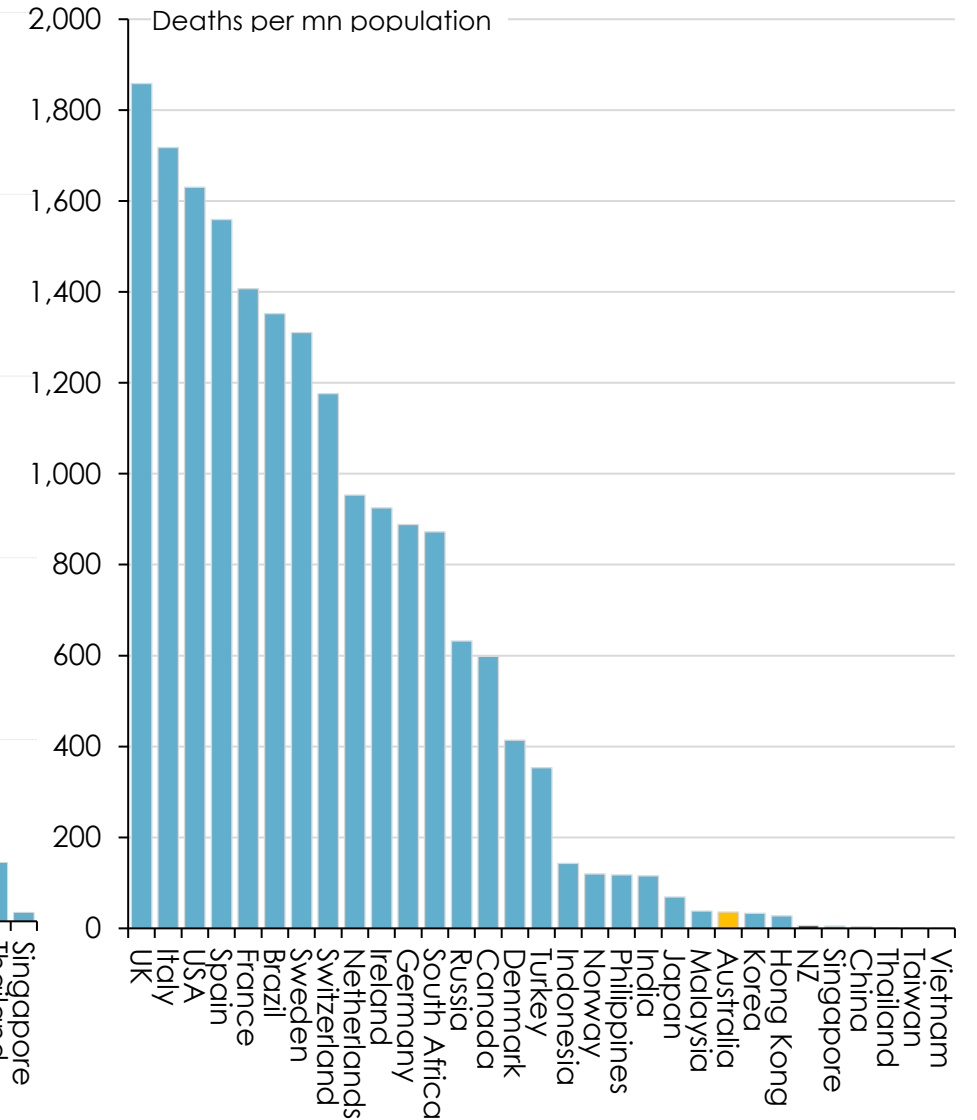
Apparent infection rate



Apparent fatality rate



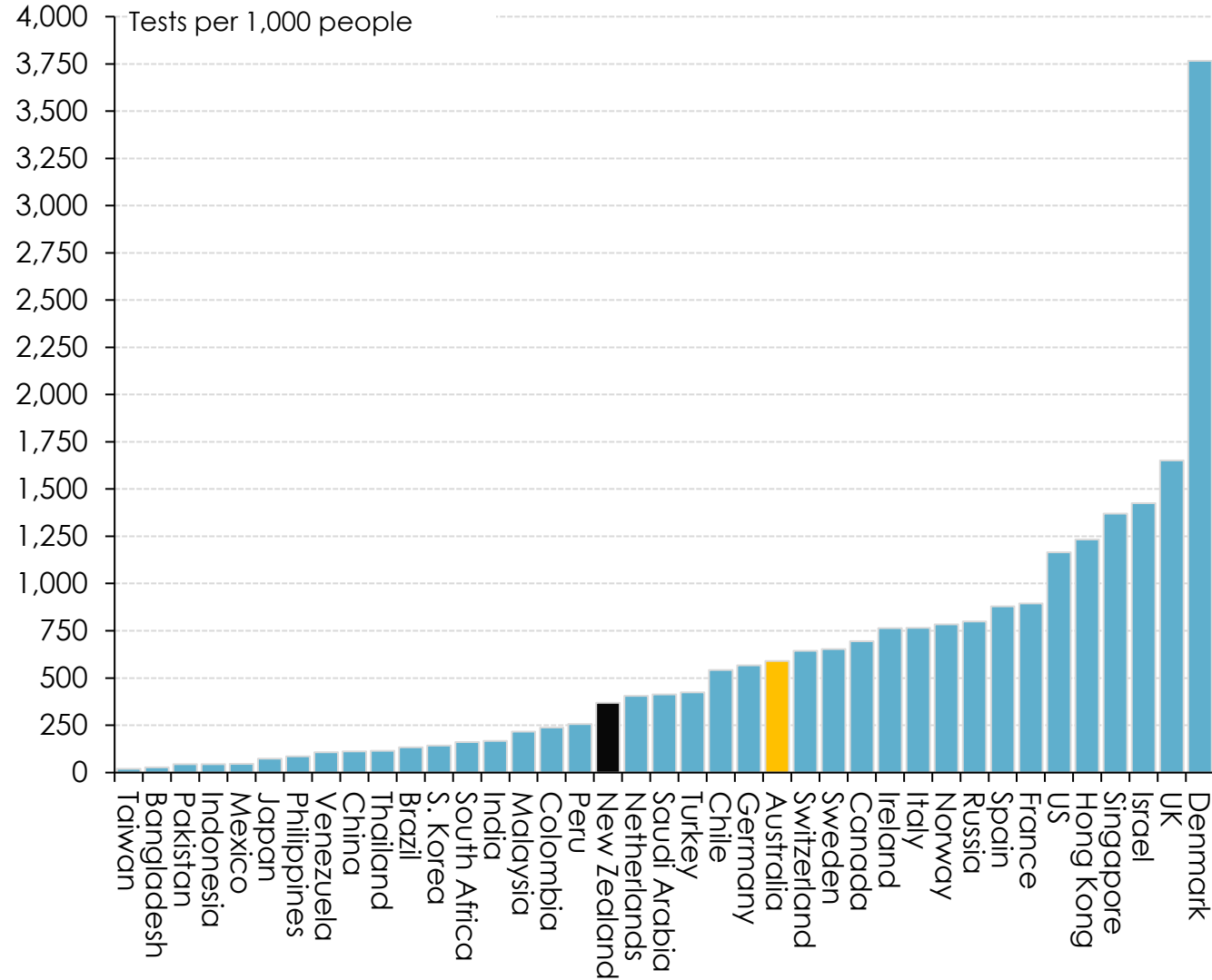
Death rate



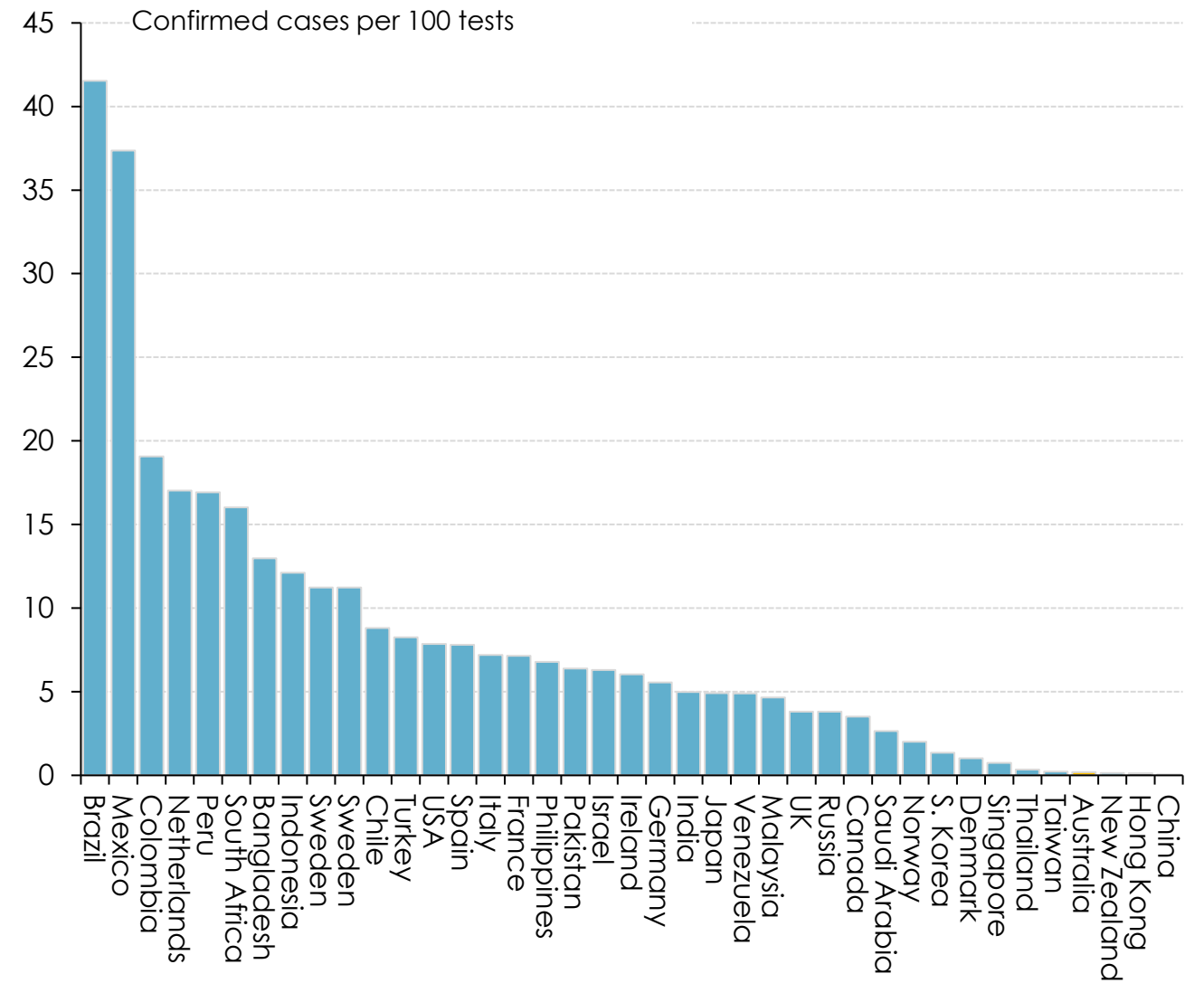
Note: Data up 18th March. Source: University of Oxford, [Our World in Data](#); Corinna. [Return to "What's New"](#).

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



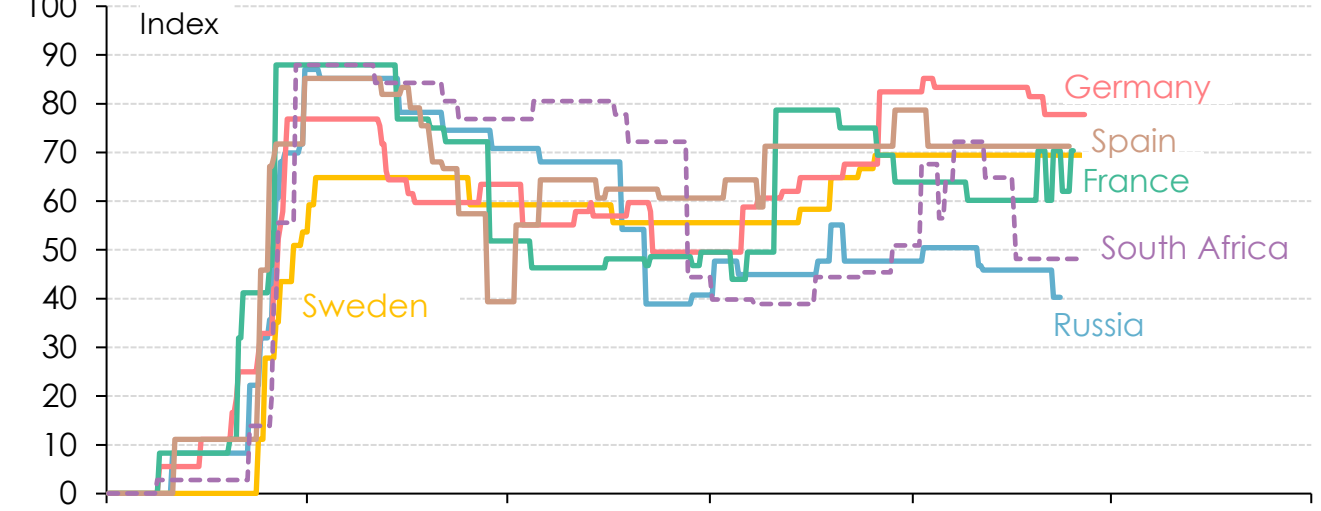
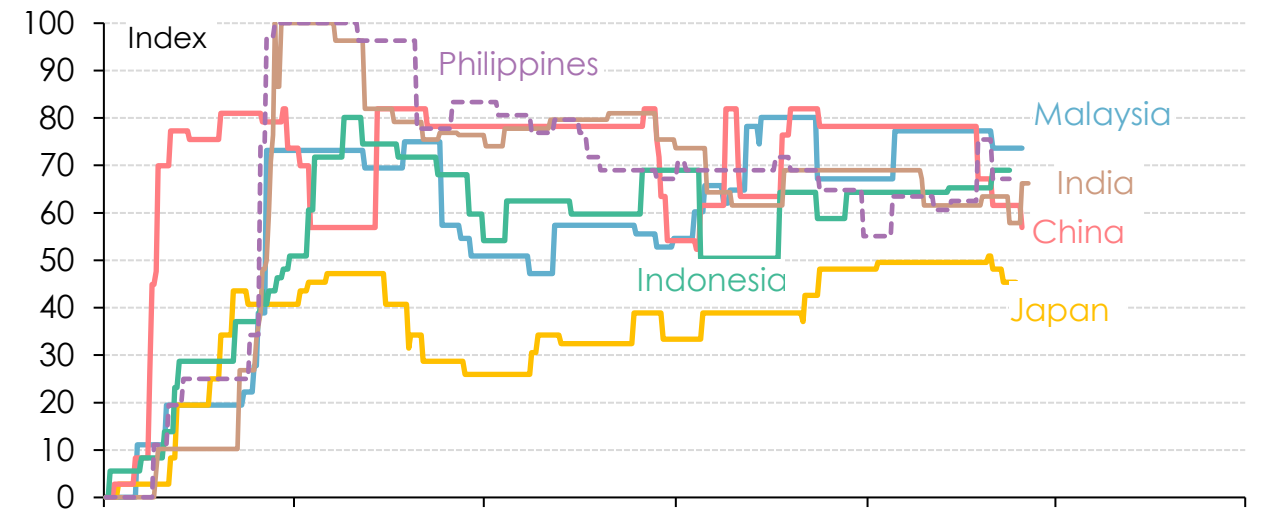
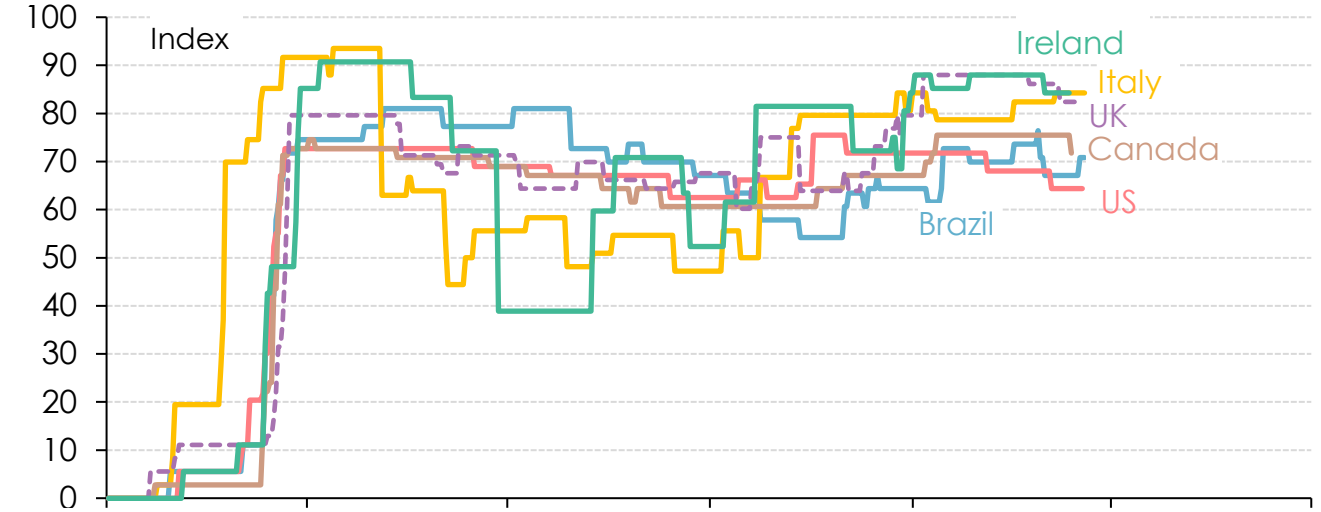
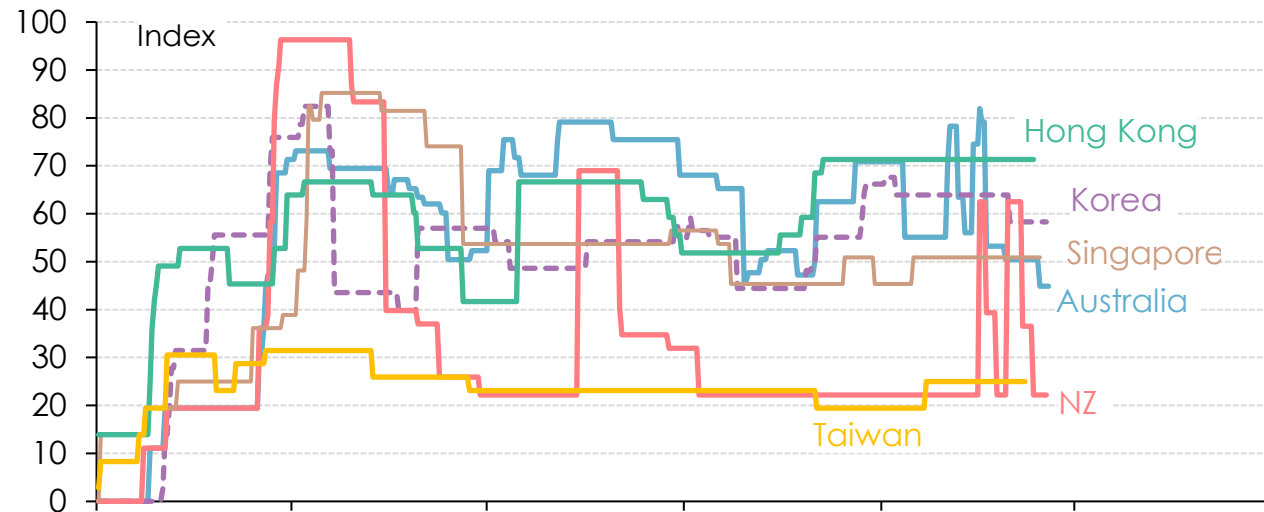
Confirmed cases per 100 tests



Note: Data up to 12th March (and yes it appears, at face value, that Denmark has tested its entire population almost four 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"](#).

Restrictions continue to ease gradually in most Asian countries, and have started to ease a little in some European countries

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

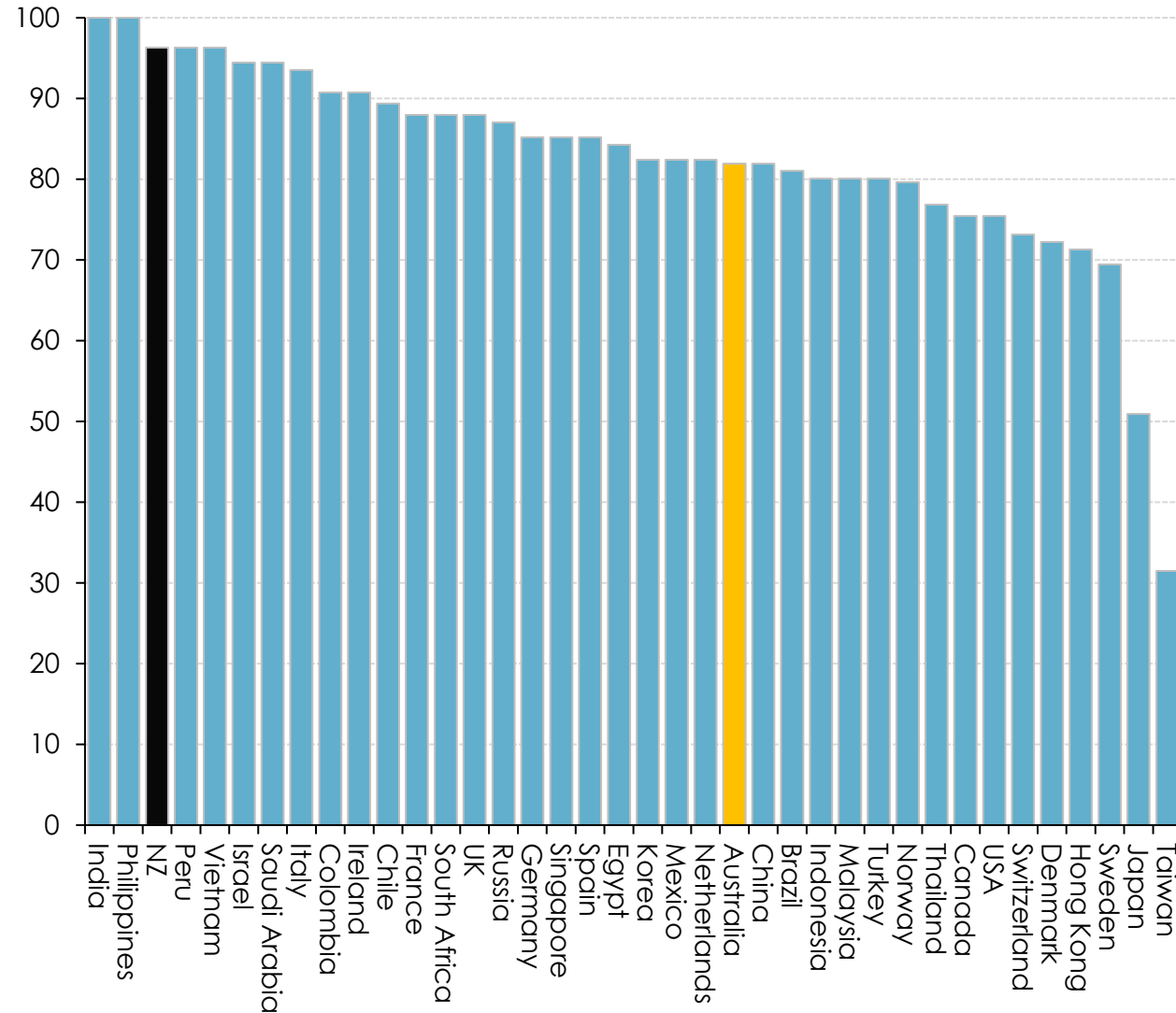


The Oxford COVID-19 Government Response Tracker collects publicly available information on 11 indicators of government response including school and workplace closures, public events cancellations, restrictions on public gatherings, stay at home requirements, public transport closures, domestic and international travel restrictions, public information campaigns, testing and contact tracing. Source: [Blavatnik School of Government, Oxford University](#). Data up to 8th – 19th March.

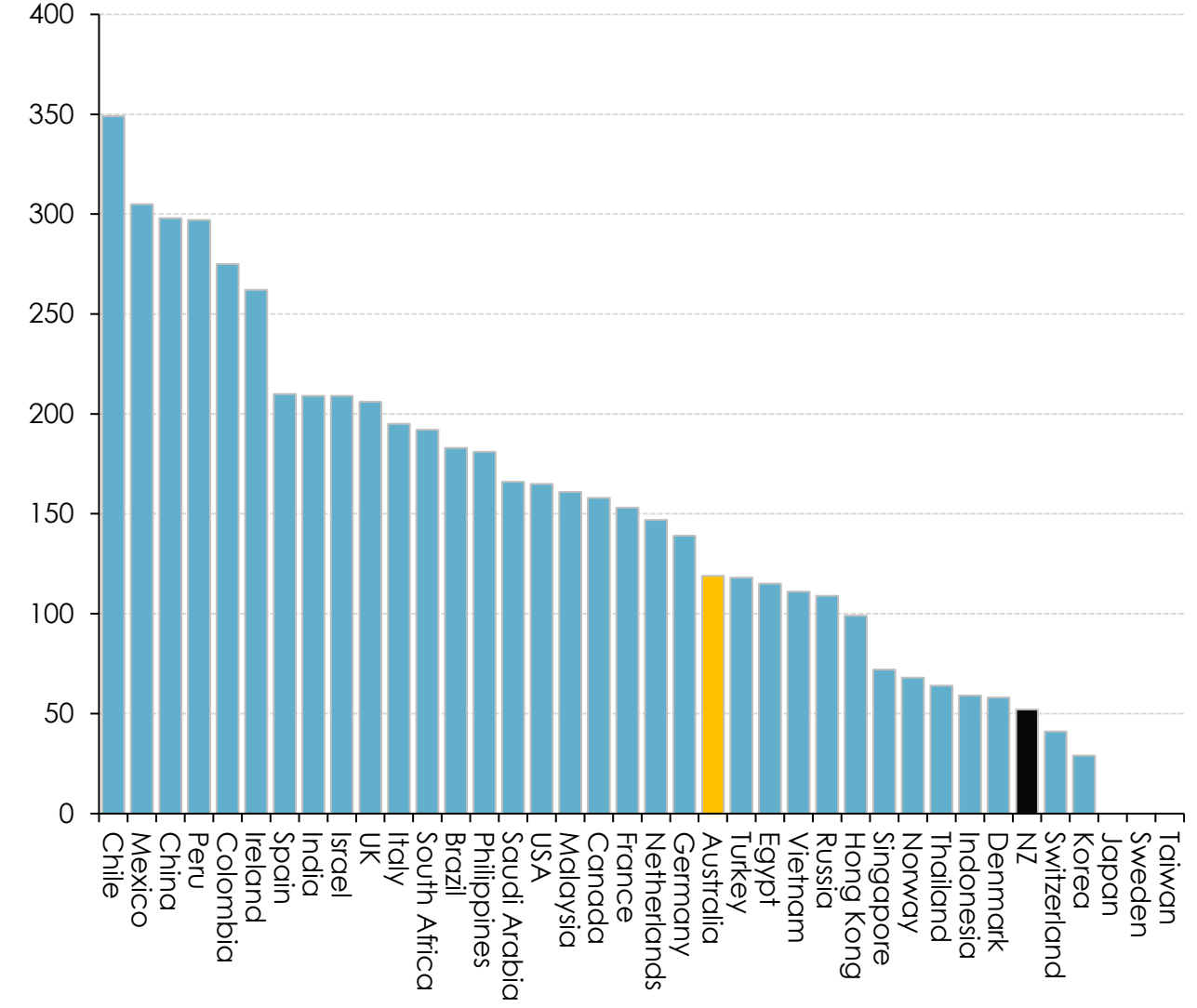
[Return to "What's New"](#).

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

Highest level of restrictions imposed



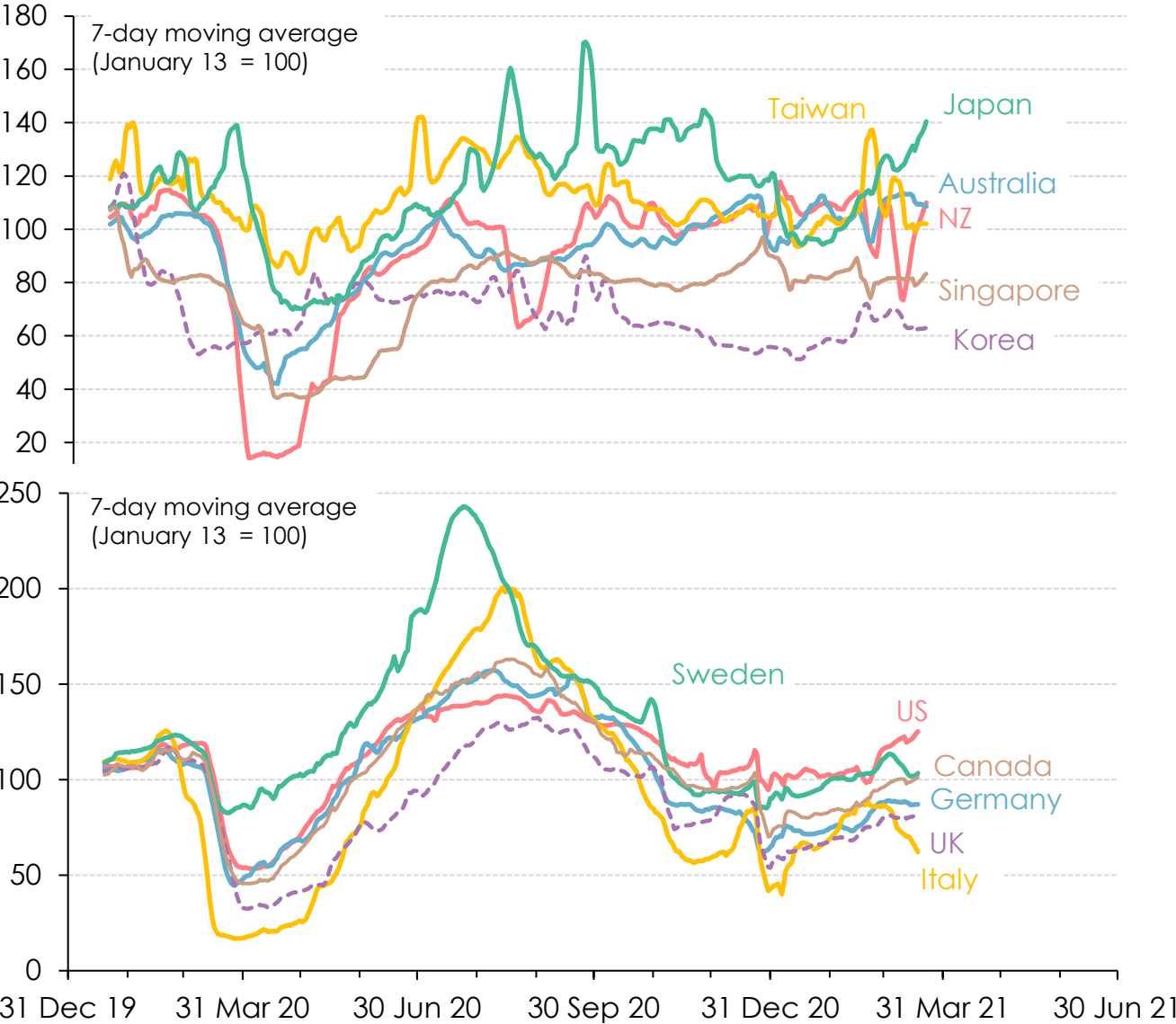
Number of days restrictions above 70 on Oxford index



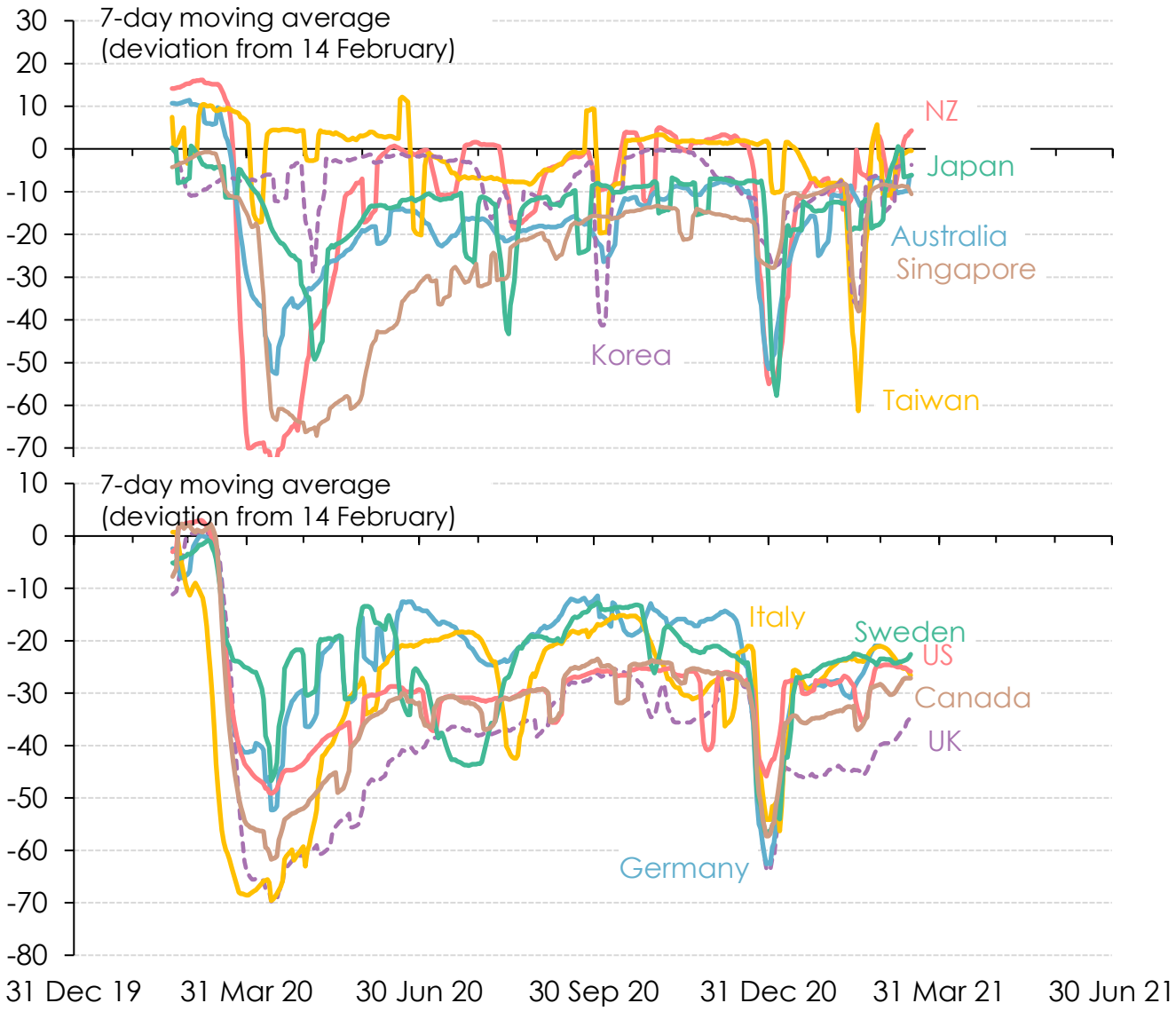
The Oxford COVID-19 Government Response Tracker collects publicly available information on 11 indicators of government response including school and workplace closures, public events cancellations, restrictions on public gatherings, stay at home requirements, public transport closures, domestic and international travel restrictions, public information campaigns, testing and contact tracing. Source: [Blavatnik School of Government, Oxford University](#). Data up to 8th - 19th March (except for Egypt, 1st March). [Return to "What's New"](#).

Mobility data show some gradual improvement in Japan, the US and the UK but not in continental Europe

Time spent driving



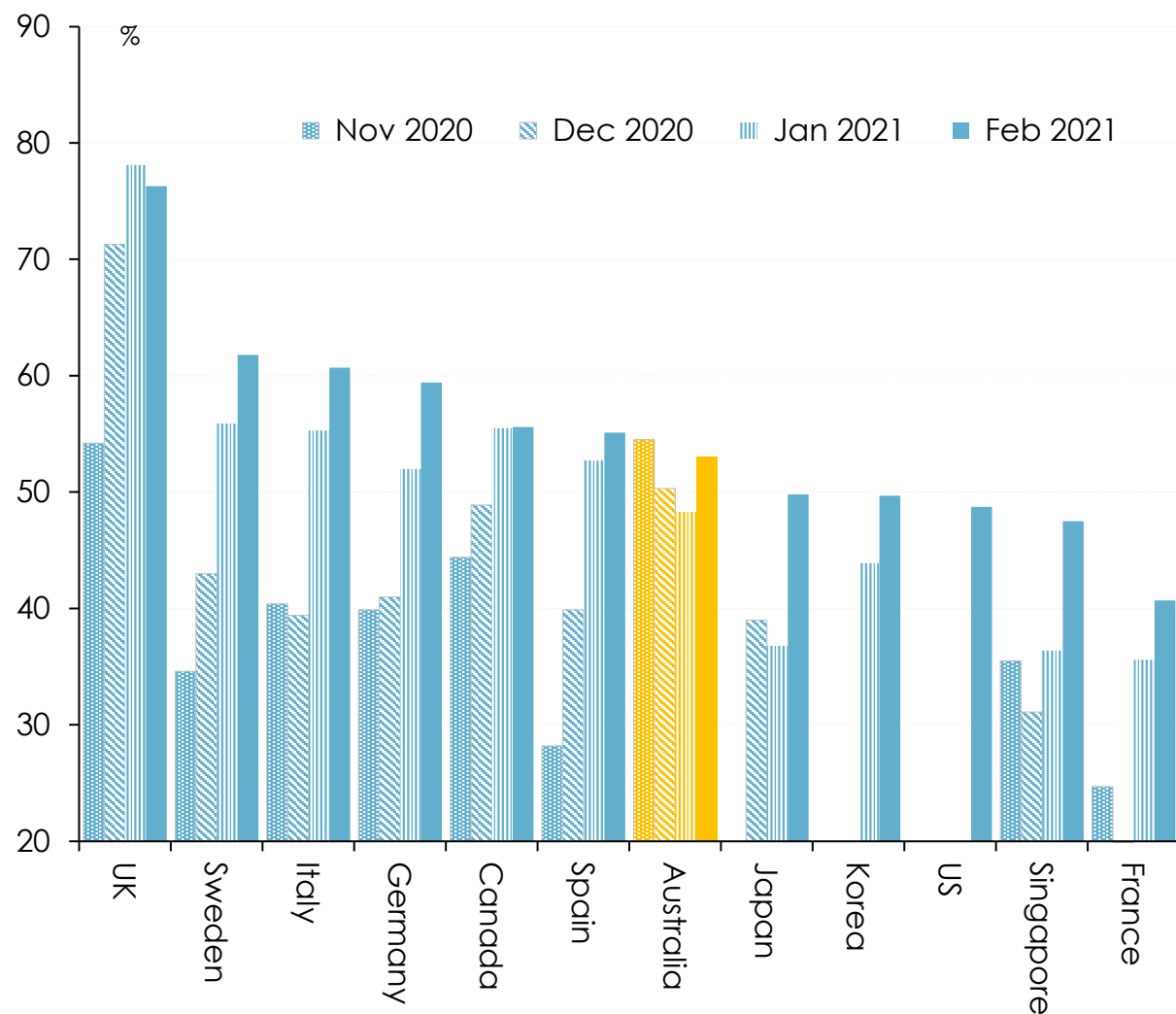
Time spent in workplaces



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 18th March); [Google Community Mobility Reports](#) (data up to 16th 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 get a Covid-19 vaccination 'this week' if available



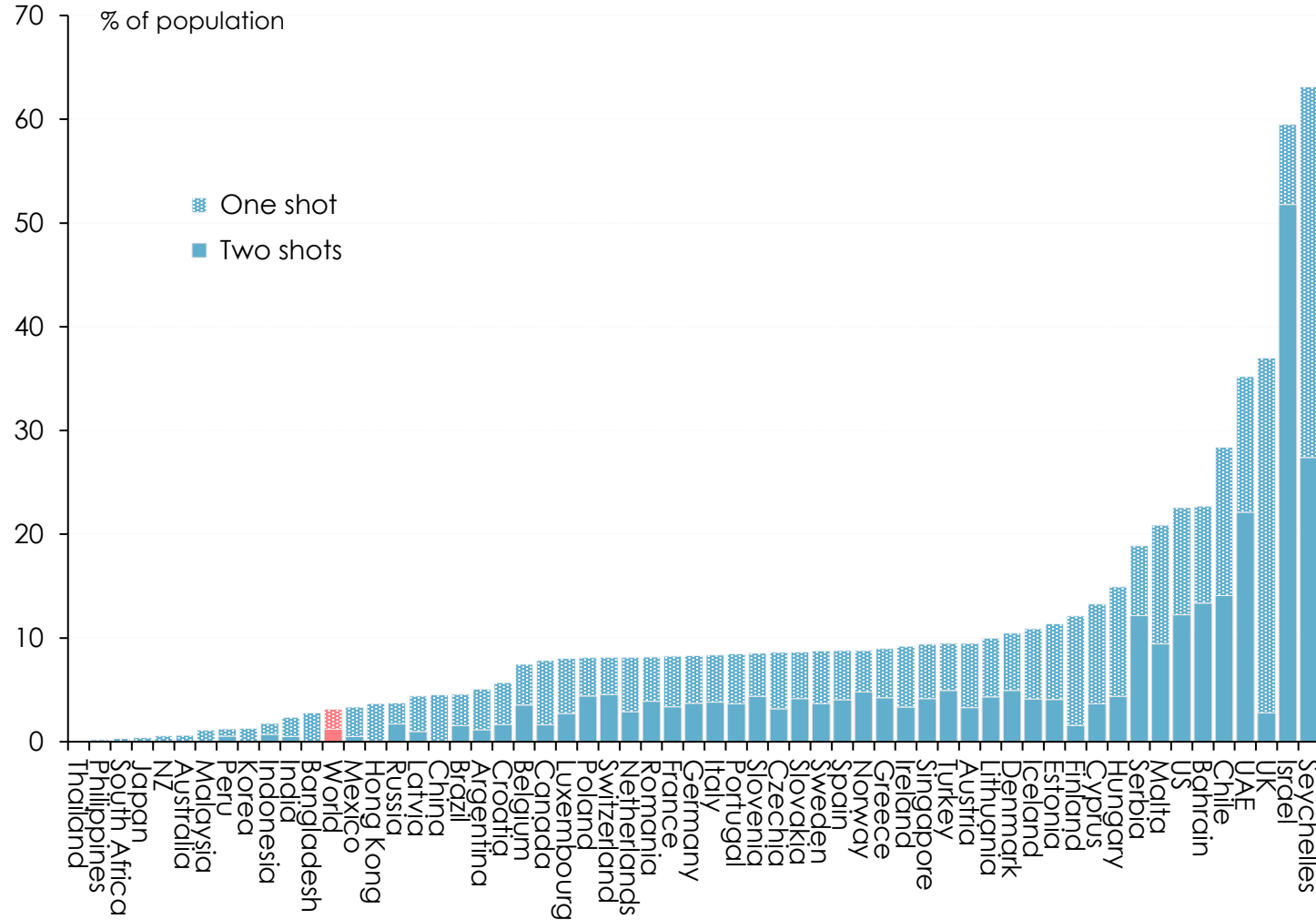
Australians 'strongly agreeing or agreeing' that they would get a vaccine when available



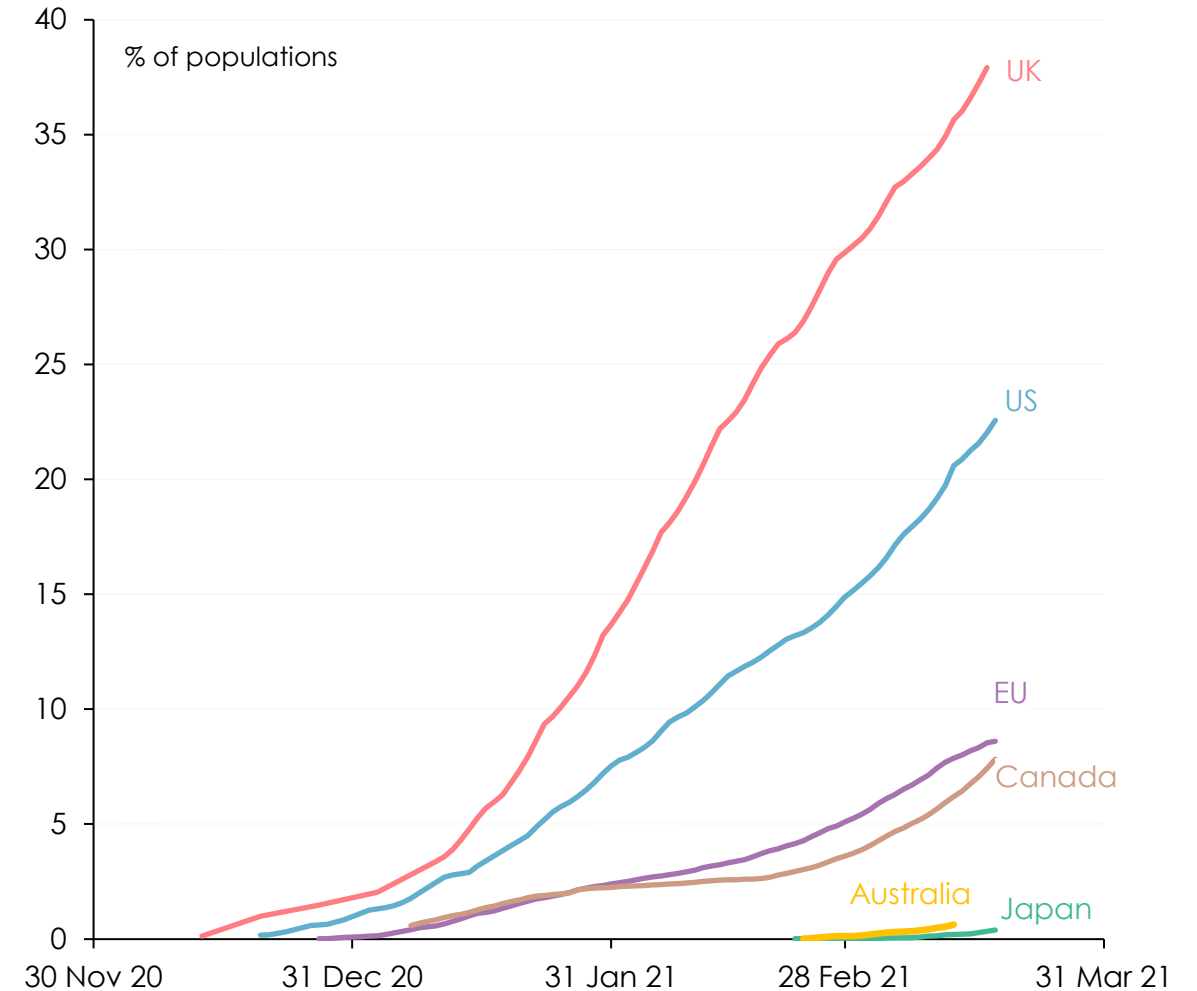
Sources: Imperial College London and YouGov, [Covid 19 Behaviour Tracker Data Hub](#); ABS, [Household Impacts of Covid-19 Survey](#), March 2021. [Return to "What's New"](#).

52% of Israel's population has been fully vaccinated (and a further 7% have had one shot); 38% of the UK's and 23% of the US's have had at least 1 shot

Percentage of population who have had at least one vaccination shot as at 18th March



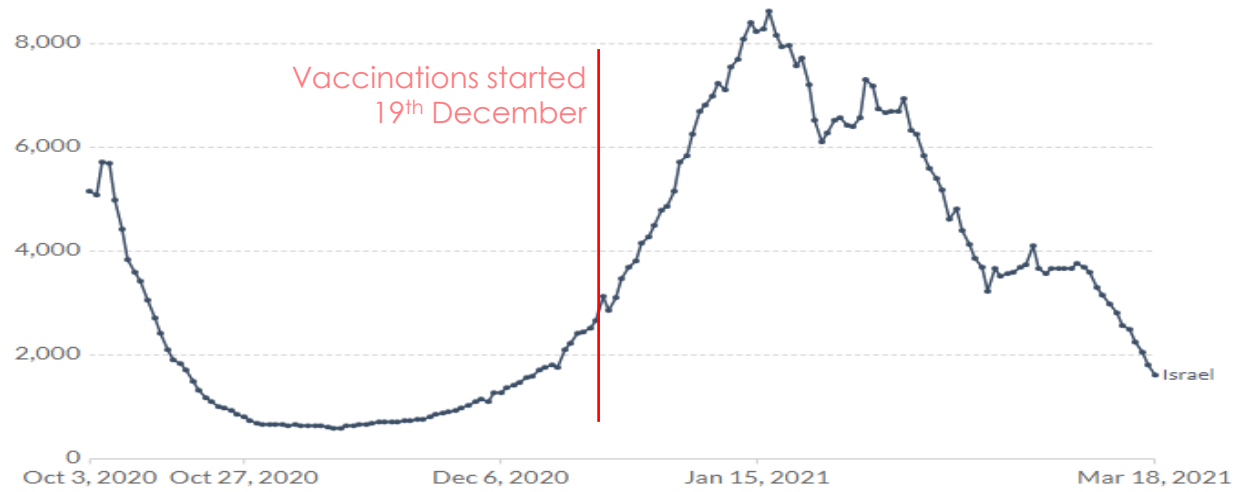
Percentage of major 'advanced' economies' populations who have had at least one shot



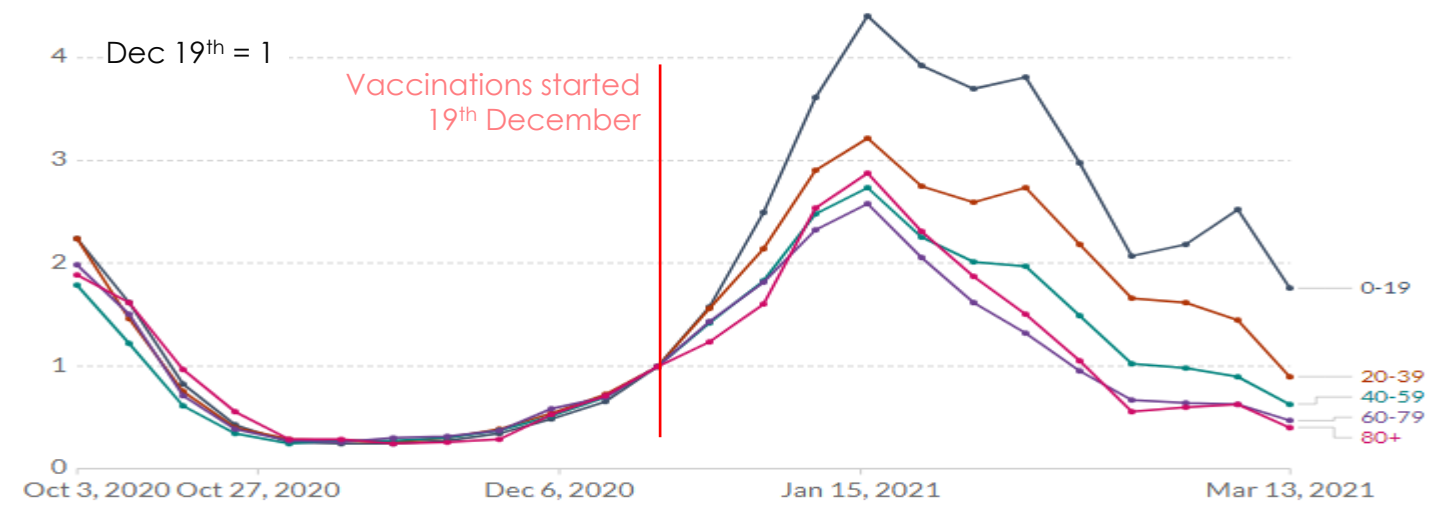
Note: Data up to 17th or 18th March in most cases.
Sources: Our World in Data, [Coronavirus \(COVID-19\) Vaccinations](#). [Return to "What's New"](#).

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

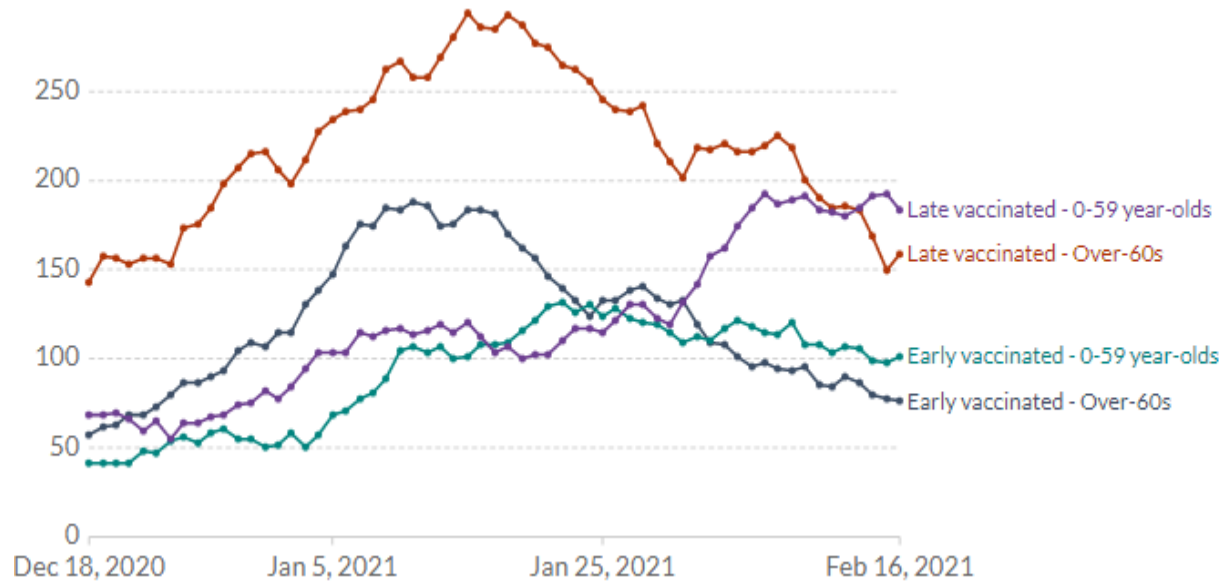
Daily new confirmed cases



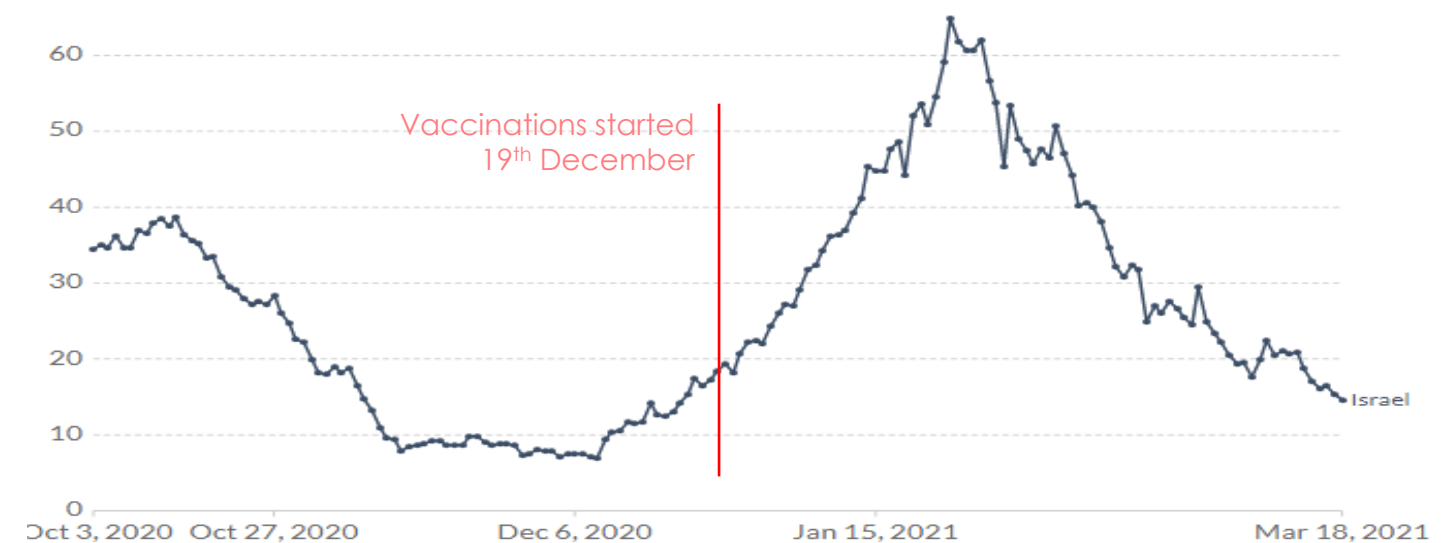
Confirmed cases by age group



Hospitalizations for Covid-19 by age



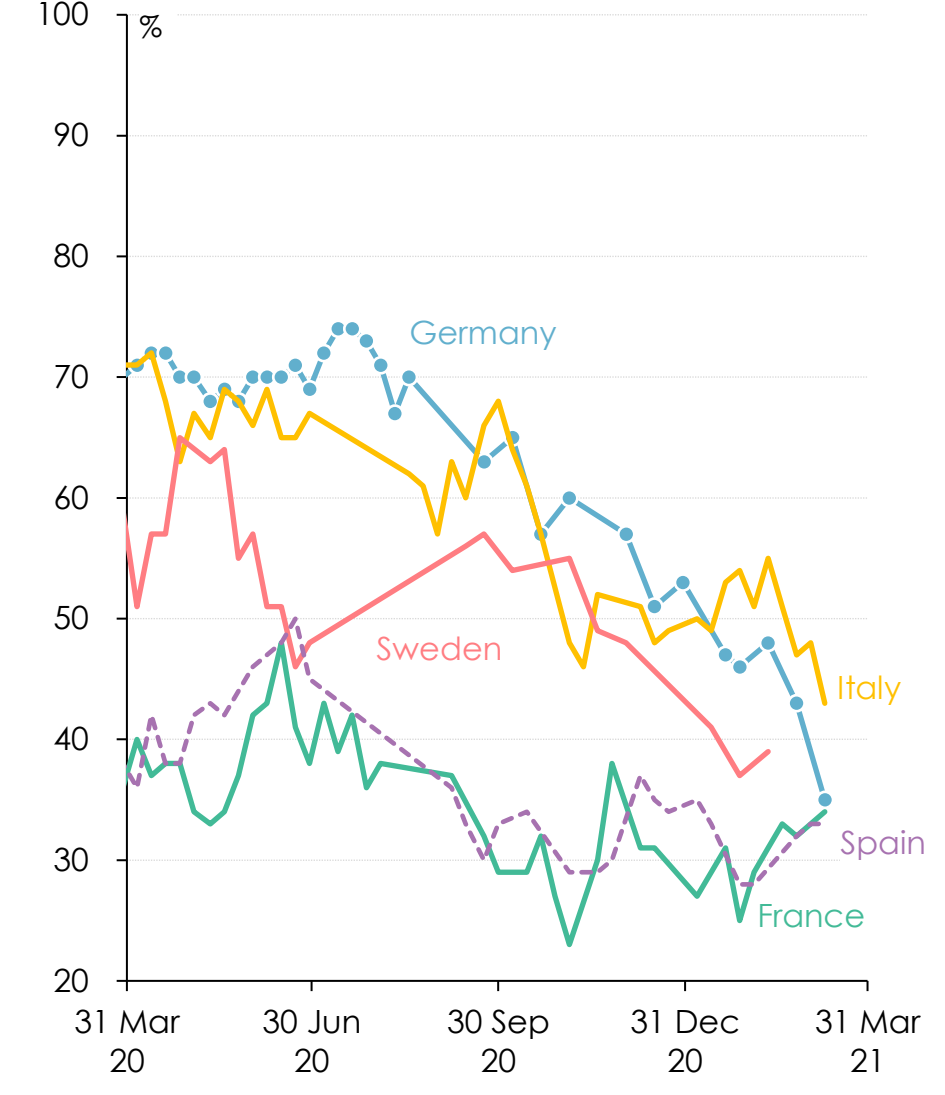
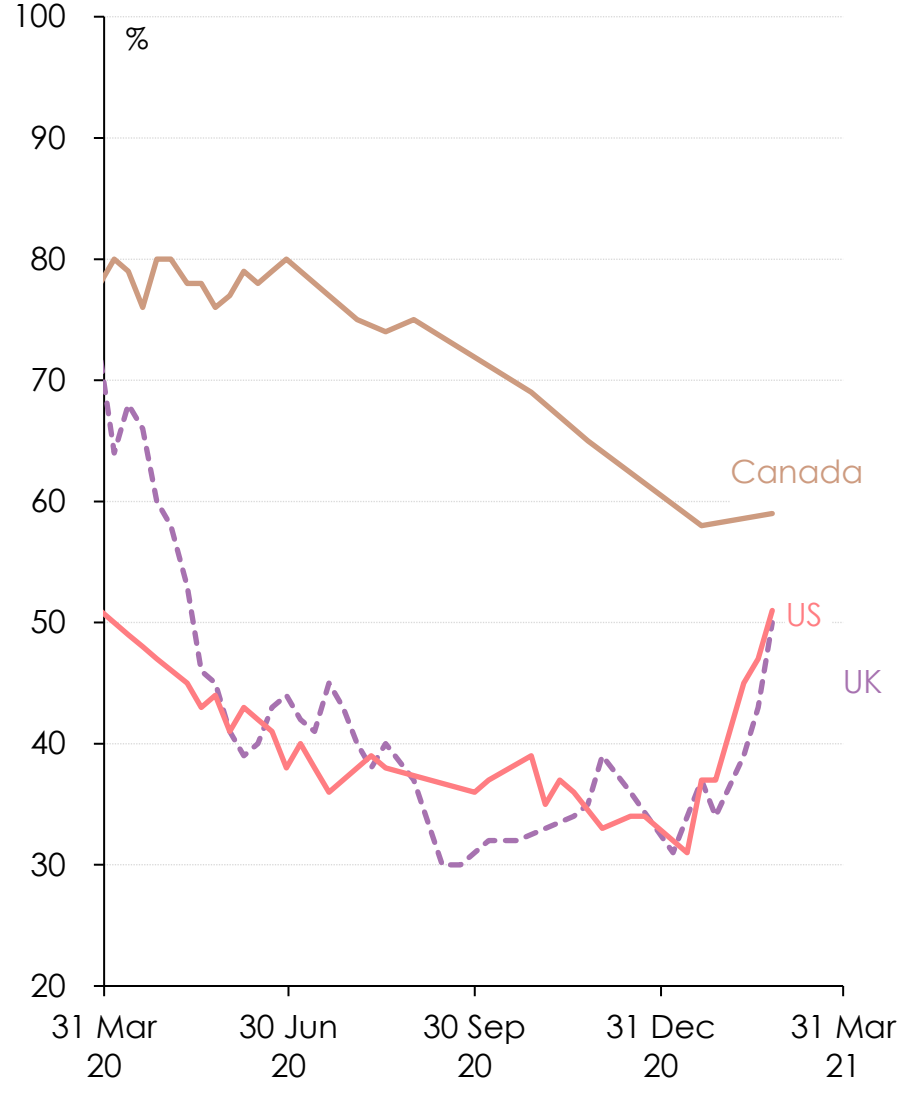
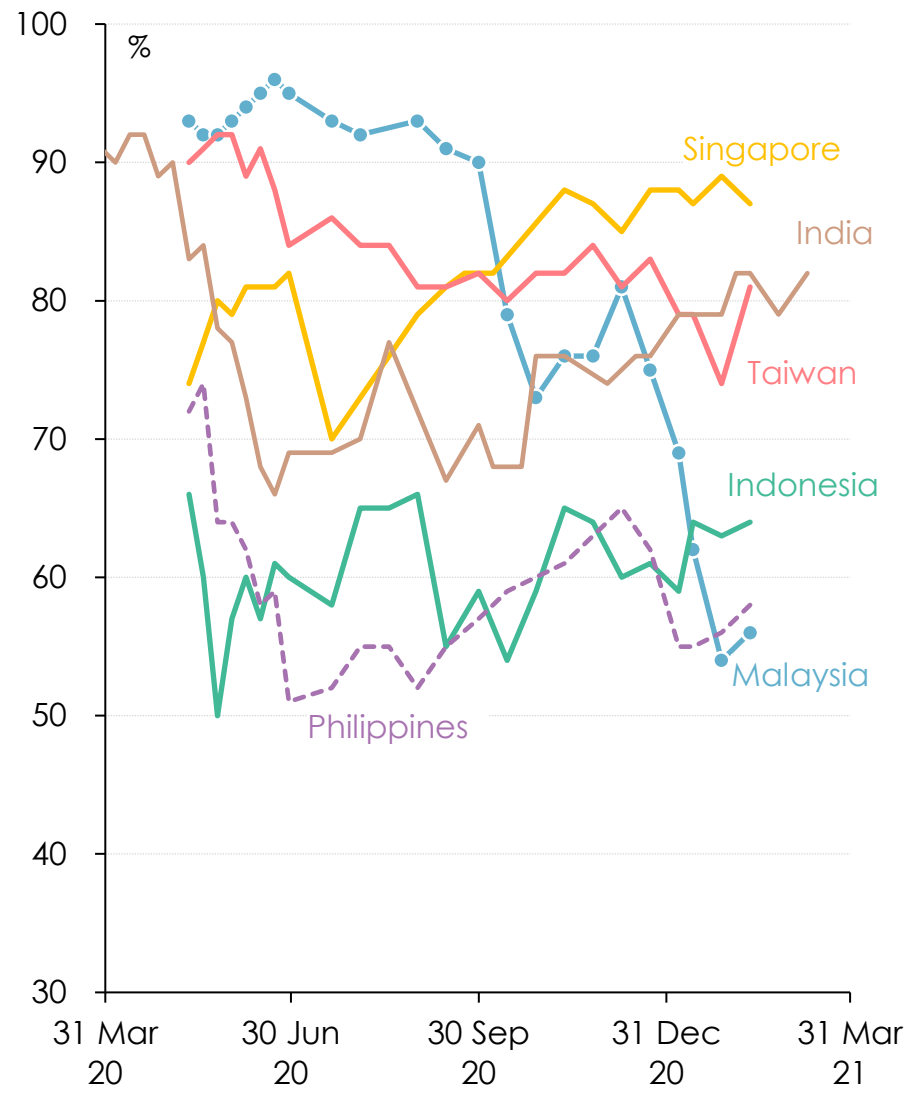
Confirmed Covid-19 deaths



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

Voter approval of the US & UK governments' handling of covid-19 has improved significantly, while approval of Germany's has fallen markedly

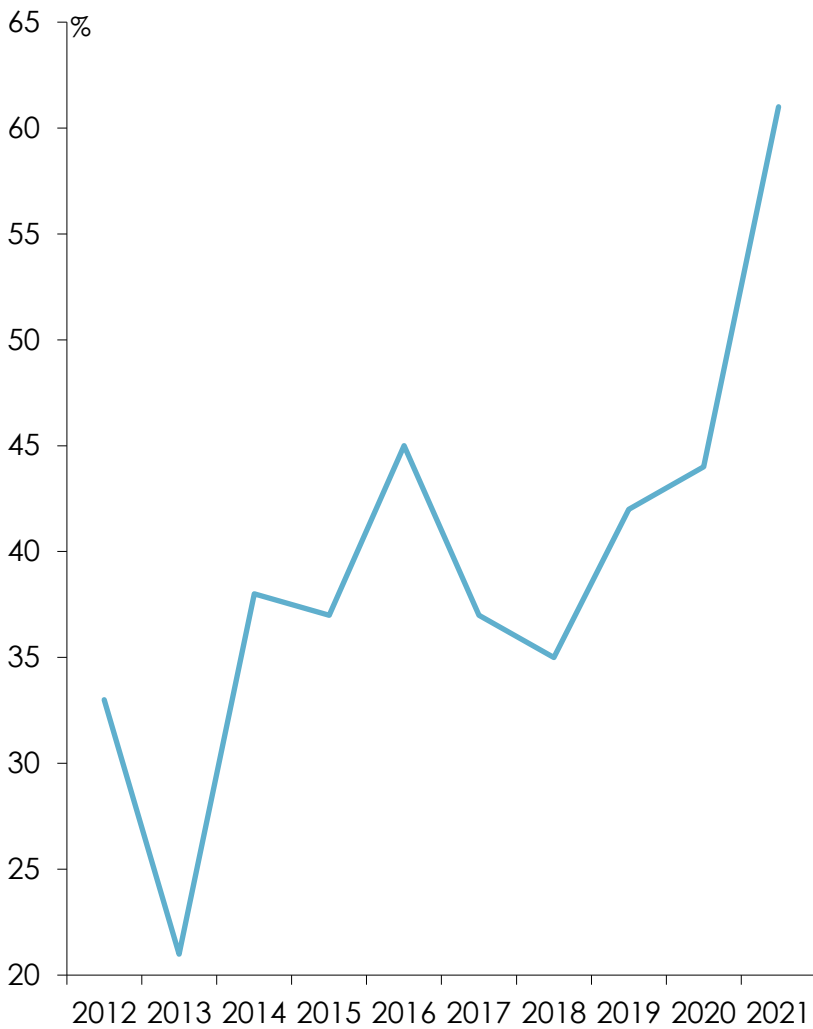
Voter approval of their government's handling of the coronavirus pandemic



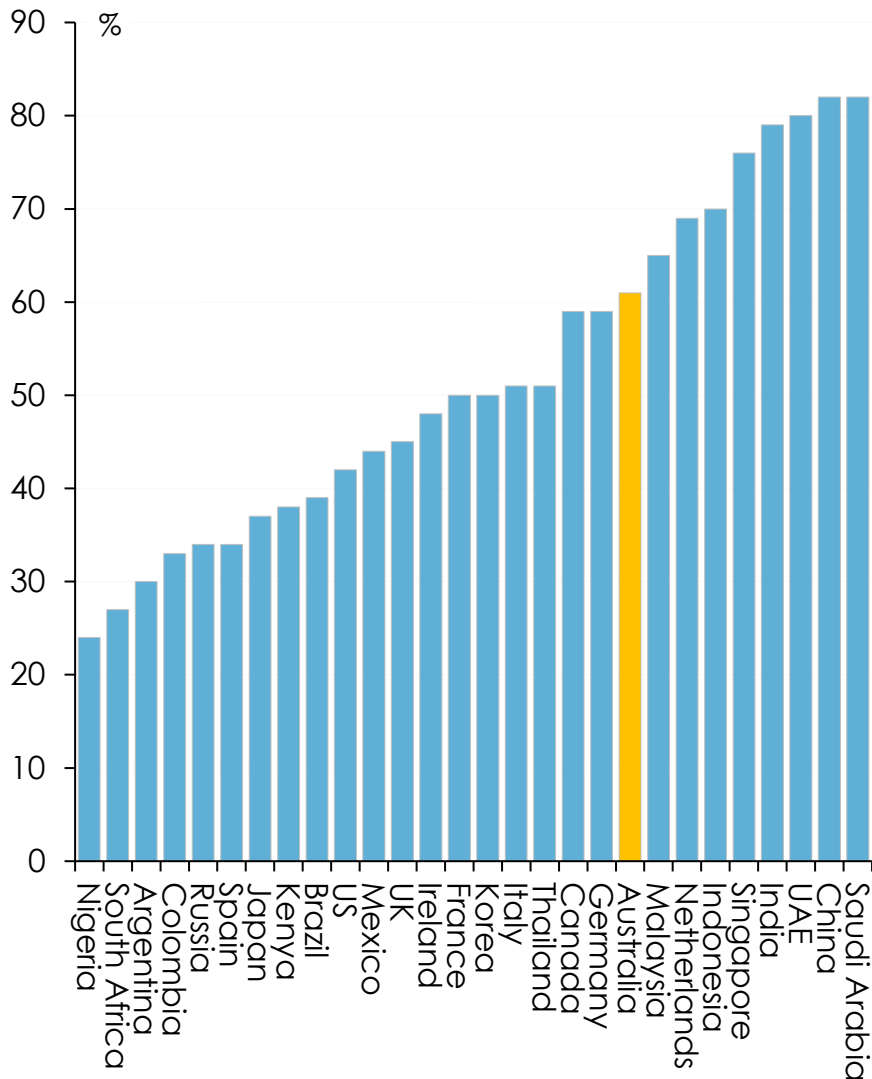
Source: YouGov, [Covid-19 tracker: government handling](#). [Return to "What's New"](#).

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

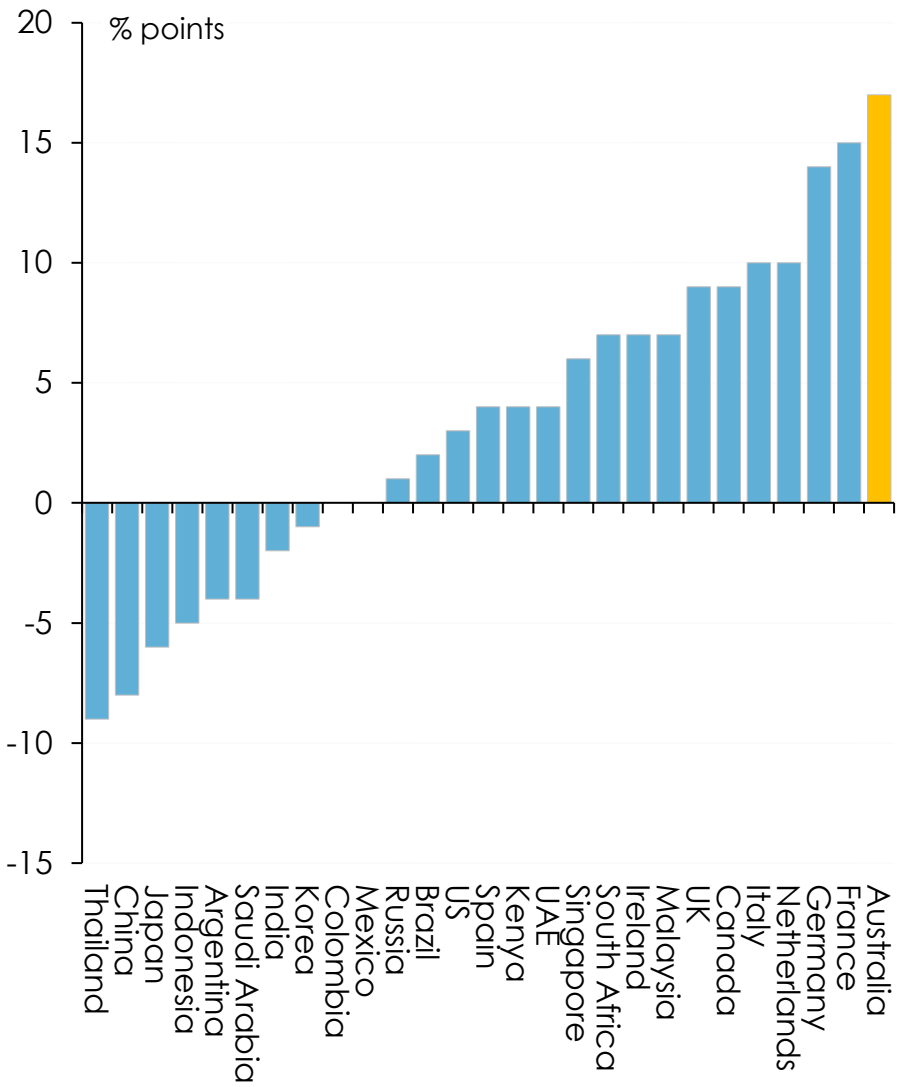
Trust in government in Australia



Trust in government, 2021



Change in government trust, 2021

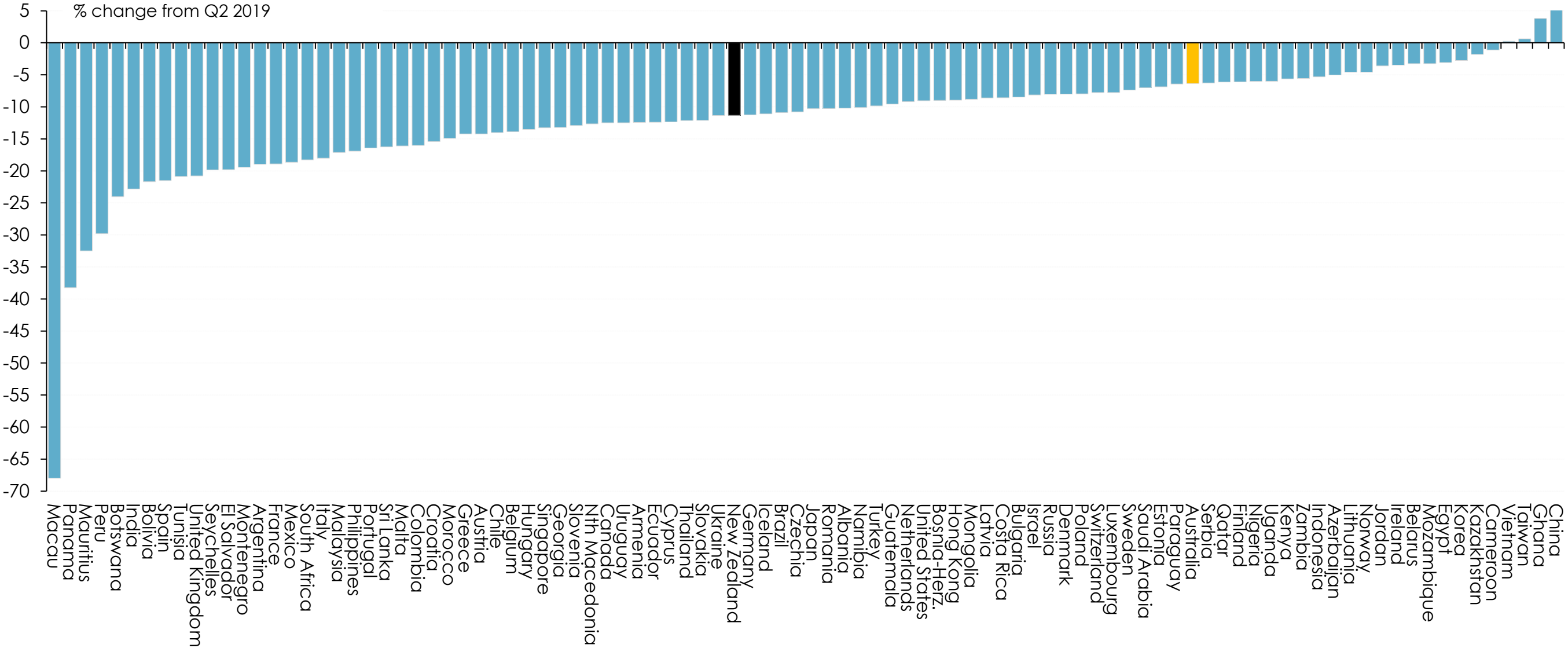


Source: [Edelman Trust Barometer](#), February 2021

The world

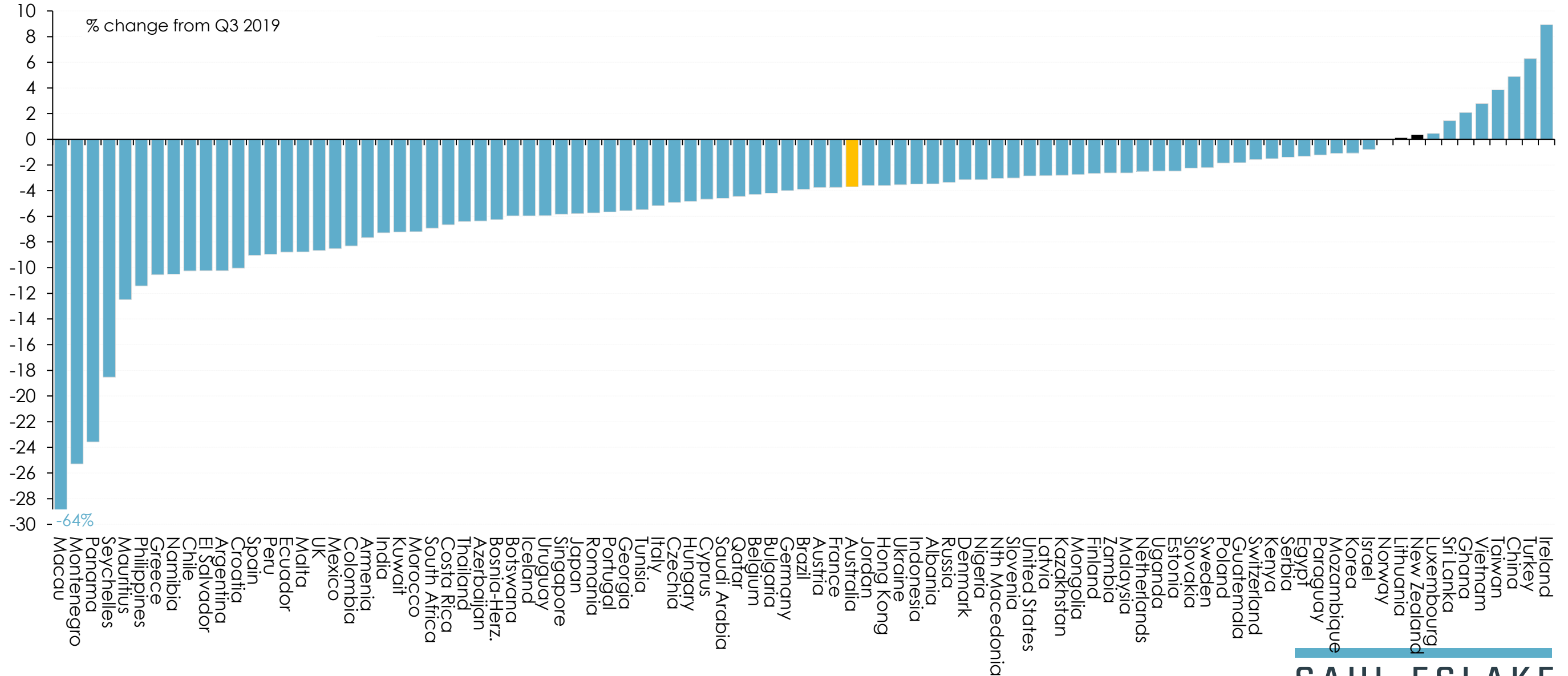
Only 4 out of 96 countries reported positive GDP growth over the year to Q2, with 10 reporting contractions of more than 20% and 42 of 10-20%

Real GDP growth over the year to Q2 2020



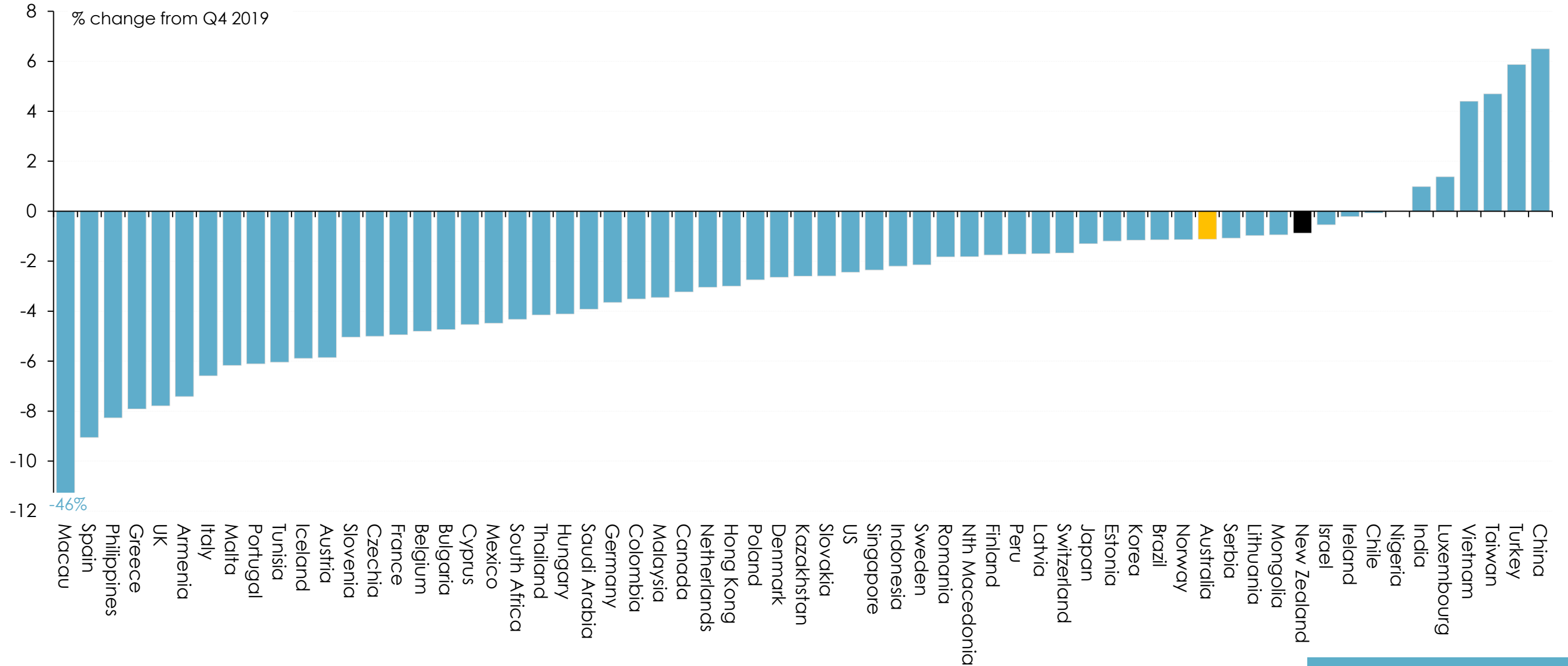
... but of 93 countries which have reported Q3 numbers, 9 showed positive growth ...

Real GDP growth over the year to Q3 2020



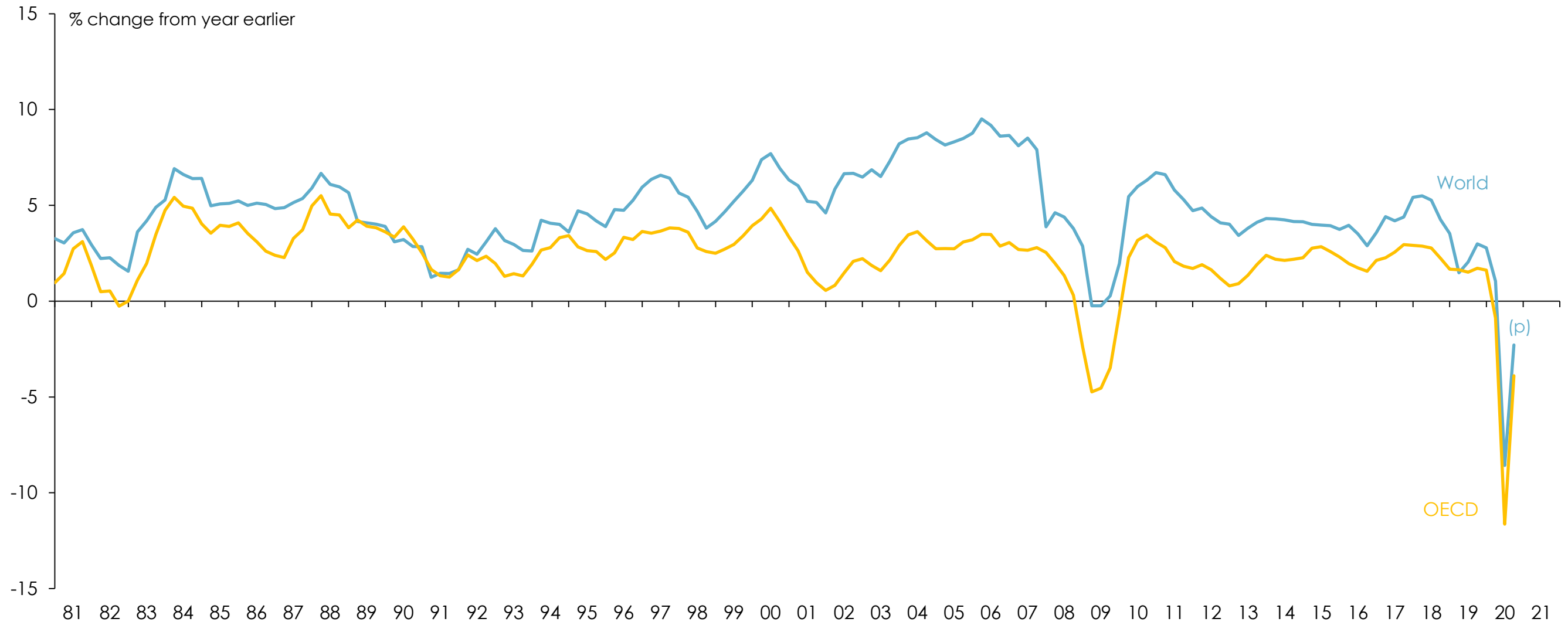
... and of the 63 countries which have so far reported Q4 national accounts, 7 have shown positive growth from Q4 2019, and only one less than -10%

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 OECD last week revised its forecast for 2021 global GDP growth upwards by 1 pc pt to 5.6%, and its 2022 forecast by 0.3 pc pt to 4.0%

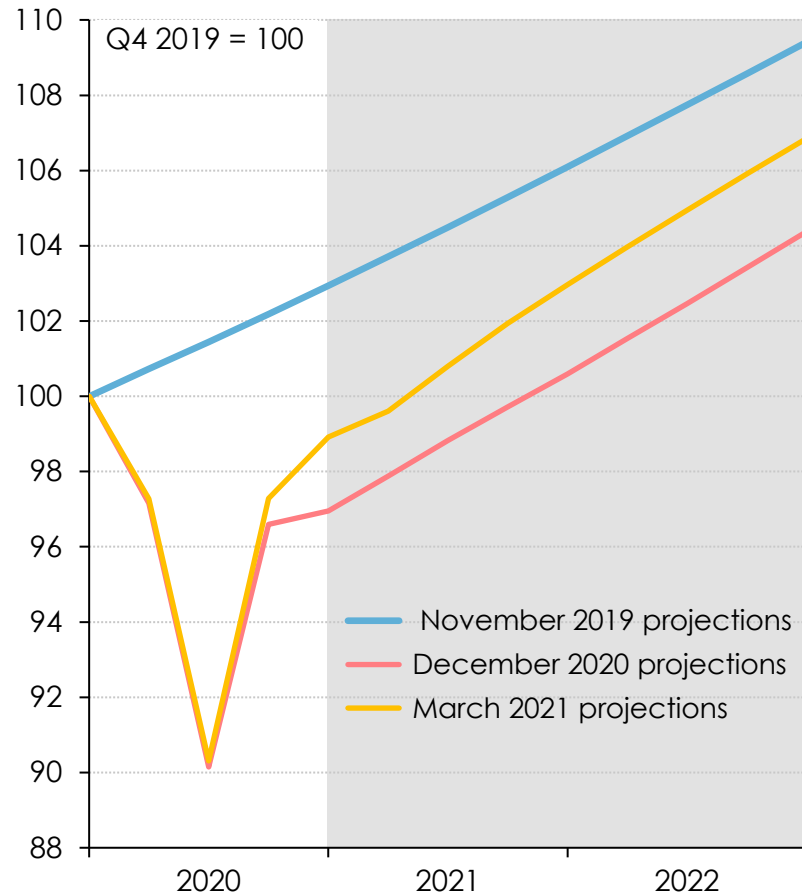
Major global institutions' growth forecasts for 2020, 2021 and 2022 compared

	Actual 2019	IMF			World Bank			OECD			Australian Treasury		
		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	-3.5	6.5	3.3	-3.8	3.3	3.0
China	6.0	2.3	8.1	5.6	2.0	7.9	5.2	2.3	7.8	4.9	1.8	8.0	5.3
Euro area	1.3	-7.2	4.2	3.6	-7.4	4.5	3.3	-6.8	3.9	3.8	-7.5	3.5	3.3
India	4.2	-8.0	11.5	6.8	-9.6	5.4	5.2	-7.4	12.6	5.4	-7.5	9.0	5.5
Japan	0.3	-5.1	3.1	2.4	-5.3	2.5	2.3	-4.8	2.7	1.8	-5.3	2.8	1.8
UK	1.4	-10.0	4.5	5.0	na	na	na	-9.9	5.1	4.7	na	na	na
Australia	1.9	-2.9	3.5	2.9	na	na	na	-2.5	4.5	3.1	0.8*	3.5*	2.5*
New Zealand	2.2	-6.1	4.4		na	na	na	na	na	na	1.5 [†]	2.6 [†]	3.7 [†]
World	2.8	-3.5	5.5	4.2	-4.3	4.0	3.8	-3.4	5.6	4.0	-4.0	4.8	3.8
World trade	1.0	-9.6	8.1	6.3	-9.5	5.0	5.1	na	na	na	na	na	na

Note: * Forecasts for fiscal years beginning 1st July (and finishing 30th June following year) † Forecasts by New Zealand Treasury for fiscal years beginning 1st July
Sources : International Monetary Fund (IMF), [World Economic Outlook Update](#), 26th January 2021; The World Bank, [Global Economic Prospects](#), 6th January 2021; Organization for Economic Co-operation & Development (OECD), [Economic Outlook, Interim Report](#), 9th March 2021; Australian Treasury, [2020-21 Mid-Year Economic and Fiscal Outlook](#), 17th December 2020; New Zealand Treasury, [Half Year Economic and Fiscal Update](#), 16th December 2020.
[Return to "What's New"](#).

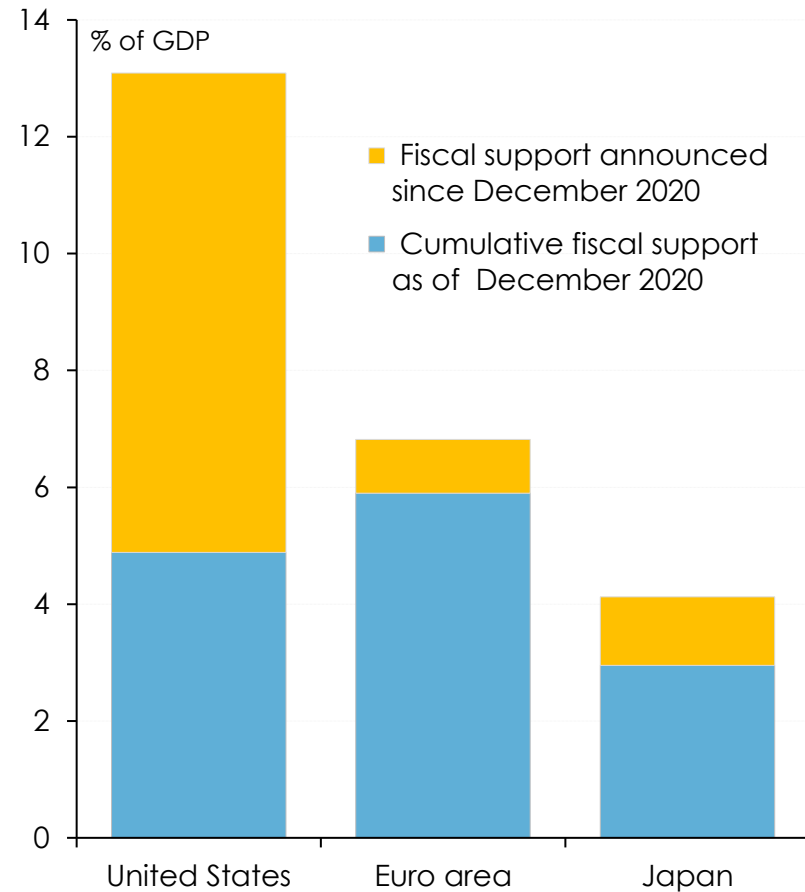
The OECD's more optimistic view owes much to the size of the additional fiscal stimulus in the US

Global GDP projections



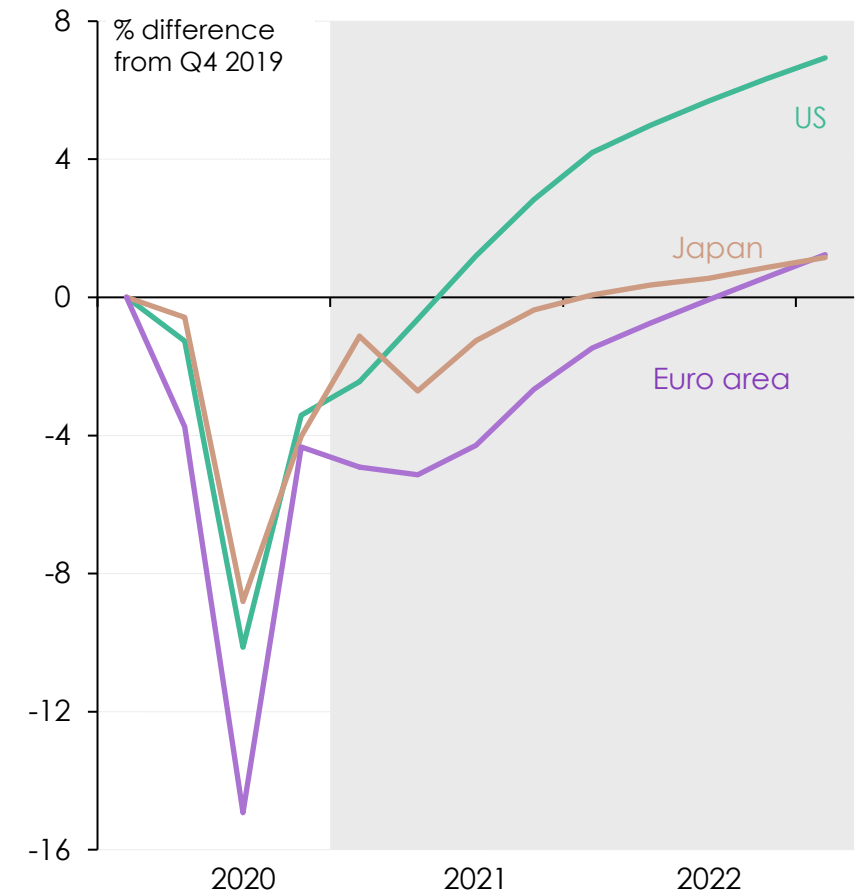
❑ The OECD now expects global GDP to have returned to its pre-pandemic level by Q1 this year, rather than Q4 as in its November forecast

Fiscal stimulus measures



❑ The OECD estimates that the US fiscal stimulus which it thinks will boost US growth by 3¾ pc points this year (and world growth by 1 pc pt)

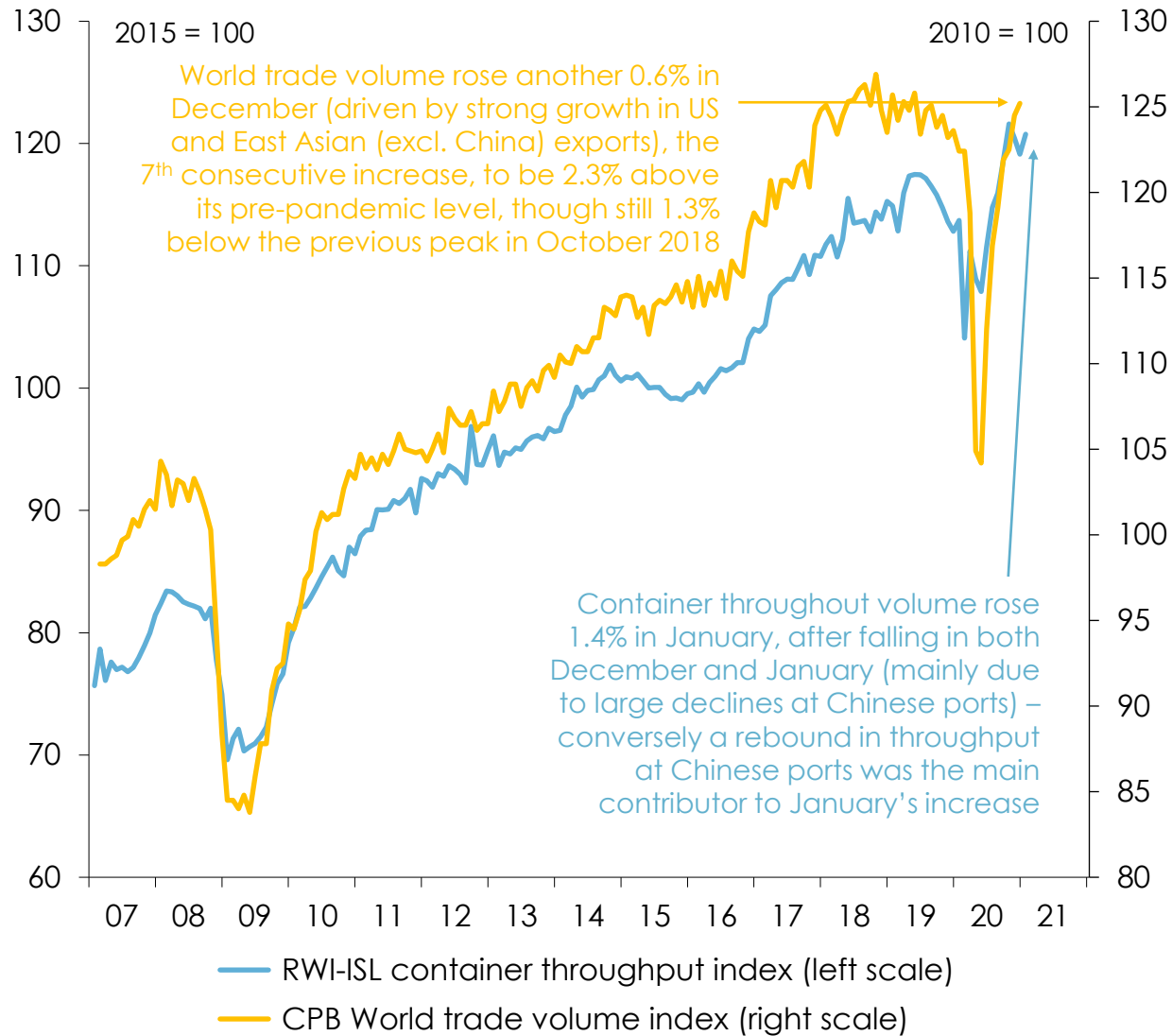
'Advanced' economies' GDP



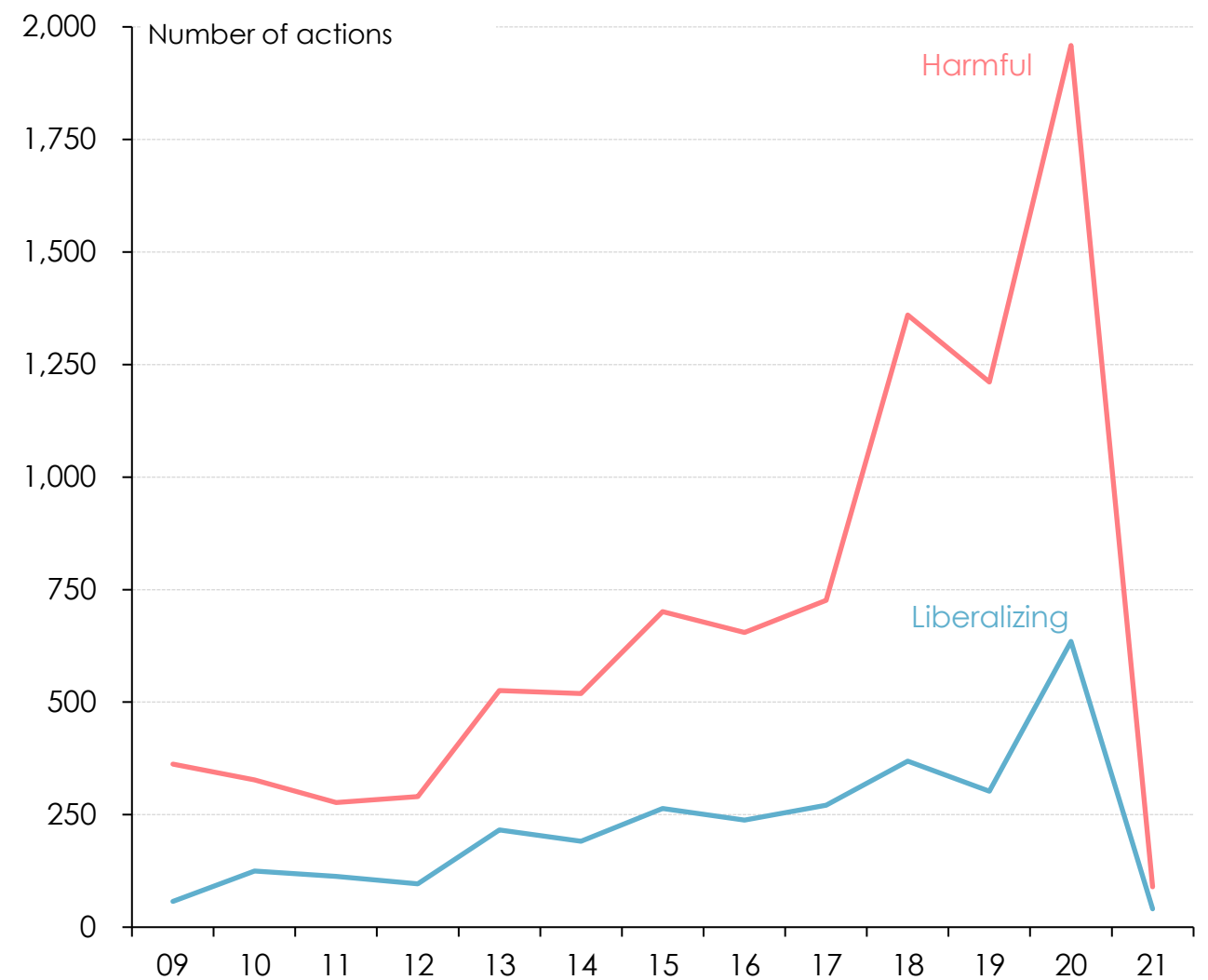
❑ By Q4 2022 the OECD expects the US economy to have grown by 7% from its Q4 2019 level – compared with just 1.2% for both the euro area & Japan

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

World trade volumes and container throughput



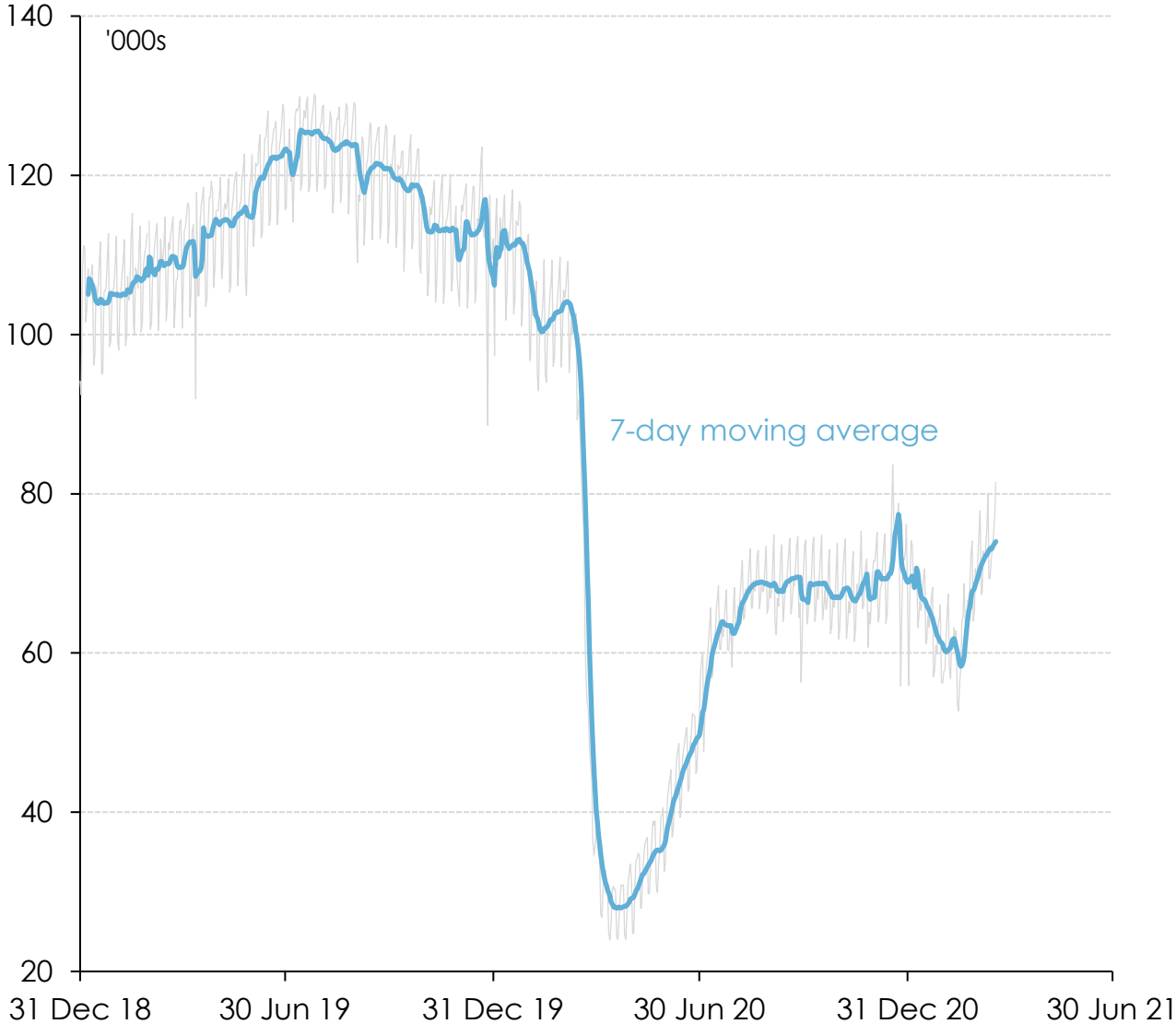
Pro- and anti-trade government policy actions



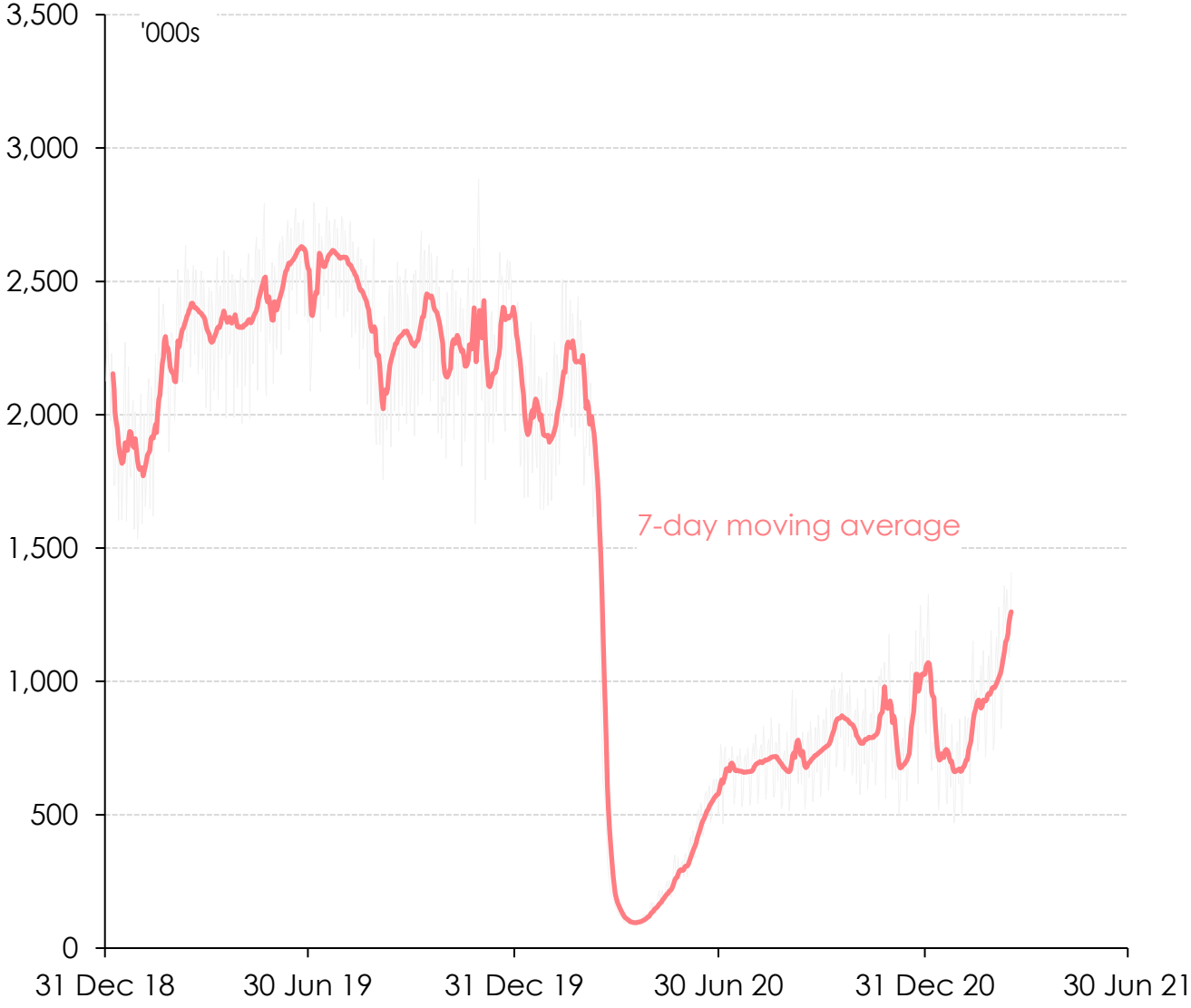
Note: The shipping container throughput index is based on reports from 91 ports around the world handling over 60% of global container shipping.
Sources: CPB Netherlands Economic Planning Bureau, [World Trade Monitor](#) (January data to be released on 25th March); Institute of Shipping Economics & Logistics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

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

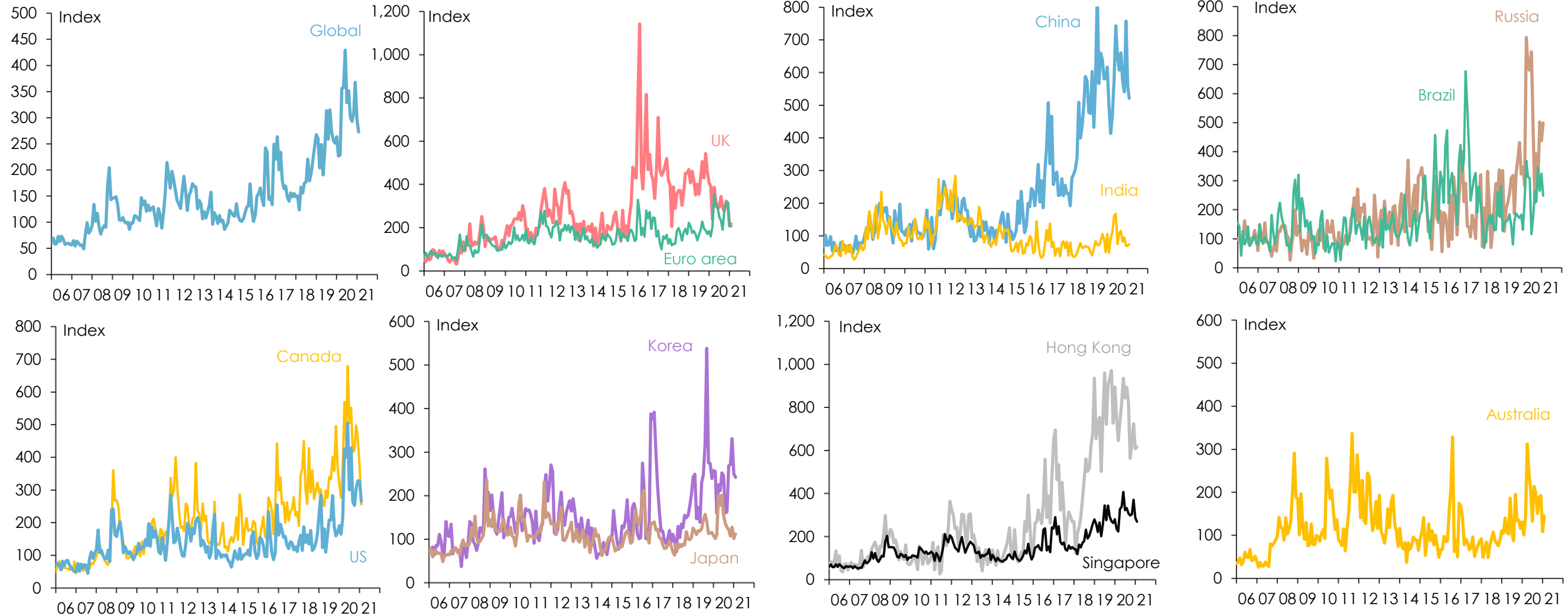


Note: Commercial flights include commercial passenger flights, cargo flights, charter flights, and some business jet flights. Data up to 19th March for commercial flights and 18th March for TSA checks. Thicker coloured lines are 7-day centred moving averages of daily data plotted in thin grey lines.

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

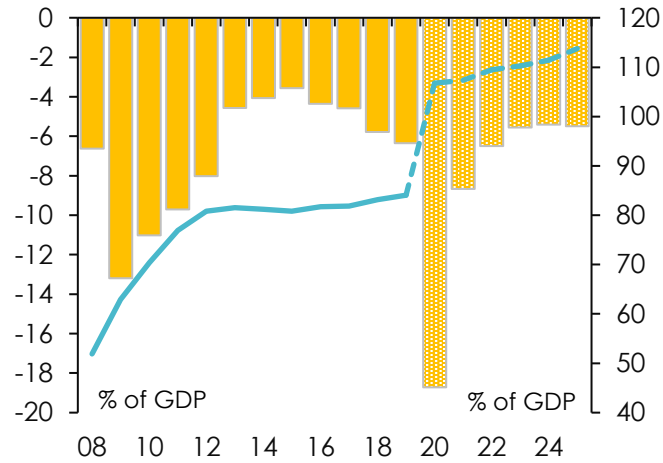
Economic policy uncertainty indices



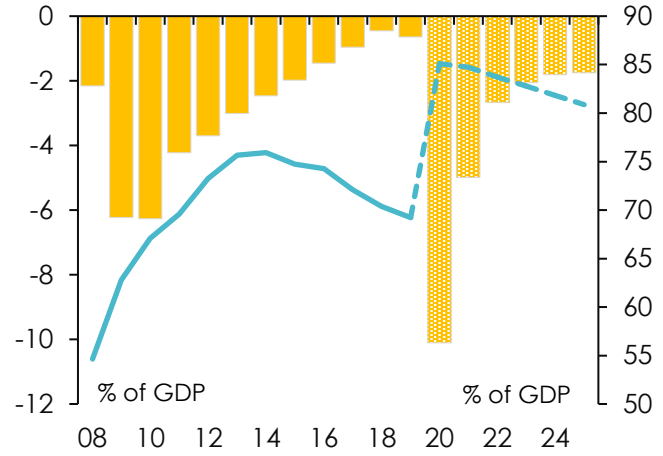
Note: The Economic Policy Uncertainty Index is derived from a count of newspaper articles containing the words "uncertain" or "uncertainty", "economy" or "economic", and policy-relevant terms pertaining to regulation, monetary or fiscal policy, central bank, taxation, tariffs, deficit, budget, etc. The 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"](#).

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

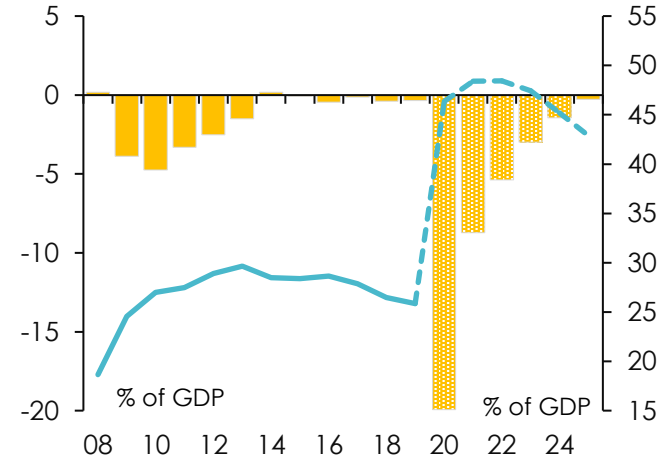
United States



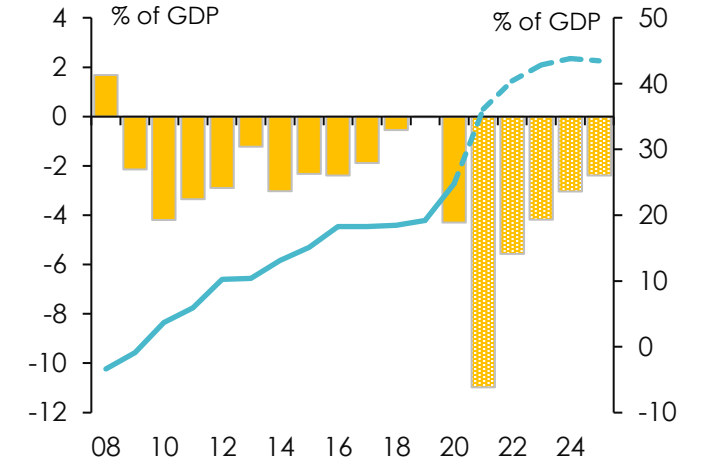
Euro area



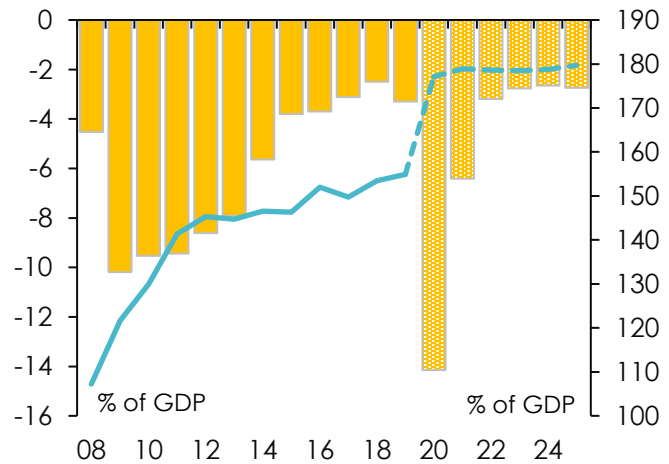
Canada



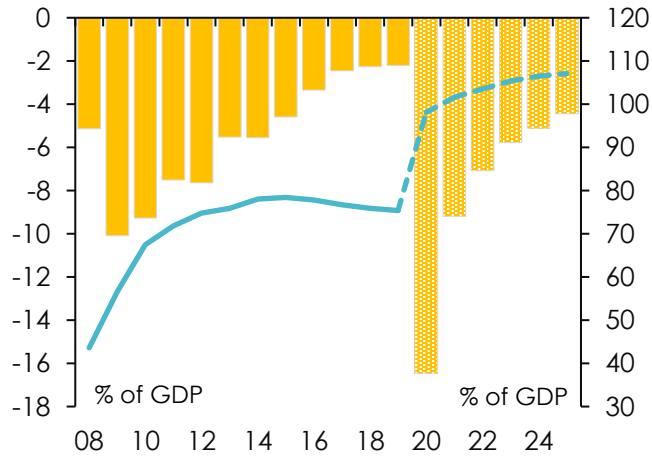
Australia



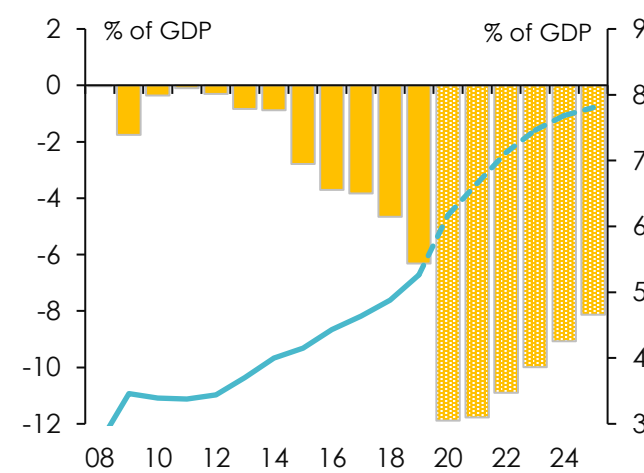
Japan



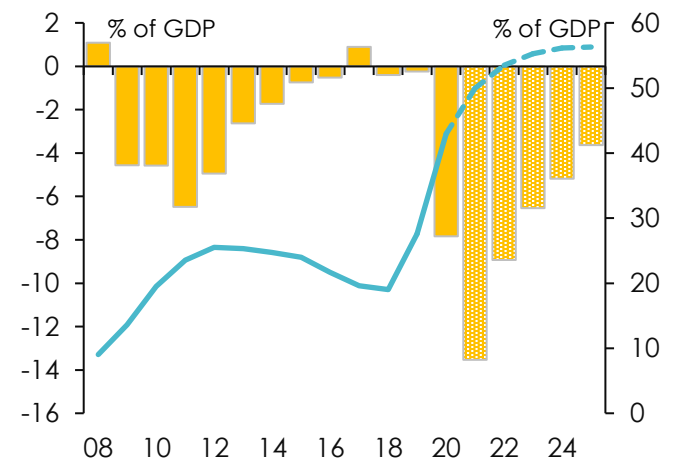
United Kingdom



China



New Zealand



General government overall fiscal balance (left scale)

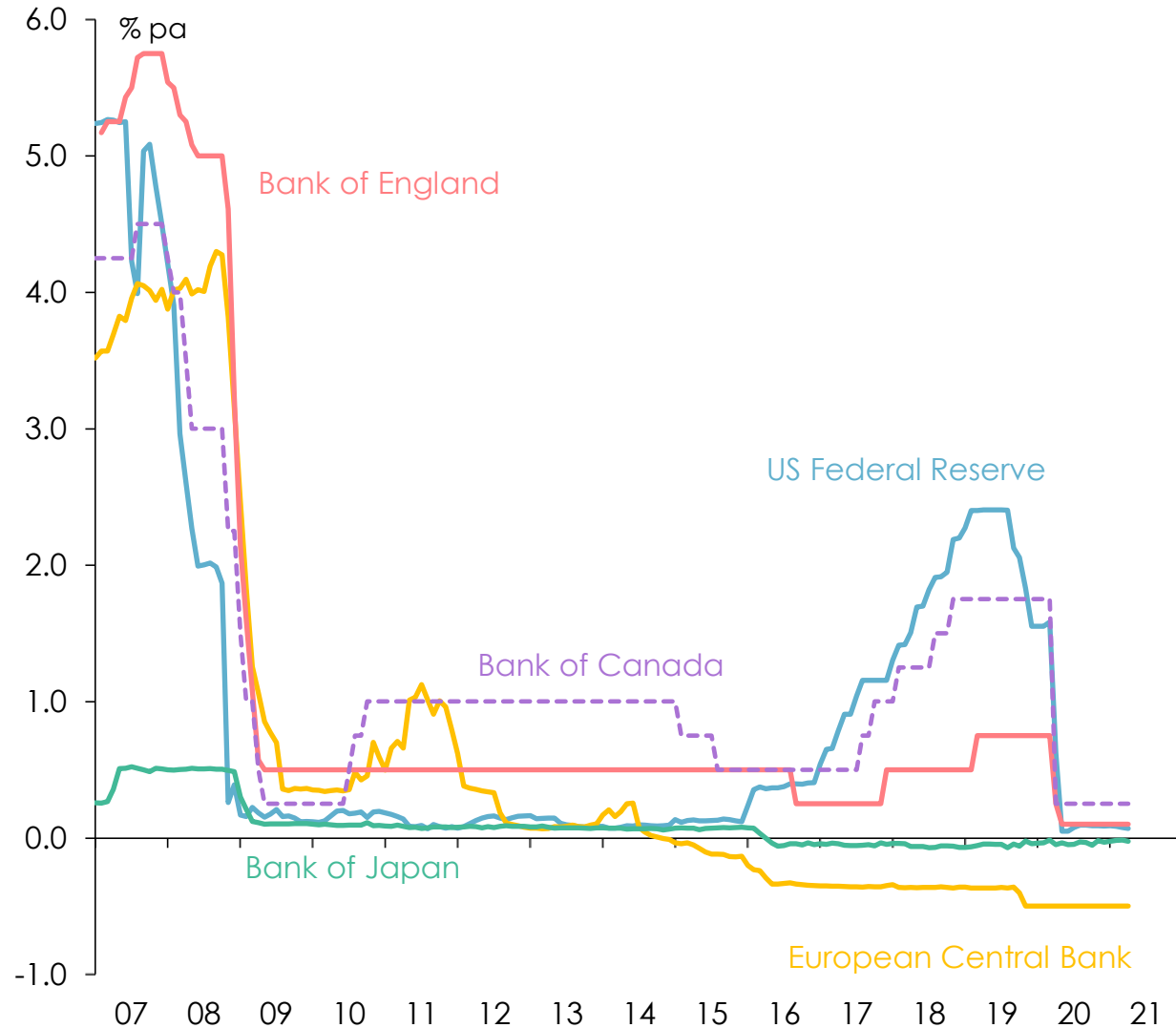


General government net debt (right scale)

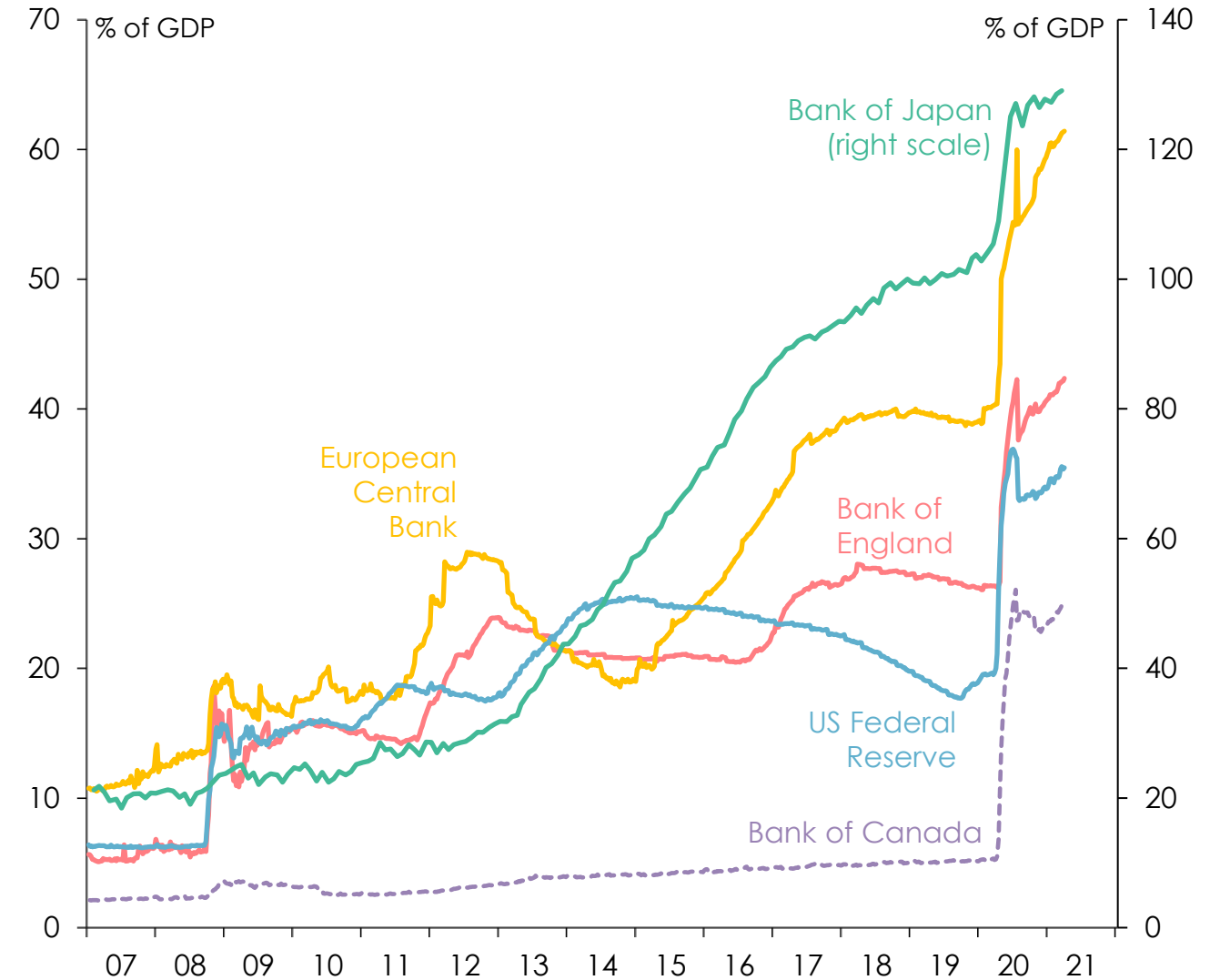
Note: China debt is gross debt, not net; Australian data are for the federal government only and are for fiscal years ended 30th June; NZ data are for fiscal years ended 31st March. Sources: International Monetary Fund, [Fiscal Monitor](#), and [World Economic Outlook](#), October 2020 (both publications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

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

Major central bank policy interest rates



Major central bank balance sheets



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

The Fed again left monetary policy settings unchanged at this week's FOMC meeting, despite some significant upgrades to 2021 forecasts

- ❑ **As expect the Fed again left policy settings unchanged at the FOMC meeting held this Wednesday ...**
 - and again re-iterated that it will keep its target range for the Fed funds rate at 0-1/4% “until labour market conditions have reached levels consistent with [its] assessments of maximum employment and inflation has risen to 2% and is on track to moderately exceed [sic] 2% for some time” ...
 - ... and continue with the current pace of asset purchases (at least US\$80bn per month of Treasury securities and at least \$40bn per month of mortgage-backed securities) “until substantial further progress has been made toward the Committee's maximum employment and price stability goals”
- ❑ **... despite substantial upward revisions to Fed Governors' and regional presidents' economic forecasts for 2021**
 - forecasts for real GDP growth through 2021 were revised up from a range of 1/2-5 1/2% (with a median of 4.2%) in December to a range of 5-7 1/4% (with a median of 6.5%), reflecting the fiscal stimulus put in place since December,
 - while the median forecast for the unemployment rate in Q4 this year was lowered from 5% to 4.5%, and the forecast for core PCE inflation over the year to Q4 this year raised from 1.8% to 2.4%
- ❑ **However there was little change in FOMC participants' medium-term views**
 - the median forecast for real GDP growth through 2022 was revised upwards by just 0.1 pc pt, to 3.3%, and that for 2023 was actually *lowered* by 0.2 pc pt to 2.2% - while the median forecasts for unemployment in Q4 2022 and 2023 were only cut by 0.3 and 0.2 pc pts respectively, to 3.9% and 3.5%; and the median forecasts for core inflation were raised by just 0.1 pc pt, to 2.0% for Q4 2022 and 2.1% for Q4 2023
- ❑ **As a result, no Board members or regional presidents thought it appropriate to raise the Fed funds rate this year**
 - only four (out of 17) favour raising rates in 2022 (up from one in December), of whom three favour just one rate increase
 - and seven (up from five in December) favour raising rates in 2023
 - the median forecast is for no rate increases at all before 2024

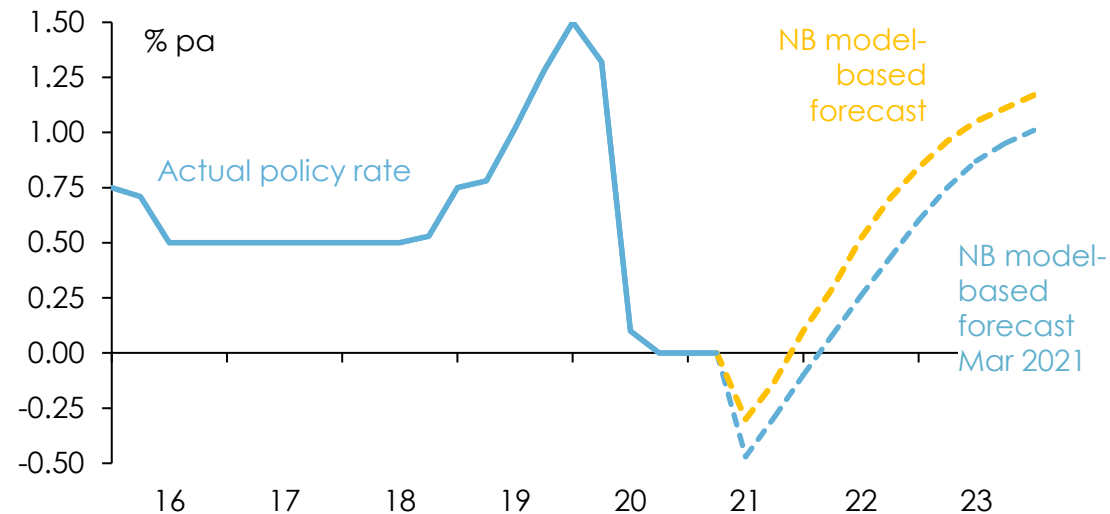
Note: The FOMC's 17th March statement is [here](#), while Governors' and regional Presidents' forecasts are summarized [here](#). [Return to "What's New"](#).

The Bank of England left monetary policy settings unchanged this week, as did the Bank of Japan (with a few minor ‘tweaks’ to its policy framework)

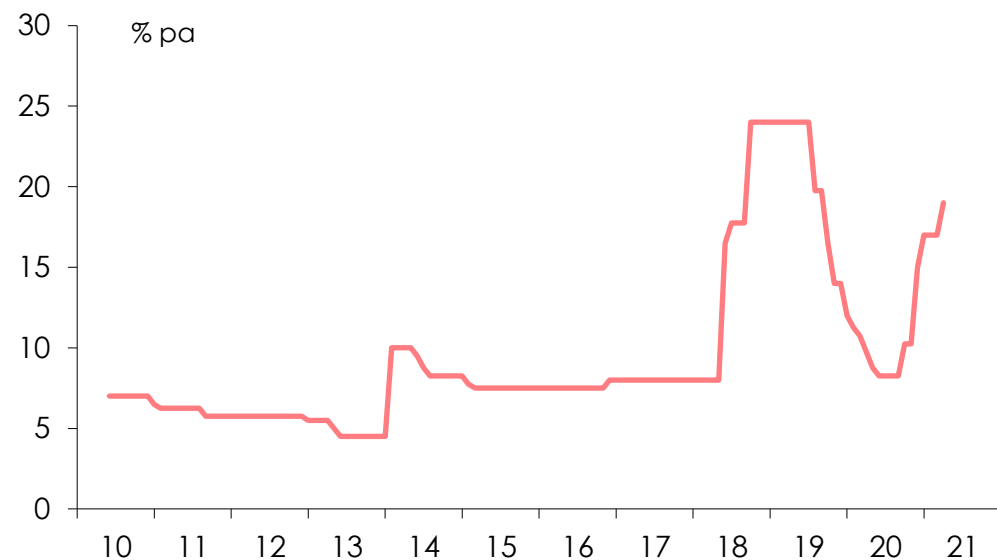
- ❑ **The Bank of England’s Monetary Policy Committee left monetary policy settings unchanged at its meeting on Thursday, keeping the Bank Rate at 0.1% and the asset purchase target at £895bn (to be attained by end-of “2021)**
 - the MPC noted that restrictions on activity “could be lifted somewhat more rapidly than had been assumed” (in the BoE’s most recent forecasts), but that the extent to which that and other (generally positive) economic news changed the outlook was “less clear”, and that the outlook “remained unusually uncertain”
 - the Committee judged that there was “a material degree of spare capacity at present” and that it “did not intend to tighten monetary policy at least until there was clear evidence that significant progress was being made in eliminating spare capacity and achieving the 2% inflation target sustainably”
 - the Committee also noted that the BoE’s ‘remit’ had been altered in this month’s Budget to include “supporting the transition to a net zero emissions economy” and that, in response, the BoE would adjust its Corporate Bond Purchase Scheme to “account for the climate impact of the issuers of the bonds it held”
- ❑ **The Bank of Japan on Friday announced some minor changes to its monetary policy framework following an internal review of the effectiveness of existing policy settings**
 - the permissible range of fluctuation in the 10-year JGB yield around the target of 0% will be widened from 20 to 25 bp
 - the BoJ will conduct “fixed-rate purchase operations for consecutive days” if necessary to “stop a significant rise in interest rates”
 - the BoJ will establish an ‘interest subsidy scheme’ to offset the impact on banks’ ability to finance lending in the event that it becomes necessary to reduce the policy interest rate further below the current rate of -0.1%
 - the BoJ will purchase equities (ETFs and J-REITs) “as necessary” (cf. the previous commitment to purchase ¥6trn pa)
- ❑ **Although inflation has remained persistently below the BoJ’s target the review nonetheless concluded that ‘QQE with YCC’ had been effective, lowering long-term interest rates by “around 1 pc pt on average”, lifting real GDP by about 0.9-1.3% and the CPI inflation rate 0.6-0.7 pc pts above what they would have been otherwise**

But one 'advanced' economy central bank is thinking about raising rates this year – and an 'emerging economy' central bank raised them this week

Norges Bank policy rate projections



CBRT 1-week repo auction interest rate



❑ Norges Bank (Norway's central bank) kept its policy rate at 0% at its Monetary Policy and Financial Stability Committee meeting this week, but **foreshadowed** that “the policy rate will most likely be raised in the latter half of 2021”

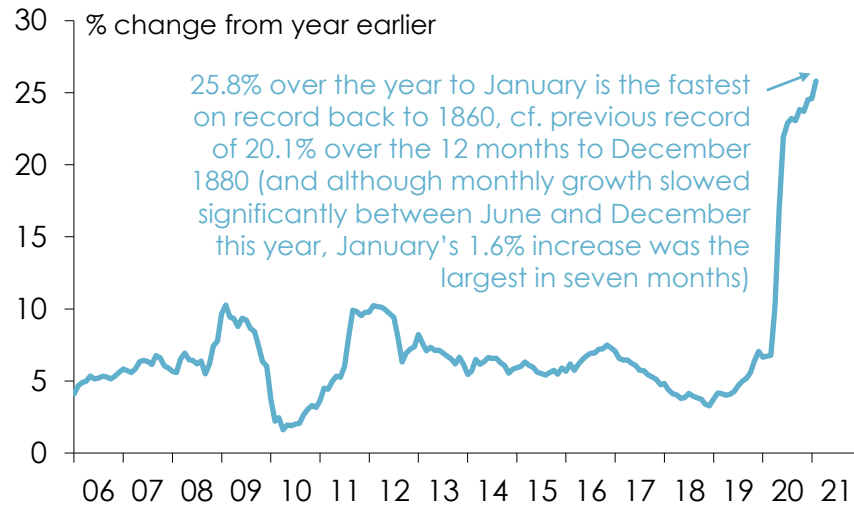
- in reaching this conclusion the MPFSC “placed weight on the marked rise in house prices since spring 2020” (see [slide 40](#)) as well as “the risk of a build-up of financial imbalances” as a result of “a long period of low interest rates”
- the Committee also noted that “there are prospects that economic activity will approach a normal level earlier than projected” in December, which in turn “implies a somewhat faster rate rise than projected in December”

❑ The Central Bank of Turkey (CBRT) raised its key one-week repo auction interest rate from 17% to 19% on Thursday

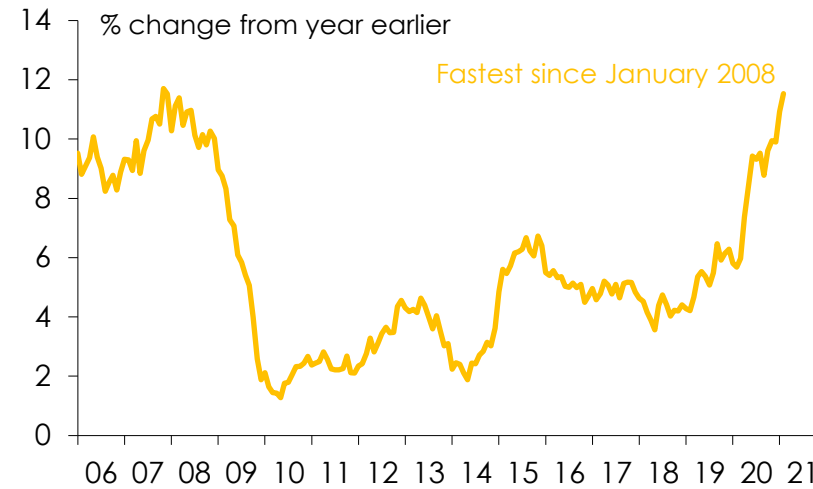
- this rate was previously raised from 15% to 17% on 24th December, and has now risen 10.75 pc pts since last September
- the Monetary Policy Board **cited** “the recent upward trend in credit growth and the increase in imported costs” as posing “upward risks” to “inflation expectations ... and the medium-term inflation outlook” ...
- ... and indicated that the “tight monetary policy stance will continue for a long time” until “permanent price stability and the 5% target” is reached, with “additional monetary tightening ... if necessary”

'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

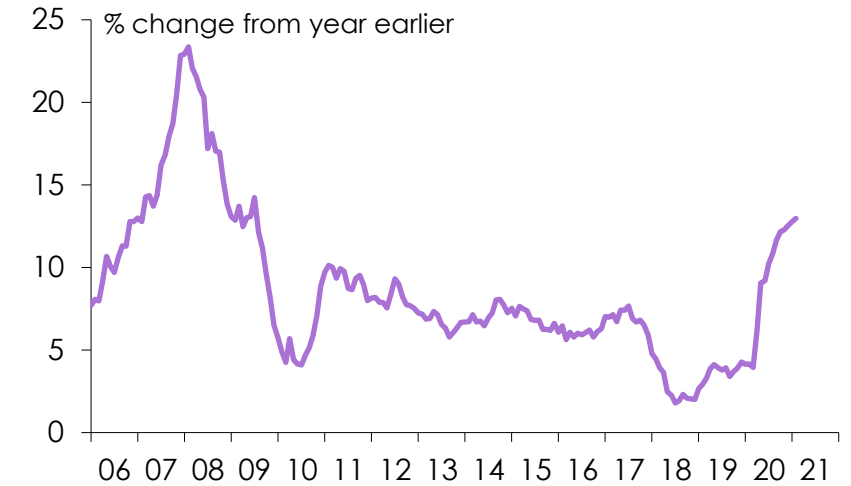
US M2



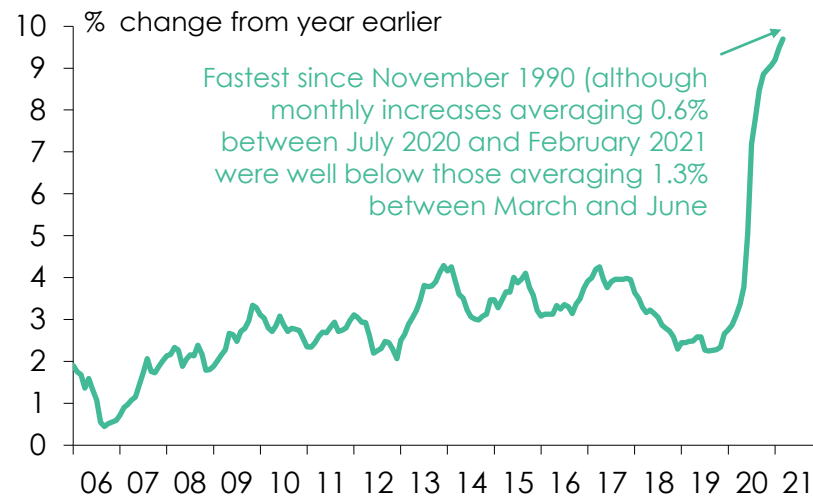
Euro area M2



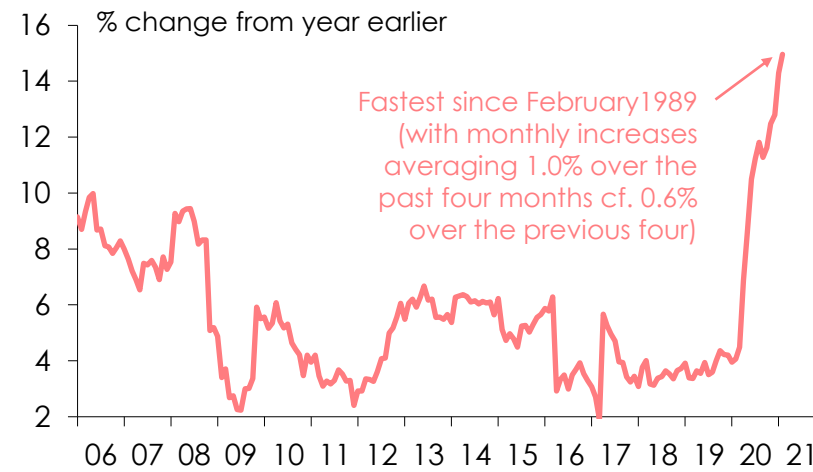
Australia M3



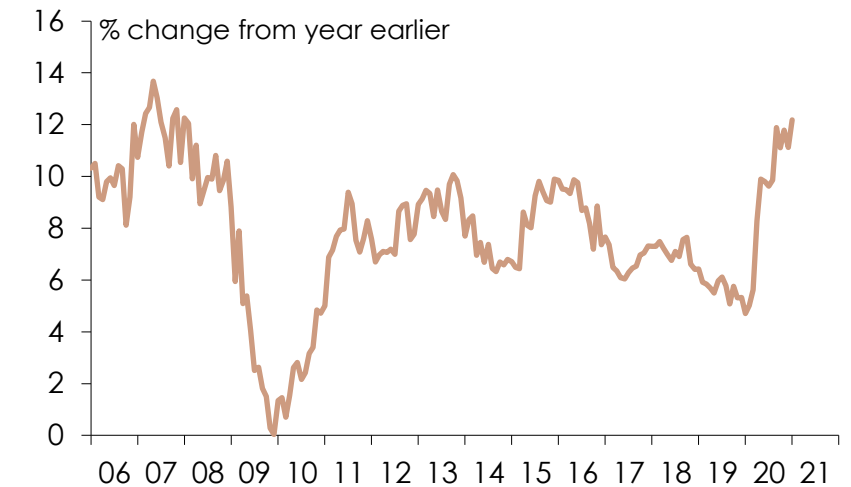
Japan M2 + CDs



UK M2

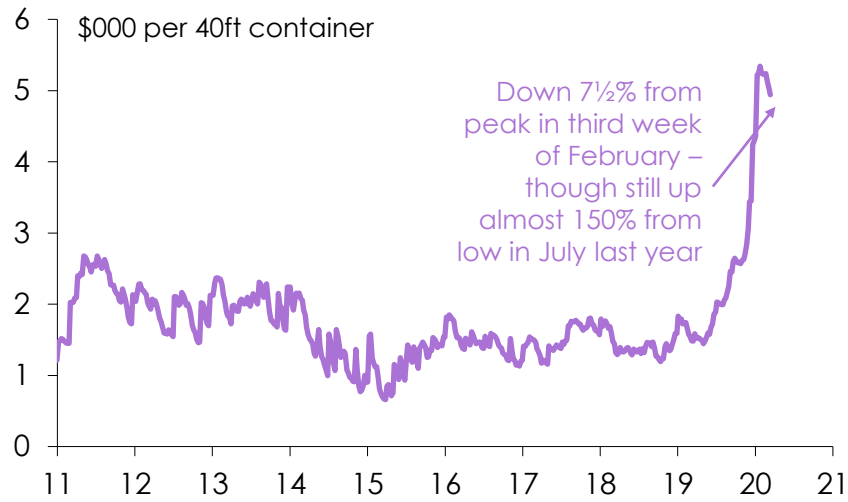


New Zealand M3

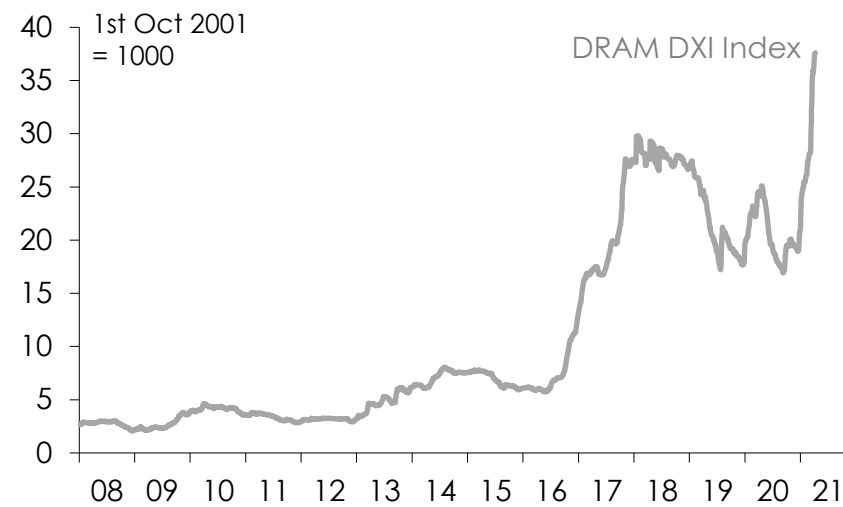


There are undoubtedly signs of increasing 'upstream' inflationary pressures – particularly in the US – largely as a result of supply bottlenecks

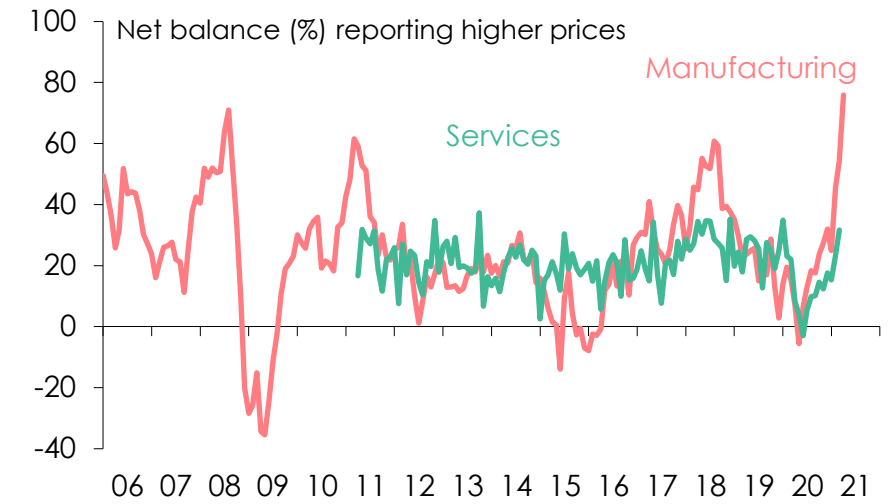
Container freight costs



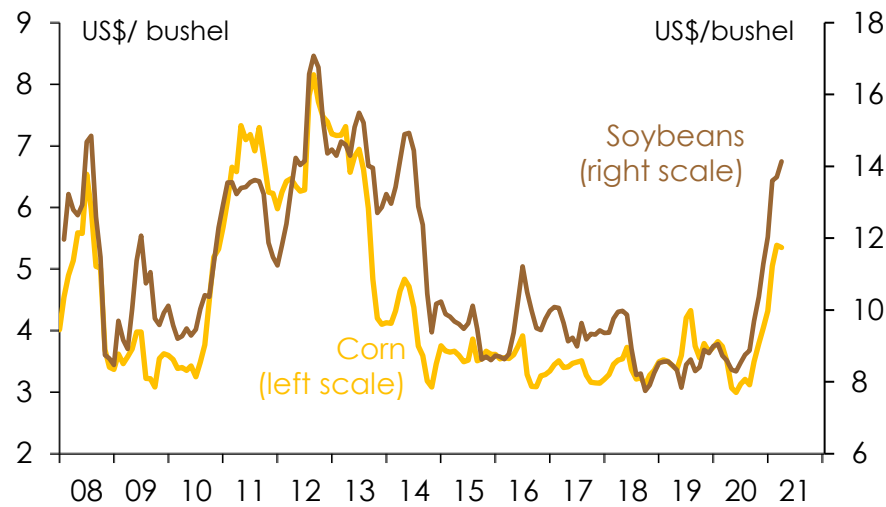
Semiconductor prices



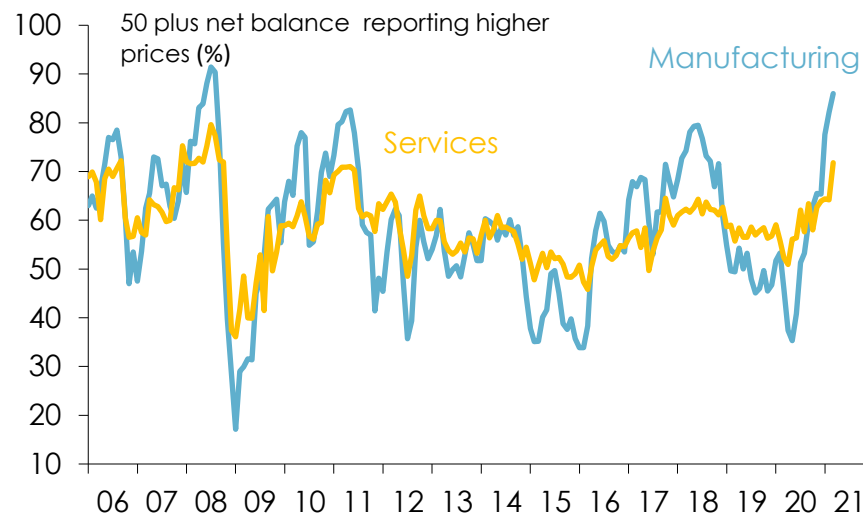
Philadelphia Fed survey prices paid



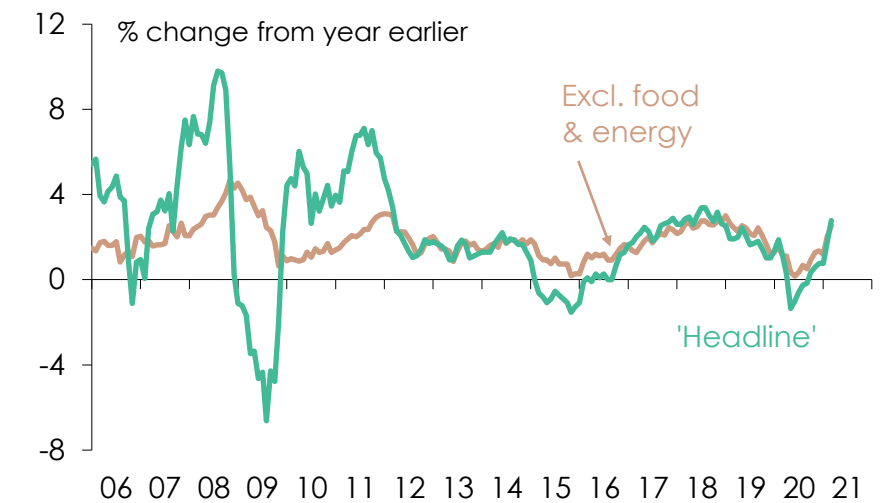
US corn and soybean prices



US ISM prices paid

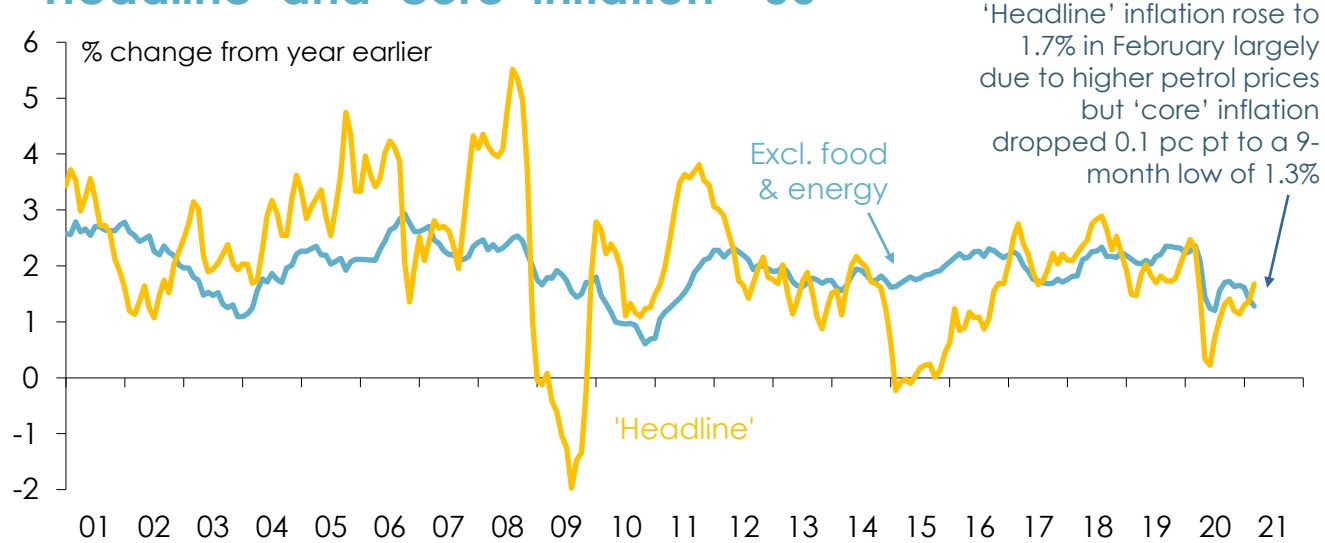


US producer price index

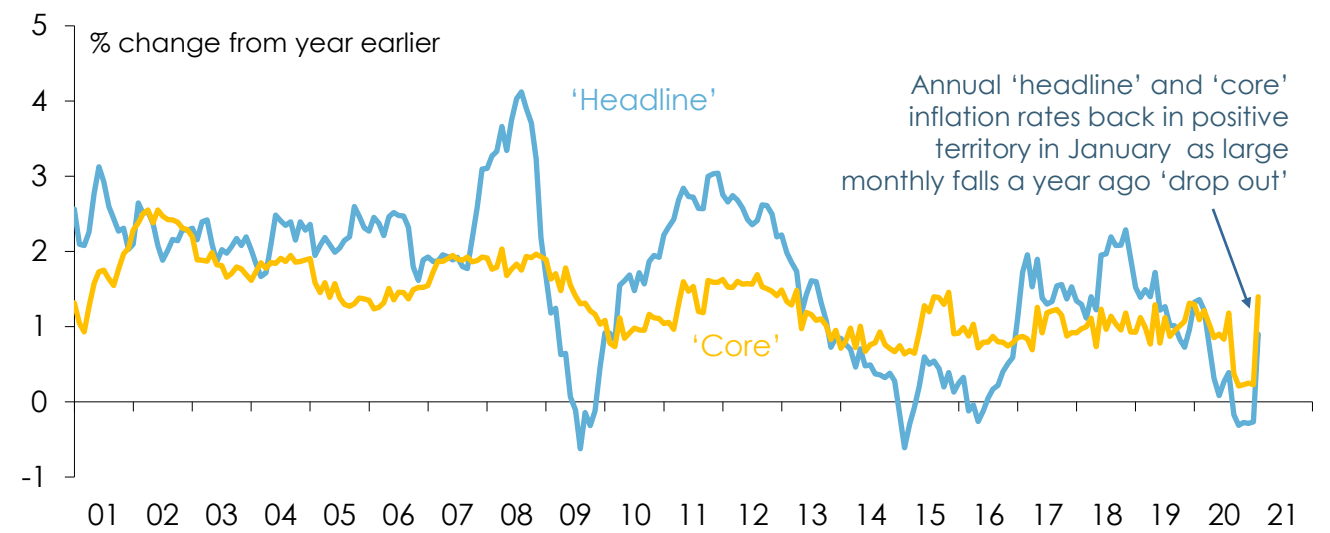


So far at least, inflation has remained well below central bank targets – and by especially large margins in the euro area and Japan

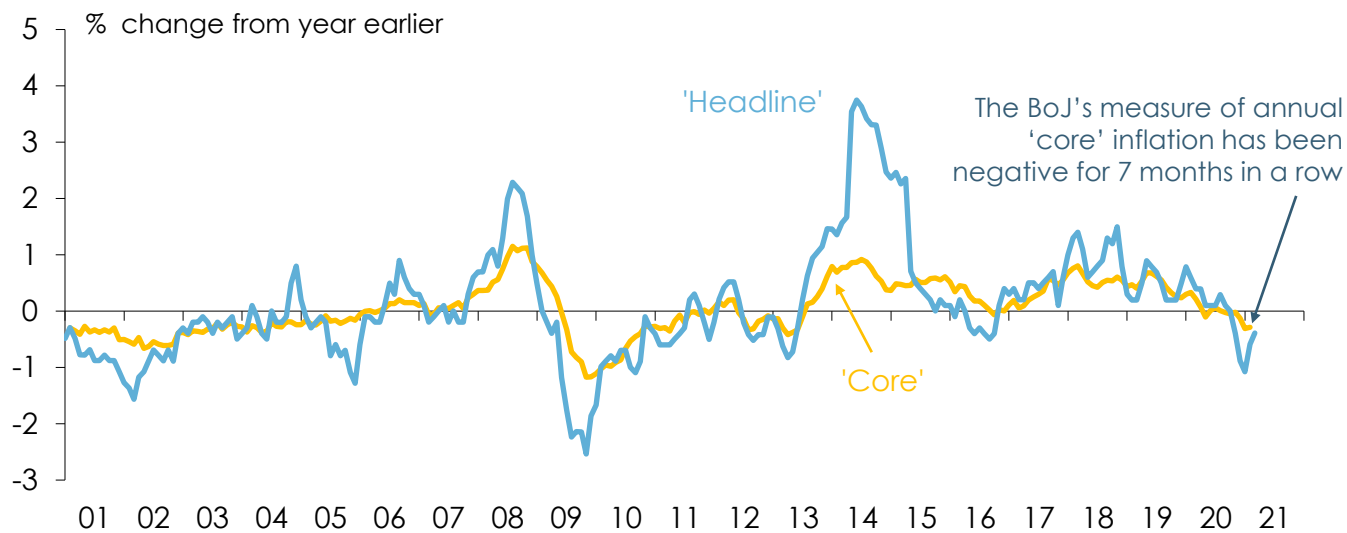
'Headline' and 'core' inflation - US



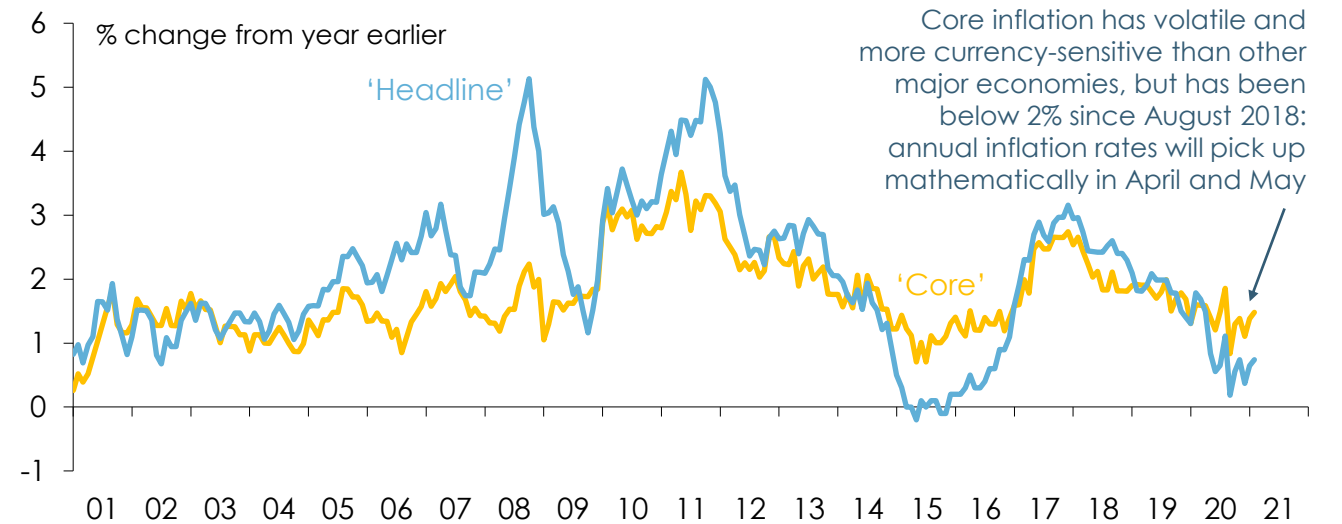
'Headline' and 'core' inflation – Euro area



'Headline' and 'core' inflation - Japan



'Headline' and 'core' inflation – UK

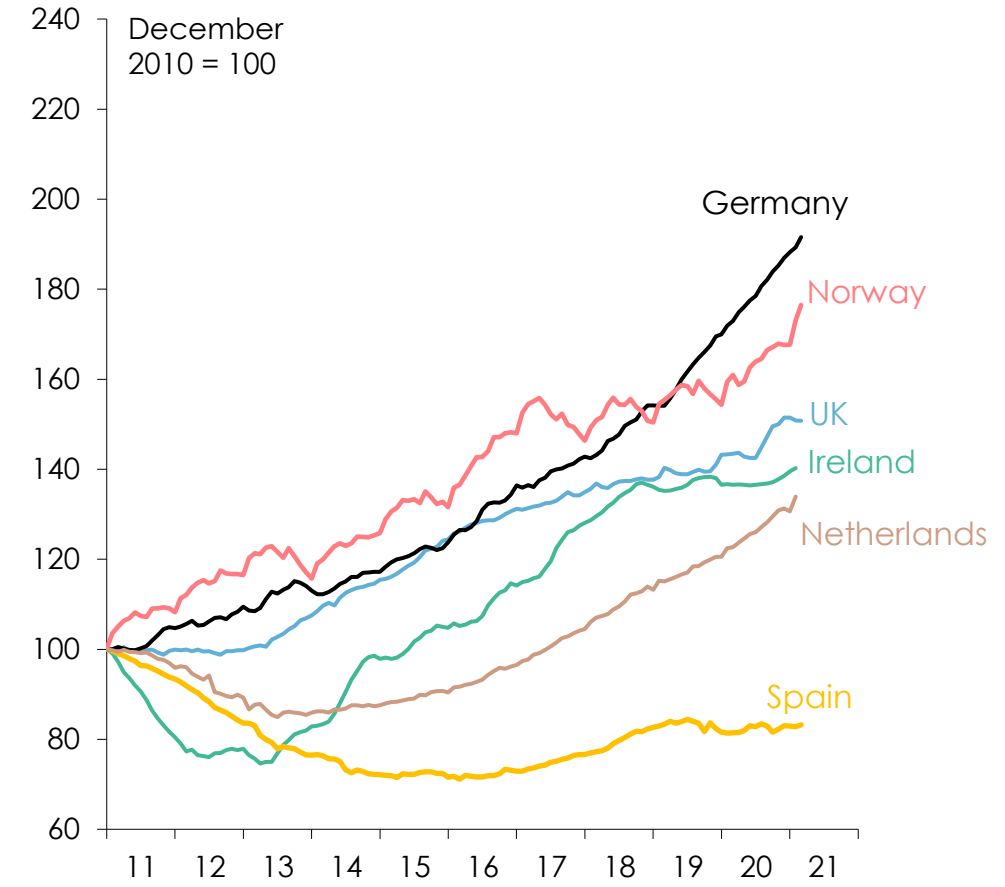
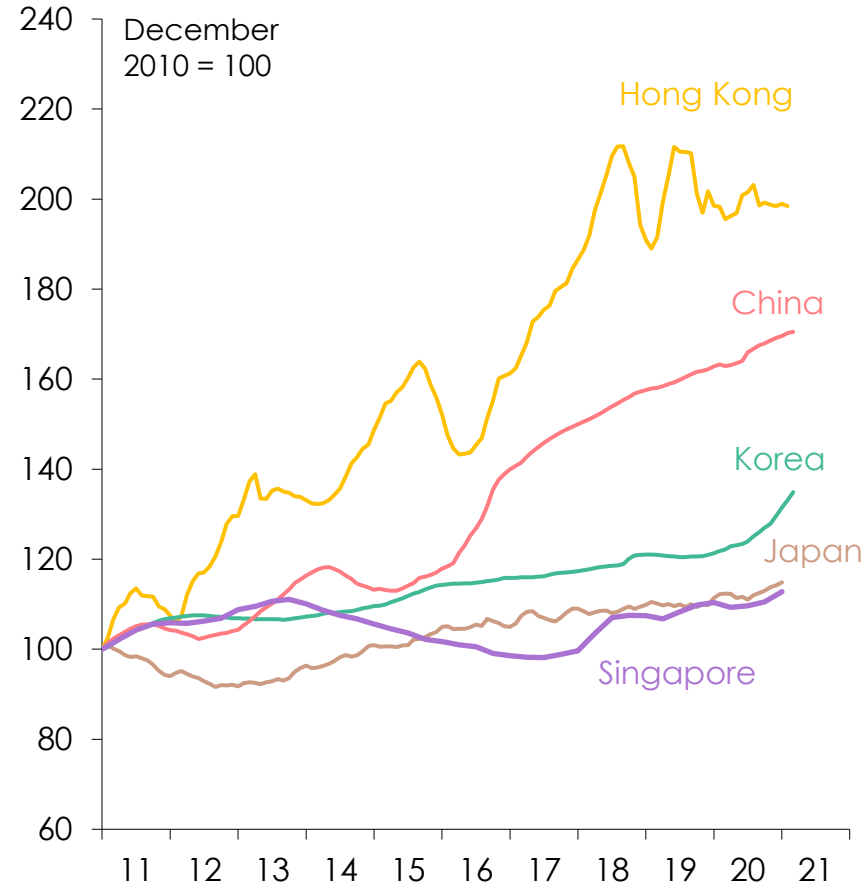
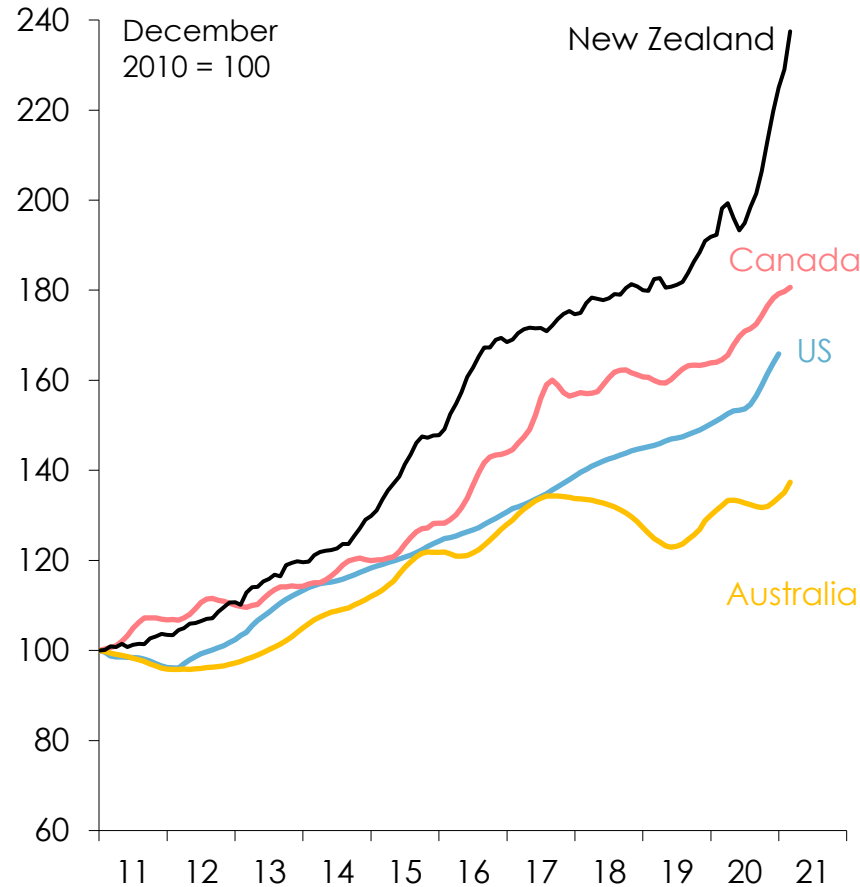


Note: 'Core' inflation is the CPI excluding food & energy in the US; excluding food, energy, alcohol & tobacco in the euro area; and excluding energy & seasonal foods in the UK. The 'core' inflation measure for Japan is the weighted median CPI calculated by the Bank of Japan (with a lag).

Sources: [US Bureau of Labor Statistics](#); [Eurostat](#); [Statistics Bureau of Japan](#); [Bank of Japan](#); [UK Office for National Statistics](#). [Return to "What's New"](#).

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

House price indices

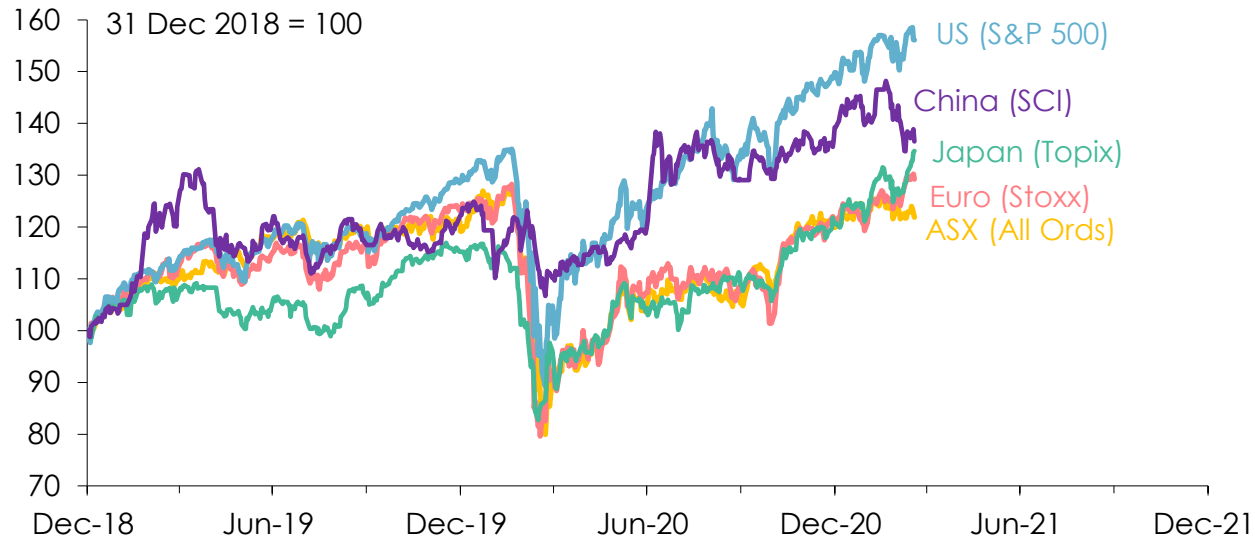


- ❑ Last month the New Zealand Government amended the RBNZ's 'remit', requiring it to take 'housing price sustainability' into account in its deliberations about both monetary policy and financial stability' (see [slides 164](#) and [165](#))

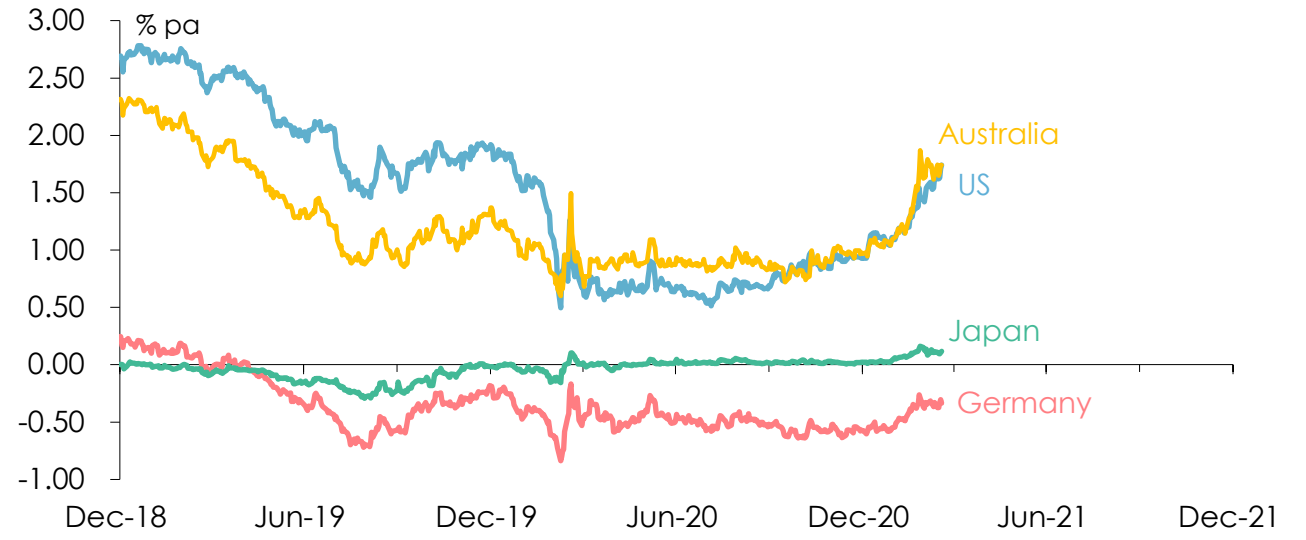
Note: House price indices shown in these charts are those published by [S&P-CoreLogic Case Shiller national](#) (United States); [Teranet-National Bank](#) (Canada); [CoreLogic](#) (Australia); [Real Estate Institute of New Zealand](#); [China Index Academy](#); [Japan Real Estate Institute](#) (Tokyo 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 drifted higher this week, resulting in most stock markets (except Japan) losing ½-1%, while the US\$ rose against most majors except the €

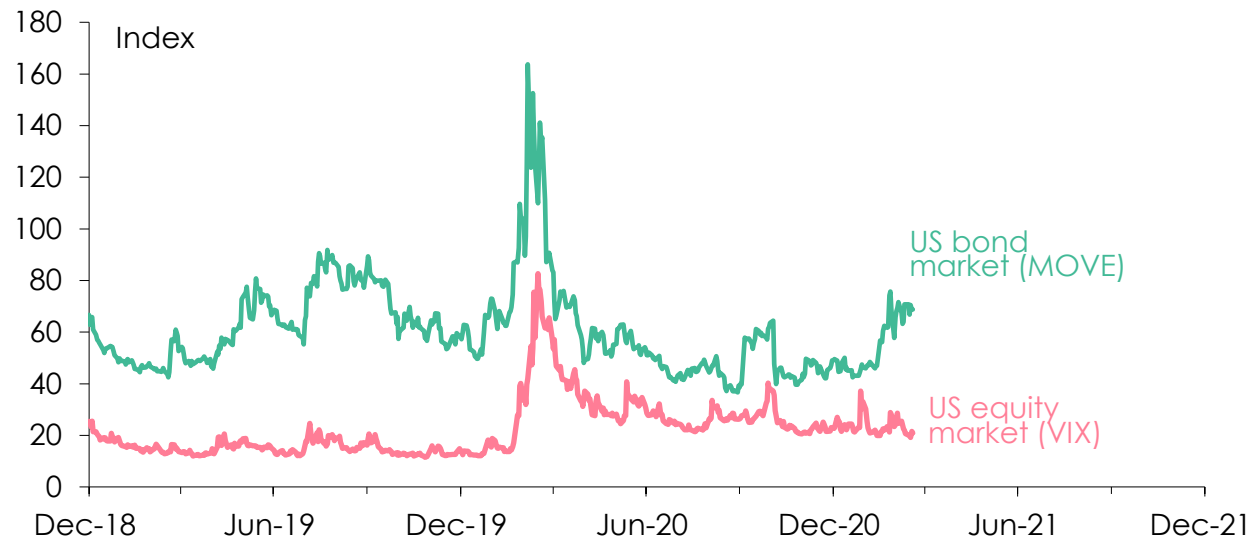
Stock markets



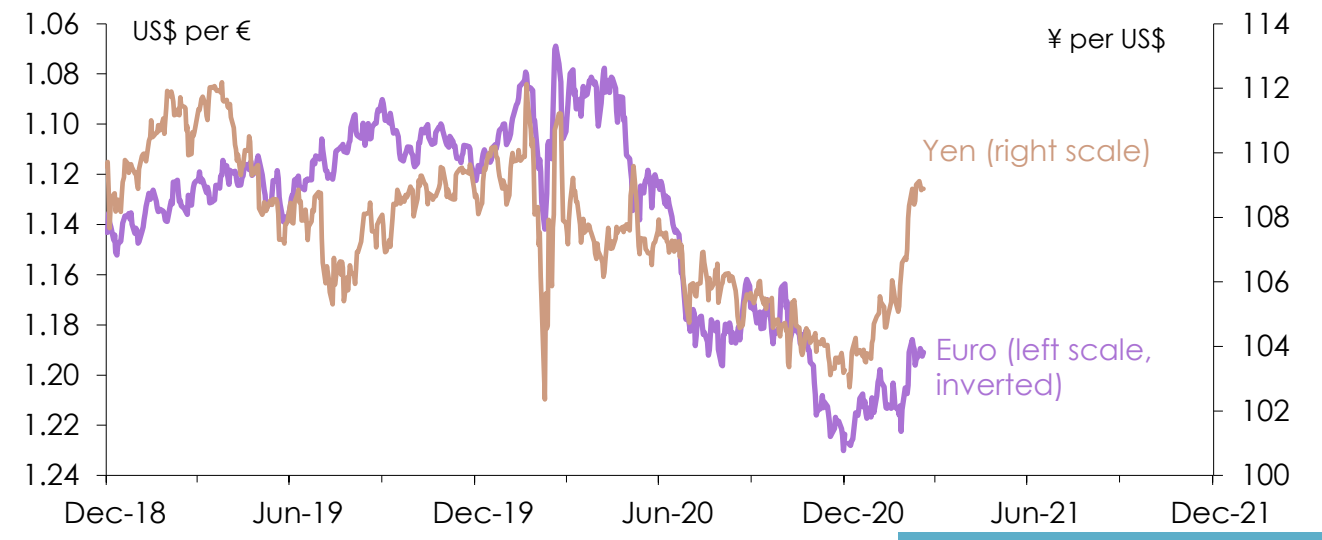
10-year bond yields



Measures of market volatility

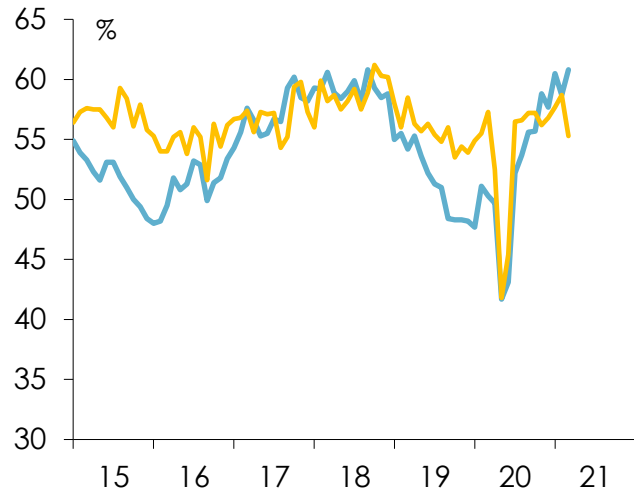


US dollar vs euro and yen

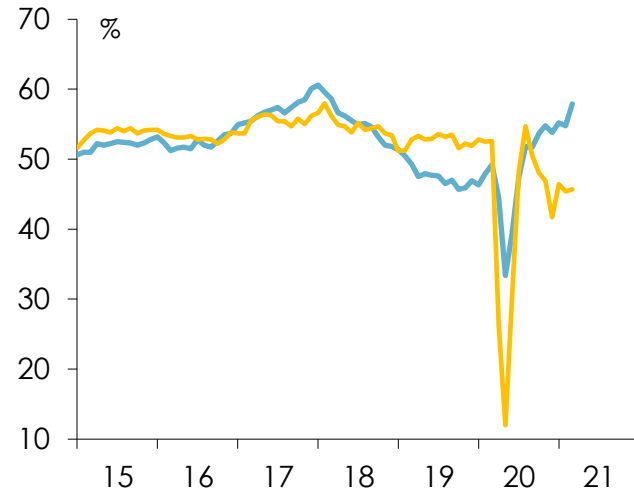


Manufacturing PMIs strengthened in 'advanced' economies but weakened in most 'emerging' ones in February; services weakened except in the UK

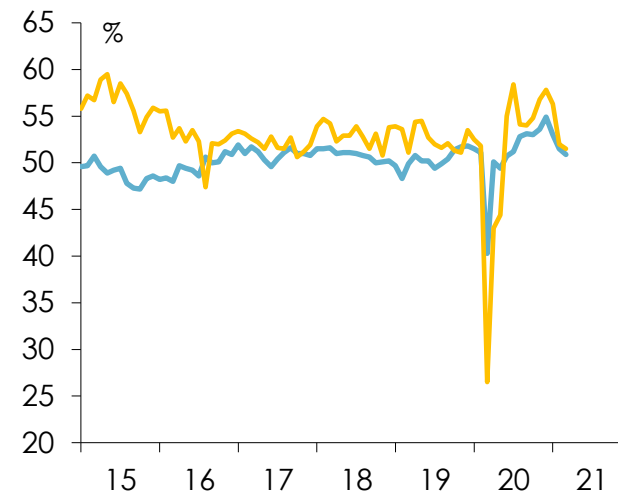
US



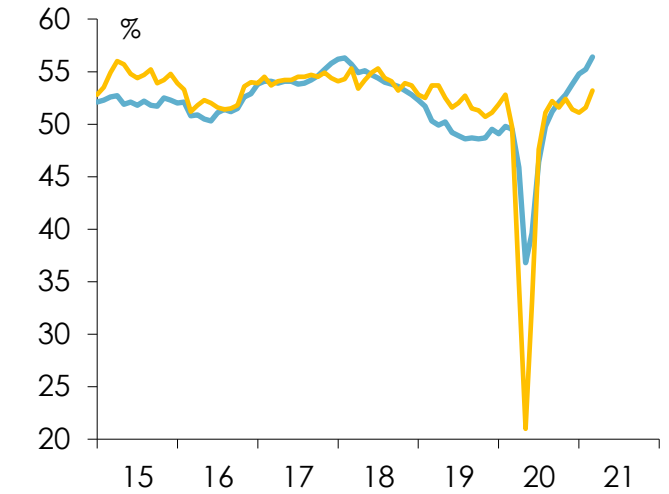
Euro area



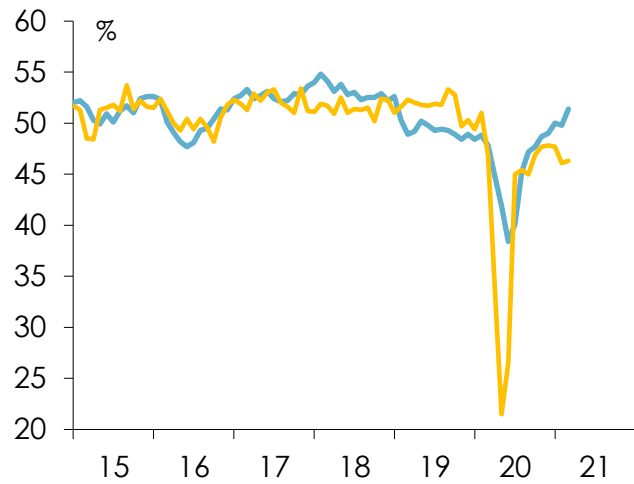
China



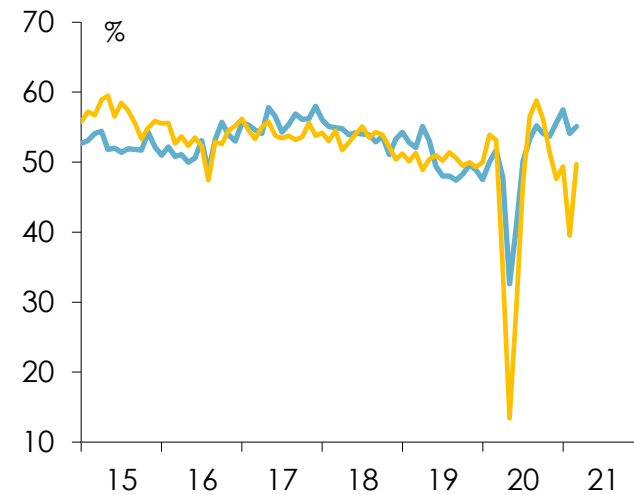
Developed markets



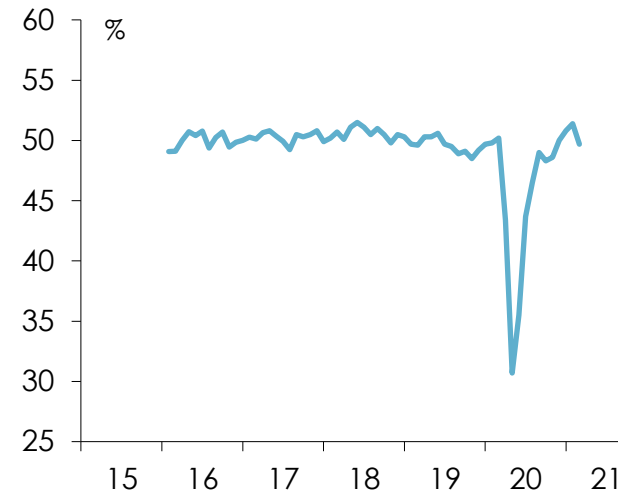
Japan



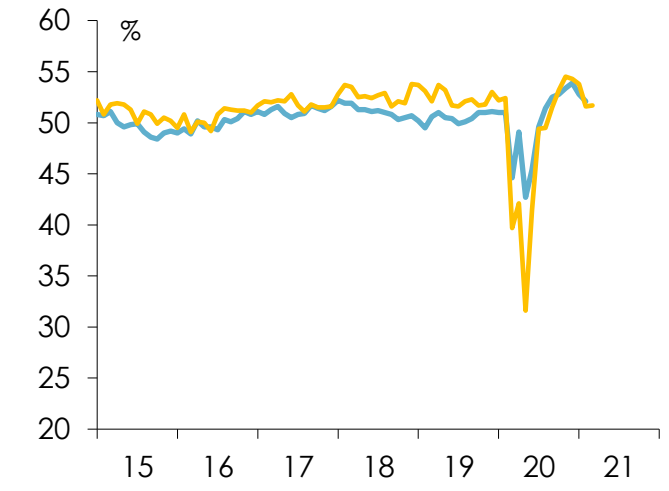
UK



ASEAN



Emerging markets



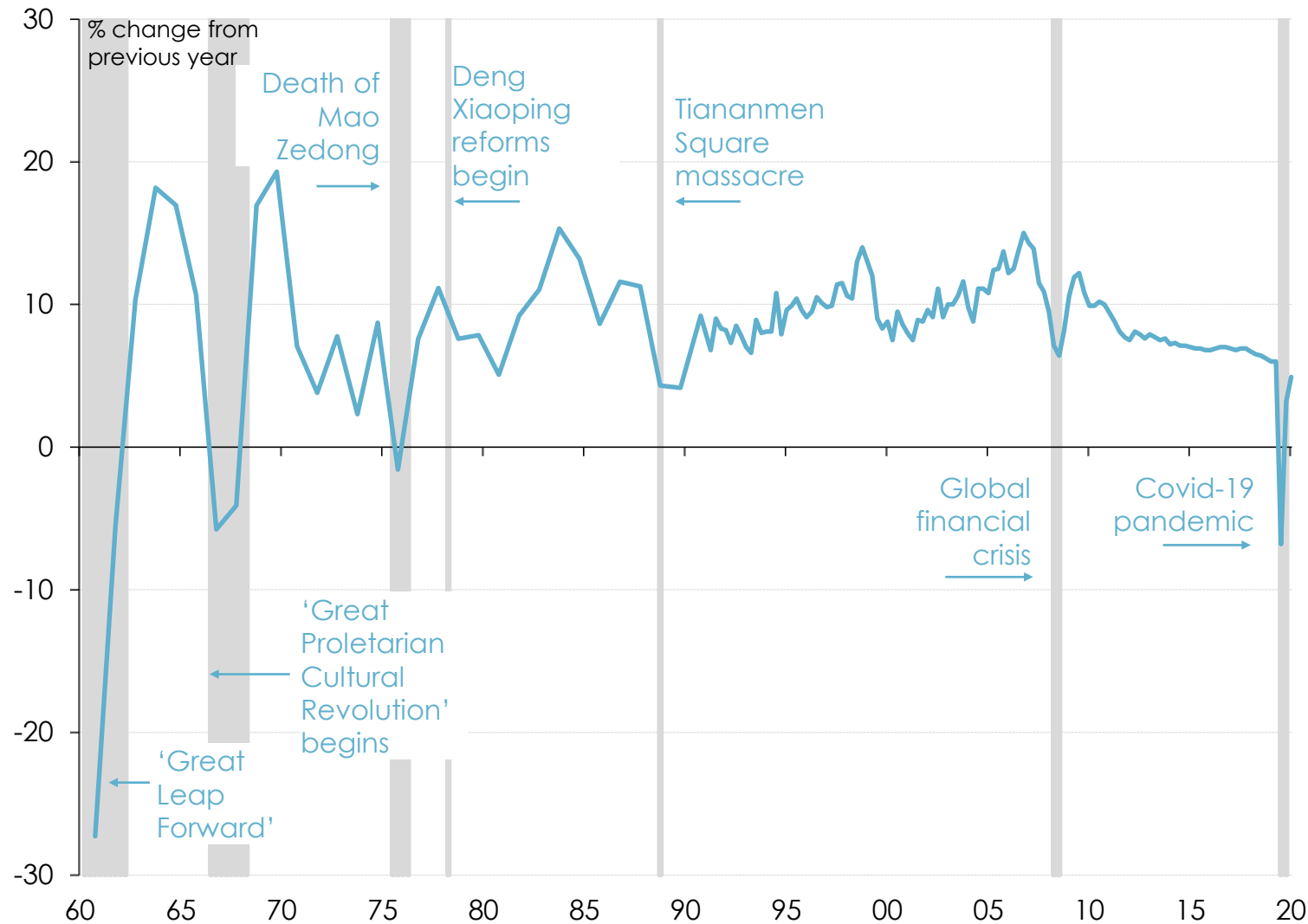
— Manufacturing

— Services

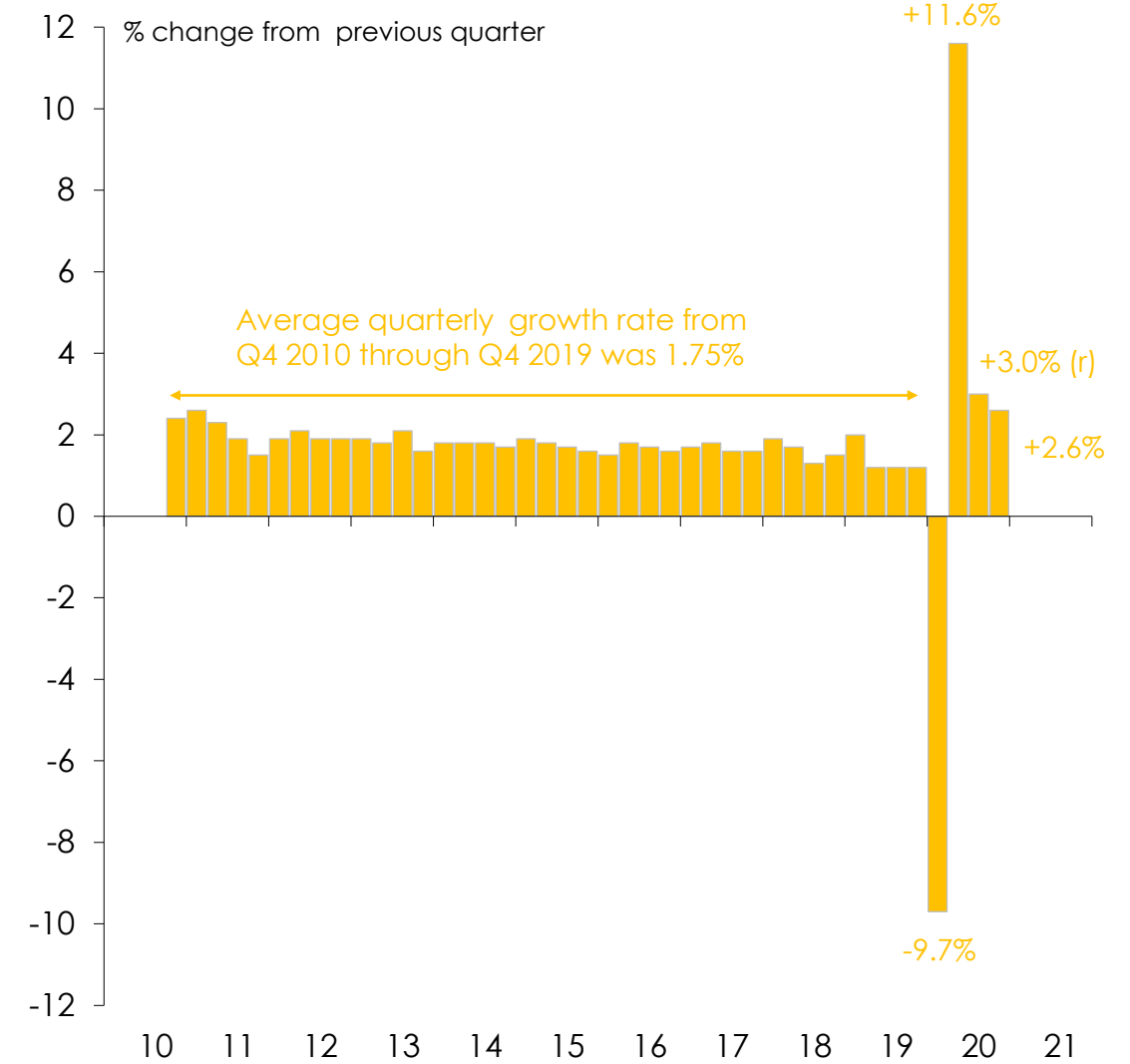
Note: Purchasing Managers' Indexes (PMIs) are derived from surveys of senior executives, who are asked to report whether various dimensions of business activity recorded an increase, decrease or no change compared with the previous month. A reading of 50 indicates an overall increase cf. the previous 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 51](#). Sources: [US Institute for Supply Management](#); [IHS Markit](#); [JP Morgan](#); [Caixin](#); Refinitiv Datastream. [Return to "What's New"](#).

China this month 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



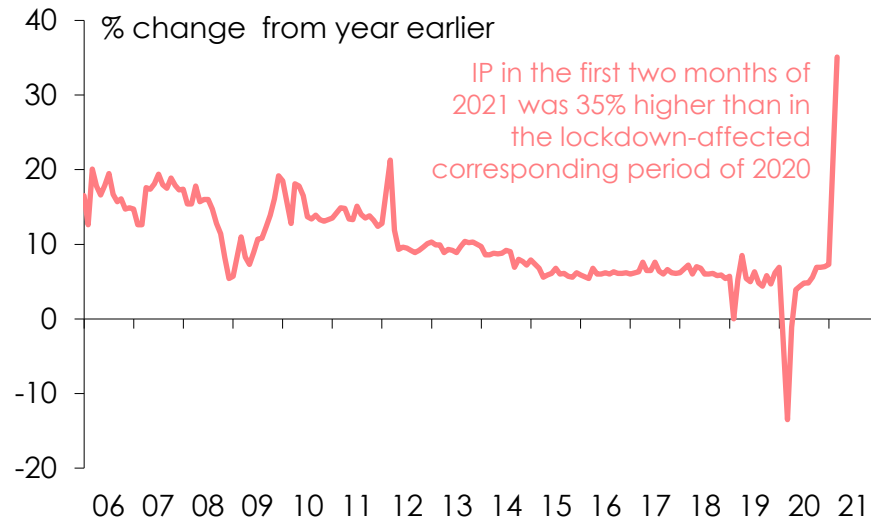
Note: In the left-hand chart, GDP growth rates are annual averages up to the December quarter of 1991, and then quarter-on-corresponding-quarter-of-previous-year thereafter. Sources: China National Bureau of Statistics. [Return to "What's New"](#).

China's "14th Five Year Plan" includes a broad range of targets and objectives in addition to 6% GDP growth

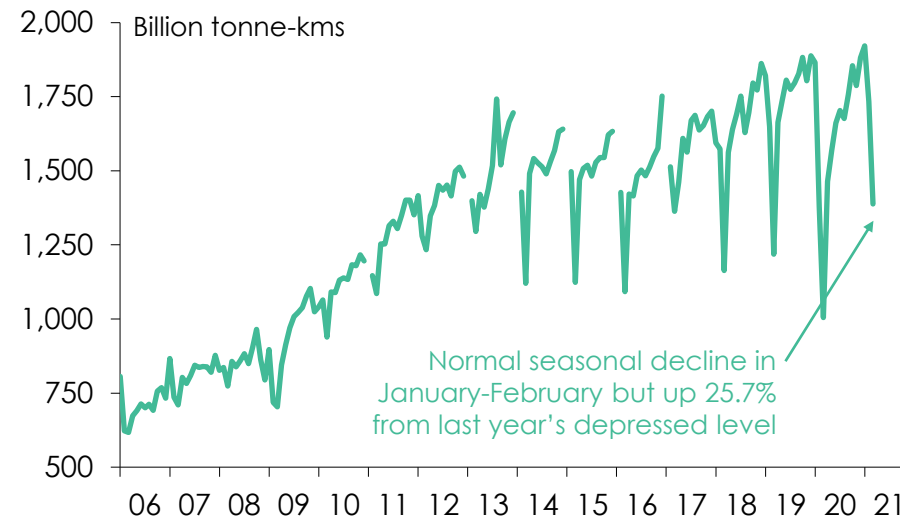
- ❑ In addition to the 'above 6%' target for GDP growth, the Plan sets targets for a number of other economic indicators
 - keeping the 'surveyed urban unemployment rate' within 5½% and keeping prices "basically stable"
 - ensuring that overall labour productivity "grows faster than GDP" (which it has to given that the working age population is declining and there is already unrest about long hours of work – the '996 culture')
- ❑ There are also social, environmental and other targets
 - increasing the urbanization rate of the resident Chinese population to 65% (currently just above 60%)
 - reducing energy consumption and CO₂ emissions per unit of GDP by 13½% and 18%, respectively by 2025
 - increasing the proportion of non-fossil fuels in total energy consumption to 20%
 - increasing the average years of education to 11.3 years (currently 9, by law)
- ❑ The Plan commits to "expanding domestic demand as a strategic move and fully tapping the potential of the domestic market" (in line with the 'Dual Circulation Strategy' endorsed last year)
 - promoting "better alignment between consumption and investment" (including "steady increases in spending on home appliances, automobiles and other big-ticket items" as well as services "such as healthcare, tourism and sports")
 - also "enhancing [the] ability to ensure the supply of food and major agricultural products", including through the maintenance of "subsidies for grain growers" and "multiple measures to expand the supply of oil-bearing crops"
- ❑ There is a heavy emphasis on "innovation-driven development"
 - commitment to average annual growth of "over 7%" in social (ie public) investment in R&D
 - explicit emphasis on artificial intelligence, quantum computing, integrated circuits, gene- and bio-technology, brain research, 'deep space, deep earth and deep sea' exploration, high-end new materials, advanced transport equipment and robotics
 - a separate section on the 'digital economy' including 'big data', cloud computing, the IoT, blockchain, AI and VR
- ❑ The Plan says the Government "should adhere to the principle of letting enterprises be the main entities" –
 - but also to "guid[ing] enterprises to strengthen compliance management and prevent and resolve political, economic, security and other risks abroad", and to "adhering to the Party's overall leadership of state enterprises"

Chinese 'supply-side' data for the first two months of 2021 are inflated by last year's lockdown, but also reflect a surge in exports

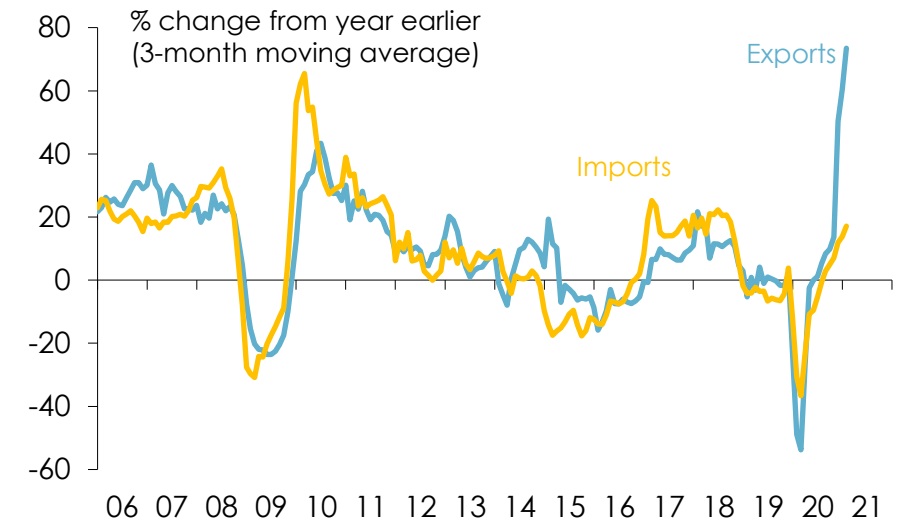
Industrial production



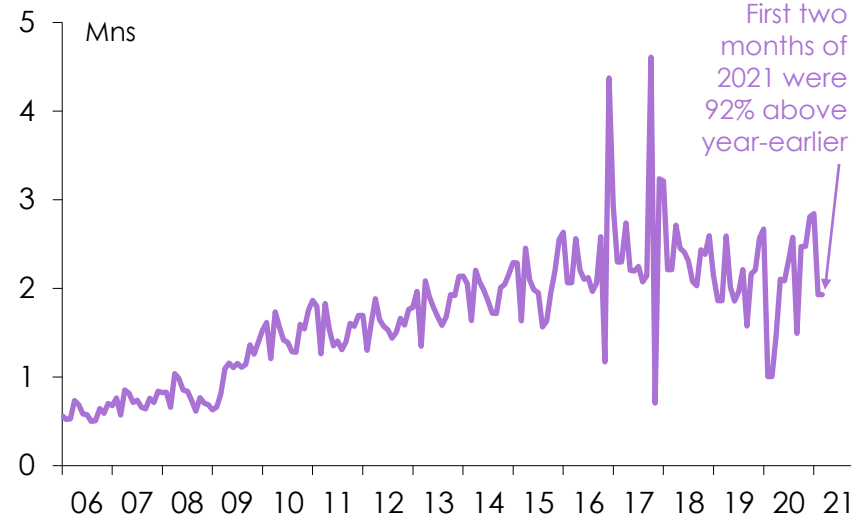
Freight traffic volumes



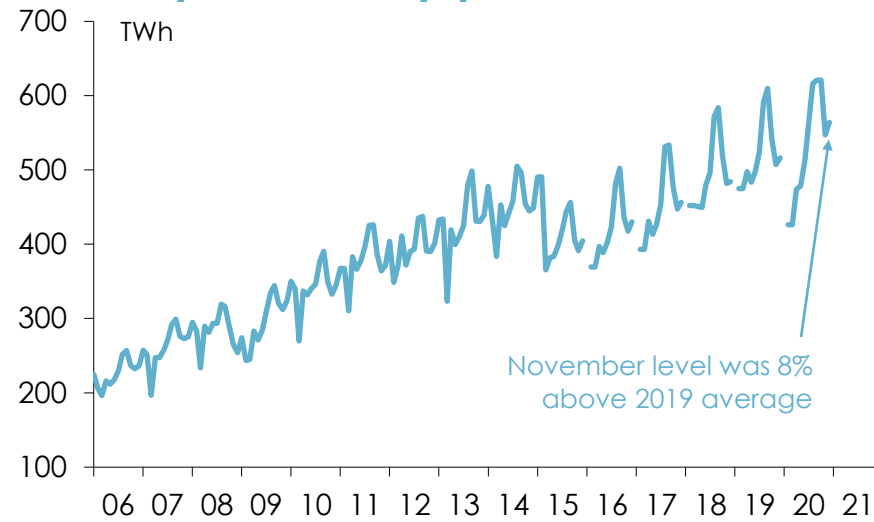
Merchandise trade



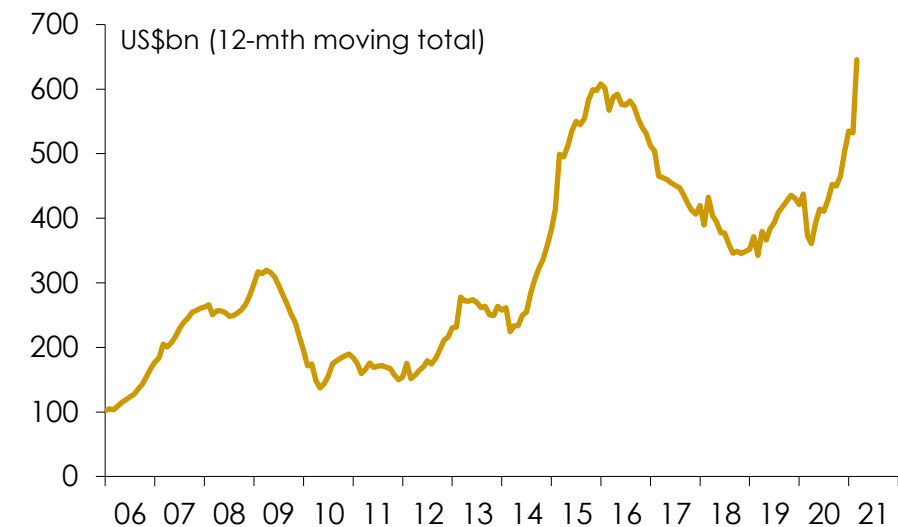
Motor vehicle production



Primary electricity production



Merchandise trade balance



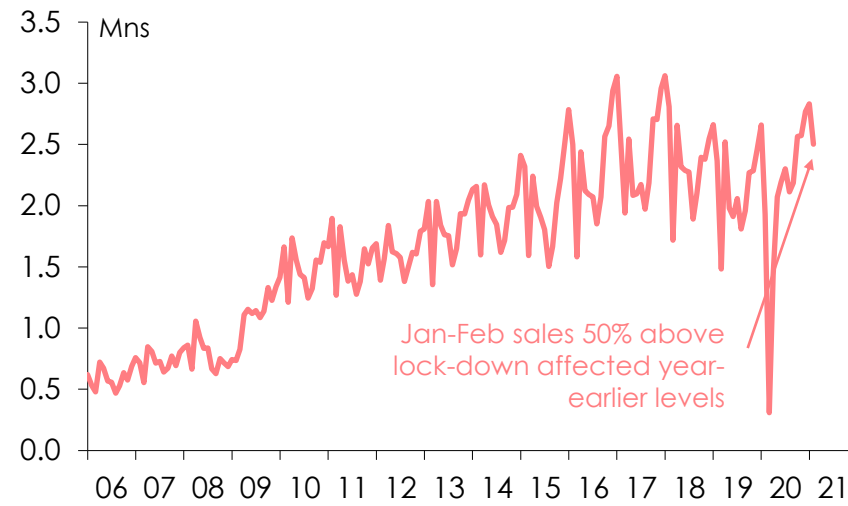
Note: Data for January and February are combined in order to avoid distortions (in year-on-year comparisons) arising from the shifting incidence of the Lunar New Year holidays (except for merchandise trade and freight volumes). Sources: China National Bureau of Statistics; China Association of Automobile Manufacturers; China General Administration of Customs. [Return to "What's New"](#).

Jan-Feb 'demand side' indicators also flattered by 'base effects' from this time last year, but still generally weaker than 'supply side' numbers

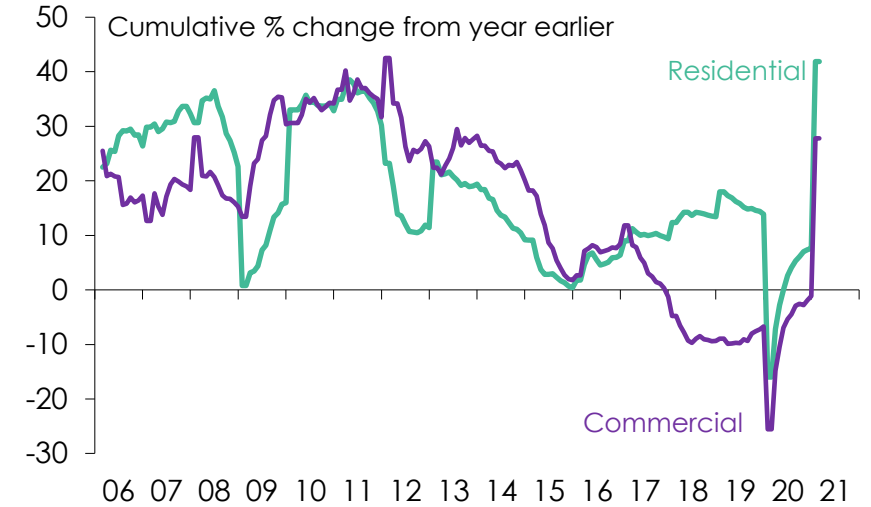
Consumer sentiment



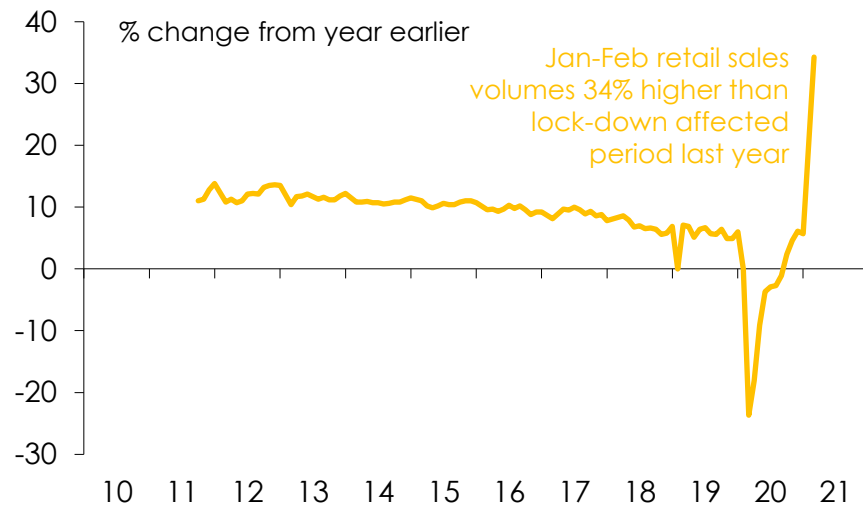
Motor vehicle sales



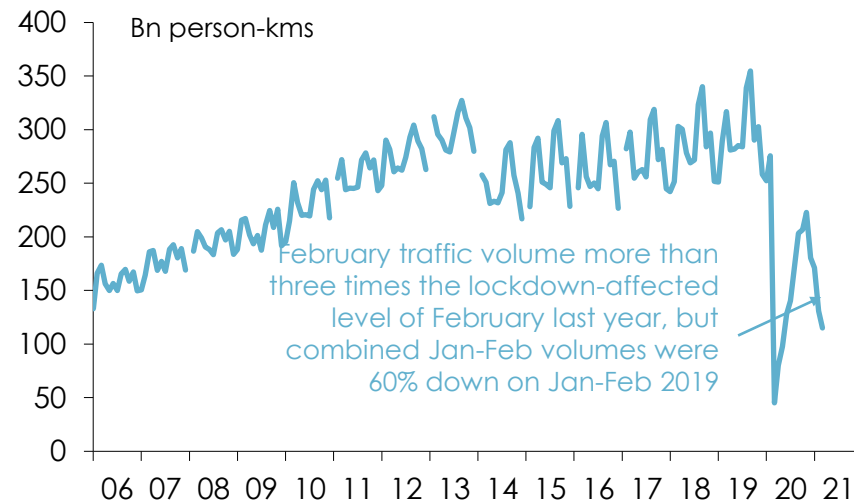
Real estate investment



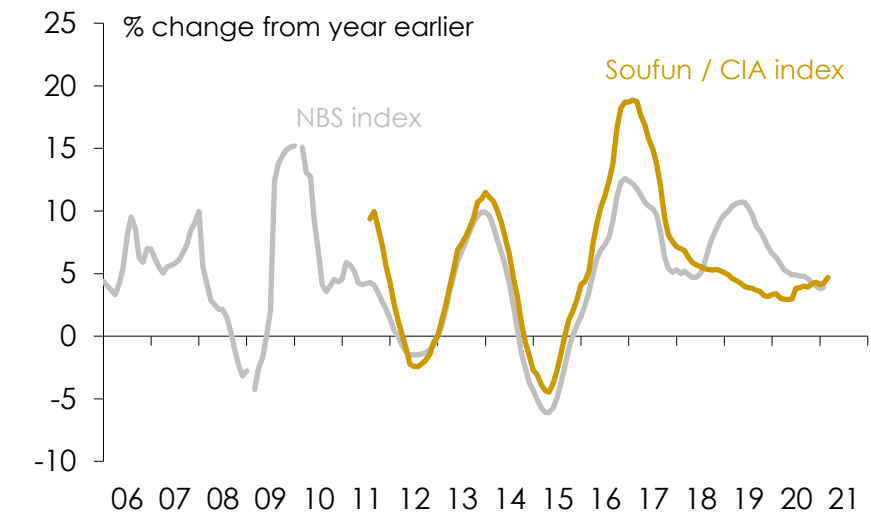
Volume of retail sales



Passenger traffic volumes



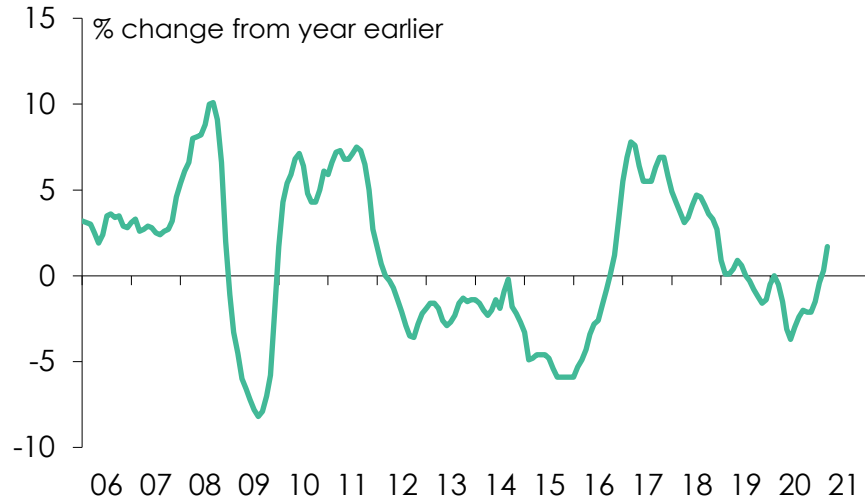
Residential real estate prices



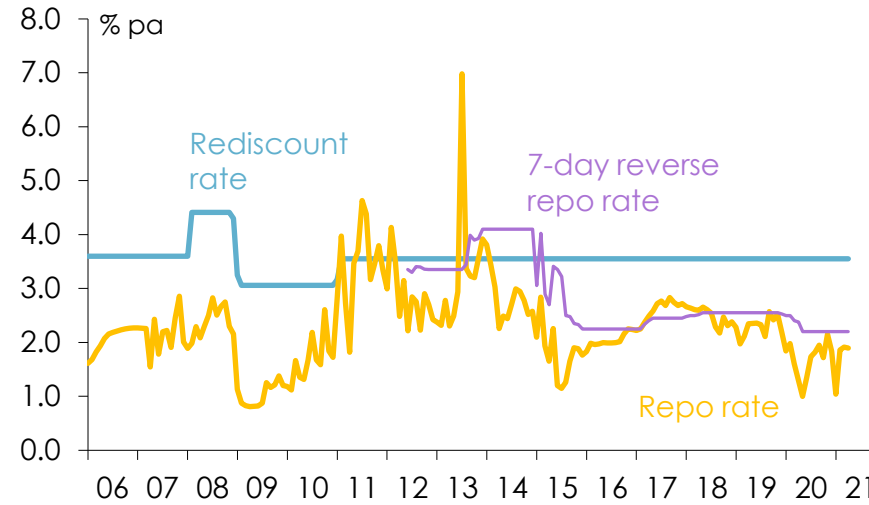
Sources: China National Bureau of Statistics; China Association of Automobile Manufacturers; China Index Academy (CIA). Data for January and February are combined in order to avoid distortions (in year-on-year comparisons) arising from the shifting incidence of the Lunar New Year holidays. [Return to "What's New"](#).

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

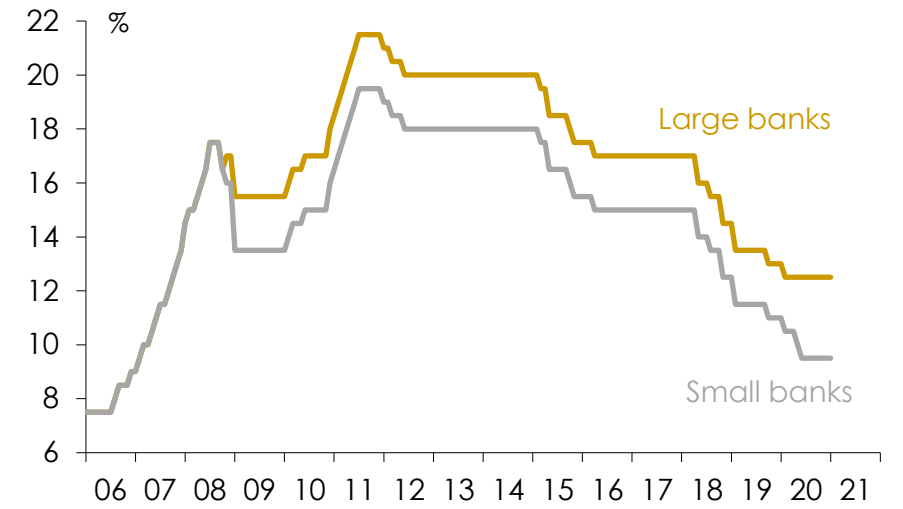
Producer prices



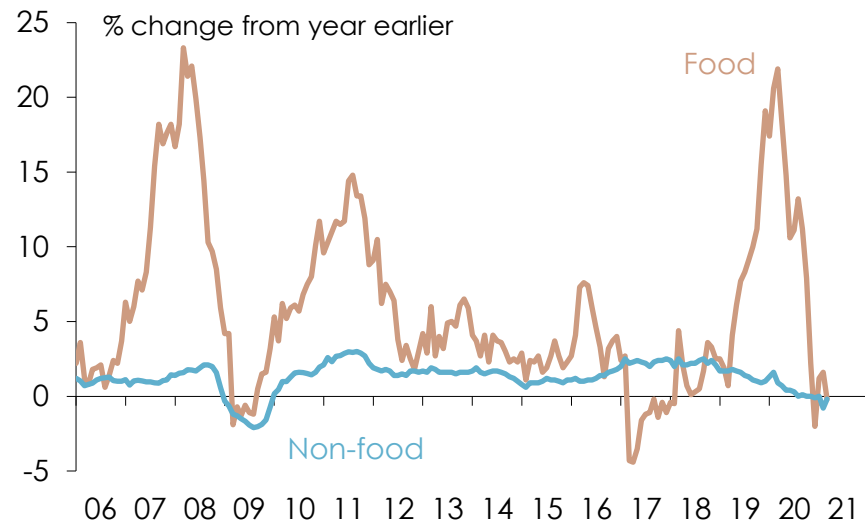
PBoC policy interest rates



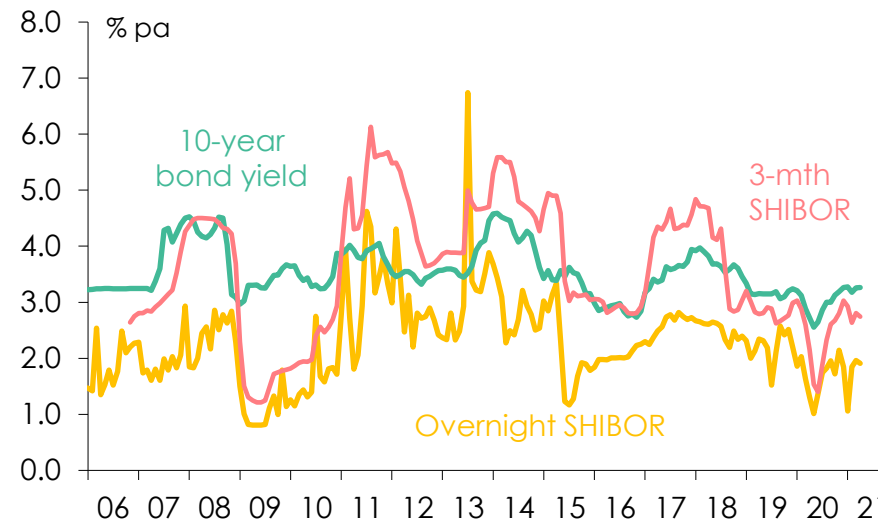
Bank reserve requirement ratios



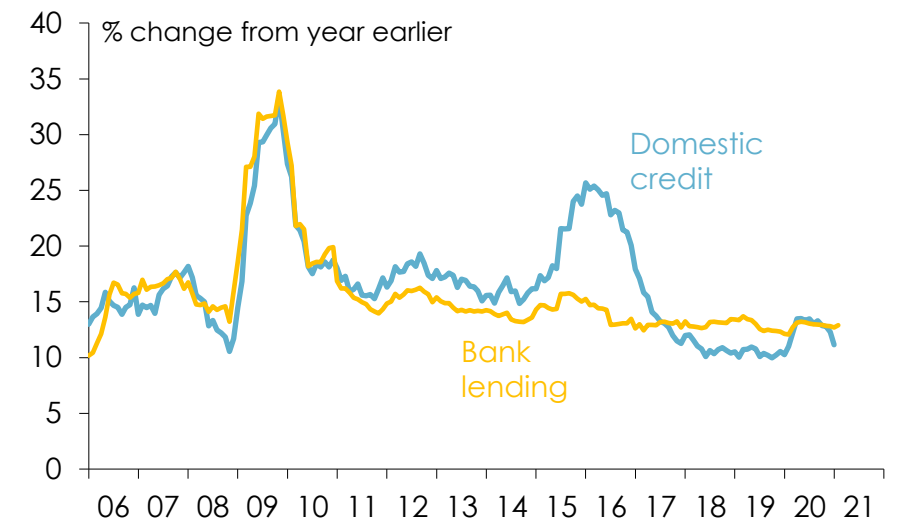
Consumer prices



Market interest rates



Credit growth

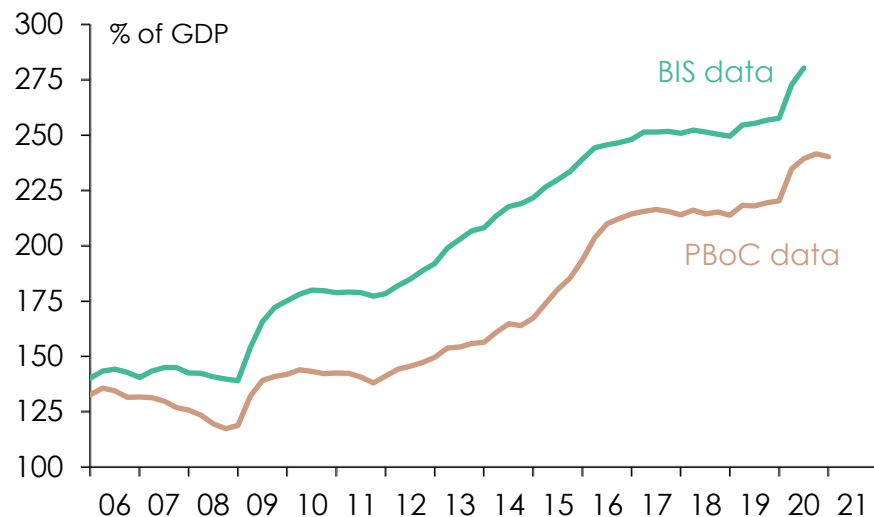


Note: 'SHIBOR' is the Shanghai Inter-Bank Offered Rate.

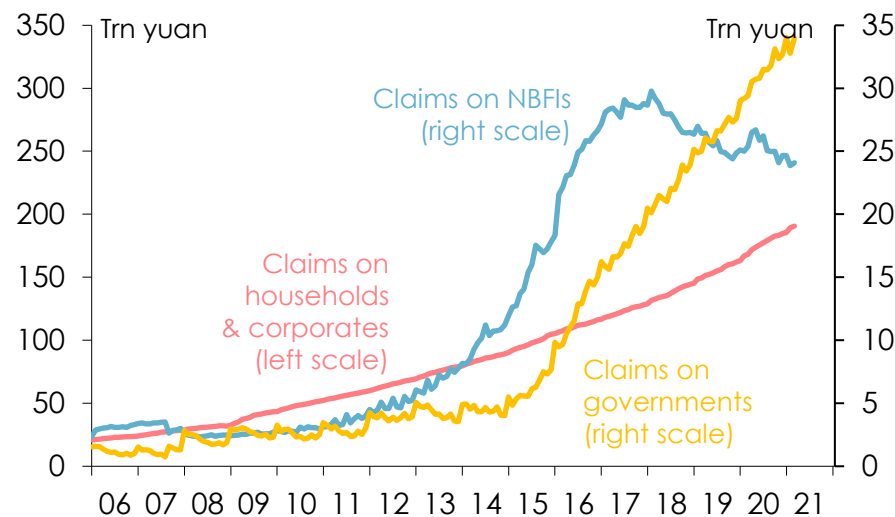
Sources: China National Bureau of Statistics; Refinitiv Datastream; People's Bank of China. [Return to "What's New"](#).

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

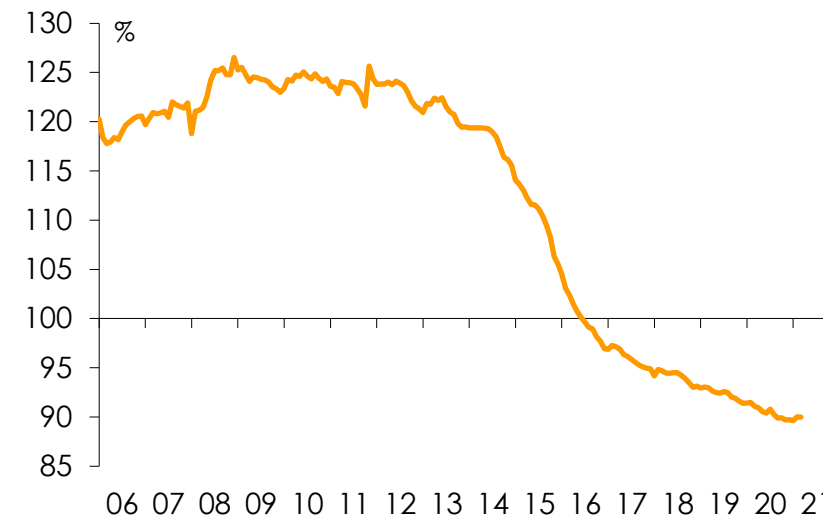
Credit outstanding as a pc of GDP



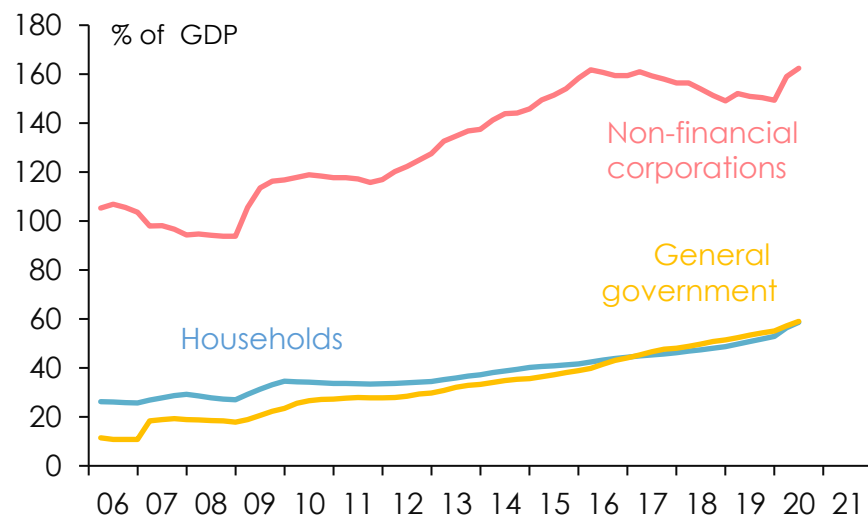
Banks' assets



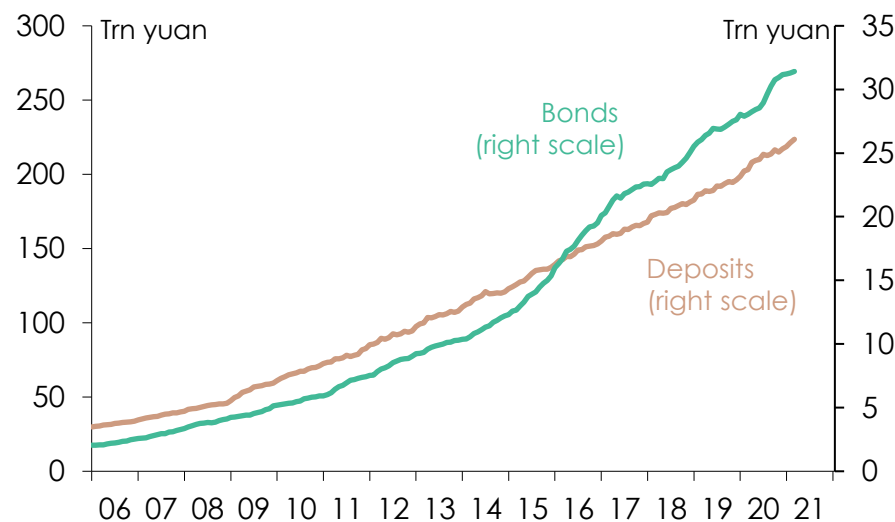
Banks' deposits-to-loans ratio



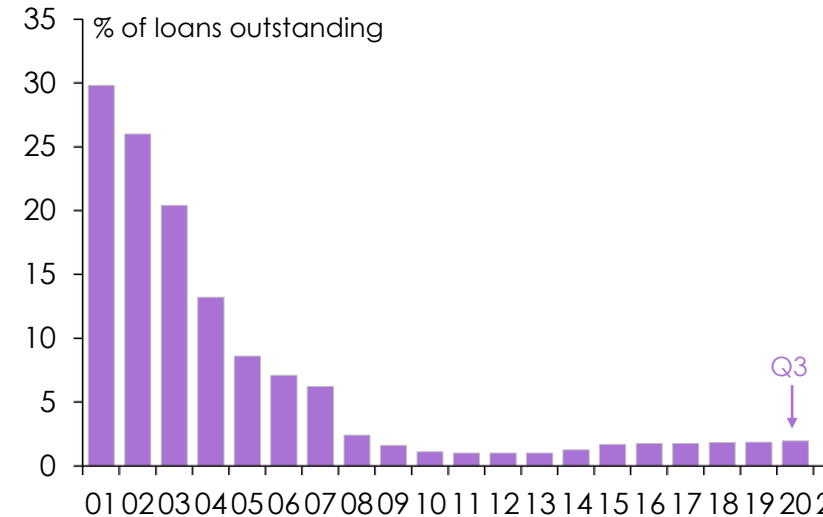
Credit outstanding by sector



Banks' liabilities



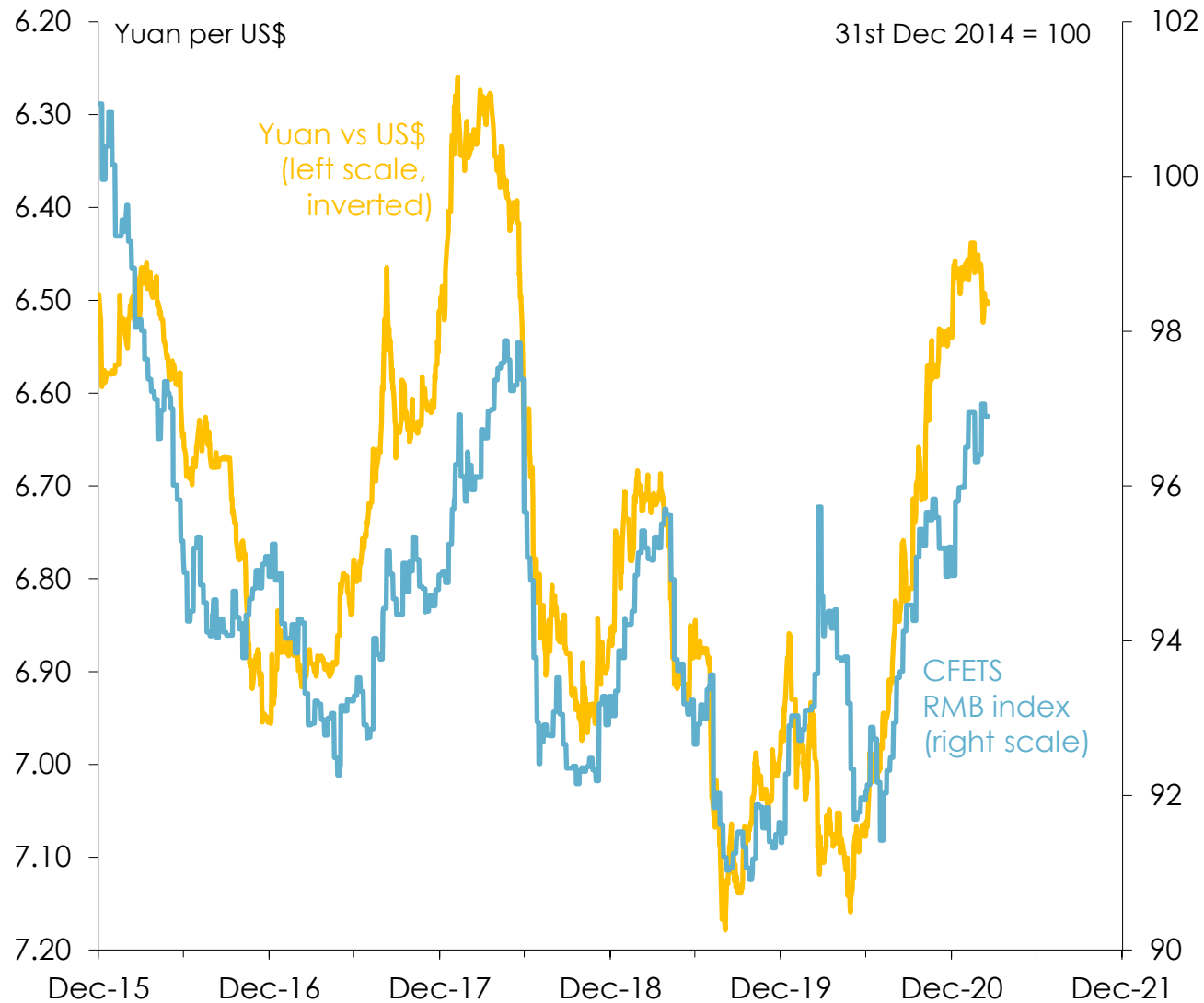
Banks NPLs – official estimates



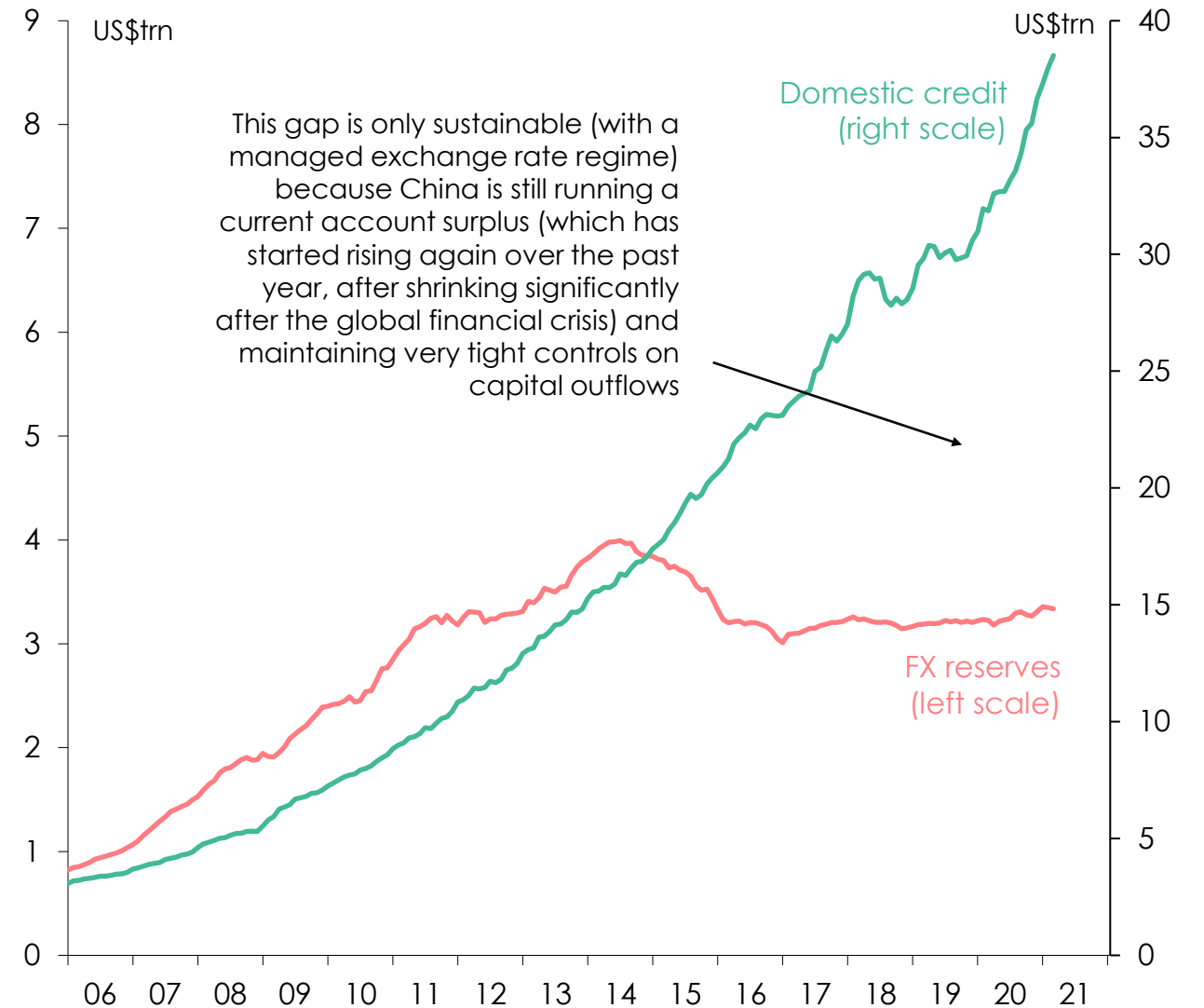
Sources: People's Bank of China; Bank for International Settlements; China Banking and Insurance Regulatory Commission. [Return to "What's New"](#).

The yuan was steady this week against both the US\$ and in trade-weighted terms

Chinese renminbi vs US\$ and trade-weighted index



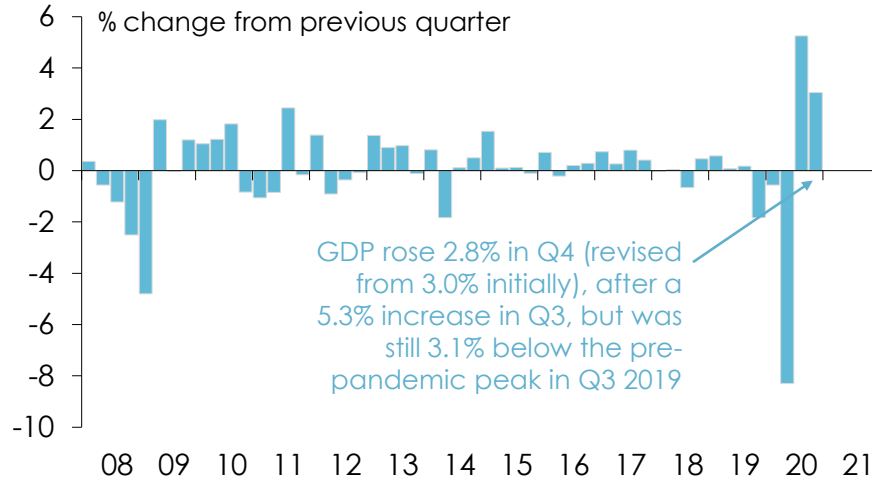
FX reserves and domestic credit



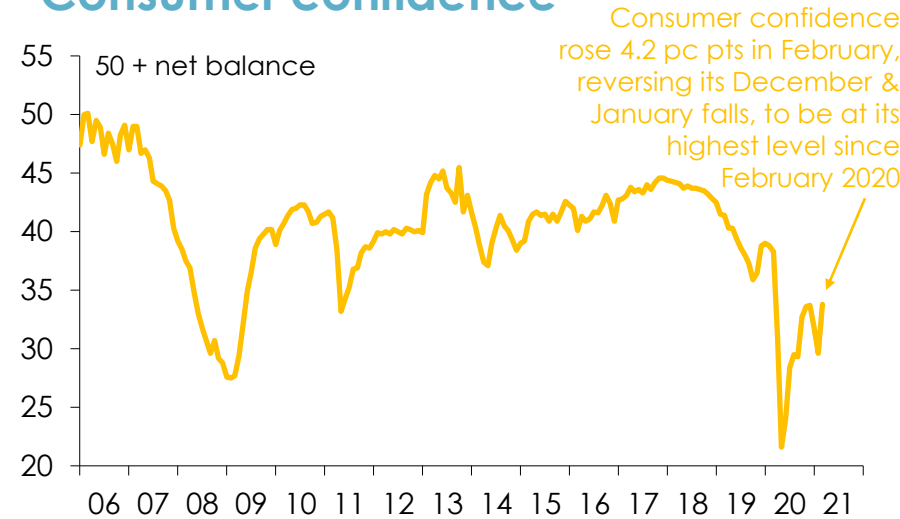
Sources: Refinitiv Datastream; China Foreign Exchange Trading System; People's Bank of China. Exchange rates up to 19th March; credit and FX reserves data up to February. [Return to "What's New"](#).

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

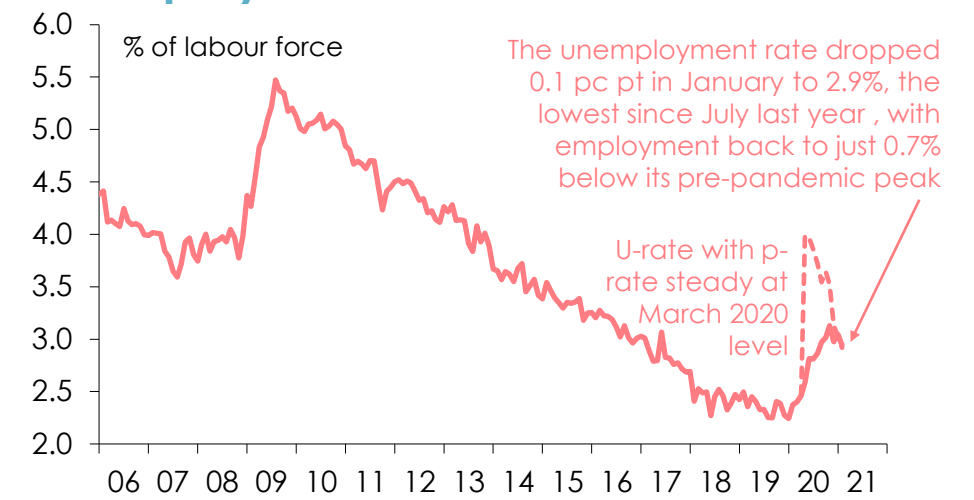
Real GDP



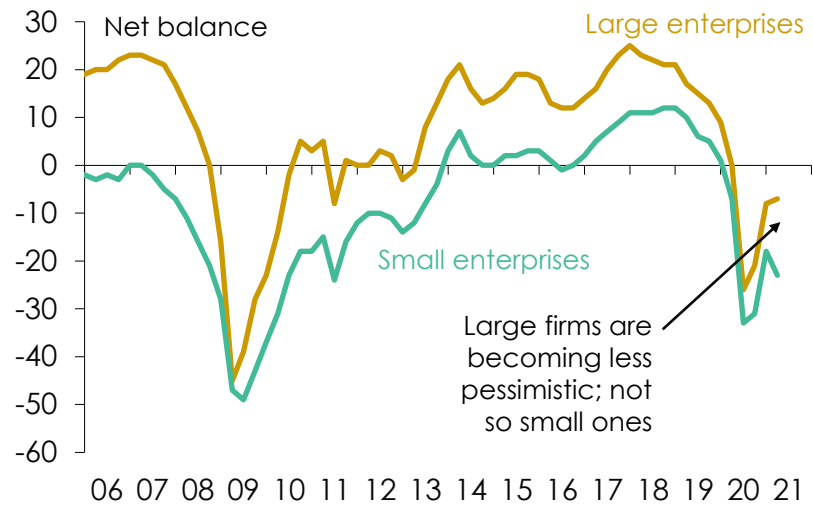
Consumer confidence



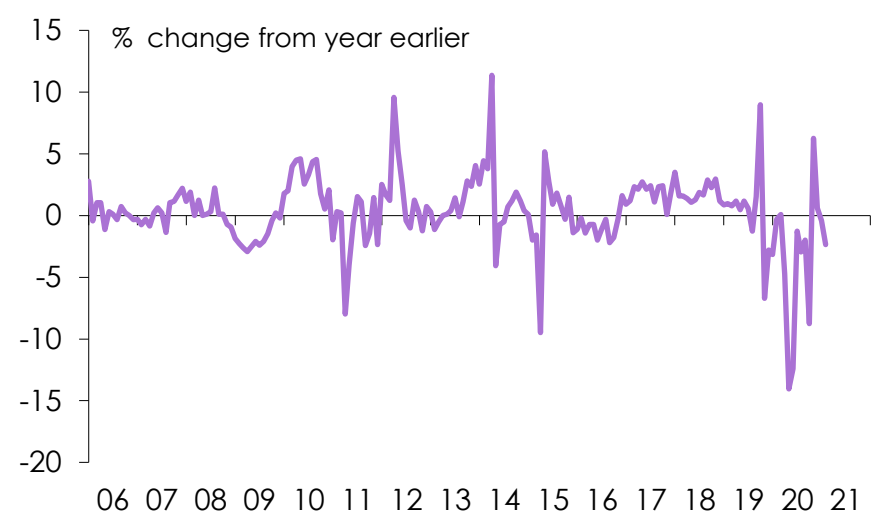
Unemployment



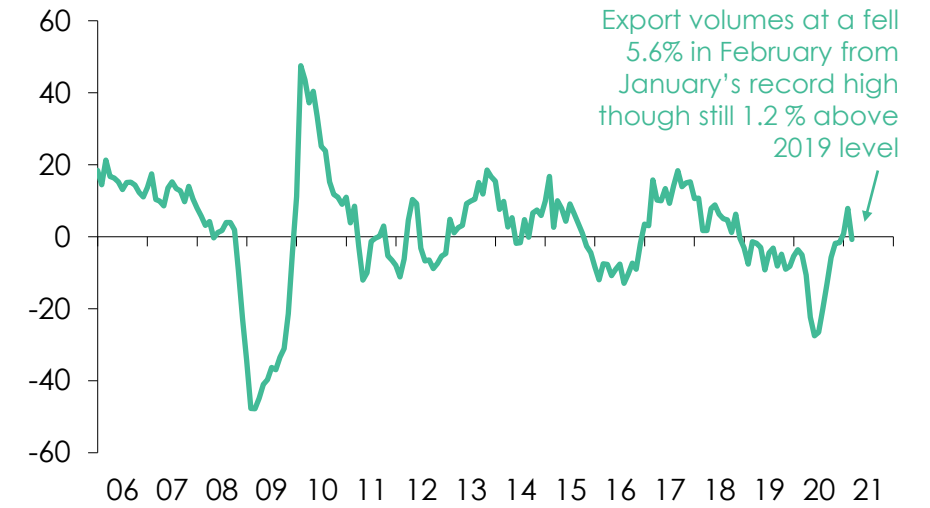
BoJ Tankan business conditions



Value of retail sales



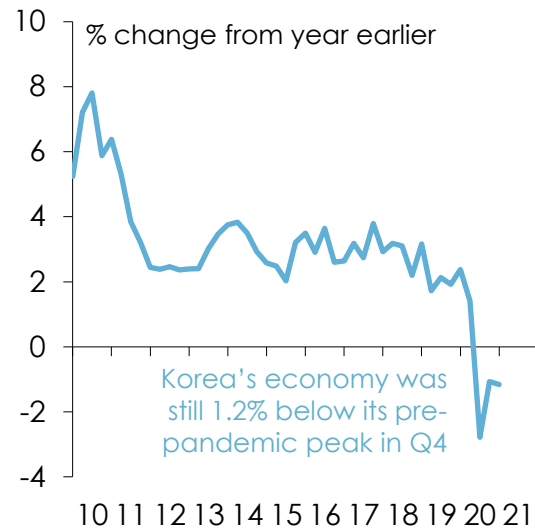
Merchandise export volumes



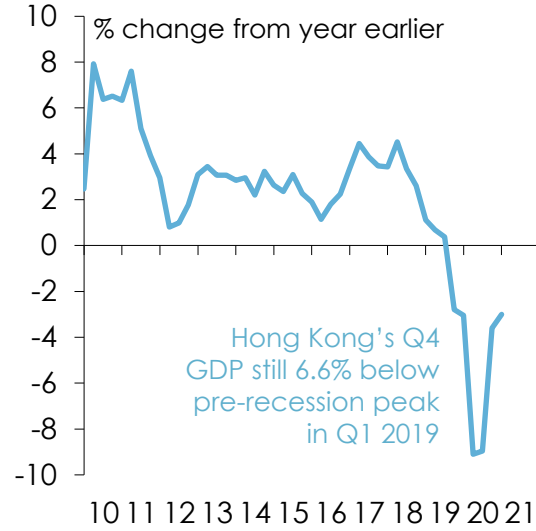
Sources: Japan Cabinet Office [Economic and Social Research Institute](#); [Bank of Japan](#); [Statistics Bureau of Japan](#); Japan [Ministry of Finance](#). [Return to "What's New"](#).

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

Korea



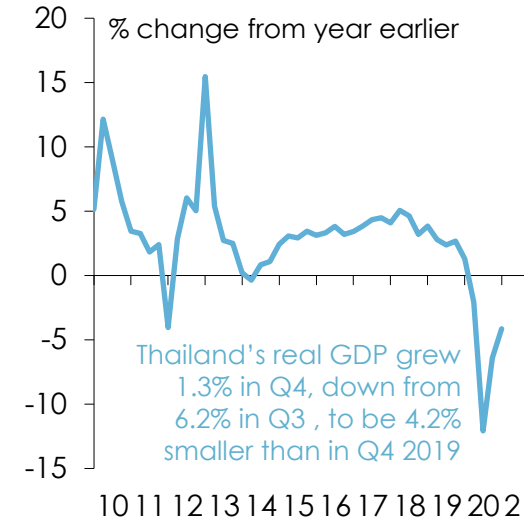
Hong Kong



Indonesia



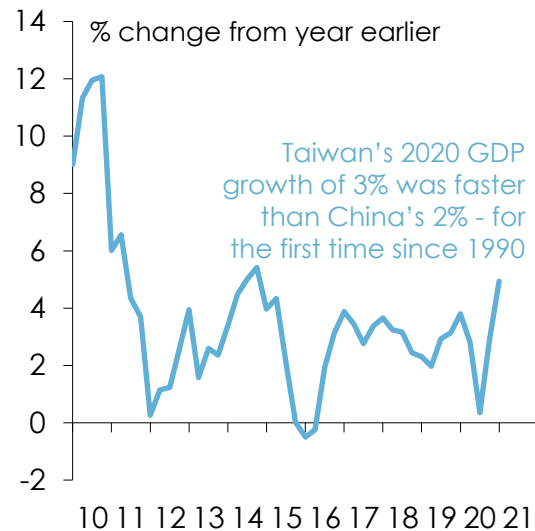
Thailand



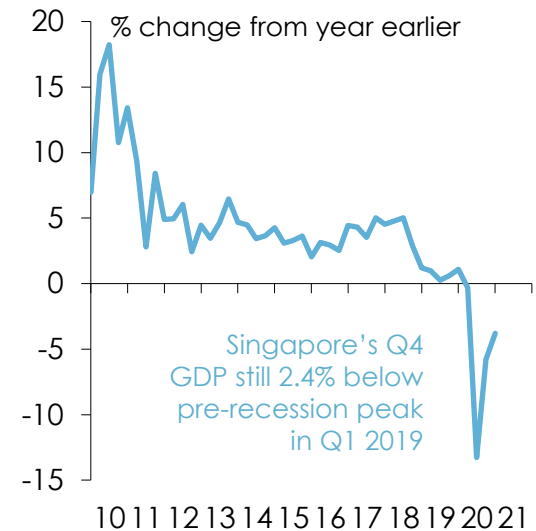
Vietnam



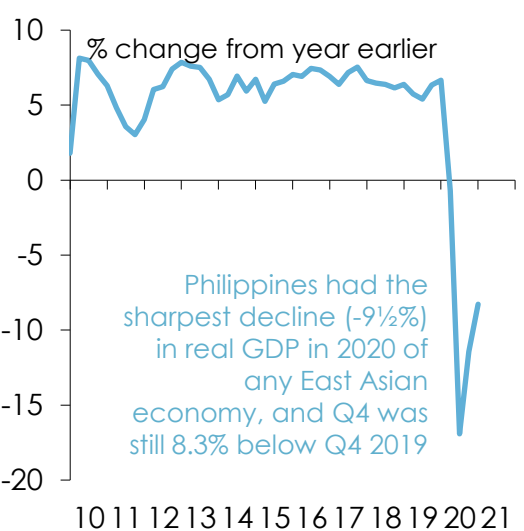
Taiwan



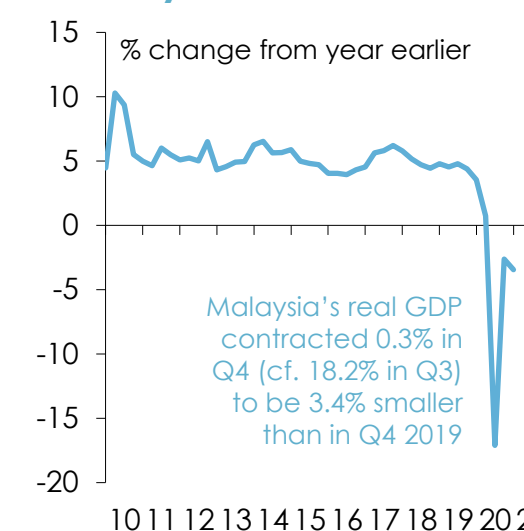
Singapore



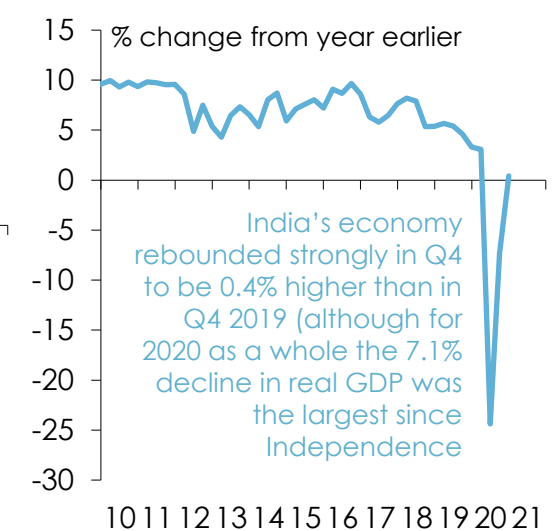
Philippines



Malaysia

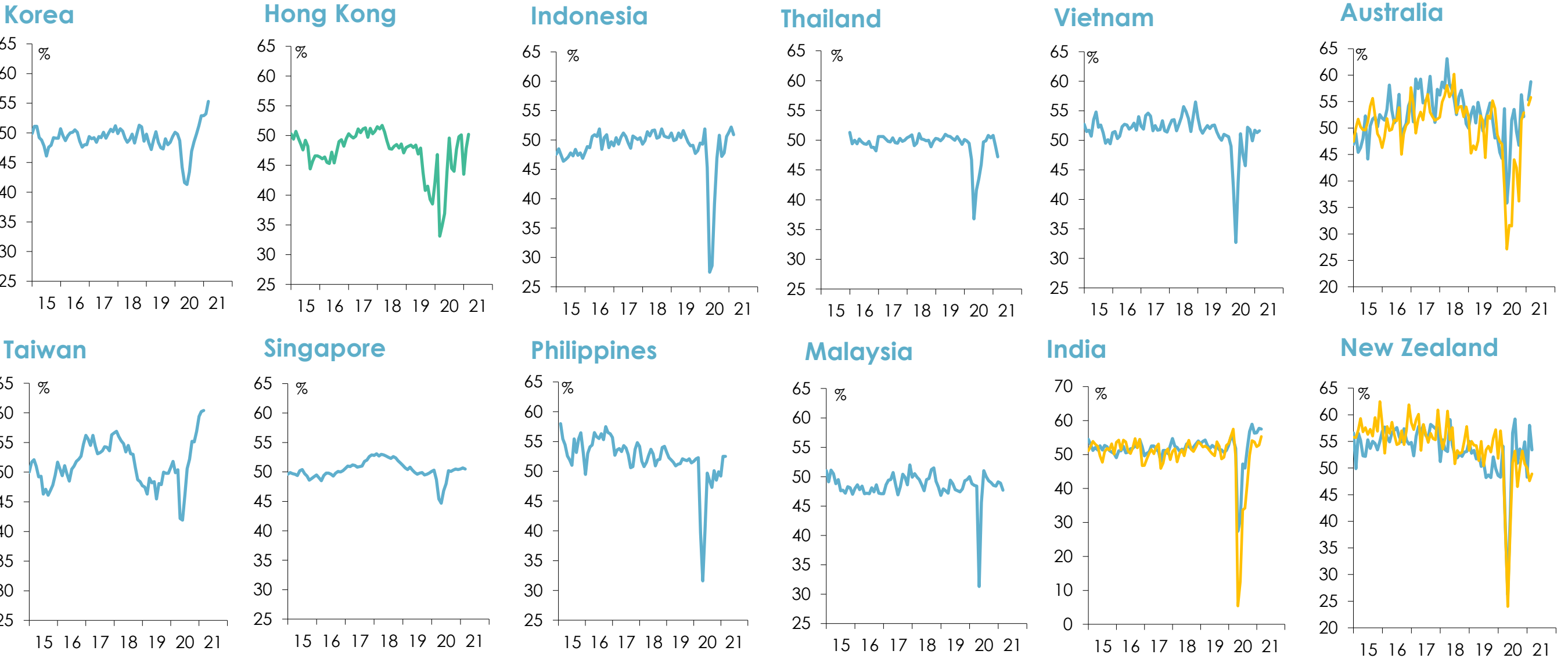


India



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

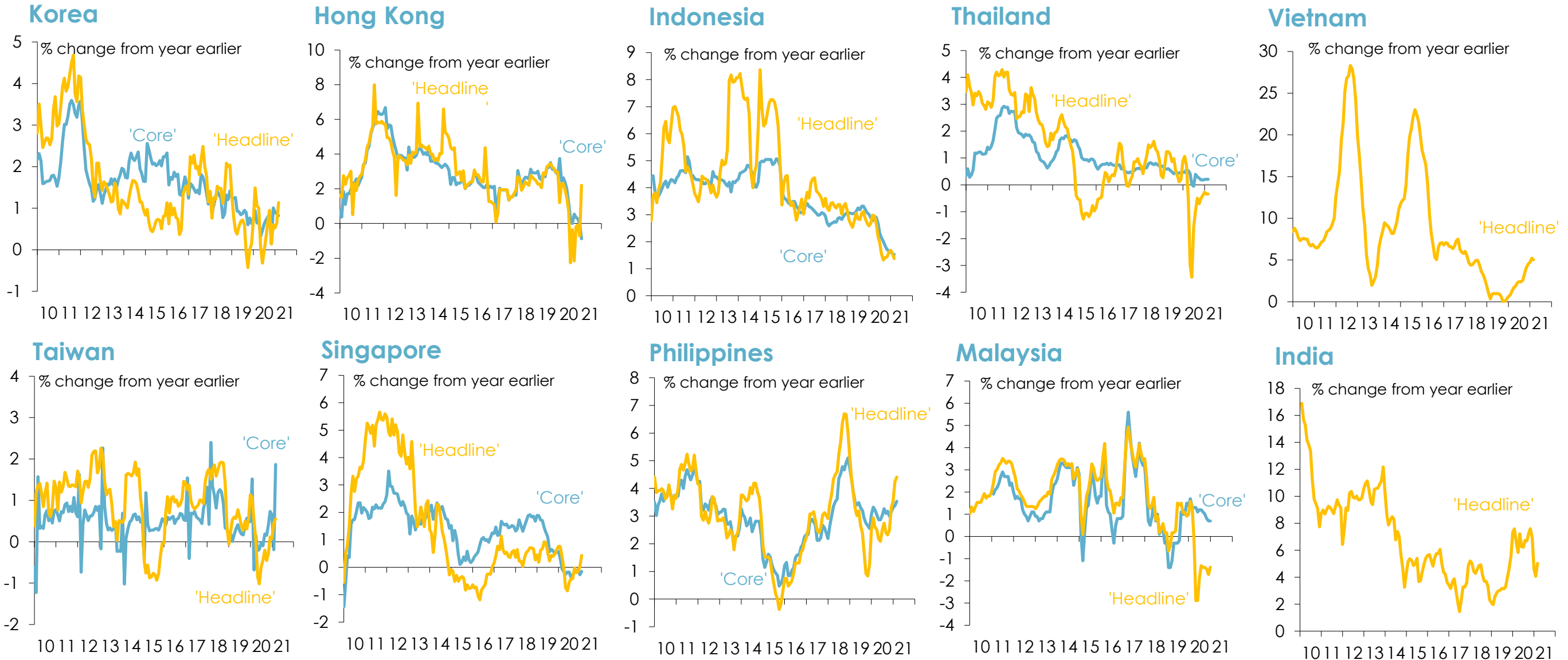


— Manufacturing — Services — Whole economy

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; 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"](#).

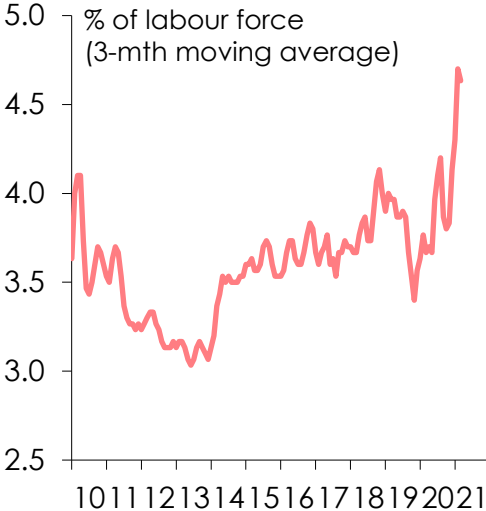
Inflation remains very low across most Asian economies other than India, but has started rising again in Vietnam and the Philippines



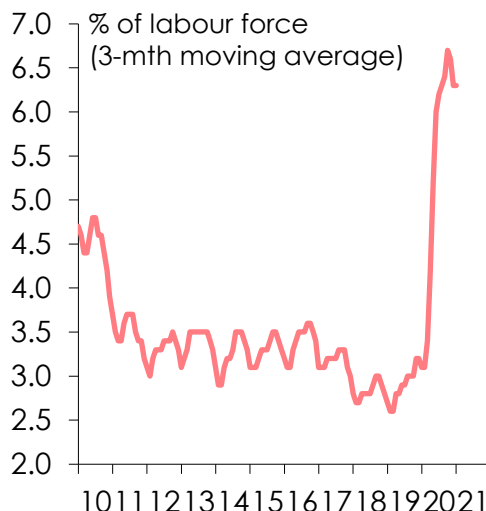
Note: 'Core' inflation in Korea excludes agricultural products and oil; in Taiwan it excludes fresh fruit, vegetables and energy; in Singapore it excludes accommodation and private transport; and in Hong Kong it excludes the effect of 'one-off government relief measures'. 'Core' inflation in Indonesia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

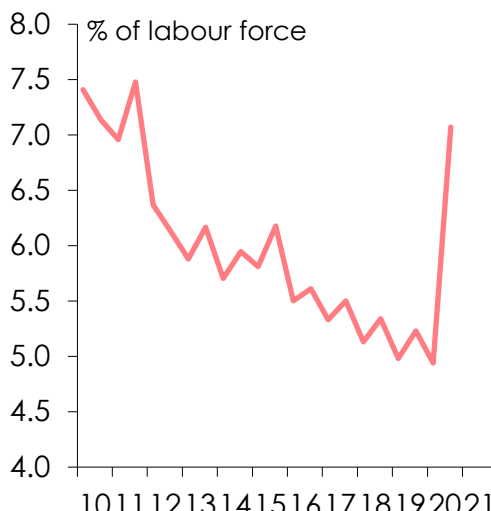
Korea



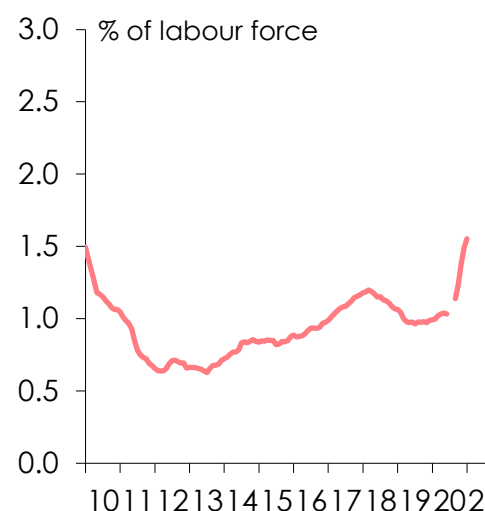
Hong Kong



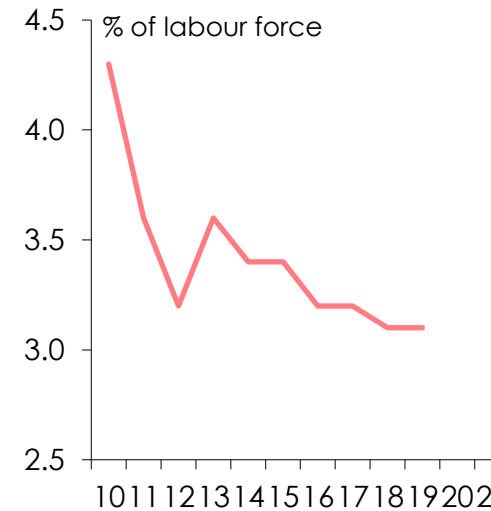
Indonesia



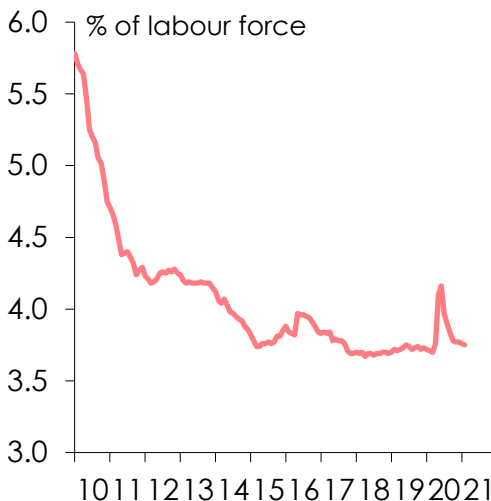
Thailand



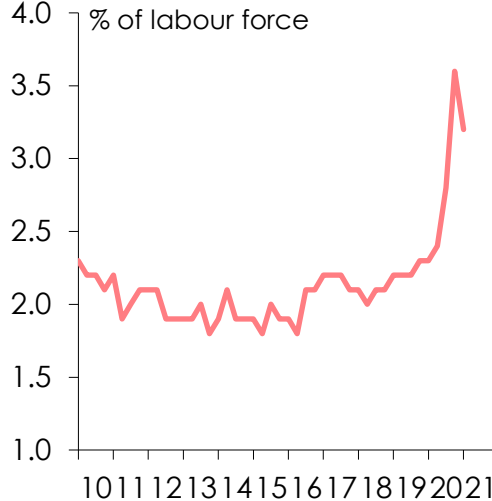
Vietnam



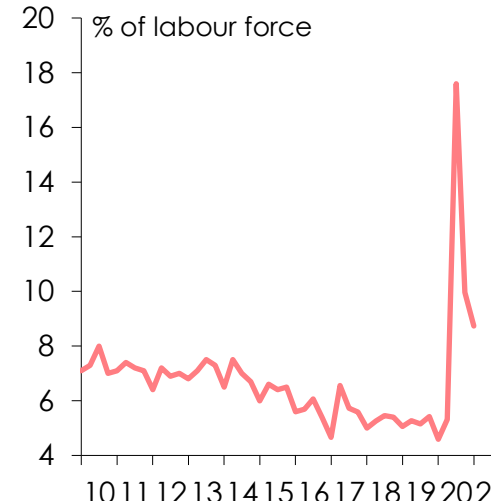
Taiwan



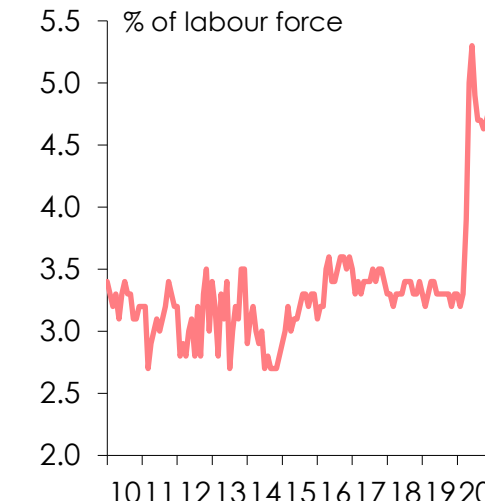
Singapore



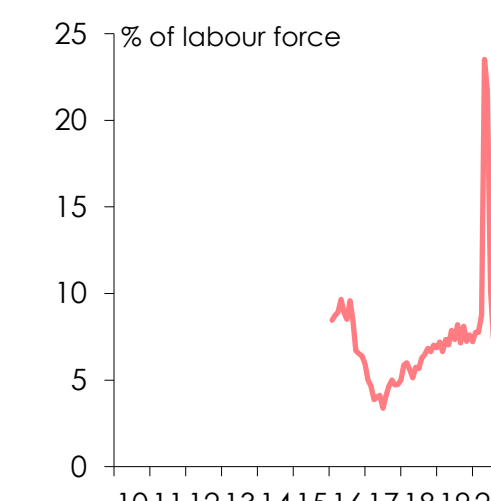
Philippines



Malaysia

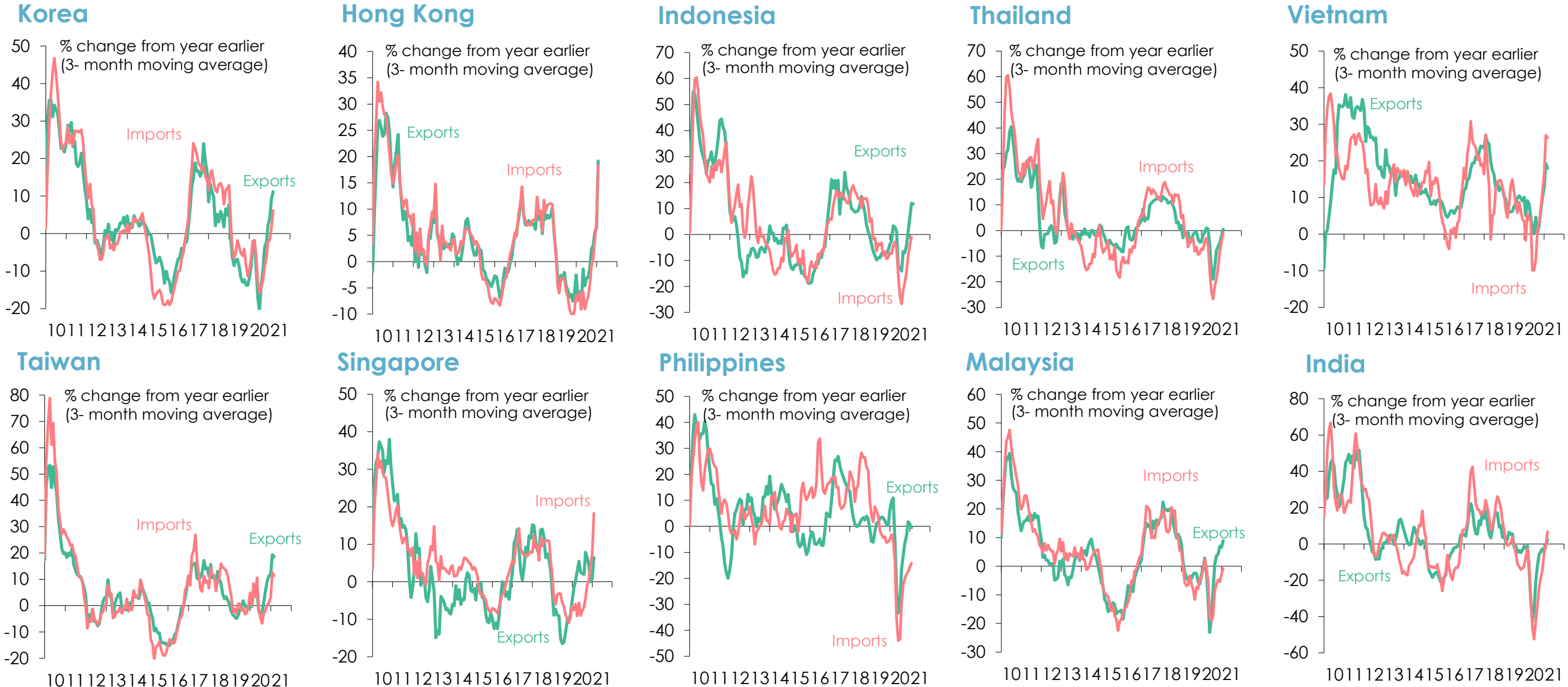


India



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"](#).

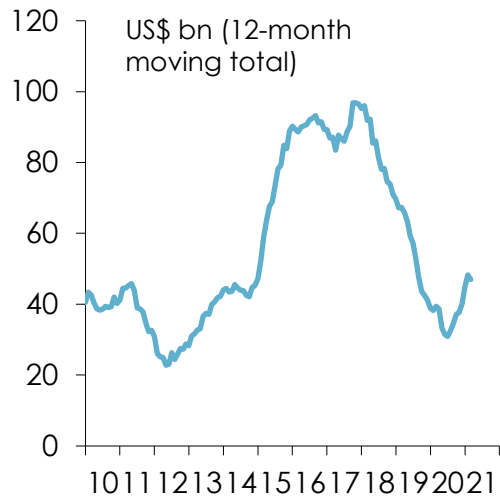
Asian exports are recovering from the Covid-induced slump – particularly Vietnam, Taiwan and Korea, with Thailand and India lagging



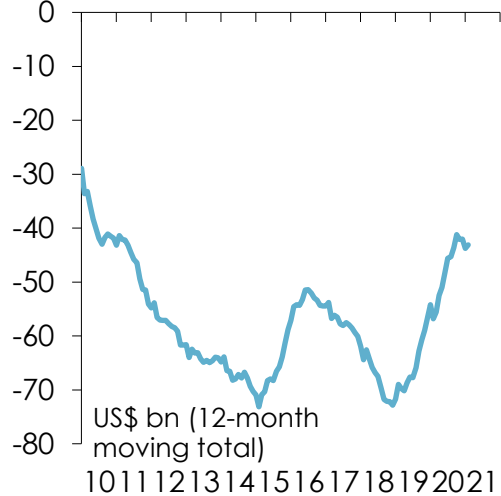
Note: Data for Hong Kong and Singapore published in national currencies and converted to US dollars by Corinna using month-average exchange rates. Sources: national statistical agencies and central banks. [Return to "What's New"](#).

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

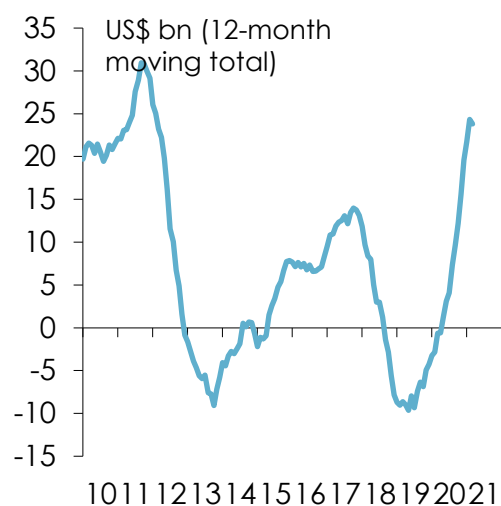
Korea



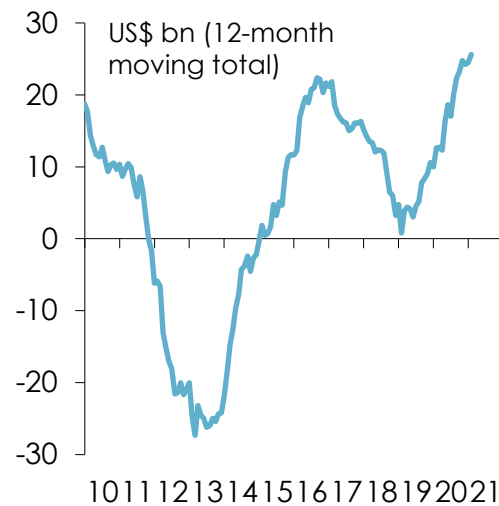
Hong Kong



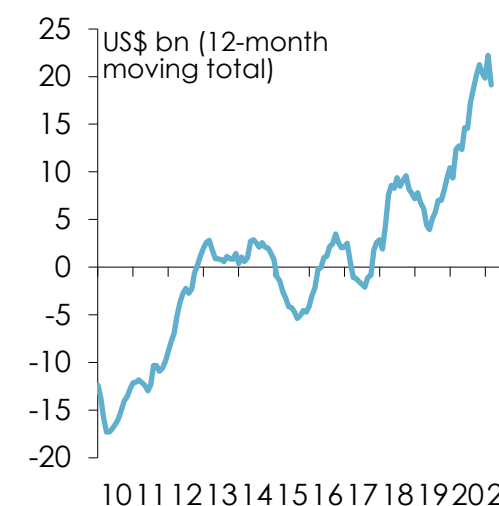
Indonesia



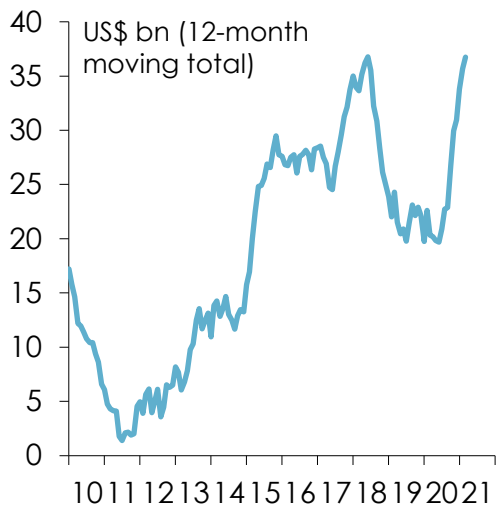
Thailand



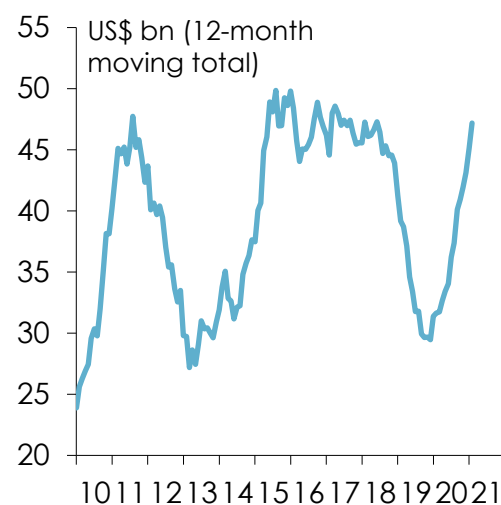
Vietnam



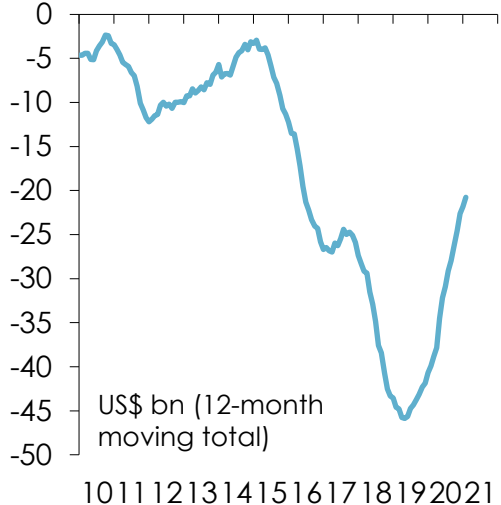
Taiwan



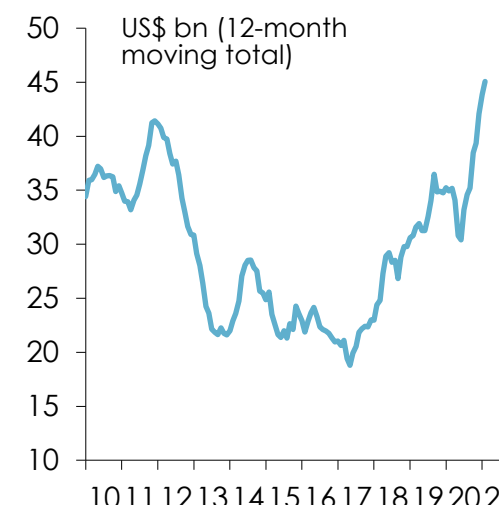
Singapore



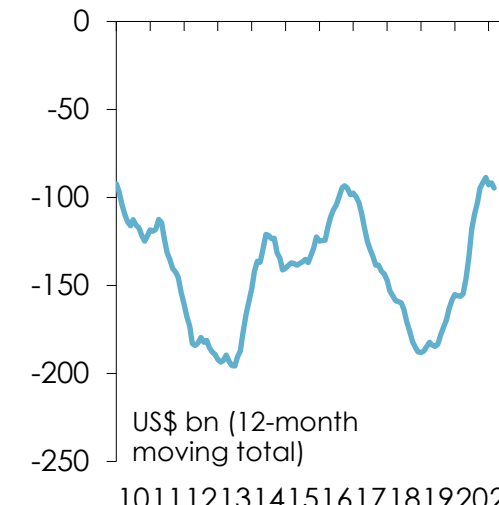
Philippines



Malaysia



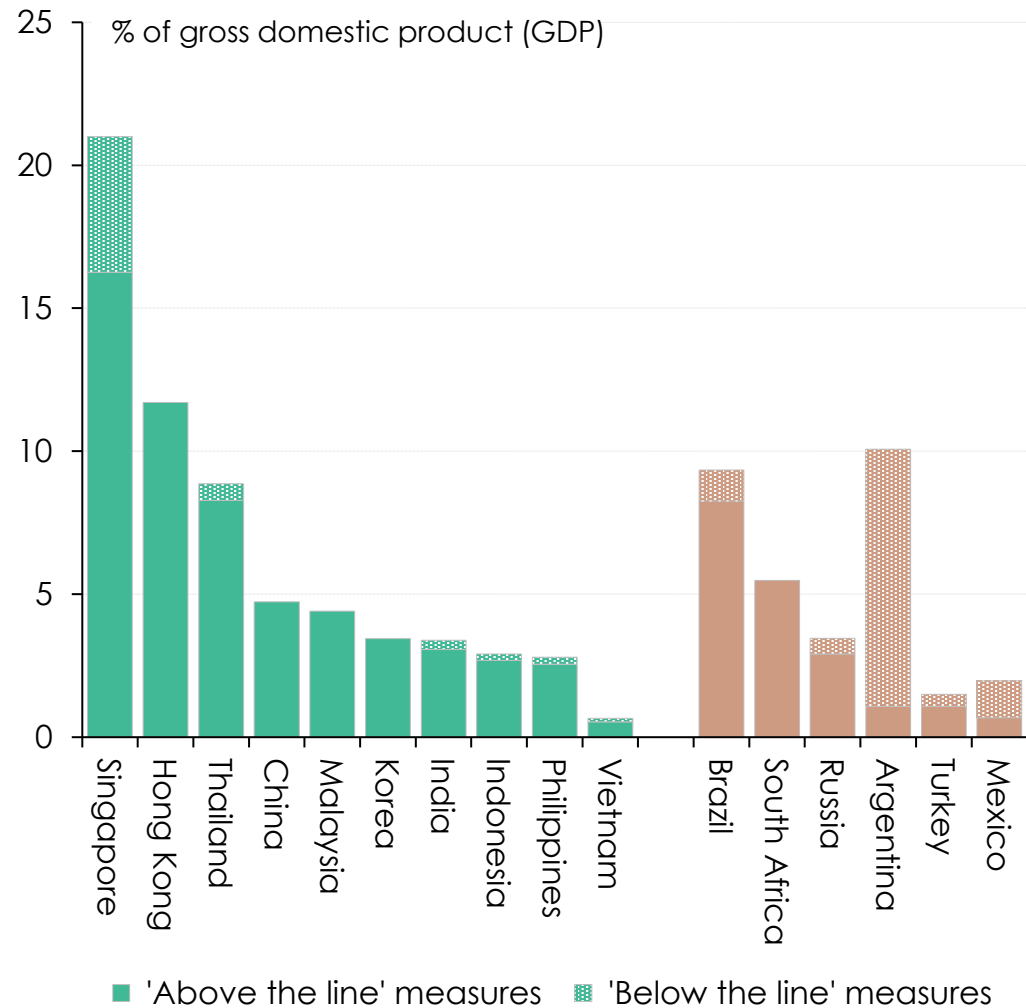
India



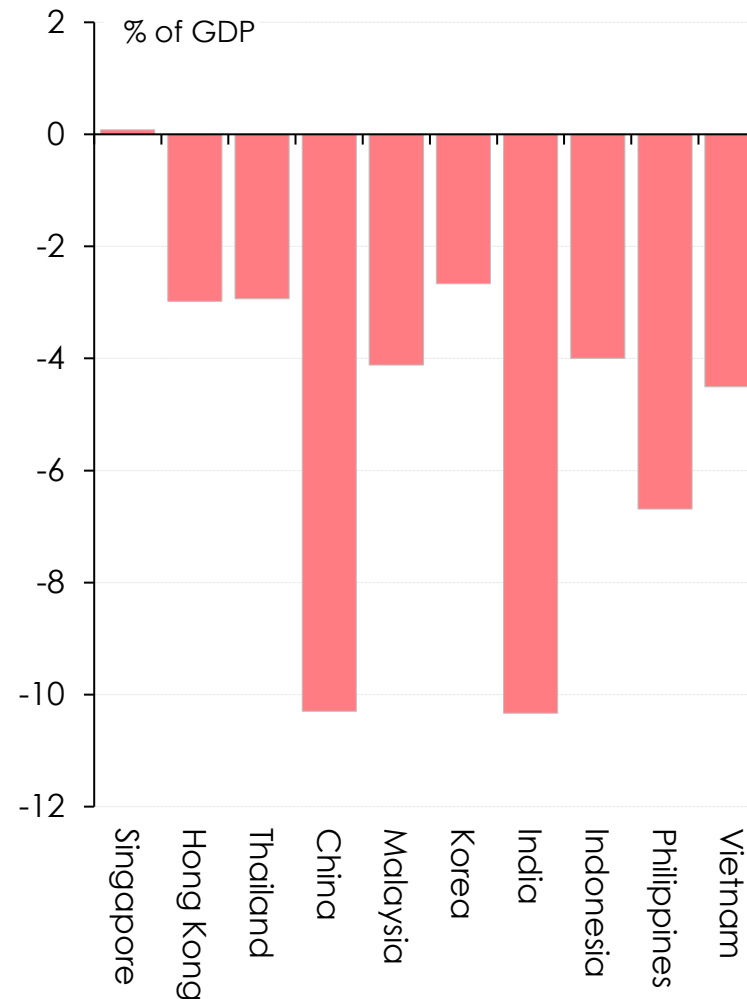
Note: Data for Hong Kong and Singapore published in national currencies and converted to US dollars by Corinna using month-average exchange rates.
Sources: national statistical agencies and central banks. [Return to "What's New"](#).

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

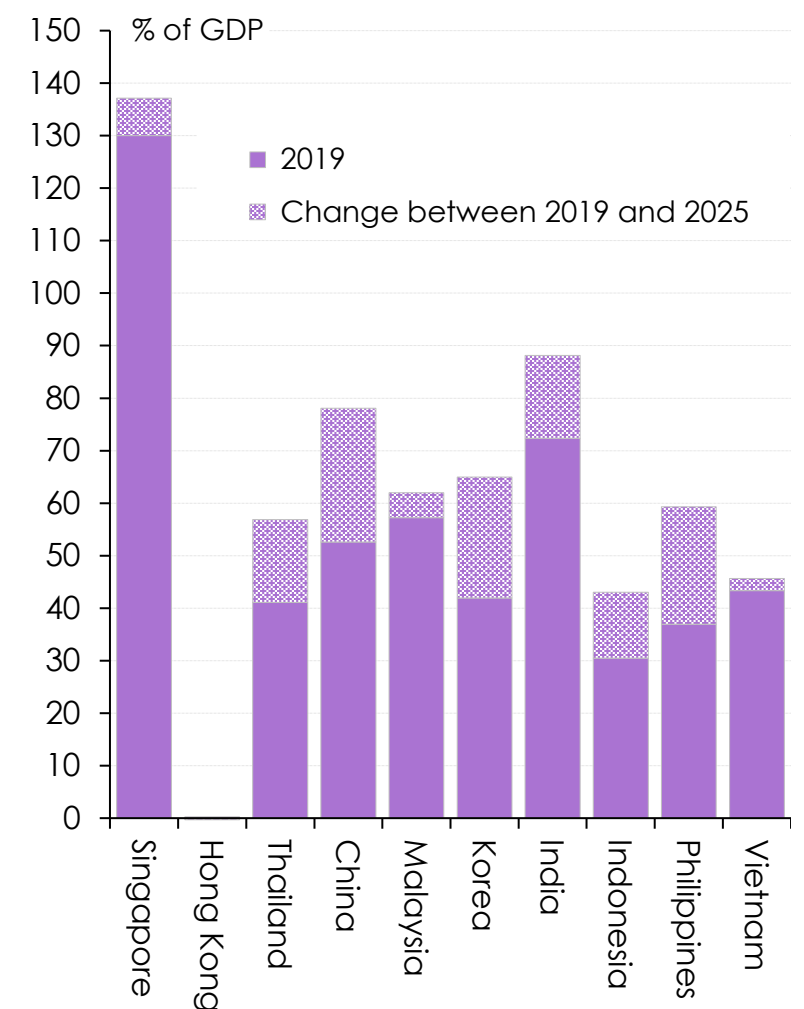
Fiscal policy responses to Covid-19 – Asian & other selected emerging market economies



Budget balances – Asian economies 2020-2025



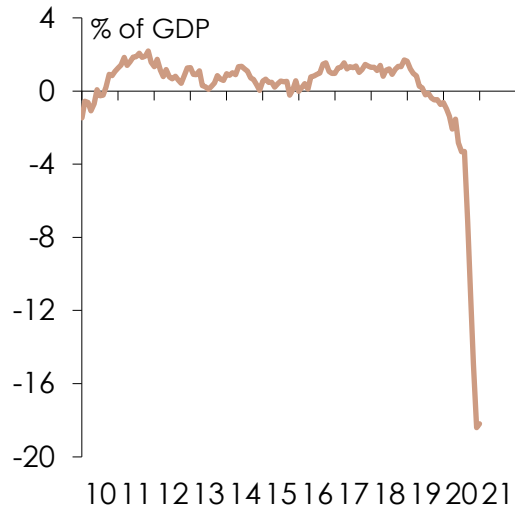
Gross government debt – Asian economies 2019-25



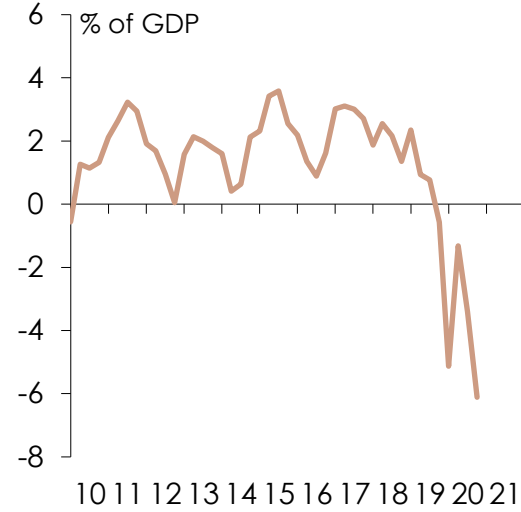
Note: 'Above the line' measures comprise additional or accelerated spending and deferred or foregone revenue. 'Below the line' measures comprise equity injections, loans, asset purchases and debt assumptions, but do not include loan guarantees or other contingent liabilities. 'DMs' means 'developed markets' (or 'advanced economies'). Data includes measures announced up until 31st December 2020. Forecasts of budget deficits and gross debt are from October 2020. Singapore's apparently very large gross debt is offset by substantial financial asset holdings. Source: IMF, [Fiscal Monitor Update](#), 18th February 2021; [Fiscal Monitor](#), October 2020. [Return to "What's New"](#).

National government budgetary positions have deteriorated sharply across Asia

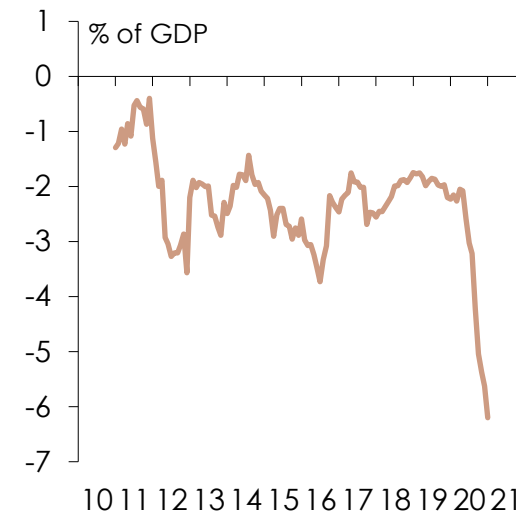
Korea



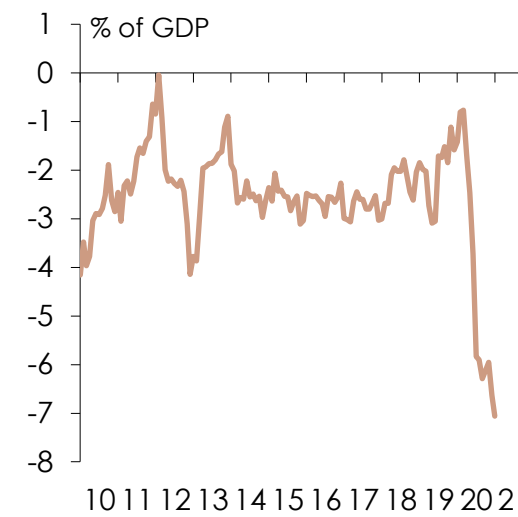
Hong Kong



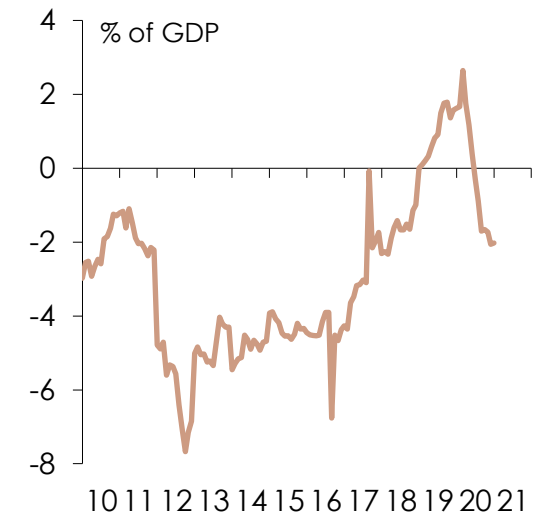
Indonesia



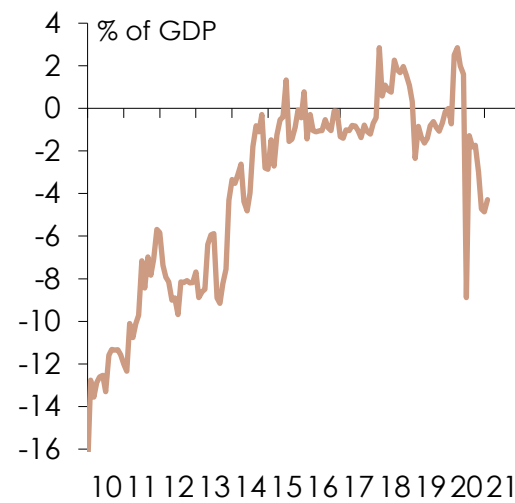
Thailand



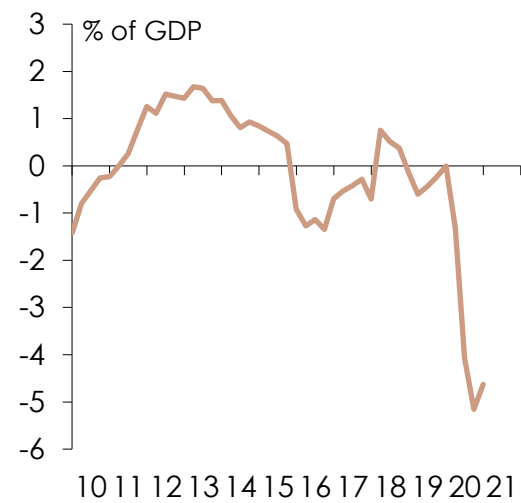
Vietnam



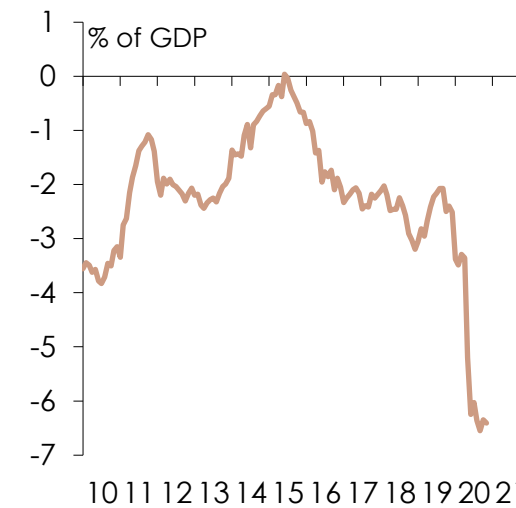
Taiwan



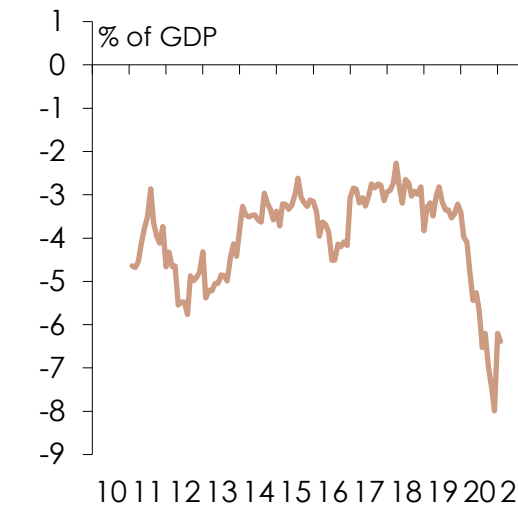
Singapore



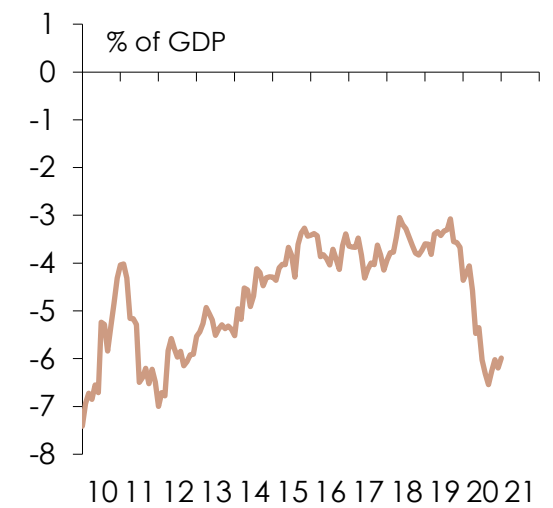
Philippines



Malaysia



India

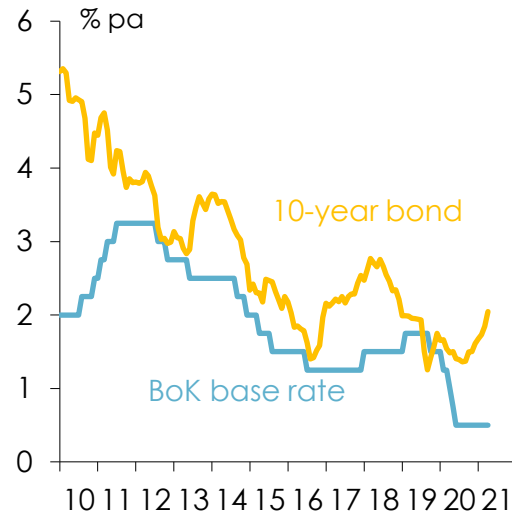


Note: Charts show central government budget balances over rolling 12-month (or in the cases of Hong Kong and Singapore, 4-quarter) periods, expressed as a pc of nominal GDP over the latest available 4-quarter period. Sources: National Finance Ministries or Treasuries, central banks and statistical agencies;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

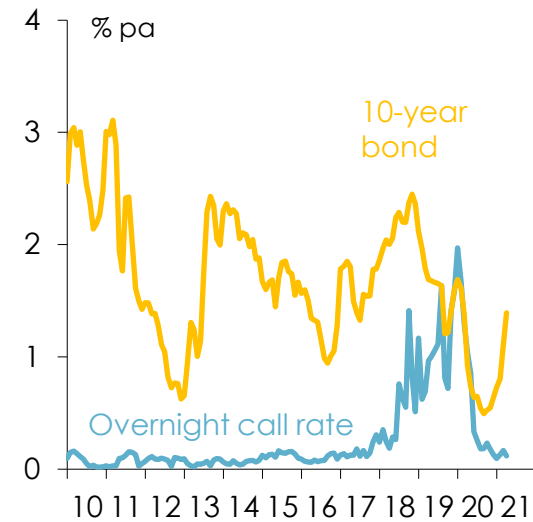
[Return to "What's New".](#)

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

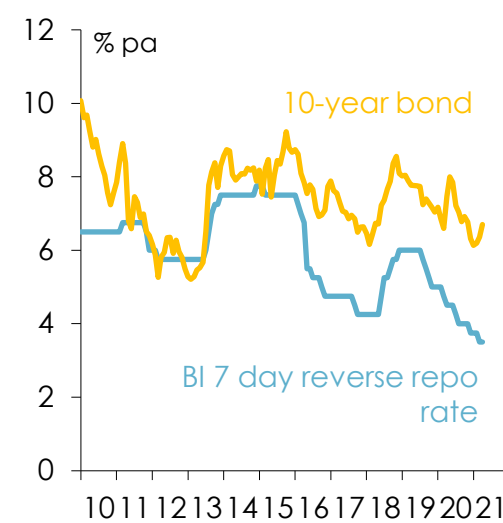
Korea



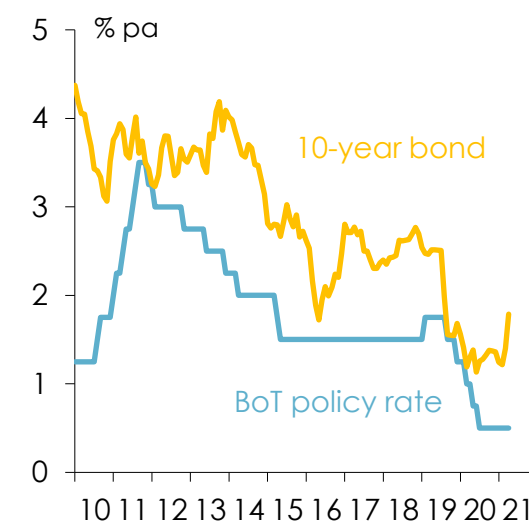
Hong Kong



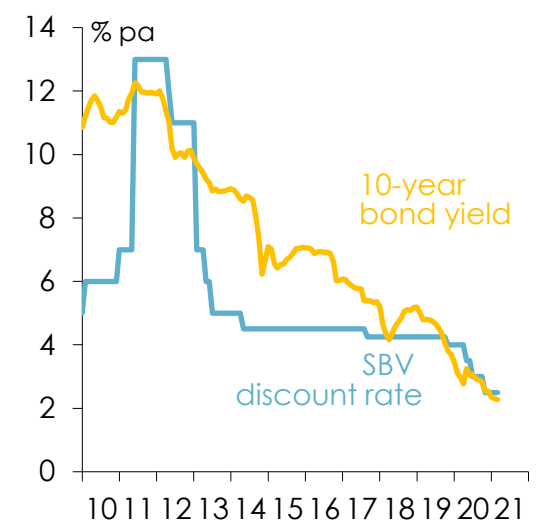
Indonesia



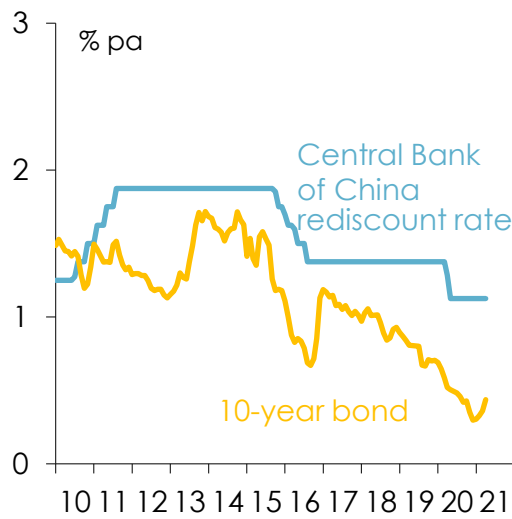
Thailand



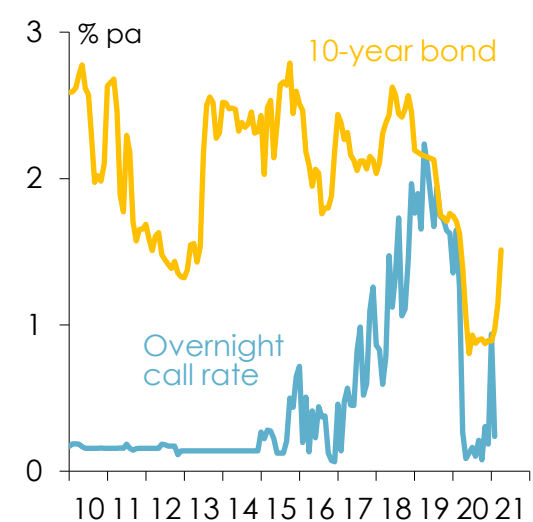
Vietnam



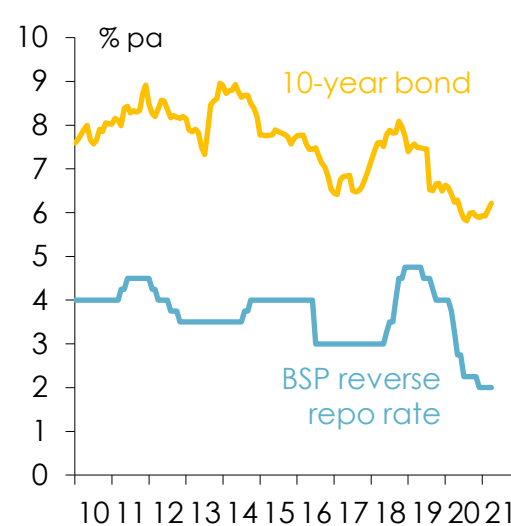
Taiwan



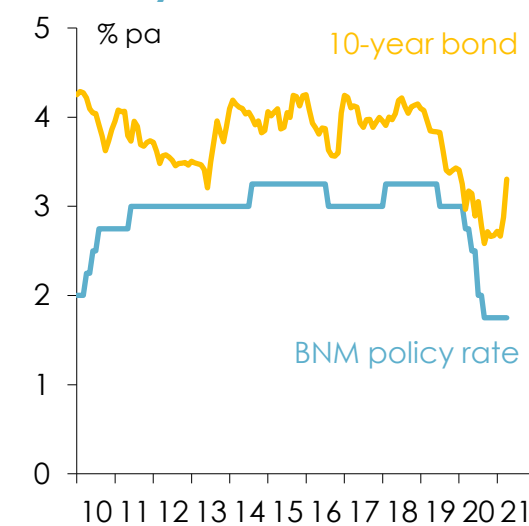
Singapore



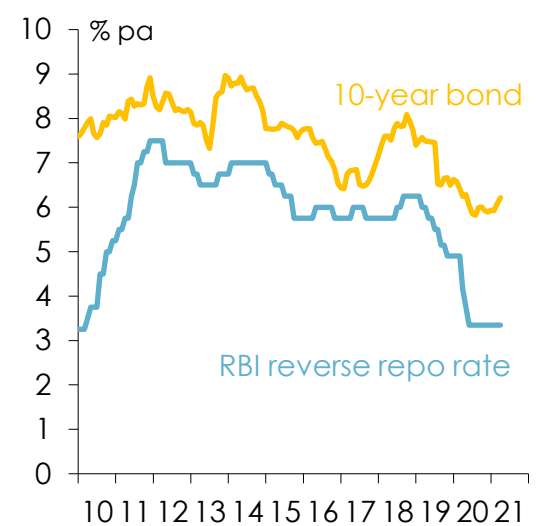
Philippines



Malaysia



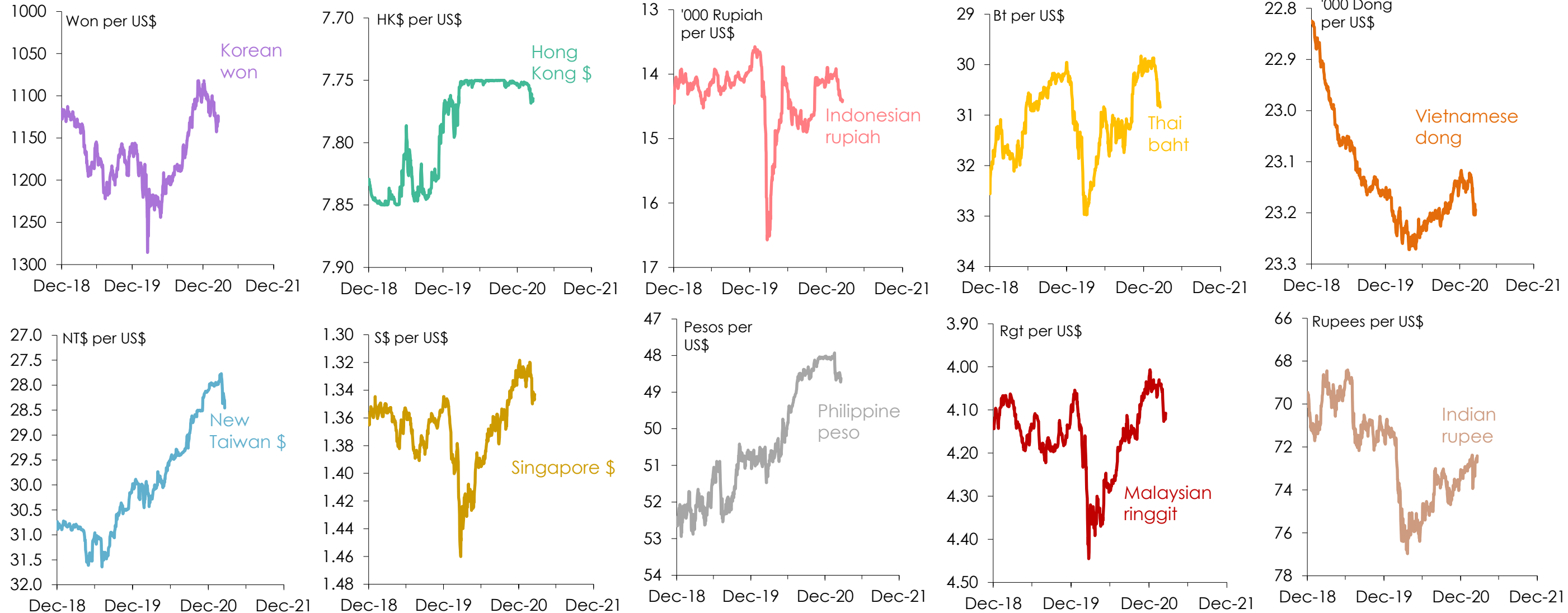
India



Note: Neither Hong Kong nor Singapore use a monetary policy indicator interest rate. Hong Kong has a currency board system, so HK interest rates track US rates very closely; the Monetary Authority of Singapore uses the (effective) exchange rate as its principal monetary policy interest rate. Data are monthly averages up to March 2021. Sources: national central banks; Refinitiv Datastream. [Return to "What's New"](#).

The NT\$ dropped 1% this week against the US\$, and the rupee rose 0.4%, but other Asian currencies were little changed after bigger falls last week

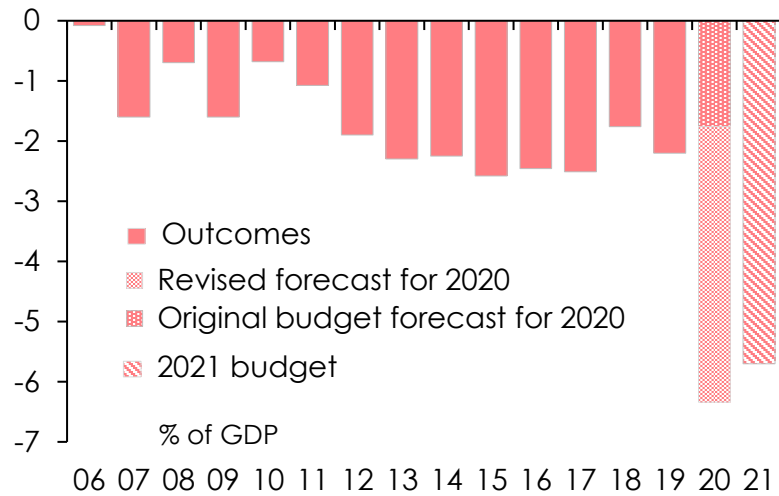
Asian currency exchange rates vs US dollar



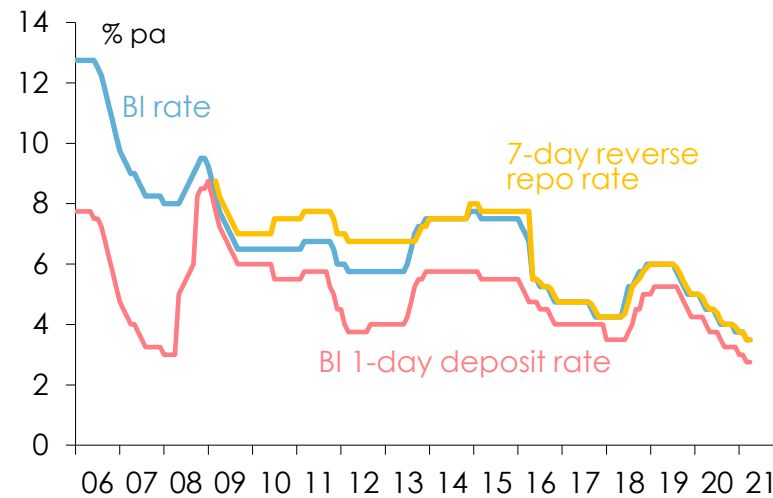
Note: Data up to 19th March. Source: Refinitiv Datastream. [Return to "What's New"](#).

Bank Indonesia left monetary policy settings on hold this week, after cutting rates a sixth time at the previous meeting

Indonesia budget deficit

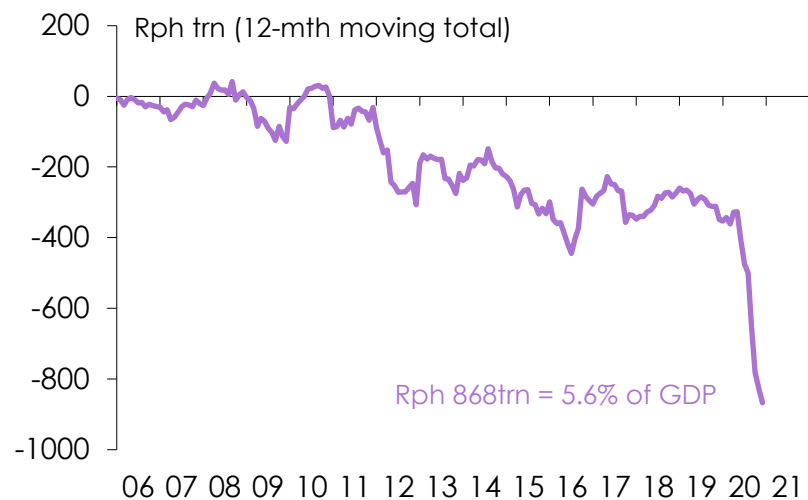


BI monetary policy rates

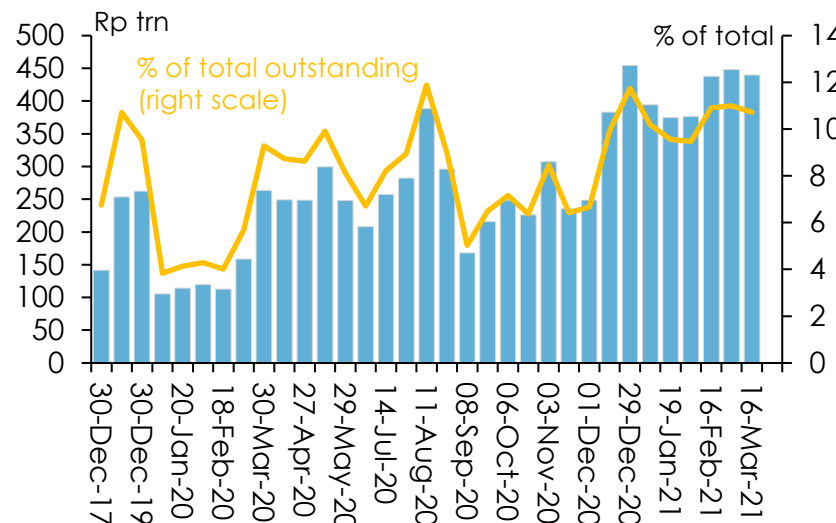


- In April 2020, the Indonesian Government and Bank Indonesia (BI) agreed to a 'burden-sharing' scheme under which BI will directly purchase bonds equivalent to 25% of this year's budget financing requirement (and return the interest received to the Government), as well as subsidizing interest payments on other bonds
 - BI calls this 'synergistic monetary expansion'
 - as of 16th March this year BI had purchased Rp 65 trn of SBN in the primary market (cf. Rp 473trn in 2020)
 - BI has also funded Rp 50trn of lending to SMEs this year under a separate 'burden-sharing' agreement

Central gov't budget balance



BI holdings of tradeable SBNs

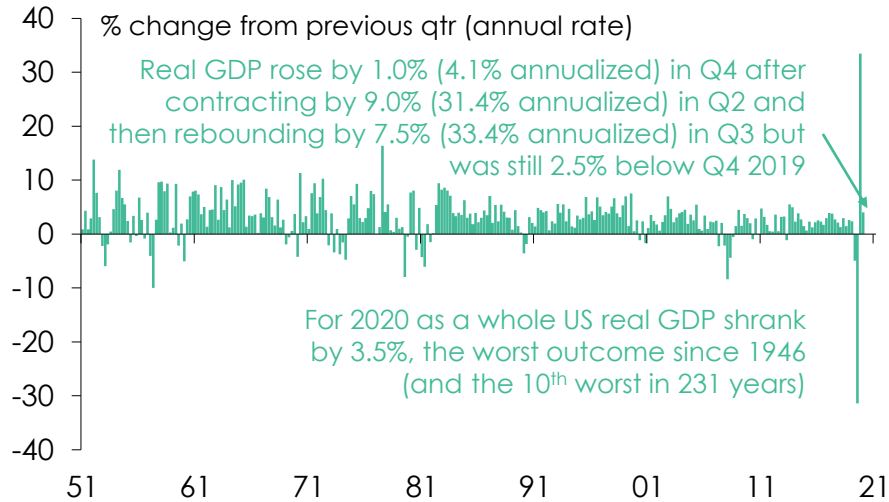


- BI has indicated that it will be a 'standby buyer' for up to one-quarter of government borrowing requirements through 2022
- BI kept its monetary policy settings on hold at its Board of Governors meeting this week
 - The 7-day reverse repo rate remains at 3.5%, the deposit facility rate at 2.75%, and the lending facility rate at 4.25%
 - BI maintained its forecasts for GDP growth in 2021 of 4¹/₄-5¹/₄%, and a current account deficit of 1-2% of GDP
 - inflation is expected to remain "under control within the target corridor of 3% ± 1%"

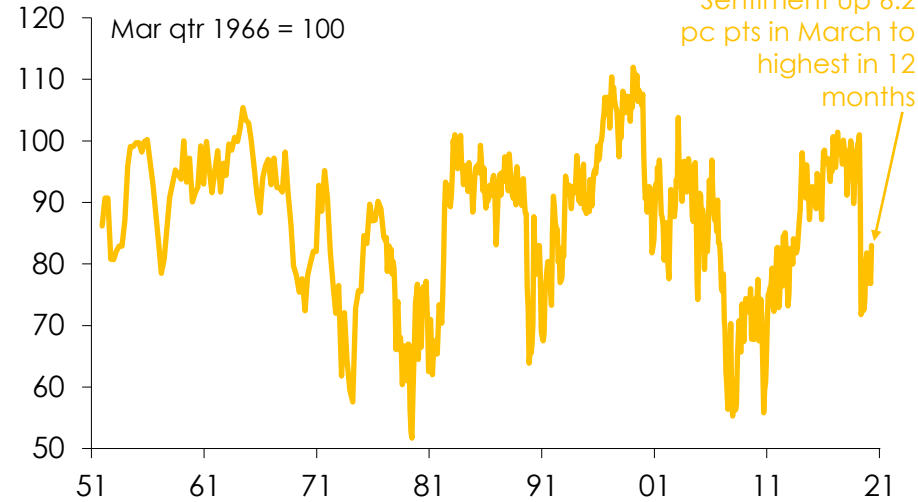
Sources: [Indonesia Ministry of Finance \(Kementerian Keuangan\)](#); [Directorate of Government Debt Securities](#); Bank Indonesia. Return to "What's New".

US economic growth slowed sharply in Q4 after Q3's strong rebound, Q1 is being buffeted by stimulus payments and unusually cold winter weather

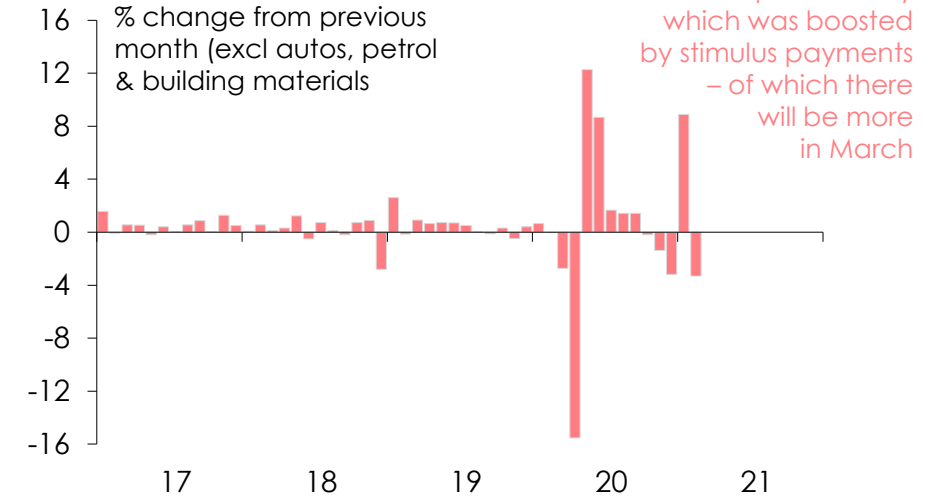
Real GDP



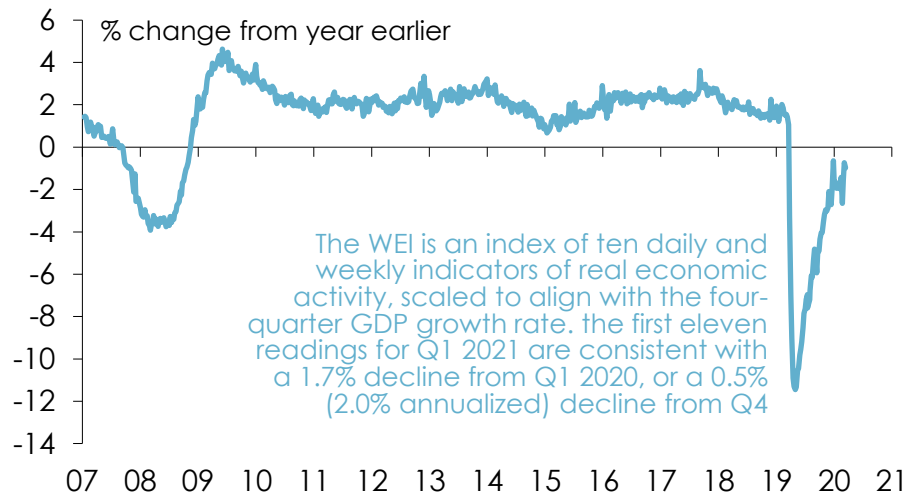
Consumer sentiment



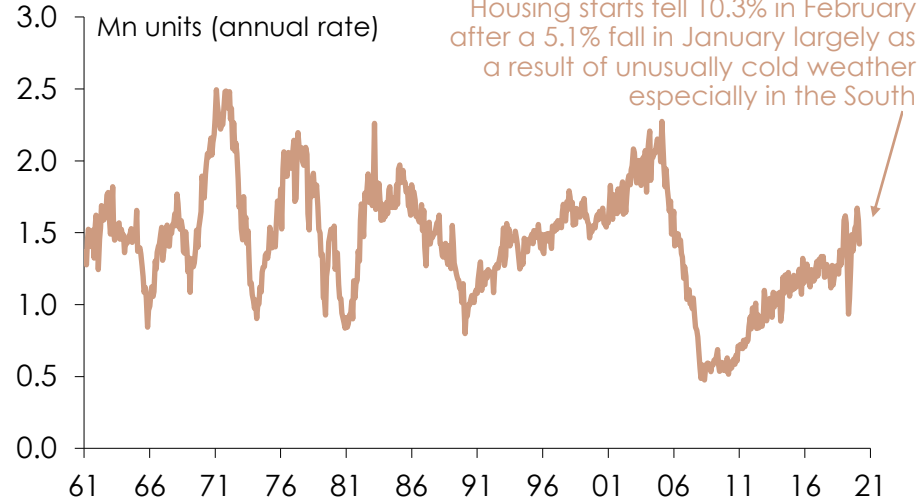
'Core' retail sales



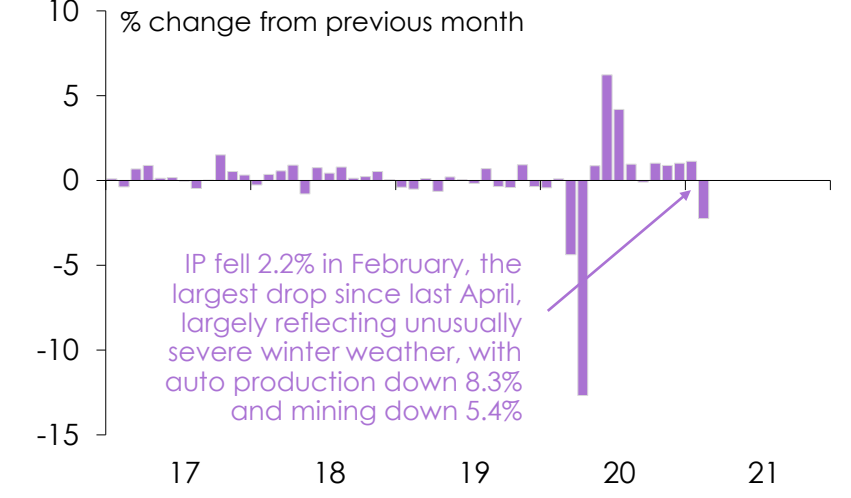
NY Fed weekly economic index



Housing starts

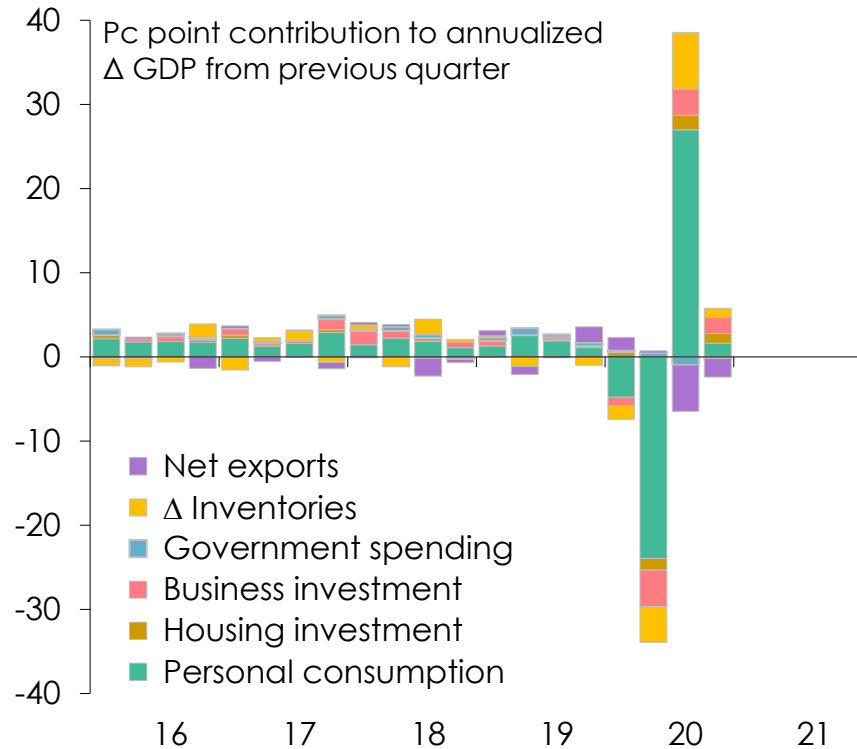


Industrial production



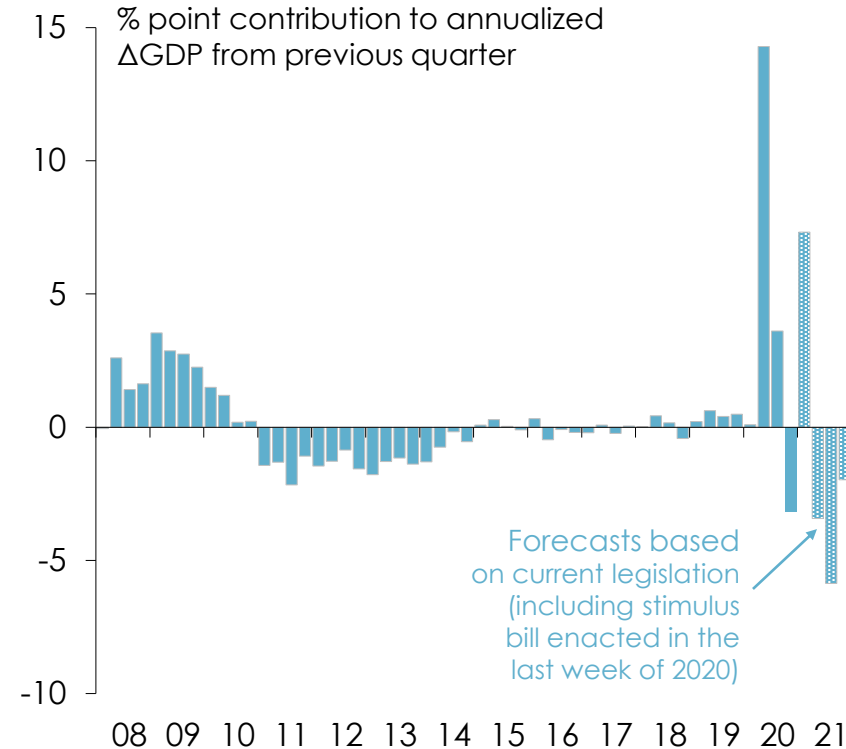
The huge gyrations in US real GDP during 2020 reflect the effects of restrictions, swings in fiscal policy and in personal saving

Major expenditure aggregates contribution to quarterly changes in real GDP



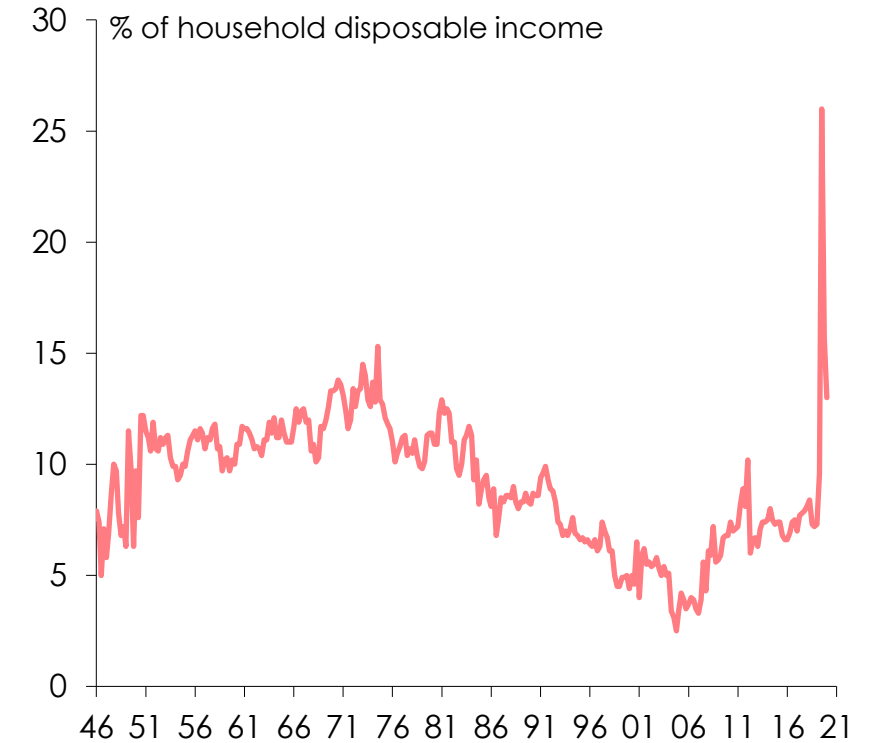
The slowdown in Q4 reflects a stalling in household spending on goods, a second consecutive fall in government spending, and a further drag from net exports

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

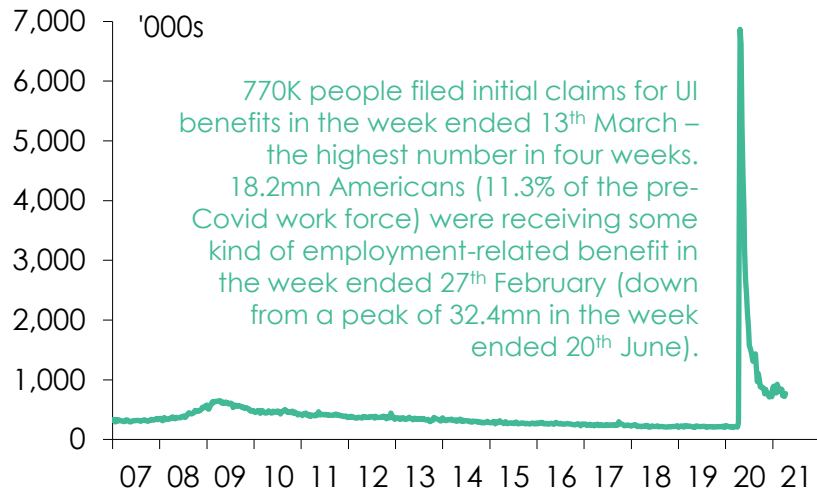
Personal saving rate



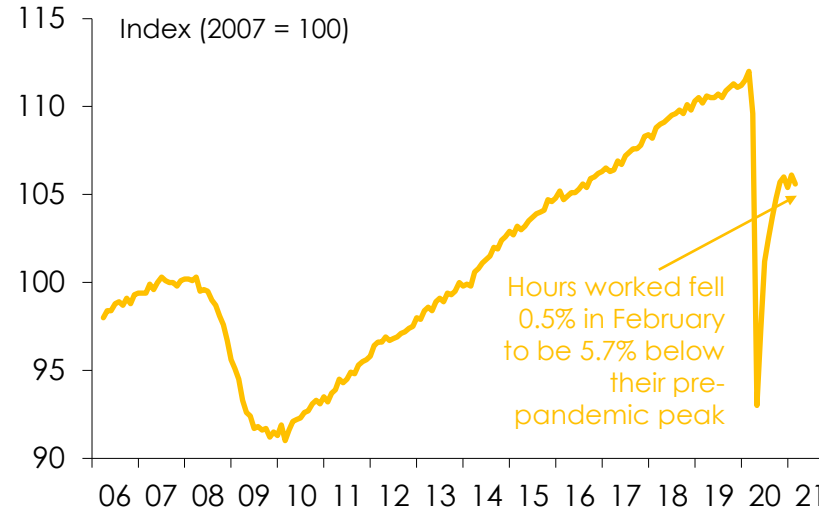
The personal saving rate declined again in Q4 to 13% from 26% in Q2 and 16% in Q1 but is otherwise still higher than at any time since the end of WWII

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

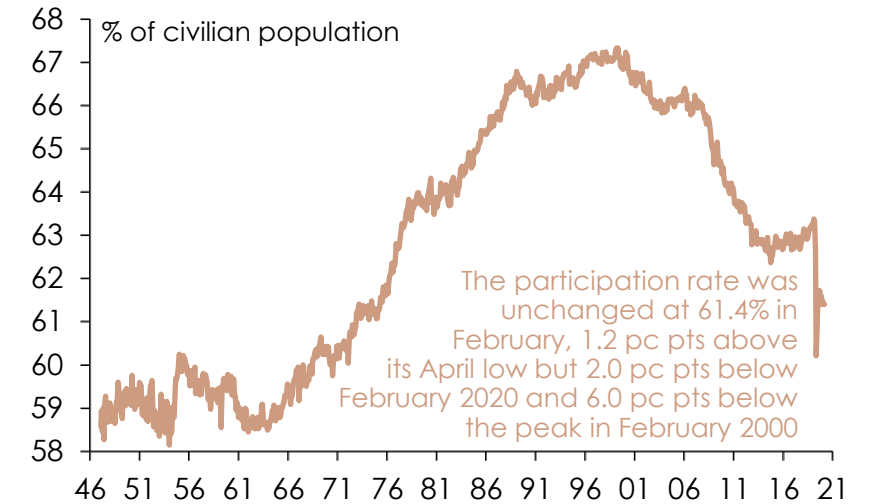
Unemployment benefit claims



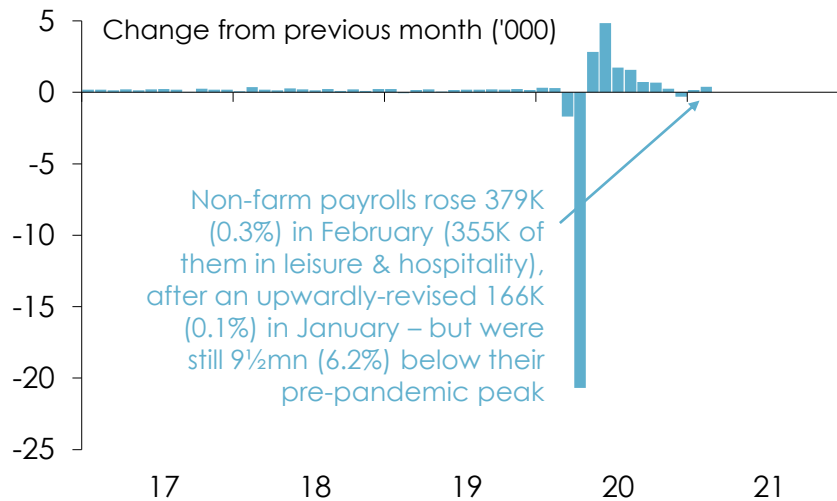
Hours worked (private sector)



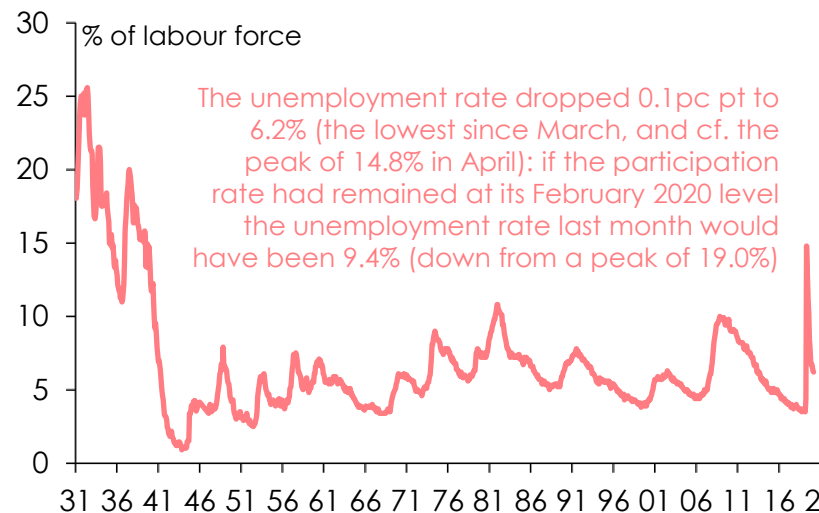
Labour force participation rate



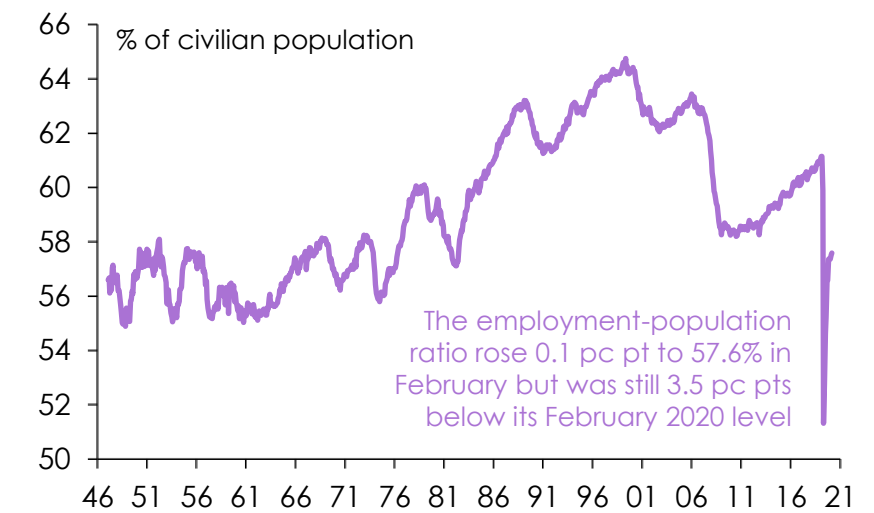
Non-farm payroll employment



Unemployment rate



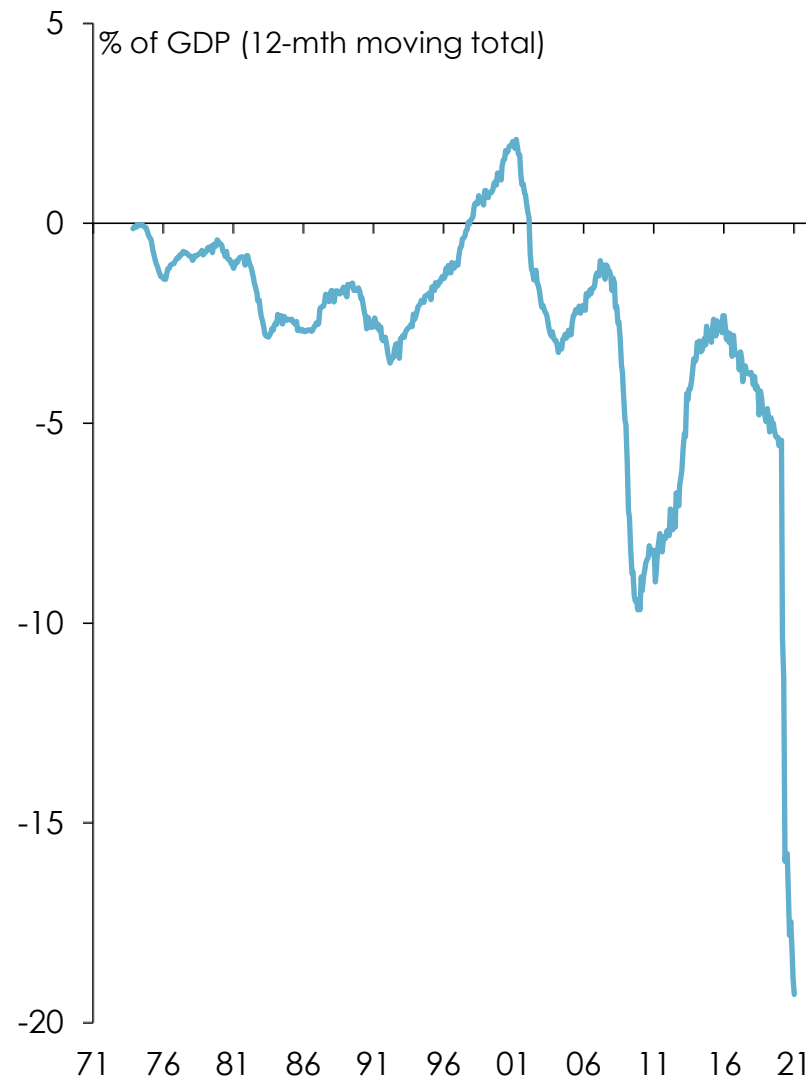
Employment to population ratio



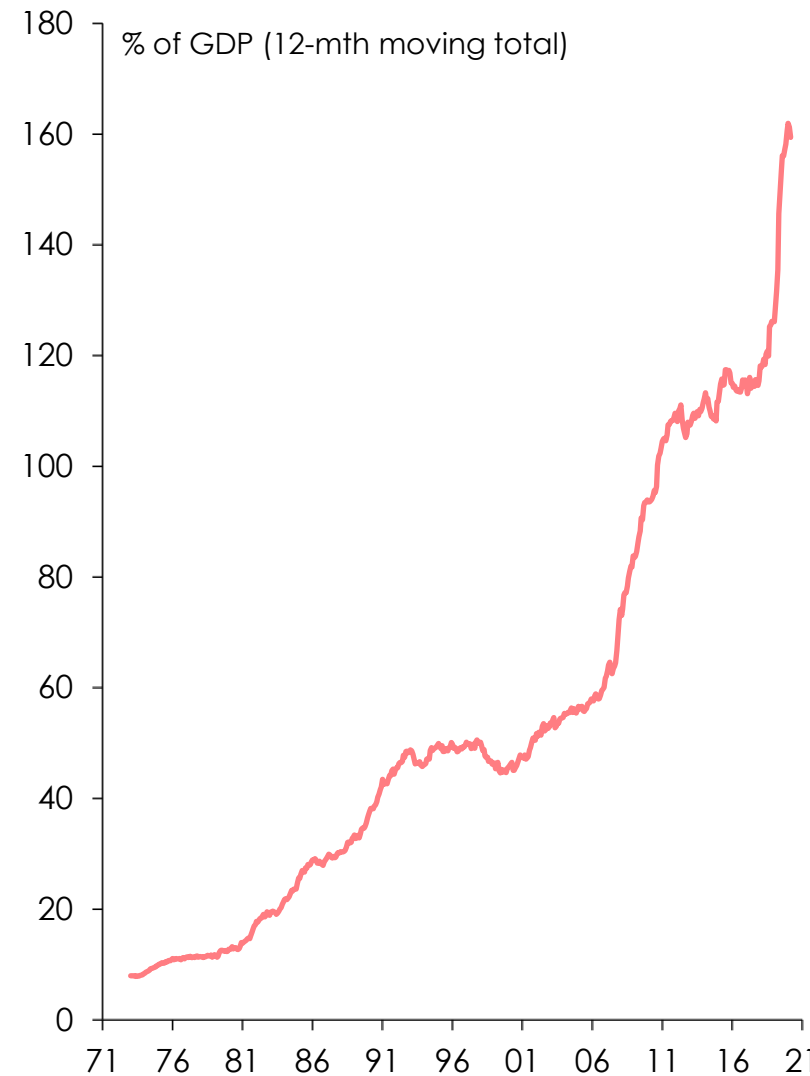
Sources: US [Department of Labor](#); US [Bureau of Labor Statistics](#); National Bureau of Economic Research [Macro History database](#). March employment and other labour force data will be released on 2nd April. [Return to "What's New"](#).

The US budget deficit reached US\$3.6 trn (19.3% of GDP) in the 12 months to February and will rise further as 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%, resulting in a deficit of \$3.3 trn (18.2% of GDP)
- ❑ The deficit for the first two months of 2021 was \$474bn, cf. \$268 bn in the first two months of last year, bringing the deficit for the twelve months to February to \$3.6 trn (19.3% of GDP)
- ❑ The market value of gross federal debt outstanding fell again to US\$29.4 trn (159.4% of GDP) reflecting higher bond yields – of this amount \$11.2 trn (or 38%) is held by US Government accounts (such as the Social Security Trust Fund) or the Federal Reserve
- ❑ President Biden signed the legislation authorizing the stimulus last week after it was passed by Congress the previous weekend

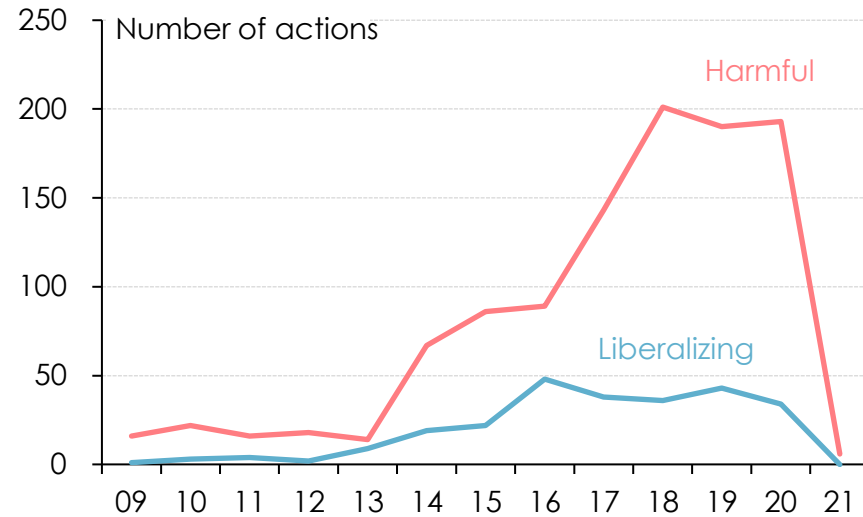
Note: The measure of US gross federal debt is at market value. Sources: [US Treasury Department](#); [Federal Reserve Bank of Dallas](#); US Bureau of Economic Analysis; [US Congressional Budget Office](#); Corinna. [Return to "What's New"](#).

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

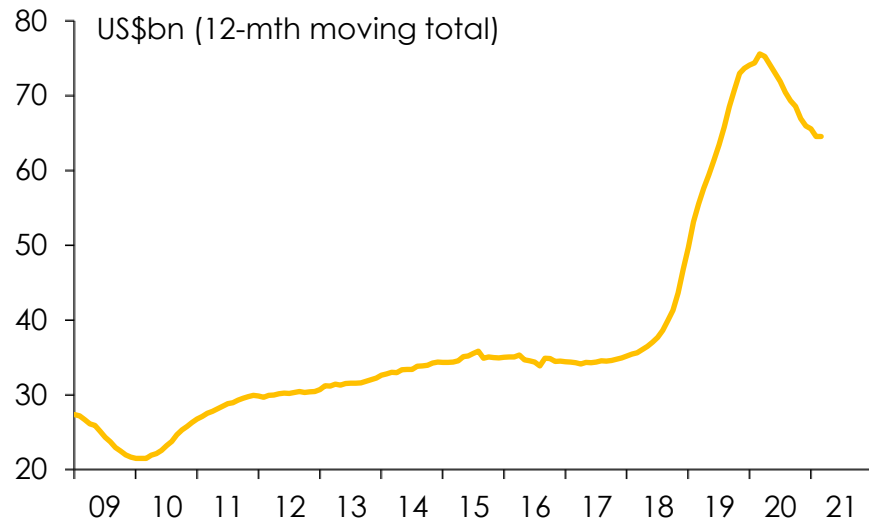
- ❑ Last month former US Treasury Secretary (in the second Clinton Administration) Larry Summers [argued](#) that the Biden Administration's US\$1.9 trn stimulus plan was 'too big' and risked generating higher inflation
 - Summers calculated that the proposed stimulus was three times as large as the '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 34](#) for more on Powell's most recent commentary)
- ❑ The OECD estimates that the stimulus package will boost US economic growth by 3¾ pc points this year, with 'spillovers' to the rest of the world boosting global growth by 1.1 pc point (see [slide 28](#))

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

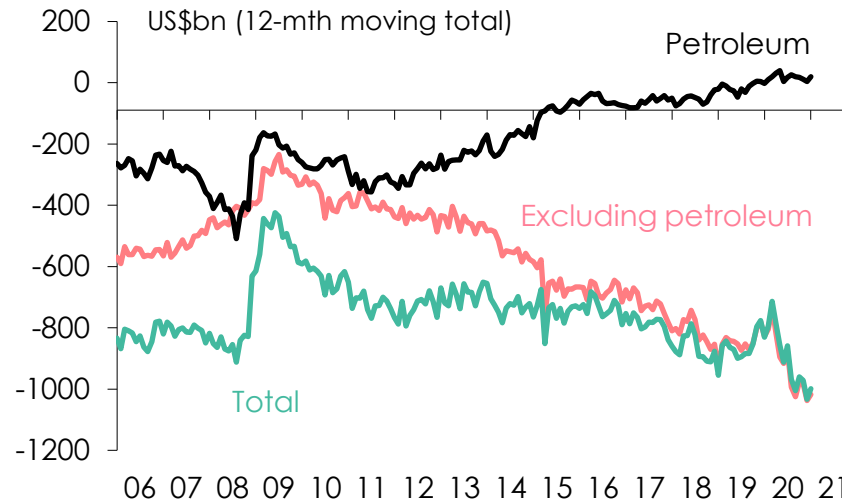
US trade policy actions



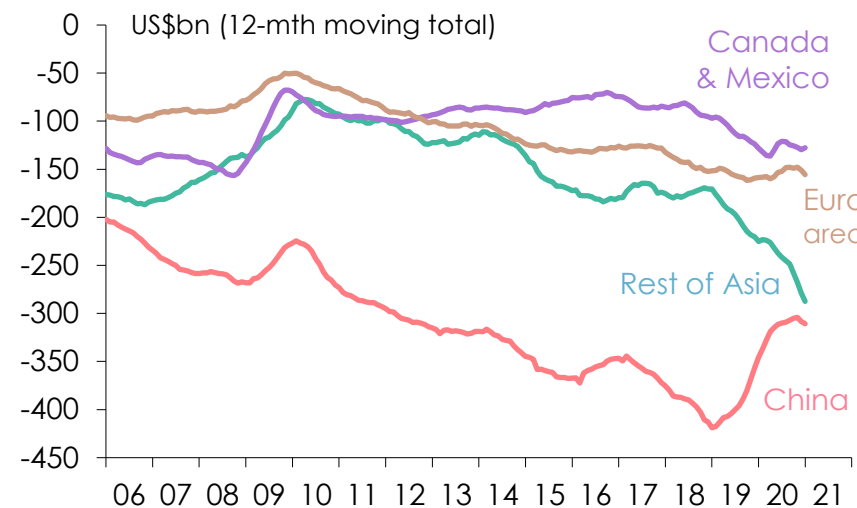
US customs duty revenue



US merchandise trade balance



US bilateral trade balances

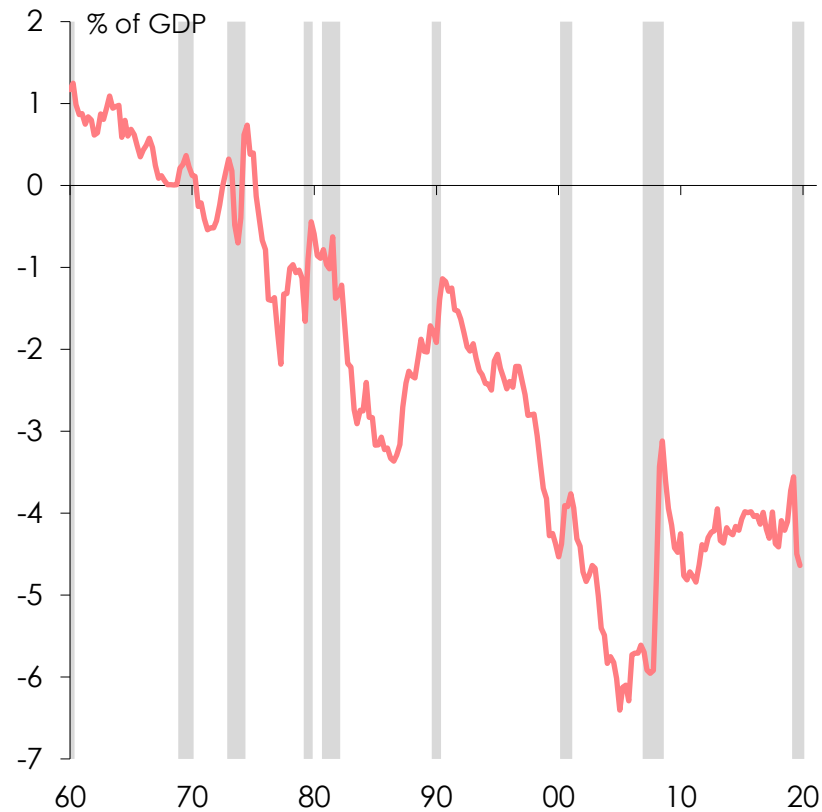


- A [Brookings Institution analysis](#) of the impact of the Trump Administration's trade policies suggests that the average American household paid anywhere between "several hundred" and "a thousand dollars or more" per annum in higher prices due to tariffs
 - consistent with what is widely understood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

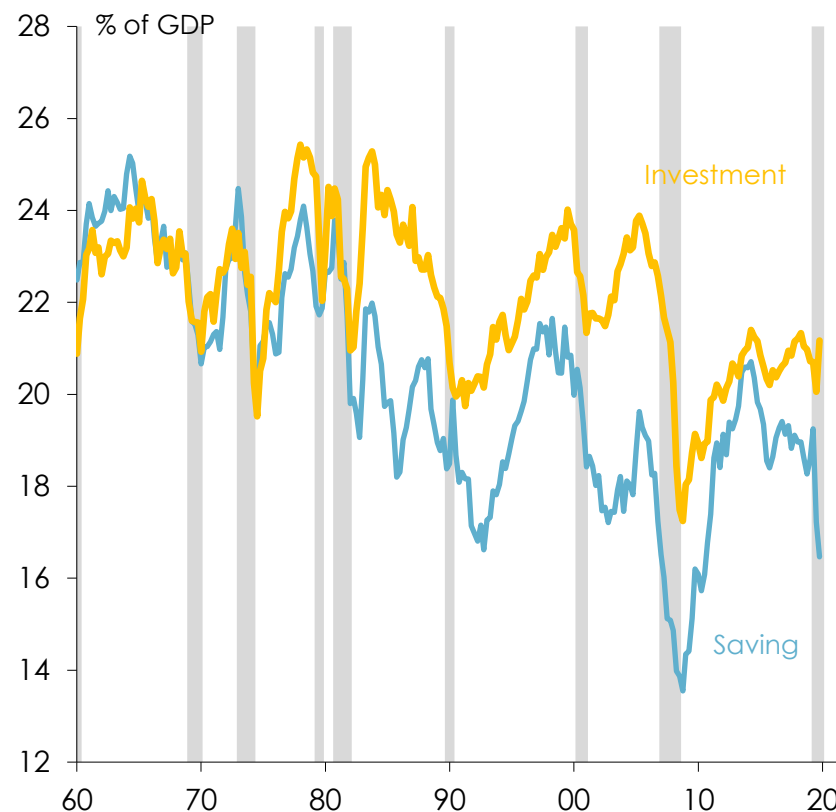
Unusually, the US current account deficit has widened so far during this recession, largely because investment hasn't fallen much

US current account balance



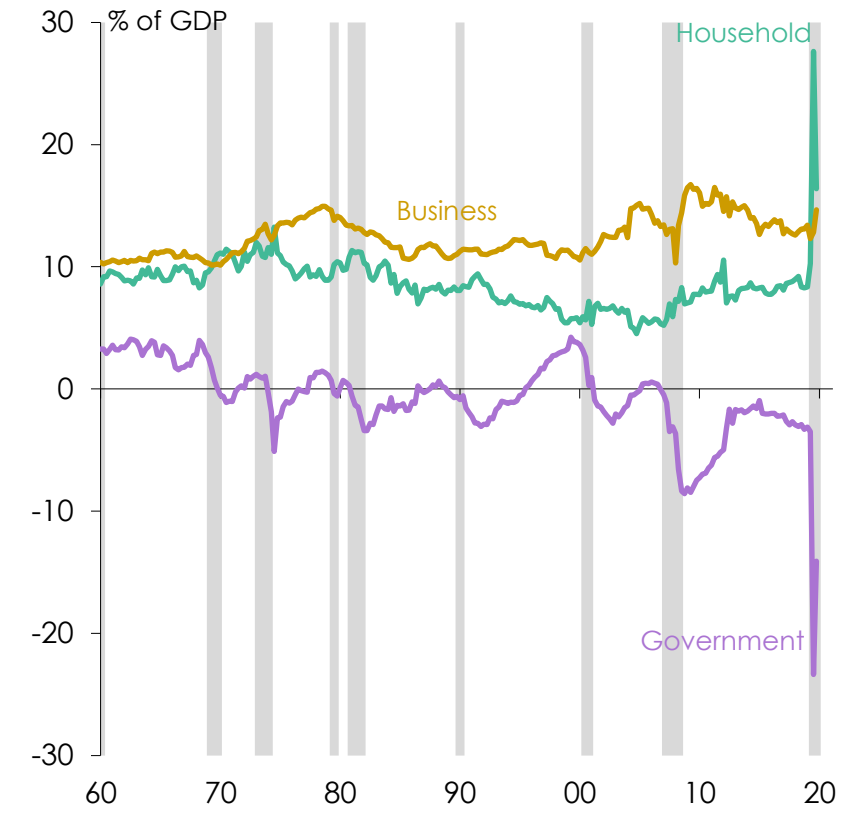
The US current account balance normally improves (ie, the deficit usually gets smaller) during recessions – but in this one it has (so far) widened

Gross saving and investment



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

Gross saving by sector

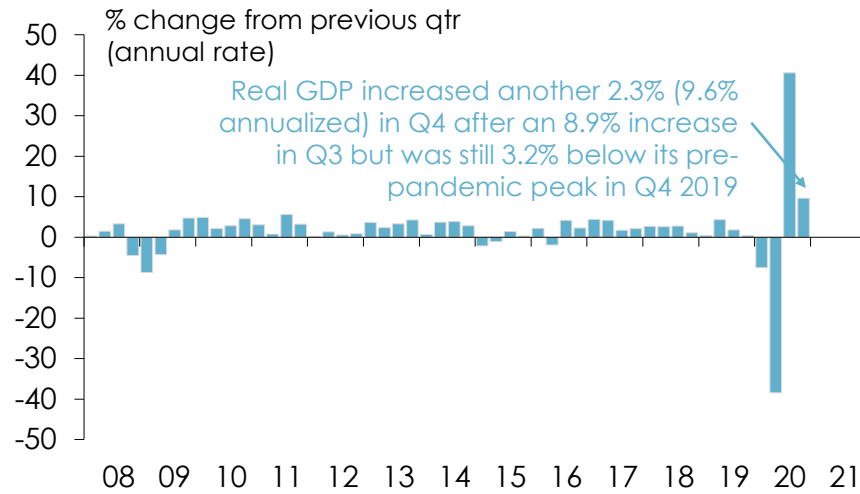


The dramatic increase in the budget deficit has been largely (but not totally) offset by an increase in household saving (though monthly data says household saving fell in Q3)

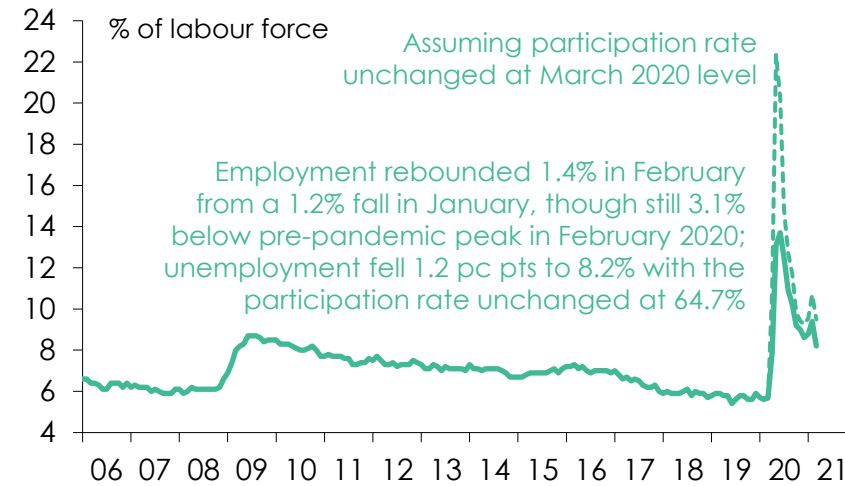
Note: shaded areas denote recessions as designated by the US [National Bureau of Economic Research](#). 2020 Q4 data will be included in these charts with the release of the second estimates of Q4 GDP on 219th February. Source: US [Bureau of Economic Analysis](#). [Return to "What's New"](#).

Canada's unemployment rate fell 1.2 pc pts in February to a 12-month low of 8.2%, more than reversing the large rise in January

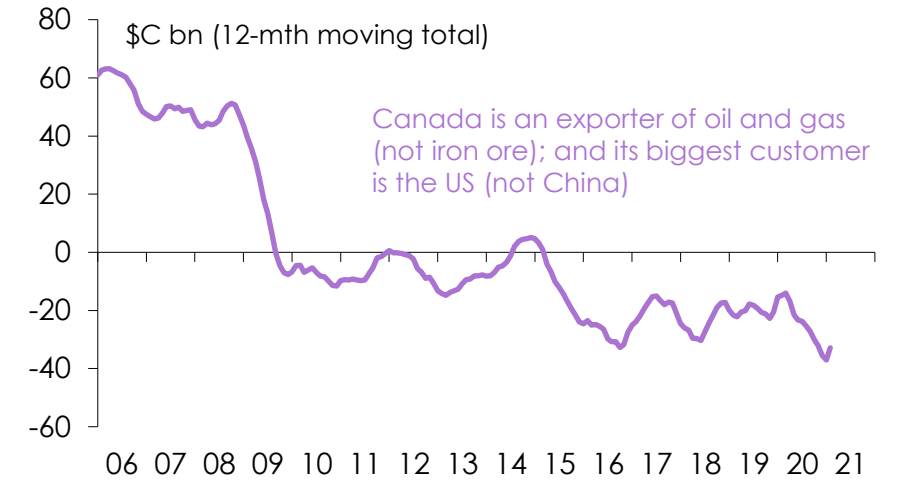
Real GDP



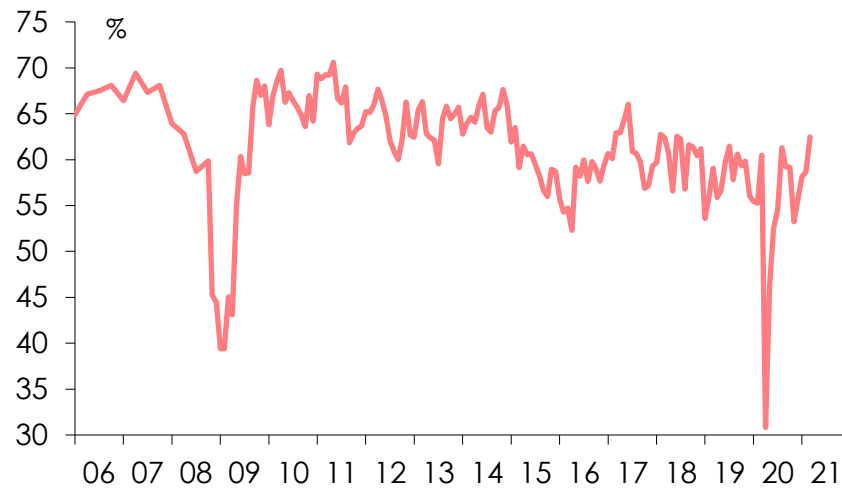
Unemployment rate



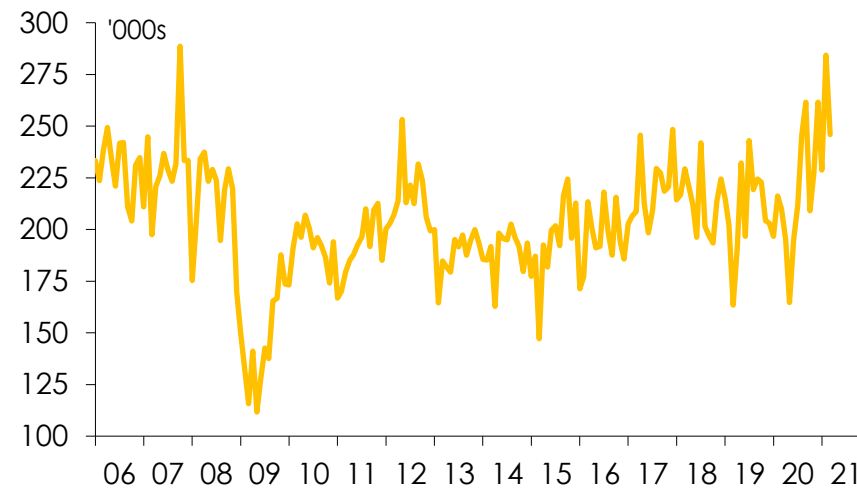
Merchandise trade balance



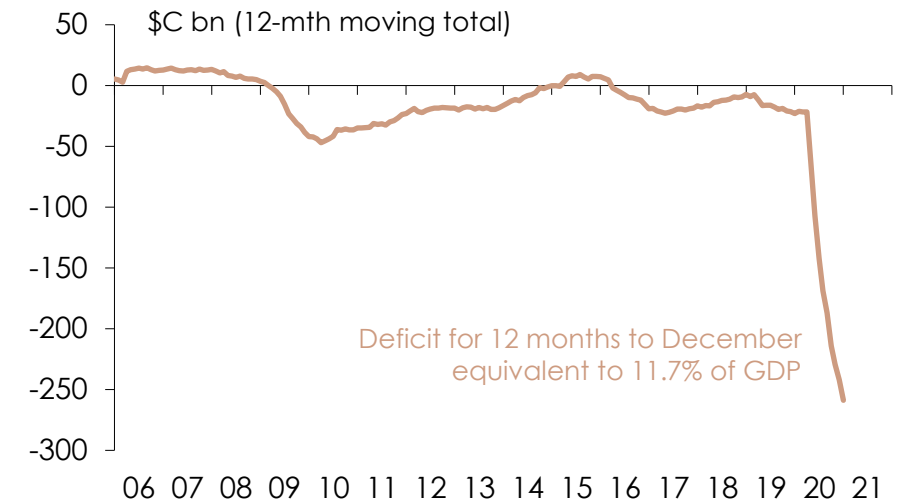
CFIB 'business barometer'



Housing permits

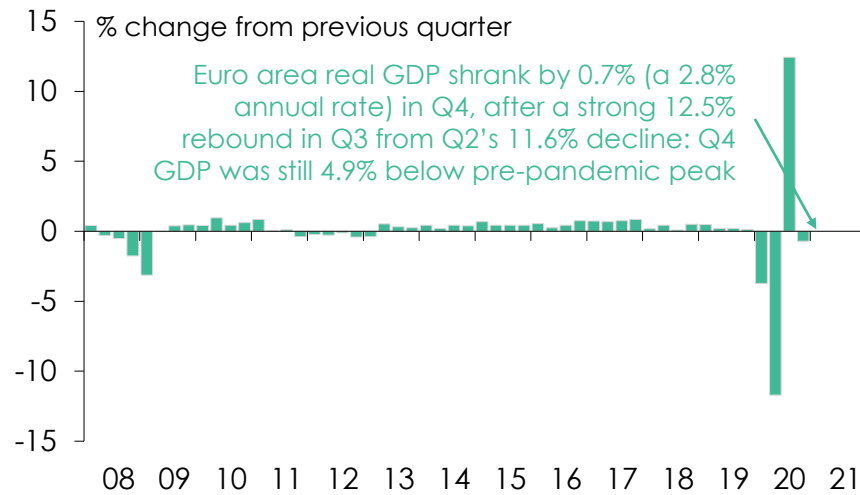


Federal budget balance

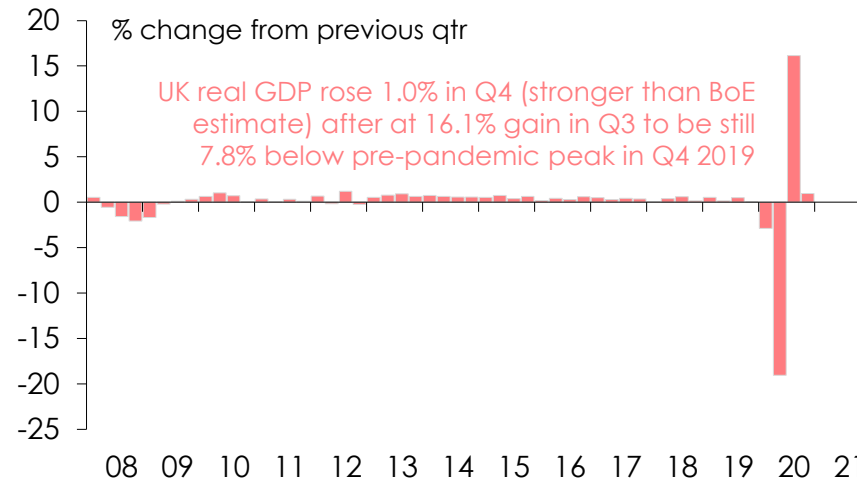


The euro area economy contracted by 0.7% in Q4 2020 and 5.1% from Q4 2019: corresponding numbers for UK were +0.1% and -7.8%

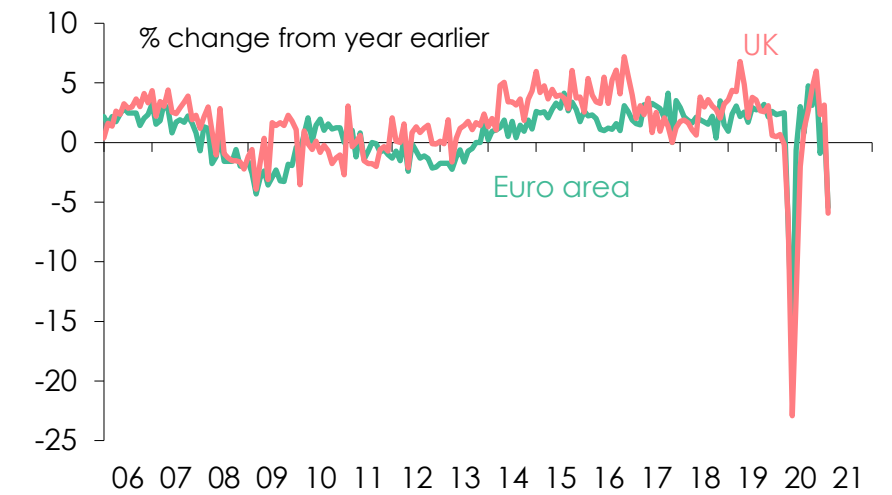
Euro area real GDP



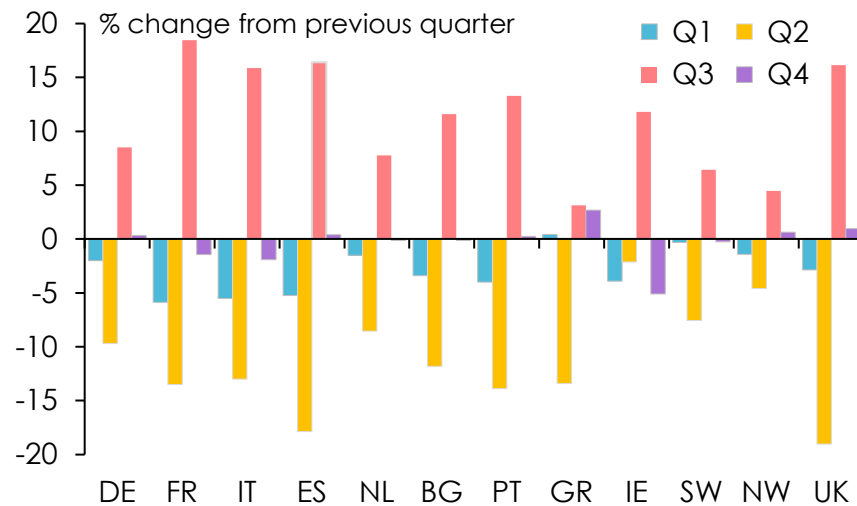
UK real GDP



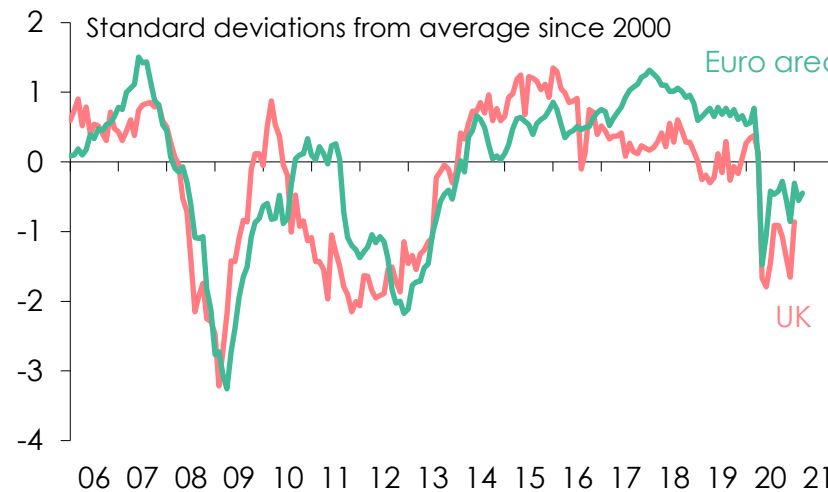
Retail sales volume



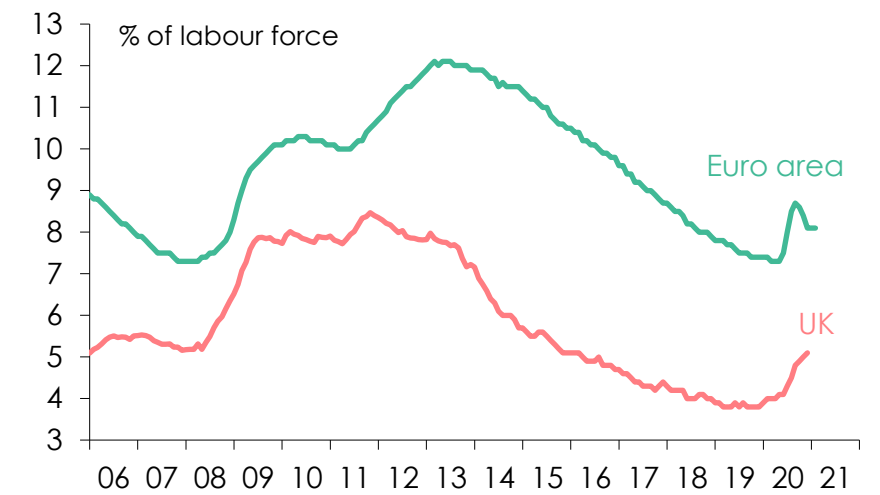
Quarterly GDP by country



Consumer confidence



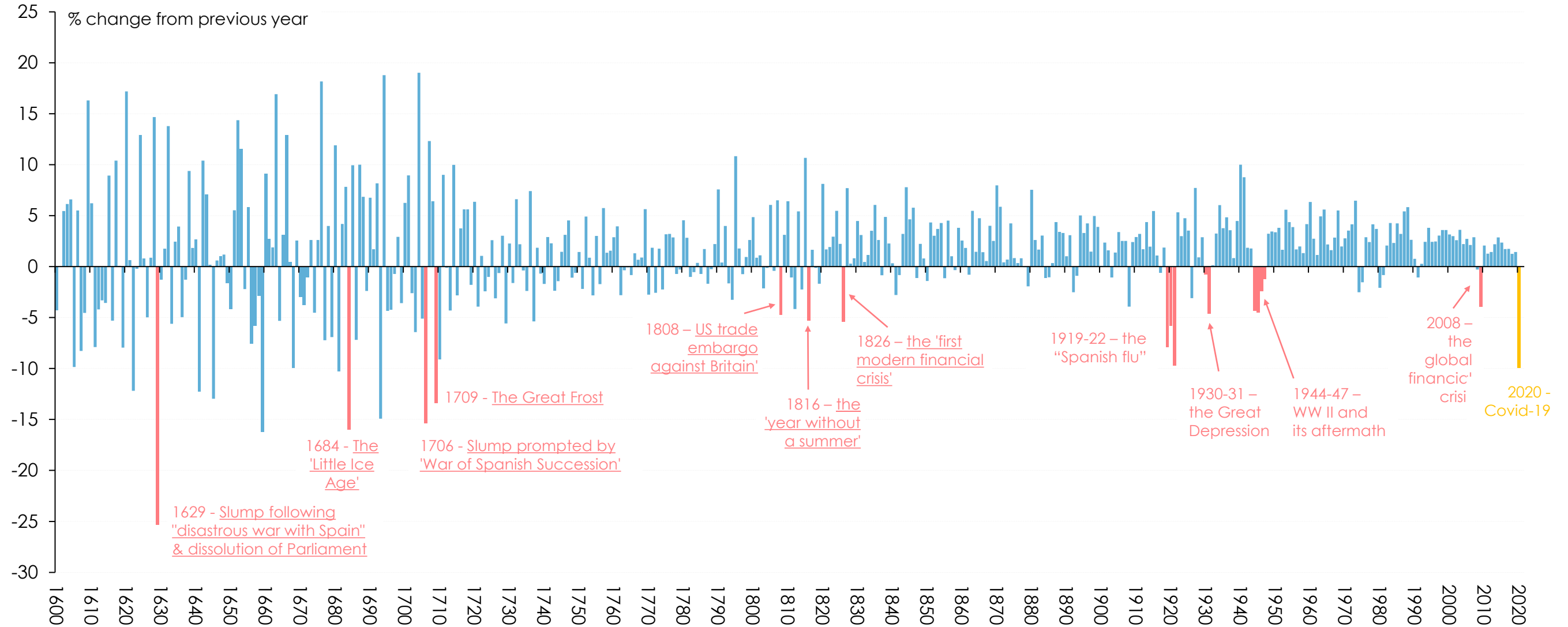
Unemployment



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

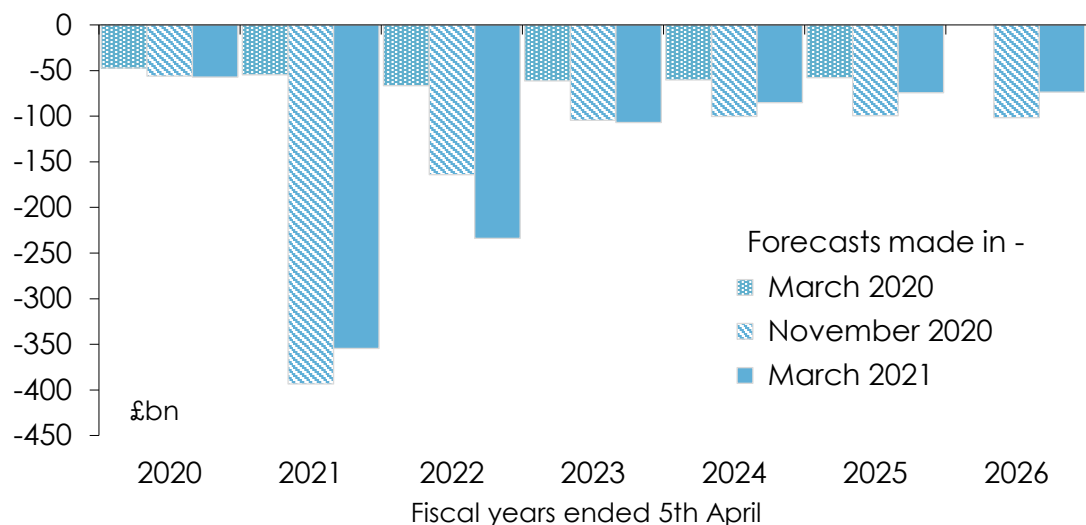
UK real GDP since 1600



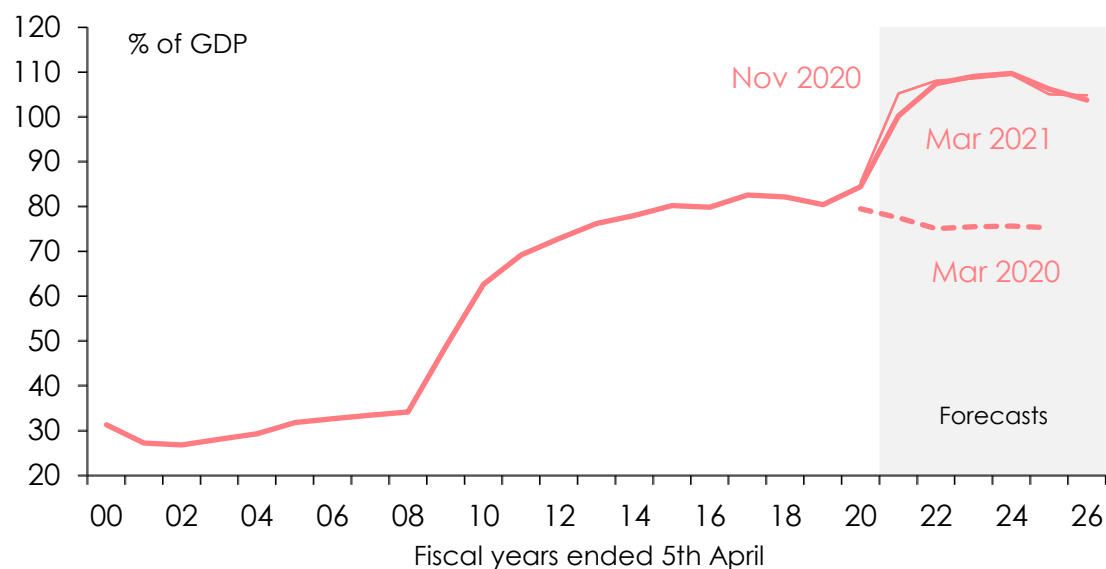
Sources: Bank of England, [A millennium of macroeconomic data](#) (2016); [UK Office for National Statistics. Return to "What's New"](#).

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



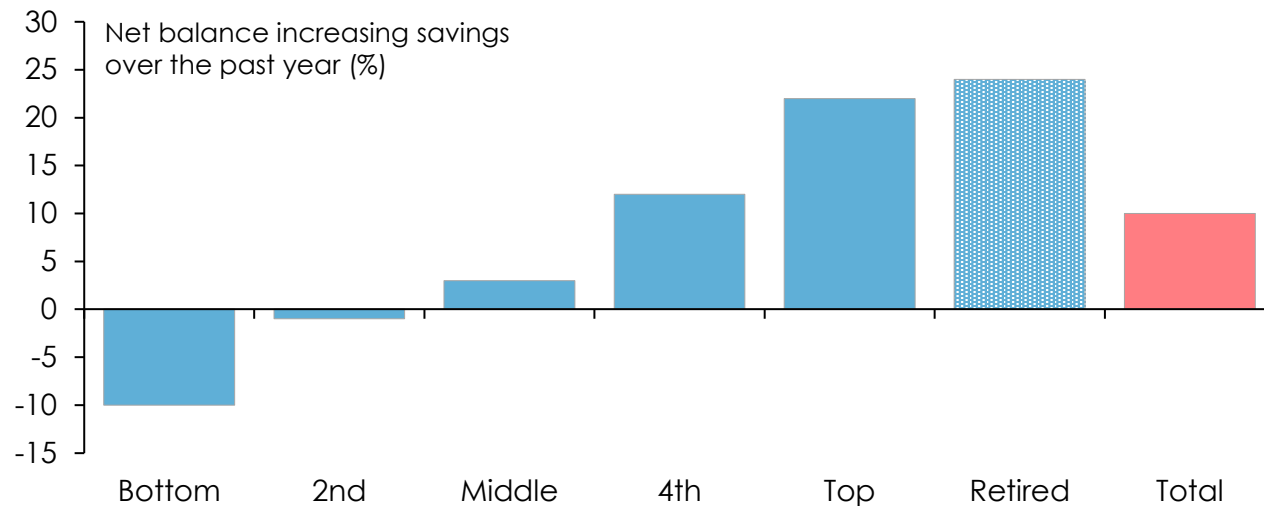
UK public sector net debt



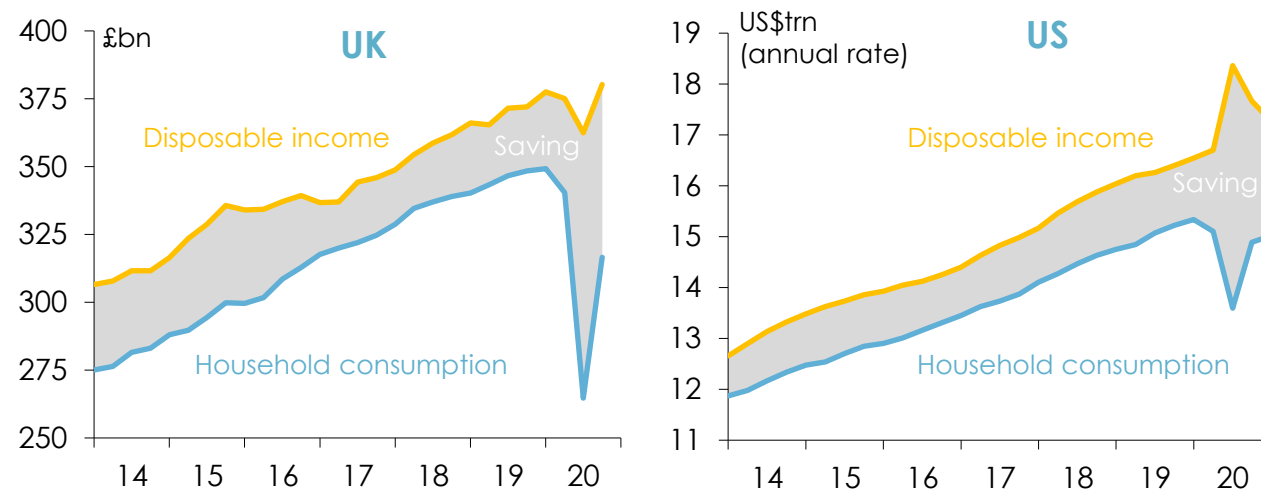
- ❑ The 2021 British Budget forecasts a borrowing requirement (deficit) of £355bn or 16.9% of GDP in FY 2021 (£39bn less than forecast last November) – declining to £234bn or 10.3% of GDP in FY22 (£70bn more than forecast in November) and to £74bn or just under 3% of GDP in FYs 25 and 26
- ❑ Public sector 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 month touching on some contrasts between US and UK experience

Changes in UK household saving by income quintile



Nominal household income, consumption and saving



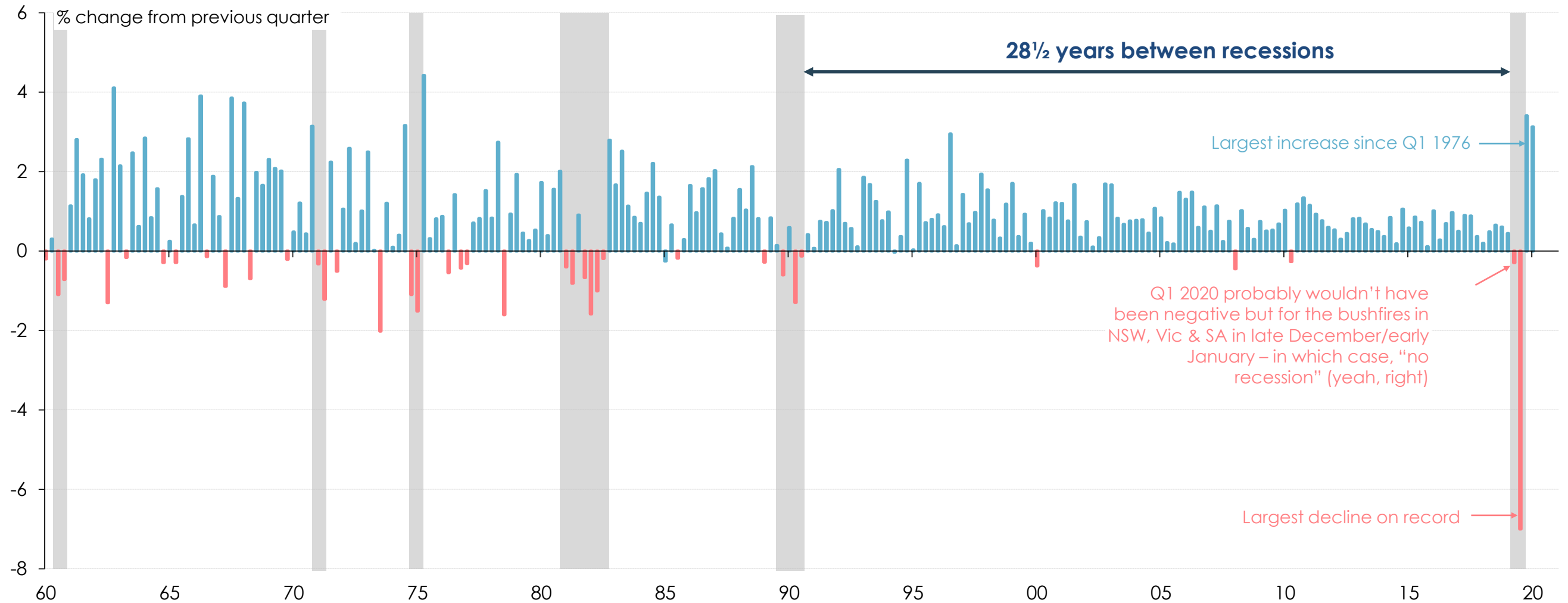
- Vlieghe points out that, in the UK at least, the ‘excess savings phenomenon’ is confined to upper income groups (where income has held up but consumption spending has fallen sharply)
 - he argues that these households will likely regard this increase in savings as an increase in *wealth* – the propensity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

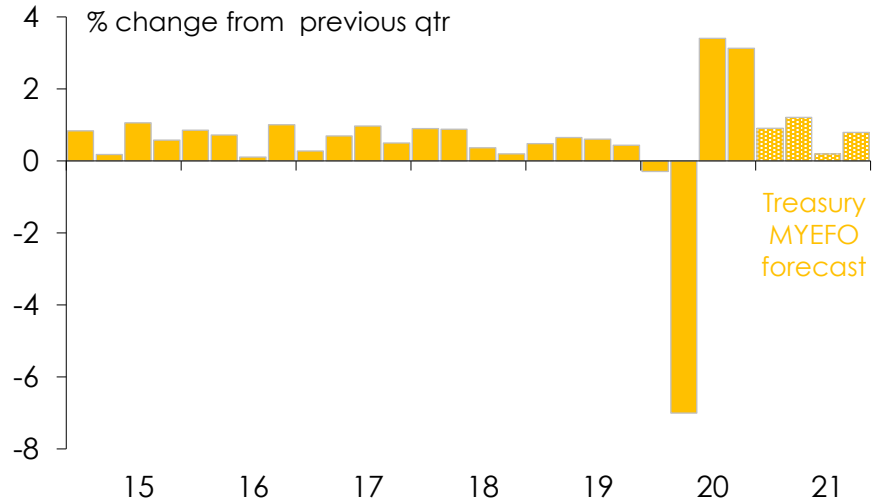


Note: Shaded areas denote recessions. Source: ABS, [Australian National Accounts: National Income, Expenditure and Product](#), December quarter 2020.

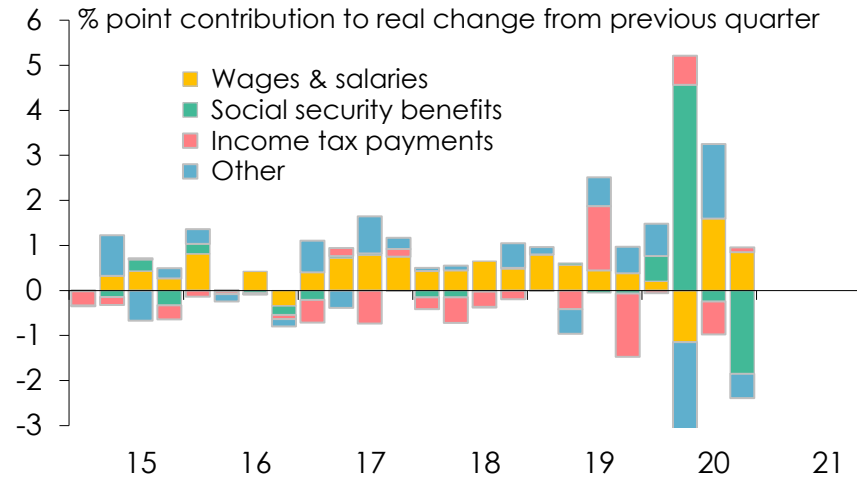
[Return to "What's New"](#).

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

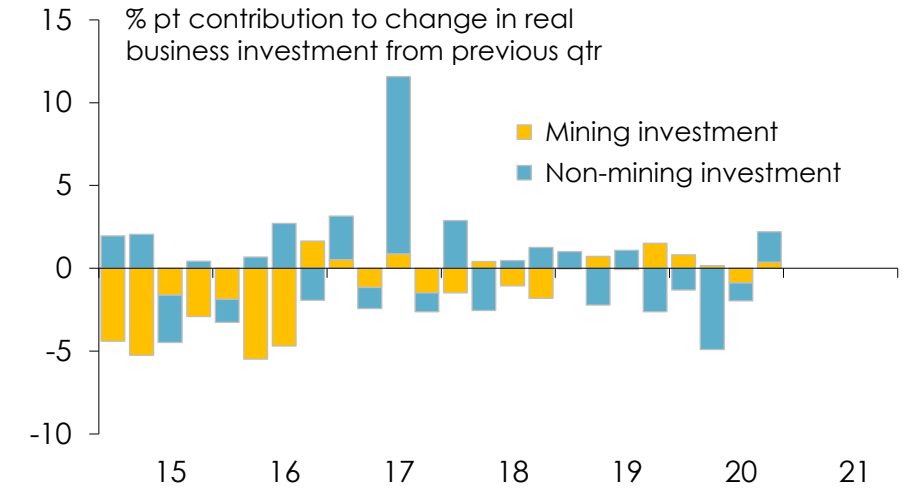
Quarterly change in real GDP



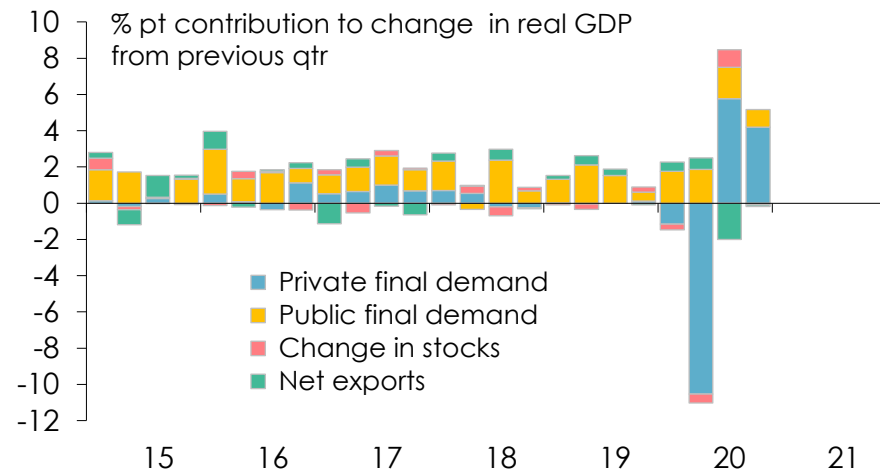
Household disposable income



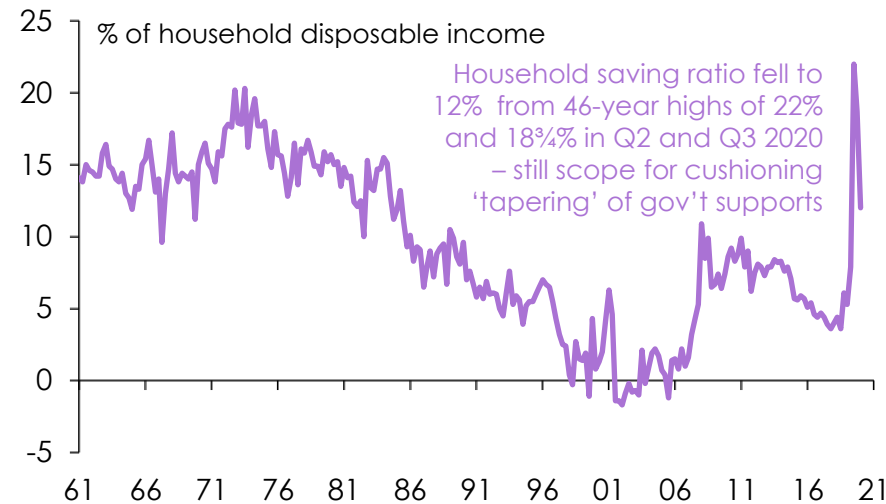
Business investment expenditure



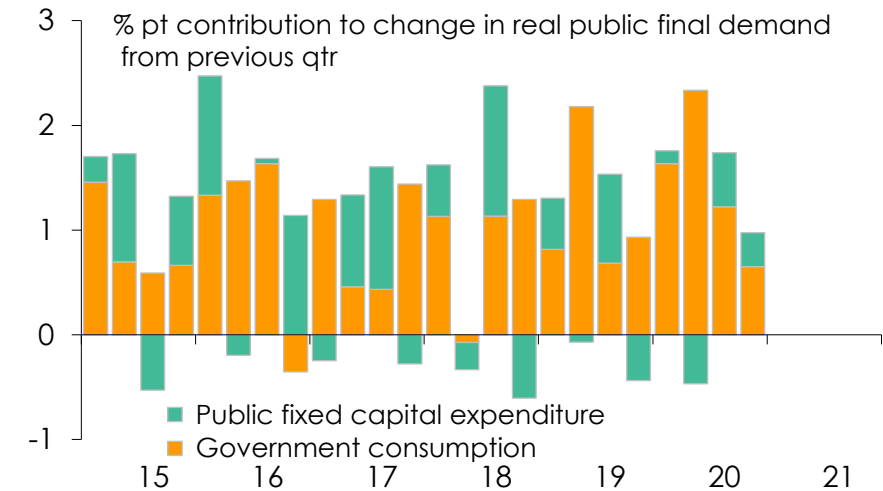
Contributions to quarterly GDP growth



Household saving rate



Public expenditure



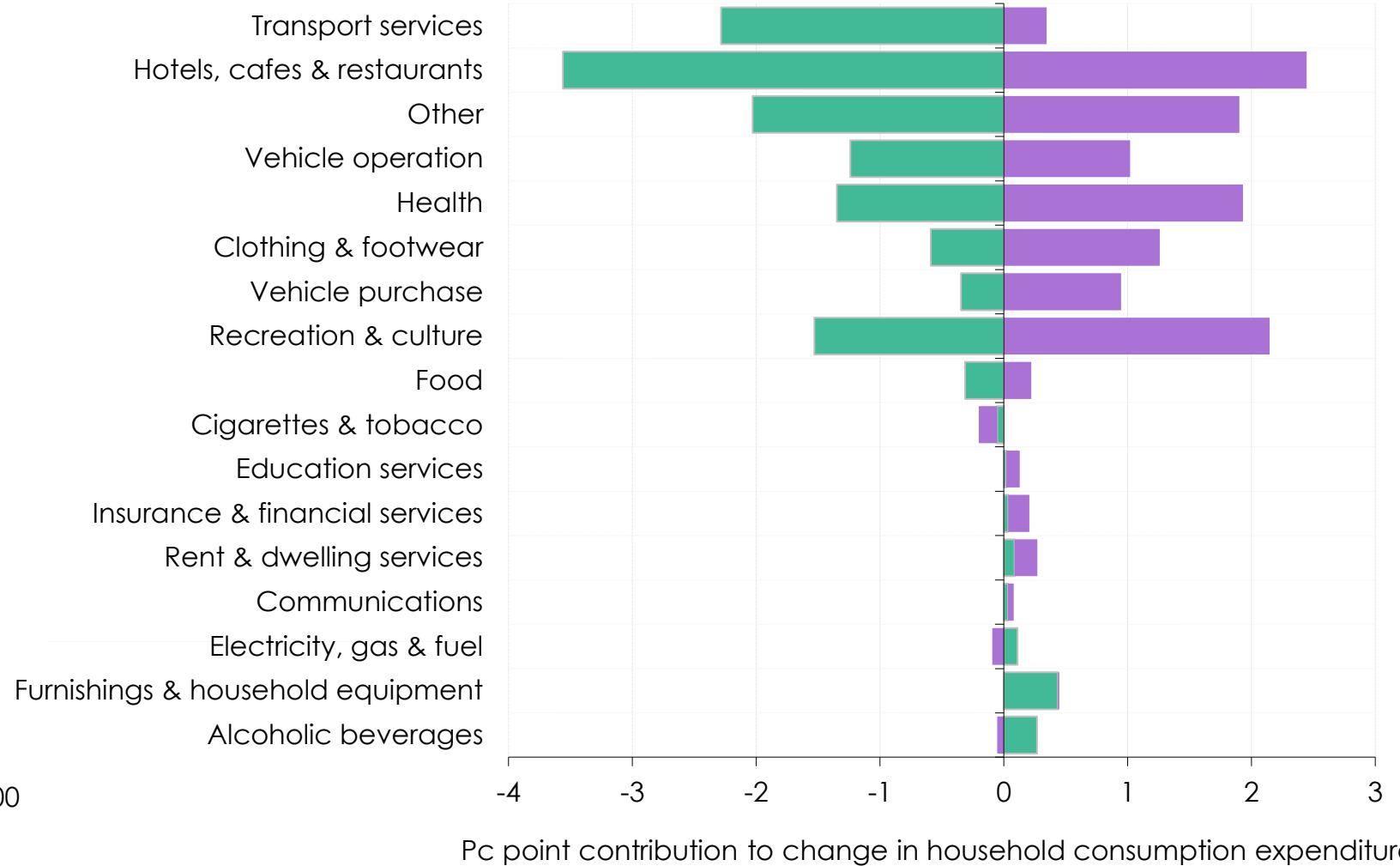
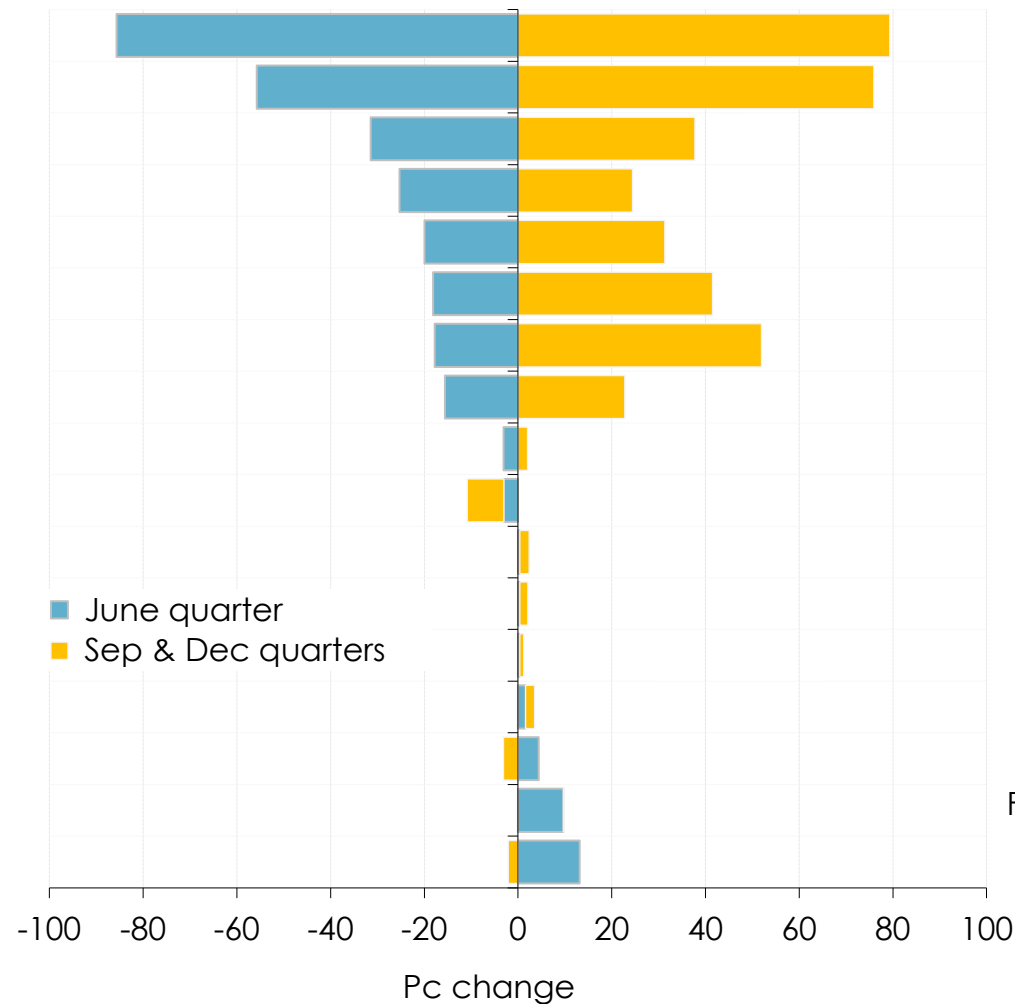
Note: Components of household disposable income are deflated by the implicit price deflator of household final consumption expenditure.

Source: ABS, [Australian National Accounts: National Income, Expenditure and Product](#), December quarter 2020. March quarter national accounts will be released on 2nd 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

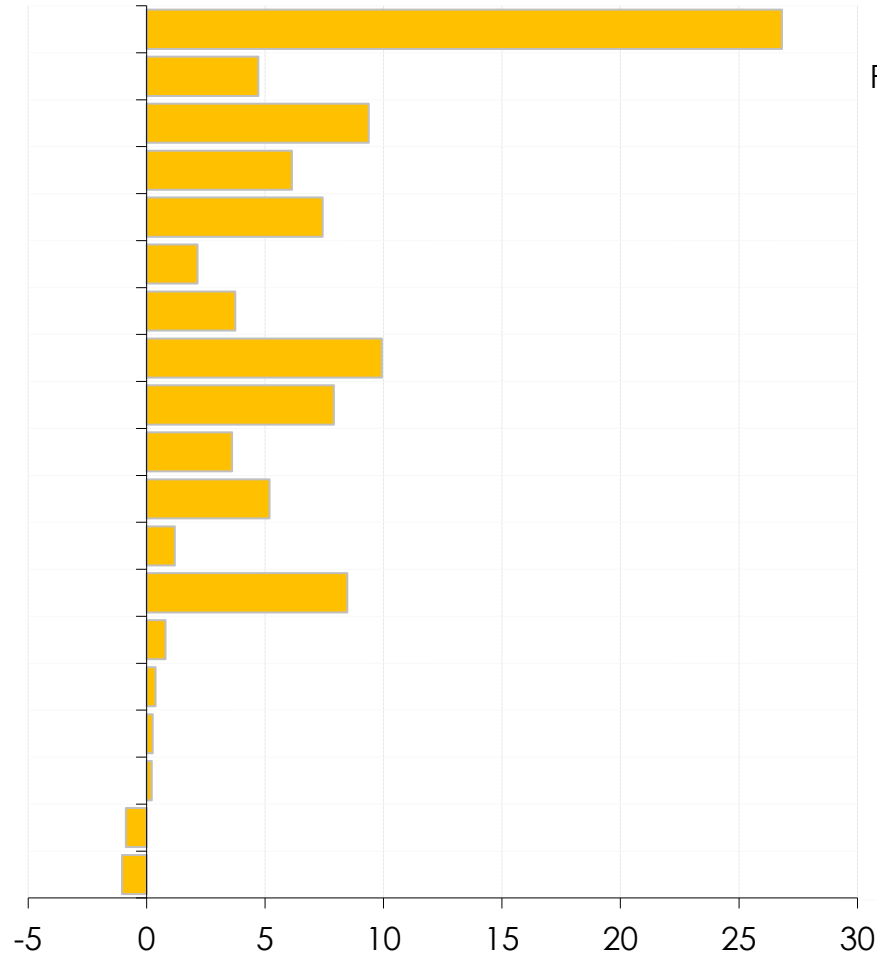
Contribution to change in household consumption spending, by category, June, September & December quarters



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 2nd June. [Return to "What's New"](#).

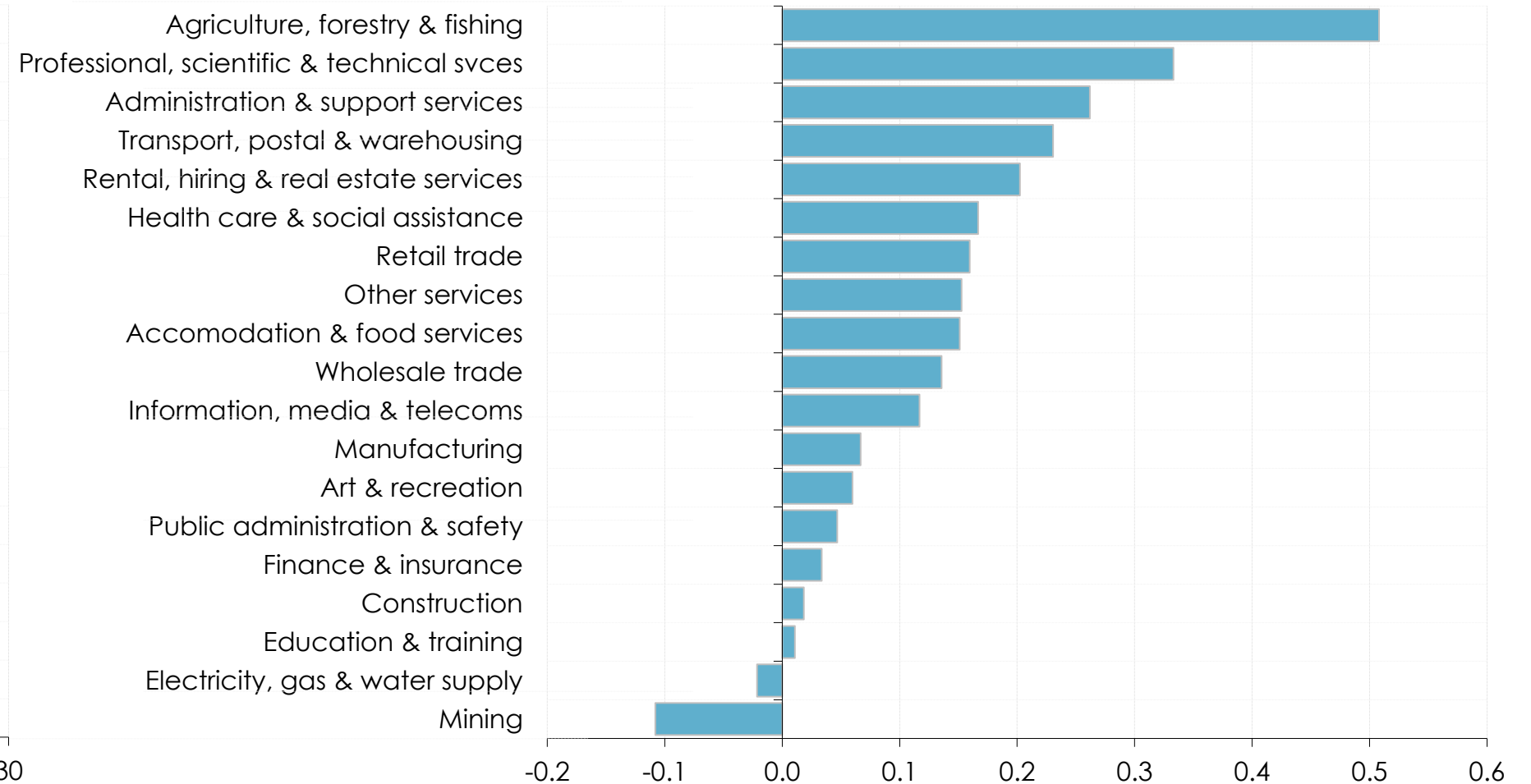
From an industry standpoint GDP growth in Q4 was driven by the farm sector's recovery from drought, and a range of business services

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



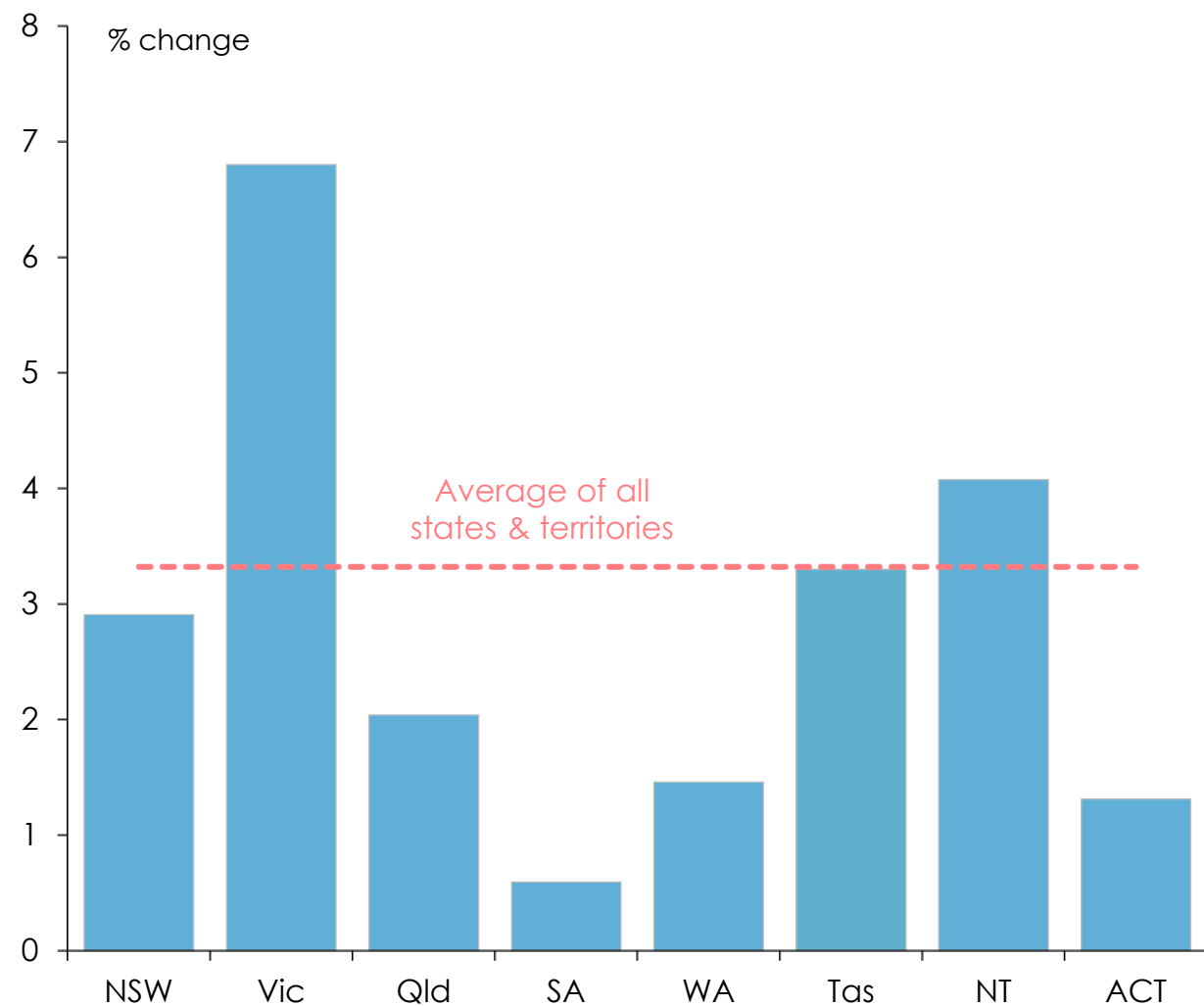
Pc point contribution to change in real gross value added in December quarter (from September quarter)

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.

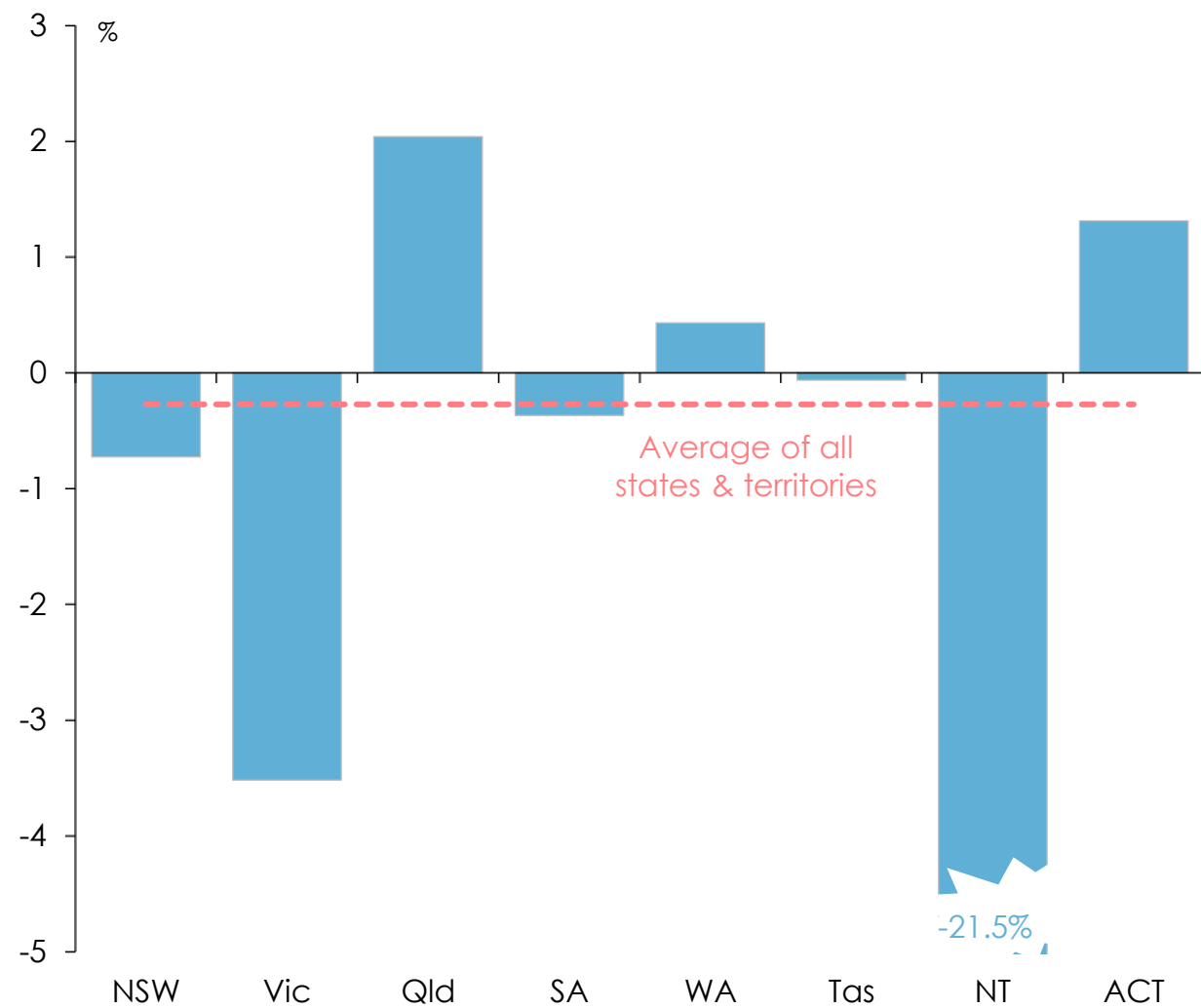
Source: Source: ABS, [Australian National Accounts: National Income, Expenditure and Product](#), December quarter 2020. March quarter national accounts will be released on 2nd June. [Return to "What's New"](#).

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



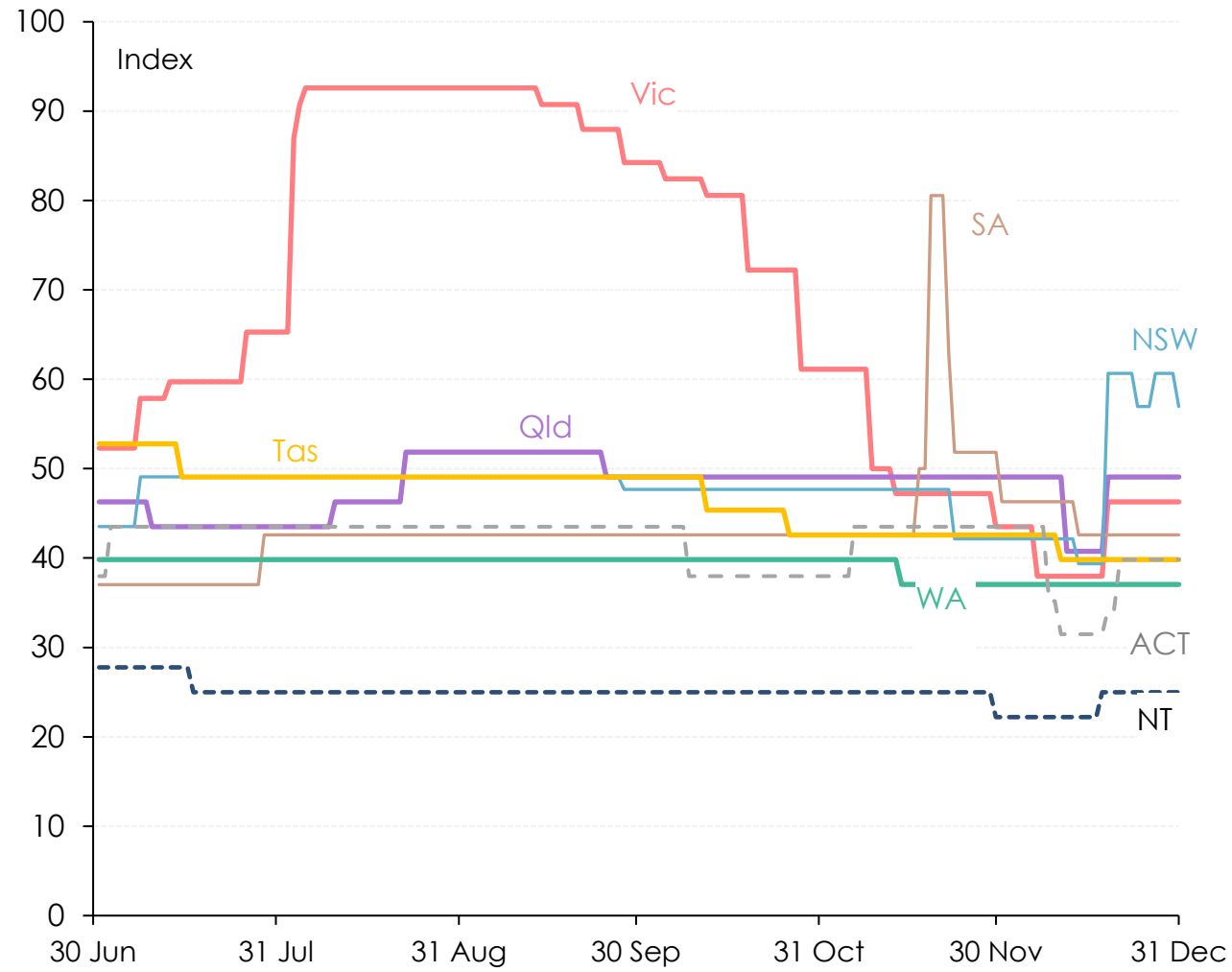
Shortfall between December quarter state final demand and pre-recession peak



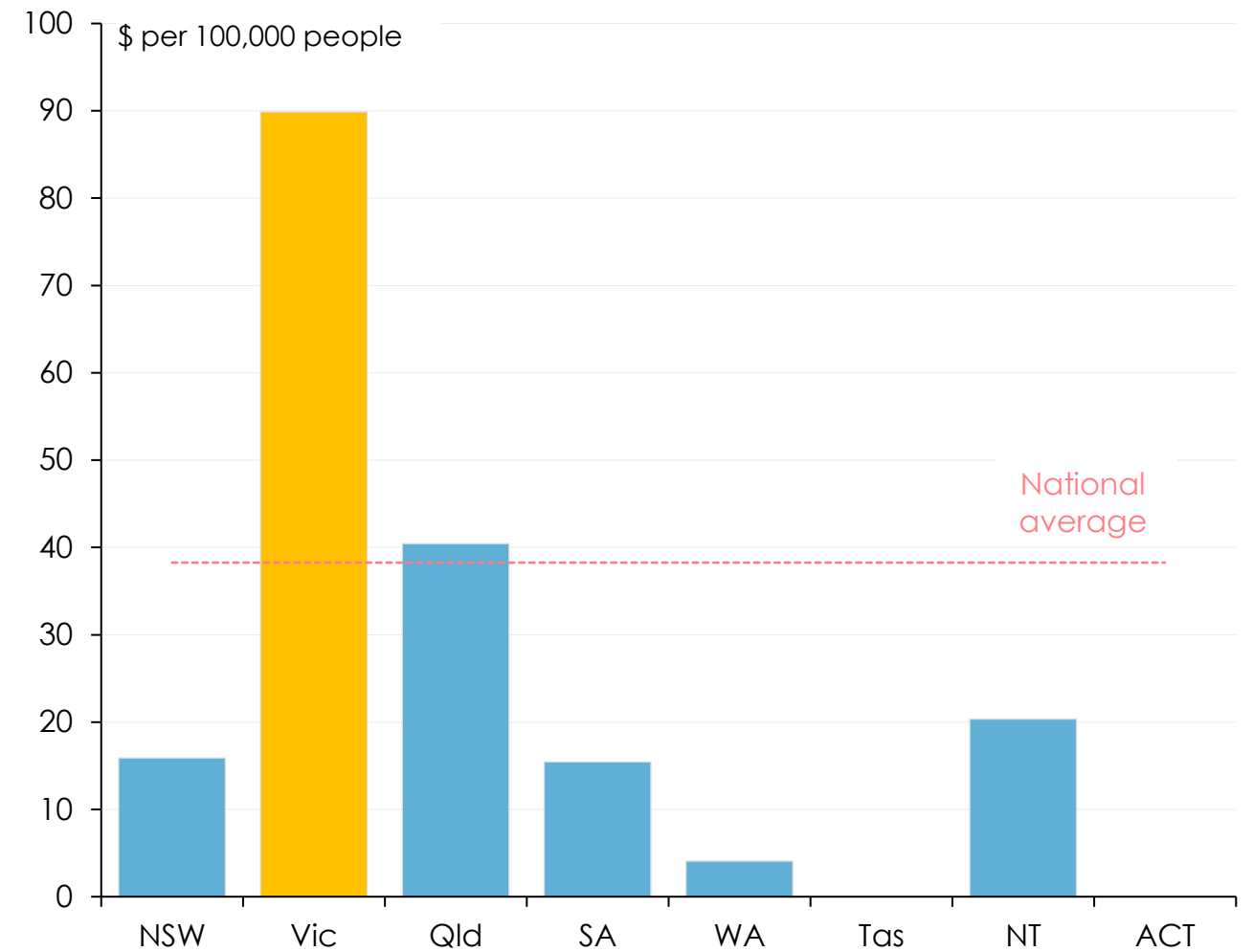
Note: 'State final demand' is the sum of spending by households, businesses and governments within a state or territory's borders: it differs (conceptually) from gross state product (GSP), which is only available on a financial year basis, by the sum of net international and interstate trade, and changes 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



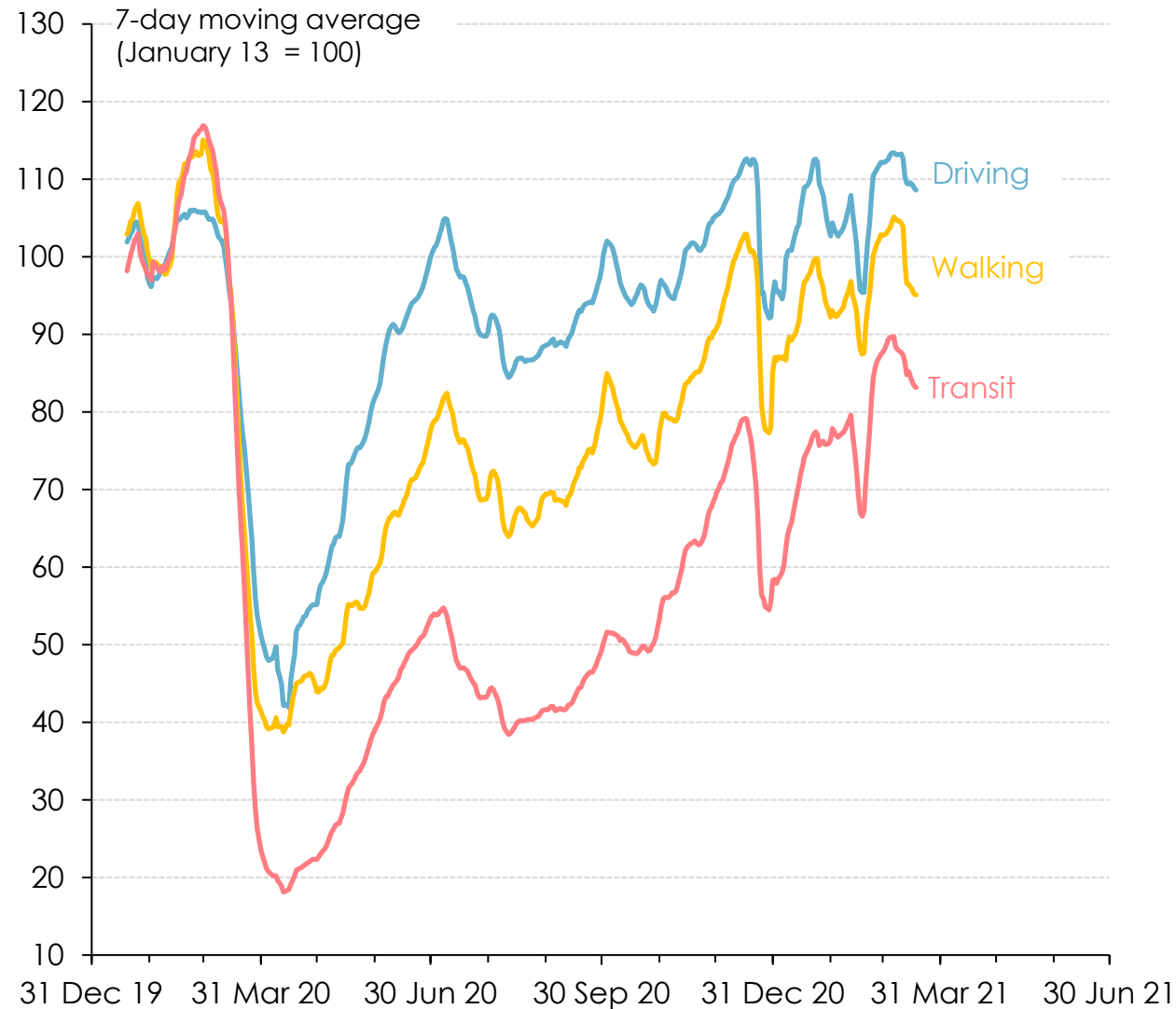
Revenue from fines for breaches of lockdown regulations, 23 Mar-25 May 2020 per 100,000 population



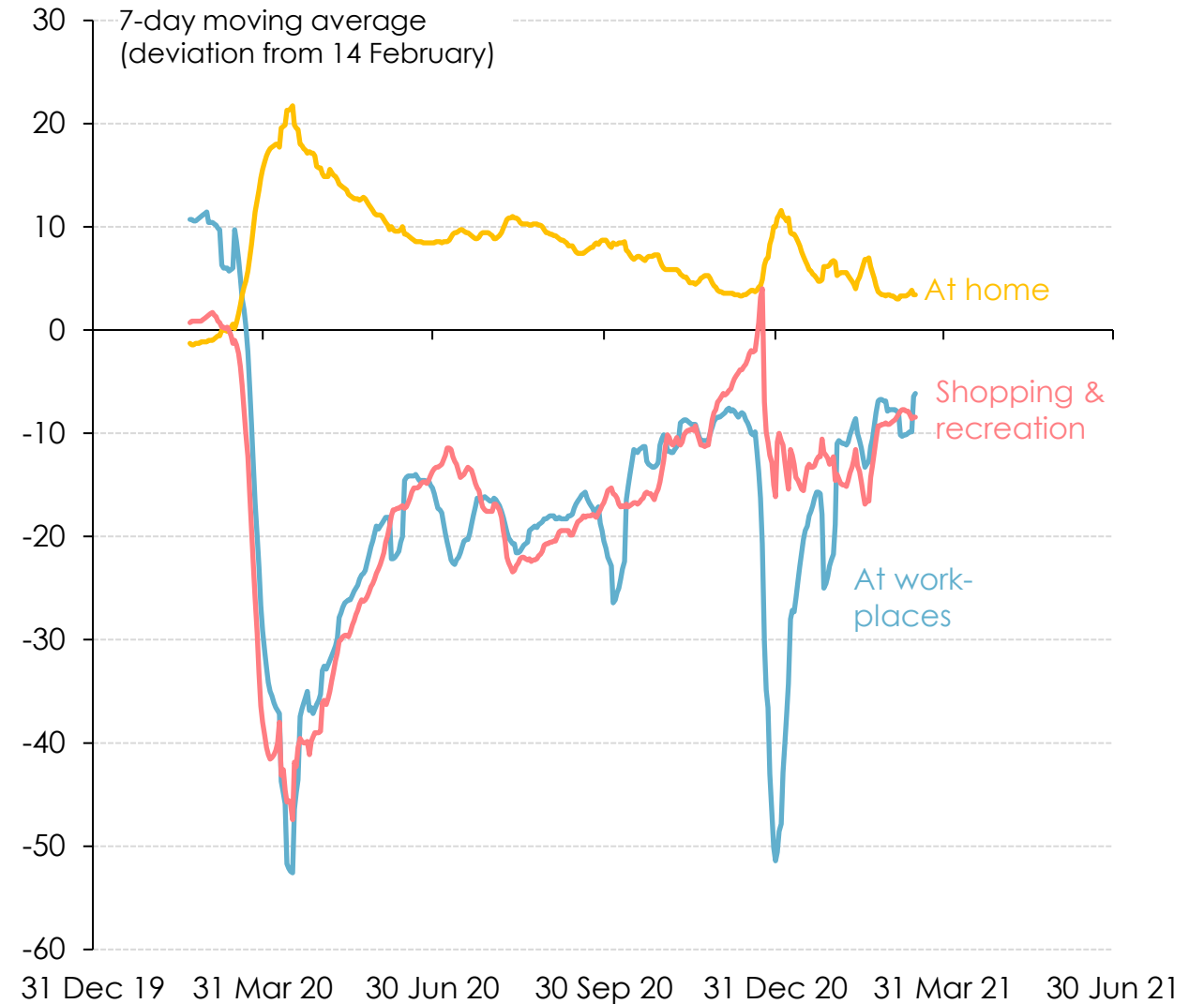
Note: the ABS estimates of the stringency of government restrictions on the movement and gathering of people, etc., are based on the methodology developed for the [Oxford COVID-19 Government Response Tracker](#) (see [slide 14](#)) Sources: ABS, [State economies and the stringency of COVID-19 containment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

No immediately obvious reason for a further decline in most mobility indicators over the past week ...

Time spent driving, walking and in transit



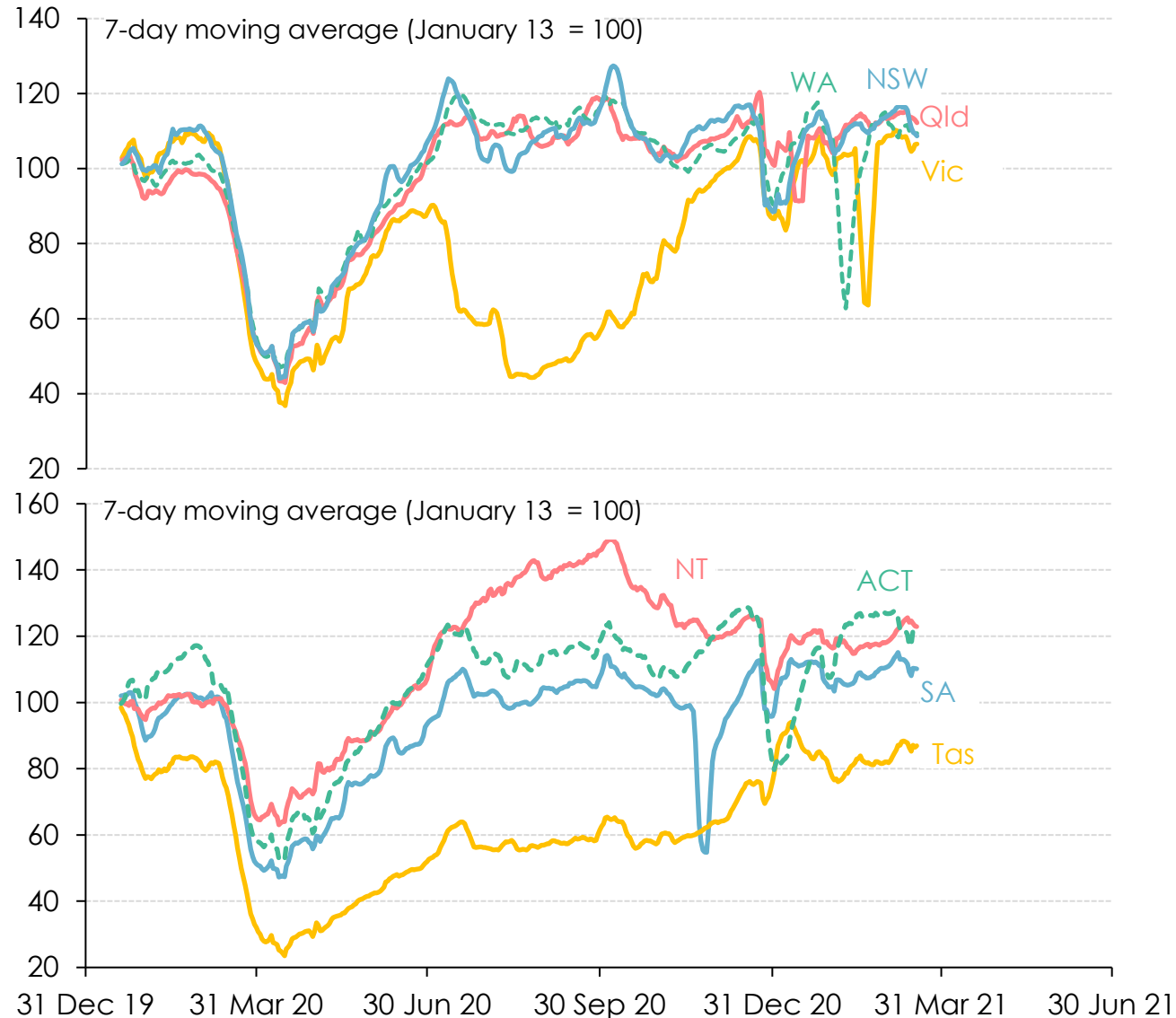
Time spent working, at home, shopping & playing



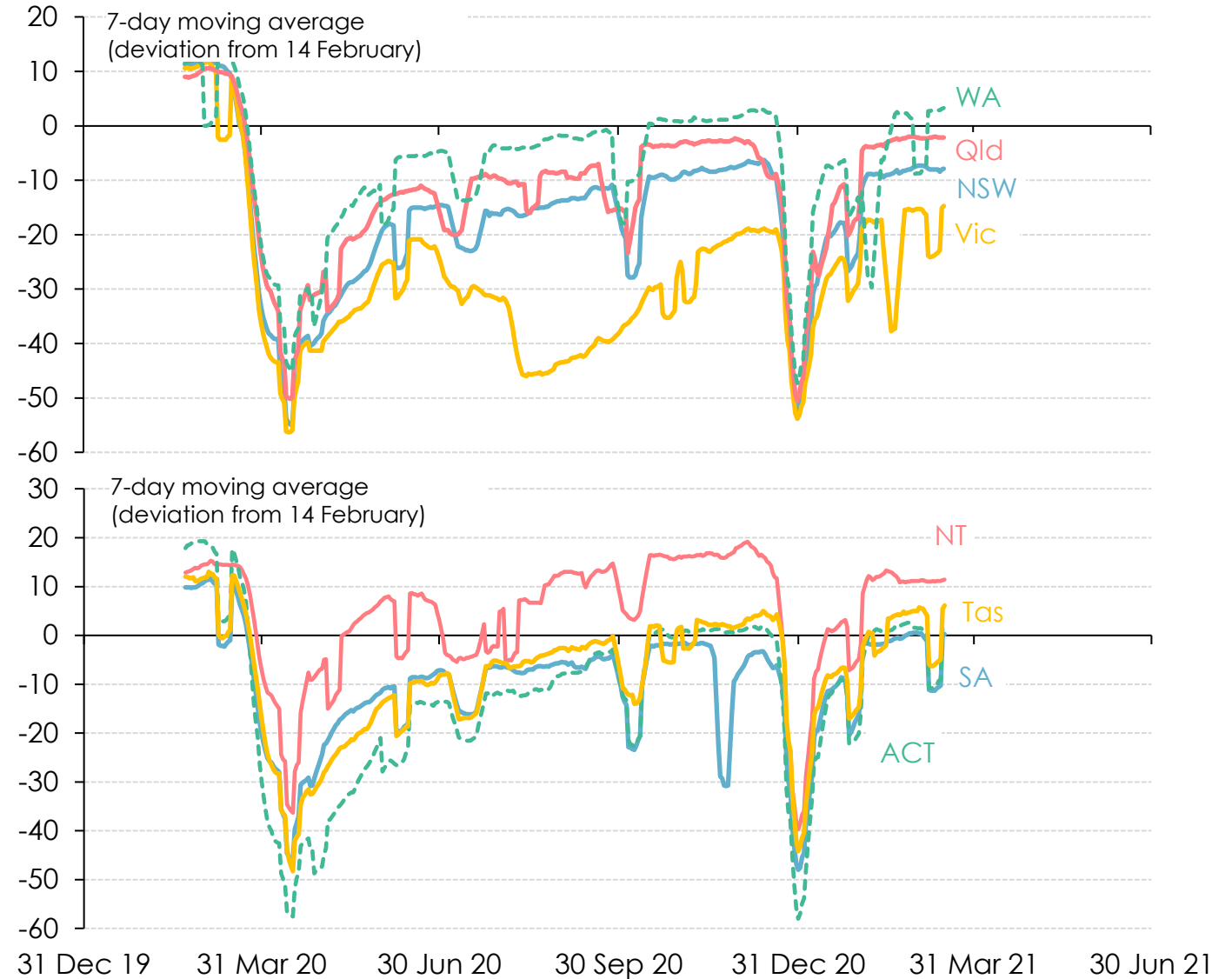
Note: 'transit' means using public transport. Note also that these data will reflect normal seasonal variations such as Christmas-New Year and 'Sydney Day' (26th January) in activities as well as the effects of government restrictions and individual responses to the risks posed by the virus. Sources: [Apple Mobility Trends Reports](#) (data up to 18th March); [Google Community Mobility Reports](#) (data up to 16th March). For state-level data see [next slide](#). [Return to "What's New"](#).

... which seems to have occurred across most states and territories

Time spent driving



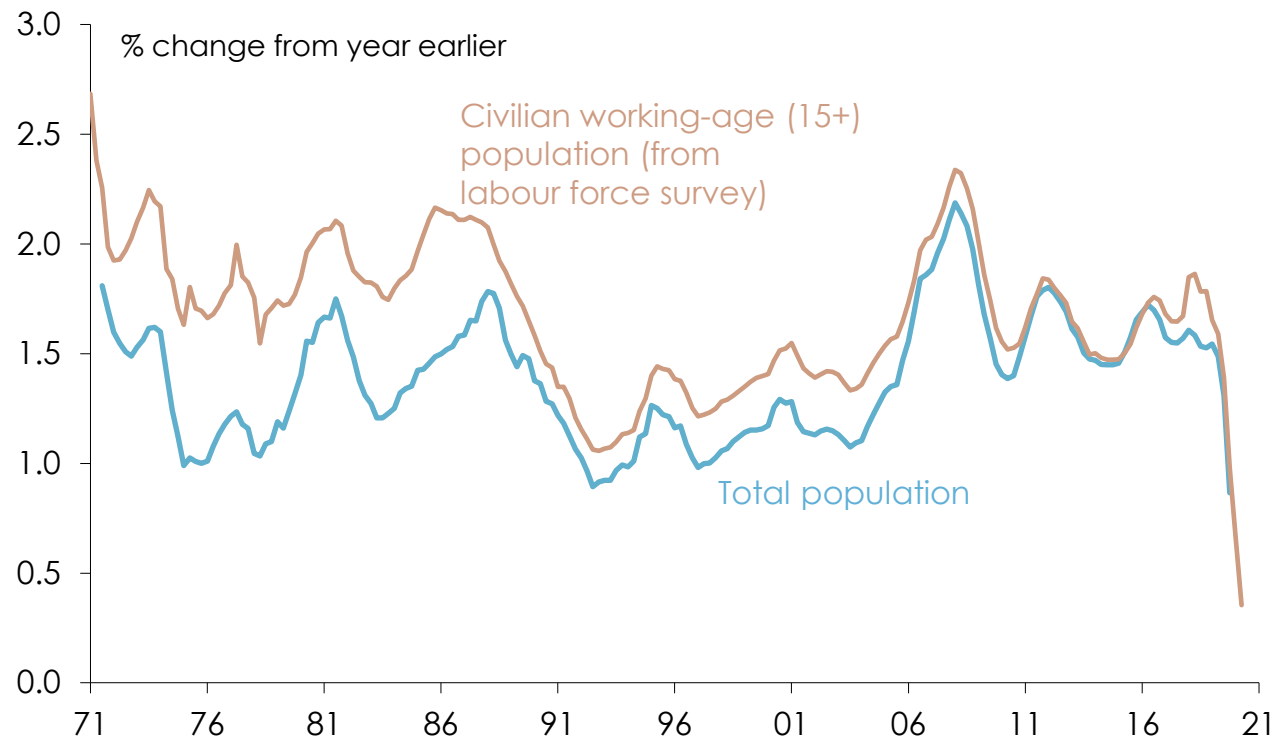
Time spent in workplaces



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 18th March); [Google Community Mobility Reports](#) (data up to 16th March). [Return to "What's New"](#).

Australia's population fell by 4,230 in Q3 2020, and annual population growth dropped to its lowest since 1942, due to the border closure

Australia's population growth, 1971-20



Net migration to Australia, 1971-20

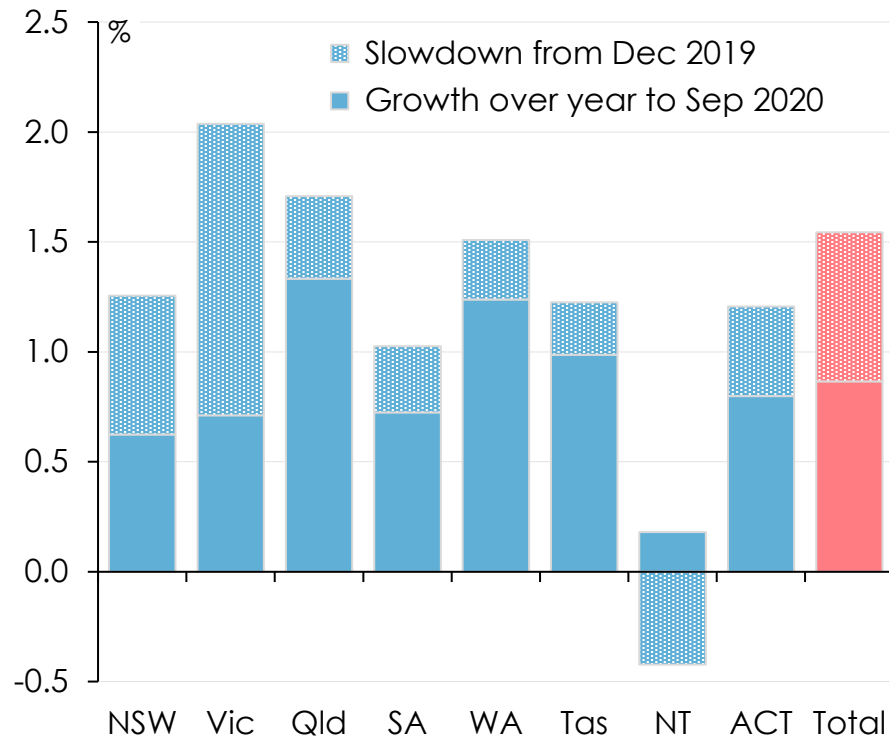


- ❑ Net immigration was -35K in Q3 last year, after -7K in Q2, following the closure of Australia's international borders in response to Covid-19 – the first net outflow since Q2 1993, and the first for consecutive quarters since 1975
- ❑ As a result, Australia's population growth rate fell to just 0.9% over the year to Q3 2020, the slowest since 1942
- ❑ The monthly labour force survey shows that the growth rate of the 'working age' (15+) population has slowed to just 0.4% over the year to Q1 2021
- ❑ Slower growth in the working-age population does however mean that a given rate of employment growth results in faster reductions in the unemployment rate (all else being equal)

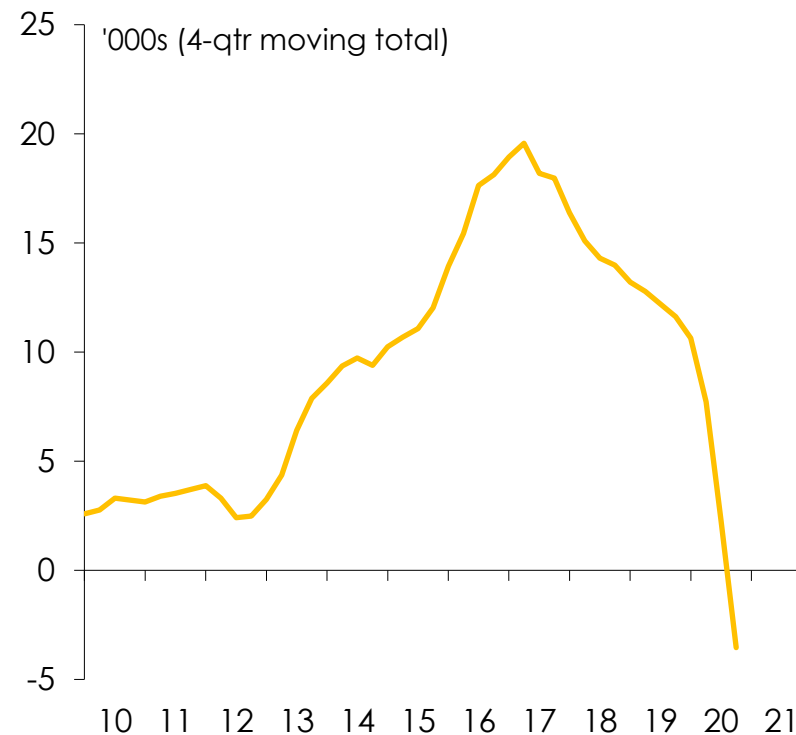
Note: Civilian working-age population for March quarter 2021 is average of January and February. Sources: ABS, [National, state and territory population](#), September 2020; and [Labour Force, Australia](#), February 2021. [Return to "What's New"](#).

The population slow-down has been most acute in Victoria – probably as a direct result of that state’s mis-handling of the pandemic

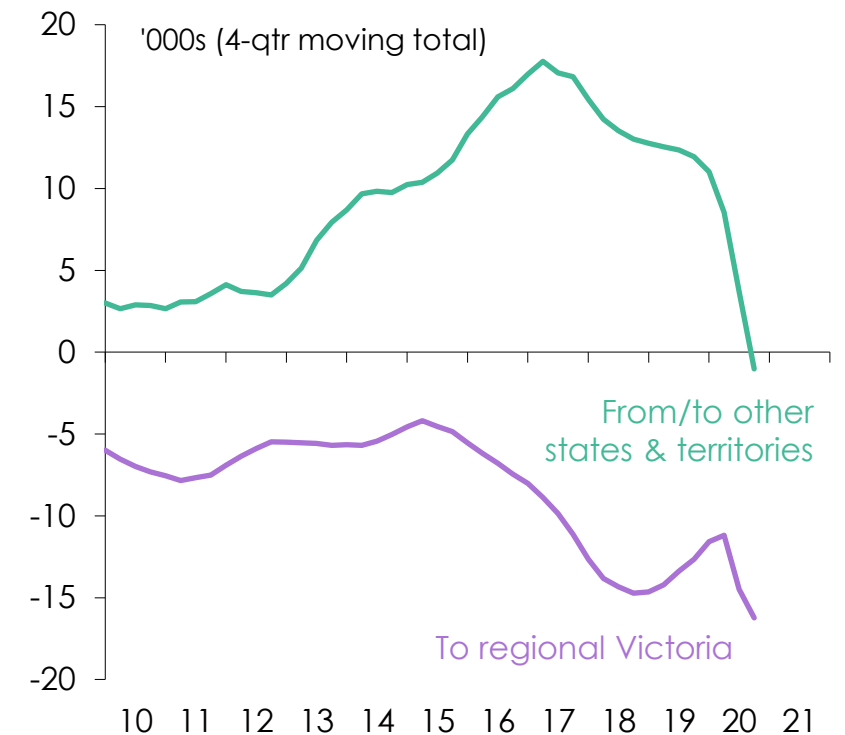
Population growth, states & territories, year to September 2020



Net migration to Victoria from other states & territories



Net inter- and intra-state migration to or from Melbourne

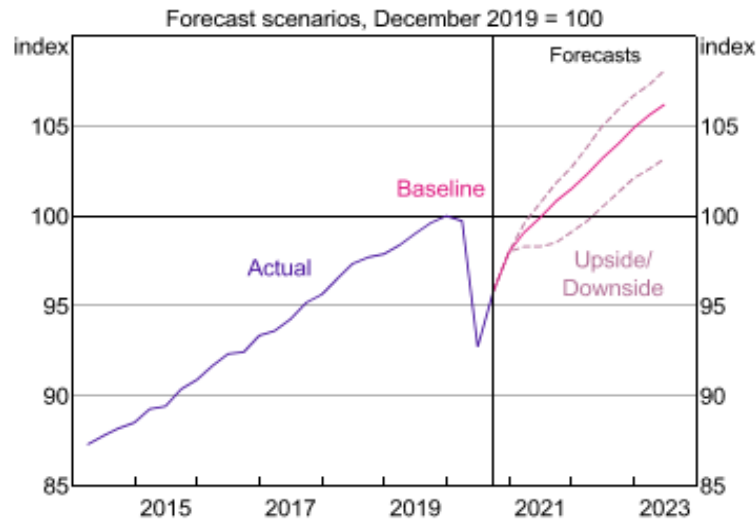


- ❑ Victoria – whose economy has become more dependent on immigration both from overseas and interstate over the past decade than any other state or territory – has experienced the sharpest population slowdown since the onset of Covid-19, dropping from the fastest growth to the second-slowest
- ❑ There’s been a particularly stark turnaround in population flows to Melbourne, with a pronounced pick-up in people moving out of the city to rural and regional Victoria

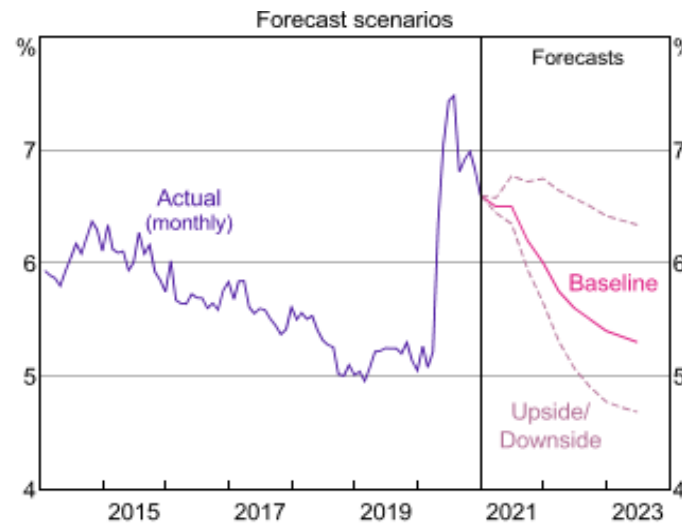
Note: The NT’s population declined by 0.2% over the year to December 2019, but grew by 0.2% over the year to September 2020 as the rate of net emigration from the NT slowed. Sources: ABS, [National, state and territory population](#), September 2020; and [Regional internal migration estimates, provisional](#), September 2020. [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

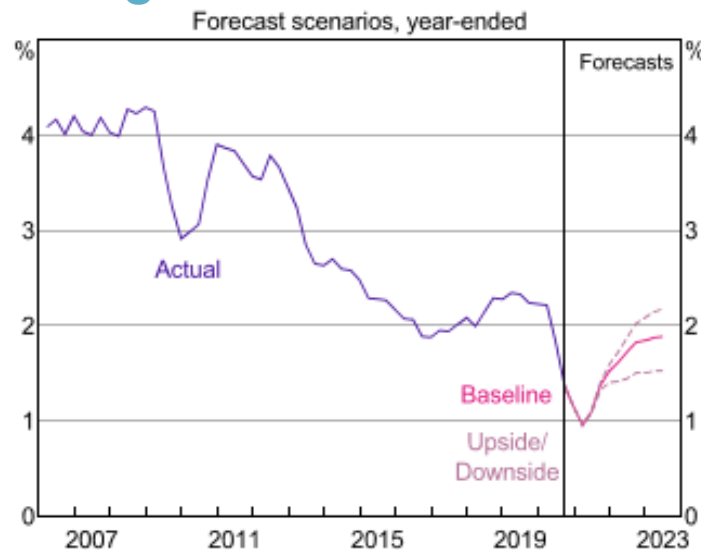
GDP



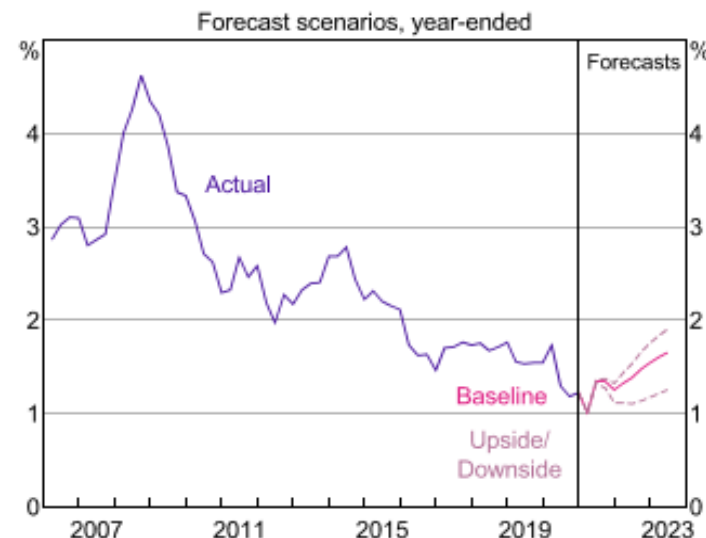
Unemployment



Wages



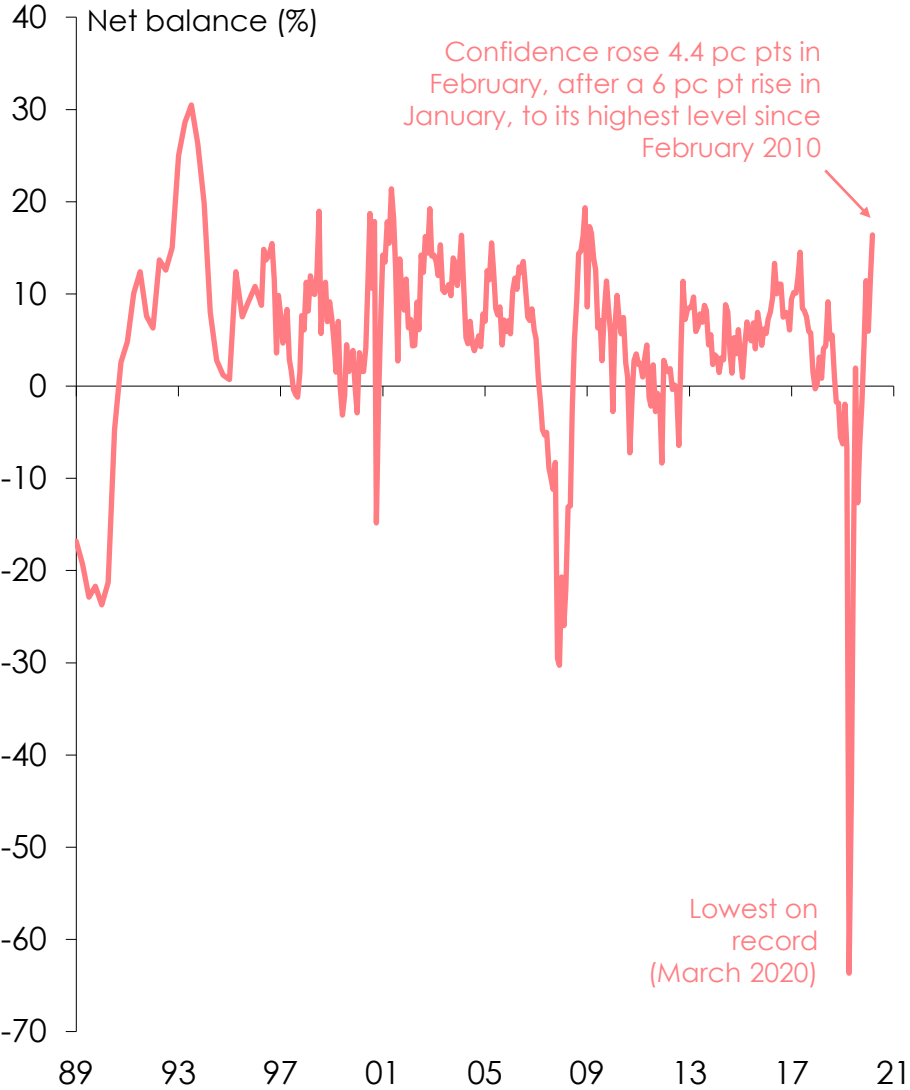
'Underlying' inflation



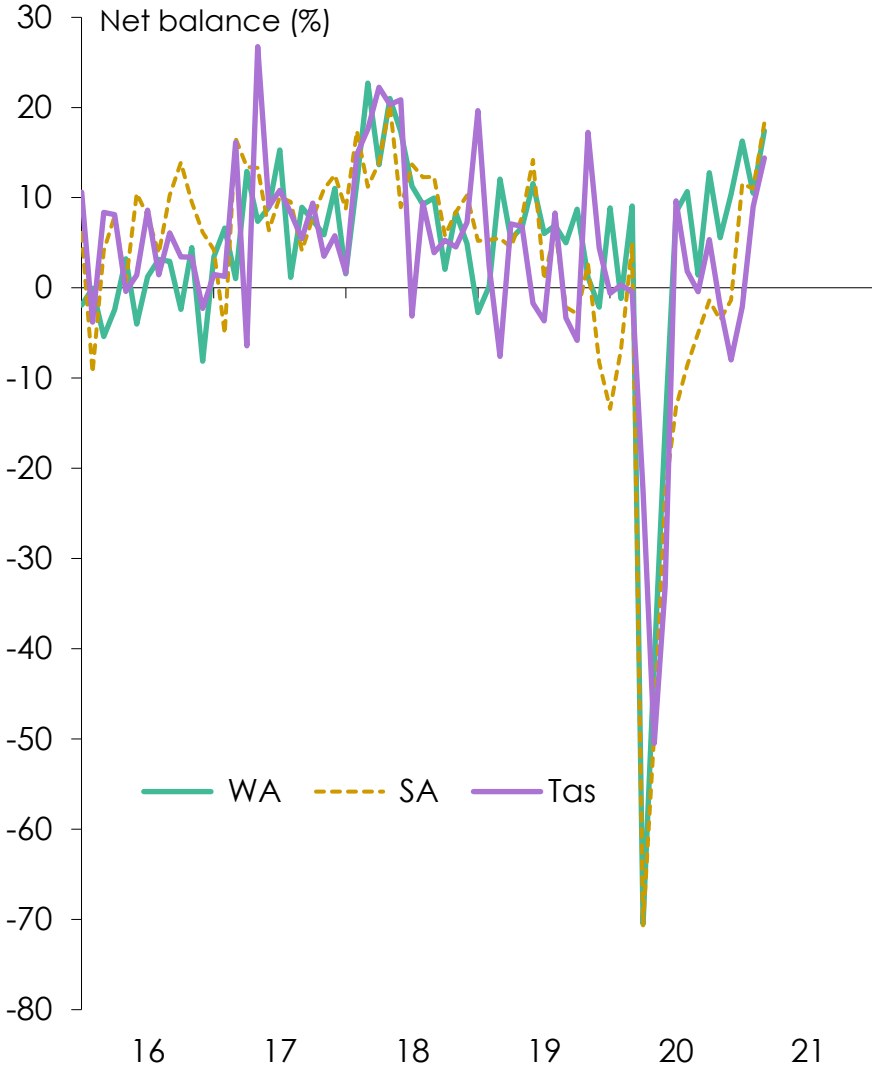
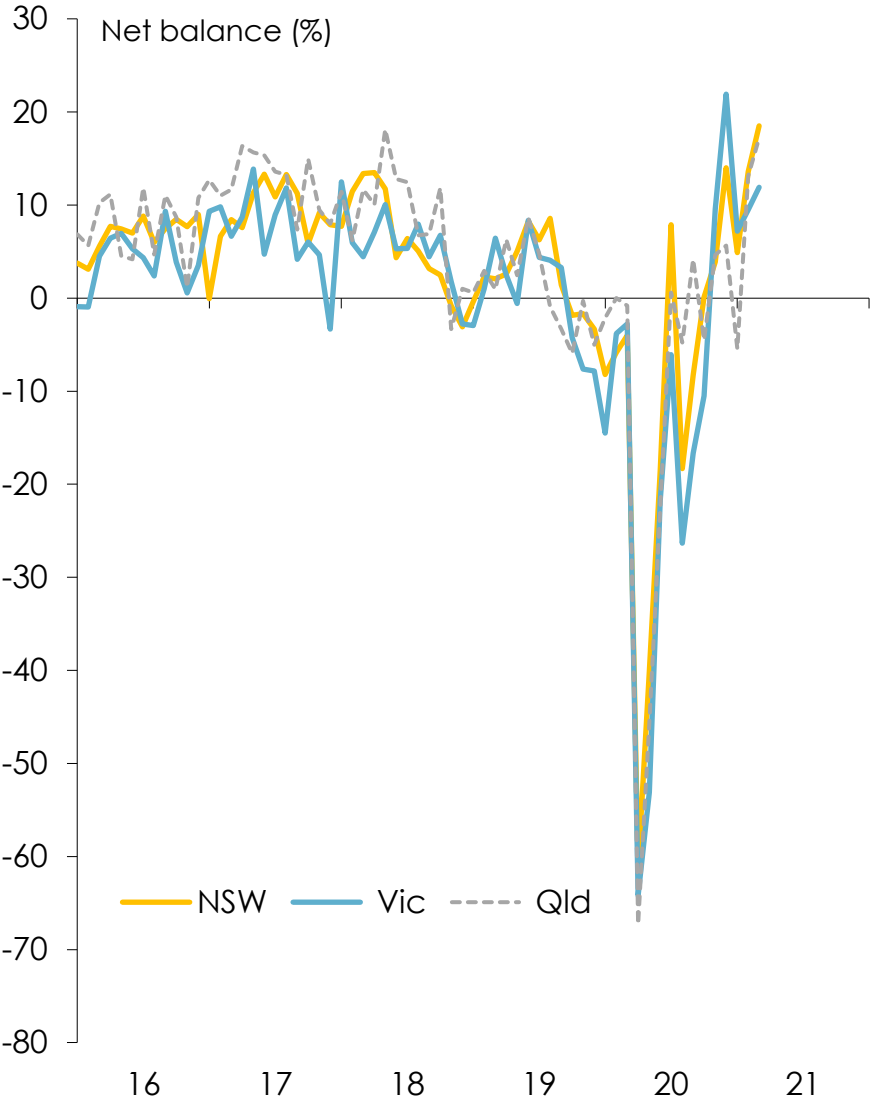
- ❑ The RBA now expects GDP to return to its pre-pandemic level by mid-2021, with real GDP growing 8% over the year to Q2 (previously 6%) but then 3½% (down from 4½% previously) over the year to Q4, followed by 3½% (unchanged) through 2022
- ❑ Unemployment now forecast to fall to 6½% (previously 7¼%) 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 increased again in February to its highest level in eleven years, with gains in every state

Business confidence



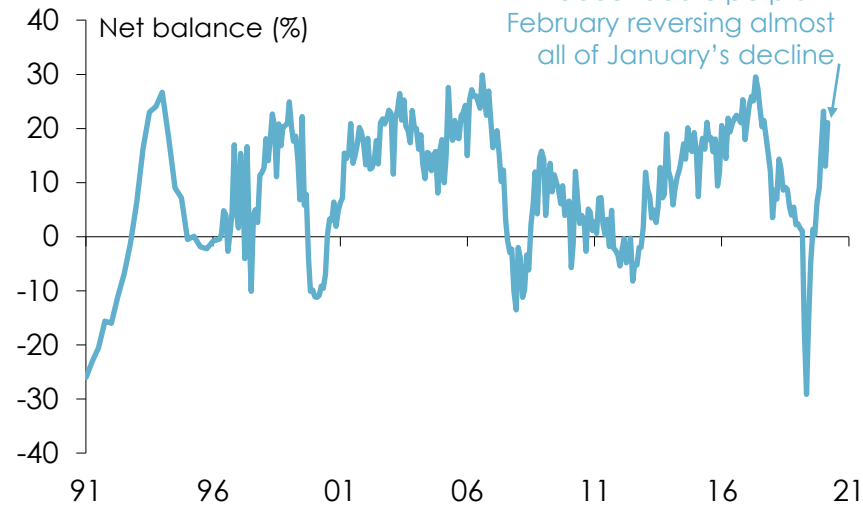
Business confidence, states and territories



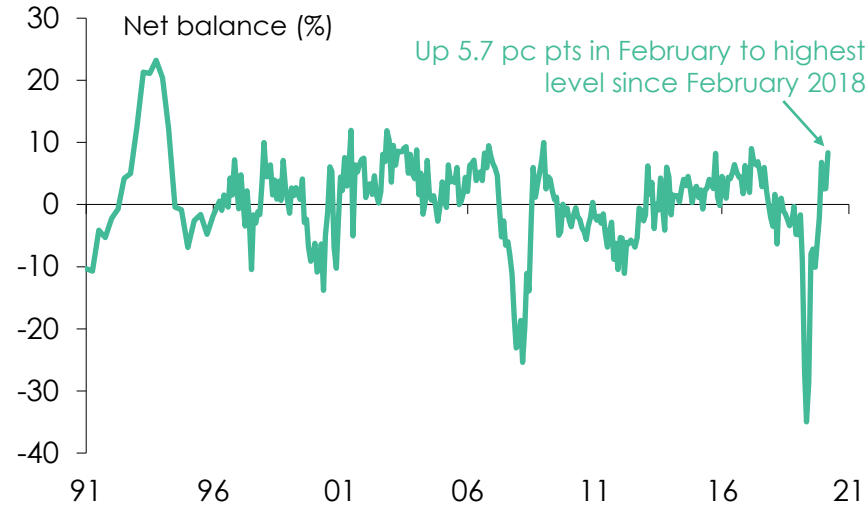
Sources: National Australia Bank. March survey results will be released on 13th April. [Return to "What's New"](#).

'Business conditions' as measured by the NAB survey rebounded in February with all major components now above pre-pandemic levels

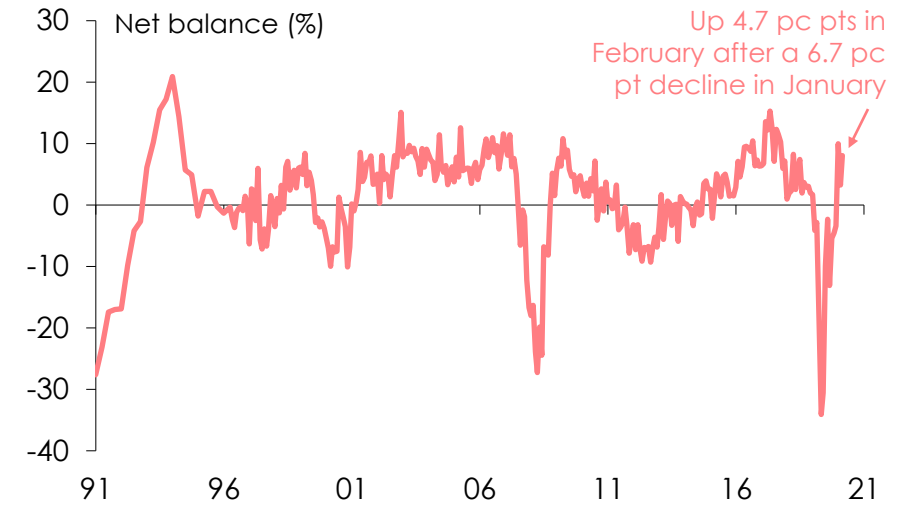
Trading conditions



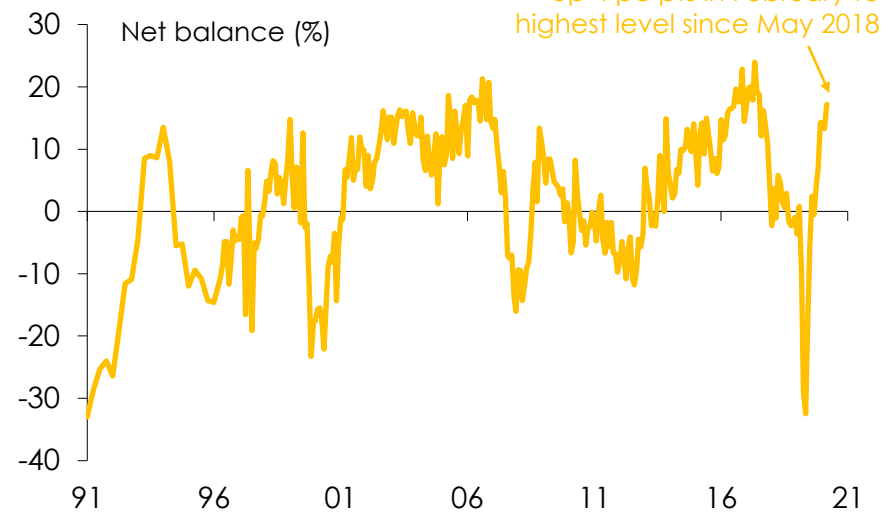
Forward orders



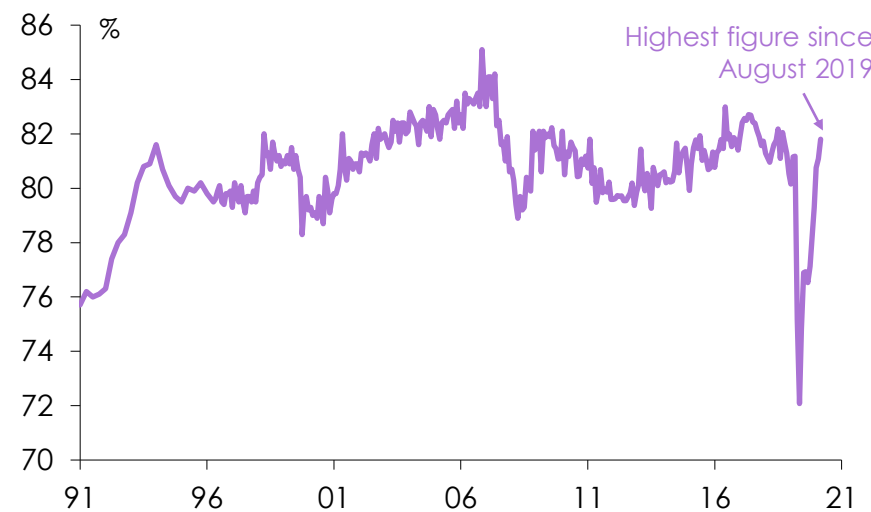
Employee hiring intentions



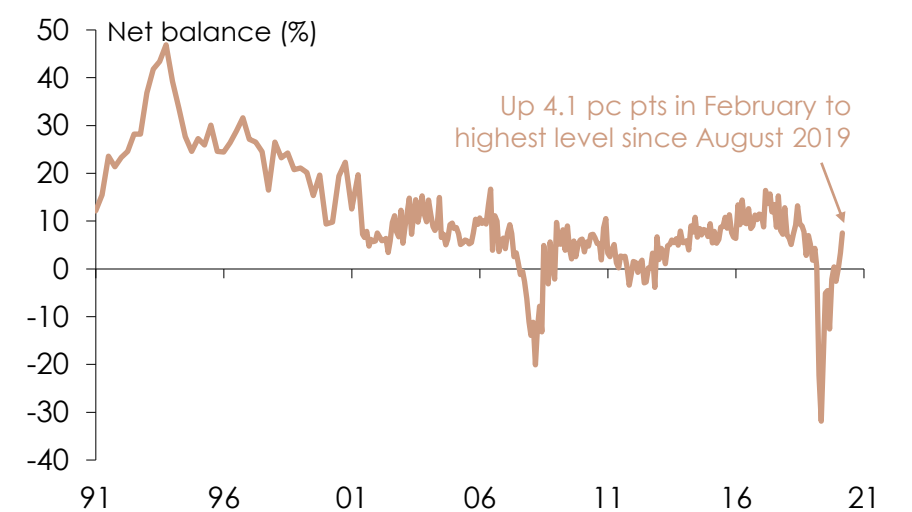
Profitability



Capacity utilization



Capital expenditure intentions

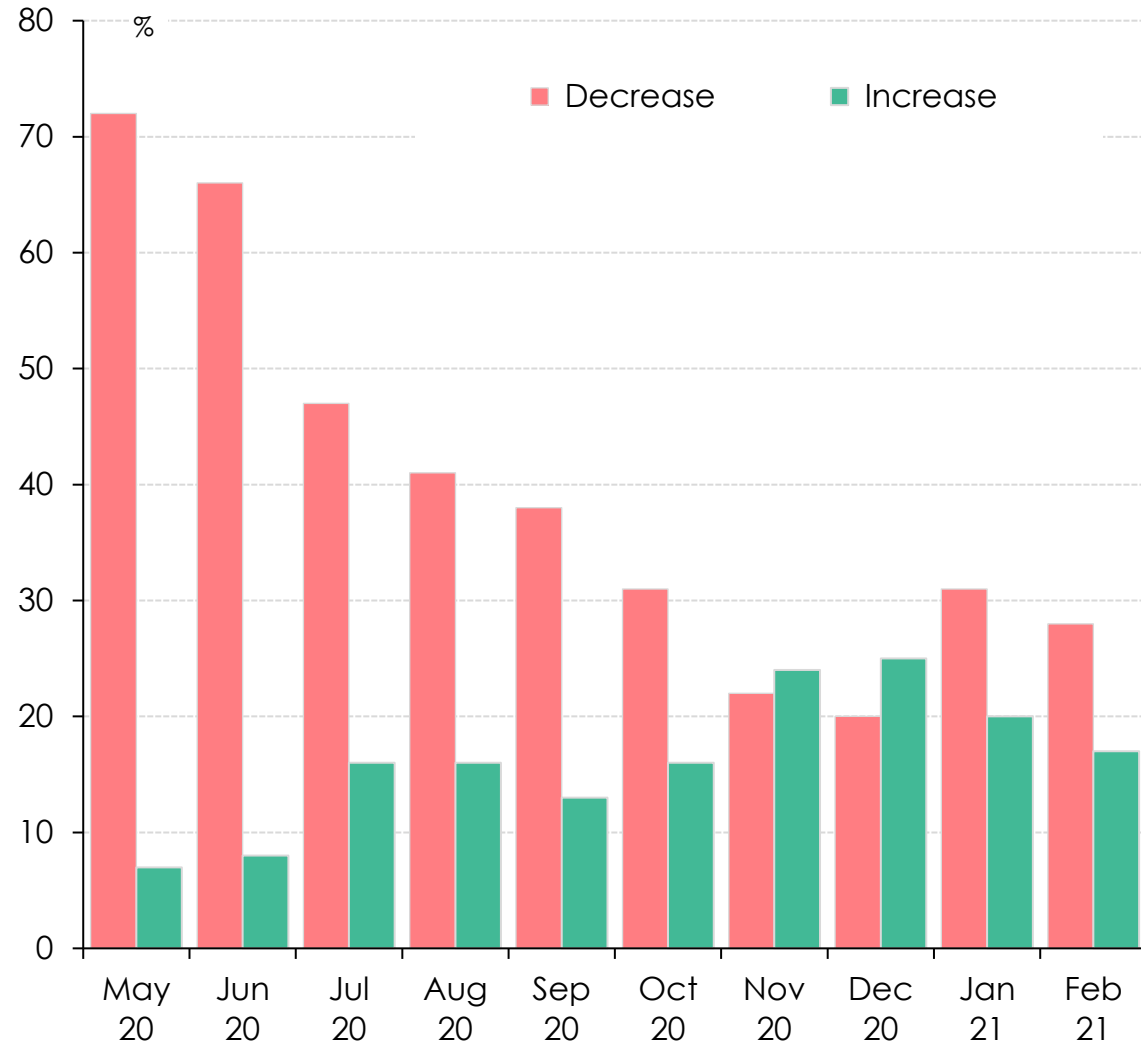


Note: Quarterly data up to March 1997 (May 2002 for capex intentions), monthly thereafter.

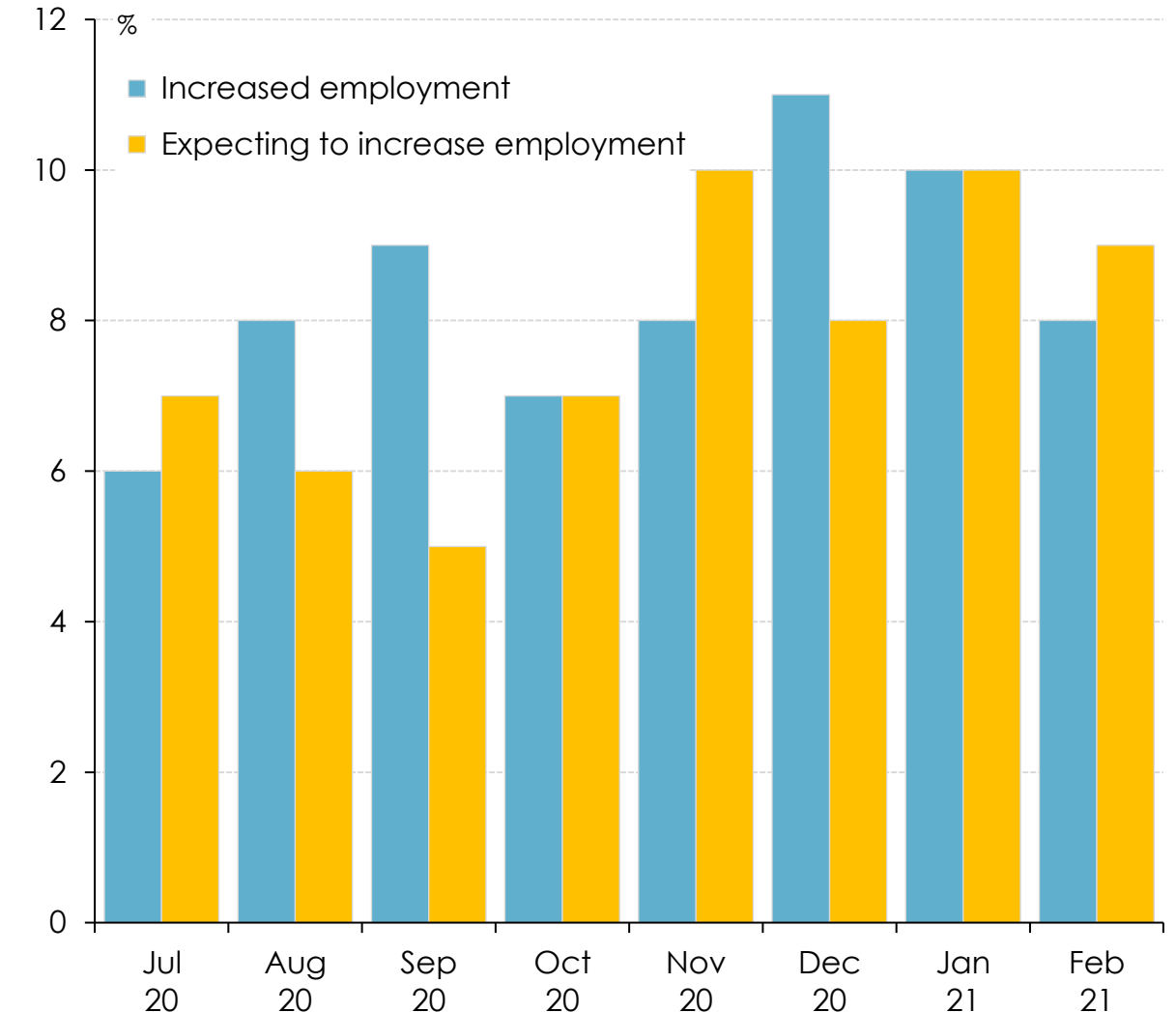
Source: National Australia Bank [Monthly Business Survey](#), February 2021; March survey results will be released on 13th April. [Return to "What's New"](#).

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



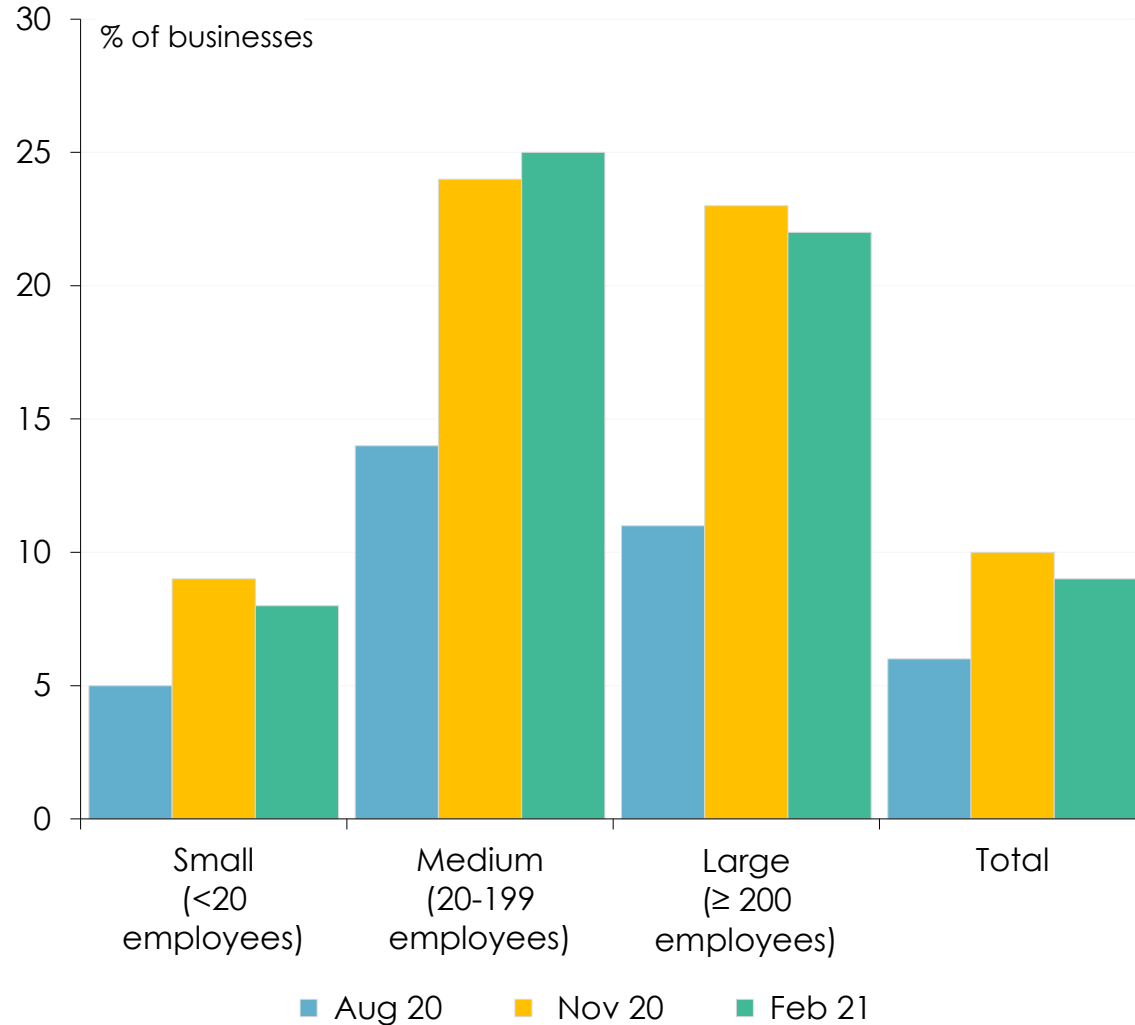
Proportion of businesses increasing and expecting to increase employee numbers



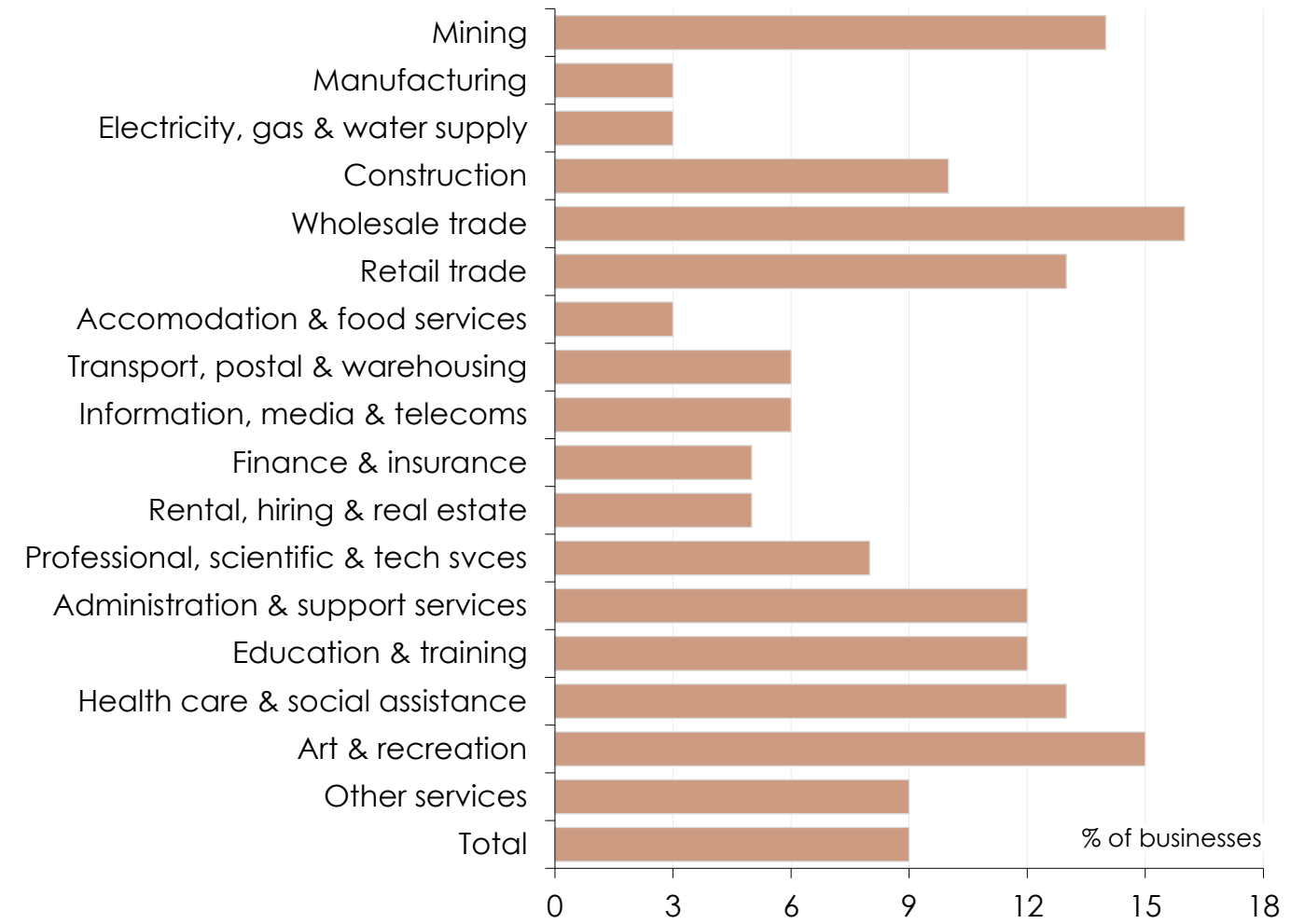
Source: ABS, [Business Conditions and Sentiments](#), February 2021. [Return to "What's New"](#).

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



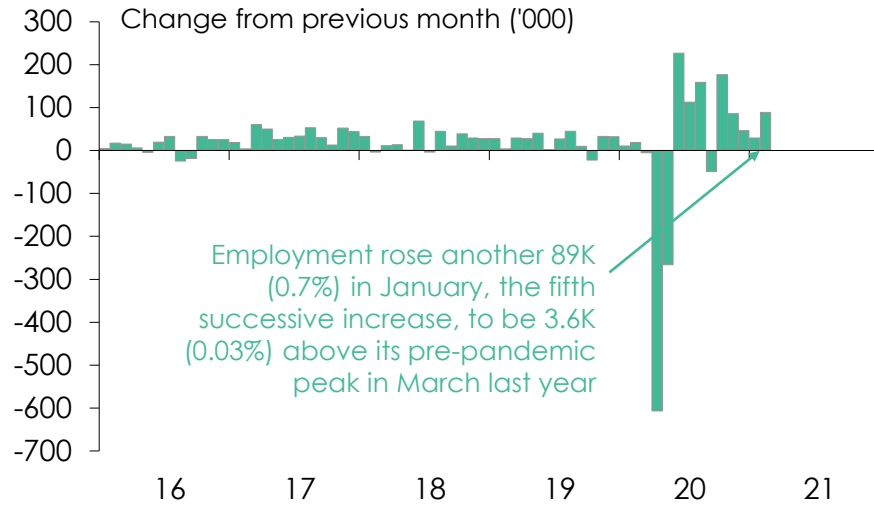
Proportion of businesses planning to increase employment, by industry, February 2021



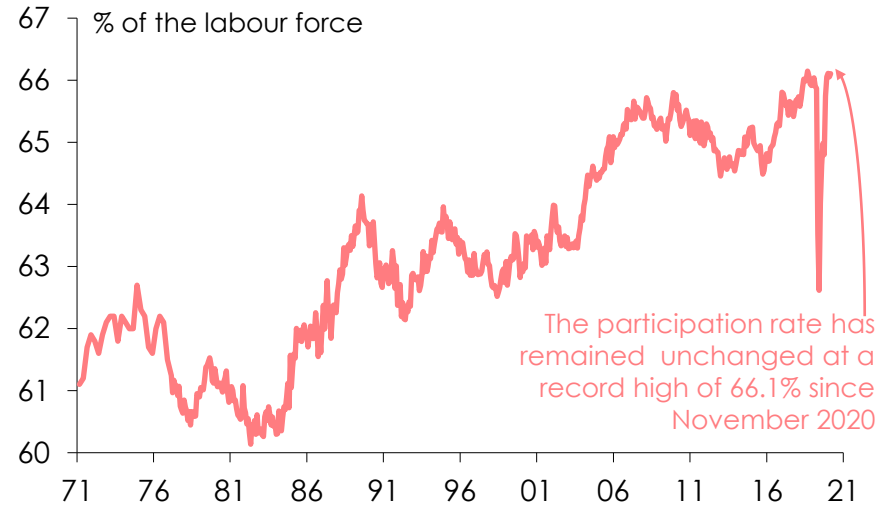
Source: ABS, [Business Conditions and Sentiments](#), February 2021. See also [slide 99](#) for data on capex intentions by business size. [Return to "What's New"](#).

Employment rose by another 89K in February, taking it just above its pre-recession peak, while the unemployment rate dropped 0.5 pc pts to 5.8%

Employment



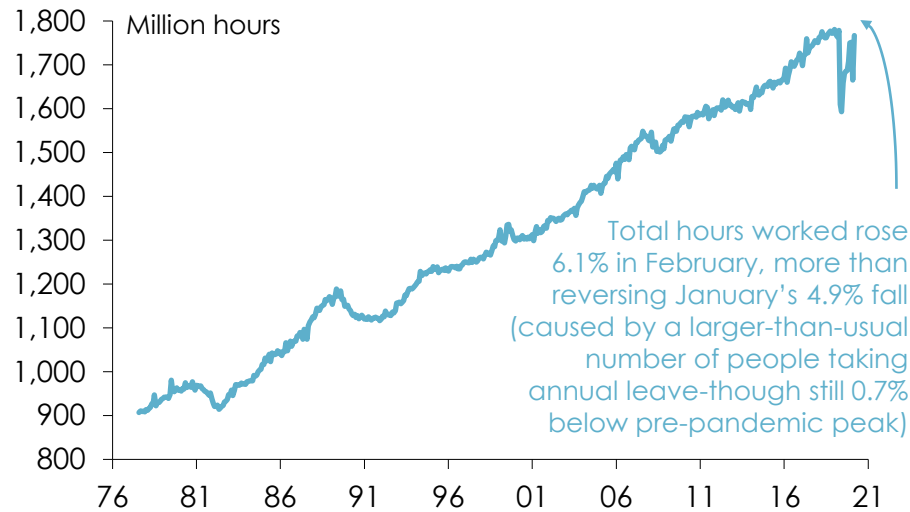
Labour force participation rate



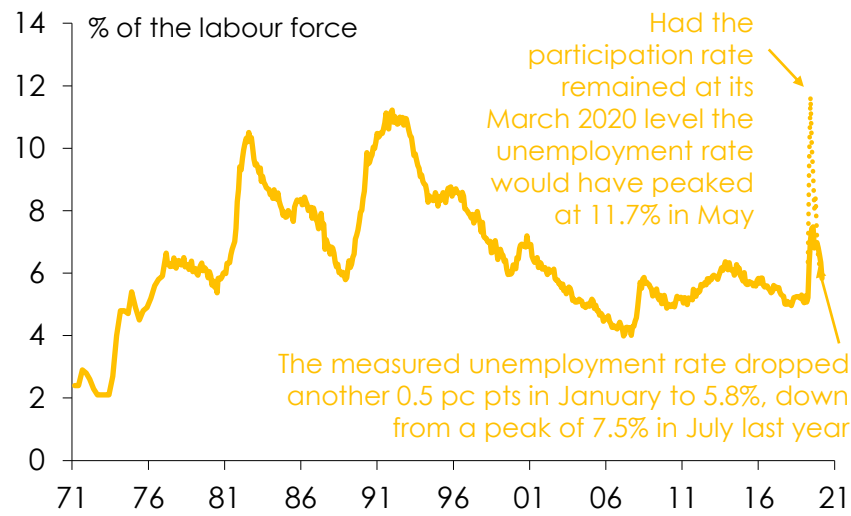
Under-employment ratio



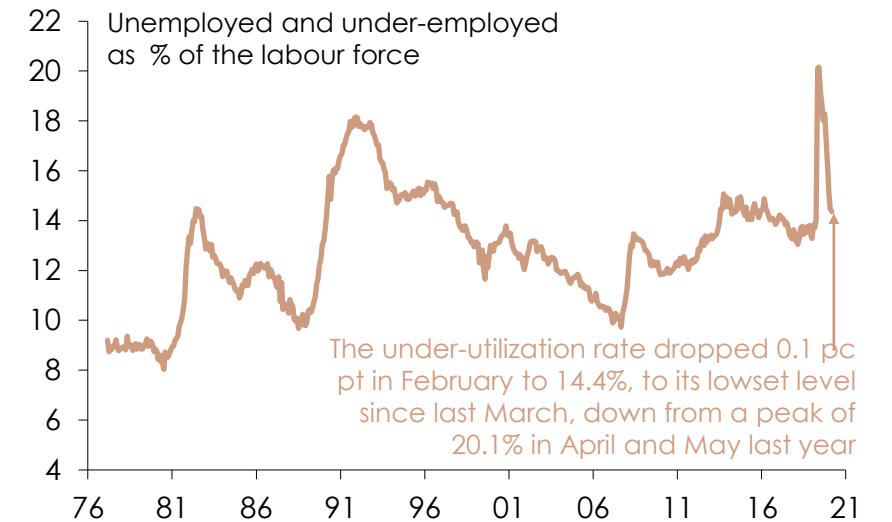
Total hours worked



Unemployment rate



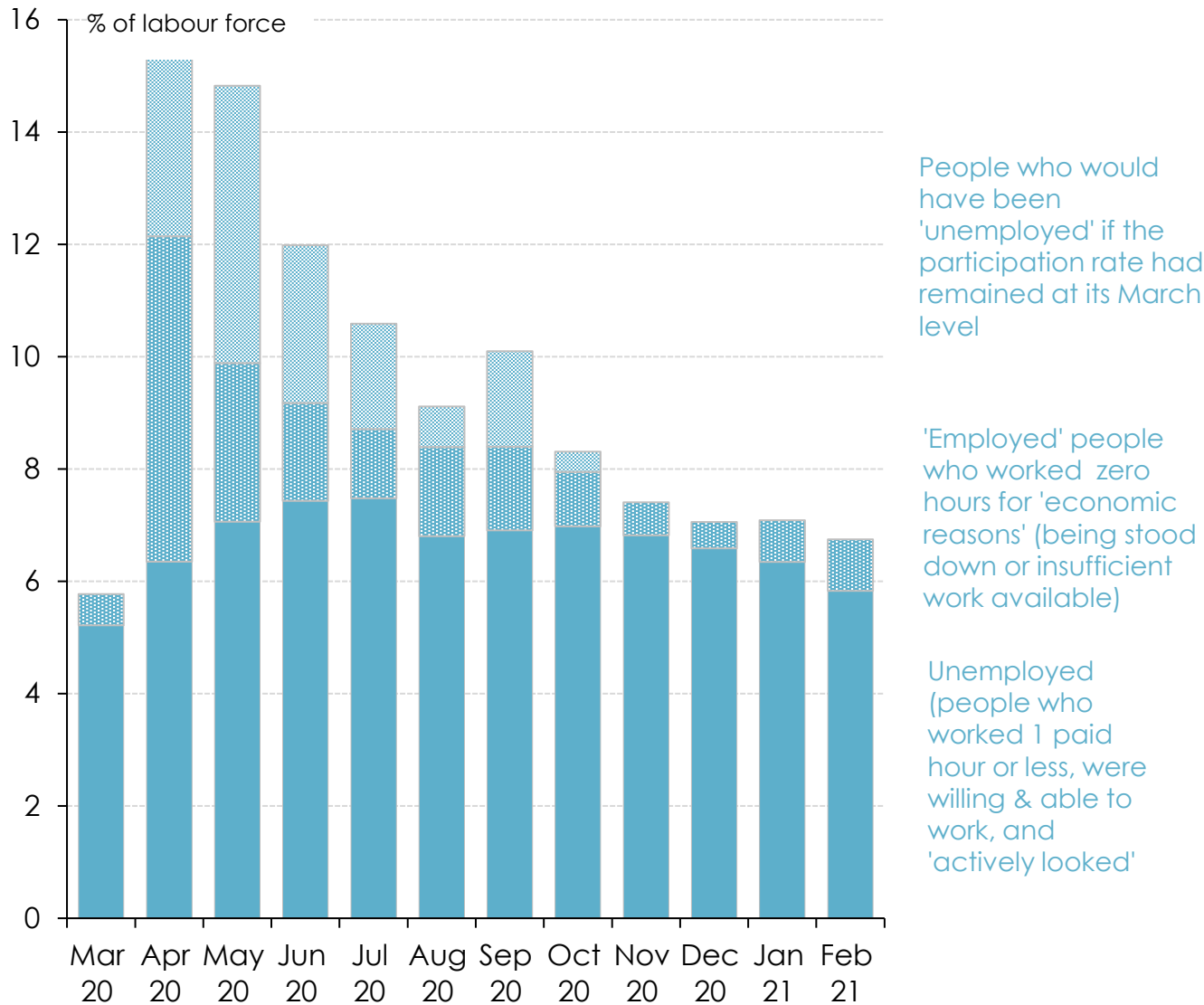
'Under-utilization' rate



Source: ABS, [Labour Force, Australia](#). March data will be released on 15th April. [Return to "What's New"](#).

The 'effective' unemployment rate fell from a peak of 15.3% in April to 6.7% in February, but will likely rise in April after JobKeeper ends

Alternative measures of unemployment



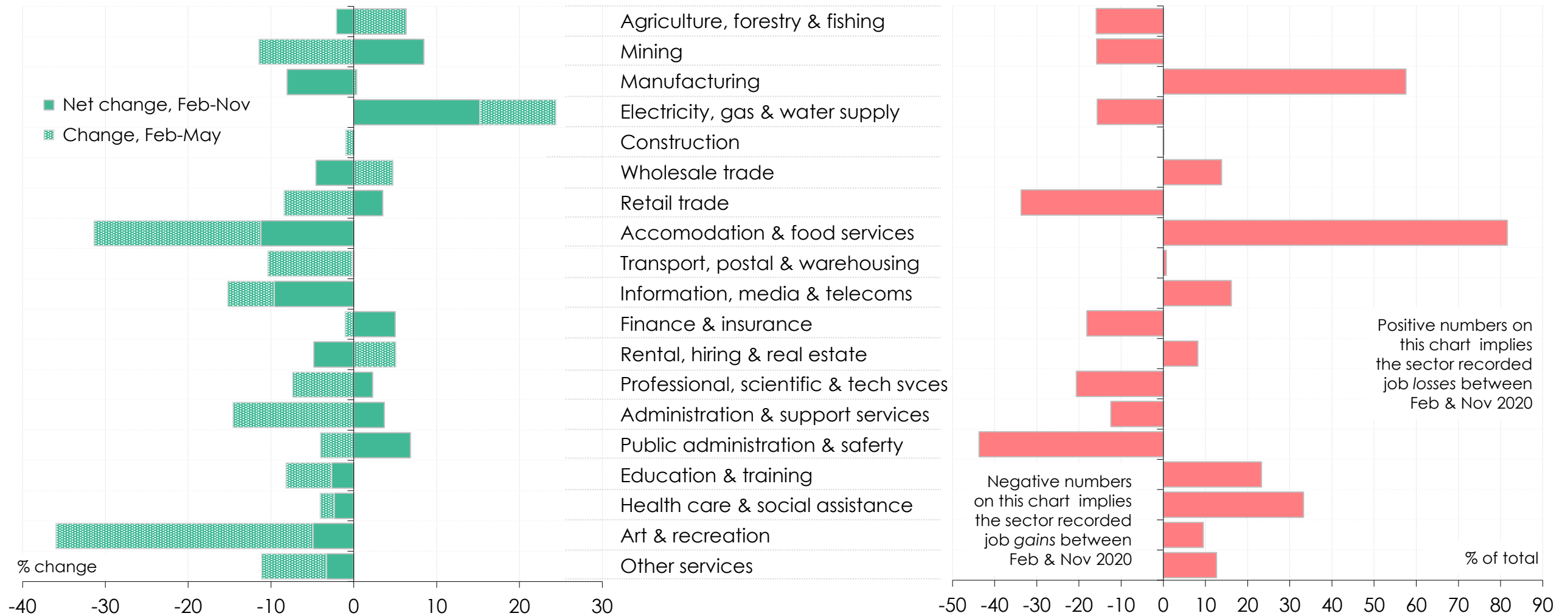
- ❑ The Government's JobKeeper program paid eligible employers a subsidy of \$1500 per fortnight for each eligible employee kept on the payroll between 30th March and 27th September (although payments didn't start until the beginning of May)
- ❑ From 28th September the JobKeeper payment reduced to \$1200 per fortnight, with a lower rate of \$750 per fortnight for employees who were working fewer than 20 hours per week in the four weeks prior to 1st March – and was further reduced to \$1000 per fortnight (\$650 for part-time employees) from 4th January
- ❑ Employers were also required to re-establish their eligibility for JobKeeper payments (by reference to their turnover compared with pre-pandemic levels) at the beginning of October and again at the beginning of January – resulting in significant declines in the number of employers receiving the subsidy
- ❑ JobKeeper will terminate at the end of this month – which is likely to result in at least some job-losses (credible estimates suggest 100-200K) and a temporary increase in measured unemployment

Source: ABS, [Labour Force, Australia](#); Corinna. March data will be released on 15th April. [Return to "What's New"](#).

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

Change in employment between February and November 2020, by industry

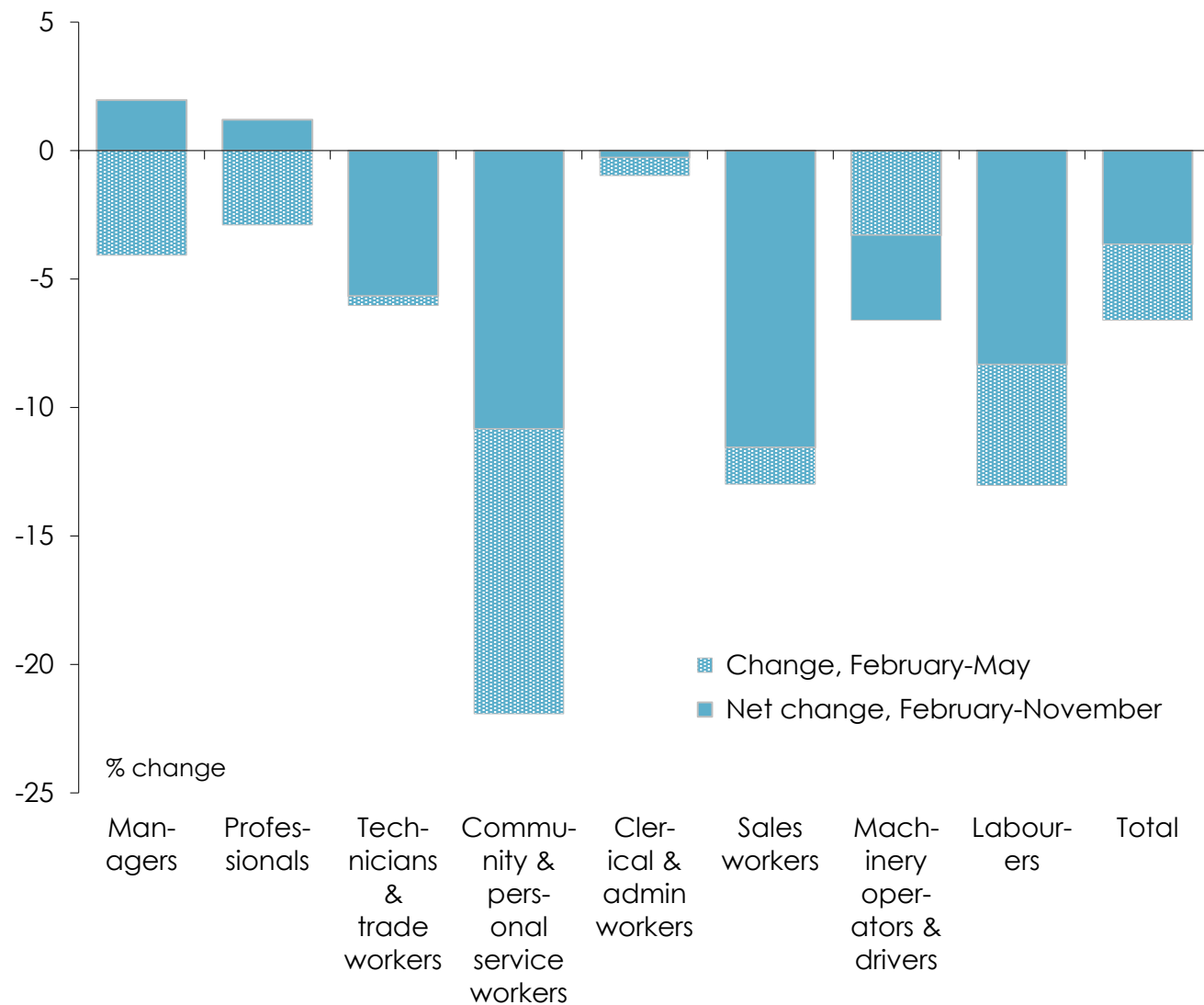
Proportion of change in total employment between February and November 2020, by industry



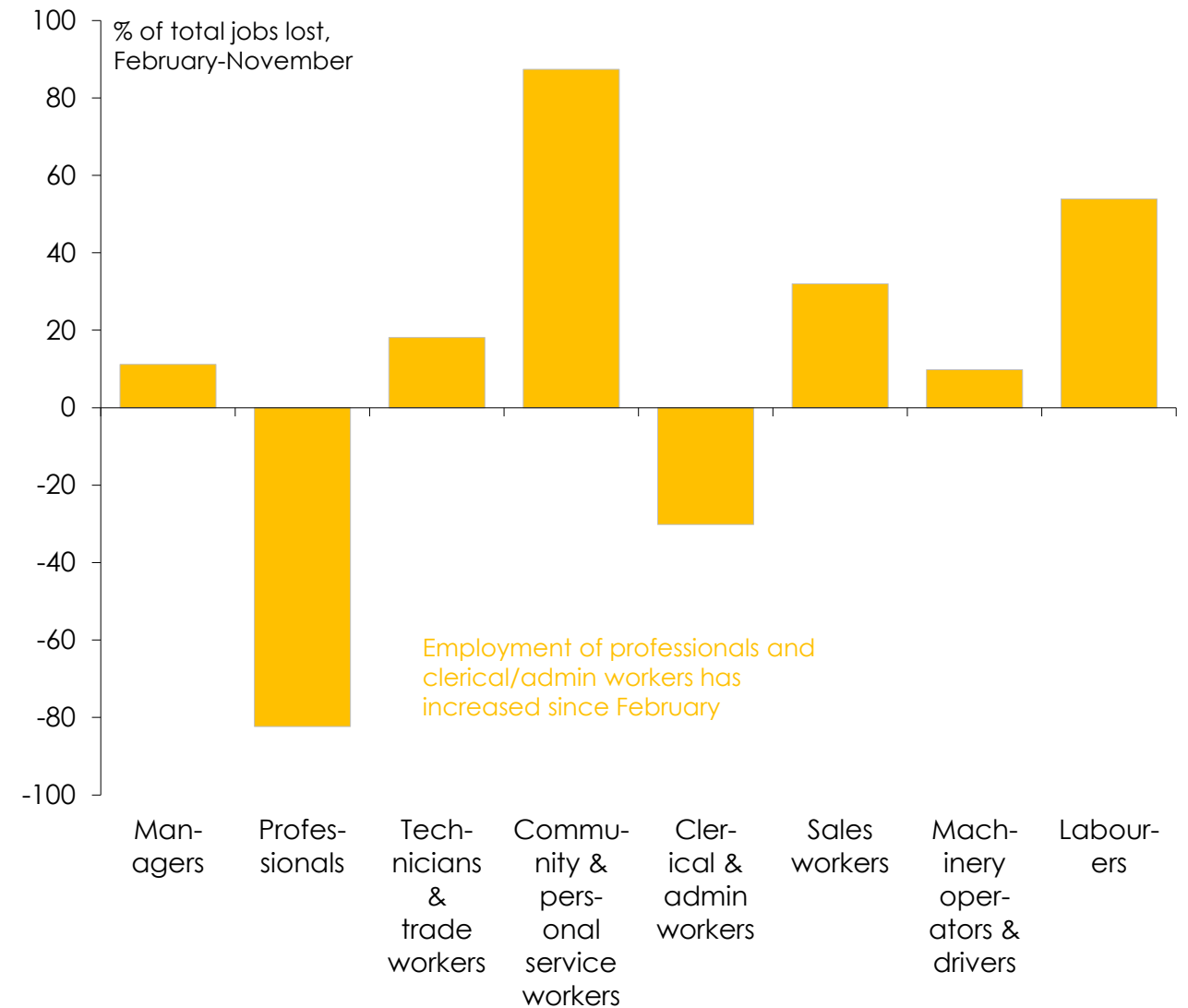
Source: ABS, [Labour Force, Australia, Detailed](#), November 2020. Labour force survey data on employment by industry are available only for the middle month of each quarter: February 2021 data will be released on 25th March. [Return to "What's New"](#).

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

Change in employment between February and November 2020, by occupation



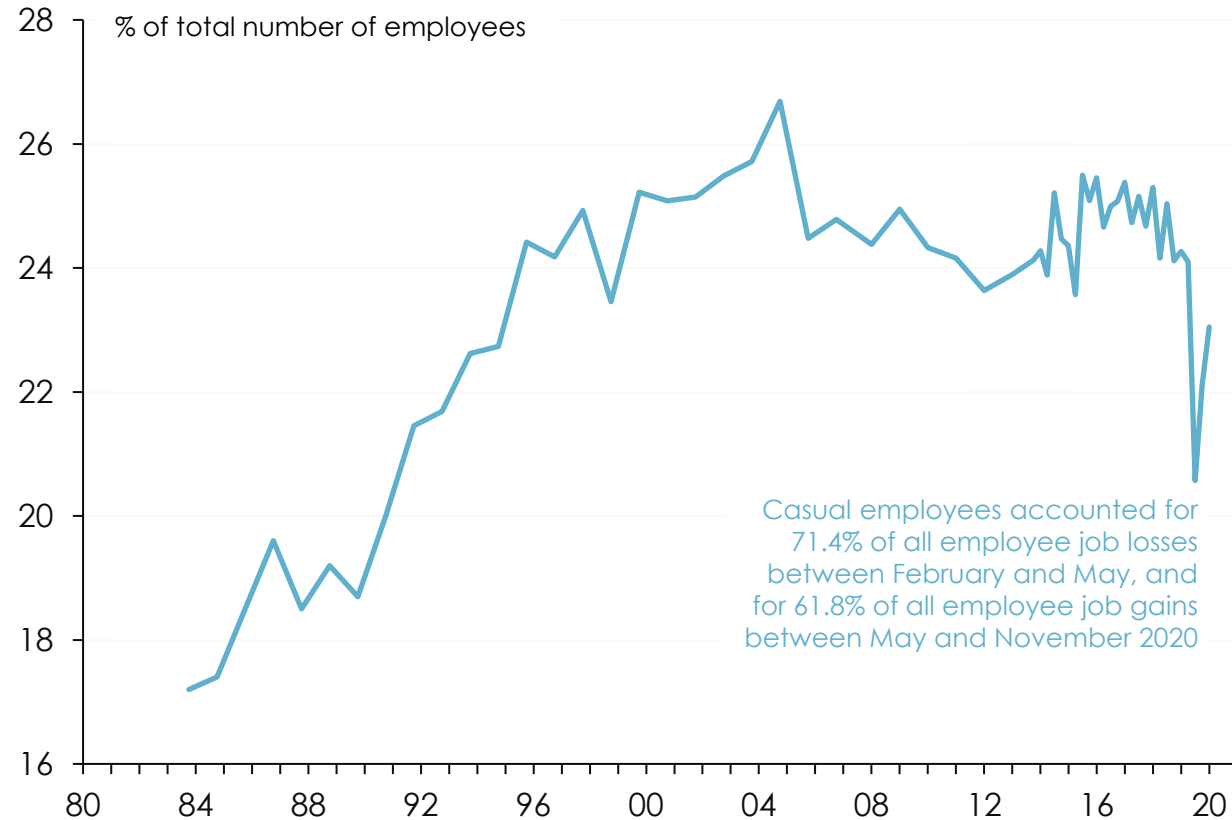
Proportion of change in total employment between February and March 2020, by occupation



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

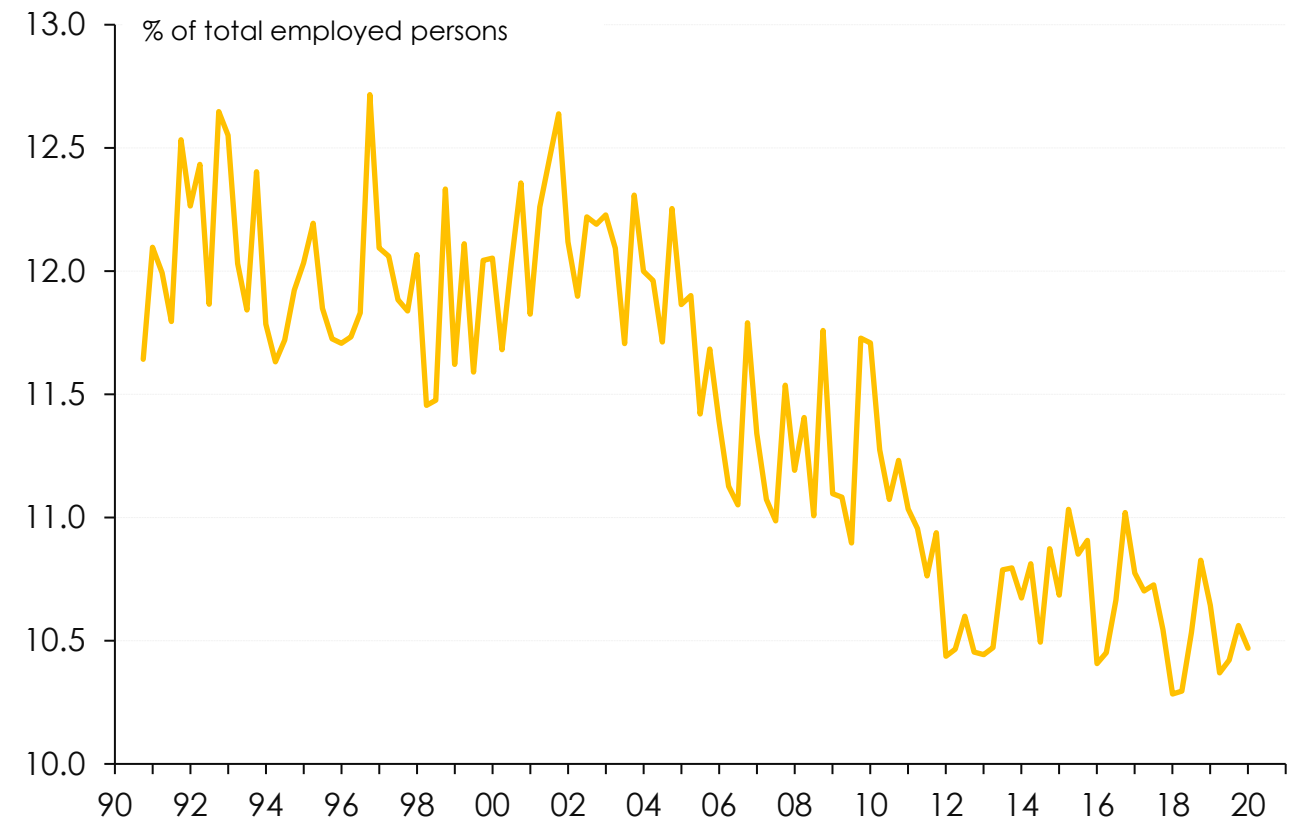
Contrary to popular belief neither casual jobs nor 'gig economy' jobs have become more commonplace during the past two decades

'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

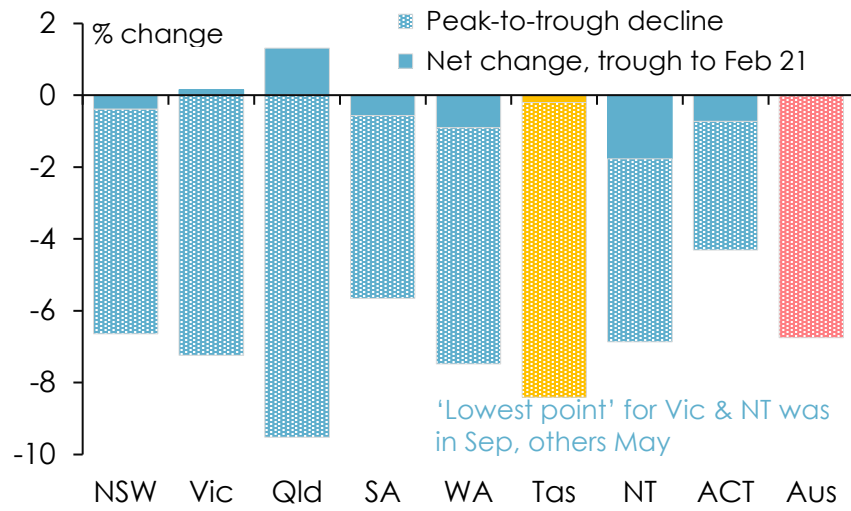


- ❑ 'Independent contractors' have actually declined as a share of the workforce since the early 2000s – had haven't increased during the current recession

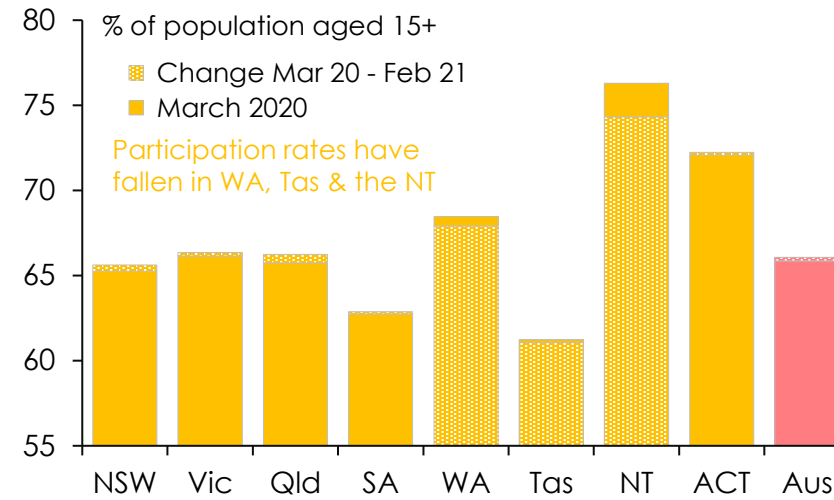
Note: data on casual employment are for August between 1984 and 2008; for November between 2009 and 2013; and for the middle month of each quarter since then; data on owner-managers are for the middle month of each quarter. Sources: ABS, [Characteristics of Employment, Australia](#), and earlier equivalents;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

Queensland and (surprisingly) Victoria have had the strongest rebounds in employment, while the ACT, NT, NSW & Vic have the lowest unemployment

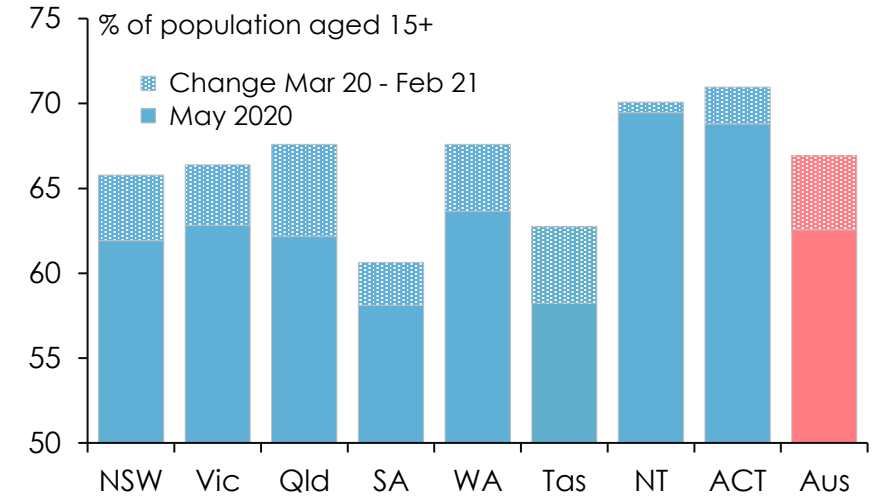
Employment



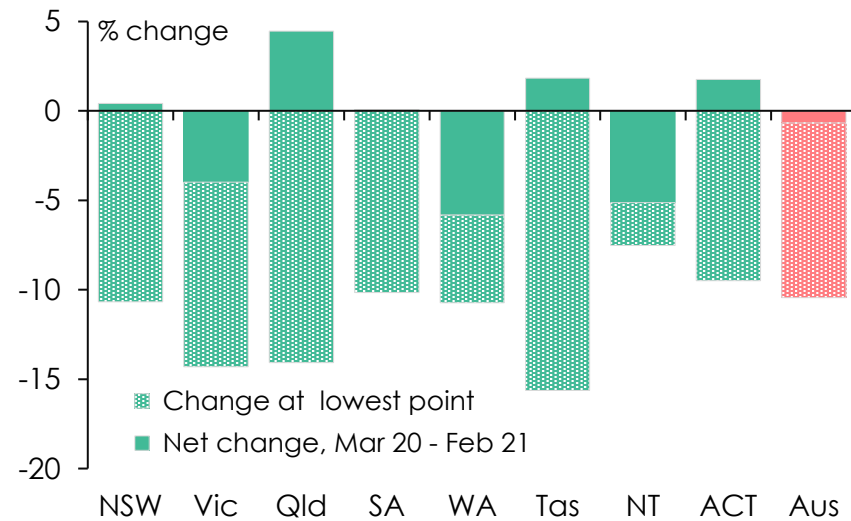
Labour force participation rate



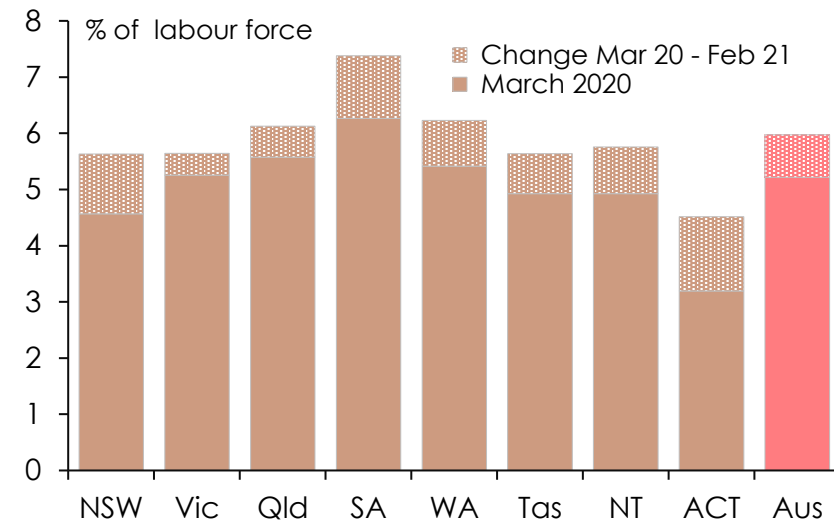
Employment-population ratio



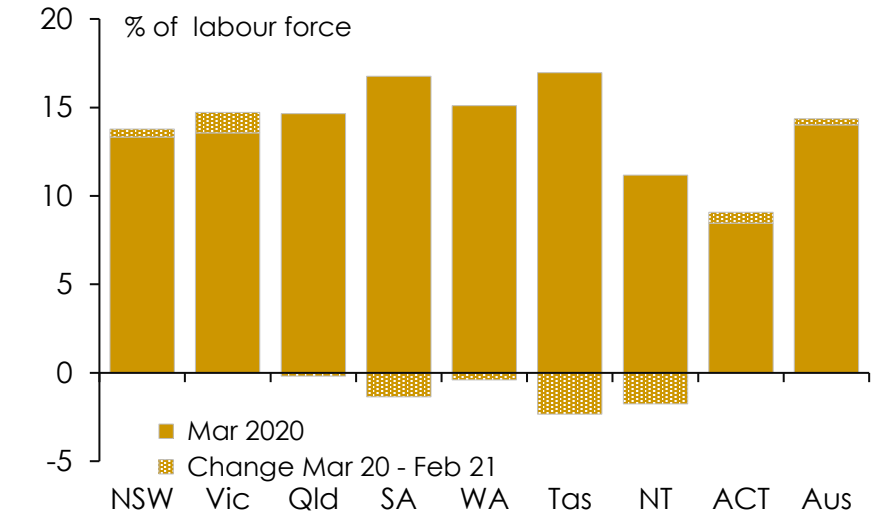
Total hours worked



Unemployment rate



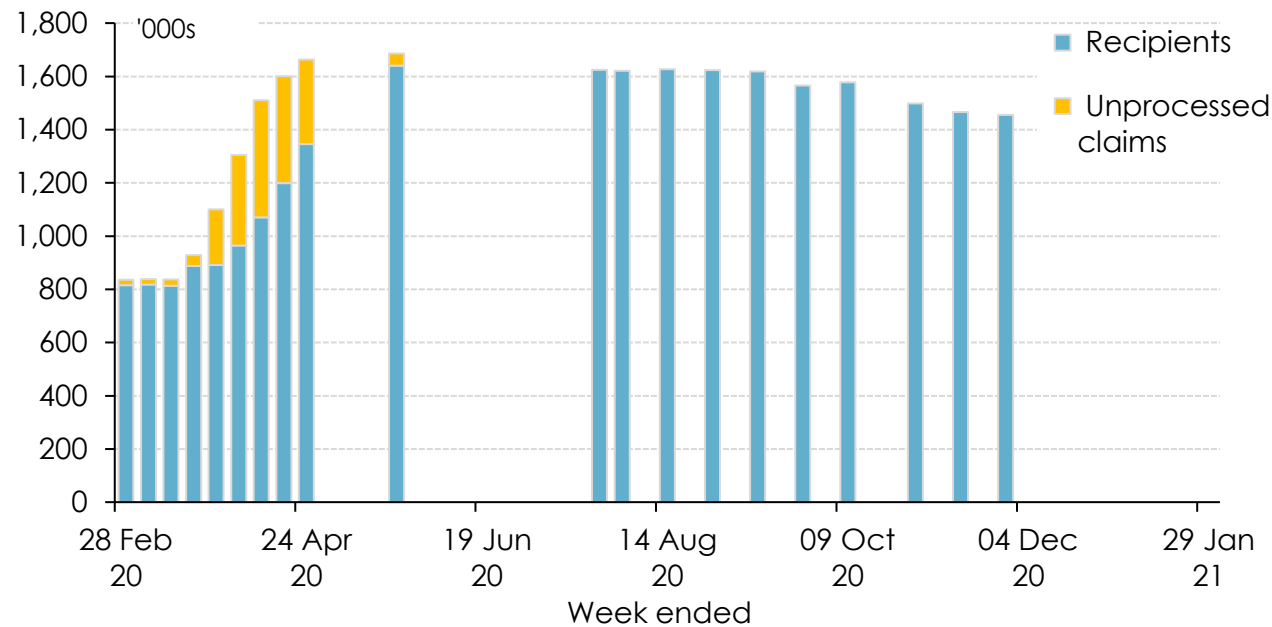
'Under-utilization' rate



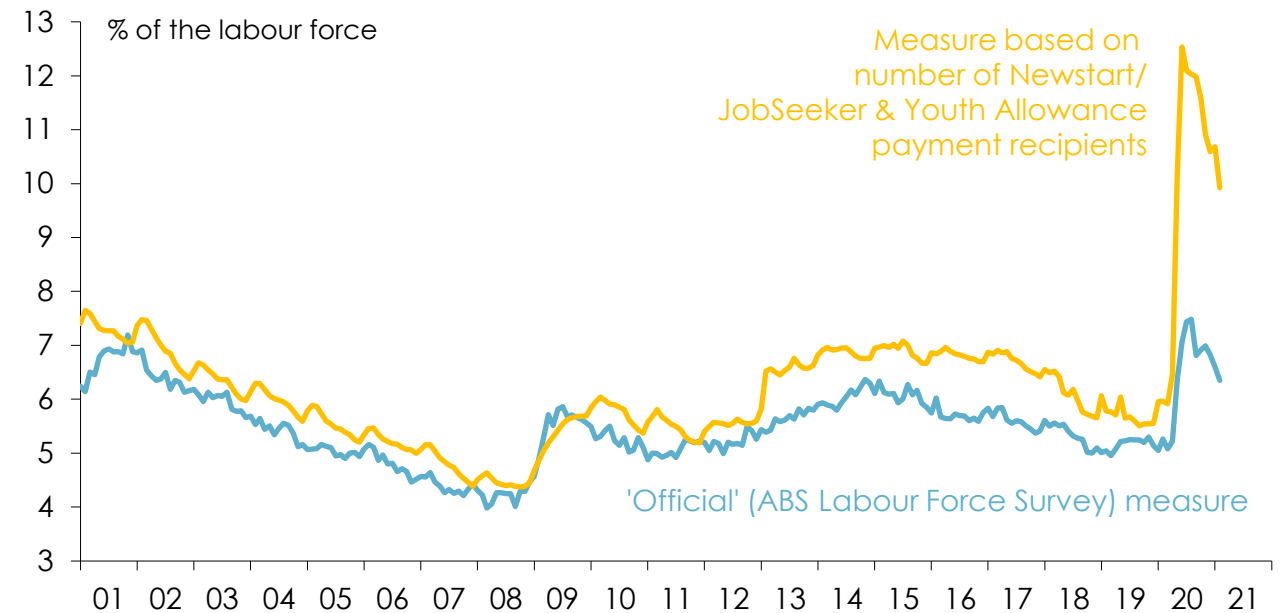
Note: The 'under-employment ratio' is the percentage of employed persons who are working fewer hours than they are willing and able to work. The 'under-utilization rate' is the proportion of the labour force who are unemployed or underemployed. Source: ABS, [Labour Force, Australia](#). March data will be released on 15th April. [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



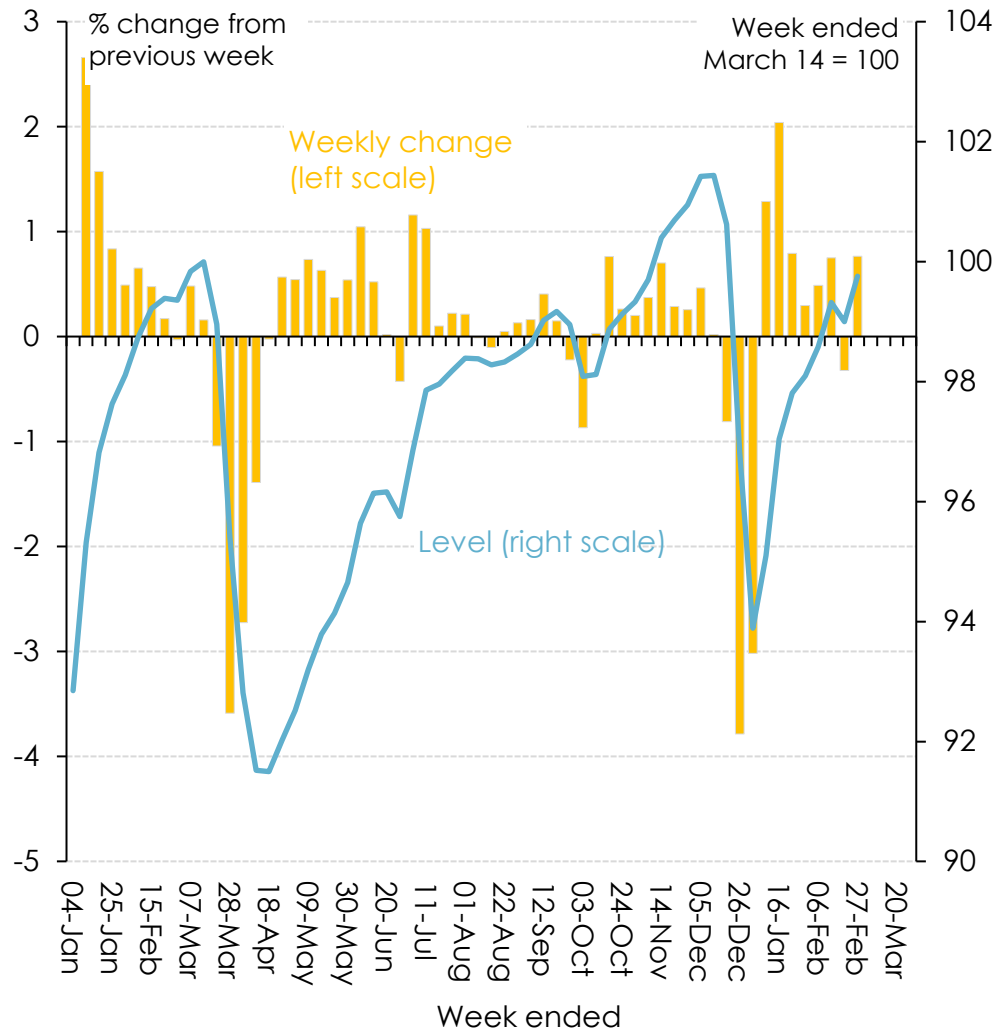
Jobless income support beneficiaries and labour force survey unemployed as a pc of the labour force



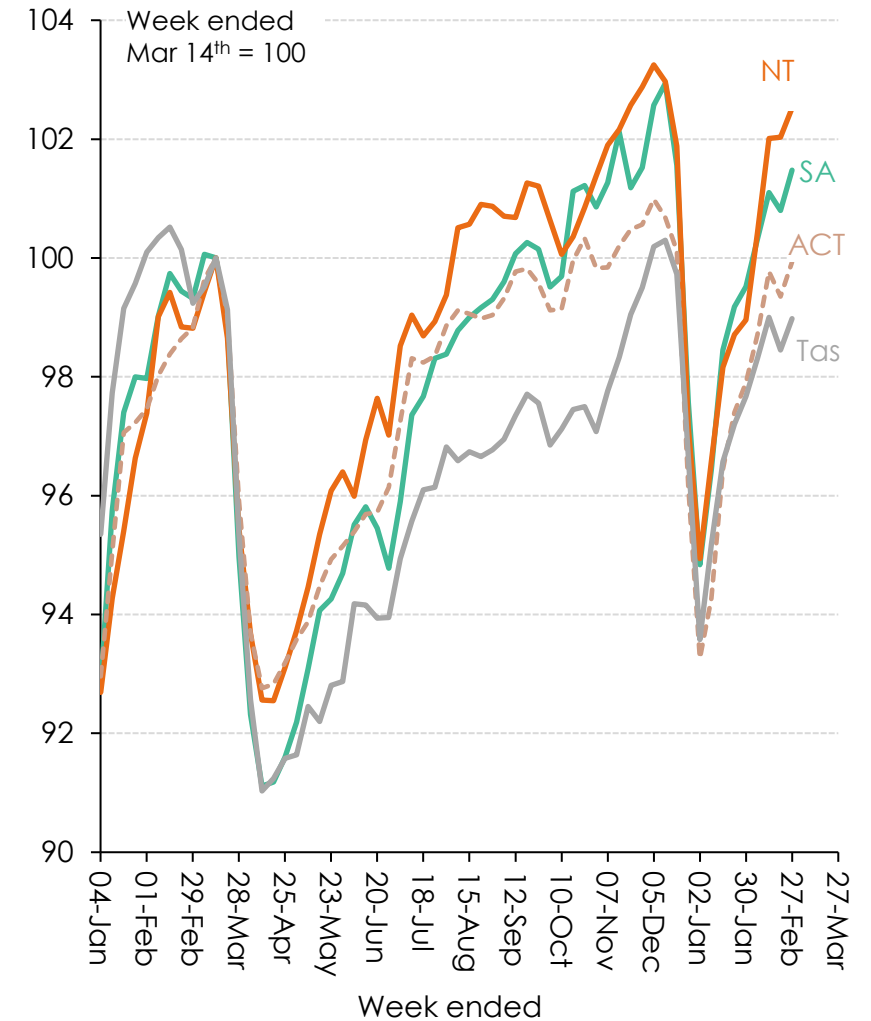
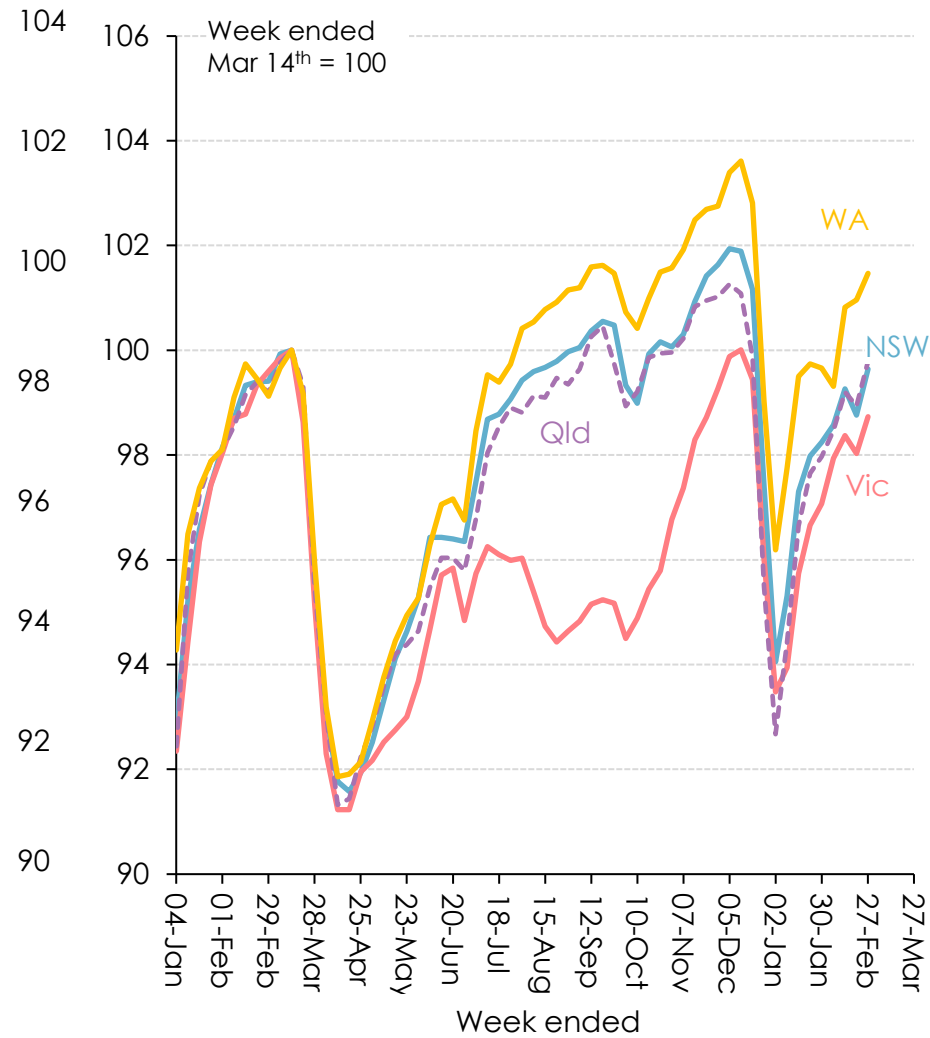
- ❑ The Department of Social Services (DSS) compiles weekly data on the number of people receiving JobSeeker and Youth Allowance (Other) payments, which are supplied to Ministers; historically, only monthly data has been made publicly available (latest is for January 2021)
- ❑ On two occasions last year 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 27th November, and the Government is keeping the weekly data secret
- ❑ By contrast, the US Labor Department has been making the equivalent data (the 'initial claims' series) available every Thursday morning since 1968: there is no valid reason why Australia shouldn't do the same

Payroll jobs continued rising through the second half of February with initial estimates for the first half of February revised upwards

Level and weekly change in the number of payroll jobs



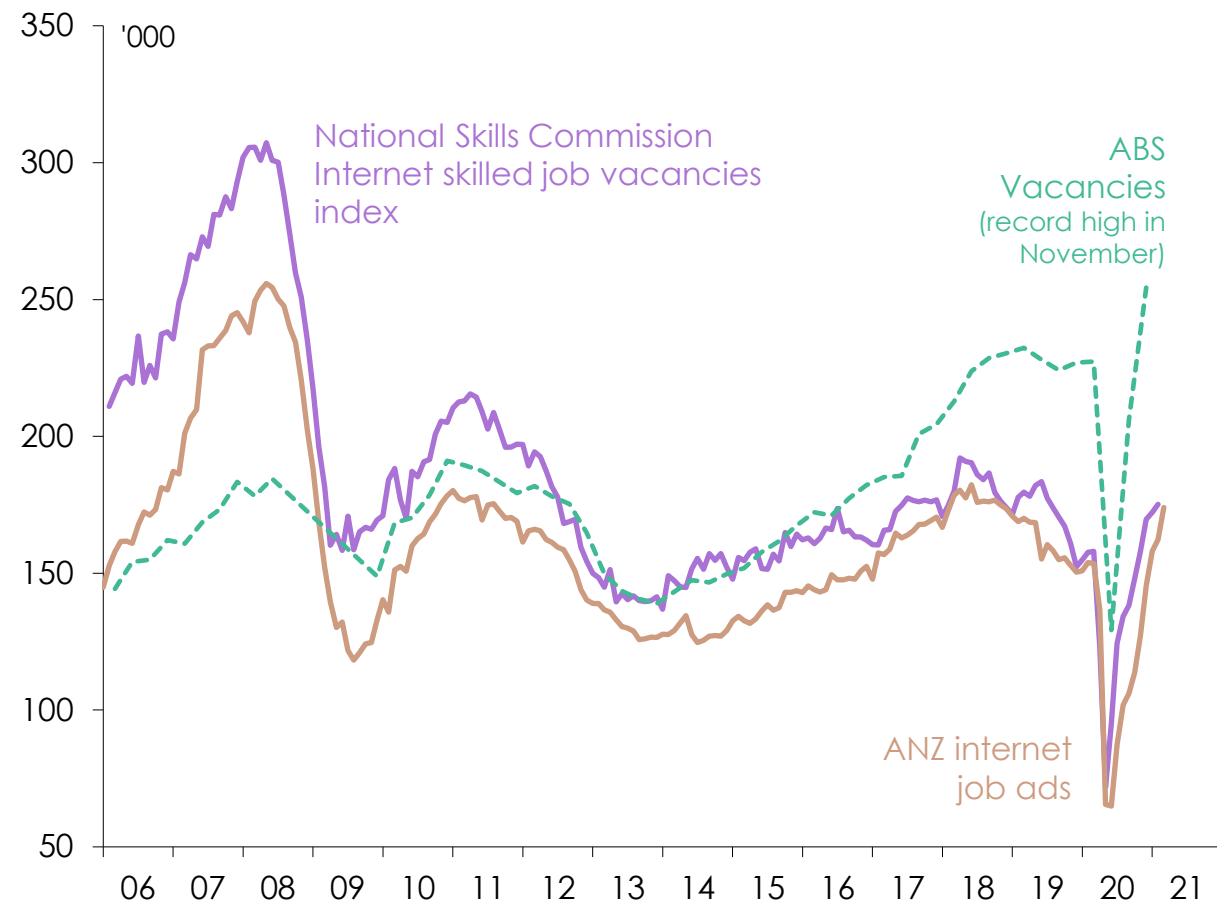
Payroll jobs by State & Territory



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 13th March will be released on 30th March. [Return to "What's New"](#).

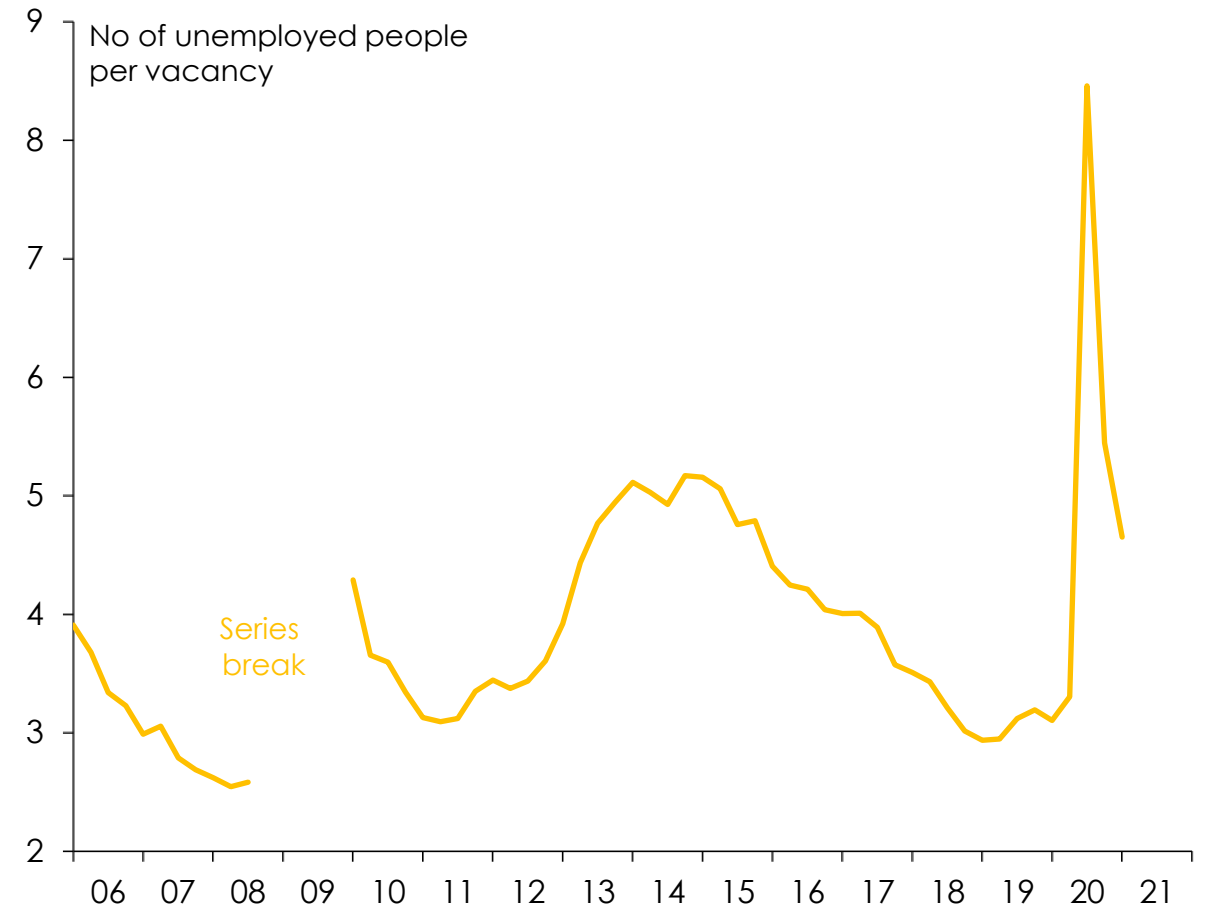
Job vacancies have rebounded swiftly from their recession lows, although there are still almost 5 unemployed people for every job on offer

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

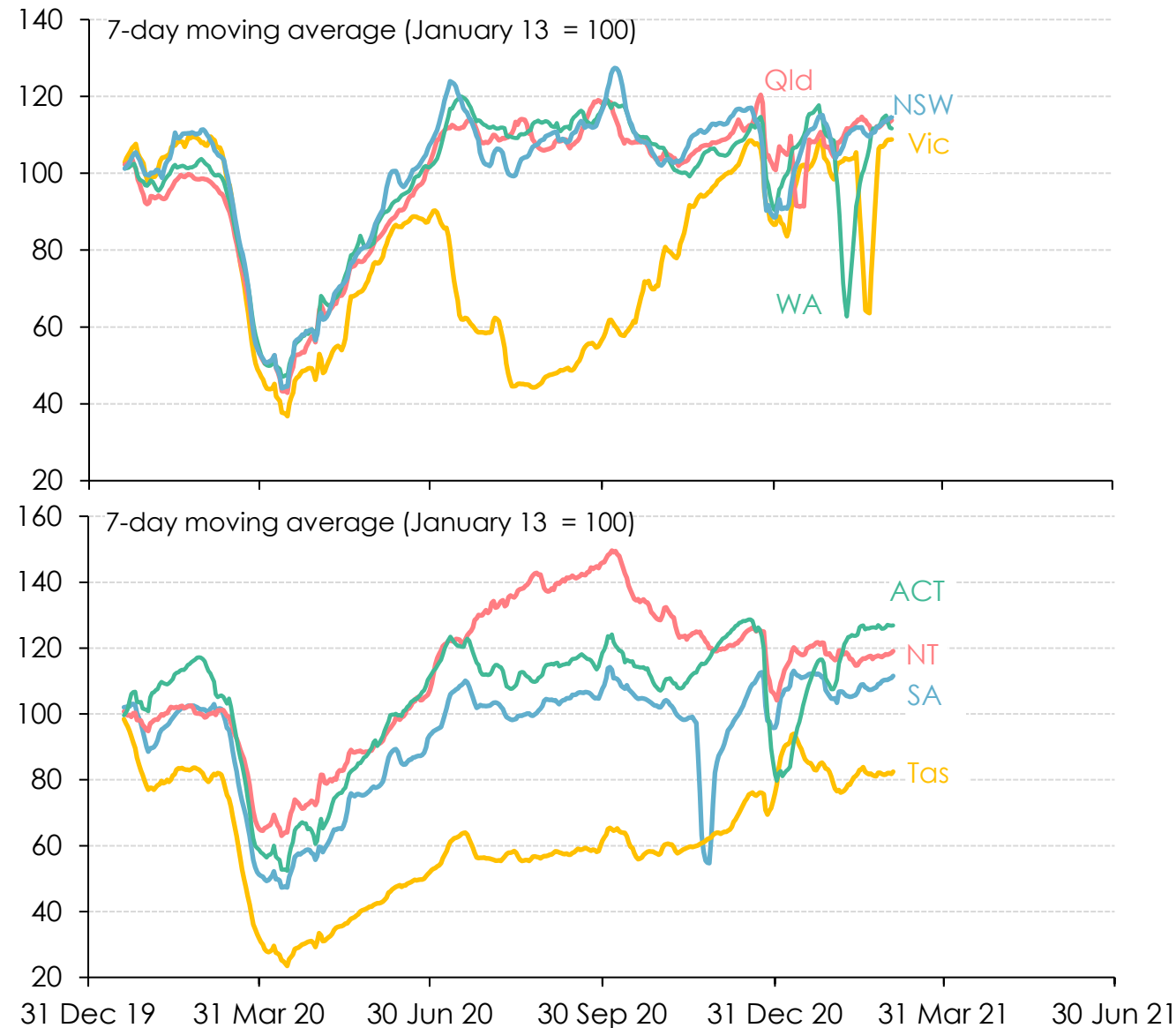
Ratio of unemployed people to job vacancies



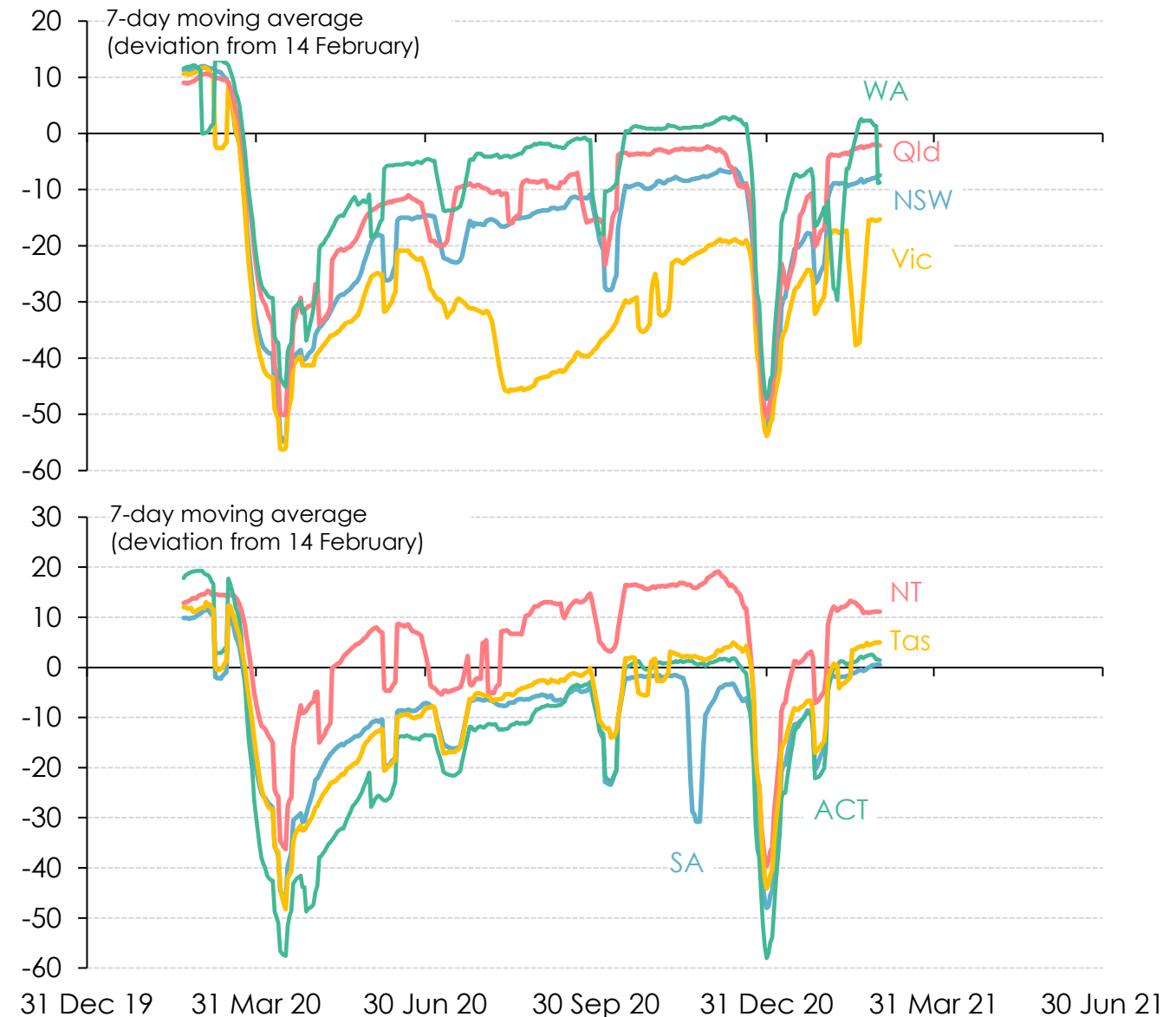
- ❑ In November there were roughly 4¾ unemployed people for every vacancy reported to ABS – down from a peak of 8½ in May but above the decade average of 3.9

... 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



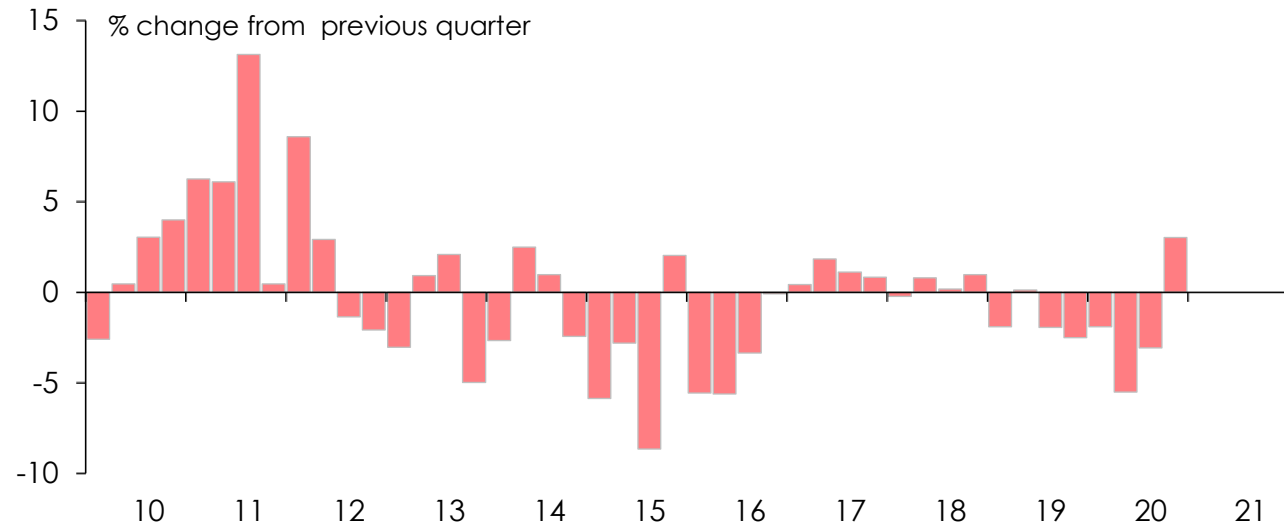
Time spent in workplaces, by State and Territory



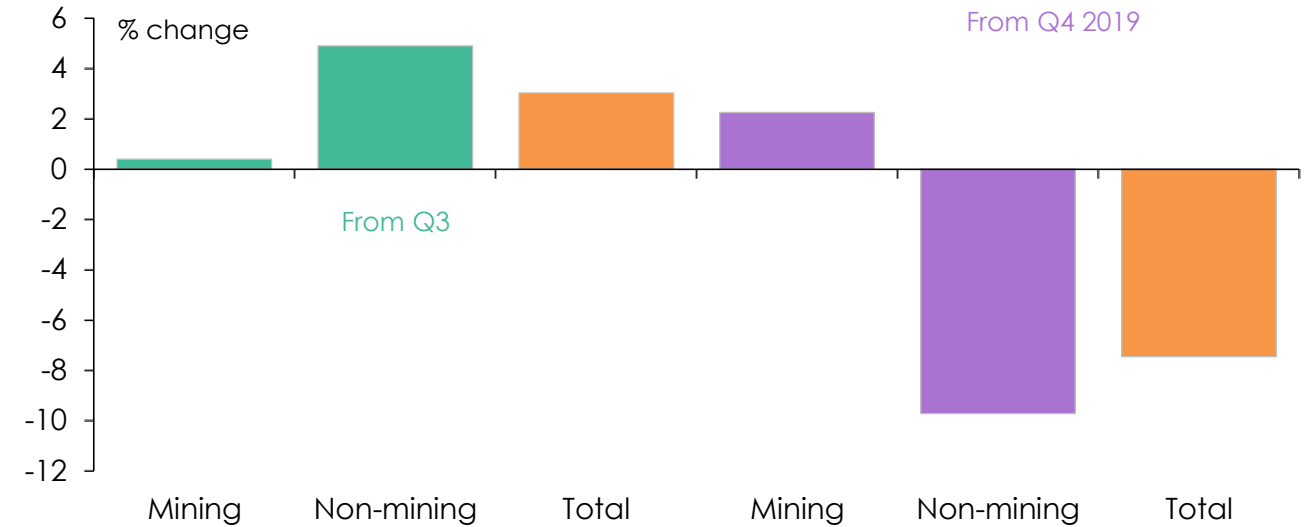
Note: these data will reflect normal seasonal variations in activities as well as the effects of government restrictions and individual responses to the risks posed by the virus. Sources: [Apple Mobility Trends Reports](#) (data up to 4th March); [Google Community Mobility Reports](#) (data up to 2nd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

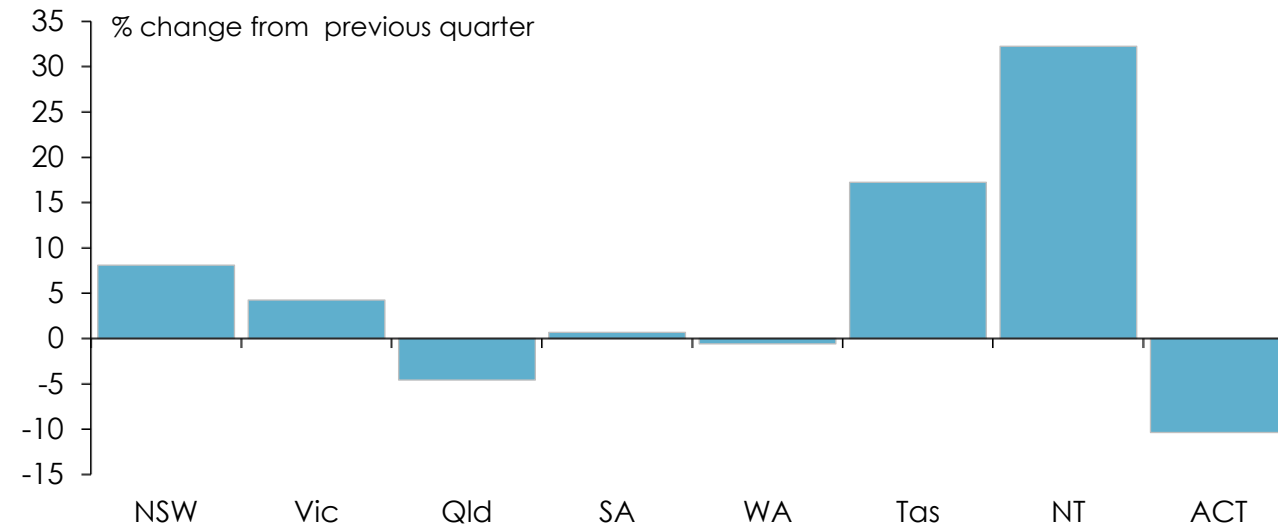
Real business new fixed capital expenditure



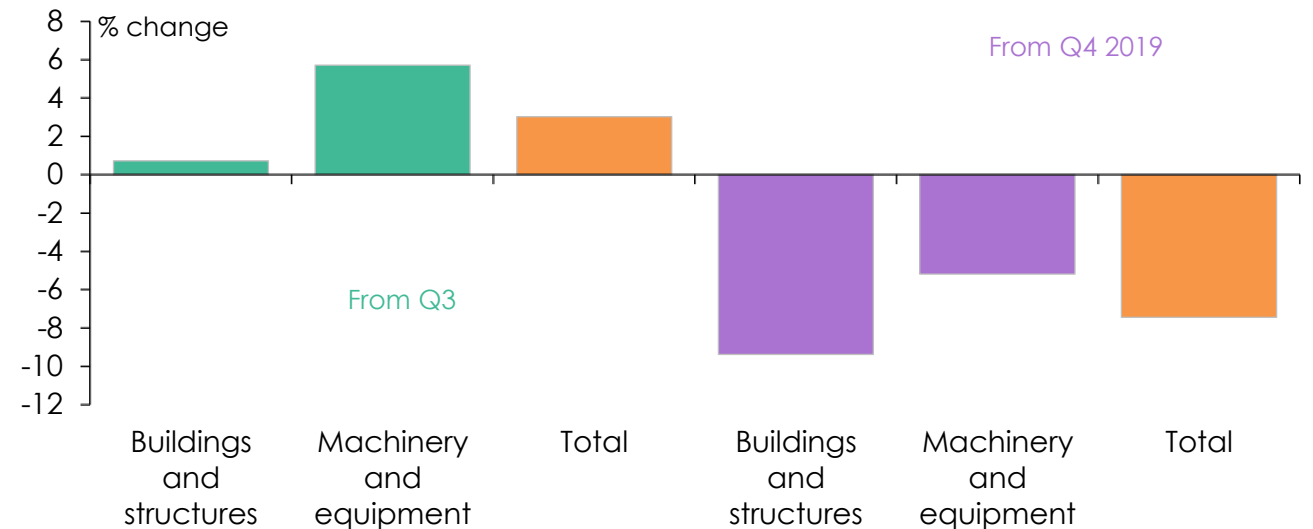
Real business new fixed capex, by industry, Q4



Real business new fixed capex, by state, Q4 2020



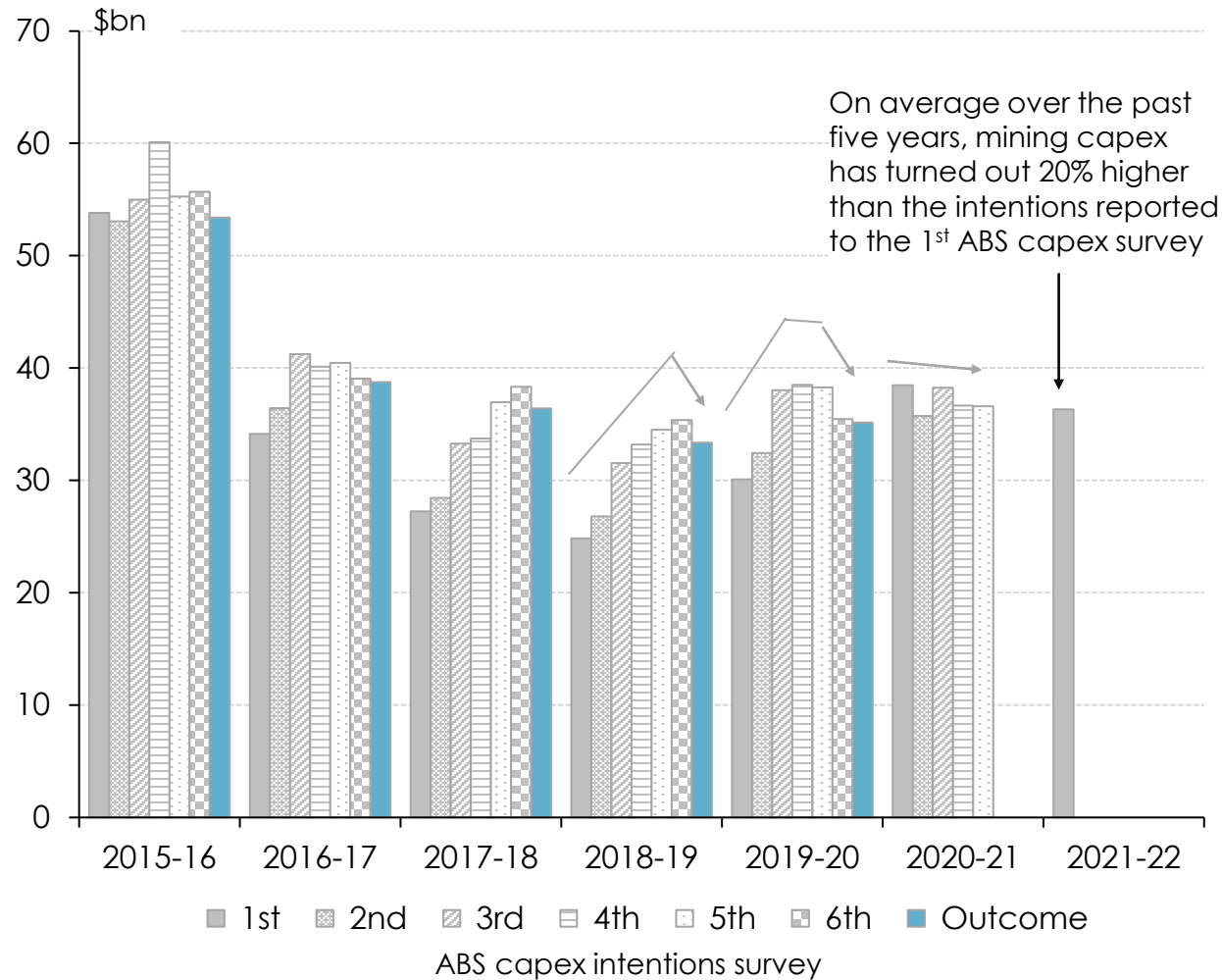
Real business new fixed capex, by asset, Q4



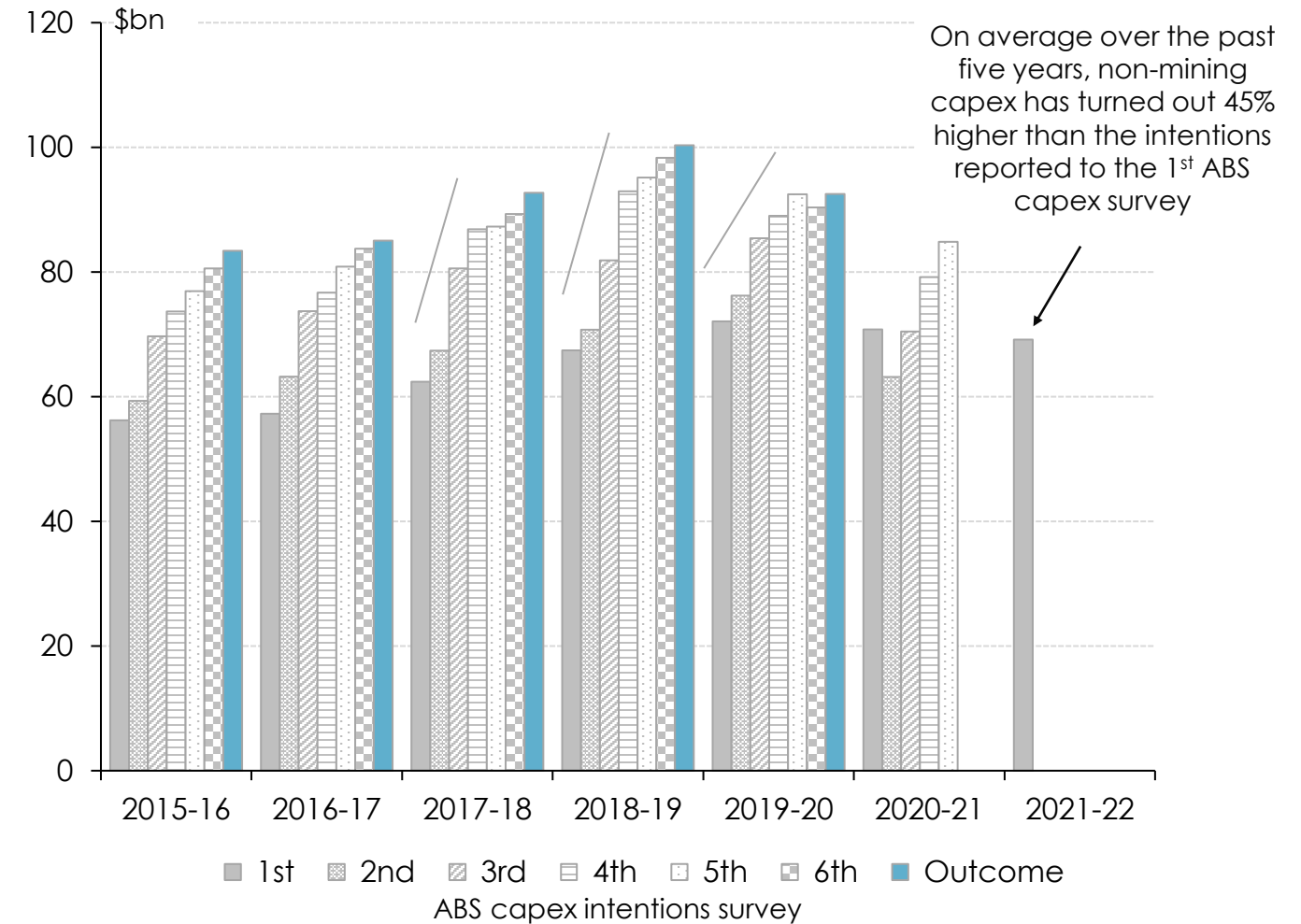
Note: the ABS Survey of New Capital Expenditure excludes the agriculture, forestry & fishing, and public administration & defence sectors, and superannuation funds.
 Source: ABS, [Private New Capital Expenditure and Expected Expenditure, Australia](#); March quarter data will be released on 27th May.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

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

Capital expenditure intentions - mining



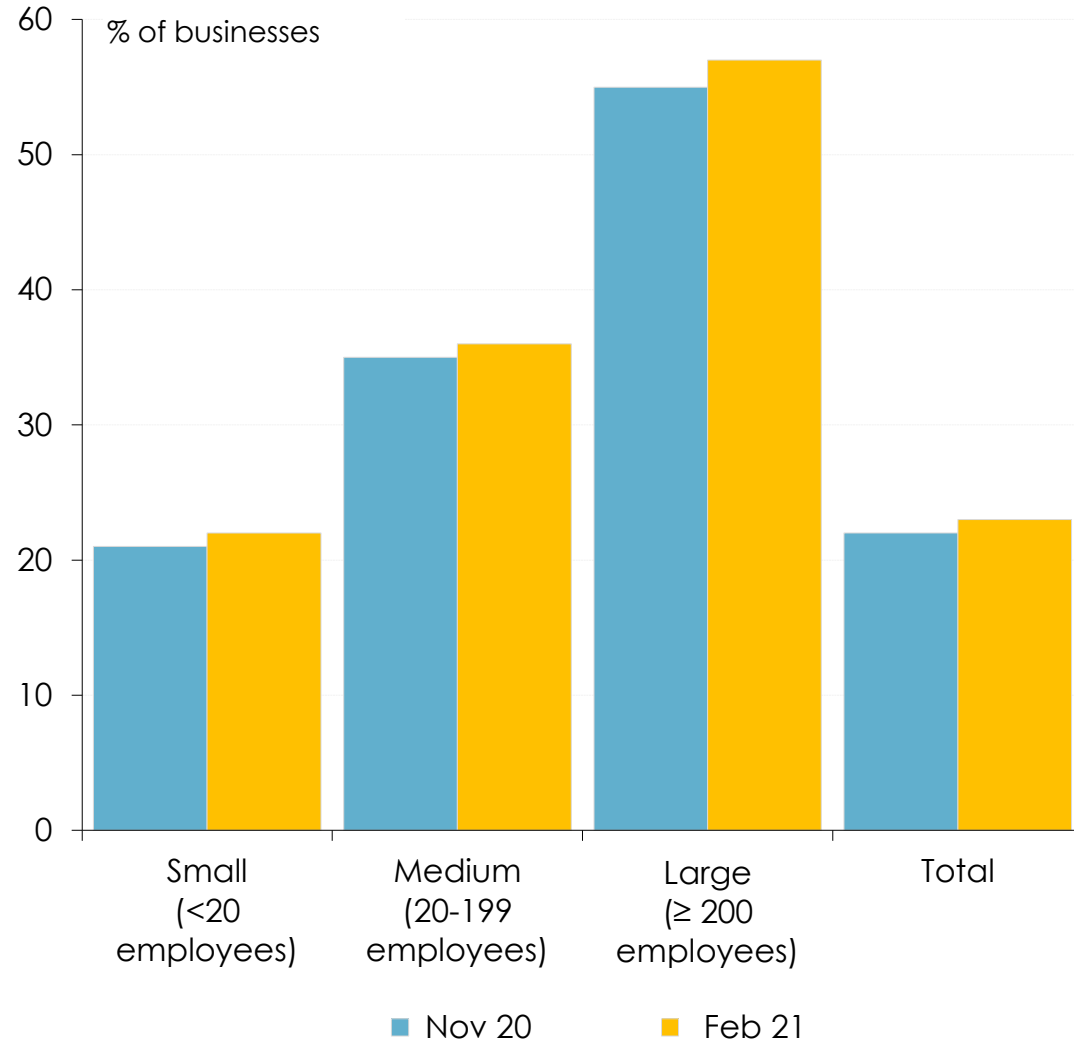
Capital expenditure intentions – non-mining



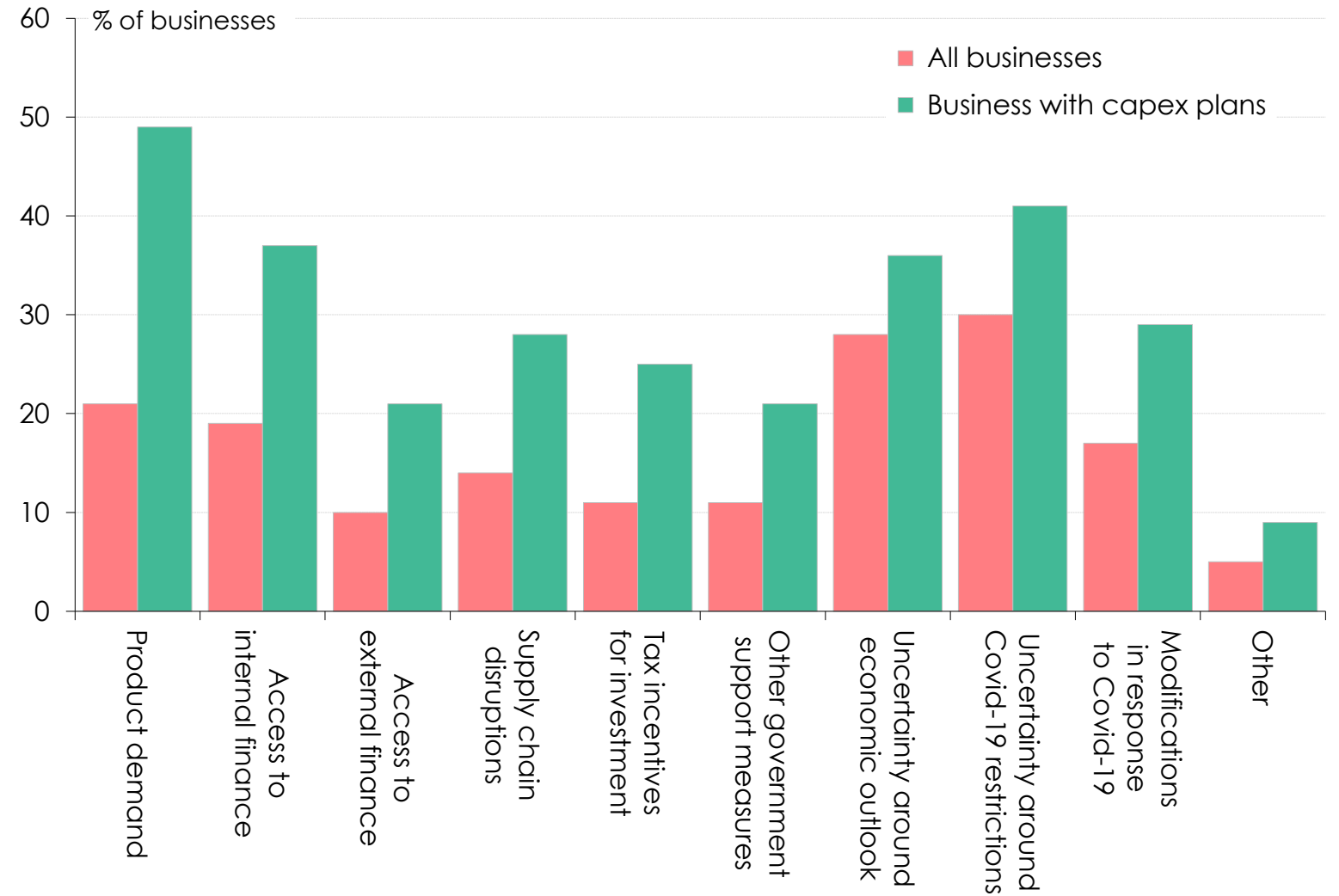
Note: The ABS conducts six surveys of business' capital expenditure intentions in respect of each financial year. The first is conducted in January & February prior to the commencement of the financial year, the second in May & June, the third in July & August of the financial year, the fourth in October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

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



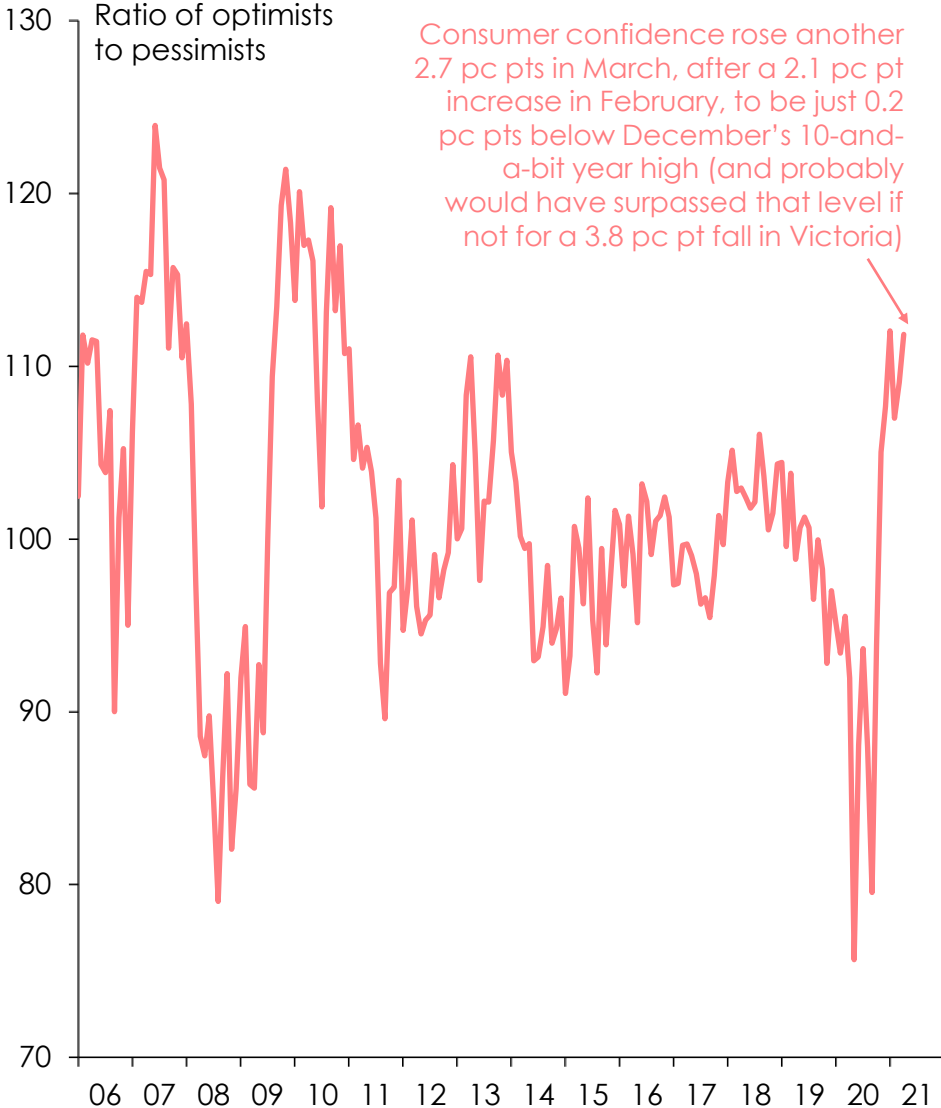
Factors affecting business capital expenditure decisions, February 2021



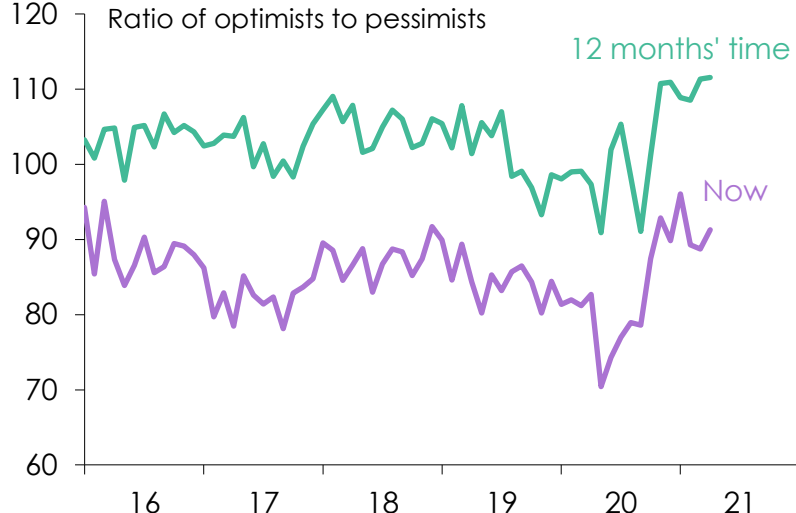
Source: ABS, [Business Conditions and Sentiments](#), February 2021. See [slide 86](#) for data on employee hiring intentions by business size. [Return to "What's New"](#).

Consumer confidence rose again March to its second highest level in just over 10 years

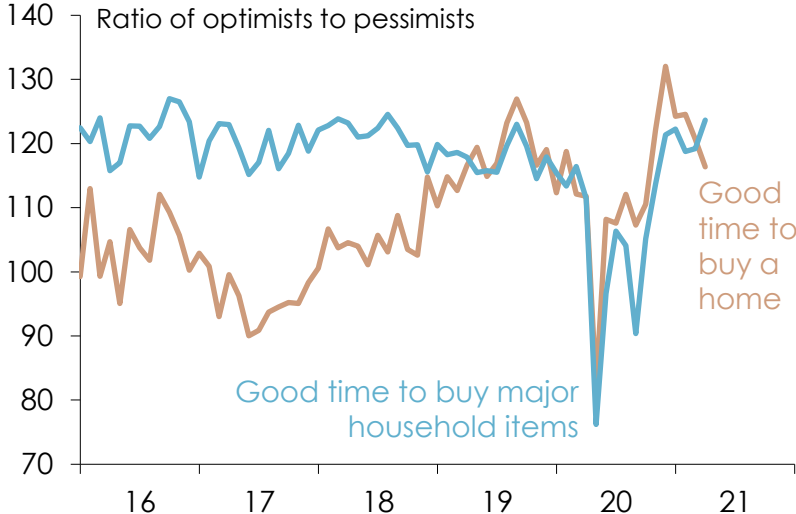
Consumer confidence index



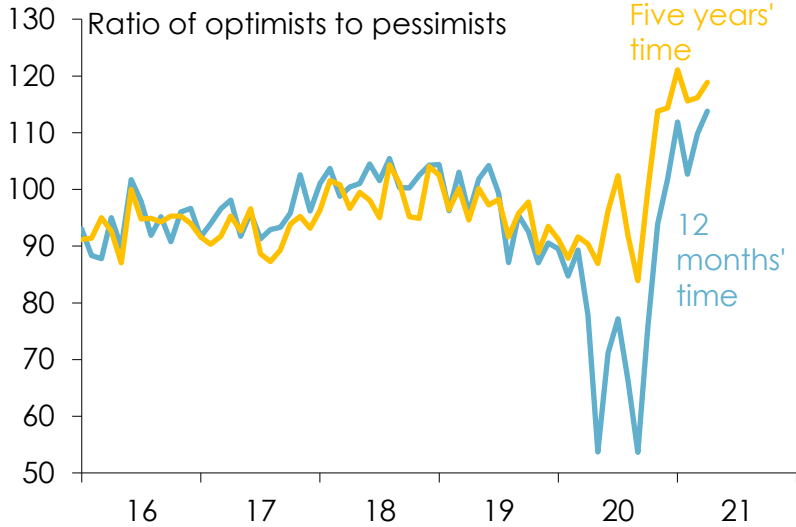
Household finances assessment



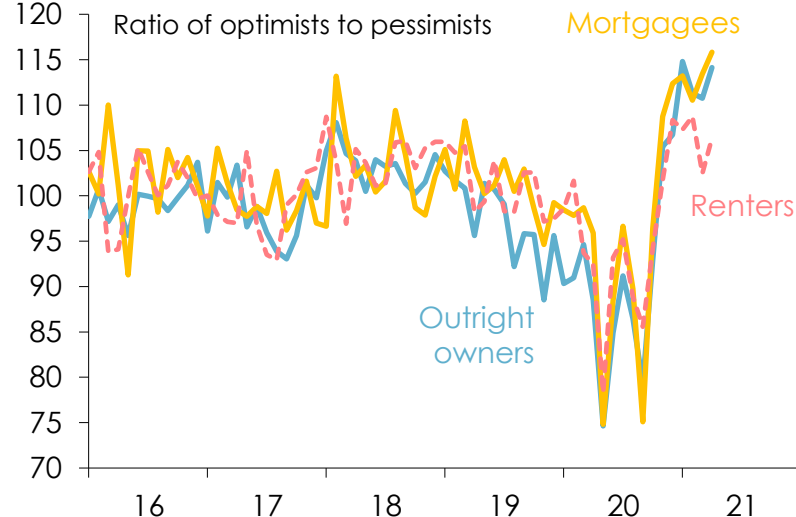
Buying conditions assessment



Economic conditions assessment

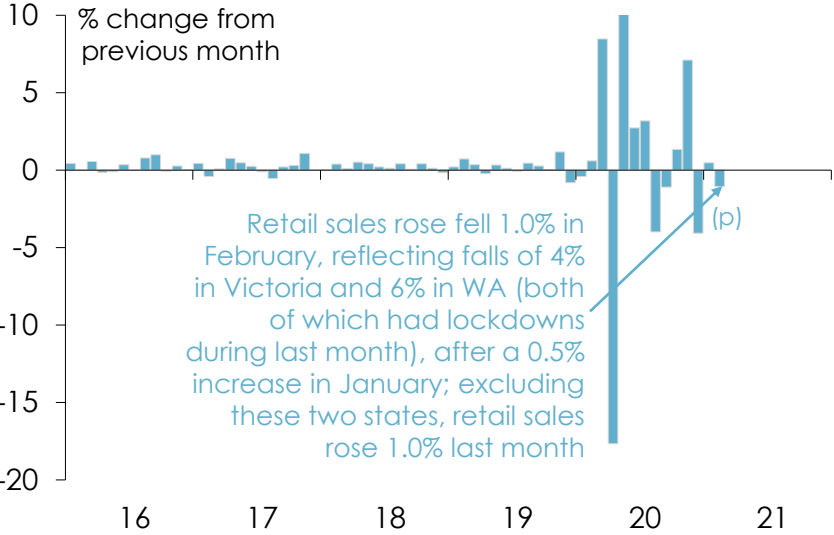


Confidence by housing tenure



Retail sales fell 1% in February (according to preliminary data) as a result of lockdowns in Victoria and WA during the month

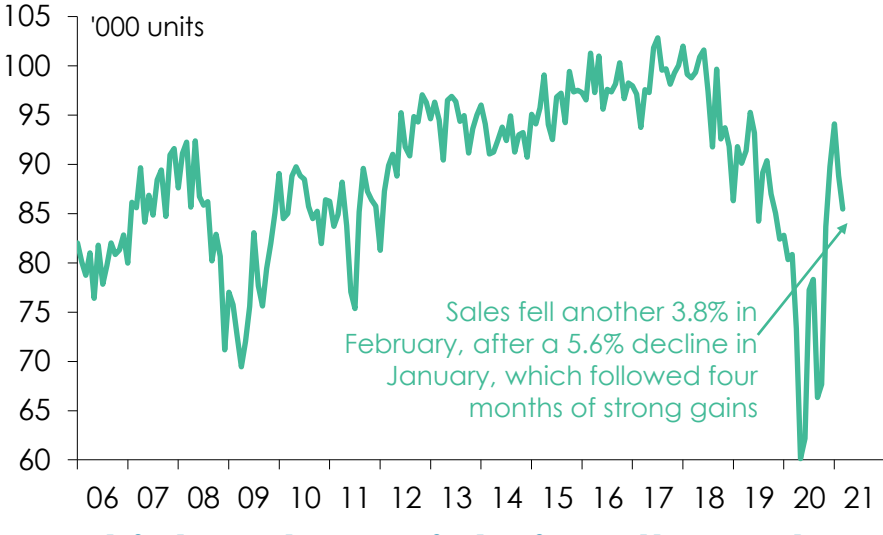
Monthly retail sales



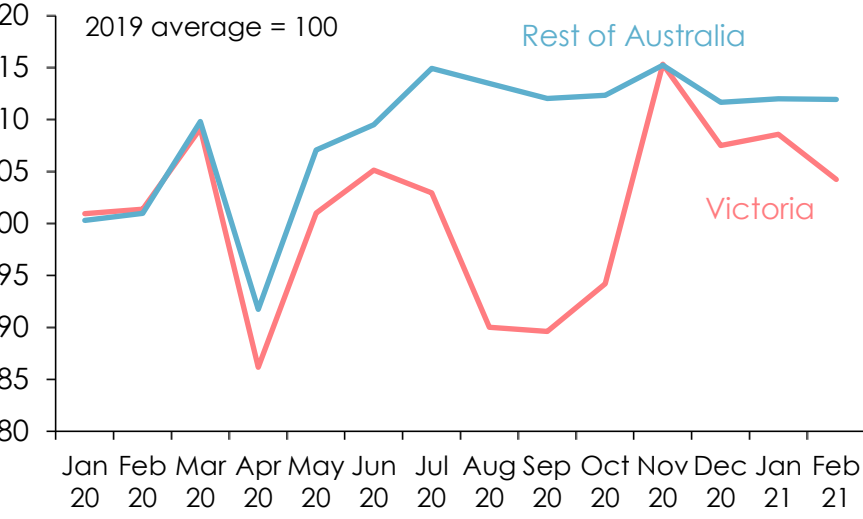
Level of retail sales



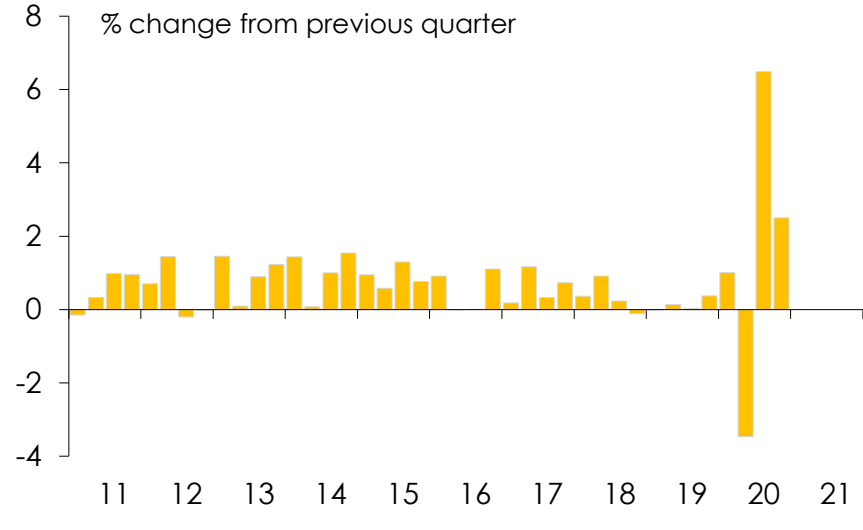
New motor vehicle sales



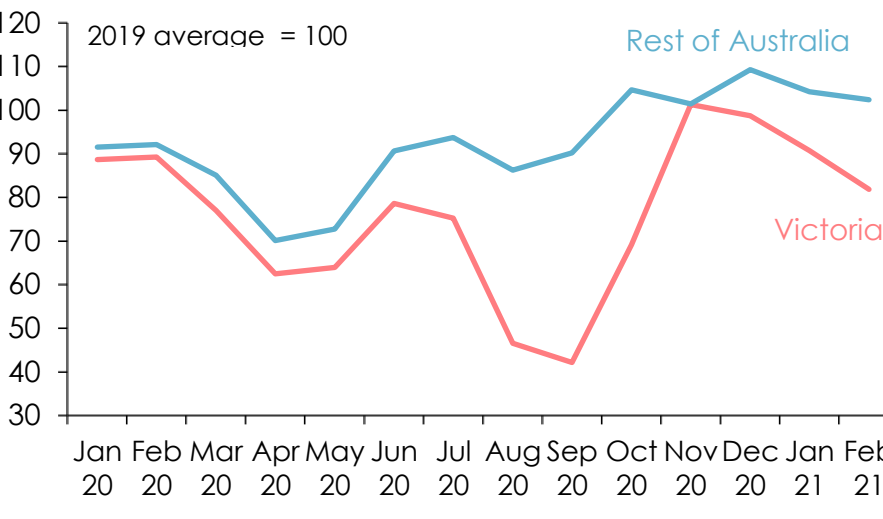
Retail sales – Victoria & the rest



Quarterly retail sales volumes



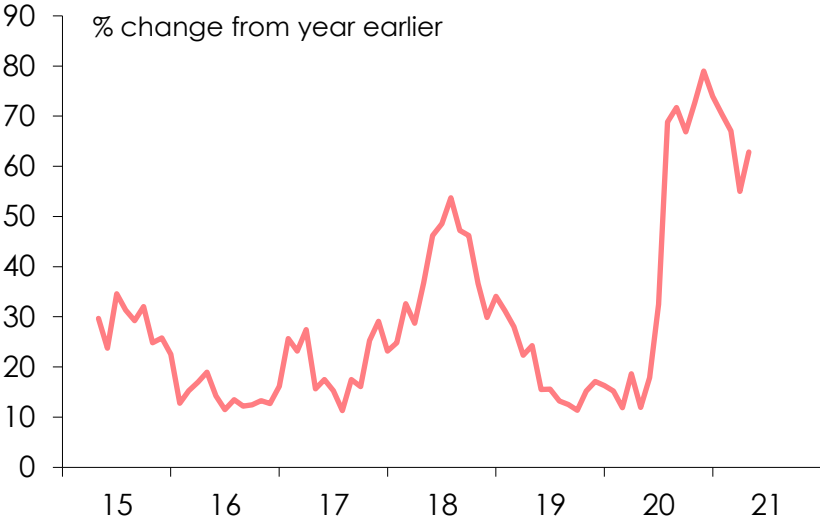
Vehicle sales – Victoria & the rest



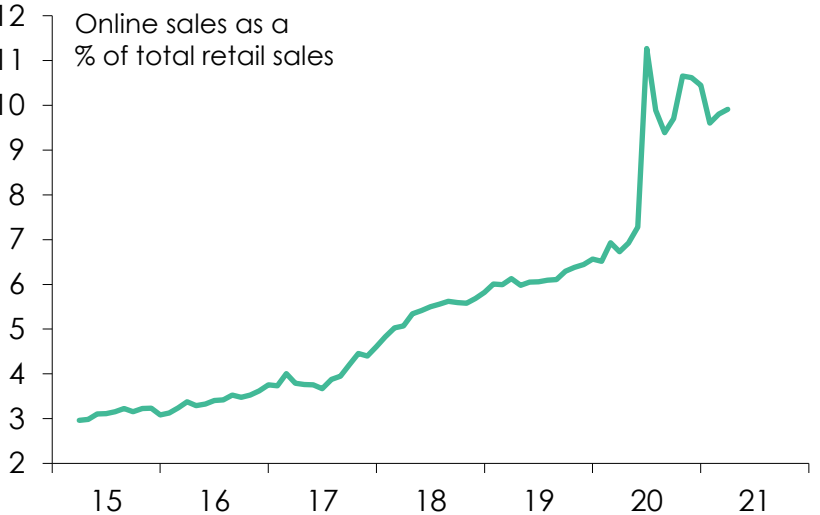
Sources: ABS, [Retail Trade, Australia](#); Federal Chamber of Automotive Industries [VFACTS](#) (seasonal adjustment of FCAI data by Corinna). Final February retail sales data will be released on 1st April; March motor vehicle sales data will be released in early April. [Return to "What's New"](#).

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

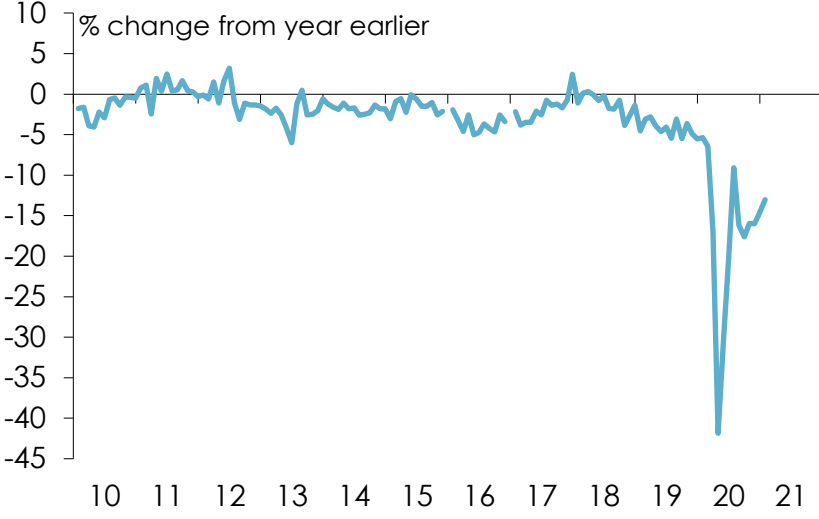
Growth in online retail sales



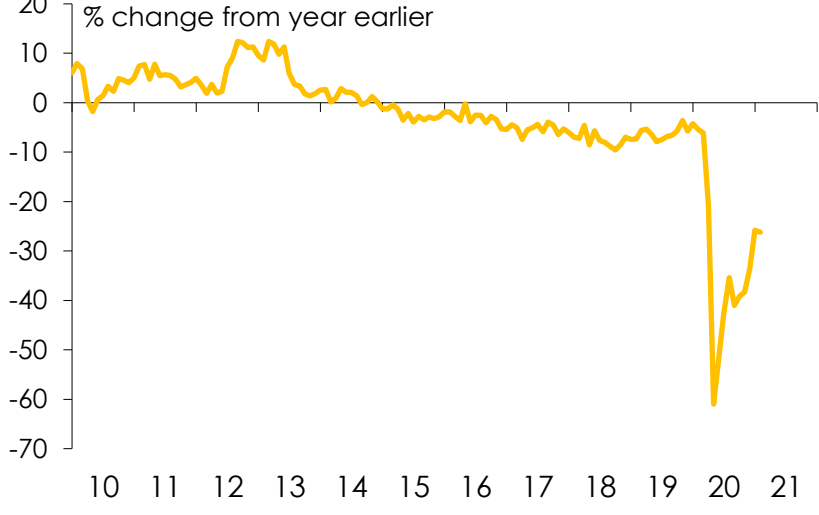
Online retail 'market share'



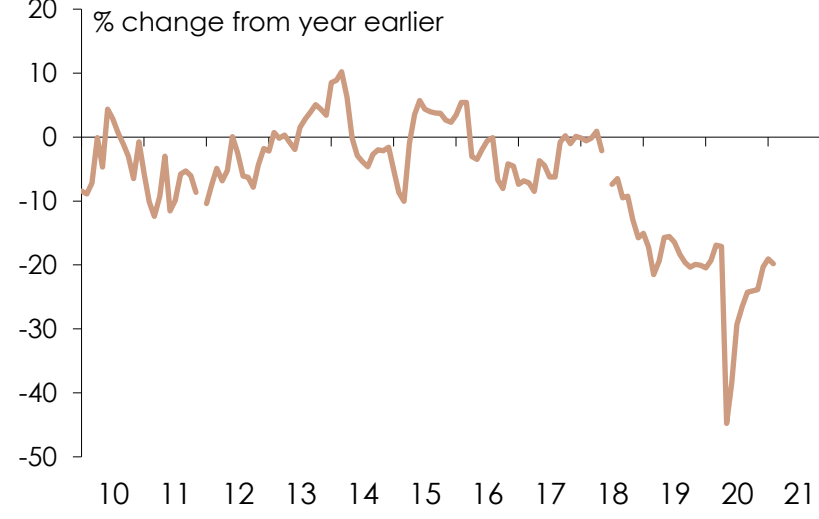
ATM cash withdrawals



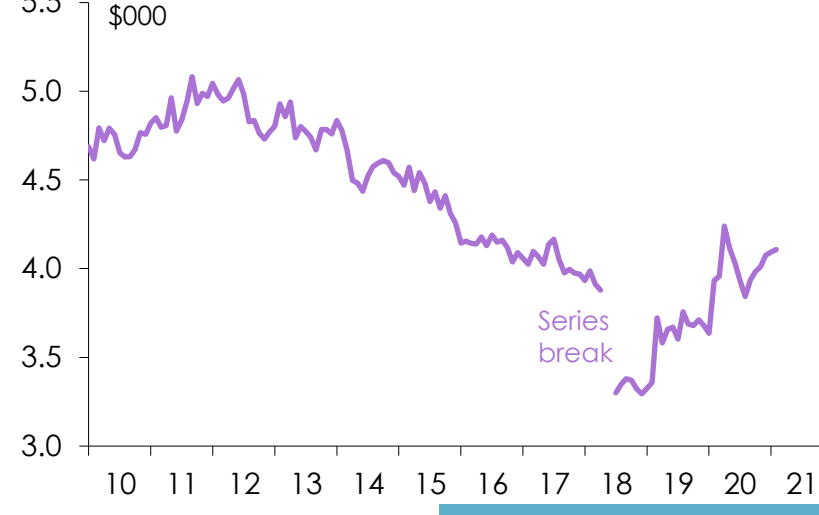
Debit card cash-outs



Credit card cash advances



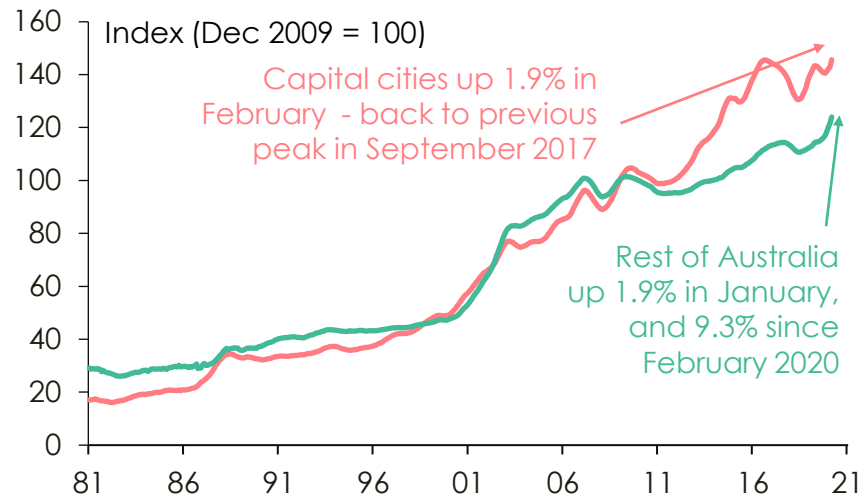
Direct entry payments



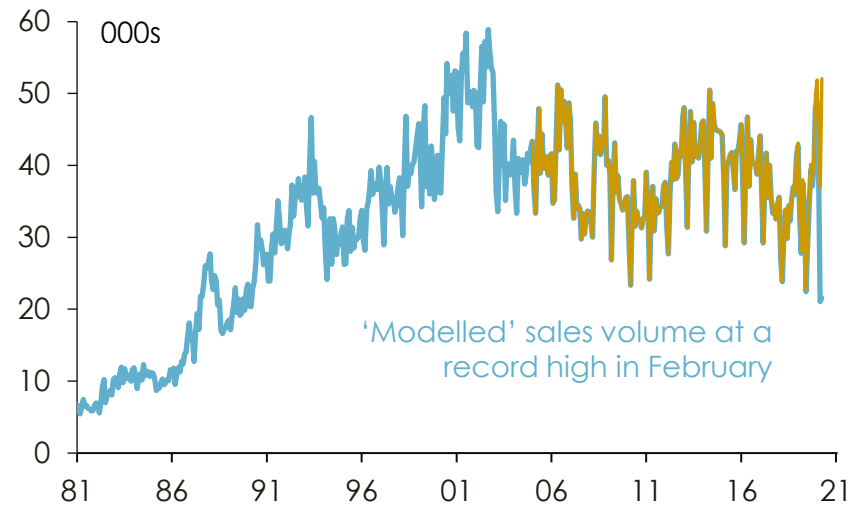
Sources: ABS, [Retail Trade, Australia](#); RBA, [Statistical Tables](#), C1, C2, C4 and C6. Latest data are for January: February data on on-line retail sales will be published on 1st April, and on the payments system will be published on 7th April.

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

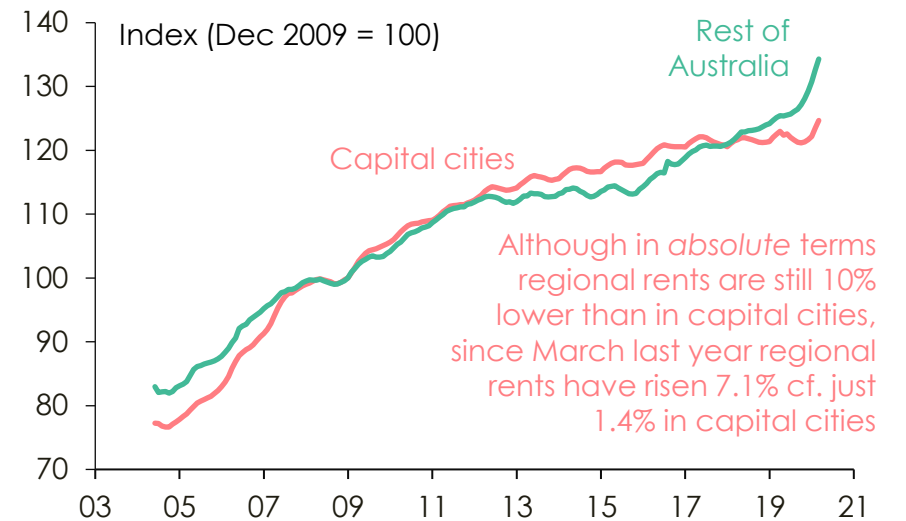
Residential property prices



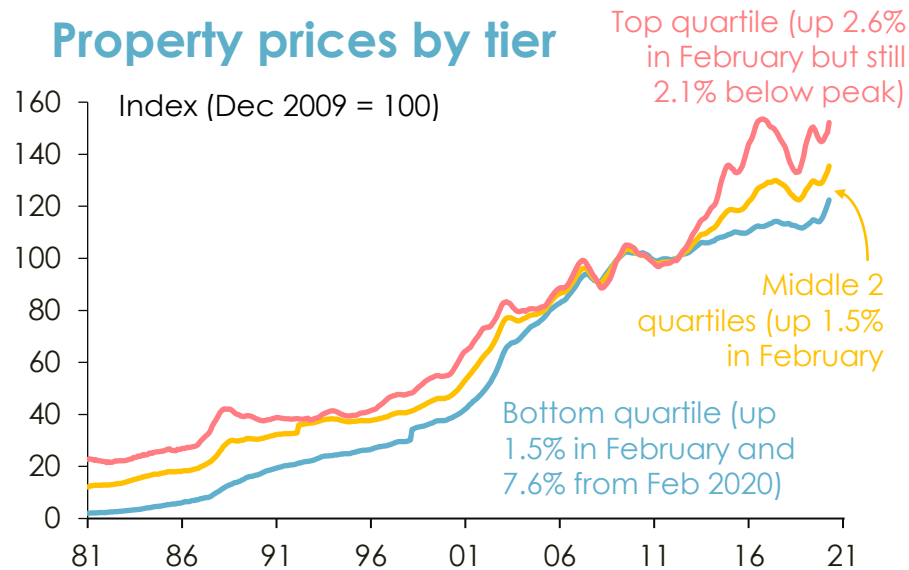
Residential property sales volumes



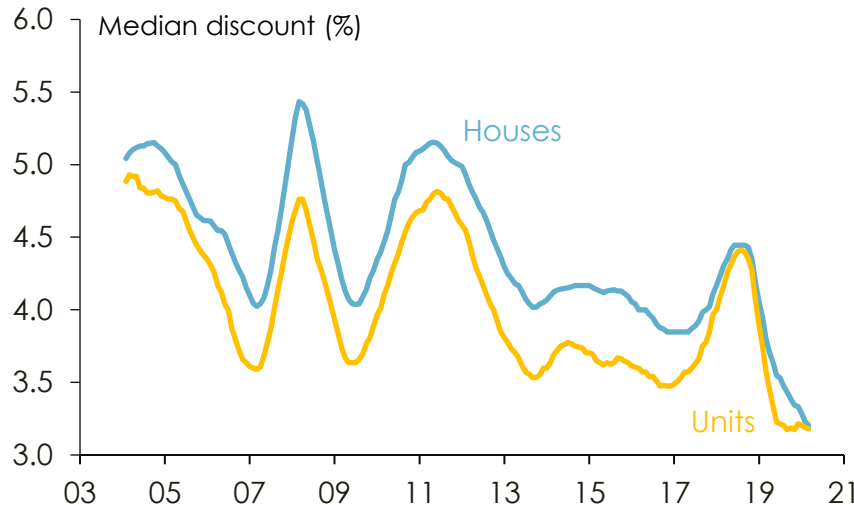
Residential rents



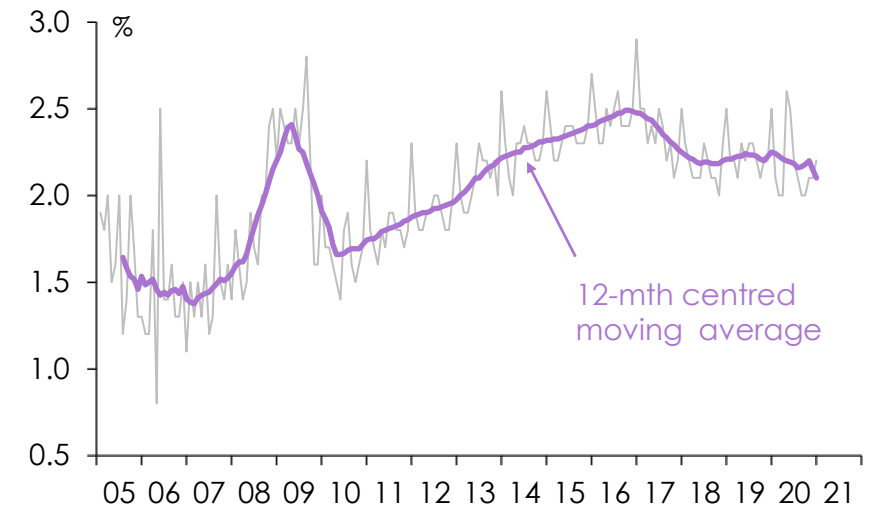
Property prices by tier



Vendor discounting



Capital city rental vacancy rates

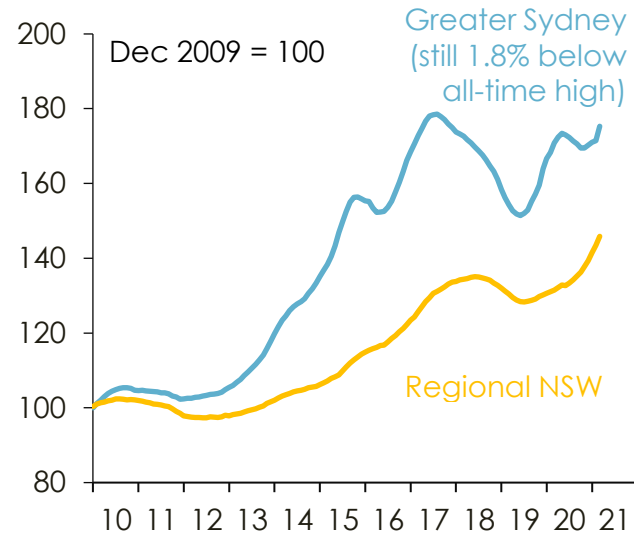


Note: The index of property prices measures the 'organic' change in underlying sales values by using a hedonic regression methodology that takes account of changes in the characteristics of properties being sold from month to month. Property price data are now seasonally adjusted. The index of residential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

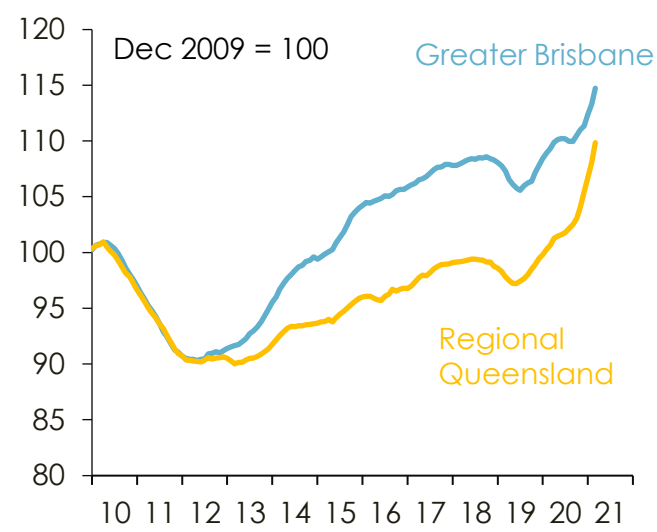
Sources: [CoreLogic](#); [SQM Research](#). [Return to "What's New"](#).

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

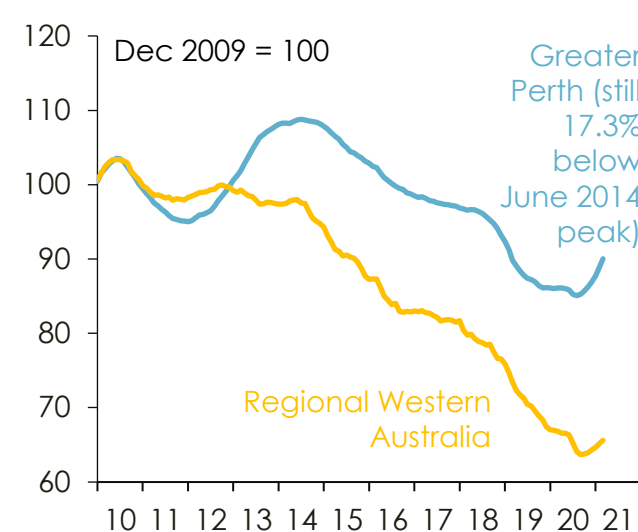
New South Wales



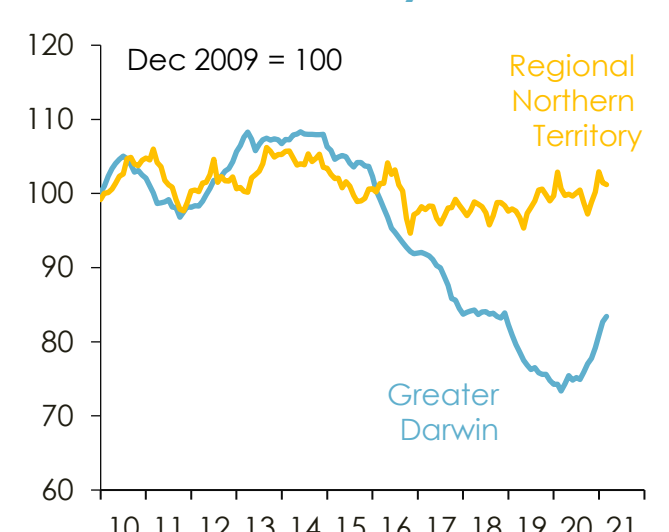
Queensland



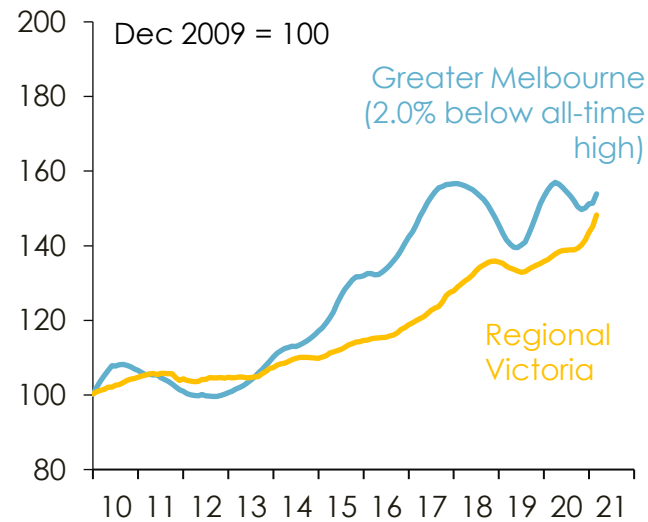
Western Australia



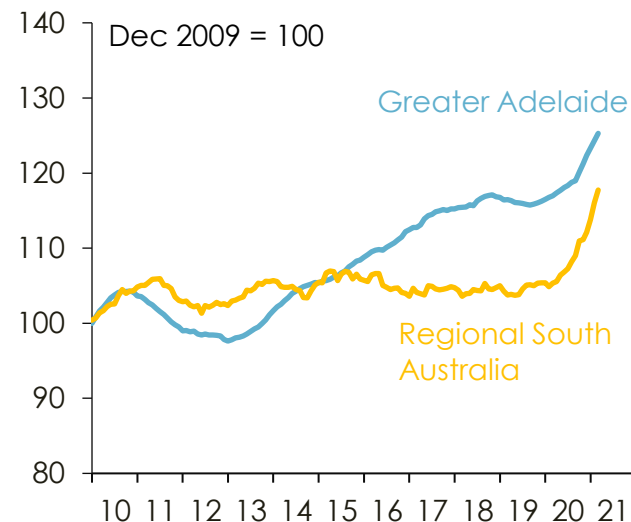
Northern Territory



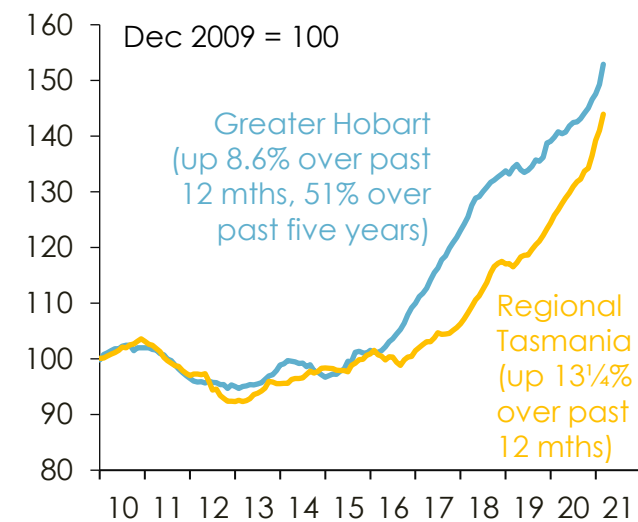
Victoria



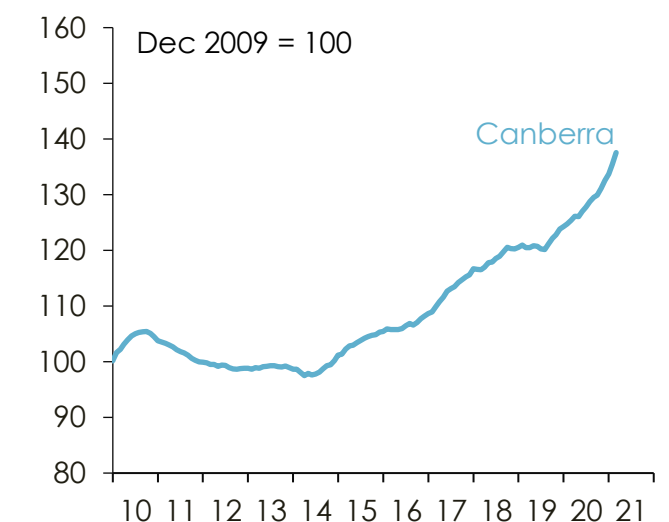
South Australia



Tasmania



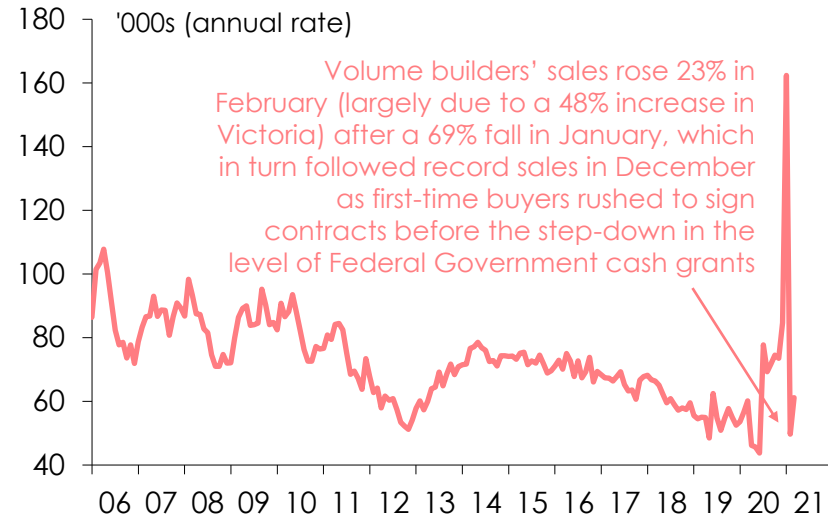
Australian Capital Territory



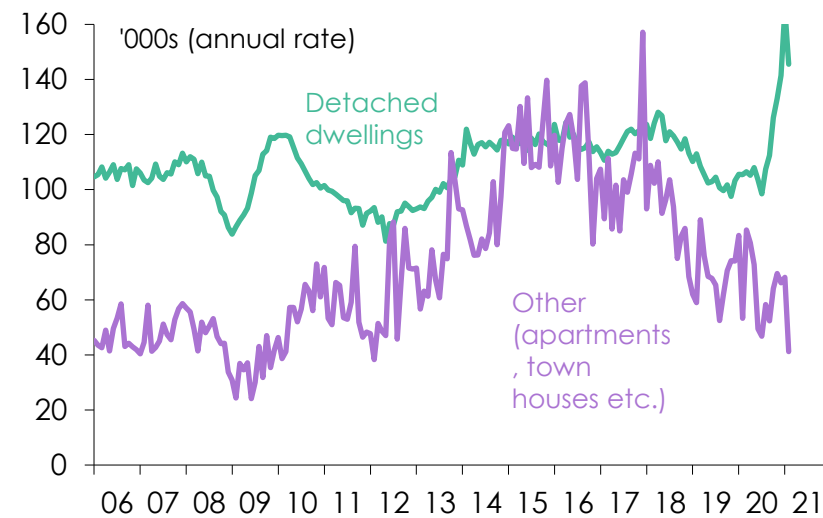
Note: The index of property prices measures the 'organic' change in underlying sales values by using a hedonic regression methodology that takes account of changes in the characteristics of properties being sold from month to month. Property price data are now seasonally adjusted. Latest data are for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

Demand for new housing was 'pulled forward' into 2020 by government grant programs but there will be a big pick up in work done in 2021

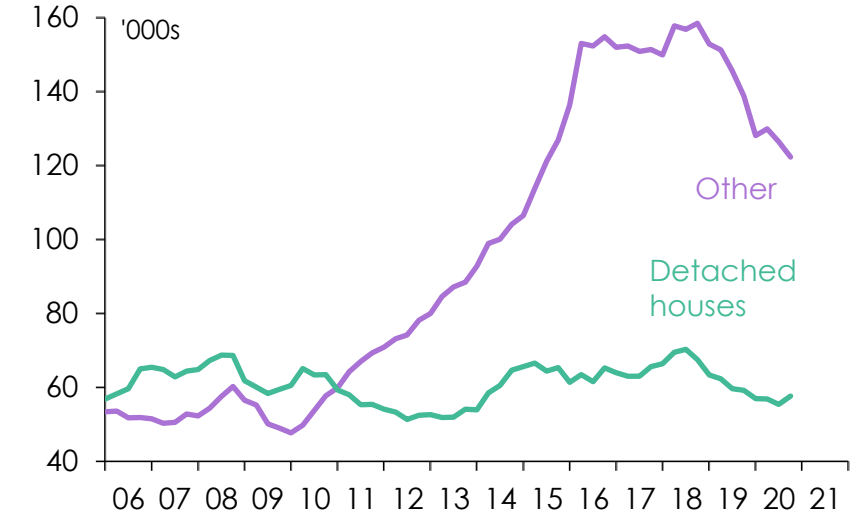
Large builders' new home sales



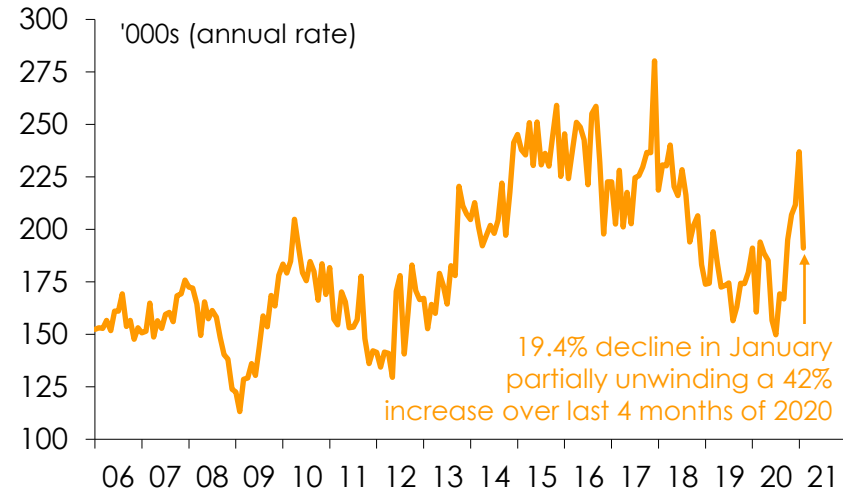
Building approvals, by type



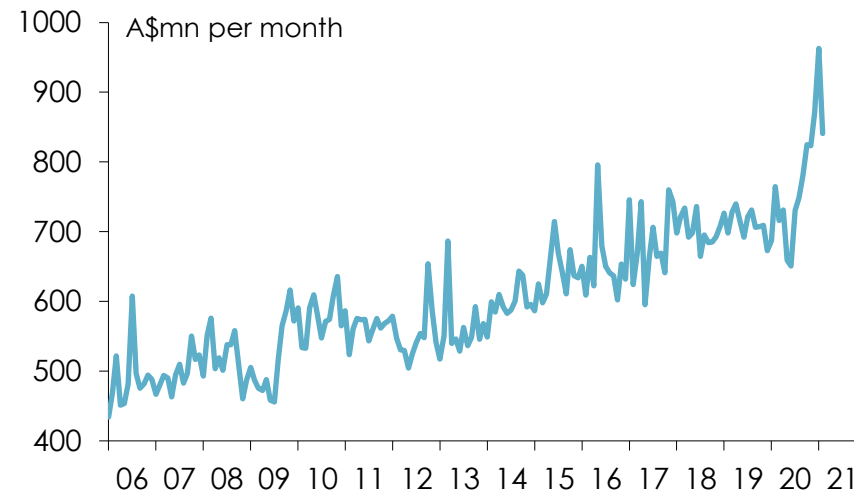
Dwellings under construction



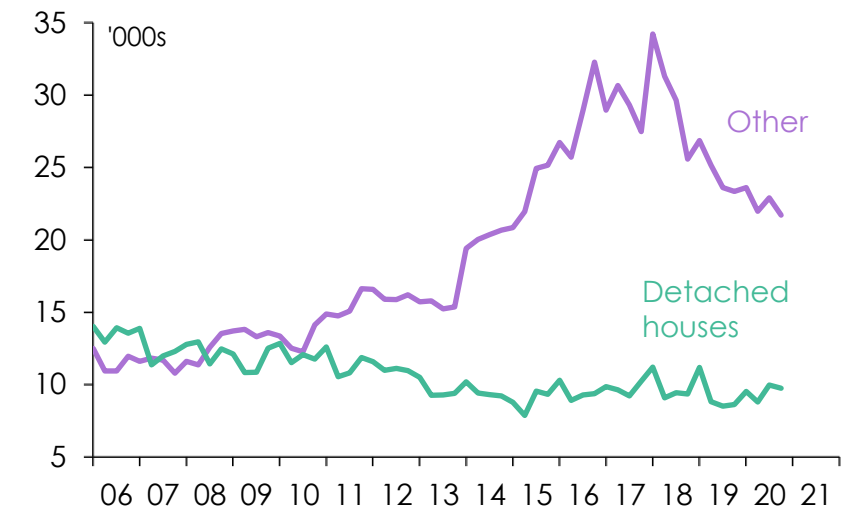
Residential building approvals



Alterations & additions approved



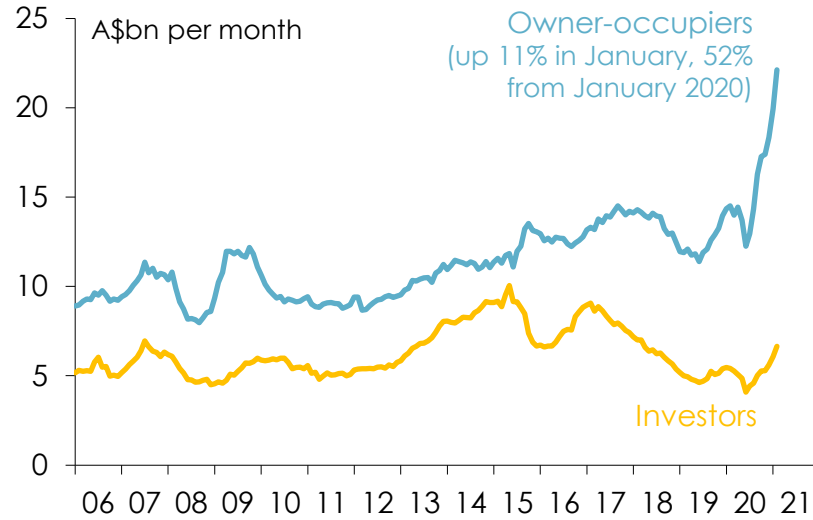
'Pipeline' of work yet to be started



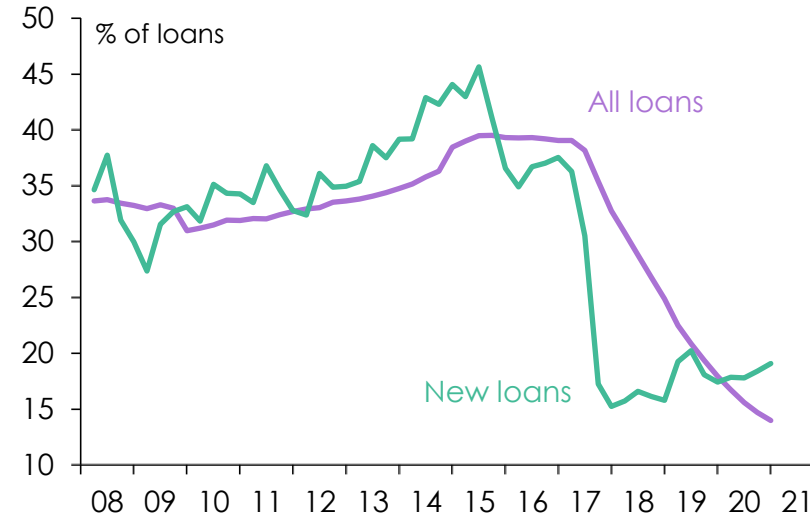
Note: 'New home sales' are of detached dwellings only and exclude small-scale builders. Sources: ABS; Housing Industry Association. February building approvals data will be released on 31st March; December quarter dwellings under construction and 'pipeline' data on 14th April. [Return to "What's New"](#).

Mortgage lending to first home-buyers has risen strongly (aided by grants) but there's also been a big increase in high-LVR lending

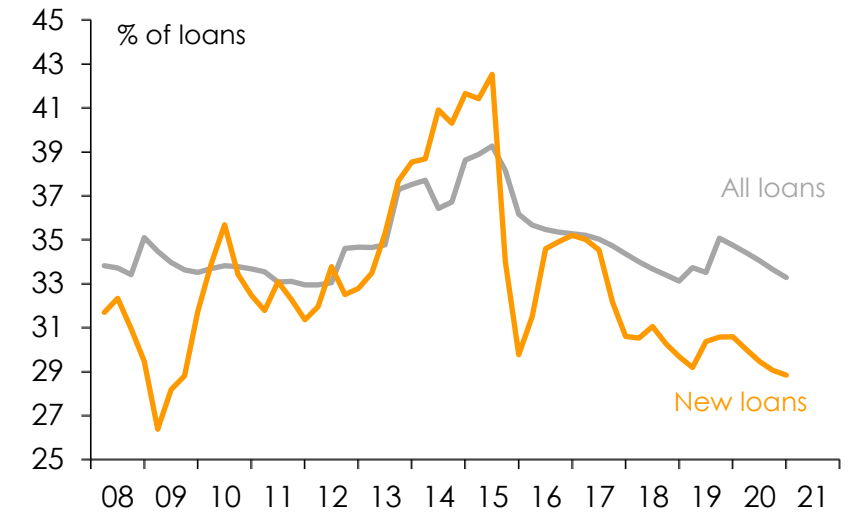
Housing finance commitments



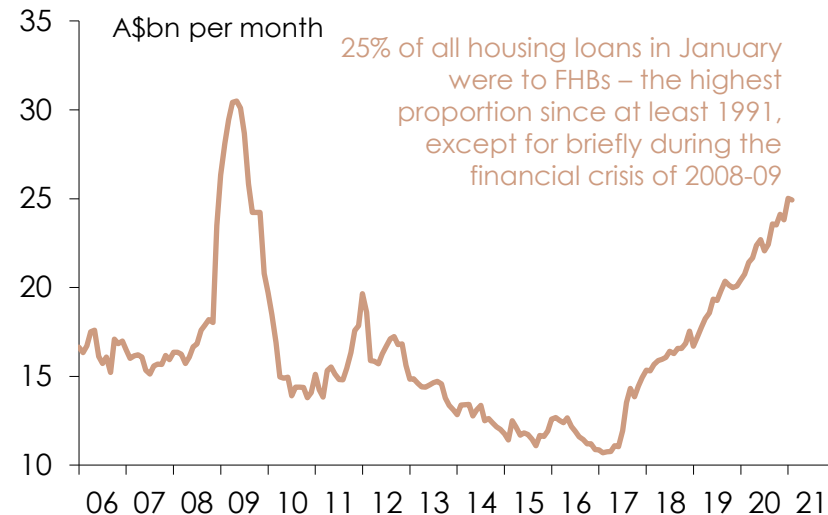
Interest-only loans as pc of total



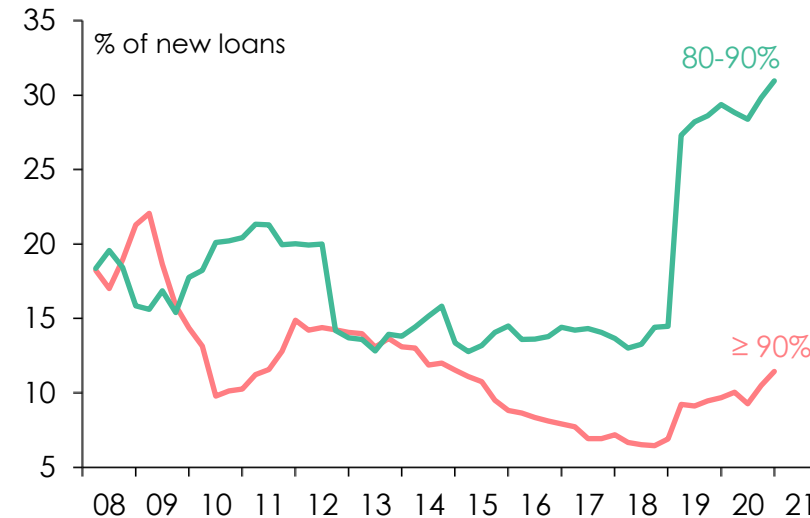
Loans to investors as a pc of total



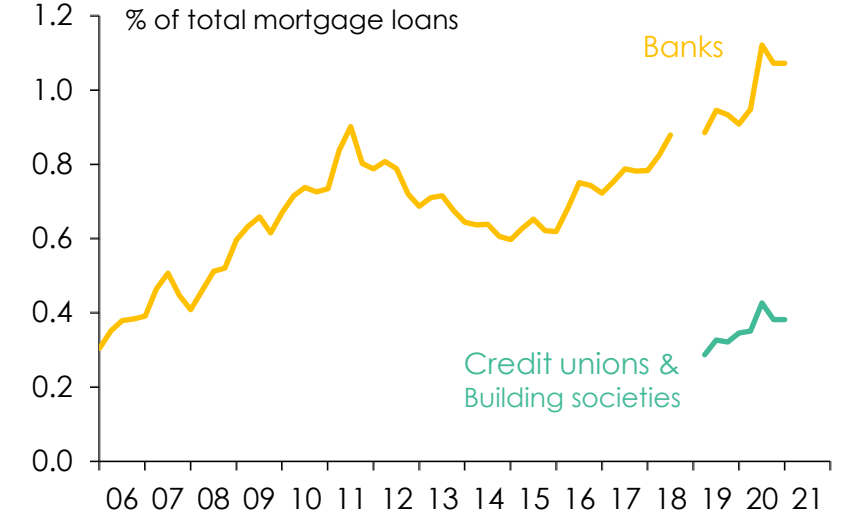
Lending to first home buyers



High LVR loans as a pc of total



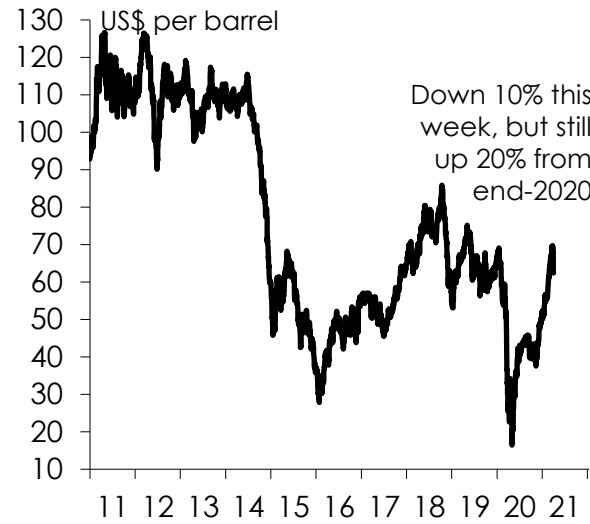
Non-performing mortgage loans



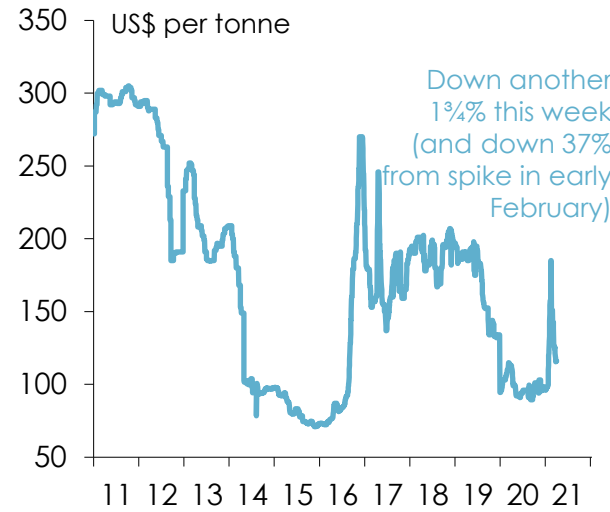
Sources: ABS; Australian Prudential Regulation Authority (APRA), [Quarterly authorised deposit-taking institution statistics](#). February housing finance data will be released on 1st April; APRA data on ADI property exposures for the March quarter will be released in mid-June. [Return to "What's New"](#).

Oil prices fell 10% this week on concerns about both demand and supply, while iron ore fell 6% and met coal another 1³/₄%

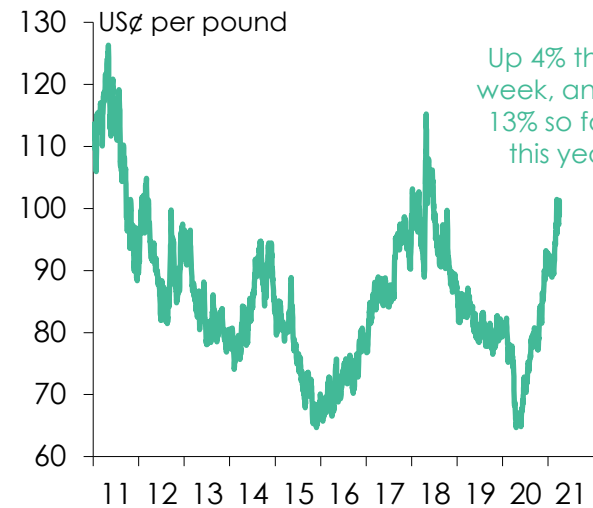
Brent crude oil



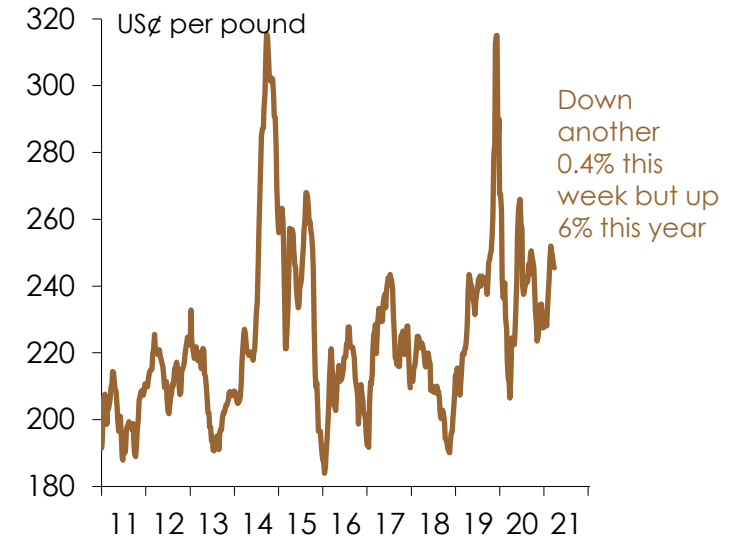
Metallurgical coal



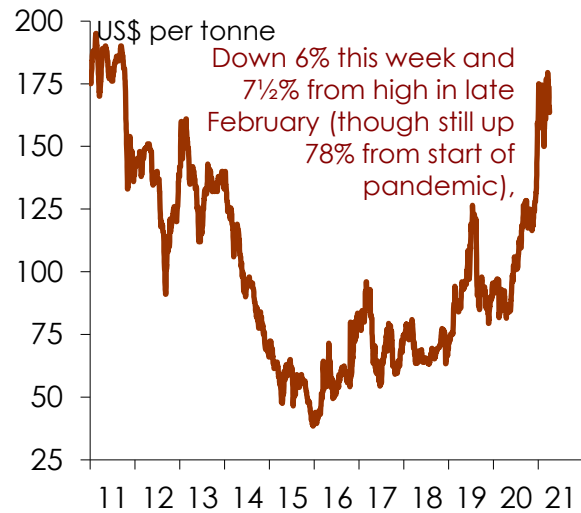
Aluminium



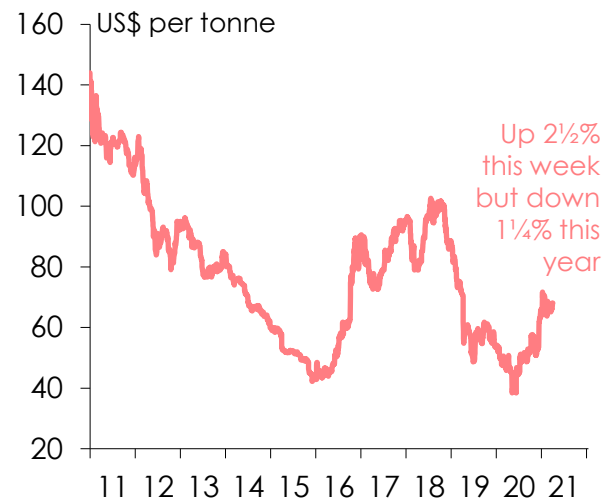
Beef



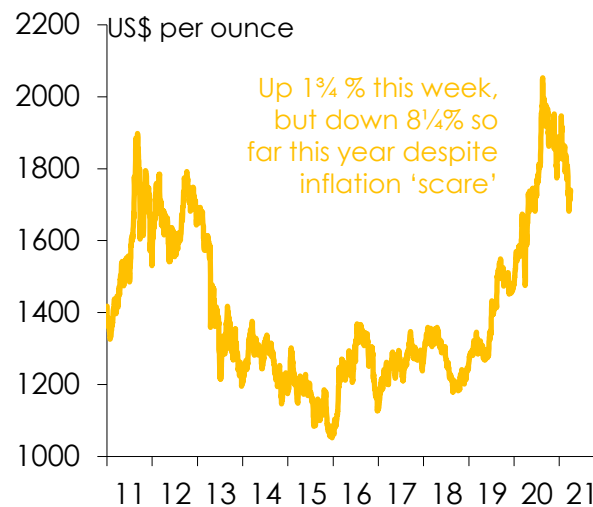
Iron ore



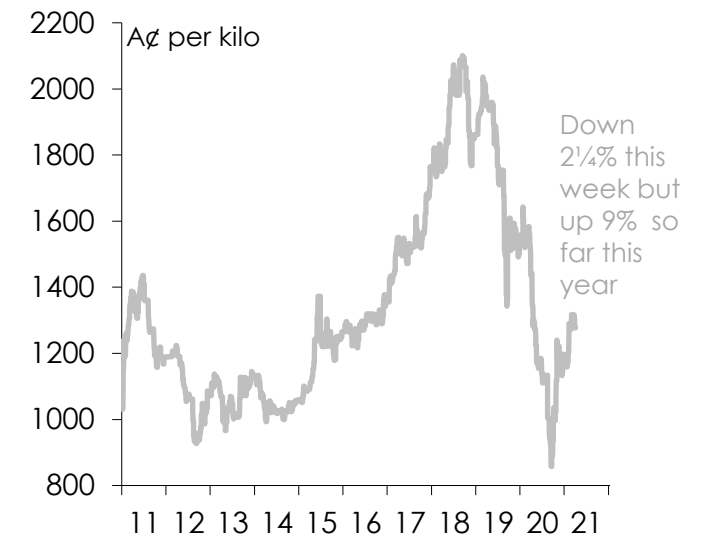
Thermal coal



Gold



Wool

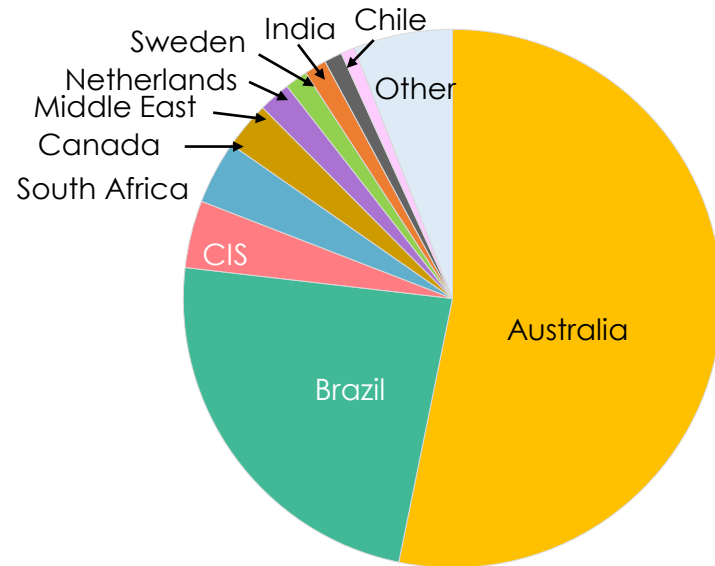


Sources: Refintiv Datastream; Meat & Livestock Australia; Australian Wool Innovation. See [next slide](#) for more on iron ore prices. Data up to 19th March.

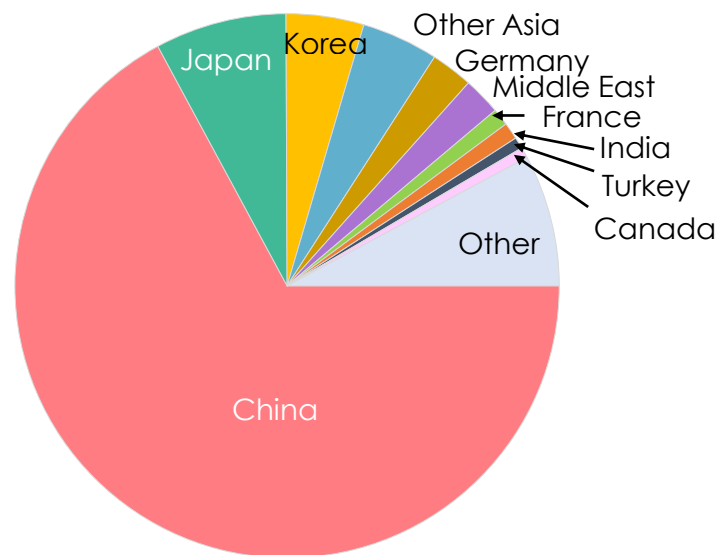
[Return to "What's New"](#).

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

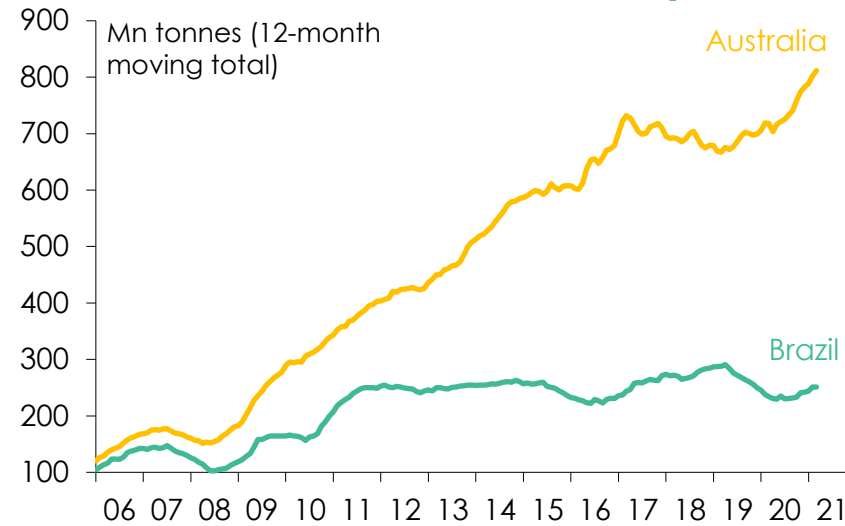
Iron ore exports, 2018



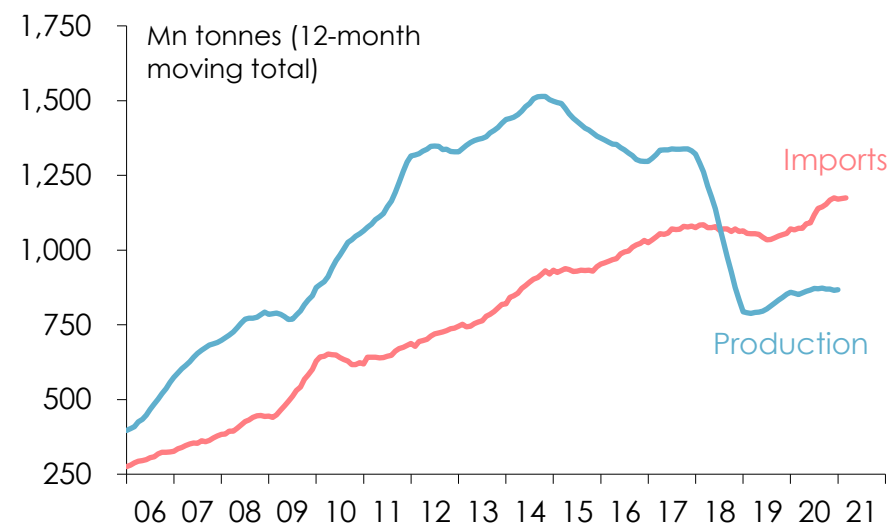
Iron ore imports, 2018



Australia & Brazil iron ore exports



China iron ore production & imports

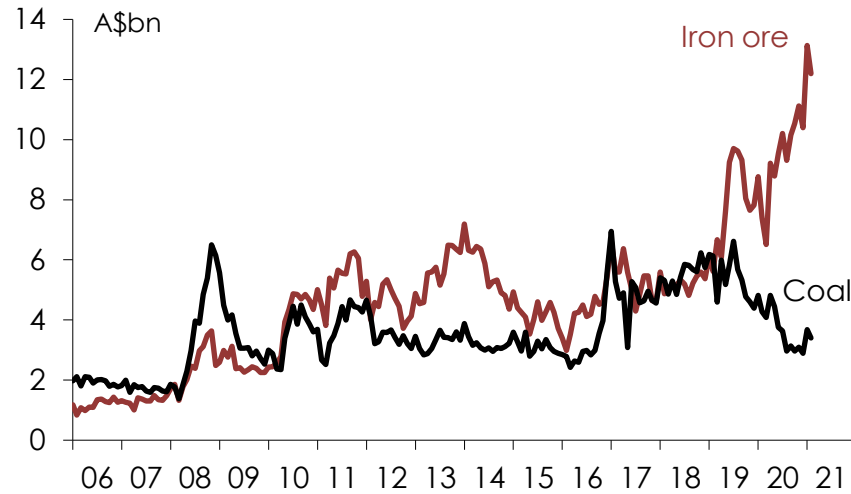


- ❑ The global iron ore trade is dominated by shipments from Australia & Brazil to China (which accounts for 53% of global steel production and 51% of steel use) – no other exporter has more than 4% of the global seaborne trade
- ❑ Chinese iron ore production has fallen by more than 34% since 2017, largely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

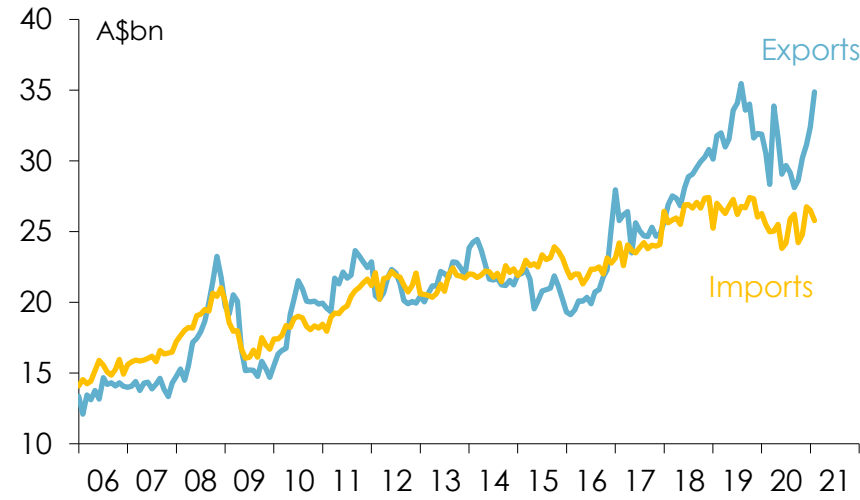
Note: Export volume data for Australia and Brazil derived by dividing export values (in US\$) from ABS and IGBE by the average US\$ price of Chinese iron ore imports.
Sources: World Steel Association; China National Bureau of Statistics; China General Administration of Customs; Refinitiv Datastream;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

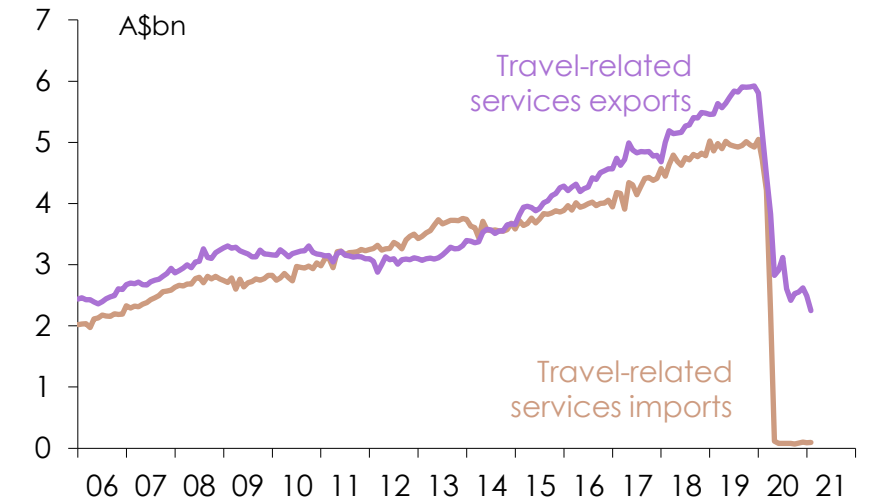
Iron ore and coal exports



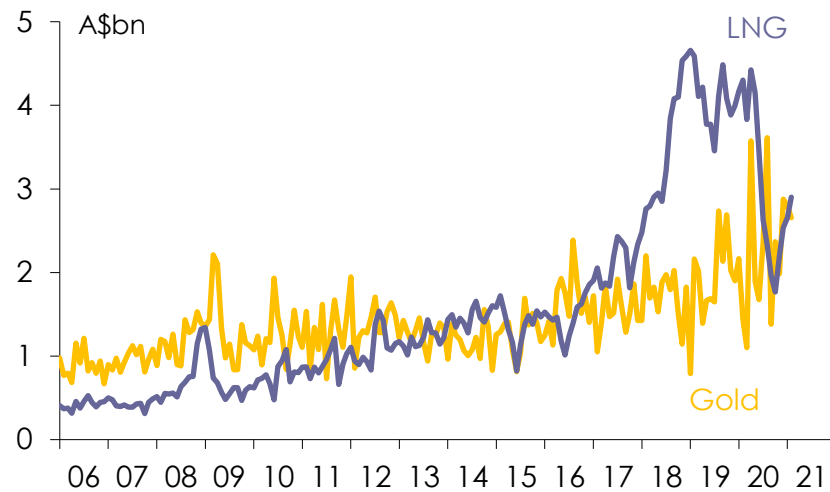
Merchandise exports and imports



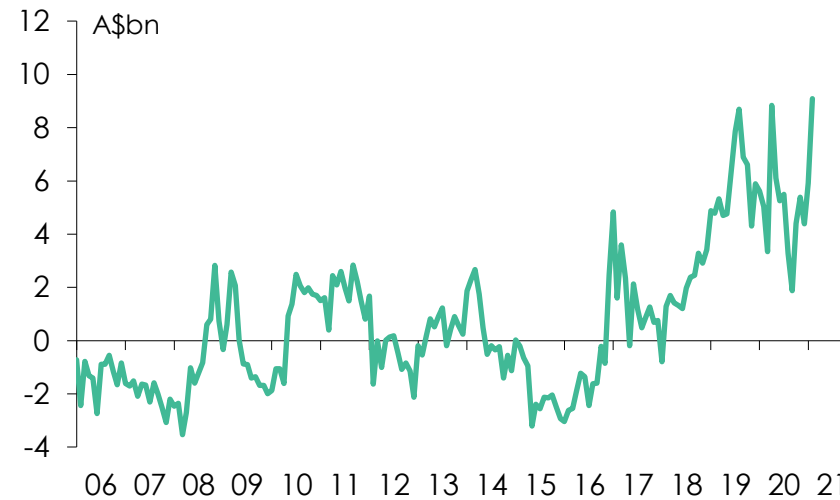
Tourism-related services trade



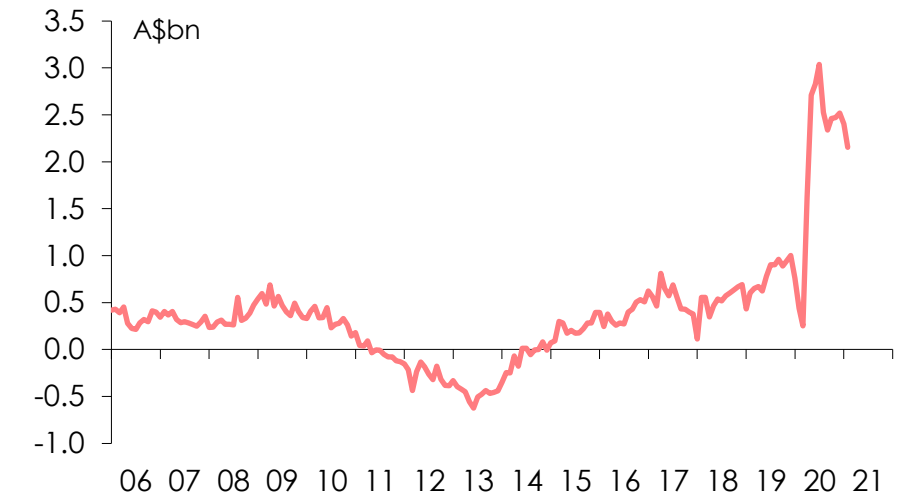
LNG and gold exports



Merchandise trade balance



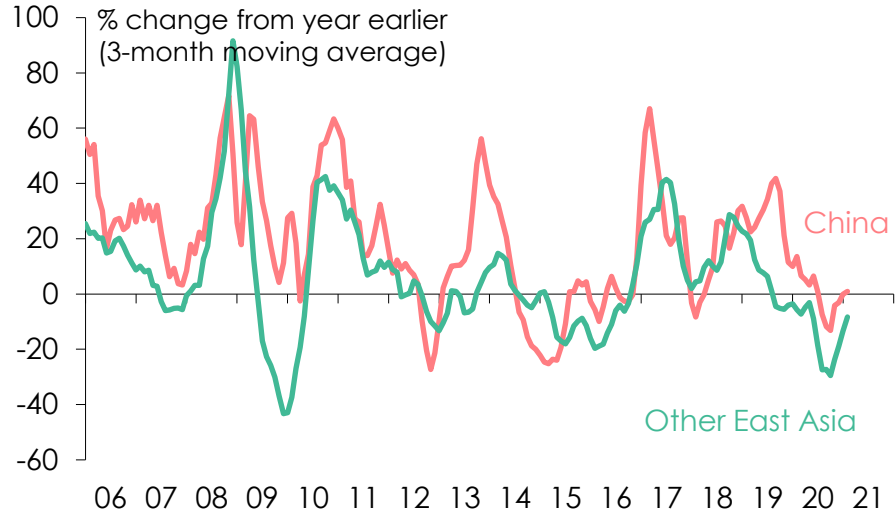
Tourism services trade balance



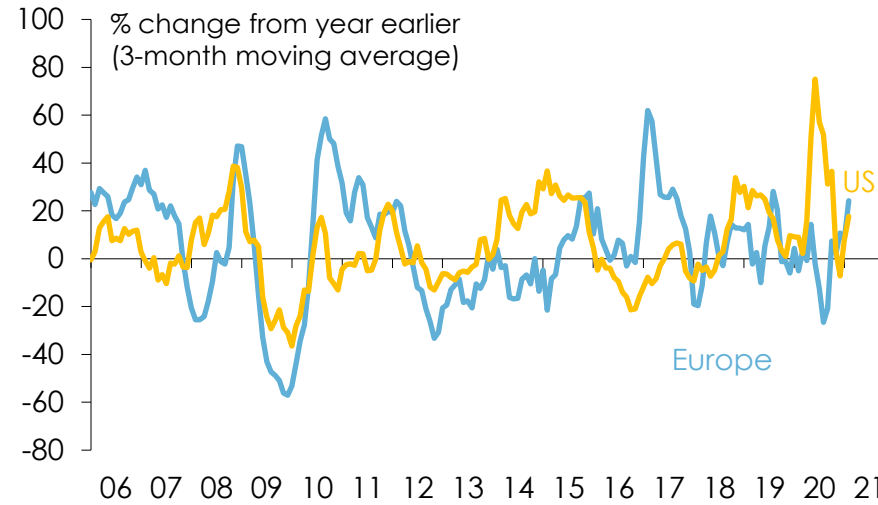
Source: ABS, [International Trade in Goods and Services, Australia](#). February data will be released on 1st April (with preliminary, not seasonally adjusted, data on merchandise trade released the preceding week). [Return to "What's New"](#).

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

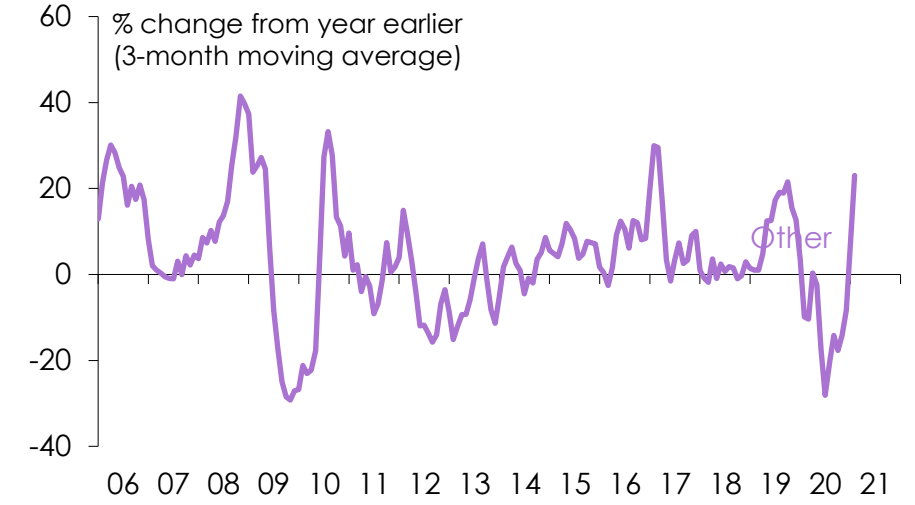
Merchandise exports – East Asia



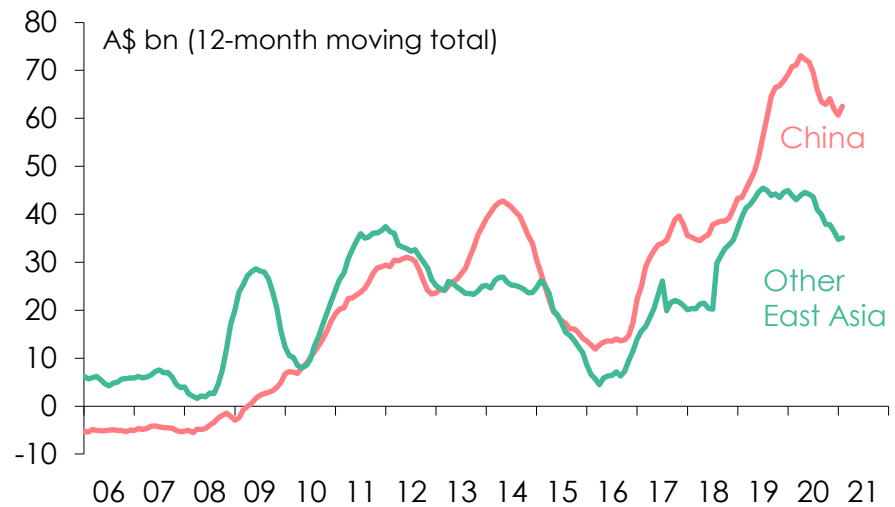
Merchandise exports – US & Europe



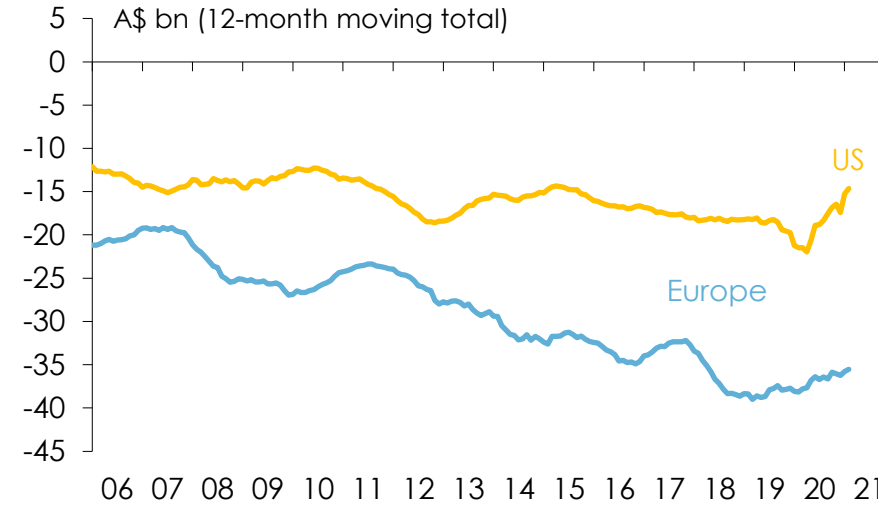
Merchandise exports – other



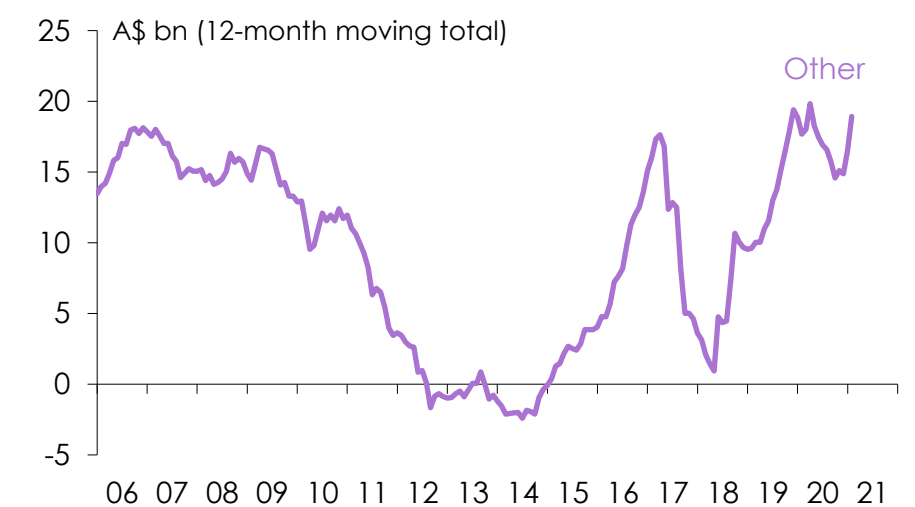
Goods trade balance – East Asia



Goods trade balance – US & Europe



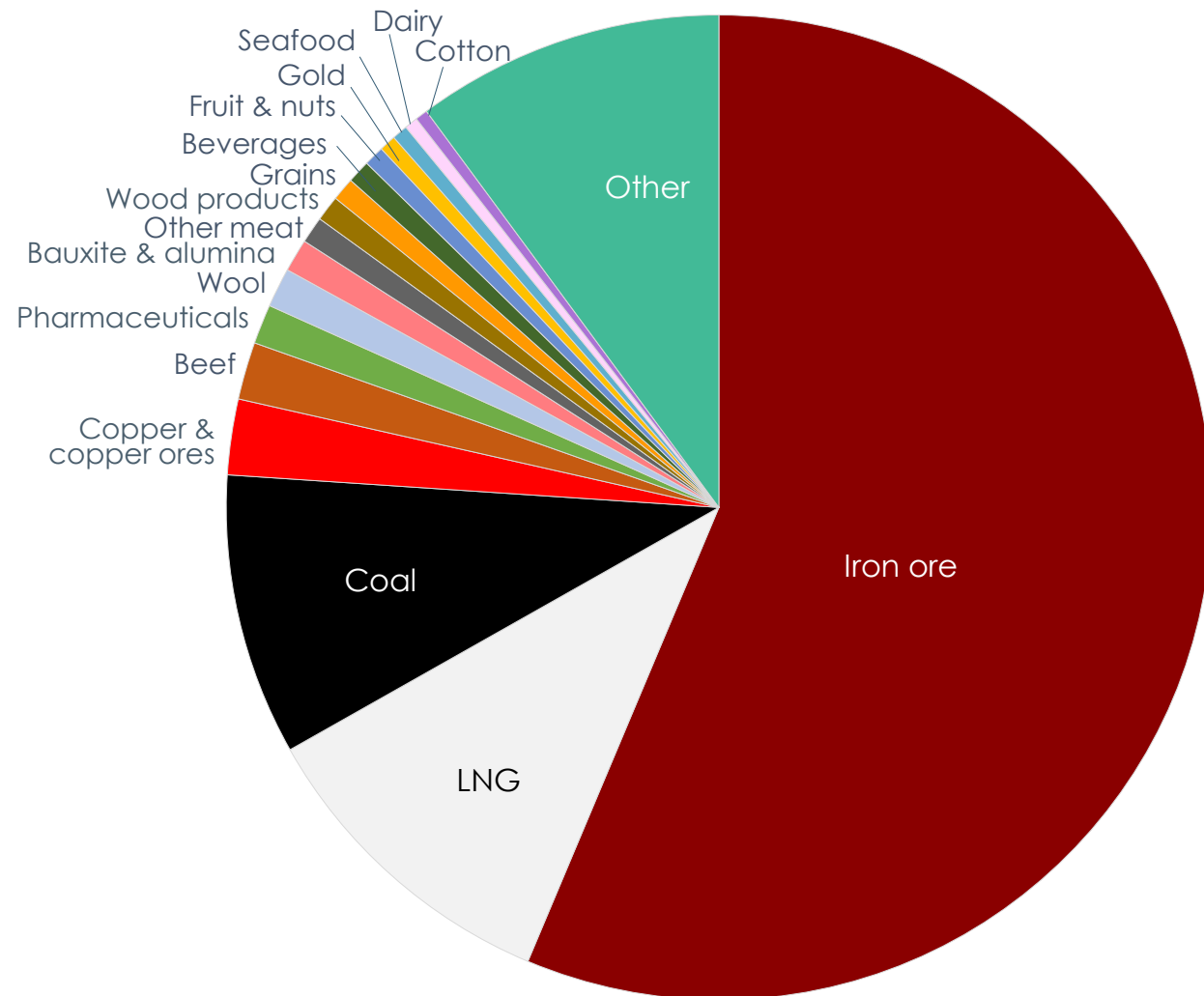
Goods trade balance – other



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

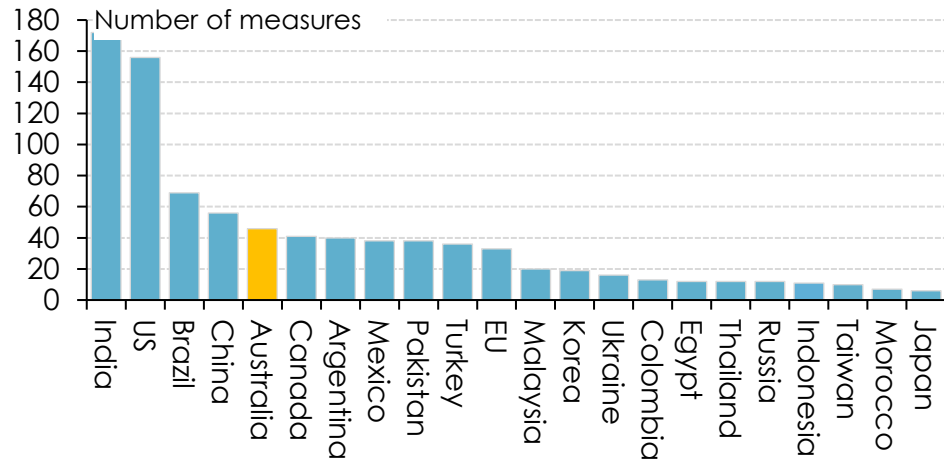


- ❑ China accounted for 39½% of Australia's merchandise exports in FY 2019-20 (the largest proportion any country has since the mid-1950s when 36% of Australia's exports went to the UK)
 - of which iron ore & concentrates accounts for 56%
- ❑ China also accounted for 19% of Australia's services exports 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](#)")

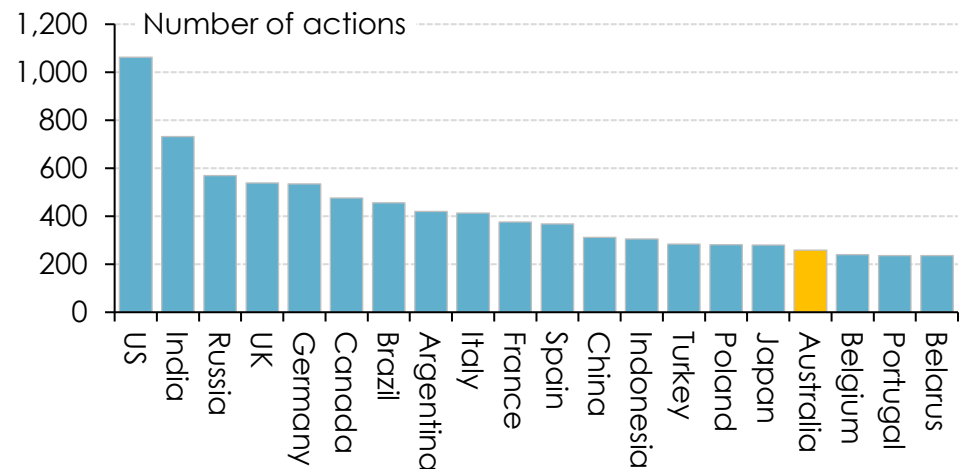
Note: 'Wood' includes wood products; 'dairy' includes milk, cream, butter & cheese; 'seafood' includes crustaceans, fish and processed seafood; 'other' includes confidential items.
Sources: Department of Foreign Affairs & Trade, [Trade Statistical Pivot Tables](#); Corinna.
[Return to "What's New"](#).

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

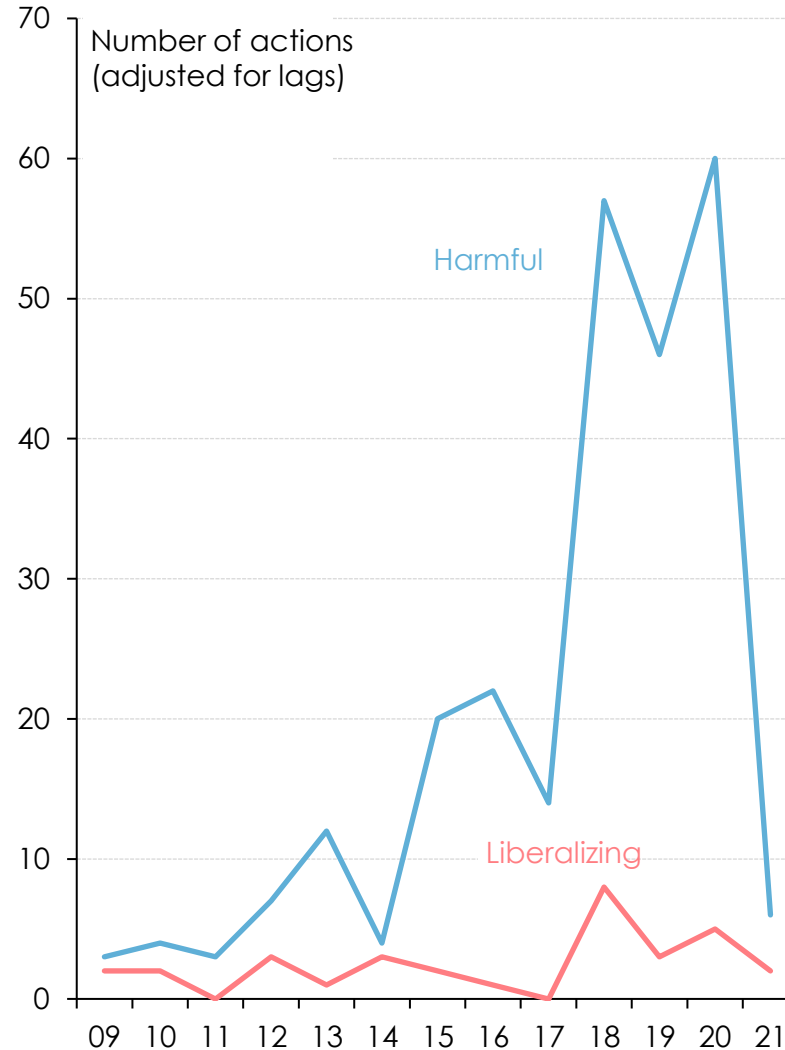
Number of anti-dumping measures imposed, 2015-19



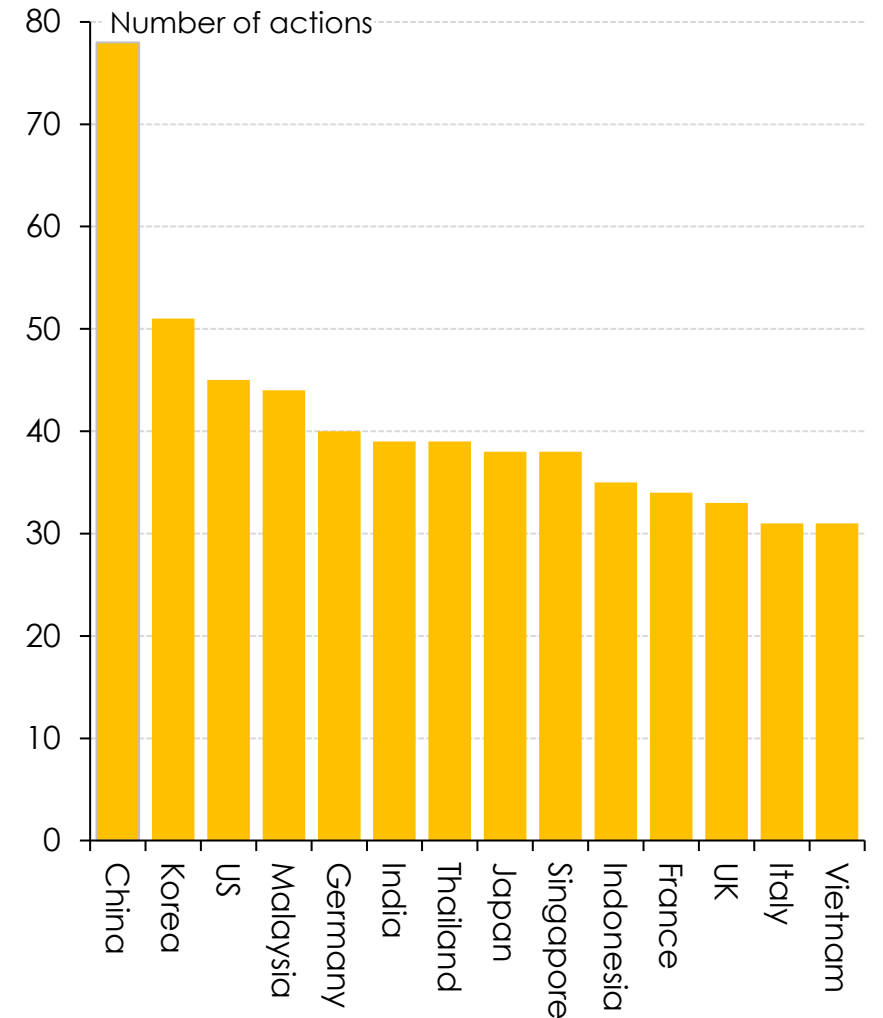
Number of harmful trade policy interventions, 2009-2021



Australian trade policy measures since 2009



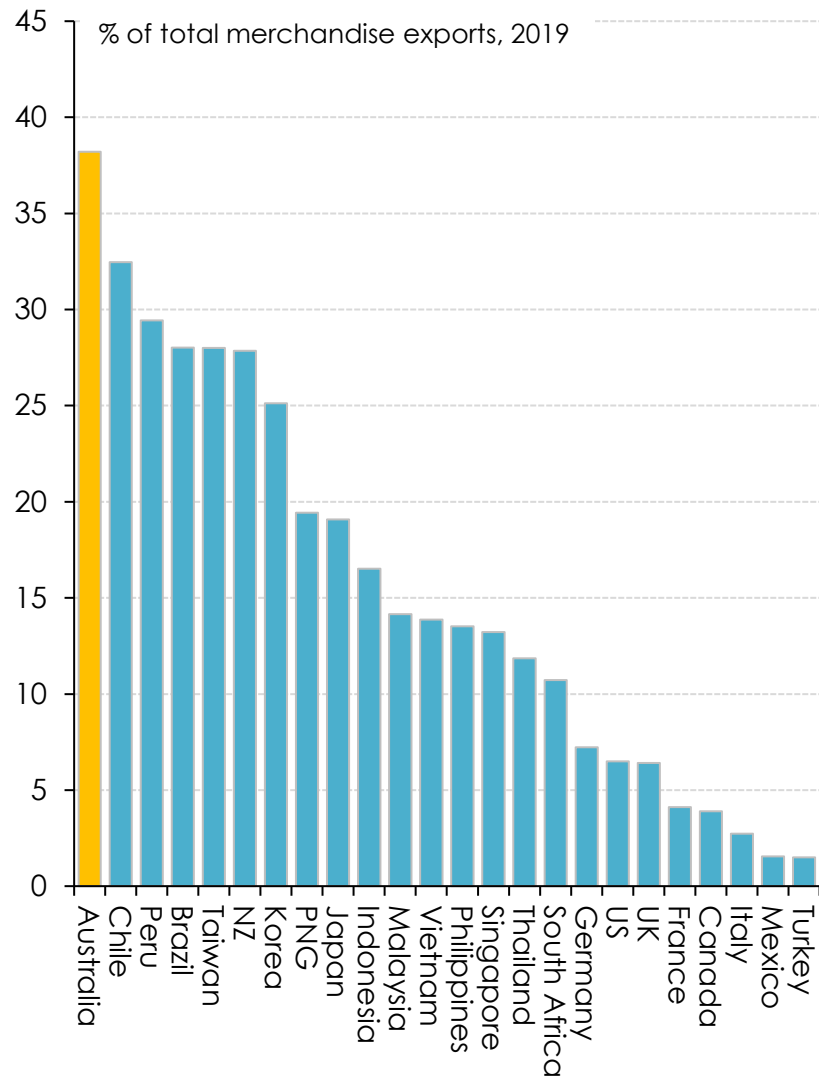
Countries adversely affected by 'harmful' Australian trade actions



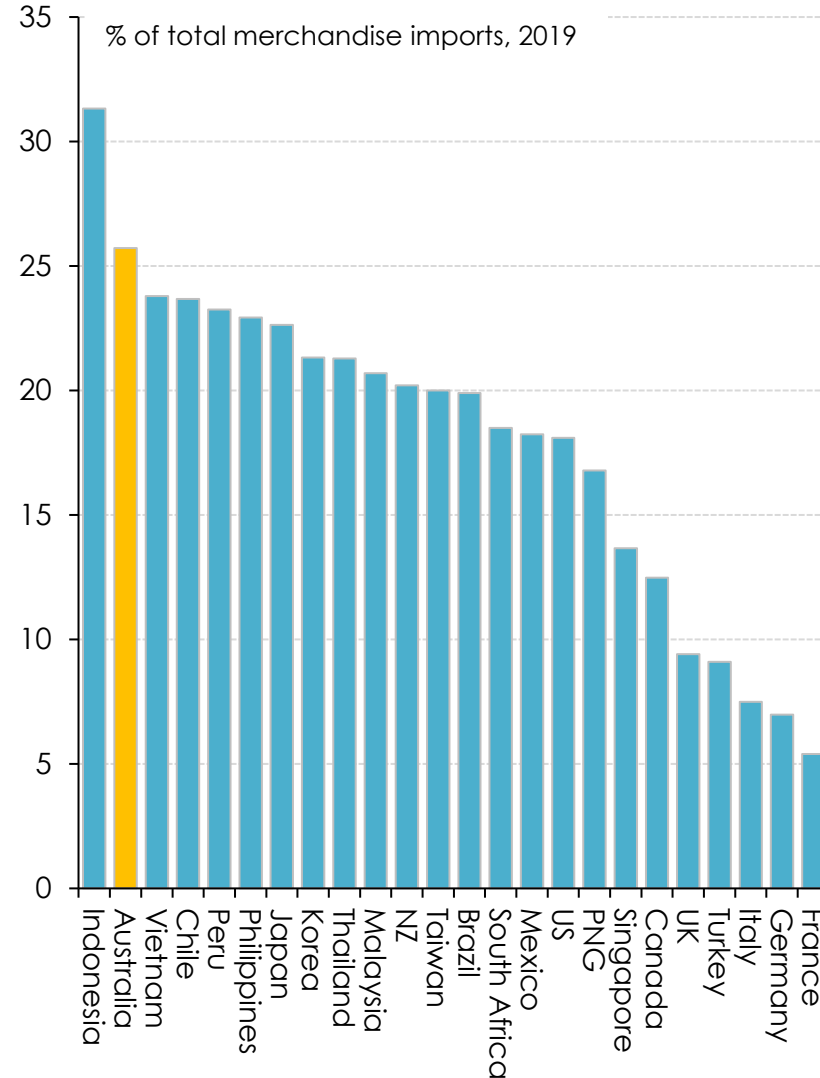
Sources: [World Trade Organization](#); Centre for Economic Policy Research, [Global Trade Alert](#) (data up to 26th February). [Return to "What's New"](#).

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

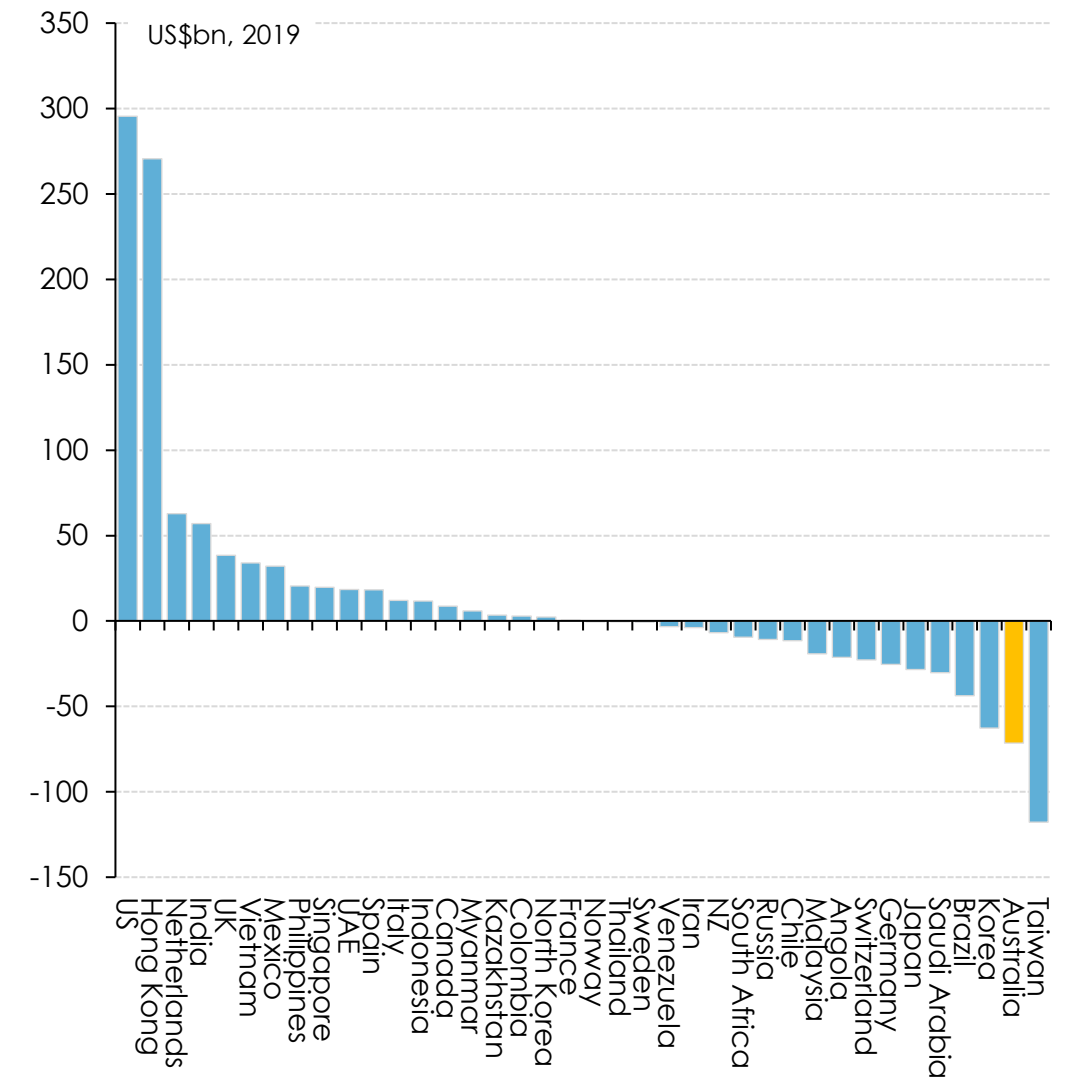
Merchandise exports to China as a pc of total



Merchandise imports from China as a pc of total



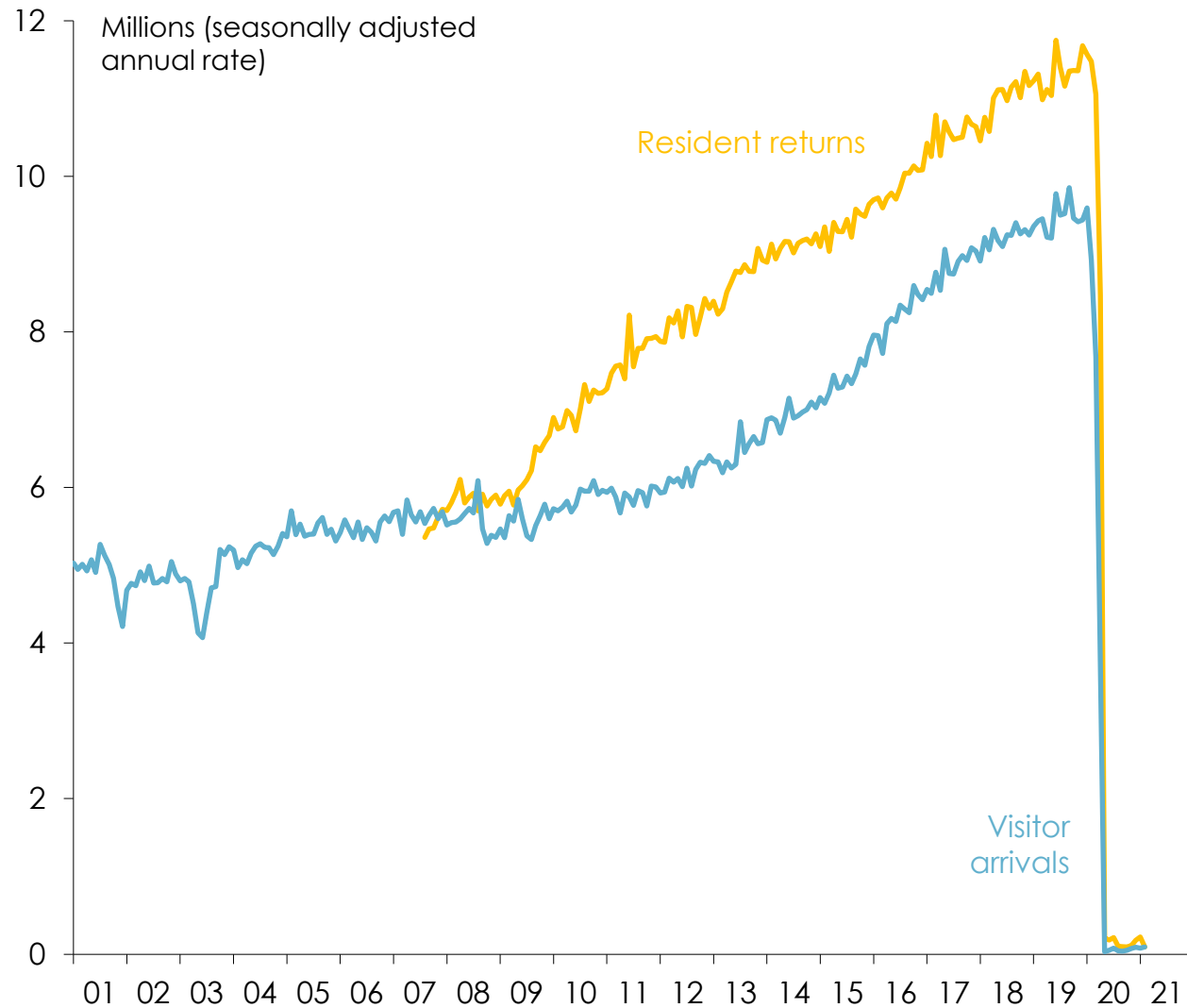
China's bilateral merchandise trade balances



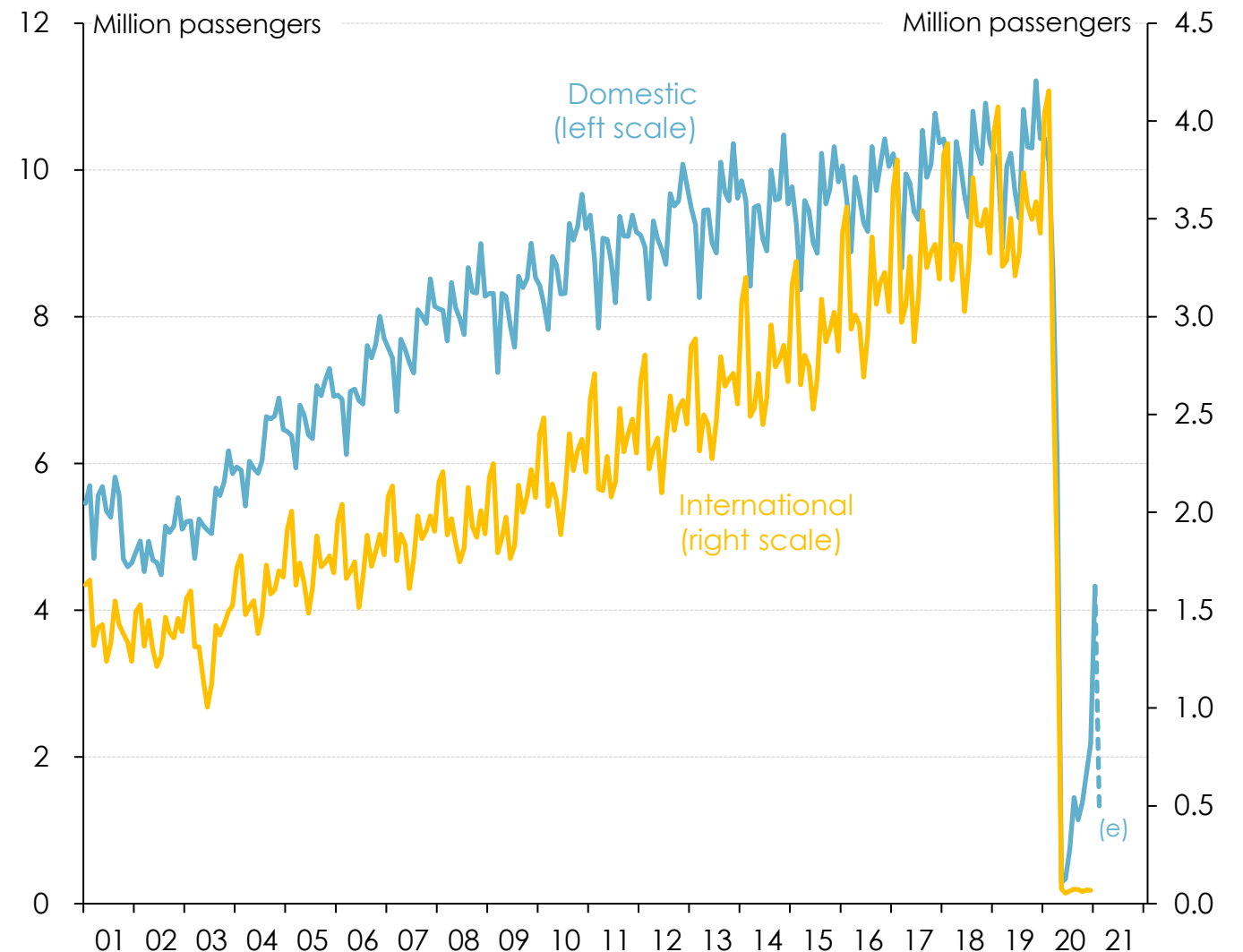
Sources: IMF, Direction of Trade Statistics; Taiwan Ministry of Economic Affairs, Bureau of Foreign Trade. [Return to "What's New"](#).

Domestic aviation traffic has picked up since September but declined in January due to temporary lockdowns; international travel remains very low

Short-term visitor arrivals and resident returns



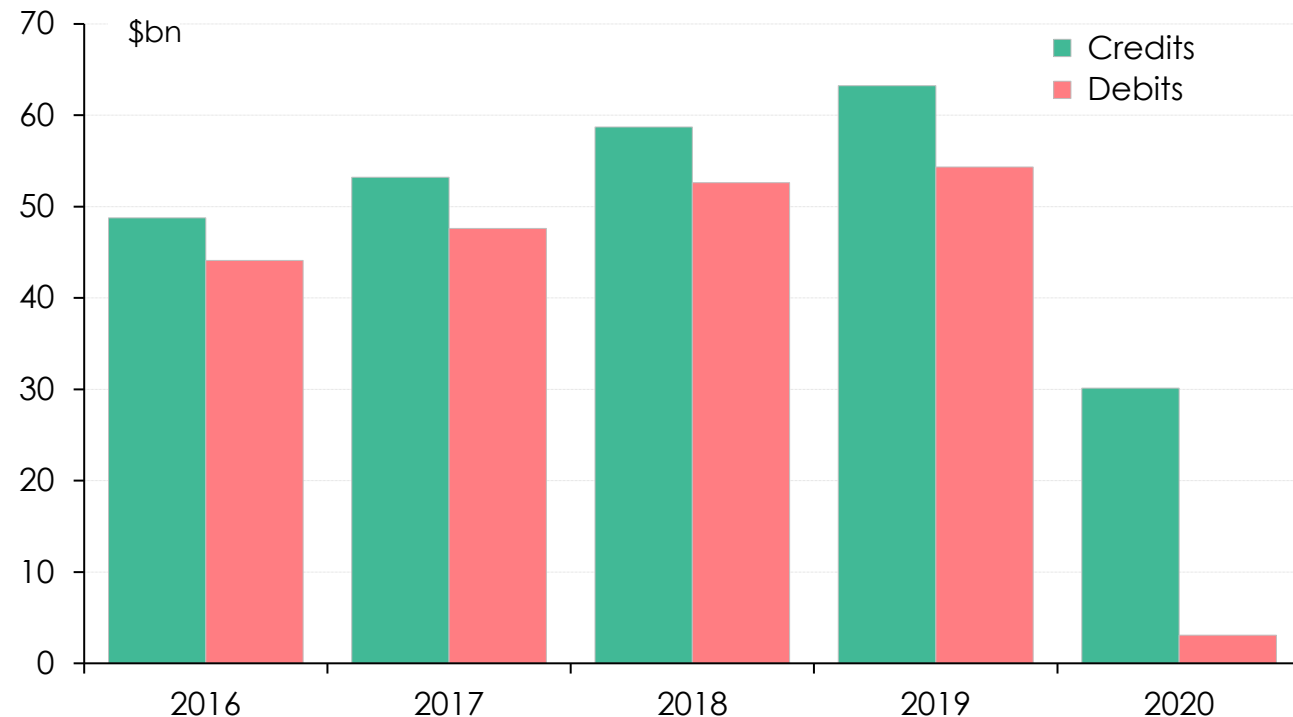
Airport passenger movements



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 December; January 2020 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"](#).

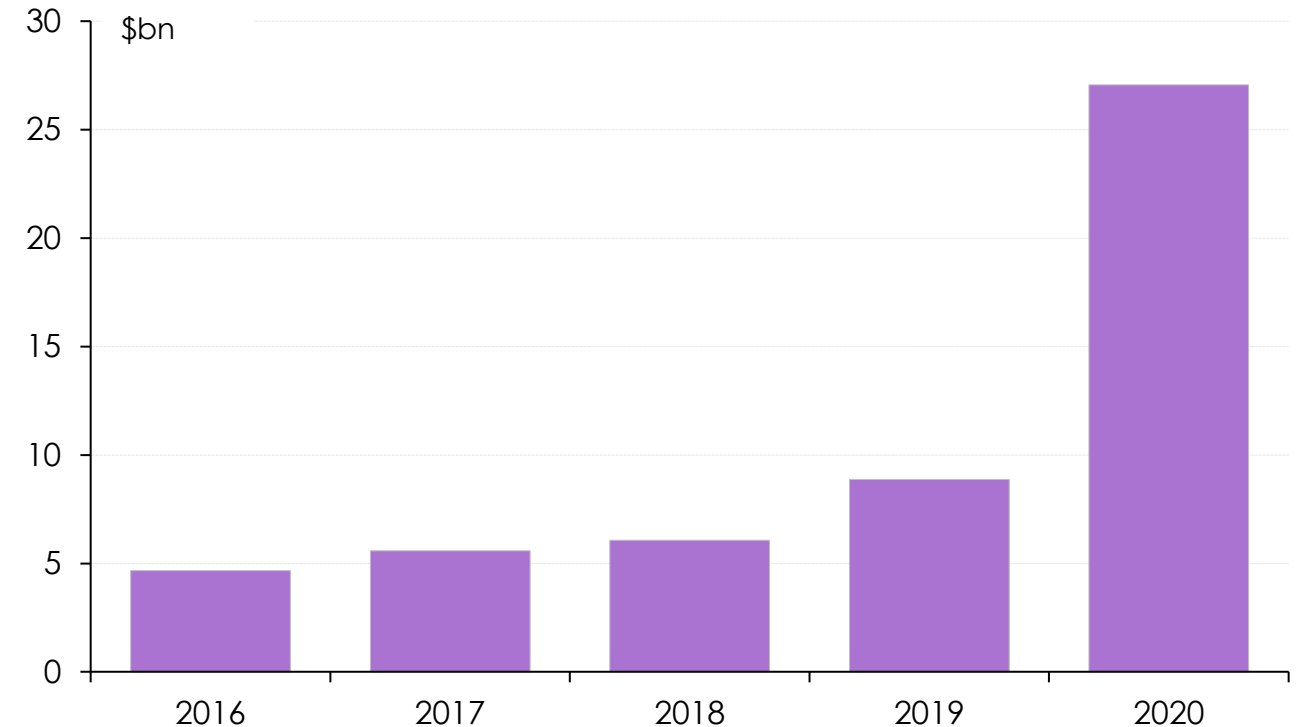
Travel restrictions have been disastrous for the tourism sector, but they may have been worth up to 1¼% of GDP to the broader economy

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.)

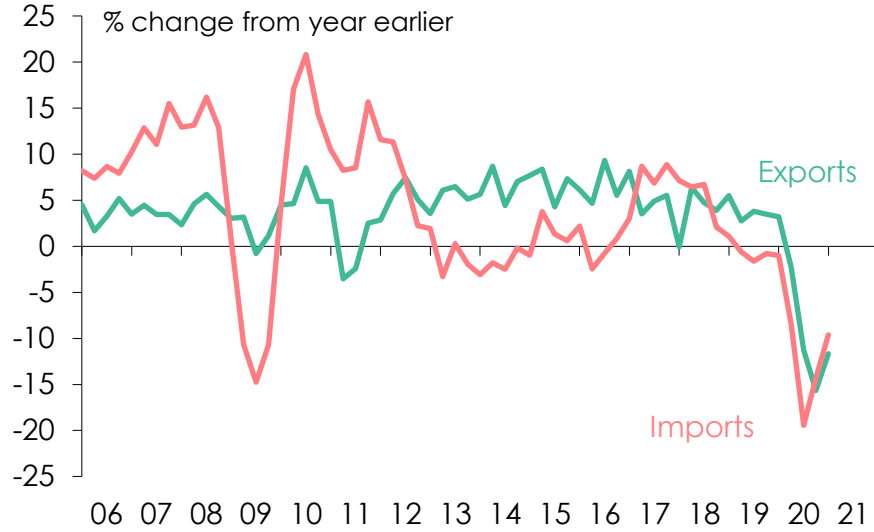
Net travel transactions, eleven months ended January 2016 through 2020



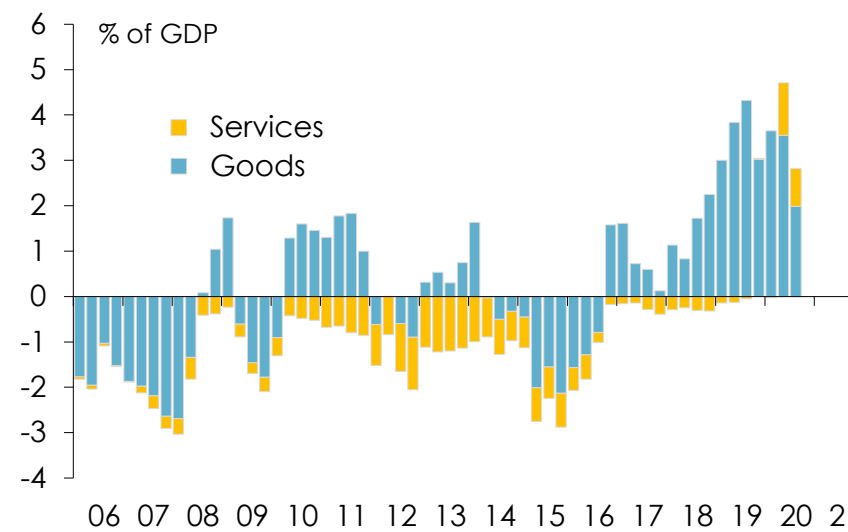
- ❑ Despite restrictions, foreigners still spent \$20bn in Australia between March 2020 and January 2021 (cf. an average of \$56bn in the four corresponding previous periods) implying a *net gain* to Australia during the 11 months to January 2021 of almost \$21bn by comparison with the 2016-19 average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

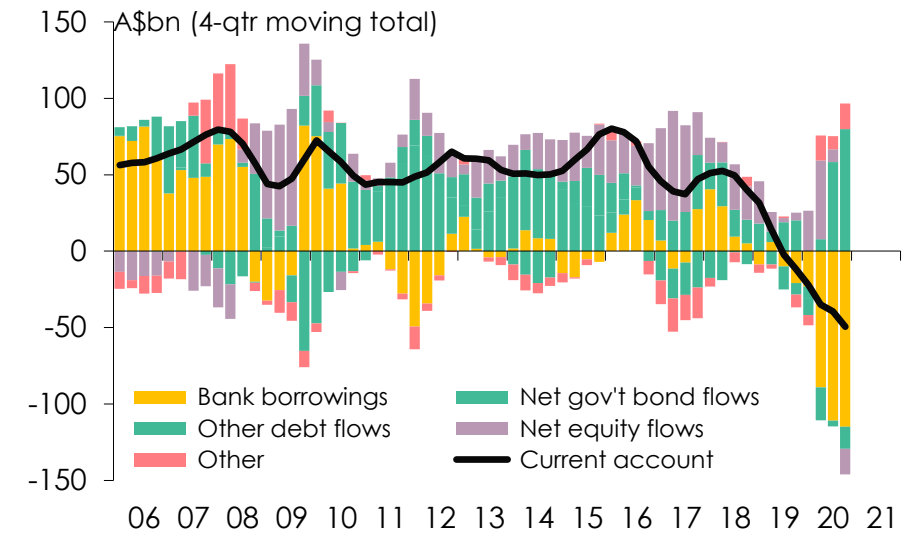
Export and import volumes



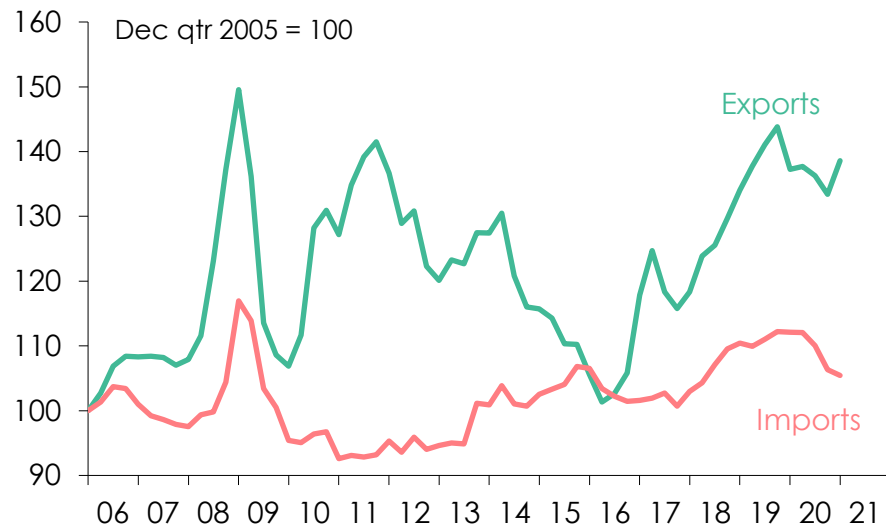
Goods & services trade balances



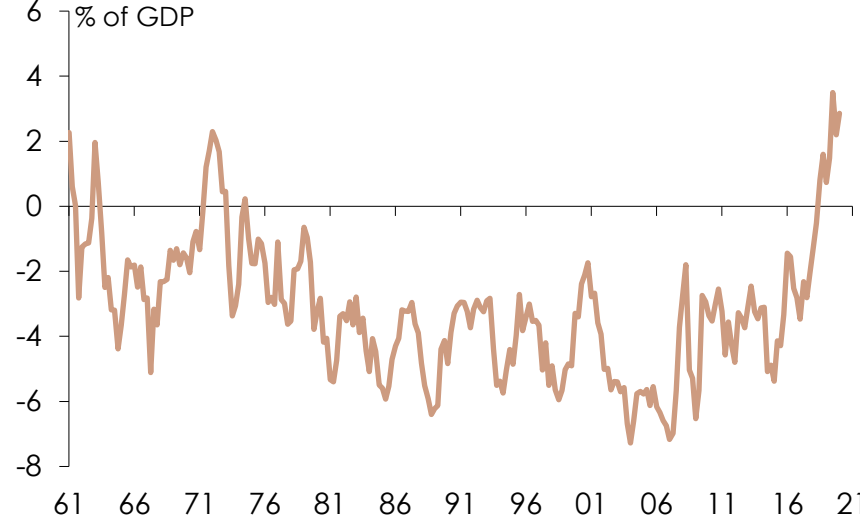
Capital flows



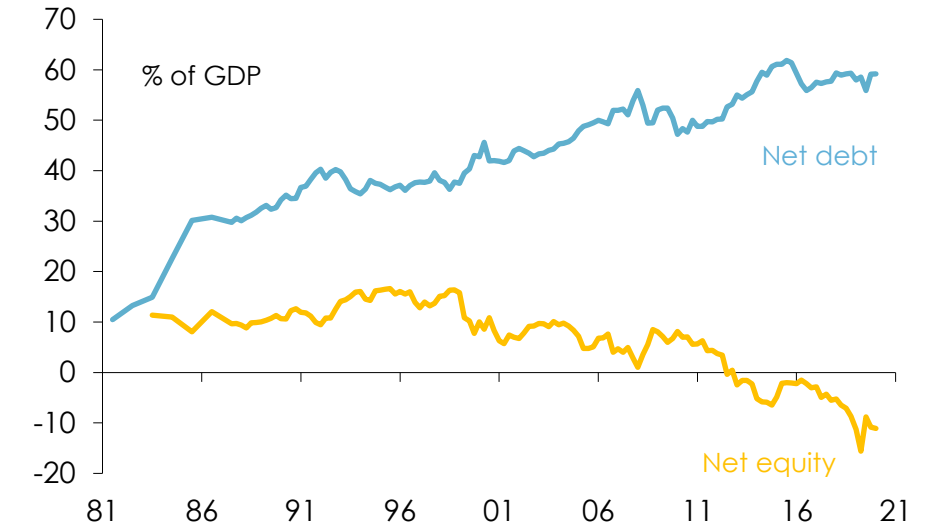
Export and import prices



Current account balance



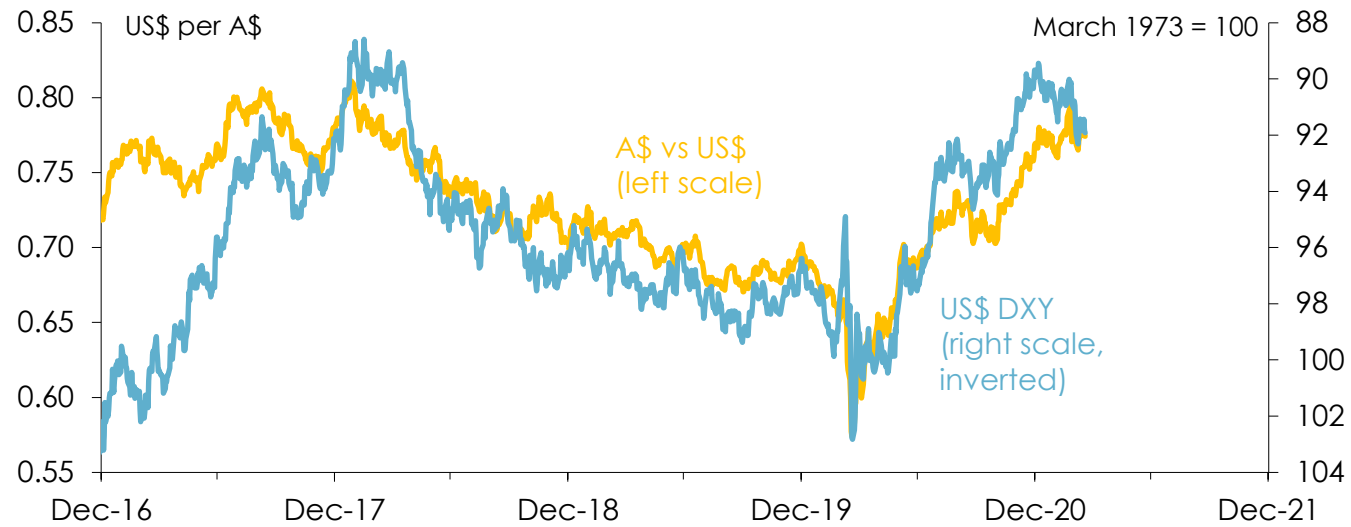
Net international investment position



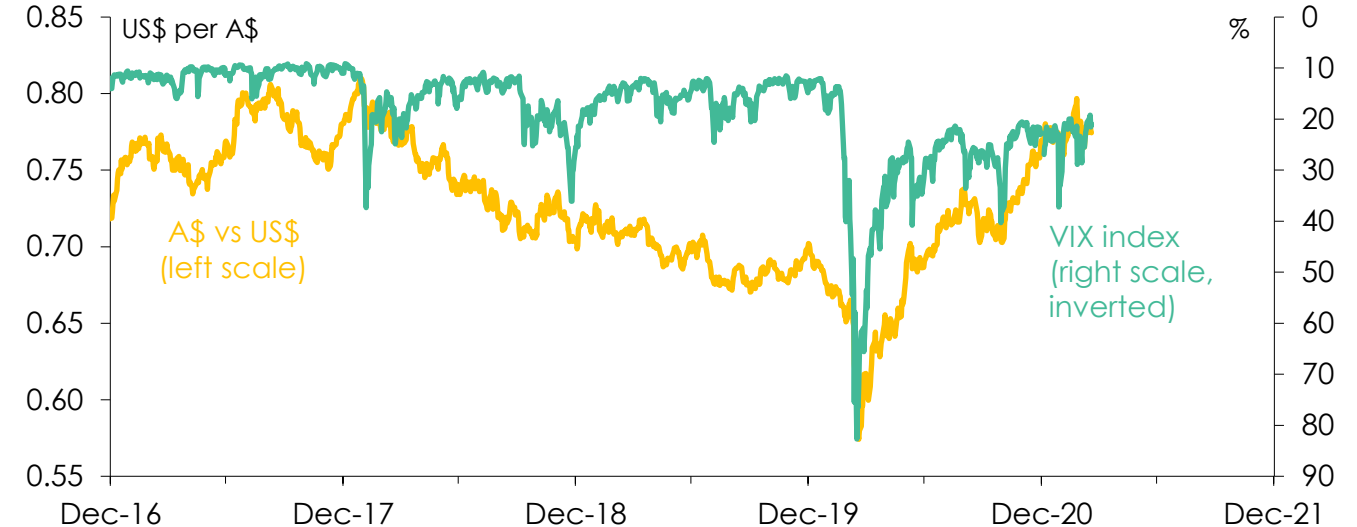
Note: Latest data are for September quarter (Q3); December quarter data will be released on 3rd March 2021. Source: ABS, [Balance of Payments and International Investment Position, Australia](#). [Return to "What's New"](#).

The A\$ eased 0.3% to just under US77½¢ this week against a slightly firmer US\$, with softer iron ore prices and a narrower yield spread also weighing

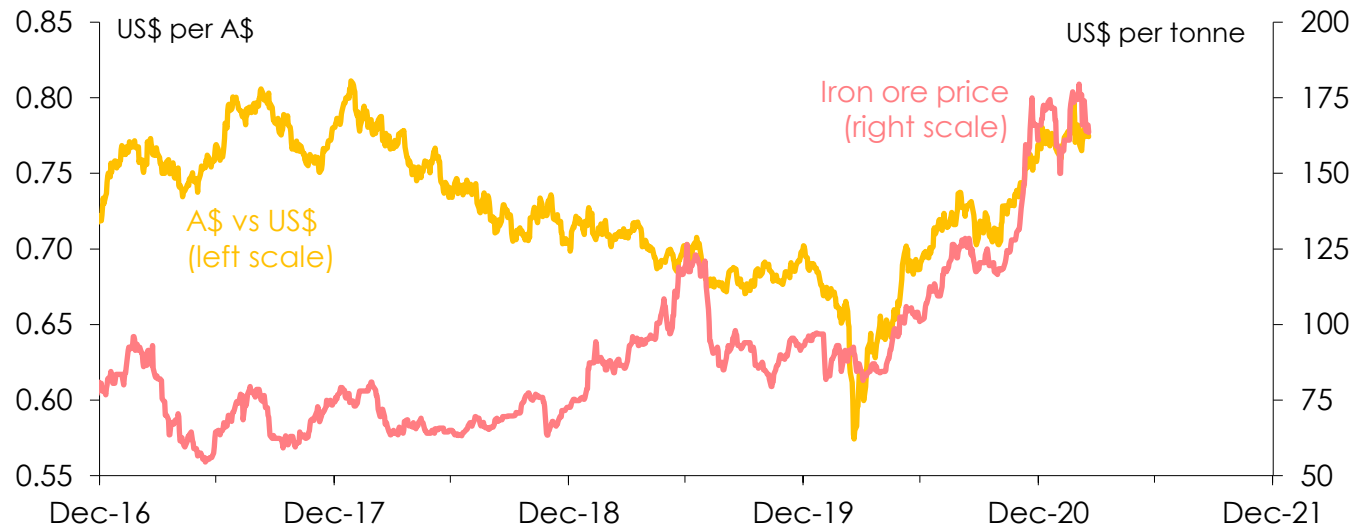
A\$-US\$ and US\$ trade-weighted index



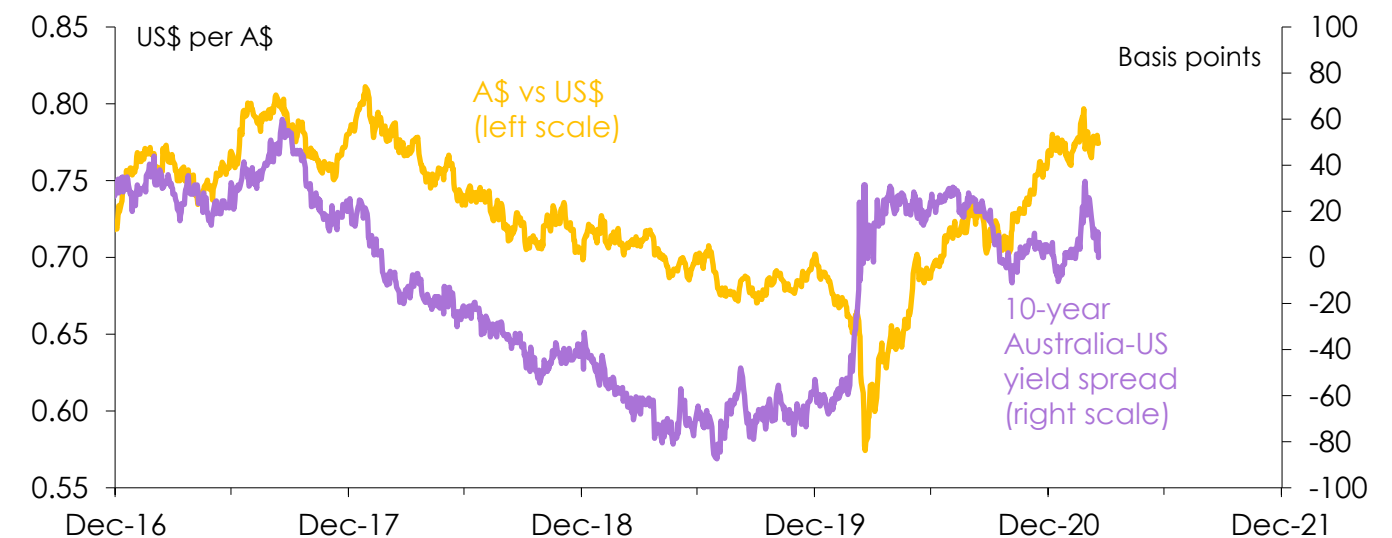
A\$-US\$ and US equity market volatility



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



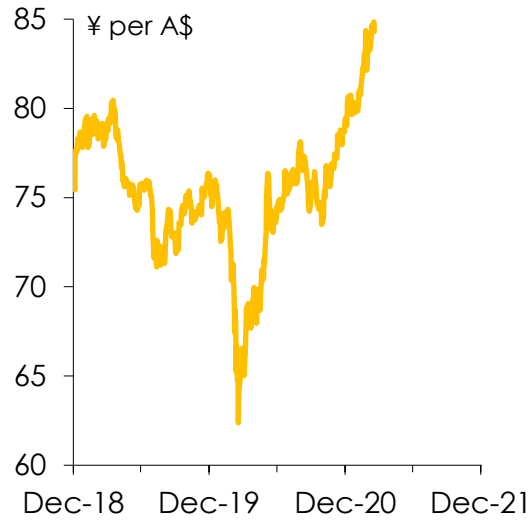
A\$-US\$ and Australia-US 10-year bond yield spread



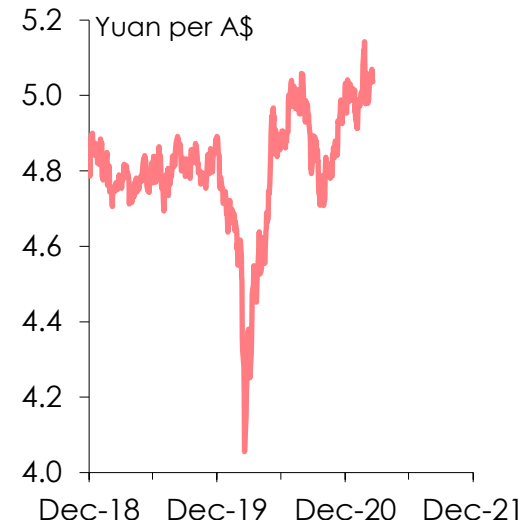
Note: The VIX index is a measure of the implied volatility of S&P500 options and is widely interpreted as an indicator of investor risk appetite or aversion. For an explanation of the factors underpinning the strength in the iron ore price see [slide 107](#). Source: Refinitiv Datastream. Data up to 19th March. [Return to "What's New"](#).

The A\$ eased against most third currencies (apart from sterling) this week, with the largest falls (~1/2%) against the won, yen and Sing\$

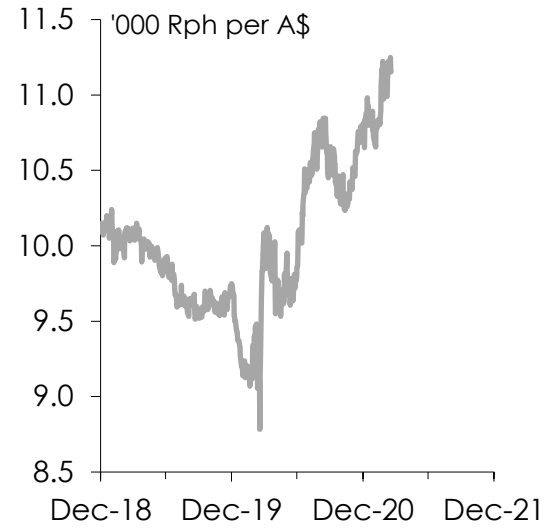
A\$ vs Japanese yen



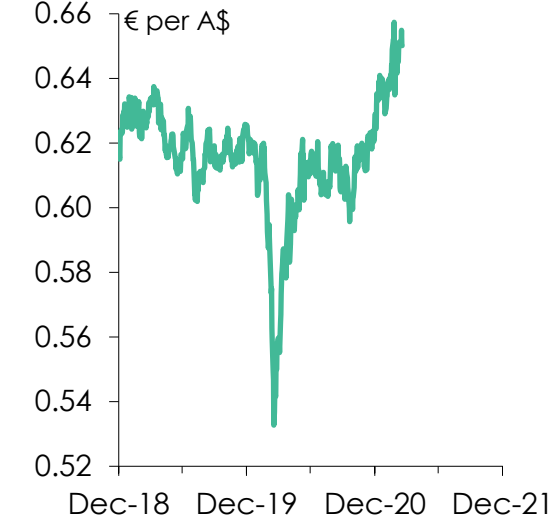
A\$ vs Chinese yuan



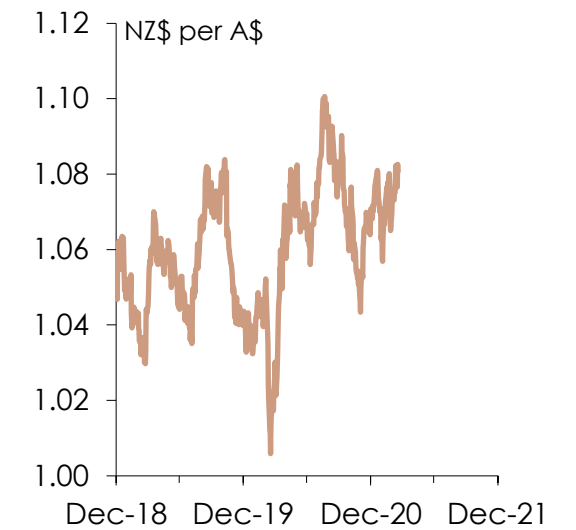
A\$ vs Indo rupiah



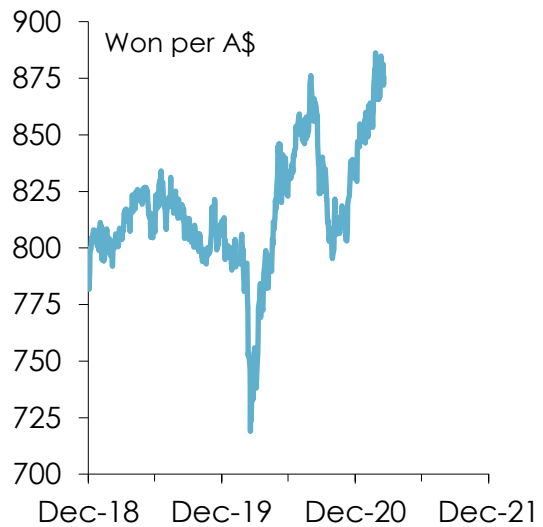
A\$ vs Euro



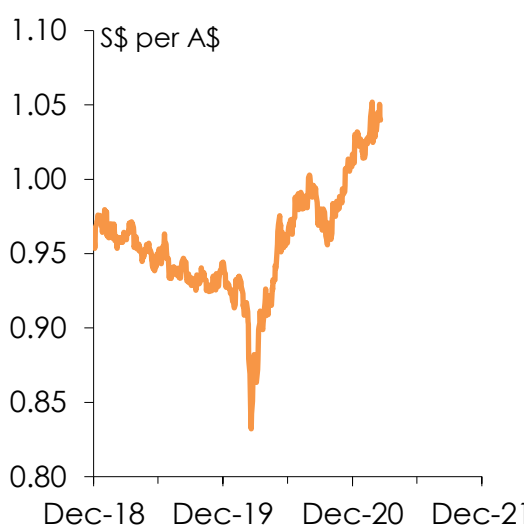
A\$ vs NZ\$



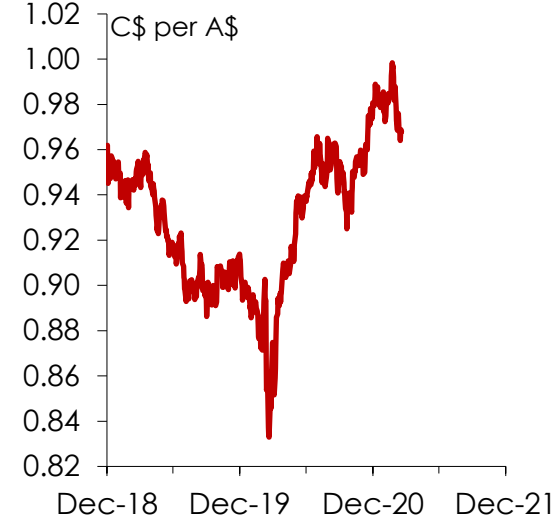
A\$ vs Korean won



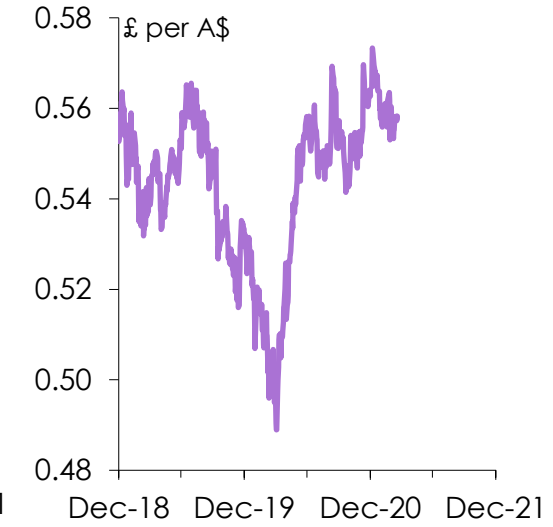
A\$ vs Singapore \$



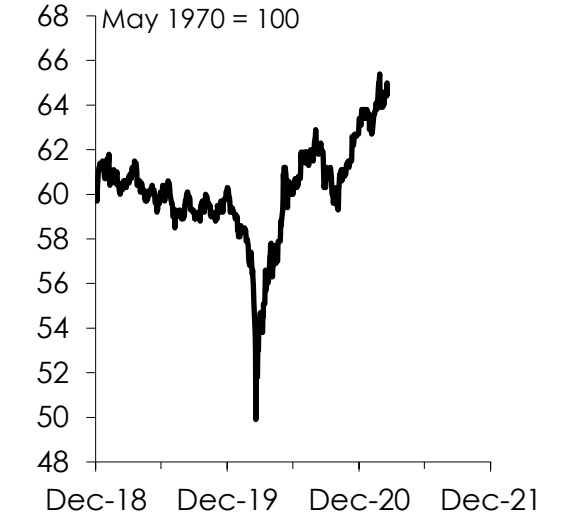
A\$ vs Canadian \$



A\$ vs British pound



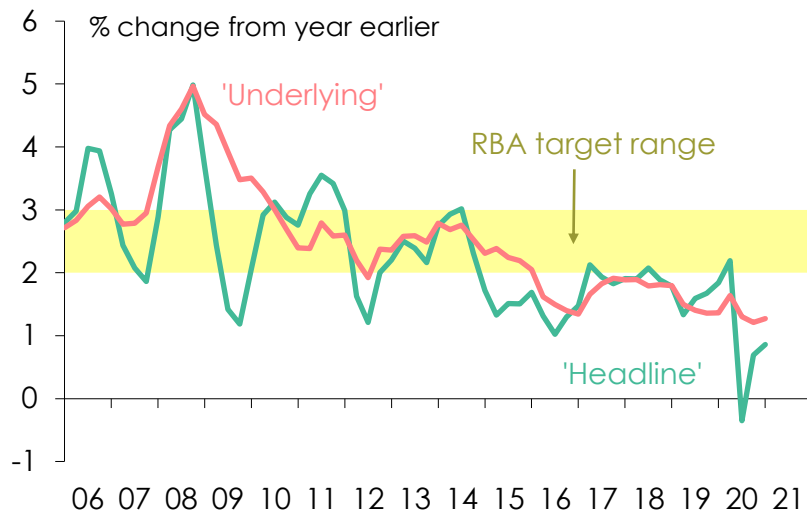
A\$ TWI



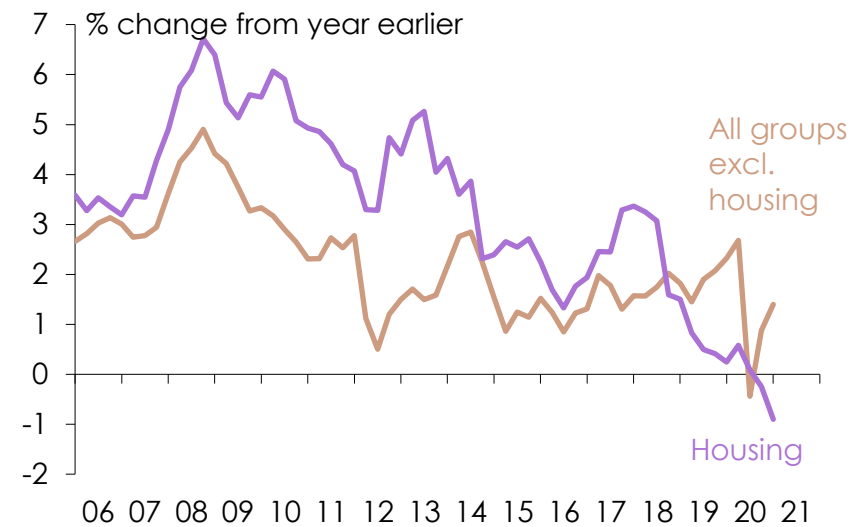
Note: 'TWI' is the RBA's [trade-weighted index](#) of the A\$. Source: Refinitiv Datastream. Data up to 19th March. [Return to "What's New"](#).

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

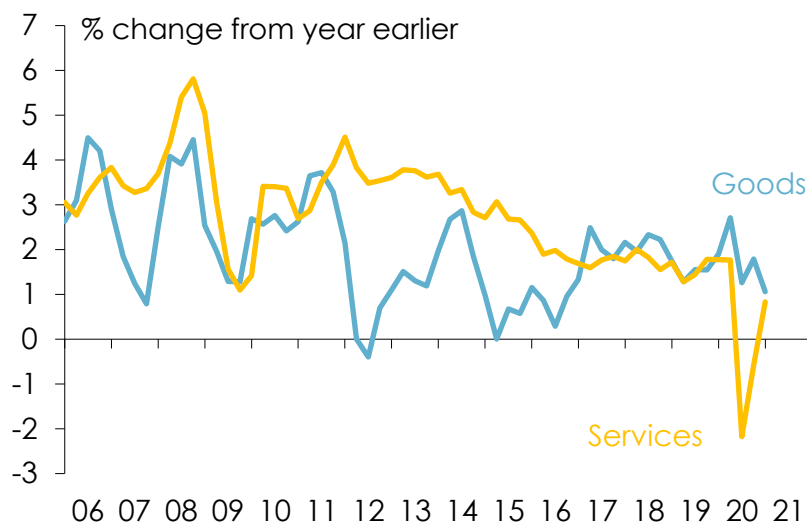
Consumer prices



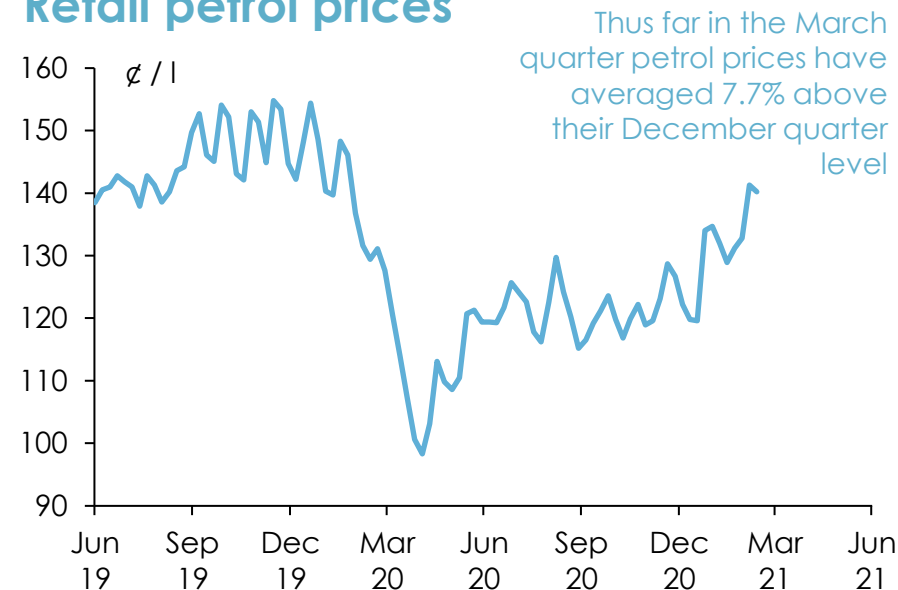
Housing costs



Goods vs services prices



Retail petrol prices



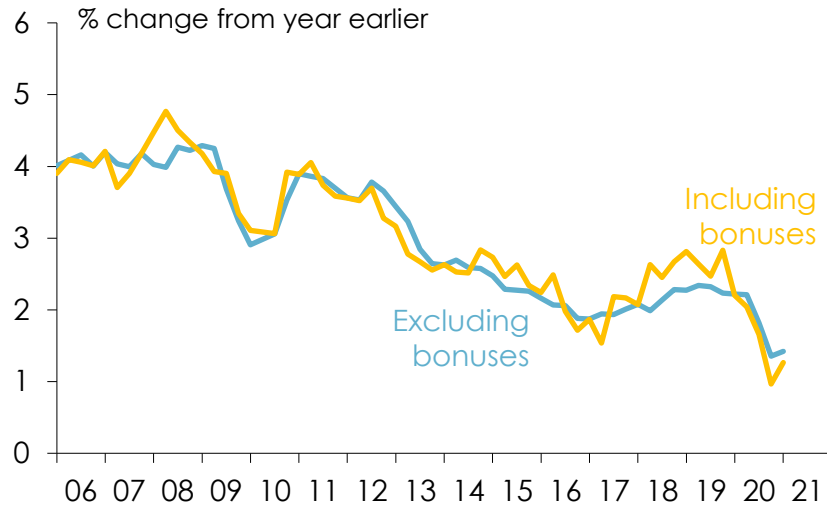
- ❑ The CPI rose 0.9% (a little above market expectations of 0.7%) in Q4 2020 taking the annual 'headline' inflation rate up 0.2 pc pts to 0.9%
- ❑ Main contributors to the Q4 outcome were a 38% increase in child care costs (reflecting the end to lockdown subsidies), an 11% increase in tobacco prices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

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

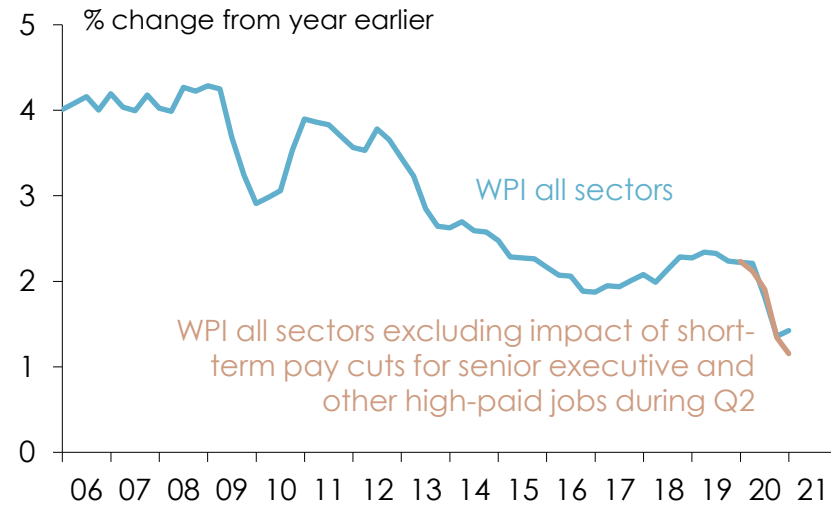
Sources: ABS, [Consumer Price Index, Australia](#); [Australian Institute of Petroleum](#). The March quarter (Q1) CPI will be released on 28th April. [Return to "What's New"](#).

Wages rose by 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

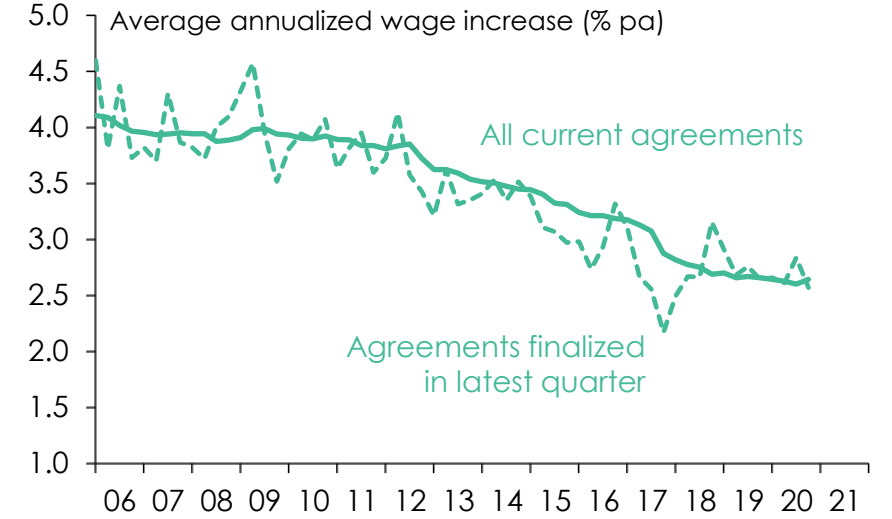
Wage price index – all sectors



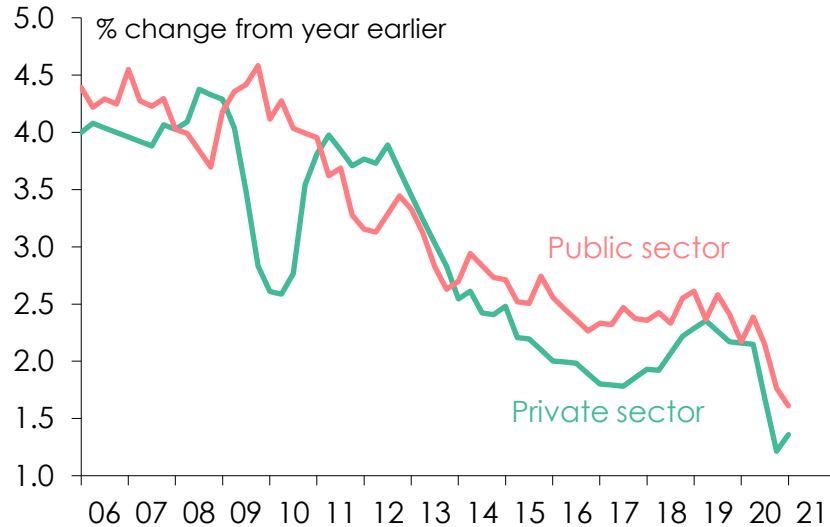
WPI excl. temporary wage cuts



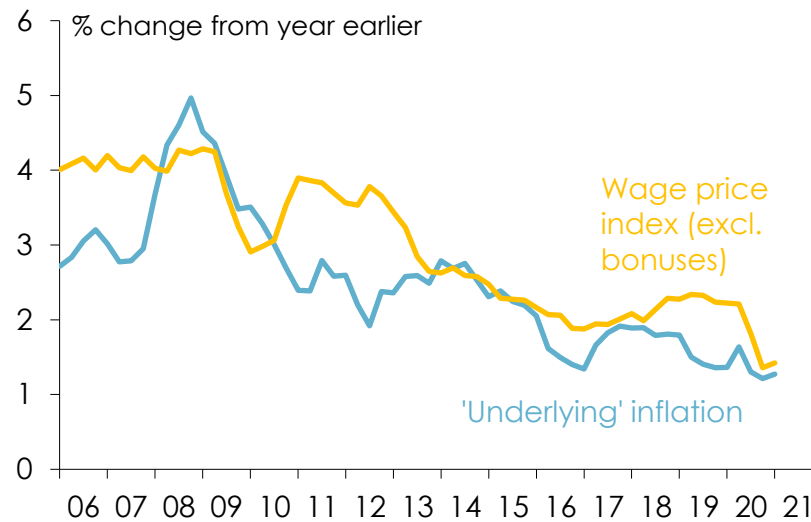
Enterprise bargaining agreements



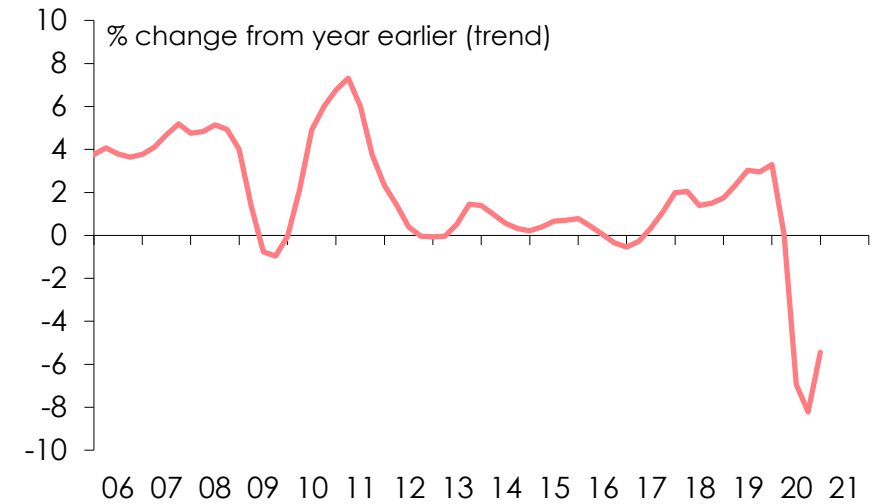
WPI – private vs public sectors



WPI and 'underlying' CPI inflation



Unit labour costs



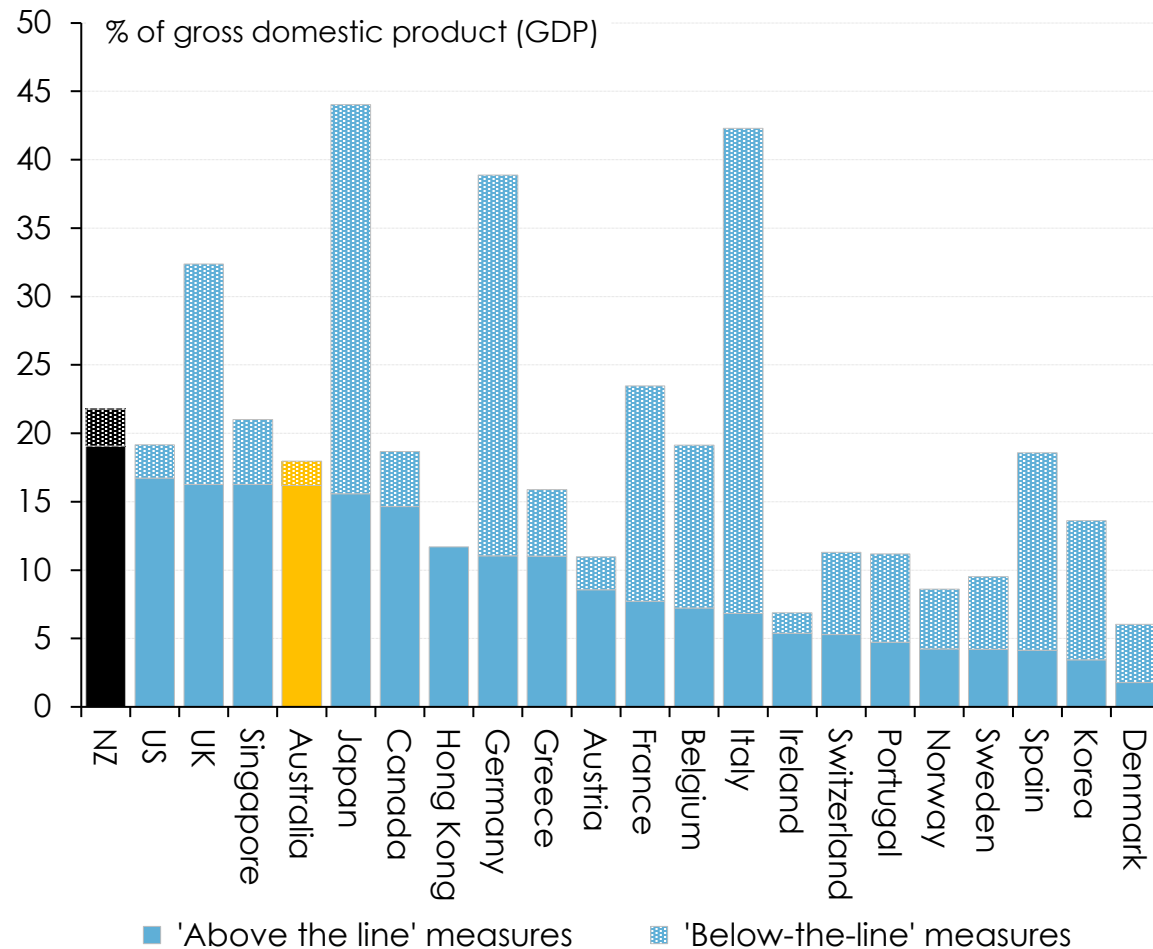
Note: Unit labour costs is compensation of employees (including fringe benefits and social insurance contributions) per hour worked divided by (real) gross value added per hour worked (ie, labour productivity) for the non-farm sector. Source: ABS; Attorney-General's Department. March quarter WPI data will be released on 19th 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 31st December 2020.

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

- Policy measures announced prior to last October's federal Budget totalled A\$232bn over FYs 2019-20 and 2020-21 or about 11³/₄% of one year's GDP – which is large by international standards (and double what was done during the GFC)
 - the IMF's latest *Fiscal Monitor Update* estimates that measures announced up to 31st December are equivalent to 16¹/₄% of GDP
- Principal objectives of policy measures have been to –
 - strengthen the capacity of the health care system to cope with increased demand
 - maximize the 'survival prospects' of businesses affected by shutdowns
 - minimize the impact of the shutdown on employment
 - provide additional income support to those who lose their jobs
- Policy measures have been designed to be 'simple' to administer, and to make greatest use of existing systems rather than having to create new mechanisms
- Policy measures also designed to be readily 'switched off' once the need for them has passed

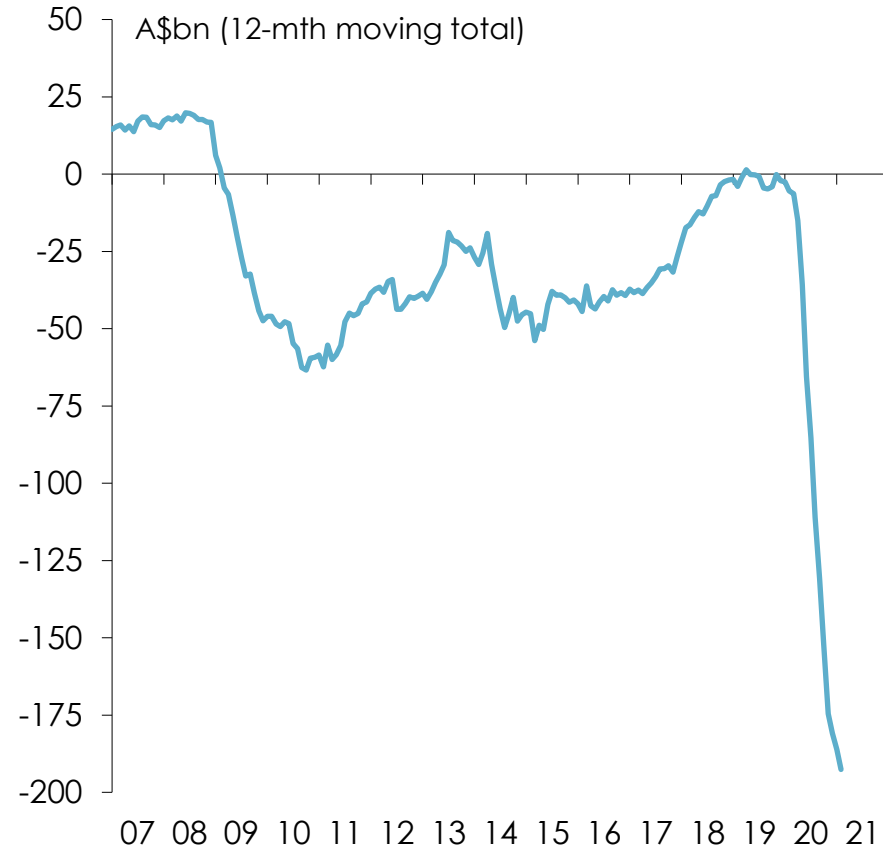
The budget deficit for the first seven months of FY 2020-21 was about \$18bn (11½%) lower than the Mid-Year Outlook 'profile' projection

Australian Government revenue and expenses



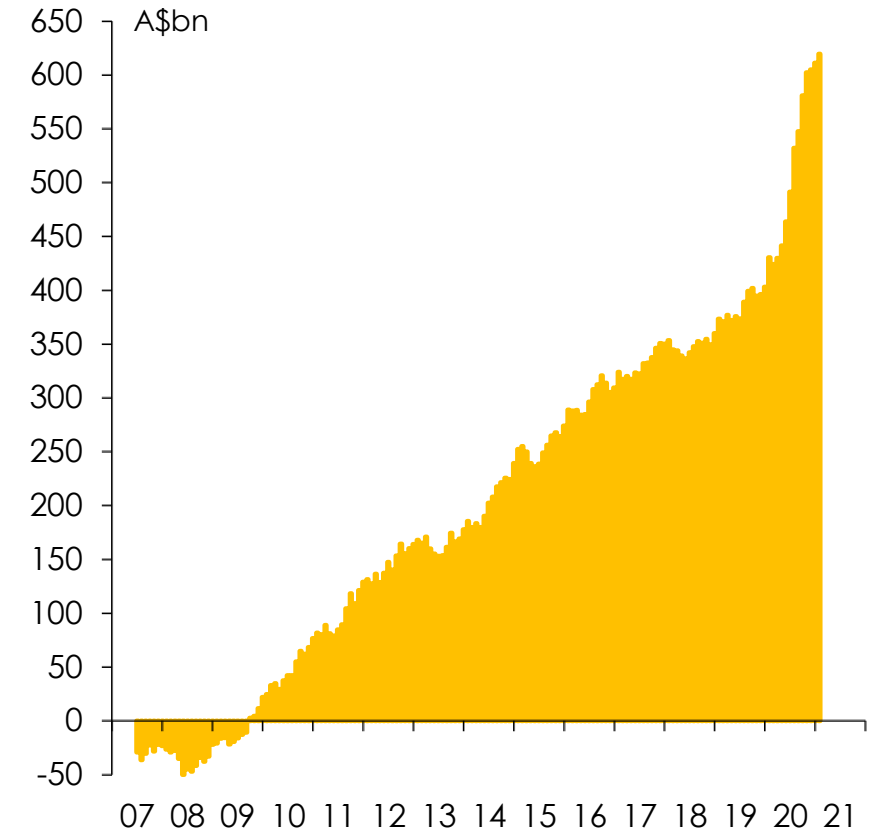
□ Growth in expenses is levelling out, while revenue is beginning to turn around as the economy picks up

Australian Government 'underlying' cash balance



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

Australian Government net debt



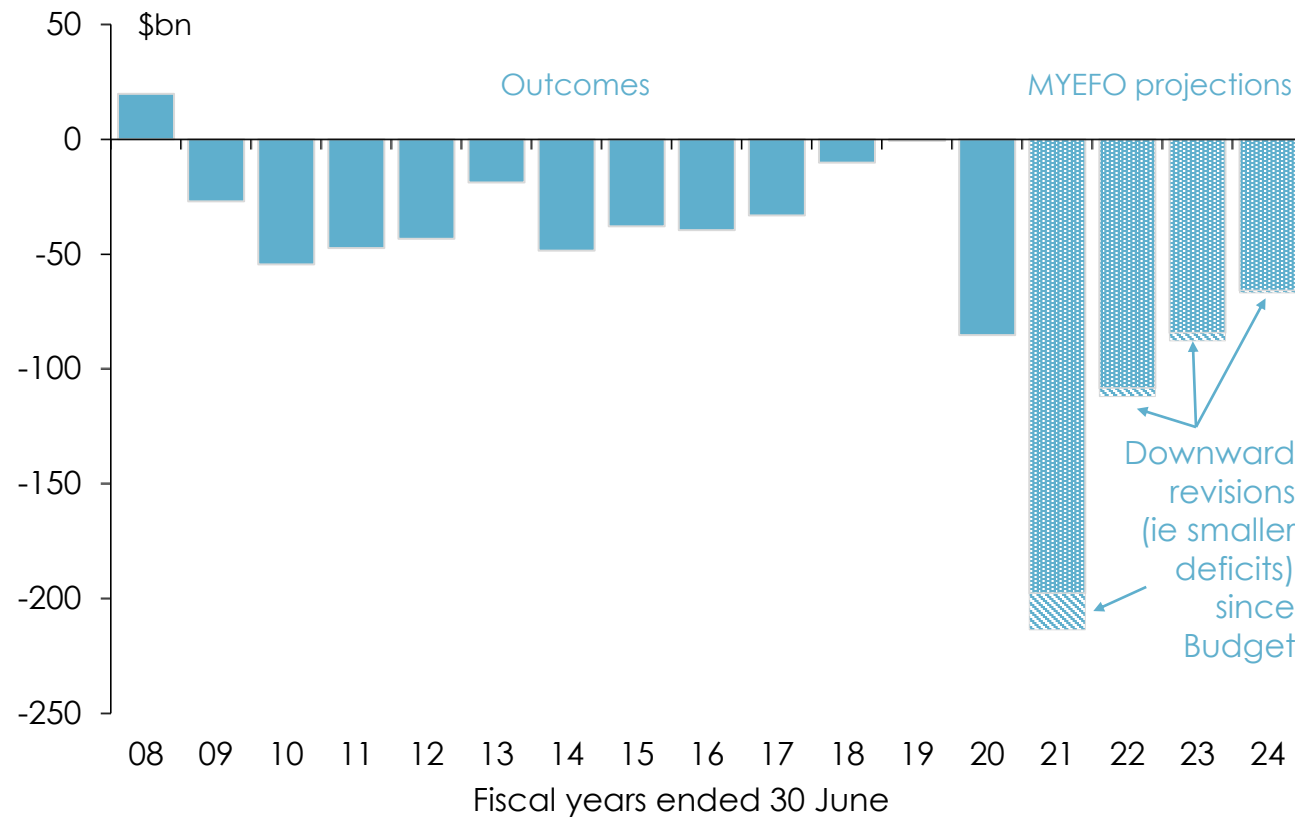
□ Net debt as at 31st Jan was \$619bn (about 32% of GDP), up \$128bn over the first 7 months of FY 2020-21

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

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

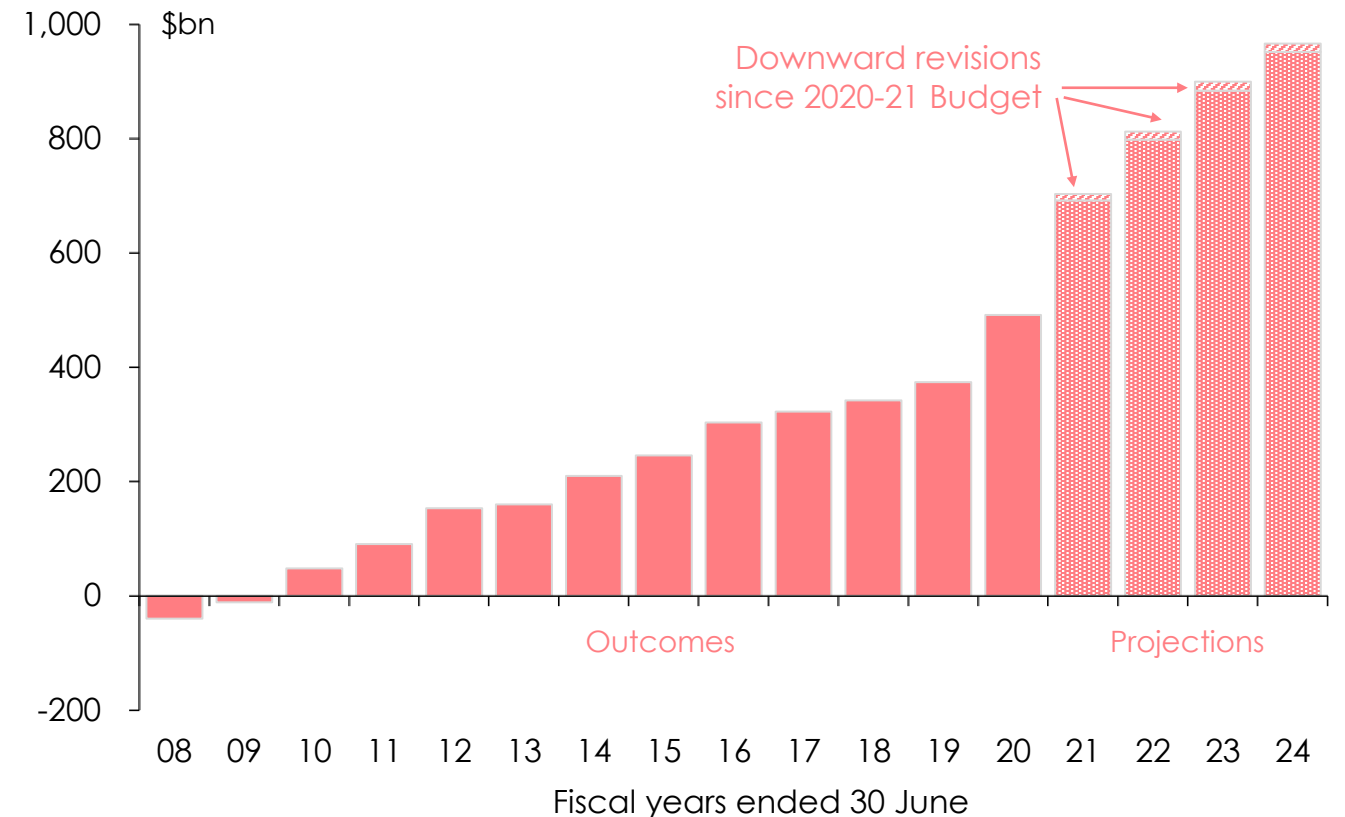
2019-20 Mid-Year Economic & Fiscal Outlook (MYEFO) and 2020-21 Budget forward estimates compared

'Underlying' cash balance



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

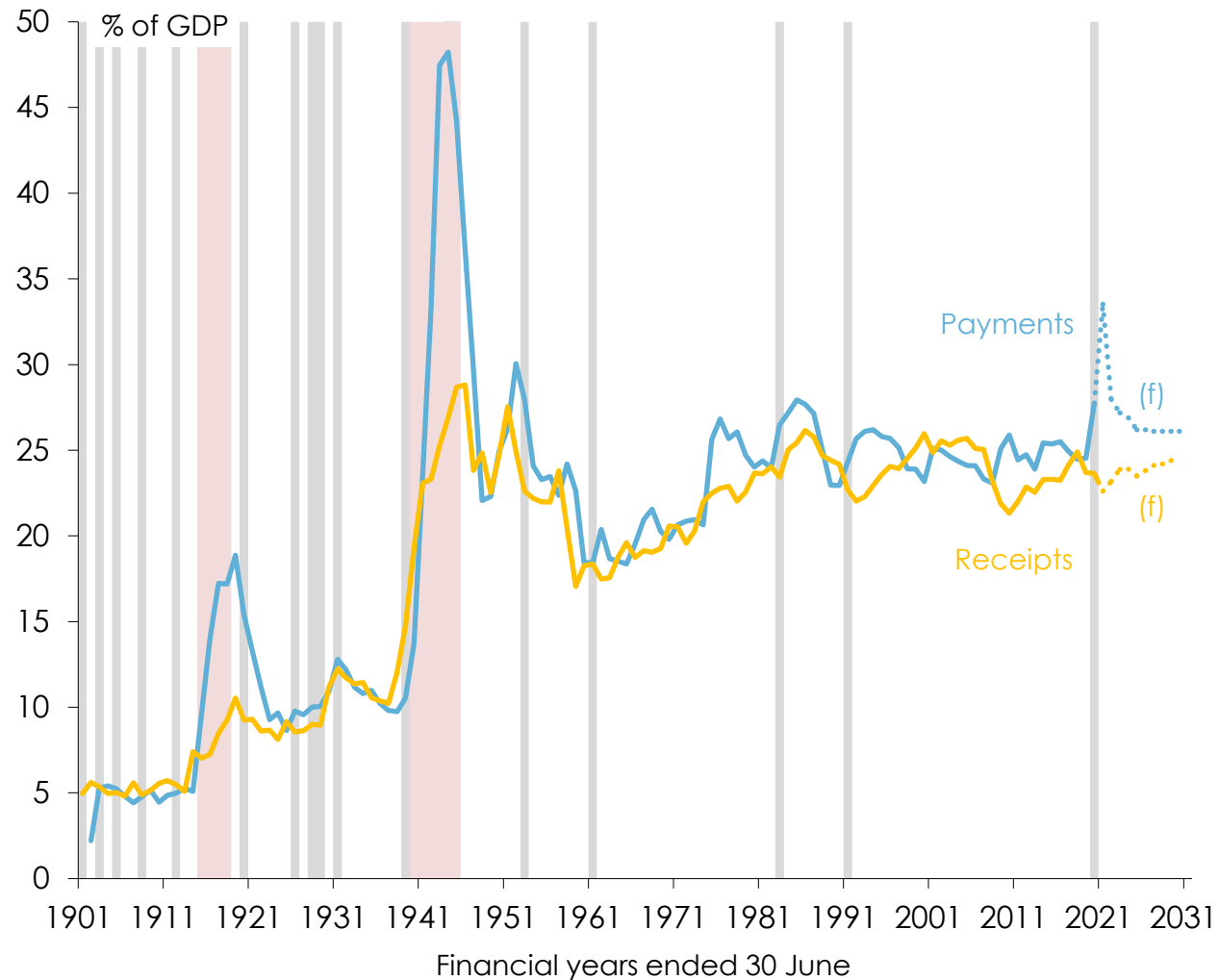
Net debt



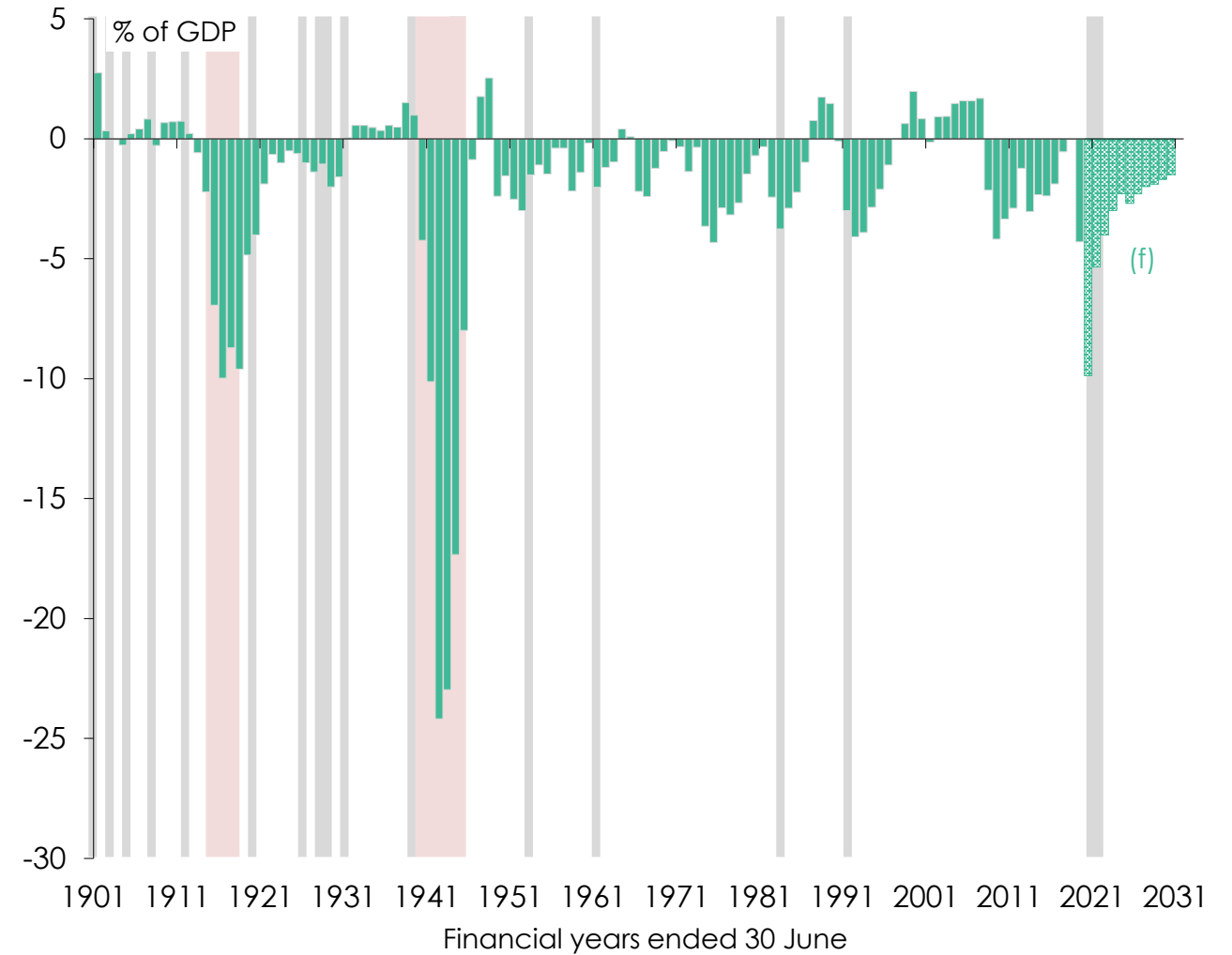
□ Projected net debt has been revised downwards by an average of just over 1½% over each of the next four years, or by a total of \$14bn by 30th June 2024

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

Australian Government receipts and payments



Australian Government budget deficit or surplus

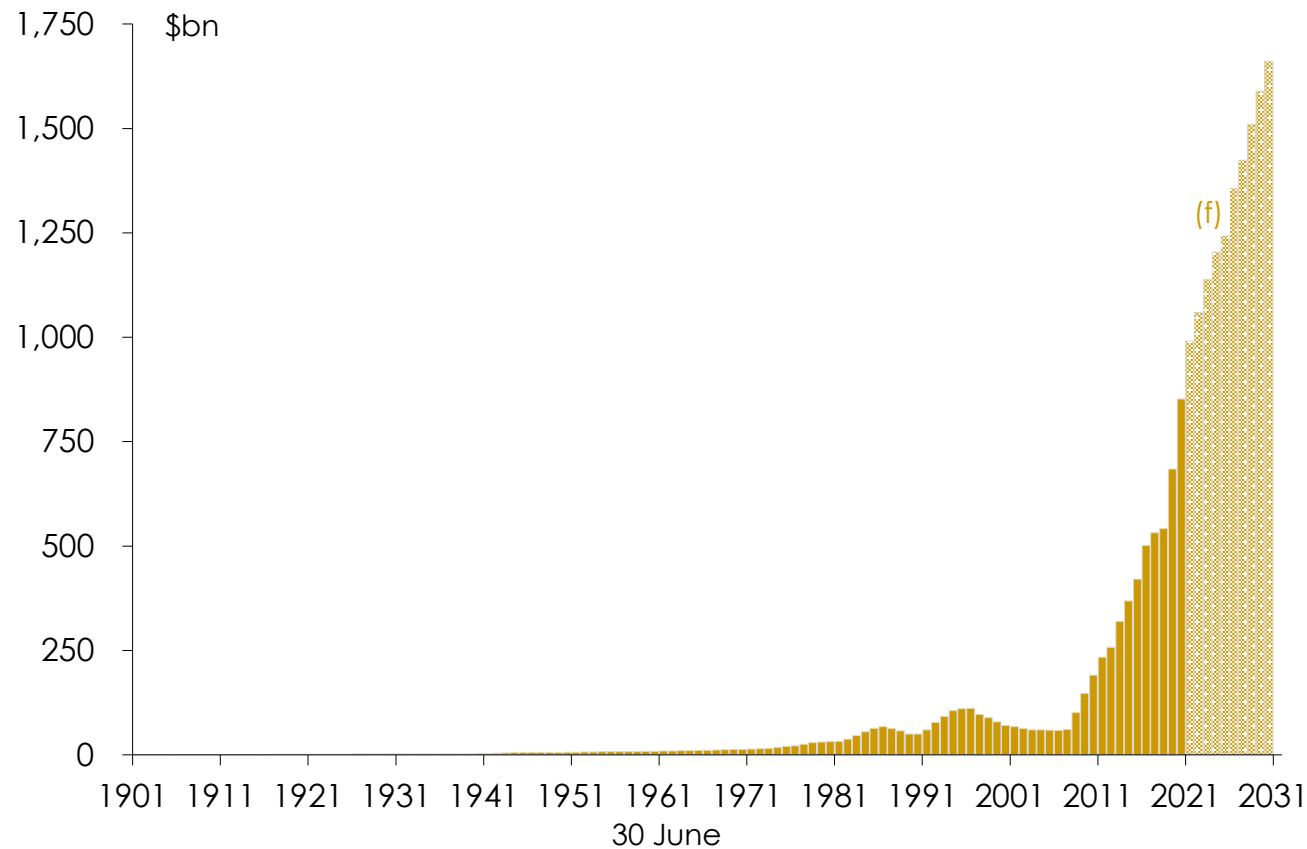


Note: Payments and the budget surplus or deficit are 'underlying' (that is, exclude 'net investments in financial assets for policy purposes') after 1989-90, when state governments became responsible for issuing their own debt, and 'headline' before that. Areas shaded in grey are fiscal years in which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

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

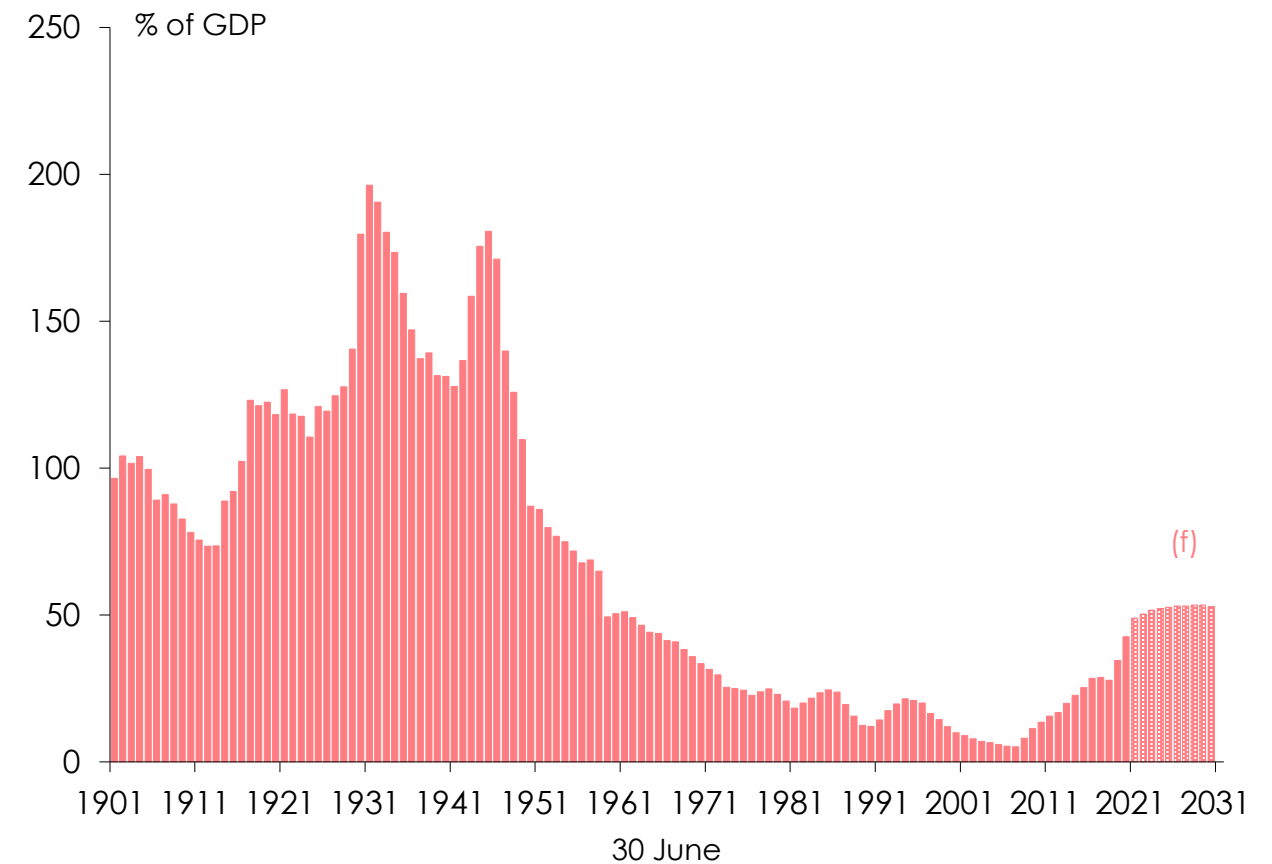
However, there's no need for undue alarm at the level of debt which will be incurred by the Australian Government

Australian Government gross public debt in \$



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

Australian Government gross debt as a pc of GDP

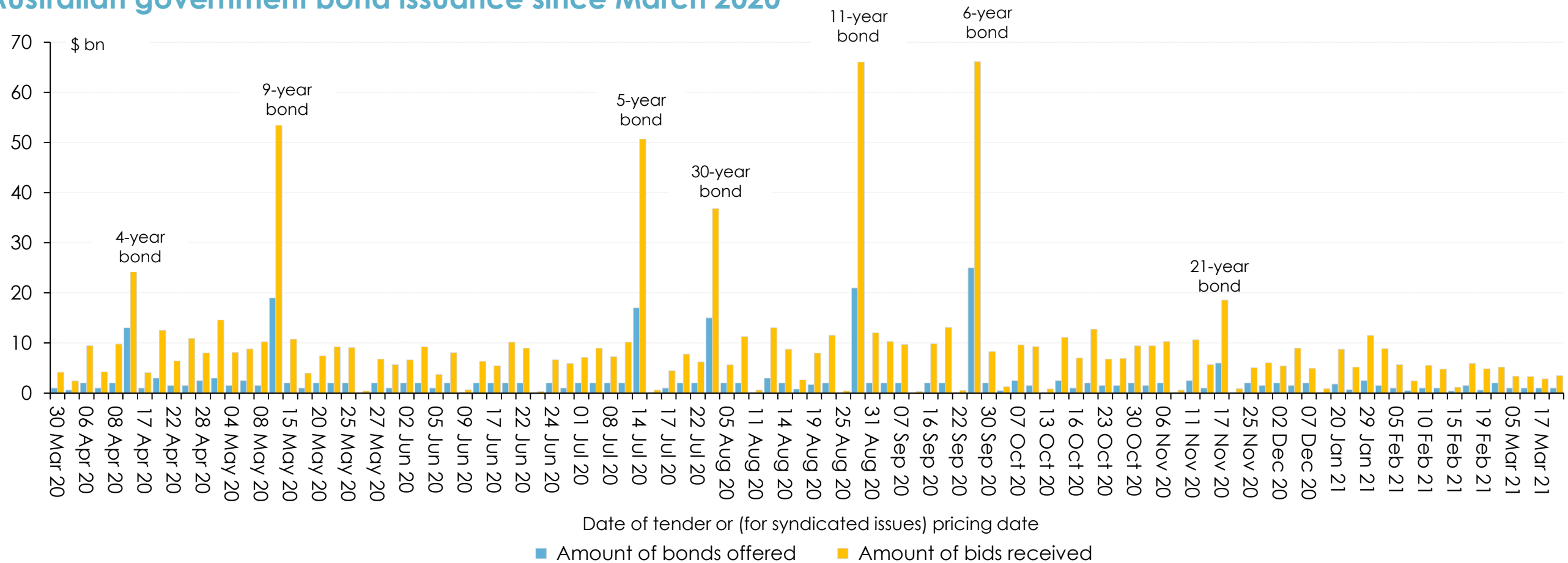


- ❑ However as a percentage of GDP, the Government's gross debt will still be less than it was in any of the first sixty years of Australia's existence as an independent nation

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

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

Australian government bond issuance since March 2020

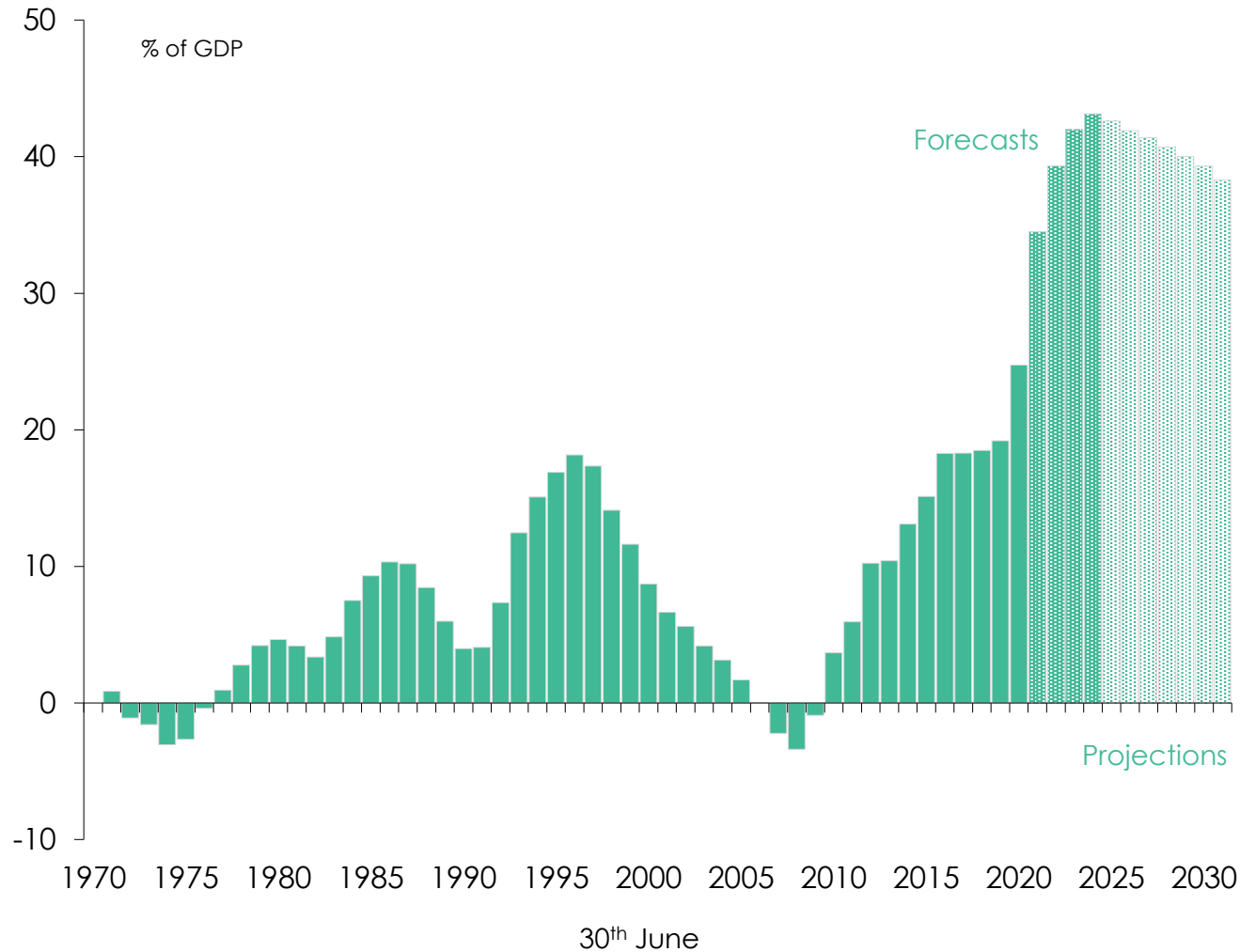


- ❑ Since 30th March 2020, the Australian Office of Financial Management has issued \$260.2bn of Treasury bonds – based on the volume of bids received it could have borrowed \$962bn with yields at most 4 basis points (0.04 of a pc point) above the highest yields actually accepted
- ❑ The AOFM only conducted two tenders this week, for \$1bn each of June 2031 and September 2026 bonds, bringing its total issuance since 1st July to \$173.3bn (75¼% of this financial year's expected total gross issuance)

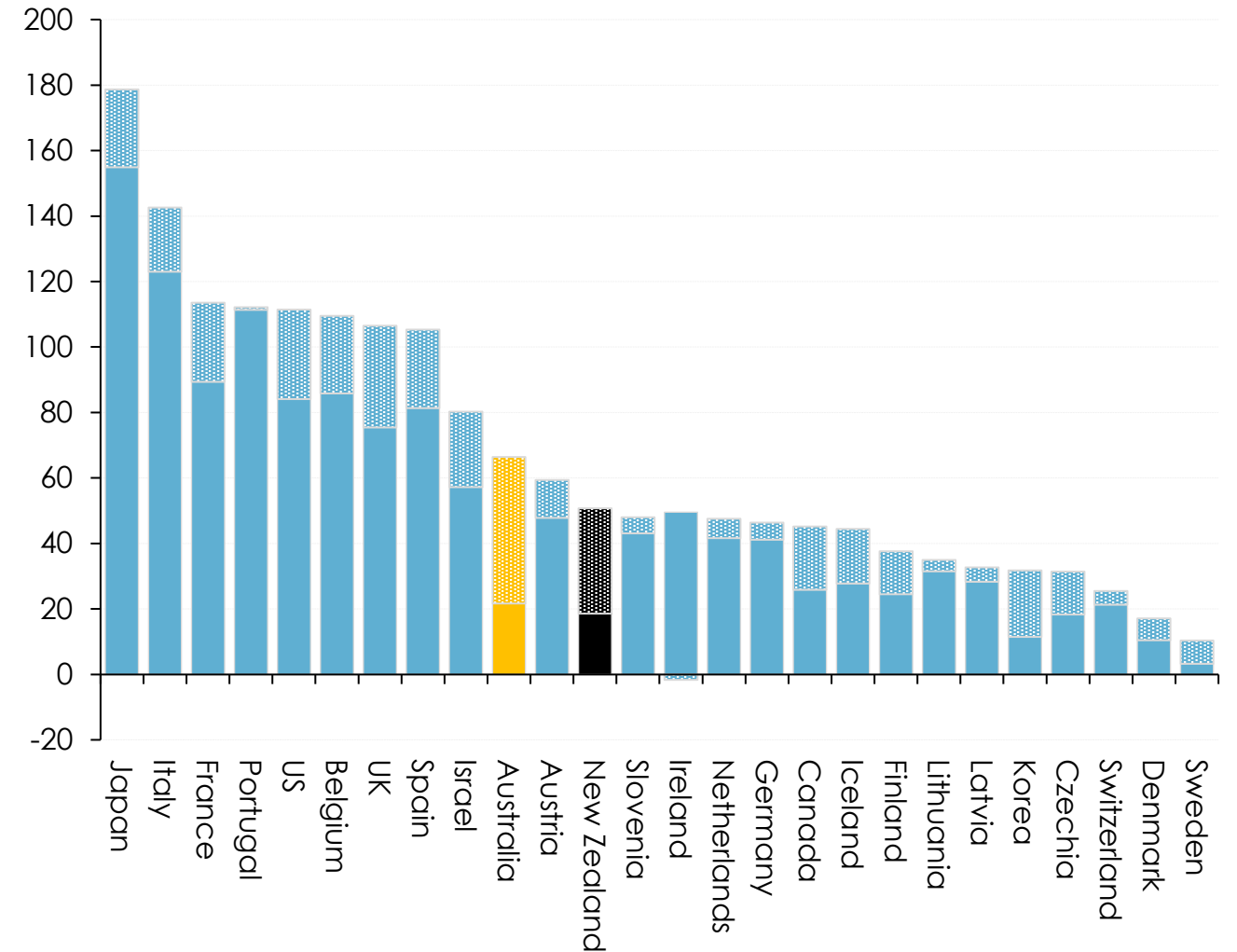
Source: Australian Office of Financial Management [data hub](#); Corinna. [Return to "What's New"](#).

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

Australian Government net debt as a percentage of GDP



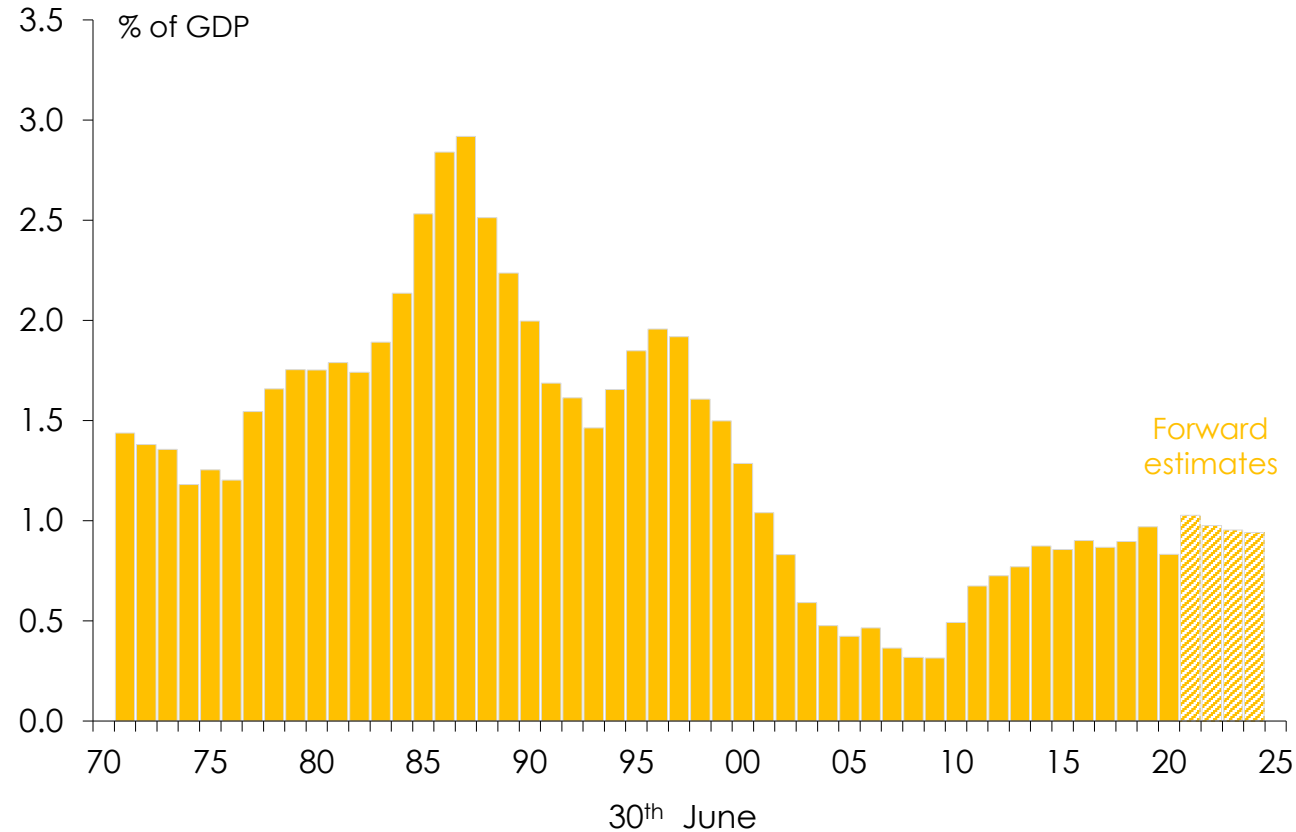
Net debt of Australian and other 'advanced' economy governments as a pc of GDP, 2019 and projected 2024



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

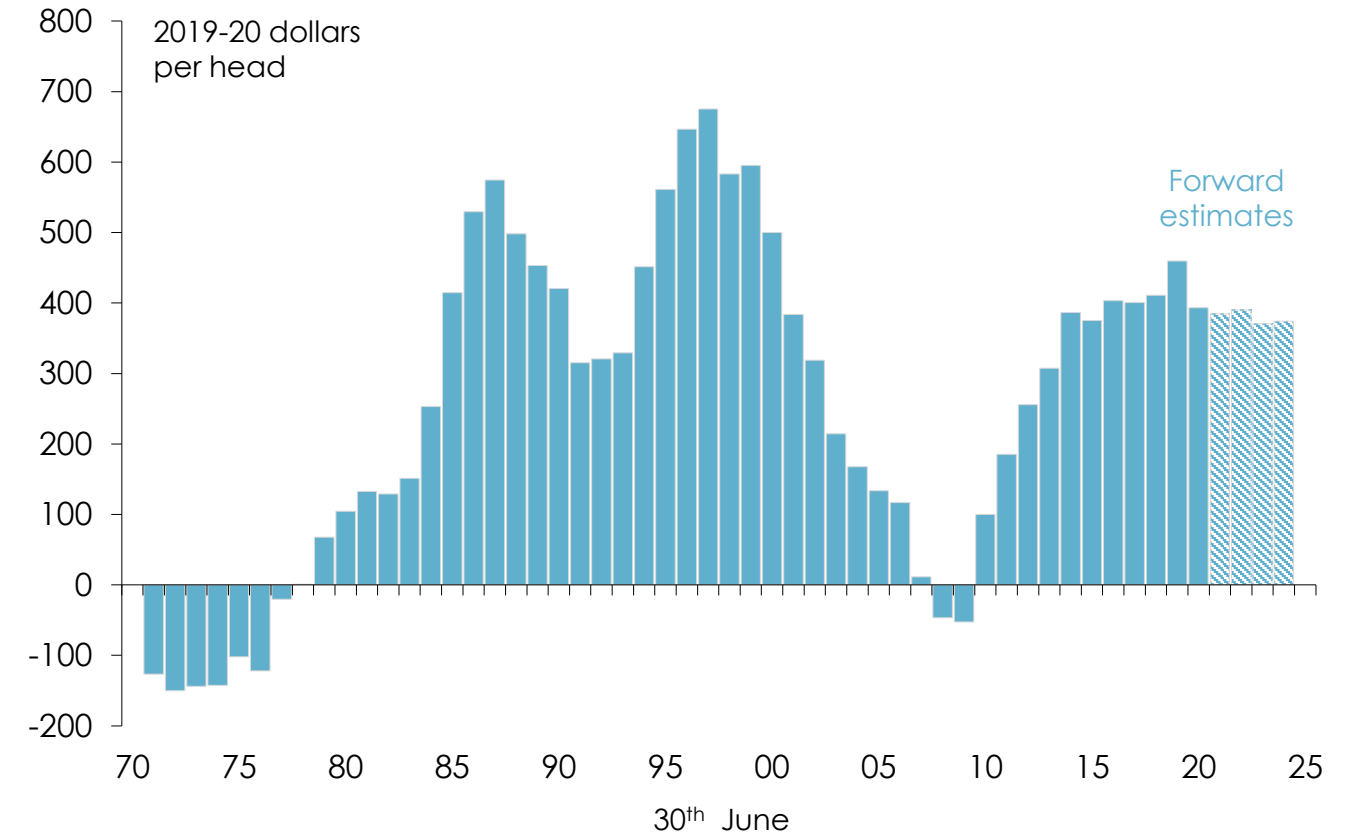
Because interest rates are so low, the cost of servicing the debt which the Government is racking up will be low by historical standards

Australian Government interest payments as a percentage of GDP



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

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

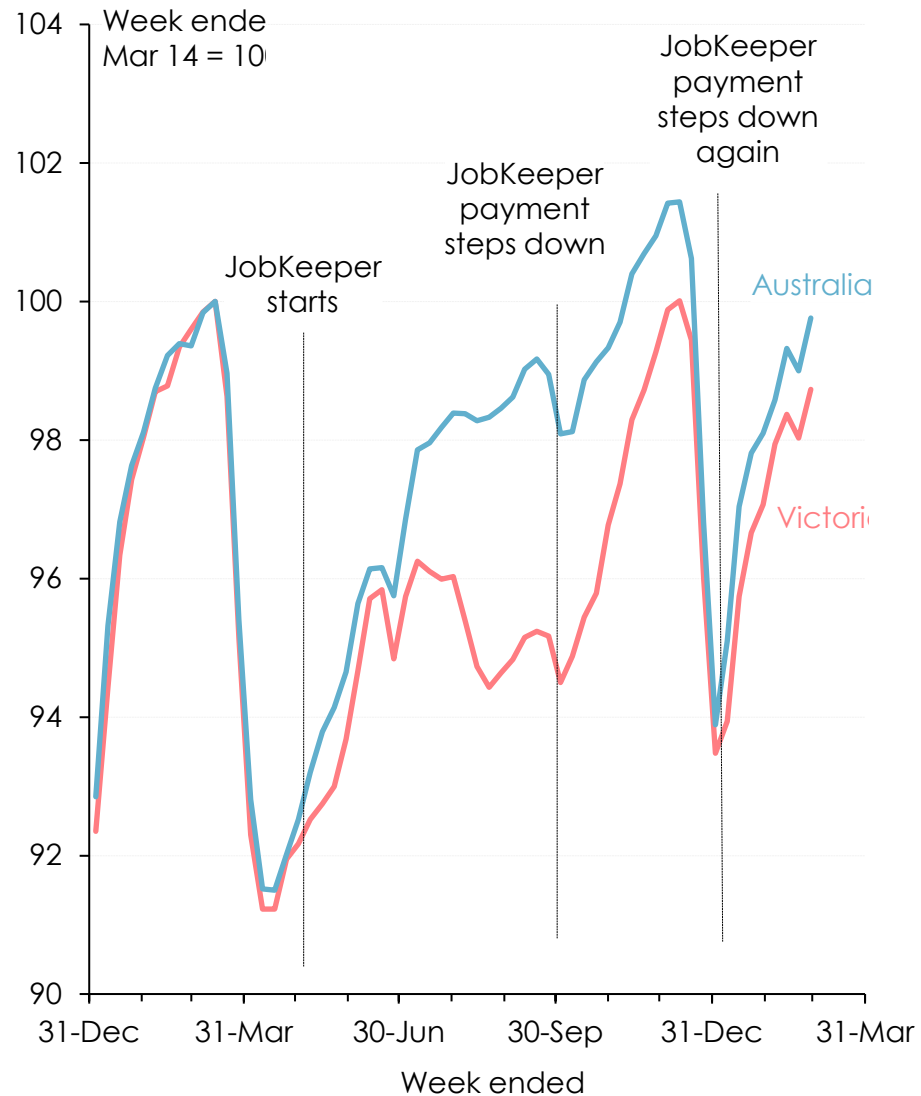


❑ Net interest payments per head of population will be less than they were in the second half of the 1980s, between 1993-94 and 1999-2000, or between 2015-16 and 2019-20

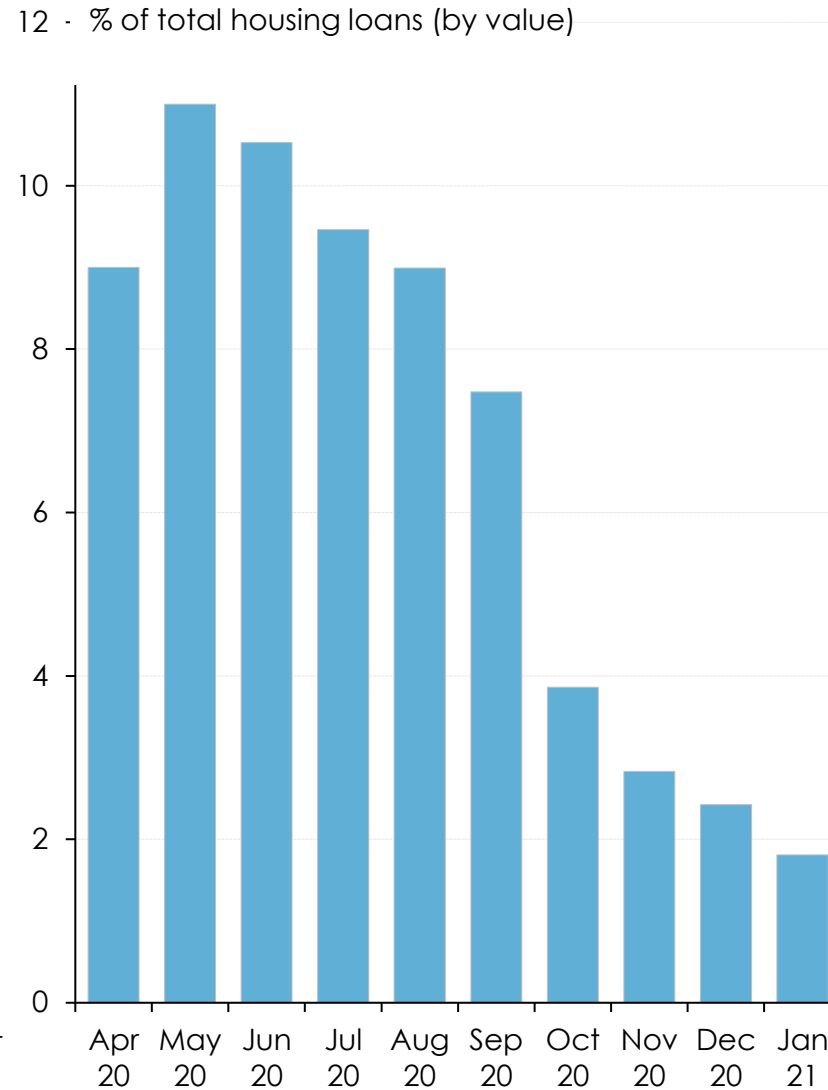
Sources: Global Financial Data; [2020-21 Mid-Year Economic and Fiscal Outlook](#); Corinna. [Return to "What's New"](#).

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

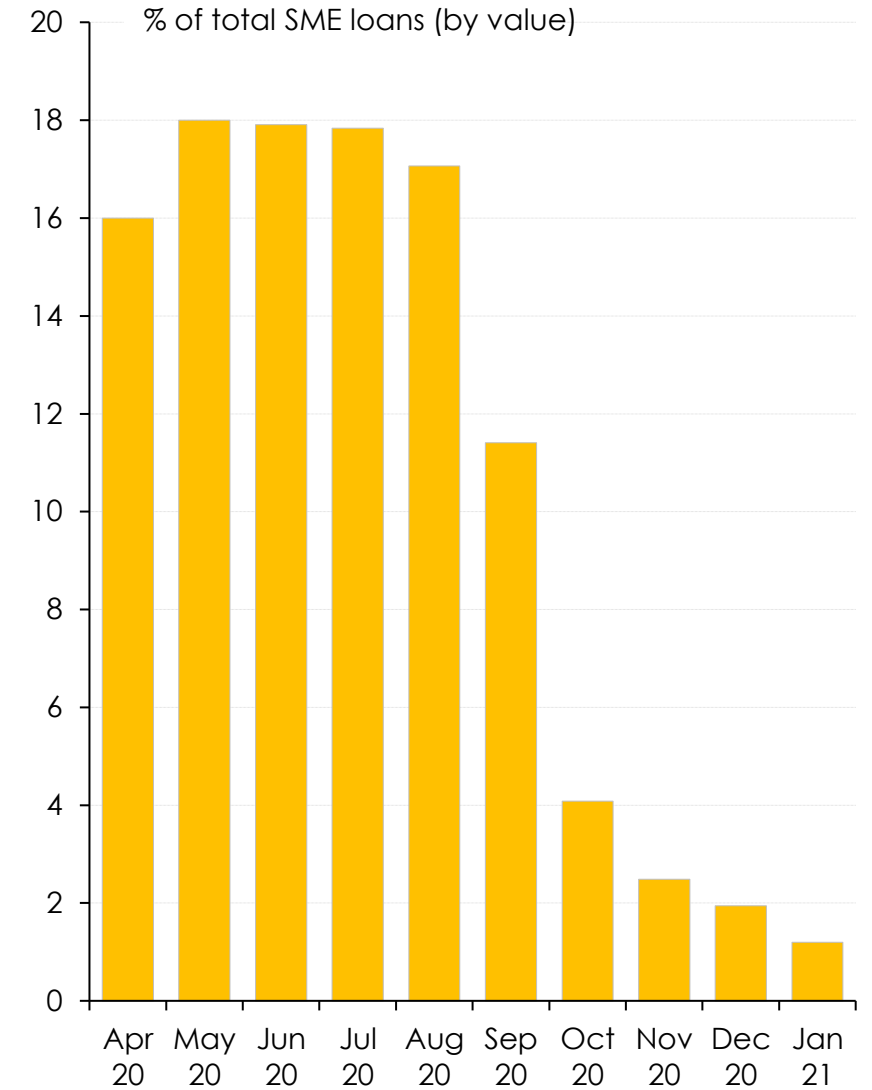
Payroll employment & JobKeeper



Mortgage repayment deferrals



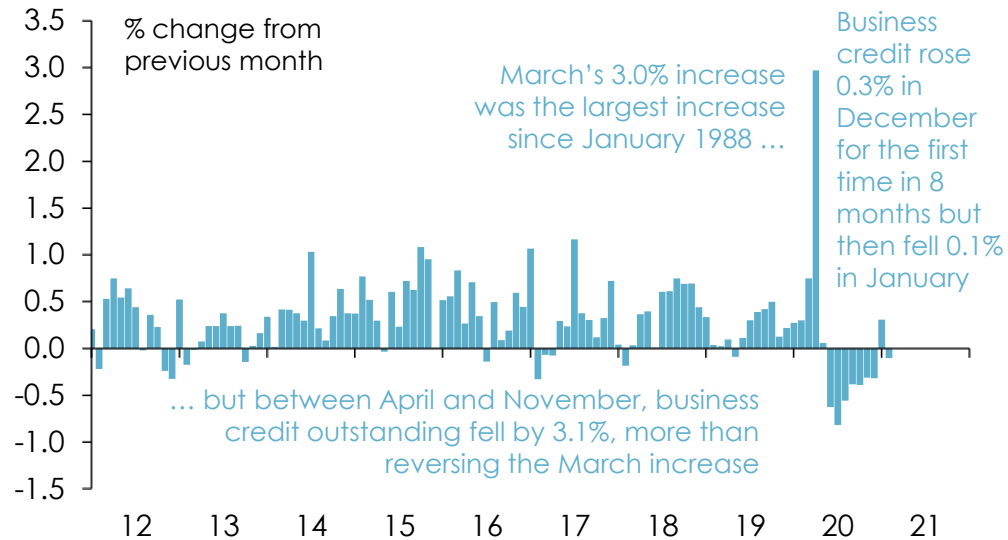
SME loan repayment deferrals



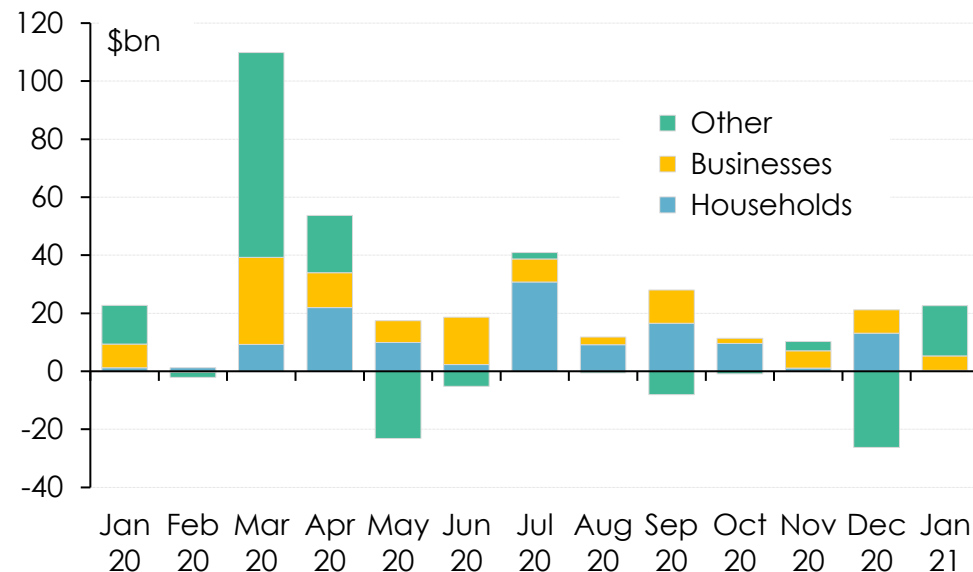
Note: Weekly payroll jobs data are not seasonally adjusted: as noted in [slide 94](#) the decline in the last two weeks of December and first week of January is consistent with normal seasonal patterns. Sources: [ABS](#); [Australian Financial Security Authority](#); [Australian Prudential Regulatory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

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

Business credit outstanding



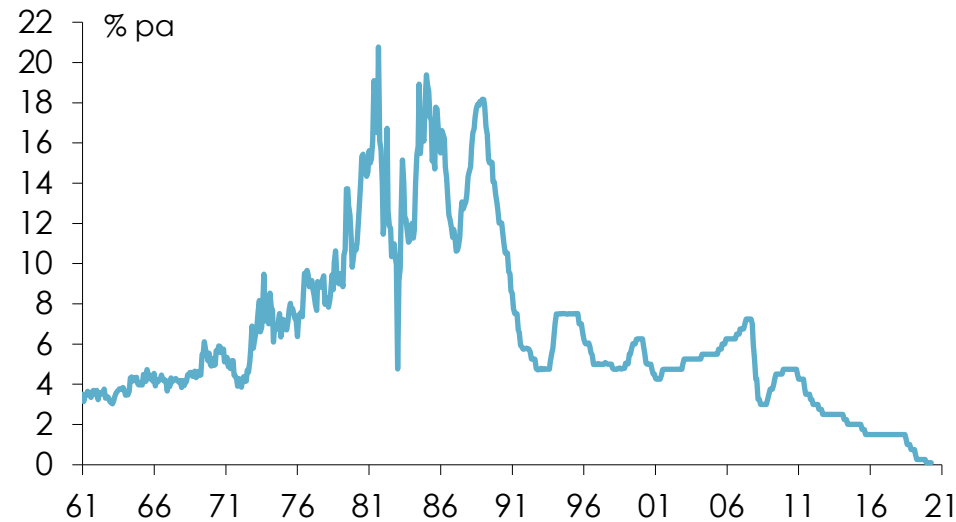
Monthly change in bank deposits



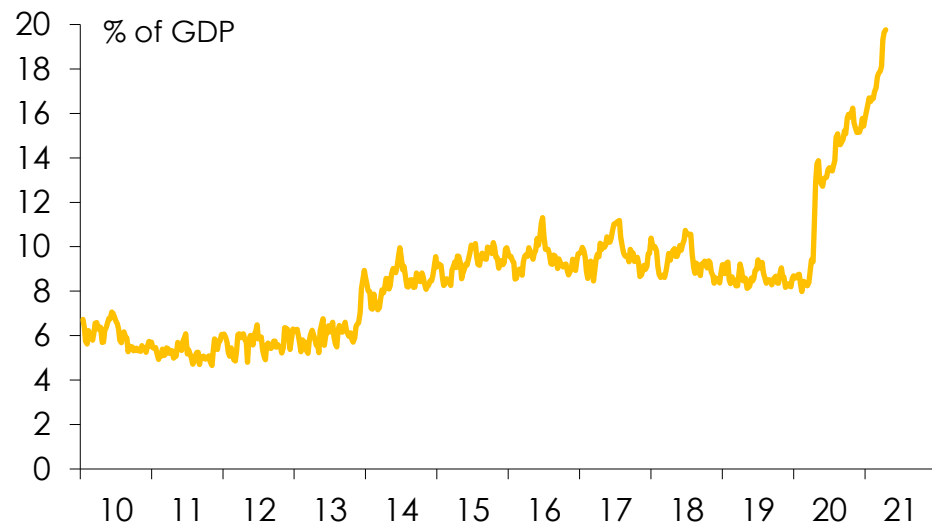
- ❑ Banks have cut interest rates on small business loans by more than the official cash rate since June last year (when the RBA started cutting rates again)
- ❑ Banks have made credit readily available when needed – particularly in the early stages of the pandemic
- ❑ Banks extended ‘repayment holidays’ 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"](#).

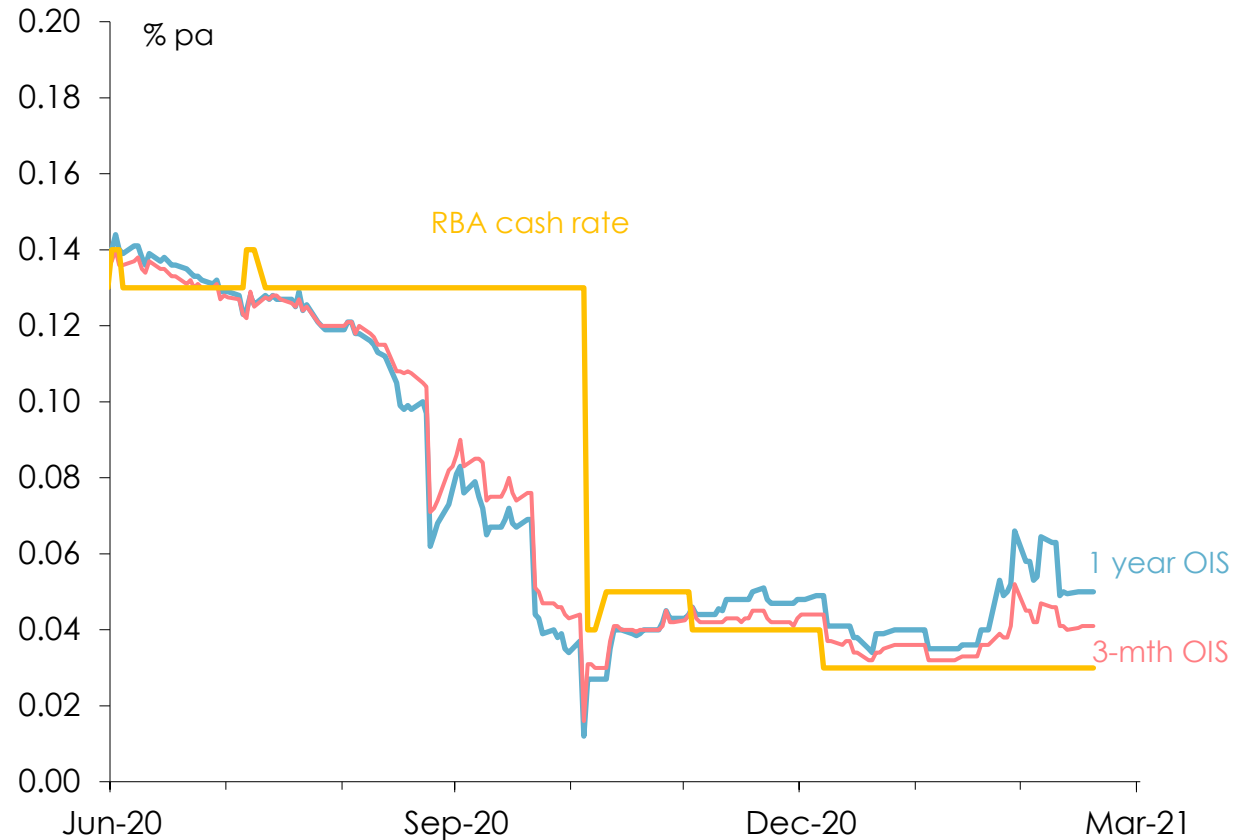
- ❑ Last year the RBA cut its cash rate target from 0.75% to 0.10% (and in practice allowed the cash rate to fall to 0.03%)
 - the RBA Board again left all its monetary policy settings unchanged at its latest meeting this past Tuesday
 - and re-iterated its previous 'guidance' that it will "not increase 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 \$87bn – 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 \$92bn out of a potential \$185bn (including \$200mn 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)

RBA Governor Phillip Lowe last week pushed back strongly against market speculation about interest rates rising before 2024

- ❑ In a [speech](#) last Tuesday RBA Governor Lowe explicitly repudiated market expectations of “possible increases in the cash rate as early as late next year and then again in 2023”, saying “this is not an expectation that we share”
- ❑ Governor Lowe emphasized that although the Australian economy was “recovering well, and better than expected”, there is “still a long way to go” and “the economy is operating well short of full capacity”
 - he highlighted the contrast between the “strong rebound” in consumption and the ongoing weakness in business investment, which was still “over 10% below where we thought it would be at the start of last year”
 - he also observed that there has yet to be “the same type of bounce-back” in the “nominal economy” – ie, wages and prices – as has been seen in indicators of economic activity”
- ❑ The Governor re-iterated the shift in the RBA’s approach to its inflation target which it promulgated last year
 - “it is not enough for inflation to be *forecast* to be in [the 2-3%] range”, but, rather, the RBA “want[s] to see *actual inflation outcomes* in the target range *and* be confident that they will stay there” before adjusting the cash rate (emphasis added)
- ❑ He again emphasized that for this condition to be met, “it is likely that wages growth will need to be sustainably above 3%”
 - adding that “we are a long way from a world in which wages growth is running at 3% plus”
 - and stressing that crossing this threshold “will require a tight labour market to be sustained for some time”
- ❑ In his speech the Governor for the first time formally articulated “achieving the maximum possible sustainable level of employment” (echoing a phrase used by Fed Chair Jay Powell) as an objective of monetary policy, stressing that the RBA Board “places a high priority on a return to full employment”
 - having on earlier occasions suggested that ‘full employment’ might now be consistent with an unemployment rate of “4-point-something”, in response to a question on Tuesday he said “it’s not impossible we could sustain an unemployment rate starting with a 3”

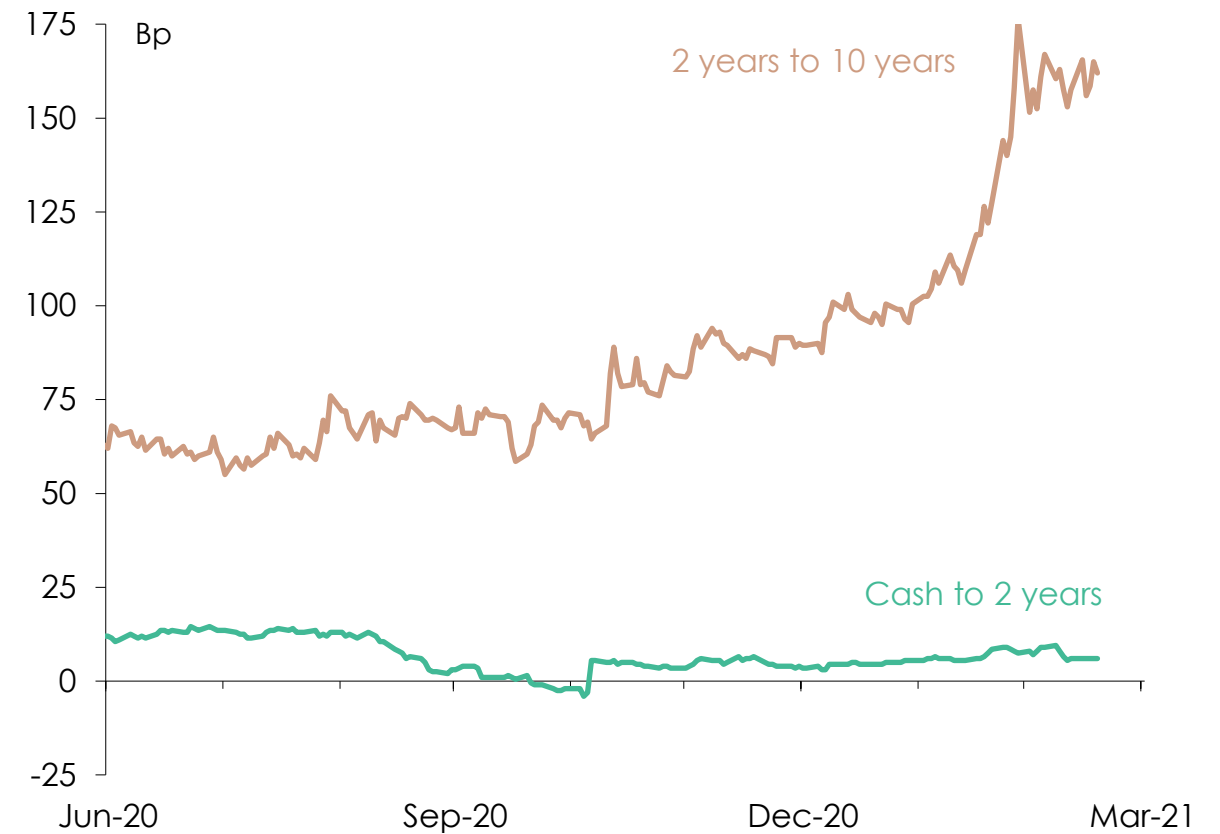
Short-term interest rate markets were little changed this week, after last week taking on board Governor Lowe's strong remarks

Overnight index swap rates



- ❑ 3- and 12-month OIS were unchanged this week, after falling 1-2 bp the previous week in response to Governor Lowe's assertive 'push back' against bond market pricing of rate increases before 2024 ([slide 133](#))

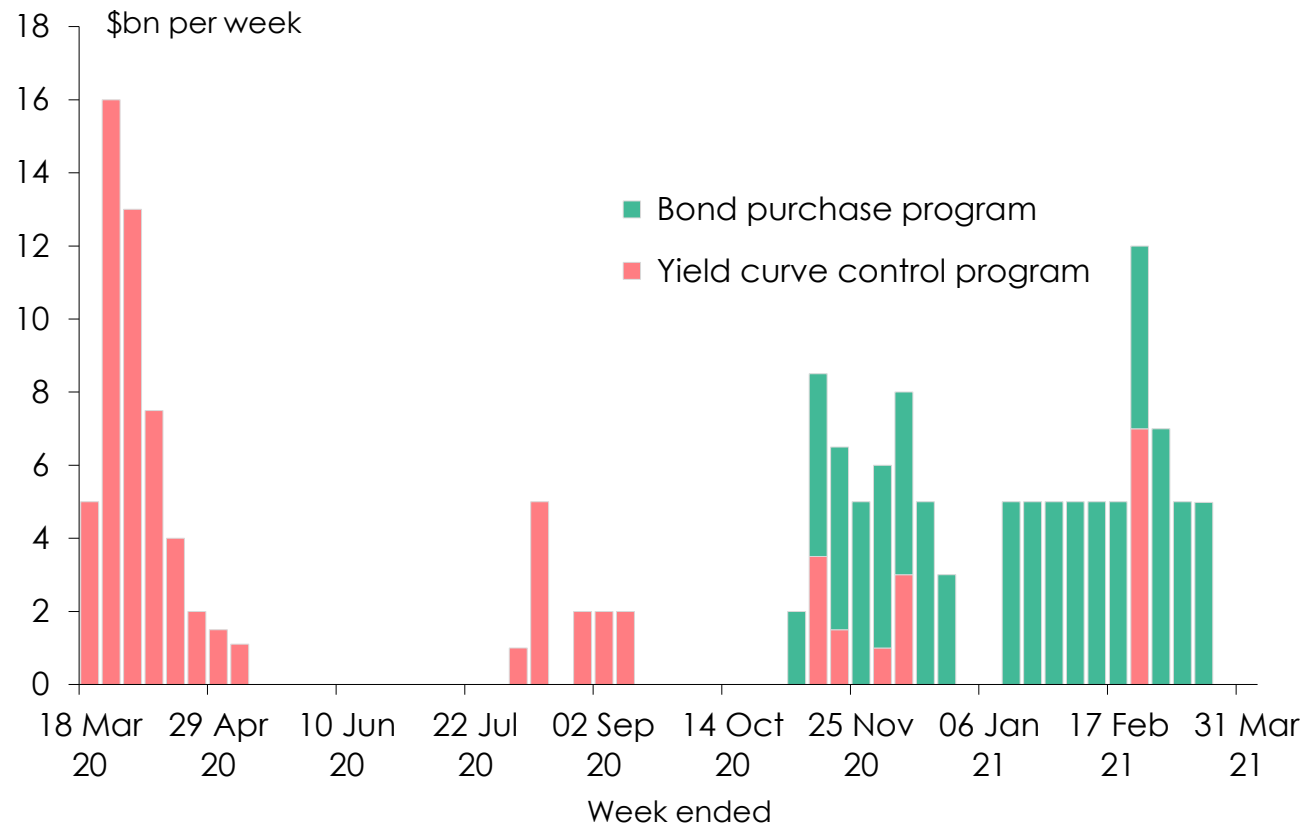
Yield curves



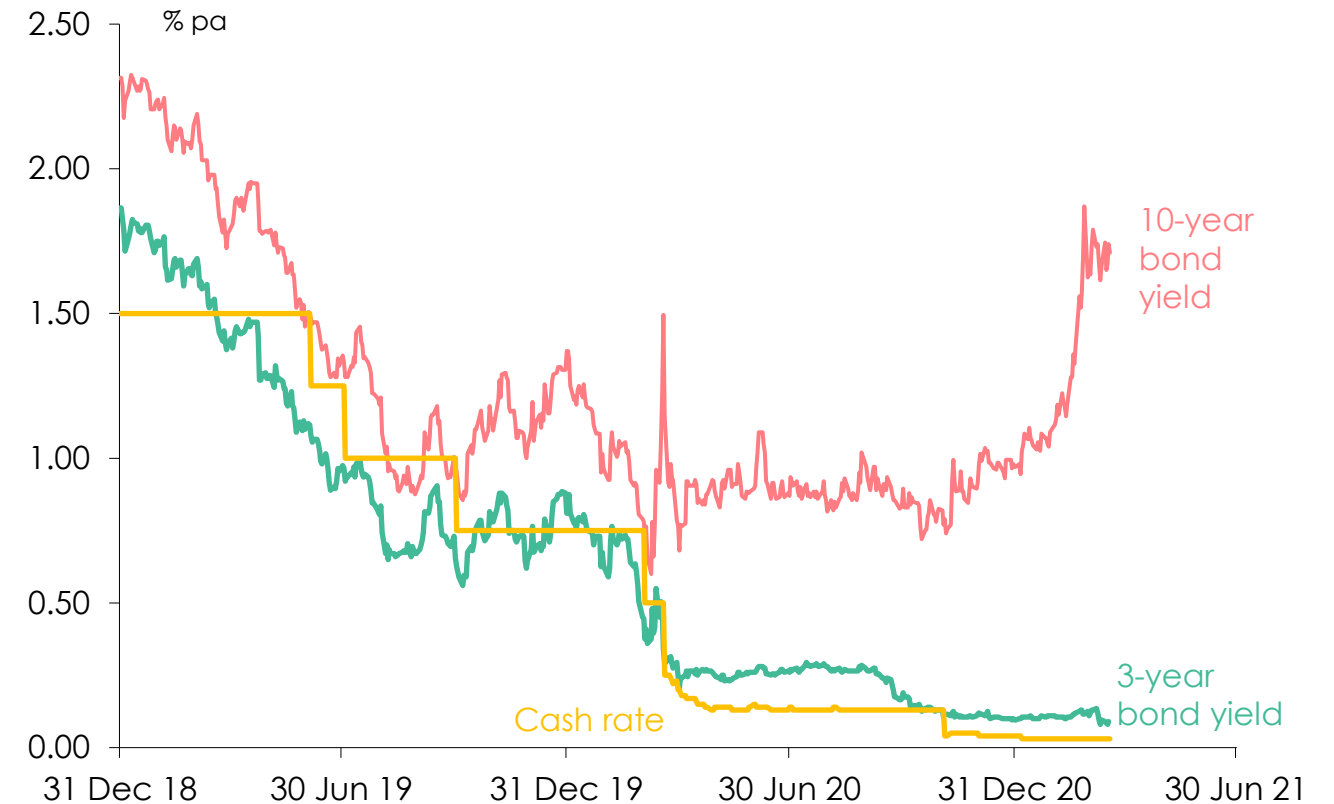
- ❑ The cash-2 year spread was unchanged this week (after narrowing last week), but the 2 year-10 year spread widened a net 4bp over the course of the week as the long end rose in line with US trends

10-year yields rose a net 4bp this week in line with (but slightly less than) US Treasuries, but the 3-year yield remained below the RBA's target

RBA open market bond purchases



Interest rates

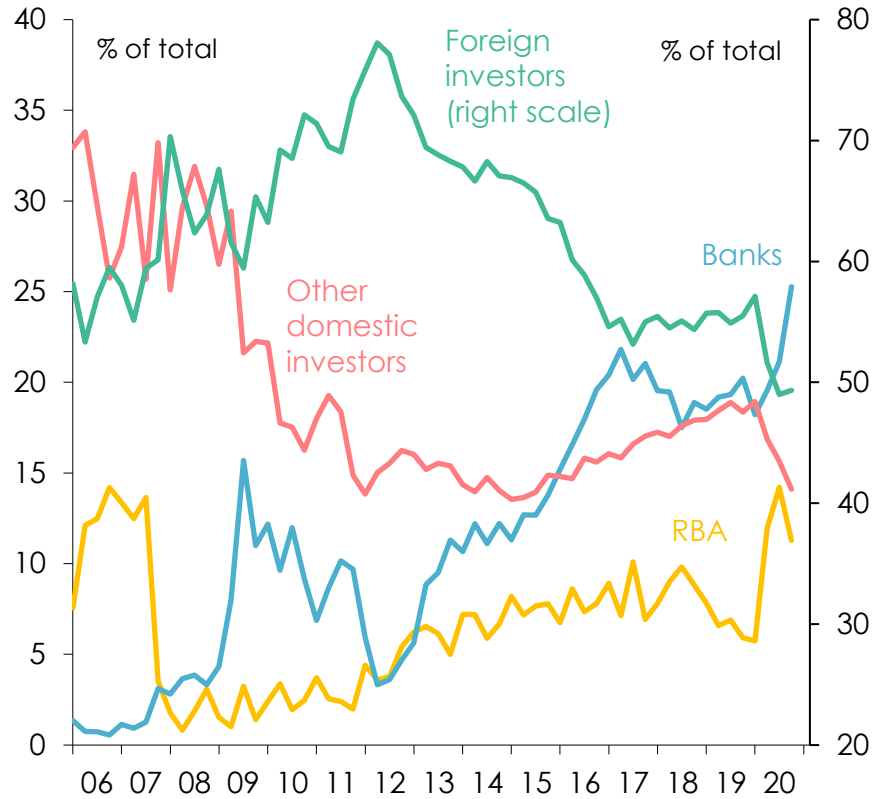


❑ The RBA bought just under \$5bn of bonds this week under its Bond Purchase Program (its weekly purchase of state government bonds fell slightly short), bringing the total to just under \$87bn – but it again didn't purchase any 3-year bonds under its yield target program

❑ 3 year yields remained under the RBA's 0.10% target this week (hence no need for purchases), but 10-year yields rose 4bp (at one stage 8 bp) in line with (but slightly less than) their US counterparts

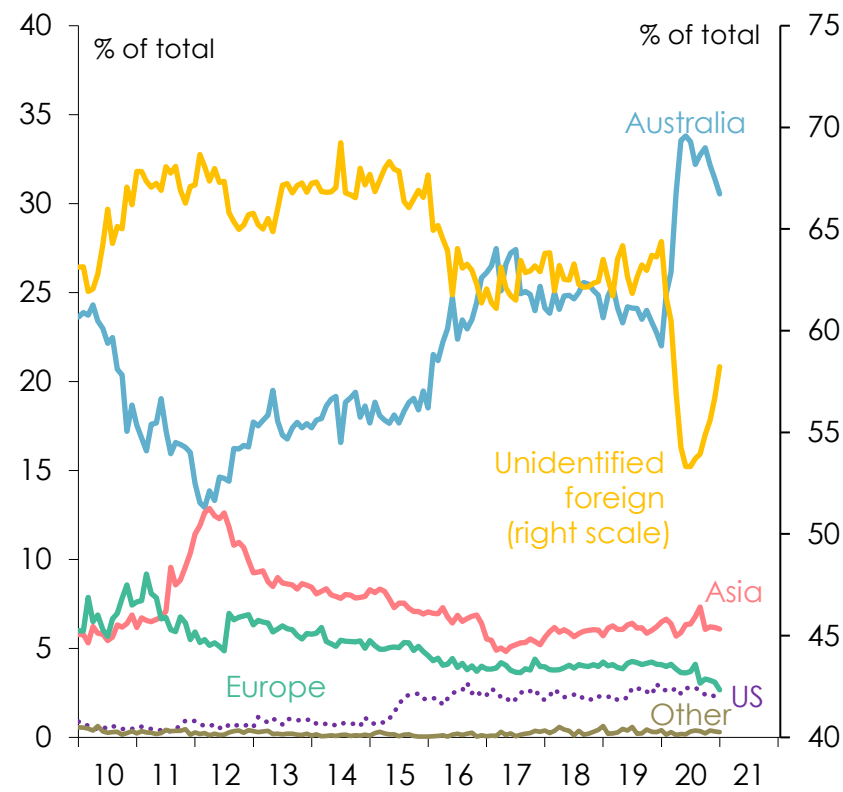
Domestic banks increased their holdings of federal, state and territory government bonds by \$160bn over the first three quarters of 2020

Holder of Australian Government bonds



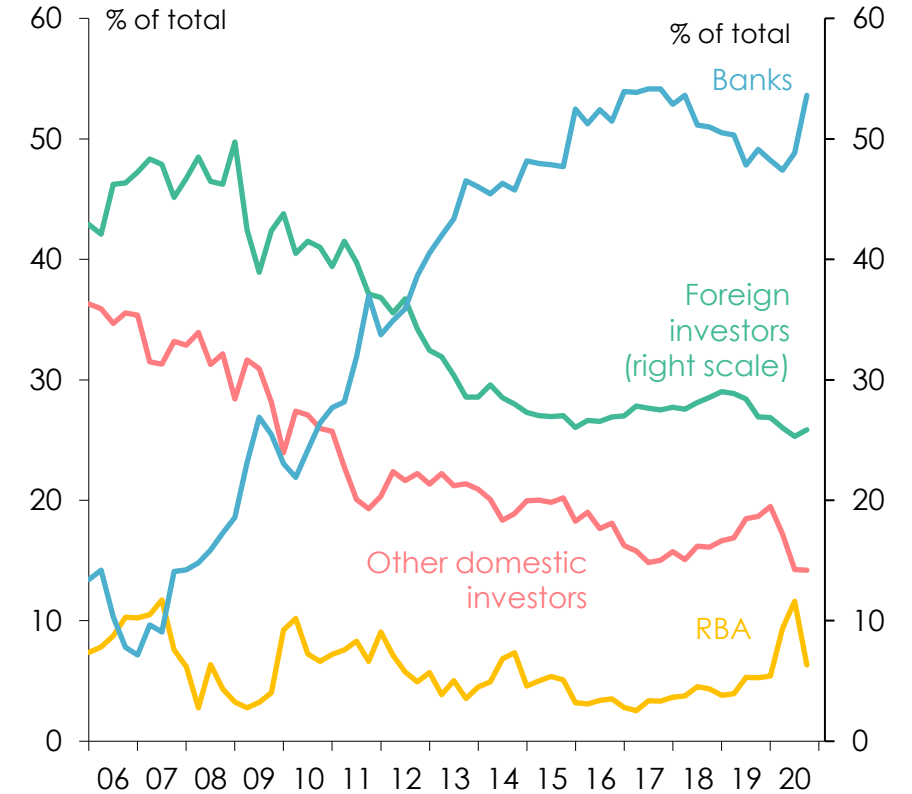
Australian Gov't bonds on issue rose by \$221bn over the first three quarters of 2020 – of which domestic banks absorbed \$101bn, and the RBA and foreign investors \$60bn each

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

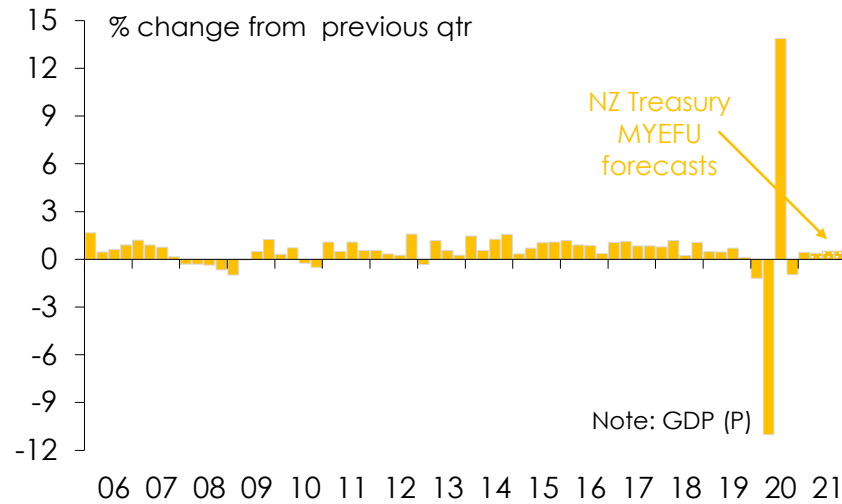


State & Territory Gov't bonds on issue increased by \$78bn over the first three quarters of 2020, of which domestic banks absorbed \$58bn, foreign investors \$17bn and the RBA \$7½bn

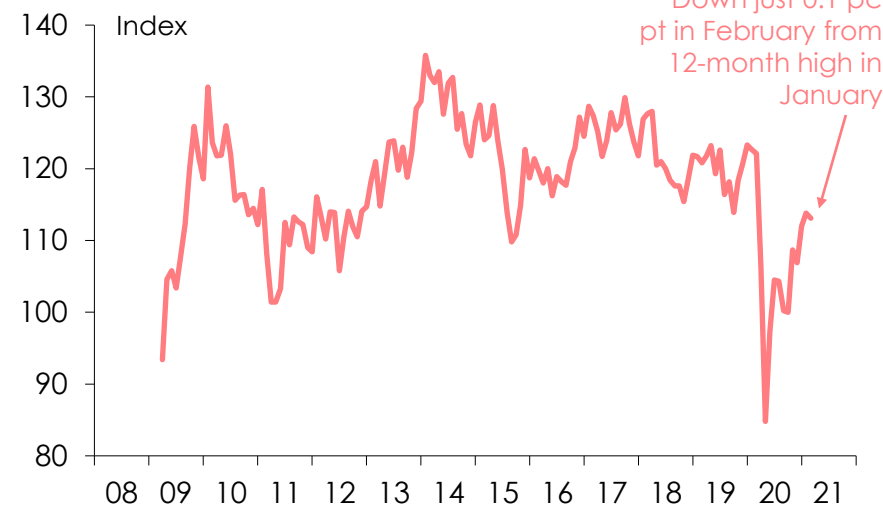
New Zealand

New Zealand's economy contracted 1.0% in Q4 after a 13.9% rebound in Q3 to be 0.9% smaller than the pre-pandemic peak

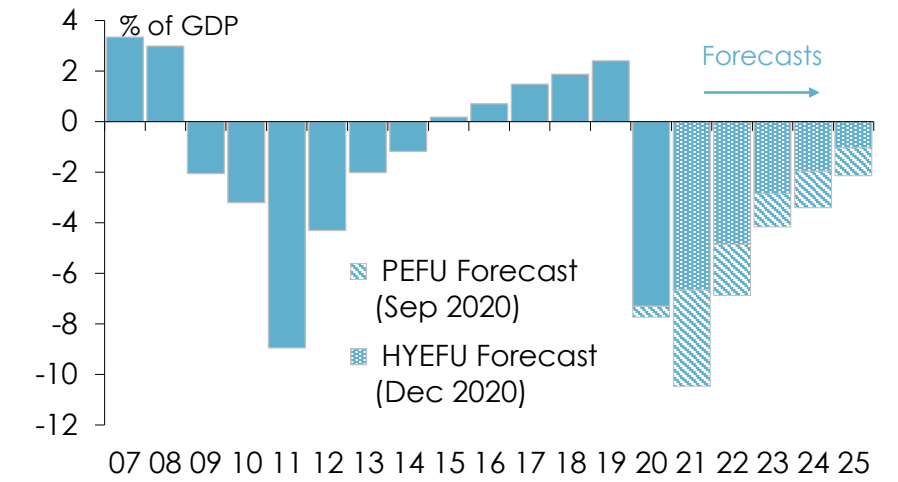
Real GDP



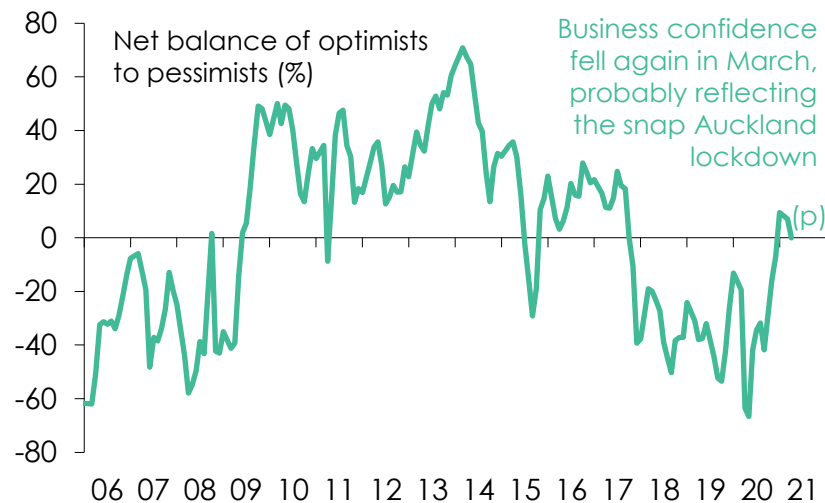
Consumer confidence



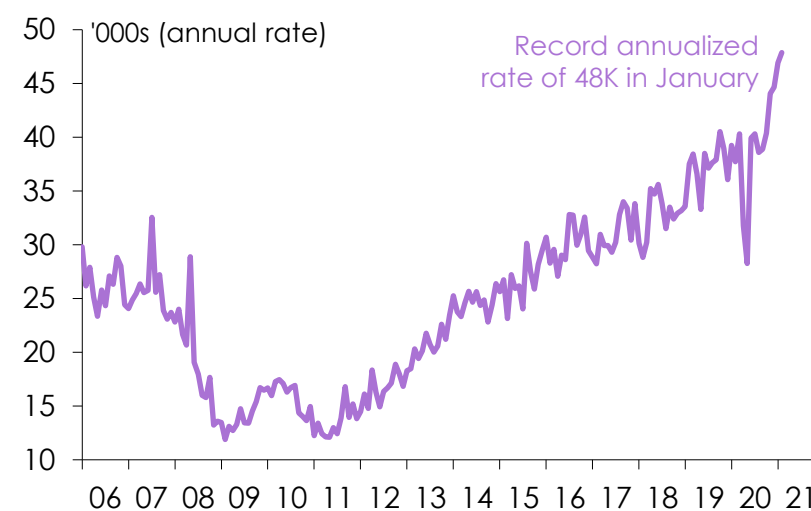
NZ government budget balance



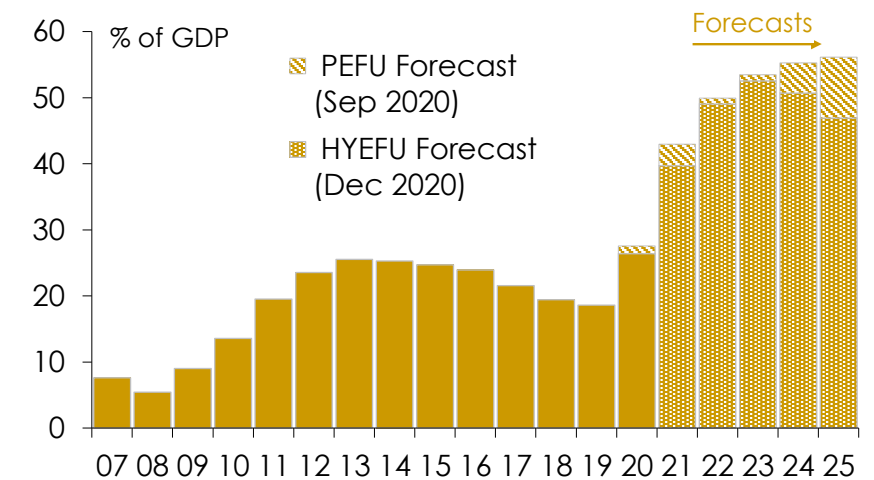
Business confidence



Dwelling 'consents' (permits)



NZ 'core Crown debt'

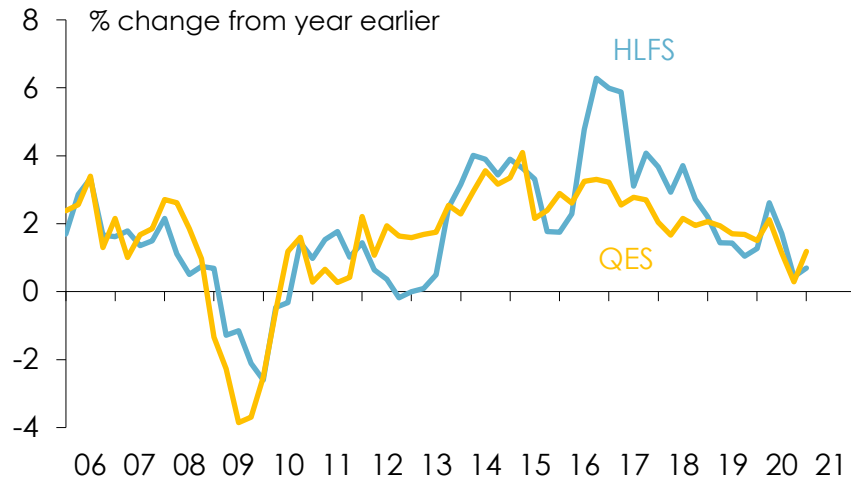


Note: New Zealand uses GDP(P) as its preferred measure of GDP. Unemployment rates are quarterly. The measure of the NZ Government budget balance is 'OBEGAL', which stands for 'operating balance excluding gains and losses' (an accrual accounting measure). Net 'core Crown debt' excludes assets of the NZ Super Fund, student loans and other advances, and financial assets held for public policy purposes. Fiscal data (the two right-hand charts) are for fiscal years ended 30th June.

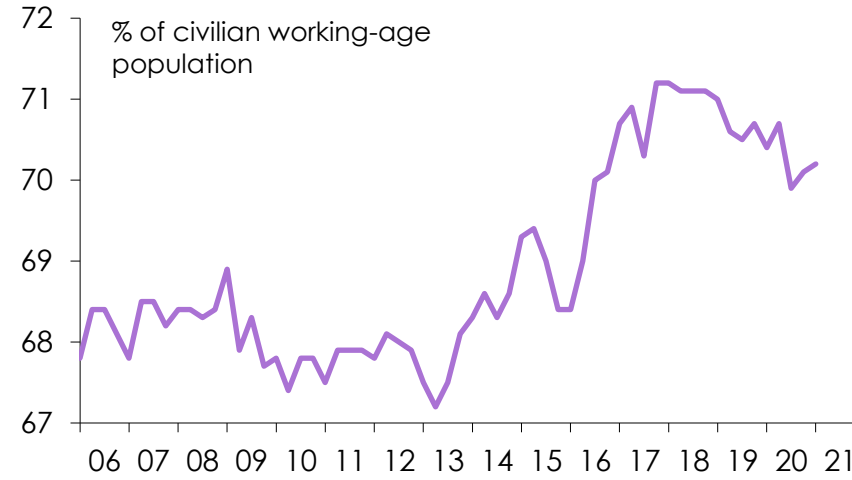
Sources: [Statistics NZ](#); ANZ-Roy Morgan; [ANZ Bank NZ](#); NZ Treasury [Half-Year Economic and Fiscal Update](#) 2020. [Return to "What's New"](#).

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

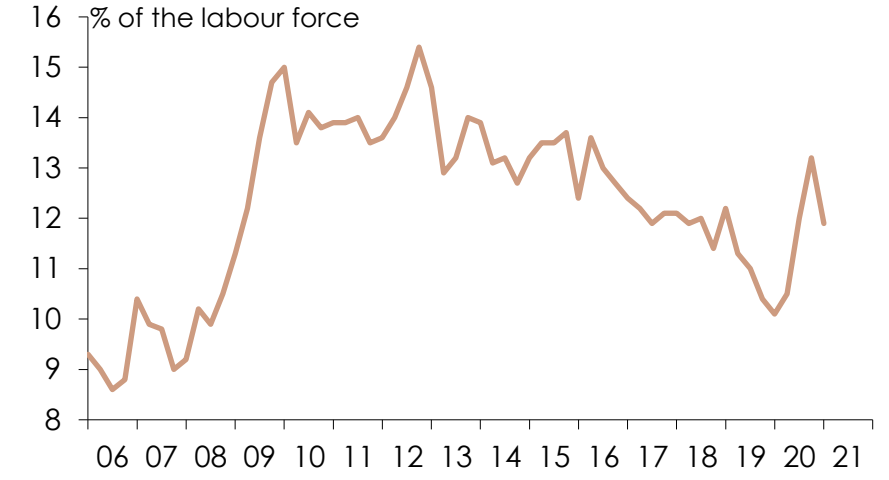
Employment



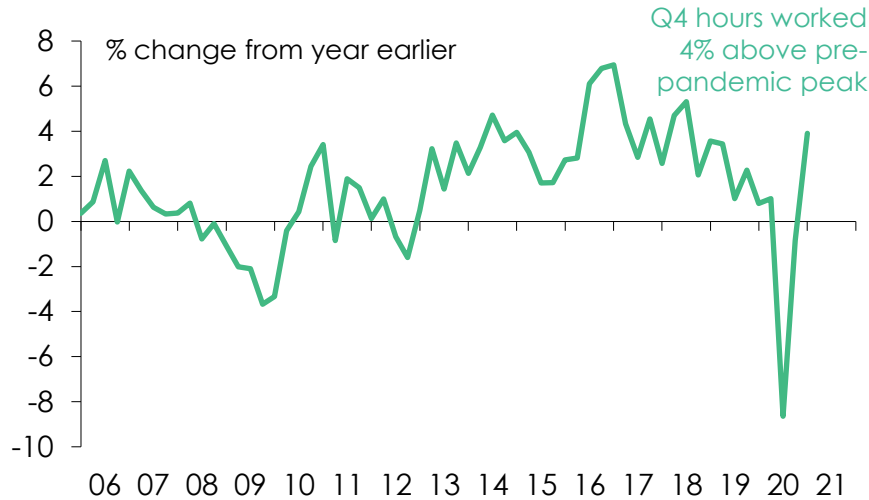
Labour force participation rate



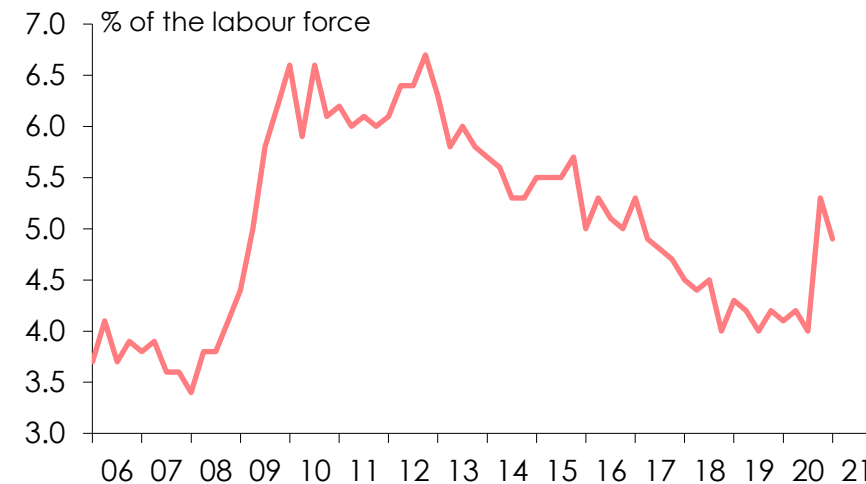
Labour force under-utilization rate



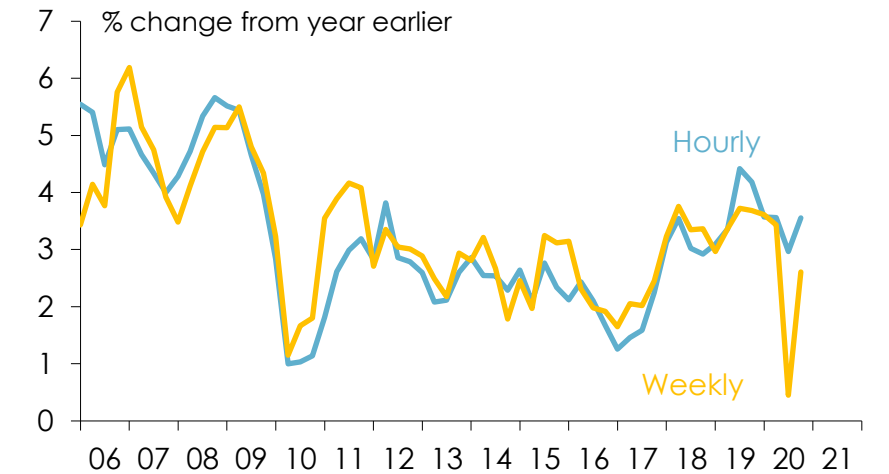
Hours worked



Unemployment rate



Average weekly earnings

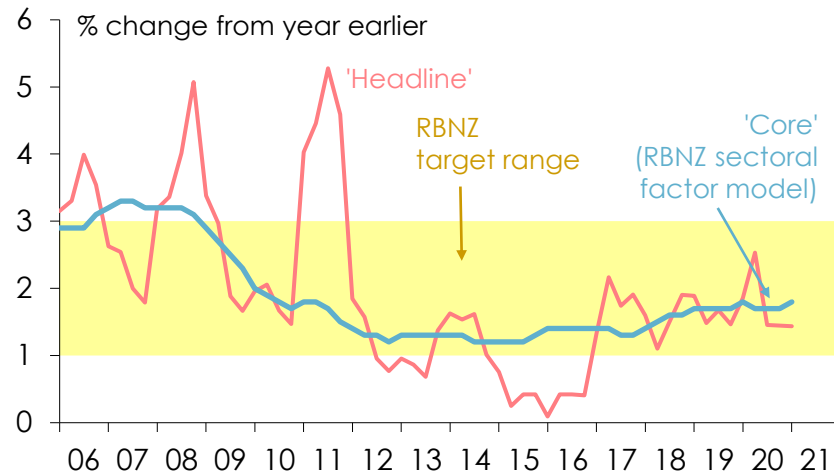


Note: New Zealand labour force data are only published quarterly. There are two 'headline' series on employment – the household labour force survey (HLFS) which counts the number of people in employment during the quarter; and the quarterly employment survey (QES), which counts the number of 'filled jobs' at 'economically significant enterprises' in the 'reference week' in the middle of the quarter, excluding the self-employed and those working in agriculture and fishing. The labour force under-utilization rate measures those who are unemployed plus those who are employed part-time but working fewer hours than they are able and willing to work.

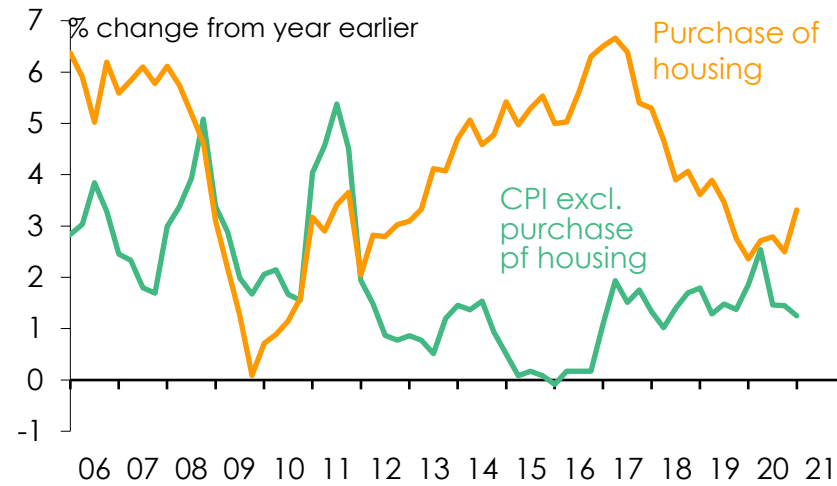
Source: [Statistics NZ](#). March quarter data will be released on 7th April. [Return to "What's New"](#).

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

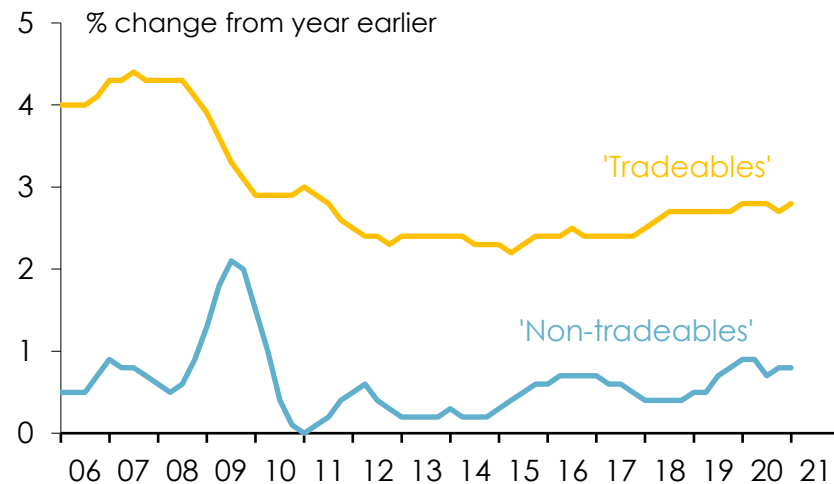
Consumer prices



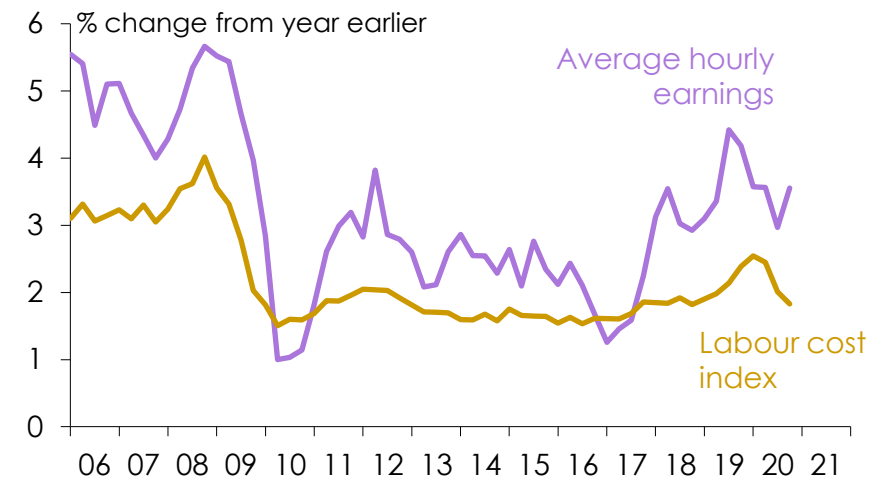
Housing costs in the CPI



Components of 'core' inflation



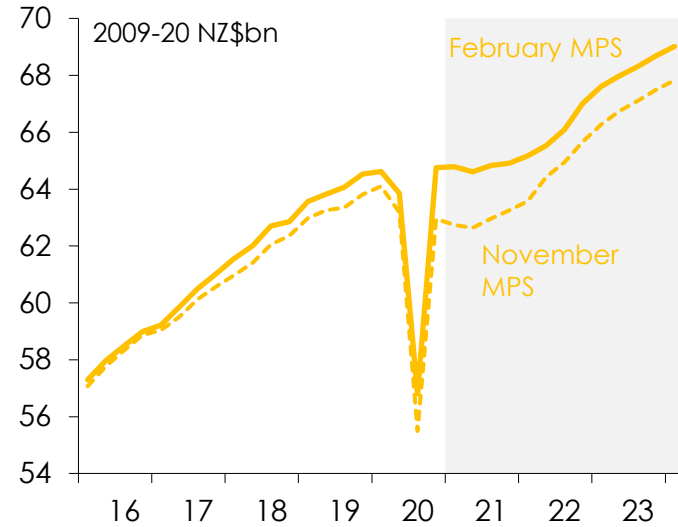
Labour costs



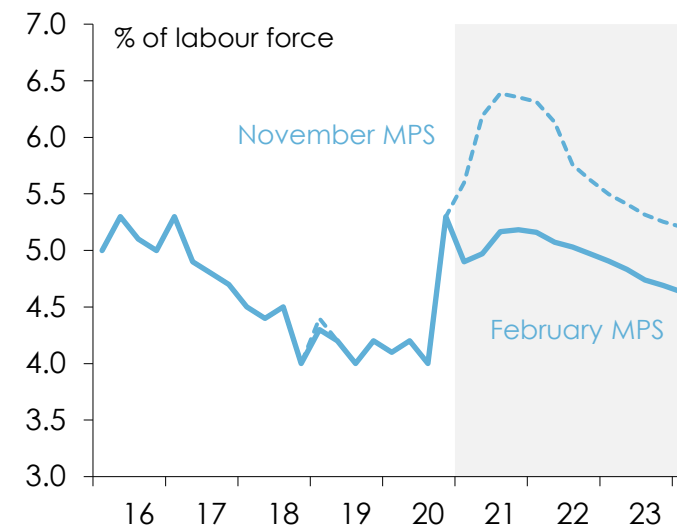
- ❑ The CPI rose 0.5% in Q4 2020, after a 0.7% rise in Q3, leaving the annual 'headline' inflation rate unchanged at 1.4%
- ❑ Main factors driving the Q4 increase were a 20% increase in 'domestic accommodation' prices (hotels, etc) reversing falls over the two previous quarters, a 4.6% increase in used 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 month upgraded its economic forecasts but reiterated it would take ‘considerable time and patience’ before changing its policy stance

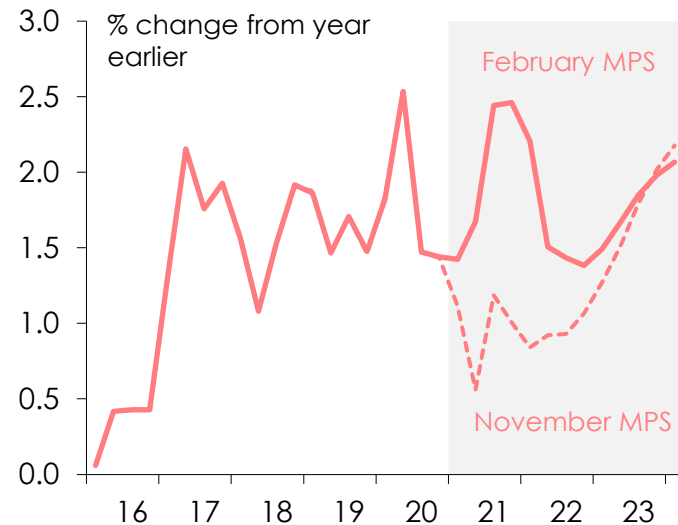
GDP



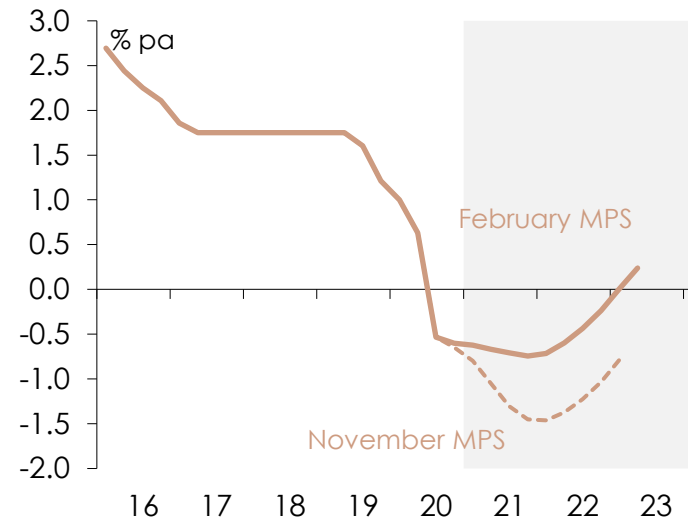
Unemployment



Inflation



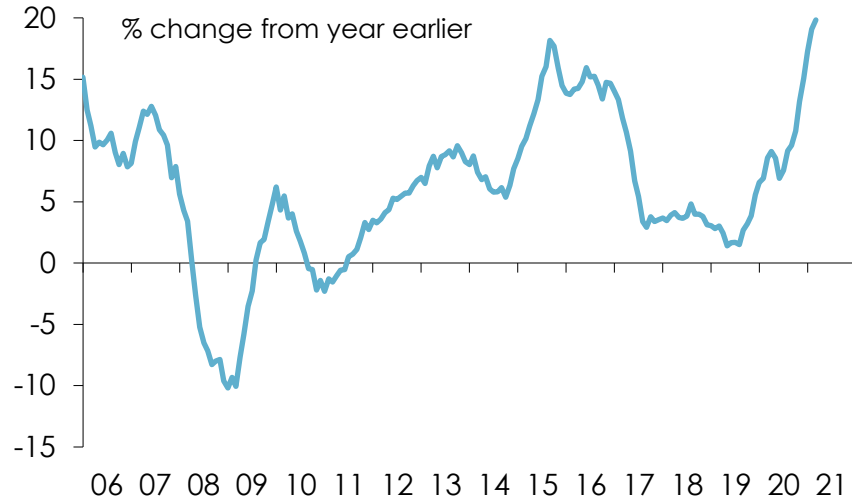
‘Unconstrained’ cash rate



- ❑ 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

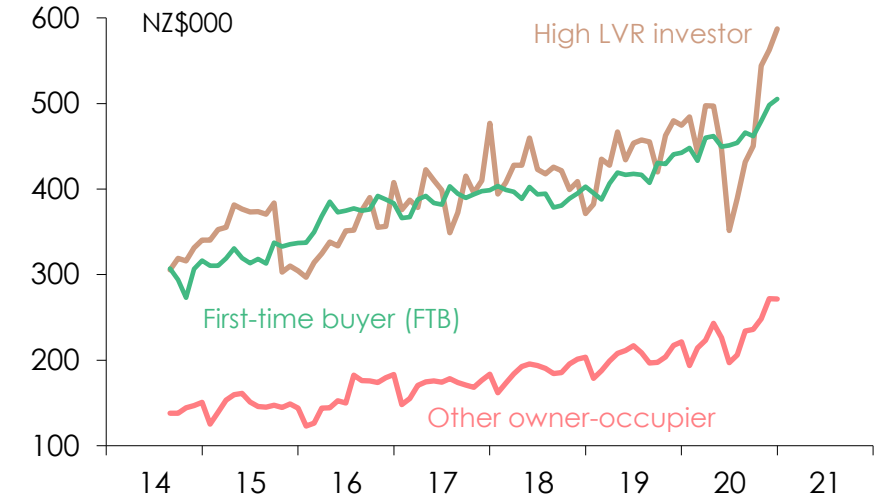
House price inflation



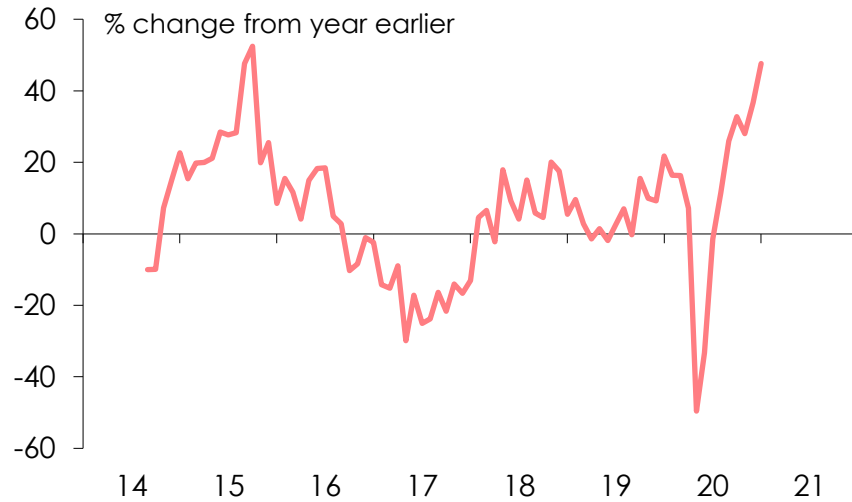
Lending to investors as pc of total



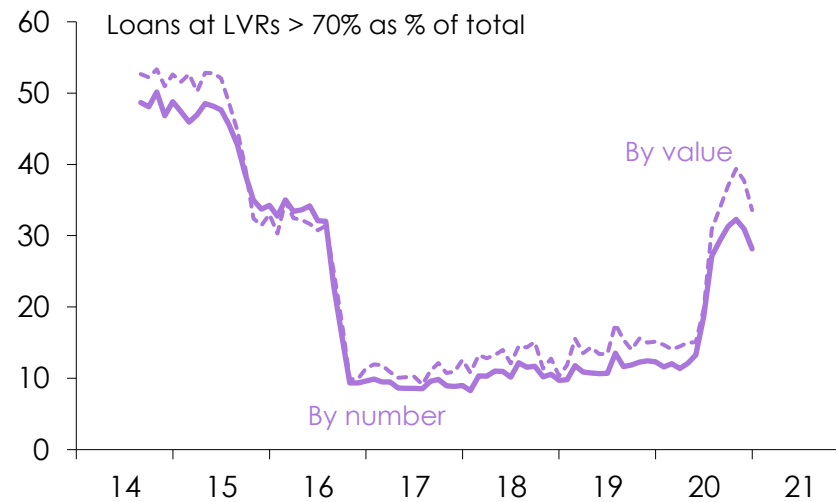
Average new mortgage



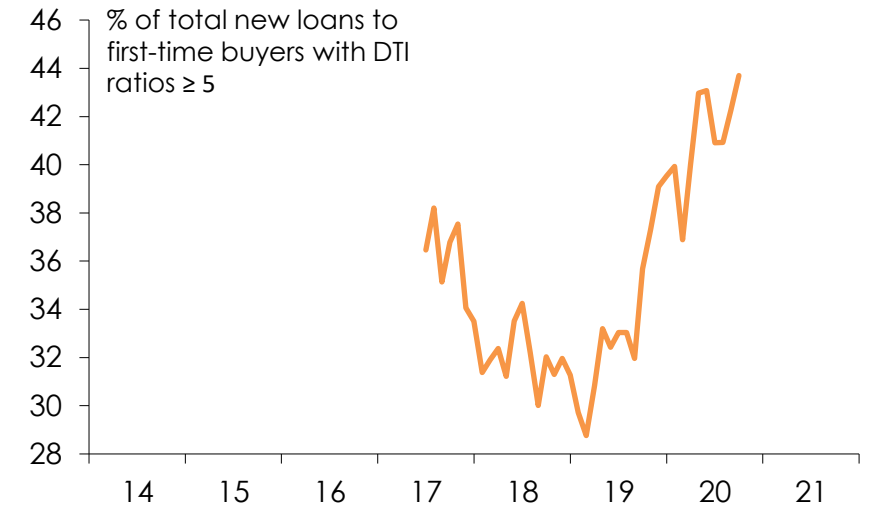
Mortgage lending growth



High-LVR loans to investors



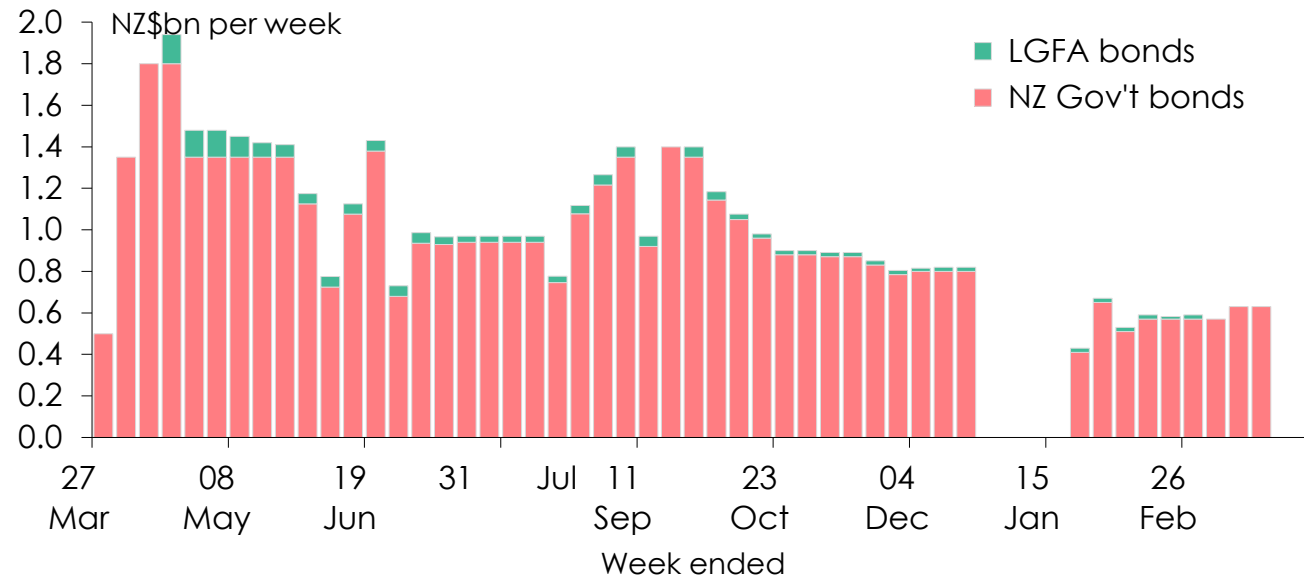
Loans to FTBs at over 5 times income



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 10-year yields rose 18bp this week – much more than in other markets – despite the RBNZ buying another NZ\$630mn of bonds this week

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\$630mn of bonds this week – the same as last week – bringing its total purchases to NZ\$48.4bn (15.1% of GDP) – while 10-year yields rose 15bp (much more than in the US or Australia) to 1.84%
- ❑ \$500mn was drawn from the RBNZ's Funding for Lending facility on 12th March – the first drawing since 28th January – bringing the total amount drawn to NZ\$1.64bn (out of \$28bn available)
- ❑ The IMF's annual 'Article IV' report on NZ released last week noted that "rising speculative demand for housing, along with historically low interest rates and structural housing supply shortages, is amplifying the housing cycle and heightens financial stability and affordability concerns" and noted that "monetary policy may have a role if house prices pose risks to the inflation objective"

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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