ECONOMIC IMPACT OF THE CORONAVIRUS PANDEMIC

8TH MAY 2021

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CORINNA ECONOMIC ADVISORY PTY LTD

What's new?

The world

- Just over 5½ mn new cases were recorded this week, the first decline in 10 weeks, while the number of deaths also declined for the first time in eight weeks (slide 4)
- India accounted for 49% of all cases this week, with Europe 12%, Brazil 7½%, the US 5¾%, Turkey 3½% and SE Asia 2¼% (slide 5)
- 51% of the UK's, 45% of the US's, 36% of Canada's and 27% of the EU's populations have now had one vaccine shot, 13% of South America's, but just 4½% of Asia's and 1% of Africa's (slides 17-18)
- PMIs for April showed ongoing strength in manufacturing across the globe, but continued softness in services, except in the US, China and the UK (slides 44 and 54)
- US PMIs also showed continued pressure on 'upstream' prices, with container freight rates jumping more than 12% this week to a new record high, and PPIs accelerating outside the US (slide 40)
- US non-farm payrolls rose a much less-than-expected 226K (0.2%) in April, while the unemployment rate rose 0.1 pc pt to 6.1% (slide 68)
- Rather than being reflected in higher inflation, strengthening US demand is showing up in the US external deficit – the US recorded its third consecutive record goods and services trade deficit in March (slide 71)
- Conversely, China's merchandise trade surplus widened in April – and over the past 12 months has topped US$600bn (slide 47)
- The Bank of England (as expected) left its monetary policy settings on hold this week, but Norges Bank re-affirmed its intention to raise rates later this year (slide 35) and Brazil's central bank raised its key policy rate by 75bp for the second time this year (slide 38)

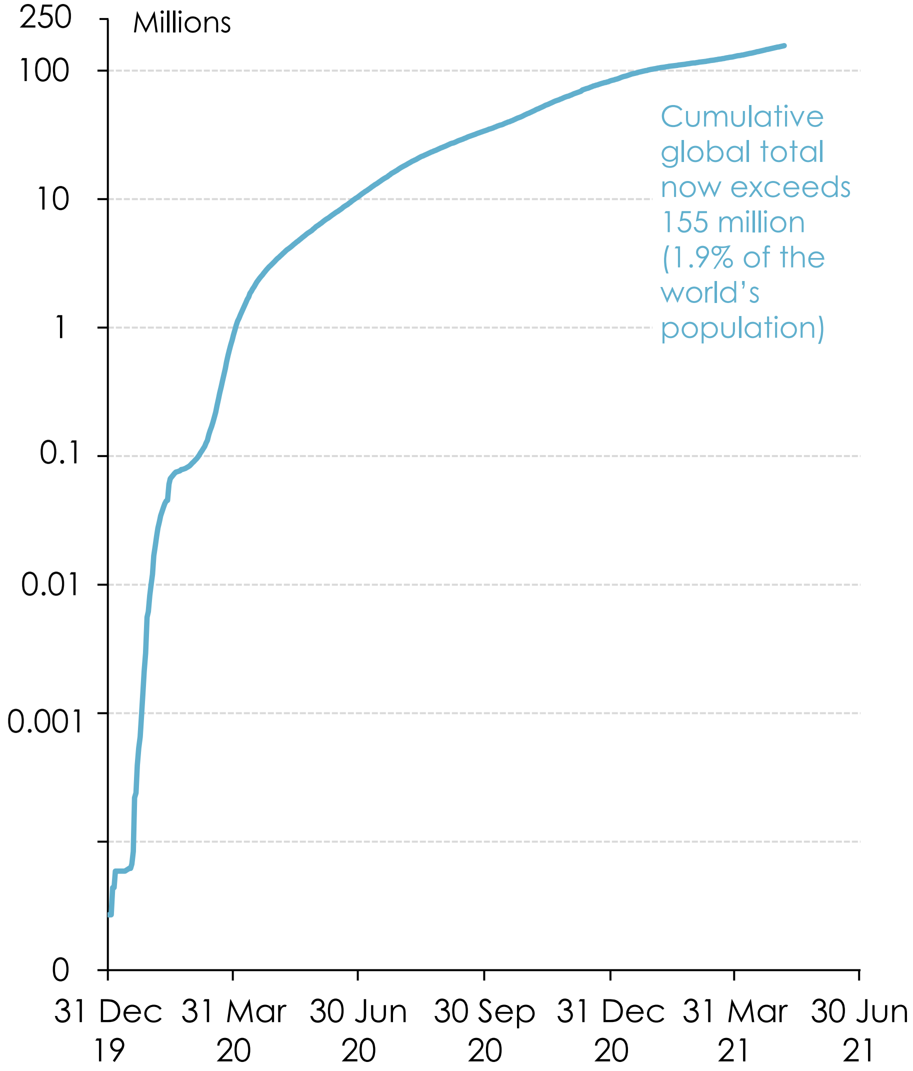
Australia and New Zealand

- Australia recorded only 96 new Covid-19 cases this week, the lowest in three weeks, with all but 2 being 'overseas transmissions' (slide 8)
- Restrictions were tightened across Sydney this week in response to 2 unexplained local transmissions, but the NSW Government opted against a broader 'lockdown' (slide 10)
- Residential property prices rose 1.7% in April to be 7% above their pre-pandemic peak, with prices in capital cities now starting to out-pace regional areas, in contrast to most of last year (slides 106-107)
- Lending to property investors rose 12¾% in March (and by 47% since last October), while lending to first home buyers fell for a second consecutive month (slide 109)
- Residential building approvals rose 17½% in March, after a 20% surge in February, to their highest level since November 2017, this time led by a 47% jump in multi-unit approvals (slide 110)
- Australia's goods and services trade surplus narrowed by $2bn to $5½bn in March, with imports up 4¼% & exports down 1¾% (slide 113)
- While foreigners spent $35bn less in Australia in the 12 months to March than they did a year earlier, Australians spent almost $55bn less overseas during this period than they did a year earlier – and a lot of that appears to have been spent at home instead (slide 119)
- The RBA again left monetary policy on hold (slide 138) after raising its economic growth, lowering its forecasts for unemployment but making little change to its wages growth and inflation forecasts (slide 83)
- The 2020-21 Northern Territory Budget shows some improvement in the Territory's financial position, but it's still rather fragile (slide 135)
- New Zealand's unemployment rate dropped 0.2 pc pts to 4.7% in Q1, while employment rose 0.5% to top its pre-pandemic peak (slide 144)

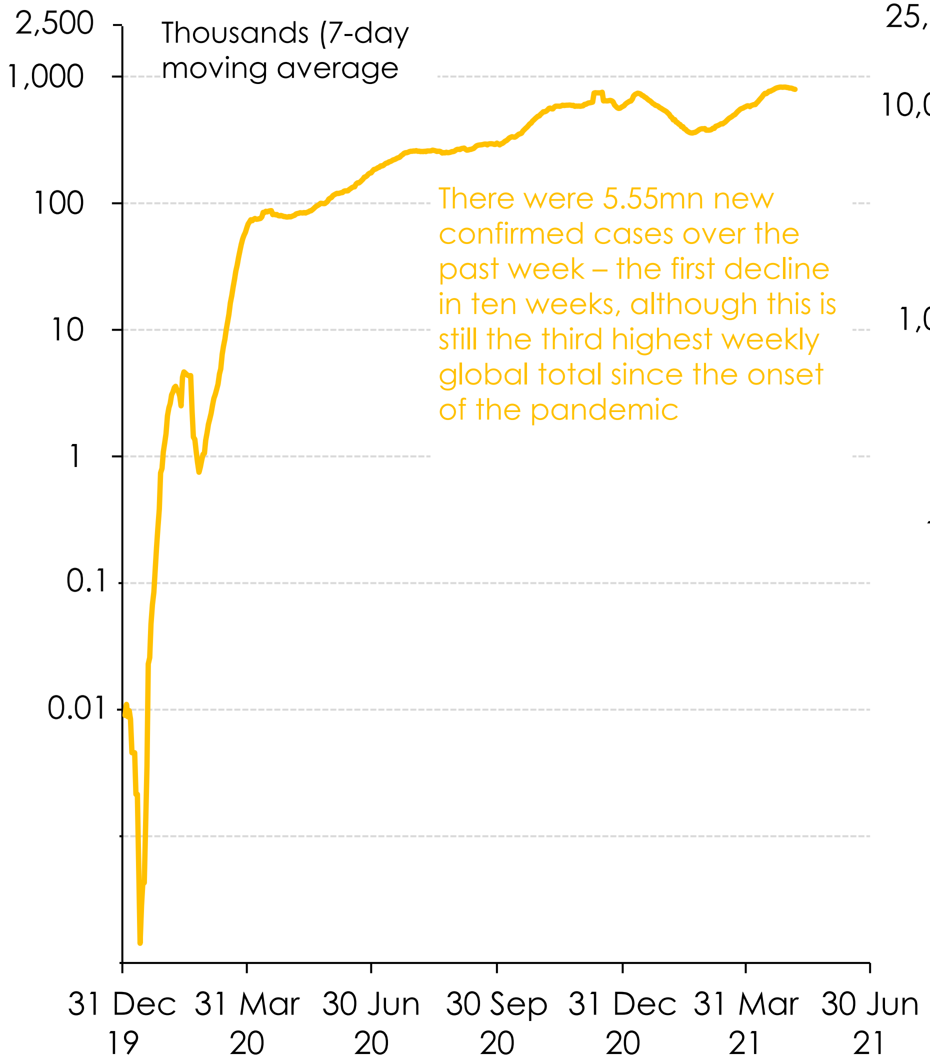
The virus

The number of new infections world-wide declined this week for the first time in ten weeks, and the number of deaths fell for the first time in eight

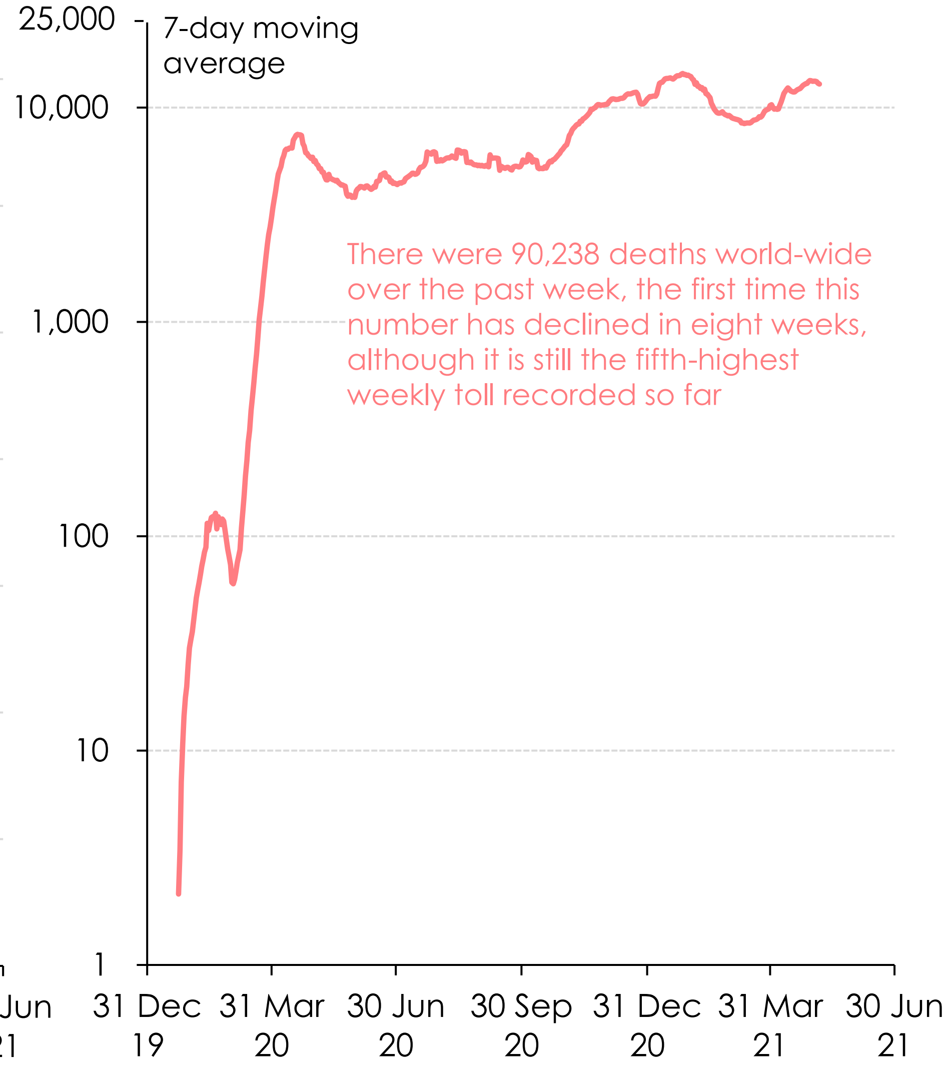
Cumulative confirmed cases – global total



New confirmed cases – global total



New deaths – global total



Note: All charts are on logarithmic scales. Data up to 6th May. *Source:* University of Oxford, Our World in Data. Return to "What's New".

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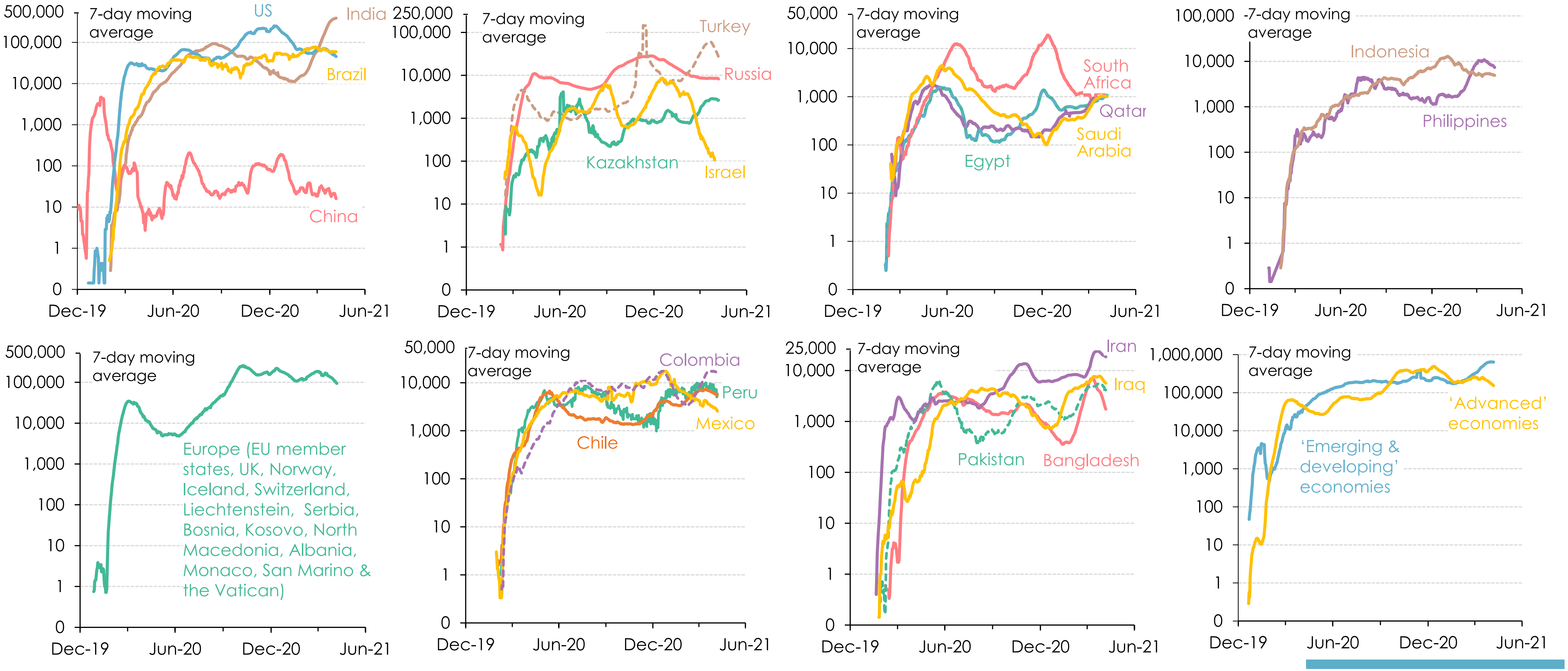
49% of this week's new infections were in India, 12% in Europe, 7½% in Brazil, 5¾% in the US, 3½% in Turkey and 2¼% in South-East Asia

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



Note: All charts are on logarithmic scales. Data up to 6th May. *Source:* University of Oxford, Our World in Data; Corinna. Return to "What's New".

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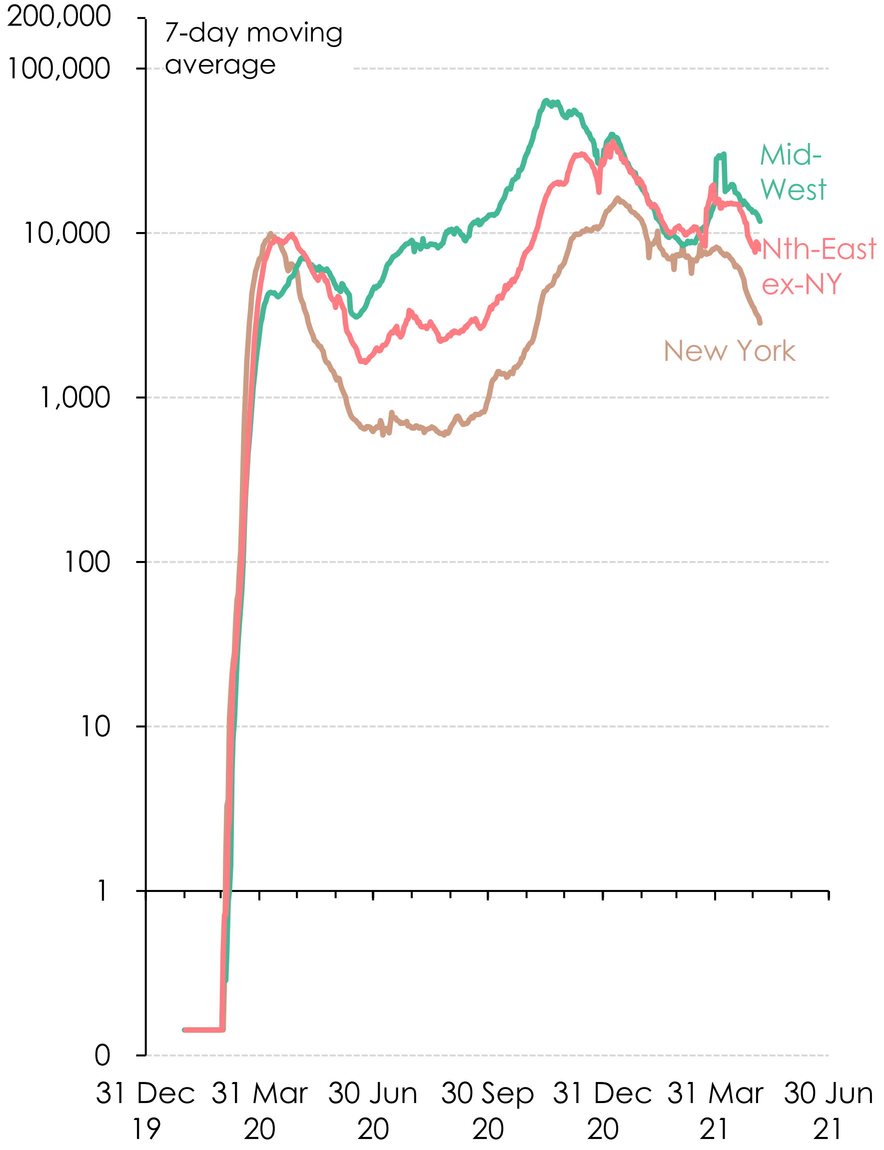
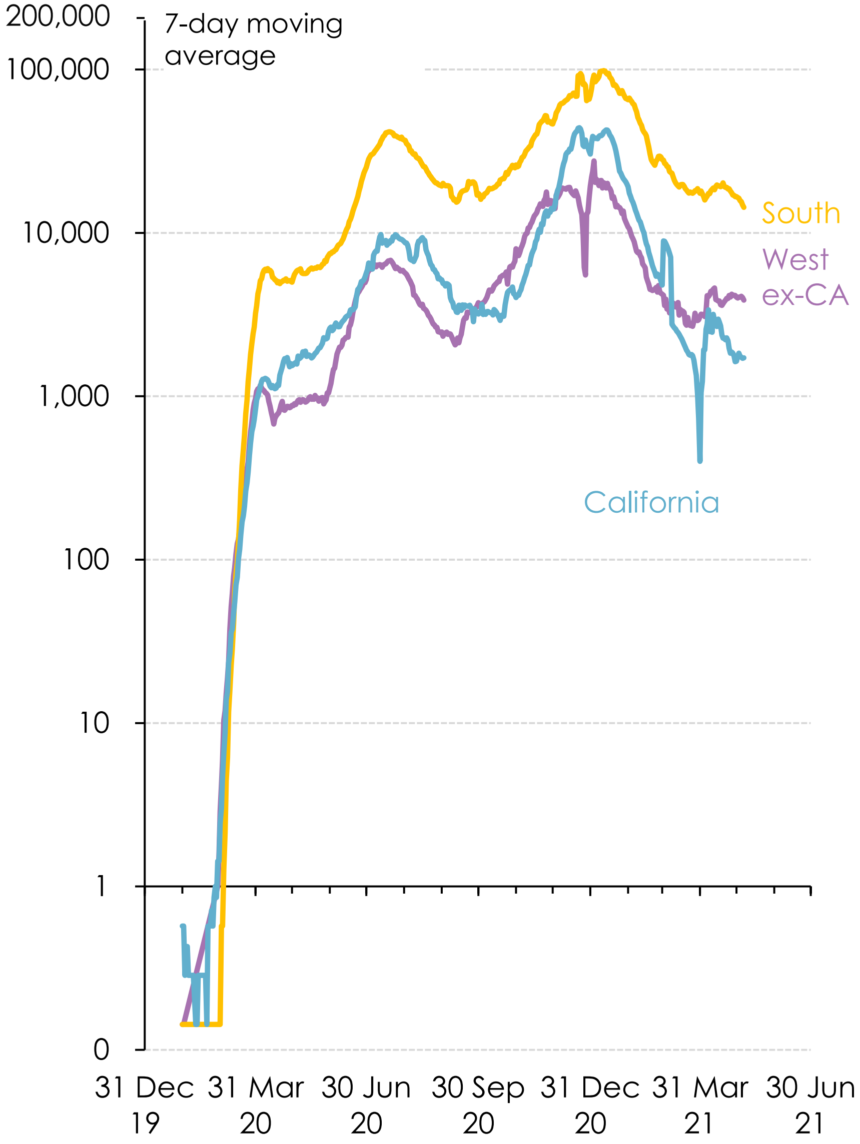
In the US, case numbers are now stabilizing or falling in every state, and in every region

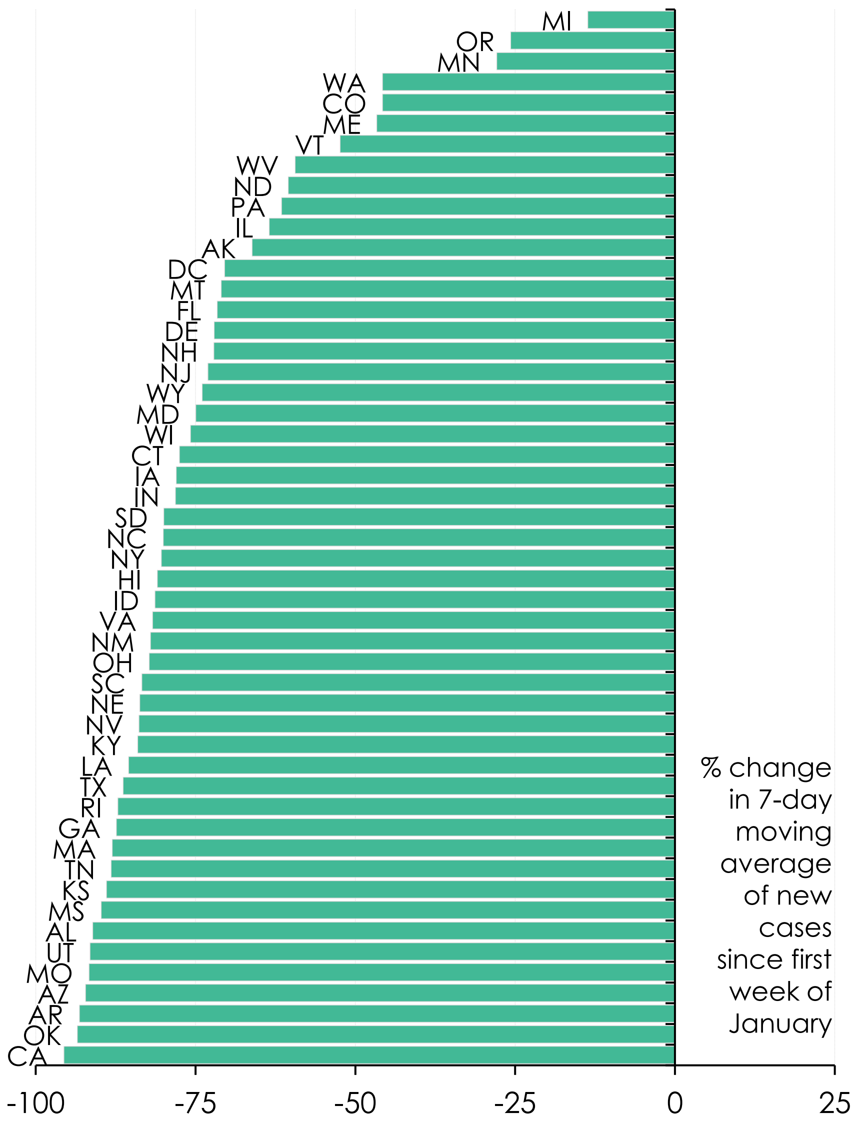
New cases – Mid-West and North-East



New cases – South and West



Change in cases since early January



Note: First two charts are on logarithmic scales. *Sources:* USAFacts; Centers for Disease Control and Prevention; *New York Times*; Corinna. Latest data are for 6th May. Return to "What's New".

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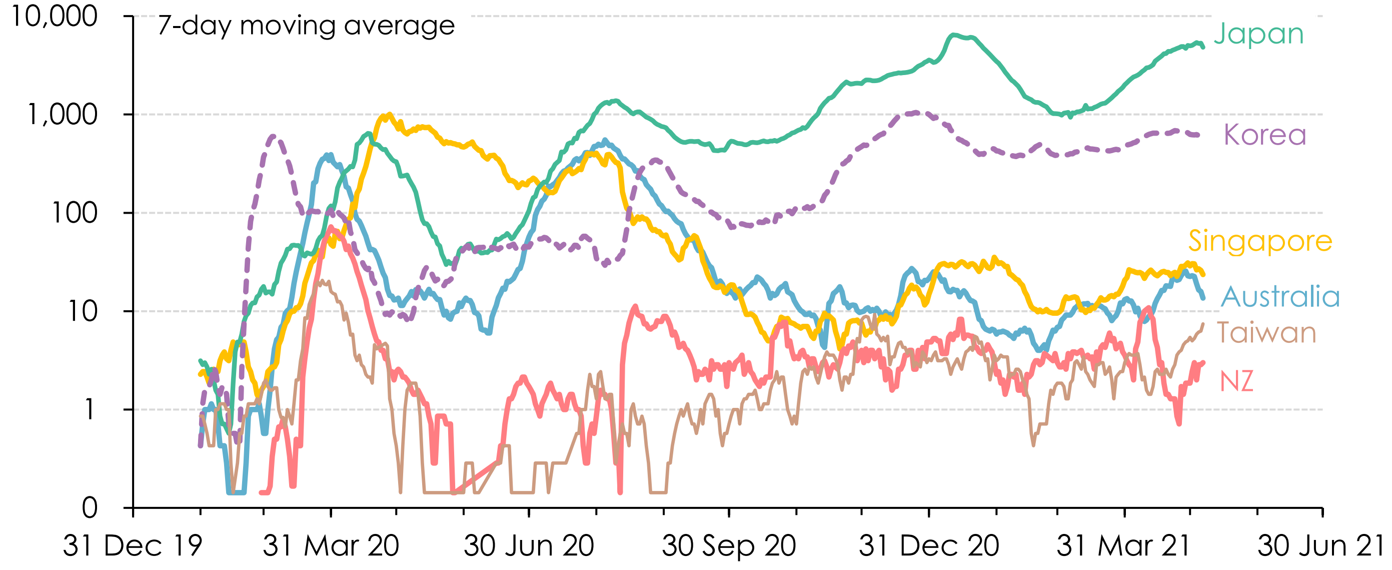
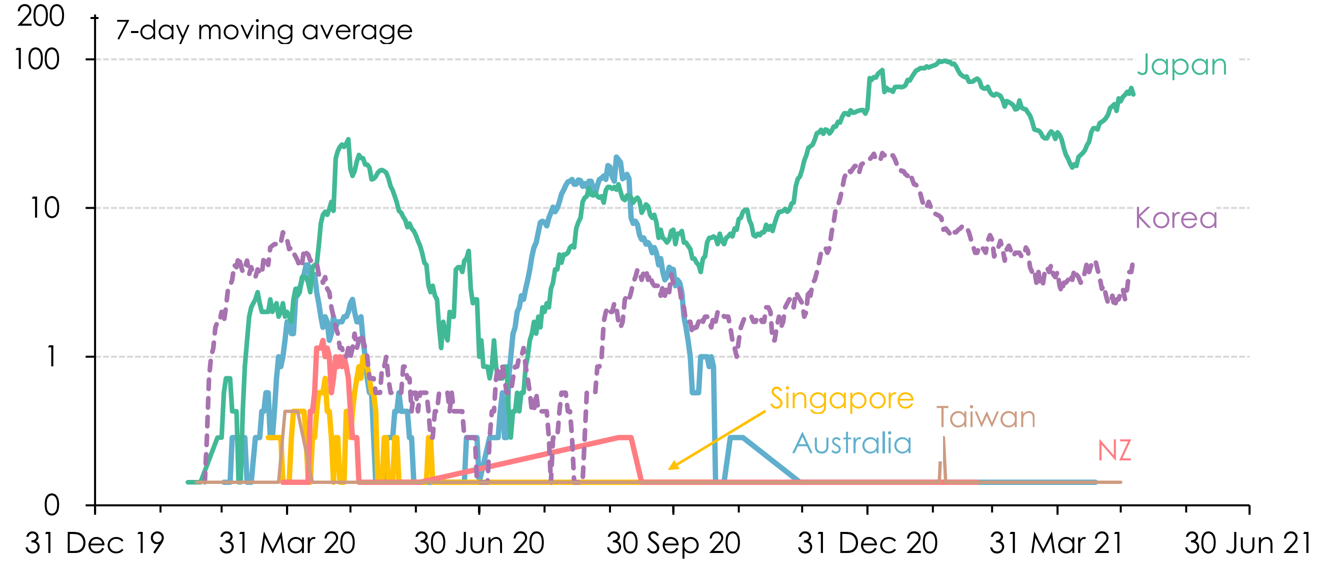
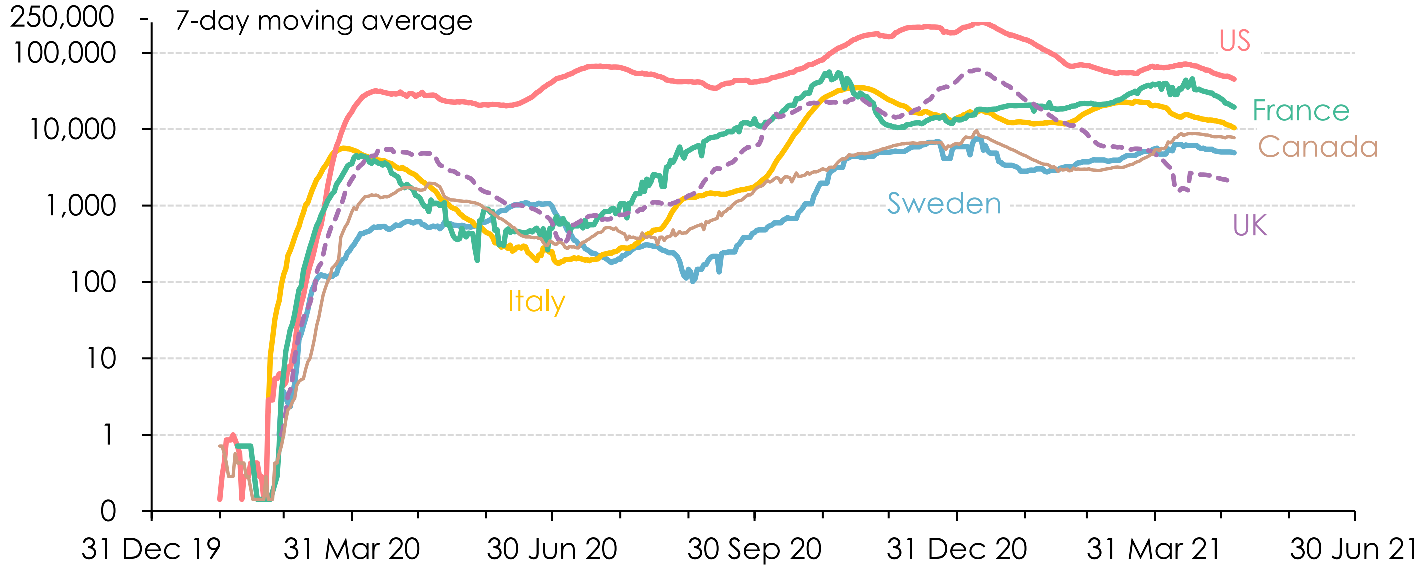
Vaccines are clearly making a difference to case numbers and deaths in the US & UK: but case numbers are creeping up (from a low base) in Asia

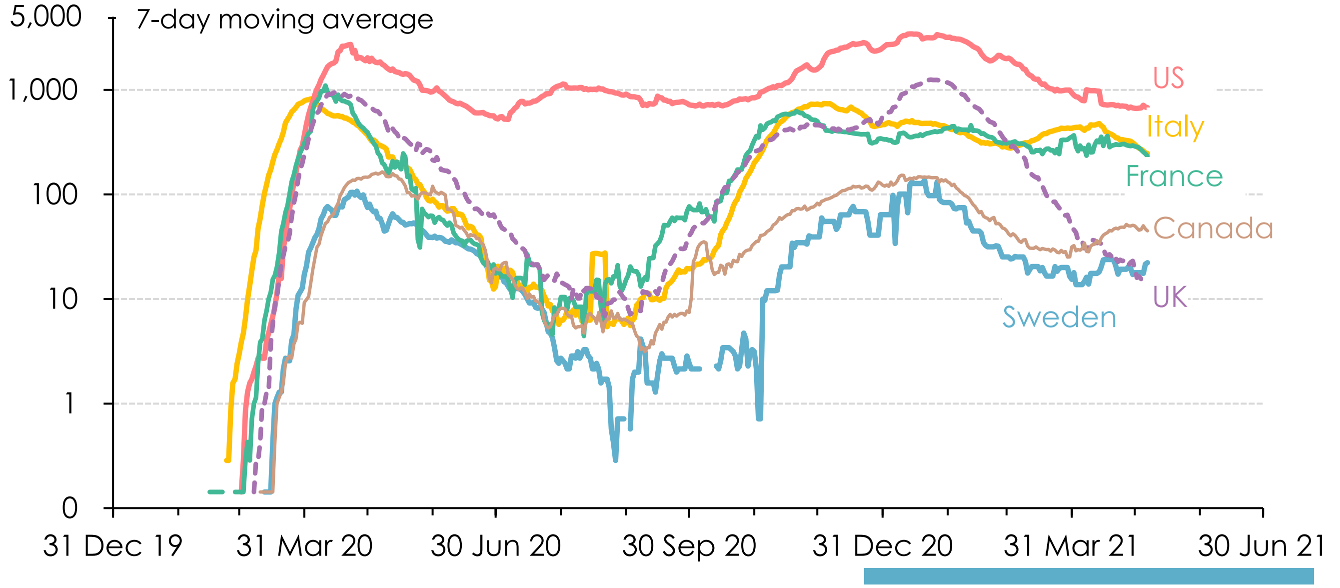
Daily new cases



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 6th May. *Source:* University of Oxford, Our World in Data; Corinna. Return to "What's New".

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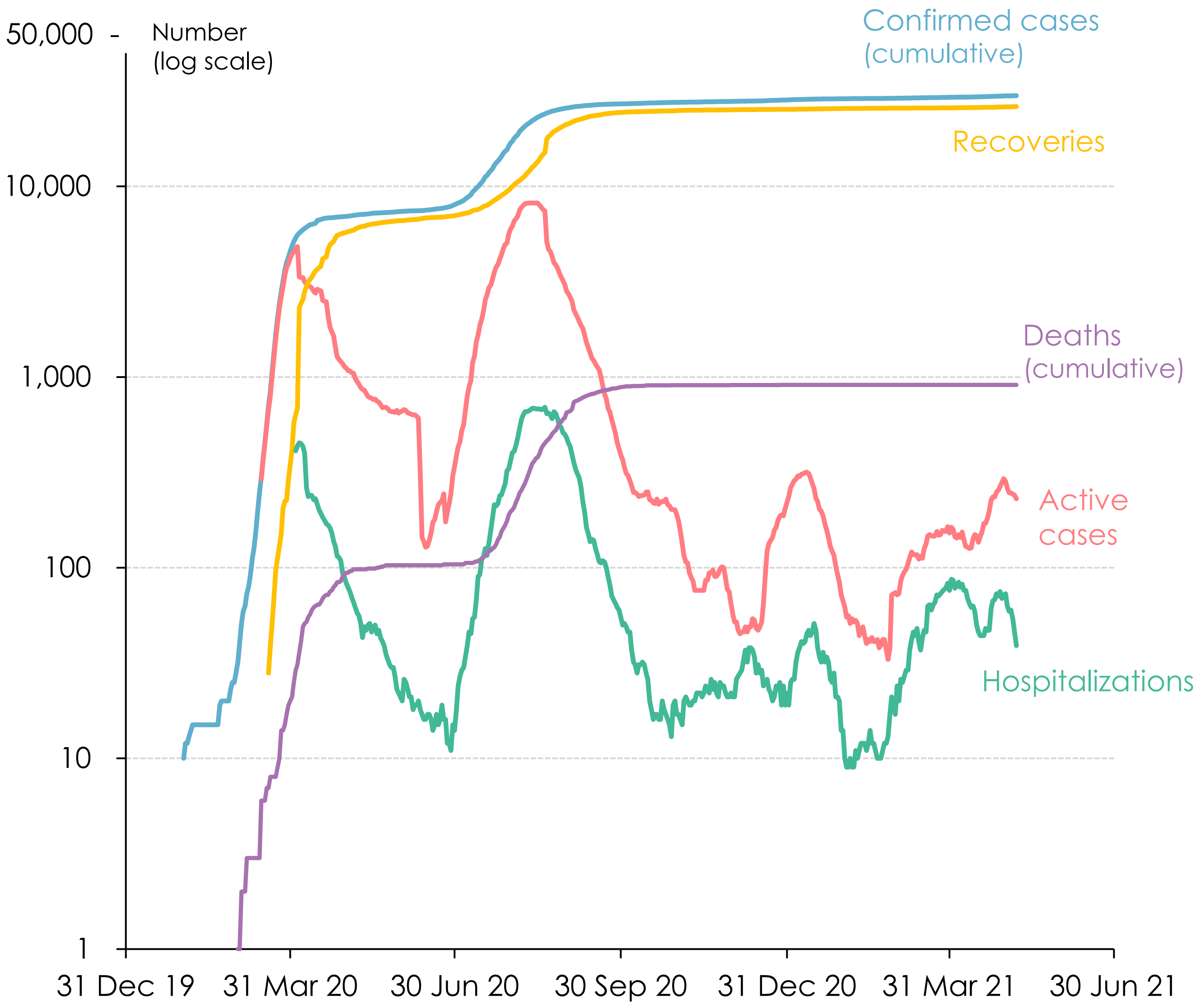
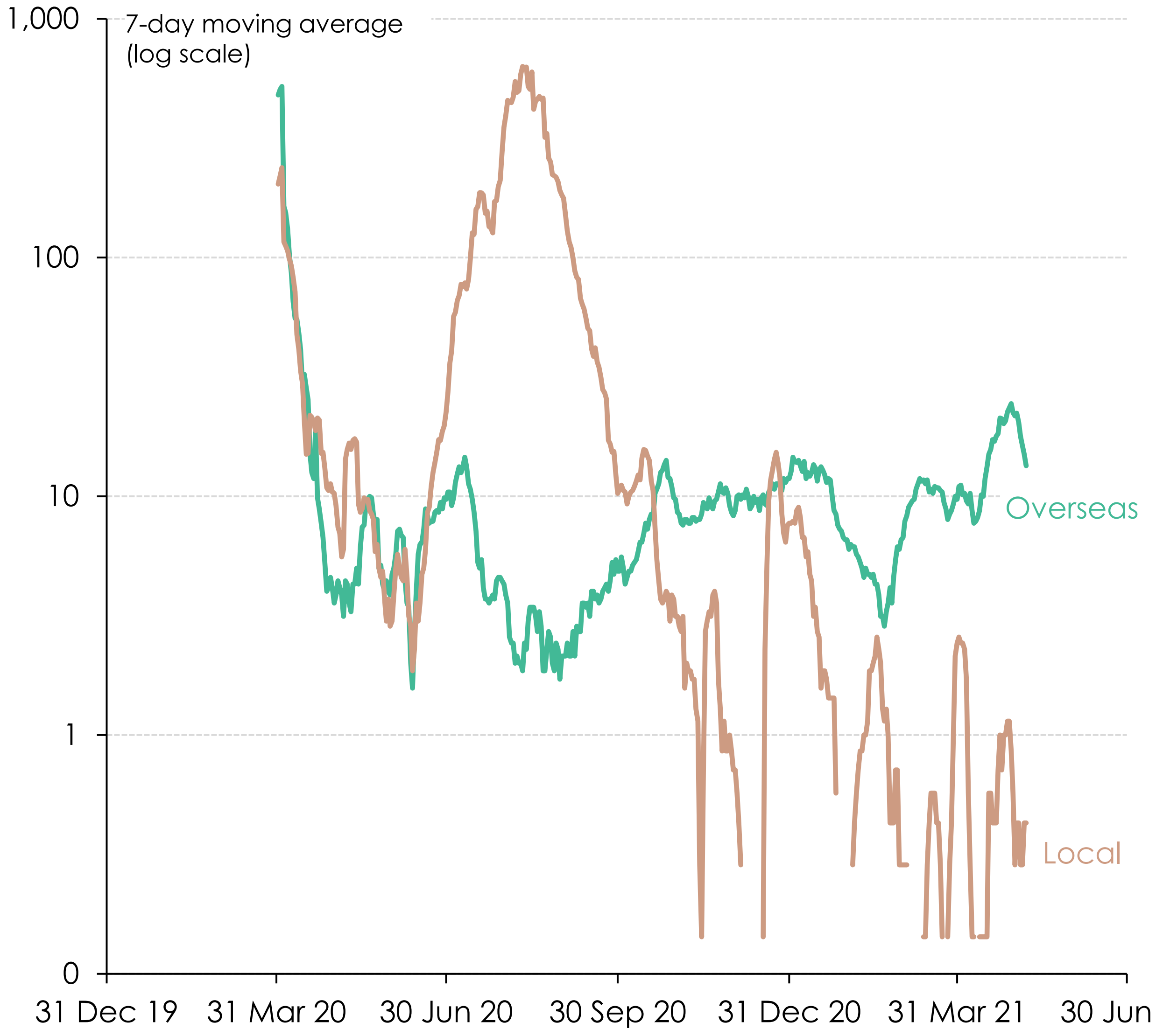
Only 96 new cases were recorded in Australia this week – the lowest number in three weeks – 94 of them from overseas

Cases, recoveries, hospitalizations and deaths



New cases



Note: Data up to 7th May. *Source:* covid19data.com.au. Return to "What's New".

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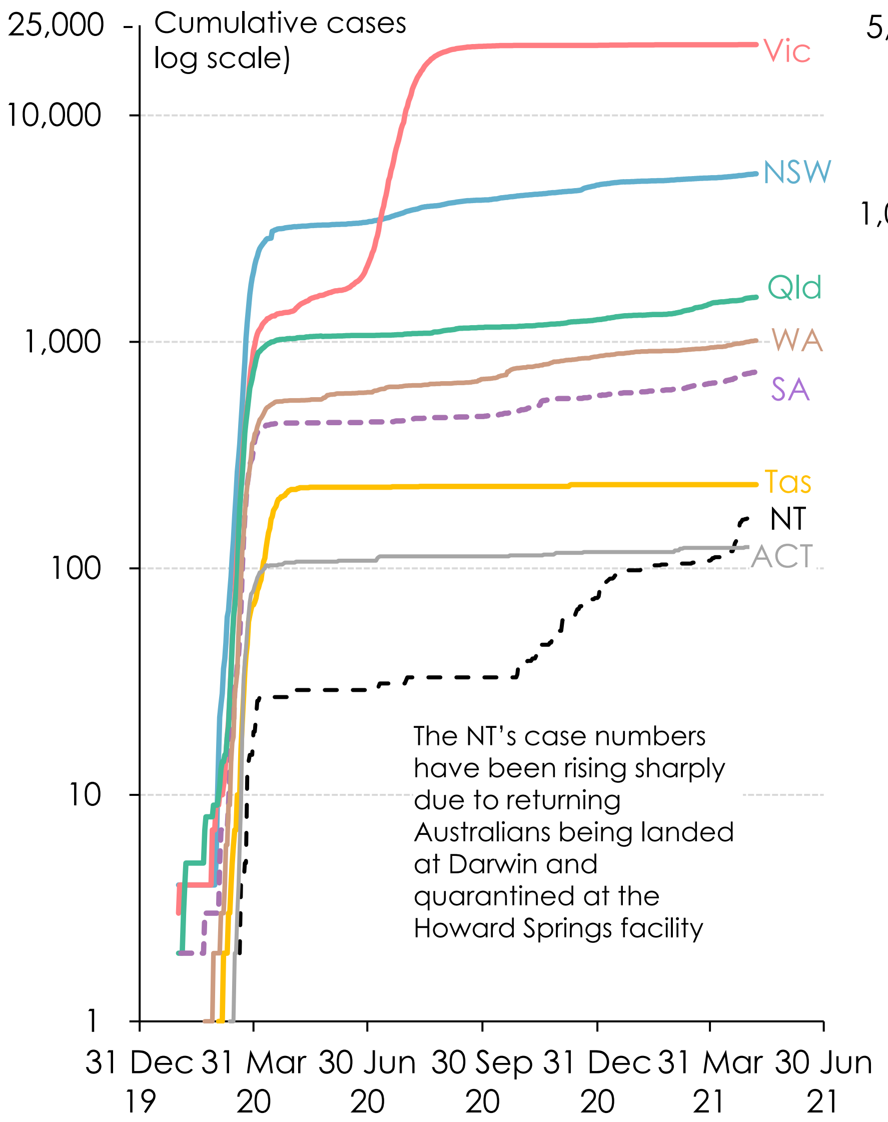
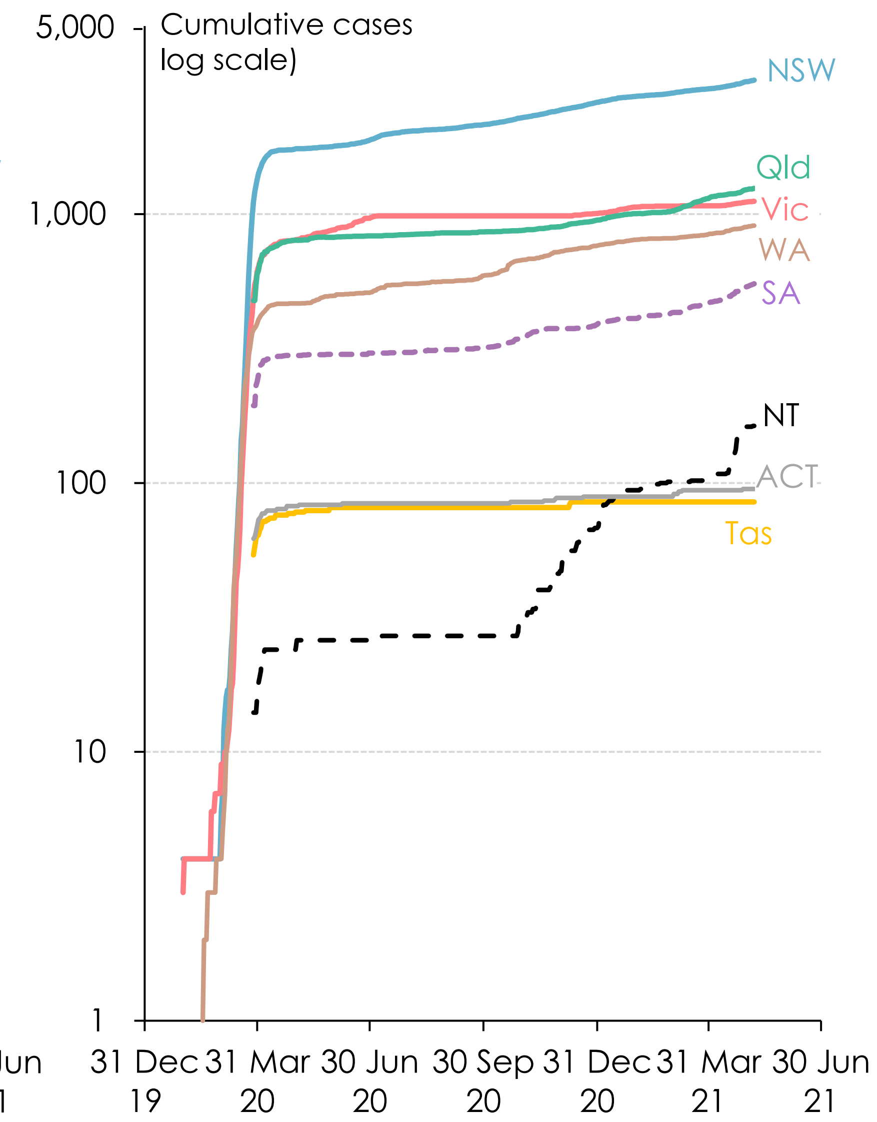
44 of this week's new cases were in NSW (including the 2 local ones), 15 in Queensland, 14 in each of SA and WA, 8 in Victoria and 1 in the NT

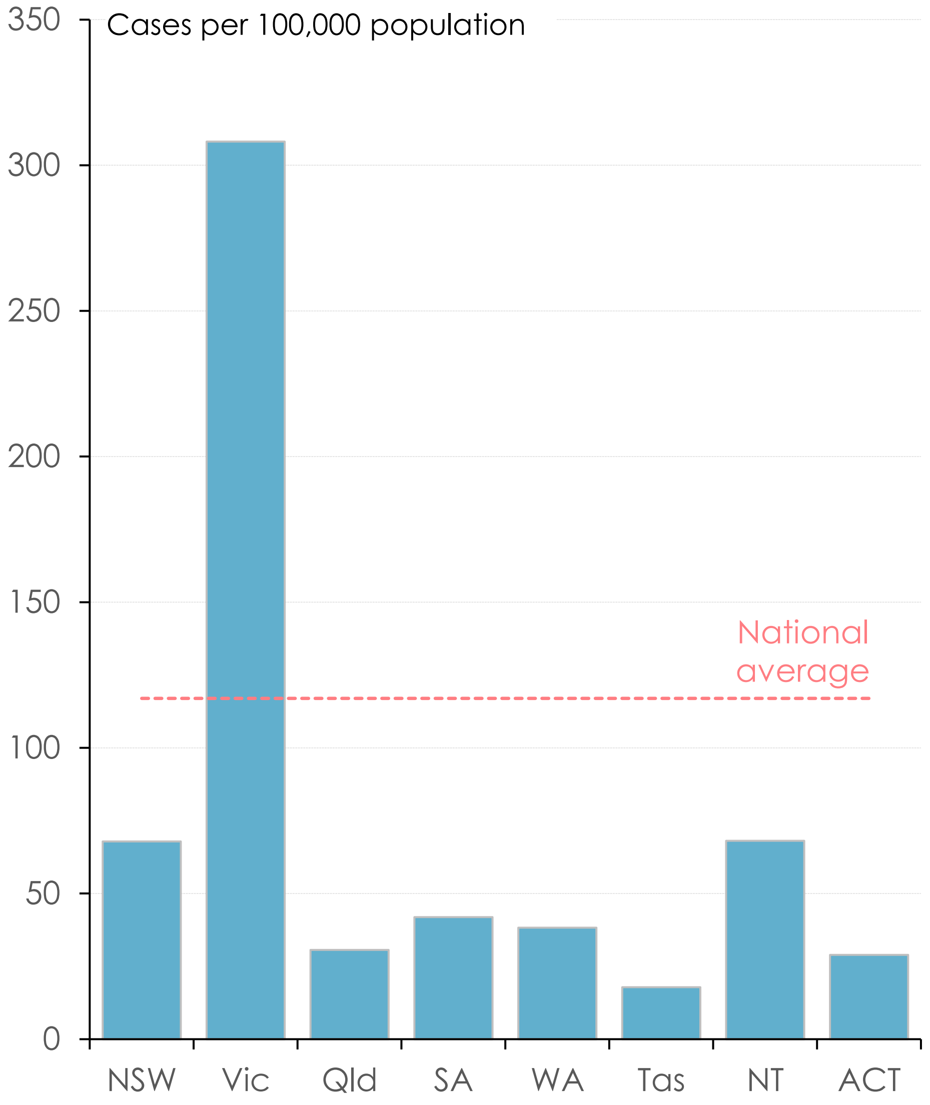
Cumulative cases, by State



Overseas transmissions



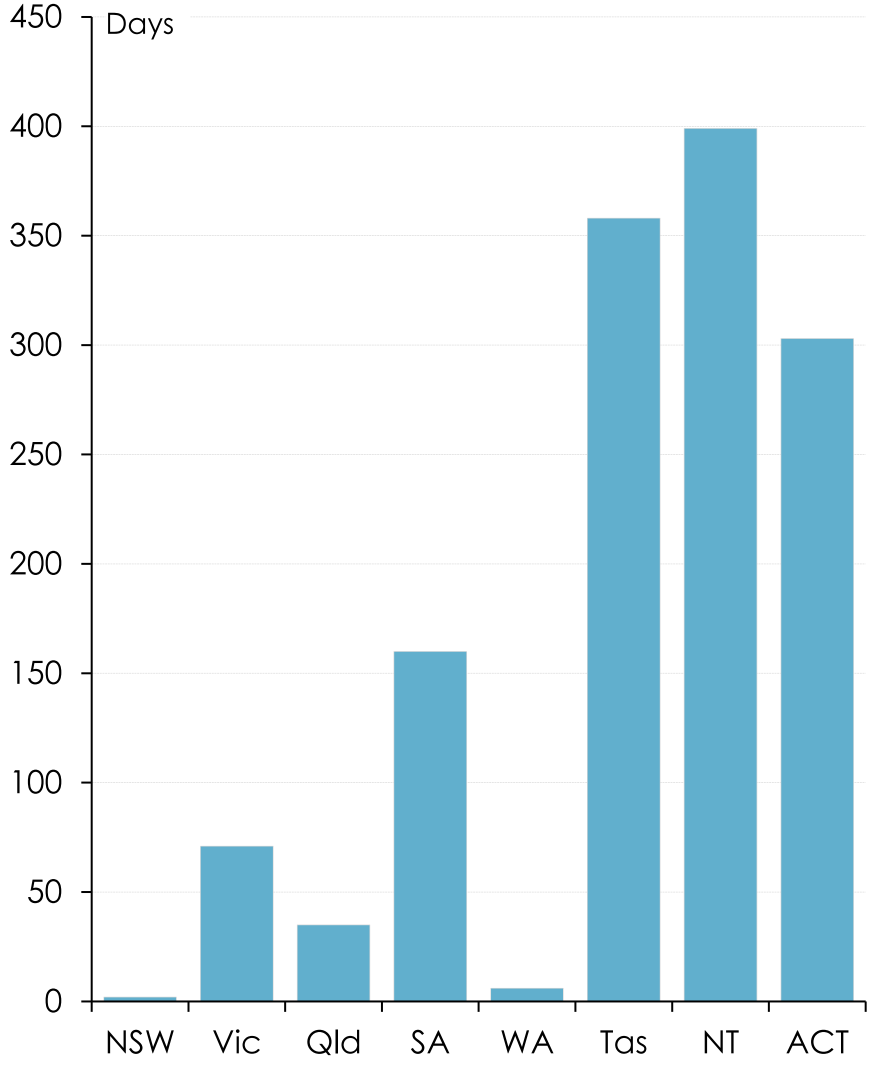
Cases per 100,000 population



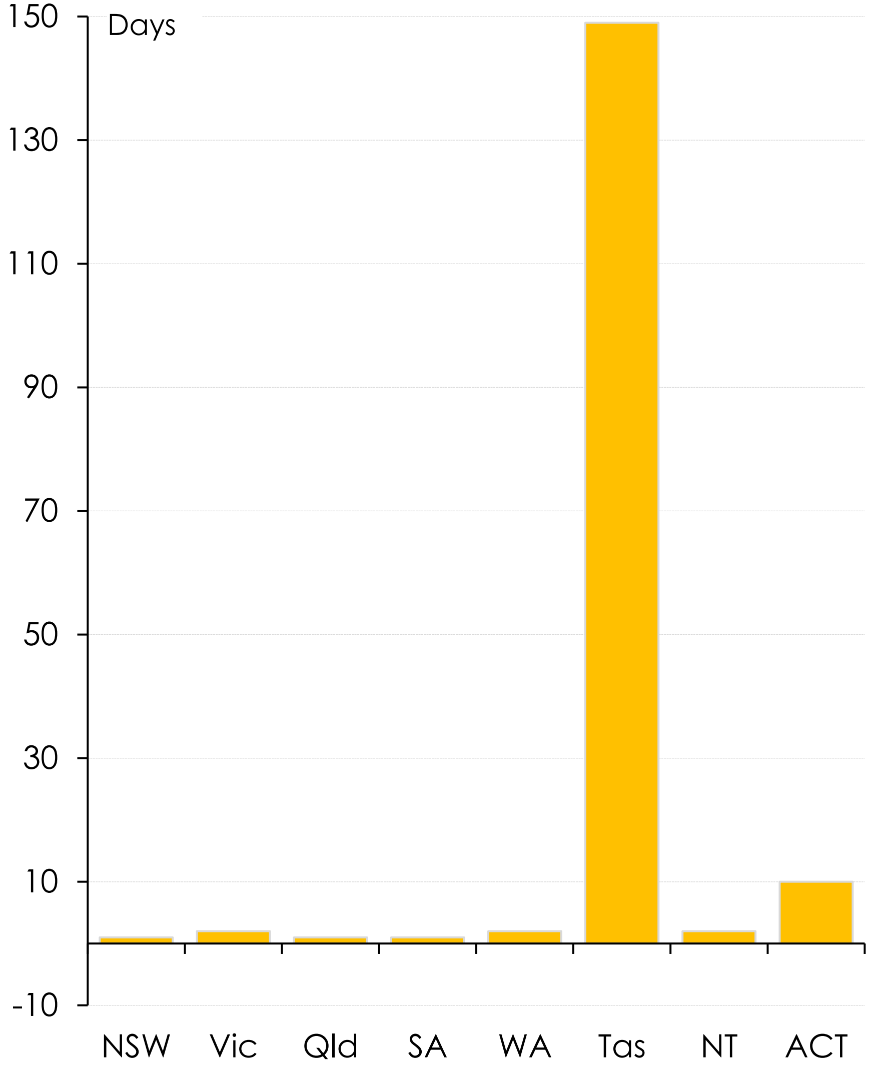
Note: Data up to 7th May. *Source:* covid19data.com.au. Return to "What's New".

WA ended its lockdown (prompted by 1 case) on Monday, but it and other states (except NSW) are now agitating for even tougher border restrictions

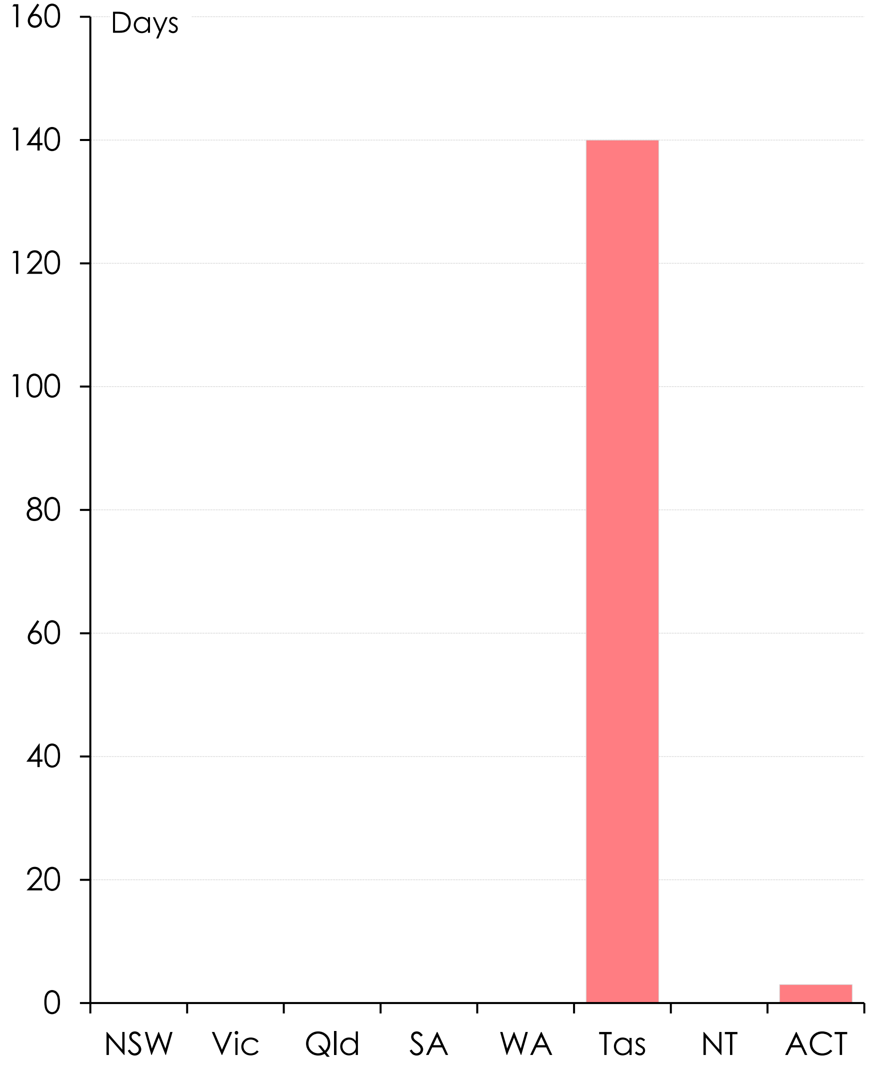
Days since last new locally-acquired case



Days since last new overseas-acquired case



Days since there were any active cases



Note: Data are for 7th April. *Source:* covid19data.com.au. Return to "What's New".

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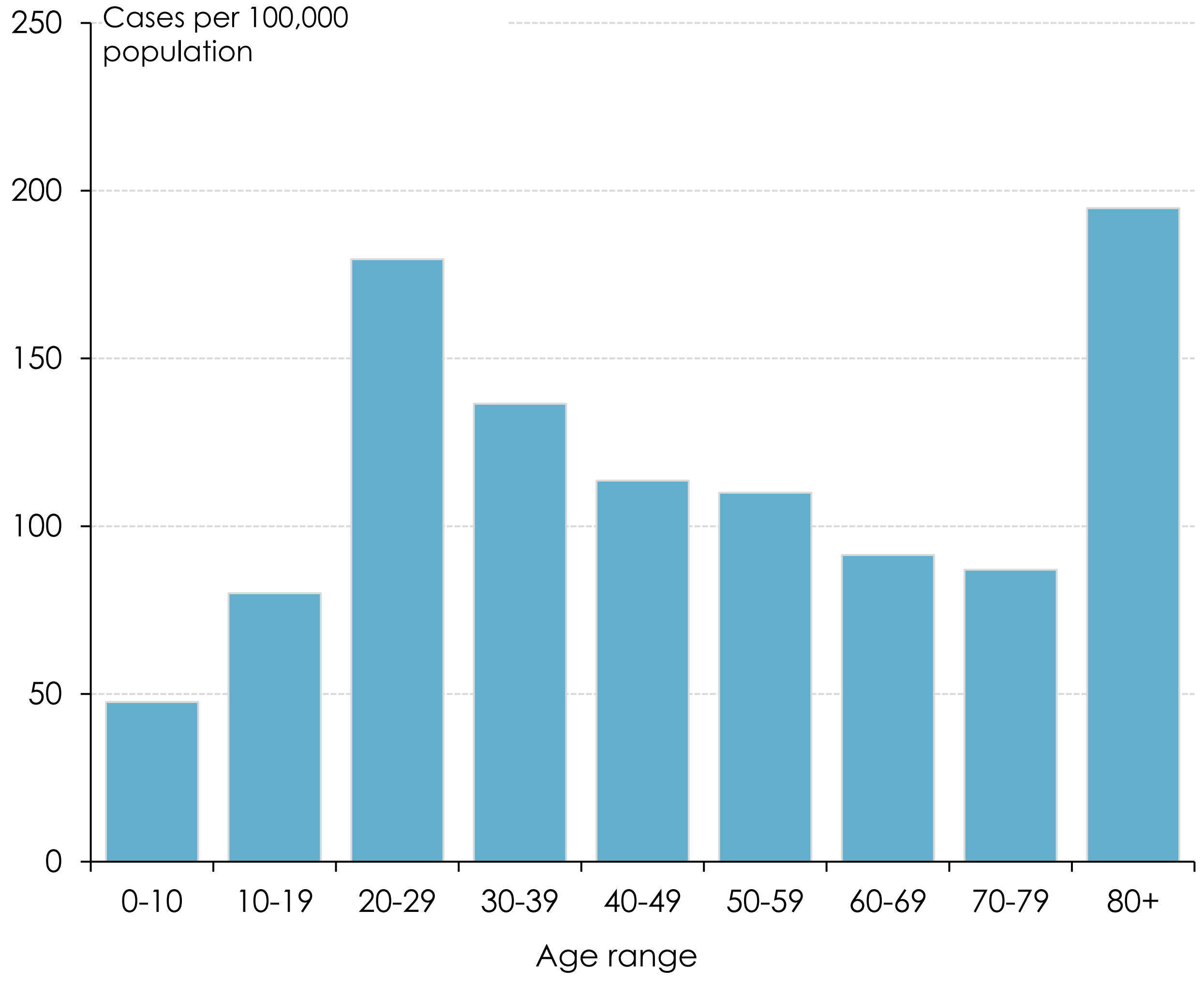
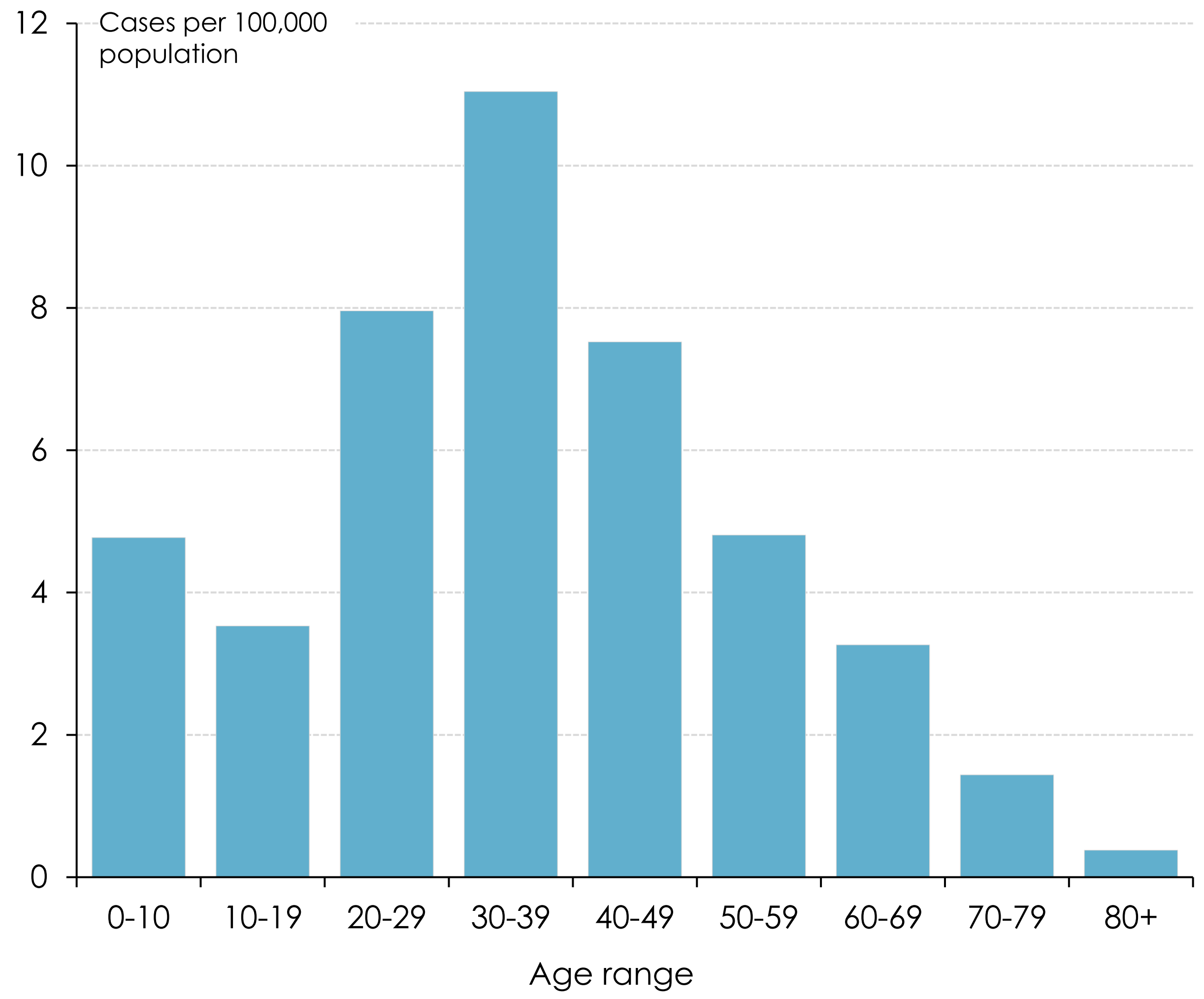
Unlike last year, this year Australian infections have been highest among people in their 30s and 40s – because most have been acquired overseas

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 7th May. *Source:* Australian Government Department of Health, National Notifiable Diseases Surveillance System; ABS; Corinna.
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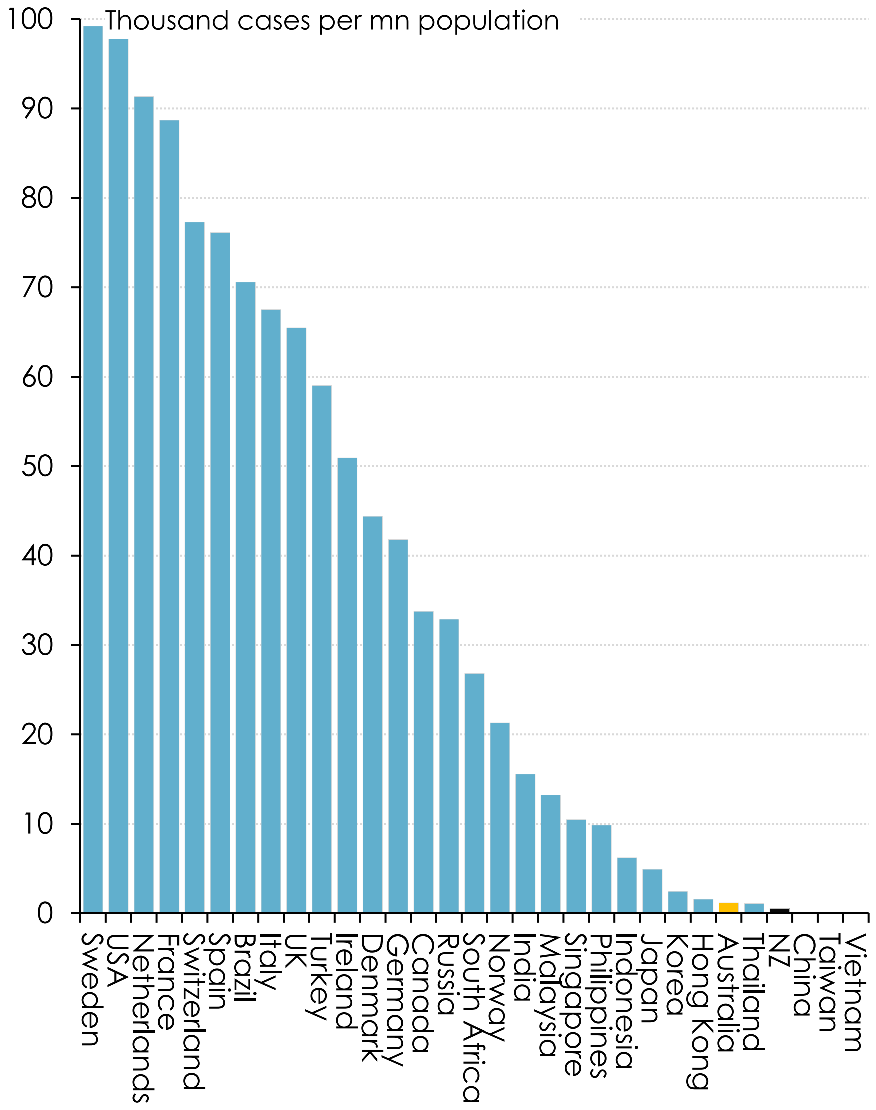
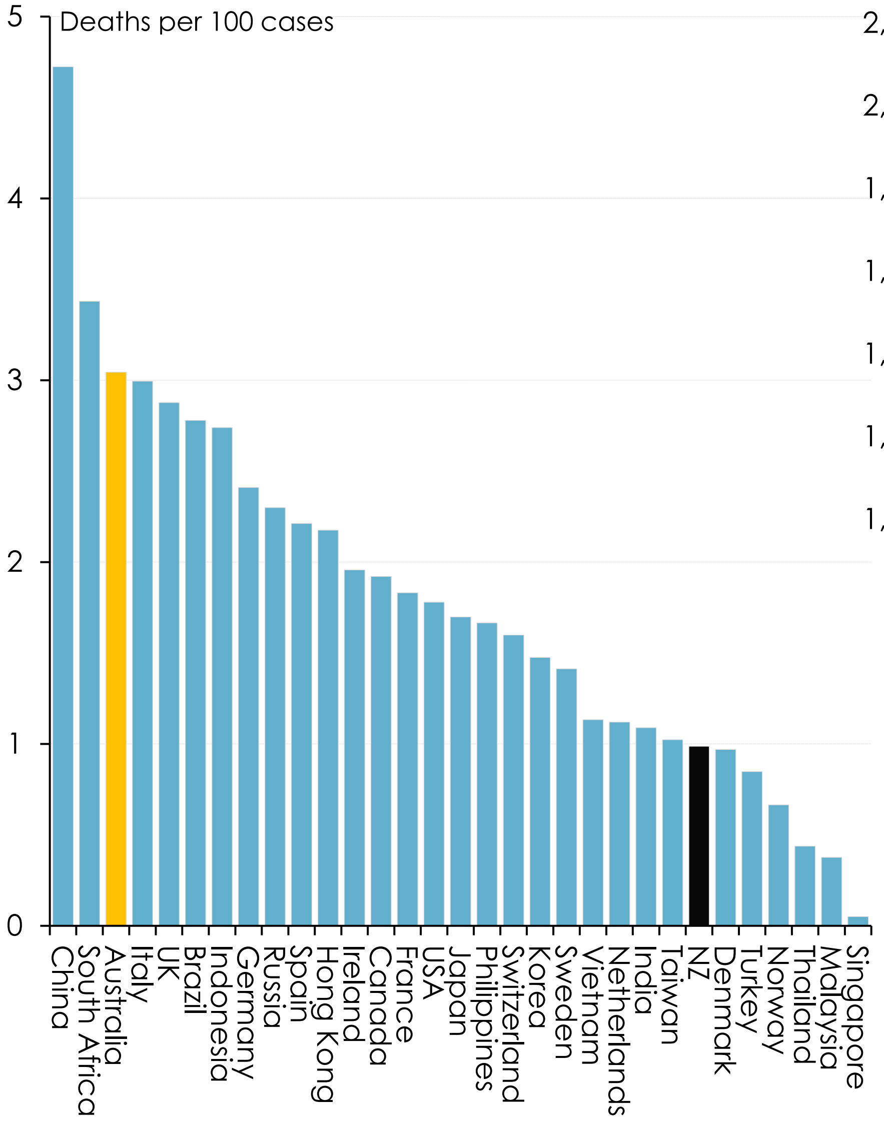
Australia's infection and death rates remain, along with NZ's and most East Asian countries', low by international standards

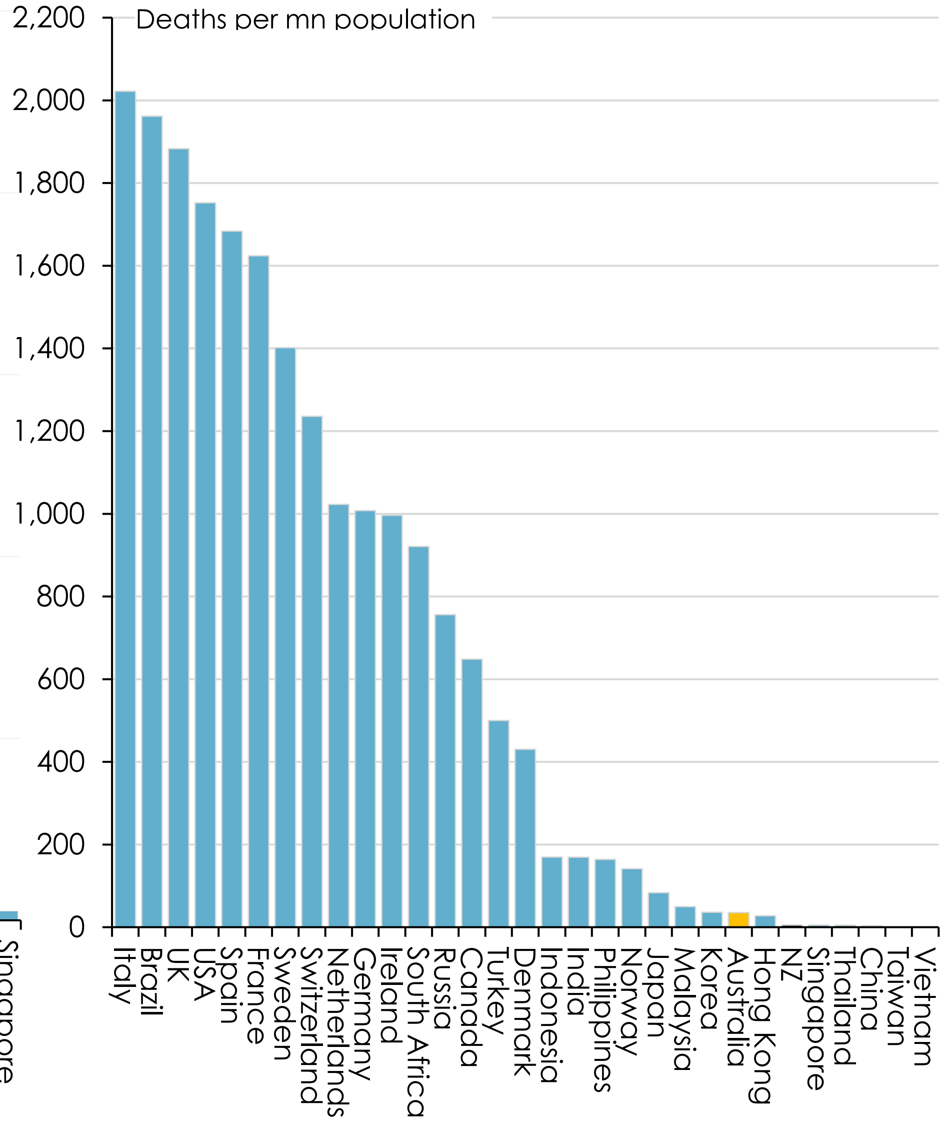
Apparent infection rate



Apparent fatality rate



Death rate



Note: Data up to 6th May. *Source:* University of Oxford, Our World in Data; Corinna. Return to "What's New".

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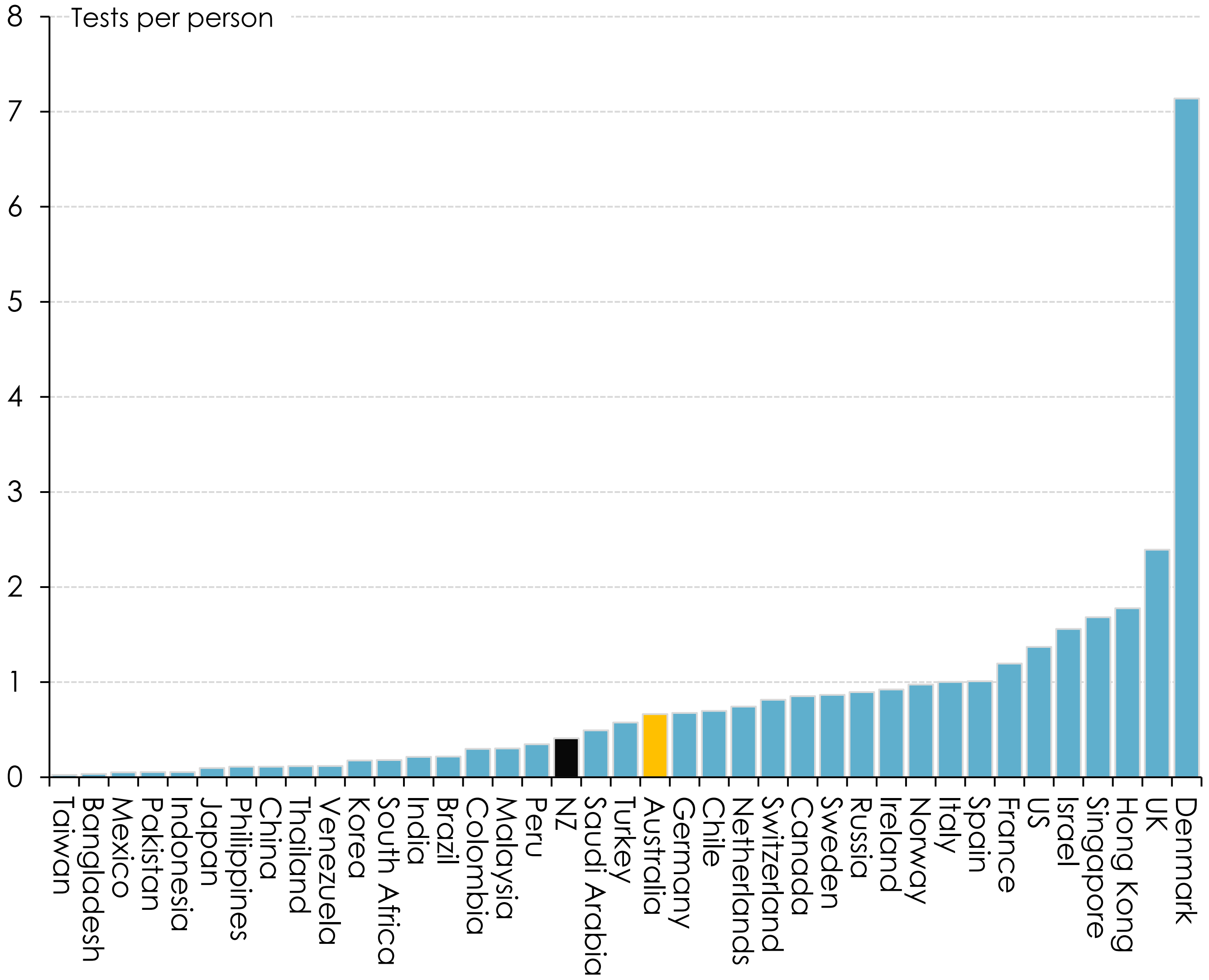
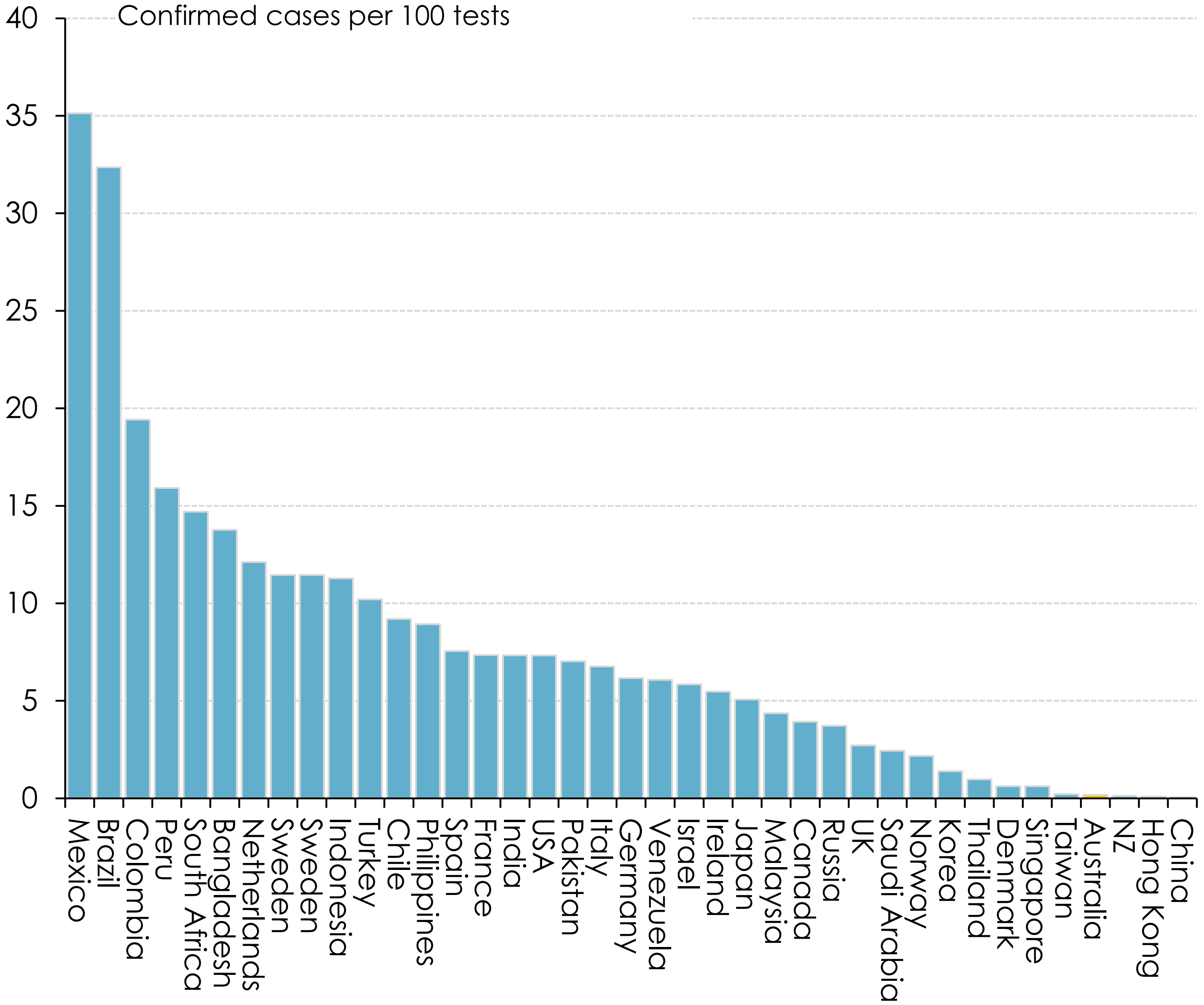
Australia's testing regime appears sufficiently broad for the low infection and death rates to be seen as 'credible' (ie not due to low testing)

Tests per thousand of population



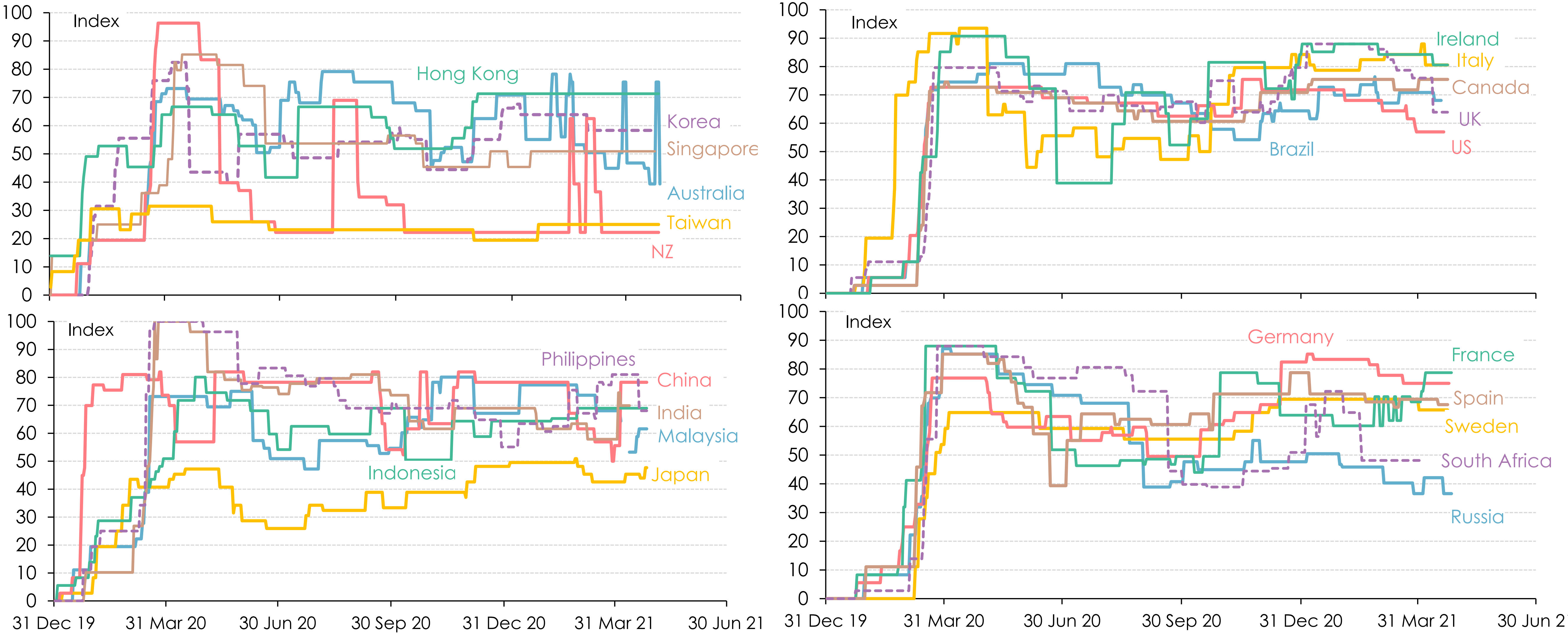
Confirmed cases per 100 tests



Note: Data up to 7th May (and yes it appears, at face value, that Denmark has tested its entire population more than seven times, the UK more than twice, and Singapore, Israel, Hong Kong, the US and France 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".

Australian states' and NZ's intermittent lockdowns stand out on the charts of government restrictions, which are easing only slowly in Europe & the US

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

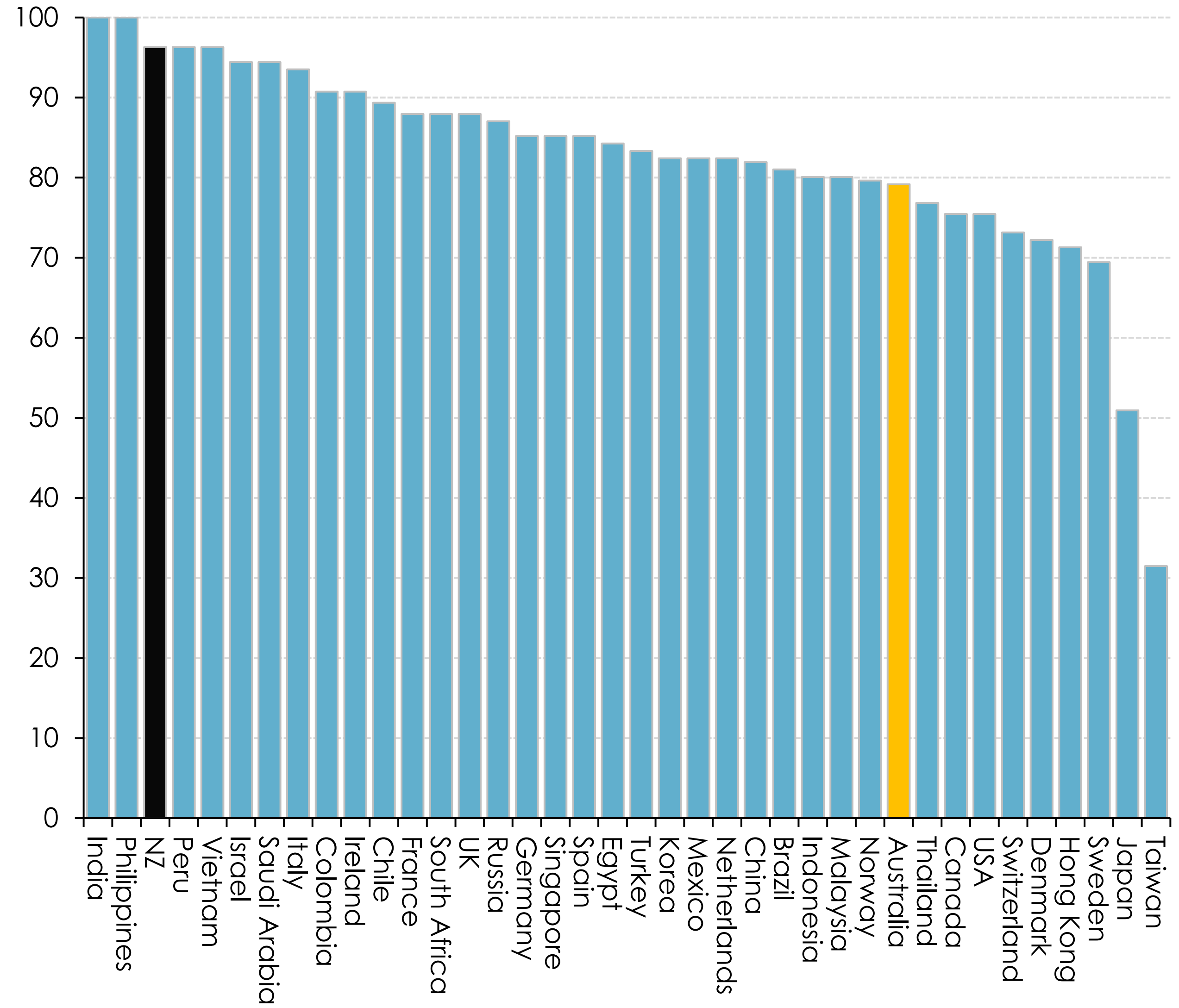


The Oxford COVID-19 Government Response Tracker collects publicly available information on 11 indicators of government response including school and workplace closures, public events cancellations, restrictions on public gatherings, stay at home requirements, public transport closures, domestic and international travel restrictions, public information campaigns, testing and contact tracing. *Source:* Blavatnik School of Government, Oxford University. Data up to 27th April – 7th May.

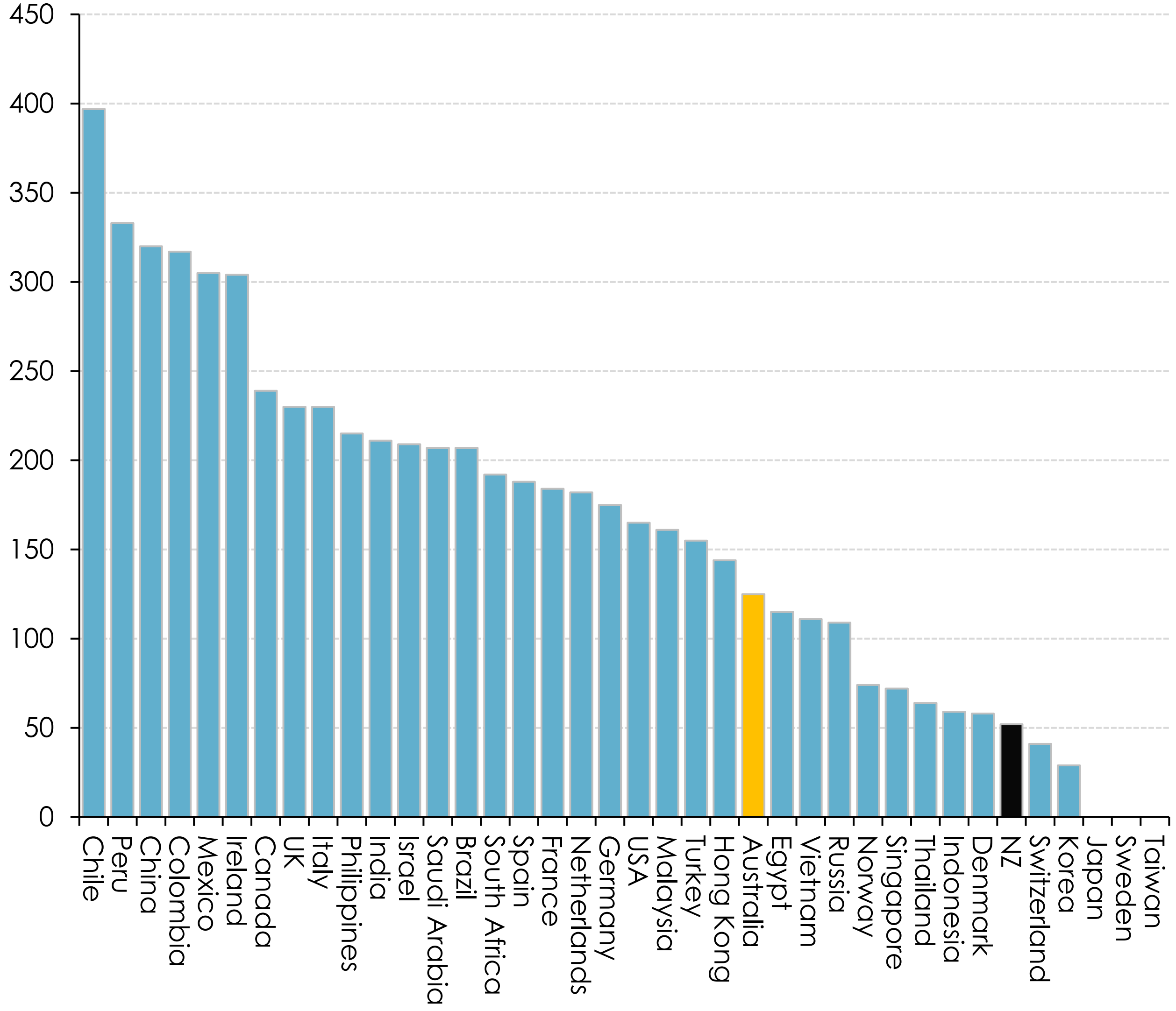
Return to "What's New".

Australia crept up the 'ladder' of countries with severe restrictions during Victoria's lockdown but has more recently slipped down again

Highest level of restrictions imposed



Number of days restrictions above 70 on Oxford index



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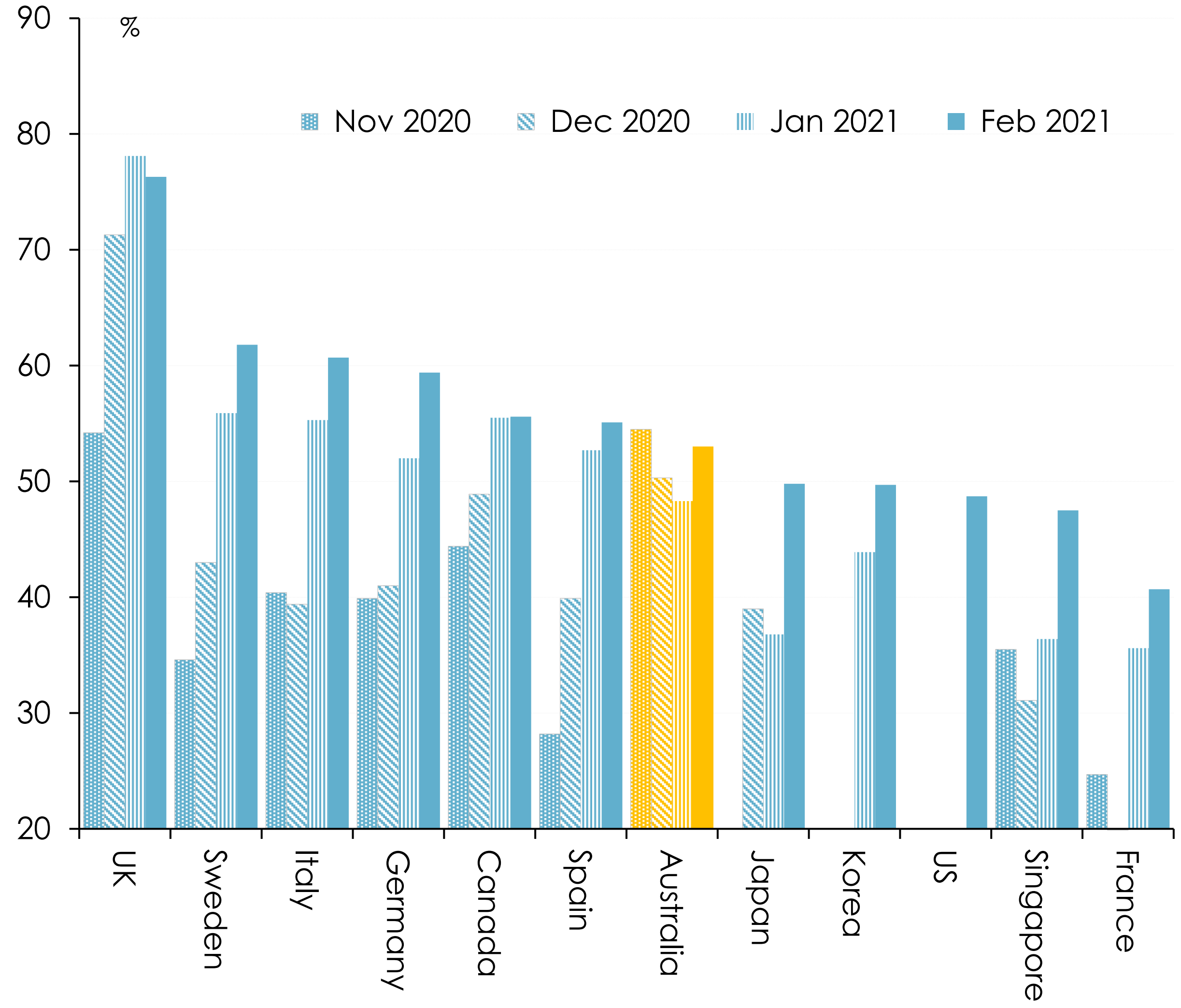
Effective vaccines will be crucial in allowing people and economies to return to 'normal' – if people are willing to take them, and can get them

People's willingness to get a Covid-19 vaccination 'this week' if available

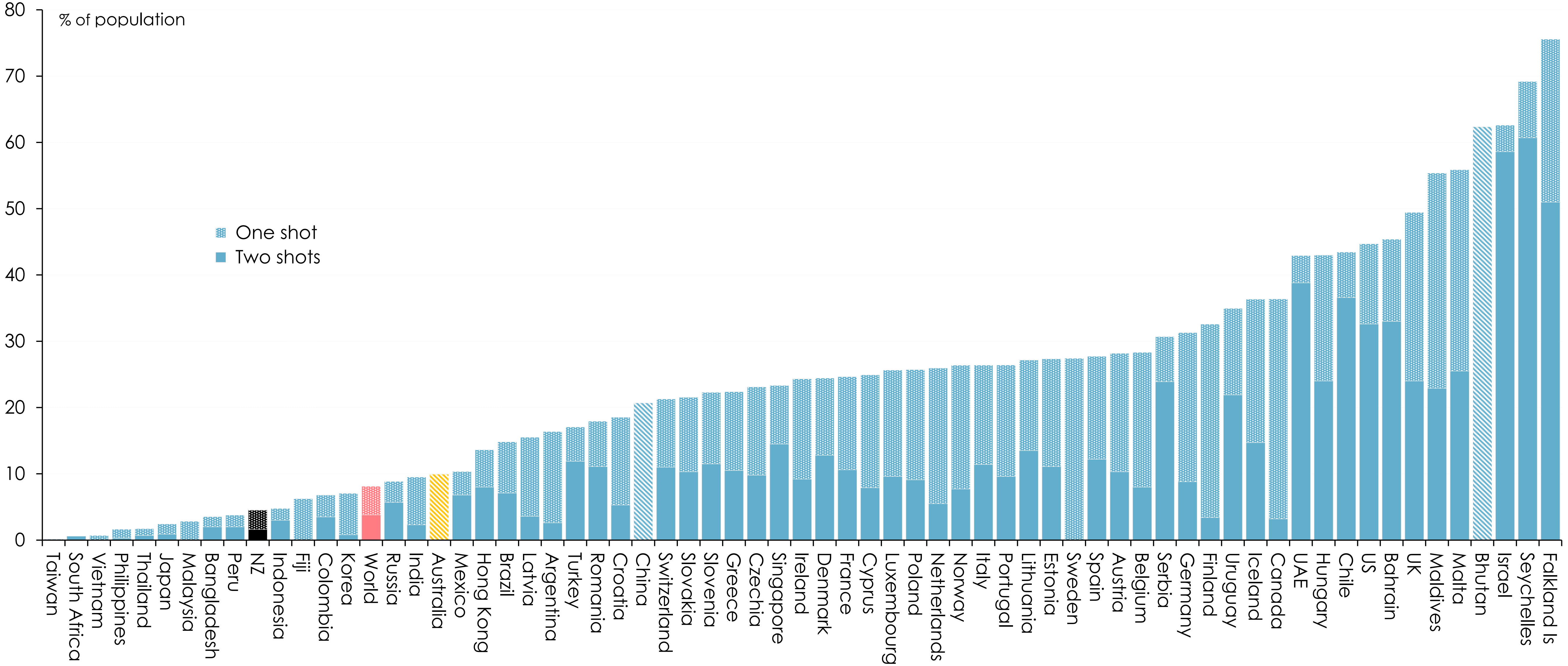


Australians 'strongly agreeing or agreeing' that they would get a vaccine when available

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".

Israel, the UK, the US and a number of small countries have made the most progress in vaccinations while large European countries and Asia lag

Percentage of population who have had at least one vaccination shot as at 5-7th May



Note: Data for Australia, Bhutan, Fiji and China are number of vaccinations per 100 people. Data for the Falkland Islands is 14th April; Singapore is 18th April; UAE is 20th April; Netherlands is 25th April; Cyprus is 1st May; Malaysia is 3rd May; Ireland & New Zealand are 4th May; all others are between 27th and 29th April.
Sources: Our World in Data, Coronavirus (COVID-19) Vaccinations; covid19data.com.au. Return to "What's New".

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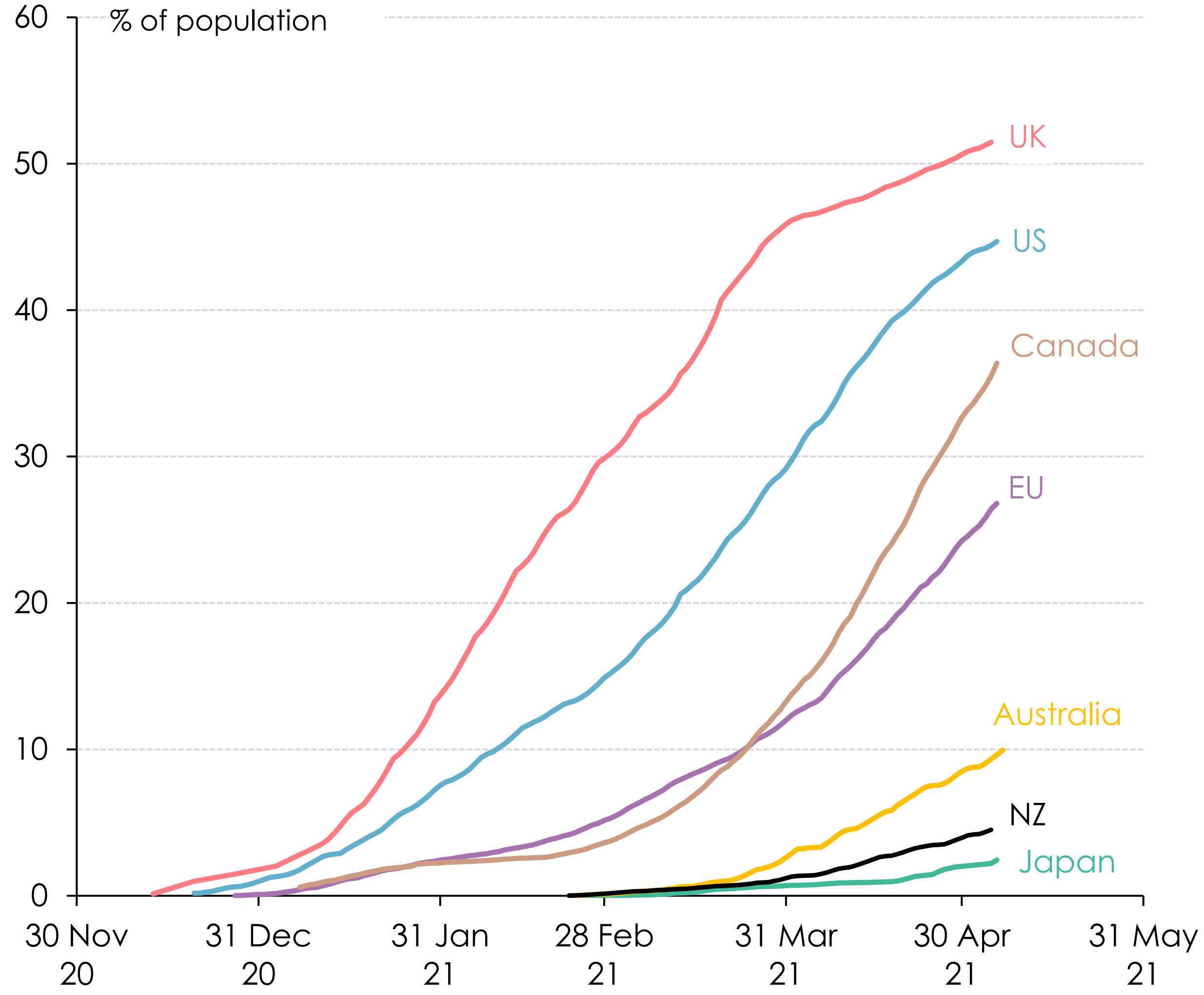
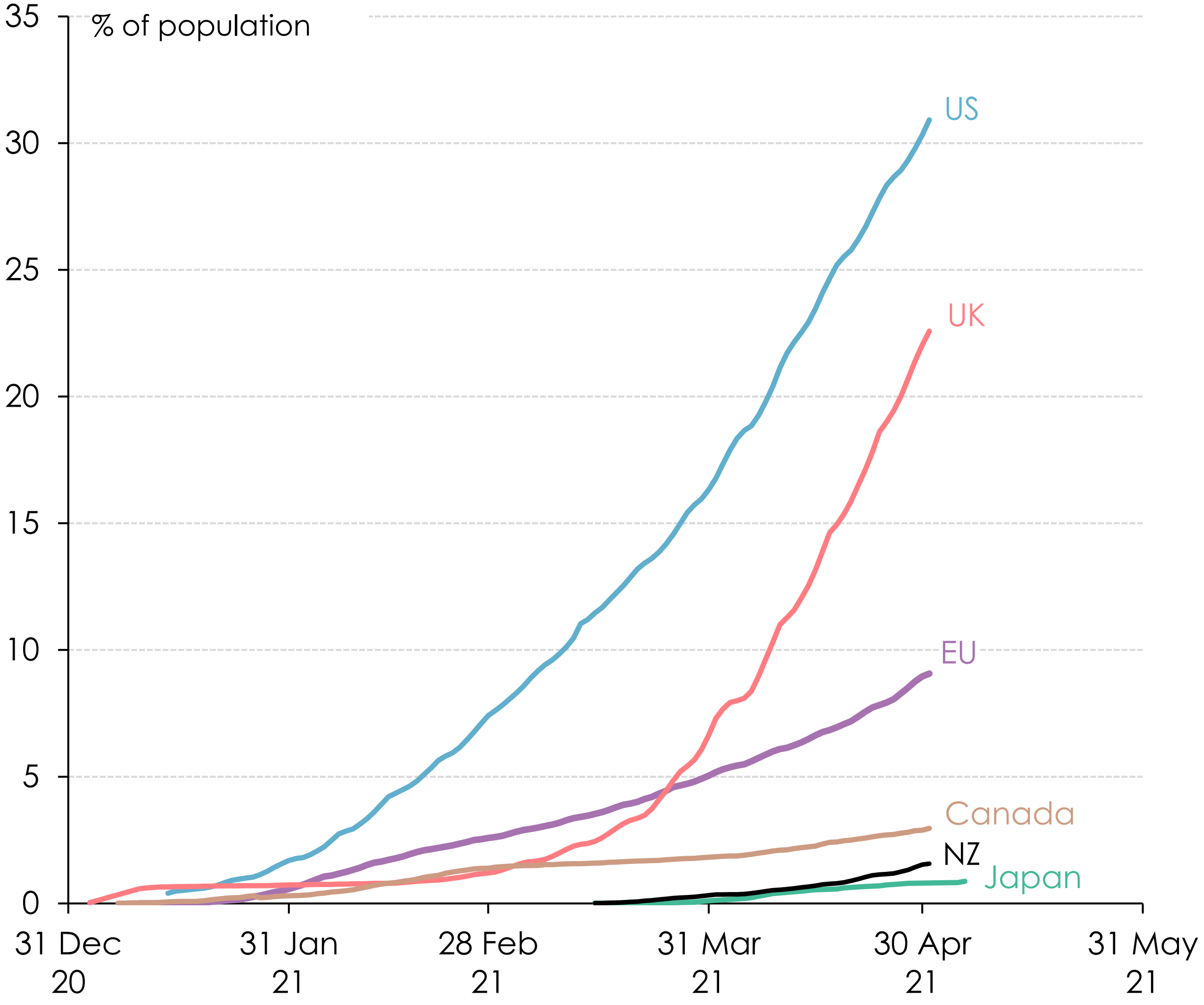
Among major advanced countries the UK has given the largest share of its population a first shot, but the US is way ahead on full vaccinations

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



Percentage of major 'advanced' economies' populations who have had two shots



Note: Data up 5th-7th May. Australian data is number of vaccines administered per 100 population: data on first and second shots are (for some unknown reason) not available for Australia. *Sources:* Our World in Data, Coronavirus (COVID-19) Vaccinations; covid19data.com.au. Return to "What's New".

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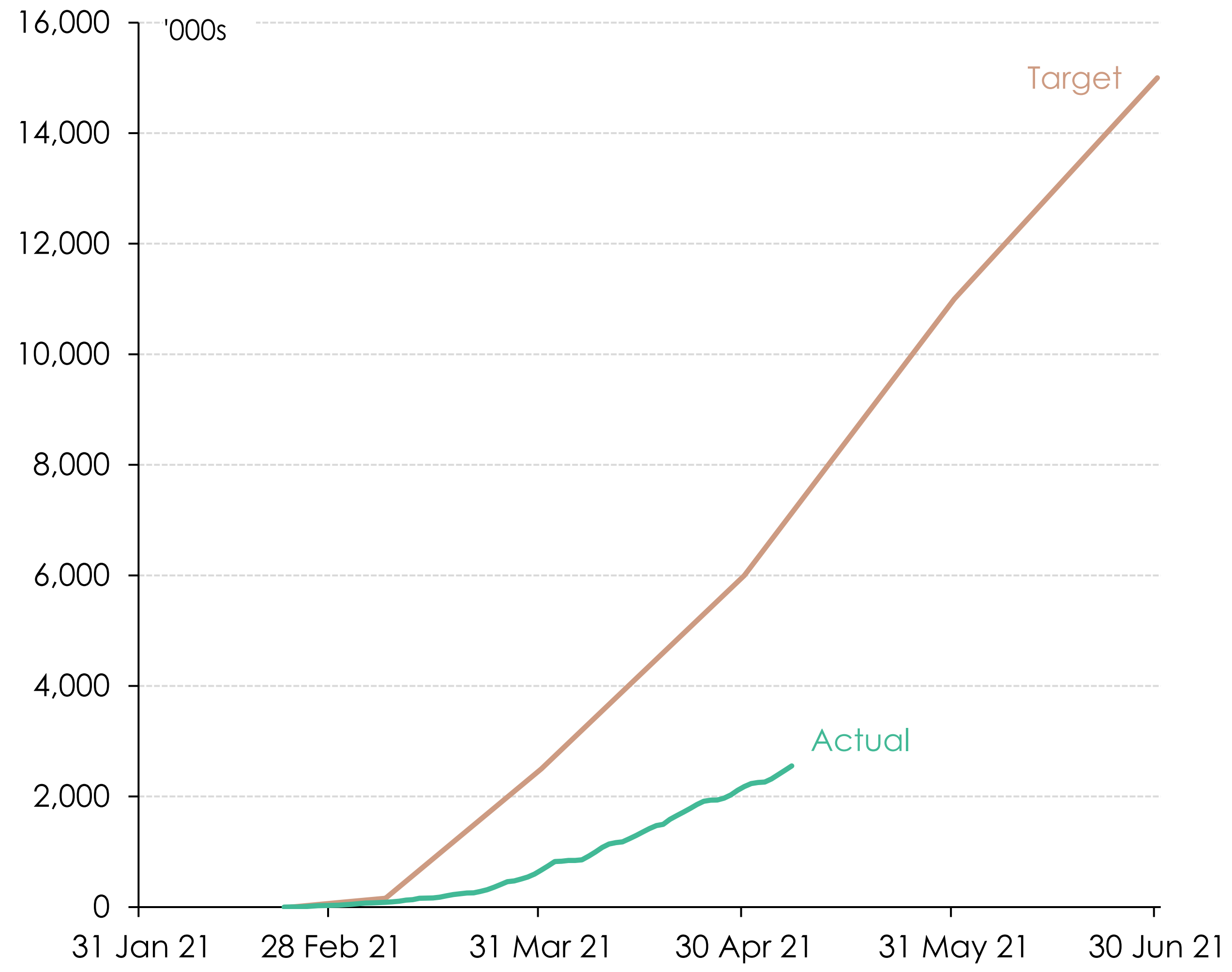
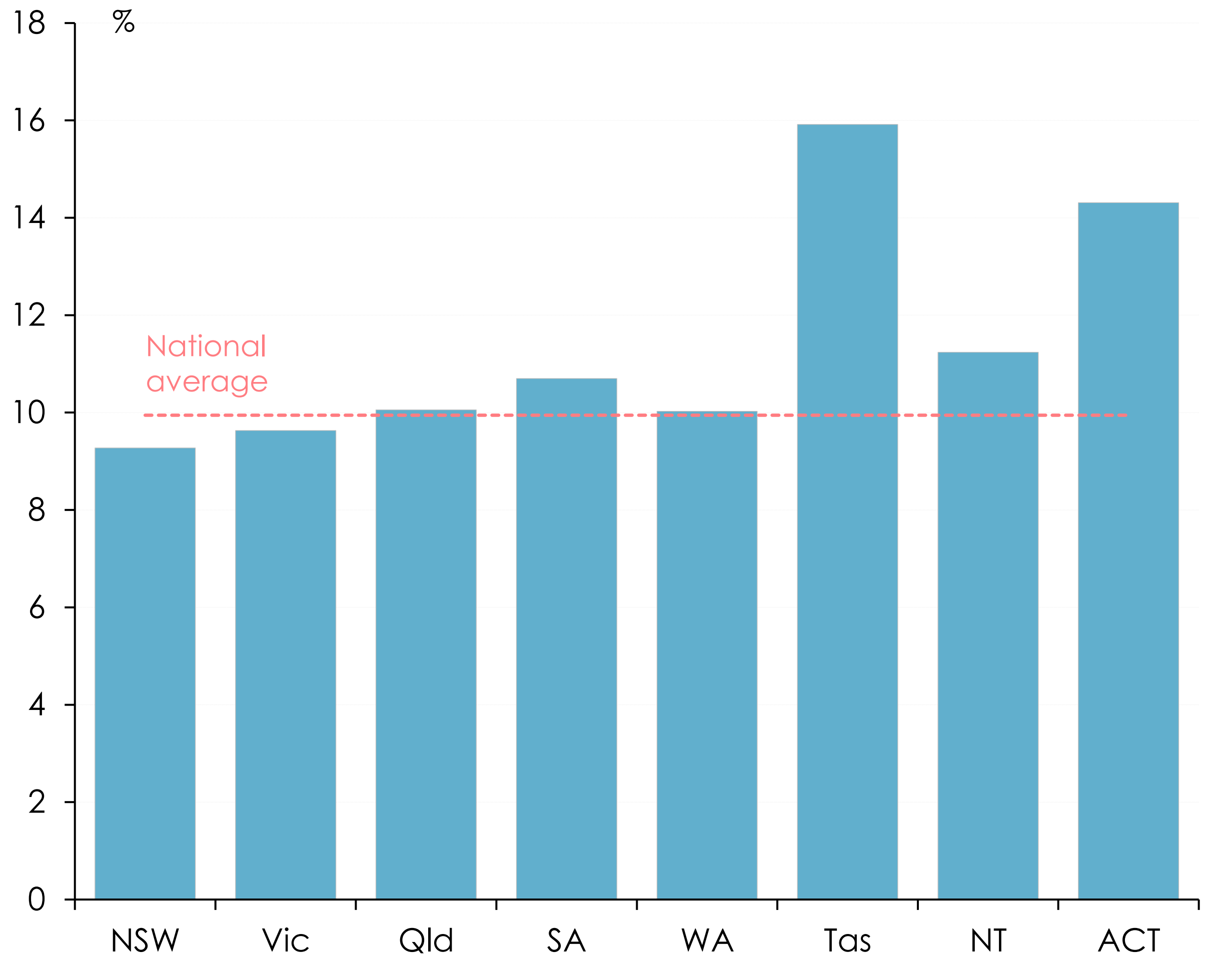
Australia's vaccine roll-out has picked up speed recently but remains well behind previously stated Government targets

Number of vaccine doses administered vs Government target



Percentage of population vaccinated, states and territories



Note: Data up to 7th May. *Sources:* covid19data.com.au; Australian Department of Health, COVID-19 vaccine rollout update on 14 March 2021.
Return to "What's New".

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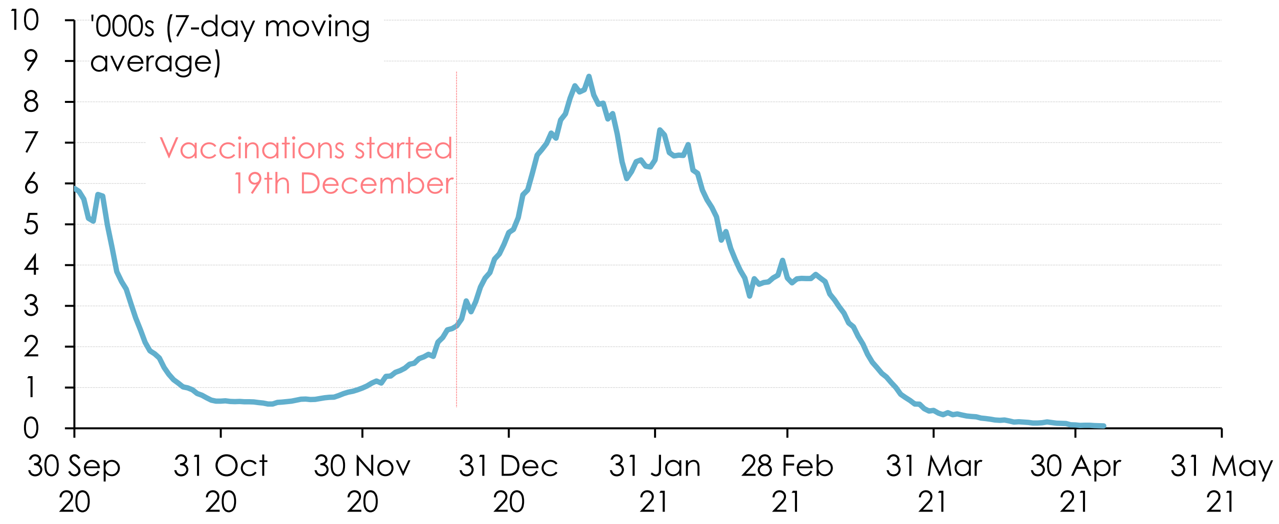
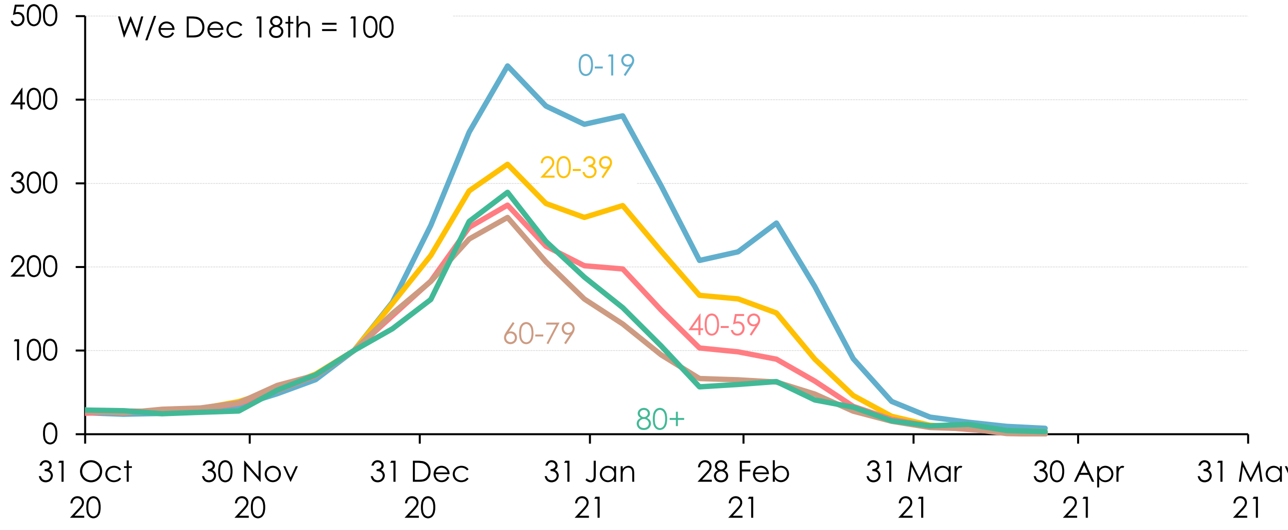
Israel's experience strongly suggests that Covid-19 vaccines *are* effective

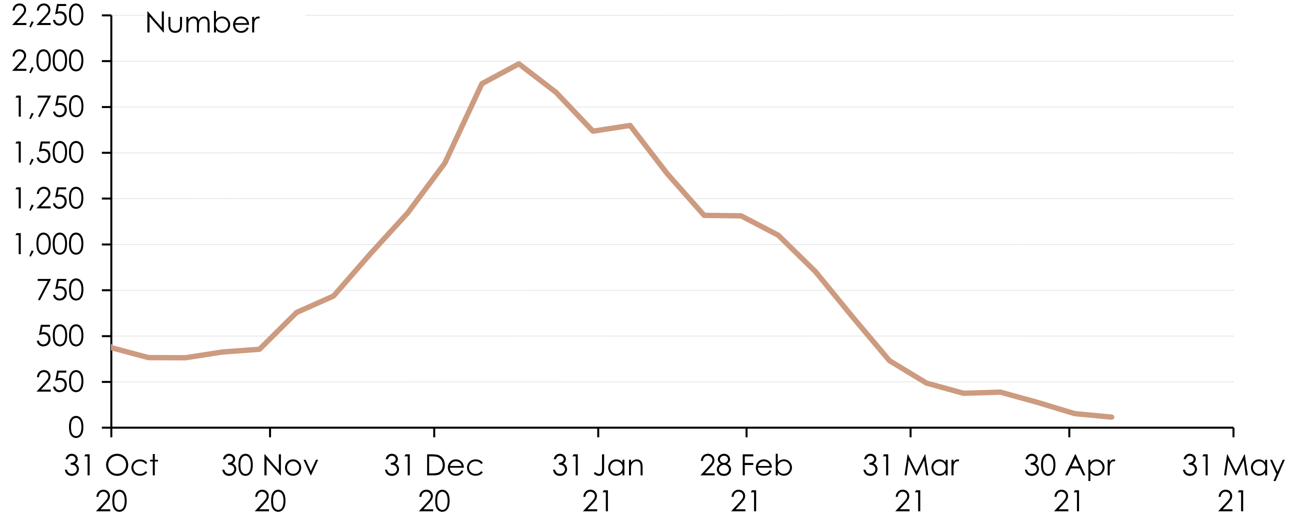
Daily new confirmed cases



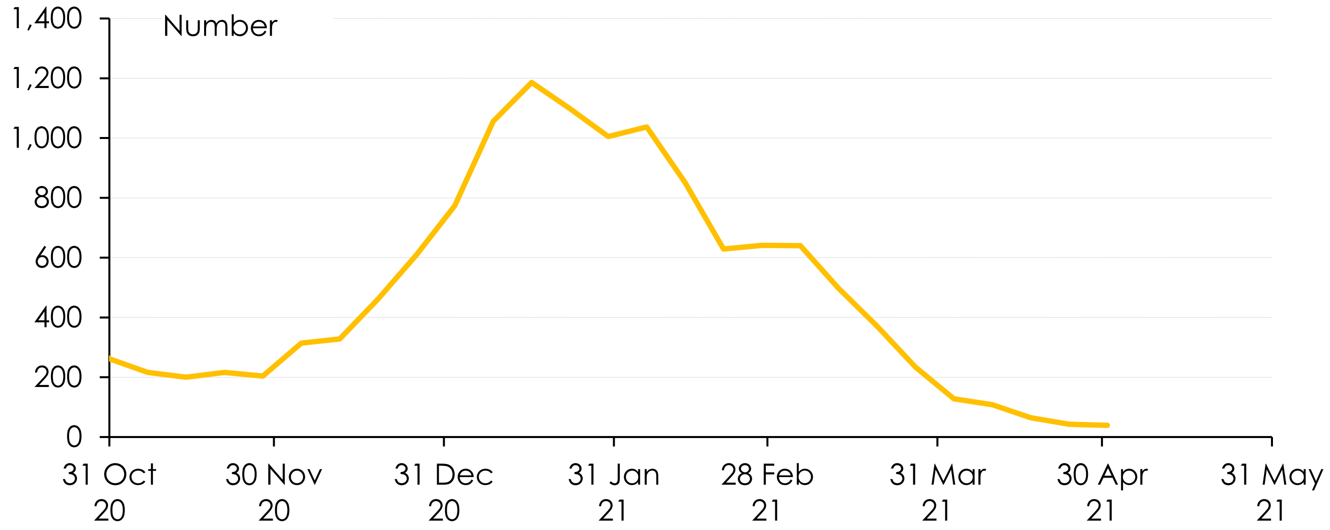
Confirmed cases by age group



New hospitalizations for Covid-19



New ICU admissions for Covid-19



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

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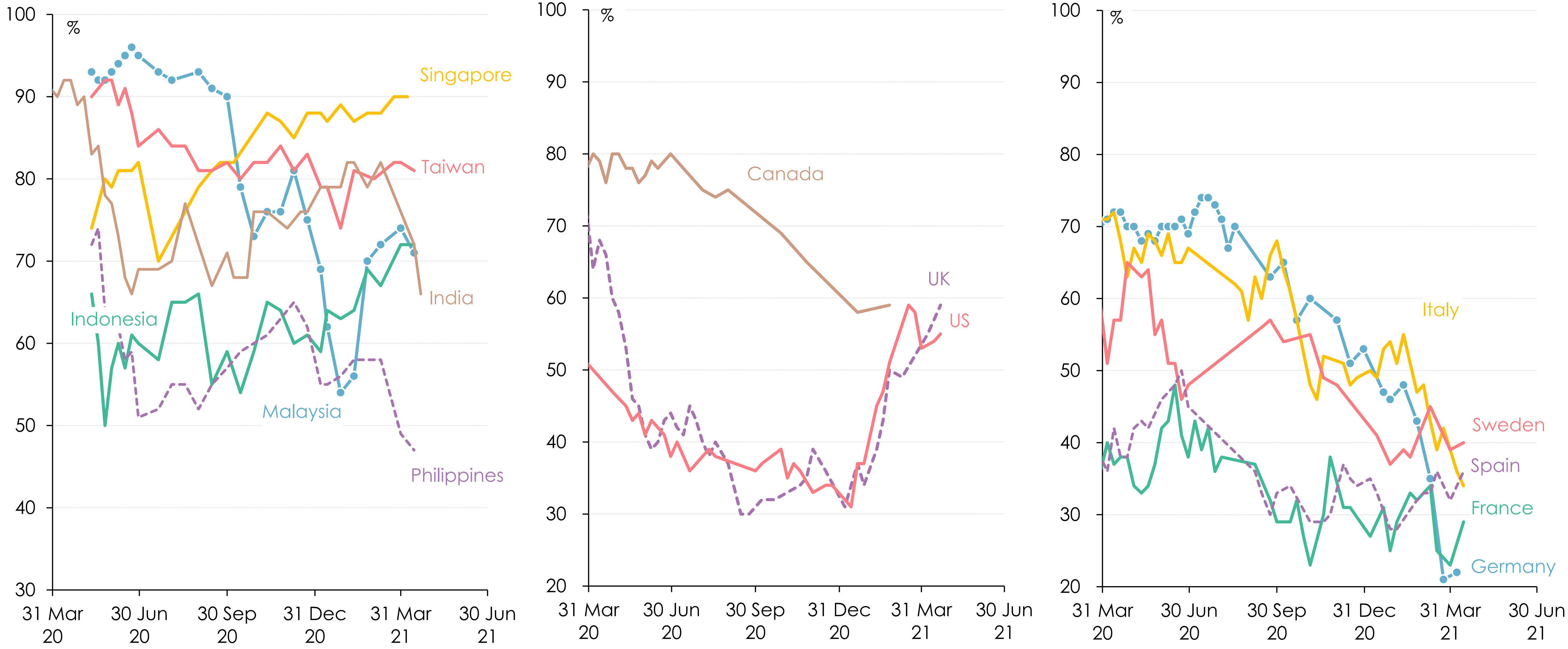
Voter approval of US & UK governments' handling of Covid-19 has risen substantially, but in Asia and Europe voters appear increasingly frustrated

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



Note: No new polls have been published in the past two weeks. *Source:* YouGov, Covid-19 tracker: government handling. Return to "What's New".

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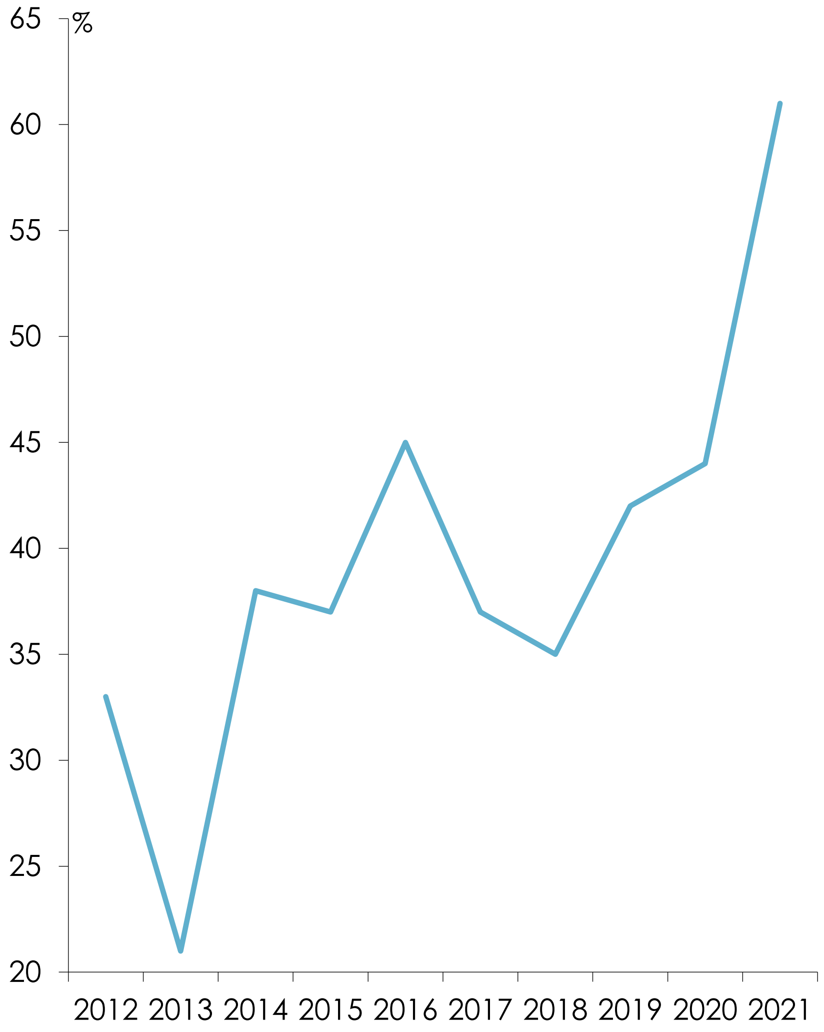
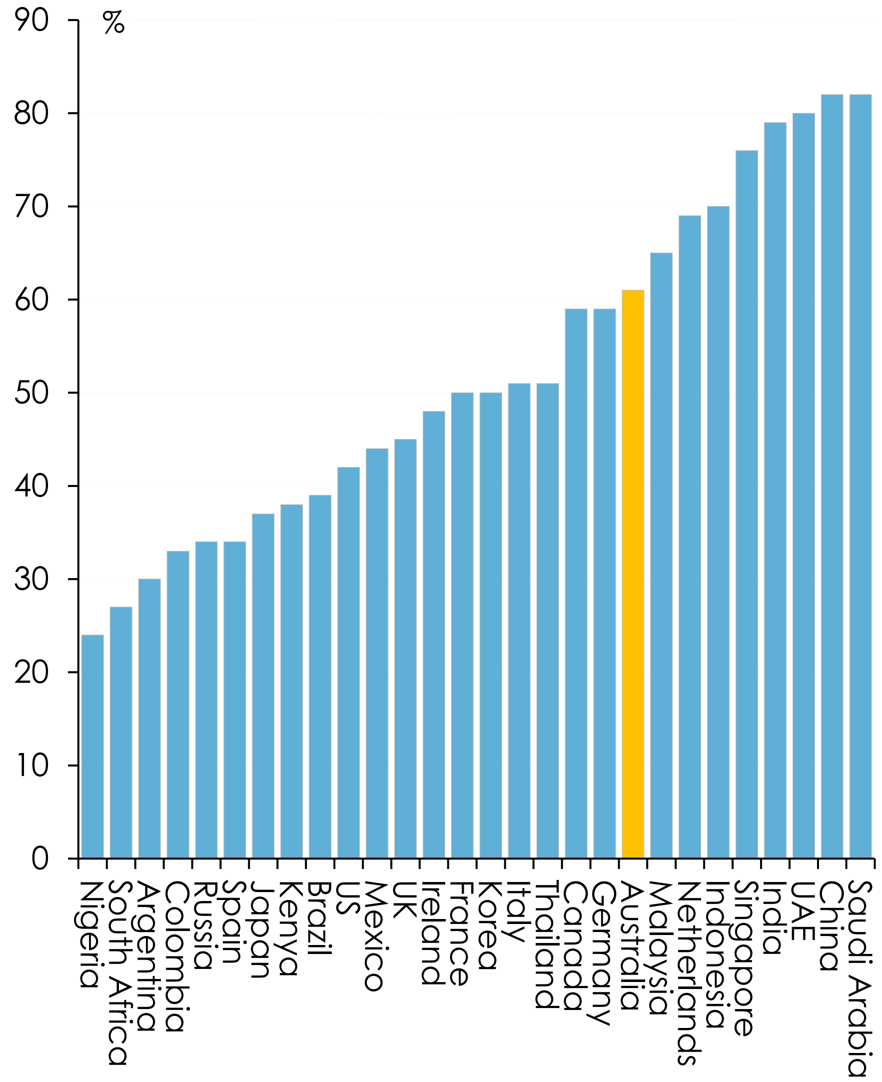
Australia’s relative success in confronting last year’s health & economic challenges has prompted a substantial rise in trust in government

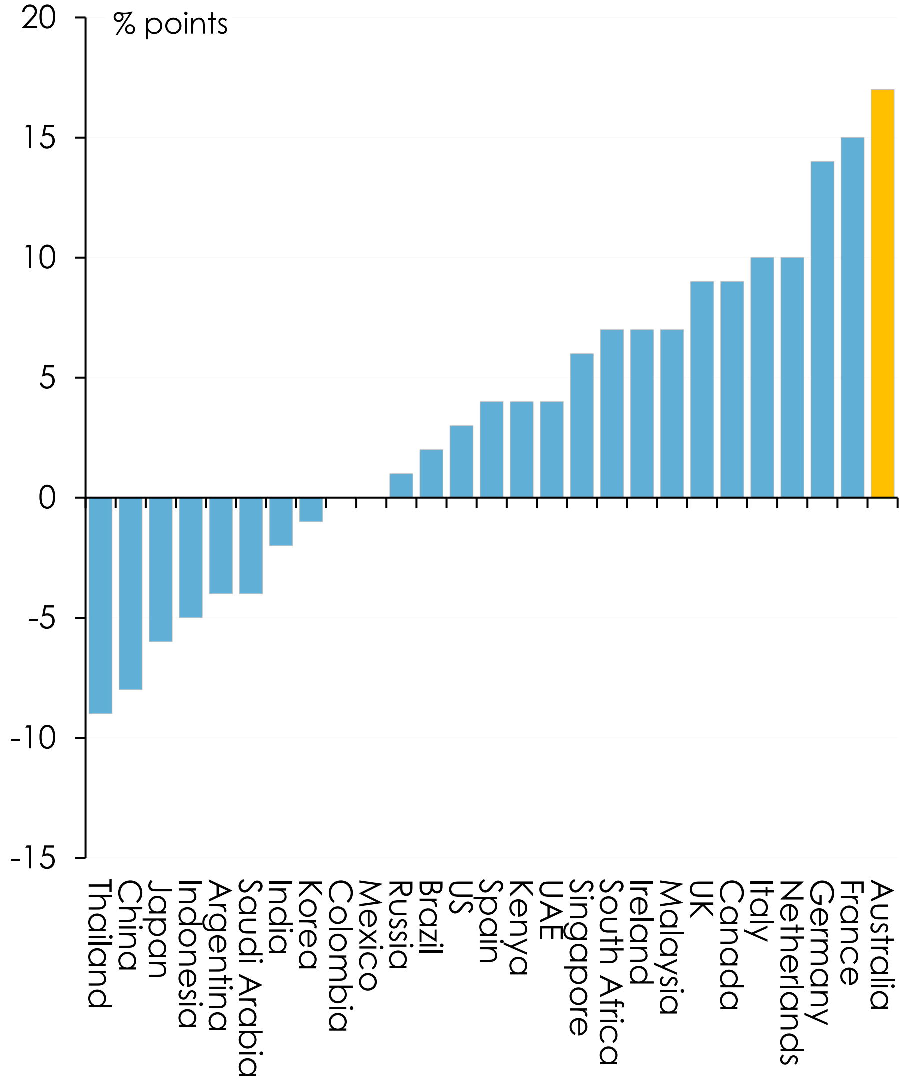
Trust in government in Australia



Trust in government, 2021



Change in government trust, 2021



Source: Edelman Trust Barometer, February 2021

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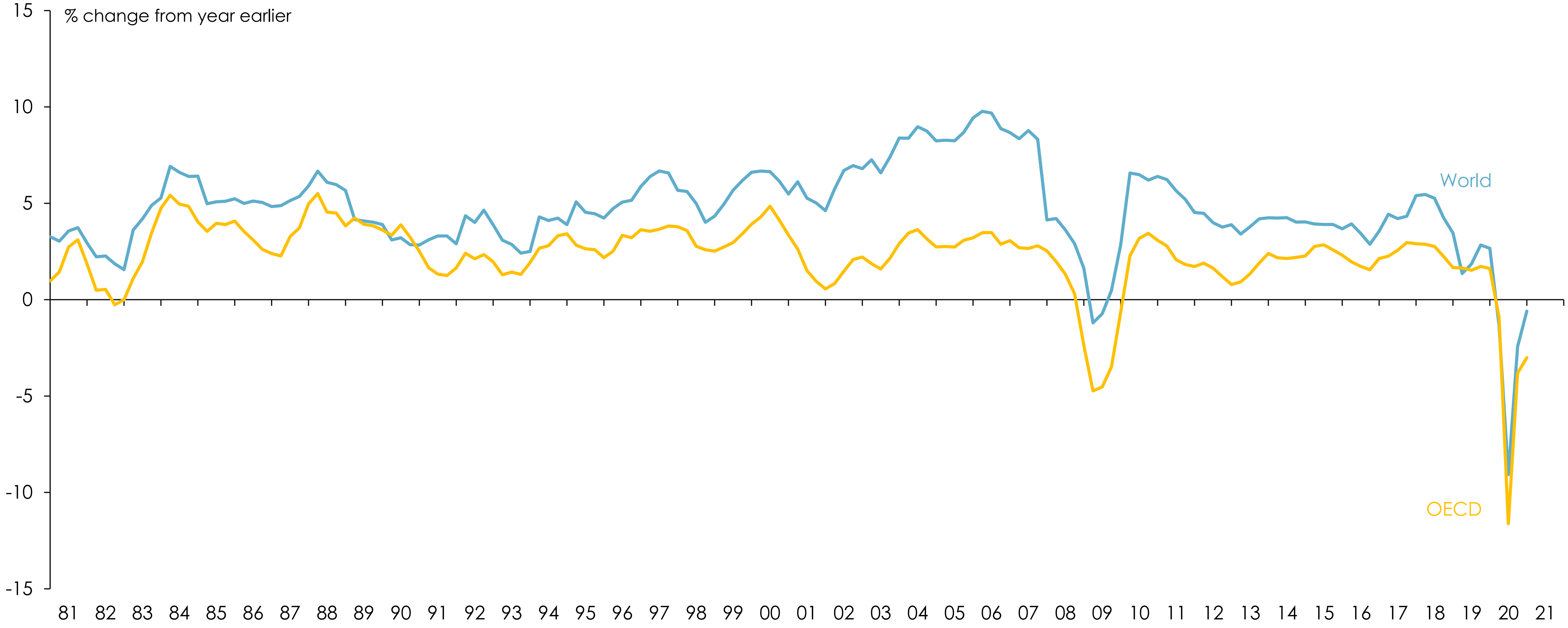
The world

The world economy likely contracted by ½% over the year to Q4 2020, up from 9% over the year to Q2 and 2½% over the year to Q3

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. Estimate for Q4 is based on published results for the 91 countries shown in the previous slide.
Sources: national statistical agencies and central banks; Eurostat; OECD; IMF; Corinna. Return to "What's New".

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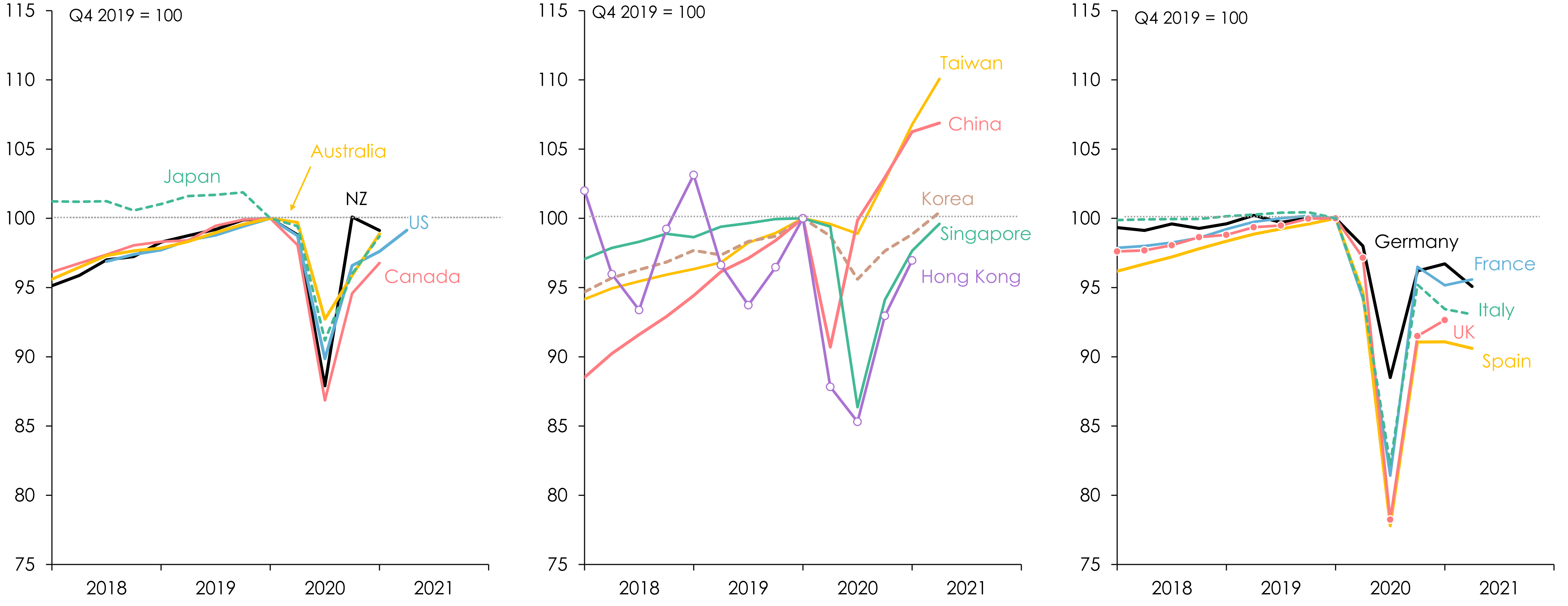
Asian economies are recovering more rapidly from last year's recession, while European economies are lagging

Levels of real GDP indexed to Q4 2019 = 100



Note: All series shown are seasonally adjusted, except for China's which has been constructed using the estimates of quarterly changes in real GDP published by the China National Bureau of Statistics. *Sources:* National statistical agencies and Bank of Korea; Corinna.

The IMF last month upgraded its 2021 global growth forecast by ½ pc pt to 6%, and its 2022 forecast by ¼ pc pt to 4.4%

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

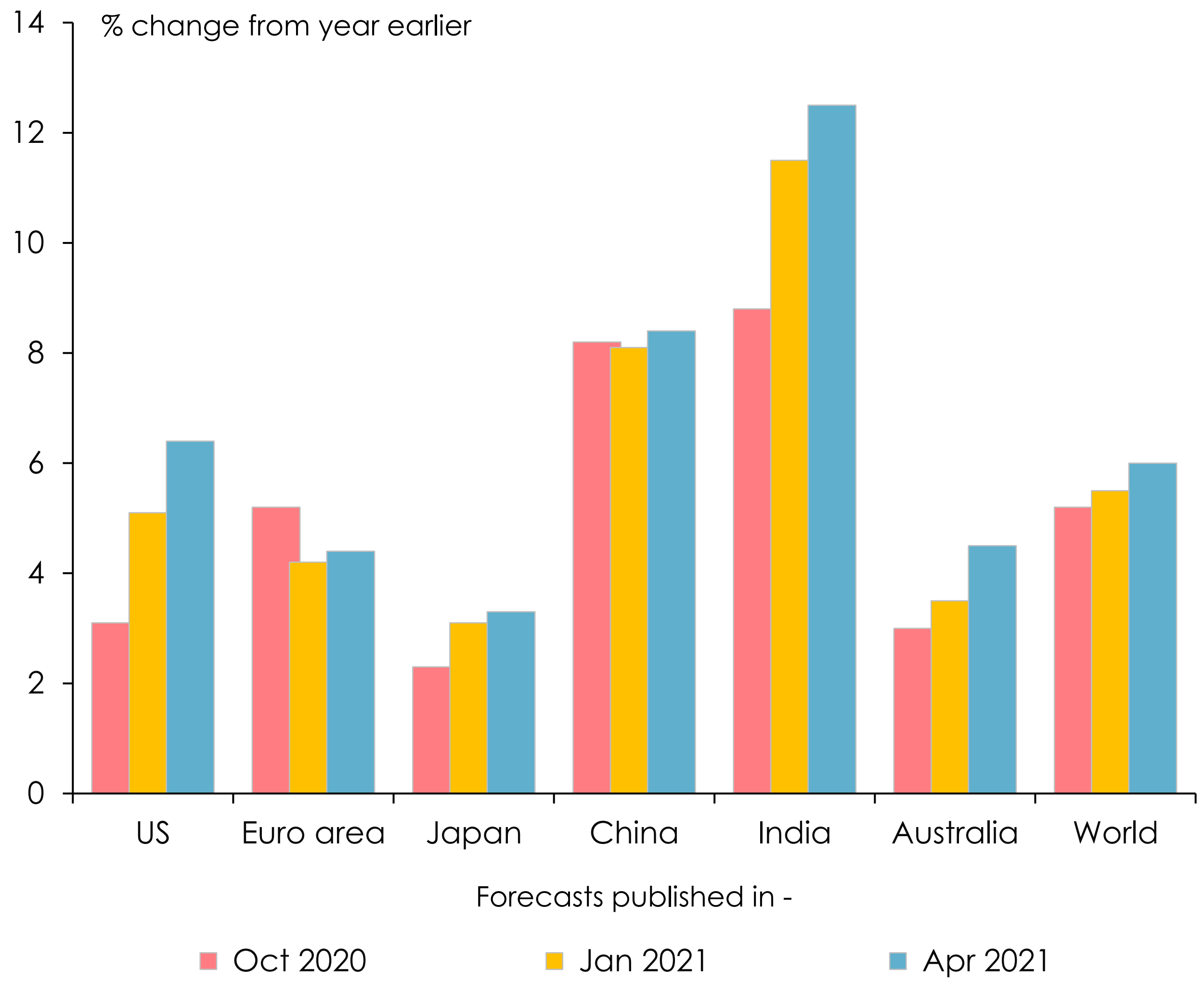
	Actual		*IMF*		*World Bank*		*OECD*		*Australian Treasury*	
	2019	2020	2021	2022	2021	2022	2021	2022	2021	2022
US	2.2	-3.5	6.4	3.5	3.5	3.5	6.5	3.3	3.3	3.0
China	5.8	2.3	8.4	5.6	7.9	5.2	7.8	4.9	8.0	5.3
Euro area	1.3	-6.6	4.4	3.8	4.5	3.3	3.9	3.8	3.5	3.3
India	4.0	-8.0	12.5	6.9	5.4	5.2	12.6	5.4	9.0	5.5
Japan	0.3	-4.8	3.3	2.5	2.5	2.3	2.7	1.8	2.8	1.8
UK	1.4	-9.9	5.3	5.1	na	na	5.1	4.7	na	na
Australia	1.9	-2.4	4.5	2.8	na	na	4.5	3.1	3.5*	2.5*
New Zealand	2.2	-3.0	4.0	3.2	na	na	na	na	2.6†	3.7†
World	2.8	-3.3	6.0	4.4	4.0	3.8	5.6	4.0	4.8	3.8
World trade	0.9	-8.5	8.1	6.3	5.0	5.1	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*, 6th April 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".

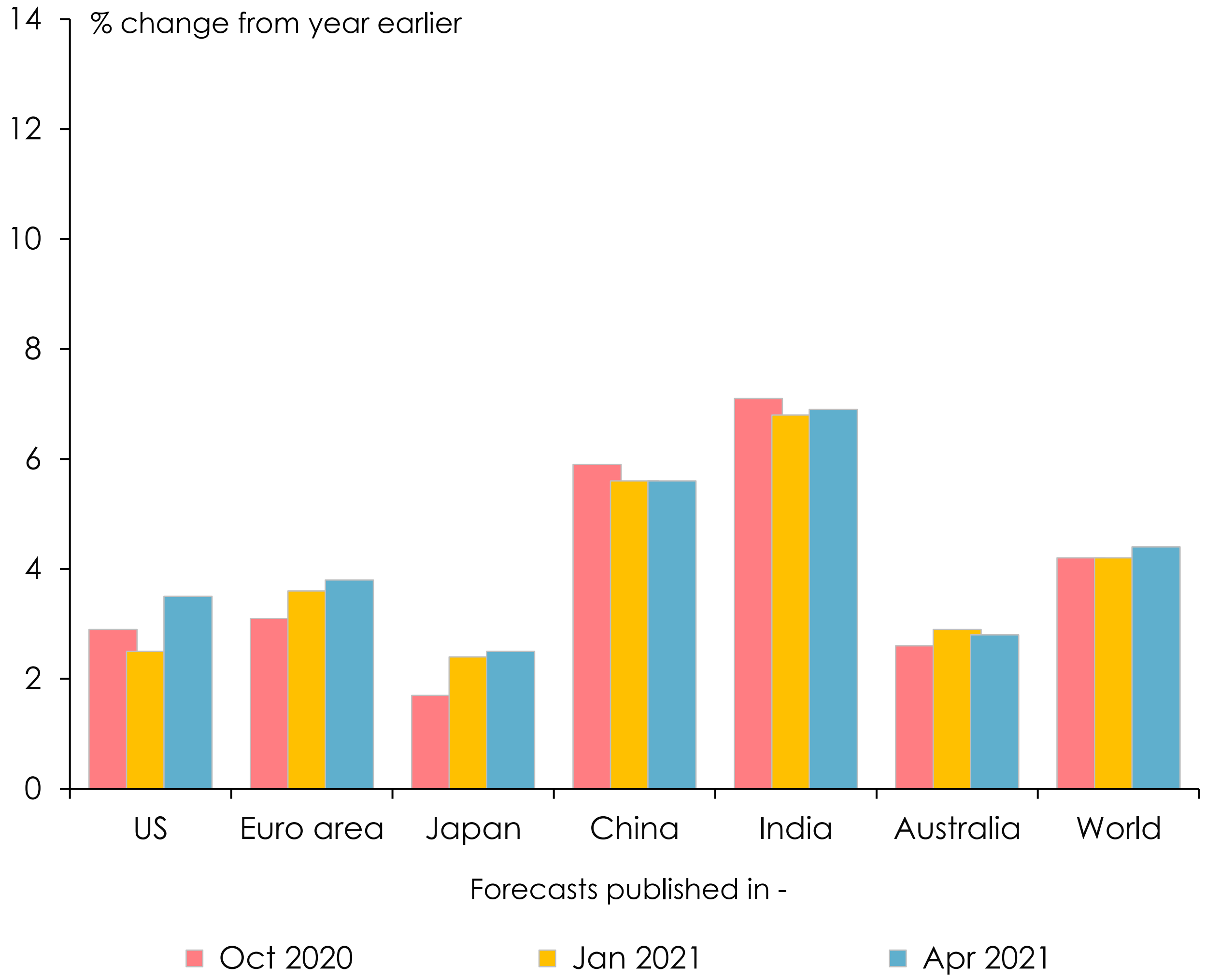
The upward revision to IMF's global growth forecast was largely attributable to upgrades to the outlook for the US and (in 2021) India

Revisions to IMF forecasts since last October's *World Economic Outlook*

2021



2022

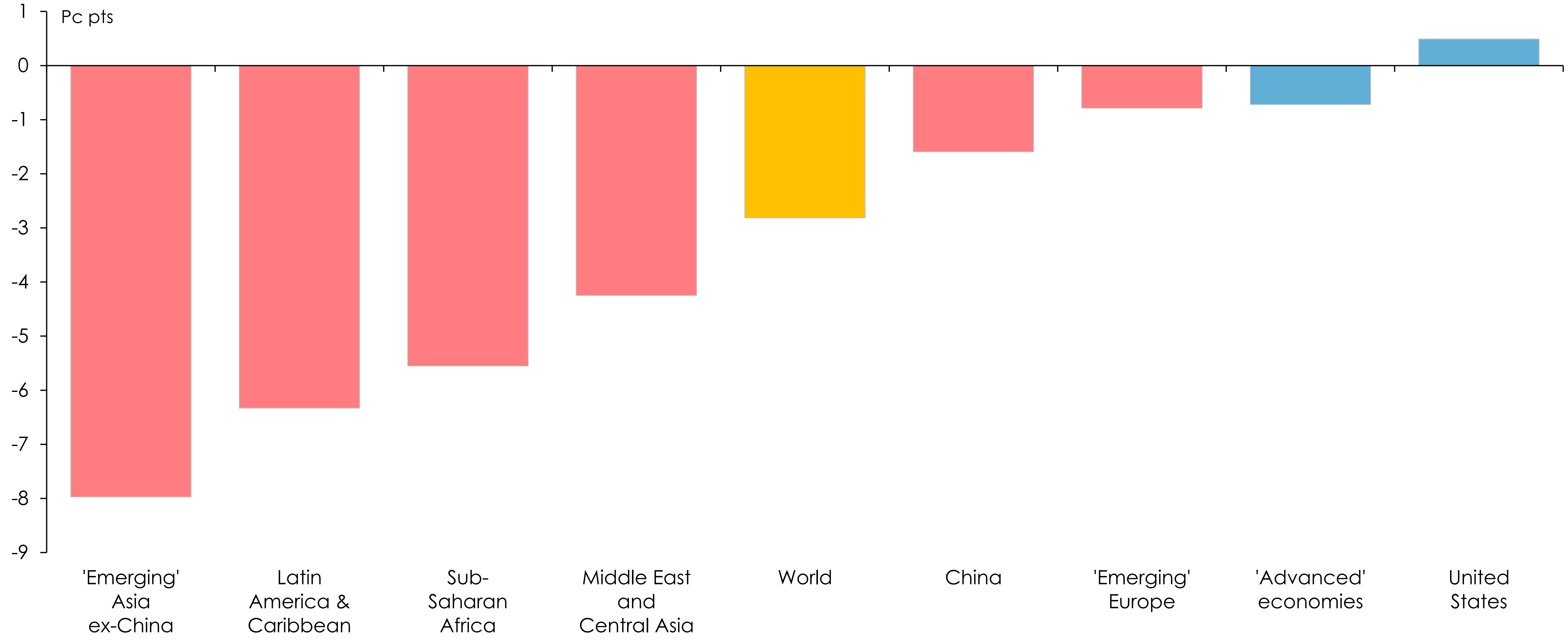


Sources: International Monetary Fund, World Economic Outlook, 6th April 2021; World Economic Outlook Update, 20th January 2021; and World Economic Outlook, 7th October 2020. Return to "What's New".

SAUL ESLAKE
CORINNA ECONOMIC ADVISORY

Output losses due to Covid-19 have been much greater for 'emerging' economies than 'advanced' ones (the opposite of the GFC pattern)

Revisions to IMF *World Economic Outlook* forecast GDP levels between January 2020 and April 2021



Source: International Monetary Fund, *World Economic Outlook*, 6th April 2021. Return to "What's New".

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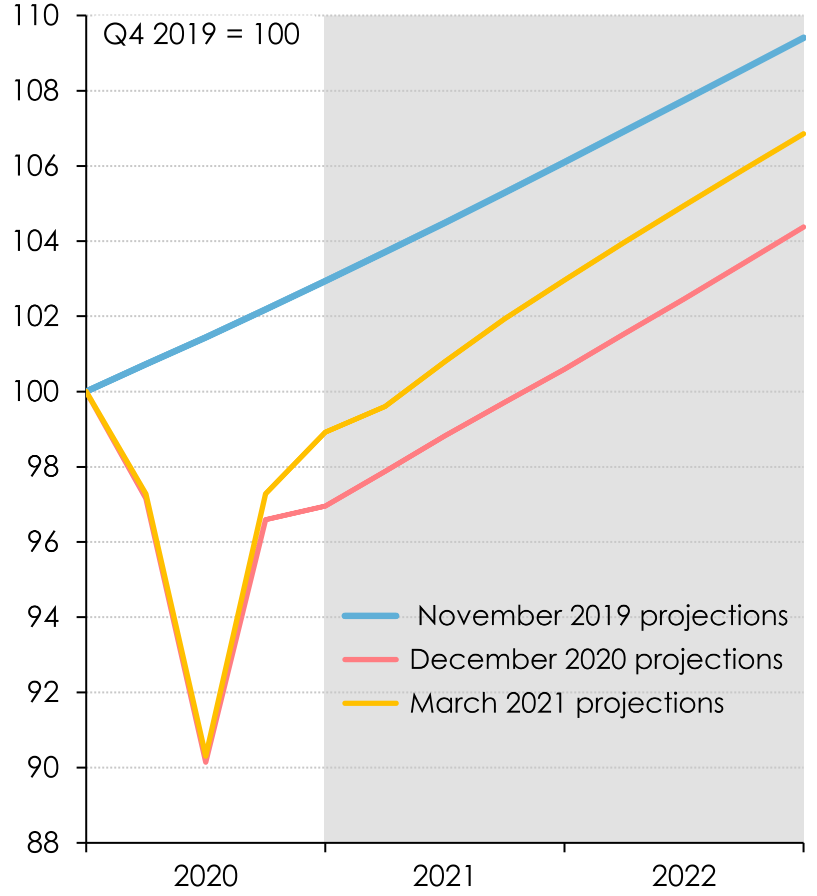
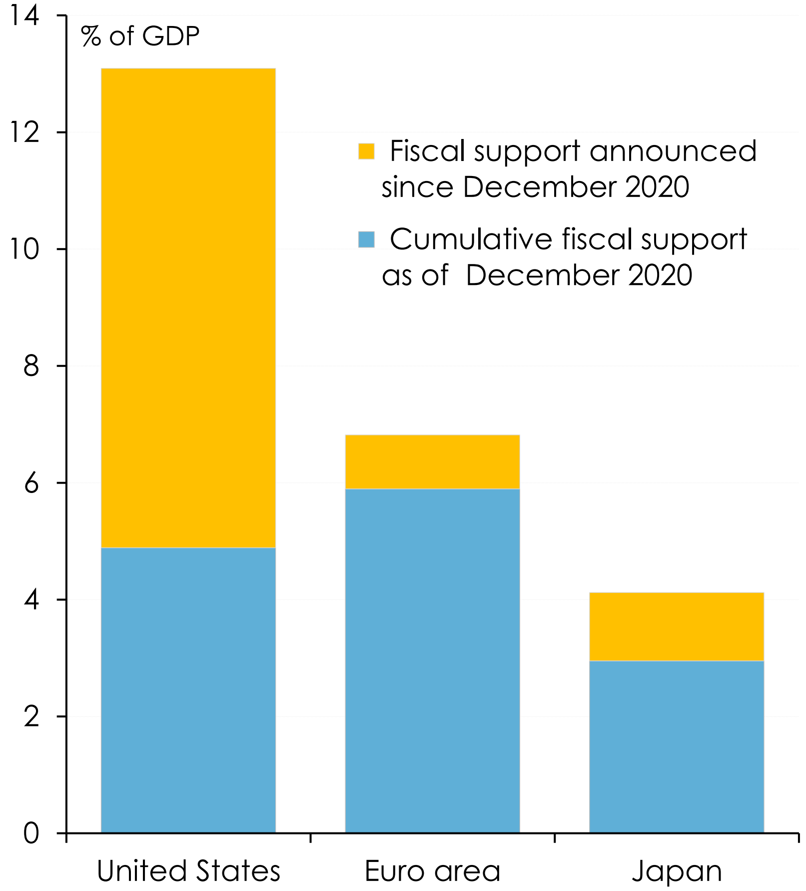
The OECD's more optimistic view owes much to the size of the additional fiscal stimulus in the US

Global GDP projections



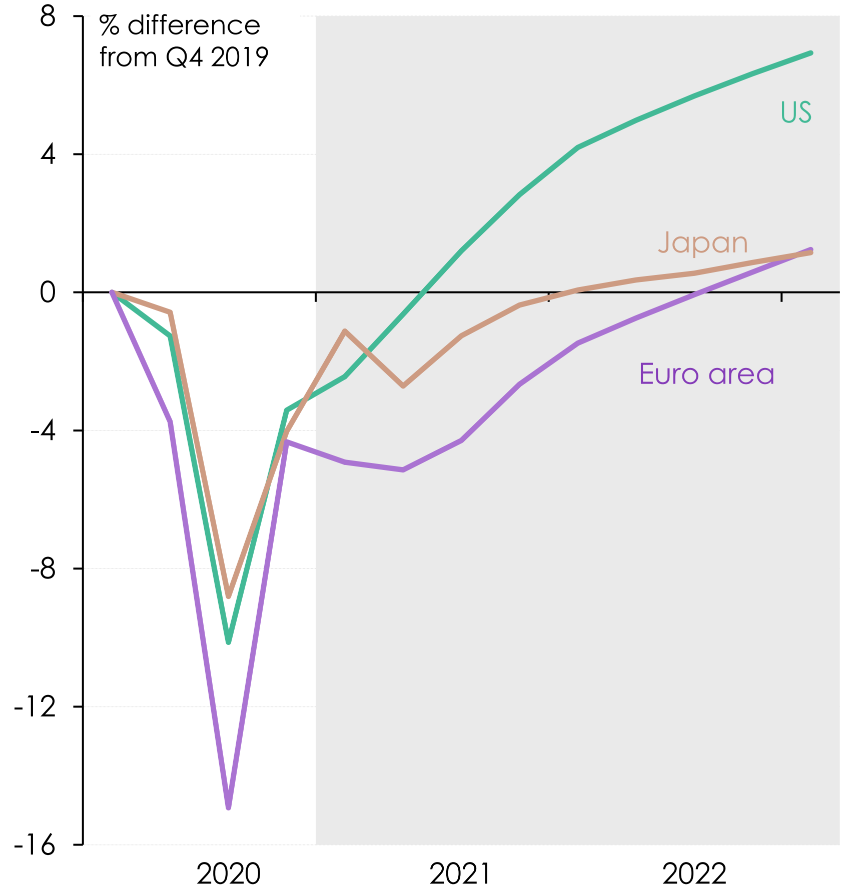
- The OECD now expects global GDP to have returned to its pre-pandemic level by Q1 this year, rather than Q4 as in its November forecast

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

Source: Organization for Economic Co-operation & Development (OECD), Economic Outlook, Interim Report, 9th March 2021. Return to "What's New".

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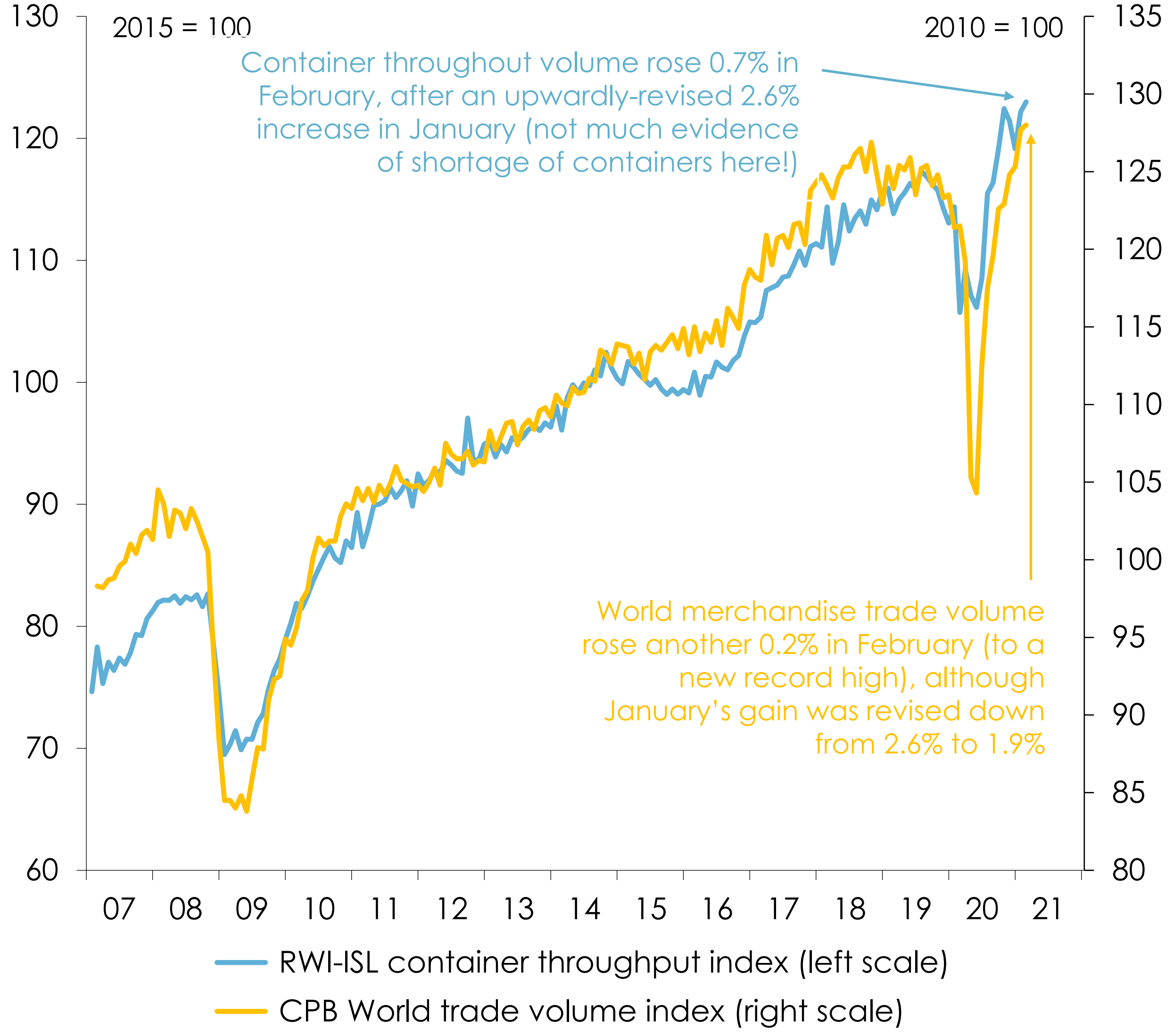
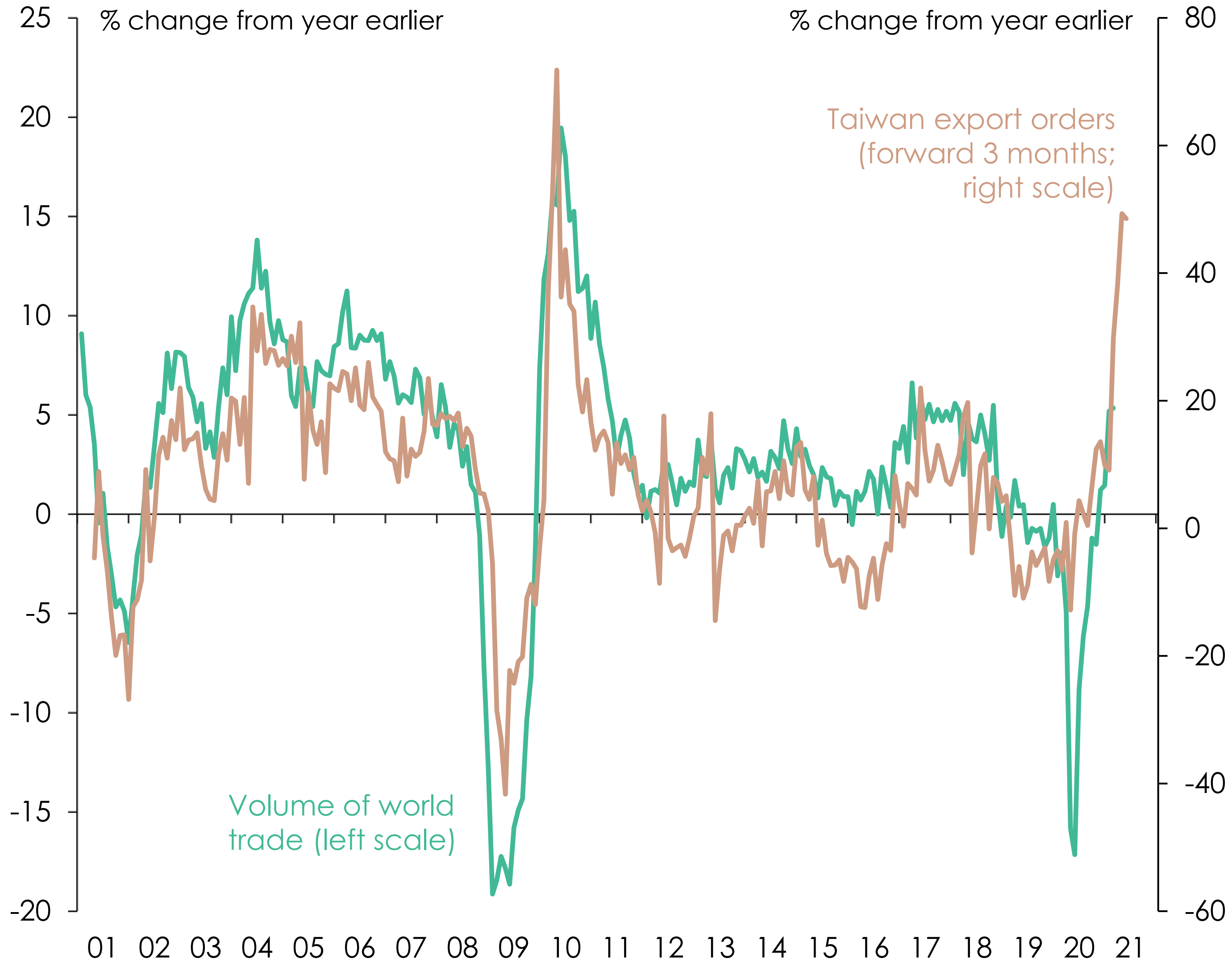
World trade volumes recorded another record high in February and Taiwan export orders (a good leading indicator) point to further gains ahead

World trade volumes and container throughput



Taiwan export orders and world trade volumes



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 (March data to be released on 25th May); Institute of Shipping Economics & Logistics (ISL) and RWI Leibniz-Institut für Wirtschaftsforschung (RWI) Container Throughput Index; Taiwan Ministry of Economic Affairs. Return to "What's New".

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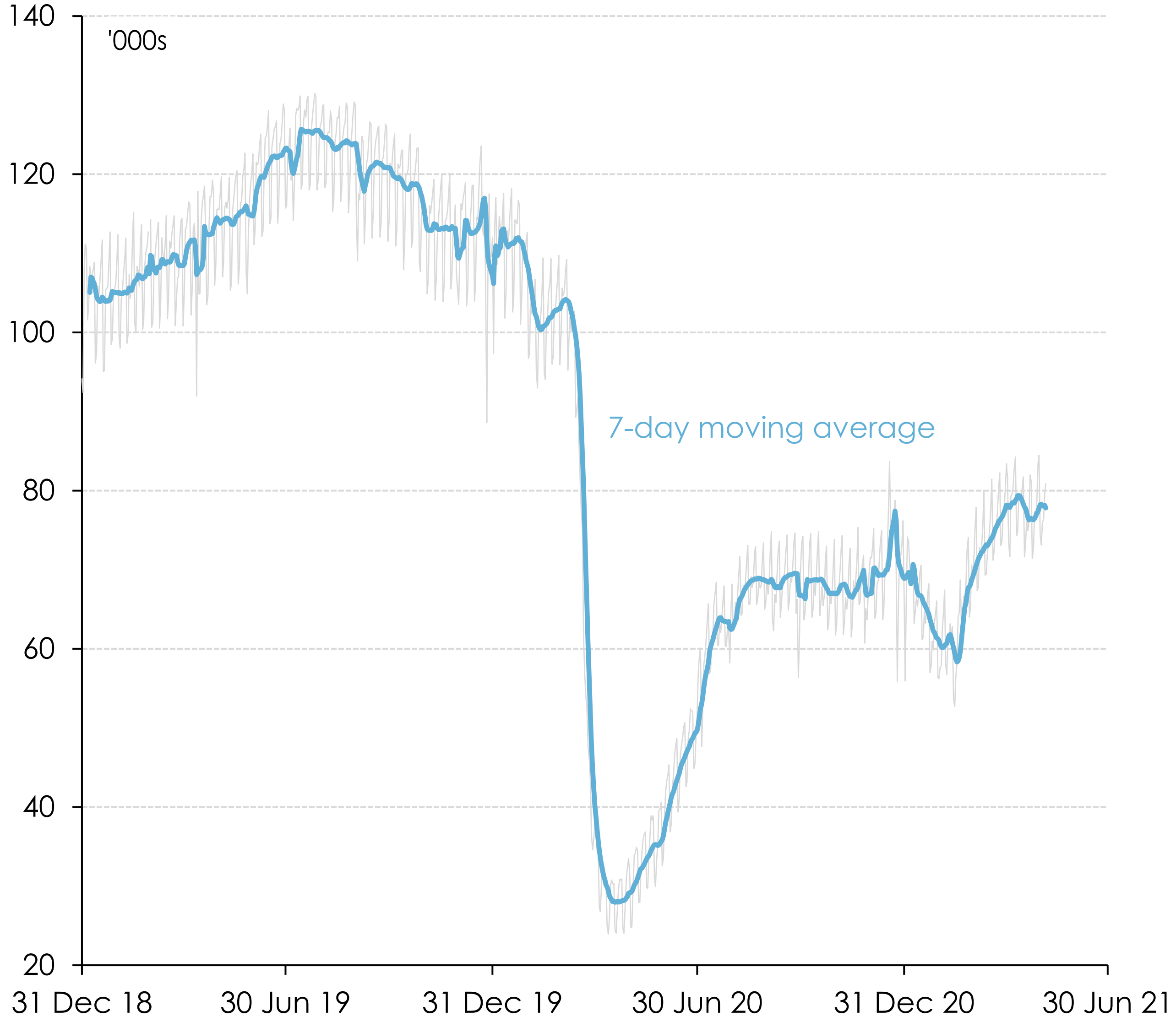
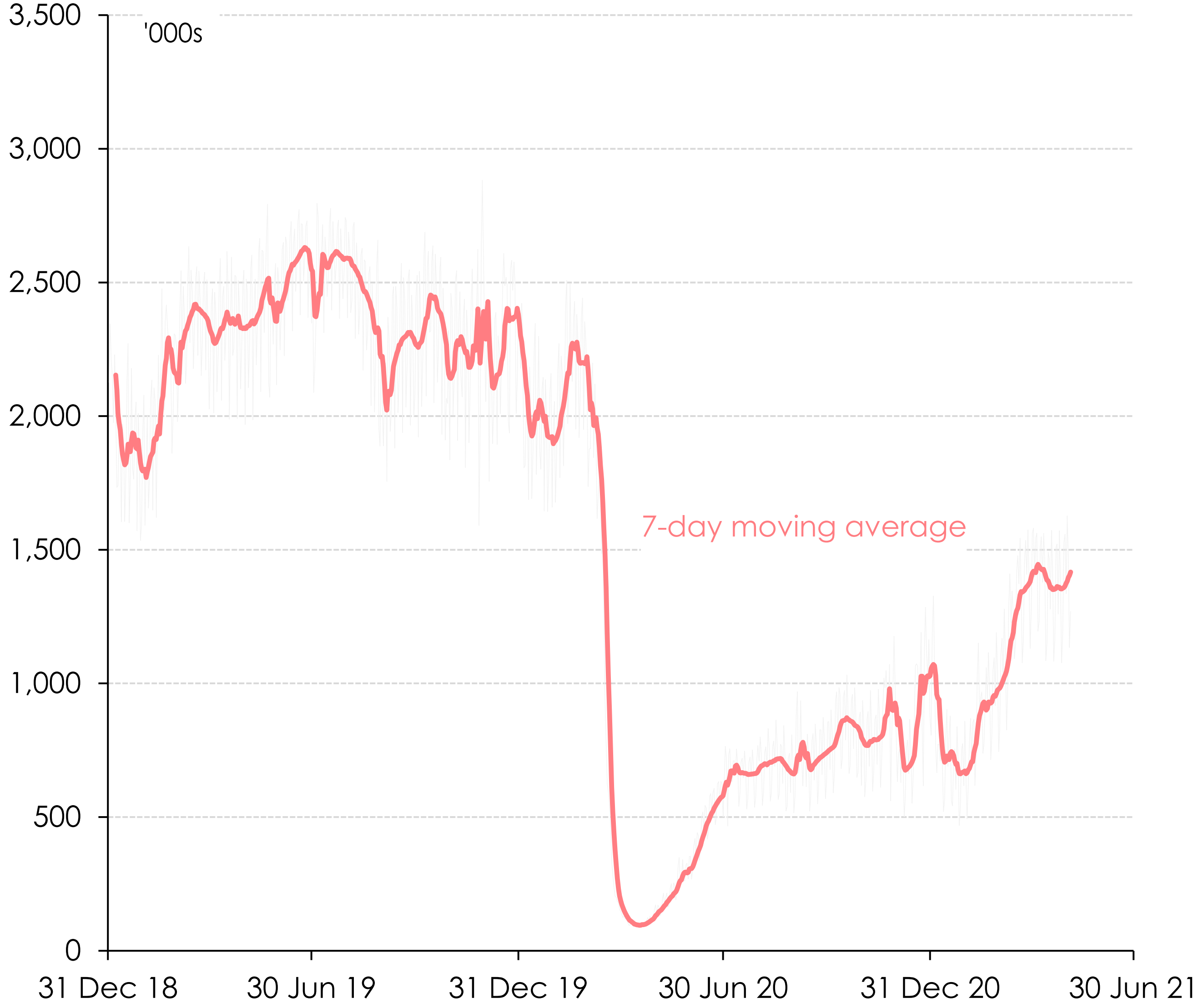
Commercial aviation traffic has picked up since mid-February aided by vaccines roll-out, although there's been some easing in the past 3 weeks

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 6th May. Thicker coloured lines are 7-day centred moving averages of daily data plotted in thin grey lines. *Sources:* Flightradar24.com; US Transport Safety Administration (at last, something useful produced by aviation 'security'!!!). Return to "What's New".

SAUL ESLAKE
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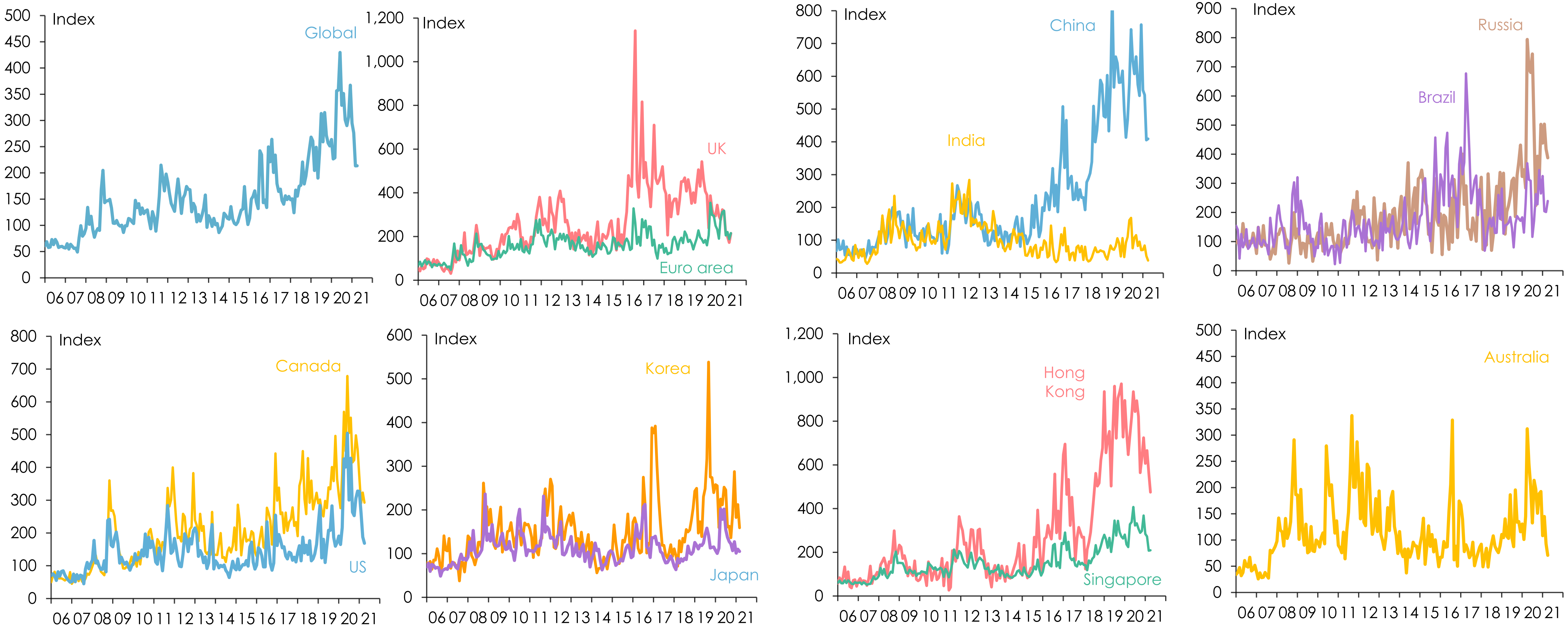
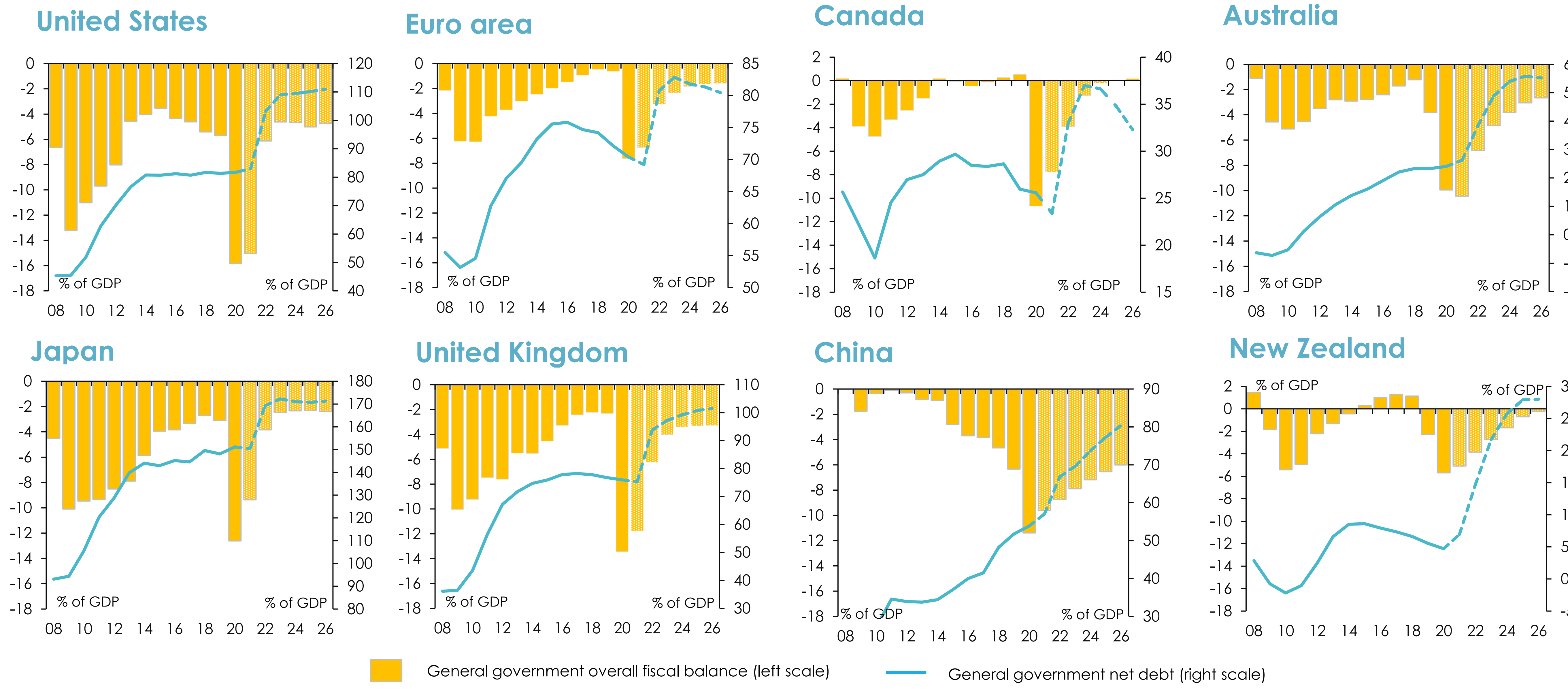
Uncertainty about economic policy has declined significantly – it would seem following the inauguration of US President Biden

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 March.
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".

The US fiscal stimulus dwarfs that of any other major economy – although Japan, the UK, Canada and Australia are also doing a lot



Note: China debt is gross debt, not net. *Sources:* International Monetary Fund, *Fiscal Monitor*, and *World Economic Outlook*, April 2021. Return to "What's New"

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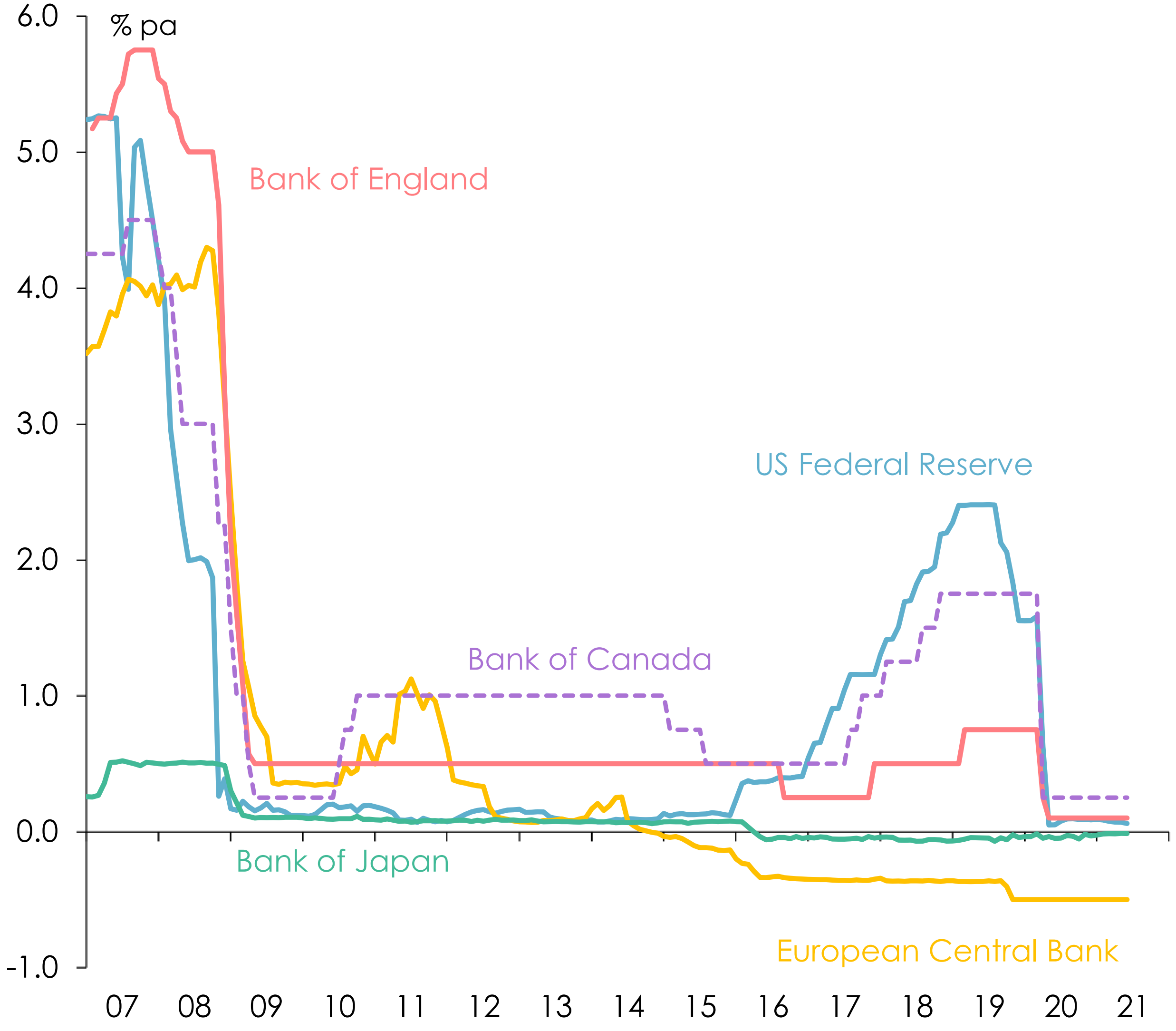
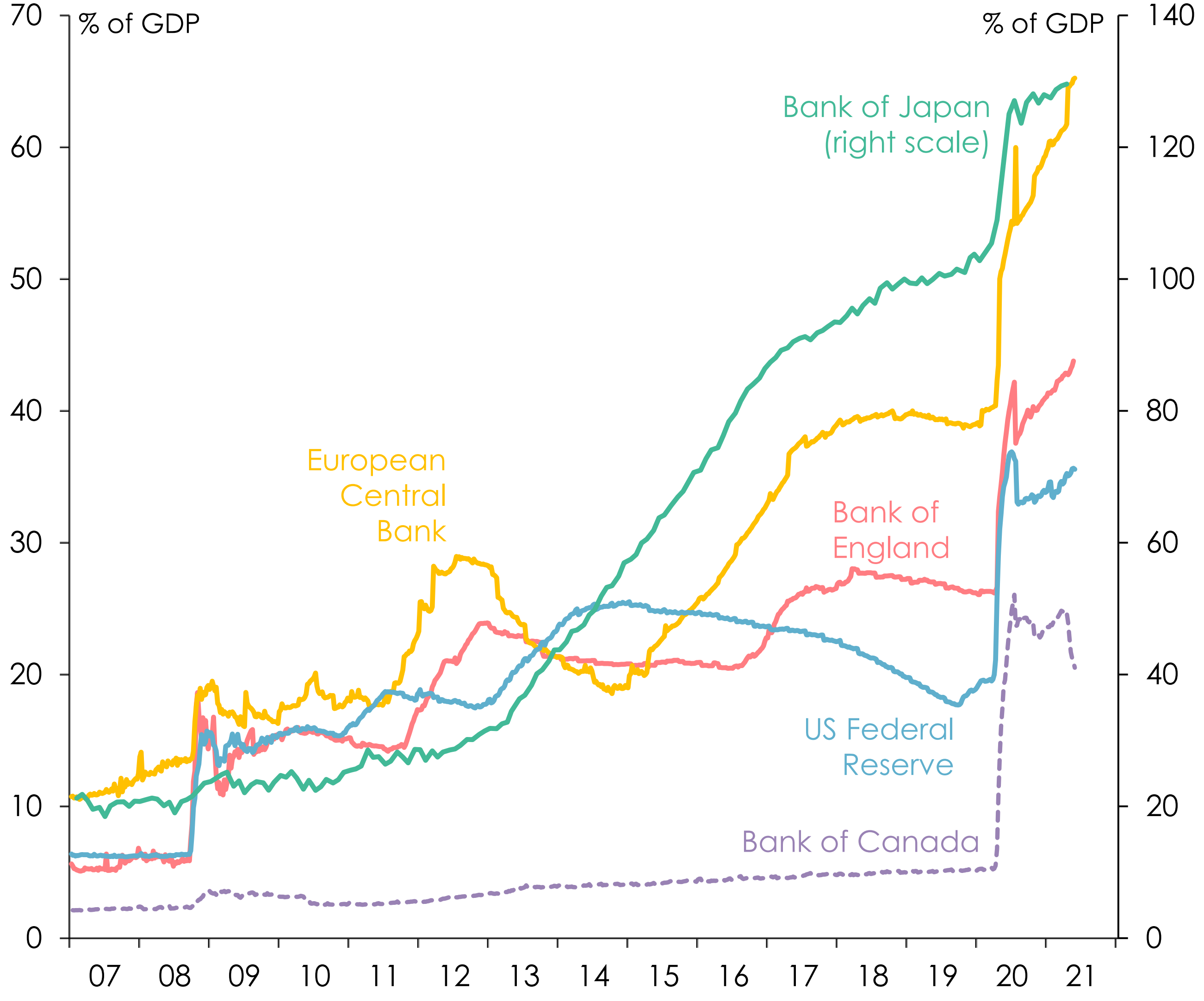
Major central banks have cut interest rates to record lows, and done more ‘quantitative easing’ than during the global financial crisis

Major central bank policy interest rates



Major central bank balance sheets



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

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CORINNA ECONOMIC ADVISORY

The Bank of England left monetary policy settings on hold this week (as expected) but Norway's central bank again flagged a hike later this year

- **The Bank of England's Monetary Policy Committee kept its Bank Rate unchanged at 0.1%, and its asset purchase target of £895bn at its meeting this Thursday**
  - the MPC re-iterated that it "does not intend to tighten monetary policy at least until there is clear evidence that significant progress is being made in eliminating spare capacity and achieving the 2% inflation target sustainably"
  - one MPC member (the BoE's Chief Economist, Andrew Haldane) voted for a £50bn reduction in the bond purchase program
- **In the Monetary Policy Report prepared for this meeting, BoE staff estimated UK GDP had contracted by 1½% in Q1 (less than the 4¼% expected in February) but would rebound by 4¼% in Q2, and regain its pre-covid level by Q4 this year**
  - the staff projections envisage 'spare capacity' in the economy being eliminated by the end of 2021, with a "margin of excess demand" emerging in Q4, with "some scarring effects from Covid on … potential supply" (largely as a result of the impact on productivity)
  - but the tightening of fiscal policy in 2022 foreshadowed in the recent UK Budget is expected to bring aggregate demand and supply back into balance by the end of 2023 – so that after temporarily exceeding the 2% target towards the end of this year, inflation is expected to return to and remain at the target from the second half of 2022 through to the end of 2024
- **Neither the minutes of the MPC meeting nor the Monetary Policy Report expressed any particular concern about rising house price**
- **Norges Bank also left its policy rate unchanged at 0% at its Monetary Policy and Financial Stability Committee meeting this Wednesday, but re-iterated that given its "current assessment of the outlook and the balance of risks, the policy rate will most likely be raised in the latter half of 2021"**
  - the MPFSC "also placed weight on the marked rise in house prices since spring 2020" in its assessment, noting that "a long period of low interest rates increases the risk of a build-up of financial imbalances"

Return to "What's New".

Both the Federal Reserve and the Bank of Japan left monetary policy settings unchanged last week

- **The Fed's Open Market Committee left its fed funds rate target unchanged at 0-¼% and its asset purchase program at "at least US$120bn a month" at its April 28th meeting**
  - despite slight upgrades to its assessment of economic conditions, noting that "indicators of economic activity and employment have strengthened" (previously "turned up") and that sectors most affected by the pandemic "have shown improvement"
- **The FOMC re-iterated its commitment to to achieve inflation "moderately above 2% for some time so that inflation averages 2% over time"**
  - and that it wouldn't raise its fed funds rate target until "labor market conditions have reached levels consistent with the Committee's assessments of maximum employment and inflation has risen to 2% and is on track to moderately exceed 2 % for some time"
  - in his post-meeting press conference Fed Chair Jerome Powell specifically noted that "a transitory rise in inflation above 2% this year" (because of higher oil prices and 'base effects' from last year) "would not meet this standard"
  - Powell also repeatedly emphasized how far the economy was still away from its employment goals, that it was "not time yet" to be talking about tapering asset purchases, that increasing productivity (particularly at large firms) would allow employers to absorb wage increases without raising prices, and that (in response to warnings from former Treasury Secretary Larry Summers of a sharp rise in inflation) if inflation does rise too fast it will deal with it ("we know our job: we will do our job")
- **The BoJ also left all its monetary policy settings (an interest rate of -0.1% on banks' current balances at the BoJ, sufficient JGB purchases to maintain the 10-year yield at 0%, and continued purchases of ETFs, J-REITS, commercial paper and corporate bonds subject to prescribed upper limits) unchanged at its meeting on 27th April**
  - the BoJ upgraded its forecasts for economic growth (from -5.6% to -4.9% for now-ended FY2020, from +3.9% to +4.0% for FY2021, and from +1.8% to +2.4% for FY2022) but downgraded its CPI forecast for FY2021 (from +0.5% to +0.1%) reflecting recently announced reductions in mobile phone charges
  - the BoJ re-iterated its commitment to "expanding the monetary base" until ex-food CPI inflation "exceeds 2% and stays above the target in a stable manner"

Return to "What's New".

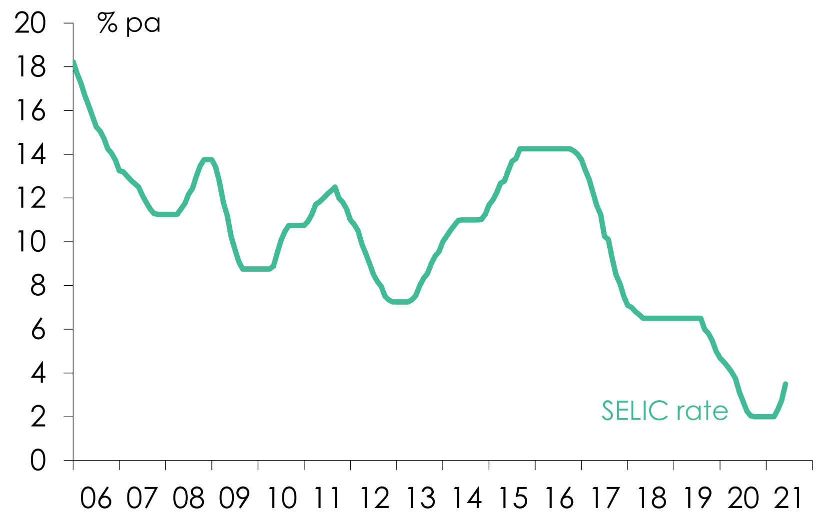
The ECB left monetary policy settings unchanged (as expected) but the BoC surprised by 'tapering' its QE and foreshadowing rate rises next year

- The ECB's Governing Council on 22nd April kept its monetary policy settings (interest rates and the total size of its bond-buying program) unchanged, and re-committed to doing so until "it has seen the inflation outlook robustly converge to a level sufficiently close to, but below, 2% within its projection horizon, and such convergence has been consistently reflected in underlying inflation dynamics"
  - the GC affirmed (as foreshadowed at the March meeting) that bond purchases under its Pandemic Emergency Purchase Program (PEPP) would "continue to be conducted [during the current quarter] at a significantly higher pace than during the first months of the year" in order to "prevent a tightening of financing conditions that is inconsistent with countering the downward impact of the pandemic on the projected path of inflation" (ie, higher bond yields)
  - in her post-meeting press conference ECB President Christine Lagarde emphasized that the GC "did not discuss any phasing out of PEPP because it is simply premature" – she went on describe the euro area economy as "on crutches; one fiscal crutch, one monetary crutch", with the risks "over the near term … on the downside" but "medium-term risks remain more balanced"
- By contrast, the Bank of Canada surprised markets with an announcement following its Governing Council meeting on 21st April that it would bond purchases by one quarter (ie, by C$1bn a week to C$4bn a week) with effect from Monday, and foreshadowed that it now expected "economic slack" to have been absorbed, and the 2% inflation target "sustainably achieved" "some time in the second half of 2022" (while acknowledging that "this timing is more uncertain than usual"
  - the BoC revised upwards its forecast for Canadian economic growth in 2021 by 2½ pc pts to 6%, citing not just stronger global (and especially) US growth but also "the resilience and adaptability of Canadian businesses and households"
  - it also revised up its 2021 inflation forecast from 1.6% to 2.3%, and its 2022 and 2023 forecasts by 0.2 pc pts to 1.9% and 2.3%
  - interestingly, it also revised *up* its forecasts for potential GDP growth (contrary to what many other forecasters have been doing)
  - the BoC also noted "some signs of extrapolative expectations and speculative behaviour in the housing market"
- The BoC is thus the second 'advanced' economy central bank to foreshadow an earlier-than-expected tightening of monetary policy, following Norges Bank at its meeting on 17th March

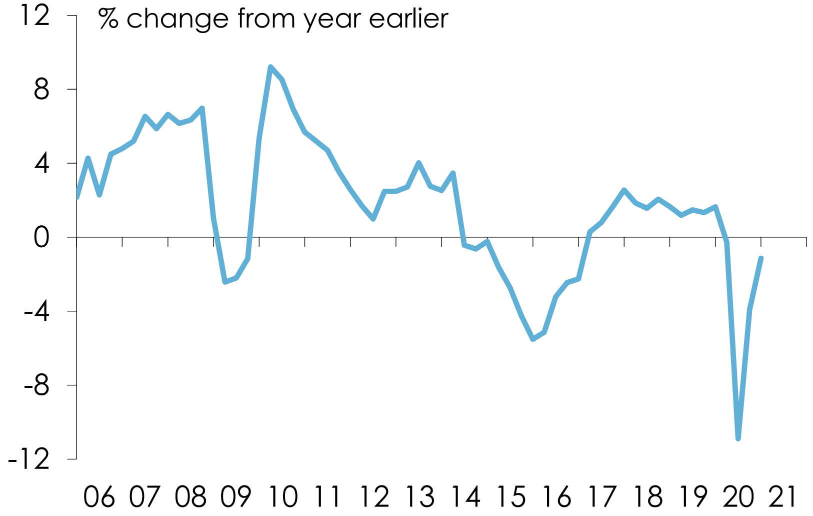
Return to "What's New".

Brazil's central bank raised its key monetary policy interest rate by 75 bp this week, the second increase in two months

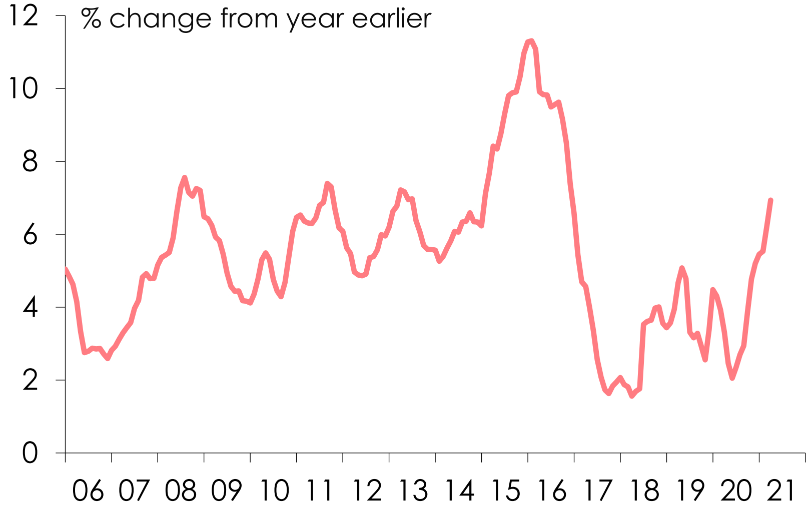
BCdoB Selic rate



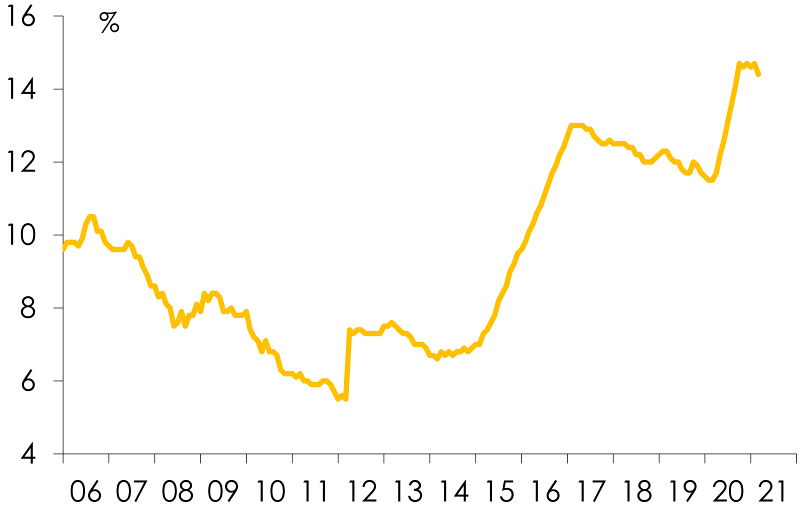
Brazil real GDP growth



Brazil inflation



Brazil unemployment

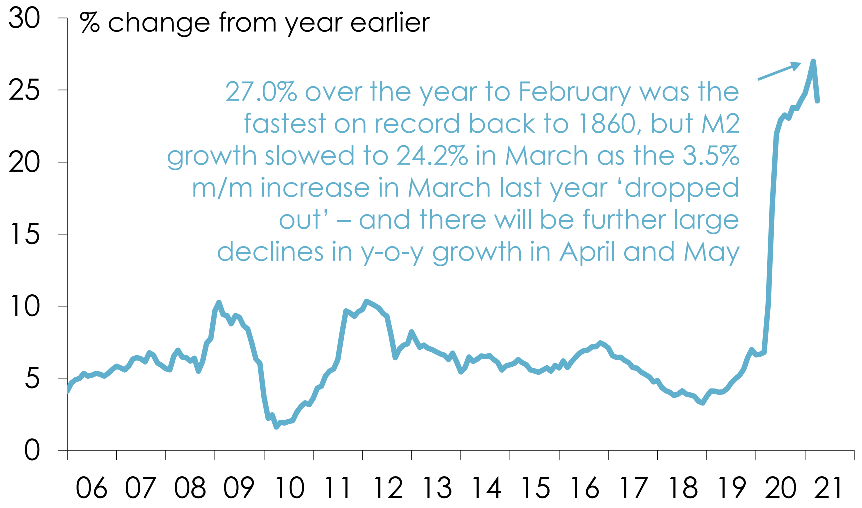


- **Brazil's central bank monetary policy committee (Copom) this week raised its key policy interest rate (known by the Portuguese acronym SELIC for Special Clearance and Escrow System) by 75bp (to 3.5%) for the second successive time**
  - Copom noted that the Brazilian economy was "evolving better than expected in spite of the second wave of the pandemic being more intense than anticipated"
  - but it also noted that "the various measures of underlying inflation are at the top of the range compatible with meeting [its] inflation target" (of 2¼-5¼%)
- **Copom judged that there was an "upward asymmetry in the balance of risks … in the direction of higher-than-expected paths for inflation"**
  - in part because of the "elevated risk" of "fiscal policy responses to the pandemic that aggravate the fiscal path", or of "a frustration with the continuation of the reform agenda", either of which could "add pressure to the country's risk premium"
- **Copom's 'baseline' forecasts assume that the Selic rate rises to 5½% by end-2021 and 6¼% by end-2022**

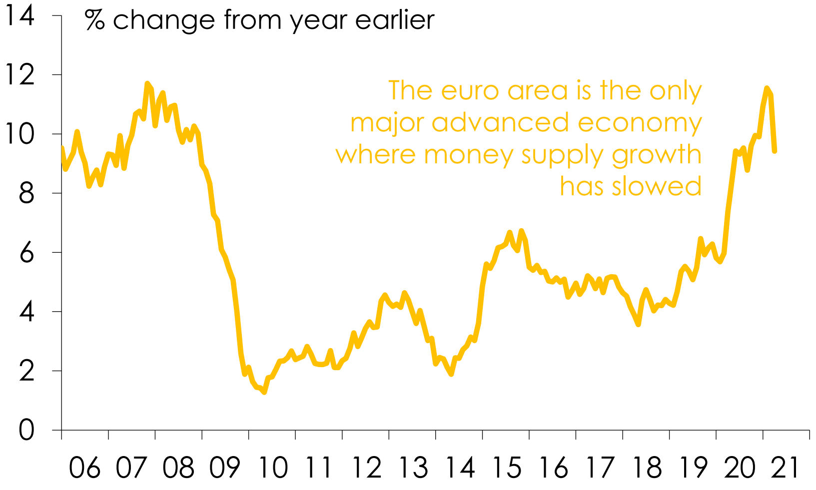
Sources: Banco Central do Brasil; Instituto Brasileiro do Geografia e Estatistica (IGBE). Return to "What's New".

'QE' has prompted a faster acceleration in money supply growth than it did during the GFC – although it is now beginning to slow

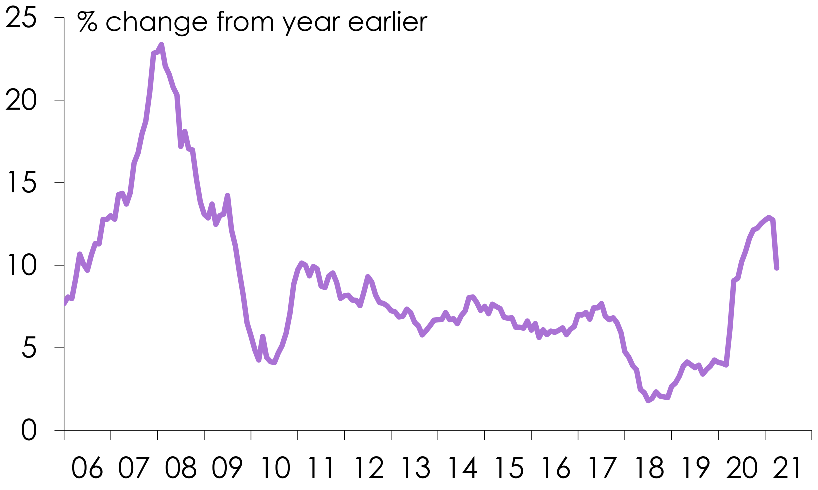
US M2



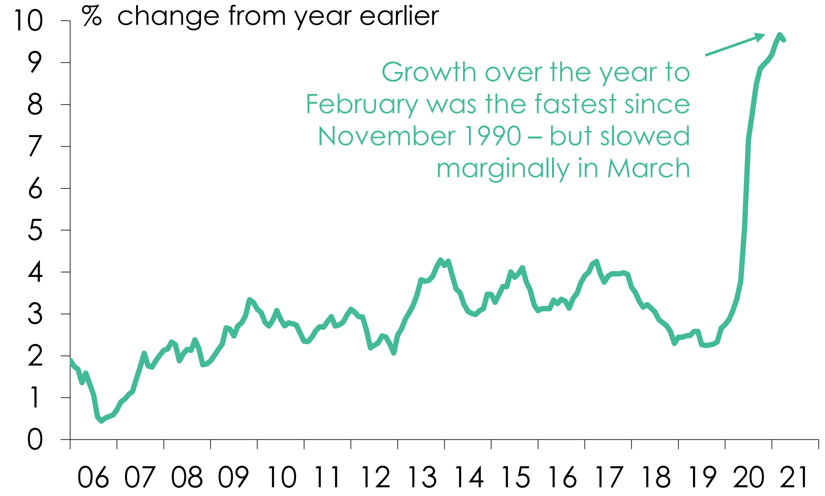
Euro area M2



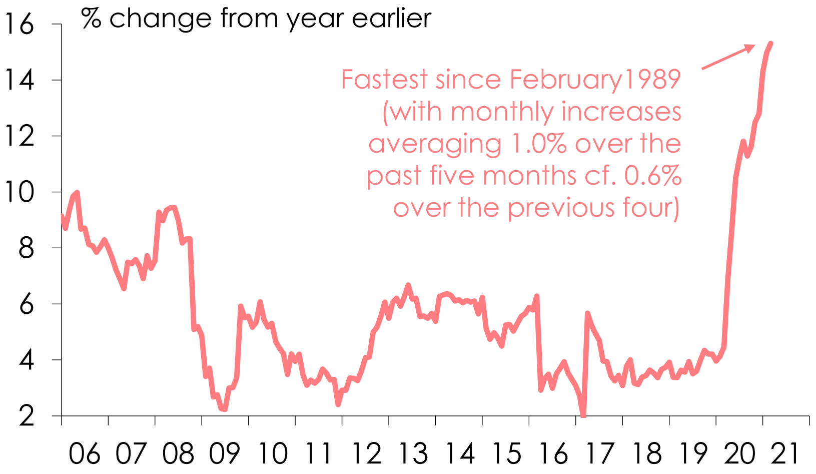
Australia M3



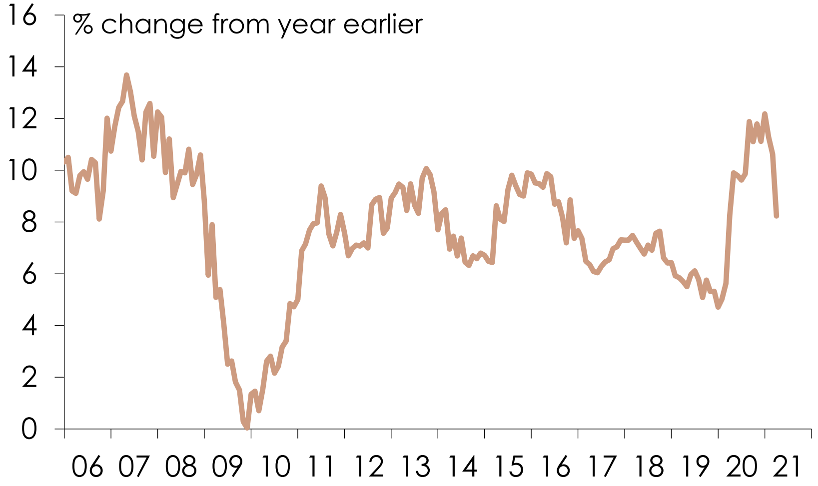
Japan M2 + CDs



UK M2



New Zealand M3

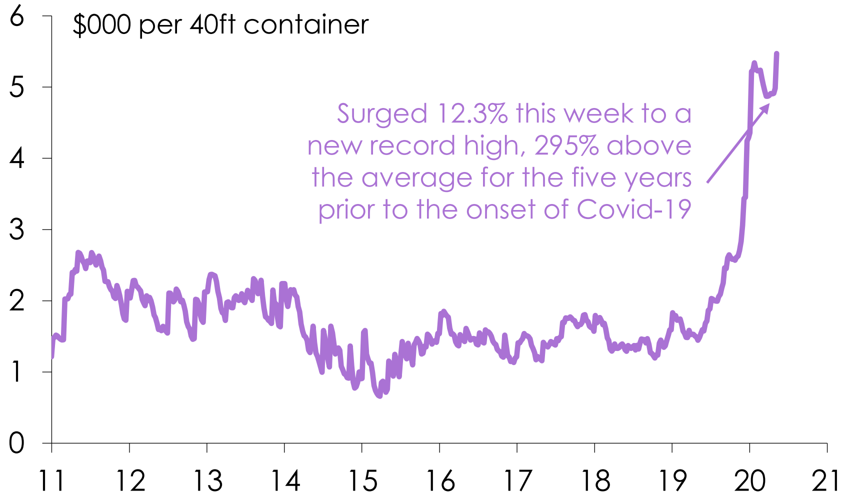


Sources: US Federal Reserve; European Central Bank; Bank of Japan; Bank of England; RBA; RBNZ; Longtermtrends. Return to "What's New".

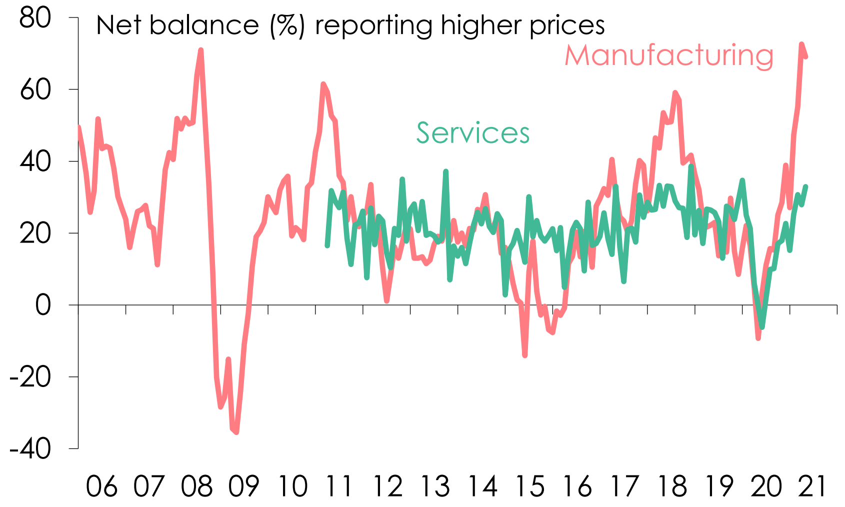
SAUL ESLAKE
CORINNA ECONOMIC ADVISORY

Supply chain 'bottlenecks' have generated significant 'upstream' price pressures – which along with higher oil prices are showing up in PPIs

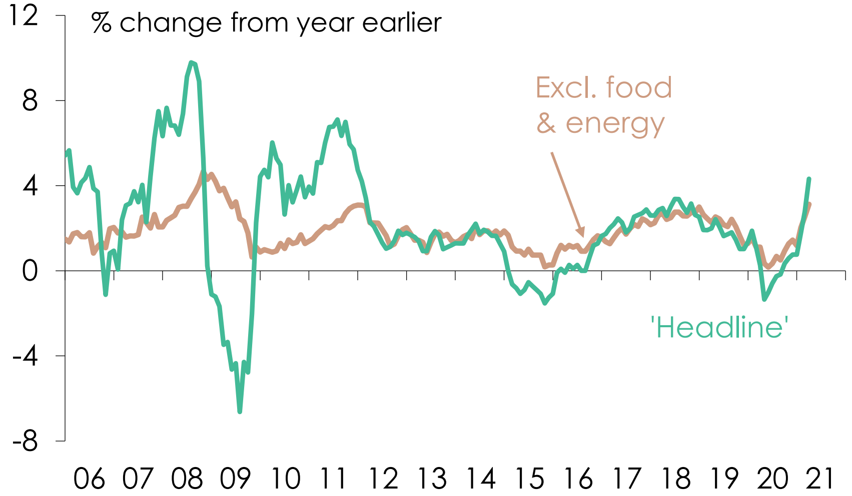
Container freight costs



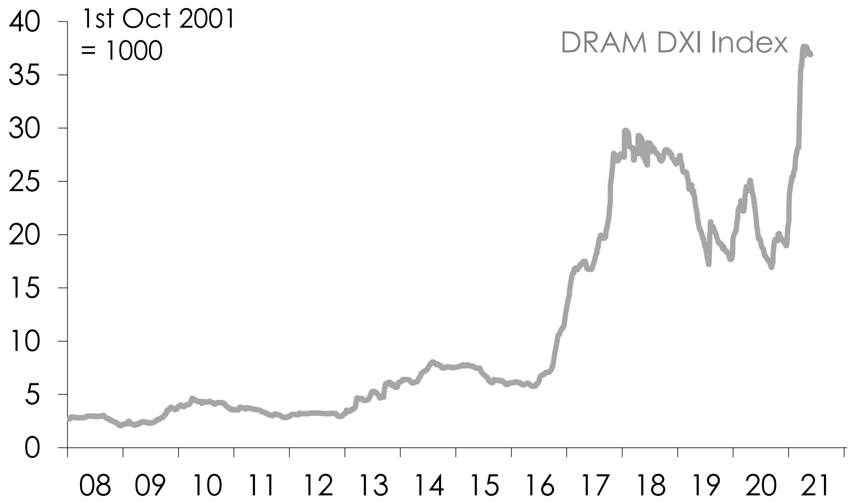
Philadelphia Fed survey prices paid



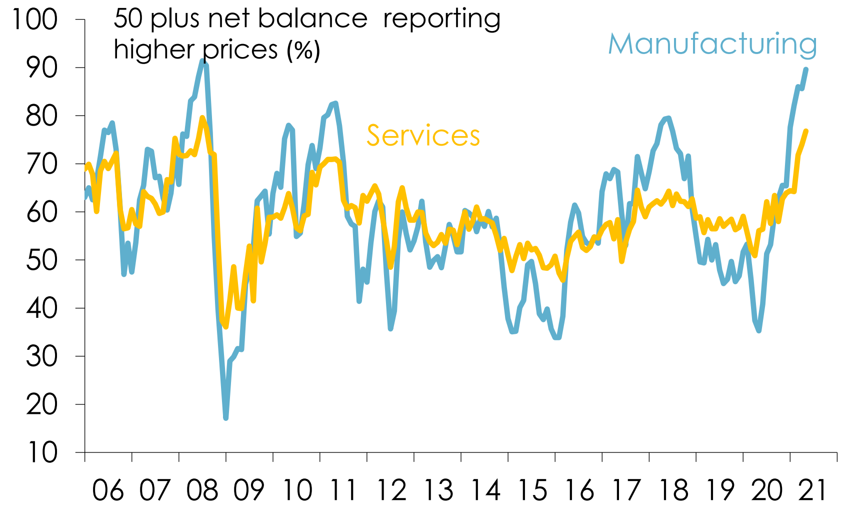
US producer price index (PPI)



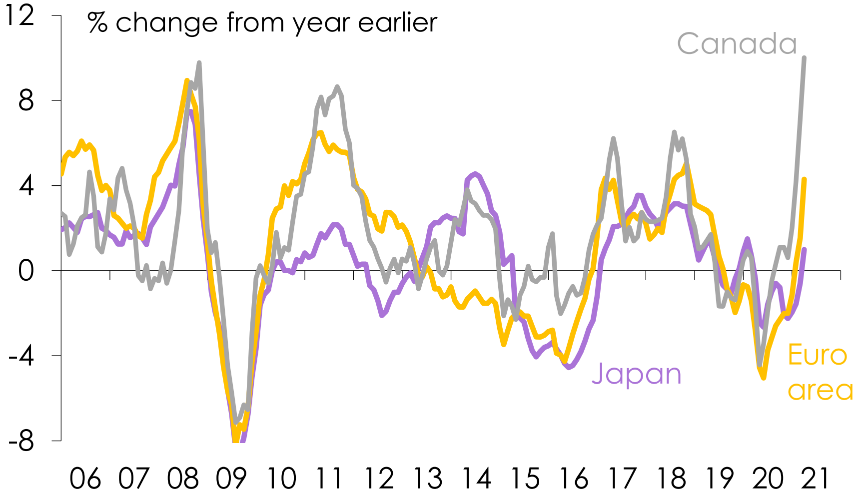
Semiconductor prices



US ISM prices paid



Other countries' PPIs



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

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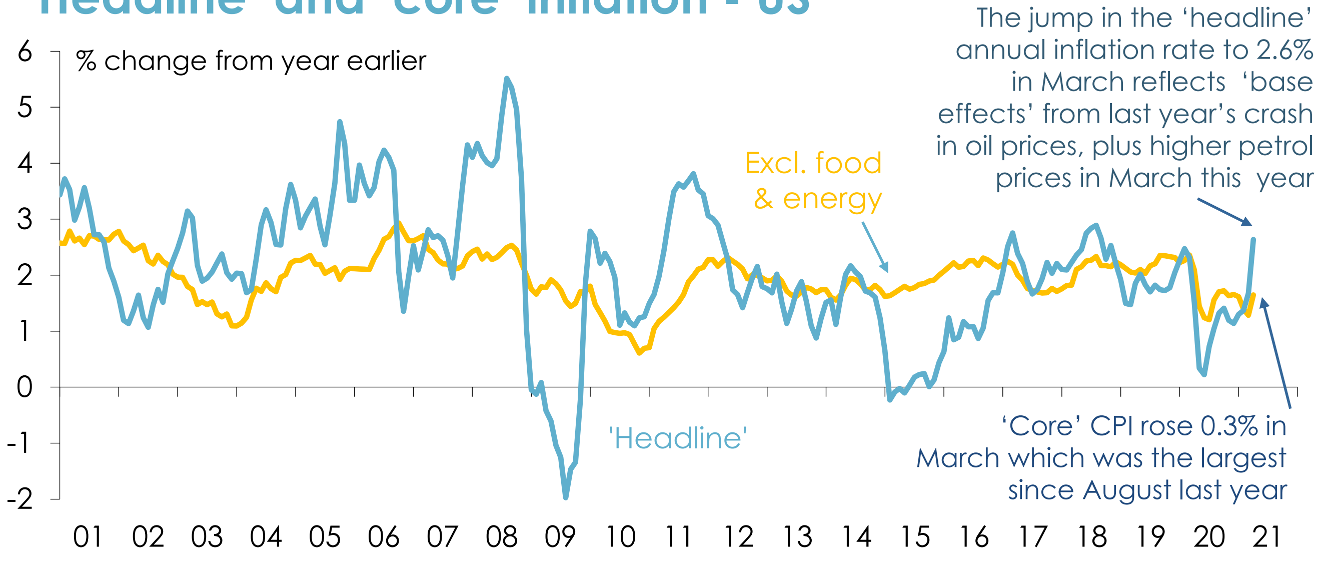
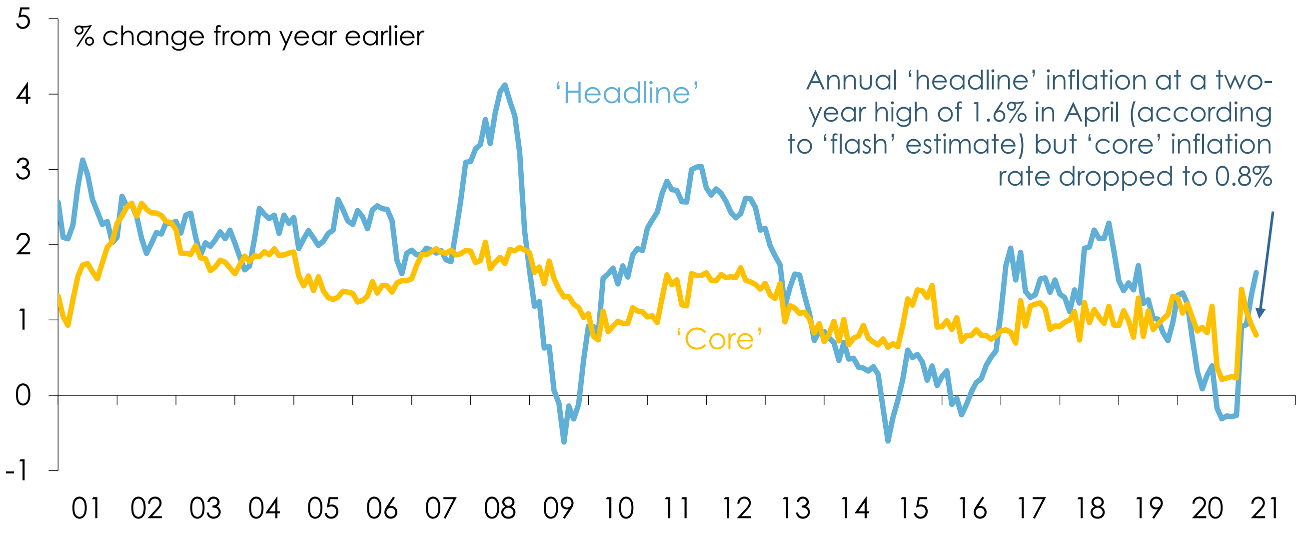
CORINNA ECONOMIC ADVISORY

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

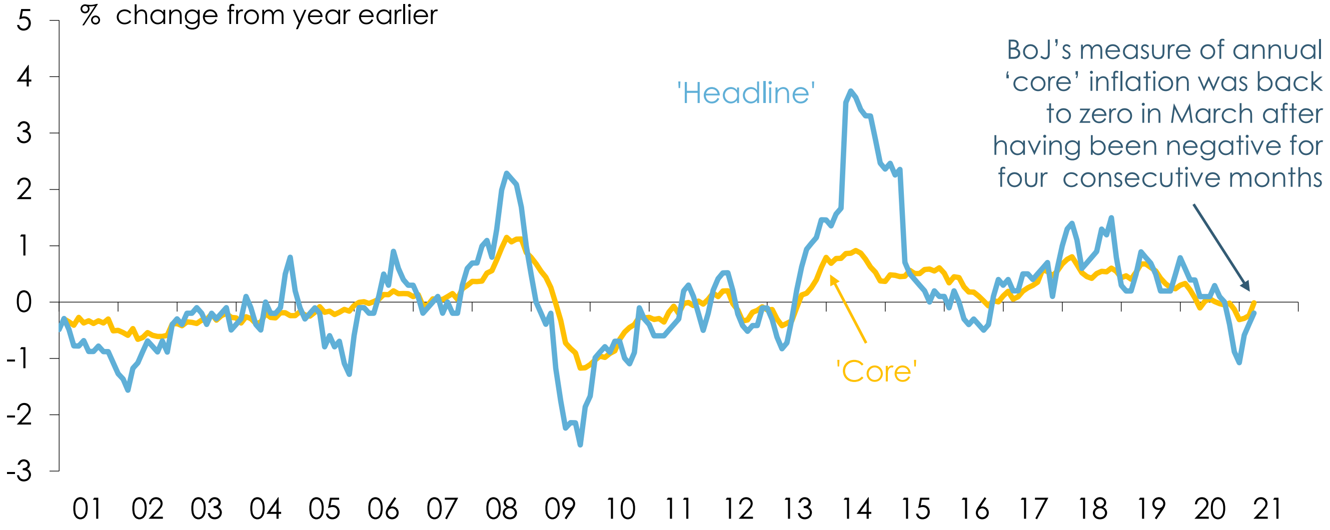
'Headline' and 'core' inflation - US



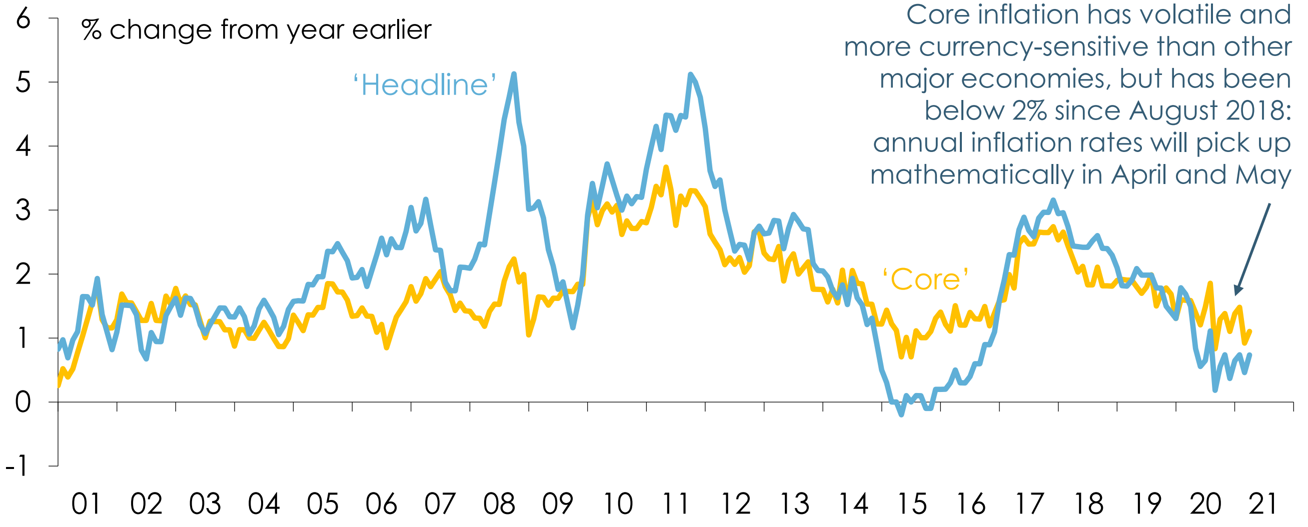
'Headline' and 'core' inflation – Euro area



'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".

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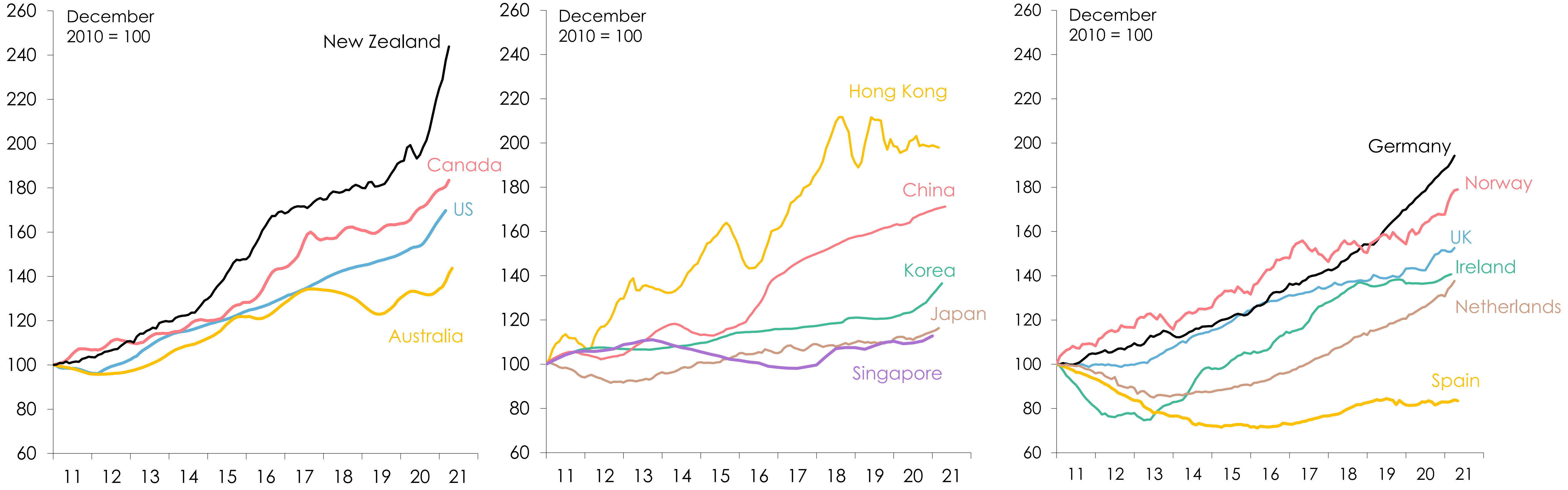
Residential property prices have been remarkably resilient in most countries thanks to record-low interest rates and ample supply of credit

House price indices



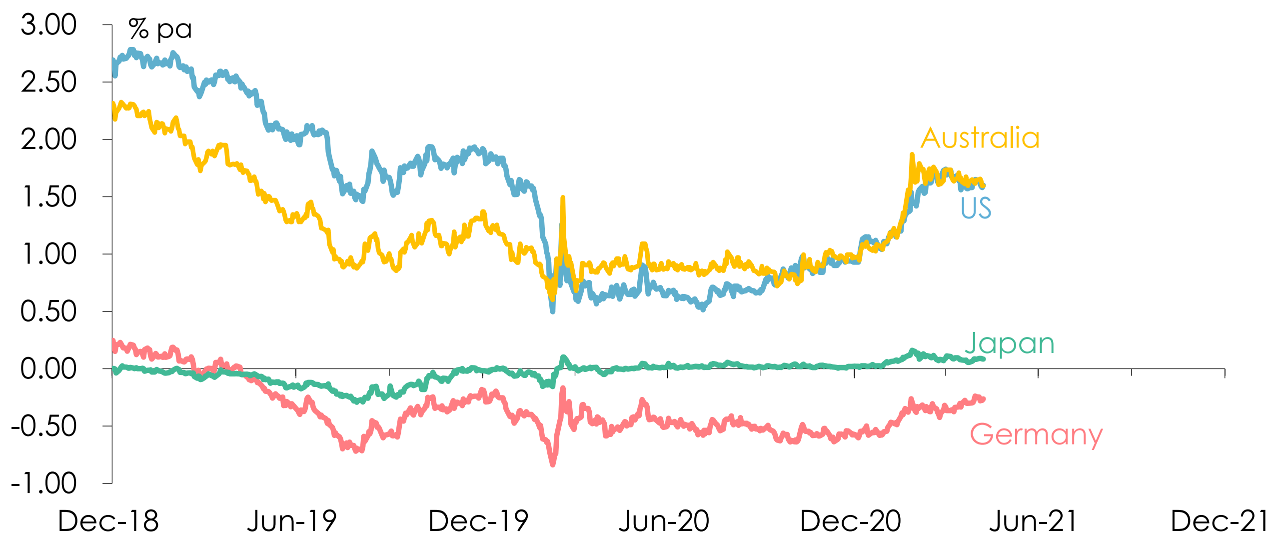
- The New Zealand Government in March announced changes in tax and other policies explicitly directed towards dampening investor demand for housing (see slide 148) while the Bank of Canada last month expressed concern about "extrapolative expectations and speculative behaviour" in its housing market, promising to have "more to say" next month

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".

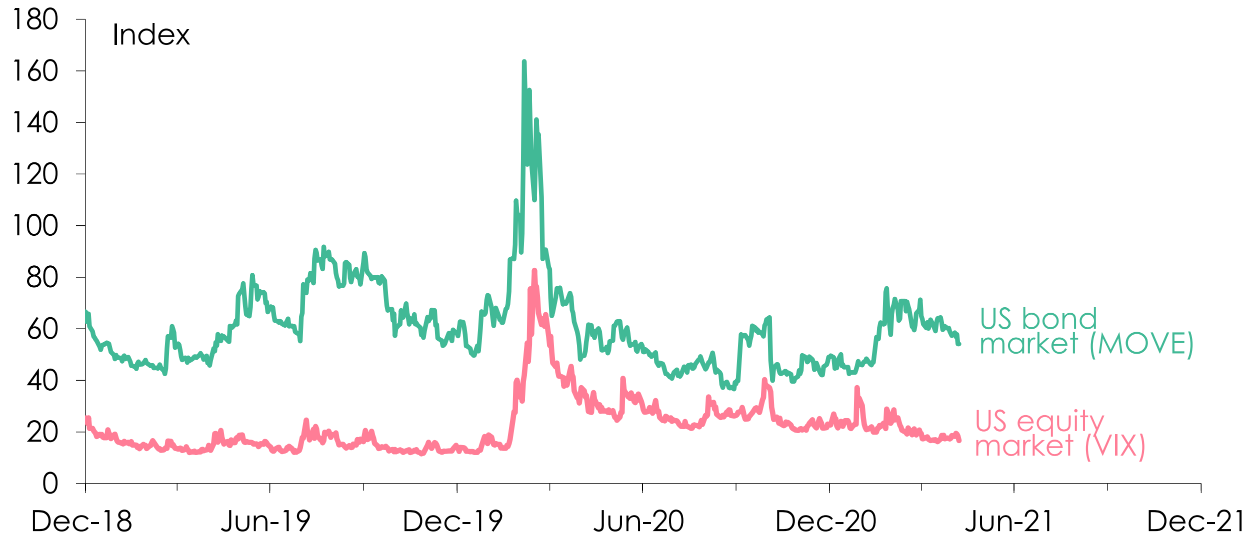
Stocks and bonds were unaffected by Friday's weaker-than-expected US labour market report, but the US dollar weakened in response

Stock markets

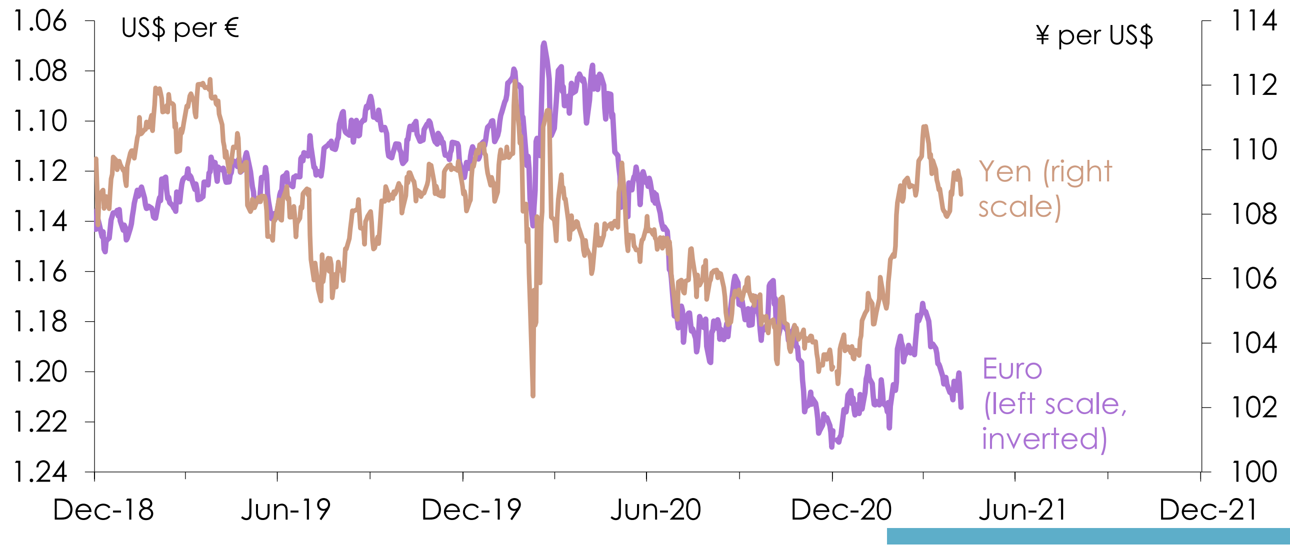
10-year bond yields



Measures of market volatility

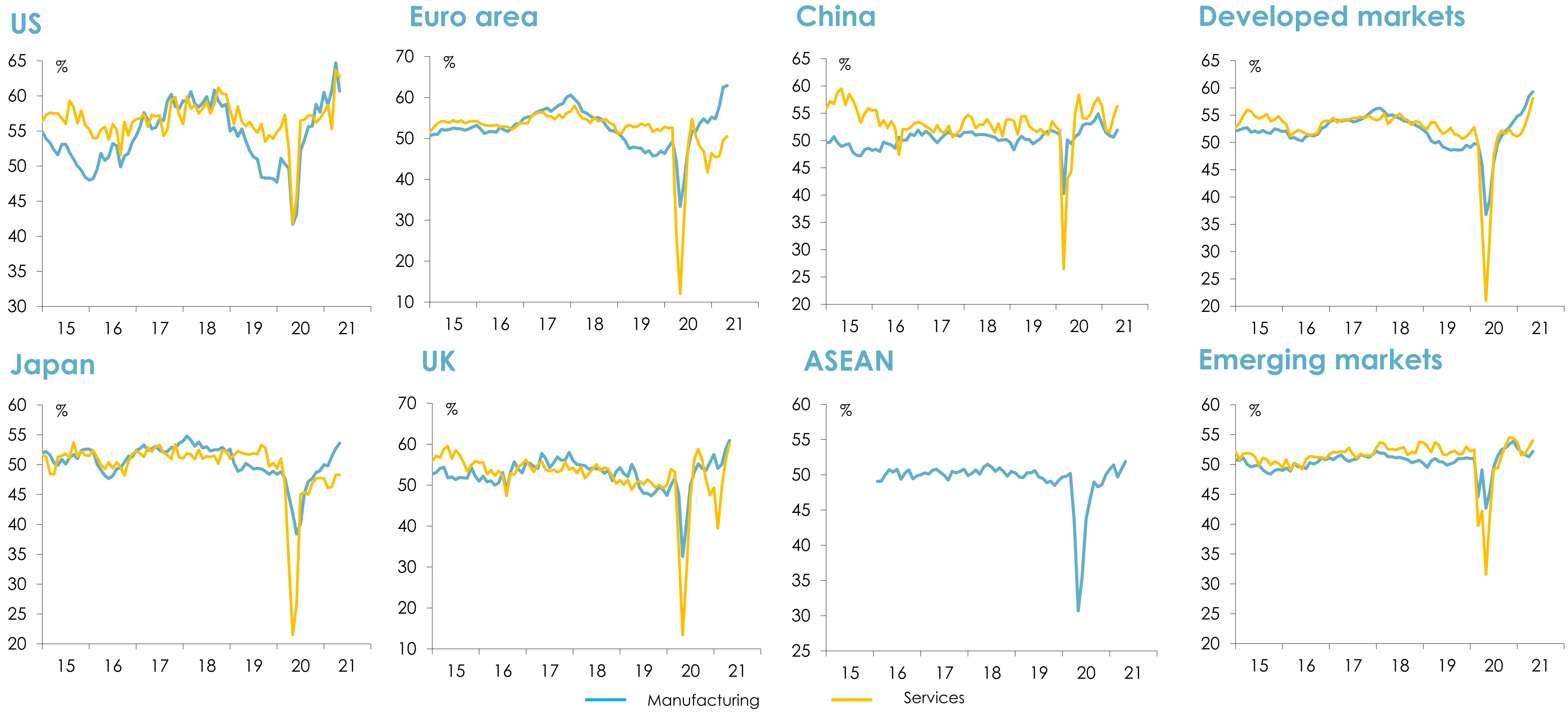


US dollar vs euro and yen



Source: Refintiv Datastream. Data up to 7th May. Return to "What's New".

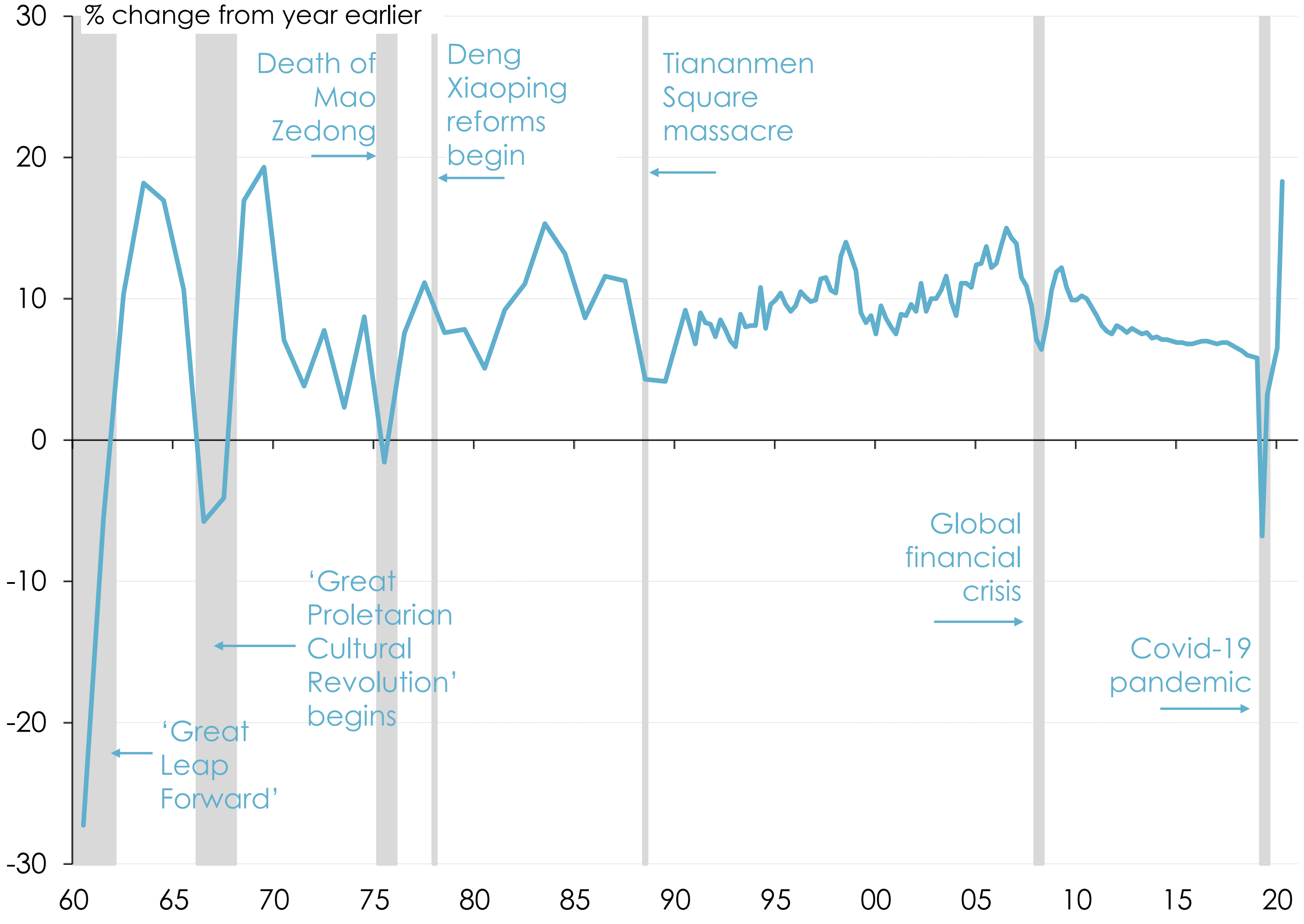
April PMIs show continued strength in manufacturing world-wide, but ongoing softness in services except in US, China and UK



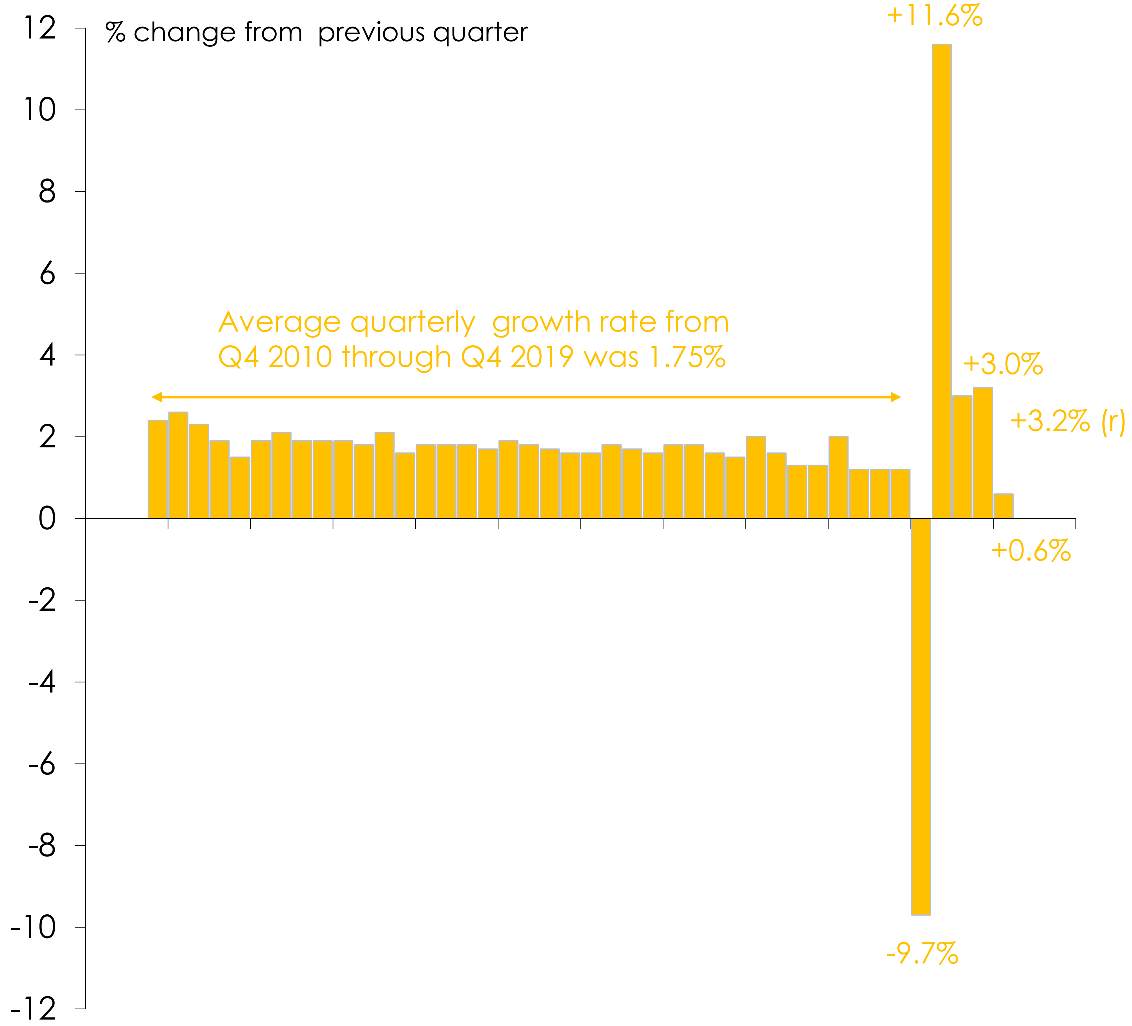
Note: Purchasing Managers' Indexes (PMIs) are derived from surveys of senior executives, who are asked to report whether various dimensions of business activity recorded an increase, decrease or no change compared with the previous month. A reading of 50 indicates an overall increase cf. the previous month, and a reading of less than 50 indicates a decrease. Latest data are for April. See also PMIs for other Asia-Pacific economies on slide 54. Sources: US Institute for Supply Management; IHS Markit; JP Morgan; Caixin; Refinitiv Datastream. Return to "What's New".

China's economy grew 18.3% over the year to Q1 2021 (flattered by 'base effects' from Q1 last year), but by only 0.6% in Q1 from Q4 2020

Real GDP growth, from year earlier, 1961-2020



Quarterly real GDP growth, 2010-2020



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

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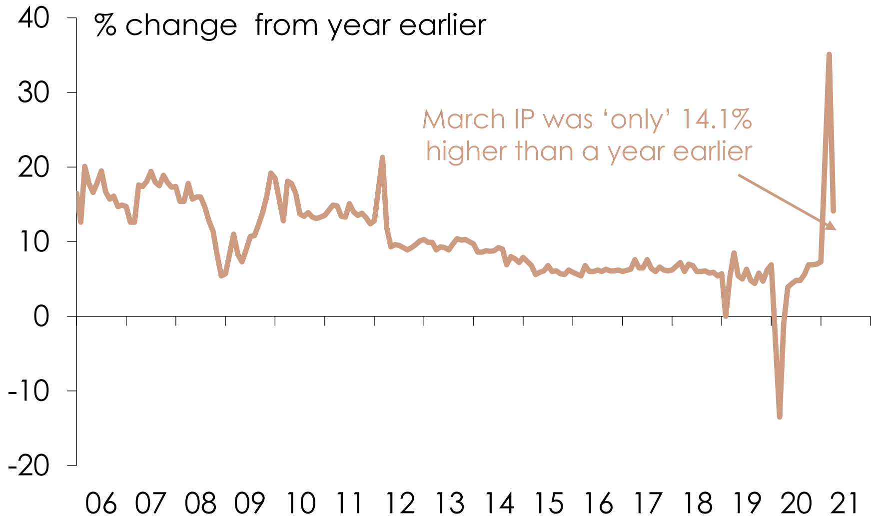
China's "14th Five Year Plan" includes a broad range of targets and objectives in addition to 6% GDP growth

- 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 CO_2 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"

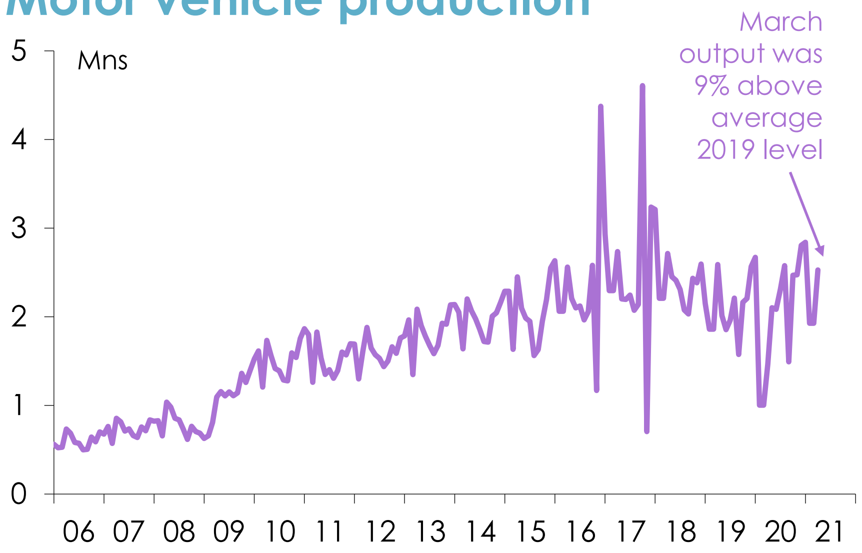
Return to "What's New".

China's production indicators for the first quarter have been inflated by 'base effects' – although exports have been unambiguously strong

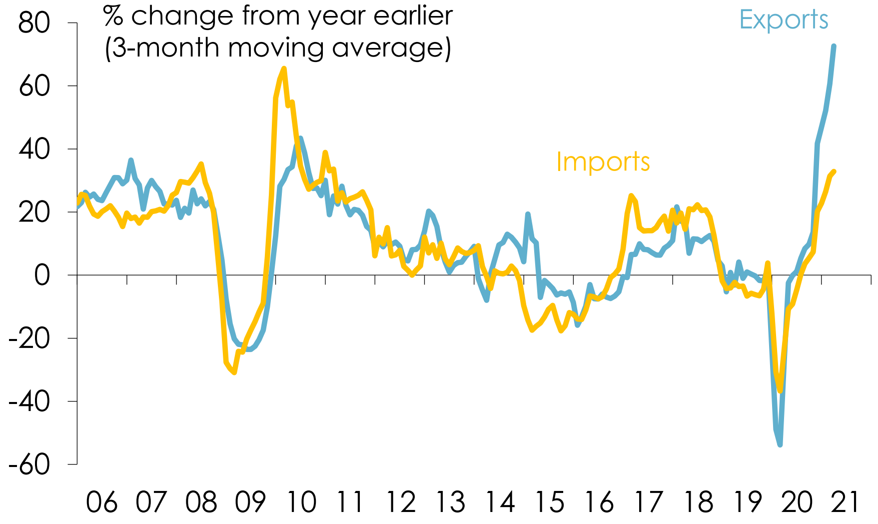
Industrial production



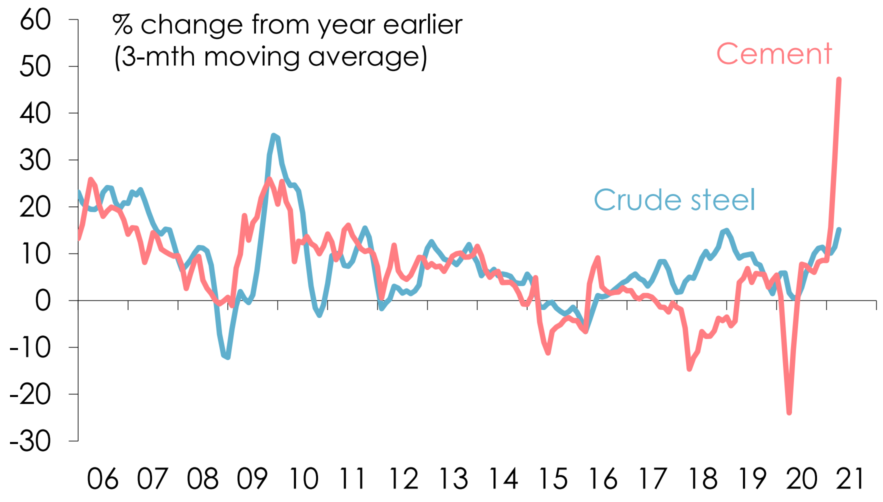
Motor vehicle production



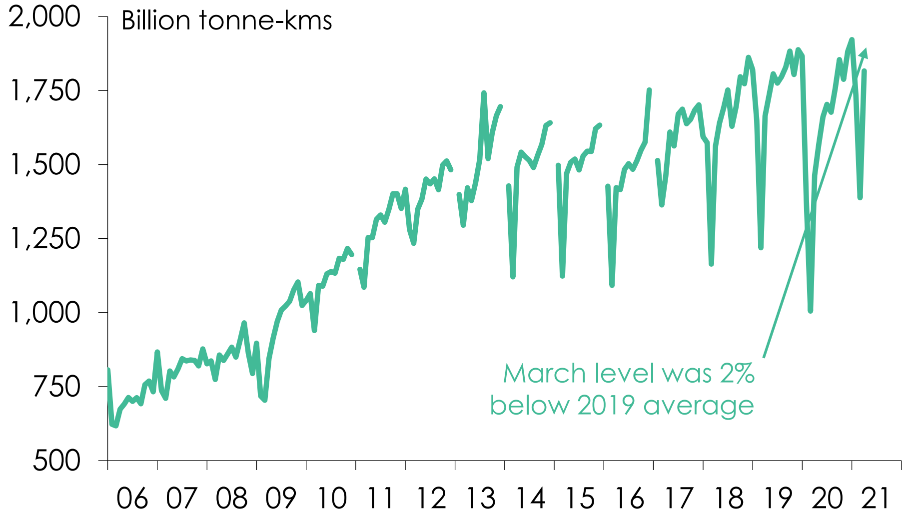
Merchandise trade



Primary electricity production



Freight traffic volumes



Merchandise trade balance

Note: Latest data are for March (except for merchandise trade, which are for April). *Sources:* China National Bureau of Statistics; China Association of Automobile Manufacturers; China General Administration of Customs. Return to "What's New".

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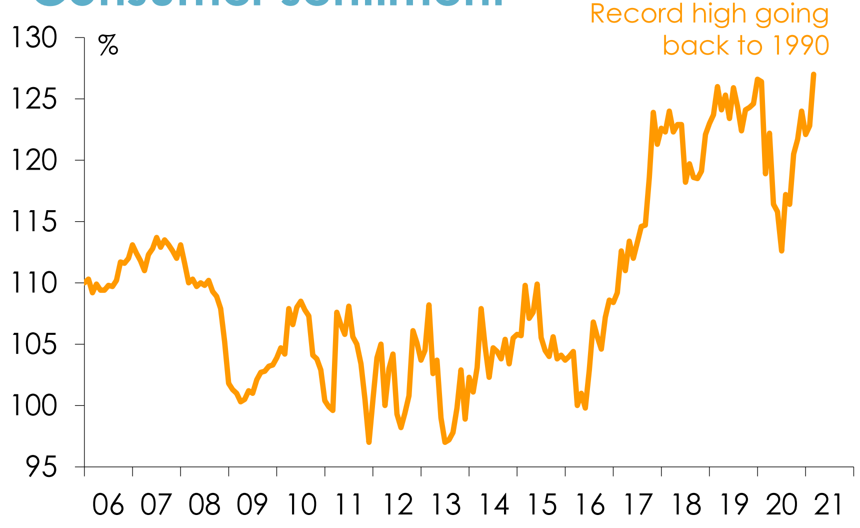
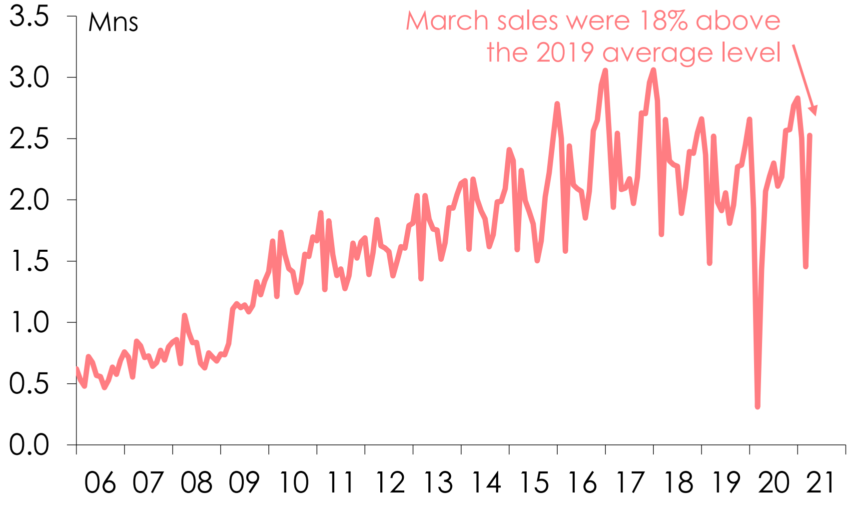
March quarter 'demand side' indicators also flattered by 'base effects' from this time last year, but still generally weaker than 'supply side' numbers

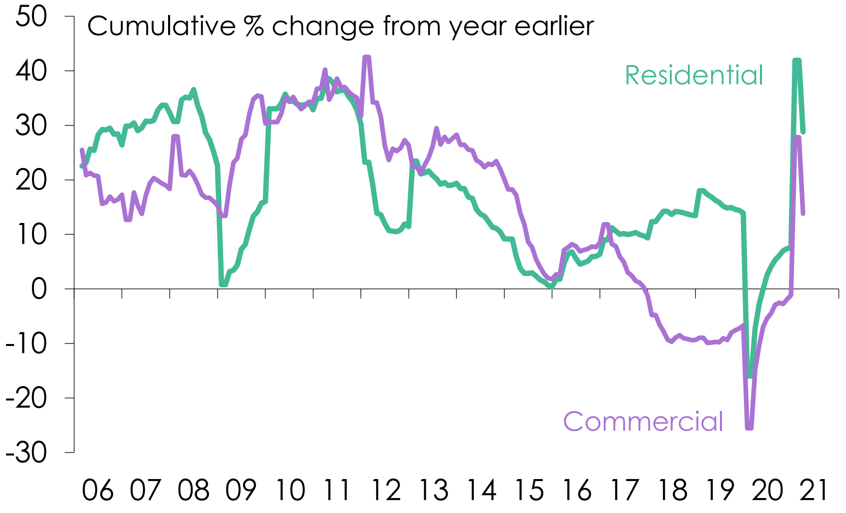
Consumer sentiment



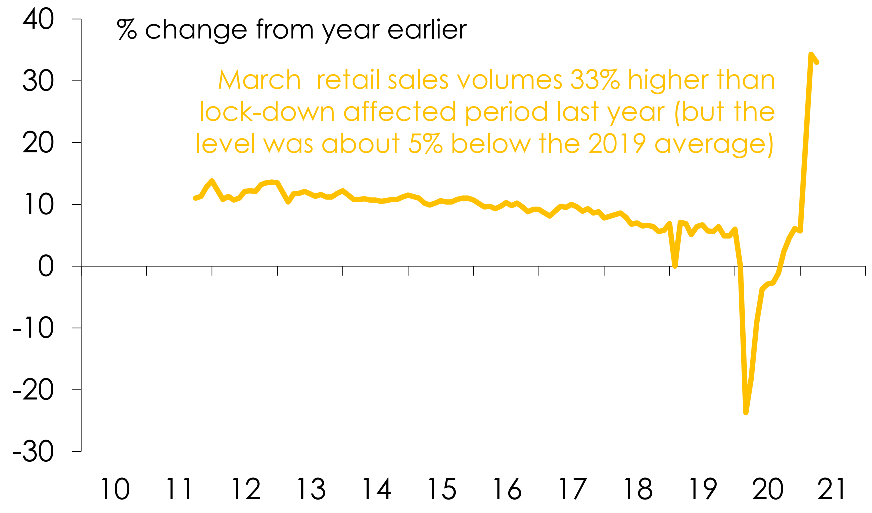
Motor vehicle sales



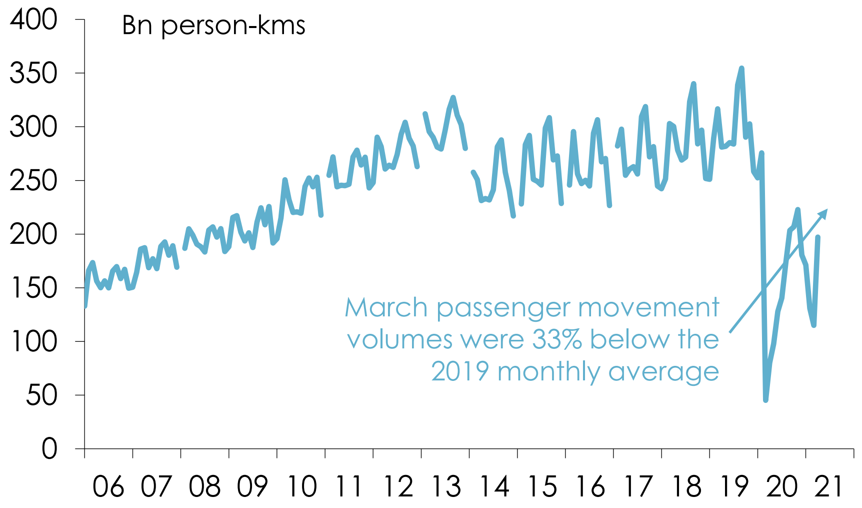
Real estate investment



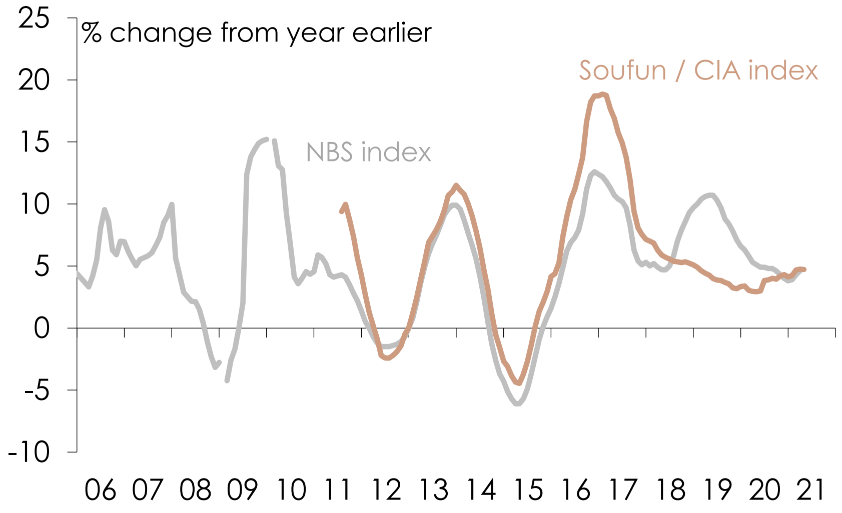
Volume of retail sales



Passenger traffic volumes



Residential real estate prices



Sources: China National Bureau of Statistics; China Association of Automobile Manufacturers; China Index Academy (CIA). Latest data are for March.

Return to "What's New".

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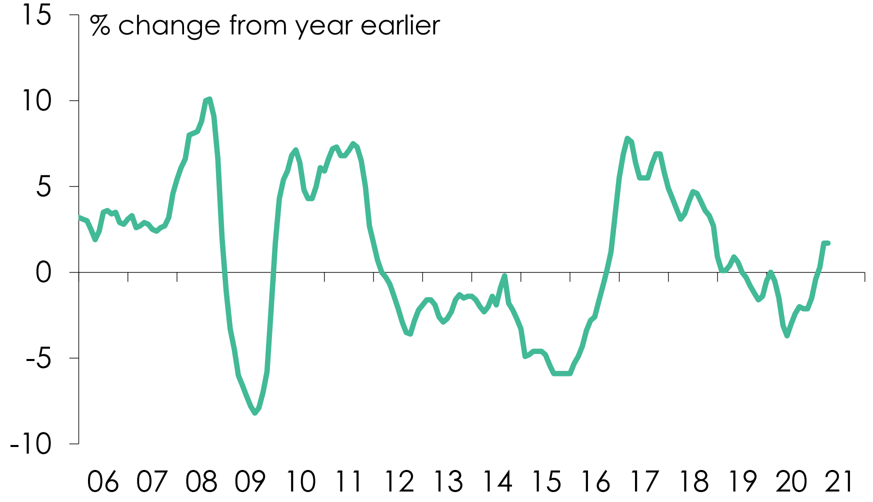
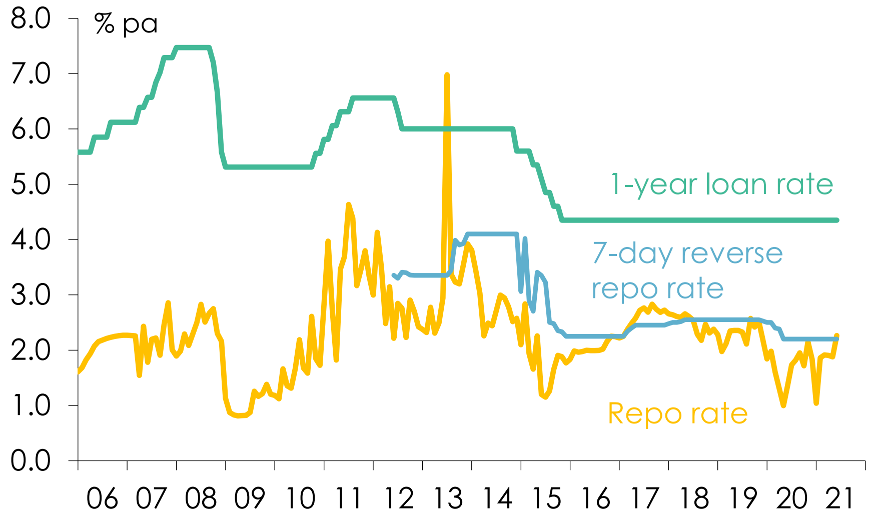
Although consumer price inflation is now very low, the PBoC remains focused on financial stability, and credit growth is slowing

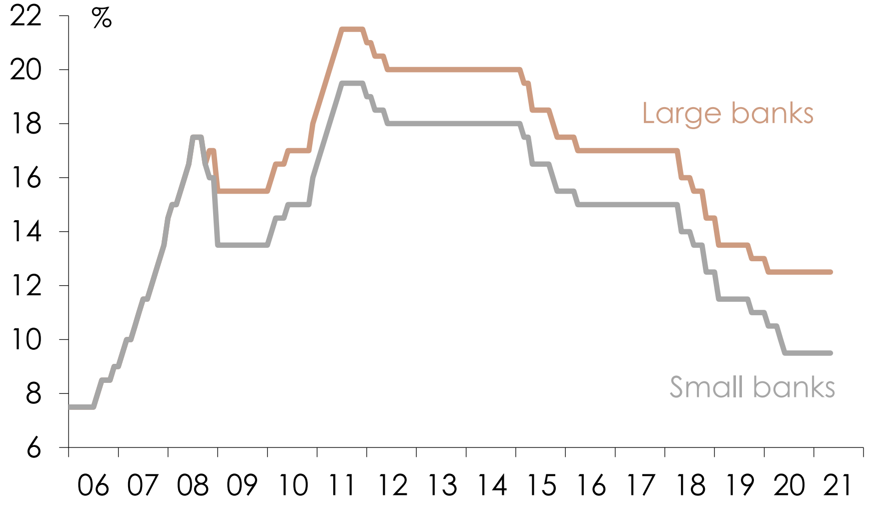
Producer prices



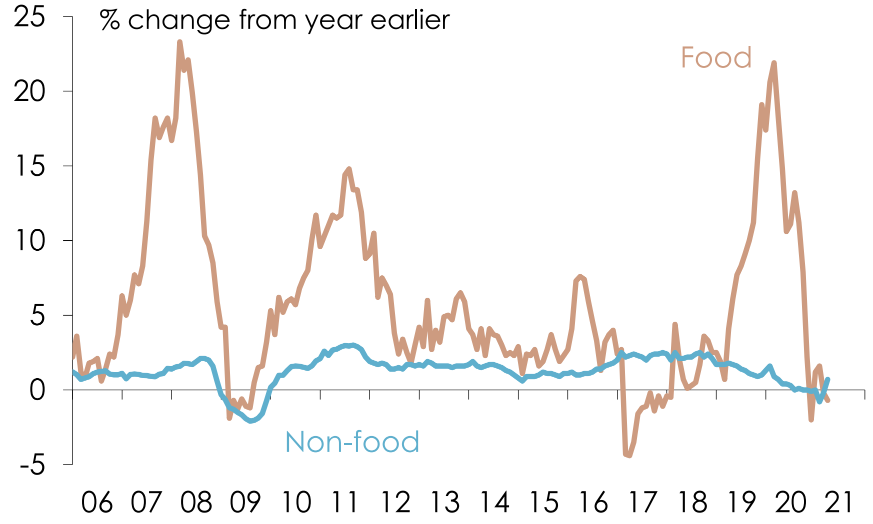
PBoC policy interest rates



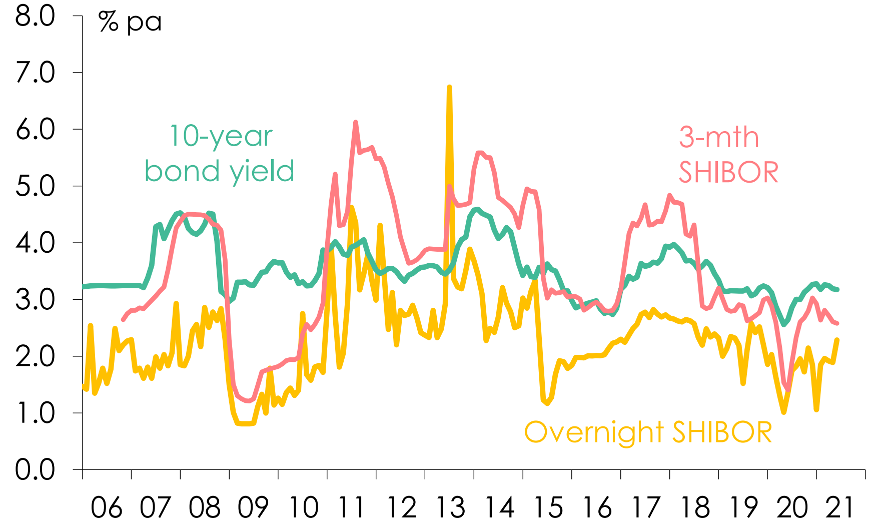
Bank reserve requirement ratios



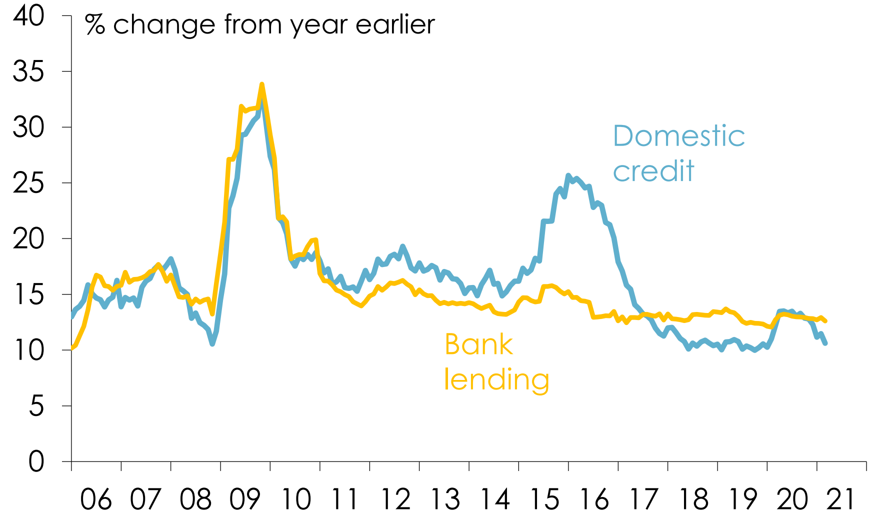
Consumer prices



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".

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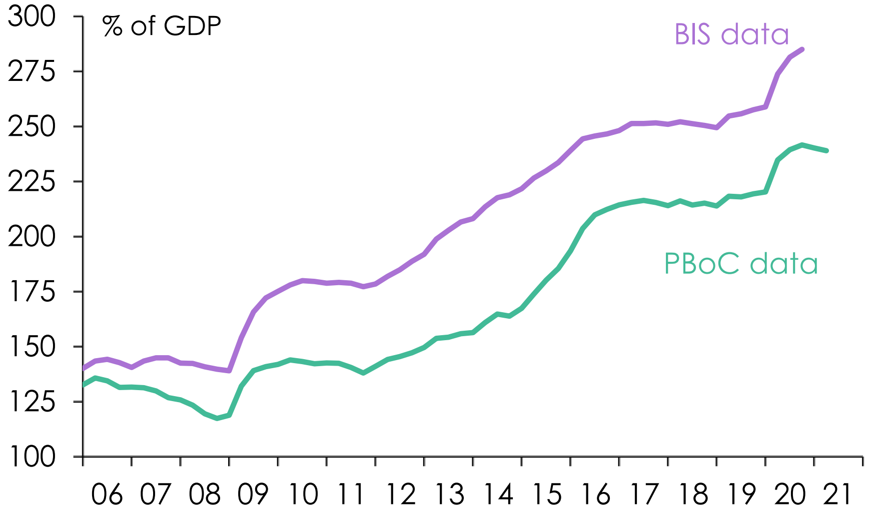
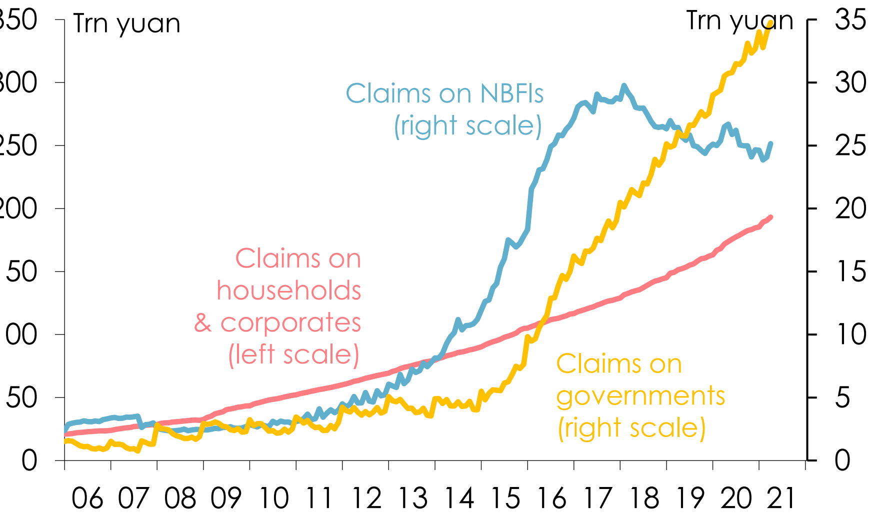
The Chinese banking system's risk profile has increased significantly over the past decade – particularly on the liabilities side of its balance sheet

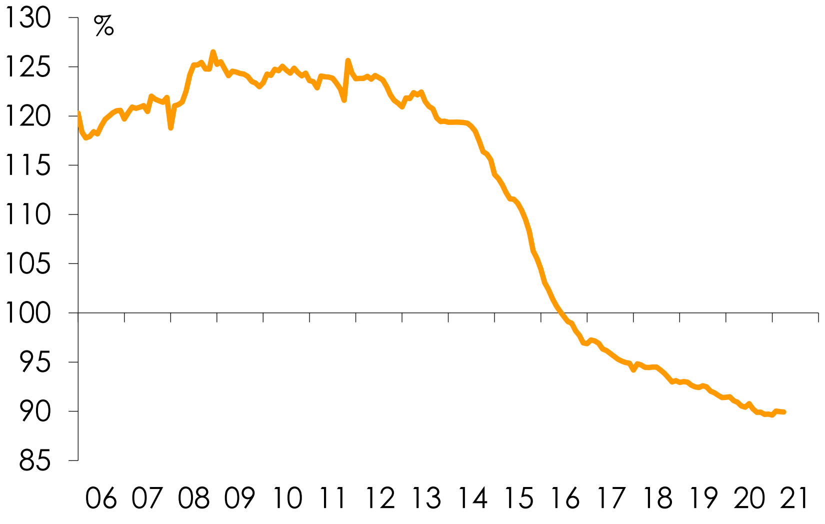
Credit outstanding as a pc of GDP



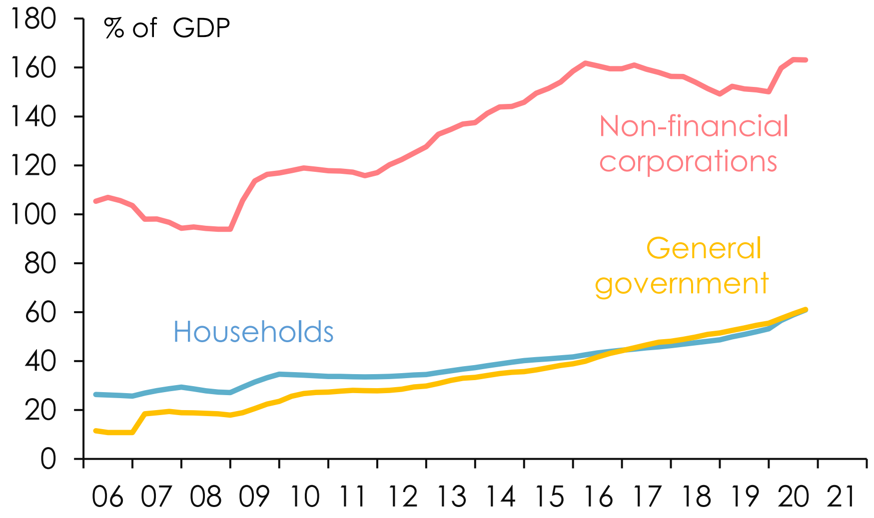
Banks' assets



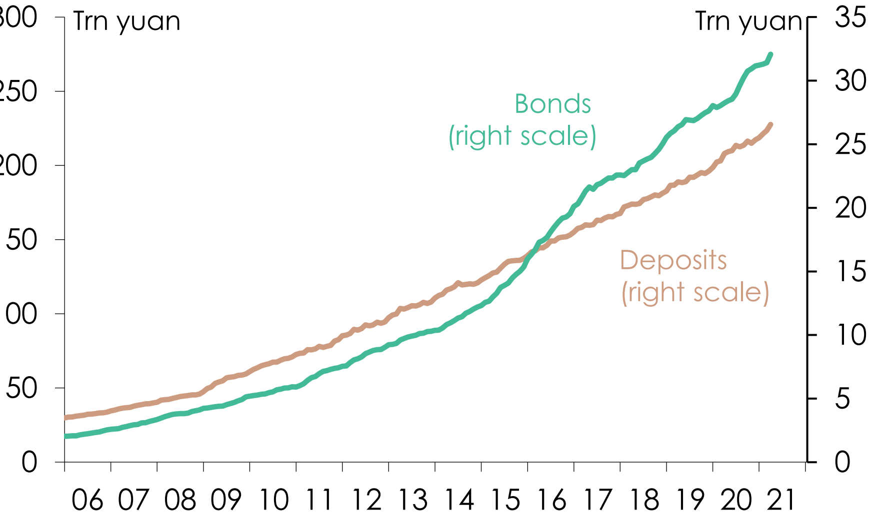
Banks' deposits-to-loans ratio



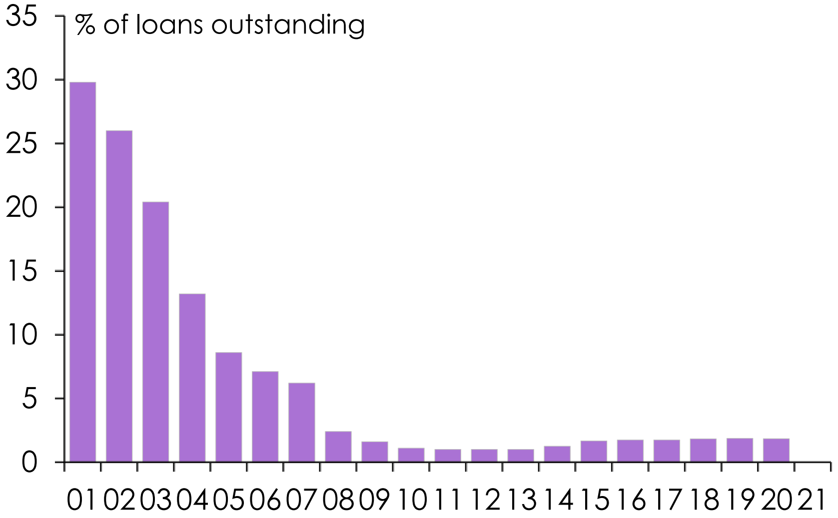
Credit outstanding by sector



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".

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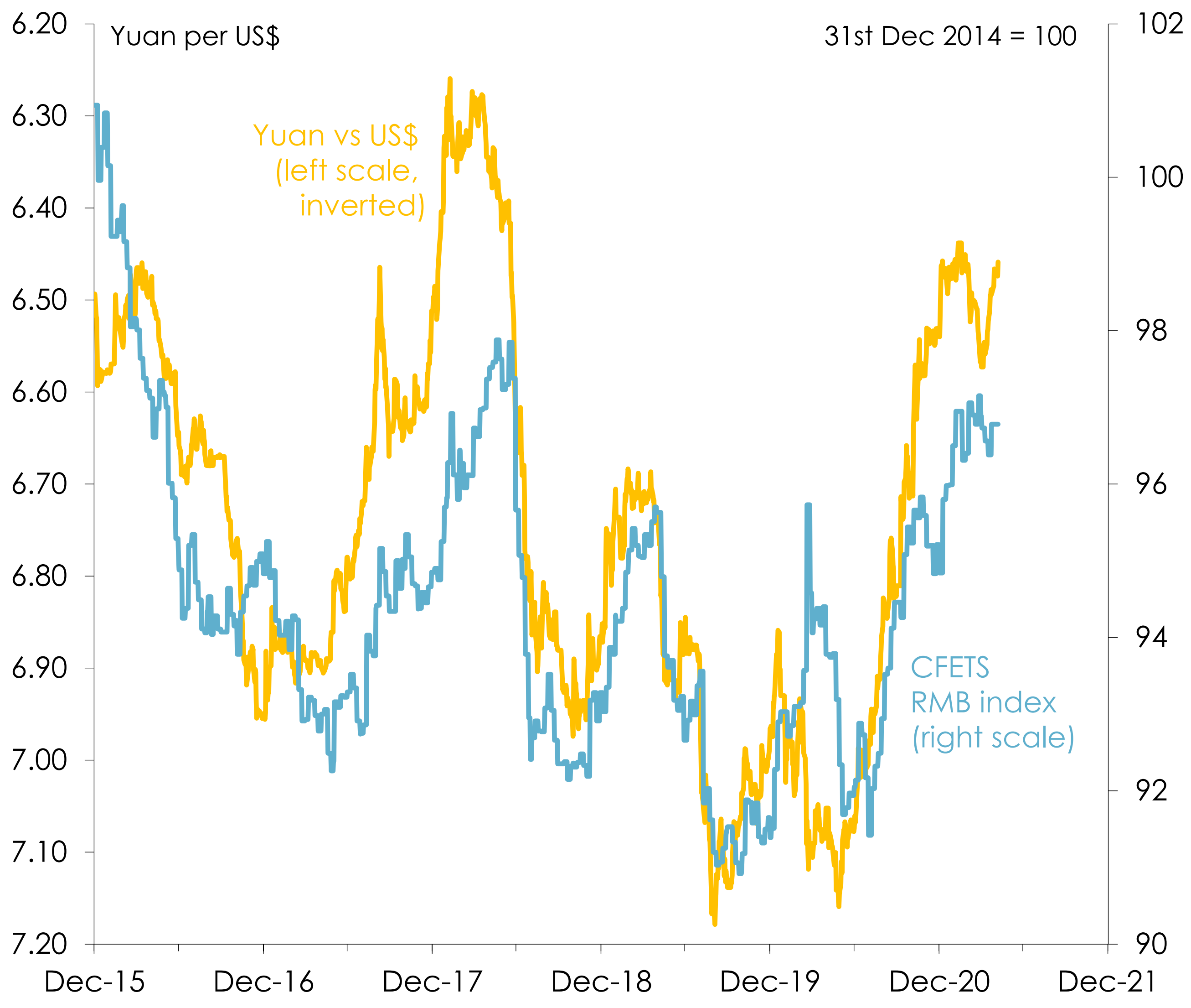
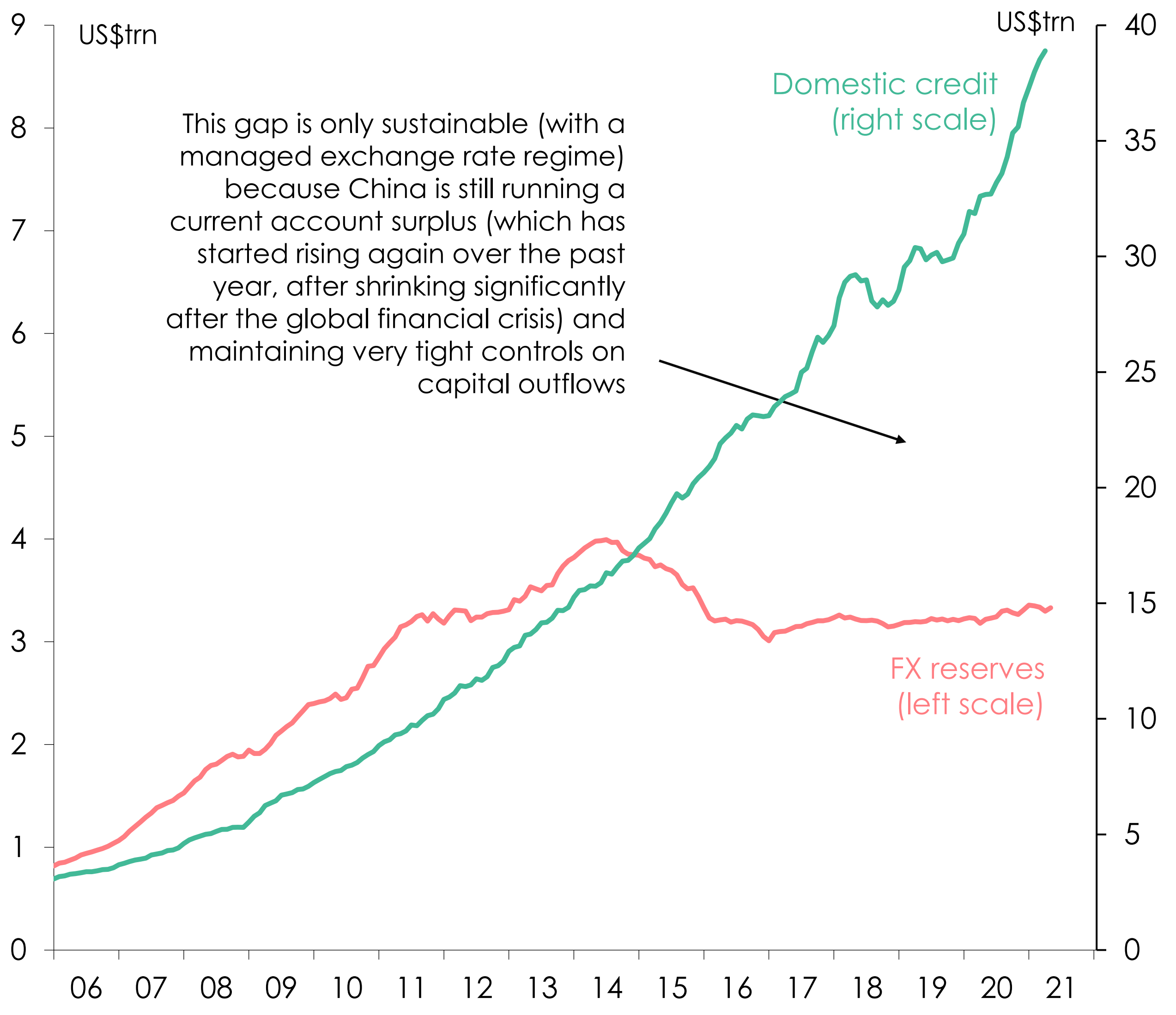
The yuan rose another 0.2% against the US$ this week but was unchanged against the PBoC's trade-weighted index

Chinese renminbi vs US$ and trade-weighted index



FX reserves and domestic credit



Sources: Refinitiv Datastream; China Foreign Exchange Trading System; People's Bank of China. Exchange rates up to 7th May; FX reserves data up to April and domestic credit up to March. Return to "What's New".

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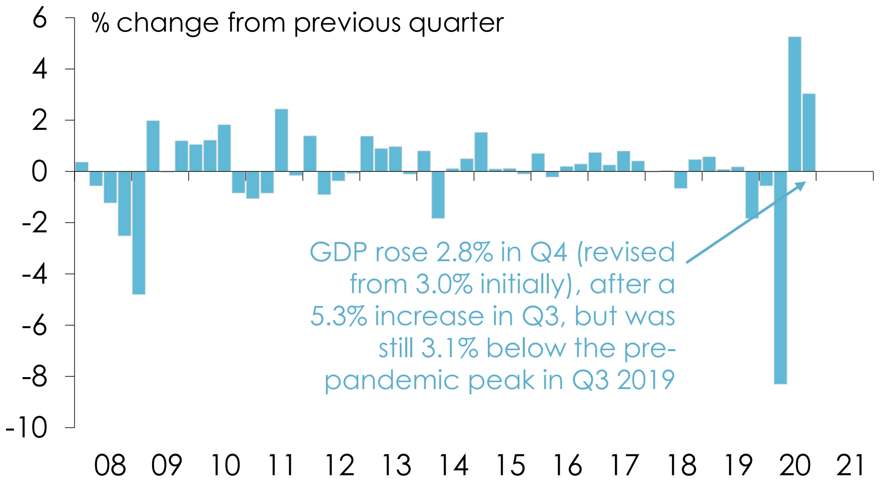
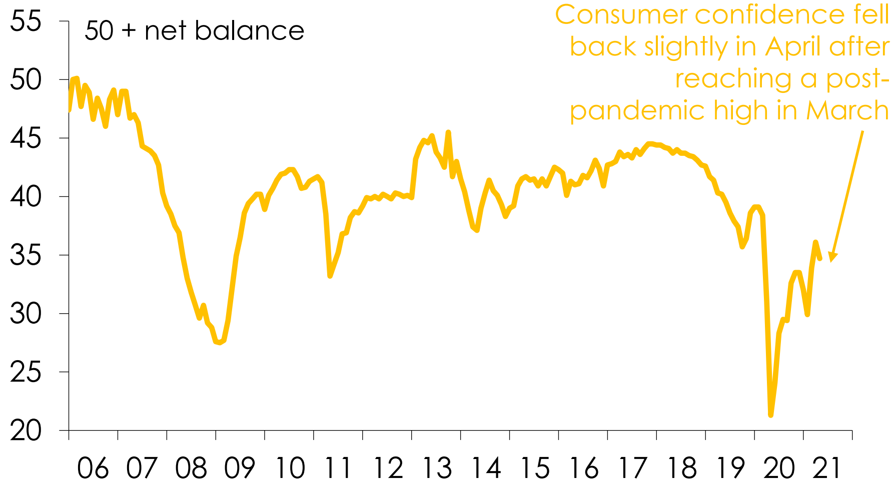
Japan's Q4 2020 GDP was still 3% below its pre-pandemic peak, while March employment was still 1.1% below its previous peak

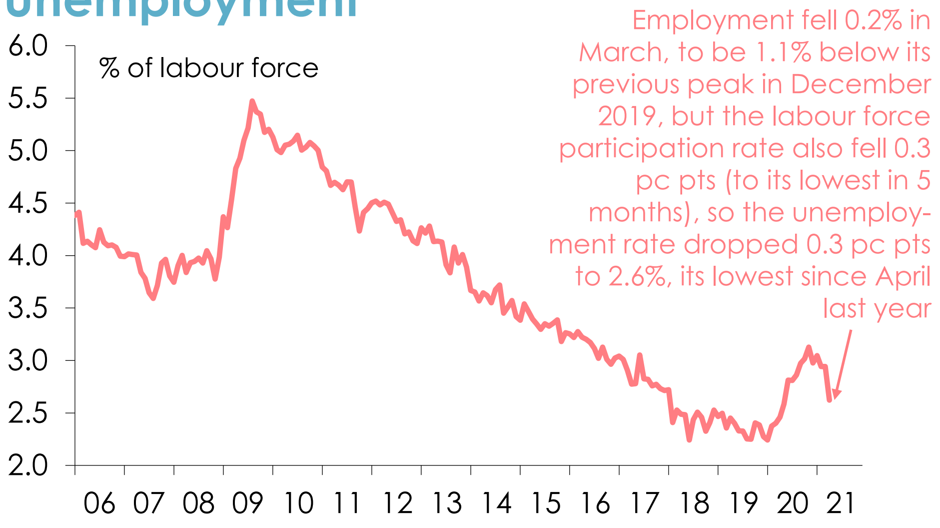
Real GDP



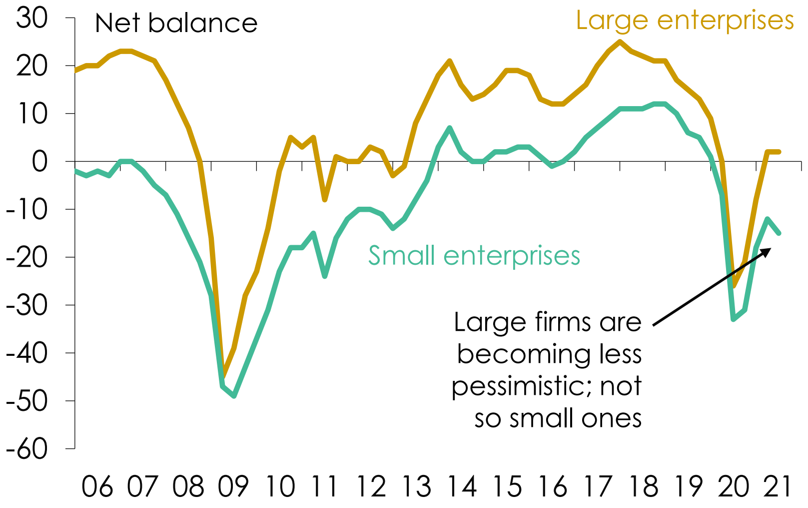
Consumer confidence



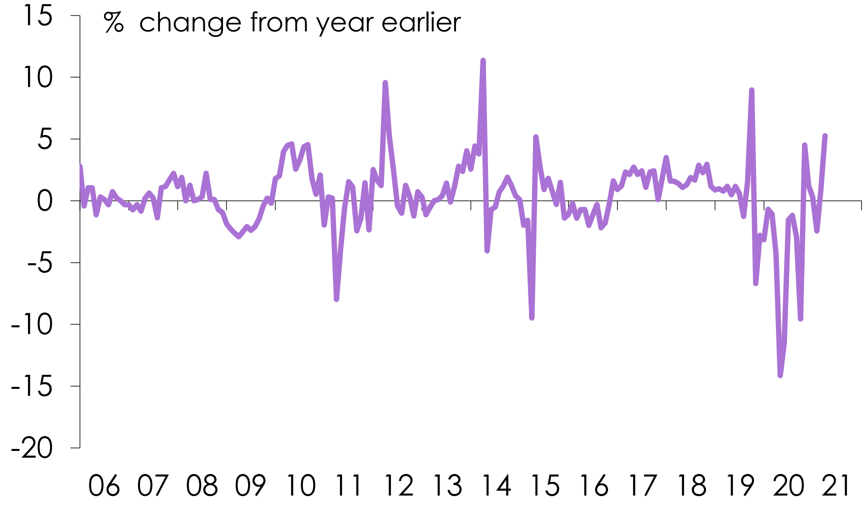
Unemployment



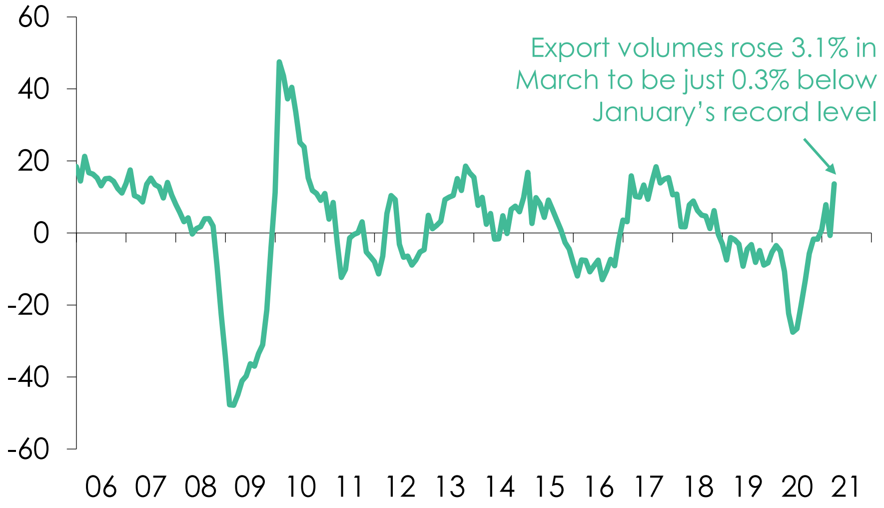
BoJ *Tankan* business conditions



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".

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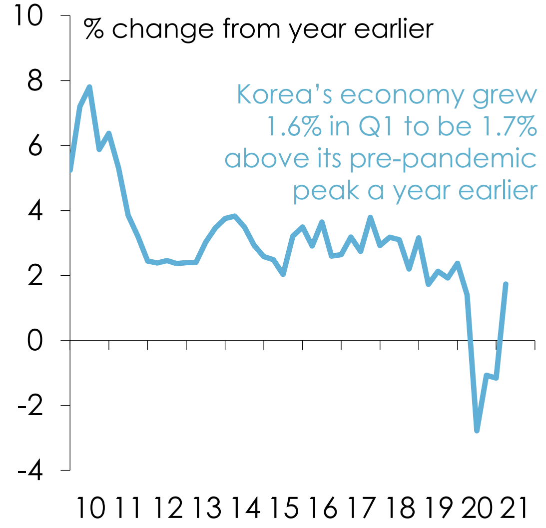
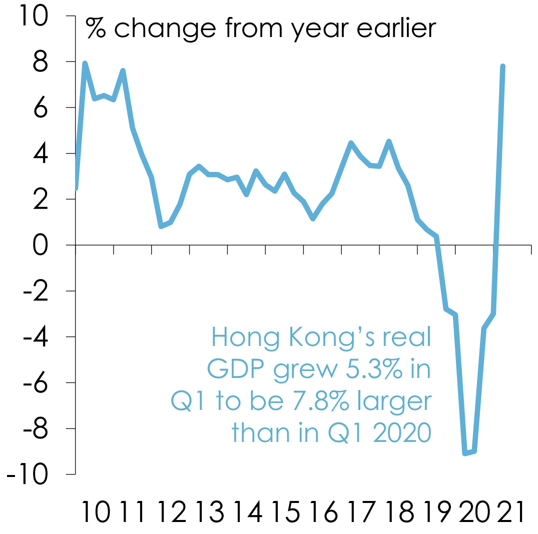
Singapore, Hong Kong, Korea and (especially) Taiwan's economies moved past their pre-pandemic peaks in Q1, but Indonesia is yet to do so

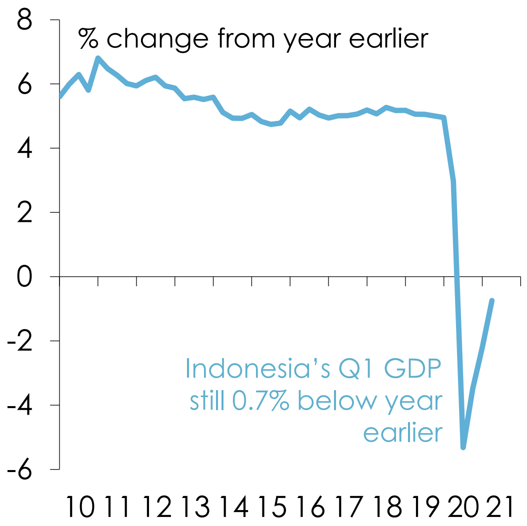
Korea



Hong Kong

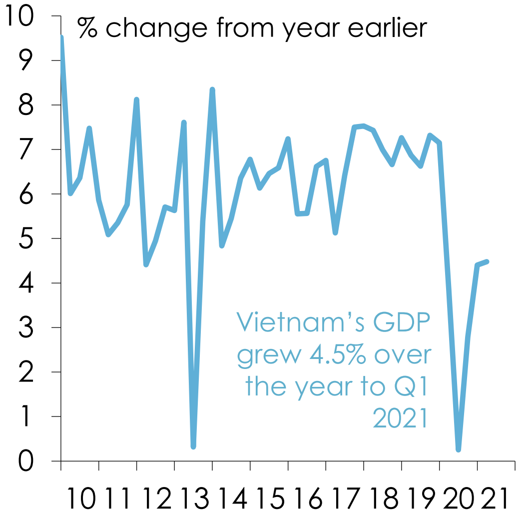


Indonesia

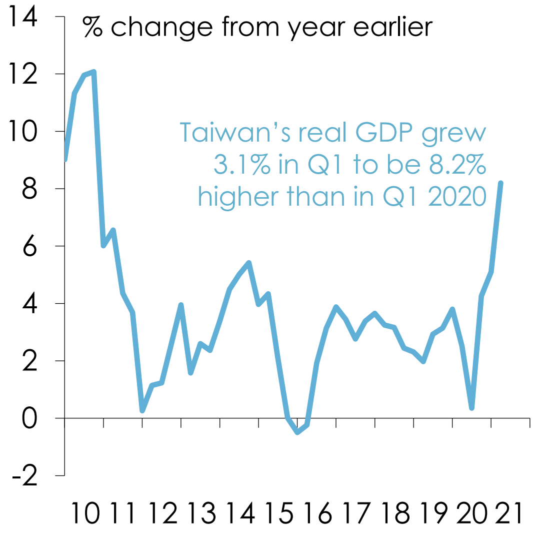


Thailand

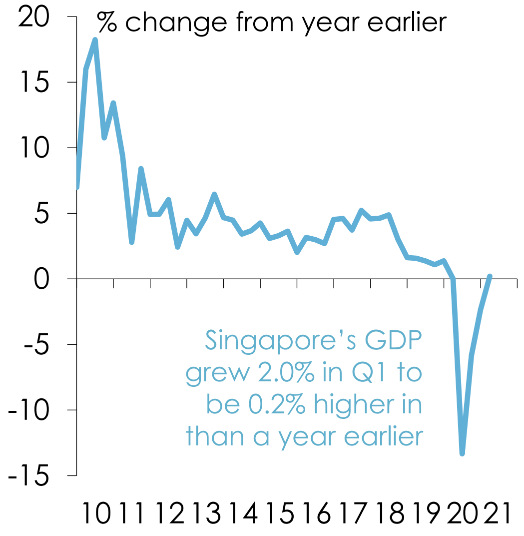
Vietnam



Taiwan

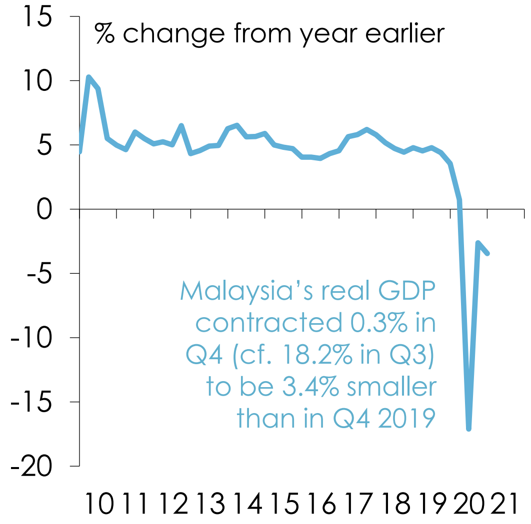


Singapore

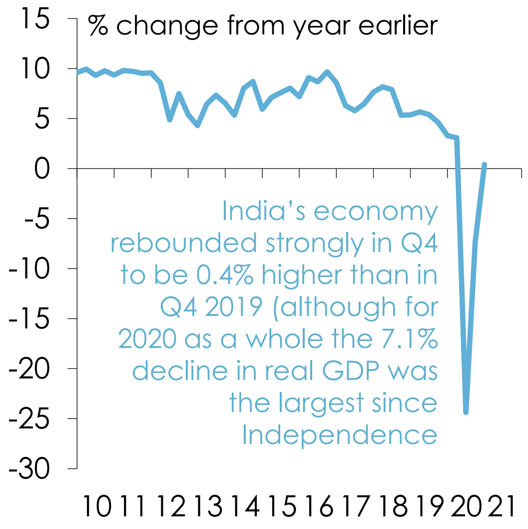


Philippines

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".

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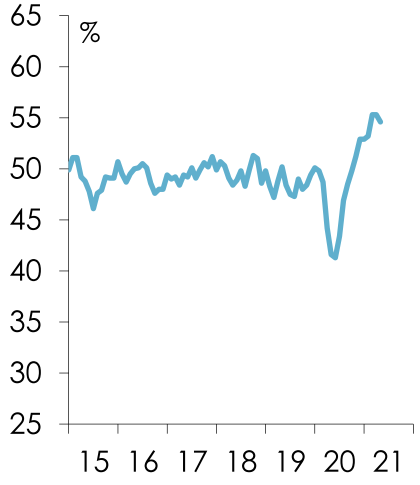
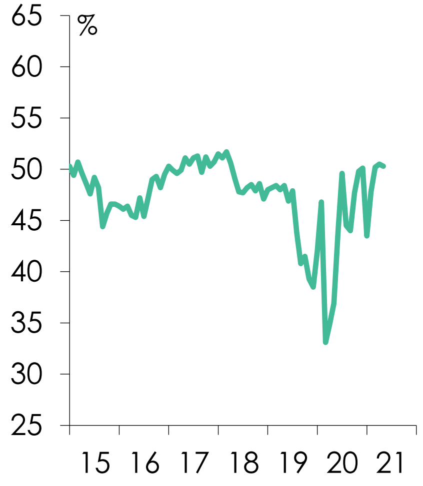
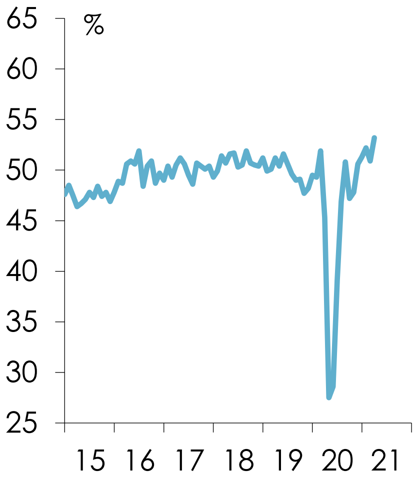
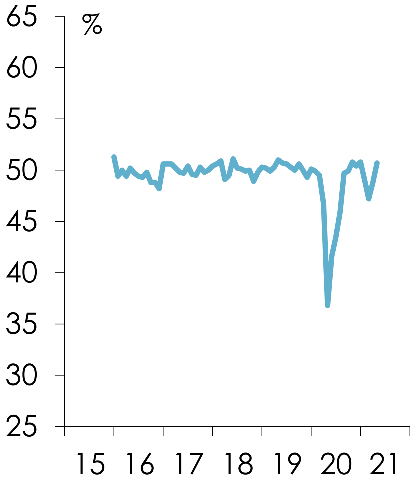
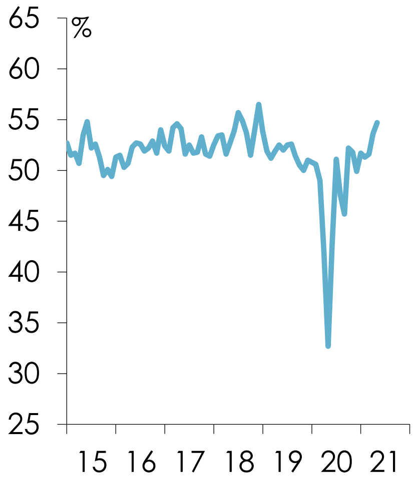
Manufacturing activity continued to strengthen in most Asian economies (except Philippines and India) in April according to PMIs

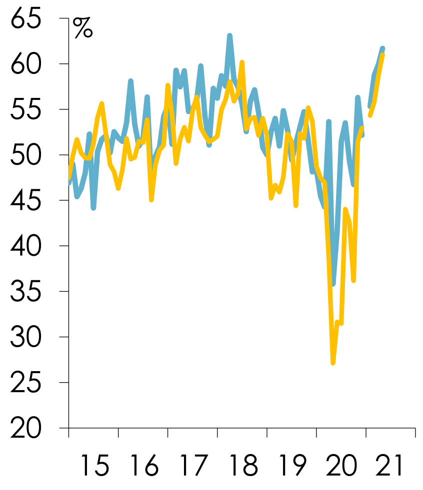
Korea


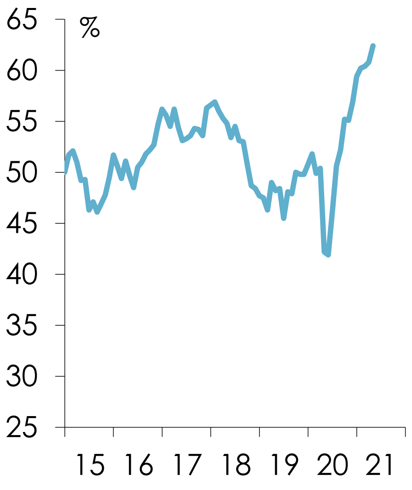
Hong Kong


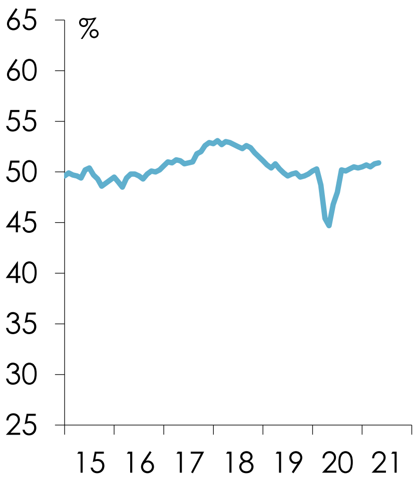
Indonesia


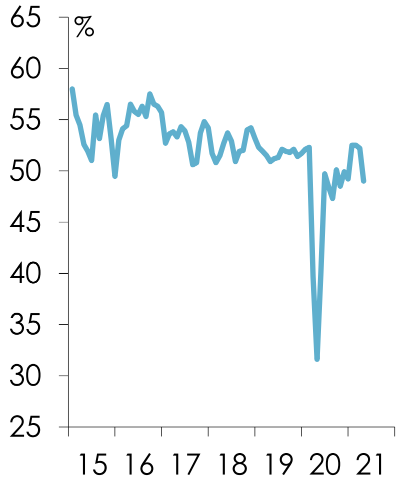
Thailand


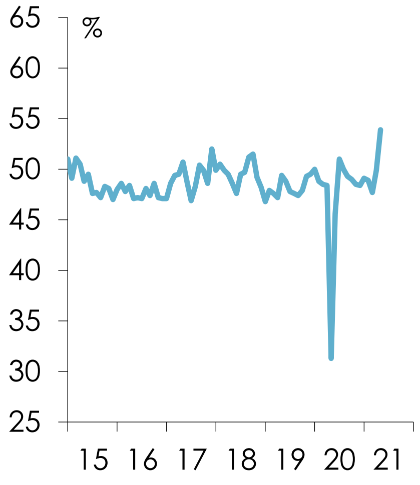
Vietnam


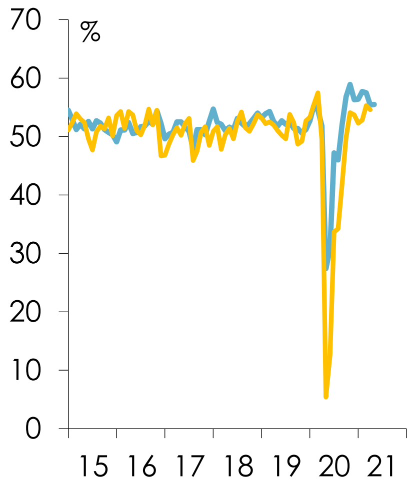
Australia


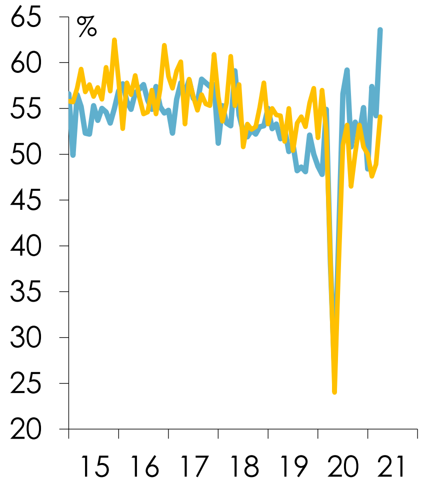
Taiwan


Singapore


Philippines


Malaysia


India


New Zealand


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 April, except for New Zealand 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".

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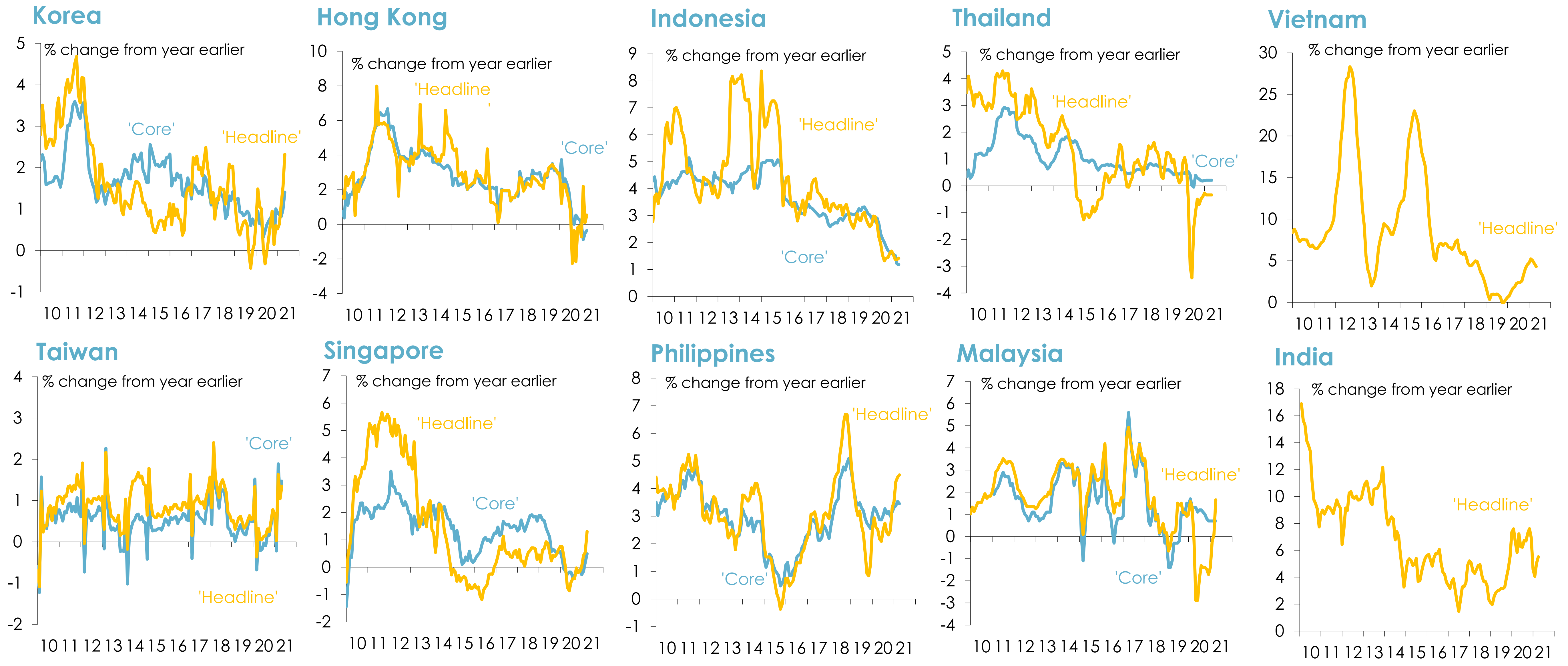
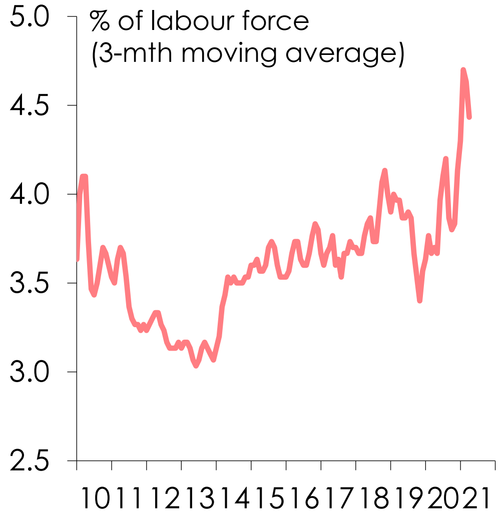
Inflation remains very low across most Asian economies other than India, but has started rising again in Vietnam and the Philippines



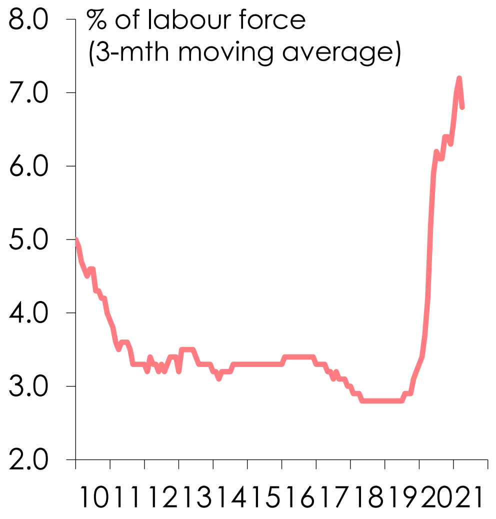
Note: 'Core' inflation in Korea excludes agricultural products and oil; in Taiwan it excludes fresh fruit, vegetables and energy; in Singapore it excludes accommodation and private transport; and in Hong Kong it excludes the effect of 'one-off government relief measures. 'Core' inflation in Indonesia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

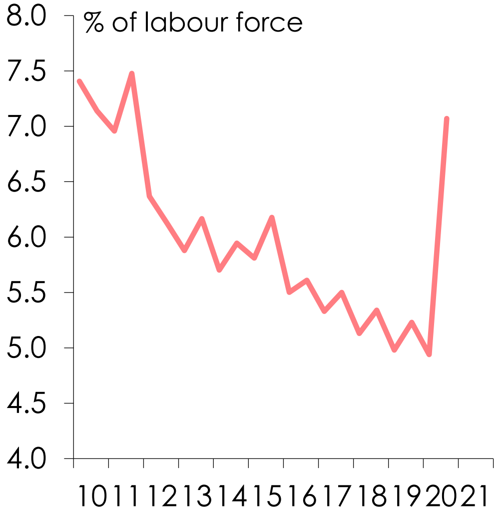
Korea



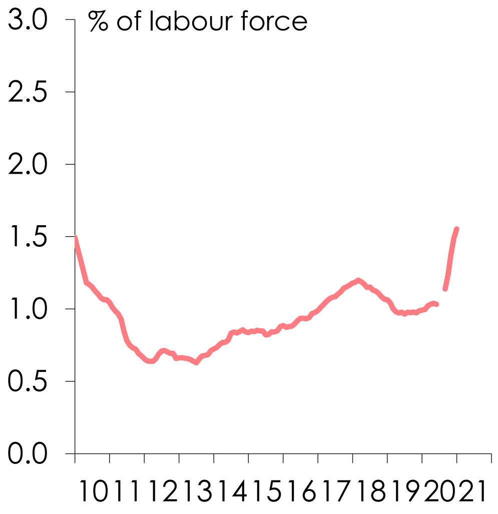
Hong Kong



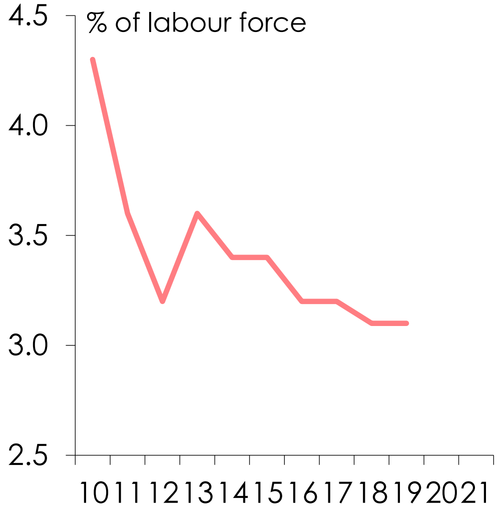
Indonesia



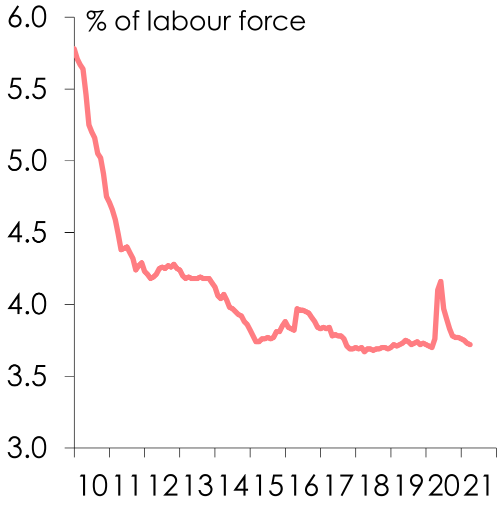
Thailand



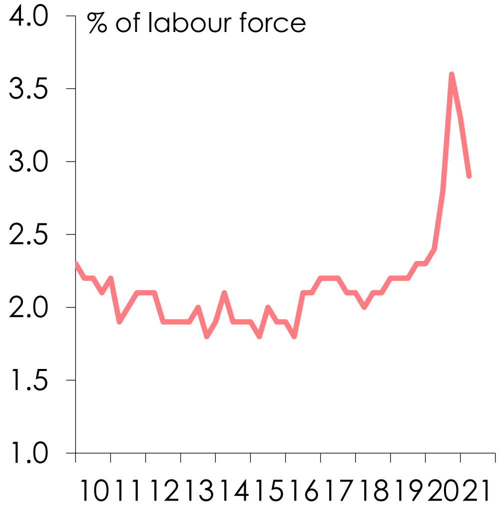
Vietnam



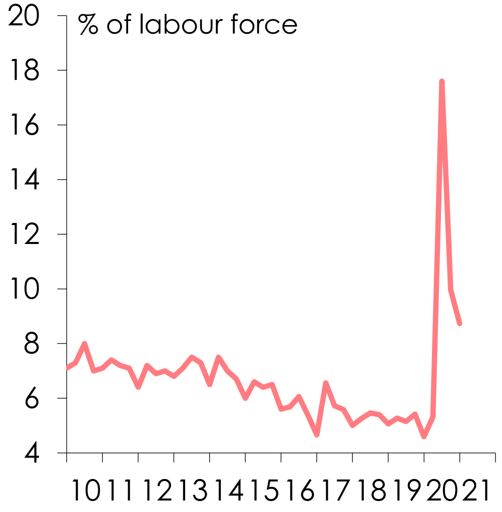
Taiwan



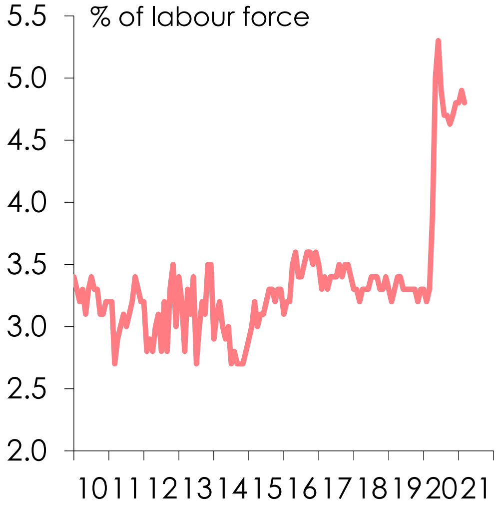
Singapore



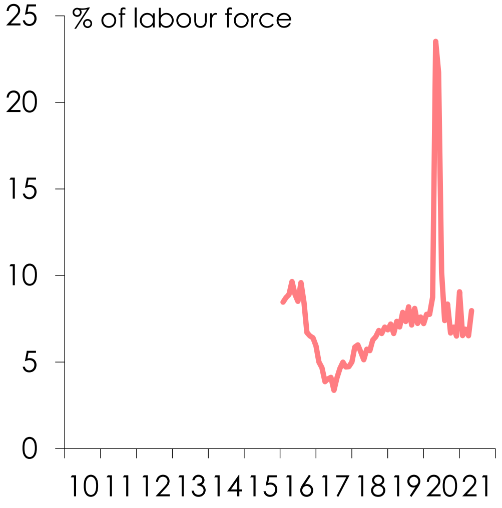
Philippines



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".

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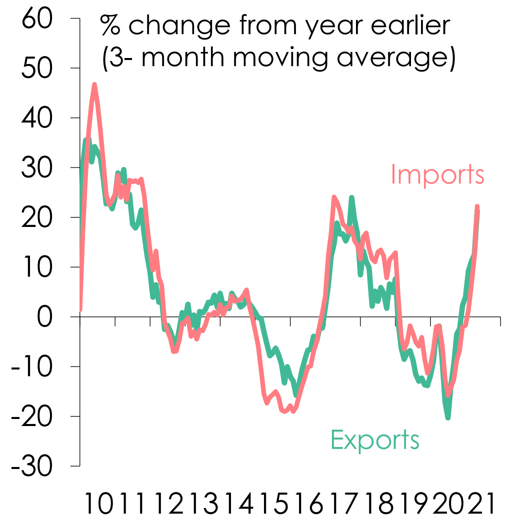
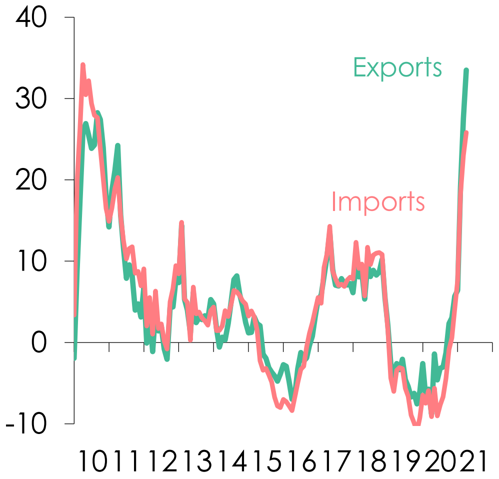
Asian exports are recovering from the Covid-induced slump – although 'base effects' from this time last year are inflating the growth

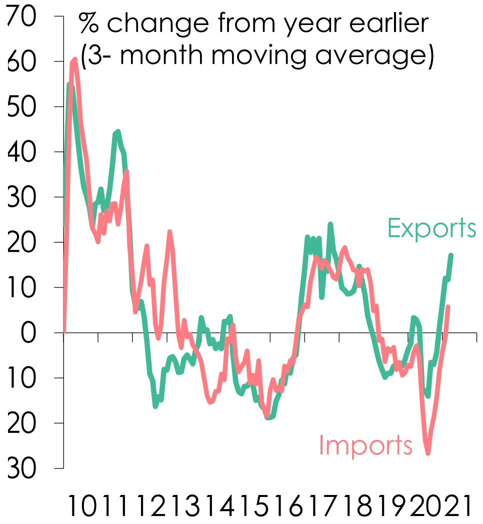
Korea



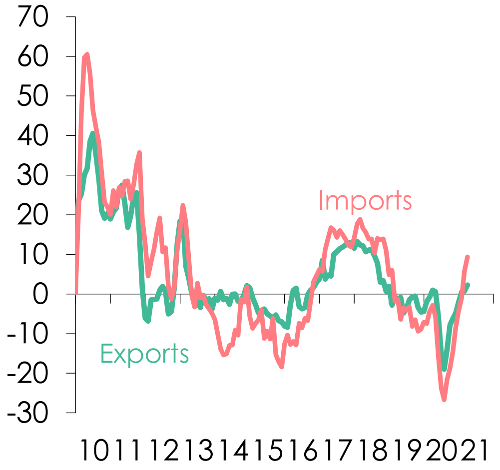
Hong Kong



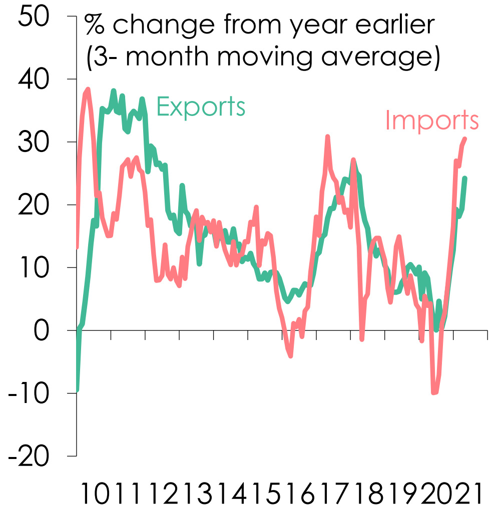
Indonesia



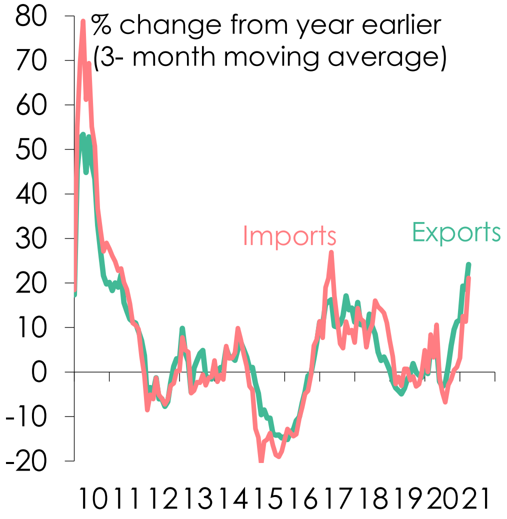
Thailand



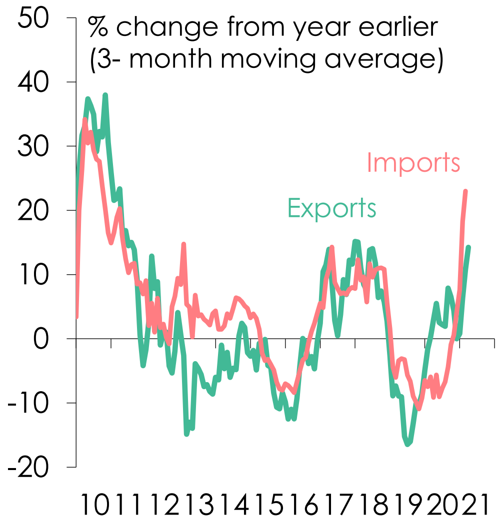
Vietnam



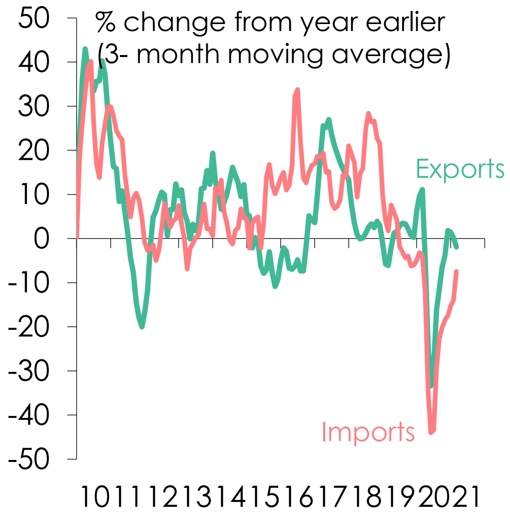
Taiwan



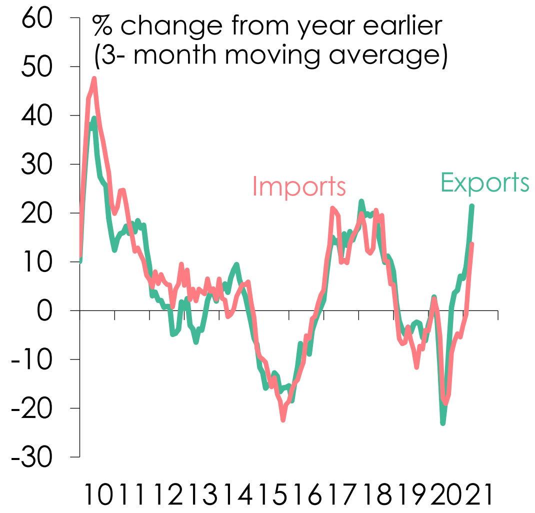
Singapore



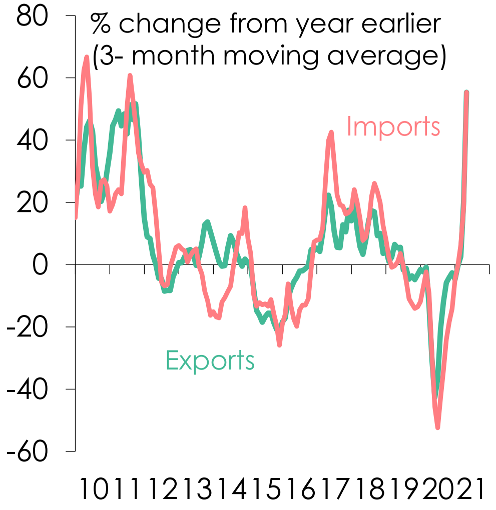
Philippines



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".

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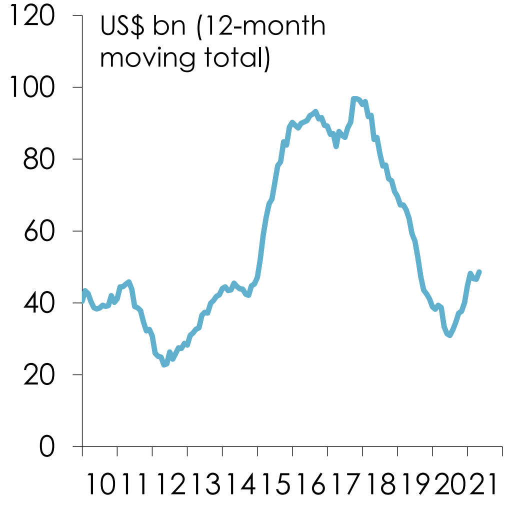
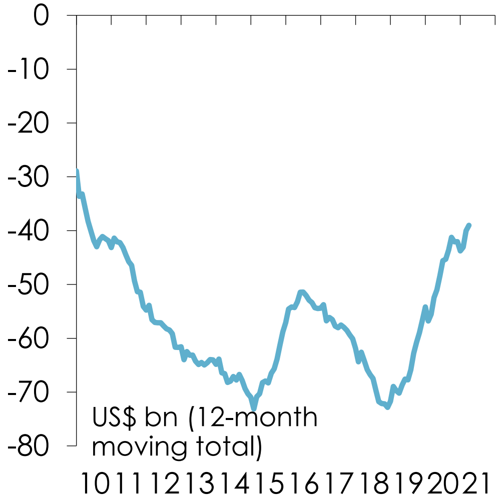
All Asian economies have experienced improvements in their trade balances since the onset of Covid-19

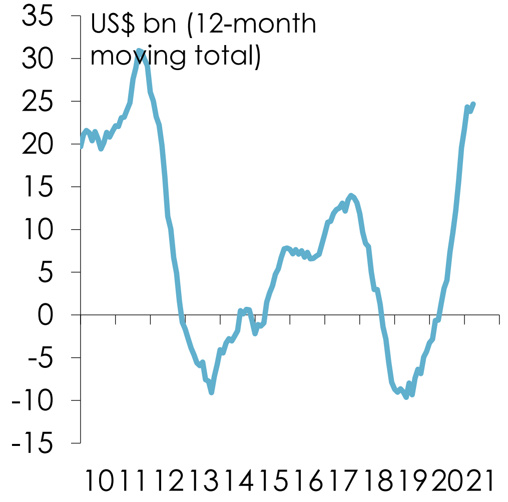
Korea



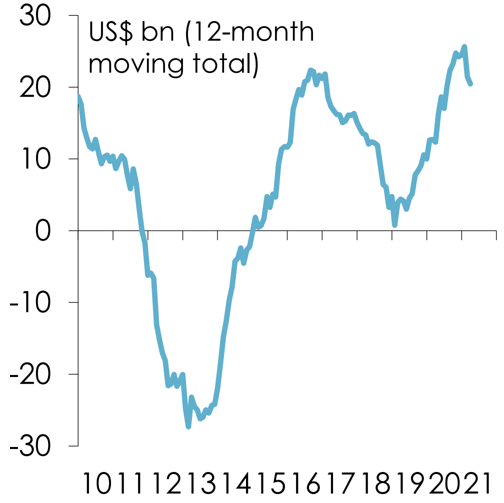
Hong Kong



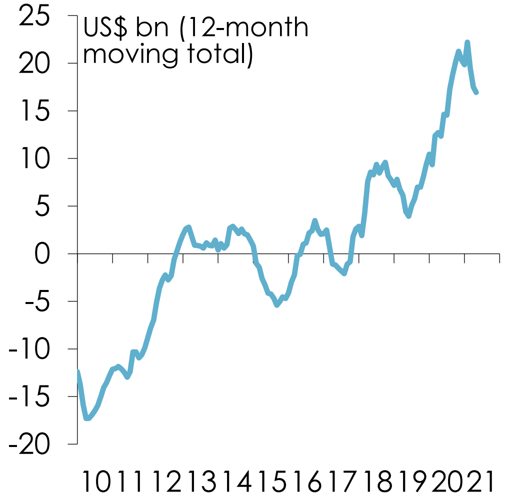
Indonesia



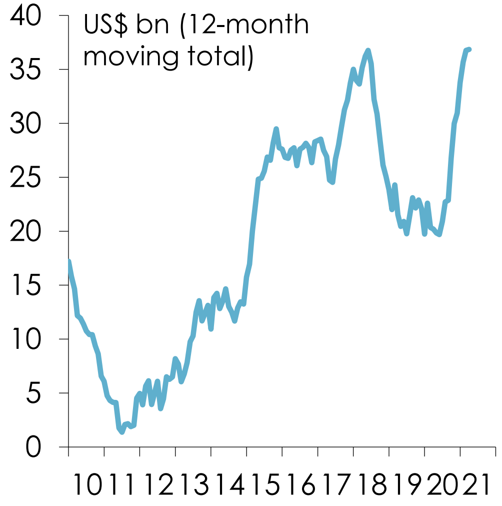
Thailand



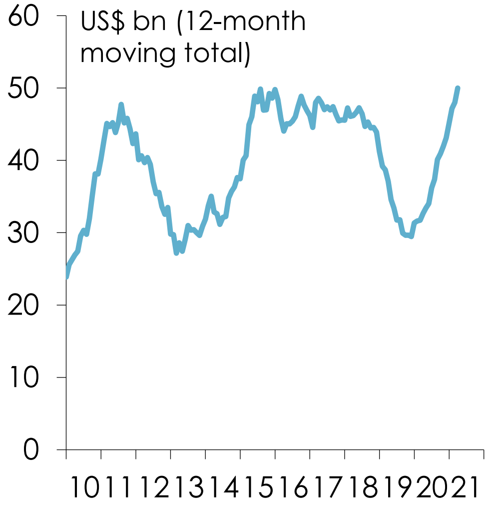
Vietnam



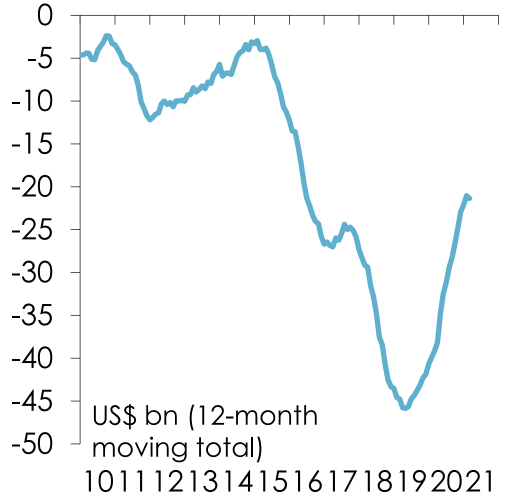
Taiwan



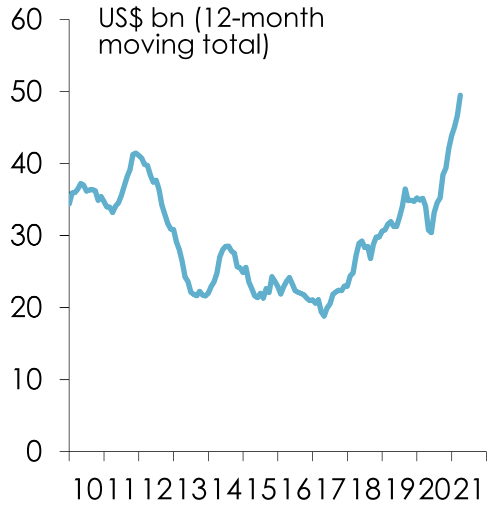
Singapore



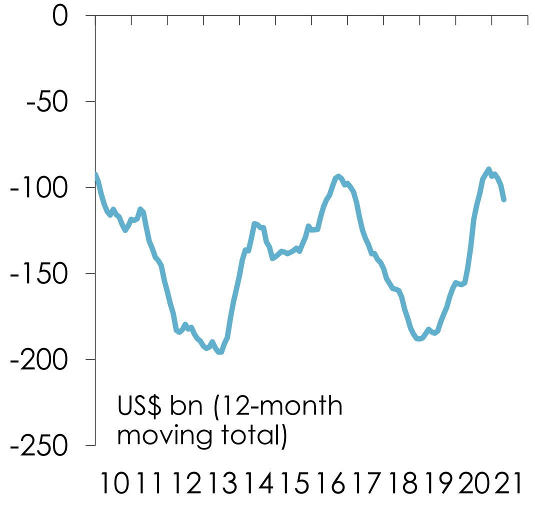
Philippines



Malaysia



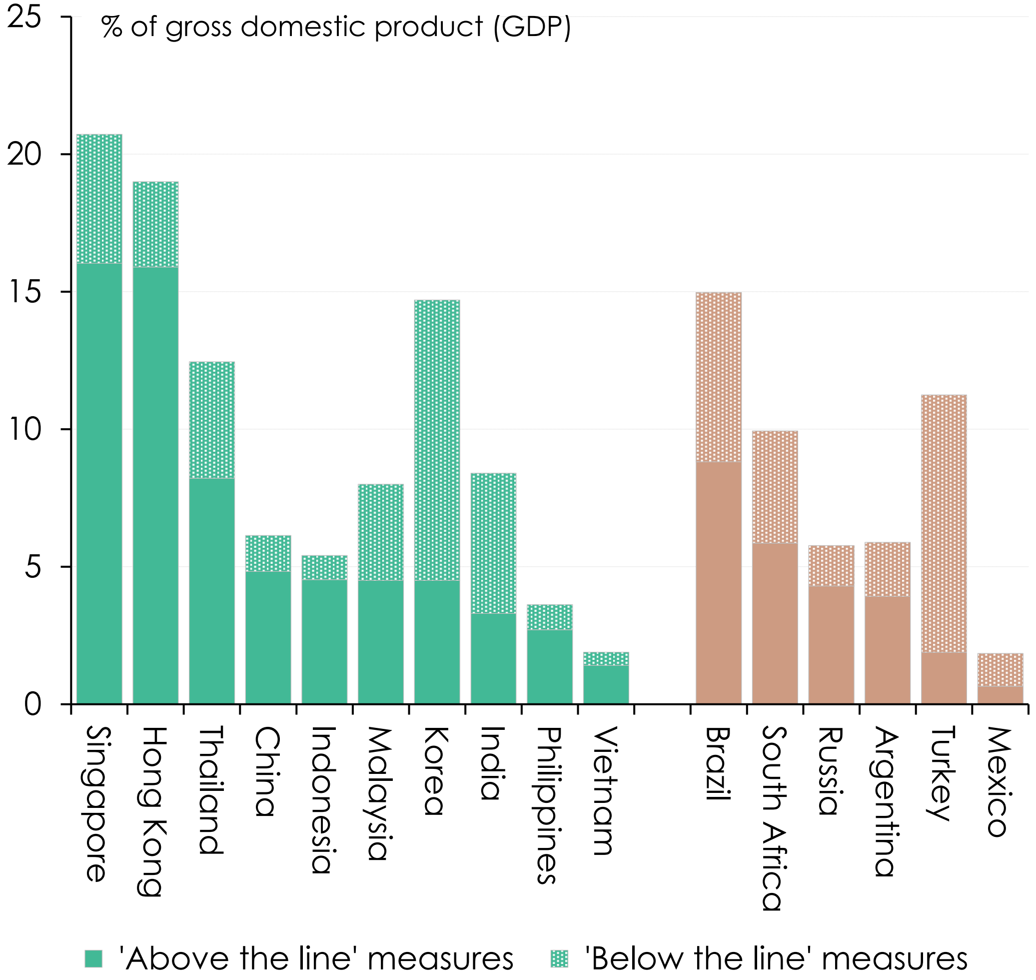
India



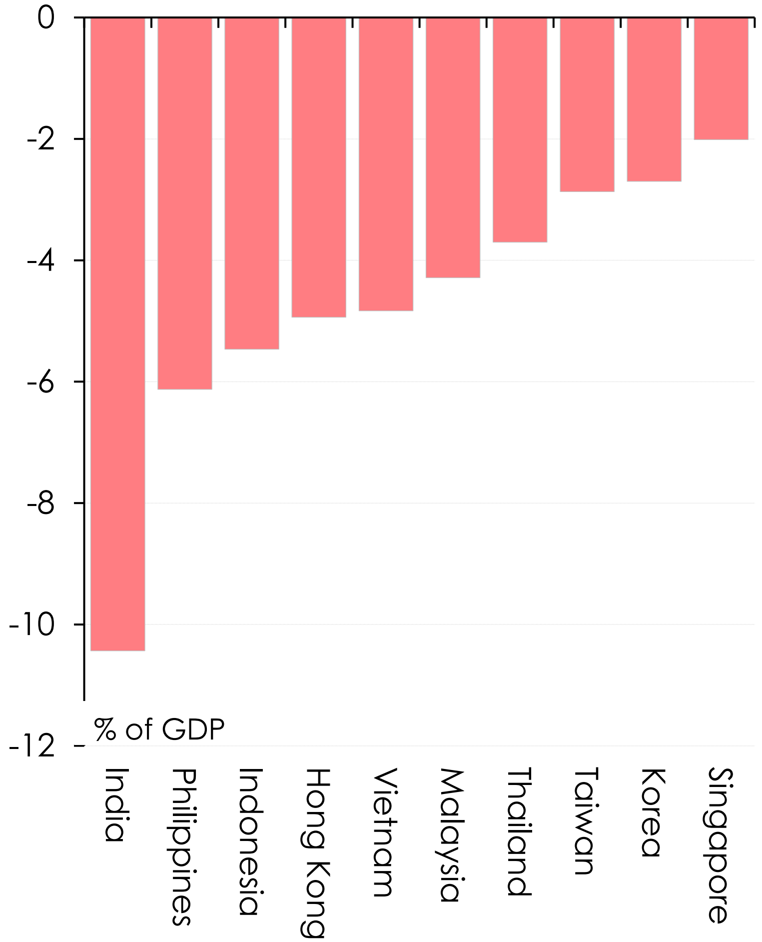
Note: Data for Hong Kong and Singapore published in national currencies and converted to US dollars by Corinna using month-average exchange rates.
Sources: national statistical agencies and central banks. Return to "What's New".

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

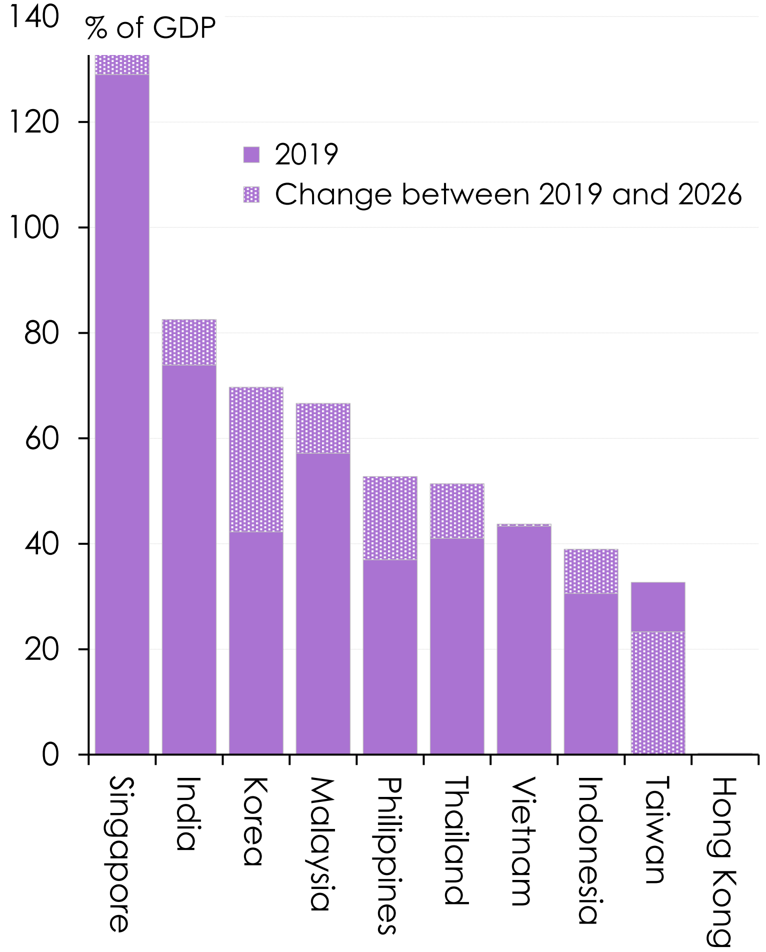
Fiscal policy responses to Covid-19 – Asian & other selected emerging market economies



Budget balances – Asian economies 2020-2022

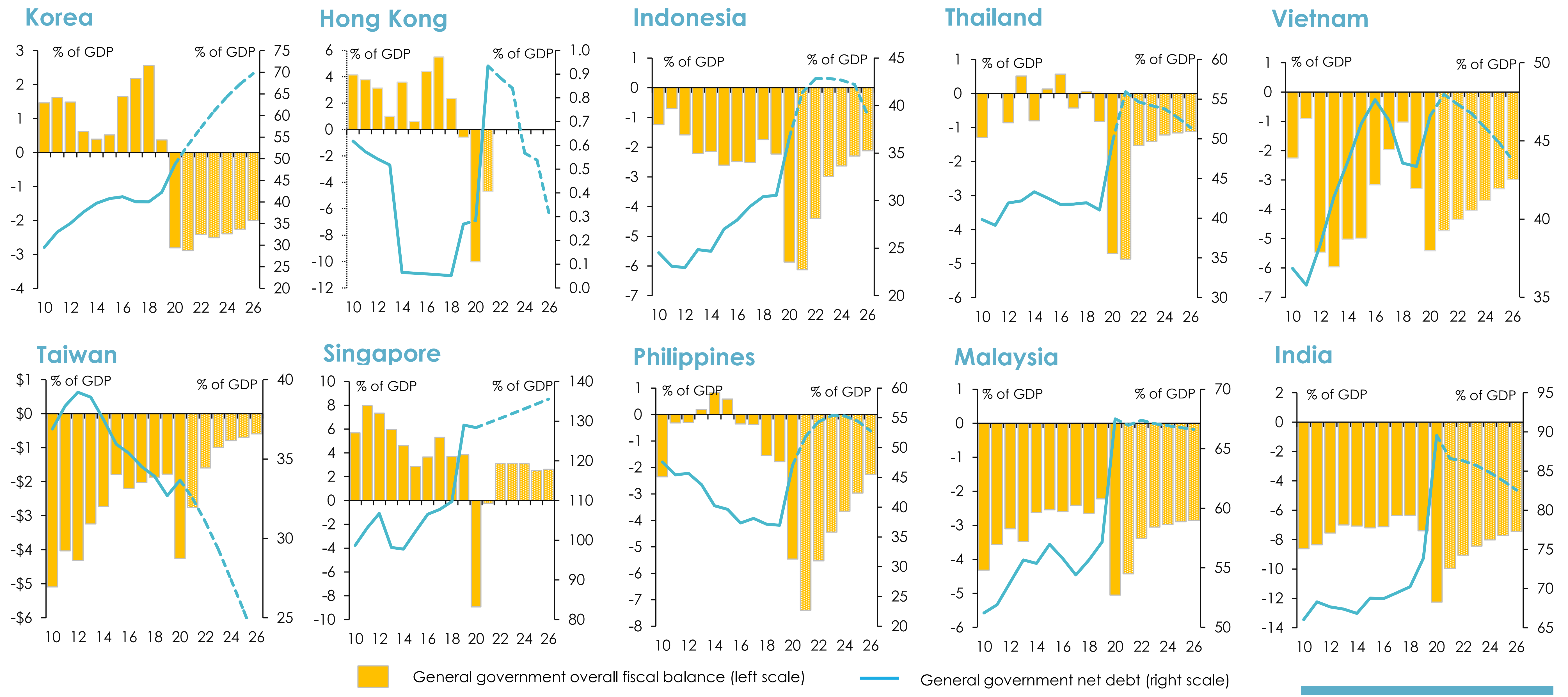


Gross government debt – Asian economies 2019-26



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 17th March 2021. Singapore's apparently very large gross debt is offset by substantial financial asset holdings. Taiwan's gross debt is projected to decline as a percentage of GDP between 2019 and 2026. *Sources:* IMF, *Fiscal Monitor Database of Country Fiscal Measures in Response to the COVID-19 Pandemic* and *Fiscal Monitor*, April 2021. Return to "What's New".

Asian governments, except for Singapore and Hong Kong, will be running large budget deficits for the next five years



Source: International Monetary Fund, *Fiscal Monitor*, and *World Economic Outlook*, April 2021. Return to "What's New"

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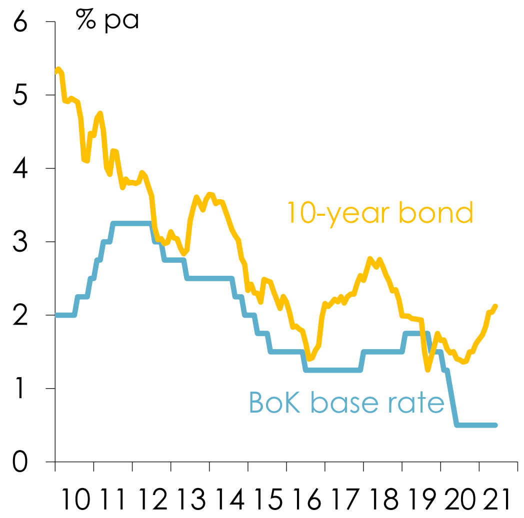
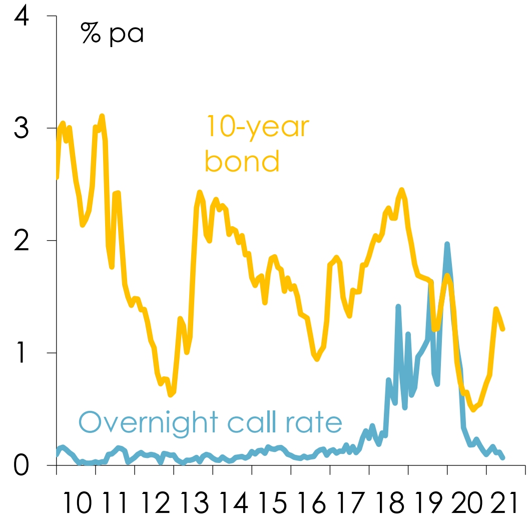
Asian bond markets have been reasonably well insulated from the global bond market sell-off this year – except for HK, Singapore and Korea

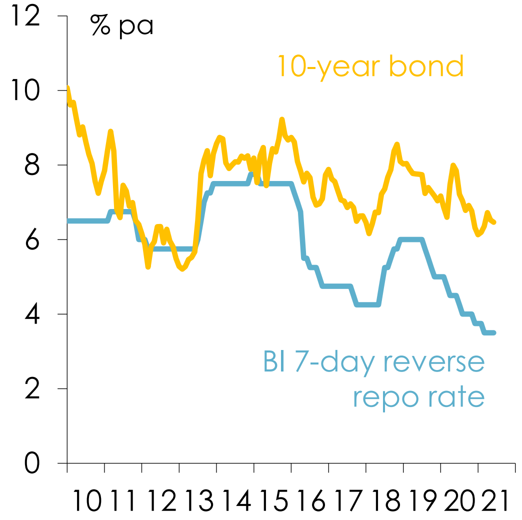
Korea



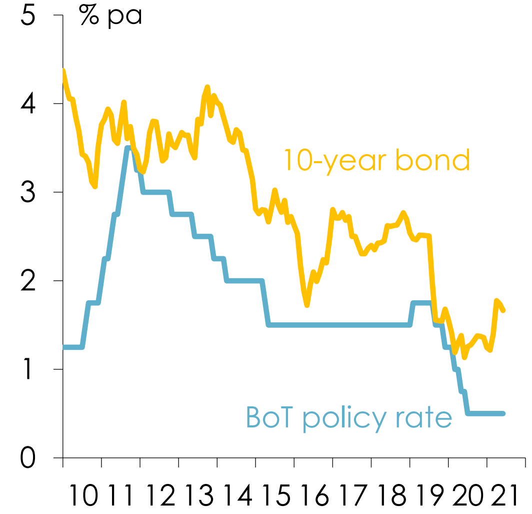
Hong Kong



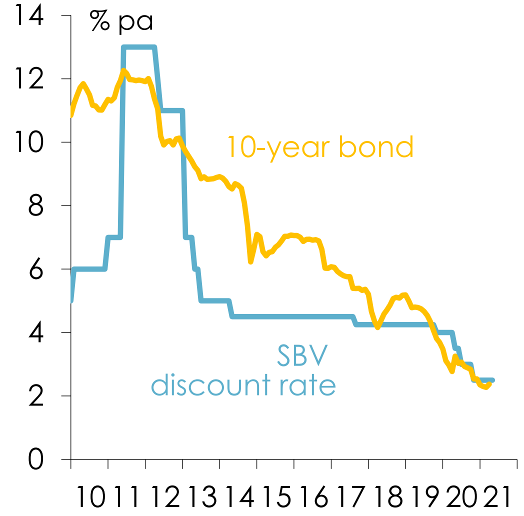
Indonesia



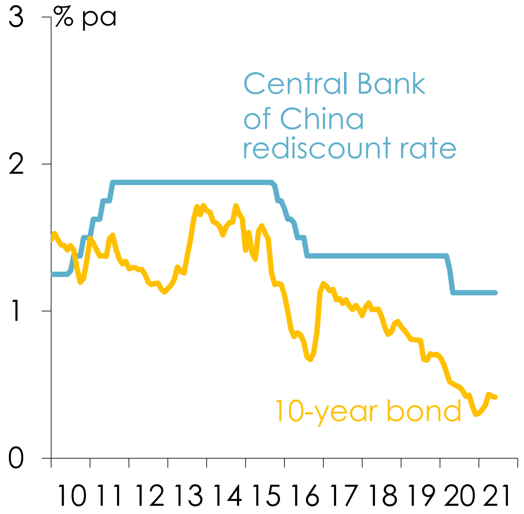
Thailand



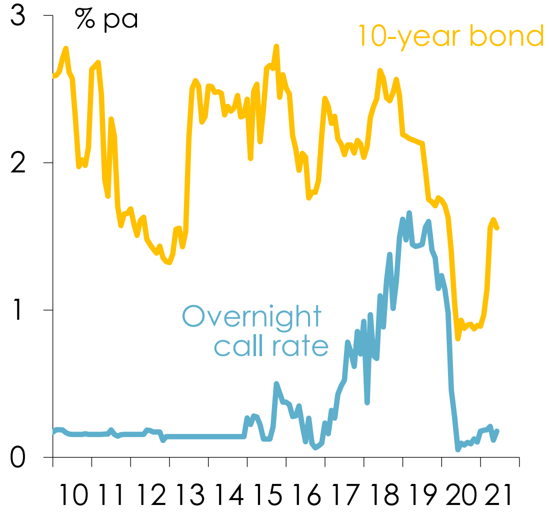
Vietnam



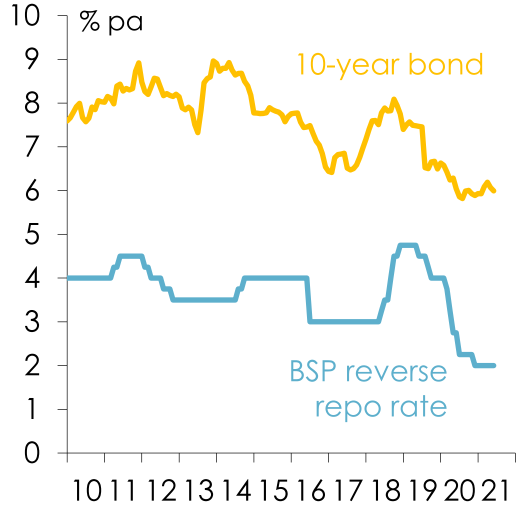
Taiwan



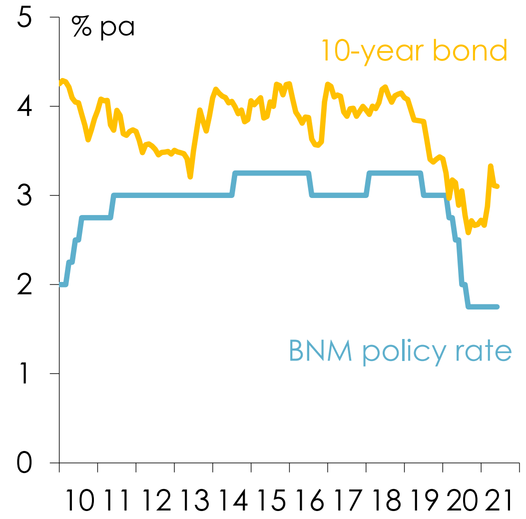
Singapore



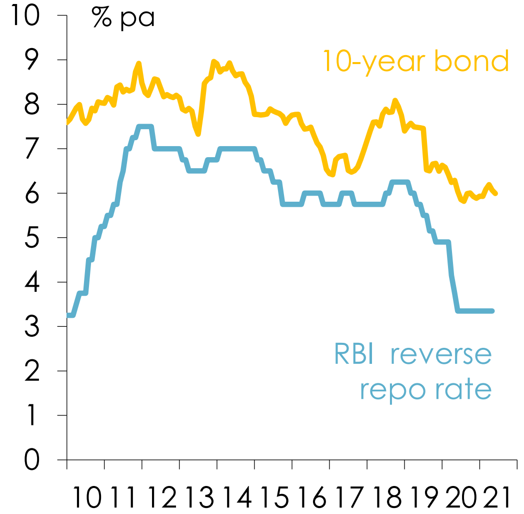
Philippines



Malaysia



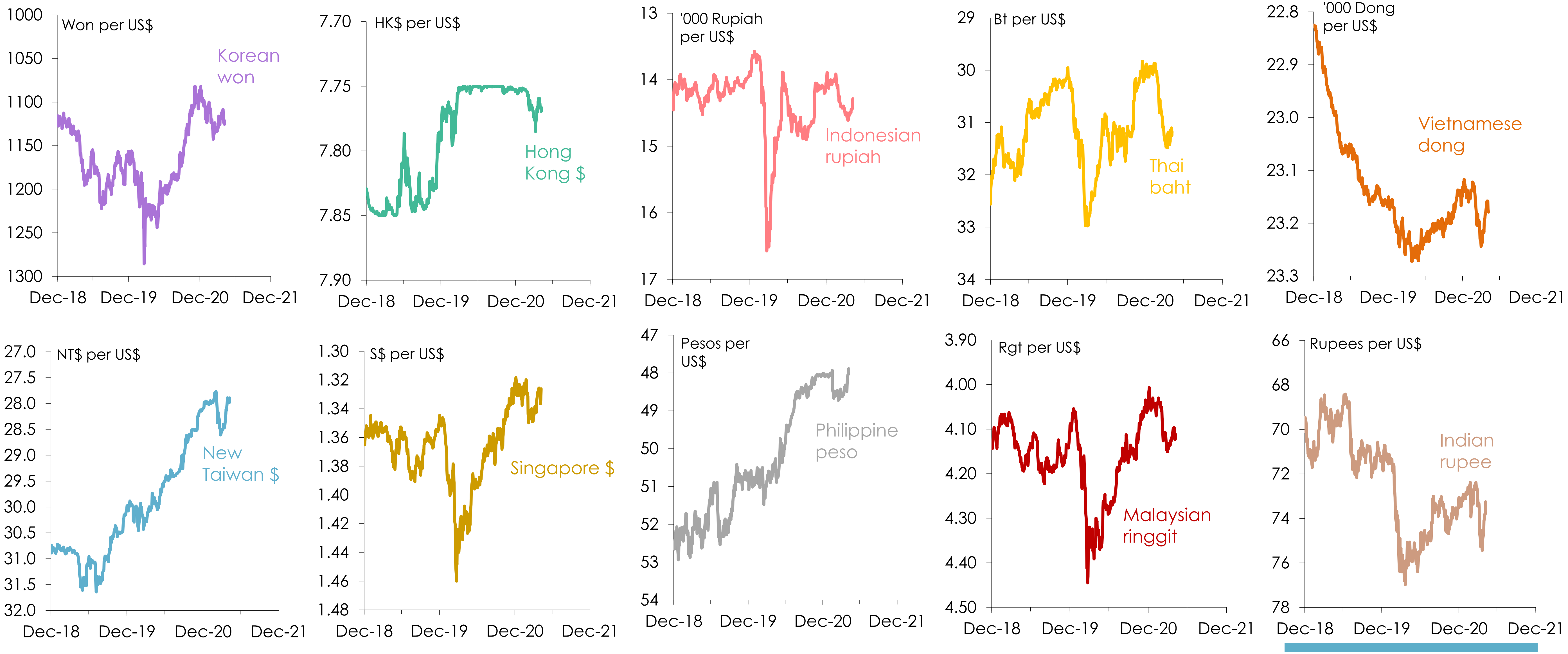
India



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 May 2021. Sources: national central banks; Refinitiv Datastream. Return to "What's New".

Asian currencies were mixed this week with the rupee and the rupiah rising more than 1% and the peso ½%, but the won fell ¾%

Asian currency exchange rates vs US dollar



Note: Data up to 7th May. Source: Refinitiv Datastream. Return to "What's New".

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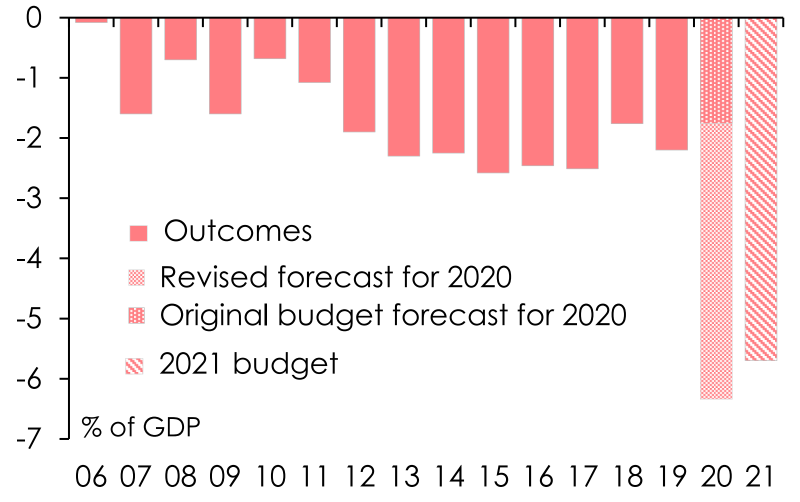
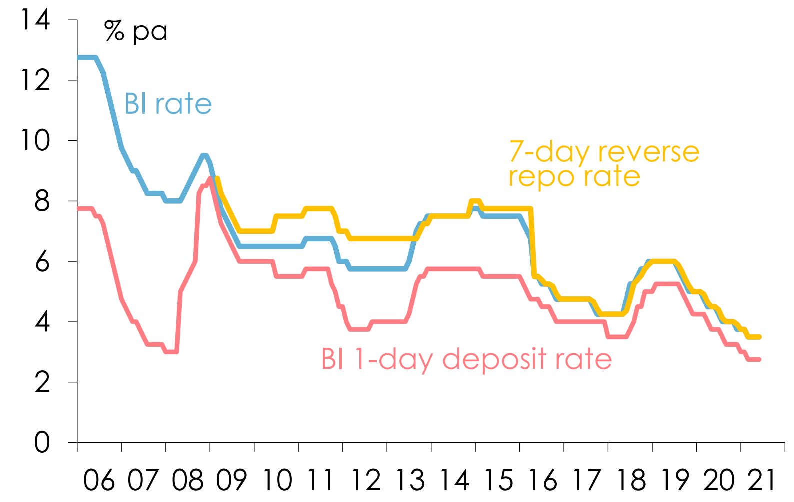
Bank Indonesia again left monetary policy settings unchanged at last month's BoG meeting, but continues to buy bonds in the primary market

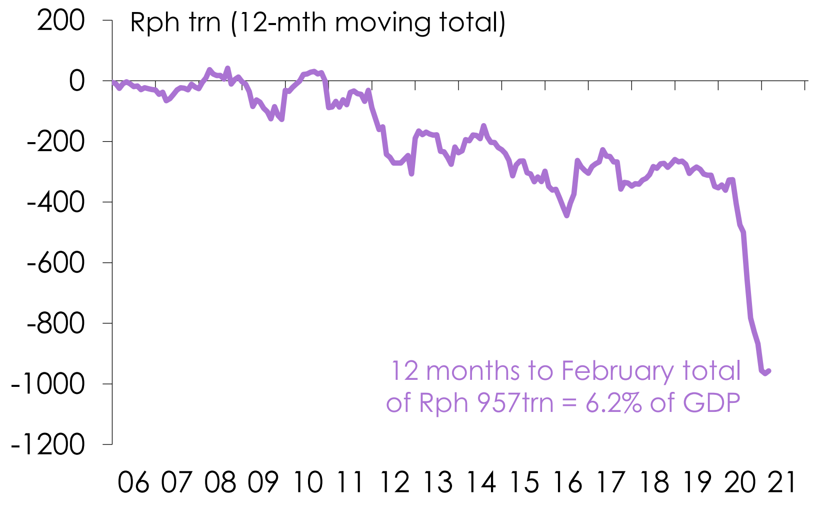
Indonesia budget deficit



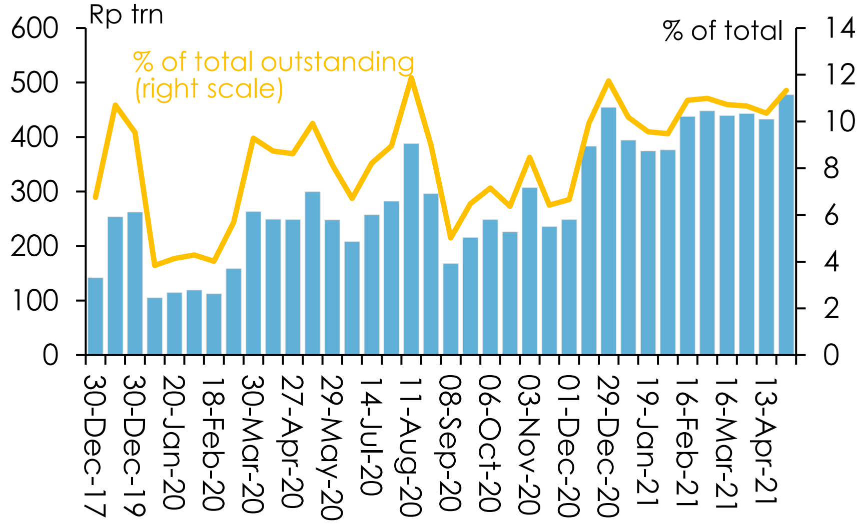
BI monetary policy rates



Central gov't budget balance



BI holdings of tradeable SBNs



- In April 2020, the Indonesian Government and Bank Indonesia (BI) agreed to a 'burden-sharing' scheme under which BI will directly purchase bonds equivalent to 25% of this year's budget financing requirement (and return the interest received to the Government), as well as subsidizing interest payments on other bonds
  - BI calls this 'synergistic monetary expansion'
  - BI has purchased Rp 102trn of SBN in the primary market so far this year (cf. Rp 473trn in 2020)
- BI has indicated that it will be a 'standby buyer' for up to one-quarter of government borrowing requirements through 2022
- BI again kept its monetary policy settings on hold at last month's Board of Governors meeting
  - 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 argues that loose liquidity conditions have prompted further falls in banks' base lending rates (SBDKs)
  - BI maintained its forecasts for GDP growth in 2021 of 4¼-5¼%, inflation within the 'corridor' of 3%±1%, and the current account deficit (considered important for rupiah stability) of 1-2% of GDP

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

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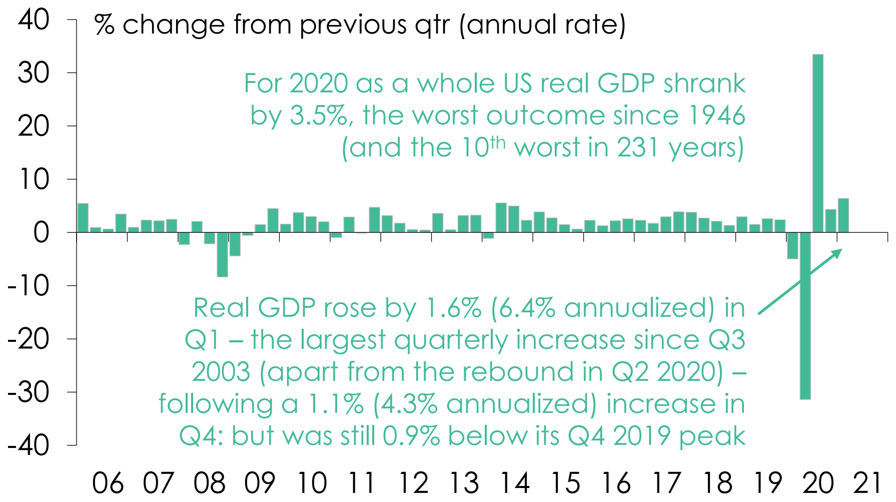
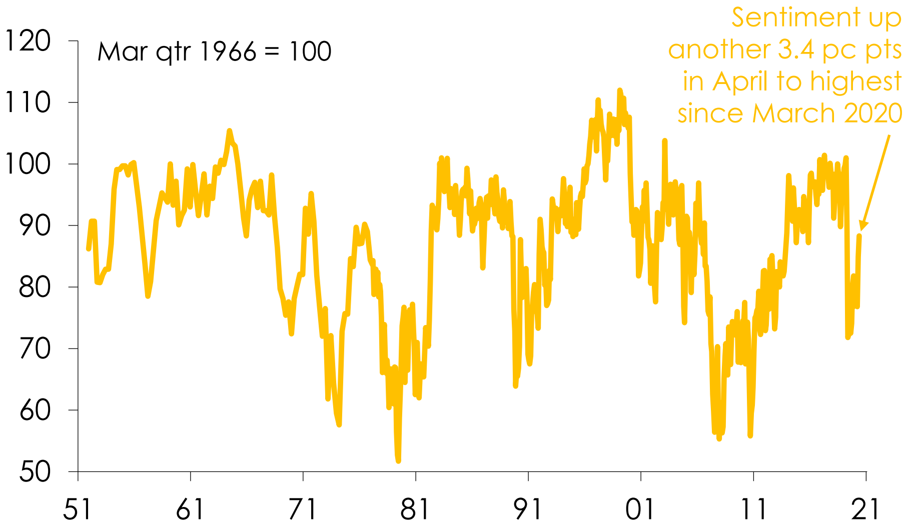
US economic growth accelerated in the first quarter of this year, buoyed by two rounds of cash payments to households

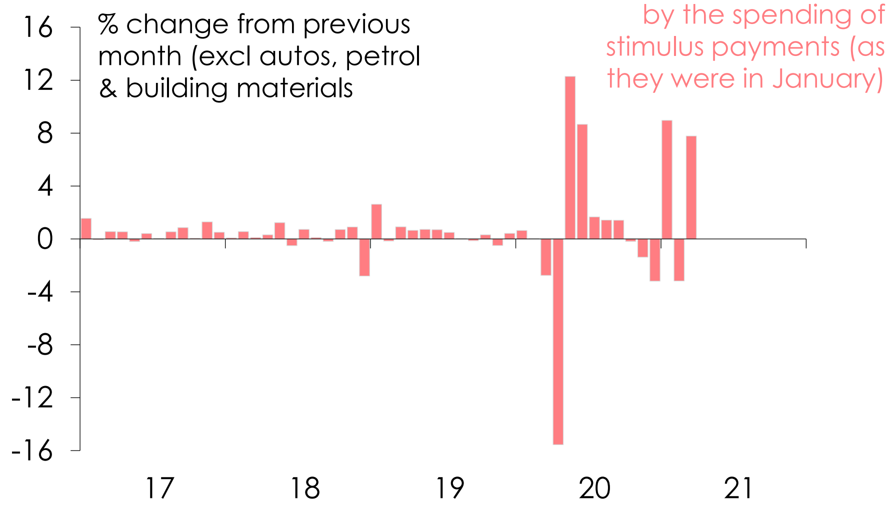
Real GDP



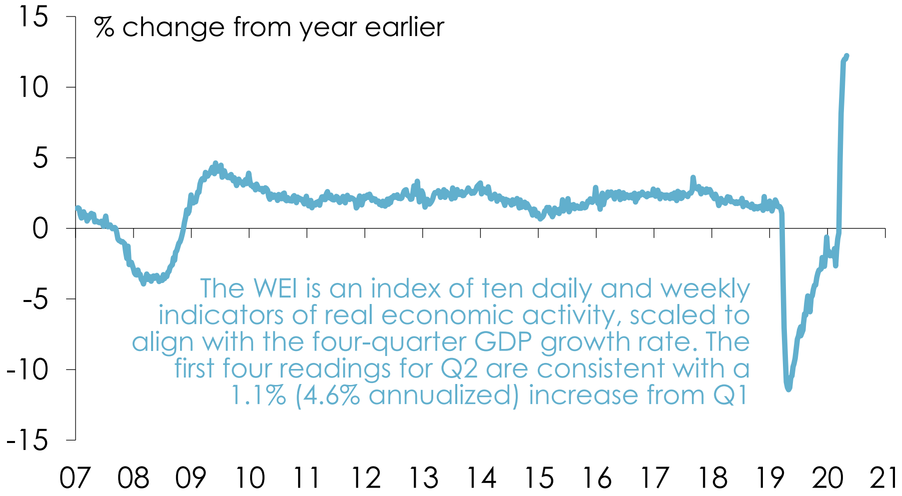
Consumer sentiment



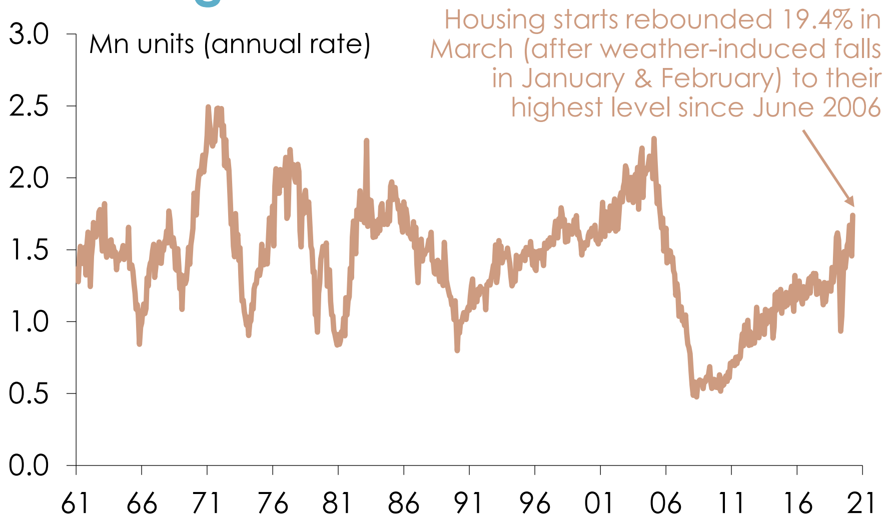
'Core' retail sales



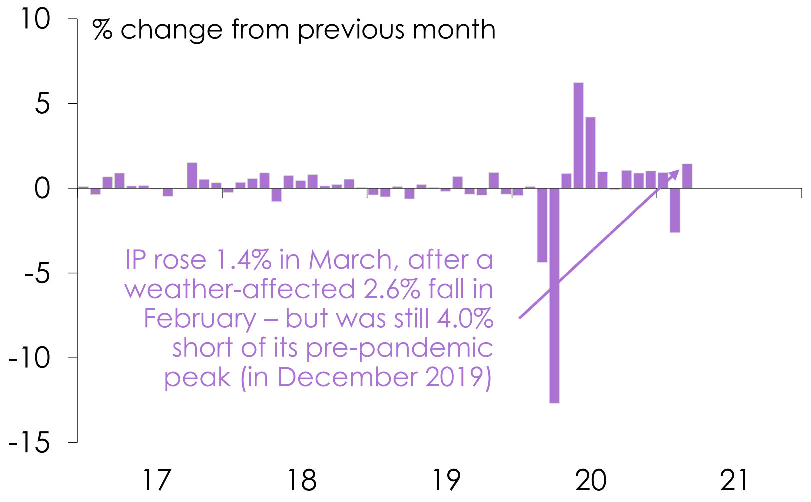
NY Fed weekly economic index



Housing starts

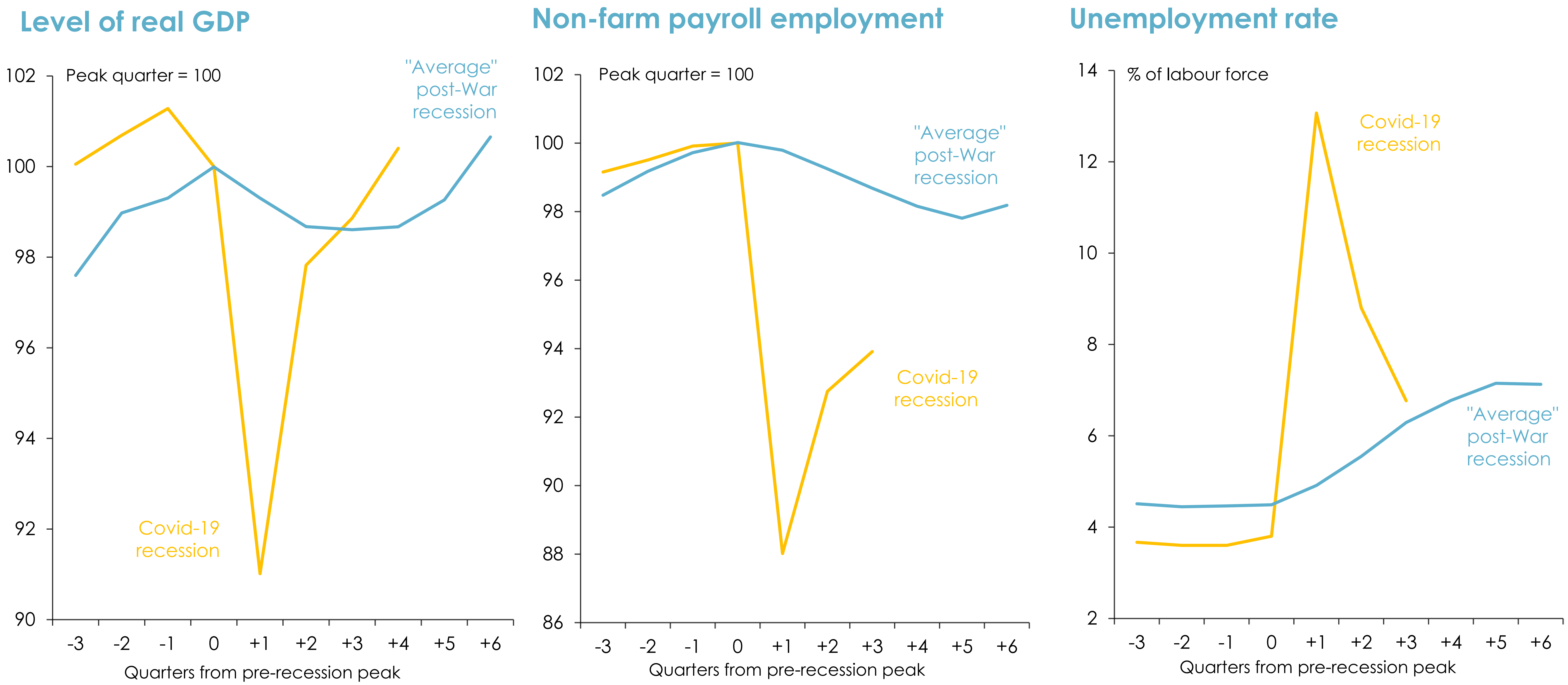


Industrial production



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

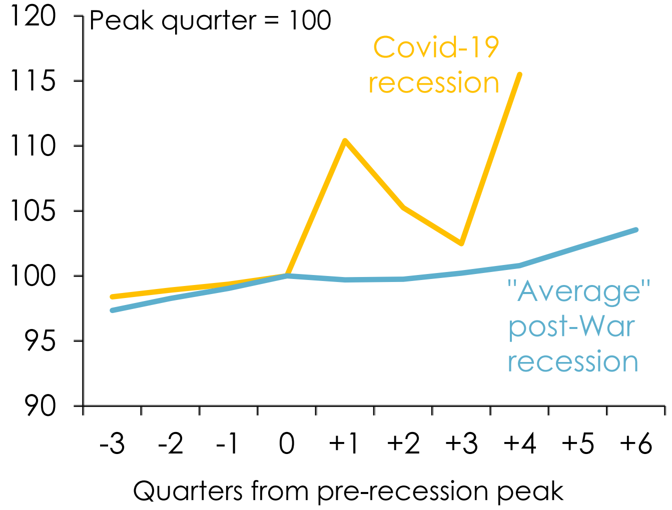
The Covid-19 recession has been quite unlike any other of the recessions the US has experienced since the end of World War II



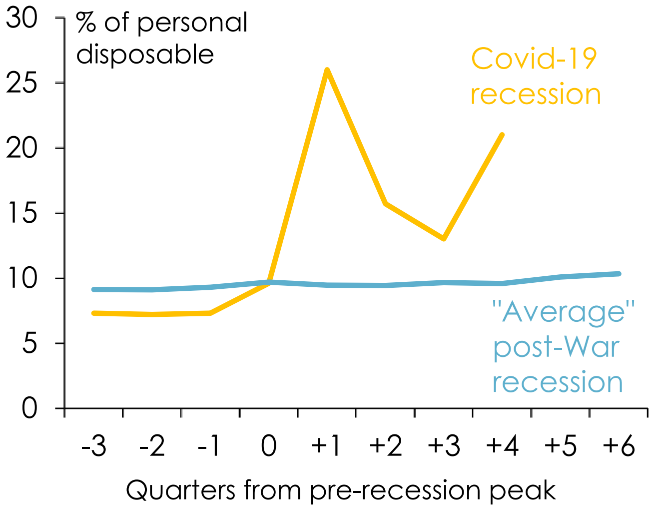
Note: 'average post-war recession' is the average of figures for each of the eleven post-war US recessions as designated by the National Bureau of Economic Research Business Cycle Dating Committee, with the exception of the recession of January-July 1980 (which was too short, and too close to the July 1981-November 1982 recession to be fully reflected in the averages shown here); 'Peak quarter' is the quarter in which real GDP attained its highest level before the onset of the recession. No recession was ever as 'smooth' as implied by the averages shown here. *Sources:* US Bureau of Economic Analysis; Bureau of Labor Statistics. Return to "What's New".

The differences between this recession and previous ones are even more apparent from some of the details in the national accounts

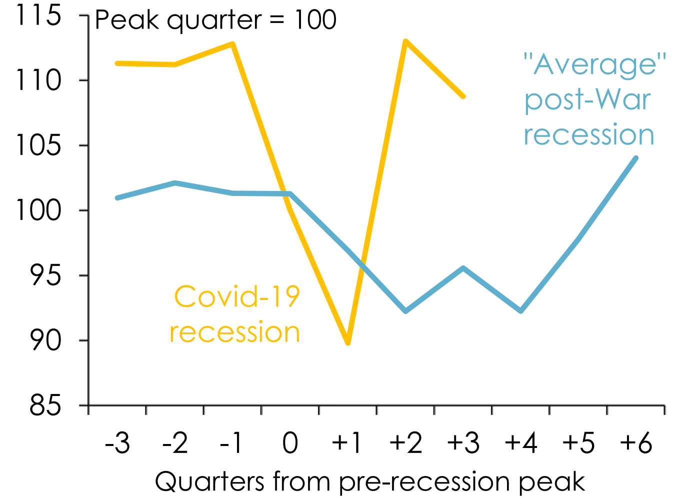
Personal disposable income



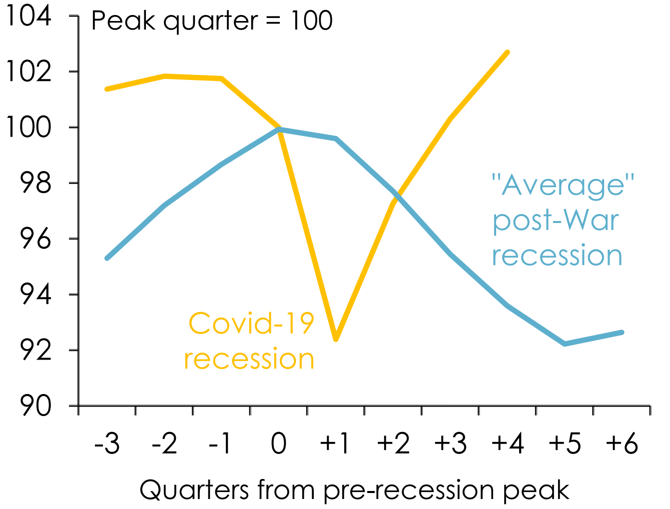
Personal saving rate



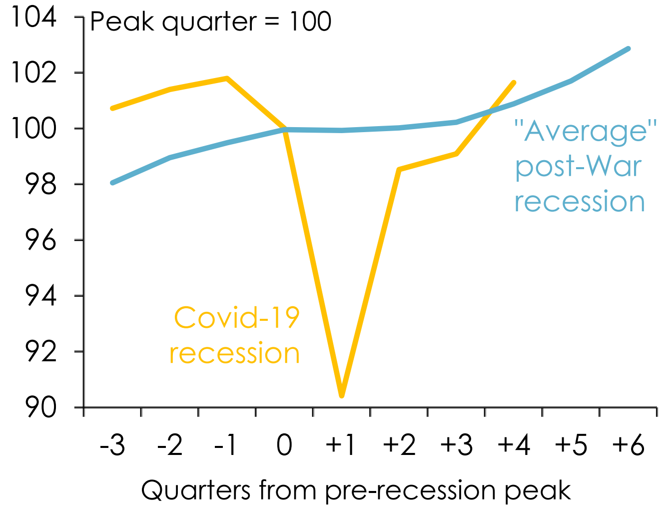
After-tax corporate profits



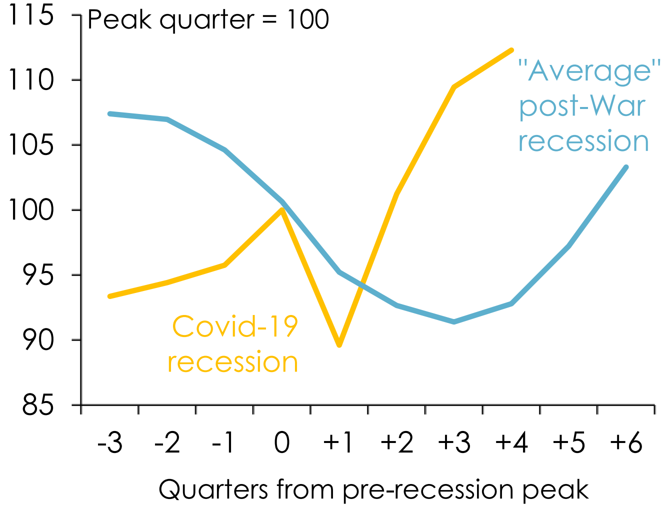
Labour productivity



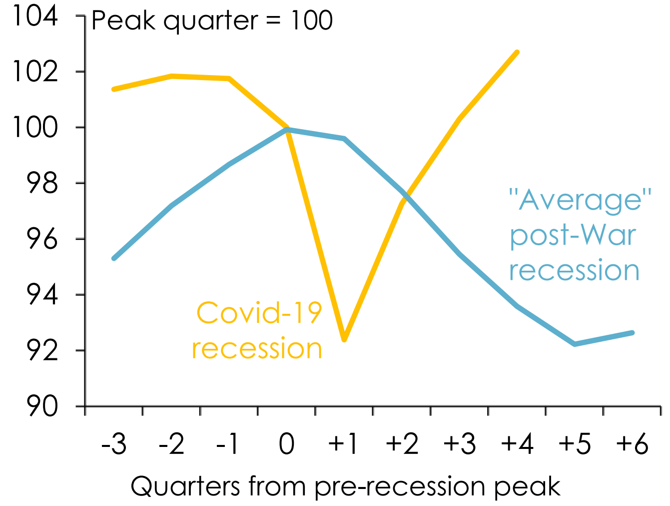
Personal consumption



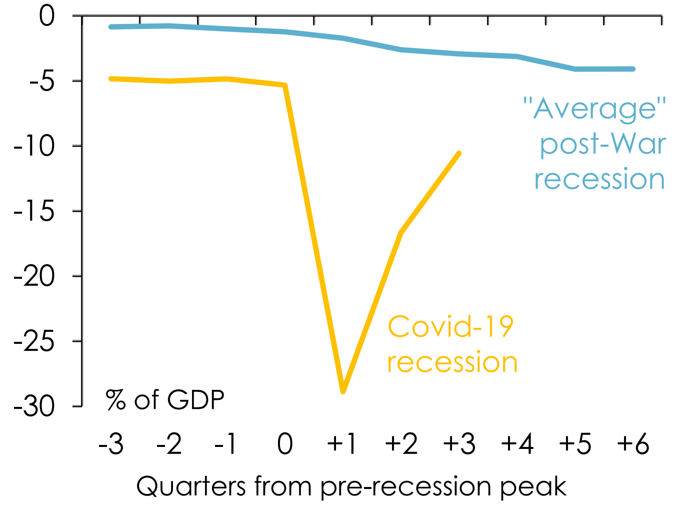
Residential investment



Business investment



Federal budget balance



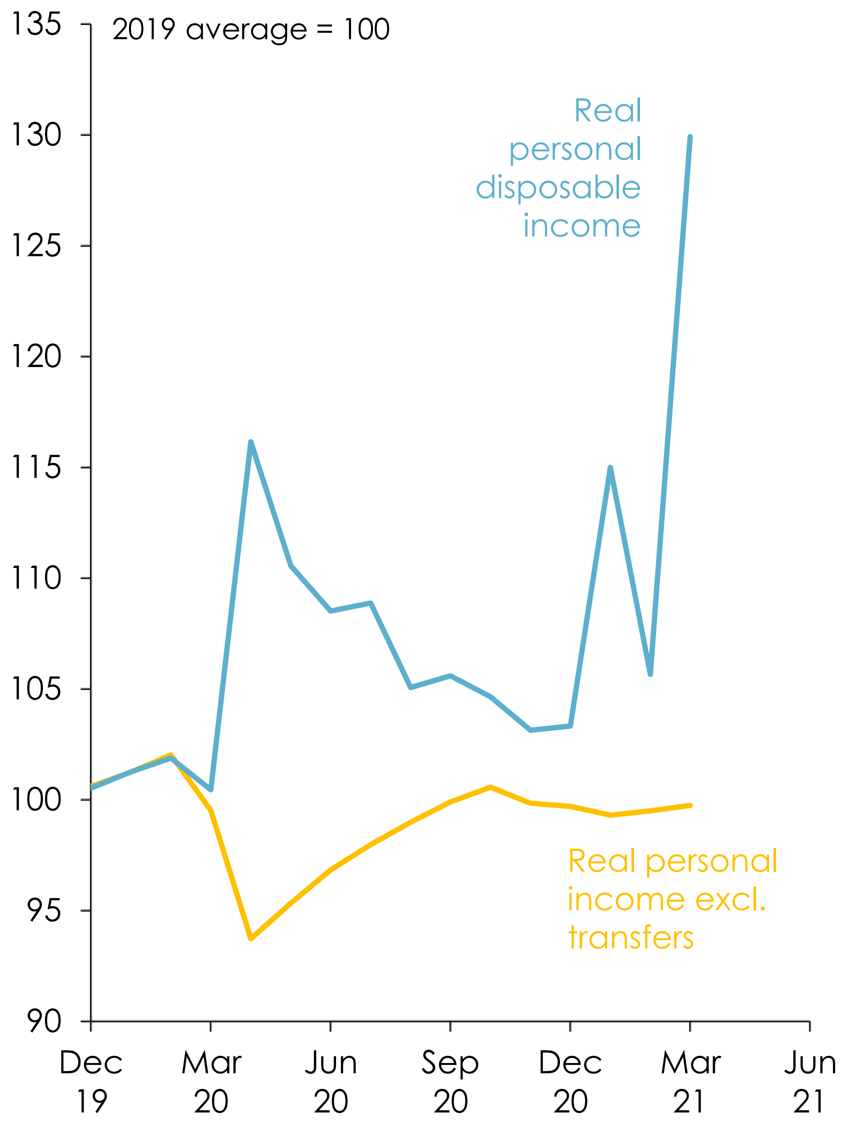
Note: 'average post-war recession' is the average of figures for each of the eleven post-war US recessions as designated by the National Bureau of Economic Research Business Cycle Dating Committee, with the exception of the recession of January-July 1980; 'peak quarter' is the quarter in which real GDP attained its highest level before the onset of the recession. All variables in the charts above are in 2012 chain volumes except for the personal saving ratio and budget deficit; after-tax profits are 'economic' rather than 'book' profits; labour productivity is for the non-farm business sector. *Sources:* US Bureau of Economic Analysis; Bureau of Labor Statistics.

Return to "What's New".

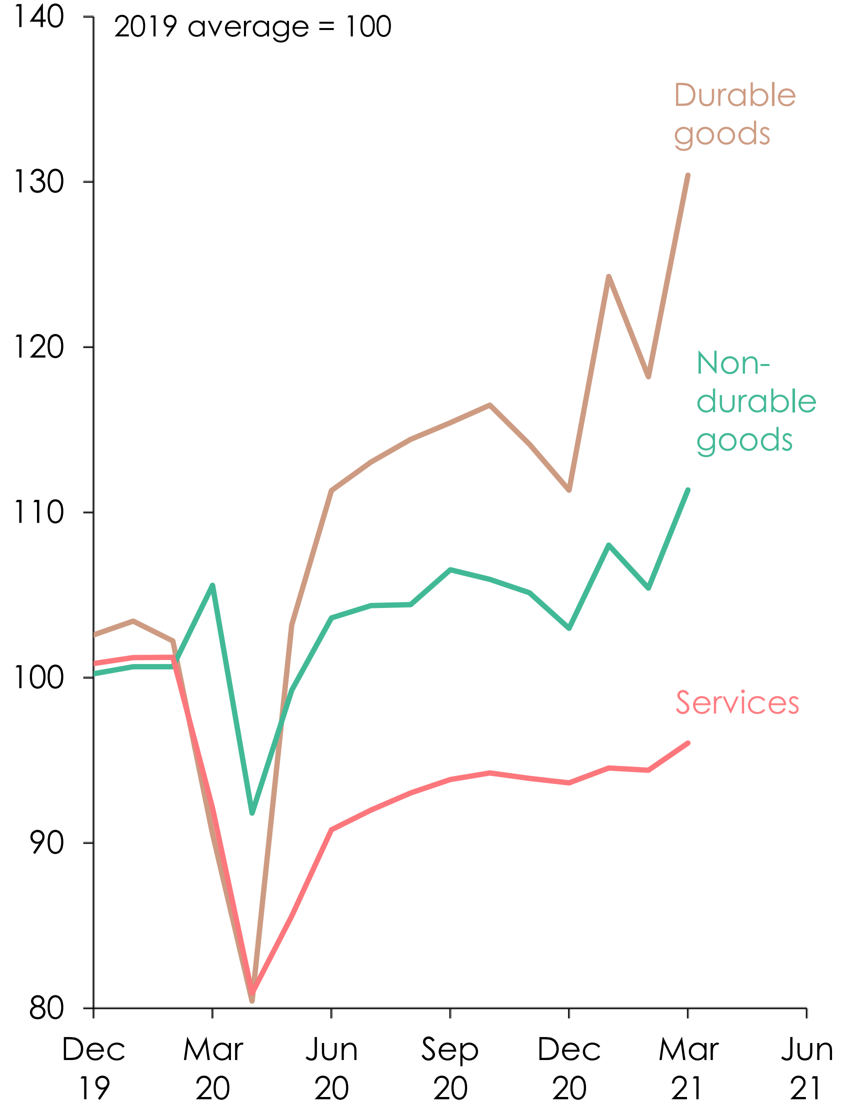
Recurring cash payments to households (combined with restrictions on movement) have had a major impact on spending patterns

Tax and transfer payments

Real personal income



Real consumption expenditure



Source: US Bureau of Economic Analysis.

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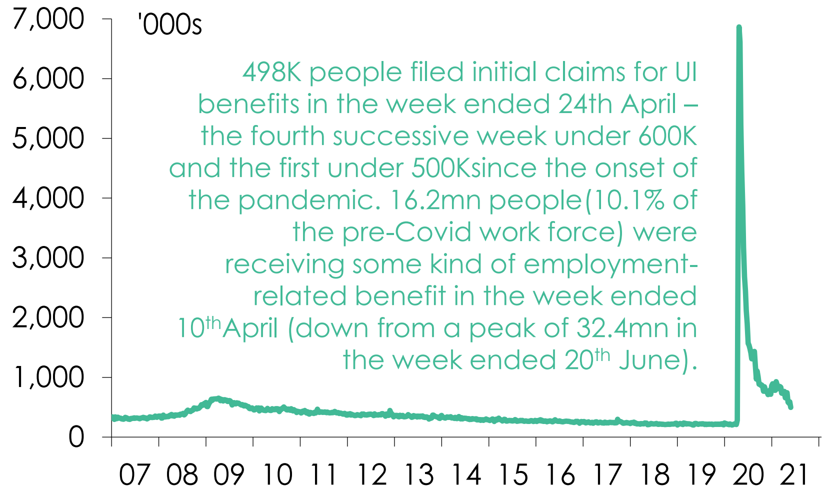
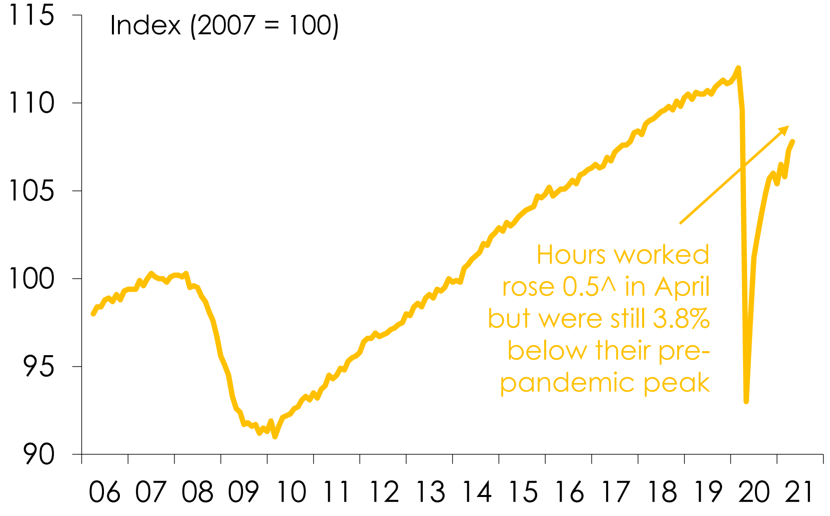
US non-farm payrolls rose a much smaller-than-expected 266K (0.2%) in April to be still 8.2mn (5.4%) below last February's pre-pandemic peak

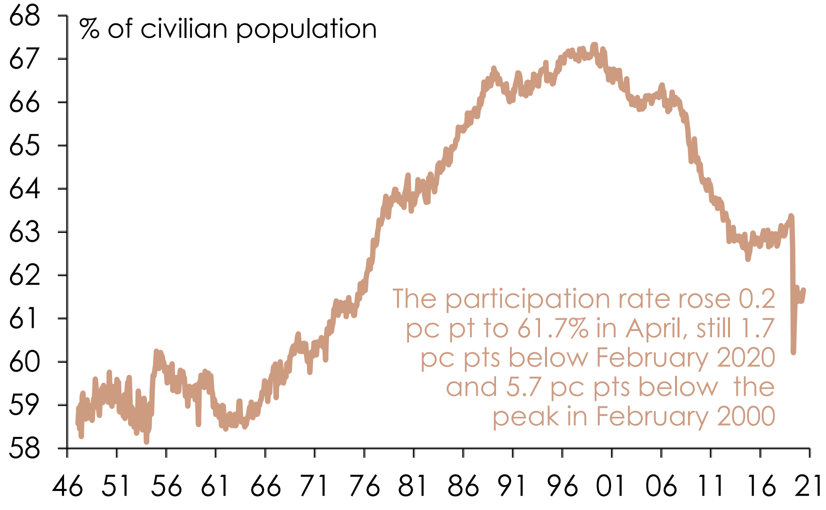
Unemployment benefit claims



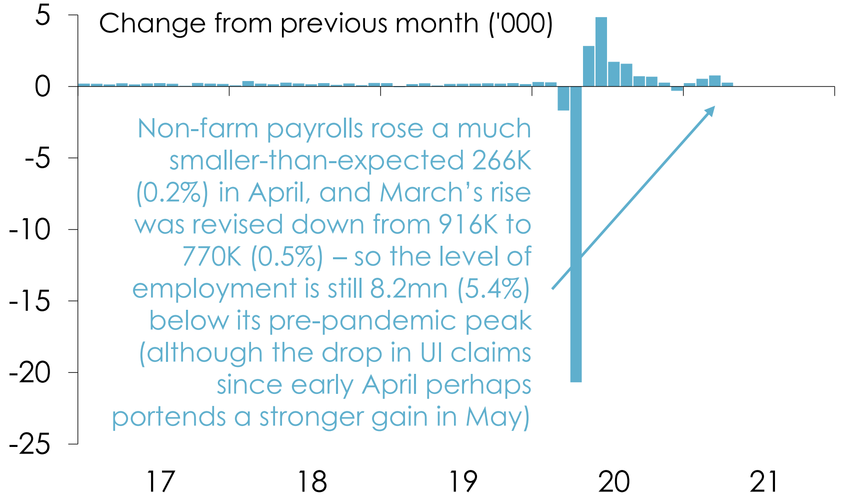
Hours worked (private sector)



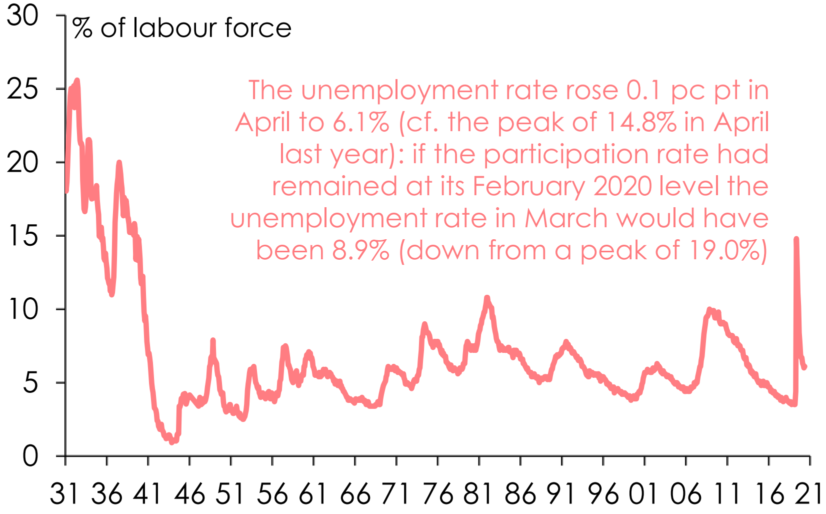
Labour force participation rate



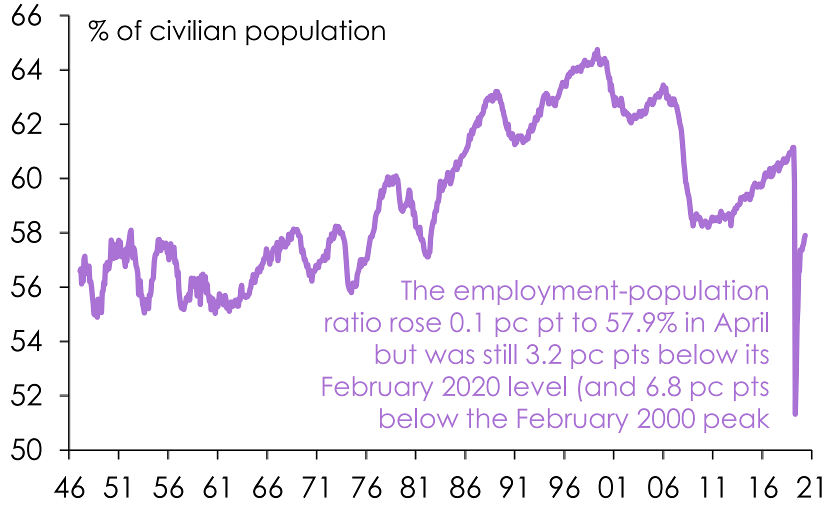
Non-farm payroll employment



Unemployment rate



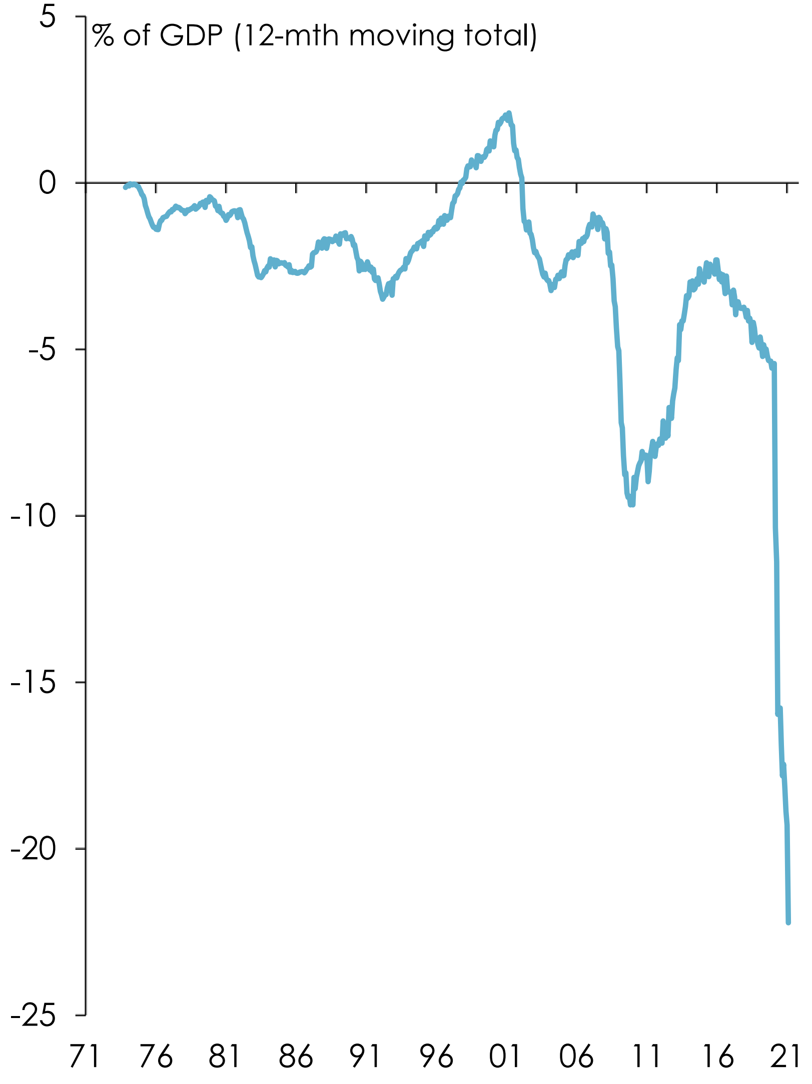
Employment to population ratio



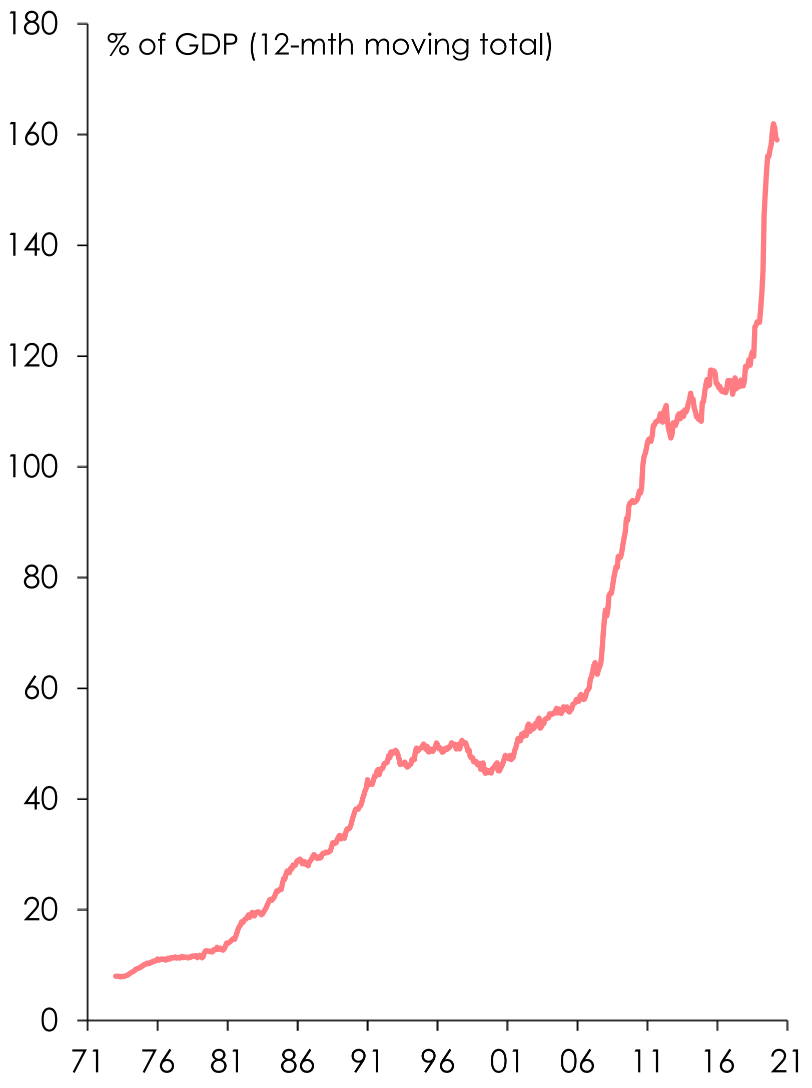
Sources: US Department of Labor; US Bureau of Labor Statistics; National Bureau of Economic Research Macro History database. May employment and other labour force data will be released on 4th June. Return to "What's New".

The US budget deficit reached US4.1trn (22¼% of GDP) in the 12 months to March and will likely rise further over the next three months at least

US Federal budget deficit



US gross Federal debt

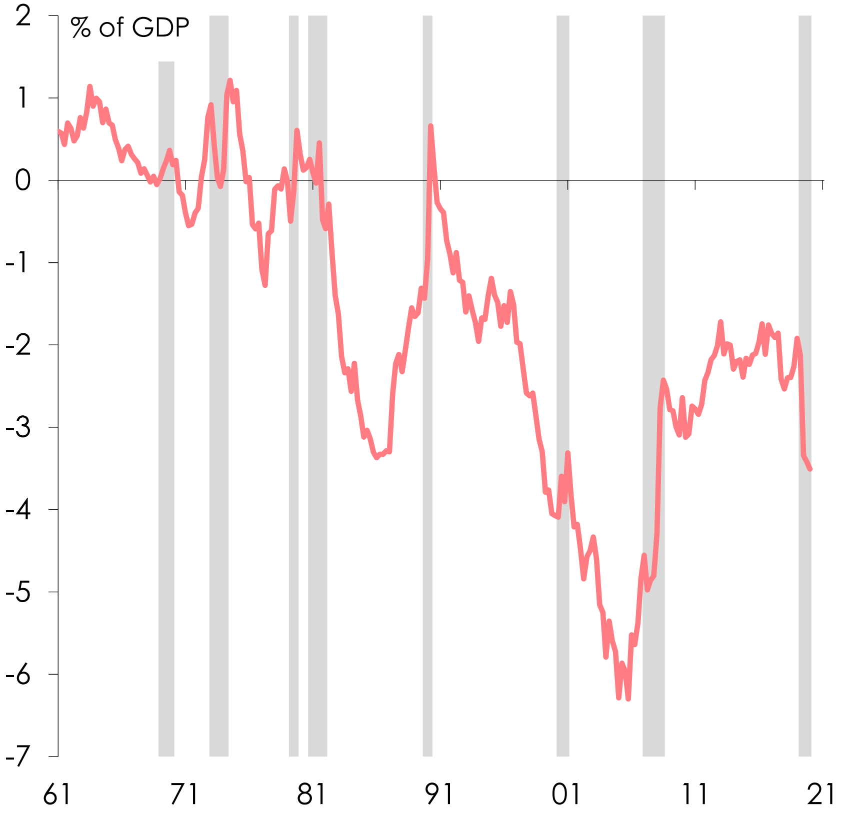


- The US Federal Government incurred a budget deficit of US$660bn in March, the third largest on record (after the $738bn and $864bn deficits in April and June last year), reflecting the cash payments to households as part of the Biden Administration's first stimulus
- Over the 12 months to March, the budget deficit totalled US$4.1 trn or 22.2% of GDP – the largest (as a pc of GDP) since 1943 – with outlays in the year to March up 66% (!) and revenues down 1%
- The 'face value' of gross federal debt outstanding rose by US$230bn to US$28.1trn during March, but the market value fell by $62bn to $29.3trn (159% of GDP) because bond yields rose over the month
- 38% of the outstanding debt is held by US Government trust funds or the Federal Reserve: the amount in private (including foreign) hands is US$18.2trn (99% of GDP)
- It seems increasingly likely that the Biden Administration will need to scale back its tax and spending plans in order to get them through Congress

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".

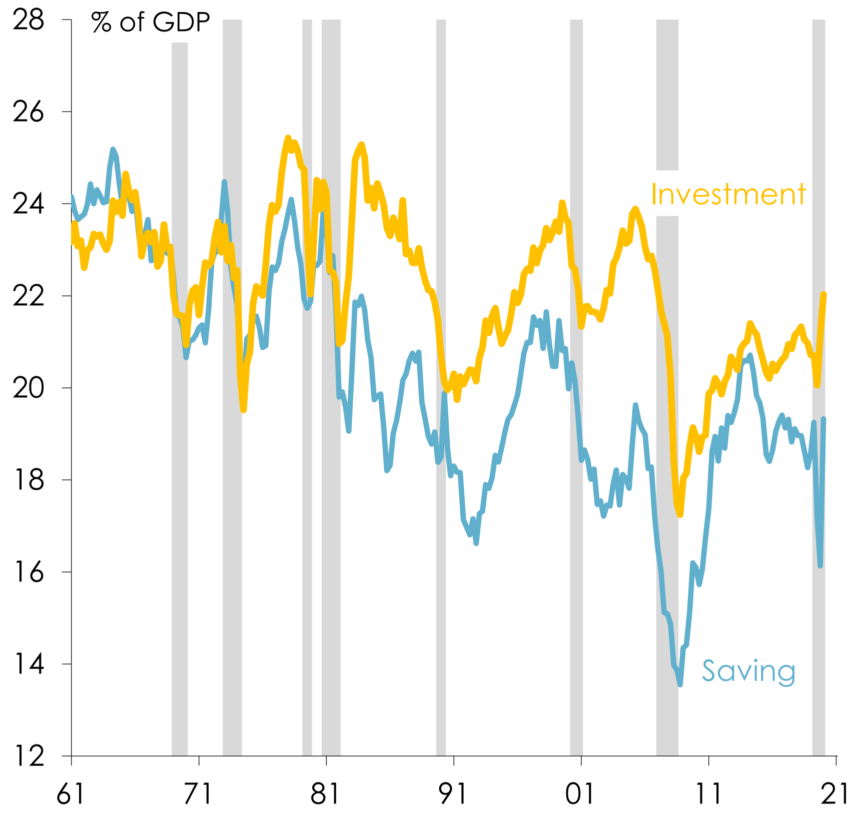
Unusually, the US current account deficit has widened so far during this recession, largely because investment hasn't fallen much

US current account balance



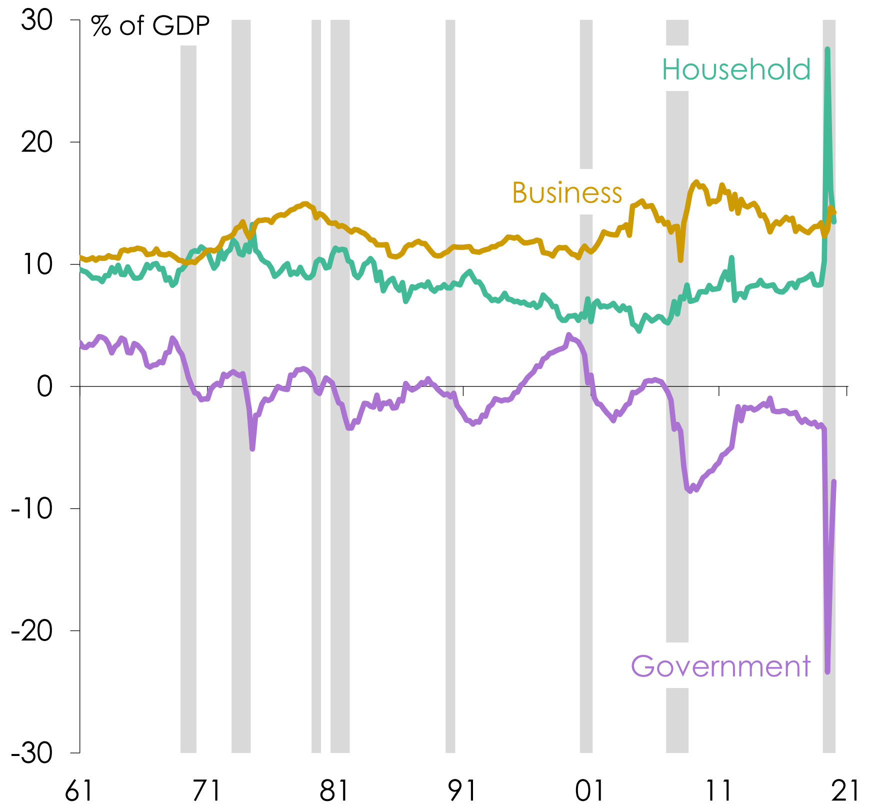
The US current account balance normally improves (ie, the deficit usually gets smaller) during recessions – but in this one it has (so far) widened

Gross saving and investment



Investment *didn't* fall much 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

Note: shaded areas denote recessions as designated by the US National Bureau of Economic Research.
Source: US Bureau of Economic Analysis. Return to "What's New".

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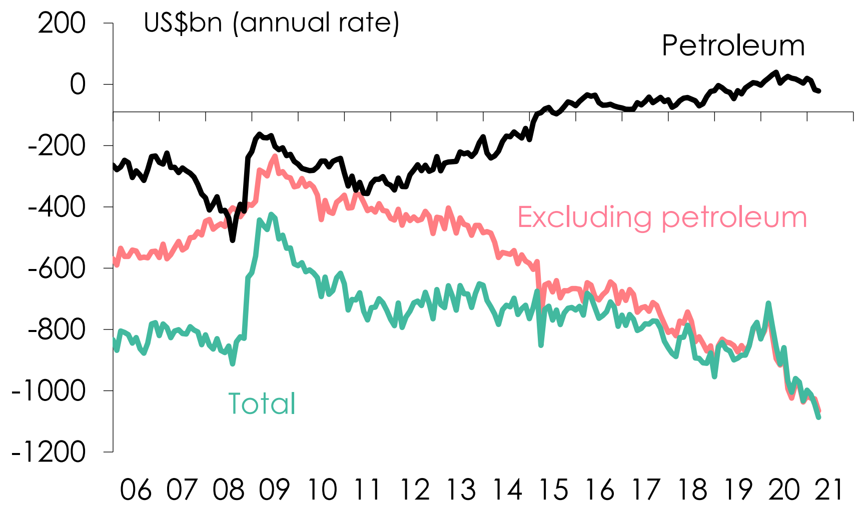
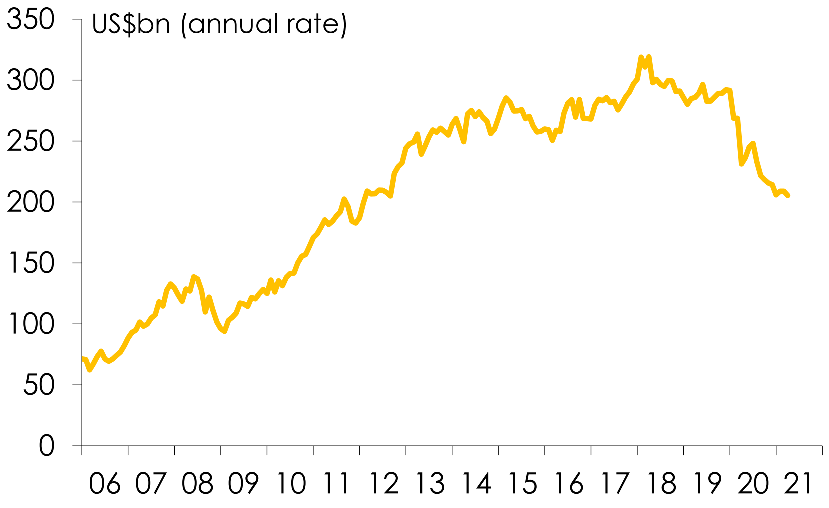
The US goods and services trade deficit widened to a new record in March – the third in succession

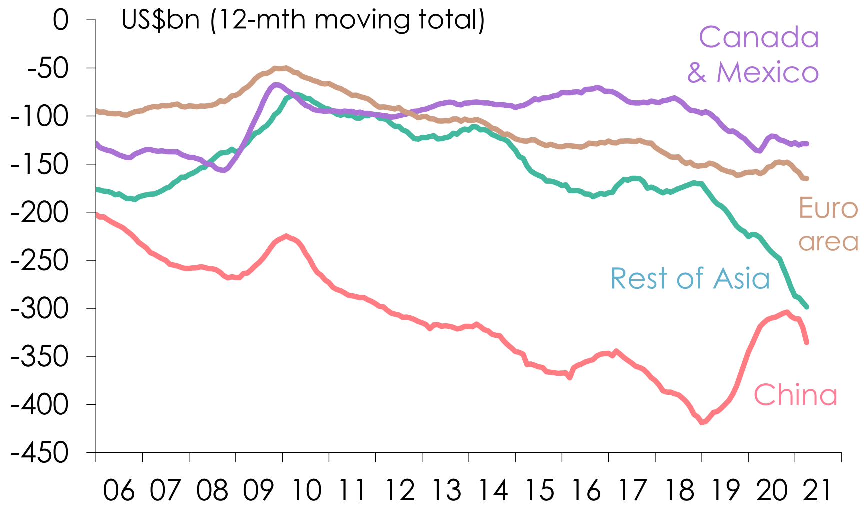
US goods trade balance



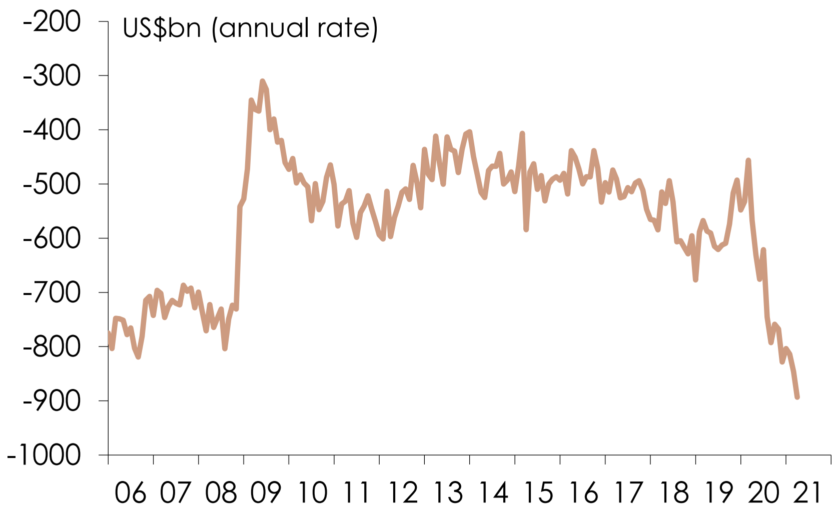
US services trade balance



US bilateral goods trade balances



US goods & services trade balance

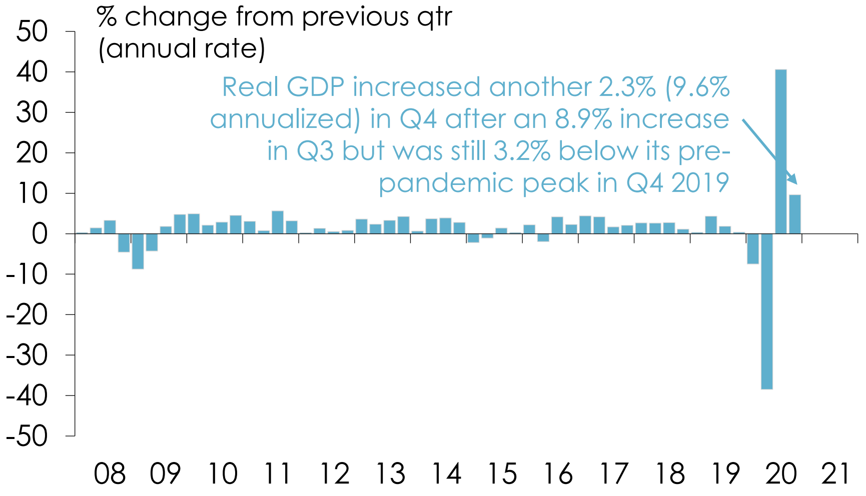


- **For the third month in a row, the US recorded a record goods and services trade deficit in March, this time of US$74.4bn**
  - the deficit on trade in goods was a record \$91.6bn, while the services trade surplus of \$17.1bn was the smallest since January 2012
  - Because the level of imports is more than 60% greater than that of exports, exports have to grow *much faster* than imports in order to prevent the deficit from widening – and they haven't been
- **The Trump Administration's protectionist trade policies did nothing to prevent the deficit from widening**
  - they simply deflected part of the bilateral deficit with China to other countries
  - the Biden Administration is unlikely to continue down that path, but nor will it unwind the Trump tariffs
- **Stimulatory fiscal and monetary policies are more likely to show up in a larger trade deficit than in higher inflation**

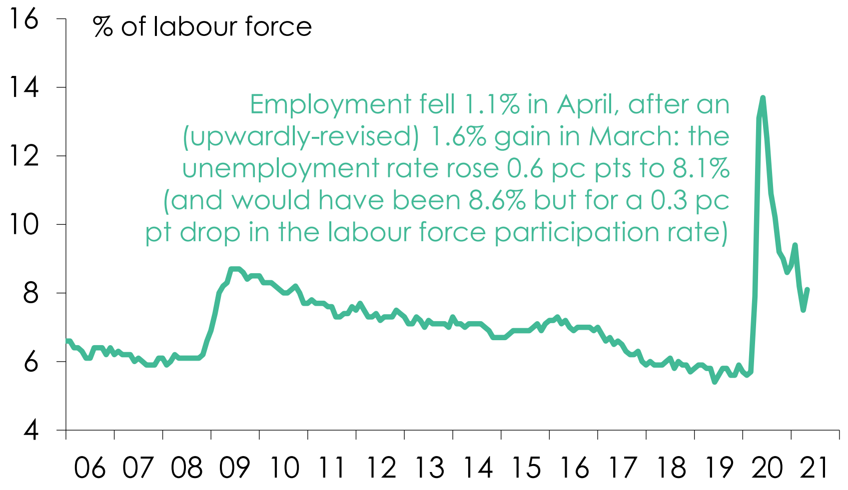
Note: March merchandise trade data are 'advance'. *Source:* US Census Bureau. Return to "What's New".

Canada's unemployment rate jumped 0.6 pc pts to 8.1% in April, and would have been 8.6% but for a fall in the participation rate

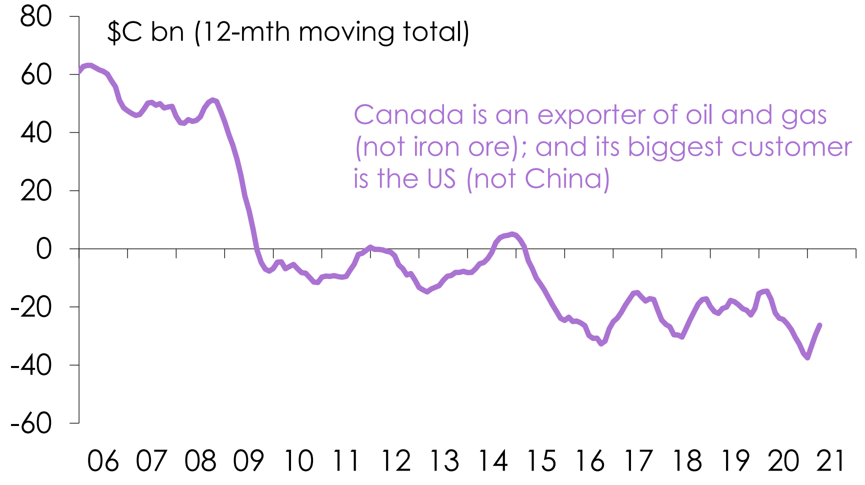
Real GDP



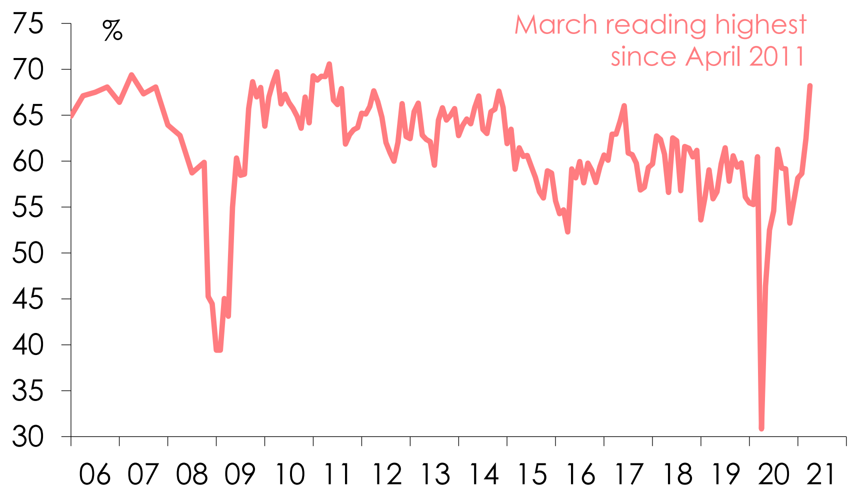
Unemployment rate



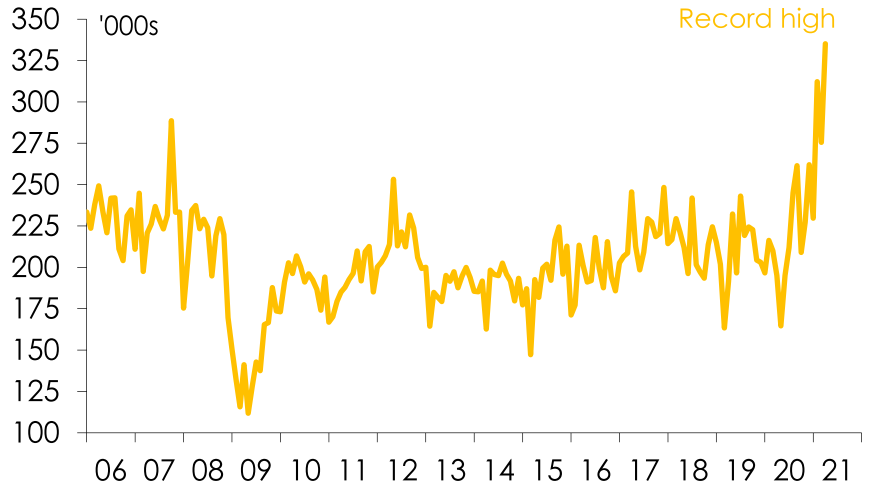
Merchandise trade balance



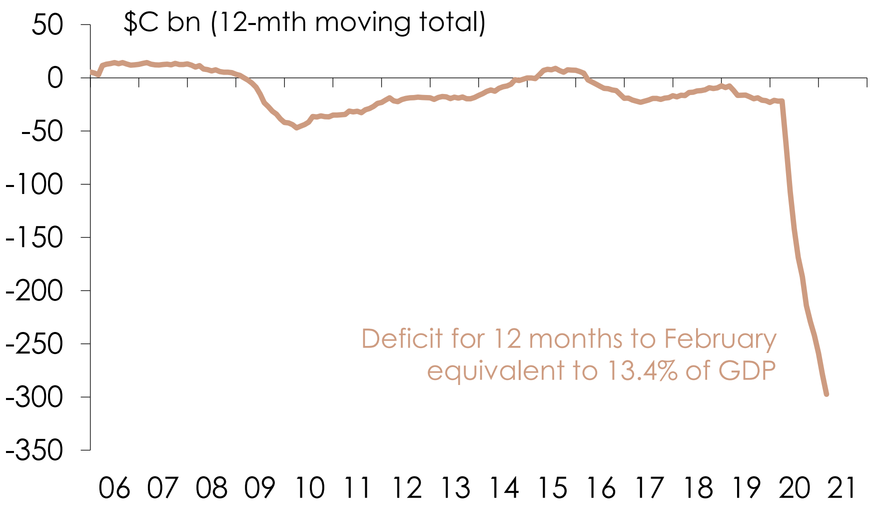
CFIB 'business barometer'



Housing permits



Federal budget balance



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

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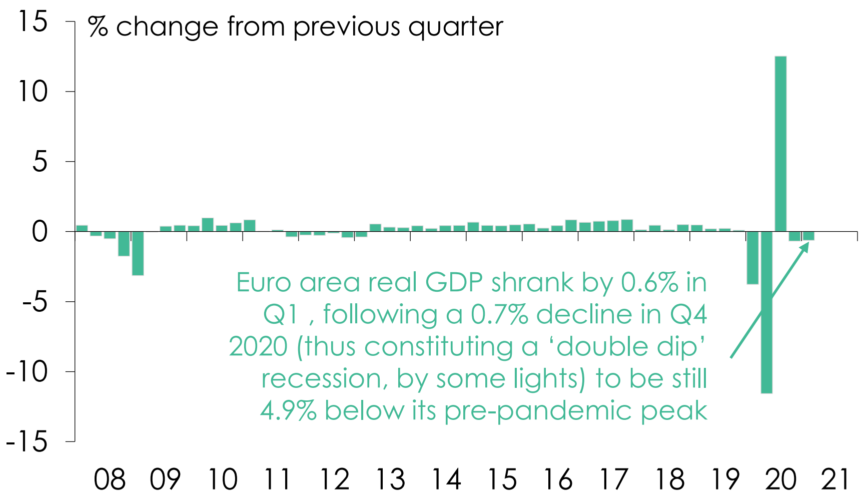
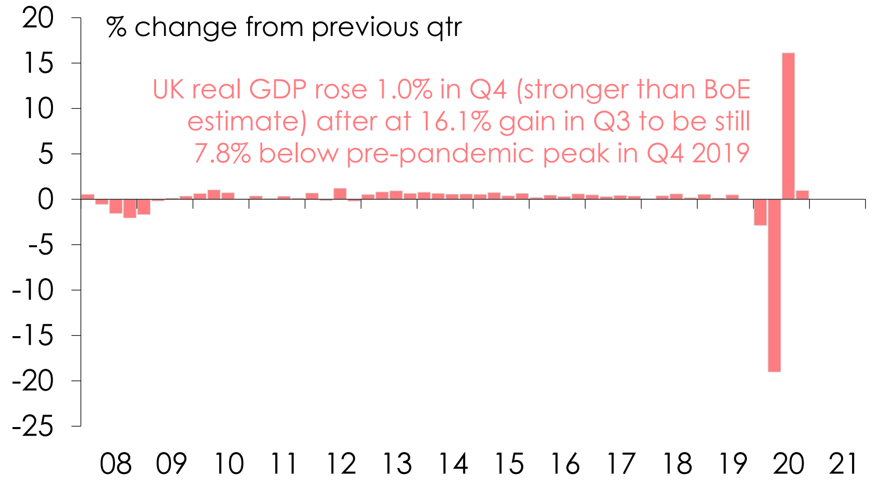
The euro area has had a 'double-dip' recession, contracting by 0.6% in Q1 after -0.7% in Q4 2020, to be almost 5% below its pre-pandemic peak

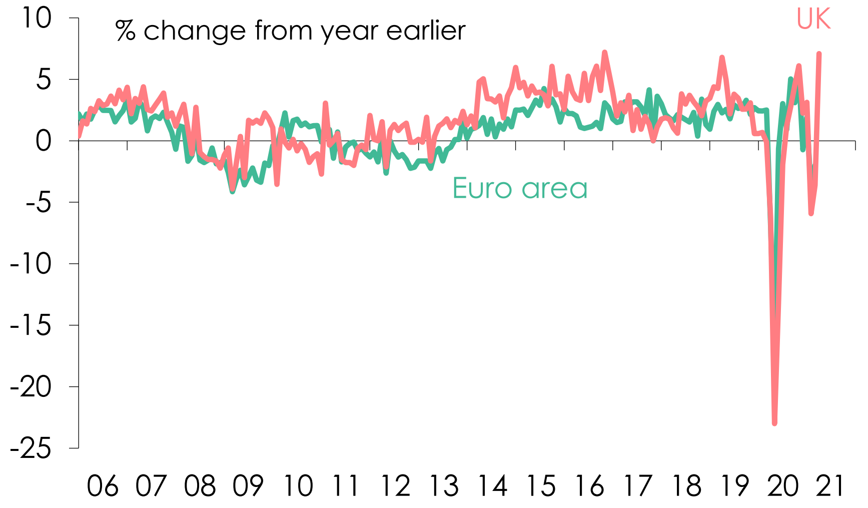
Euro area real GDP



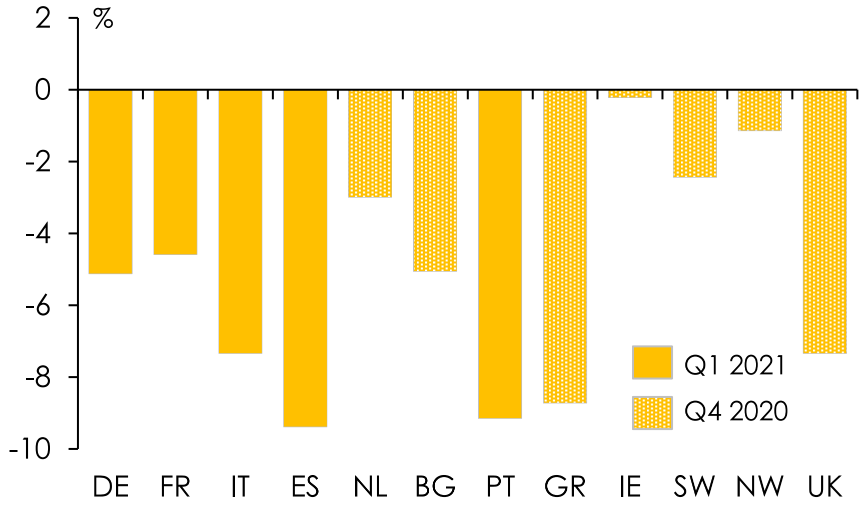
UK real GDP



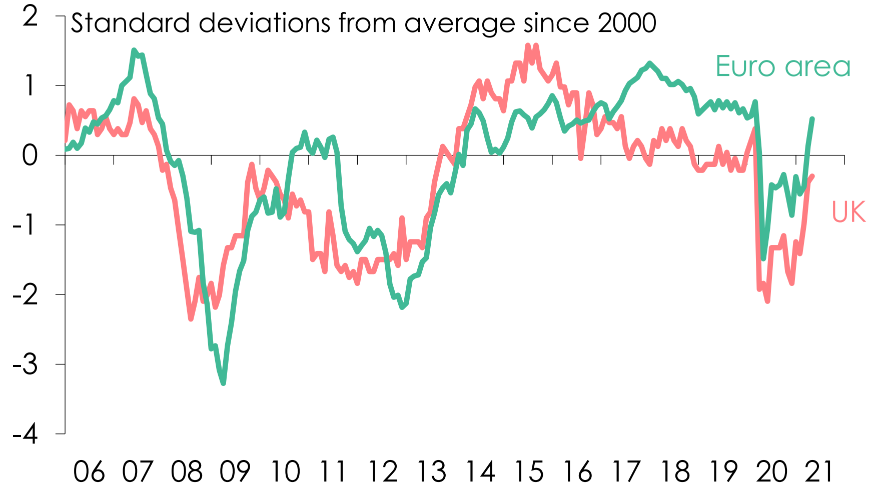
Retail sales volume



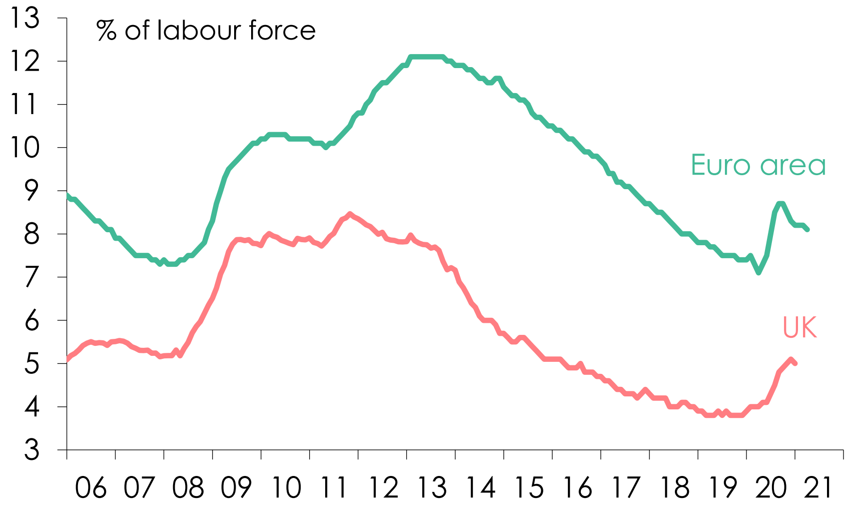
Level of GDP vs pre-pandemic peak



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.
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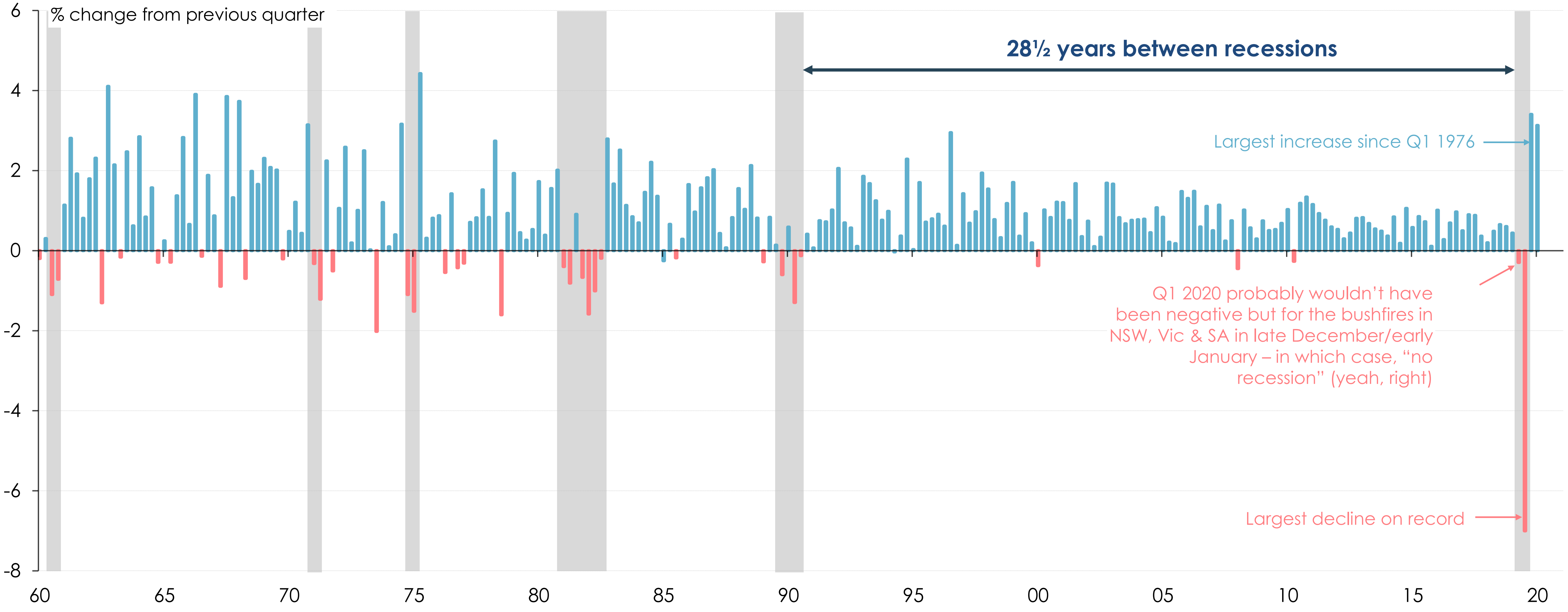
Australia

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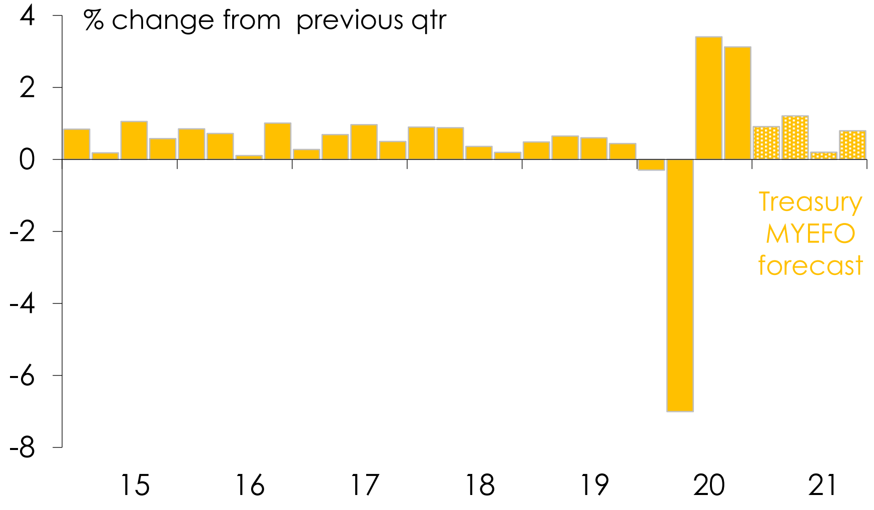
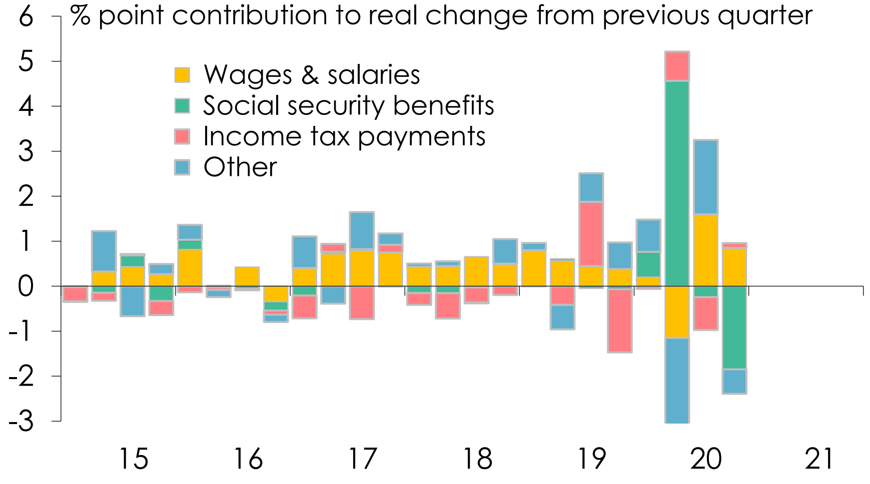
3.1% growth in Q4 2020 (following 3.4% in Q3) was largely driven by household consumption and dwelling investment

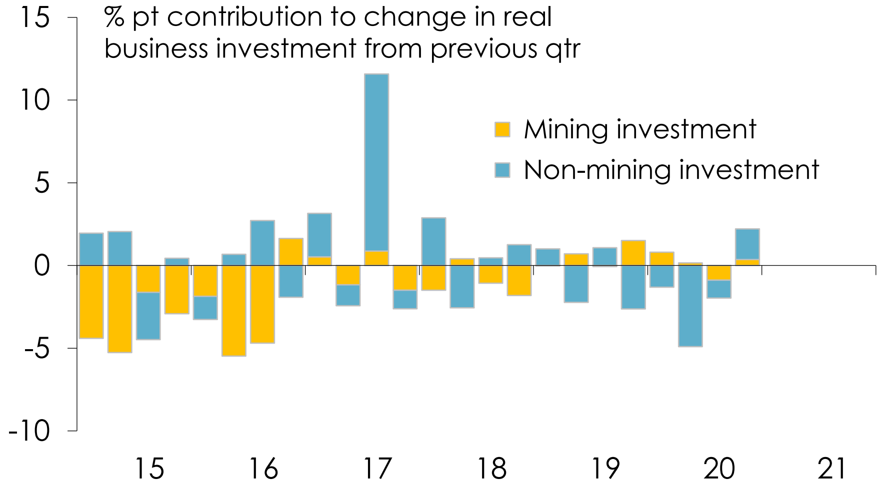
Quarterly change in real GDP



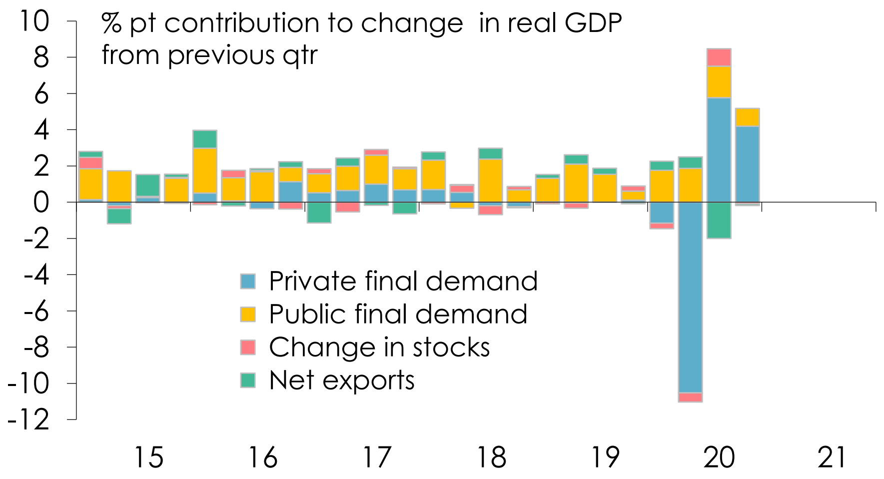
Household disposable income



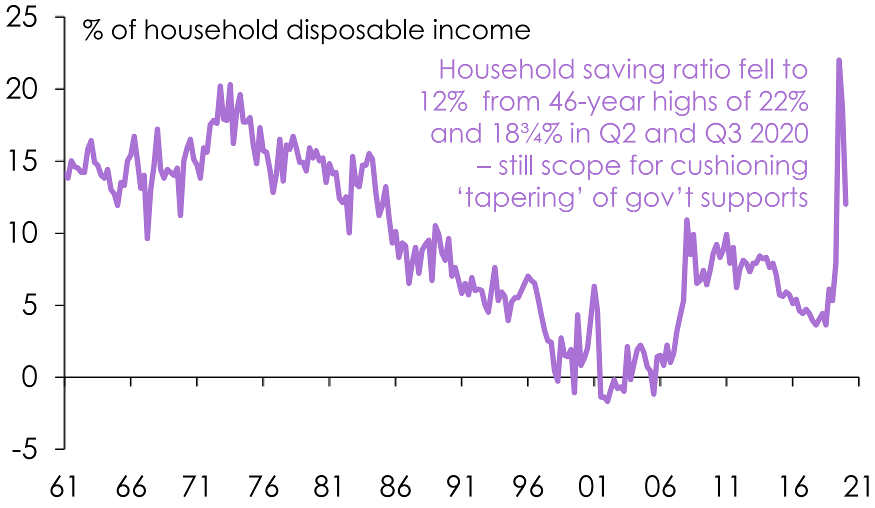
Business investment expenditure



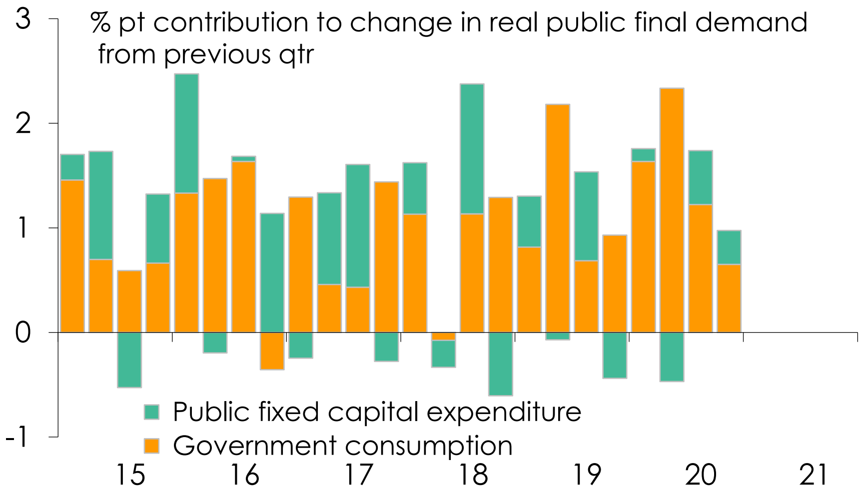
Contributions to quarterly GDP growth



Household saving rate



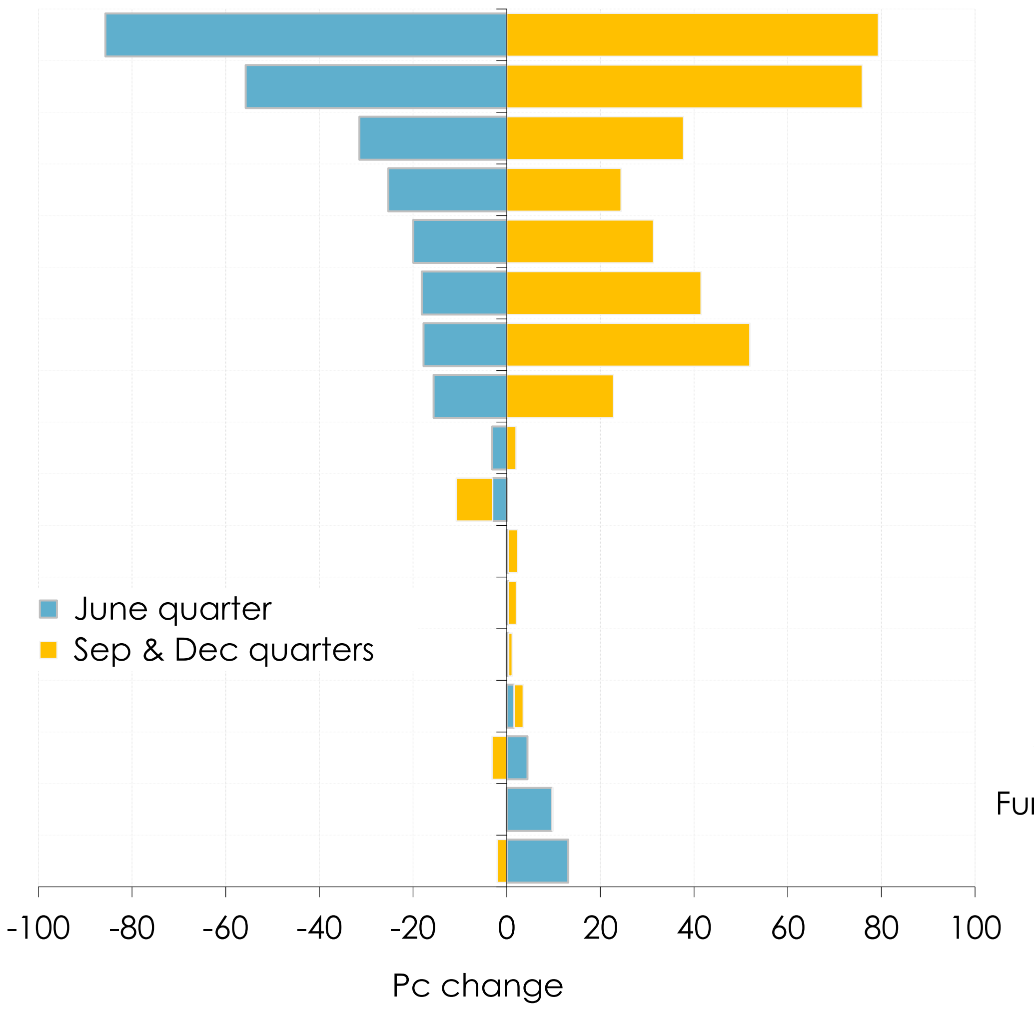
Public expenditure



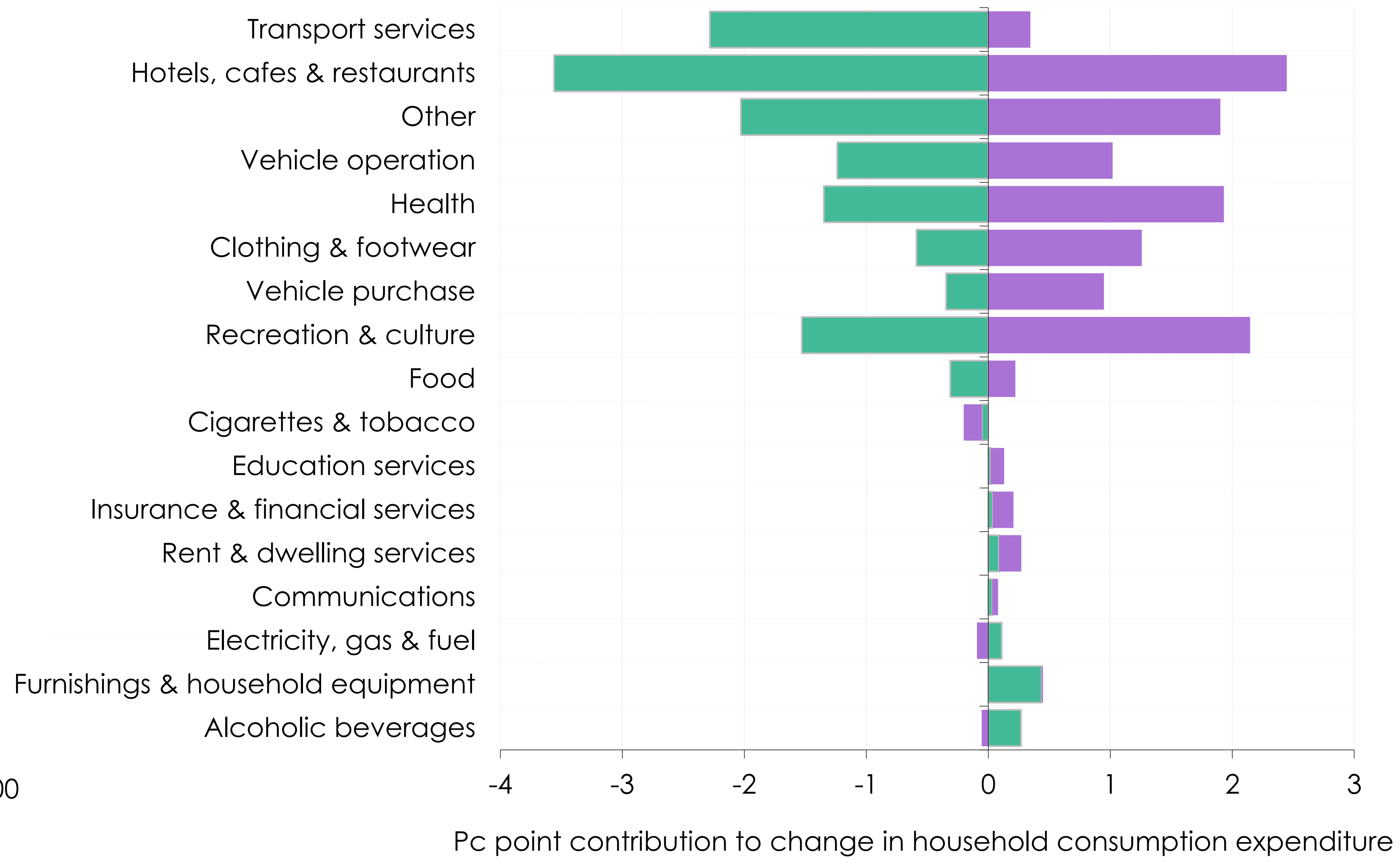
Note: Components of household disposable income are deflated by the implicit price deflator of household final consumption expenditure.
Source: ABS, *Australian National Accounts: National Income, Expenditure and Product*, December quarter 2020. March quarter national accounts will be released on 2nd 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".

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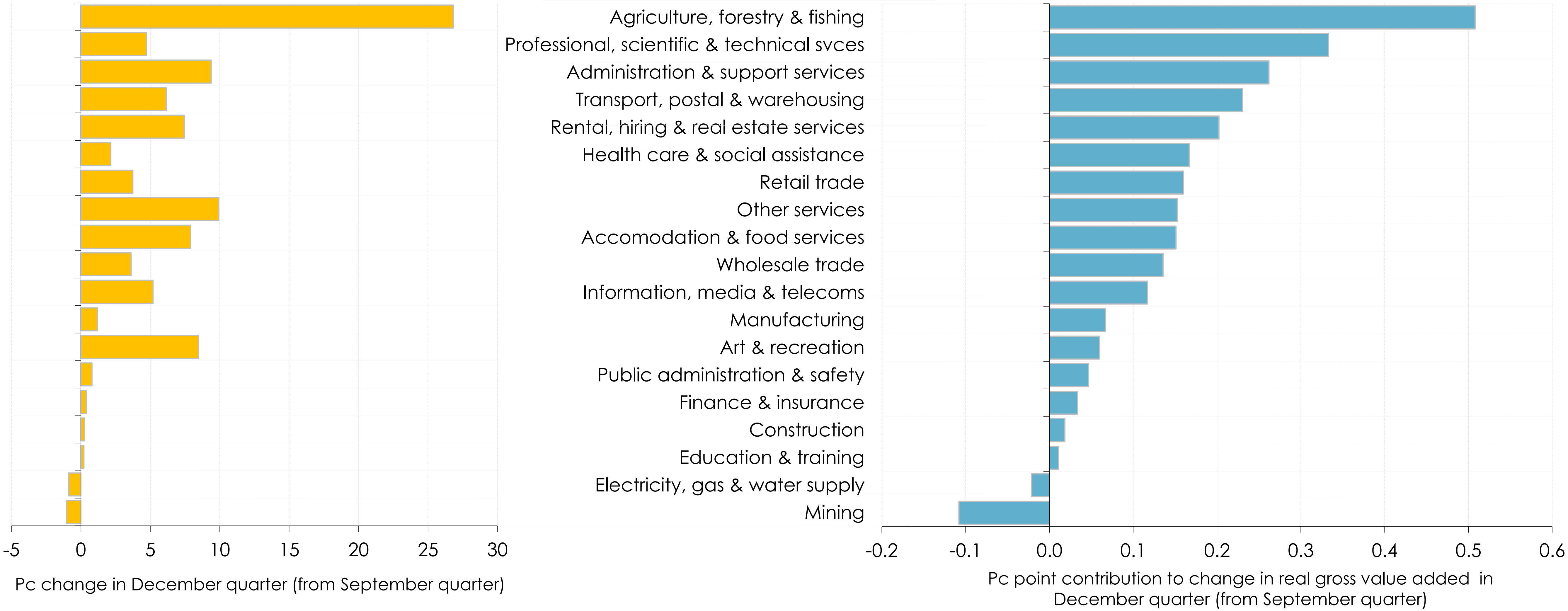
From an industry standpoint GDP growth in Q4 was driven by the farm sector's recovery from drought, and a range of business services

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

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



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".

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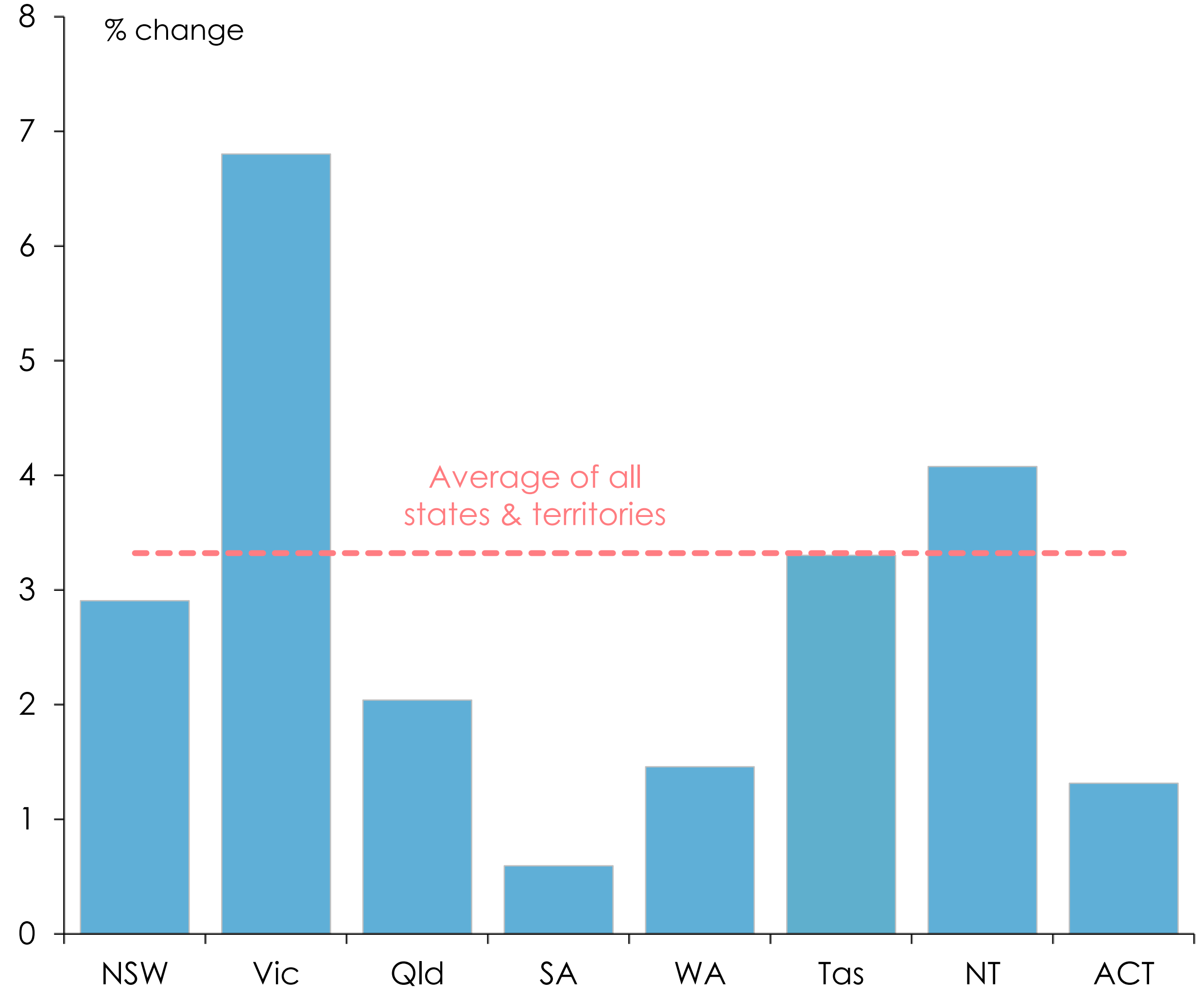
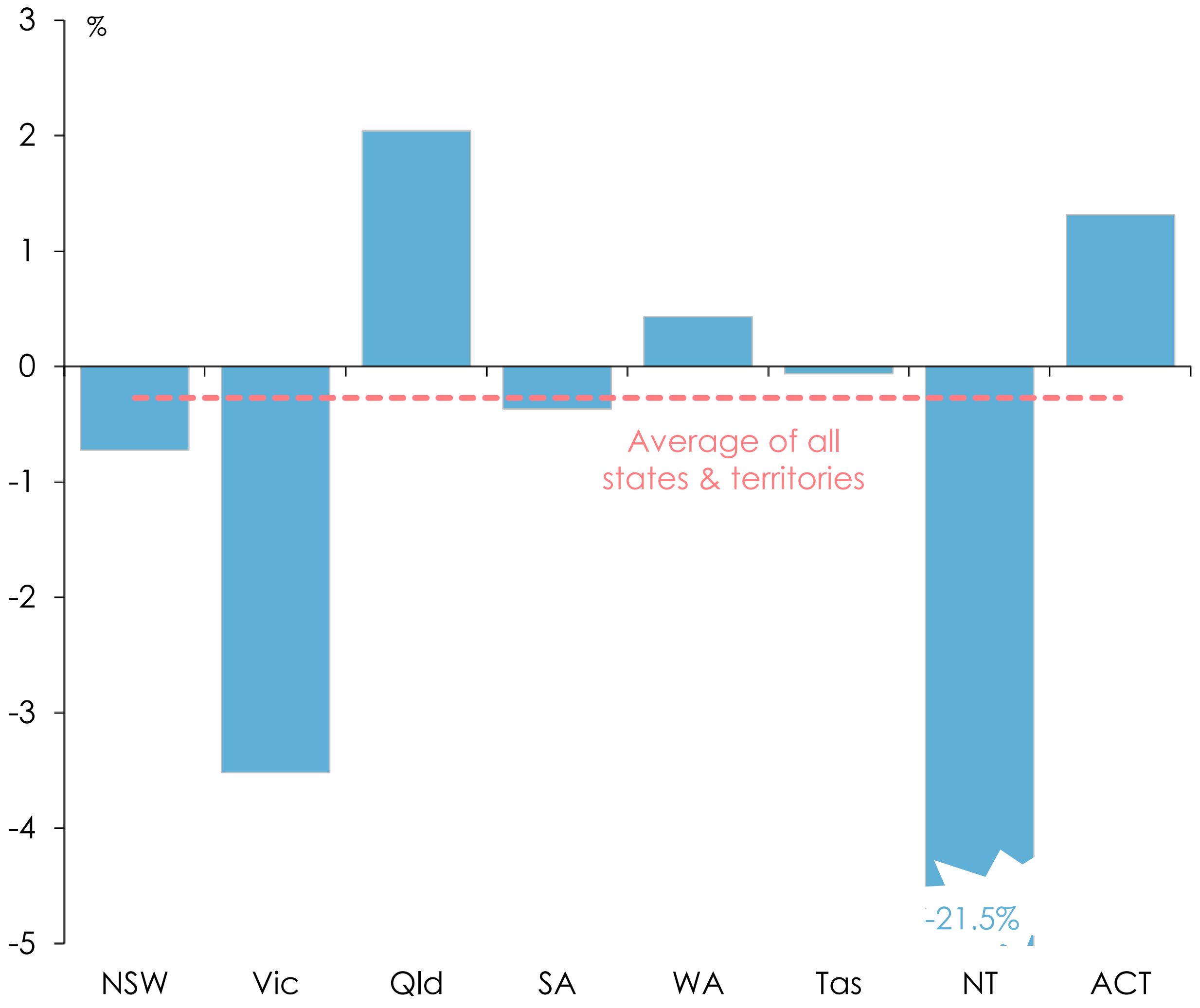
Victoria had the strongest growth in final demand in Q4 2020, but also the largest shortfall from its pre-recession peak, apart from the NT

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".

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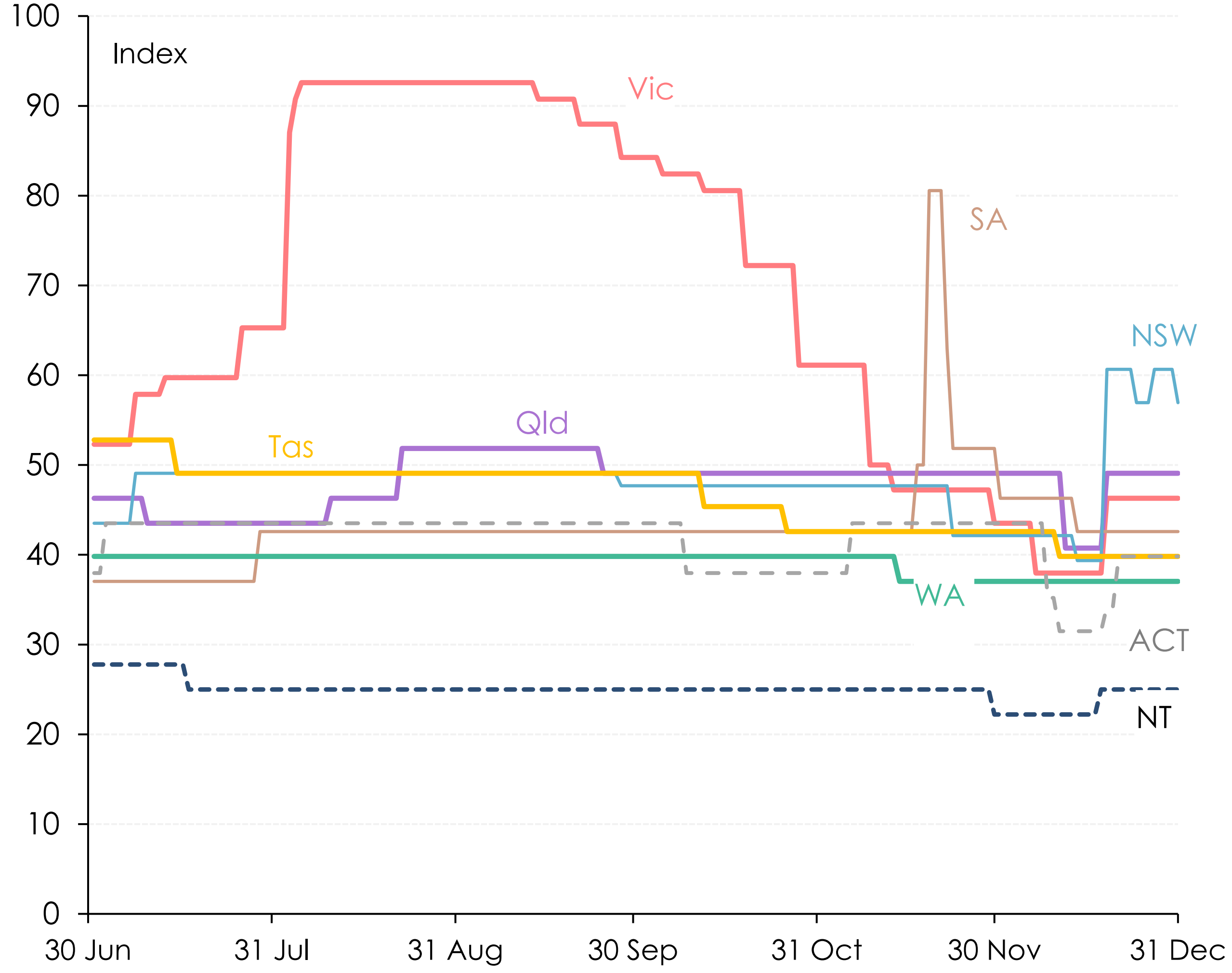
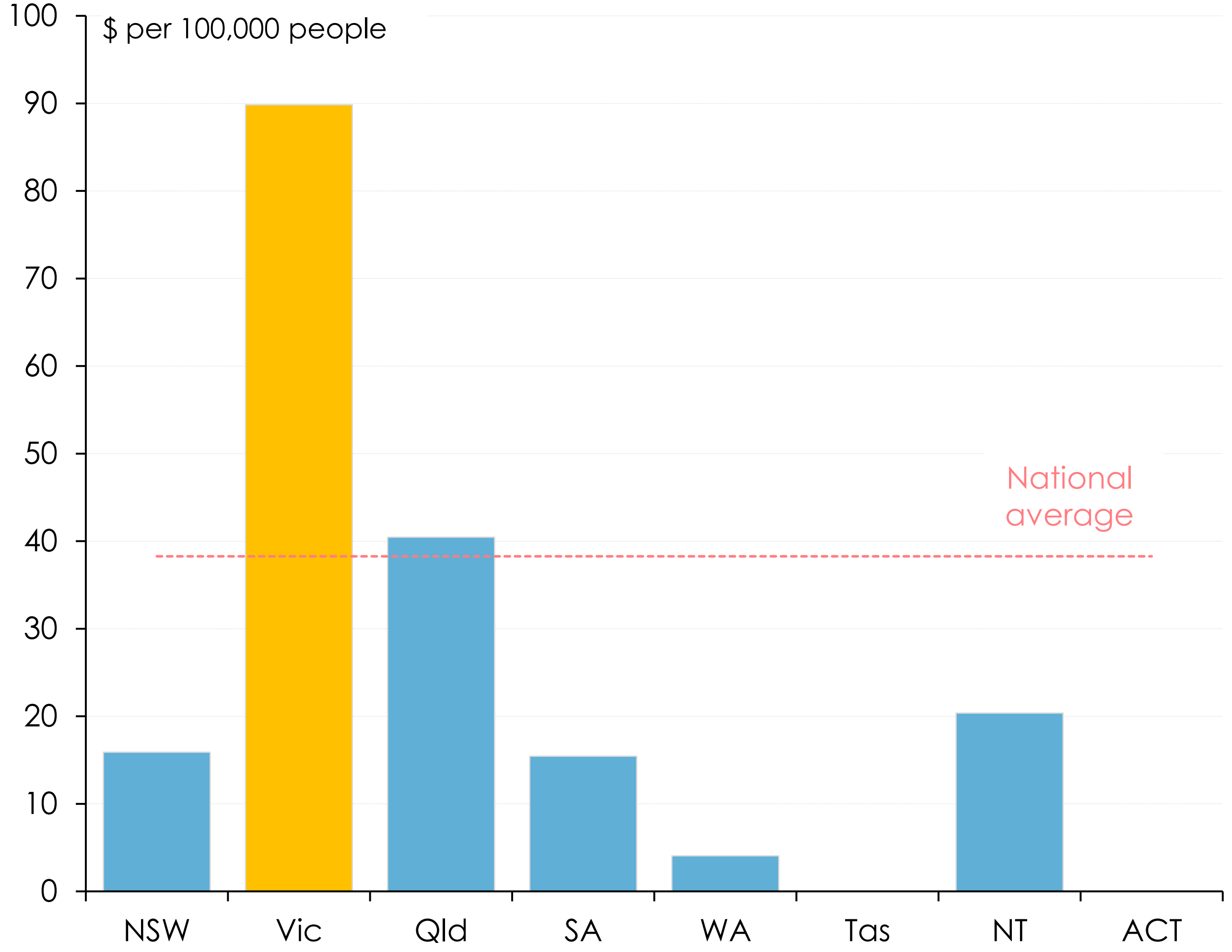
Victoria had much tougher restrictions, for longer, than any other state (and was more zealous in extracting money from citizens for breaching them)

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.

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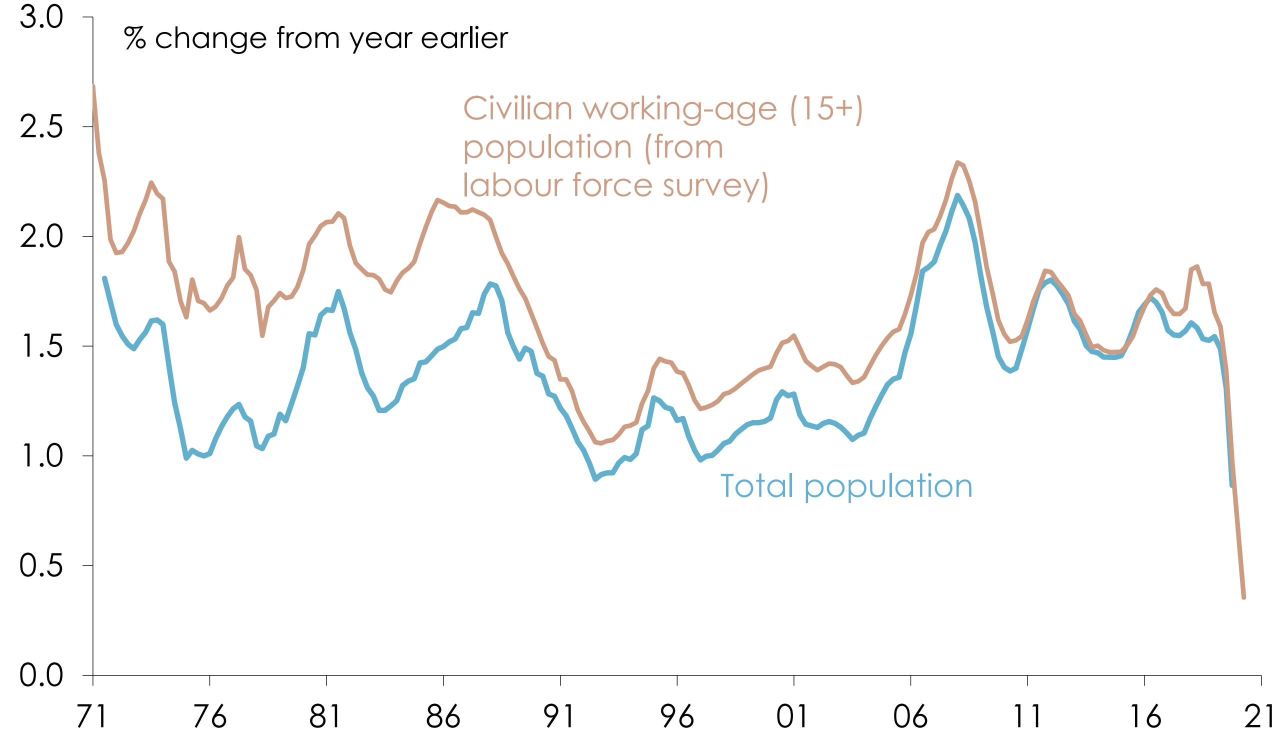
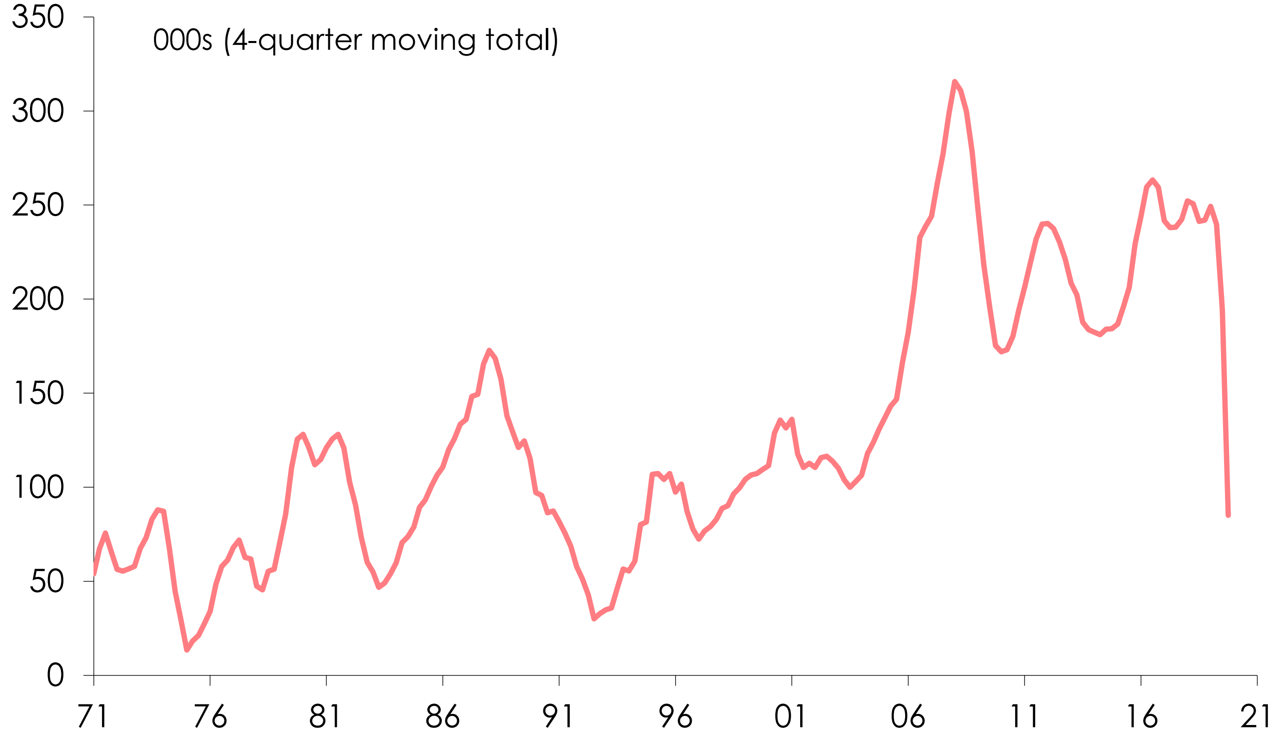
Australia's population fell by 4,230 in Q3 2020, and annual population growth dropped to its lowest since 1942, due to the border closure

Australia's population growth, 1971-20



Net migration to Australia, 1971-20

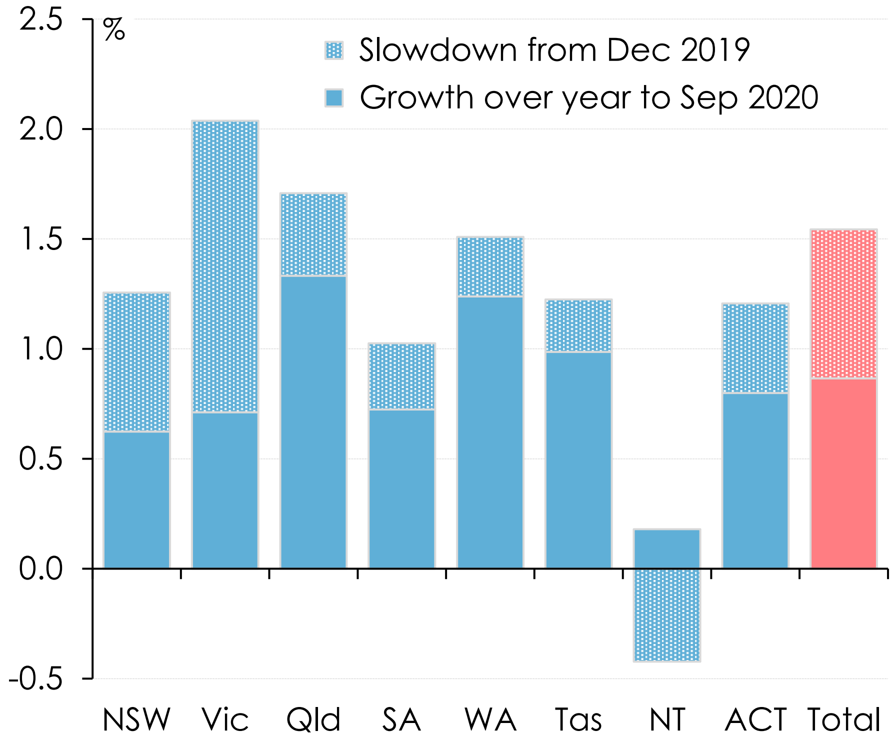


- **Net immigration was -35K in Q3 last year, after -7K in Q2, following the closure of Australia's international borders in response to Covid-19 – the first net outflow since Q2 1993, and the first for consecutive quarters since 1975**
- **As a result, Australia's population growth rate fell to just 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)**

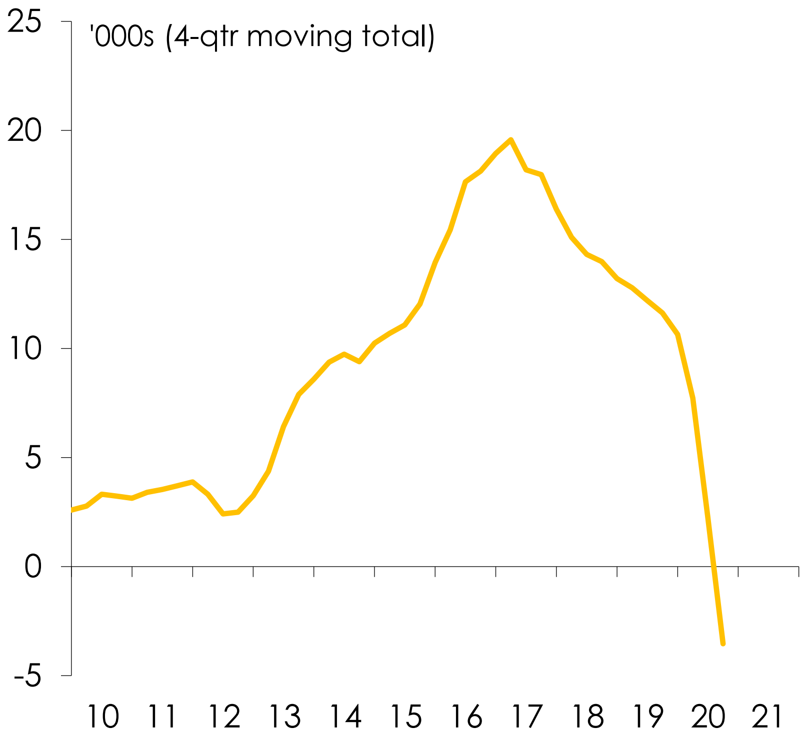
Note: Civilian working-age population for March quarter 2021 is average of January and February. *Sources:* ABS, *National, state and territory population*, September 2020; and *Labour Force, Australia*, February 2021. Return to "What's New".

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

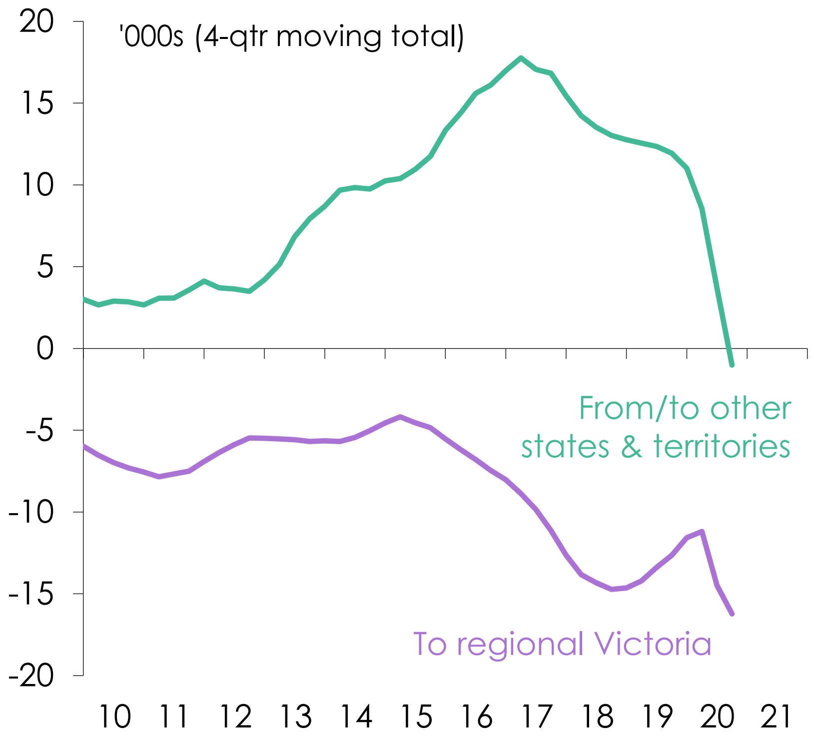
Population growth, states & territories, year to September 2020



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".

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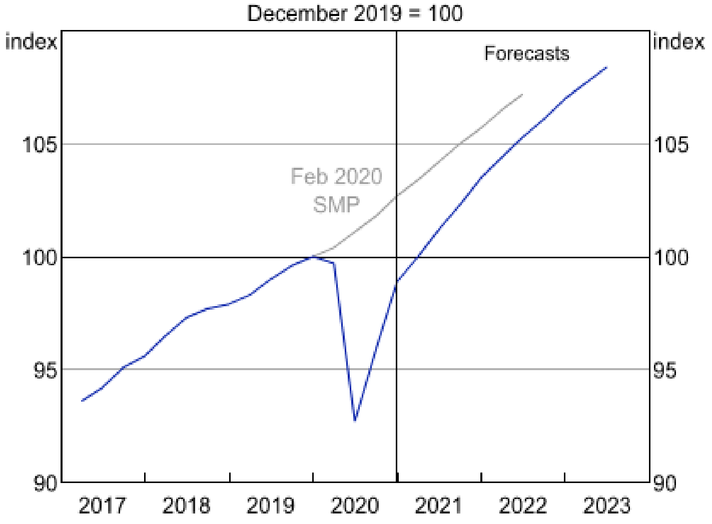
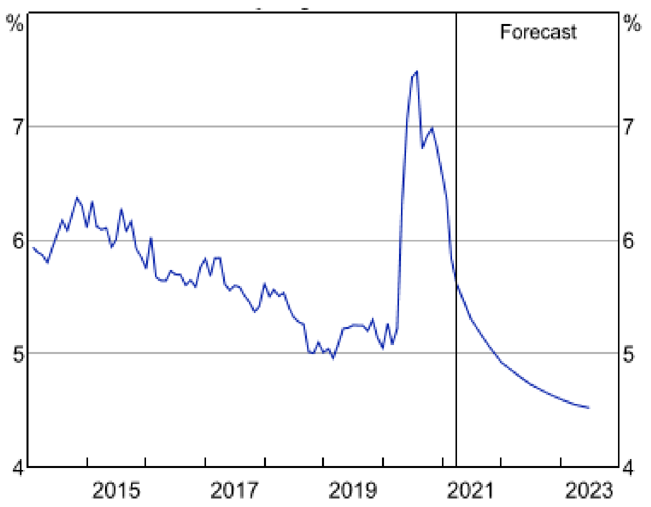
Despite stronger-than-expected economic and employment growth the RBA is sticking to its 'guidance' of no rate rises before '2024 at the earliest'

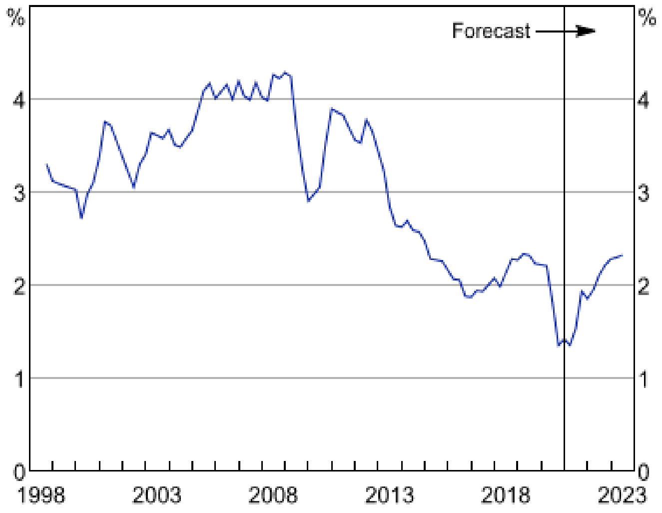
GDP



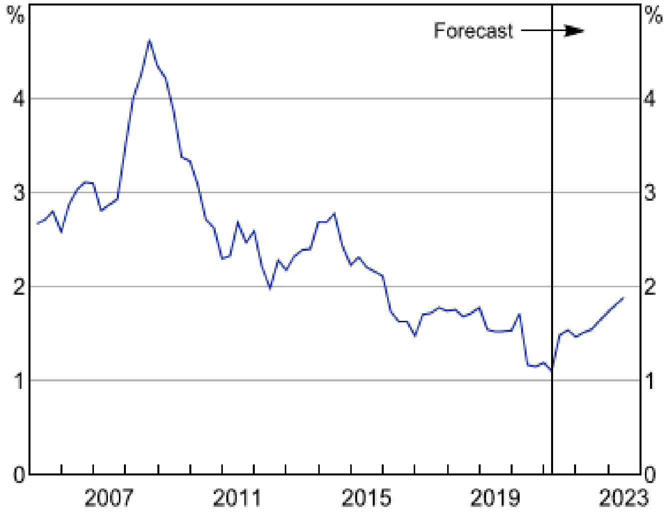
Unemployment



Wages



'Underlying' inflation

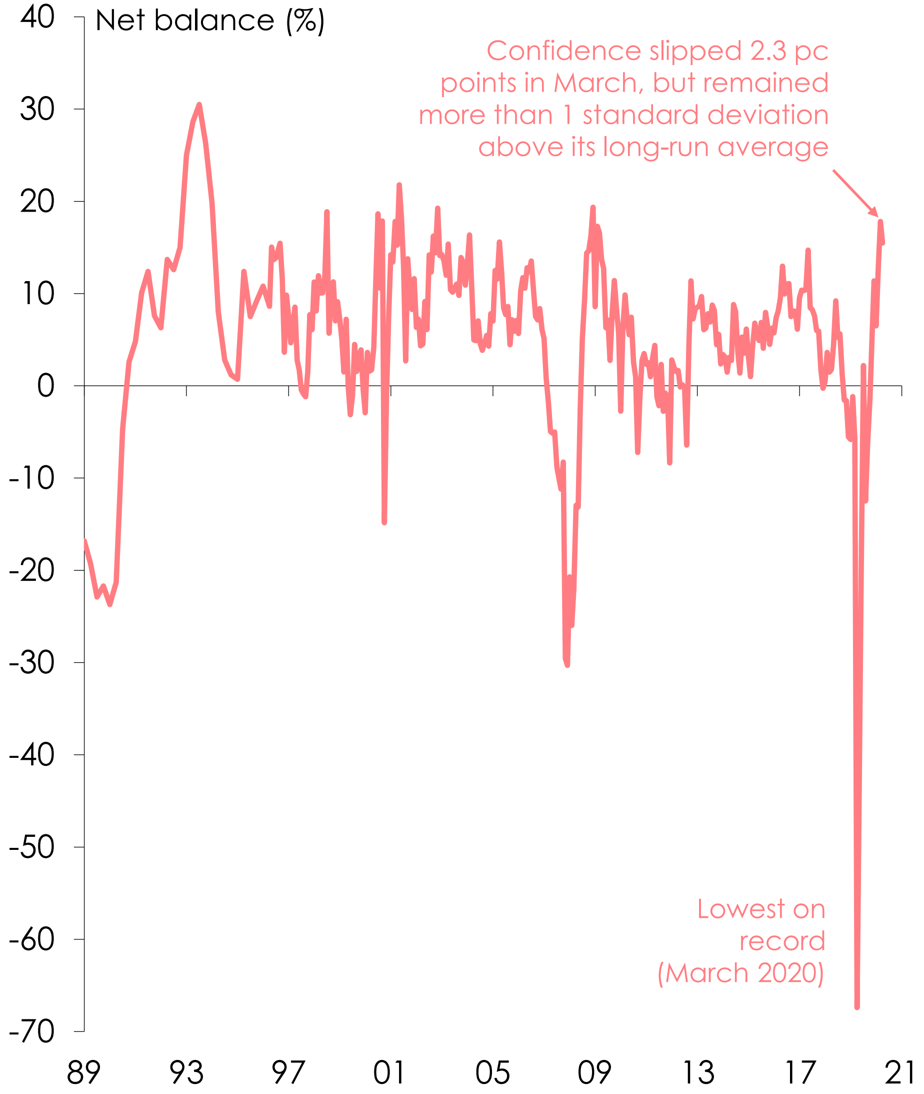


- Economic growth and in particular employment growth has been stronger than the RBA has forecast – but wage and price inflation haven't been
- In its latest *Statement on Monetary Policy* published Friday, the RBA has revised upwards its forecast for GDP growth over the year to Q2 2021 to 9¼% (from 7¾%) and Q2 2022 to 4% (from 3¼%) although leaving the forecast for Q2 2023 at 3%
- … and revised downwards its forecasts for unemployment in Q2 2021 to 5¼% (from 6½%) , Q2 2022 to 4¾% (from 5½%) and Q2 2023 to 4½% (from 5¼%)
- But its forecasts for wages growth have been revised upwards only marginally, "gradually increasing to around 2¼% by mid-2023" (from "below 2% over the next few years")
- … and the forecasts for 'underlying' inflation have barely changed at all, to 1½% over the year to Q2 2021 (from 1¼%), unchanged at 1½% over the year to Q2 2022, and 2% (from 1¾% previously) over the year to Q2 2023
- Even in an 'upside scenario' characterized by stronger household spending (with a larger fall in the saving rate), with the unemployment rate dropping below 4% in the first half of 2023, 'underlying' inflation doesn't get to 2% until Q4 2022
- Hence the RBA is sticking to its 'guidance' that rate rises are unlikely until '2024 at the earliest'

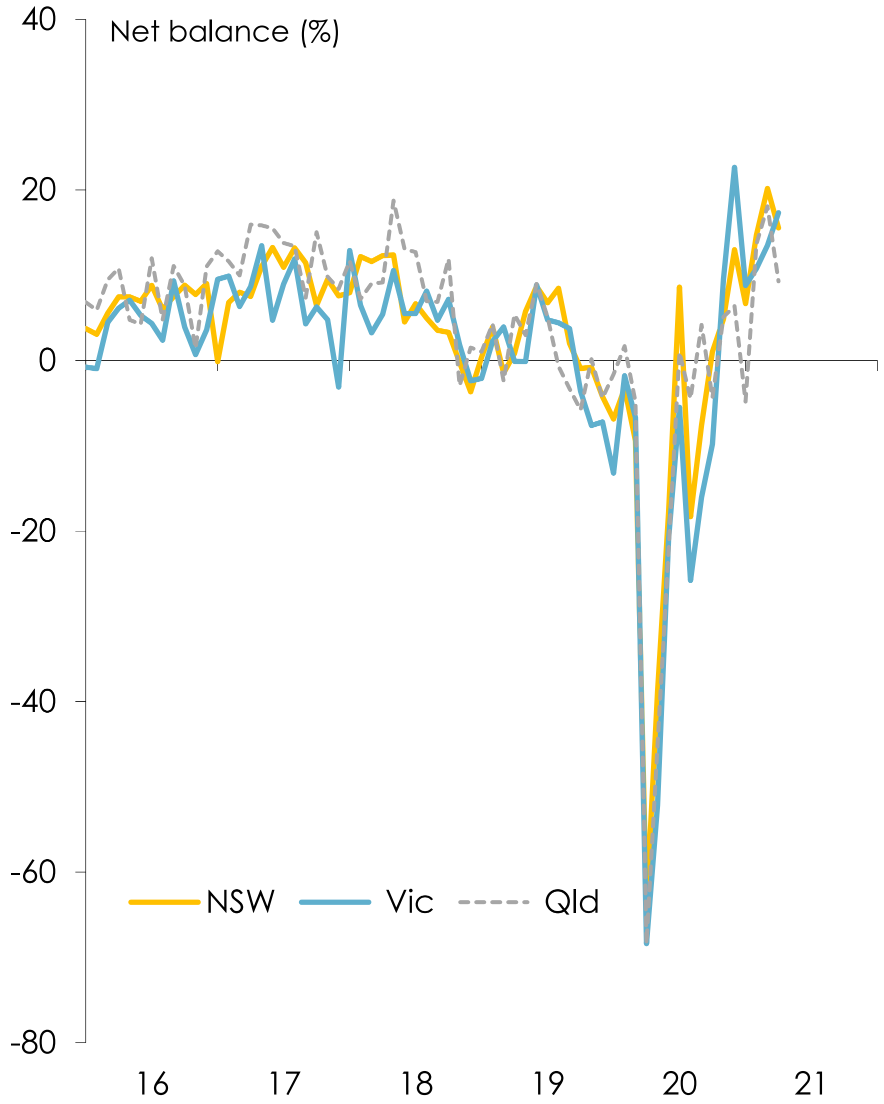
Source: Reserve Bank of Australia, *Statement on Monetary Policy*, 7th May 2021. The RBA's next set of forecasts will be published on Friday 6th August.

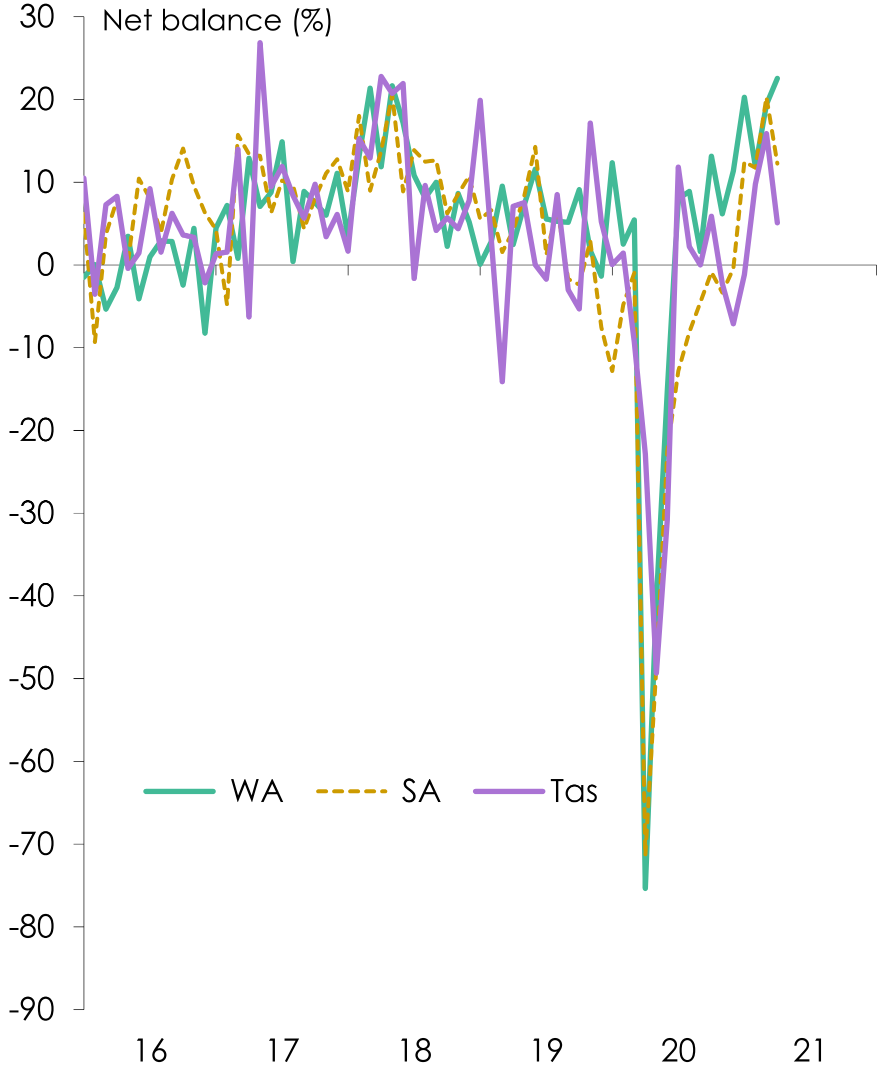
Business confidence slipped a little in March (despite a substantial improvement in business conditions) but remains above historical levels

Business confidence



Business confidence, states and territories





Sources: National Australia Bank. April survey results will be released on 10th May. [Return to "What's New"](#).

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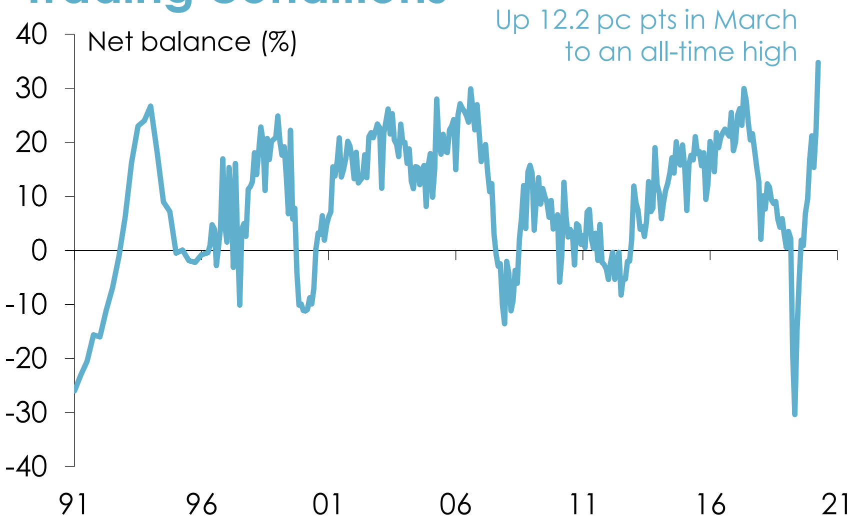
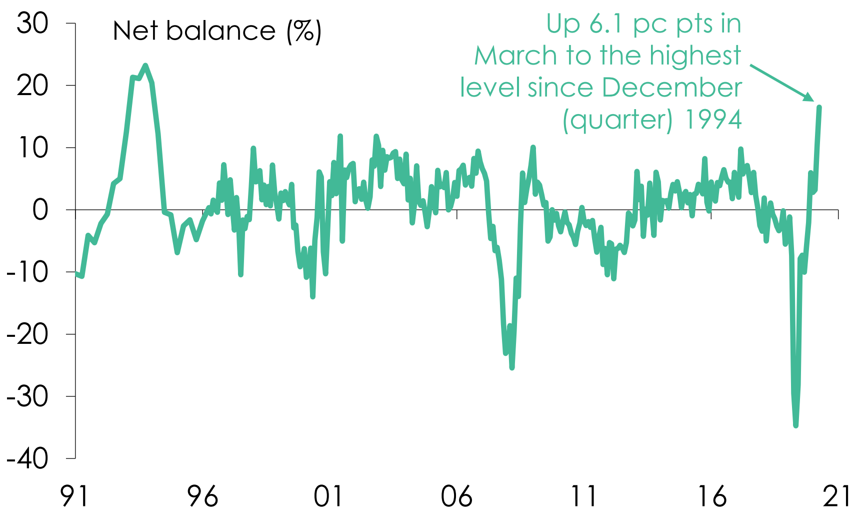
'Business conditions' as measured by the NAB survey improved further in March with many components at record, or 25+ year, highs

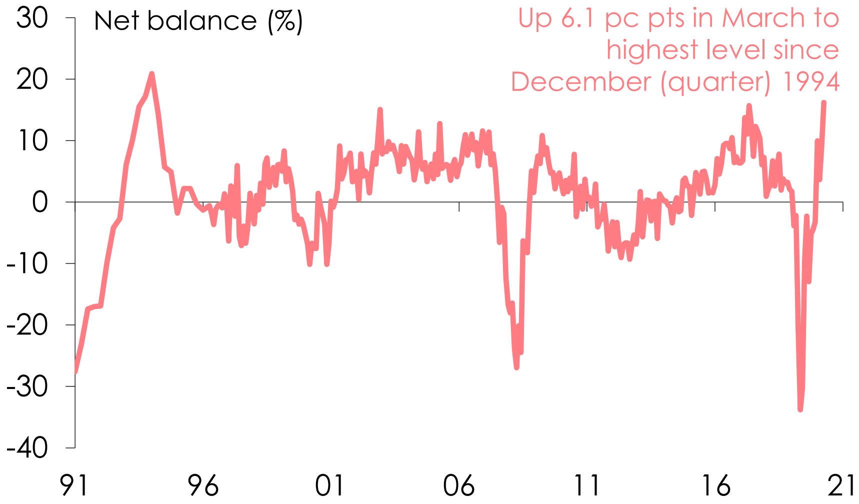
Trading conditions



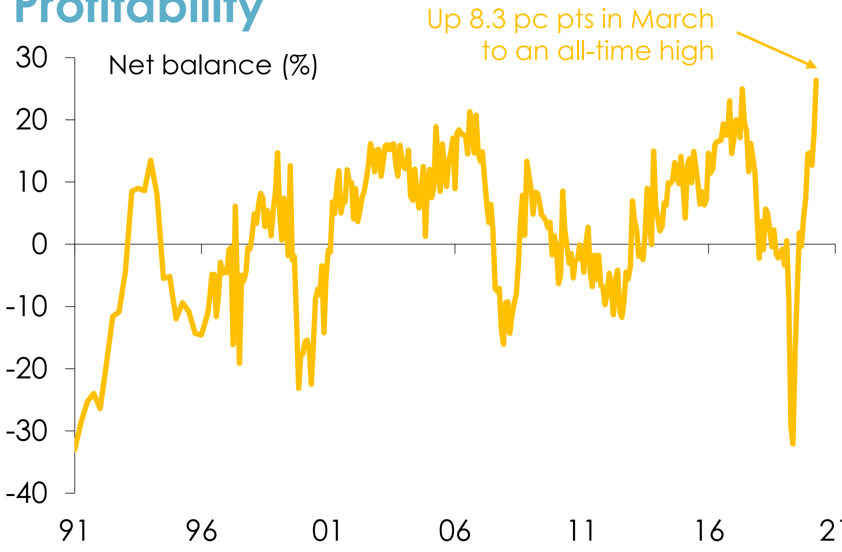
Forward orders



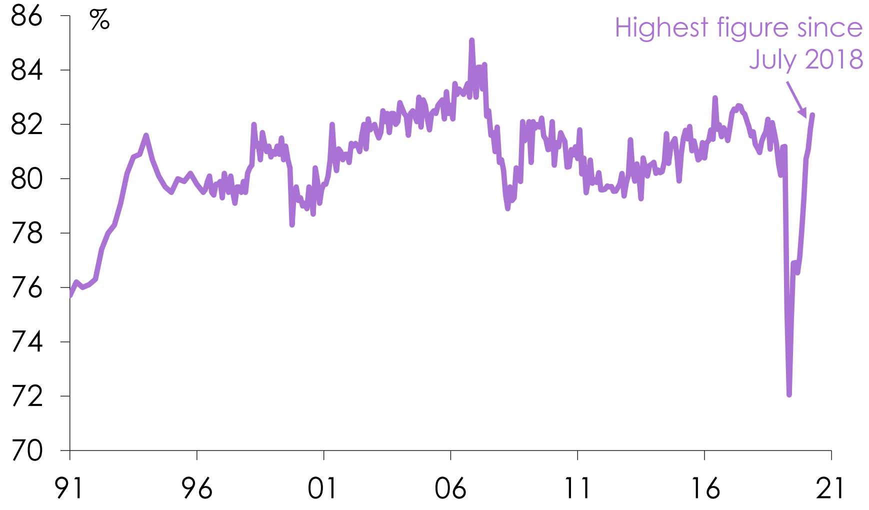
Employee hiring intentions



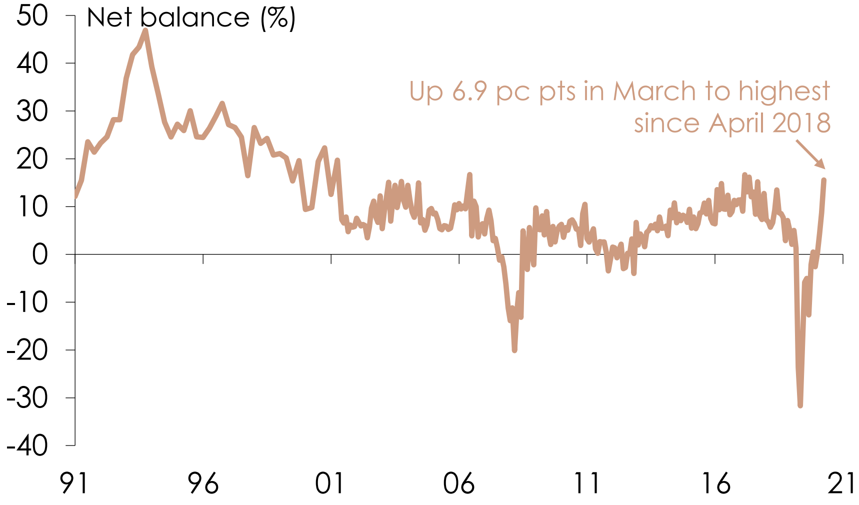
Profitability



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*, March 2021; April survey results will be released on 10th May. Return to "What's New".

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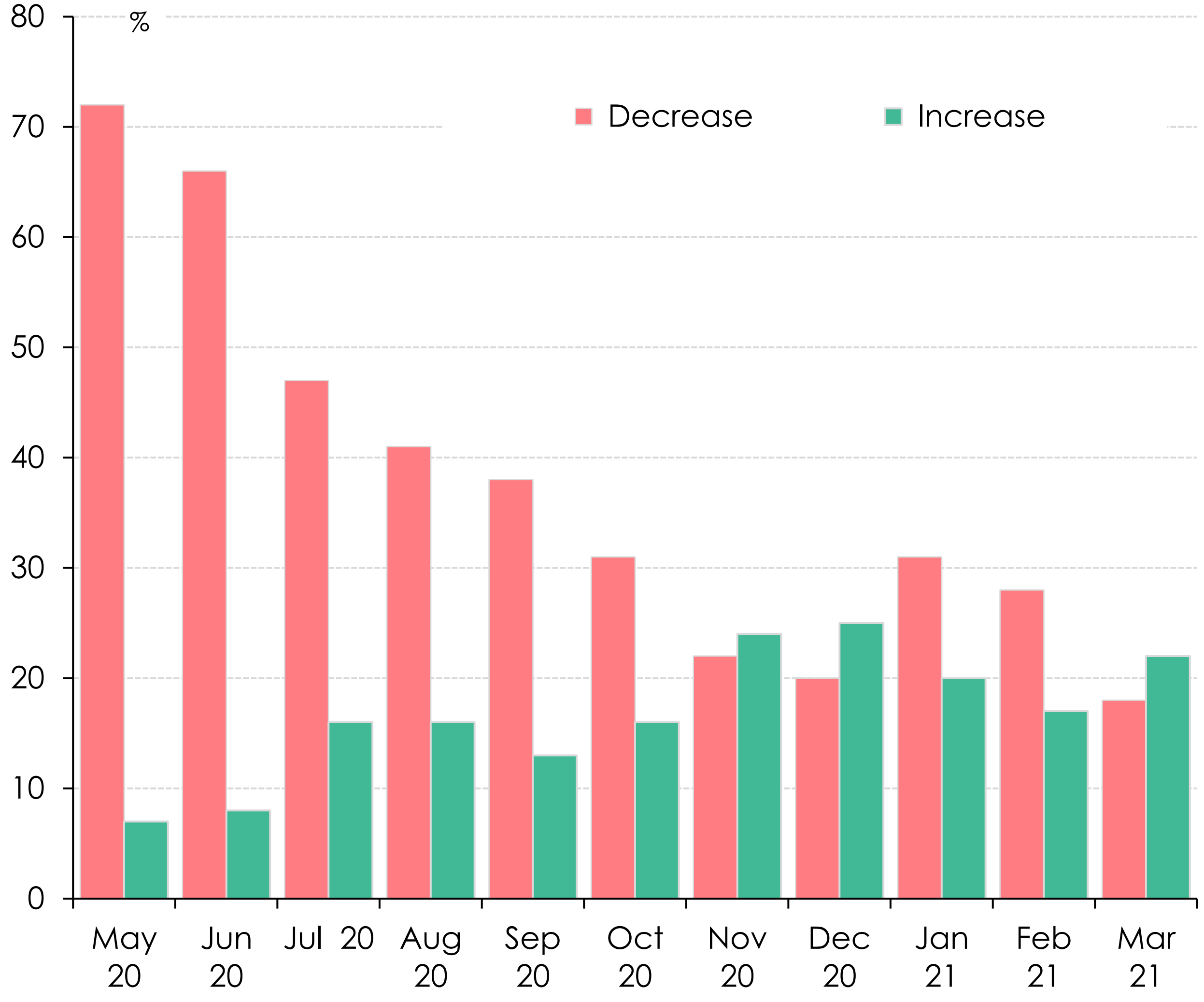
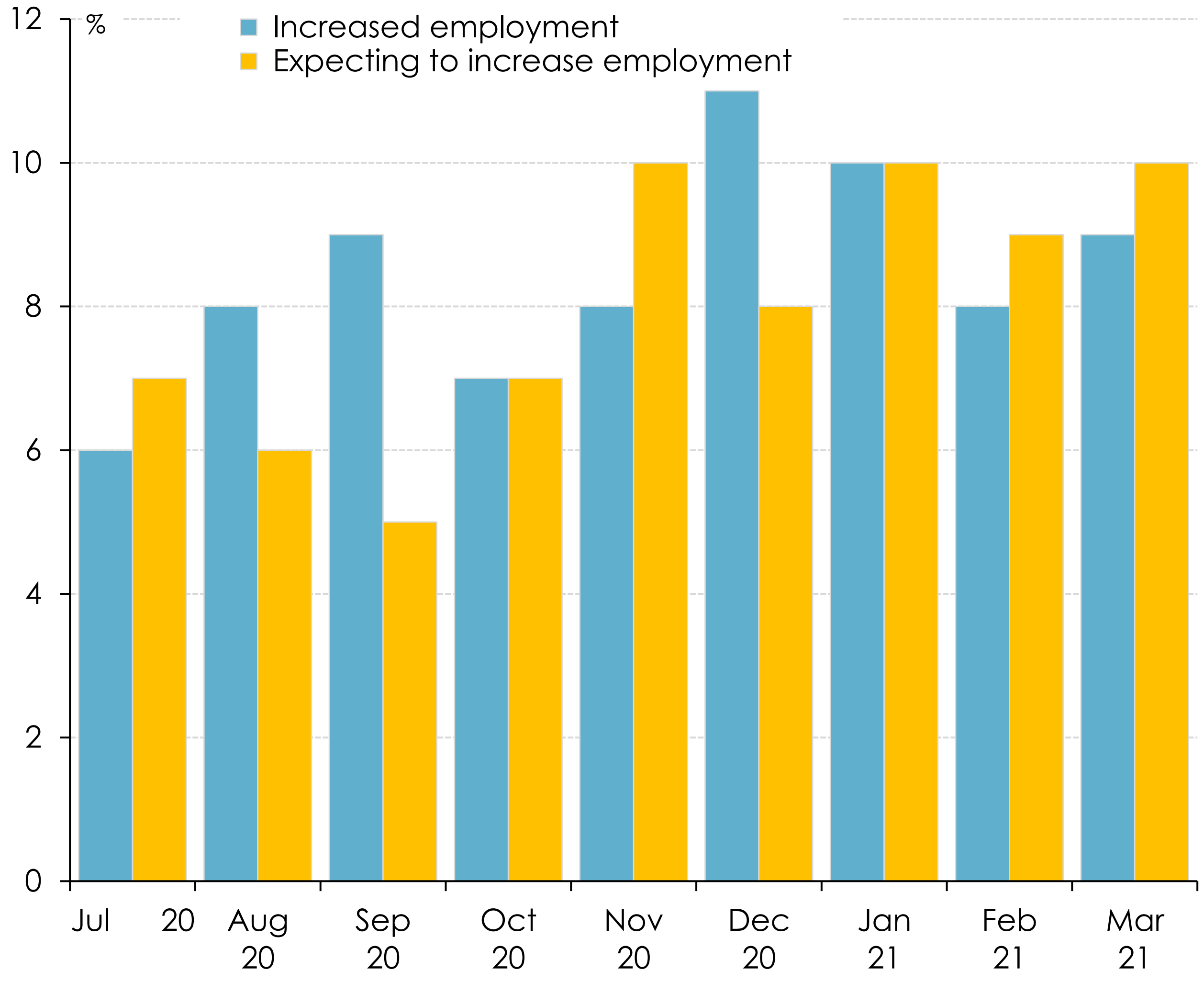
More business experienced revenue increases than decreases in March, for the first time since the onset of the pandemic

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



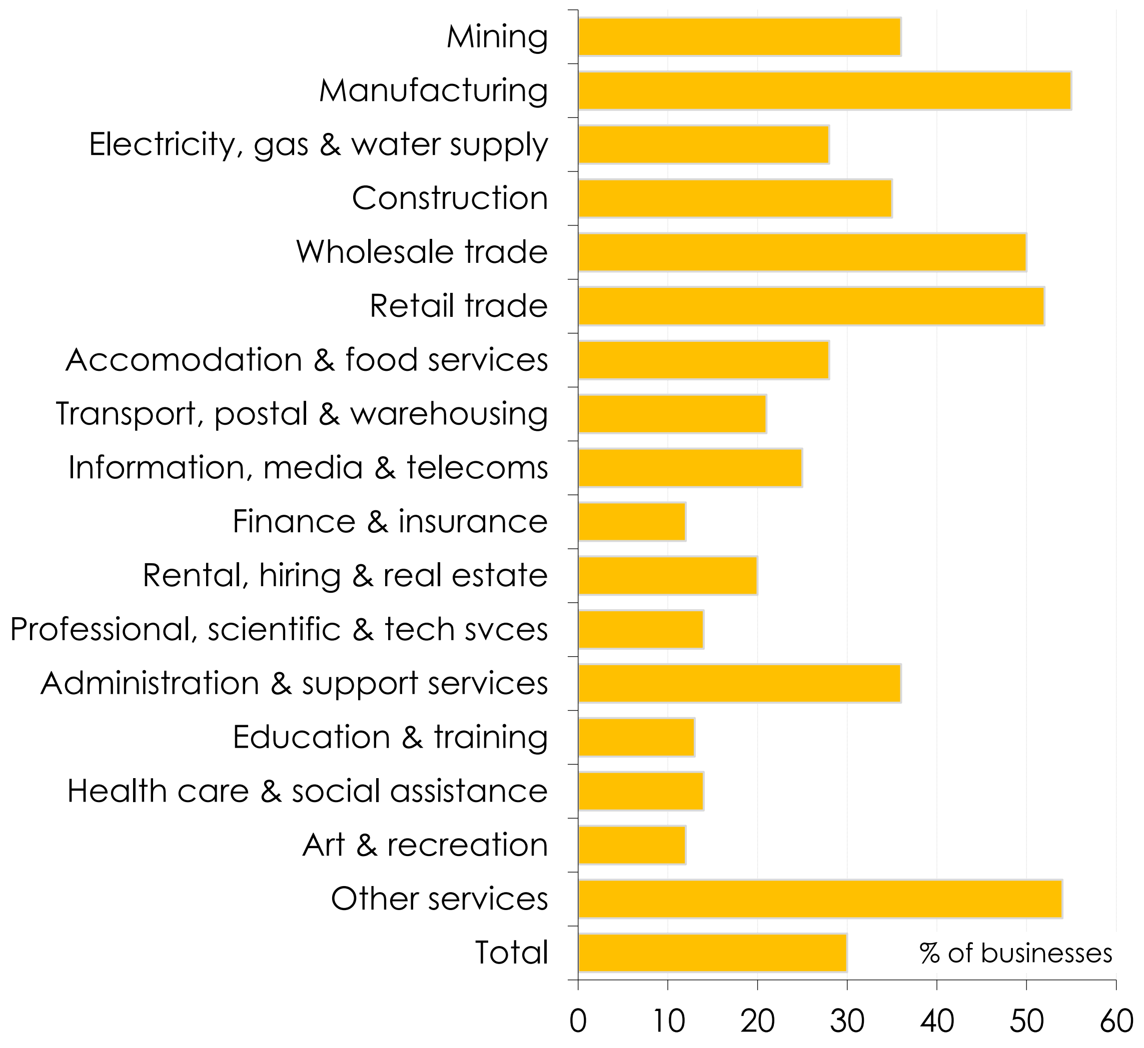
Proportion of businesses increasing and expecting to increase employee numbers



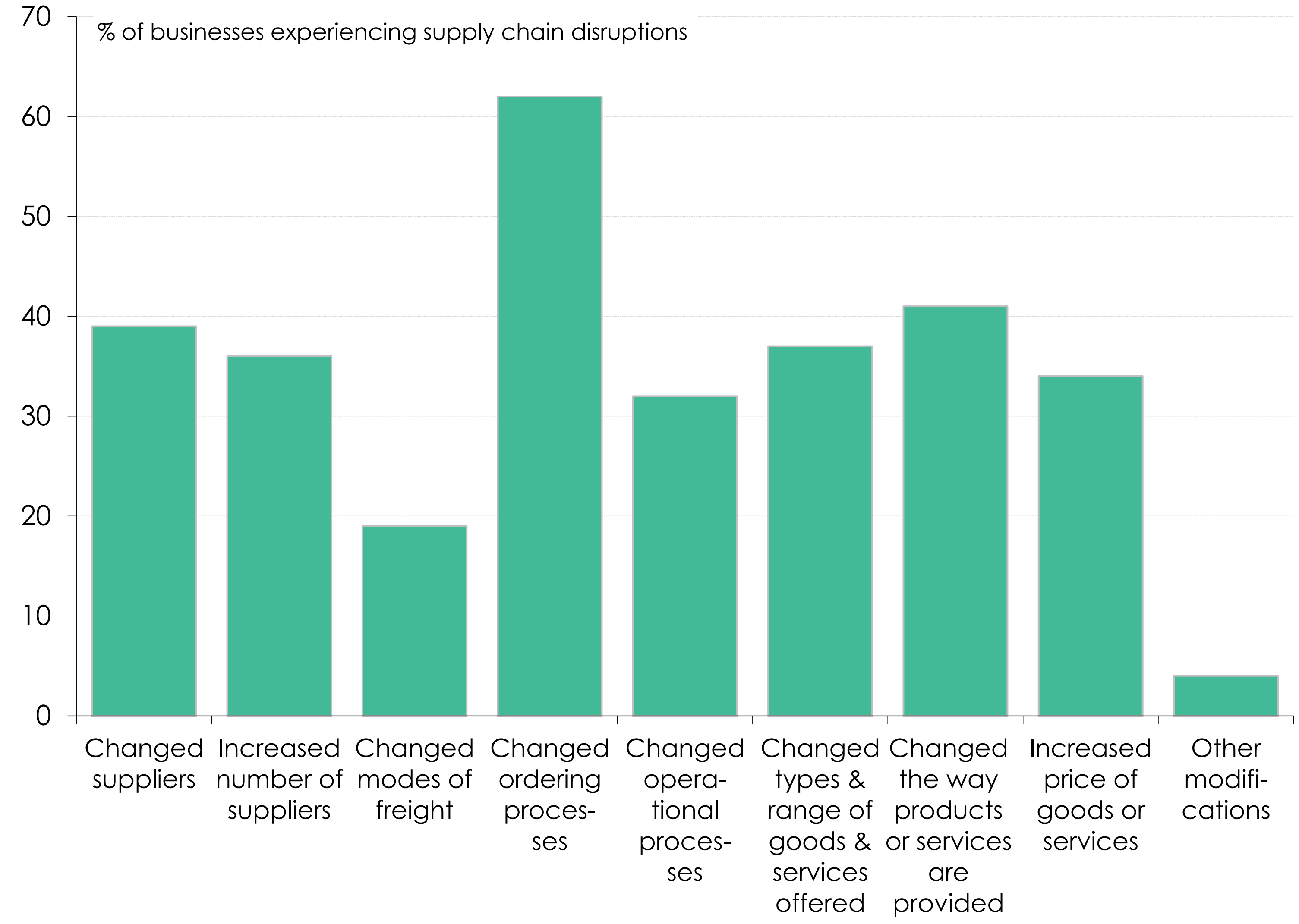
Source: ABS, *Business Conditions and Sentiments*, March 2021. Return to "What's New".

30% of businesses are experiencing supply chain disruptions (and of them, 37% significant) – and are making changes (incl to prices) in response

Proportion of businesses experiencing supply chain disruptions



Business response to supply chain disruptions



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

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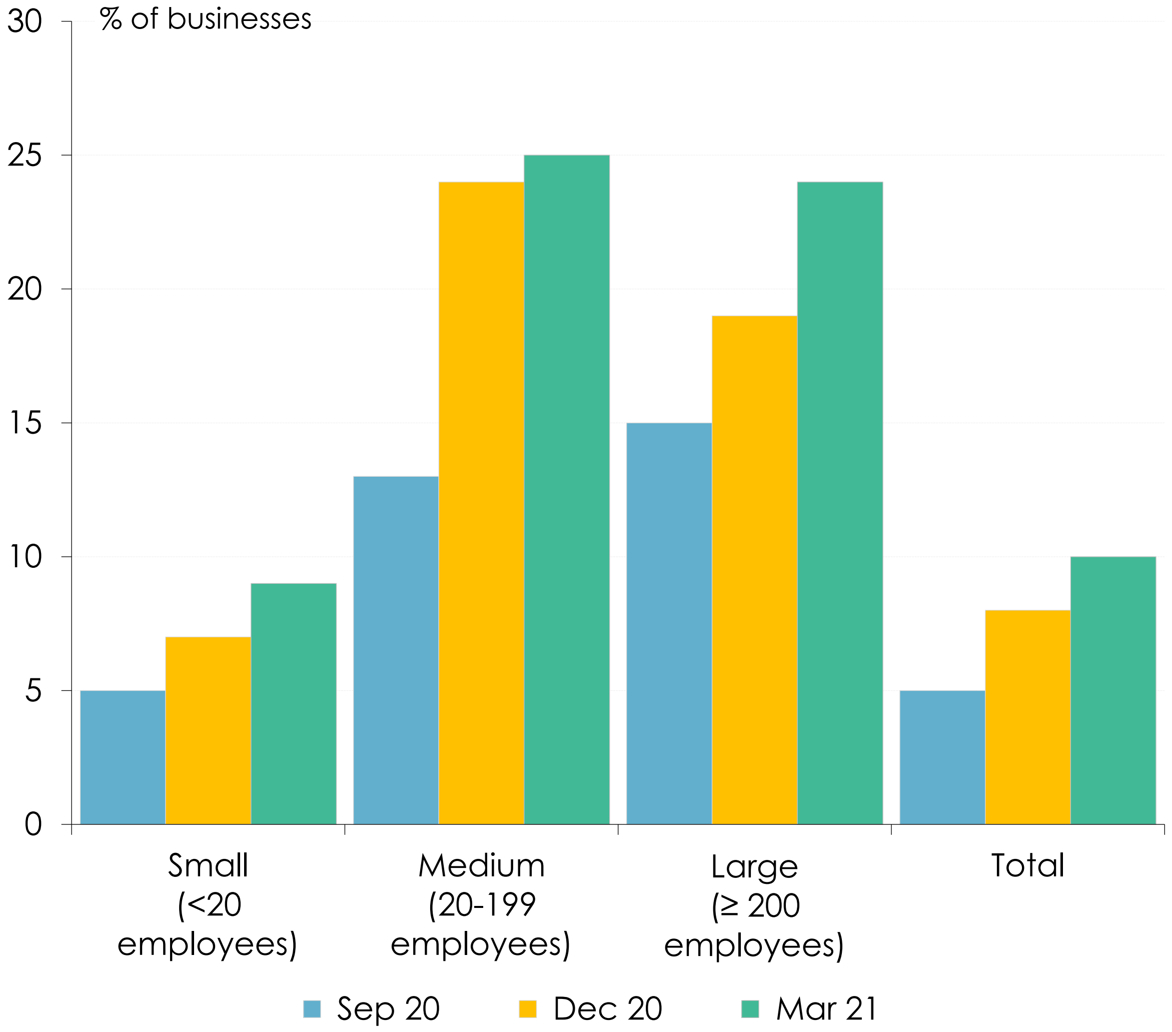
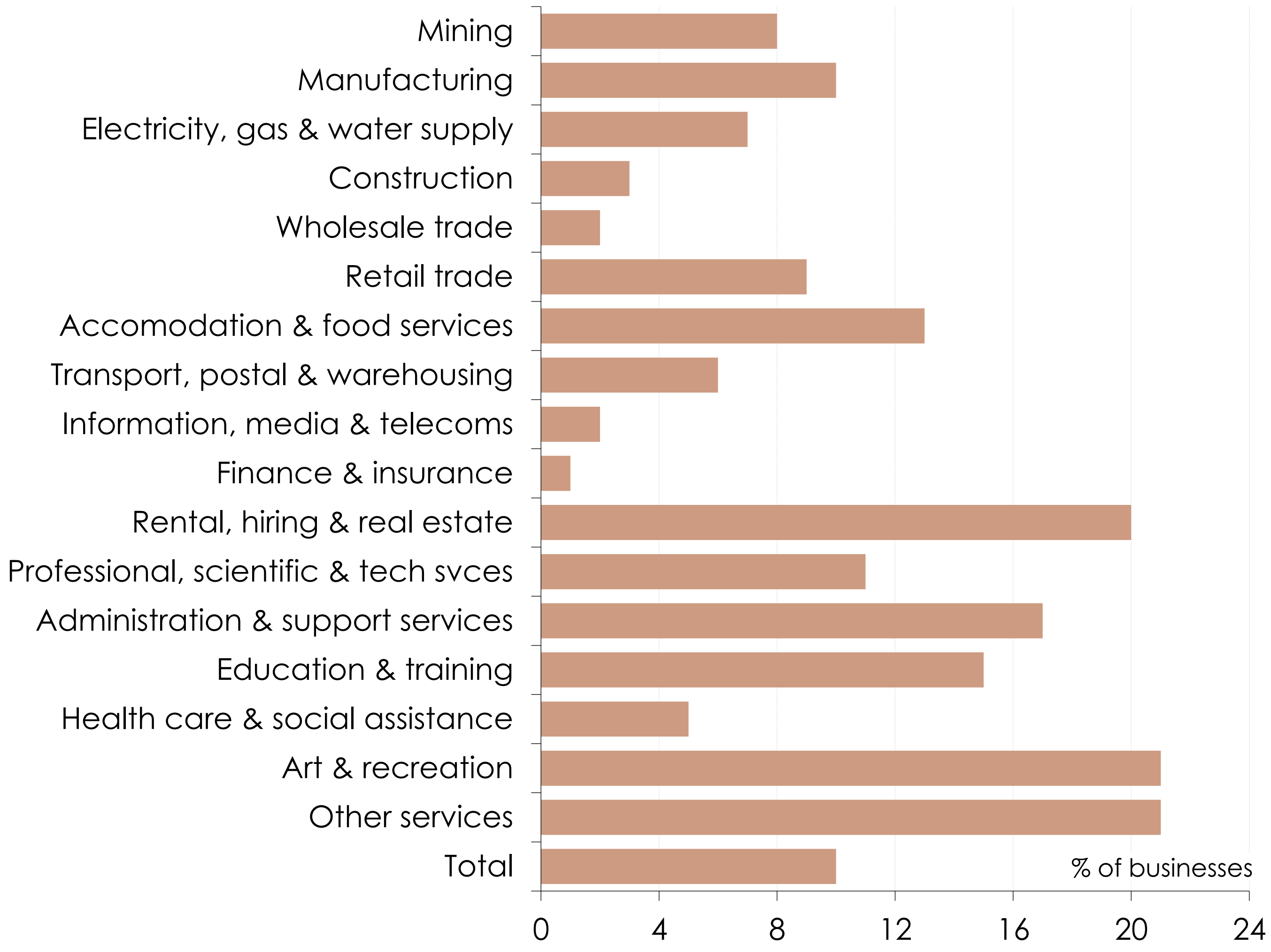
It's medium-sized and large businesses who will be the 'engine rooms' of employment creation this year, not small ones

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



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



Source: ABS, *Business Conditions and Sentiments*, March 2021. See also slide 102 for data on capex intentions by business size. Return to "What's New".

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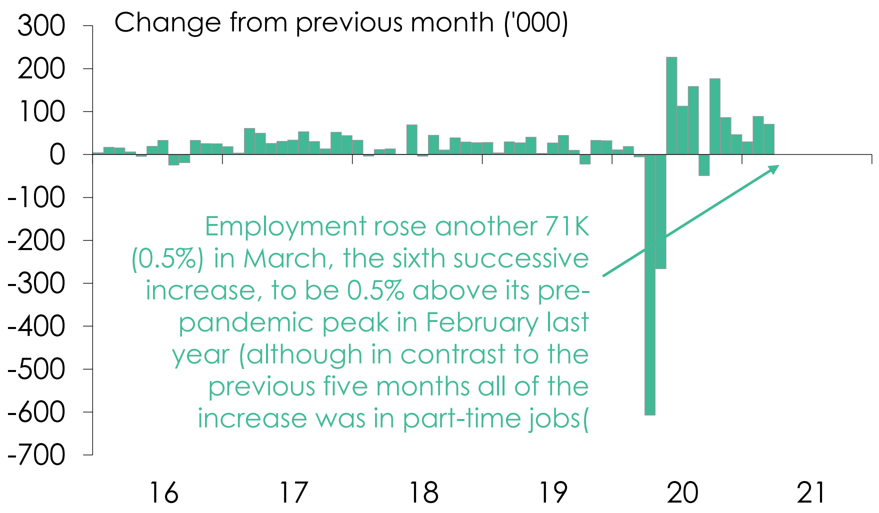
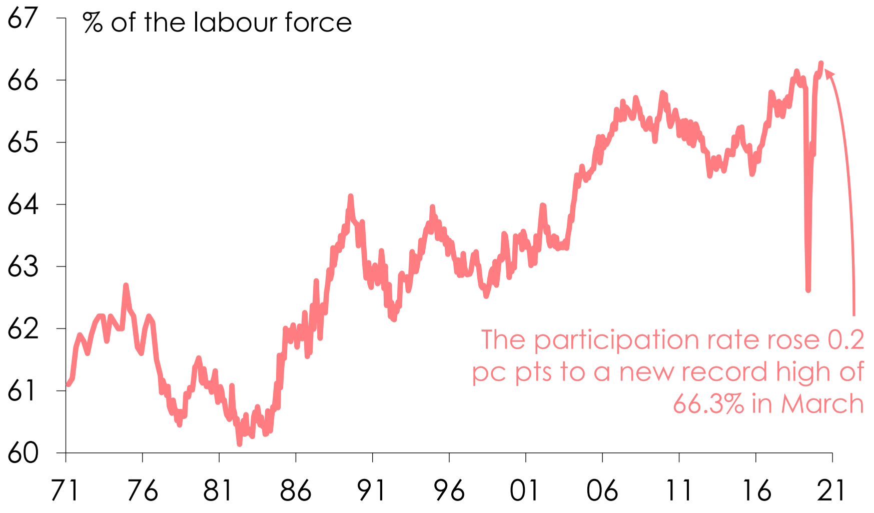
Employment rose by another 71K in March, while the unemployment rate dropped another 0.2 pc pts to 5.6%, only 0.5 pc pts above February 2020

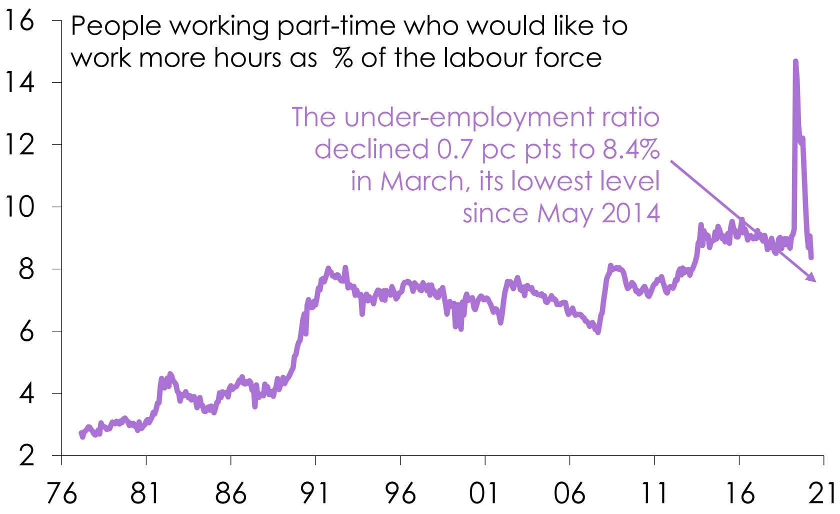
Employment



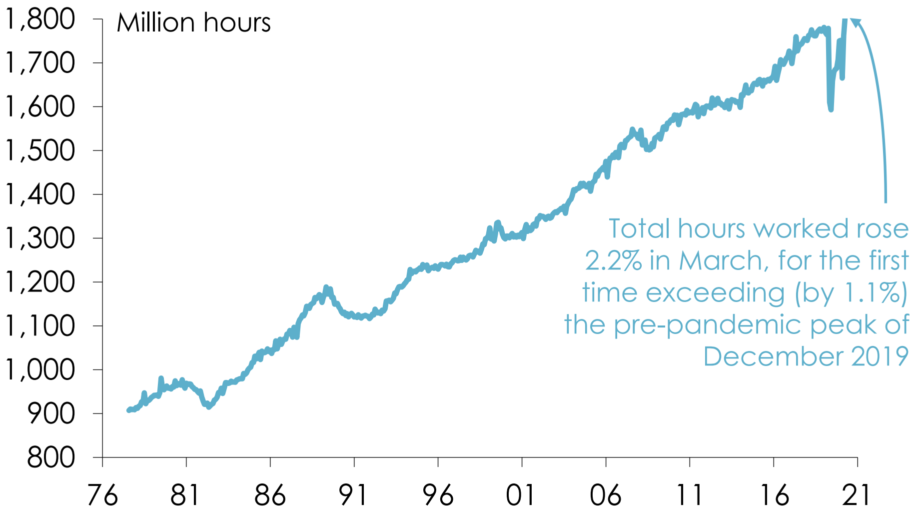
Labour force participation rate



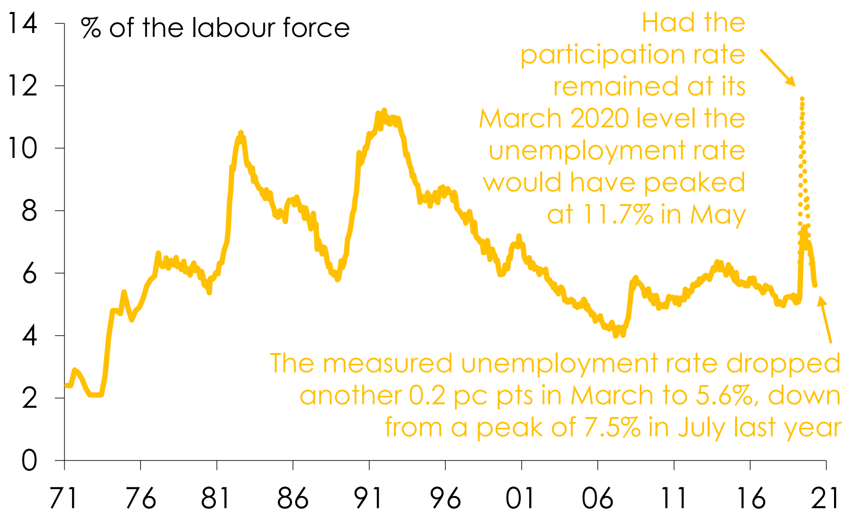
Under-employment ratio



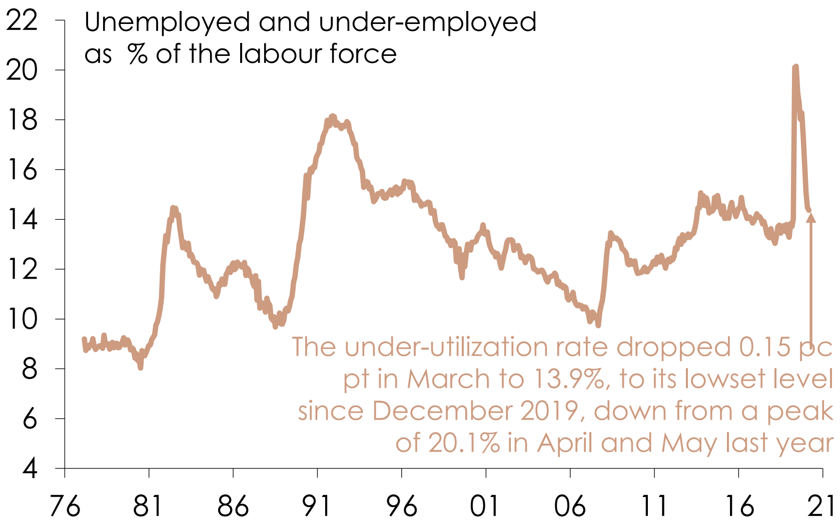
Total hours worked



Unemployment rate



'Under-utilization' rate



Source: ABS, *Labour Force, Australia*. April data will be released on 20th May. Return to "What's New".

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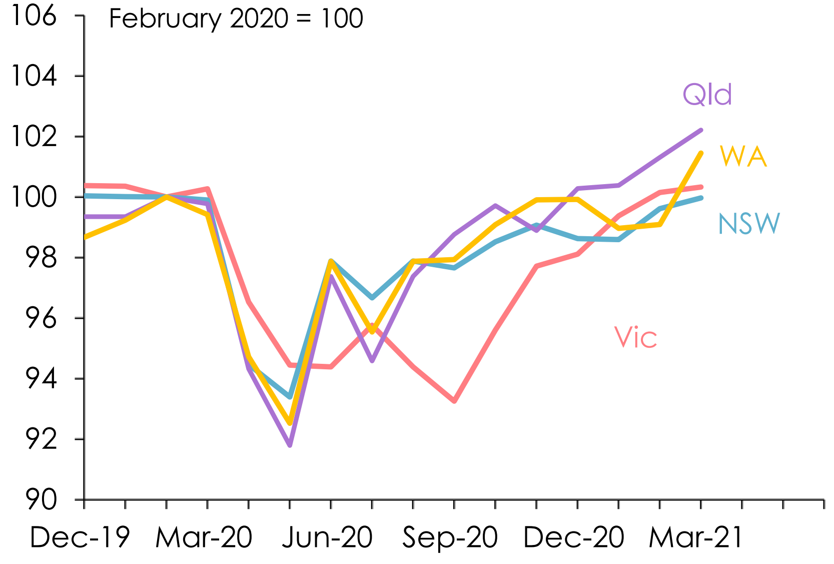
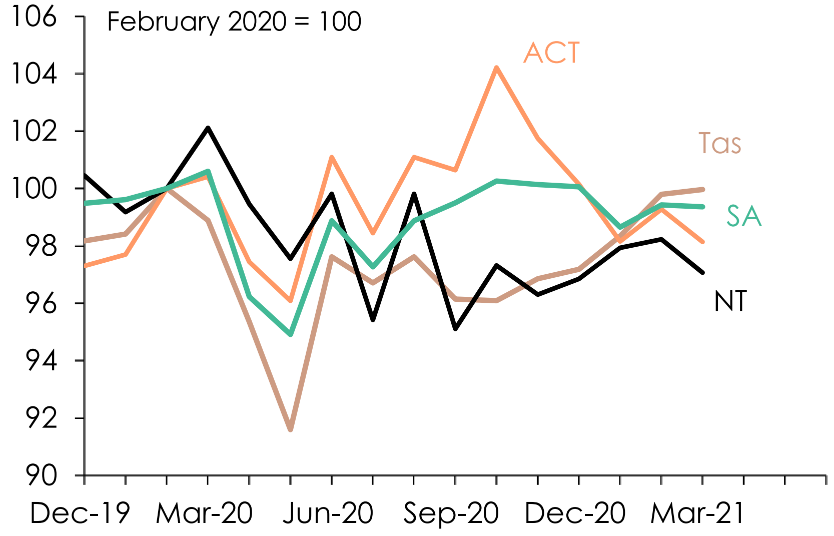
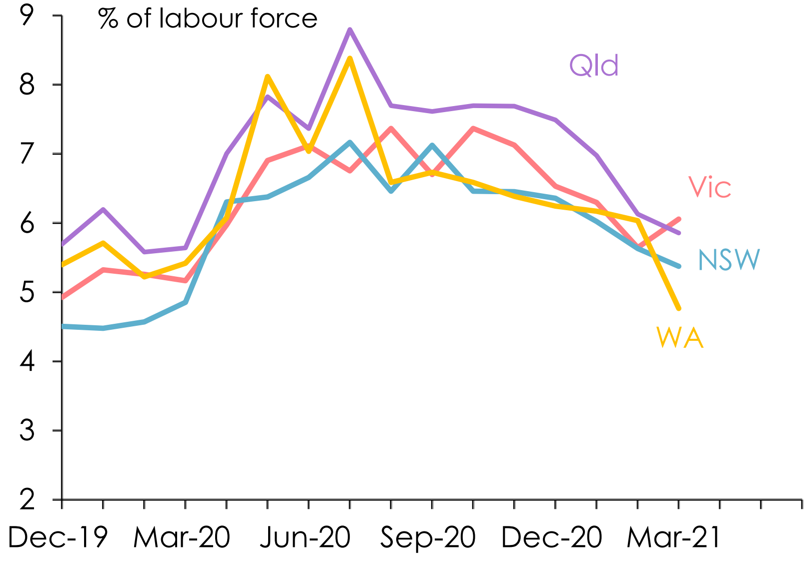
Queensland and Western Australia have experienced the strongest recoveries in employment

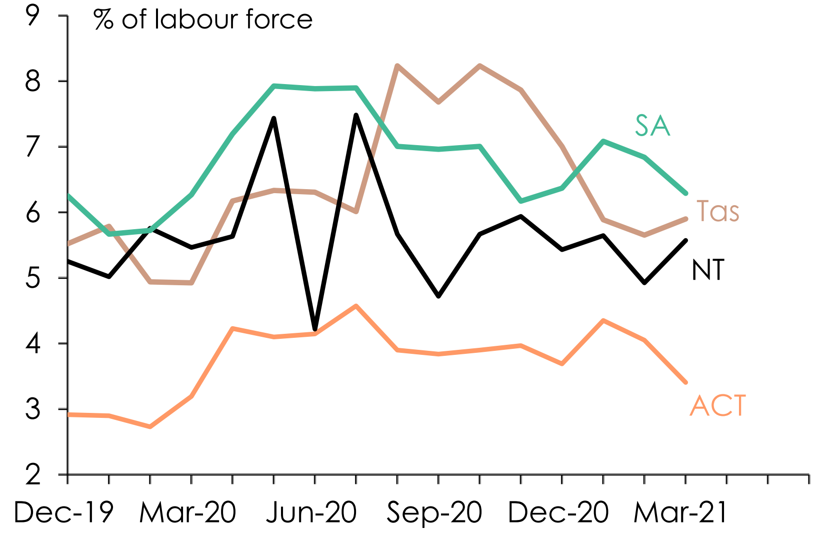
Employment



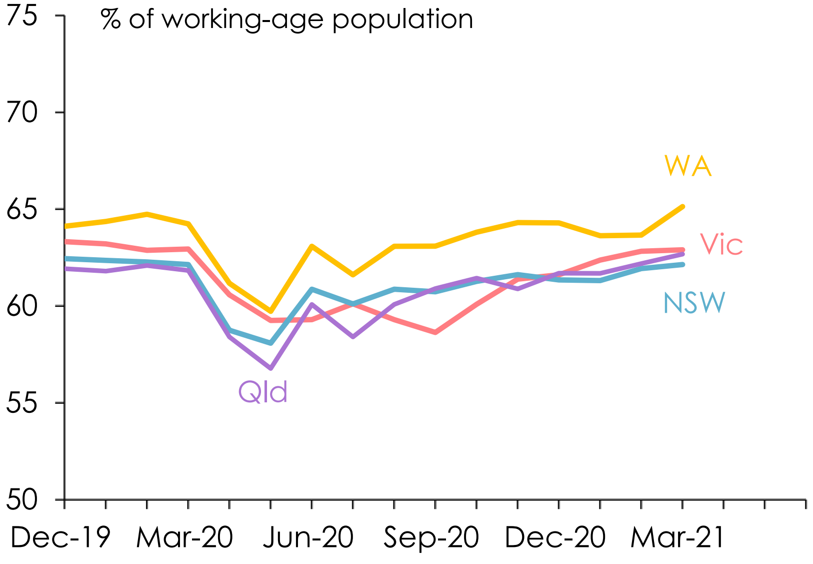


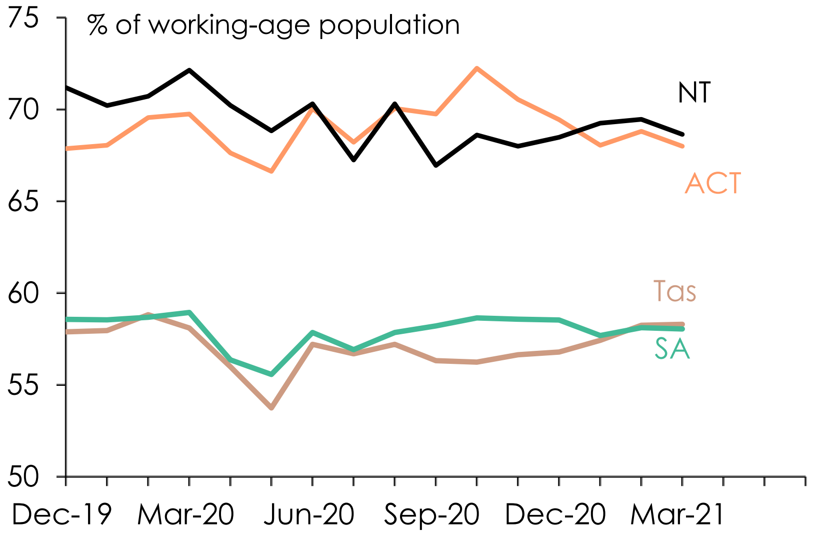
Unemployment rate





Employment-population ratio





Source: ABS, *Labour Force, Australia*. April data will be released on 20th May. Return to "What's New".

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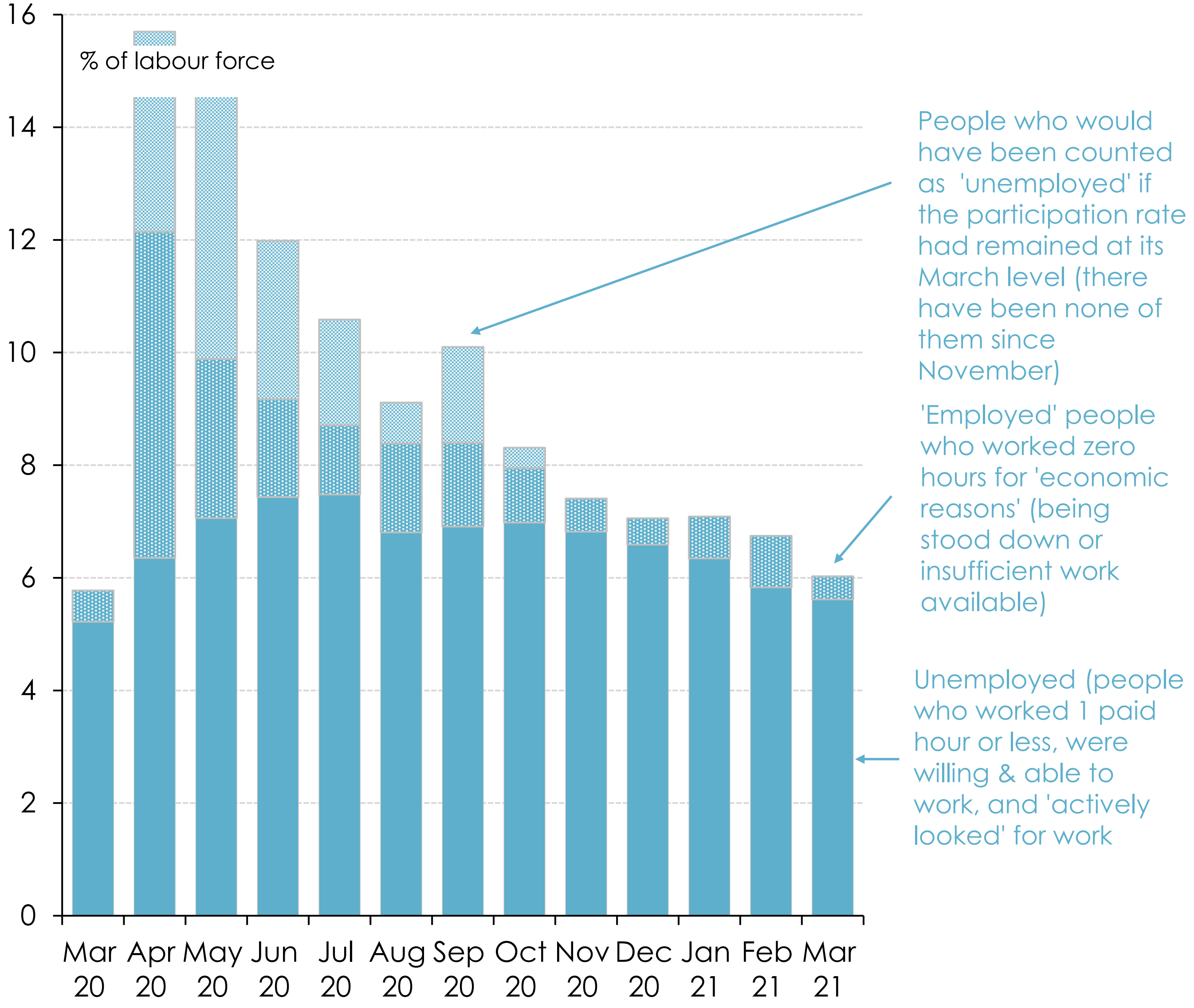
The ‘effective’ unemployment rate fell from a peak of 15.3% in April to 6.0% in March, but may rise (temporarily) in April after the end of ‘JobKeeper’

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 – reducing to $1200 per fortnight (with a new lower rate of $750 for people who had been working part-time before the pandemic) at the beginning of October last year and then to $1000 from the beginning of January this year**
- **Employer eligibility (by reference to the decline in their revenues since March last year) was also re-tested at the beginning of last October and again in January, resulting in declines in the number of eligible employers (see next slide)**
- **‘JobKeeper’ ended on 28th March (as foreshadowed), which Treasury has estimated may result in 100-150,000 job losses (pushing the unemployment rate up by ¾ -1 pc pt assuming an unchanged participation rate) …**
- **… although these job losses and increased unemployment should prove temporary given the strong momentum in employment growth, high level of job vacancies (see slide 99) and a lack of competition for jobs from migrants**

Source: ABS, Labour Force, Australia; Corinna. April data will be released on 20th May. Return to "What's New“.

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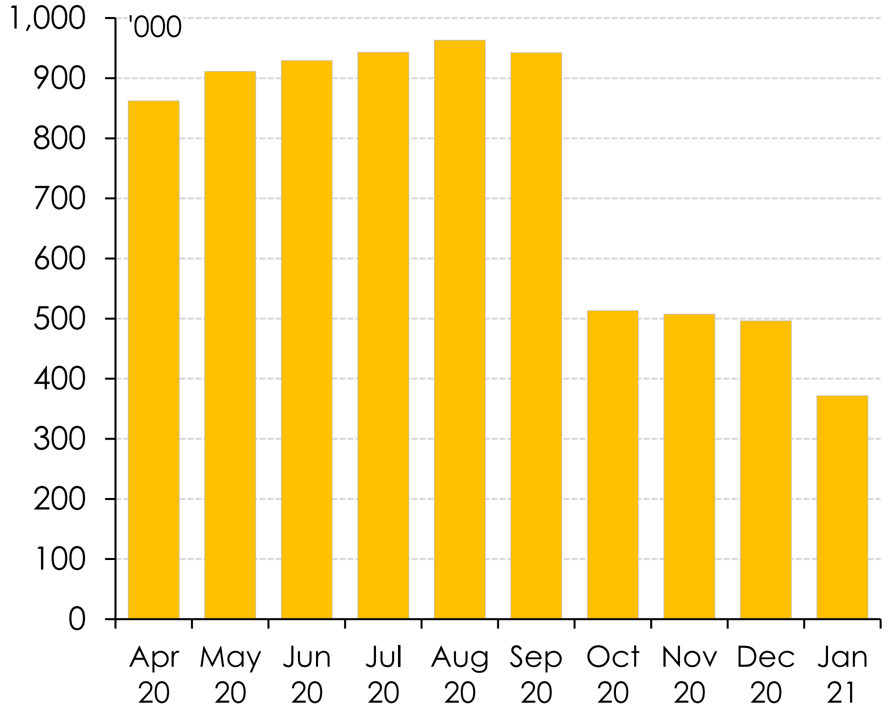
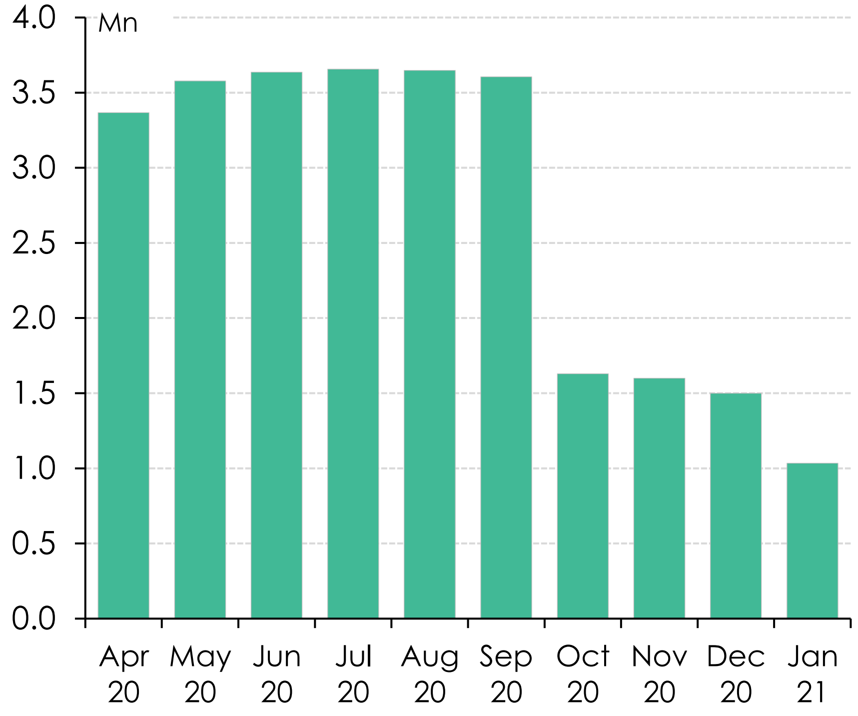
It's as yet too early to tell what impact the end of JobKeeper has had on employment

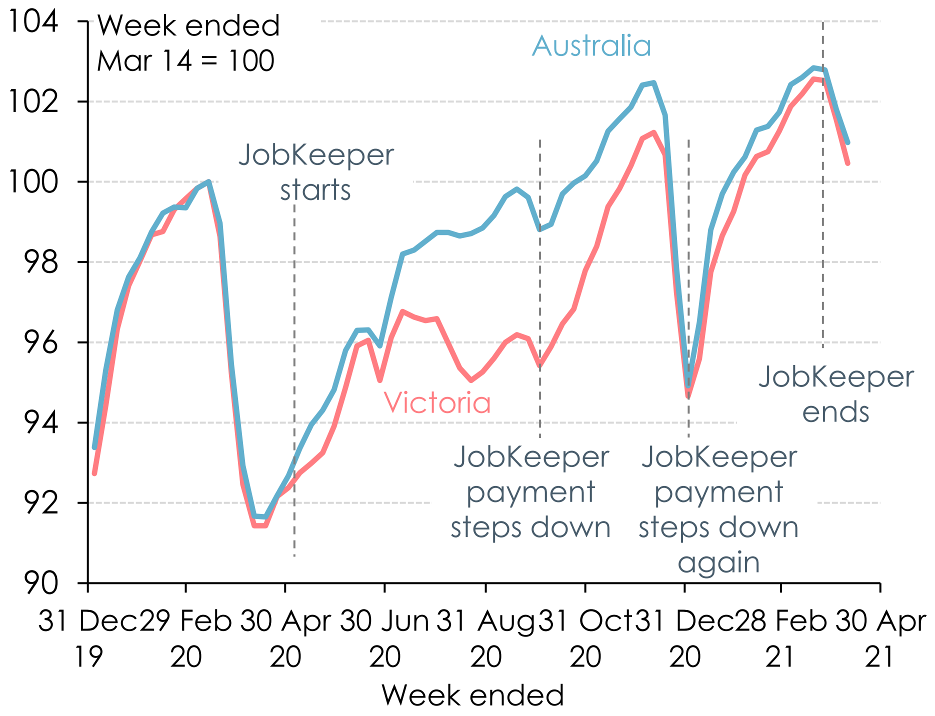
Number of employers enrolled in JobKeeper



Number of employees supported by JobKeeper



Payroll job numbers and phases of JobKeeper



- **Treasury has estimated that 100-150,000 jobs may disappear following the end of JobKeeper on 28th March – which if that number were counted as 'unemployed' would boost the official unemployment rate by 0.7-1.0 pc pt**
- **The number of payroll jobs fell by 1.8% over the two weeks following the end of JobKeeper, but this co-incided with the Easter holiday – and this series is (a) not seasonally adjusted, and (b) prone to often significant revisions**
- **Department of Social Services data suggests that there has not been any increase in the number of people on unemployment-related income support programs in the two weeks since the end of JobKeeper (see next slide)**

Sources: Australian Treasury; ABS, *Weekly Payroll Jobs and Wages in Australia*. Return to "What's New".

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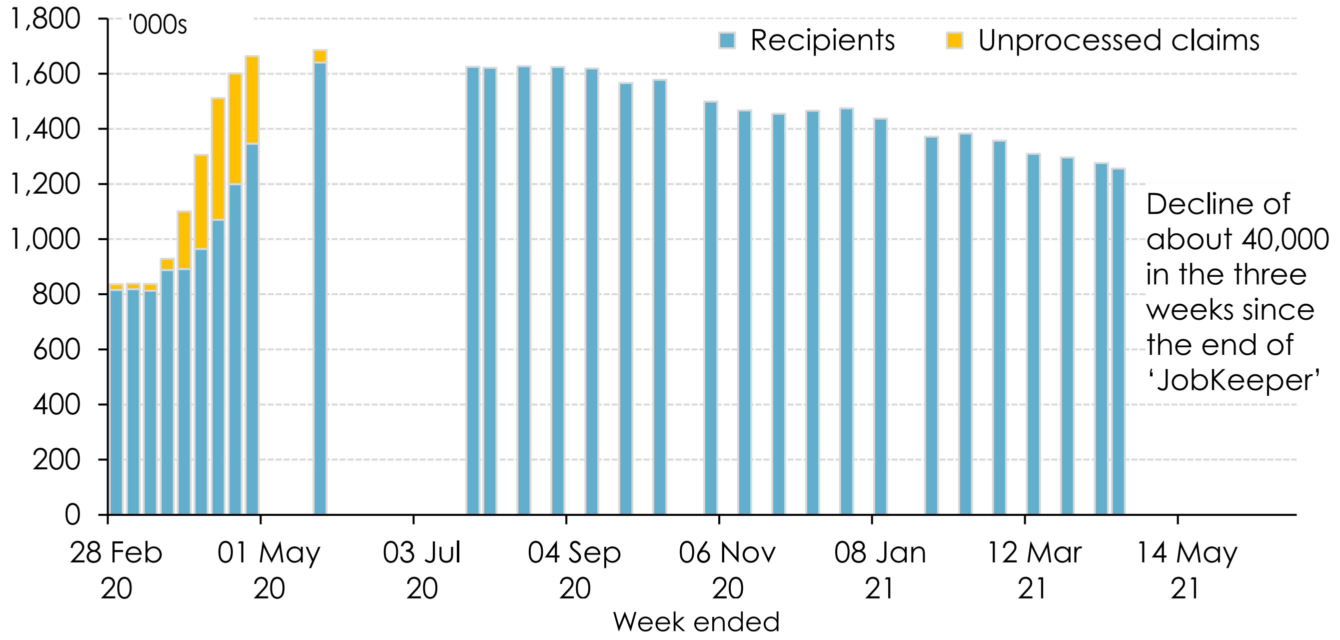
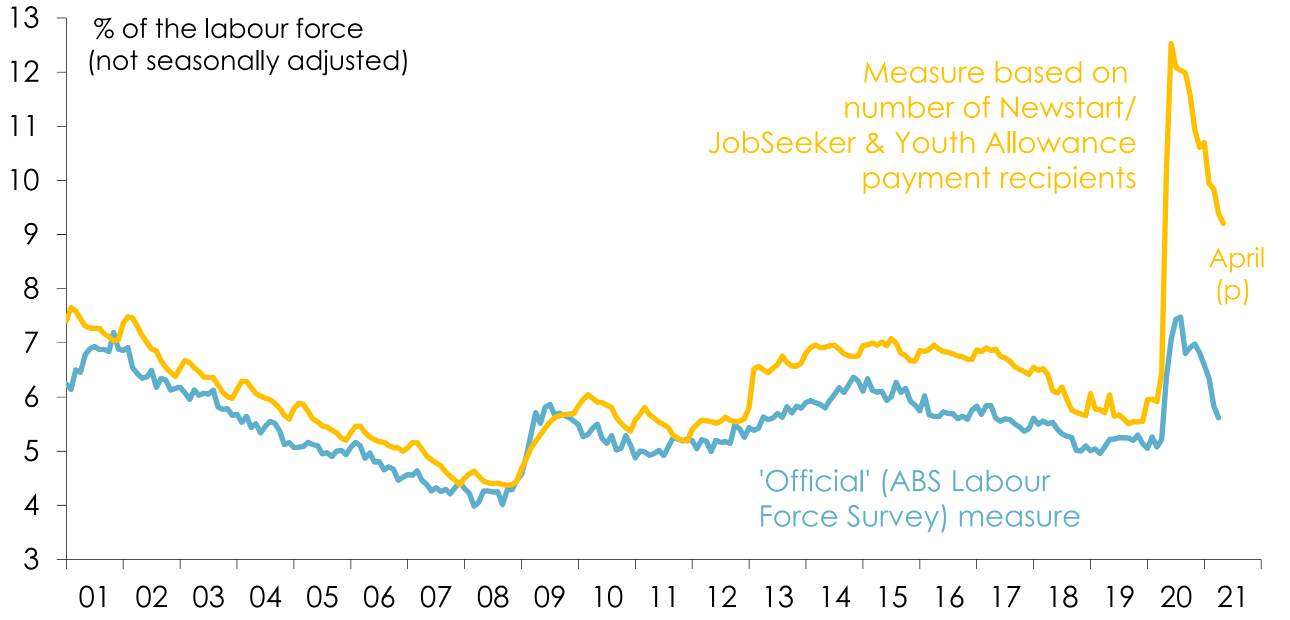
The number of people receiving ‘unemployment benefits’ has fallen by about 40,000 (3%) since the end of the Government’s ‘JobKeeper’ scheme

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

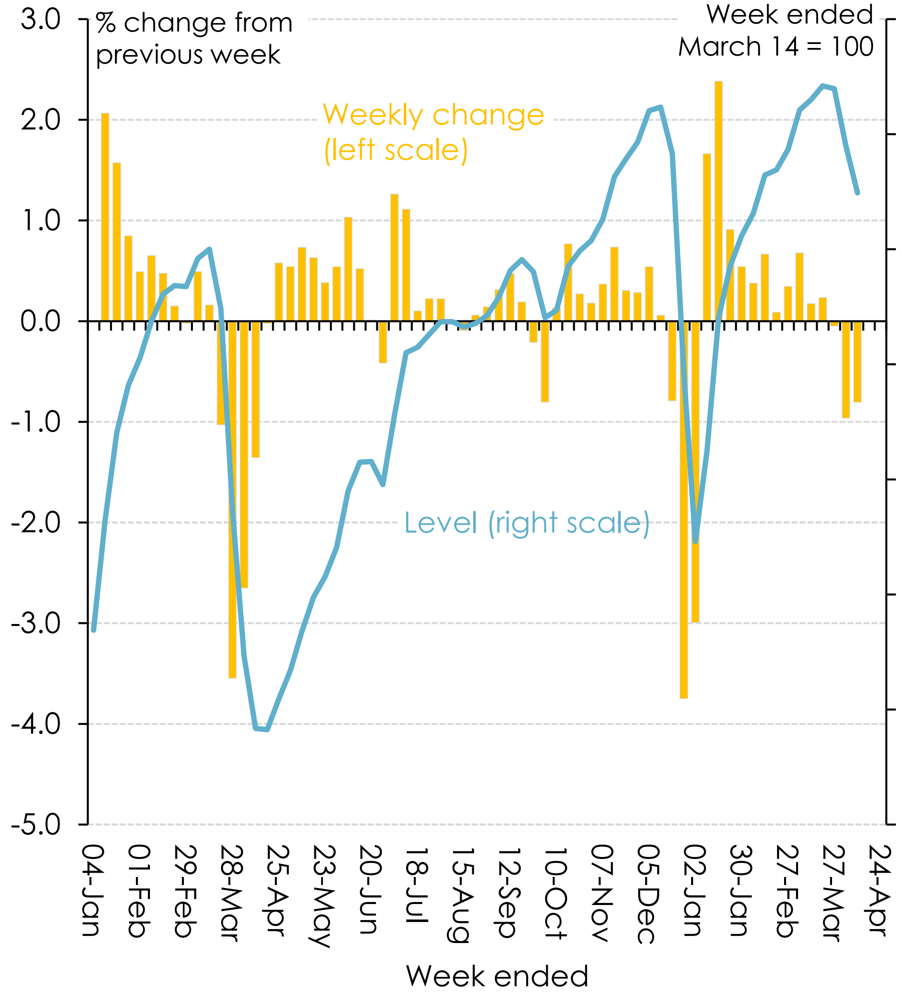


- ❑ **Ministers receive weekly data on the number of people on JobSeeker and Youth Allowance (Other) benefits – which since late July last year the Department of Social Services has made this available every second week to the Senate Select Committee examining the Government’s responses to Covid-19**
- ❑ **Data for the week ended 9th April (ie two weeks after the end of JobKeeper) show a decline of 20,500 (1½%) in the number of people receiving these two benefits from 26th March – and the Treasurer last week implied that there’d been a further fall of almost 20,000 in the week ended 16th April**
- ❑ **These numbers aren’t seasonally adjusted (and may have been affected by the Easter break), but at face value they suggest there hasn’t been a large rise in unemployment following the termination of JobKeeper**

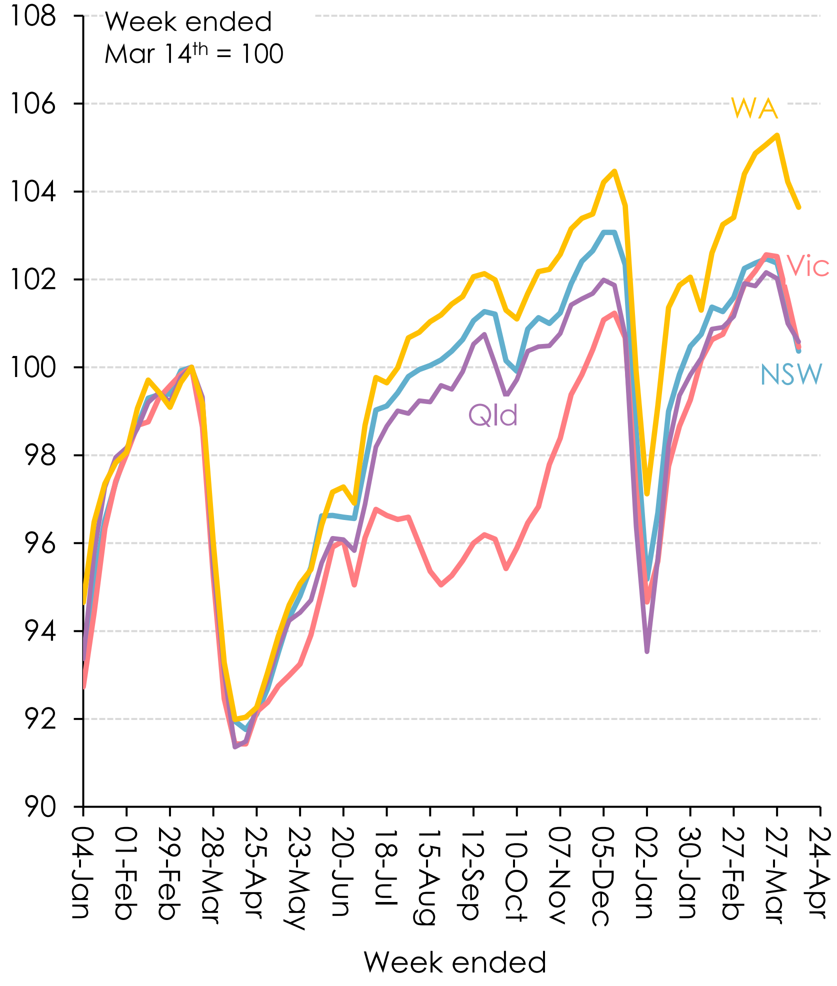
Sources: Department of Social Services, *JobSeeker Payment and Youth Allowance Recipients - monthly profile*, ABS; Senate Select Committee on Covid-19, *Additional documents*. Return to "What's New“.

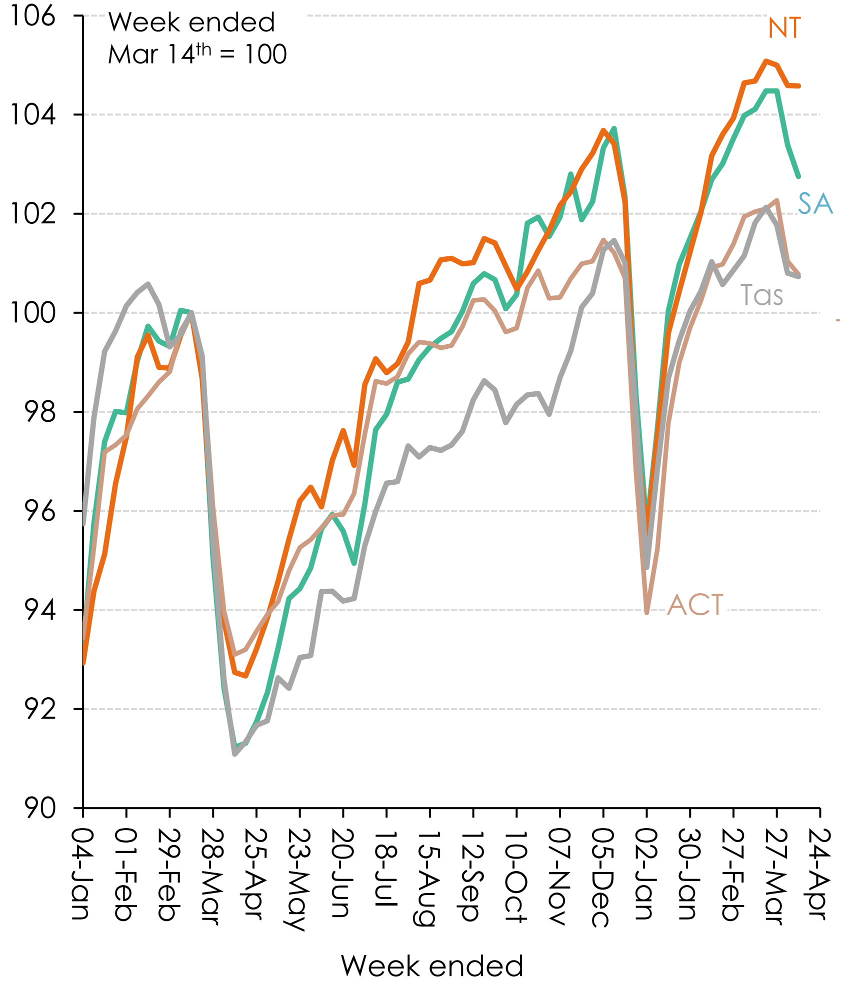
Payroll jobs fell by 1.8% over the first two weeks of April (after the end of JobKeeper), but that may have been partly due to the Easter holidays

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 24th April will be released on 11th May. Return to "What's New".

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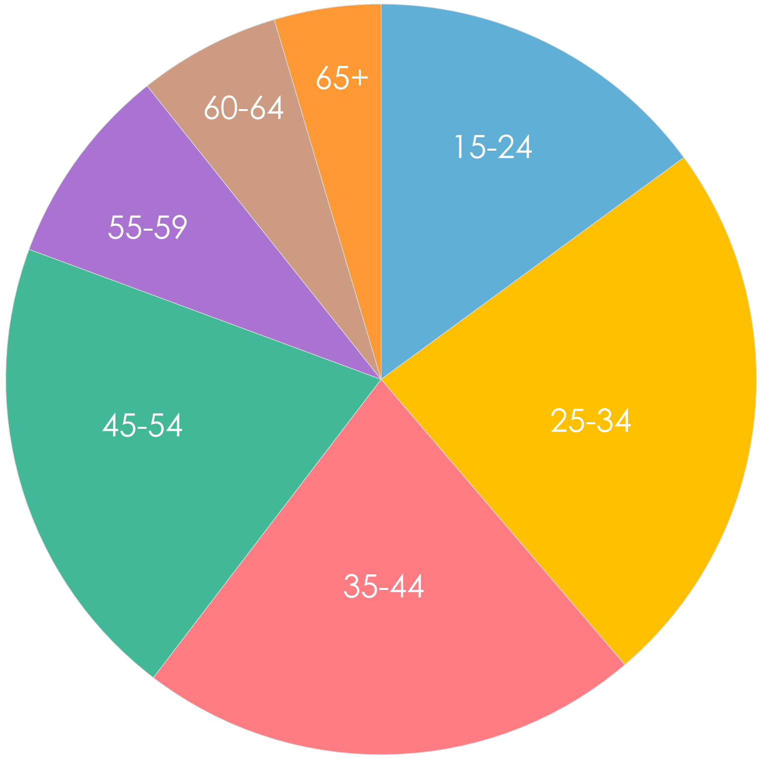
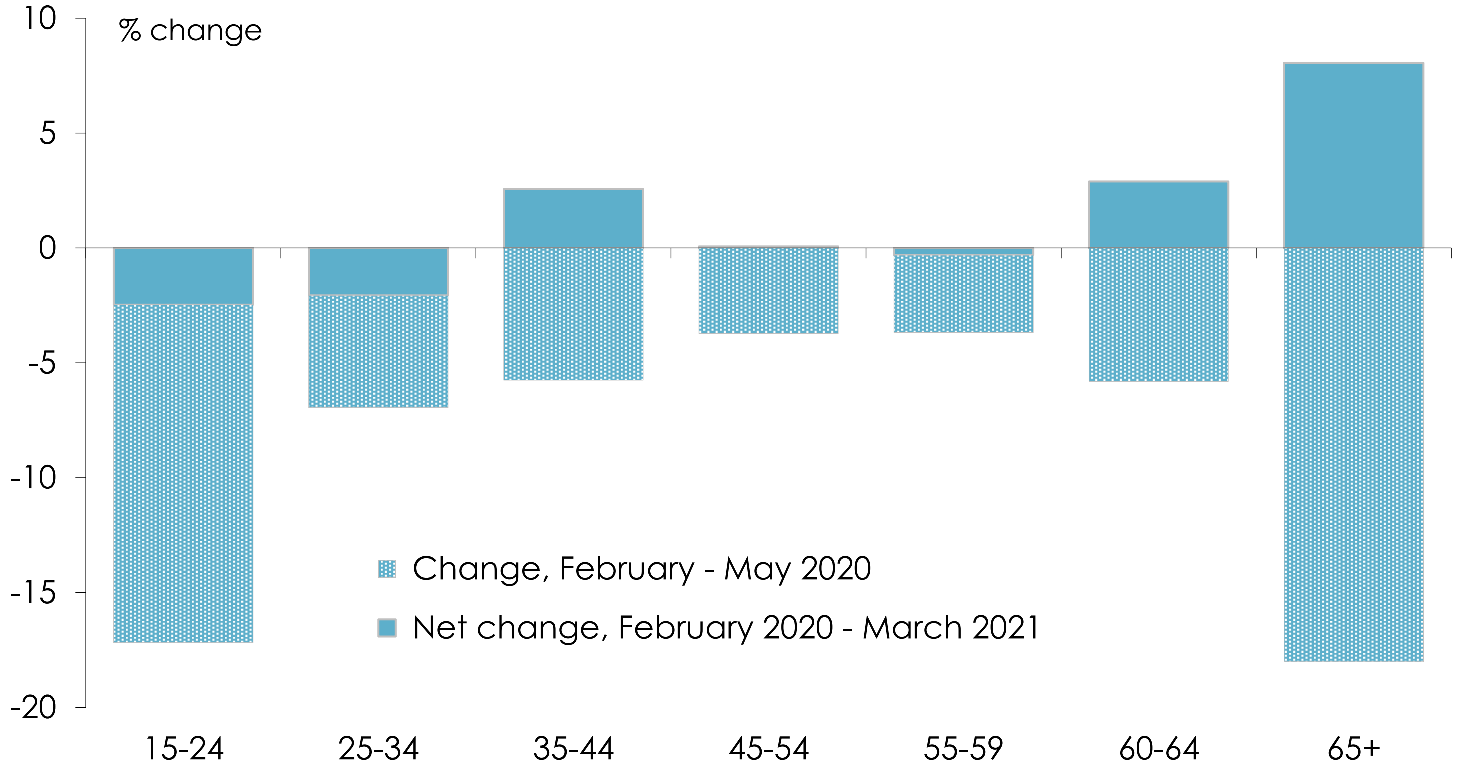
Younger workers bore the brunt of job losses during the early stages of the pandemic and have had a more difficult time regaining jobs

Composition of employment by age group, February 2020



Change in employment between February 2020 and March 2021, by age group



- **People aged 15-24 accounted for 15% of pre-covid employment but experienced 39% of all job losses between February and May last year – and as of March their employment was still down 2.5% on a year earlier, while that of 25-34 year-olds was still down 2.1%**
- **By contrast employment among older age groups was either virtually unchanged (45-59 year-olds) or up by 2½-3 % (35-44 year-olds and those aged 60 or over)**

Note: data on employment by age group is not seasonally adjusted. *Source:* ABS, Labour Force, Australia, Detailed, March 2020: April data will be released on 27th May. Return to "What's New".

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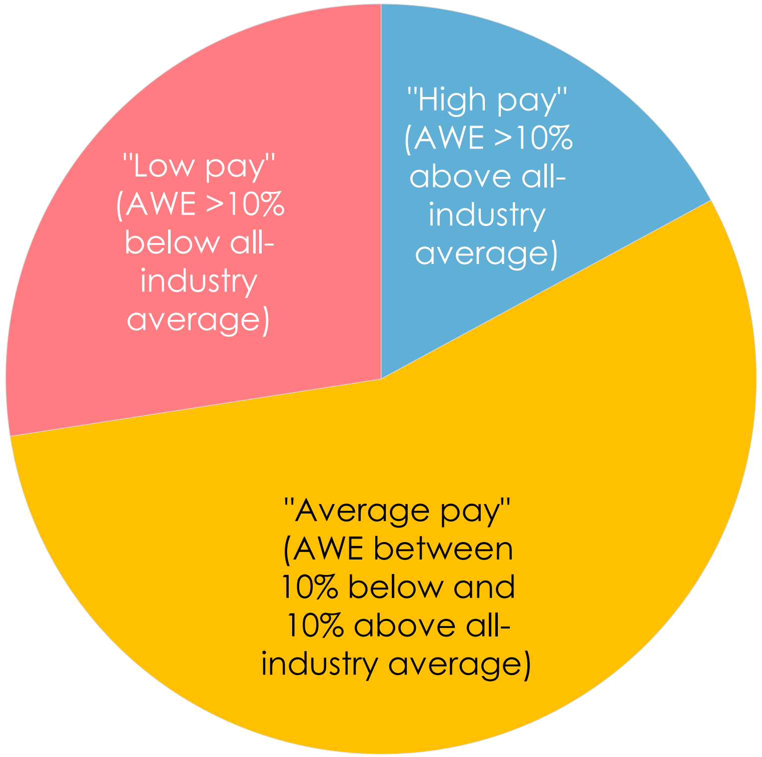
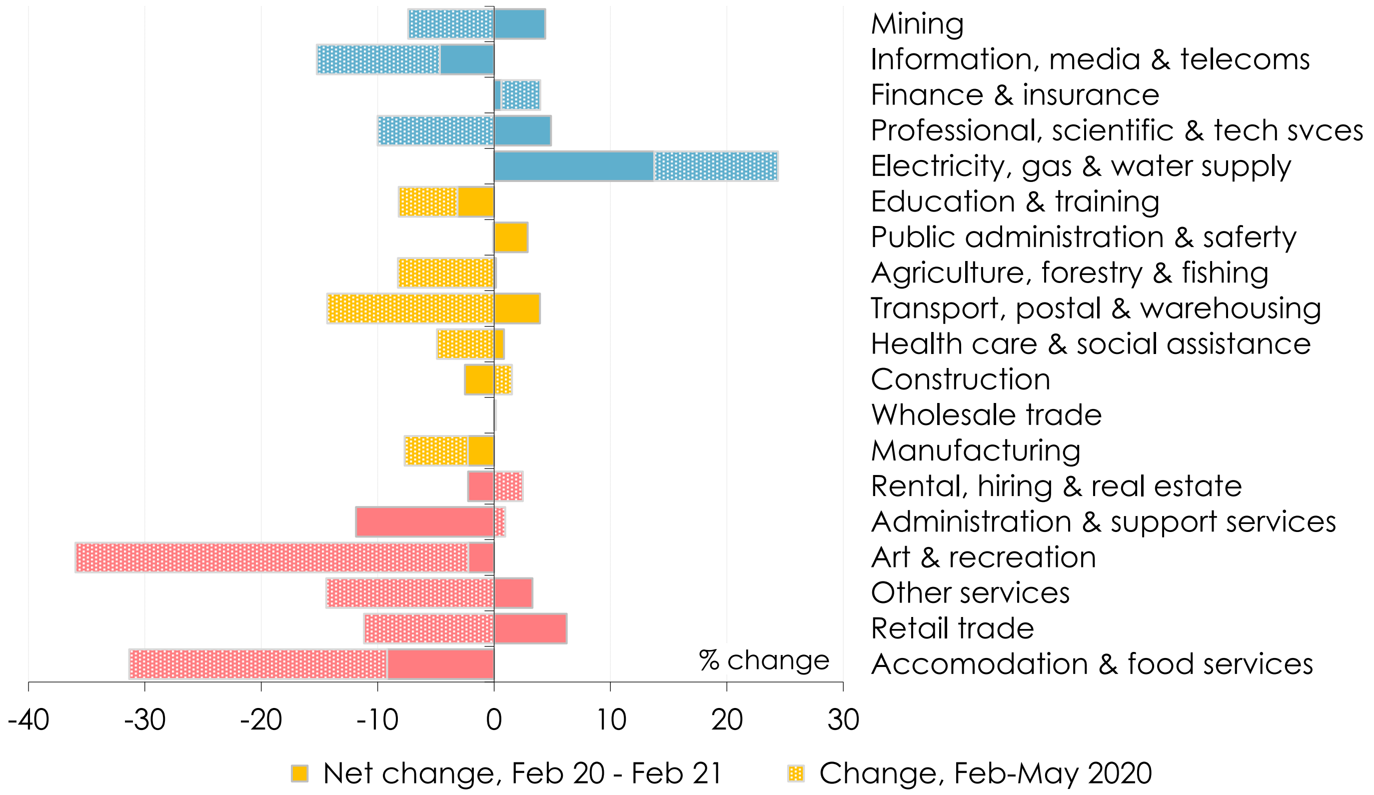
Workers in low-pay industries experienced the bulk of job losses during the downturn and the greatest difficulty regaining them since then

Composition of employment by industry ranked by average weekly earnings, February 2020



Change in employment between February 2020 and February 2021, by industry

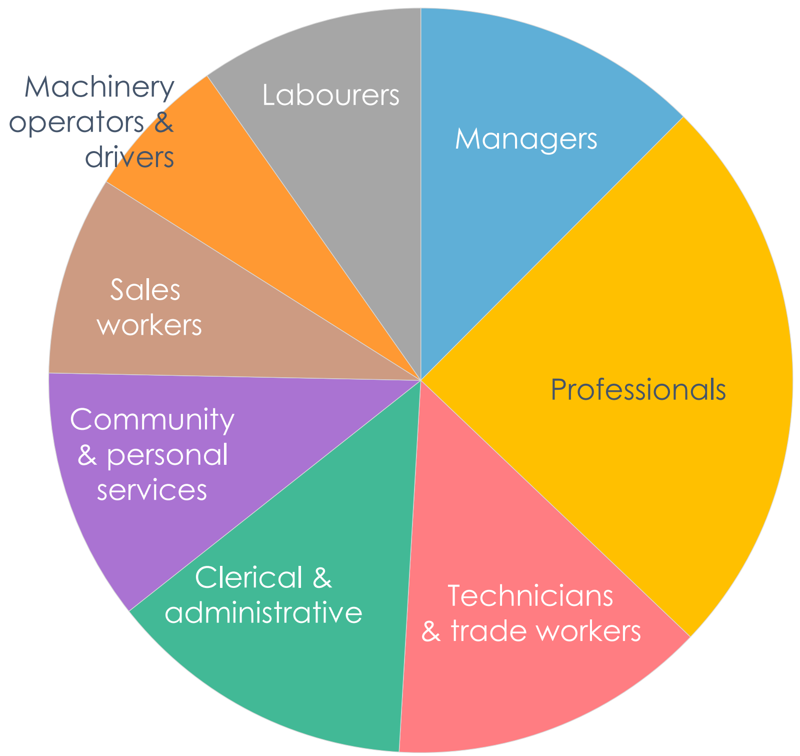


- **Industries with average earnings which are 10% or more below average accounted for 27½% of the pre-pandemic workforce, but experienced 64% of the job losses between February and May last year – and employment in those industries was still 9% lower in February this year than in February last year**
- **By contrast employment in "high pay" industries (17% of the pre-pandemic workforce) was only 1.1% lower in February than a year earlier, and employment in "average pay" industries was up by 0.8%**

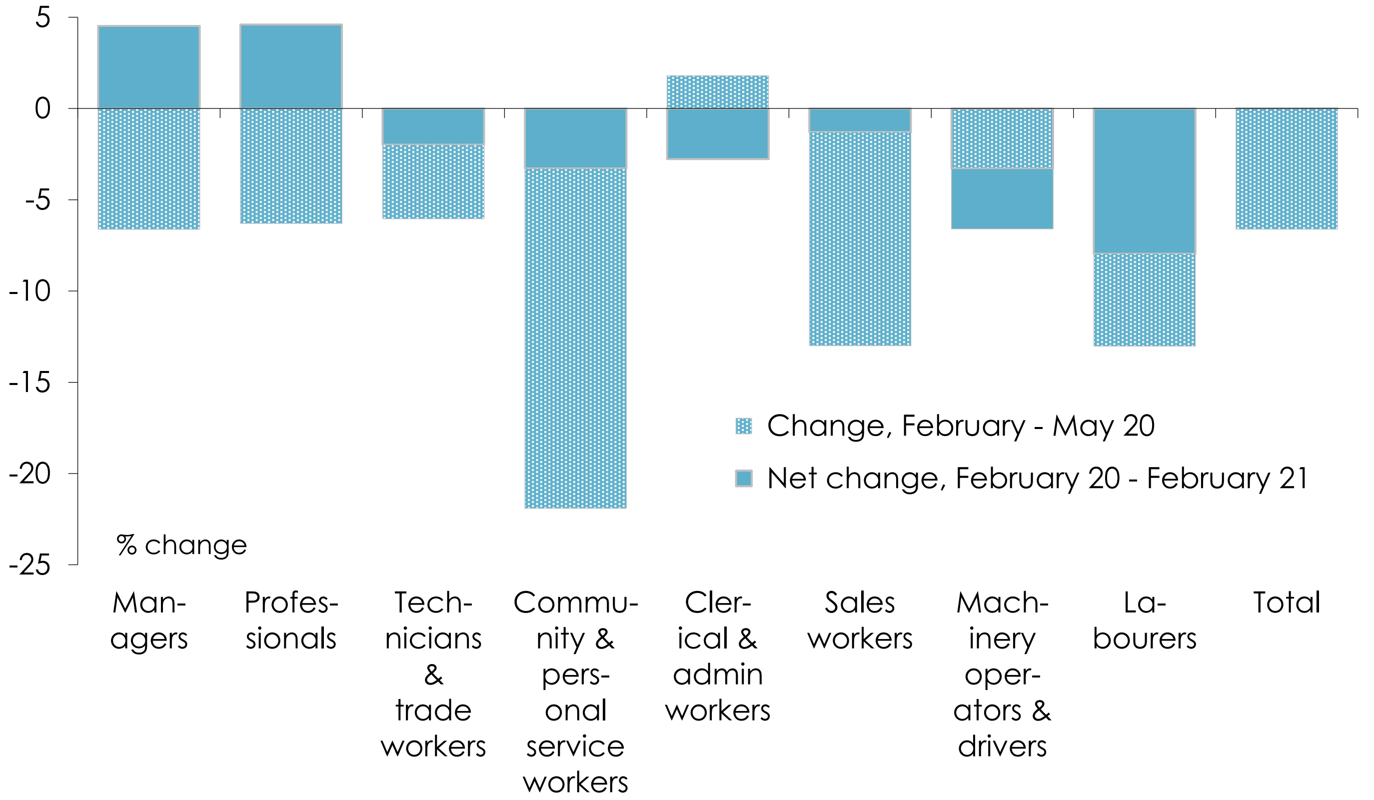
Source: ABS, Labour Force, Australia, Detailed, February 2021 and Average Weekly Earnings, Australia, November 2020 . Labour force survey data on employment by occupation are available only for the middle month of each quarter: May data will be released on 24th June. Return to "What's New".

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

Employment by major occupation category, February 2020



Change in employment between February 2020 and February 2021, by occupation

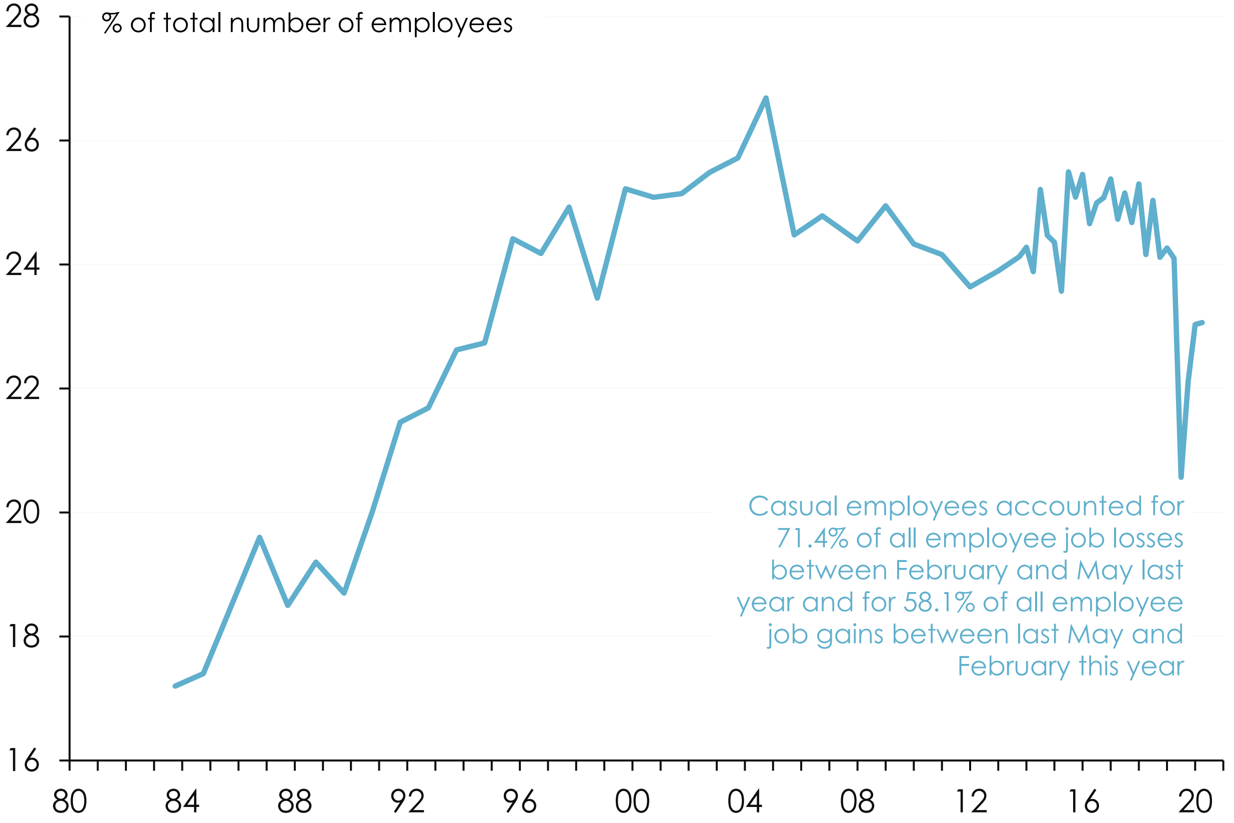


- **Community & personal services workers, sales workers and labourers accounted for 29% of the pre-covid work force, but experienced 73% of the job losses during the recession – and 25% of them still haven't regained their jobs (or found others) …**
- **… whereas there are 4½% more employed managers and professionals than there were in February last year (although the number of clerical and admin workers dropped 5% between November and February.**

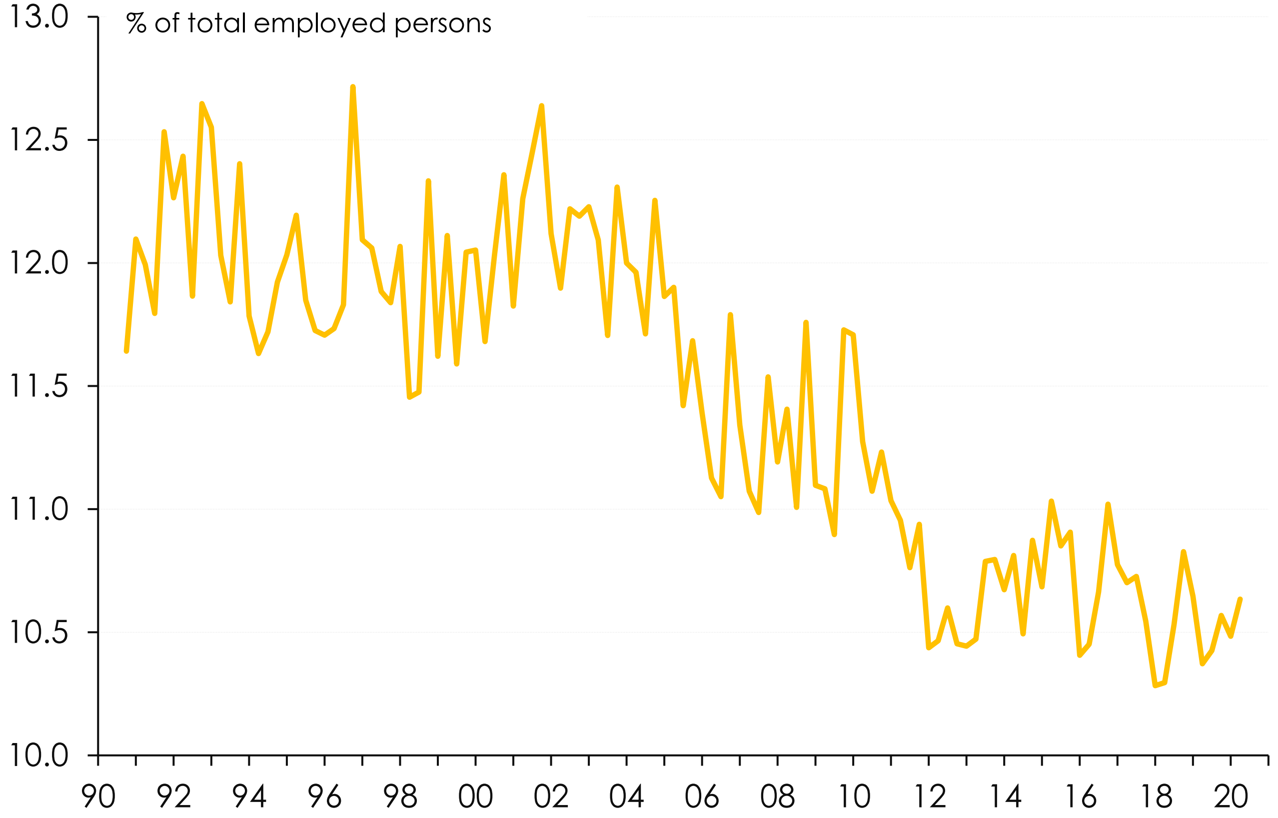
Source: ABS, Labour Force, Australia, Detailed, February 2021. Labour force survey data on employment by occupation are available only for the middle month of each quarter: May data will be released on 24th June. Return to "What's New".

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



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



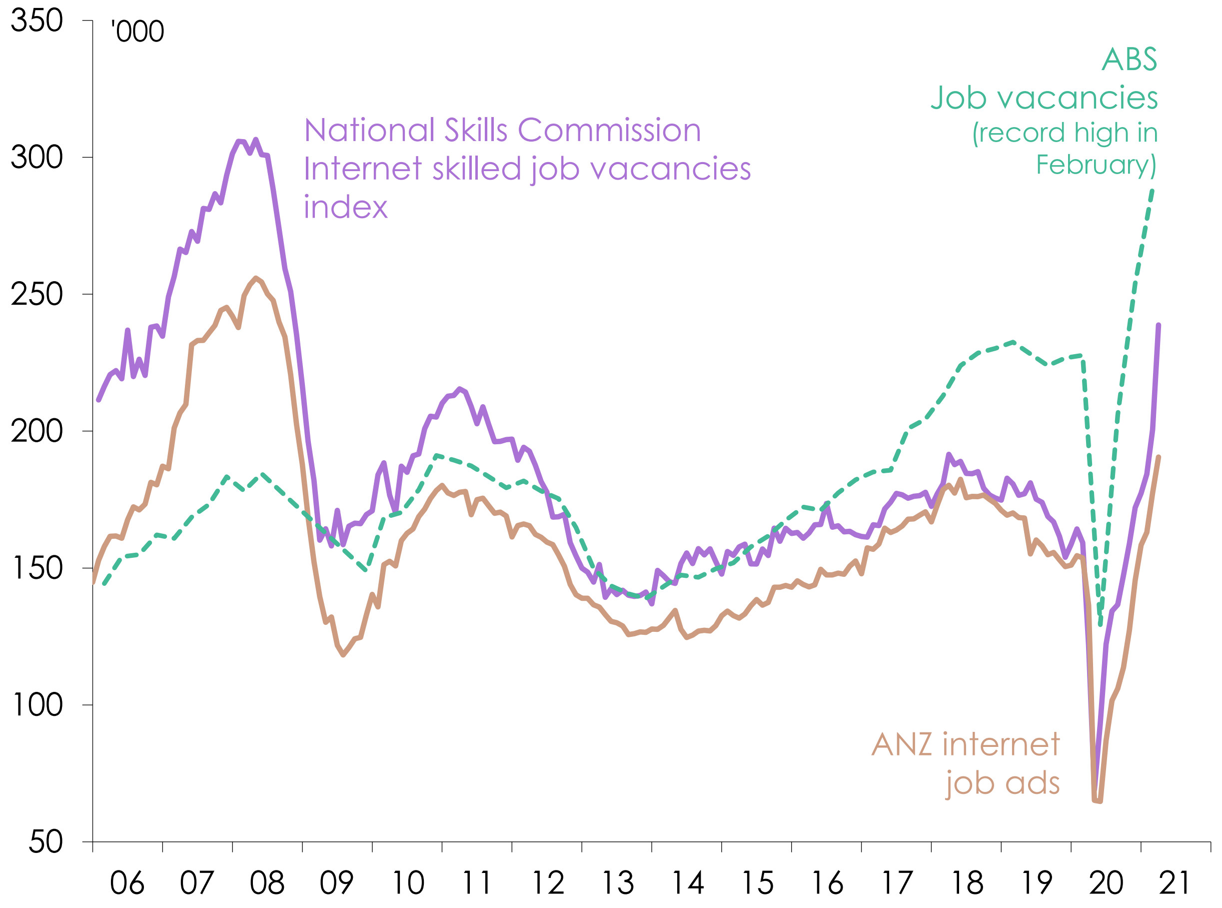
- **Casual employment increased significantly as a share of the total during the 1980s, 1990s and early 2000s but has not changed significantly since then – except for a sharp drop during the current recession**

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

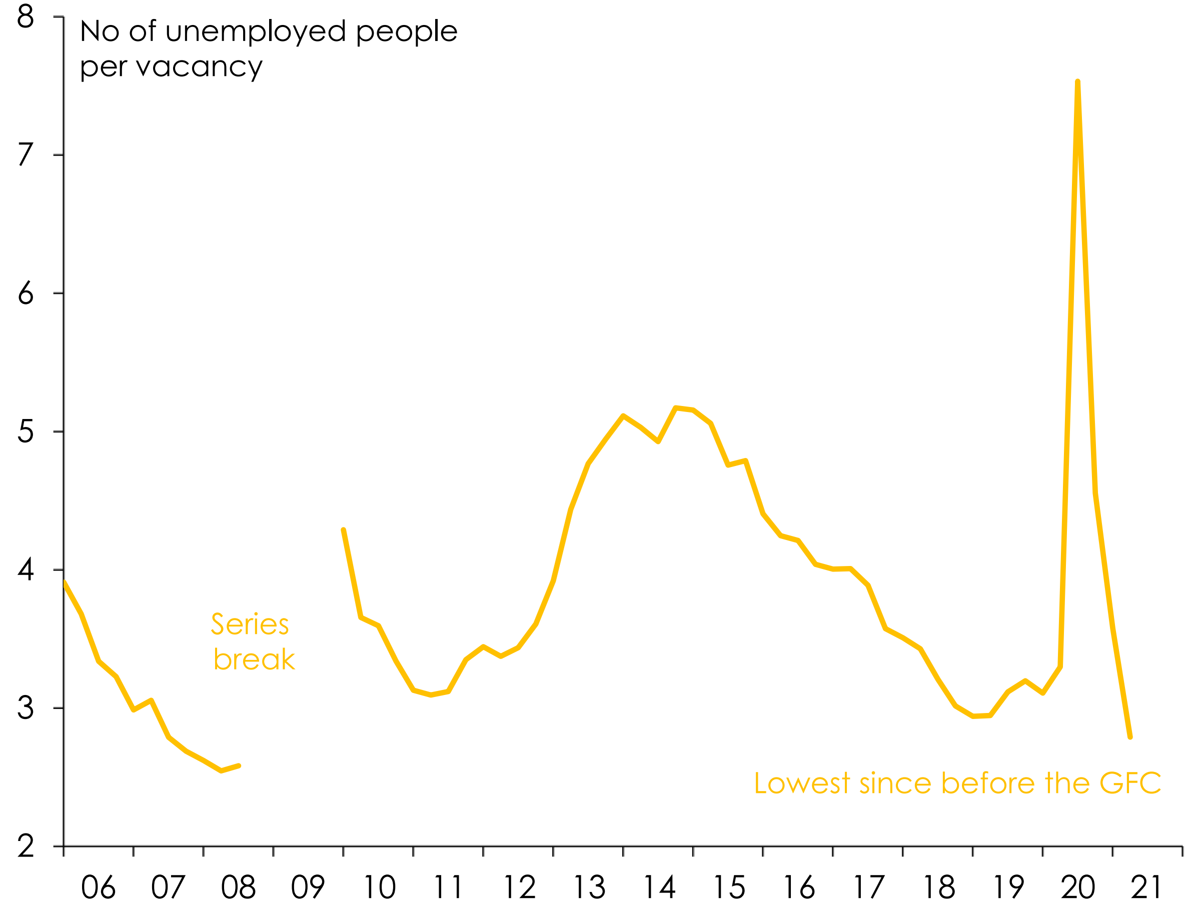
Note: data on casual employment are for August between 1984 and 2008; for November between 2009 and 2013; and for the middle month of each quarter since then; data on owner-managers are for the middle month of each quarter. *Sources:* ABS, Characteristics of Employment, Australia, and earlier equivalents;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

Job vacancies have rebounded swiftly from their recession lows, and the number of unemployed people per vacancy is at a 13-year low

Measures of job vacancies



Ratio of unemployed people to job vacancies



- ❑ **Both the ANZ and NSC job advertisements measures have more than recouped their pandemic-induced losses, while the ABS vacancies measure is at an all-time high**
- ❑ **In February there were just over 2¾ unemployed people for every vacancy reported to ABS – down from a peak of 7½ in May but above the decade average of 3.9**

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

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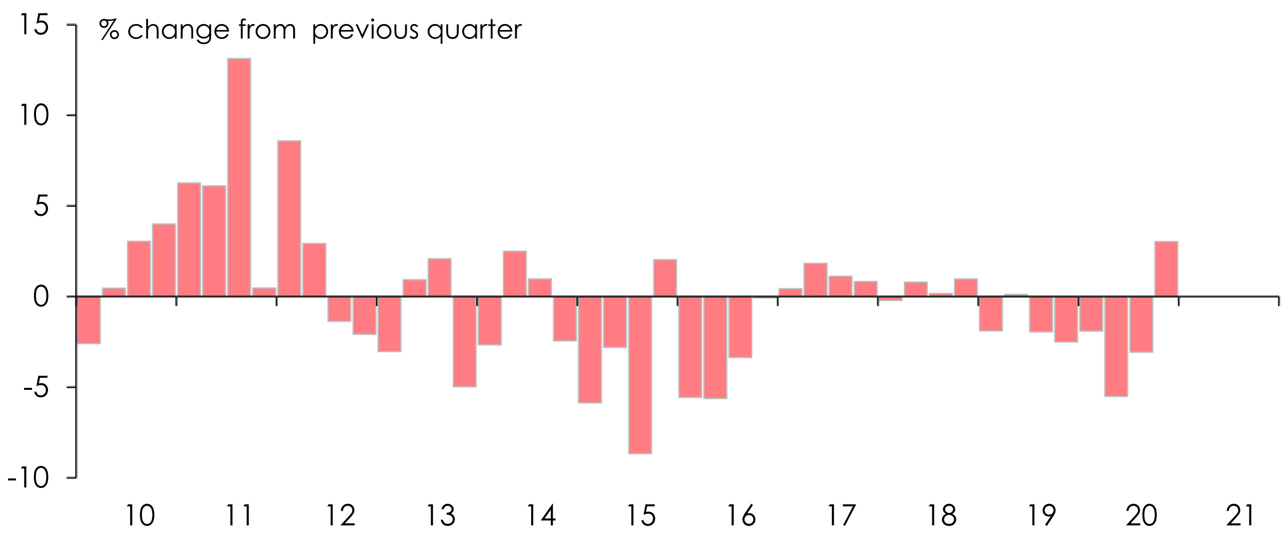
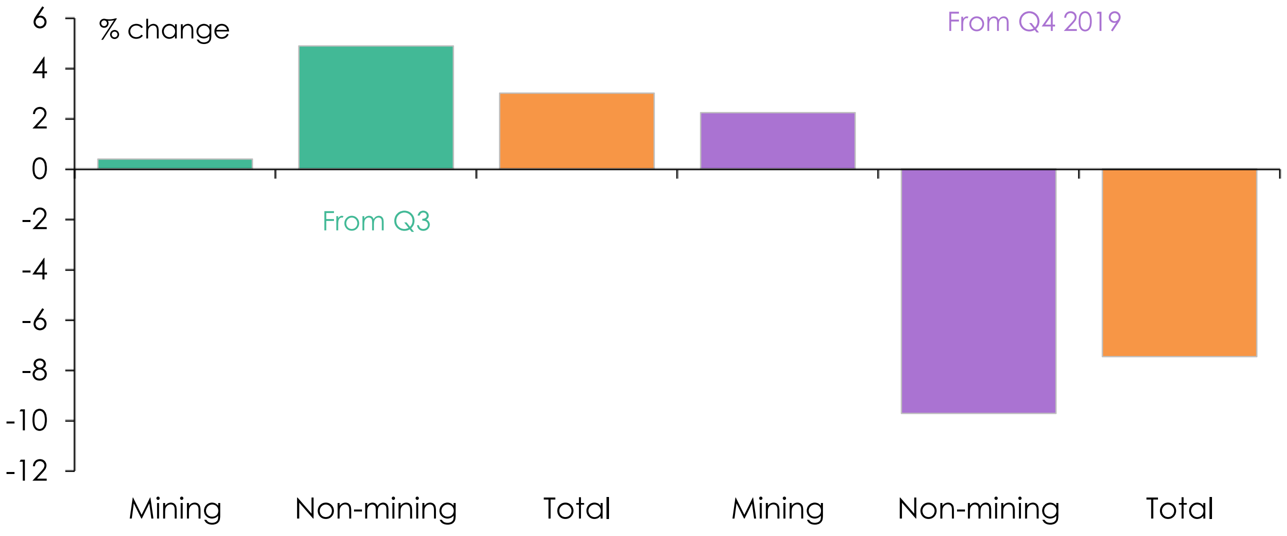
Business capex rose in Q4 2020 for the first time in two years, largely driven by the construction and transport sectors, and despite a fall in mining

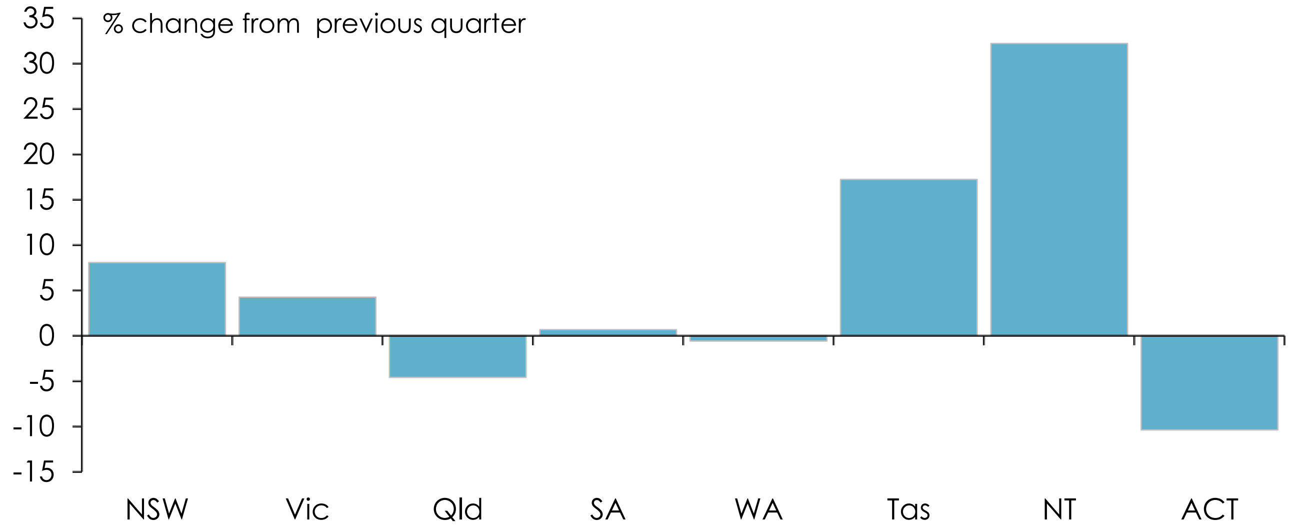
Real business new fixed capital expenditure



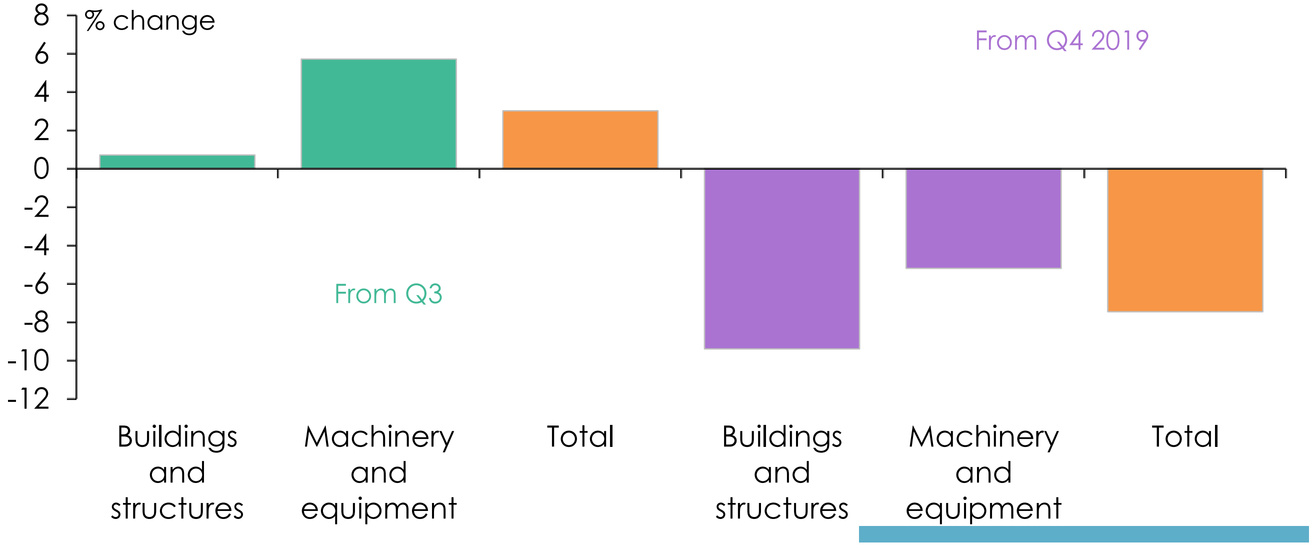
Real business new fixed capex, by industry, Q4



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".

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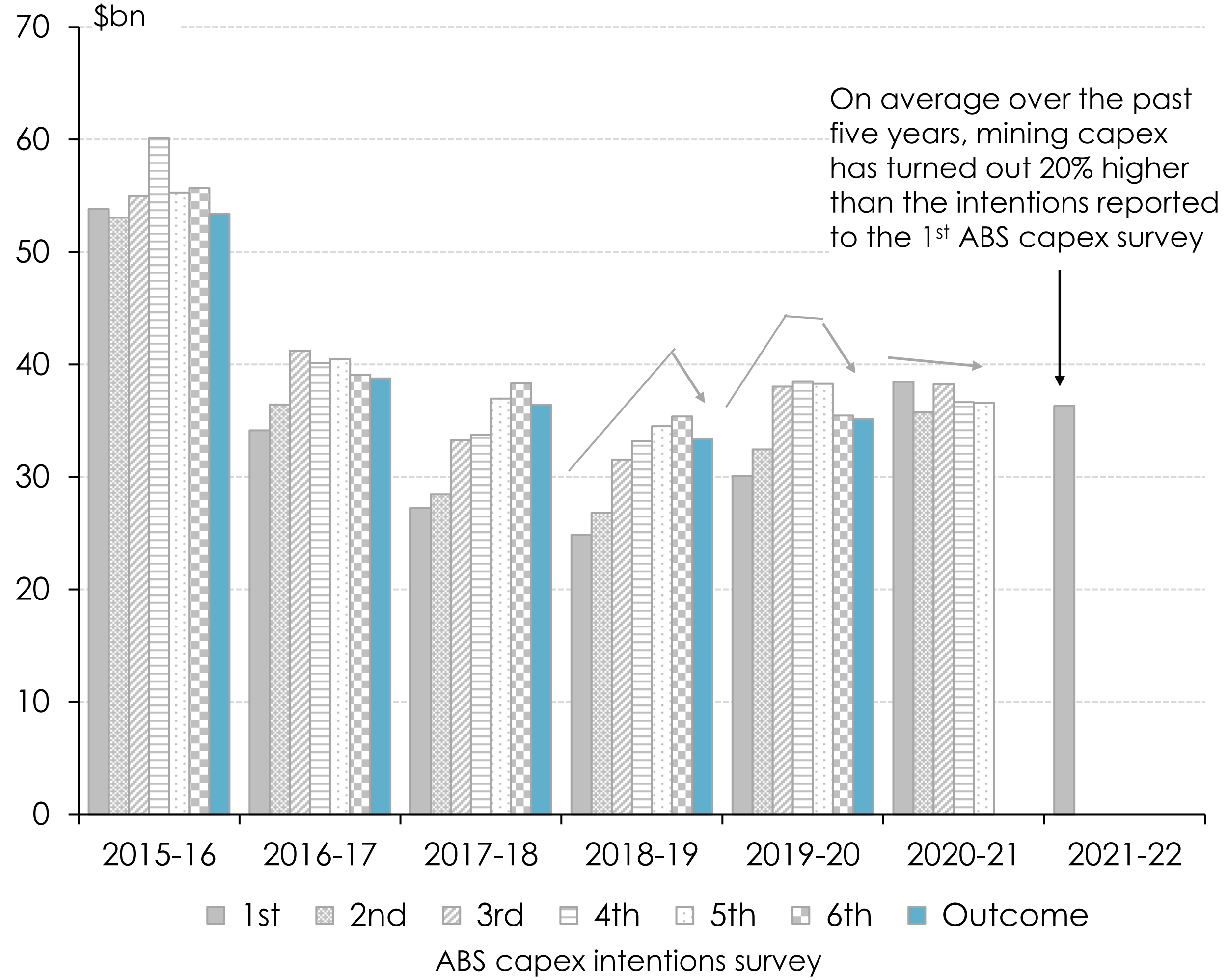
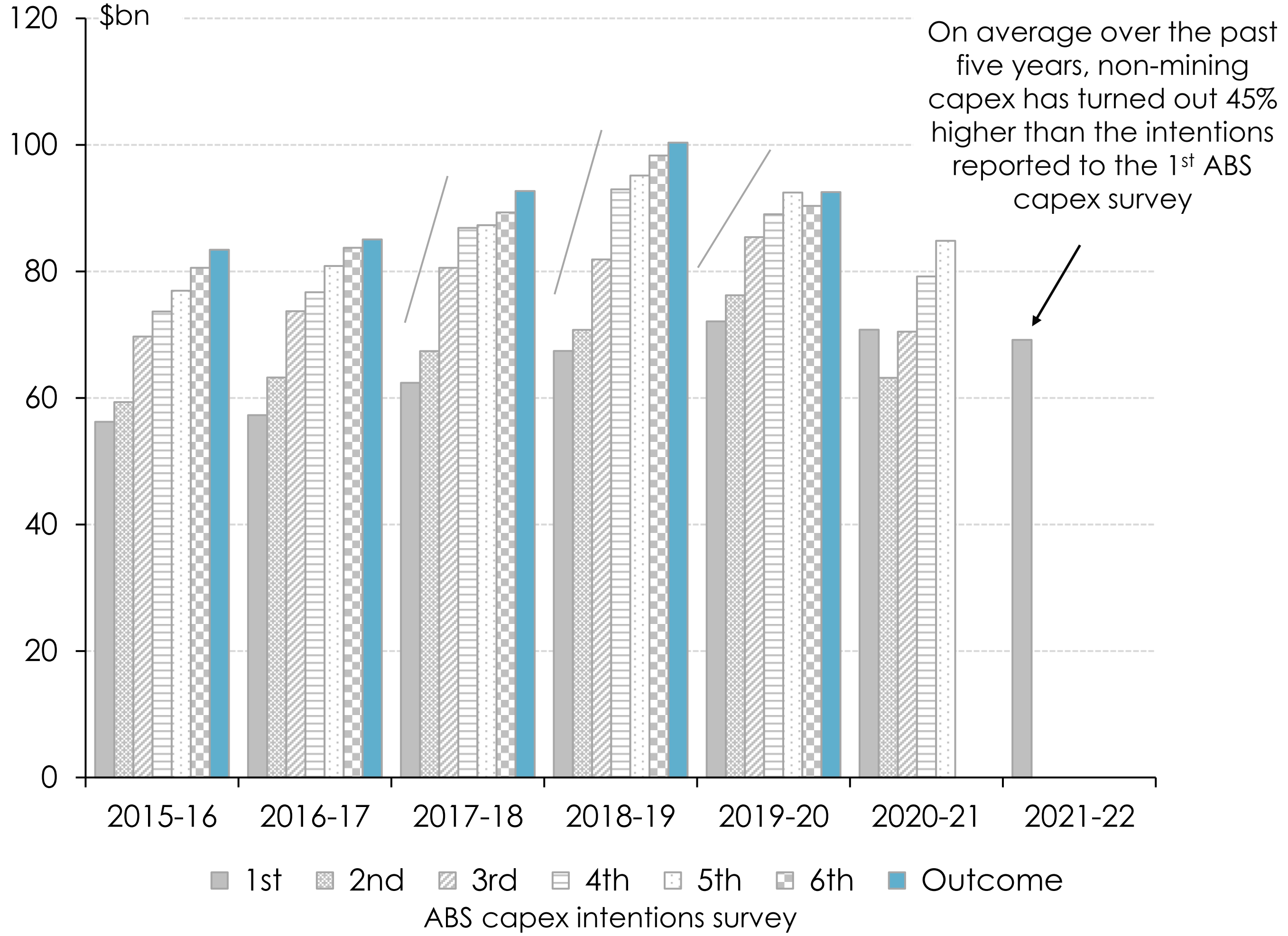
Business capex now looks like falling a bit less than previously suggested in FY 2020-21, while the first estimate for 2021-22 points to a strong rebound

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).

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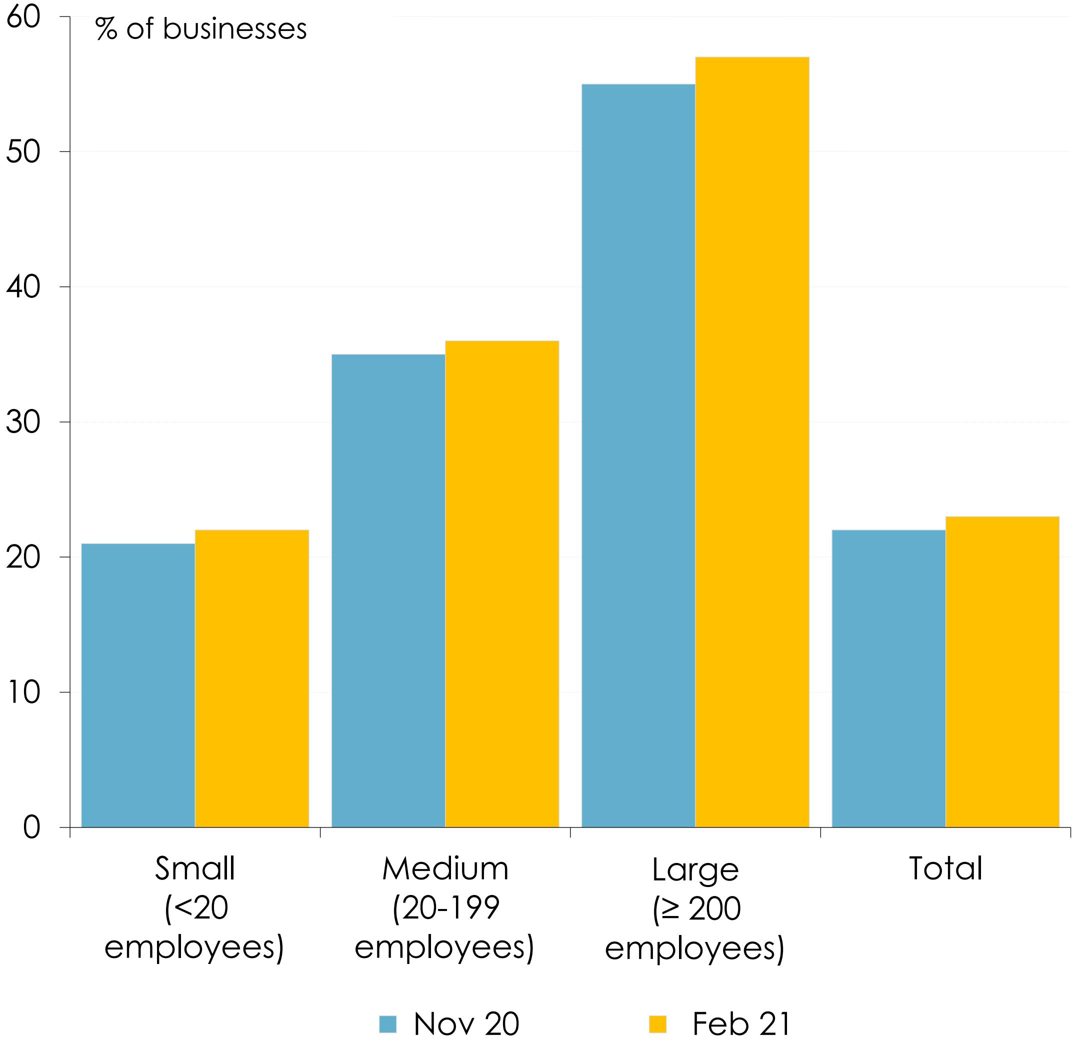
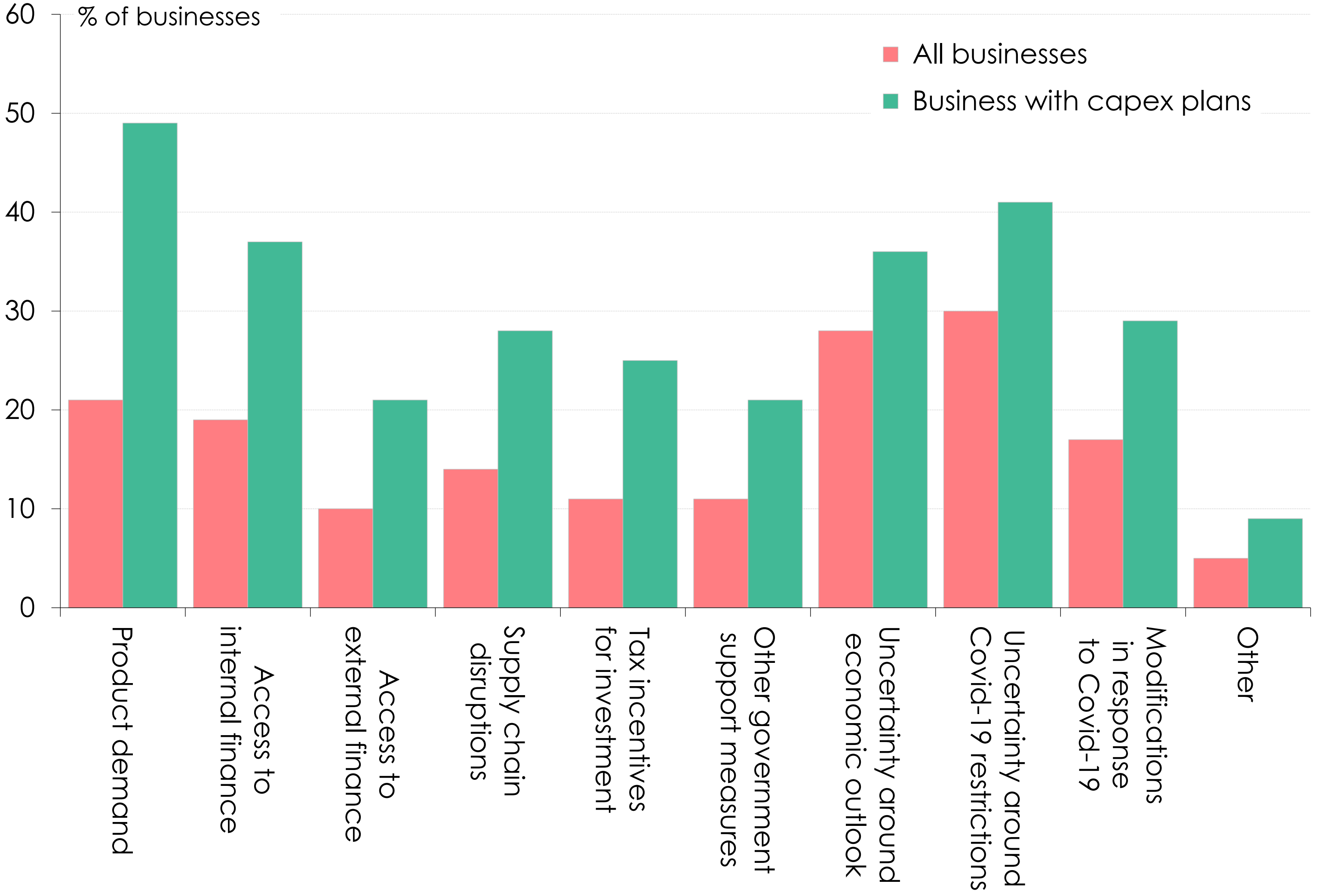
Medium-sized and large businesses will be the 'engine rooms' for capex (as well as job creation), not small ones

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 88 for data on employee hiring intentions by business size. Return to "What's New".

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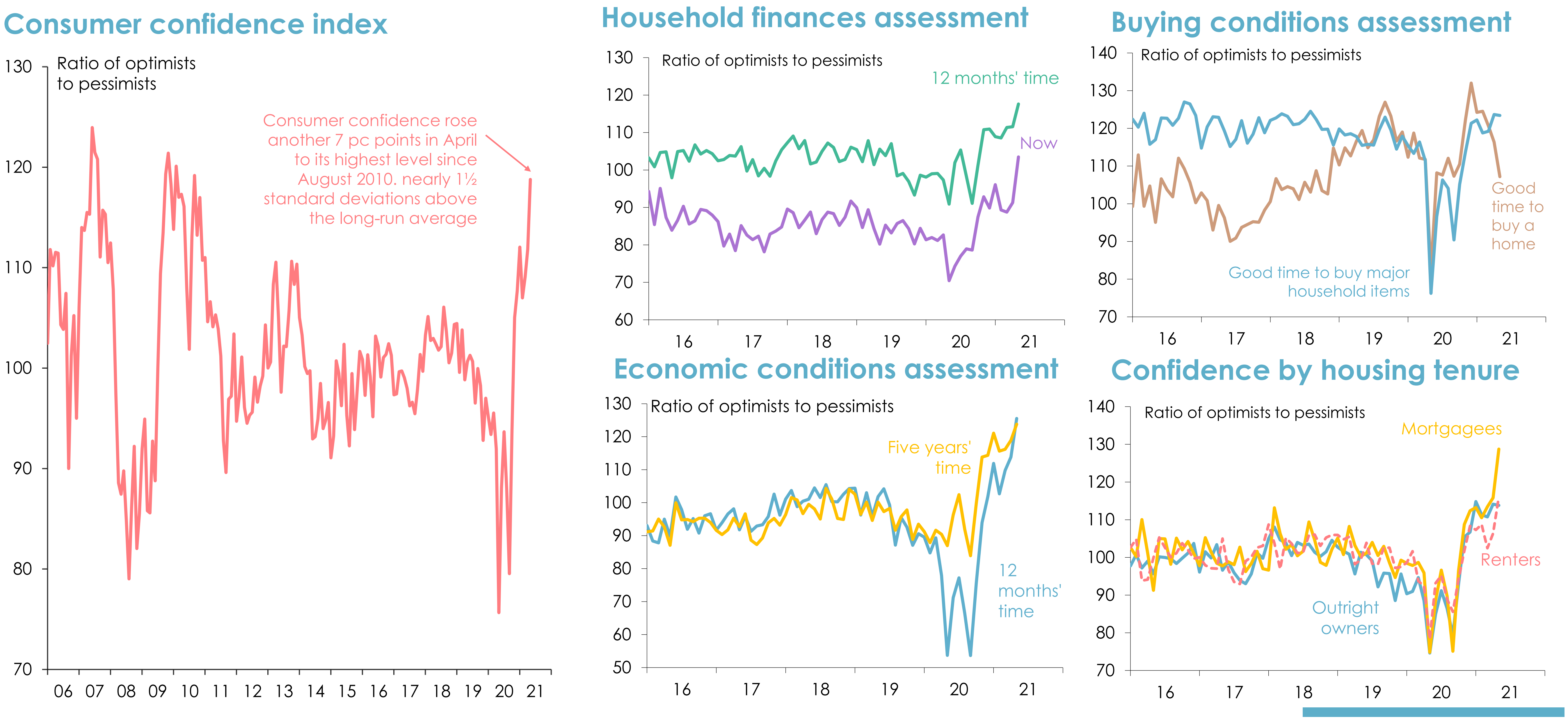
Consumer confidence rose strongly in April to its highest level in almost 11 years, with gains in every component except housing affordability



Source: Westpac Banking Corporation. May consumer confidence will be released on 12h April. Return to "What's New".

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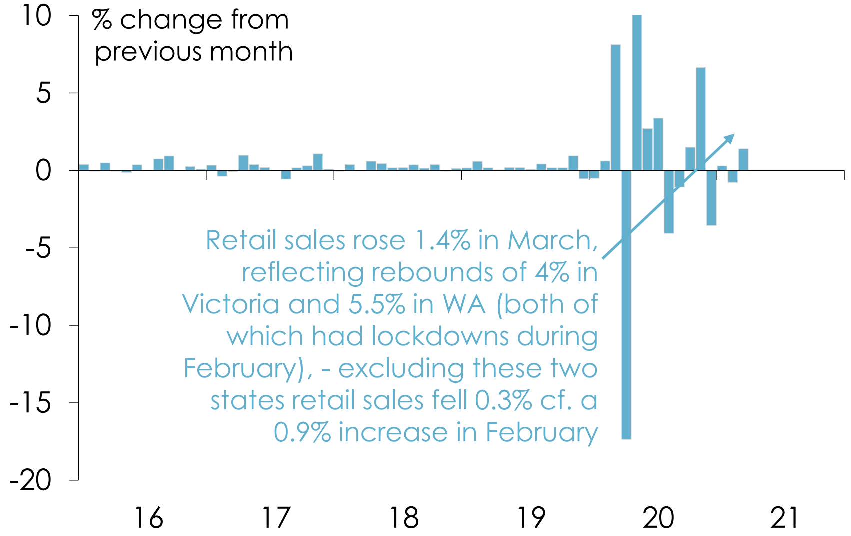
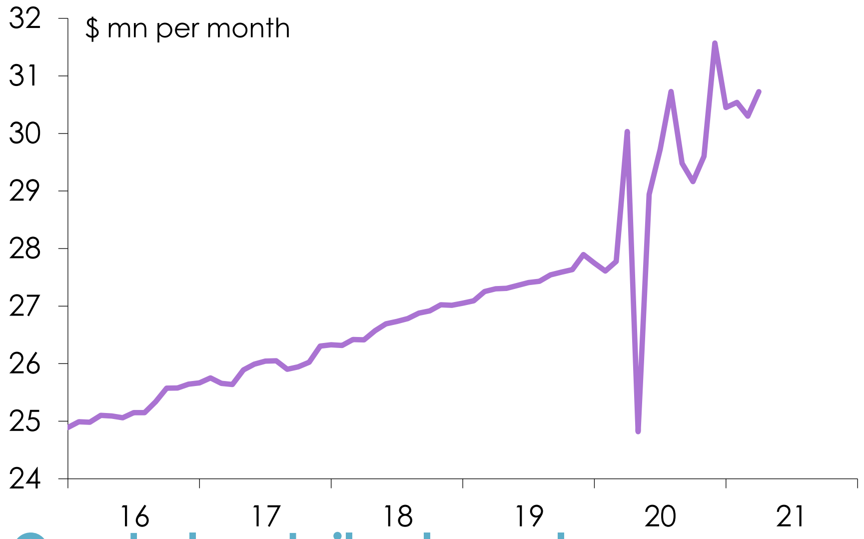
Retail sales rose 1.4% in March driven by rebounds in Victoria and WA after lockdowns in early February – but fell 0.3% excluding these two states

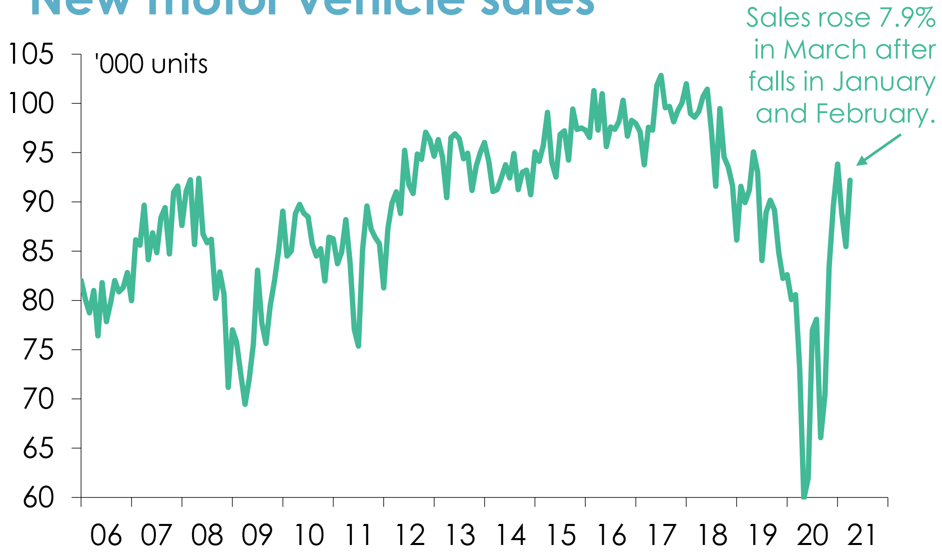
Monthly retail sales



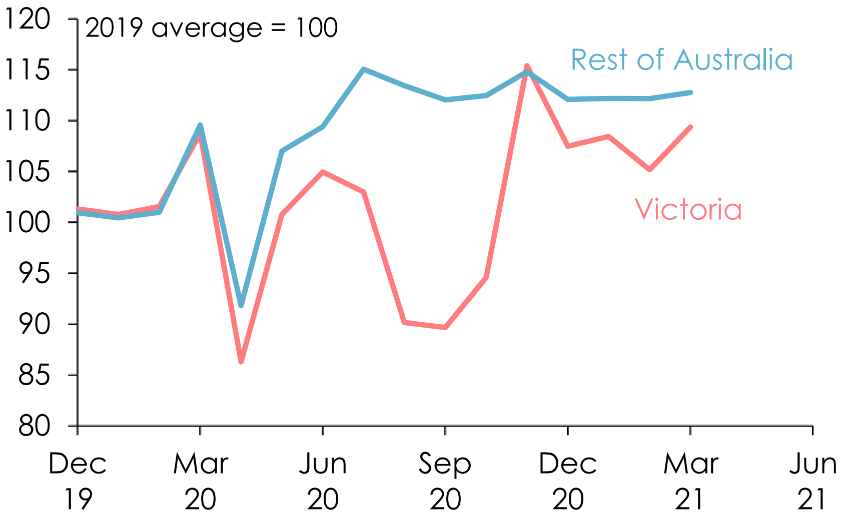
Level of retail sales



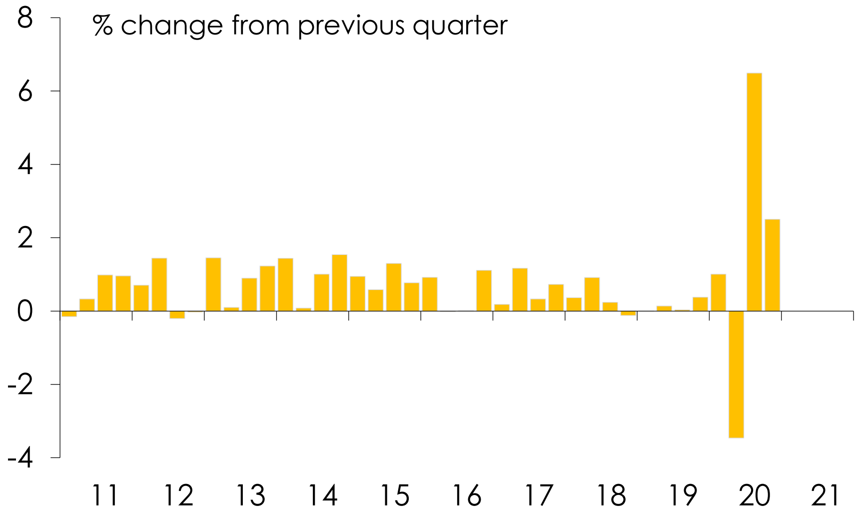
New motor vehicle sales



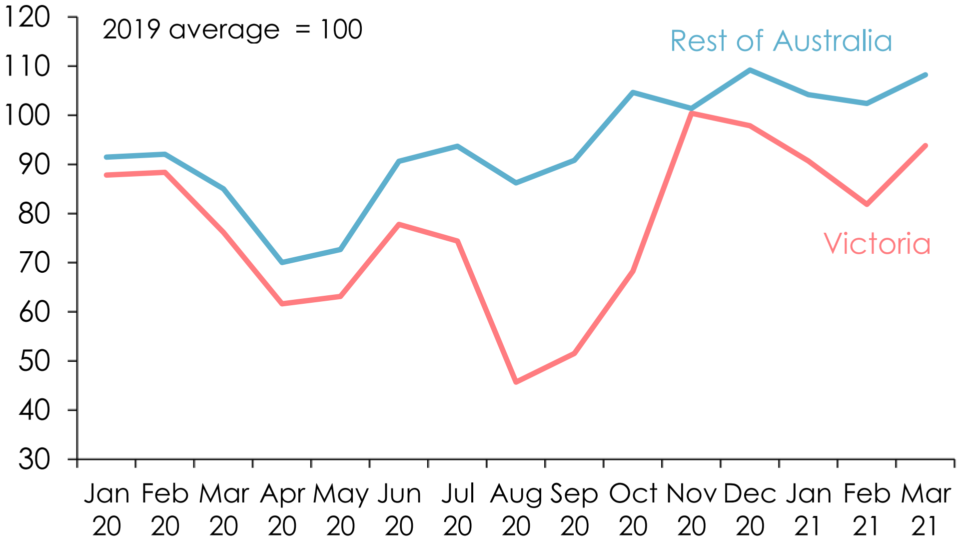
Retail sales – Victoria & the rest



Quarterly retail sales volumes



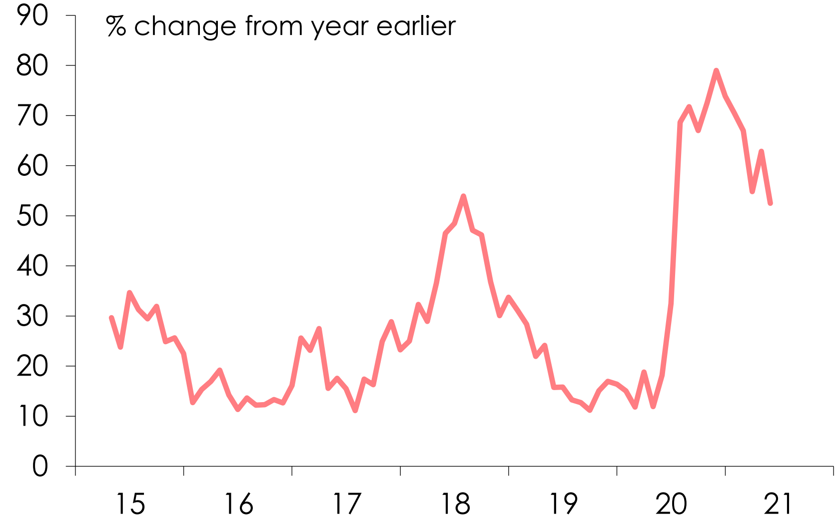
Vehicle sales – Victoria & the rest



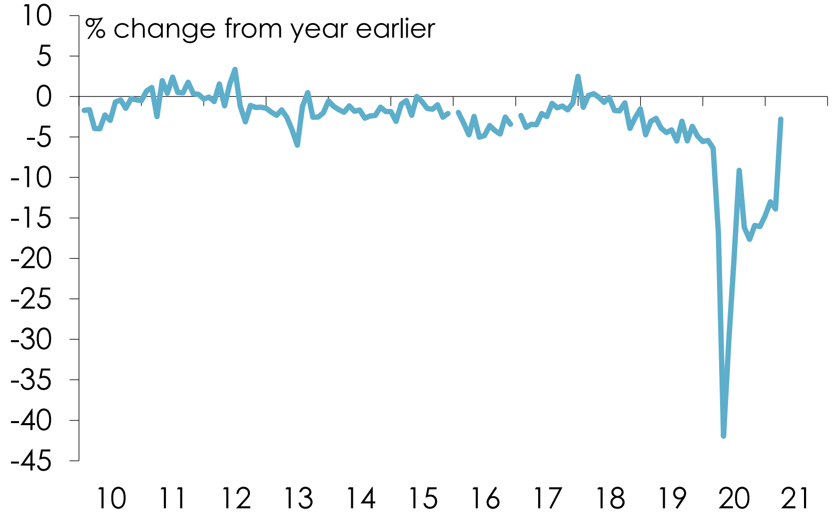
Sources: ABS, Retail Trade, Australia; Federal Chamber of Automotive Industries VFACTS (seasonal adjustment of FCAI data by Corinna). Final March retail sales will be released on 10th May; April motor vehicle sales data will be released in early May. Return to "What's New".

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

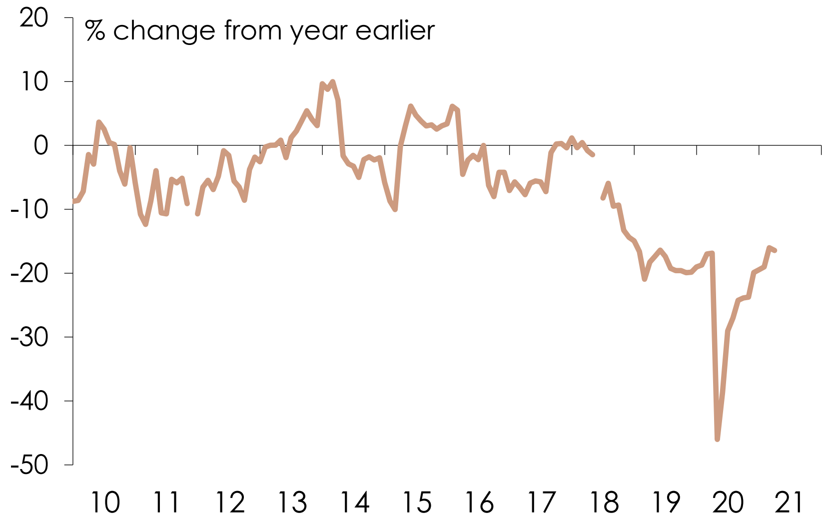
Growth in online retail sales



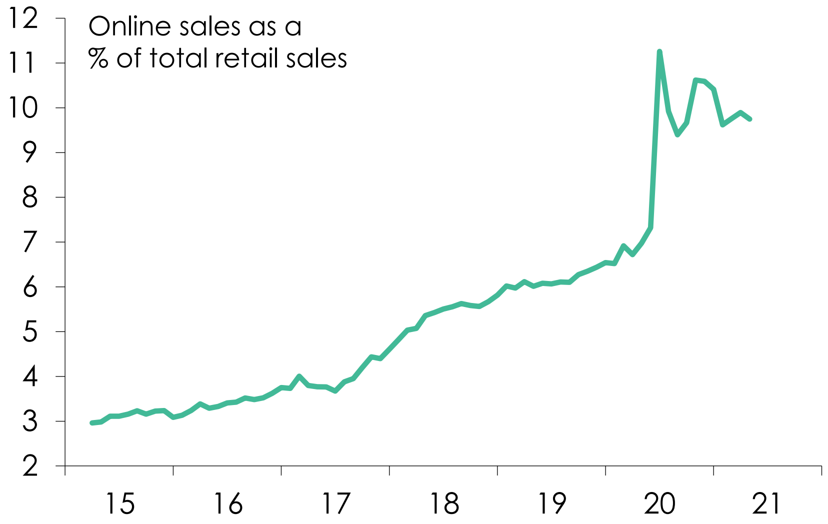
ATM cash withdrawals



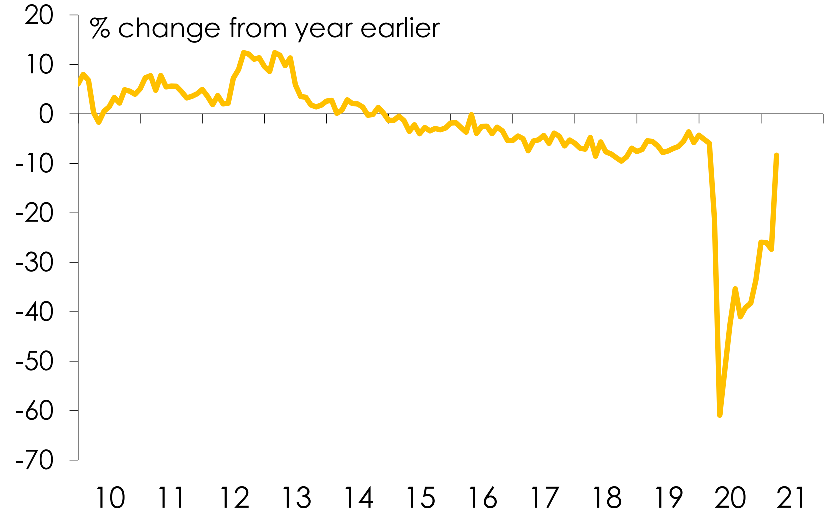
Credit card cash advances



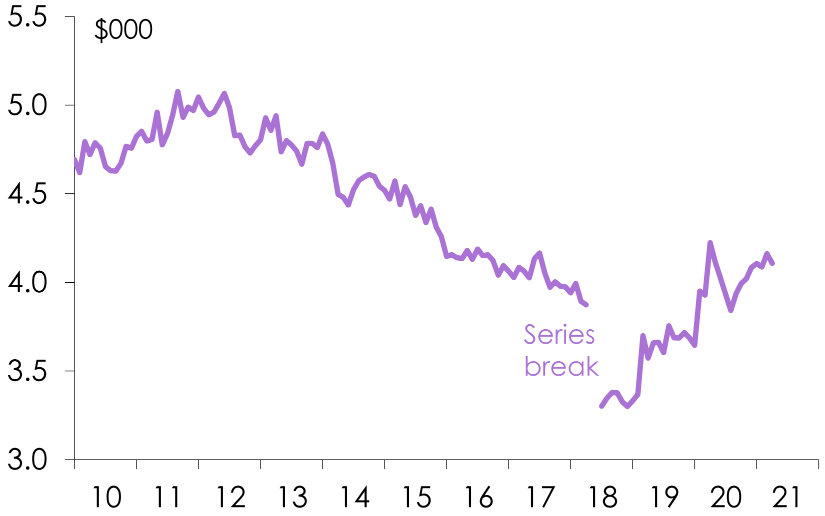
Online retail 'market share'



Debit card cash-outs



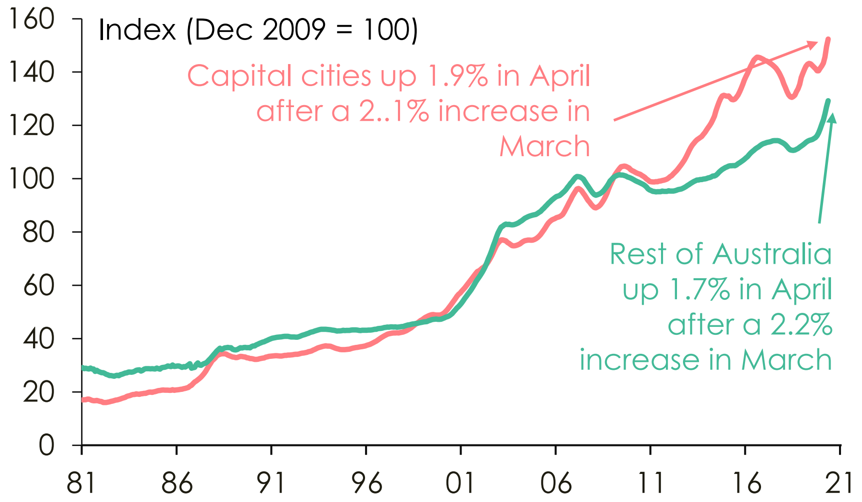
Direct entry payments



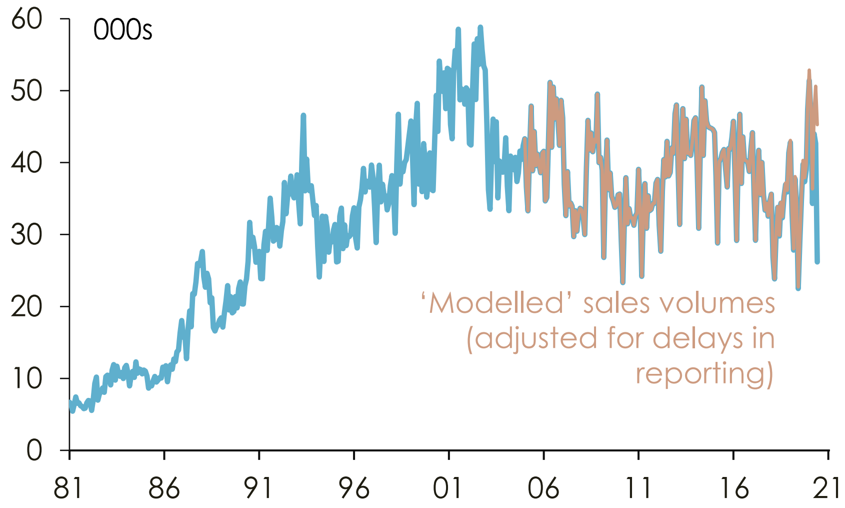
Sources: ABS, *Retail Trade, Australia*; RBA, *Statistical Tables*, C1, C2, C4 and C6. Latest data on online retail sales are for February: March data will be published on 10th May. Latest data on the payments system are for March; April data will be published on 7th June.

Property prices rose another 1.7% in April to be, on average, 7% above their pre-pandemic peak with capital cities up 4.7% and regions up 12.9%

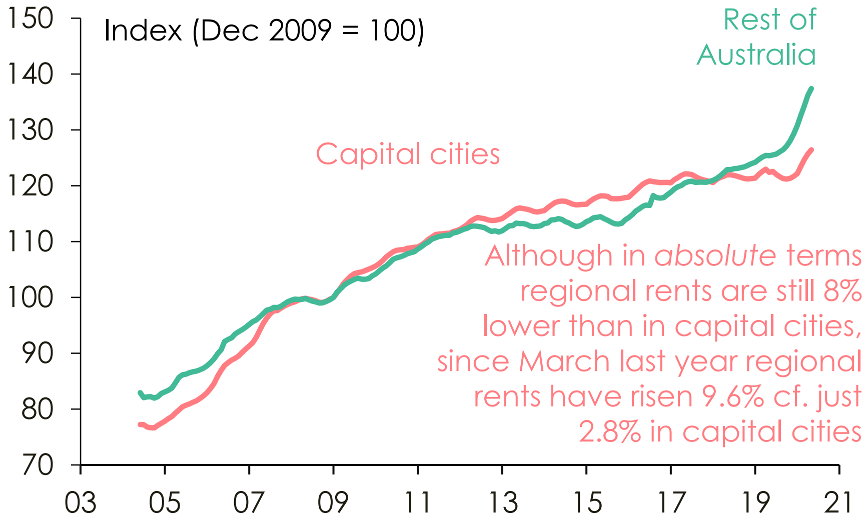
Residential property prices



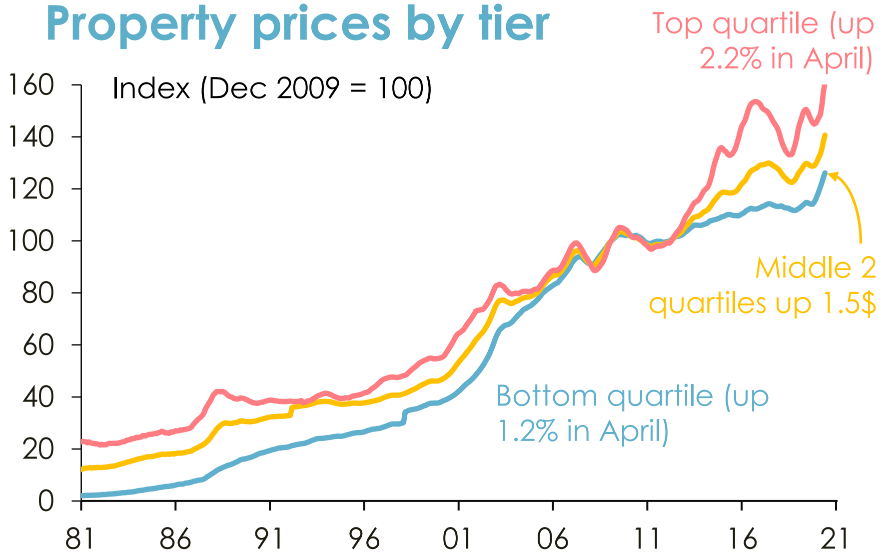
Residential property sales volumes



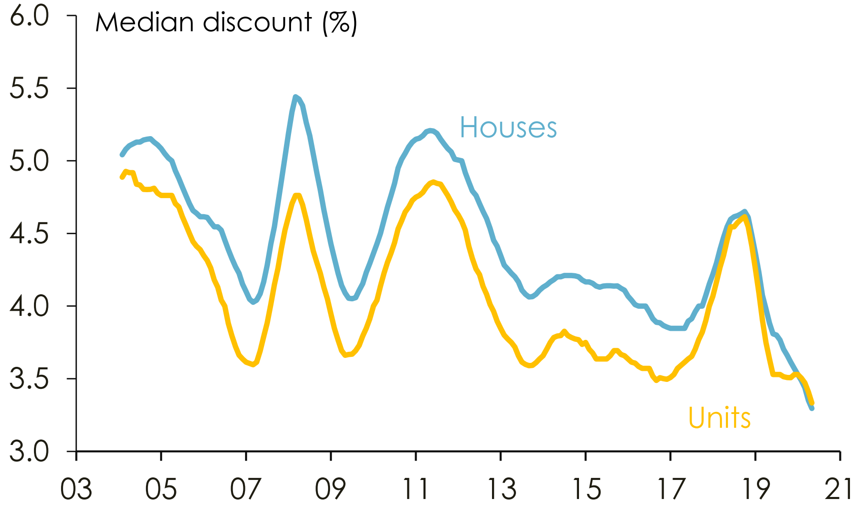
Residential rents



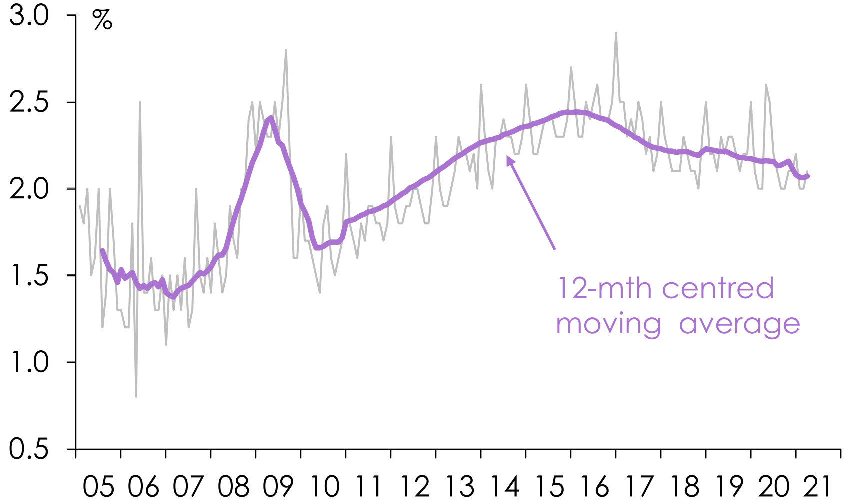
Property prices by tier



Vendor discounting



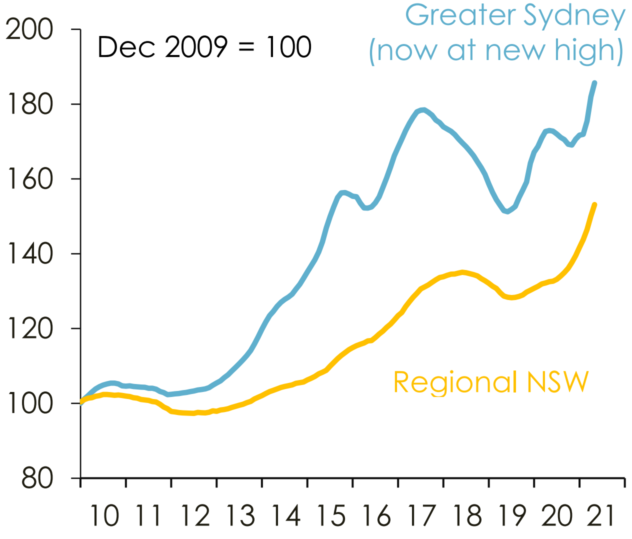
Capital city rental vacancy rates



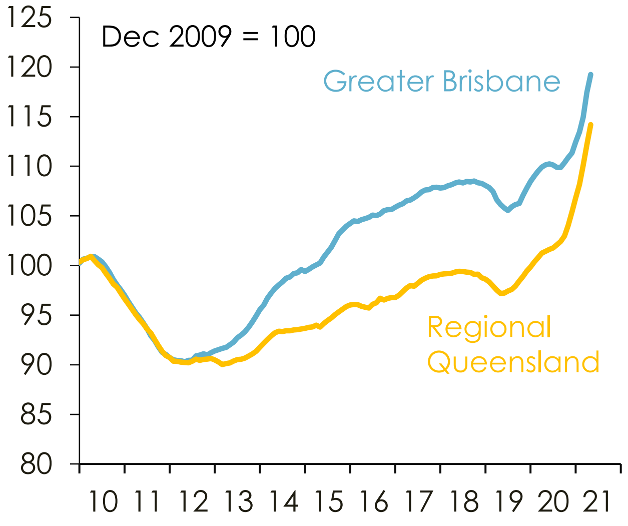
Note: The index of property prices measures the 'organic' change in underlying sales values by using a hedonic regression methodology that takes account of changes in the characteristics of properties being sold from month to month. Property price data are now seasonally adjusted. The index of residential 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 April (except for vacancy rates which is March). May data will be released on 1st June. *Sources:* CoreLogic; SQM Research. Return to "What's New".

Perth and Darwin are now the only capital cities where property prices are still below their pre-pandemic (or mining boom) peaks

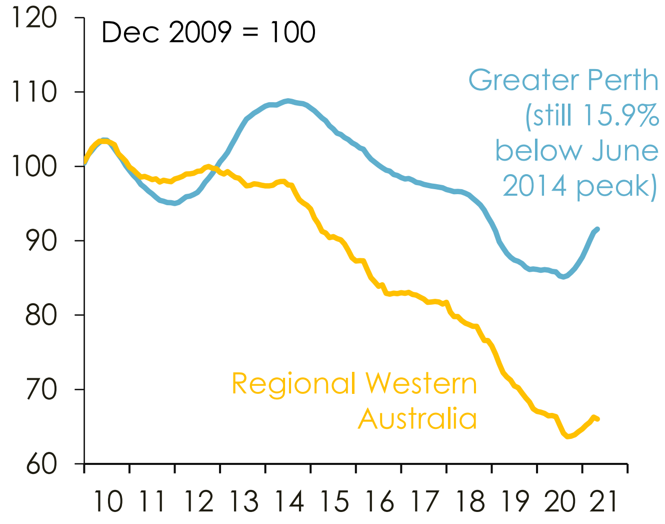
New South Wales



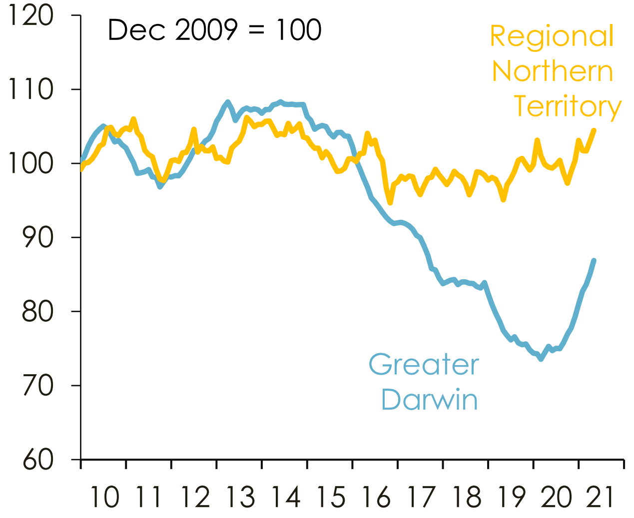
Queensland



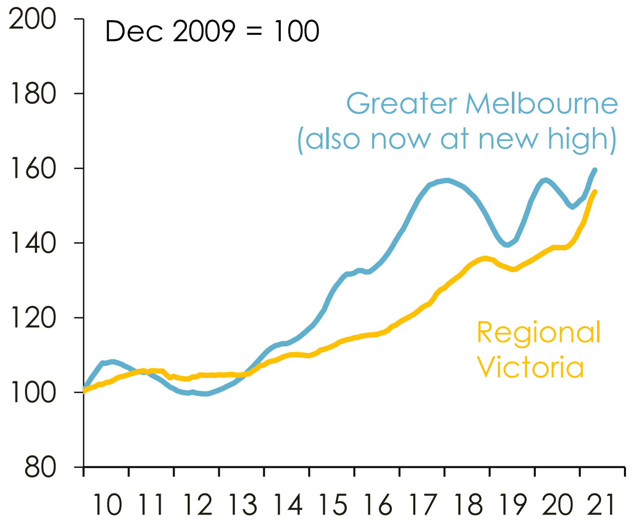
Western Australia



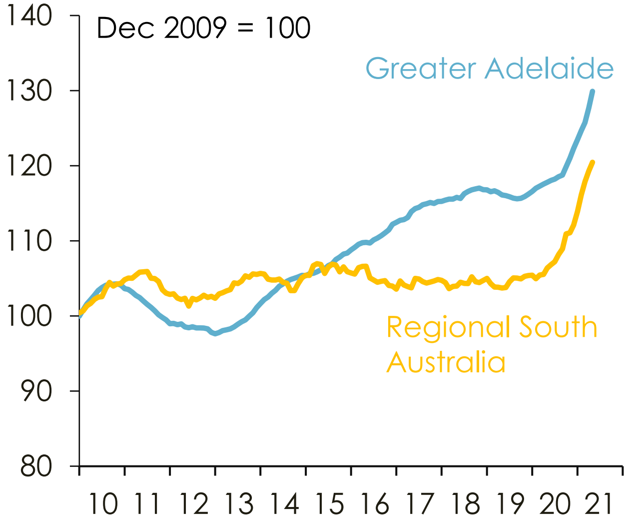
Northern Territory



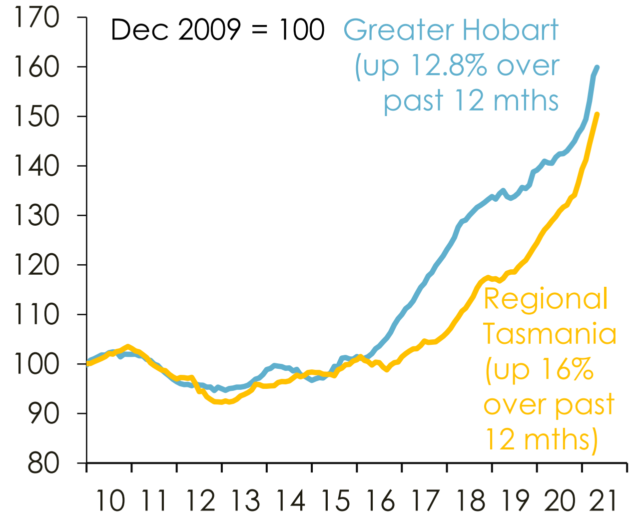
Victoria



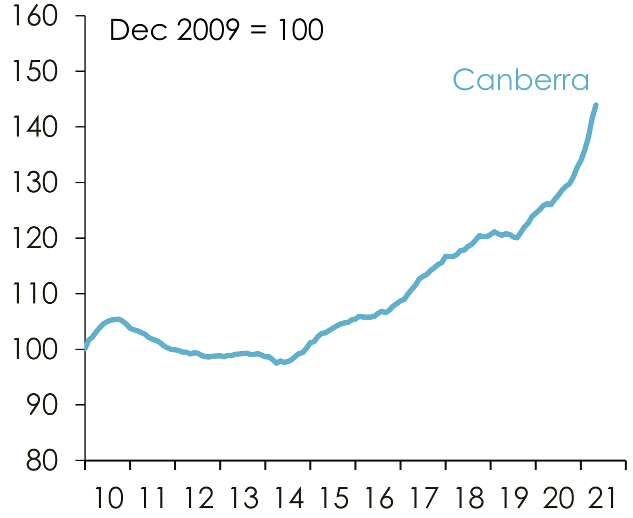
South Australia



Tasmania



Australian Capital Territory

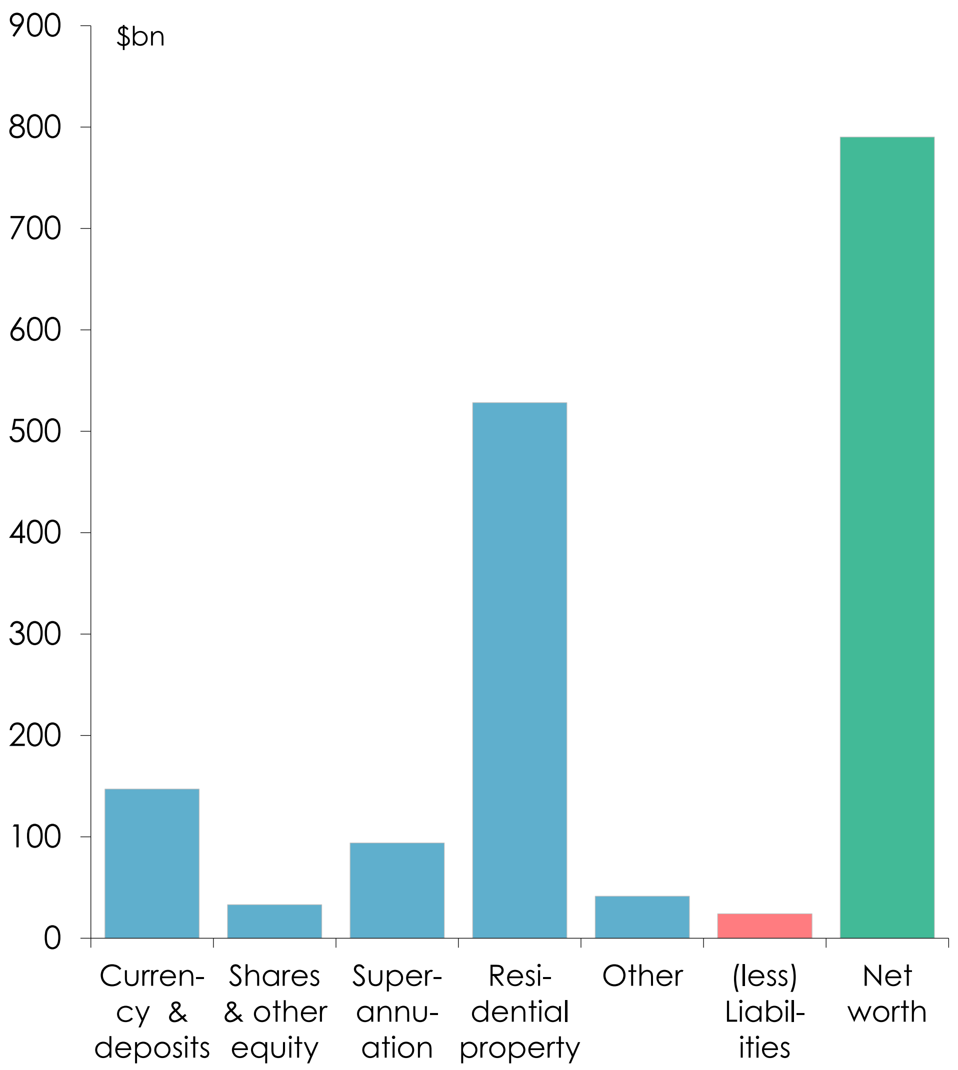


Note: The index of property prices measures the 'organic' change in underlying sales values by using a hedonic regression methodology that takes account of changes in the characteristics of properties being sold from month to month. Property price data are now seasonally adjusted. Latest data are for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

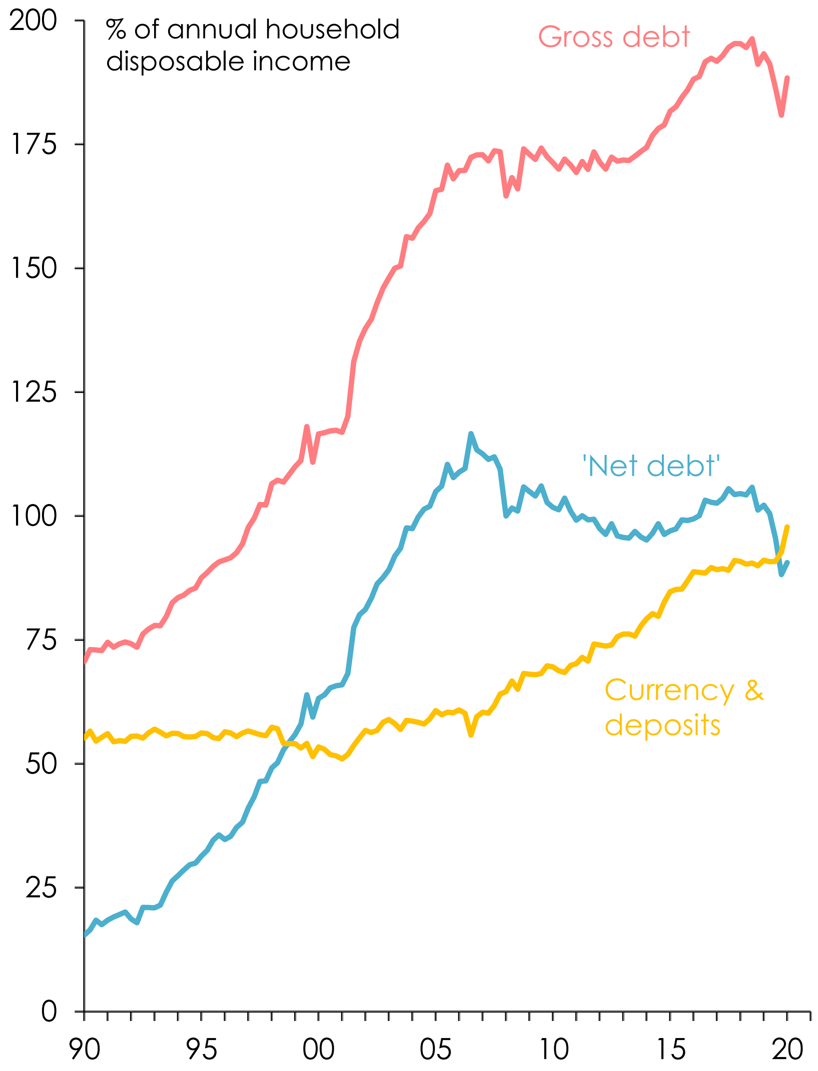
SAUL ESLAKE
CORINNA ECONOMIC ADVISORY

Household net worth rose by $790bn (7%) last year, boosted by rising property prices and cash savings, while the debt-to-income ratio fell

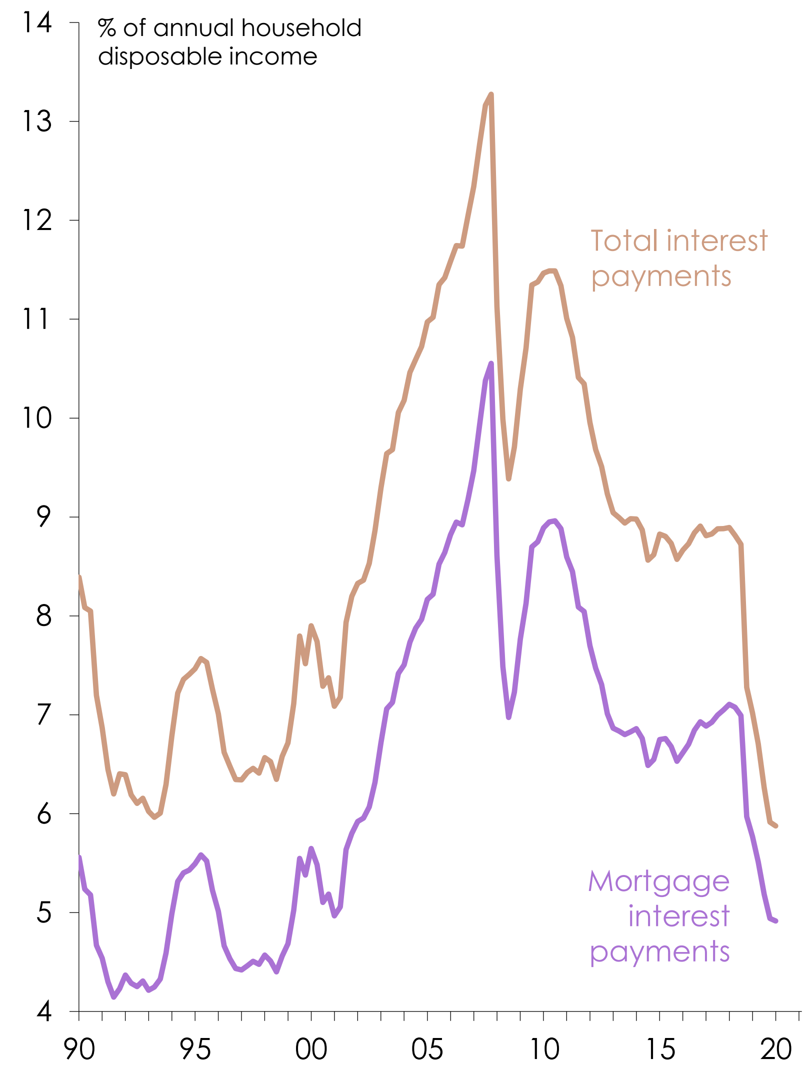
Sources of gains in household net worth, Q4 2019 to Q4 2020



Household debt-to-income ratio



Household interest-to-income ratio



Sources: ABS, *Finance and Wealth Accounts*, December quarter 2020; *RBA*, *Statistical Tables* E1 & E2. Return to "What's New".

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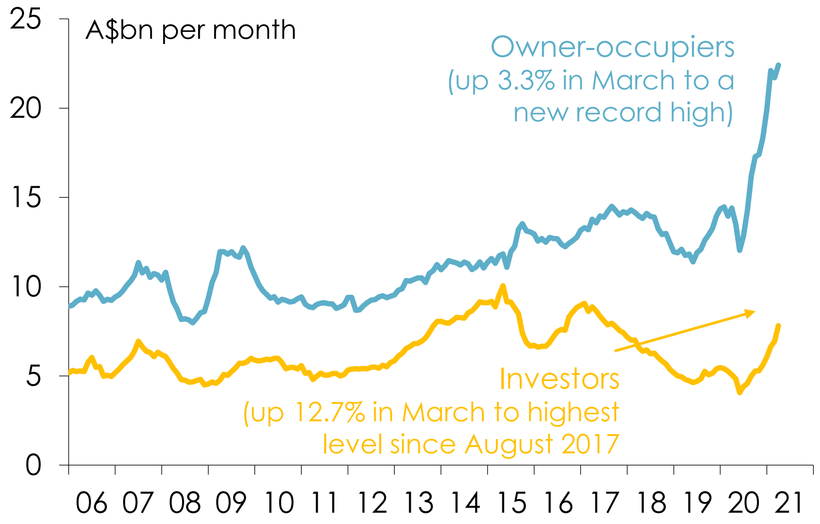
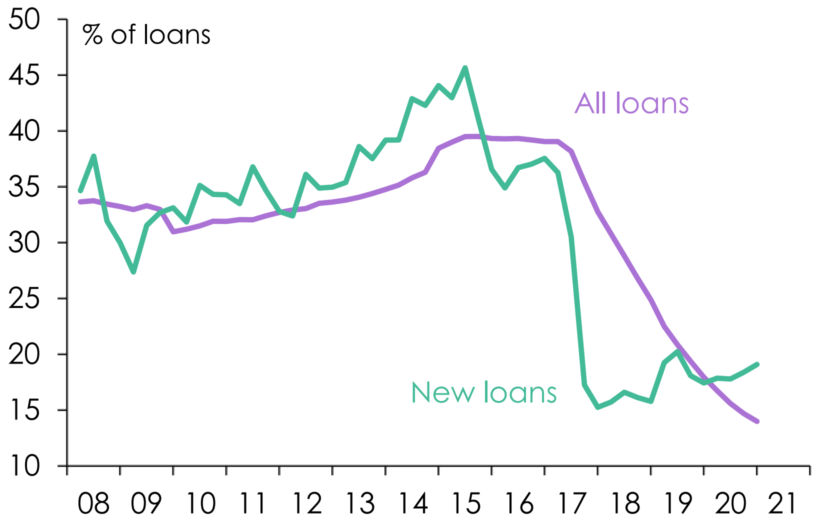
CORINNA ECONOMIC ADVISORY

Lending to property investors has risen sharply since late last year as has lending to existing home-owners 'trading up'

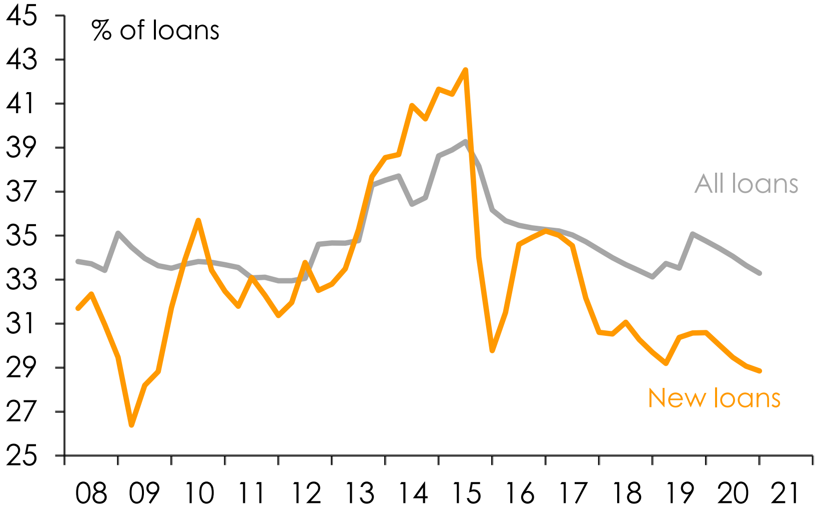
Housing finance commitments



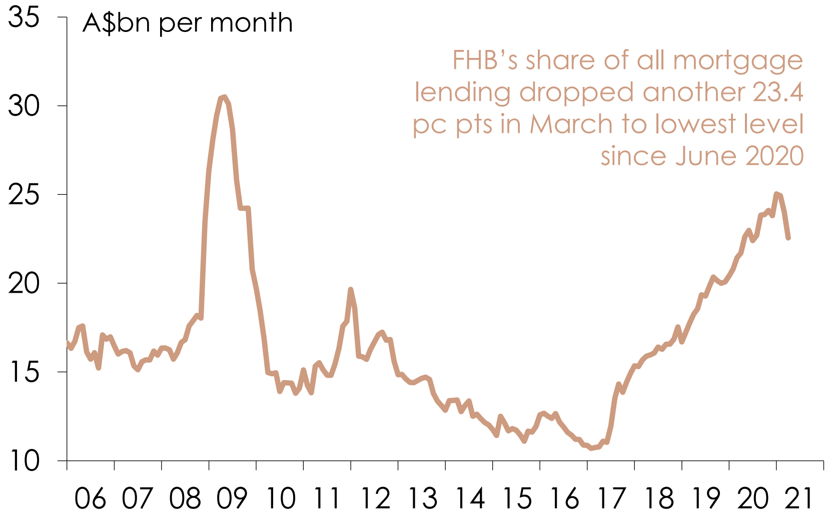
Interest-only loans as pc of total



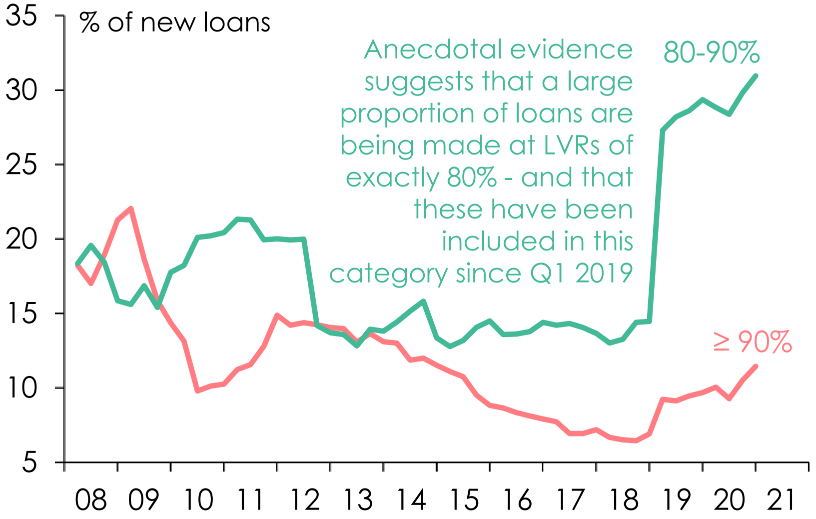
Loans to investors as a pc of total



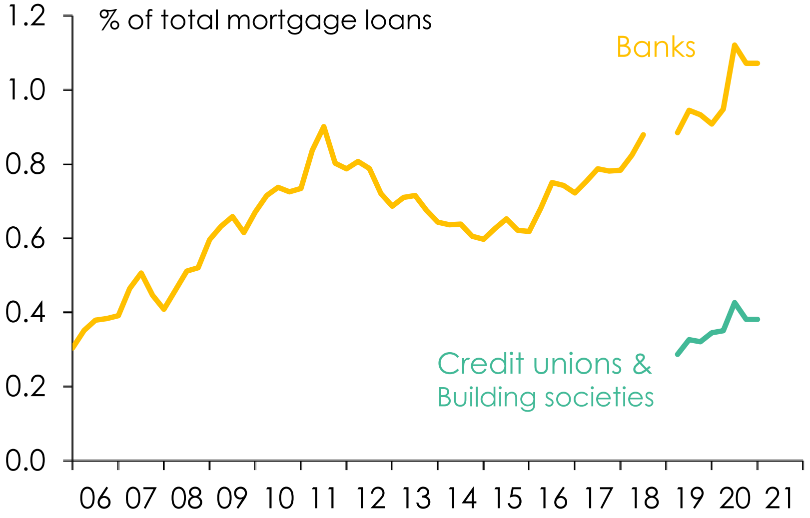
Lending to first home buyers



High LVR loans as a pc of total



Non-performing mortgage loans

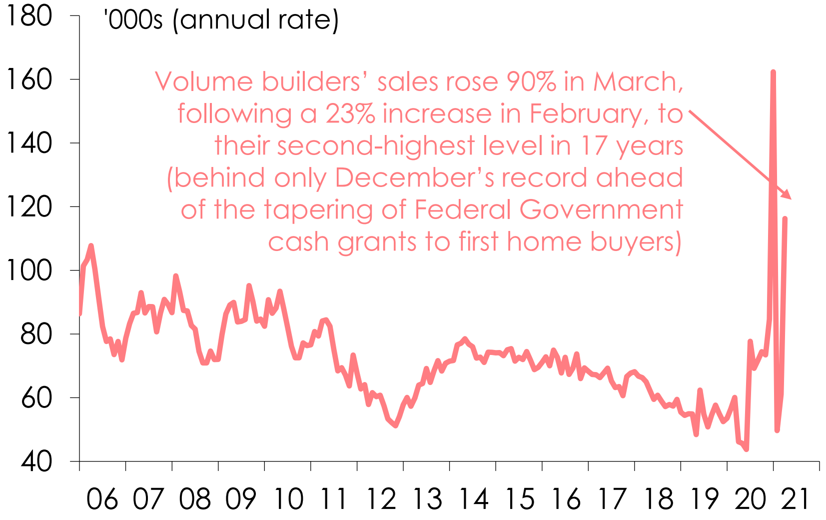


Sources: ABS; Australian Prudential Regulation Authority (APRA), *Quarterly authorised deposit-taking institution statistics*. March housing finance data will be released on 4th May; APRA data on ADI property exposures fpr the March quarter will be released in mid-June. Return to "What's New".

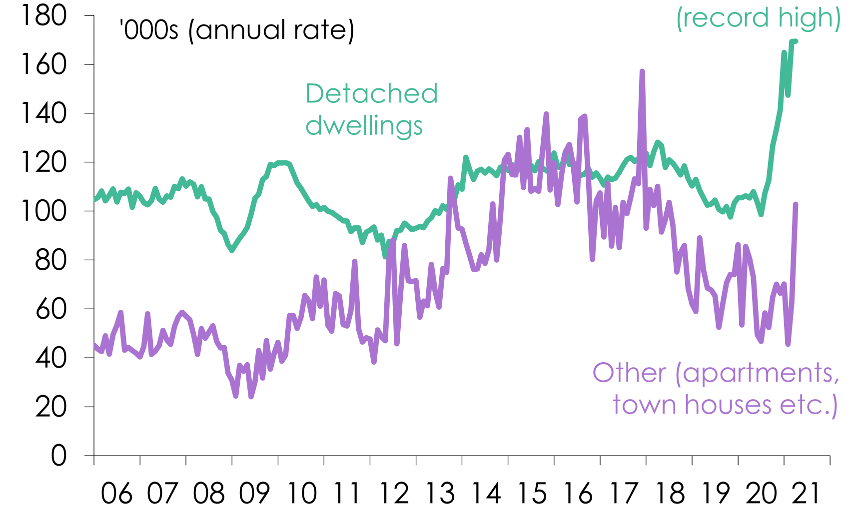
SAUL ESLAKE
CORINNA ECONOMIC ADVISORY

Building approvals are at a near-record high, largely driven by detached dwellings but also with apartments at their highest level since late 2017

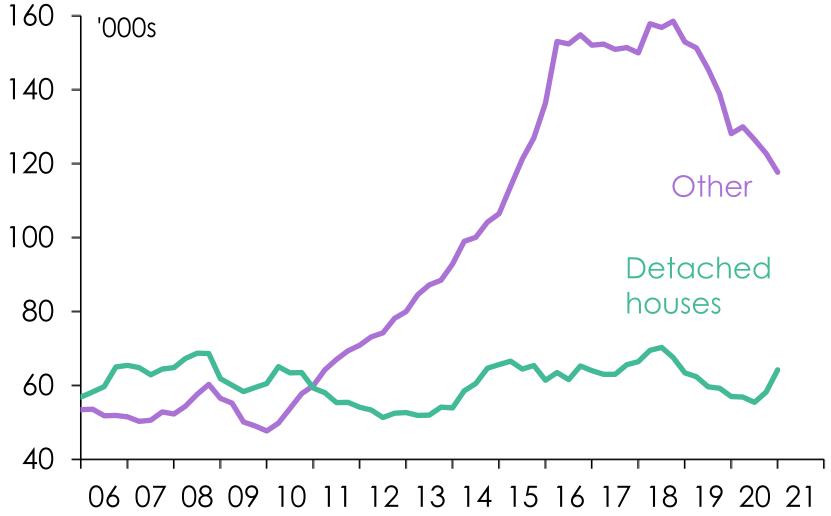
Large builders' new home sales



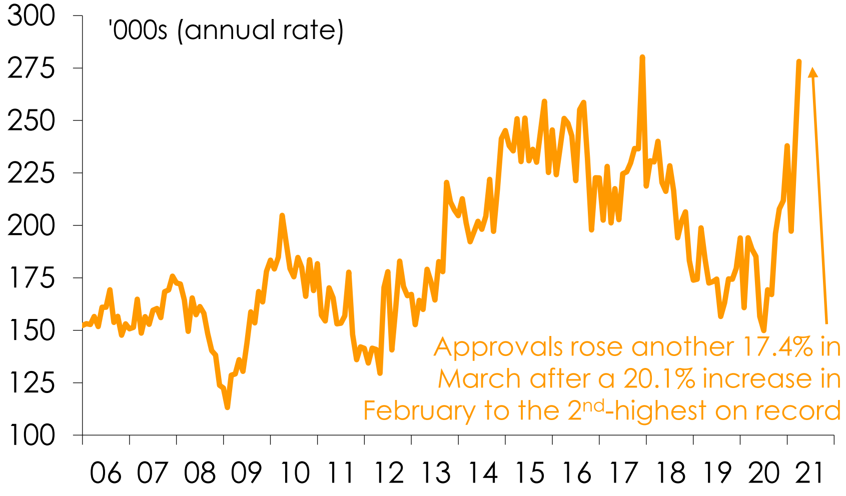
Building approvals, by type



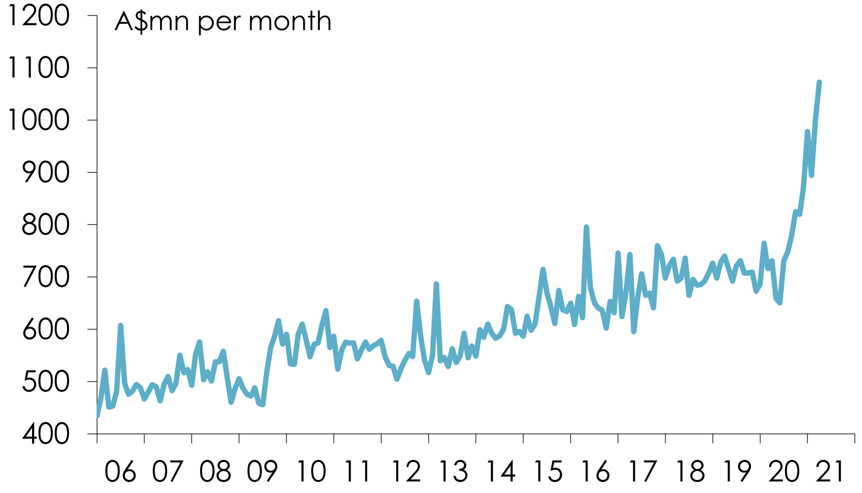
Dwellings under construction



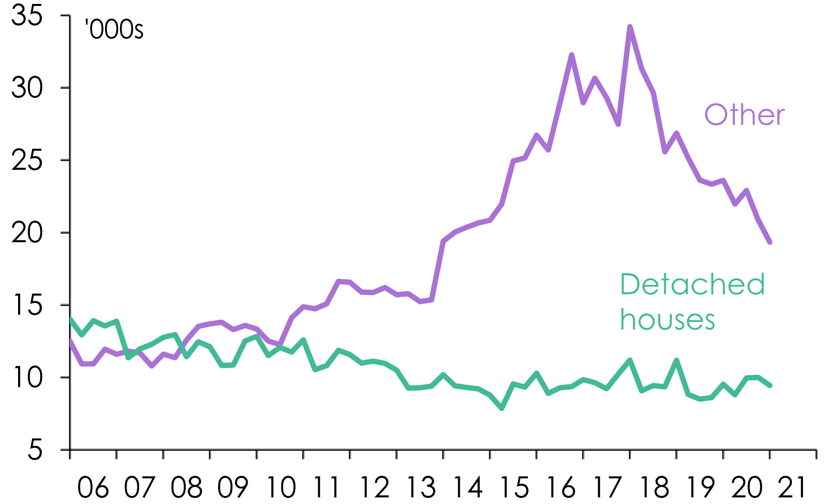
Residential building approvals



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. April building approvals data will be released on 1sst June; March quarter dwellings under construction and 'pipeline' data on 14th July. Return to "What's New".

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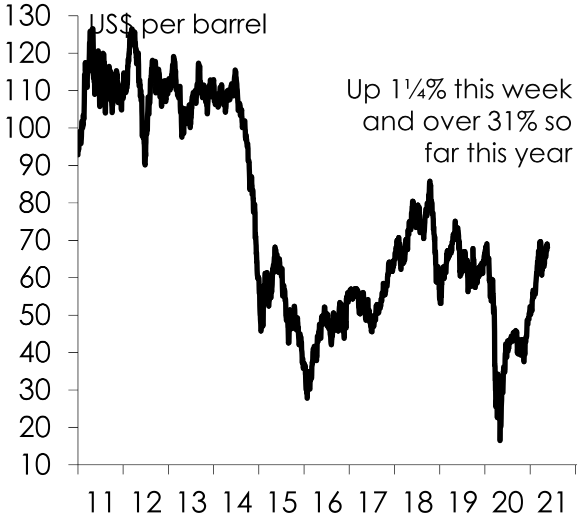
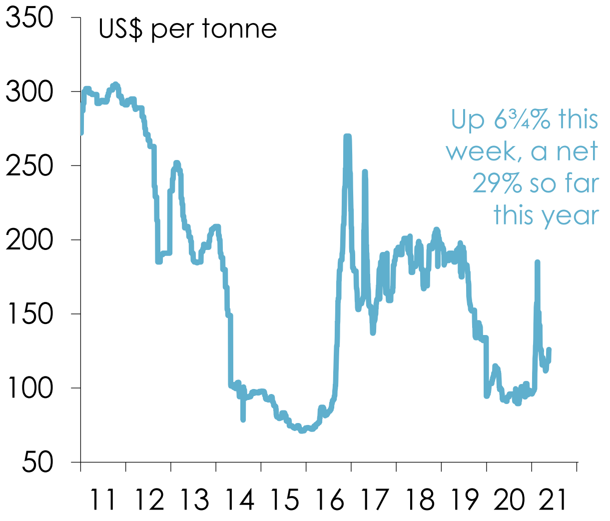
CORINNA ECONOMIC ADVISORY

Iron ore prices finished up more than 10% this week to a new record high of US$208/t, while coal and base metal prices also rose strongly

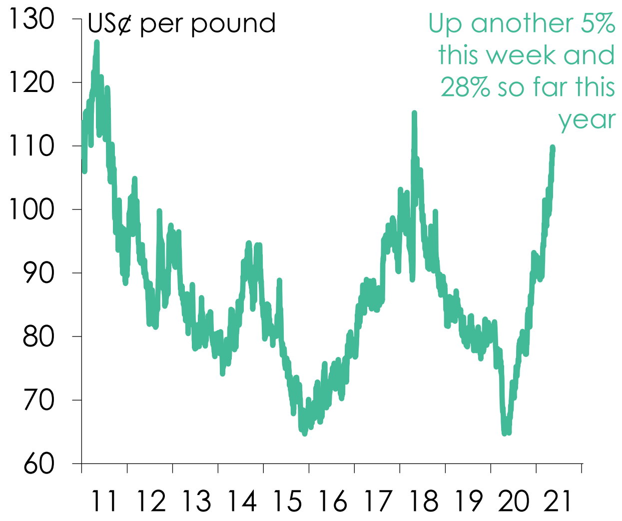
Brent crude oil



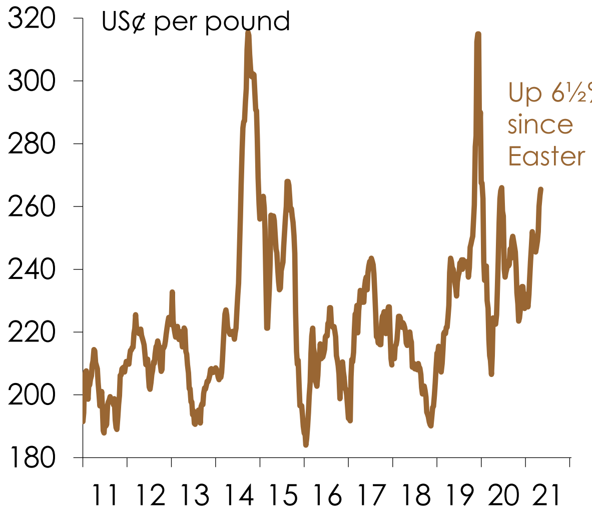
Metallurgical coal



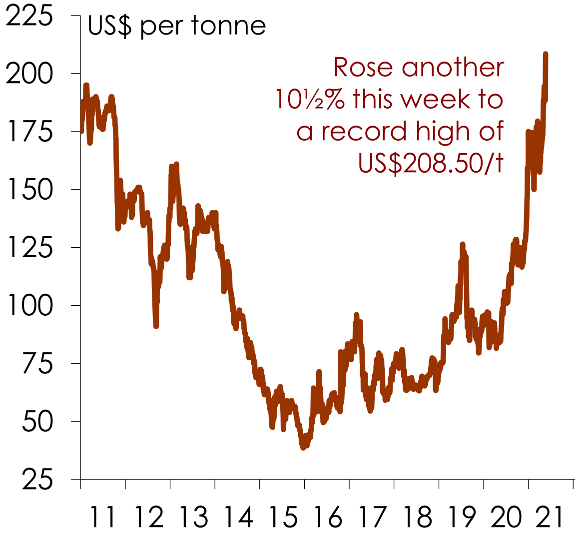
Aluminium



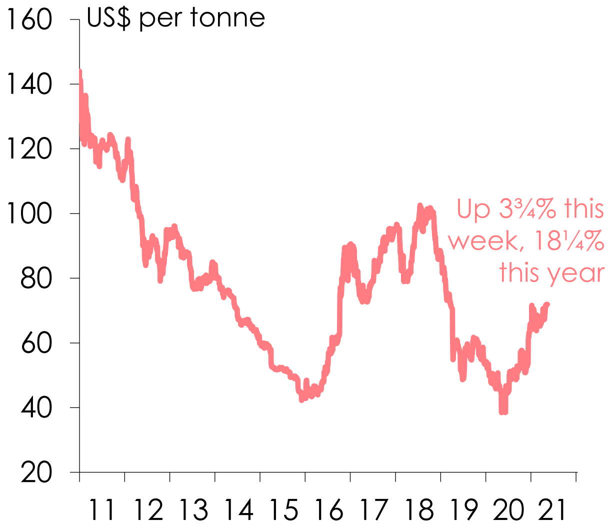
Beef



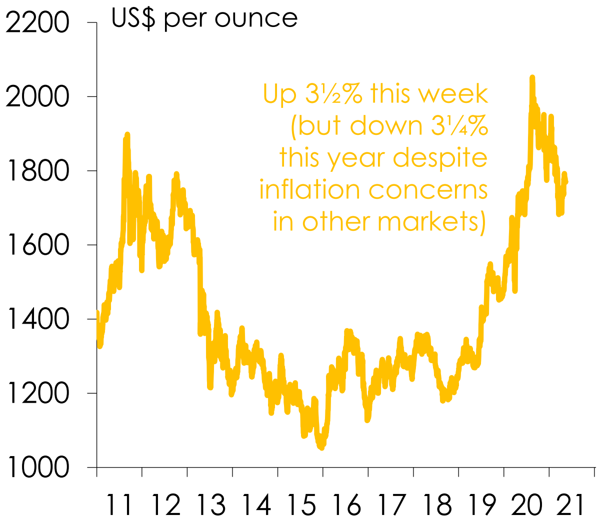
Iron ore



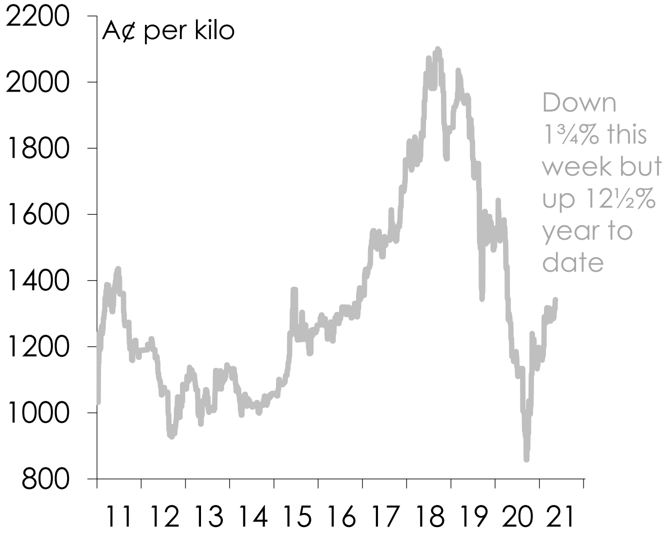
Thermal coal



Gold



Wool



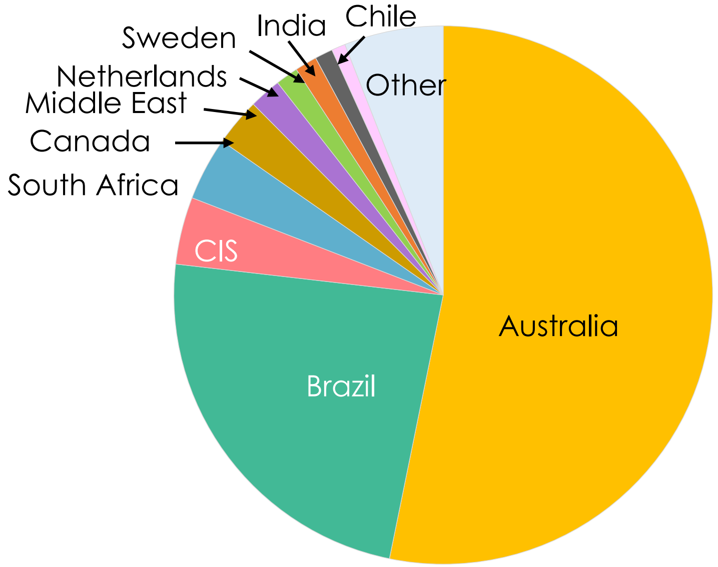
Sources: Refinitiv Datastream; Meat & Livestock Australia; Australian Wool Innovation. See next slide for more on iron ore prices. Data up to 7th May.

 Return to "What's New".

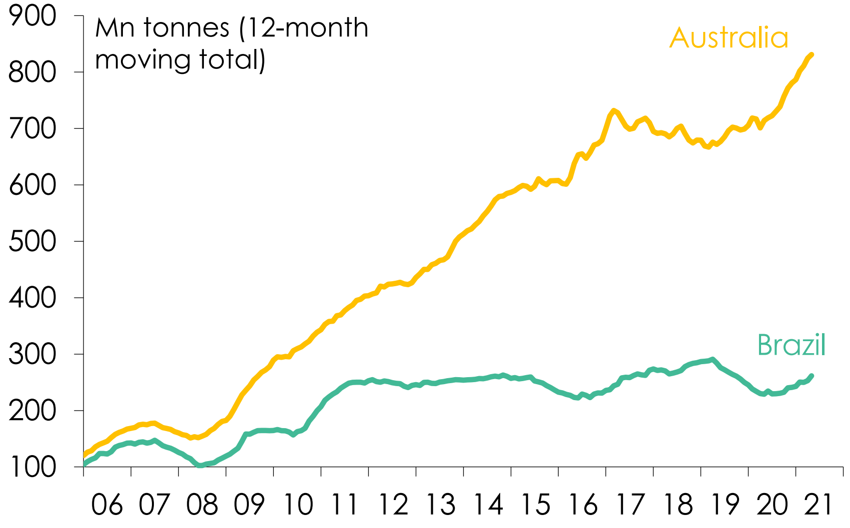
SAUL ESLAKE
CORINNA ECONOMIC ADVISORY

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

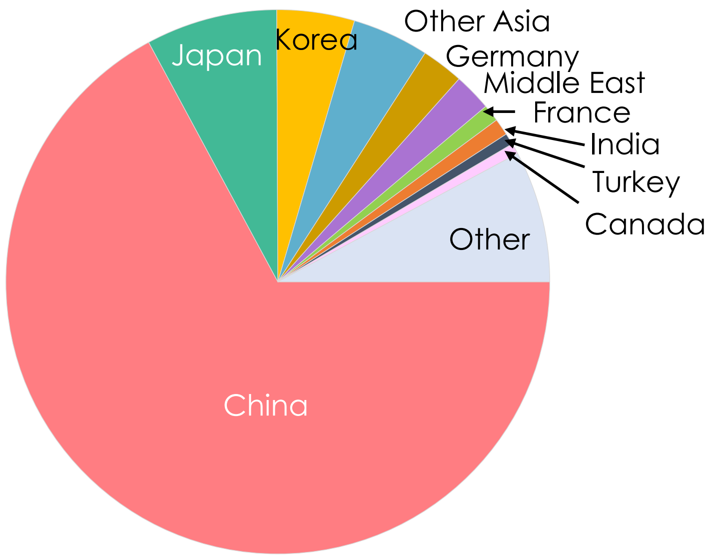
Iron ore exports, 2018



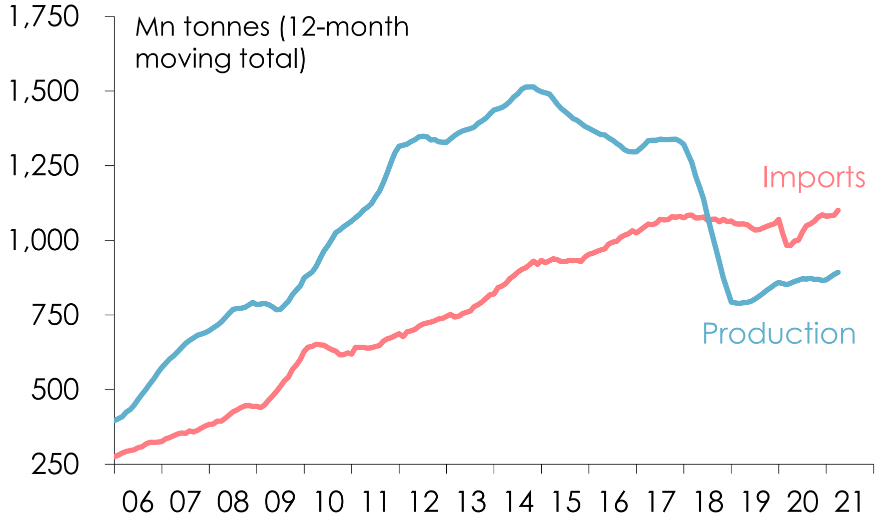
Australia & Brazil iron ore exports



Iron ore imports, 2018



China iron ore production & imports

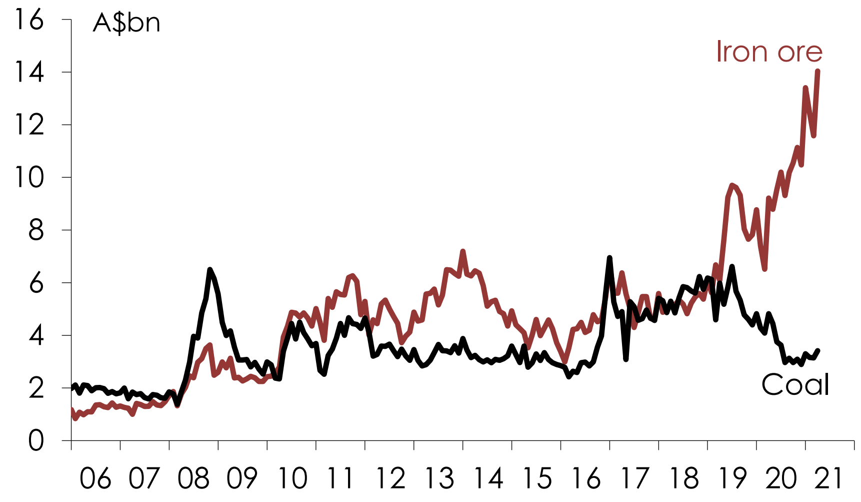


- **The global iron ore trade is dominated by shipments from Australia & Brazil to China (which accounts for 53% of global steel production and 51% of steel use) – no other exporter has more than 4% of the global seaborne trade**
- **Chinese iron ore production has fallen by more than 34% since 2017,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

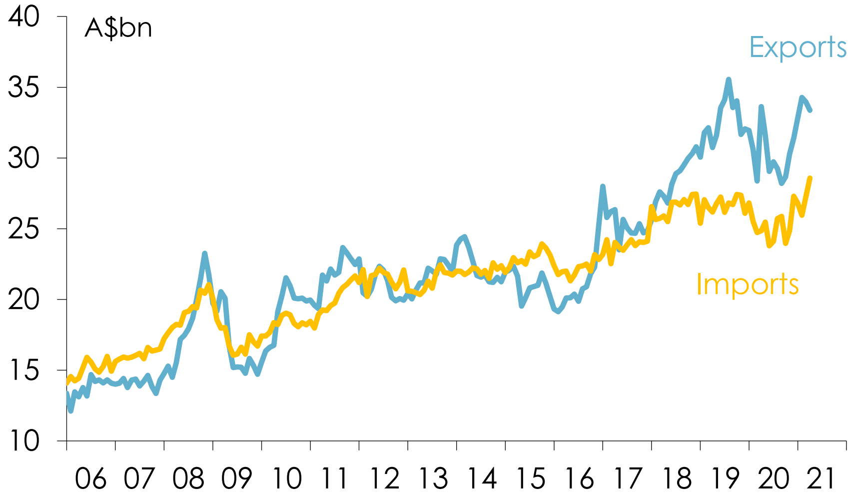
Note: Export volume data for Australia and Brazil derived by dividing export values (in US$) from ABS and IGBE by the average US$ price of Chinese iron ore imports.
Sources: World Steel Association; China National Bureau of Statistics; China General Administration of Customs; Refinitiv Datastream; ABS;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

Australia's goods and services trade surplus narrowed by $2bn to $5.6 bn in April, with imports up 4.3% and exports down 1.7% (esp. gold)

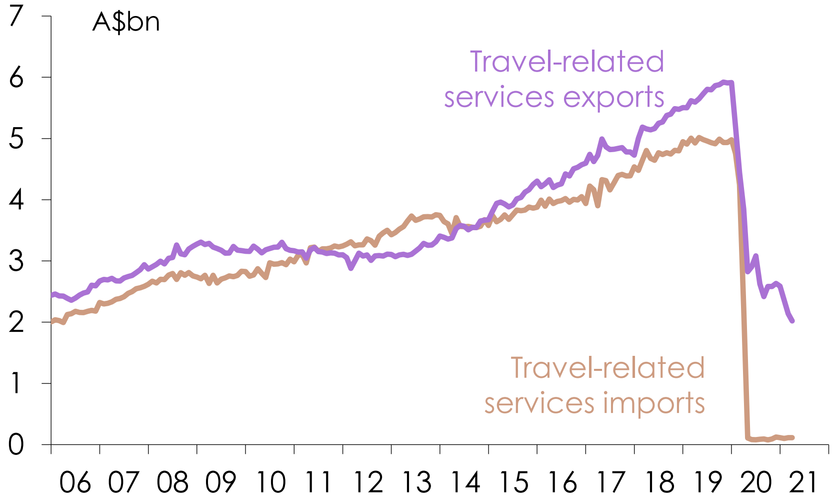
Iron ore and coal exports



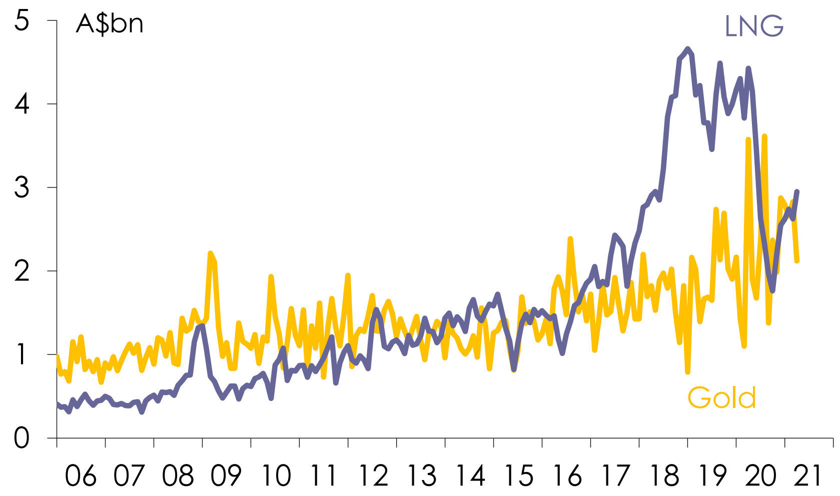
Merchandise exports and imports



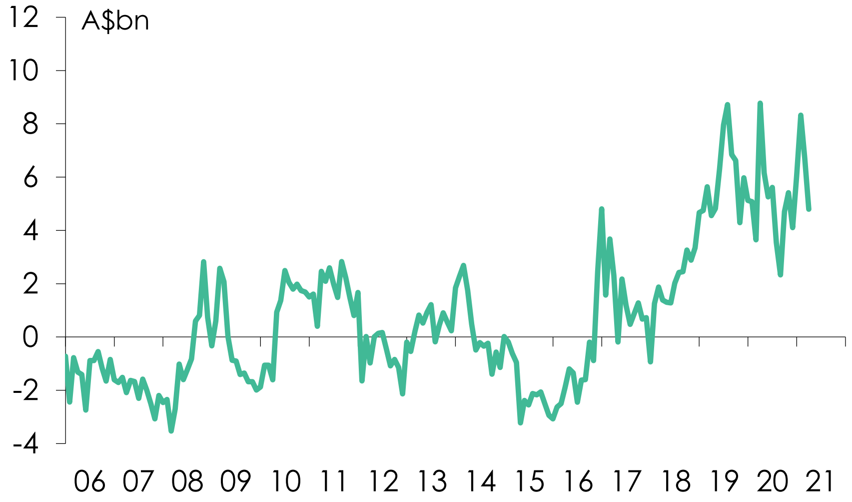
Tourism-related services trade



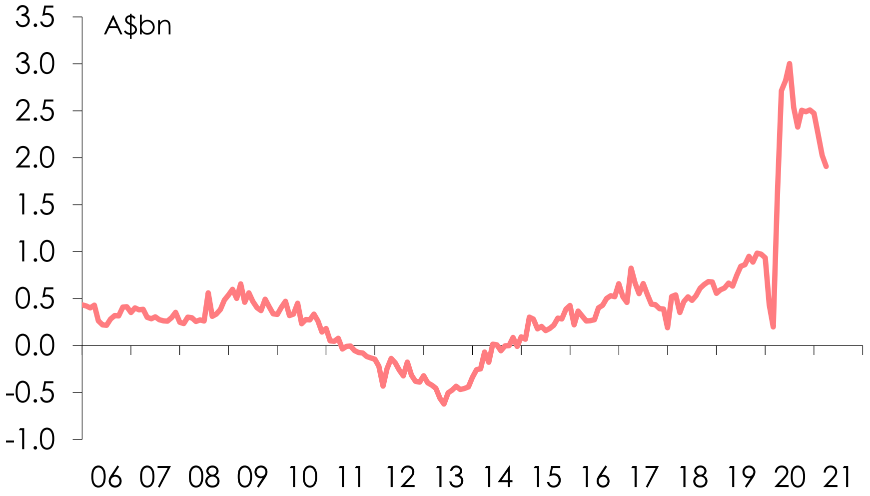
LNG and gold exports



Merchandise trade balance



Tourism services trade balance

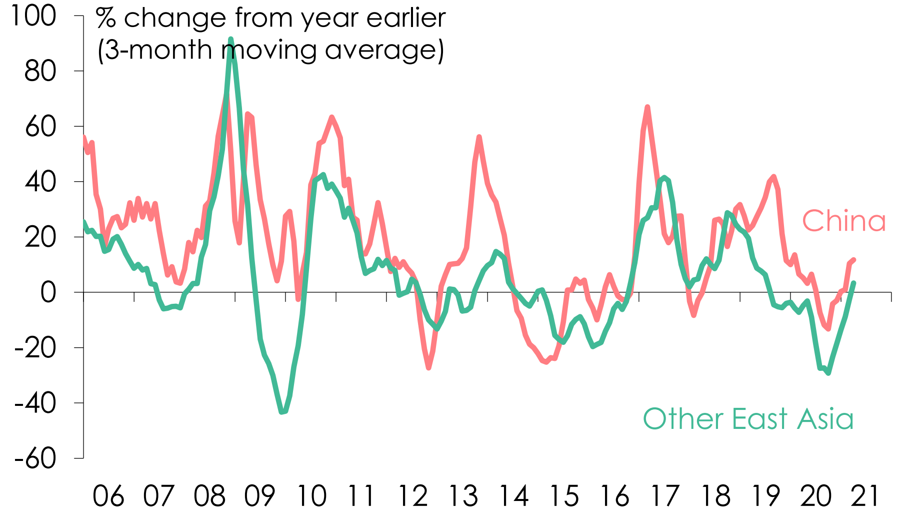


Source: ABS, *International Trade in Goods and Services, Australia*. Preliminary April merchandise trade data will be released on 25th May with final data including services trade on 3rd June. Return to "What's New".

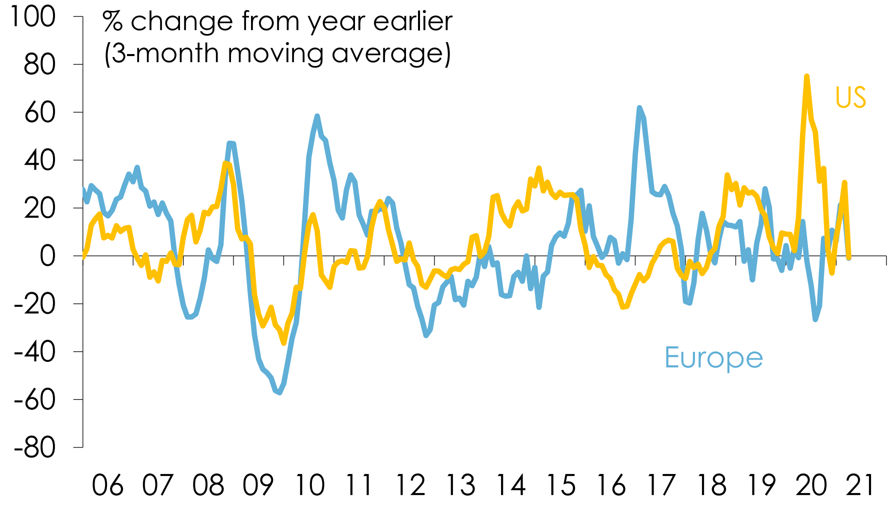
SAUL ESLAKE
CORINNA ECONOMIC ADVISORY

Australia continues to run a large trade surplus with China despite China's sanctions against a range of Australian exports, thanks to iron ore

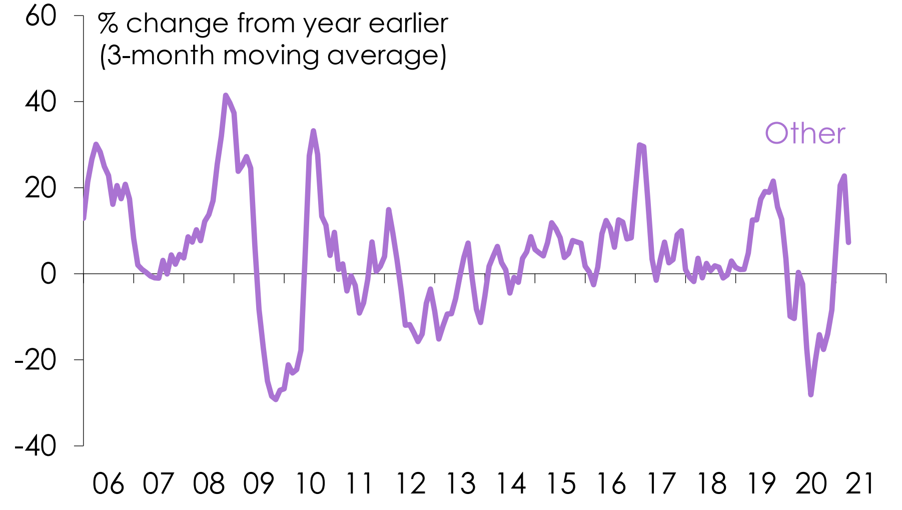
Merchandise exports – East Asia



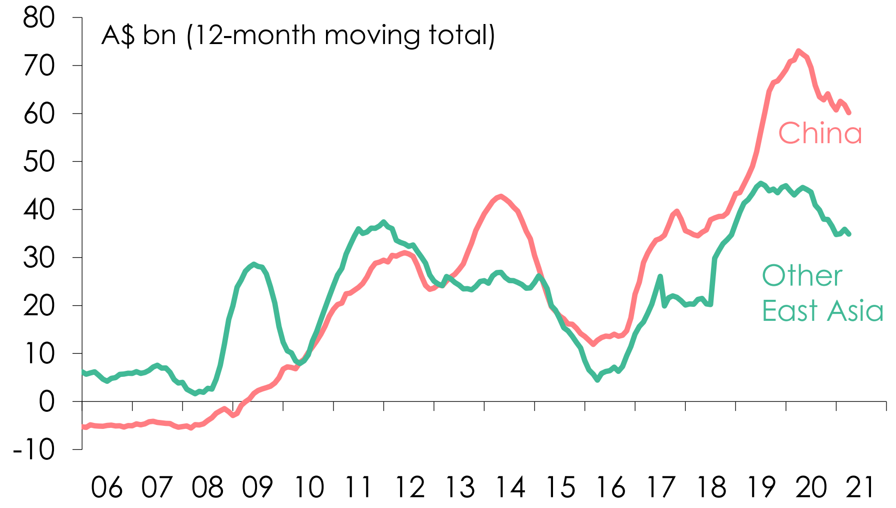
Merchandise exports – US & Europe



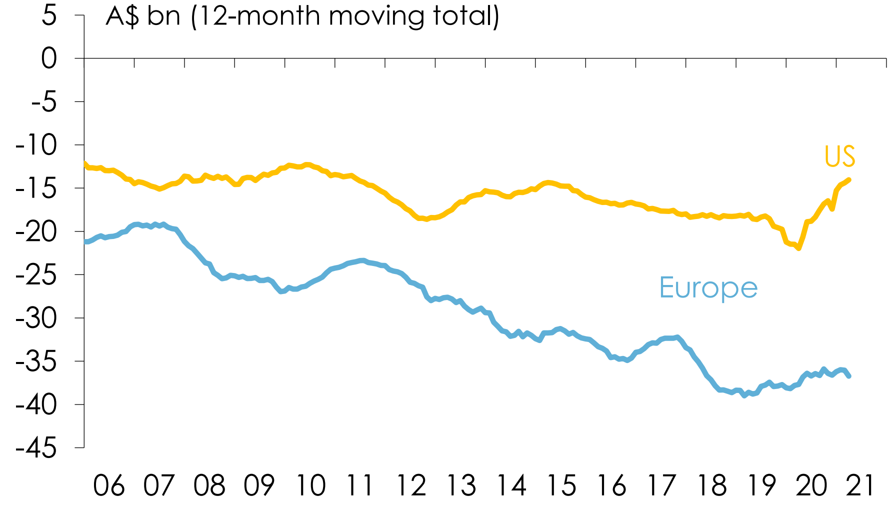
Merchandise exports – other



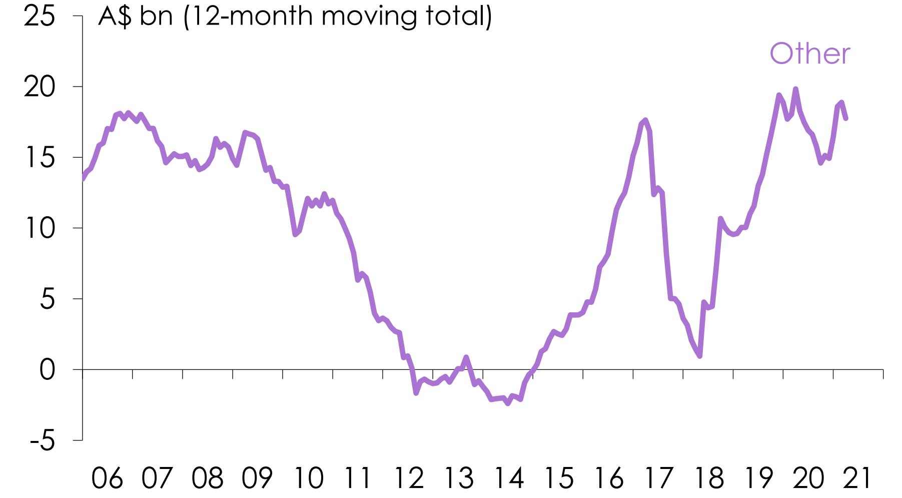
Goods trade balance – East Asia



Goods trade balance – US & Europe



Goods trade balance – other

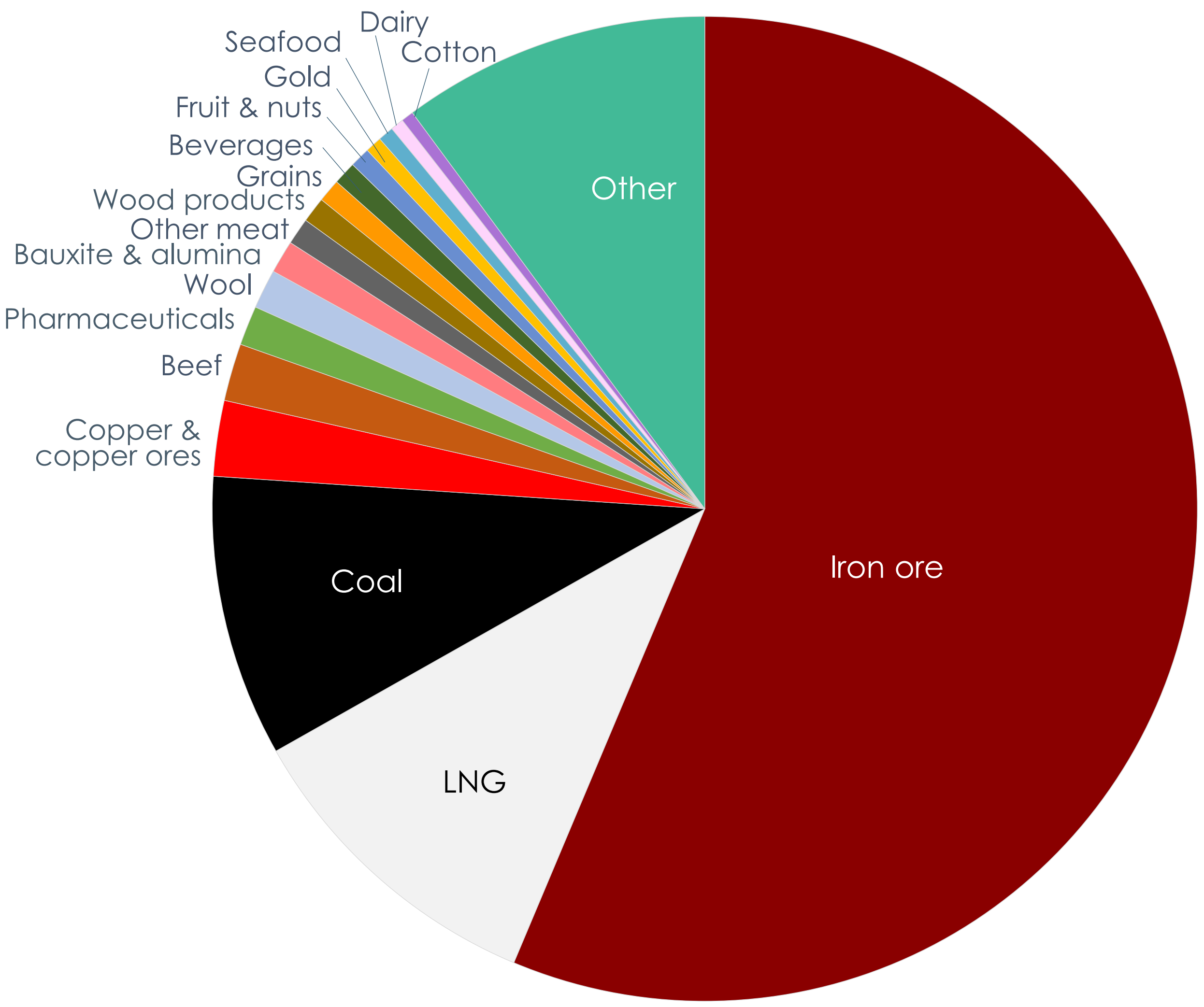


Note: 'Other East Asia' includes Japan, Korea, Taiwan, Hong Kong and ASEAN. 'Europe' includes the EU, UK and Switzerland. 'Other' includes India, New Zealand and the Pacific, Canada, Latin America, Africa, the Middle East and others not included in the foregoing. Latest data are for March. *Source:* ABS, International Trade in Goods and Services, Australia. Preliminary April data will be released on 25th May and final data on 3rd June. Return to "What's New".

SAUL ESLAKE
CORINNA ECONOMIC ADVISORY

Australia's bilateral relations with China deteriorated sharply in the latter part of 2020 and there are likely to be material economic effects

Australia's merchandise exports to China, 2019-20

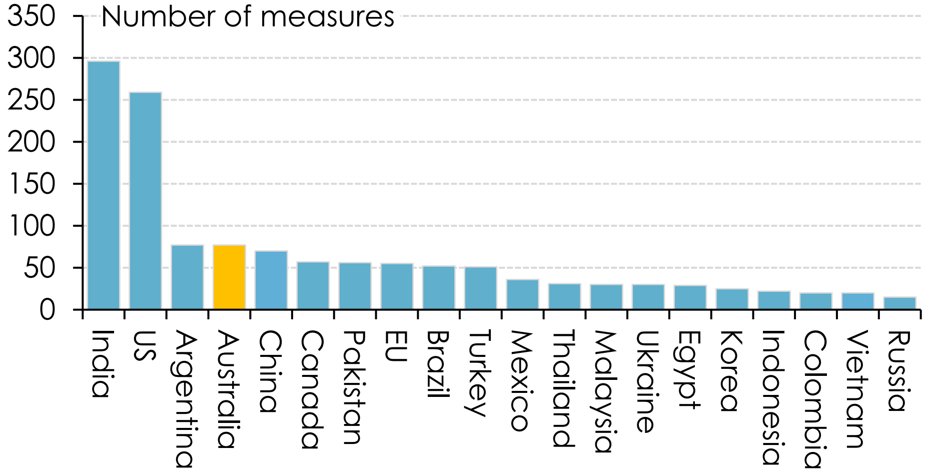


Note: 'Wood' includes wood products; 'dairy' includes milk, cream, butter & cheese; 'seafood' includes crustaceans, fish and processed seafood; 'other' includes confidential items.
Sources: Department of Foreign Affairs & Trade, Trade Statistical Pivot Tables; Corinna.
Return to "What's New".

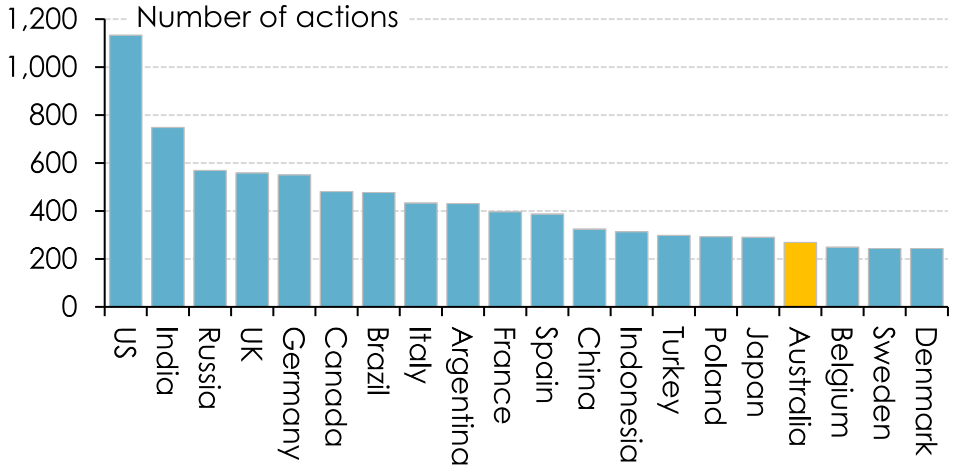
- China accounted for 39½% of Australia's merchandise exports in FY 2019-20 (the largest proportion any country has since the mid-1950s when 36% of Australia's exports went to the UK)
  - of which iron ore & concentrates accounts for 56%
- China also accounted for 19% of Australia's services exports in CY 2019
  - of which 'travel' (tourism & education) accounted for over 90%)
- China has no real alternatives to Australian iron ore (slide 112)
- 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
- This week China suspended "indefinitely" all activities under the China-Australia Strategic Economic Dialogue (a forum for talks between senior Australian and Chinese Ministers) and warned that "more measures would follow if Canberra further escalates its 'anti-China' agenda"
  - the suspension of the SED (no talks have occurred since 2017) appears to be a response to the Australian Government's decision to cancel Victoria's 2019 'Belt & Road Framework Agreement'
  - tensions could escalate further if the Federal Government moves to terminate the 99-year lease of the Port of Darwin to the PLA-linked company Landbridge, under a 2015 transaction worth $506mn which was approved at the time but is now under review by the Defence Department on 'national security' grounds

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

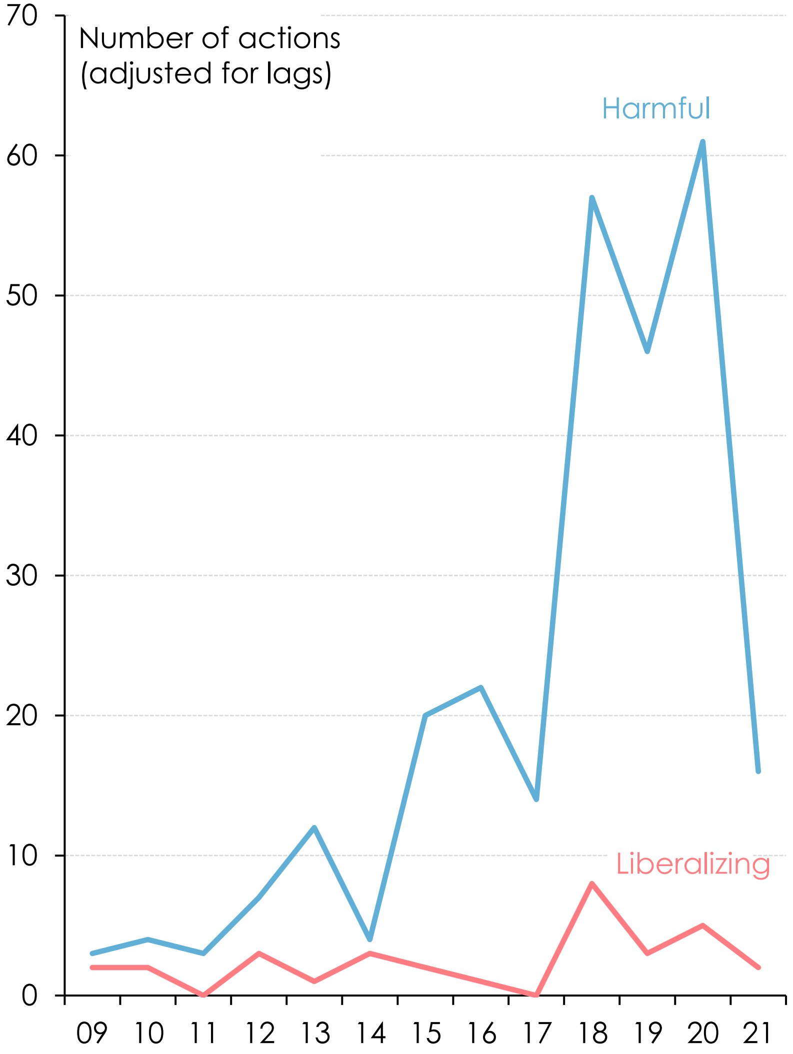
Number of anti-dumping measures imposed, 2015-20



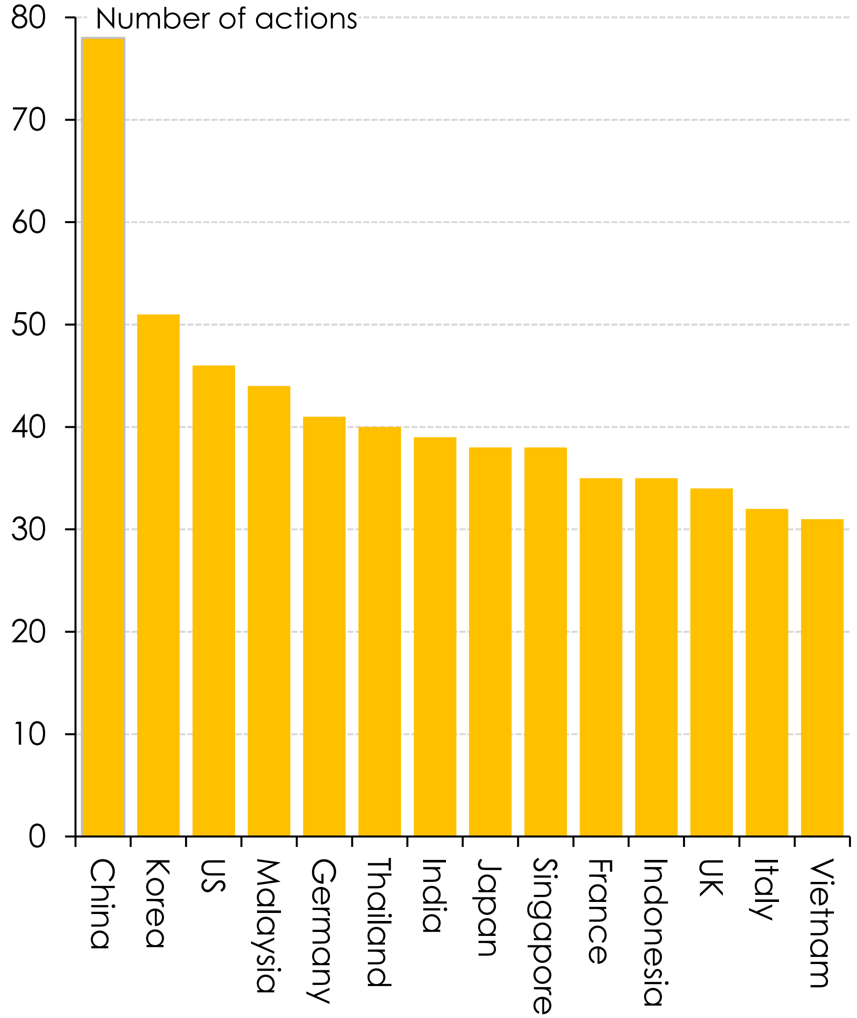
Number of harmful trade policy interventions, 2009-2021



Australian trade policy measures since 2009



Countries adversely affected by 'harmful' Australian trade actions

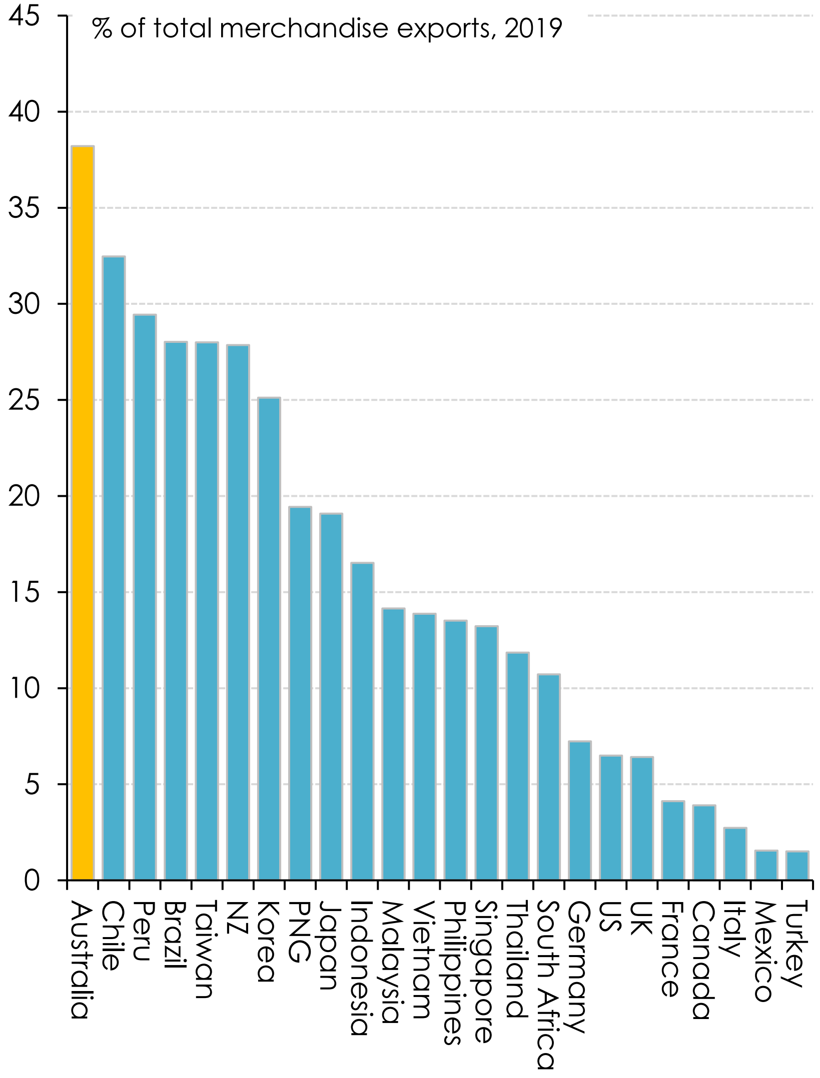


Sources: World Trade Organization; Centre for Economic Policy Research, *Global Trade Alert* (data up to 16th April). Return to "What's New".

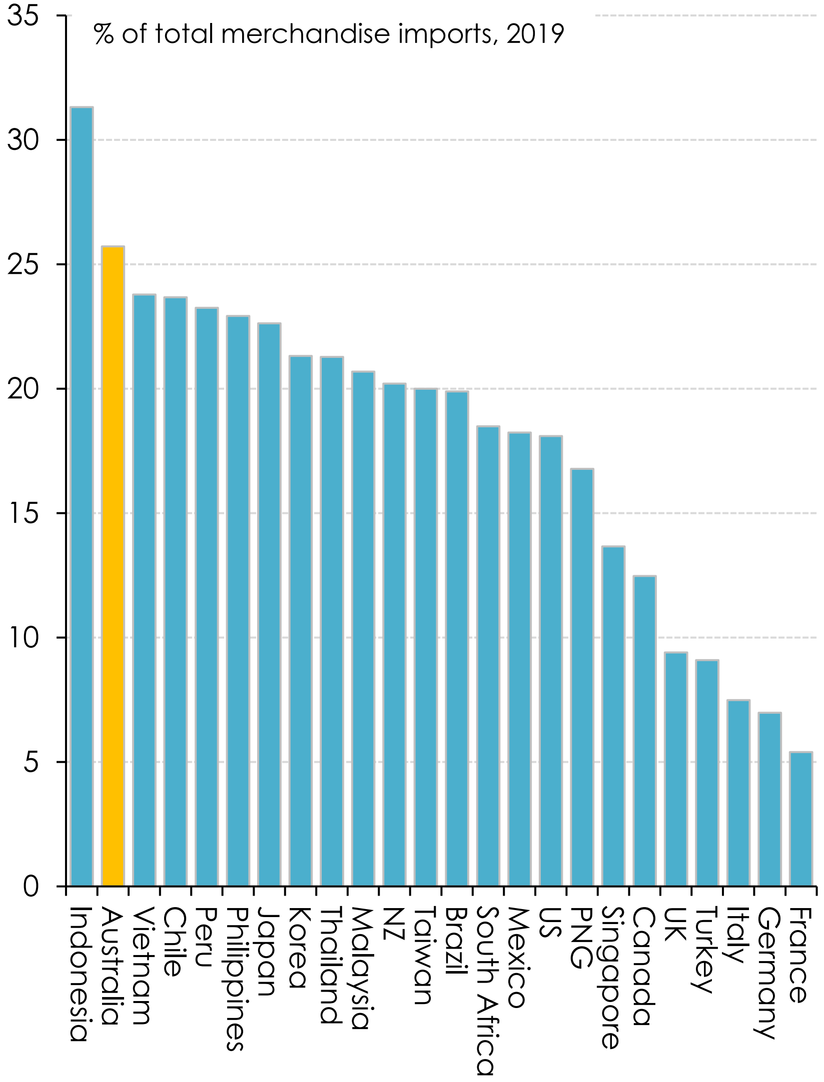
SAUL ESLAKE
CORINNA ECONOMIC ADVISORY

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

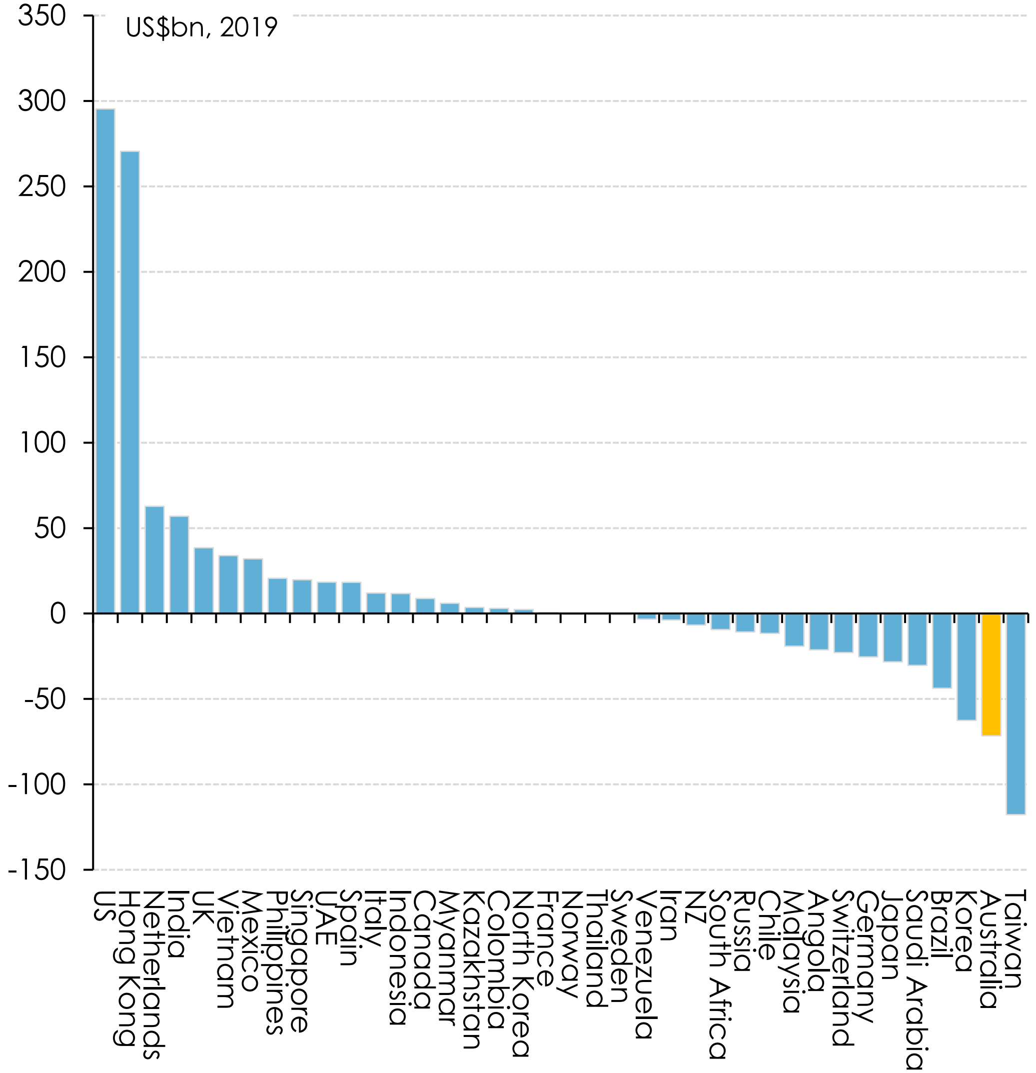
Merchandise exports to China as a pc of total



Merchandise imports from China as a pc of total



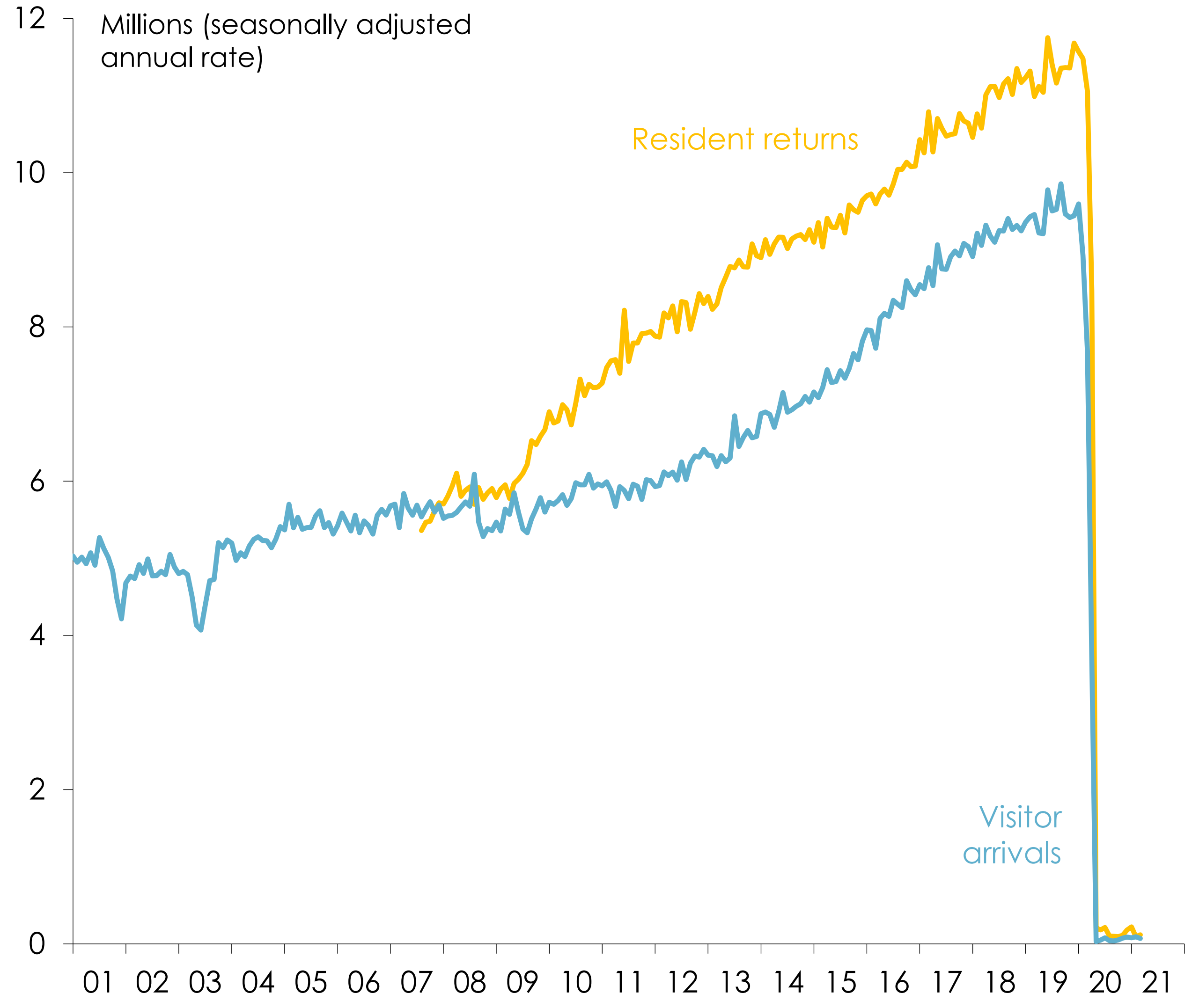
China's bilateral merchandise trade balances



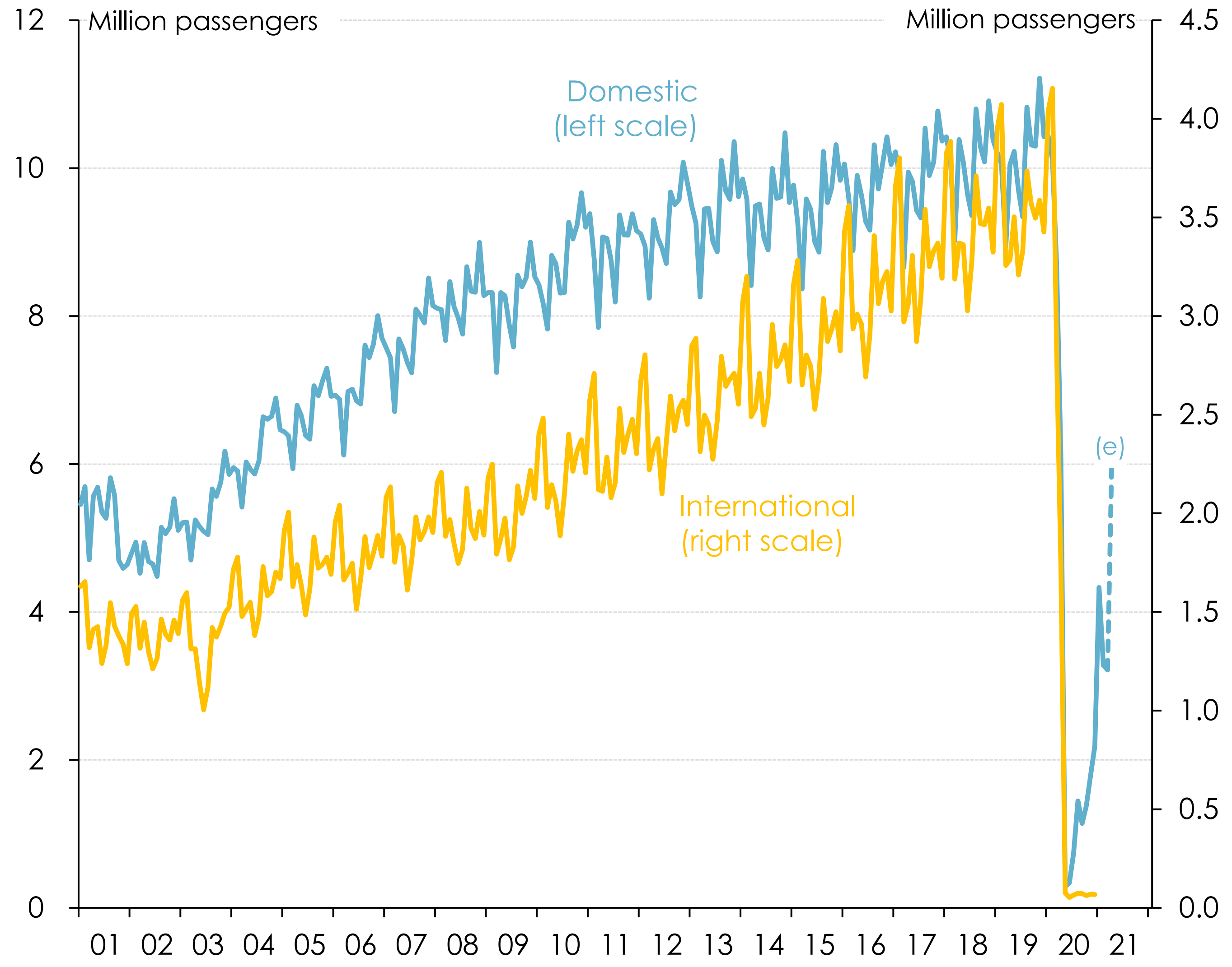
Sources: IMF, *Direction of Trade Statistics*; Taiwan Ministry of Economic Affairs, Bureau of Foreign Trade. Return to "What's New".

Domestic aviation has picked up strongly since December – but international traffic remains almost non-existent as border controls continue

Short-term visitor arrivals and resident returns



Airport passenger movements

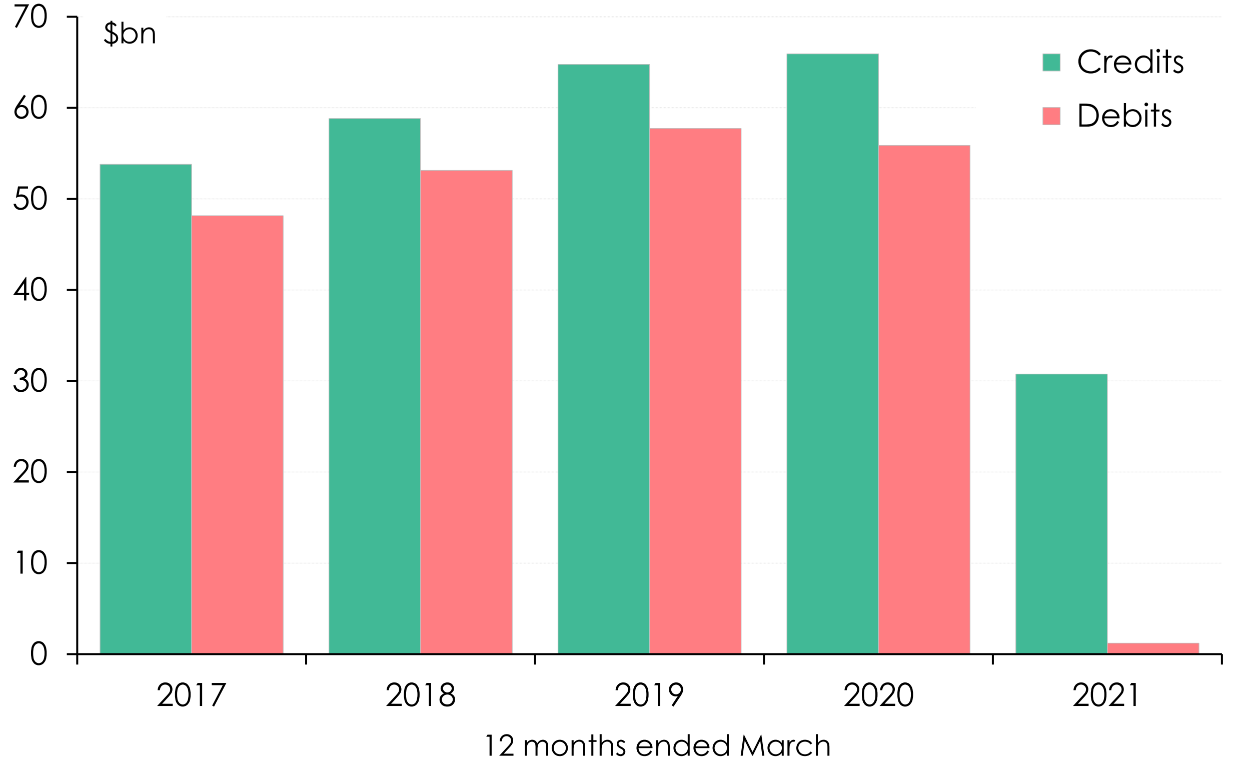


Note: The ABS has suspended publication of seasonally adjusted estimates of short-term visitor arrivals and resident returns, so published original estimates for April 2020 (and beyond) have been seasonally adjusted by Corinna using the same seasonal factors as for the corresponding month of 2019. Latest ABS data on arrivals and departures are for December; BITRE data on airport passenger movements are for December; March 2021 estimate(e)has been extrapolated from data for Sydney Airport published by Sydney Airport Ltd. *Sources:* ABS; Bureau of Industry, Transport and Resources Economics (BITRE); Sydney Airport Ltd; Corinna. Return to "What's New".

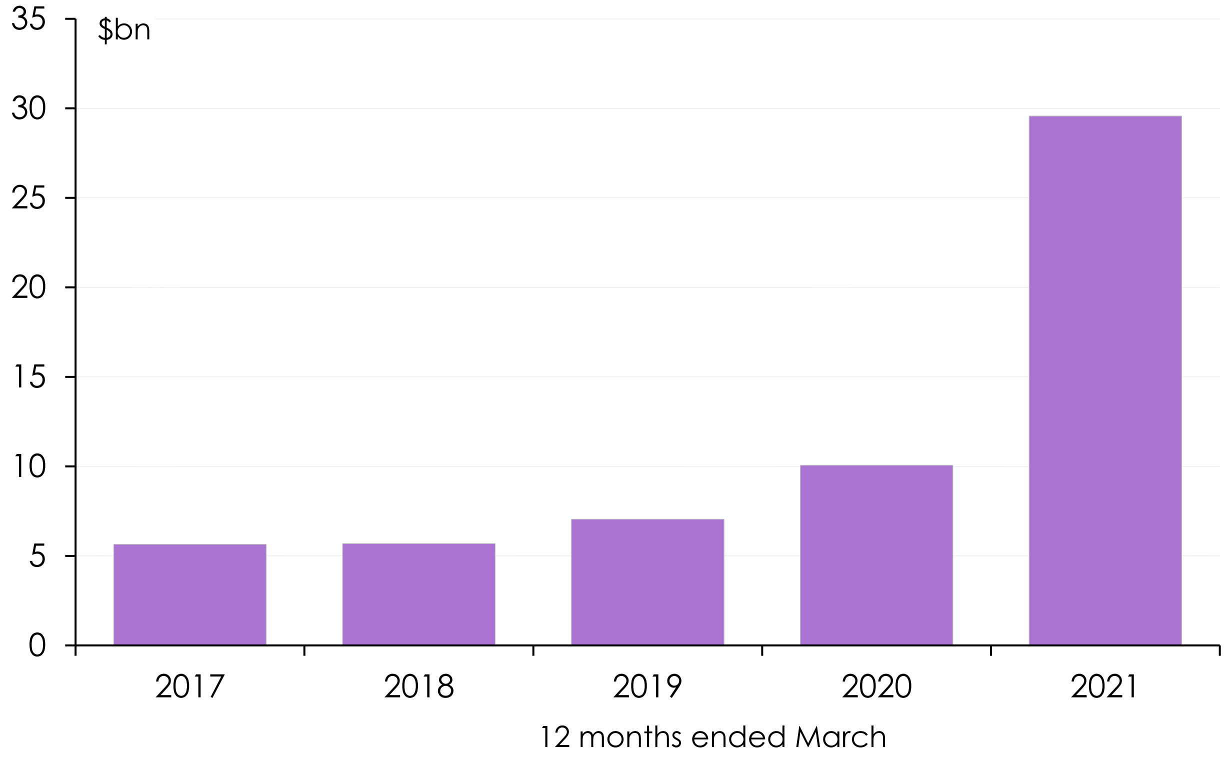
SAUL ESLAKE
CORINNA ECONOMIC ADVISORY

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

Travel credits and debits



Net travel transactions



- **Over the four years to March 2020, Australians spent an average of $54bn per annum on overseas travel – as against just $1bn spend in that way over the 12 months to March 2021, 'freeing up' a large amount which appears to have been spent in other ways (electronics, household goods, clothes, cars etc.)**

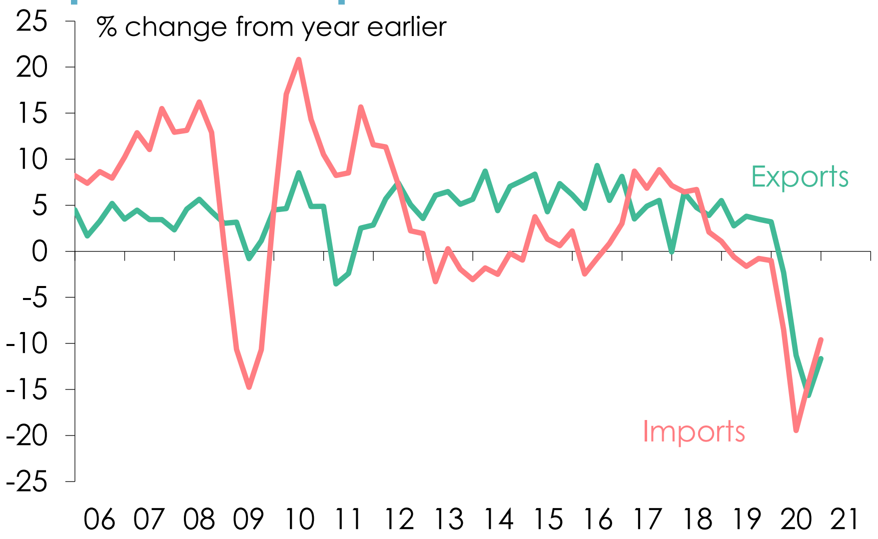
- **Despite restrictions, foreigners still spent $31bn in Australia in the 12 months to March 2021 (cf. an average of $61bn per annum over the previous four years) implying a *net gain* to Australia during 12 months to March this year of almost $22½bn by comparison with the 2016-19 average – equivalent to about 1¼% of GDP**

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

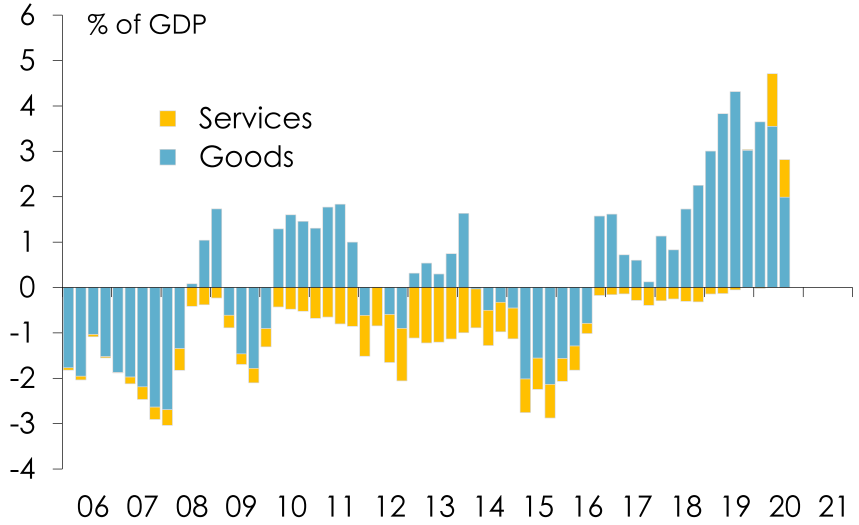
SAUL ESLAKE
CORINNA ECONOMIC ADVISORY

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

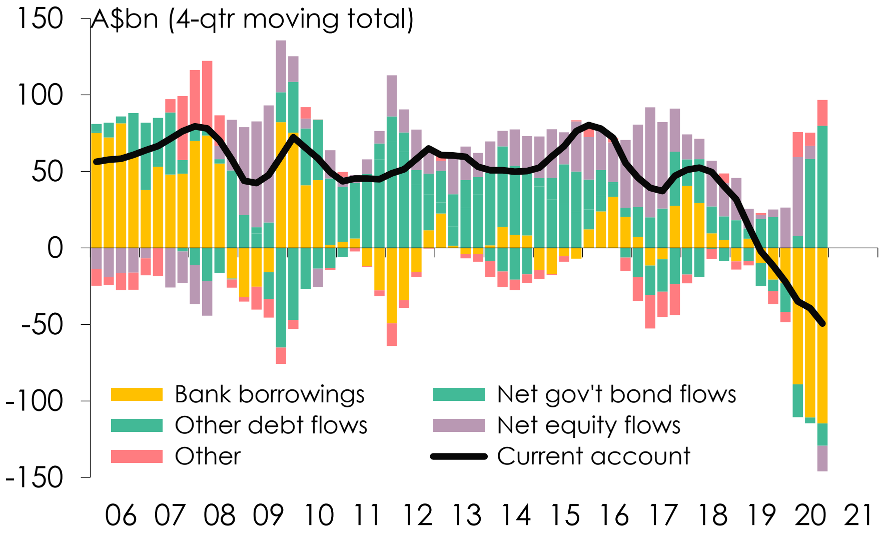
Export and import volumes



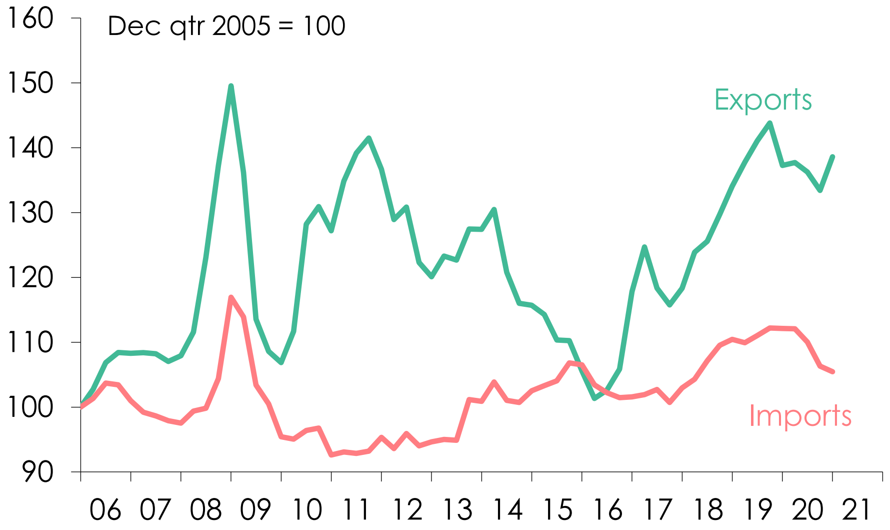
Goods & services trade balances



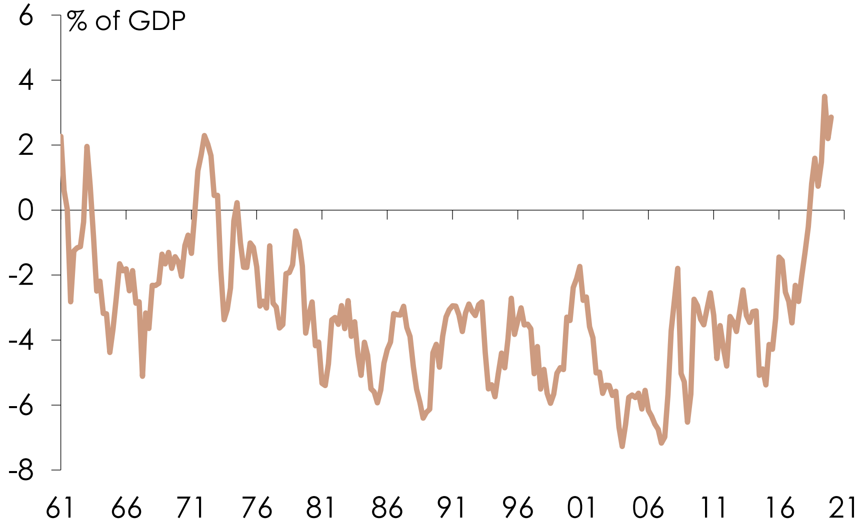
Capital flows



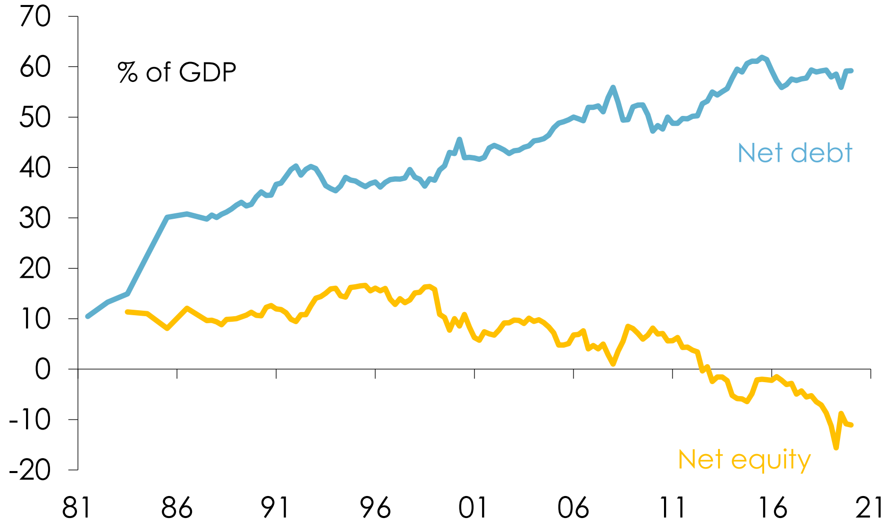
Export and import prices



Current account balance



Net international investment position

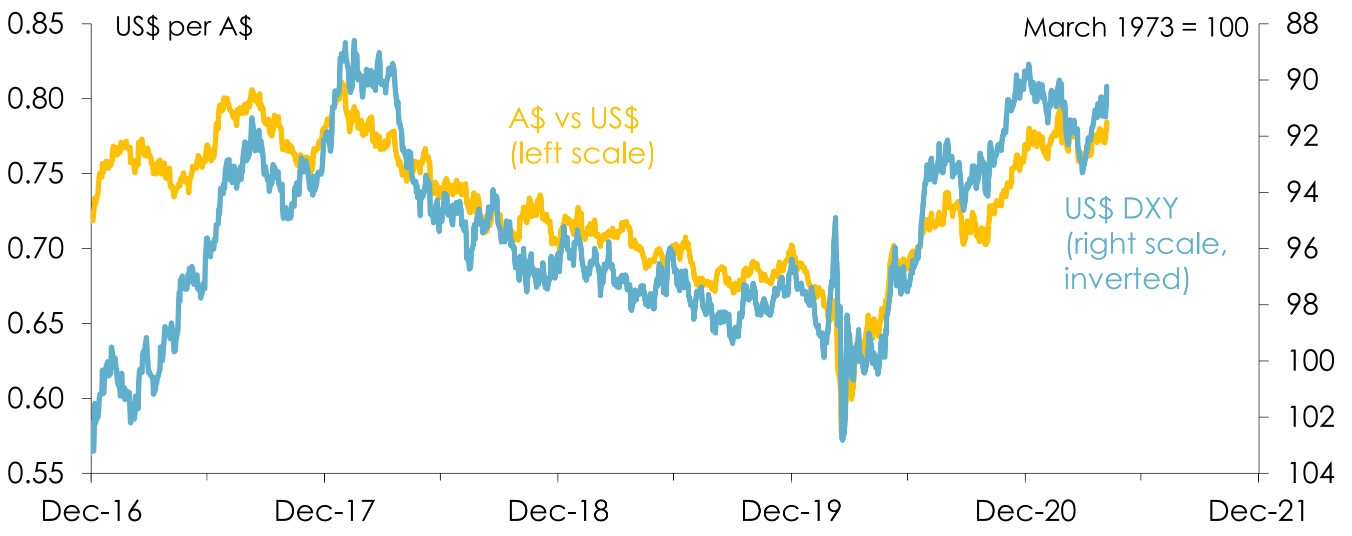


Note: Latest data are for September quarter (Q3); December quarter data will be released on 3rd March 2021. *Source:* ABS, *Balance of Payments and International Investment Position, Australia*. Return to "What's New".

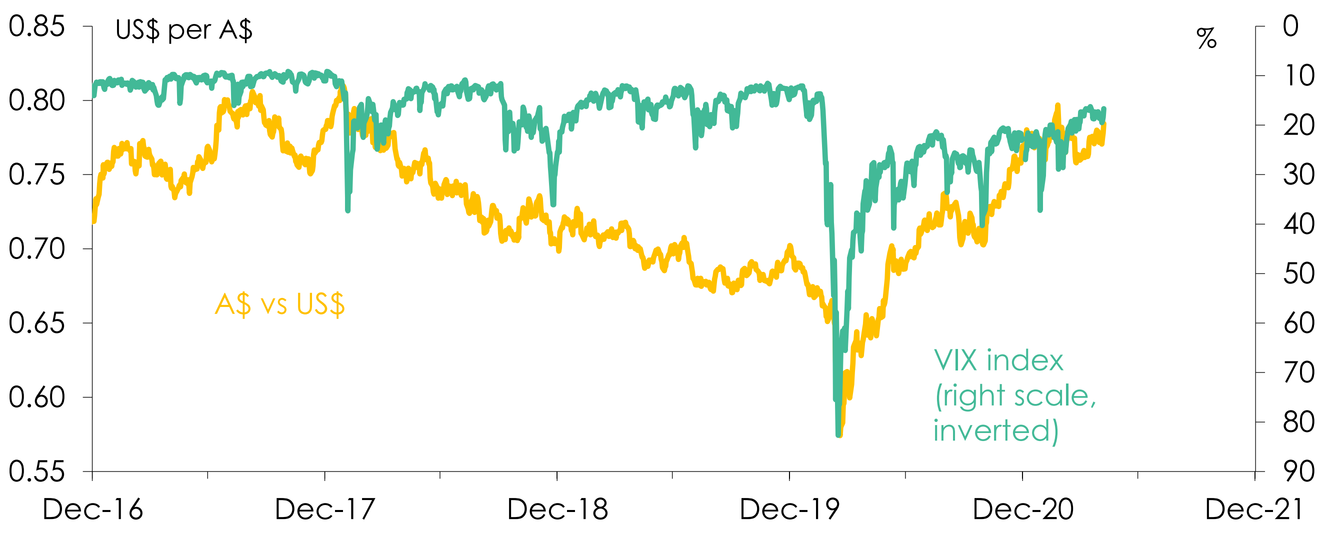
SAUL ESLAKE
CORINNA ECONOMIC ADVISORY

The A$ pushed through US78¢ (to a 3-year high of US78½¢) this week on the back of a record high iron ore price (of US$208/t) and a weaker US dollar

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

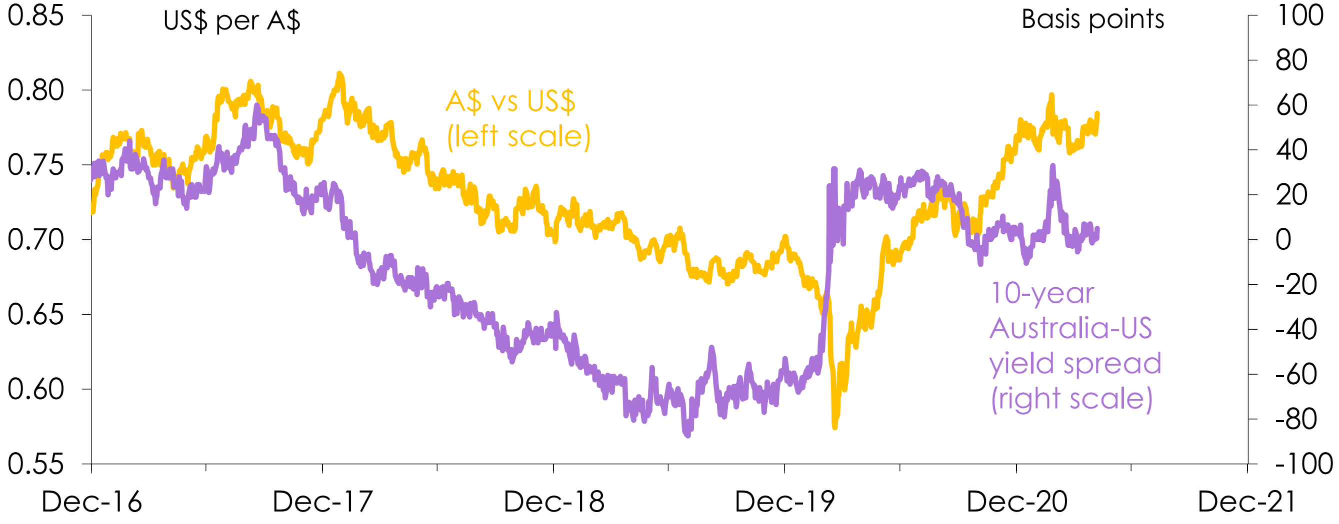


A$-US$ and US equity market volatility



A$-US$ and spot iron ore prices

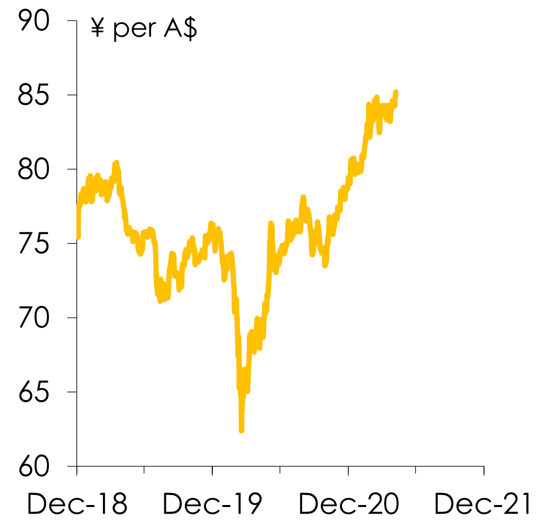
A$-US$ and Australia-US 10-year bond yield spread



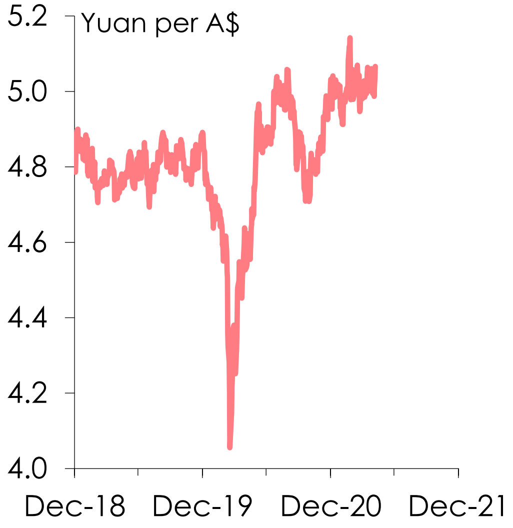
Note: The VIX index is a measure of the implied volatility of S&P500 options and is widely interpreted as an indicator of investor risk appetite or aversion. For an explanation of the factors underpinning the strength in the iron ore price see slide 112. *Source:* Refinitiv Datastream. Data up to 7th May. Return to "What's New".

The A$ rose against most Asian currencies and sterling this week but fell ½% against the euro and by more than 1½% against the C$

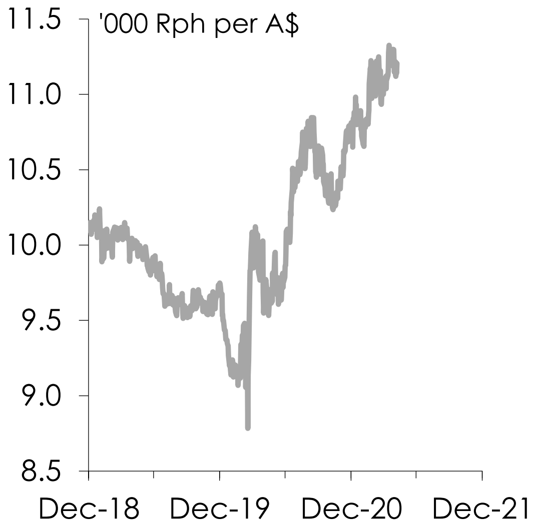
A$ vs Japanese yen



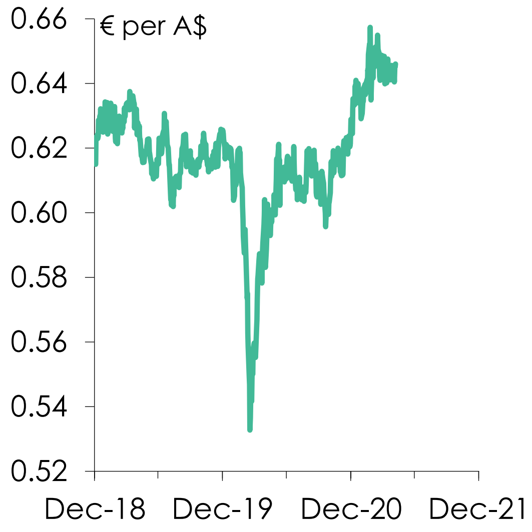
A$ vs Chinese yuan



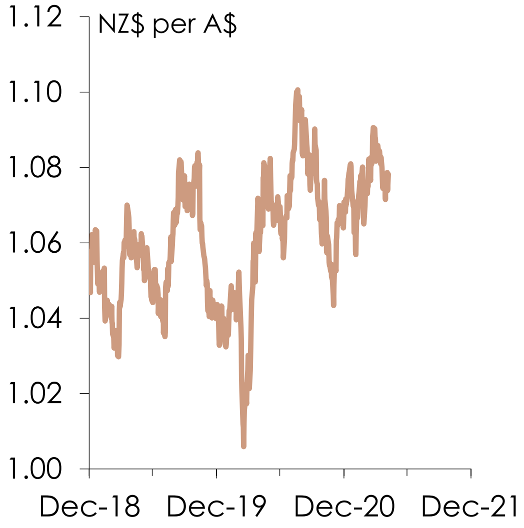
A$ vs Indo rupiah



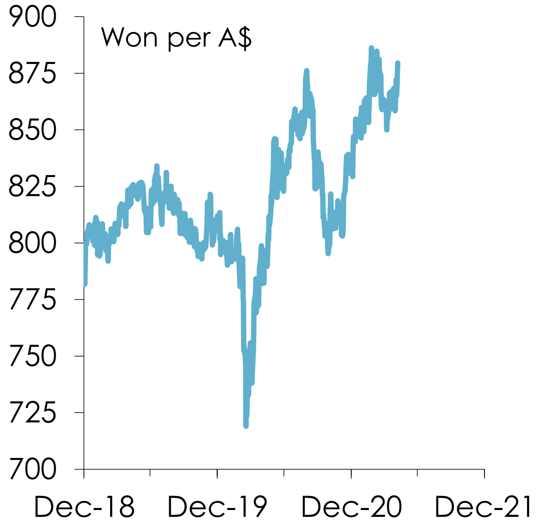
A$ vs Euro



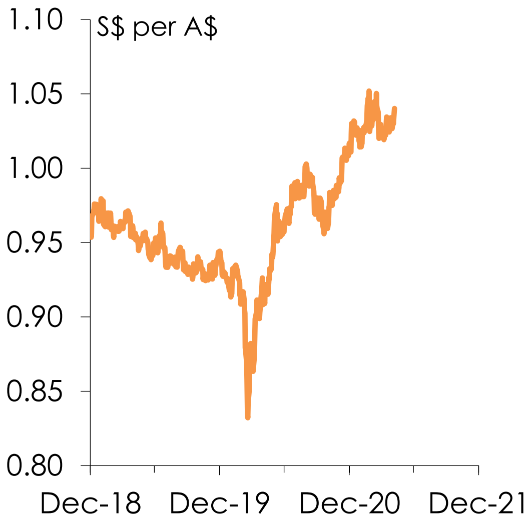
A$ vs NZ$



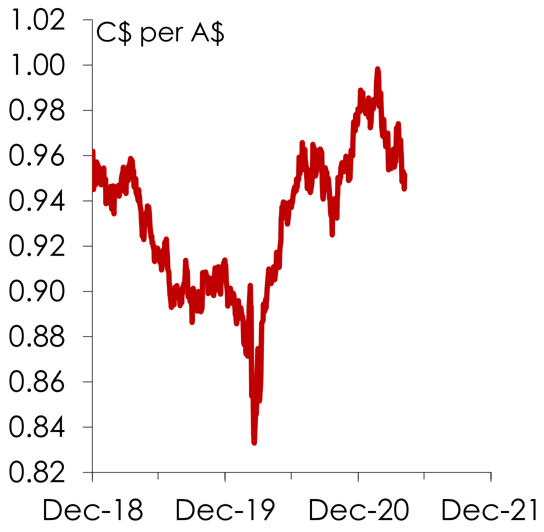
A$ vs Korean won



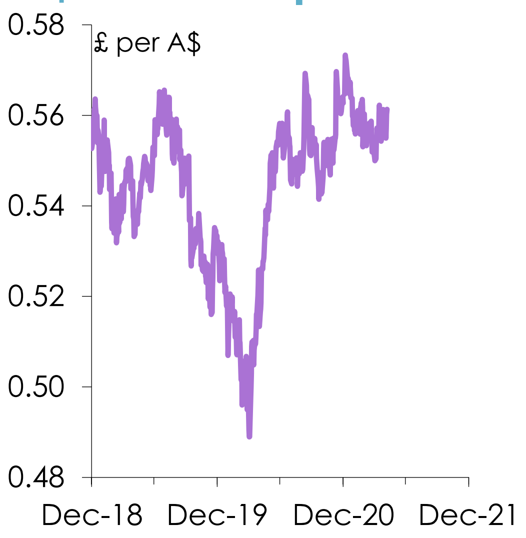
A$ vs Singapore $



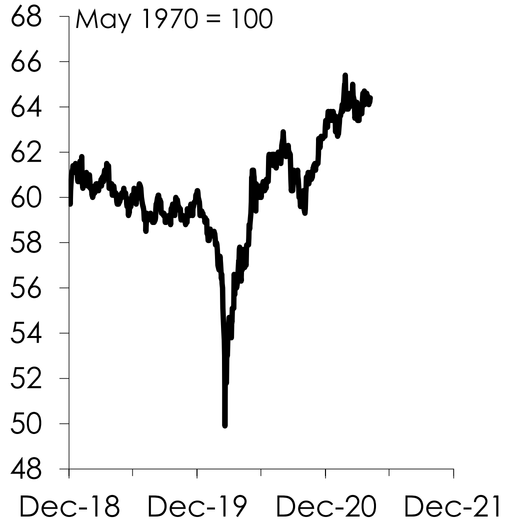
A$ vs Canadian $



A$ vs British pound



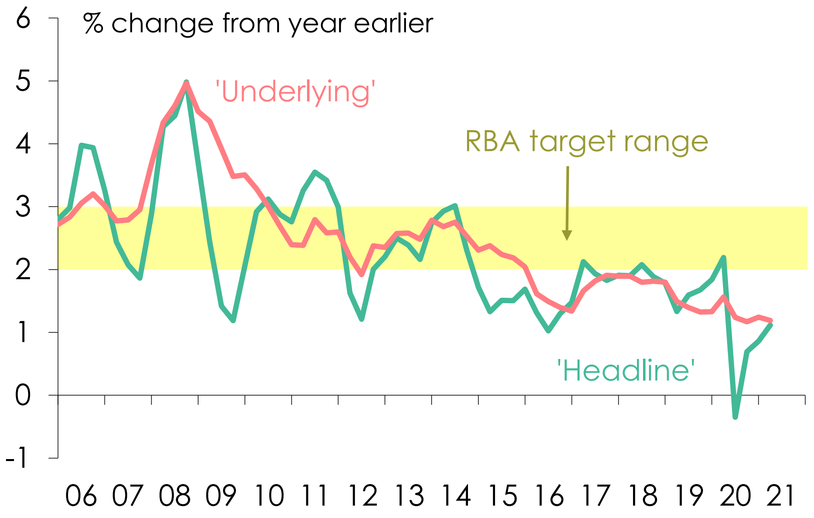
A$ TWI



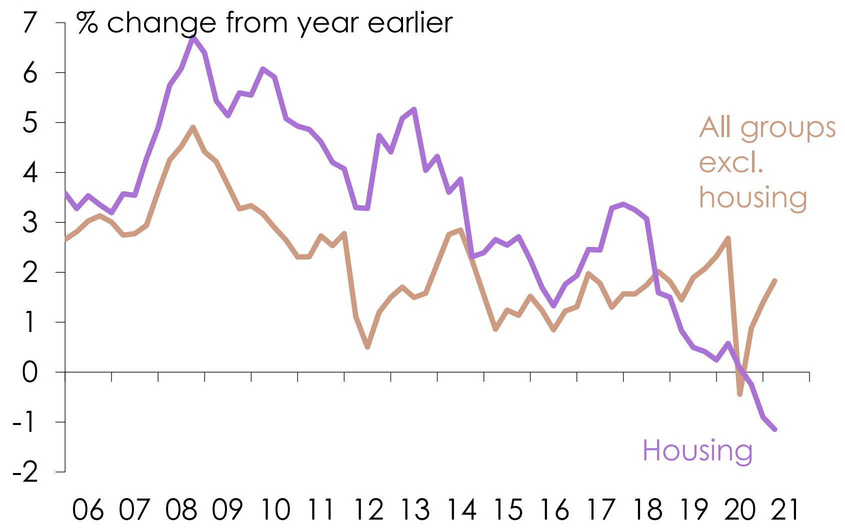
Note: The 'TWI' is the RBA's trade-weighted index of the A$. *Source:* Refinitiv Datastream. Data up to 7th May. Return to "What's New".'

Q1 inflation was less than expected (with annual 'underlying' inflation falling to a record low), partly reflecting the effect of government policies

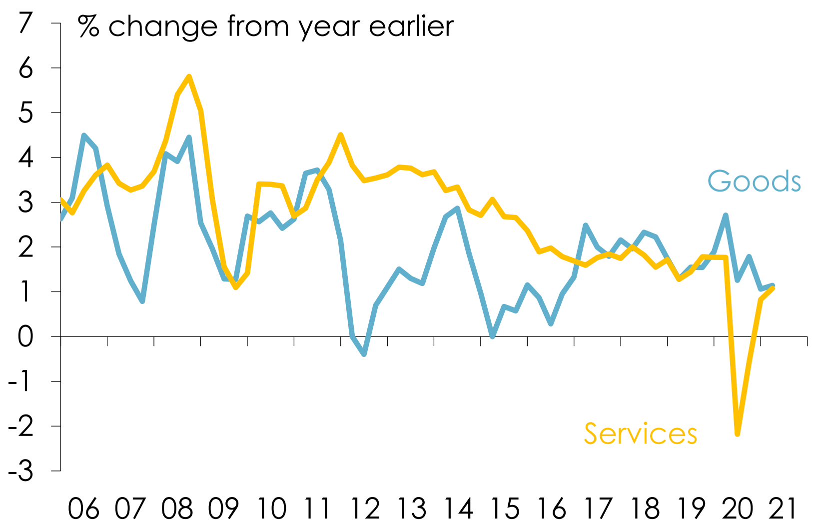
Consumer prices



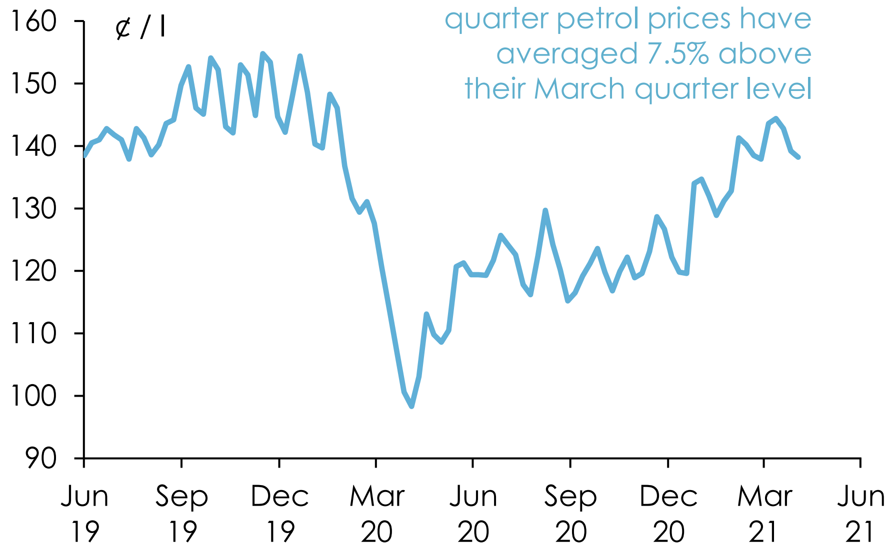
Housing costs



Goods vs services prices



Retail petrol prices

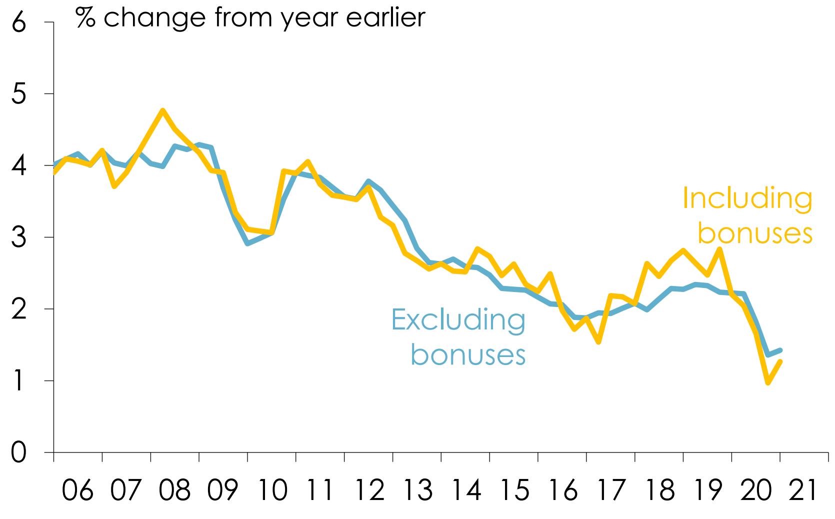


- The CPI rose a smaller-than-expected 0.6% in Q1, pushing the annual 'headline' inflation rate up 0.2 pc pts to 1.1%
- Almost half the Q1 increase in the CPI came from an 8.7% increase in petrol prices
- The main dampening effects came from government policies – including cash grants to first home buyers, which (perversely) turned what would have been a 1.9% increase in new dwelling purchase costs into a 0.1% fall (much the same thing happened in Q4) …
- … and the changes to tertiary student fees which had the (unexpected) effect of reducing tertiary education costs by 1.7%, and which along with freezes in private school fees resulted in the education component of the CPI rising a lot less than it usually does in Q1
- The RBA's preferred measure of 'underlying' inflation rose 0.3% in Q1 and by 1.1% (a record low) from a year earlier – highlighting that there is still too much 'slack' in the economy for inflation to 'take off'

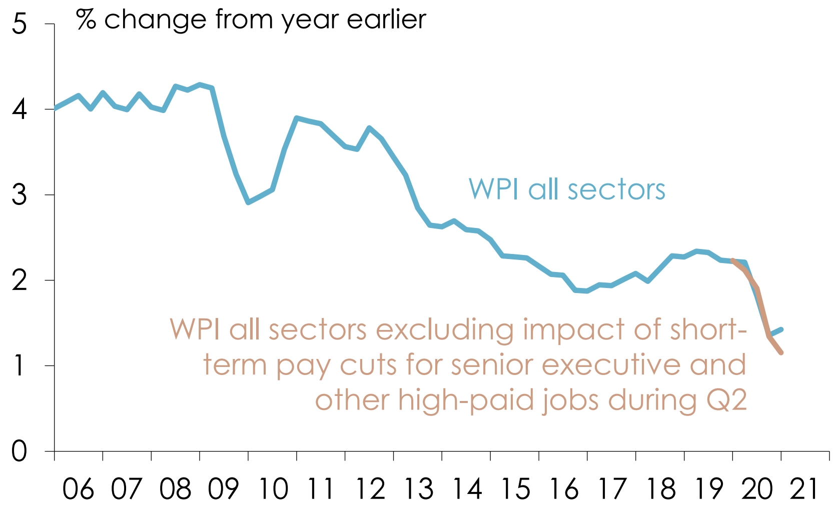
Note: 'Underlying' inflation is the average of the weighted median and trimmed mean CPIs. Wage price indices exclude bonuses.
Sources: ABS, *Consumer Price Index, Australia*; Australian Institute of Petroleum. The June quarter (Q2) CPI will be released on 28th July.
Return to "What's New".

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

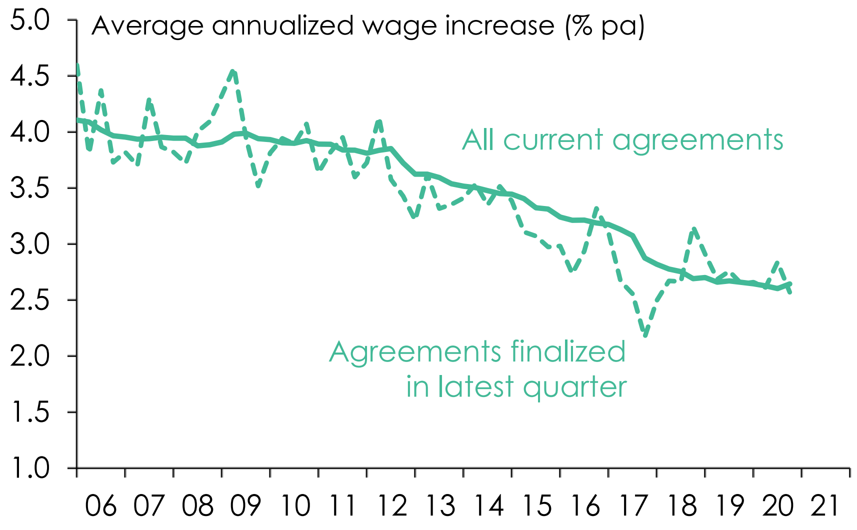
Wage price index – all sectors



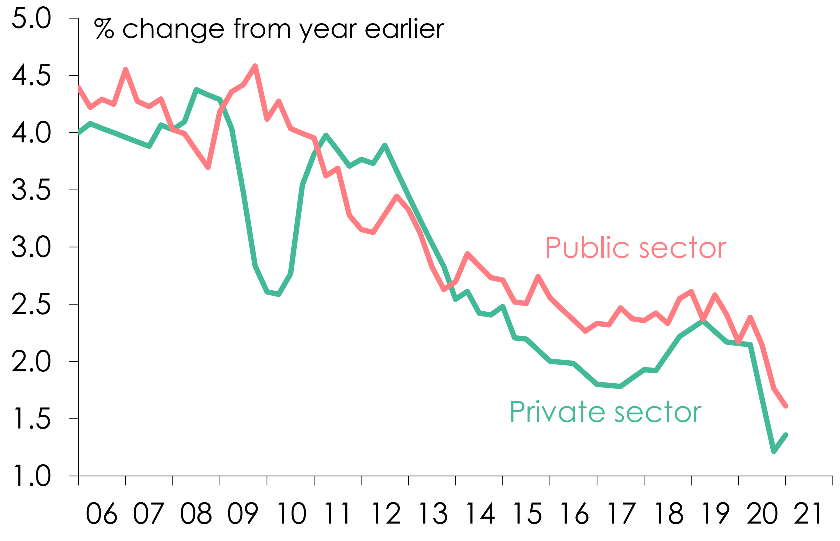
WPI excl. temporary wage cuts



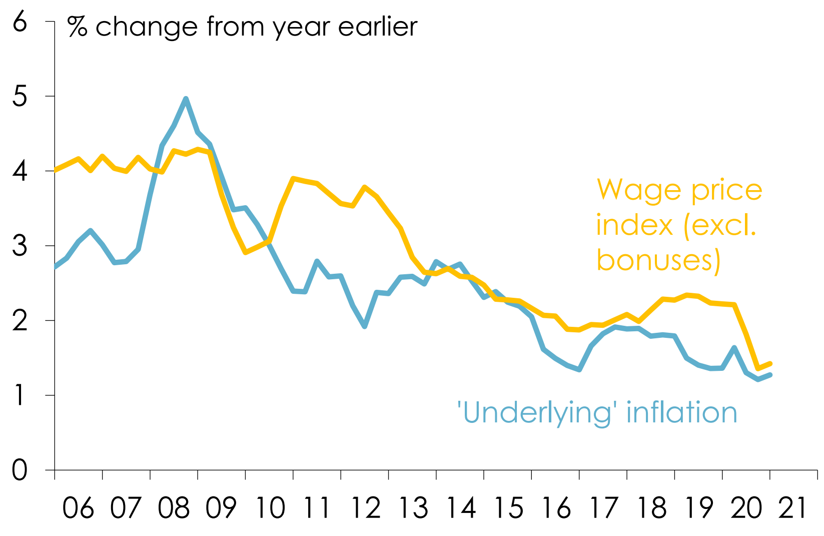
Enterprise bargaining agreements



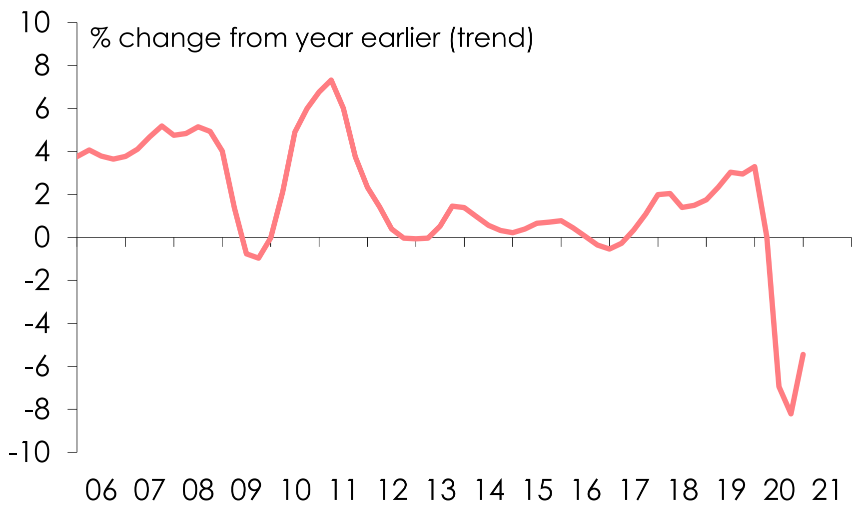
WPI – private vs public sectors



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 released on 19th May.

Return to "What's New".

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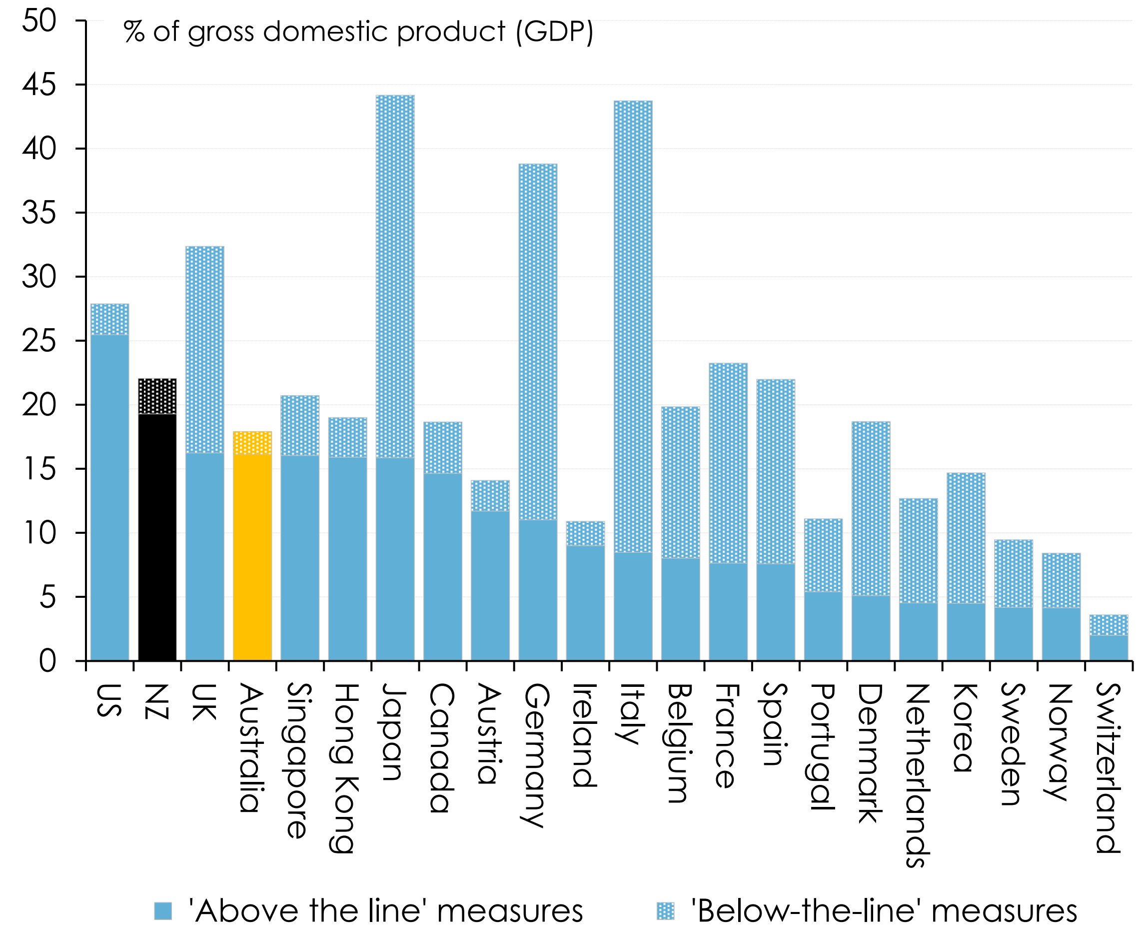
Australia’s fiscal and monetary policy settings

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

Fiscal policy responses to Covid-19 – selected 'advanced 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 17th March 2021. *Source:* IMF, *Fiscal Monitor Database of Country Fiscal Measures in Response to the COVID-19 Pandemic*, April 2021. Return to "What's New".

- **Policy measures announced prior to last October's federal Budget totalled A$232bn over FYs 2019-20 and 2020-21 or about 11¾% of one year's GDP – which is large by international standards (and double what was done during the GFC)**
  - the IMF's latest *Fiscal Monitor Update* estimates that measures announced up to 17th March this year are equivalent to 16.1% of GDP
- **Principal objectives of policy measures have been to –**
  - strengthen the capacity of the health care system to cope with increased demand
  - maximize the 'survival prospects' of businesses affected by shutdowns
  - minimize the impact of the shutdown on employment
  - provide additional income support to those who lose their jobs
- **Policy measures have been designed to be 'simple' to administer, and to make greatest use of existing systems rather than having to create new mechanisms**
- **Policy measures also designed to be readily 'switched off' once the need for them has passed**

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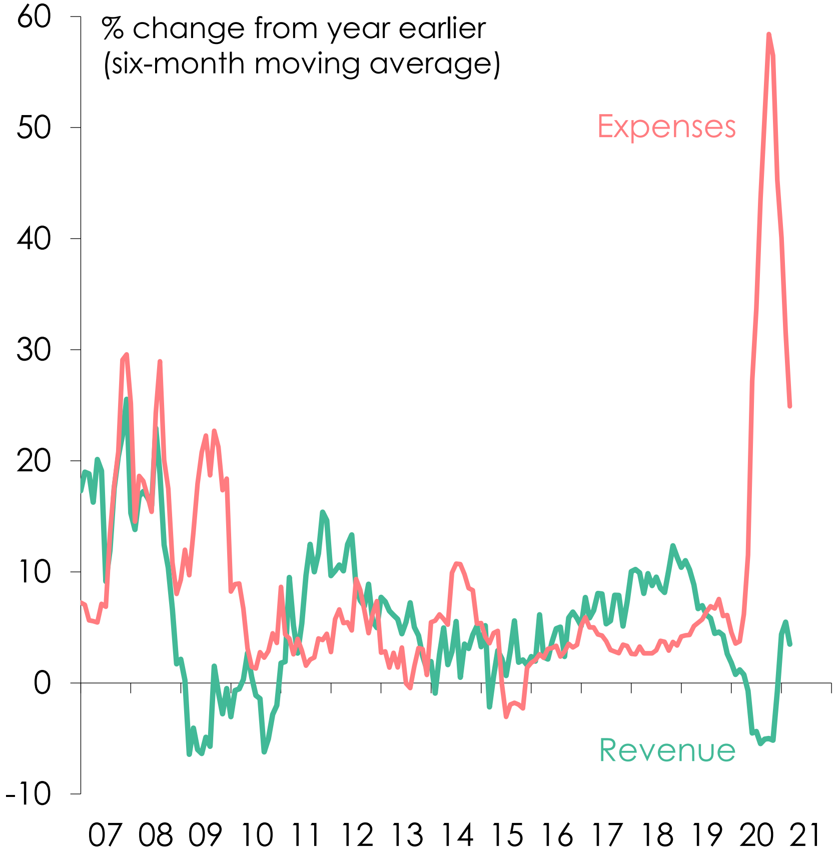
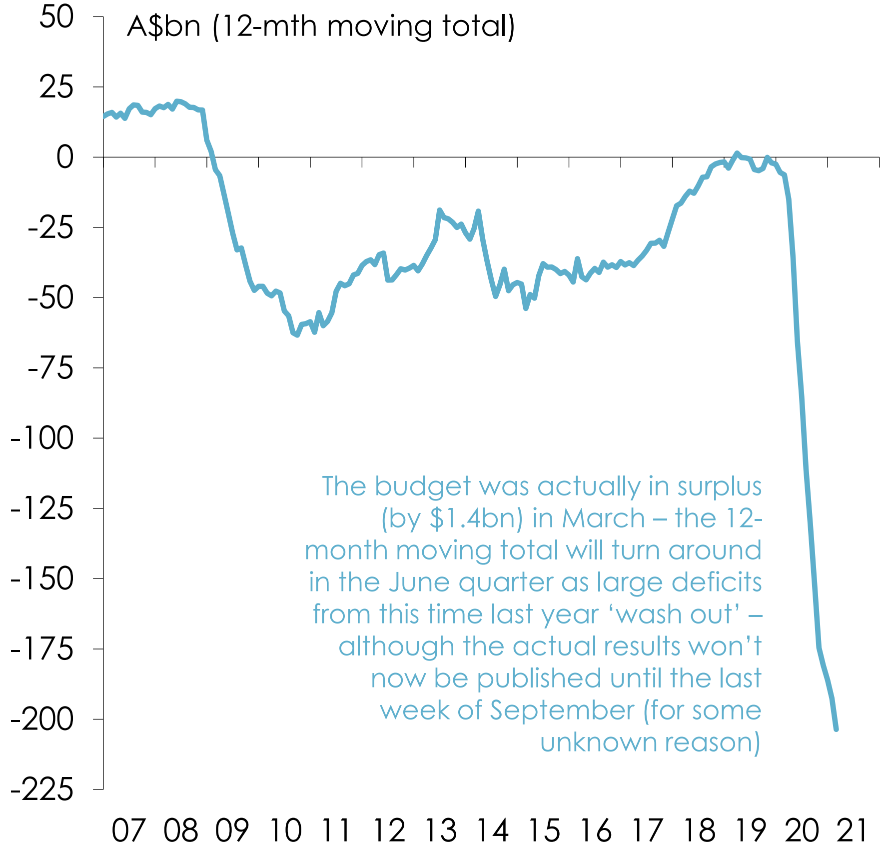
The budget deficit for the first nine months of FY 2020-21 was about $29bn (18%) lower than the Mid-Year Outlook 'profile' projection

Australian Government revenue and expenses



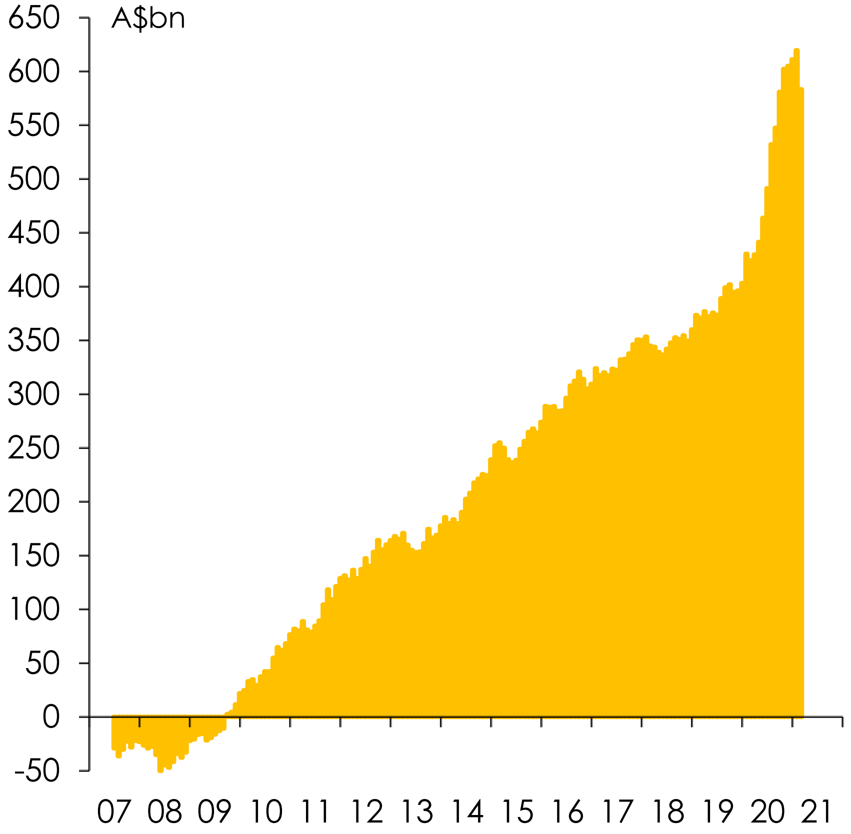
- Growth in expenses has slowed, while revenue is beginning to turn around as the economy picks up

Australian Government 'underlying' cash balance



- The 'underlying' cash balance for the first 9 months of FY 2020-21 was $133bn – $29bn better than the MYEFO profile

Australian Government net debt



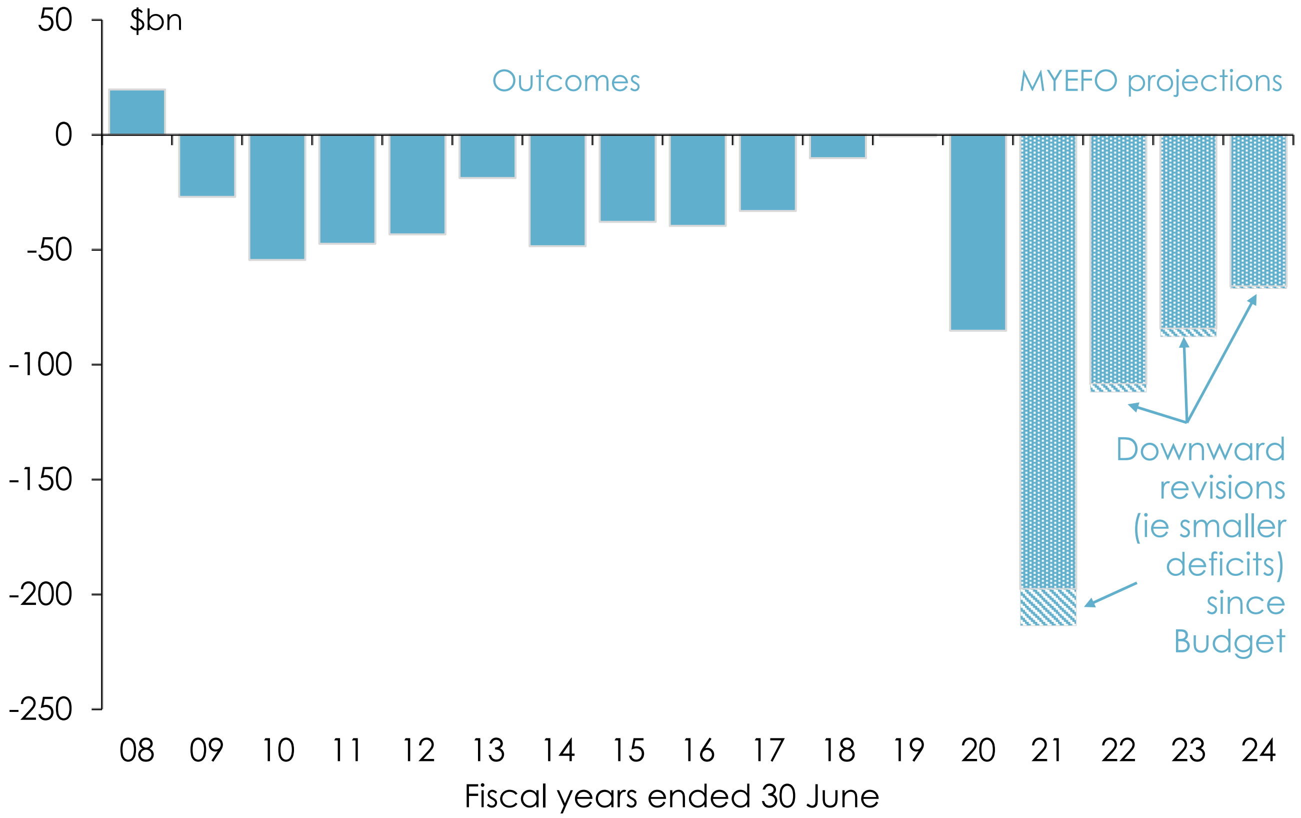
- Net debt as at end-February was $587bn (about 29% of GDP), up $96 bn over the first 9 months of 2020-21

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

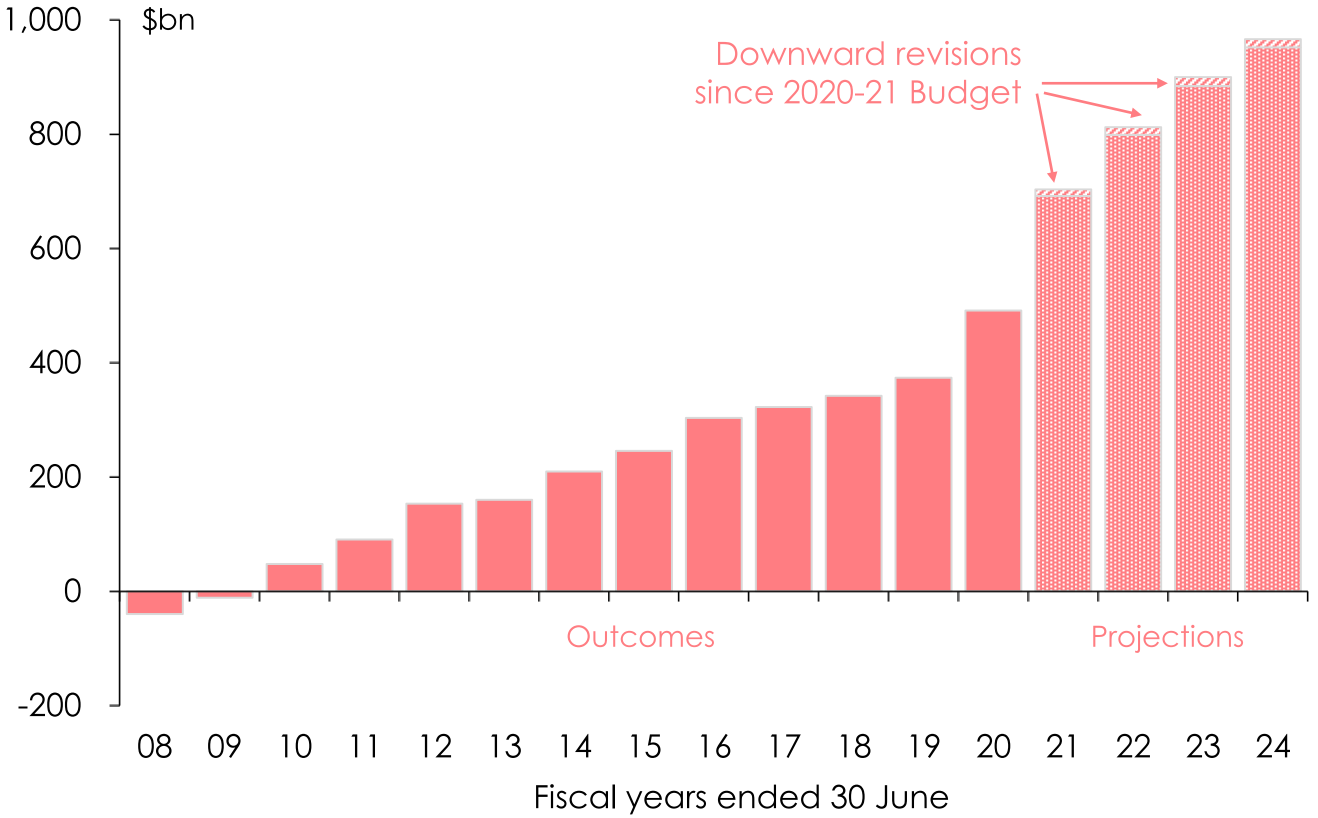
The budget deficits forecast in October's 2020-21 Budget were revised down by about 5¼%, and debt projections by 1½%, in December's MYEFO

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

'Underlying' cash balance



Net debt



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

Note: The 2021-22 Federal Budget will be presented on Tuesday 11th May. *Sources:* Australian Government, 2020-21 *Budget Paper No. 1, Budget Statement No. 4* and *2020-21 Mid-Year Economic and Fiscal Outlook*. Return to "What's New".

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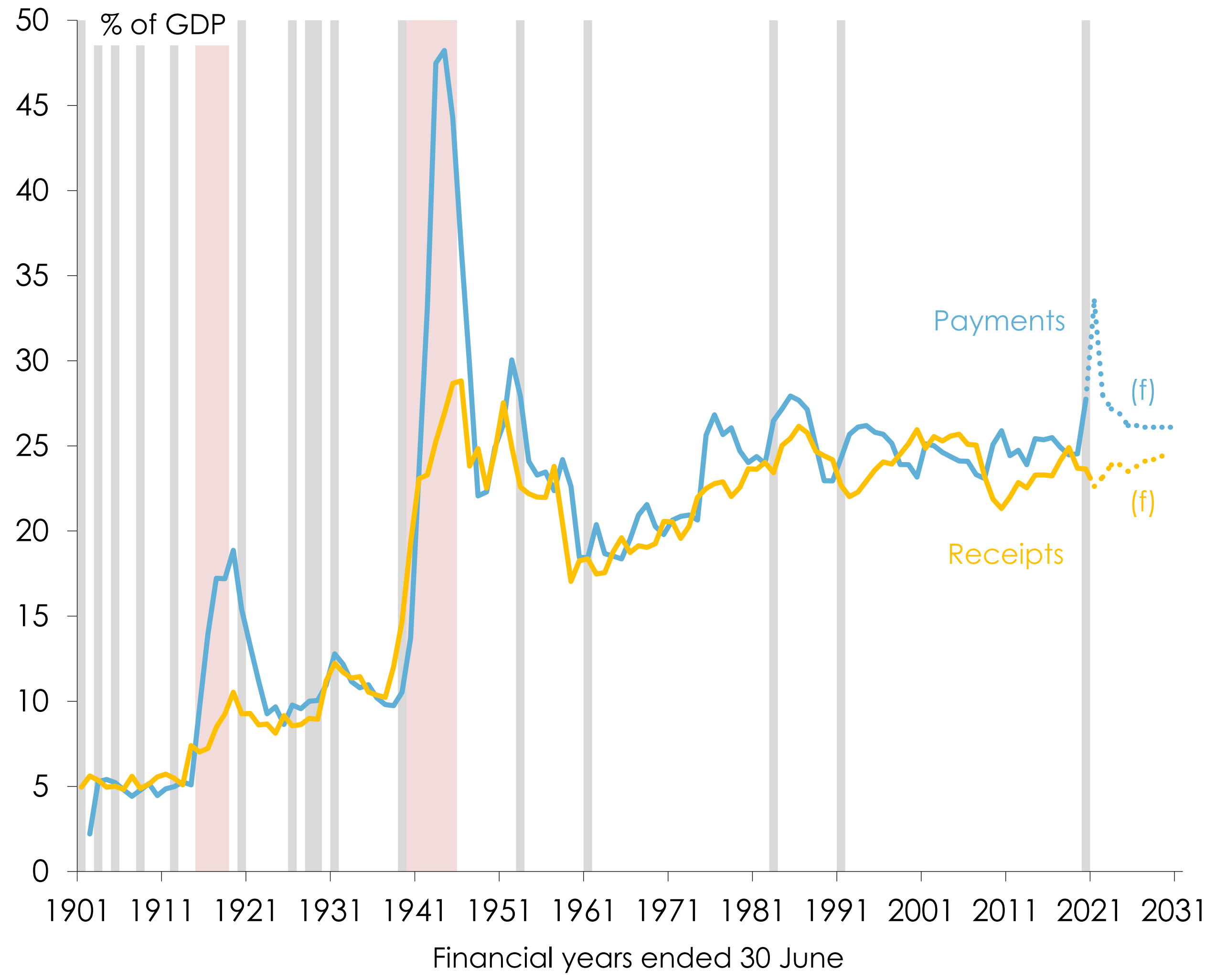
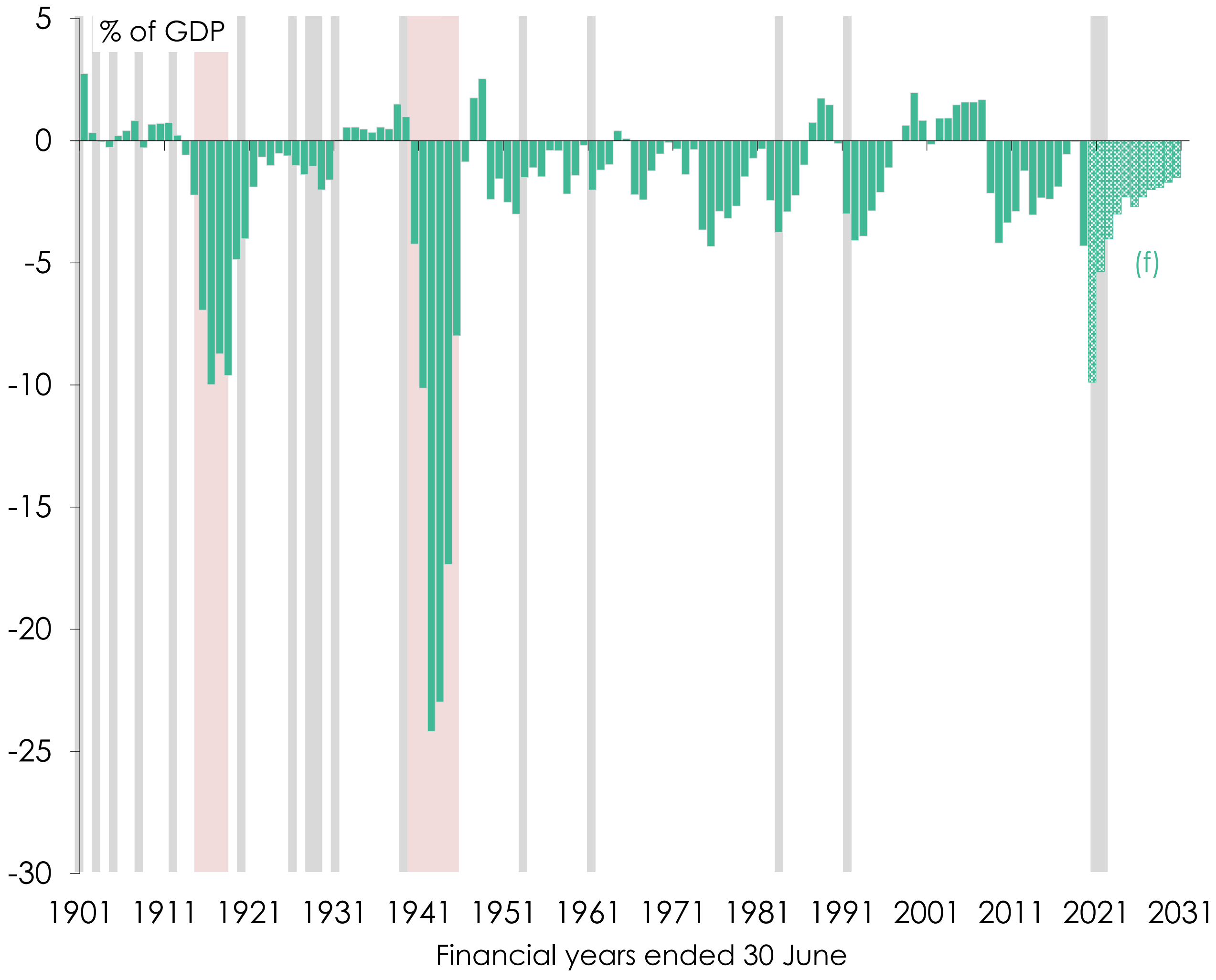
The budget deficits projected for 2020-21 (9.9% of GDP) and 2021-22 (5.4% of GDP) will still be the largest since the end of World War II

Australian Government receipts and payments



Australian Government budget deficit or surplus



Note: Payments and the budget surplus or deficit are 'underlying' (that is, exclude 'net investments in financial assets for policy purposes') after 1989-90, when state governments became responsible for issuing their own debt, and 'headline' before that. Areas shaded in grey are fiscal years in which real GDP contracted; areas shaded in pink are World Wars I and II. (f) denotes forecasts or projections – these numbers will be updated in the Budget to be presented on 11th May.
Sources: Global Financial Data; Australian Government, *2020-21 Mid-Year Economic and Fiscal Outlook*. Return to "What's New".

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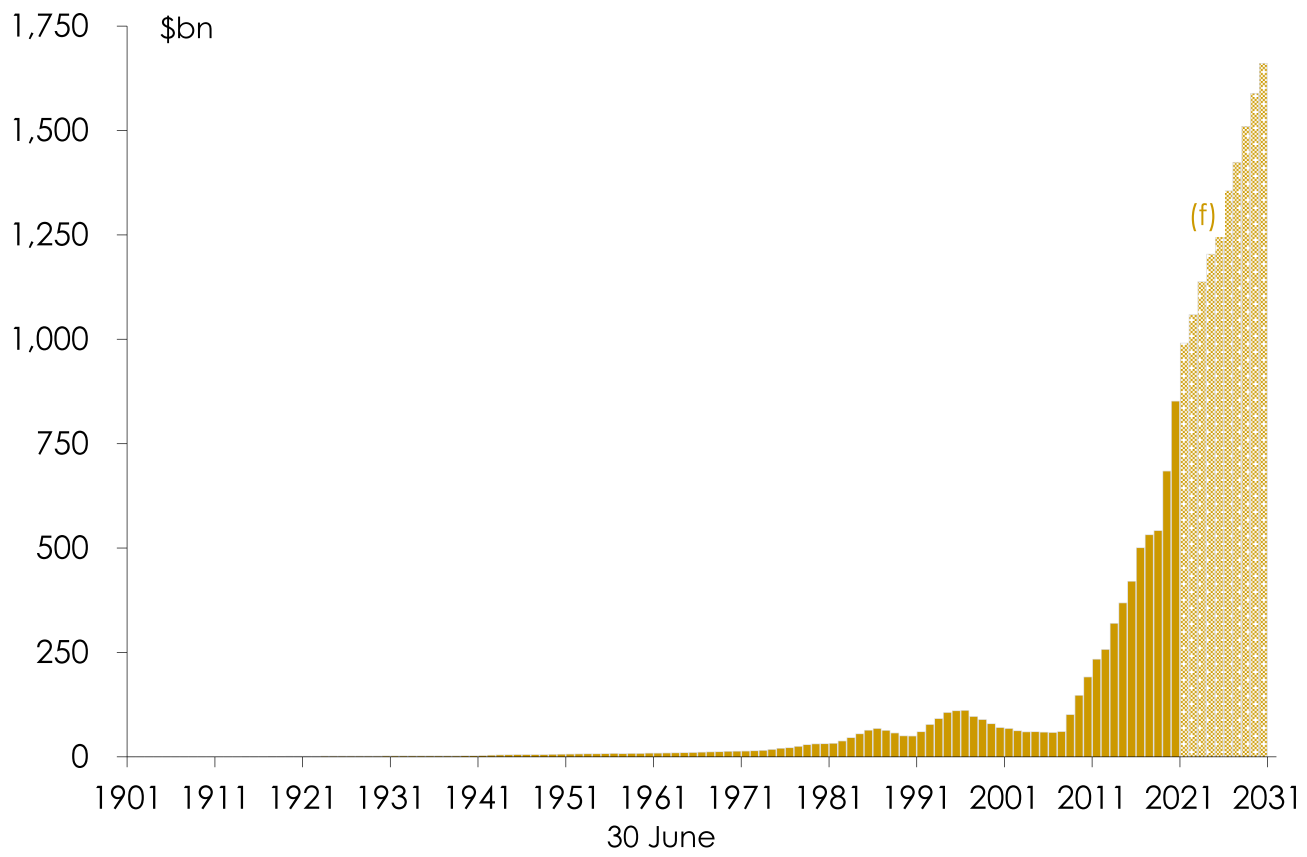
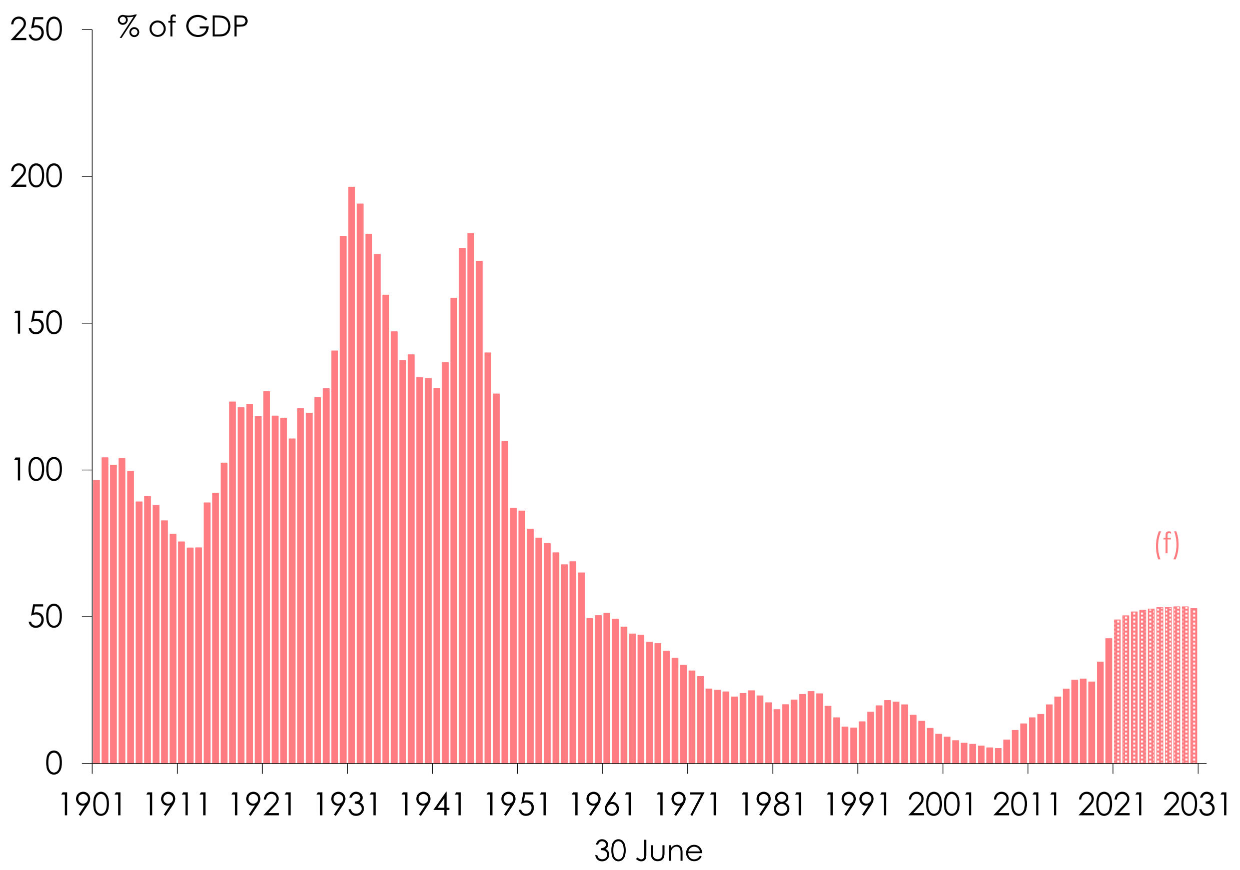
There's no need for undue alarm at the level of debt which will be incurred by the Australian Government

Australian Government gross public debt in $



Australian Government gross debt as a pc of GDP



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

Note: (f) denotes forecasts and projections. The 2021-22 Federal Budget will be presented on Tuesday 11th May. *Sources:* Global Financial Data; Australian Government, 2020-21 *Budget Paper No. 1, Statement No. 3*. Return to "What's New".

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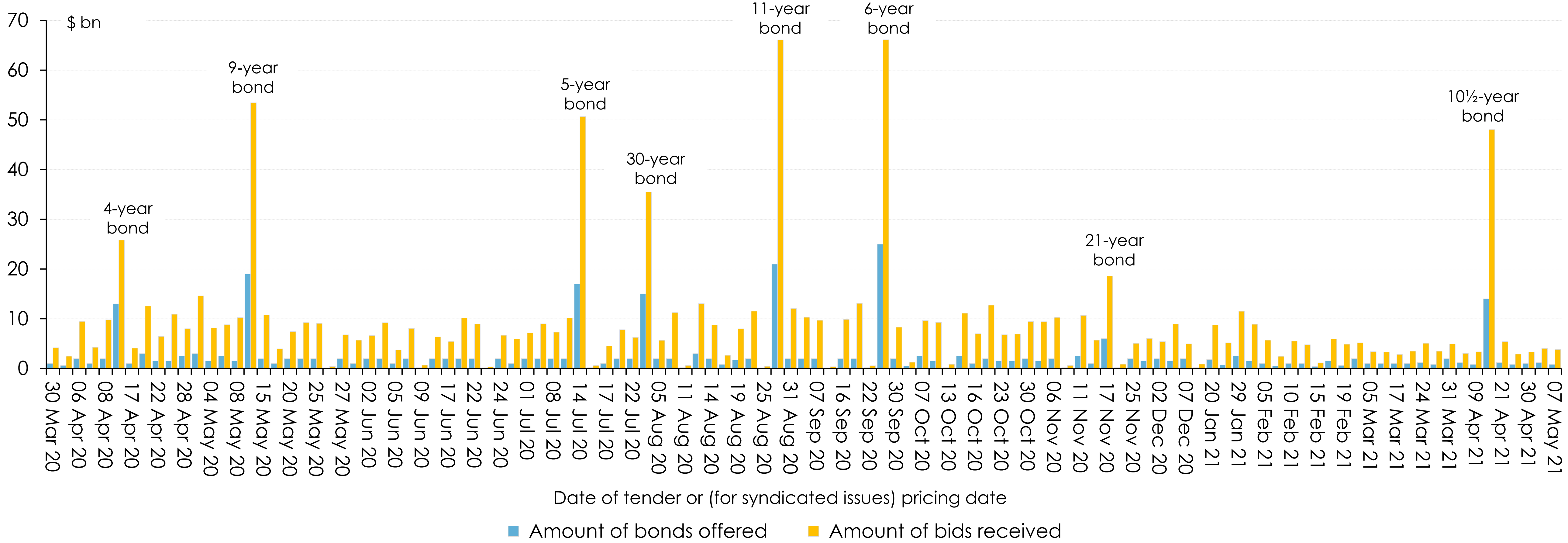
The Government has had no difficulty financing its deficit – and has cut its foreshadowed debt issuance by $1bn a week for the first half of 2021

Australian government bond issuance since March 2020



- Since 30th March 2020, the Australian Office of Financial Management has issued $309bn of Treasury bonds – based on the volume of bids received it could have borrowed over $1.13 trn with yields at most 4 basis points (0.04 of a pc point) above the highest yields actually accepted
- This week the AOFM sold $2bn of bonds (including $1.2bn of 10½-year bonds), bringing its total issuance for FY 2020-21 to $198.3bn or 86¼% of the previously advised budget financing task

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

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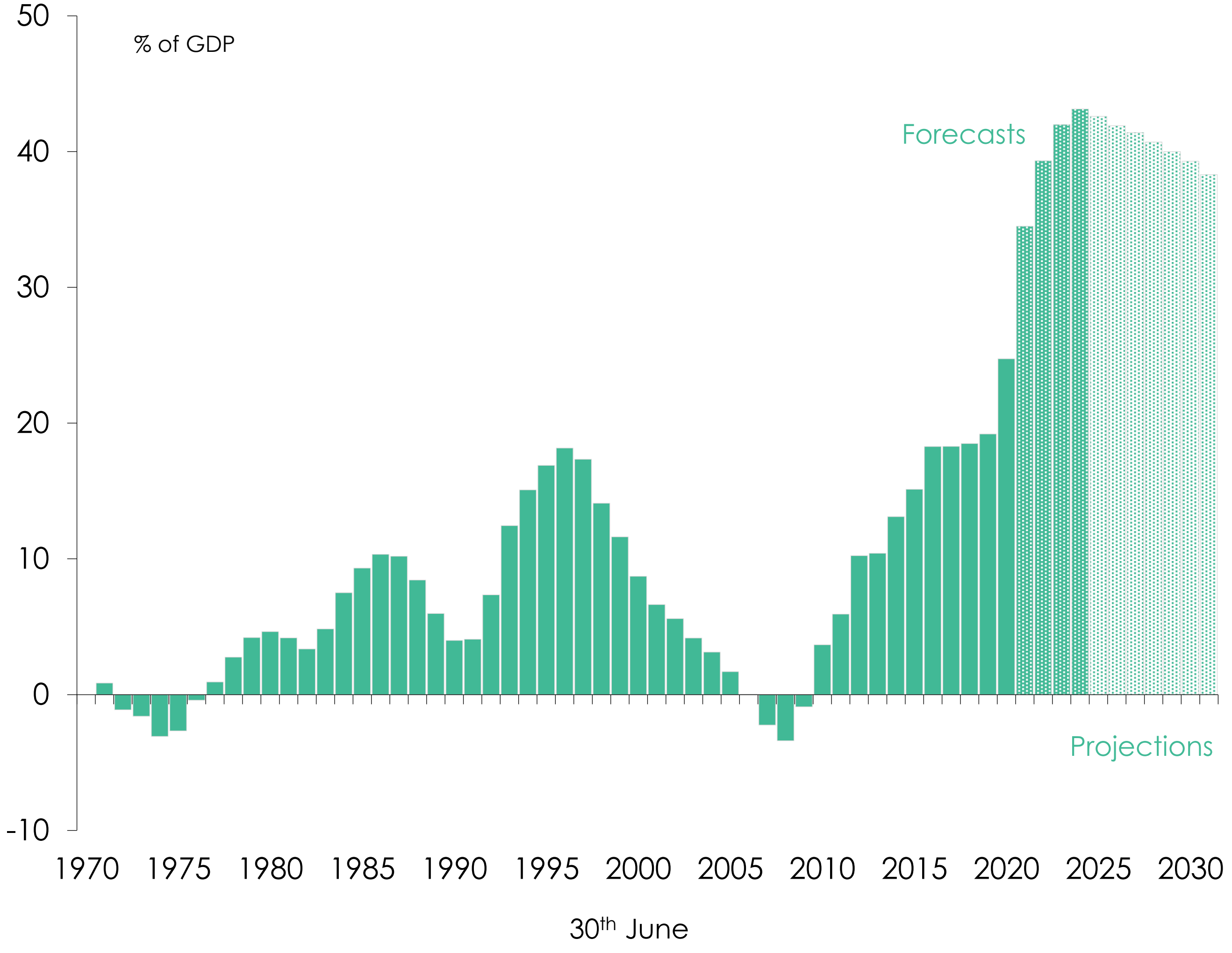
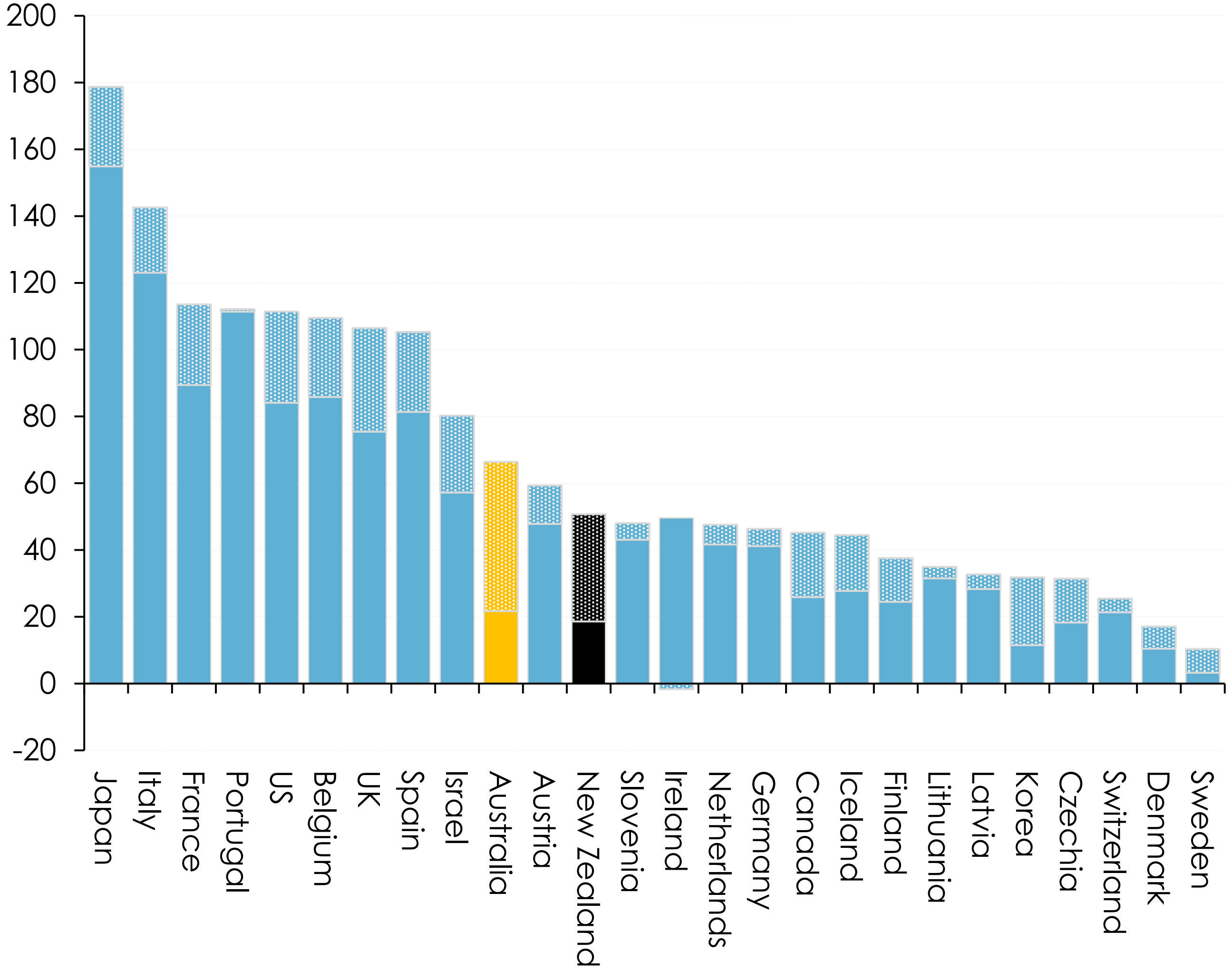
Although Australia's government net debt will reach new record highs, it will still be relatively low by comparison with most 'advanced' economies

Australian Government net debt as a percentage of GDP



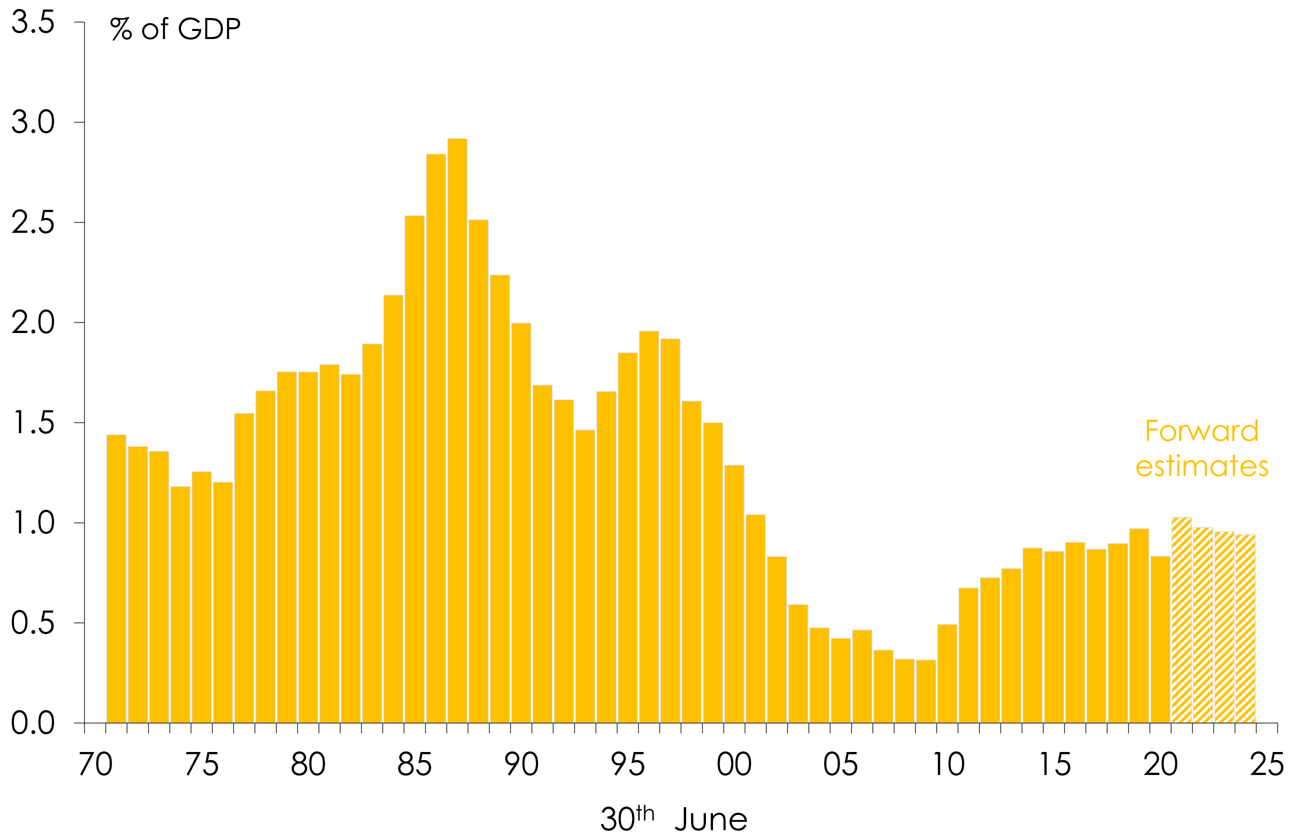
Net debt of Australian and other 'advanced' economy governments as a pc of GDP, 2019 and projected 2024



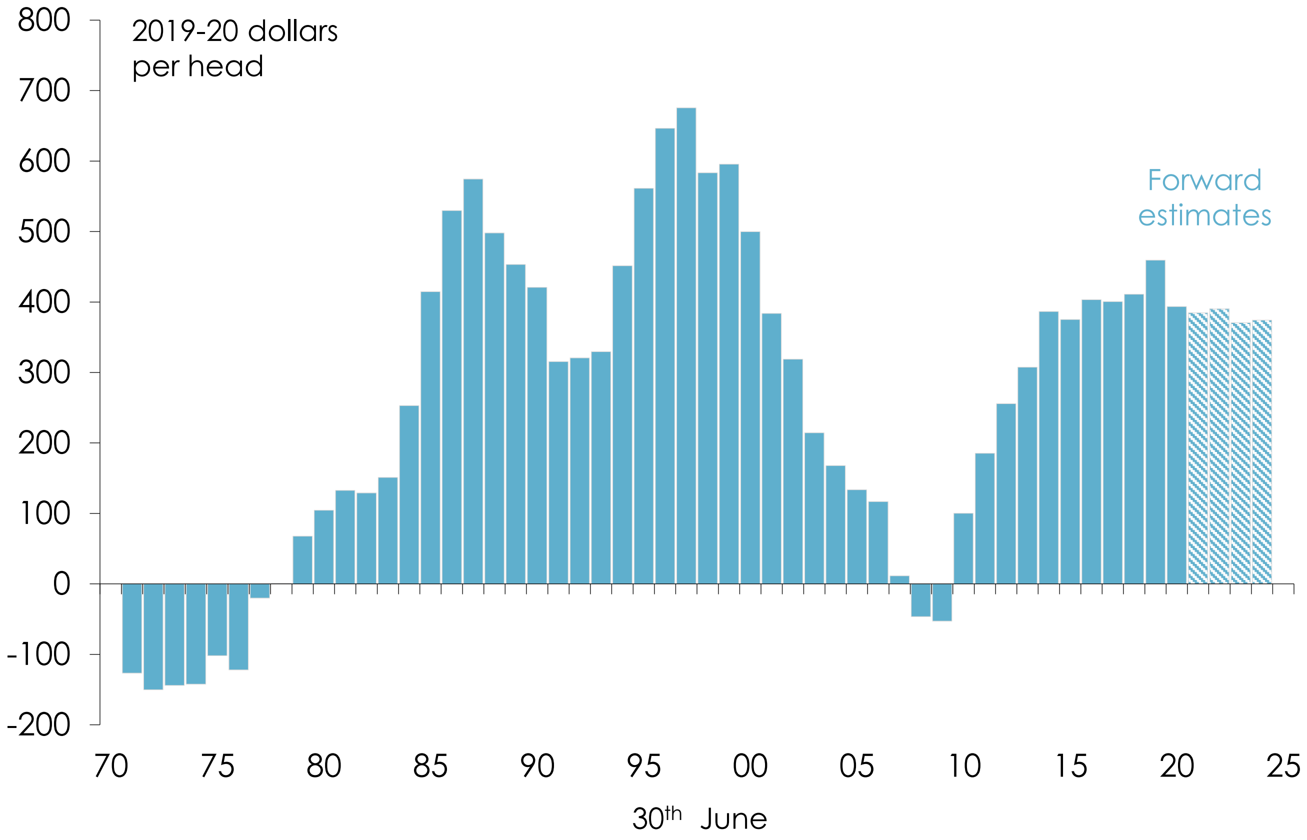
Note: Estimates for Australia in right hand chart include actual and projected net debt of state and territory governments. *Sources:* Australian Government, 2020-21 *2020-21 Mid-Year Economic and Fiscal Outlook*, 17th December 2020; 2020-21 state and territory Budget Papers; New Zealand Treasury, *Half-Year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

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

Australian Government interest payments as a percentage of GDP



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



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

Note: The 2021-22 Federal Budget will be presented on Tuesday 11th May. *Sources:* Global Financial Data; *2020-21 Mid-Year Economic and Fiscal Outlook*; Corinna.
Return to "What's New".

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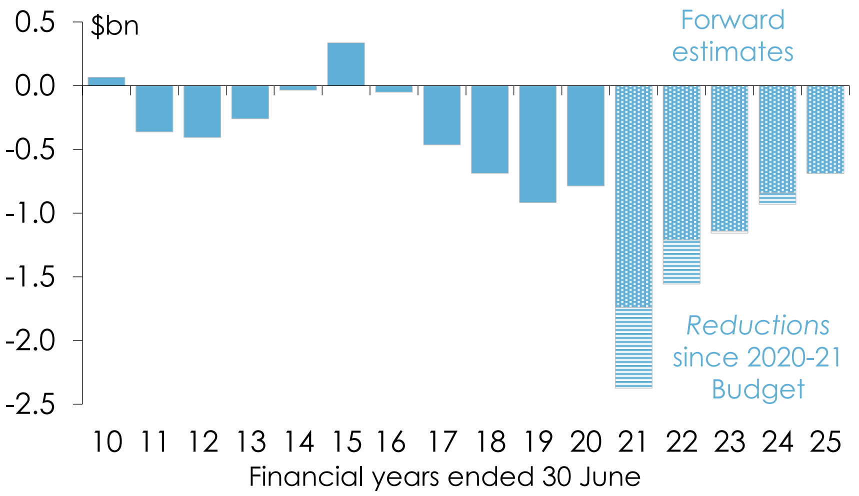
Treasurer Josh Frydenberg last week affirmed that Tuesday's 2020-21 Budget will be focussed on reducing unemployment, not 'budget repair'

- **12 days out from last year's (delayed) 2020-21 Budget, Treasurer Frydenberg formally ditched the Government's emphasis on achieving budget surpluses and eliminating net debt – pivoting to providing "temporary, targeted and proportionate" support to "private sector jobs and investment" and allowing the budget's 'automatic stabilizers' (revenues and cyclically-sensitive spending) to "work freely to support the economy"**
  - and stipulated that the Government would not embark upon the task of 'budget repair' until the unemployment rate was "comfortably below 6%" (which the ensuing Budget envisaged would not be until mid-2024)
- **In a speech last week (co-incidentally 12 days out from the 2021-22 Budget to be presented on Tuesday, 11th May) the Treasurer again 're-calibrated' the Government's fiscal strategy (although not as dramatically as last year)**
  - indicating that the Government's priority would for the time being now be to "drive the unemployment rate down to where it was prior to the pandemic [just above 5%] and then even lower … and … to see that sustained"
  - although not saying so explicitly, the Treasurer appeared to suggest that the Government wouldn't begin discretionary 'fiscal consolidation' until the economy had attained the 'non-inflation accelerating rate of unemployment' (NAIRU) which a Treasury working paper released last week puts at 4½-5% (down from "around 5% previously")
  - the Treasurer did however explicitly rule out "any sharp pivots towards 'austerity'"
- **Hence fiscal & monetary policy will, for a few years anyway, be working in harmony rather than at 'cross purposes'**
  - in contrast to much of the past two decades, in particular 2002-2007 when the RBA was gradually tightening monetary policy but governments gave repeated rounds of income tax cuts and 'cash bonuses', and 2014-19 when the RBA was intermittently loosening monetary policy but the government was tightening fiscal policy in pursuit of budget surpluses
- **A good deal of 'budget repair' will occur in any event without discretionary 'policy decisions'**
  - most of the spending decisions which contributed to the deterioration in the budget positions were, by design, time-limited, while the revenue side will improve (significantly) as the economy recovers
  - although the upcoming Budget will also contain new (on-going) spending on, eg, aged & child care

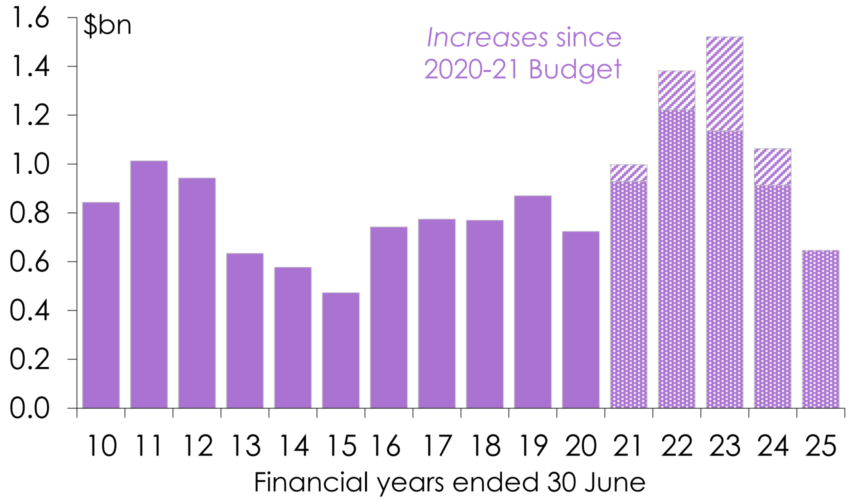
Return to "What's New".

The Northern Territory's 2020-21 Budget shows some improvement in its (fairly dire) fiscal position largely thanks to increased GST revenues

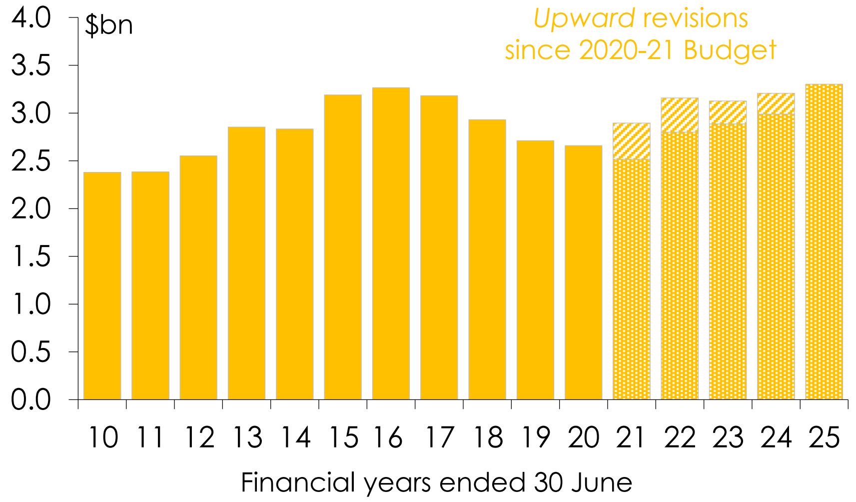
Cash balance



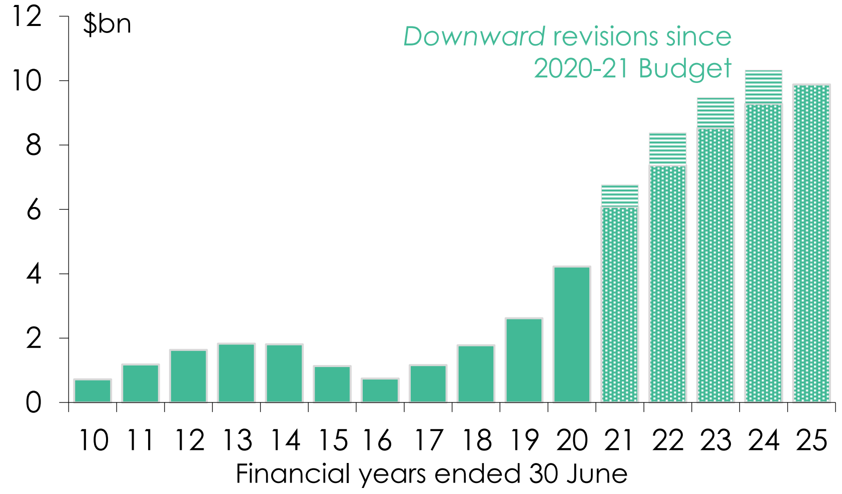
Infrastructure spending



GST revenue



Net debt

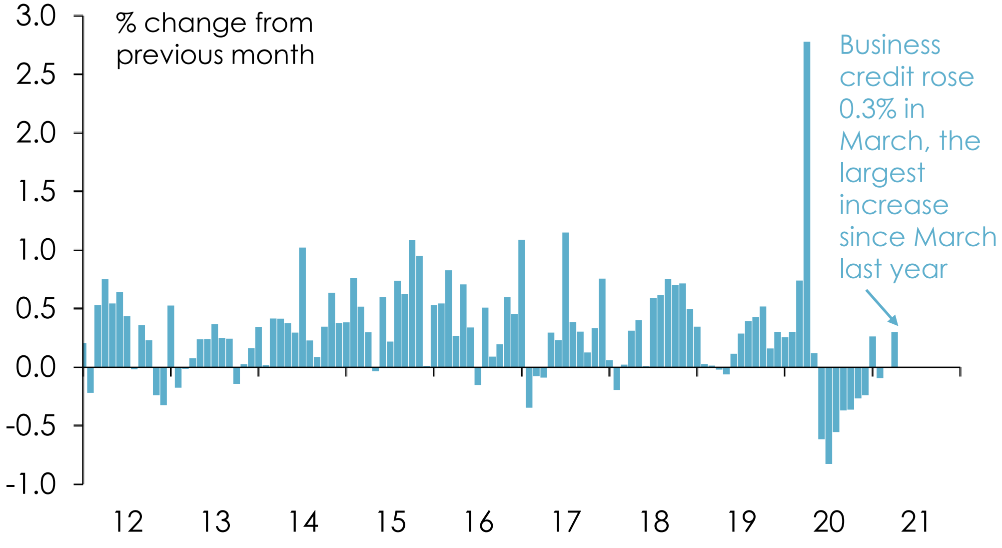


- **The Northern Territory has been in a fairly dire fiscal position in the past five years, largely stemming from mis-management by the previous CLP Government (in office 2012-16) and economic stagnation following the completion of the Ichthys LNG plant in 2018**
- **However the NT's 2020-21 Budget presented this week forecasts a significant improvement in the Territory's economy based on a strong pick-up in household spending and new construction work (including the offshore Barossa LNG project, Darwin LNG plant and marine industry projects) resulting in GSP growth of 4¾% in 2020-21, 2¼% in 2021-22 and 3% in 2022-23**
- **The NT Budget is heavily dependent on revenue from the GST (41% of total revenue in 2020-21)**
- **A larger overall GST 'pie' and an increase in the NT's 'slice' of it have boosted forecast revenues by $1.2bn over the four years to 2023-24, more than accounting for the projected improvement in the cash balance and reduction in net debt over that period**
- **The Budget includes only very modest new 'operating expense' commitments but an additional $164mn in infrastructure spending**

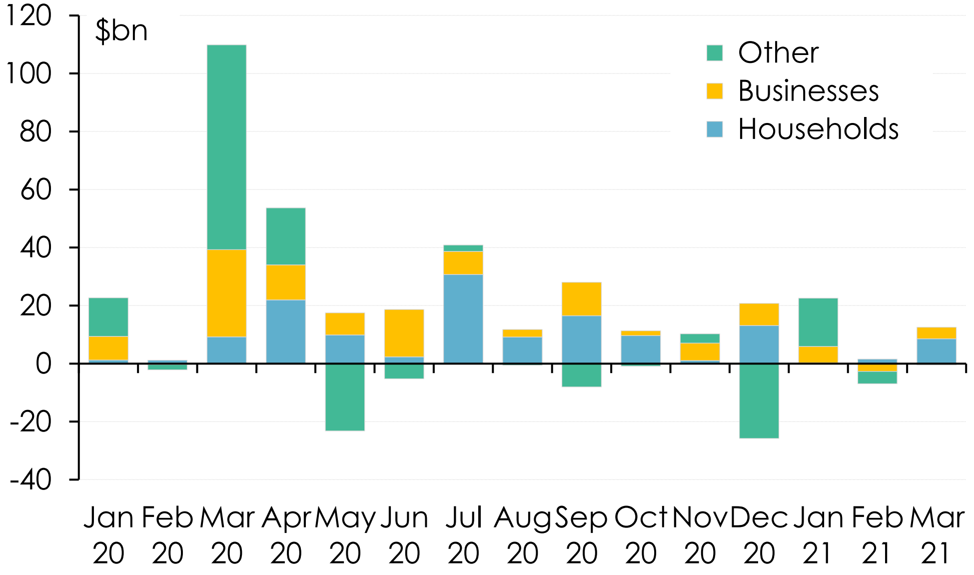
Note: Budgetary aggregates shown in the above charts refer to the Territory's 'general government' sector (ie, excluding public corporations). *Source:* Northern Territory Government, 2021-22 [Budget Strategy and Outlook](). [Return to "What's New"]().

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

Business credit outstanding



Monthly change in bank deposits

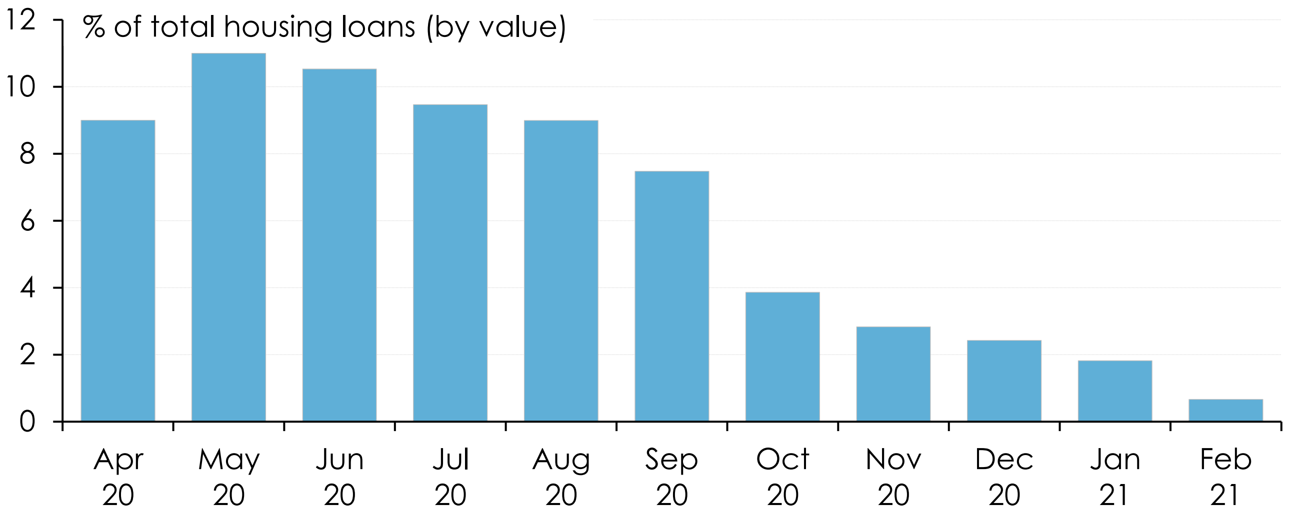


Sources: Reserve Bank of Australia; APRA. Return to "What's New".

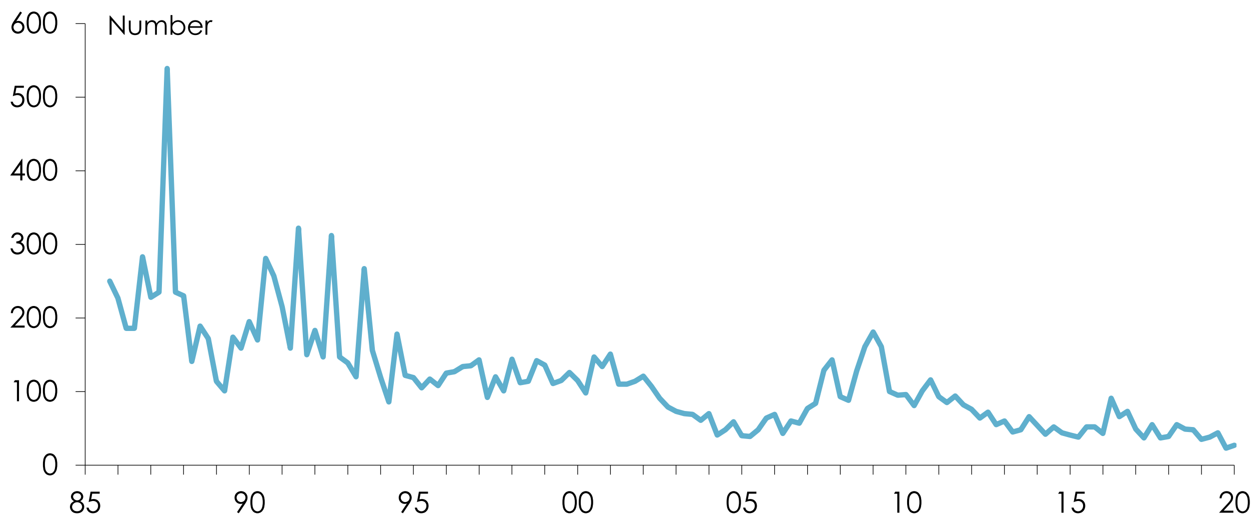
- Banks have cut interest rates on small business loans by more than the official cash rate since June last year (when the RBA started cutting rates again)
- Banks have made credit readily available when needed – particularly in the early stages of the pandemic
- Banks extended 'repayment holidays' to business and home mortgage borrowers who request it
  - in May, 11% of mortgage borrowers and 18% of SME borrowers were deferring debt service payments, but those proportions have fallen to less than 1% as of end-February (see next slide)
- Bank deposits have swelled by $289bn (13½%) 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 $134bn (13½%) since last February – of which $36bn has been sourced from early release of superannuation savings – while business deposits have risen by $110bn (18½%)

Debt service payment deferral schemes have so far been unwound very smoothly although the end of JobKeeper may see a rise in bankruptcies

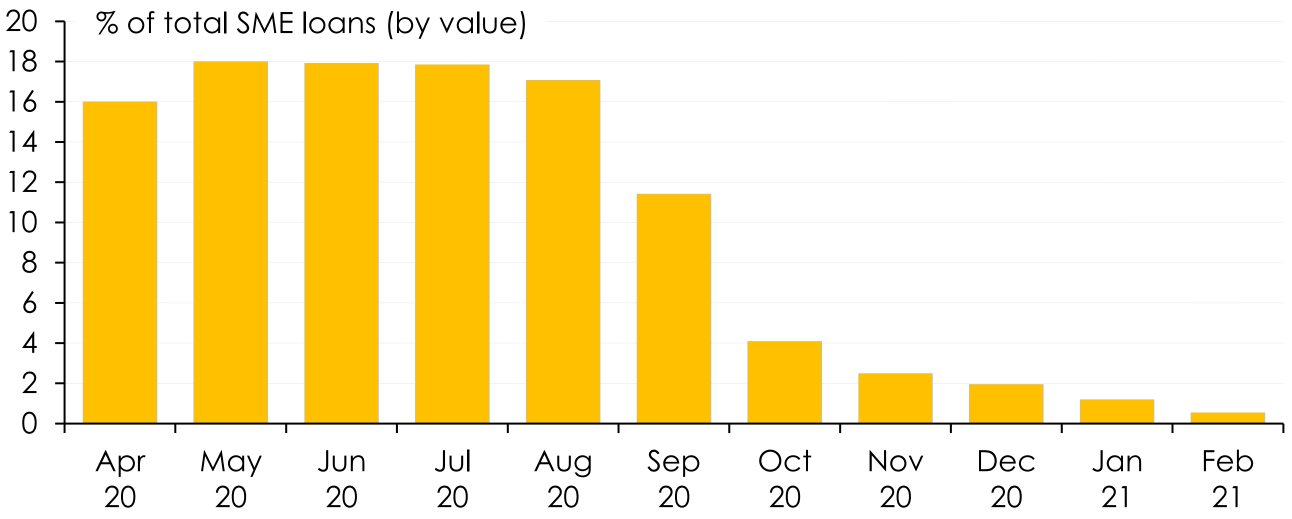
Mortgage repayment deferrals



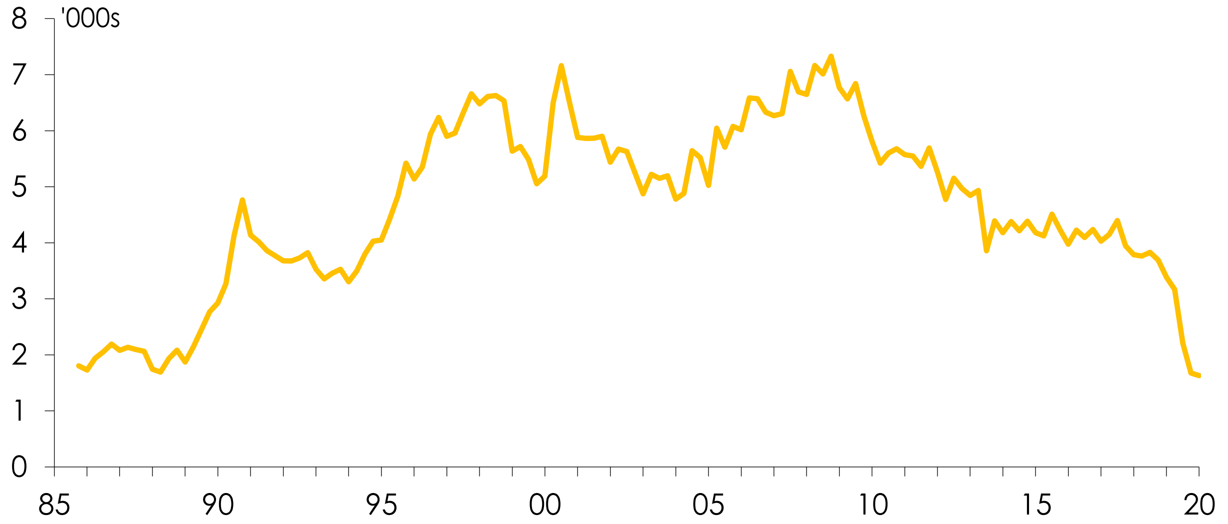
Personal insolvencies



SME loan repayment deferrals



Bankruptcies

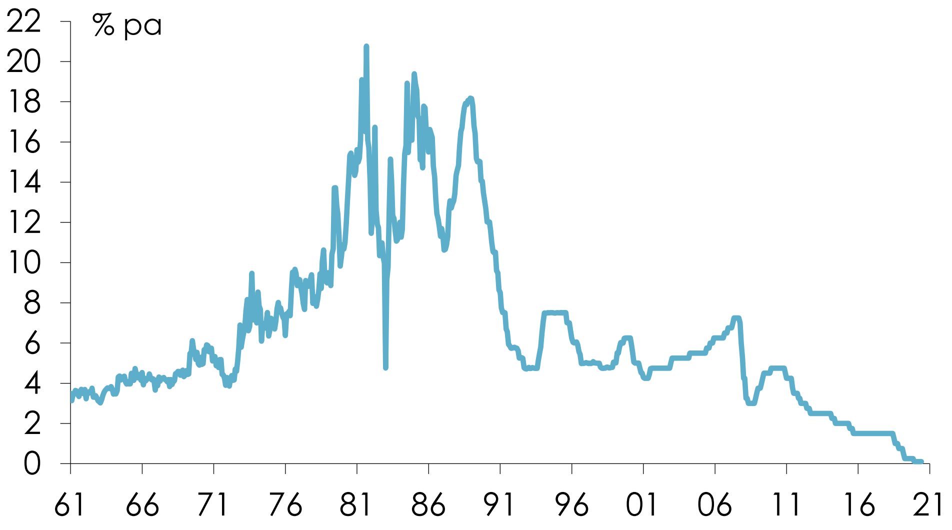


Note: Sources: ABS; Australian Financial Security Authority; Australian Prudential Regulatory Authority. Return to "What's New".

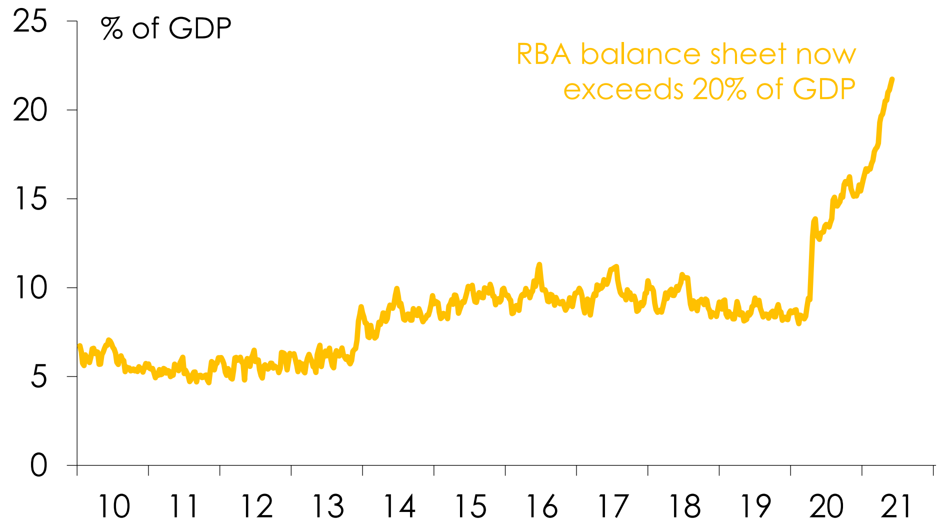
SAUL ESLAKE
CORINNA ECONOMIC ADVISORY

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 thinks are "unlikely 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 $96bn of federal government bonds and $24bn of state and territory government bonds – and under which it plans to purchase another $80bn by September this year
  - 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 $102bn out of a potential $200bn – this facility will close at the end of June
- **The RBA this week flagged that it will decide at its July meeting whether to switch its target for the 3-year yield from the April 2024 bond to the November 2024 one (possibly not), and whether to extend its Bond Purchase Program beyond September (which will likely depend on what other central banks are doing and where the A$ is)**

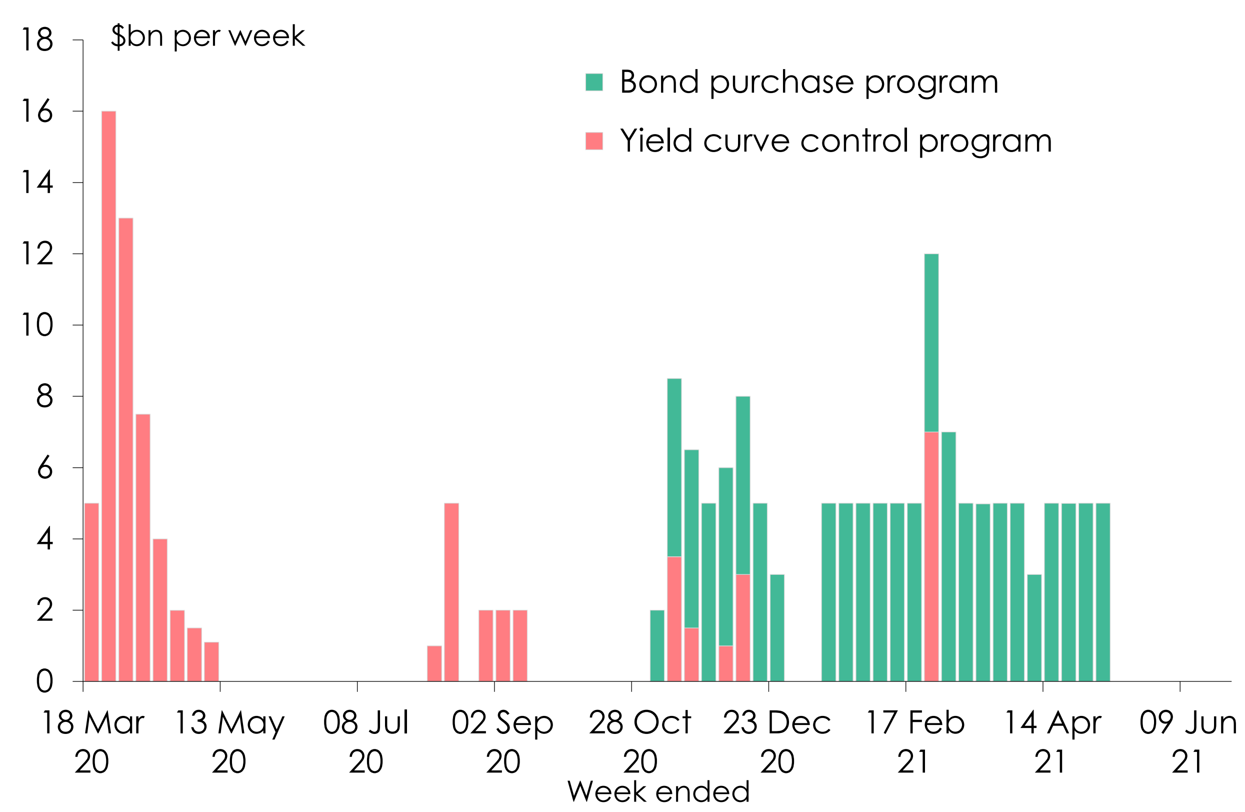
RBA Deputy Governor Debelle strongly re-affirmed the RBA's 'forward guidance' in a speech in Perth this week

- **RBA Deputy Governor Guy Debelle used a speech in Perth on Thursday to re-affirm the key elements of the Bank's 'forward guidance' regarding future directions for monetary policy**
  - "the [RBA] will not increase the cash rate until *actual* inflation is sustainably within the target band of 2-3%"
  - "for that to occur we will need to see further significant gains in employment and a lower unemployment rate … to lead to higher wage rises"
  - "the [RBA's] central scenario … does not expect these conditions to be met until 2024 at the earliest"
- **While acknowledging that "the economy has turned out much better than expected" and had "exceeded all of [the RBA's] upside scenarios", he emphasized that that hasn't been the case "on the nominal side of the economy in terms of wages and inflation"**
  - pointedly noting that "while the Australian economy has experienced better employment outcomes than most other countries, wages growth has been noticeably weaker than in many comparable countries, most notably the US"
- **Asked what the RBA would do if the unemployment were to reach 4½% (the RBA's and Treasury's most recent estimates of the NAIRU) by the end of 2022, Dr Debelle said the RBA's decisions would be driven by "the lived experience" of what *actually* happens (to inflation) rather than by what models predicted *would* happen**
- **Dr Debelle also downplayed any role for the RBA in addressing housing prices**
  - "housing price rises are part of the transmission of expansionary monetary policy to the economy. They help encourage home building … which boosts activity and employment"
  - while acknowledging that housing price rises "can have distributional consequences", he did "not think that monetary policy is one of the tools" that can be used "to address [that] issue"
  - he also noted that "while housing prices may not rise as fast without the monetary stimulus, unemployment would definitely be materially higher without the monetary stimulus" and that "unemployment clearly has large and persistent distributional consequences"

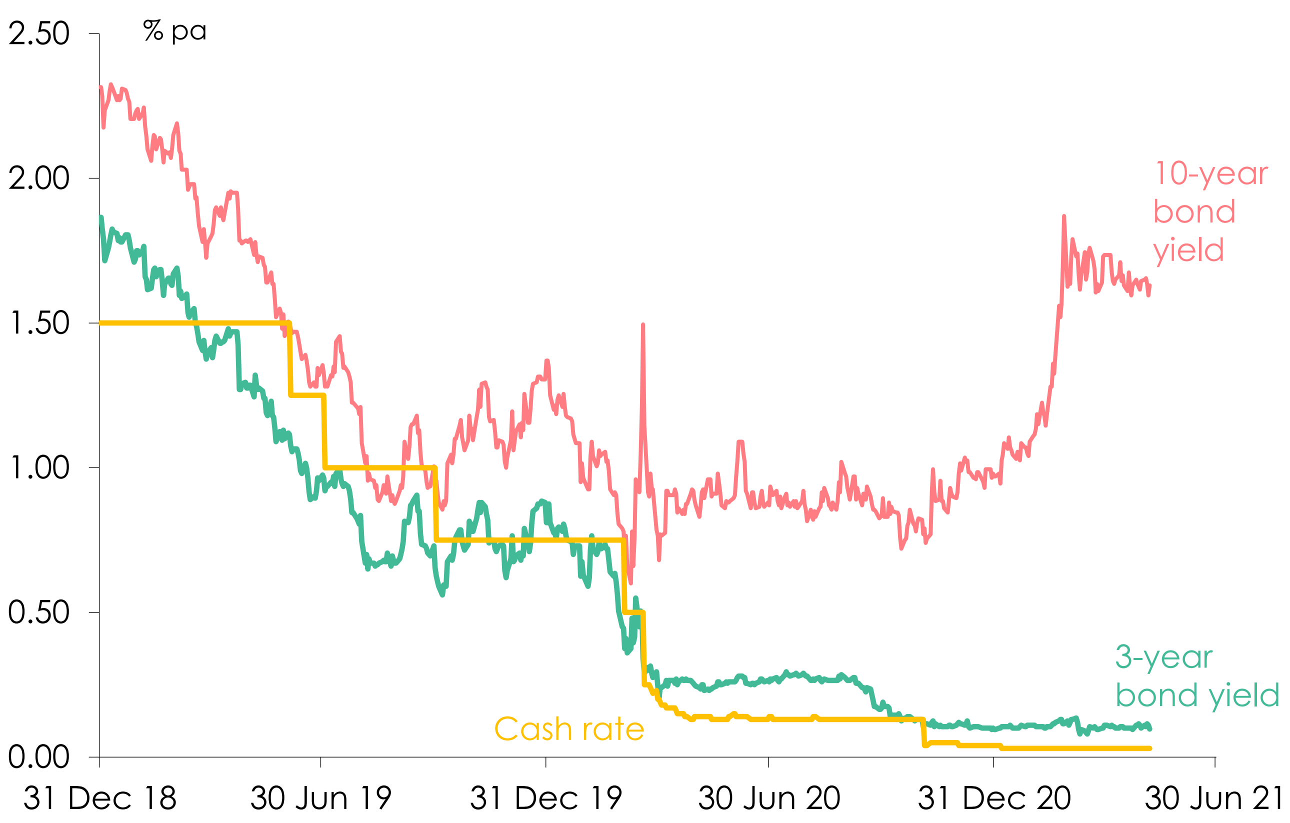
Return to "What's New".

5- and 10-year bond yields were virtually unchanged over the course of this week while the RBA purchased the usual $5bn of bonds

RBA open market bond purchases



Interest rates



- **The RBA bought another $5bn of bonds this week under its Bond Purchase Program, bringing its total purchases under this program to just under $120bn, or to $198bn (10% of GDP) including its Yield Curve Target program**
- **The RBA now holds about 22% of total federal and 10% of state & territory debt outstanding**
- **Both 3- and 10-year yields were little changed over the course of the past week**

Source: Reserve Bank of Australia, *Statistical Tables* A3 and F2. Data up 7th May. Return to "What's New".`

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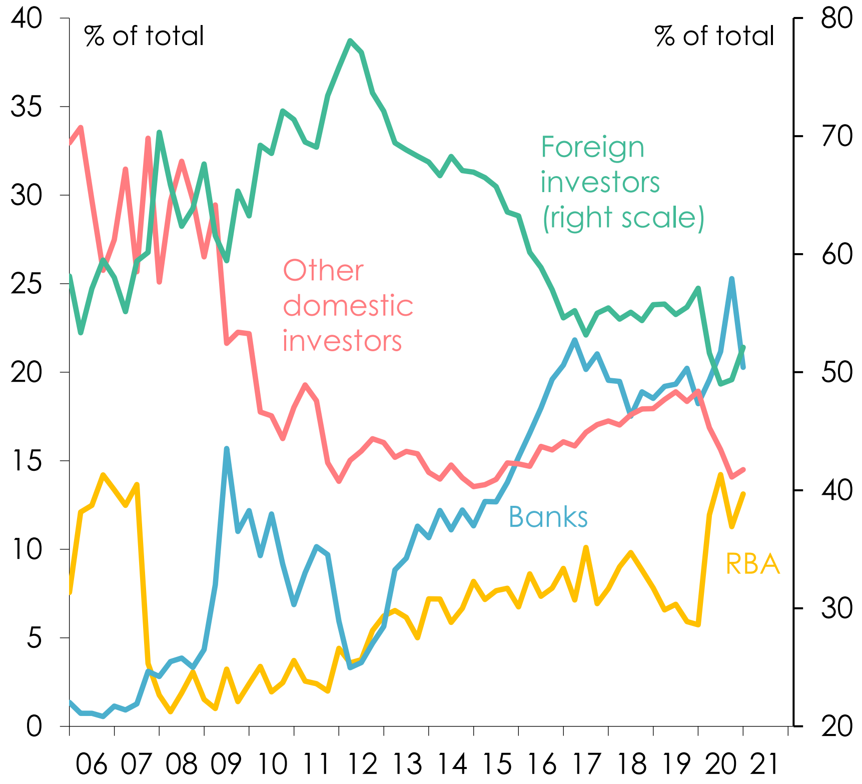
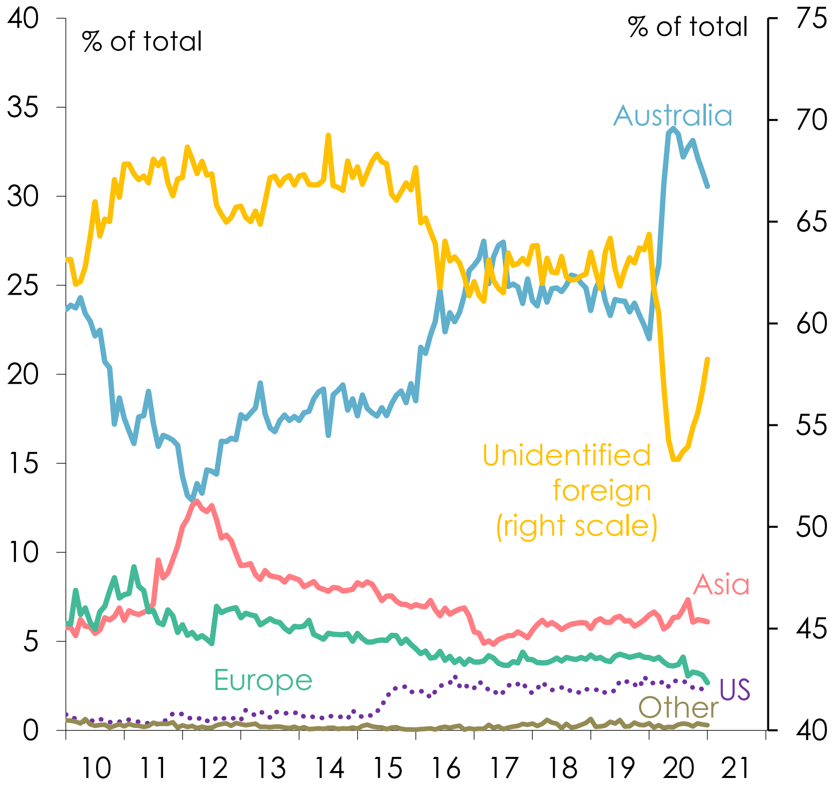
Domestic banks absorbed 37% of the $331bn increase in government debt on issue in 2020, foreign investors 34% and the RBA 27%

Holders of Australian Government bonds



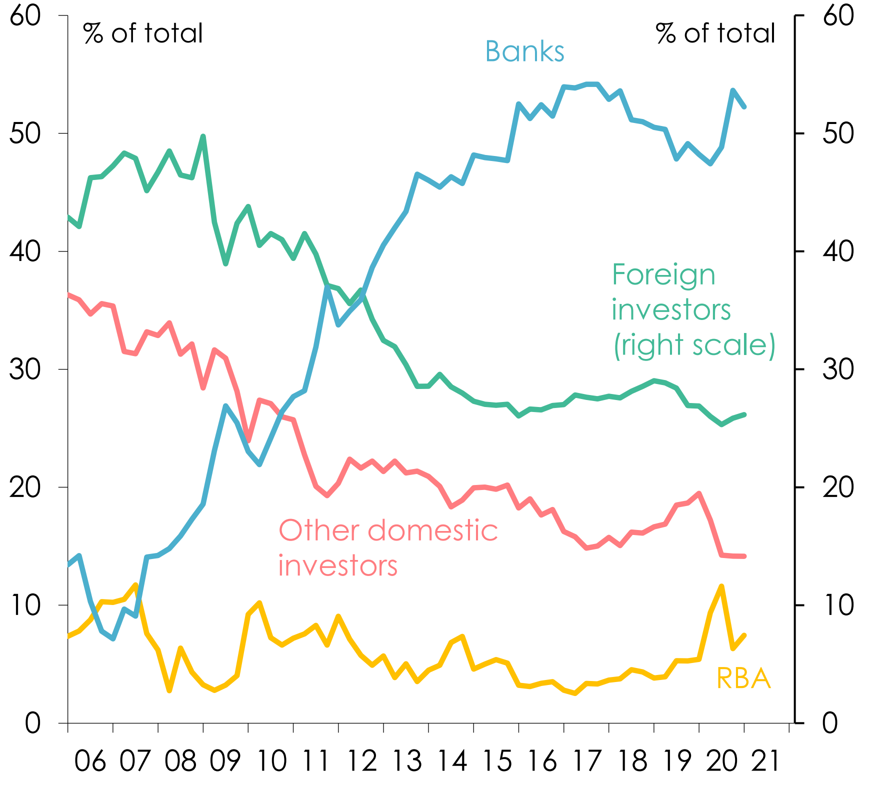
Australian Gov't bonds on issue rose by $232bn in 2020 – of which foreign investors absorbed $89bn (38%), the RBA $77bn, and domestic banks $60bn

Nationality of Australian Government bond holders



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

Holders of State and Territory Government bonds



State & Territory Gov't bonds on issue increased by $99bn in 2020, of which domestic banks absorbed $63bn, foreign investors $24bn and the RBA $13bn

Sources: ABS, *Finance and Wealth Accounts*; Australian Office of Financial Management. March quarter data will be released on 24th June.
Return to "What's New".

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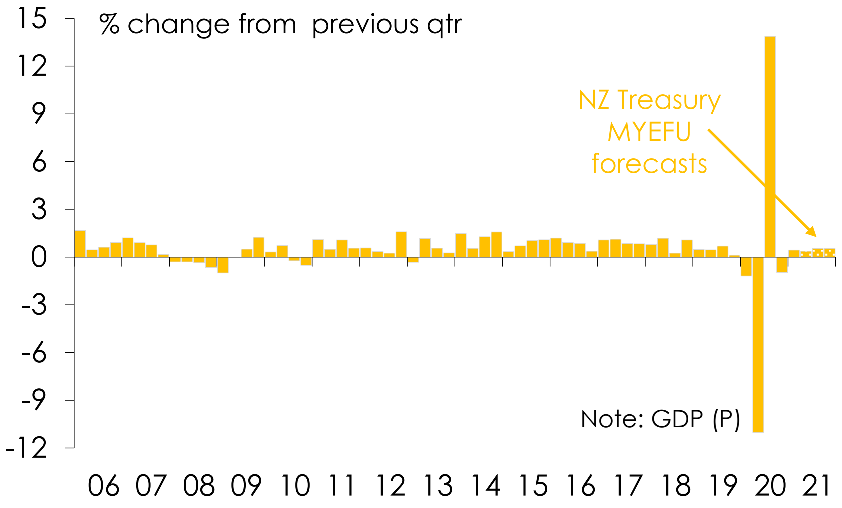
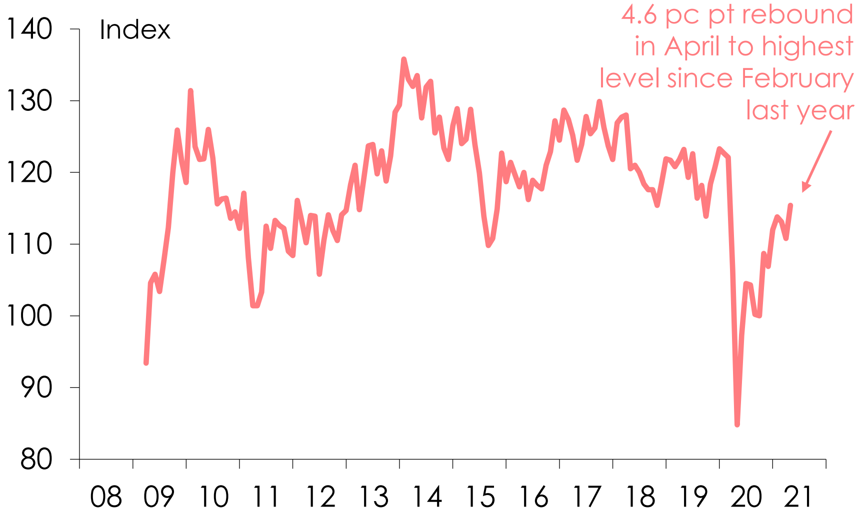
New Zealand

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

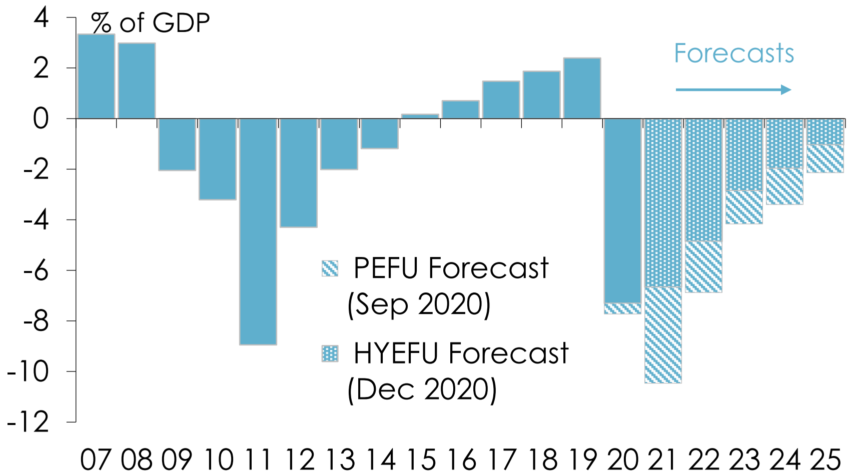
Real GDP



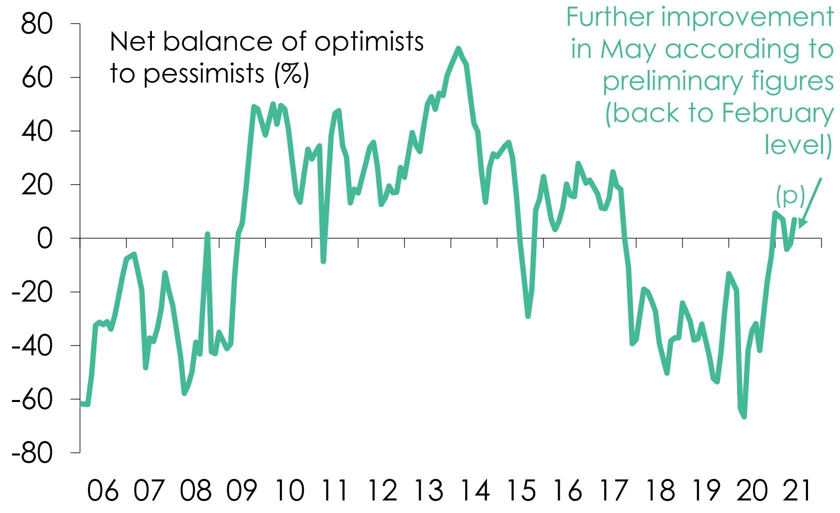
Consumer confidence



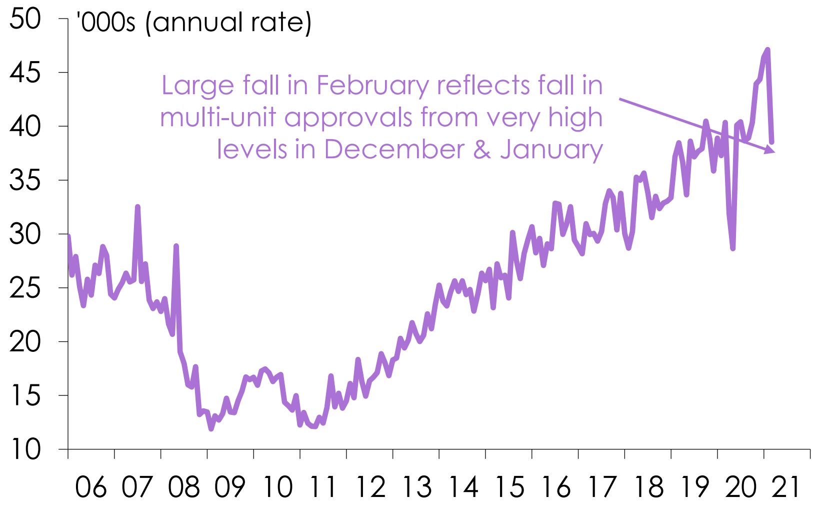
NZ government budget balance



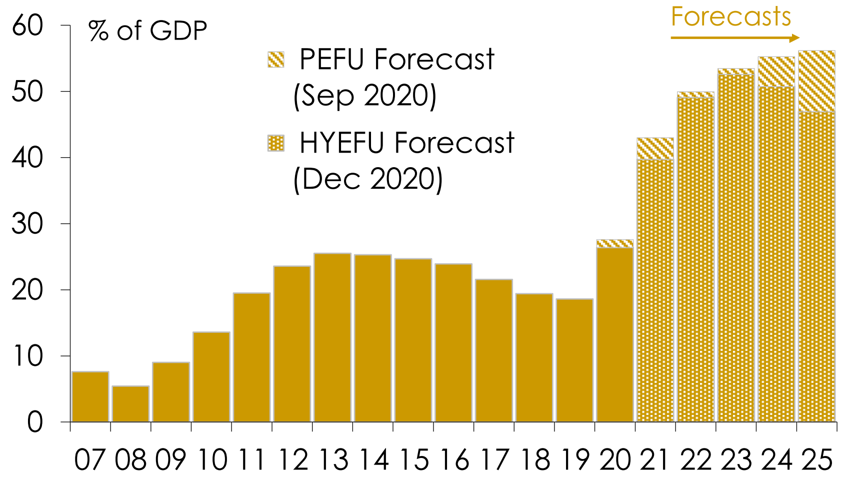
Business confidence



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".

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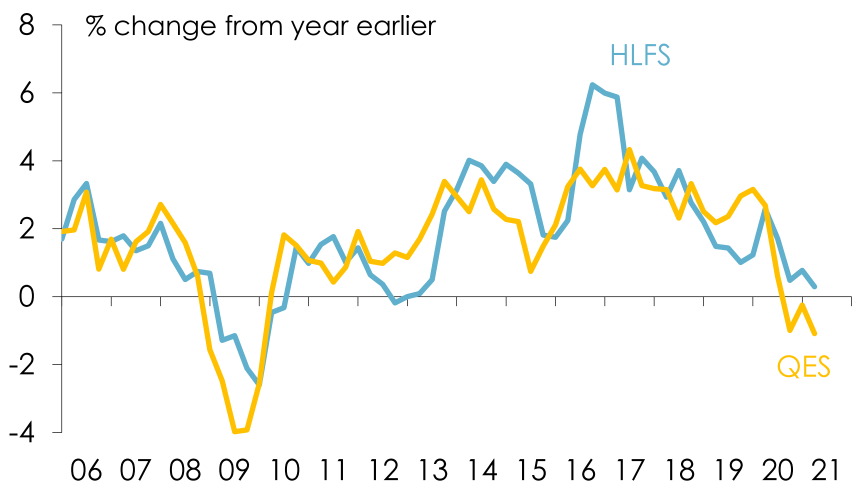
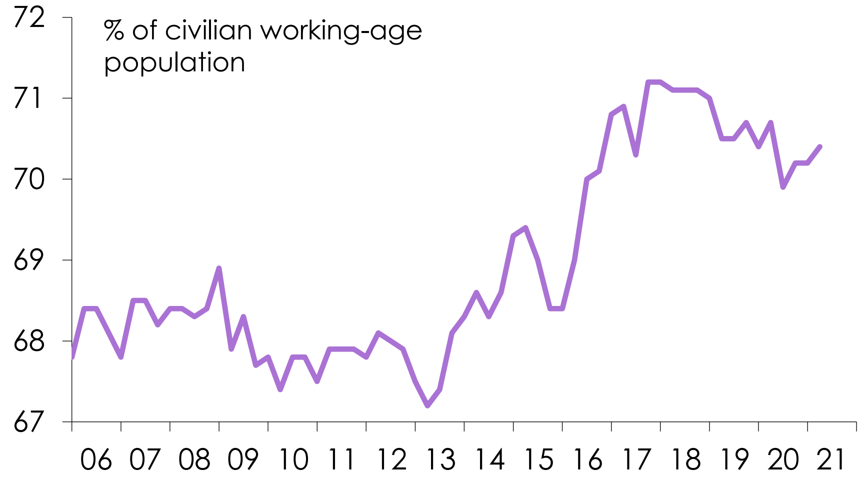
Employment rose another 0.5% in Q1 (after 0.6% in Q4 2020) to be 0.3% above its pre-pandemic peak while the unemployment rate fell to 4.7%

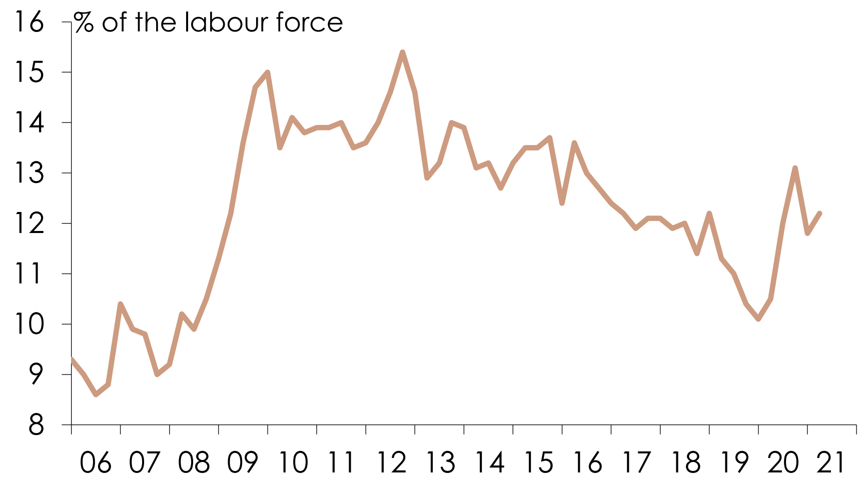
Employment



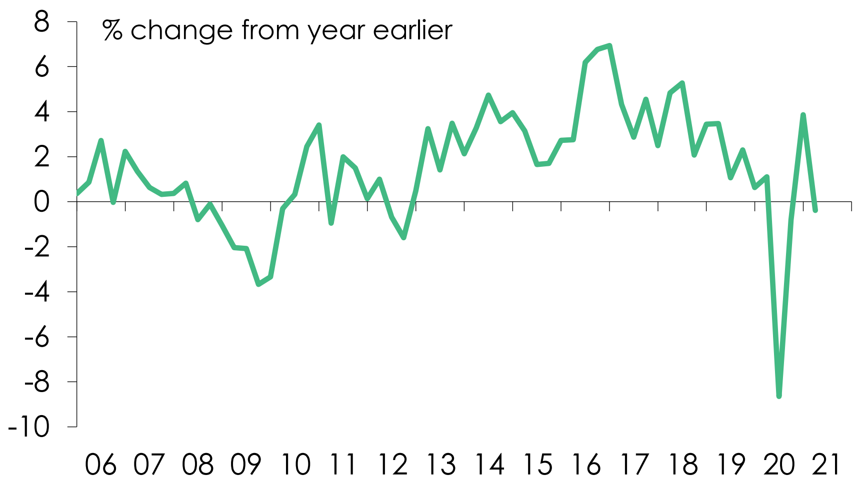
Labour force participation rate



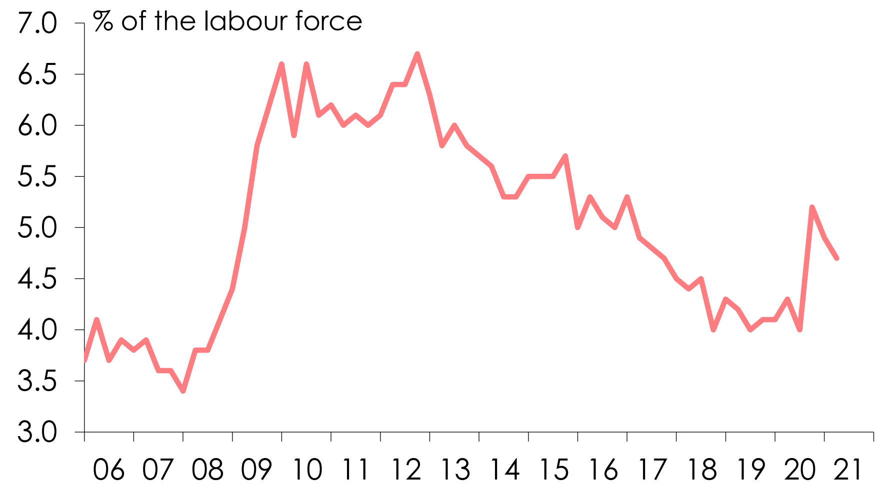
Labour force under-utilization rate



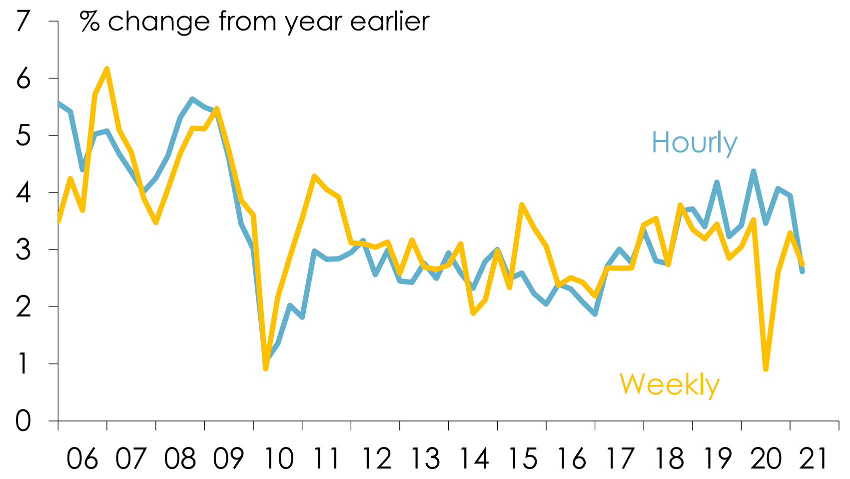
Hours worked



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

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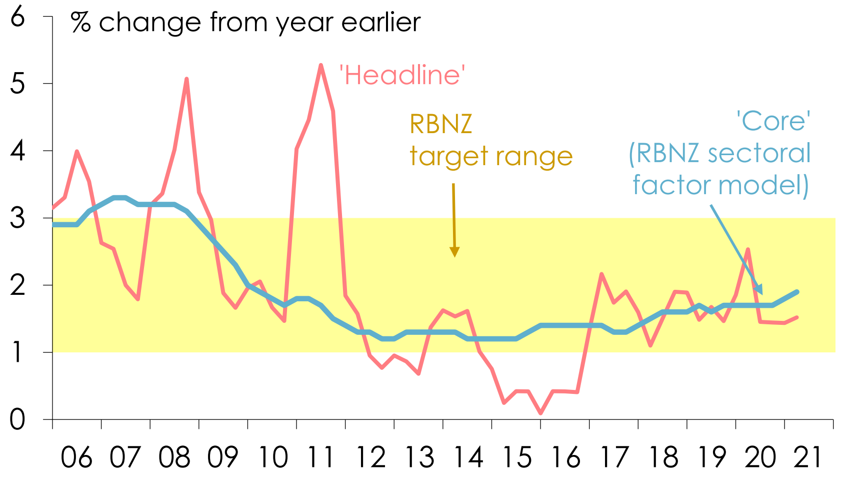
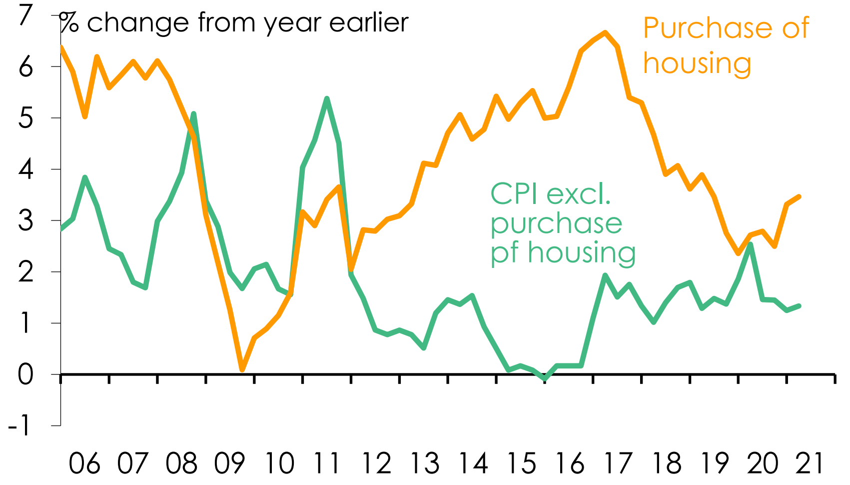
Consumer prices rose 0.8% in Q1 2021 nudging the annual 'headline' inflation rate up 0.1 pc pt to 1.5% (less than the RBNZ had expected)

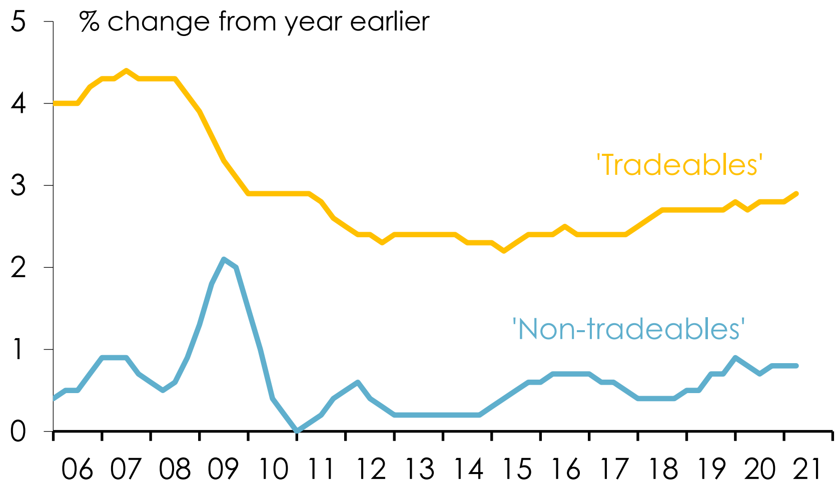
Consumer prices



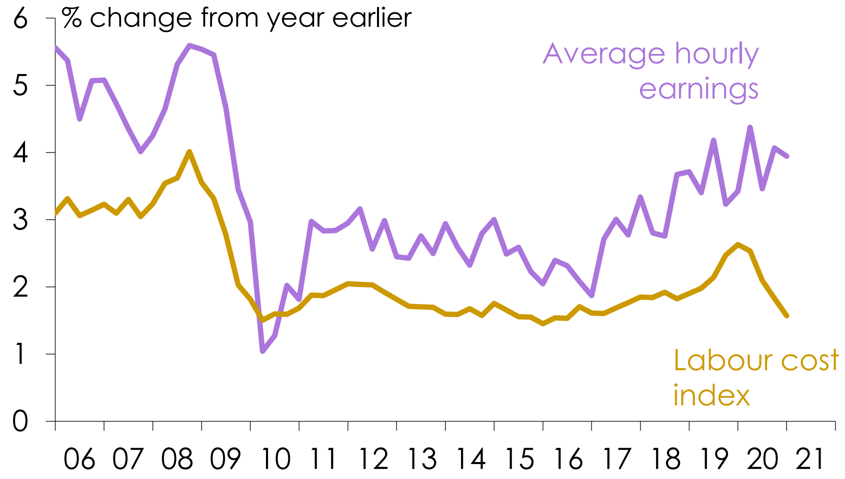
Housing costs in the CPI



Components of 'core' inflation



Labour costs

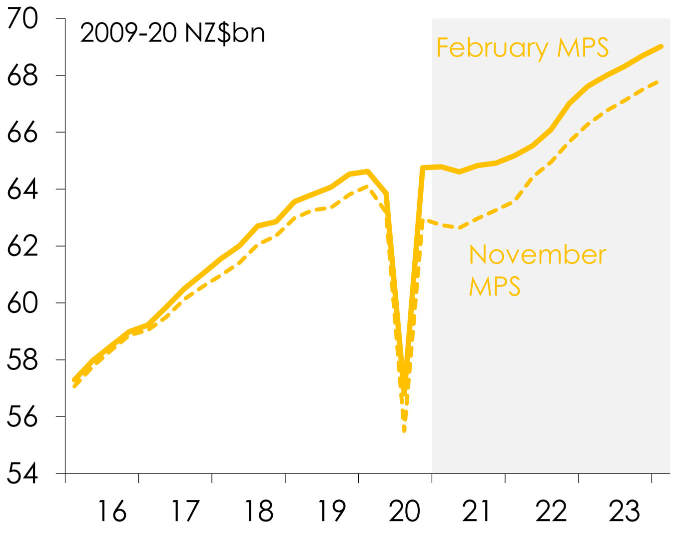


- **The CPI rose 0.8% in Q1, the largest quarterly increase in a year, nudging the annual 'headline' inflation rate up 0.1 pc pt to 1.5%**
- **The Q1 rise in the CPI was largely due to a 7.2% rise in petrol prices, a 4.4% increase in used-car prices, a 1.2% increase in new housing prices, a 1.0% increase in housing rents, a 2.7% increase in cigarette and tobacco prices, and a 10.1% rise in international air fares (which are being gradually re-introduced back into the CPI)**
- **The RBNZ's preferred measure of 'core' annual inflation ticked up another 0.1 pc pt to 1.9% (the highest in 10 years), reflecting a marginal increase in core 'non-tradeables' inflation**
- **The RBNZ had expected the annual 'headline' inflation rate to rise to 1.7% in Q1 so it may lower its projected inflation track in its next set of forecasts to be released on 26th May**

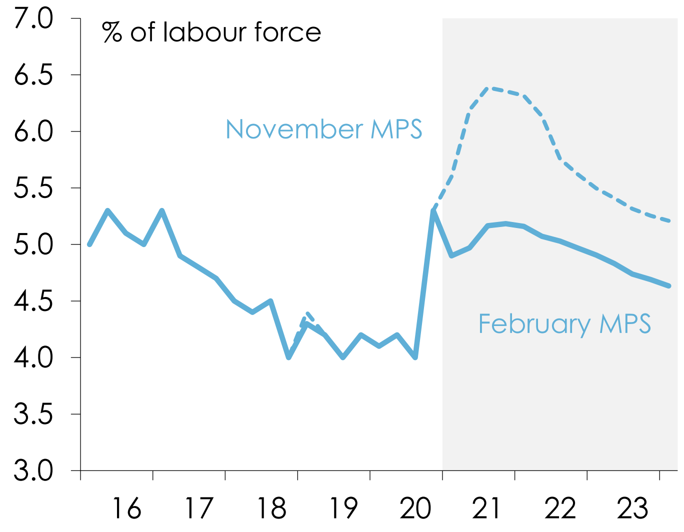
Sources: Statistics NZ ; Reserve Bank of New Zealand. June quarter CPI will be released on 16th July. Return to "What's New".

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

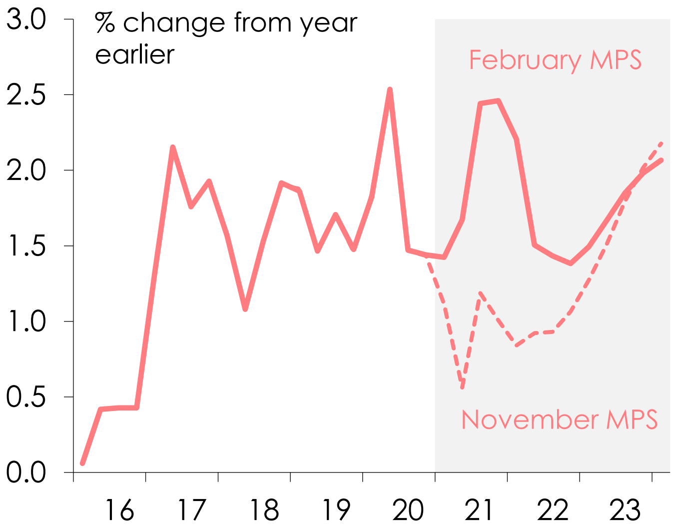
GDP



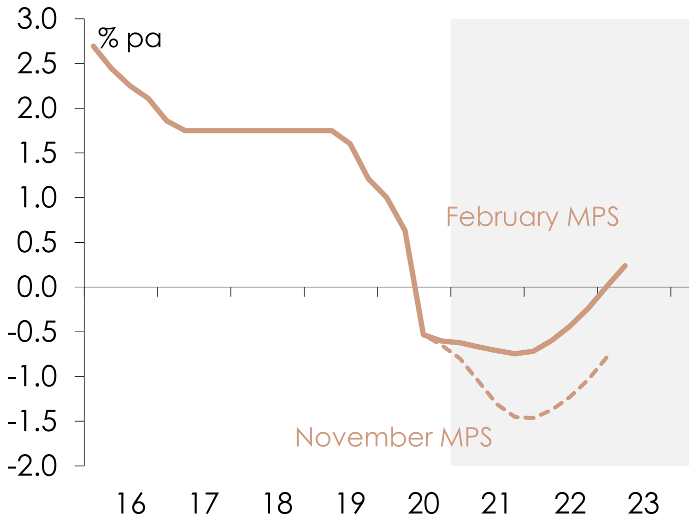
Unemployment



Inflation



'Unconstrained' cash rate

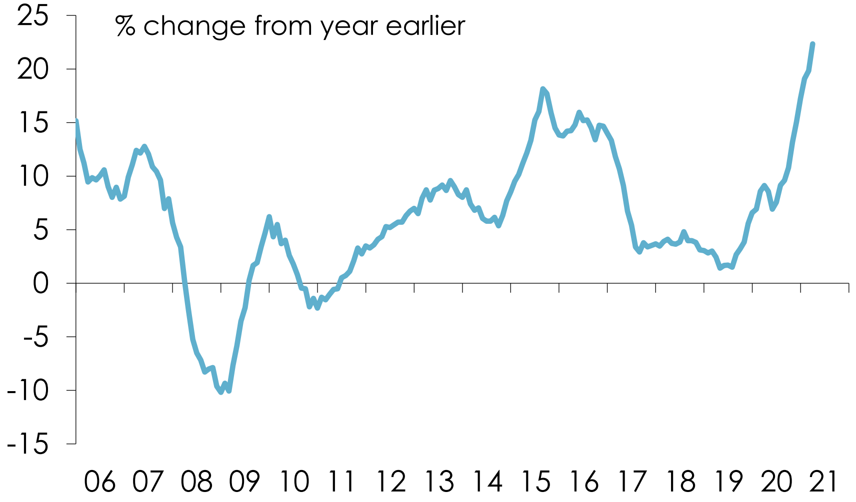


- The RBNZ now expects real GDP to grow 3¾% in 2021 (up from 3¼%) after contracting 2¾% in 2020 (much less than the 4% previously forecast), with unemployment falling to 5¼% by end-2021 and below 5% by end 2022 (cf. 6¼% and 5½% previously)
- Nonetheless, the RBNZ's Monetary Policy Committee believed 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 in March the NZ Government formally amended the RBNZ's monetary policy 'remit' to require it to have regard to 'sustainable house prices' in formulating monetary policy, and separately the Finance Minister indicated that house prices would also need to be considered in financial stability decisions

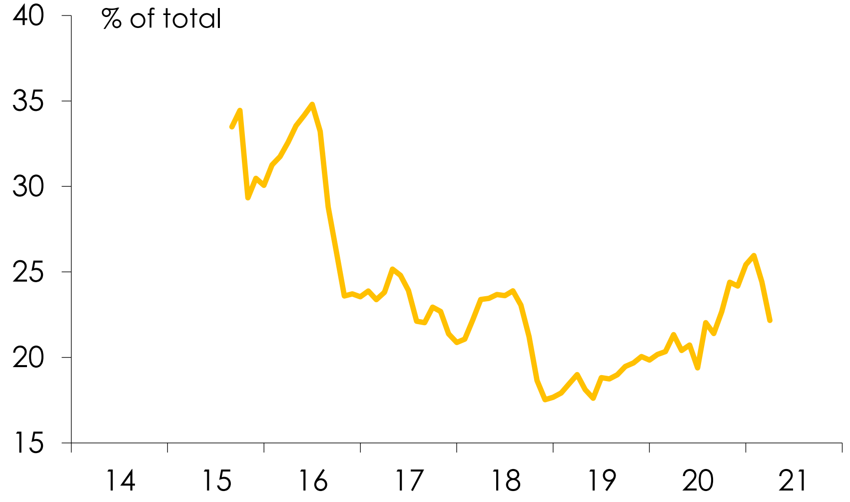
Source: Reserve Bank of New Zealand, *Monetary Policy Statement February 2021*.

NZ's housing price boom has been fuelled by investors (a large proportion of them with very high LVRs) – but recent changes have had some impact

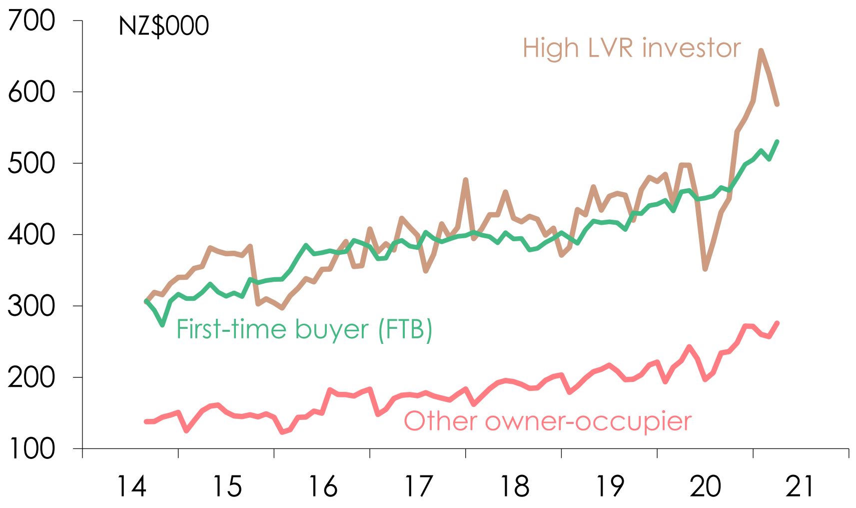
House price inflation



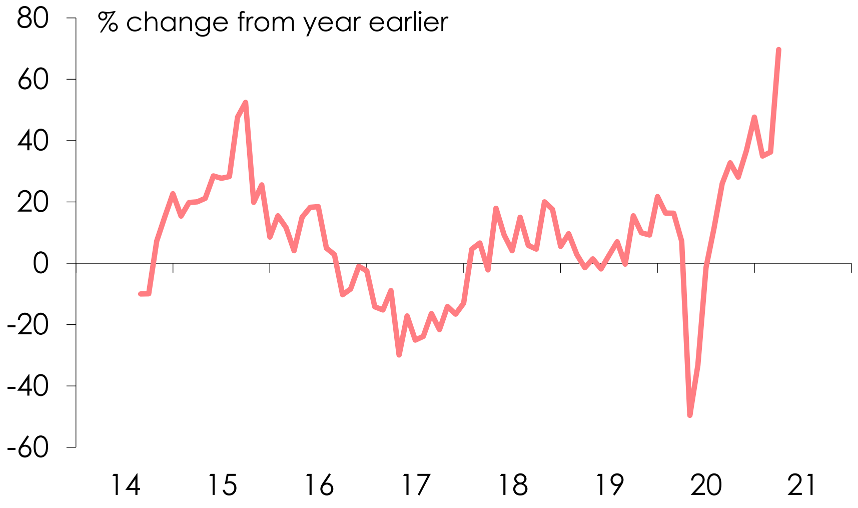
Lending to investors as pc of total



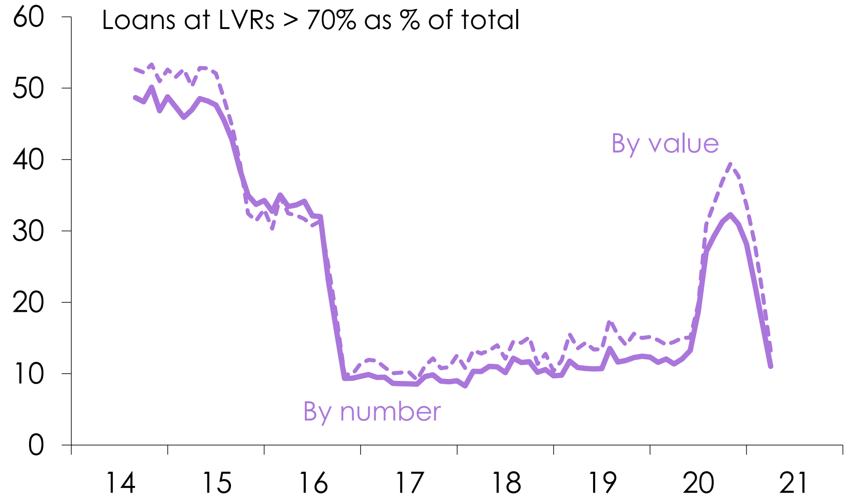
Average new mortgage



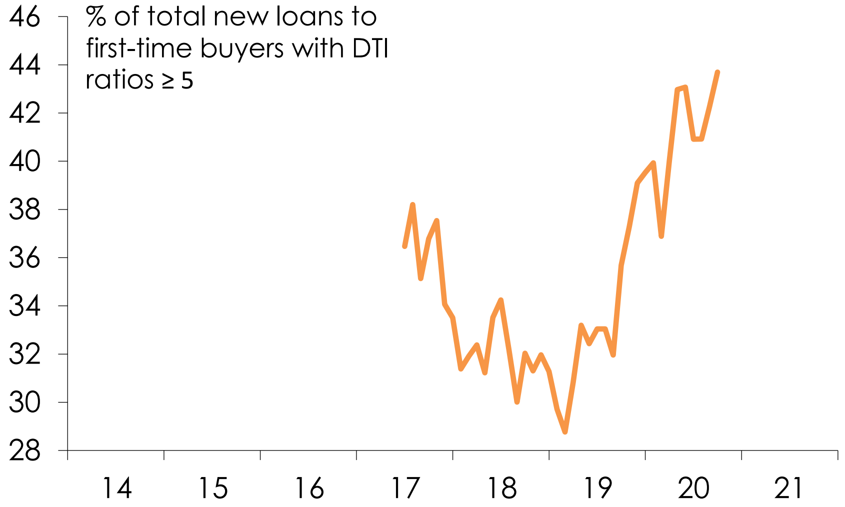
Mortgage lending growth



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".

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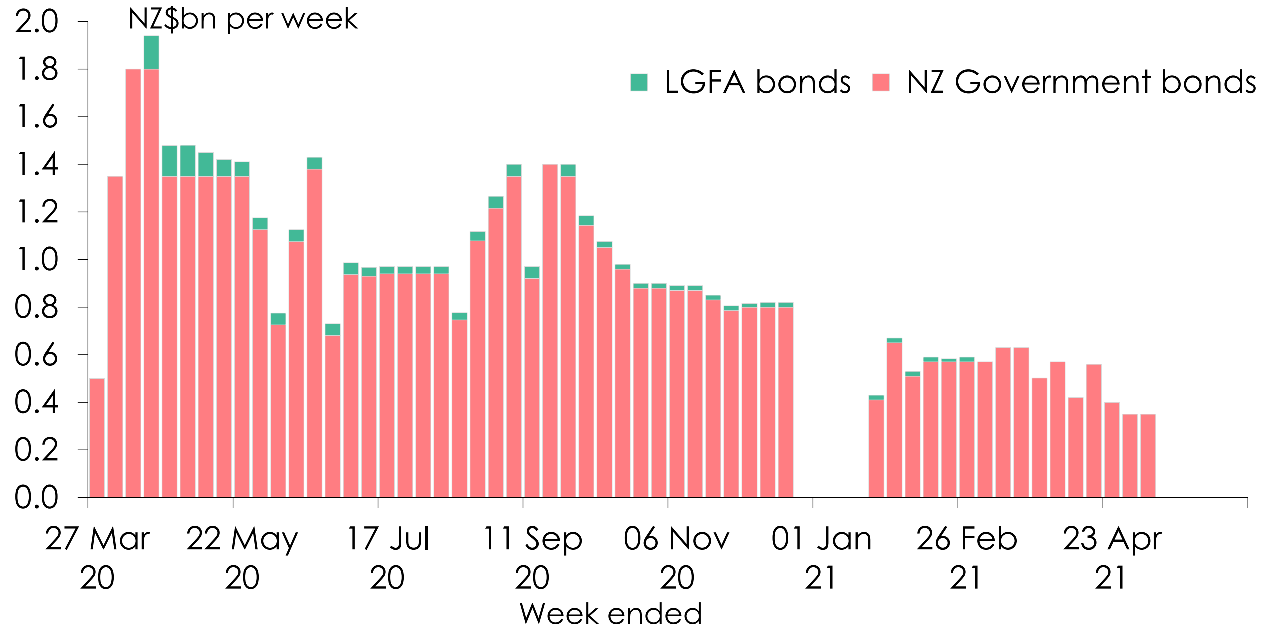
In March the NZ Government announced some significant policy changes designed to "shift the balance" between investors and first-home buyers

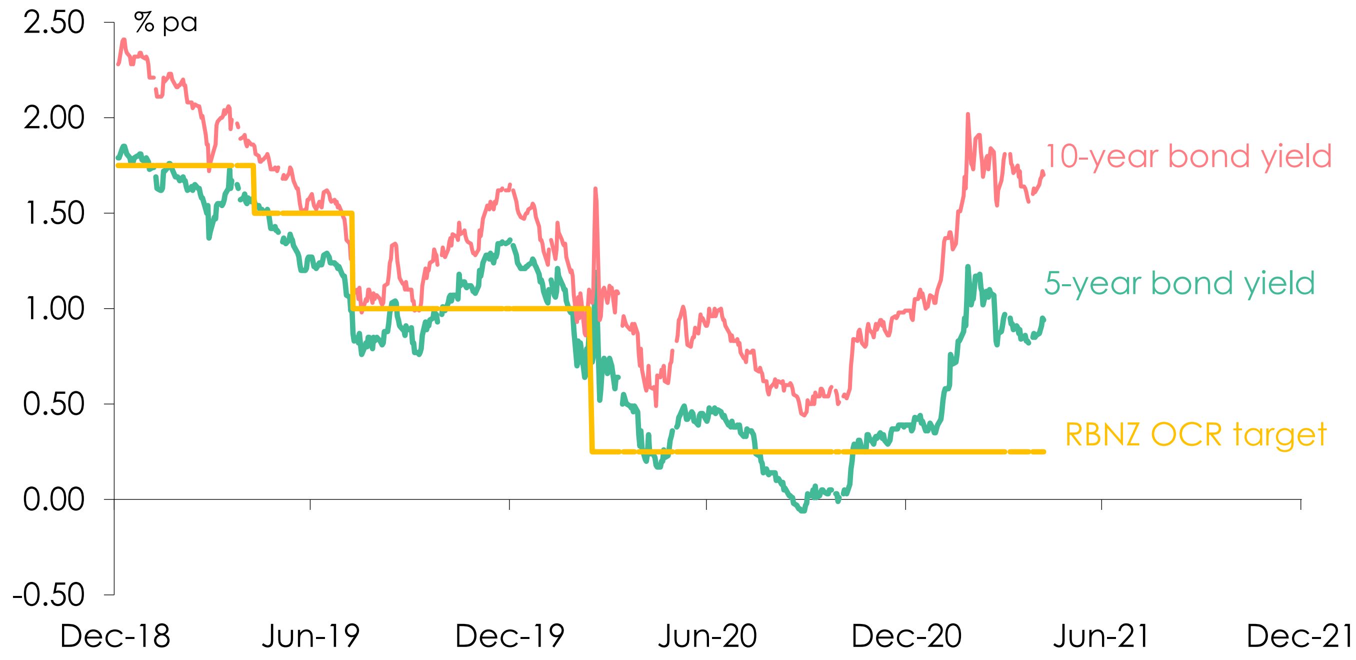
- **The Government's announcements have five key elements**
  - the period for which investment properties must be held before any profits upon sale become exempt from income tax (the so-called 'bright line test') will be extended from five years to ten years
  - interest on loans taken out to finance the purchase of investment properties will no longer be deductible for tax purposes against rental income, with effect from 1st October for properties purchased after 27th March, and after a four-year phase-in period for properties purchased before that date
  - 'new builds' will be exempted from these changes (ie investors who build new dwellings will still be able to claim interest costs as a deduction against rental income and will be able to sell them tax free after five years)
  - the income caps on eligibility for First Home Loans (which only require a 5% deposit) and First Home Grants (of NZ$10,000) will be lifted (from NZ$85,000 to NZ$95,000 for single buyers, and from NZ$130,000 to NZ$150,000 for couples), as will the price caps on eligible homes in some markets (such as Auckland and Queenstown)
  - the Government will provide NZ$3.8bn to accelerate the provision of residential infrastructure in new housing estates
- **These reforms complement the macro-prudential regulatory changes announced by the RBNZ in March**
  - from 1st March, no more than 20% of mortgage loans to owner-occupiers can be at LVRs > 80%, and no more than 5% of loans to investors can be at LVRs > 70% (reducing to 60% from 1st May)
- **Taken together these changes are explicitly designed to dampen demand for established properties from investors (in order to make more 'room' for first-time home buyers) and to encourage investors to build new dwellings**
  - investors accounted for 25% of all new mortgage lending commitments in Q4 2020 (with 37% of these by value being at LVRs > 70%) and for 40% of all property sales
- **These tax changes have (so far) prompted much less of a 'backlash' than occurred in Australia in response to proposals by the Opposition Labor Party ahead of the 2016 and 2019 elections to abolish 'negative gearing' and reduce the concessional treatment of capital gains on property investments (proposals which Labor has now abandoned) – even though they represent a much more significant tax increase than Australian Labor proposed**

The RBNZ has bought fewer bonds in each of the past two weeks than at any time since its Large Scale Asset Program commenced

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 again bought NZ$350mn of bonds this week, bringing its total purchases to NZ$51.3 bn (16% of GDP)**
  - **It now holds about 42% of the total stock of NZ Government debt outstanding**
- **NZ bond yields edged higher this week**
- **The RBNZ's Monetary Policy Committee at its last meeting in March left all its monetary policy settings unchanged, and again committed to doing so "until it is confident that consumer price inflation will be sustained at the 2% pa target midpoint, and that employment is at or above its maximum sustainable level"**

Note: LGFA = Local Government Financing Authority. *Source:* Reserve Bank of New Zealand, Statistics Tables B2 and D3. Data up to 7th May. Return to "What's New".

Important information

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

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