# ECONOMIC IMPACT OF THE CORONAVIRUS PANDEMIC

22ND MAY 2021

SAUL ESLAKE
CORINNA ECONOMIC ADVISORY PTY LTD

# What's new?

## The world

- 4.35 mn new cases were recorded this week, the lowest total since the first week of April, and just under 85,750 deaths, the lowest in five weeks – though both numbers are still among the highest weekly totals since the pandemic started, and the death toll may be substantially undercounted (slide 4)
- India's disastrous 'second wave' appears to be peaking – it accounted for 45½% of global new cases this week, Brazil for 10½%, Europe for just over 9% and the US for just under 5%, but infections are rising in South East Asia accounting for 3½% of all cases this week (slide 5); and there has also been a surge in Taiwan (slide 7)
- April monthly data suggest that China's economic momentum is slowing, particularly on the consumer side (slides 45-46)
- Japan's economy contracted by 1.3% in Q1, as a result of restrictions imposed in response to the increase in infections, leaving it still 4.2% smaller than the pre-pandemic peak in Q3 2019 (slide 50)
- Preliminary April PMIs show a further strengthening in manufacturing and services activity in both the euro area and the UK, but a more mixed picture for Japan with services activity easing (slide 42)
- 'Upstream' price pressures remain intense with a further sharp rise in container shipping costs this week, and the 'prices paid' component of the Philadelphia Fed's manufacturing business outlook survey striking a 40-year high in April (slide 36)
- Consumer confidence and retail sales have picked up strongly in both the euro area and the UK as restrictions have begun to ease (slide 71)

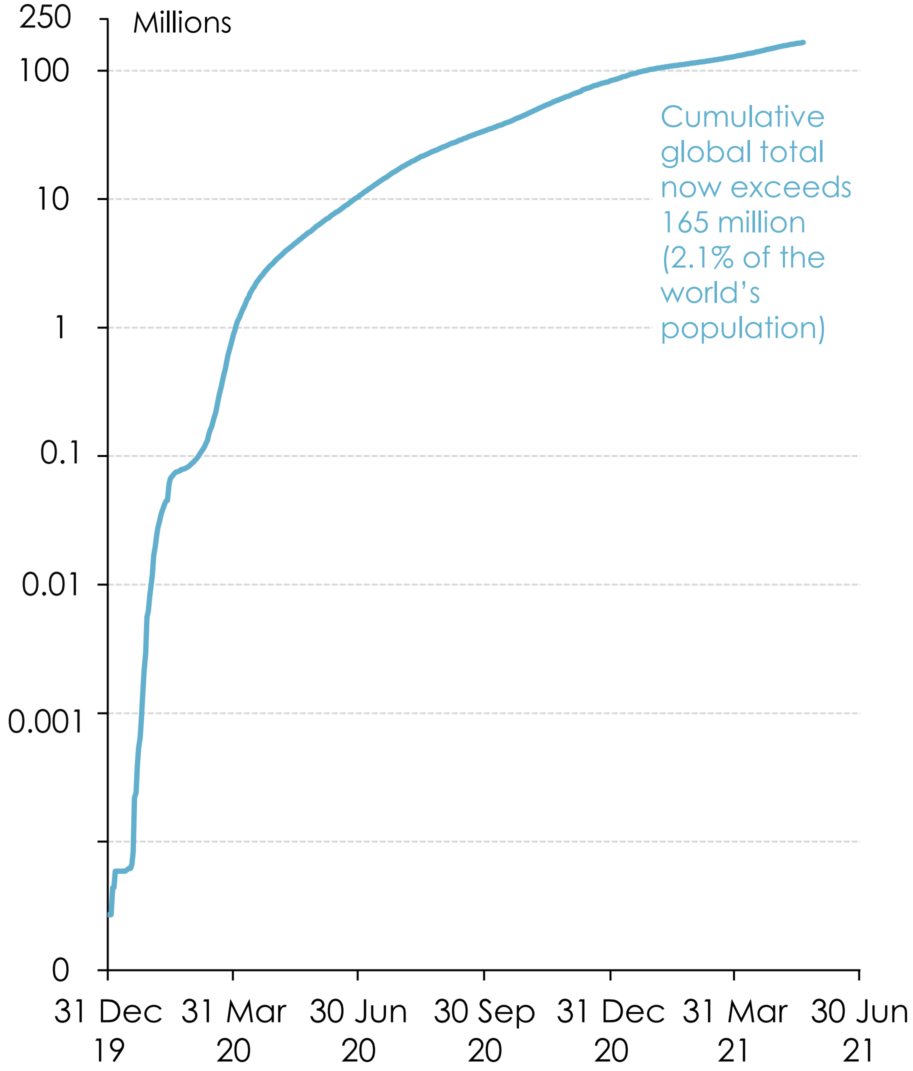
## Australia and New Zealand

- Australia recorded only 43 new Covid-19 cases this week, the lowest number in 12 weeks, all of them acquired overseas (slide 8)
- 13½% of Australia's population has now had at least one Covid-19 vaccine shot (slide 19) – well behind the Government's original target – and 'vaccine hesitancy' among Australians has risen (slide 16)
- The Federal Government remains coy about re-opening Australia's international borders, with the Prime Minister's thinking seemingly influenced by opinion polls suggesting that over 70% of voters approve of 'Fortress Australia' – keeping the borders closed makes it easier to reduce unemployment (slide 85) and is diverting to domestic spending a large proportion of the $50bn-plus that Australians would have otherwise spent overseas (slides 86-87), in what amounts to a revival of protectionism'
- Employment fell by 31K (0.2%) in April, suggesting a much smaller 'fall-out' from the end of the Government's 'JobKeeper' scheme than had been feared (although the ABS says it's hard to draw any links) – meanwhile the unemployment rate dropped another 0.2 pc pts to 5.5% thanks to a fall in the labour force participation rate (slide 93)
- Consumer confidence dropped 5.7 pc pts in May, reflecting concerns about deteriorating housing affordability, but remains high by historical standards (slide 106)
- Retail sales rose 1.1% in April according to preliminary data (slide 107)
- Victoria's 2021-22 Budget included a range of tax hikes to fund increases in spending, but an improved economic outlook has also allowed some reductions in Victoria's forecasts budget deficits (slides 138-139)
- New Zealand's 2021-22 Budget foreshadows a return to surplus by 2026-27 despite also including some substantial new spending (slide 151)

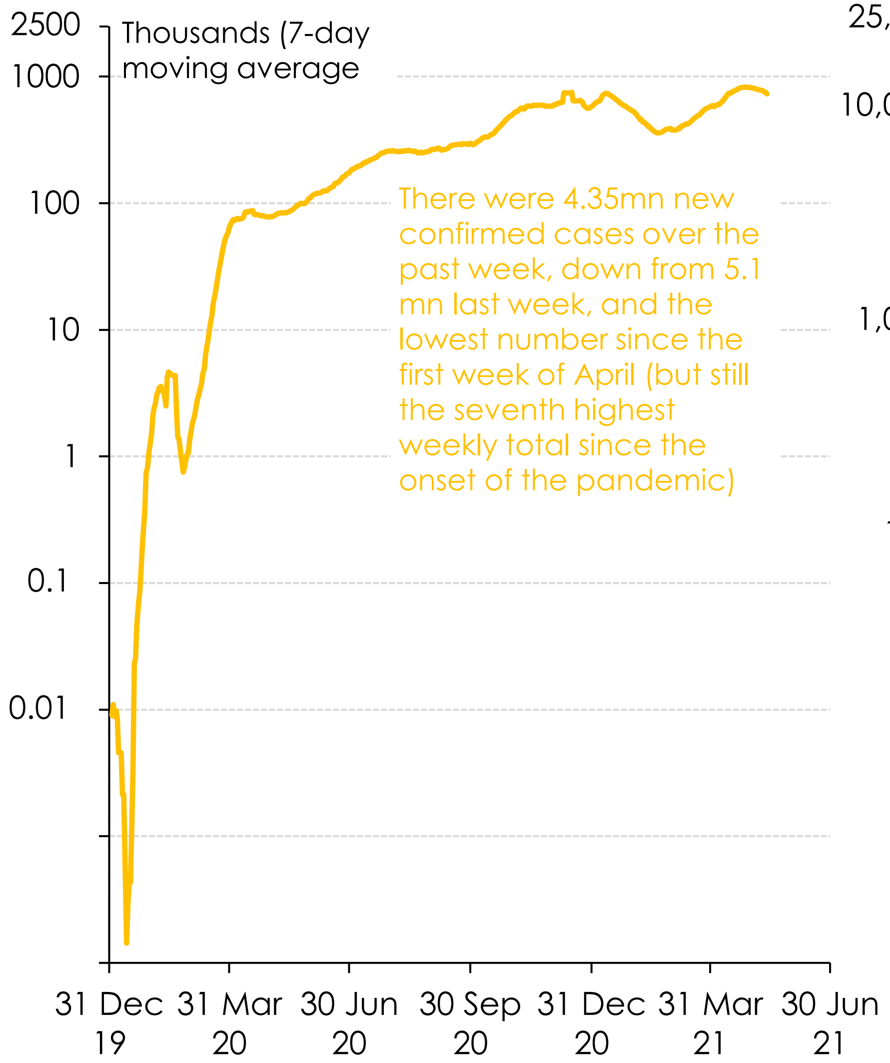
# The virus

# The numbers of new infections and deaths declined again this week, but they remain very high – and could be a substantial under-count

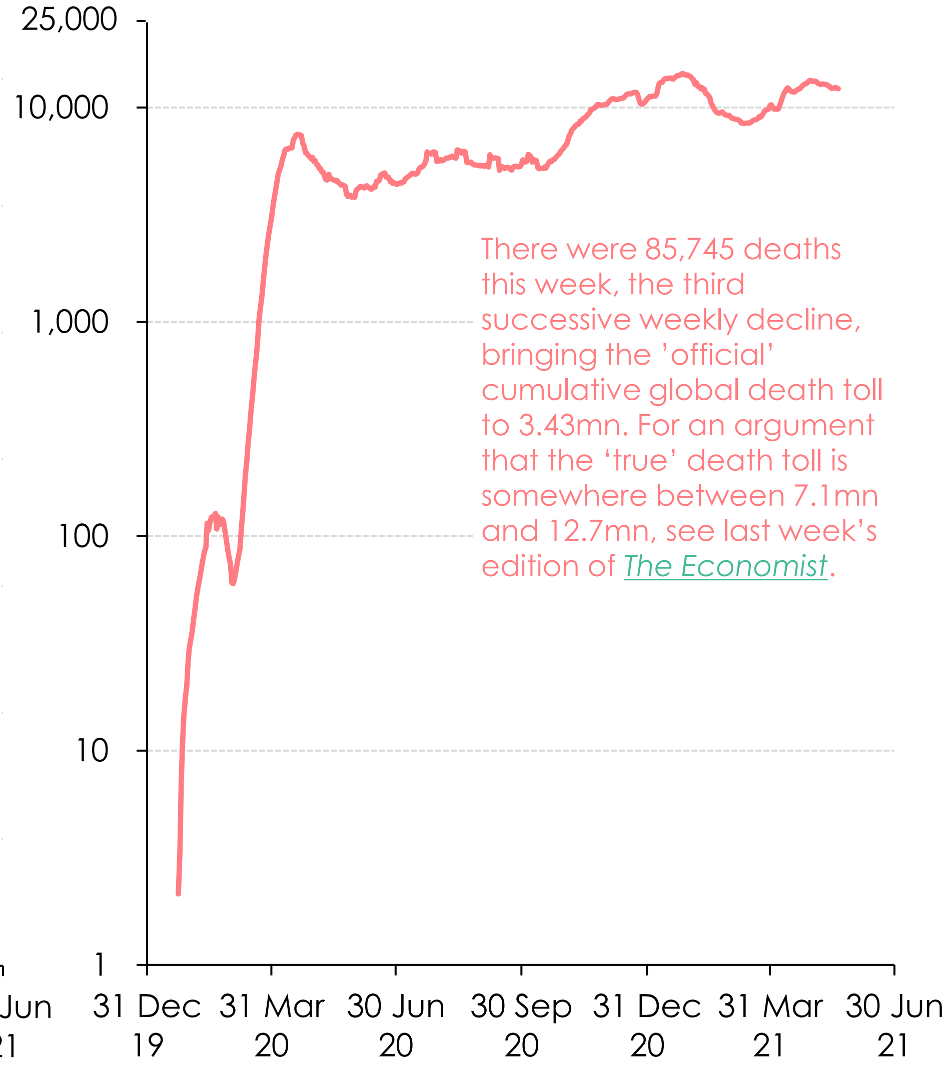
## Cumulative confirmed cases – global total




## New confirmed cases – global total




## New deaths – global total




*Note:* All charts are on logarithmic scales. Data up to 20th May. *Source:* University of Oxford, Our World in Data. Return to "What's New".



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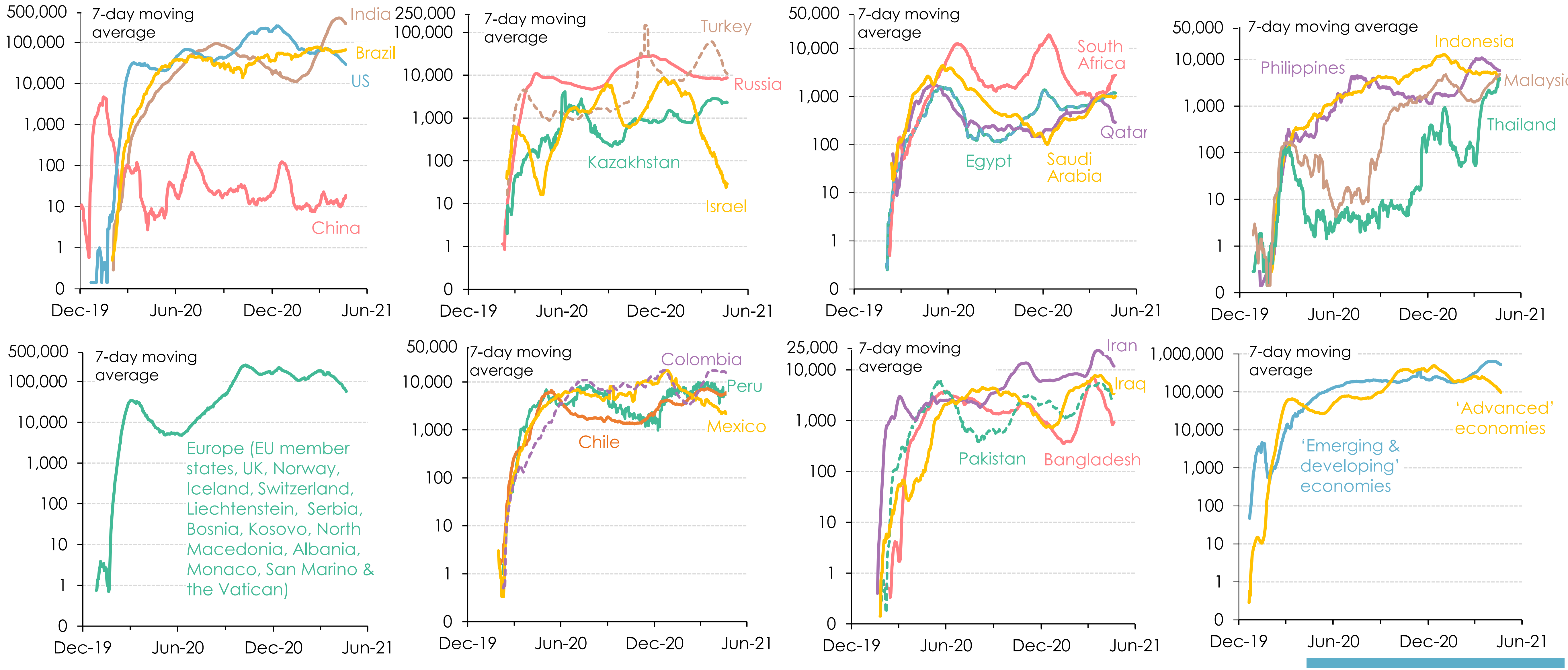
# 45½% of this week's new infections were in India, 10½% in Brazil, 9¼% in Europe, 4¾% in the US, 3½% in South-East Asia, and 2¼% in Colombia

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




*Note:* All charts are on logarithmic scales. Data up to 20th May. *Source:* University of Oxford, Our World in Data; Corinna. Return to "What's New".



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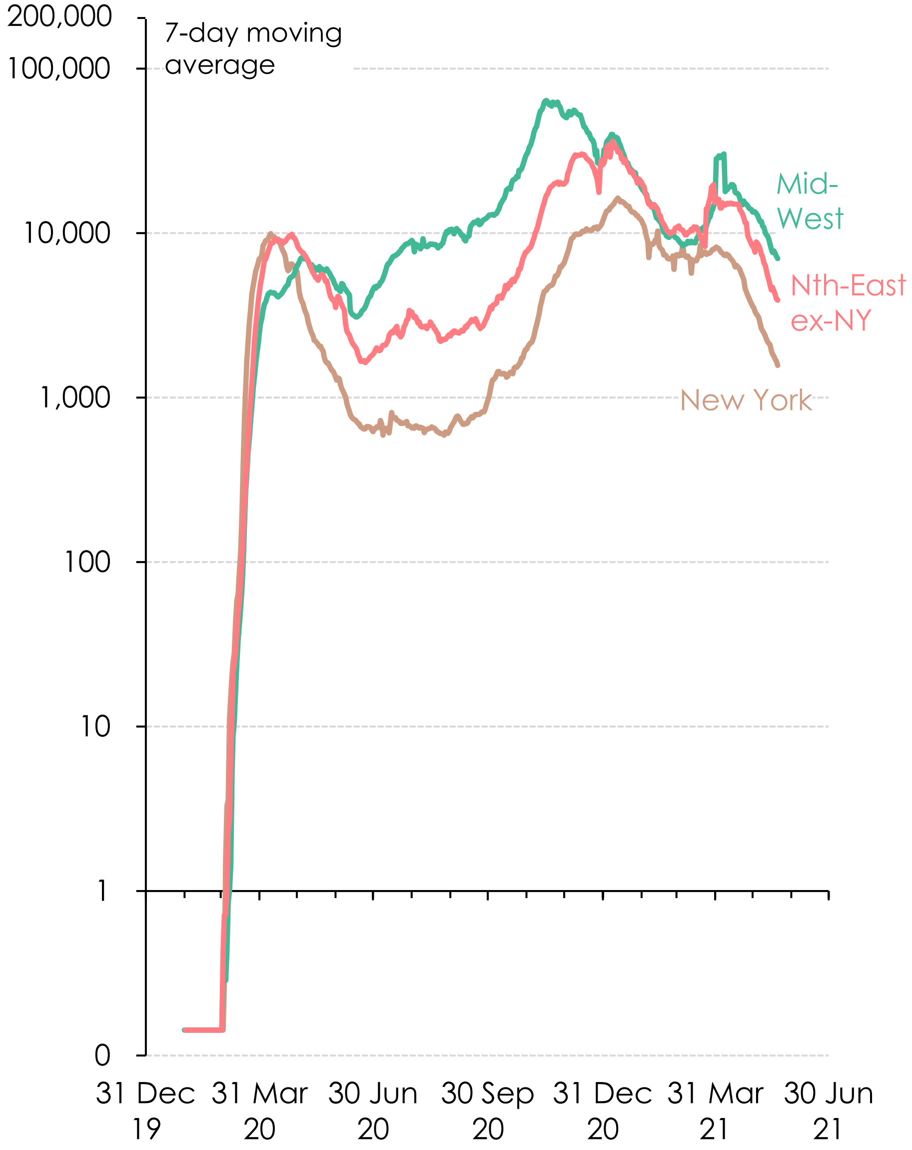
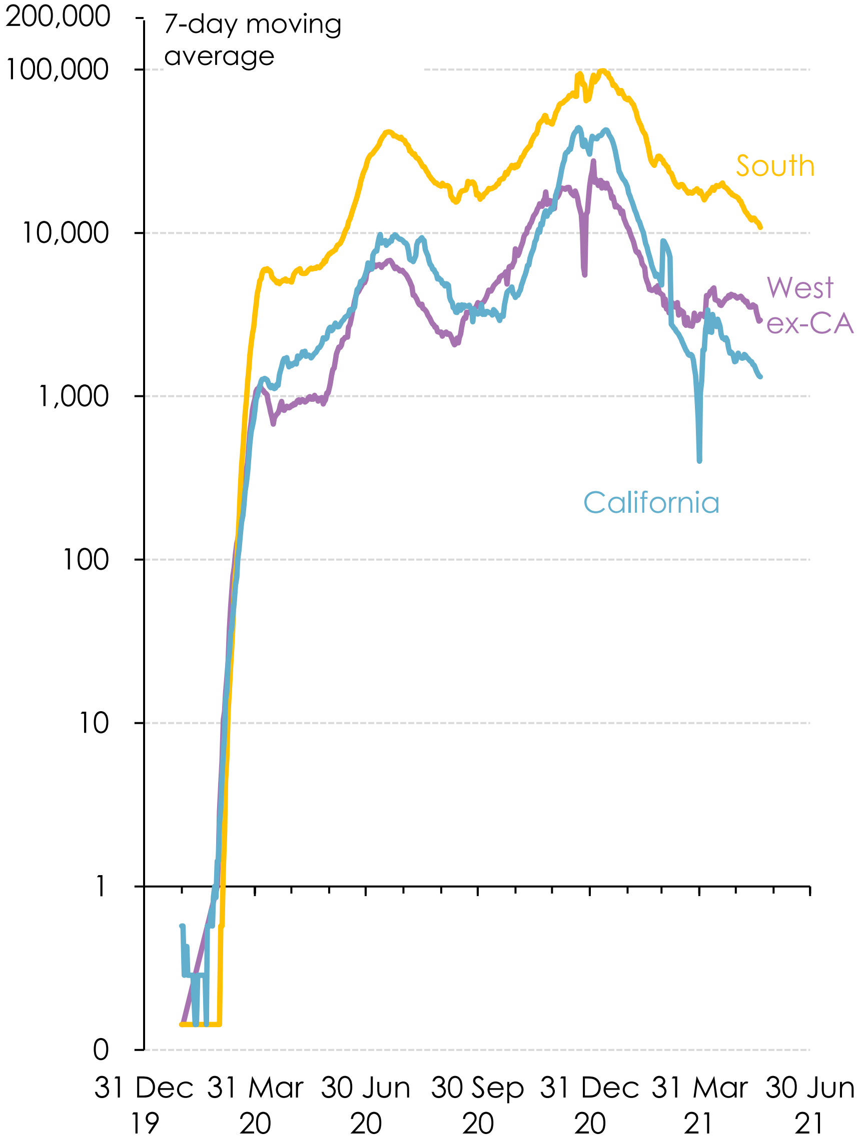
# In the US, case numbers are now stabilizing or falling in every state, and in every region

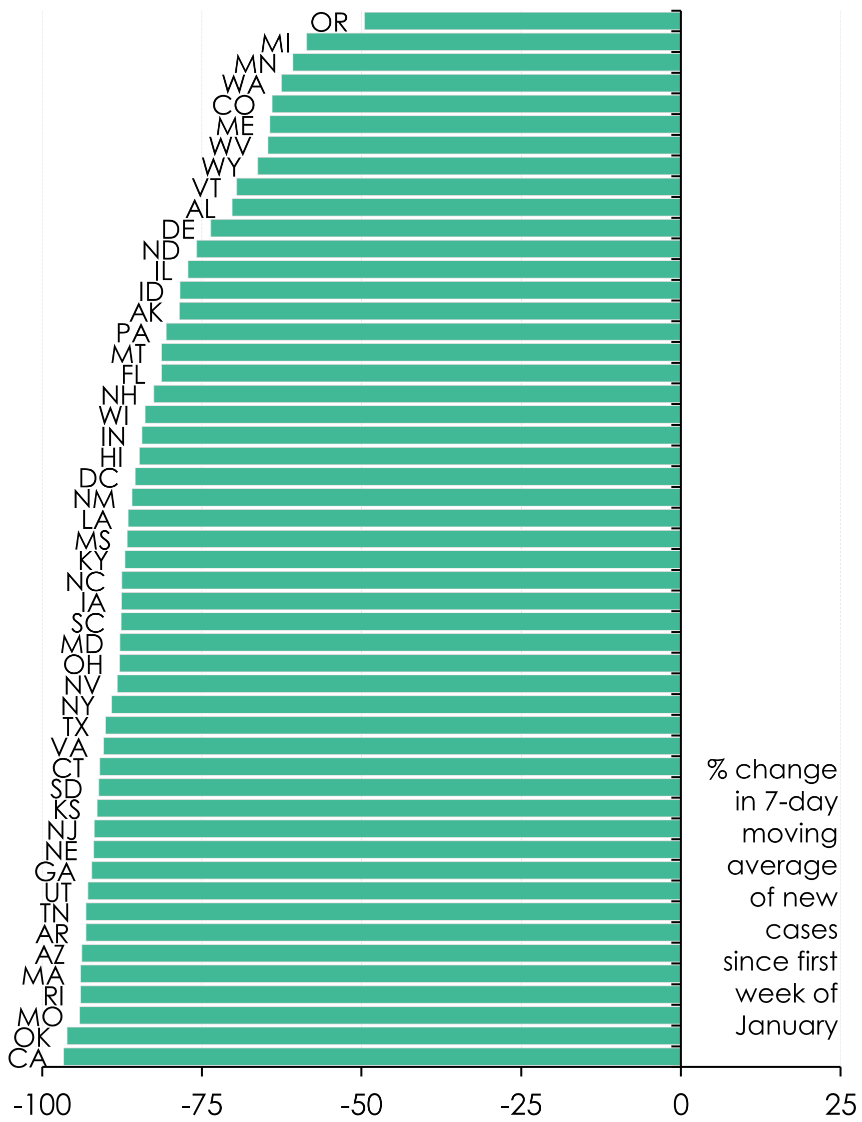
## New cases – Mid-West and North-East




## 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 20th May. Return to "What's New".

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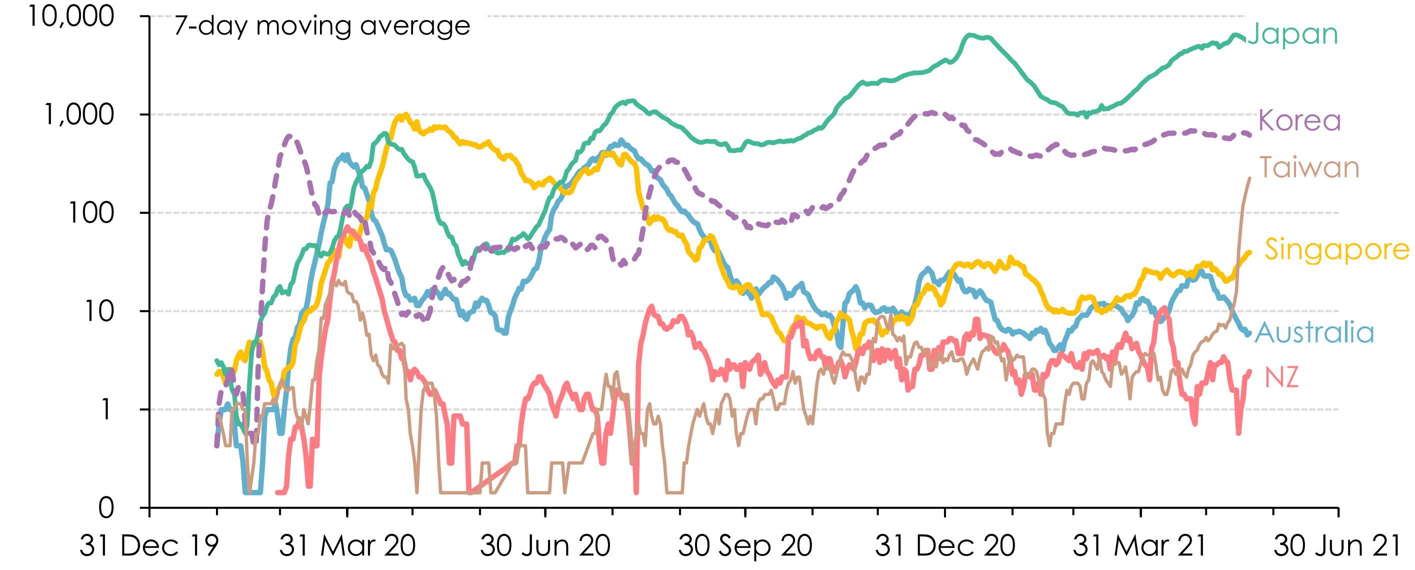
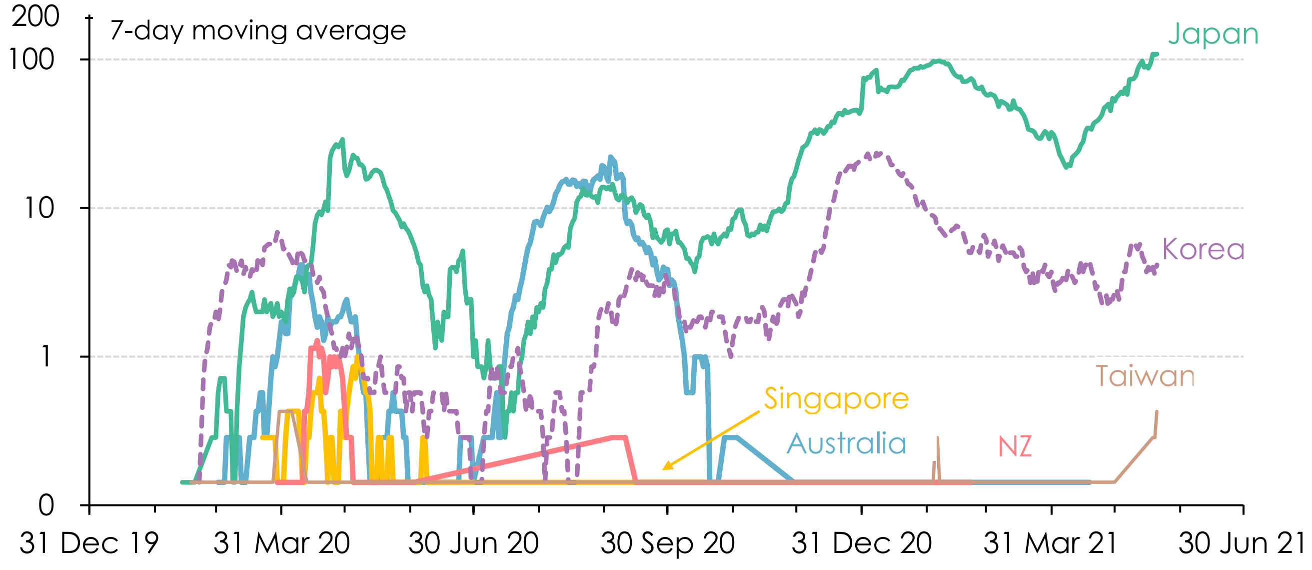
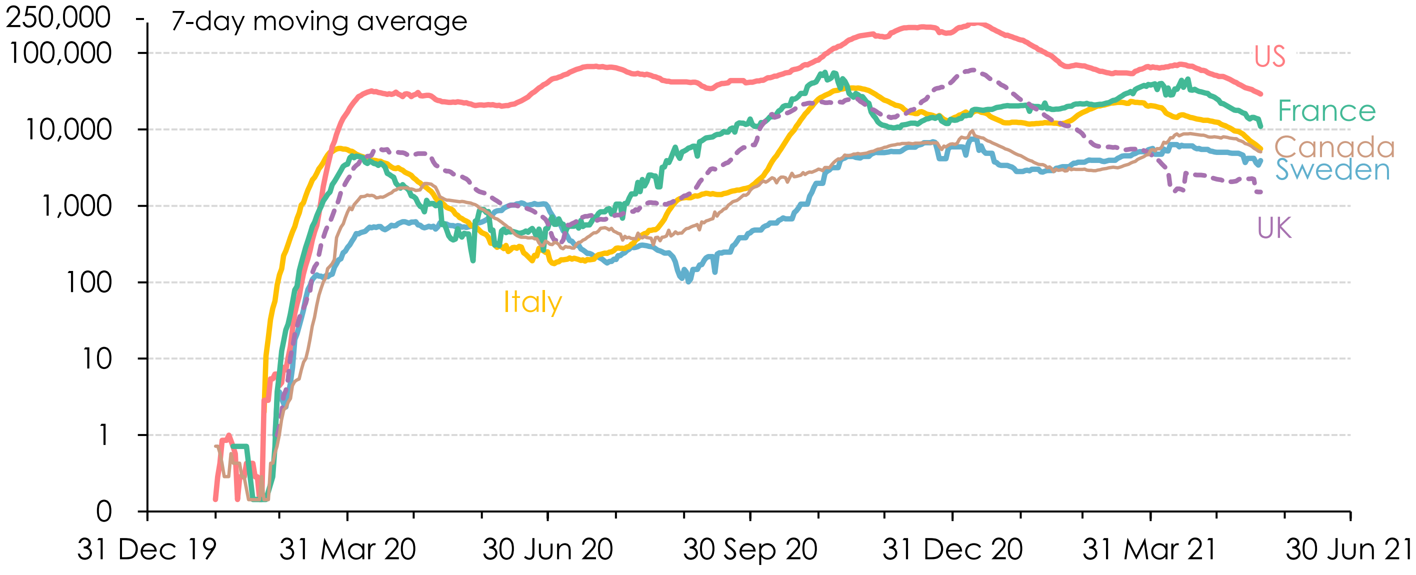
# Case numbers and deaths are continuing to decline steadily in the US and Europe, but are rising in much of Asia, including (surprisingly) now Taiwan

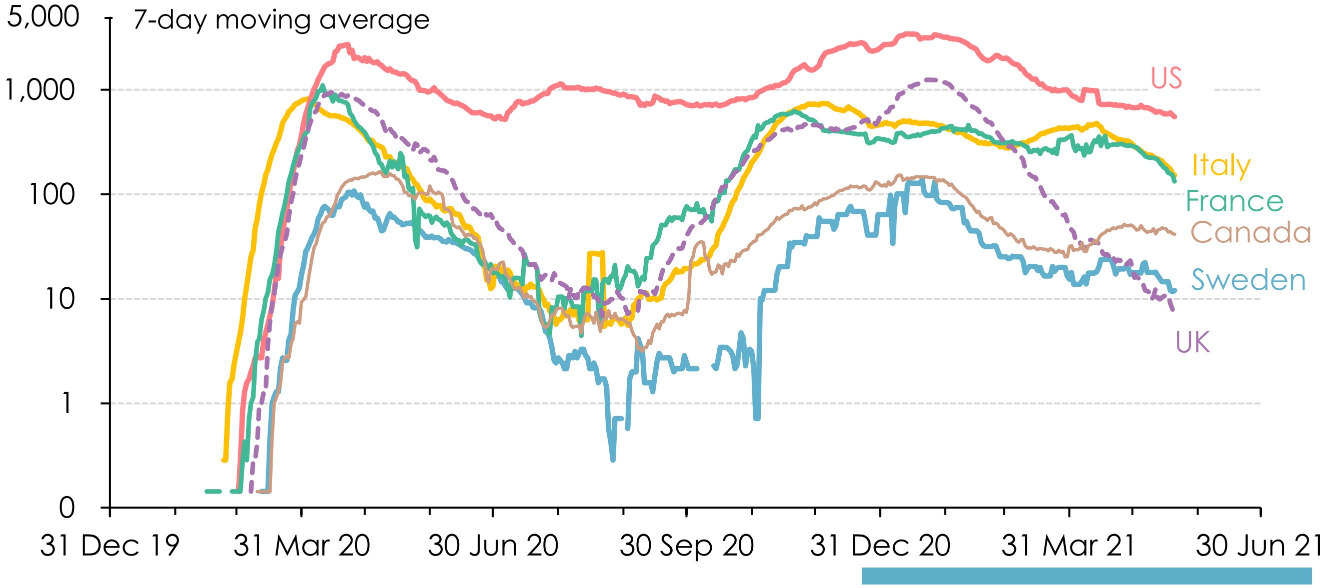
## Daily new cases




## 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 20th May. *Source:* University of Oxford, Our World in Data; Corinna. Return to "What's New".

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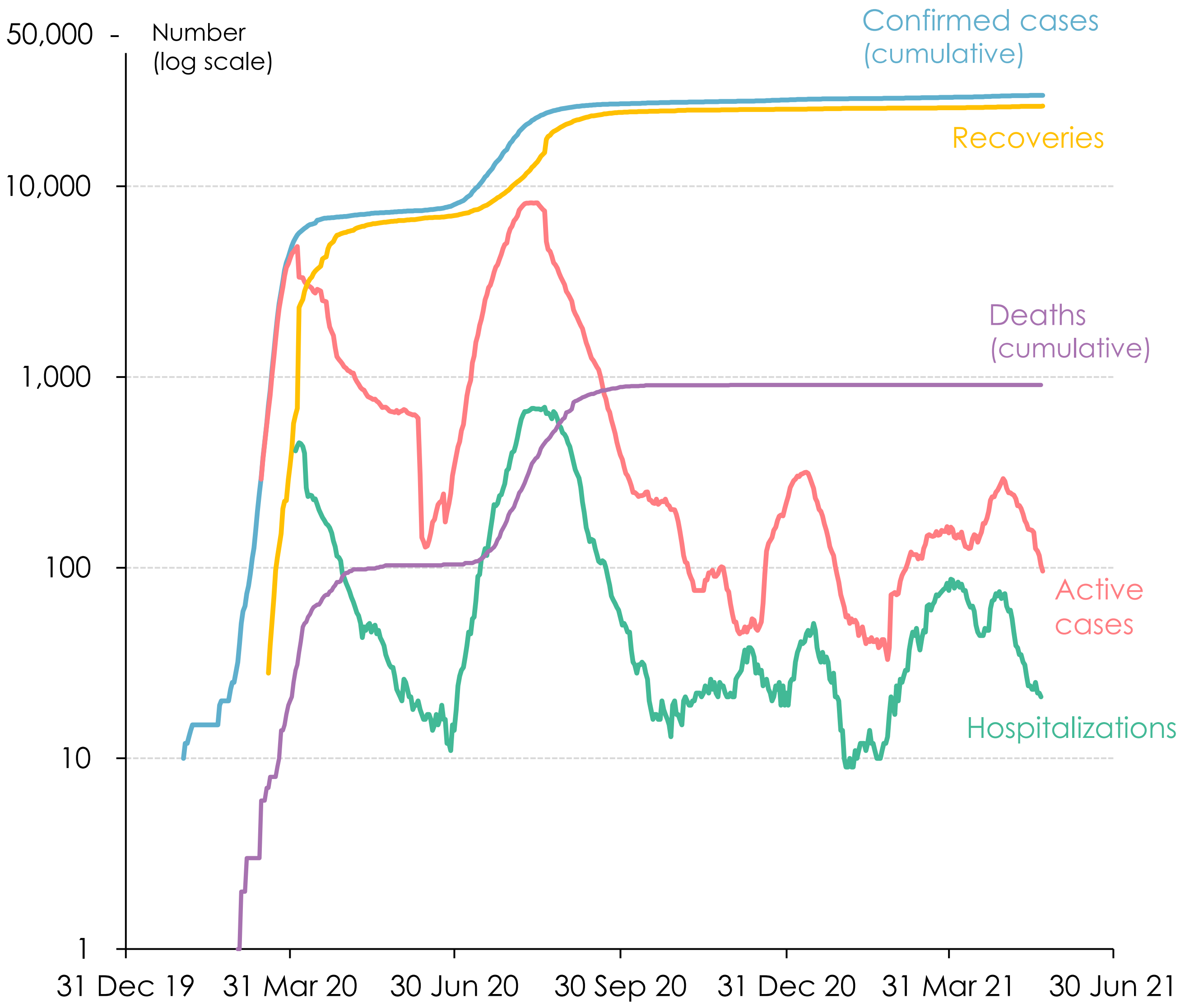
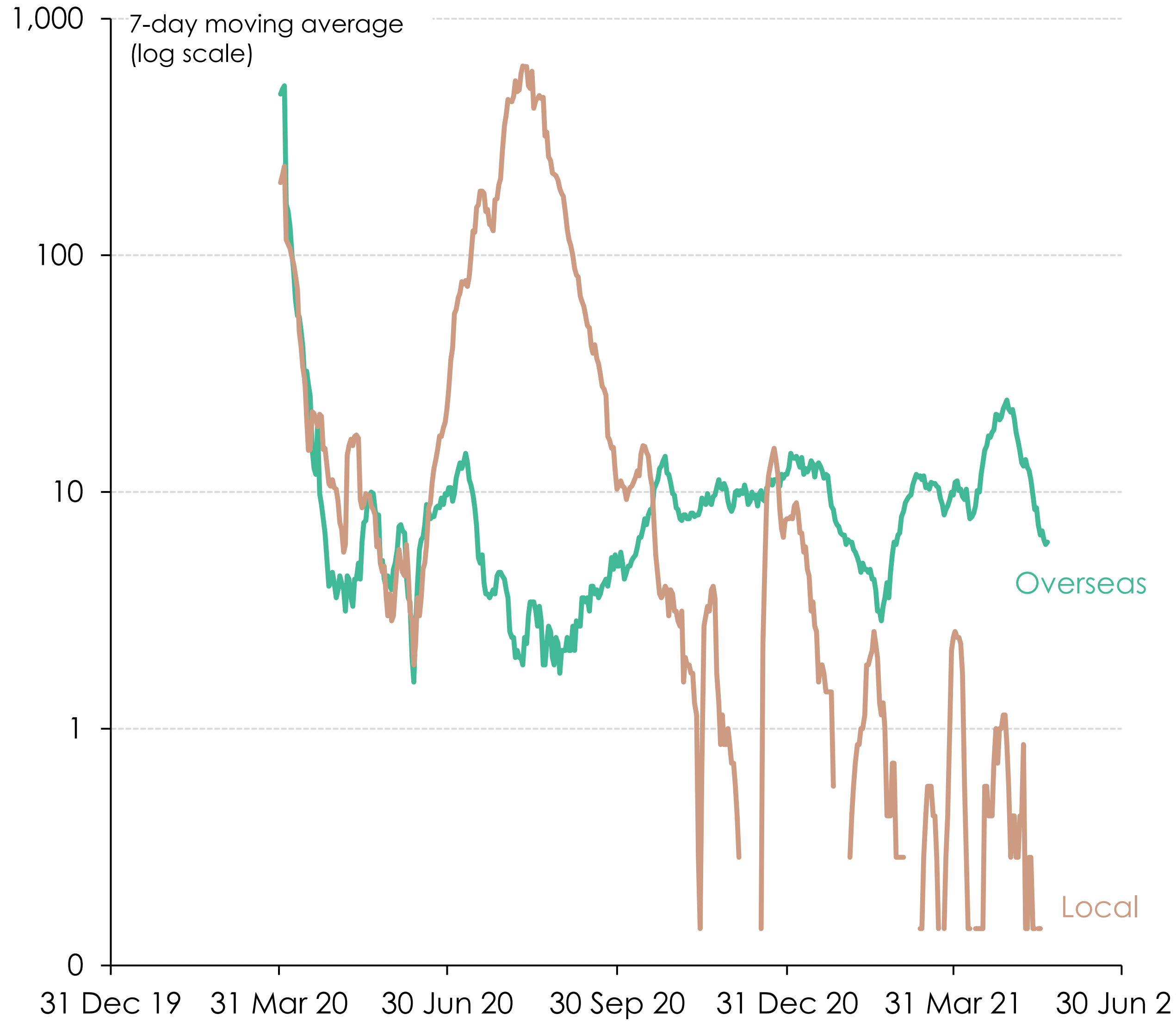
# Only 43 new cases were recorded in Australia this week – the lowest number in since the last week of February – all of them overseas acquired

## Cases, recoveries, hospitalizations and deaths




## New cases




*Note:* Data up to 21st May. *Source:* covid19data.com.au. Return to "What's New".

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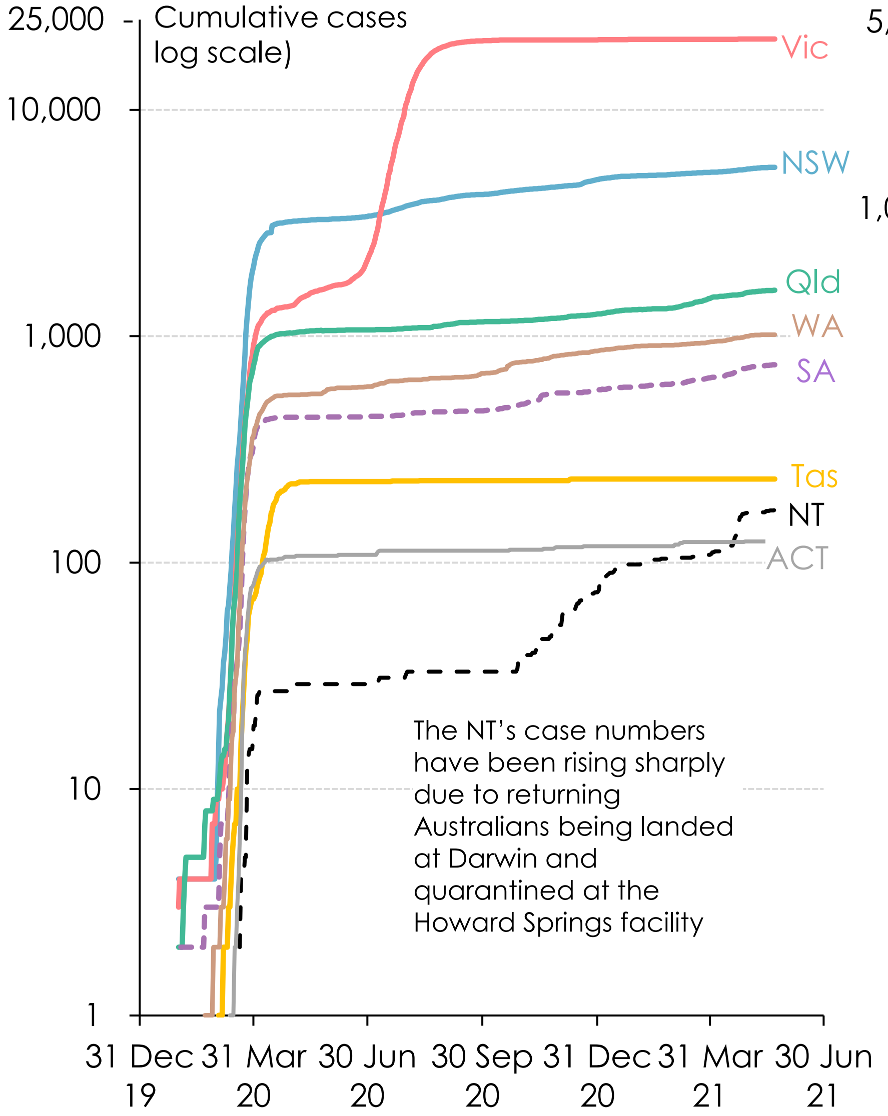
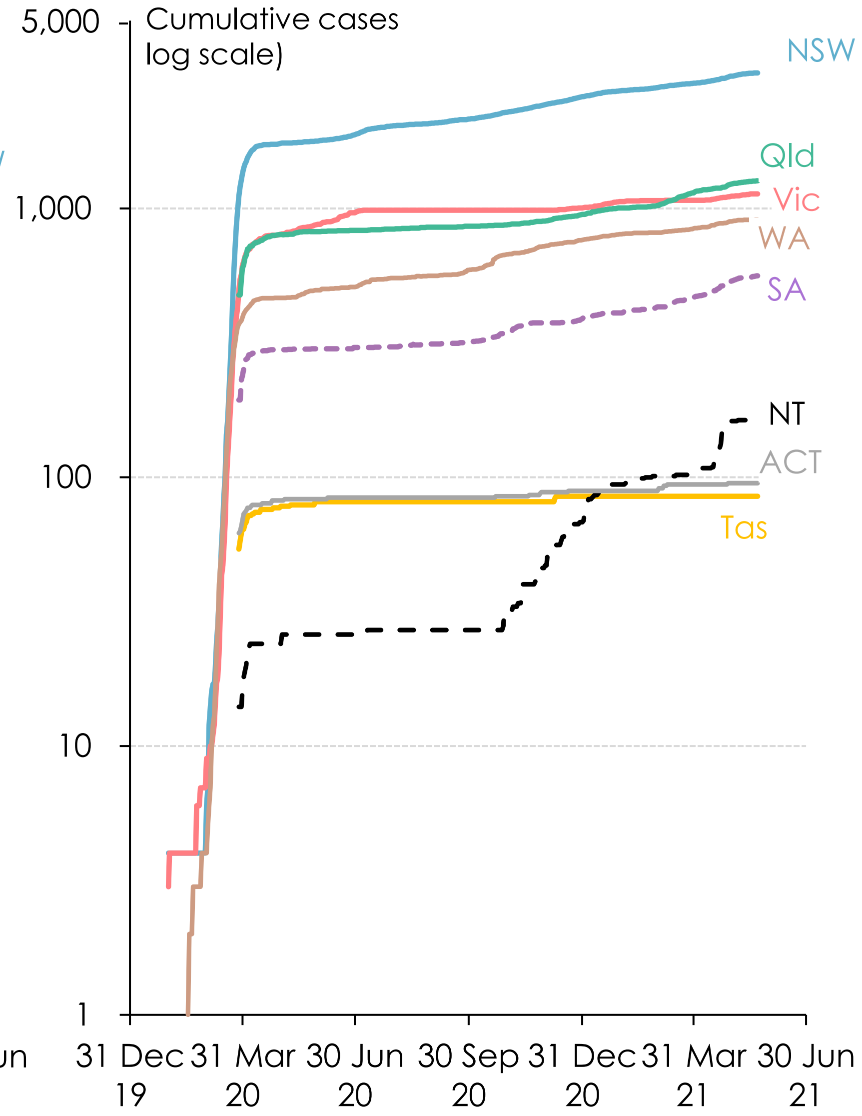
# 15 of this week's new cases were in NSW, 10 in Queensland, 7 in each of Victoria and SA, and 1 in WA

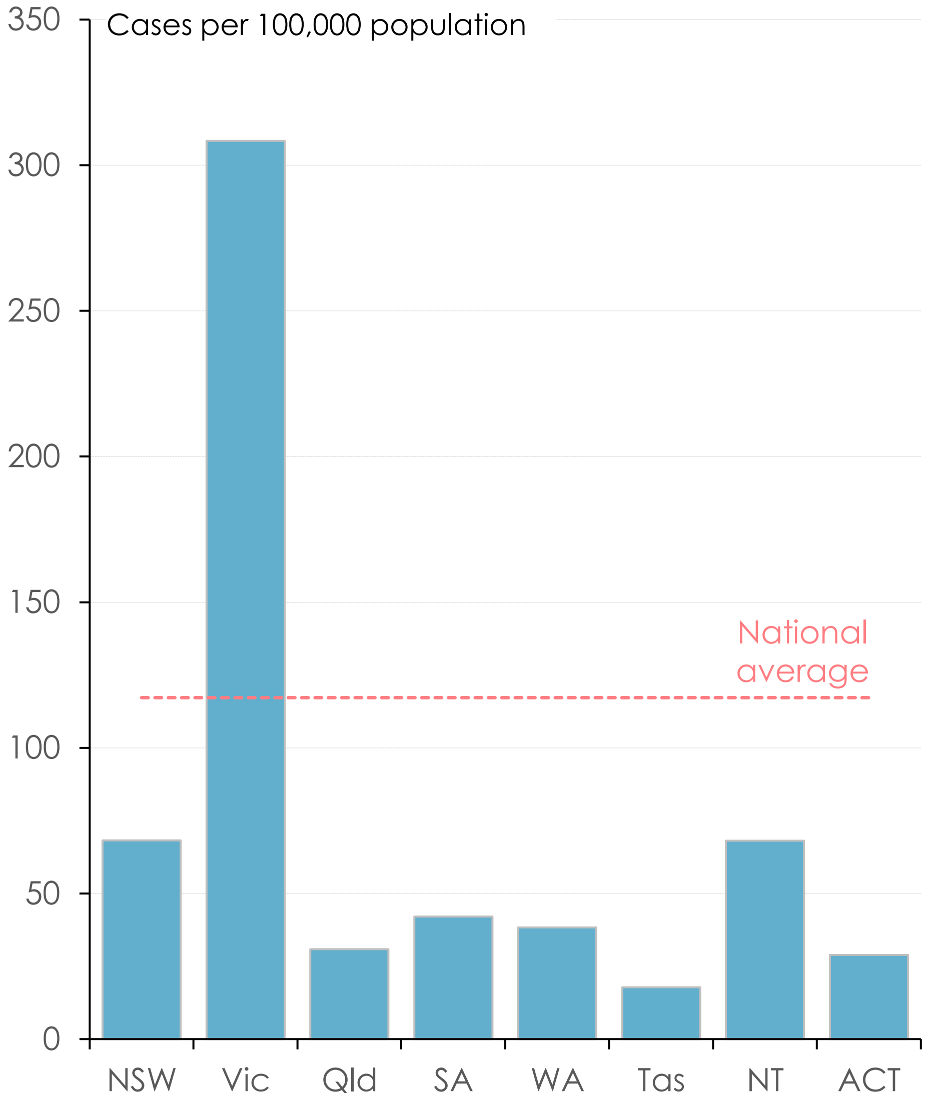
## Cumulative cases, by State




## Overseas transmissions




## Cases per 100,000 population




*Note:* Data up to 21st May. *Source:* covid19data.com.au. Return to "What's New".

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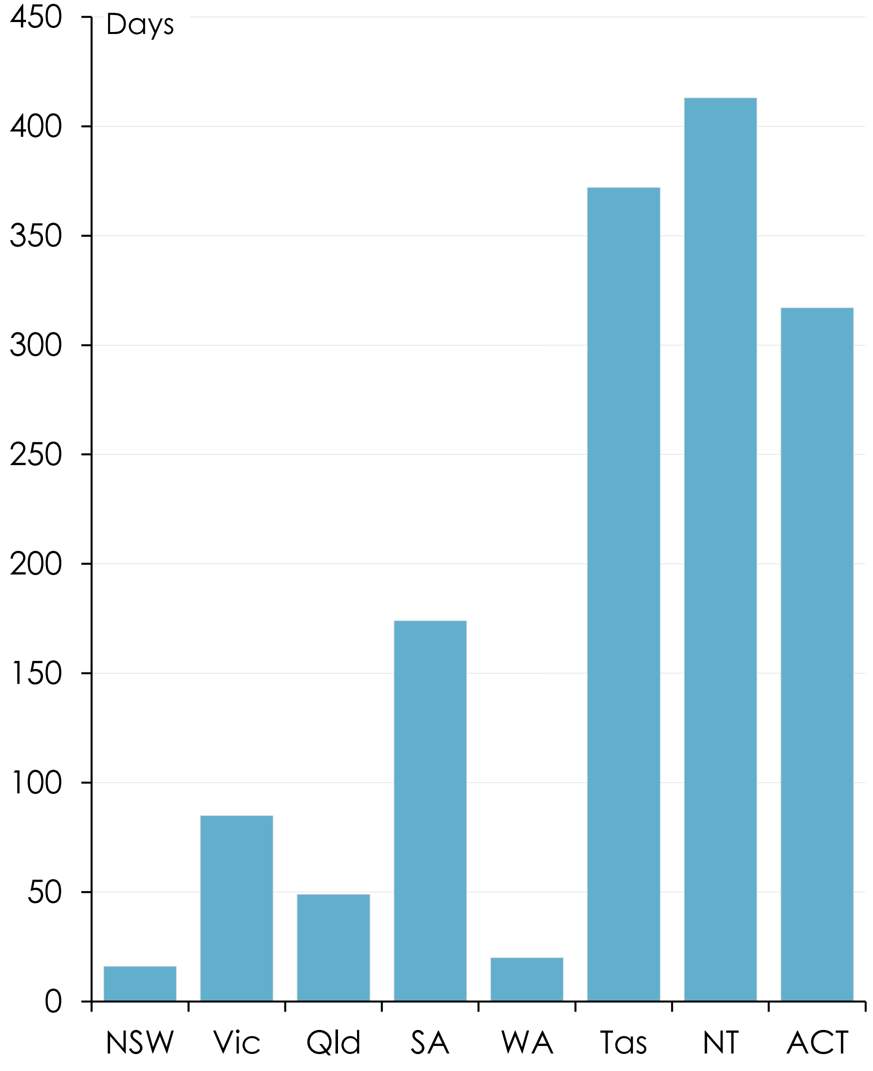
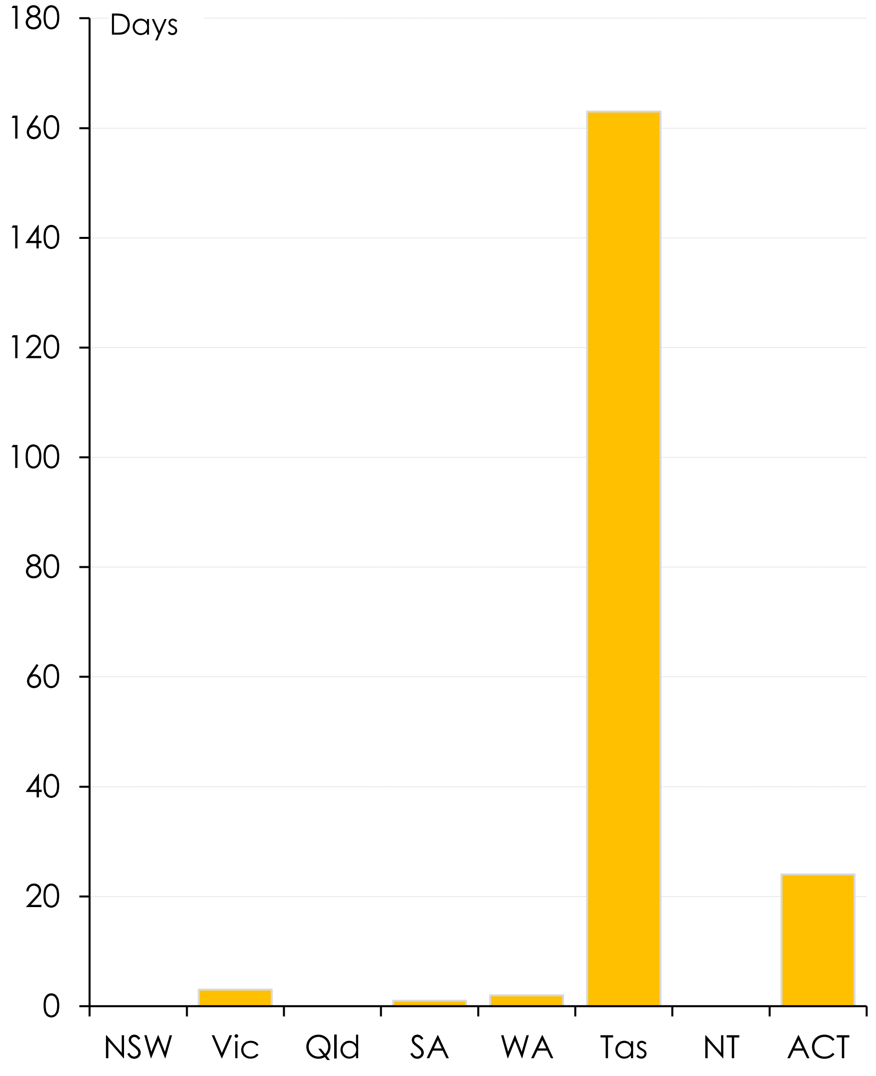
# The smaller states and territories have done better at keeping the virus at bay, more recently because they get few if any overseas arrivals

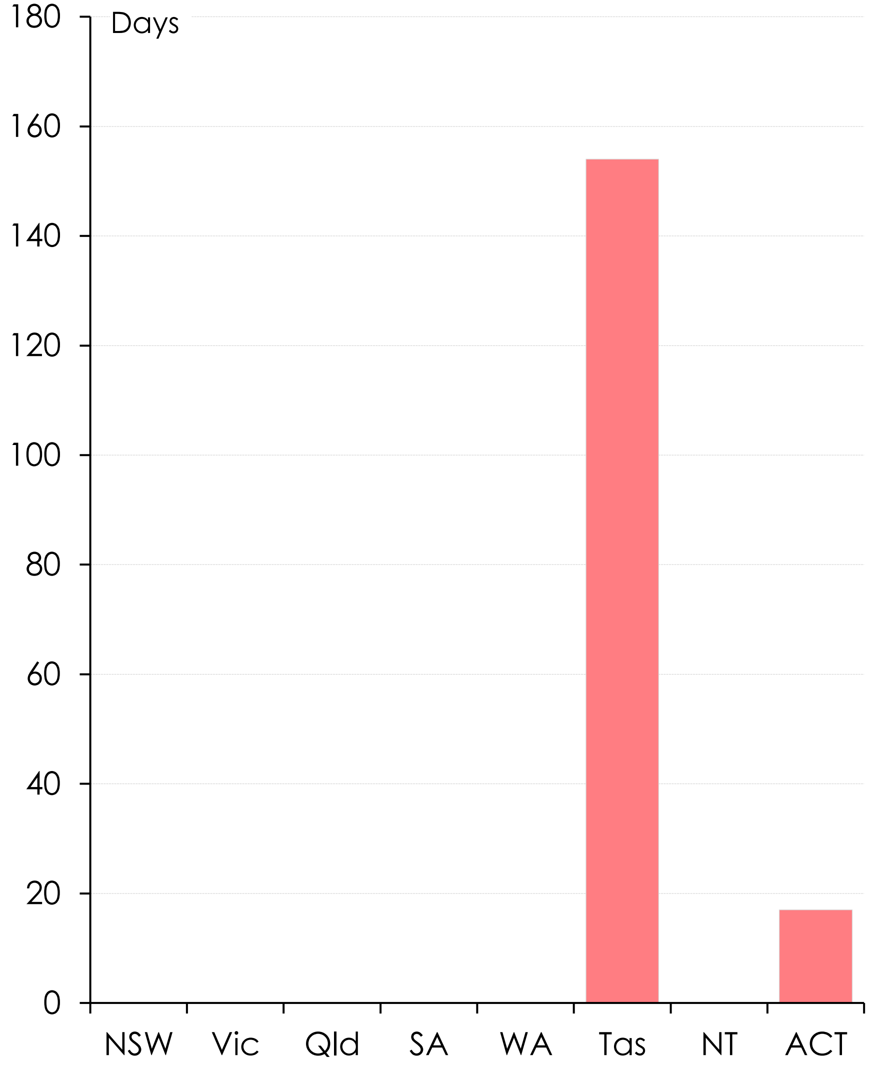
## Days since last new locally-acquired case




## Days since last new overseas-acquired case



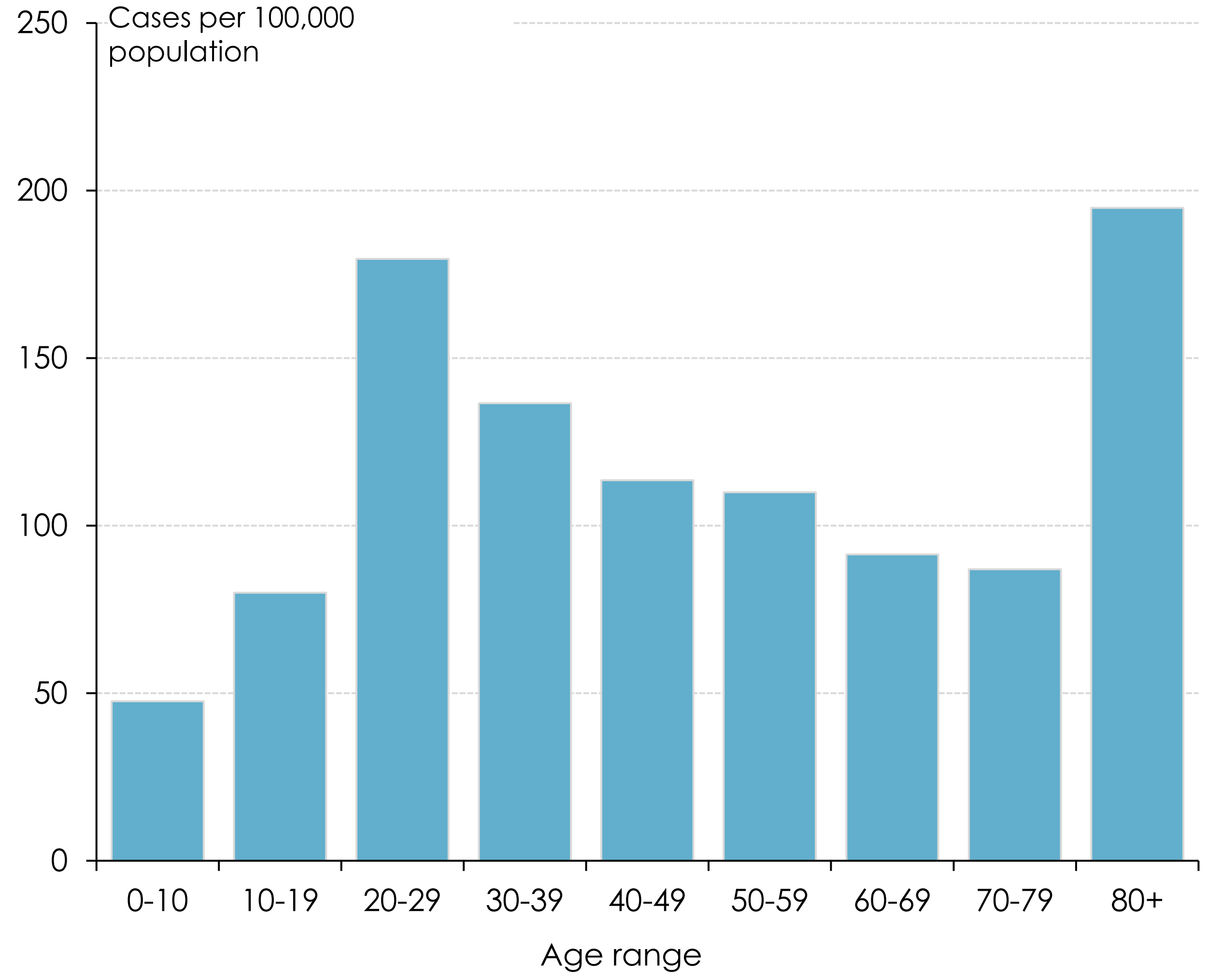

## Days since there were any active cases



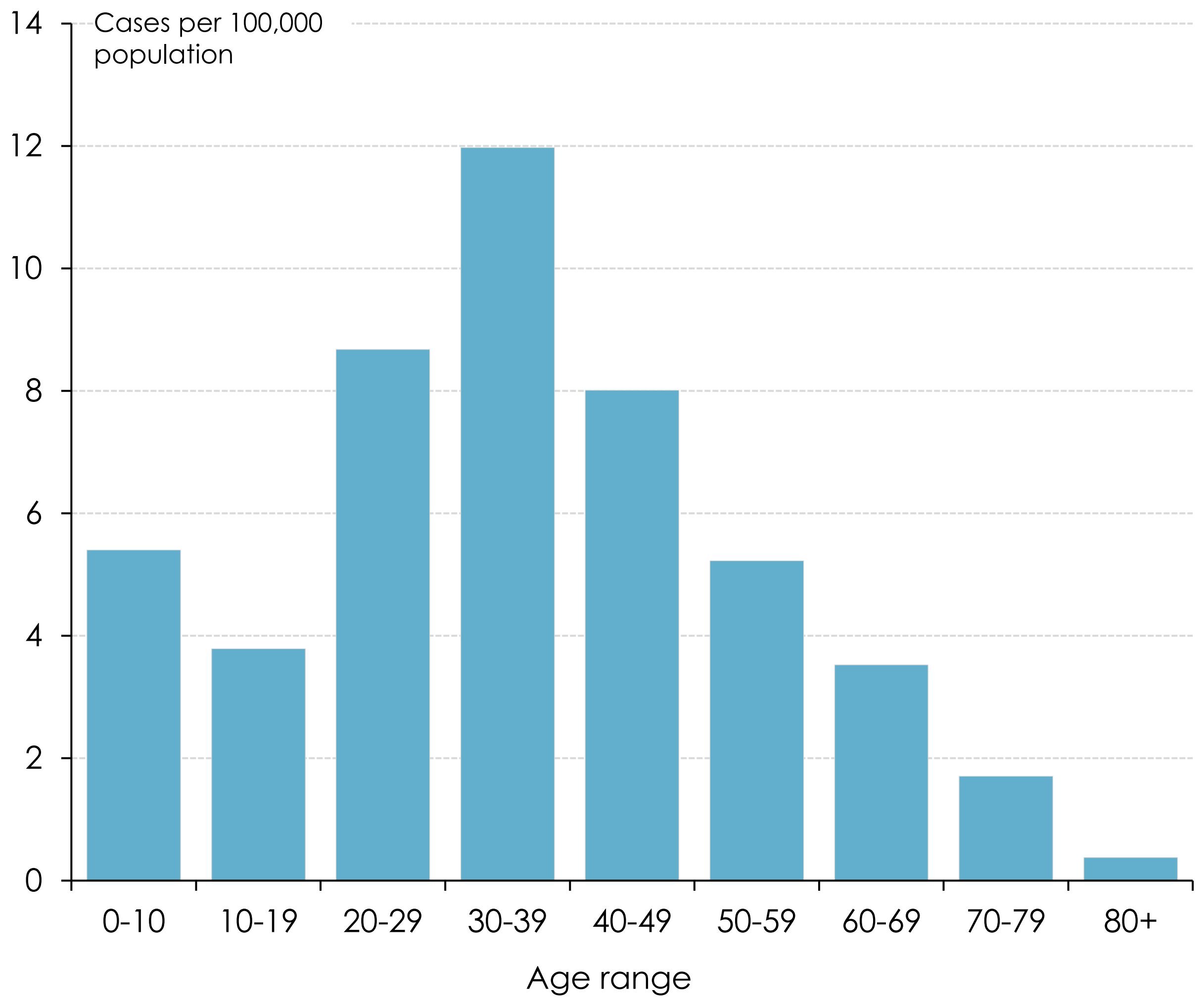

*Note:* Data are for 21st April. *Source:* covid19data.com.au. Return to "What's New".

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

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




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




*Note:* Data up to 21st May. *Source:* Australian Government Department of Health, National Notifiable Diseases Surveillance System; ABS; Corinna.
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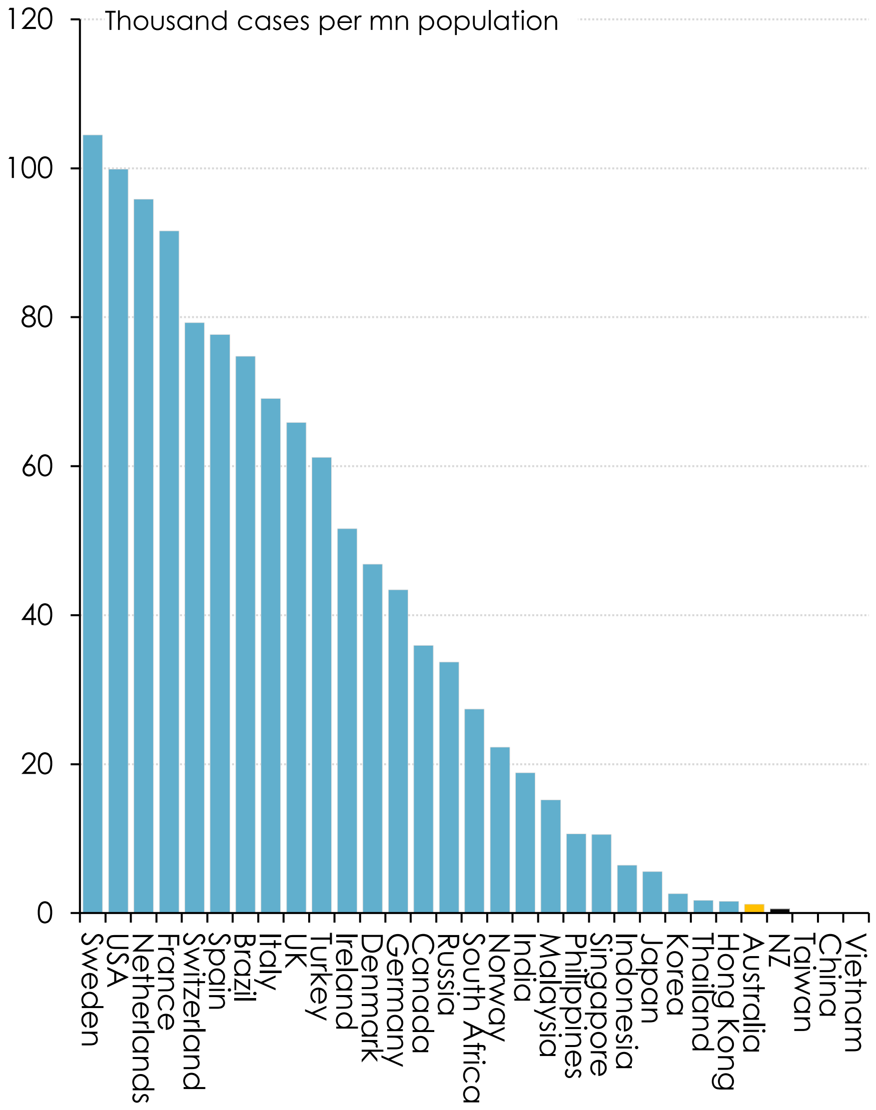
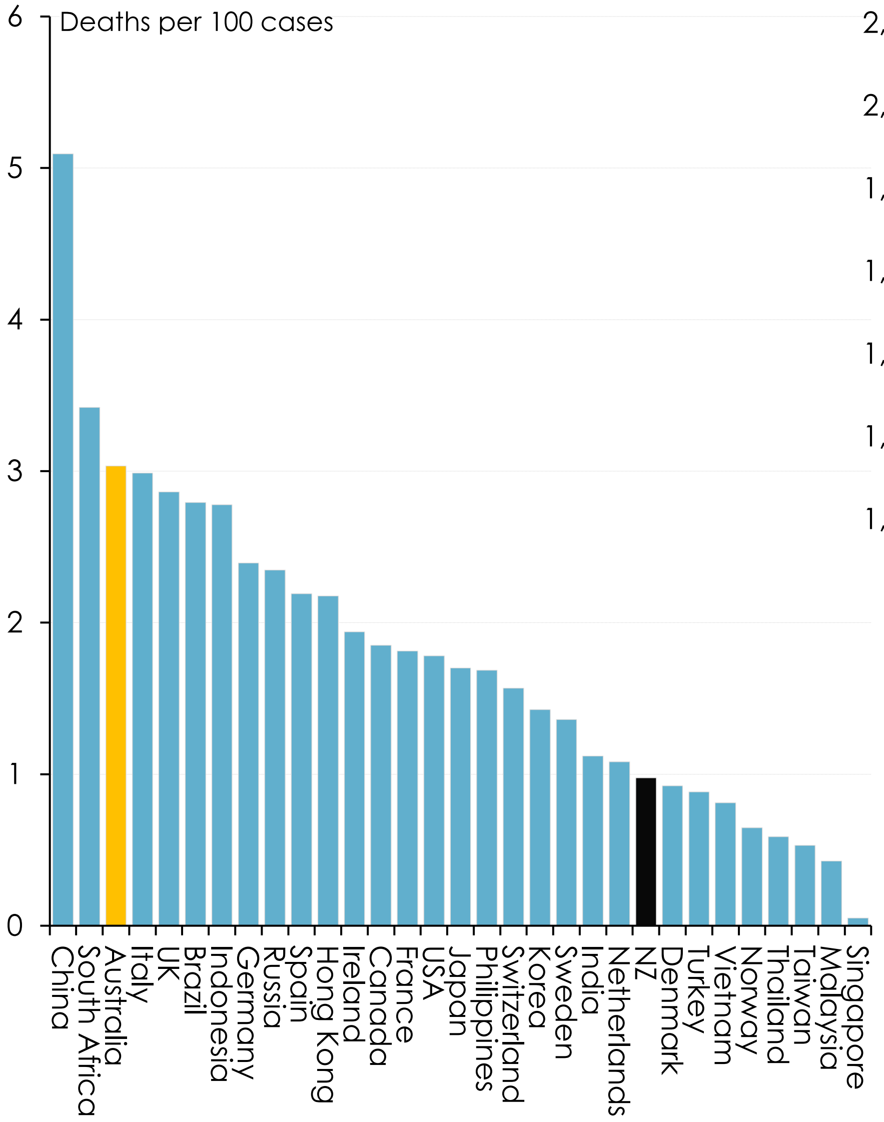
# Australia's infection and death rates remain, along with NZ's and most East Asian countries', low by international standards

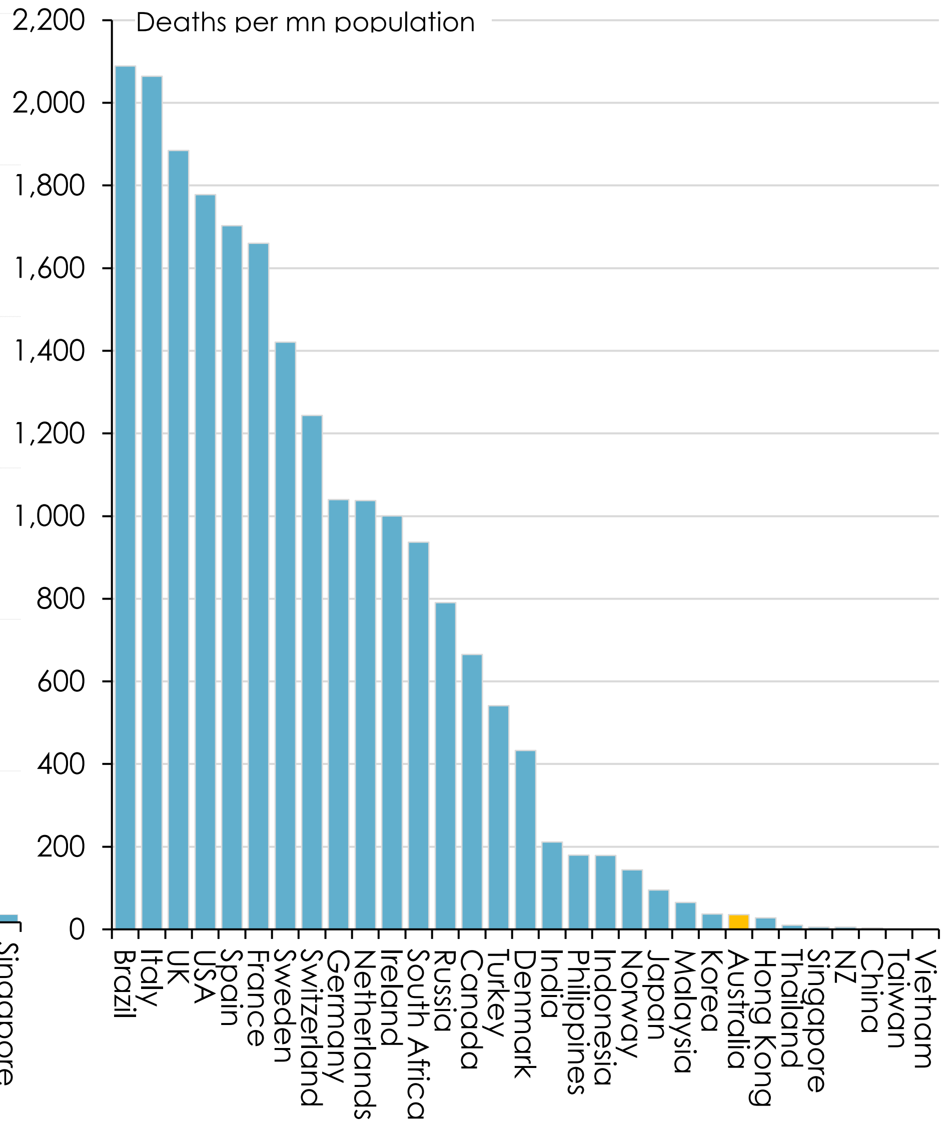
## Apparent infection rate




## Apparent fatality rate




## Death rate




*Note:* Data up to 20th May. *Source:* University of Oxford, *Our World in Data*; Corinna. Return to "What's New".



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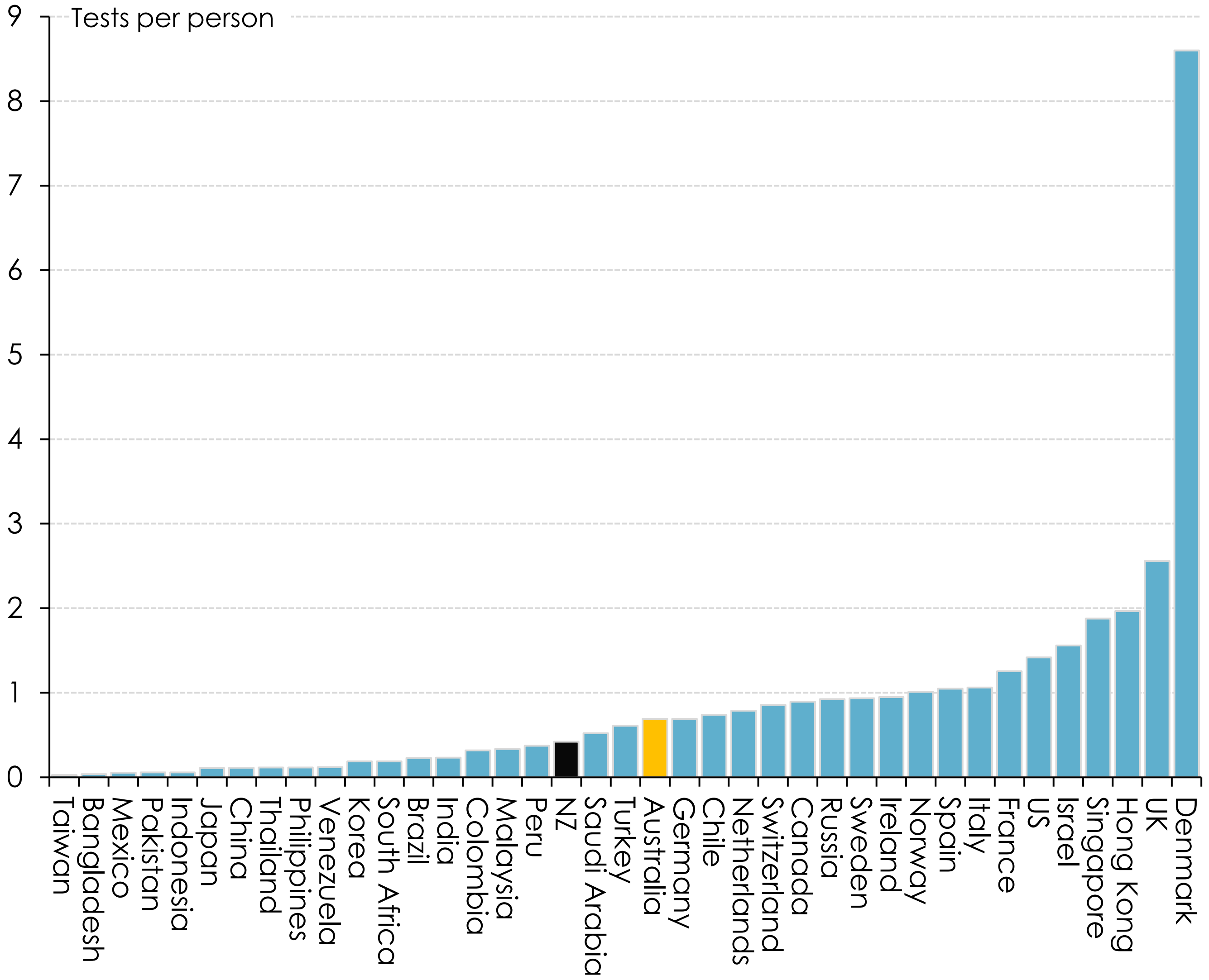
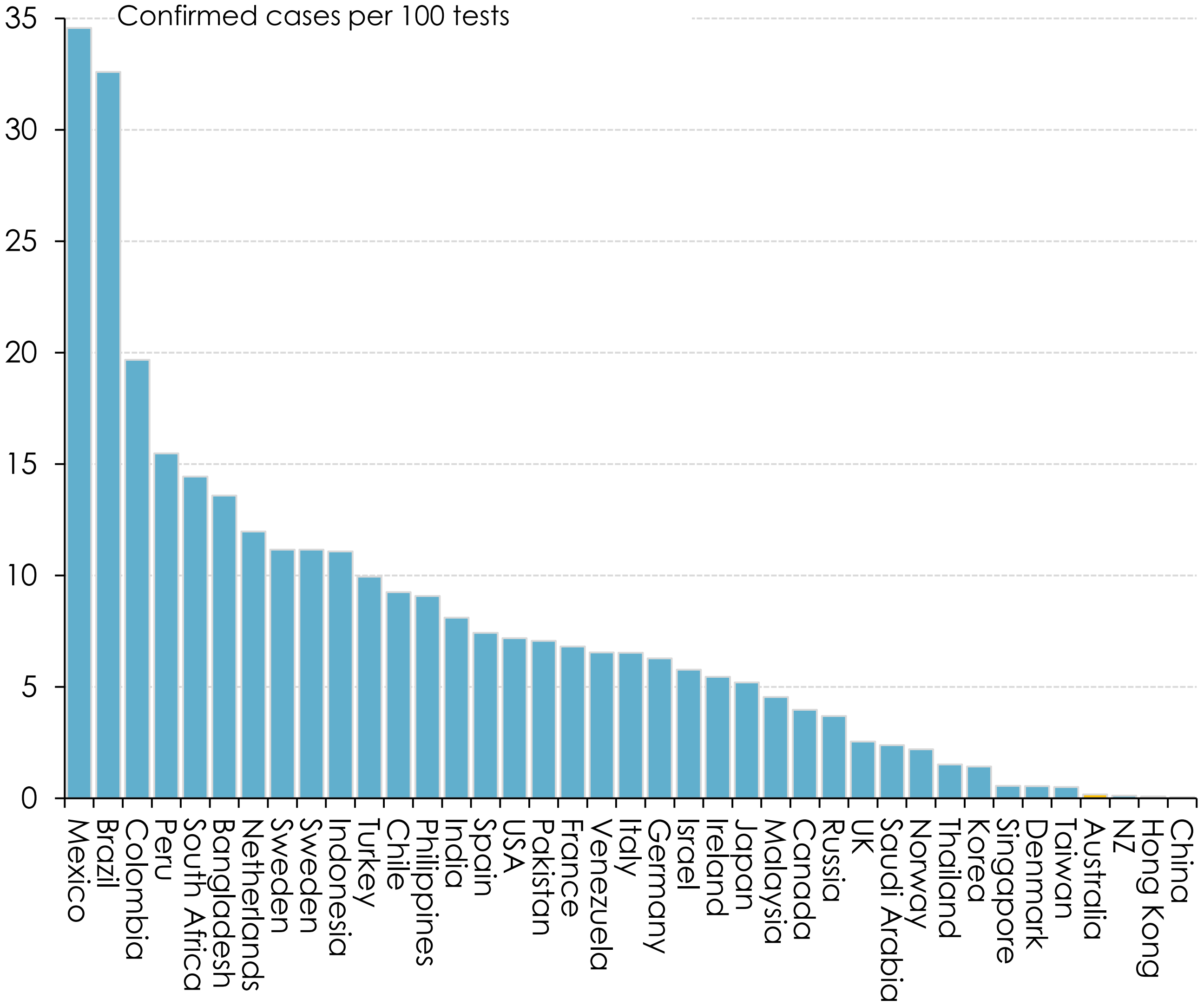
# Australia's testing regime appears sufficiently broad for the low infection and death rates to be seen as 'credible' (ie not due to low testing)

## Tests per thousand of population




## Confirmed cases per 100 tests




*Note:* Data up to 20th May (and yes it appears, at face value, that Denmark has tested its entire population more than eight times, the UK more than twice, and Singapore, Israel, Hong Kong, the US, France, Italy and Spain at least once). A high number of confirmed cases per 100 tests combined with a low number of tests per 000 population is (all else being equal) *prima facie* evidence of an inadequate testing regime. *Source:* Worldometers; Corinna. Return to "What's New".



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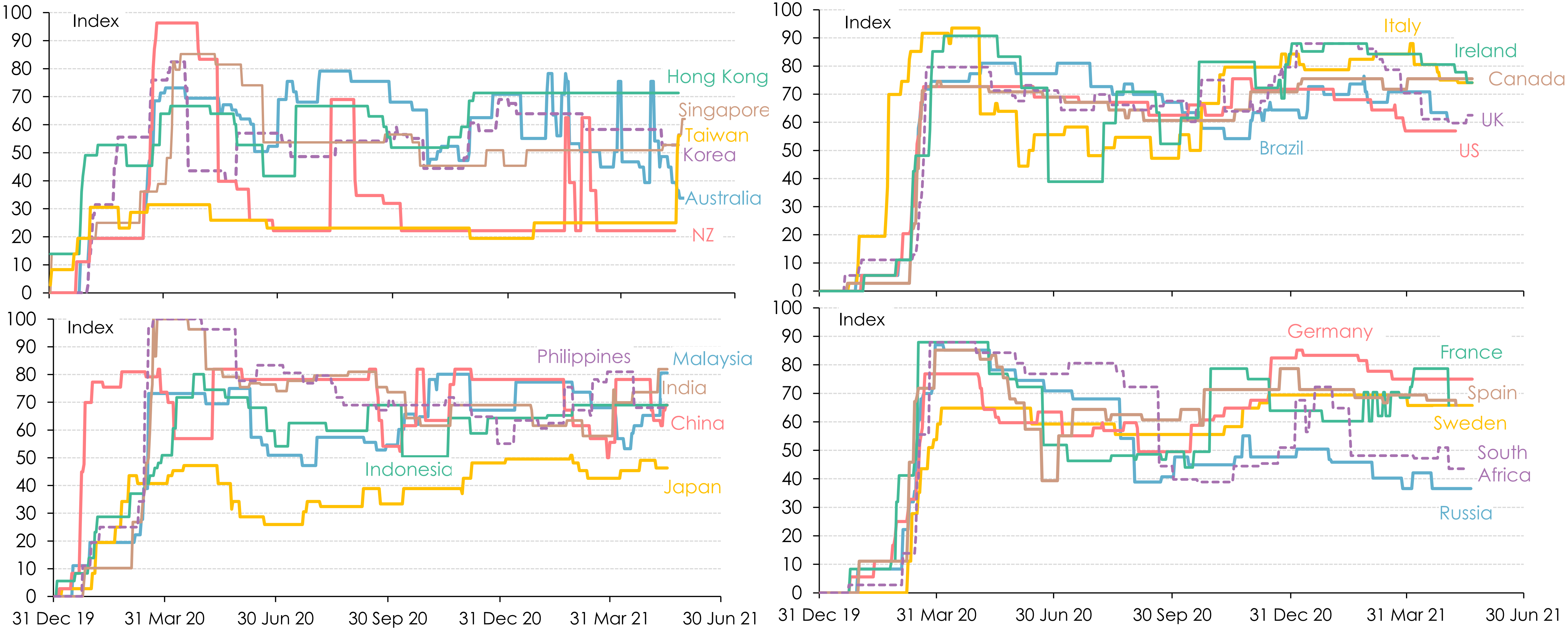
# Restrictions have been gradually easing in Europe and the US, but have been tightened this week in Singapore, Malaysia and Taiwan

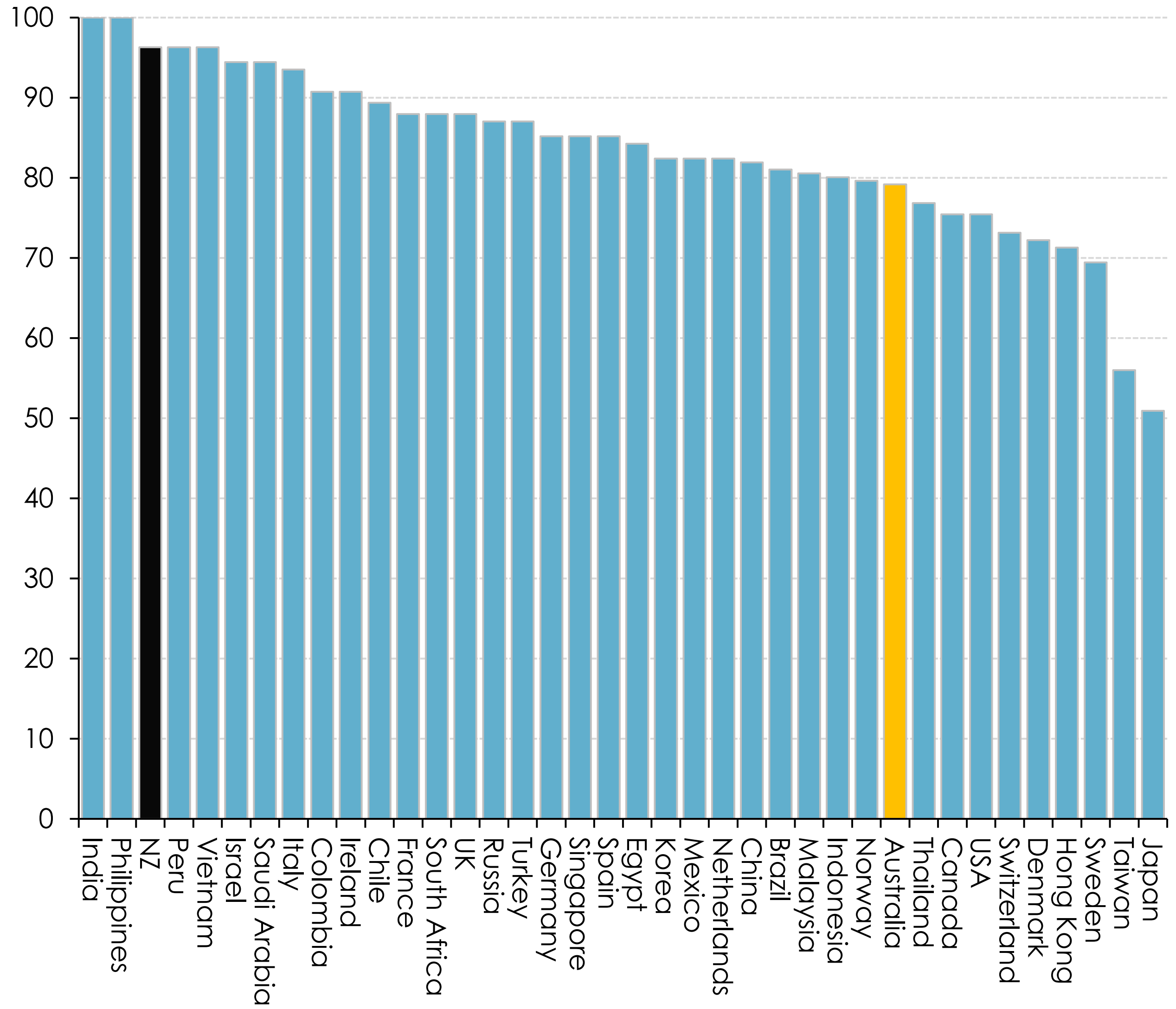
## Timing and severity of government restrictions on movement and gathering of people



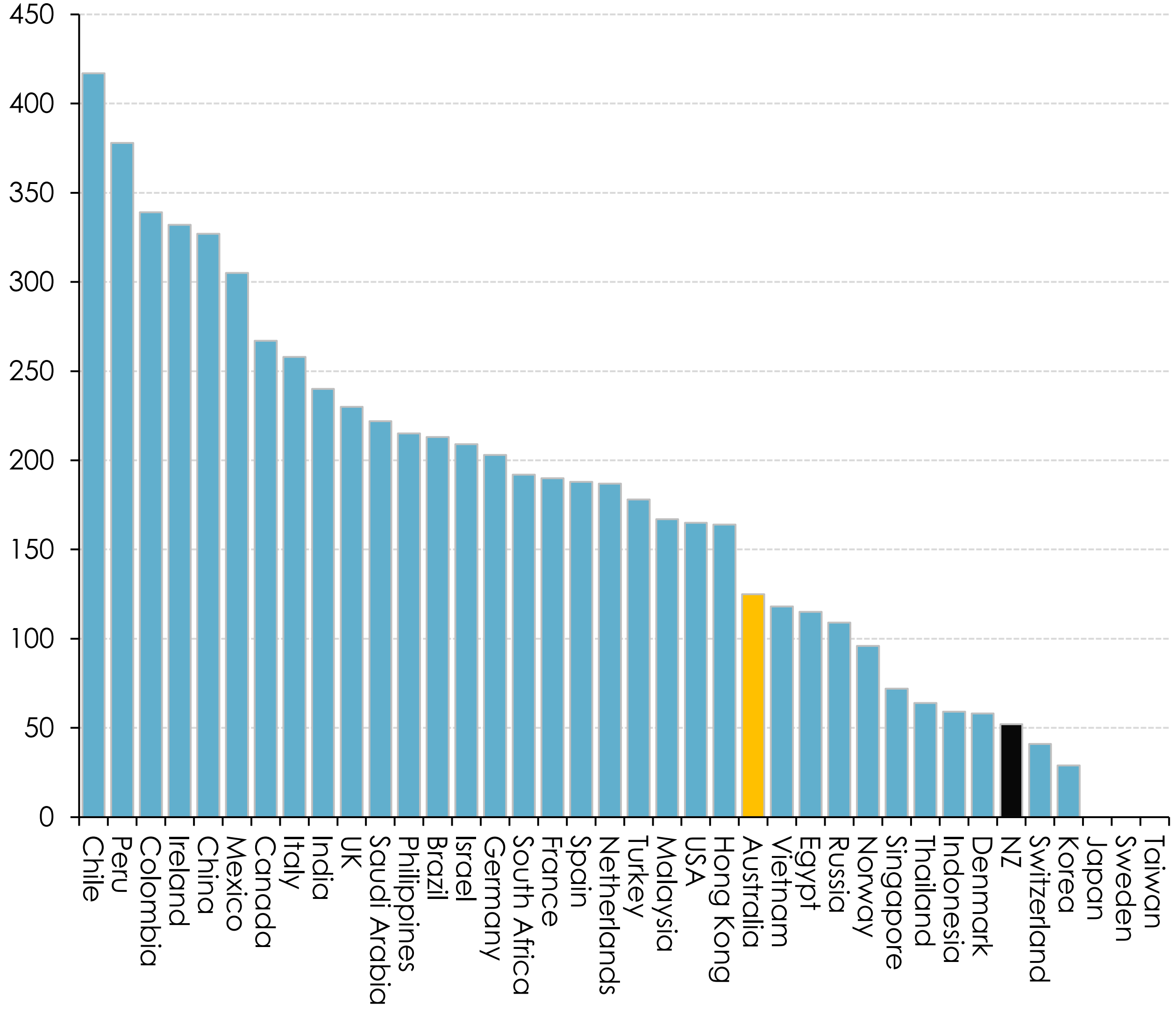

The Oxford COVID-19 Government Response Tracker collects publicly available information on 11 indicators of government response including school and workplace closures, public events cancellations, restrictions on public gatherings, stay at home requirements, public transport closures, domestic and international travel restrictions, public information campaigns, testing and contact tracing. Singapore announced a month-long lockdown on Friday, which is yet to be reflected in the chart above.
*Source:* Blavatnik School of Government, Oxford University. Data up to 8th – 21st 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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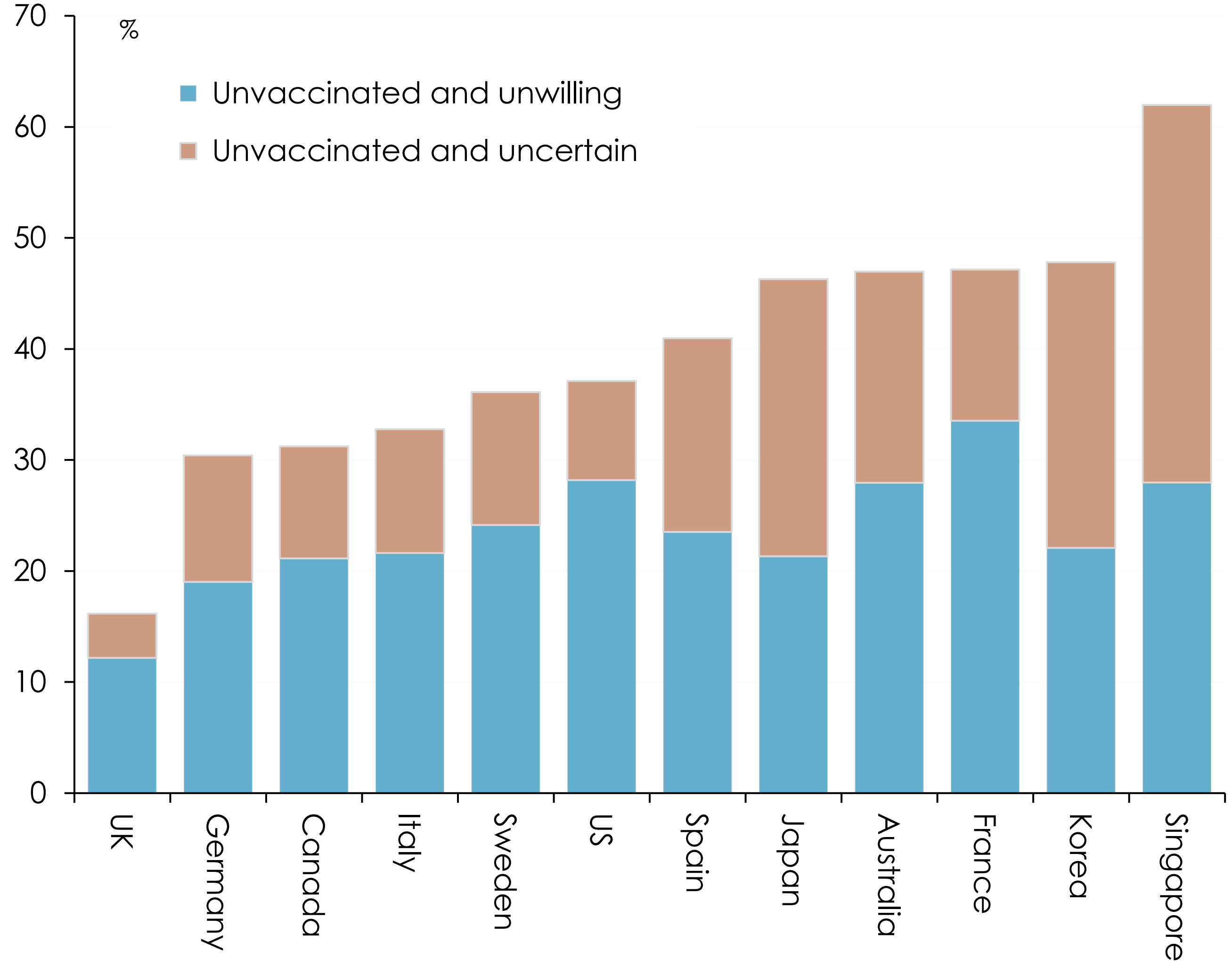
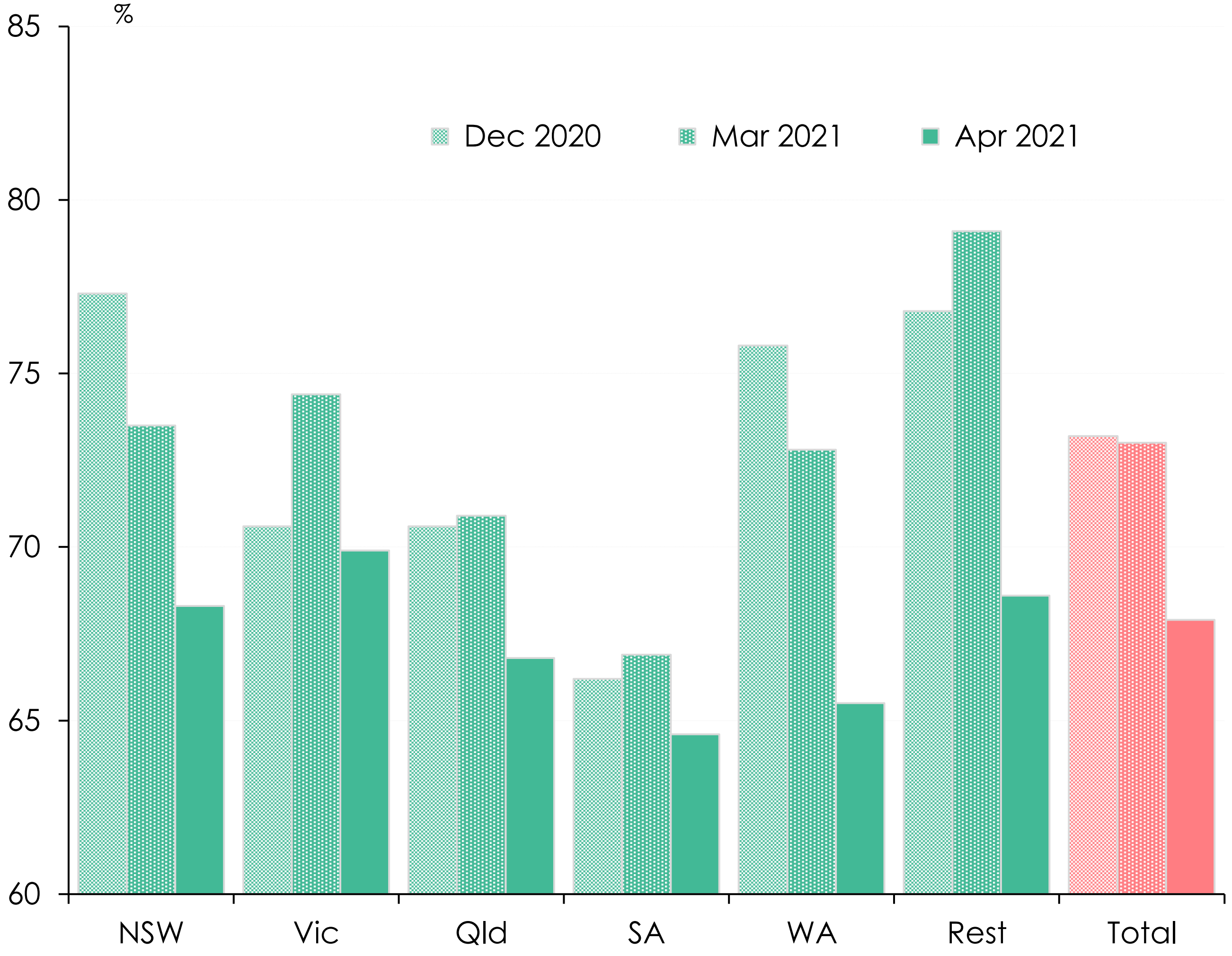
# ‘Vaccine hesitancy’ is a barrier to returning to ‘normal’ – and vaccine hesitancy has increased in Australia over the past month

## Covid-19 vaccine hesitancy, selected ‘advanced’ economies, April 2021



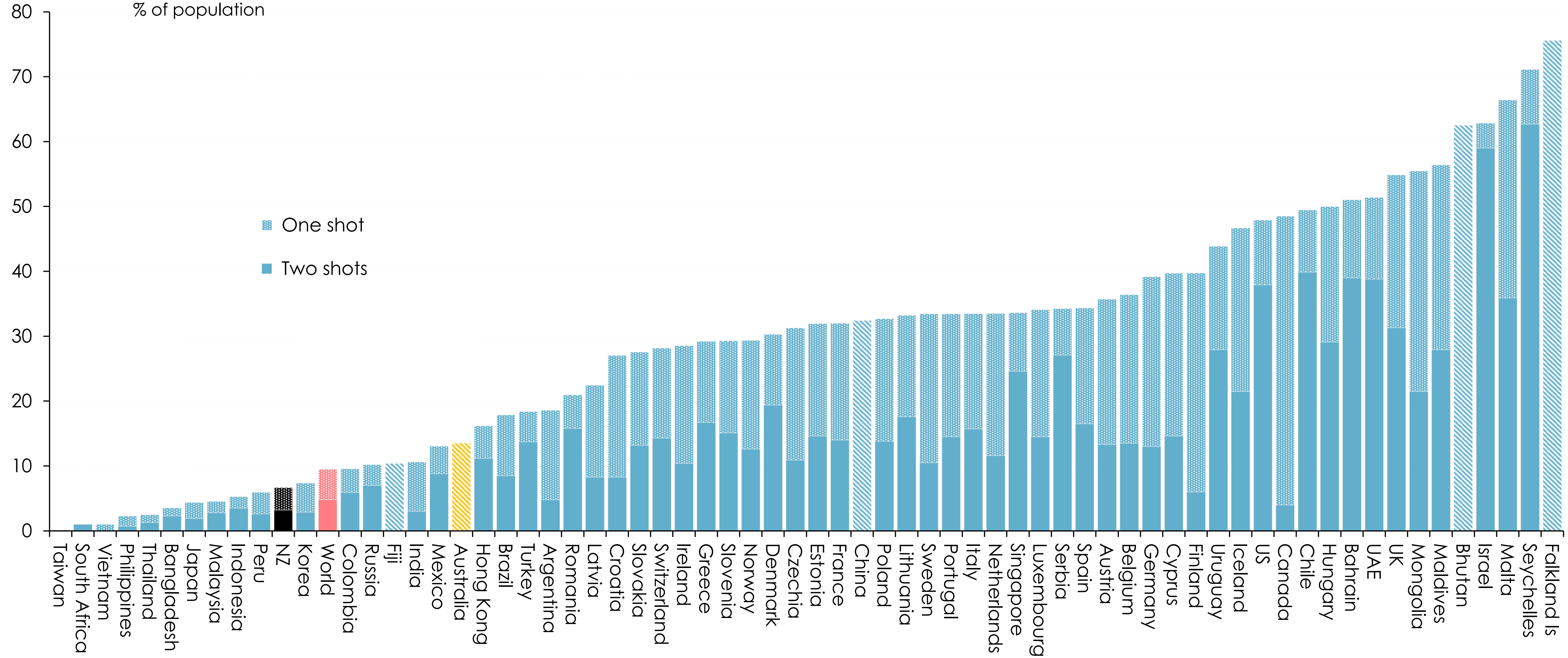

## Australians ‘strongly agreeing or agreeing’ that they would get a vaccine when available




*Note:* Survey results in left hand chart are for April, except for Singapore (January), Australia & Sweden (February), and Spain, Japan, Korea & the US (March).
*Sources:* Imperial College London and YouGov, Covid 19 Behaviour Tracker Data Hub ; ABS, *Household Impacts of Covid-19 Survey*, April 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

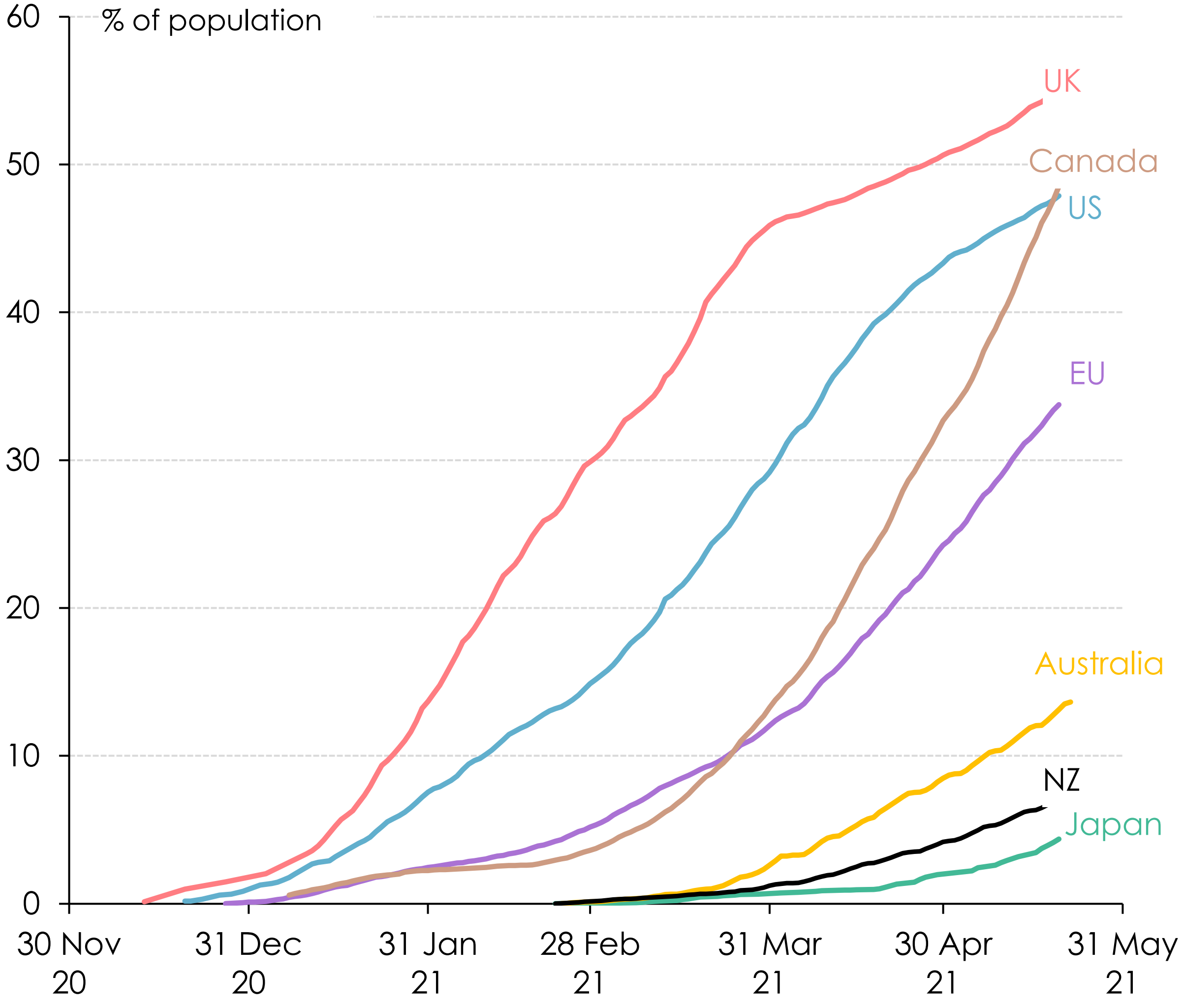
## Percentage of population who have had at least one vaccination shot as at 18-20th May



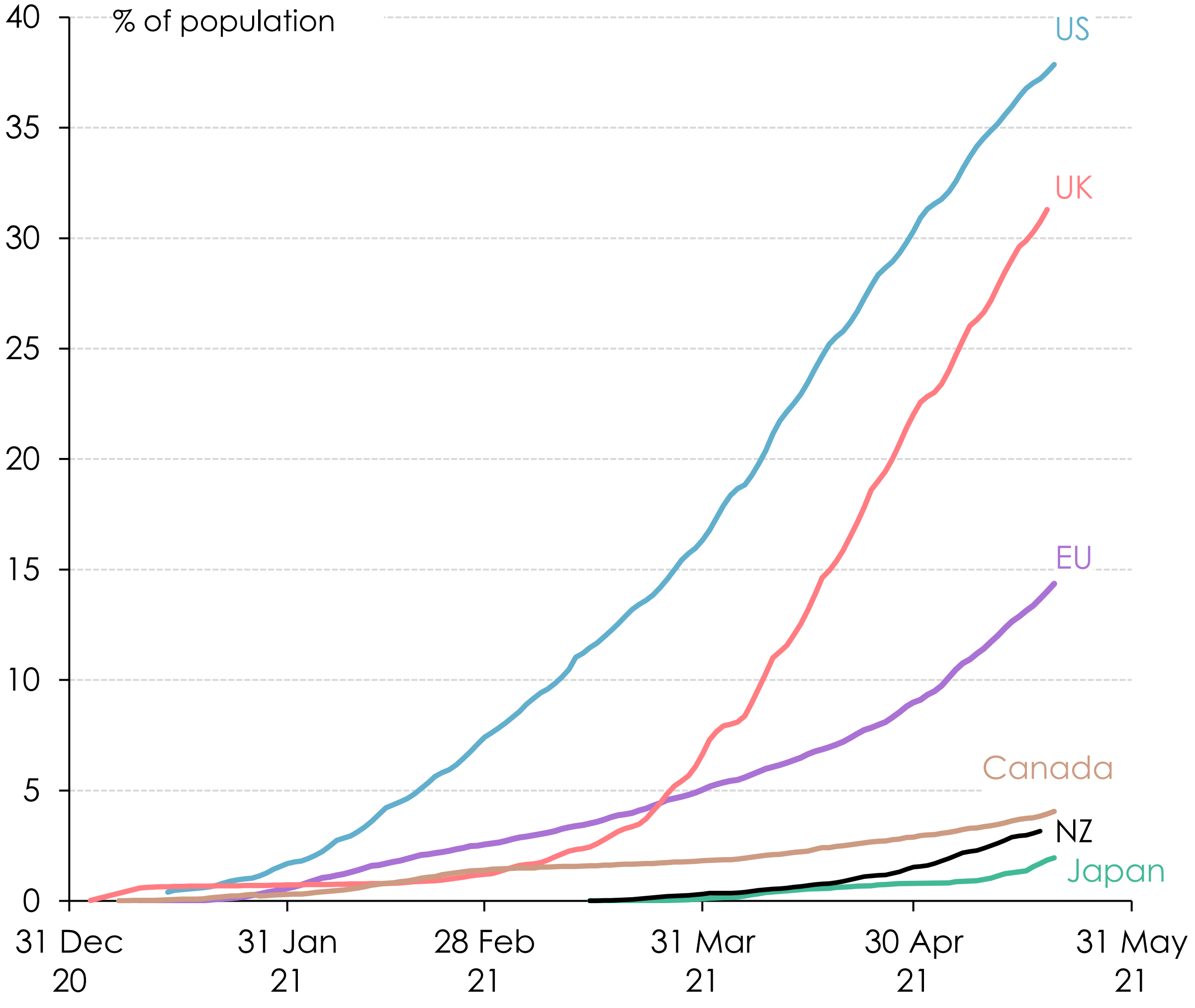

*Note:* Data for Australia, Bhutan, Falkland Islands, Fiji and China are number of vaccinations per 100 people. Data for the Falkland Islands is 14th April; UAE is 20th April; Singapore is 10th May; Switzerland is 17th May; all others are between 18h and 20th May. *Sources:* Our World in Data, Coronavirus (COVID-19) Vaccinations; covid19data.com.au. Return to "What's New".

# 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



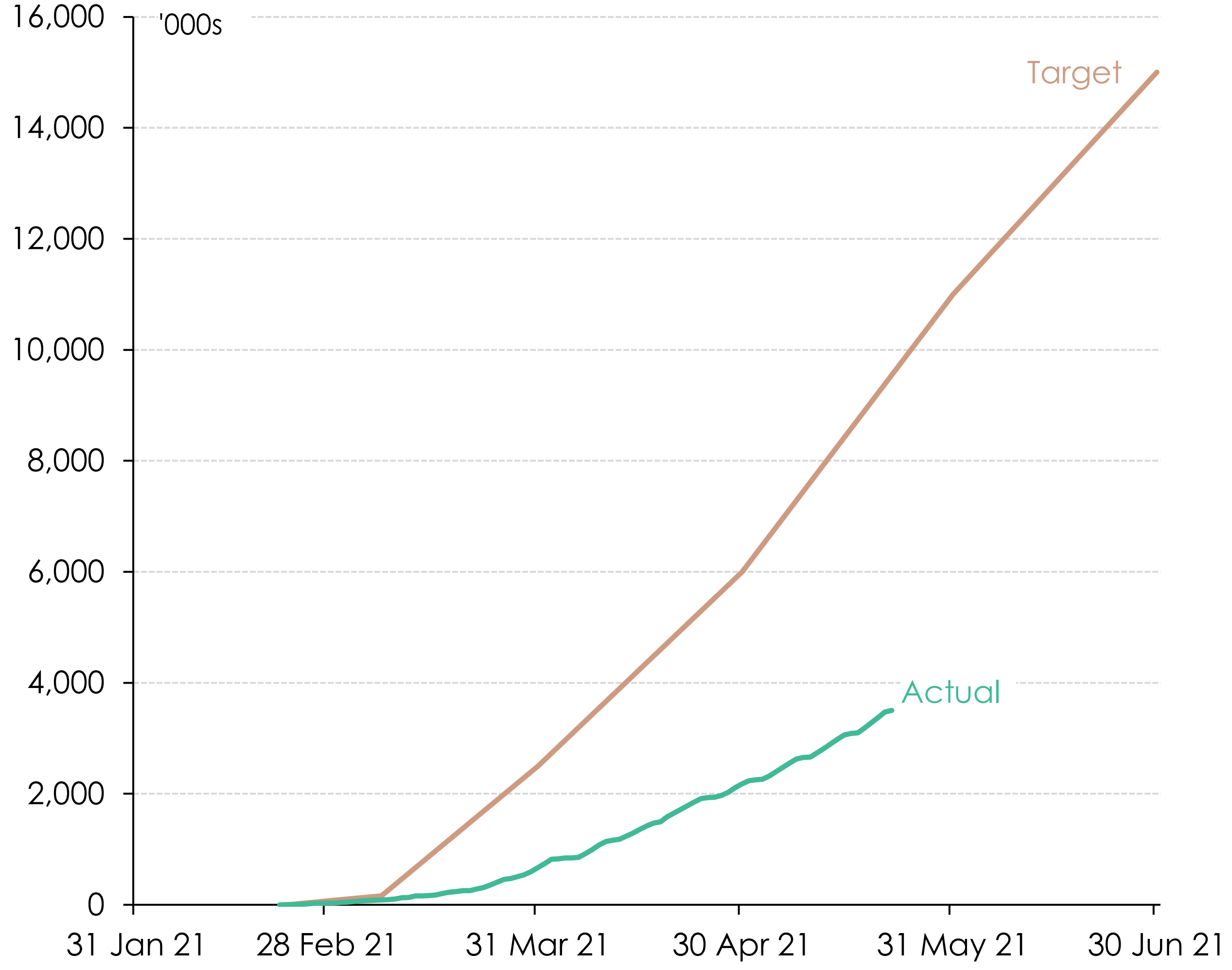

## Percentage of major 'advanced' economies' populations who have had two shots



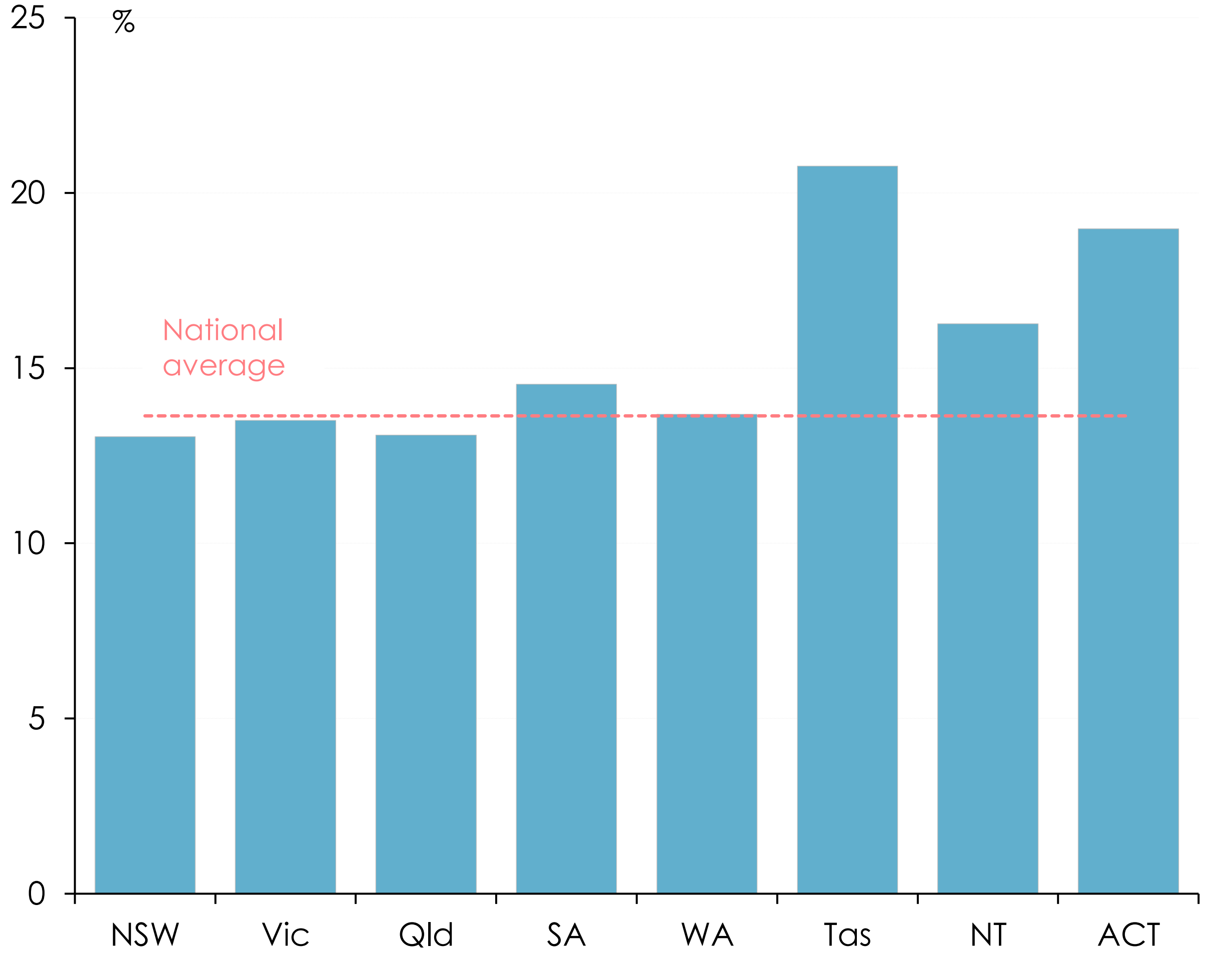

*Note:* Data up 18-20th May. Australian data is number of vaccines administered per 100 population: data on first and second shots are (for some unknown reason) not available for Australia. *Sources:* Our World in Data, Coronavirus (COVID-19) Vaccinations; covid19data.com.au. Return to "What's New".

# Just over 13½% of Australia's population has now had at least one vaccine shot – still well behind earlier Government targets but it is speeding up

## Number of vaccine doses administered vs Government target




## Percentage of population vaccinated, states and territories




*Note:* Data up to 21st May. *Sources:* covid19data.com.au; Australian Department of Health, COVID-19 vaccine rollout update on 14 March 2021.
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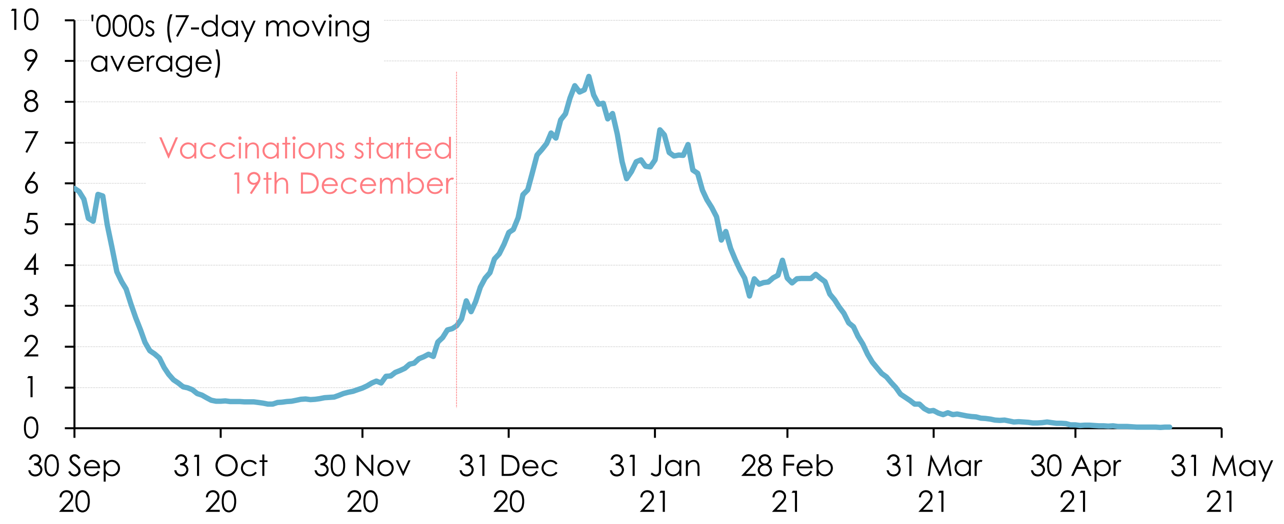
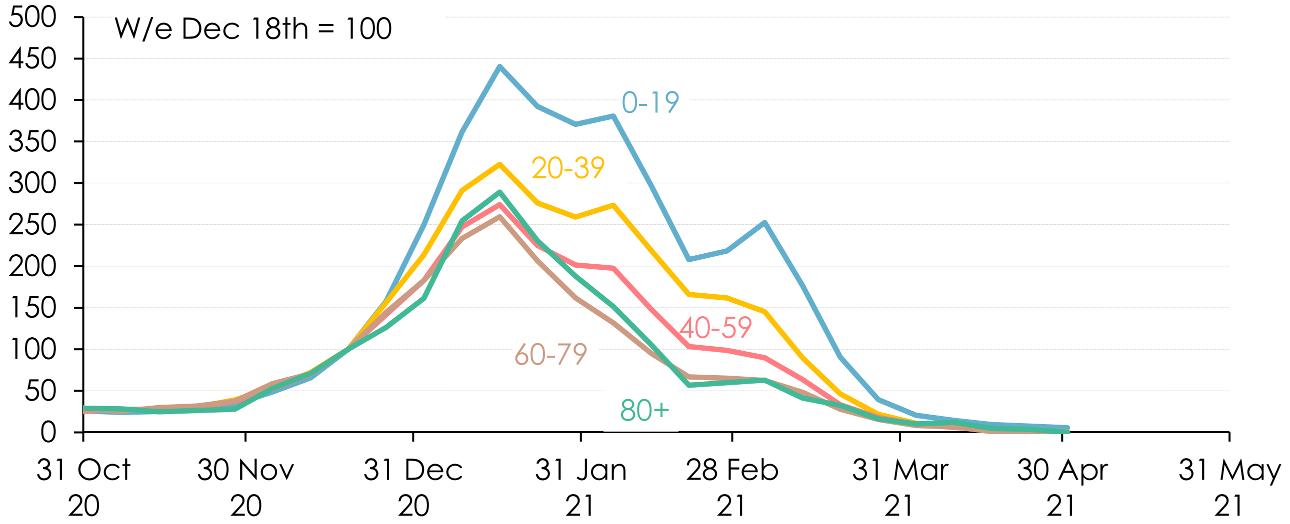
# Israel's experience strongly suggests that Covid-19 vaccines *are* effective

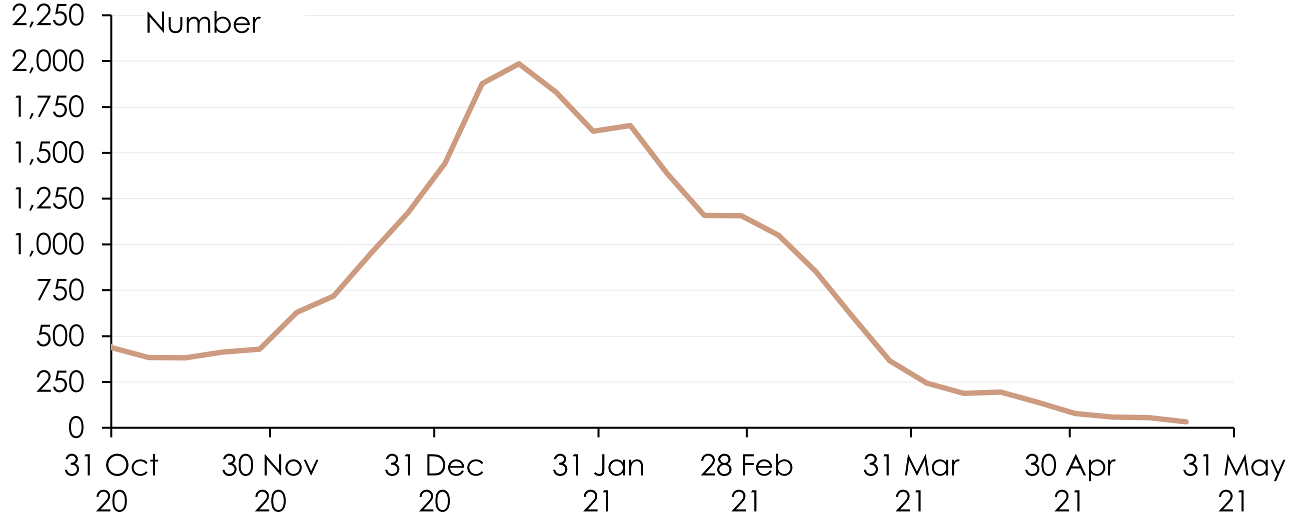
## Daily new confirmed cases



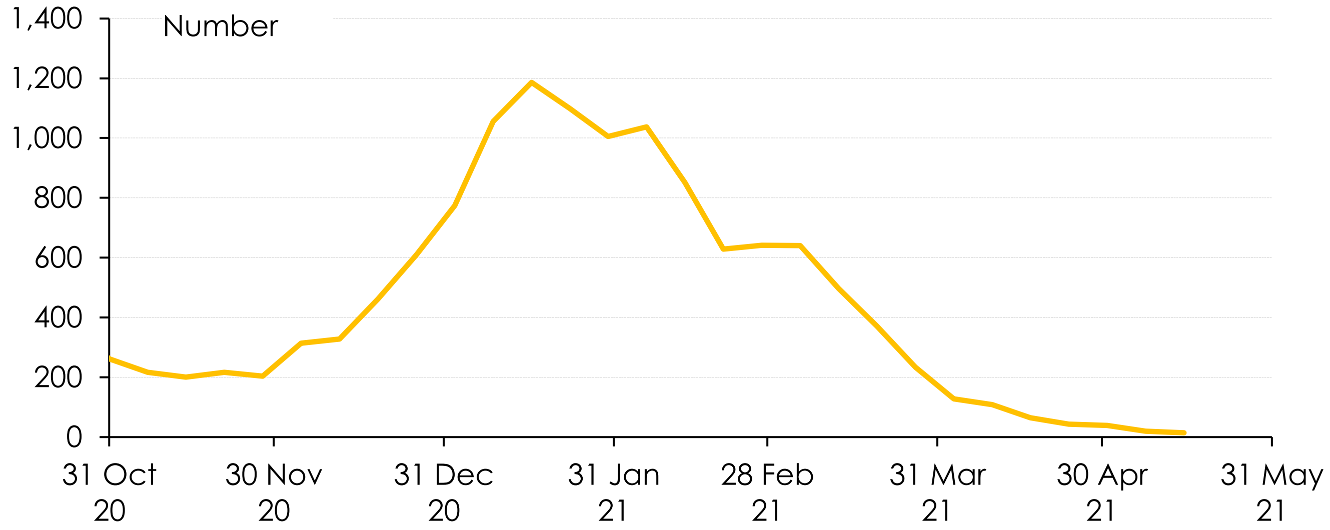

## Confirmed cases by age group




## 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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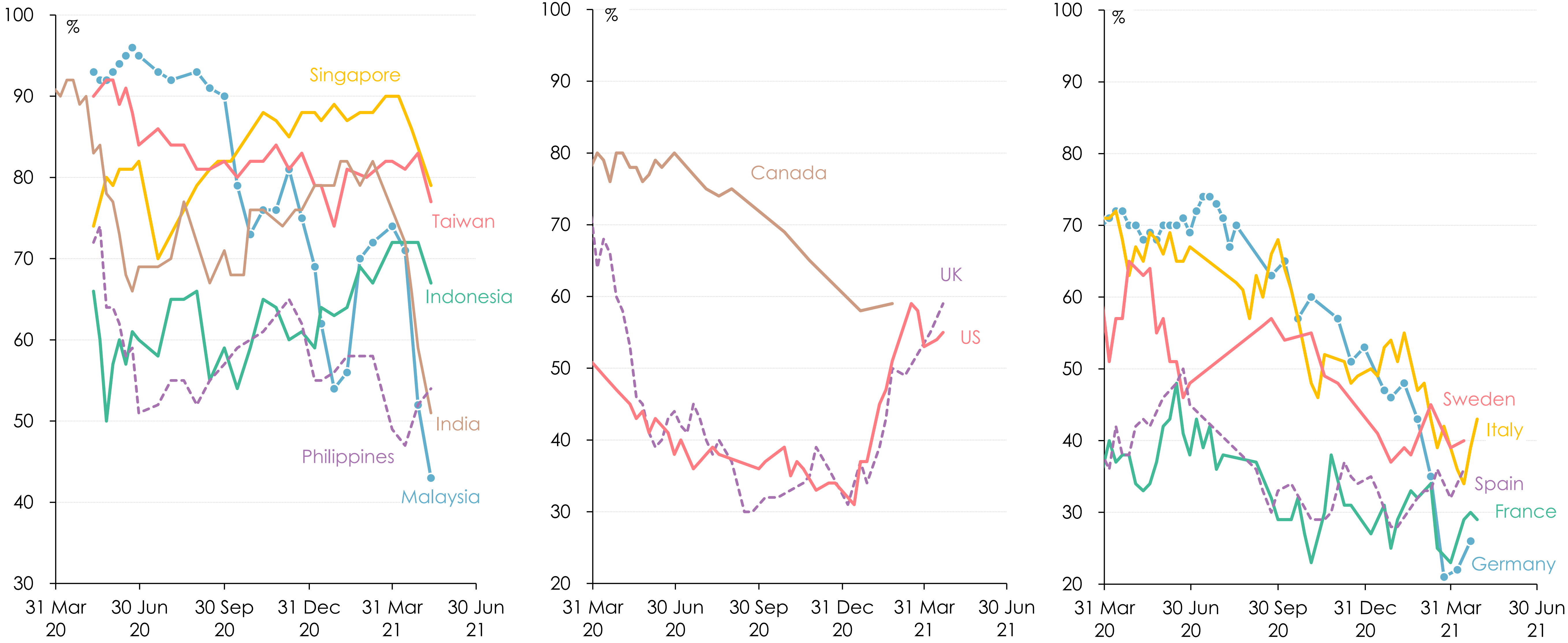
# Voter approval of US & UK governments' handling of Covid-19 has risen substantially, and may be turning in Europe, but is declining in Asia

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




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

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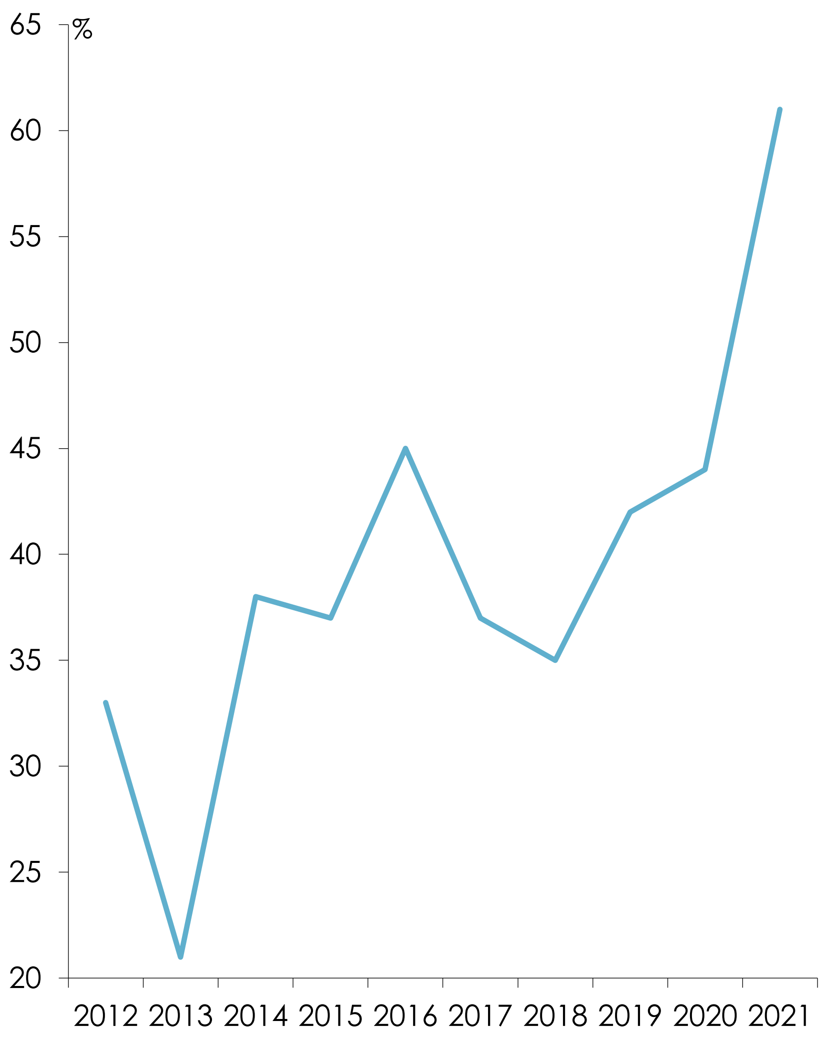
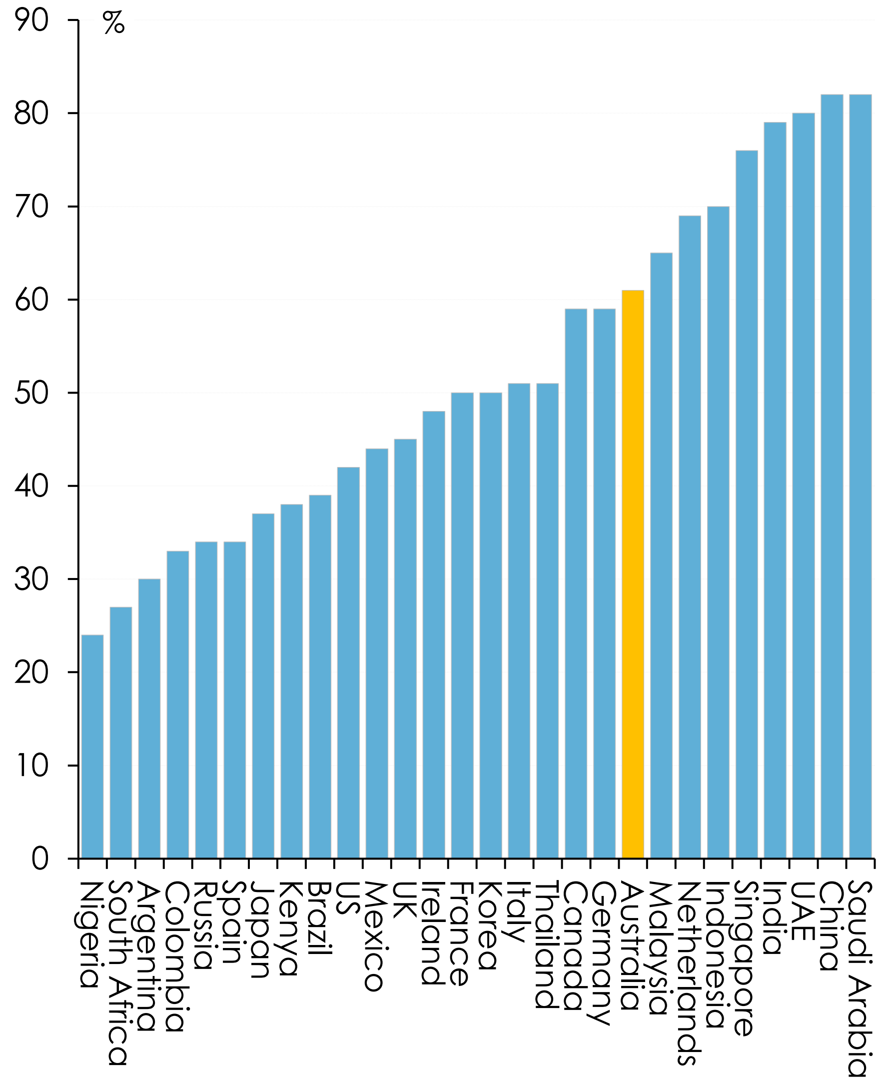
# Australia's relative success in confronting last year's health & economic challenges has prompted a substantial rise in trust in government

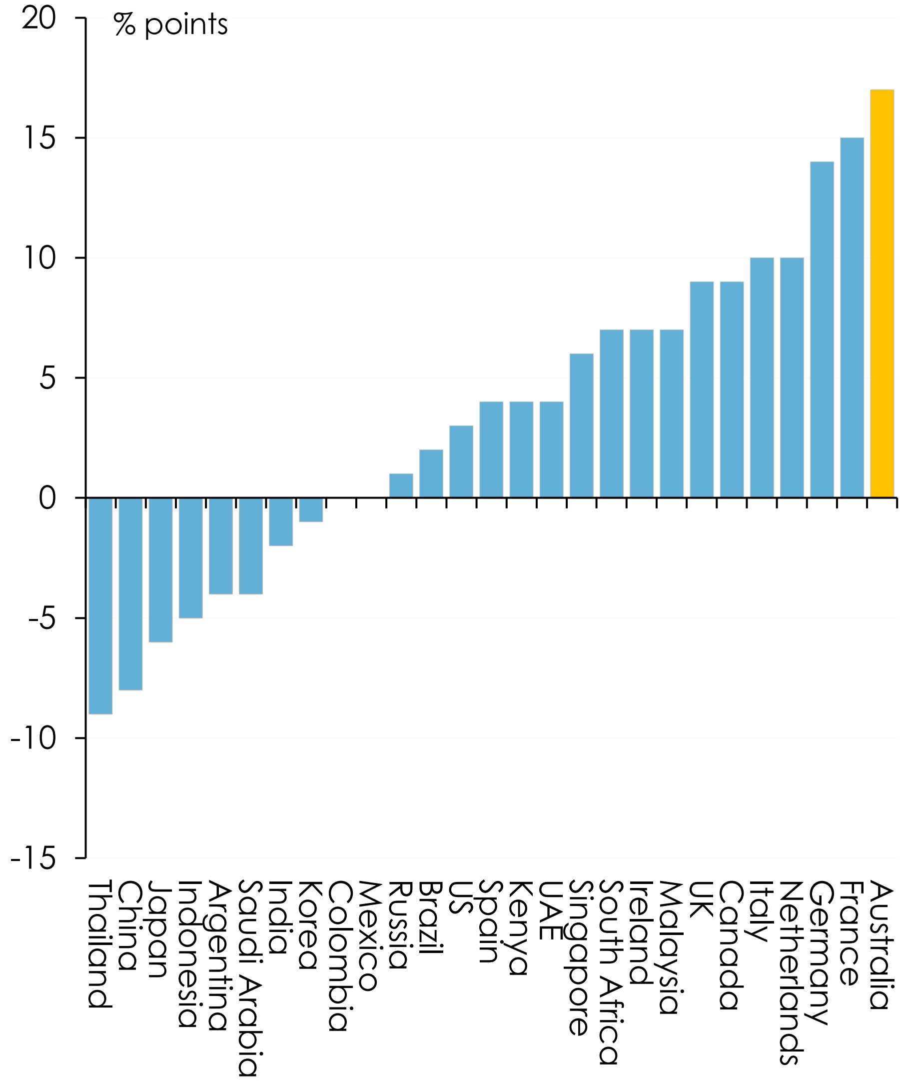
## Trust in government in Australia




## Trust in government, 2021




## Change in government trust, 2021




*Source:* Edelman Trust Barometer, February 2021

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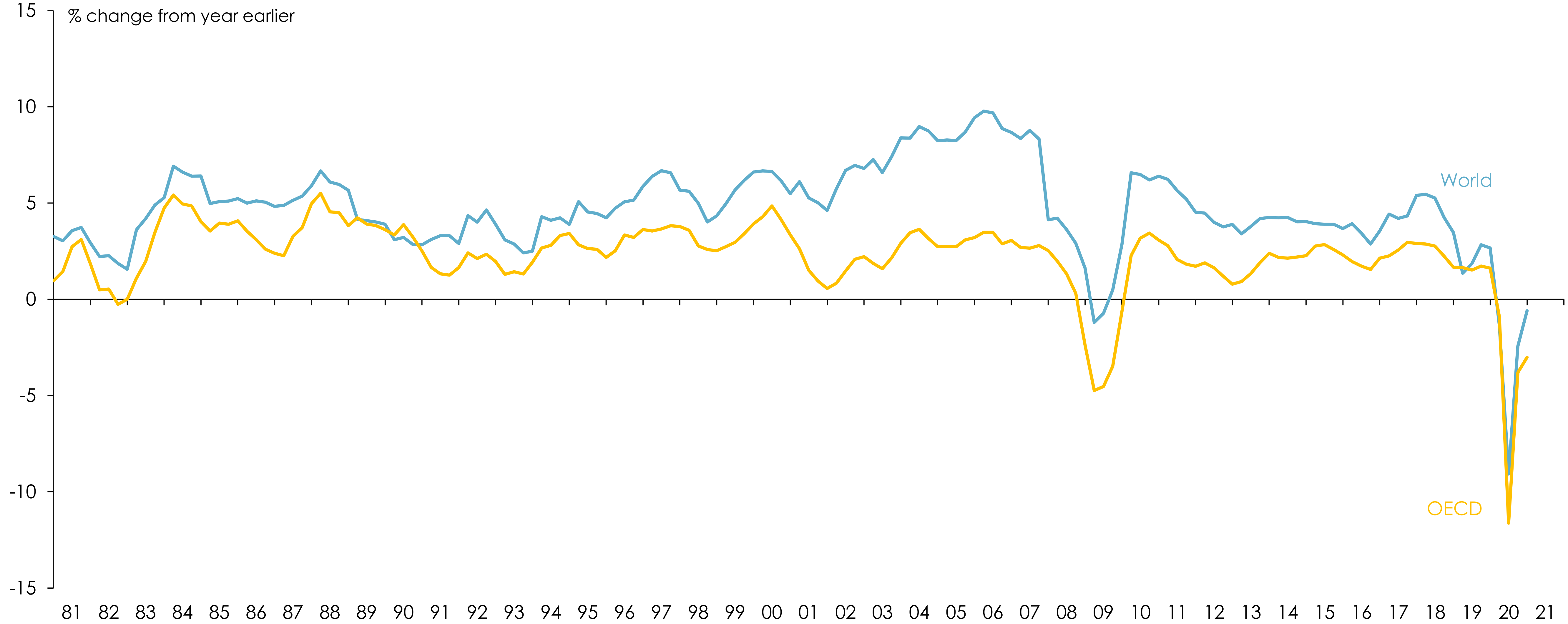
# The world

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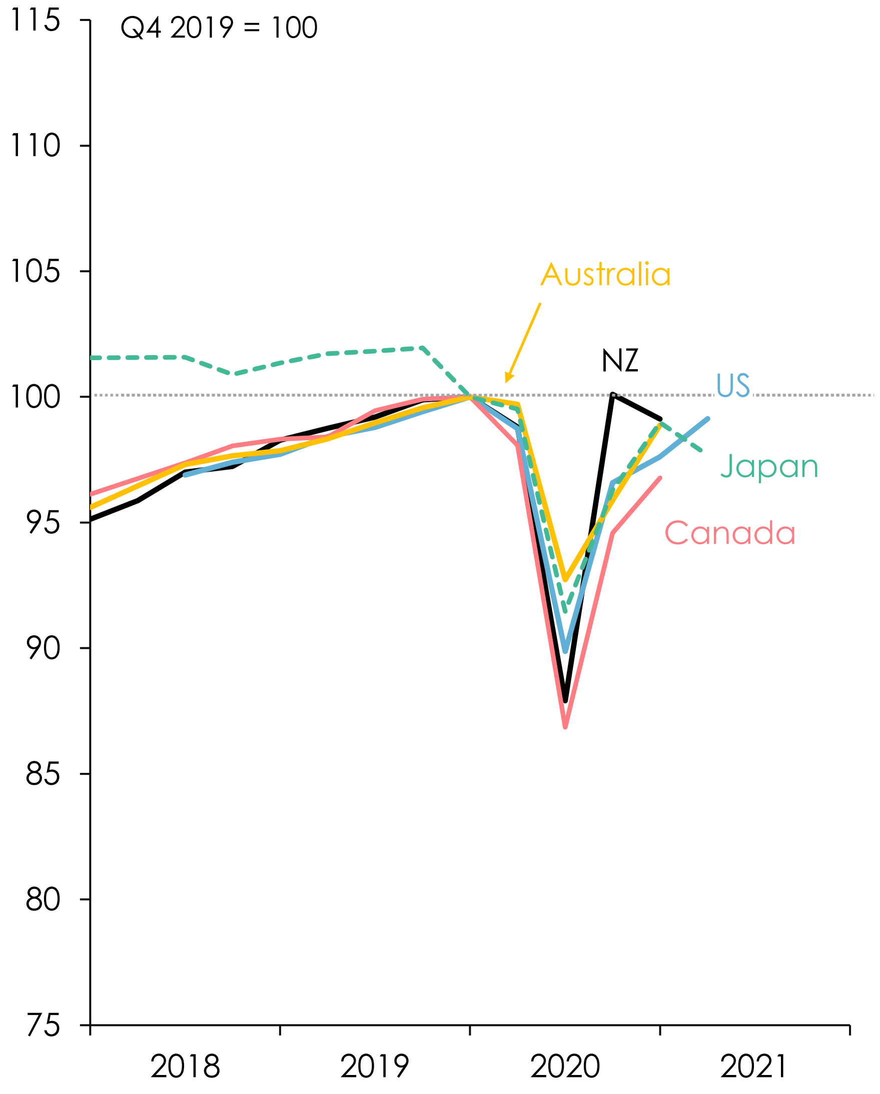
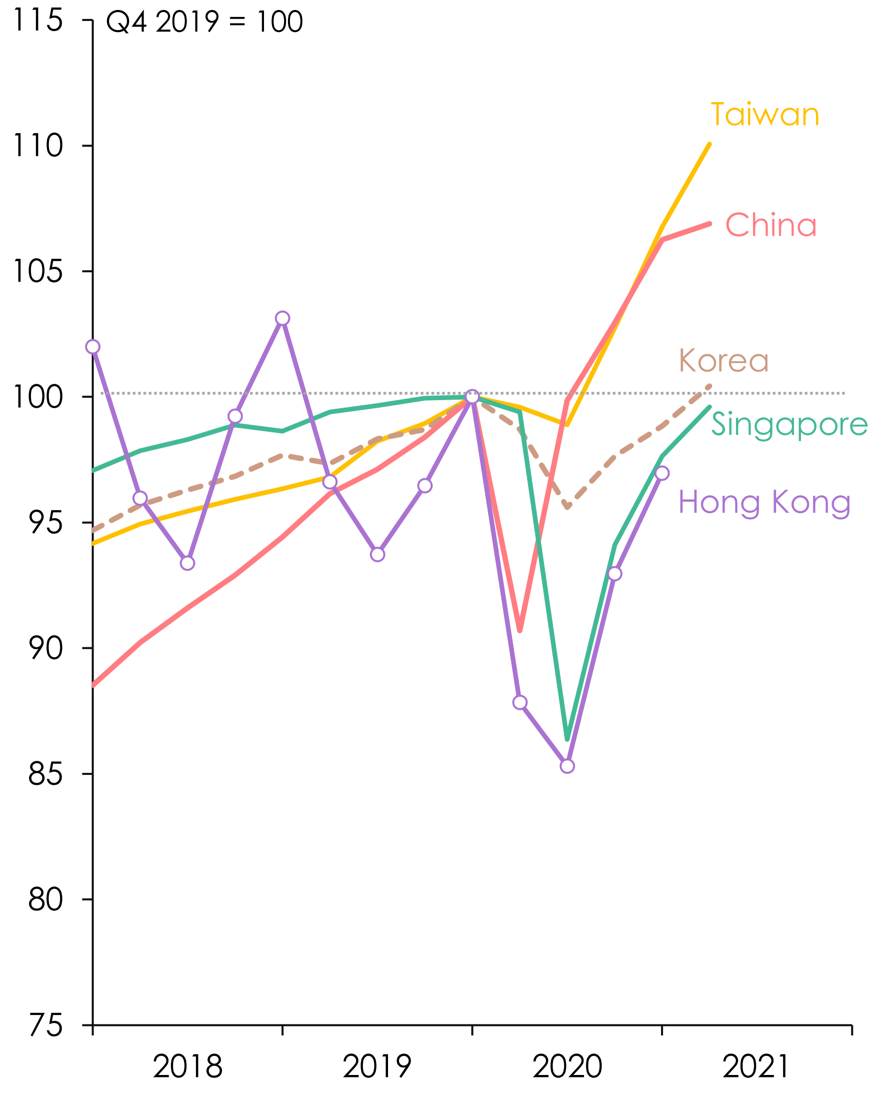
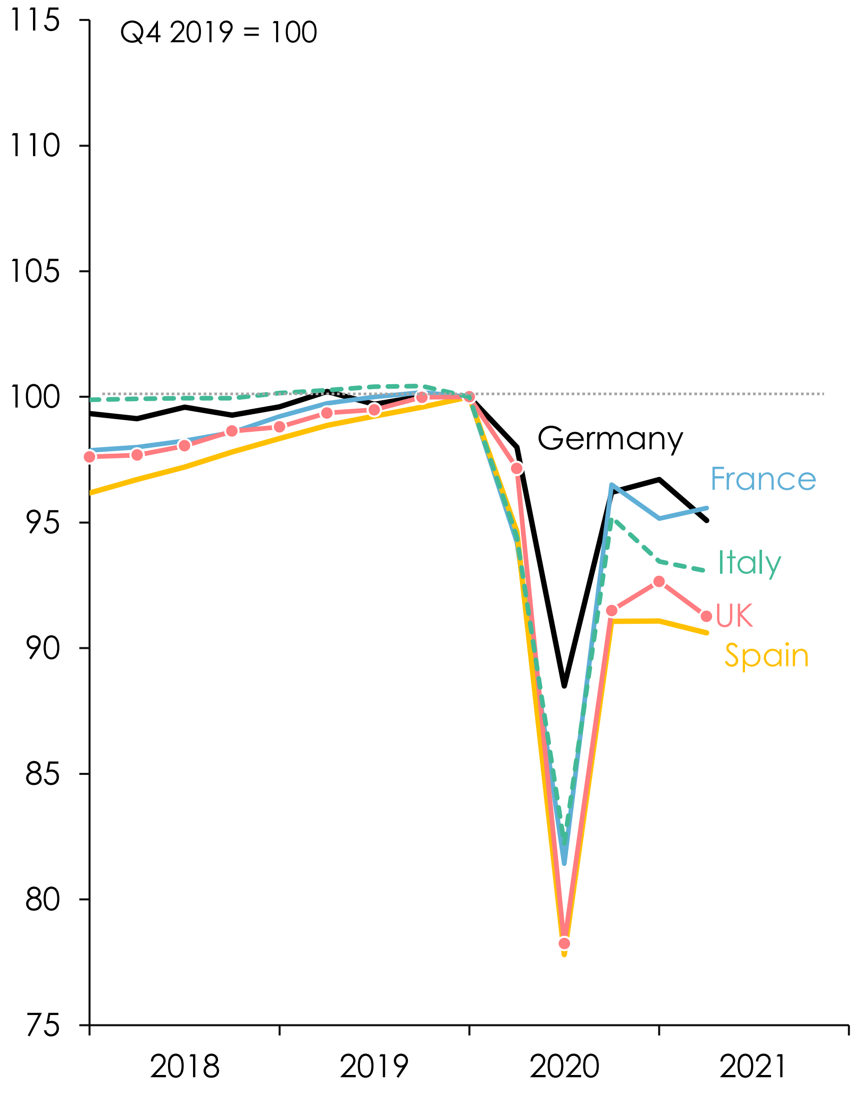
# Asian economies are recovering more rapidly from last year's recession, while European economies are lagging

## 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.

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# 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

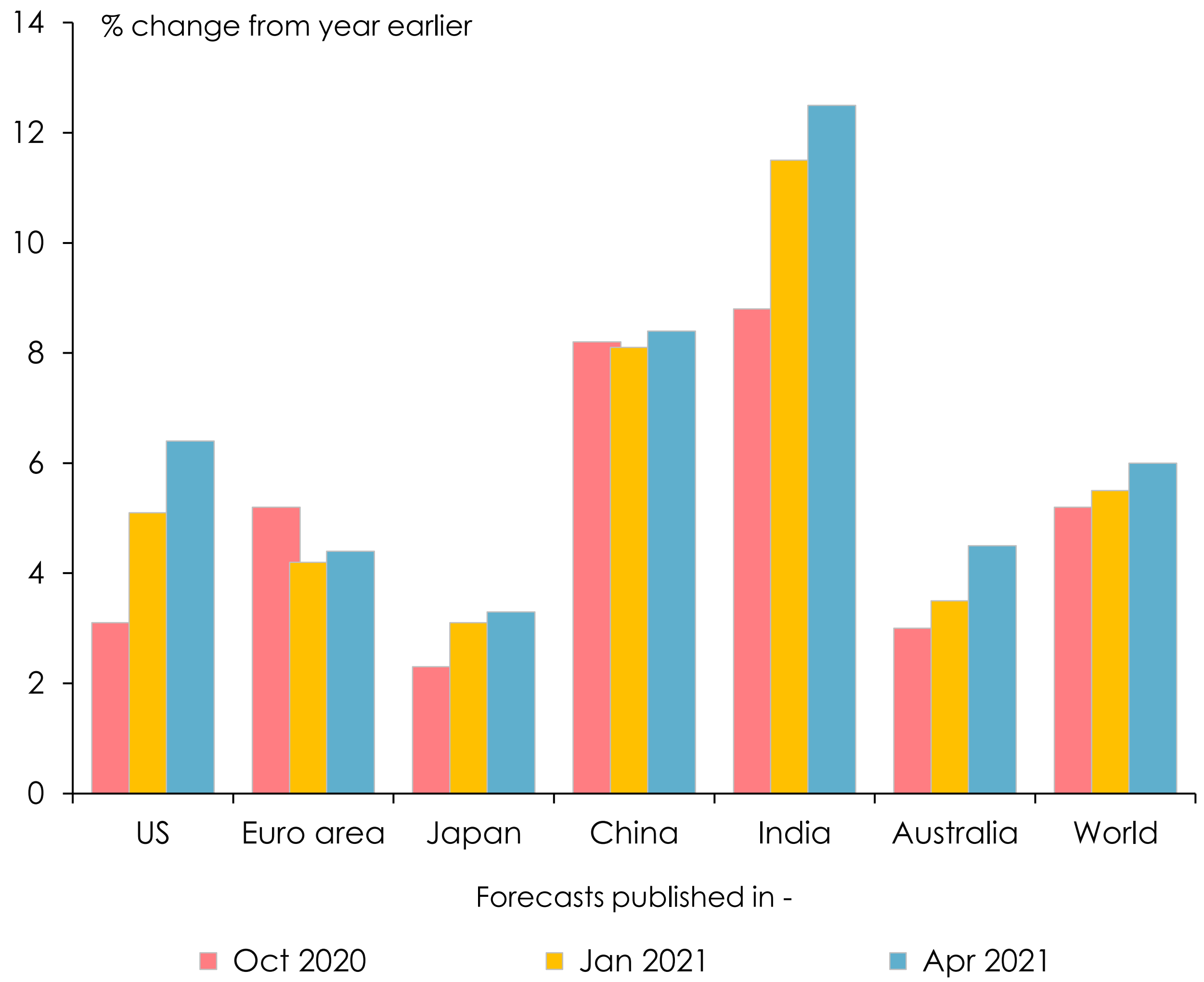
| | *Actual* | | *IMF* | | *World Bank* | | *OECD* | | *Australian Treasury* | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2019 | 2020 | 2021 | 2022 | 2021 | 2022 | 2021 | 2022 | 2021 | 2022 |
| US | 2.2 | -3.5 | 6.4 | 3.5 | 3.5 | 3.5 | 6.5 | 3.3 | 3.3 | 3.0 |
| China | 5.8 | 2.3 | 8.4 | 5.6 | 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".

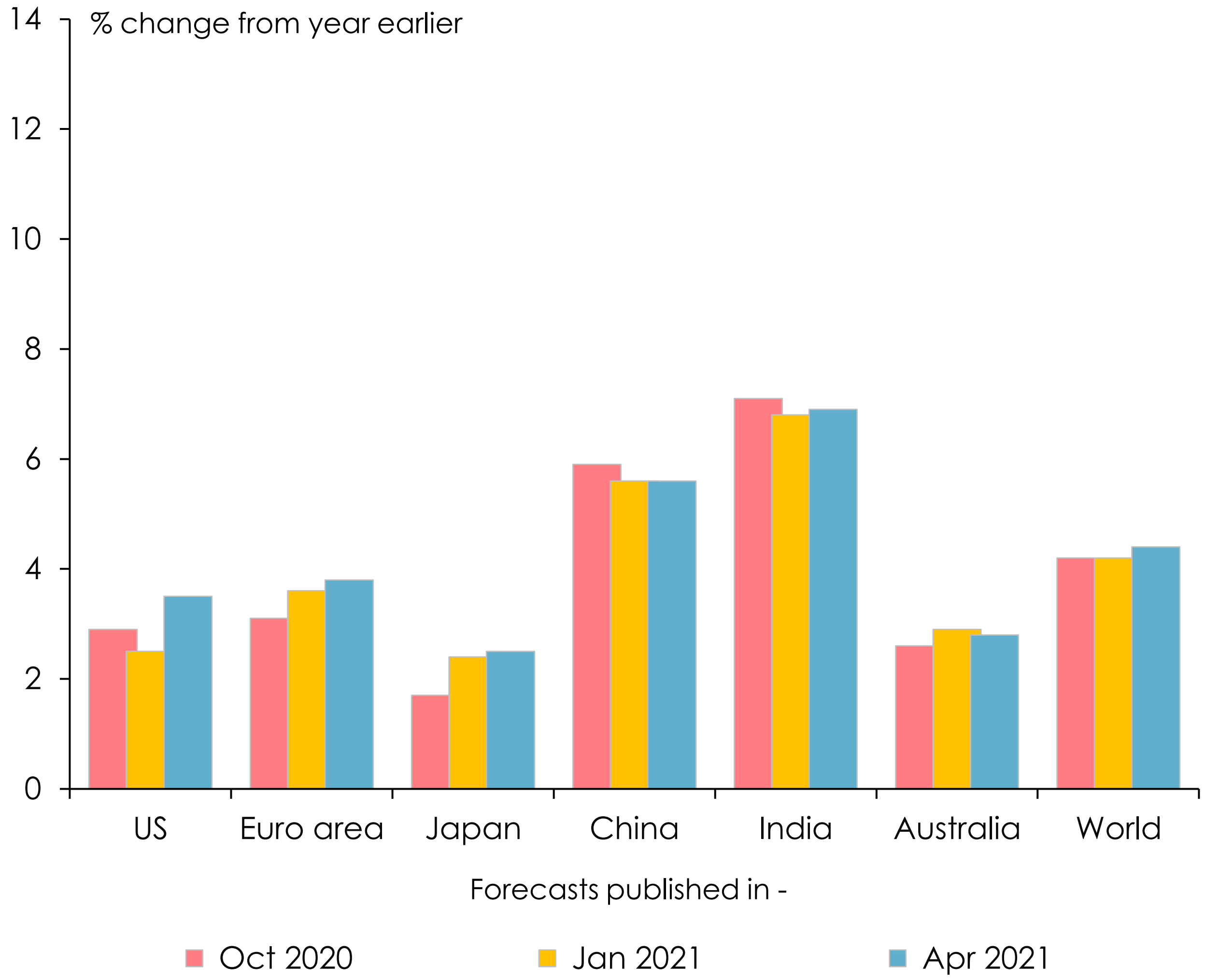
# The upward revision to IMF's global growth forecast was largely attributable to upgrades to the outlook for the US and (in 2021) India

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

### 2021



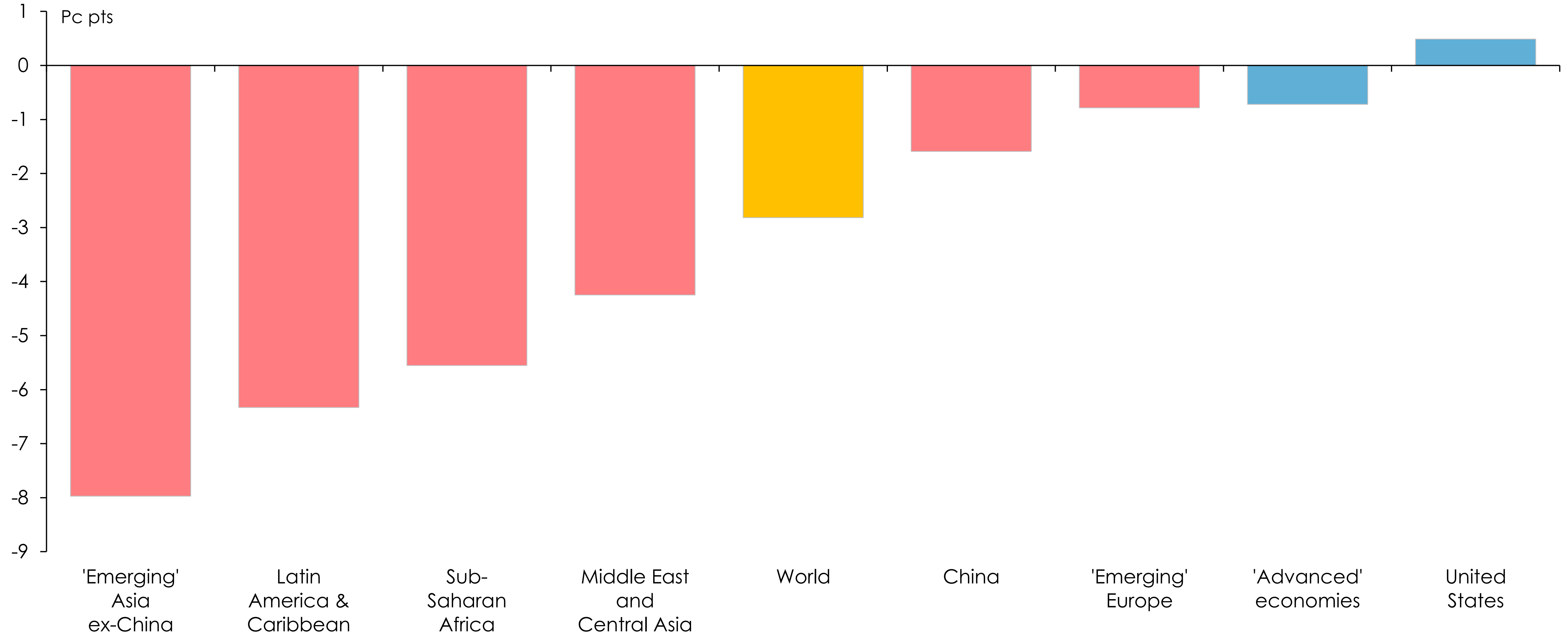

### 2022




*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".

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

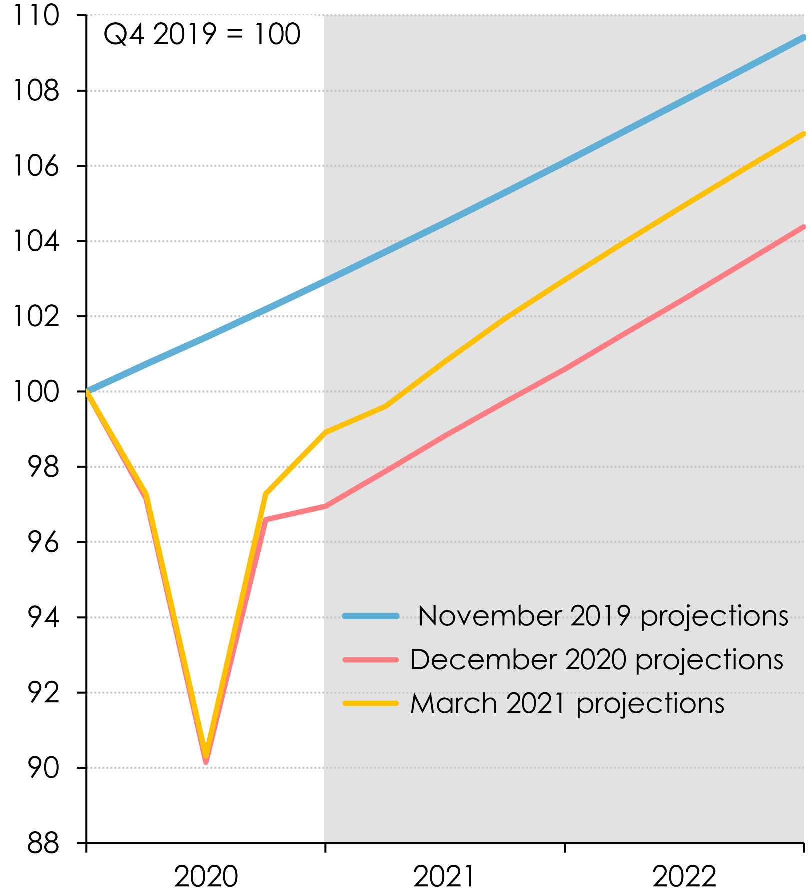
## Revisions to IMF *World Economic Outlook* forecast GDP levels between January 2020 and April 2021




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

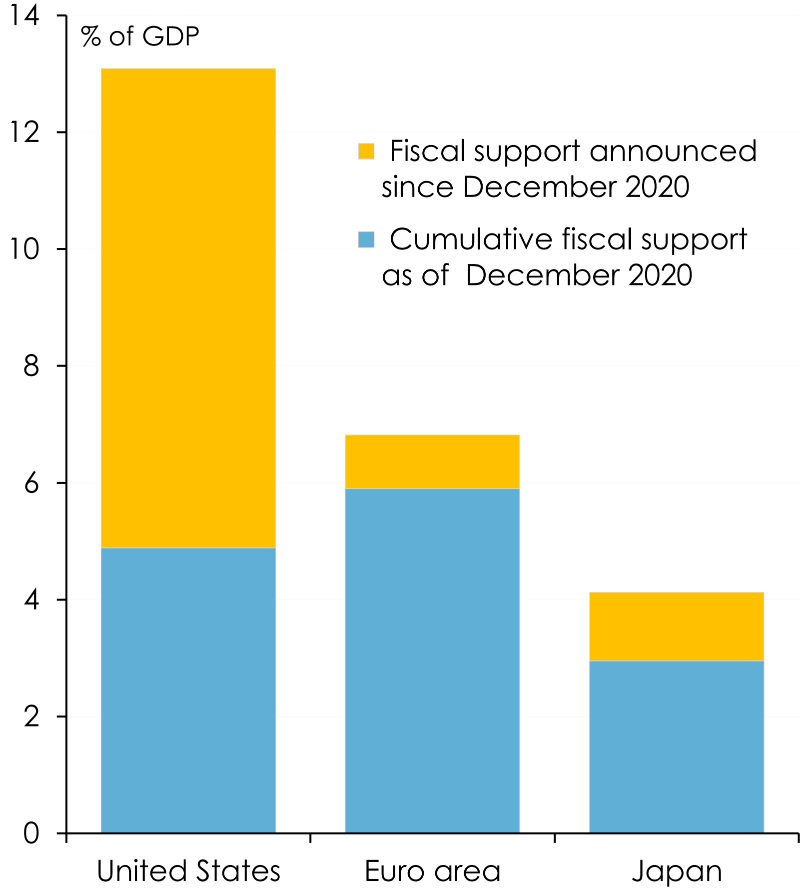
# The OECD's more optimistic view owes much to the size of the additional fiscal stimulus in the US

## Global GDP projections



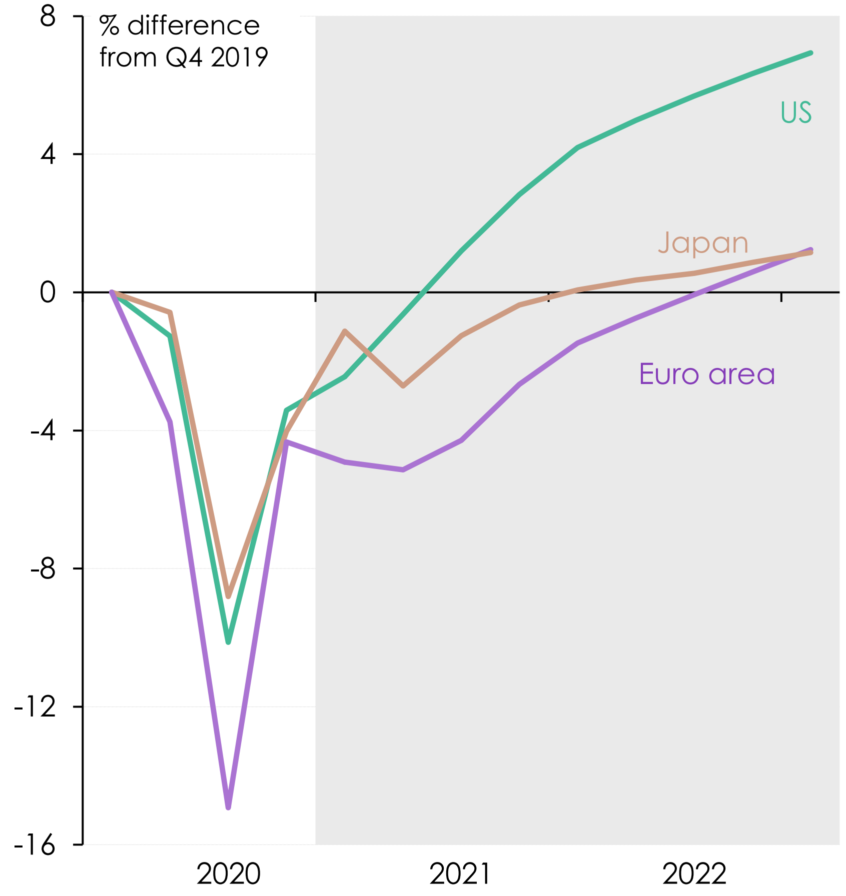

- The OECD now expects global GDP to have returned to its pre-pandemic level by Q1 this year, rather than Q4 as in its November forecast

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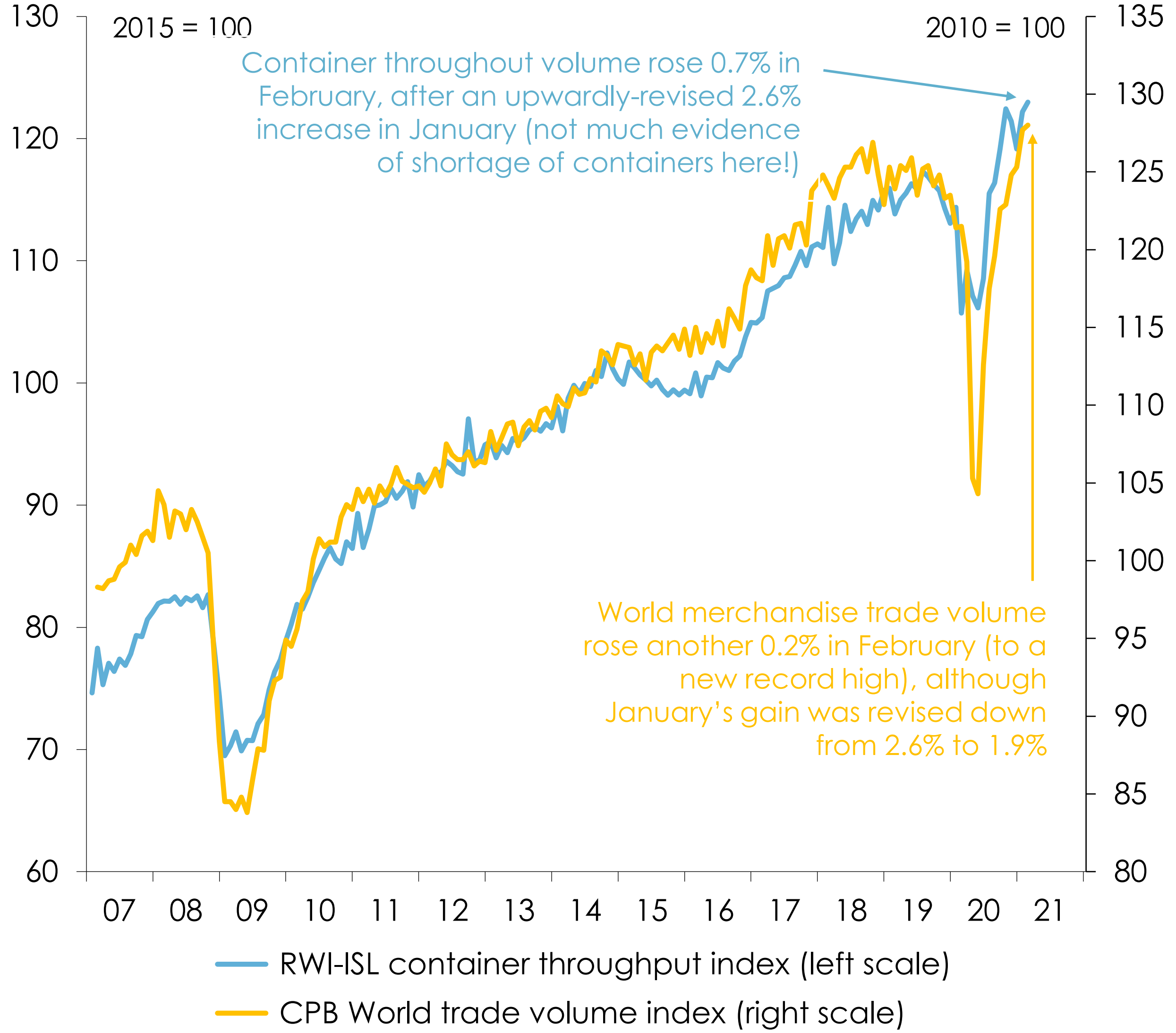
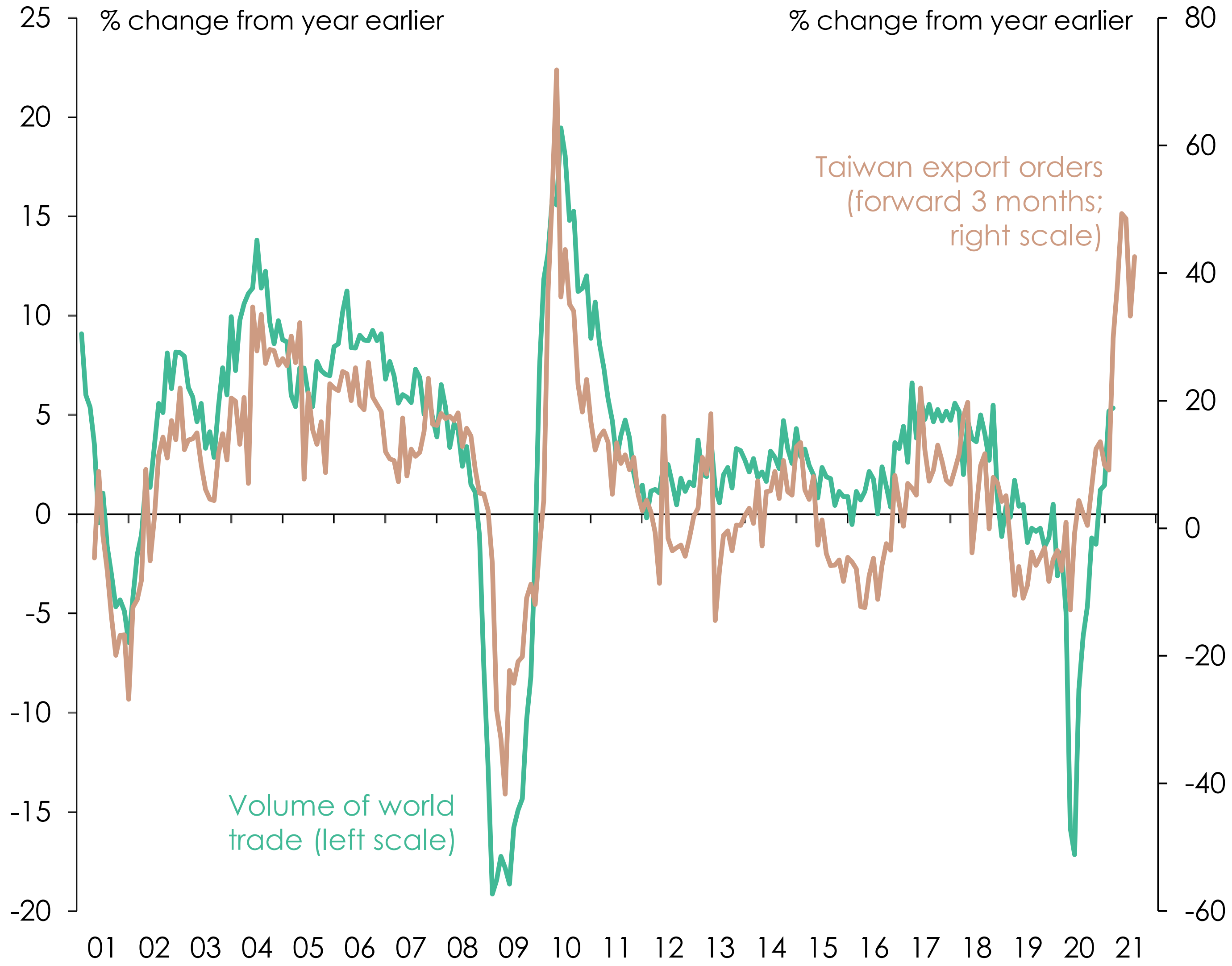
# World trade volumes recorded another record high in February and Taiwan export orders (a good leading indicator) point to further gains ahead

## 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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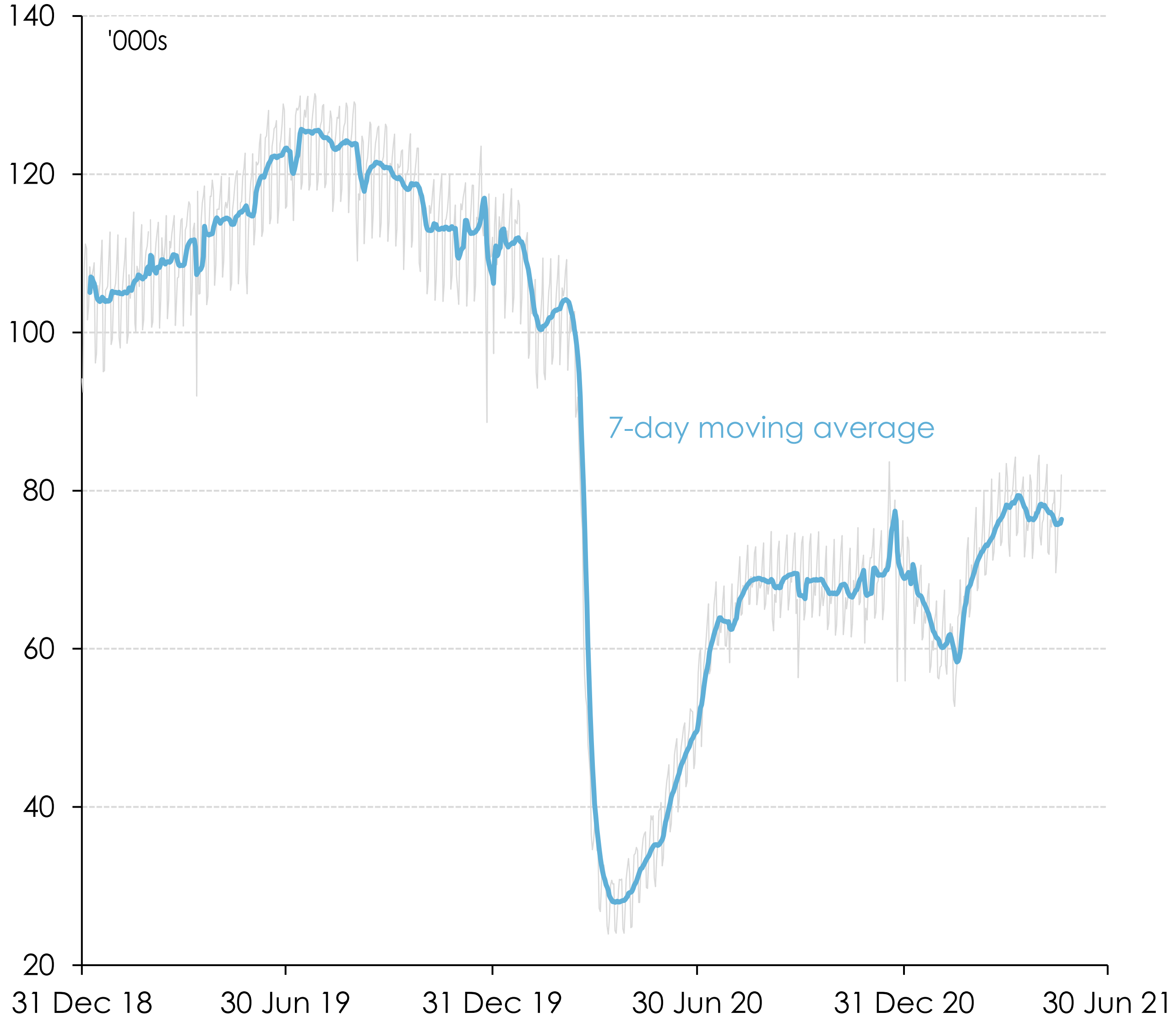
# Commercial aviation traffic seems to have eased off a bit globally over the past three weeks, notwithstanding an apparent pick-up in the US

## 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 20th 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".



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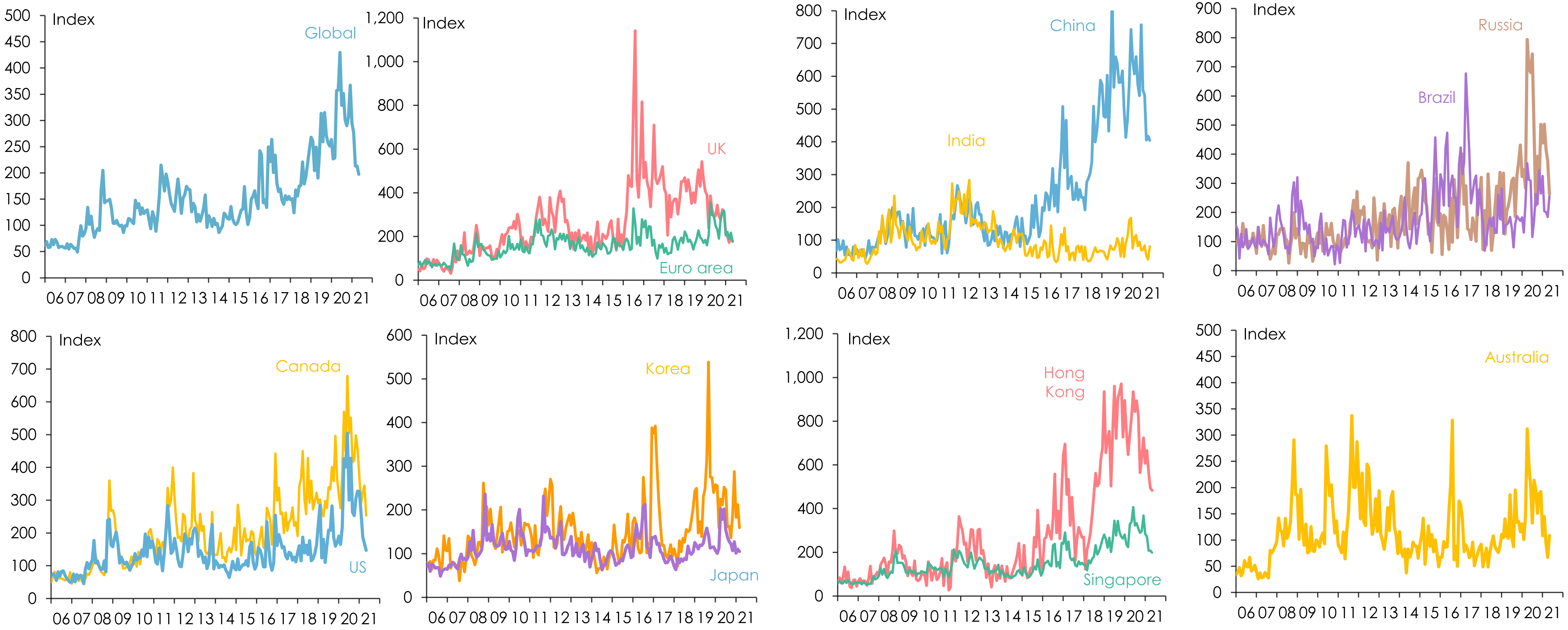
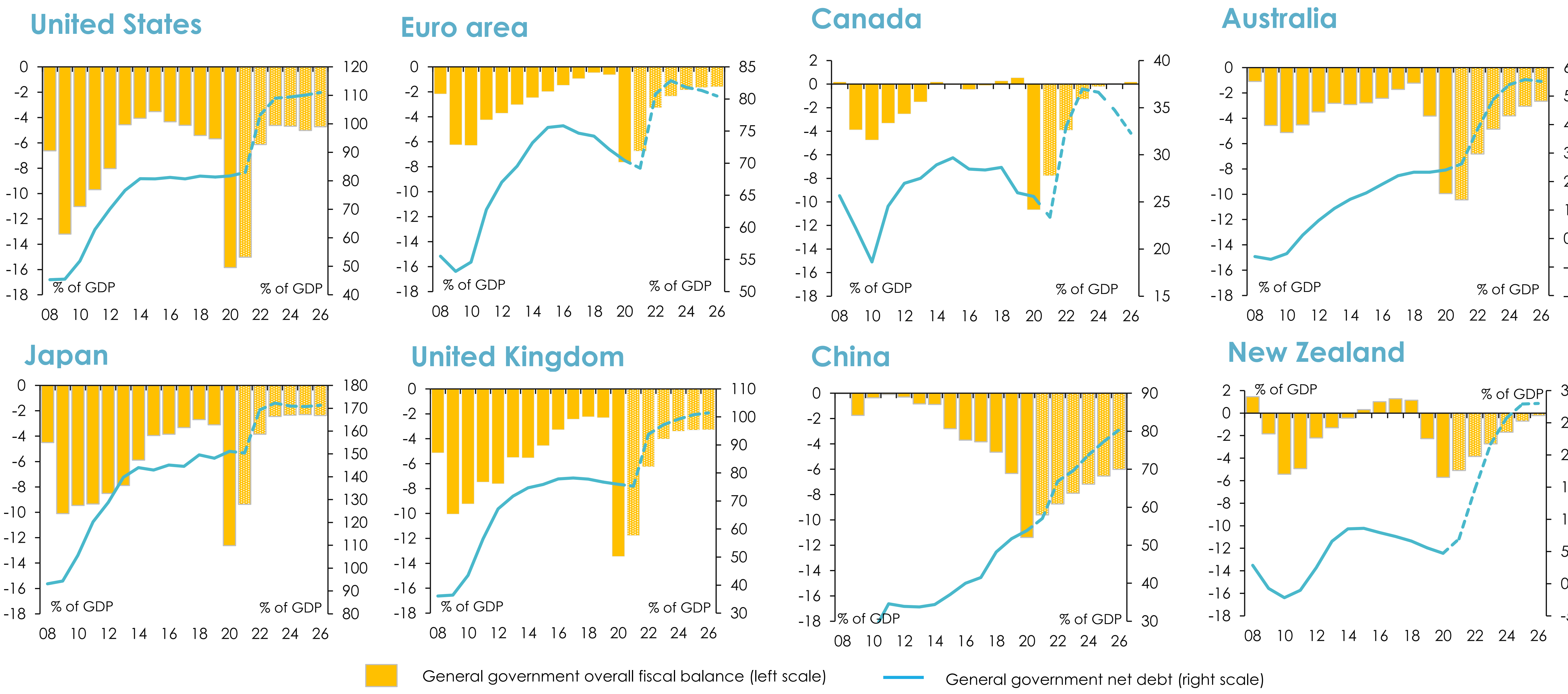
# Uncertainty about economic policy is at its lowest in two years, falling in April almost everywhere except India, Brazil and Australia

## Economic policy uncertainty indices




*Note:* The Economic Policy Uncertainty Index is derived from a count of newspaper articles containing the words “uncertain” or “uncertainty”, “economy” or “economic”, and policy-relevant terms pertaining to regulation, monetary or fiscal policy, central bank, taxation, tariffs, deficit, budget, etc. The index for the euro area is a GDP-weighted average of indices for Germany, France, Italy, Spain, the Netherlands and Ireland constructed by Corinna. Latest data are for April.
*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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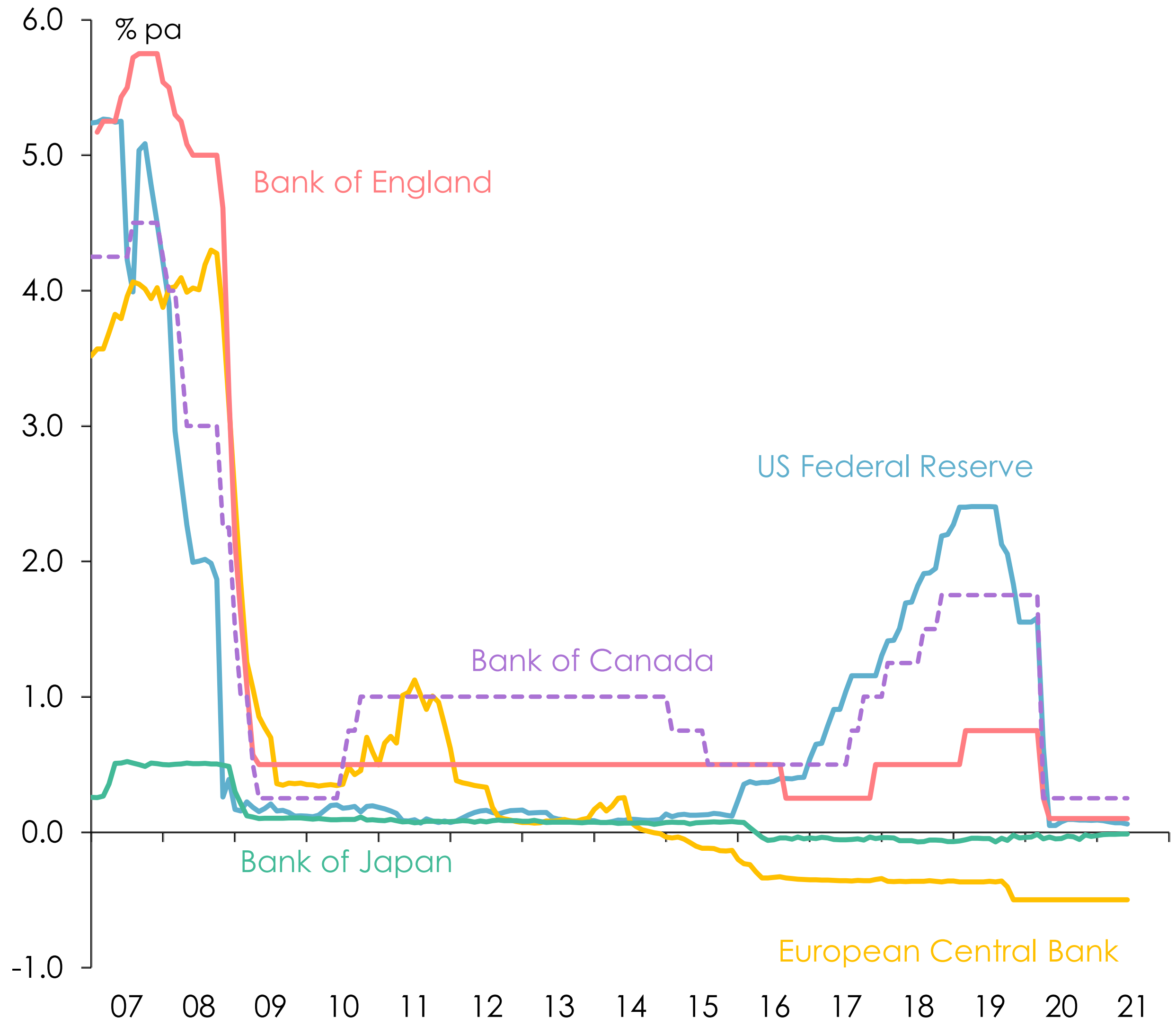
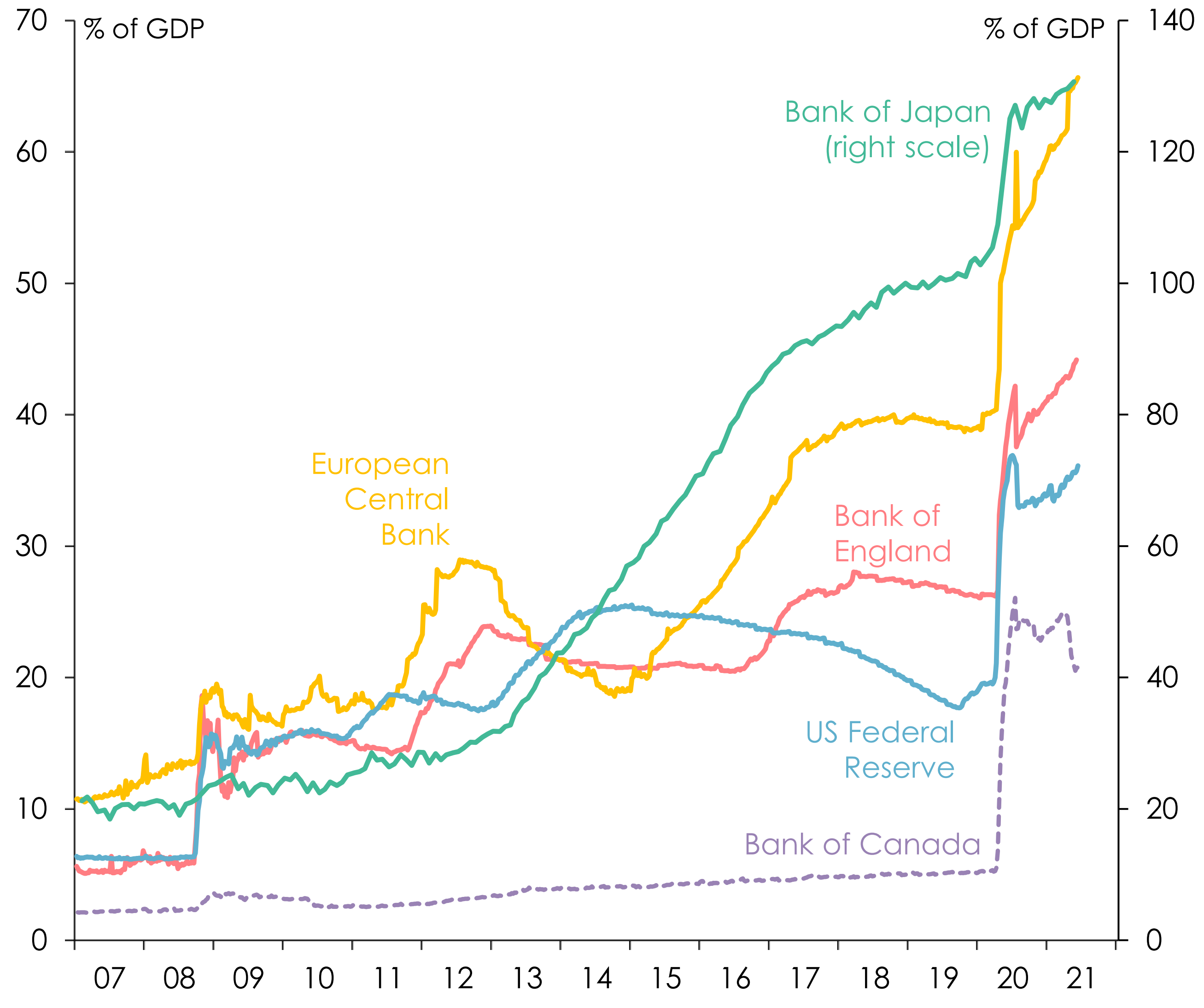
# Major central banks have cut interest rates to record lows, and done more 'quantitative easing' than during the global financial crisis

## Major central bank policy interest rates



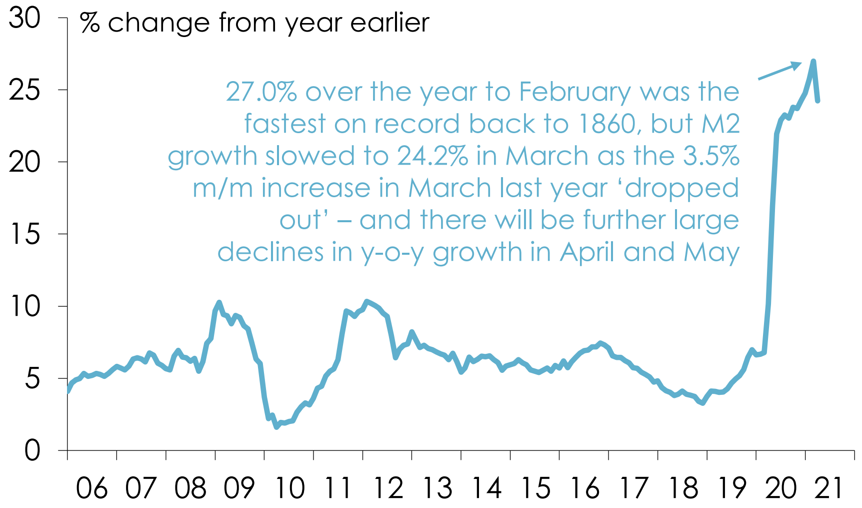

## Major central bank balance sheets



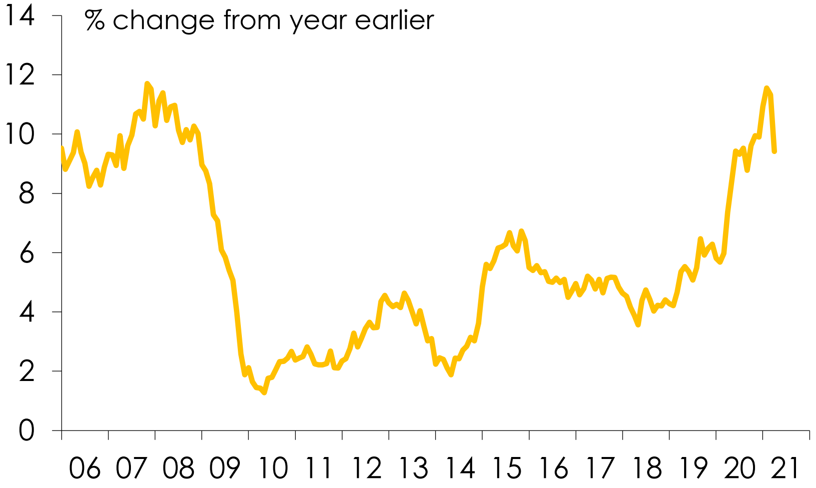

*Note*: estimates of central bank assets as a pc of GDP in Q2 2020 were inflated by the sharp drop in nominal GDP in that quarter: conversely, declines in estimates of central bank assets as a pc of GDP in Q3 are in large part due to rebounds in nominal GDP. *Sources:* US Federal Reserve; European Central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

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

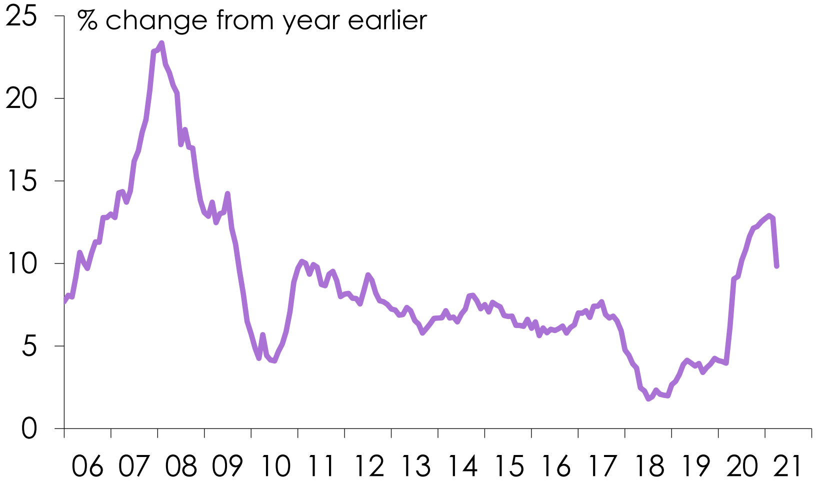
## US M2



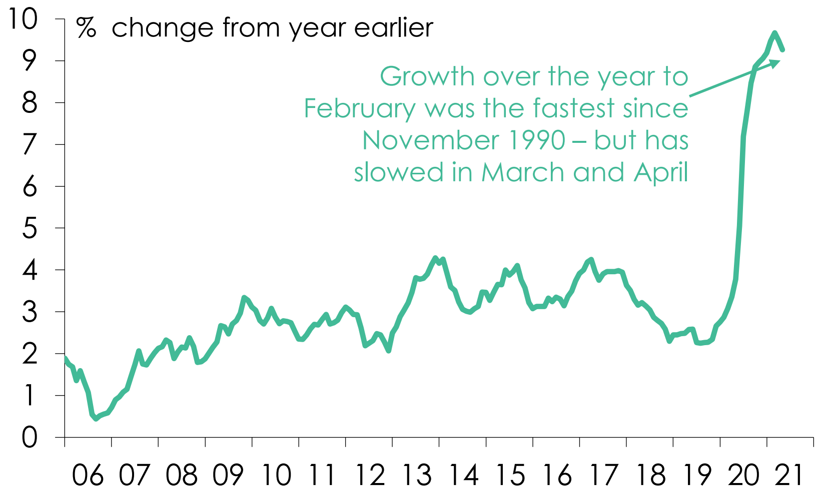

## Euro area M2



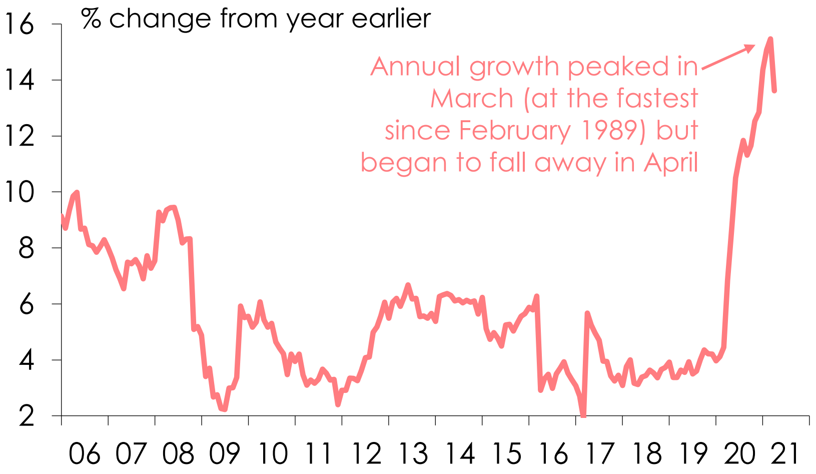

## Australia M3



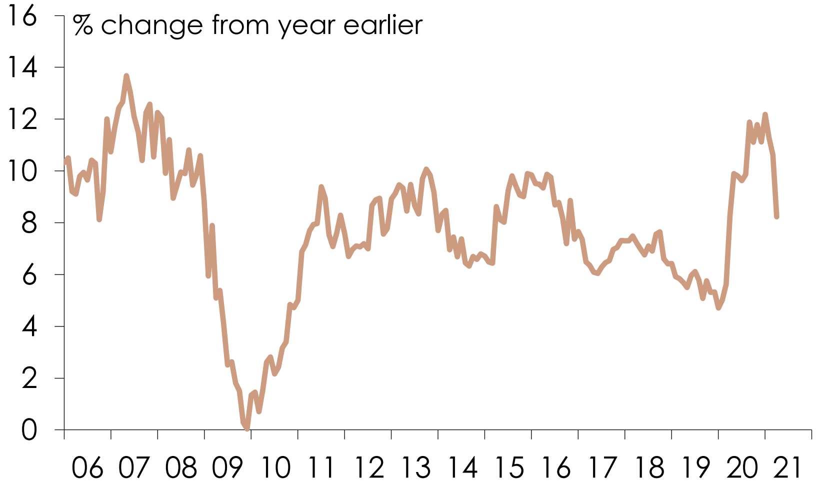

## Japan M2 + CDs




## 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".



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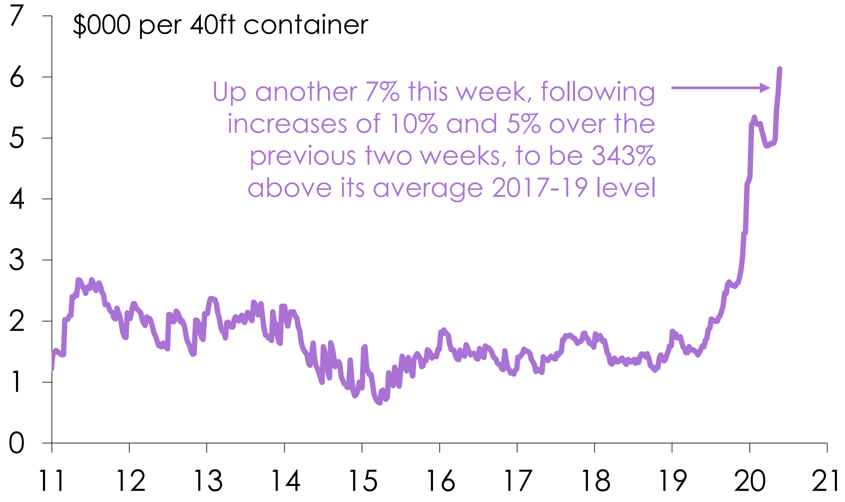
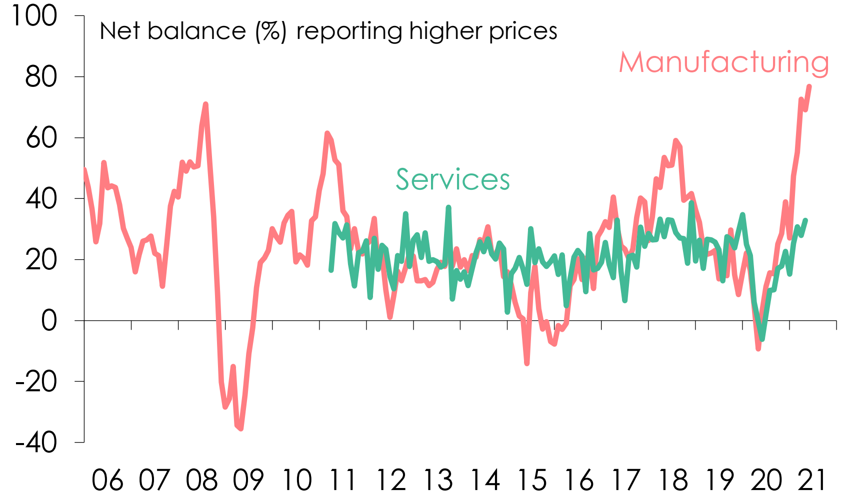
# Supply chain 'bottlenecks' have generated significant 'upstream' price pressures – which along with higher oil prices are showing up in PPIs

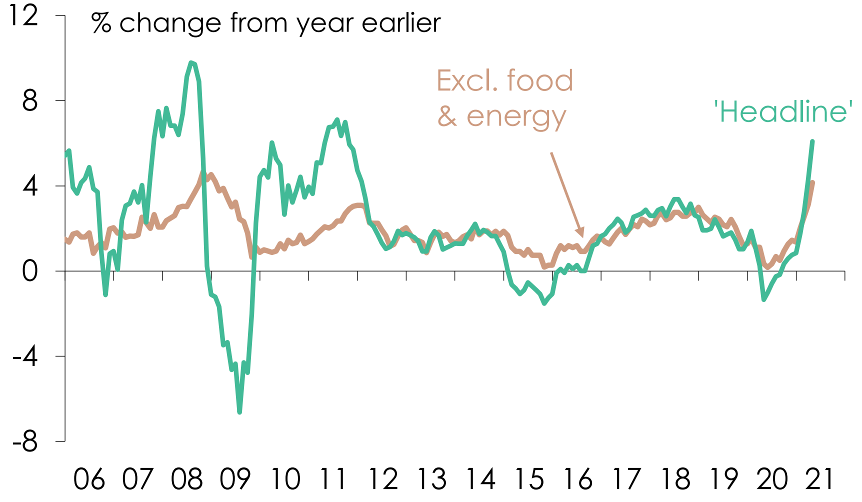
## Container freight costs



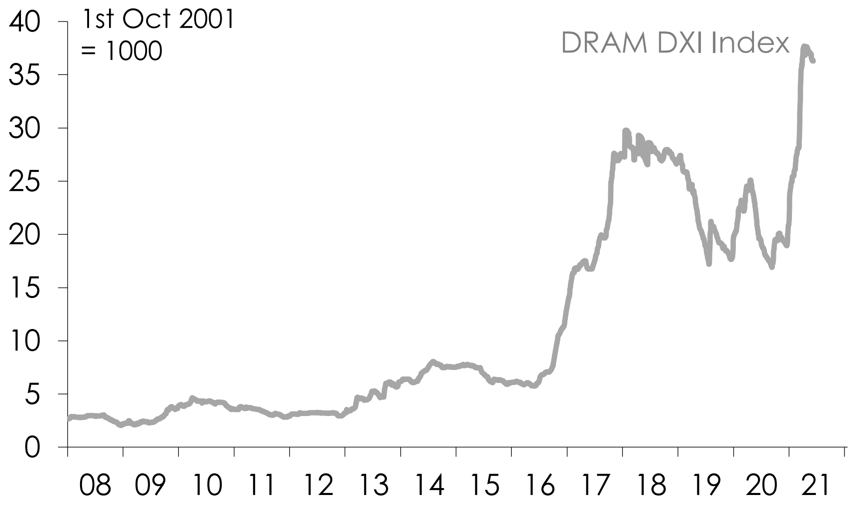

## Philadelphia Fed survey prices paid



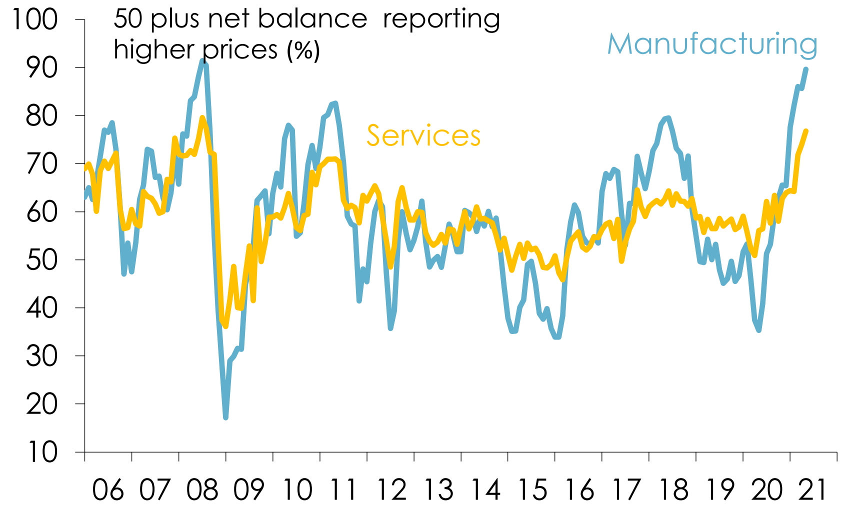

## US producer price index (PPI)



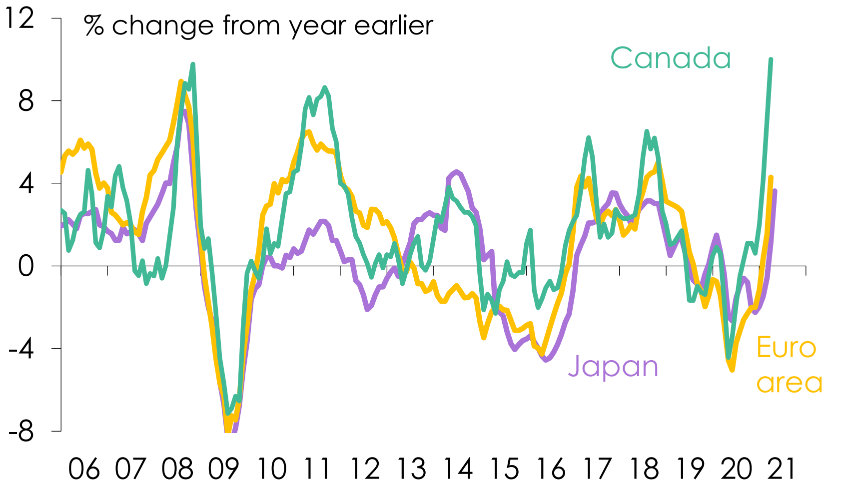

## Semiconductor prices




## US ISM prices paid



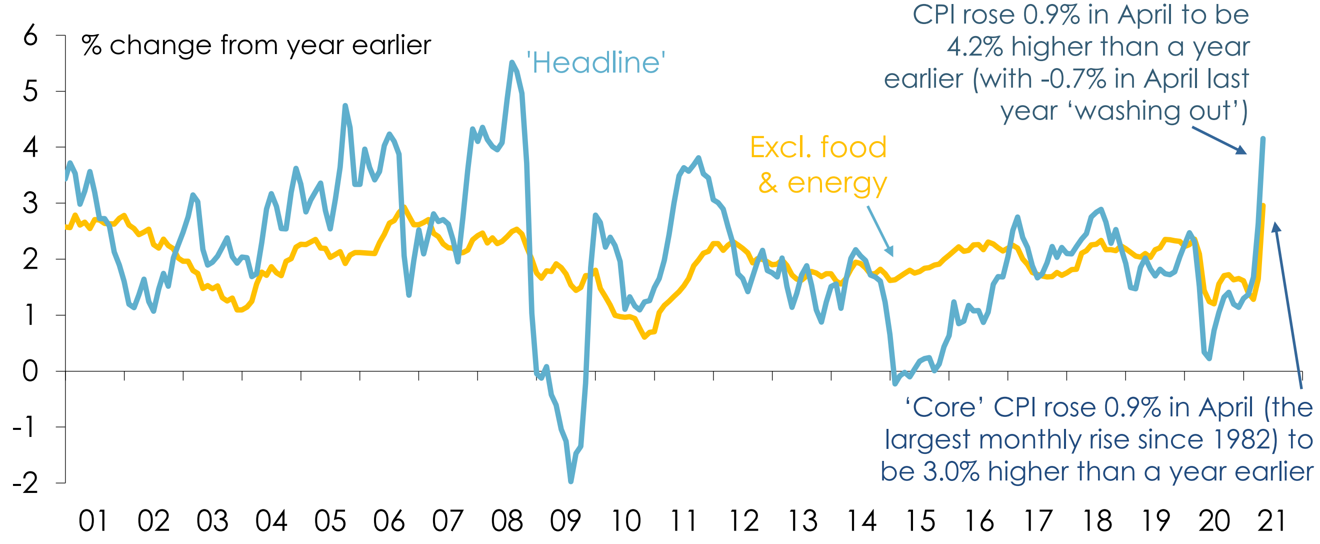

## Other countries' PPIs



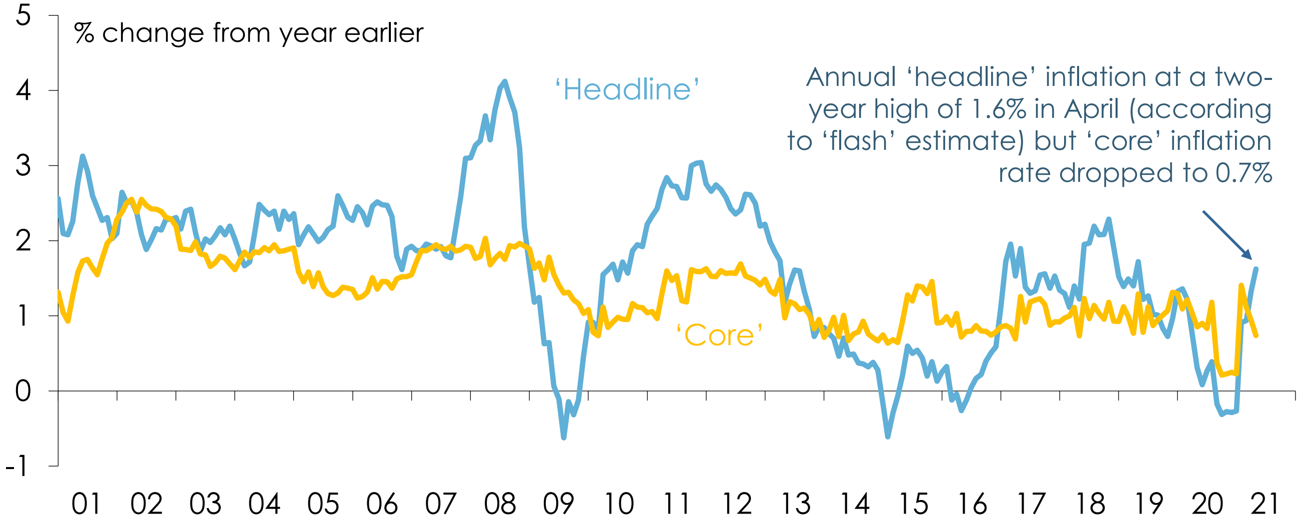

*Sources:* Drewry Supply Chain Advisors; Refinitiv Datastream; US Institute for Supply Management; Federal Reserve Bank of Philadelphia; US Bureau of Labor Statistics; Eurostat; Bank of Japan; Statistics Canada. Return to "What's New".

# Both ‘headline’ and ‘core’ US CPIs rose more than expected in April, raising concerns about whether it’s more than ‘transitory’

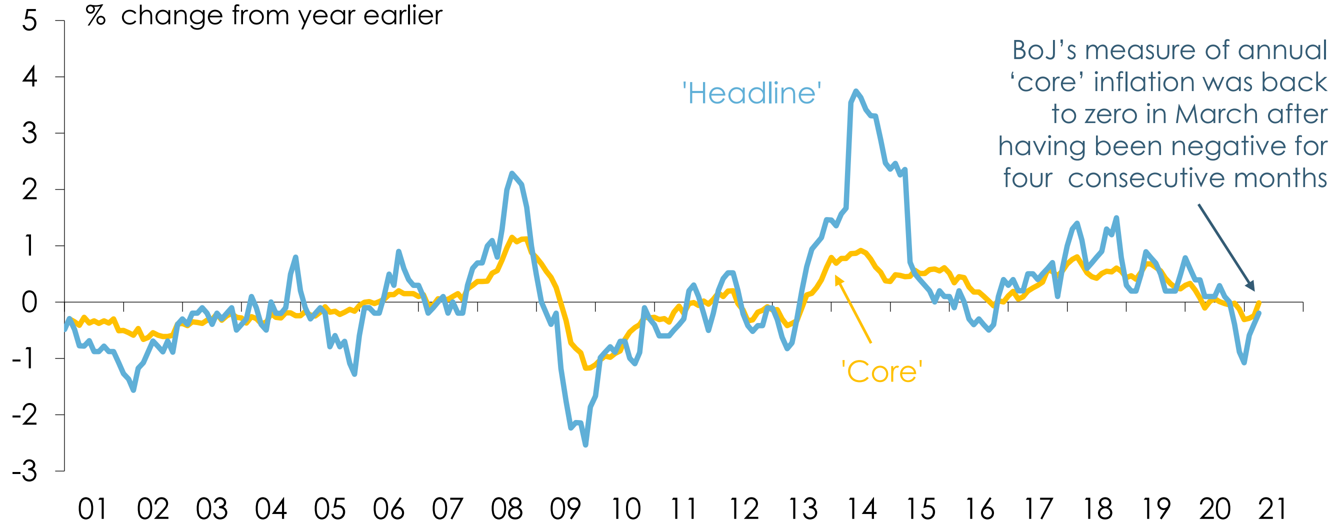
## ‘Headline’ and ‘core’ inflation - US



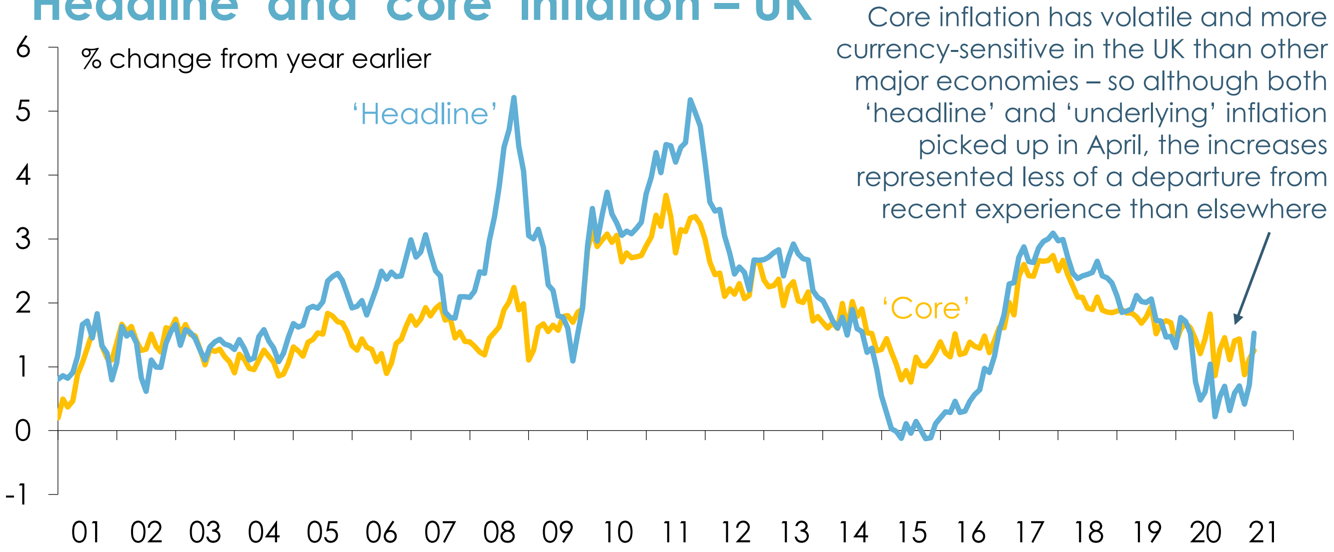

## ‘Headline’ and ‘core’ inflation – Euro area




## ‘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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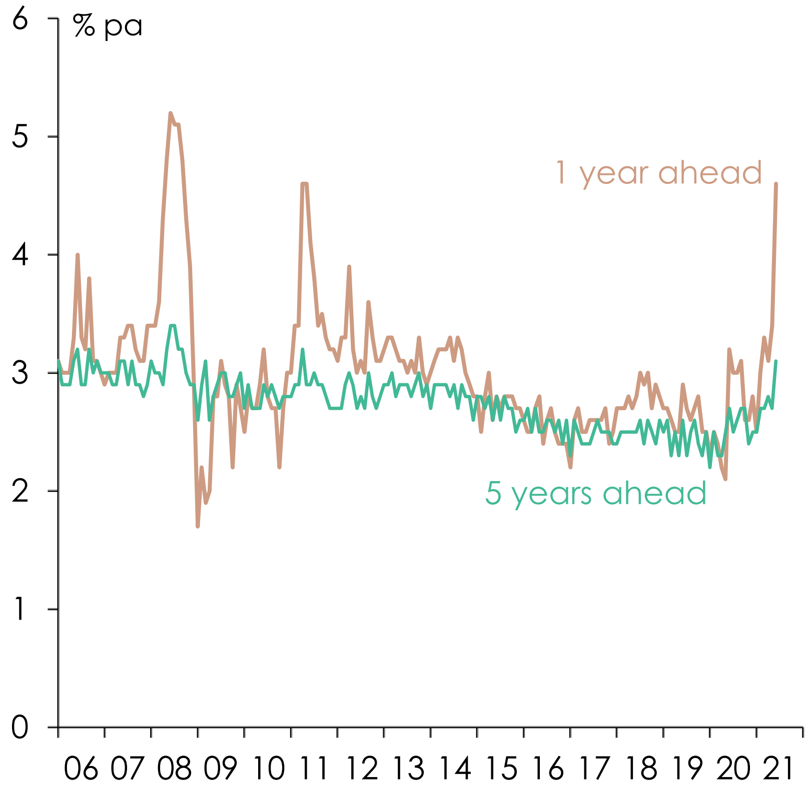
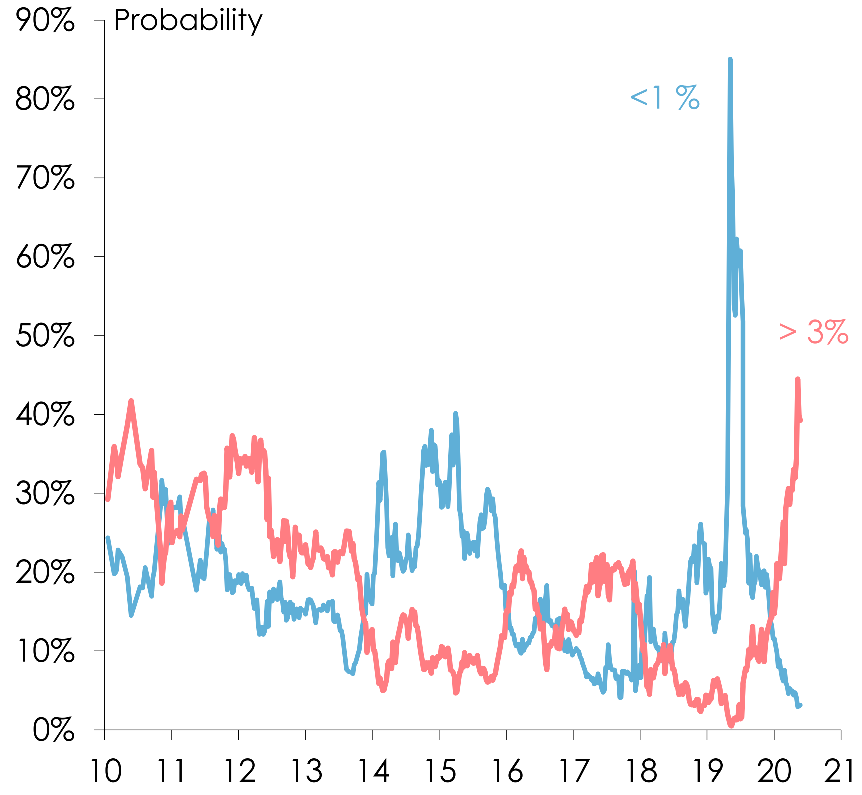
# Although the Fed will be concerned about rising inflation expectations, it's still likely to view the recent rise in inflation as mostly 'transitory'

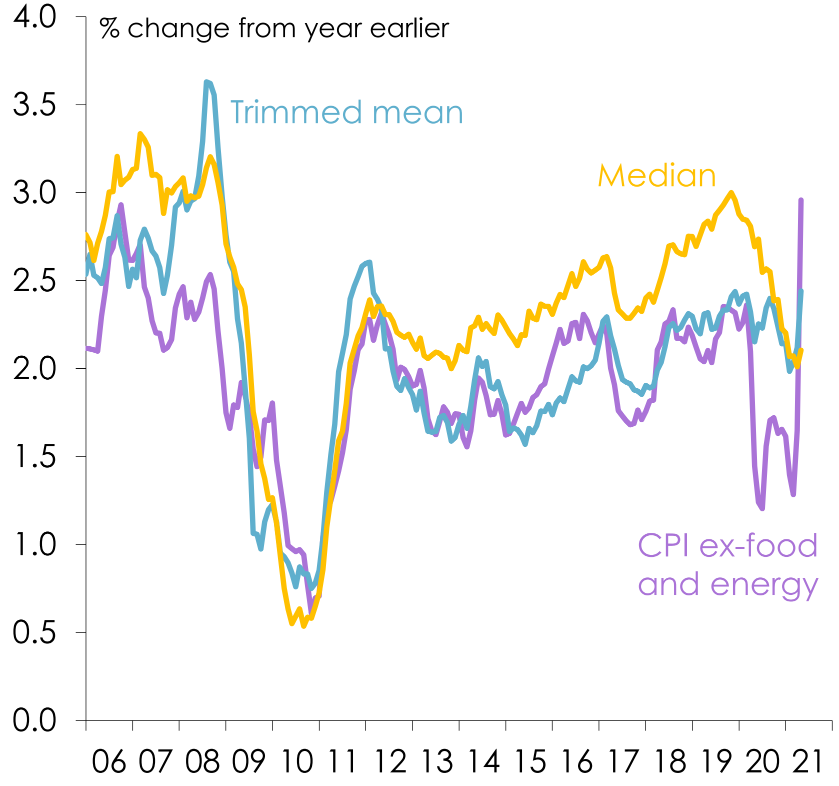
## Household inflationary expectations




## Market-implied probabilities of inflation in 5 years' time




## Statistical measures of annual 'core' inflation




- **Household inflation expectations (which are important to the Fed) have risen sharply this year – even 5-year expectations are now higher than at any time since the GFC**
- **Financial markets think there's a 39% chance of inflation being over 3% in 5 years' time – although this time last year they thought there was an 85% chance it would be below 1%**
- **Statistical measures (similar to those used by the RBA) suggest that the rise in 'core' inflation is almost entirely due to 'outliers' (such as used cars, car rentals, air fares, and hotel charges)**

*Note:* 'Market-implied probabilities' of higher or lower inflation are derived from options pricing. The 'trimmed mean' CPI inflation rate excludes the components of the CPI whose weights fall in the top and bottom 8% of the distribution of price changes; the median is the component whose price change is in the middle of the distribution of price changes. *Sources:* Michigan University Survey Research Center; Federal Reserve Bank of Minneapolis; Federal Reserve Bank of Cleveland.
Return to "What's New".

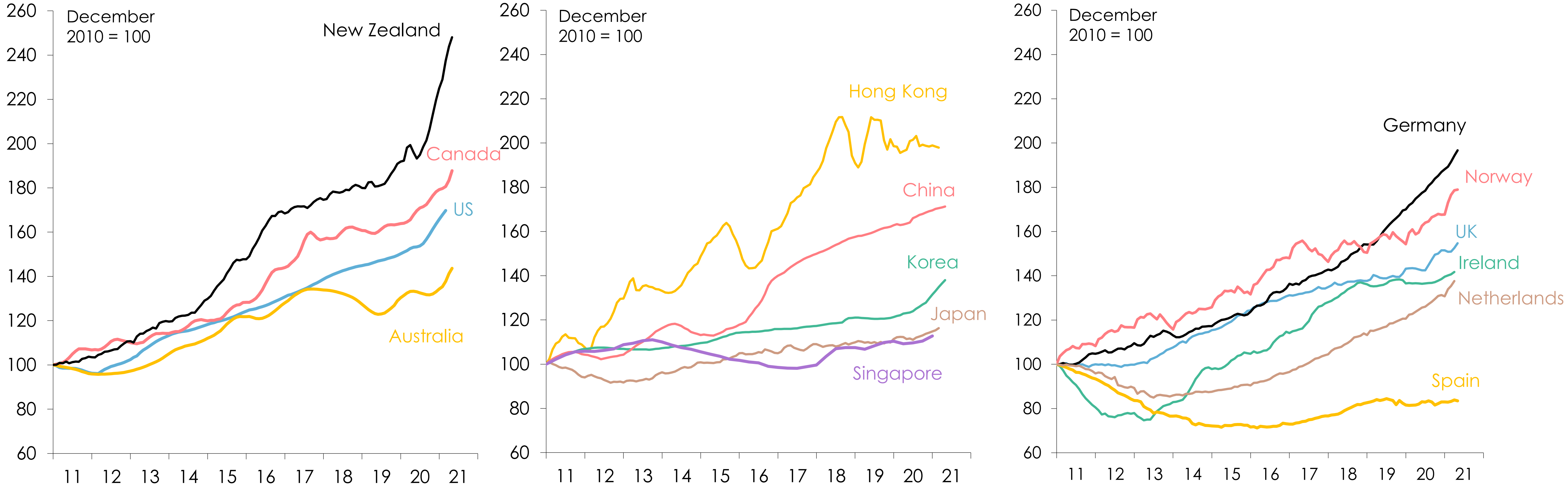
# Federal Reserve officials were out in force last week to hose down fears of a surge in inflation (or of any early rate rises in response to it)

- Senior Fed officials last week sought to re-assure markets (and Americans more generally) that current inflationary pressures are 'transitory', and that they won't react to inflation being temporarily above 2%
- Fed Vice-Chair Richard Clarida acknowledged that the April CPI report was "well above" what he'd expected but nonetheless still anticipates that "these one-time increases in prices are likely to have only transitory effects on underlying inflation" and that "inflation [will] return to – or perhaps run somewhat above – our 2 percent longer-run goal in 2022 and 2023"
  - Clarida instead placed greater weight on the disappointing April employment report ("the biggest miss in history") as underscoring the Fed's "wisdom" in keeping monetary policy loose
- Governor Lael Brainard emphasized that "a persistent material increase in inflation would require not just that wages or prices increase for a period after reopening, but also a broad expectation that they will continue to increase at a persistently higher pace"
  - but she didn't see any evidence of that – "to date, various measures suggest inflation expectations remain well anchored and broadly consistent with our new framework"
  - Brainard noted that if "what seem like transitory inflationary pressures … prove persistent" then the Fed "[has] the tools and the experience to gently guide inflation back to our target", but went on to observe that "we should not lightly dismiss the risk on the other side", and that "remaining patient through the transitory surge associated with reopening will help ensure that the underlying economic momentum that will be needed to reach our goals"
- Governor Christopher Waller suggested that "despite the unexpectedly high CPI inflation report yesterday, the factors putting upward pressure on inflation are temporary"
  - Waller listed six such factors – 'base effects'; higher energy prices; temporary fiscal stimulus ("when the checks are gone, the upward pressure on prices will ease"); reversal of the "very high savings that households have built up over the past year"; the temporary effects of supply bottlenecks ("price pressures induced by bottlenecks should reverse as supply chains catch up and orders get filled"); and the likely easing of temporary pressures on wages "once labor supply catches up"


Return to "What's New".

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

## House price indices



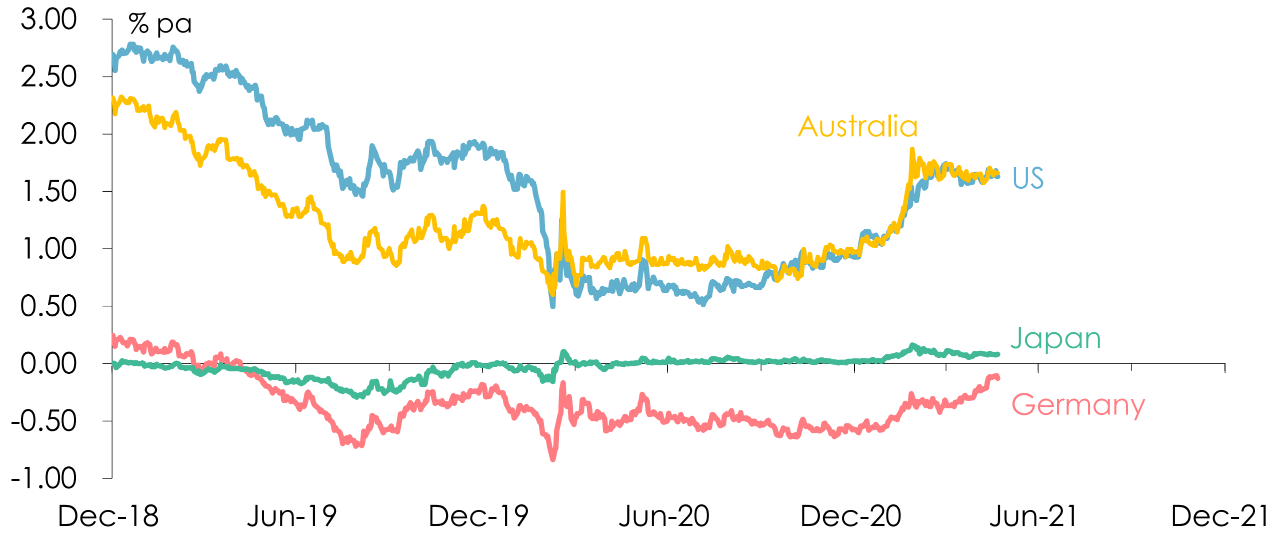

- **The New Zealand Government in March announced changes in tax and other policies explicitly directed towards dampening investor demand for housing (see slide 154) while the Bank of Canada last month expressed concern about "extrapolative expectations and speculative behaviour" in its housing market, 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".

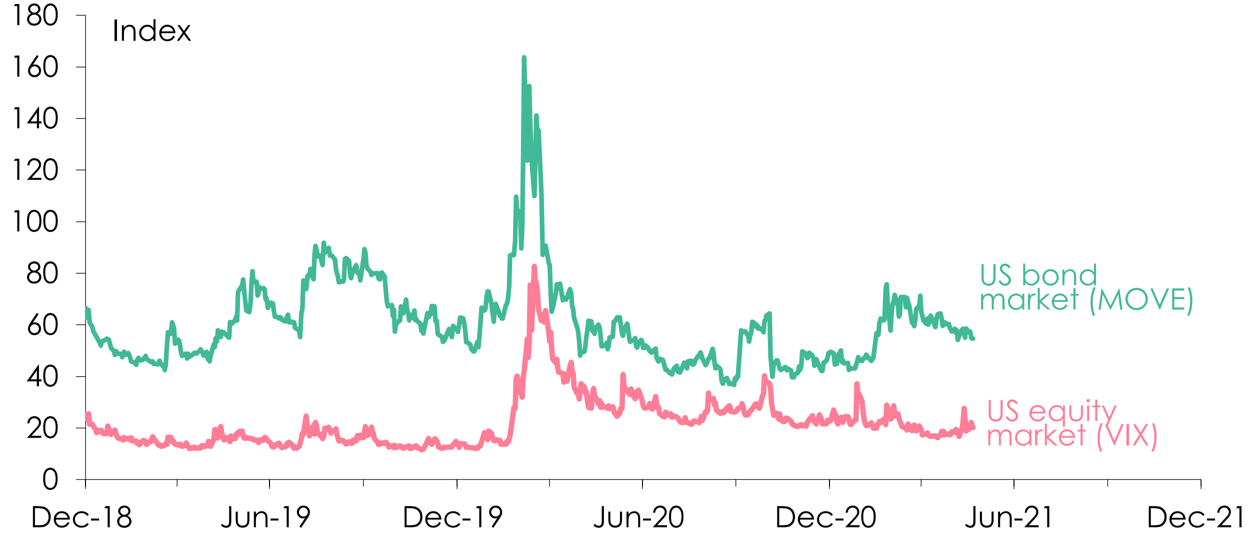
# US & UK stocks were down marginally this week while others rose a little, bond yields moved sideways and the US$ eased about 0.3%

## Stock markets

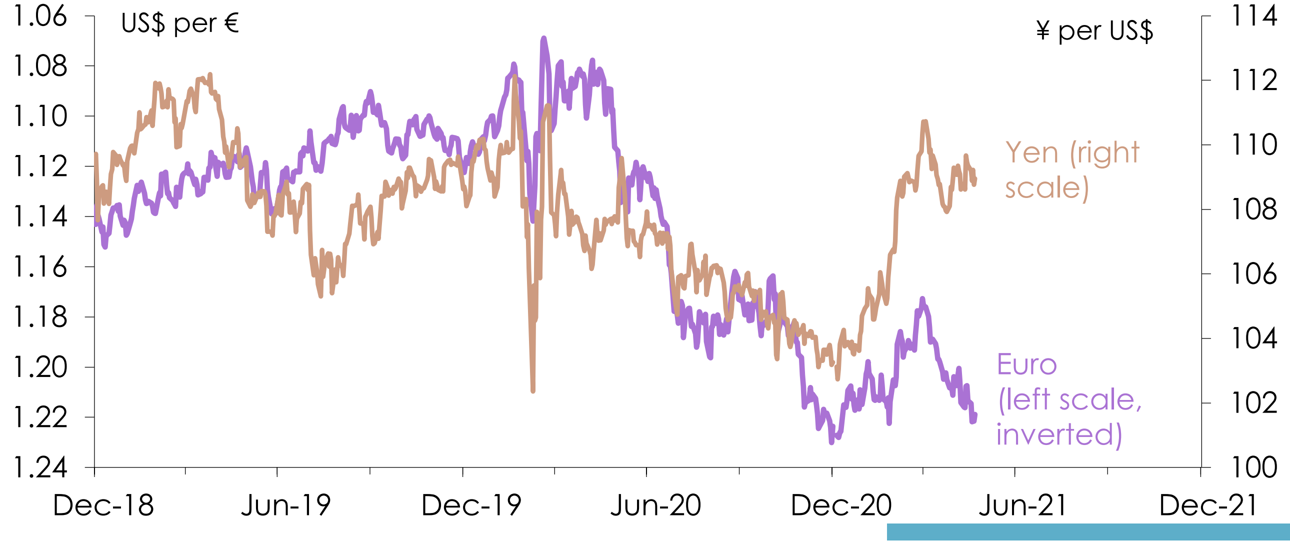

## 10-year bond yields




## Measures of market volatility




## US dollar vs euro and yen






*Source:* Refinitiv Datastream. Data up to 21st May. Return to "What's New".

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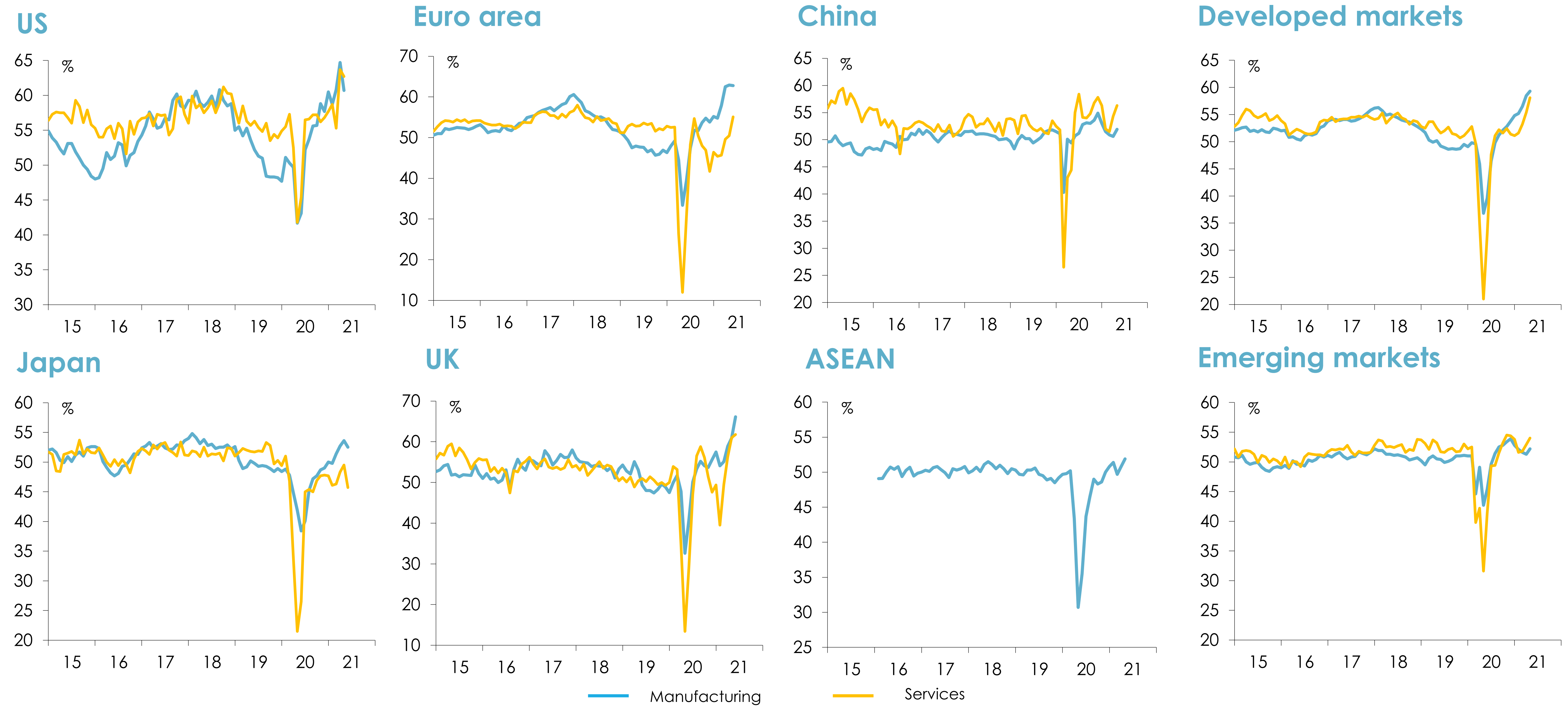
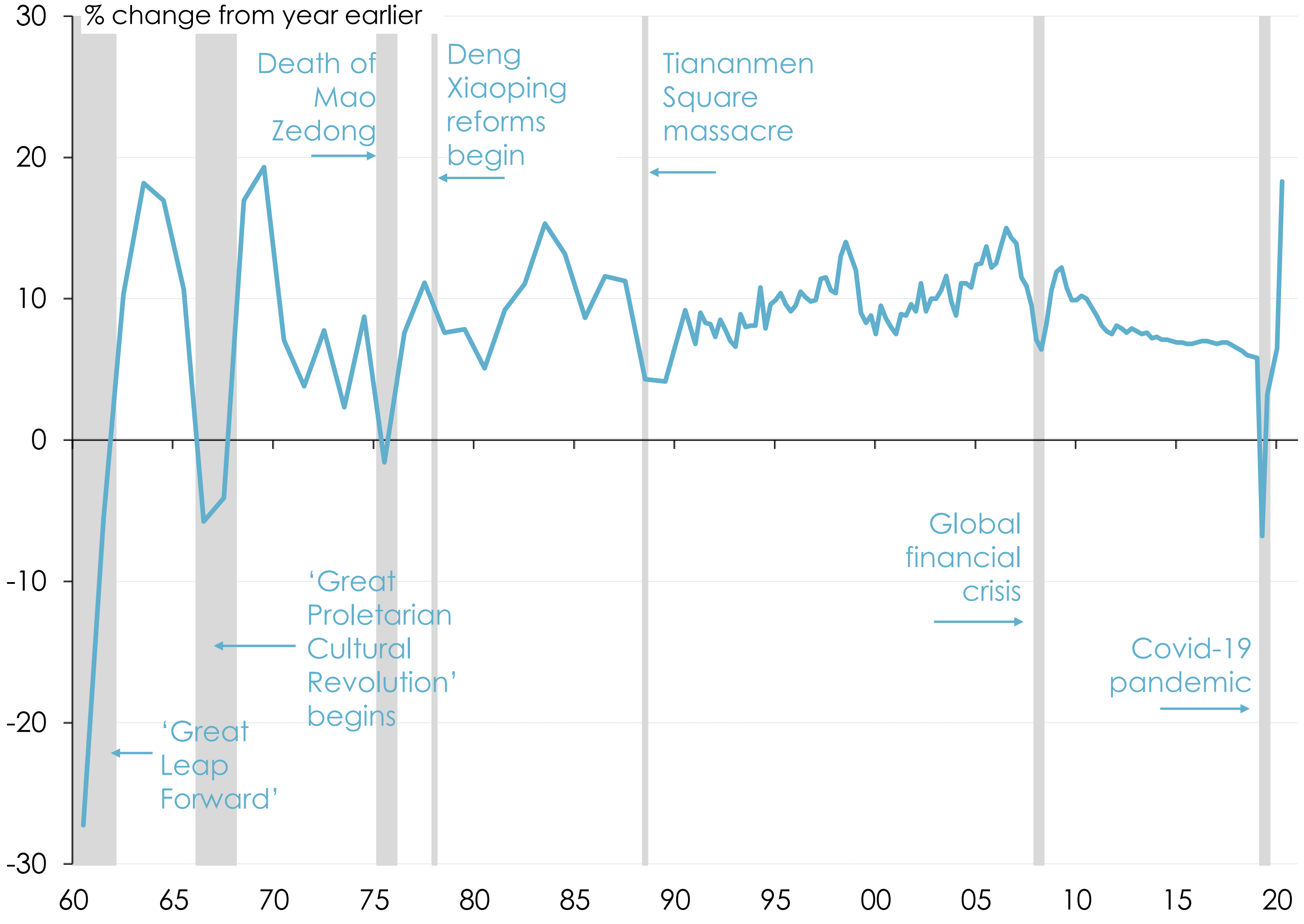
# Preliminary May PMIs show ongoing strength in manufacturing and a pick-up in services activity in Europe, but softening in Japan



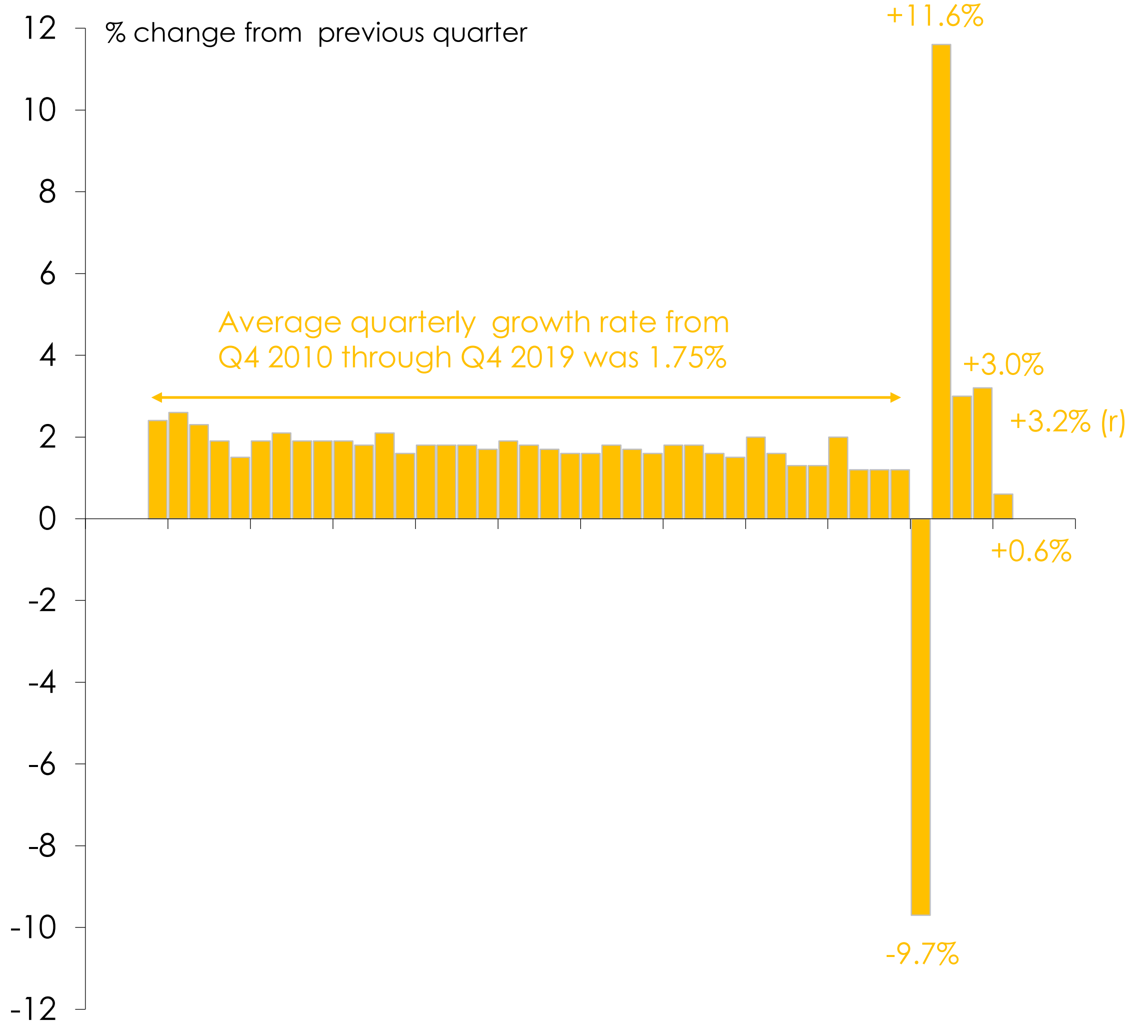

*Note:* Purchasing Managers' Indexes (PMIs) are derived from surveys of senior executives, who are asked to report whether various dimensions of business activity recorded an increase, decrease or no change compared with the previous month. A reading of 50 indicates an overall increase cf. the previous month, and a reading of less than 50 indicates a decrease. Latest data are for Japan, the euro area and UK are preliminary May, others are April. See also PMIs for other Asia-Pacific economies on slide 52. 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

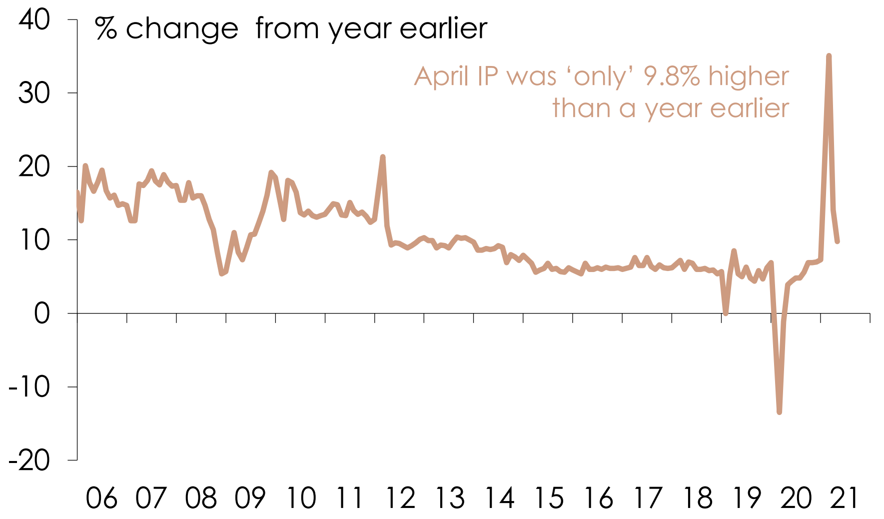
- In addition to the 'above 6%' target for GDP growth, the Plan sets targets for a number of other economic indicators
  - keeping the 'surveyed urban unemployment rate' within 5½% and keeping prices "basically stable"
  - ensuring that overall labour productivity "grows faster than GDP" (which it has 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"



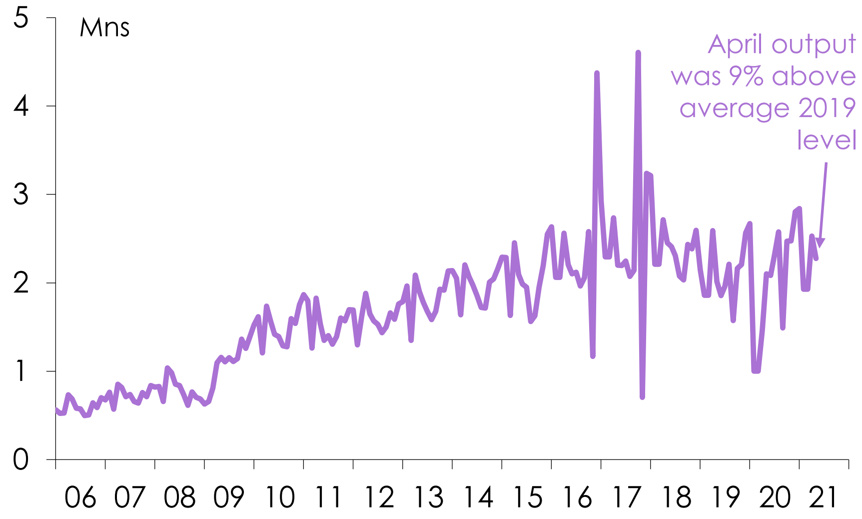
Return to "What's New".

# China's exports have been growing very strongly since the second half of last year, but other production indicators appear to be slowing

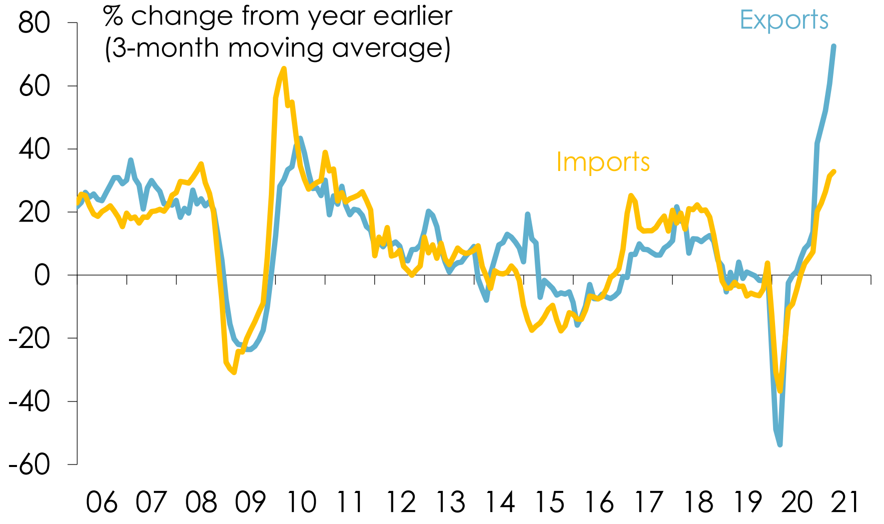
## Industrial production



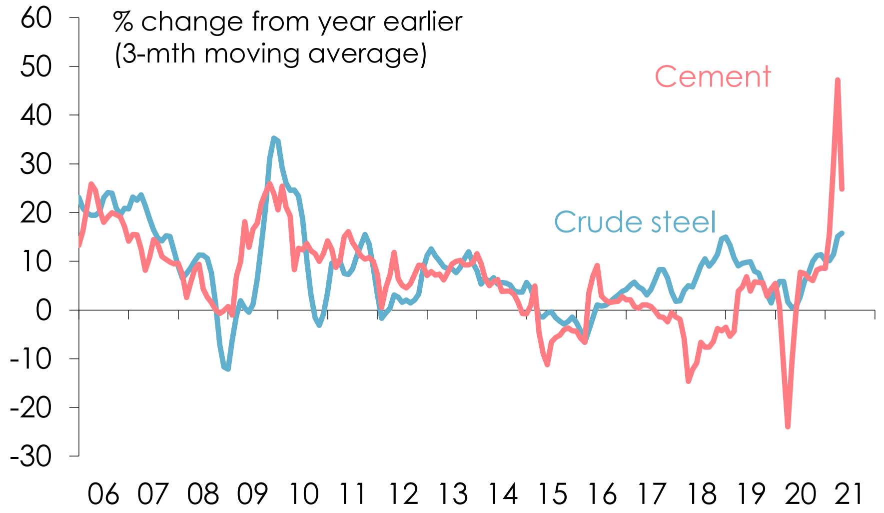

## Motor vehicle production



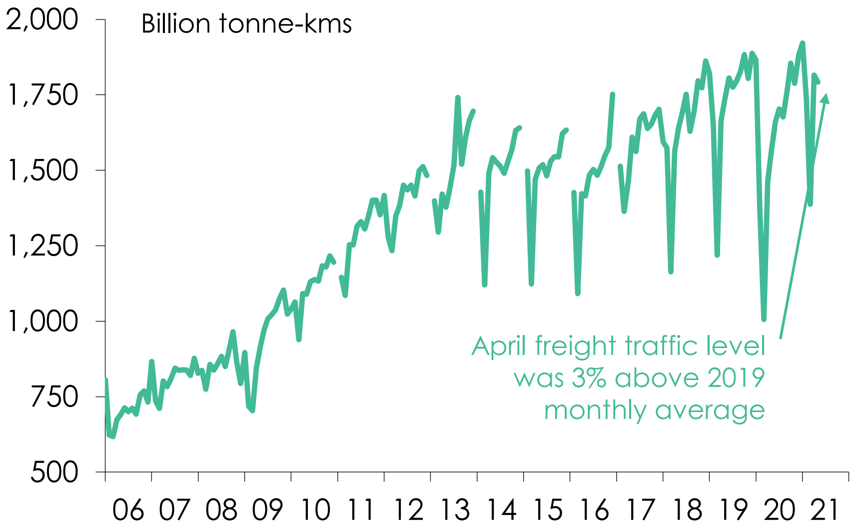

## Merchandise trade



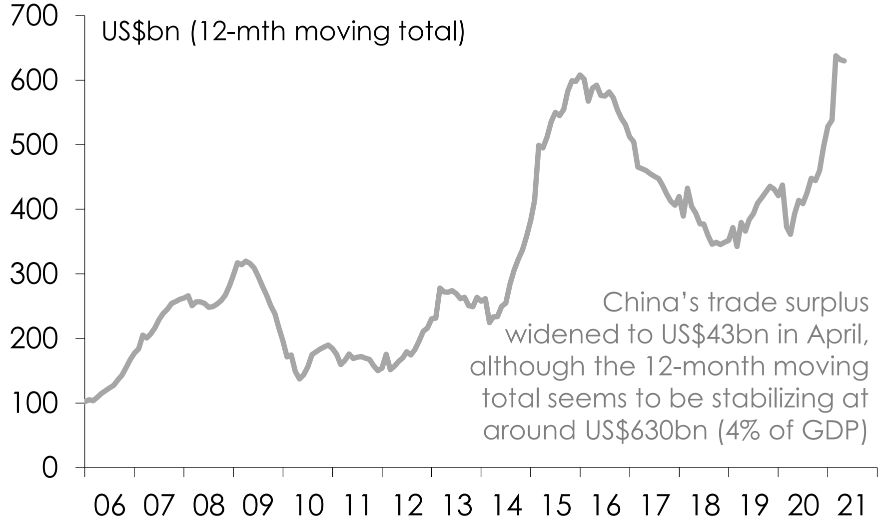

## Steel and cement production




## Freight traffic volumes




## Merchandise trade balance




*Note:* Latest data are for April. *Sources:* China National Bureau of Statistics; China Association of Automobile Manufacturers; China General Administration of Customs.
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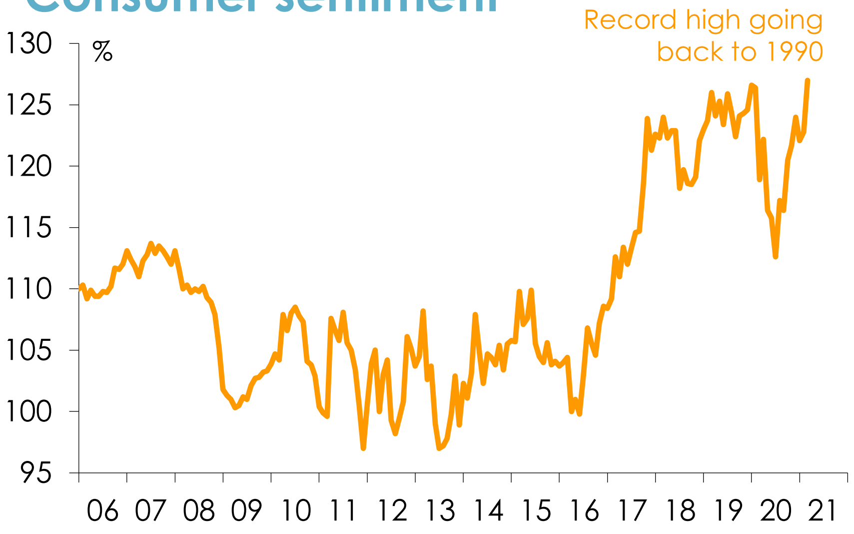
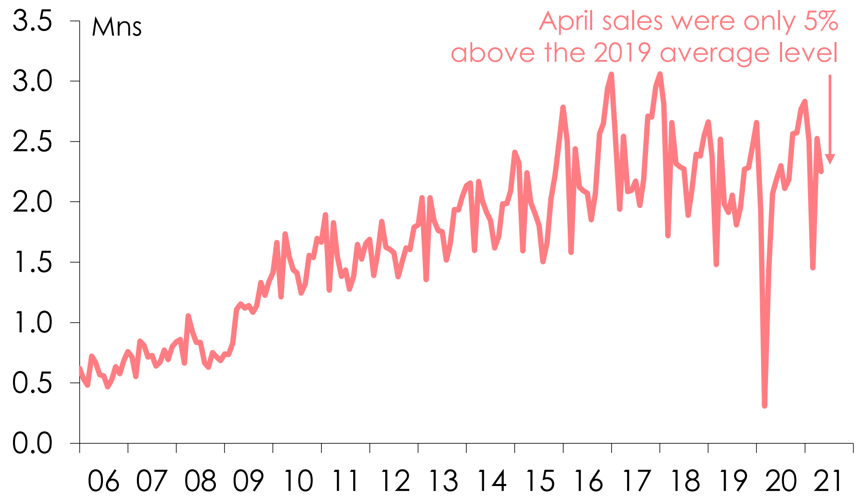
# ‘Demand side’ indicators remained soft through April, underscoring the PBoC’s judgement that ‘the foundation for recovery is not yet solid’

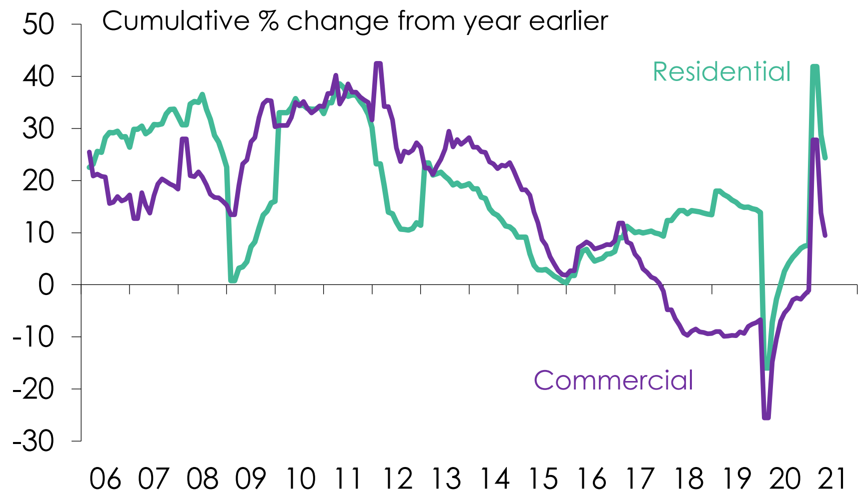
## Consumer sentiment



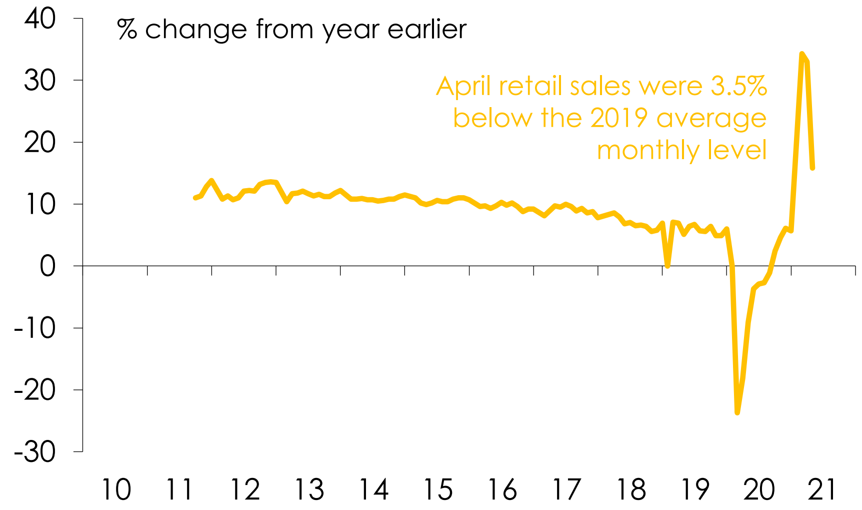

## Motor vehicle sales



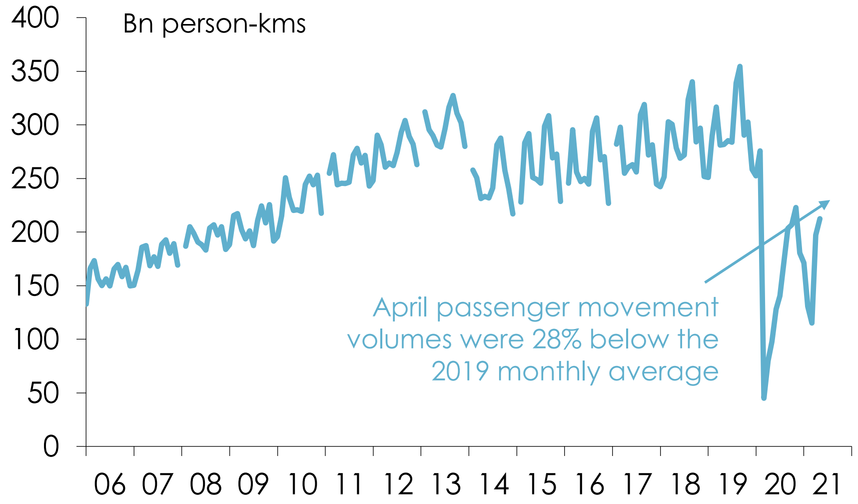

## Real estate investment



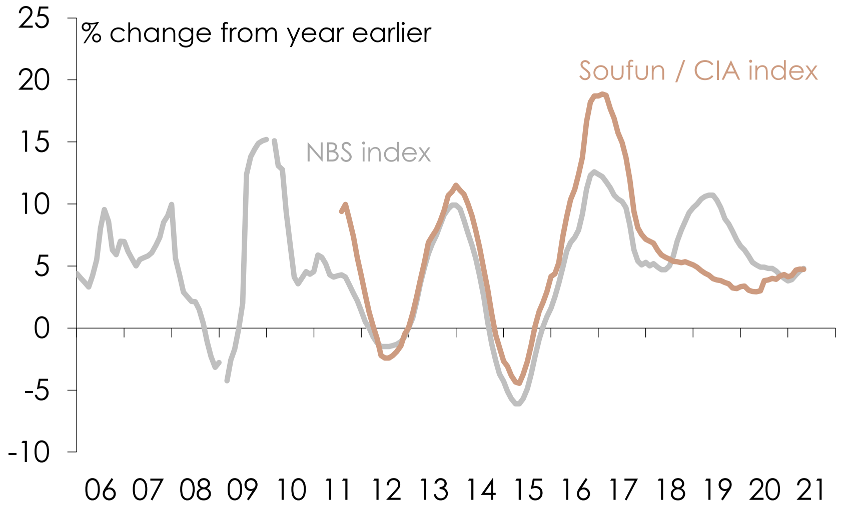

## Volume of retail sales




## Passenger traffic volumes




## Residential real estate prices

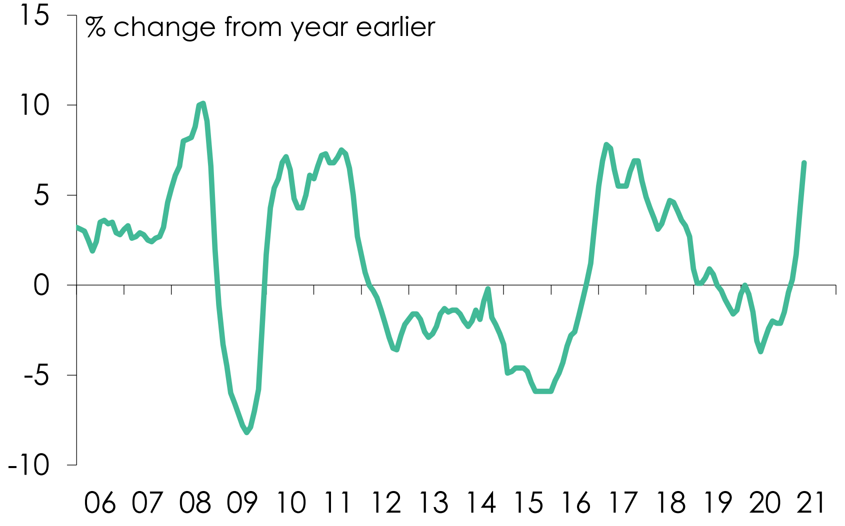



*Sources:* China National Bureau of Statistics; China Association of Automobile Manufacturers; China Index Academy (CIA). Latest data are for April.

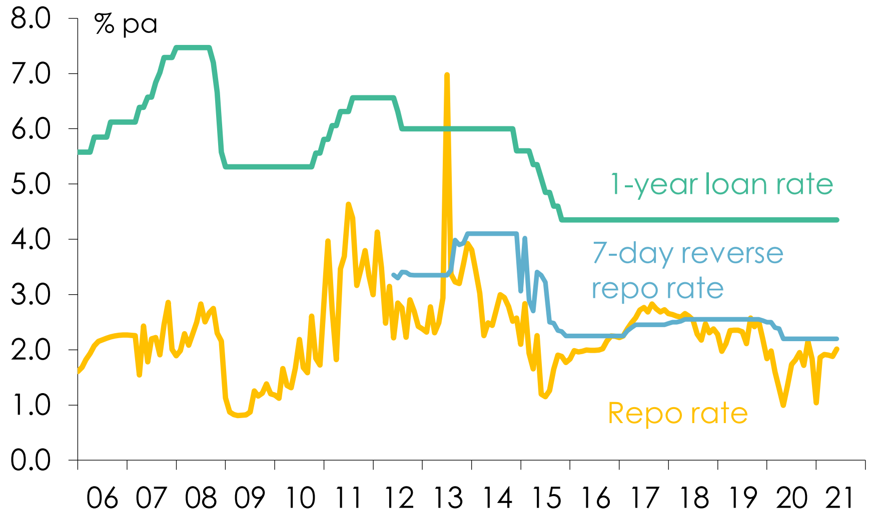
Return to "What's New“.

# After briefly turning negative during 2020, inflation has picked up again so far in 2021, particularly at the producer level

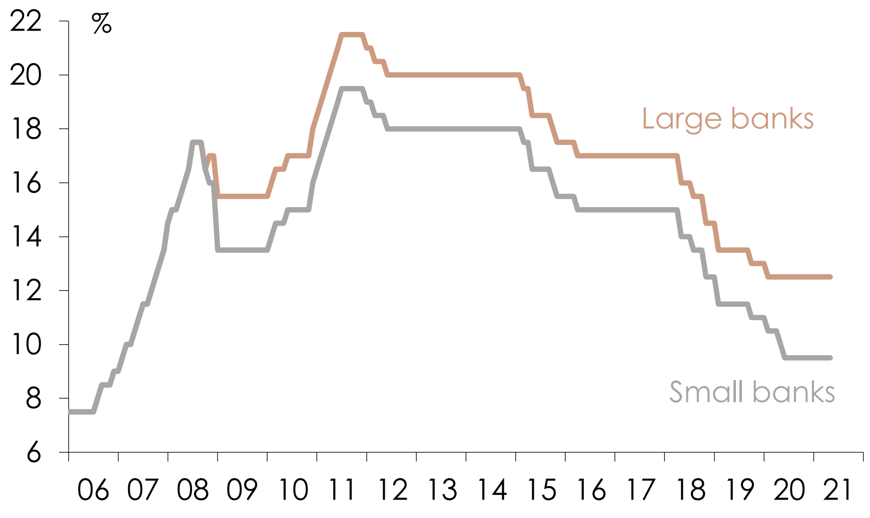
## Producer prices



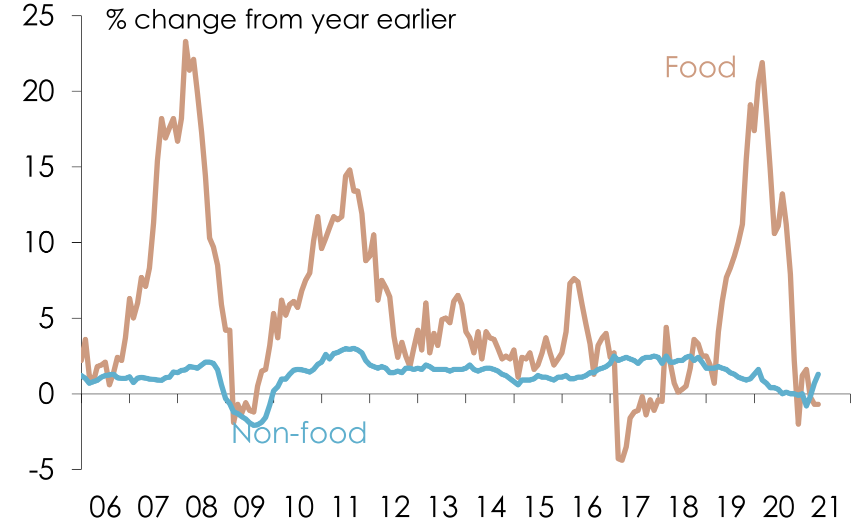

## PBoC policy interest rates



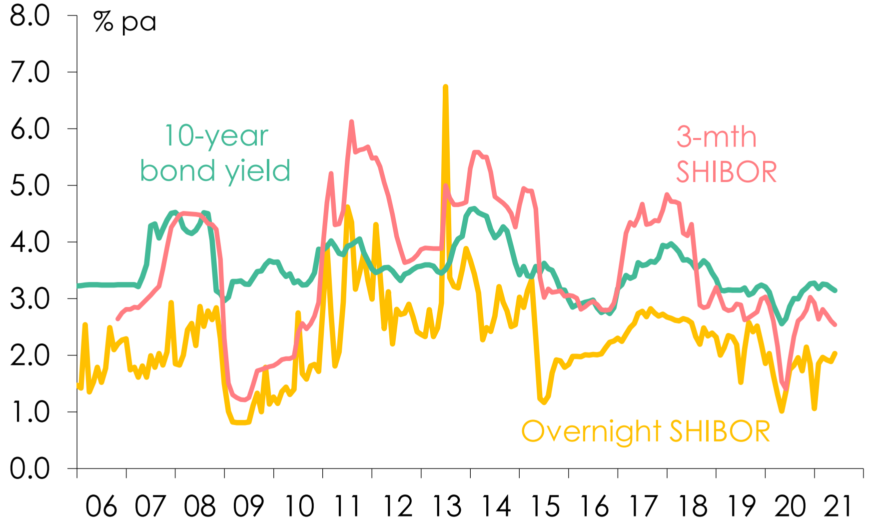

## Bank reserve requirement ratios



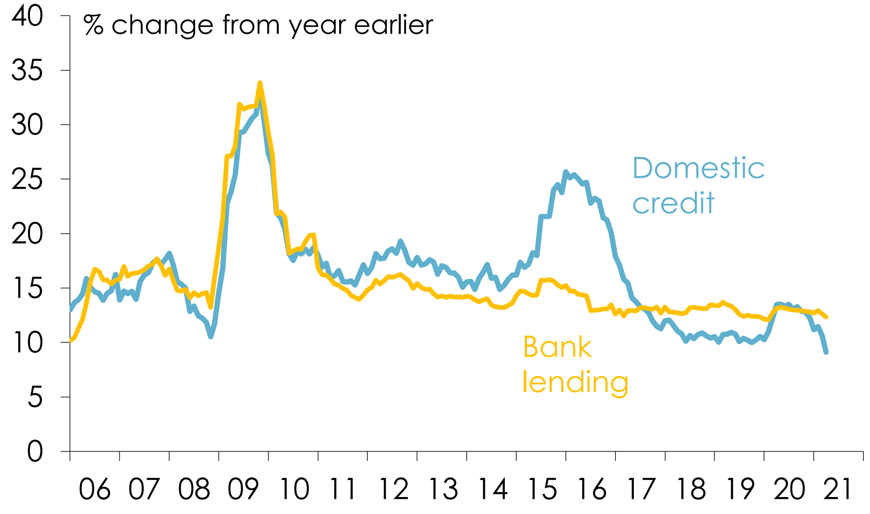

## Consumer prices




## Market interest rates



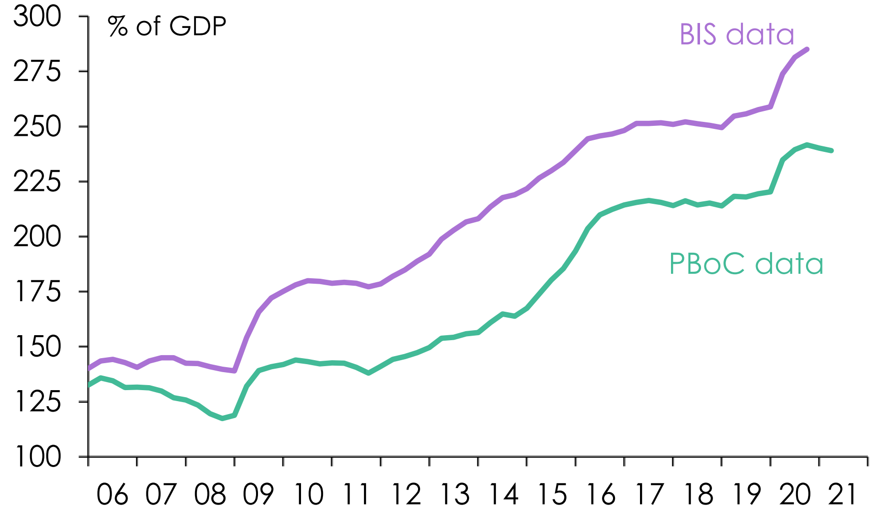

## Credit growth



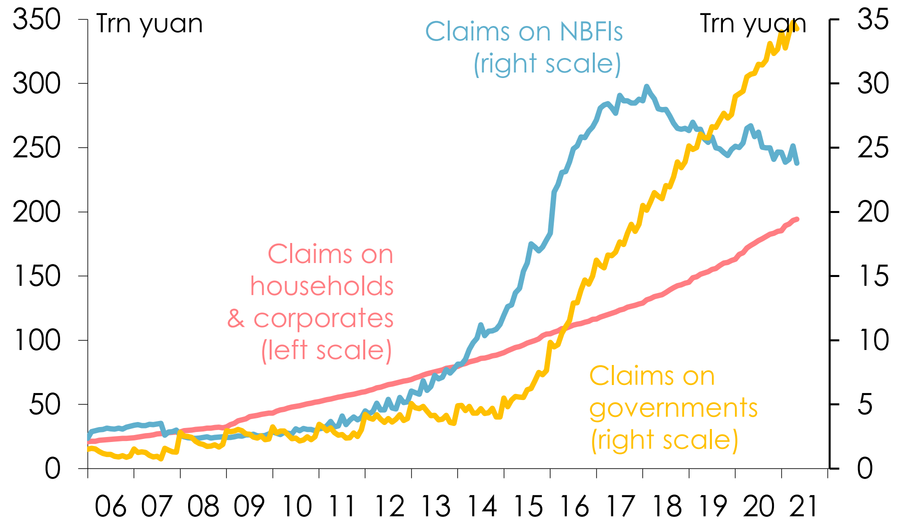

*Note:* 'SHIBOR' is the Shanghai Inter-Bank Offered Rate.
*Sources:* China National Bureau of Statistics; Refinitiv Datastream; People's Bank of China. Return to "What's New".

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

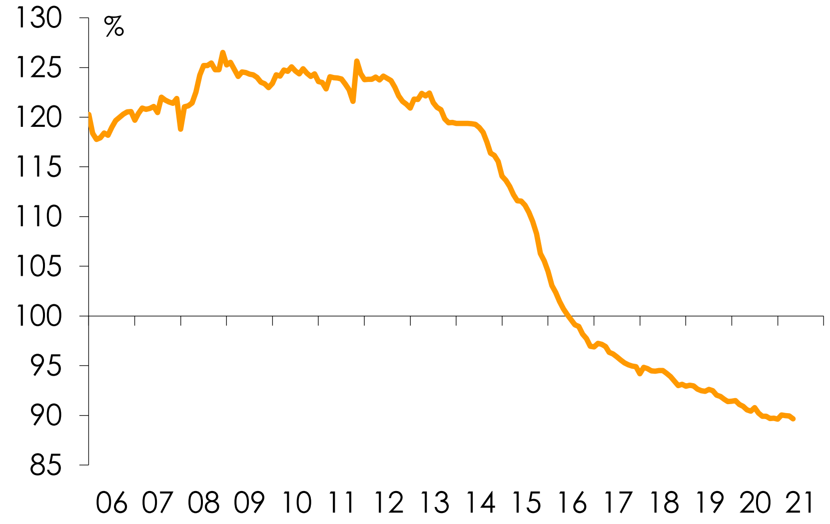
## Credit outstanding as a pc of GDP



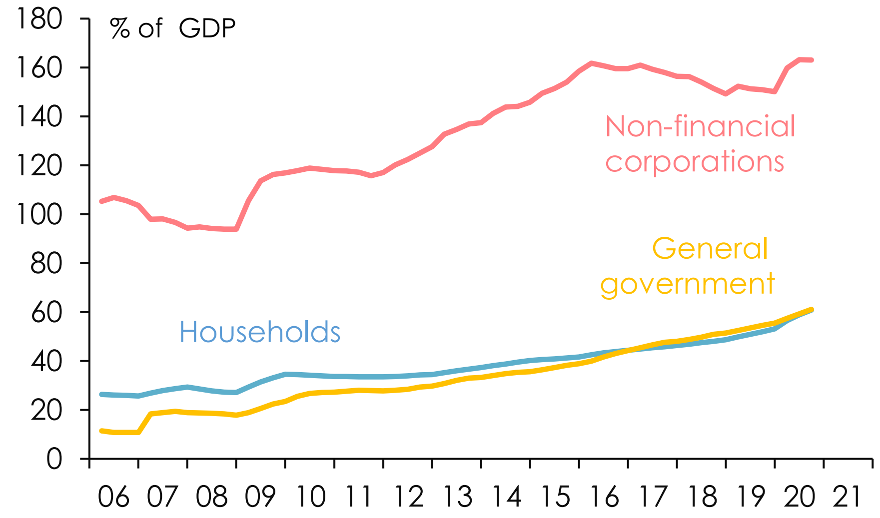

## Banks' assets



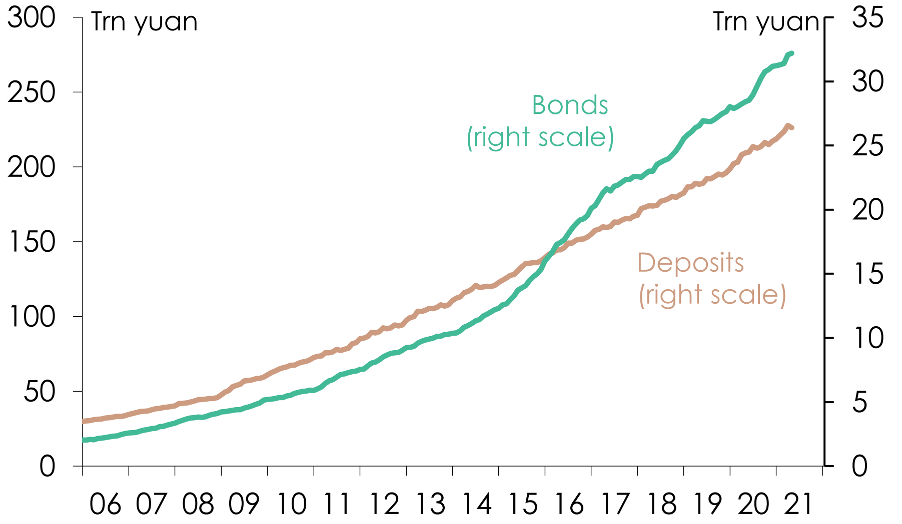

## Banks' deposits-to-loans ratio



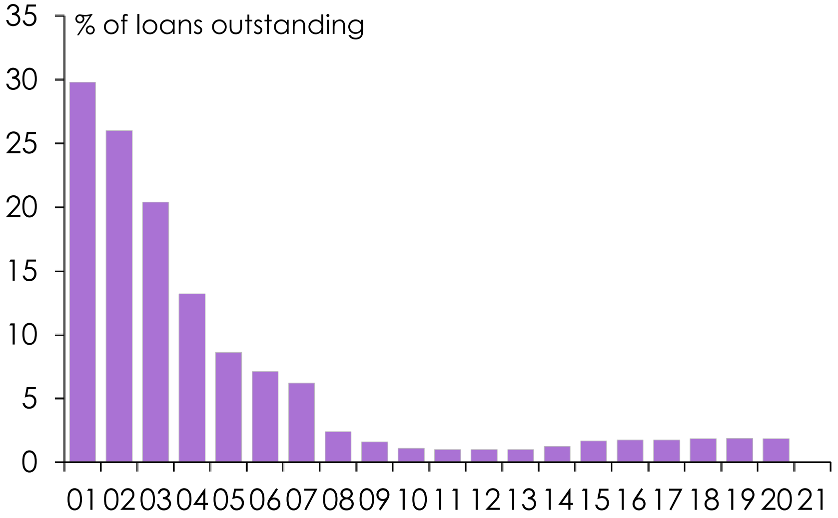

## Credit outstanding by sector




## Banks' liabilities




## Banks NPLs – official estimates




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

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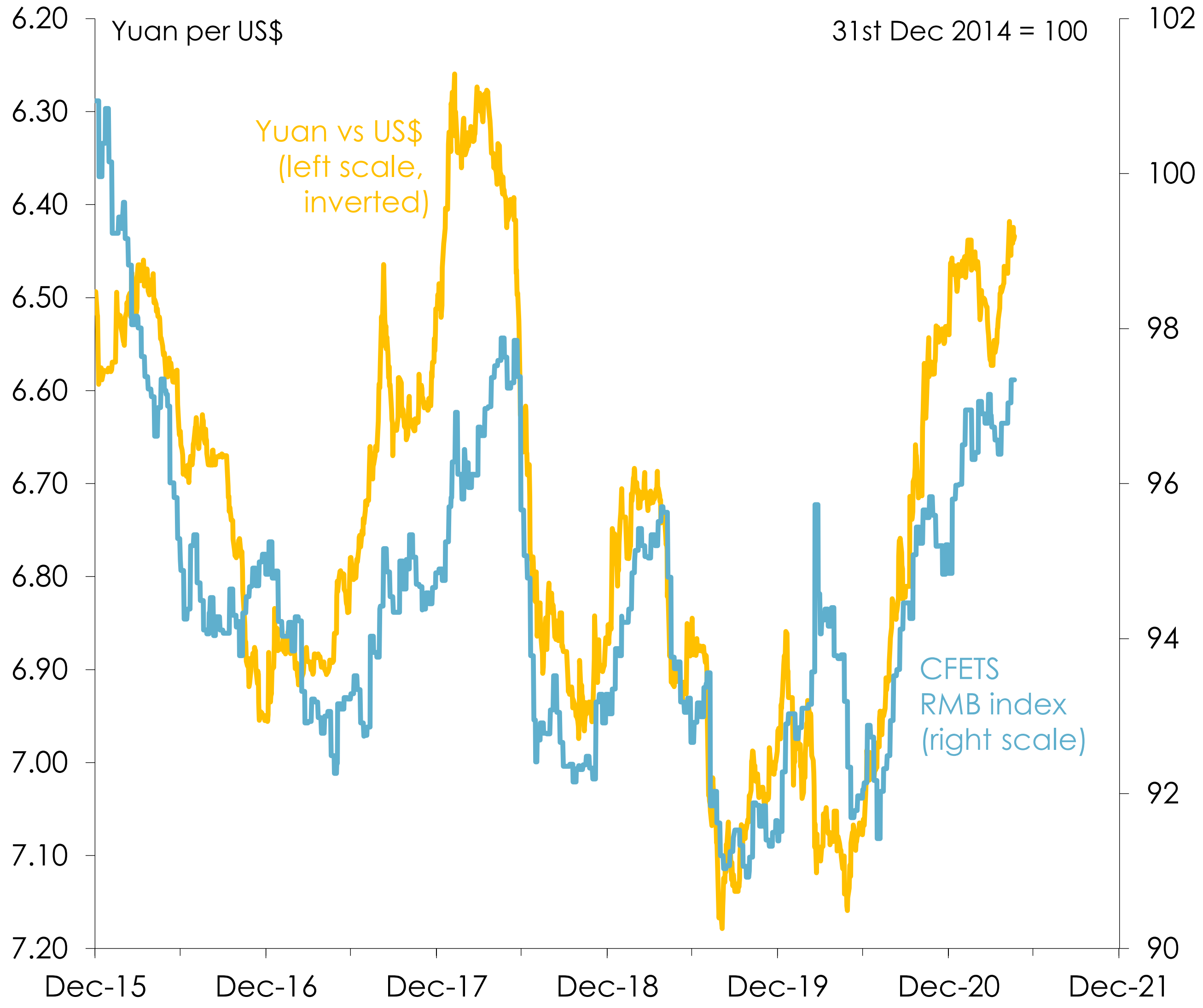
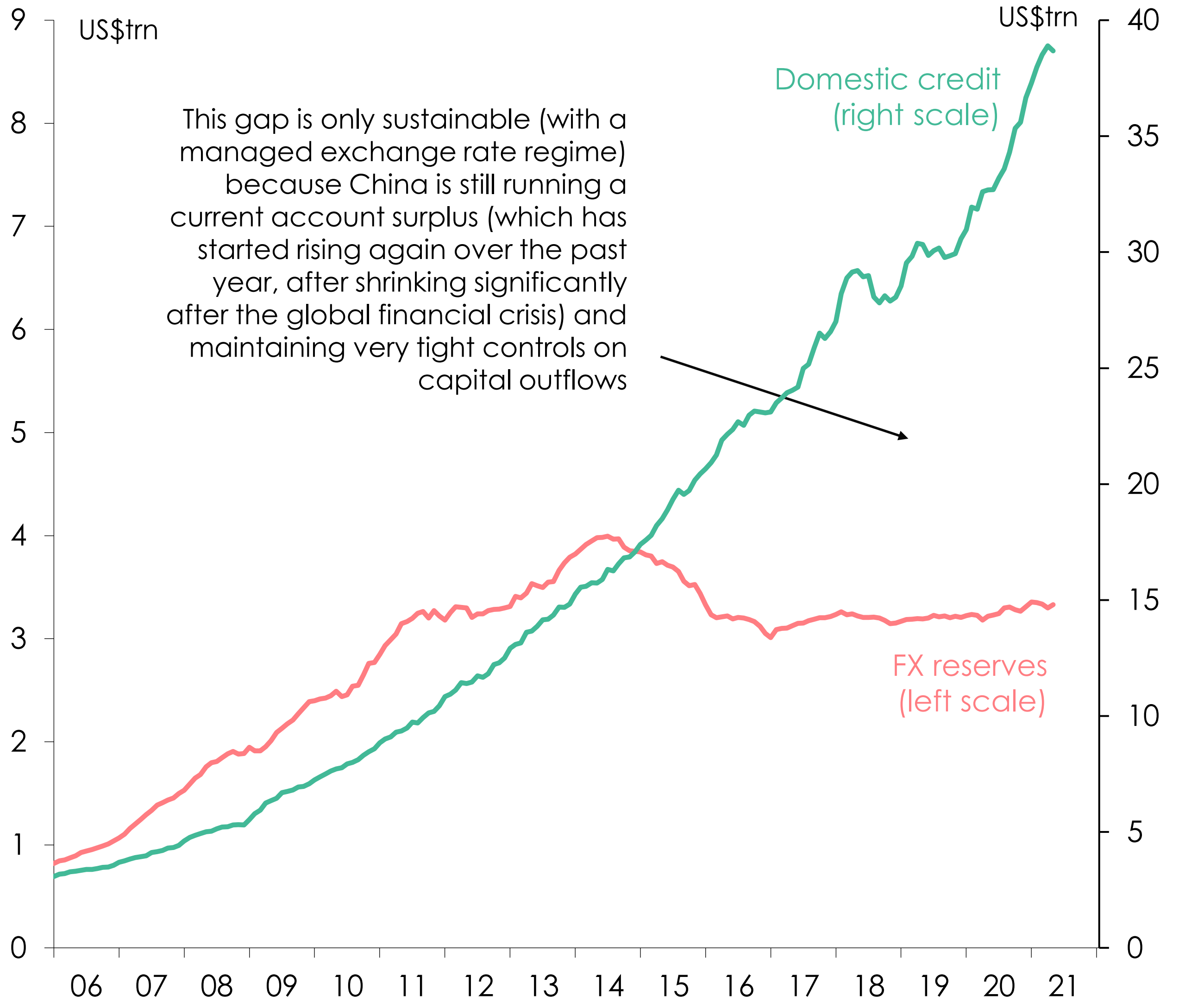
# The yuan was steady against the US$ this week but rose another 0.3% in trade-weighted terms (for a 2.6% gain so far this year)

## 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 21st May; FX reserves and credit data up to April.

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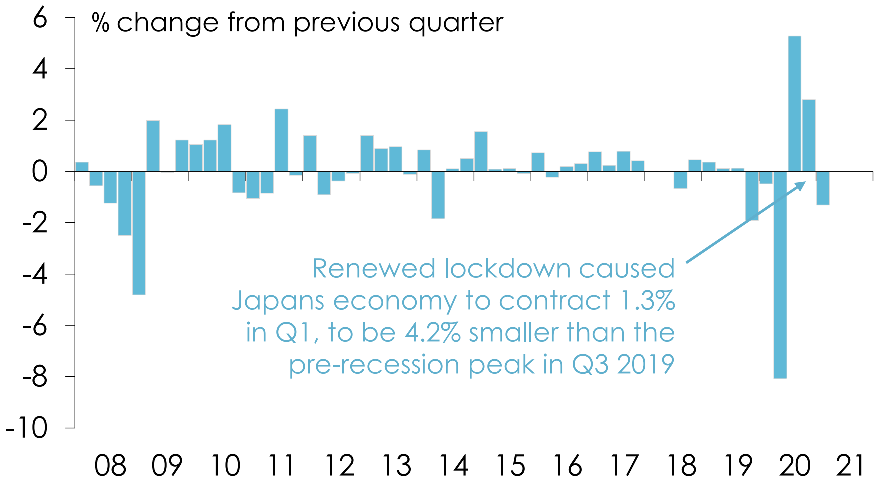
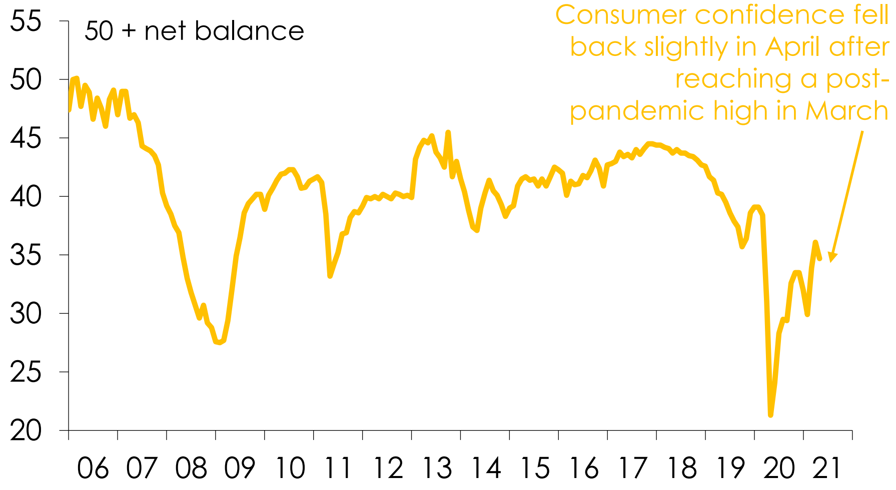
# Japan's economy contracted by 1.3% in Q1, due to renewed lockdown, and was 4.2% smaller than in Q3 2019 (the pre-recession peak)

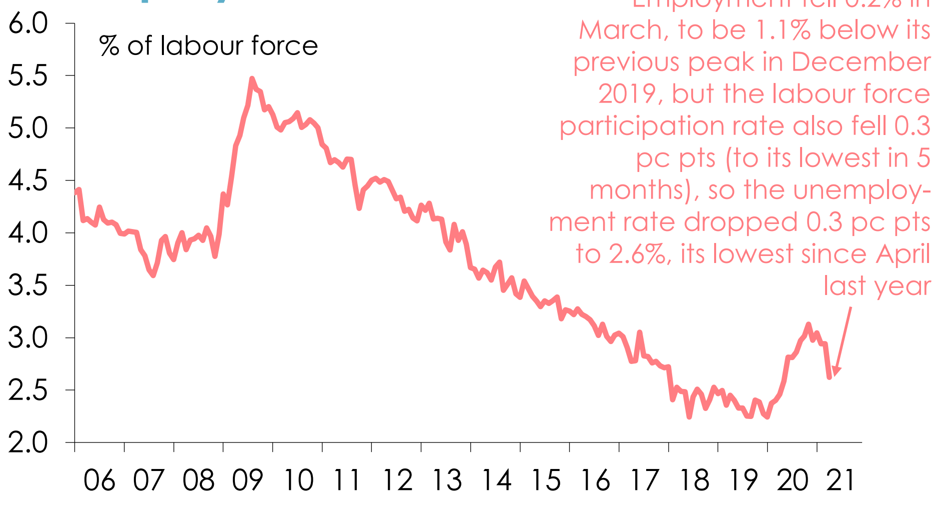
## Real GDP



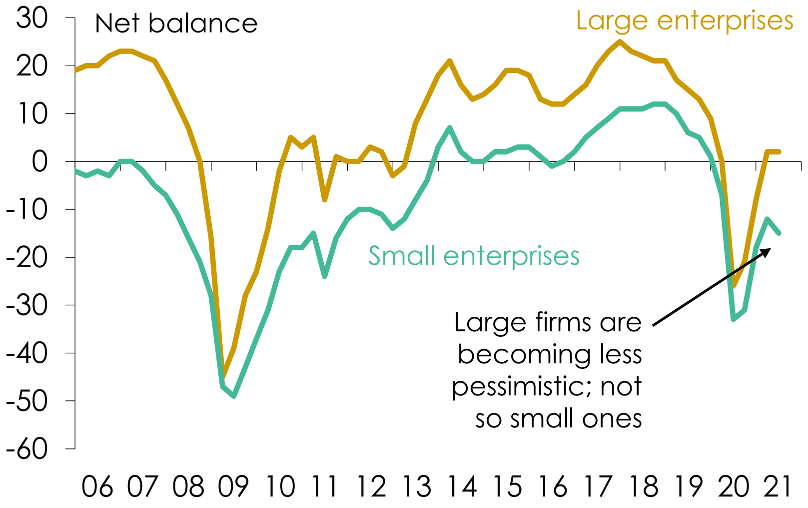

## Consumer confidence



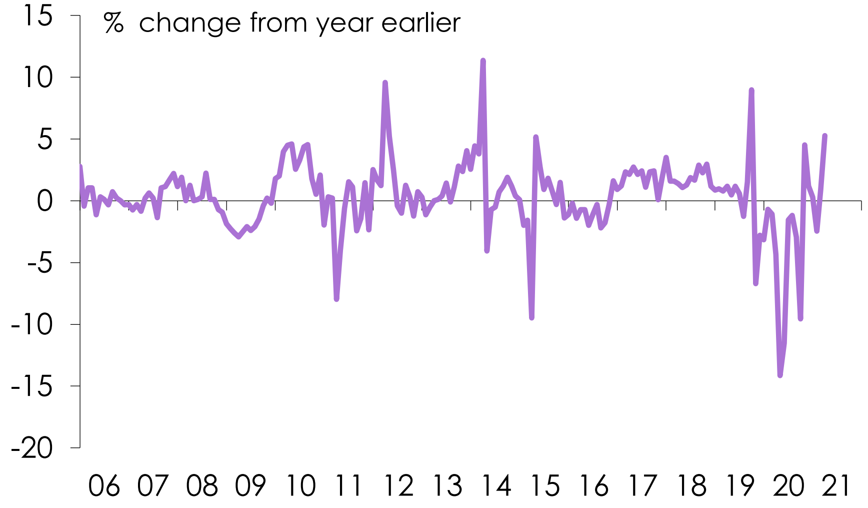

## Unemployment



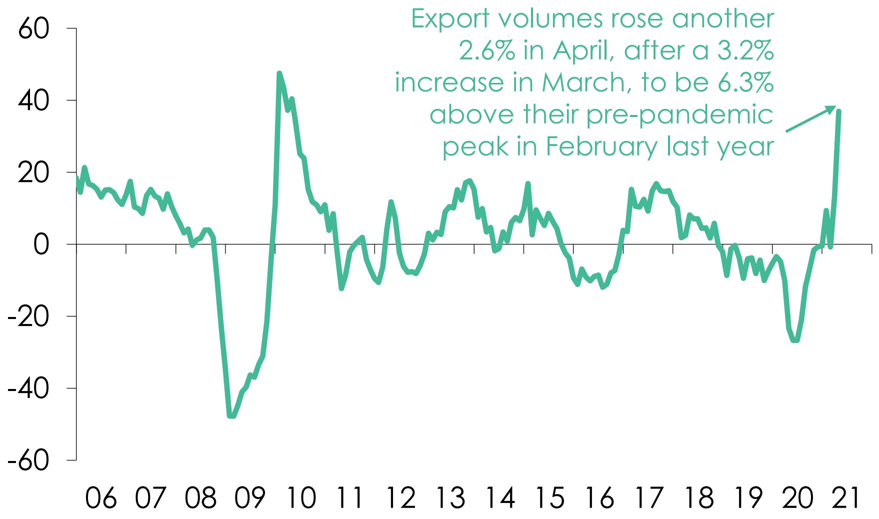

## BoJ *Tankan* business conditions




## 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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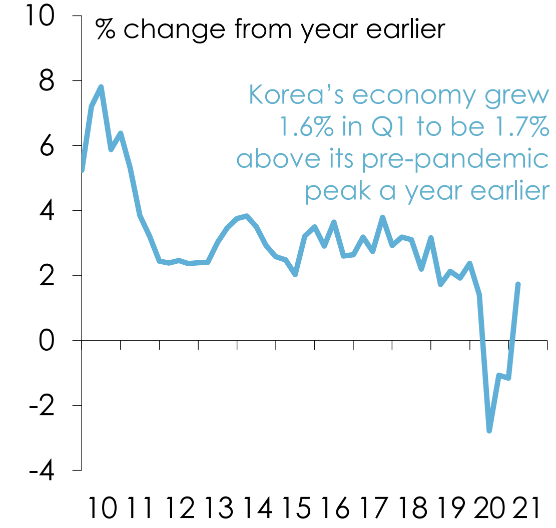
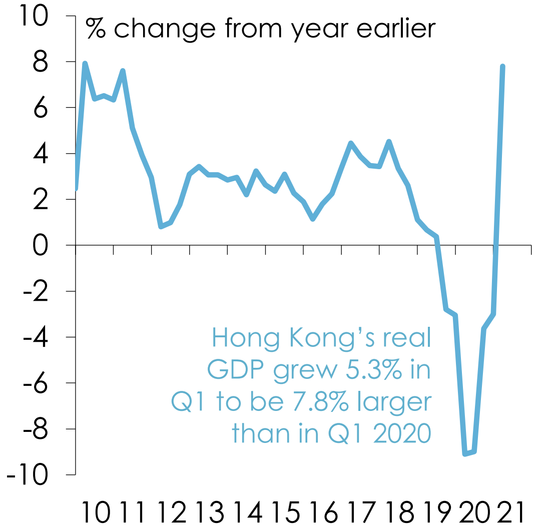
# Singapore, Hong Kong, Korea and (especially) Taiwan have surpassed their pre-pandemic levels of real GDP but Indonesia and Malaysia are yet to

## Korea




## Hong Kong



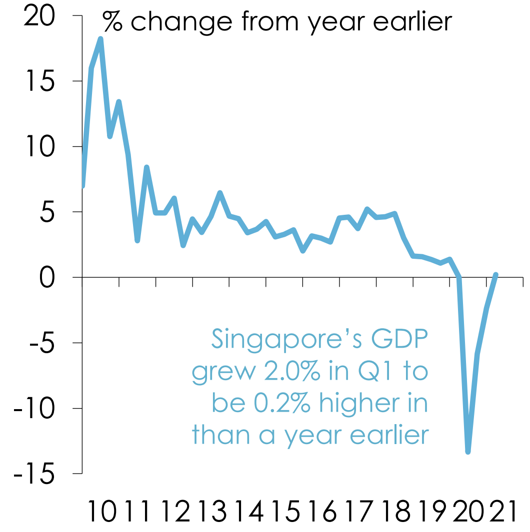

## Indonesia


## Thailand


## Vietnam

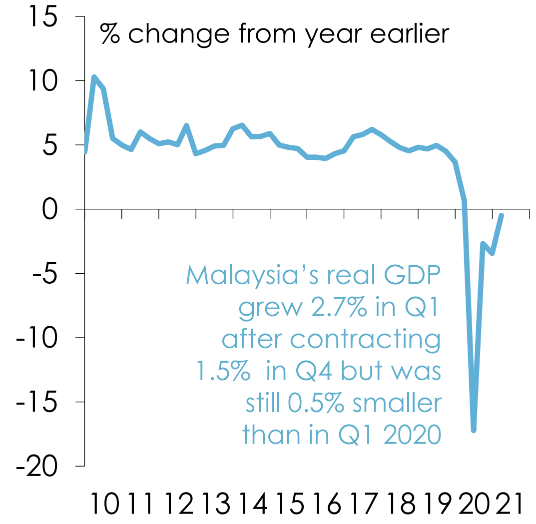

## Taiwan


## Singapore

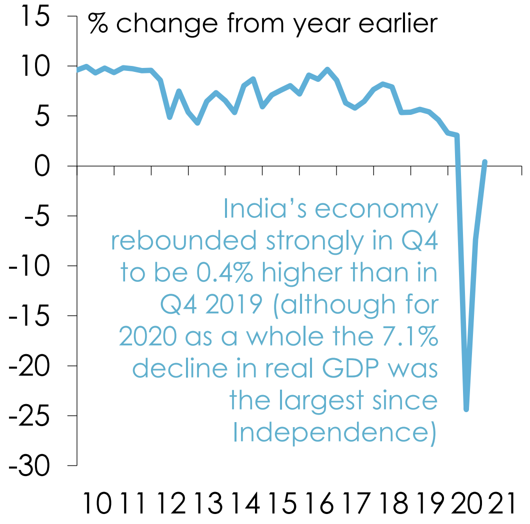



## Philippines


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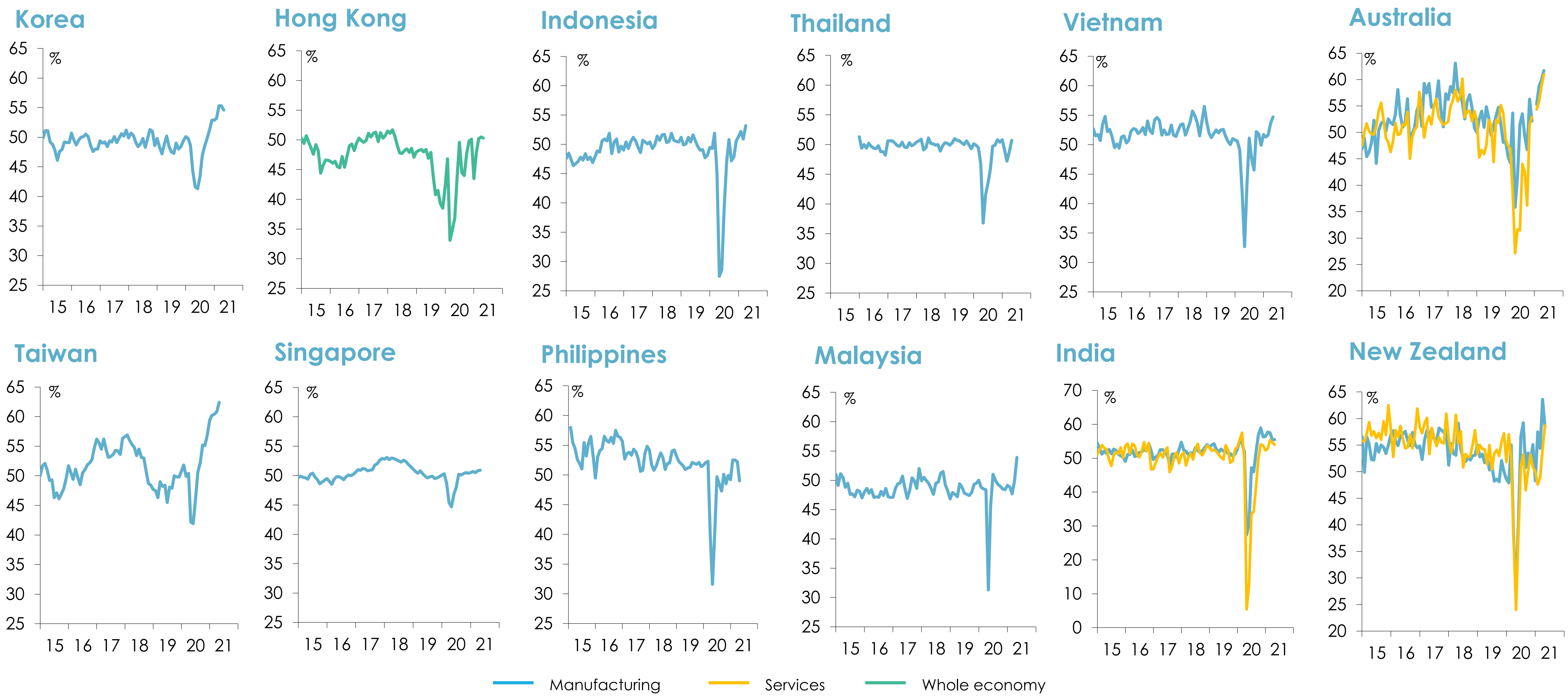
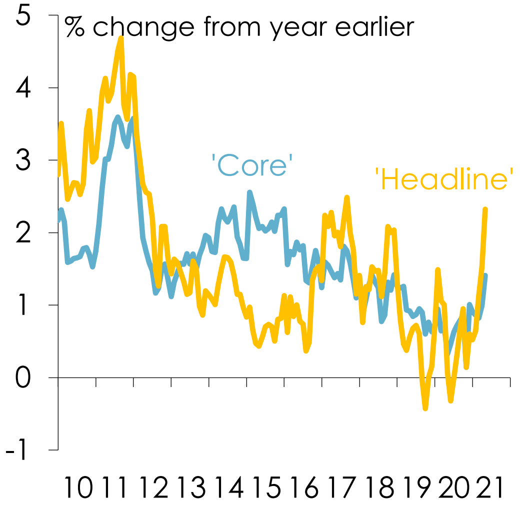
# Manufacturing activity continued to strengthen in most Asian economies (except Philippines and India) in April according to PMIs



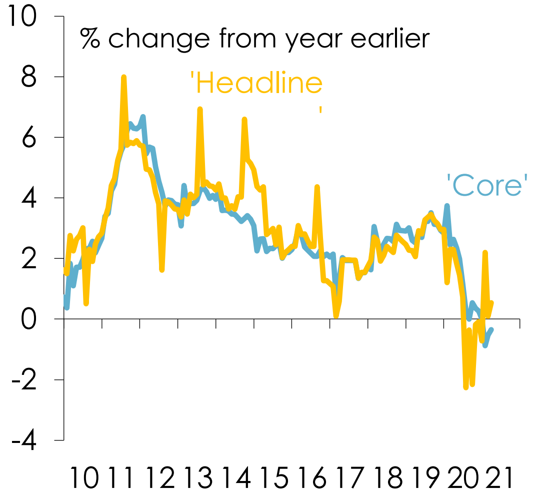

*Note:* Purchasing Managers' Indexes (PMIs) are derived from surveys of senior executives, who are asked to report whether various dimensions of business activity recorded an increase, decrease or no change compared with the previous month. A reading of 50 indicates an overall increase cf. the previous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

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

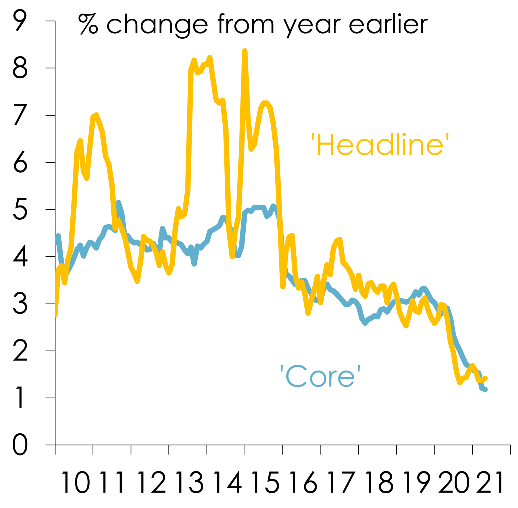
## Korea



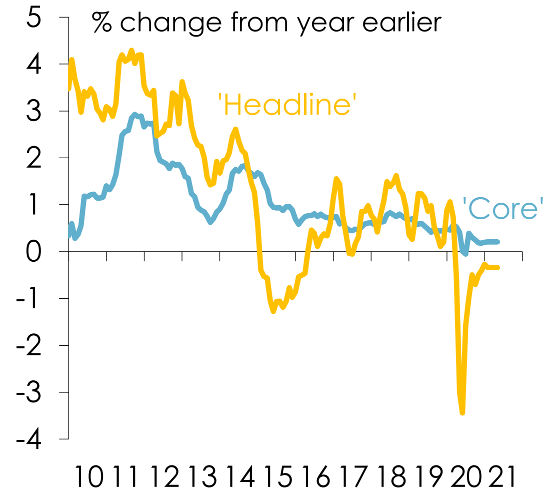

## Hong Kong



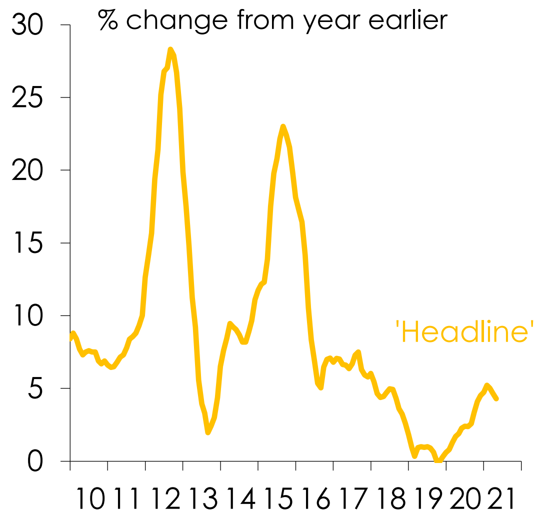

## Indonesia



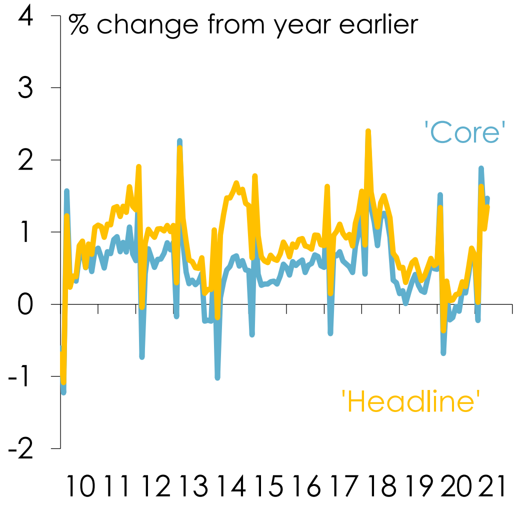

## Thailand



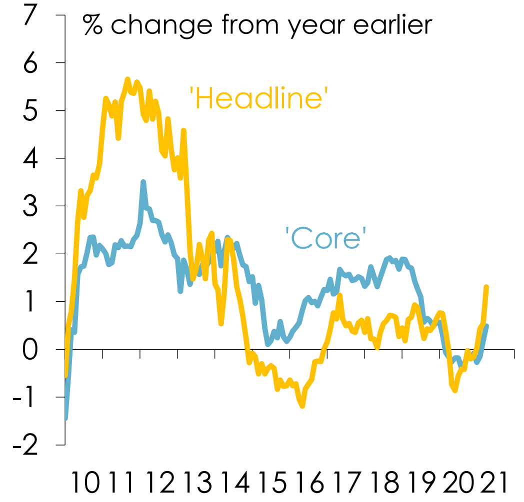

## Vietnam



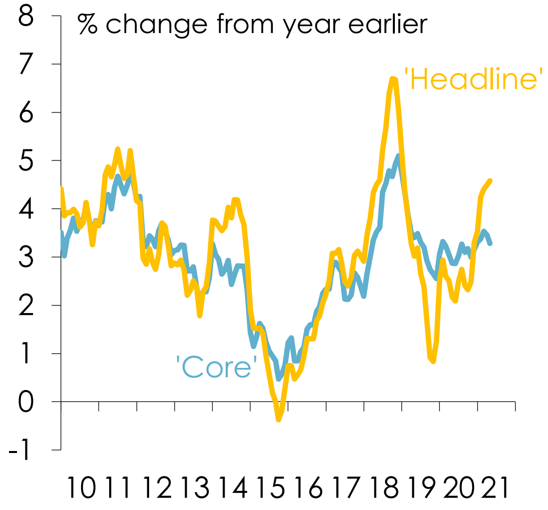

## Taiwan



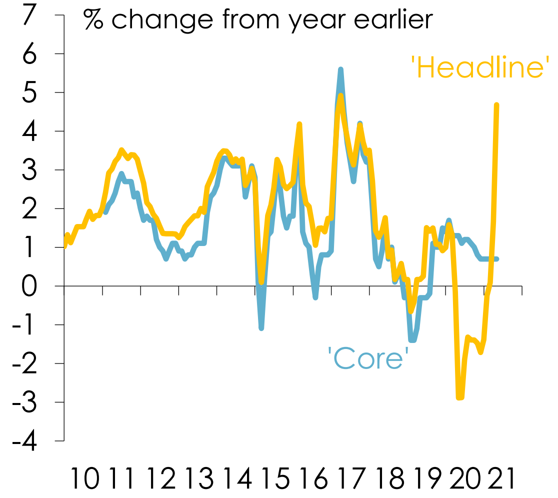

## Singapore



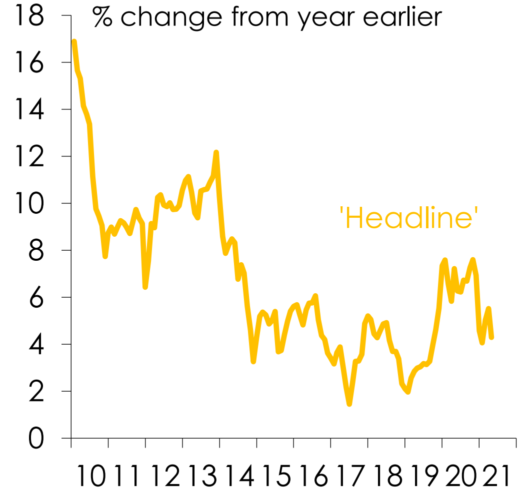

## Philippines




## Malaysia




## India




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



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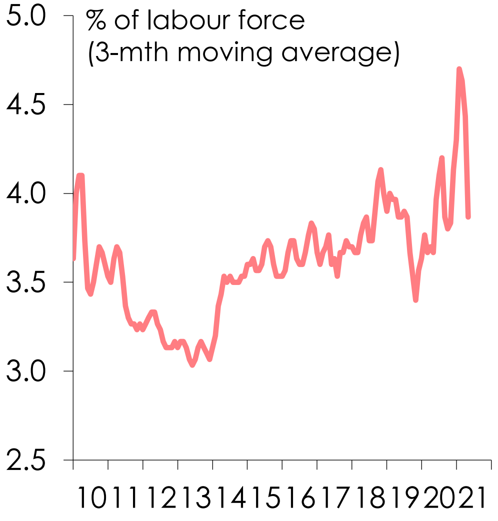
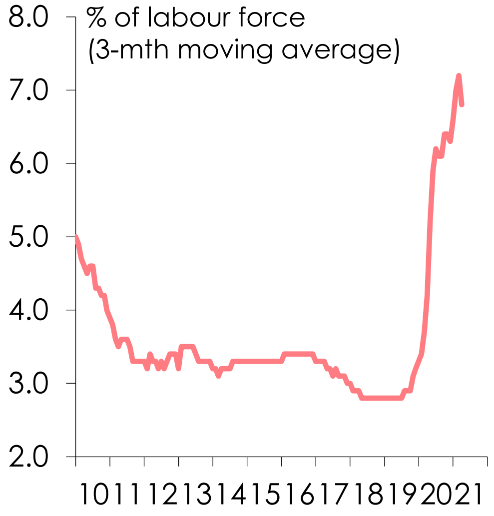
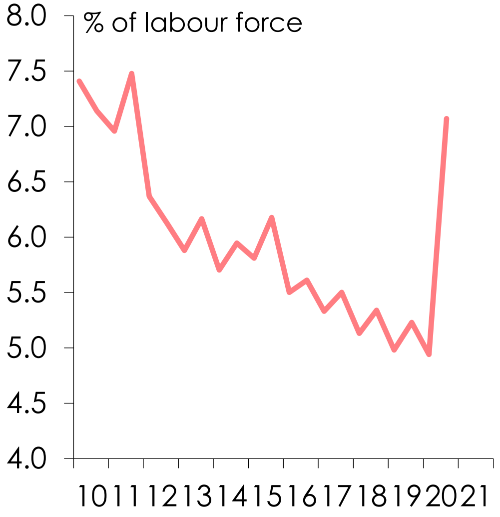
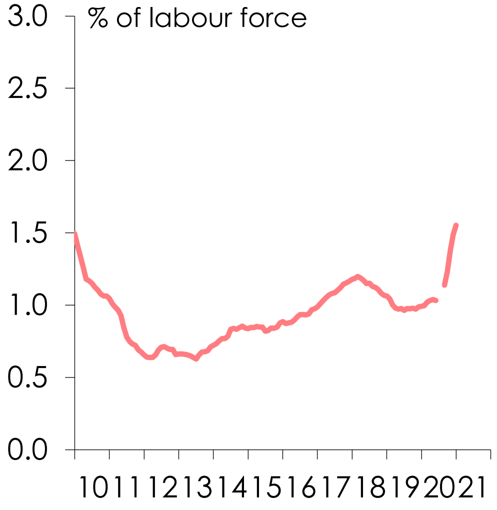
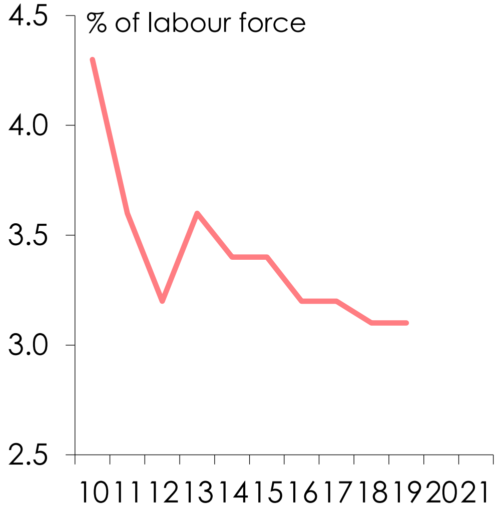
# Unemployment rose sharply in most Asian economies last year (except for Taiwan and Thailand) but is now falling in most of them

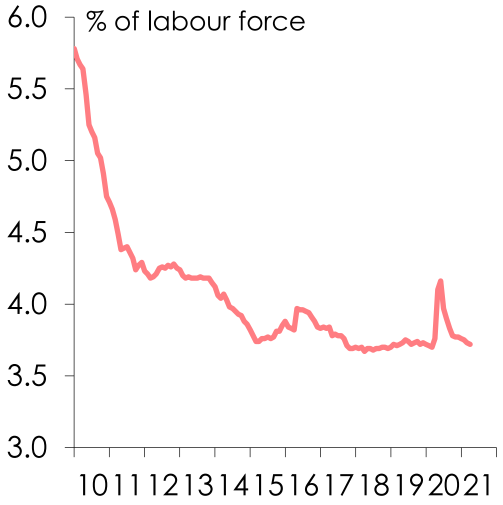
### Korea


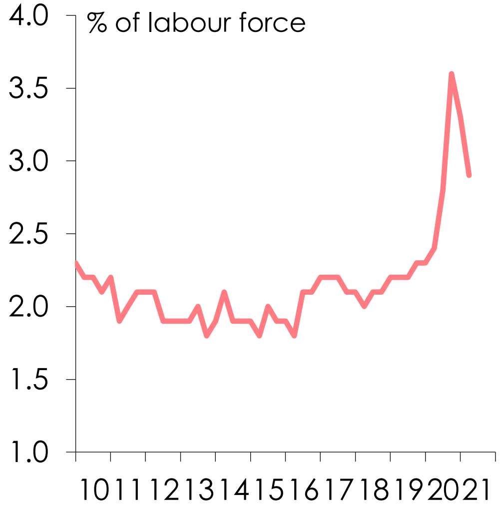

### Hong Kong


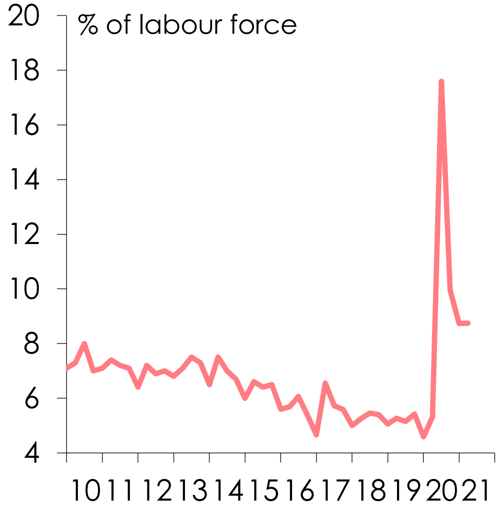

### Indonesia


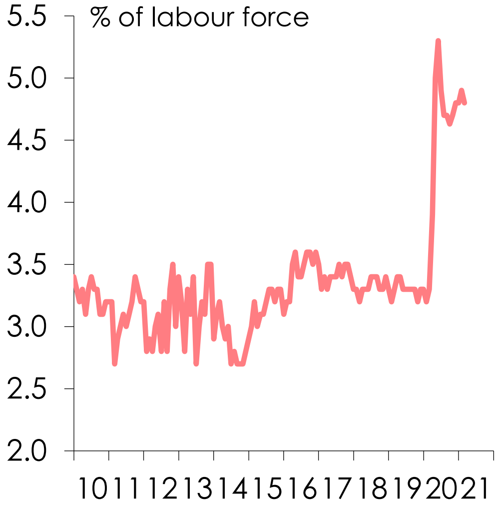

### Thailand



### Vietnam



### Taiwan



### Singapore



### Philippines



### Malaysia
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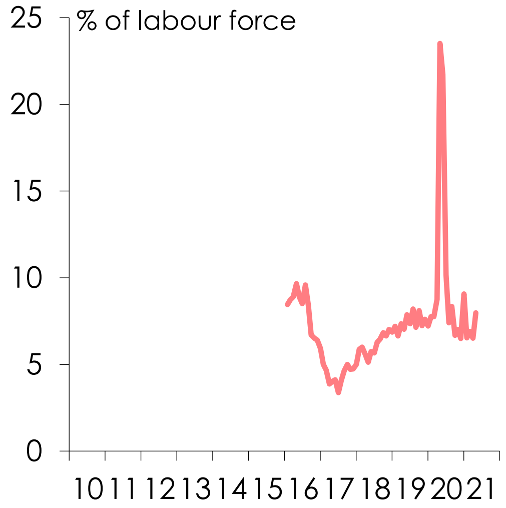


*Note:* Unemployment data is published monthly in Korea, Taiwan, Hong Kong, Thailand and Malaysia; quarterly in Singapore and the Philippines; semi-annually (February and August) in Indonesia; and annually in Vietnam (with the latest reading being for 2019). There is no official unemployment data in 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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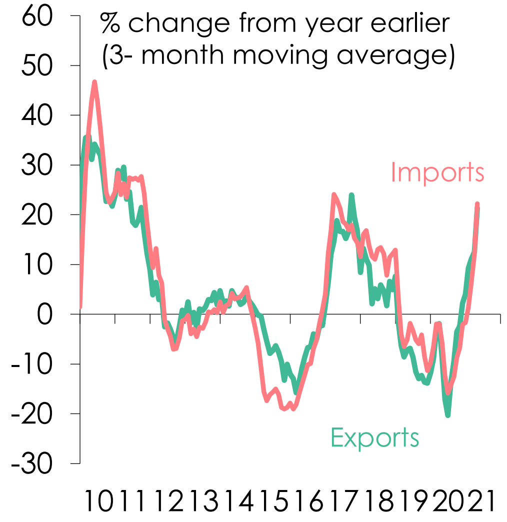
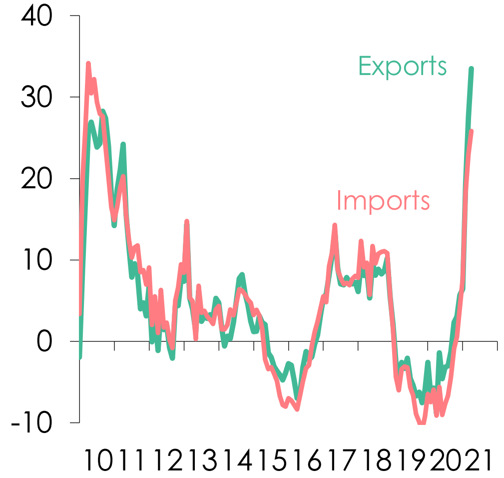
# Asian exports are recovering from the Covid-induced slump – although 'base effects' from this time last year are inflating the growth

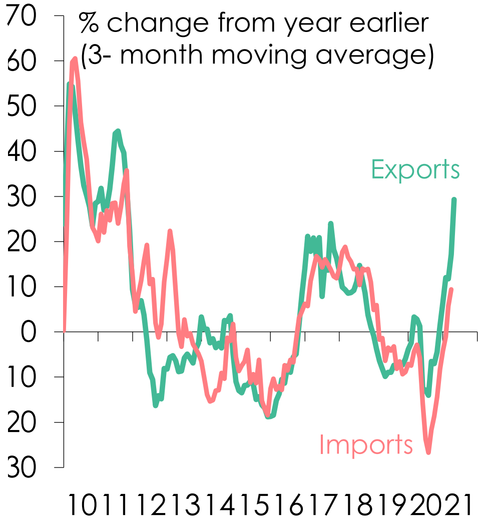
## Korea



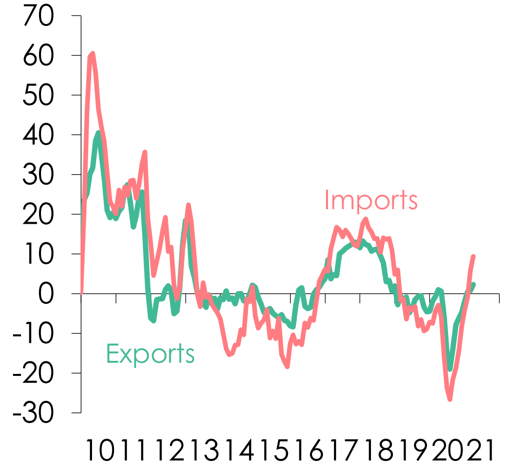

## Hong Kong



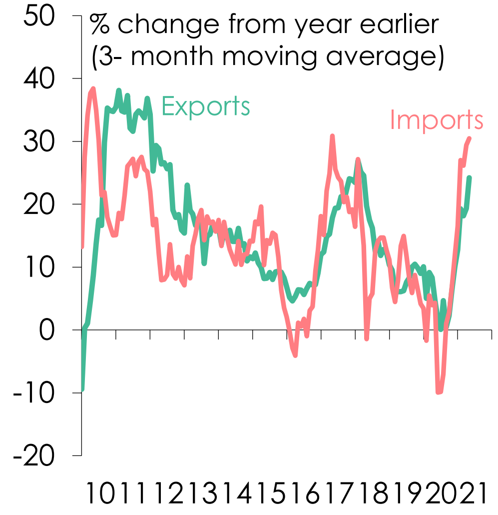

## Indonesia



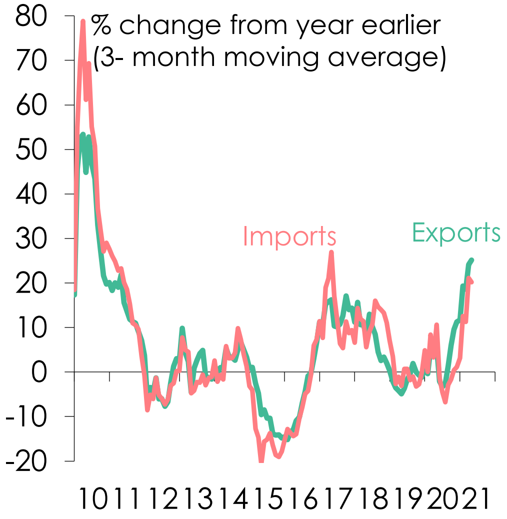

## Thailand



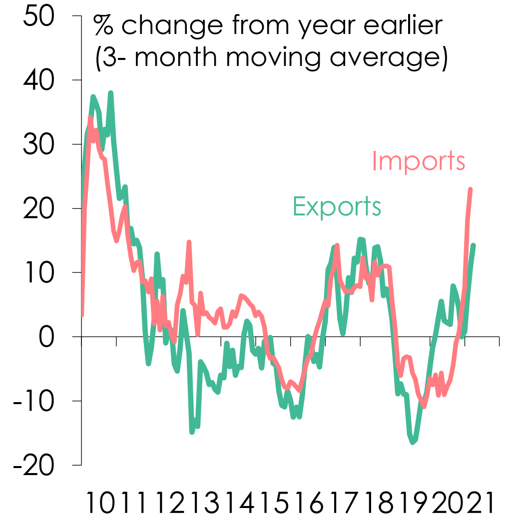

## Vietnam



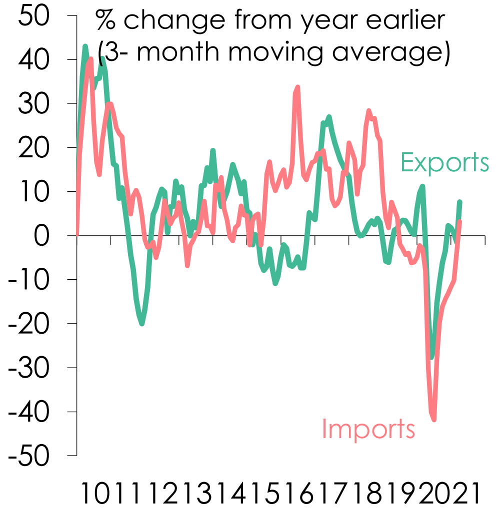

## Taiwan



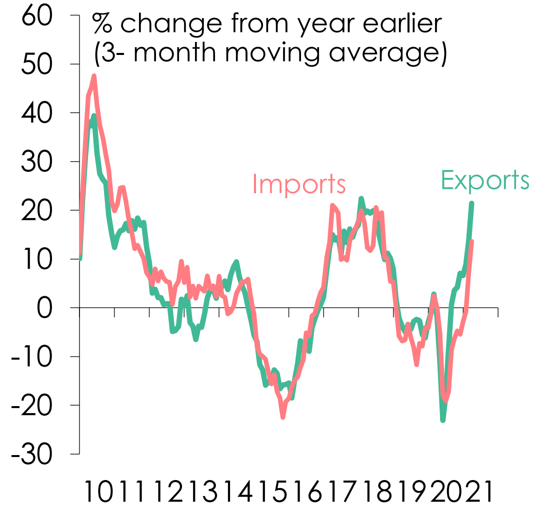

## Singapore



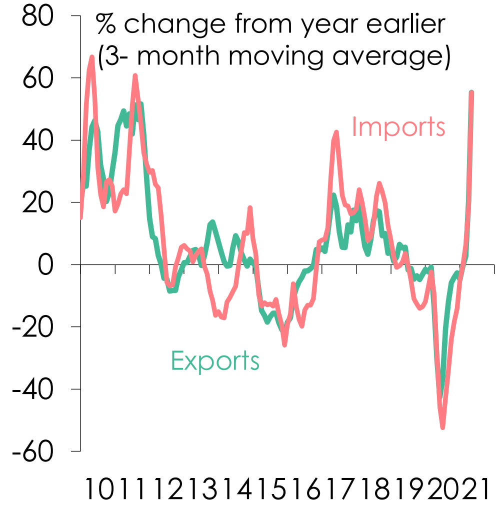

## Philippines




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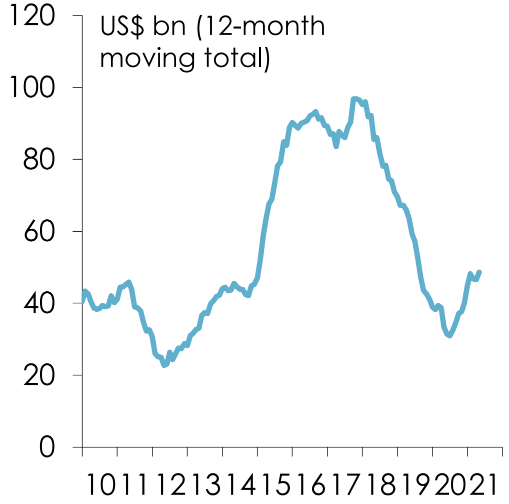
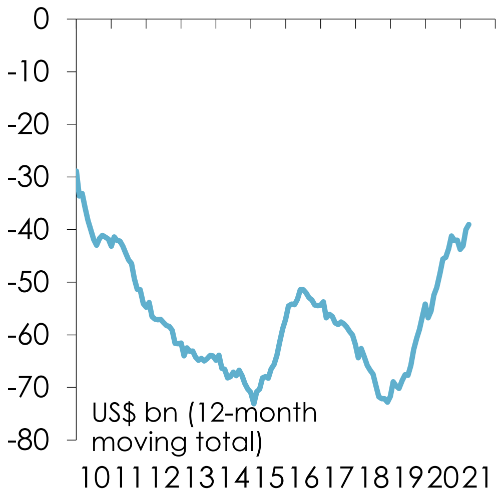
# All Asian economies have experienced improvements in their trade balances since the onset of Covid-19

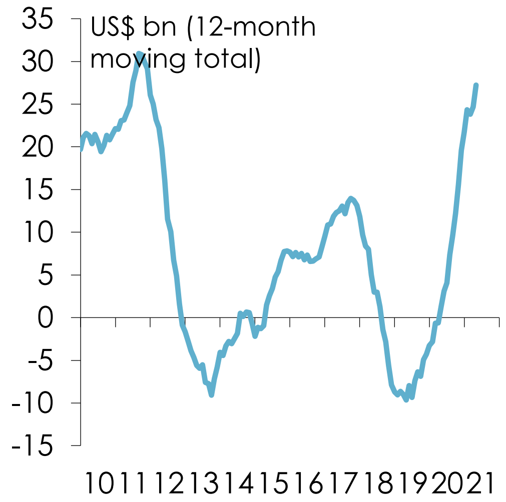
Korea



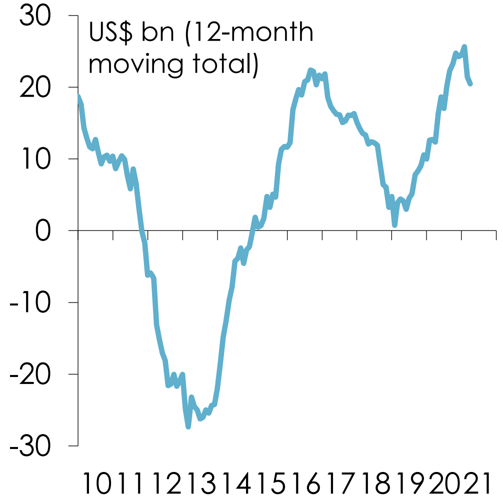

Hong Kong



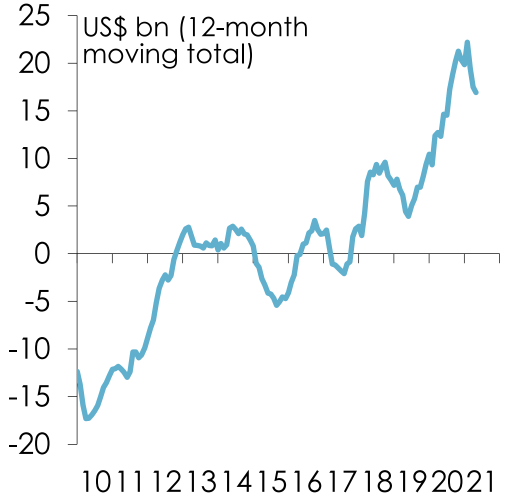

Indonesia



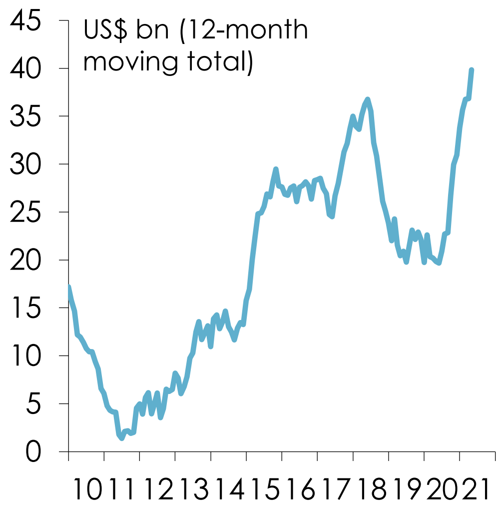

Thailand



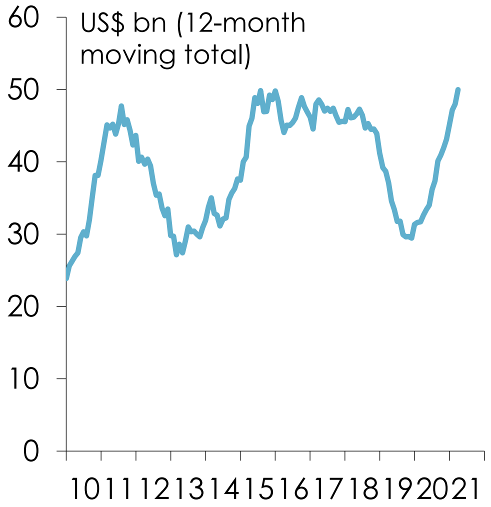

Vietnam



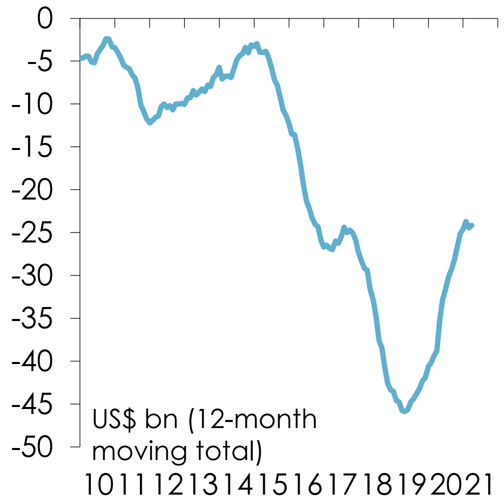

Taiwan



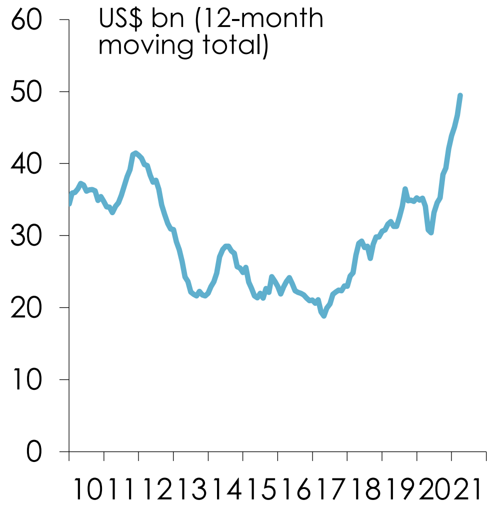

Singapore



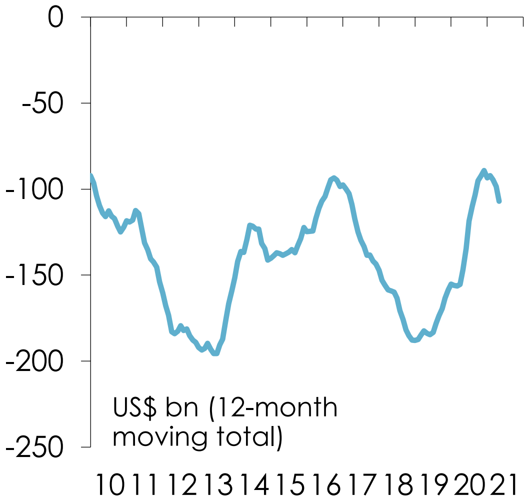

Philippines




Malaysia



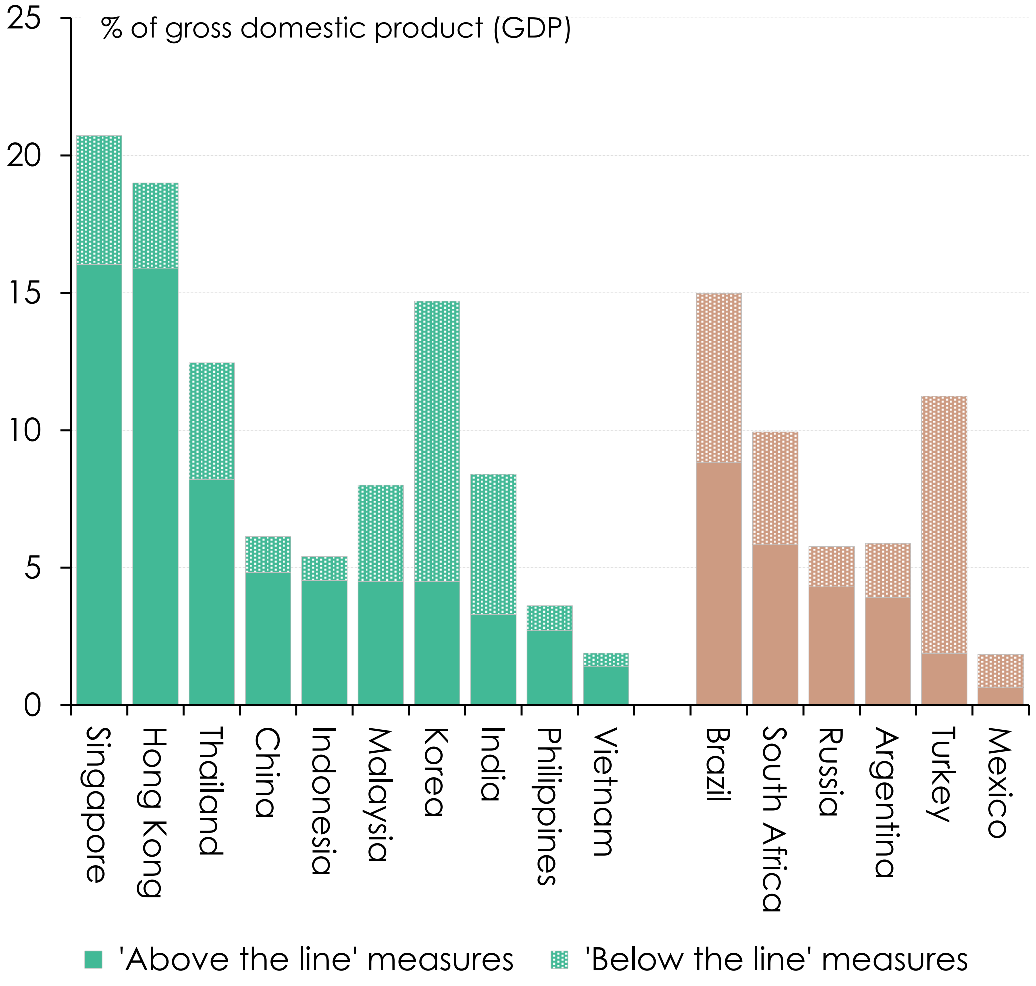

India



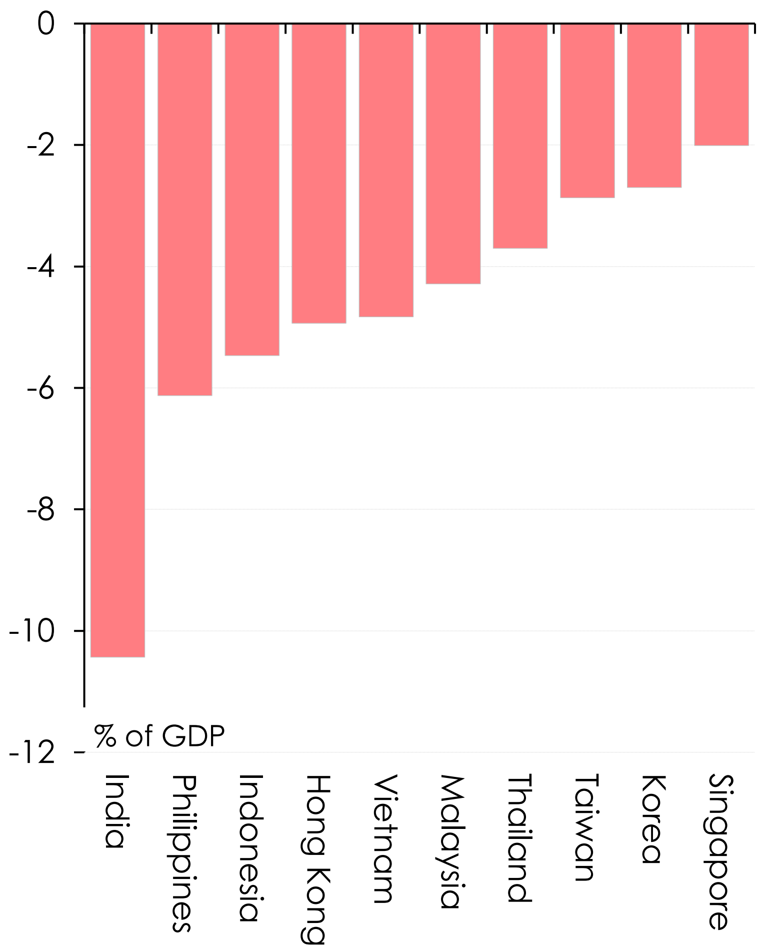

*Note:* Data for Hong Kong and Singapore published in national currencies and converted to US dollars by Corinna using month-average exchange rates.
*Sources*: national statistical agencies and central banks. [Return to "What's New"](#).

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

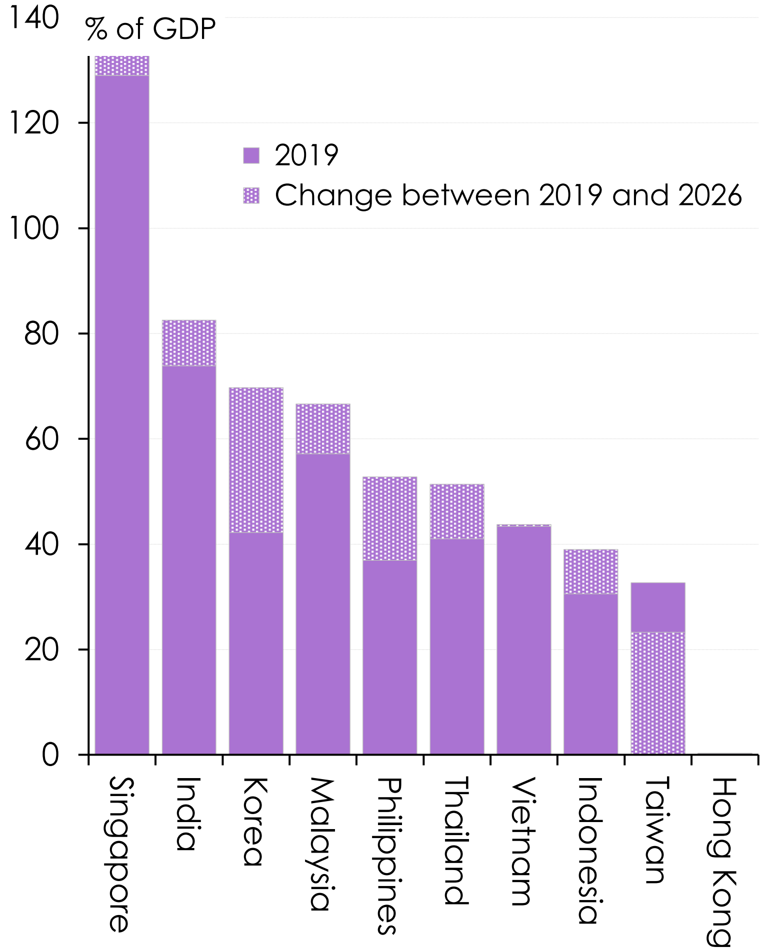
## Fiscal policy responses to Covid-19 – Asian & other selected emerging market economies




## Budget balances – Asian economies 2020-2022

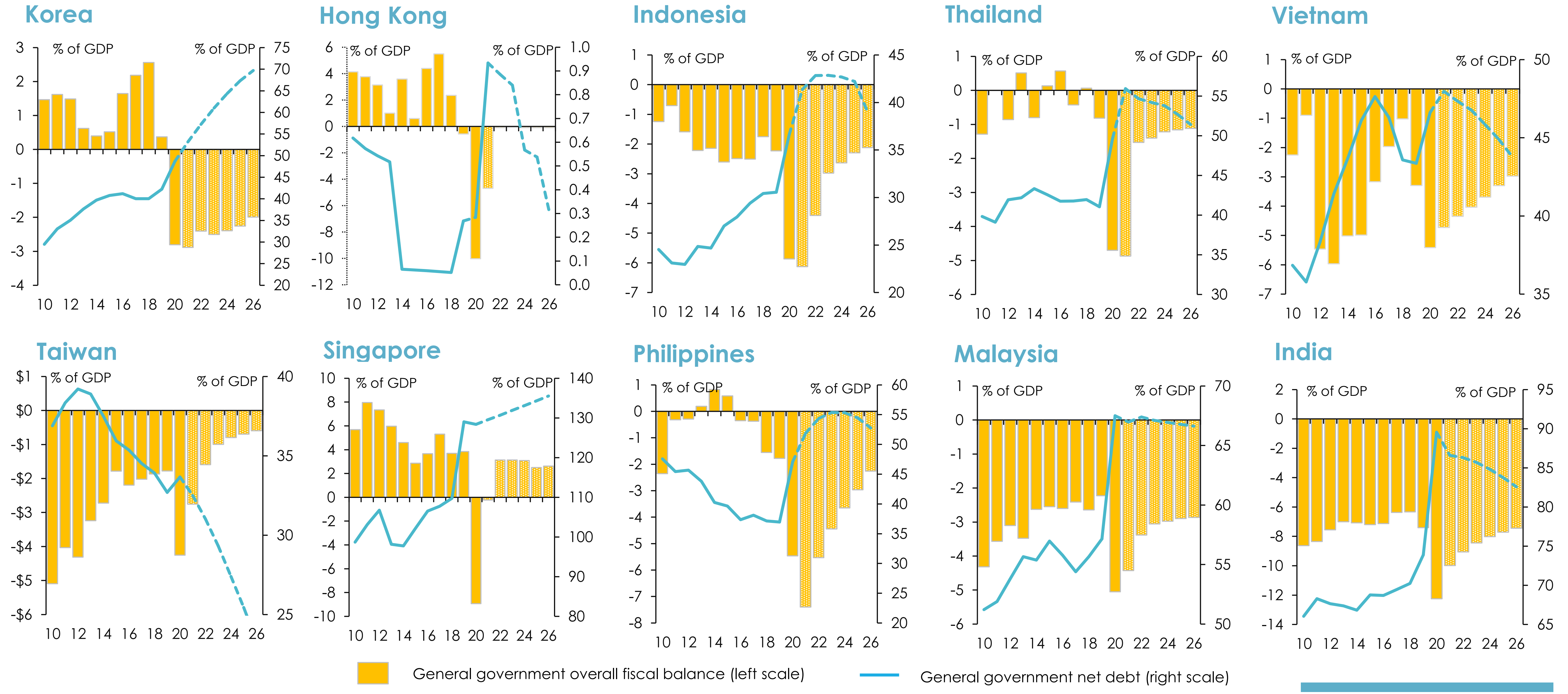



## Gross government debt – Asian economies 2019-26




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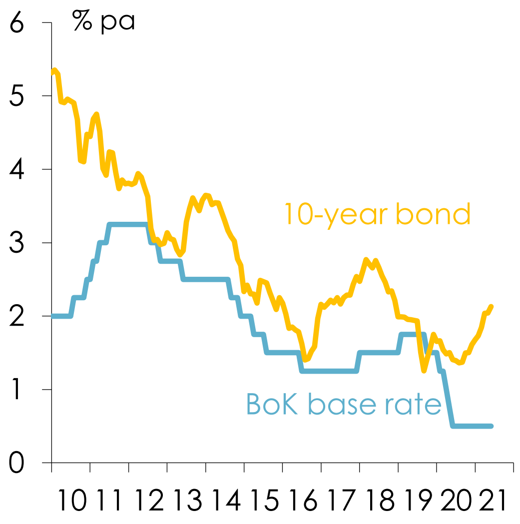
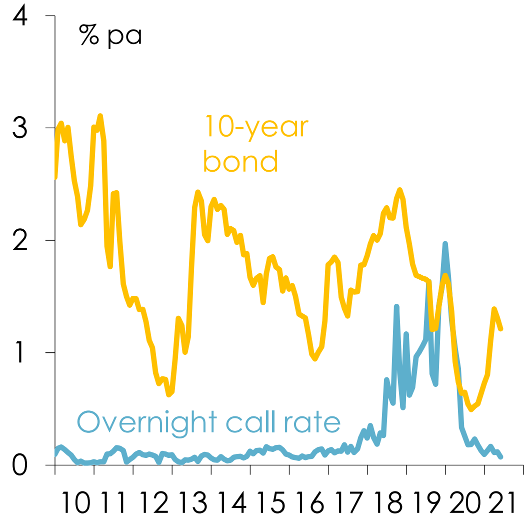
# Asian bond markets have been reasonably well insulated from the global bond market sell-off this year – except for HK, Singapore and Korea

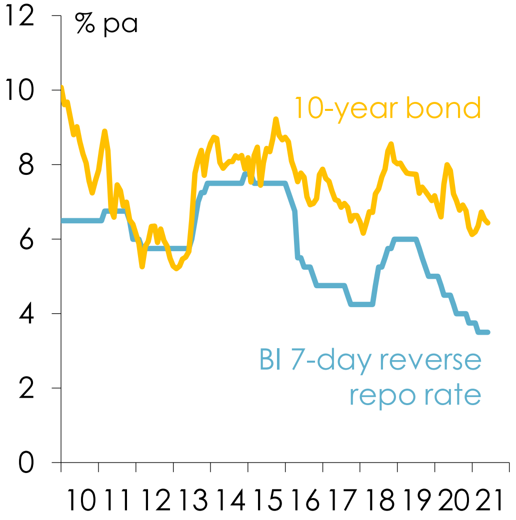
## Korea



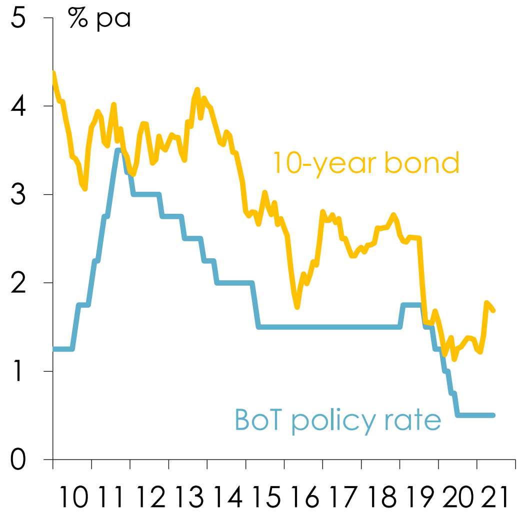

## Hong Kong



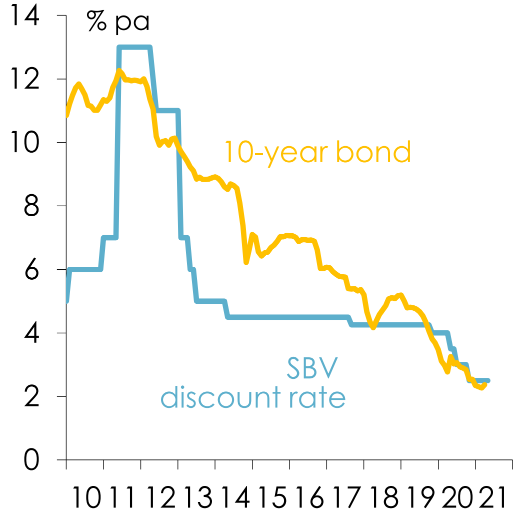

## Indonesia



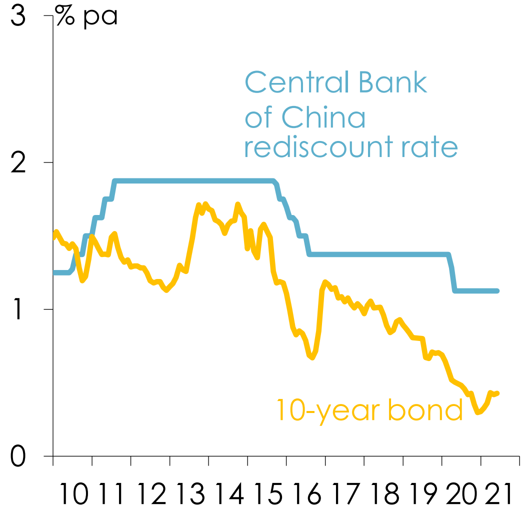

## Thailand



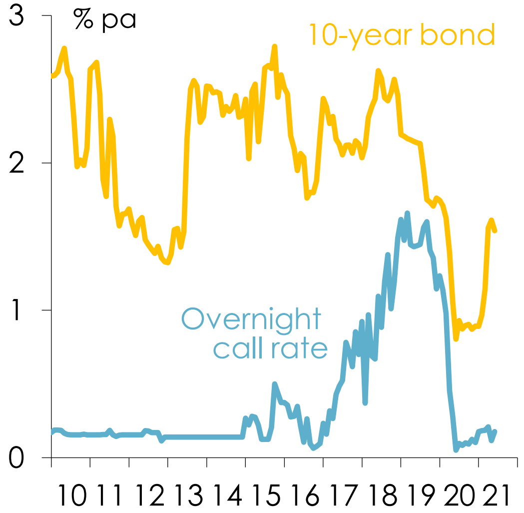

## Vietnam



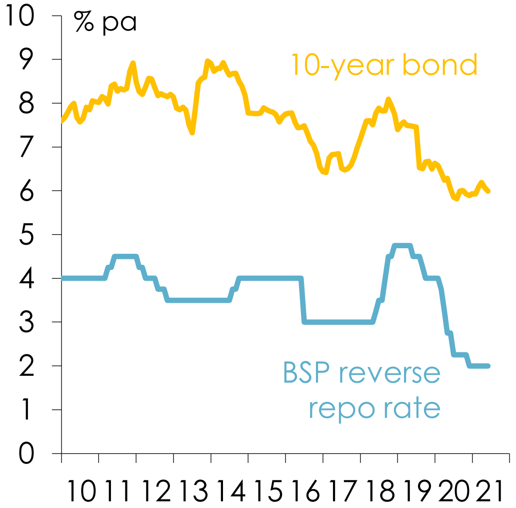

## Taiwan



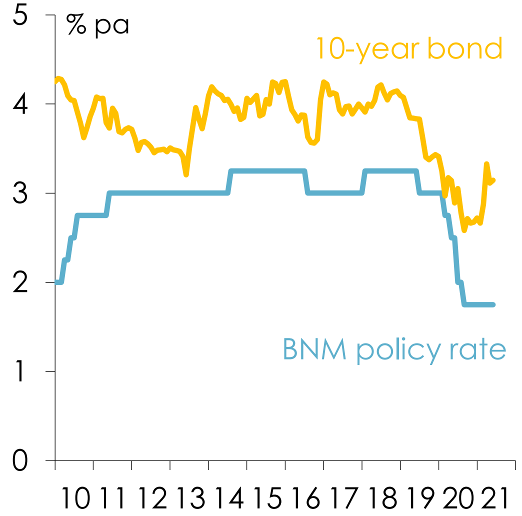

## Singapore



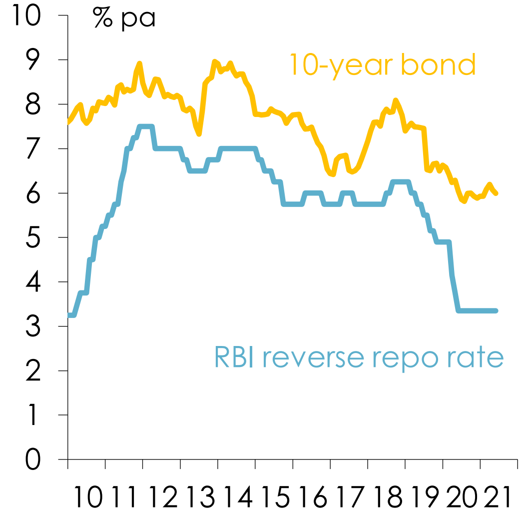

## Philippines




## Malaysia



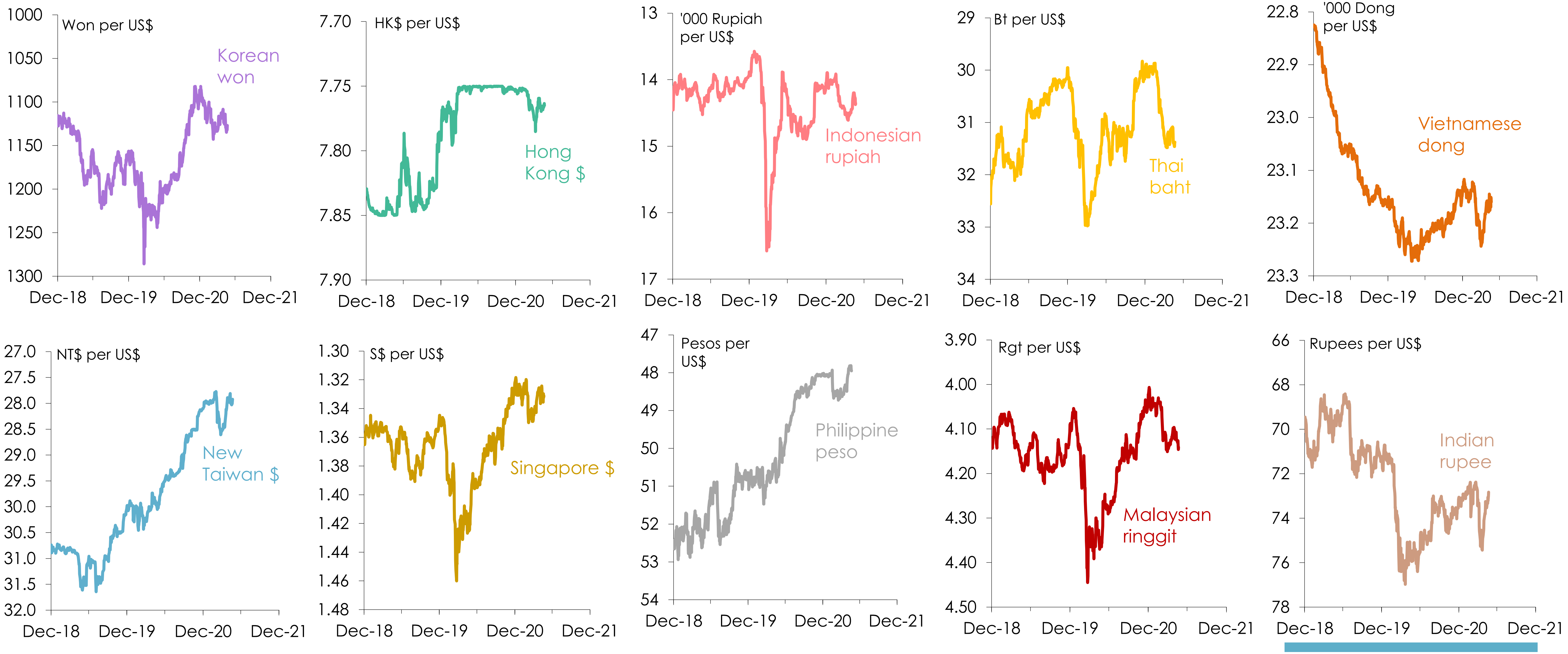

## India




*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 with the rupiah down 1.1%, the ringgit down 0.4% and the peso 0.3%, but the rupee up 0.7% and the NT$ up 0.3%

## Asian currency exchange rates vs US dollar

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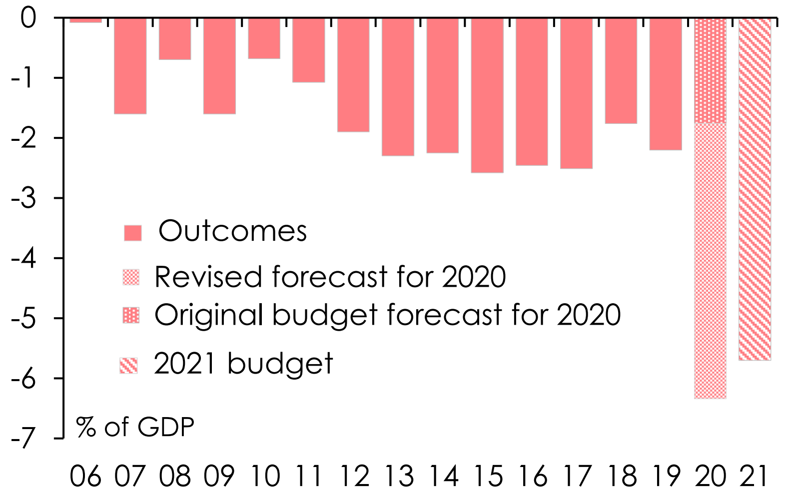
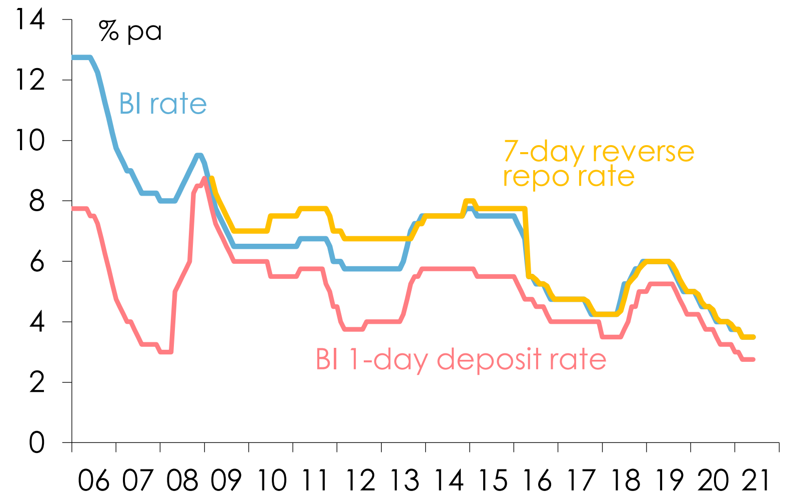
*Note:* Data up to 21st May. Source: Refinitiv Datastream. Return to "What's New".

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

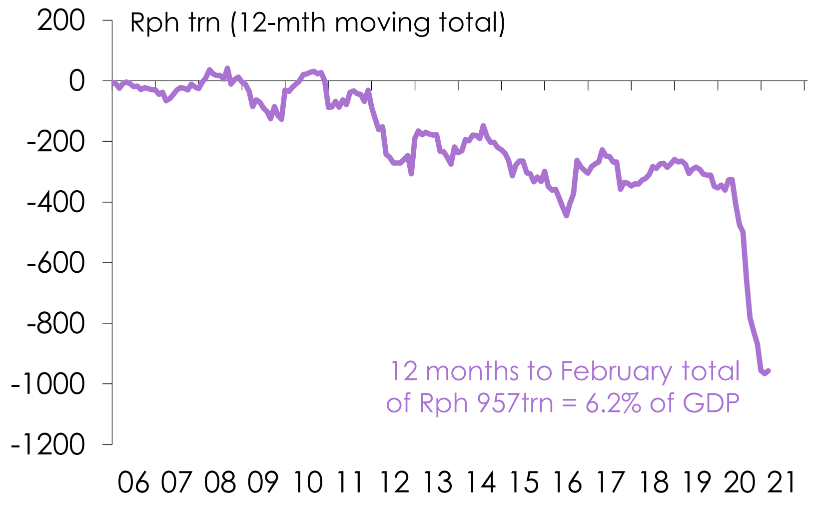
## Indonesia budget deficit



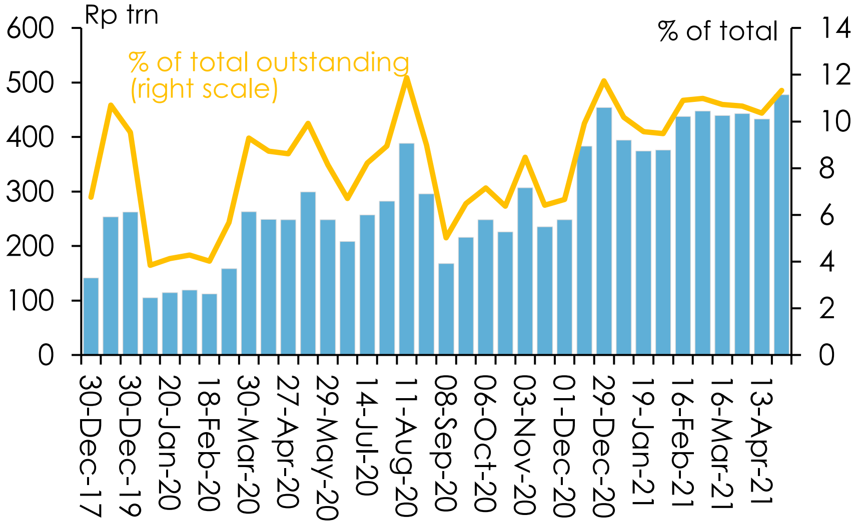

## BI monetary policy rates




## Central gov't budget balance




## BI holdings of tradeable SBNs

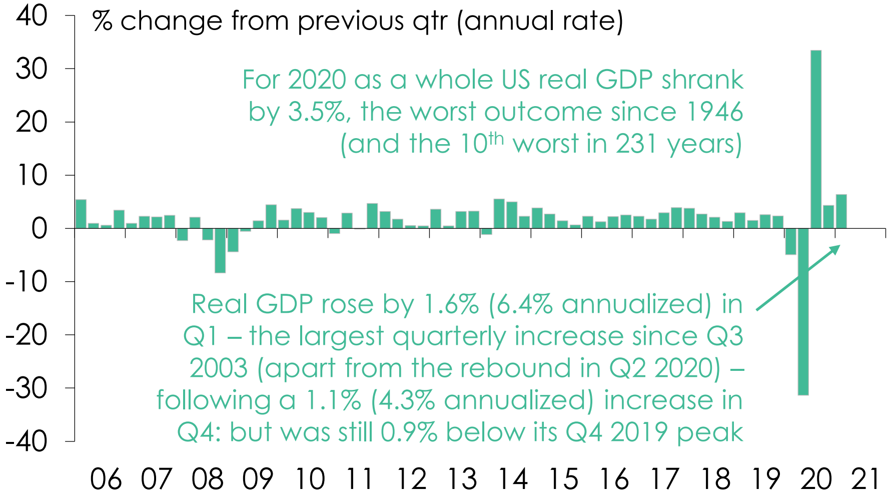



- **In April 2020, the Indonesian Government and Bank Indonesia (BI) agreed to a 'burden-sharing' scheme under which BI will directly purchase bonds equivalent to 25% of this year's budget financing requirement (and return the interest received to the Government), as well as subsidizing interest payments 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**

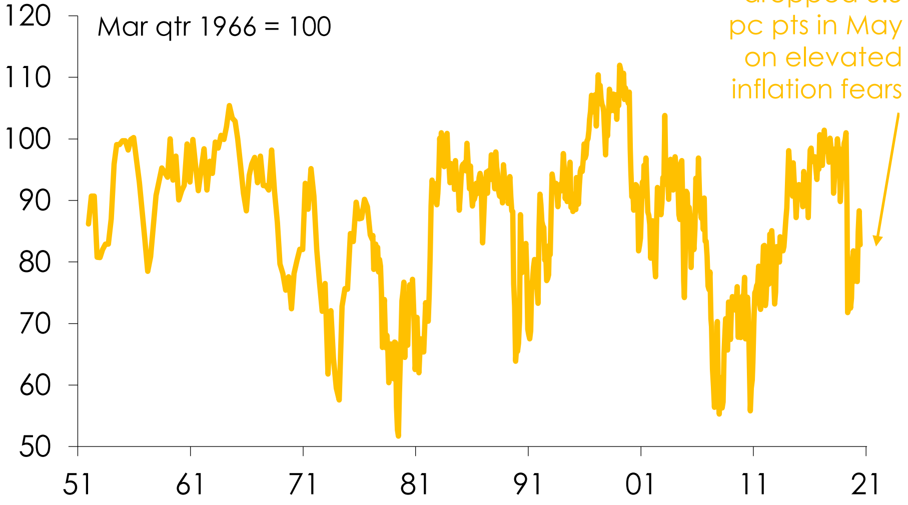
*Sources:* Indonesia Ministry of Finance (Kementarian Keuangan); Directorate of Government Debt Securities; Bank Indonesia.
Return to "What's New".

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

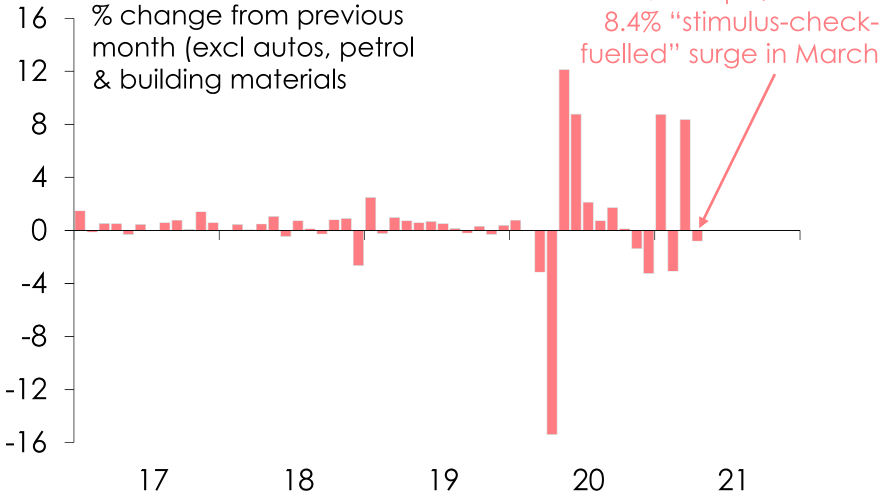
## Real GDP



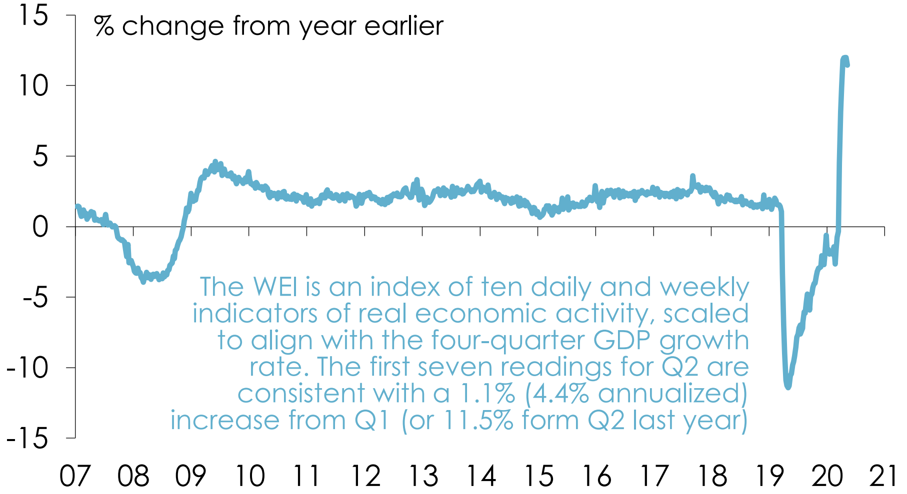

## Consumer sentiment



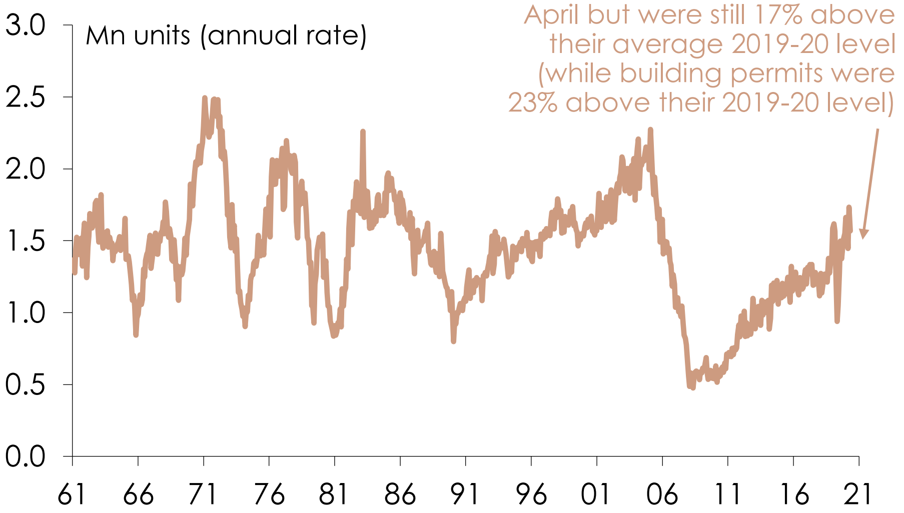

## 'Core' retail sales



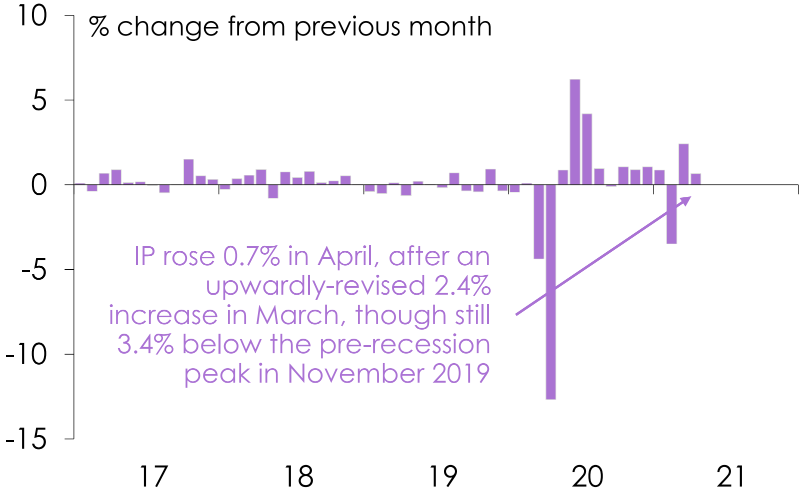

## NY Fed weekly economic index




## Housing starts



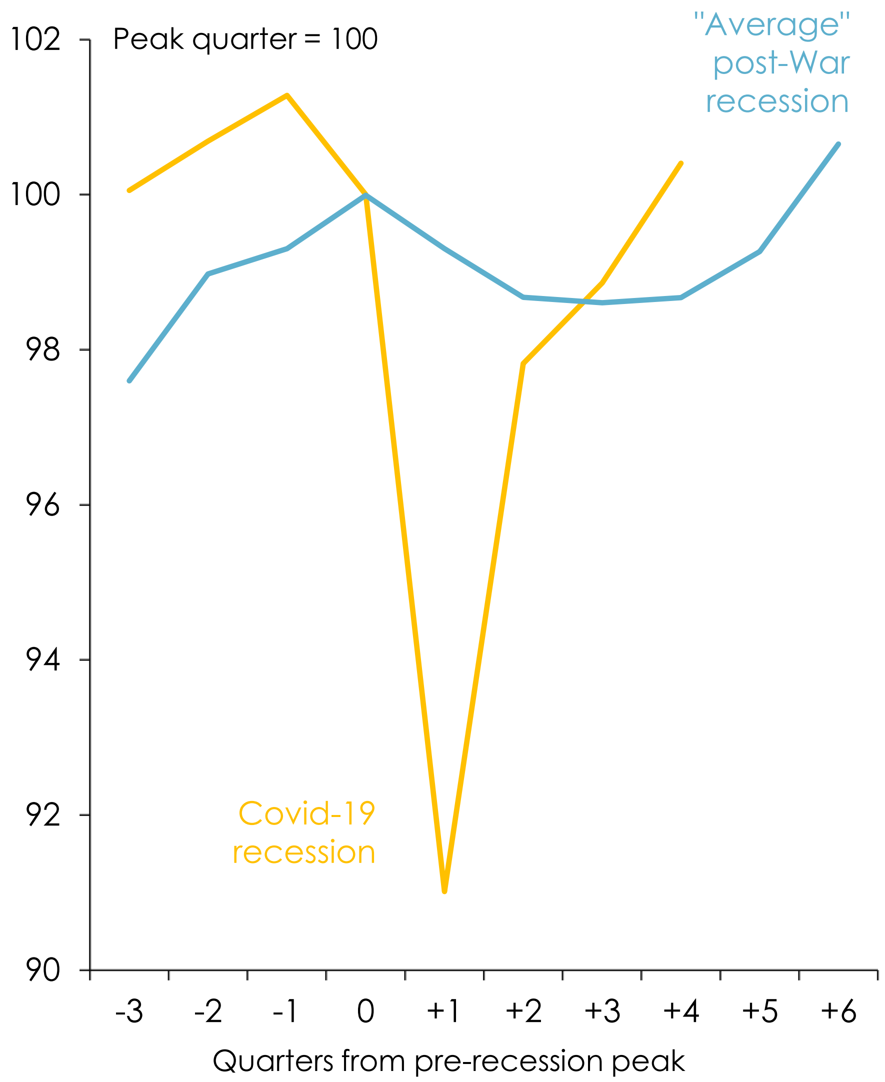

## Industrial production




*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".

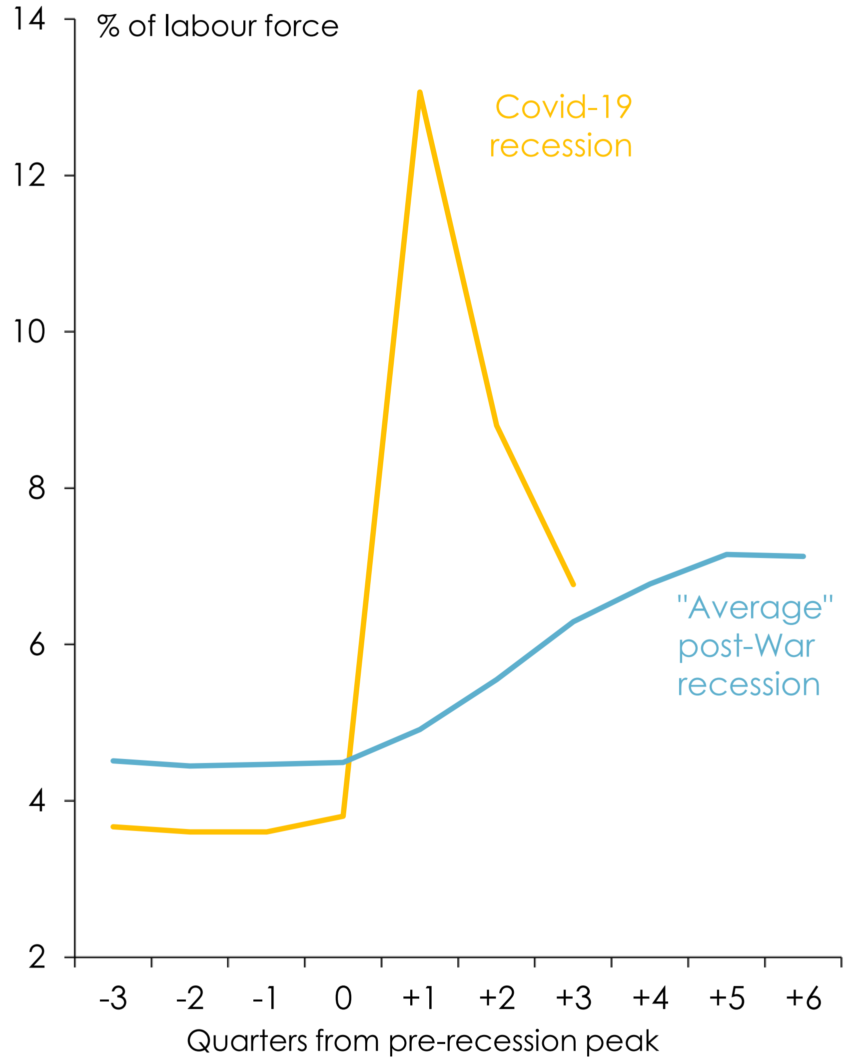
# The Covid-19 recession has been quite unlike any other of the recessions the US has experienced since the end of World War II

## Level of real GDP




## Non-farm payroll employment


## Unemployment rate




*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".

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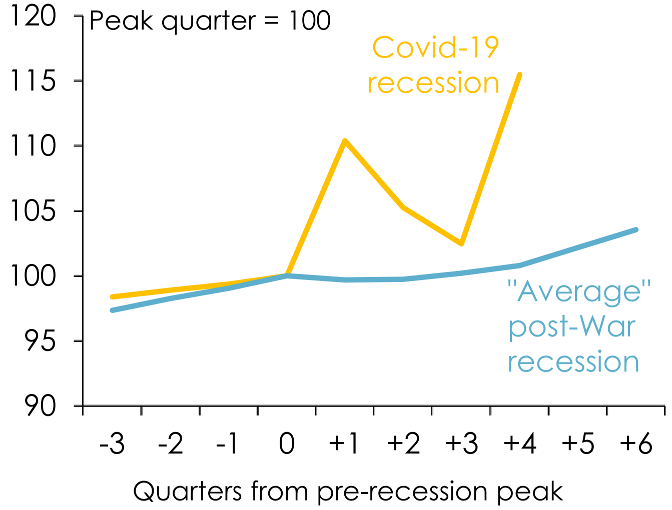
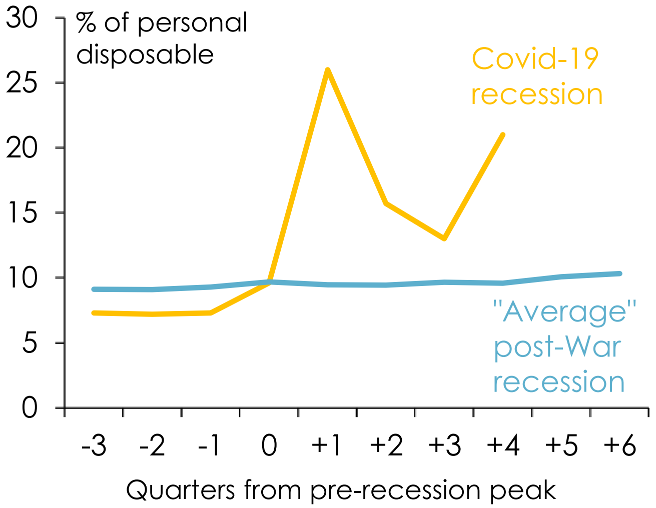
# The differences between this recession and previous ones are even more apparent from some of the details in the national accounts

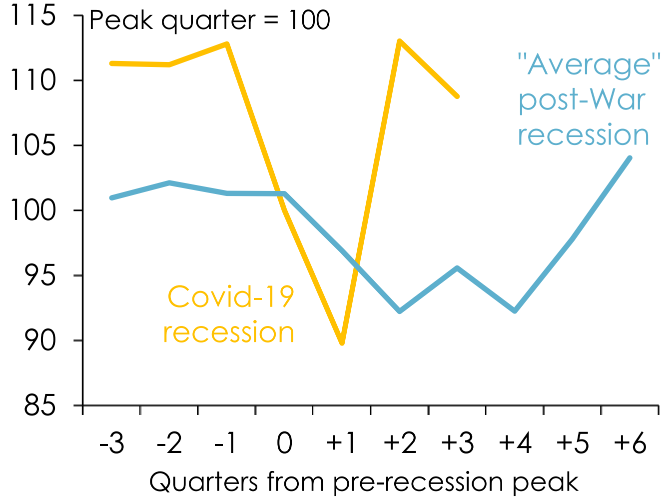
## Personal disposable income



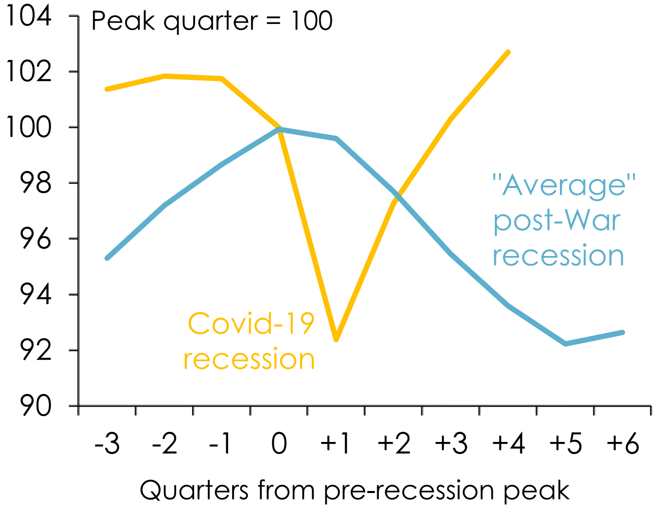

## Personal saving rate



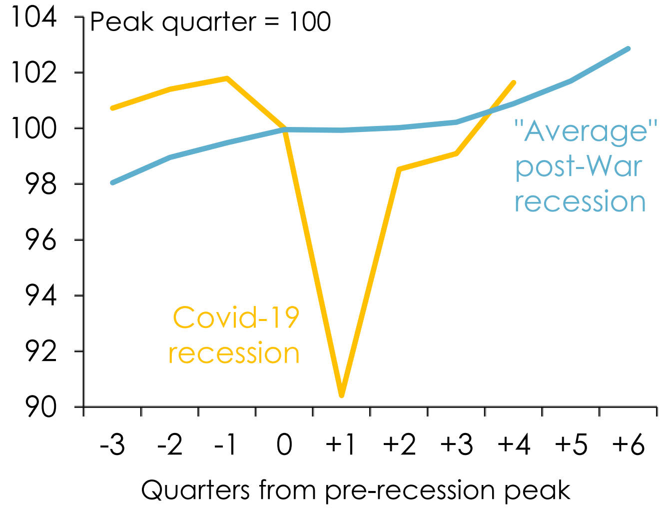

## After-tax corporate profits



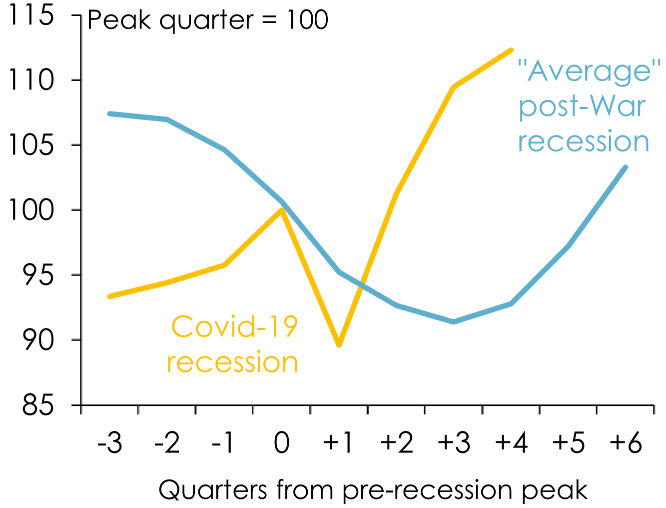

## Labour productivity



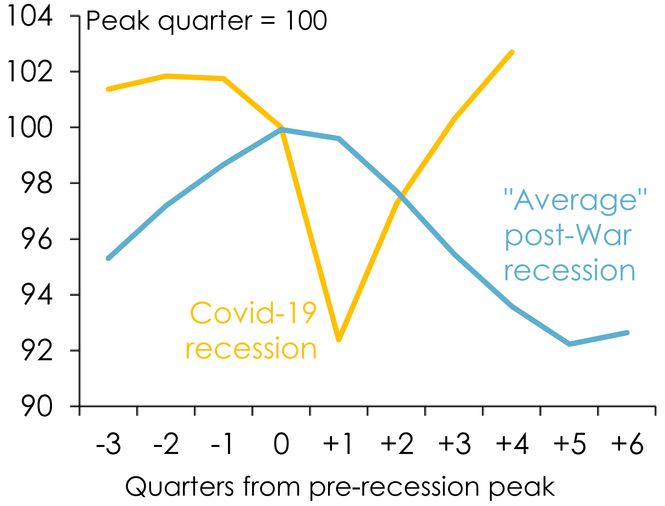

## Personal consumption



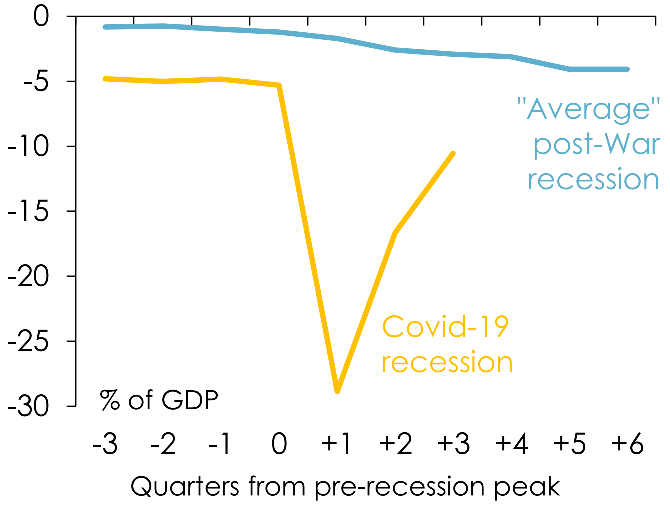

## Residential investment




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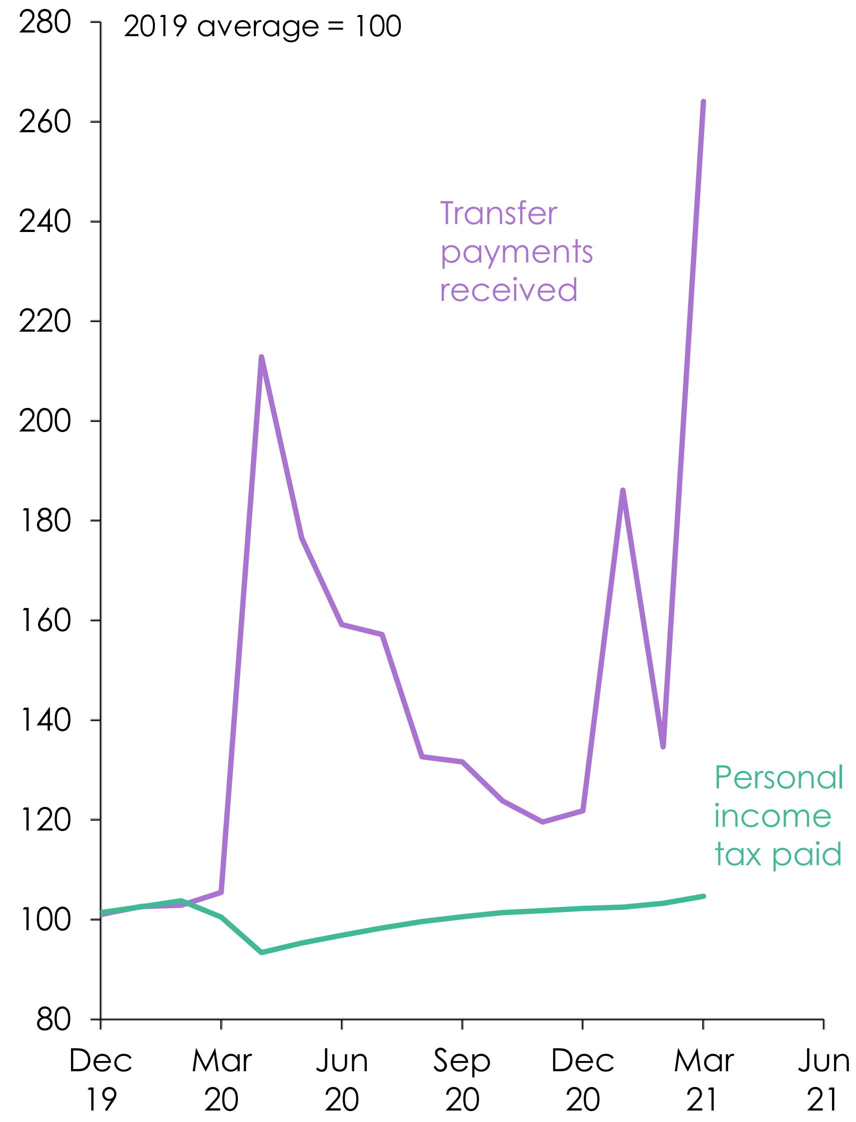
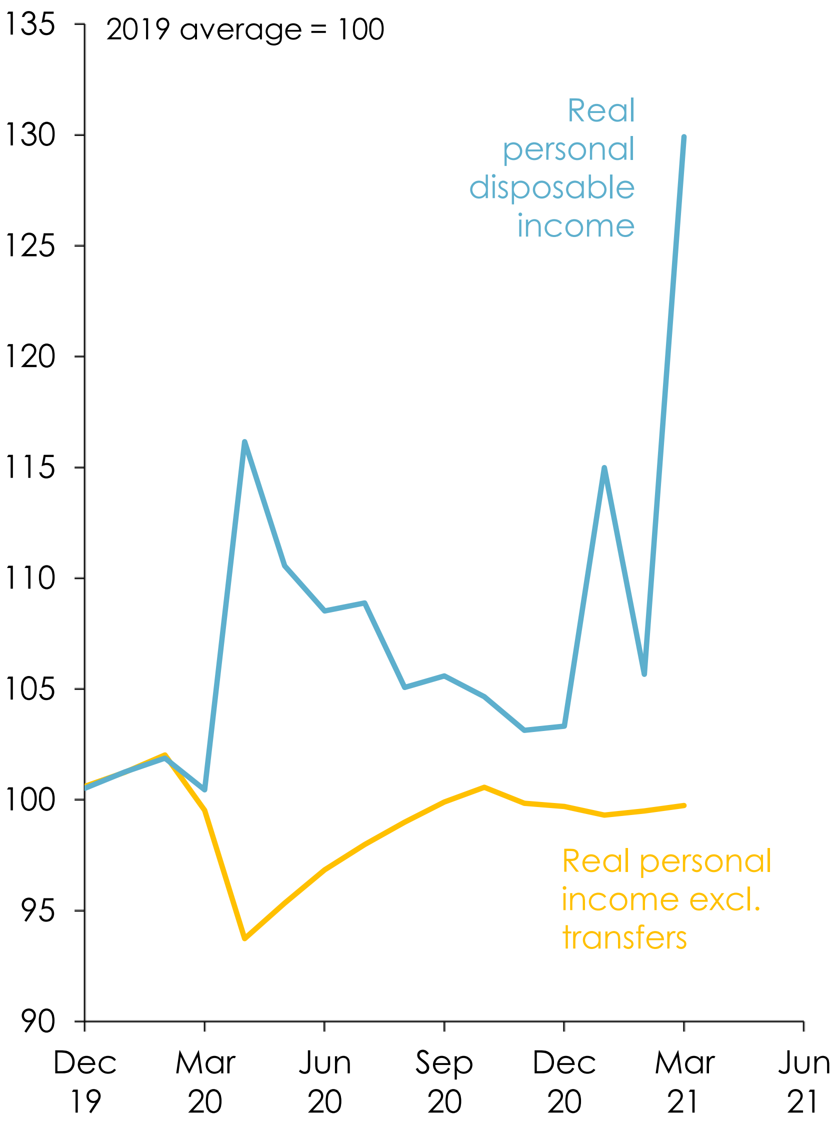
# Recurring cash payments to households (combined with restrictions on movement) have had a major impact on spending patterns

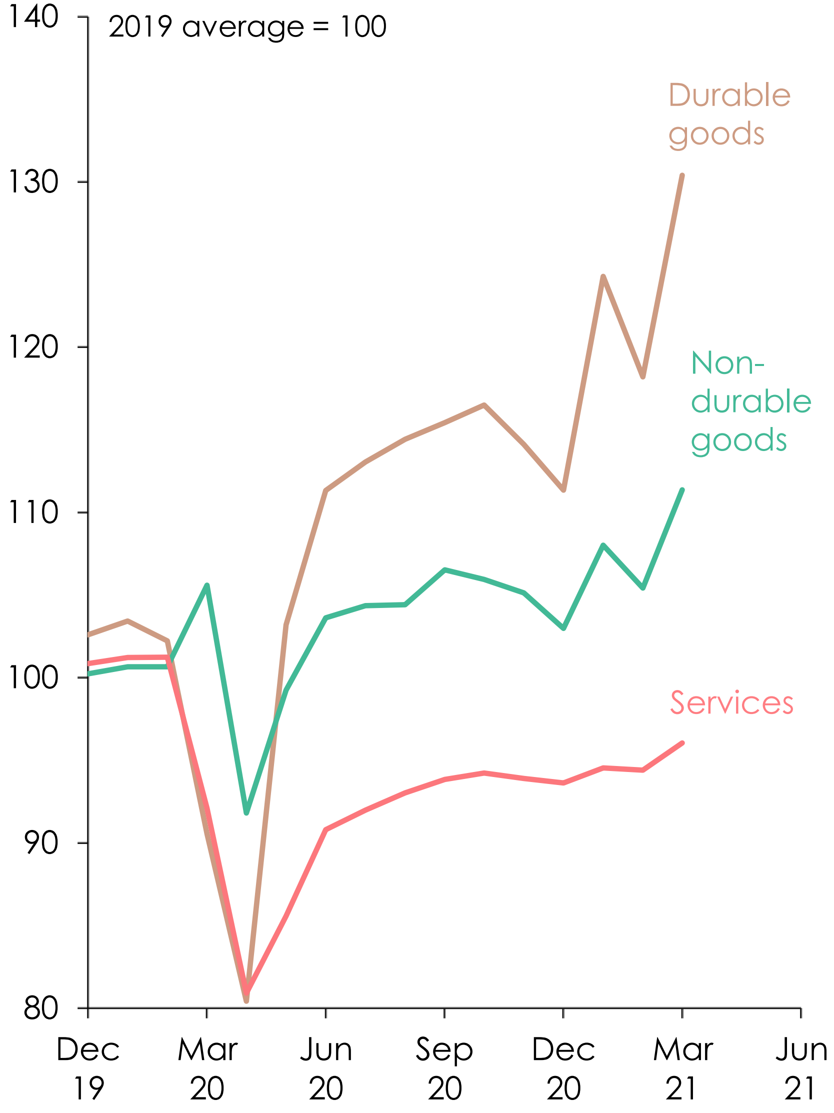
## Tax and transfer payments




## Real personal income




## Real consumption expenditure




*Source:* US Bureau of Economic Analysis.

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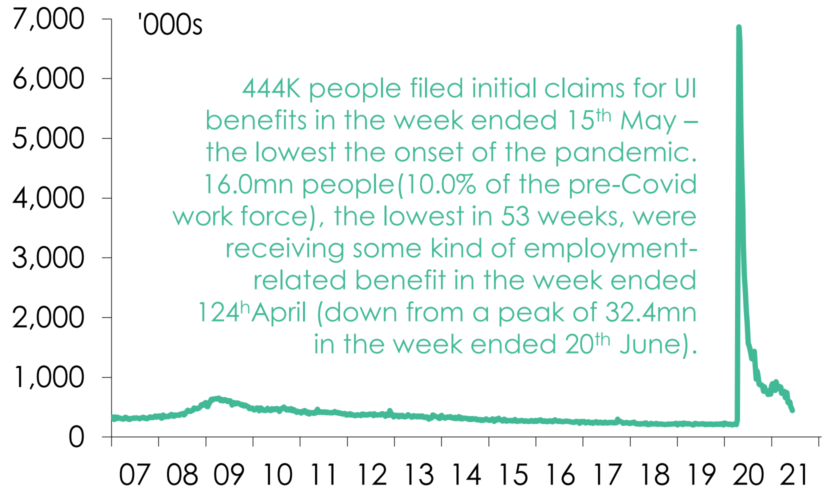
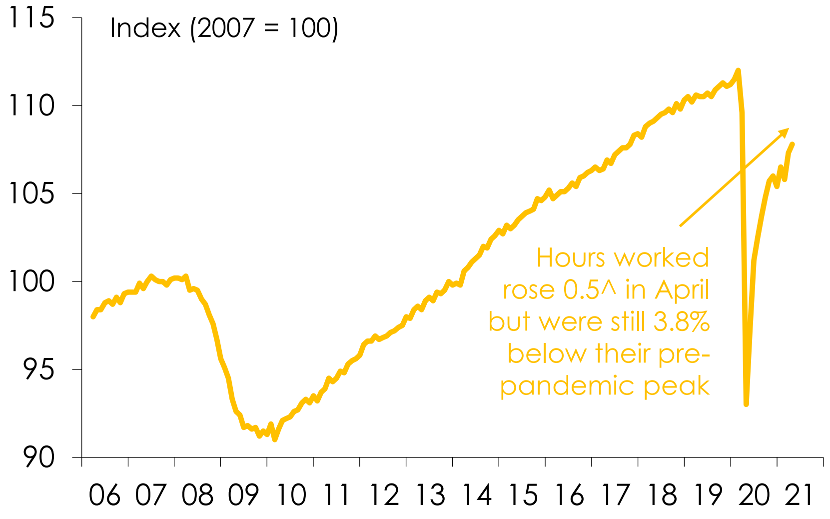
# US non-farm payrolls rose a much smaller-than-expected 266K (0.2%) in April to be still 8.2mn (5.4%) below last February's pre-pandemic peak

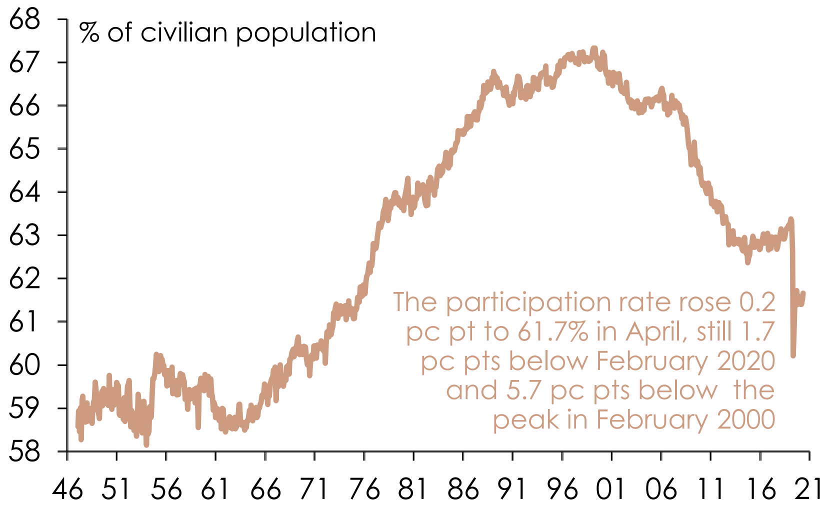
## Unemployment benefit claims



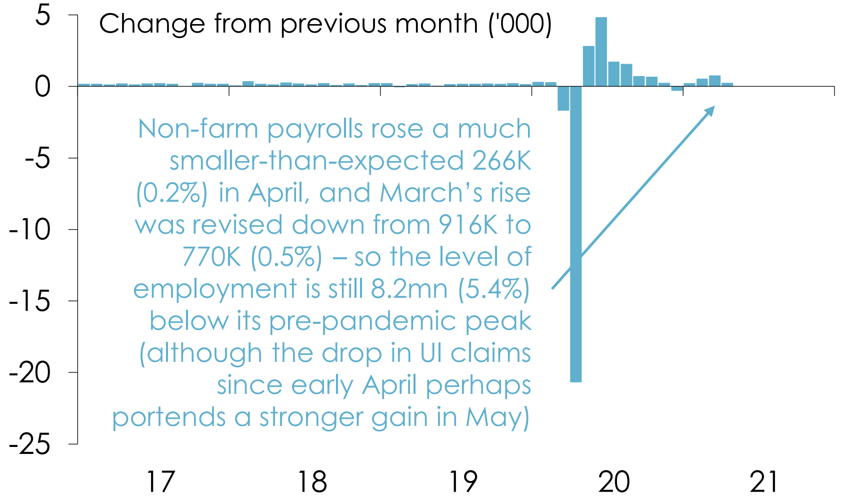

## Hours worked (private sector)



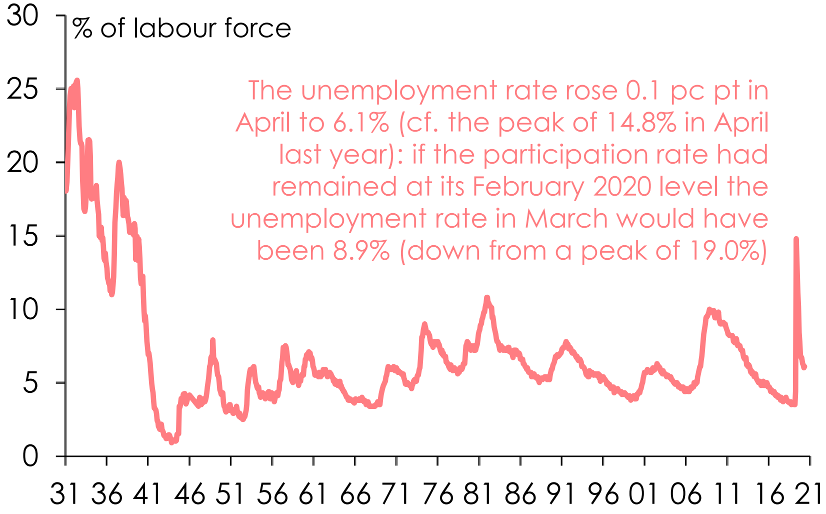

## Labour force participation rate



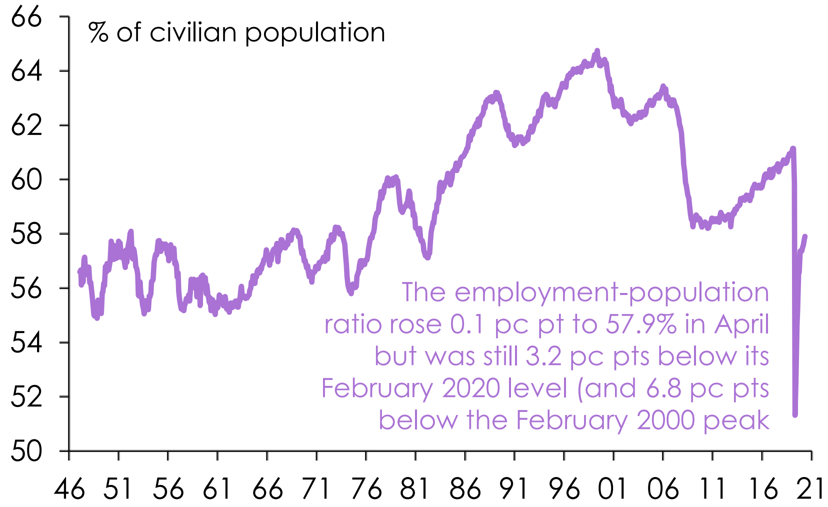

## Non-farm payroll employment




## Unemployment rate



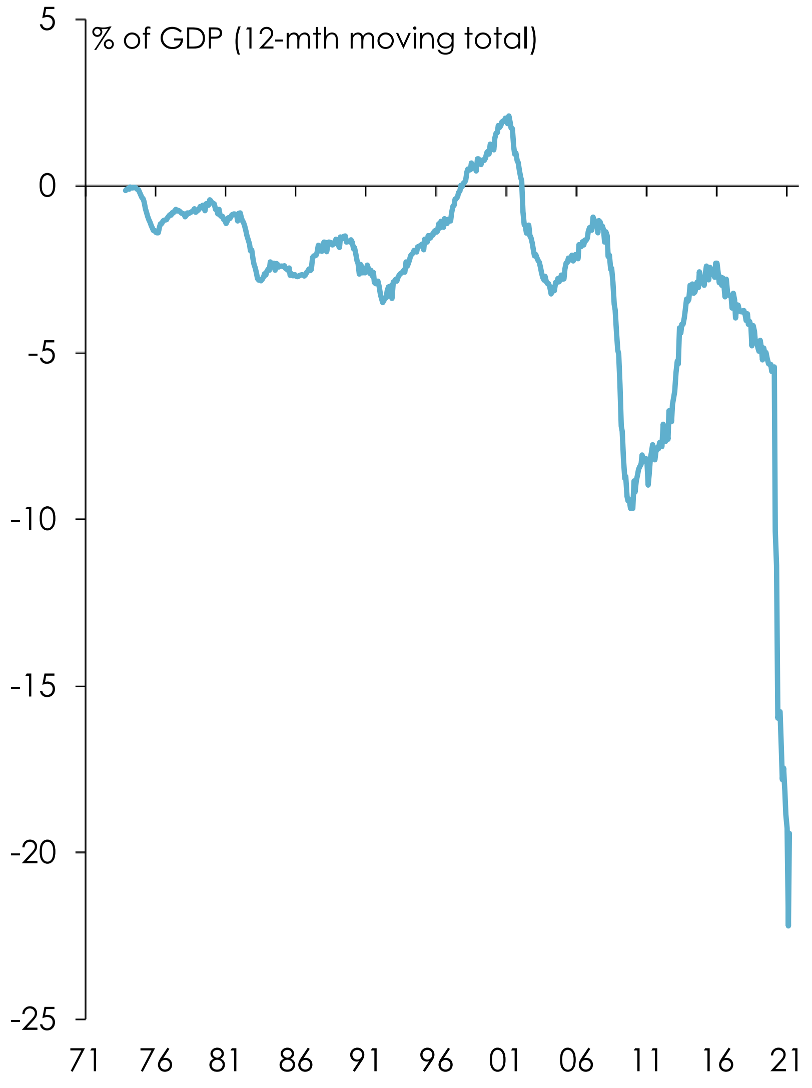

## Employment to population ratio



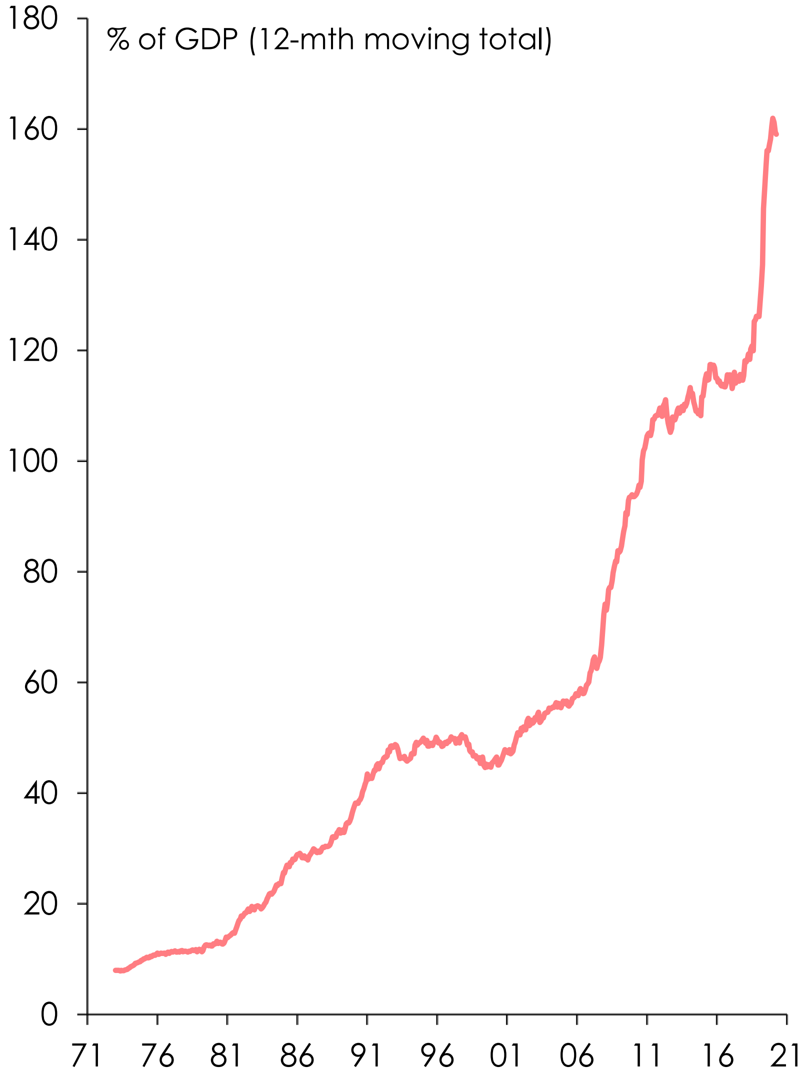

*Sources:* US Department of Labor; US Bureau of Labor Statistics; National Bureau of Economic Research Macro History database. May employment and other labour force data will be released on 4th June. Return to "What's New".

# The US budget deficit narrowed sharply in April thanks to an inflow of personal income tax payments

## US Federal budget deficit




## US gross Federal debt

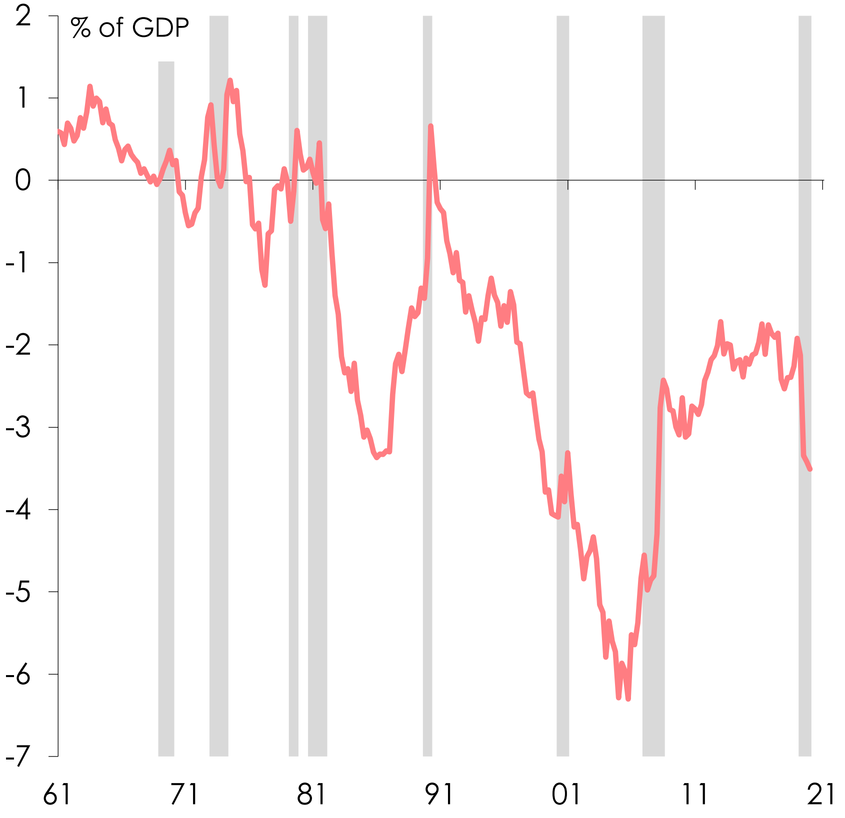



- The US Federal Government budget deficit narrowed sharply in April to US$226bn, reflecting payment of 'non-withheld' (non-PAYG) personal income taxes – although the due date for final payments has been deferred from April until May this year (last year it was deferred to July)
- Over the 12 months to April, the budget deficit totalled US$3.6trn (19.4% of GDP) – down from $4.1trn in the 12 months to March but apart from that still the largest as a pc of GDP since WW II
- The 'face value' of gross federal debt outstanding rose by US$42bn to US$28.2trn during April, but the market value rose by $195bn to $29.5trn (160% of GDP) because bond yields fell over the month (though this is still below the peak of 162% of GDP in December
- 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".

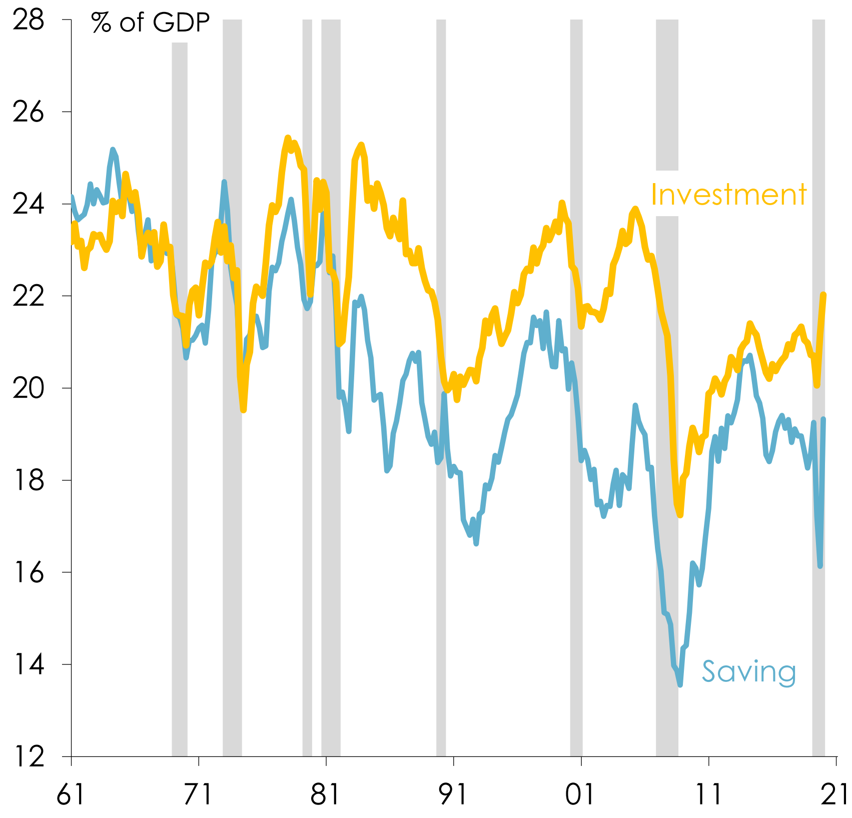
# Unusually, the US current account deficit has widened so far during this recession, largely because investment hasn't fallen much

## US current account balance



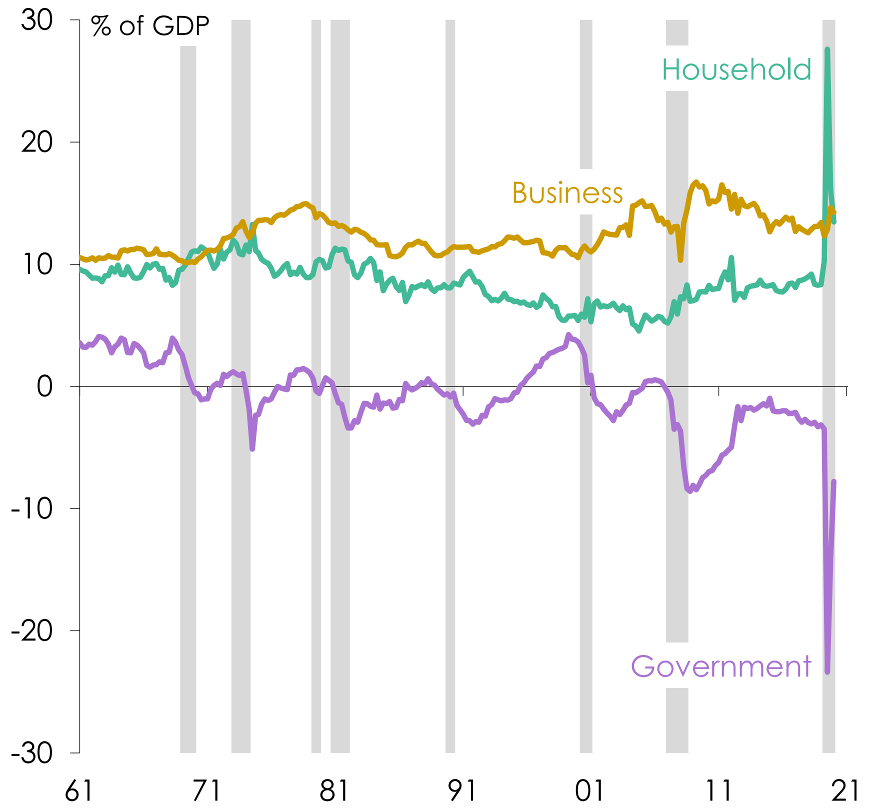

**The US current account balance normally improves (ie, the deficit usually gets smaller) during recessions – but in this one it has (so far) widened**

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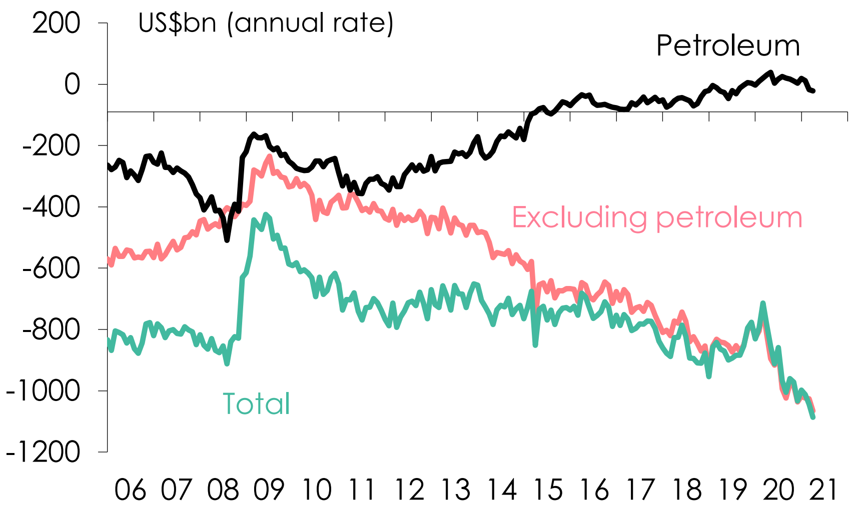
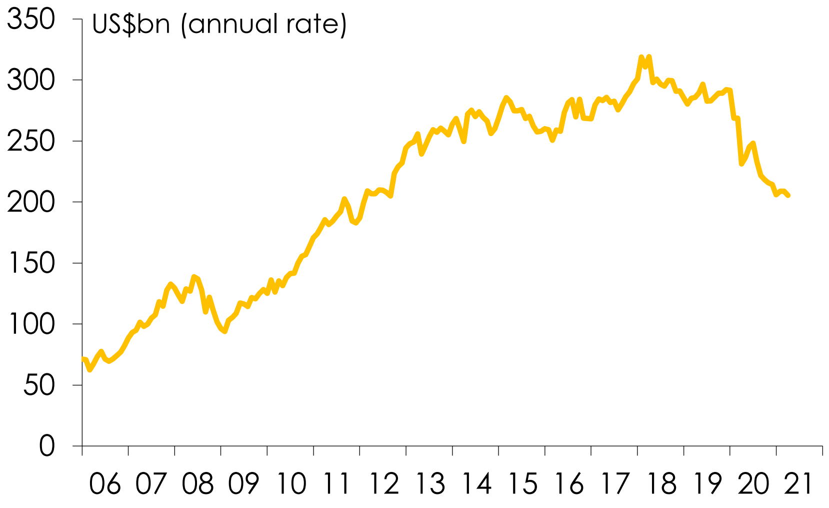
# The US goods and services trade deficit widened to a new record in March – the third in succession

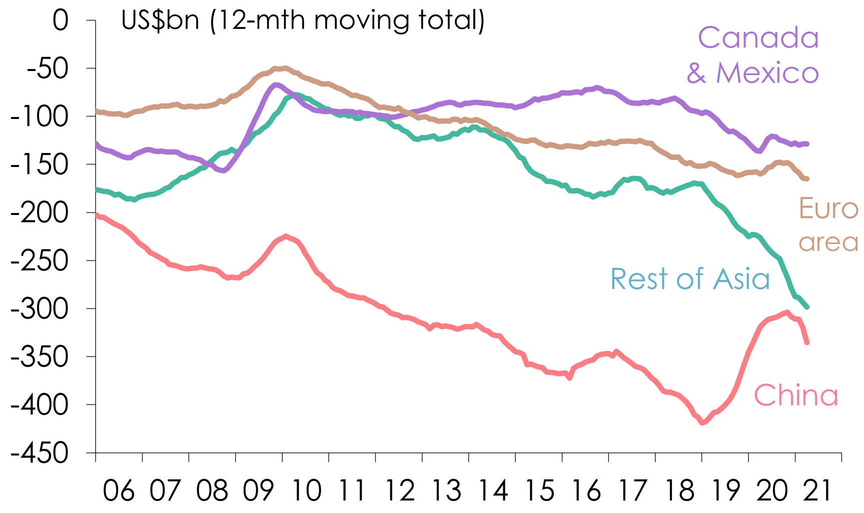
## US goods trade balance



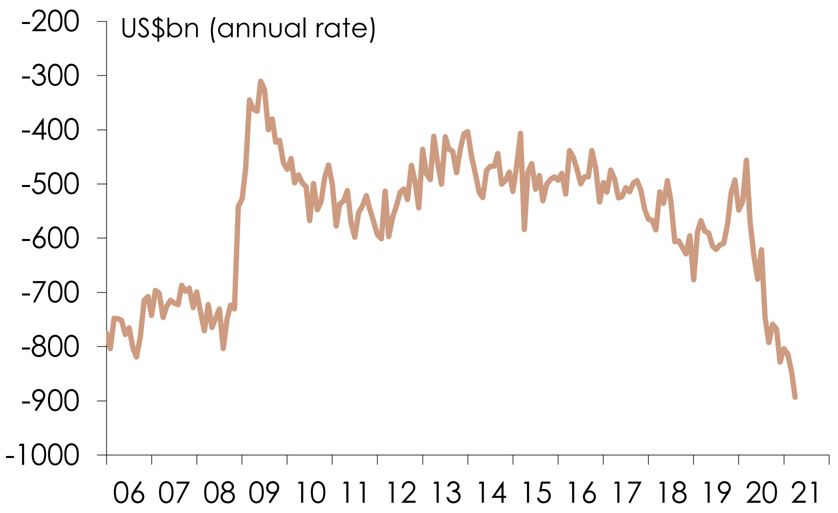

## US services trade balance




## 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".



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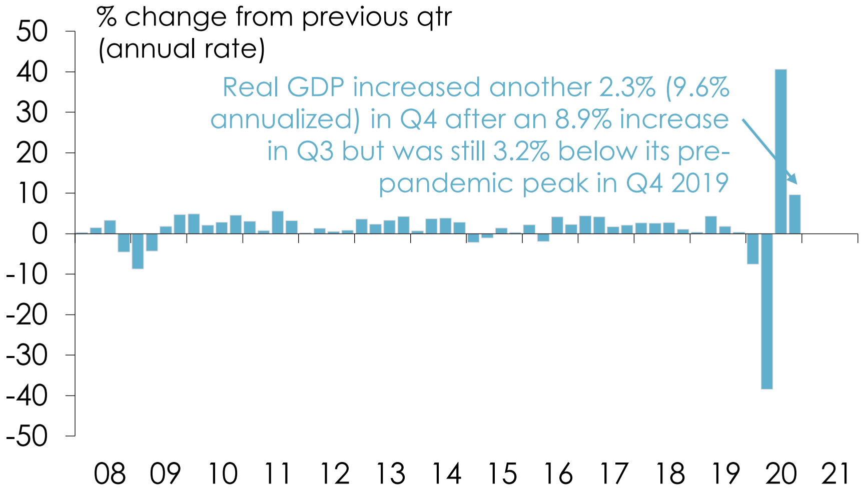
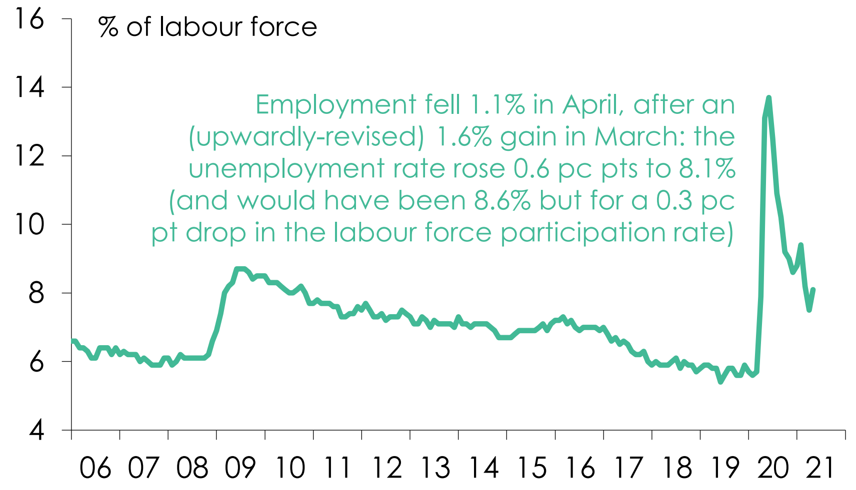
# Canada's unemployment rate jumped 0.6 pc pts to 8.1% in April, and would have been 8.6% but for a fall in the participation rate

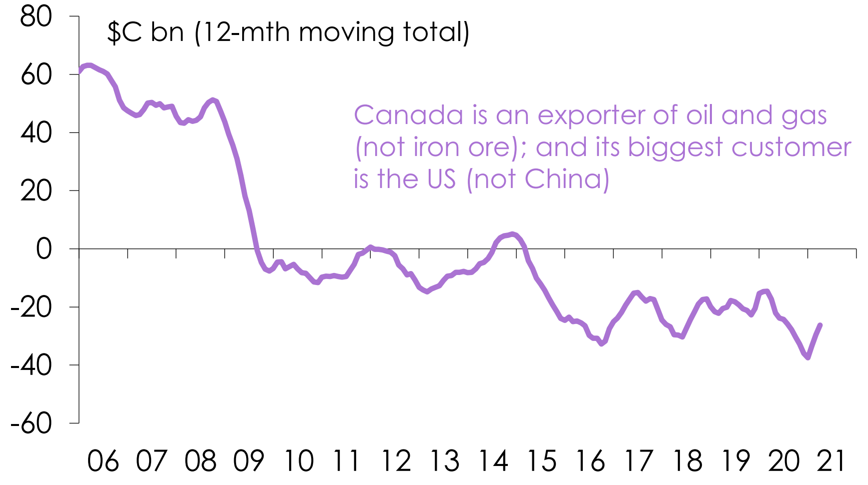
## Real GDP



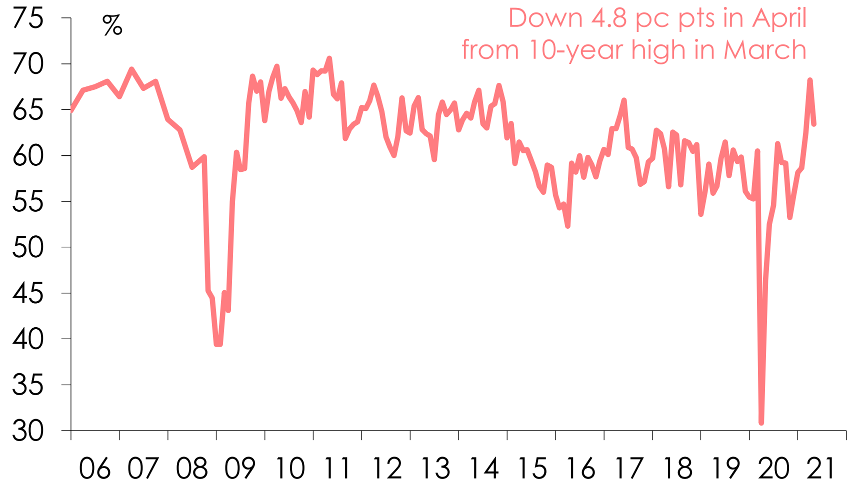

## Unemployment rate



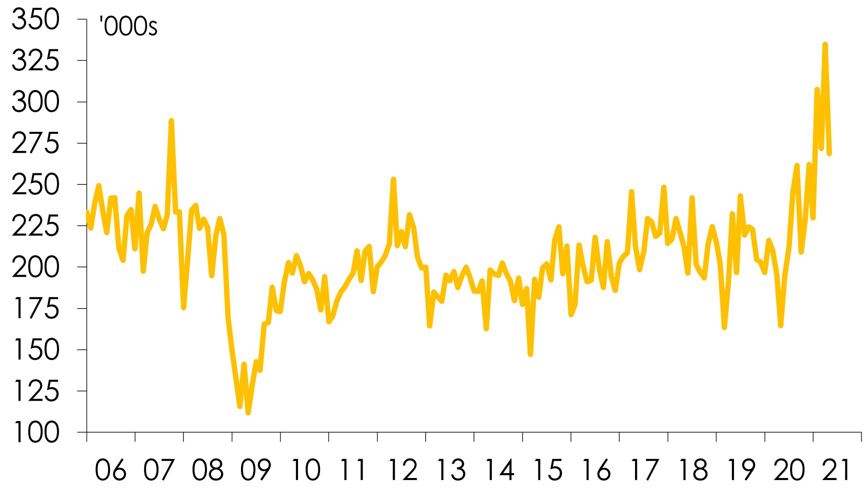

## Merchandise trade balance



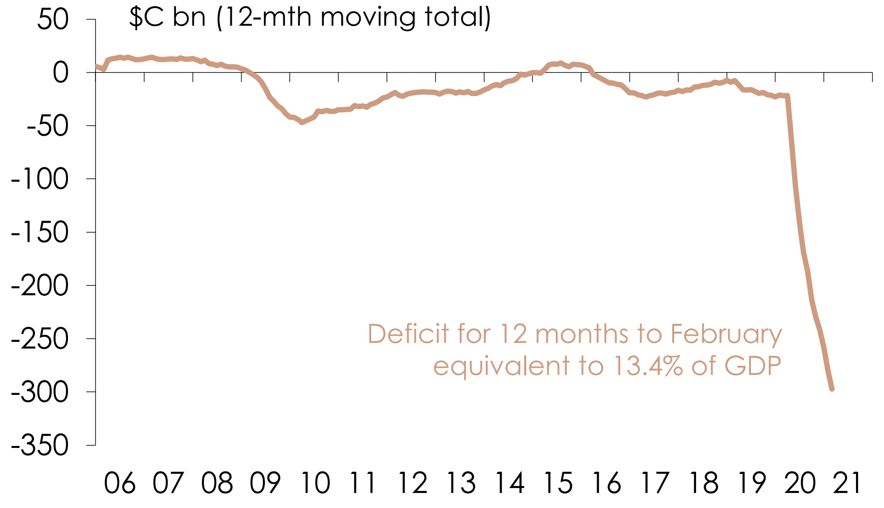

## CFIB 'business barometer'




## 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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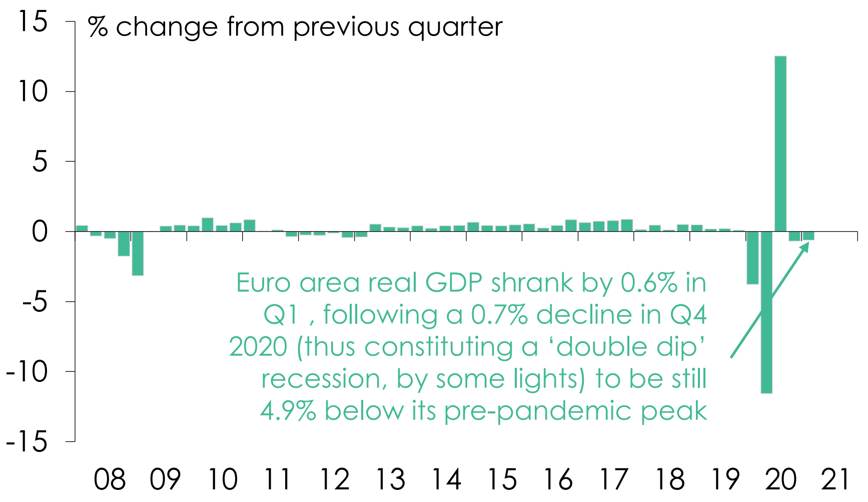
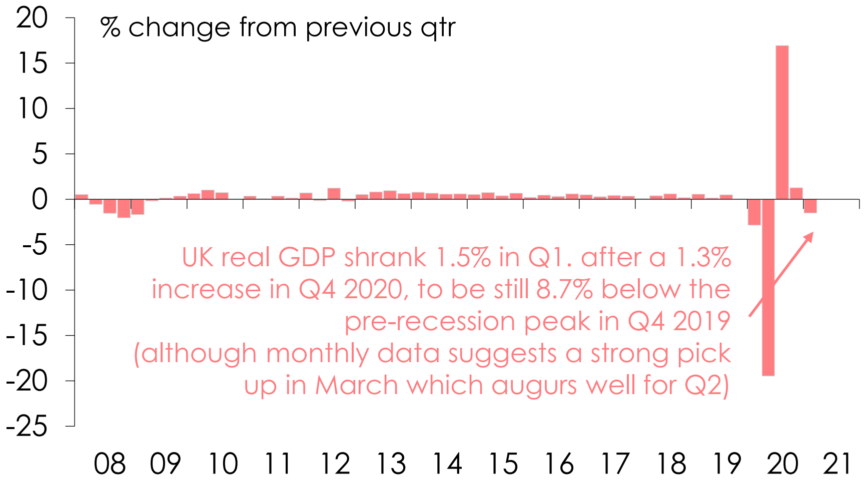
# The euro area has had a ‘double-dip’ recession over Q4 20 and Q1 21, while the UK also contracted in Q1 – but both look like having a better Q2

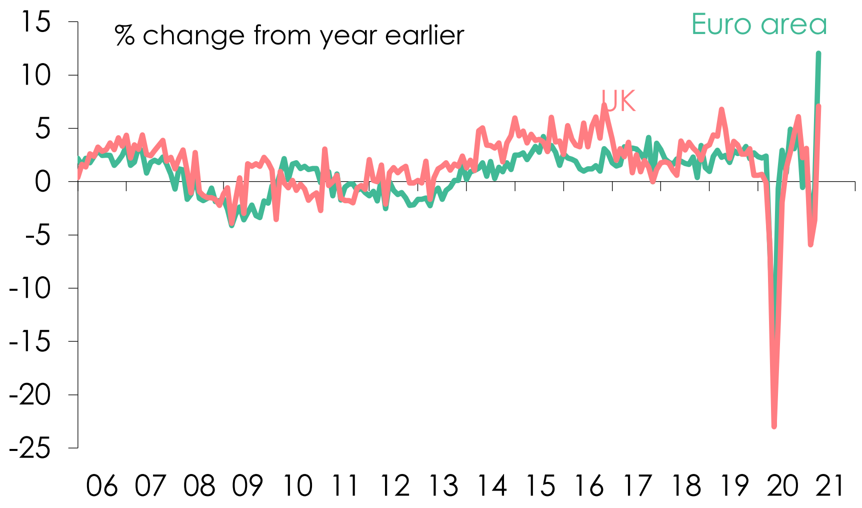
## Euro area real GDP



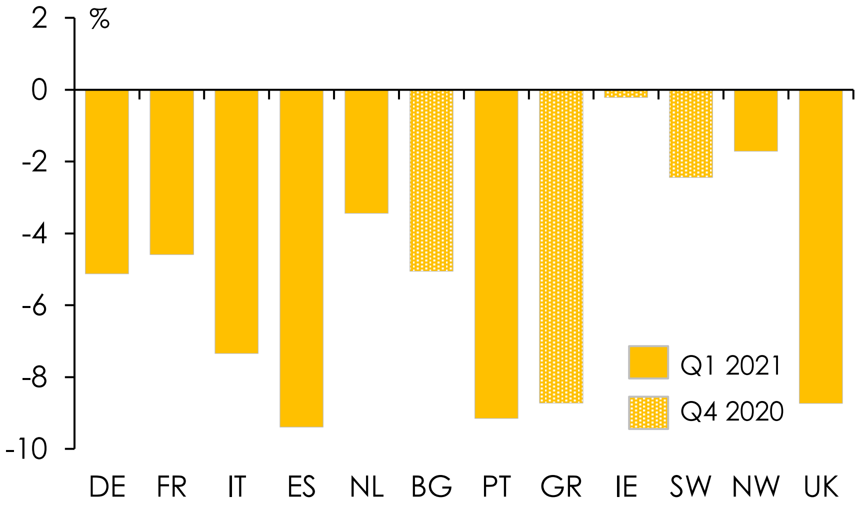

## UK real GDP



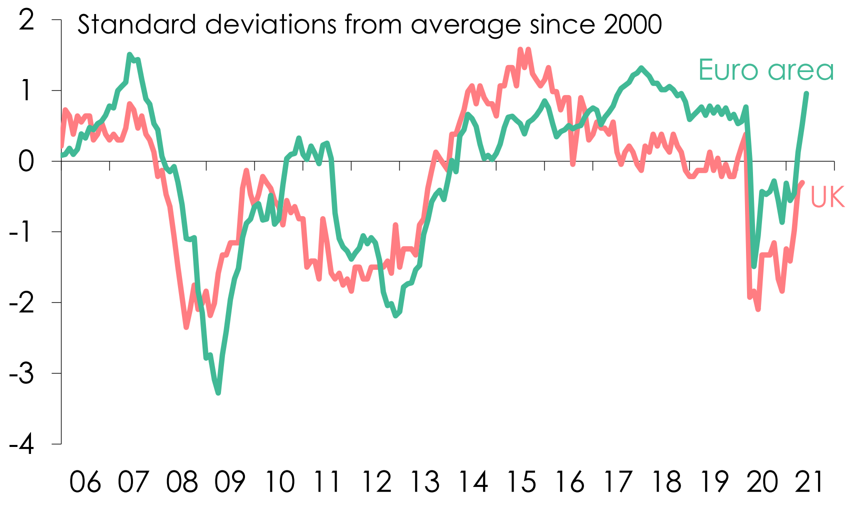

## Retail sales volume



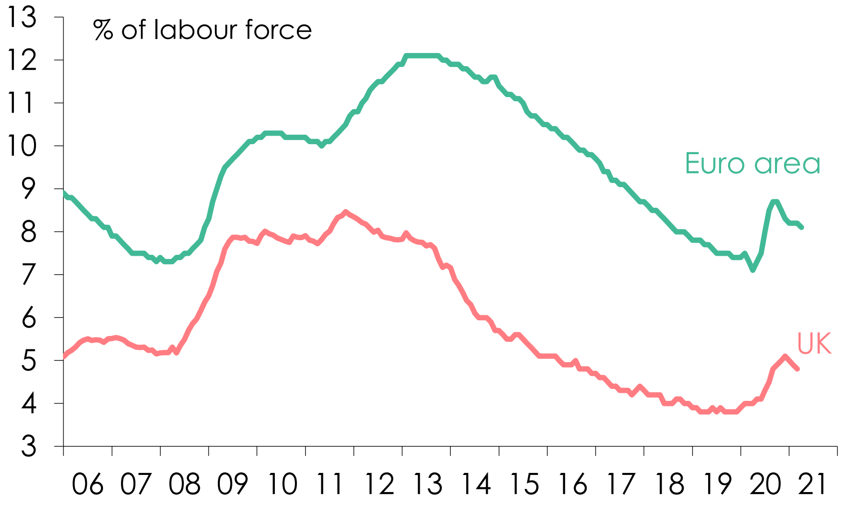

## Level of GDP vs pre-pandemic peak




## Consumer confidence




## Unemployment



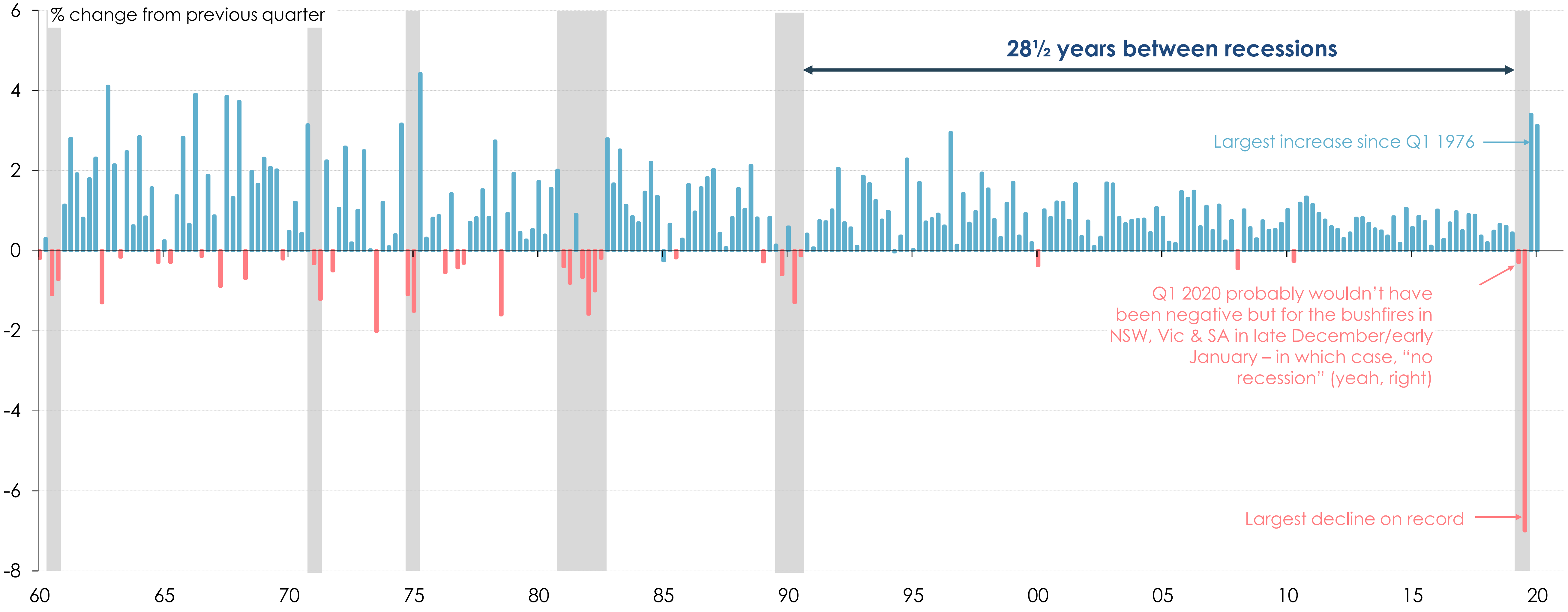

*Sources:* Eurostat; UK Office for National Statistics; Confederation of British Industry. The UK unemployment rate is published as a 3-month moving average.

Return to "What's New".

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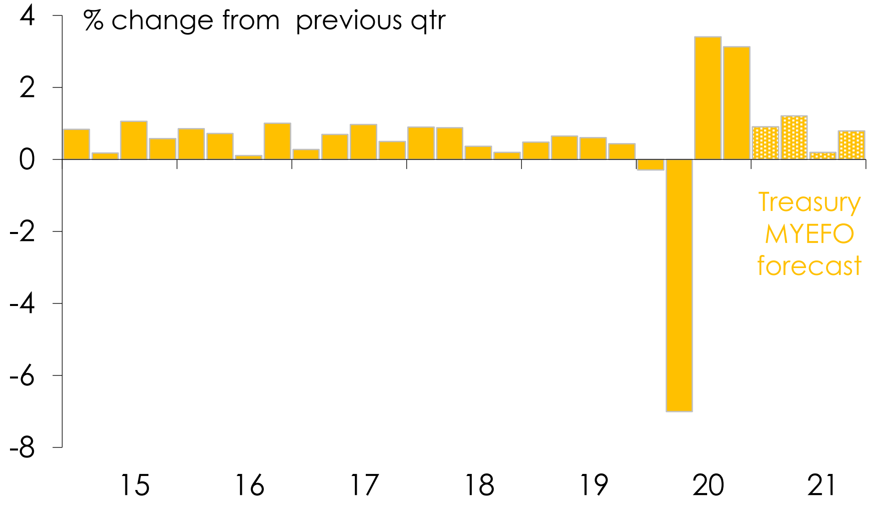
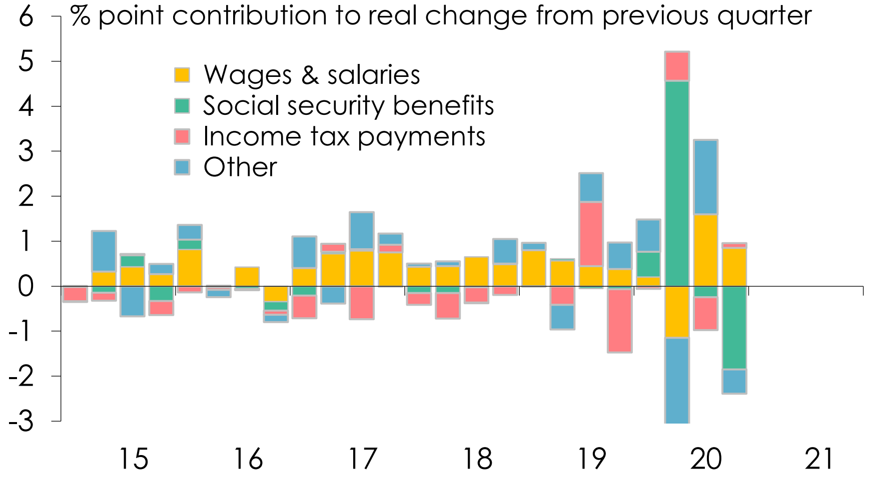
# 3.1% growth in Q4 2020 (following 3.4% in Q3) was largely driven by household consumption and dwelling investment

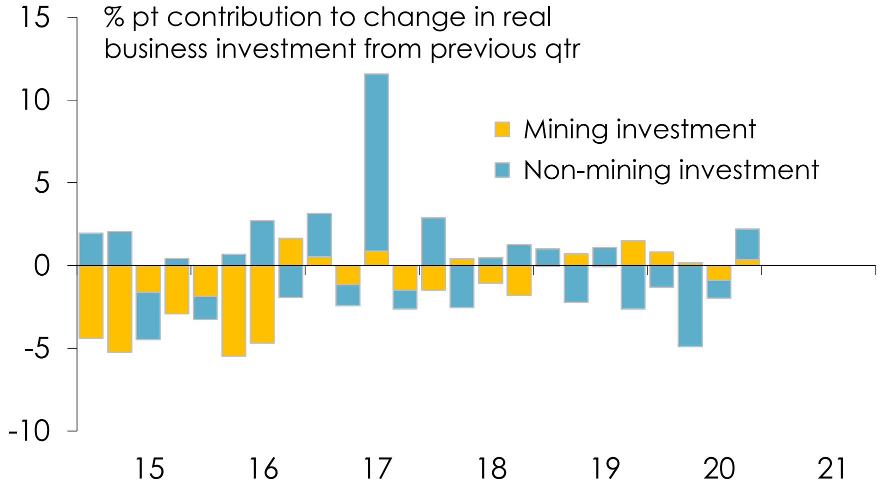
## Quarterly change in real GDP



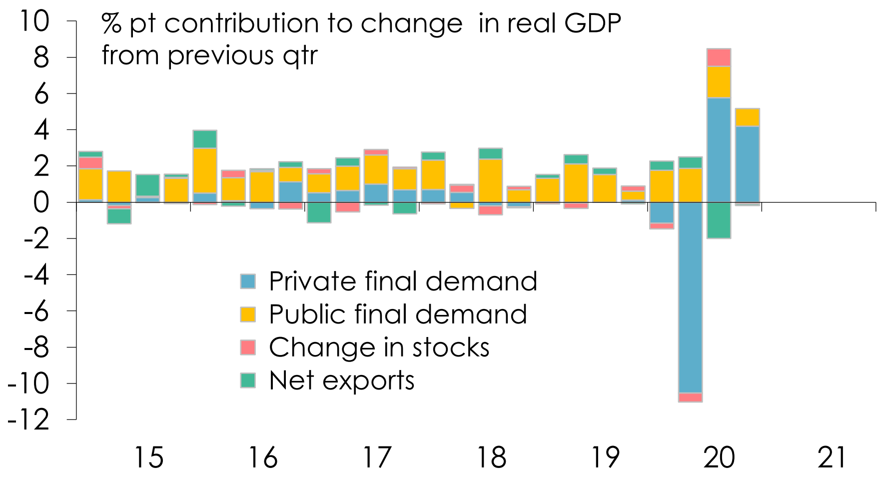

## Household disposable income



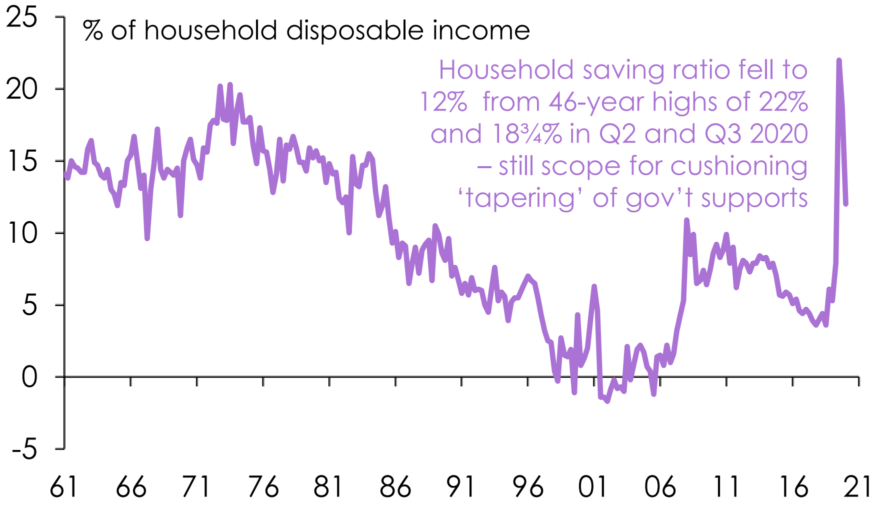

## Business investment expenditure



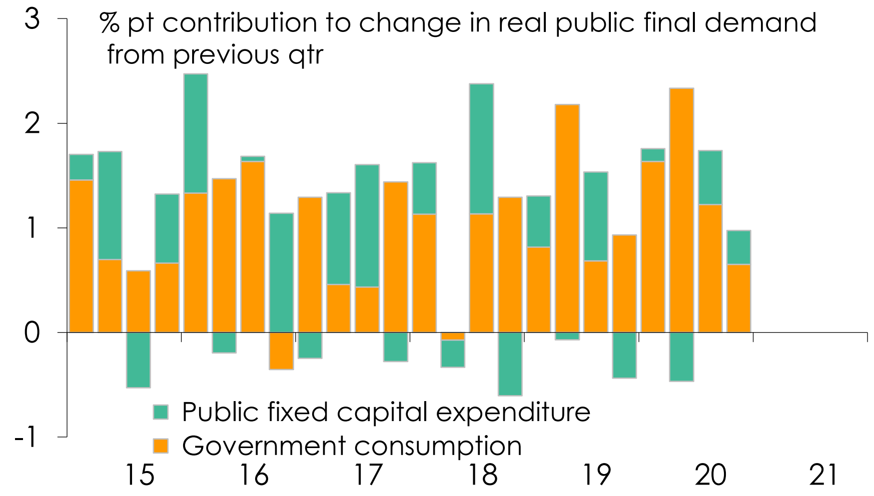

## Contributions to quarterly GDP growth




## Household saving rate




## Public expenditure

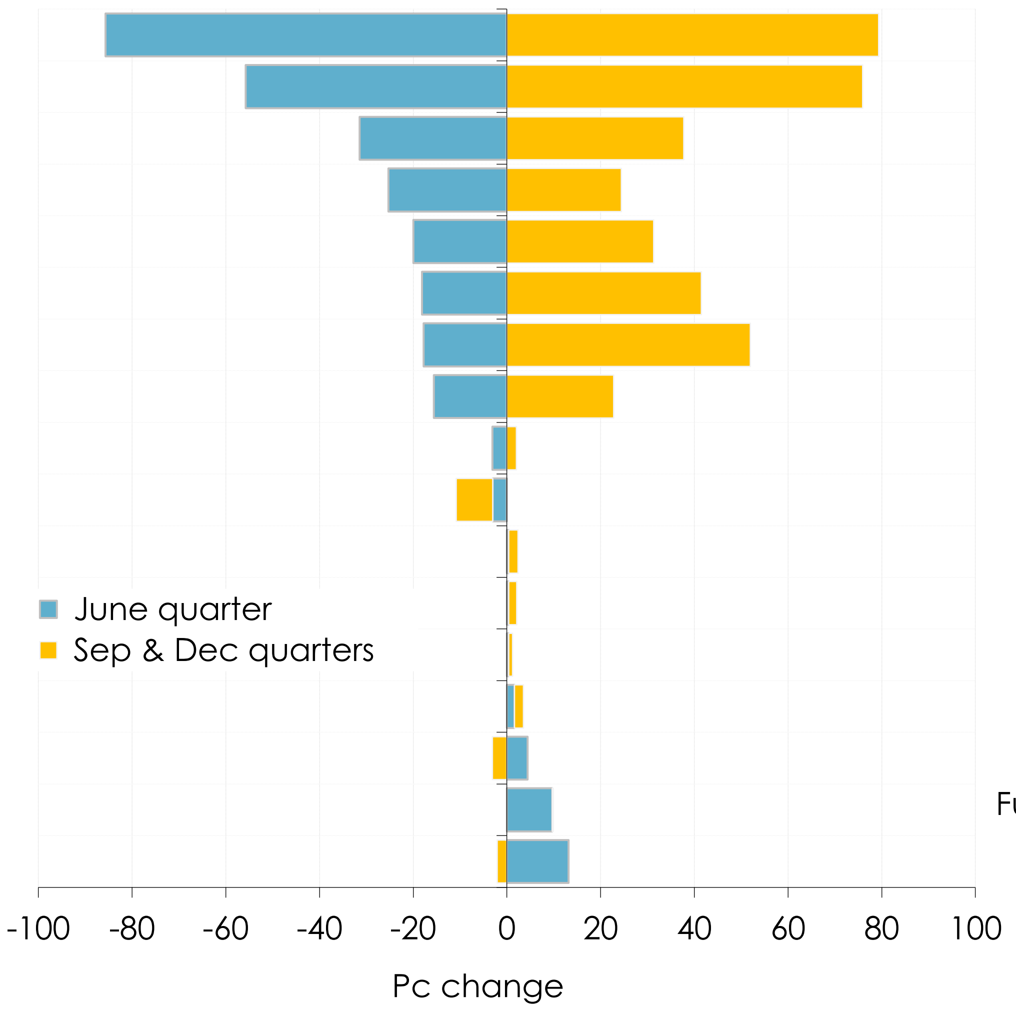



*Note:* Components of household disposable income are deflated by the implicit price deflator of household final consumption expenditure.

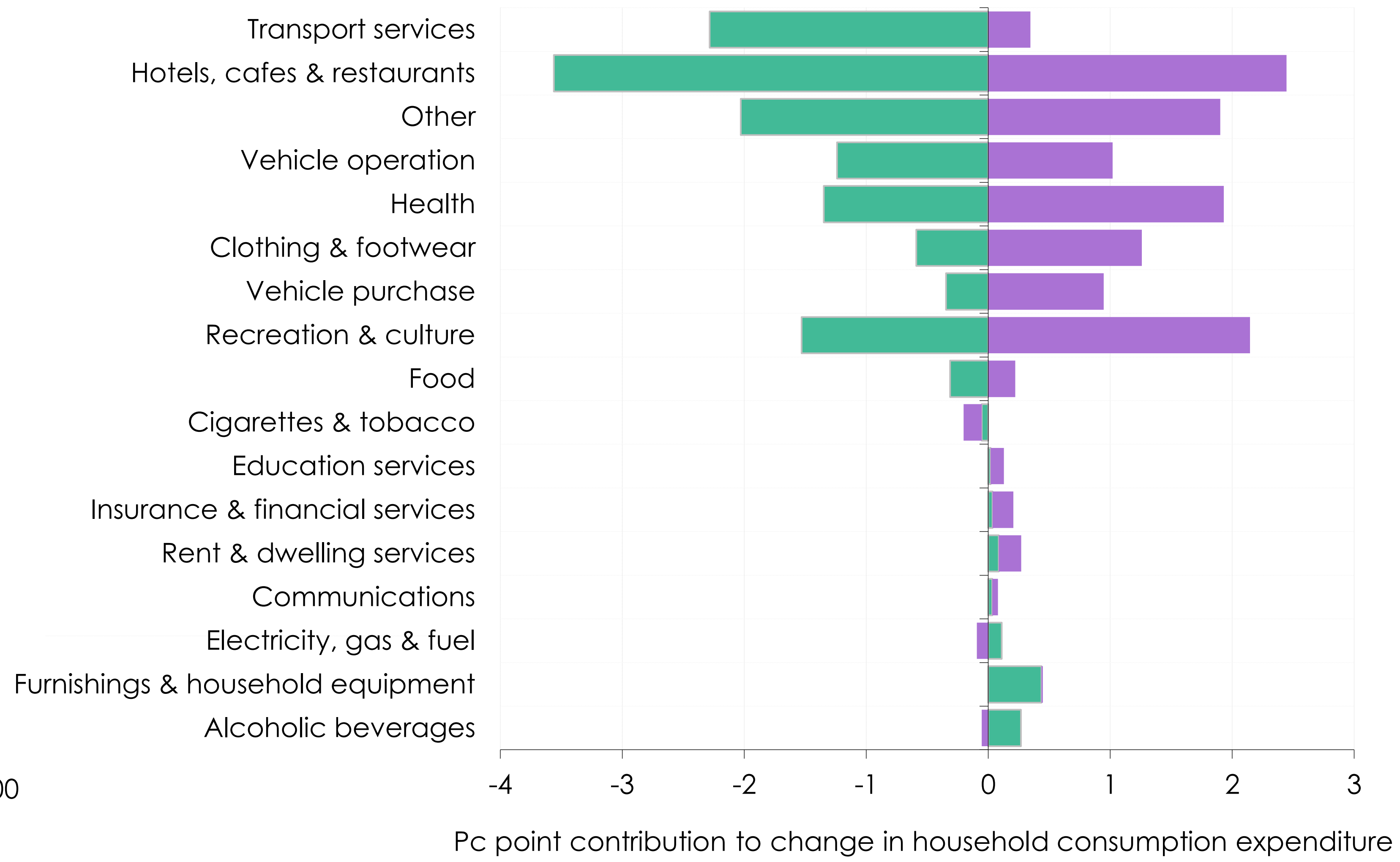
*Source:* ABS, *Australian National Accounts: National Income, Expenditure and Product*, December quarter 2020. March quarter national accounts will be released on 2nd June. Return to "What's New".

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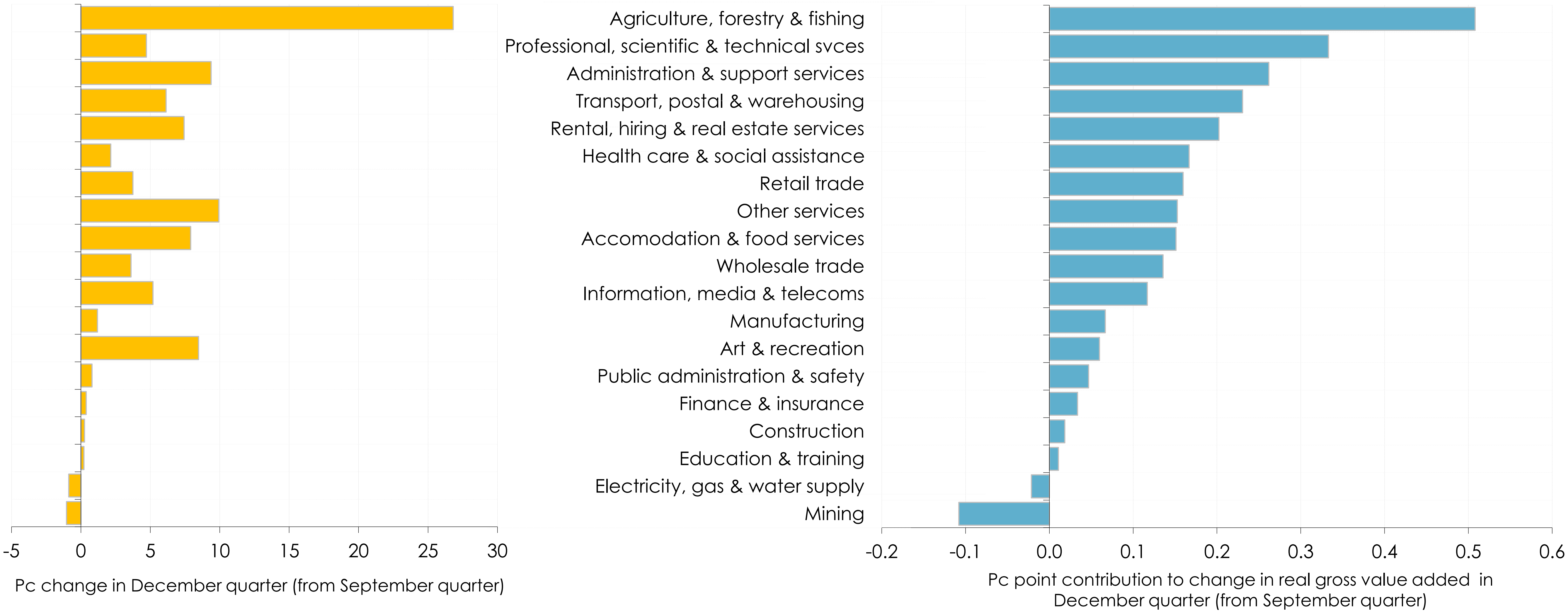
# From an industry standpoint GDP growth in Q4 was driven by the farm sector's recovery from drought, and a range of business services

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

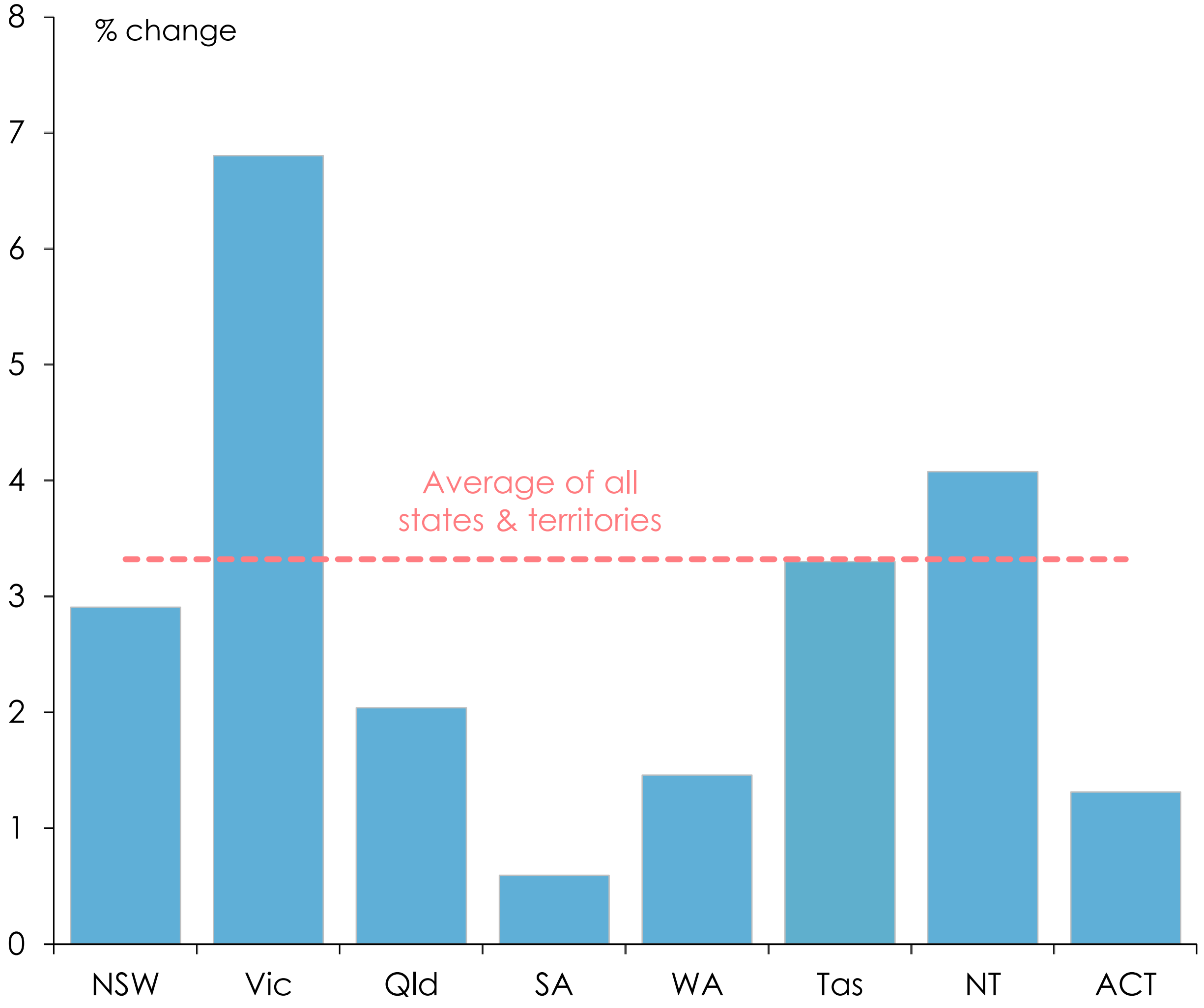
## Contribution to change in real GDP, by industry, December quarter 2020



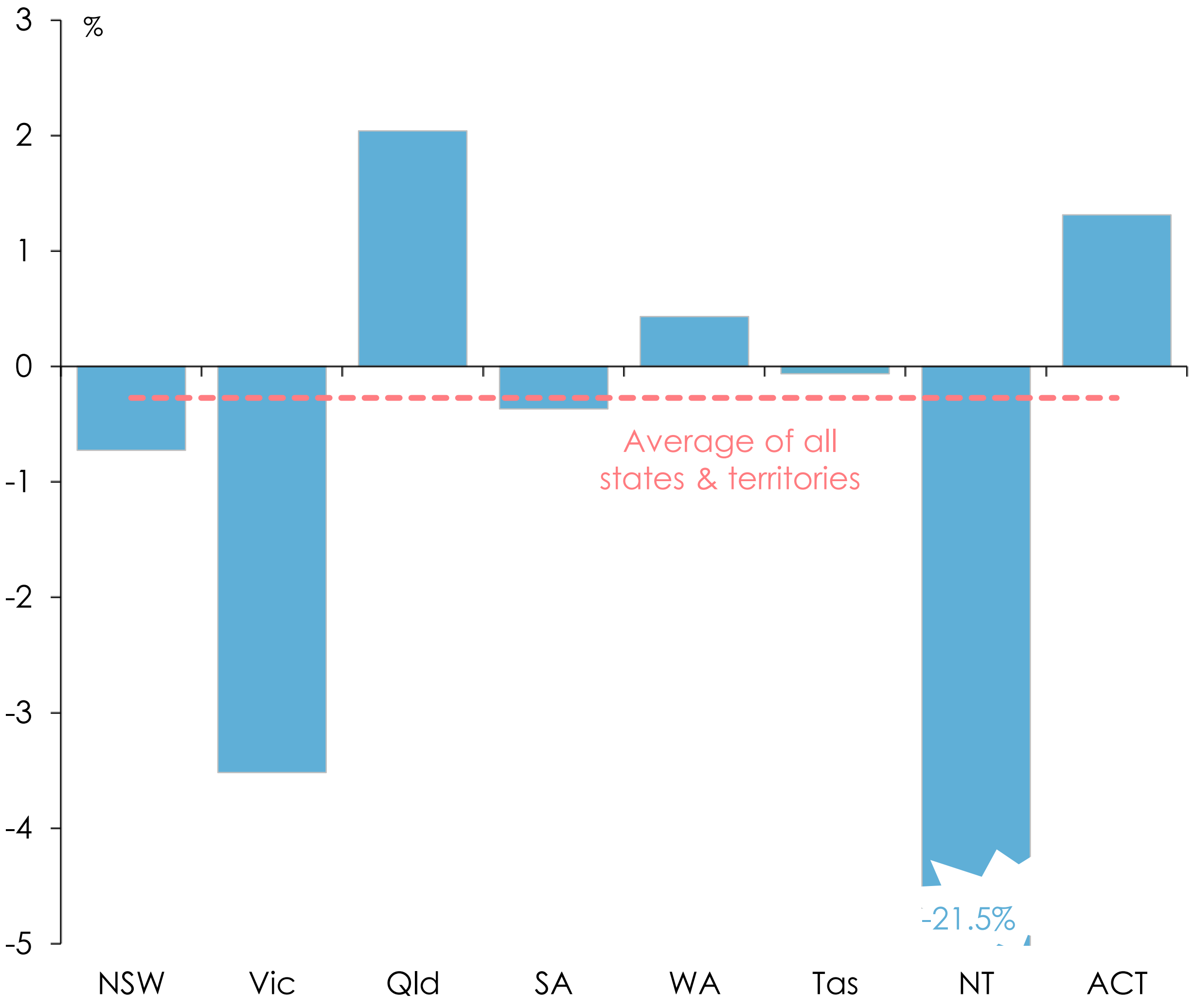

*Note:* Changes in, and contributions to the change in real GDP from, ownership of dwellings and net indirect taxes are not shown in the above charts.
*Source: Source:* ABS, *Australian National Accounts: National Income, Expenditure and Product*, December quarter 2020. March quarter national accounts will be released on 2nd June. Return to "What's New".

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

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



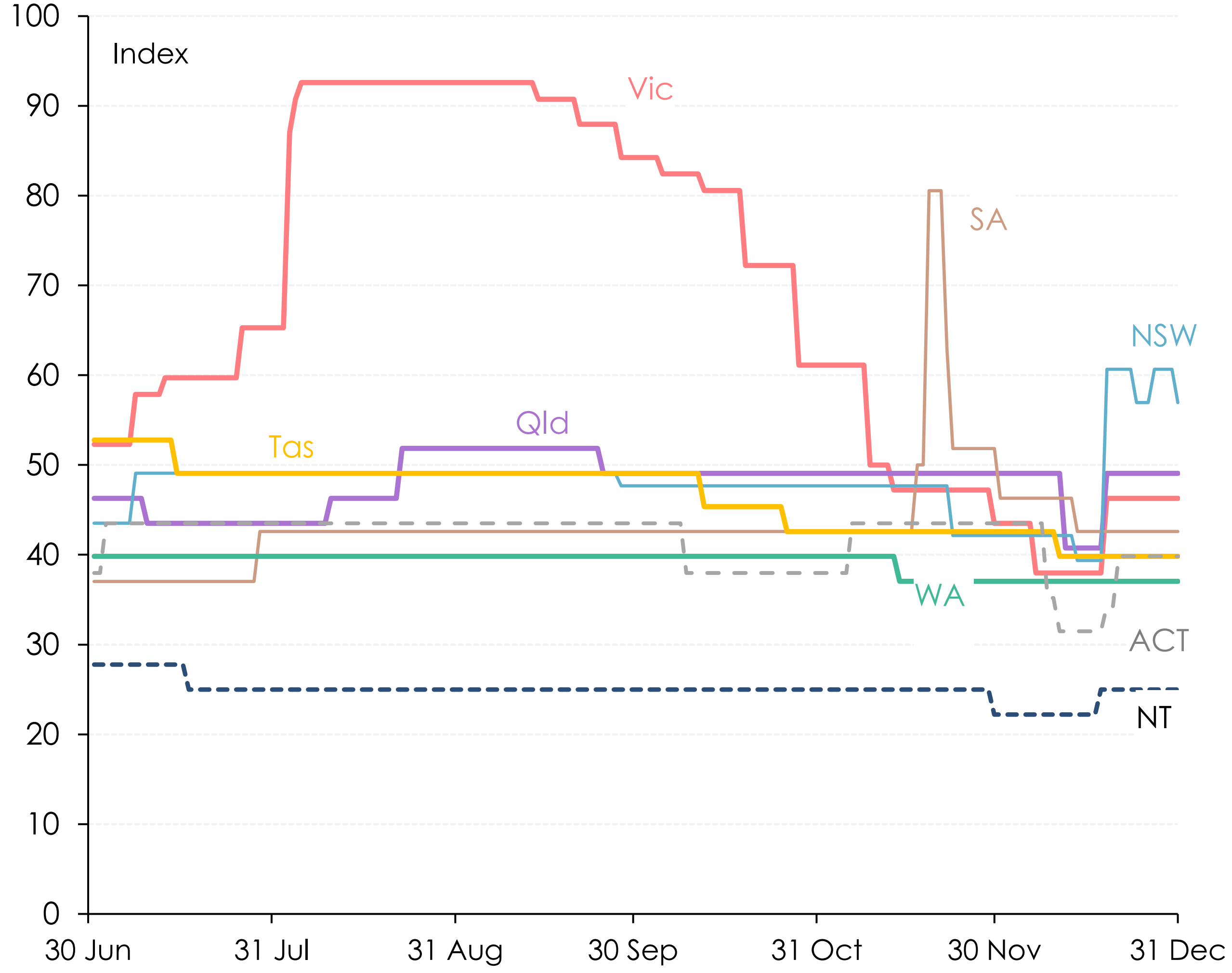

## Shortfall between December quarter state final demand and pre-recession peak



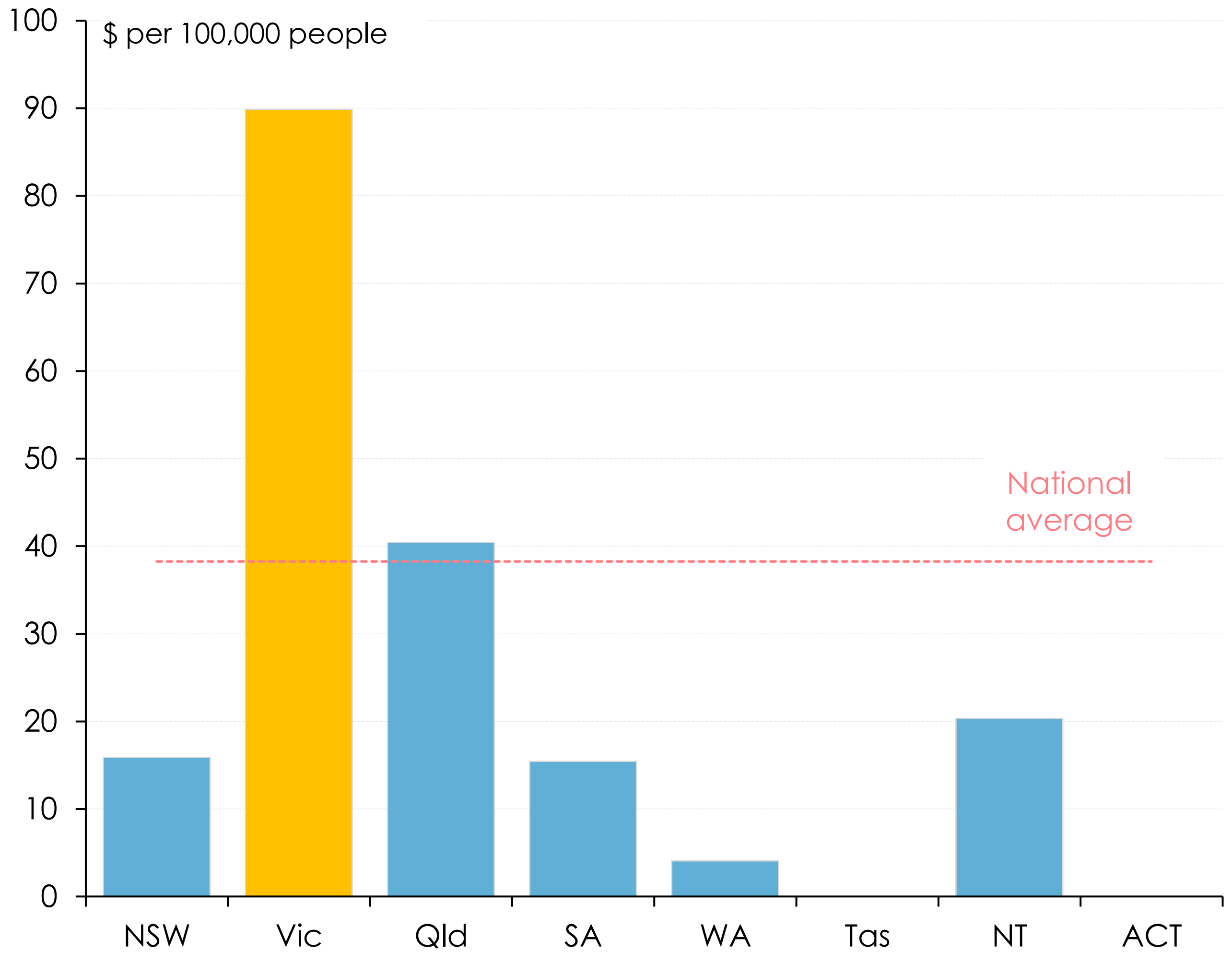

*Note:* 'State final demand' is the sum of spending by households, businesses and governments within a state or territory's borders: it differs (conceptually) from gross state product (GSP), which is only available on a financial year basis, by the sum of net international and interstate trade, and changes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

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

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




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




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

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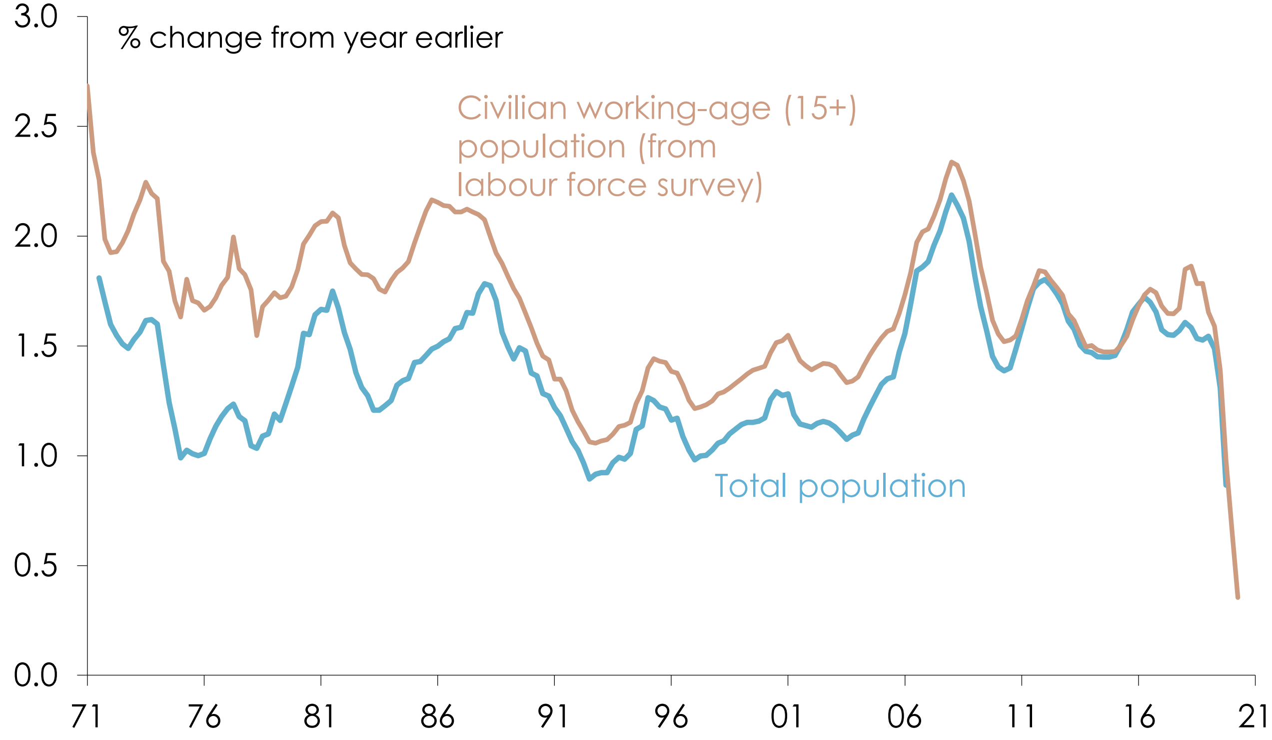
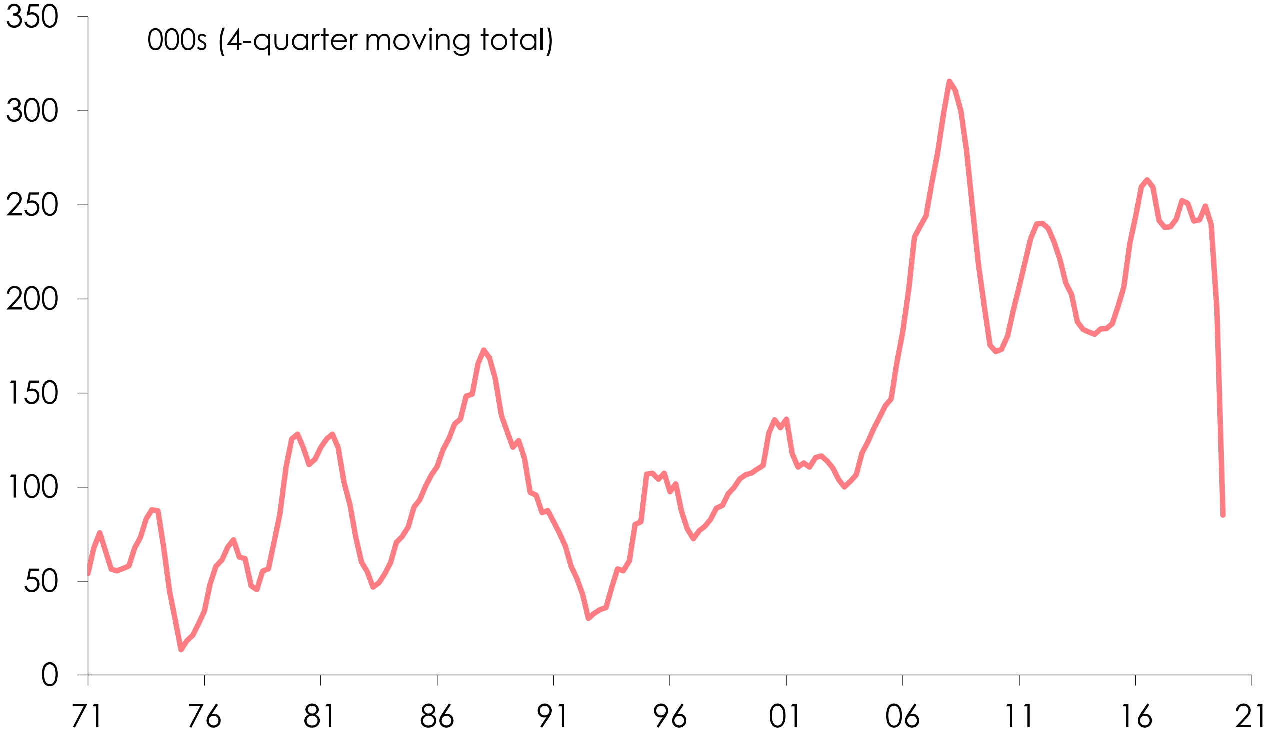
# Australia's population fell by 4,230 in Q3 2020, and annual population growth dropped to its lowest since 1942, due to the border closure

## Australia's population growth, 1971-20




## Net migration to Australia, 1971-20

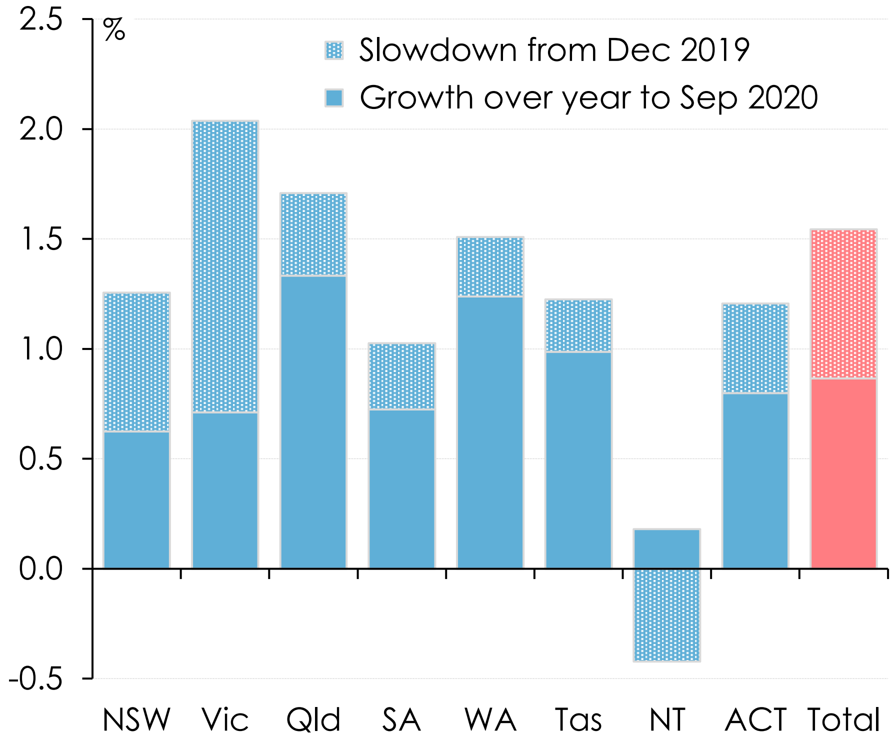



- **Net immigration was -35K in Q3 last year, after -7K in Q2, following the closure of Australia's international borders in response to Covid-19 – the first net outflow since Q2 1993, and the first for consecutive quarters since 1975**
- **As a result, Australia's population growth rate fell to just 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) – see slide 85**

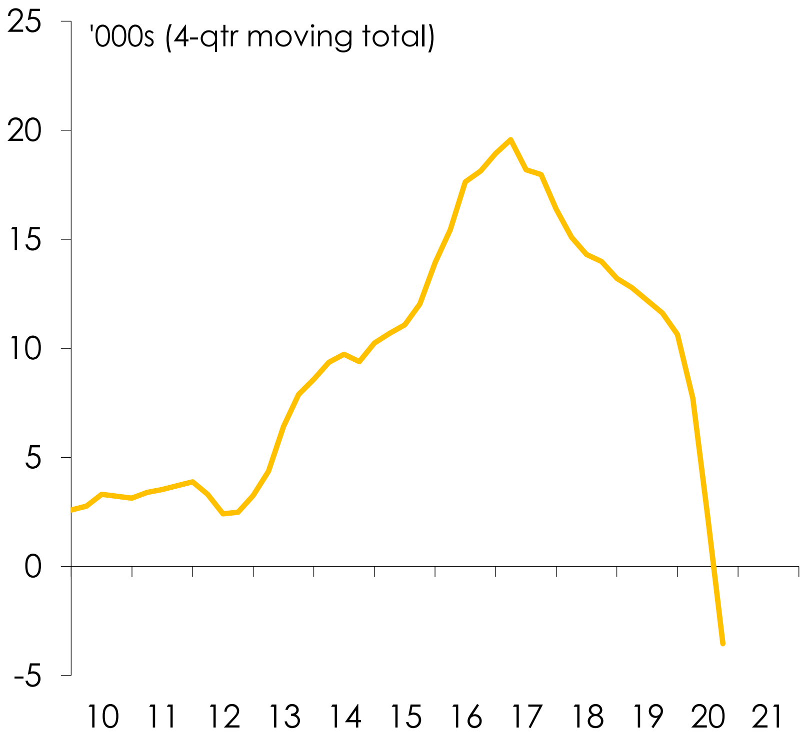
*Note:* Civilian working-age population for March quarter 2021 is average of January and February. *Sources:* ABS, *National, state and territory population*, September 2020; and *Labour Force, Australia*, February 2021. Return to "What's New".

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

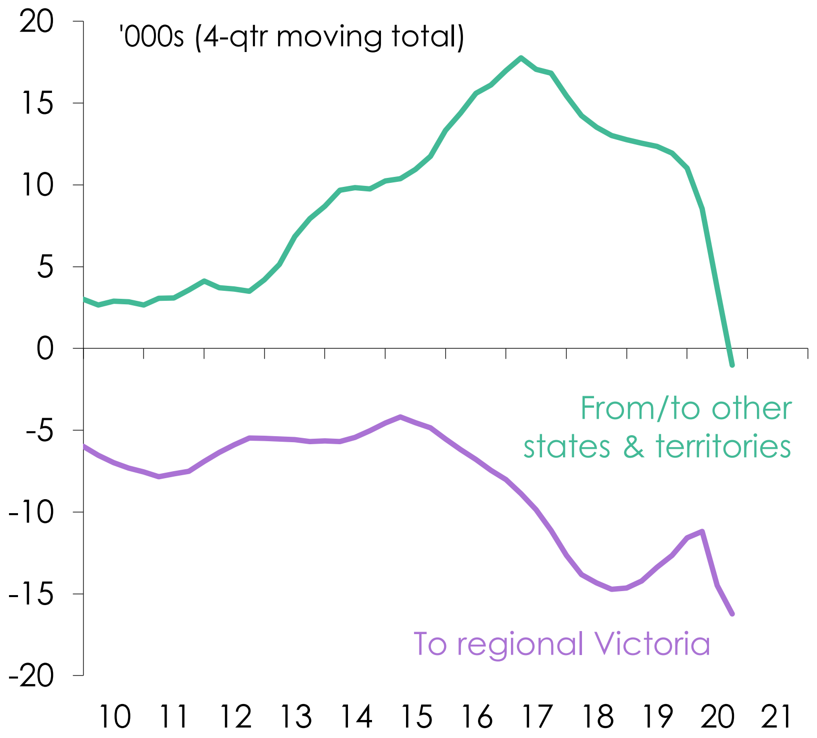
## Population growth, states & territories, year to September 2020




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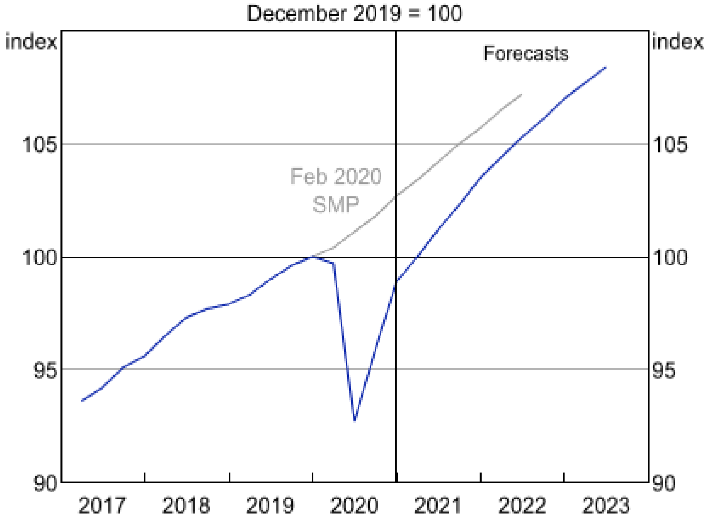
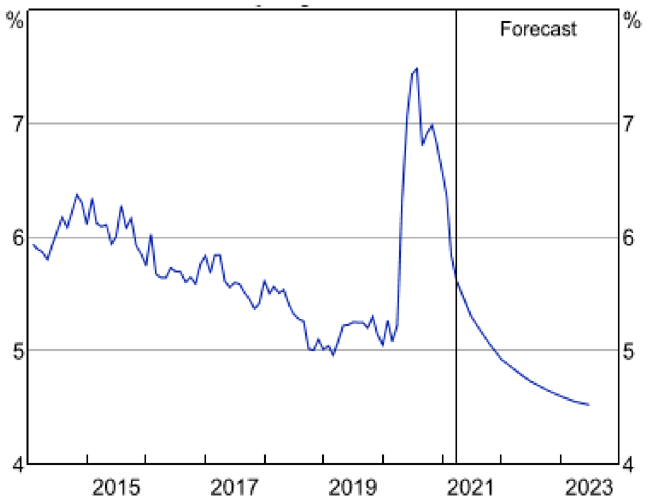
# Despite stronger-than-expected economic and employment growth the RBA is sticking to its 'guidance' of no rate rises before '2024 at the earliest'

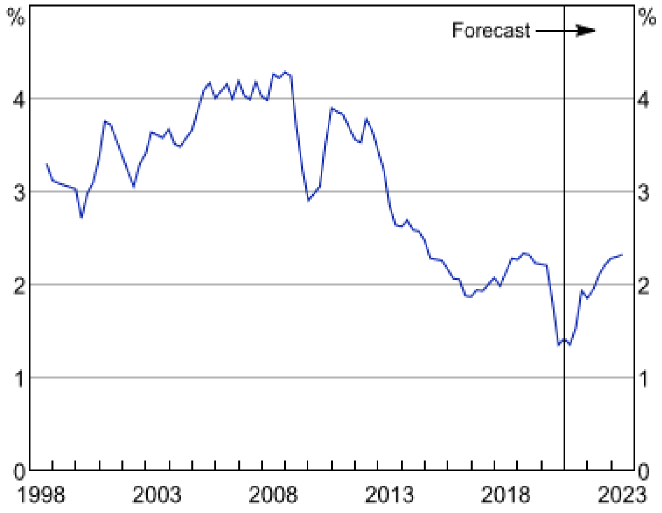
## GDP



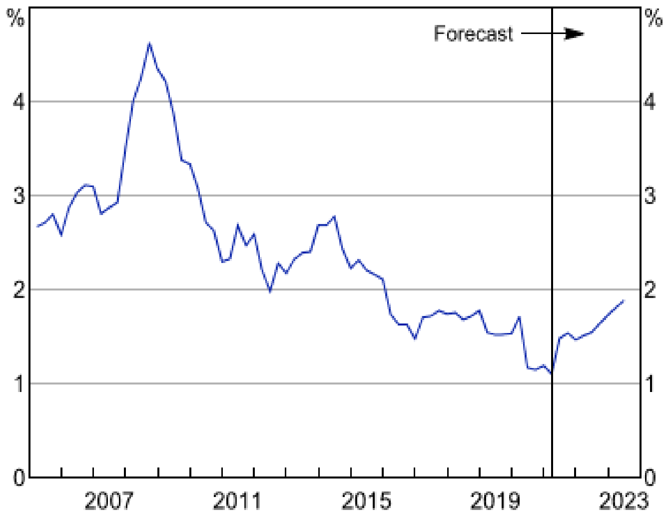

## Unemployment




## Wages




## 'Underlying' inflation

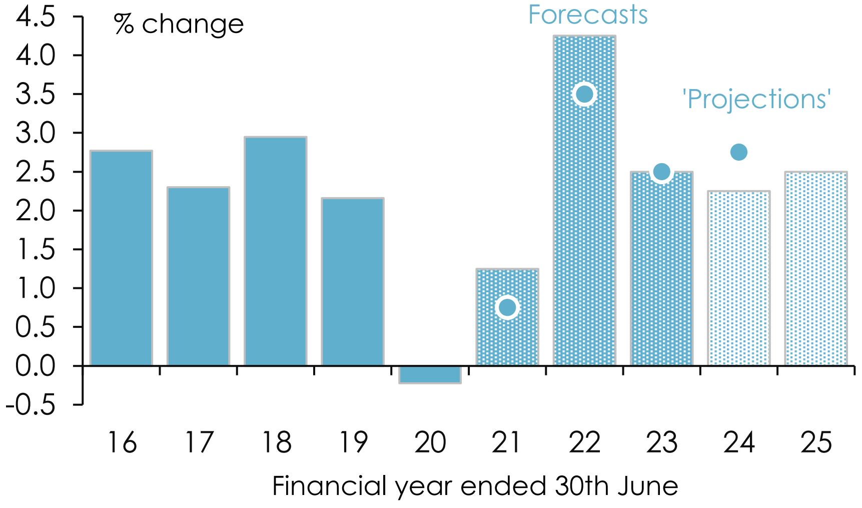



- ❑ Economic growth and in particular employment growth has been stronger than the RBA has forecast – but wage and price inflation haven't been
- ❑ In its latest *Statement on Monetary Policy* published Friday, the RBA has revised upwards its forecast for GDP growth over the year to Q2 2021 to 9¼% (from 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'

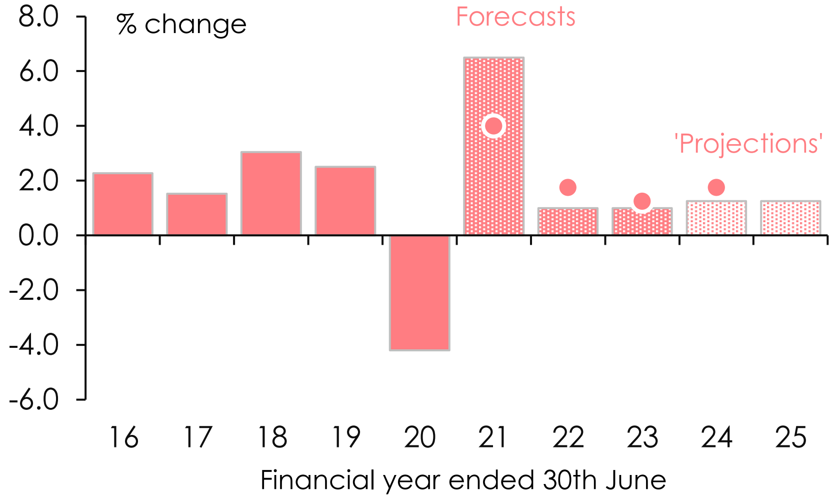
*Source:* Reserve Bank of Australia, *Statement on Monetary Policy*, 7th May 2021. The RBA's next set of forecasts will be published on Friday 6th August.

# In last week's Budget Papers, Treasury revised up its forecasts for economic and employment growth, but wage and price forecast were little changed

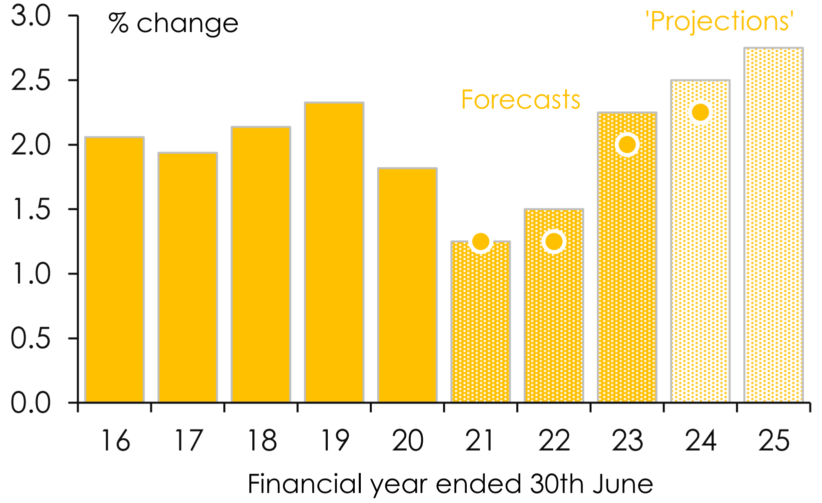
## Real GDP



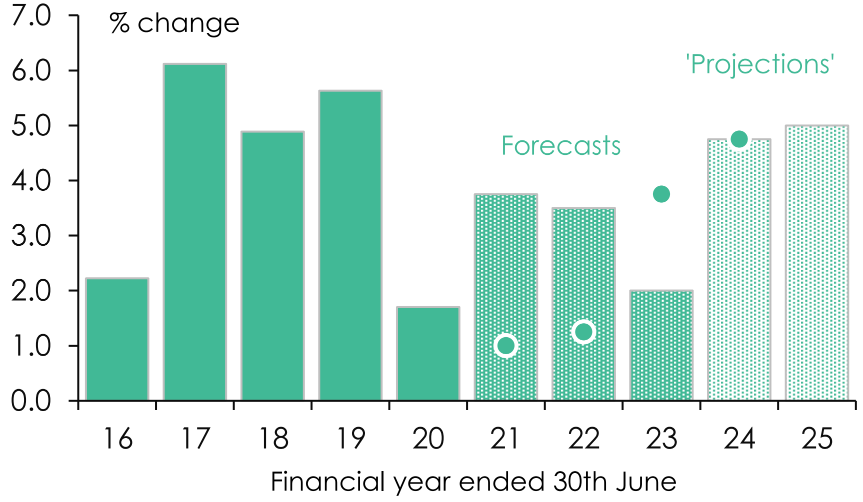

## Employment



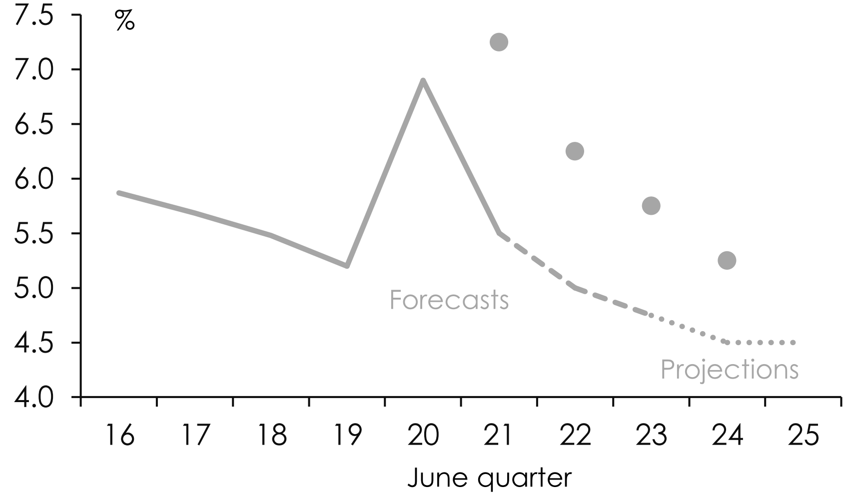

## Wage price index



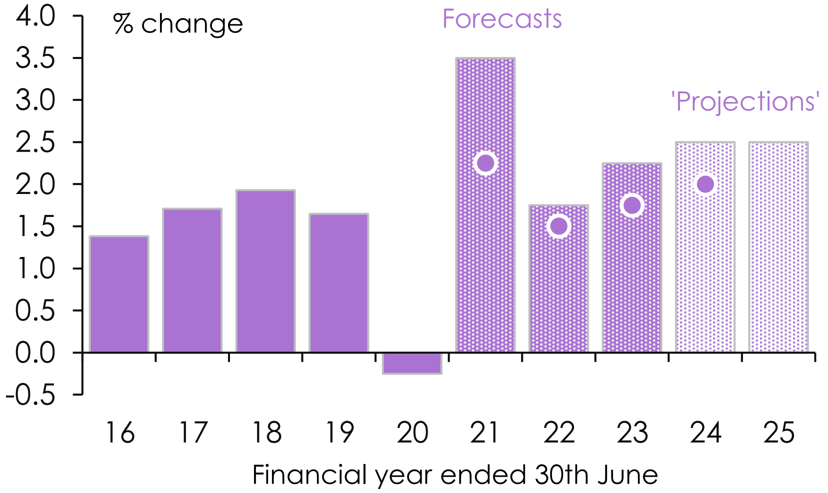

## Nominal GDP




## Unemployment rate




## Consumer price index




*Note:* Dots represent the forecasts and projections from the 2020-21 Mid-Year Economic & Fiscal Outlook (MYEFO) published in December last year. 'Forecasts' are Treasury's 'best endeavours' estimates for the current and following two financial years. 'Projections' for 2023-24 and 2024-25 are *not* forecasts, but rather are based on assumptions about the path by which output converges on its 'potential' level. Sources: ABS; 2020-21 MYEFO and 2021-22 *Budget Paper No. 1, Statement No. 2*.



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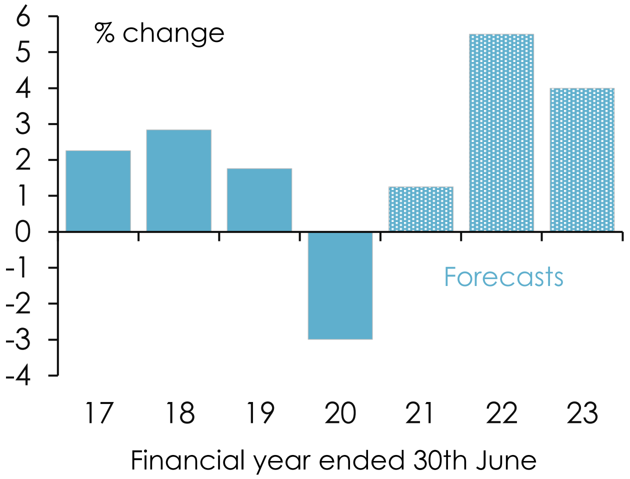
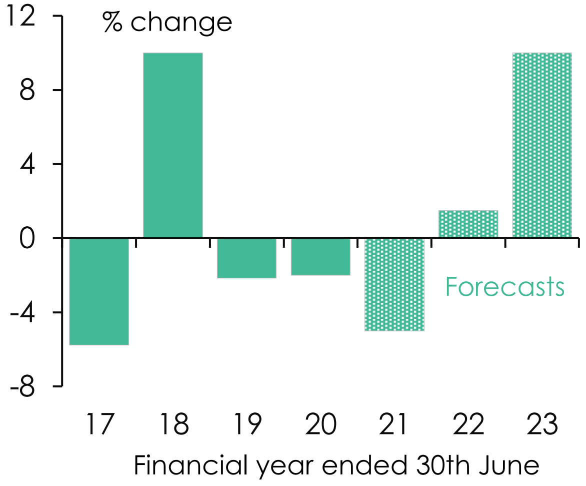
# Treasury expects economic growth to be driven by household spending with business investment picking up in 2022-23 as public spending slows

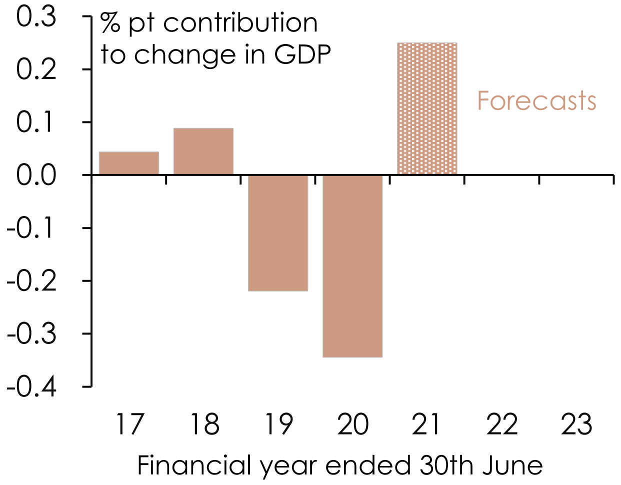
## Household consumption



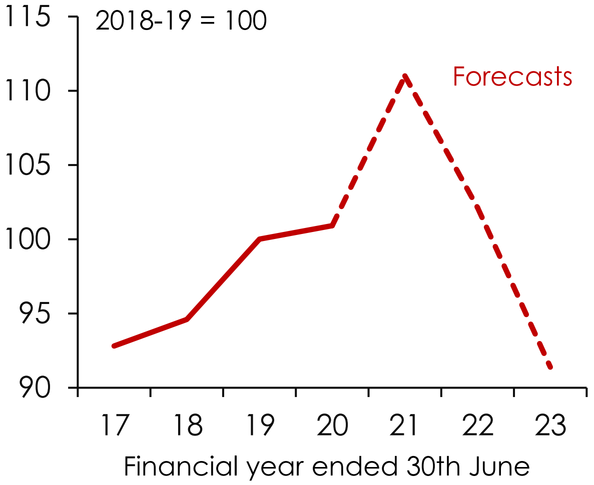

## Business investment



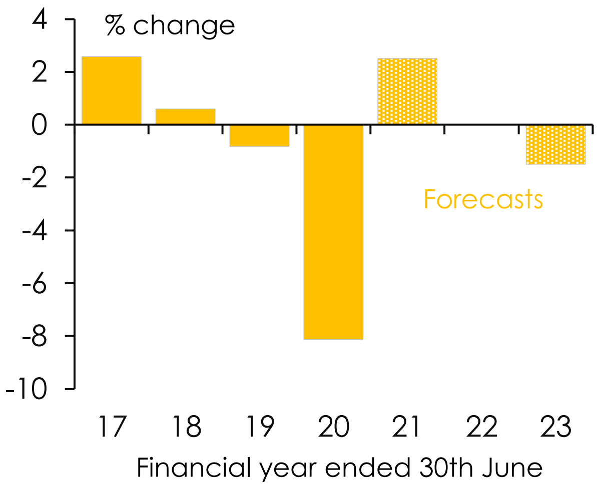

## Change in inventories



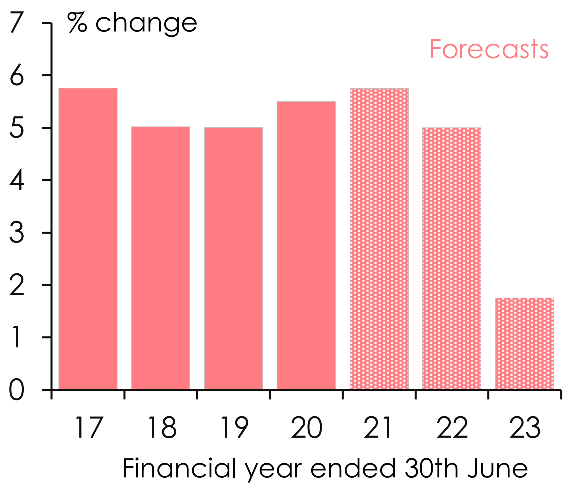

## Terms of trade



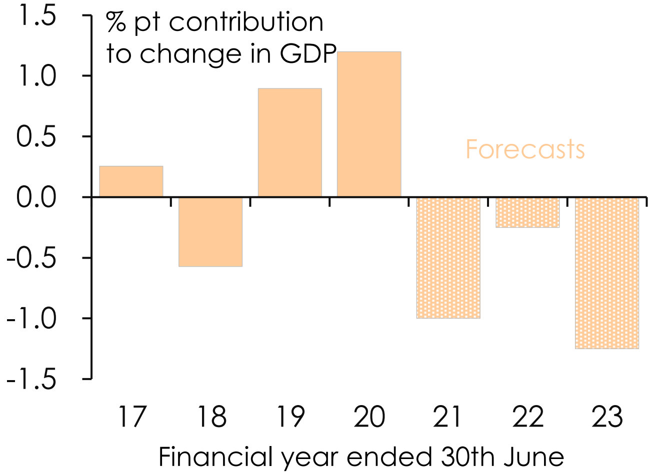

## Dwelling investment



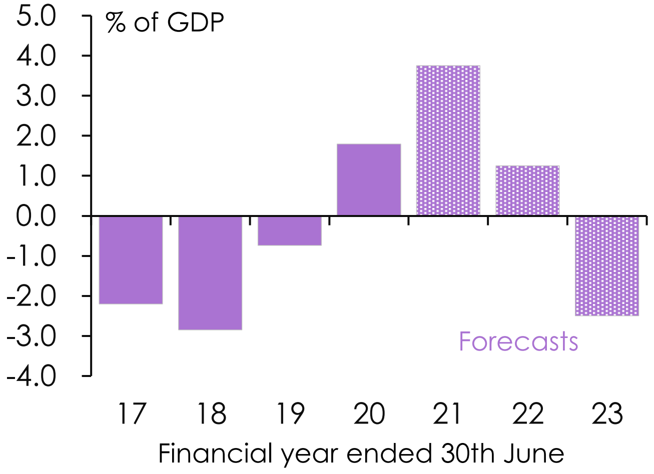

## Public spending




## Net exports




## Current account balance




*Note*: Business investment and public spending exclude transactions in second-hand assets. Employment growth is June quarter on June quarter; unemployment rate is June quarter; all other figures are for financial years. Net overseas migration assumed to be -97K in 2020-21 and -77K in 2021-22 before turning positive in 2022-23 and rising to 235K by 2024-25; iron ore price falling to US$55/t FoB by Q1 2022; metallurgical and thermal coal prices remaining at US$1112/t and $93/t respectively; oil prices at US$65/bbl; and the A$ remaining at around US77¢. *Sources:* ABS; Australian Government, 2021-22 *Budget Paper No. 1, Statement No. 2*.

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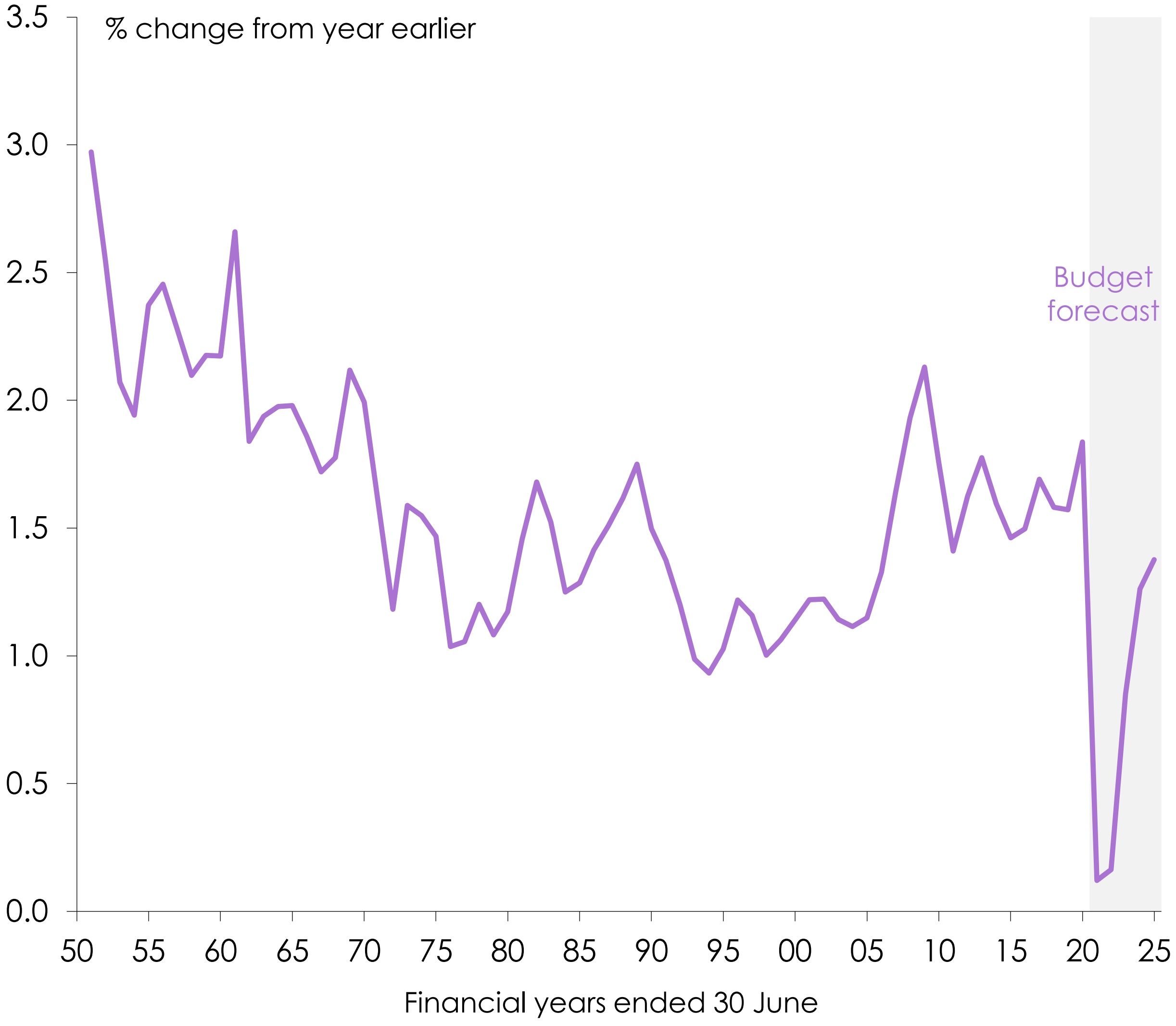
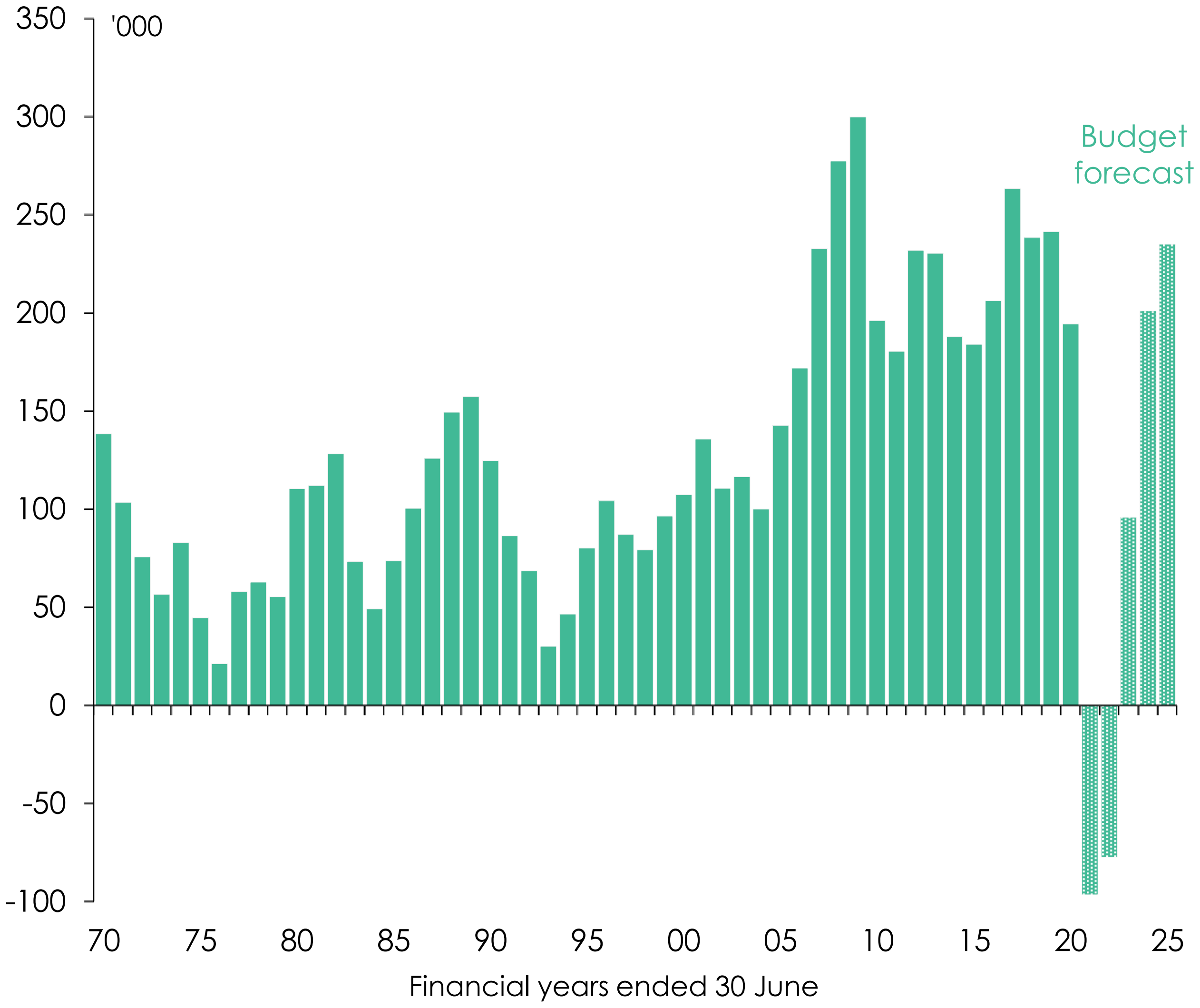
# The Budget assumes that Australia's borders remain closed until mid-2022, after which net migration returns to pre-Covid levels by 2024-25

## Population growth




## Net overseas migration




*Sources:* ABS, *National, state and territory population*; Australian Government, 2021-22 *Budget Paper No. 1, Statement No. 2* and *Budget Paper No. 3, Appendix A*.

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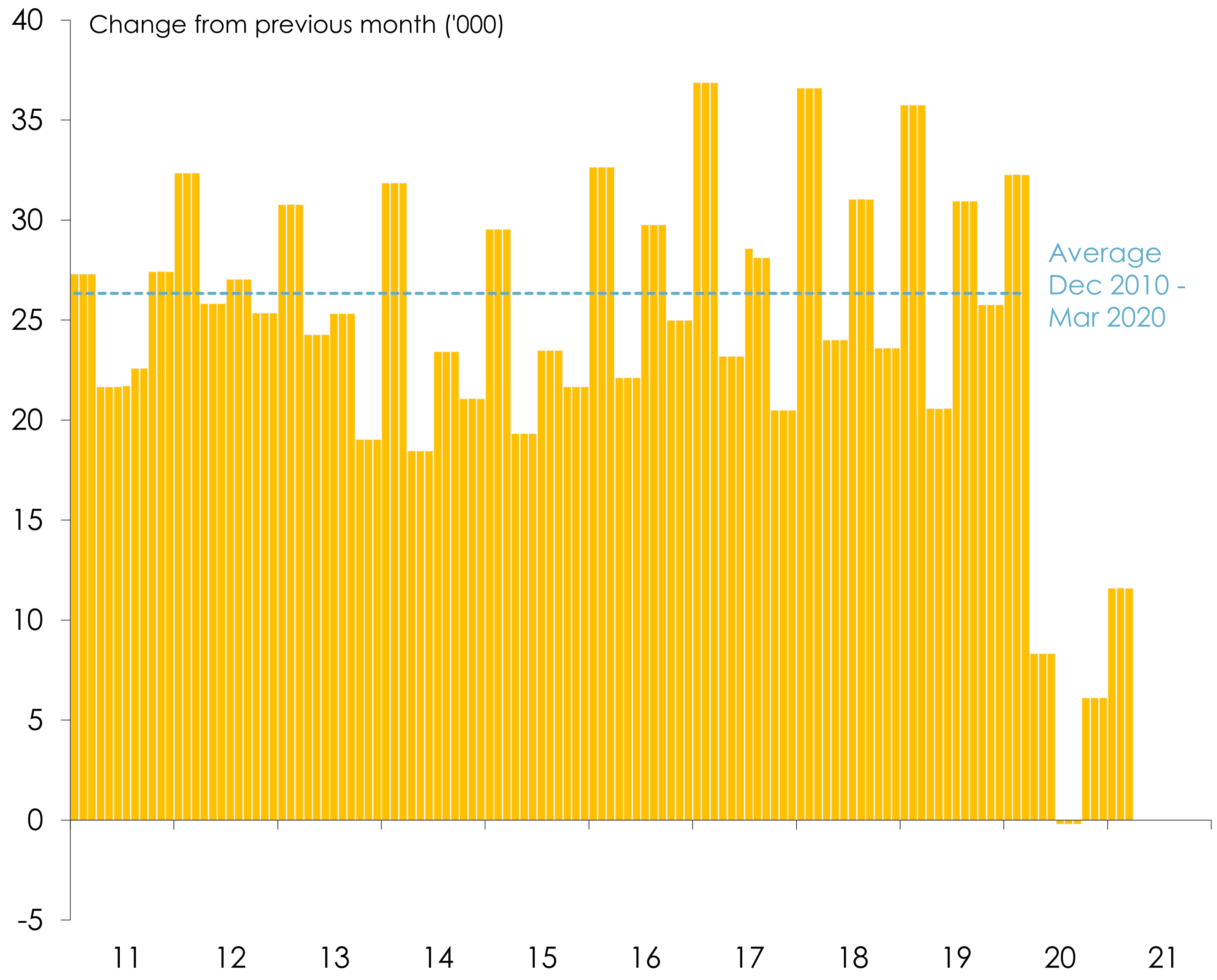
# The closure of Australia's borders means that it's easier to reduce unemployment (as long as the demand is still there) …

## Monthly growth in civilian working-age population

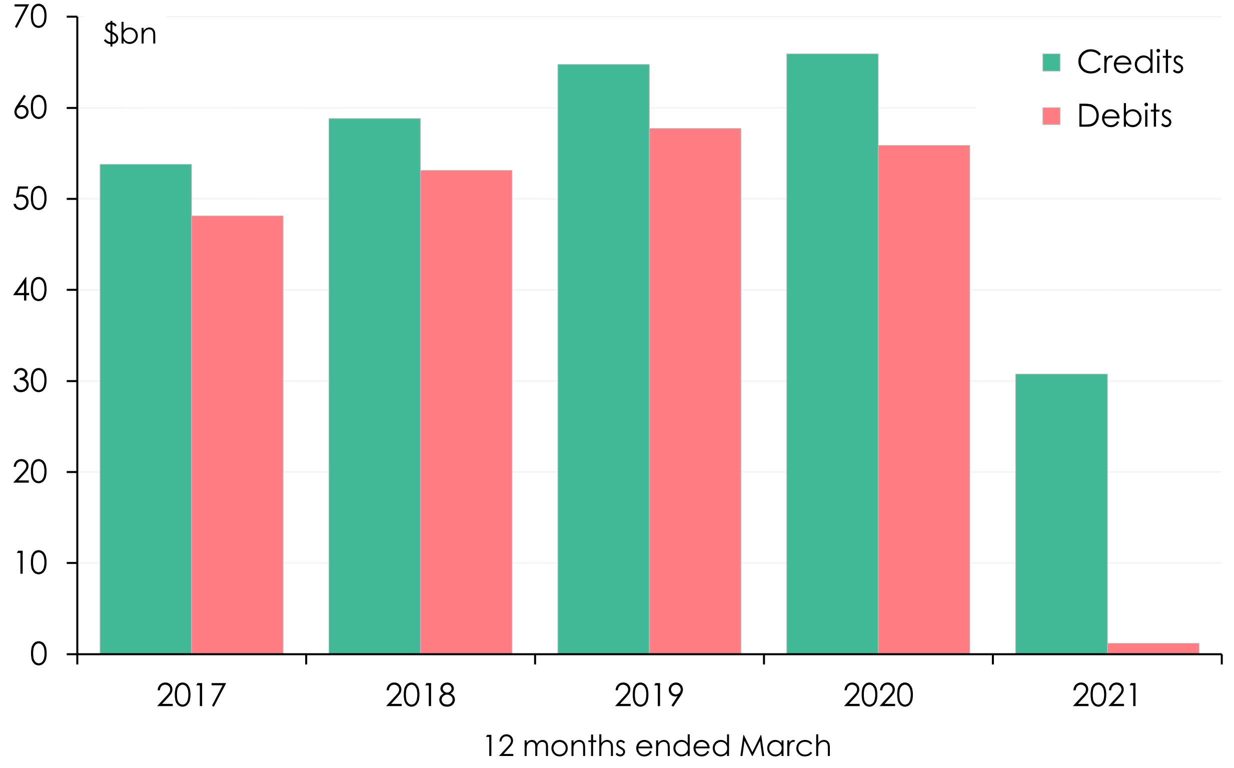



- **Over the decade prior to the onset of Covid-19, the civilian working-age population (people aged 15 and over) grew by an average of 26K a month**
  - which means that (assuming a constant labour force participation rate), employment needed to grow by an average of 16K a month in order to hold the unemployment rate constant
  - and that's more-or-less what employment did do over this period, which is why the unemployment rate went from 5.1% in the December quarter 2010 to 5.2% in the December quarter of 2019
- **Since October last year however the working-age population has increased at an average of just under 9K a month**
  - which means that (assuming the participation rate stays at its current record-high of 62½%) employment only needs to grow by an average of 5½K per month in order to prevent the unemployment rate from rising
  - anything better than that will drive the unemployment rate down

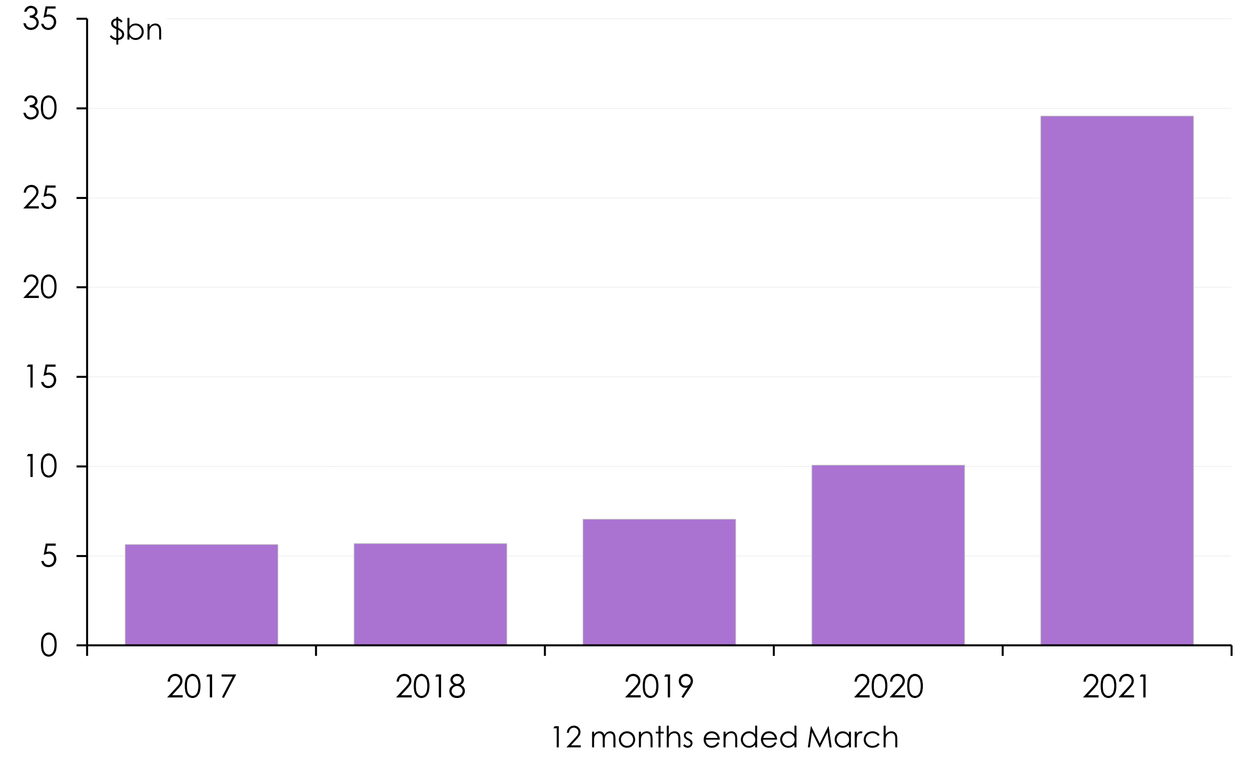
*Source:* ABS, *Labour Force, Australia*, March 2021.

# … and the *fatwa* on Australians leaving the country more than offsets the loss of spending by foreign tourists and students

## Travel credits and debits




## Net travel transactions



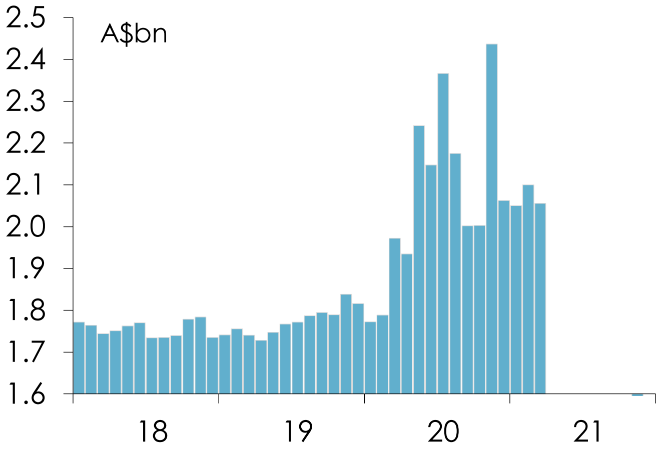

- **Over the four years to March 2020, Australians spent an average of $54bn per annum on overseas travel – as against just $1bn spend in that way over the 12 months to March 2021, 'freeing up' a large amount which appears to have been spent in other ways (electronics, household goods, clothes, cars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

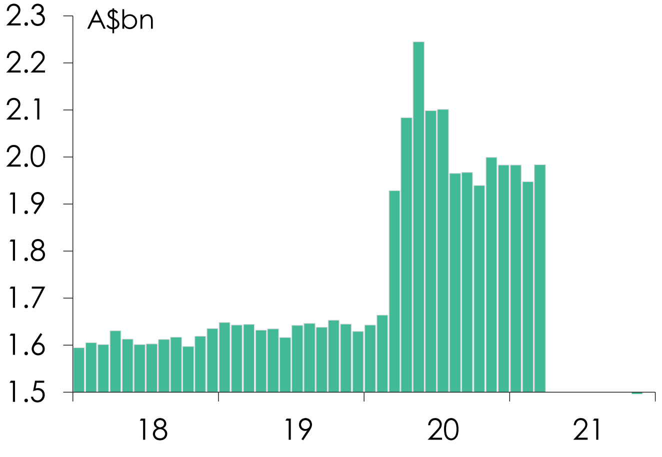
*Source:* ABS, *International Trade in Goods and Services, Australia*, March 2021.

# Australians have been spending a lot of what they would otherwise have spent overseas, in and on their homes, and on themselves

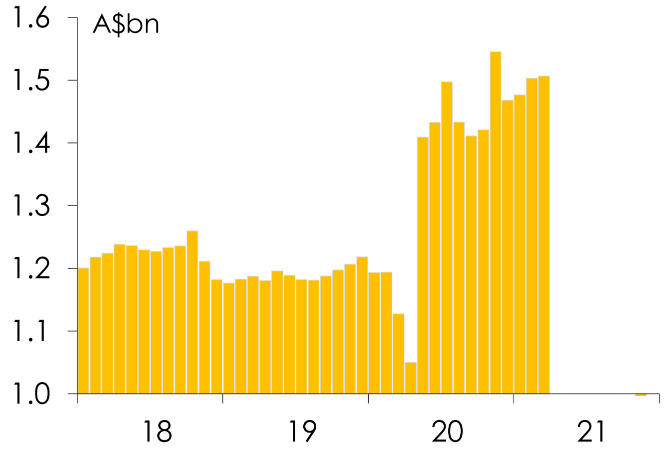
## Electronic & electrical goods



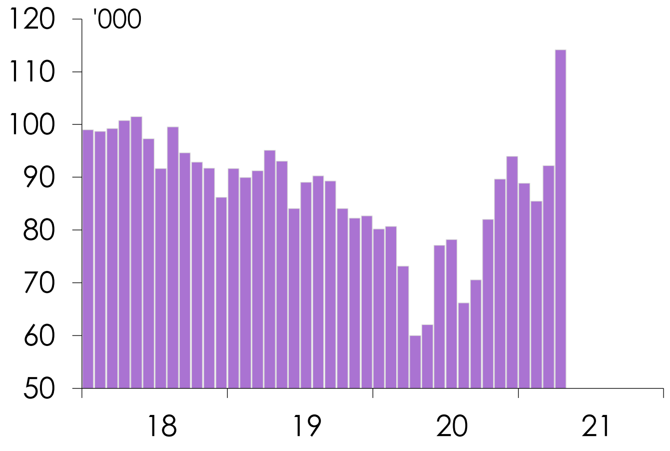

## Hardware, building & garden supplies



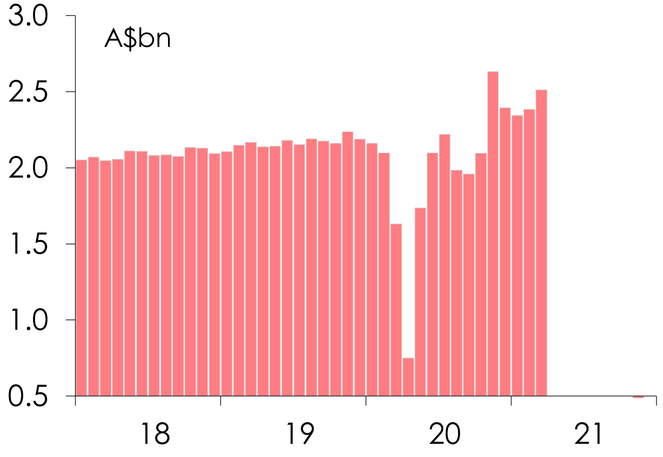

## Floor coverings, furniture, housewares etc



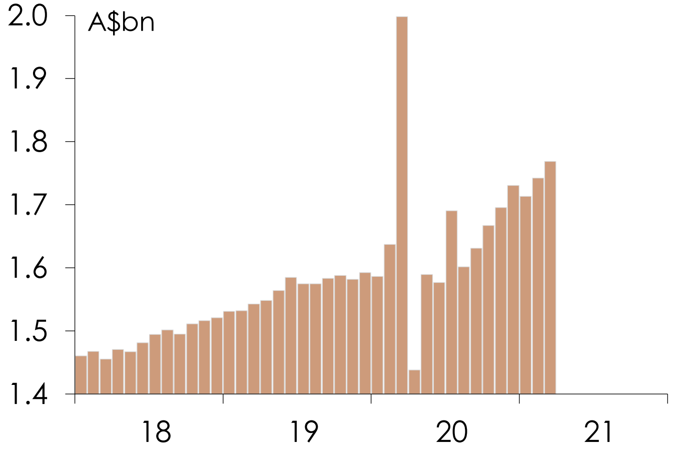

## New motor vehicles



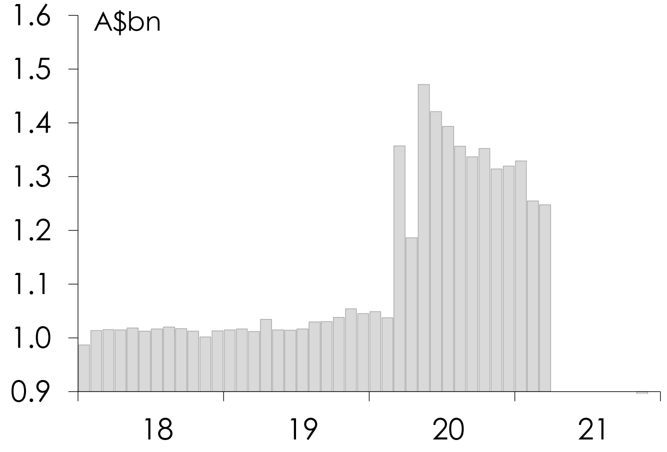

## Clothing, footwear & personal accessories



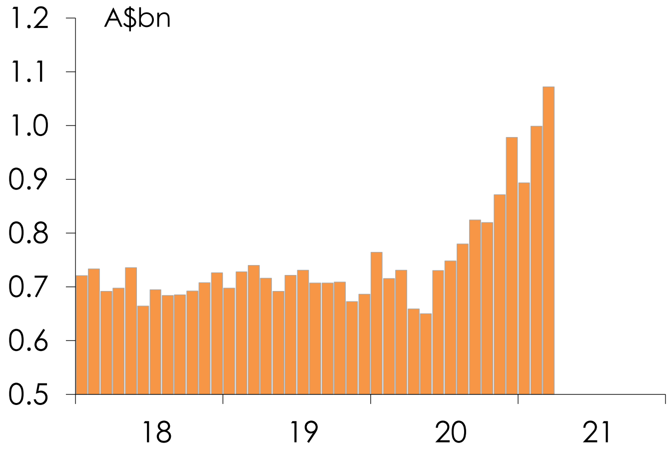

## Pharmaceuticals, cosmetics & toiletries




## Alcoholic beverages




## Renovations




*Note:* First six charts (from left) are retail sales; new motor vehicles are numbers of vehicles sold; renovations are the value of alterations and additions to residential dwellings approved by local governments. *Sources:* ABS, *Retail Trade, Australia*, March 2021; *Building Approvals, Australia*, March 2021; Federal Chamber of Automotive Industries *VFACTS* (seasonal adjustment of Vfacts data by Corinna).

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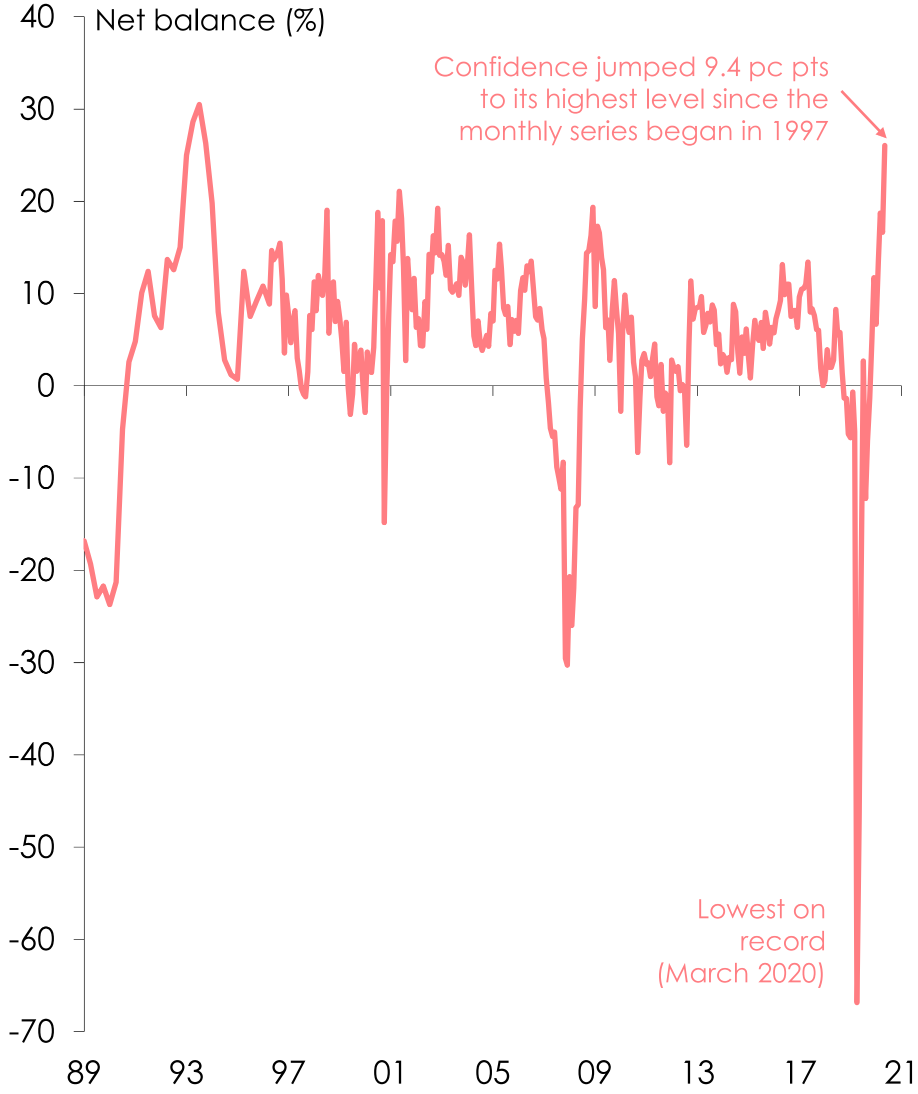
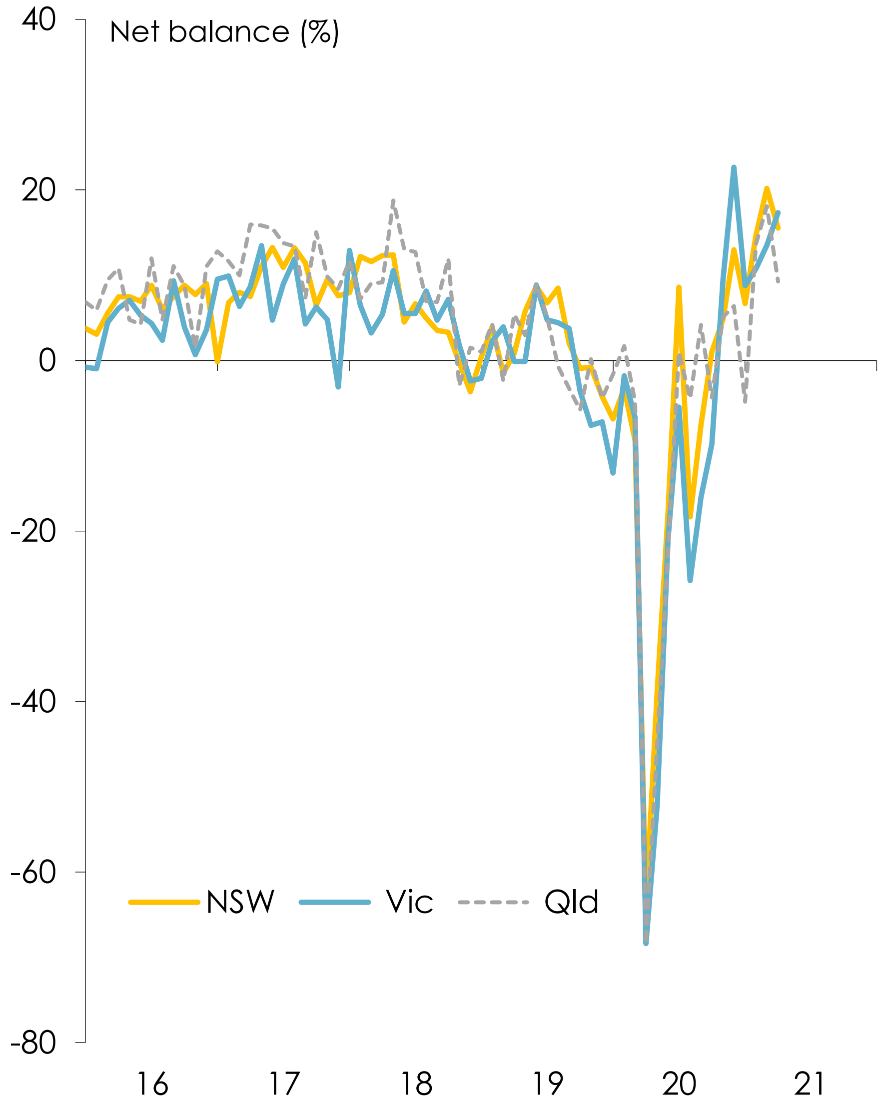
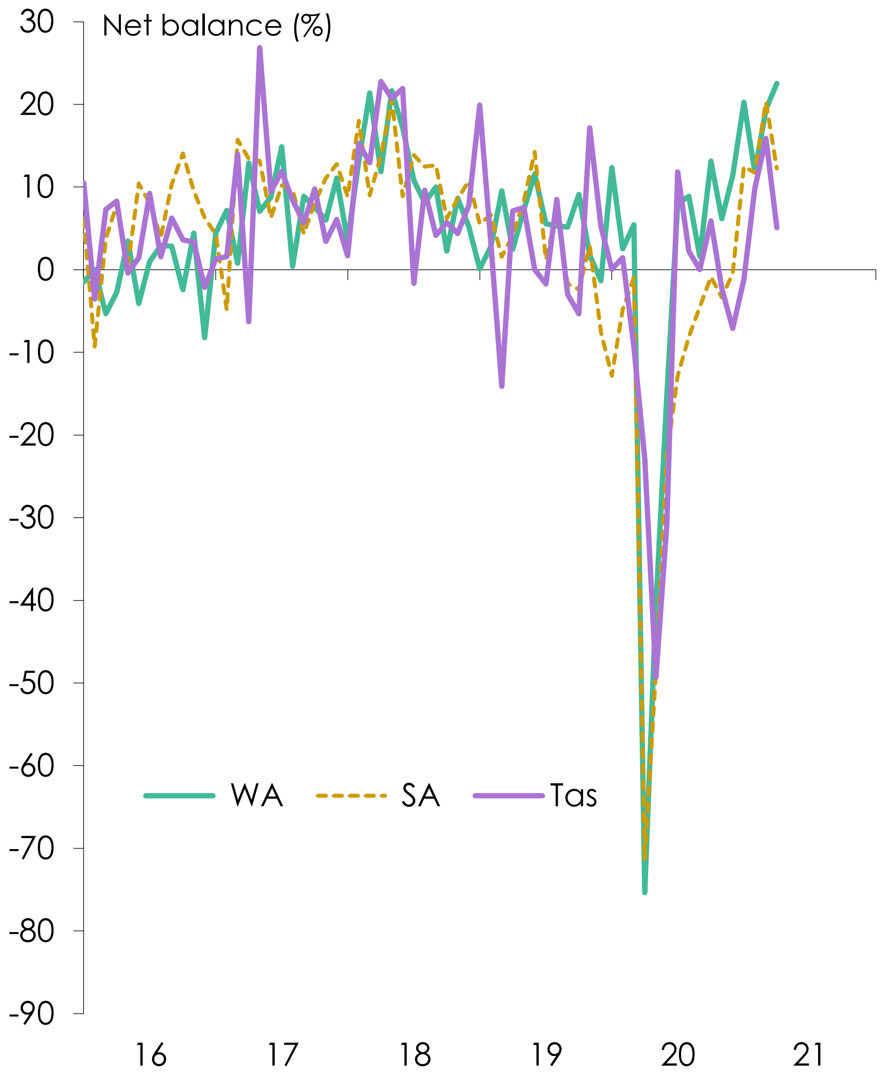
# Business confidence surged in April to its highest level since June 1994 (and the highest since the monthly survey commenced in March 1997)

## Business confidence




## Business confidence, states and territories




*Sources:* National Australia Bank. May survey results will be released on 8th June. Return to "What's New".



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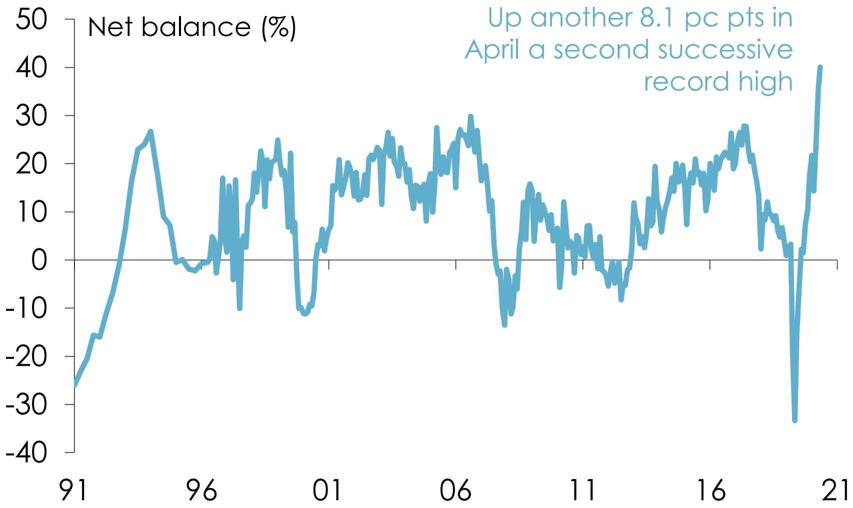
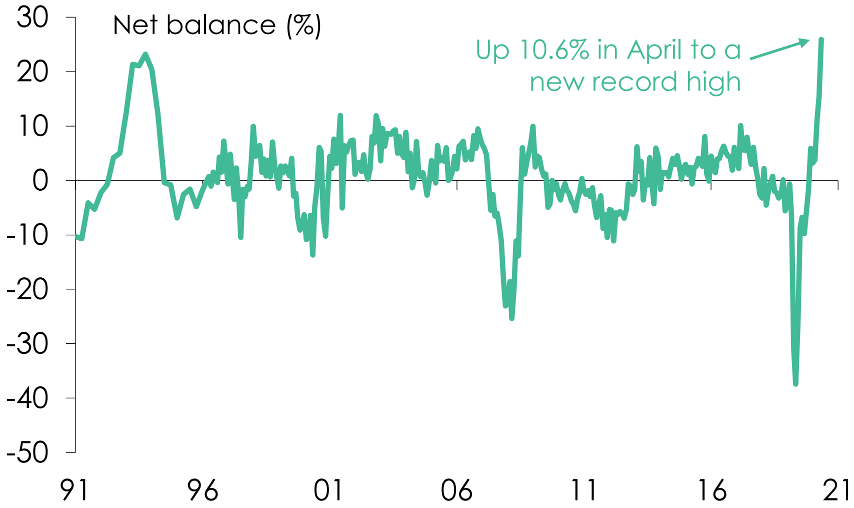
# Every component of the NAB Survey measure of business conditions registered a record high in April, except for capex intentions

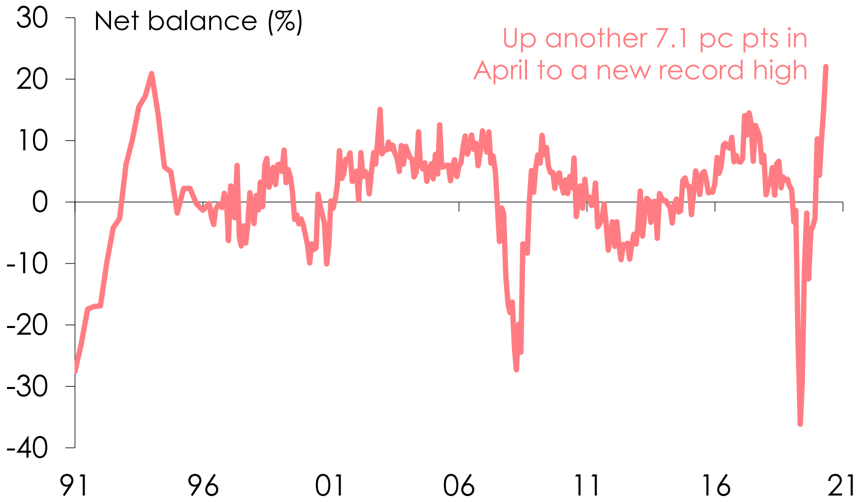
## Trading conditions



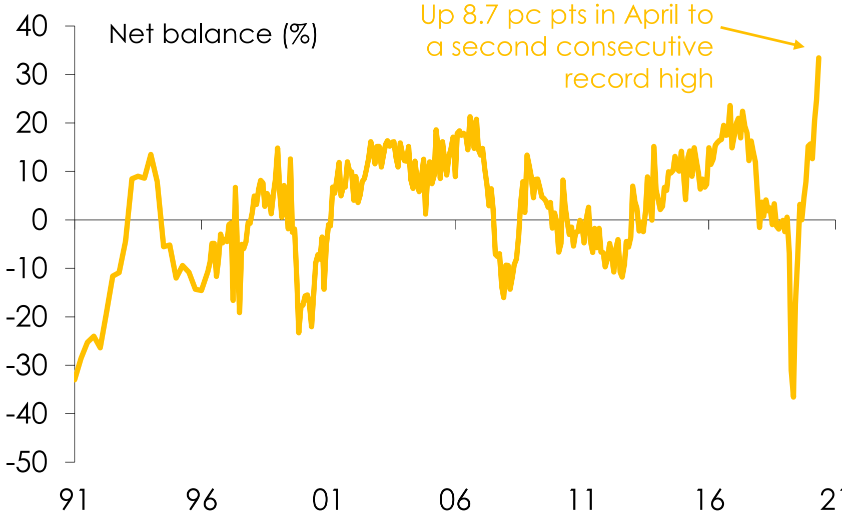

## Forward orders



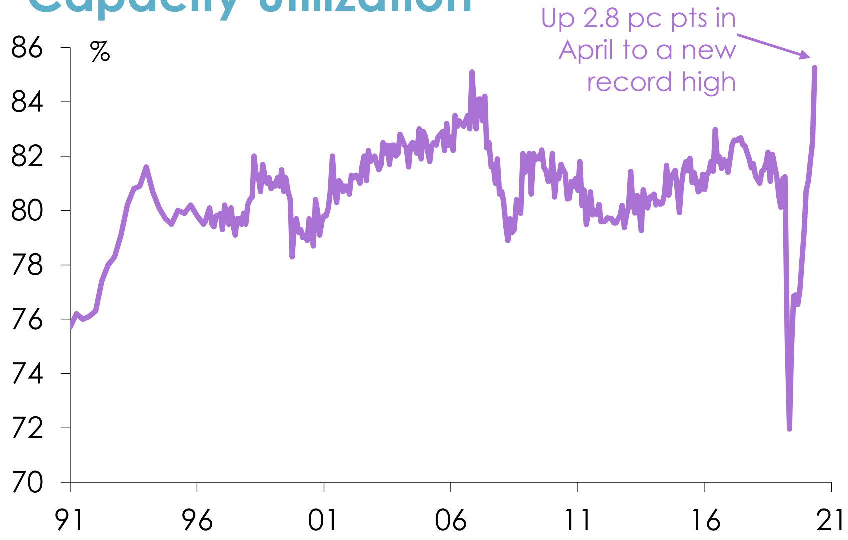

## Employee hiring intentions



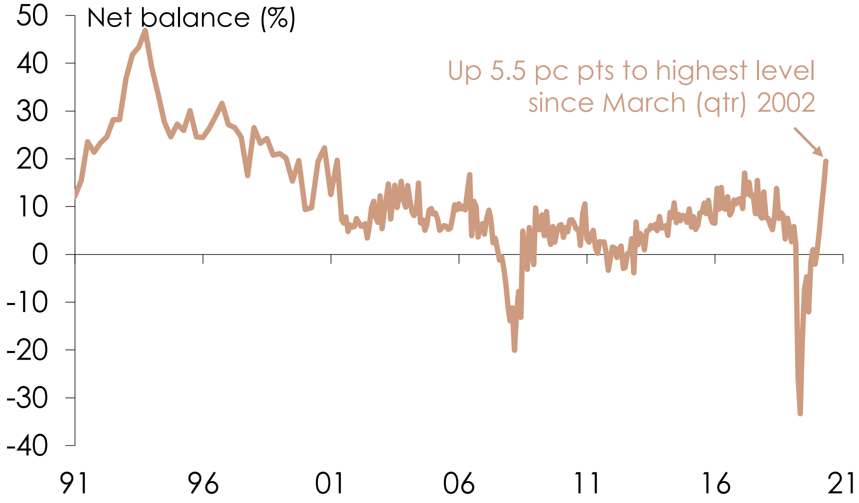

## Profitability




## Capacity utilization




## Capital expenditure intentions




*Note:* Quarterly data up to March 1997 (May 2002 for capex intentions), monthly thereafter.
*Source:* National Australia Bank *Monthly Business Survey*, April 2021; May survey results will be released on 8th June. Return to "What's New".



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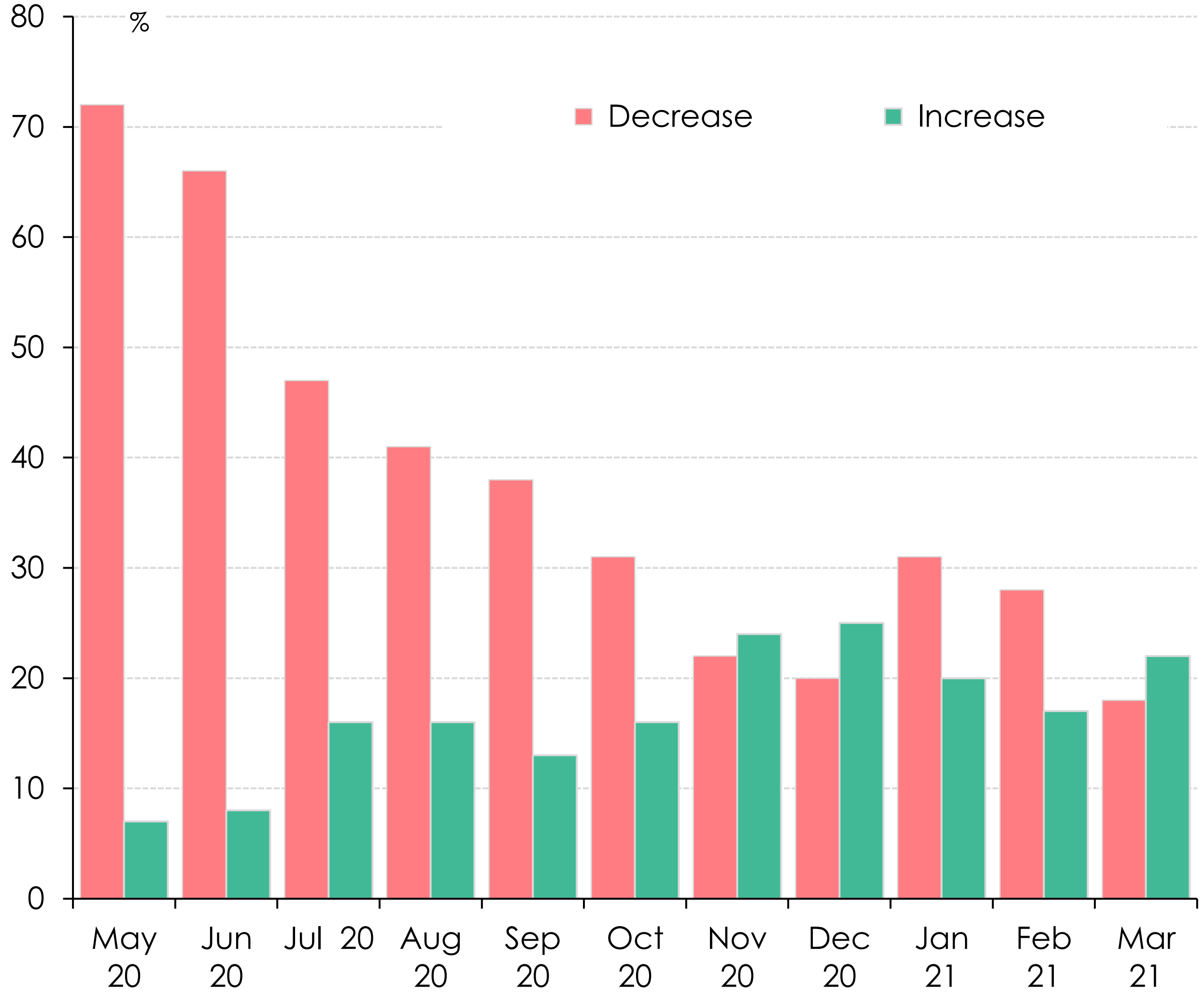
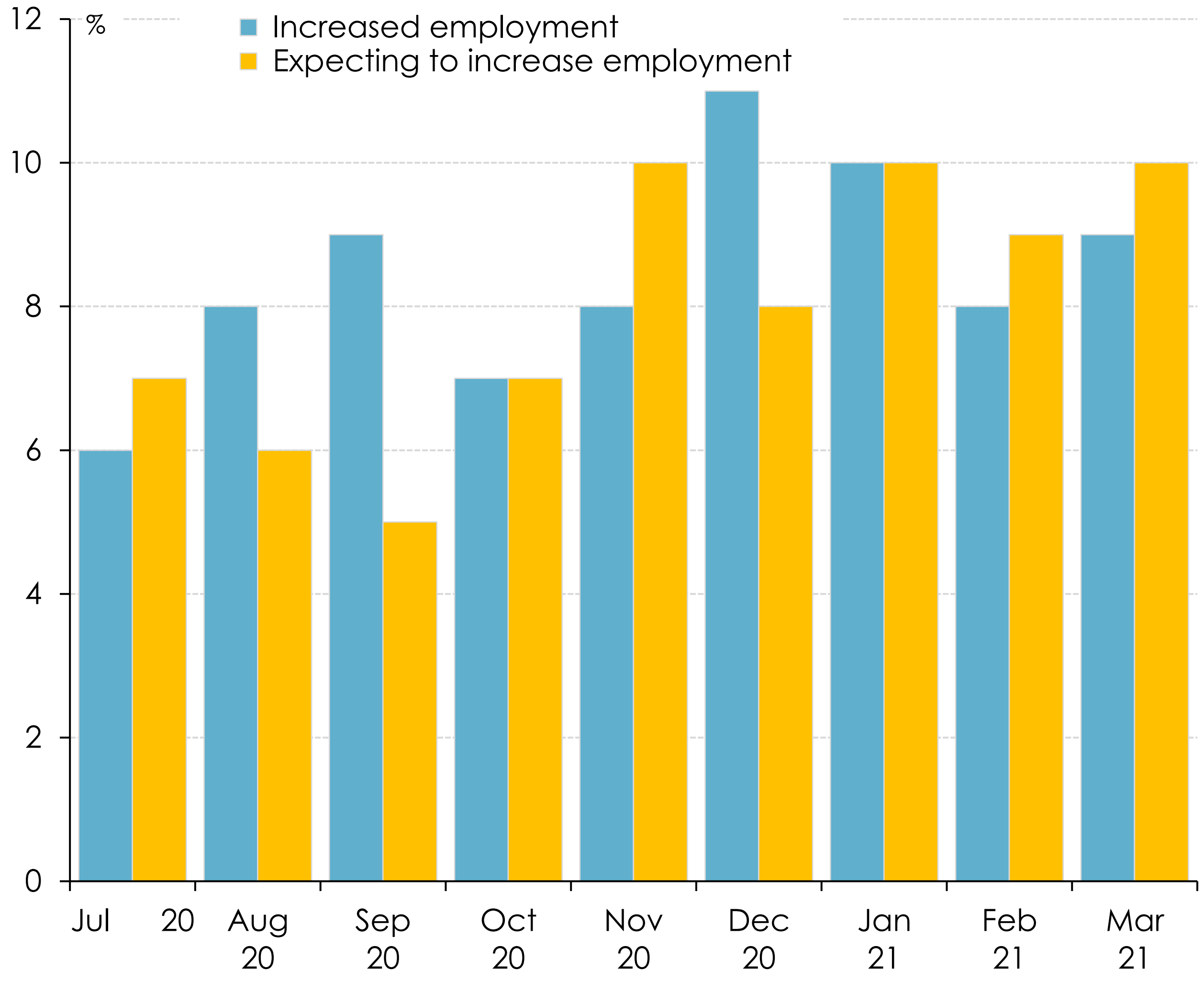
# More business experienced revenue increases than decreases in March, for the first time since the onset of the pandemic

## 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".



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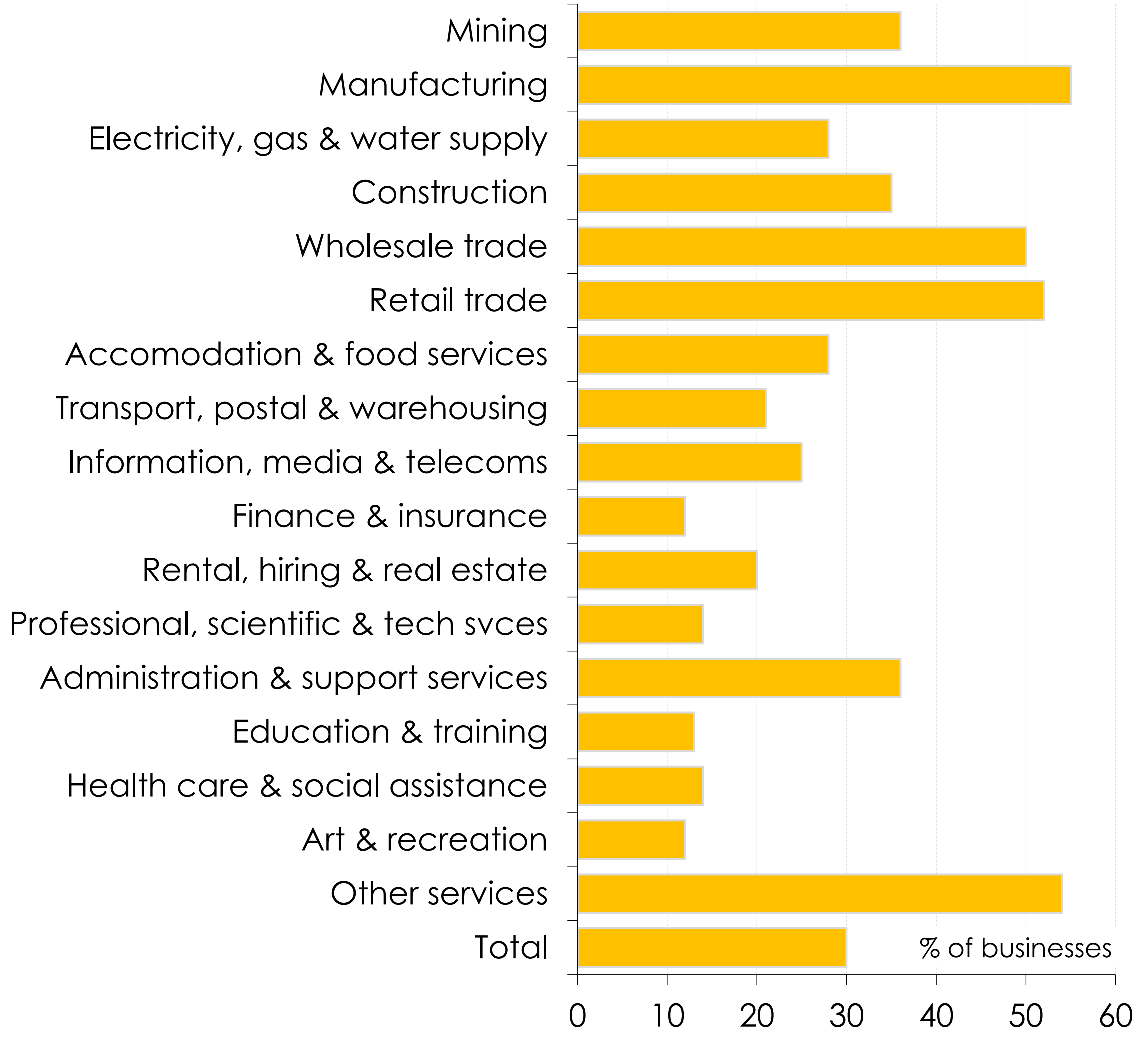
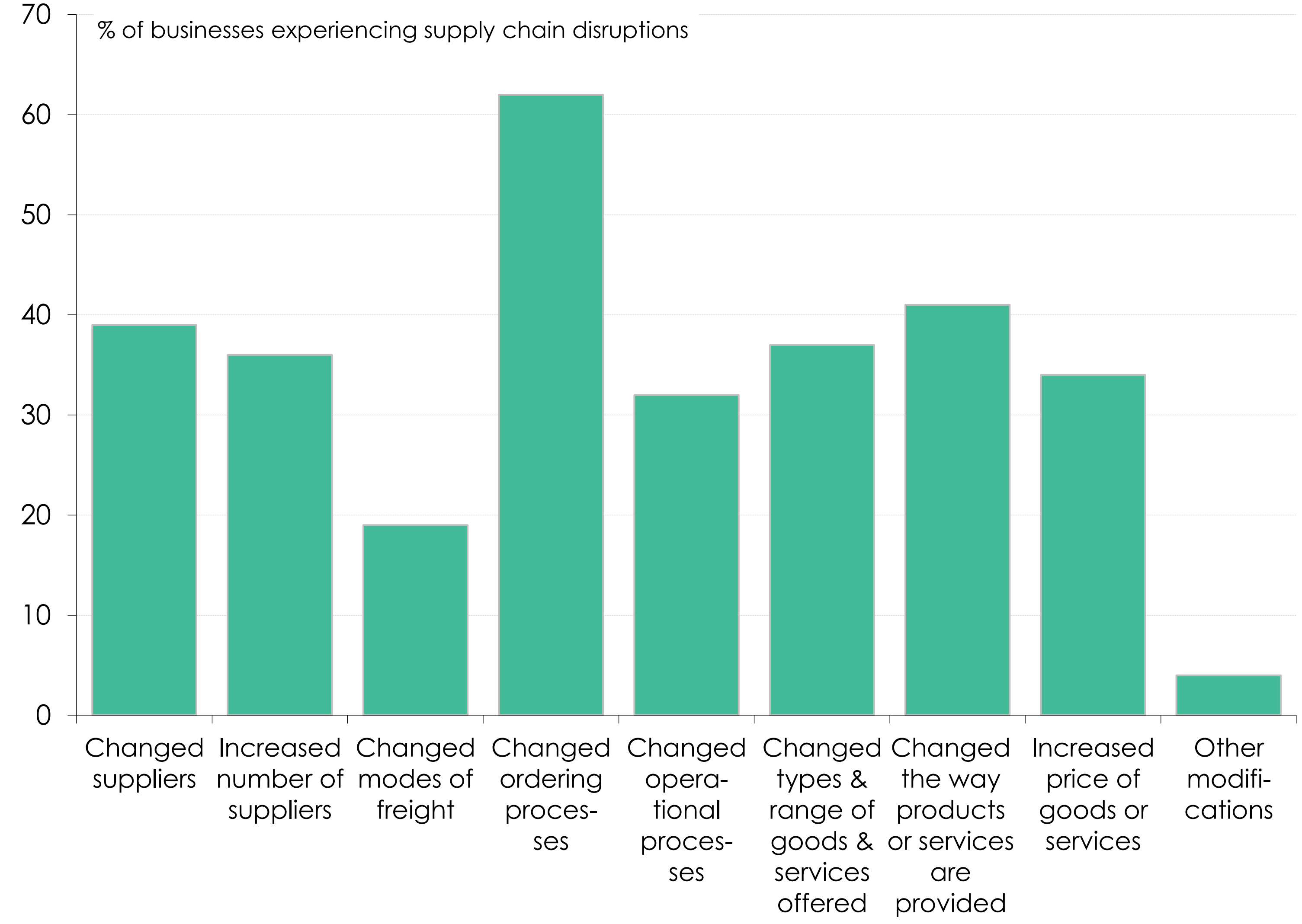
# 30% of businesses are experiencing supply chain disruptions (and of them, 37% significant) – and are making changes (incl to prices) in response

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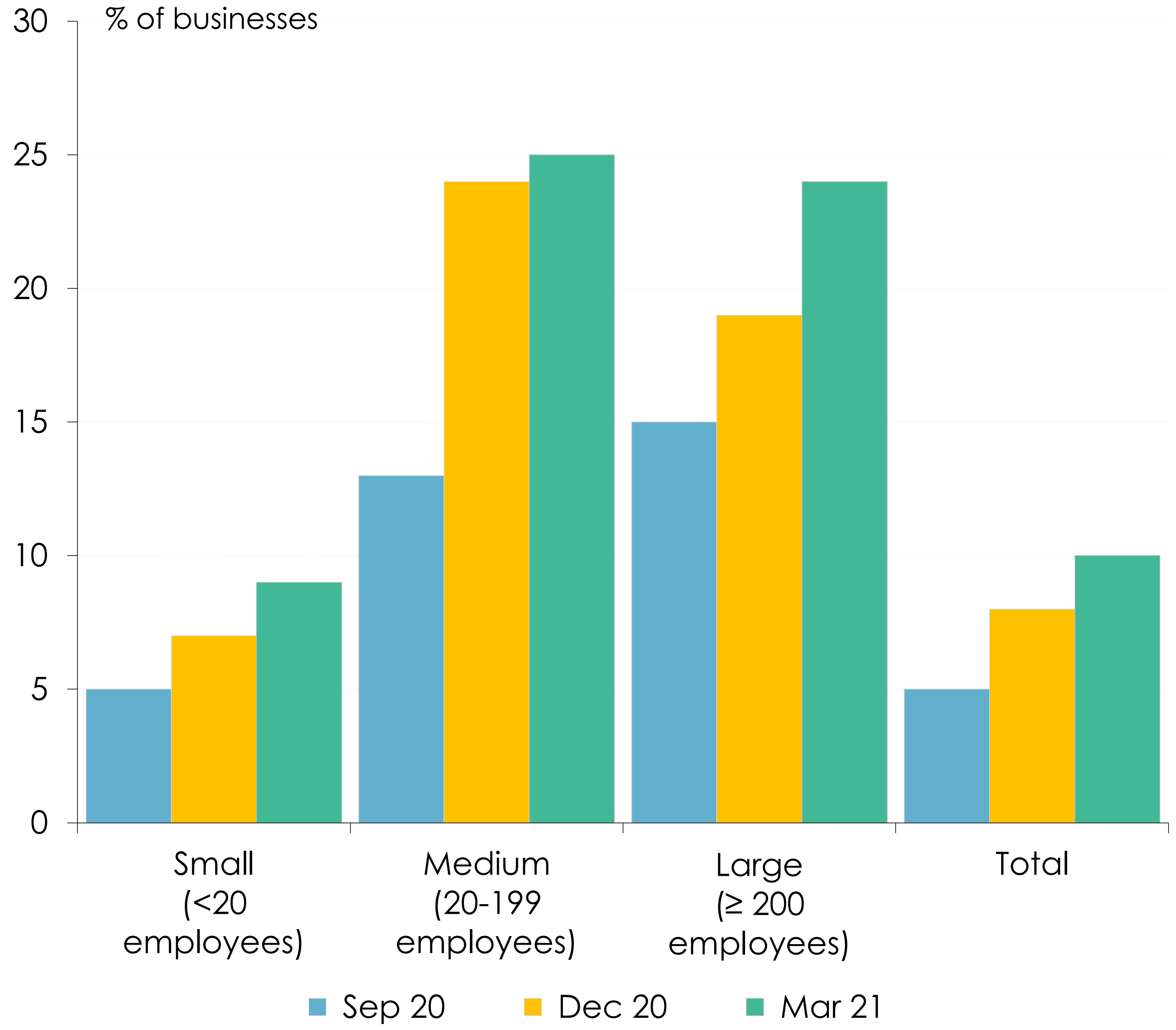
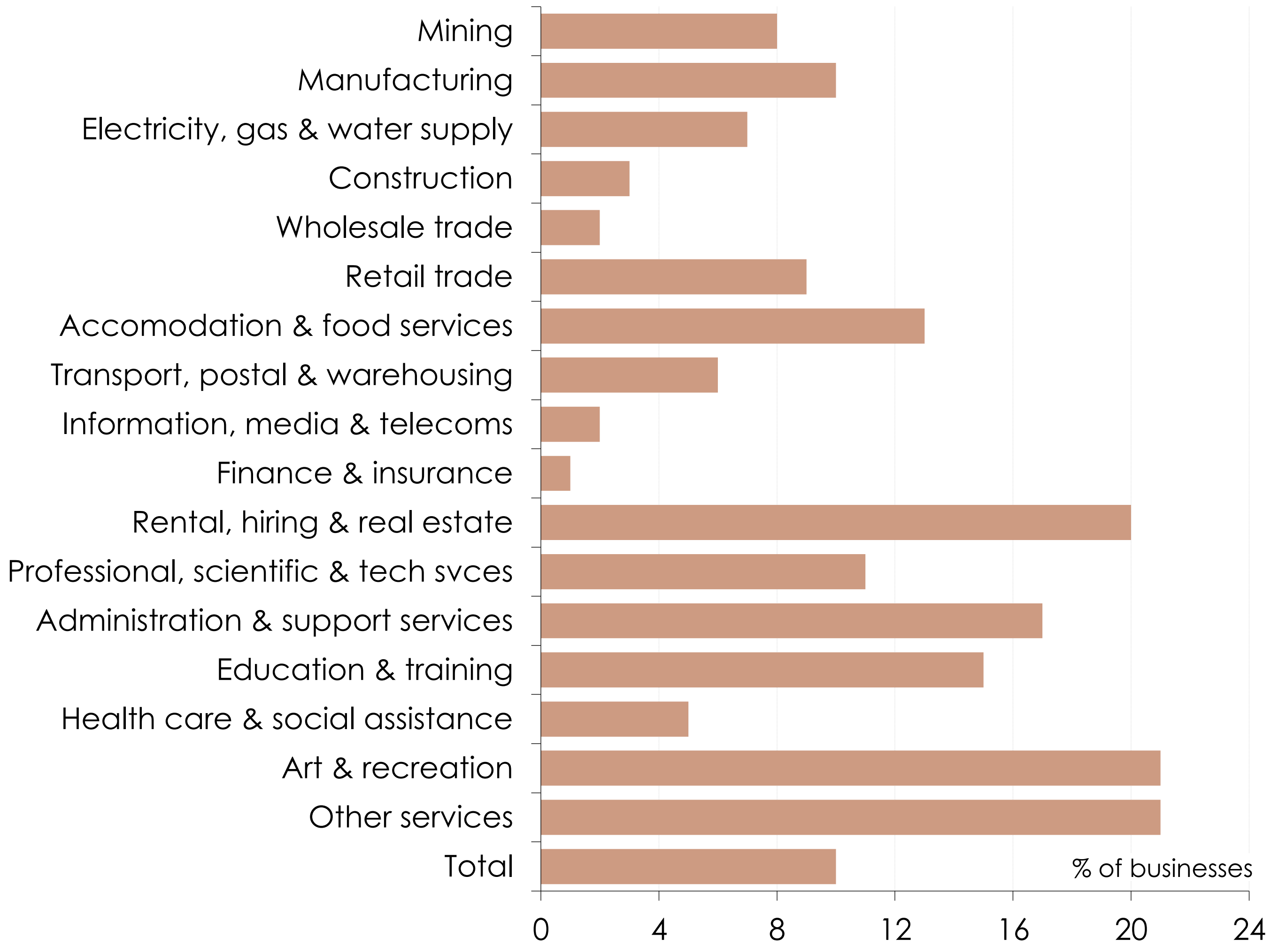
# It's medium-sized and large businesses who will be the 'engine rooms' of employment creation this year, not small ones

## 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 105 for data on capex intentions by business size. Return to "What's New".

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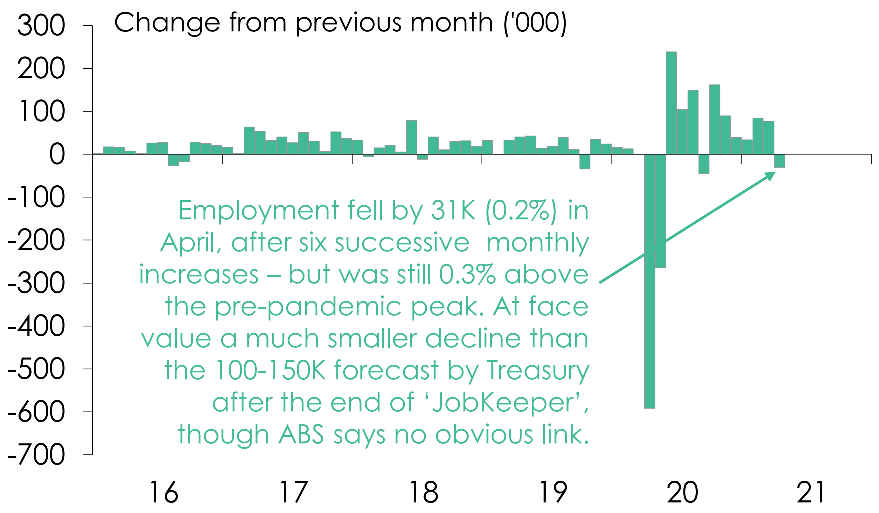
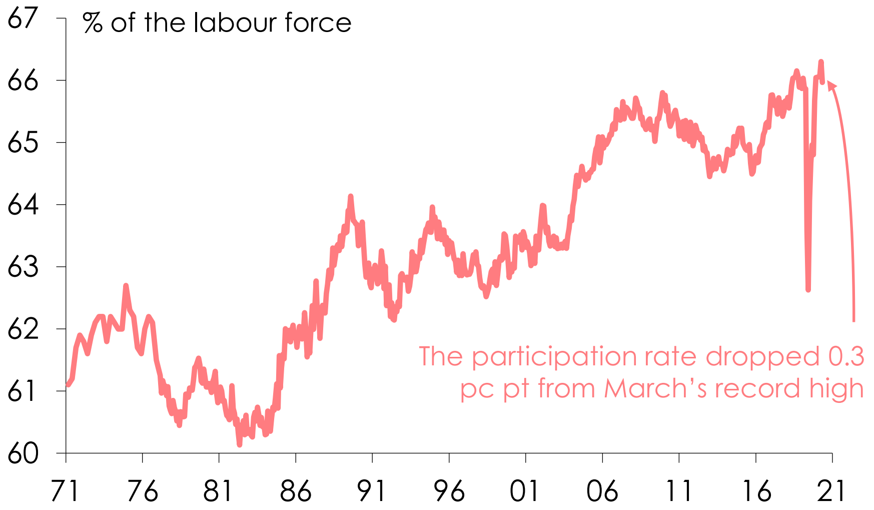
# Employment dropped 31K (0.2%) in April, a lot less than the 100-150K forecast as possible after the end of the 'JobKeeper' scheme

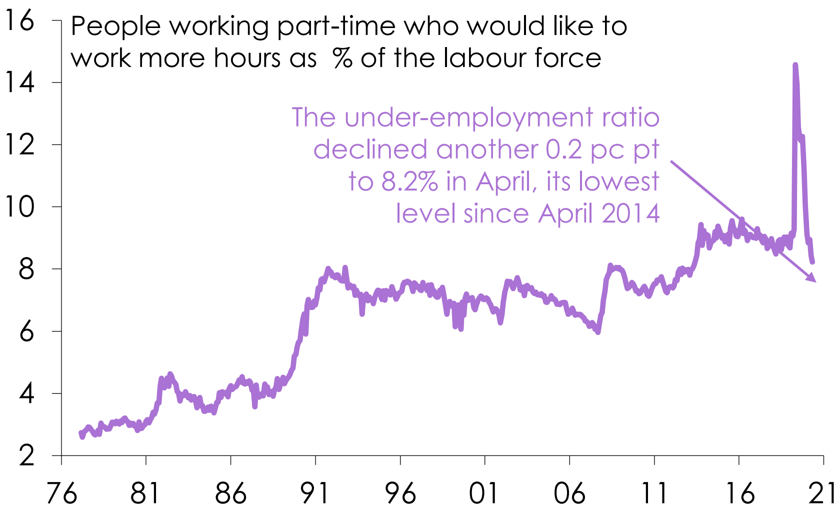
## Employment



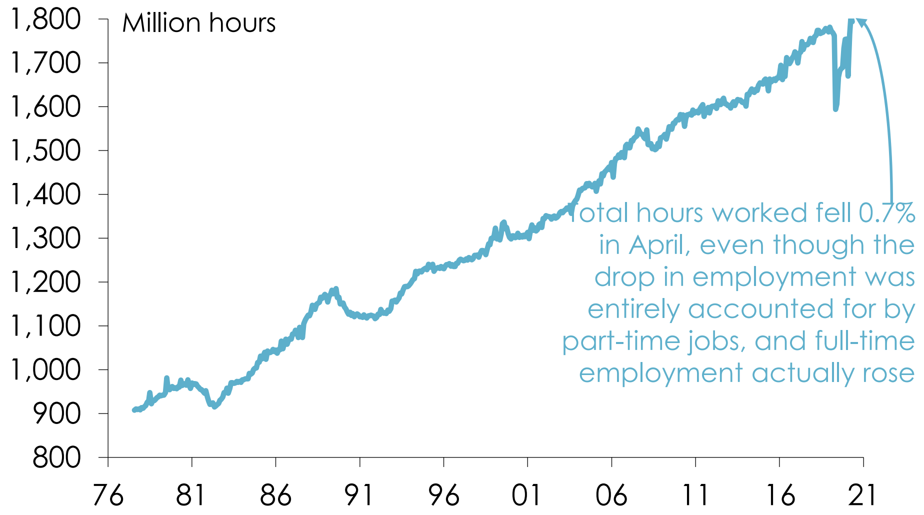

## Labour force participation rate



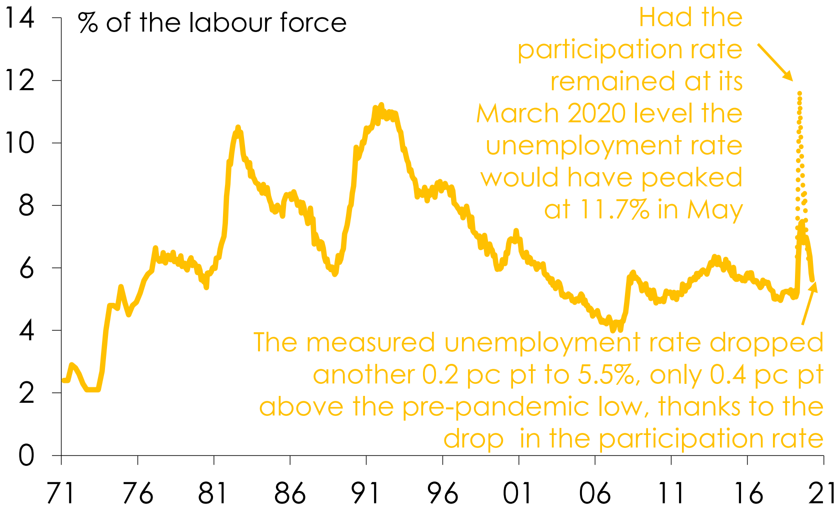

## Under-employment ratio



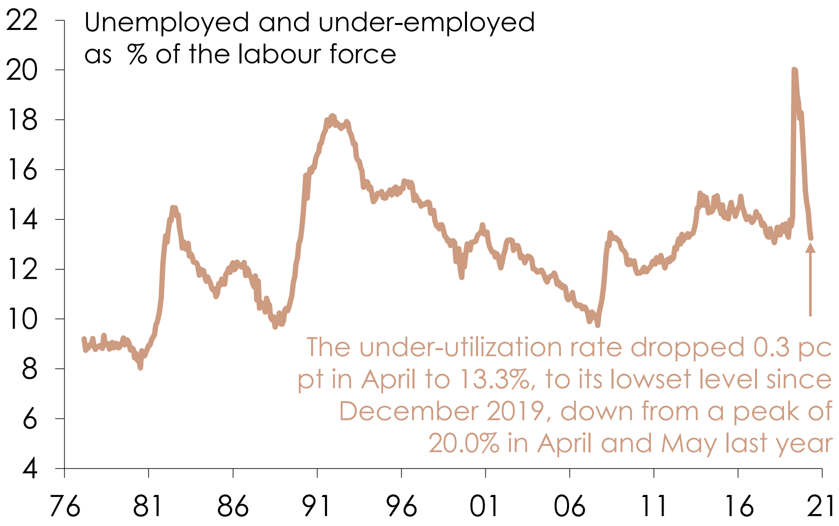

## Total hours worked




## Unemployment rate




## 'Under-utilization' rate




*Source:* ABS, *Labour Force, Australia*. May data will be released on 17th June. Return to "What's New".

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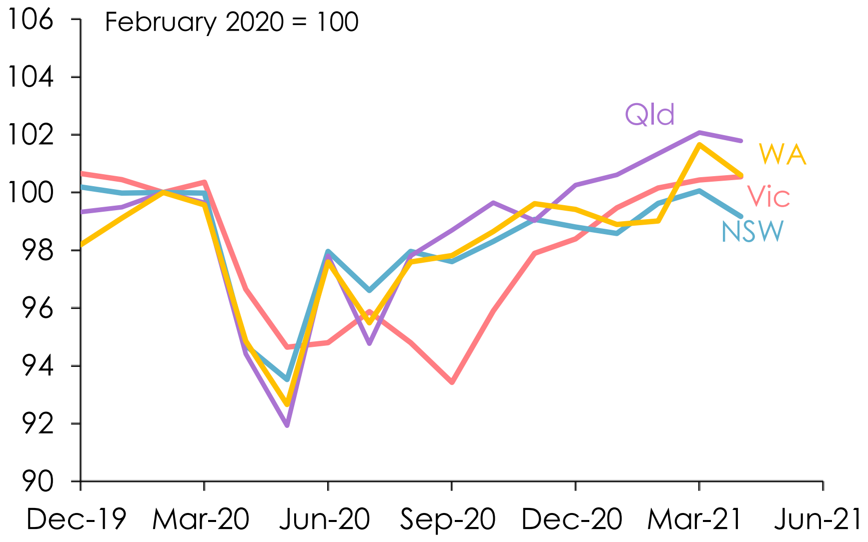
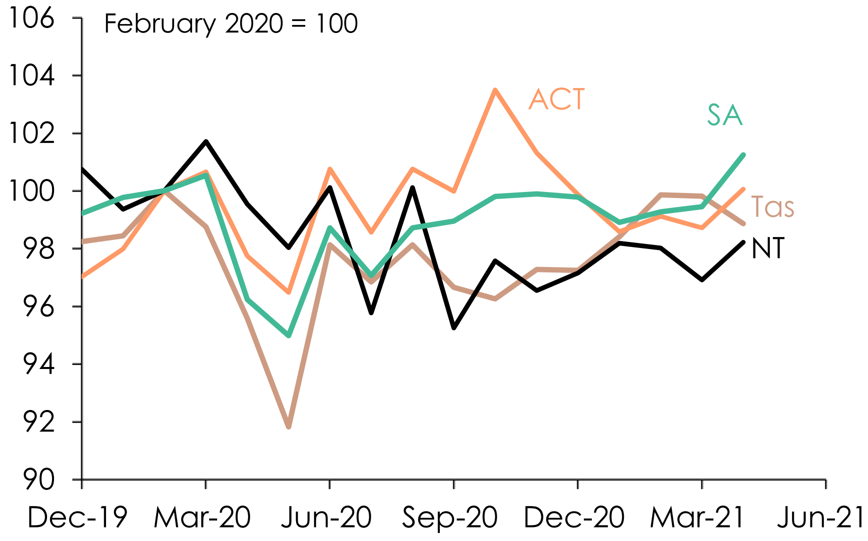
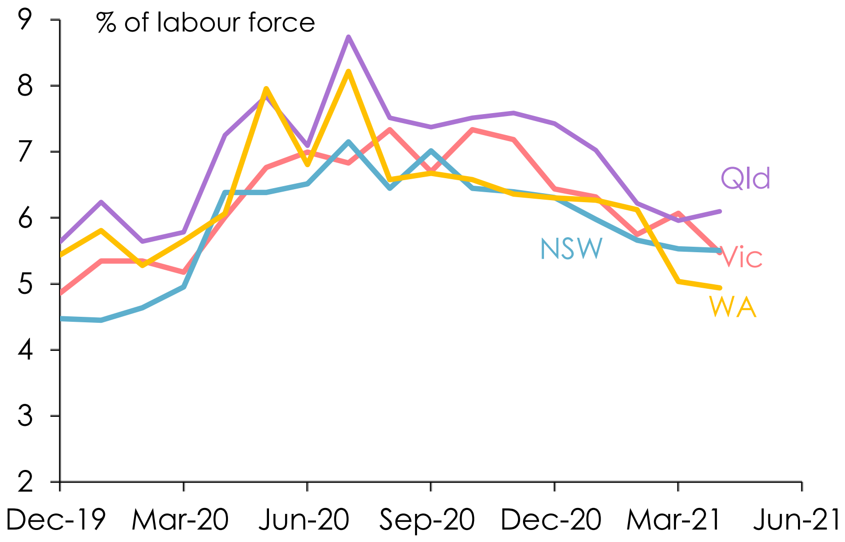
# Queensland and Western Australia have continued to experience the strongest recoveries in employment, while NSW's has been surprisingly soft

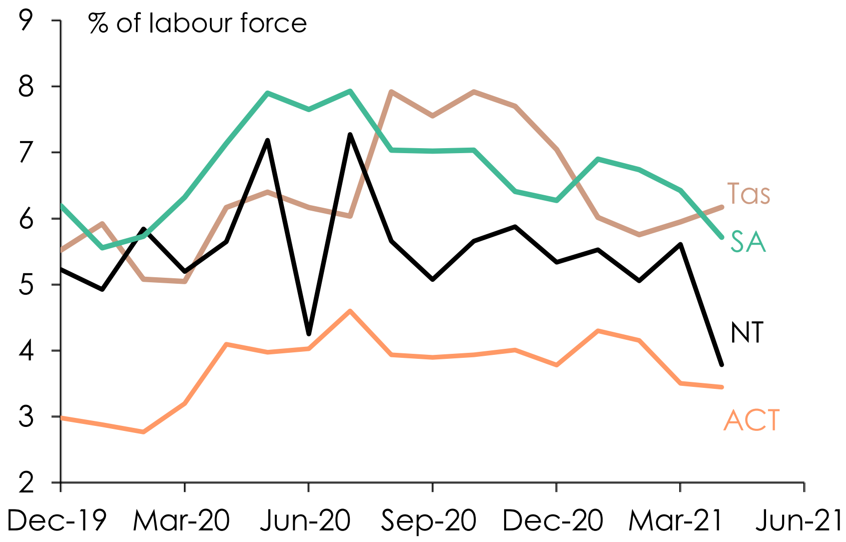
## Employment



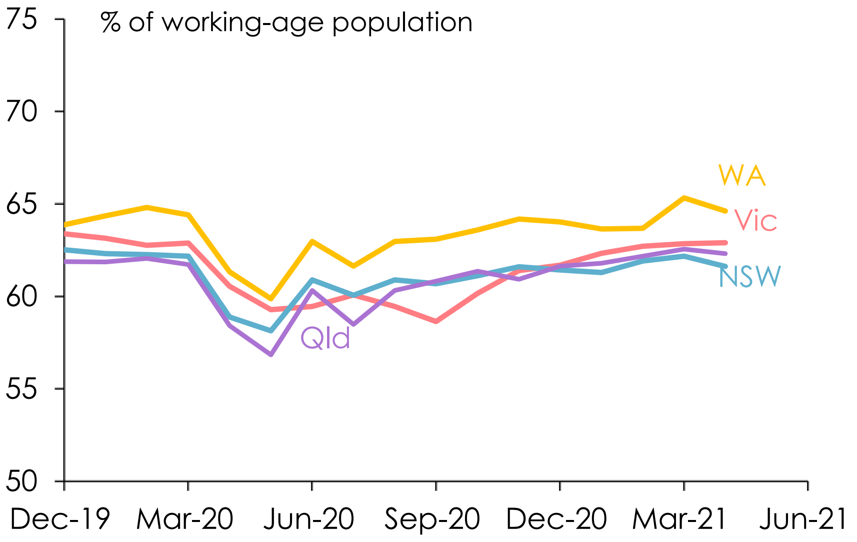



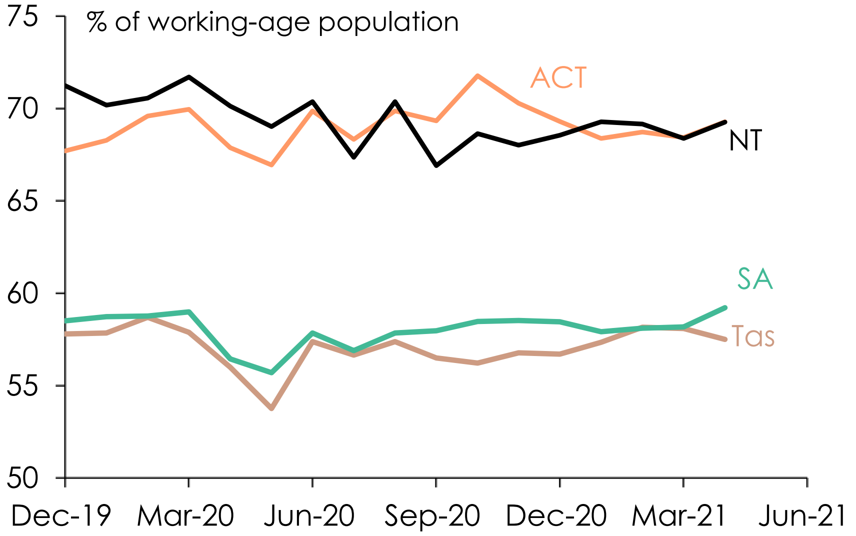

## Unemployment rate




## Employment-population ratio

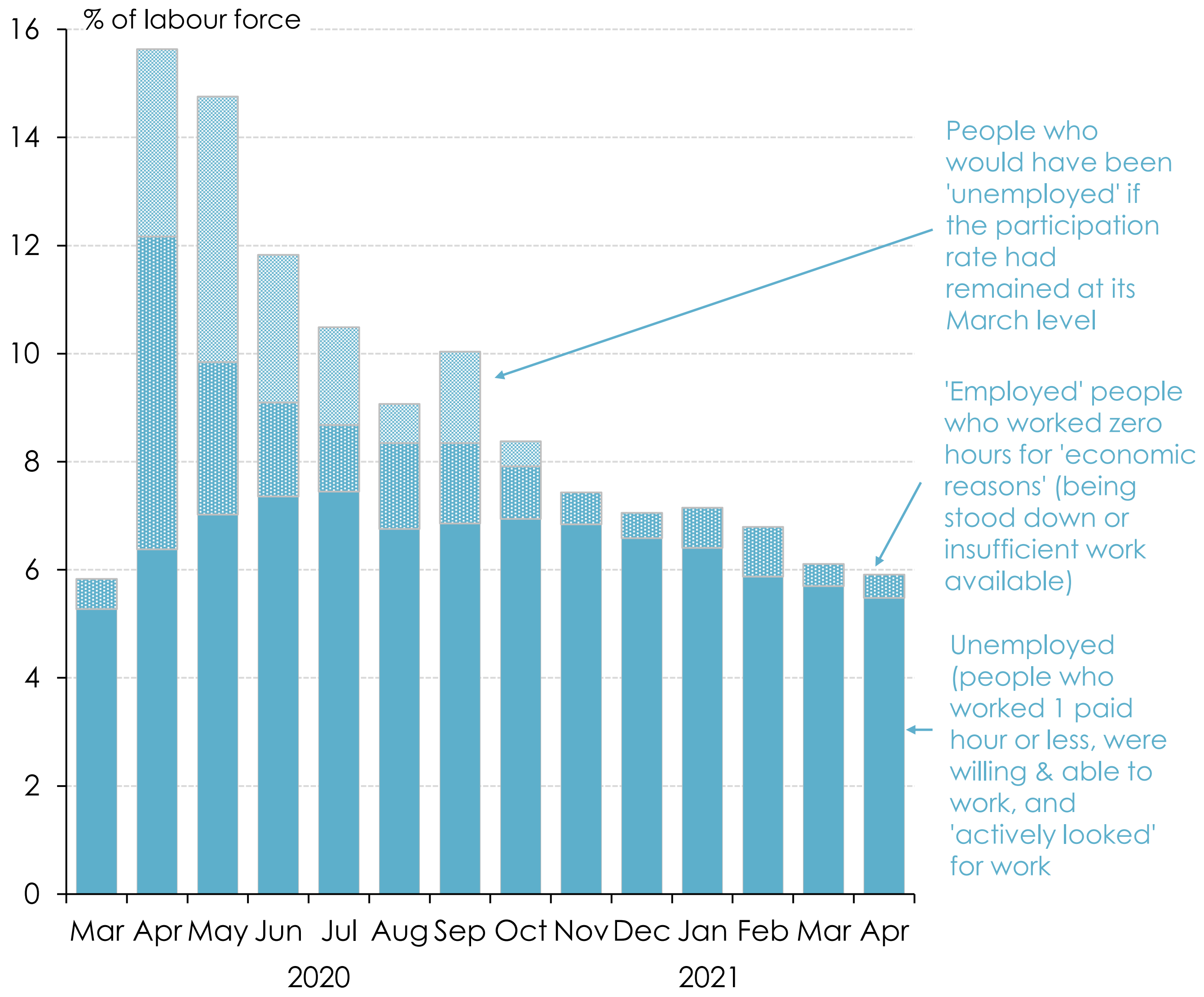



*Source:* ABS, Labour Force, Australia. May data will be released on 17th June. Return to "What's New".

# The 'effective' unemployment rate fell from a peak of 15.3% in April last year to 5.9% in April this year

## 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
- 'JobKeeper' ended on 28th March (as foreshadowed), which Treasury initially estimated may have resulted in 100-150,000 job losses (pushing the unemployment rate up by ¾ -1 pc pt assuming an unchanged participation rate)
- The number of people counted as 'employed' but working zero hours for 'economic reasons' rose by 2K (to a still low 59K), but there was a much larger increase (of 899K) in the number of people working zero hours for 'other reasons' – which is probably due to Easter and school holidays, but was nonetheless much larger than in other recent years (2015 and 2018) when these holidays co-incided with the April LFS – it is possible that some people who took leave during this period reported themselves as 'not in the labour force'

*Source:* ABS, Labour Force, Australia; Corinna. May data will be released on 17th June. Return to "What's New".



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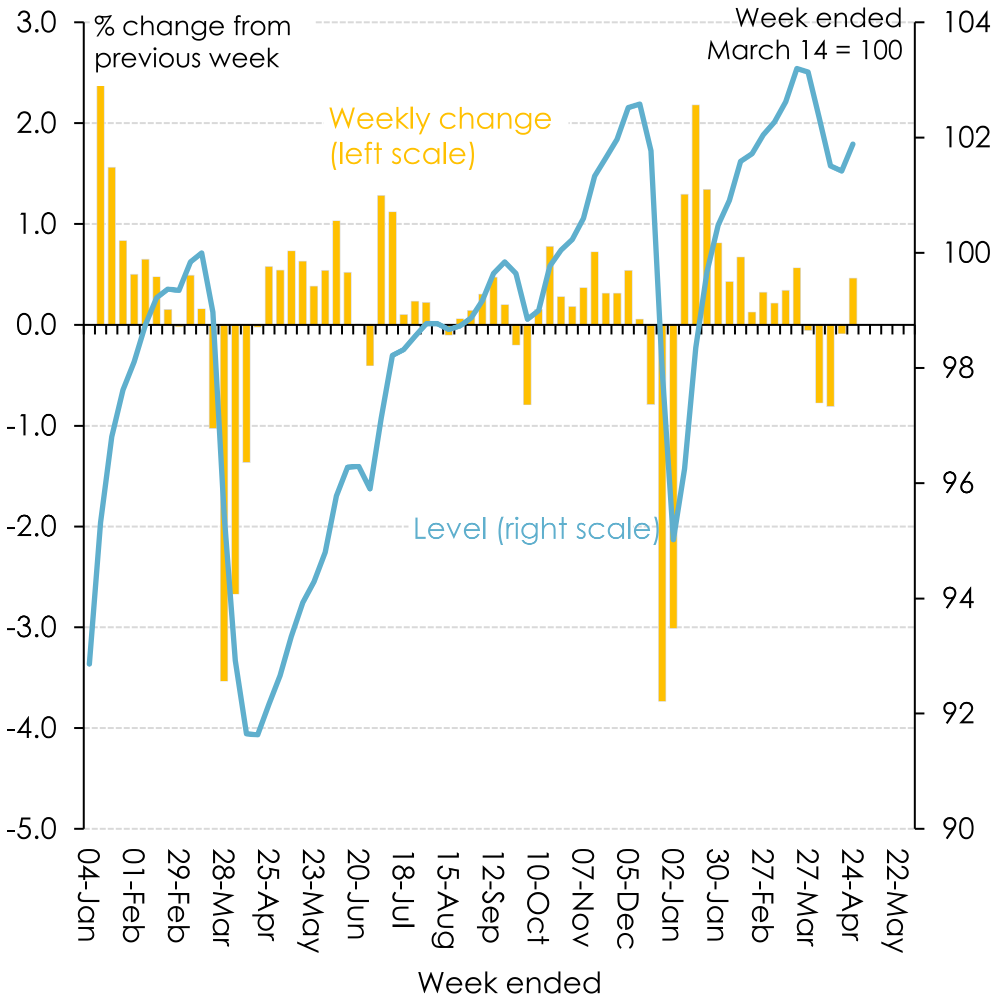
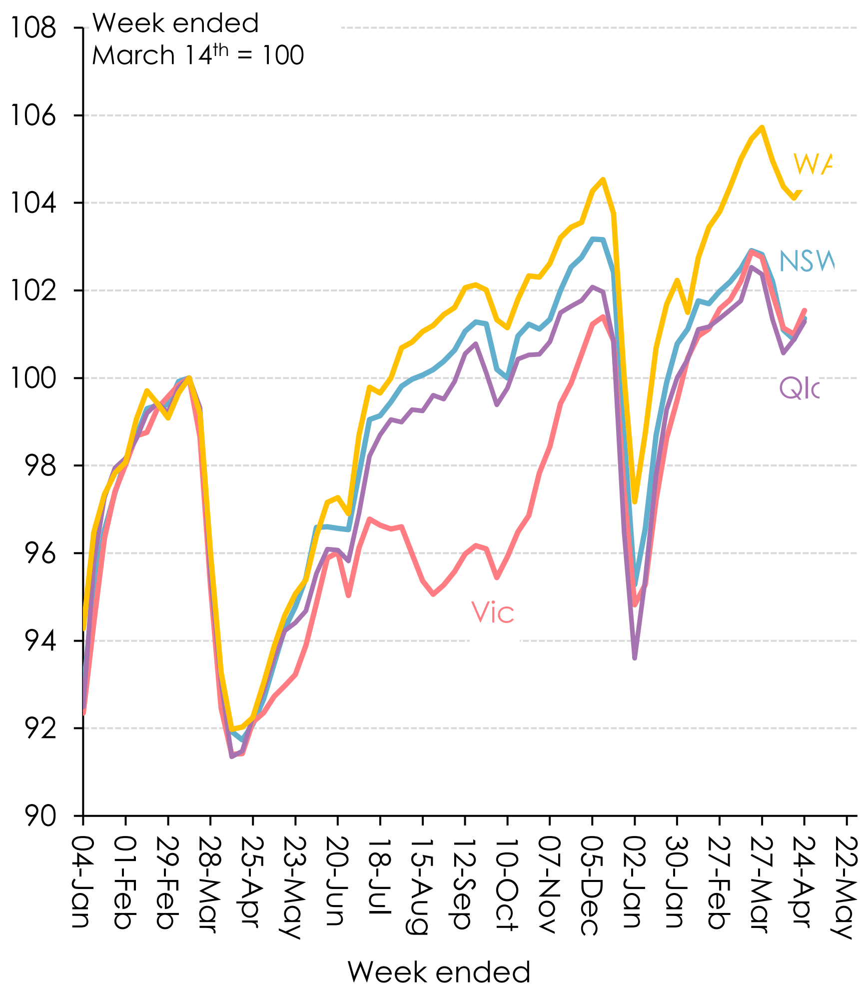
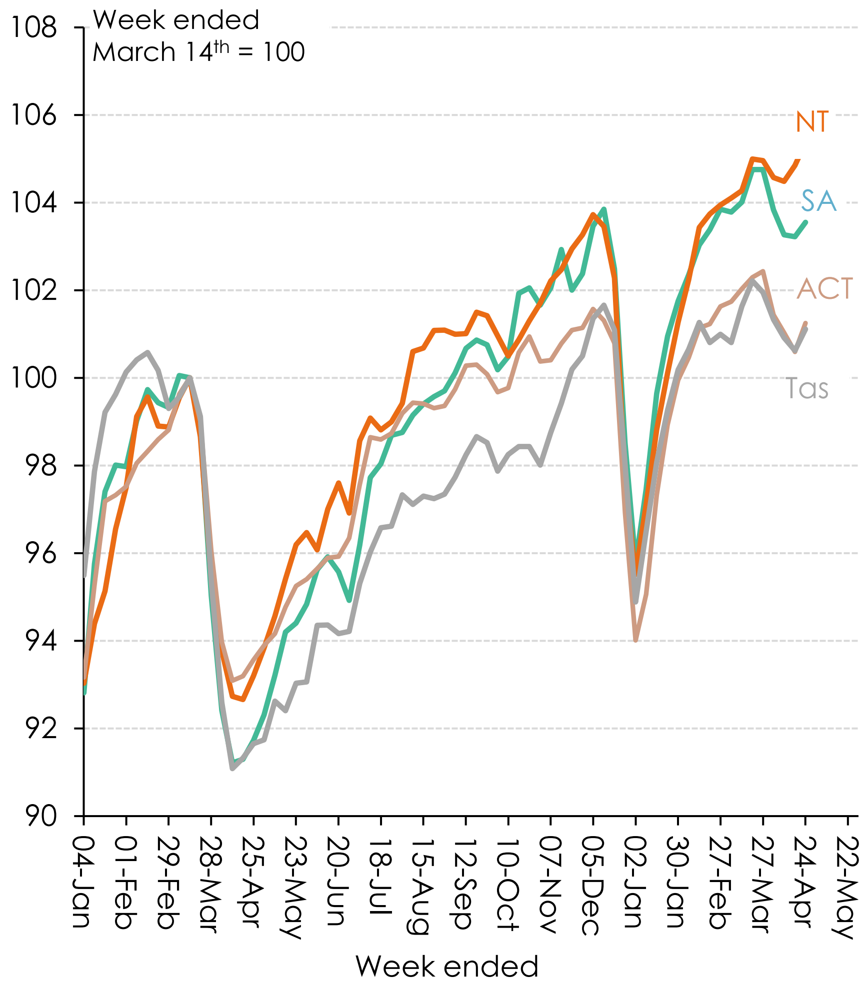
# Payroll jobs fell by 1.2% over the first four weeks of April (after the end of JobKeeper), but that would have been at least partly seasonal

## 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 8th May will be released on 25th May. Return to "What's New".

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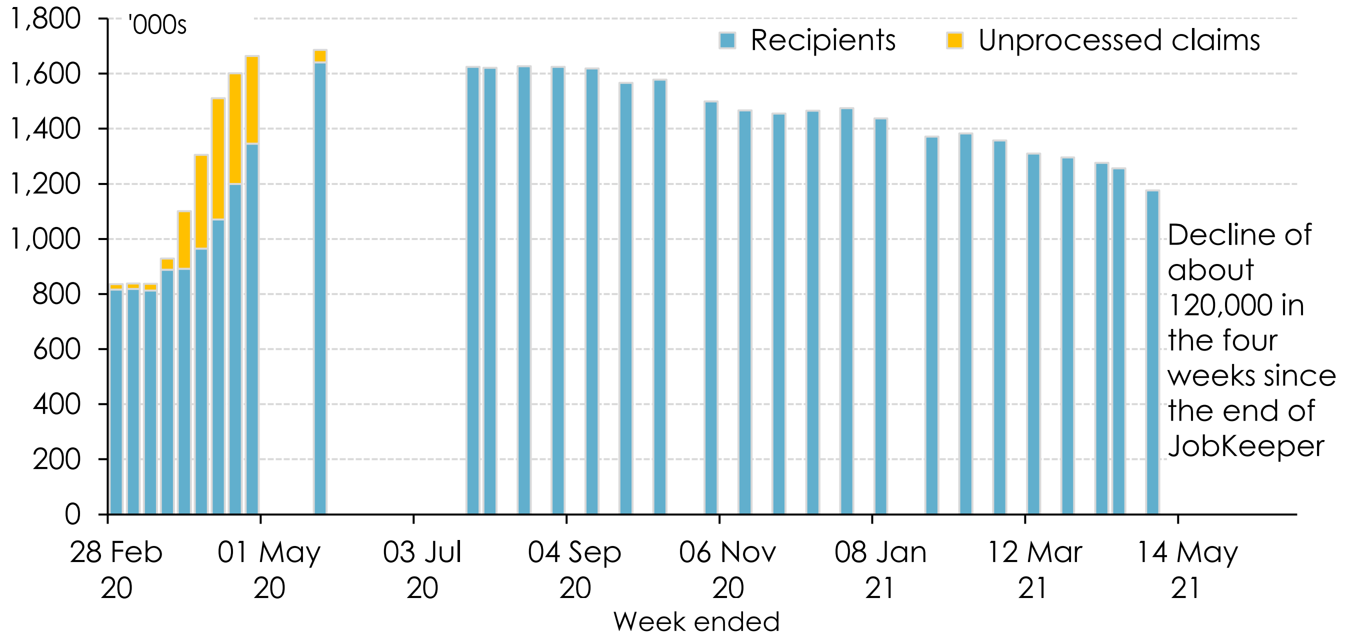
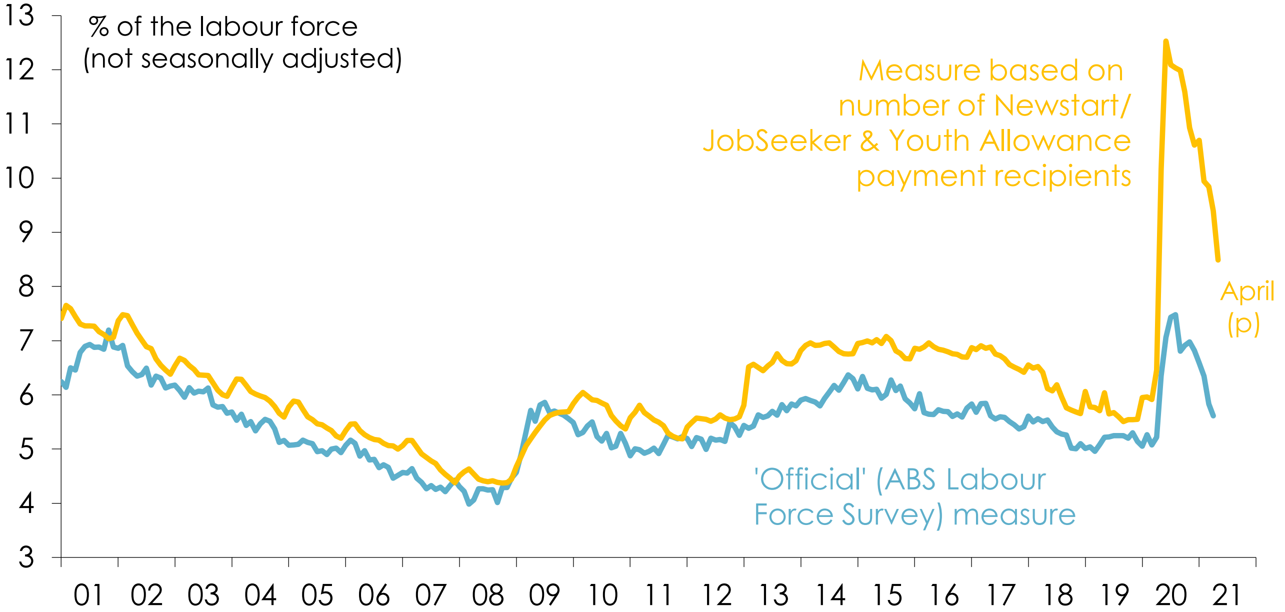
# The number of people receiving 'unemployment benefits' has fallen by about 120K (9½%) since the end of the Government's 'JobKeeper' scheme

## 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 30th April (ie four weeks after the end of JobKeeper) show a decline of 120,100 (9½%) in the number of people receiving these two benefits from 26th March**
- **These numbers aren't seasonally adjusted (and may also have been affected by school holidays and 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".

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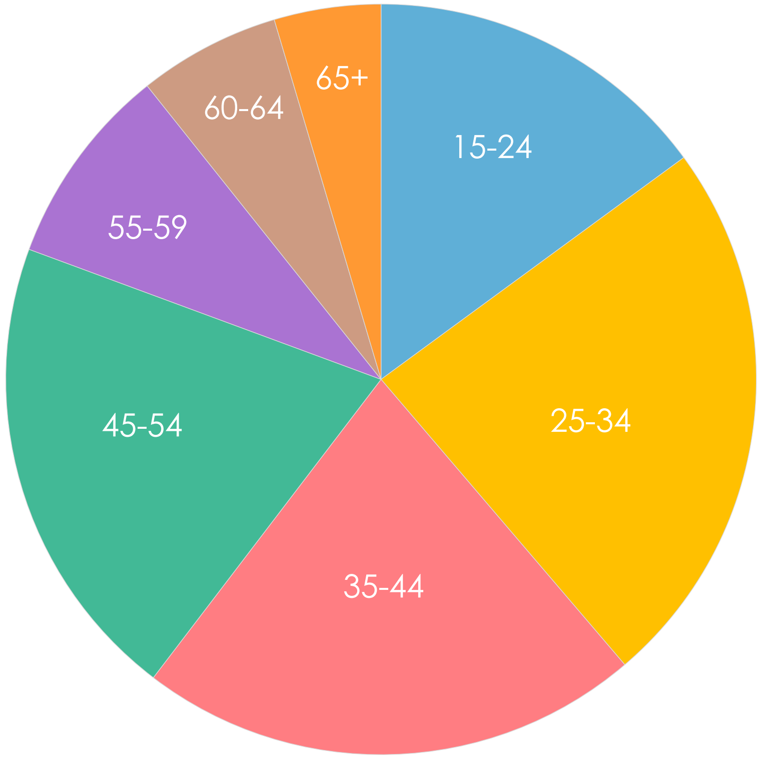
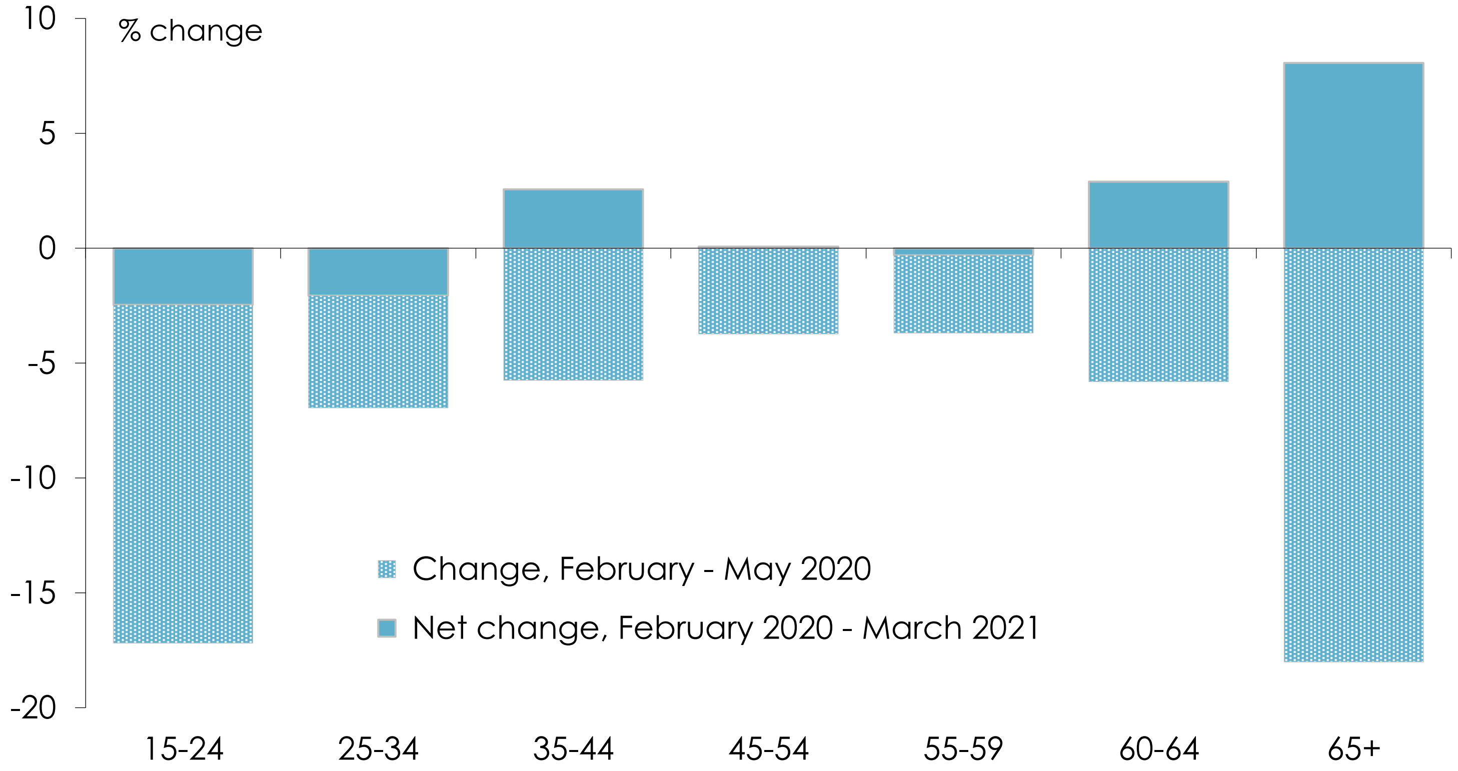
# Younger workers bore the brunt of job losses during the early stages of the pandemic and have had a more difficult time regaining jobs

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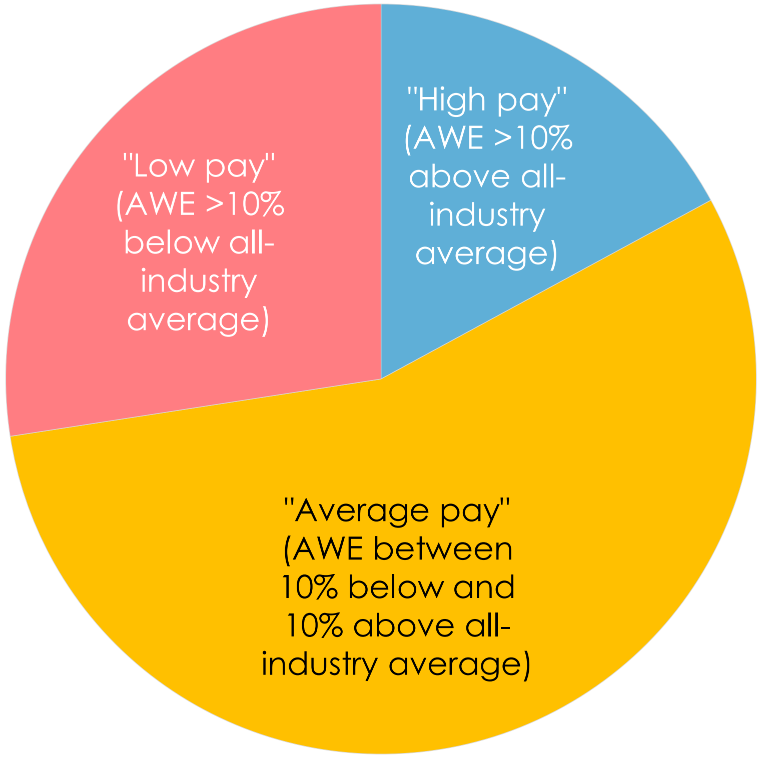
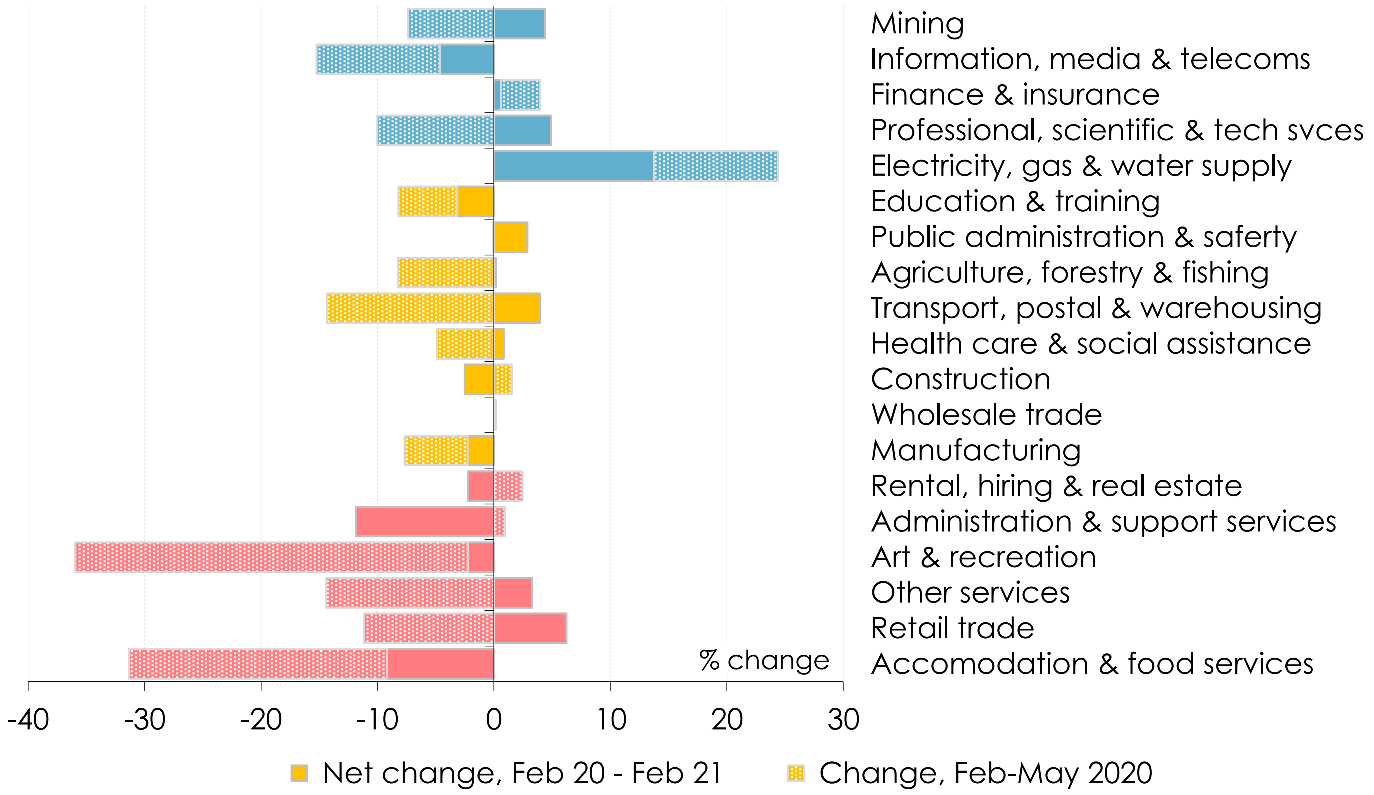
# Workers in low-pay industries experienced the bulk of job losses during the downturn and the greatest difficulty regaining them since then

## 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".



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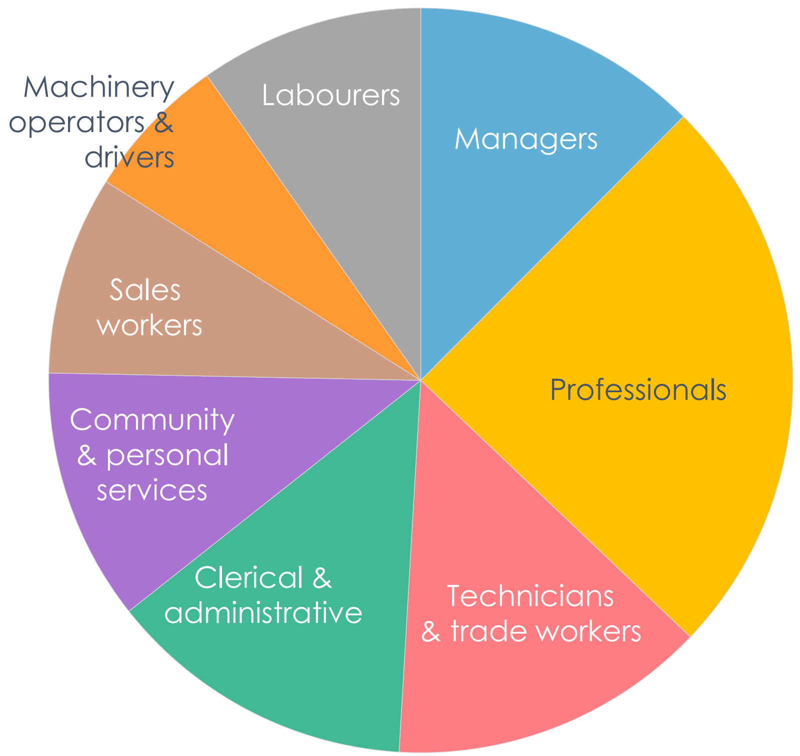
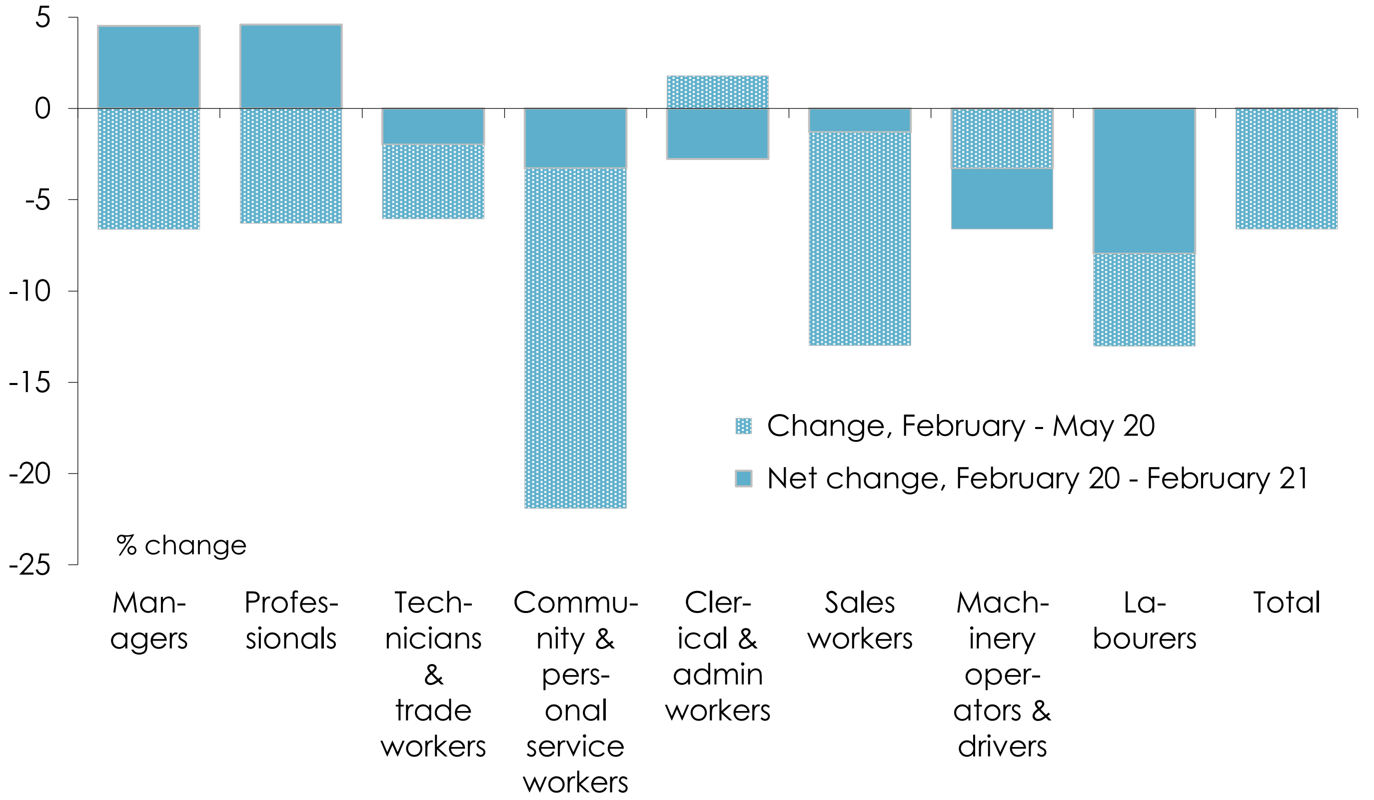
# Community & personal service workers, sales workers and labourers have borne the brunt of job losses since the onset of the pandemic

## 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".

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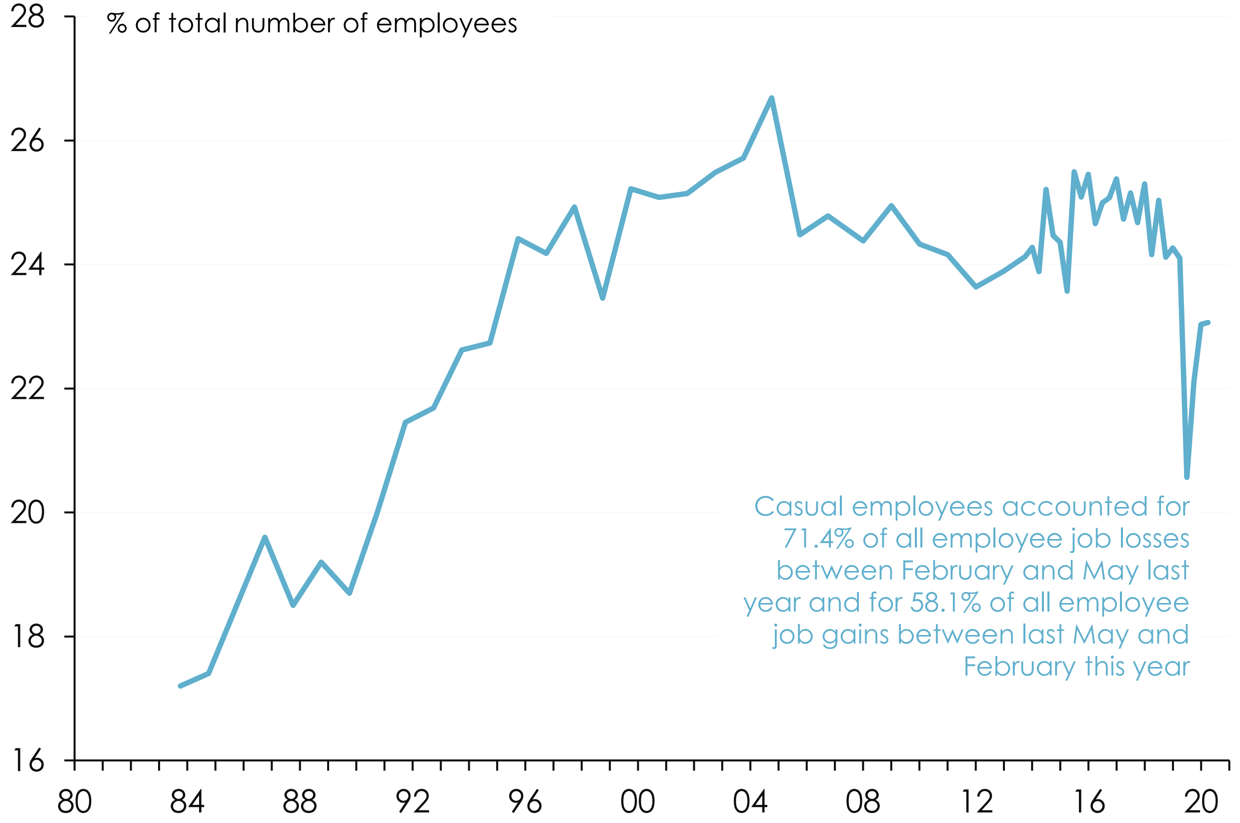
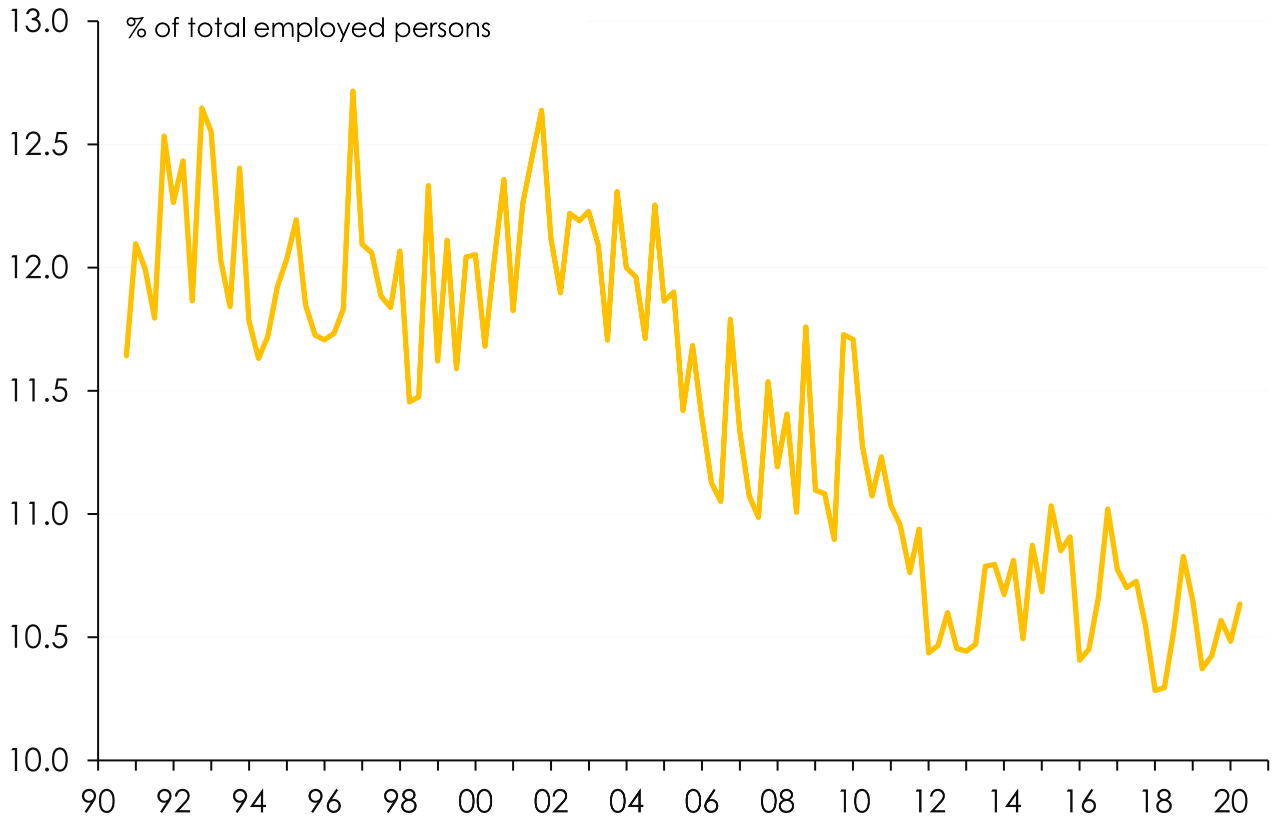
# Contrary to popular belief neither casual jobs nor 'gig economy' jobs have become more commonplace during the past two decades

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




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




- **Casual employment increased significantly as a share of the total during the 1980s, 1990s and early 2000s but has not changed significantly since then – except for a sharp drop during the current recession**
- **'Independent contractors' have actually declined as a share of the workforce since the early 2000s – had haven't increased during the current recession**

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

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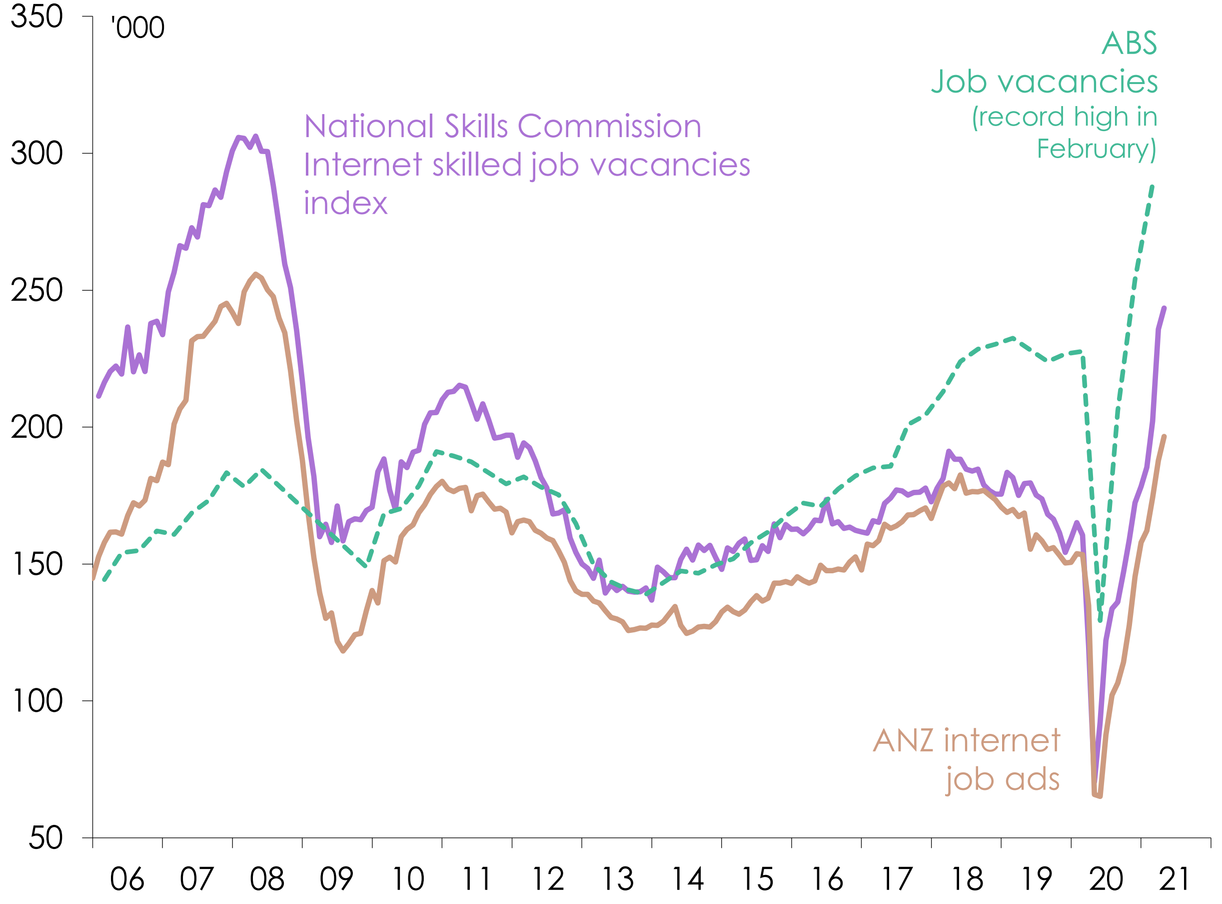
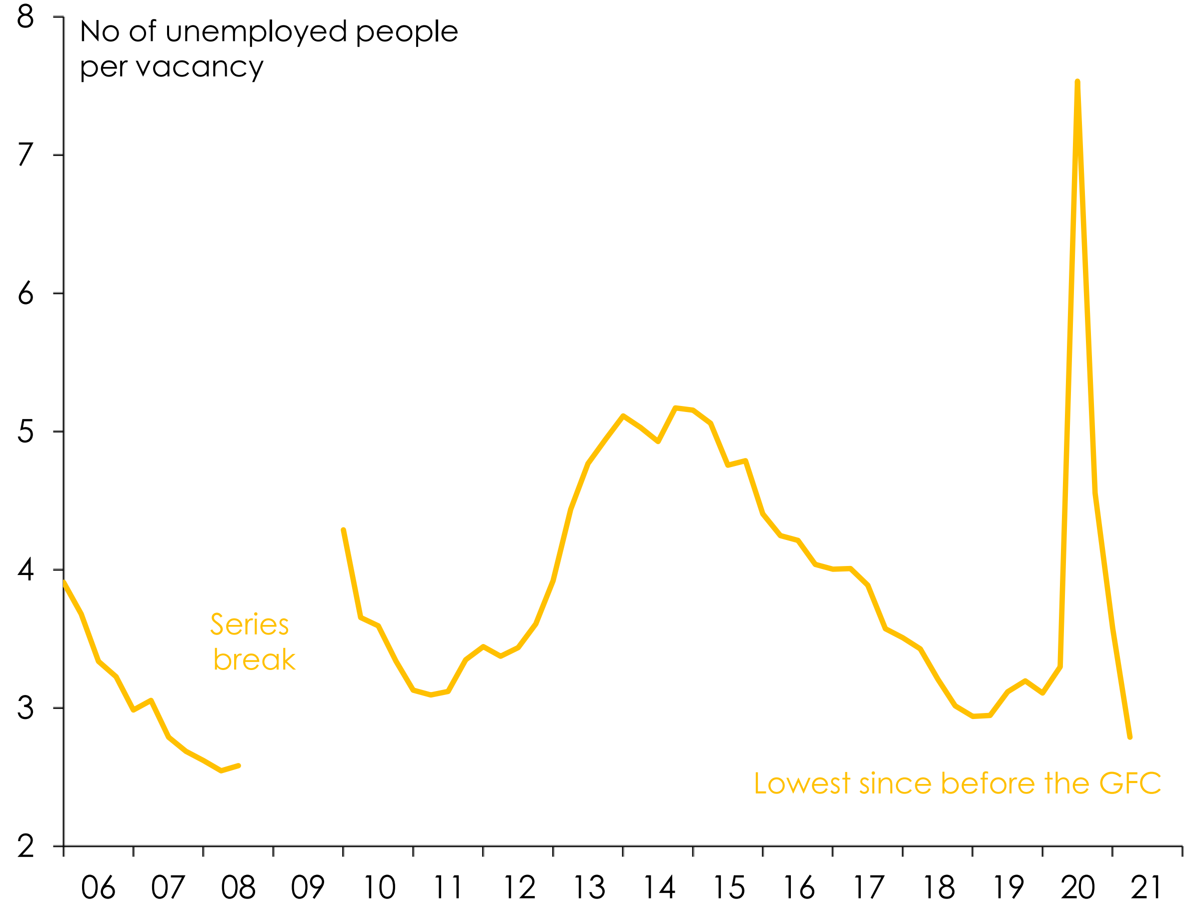
# Job vacancies have rebounded swiftly from their recession lows, and the number of unemployed people per vacancy is at a 13-year low

## Measures of job vacancies




- 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

## Ratio of unemployed people to job vacancies




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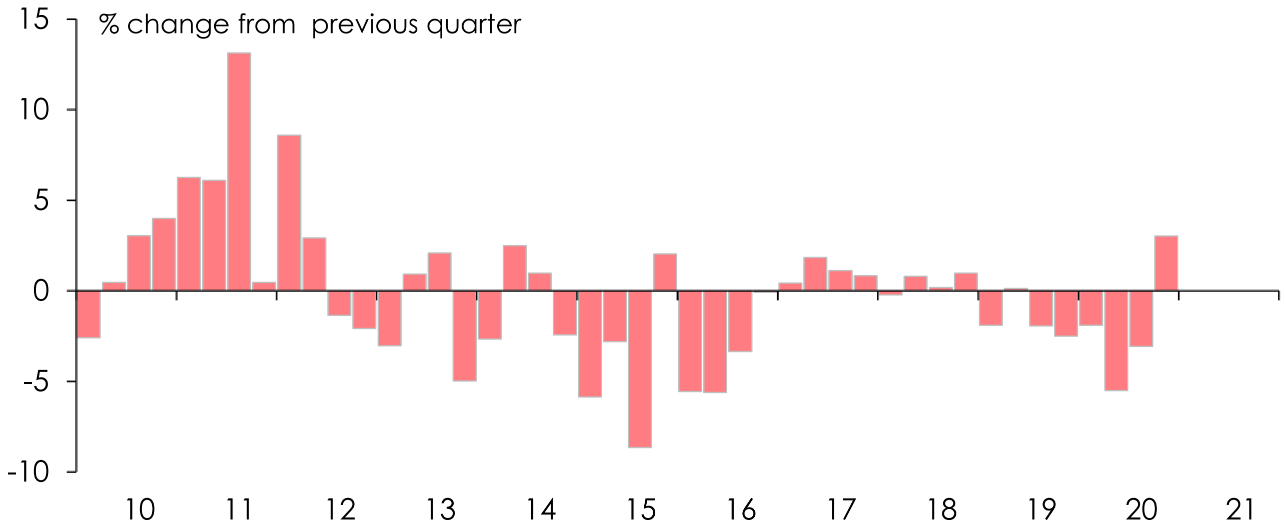
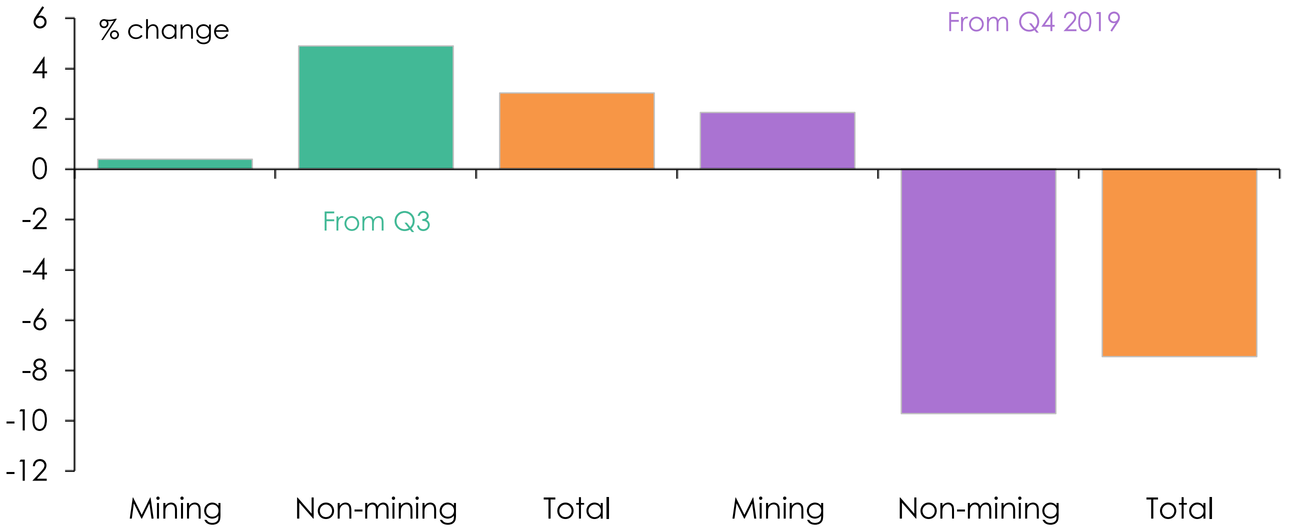
# Business capex rose in Q4 2020 for the first time in two years, largely driven by the construction and transport sectors, and despite a fall in mining

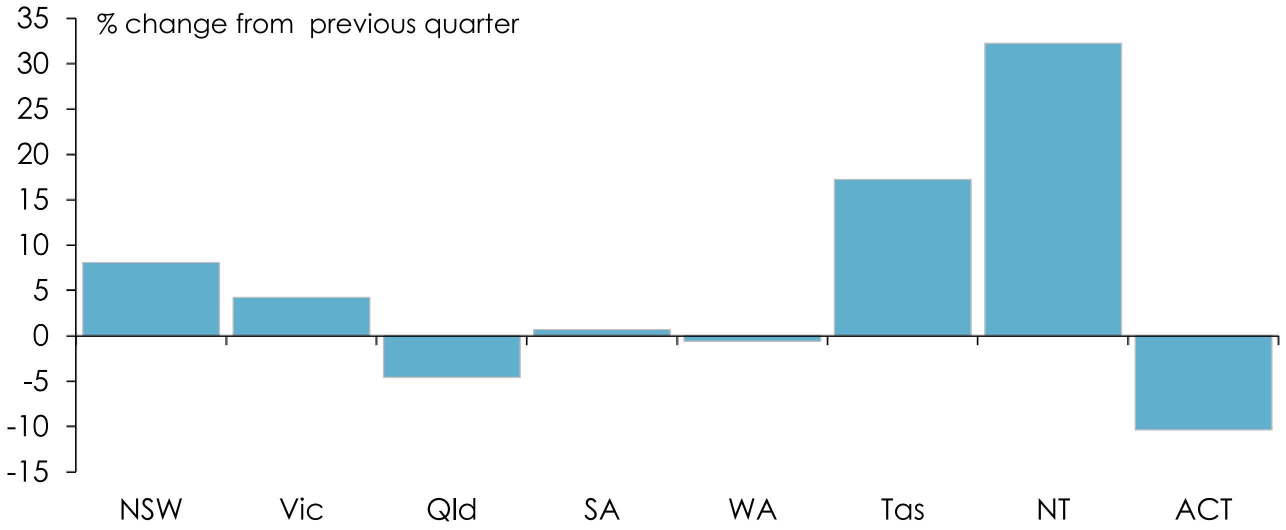
## Real business new fixed capital expenditure



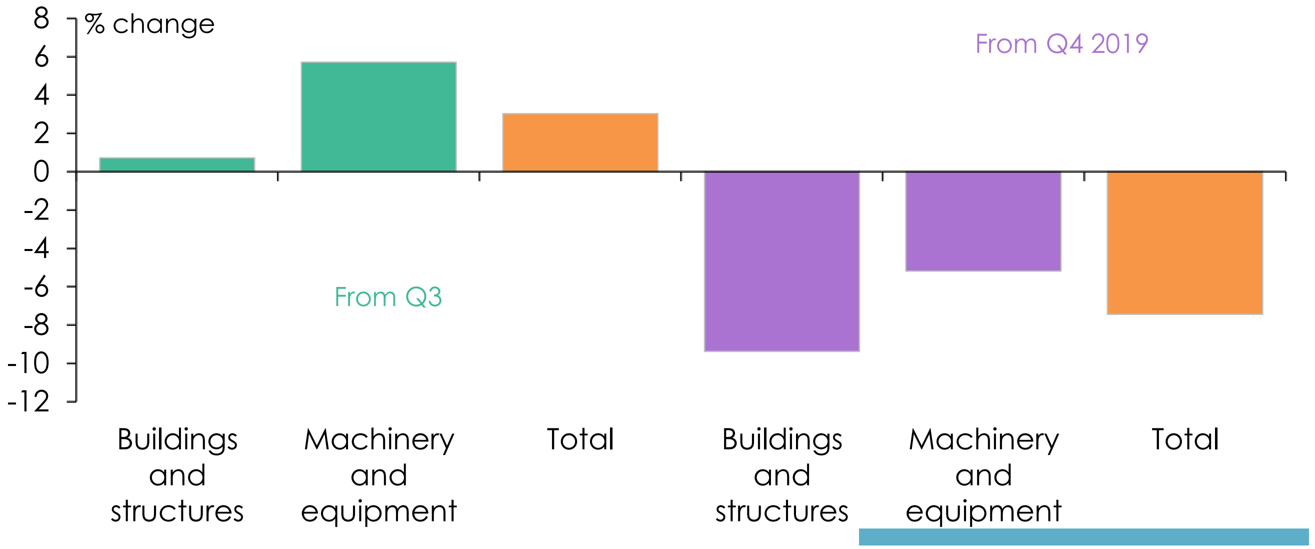

## Real business new fixed capex, by industry, Q4




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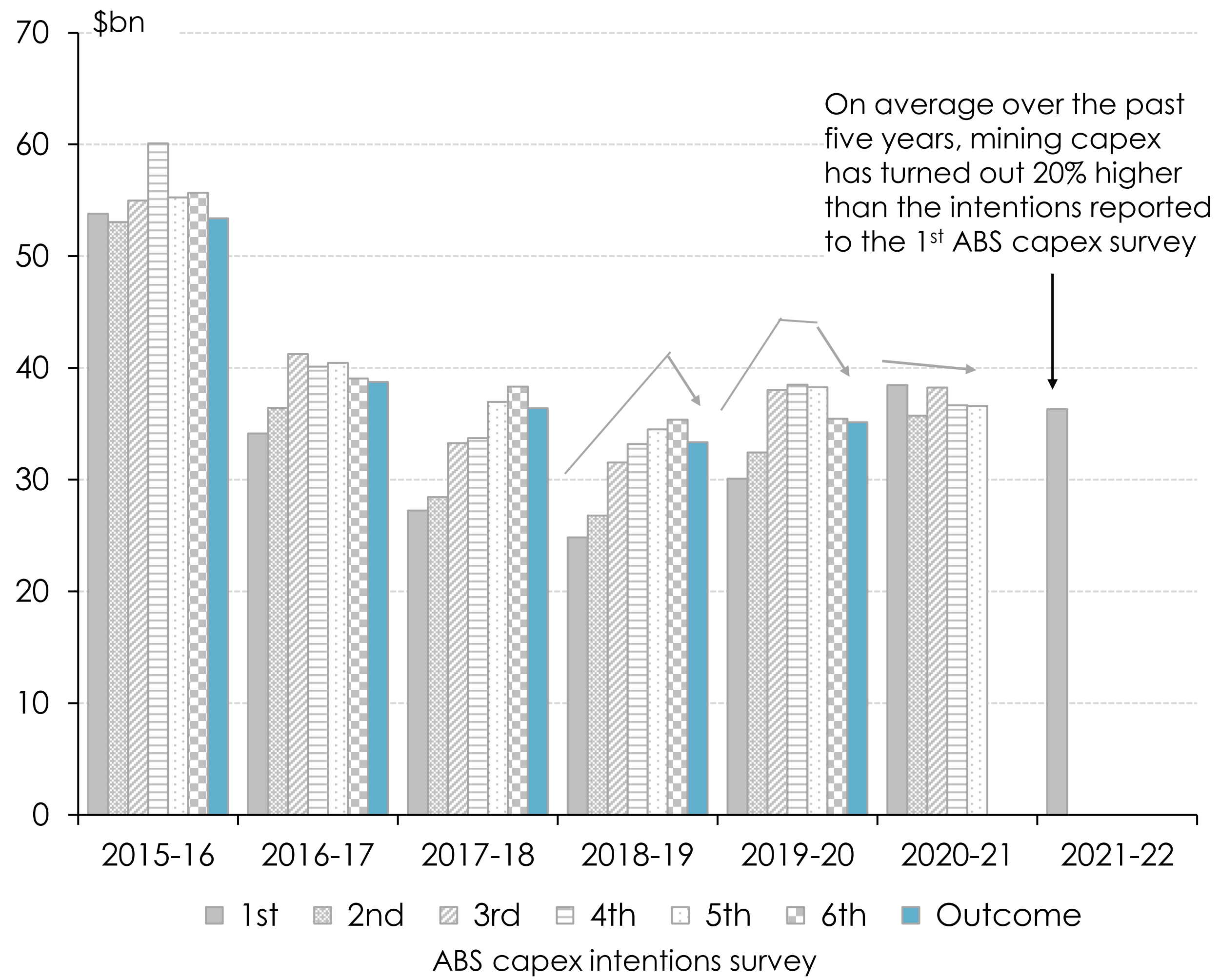
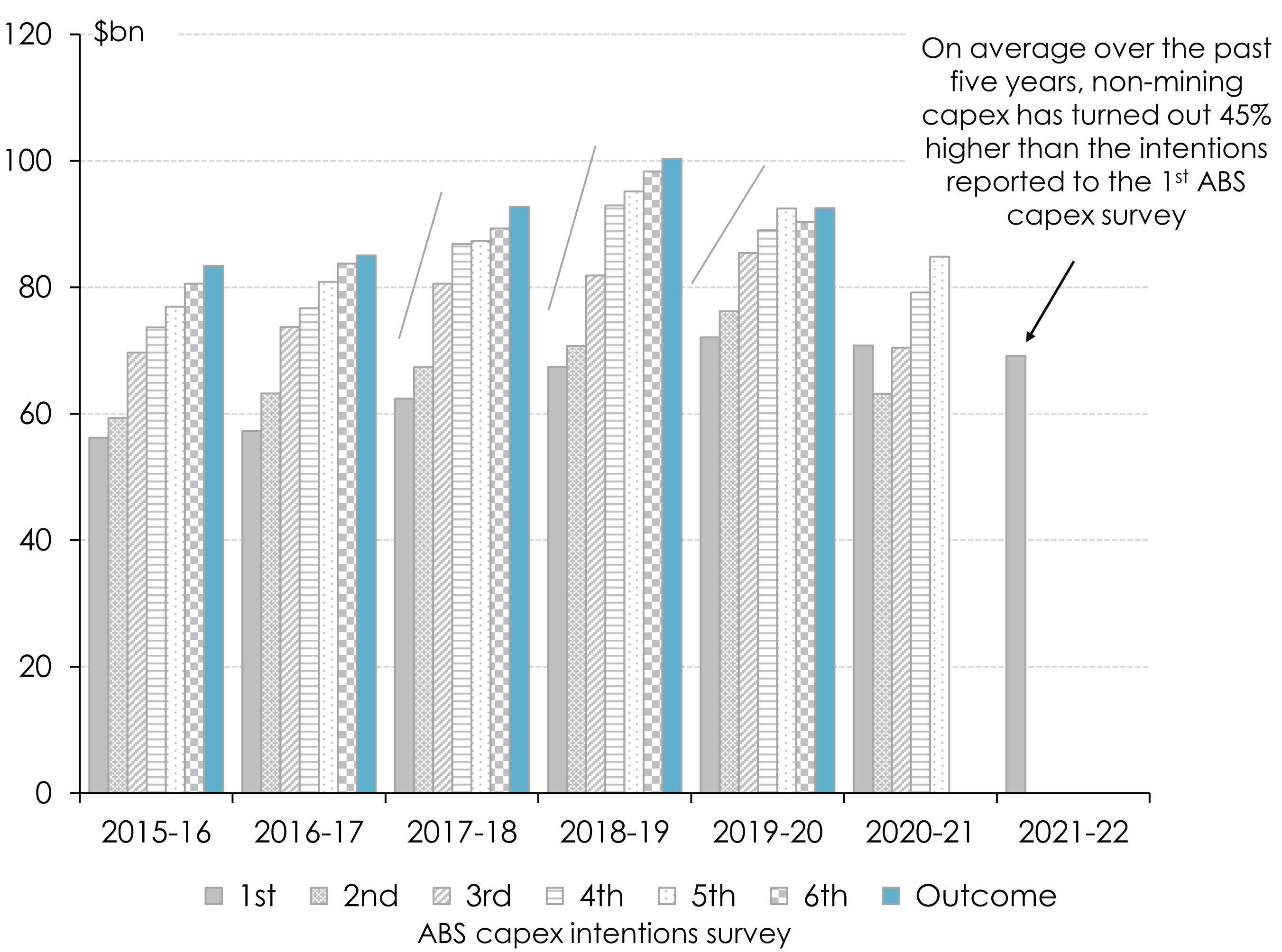
# Business capex now looks like falling a bit less than previously suggested in FY 2020-21, while the first estimate for 2021-22 points to a strong rebound

## 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 this coming Thursday, 27th May).



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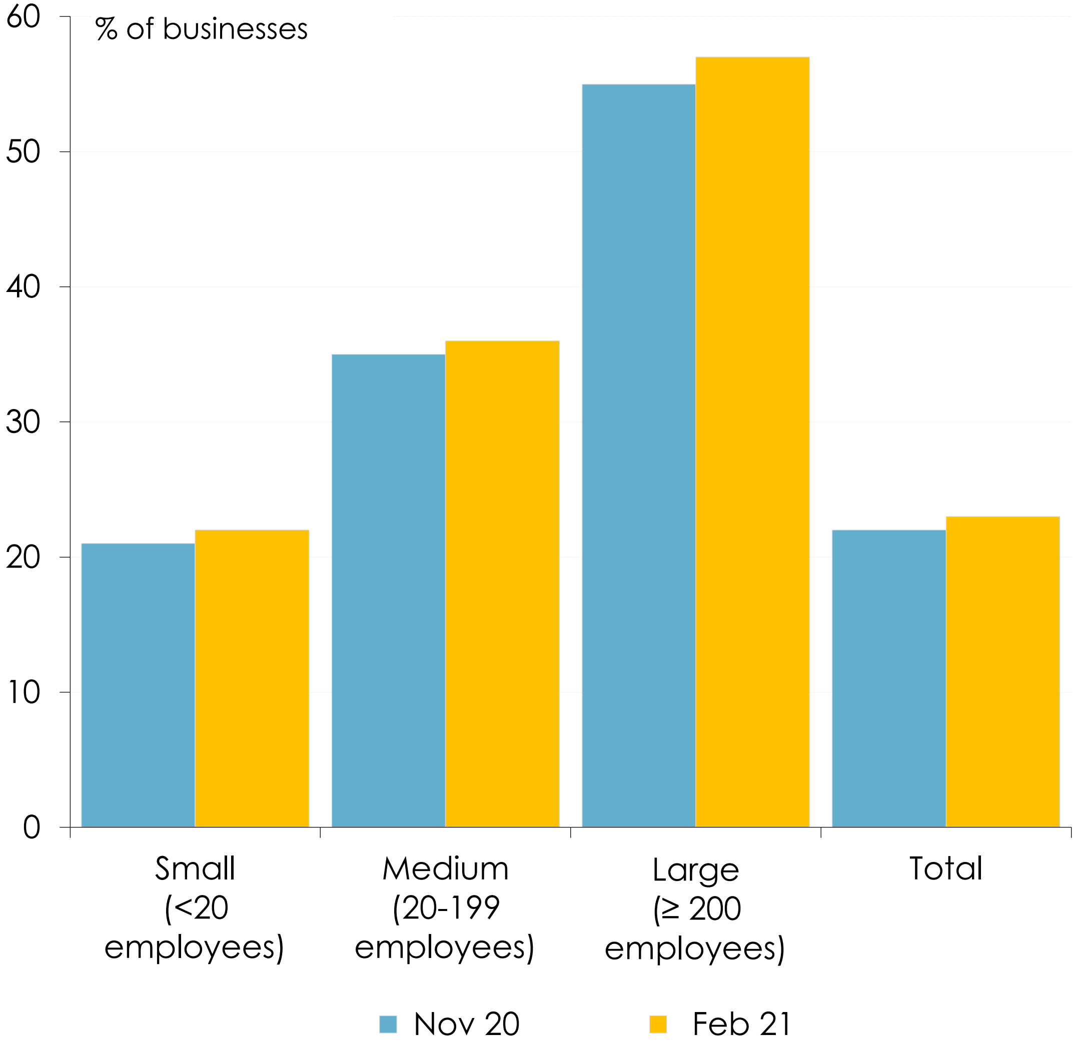
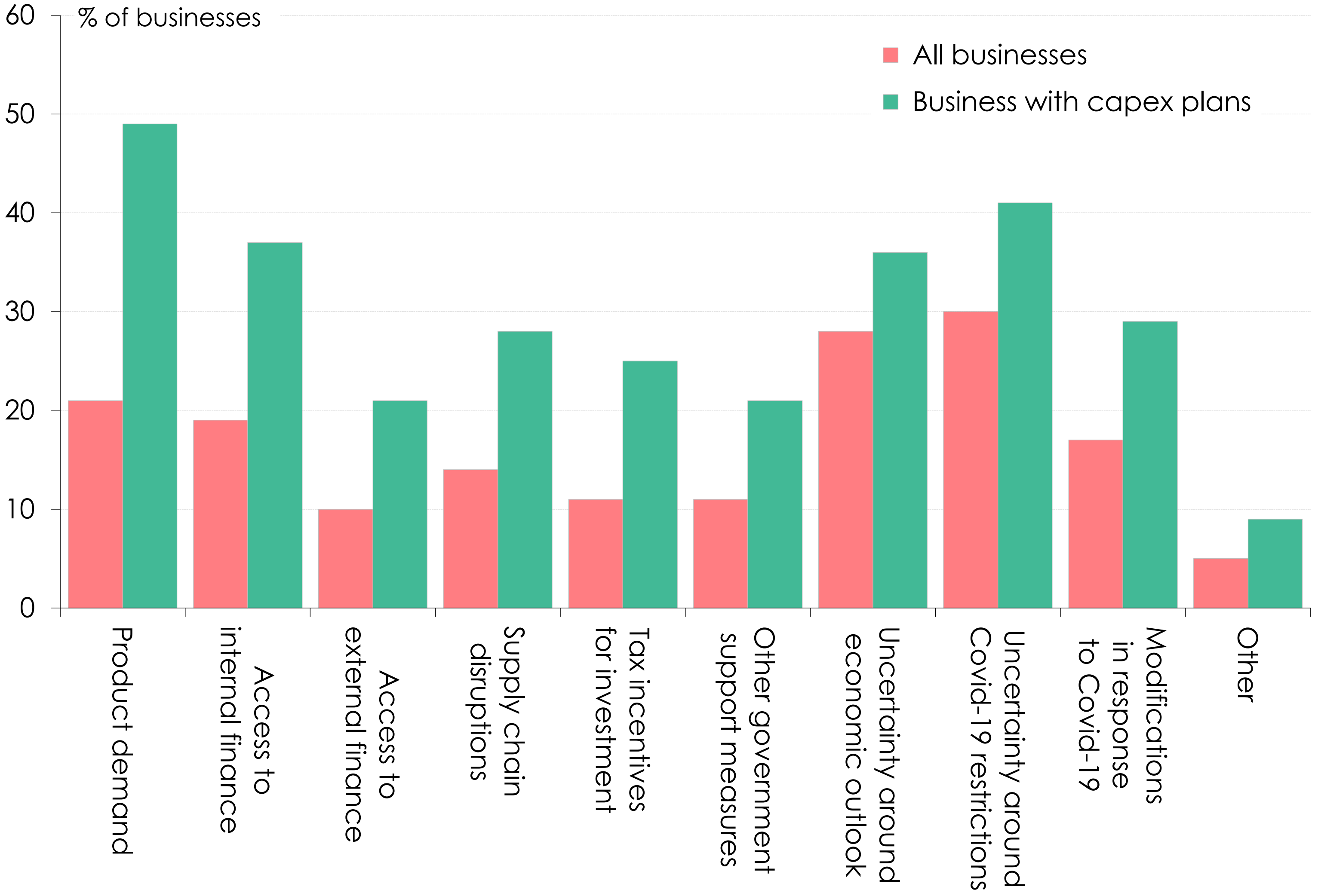
# Medium-sized and large businesses will be the 'engine rooms' for capex (as well as job creation), not small ones

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

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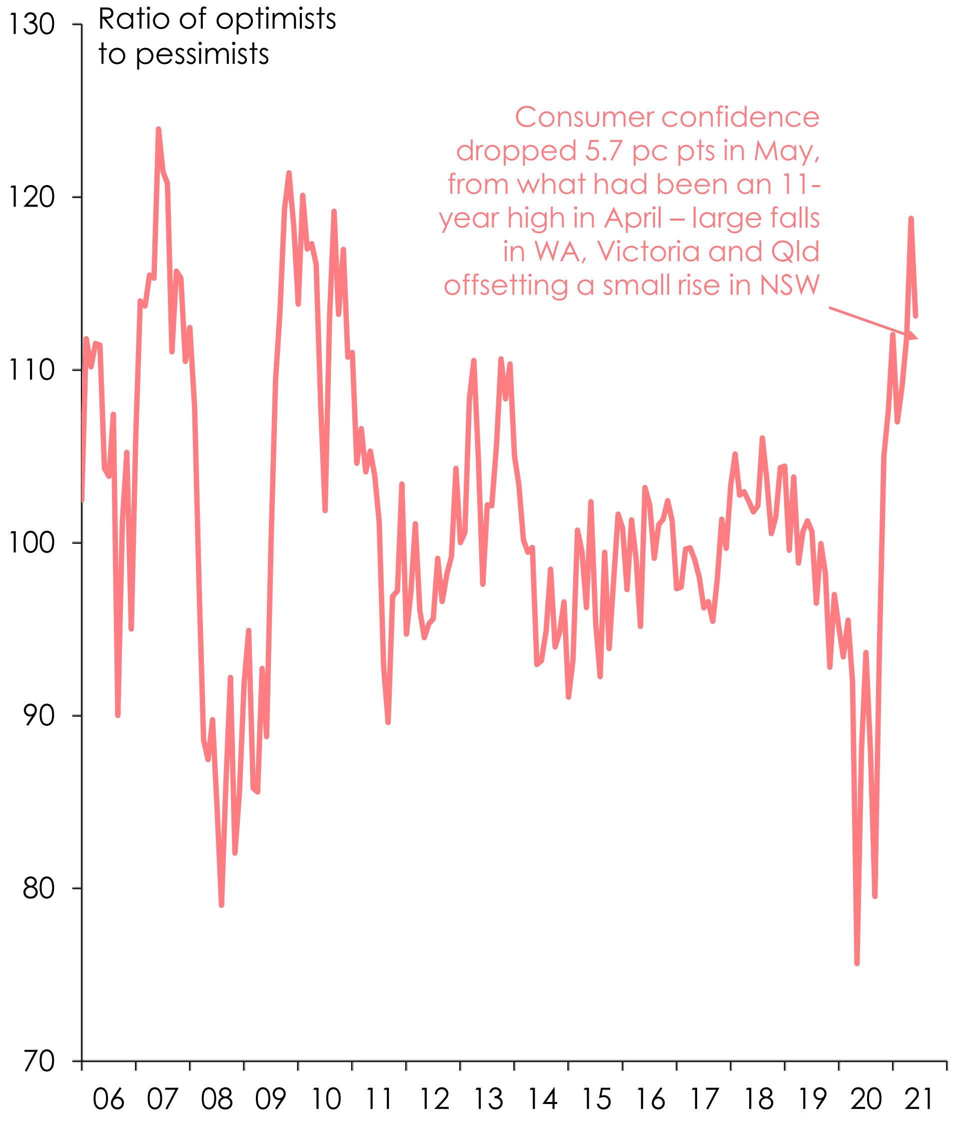
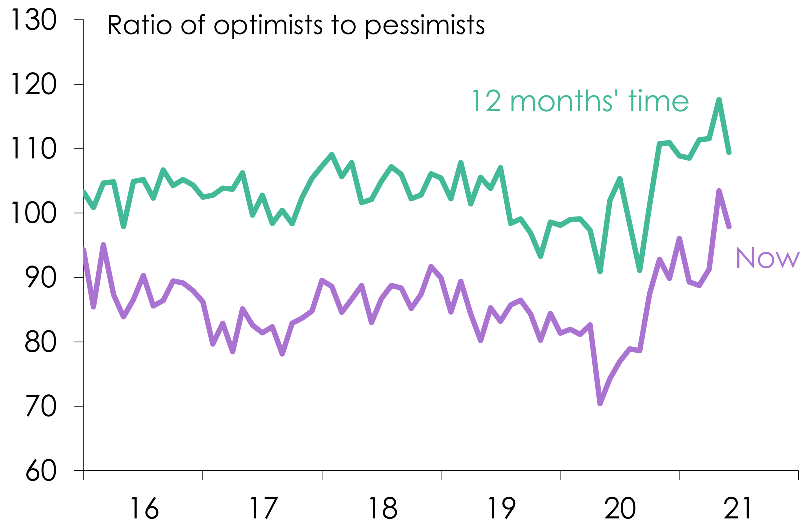
# Consumer confidence fell in May, despite a mostly well-received budget, perhaps because of concerns about deteriorating housing affordability

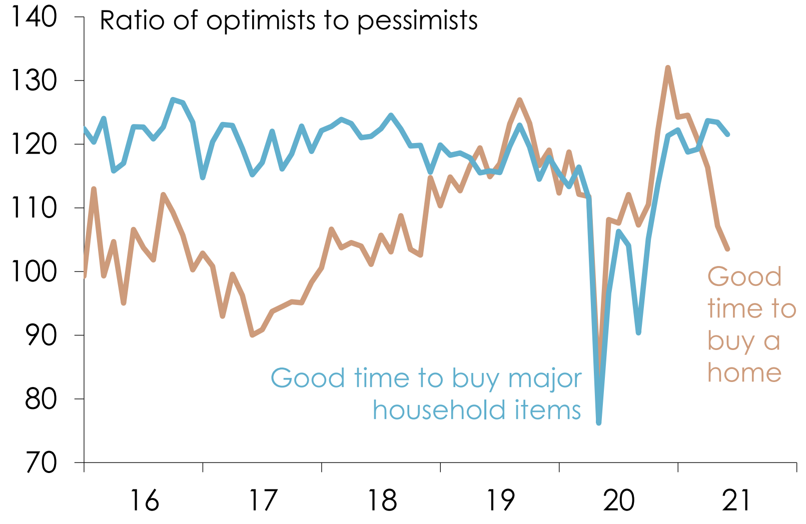
## Consumer confidence index



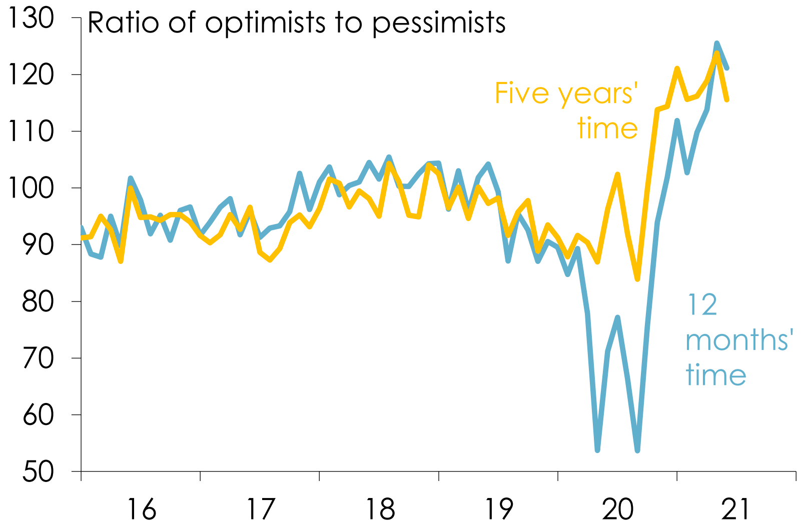

## Household finances assessment



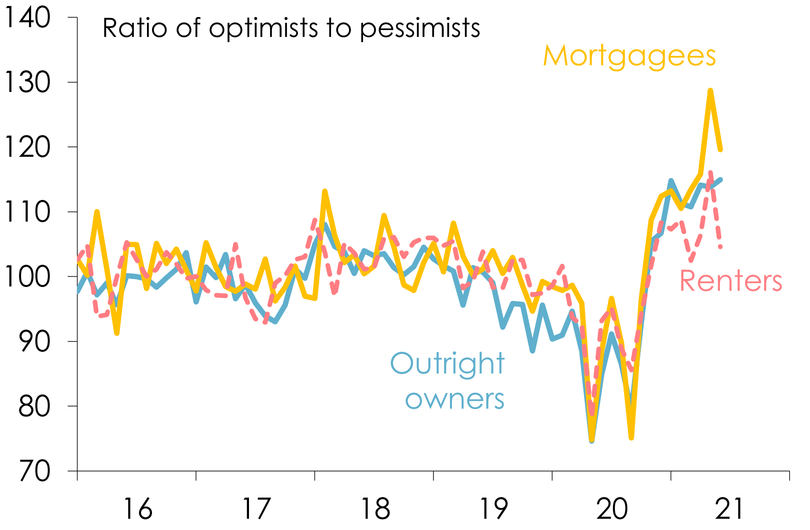

## Buying conditions assessment




## Economic conditions assessment




## Confidence by housing tenure




*Source:* Westpac Banking Corporation. June consumer confidence will be released on 9th June. Return to "What's New".

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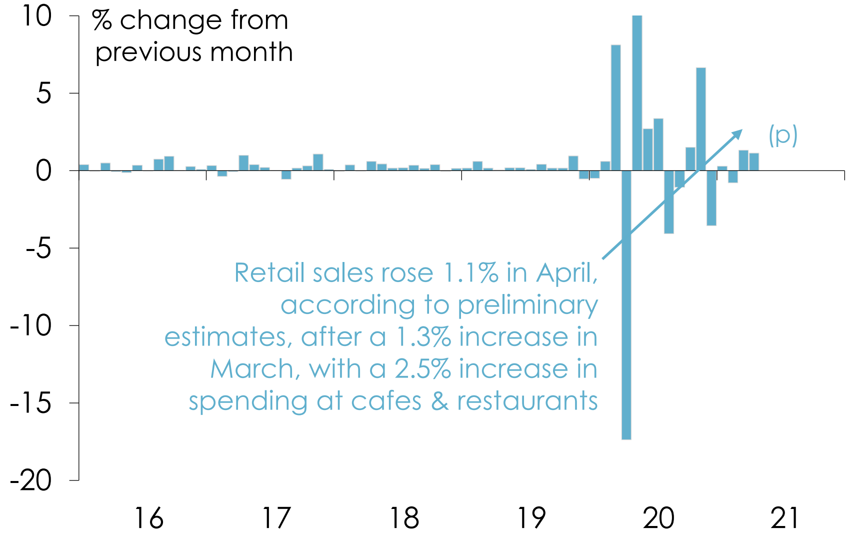
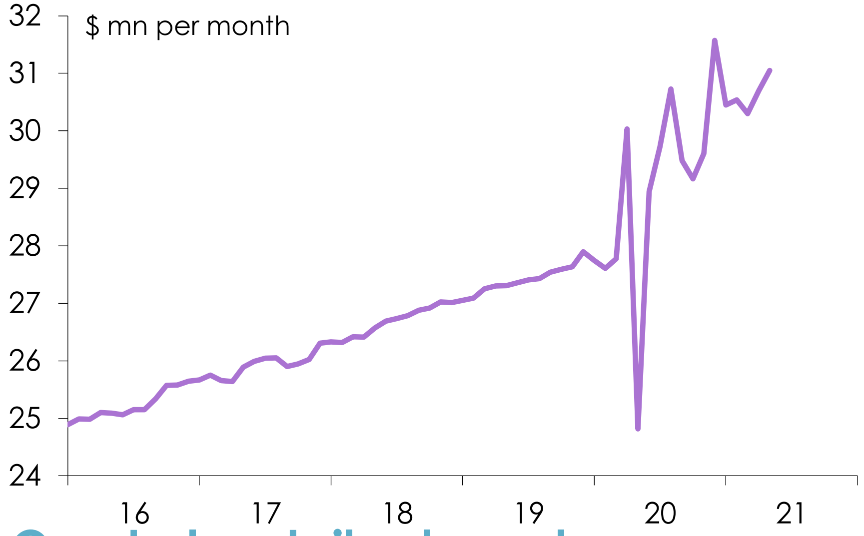
# Retail sales rose 1.1% in April according to preliminary data, after a 1.3% increase in March, while car sales surged 24% to a record high

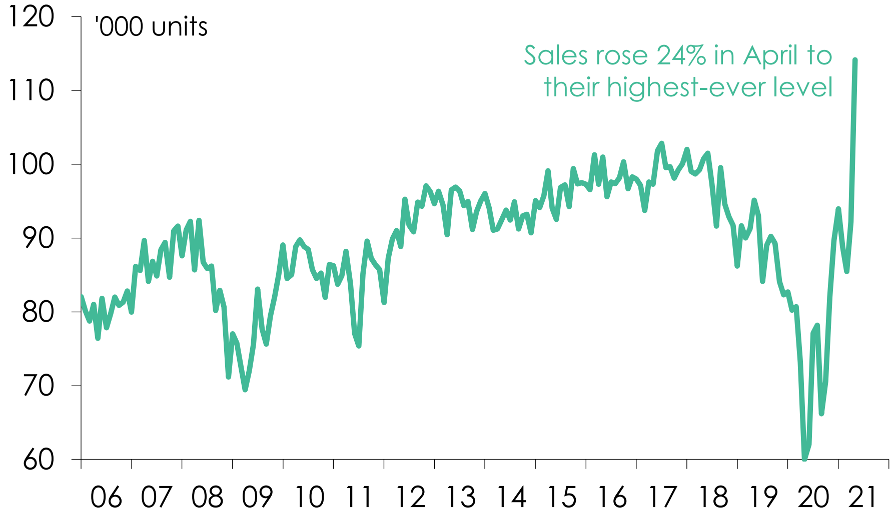
## Monthly retail sales



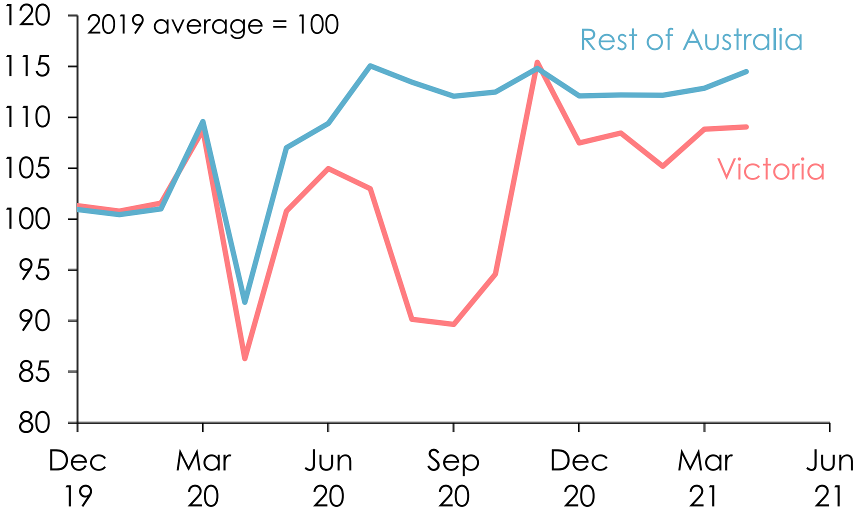

## Level of retail sales



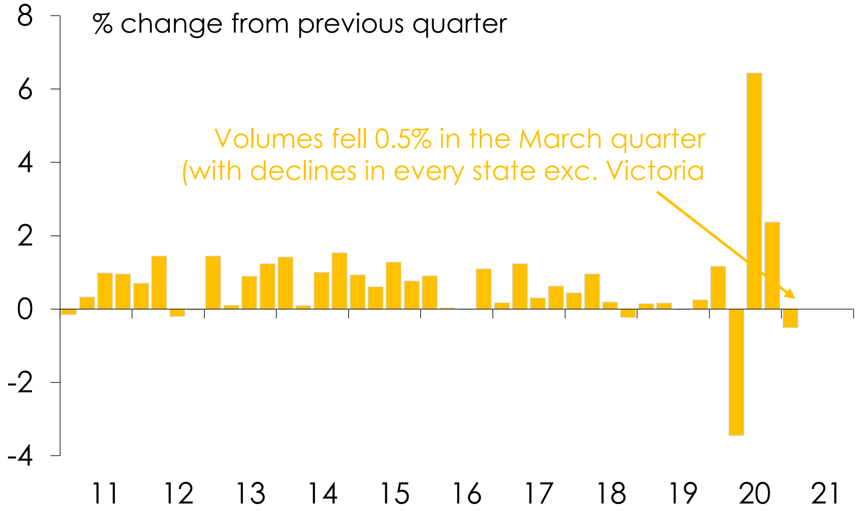

## New motor vehicle sales



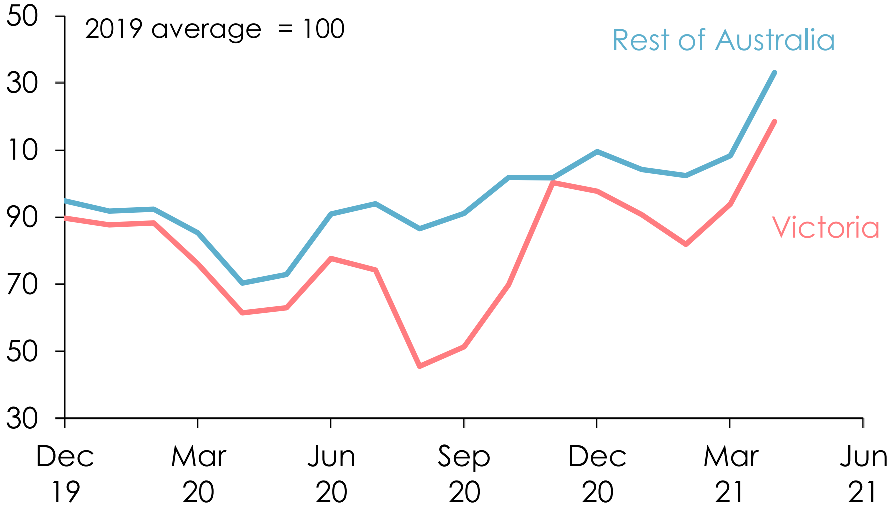

## Retail sales – Victoria & the rest




## Quarterly retail sales volumes




## Vehicle sales – Victoria & the rest




*Note:* see also slide 87 for more detail on the composition of retail sales since the onset of the pandemic. *Sources:* ABS, *Retail Trade, Australia, preliminary*; Federal Chamber of Automotive Industries *VFACTS* (seasonal adjustment of FCAI data by Corinna). Final April retail sales will be released on 3rd June; May motor vehicle sales data will be released in early June. Return to "What's New".

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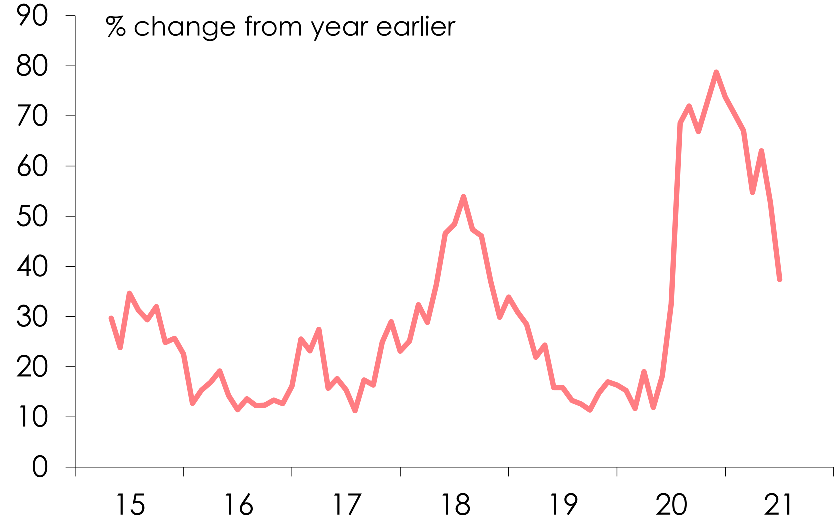
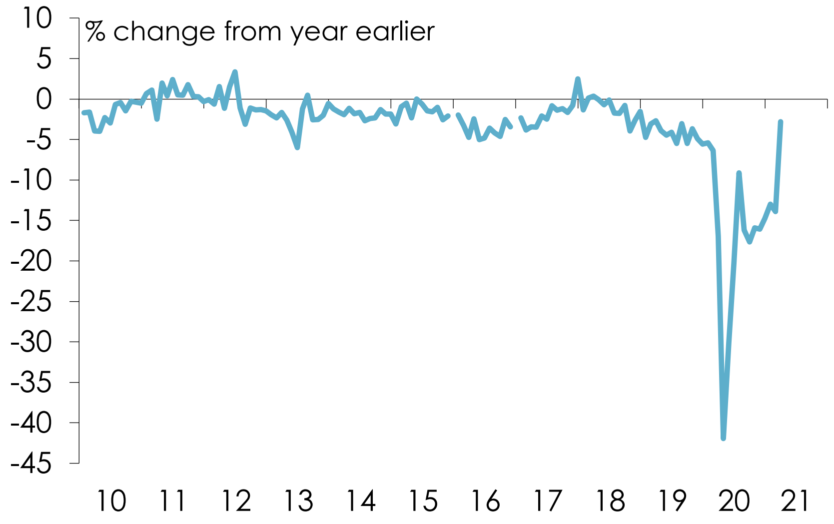
# The pandemic and lockdown prompted some dramatic changes in how Australians made payments, accelerating trends already under way

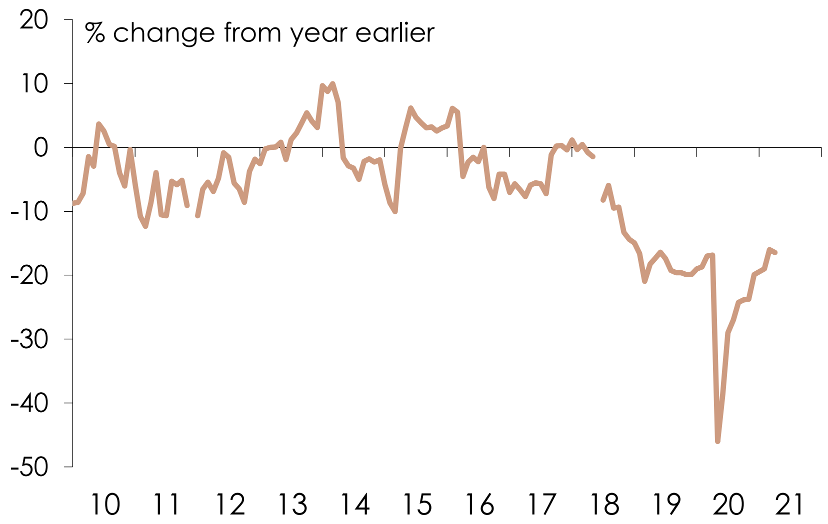
## Growth in online retail sales



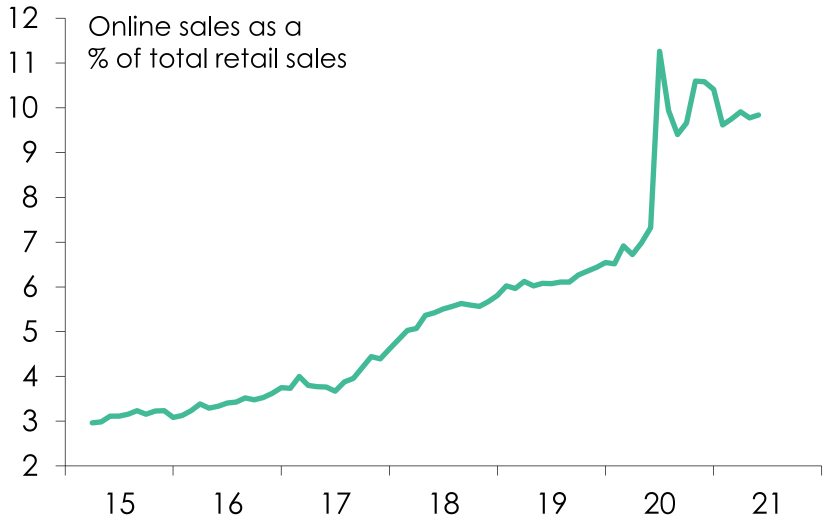

## ATM cash withdrawals



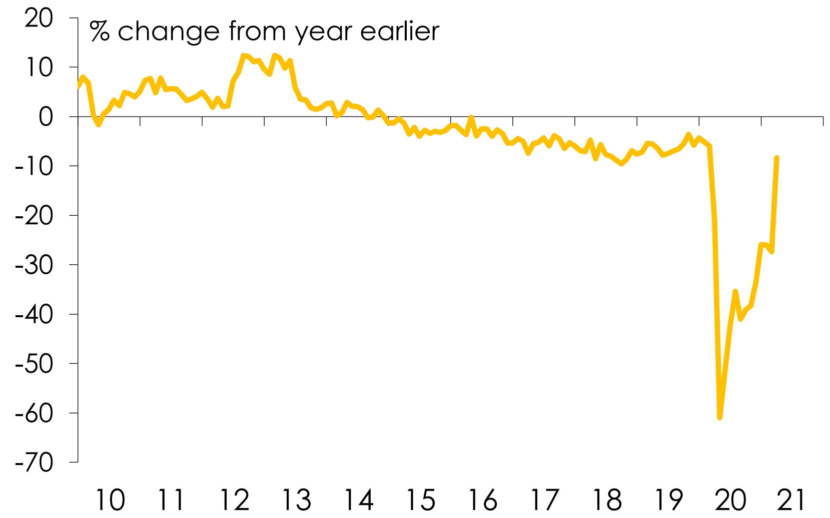

## Credit card cash advances



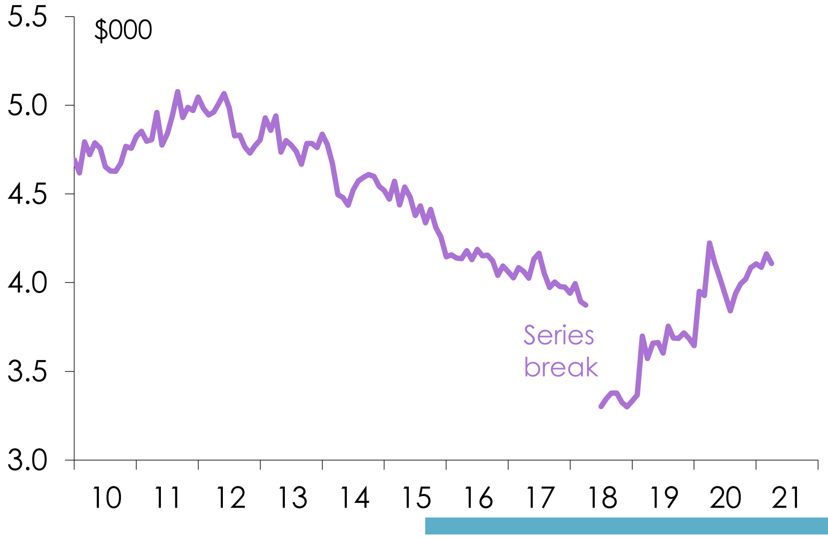

## Online retail 'market share'




## Debit card cash-outs




## Direct entry payments




*Sources:* ABS, *Retail Trade, Australia*; RBA, *Statistical Tables*, C1, C2, C4 and C6. Latest data are for March: April data for online retail sales will be published on 3rd June and for the payments system on 7th June.



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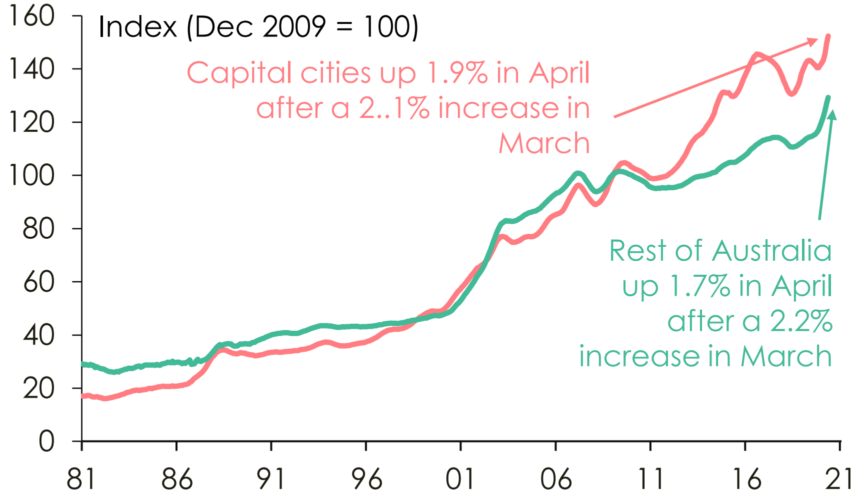
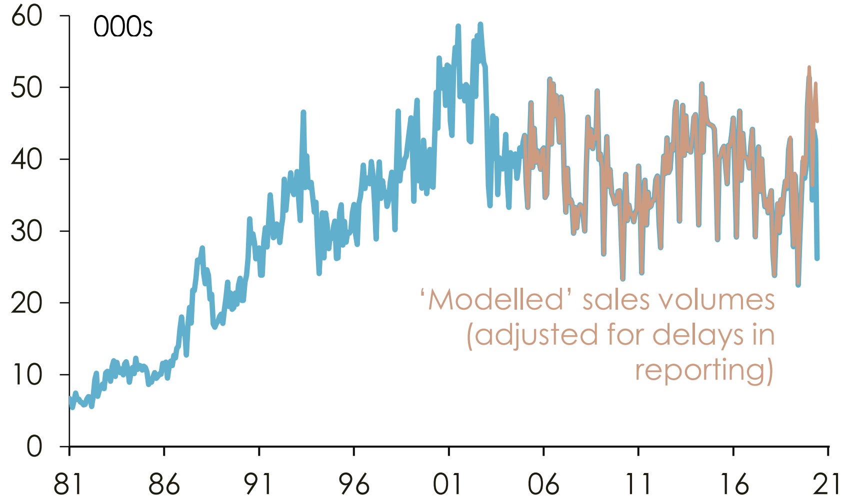
# Property prices rose another 1.7% in April to be, on average, 7% above their pre-pandemic peak with capital cities up 4.7% and regions up 12.9%

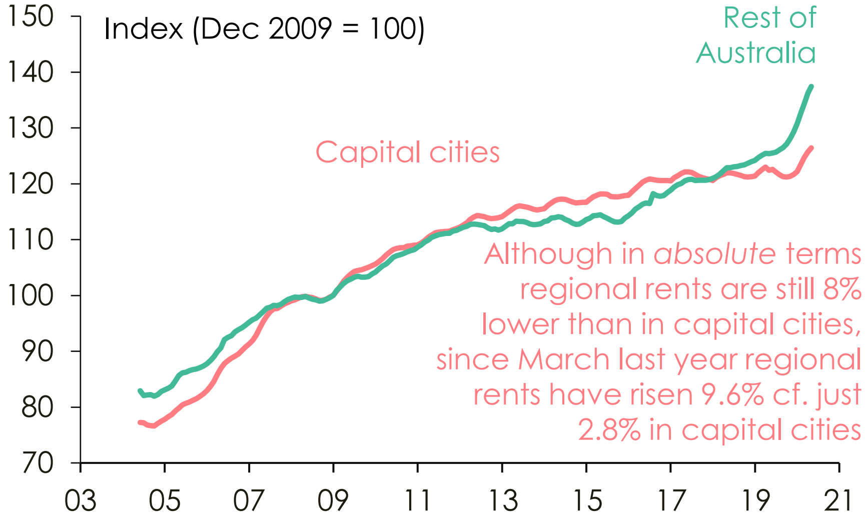
## Residential property prices



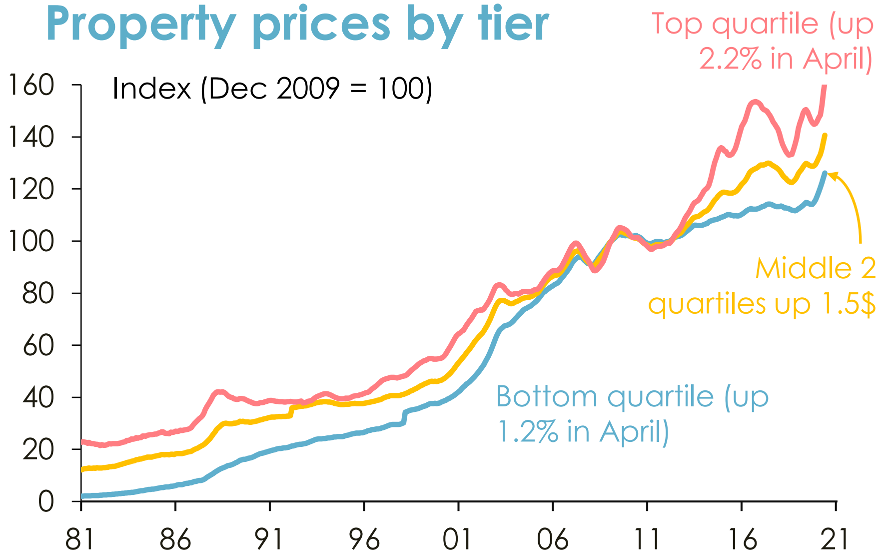

## Residential property sales volumes



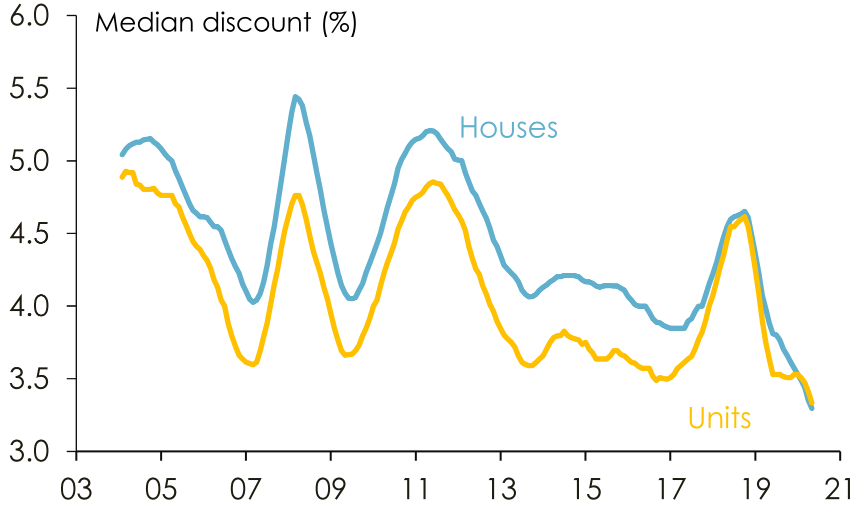

## Residential rents



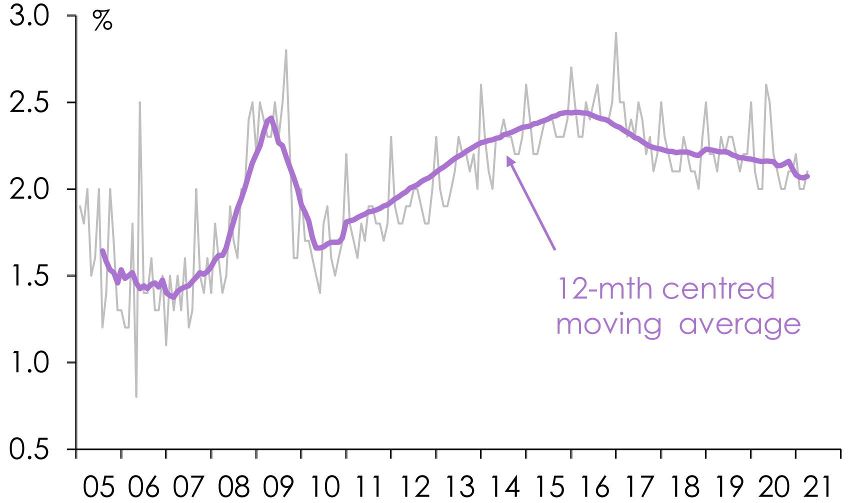

## Property prices by tier




## 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".



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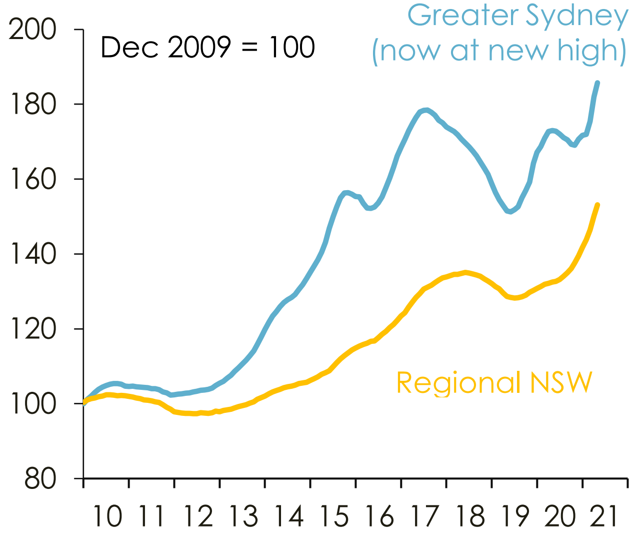
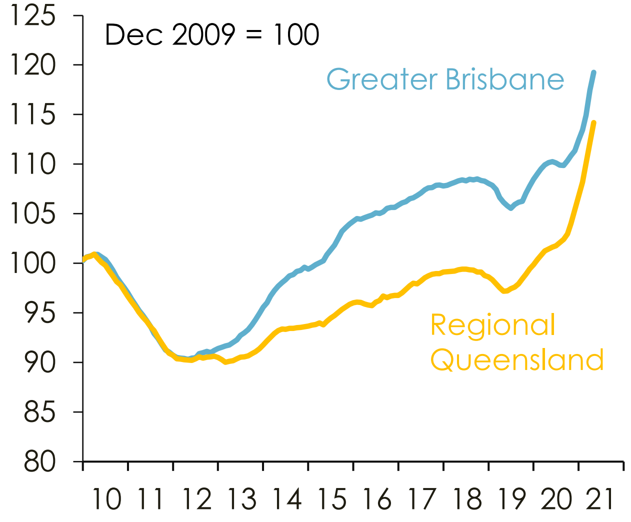
# Perth and Darwin are now the only capital cities where property prices are still below their pre-pandemic (or mining boom) peaks

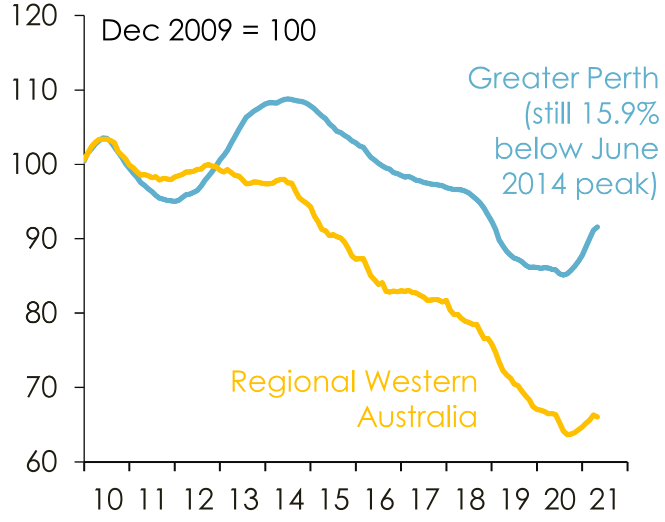
## New South Wales



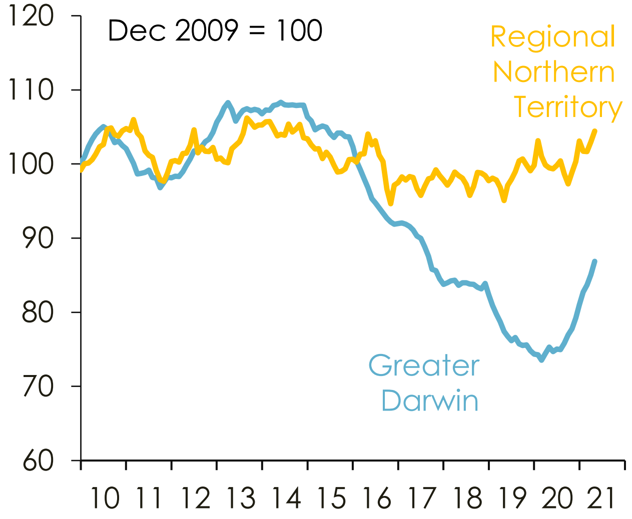

## Queensland



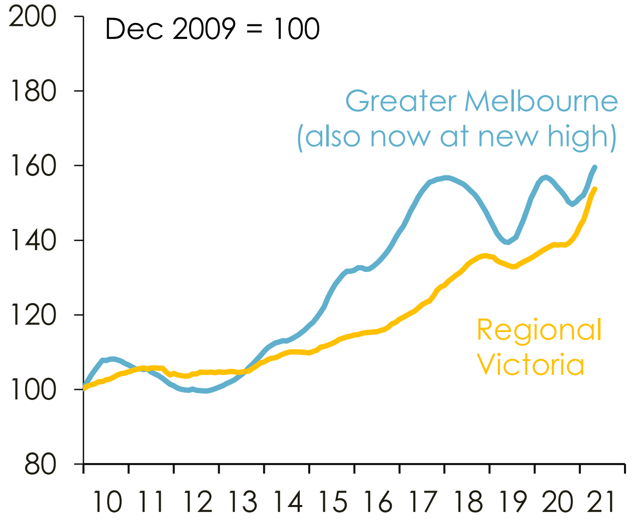

## Western Australia



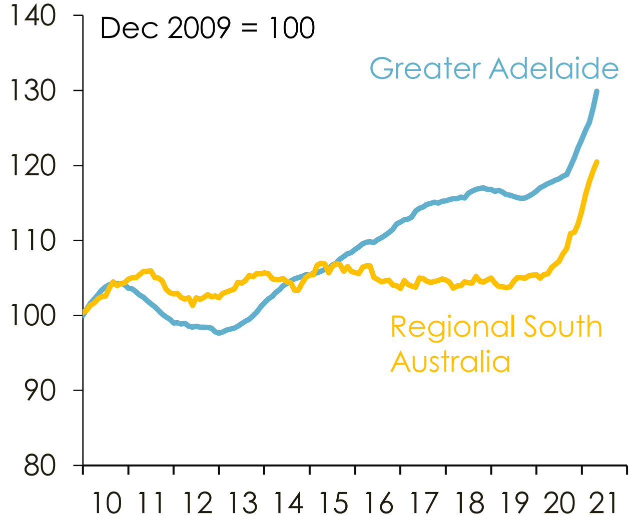

## Northern Territory



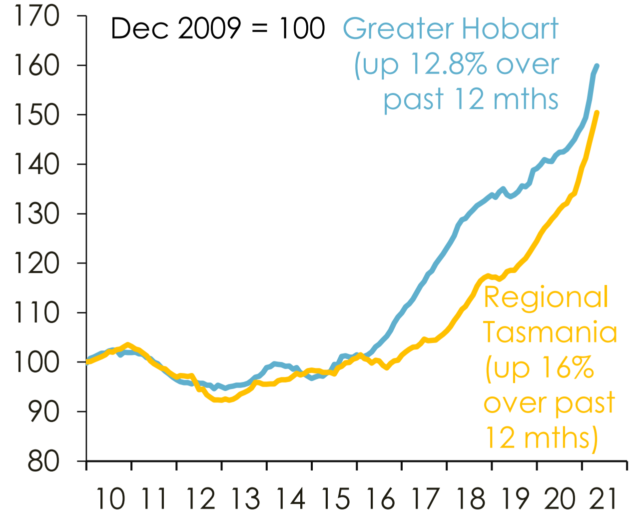

## Victoria



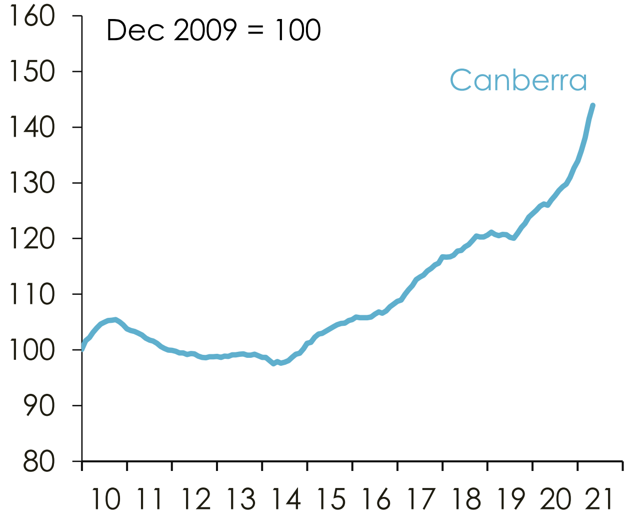

## South Australia




## Tasmania



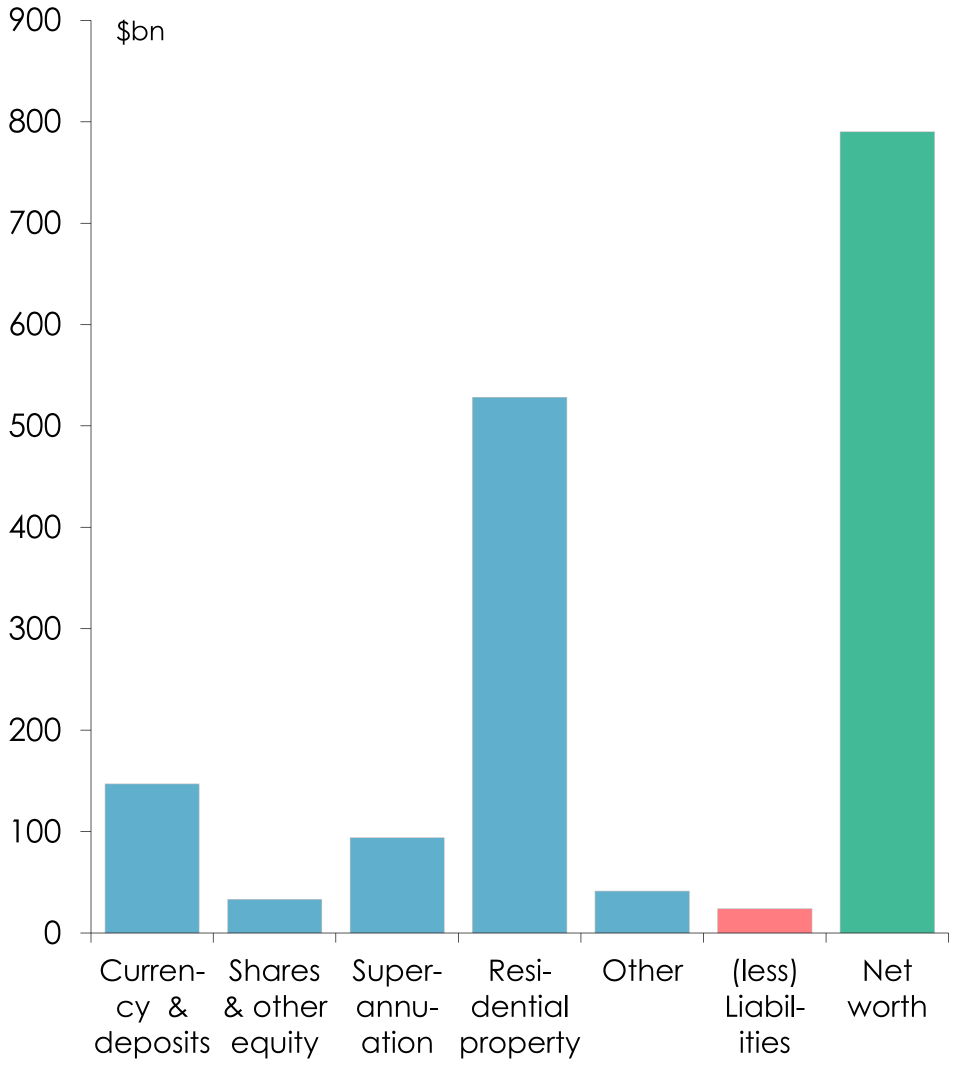

## Australian Capital Territory



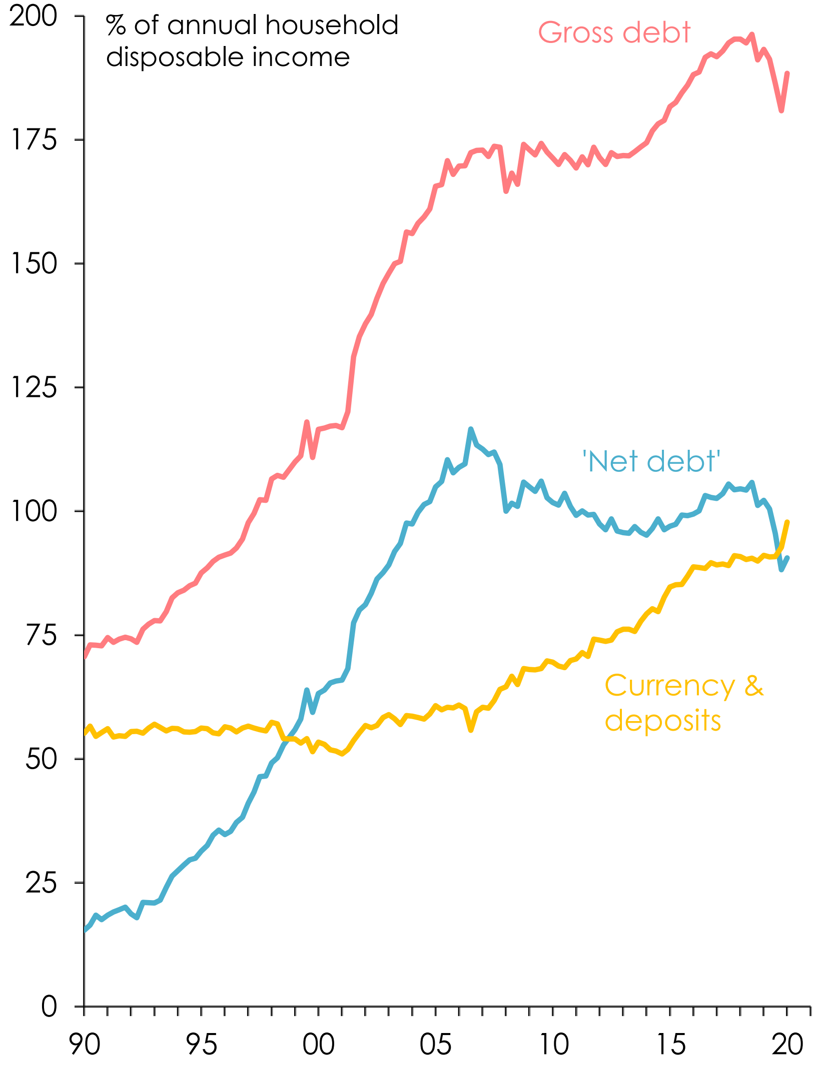

*Note:* The index of property prices measures the 'organic' change in underlying sales values by using a hedonic regression methodology that takes account of changes in the characteristics of properties being sold from month to month. Property price data are now seasonally adjusted. Latest data are for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

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

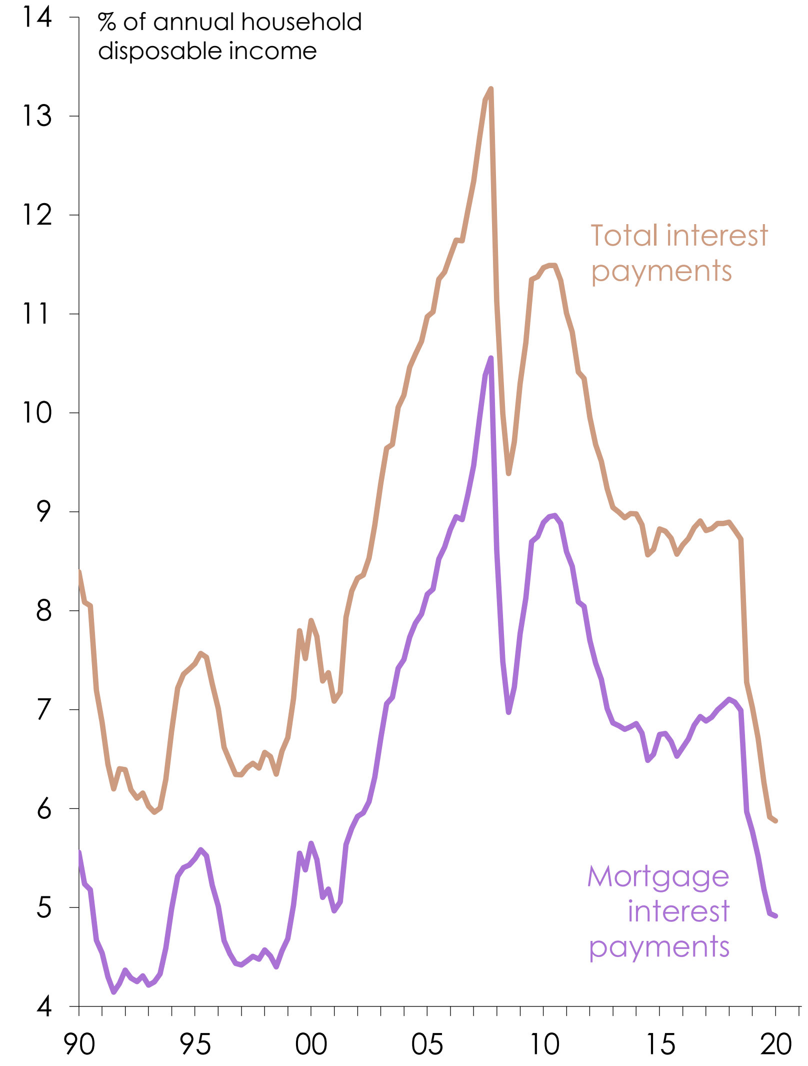
## Sources of gains in household net worth, Q4 2019 to Q4 2020




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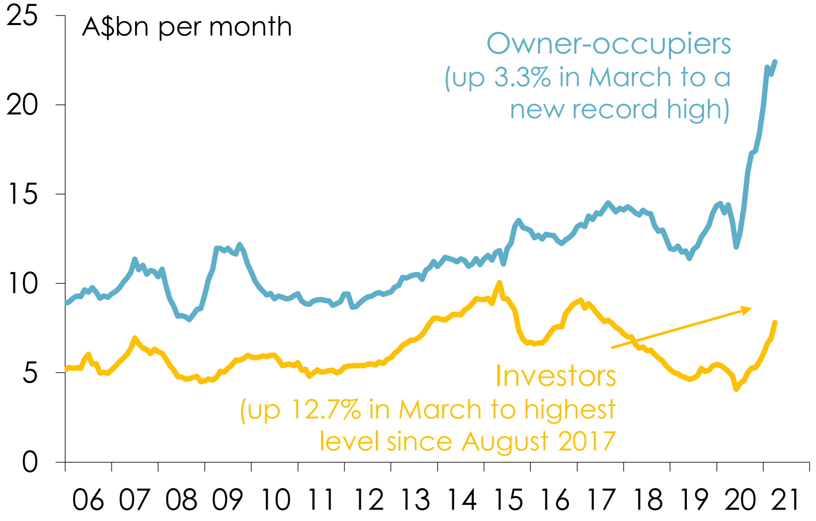
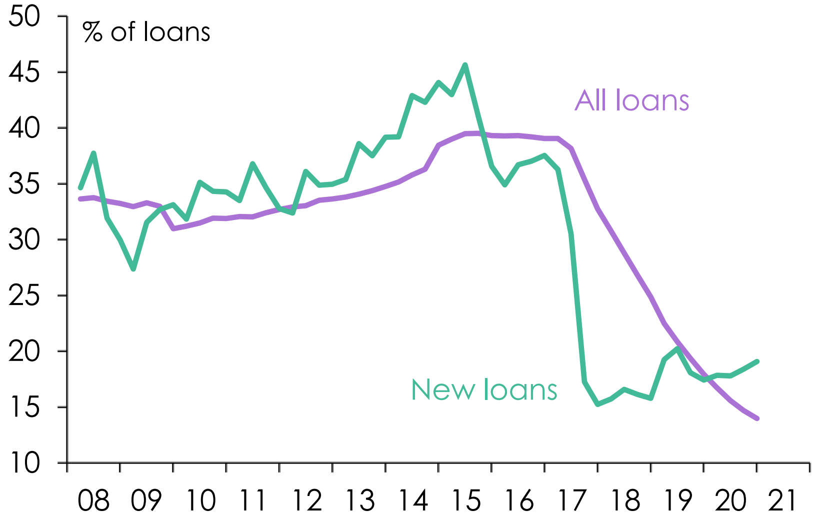
# Lending to property investors has risen sharply since late last year as has lending to existing home-owners 'trading up'

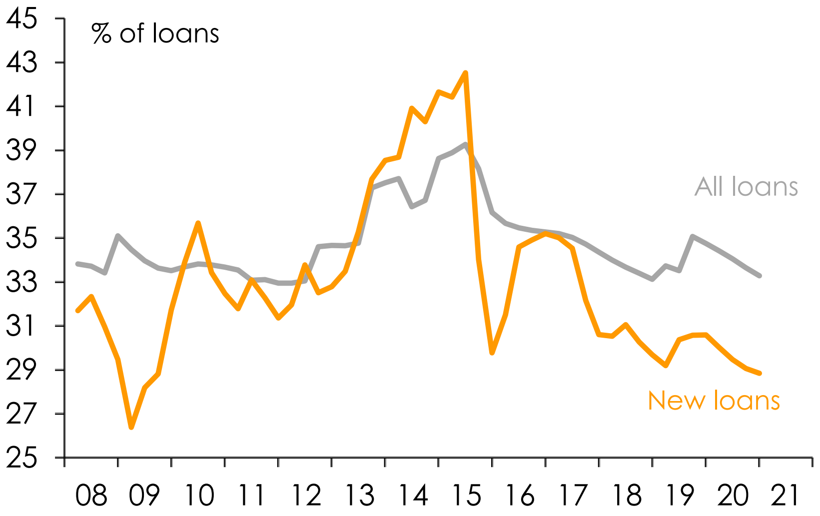
## Housing finance commitments



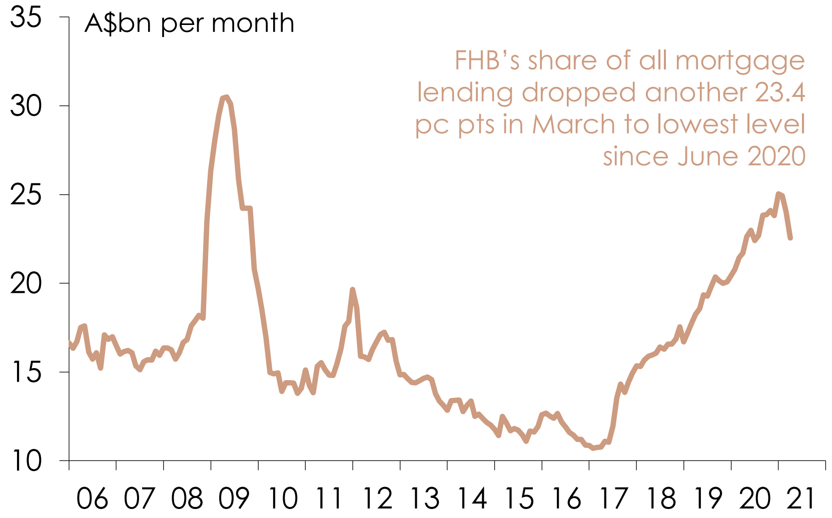

## Interest-only loans as pc of total



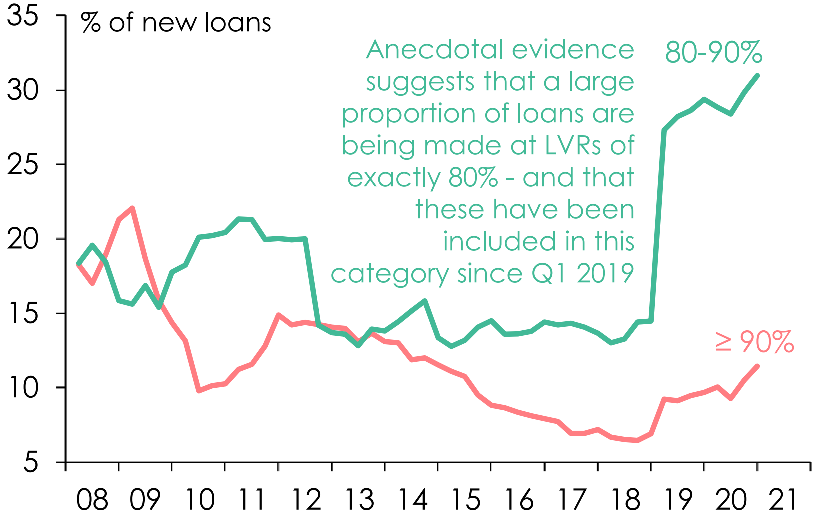

## Loans to investors as a pc of total



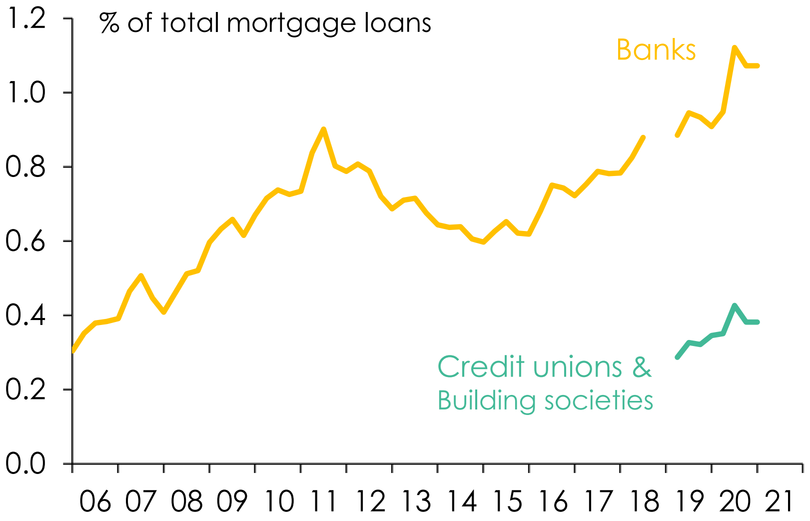

## Lending to first home buyers




## 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".



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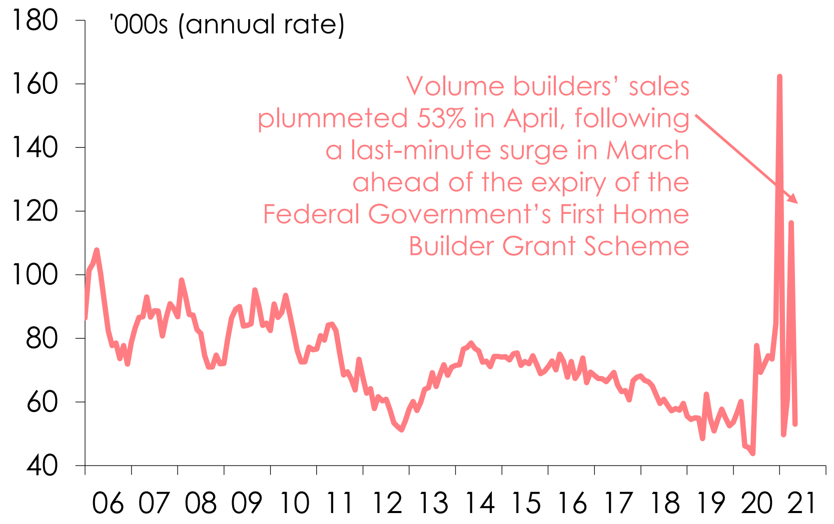
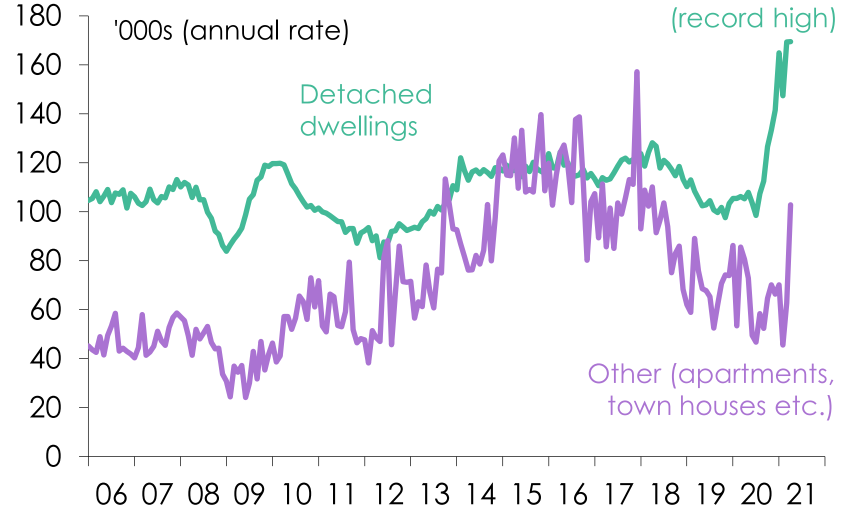
# Building approvals are at a near-record high, largely driven by detached dwellings but also with apartments at their highest level since late 2017

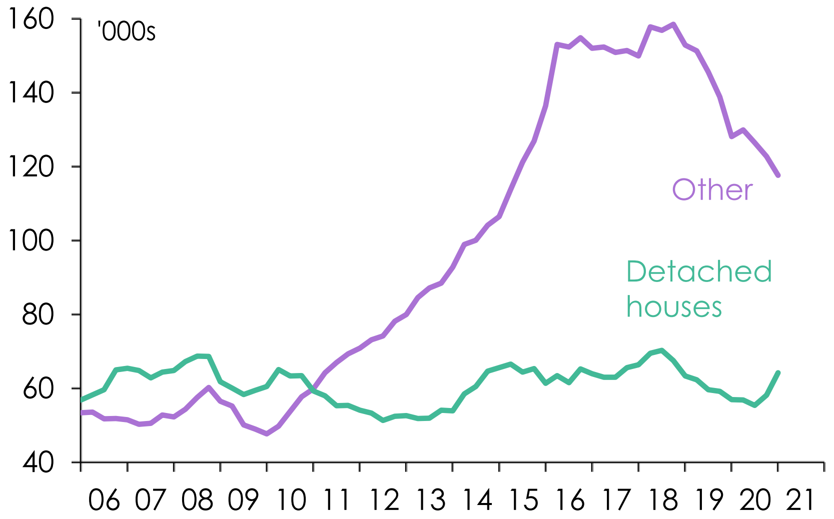
## Large builders' new home sales



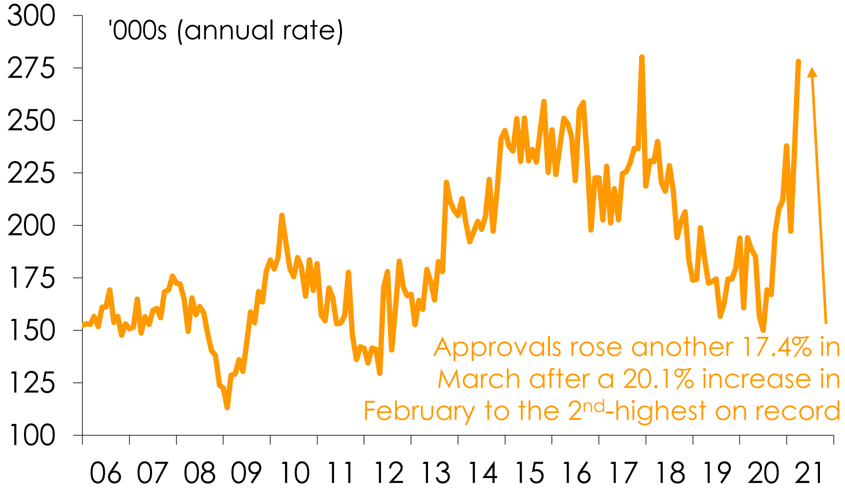

## Building approvals, by type



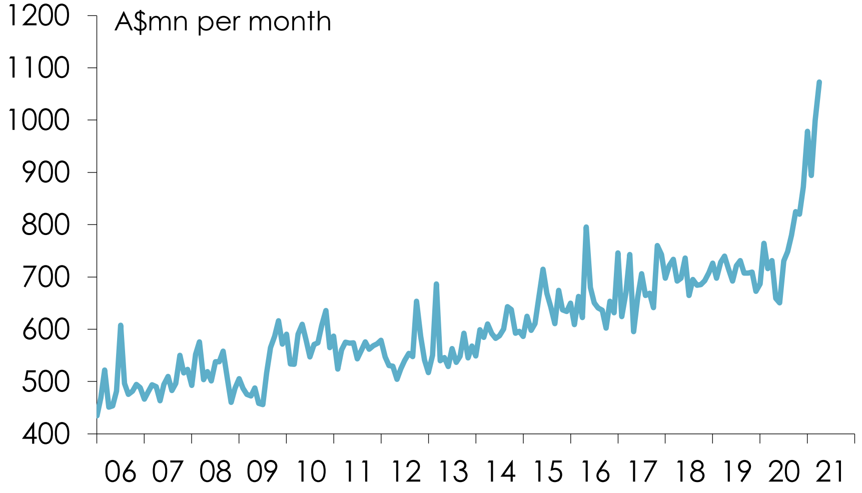

## Dwellings under construction



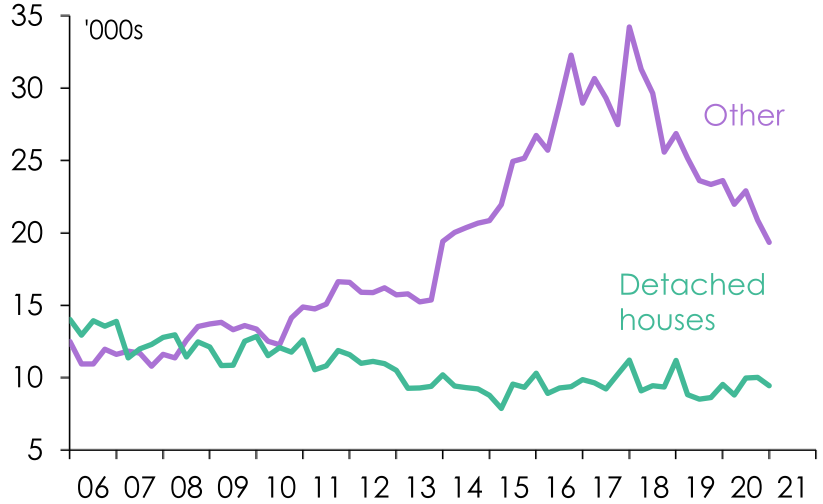

## Residential building approvals




## 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 1st June; March quarter dwellings under construction and 'pipeline' data on 14th July. Return to "What's New".

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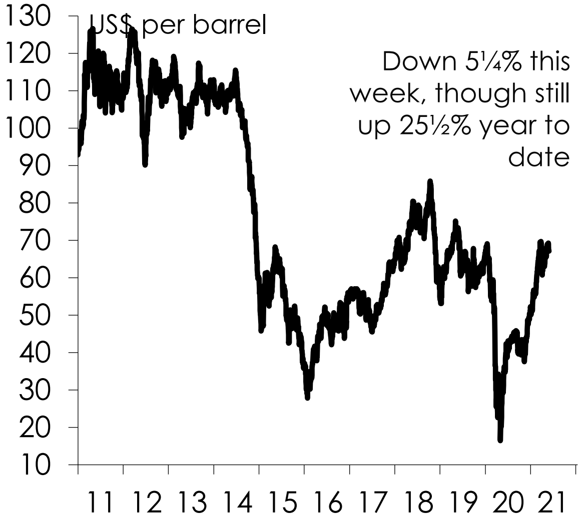
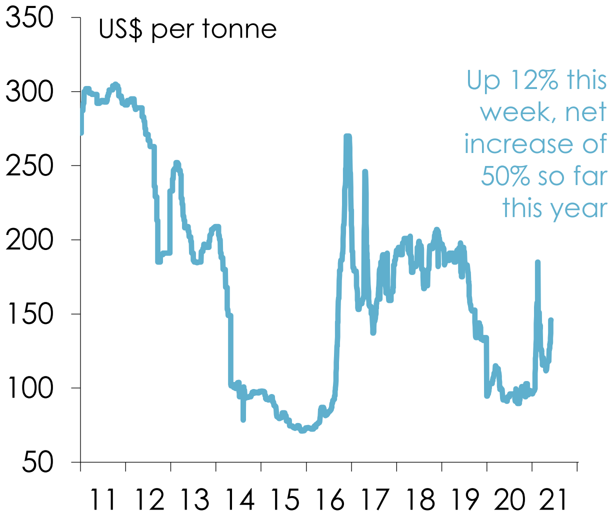
# Iron ore prices fell sharply at the end of this week on fears of Chinese regulatory actions after hitting US$238/t mid-week

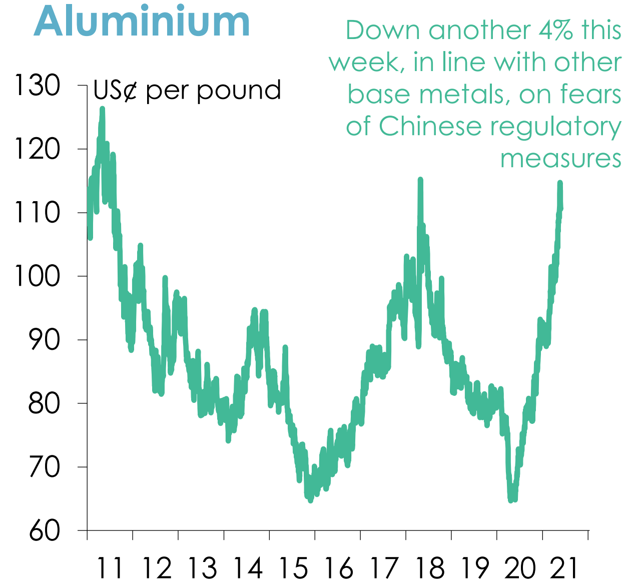
## Brent crude oil



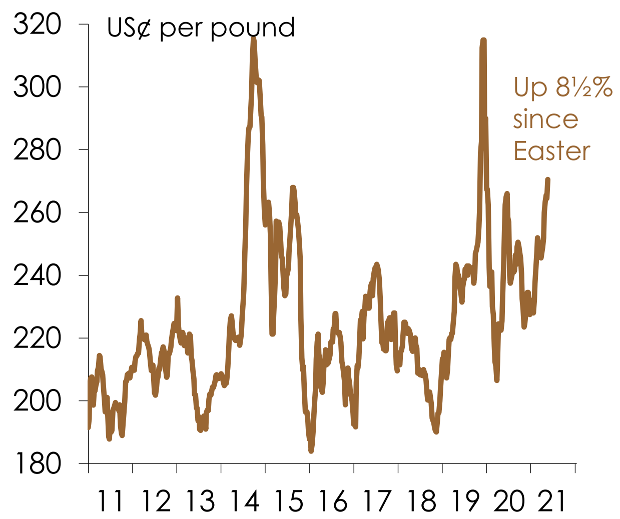

## Metallurgical coal



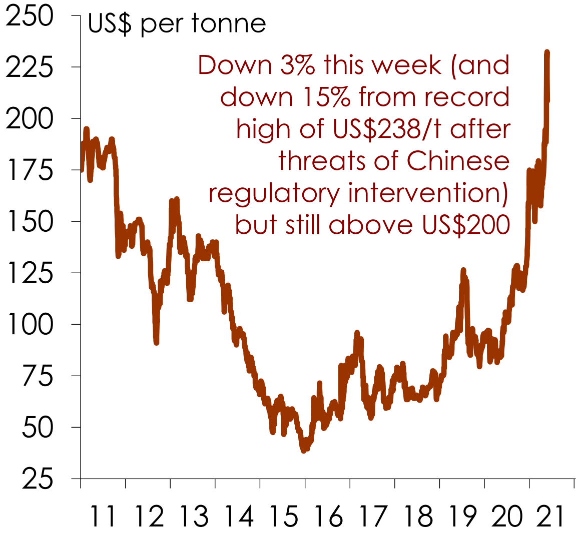

## Aluminium



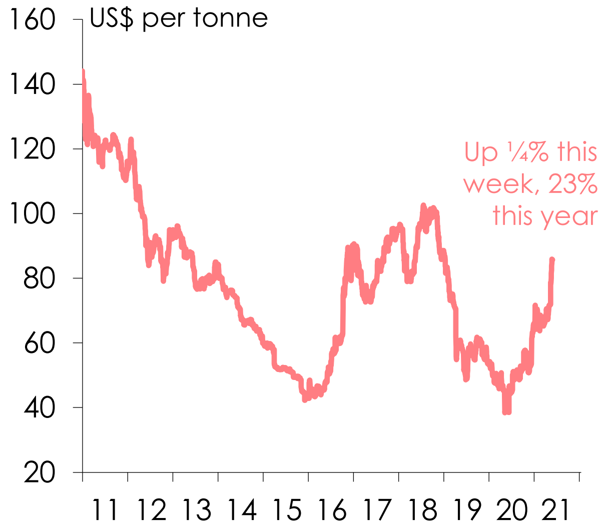

## Beef



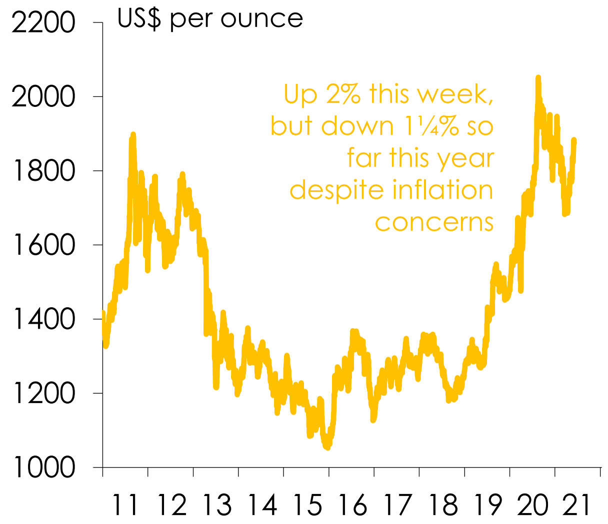

## Iron ore




## Thermal coal




## Gold

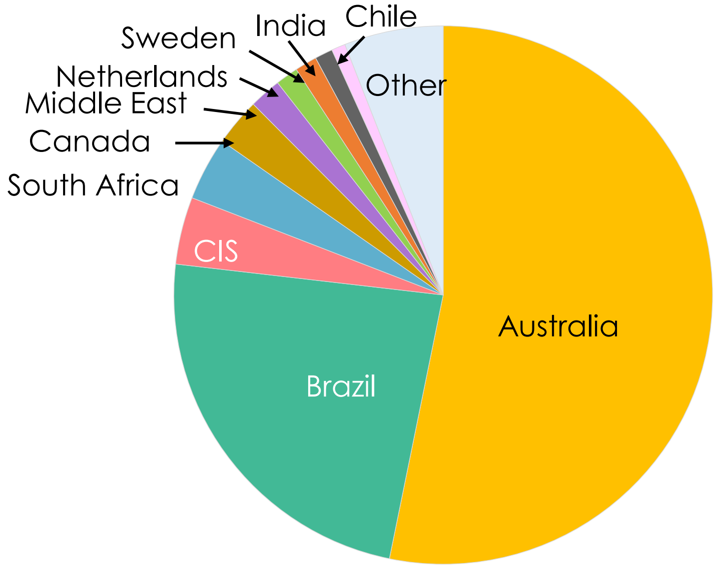



## Wool

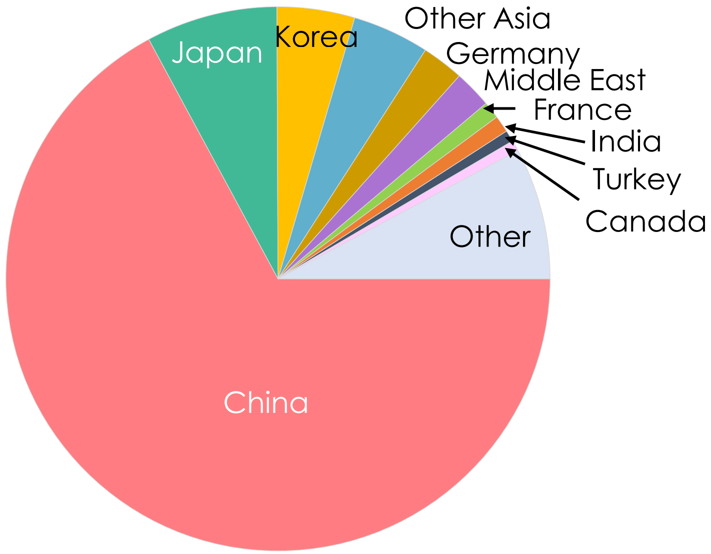

*Sources:* Refinitiv Datastream; Meat & Livestock Australia; Australian Wool Innovation. See next slide for more on iron ore prices. Data up to 21st May (except for beef prices, 14th May). Return to "What's New".

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

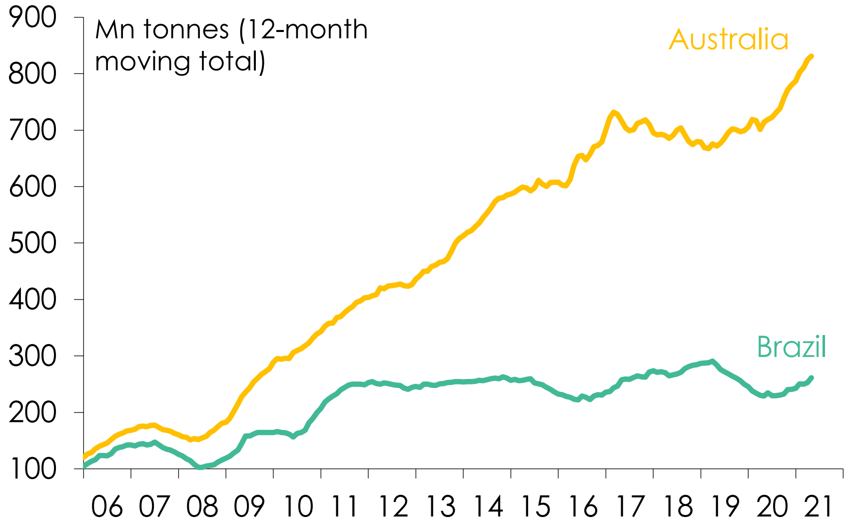
## Iron ore exports, 2018



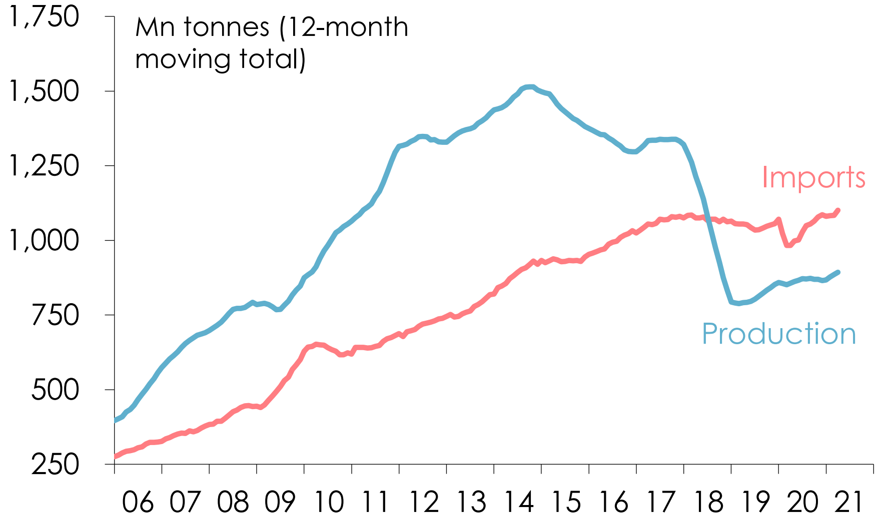

## Iron ore imports, 2018




## Australia & Brazil iron ore exports




## China iron ore production & imports




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

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



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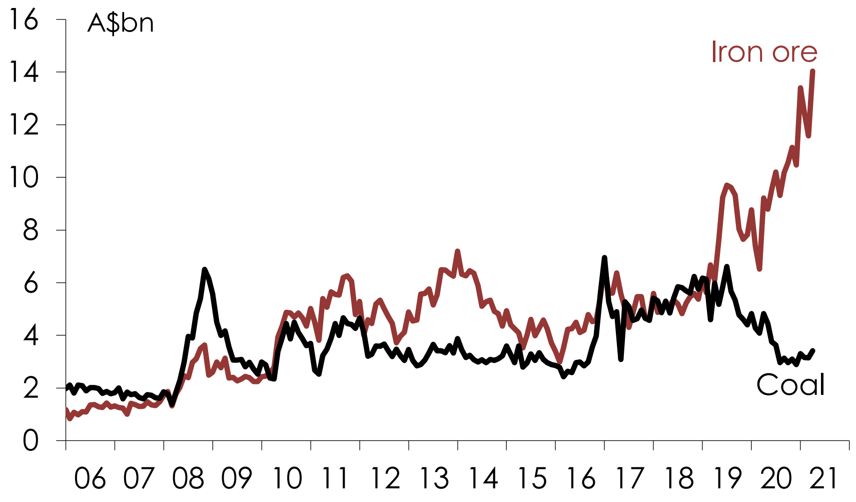
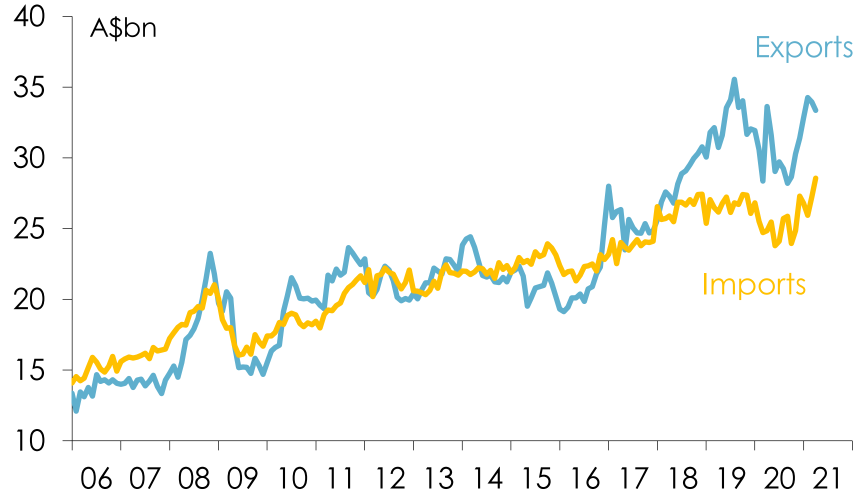
# Australia's goods and services trade surplus narrowed by $2bn to $5.6 bn in April, with imports up 4.3% and exports down 1.7% (esp. gold)

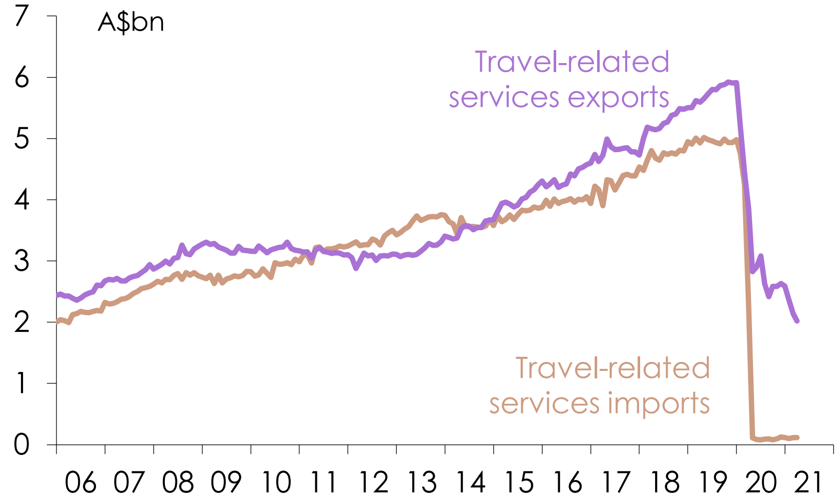
## Iron ore and coal exports



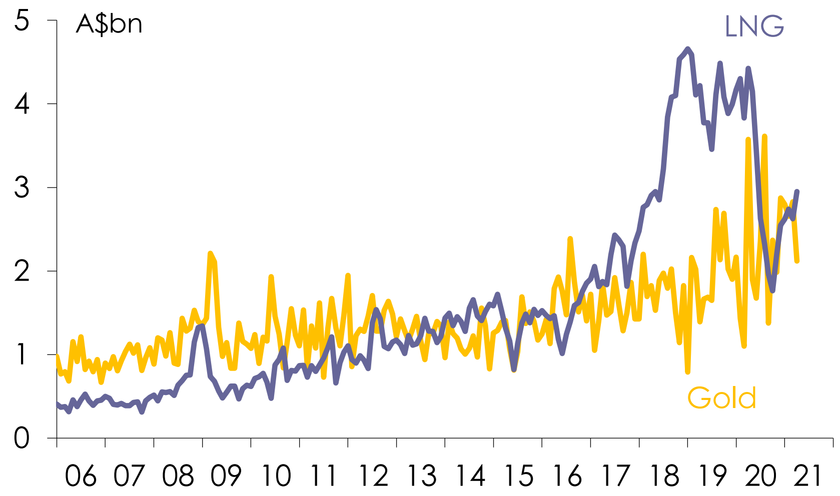

## Merchandise exports and imports



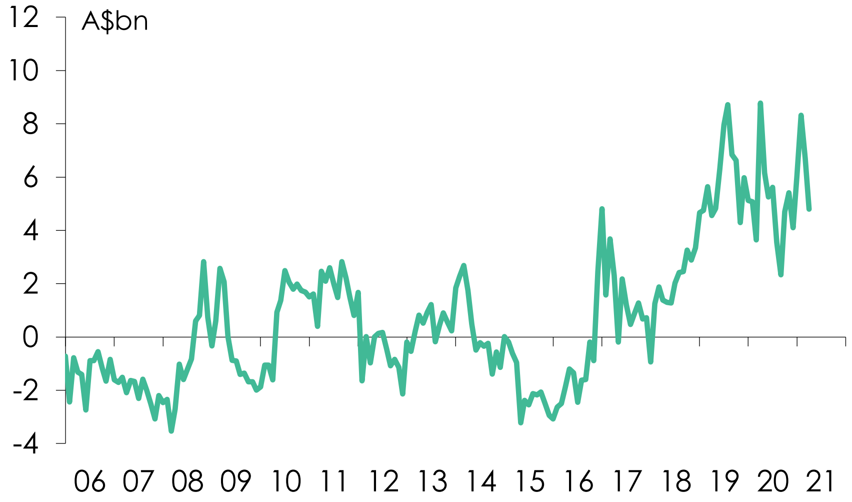

## Tourism-related services trade



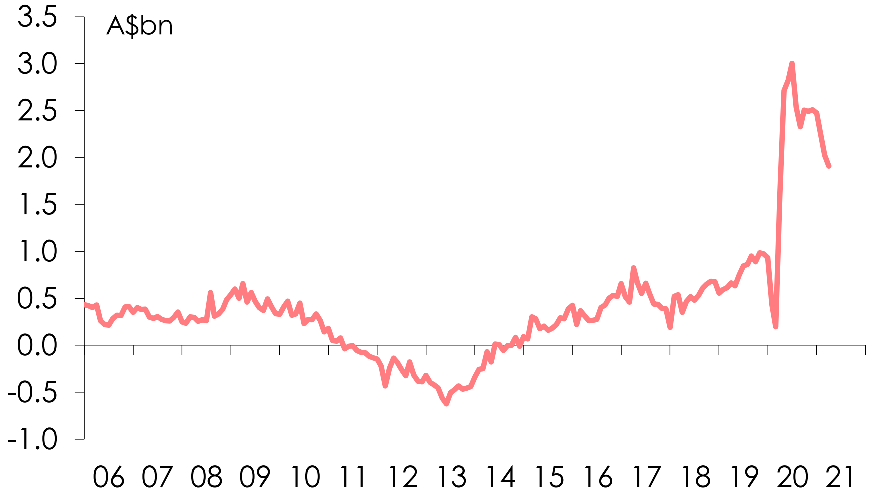

## LNG and gold exports




## 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".

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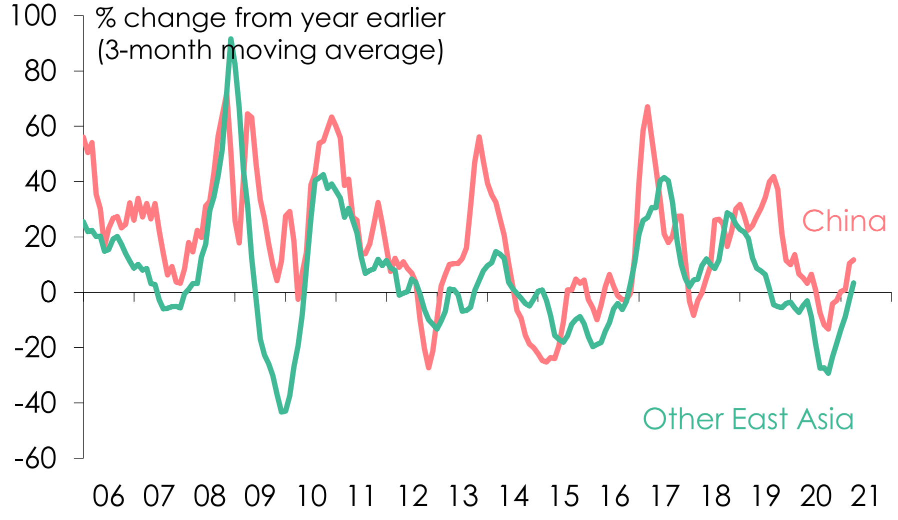
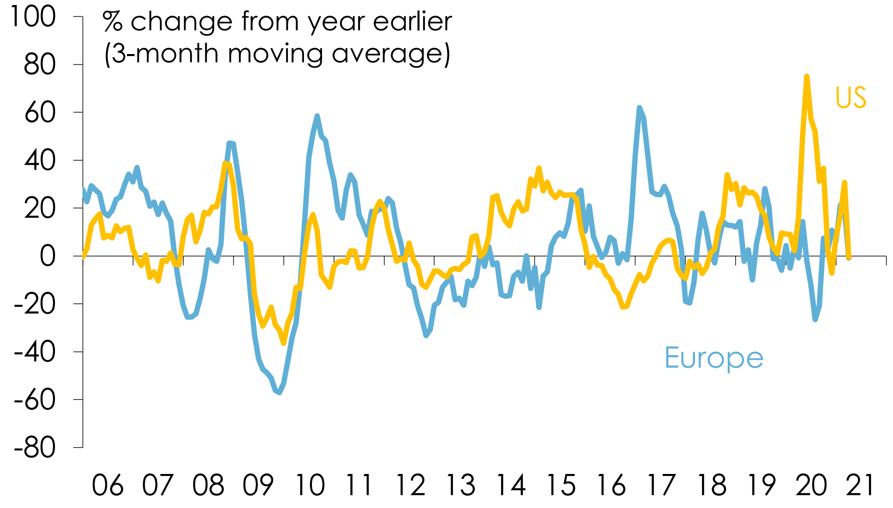
# Australia continues to run a large trade surplus with China despite China's sanctions against a range of Australian exports, thanks to iron ore

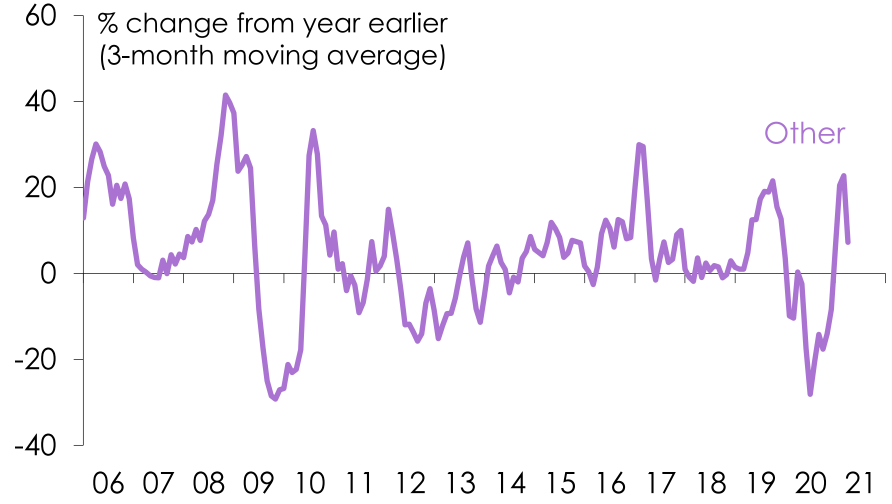
## Merchandise exports – East Asia



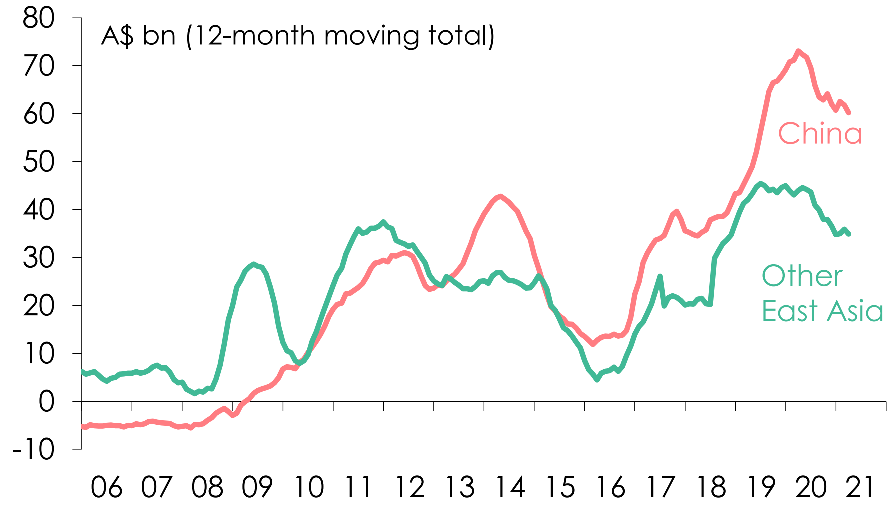

## Merchandise exports – US & Europe



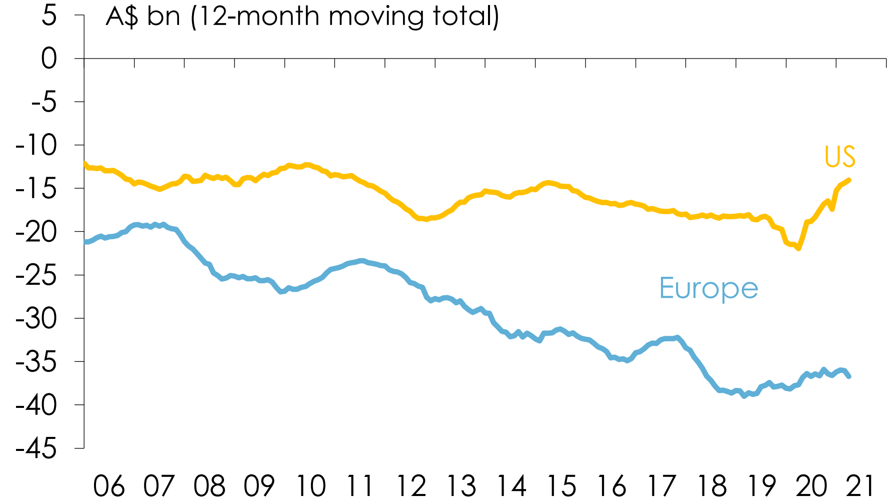

## Merchandise exports – other



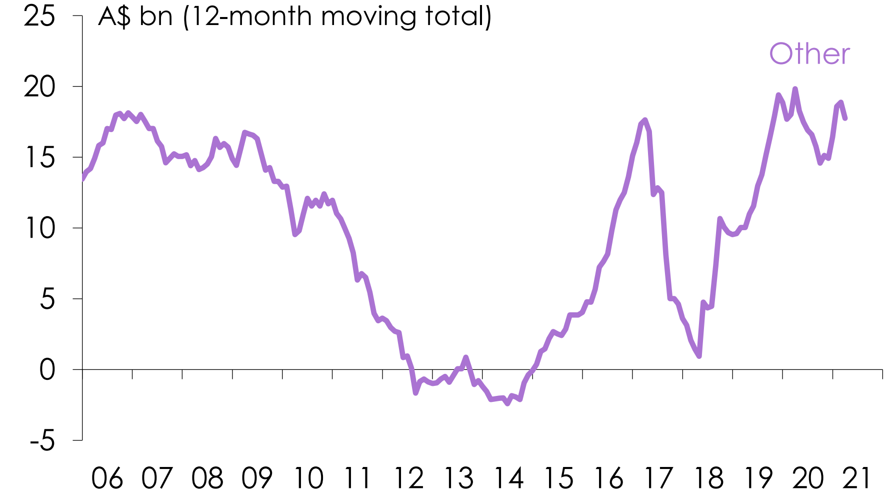

## Goods trade balance – East Asia




## 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".



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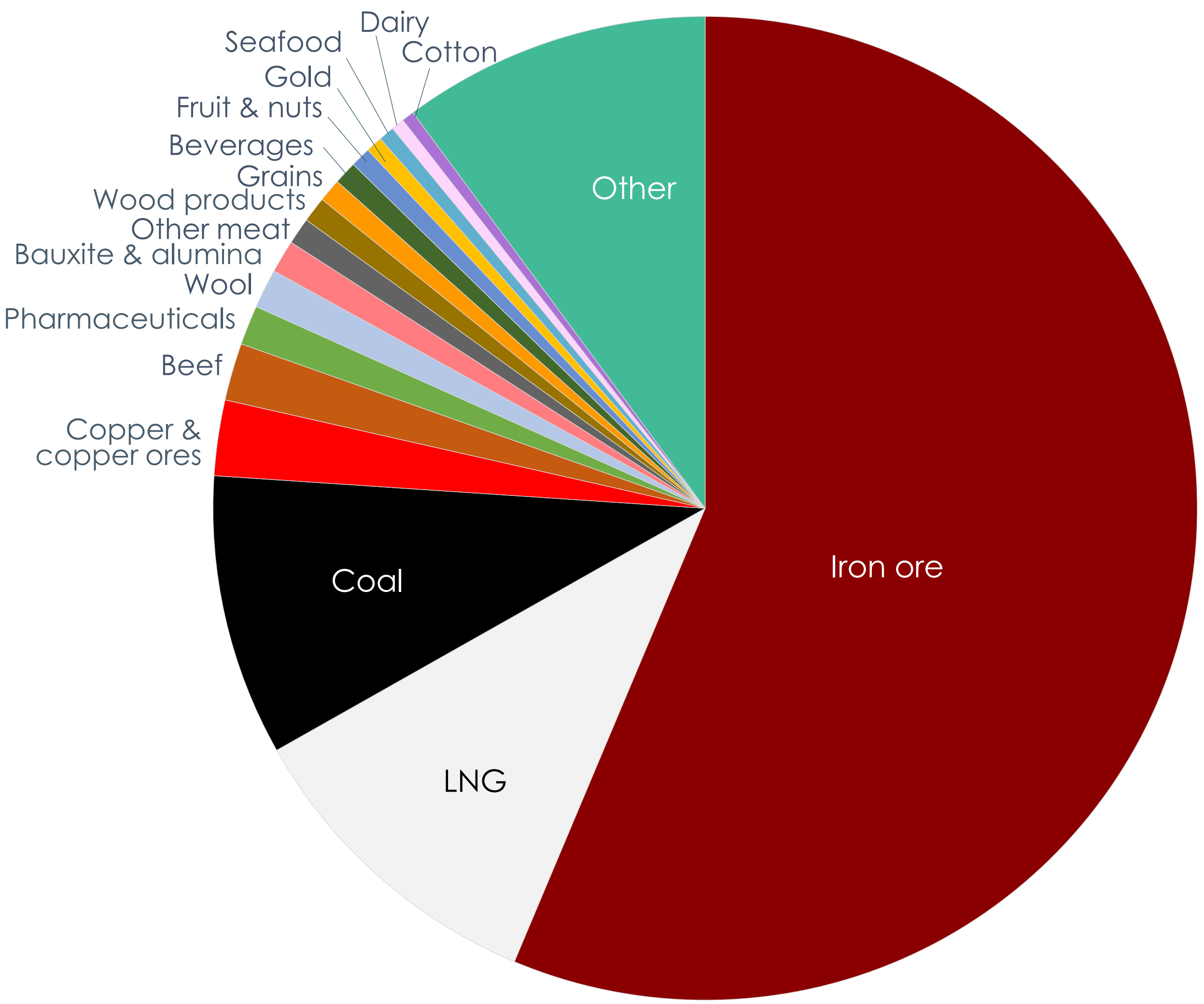
# Australia's bilateral relations with China deteriorated sharply in the latter part of 2020 and there are likely to be material economic effects

## Australia's merchandise exports to China, 2019-20

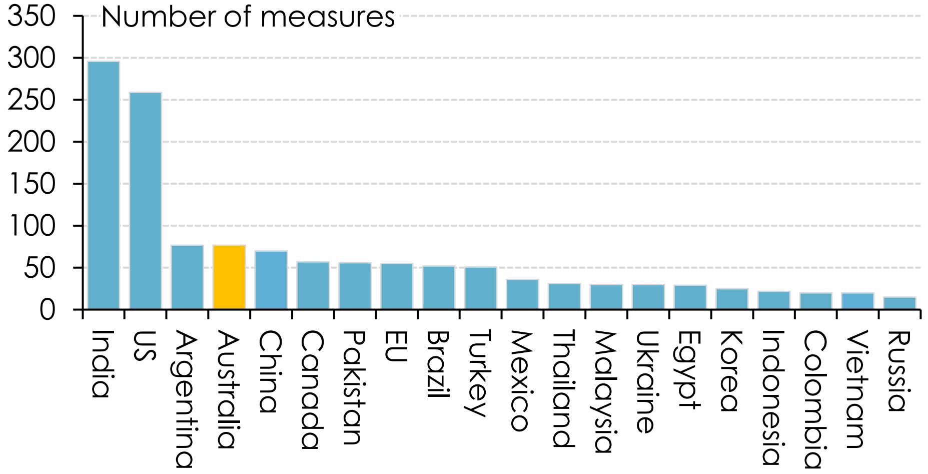



*Note:* 'Wood' includes wood products; 'dairy' includes milk, cream, butter & cheese; 'seafood' includes crustaceans, fish and processed seafood; 'other' includes confidential items.
*Sources:* Department of Foreign Affairs & Trade, Trade Statistical Pivot Tables; Corinna.
Return to "What's New".

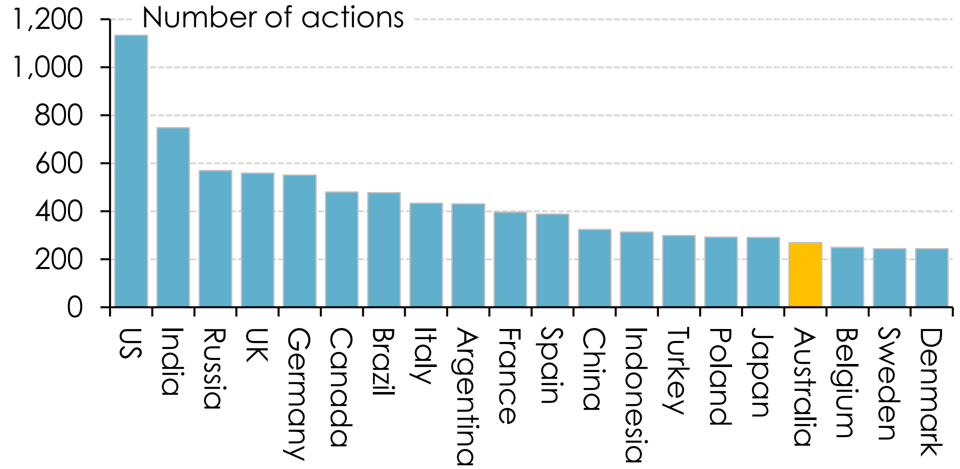
- China accounted for 39½% of Australia's merchandise exports in FY 2019-20 (the largest proportion any country has since the mid-1950s when 36% of Australia's exports went to the UK)
  - of which iron ore & concentrates accounts for 56%
- China also accounted for 19% of Australia's services exports in CY 2019
  - of which 'travel' (tourism & education) accounted for over 90%)
- China has no real alternatives to Australian iron ore (slide 115)
- 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

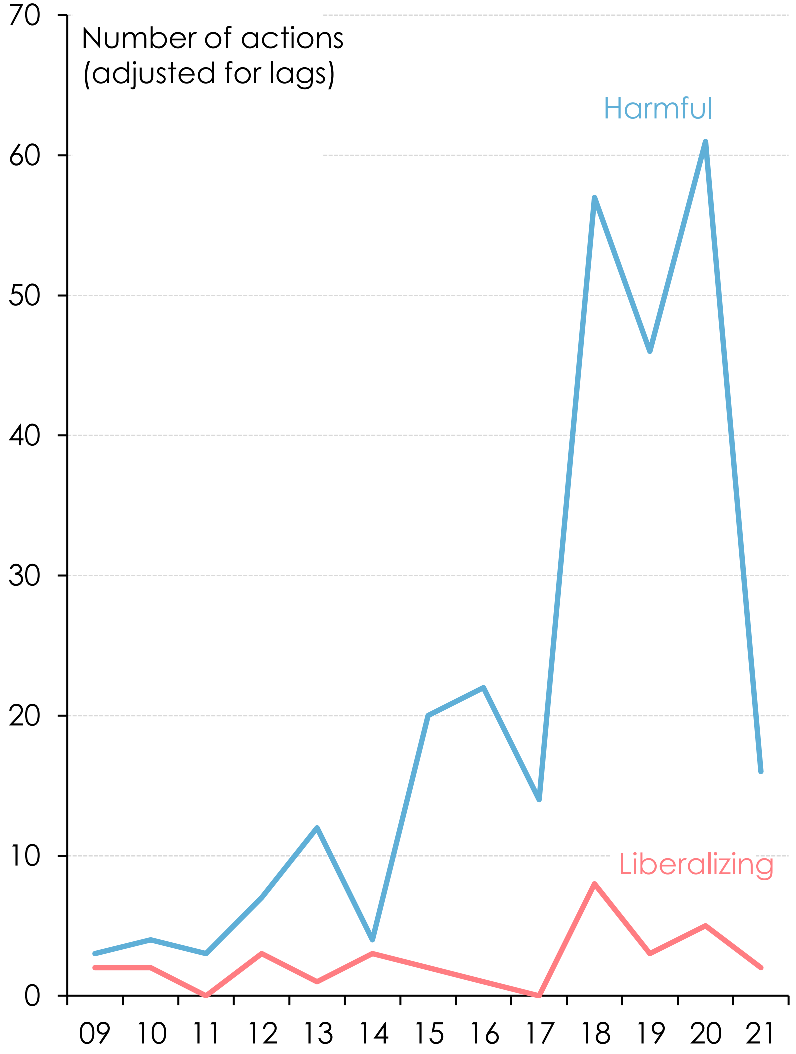
## Number of anti-dumping measures imposed, 2015-20



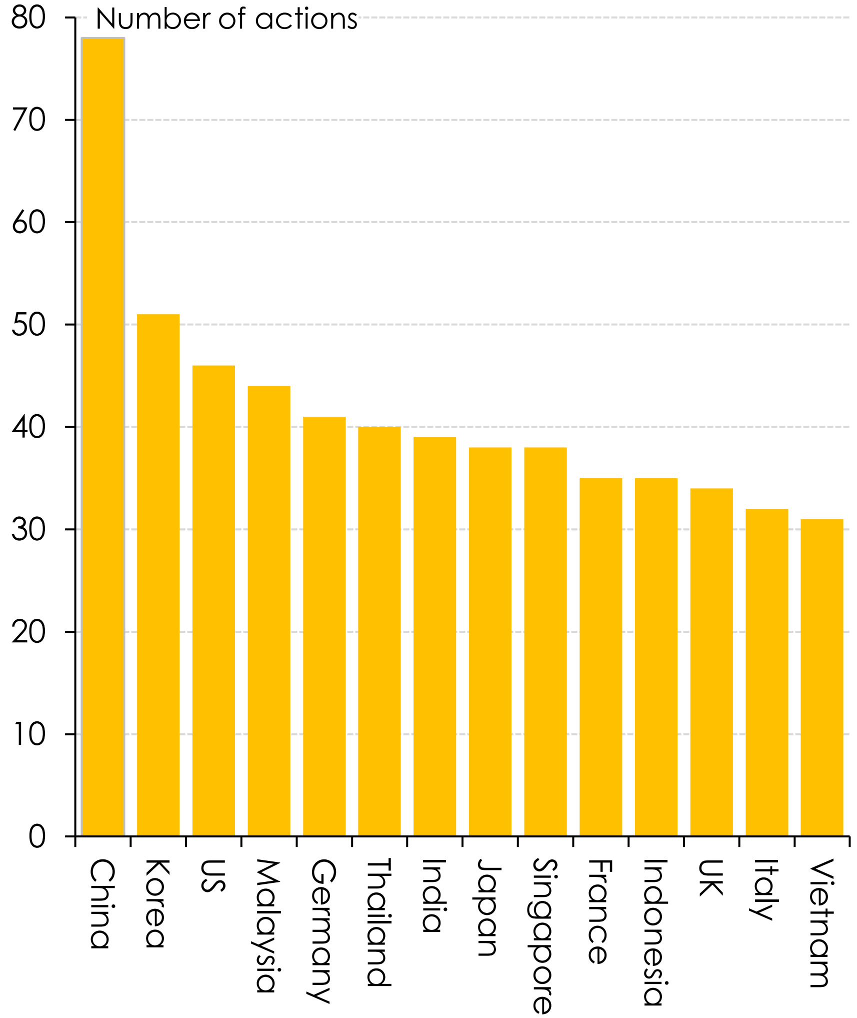

## Number of harmful trade policy interventions, 2009-2021




## 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".



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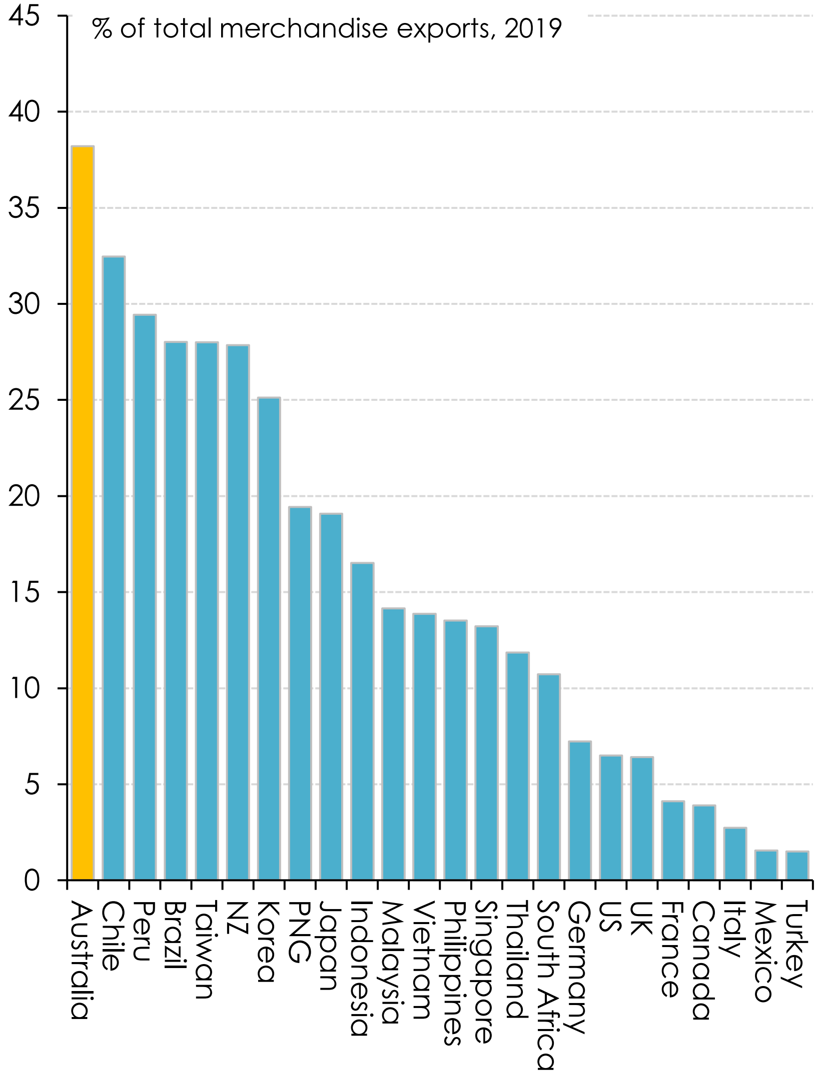
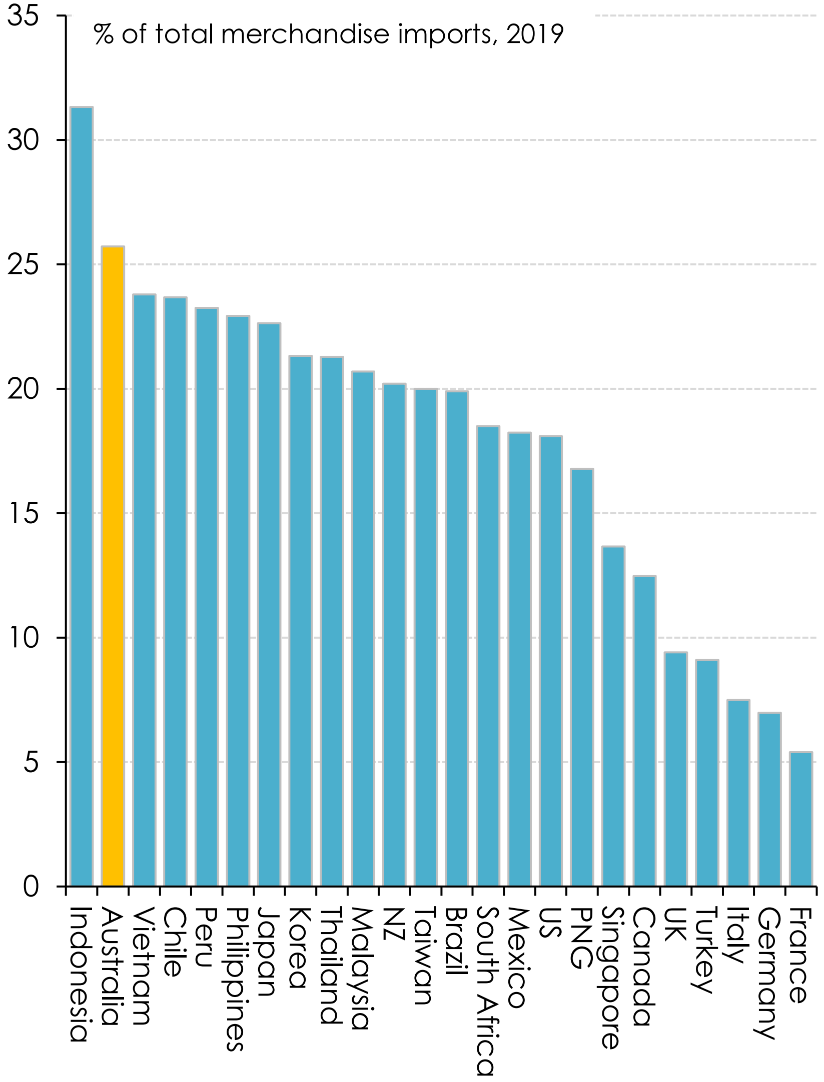
# China can cause Australia economic pain because we're very dependent on it, and are one of the few countries with whom China runs a deficit

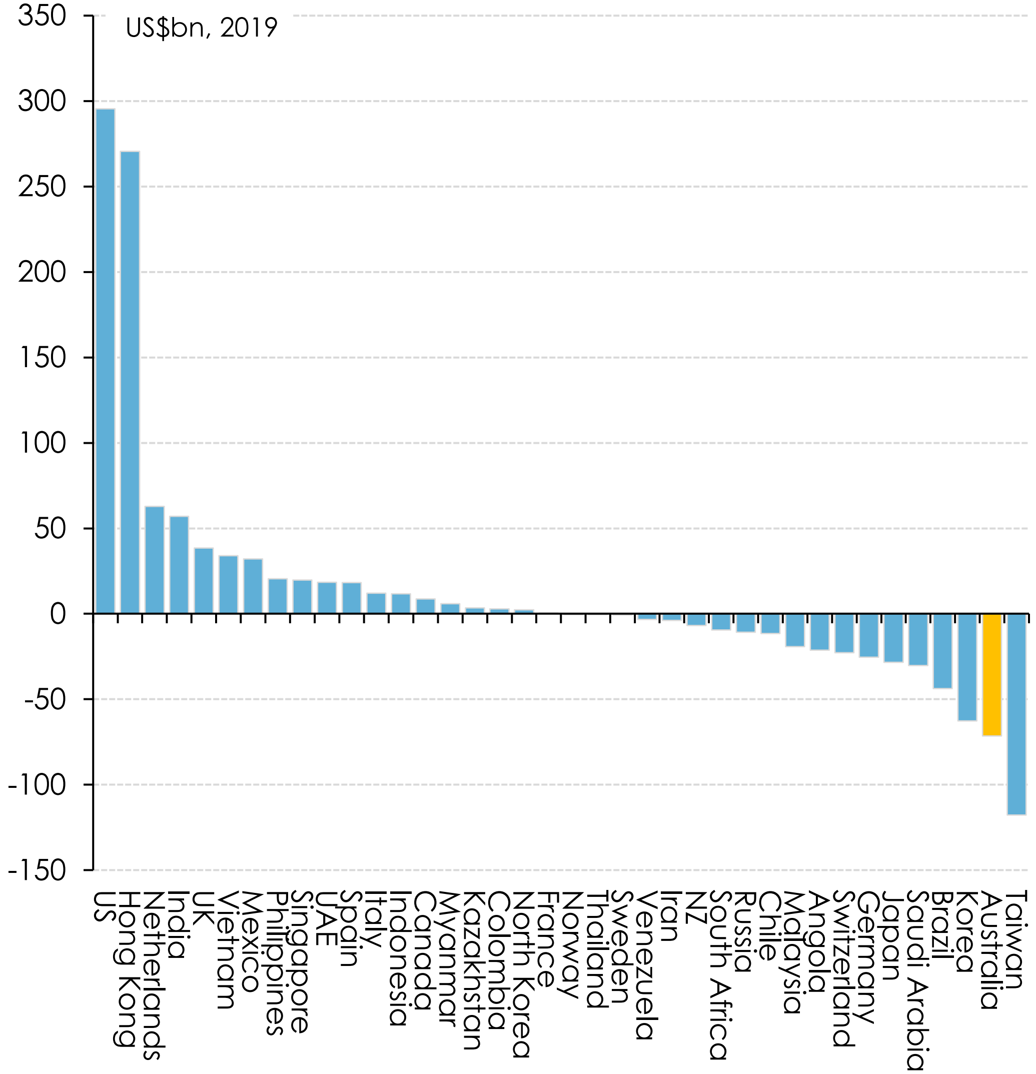
## Merchandise exports to China as a pc of total




## Merchandise imports from China as a pc of total




## China's bilateral merchandise trade balances




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

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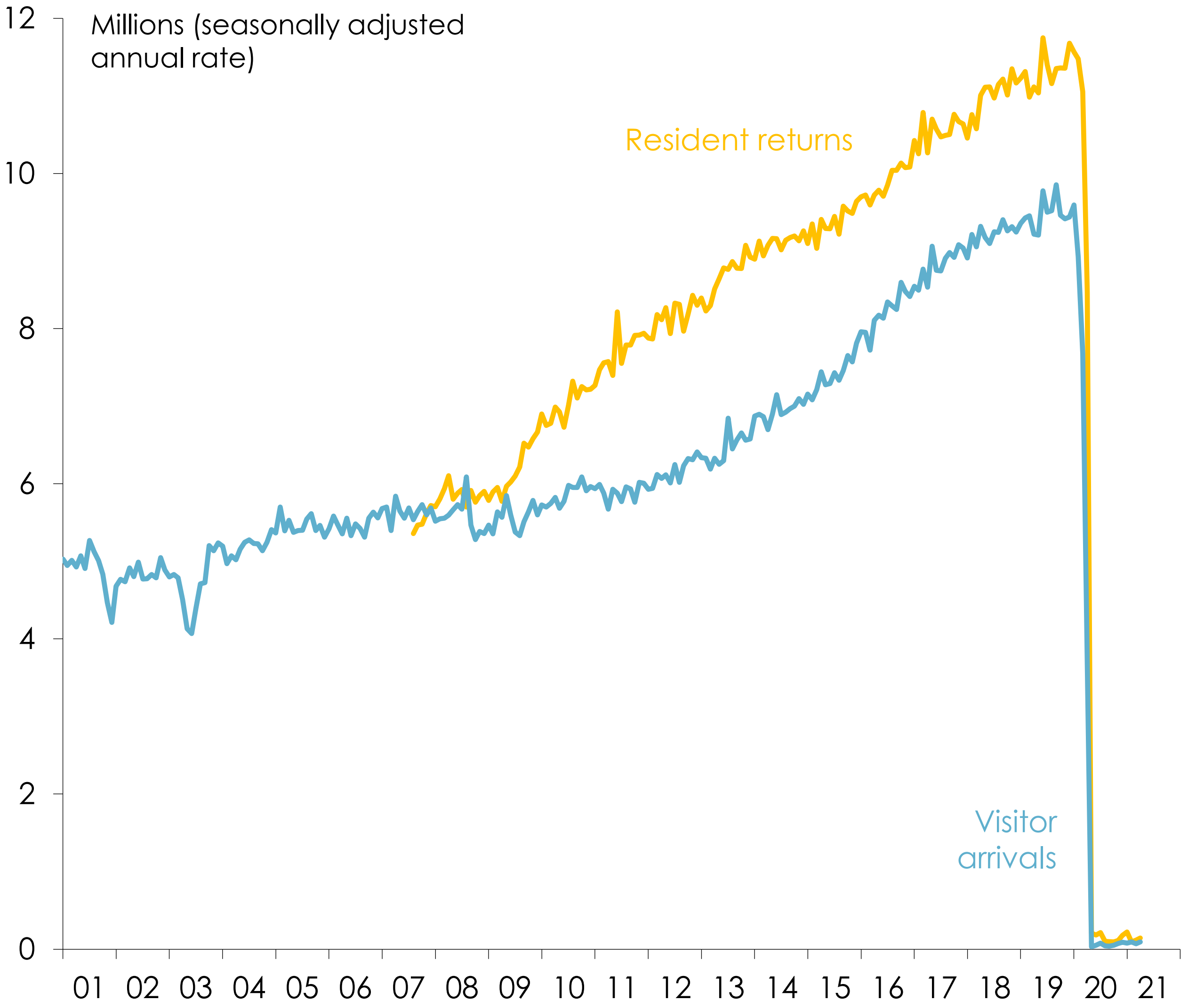
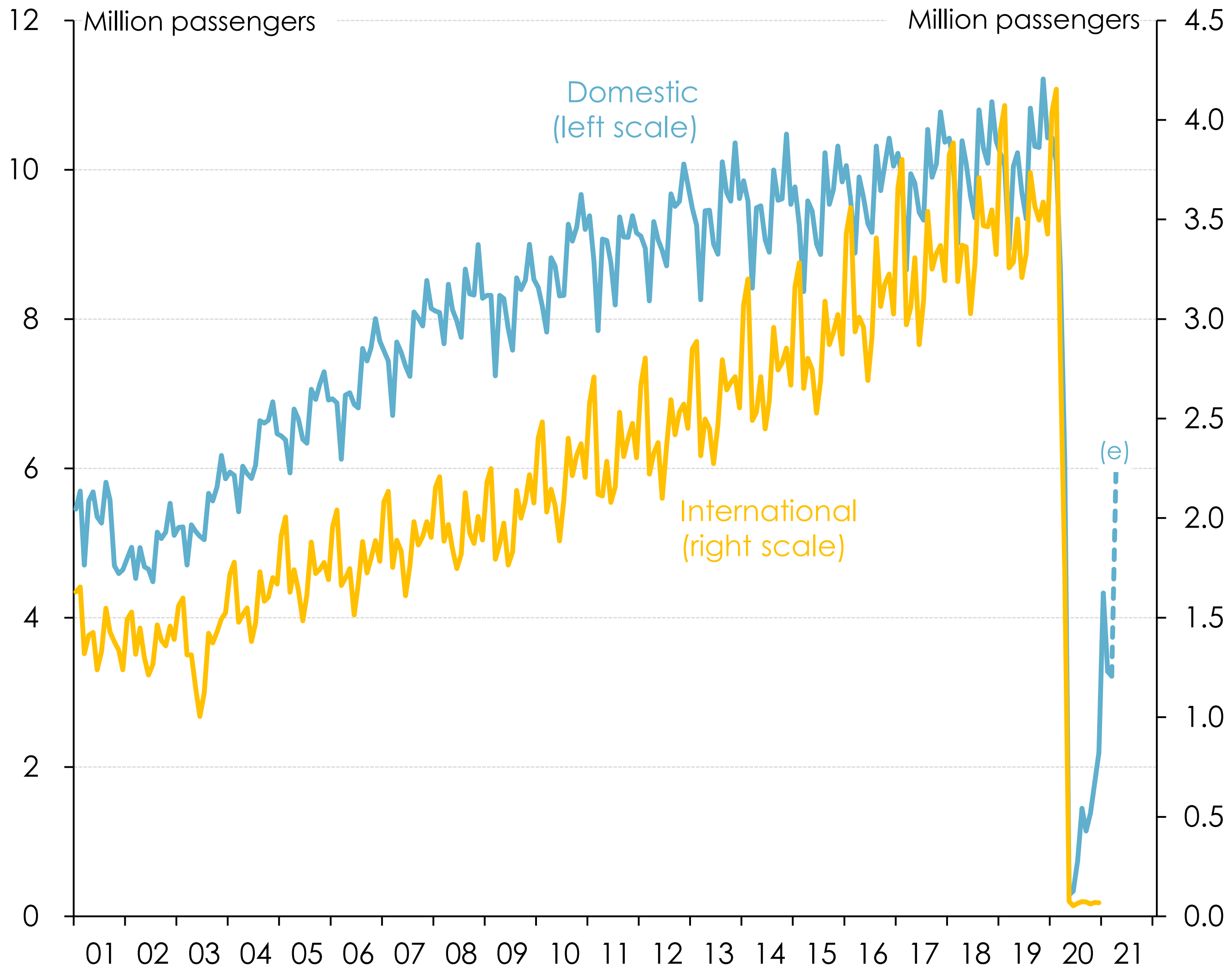
# Domestic aviation has picked up strongly since December – but international traffic remains almost non-existent as border controls continue

## Short-term visitor arrivals and resident returns



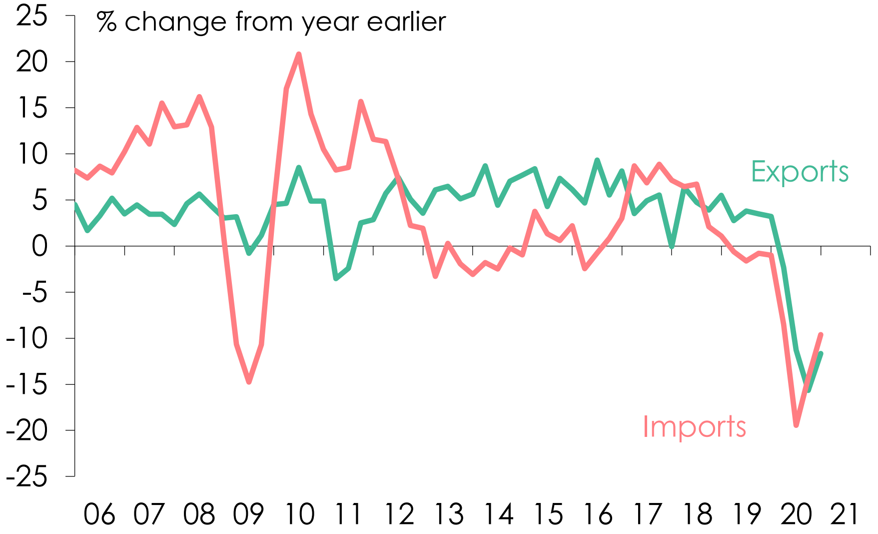

## Airport passenger movements



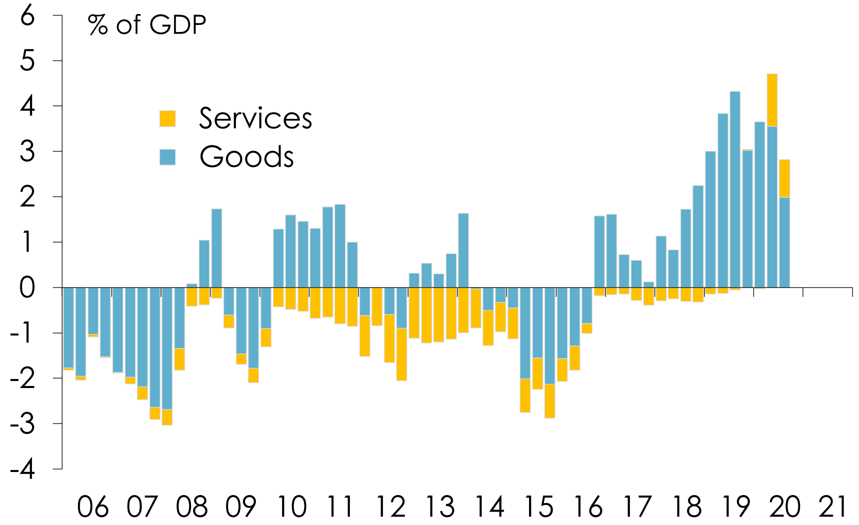

*Note:* The ABS has suspended publication of seasonally adjusted estimates of short-term visitor arrivals and resident returns, so published original estimates for April 2020 (and beyond) have been seasonally adjusted by Corinna using the same seasonal factors as for the corresponding month of 2019.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

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

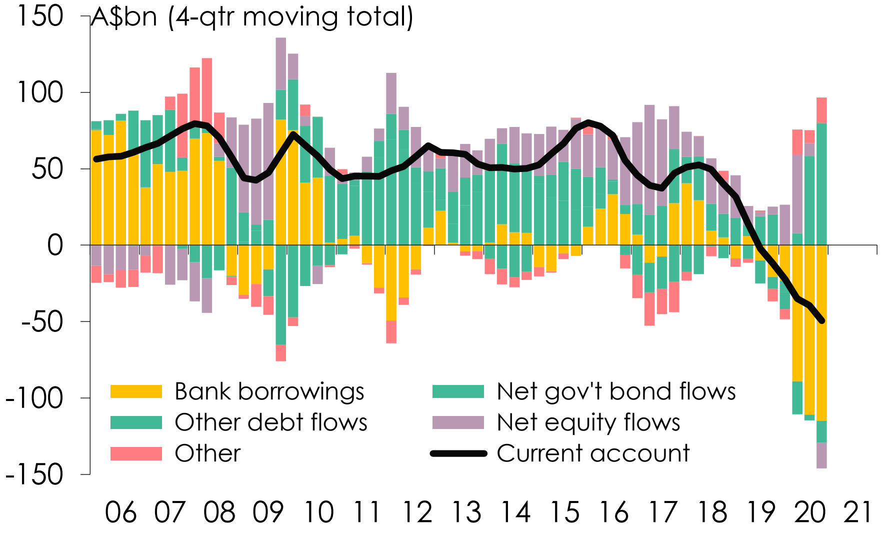
## Export and import volumes



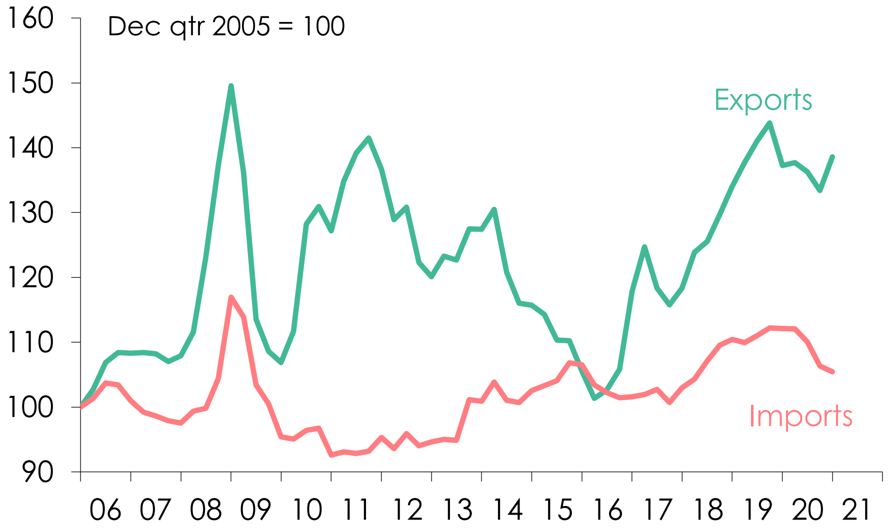

## Goods & services trade balances



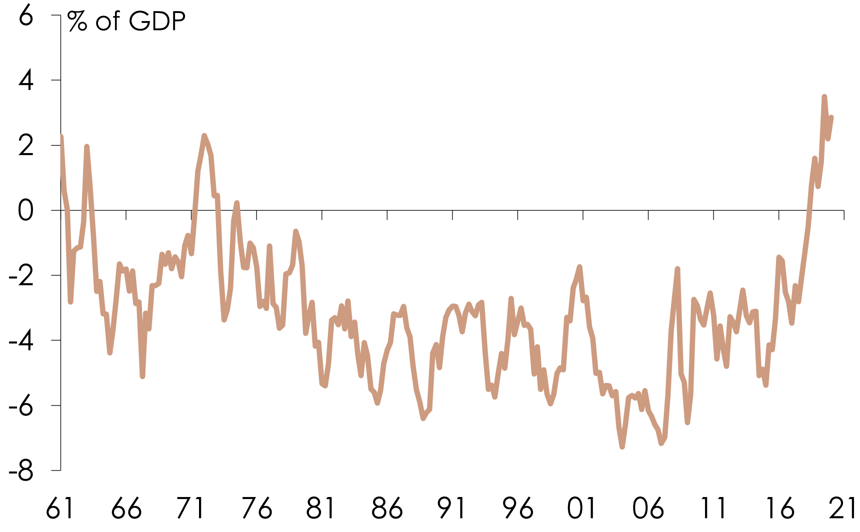

## Capital flows



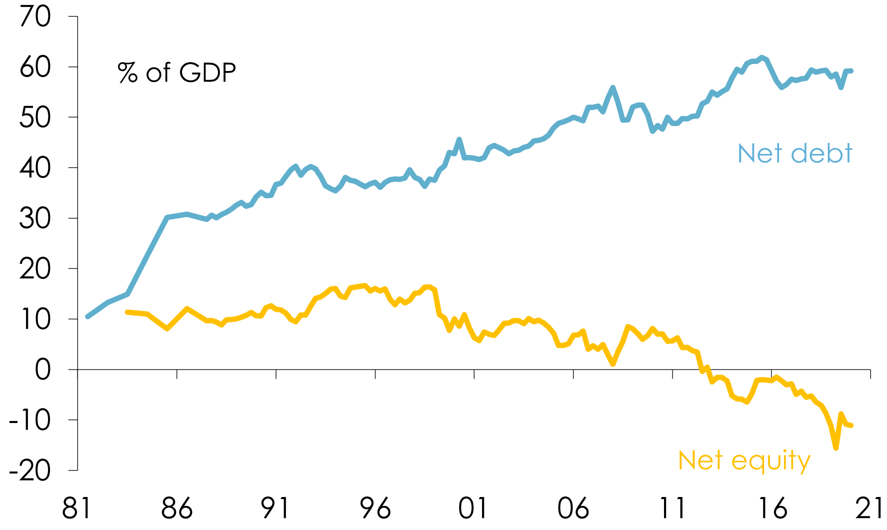

## Export and import prices




## 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".

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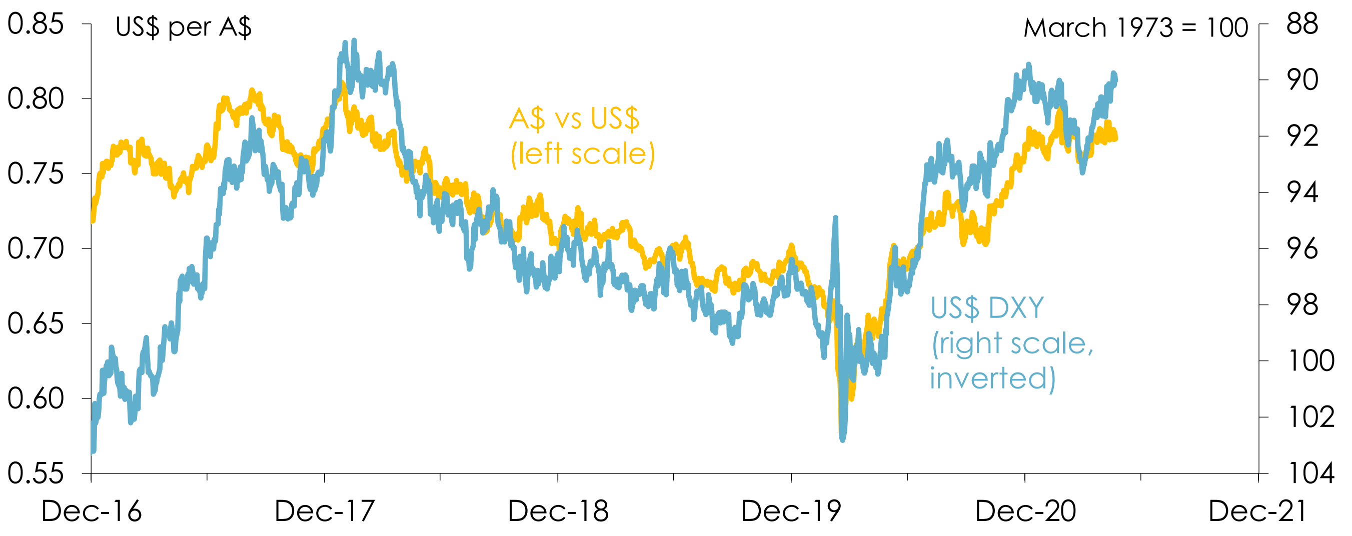
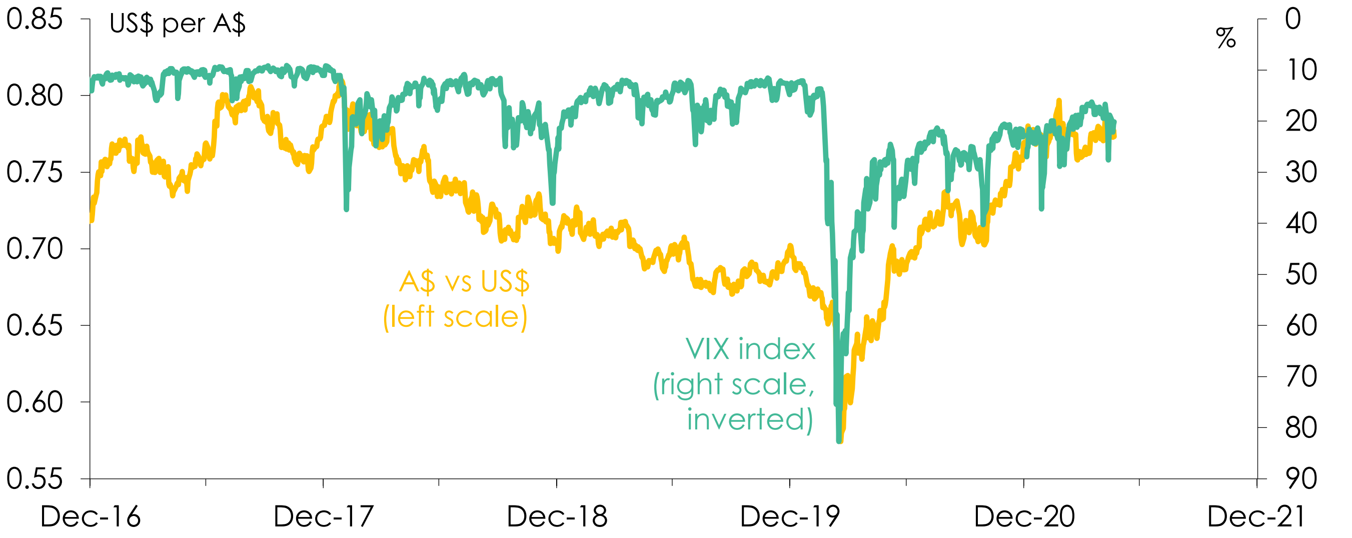
# The A$ fell ½% against the US$ this week, to US77.3¢, reflecting the further fall in iron ore prices and gains in the US$ itself

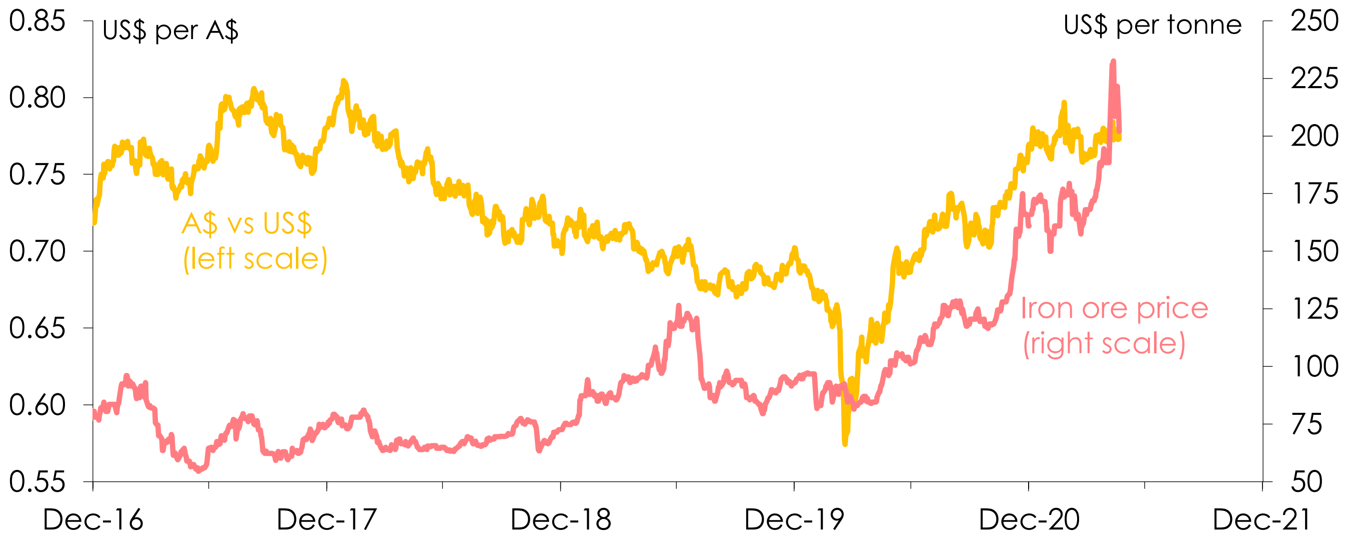
## A$-US$ and US$ trade-weighted index



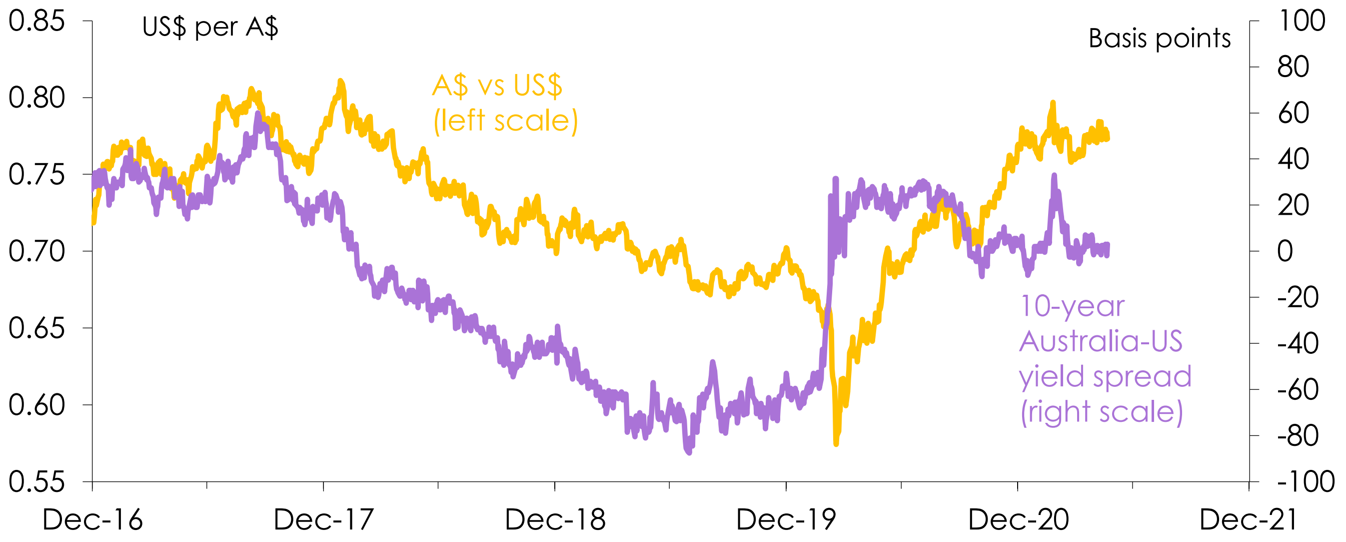

## A$-US$ and US equity market volatility




## 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 115. *Source:* Refinitiv Datastream. Data up to 21st May. Return to "What's New".

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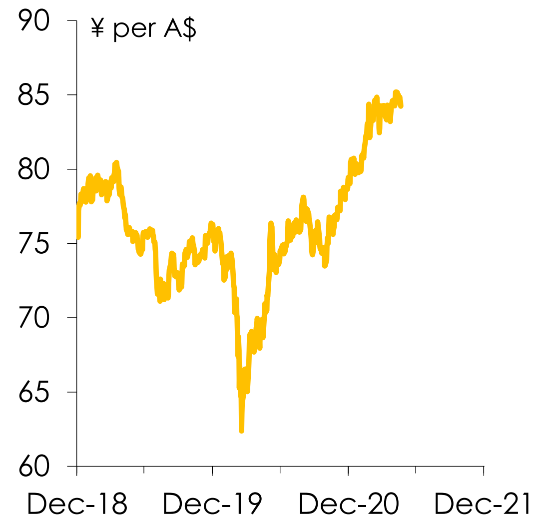
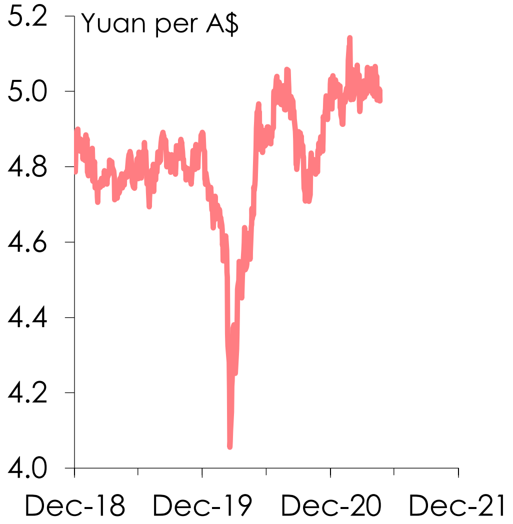
# The A$ was also weaker against third currencies, dropping 3½% vs the C$, 2½% vs the euro, and 2% vs sterling though less against Asian currencies

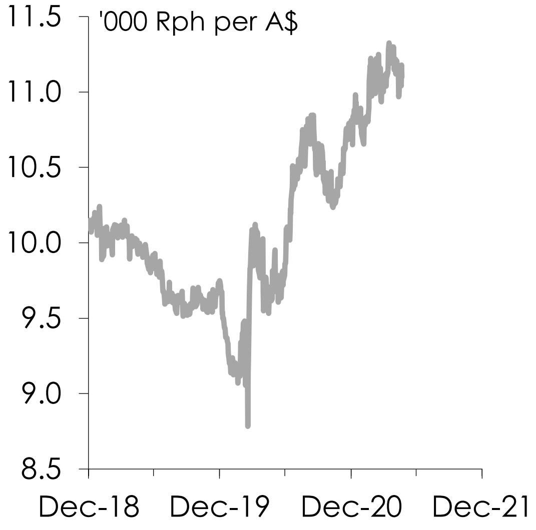
### A$ vs Japanese yen



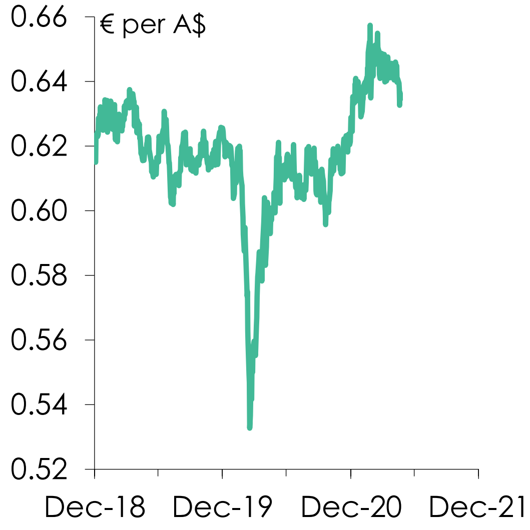

### A$ vs Chinese yuan



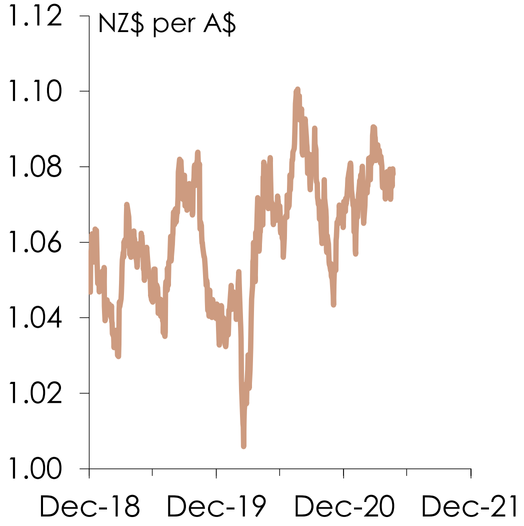

### A$ vs Indo rupiah



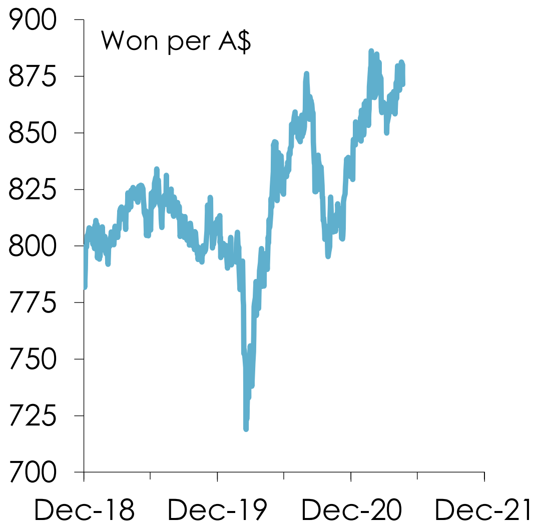

### A$ vs Euro



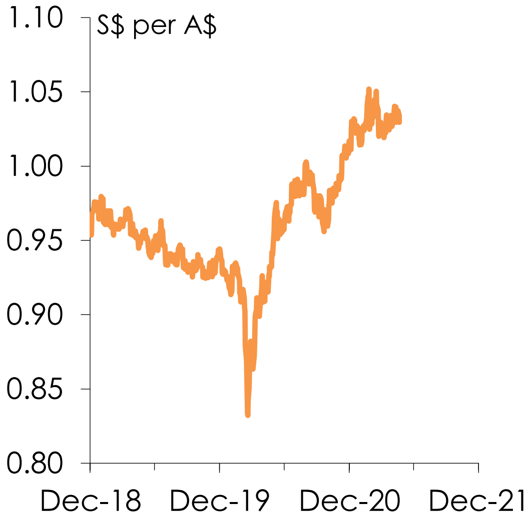

### A$ vs NZ$



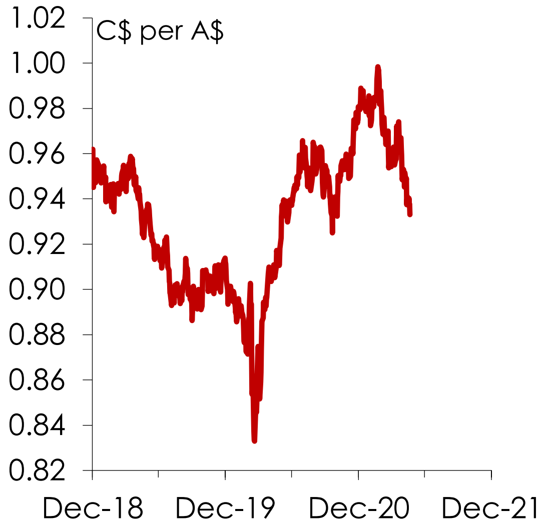

### A$ vs Korean won



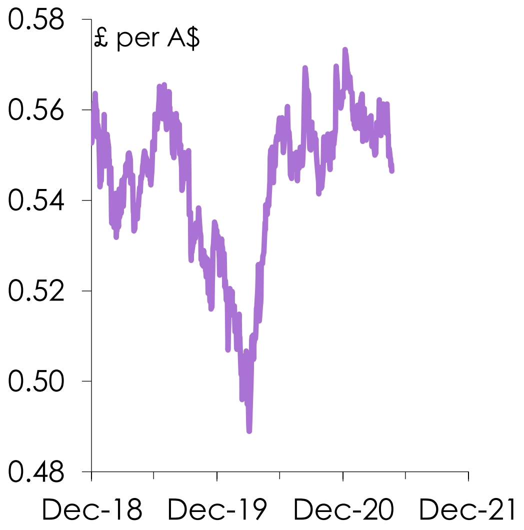

### A$ vs Singapore $



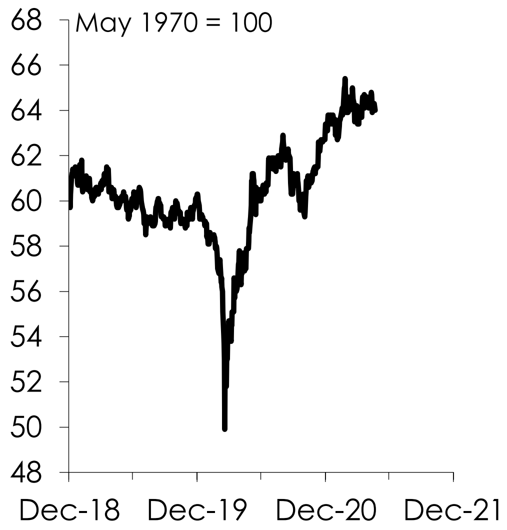

### A$ vs Canadian $




### 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 21st May. Return to "What's New".'



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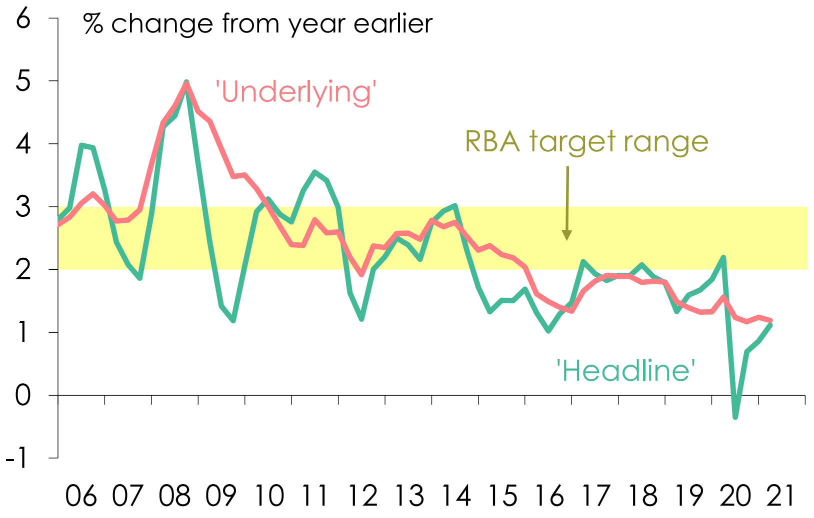
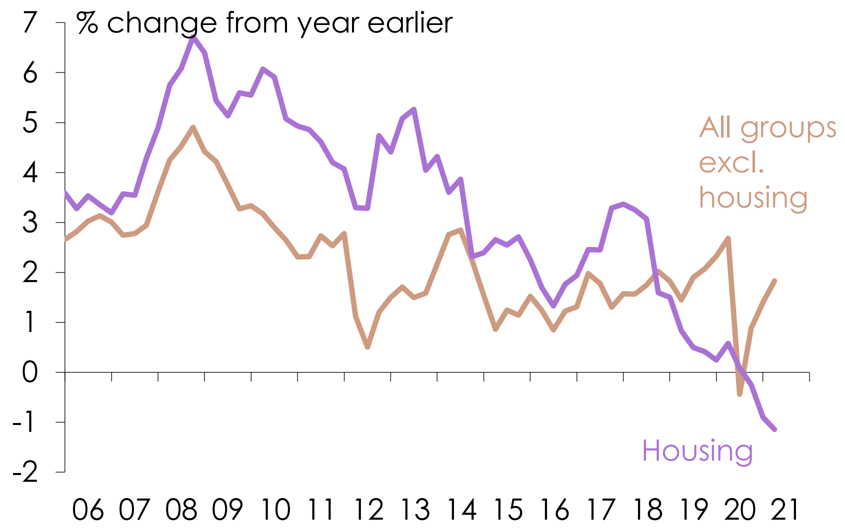
# Q1 inflation was less than expected (with annual 'underlying' inflation falling to a record low), partly reflecting the effect of government policies

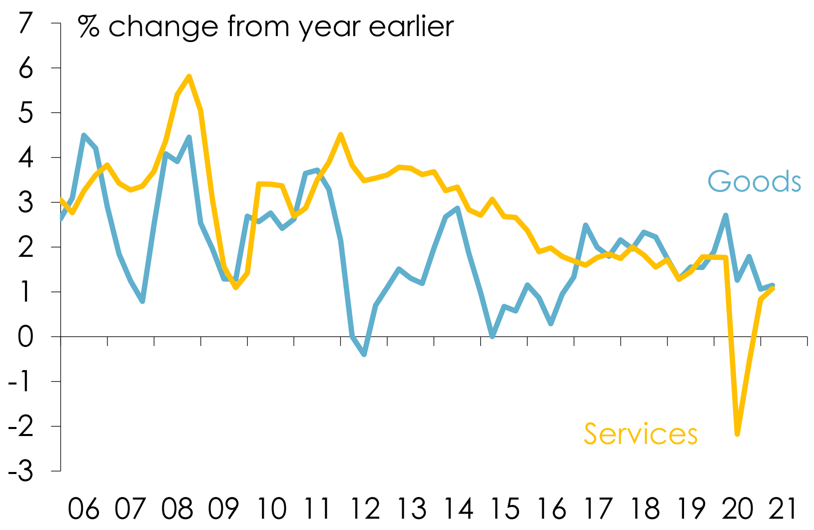
## Consumer prices



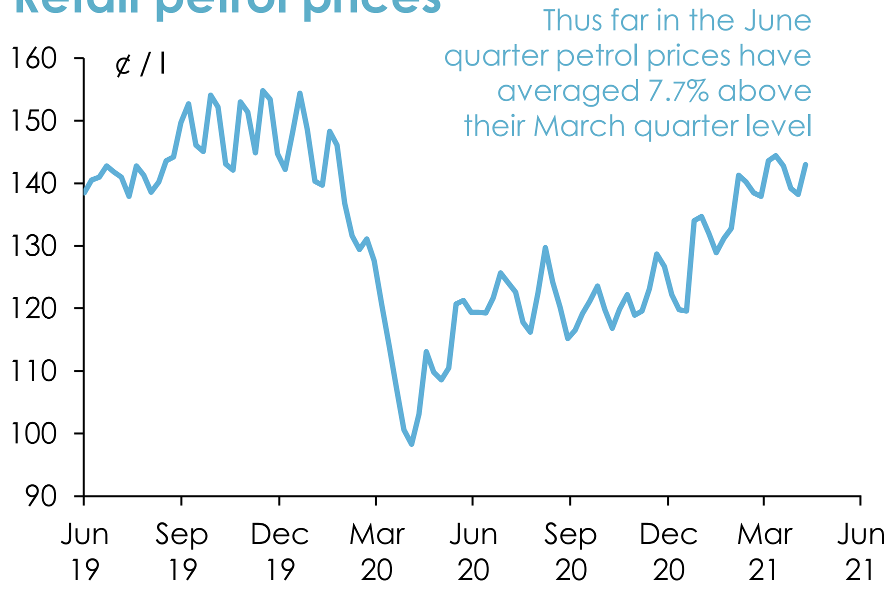

## Housing costs




## Goods vs services prices




## Retail petrol prices

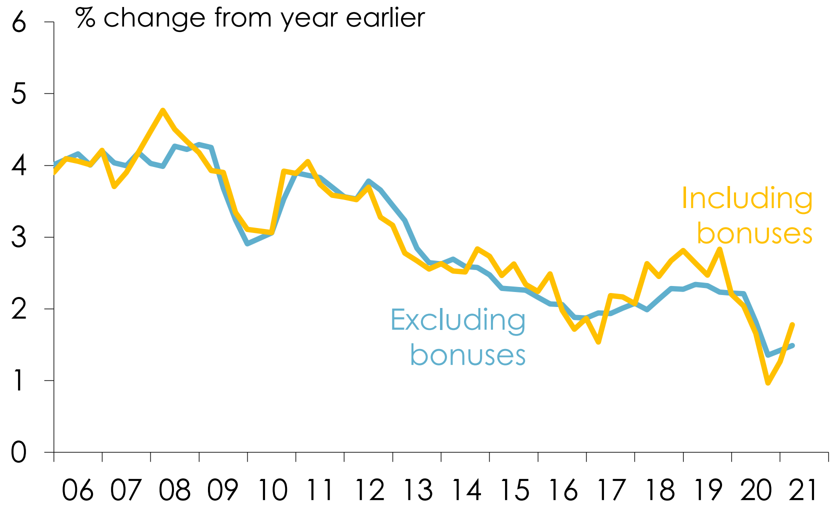



- The CPI rose a smaller-than-expected 0.6% in Q1, pushing the annual 'headline' inflation rate up 0.2 pc pts to 1.1%
- Almost half the Q1 increase in the CPI came from an 8.7% increase in petrol prices
- The main dampening effects came from government policies – including cash grants to first home buyers, 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'

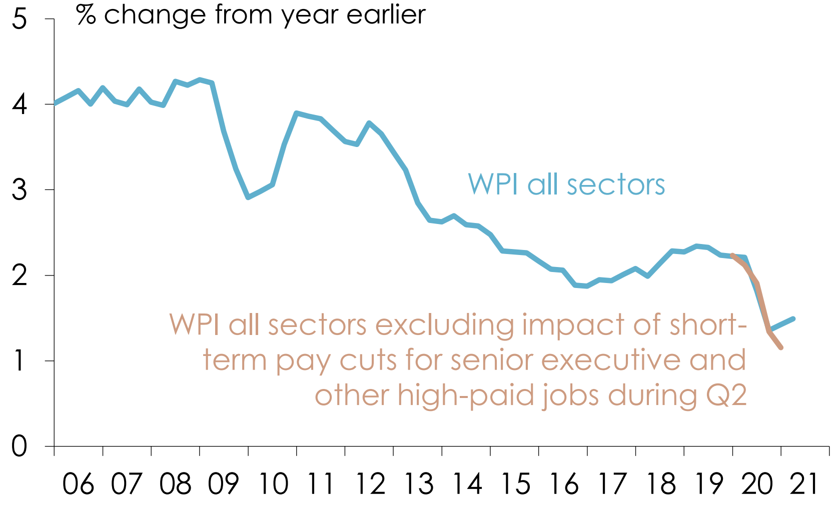
*Note:* 'Underlying' inflation is the average of the weighted median and trimmed mean CPIs. Wage price indices exclude bonuses.
*Sources:* ABS, Consumer Price Index, Australia; Australian Institute of Petroleum. The June quarter (Q2) CPI will be released on 28th July.
Return to "What's New".

# Wages rose by 1.5% over the year to Q1, only 0.1 pc pt higher than the record low of 1.4% over the year to Q3 and Q4 2020

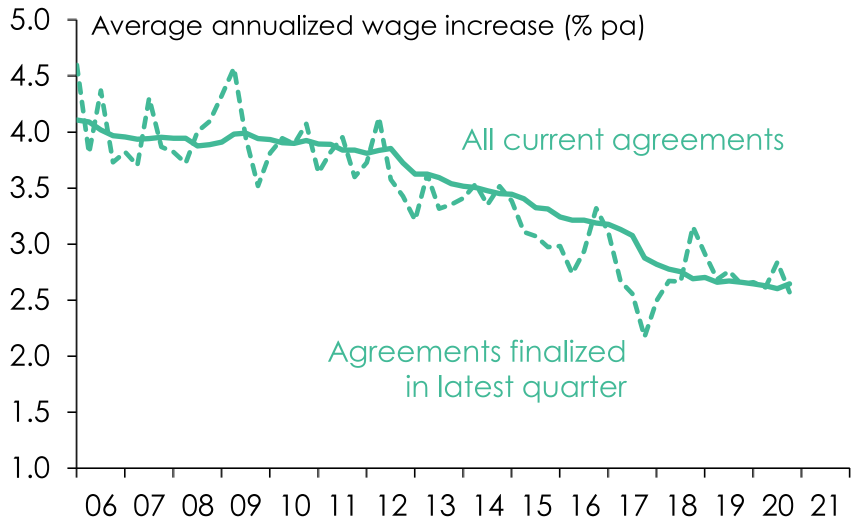
## Wage price index – all sectors



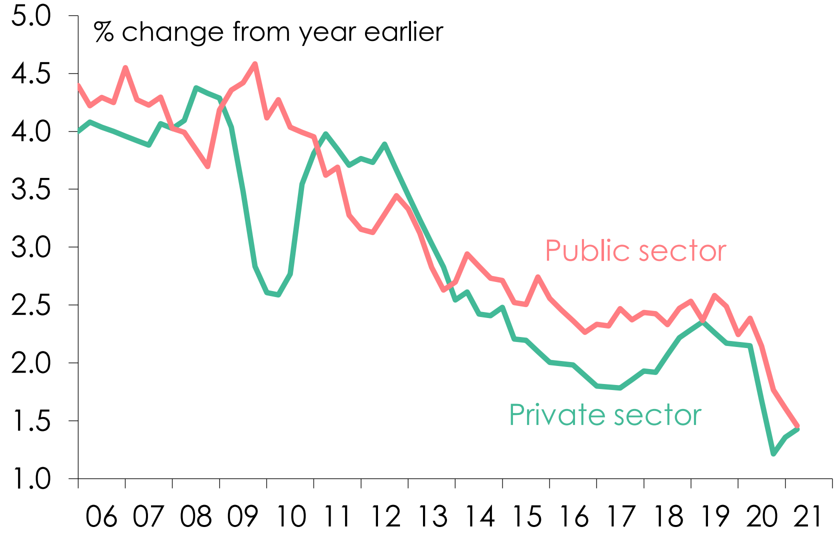

## WPI excl. temporary wage cuts



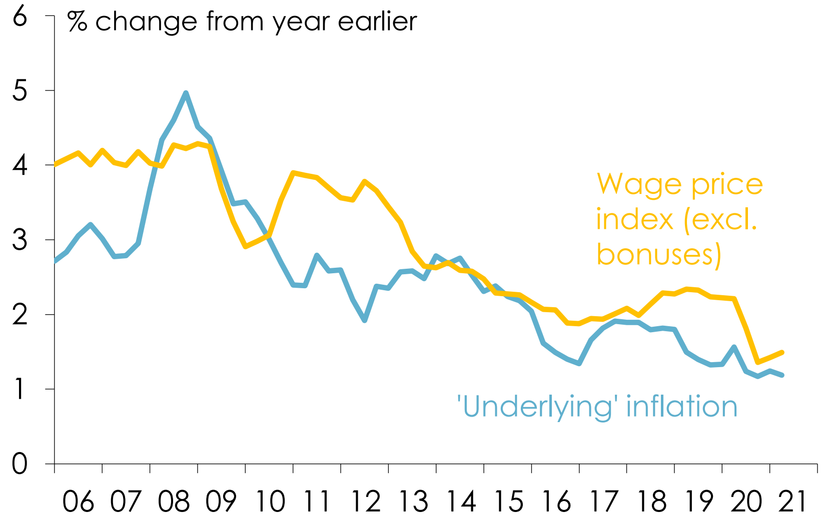

## Enterprise bargaining agreements



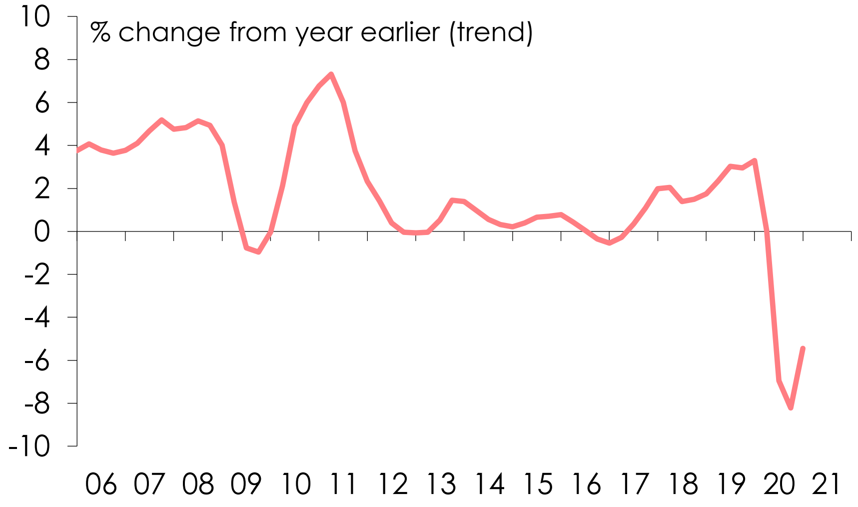

## WPI – private vs public sectors




## 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. June quarter WPI data will released on 18th August

Return to "What's New".

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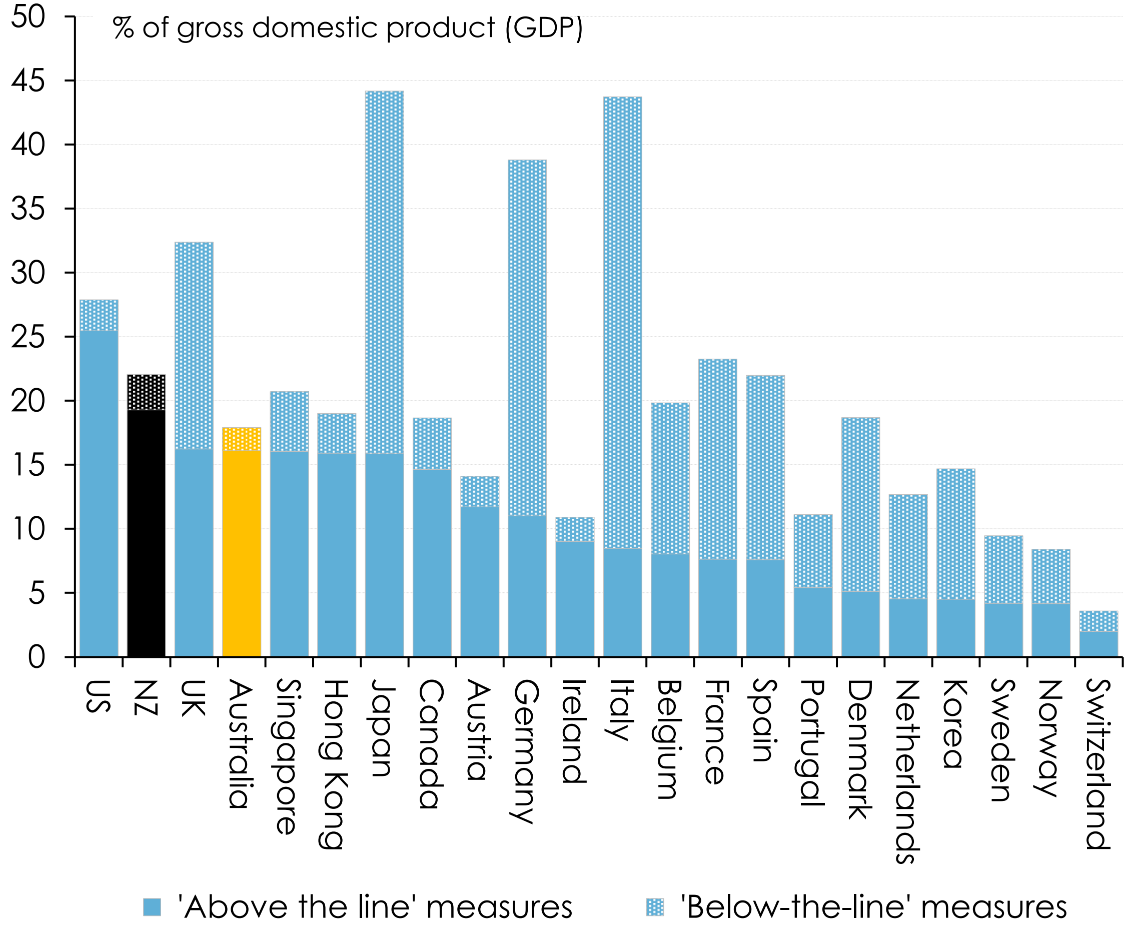
# Australia’s fiscal and monetary policy settings

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

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

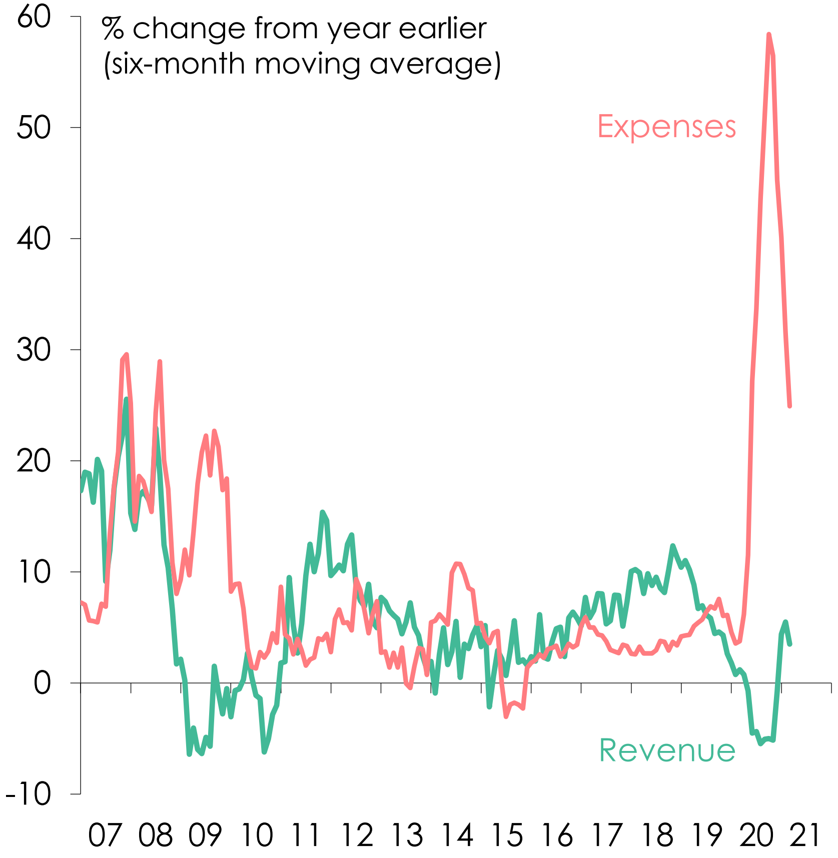



*Note:* 'Above the line' measures comprise additional or accelerated spending and deferred or foregone revenue. 'Below the line' measures comprise equity injections, loans, asset purchases and debt assumptions, but do not include loan guarantees or other contingent liabilities. 'DMs' means 'developed 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**

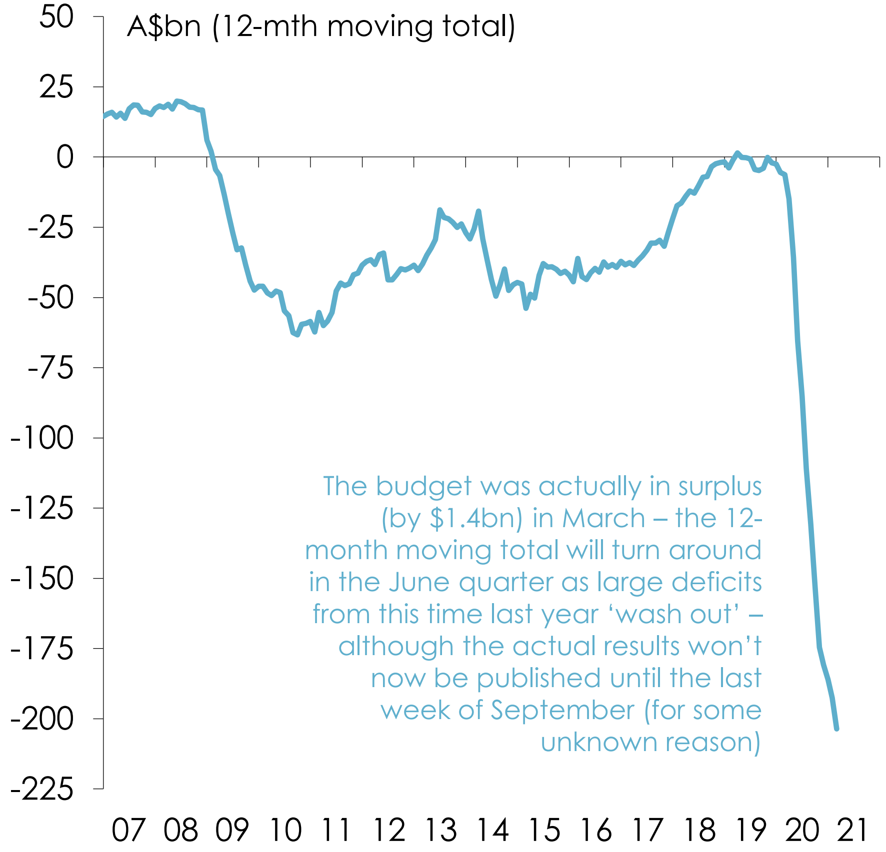
# The budget deficit for the first nine months of FY 2020-21 was about $29bn (18%) lower than the Mid-Year Outlook ‘profile’ projection

## Australian Government revenue and expenses



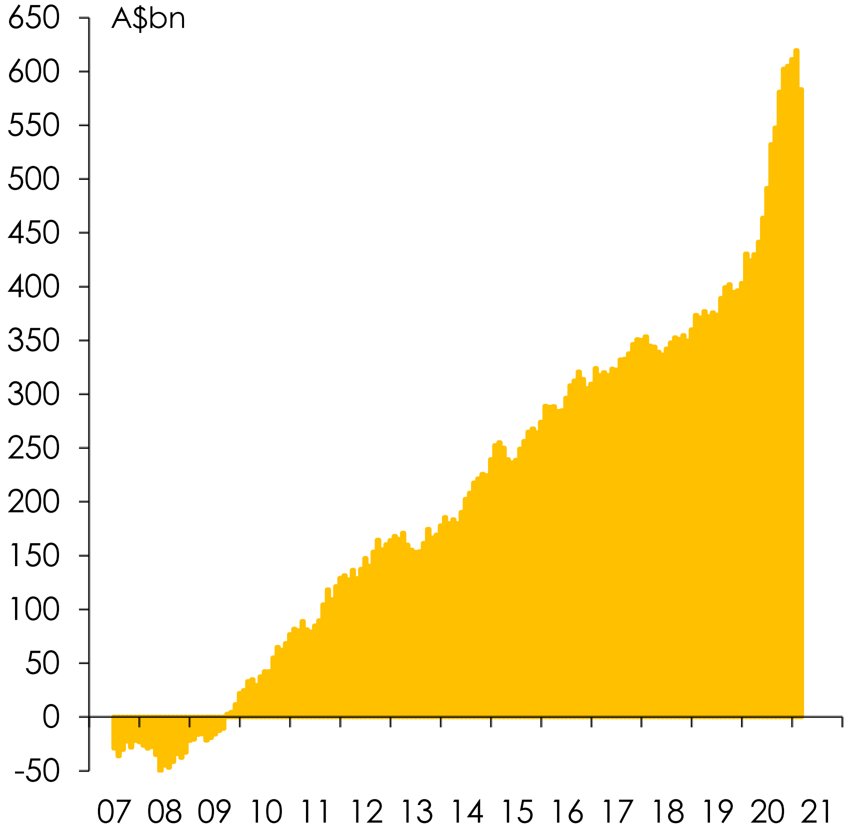

- Growth in expenses has slowed, while revenue is beginning to turn around as the economy picks up

## 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

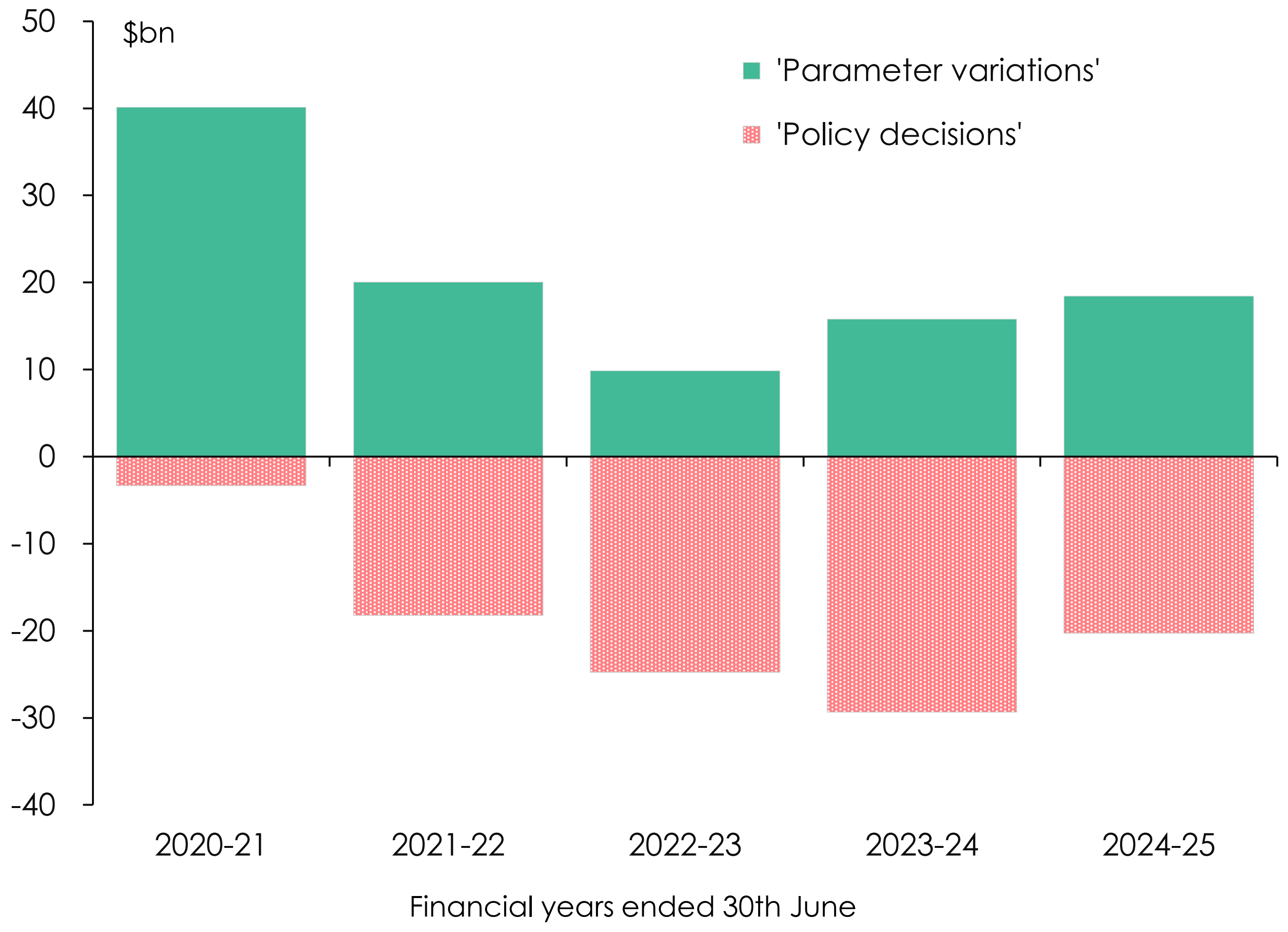
*Note:* Revenue and expenses are accrual accounting items. The ‘underlying’ cash balance is (cash) receipts minus payments, excluding transactions in financial assets for policy purposes and net earnings of the Future Fund. Net debt is total interest-bearing liabilities (government securities, deposits, 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 2021-22 Budget is unashamedly about 'securing economic recovery' and getting unemployment down – 'budget repair' can wait

- 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)
- 12 days ahead of this year's Budget the Treasurer again 're-calibrated' the Government's fiscal strategy (although not as dramatically as last year)
  - the Government's priority for the time being is 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 now puts at 4½-5% (down from "around 5% previously")
  - the Treasurer explicitly ruled out "any sharp pivots towards 'austerity'"
- Although it is undoubtedly politically convenient (allowing the Government to avoiding cutting spending or raising taxes before the election which has to be held before late May next year), it is nonetheless the 'Right and Proper Thing To Do' from the standpoint of Good Economic Policy
- For the next year or so anyway, fiscal & monetary policy will be working in harmony rather than at 'cross purposes'
  - in contrast to much of the past two decades, in particular 2002-2008 when the RBA was gradually tightening monetary policy but the Howard and Rudd governments gave repeated rounds of income tax cuts and 'cash bonuses',
  - and 2014-19 when the RBA was intermittently loosening monetary policy but the Abbott, Turnbull & Morrison Governments were tightening fiscal policy in pursuit of budget surpluses

# The increase in the deficits forecast for 2022-23 and 2023-24 is the result of conscious policy decisions to increase spending and cut taxes

## Sources of the changes in forward estimates of the 'underlying cash balance' between the 2020-21 MYEFO and the 2021-22 Budget



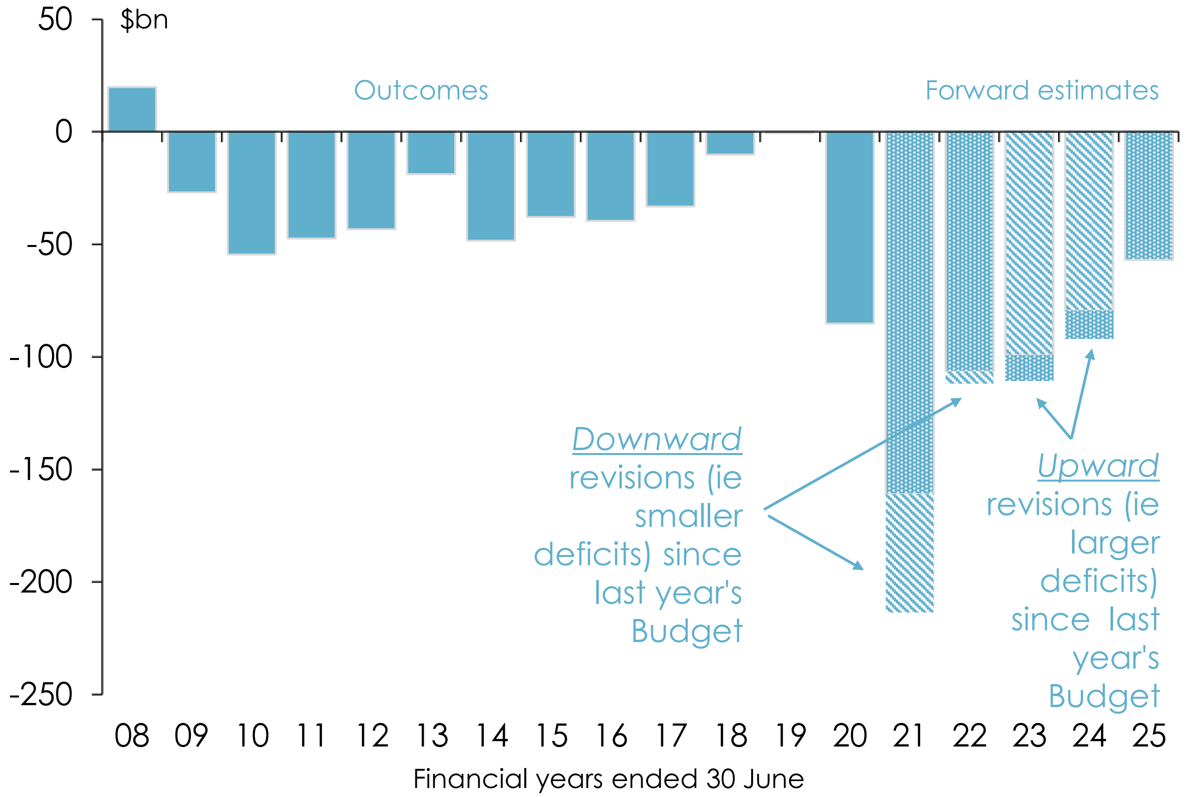

- The budget affects the economy (through the 'policy decisions' which the Government makes as it puts the Budget together) – but the economy also affects the Budget (via what the Budget Papers call 'parameter variations' in receipts and payments)
- 'Parameter variations' between last December's Mid-Year Economic & Fiscal Outlook (MYEFO) and this year's Budget improved the 'bottom line' over the five years to 2024-25 by a total of $104bn
  - all of which was attributable to upward revisions to forecasts of tax receipts, particularly personal income tax and GST, but also company and super fund tax
- However $96bn (92%) of those 'windfall gains' have been absorbed by 'policy decisions'
  - which have added $68bn to payments and subtracted $28bn from receipts over the five years to 2024-25
- 'Policy decisions' added $15bn more to the forecast deficit in 2022-23, and $14bn more to the deficit for 2023-24, than 'parameter variations' reduced it

*Source:* Australian Government, 2021-22 Budget Paper No. 1, Statement 3: Fiscal Strategy and Outlook.

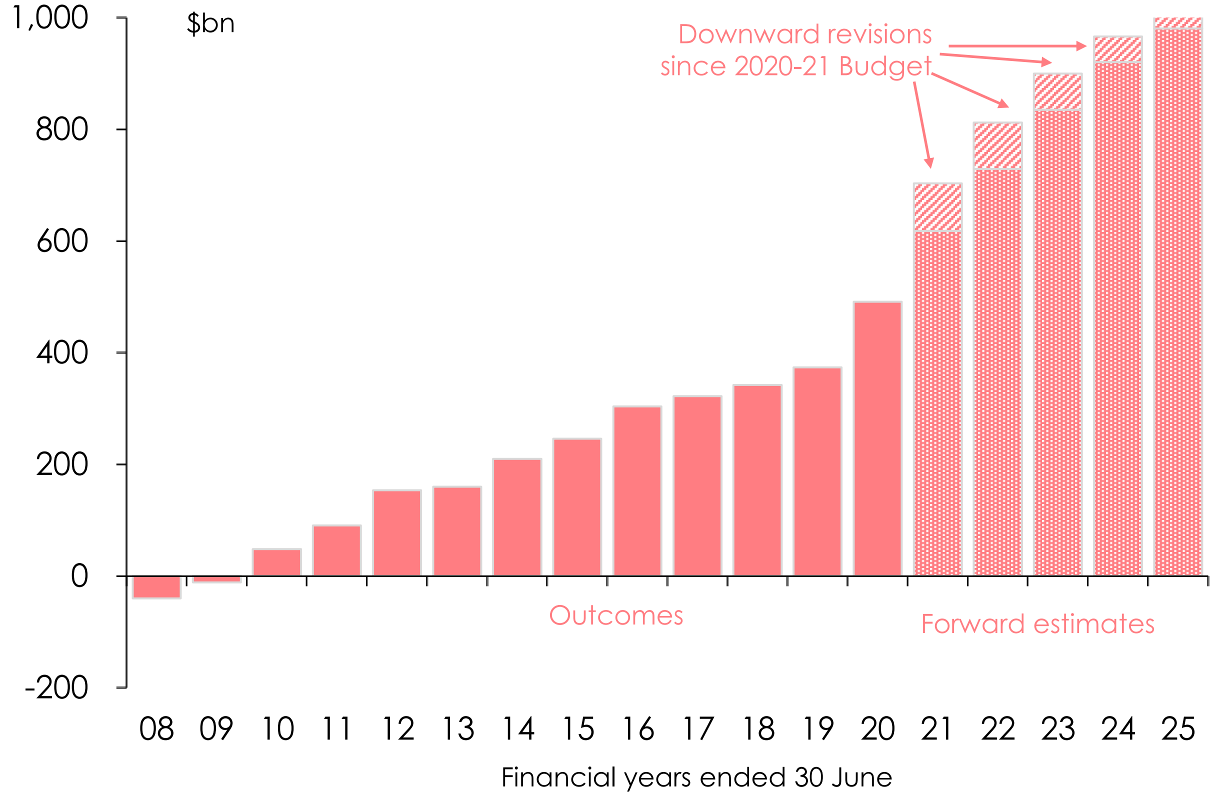
# The deficit for 2020-21 will be a lot (and that for 2021-22 a bit) smaller than previously forecast, the deficits for 2022-23 and 2023-24 will be *larger*

## 2021-22 Budget forward estimates compared with those from last year's (2020-21) Budget

### 'Underlying' cash balance




### Net debt




- **The deficits for 2020-21 and 2021-22 have been revised <u>down</u> by $53bn and $5bn respectively since last year's Budget – but the deficits for 2022-23 and 2023-24 have been revised <u>up</u> by $11bn and $13bn respectively**

- **In last year's Budget, net debt was forecast to $966bn by 30th June 2024 – that forecast has been revised down by $46bn**

*Source:* Australian Government, 2021-22 *Budget Paper No. 1, Statement 3: Fiscal Strategy and Outlook*.

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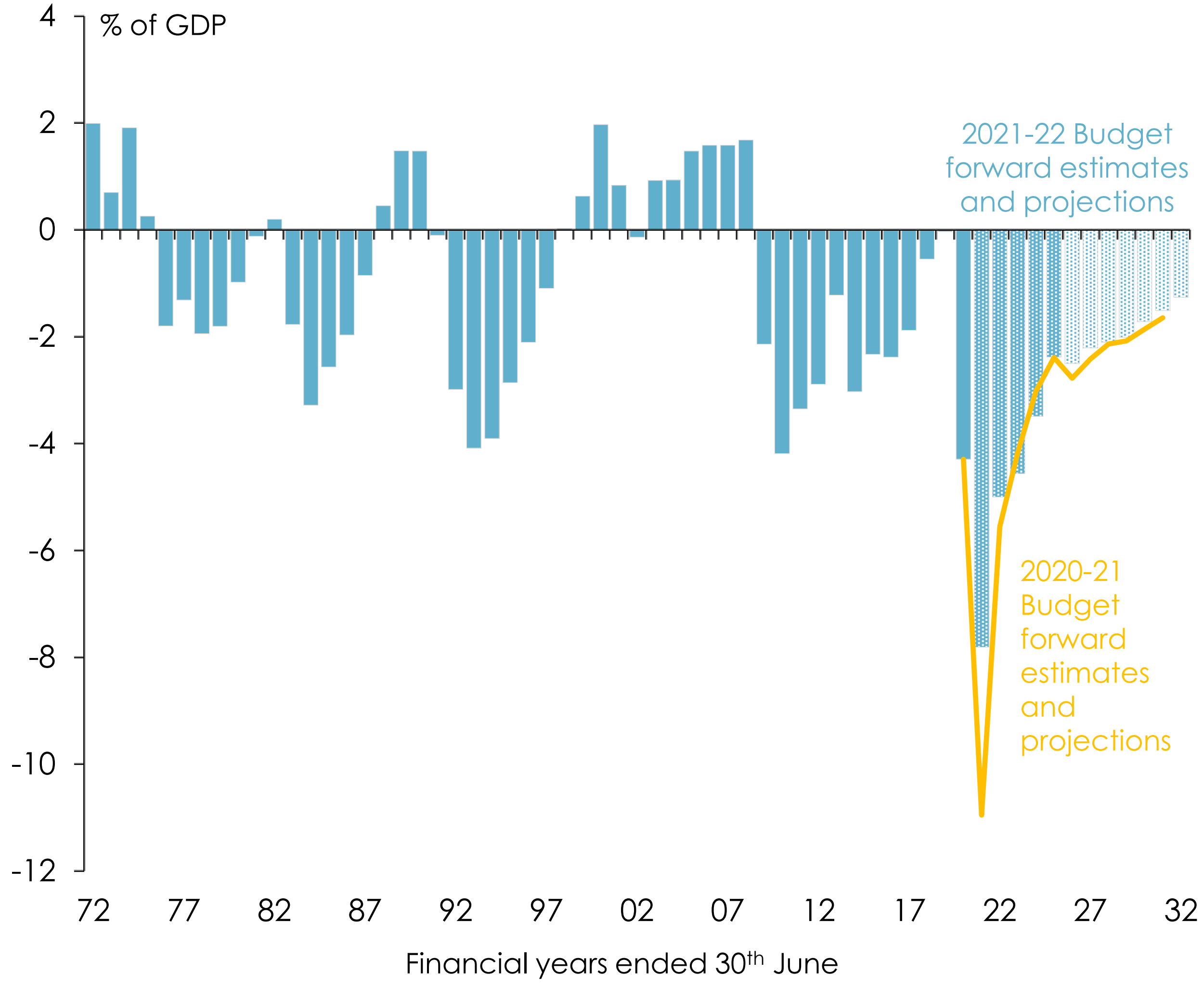
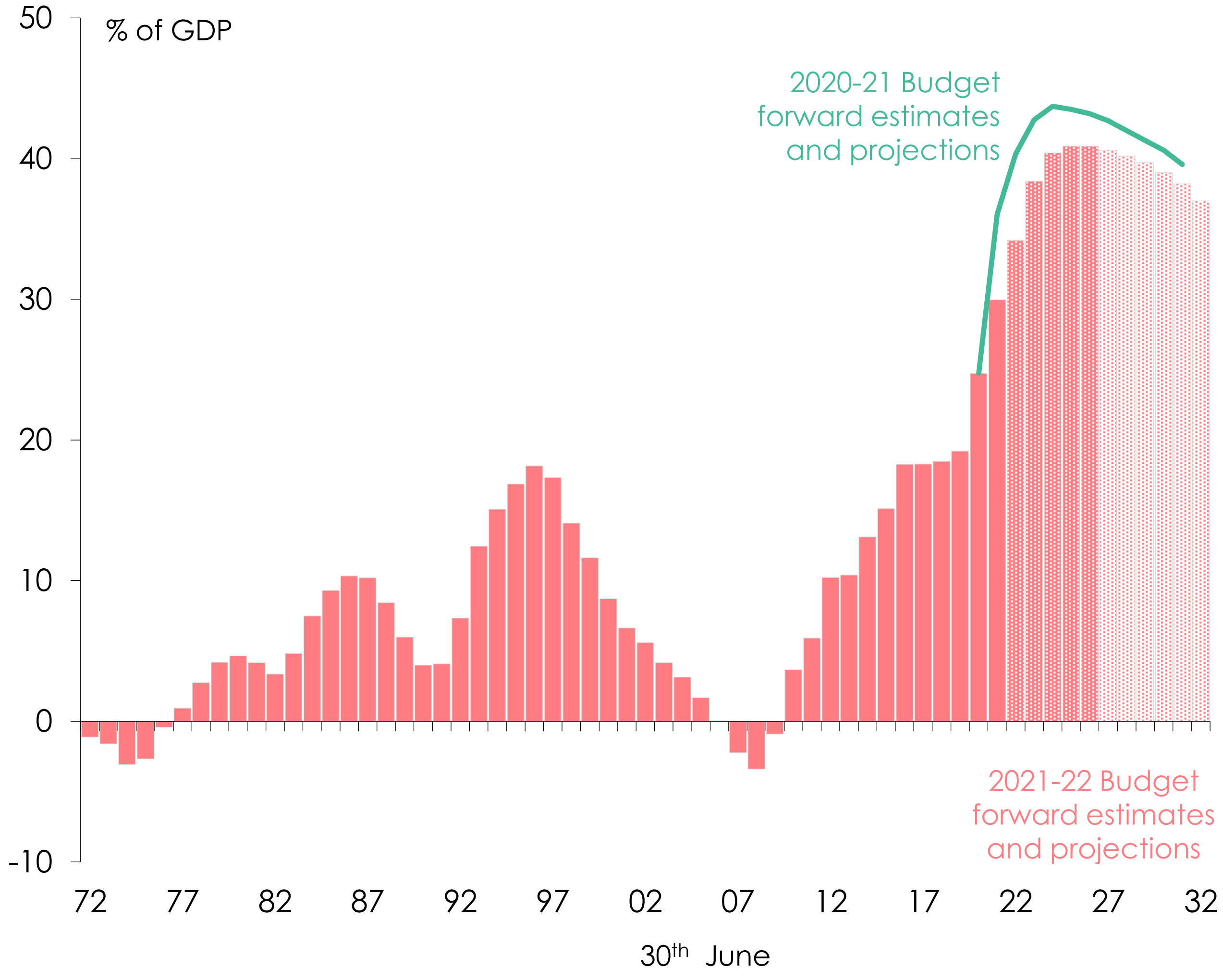
# The Budget quite consciously kicks the 'budget repair' can down the road (presumably until after the next election …

## 'Medium-term' projections of the 'underlying cash balance' and net debt

### 'Underlying' cash balance




### Net debt




*Source:* Australian Government, 2021-22 Budget Paper No. 1, Statement 3: Fiscal Strategy and Outlook and Statement 11: Historical Australian Government data.



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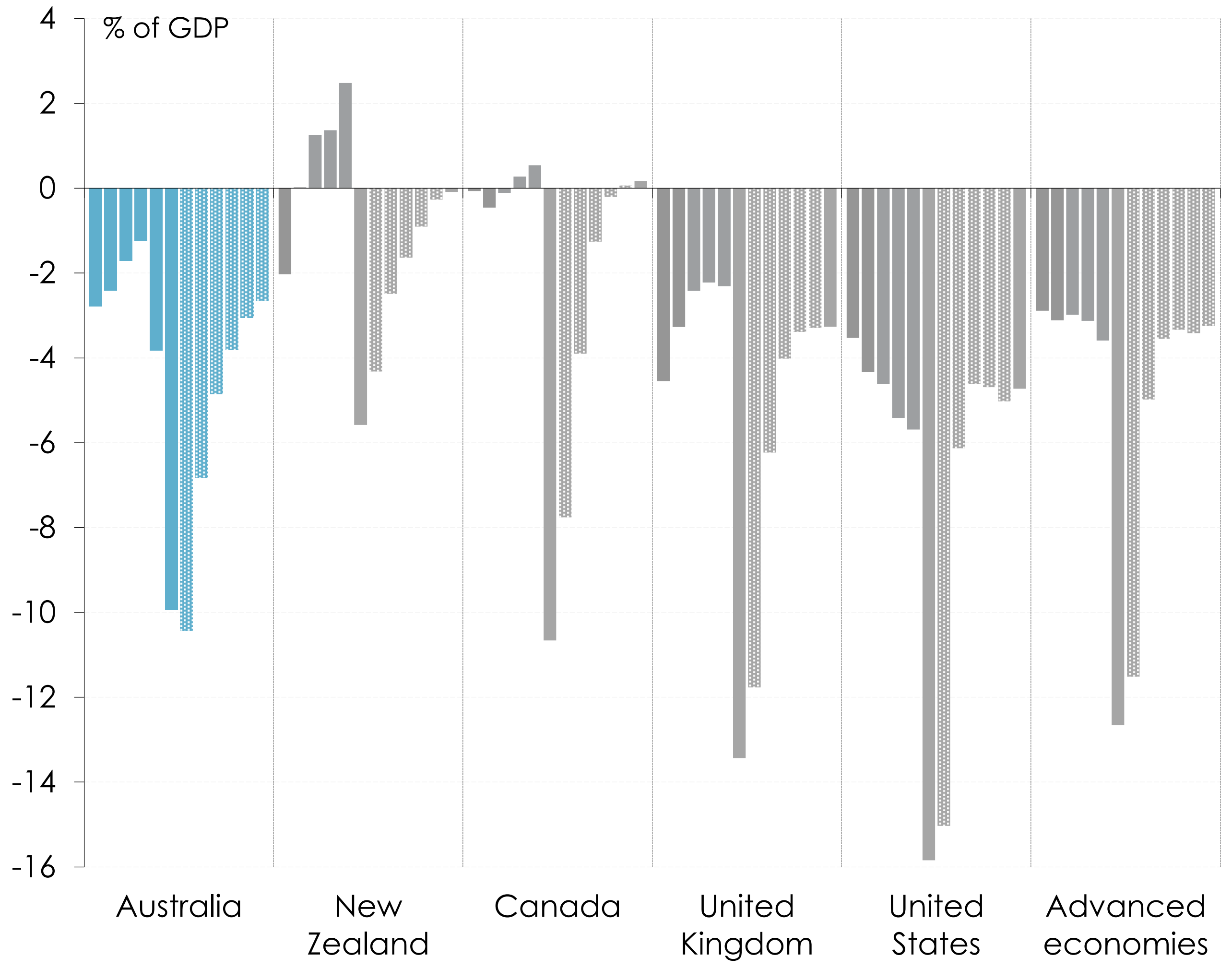
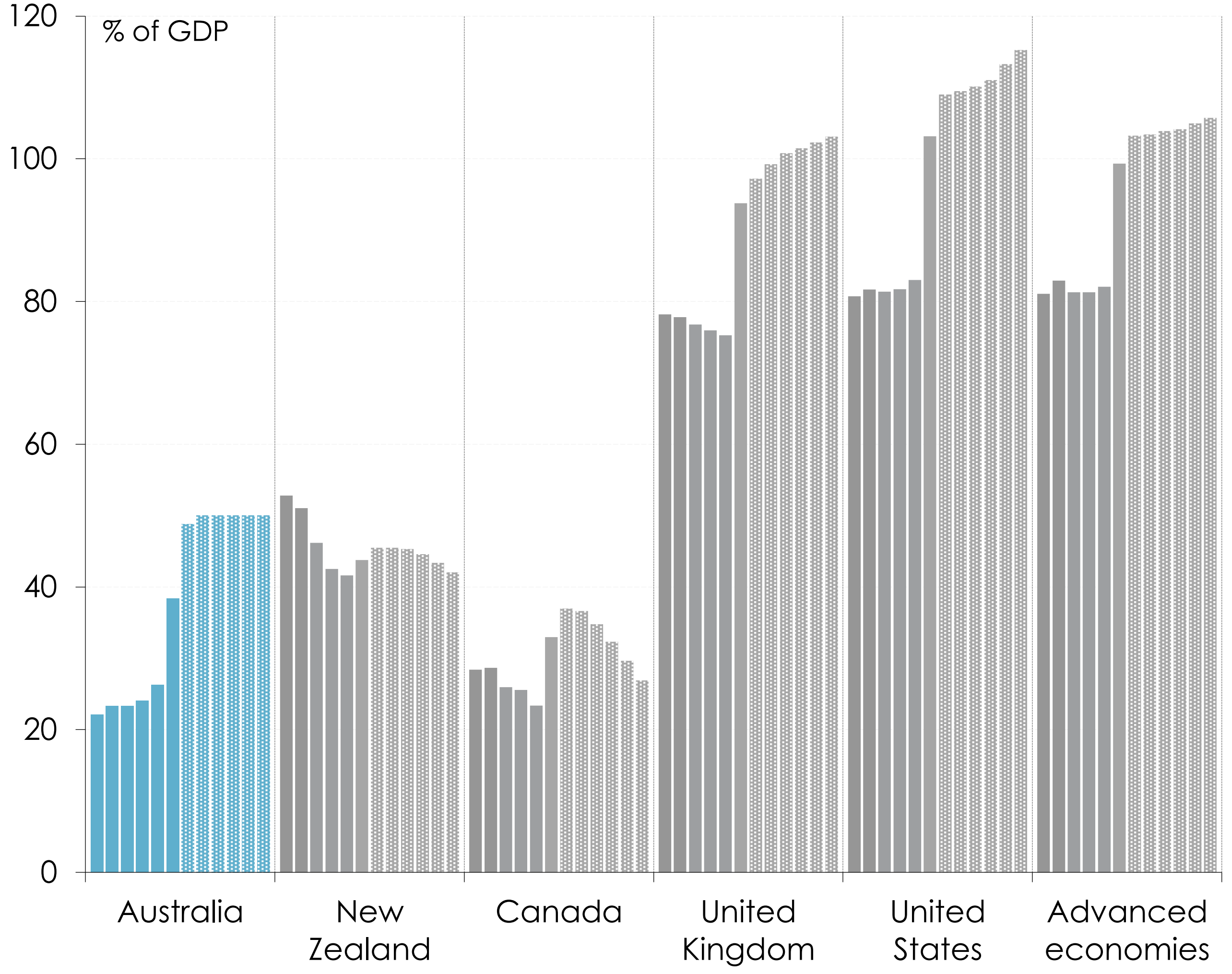
# … which it can afford to do given that Australia's public finances are in much better shape than those of most other comparable countries …

## Australia's budget balances and government net debt vs other comparable 'advanced' economies

### Budget balances, 2015-26




### Net debt, 2015-26




*Note:* The data depicted in this chart include state (or provincial) and local governments (as well as national governments), and do not reflect changes to estimates and forecasts for Australia made in the 2021-22 Federal Budget (though they will not have materially altered the general trends shown above).
*Source:* International Monetary Fund, *Fiscal Monitor*, April 2021.

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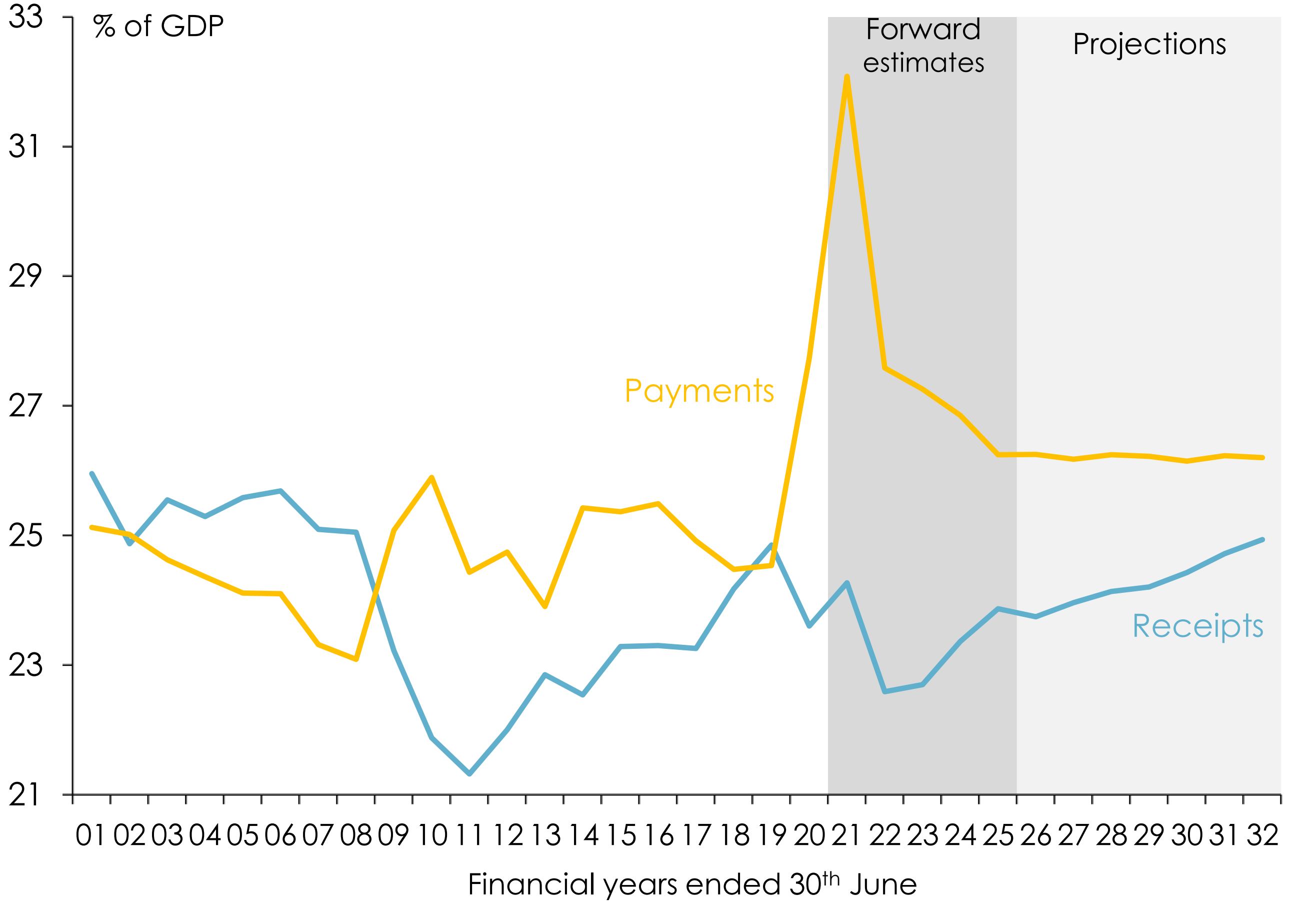
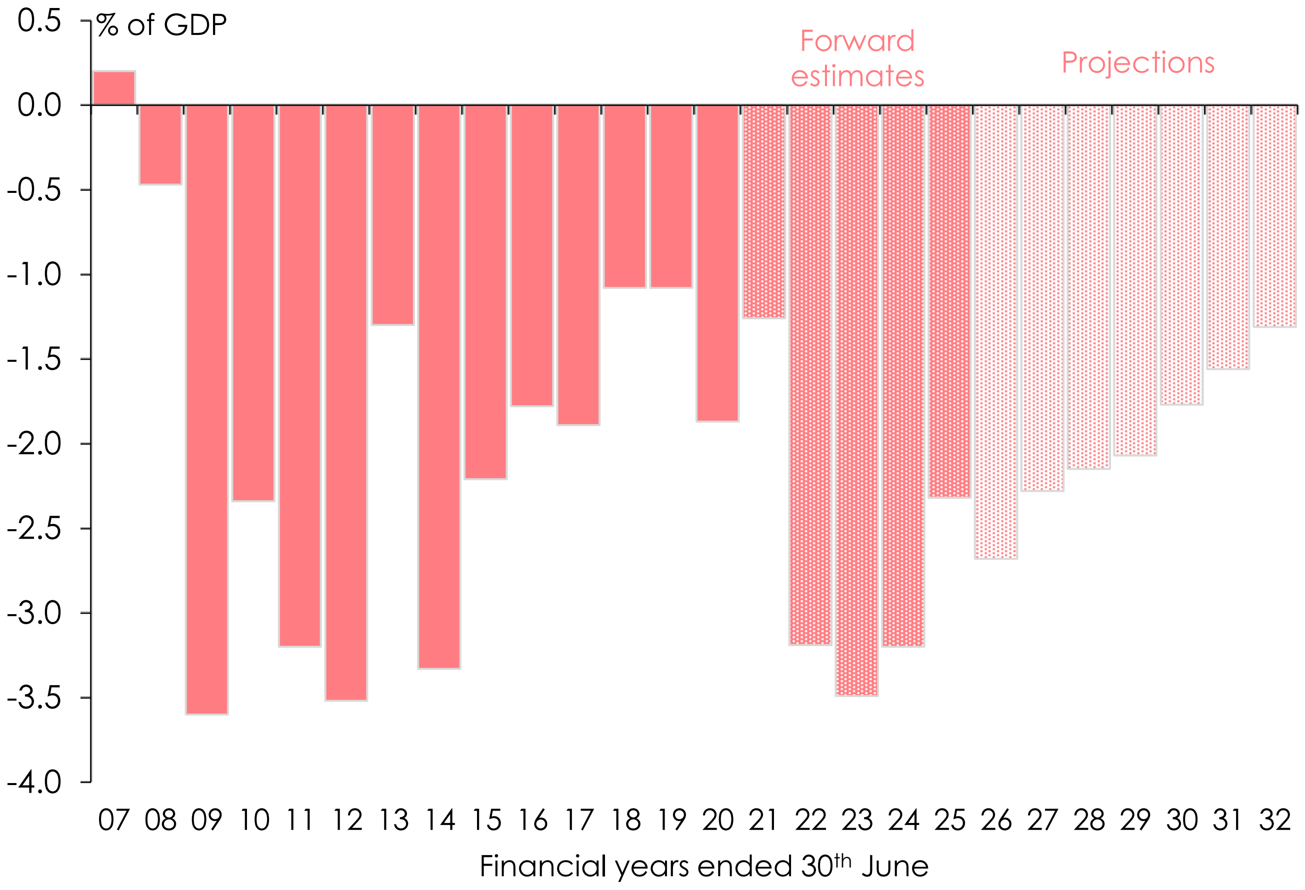
# This budget actually *increases* the 'structural' deficit in the next two fiscal years – and it will still be over 1% of GDP in ten years

## Receipt and payments as a pc of GDP




## The 'structural' budget balance




- **In 10 years' time, payments will still be 1¾ pc pts of GDP higher than the average for the 20 years prior to the pandemic while receipts will be ¼ pc pt of GDP lower**

- **There will still be a 'structural' budget deficit of 1¼% of GDP in 10 years' time (and note that the structural deficit widens in 2021-22 and 2022-23)**

*Note:* The 'structural' budget balance *excludes* both cyclical influences on the budget balance (the impact of fluctuations in economic activity, and in asset and commodity prices on receipts and payments) and temporary fiscal stimulus payments. *Source:* Australian Government, 2021-22 *Budget Paper No. 1, Statement 3: Fiscal Strategy and Outlook* and *Statement 11: Historical Australian Government data*.



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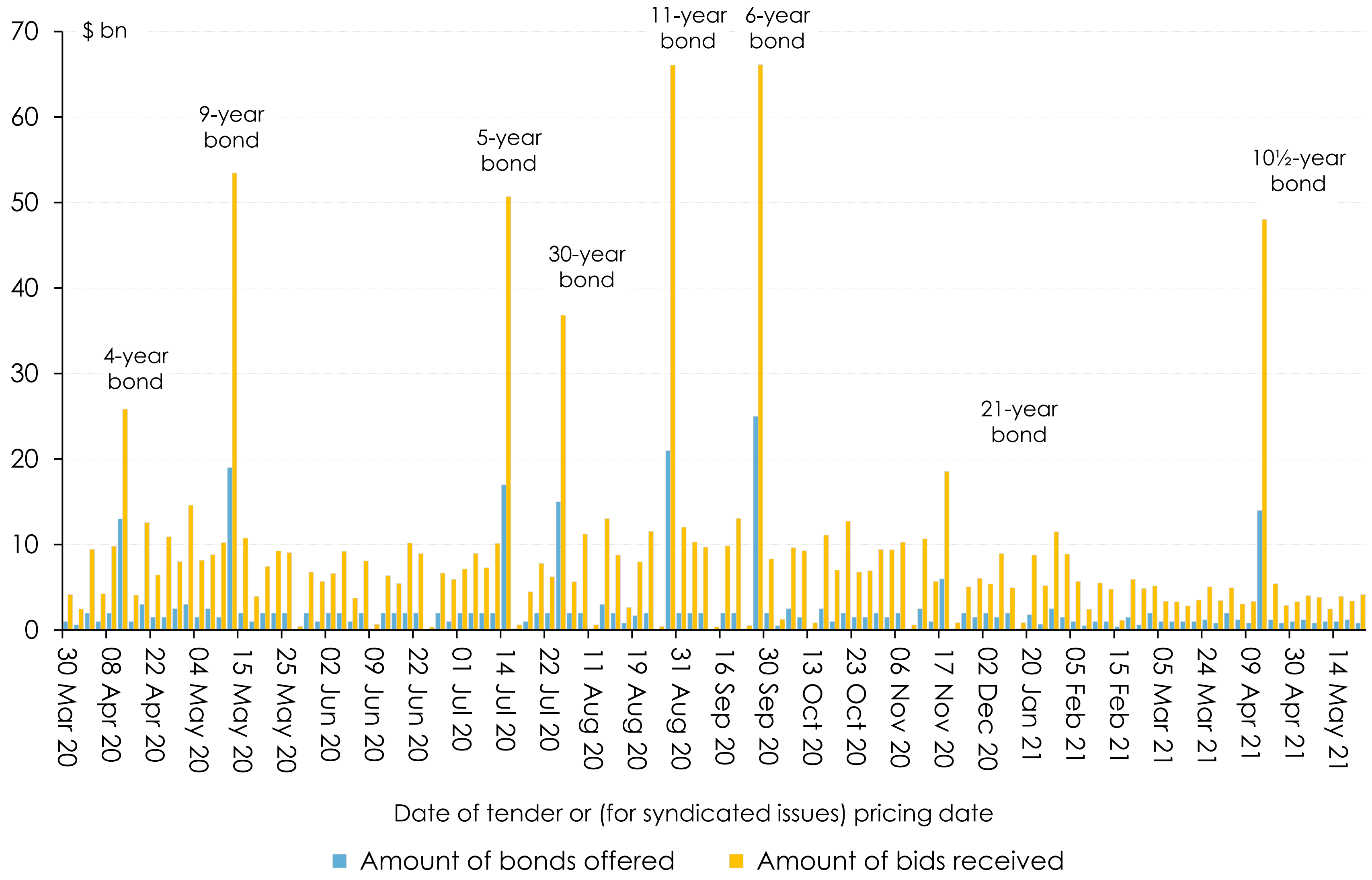
# The Government continues to find a ready appetite for its bond issuance – and it will issue $70bn less in FY 2021-22 than in the current fiscal year

## Australian government bond issuance since March 2020




- Since 30th March 2020, the Australian Office of Financial Management has issued $317bn of Treasury bonds – based on the volume of bids received it could have borrowed over $1.16 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, bringing its total issuance for FY 2020-21 to $202.3bn or 96¼% of the (revised) budget financing task for the current financial year – which following the Budget was lowered from $230bn to $210bn
- Following the presentation Tuesday before last of the Federal Government's 2021-22 Budget the AOFM foreshadowed that it would seek to issue $130bn of conventional bonds in FY 2021-22 and $2-2½bn of indexed bonds (only $16½bn of existing bonds mature in 2021-22)

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



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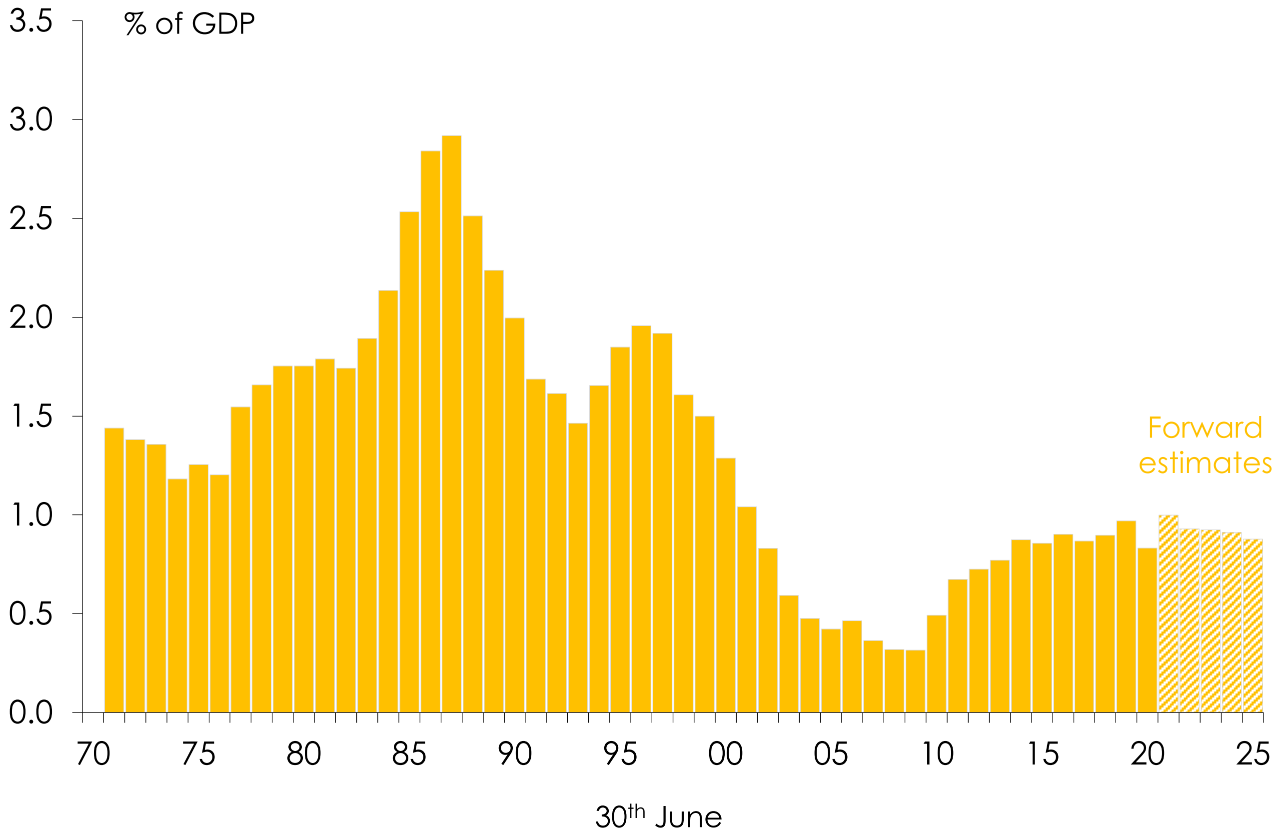
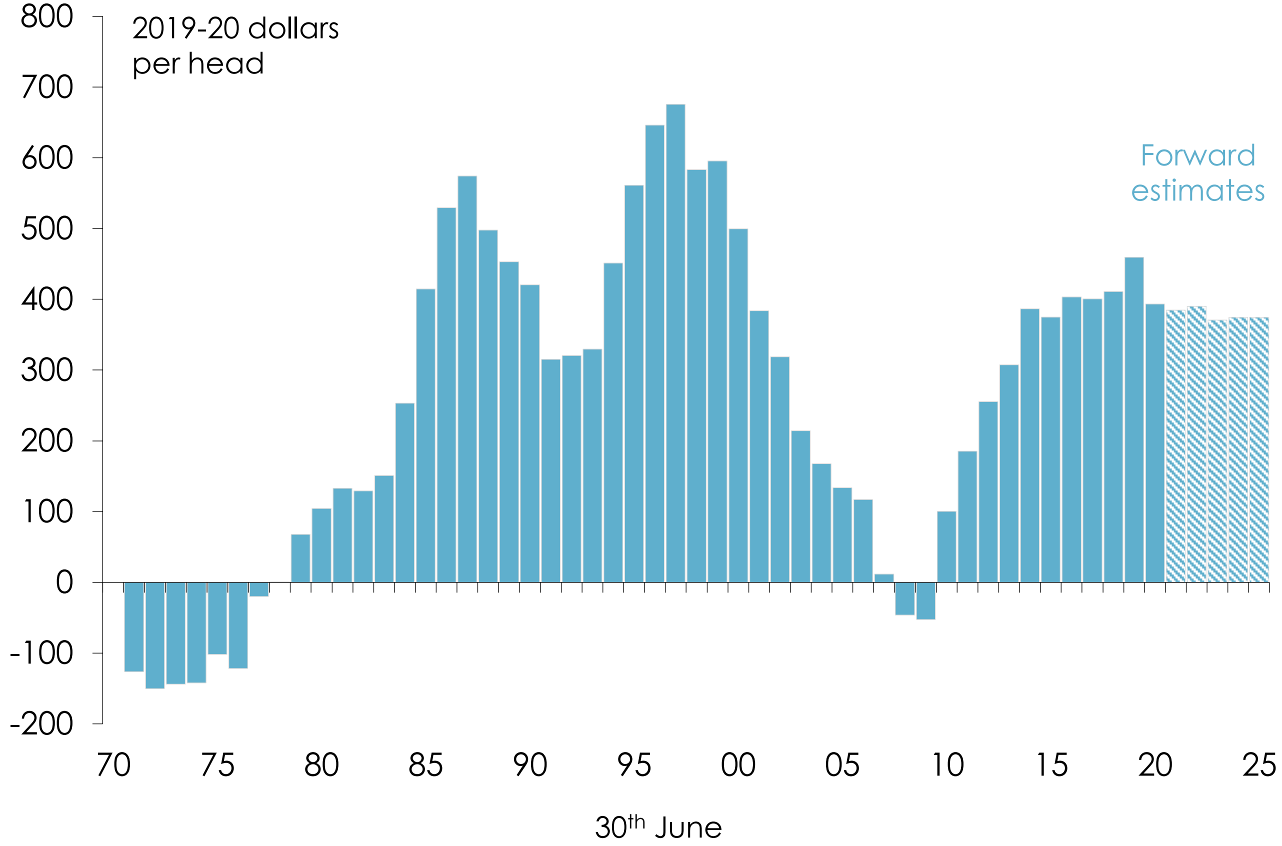
# Because interest rates are so low, the cost of servicing the debt which the Government is racking up will be low by historical standards

## Australian Government interest payments as a percentage of GDP




- As a percentage of GDP, the Government's gross interest payments will be less than they were in the 1970s, 1980s and 1990s, and less than they were in 2017-18 or 2018-19

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




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

*Source:* Australian Government, 2021-22 Budget Paper No. 1, Statement 7: Debt Statement and Statement 11: Historical Australian Government data.

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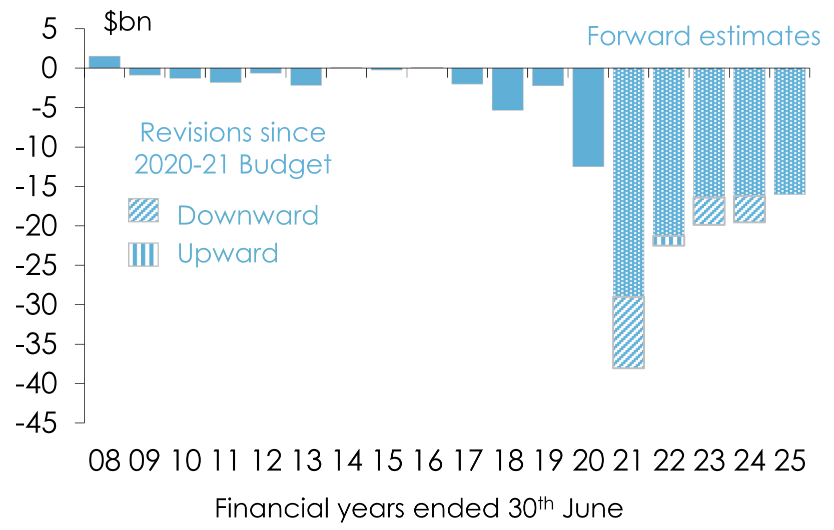
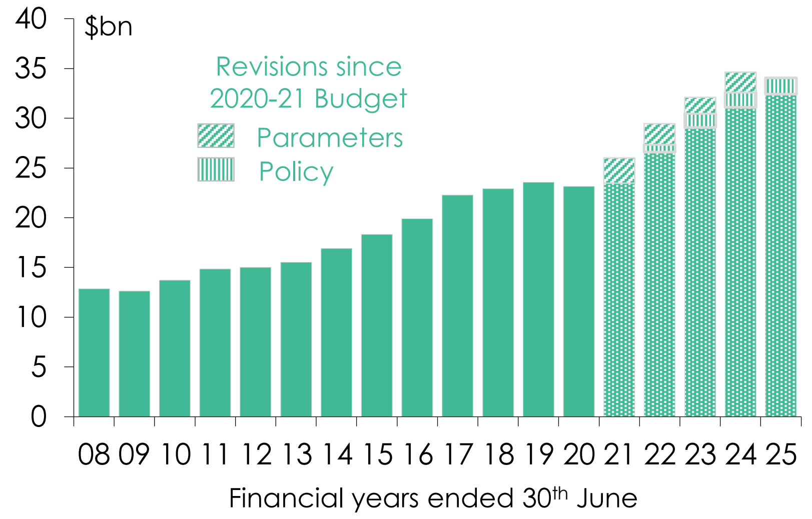
# Victoria's 2021-22 Budget raises taxes by \$5½bn over four years to fund increased spending and begin the 'budget repair' task

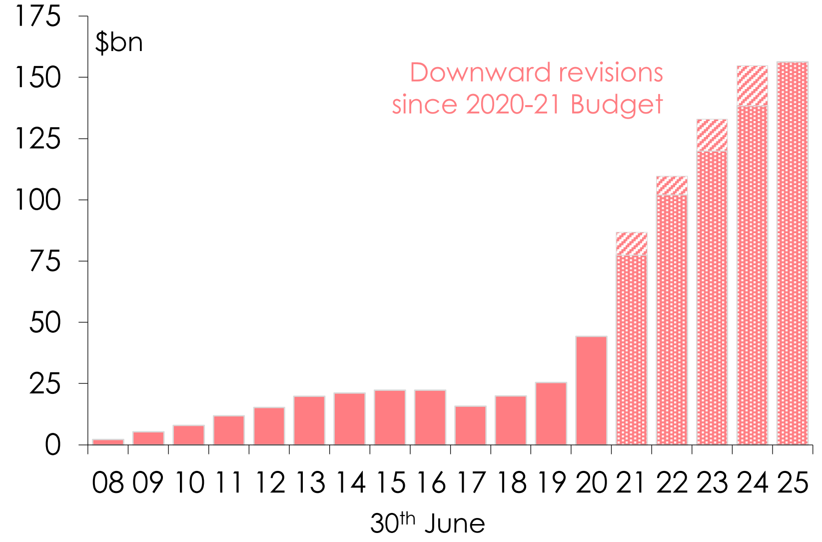
## Cash balance



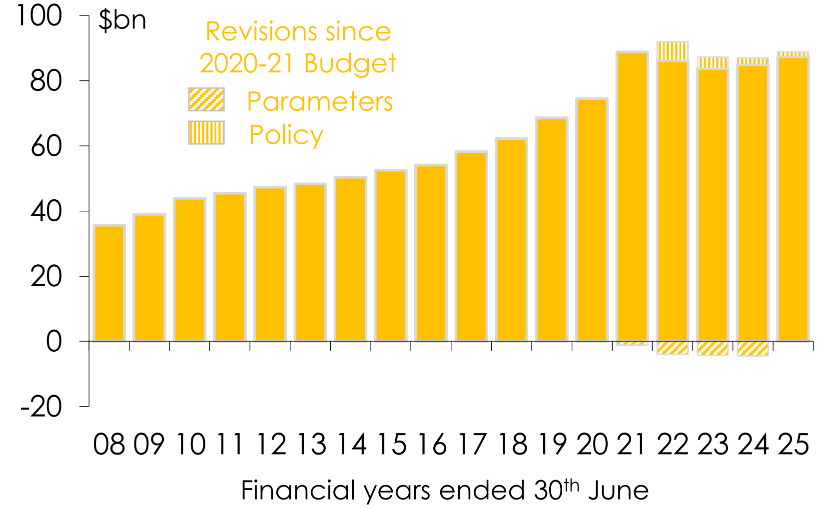

## State taxation revenue




## Net debt




## 'Operating' expenses




- **'Parameter variations' (changes in economic and other factors beyond the State Government's direct control) improved the 'bottom line' by around \$20bn over the four years to 2024-25**
- **The 2021-22 Budget presented by Treasurer Tim Pallas this Thursday applied these 'variations' and revenue measures raising \$5½ bn over four years to fund additional spending totalling \$12¾bn *and* to reducing the budget deficit and the build-up in net debt**
- **Net debt is now projected to be \$138bn (24.9% of Victoria's gross state product) by 30th June 2024 (\$16½bn or 4 pc pts of GSP less than forecast in last year's Budget) – but will still increase to \$156bn (26¾% of GSP) by June 2025**
- **The tax increases include a payroll tax surcharge on large companies (to fund increased investment in mental health programs), increased stamp duty and land tax on 'premium properties', a 50% 'windfall gains tax' on high-value land holdings …**
- **… and a 10% increase in all fines (which Victoria is much more adept at collecting than any other state or territory – see next slide)**

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

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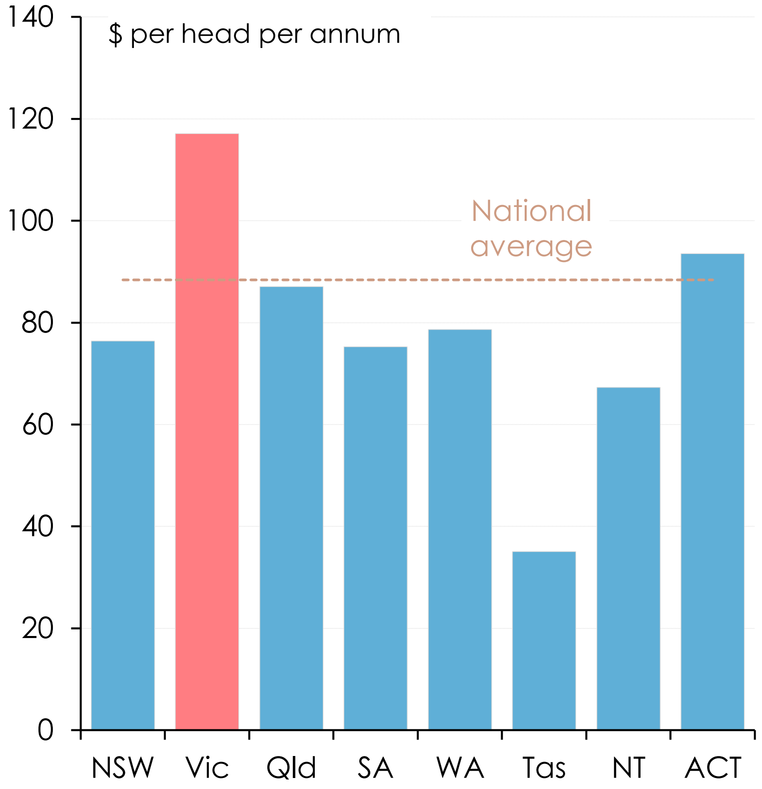
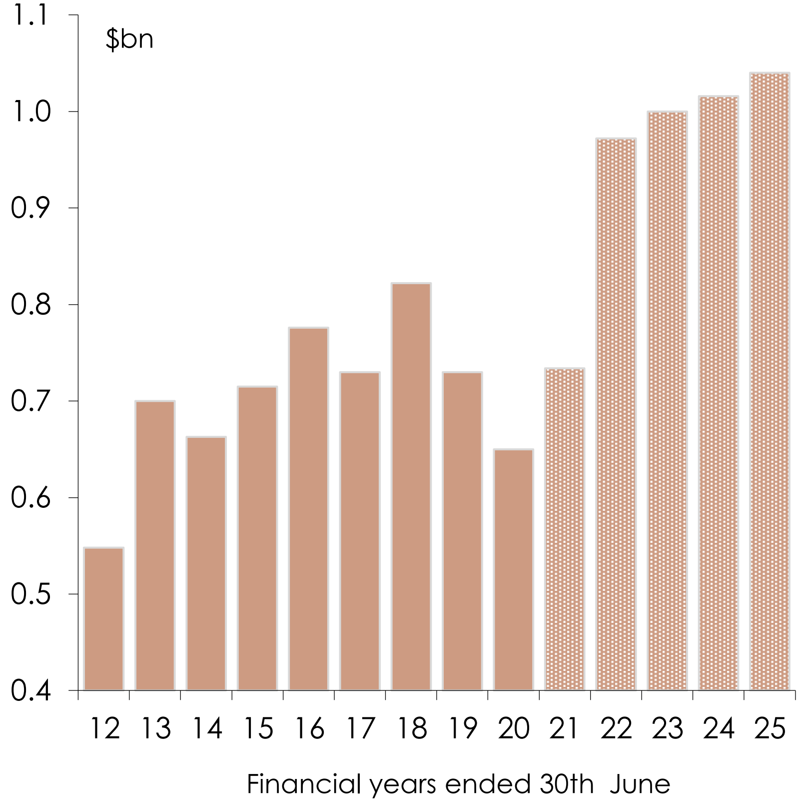
# Victoria uses its police force as a revenue-raising agency to a much greater extent than any other state or territory

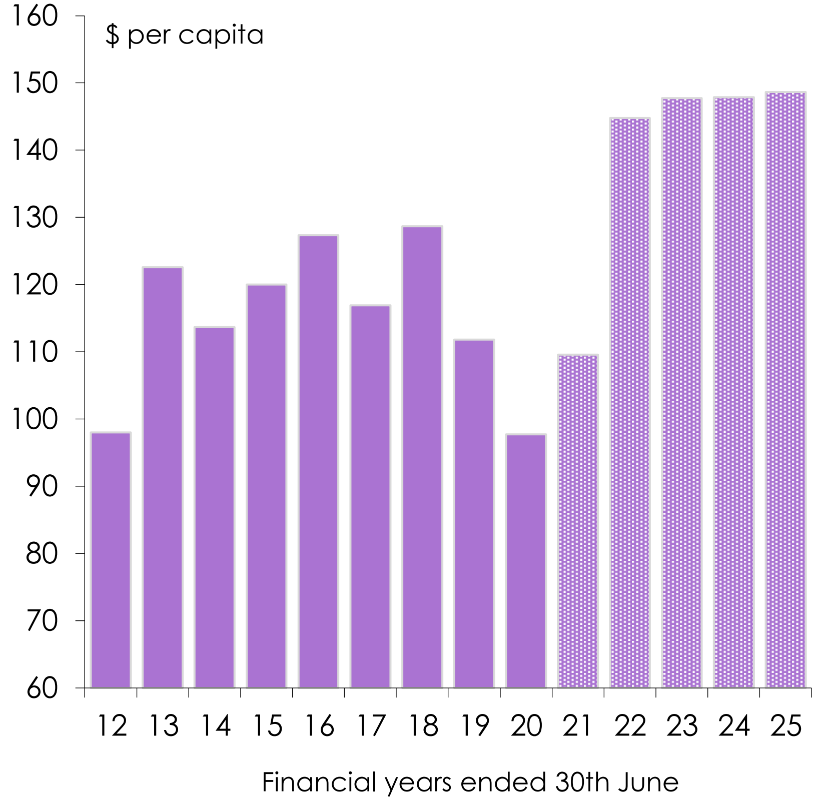
## Revenue from fines per head, states and territories




## Victoria's fines revenue




## Victoria's fines revenue per head of population

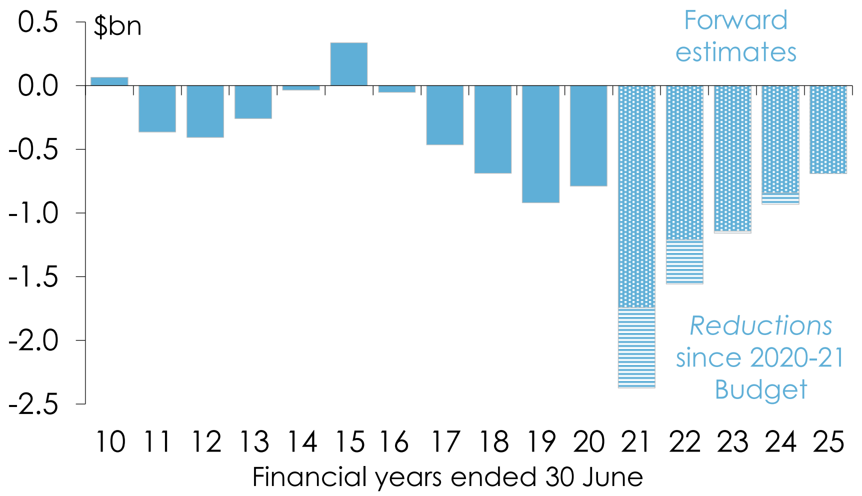



- **Victoria fined its citizens an average of $117 per annum in the six years to 2019-20 – almost double the $60 average of all other states and territories**
- **The Victorian Government derives 1.03% of its total revenue from fining its citizens – cf. the average for all other states and territories of 0.30%**
- **This week's Victorian State Budget predicts that Victorians will be paying almost $150 each in fines by 2024-25 – an increase of 36% from 2020-21**

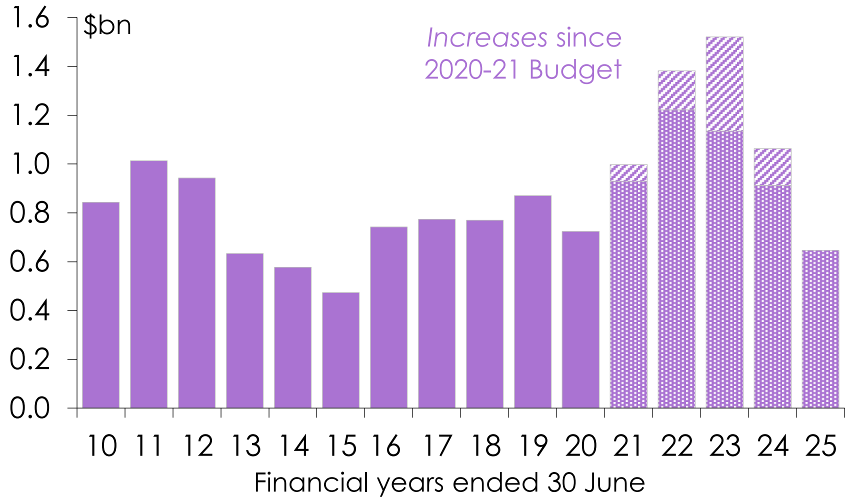
*Sources:* Victorian Government, *2019-20 Financial Report* and *2021-22 State Budget - Strategy and Outlook* (and corresponding publications for earlier years, and equivalent documents for other states and territories; Corinna. Return to "What's New".

# The Northern Territory's 2021-22 Budget shows some improvement in its (fairly dire) fiscal position largely thanks to increased GST revenues

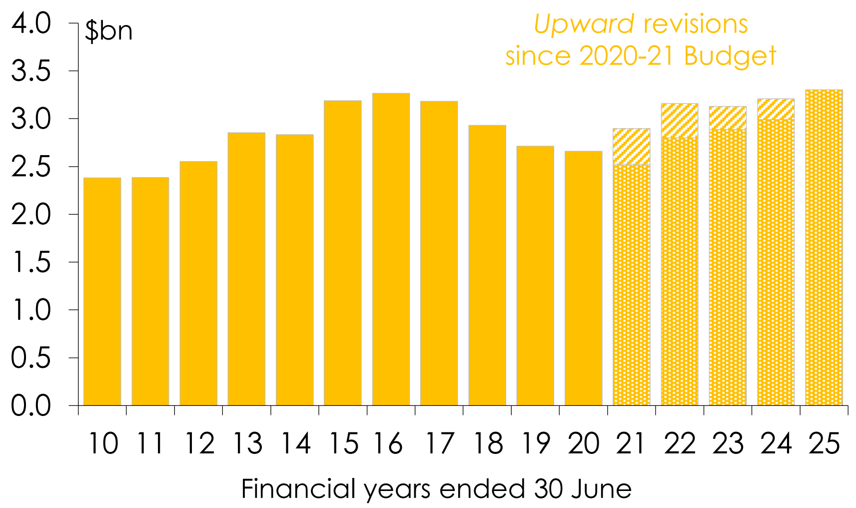
## Cash balance



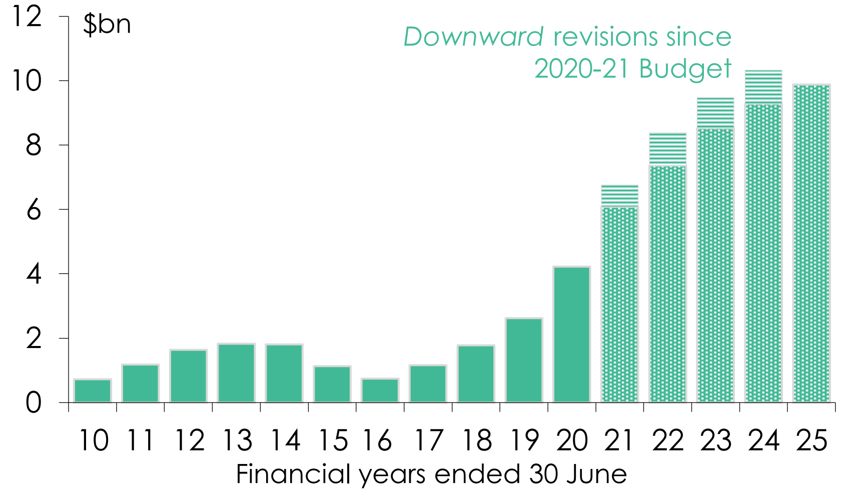

## Infrastructure spending




## GST revenue




## Net debt

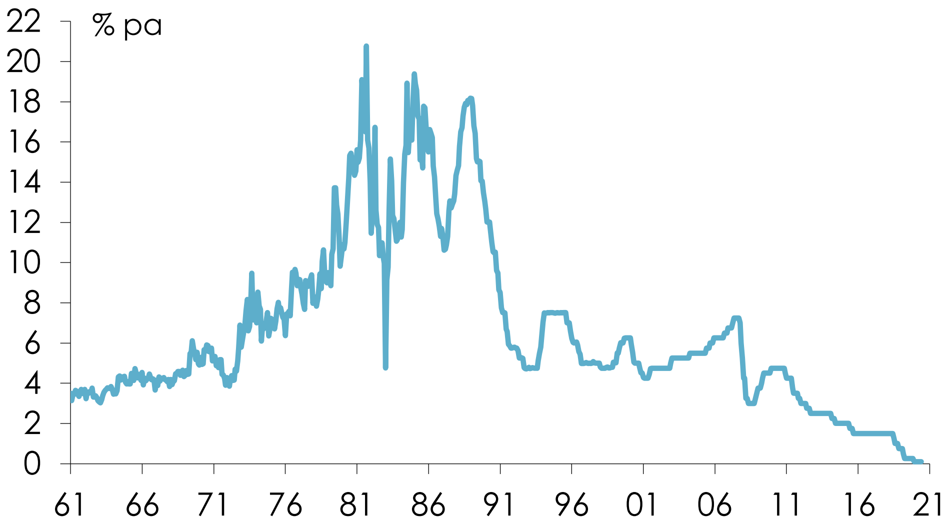



- The Northern Territory has been in a fairly dire fiscal position in the past five years, largely stemming from mis-management by the previous CLP Government (in office 2012-16) and economic stagnation following the completion of the Ichthys LNG plant in 2018
- However the NT's 2020-21 Budget presented on 4th May 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

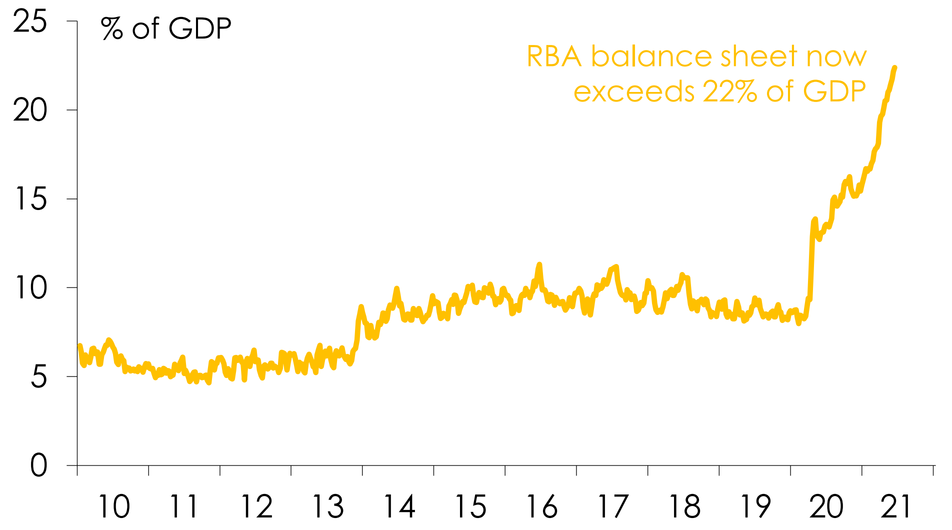
*Note:* Budgetary aggregates shown in the above charts refer to the Territory's 'general government' sector (ie, excluding public corporations). *Source:* Northern Territory Government, 2021-22 Budget Strategy and Outlook. Return to "What's New".

# 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 earlier this month
  - 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 $104bn of federal government bonds and $26bn of state and territory government bonds – and under which it plans to purchase another $71bn 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 $110.1bn (including $6.3bn this week, after $4.4bn last week) out of a potential $200bn – this facility will close at the end of June
- **The RBA this month flagged that it will decide at its July meeting whether to switch its target for the 3-year yield from the April 2024 bond to the November 2024 one (possibly not), and whether to extend its Bond Purchase Program beyond September (which will likely depend on what other central banks are doing and where the A$ is)**

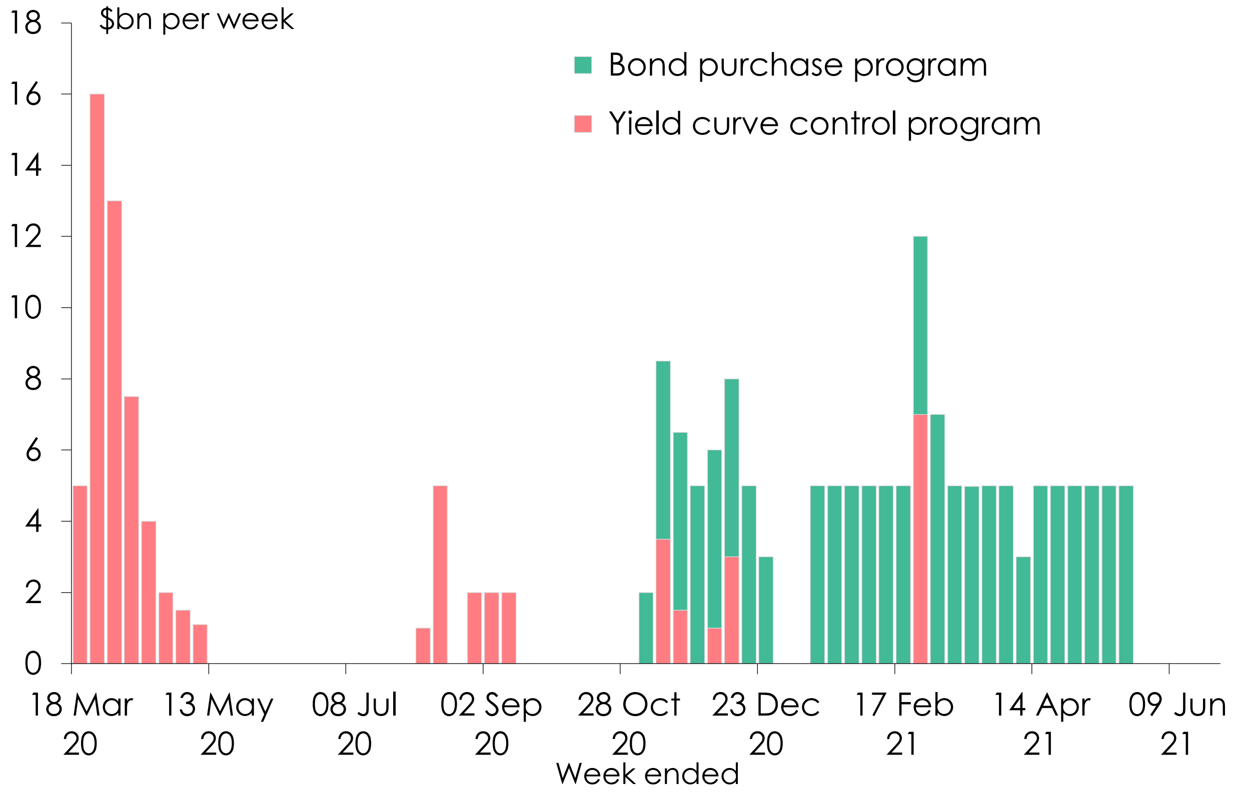
# RBA Deputy Governor Debelle strongly re-affirmed the RBA's 'forward guidance' in a speech in Perth earlier this month

- **RBA Deputy Governor Guy Debelle used a speech in Perth earlier this month 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"

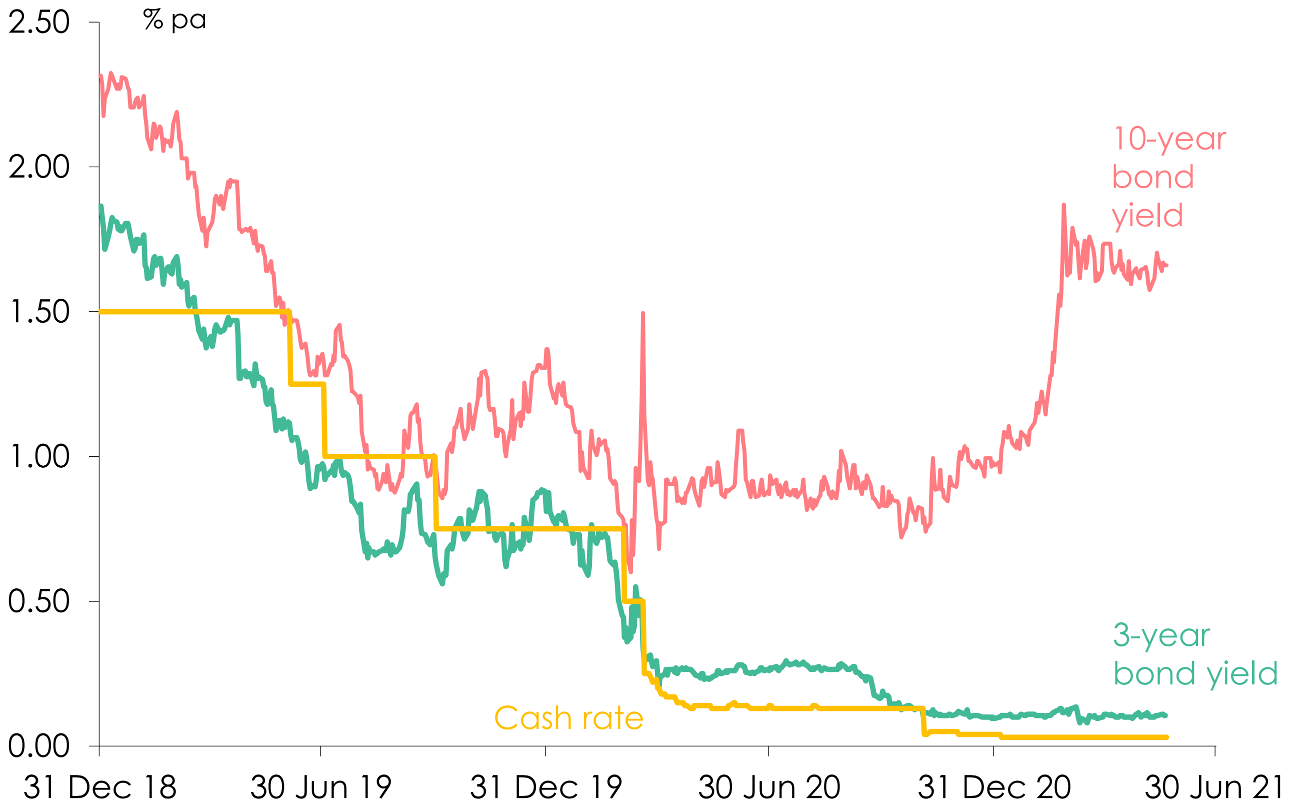
Return to "What's New".

# 10-year yields eased a little this week, in line with global trends, after last week's sell-off, while 3-year yields remained close to the RBA's target

## 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 $130bn, or to $208n (10½% of GDP) including its Yield Curve Target program**
- **The RBA now holds more than 22% of total federal and 10% of state & territory debt outstanding**
- **3-year yields remained close to the RBA's 0.10% target (even though the RBA hasn't bought any three-year bonds since February), while 10-year yields eased marginally in line with global trends**

*Source:* Reserve Bank of Australia, *Statistical Tables* A3 and F2. Data up 21st May. Return to "What's New".`

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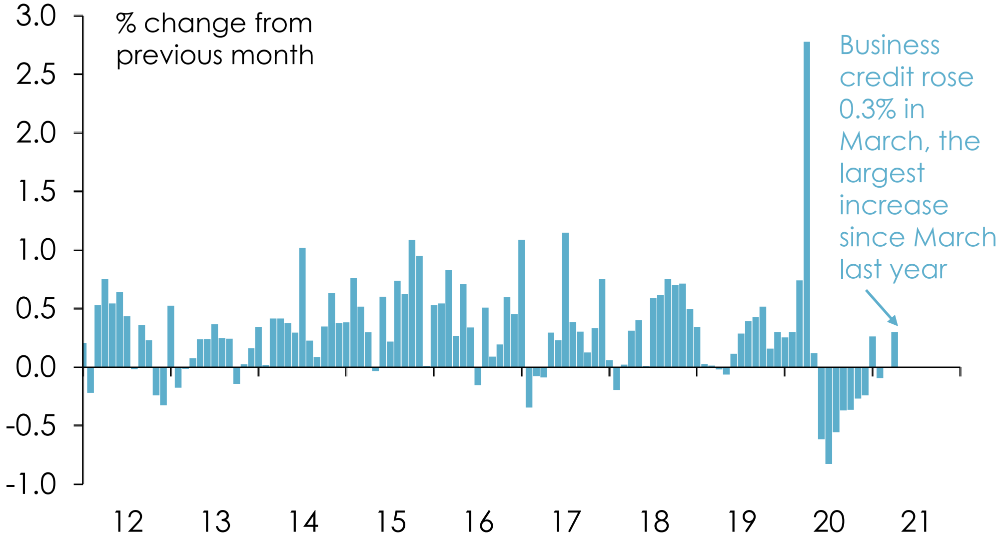
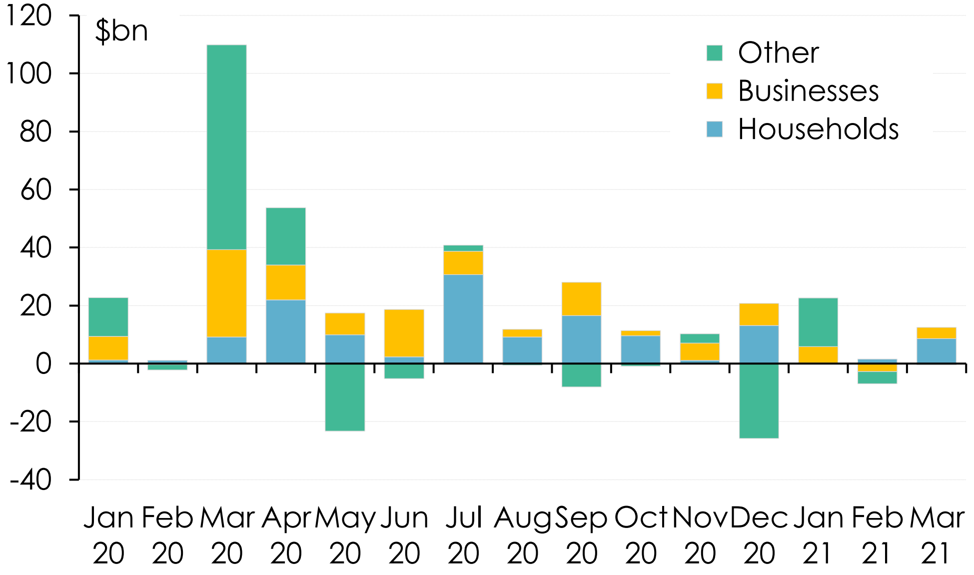
# Banks have played an important role in assisting borrowers cope with shutdowns, and have been swamped with deposits

## Business credit outstanding




## Monthly change in bank deposits




- Banks have cut interest rates on small business loans by more than the official cash rate since June last year (when the RBA started cutting rates again)
- Banks have made credit readily available when needed – particularly in the early stages of the pandemic
- Banks extended 'repayment holidays' to business and home mortgage borrowers who request it
  - in May, 11% of mortgage borrowers and 18% of SME borrowers were deferring debt service payments, but those proportions have fallen to 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%)

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



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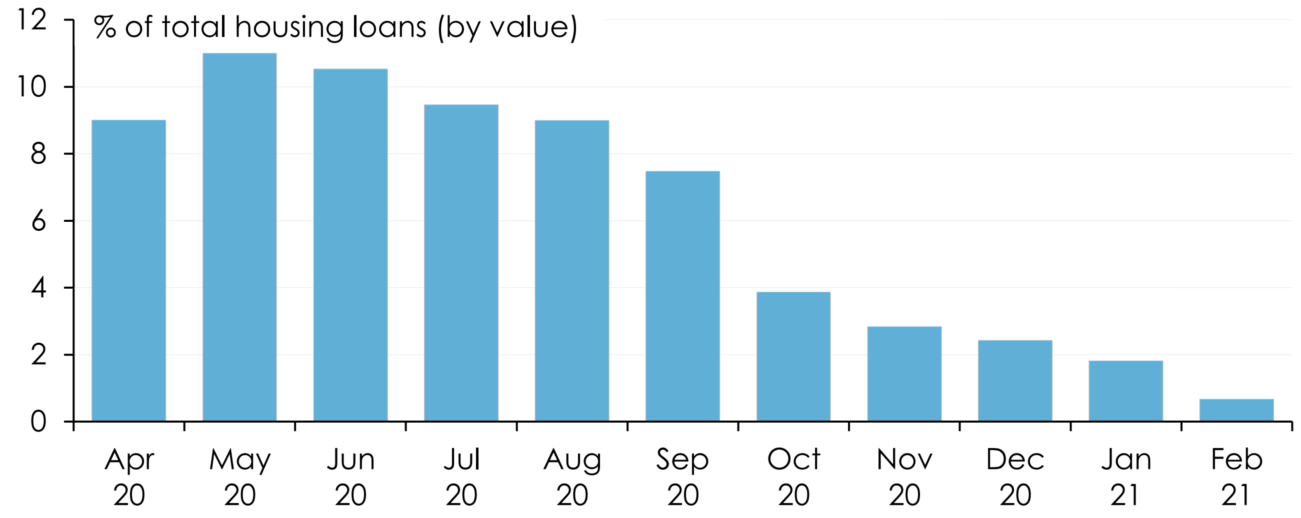
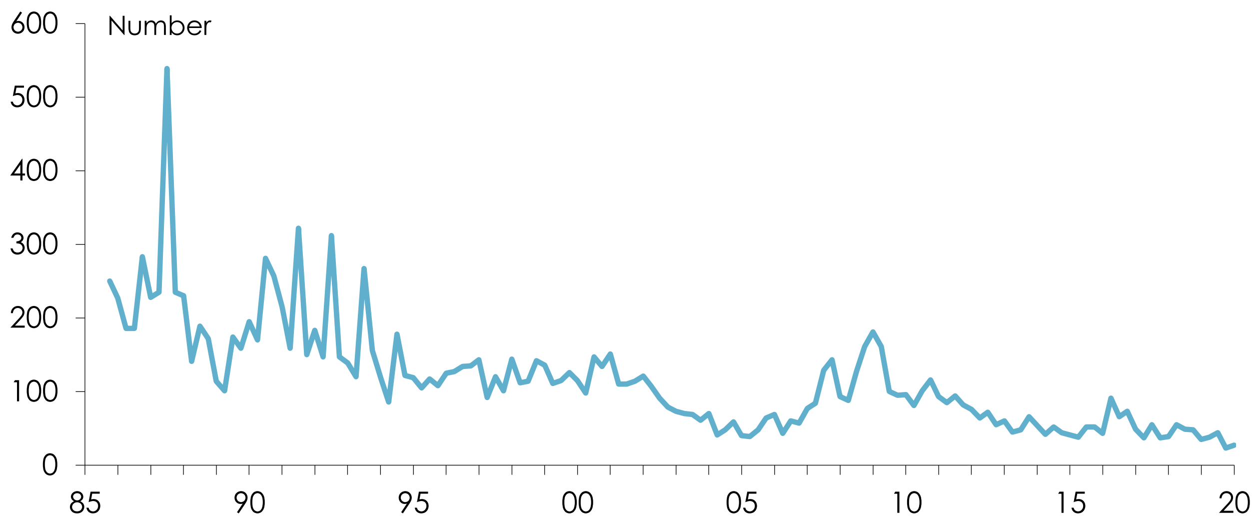
# Debt service payment deferral schemes have so far been unwound very smoothly although the end of JobKeeper may see a rise in bankruptcies

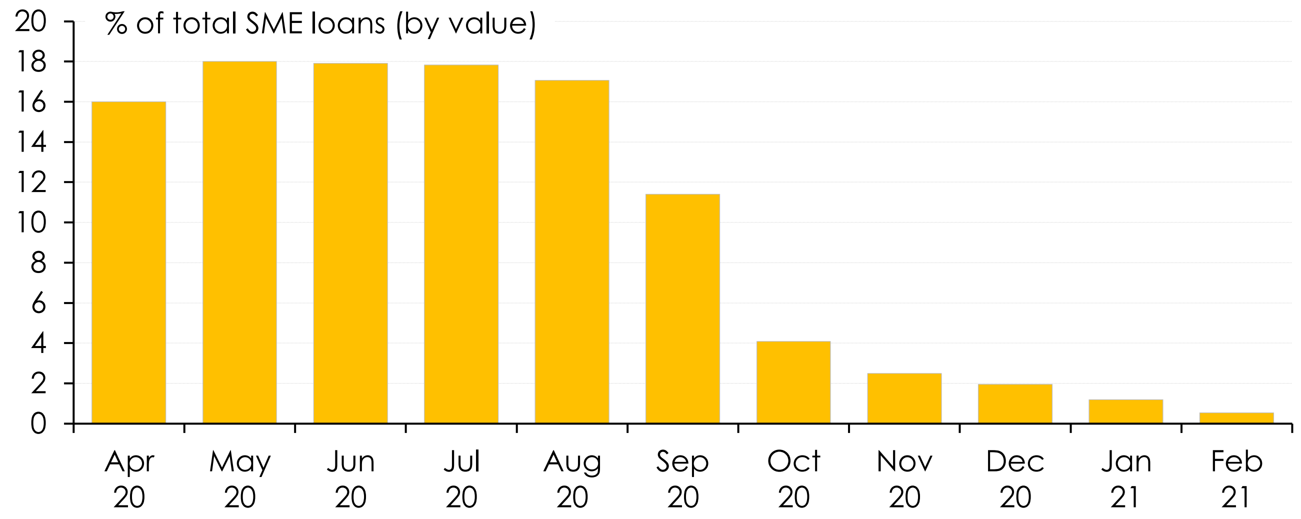
## Mortgage repayment deferrals



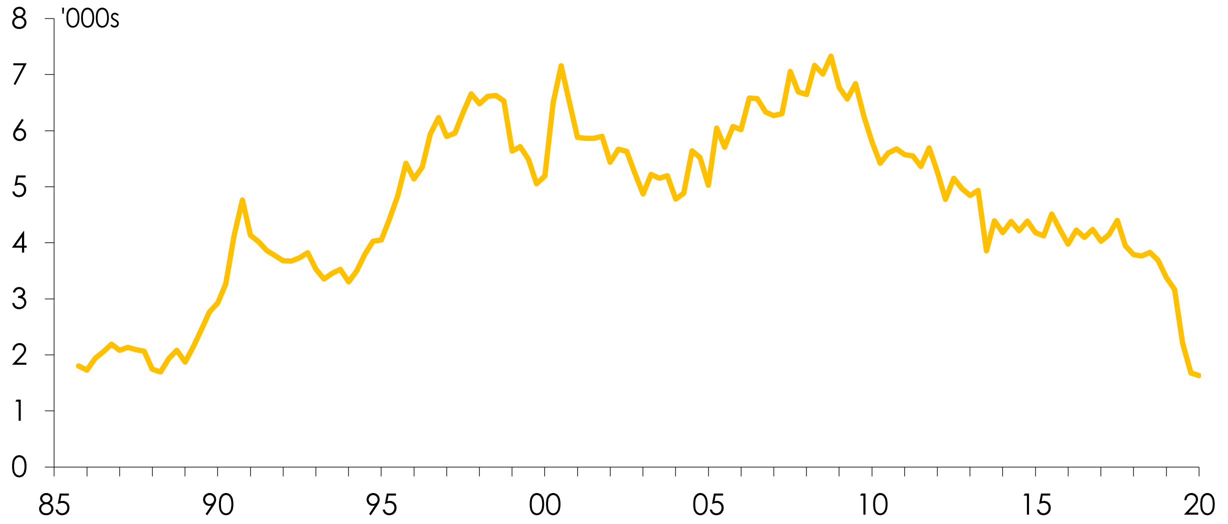

## Personal insolvencies




## SME loan repayment deferrals




## Bankruptcies




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



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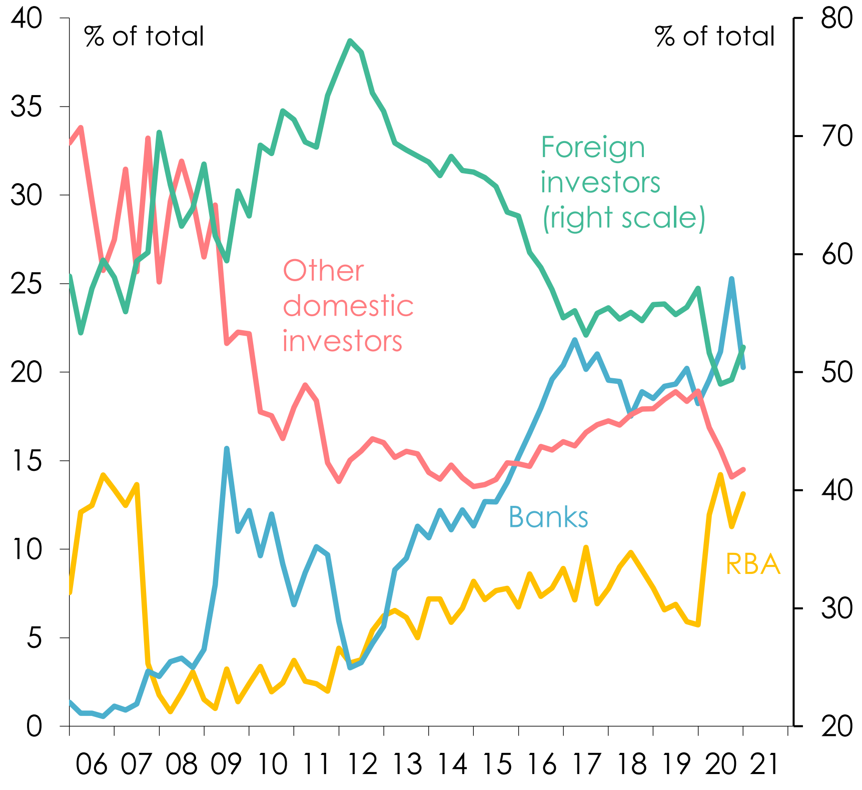
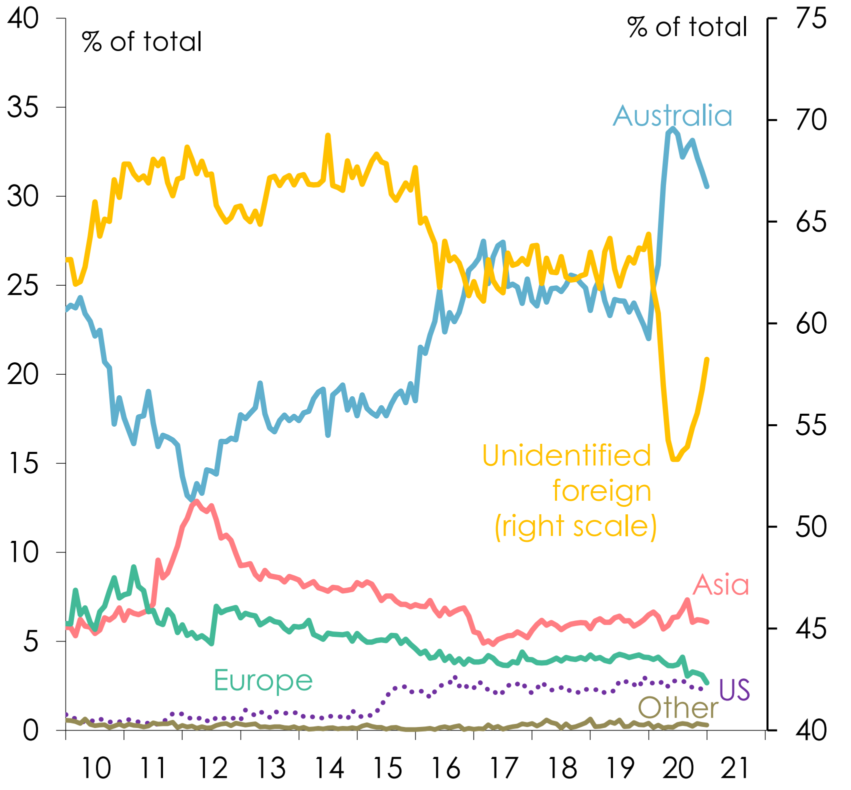
# Domestic banks absorbed 37% of the $331bn increase in government debt on issue in 2020, foreign investors 34% and the RBA 27%

## Holders of Australian Government bonds



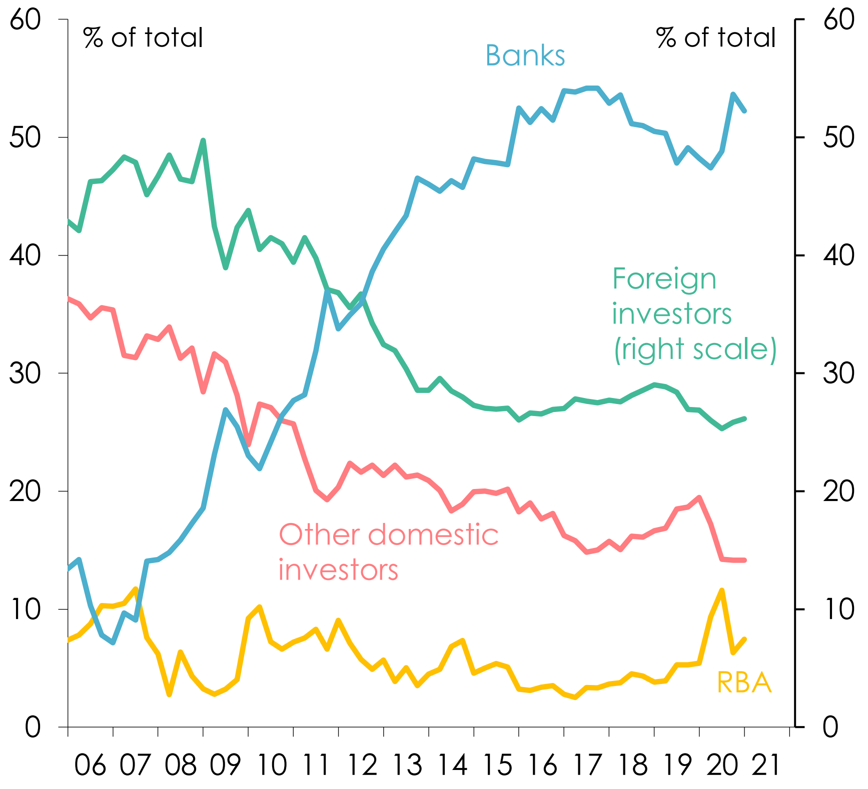

**Australian Gov't bonds on issue rose by $232bn in 2020 – of which foreign investors absorbed $89bn (38%), the RBA $77bn, and domestic banks $60bn**

## 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.
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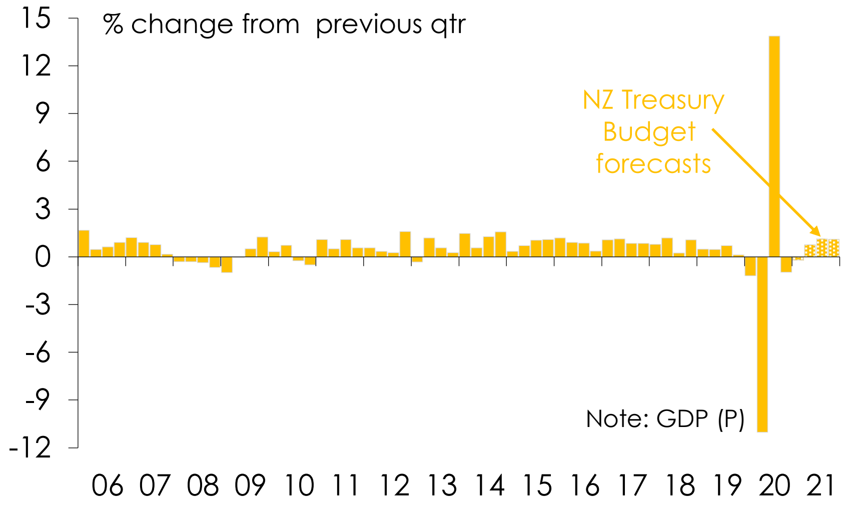
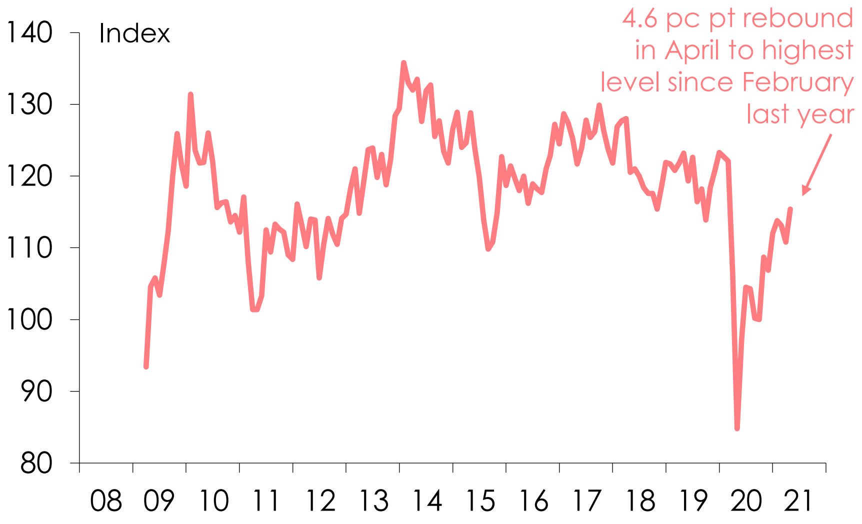
# New Zealand

# 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

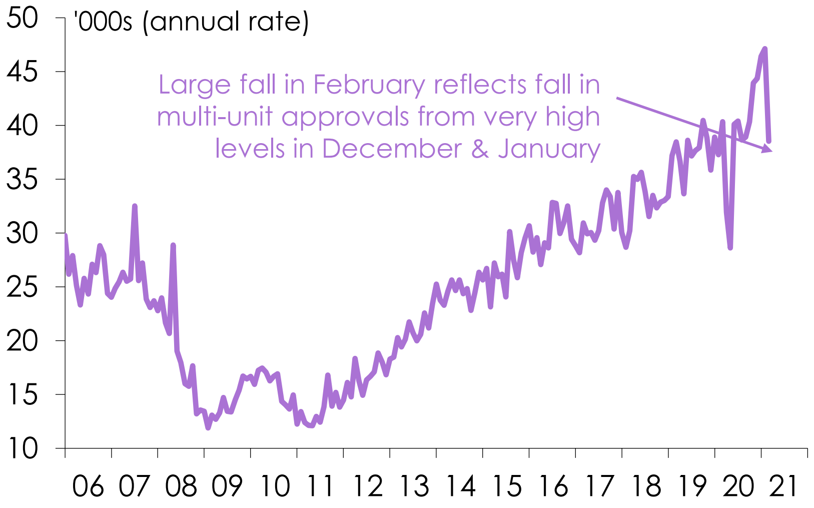
## Real GDP



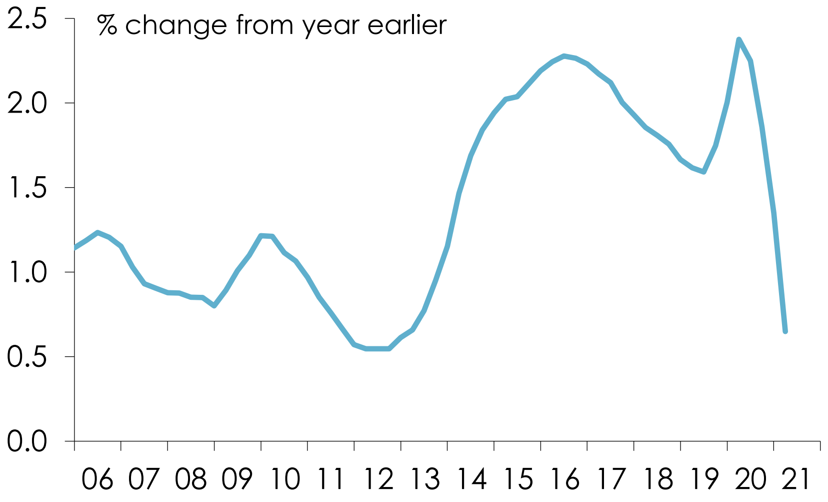

## Consumer confidence



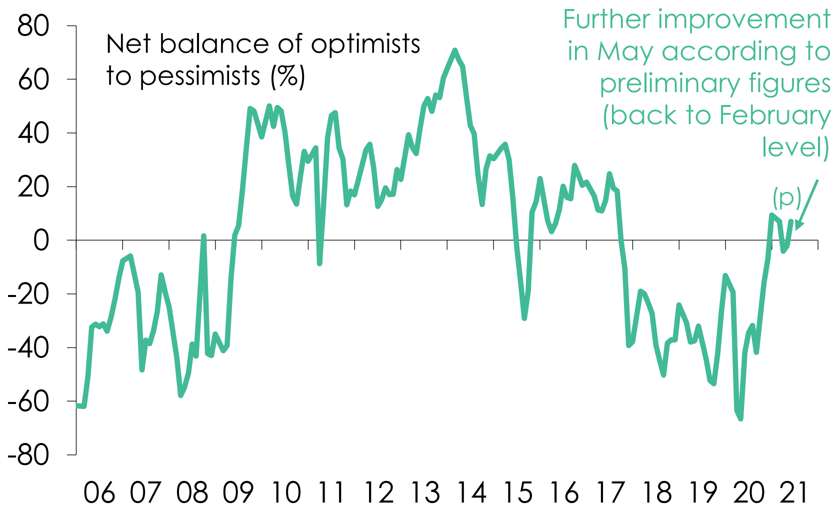

## Dwelling ‘consents’ (permits)



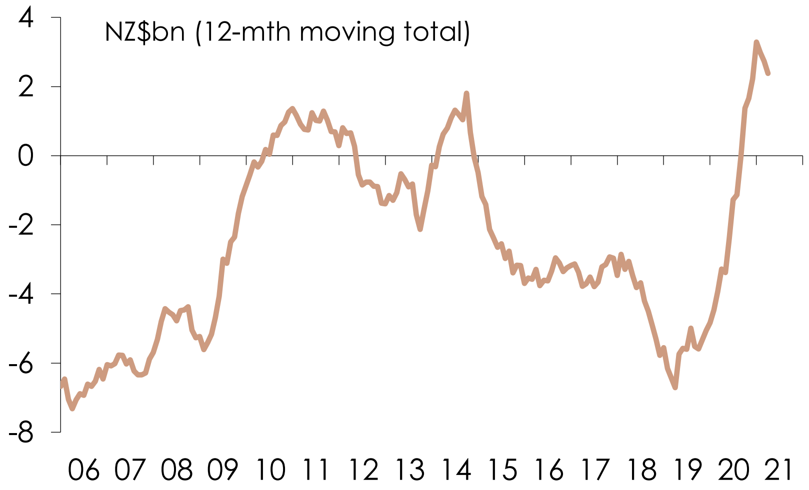

## Population growth




## Business confidence




## Merchandise trade balance




*Note:* New Zealand uses GDP(P) as its preferred measure of GDP. Unemployment rates are quarterly.
*Sources:* Statistics NZ; NZ Treasury, *Budget Economic and Fiscal Update 2021*; ANZ-Roy Morgan; ANZ Bank NZ. Return to "What's New".



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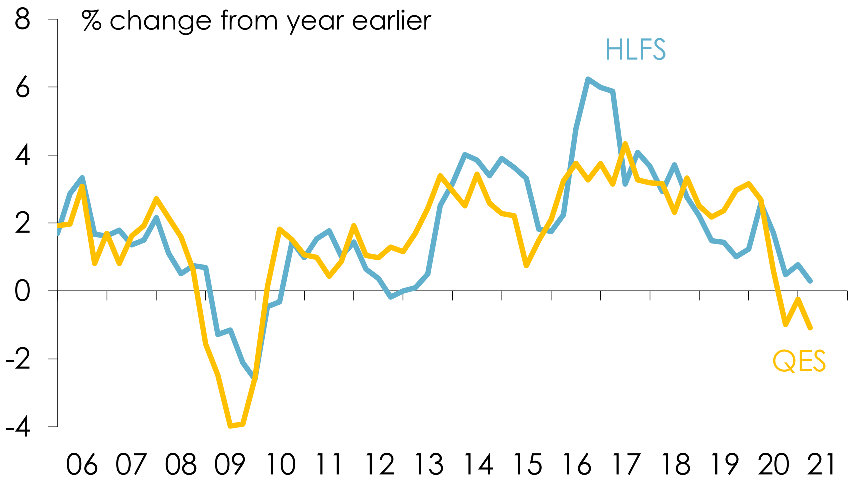
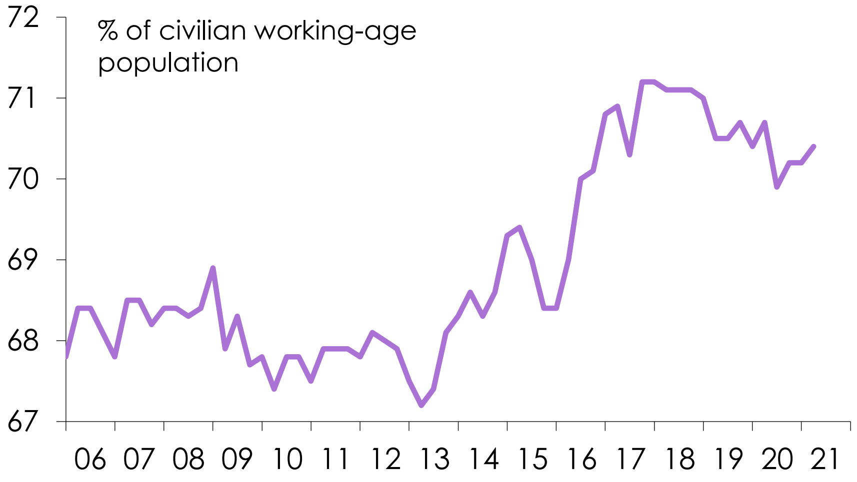
# Employment rose another 0.5% in Q1 (after 0.6% in Q4 2020) to be 0.3% above its pre-pandemic peak while the unemployment rate fell to 4.7%

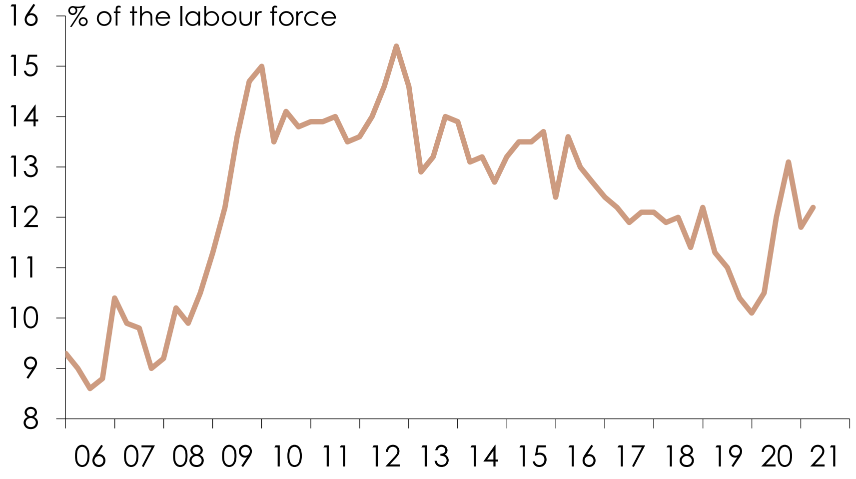
## Employment



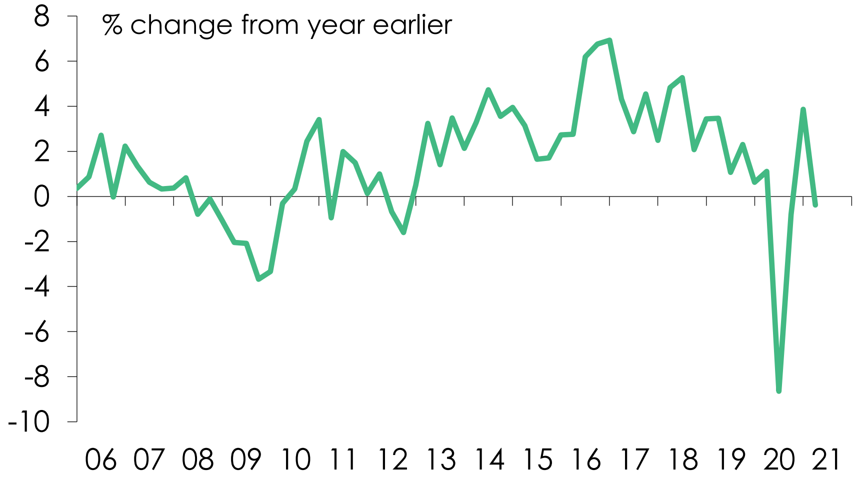

## Labour force participation rate



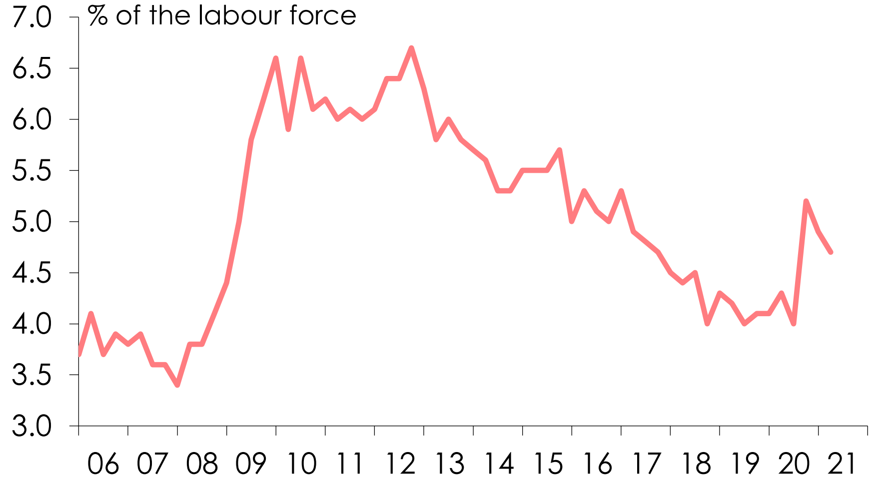

## Labour force under-utilization rate



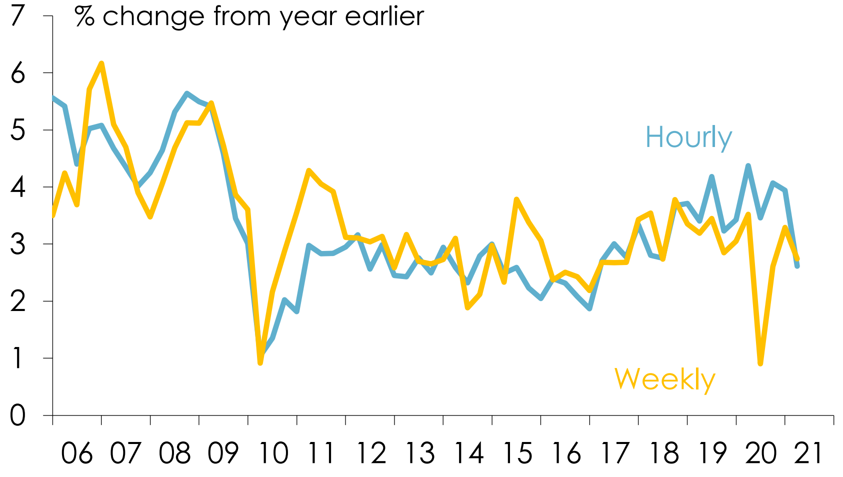

## Hours worked




## Unemployment rate



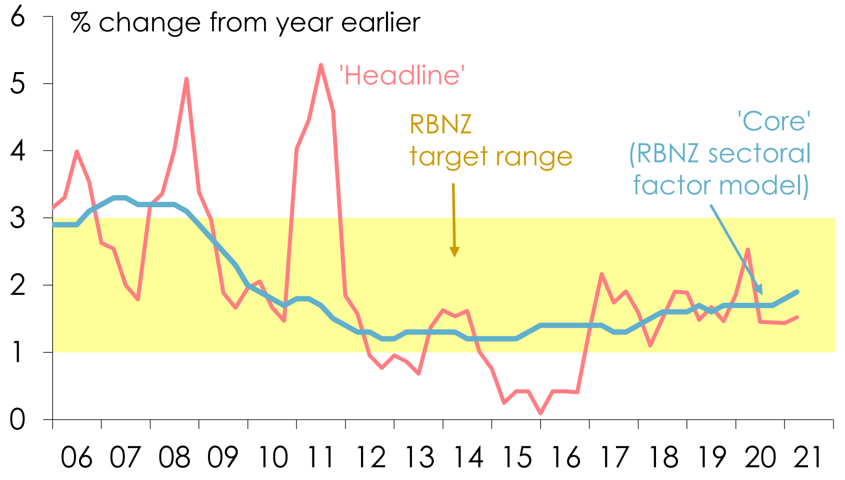

## Average weekly earnings



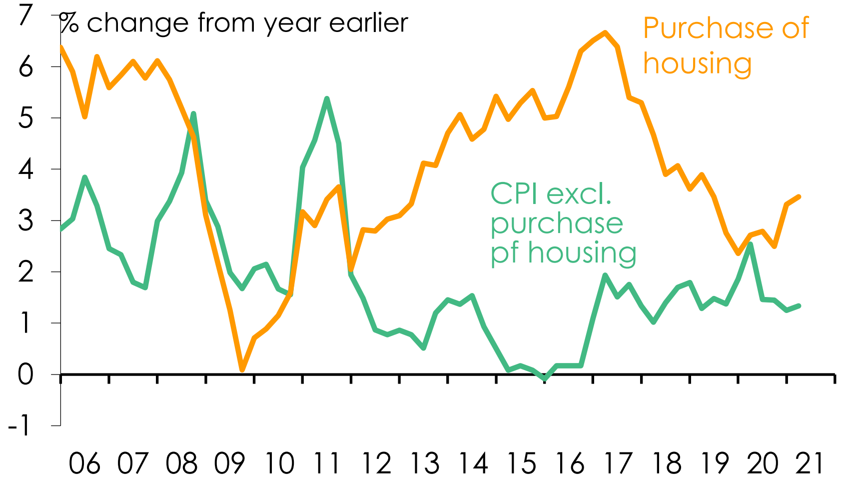

*Note:* New Zealand labour force data are only published quarterly. There are two 'headline' series on employment – the household labour force survey (HLFS) which counts the number of people in employment during the quarter; and the quarterly employment survey (QES), which counts the number of 'filled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

# 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)

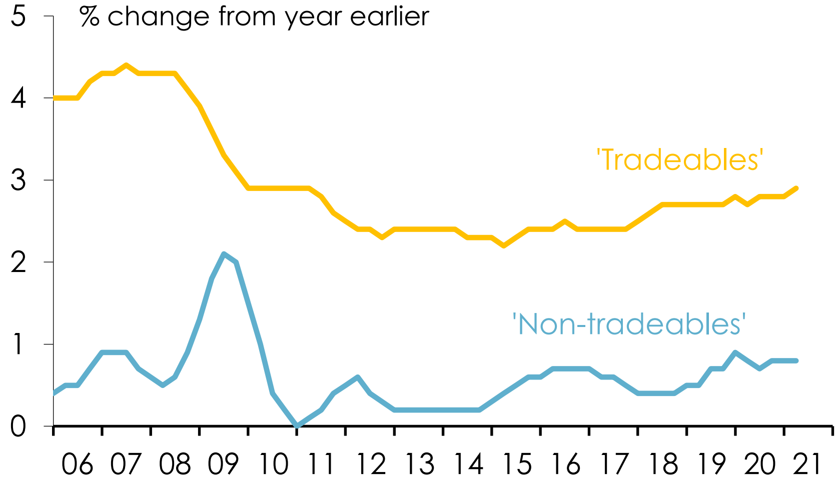
## Consumer prices



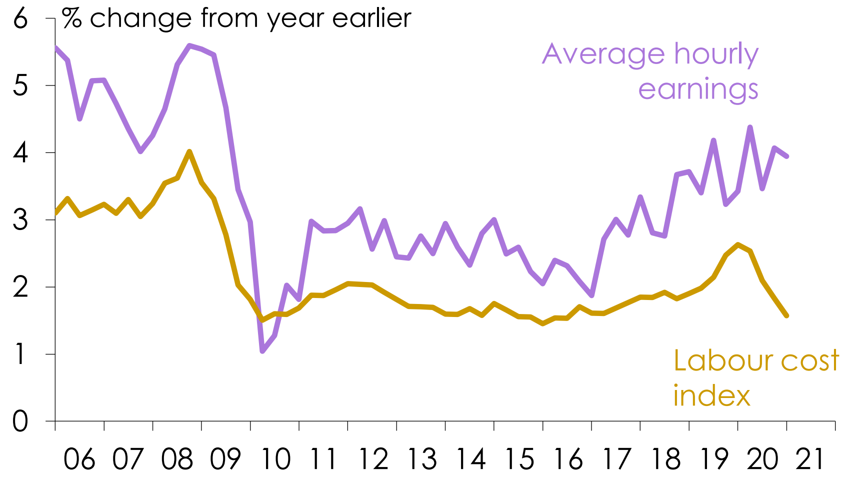

## Housing costs in the CPI




## 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

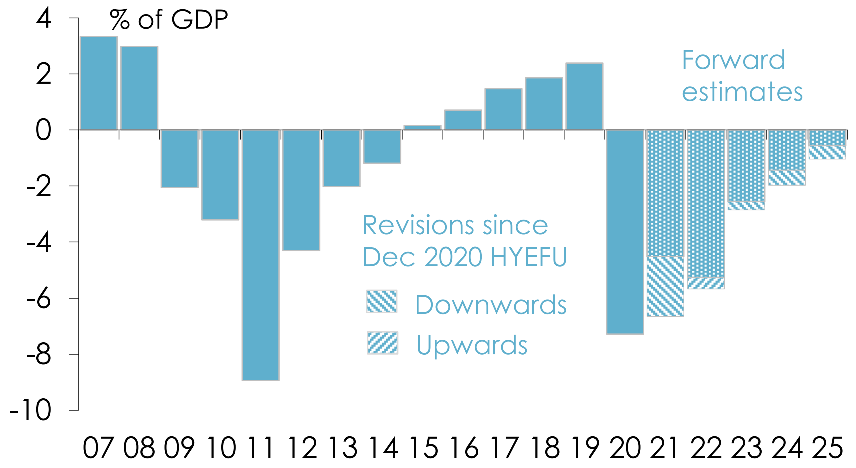
*Sources:* Statistics NZ ; Reserve Bank of New Zealand. June quarter CPI will be released on 16th July. Return to "What's New".



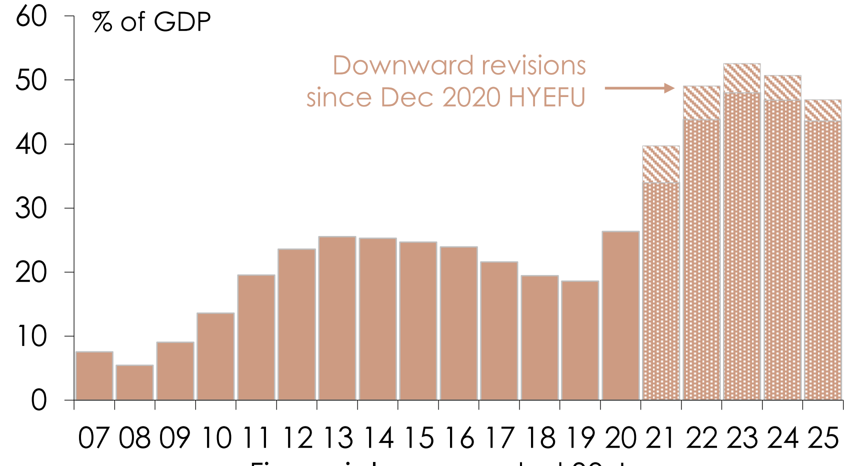
SAUL ESLAKE
CORINNA ECONOMIC ADVISORY

# This week's 2021 Budget uses gains from an improved economic outlook to fund additional spending as well as a slightly improved 'bottom line'

## NZ government 'operating balance excluding gains & losses' ('OEBGAL')




## NZ 'core Crown debt'

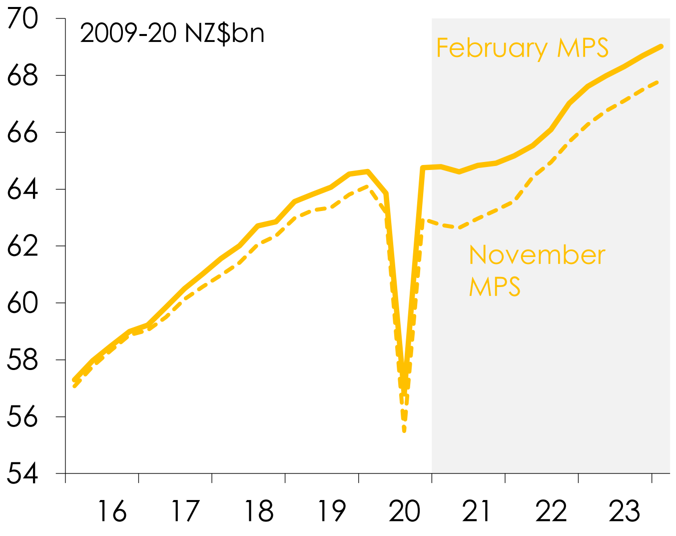



- **As was also the case in Australia, the 2021-22 New Zealand Budget presented by Finance Minister Grant Robertson has benefited from a much stronger economic performance than had been anticipated in last year's Budget, or in last December's Half-Year Economic & Fiscal Update (HYEFU)**
  - Treasury now expects the NZ economy to have grown 2.9% in 2020-21 (cf. 1.5% in HYEFU) and by 3.7% pa over the following two years (cf. 3.1% in HYEFU)
  - unemployment is expected to fall to 5% in June 2022 and 4.2% by June 2024, instead of increasing to 6.8% in June 2022 and then falling to 4.7% by June 2024
- **The Budget applies most of the revenue windfall from this improved economic outlook (and transfers from unspent allocations to the $50bn Covid Response and Recovery Fund established last year) to fund new spending initiatives totalling almost NZ$20bn over the five years to 2024-25**
  - of which the most significant are increases in benefit payments of up to $55/week (consciously reversing cuts made in the 1990 Budget) and increased spending on health and housing
- **Nonetheless the Budget also reduced the 'OBEGAL' and 'residual cash' deficits for the five years to 2024-25 by $9bn**
  - the 'OBEGAL' deficit is forecast to decline from 2019-20's peak of 7.3% of GDP to 4.5% of GDP in 2020-21, increase slightly to 5.3% of GDP in 2021-22, then decline to 0.6% of GDP in 2024-25 – and to return to surplus by 2026-27
- **As a result 'core Crown net debt' is expected to peak at 48% of GDP in June 2023 (down from 52.6% at HYEFU) and then decline to 43.6% of GDP by June 2025, and longer term to drop below 20% of GDP in 2034**

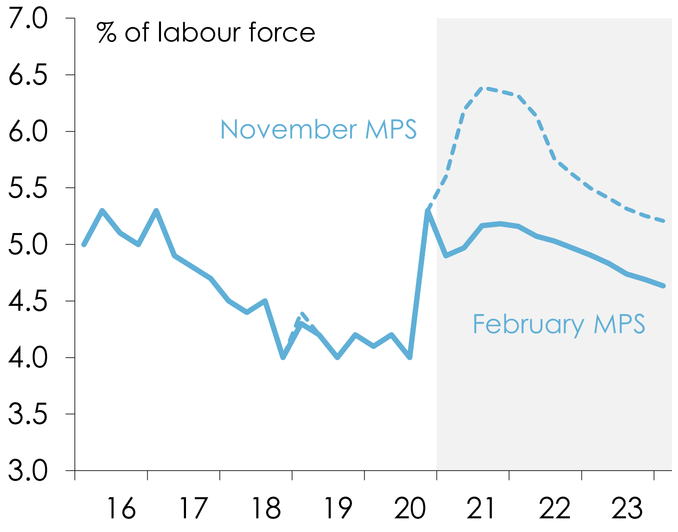
*Note:* The measure of the NZ Government budget balance is 'OBEGAL', which stands for 'operating balance excluding gains and losses' (an accrual accounting measure). Net 'core Crown debt' excludes assets of the NZ Super Fund, student loans and other advances, and financial assets held for public policy purposes *Source:* NZ Treasury, *Budget Economic and Fiscal Update 2021*. 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

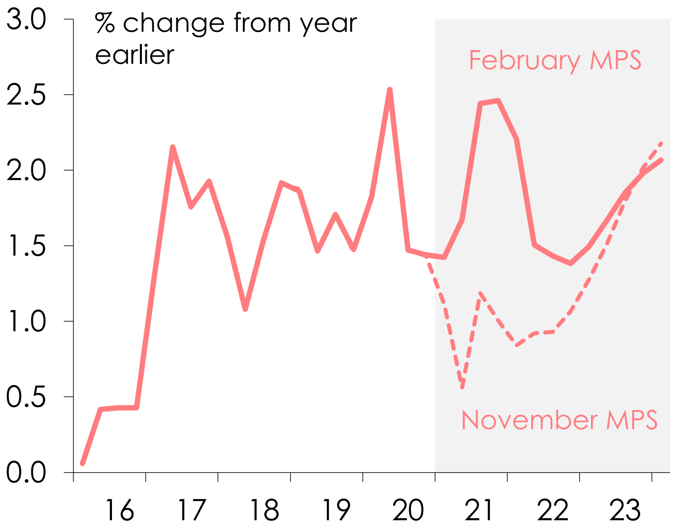
## GDP



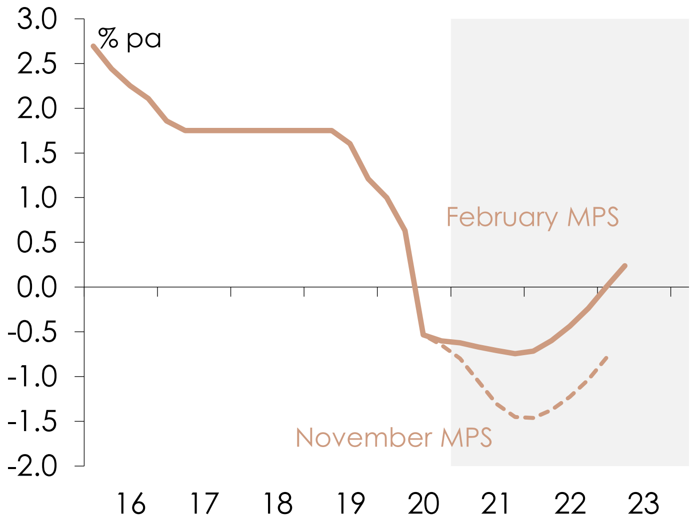

## Unemployment




## 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

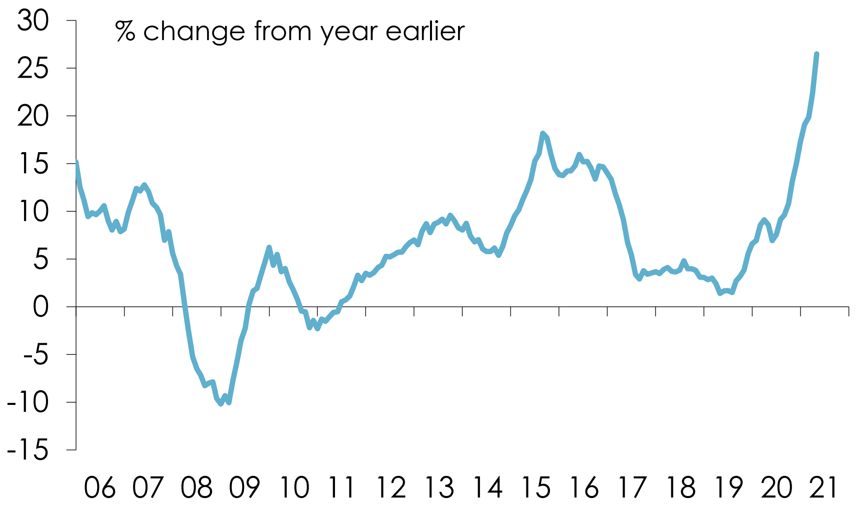


*Source:* Reserve Bank of New Zealand, *Monetary Policy Statement February 2021*.

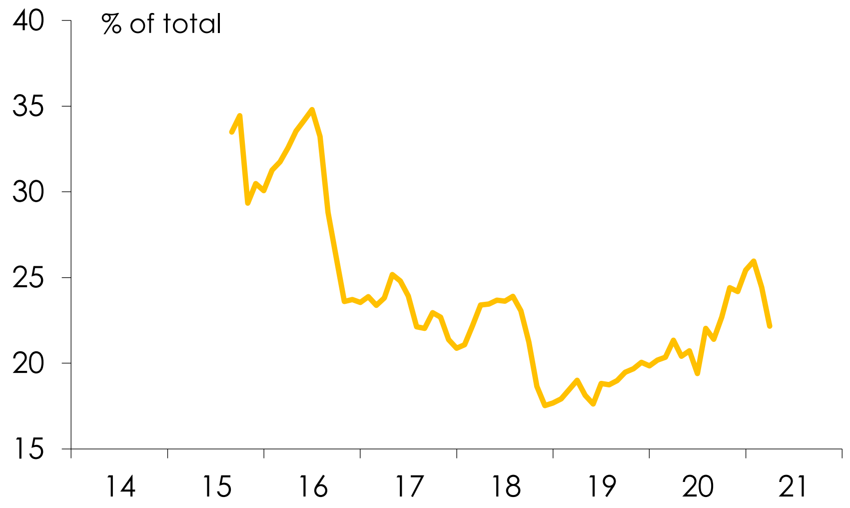
SAUL ESLAKE
CORINNA ECONOMIC ADVISORY

# 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

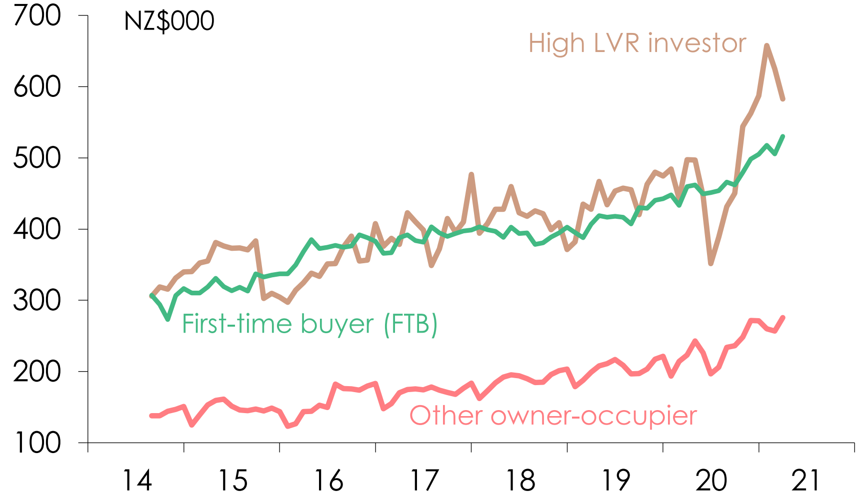
## House price inflation



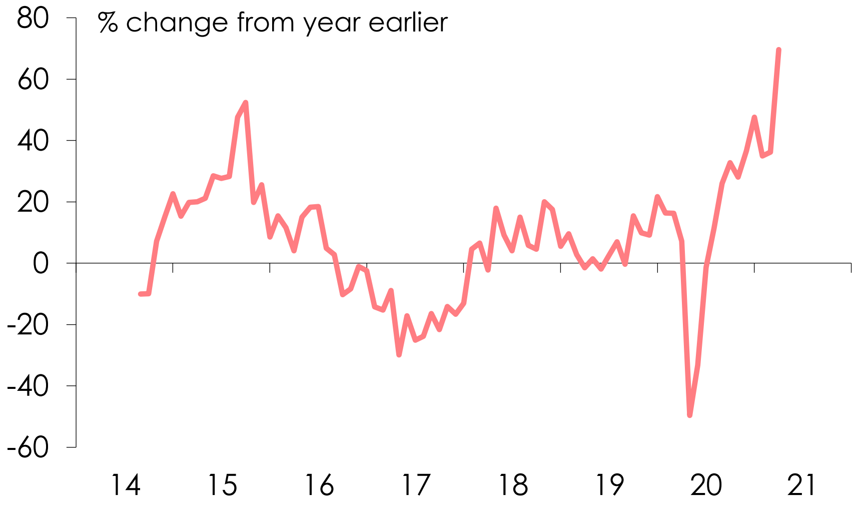

## Lending to investors as pc of total



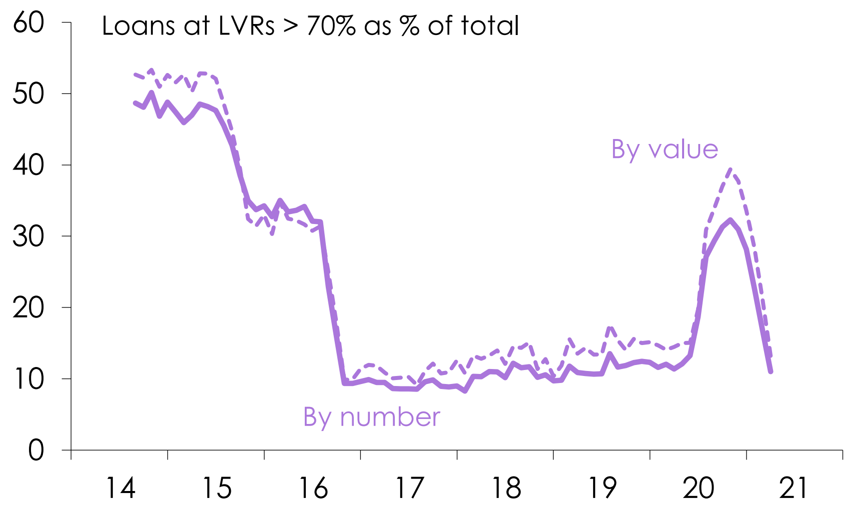

## Average new mortgage



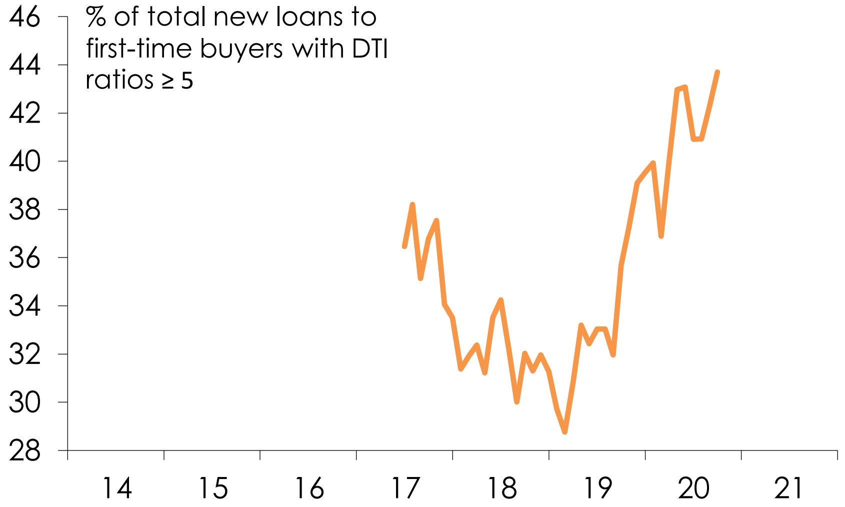

## Mortgage lending growth




## High-LVR loans to investors




## Loans to FTBs at over 5 times income



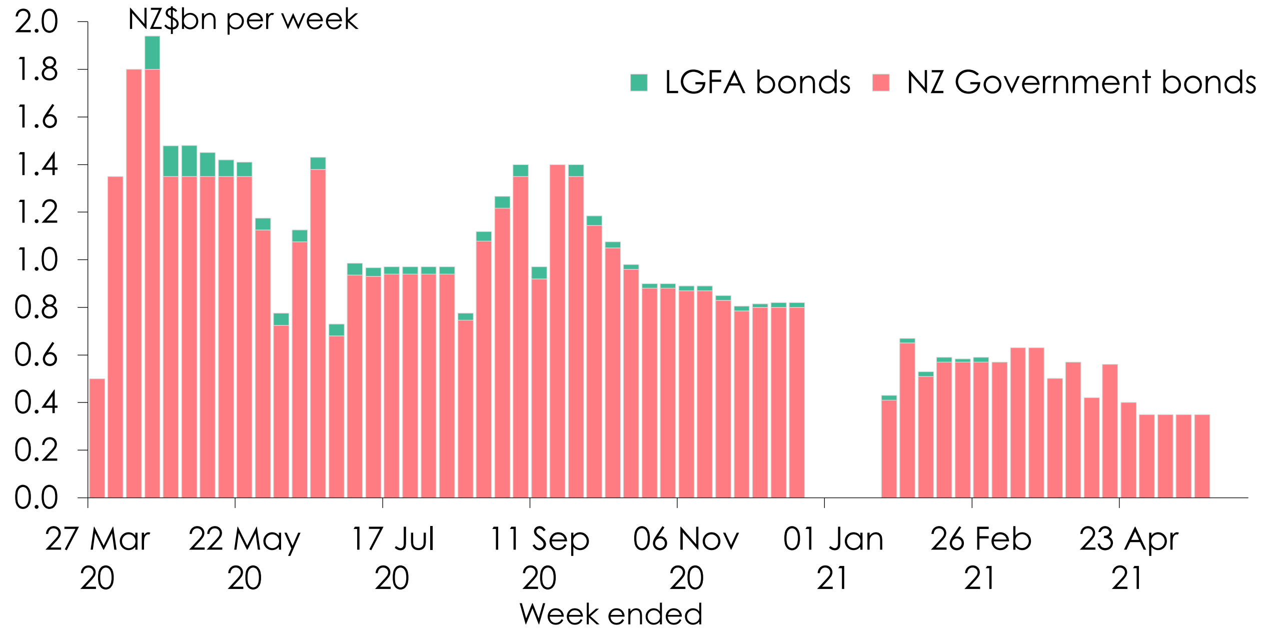

*Note:* New Zealand's tax system allows 'negative gearing' (ie, investors can offset the excess of interest costs over net rental income against their other income for tax purposes) but does not impose any tax on capital gains, making borrowing for property investment more attractive in after-tax terms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

# 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**

# Longer-term NZ bond yields eased marginally lower this week ahead of next Wednesday's RBNZ MPC meeting

## 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$52.0 bn (16.2% of GDP)**
  - **the RBNZ's balance sheet now exceeds 28% of New Zealand's annual GDP**
- **NZ bond yields eased marginally this week, in line with (but less than) movements in the US**
- **The RBNZ's Monetary Policy Committee meets this coming Wednesday (and will release a detailed Monetary Policy Statement) – the RBNZ is likely to upgrade its economic forecasts (again) but isn't expected to make or foreshadow any changes to monetary policy settings**

*Note:* LGFA = Local Government Financing Authority. *Source:* Reserve Bank of New Zealand, Statistics Tables B2 and D3. Data up to 14th May. Return to "What's New".

# Important information

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