ECONOMIC IMPACT OF THE CORONAVIRUS PANDEMIC

12TH JUNE 2021

SAUL ESLAKE
CORINNA ECONOMIC ADVISORY PTY LTD

What's new?

The world

- 2.7mn new Covid-19 cases were recorded this week, the smallest number in 14 weeks; while the global death toll was the lowest in 11 weeks (slide 4)
- India's disastrous 'second wave' has continued to recede – it accounted for 'only' 26% of global new cases this week, South America for 32%, Europe for 8% and the US for 3¼%, but 6% of all cases last week were in South-East Asia (slide 5)
- Global 'upstream' price pressures continue to escalate (slide 38) with China reporting a 9% increase in producer prices over the year to May, the fastest since August 2008, although consumer price inflation remains low (slide 47)
- China's export momentum appears to be slowing (slide 45)
- The US CPI rose by 0.6% in May, taking the annual 'headline' inflation rate to 4.9% (the highest since September 2008) while excluding food and energy prices rose 0.7%, resulting in an annual 'core' inflation rate of 3.8% (the highest in 29 years) (slide 39) …
- … but more than 60% of the increase in the 'core' CPI over the past three months has come from six items accounting for 11½% of the 'basket' (slide 67): and 'statistical' measures of 'underlying' inflation continue to suggest current pressures are mostly transitory (slide 68)
- As expected the ECB left its policy settings (including the rate of bond purchases) unchanged, despite significant upward revisions to its forecasts for growth and inflation: as did the Bank of Canada (though it re-iterated its warning of rate hikes in H2 2022) (slide 35)
- South Africa's economy recorded stronger-than-expected growth in Q1 but remains a long way from its pre-recession peak (slide 80)

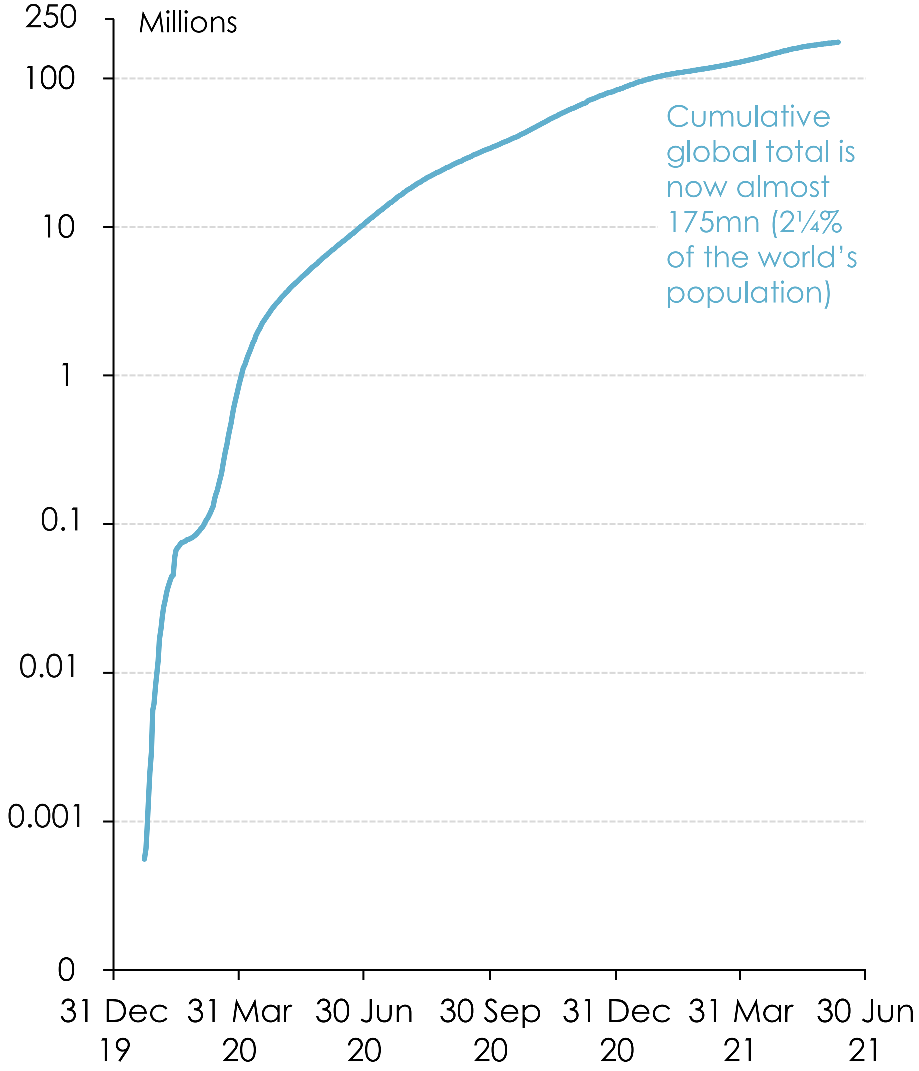
Australia and New Zealand

- Australia recorded 79 new Covid-19 cases this week, two more than last week – 27 of them were 'locally acquired' (slide 8)
- All but two of the 'locally acquired' cases were in Victoria, and the two others were Victorians who travelled to Queensland (slide 9) – even so, Victoria eased restrictions somewhat this week
- Almost 50% of Australians are either 'unwilling' to be, or 'uncertain' about being, vaccinated for Covid-19, the highest proportion among 12 'advanced' economies (slide 16) – which may be another reason for Australia remaining well behind in the vaccine roll-out (slides 17-19)
- Business confidence eased slightly in May but last month's reading was still the second-highest on record back to 1997 (slide 96): while four of the components of 'business conditions' (including hiring intentions) registered new record highs, and capex intentions were at a 19-year high (slide 97)
- The number of payroll jobs rose 0.3% over the two weeks to 22nd May (with data for the previous two weeks being revised upwards), but remains 0.6% below its peak (in the week that the 'JobKeeper' scheme ended) – although the lack of seasonal adjustment of this series makes it difficult to interpret (slide 102)
- Consumer confidence dropped again in June, the second successive decline, partly as a result of the Victorian 'lockdown', but consumers also appear concerned about deteriorating housing affordability (slide 112)
- The iron ore price rose further above US$200/t despite earlier warnings of 'regulatory intervention' by Chinese authorities (slide 120) although the A$ went in the opposite direction (slides 129-130)
- New Zealand business confidence retreated back into (slightly) negative territory in June (slide 150)

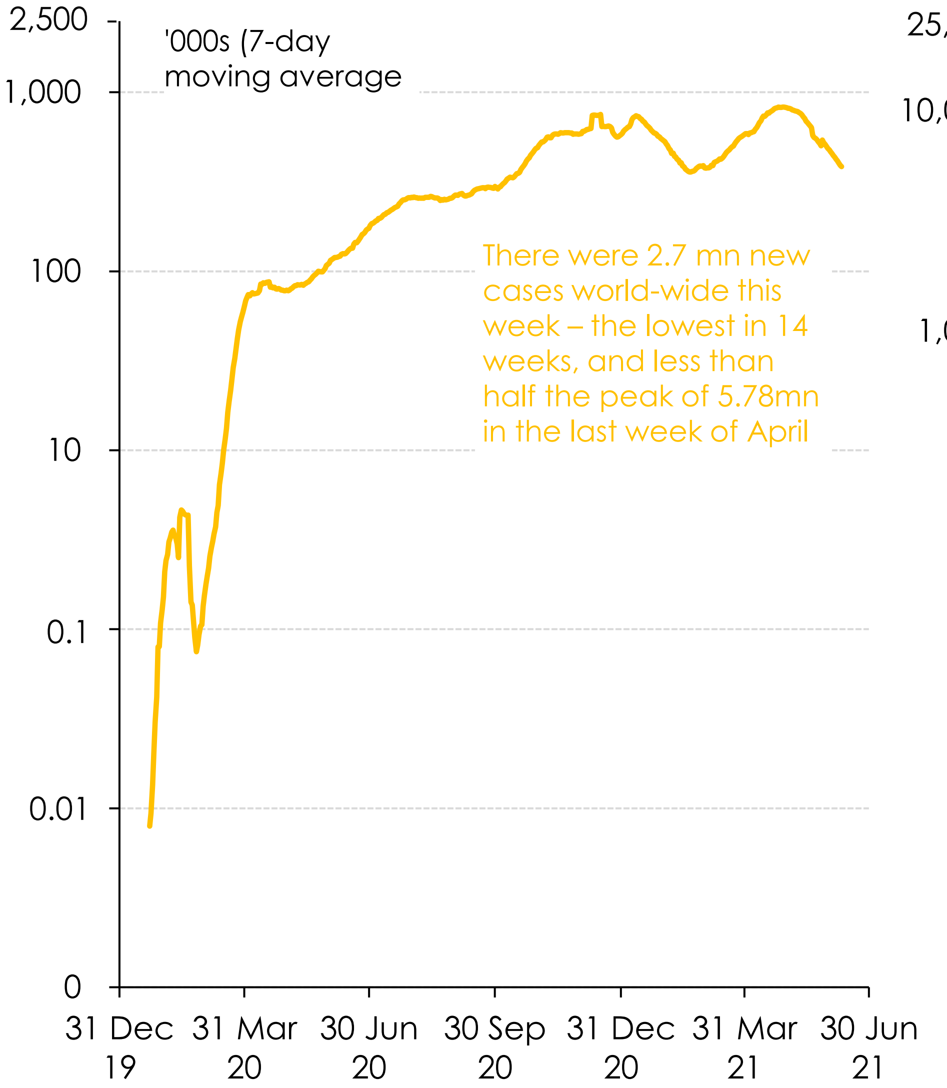
The virus

This week's tally of new cases was the lowest in 14 weeks, less than half the peak in late April, and the death toll was the lowest in 11 weeks

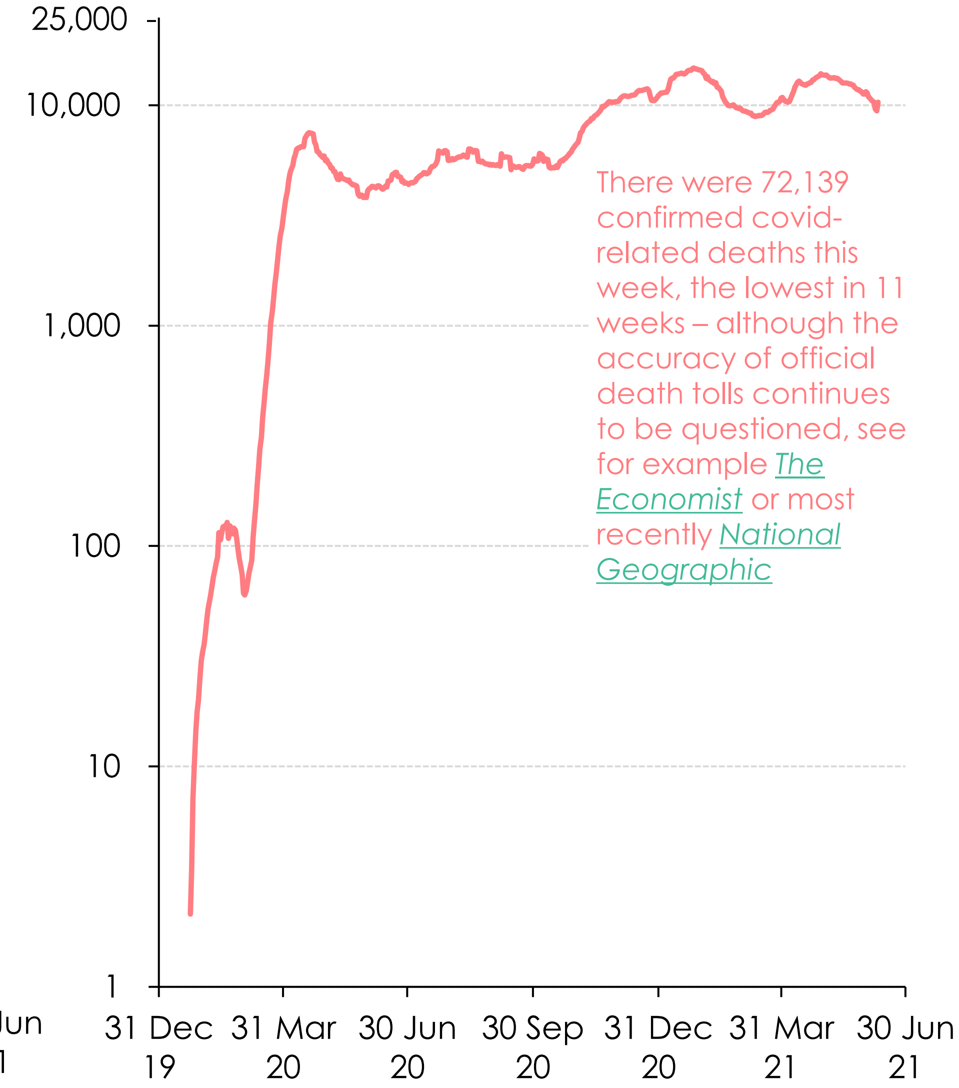
Cumulative confirmed cases – global total



New confirmed cases – global total



New deaths – global total



There were 72,139 confirmed covid-related deaths this week, the lowest in 11 weeks – although the accuracy of official death tolls continues to be questioned, see for example *The Economist* or most recently *National Geographic*

Note: All charts are on logarithmic scales. Data up to 10th June. Data on deaths excludes the reclassification by Peru in the first week of June of 111,400 deaths as 'covid-related' *Source:* University of Oxford, *Our World in Data*. Return to "What's New".

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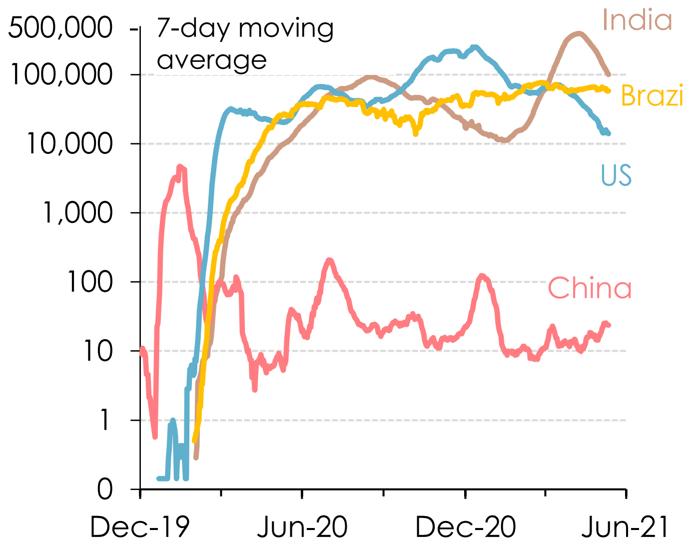
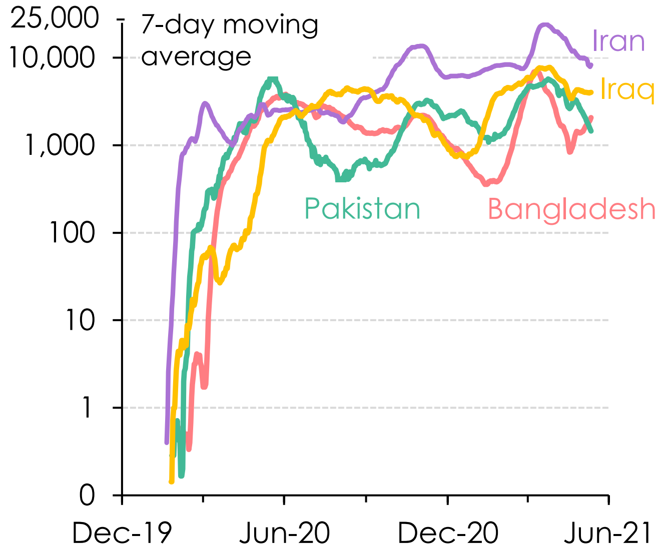
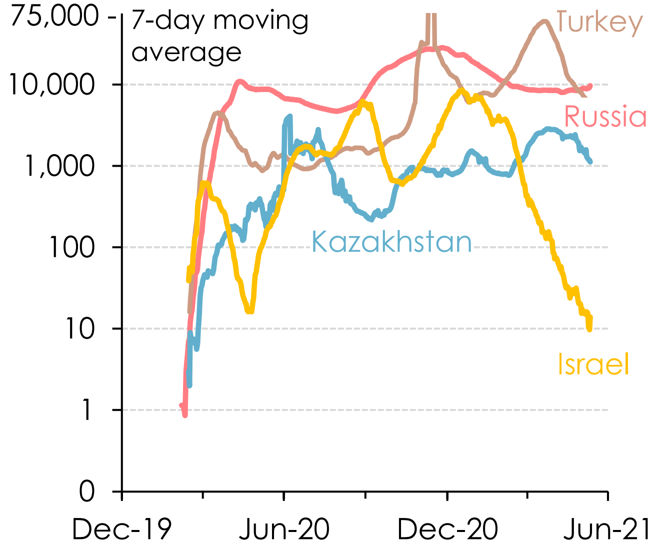
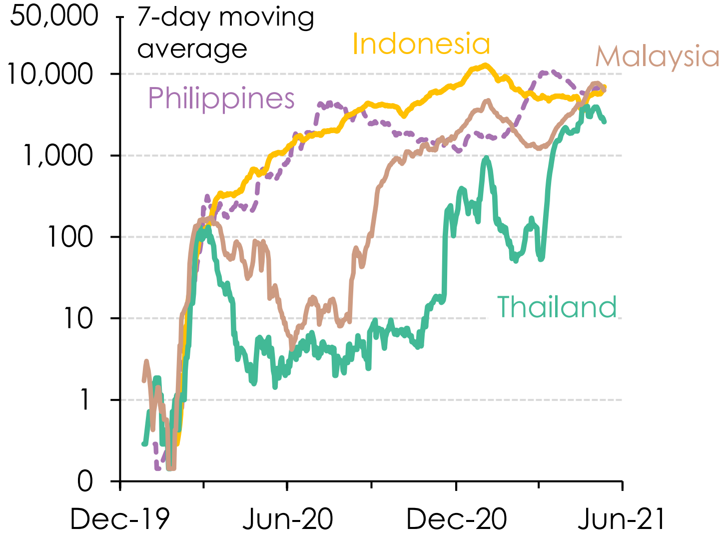
26% of this week's new infections were in India, 32% in South America (incl. 15% in Brazil), 8% in Europe, 6% in South-East Asia and 3½% in the US

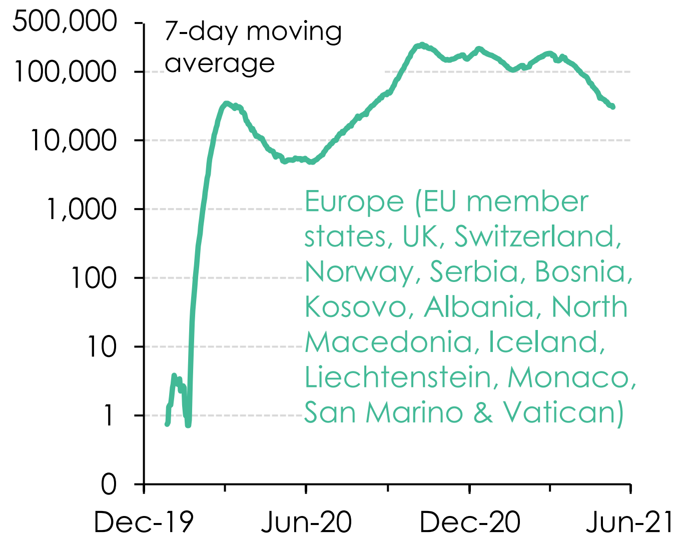
Daily new cases – selected countries with large populations and/or rapid growth in cases

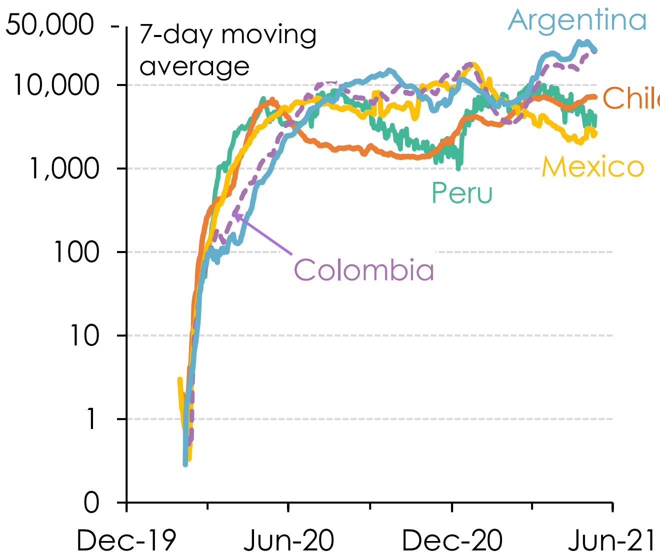


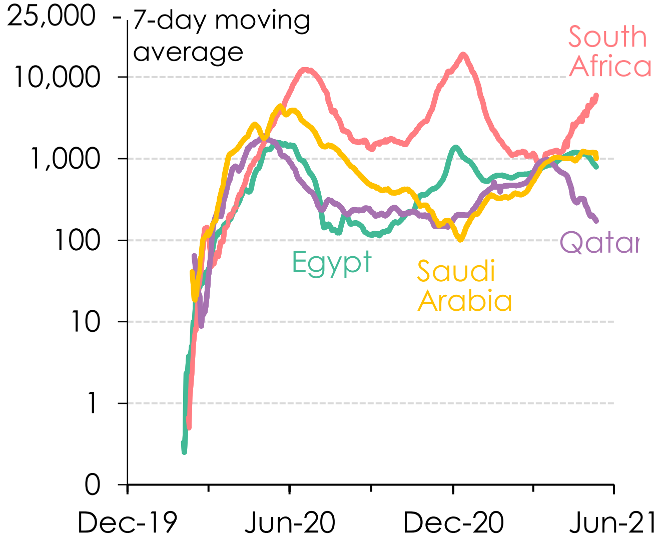


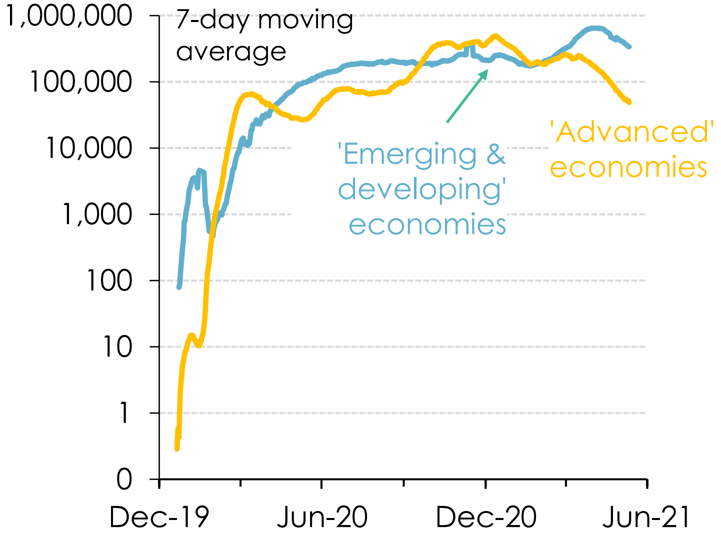








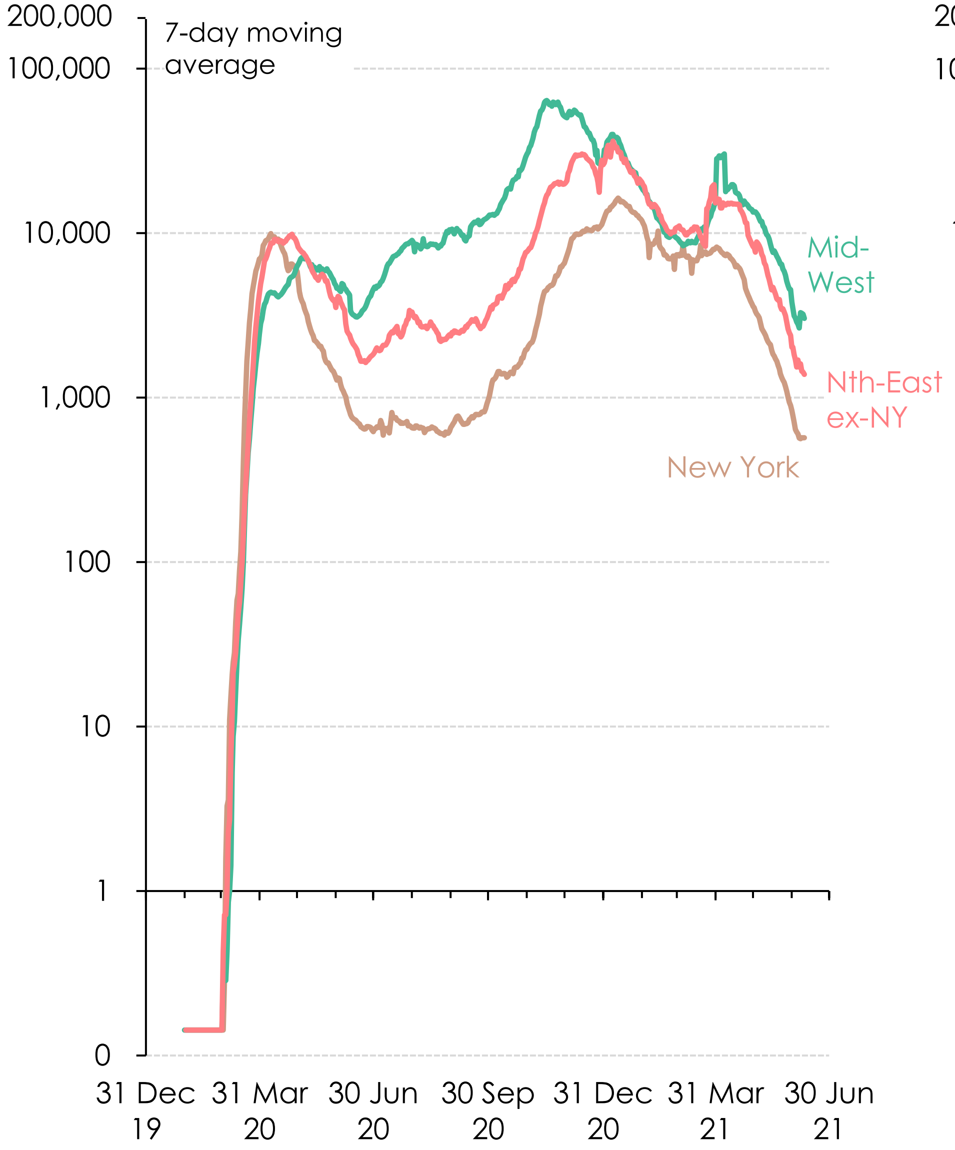




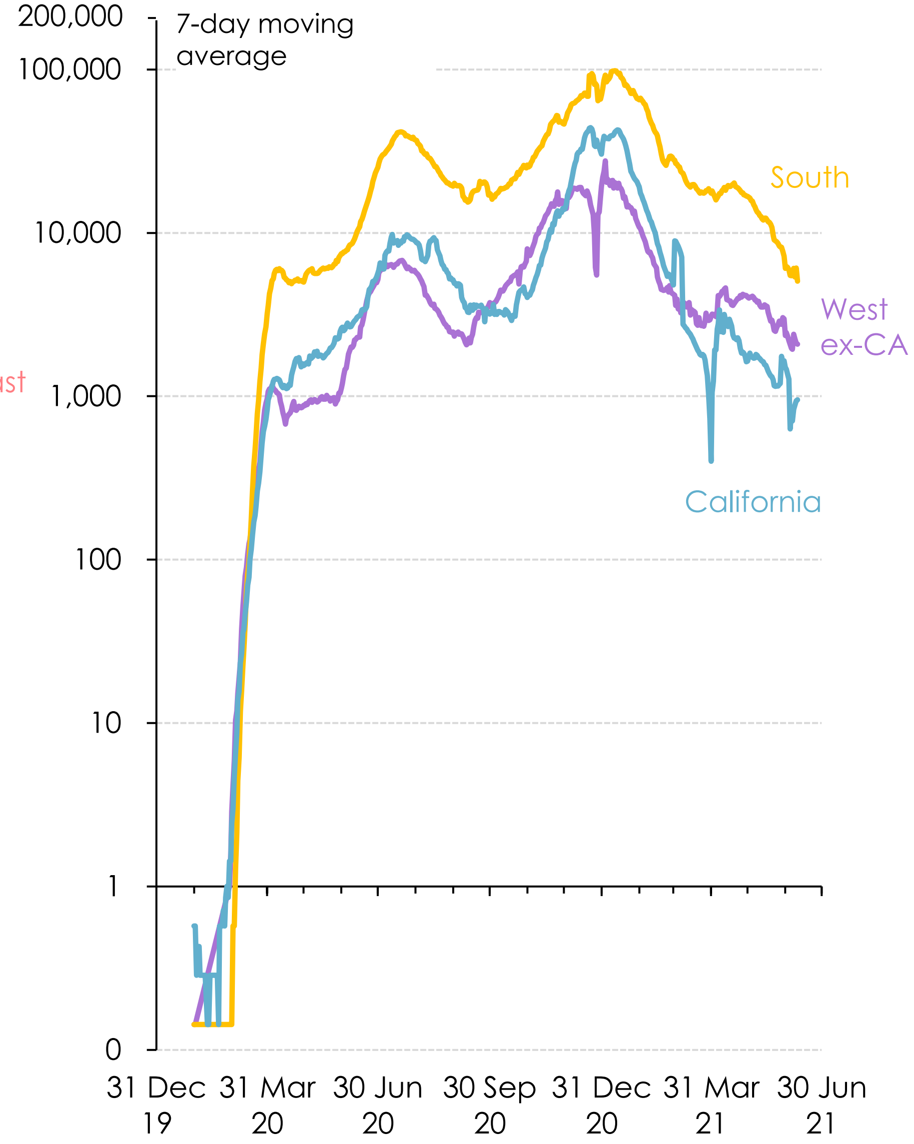
Note: All charts are on logarithmic scales. Data up to 10th June. *Source:* University of Oxford, Our World in Data; Corinna. Return to "What's New".

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

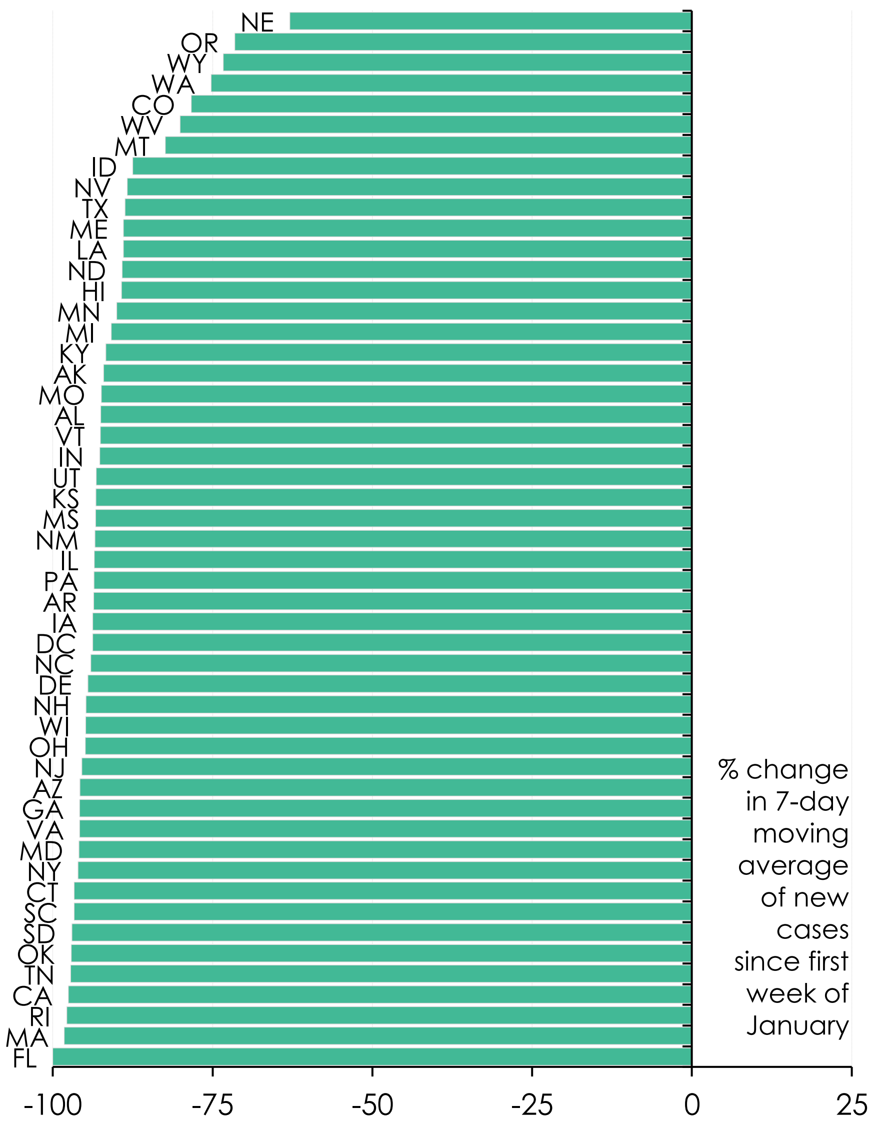
New cases – Mid-West and North-East



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 10th June. Return to "What's New".

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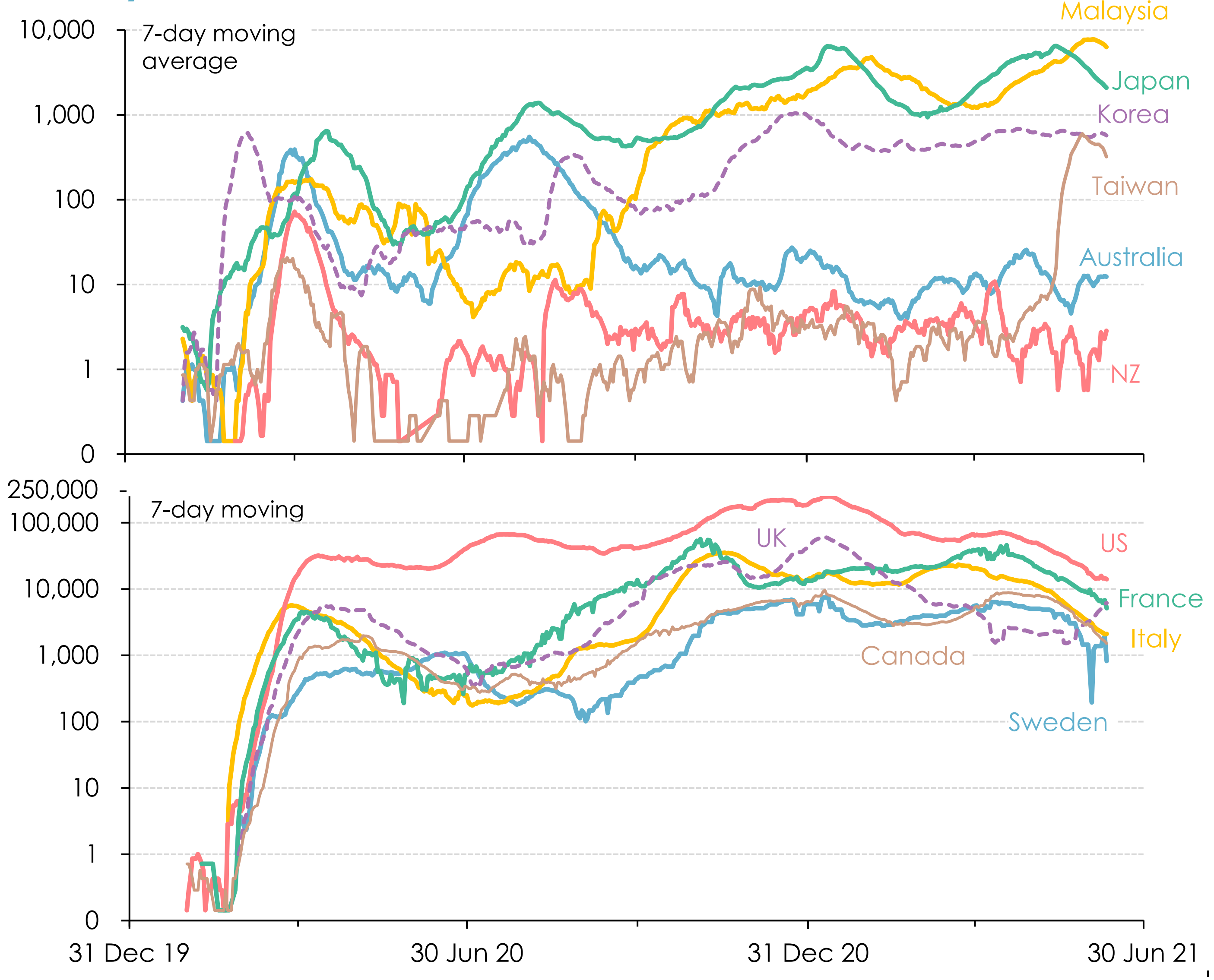
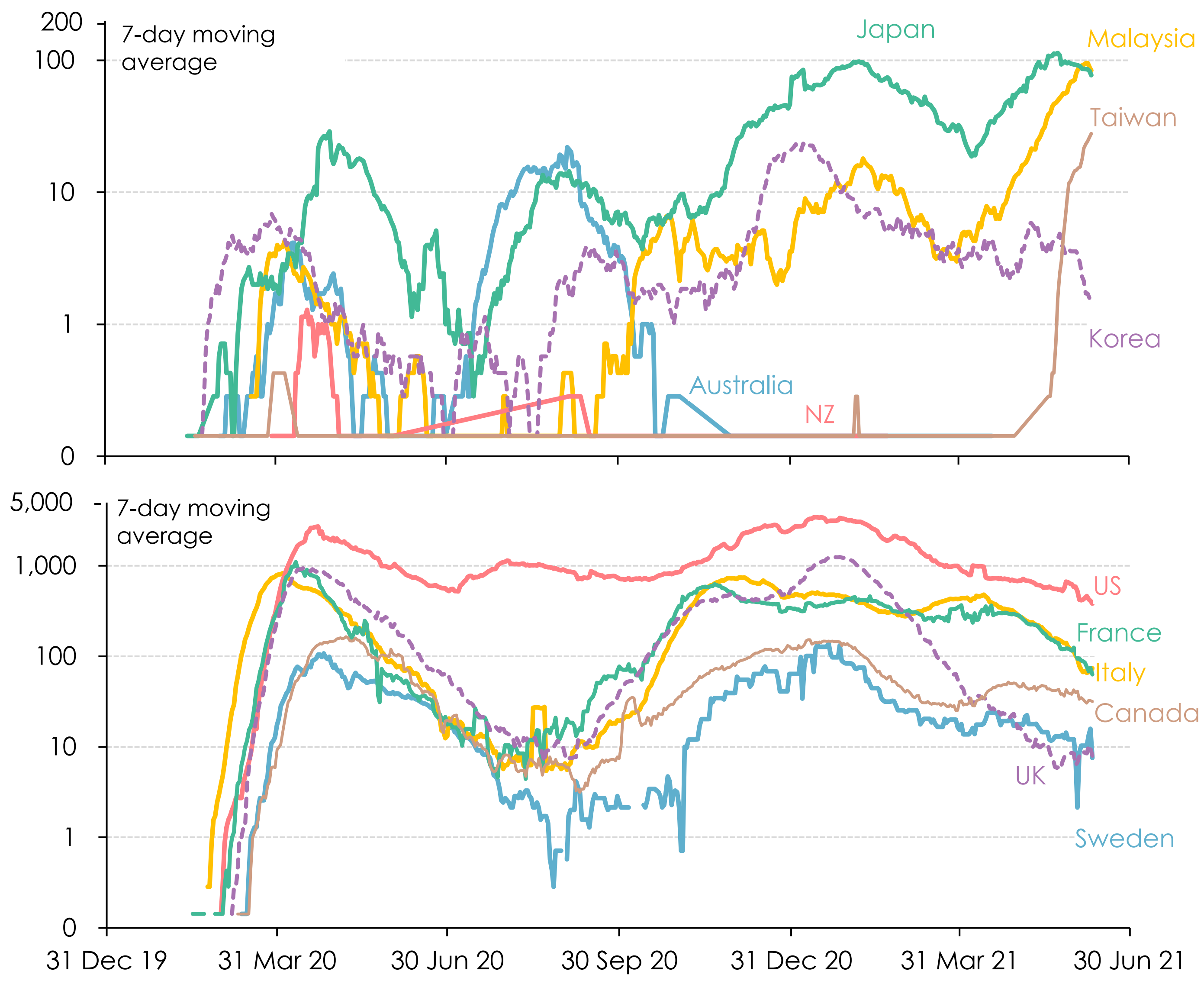
Case numbers and deaths are continuing to decline steadily in the US and Europe, while the more recent rise in cases in Asia may also be peaking

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 10th June. *Source:* University of Oxford, Our World in Data; Corinna. Return to "What's New".

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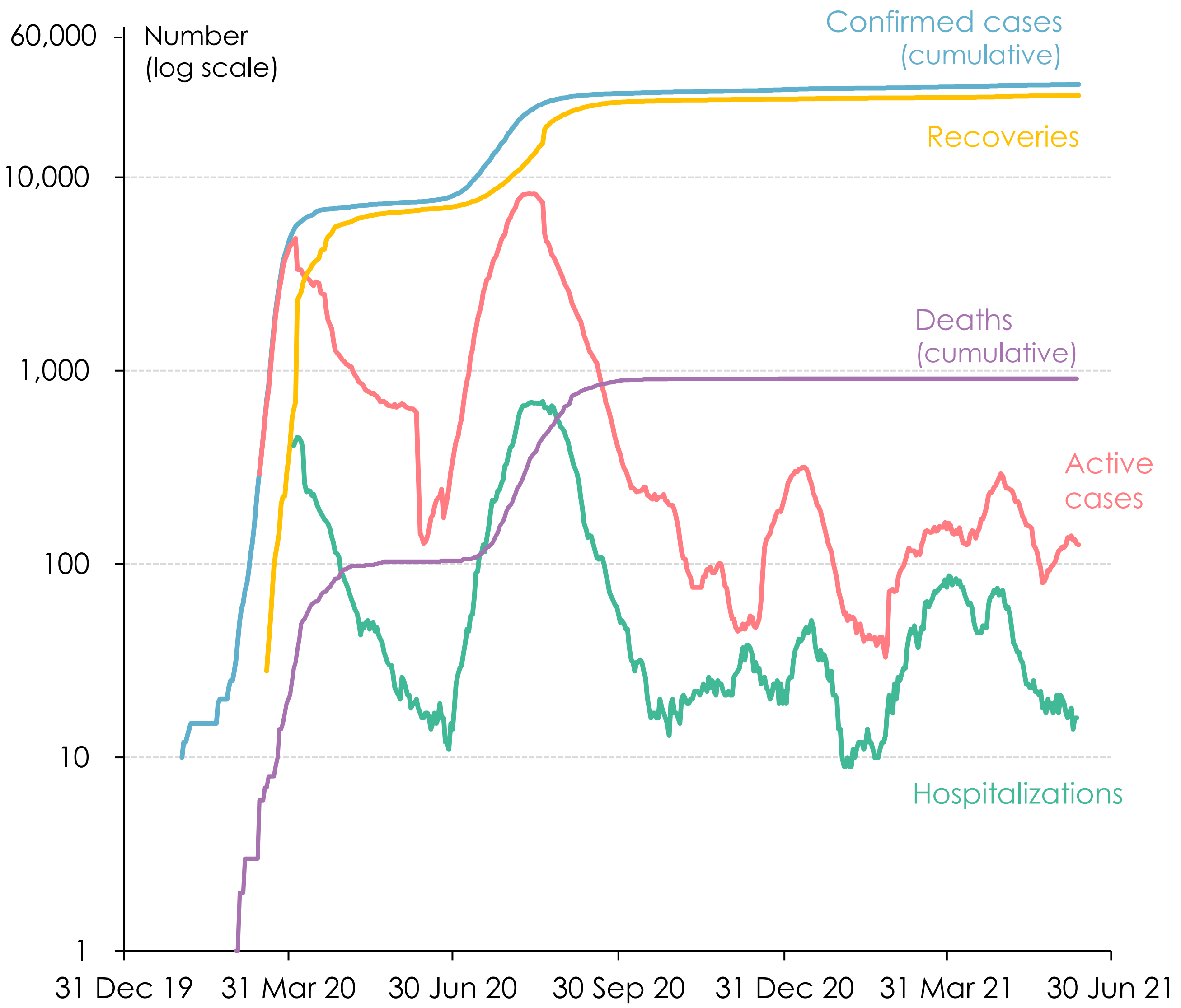
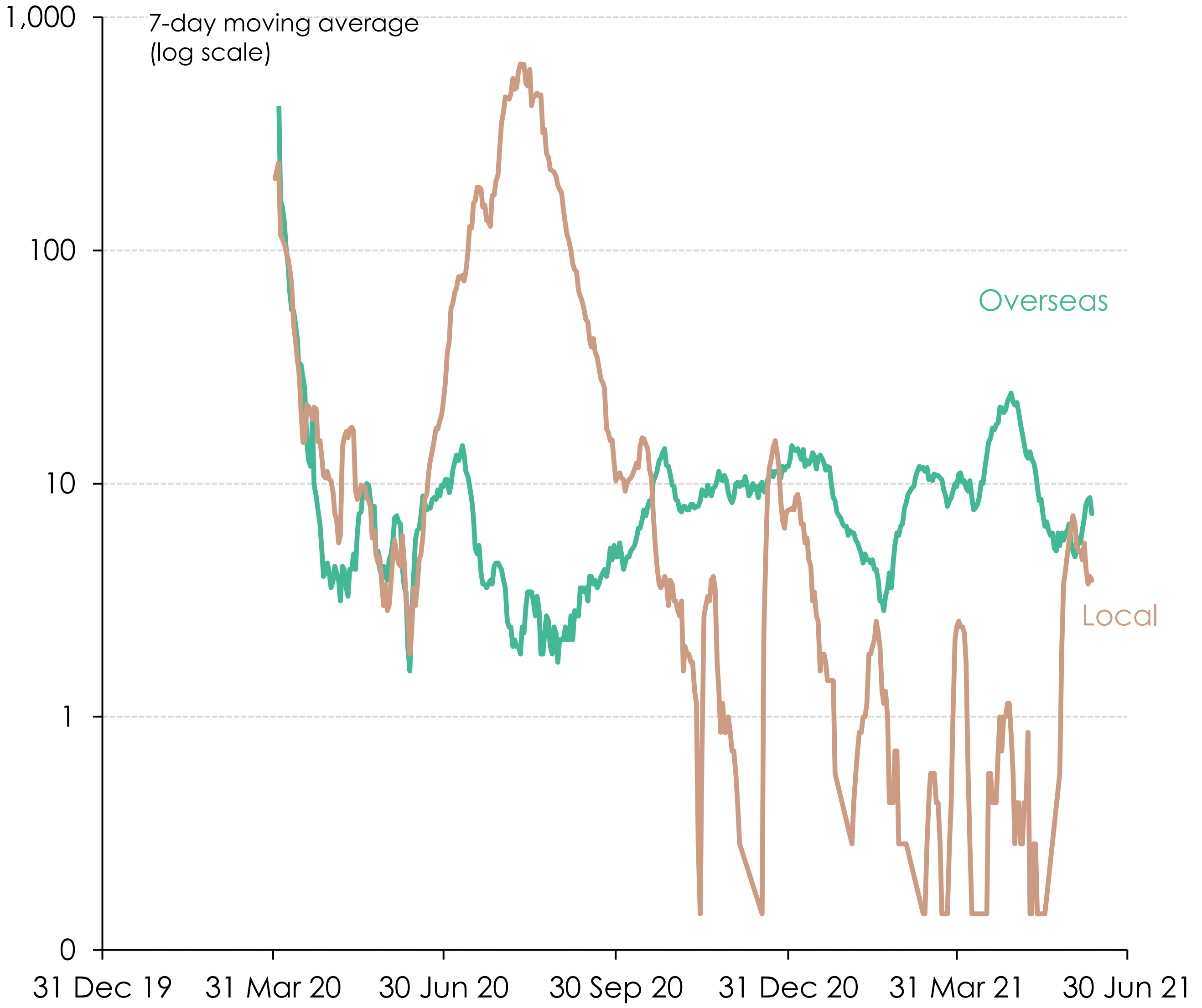
79 new cases were recorded in Australia this week, two more than last week – 52 of them acquired overseas, and 27 locally

Cases, recoveries, hospitalizations and deaths



New cases, by source



Note: Data up to 11th June. *Source:* covid19data.com.au. Return to "What's New".

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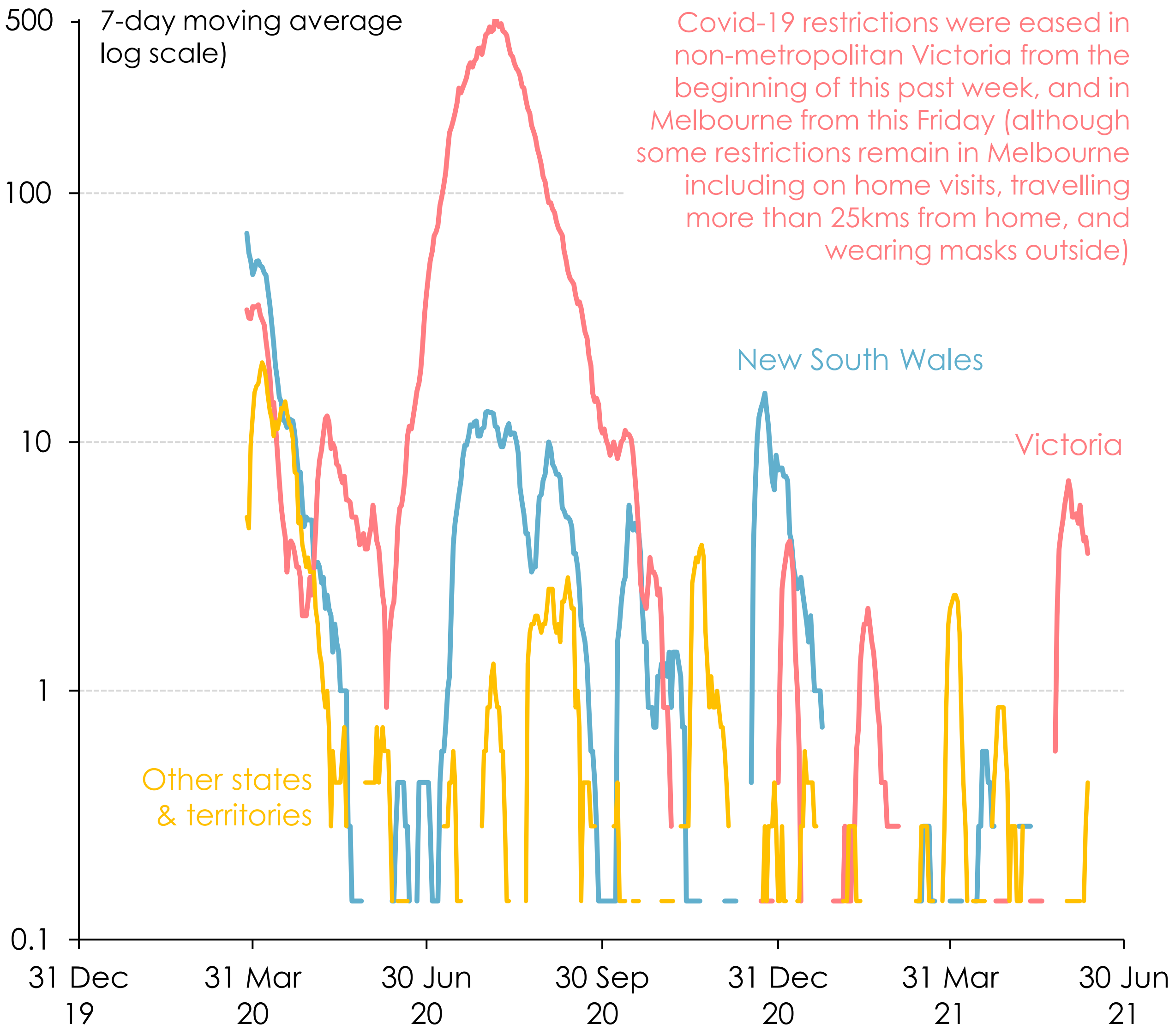
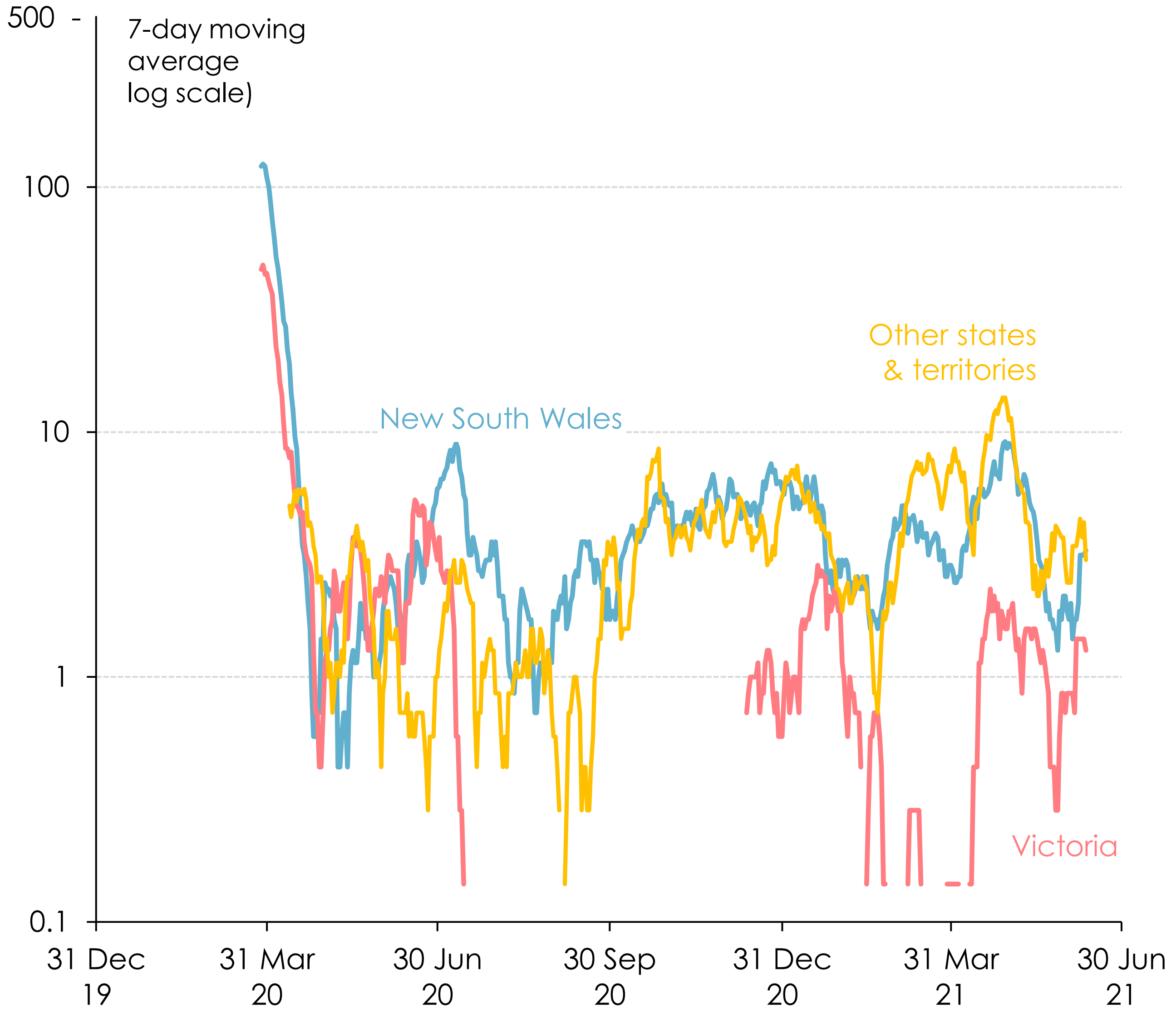
25 of this week's 27 new locally acquired cases were in Victoria, while the other two were taken to Queensland by a Victorian couple

New locally-acquired cases



New overseas-acquired cases



Note: Data up to 11th June. *Source:* covid19data.com.au. Return to "What's New".

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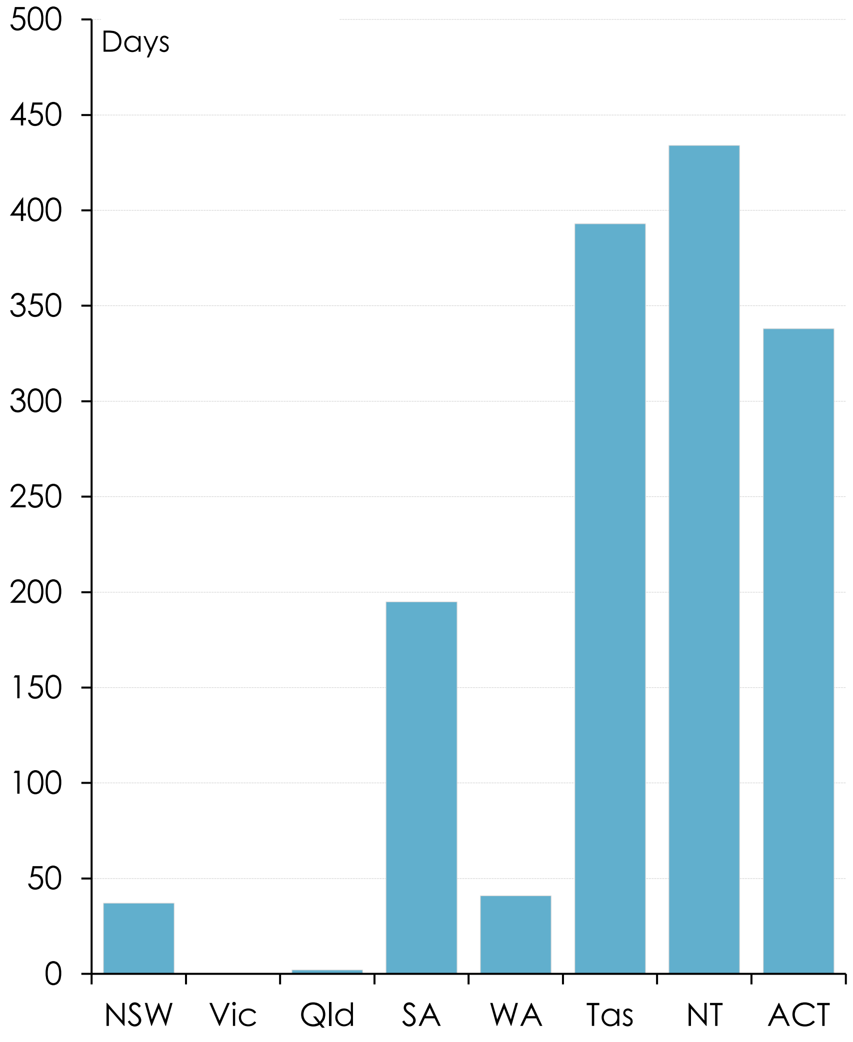
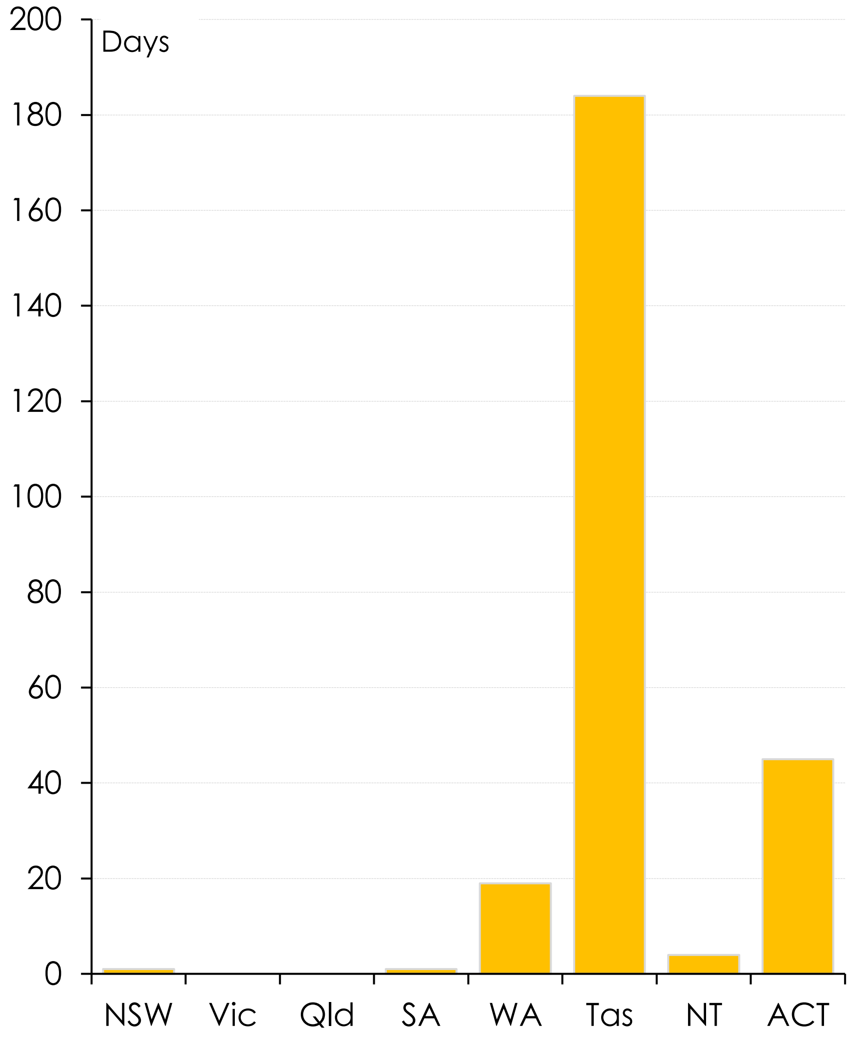
The smaller states and territories have done better at keeping the virus at bay, partly because they receive fewer overseas arrivals

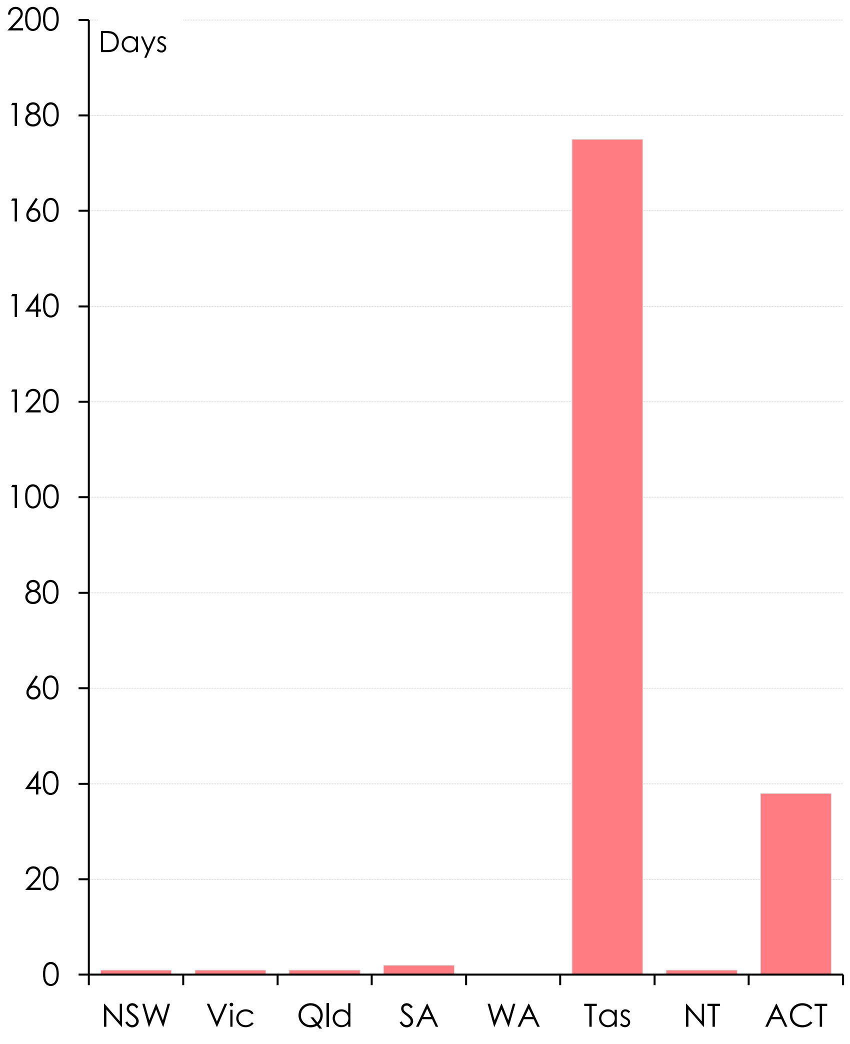
Days since last new locally-acquired case



Days since last new overseas-acquired case



Days since there were any active cases



Note: Data are for 11th June. *Source:* covid19data.com.au. Return to "What's New".

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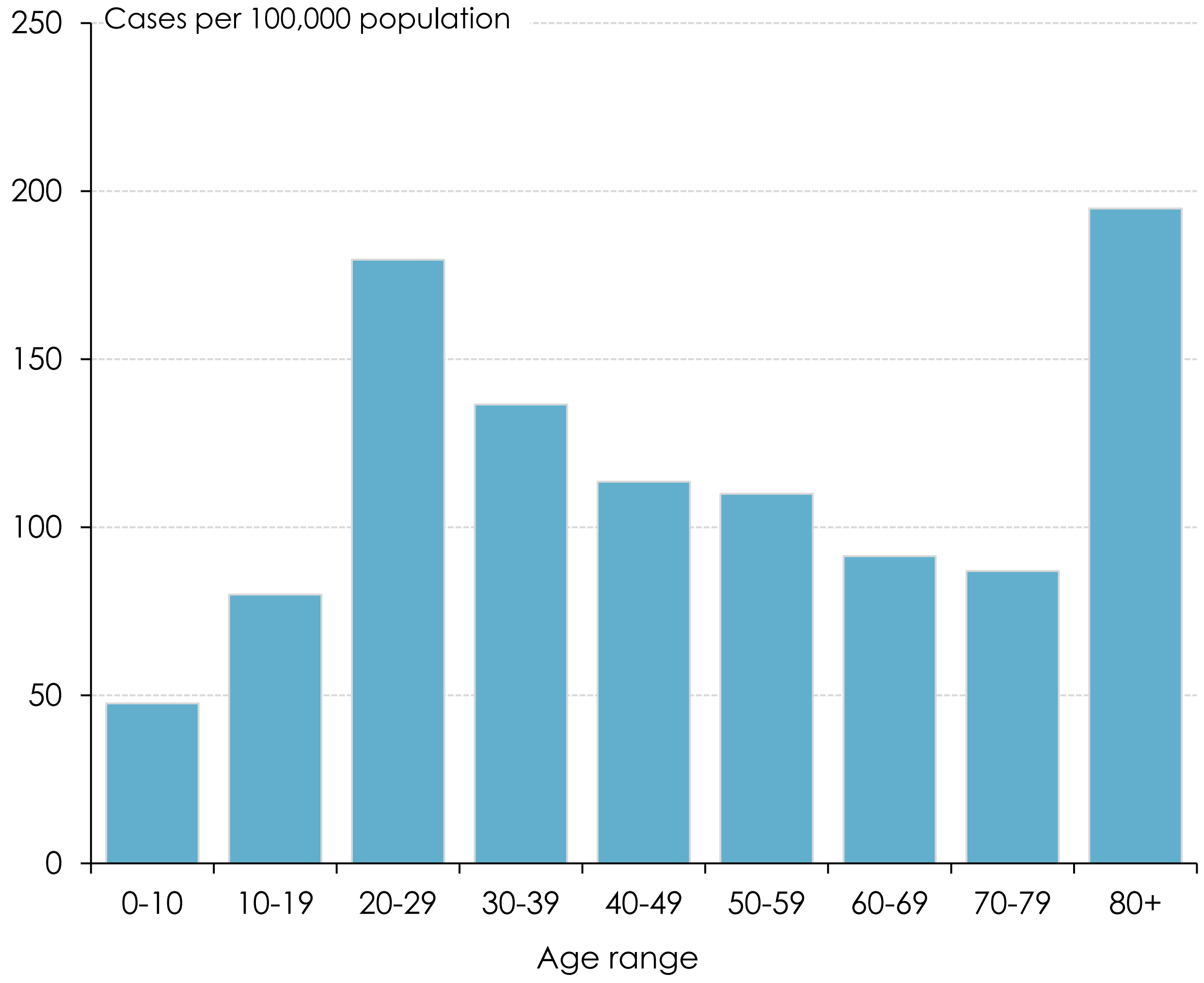
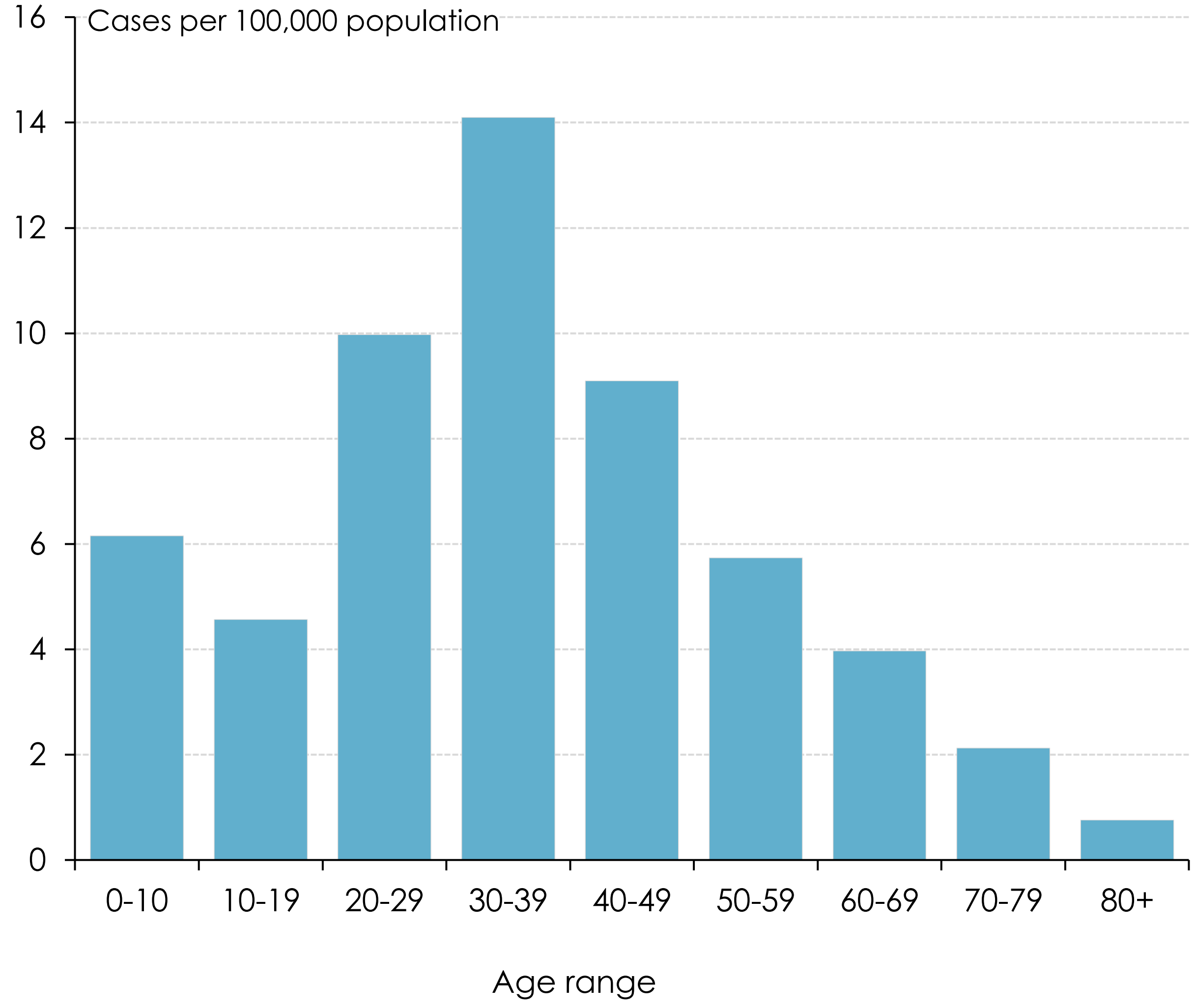
Unlike last year, this year Australian infections have been highest among people in their 30s – because most have been acquired overseas

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 11th June. *Source:* Australian Government Department of Health, National Notifiable Diseases Surveillance System; ABS; Corinna.
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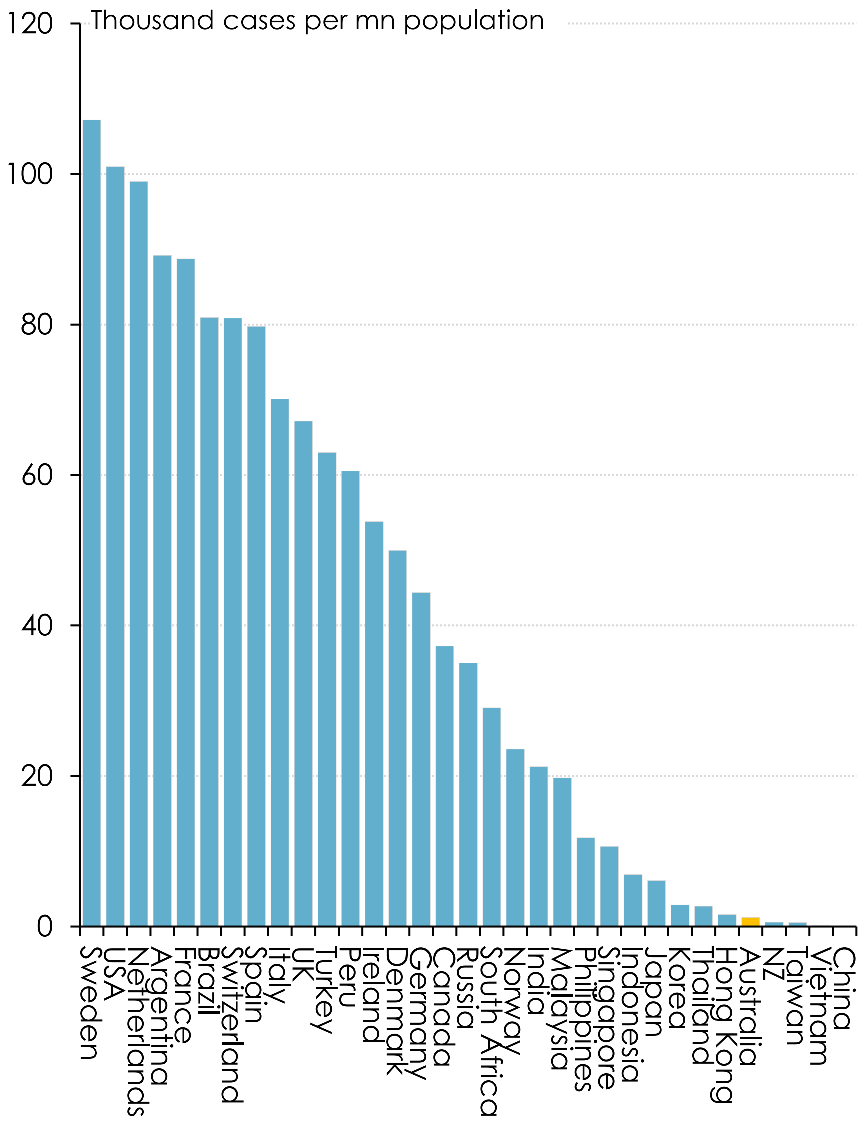
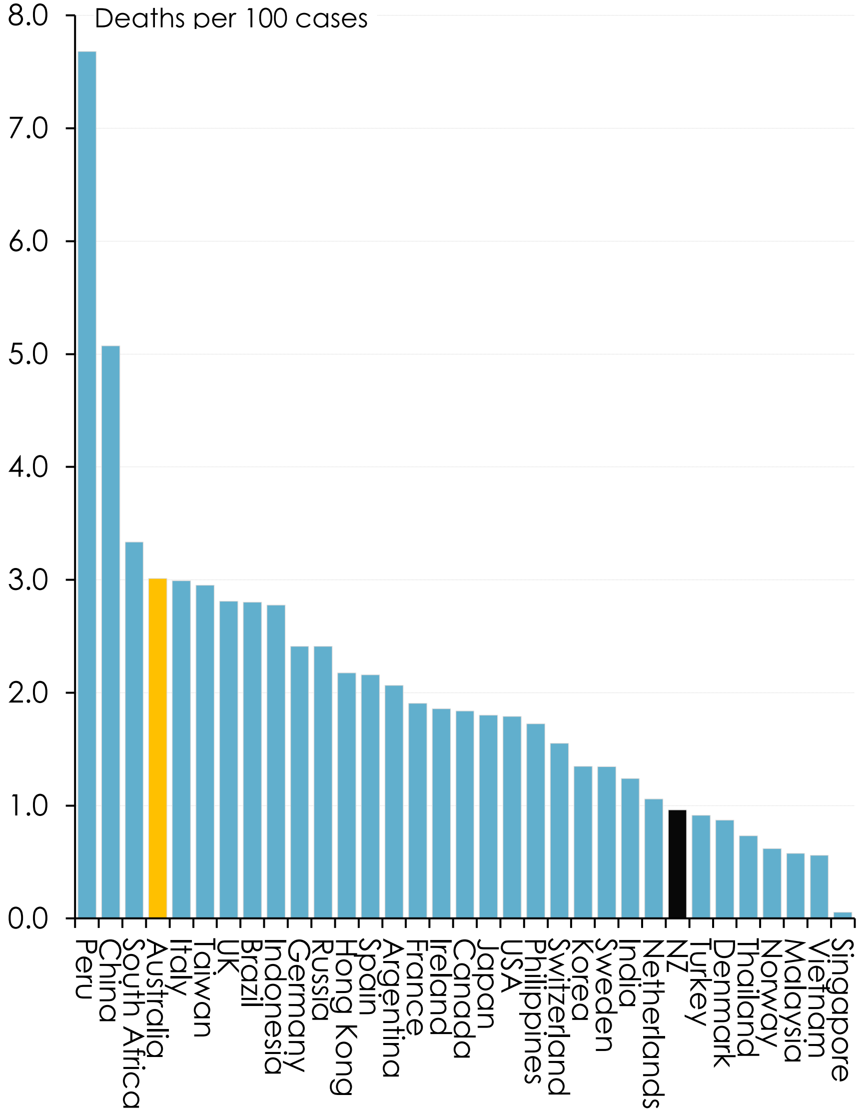
Australia's infection and death rates remain, along with NZ's and most East Asian countries', low by international standards

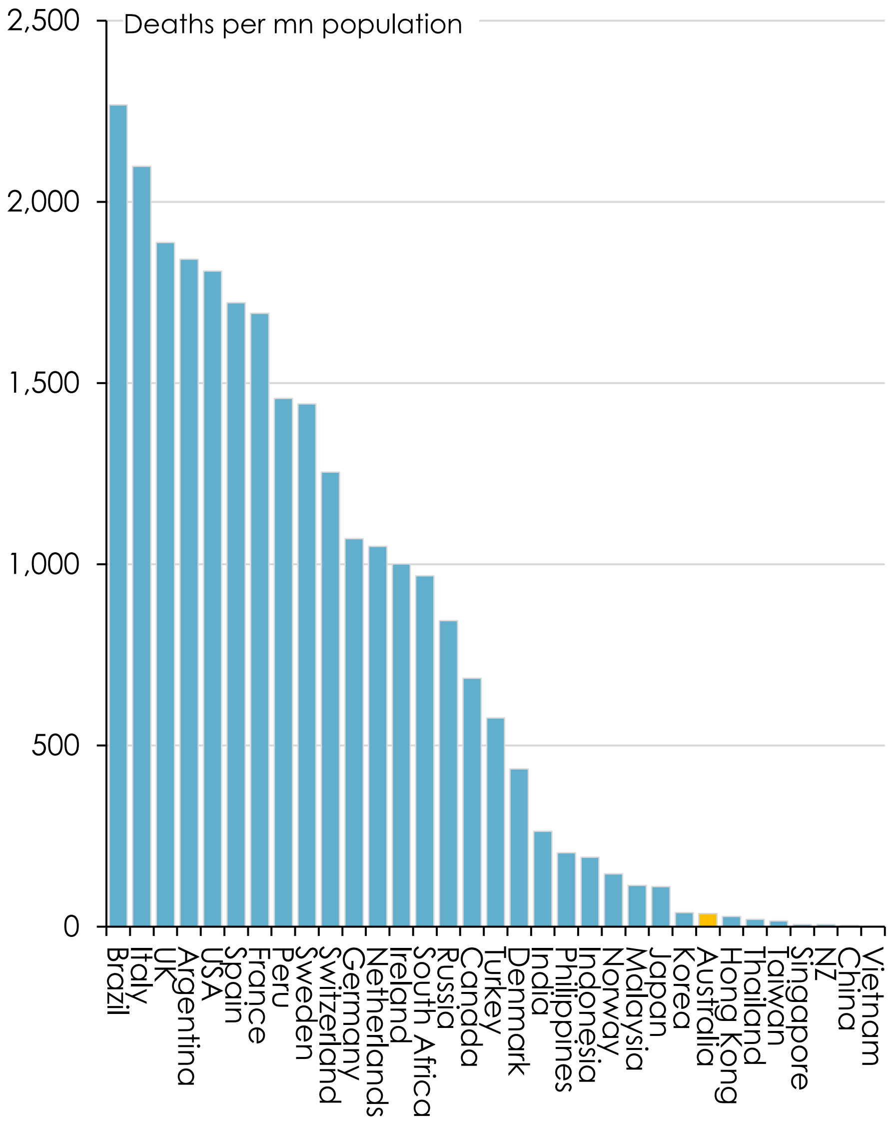
Apparent infection rate



Apparent fatality rate



Death rate



Note: Data up to 10th June. *Sources*: University of Oxford, Our World in Data; Corinna. Return to "What's New".

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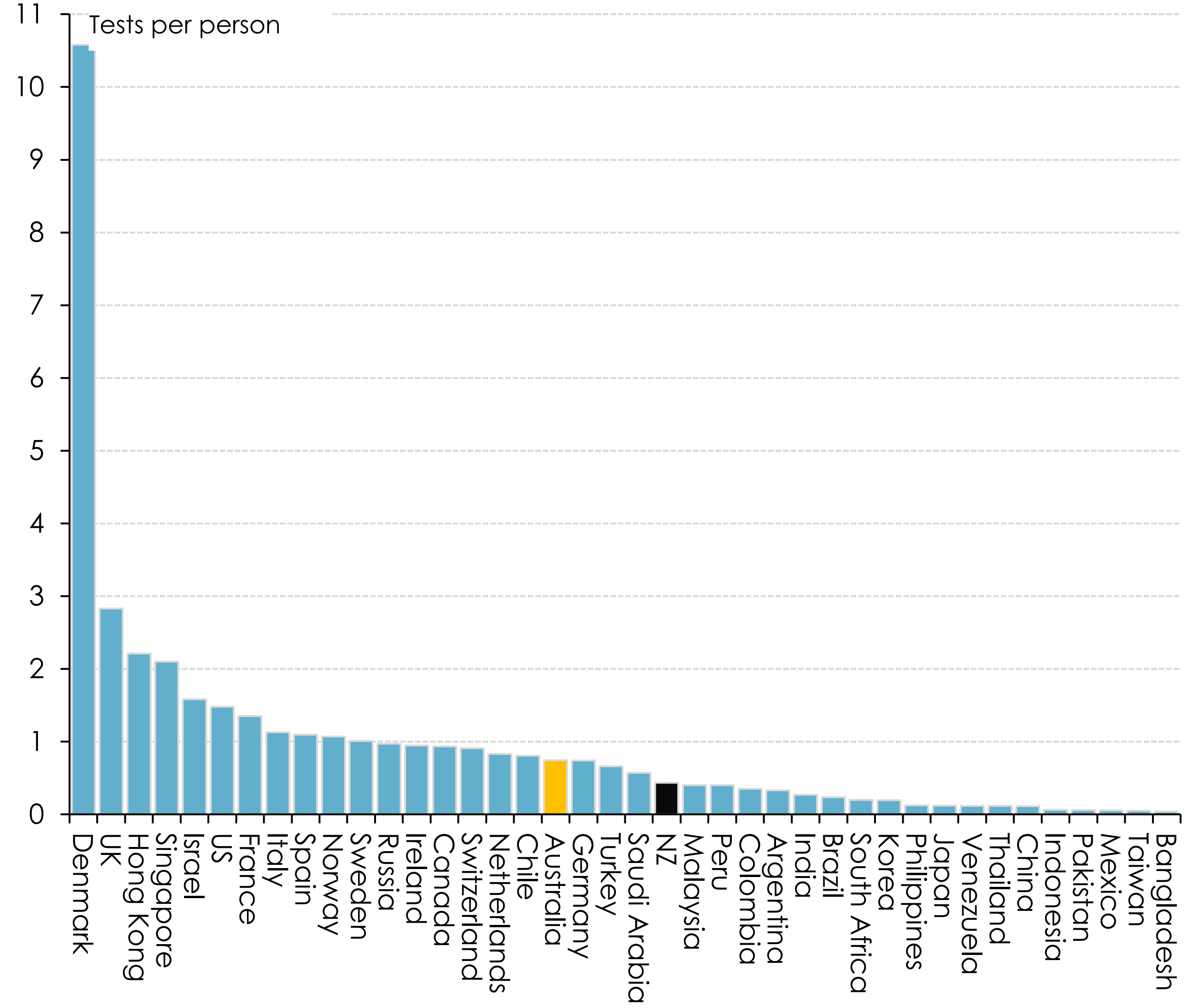
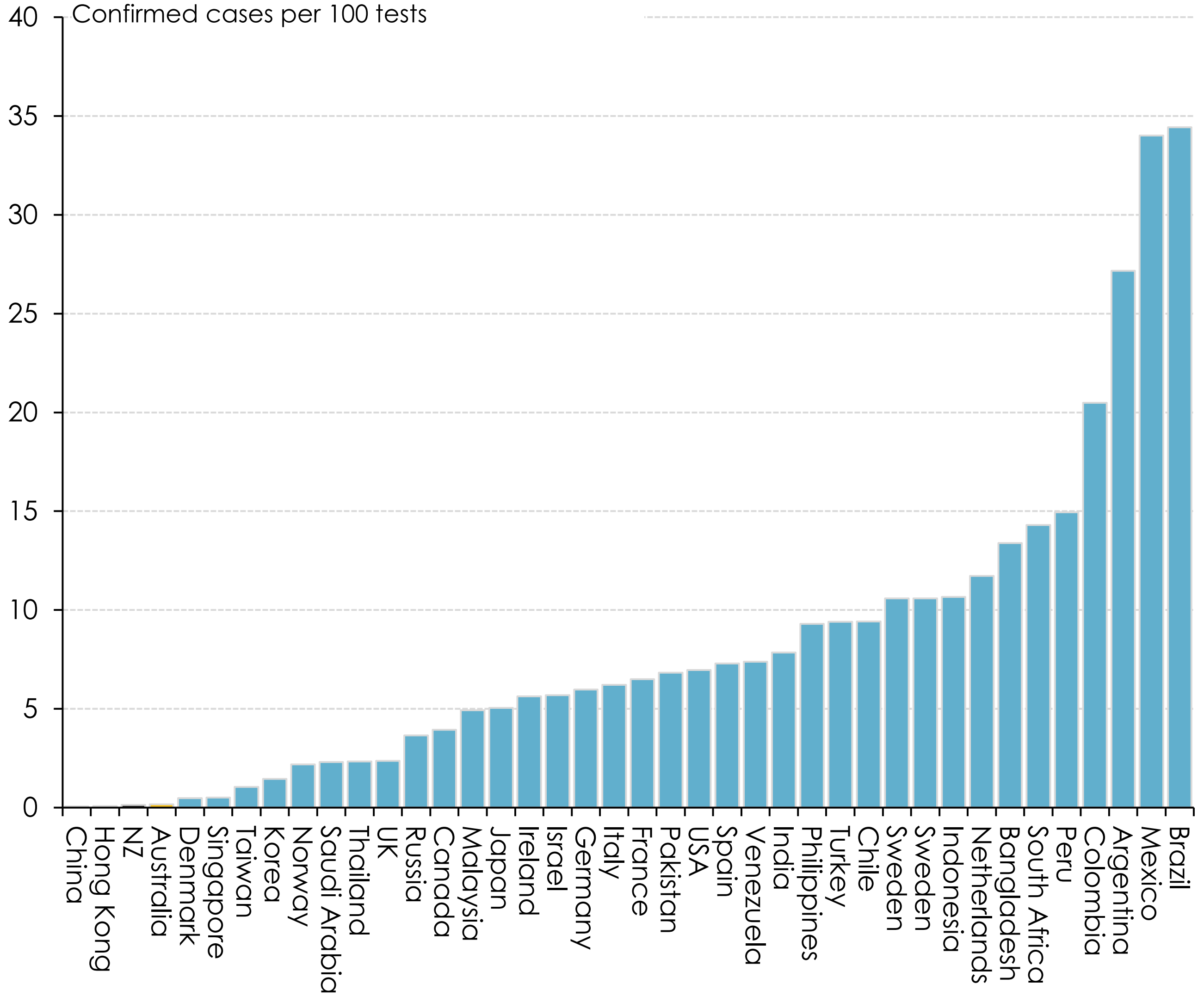
Australia’s testing regime appears sufficiently broad for the low infection and death rates to be seen as ‘credible’ (ie not due to low testing)

Tests per capita



Confirmed cases per 100 tests



Note: Data up to 27th May (and yes it appears, at face value, that Denmark has tested its entire population almost ten times, the UK nearly three times, 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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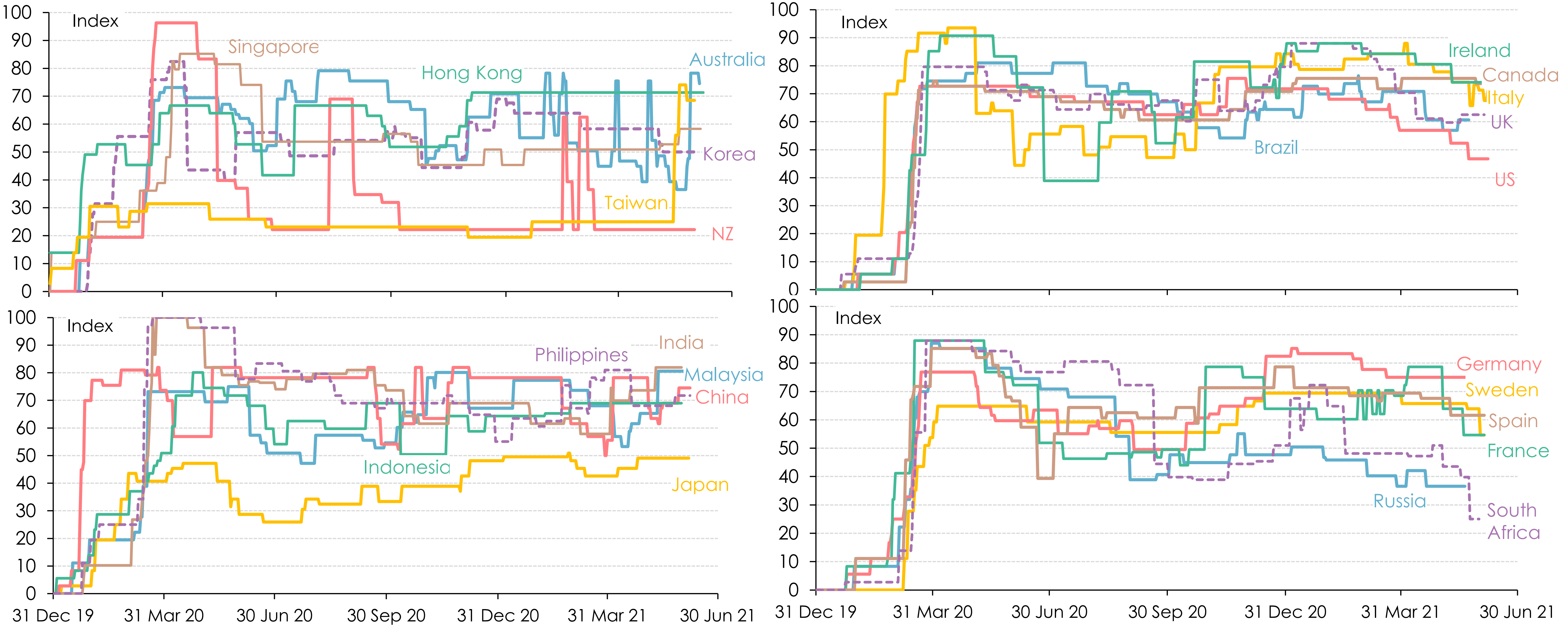
Restrictions have been gradually easing in Europe and the US, but are being tightened in Taiwan, in parts of South-East Asia, and in Victoria

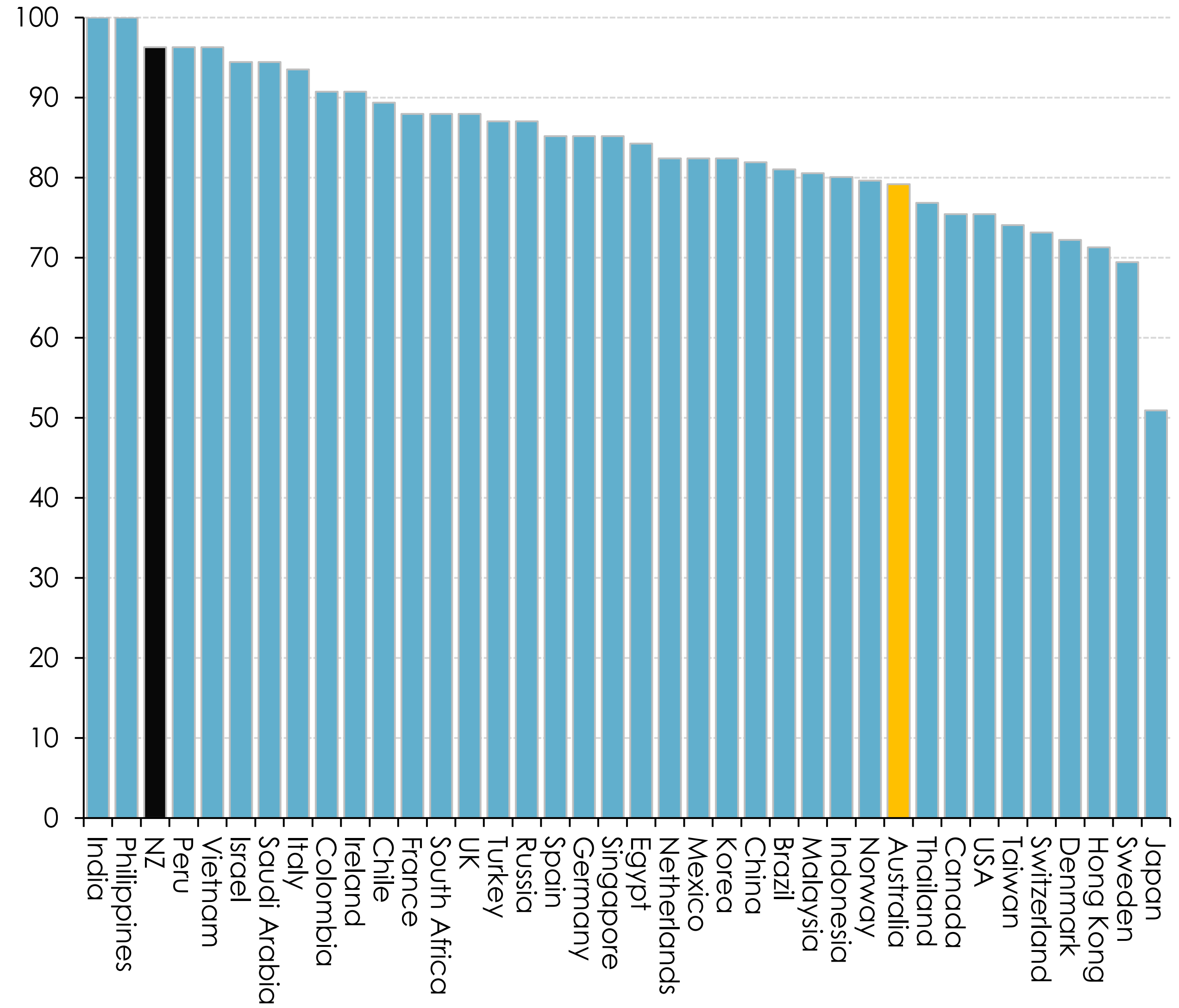
Timing and severity of government restrictions on movement and gathering of people



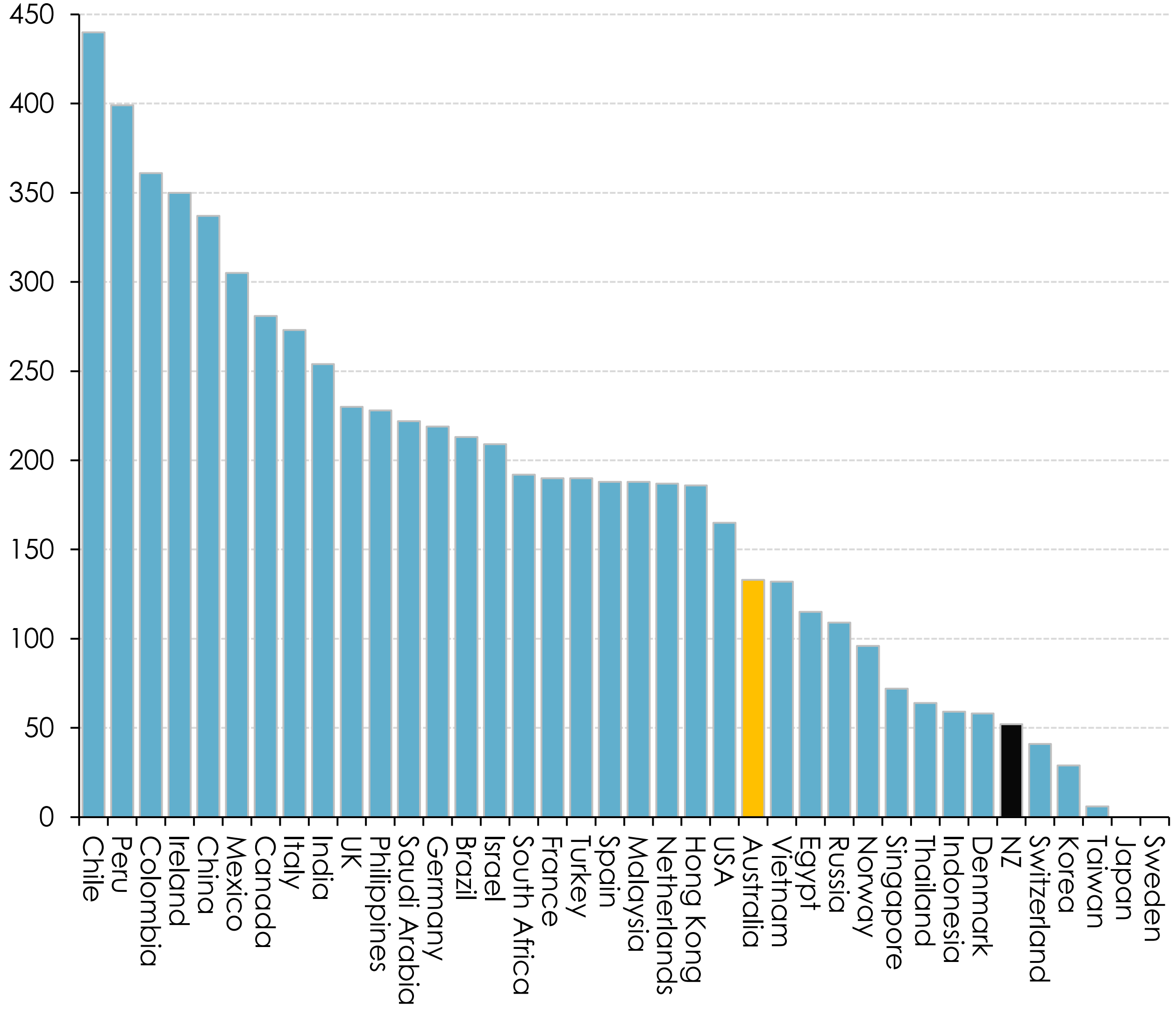
The Oxford COVID-19 Government Response Tracker collects publicly available information on 11 indicators of government response including school and workplace closures, public events cancellations, restrictions on public gatherings, stay at home requirements, public transport closures, domestic and international 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 31st May – 10th June, except for Russia, 20th May & Brazil, 23rd 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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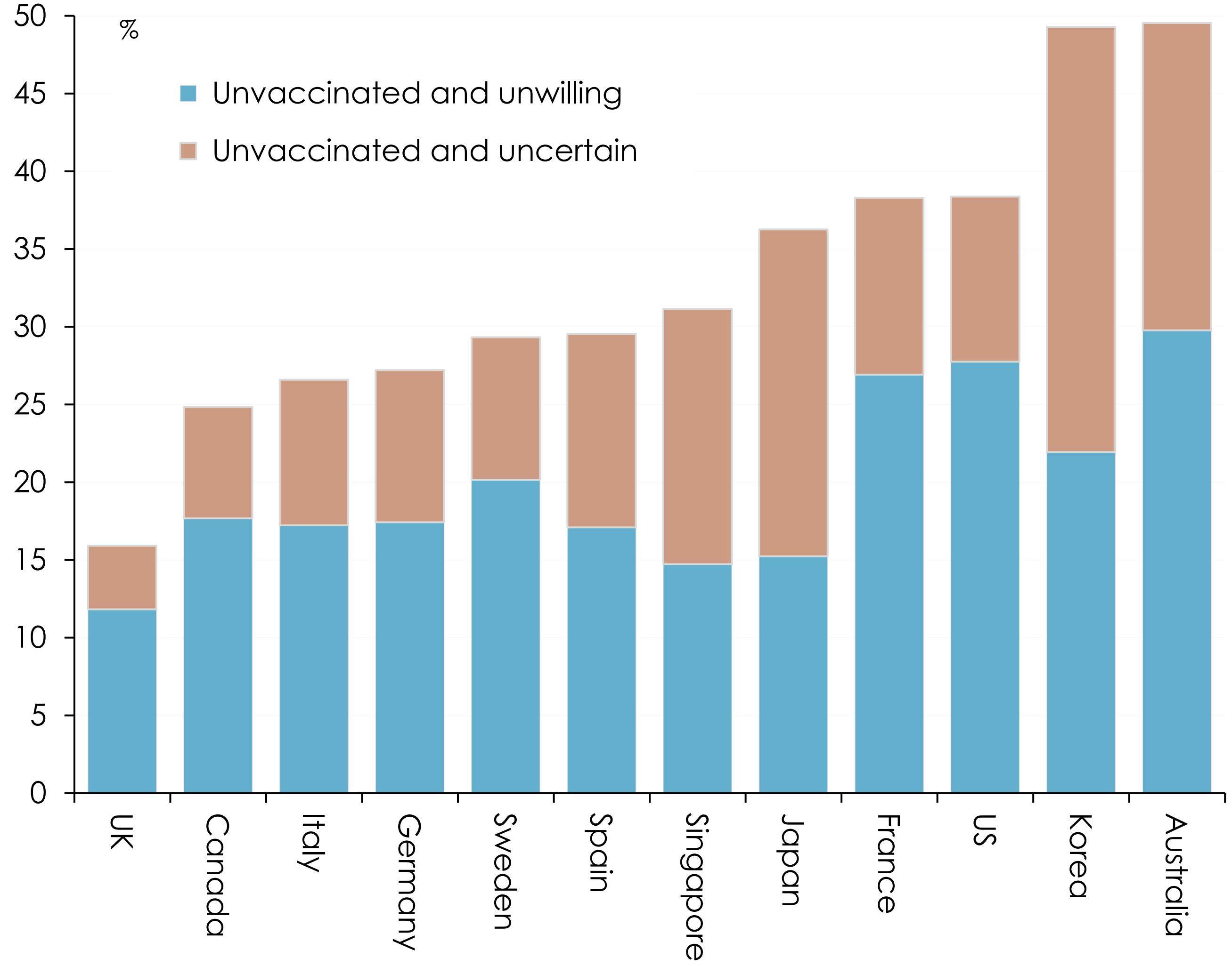
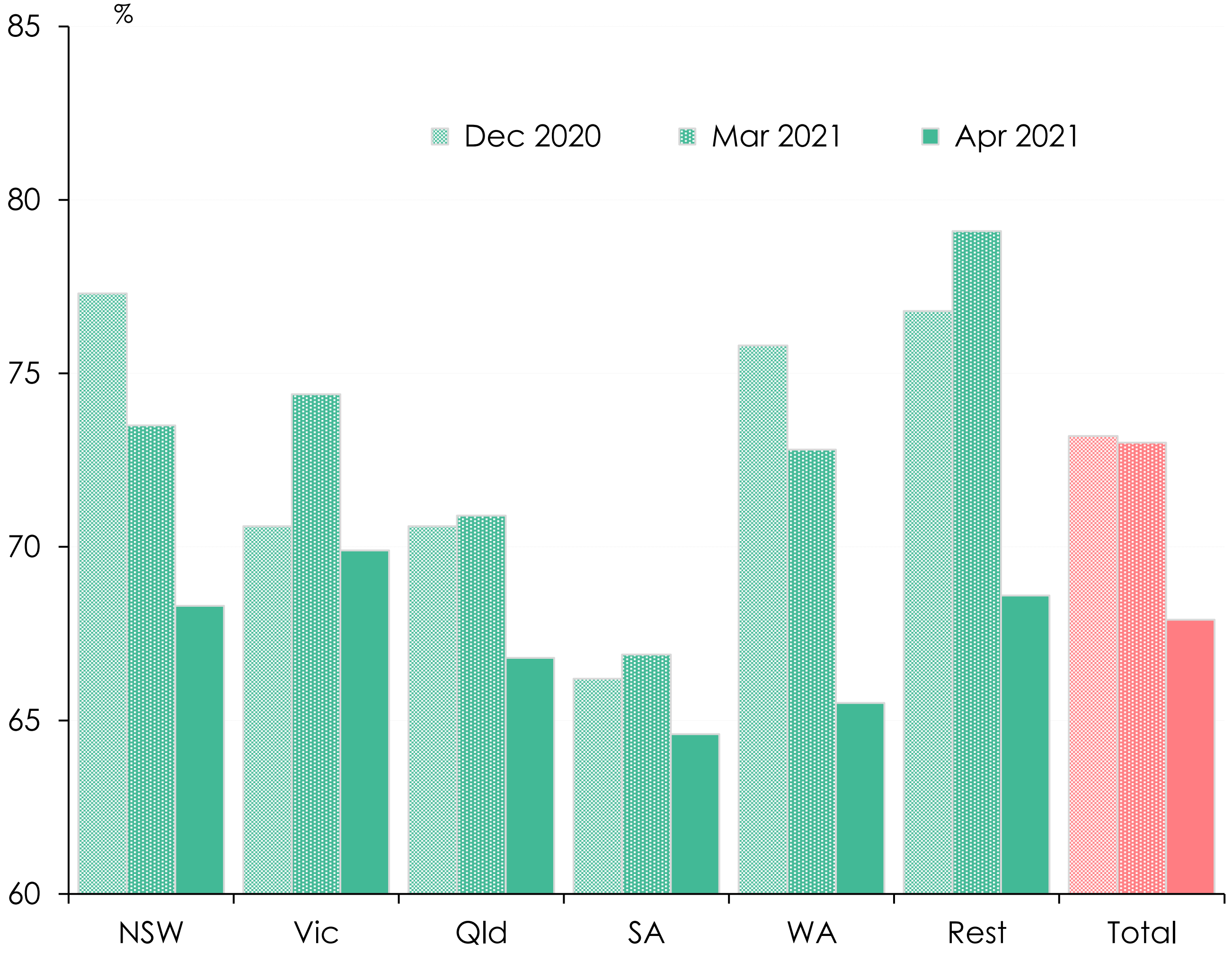
‘Vaccine hesitancy’ is a barrier to returning to ‘normal’ – and Australia has the highest vaccine hesitancy out of 12 ‘advanced’ economies

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



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



Note: Survey results in left hand chart are for May. Right-hand chart will be updated when results of May ABS survey of households is released on 16th June.
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".

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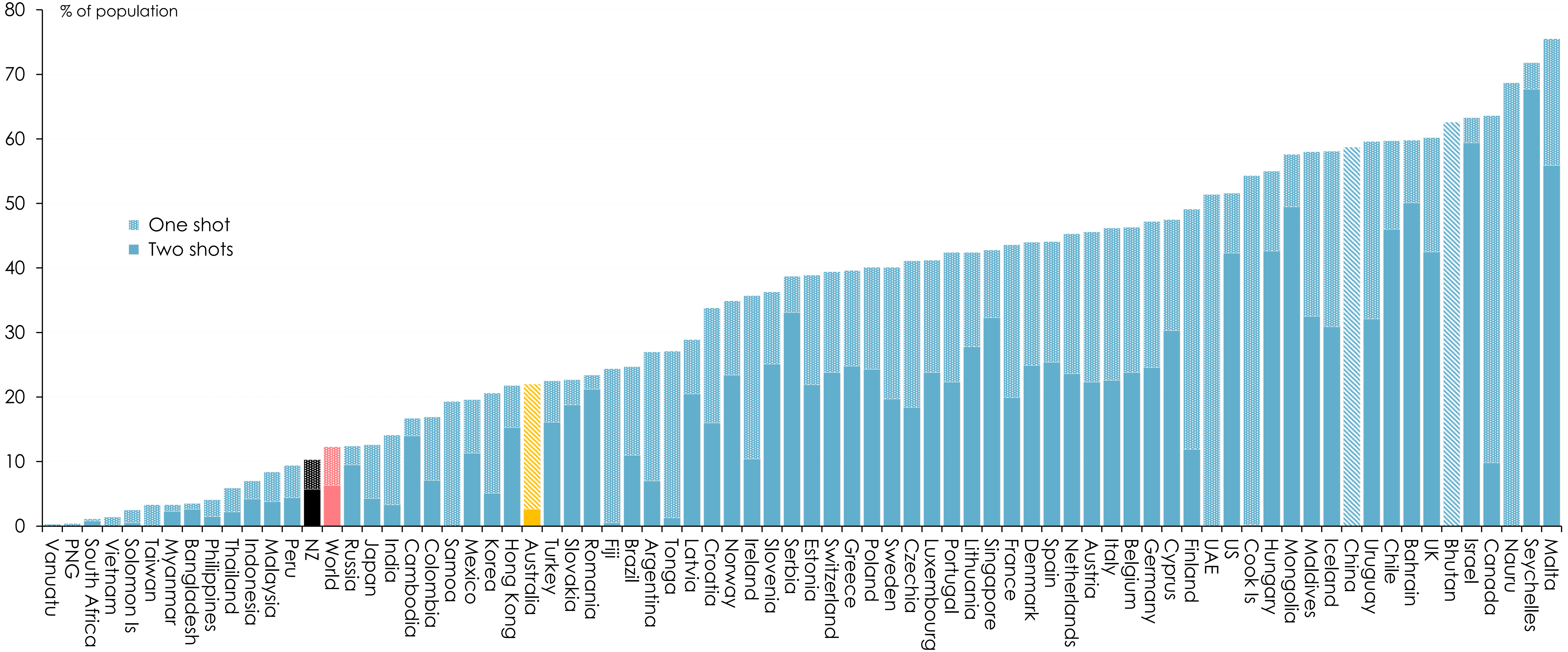
Israel, Canada, the UK, the US and some small countries have made the most progress with vaccines, Europe is catching up, but Asia still lags badly

Percentage of population who have had at least one vaccination shot as at 8th – 10th June



Note: Data for Bhutan, China, Nauru, and Samoa are number of vaccinations per 100 people. Data for the UAE is 20th April; Myanmar is 13th May; South Africa is 22nd May; all others are between 7th and 10th June. *Sources:* Our World in Data, Coronavirus (COVID-19) Vaccinations; covid19data.com.au. Return to "What's New".

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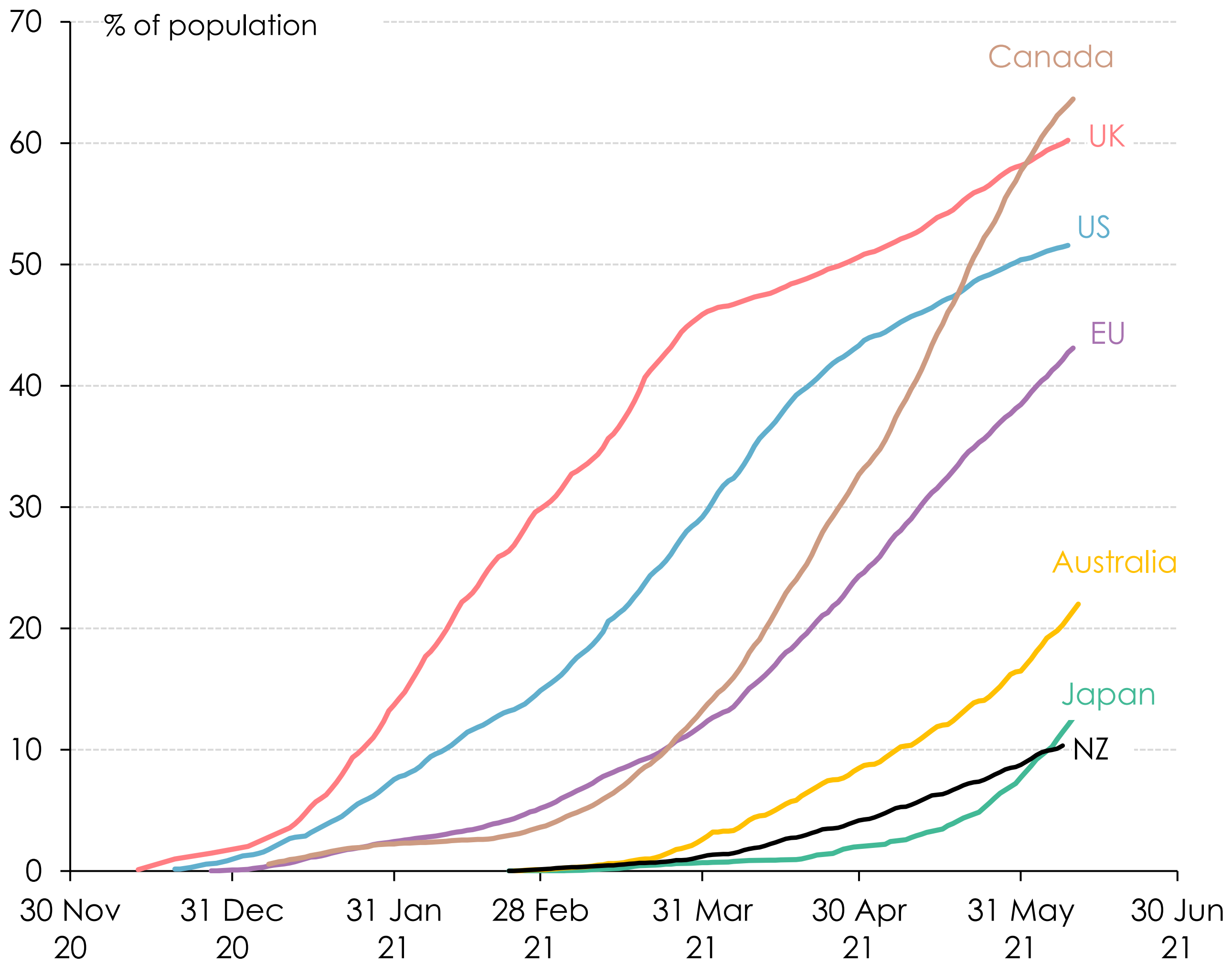
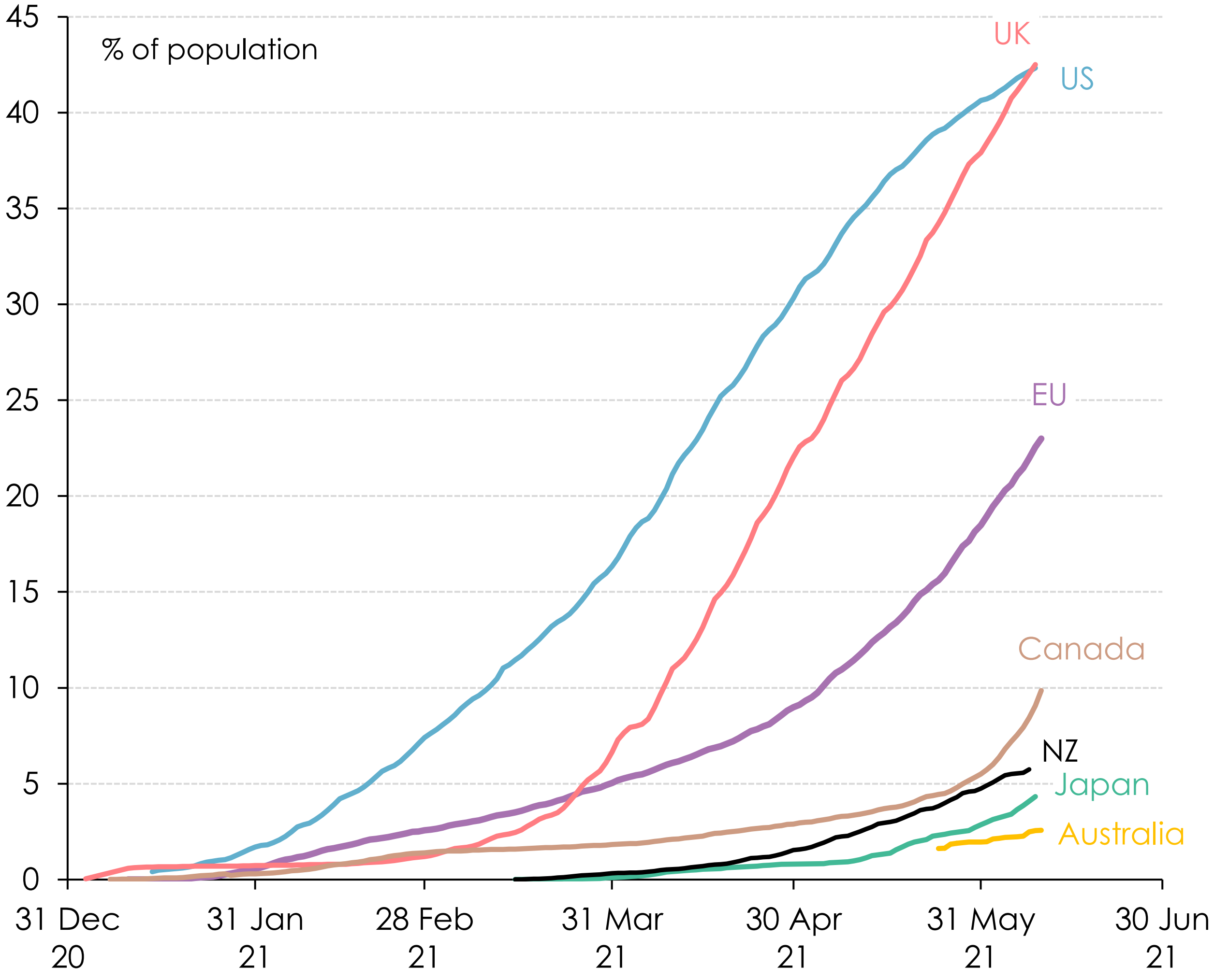
Australia is still a long way behind in the 'race' (and yes Prime Minister, it *is* a 'race') to vaccinate its population (and especially full vaccinations)

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 to 8th – 10th June. *Sources:* Our World in Data, Coronavirus (COVID-19) Vaccinations; covid19data.com.au. Return to "What's New".

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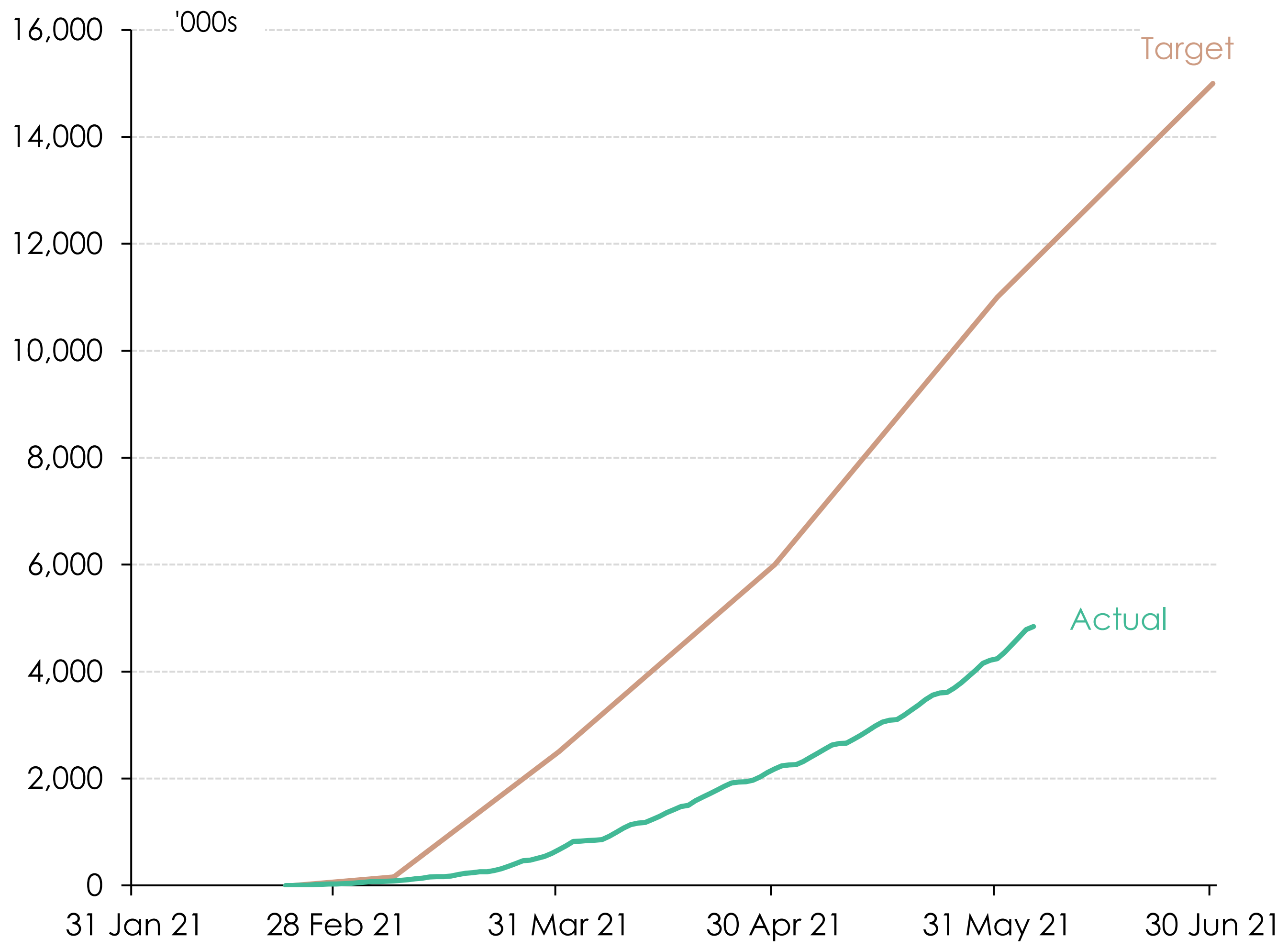
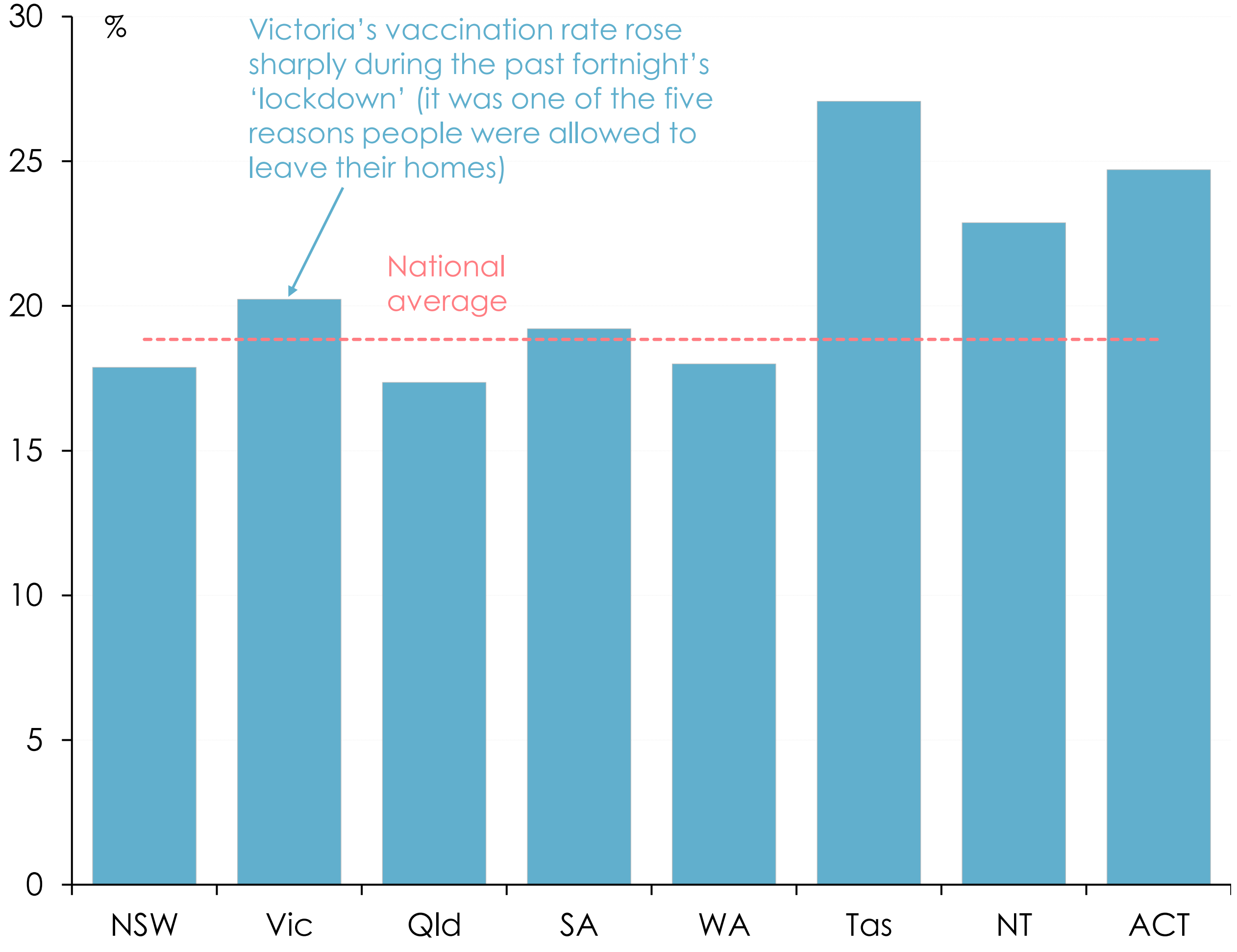
Just under 19% of Australia's population has now had at least one vaccine shot – still well behind earlier Government targets, but it is speeding up

Number of vaccine doses administered vs Government target



Percentage of population vaccinated, states and territories



Note: Data up to 11th June. *Sources:* covid19data.com.au; Australian Department of Health, COVID-19 vaccine rollout update on 14 March 2021.
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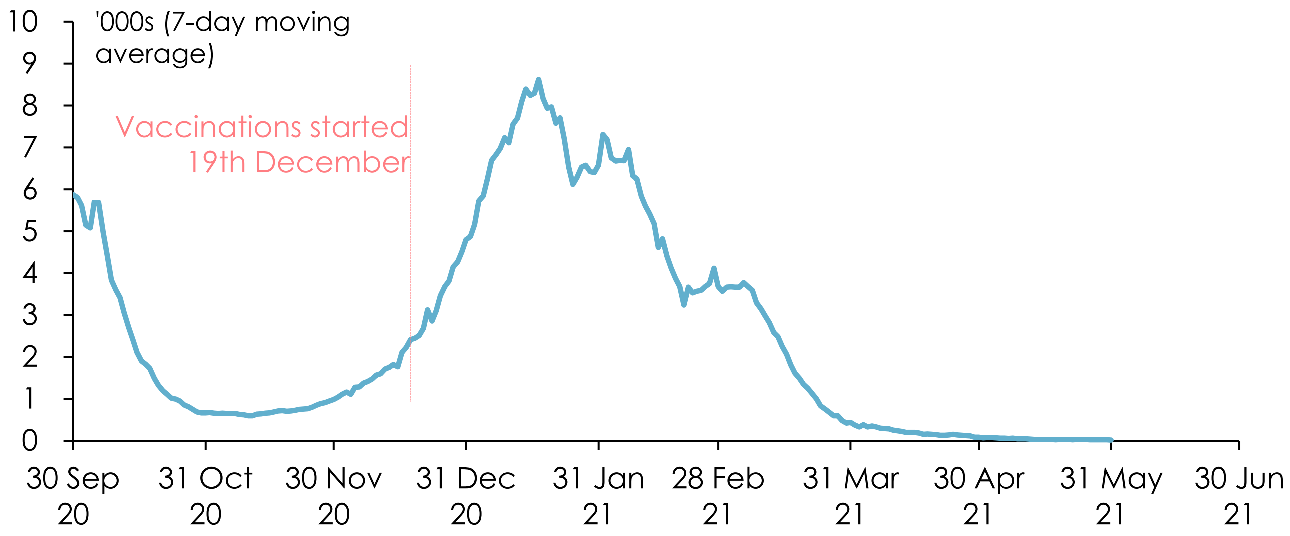
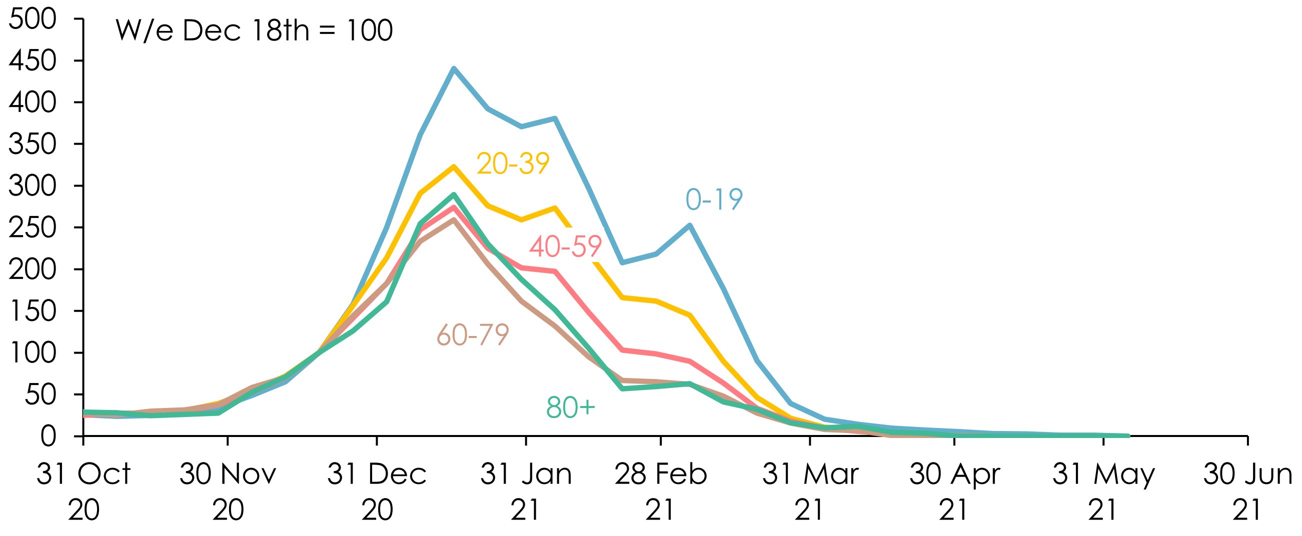
Israel's experience strongly suggests that Covid-19 vaccines <u>are</u> effective – particularly in reducing the severity of infections

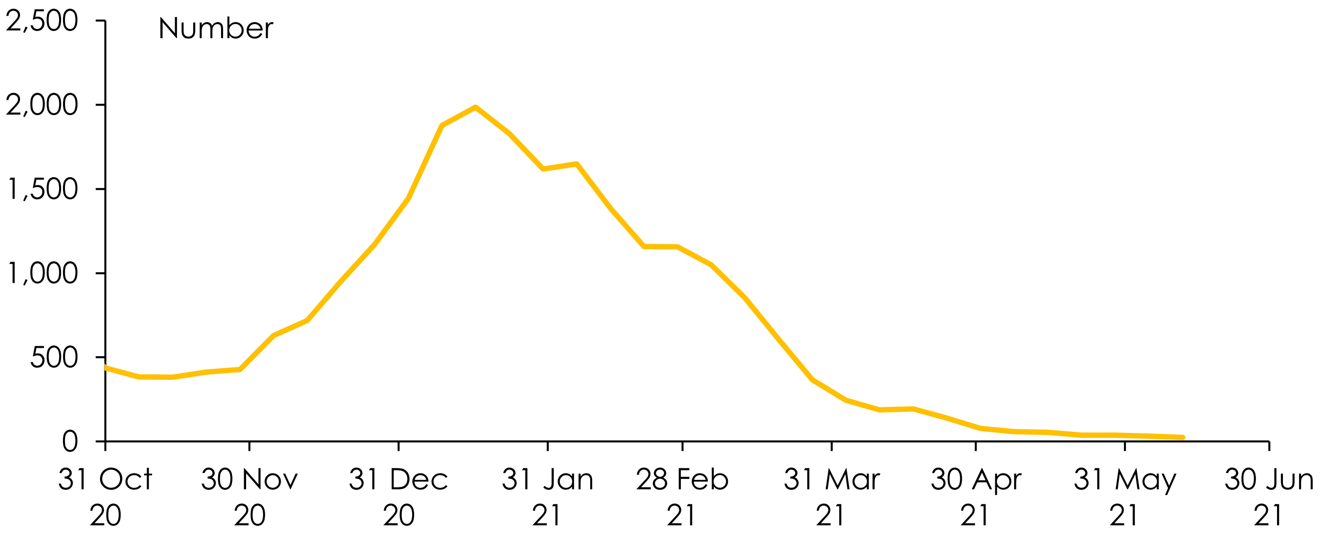
Daily new confirmed cases



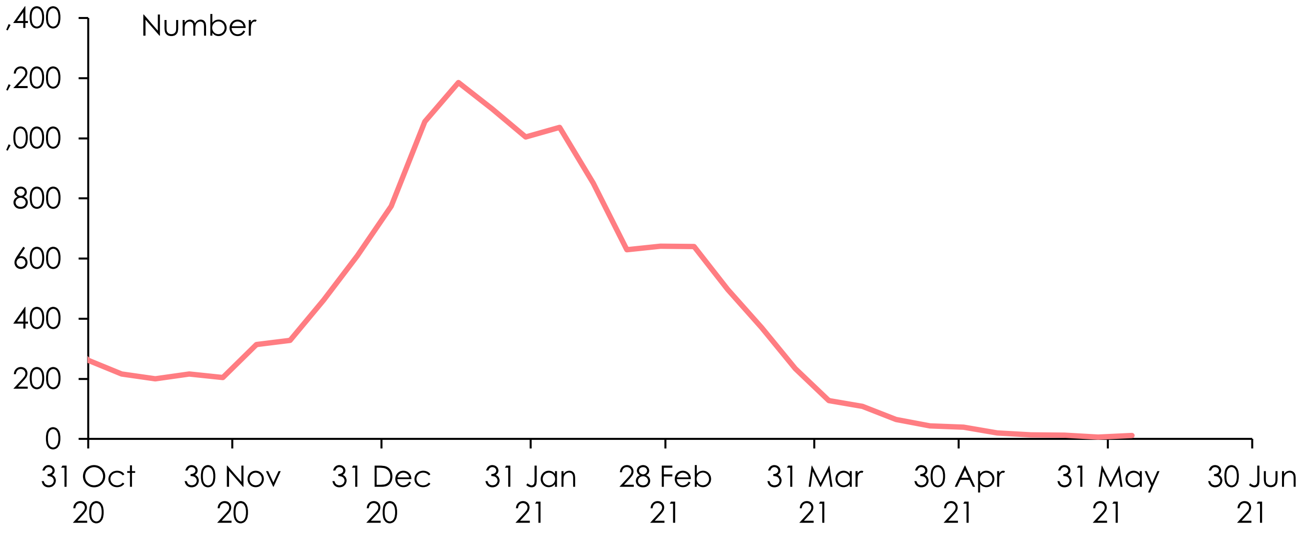
Confirmed cases by age group



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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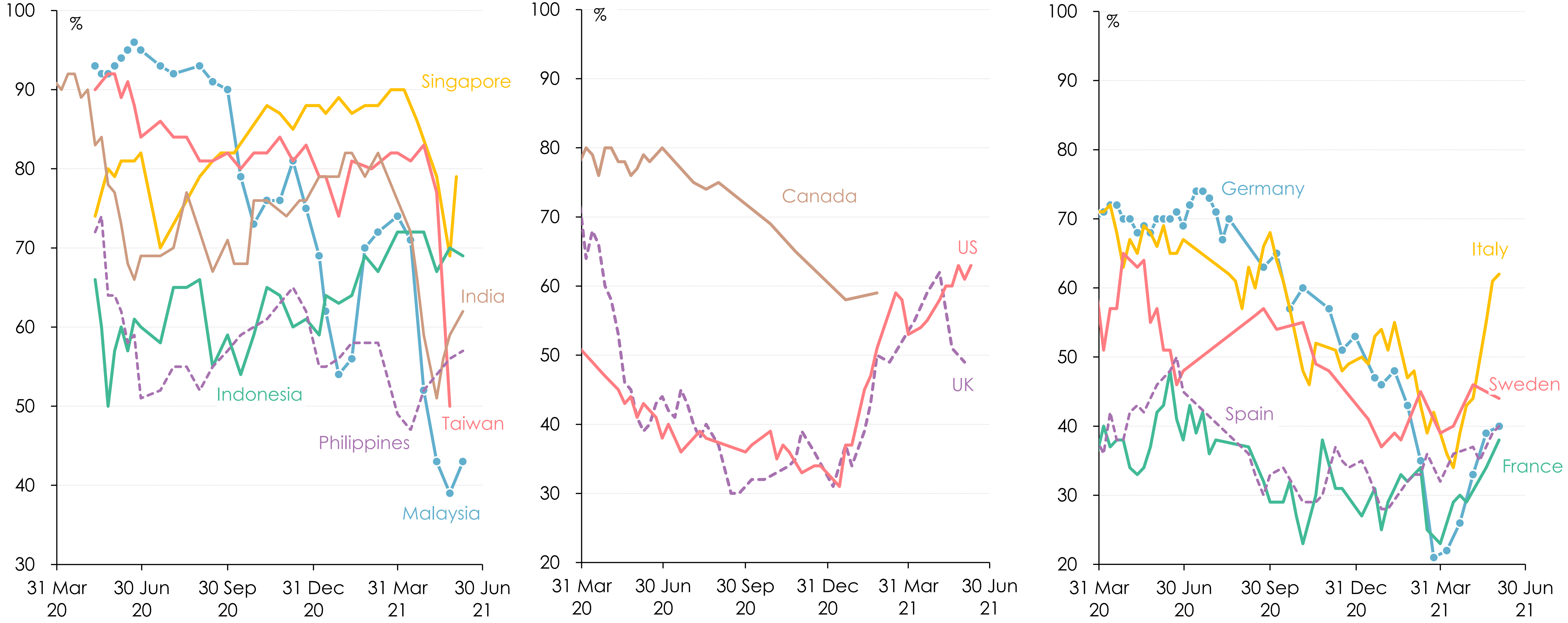
Voter approval of the US government's handling of Covid-19 has risen substantially, and is now improving in most of Europe, but declining in Asia

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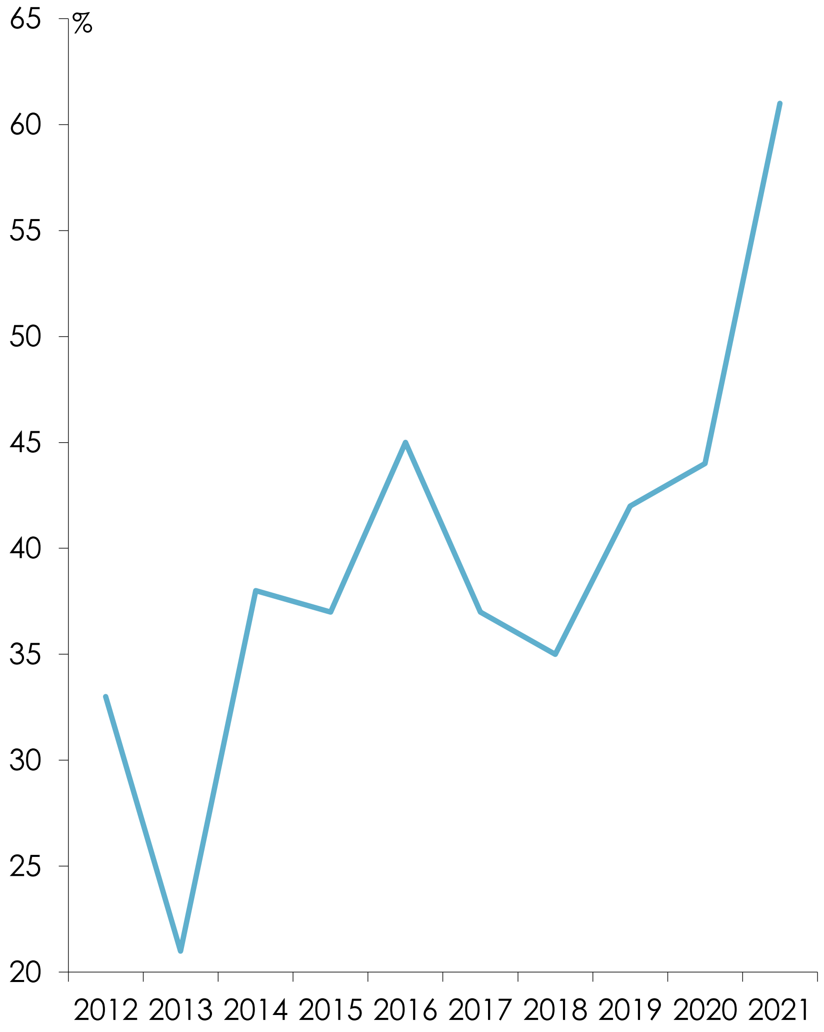
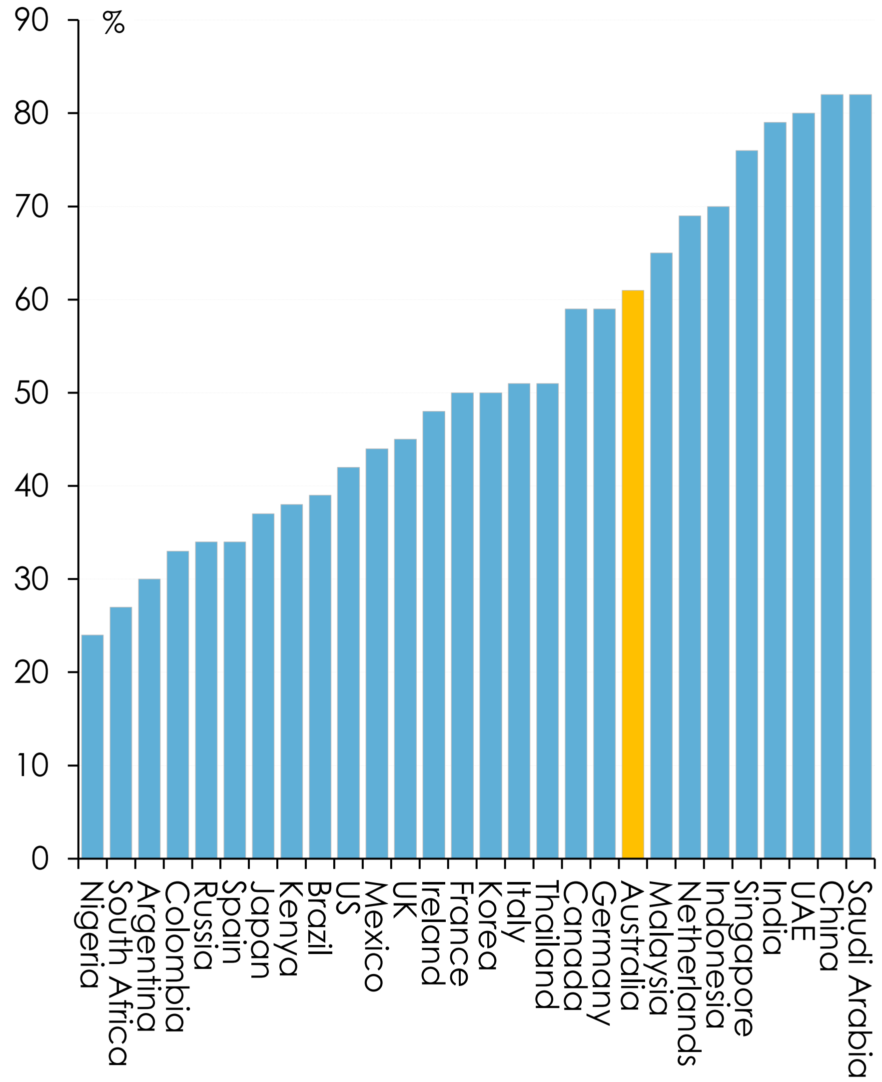
Australia's relative success in confronting last year's health & economic challenges has prompted a substantial rise in trust in government

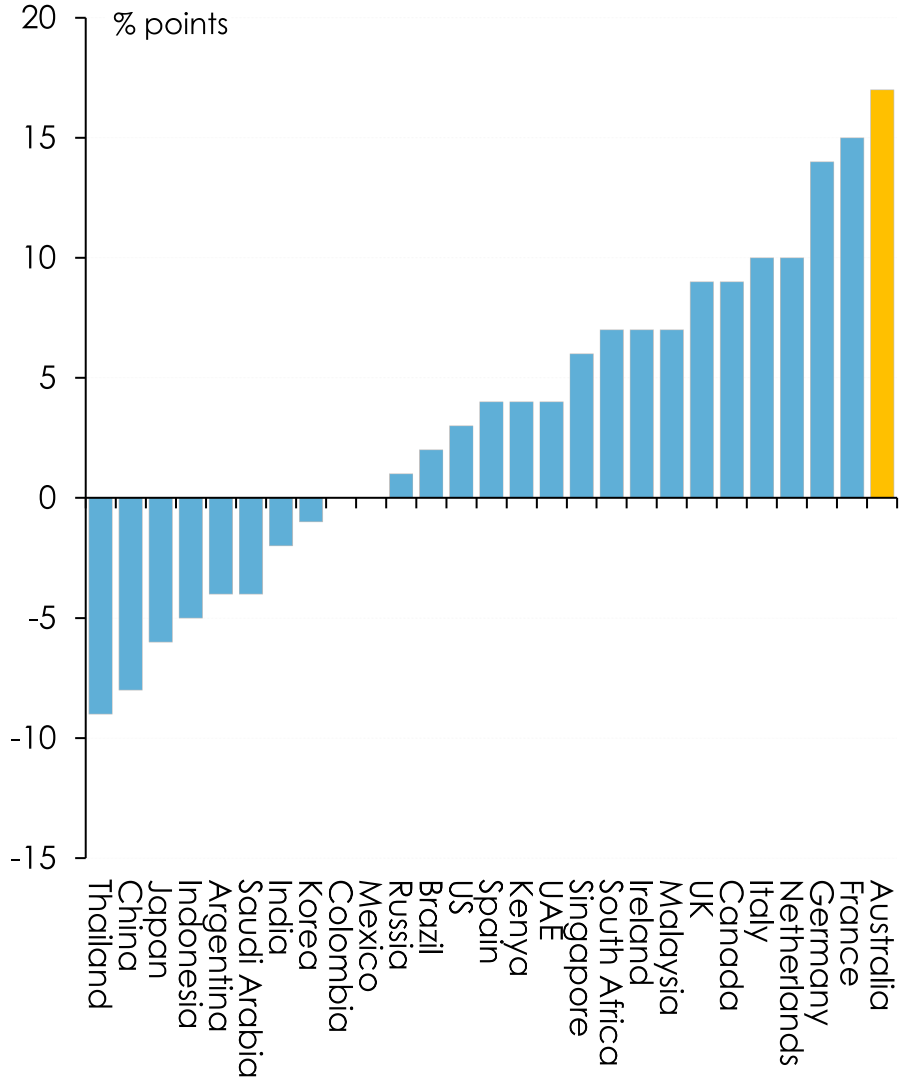
Trust in government in Australia



Trust in government, 2021



Change in government trust, 2021



Source: Edelman Trust Barometer, February 2021

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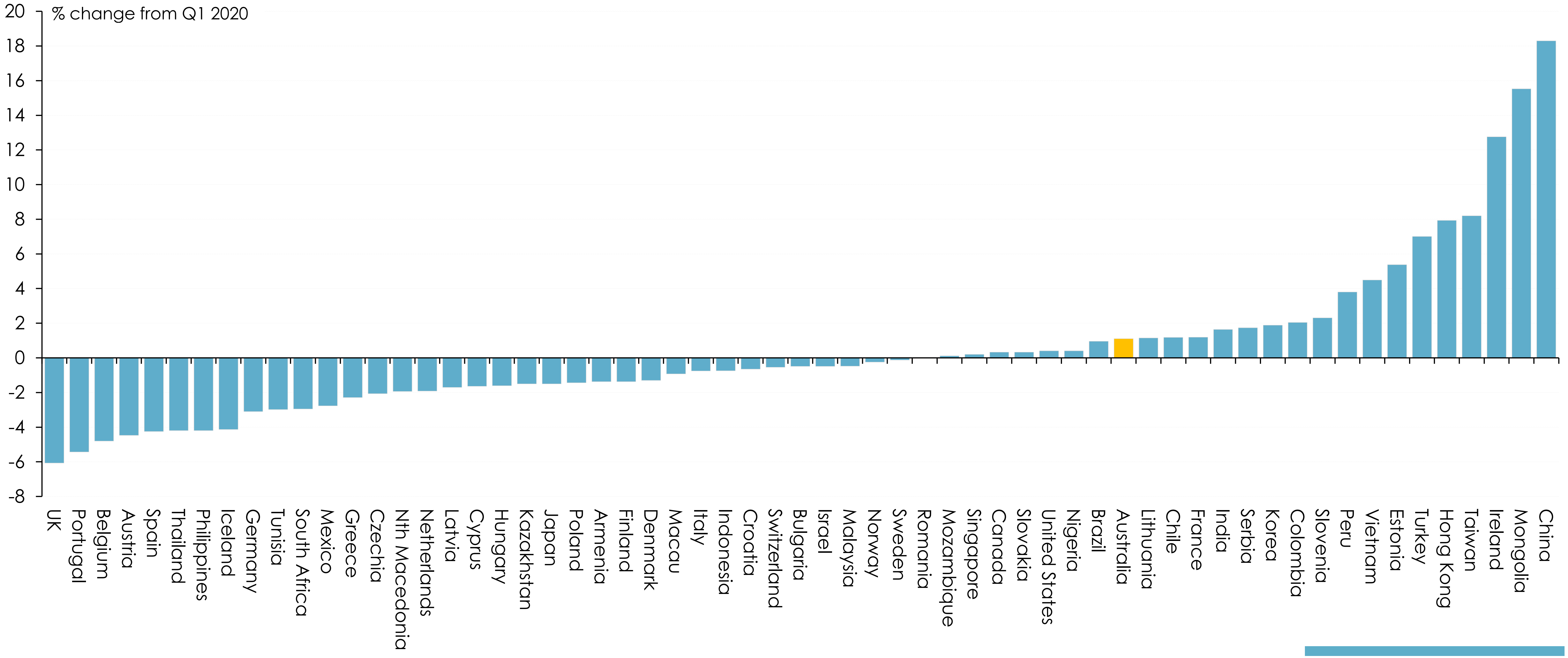
The world

Of the 59 countries which have so far reported Q1 GDP estimates, 24 have recorded positive growth from Q1 last year

Growth in real GDP over the year to Q1 2021



Source: National statistical agencies and central banks. Return to "What's New“.

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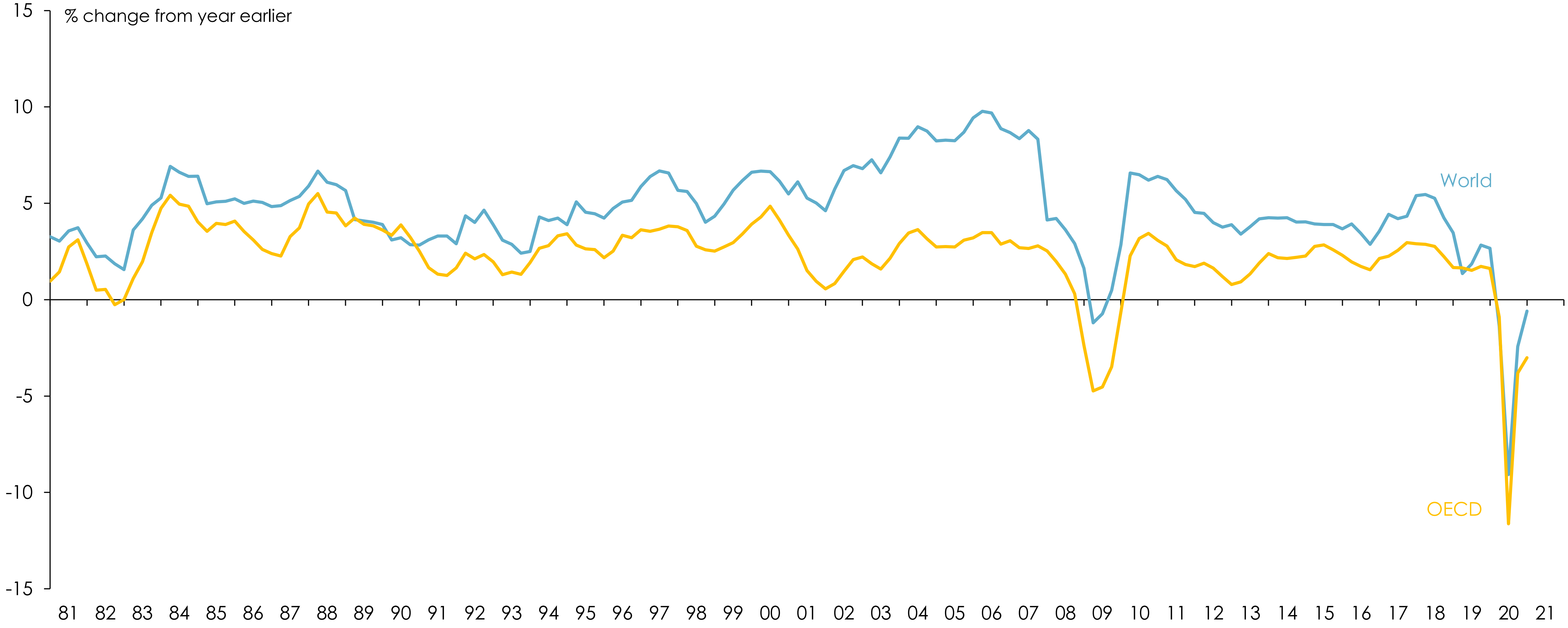
The world economy likely contracted by ½% over the year to Q4 2020, up from 9% over the year to Q2 and 2½% over the year to Q3

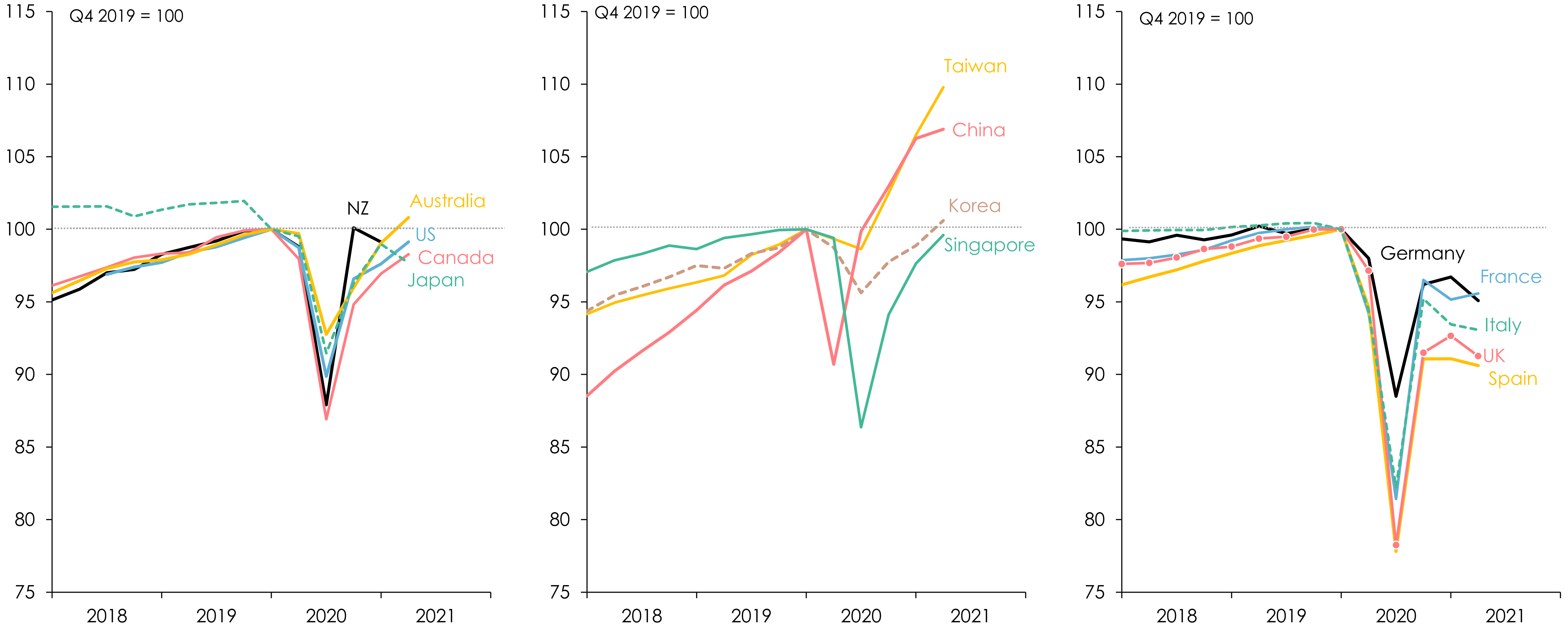
World and OECD area real GDP growth



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 90 countries reporting Q4 GDP data. *Sources:* national statistical agencies and central banks; Eurostat; OECD; IMF; Corinna. Return to "What's New".

Asian economies are recovering more rapidly from last year's recession – as is Australia's – 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 OECD's latest Economic Outlook revised up its forecasts for world growth by ¼ pc pt (to 5¾%) for 2021 and by ½ pc pt (to 4½%) for 2022

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	6.9	3.6	6.5	3.5
China	5.8	2.3	8.4	5.6	7.9	5.2	8.5	5.8	8.5	5.5
Euro area	1.3	-6.6	4.4	3.8	4.5	3.3	4.3	4.4	4.5	4.0
India	4.0	-8.0	12.5	6.9	5.4	5.2	9.9	8.2	11.0	5.8
Japan	0.3	-4.8	3.3	2.5	2.5	2.3	2.6	2.0	3.5	1.8
UK	1.4	-9.9	5.3	5.1	na	na	7.2	5.5	na	na
Australia	1.9	-2.4	4.5	2.8	na	na	5.1	3.4	4.3*	2.5*
New Zealand	2.2	-3.0	4.0	3.2	na	na	3.5	3.8	3.2†	4.4†
World	2.8	-3.3	6.0	4.4	4.0	3.8	5.8	4.4	6.0	4.5
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 No. 109*, 31st May 2021; Australian Treasury, 2021-22 *Budget Paper No. 1, Statement No. 2*, 11th May 2021; New Zealand Treasury, *Budget Economic and Fiscal Update 2021*, 20th May 2021. Return to "What's New".

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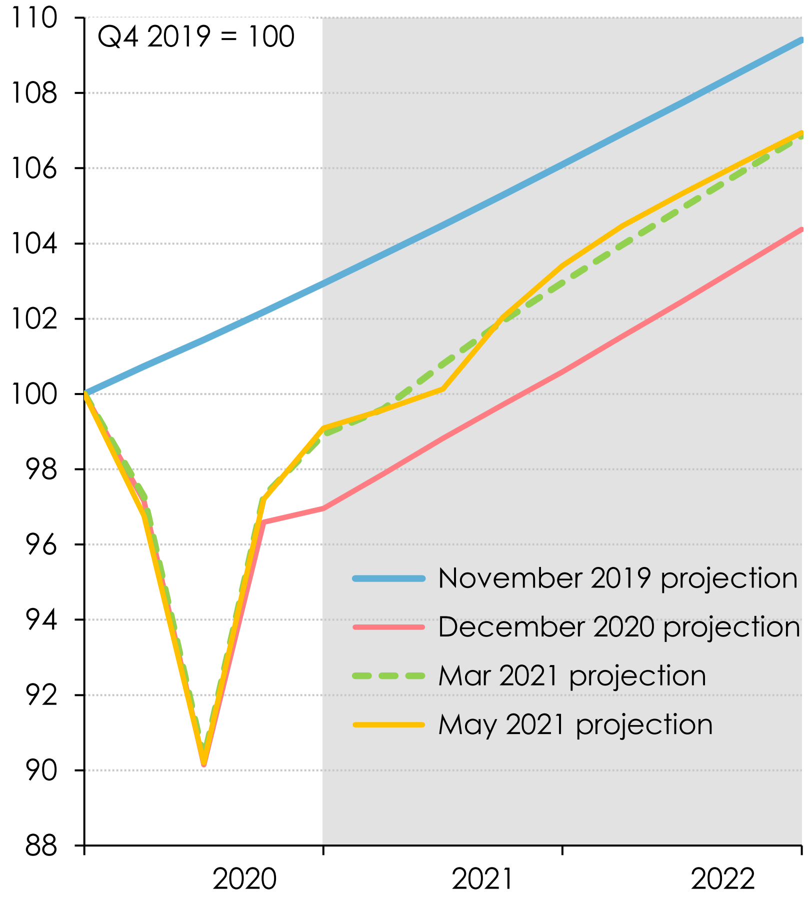
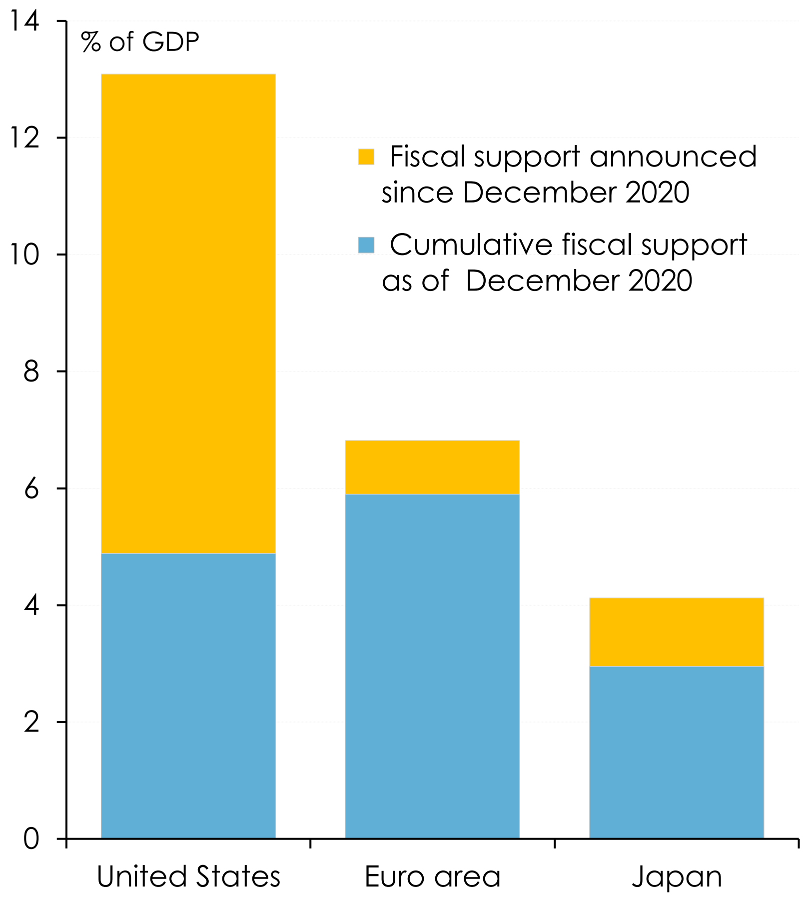
The OECD's more optimistic view owes much to the size of the additional fiscal stimulus in the US

Global GDP projections



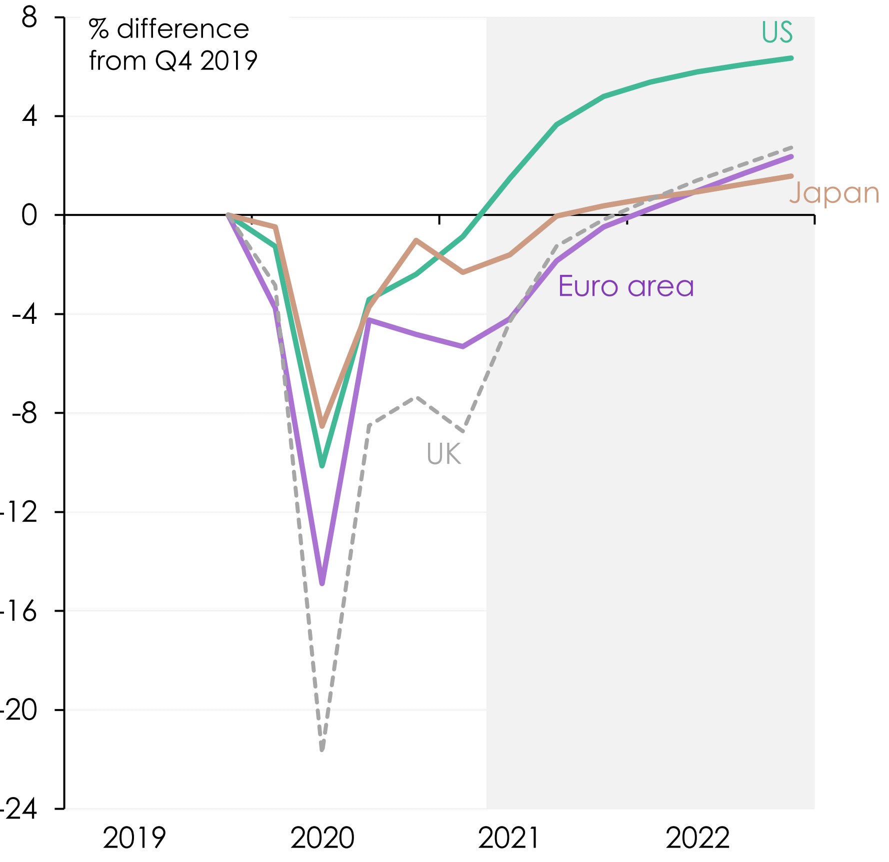
- ❑ **The OECD now expects global GDP to have returned to its pre-pandemic level by Q1 this year, rather than Q4 as in its November forecast**

Fiscal stimulus measures



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

'Advanced' economies' GDP



- ❑ **By Q4 2022 the OECD expects the US economy to have grown by 6½% from its Q4 2019 level – compared with 2½% for the euro area & 1½% for Japan**

Source: Organization for Economic Co-operation & Development (OECD), *Economic Outlook No. 109*, 31st May 2021. Return to "What's New".

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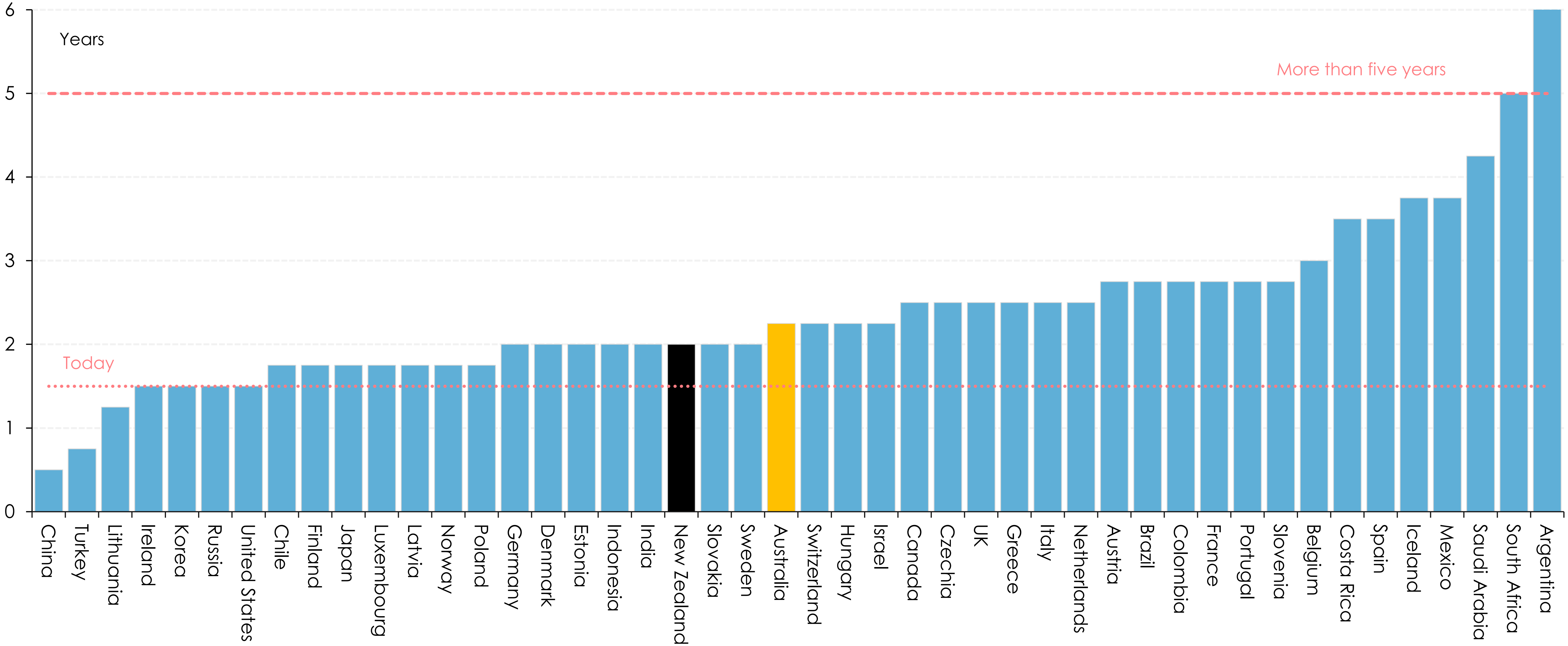
The OECD reckons it will take some countries more than three years to recoup the loss of real per capita GDP

OECD estimate of number of years since Q4 2019 to return to pre-pandemic real per capita GDP



Source: Organization for Economic Co-operation & Development (OECD), *Economic Outlook No. 109*, 31st May 2021. Return to "What's New".

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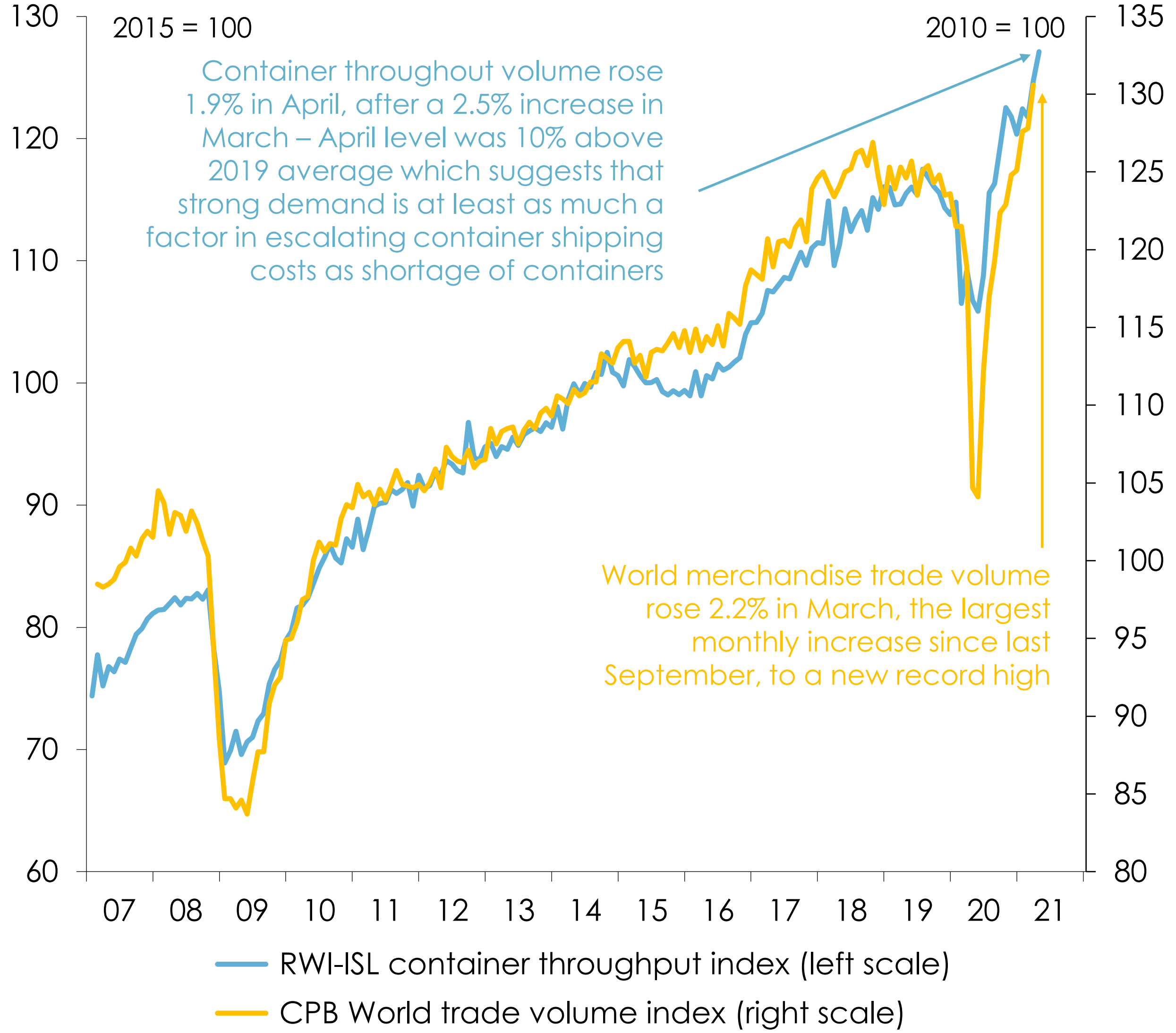
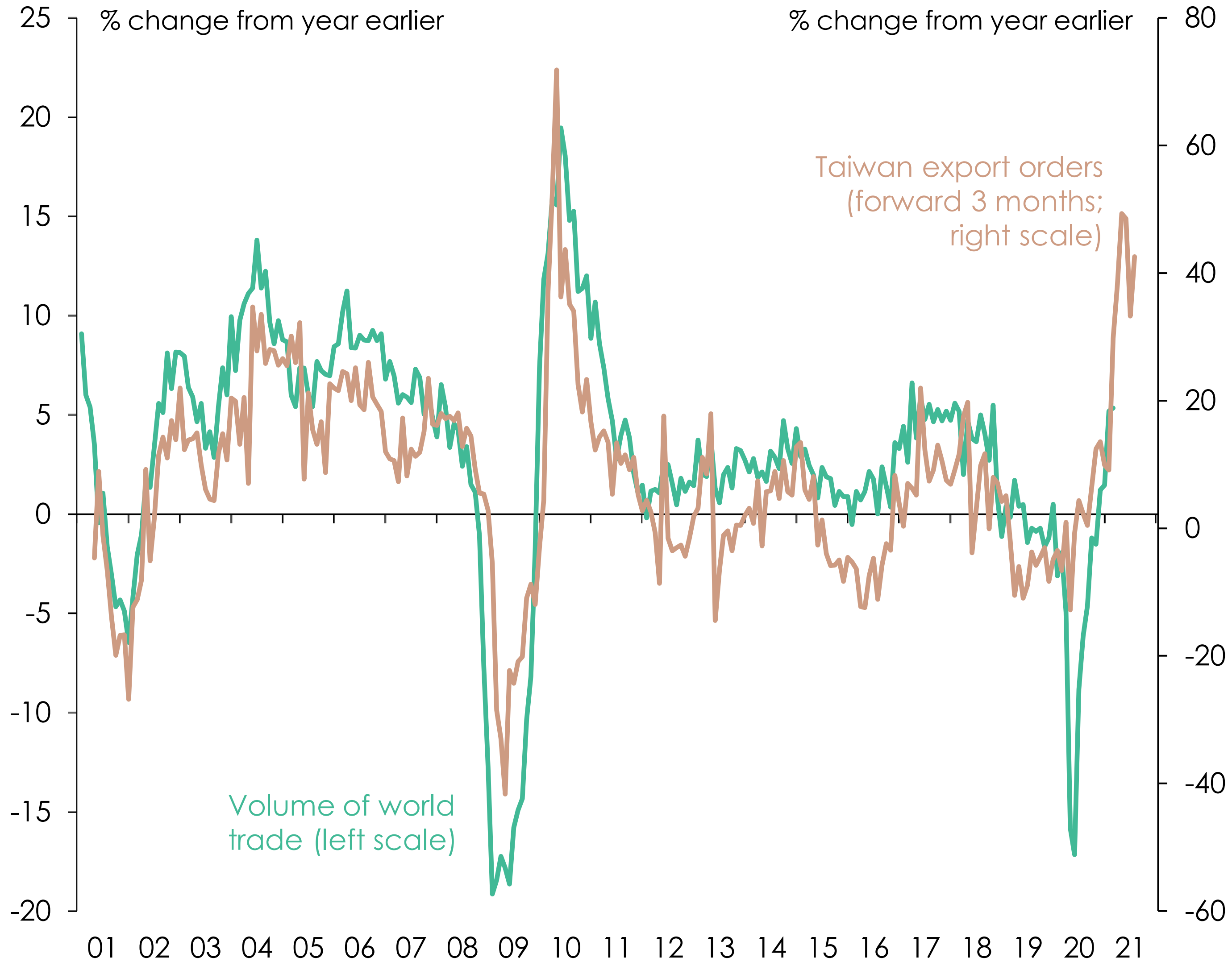
World trade volumes recorded another record high in March, and both container throughput and Taiwan orders suggest further gains ahead

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* (April data to be released on 25th June); 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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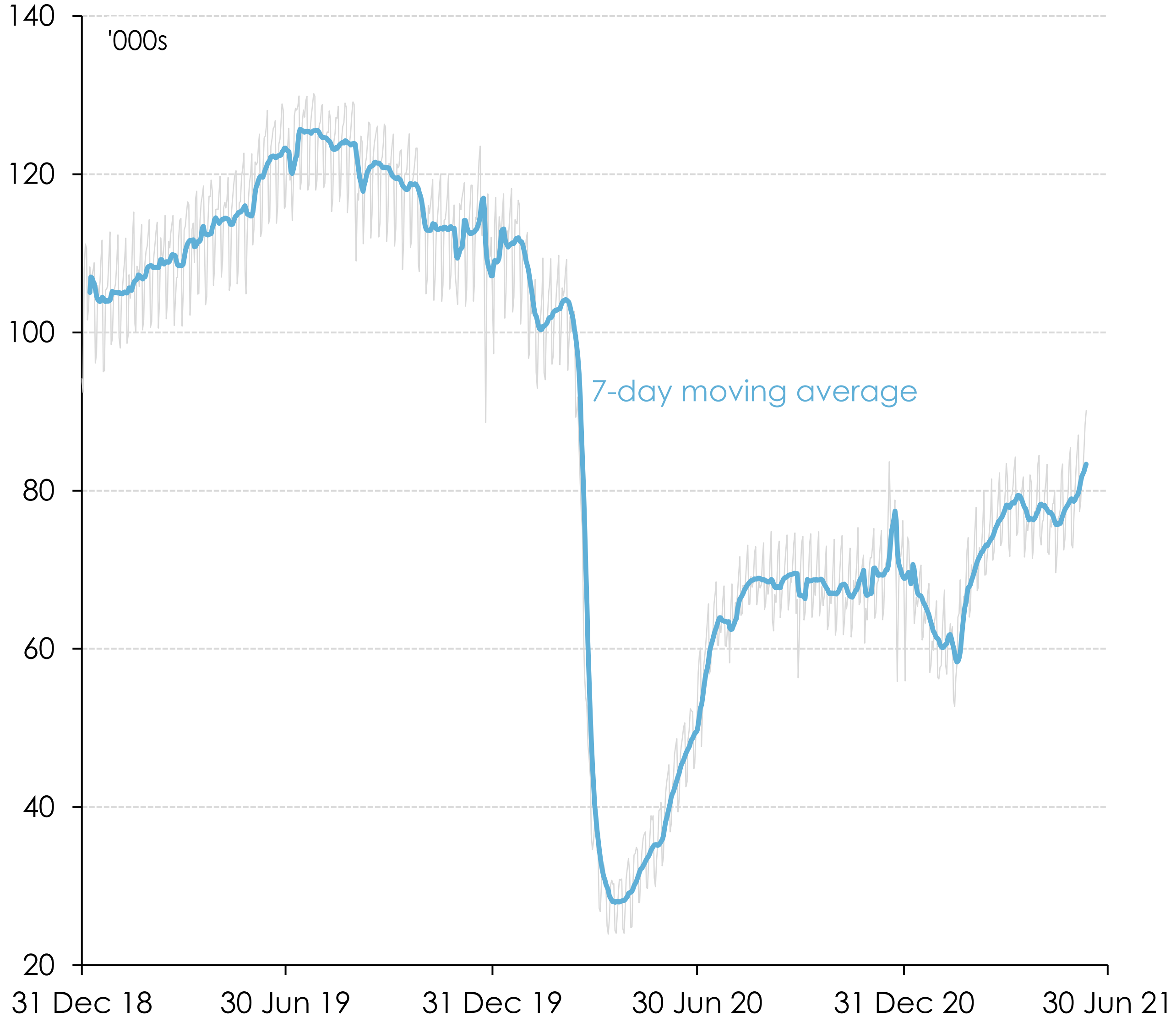
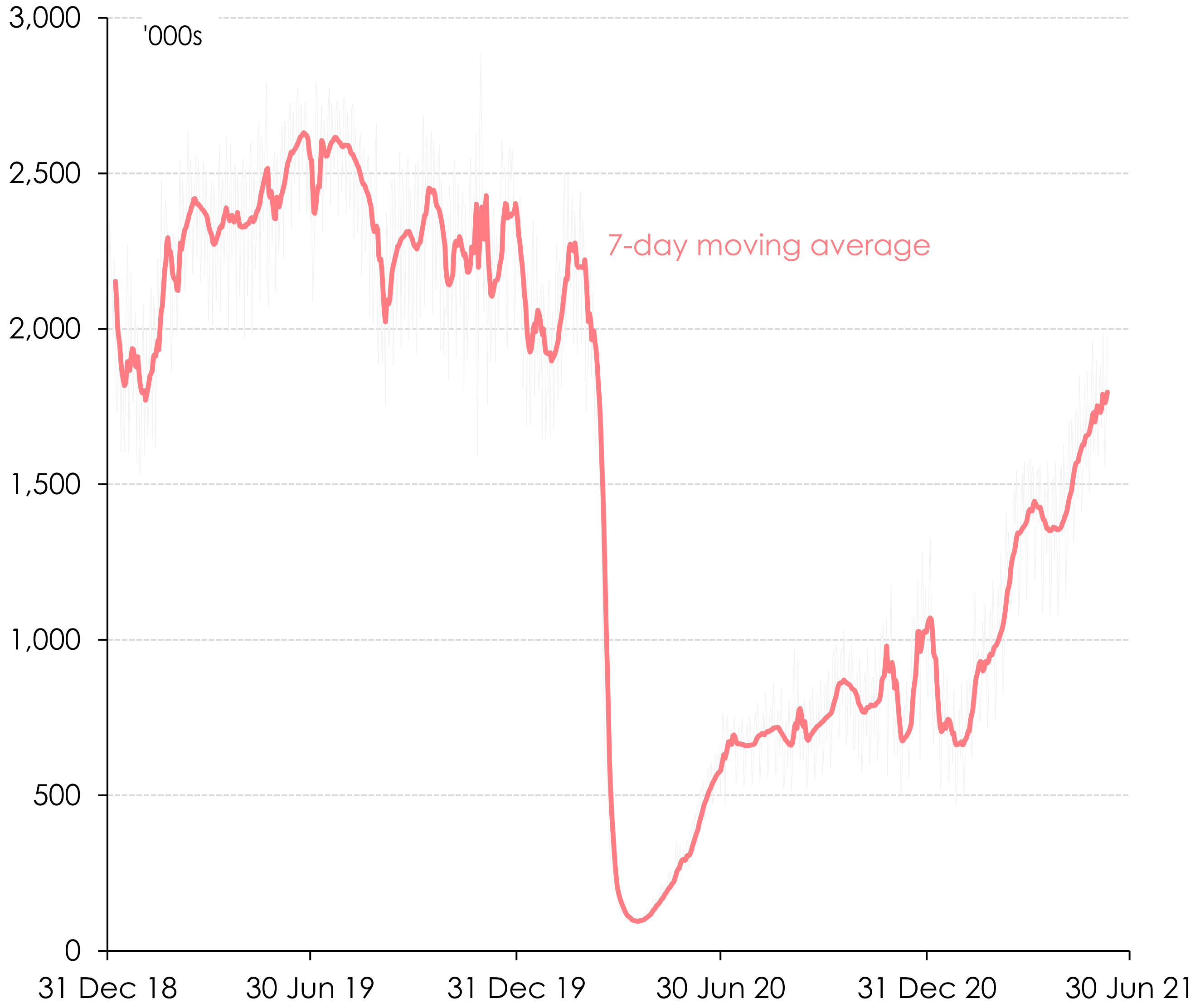
Commercial aviation traffic seems to be 'taking off' again (sorry!) both globally and in the US

Daily commercial flights worldwide



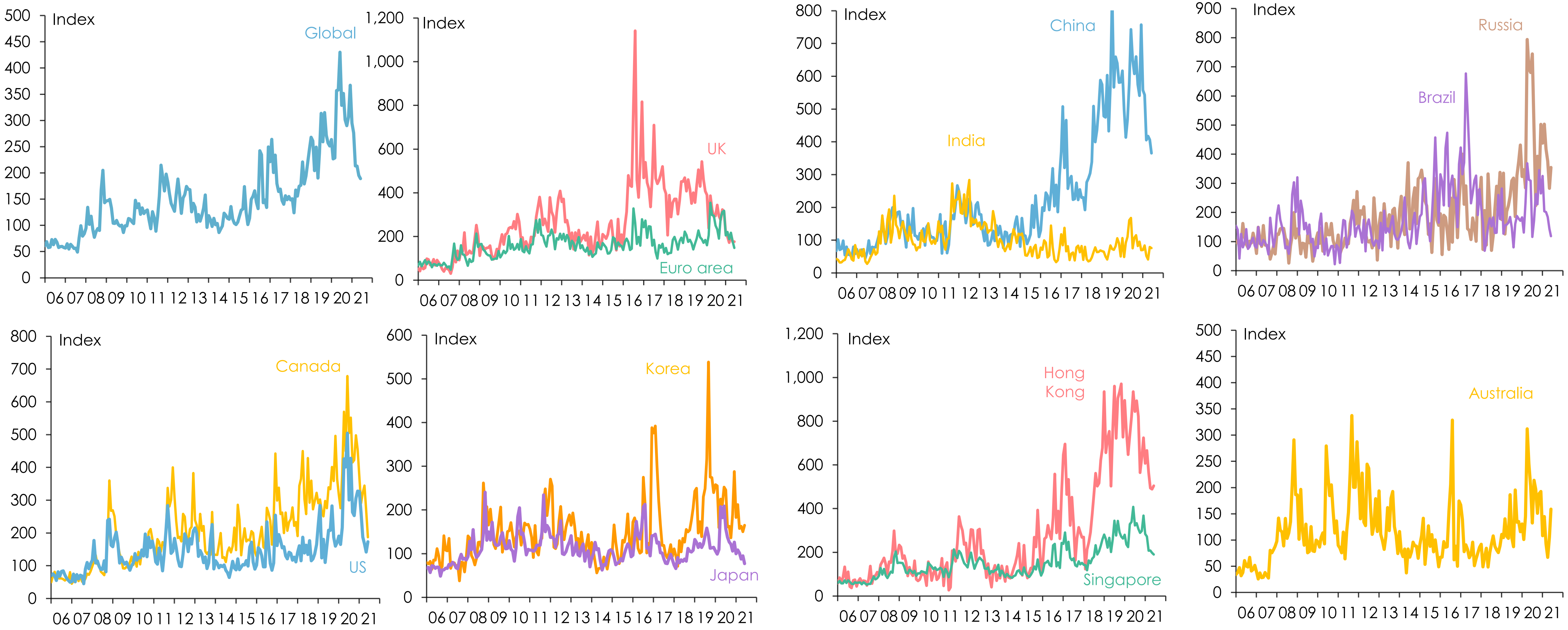
Daily US TSA security checks



Note: Commercial flights include commercial passenger flights, cargo flights, charter flights, and some business jet flights. Global flight data up to 11th June; US TSA security checks up to 10th June. 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".

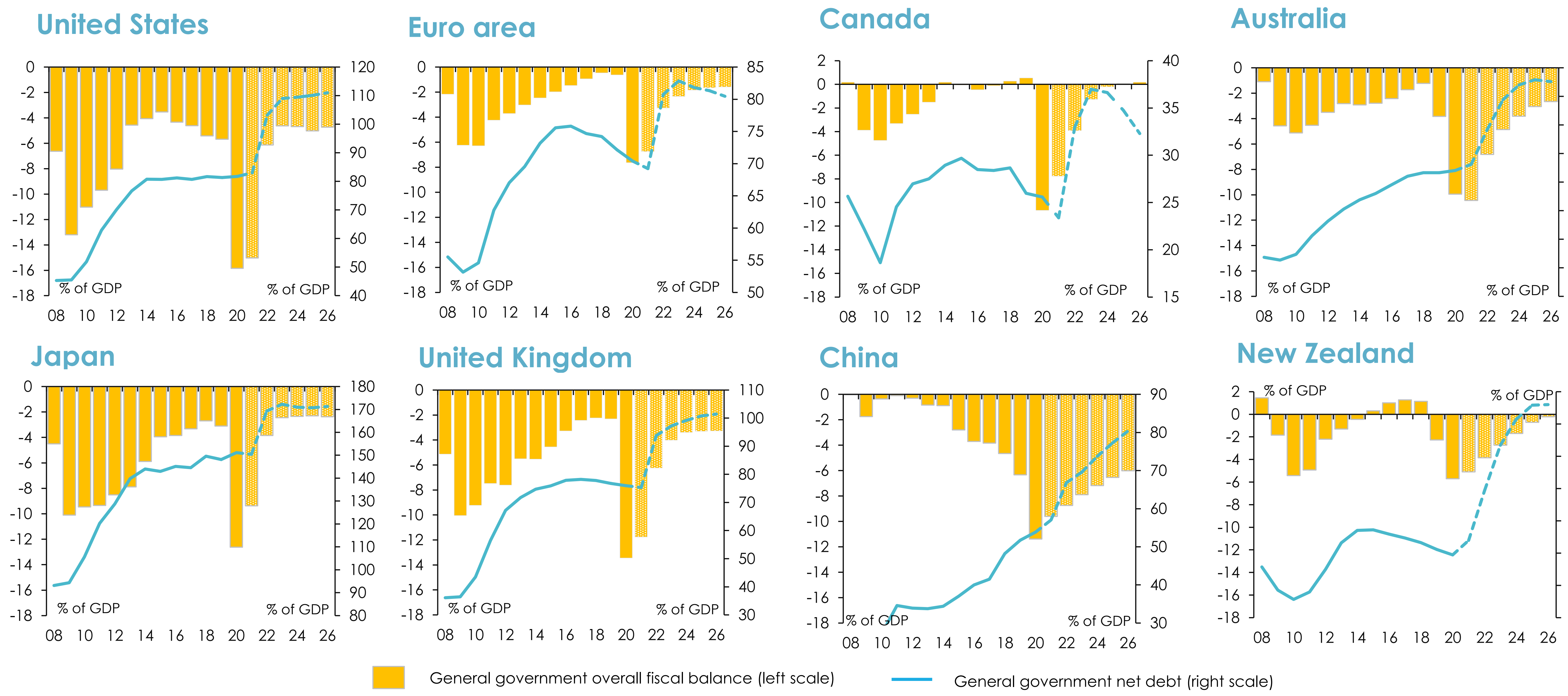
Uncertainty about economic policy is at its lowest in two years, falling in May almost everywhere except Australia (and to a lesser extent the US)

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 May 2021. *Source:* Global Policy Uncertainty; Scott Banker, Nick Bloom & Steven Davis, 'Measuring Economic Policy Uncertainty', *Quarterly Journal of Economics*, 131, no. 4 (November 2016), pp. 1593-1636. Return to "What's New".

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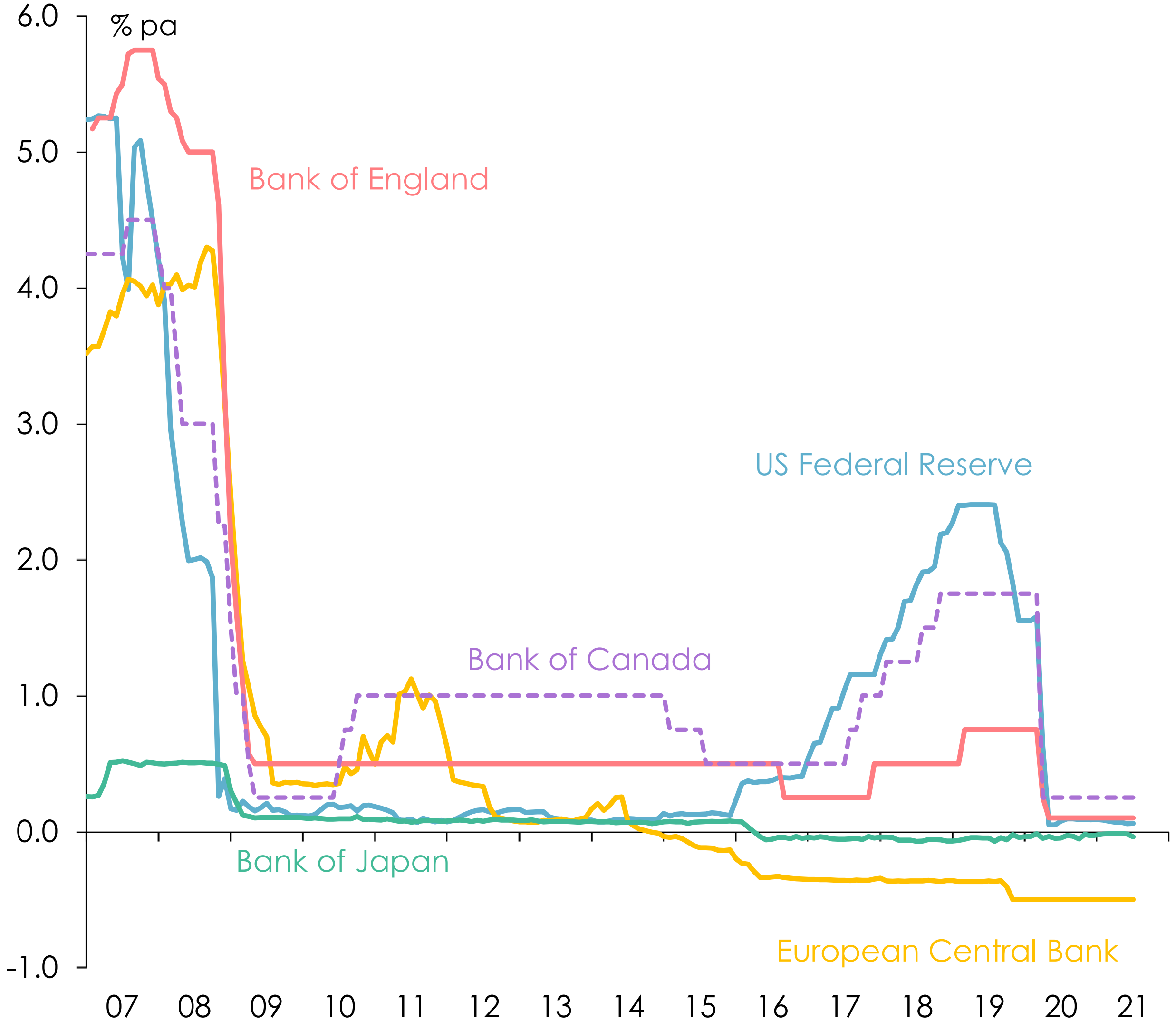
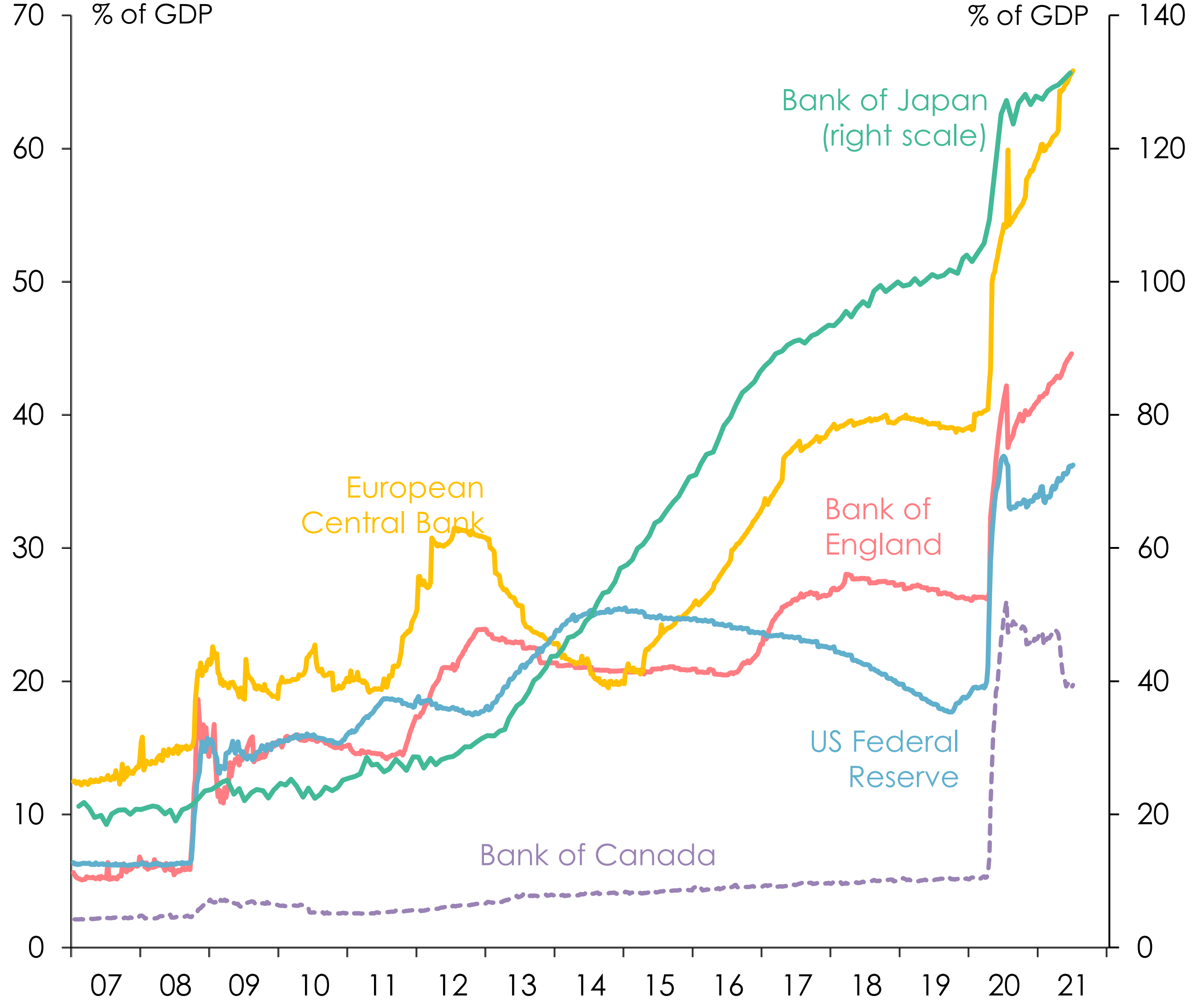
Major central banks have cut interest rates to record lows, and done more 'quantitative easing' than during the global financial crisis

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 2020 are in large part due to rebounds in nominal GDP. *Sources:* US Federal Reserve; European Central Bank; Bank of Japan; Bank of England; Bank of Canada; national statistical agencies; Corinna. Return to "What's New".

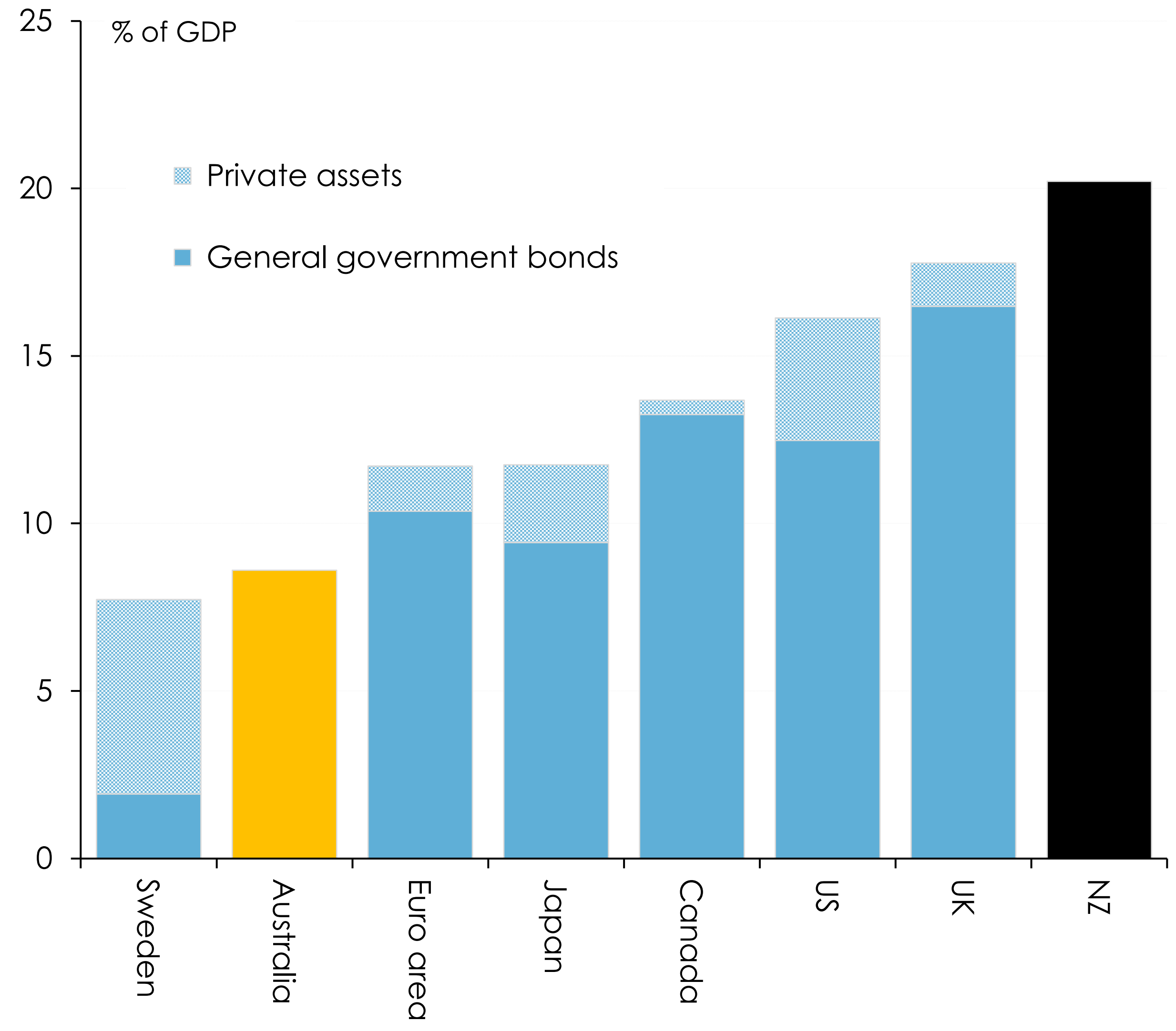
The ECB and Bank of Canada both maintained their current monetary policy settings this week, although the BoC again flagged rate hikes in H2 2022

- **The ECB's Governing Council meeting this Thursday re-confirmed its "very accommodative monetary policy stance"**
  - in particular, the ECB committed to asset purchases under its Pandemic Emergency Purchase Program (PEPP) continuing to be conducted "at a significantly higher pace than during the early months of this year"
  - ECB President Christine Lagarde specifically noted that the "tightening of financing conditions" implied by the increase in market interest rates since the previous Governing Council meeting "would be premature and would pose a risk to the ongoing economic recovery and the outlook for inflation"
- **The ECB's re-affirmation of current monetary policy settings came despite some significant upgrades to the ECB staff forecasts for economic growth, and upward revisions to its inflation forecasts**
  - the forecast for 2021 GDP growth was raised to 4.6% (from 4%), and for 2022 growth to 4.7% (from 4.1%), although the 2023 forecast was left unchanged at 2.1%
  - the 2021 inflation forecast was raised from 1.5% to 1.9%, while the 2022 forecast was raised from 1.2% to 1.5% while the 2022 forecast remained unchanged at 1.4%
- **ECB President Lagarde acknowledged during the post-meeting Press Conference that some (press reports suggested three, out of 25) ECB GC members wanted to reduce the pace of asset purchases**
  - some members appear to have been concerned that liquidity conditions over the European summer months may make it difficult to maintain the Q2 rate of asset purchases and that a stepped-up pace would be required in September to meet the implicit target for Q3
- **Meanwhile the Bank of Canada also left its monetary policy settings unchanged at its meeting on Wednesday,**
  - the Bank noted that economic developments in Canada had been "broadly in line with the outlook" as set out in its April *Monetary Policy Report*, despite Q1 GDP growth being "lower than [it] had projected" – and that the Canadian economy was "expected to rebound strongly" over the [northern] summer
  - the BoC's Governing Council committed to "holding the policy interest rate at the effective lower bound" until the "considerable excess capacity" in the economy is absorbed, which – consistent with the April MPR – is expected to happen "sometime in the second half of 2022"

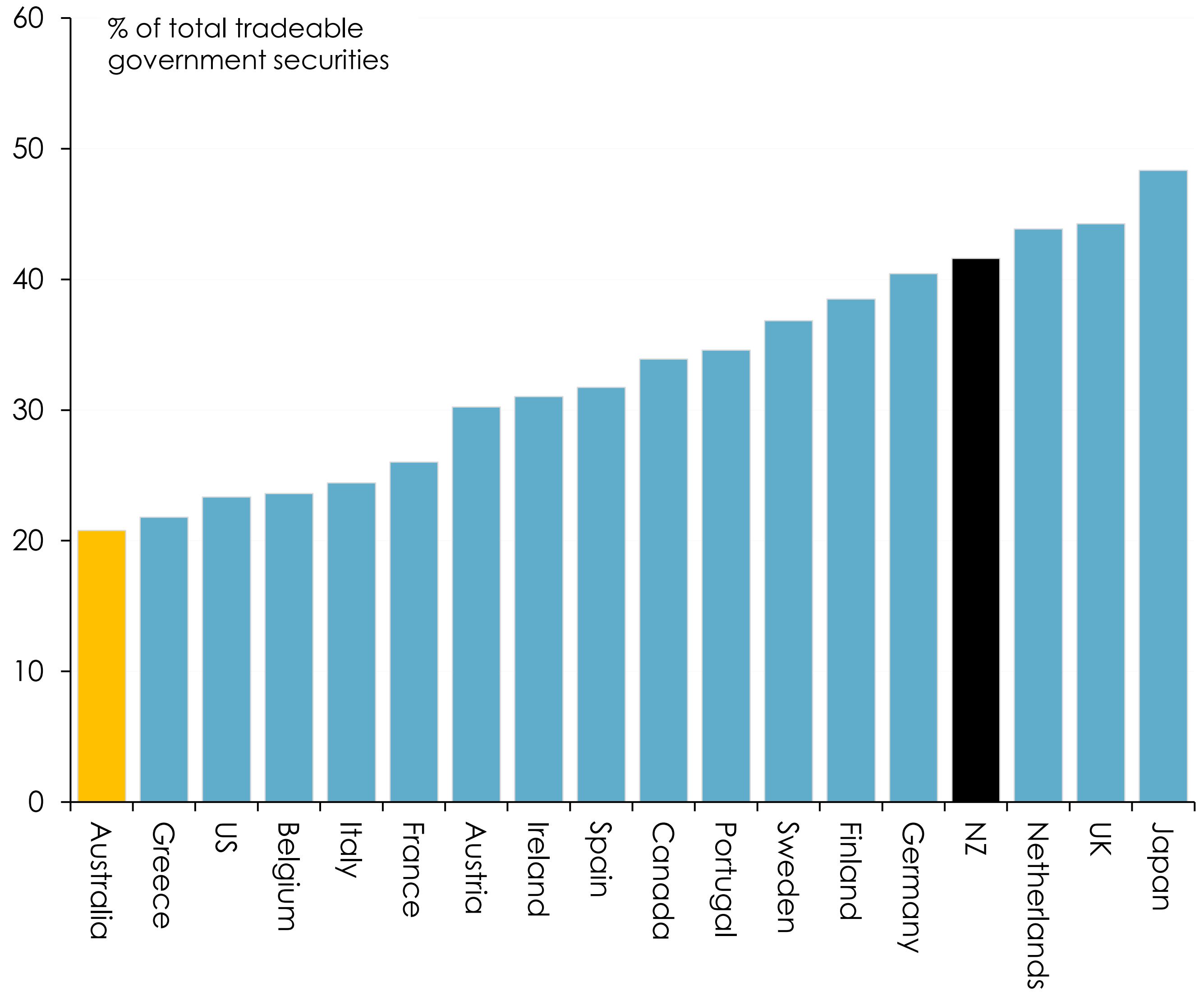
Return to "What's New".

The RBA's 'QE' program has been at the lower end of 'advanced economy' central banks' programs – the RBNZ's has been at the higher end

Central bank asset purchases since end-2019



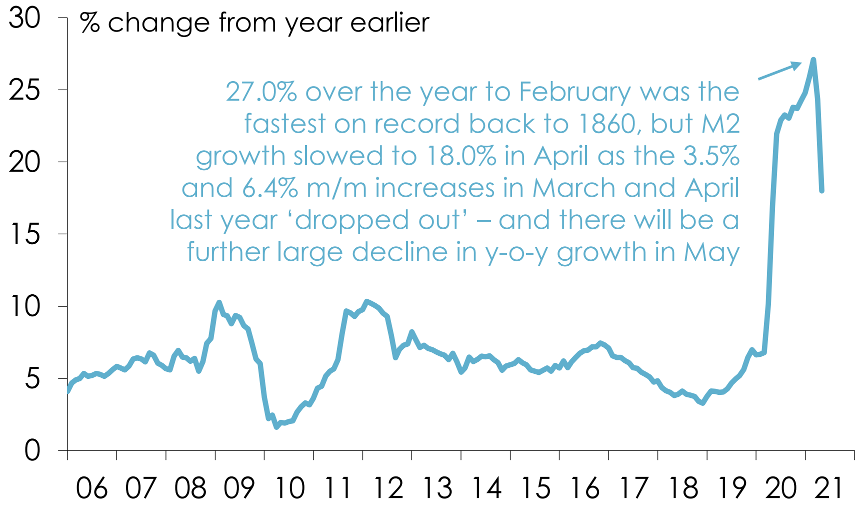
Central bank holdings of government securities



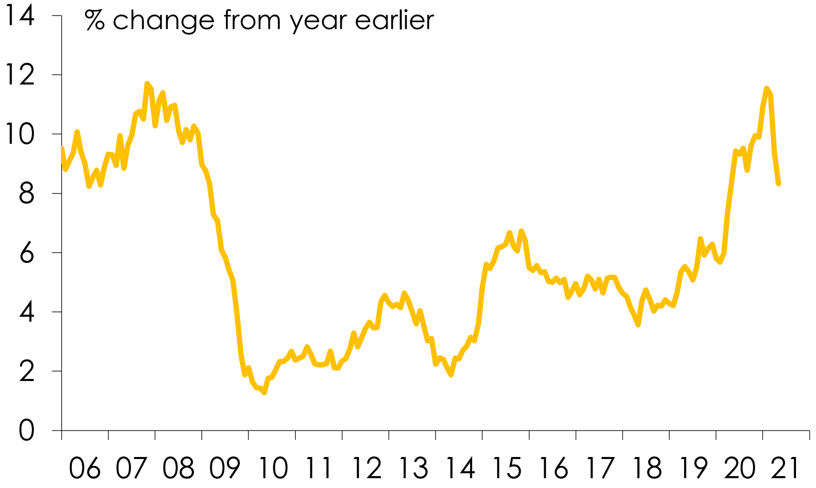
Note: 'Private assets' include corporate bonds, commercial paper, asset-backed securities and exchange-traded funds.
Source: OECD, Economic Outlook No. 109, 31st May 2021. Return to "What's New".

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

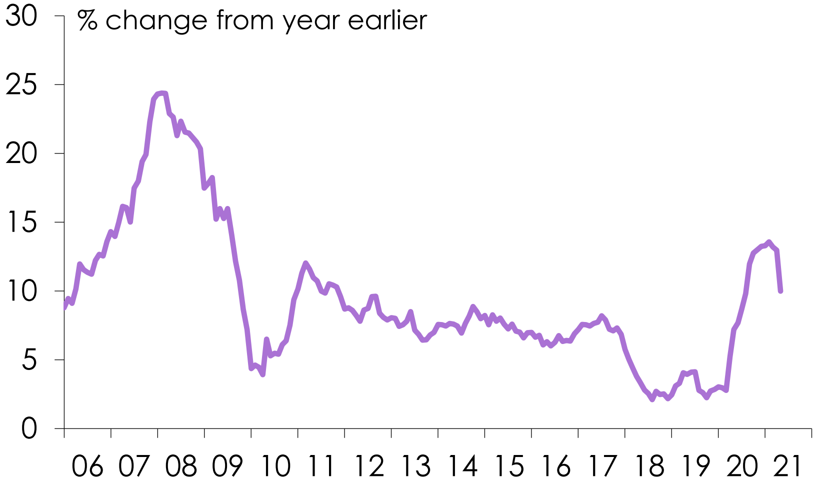
US M2



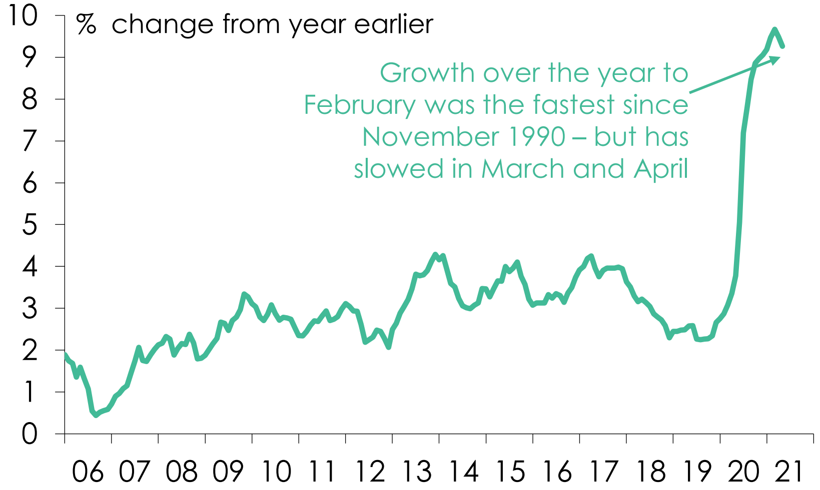
Euro area M2



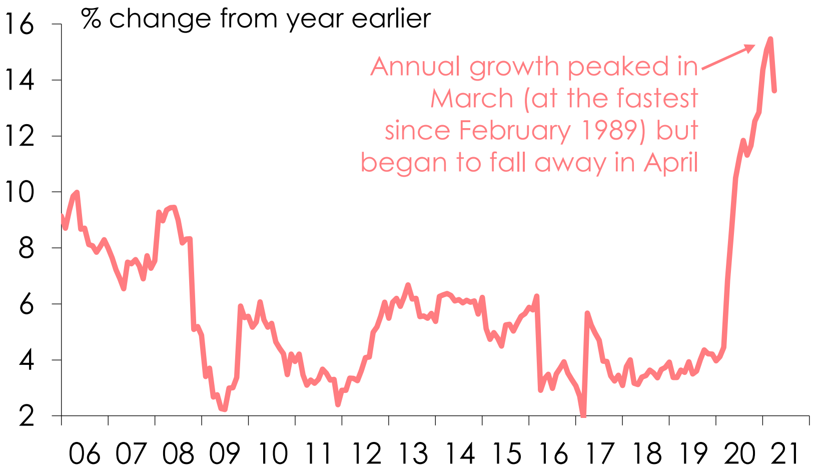
Australia M3



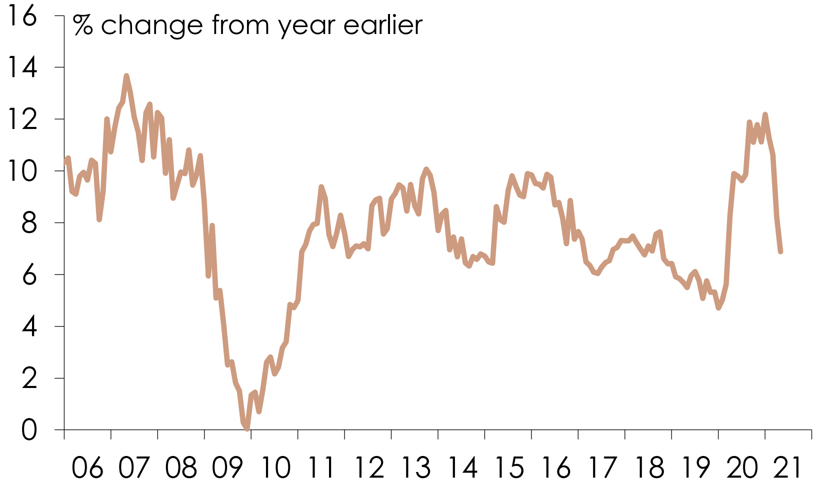
Japan M2 + CDs



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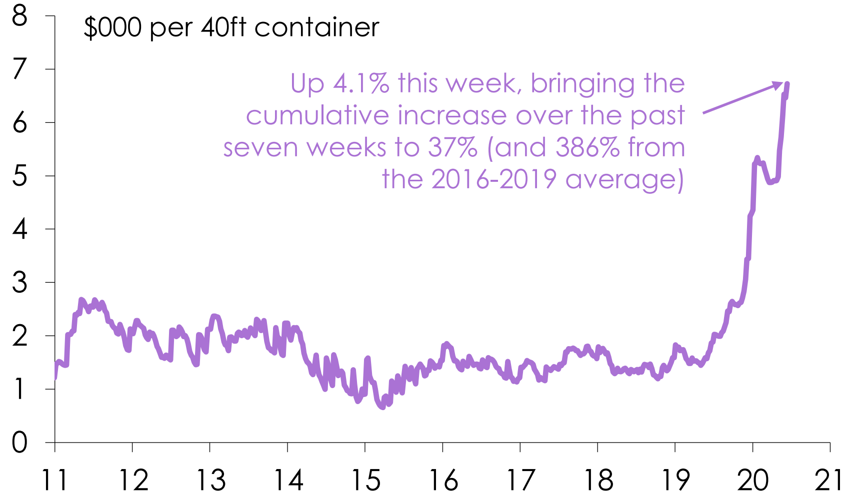
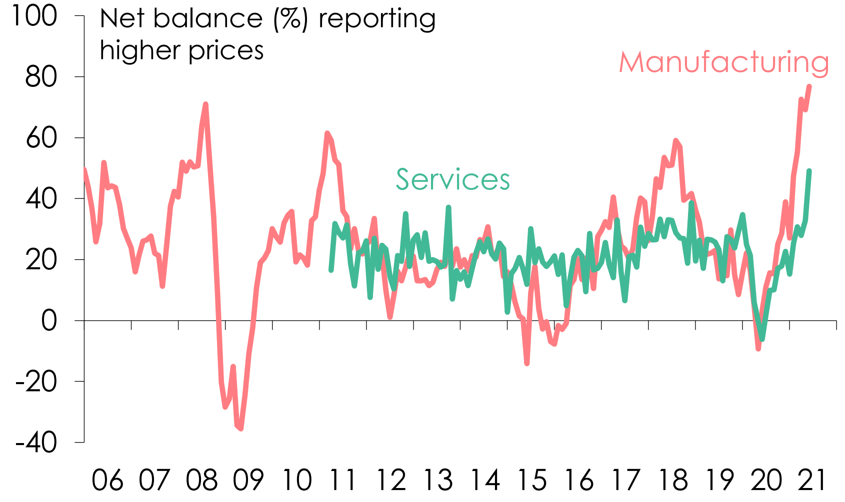
Supply chain 'bottlenecks' have generated significant 'upstream' price pressures – which along with higher oil prices are showing up in PPIs

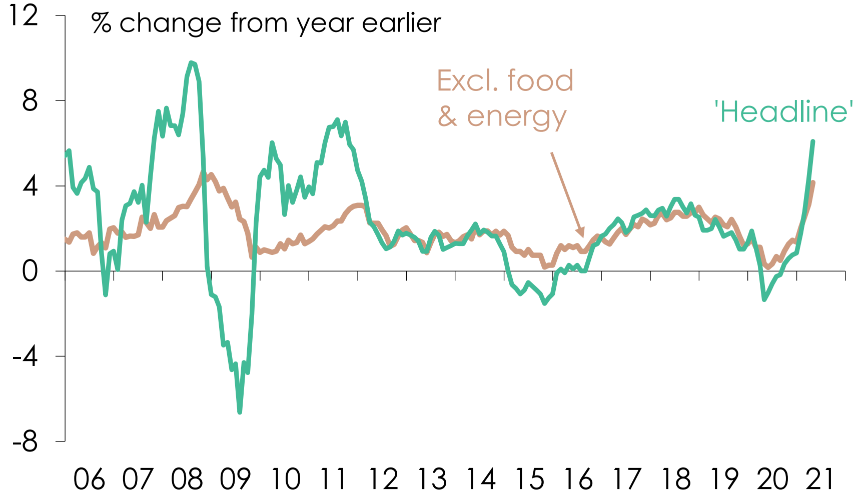
Container freight costs



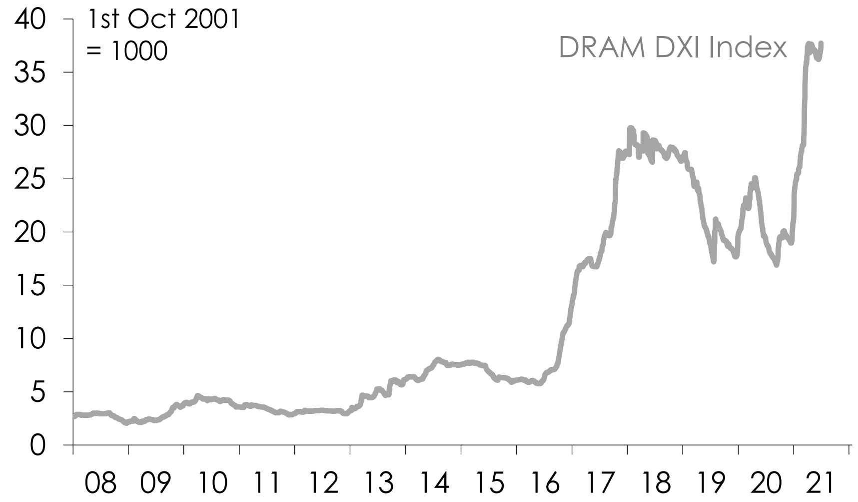
Philadelphia Fed survey prices paid



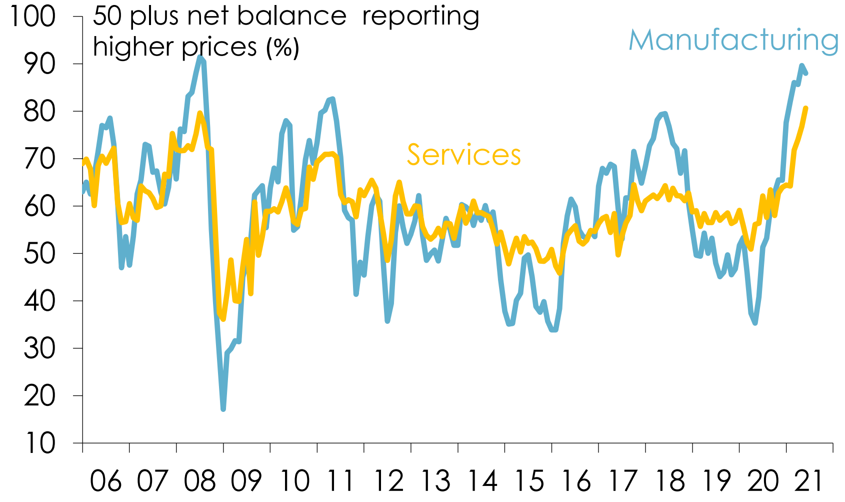
US producer price index (PPI)



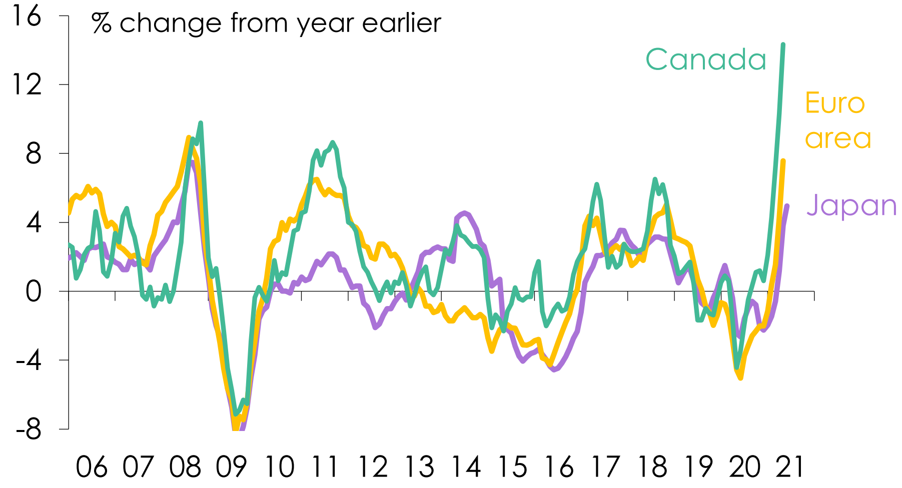
Semiconductor prices



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".

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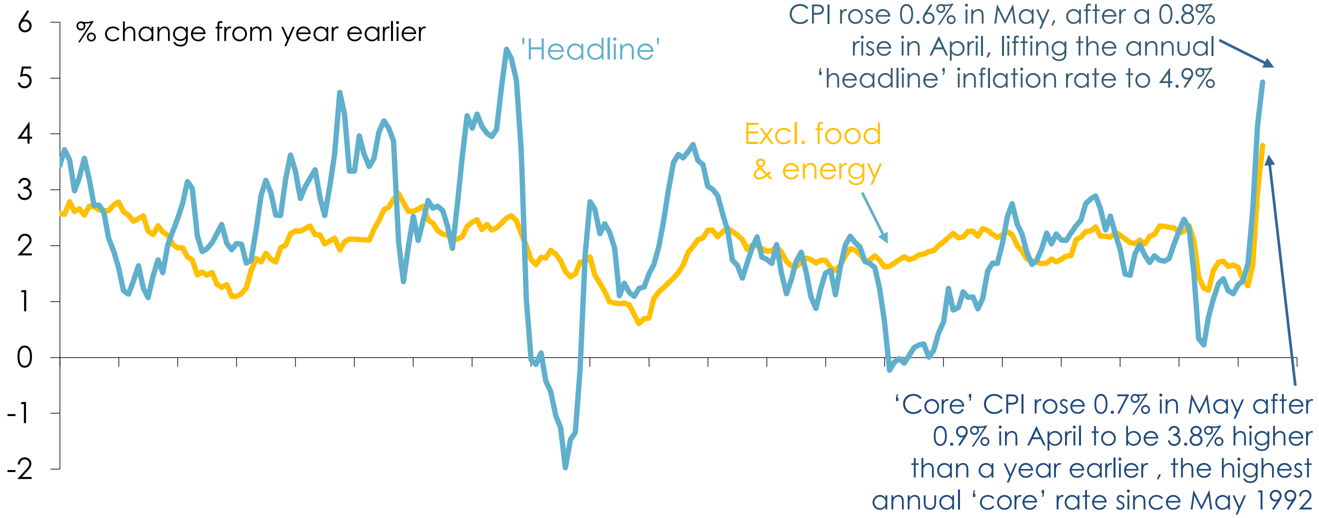
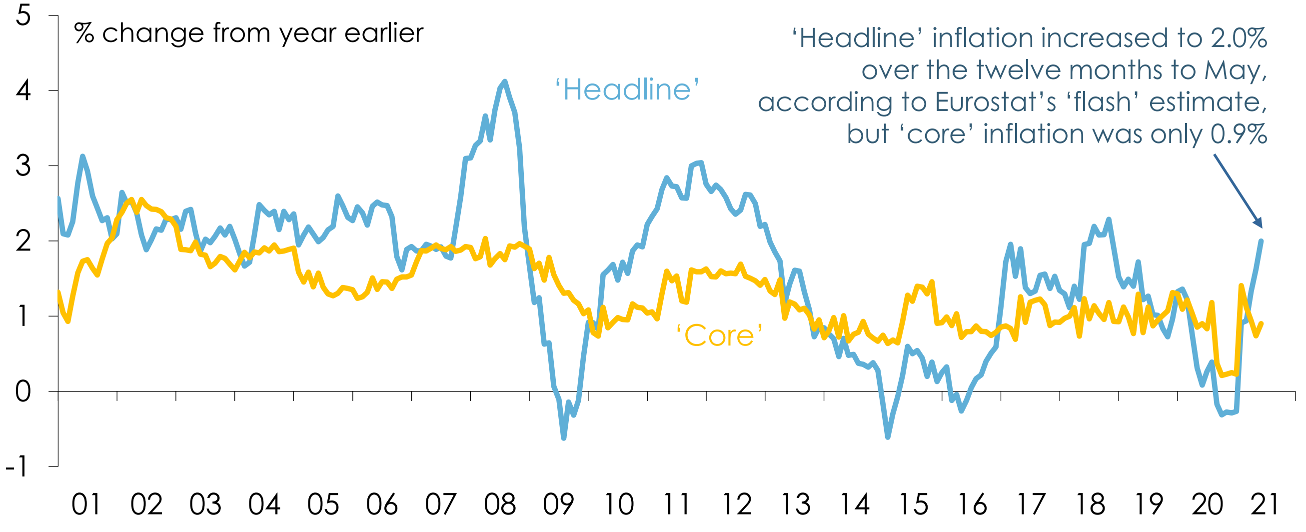
‘Headline’ and ‘core’ US CPIs again rose more than expected in May, but markets now seem more willing to accept that it’s mostly ‘transitory’

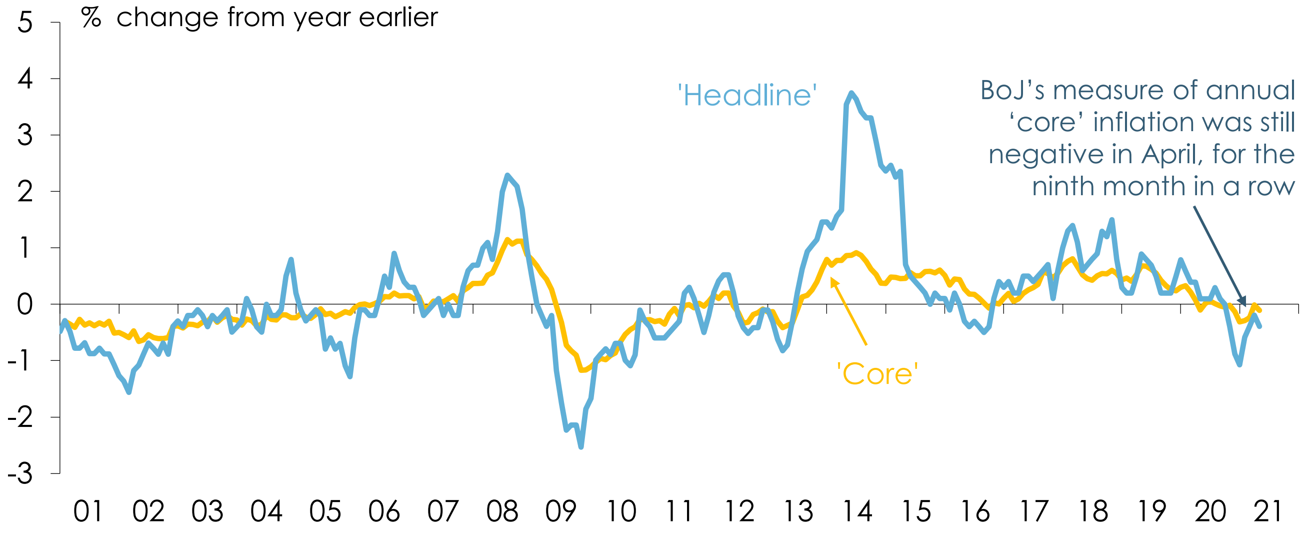
‘Headline’ and ‘core’ inflation - US



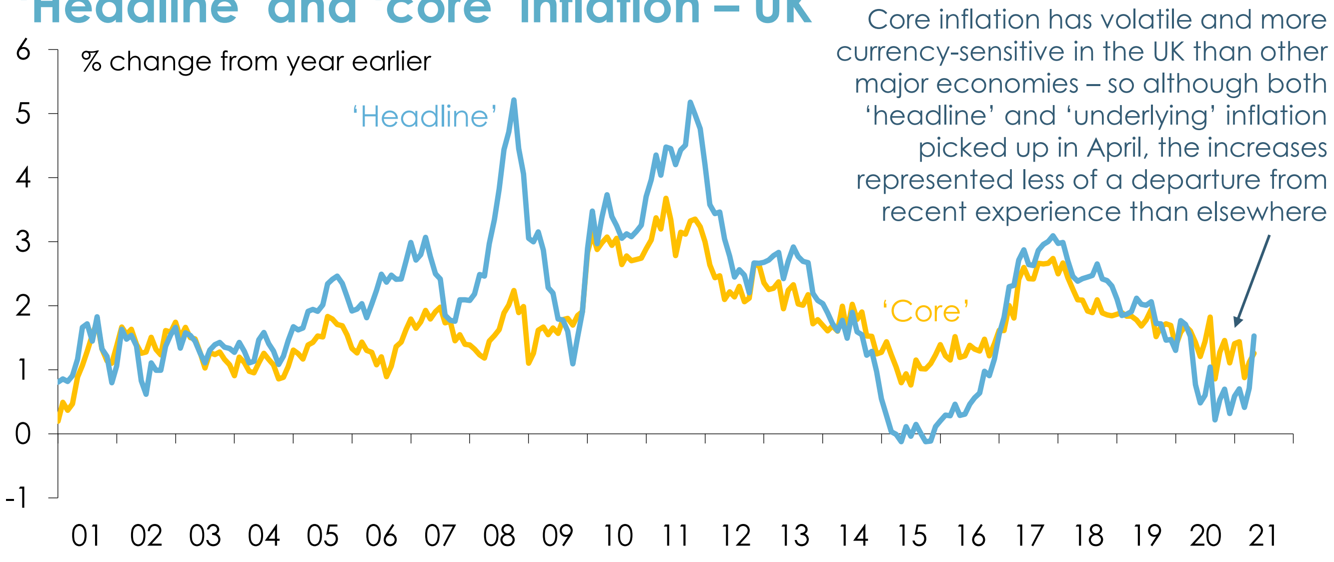
‘Headline’ and ‘core’ inflation – Euro area



‘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). See also slides 68-69 for further analysis of recent movements in the US CPI. *Sources:* US Bureau of Labor Statistics; Eurostat; Statistics Bureau of Japan; Bank of Japan; UK Office for National Statistics. Return to "What's New".

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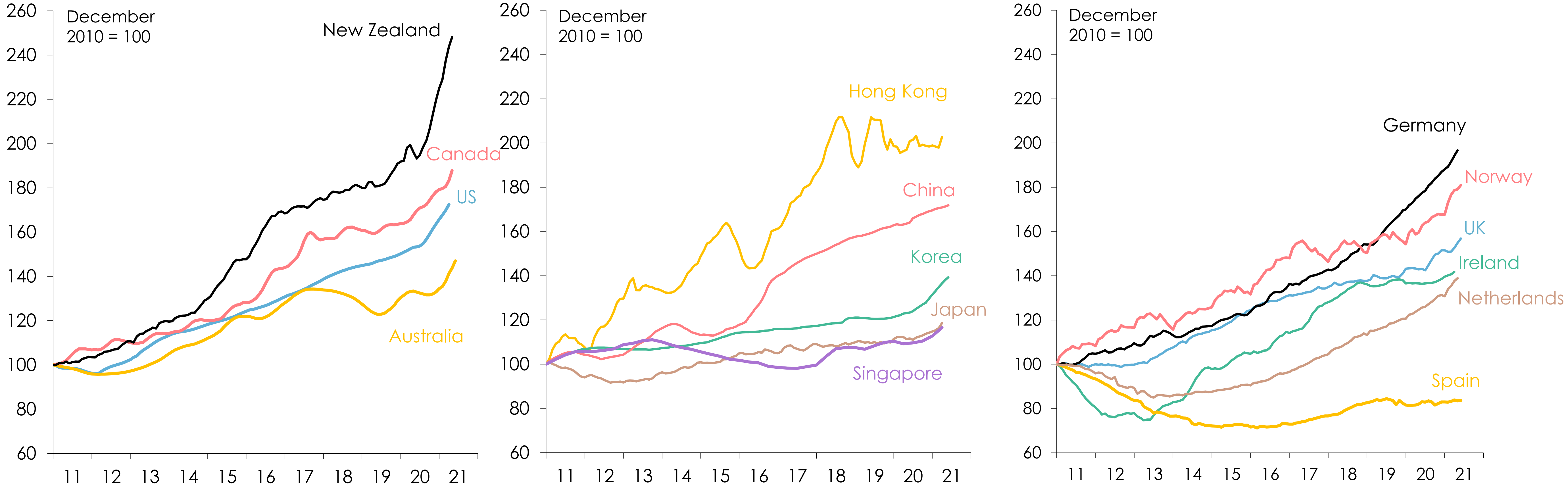
Residential property prices have been remarkably resilient in most countries thanks to record-low interest rates and ample supply of credit

House price indices



- **Outgoing Bank of England Chief Economist Andy Haldane this week characterized the UK housing market as being "on fire", although he also noted that the factors driving house price inflation (in particular, constraints on housing supply) can't be changed by central banks**

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".

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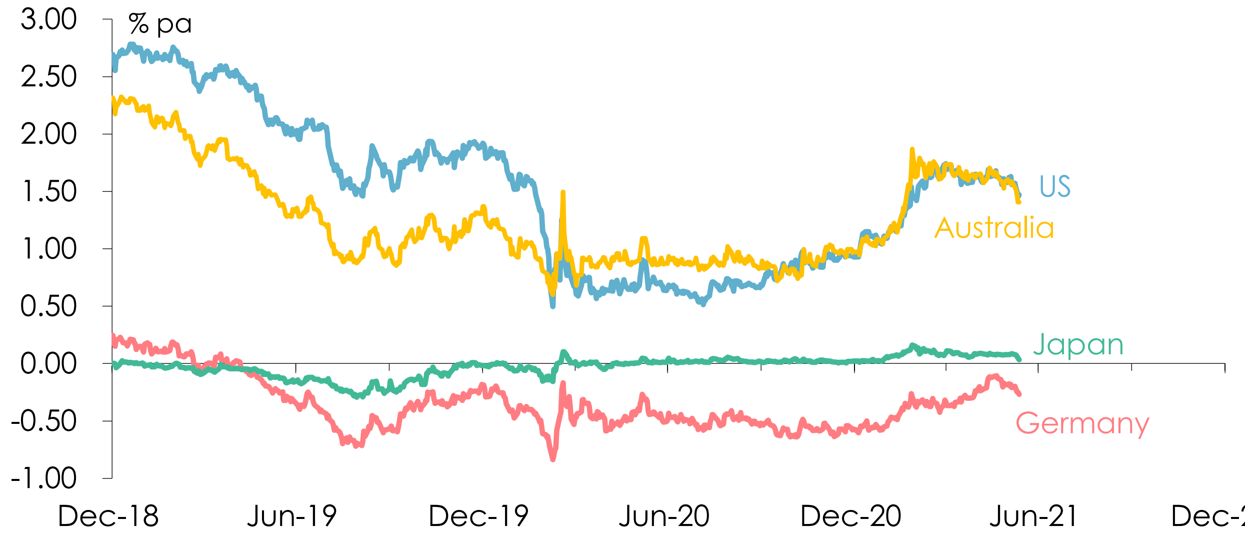
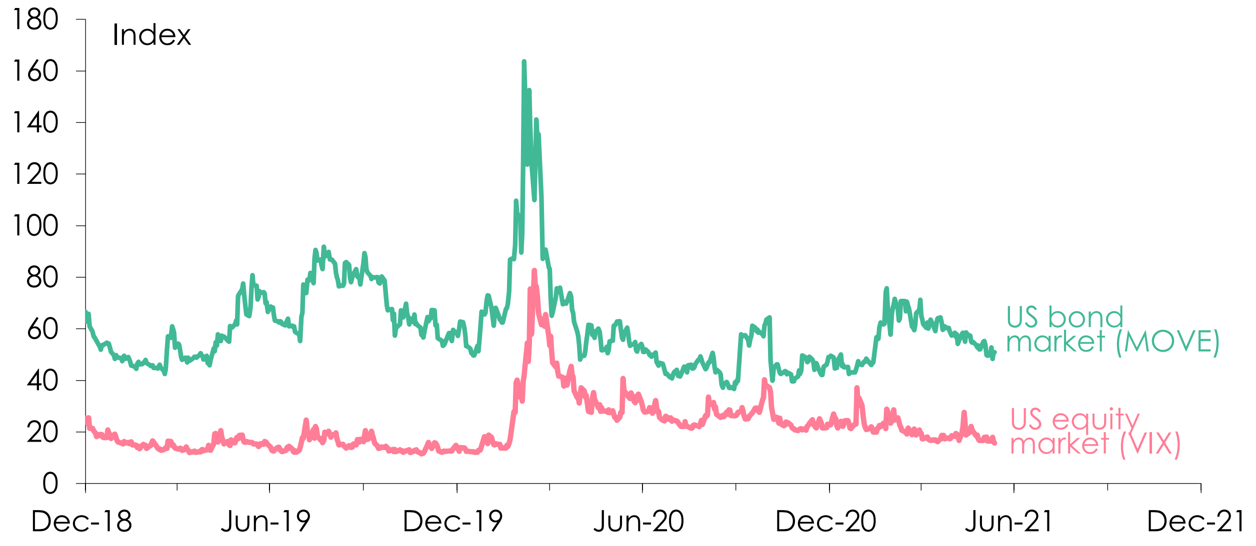
Financial markets shrugged off inflation concerns decisively this week, with bond yields down, stocks up (new record for S&P 500) and US$ up

Stock markets

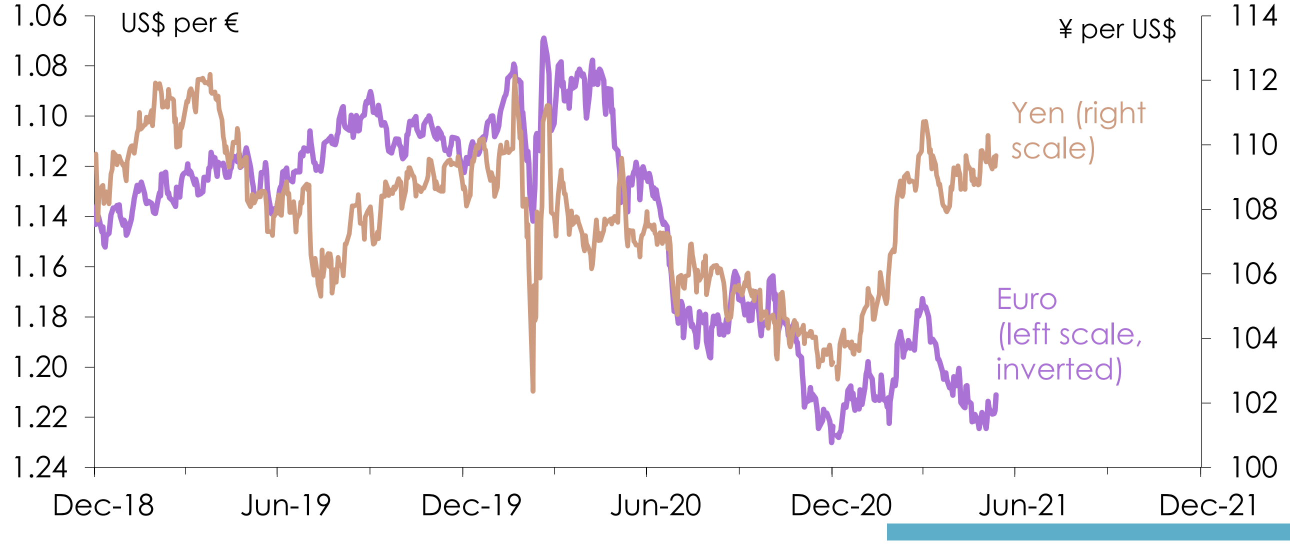
10-year bond yields



Measures of market volatility



US dollar vs euro and yen



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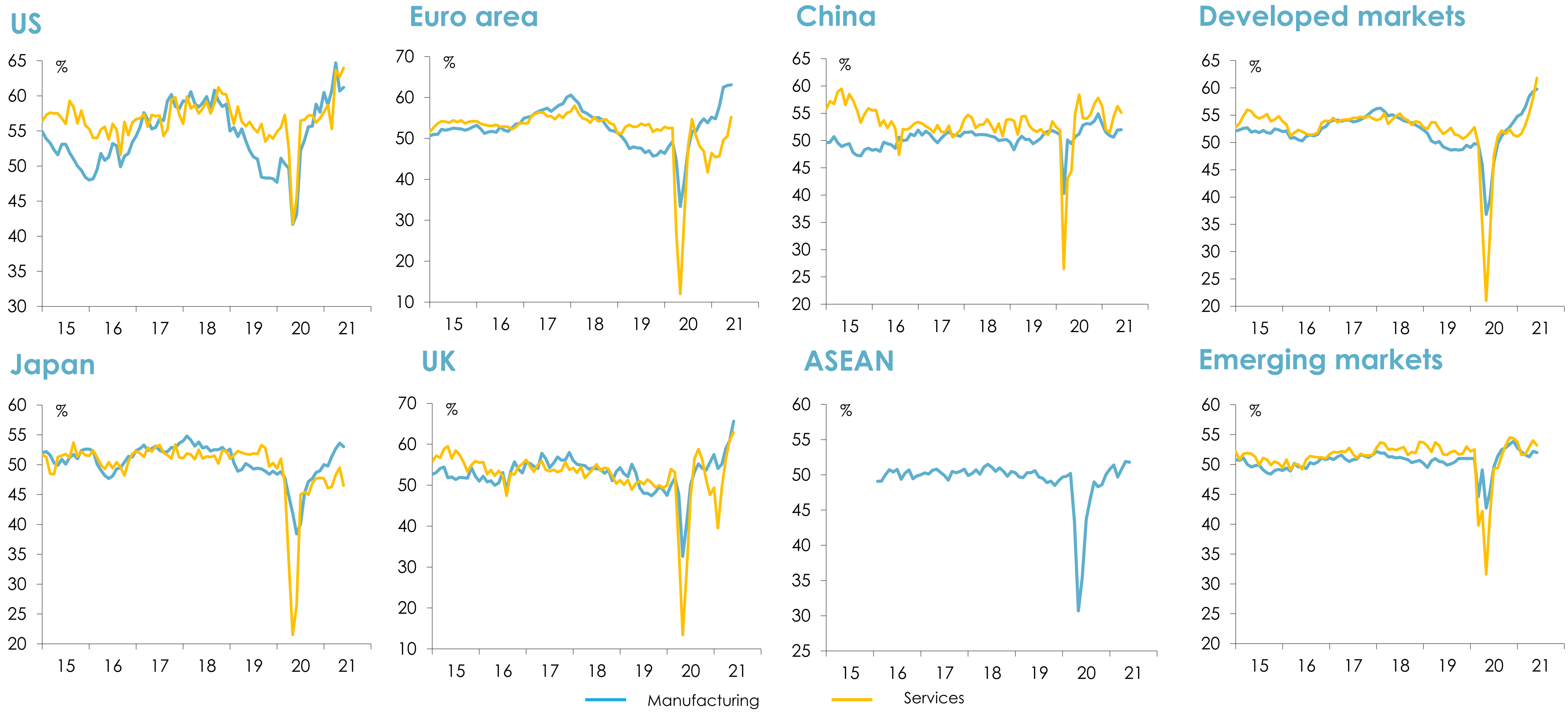
Source: Refintiv Datastream. Data up to 11th June. Return to "What's New".

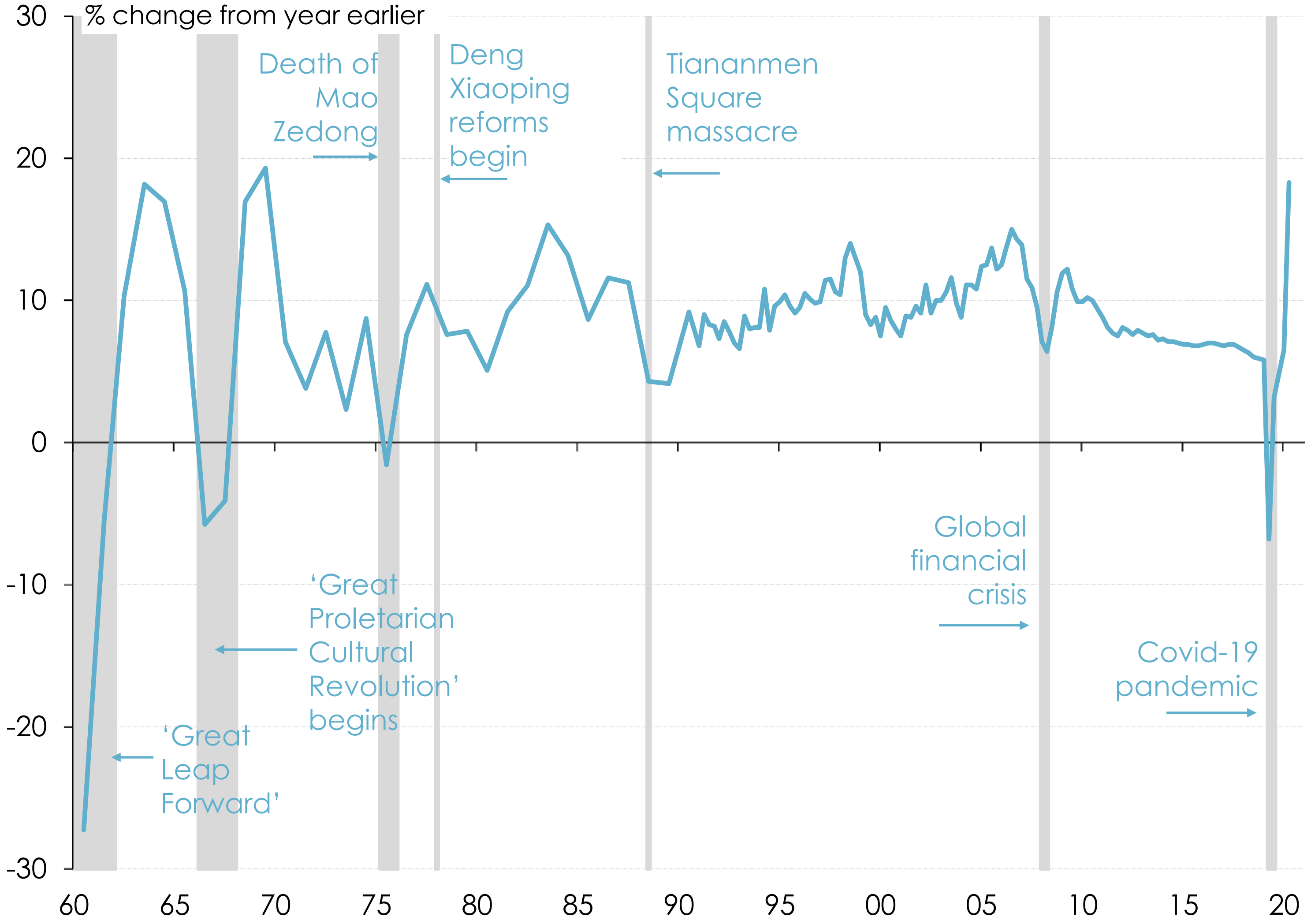
May PMIs show ongoing strength in manufacturing and a pick-up in services activity in the US and Europe, but softening in Japan



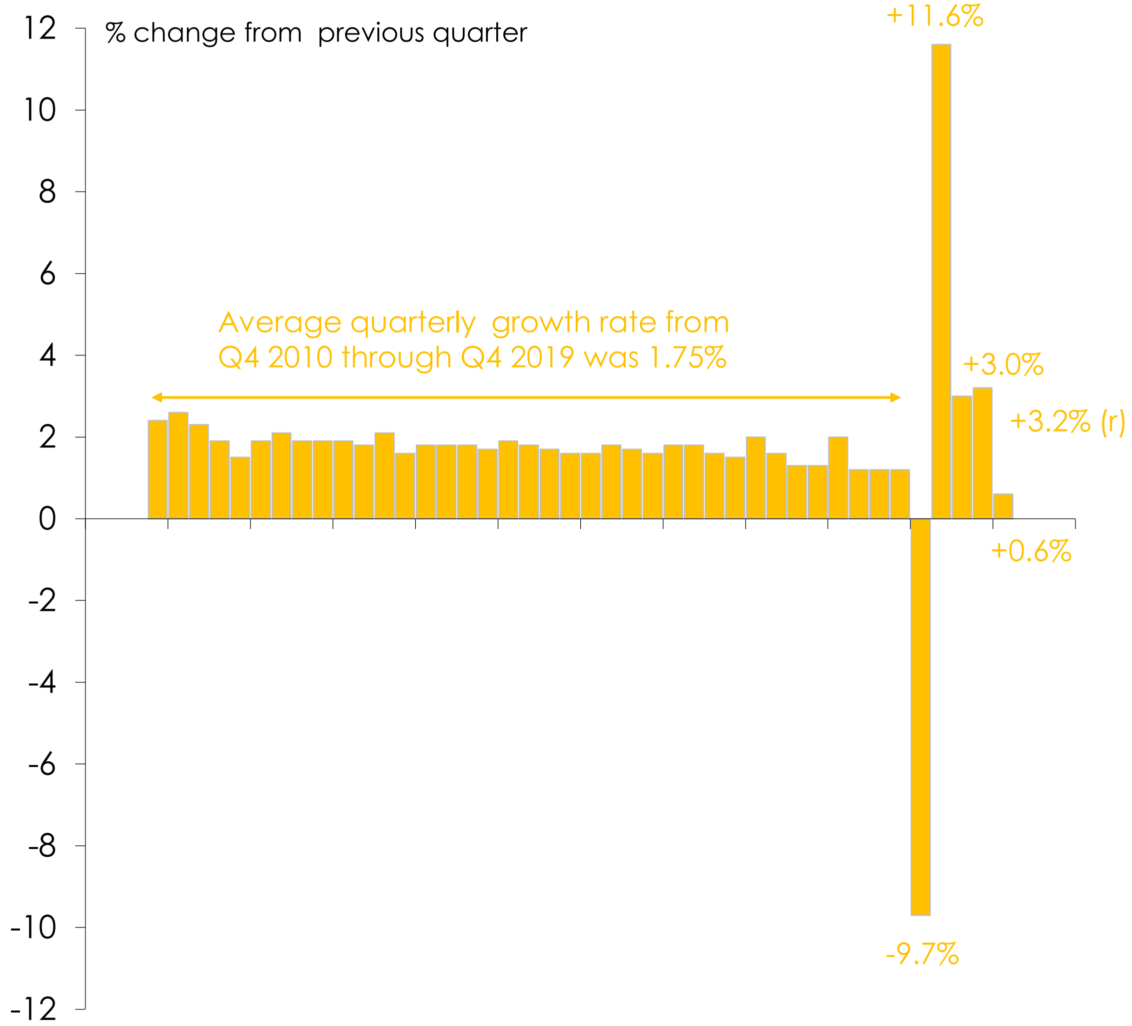
Note: Purchasing Managers' Indexes (PMIs) are derived from surveys of senior executives, who are asked to report whether various dimensions of business activity recorded an increase, decrease or no change compared with the previous month. A reading of 50 indicates an overall increase cf. the previous month, and a reading of less than 50 indicates a decrease. Latest data are for May. 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".

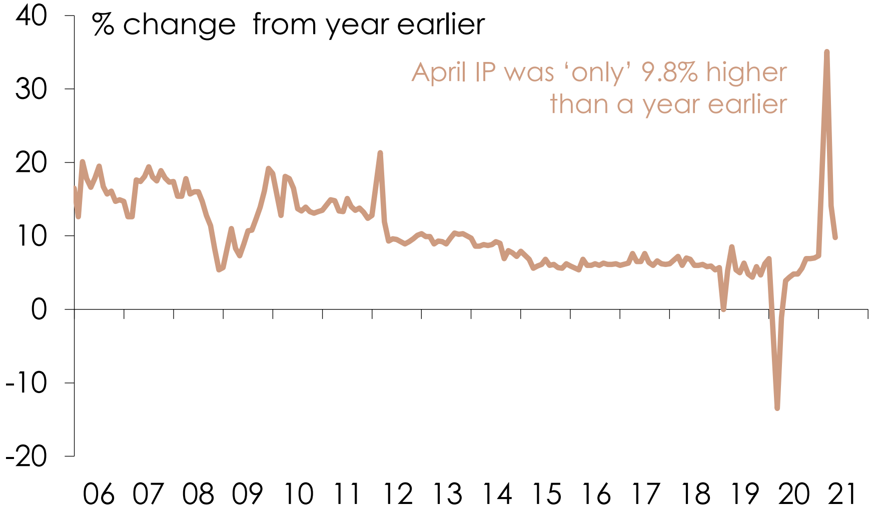
China's "14th Five Year Plan" includes a broad range of targets and objectives in addition to 6% GDP growth

- **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"

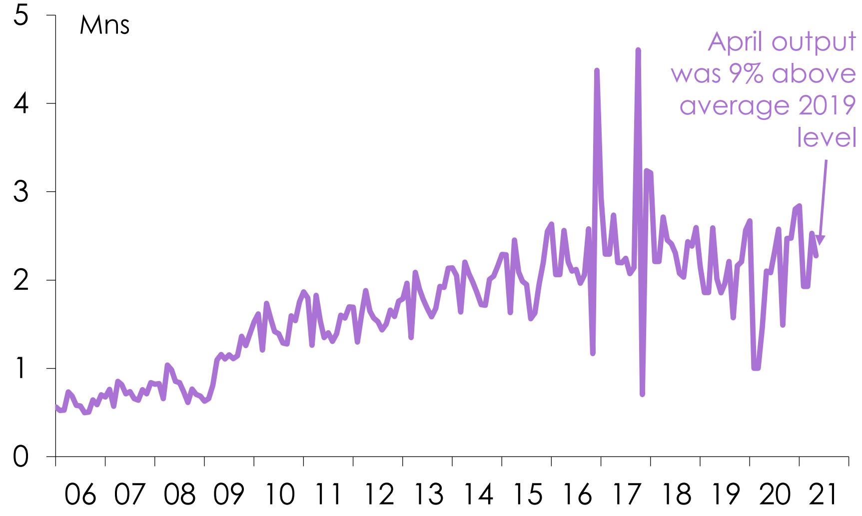
Return to "What's New".

Growth in China's exports seems to have peaked, as has the trade surplus, while other production indicators now also seem to be easing

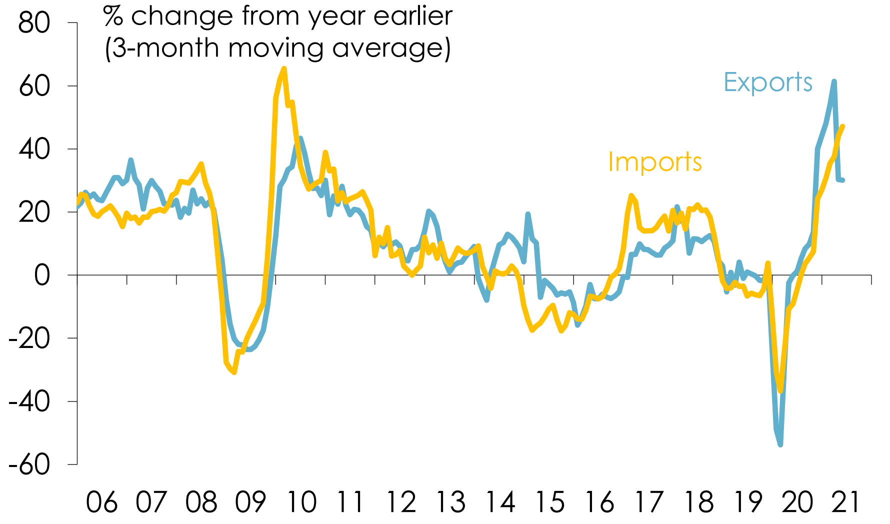
Industrial production



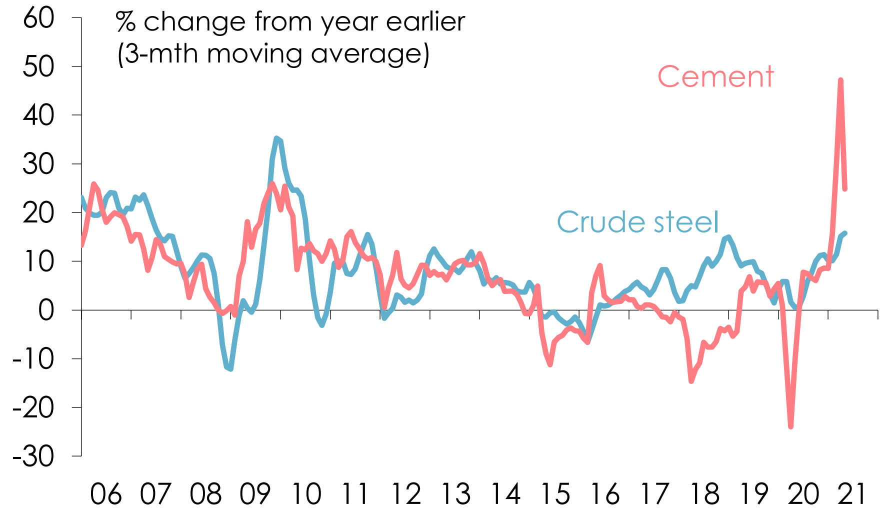
Motor vehicle production



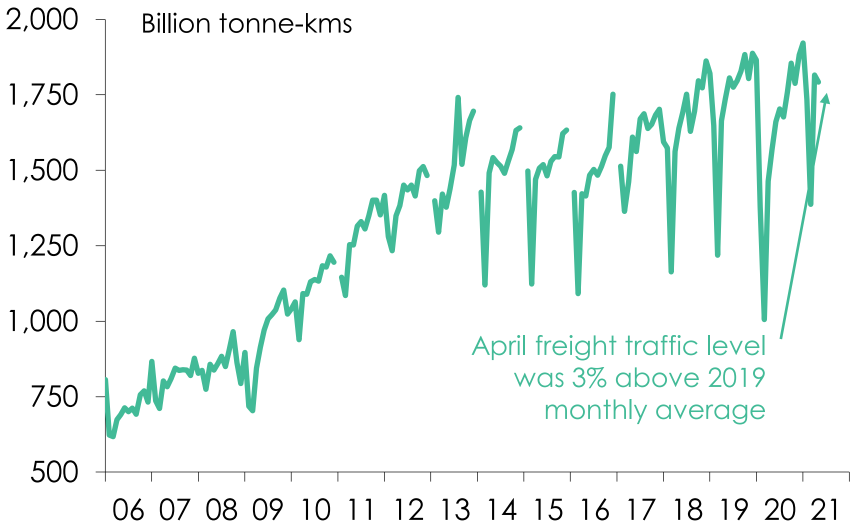
Merchandise trade



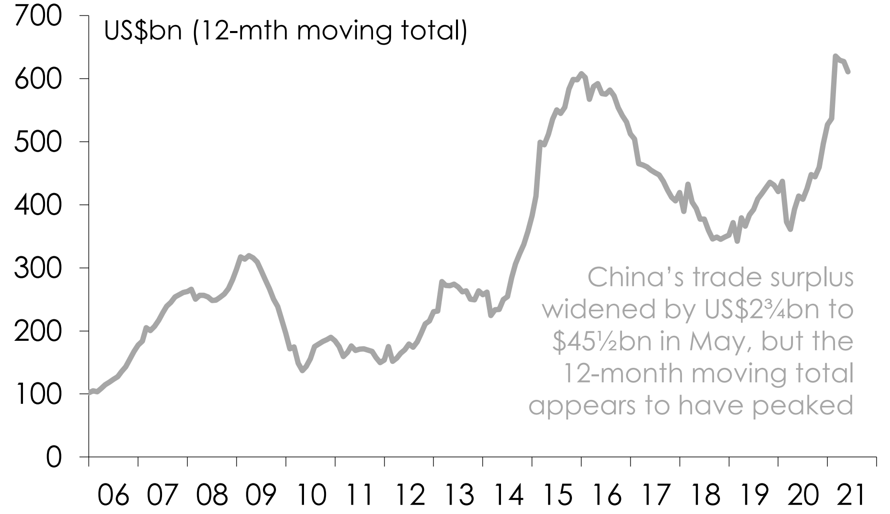
Steel and cement production



Freight traffic volumes



Merchandise trade balance

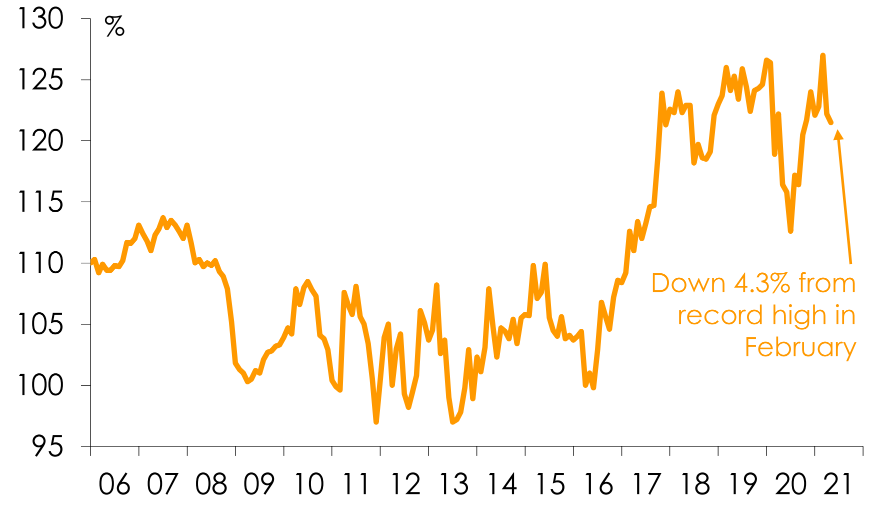


Note: Latest data are for April, except for merchandise trade, which is May. *Sources:* China National Bureau of Statistics; China Association of Automobile Manufacturers; China General Administration of Customs. Return to "What's New".

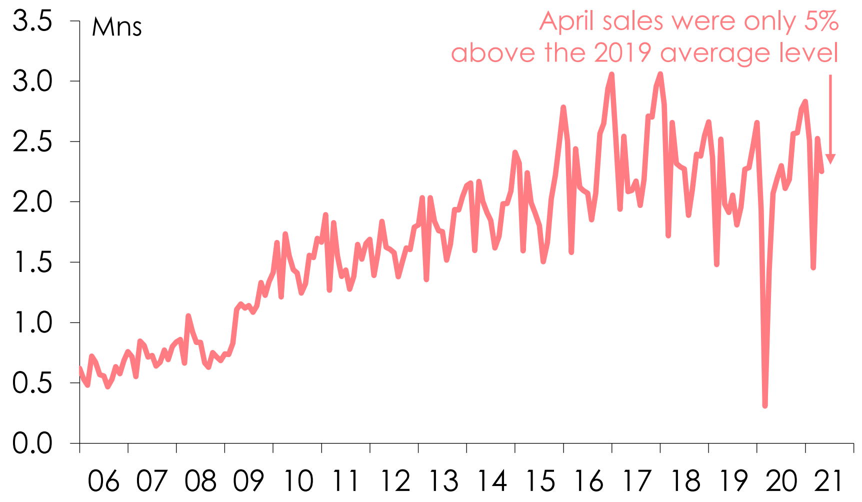
SAUL ESLAKE
CORINNA ECONOMIC ADVISORY

'Demand side' indicators remained soft through April, underscoring the PBoC's judgement that 'the foundation for recovery is not yet solid'

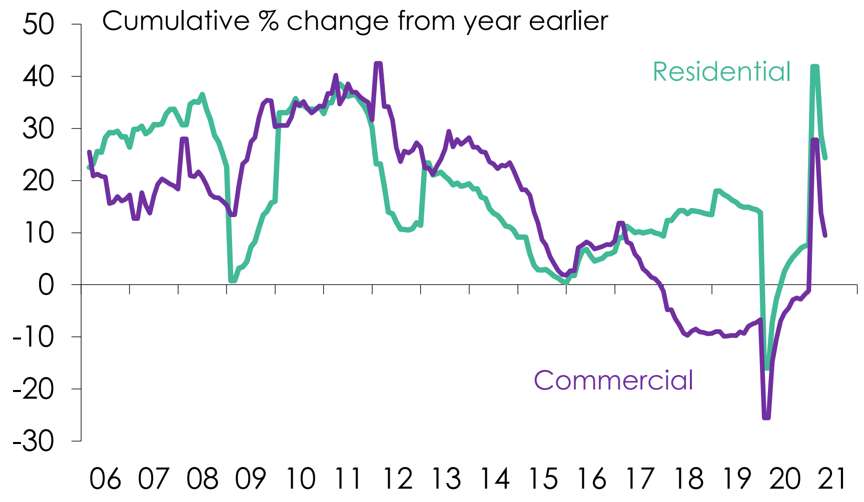
Consumer sentiment



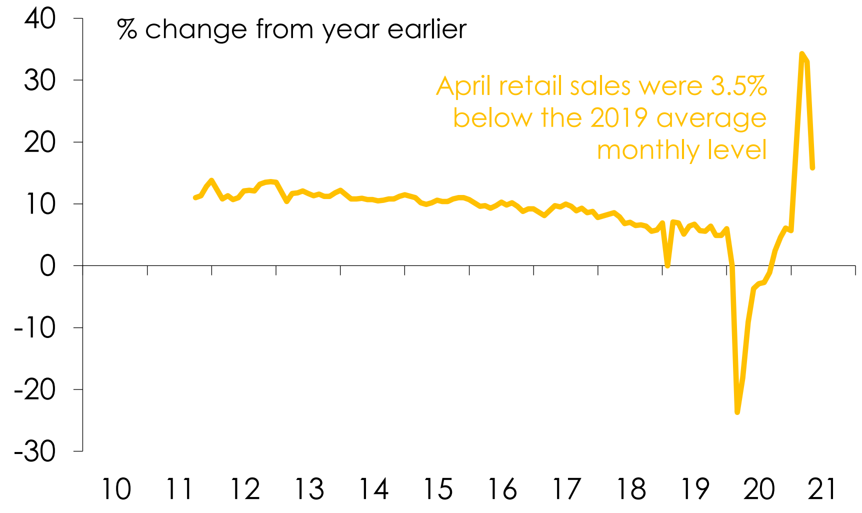
Motor vehicle sales



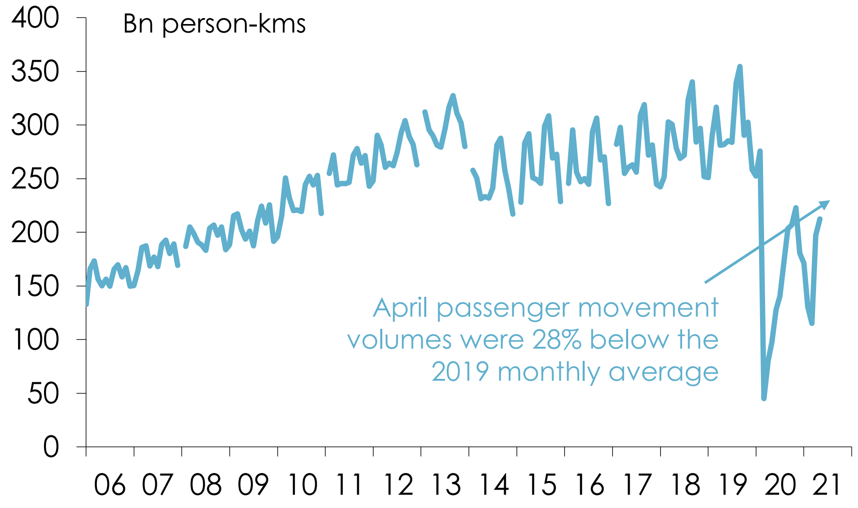
Real estate investment



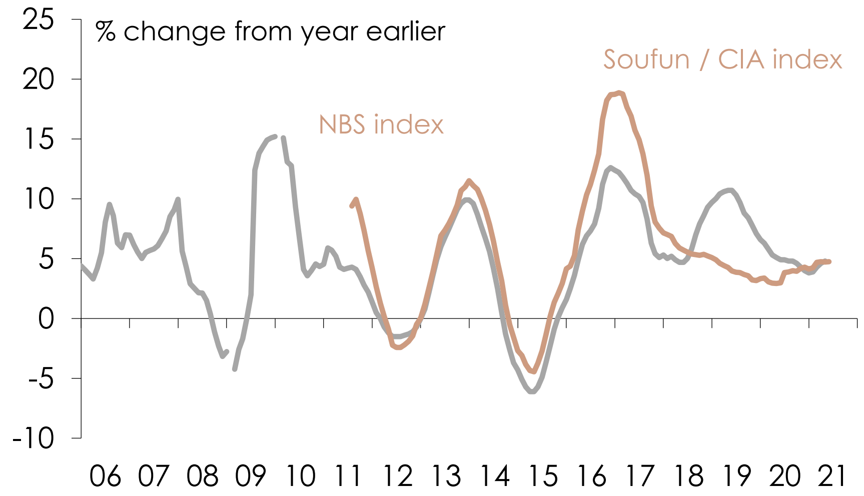
Volume of retail sales



Passenger traffic volumes



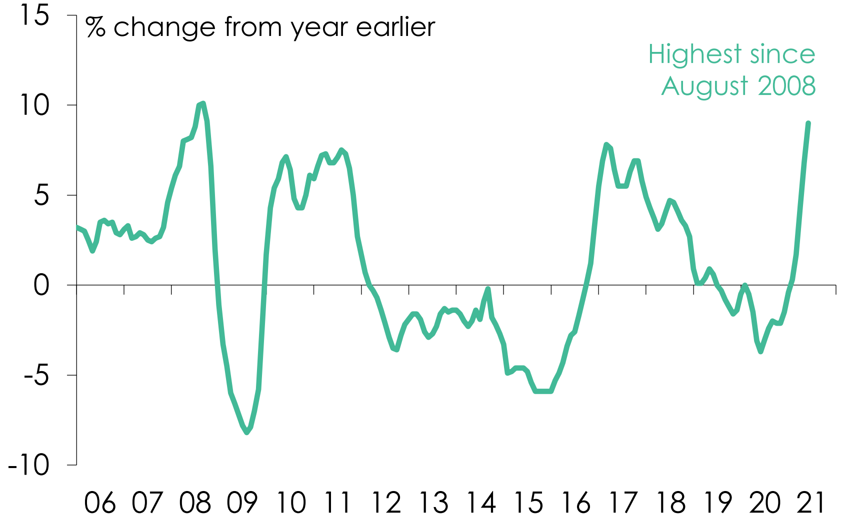
Residential real estate prices



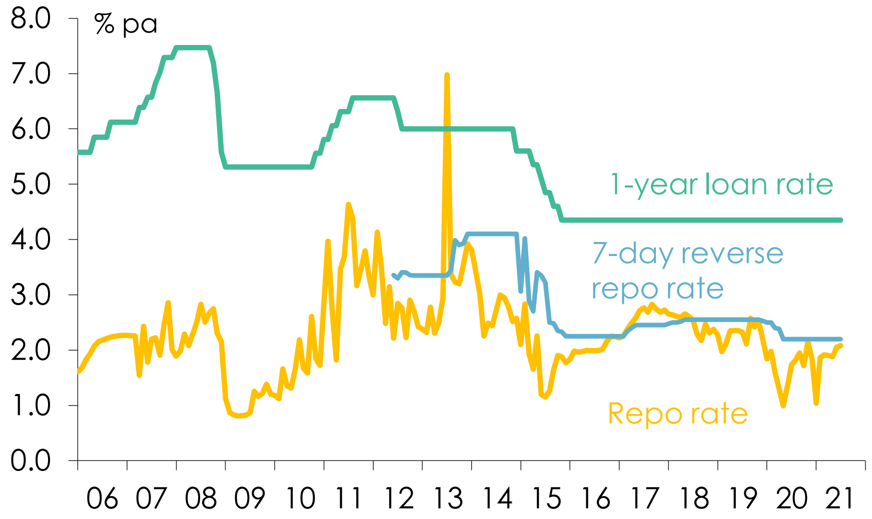
Sources: China National Bureau of Statistics (NBS); China Association of Automobile Manufacturers; China Index Academy (CIA). Latest data are for April (except for the Soufun/CIA house price index which is May). Return to "What's New".

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

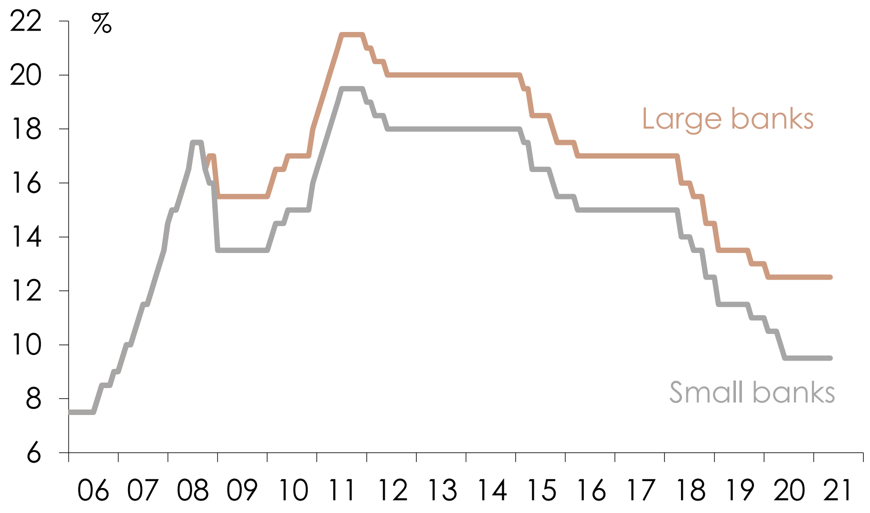
Producer prices



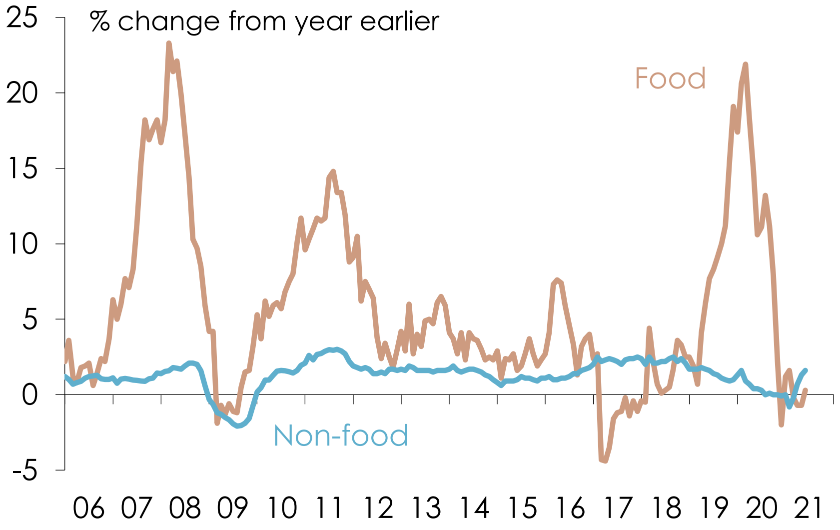
PBoC policy interest rates



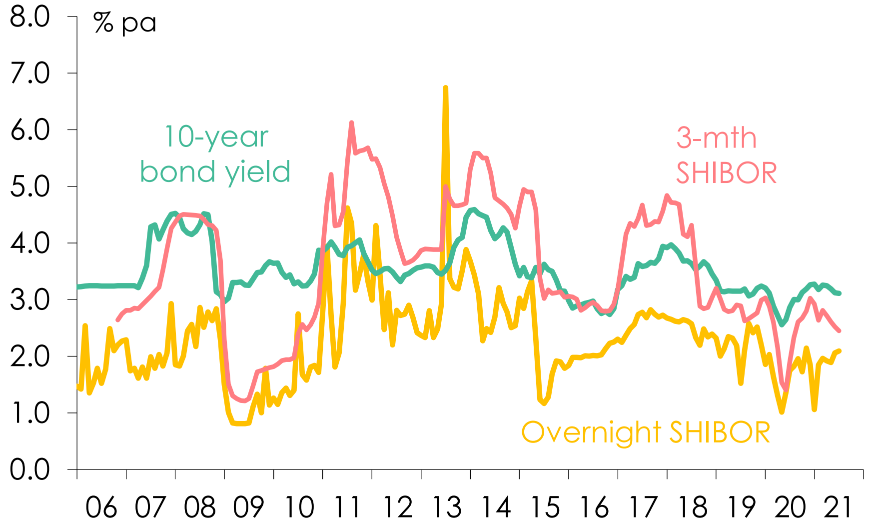
Bank reserve requirement ratios



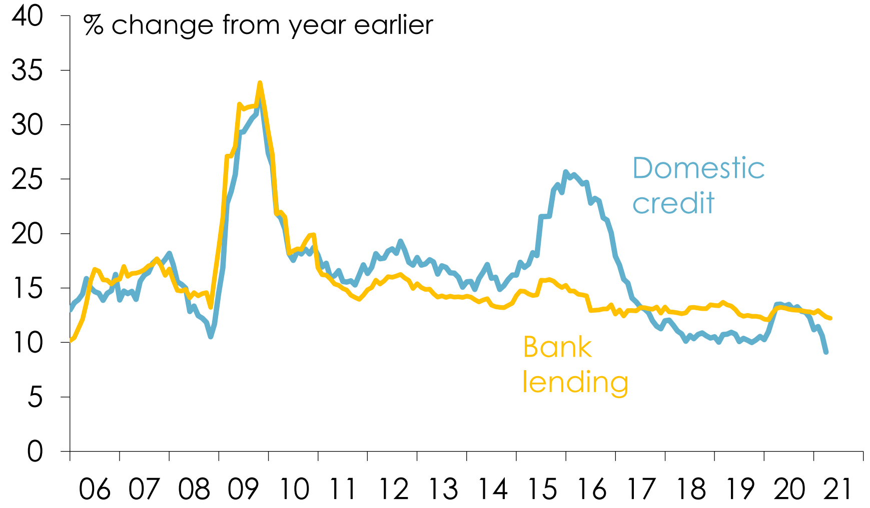
Consumer prices



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".

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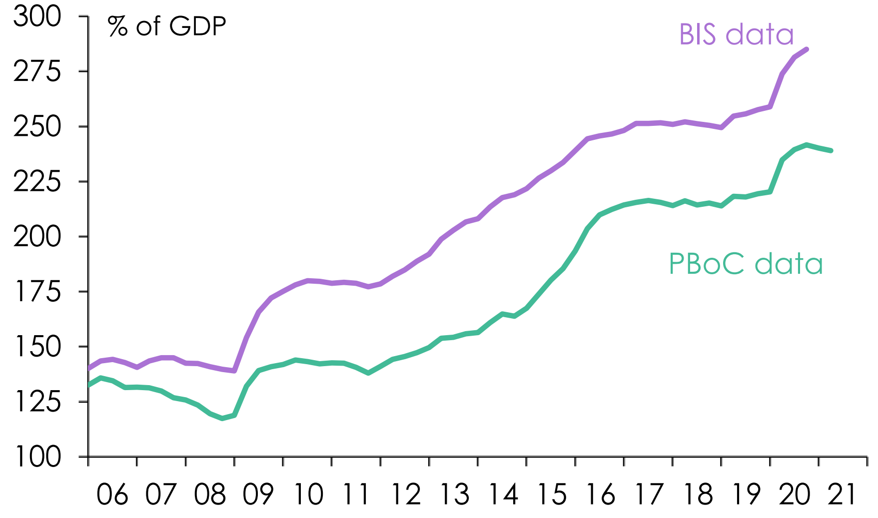
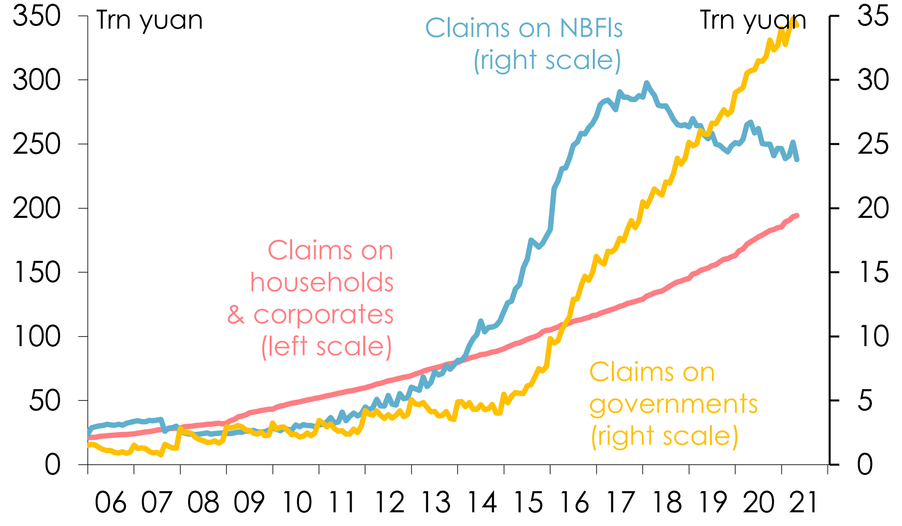
The Chinese banking system's risk profile has increased significantly over the past decade – particularly on the liabilities side of its balance sheet

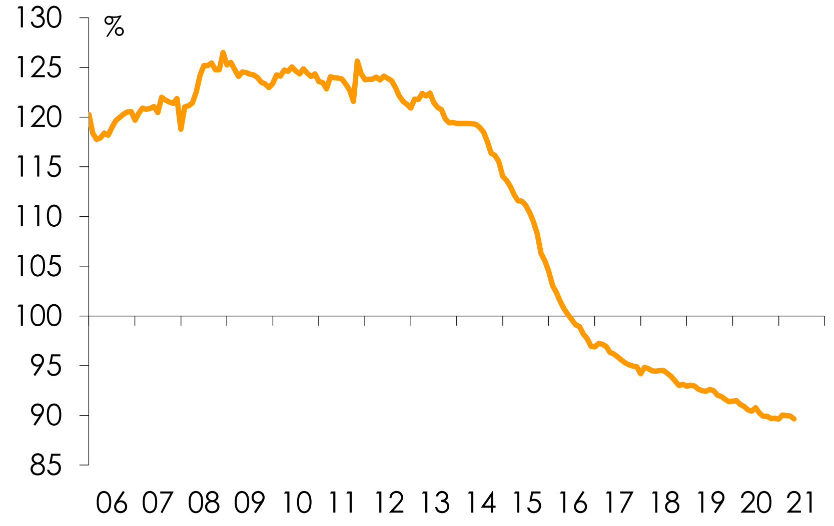
Credit outstanding as a pc of GDP



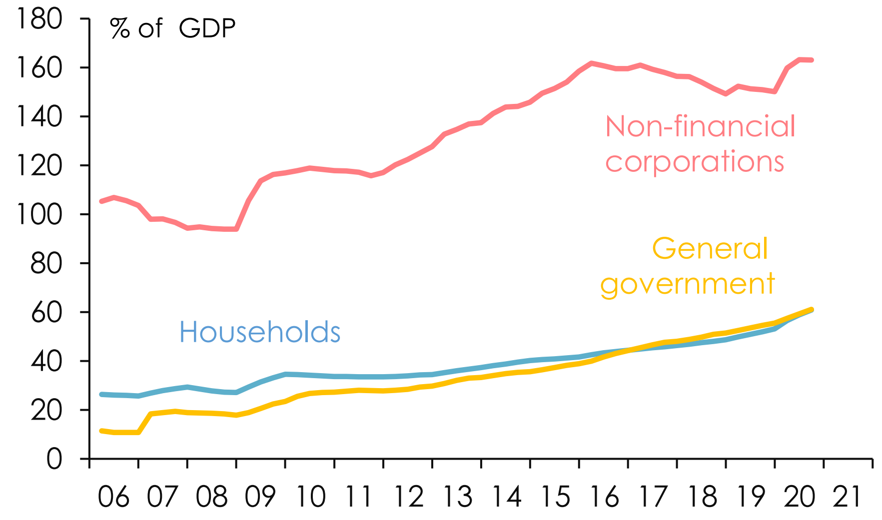
Banks' assets



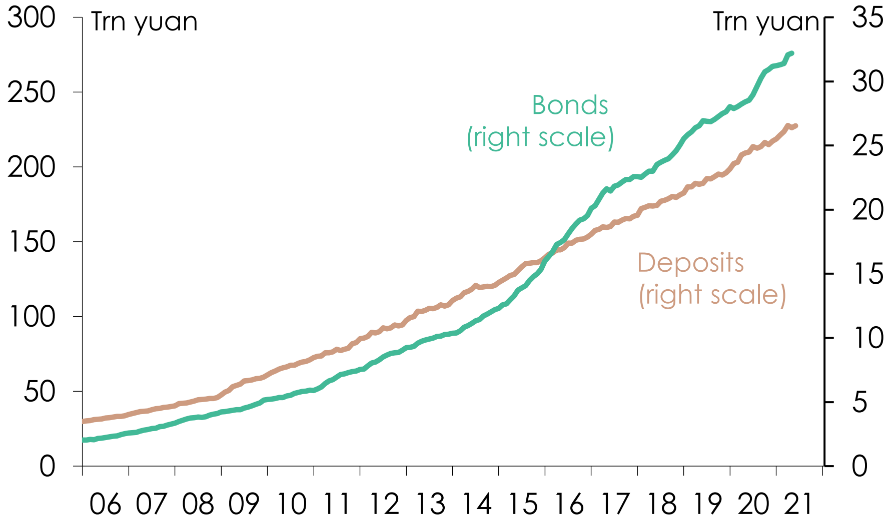
Banks' deposits-to-loans ratio



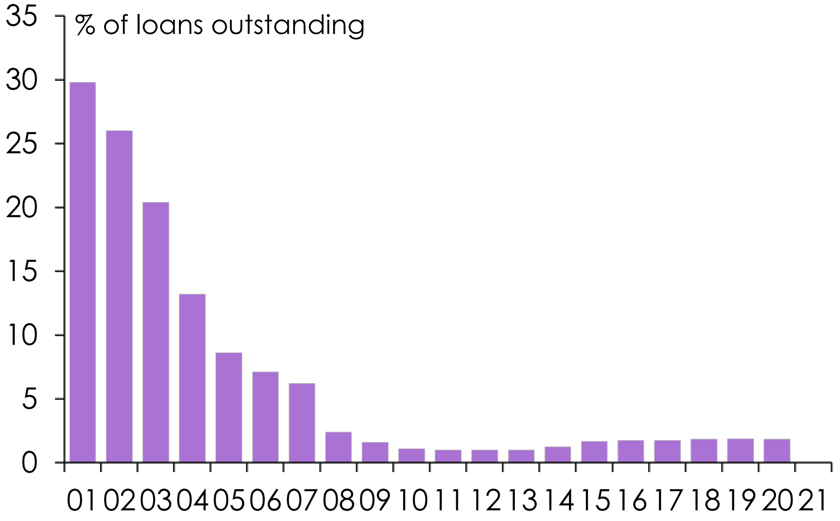
Credit outstanding by sector



Banks' liabilities



Banks NPLs – official estimates



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

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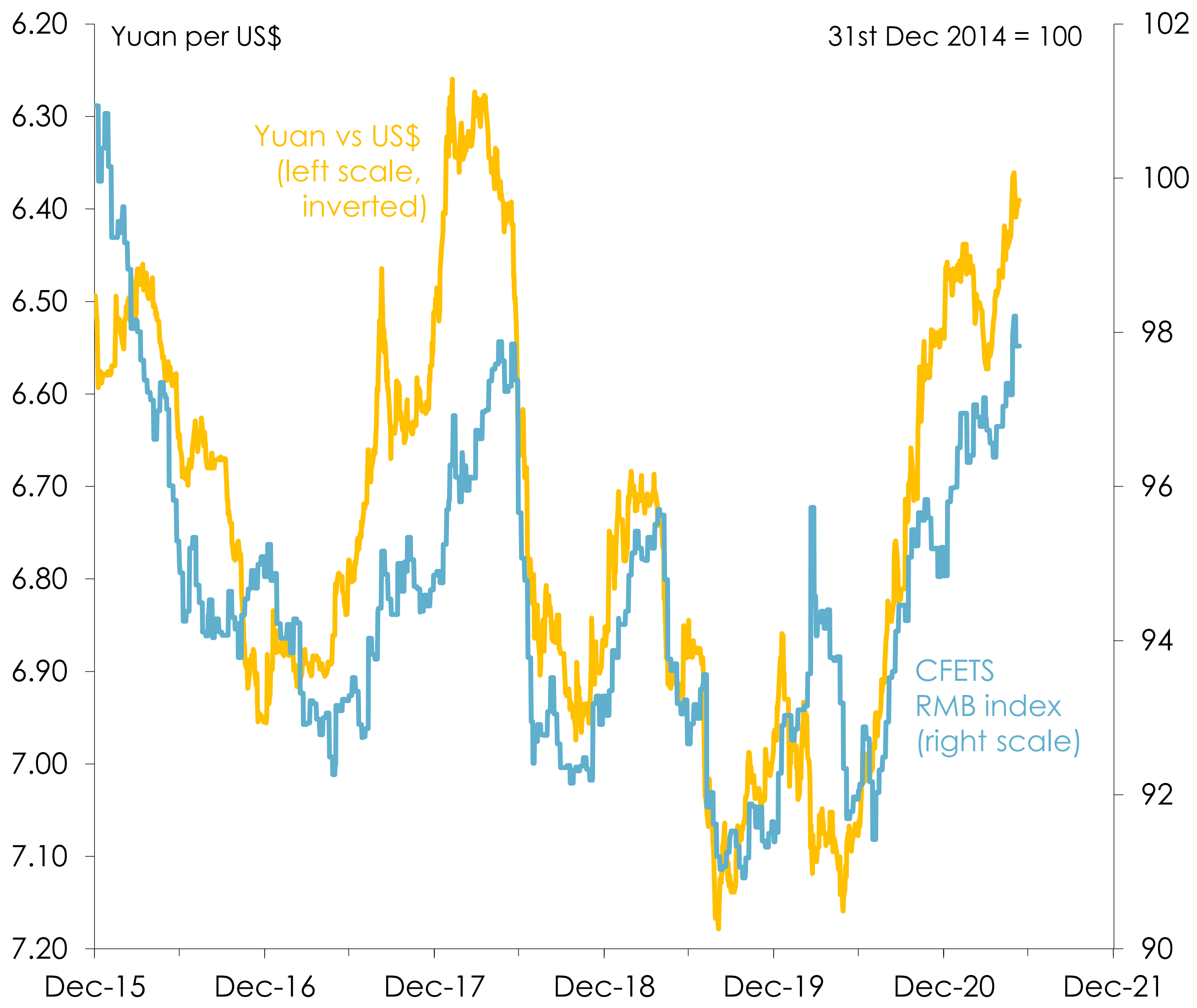
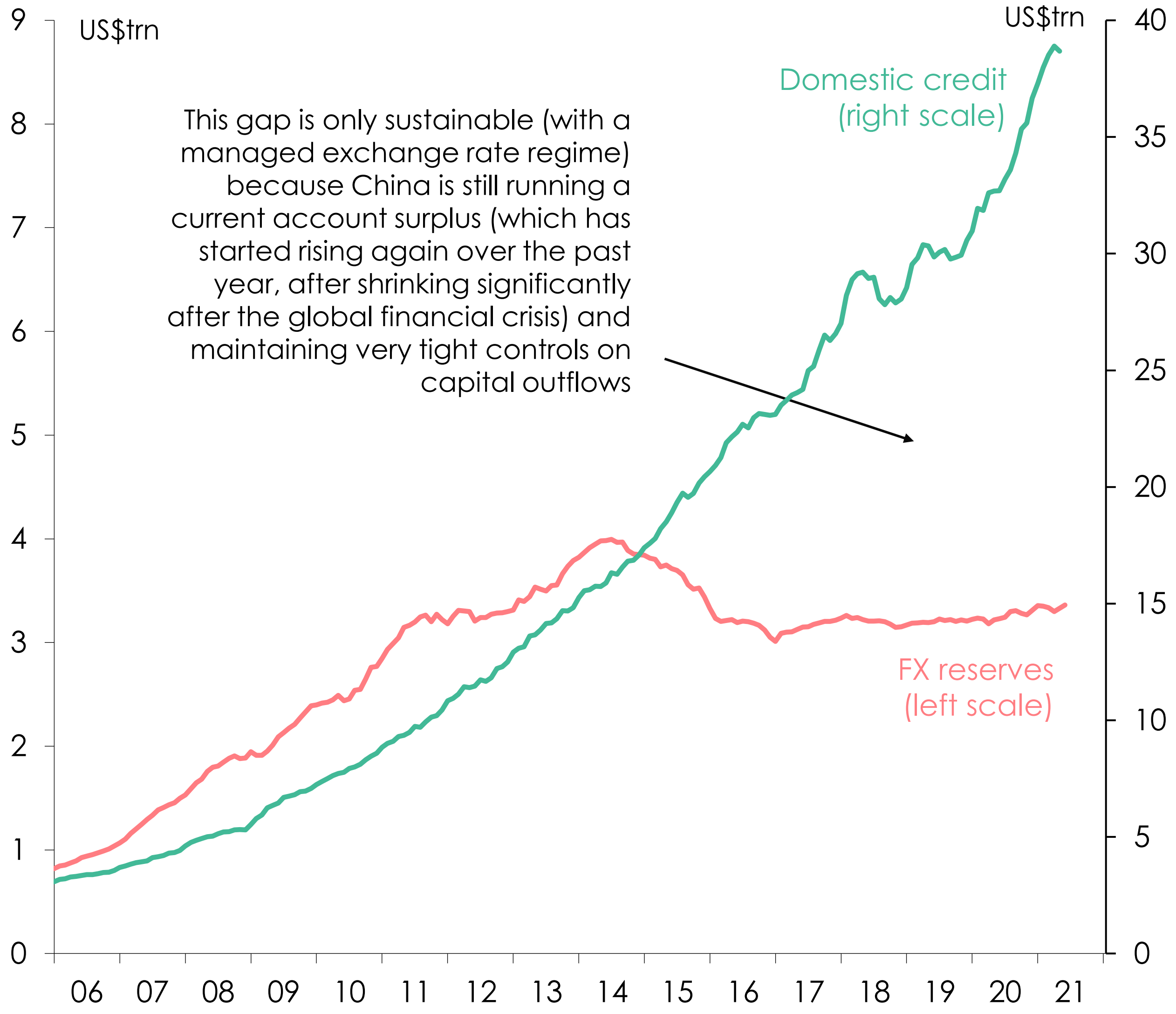
The yuan dropped another 0.3% against the US$ and 0.4% vs the PBoC's TWI following last month's increase in banks' FX reserve requirements

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 11[th] June; FX reserves data up to May, credit data to April. Return to "What's New".

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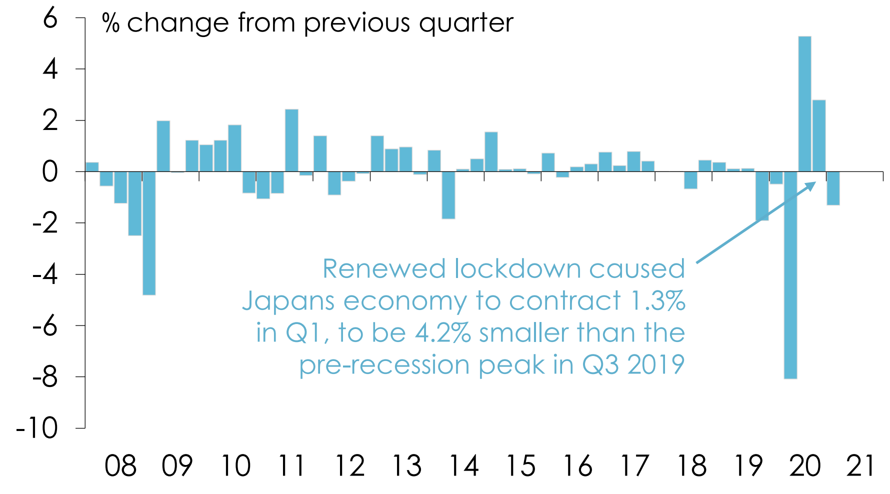
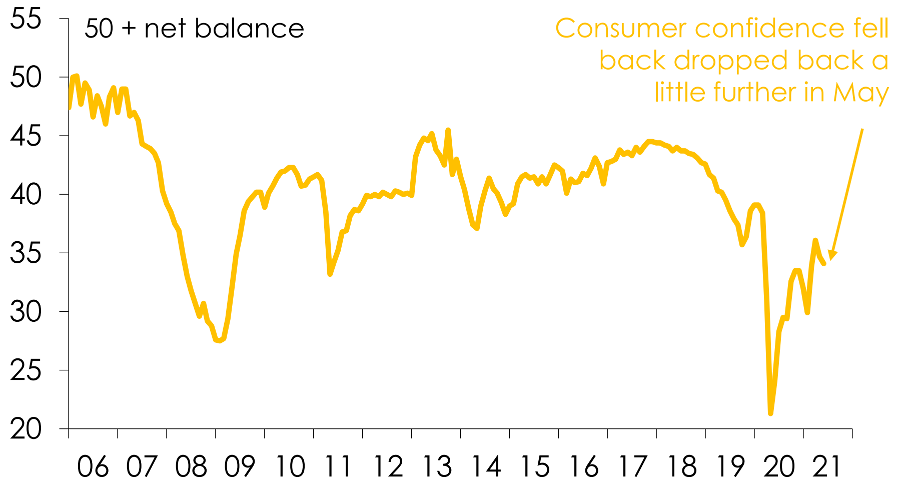
Japan's economy contracted by 1.3% in Q1, due to renewed lockdown, and was 4.2% smaller than in Q3 2019 (the pre-recession peak)

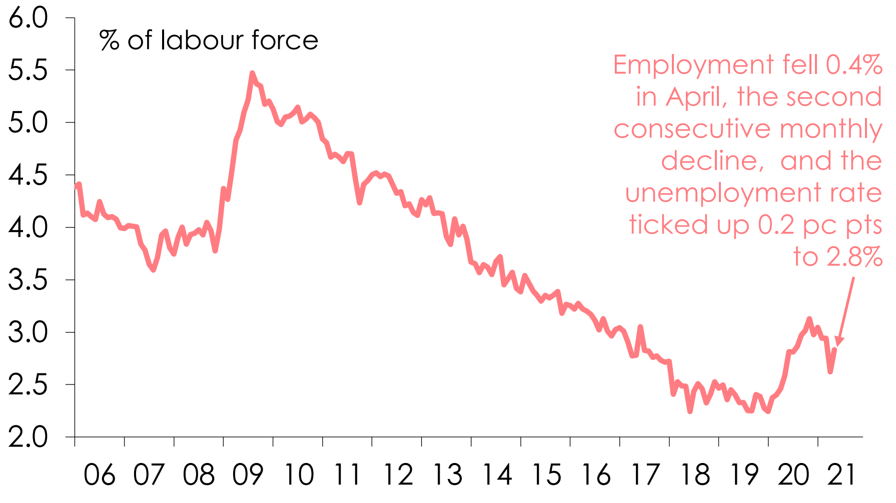
Real GDP



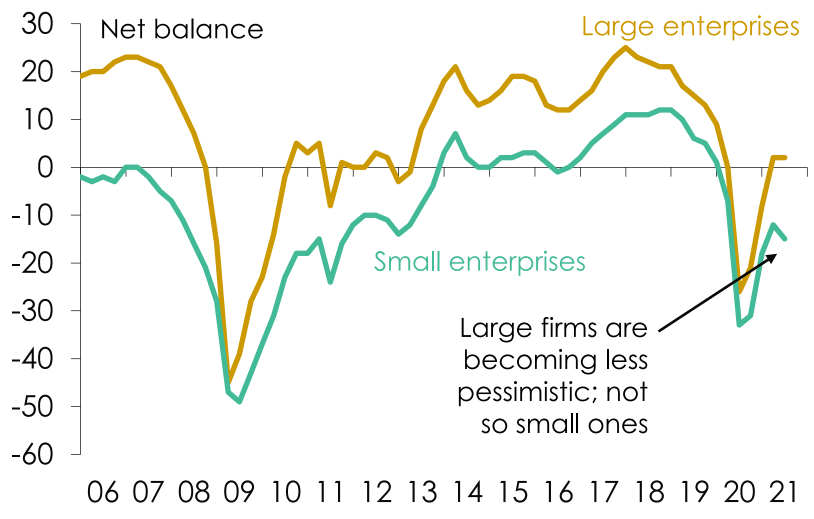
Consumer confidence



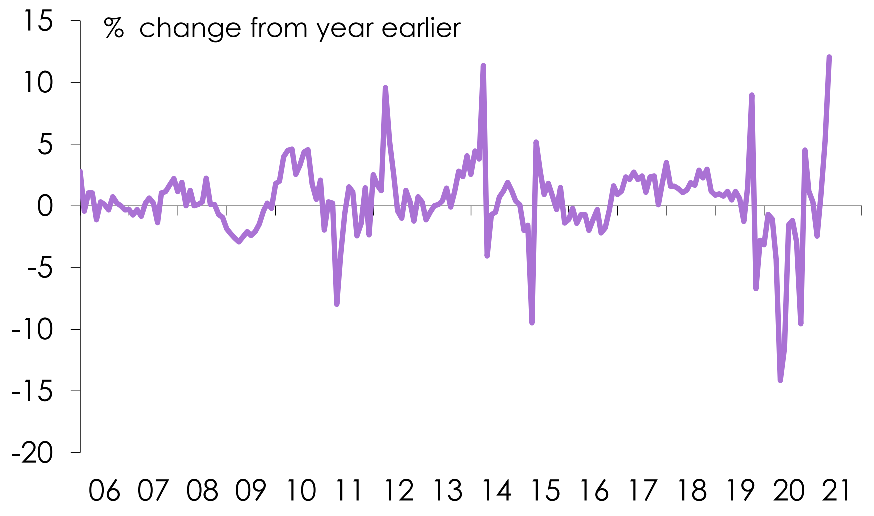
Unemployment



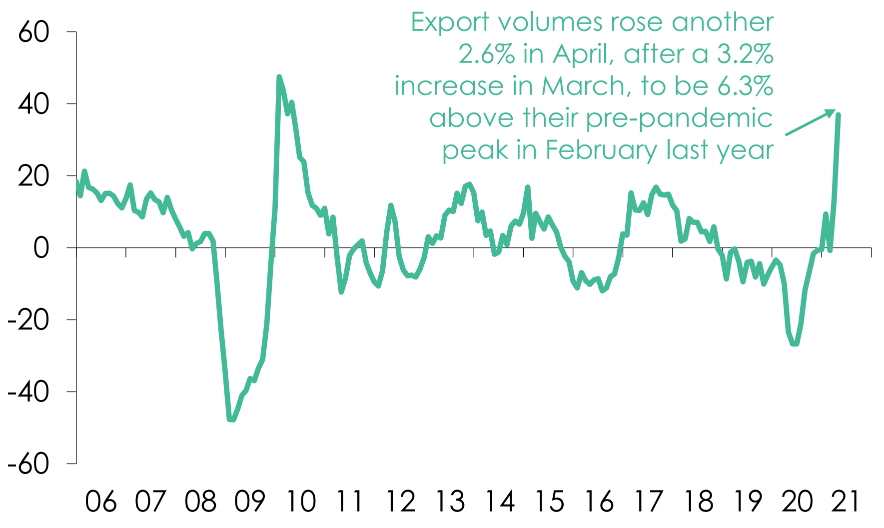
BoJ *Tankan* business conditions



Value of retail sales



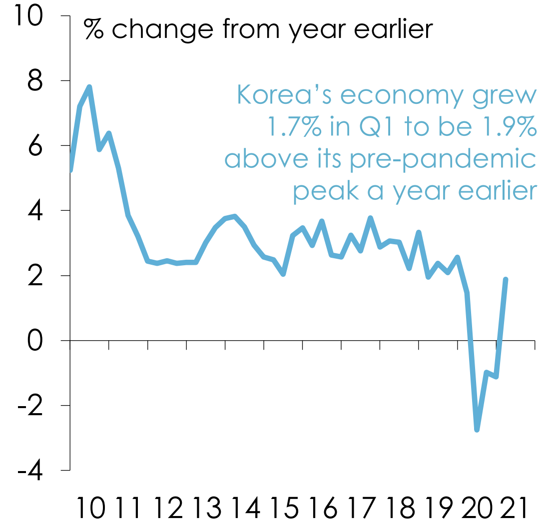
Merchandise export volumes



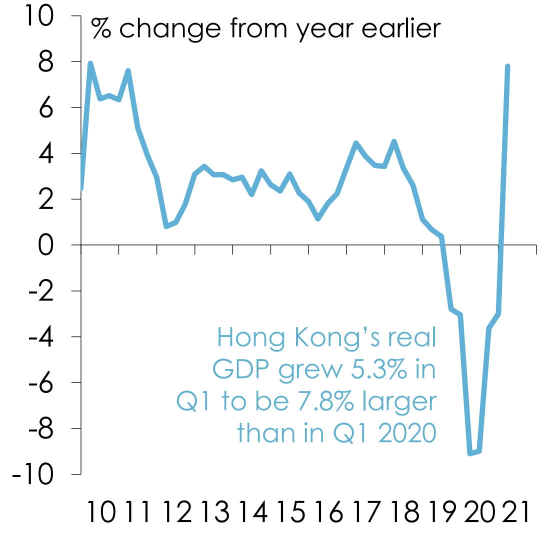
Sources: Japan Cabinet Office Economic and Social Research Institute; Bank of Japan; Statistics Bureau of Japan; Japan Ministry of Finance. Return to "What's New".

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

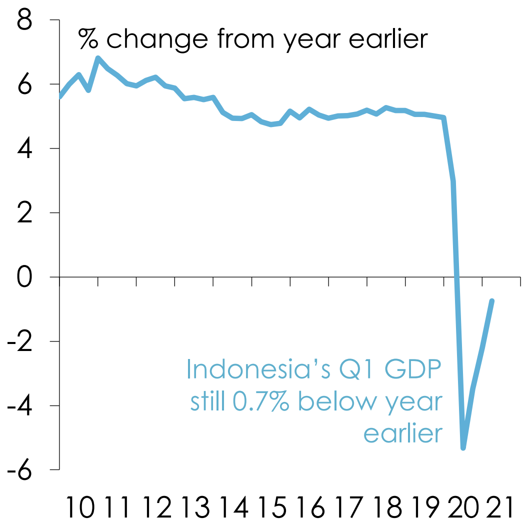
Korea



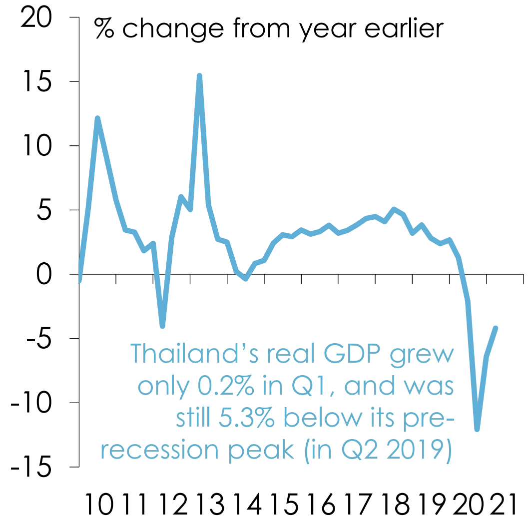
Hong Kong



Indonesia



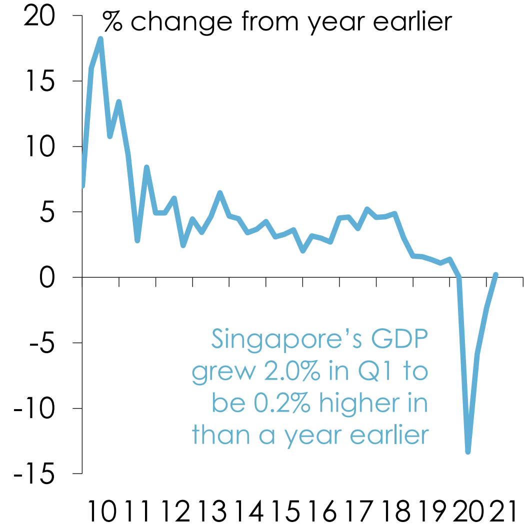
Thailand



Vietnam

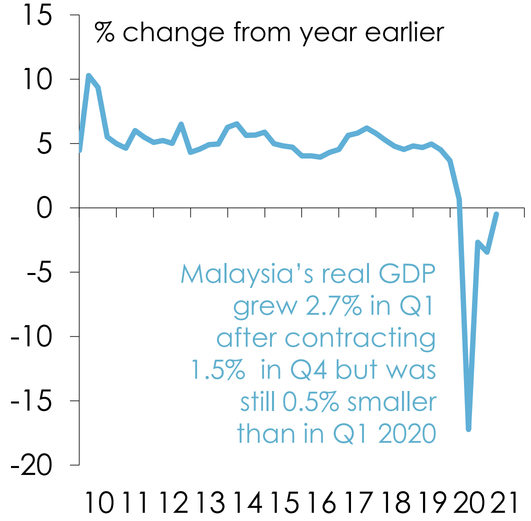
Taiwan

Singapore

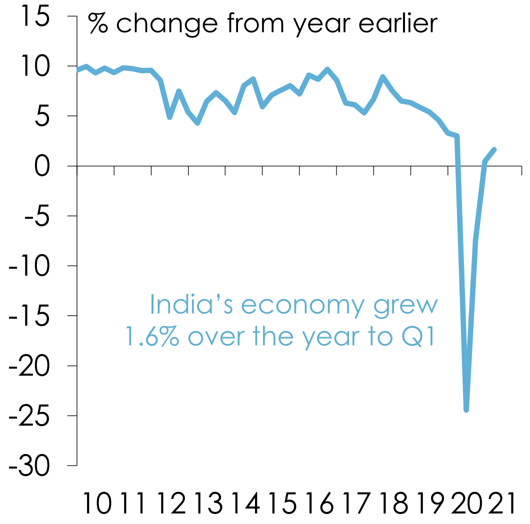


Philippines

Malaysia



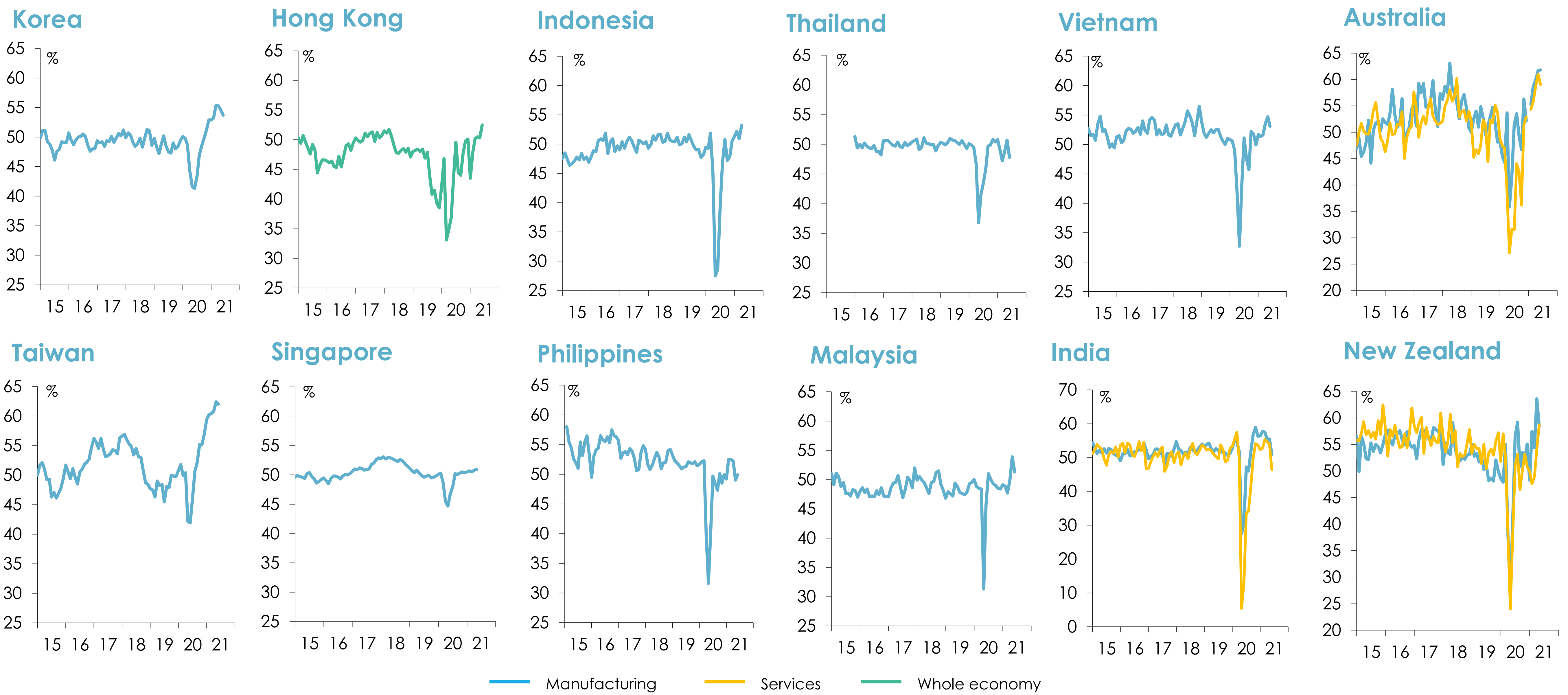
India



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".

SAUL ESLAKE
CORINNA ECONOMIC ADVISORY

Asian manufacturing PMIs were declined slightly in May but except for Thailand and the Philippines were still consistent with increasing output



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 May, except for New Zealand, which are 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".

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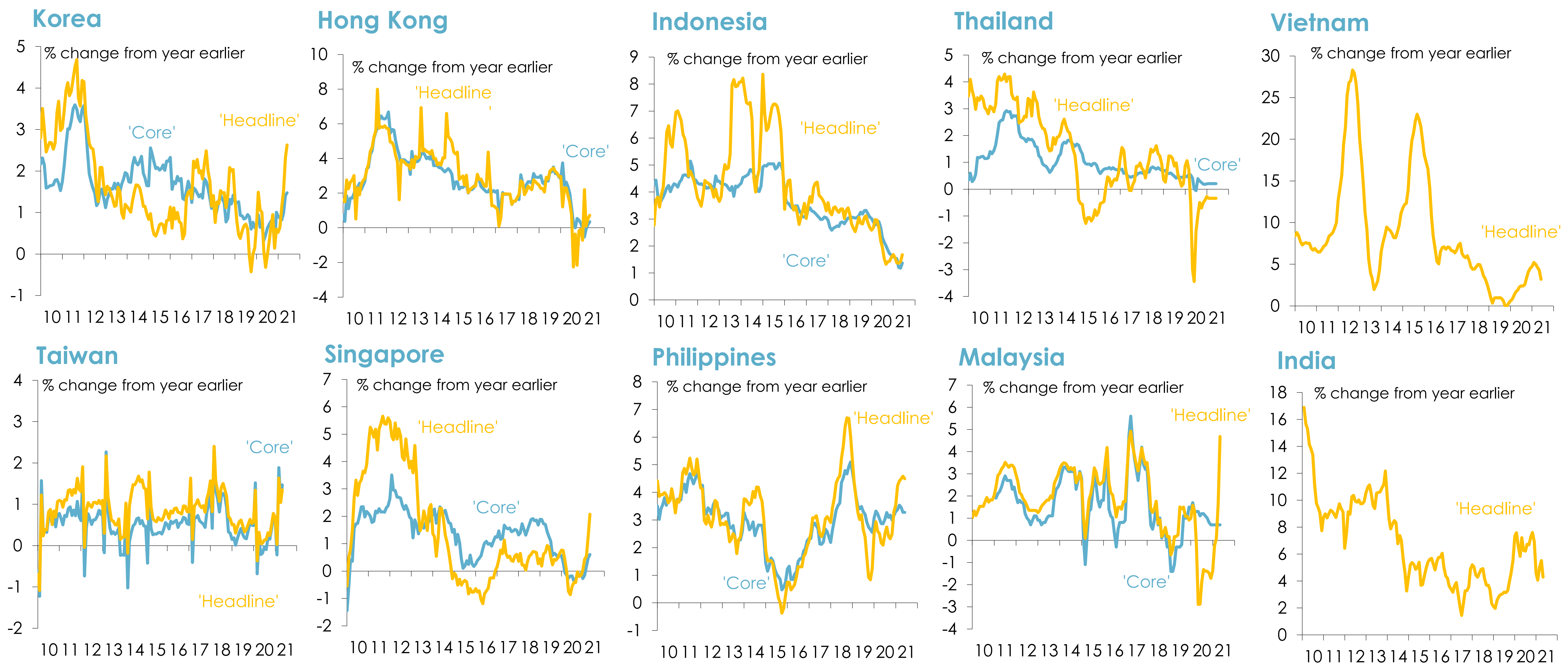
Some (though not all) Asian economies are experiencing temporary upward pressure on inflation as in North America and Europe



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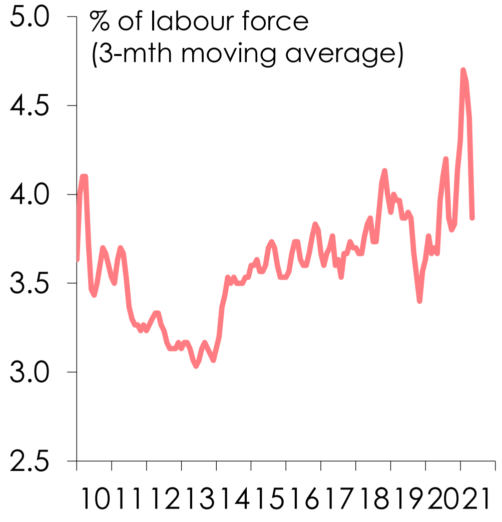
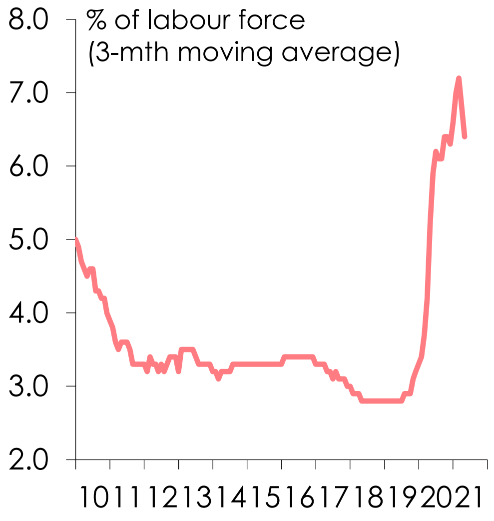
Unemployment rose sharply in most Asian economies last year (except for Taiwan and Thailand) but is now falling in most of them

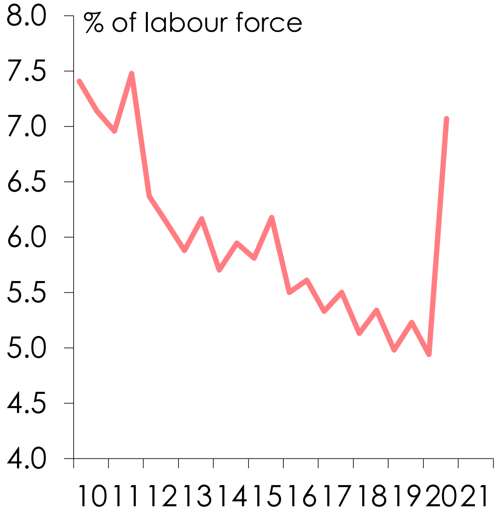
Korea



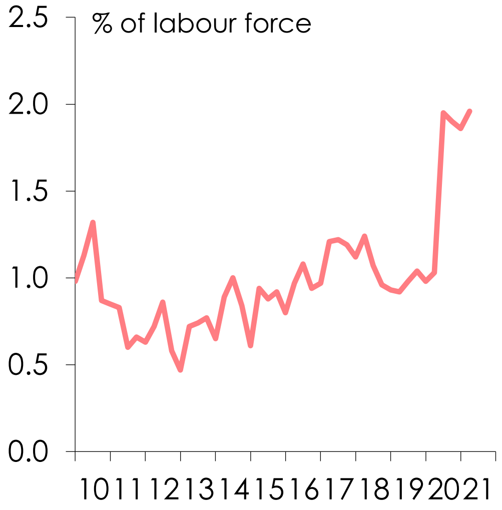
Hong Kong



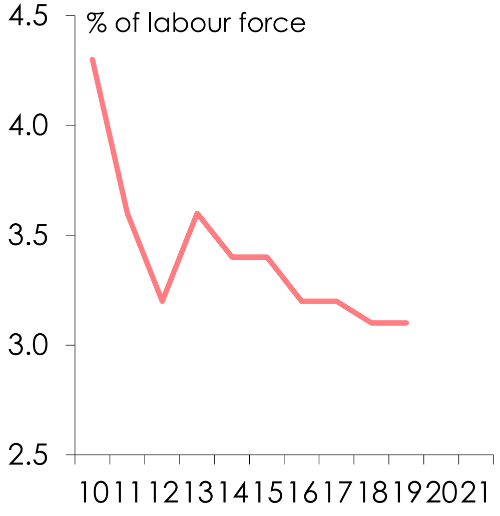
Indonesia



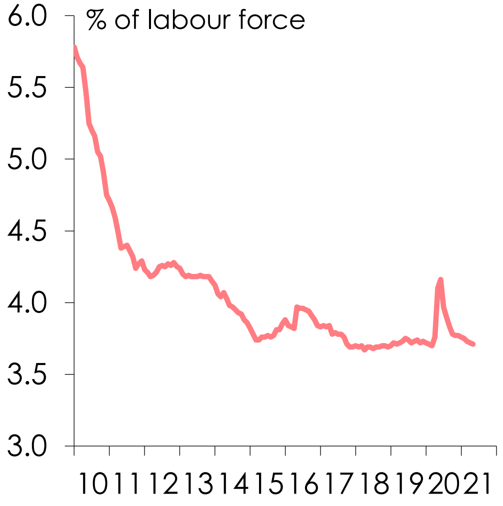
Thailand



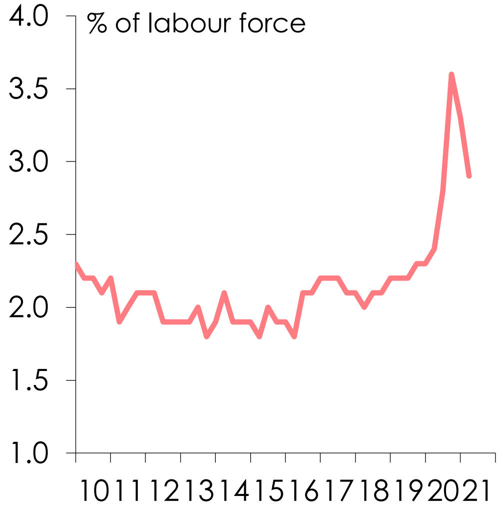
Vietnam



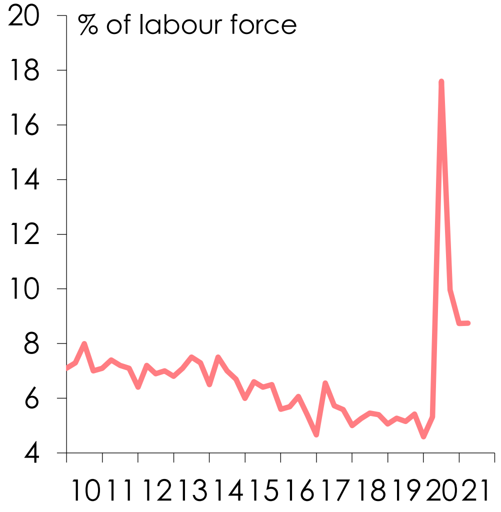
Taiwan



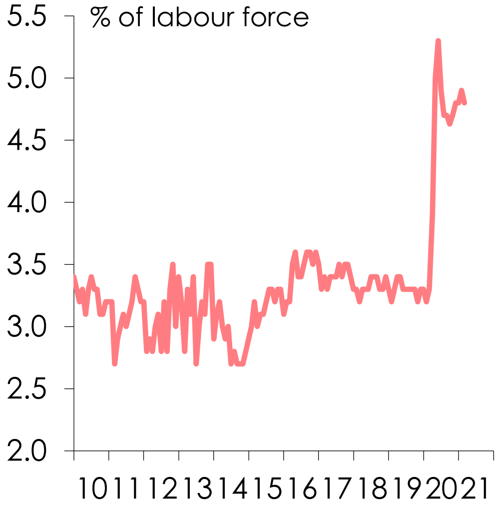
Singapore



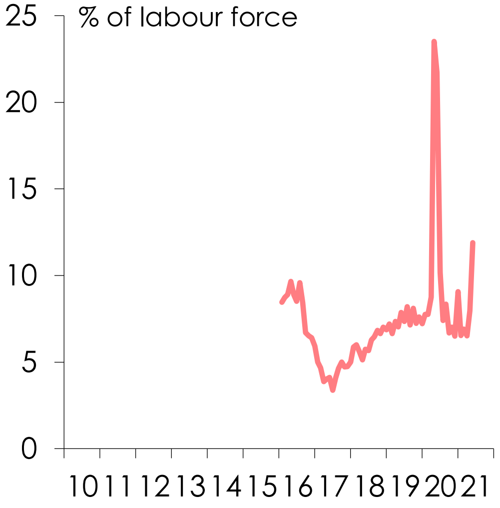
Philippines



Malaysia



India



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

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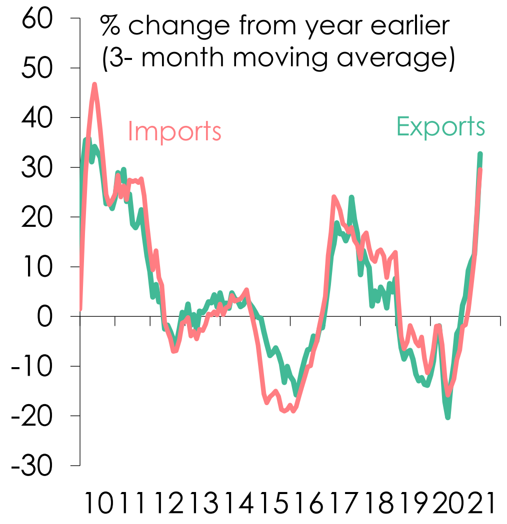
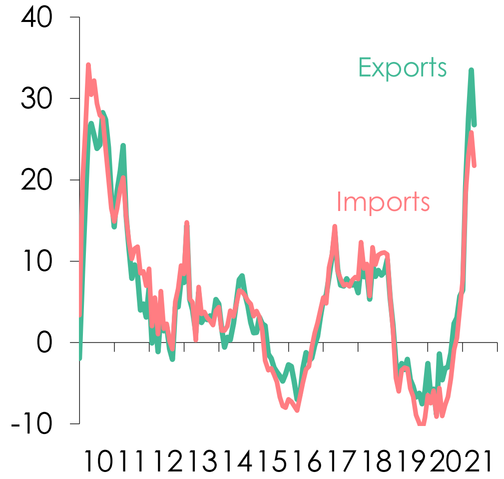
CORINNA ECONOMIC ADVISORY

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

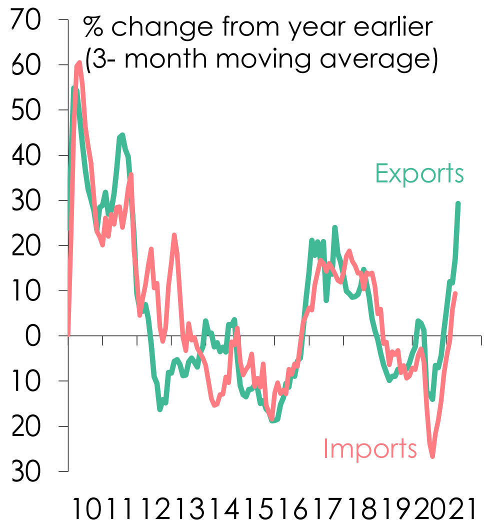
Korea



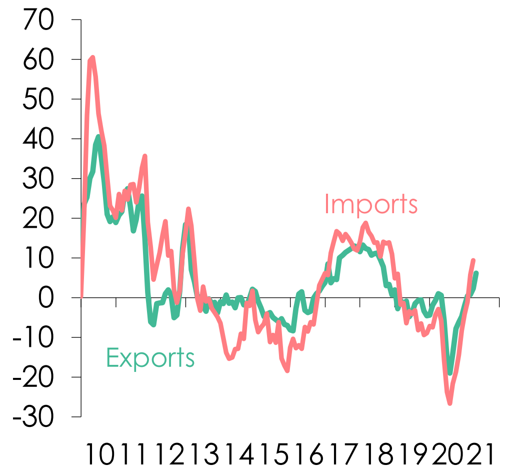
Hong Kong



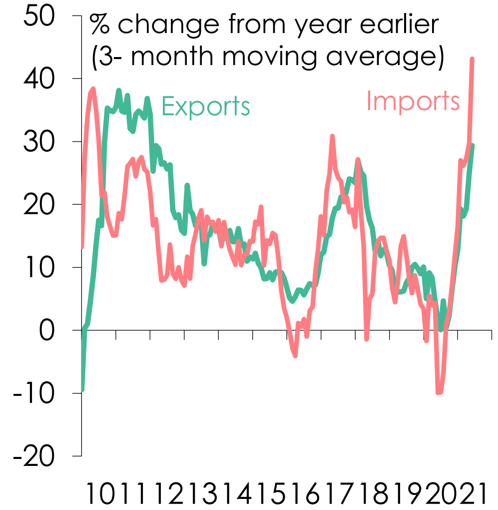
Indonesia



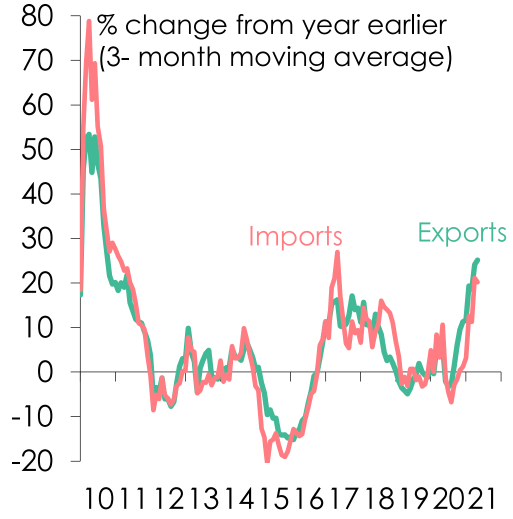
Thailand



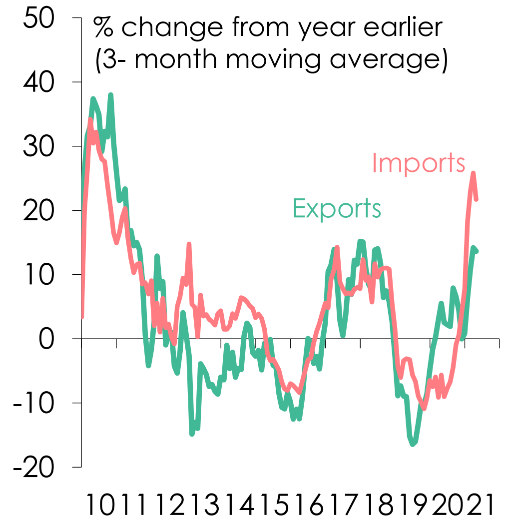
Vietnam



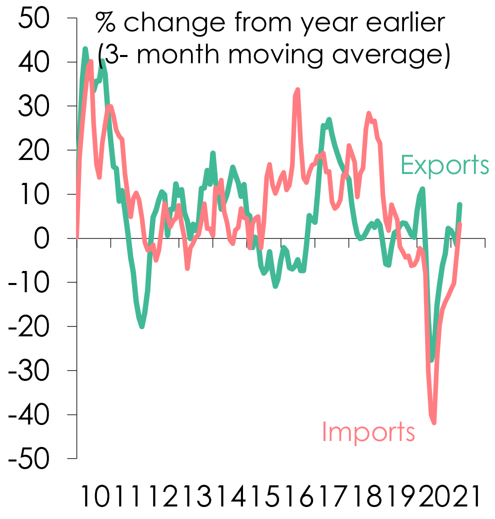
Taiwan



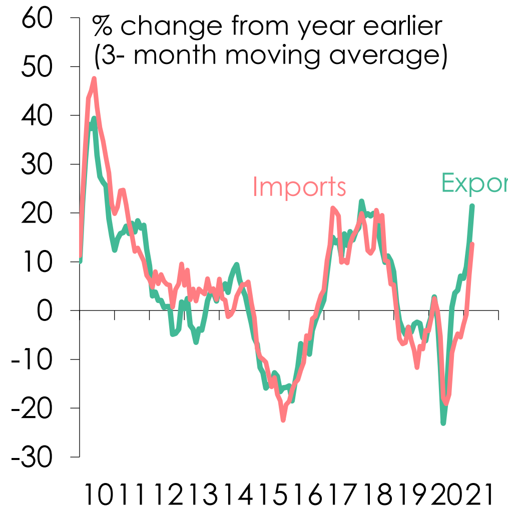
Singapore



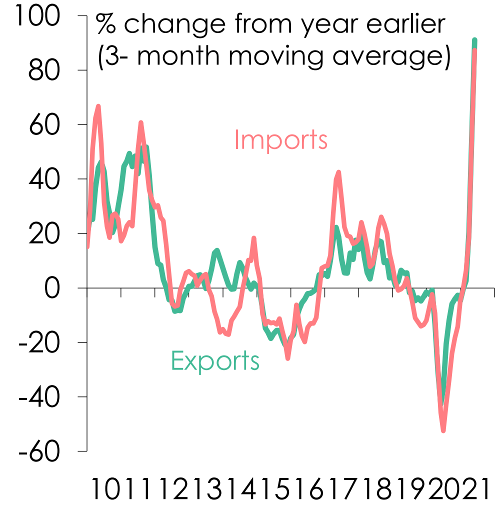
Philippines



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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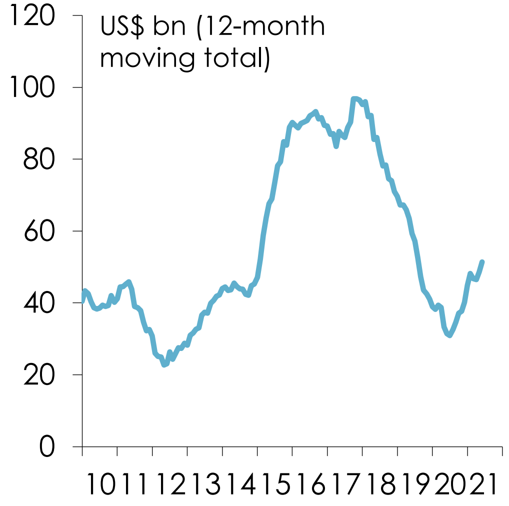
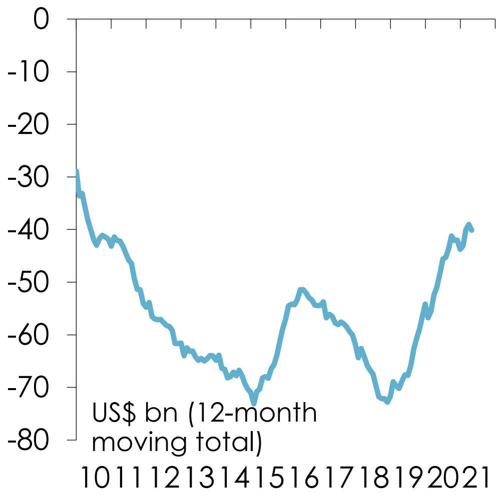
All Asian economies have experienced improvements in their trade balances since the onset of Covid, although some are now turning around

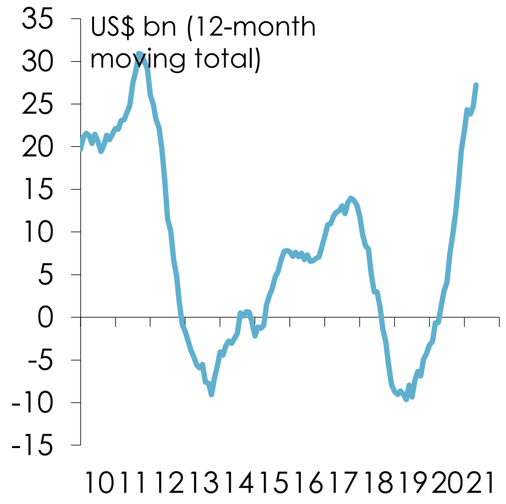
Korea



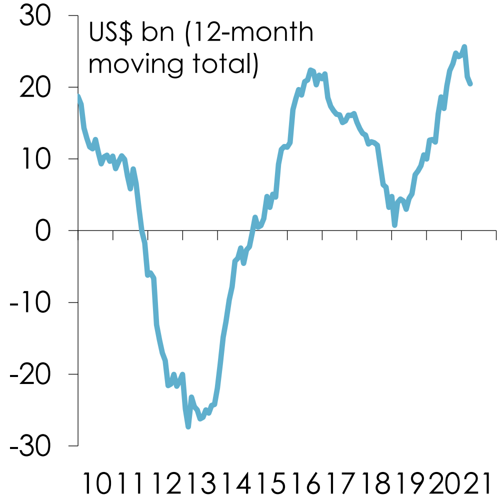
Hong Kong



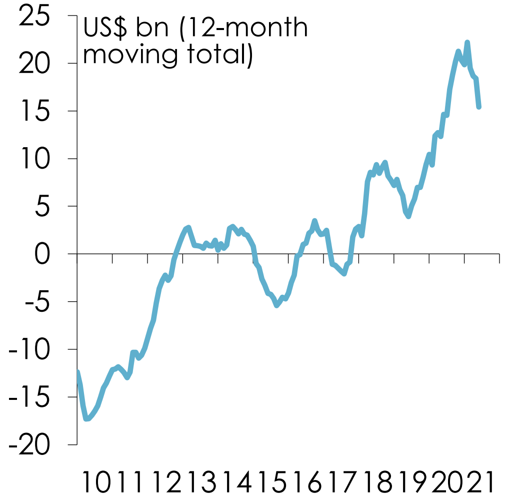
Indonesia



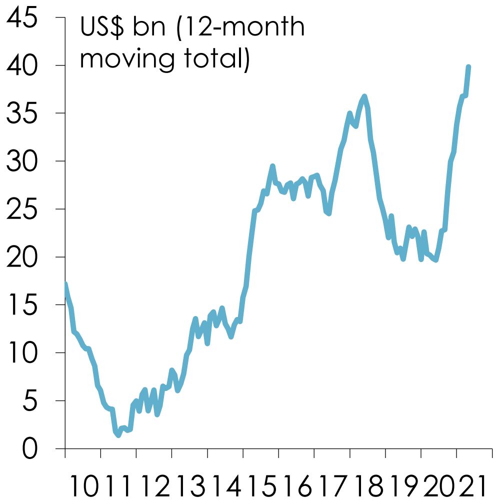
Thailand



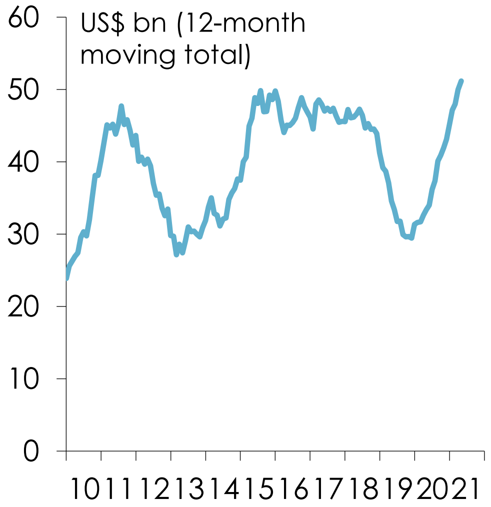
Vietnam



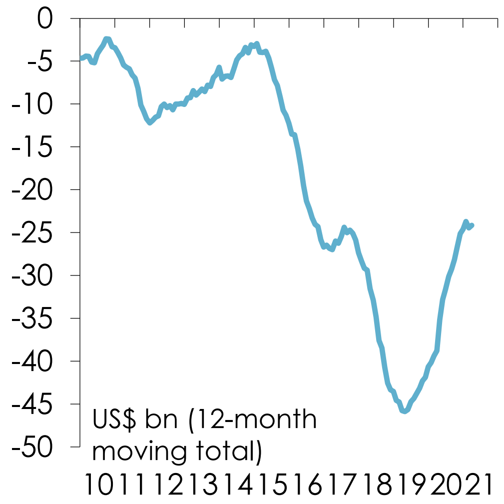
Taiwan



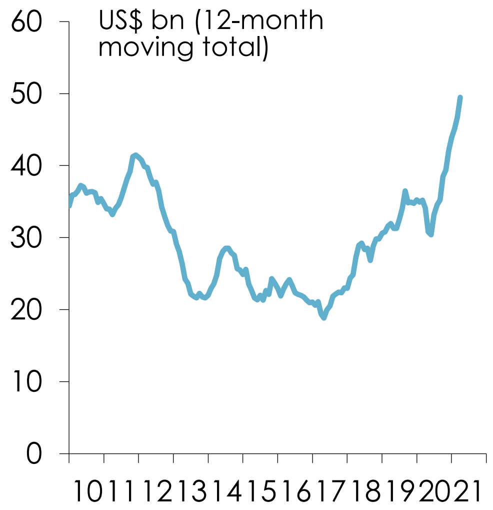
Singapore



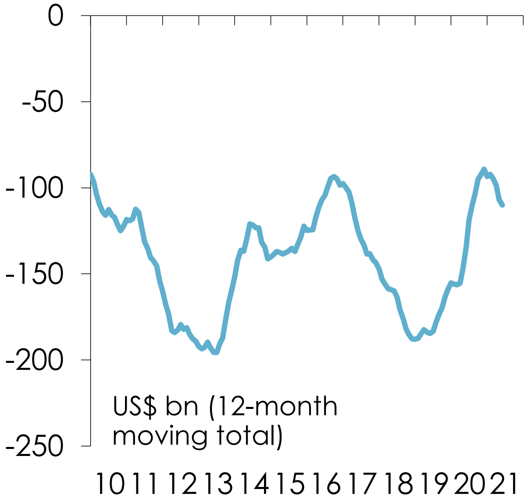
Philippines



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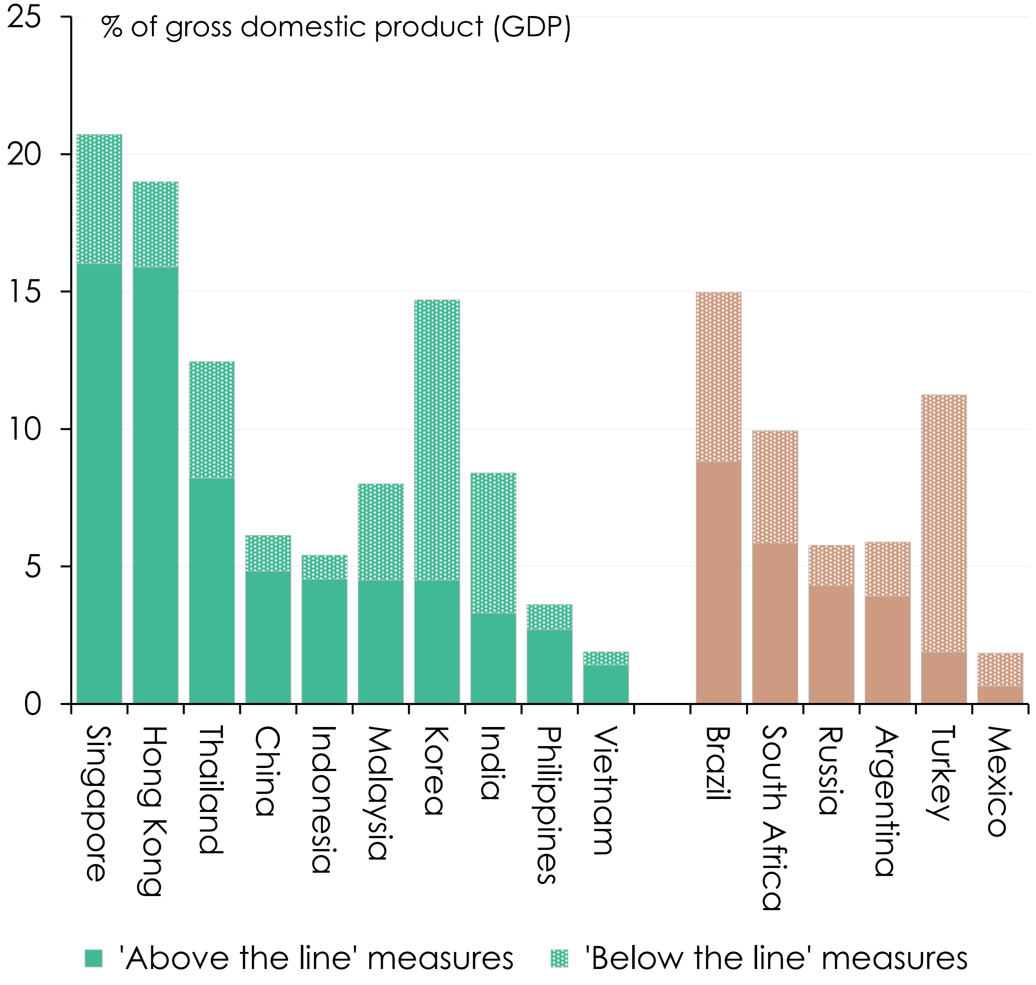
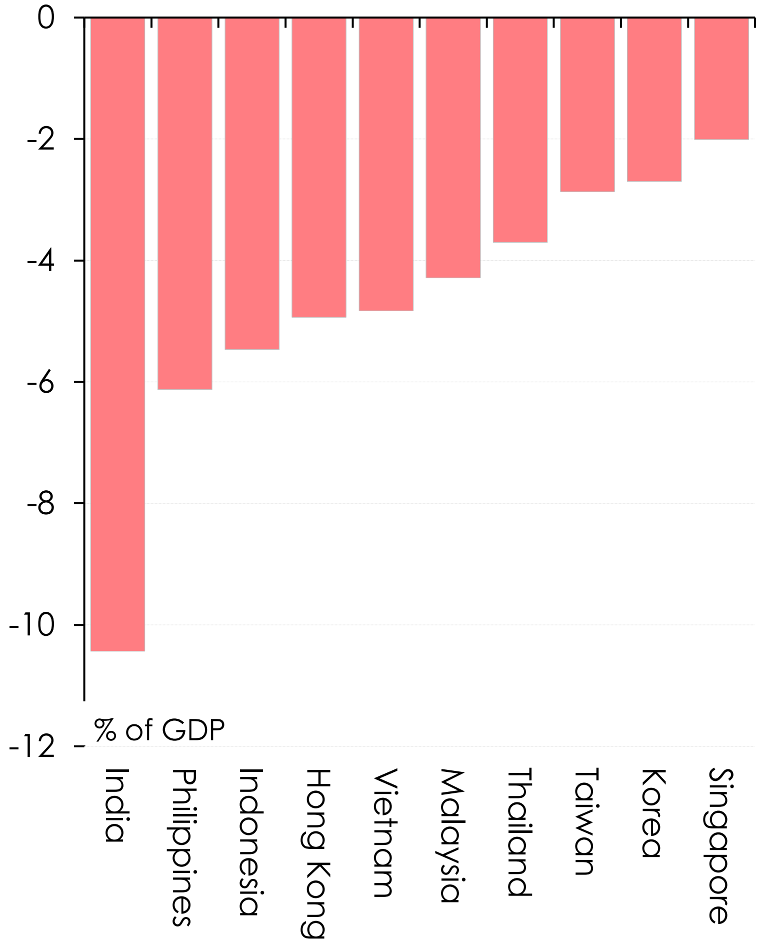
Apart from Singapore, Hong Kong and Thailand, Asian governments' discretionary fiscal responses to Covid-19 have been relatively modest

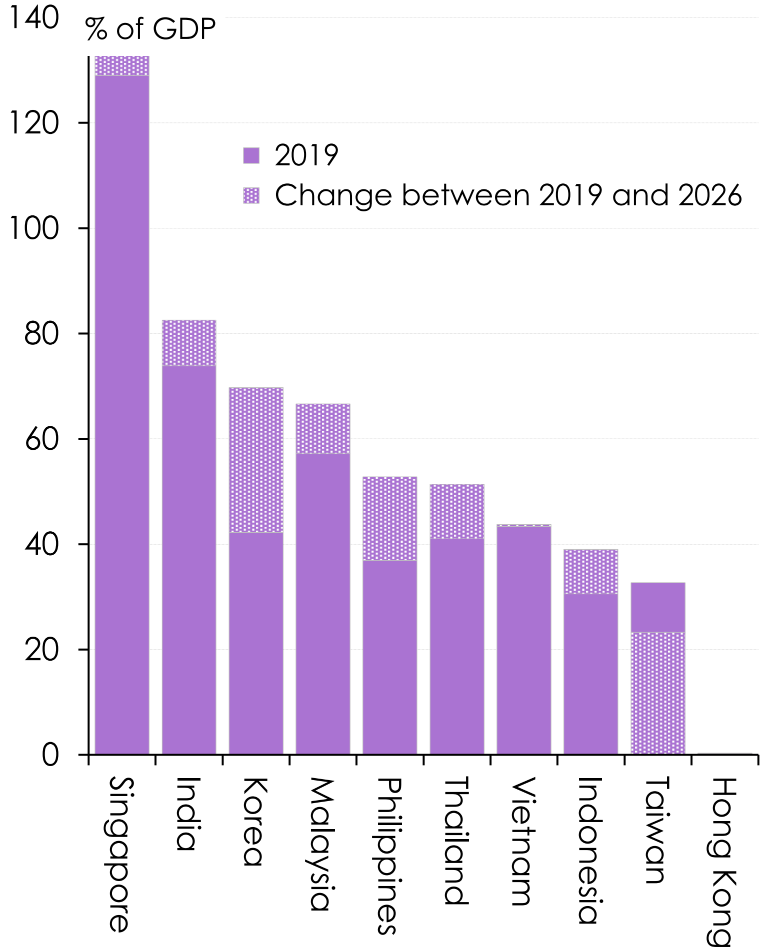
Fiscal policy responses to Covid-19 – Asian & other selected emerging market economies



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".

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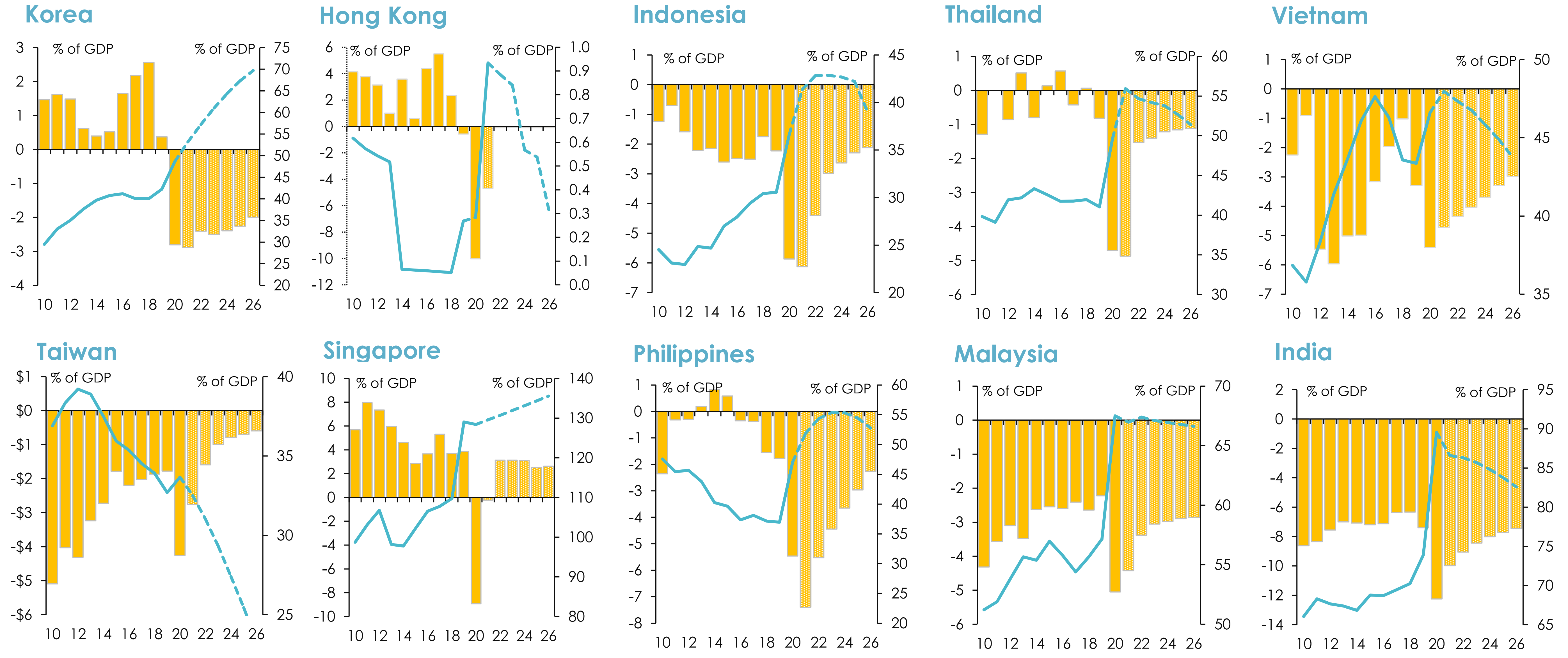
Asian governments, except for Singapore and Hong Kong, will be running large budget deficits for the next five years



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

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

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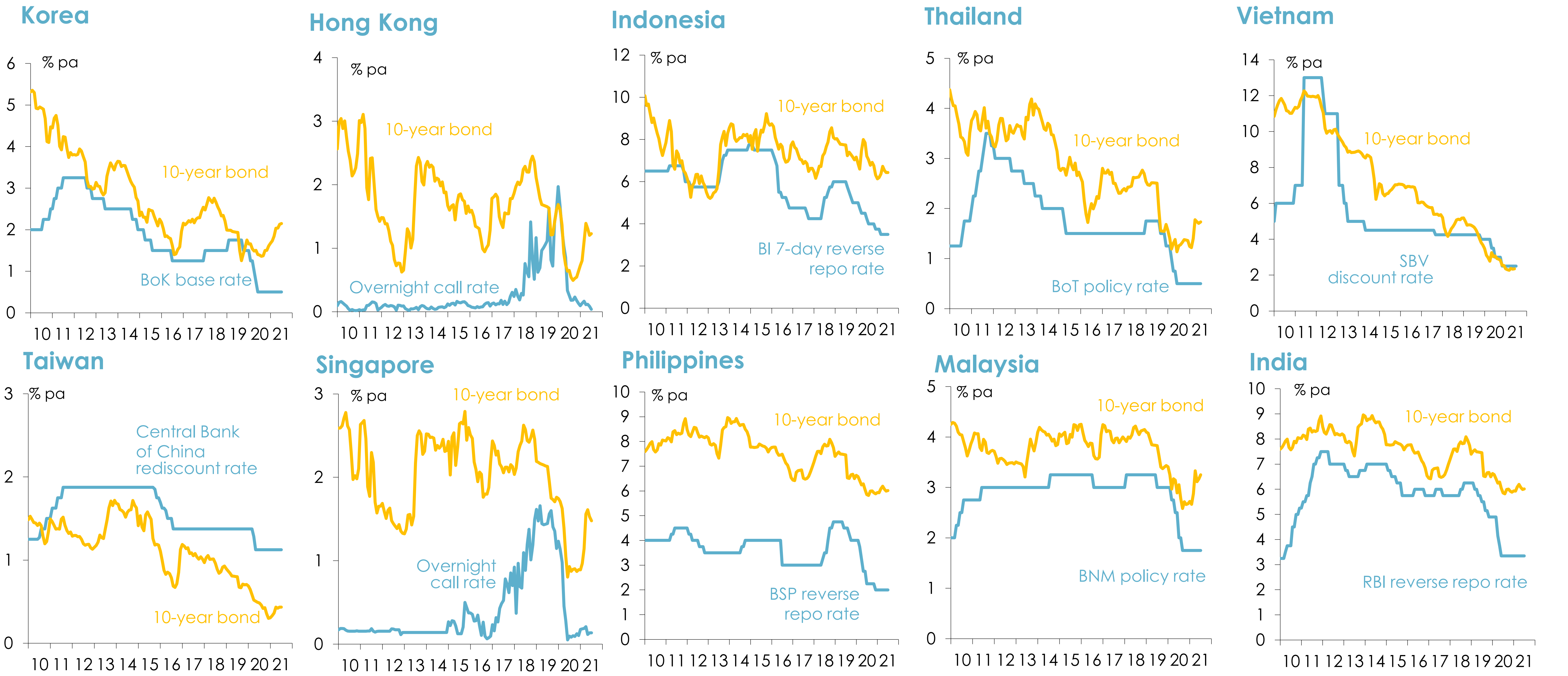
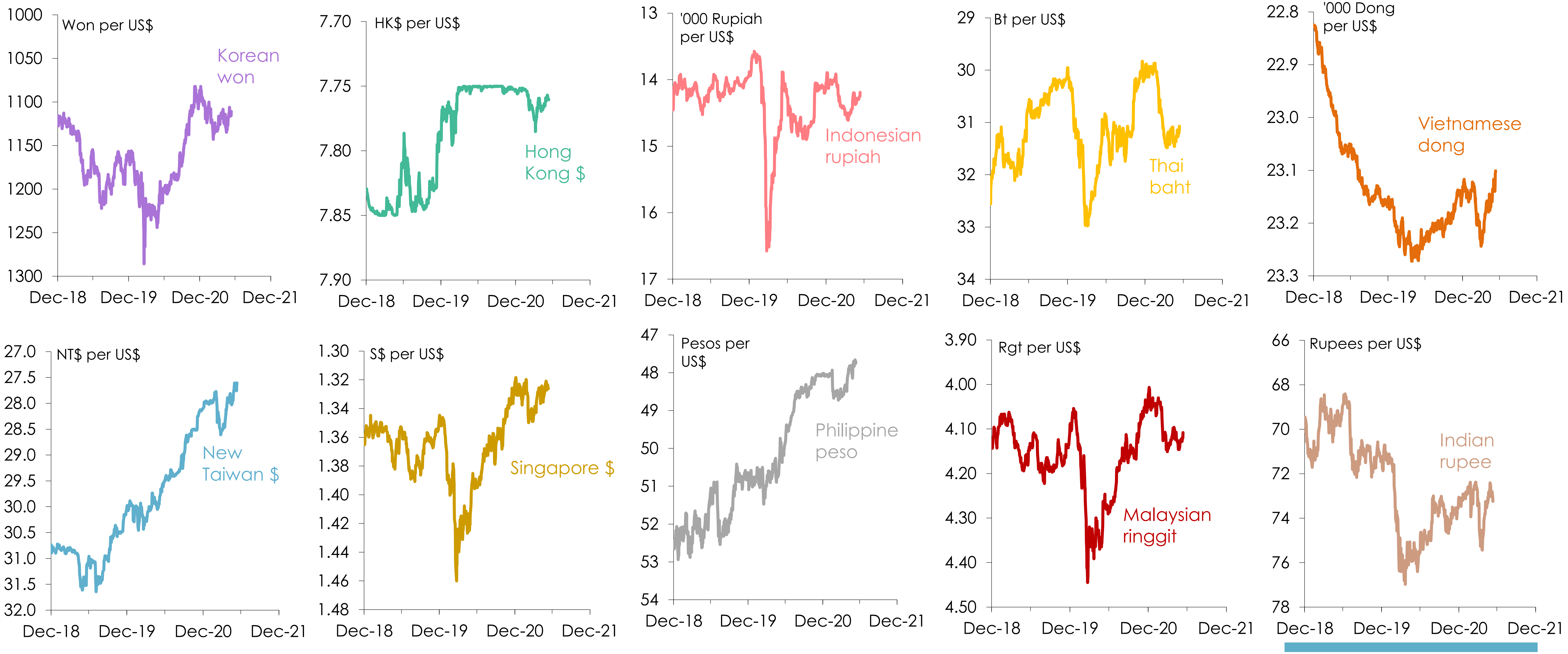
Asian central banks have kept policy interest rates at record lows – though bond yields have edged higher in Korea, HK, Singapore and Malaysia



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 instrument. Data are monthly averages up to June 2021.
Sources: national central banks; Refinitiv Datastream. Return to "What's New".

Asian currencies (except the Sing$ and rupee) were stronger against the US$ this week (despite the latter's gains vs other major currencies)

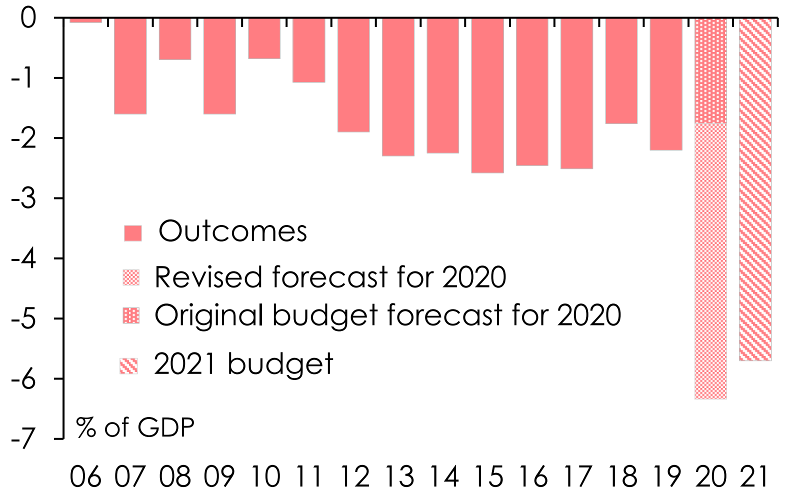
Asian currency exchange rates vs US dollar



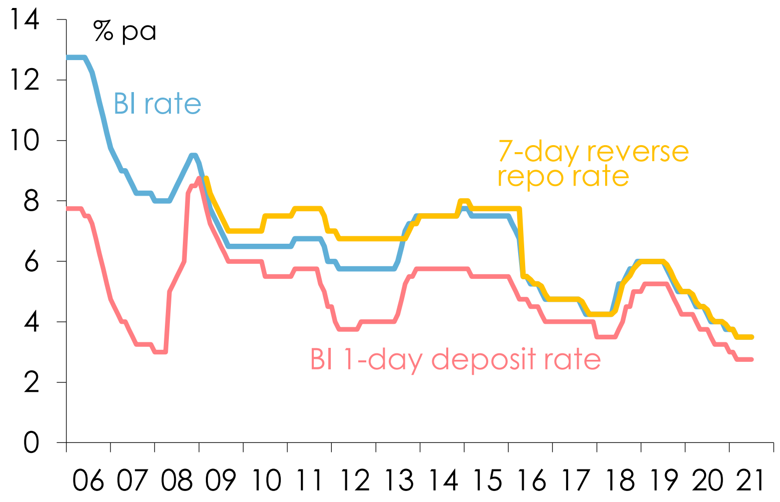
Note: Data up to 11th June. Source: Refinitiv Datastream. [Return to "What's New"].

Bank Indonesia's 'synergistic monetary expansion' entails buying bonds directly from the government but isn't likely to lead to higher inflation

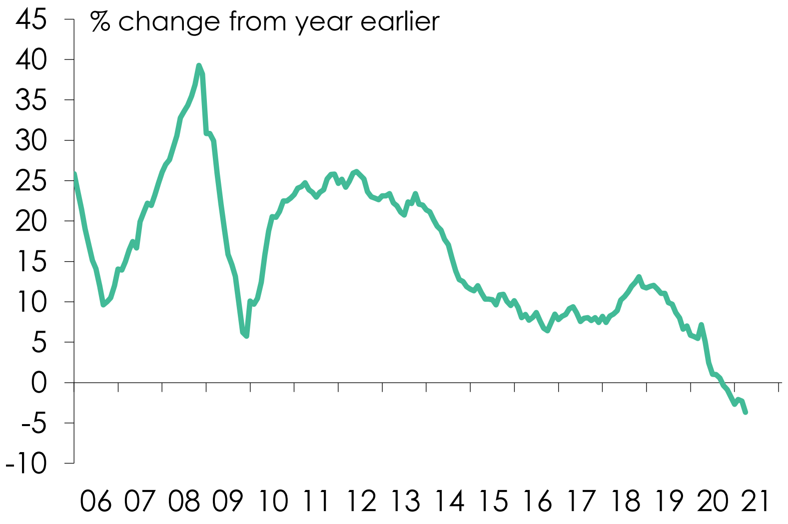
Indonesia budget deficit



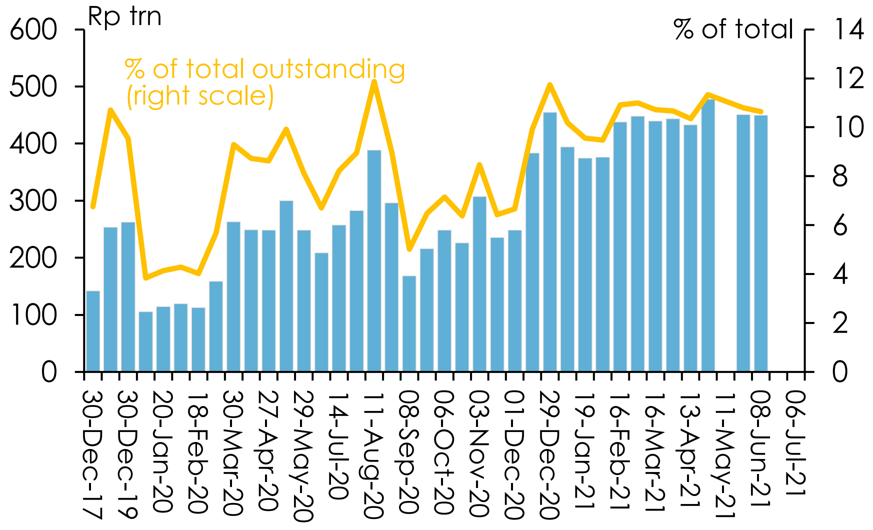
BI monetary policy rates



Bank lending



BI holdings of tradeable SBNs

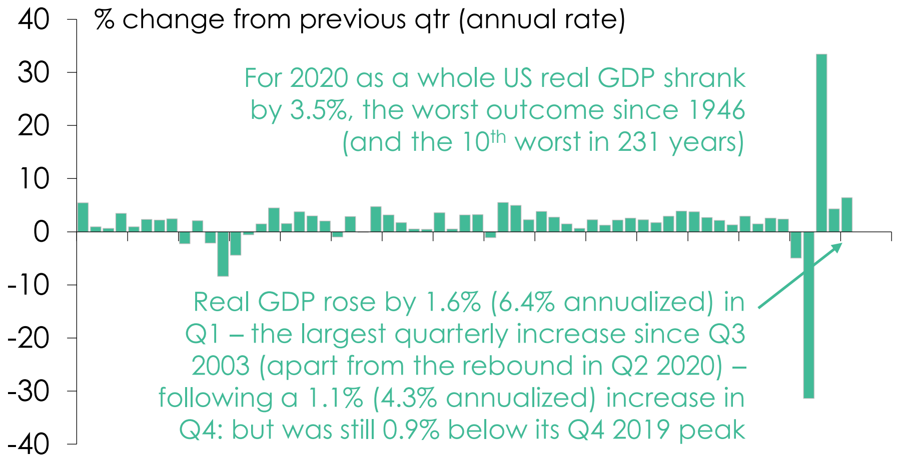


- **In April 2020, the Indonesian Government and Bank Indonesia (BI) agreed to a 'burden-sharing' scheme under which BI will directly purchase bonds equivalent to 25% of this year's budget financing requirement (and return the interest received to the Government), as well as subsidizing interest payments on other bonds**
  - BI calls this 'synergistic monetary expansion'
  - BI has purchased Rp 108trn 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
- **This 'QE' isn't adding to inflationary pressure because bank lending to the private sector is contracting**
  - banks have absorbed more than 60% of the increase in Government bonds outstanding since the end of March last year, and BI only 14%
  - 'core' inflation is at a record low of 1.2% (slide 53)
- **BI again kept its monetary policy settings on hold at last month's Board of Governors meeting**
  - 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

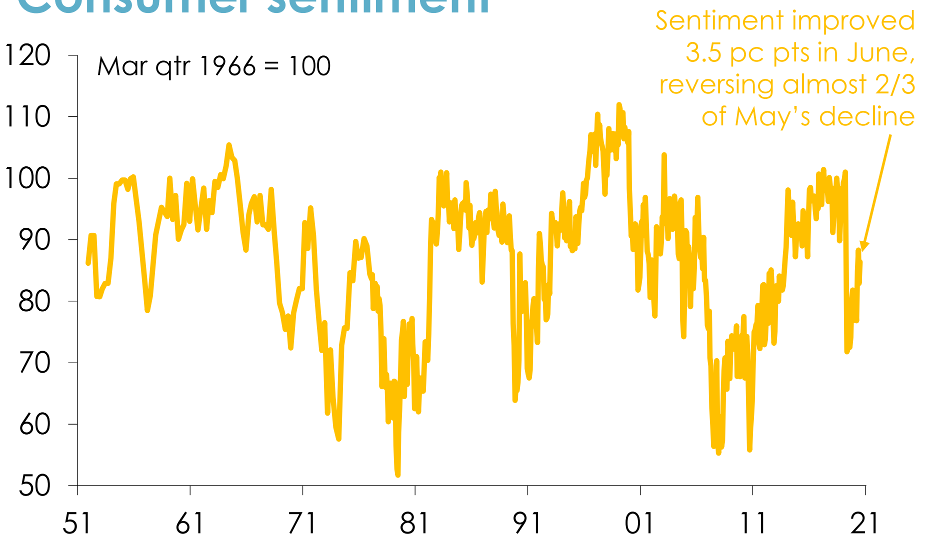
Sources: Indonesia Ministry of Finance (Kementarian Keuangan); Directorate of Government Debt Securities; Bank Indonesia.
Return to "What's New".

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

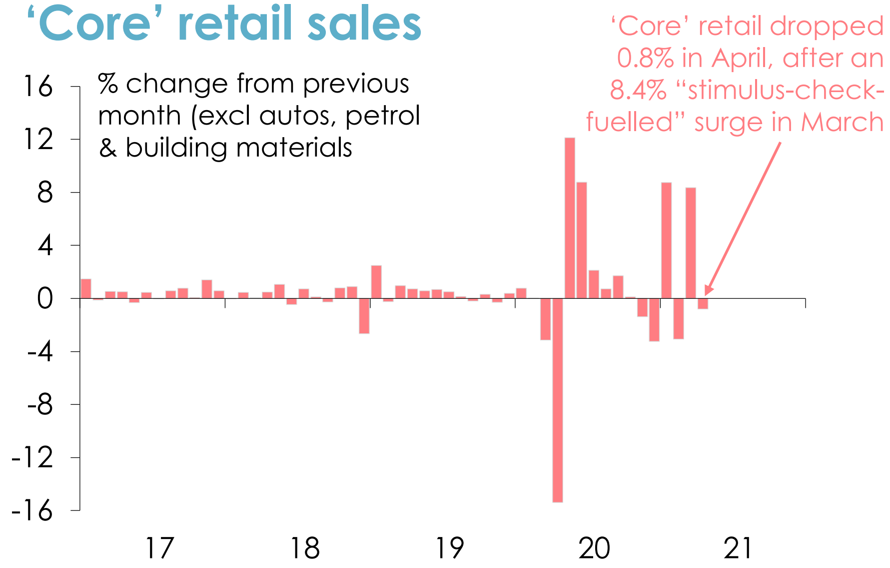
Real GDP



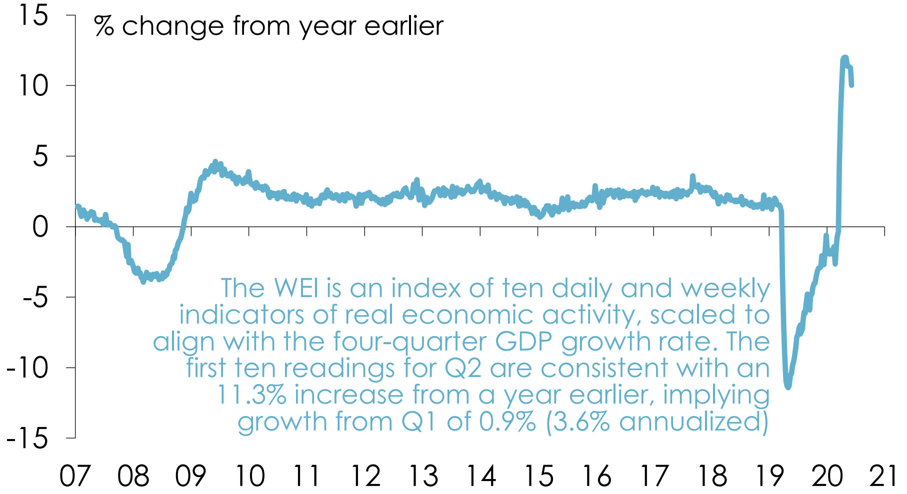
Consumer sentiment



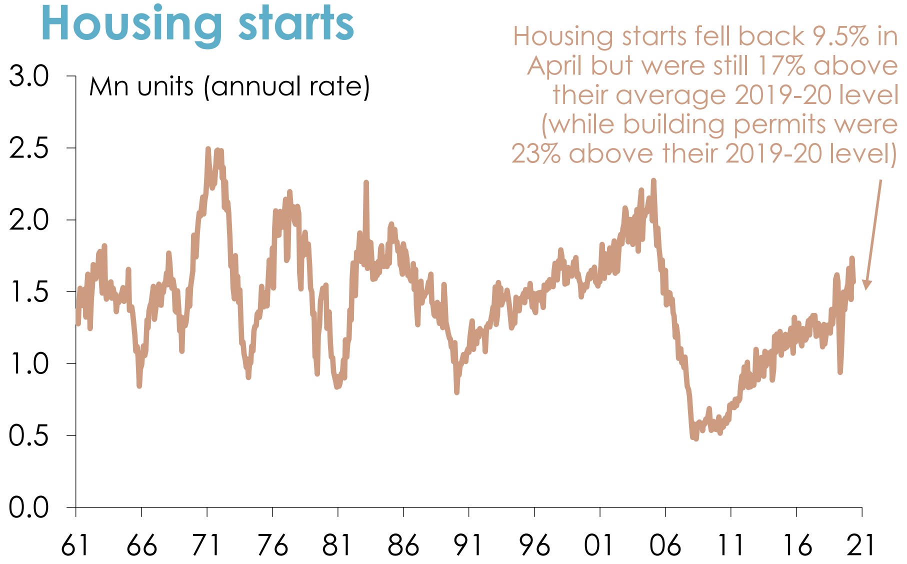
'Core' retail sales



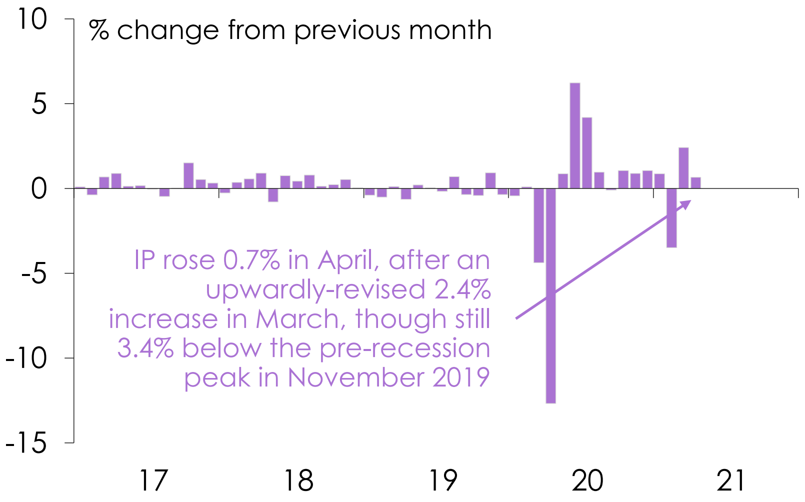
NY Fed weekly economic index



Housing starts



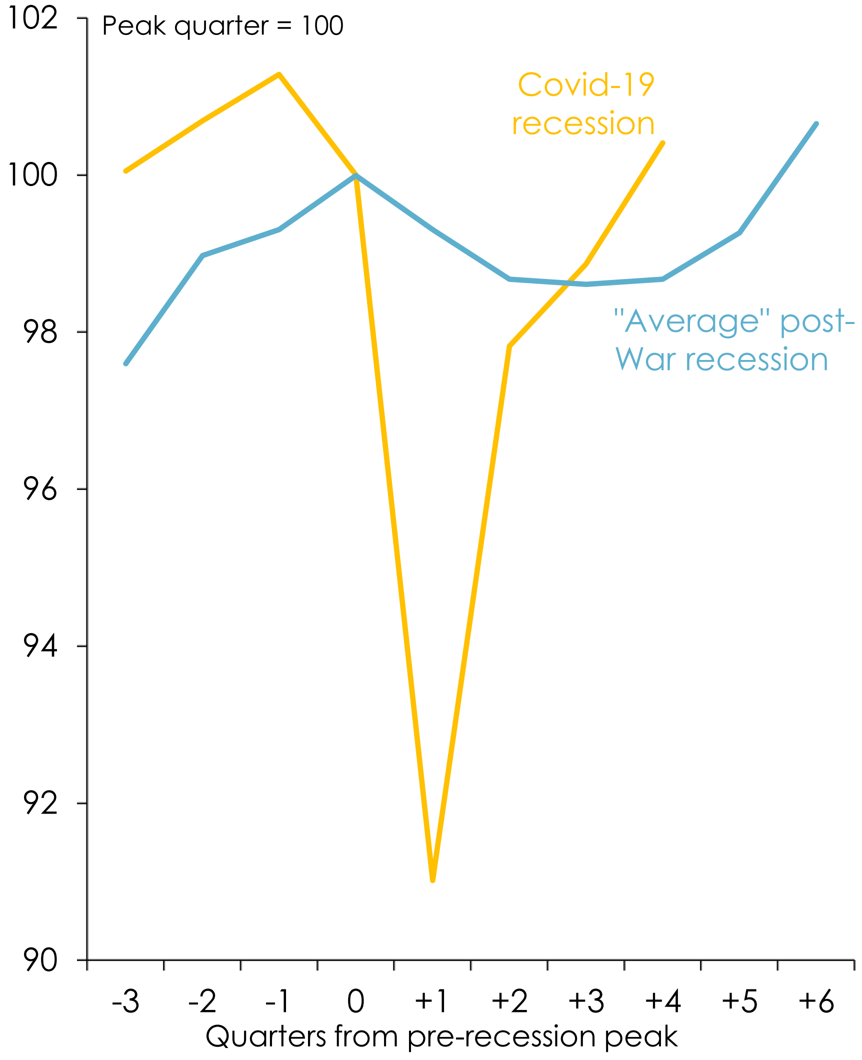
Industrial production



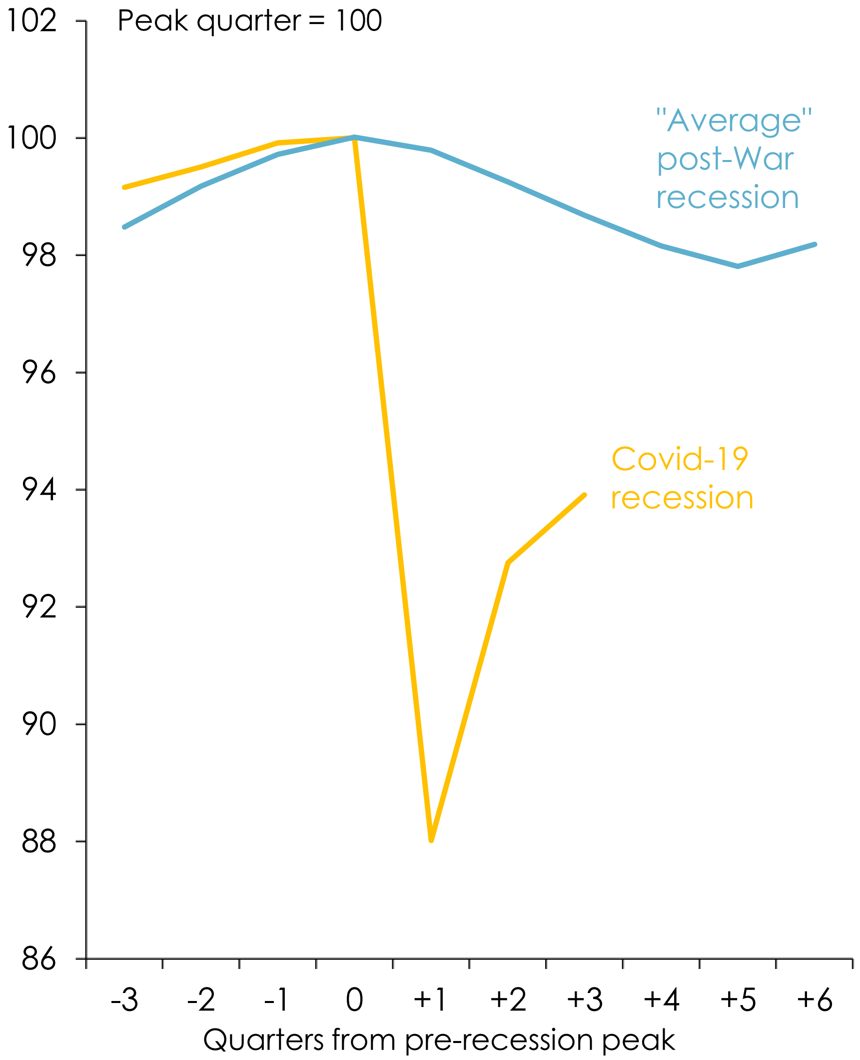
Sources: US Bureau of Economic Analysis; Federal Reserve Bank of New York; Michigan University Survey Research Center; US Commerce Department; Board of Governors of the Federal Reserve System. Return to "What's New".

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

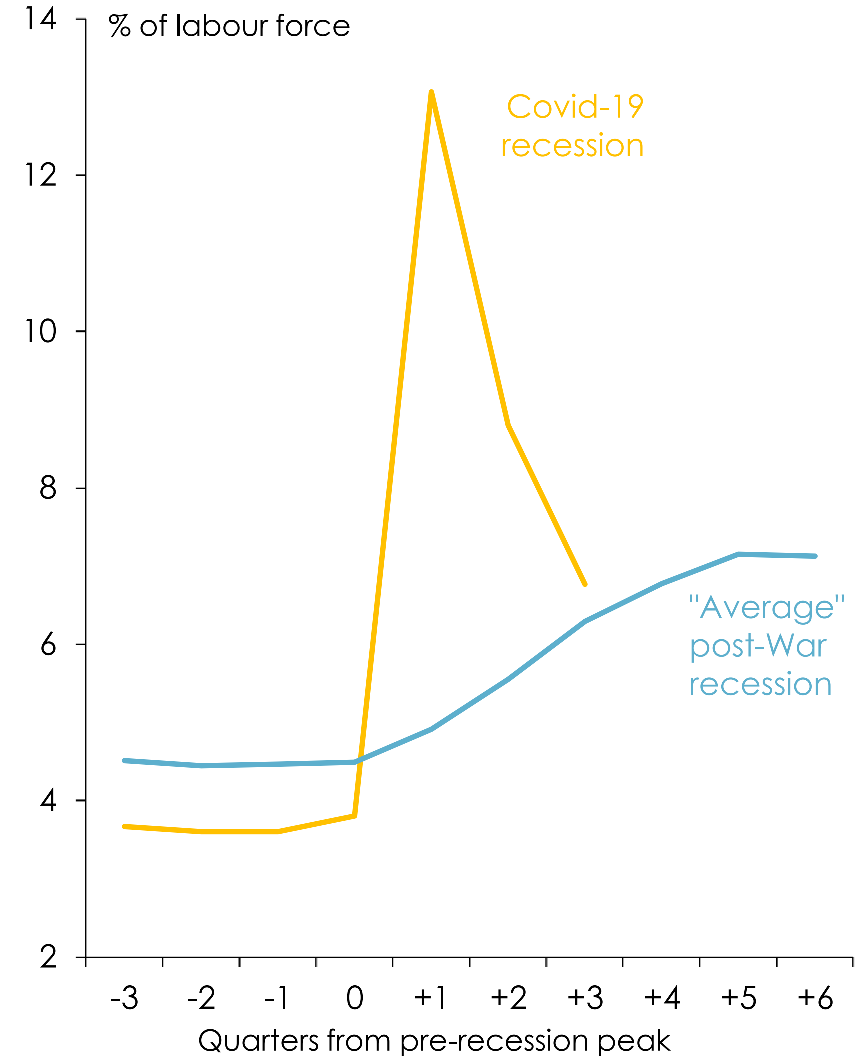
Level of real GDP



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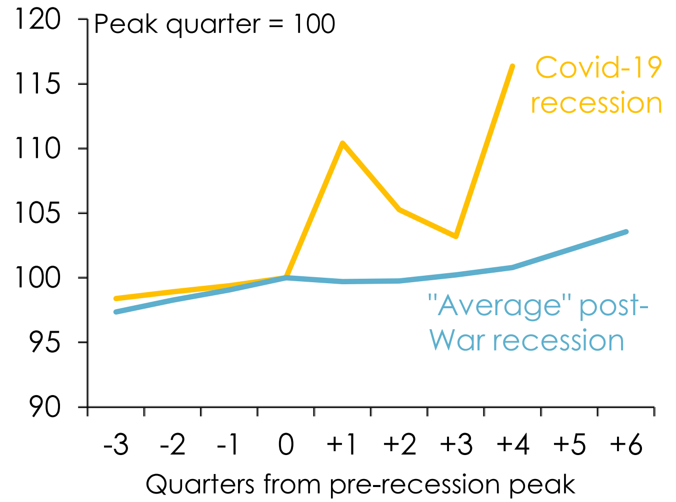
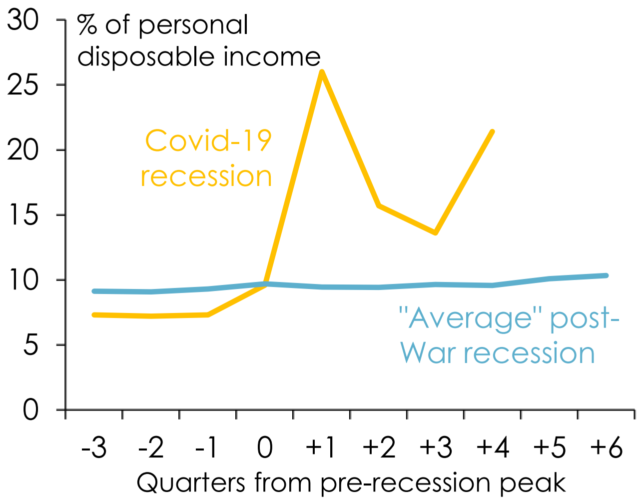
The differences between this recession and previous ones are even more apparent from some of the details in the national accounts

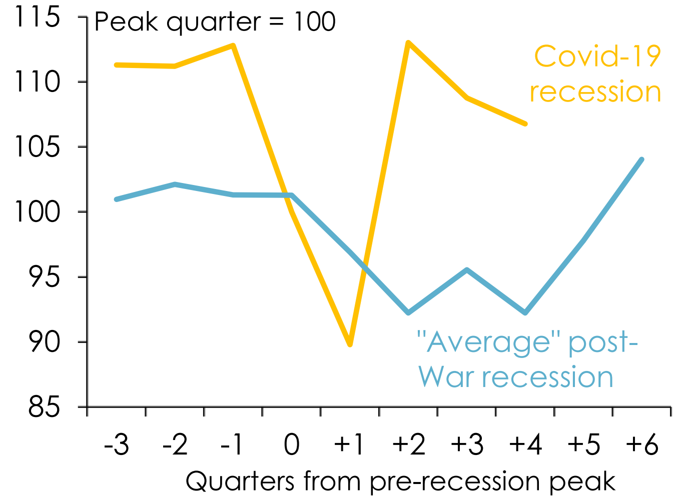
Personal disposable income



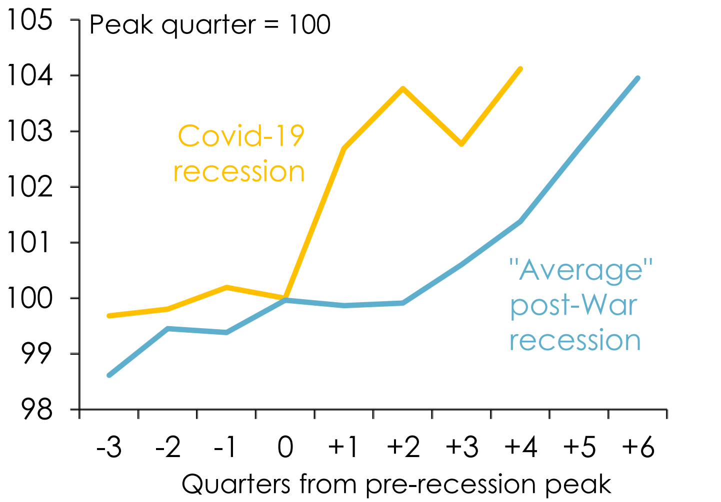
Personal saving rate



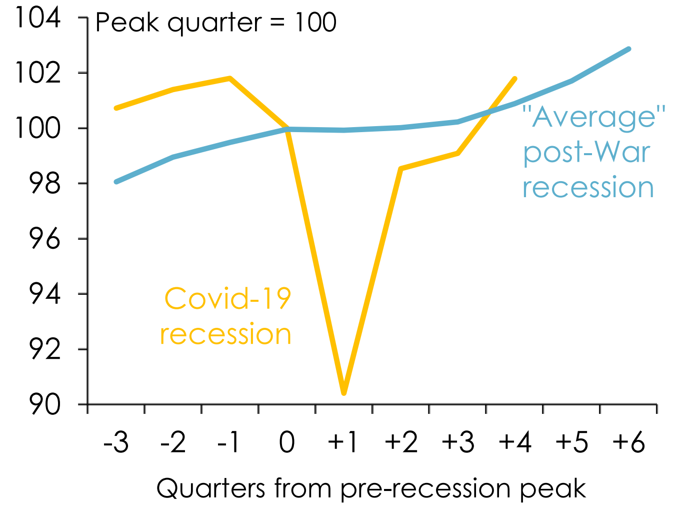
After-tax corporate profits



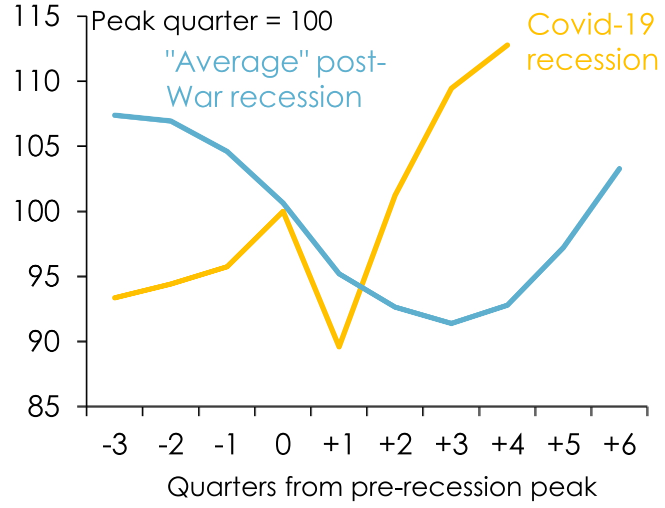
Labour productivity



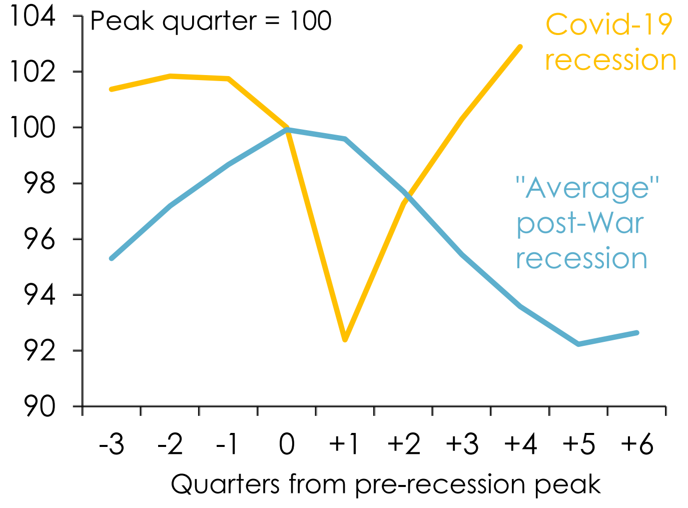
Personal consumption



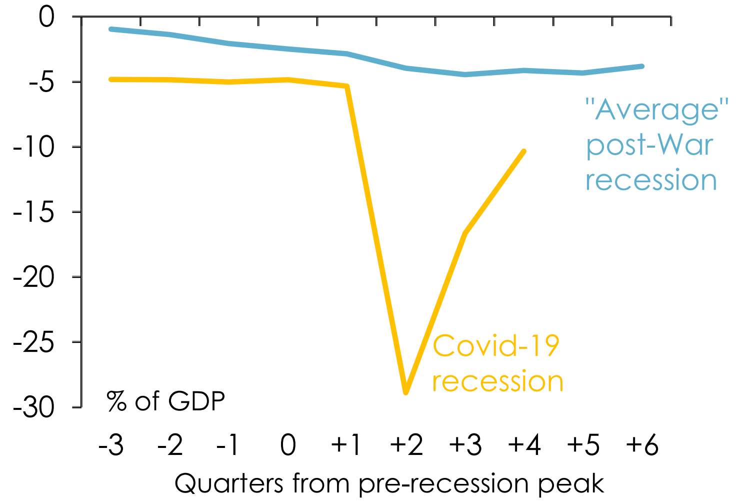
Residential investment



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.
Return to "What's New".

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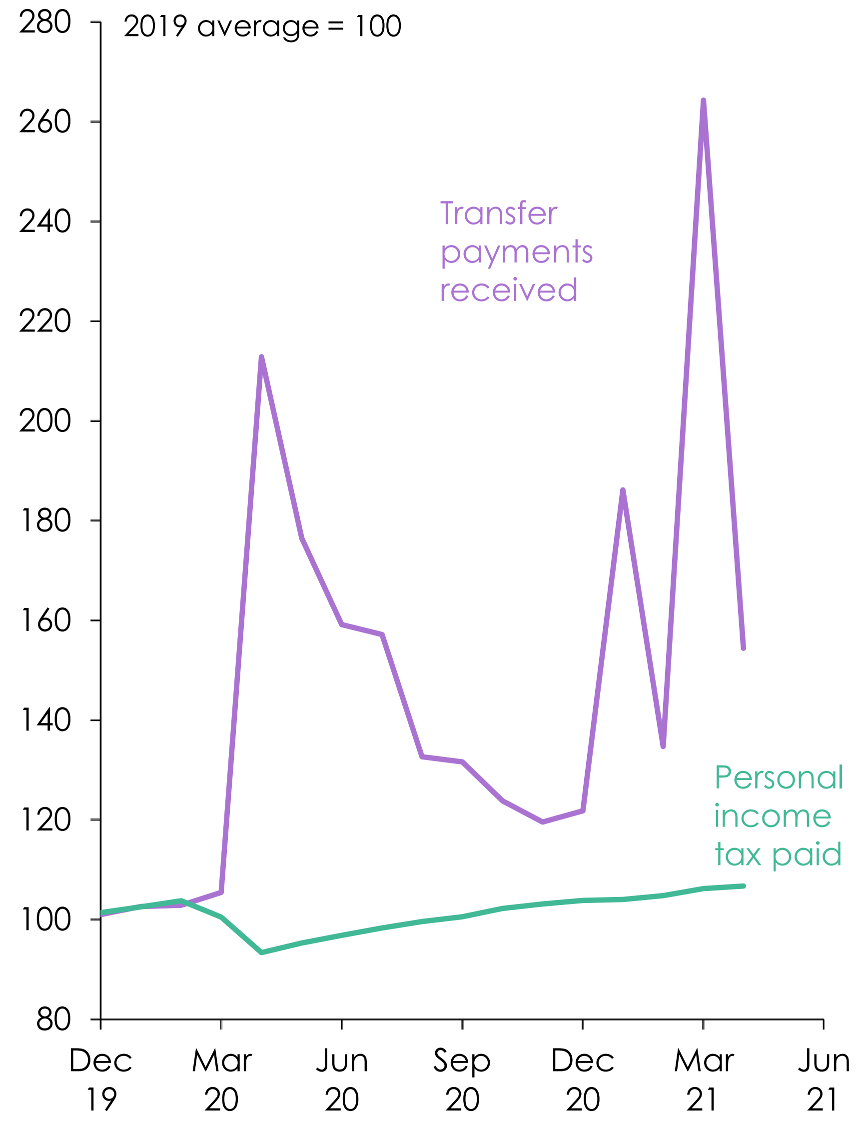
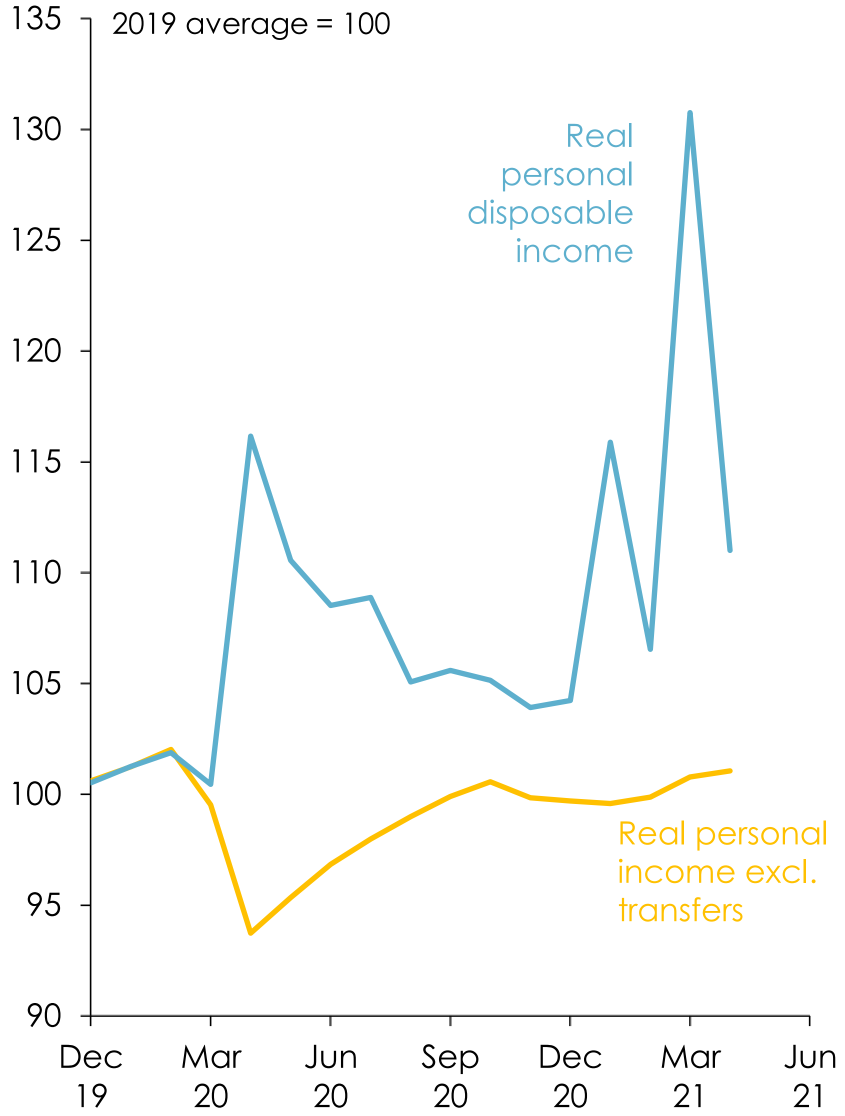
Recurring cash payments to households (combined with restrictions on movement) have had a major impact on spending patterns

Tax and transfer payments



Real personal income



Real consumption expenditure

Source: US Bureau of Economic Analysis.

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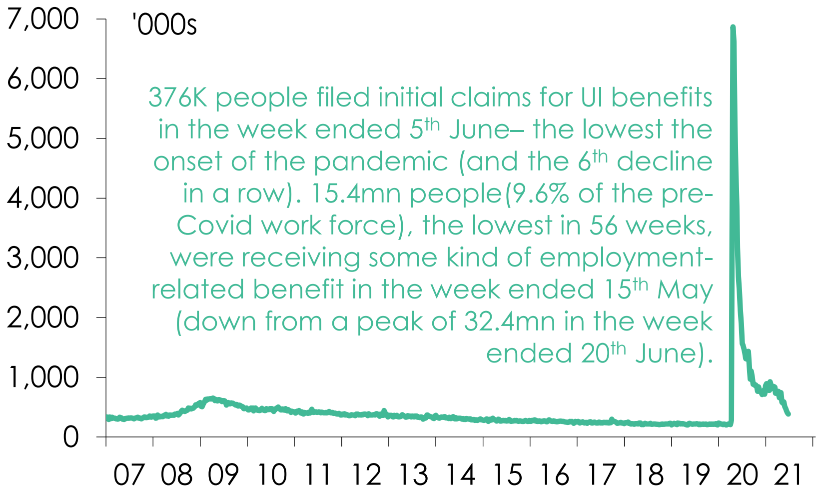
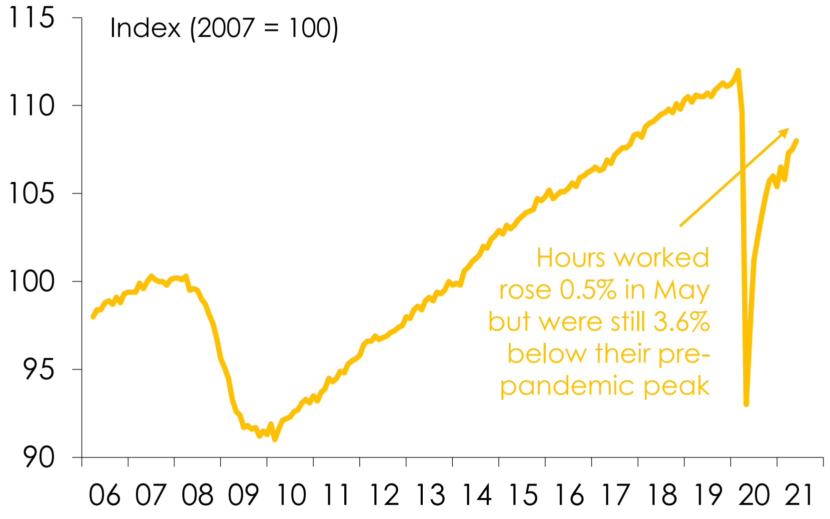
US non-farm payrolls rose a 559K (0.4%) in May but are still 7.6mn (5.0%) below their pre-pandemic peak

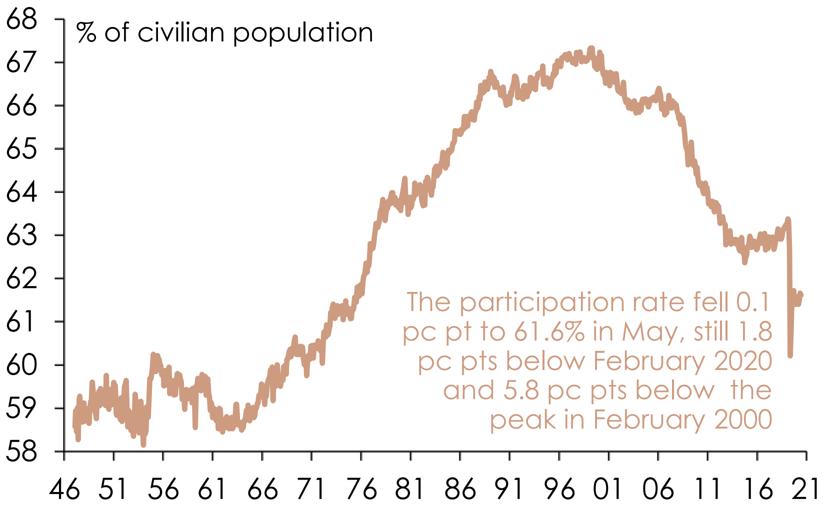
Unemployment benefit claims



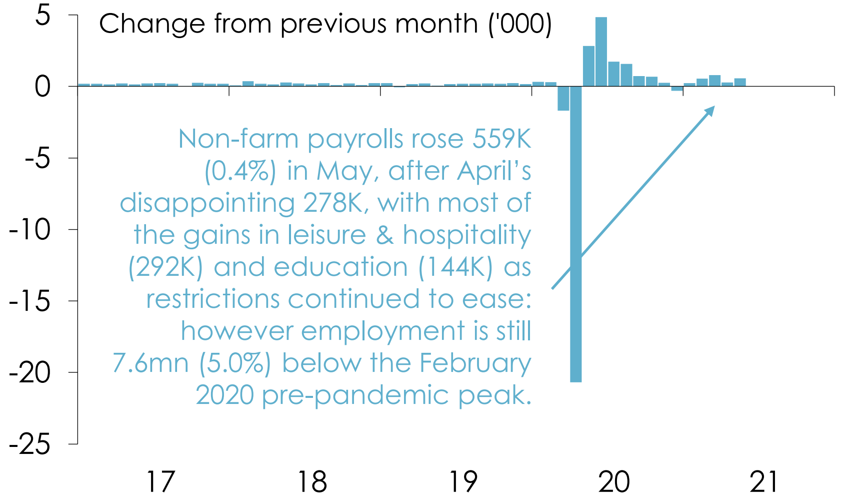
Hours worked (private sector)



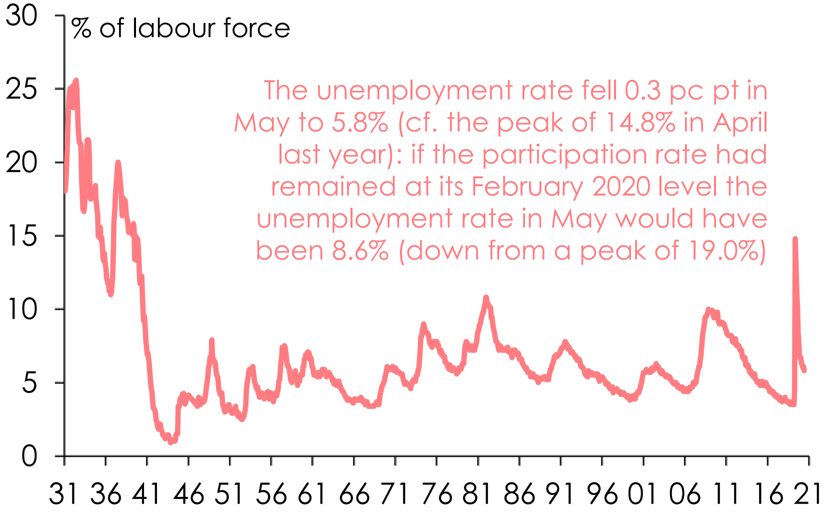
Labour force participation rate



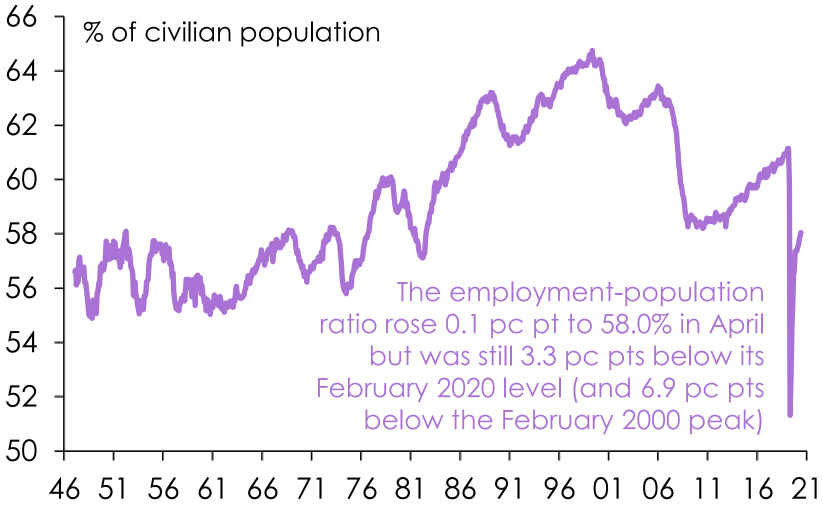
Non-farm payroll employment



Unemployment rate



Employment to population ratio



Sources: US Department of Labor; US Bureau of Labor Statistics; National Bureau of Economic Research Macro History database. June employment and other labour force data will be released on 2nd July. Return to "What's New".

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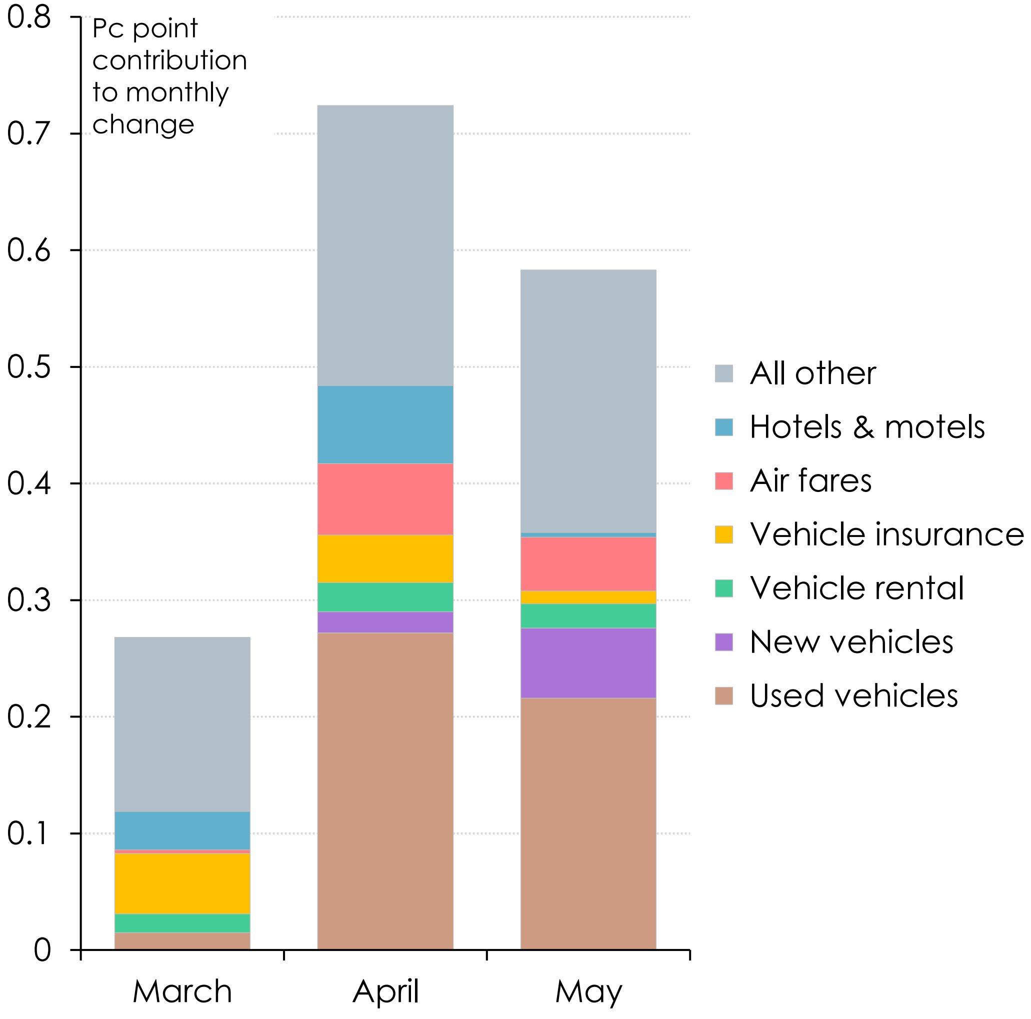
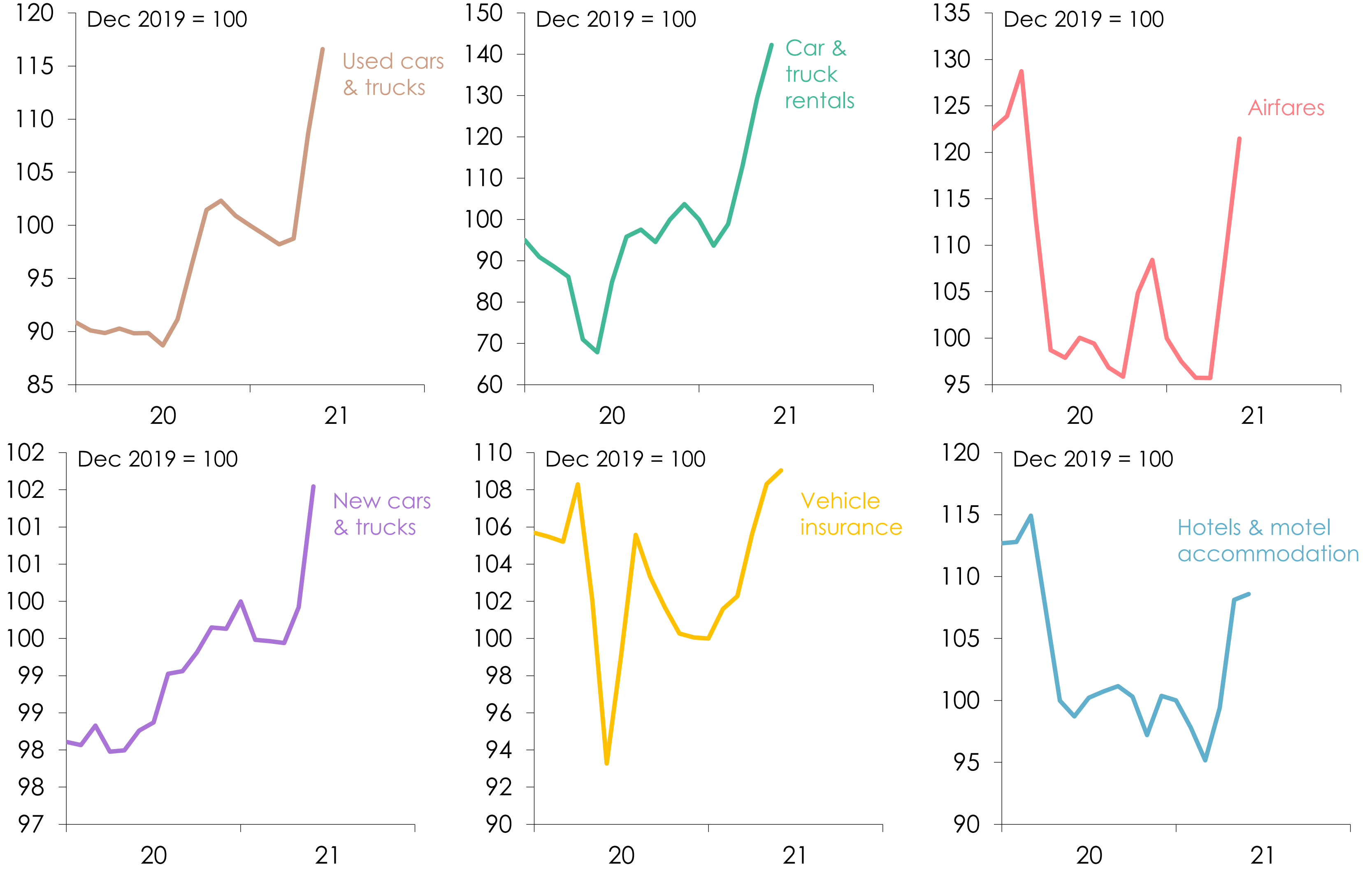
62% of the increase in the 'core' US CPI over the past three months has come from six items which represent 11½% of the 'core' CPI basket

Contributions to recent monthly changes in CPI excluding food and energy



Price indices for items which have contributed most to recent monthly changes in the 'core' US CPI (rebased to December 2019 = 100)



Source: US Bureau of Labor Statistics, Consumer Price Index Table 6; Corinna. Return to "What's New".

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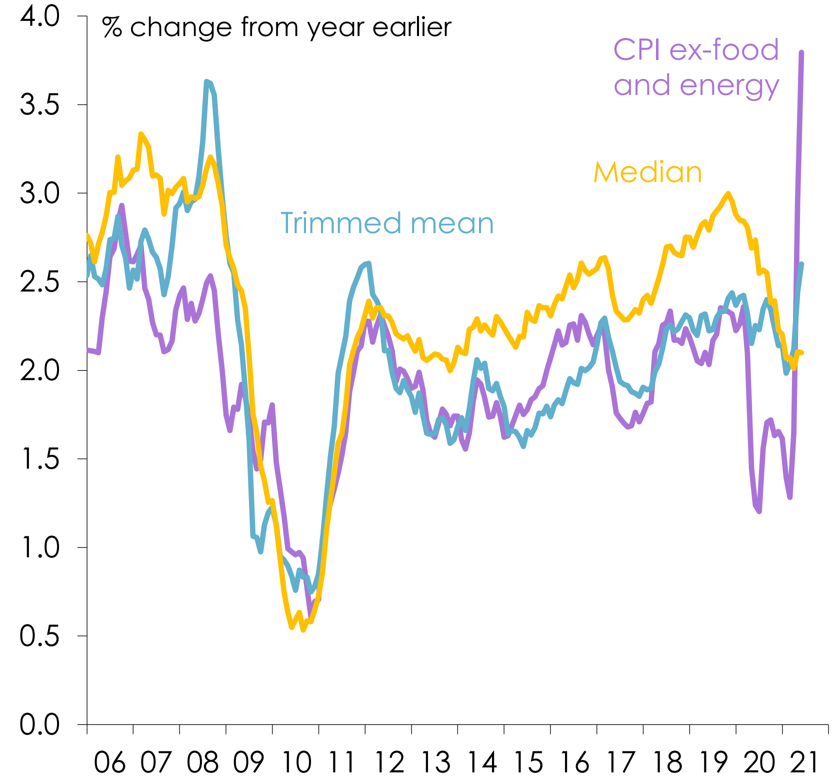
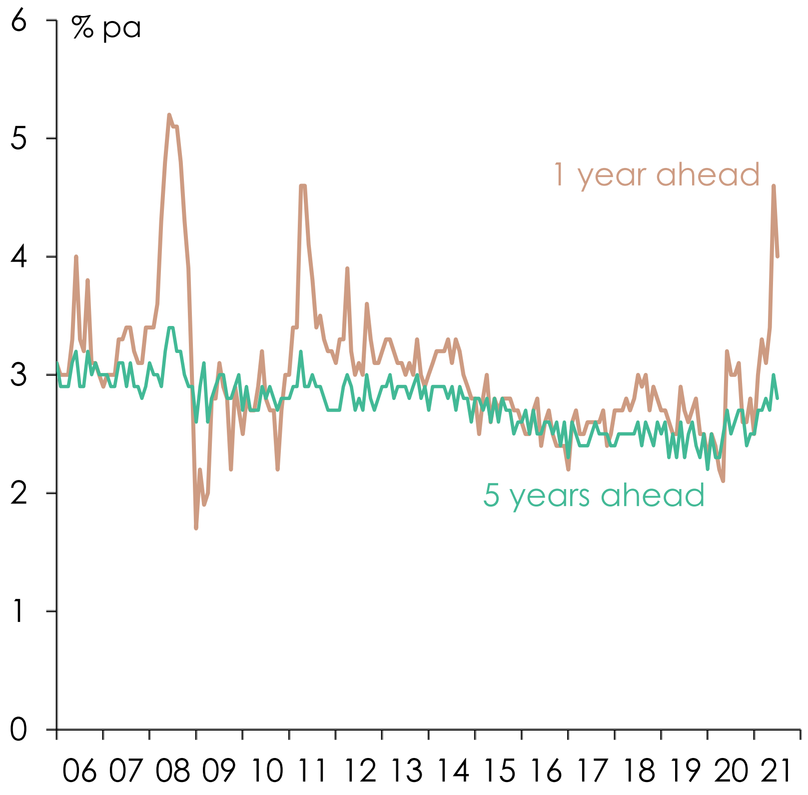
Statistical measures of US 'underlying' inflation haven't moved much, and, importantly, household inflation expectations dropped back in June

Statistical measures of annual 'core' inflation in the US



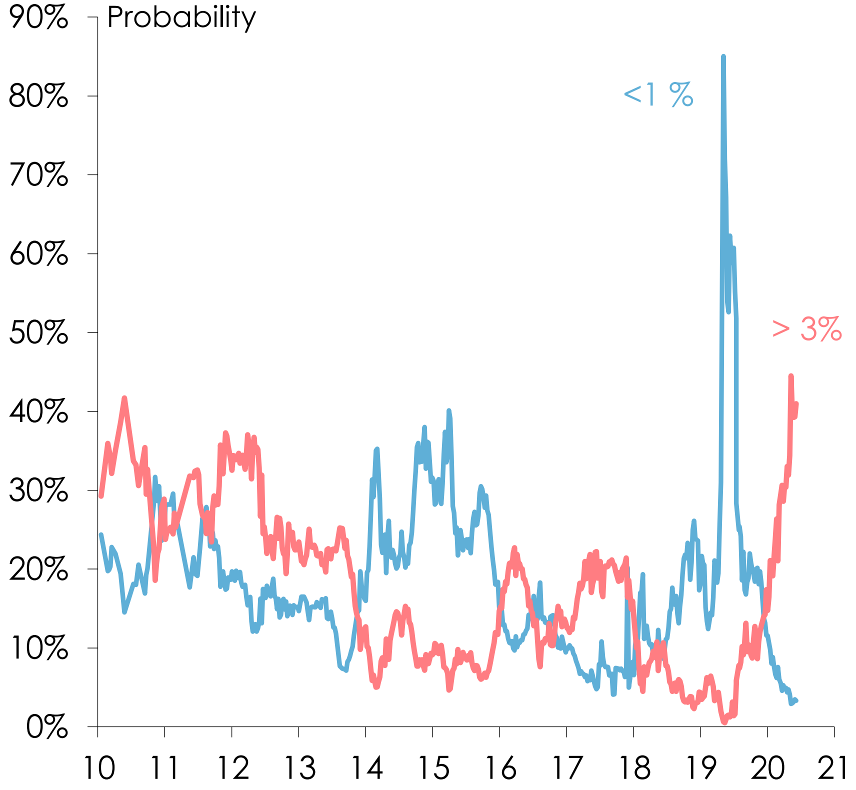
- Statistical measures (similar to those used by the RBA) suggest that the rise in 'core' inflation is almost entirely due to 'outliers' (such as used cars, car rentals, air fares, and hotel charges)

Household inflationary expectations



- Household inflation expectations (which are important to the Fed) rose sharply between January and May but (importantly) eased back in June

Market-implied probabilities of inflation in 5 years' time



- Financial markets think there's a 40% 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%

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:* Federal Reserve Bank of Cleveland; Michigan University Survey Research Center; Federal Reserve Bank of Minneapolis.

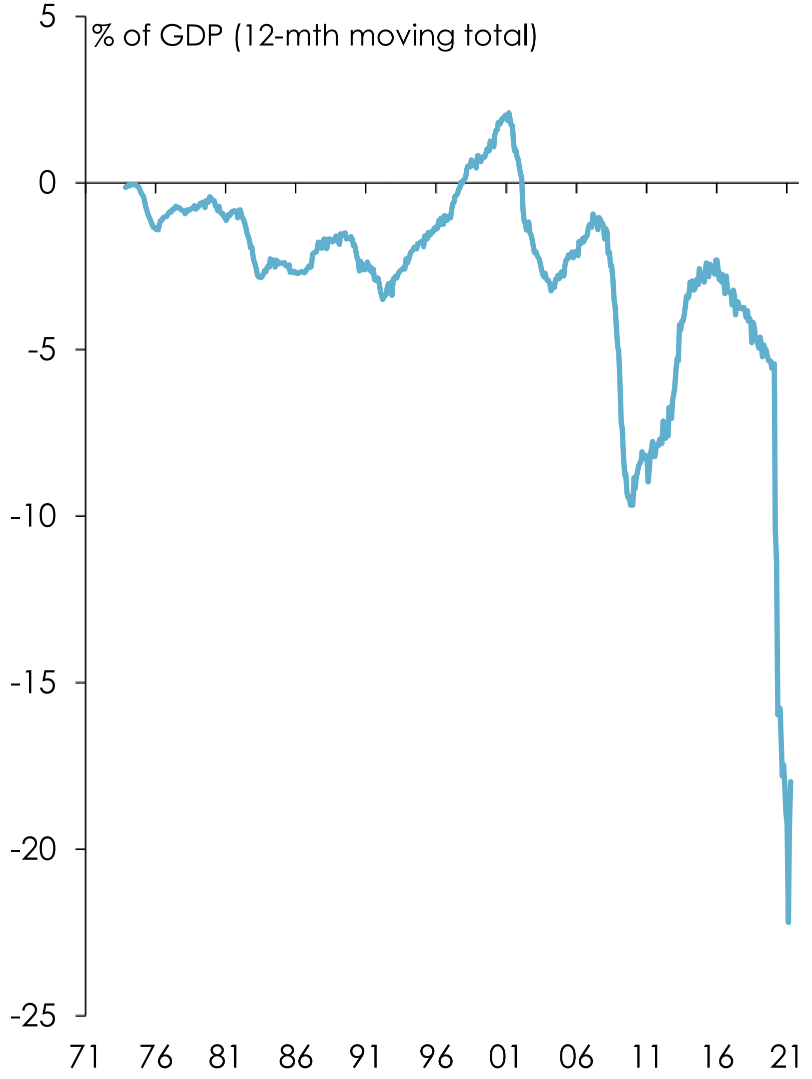
Return to "What's New".

Federal Reserve officials have been keen to hose down fears of a surge in inflation (or of any early rate rises in response to it)

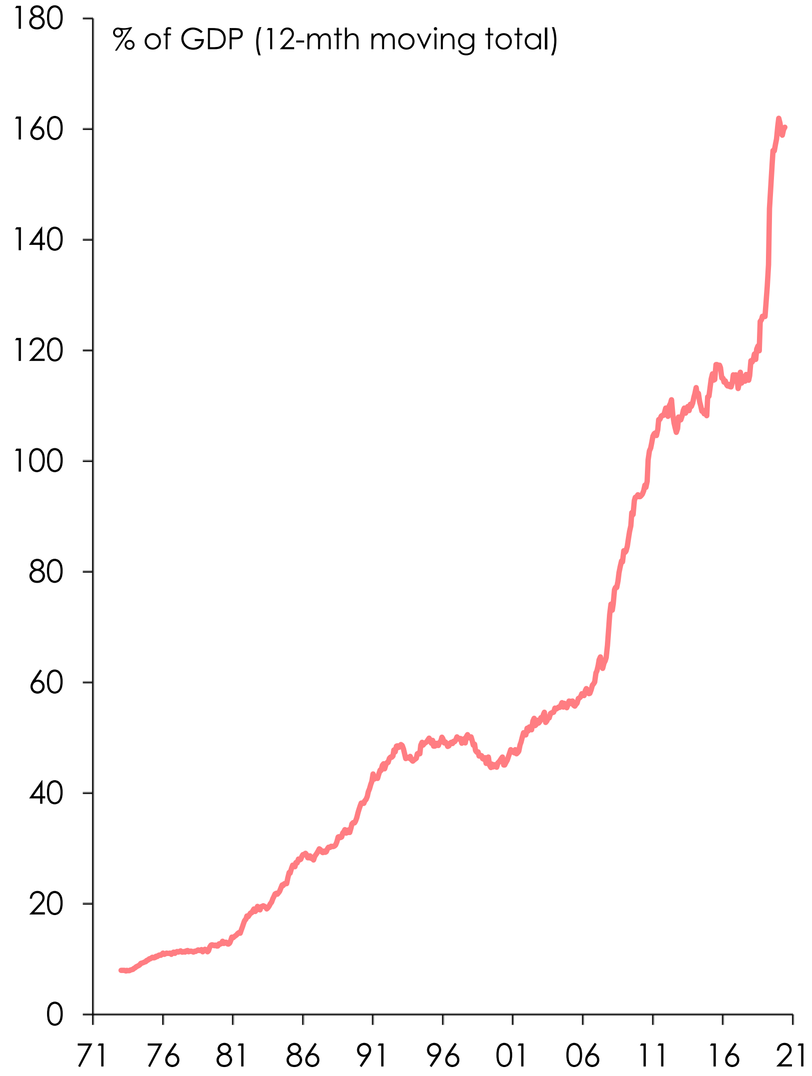
- Senior Fed officials have sought to re-assure markets (and Americans more generally) that current inflationary pressures are 'transitory', and that they won't react to inflation being temporarily above 2% - although some have also suggested it is "time to talk about tapering" the Fed's asset purchase programs
- 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"

The US budget deficit narrowed further in May due to a second surge in income tax payments but remains very large by historical standards

US Federal budget deficit



US gross Federal debt

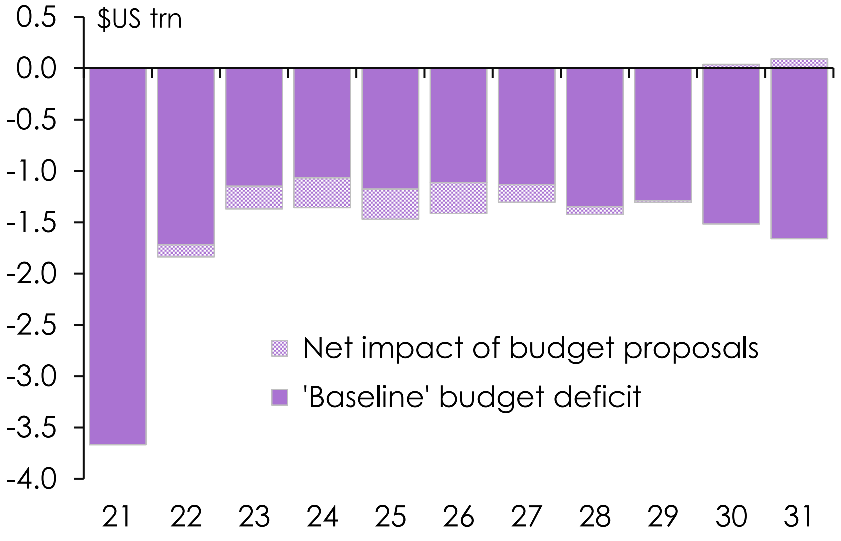


- **The US Federal Government budget deficit narrowed narrowed further to US$131.2bn in May, from $225.6bn in April, reflecting receipts of non-PAYG income tax payments deferred from April**
- **Over the 12 months to April, the budget deficit totalled US$3.3trn (18.0% of GDP) – down from $3.6trn in the 12 months to May and the peak of $4.1trn in the 12 months to March T**
- **The 'face value' of gross federal debt outstanding rose by US$24bn to US$28.2trn during May, but the market value rose by $67bn to $29.6trn (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$18.4trn (99.6% of GDP)**
- **The Administration seems willing to scale back both its spending and revenue-raising plans in order to get something through Congress**

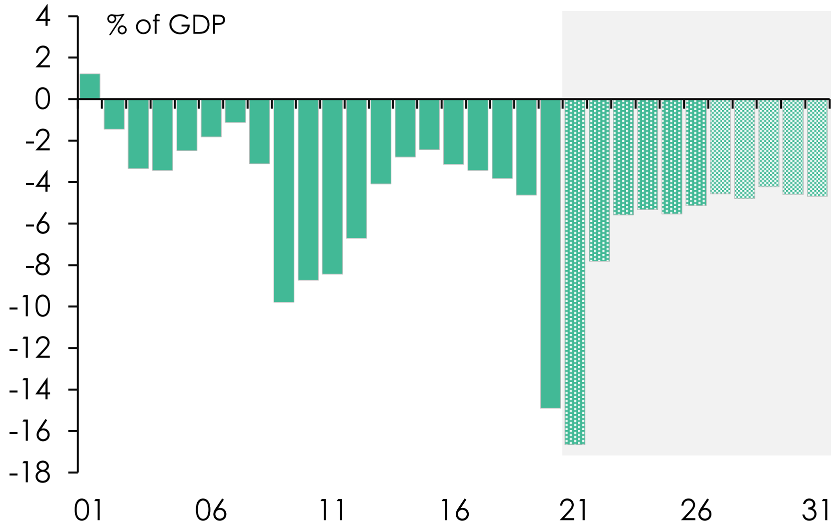
Note: The measure of US gross federal debt is at market value. *Sources:* US Treasury Department; Federal Reserve Bank of Dallas; US Bureau of Economic Analysis; US Congressional Budget Office; Corinna. Return to "What's New".

The Biden Administration's first Budget proposes almost US$4trn of new spending funded largely by tax increases – but that depends on Congress

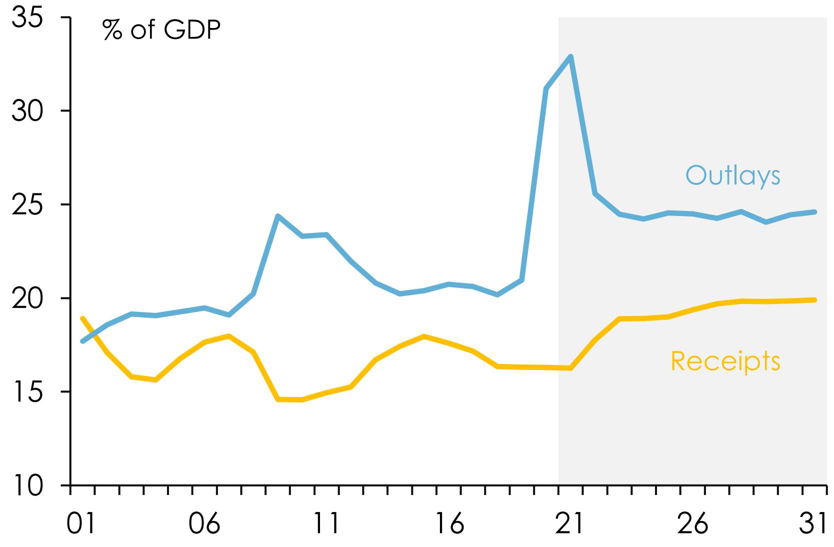
Net impact of budget proposals



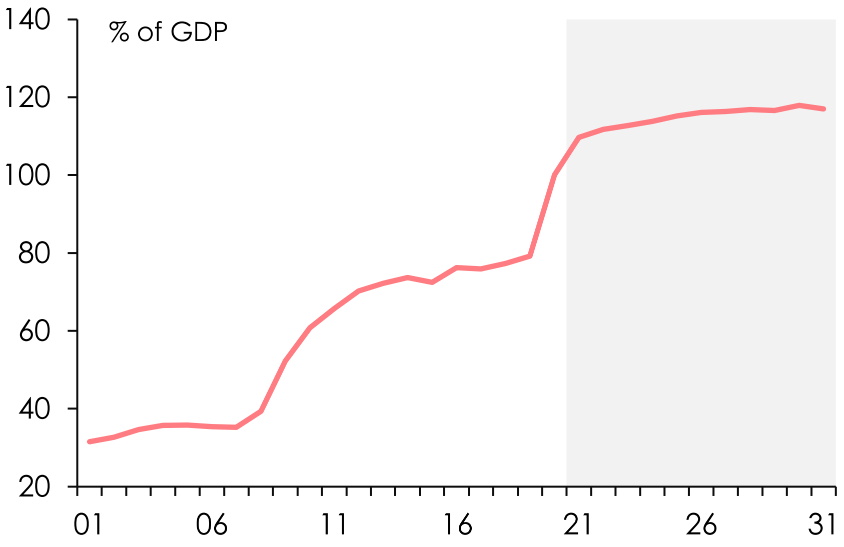
US Budget surplus/deficit



US Budget receipts and outlays



US Federal Government debt

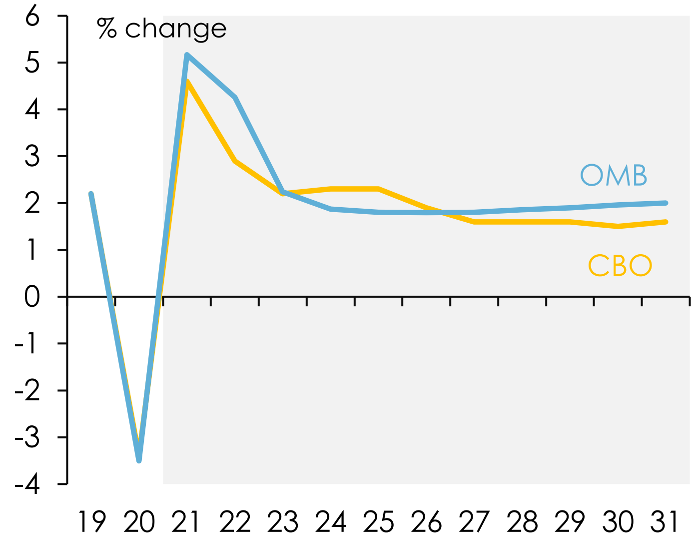


- **The Biden Administration's first Budget proposes additional spending of US$3.9 trn over ten years, (equivalent to 1.4% of GDP), funded by $3.1 trn of tax increases (1.1% of GDP) and increases in the budget deficit totalling $745bn (0.3% of GDP)**
  - the Budget projects that the net effect of its proposals will start to have a positive impact on the deficit from FY 2030 onwards and reduce the deficit by US$2.4 trn between 2032 and 2041
  - even so, the budget deficit remains at 4½% of GDP in the second half of the decade
- **Proposed tax increases include a 7 pc pt increase in the corporate tax rate to 28% and other measures raising $2 trn over ten years, increases in personal income and wealth taxes totalling $755bn over ten years, and 'compliance measures' raising $718 bn over ten years**
- **In the US system "the President proposes but Congress disposes"**
  - many of the measures proposed in the Budget will not get through Congress

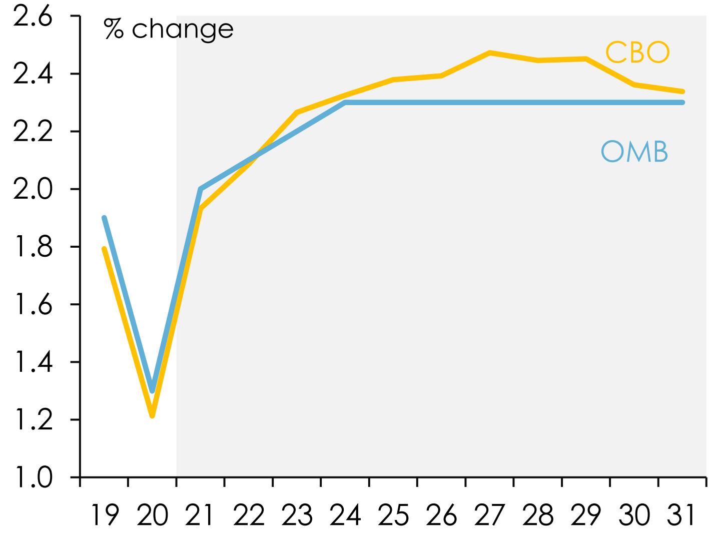
Note: Data are for fiscal years ended 30th September. Federal Government debt is "held by the public", ie, excludes debt held by the Social Security Trust Fund and other Government accounts (but includes debt held by the Federal Reserve). *Source:* US Office of Management and Budget. Return to "What's New".

The Biden Administration's Budget points to an ongoing structural deficit

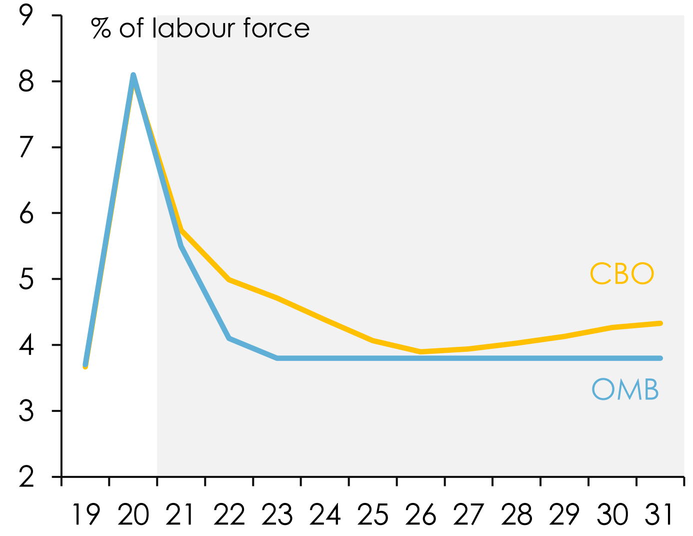
Real GDP growth forecasts



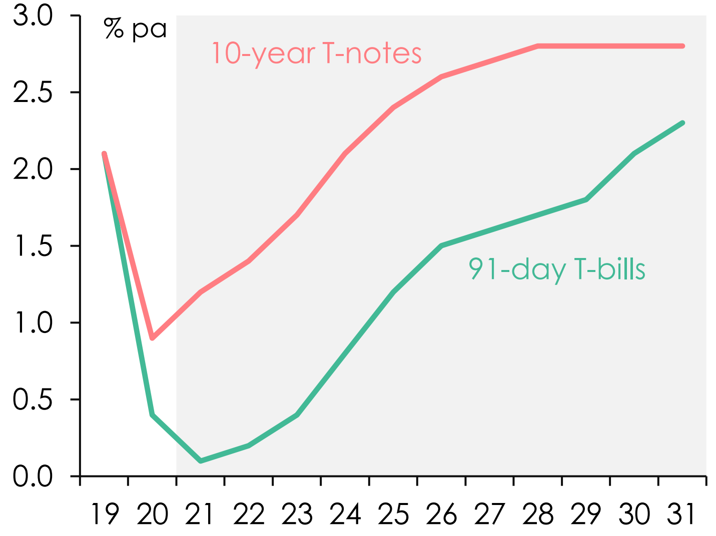
Inflation forecasts



Unemployment forecasts



Interest rate assumptions



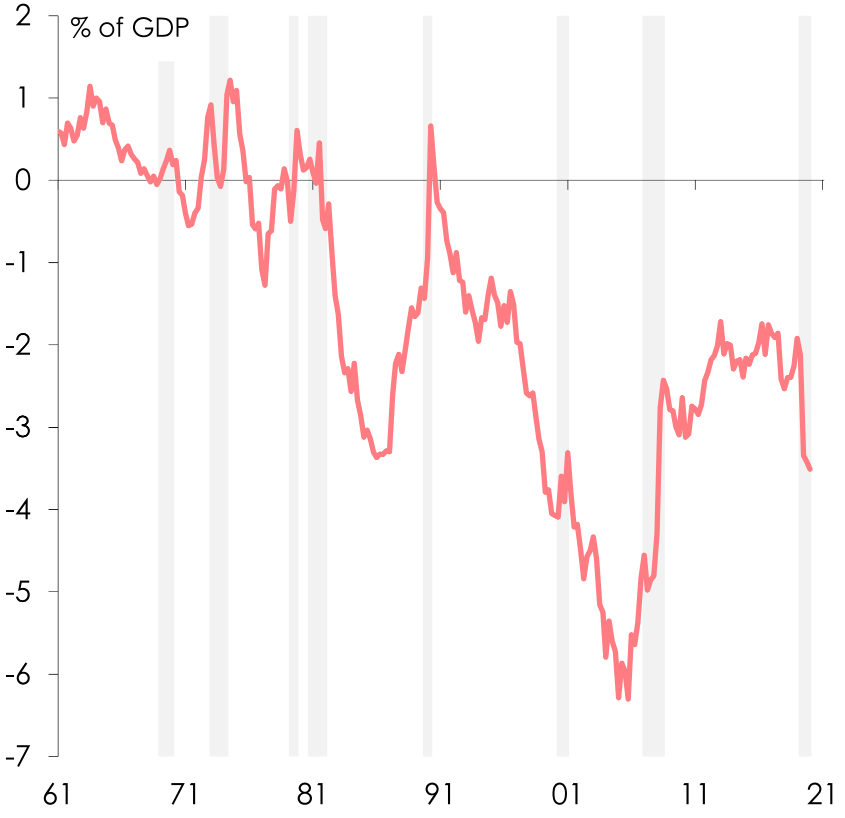
- **The Biden Administration's first Budget assumes very sluggish long-run growth in the US economy**
  - real GDP is forecast to grow by 4.3% in FY 2022, but then slow to 2.2% in FY2023 and then (having returned to its 'potential' level) to an average of 1.9% pa over the following eight years (broadly in line with the CBO's assumption of 1.8% pa)
  - the unemployment rate is projected to decline to 3¾% by FY2023 and remain at that level thereafter (cf. the CBO projection of a decline to just under 4% in FYs 2026 and 2027 but then drifting back up to 4¼% by the end of the decade)
- **The projection of budget deficits of around 4½-4¾% of GDP throughout the second half of the decade even though output is at its potential level and unemployment at its 'full employment' rate underscores that the US will have a persistent *structural* budget problem**
  - the Budget assumes only modest increases in interest rates over the decade (the 10-year bond yield rising to 2¾% by FY 2028 and then staying there, well below the projected growth rate of nominal GDP of just under 4% pa, and only ½ pc pt pa above the projected rate of CPI inflation (2¼% pa from FY 2024 onwards)
  - if r (the rate of interest on government debt) were to rise above g (the growth rate of nominal GDP) then the debt-to-GDP ratio would continue trending upwards, rather than stabilizing at just below 120% of GDP as the Budget assumes

Sources: US Office of Management and Budget; Congressional Budget Office. Return to "What's New".

SAUL ESLAKE
CORINNA ECONOMIC ADVISORY

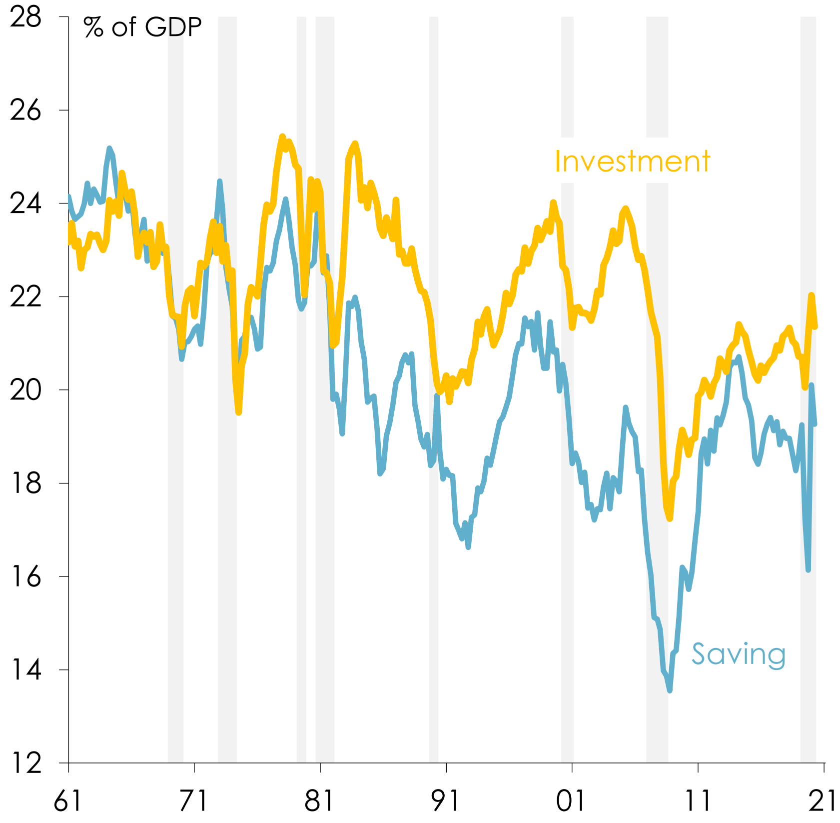
Unusually, the US current account deficit has widened so far during this recession, largely because investment hasn't fallen much

US current account balance



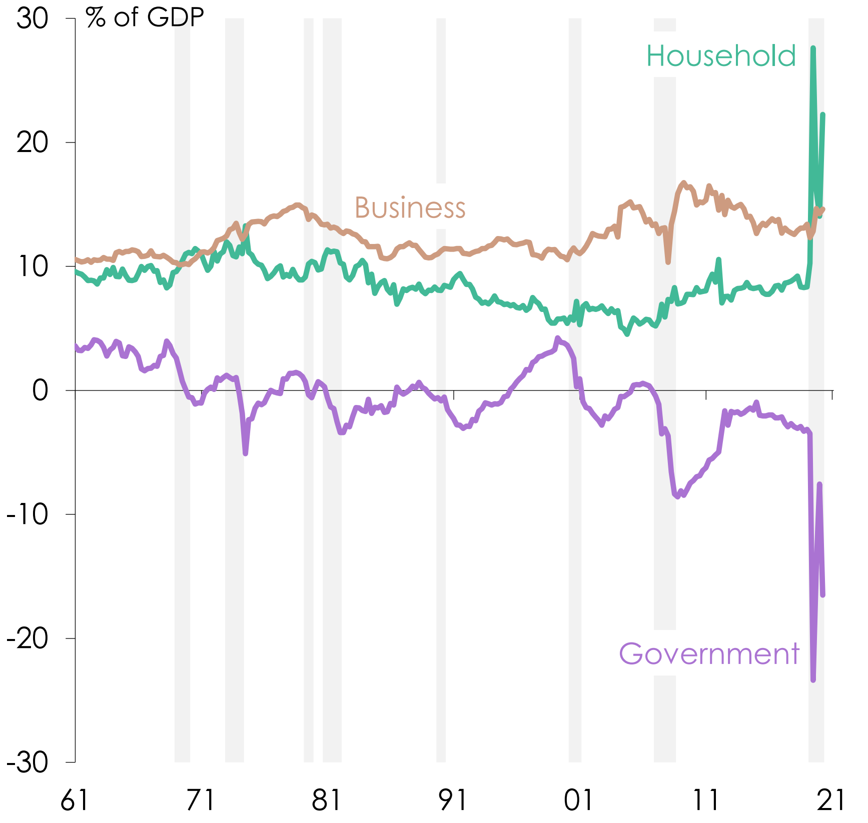
The US current account balance normally improves (ie, the deficit usually gets smaller) during recessions – but in this one it has (so far) widened

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



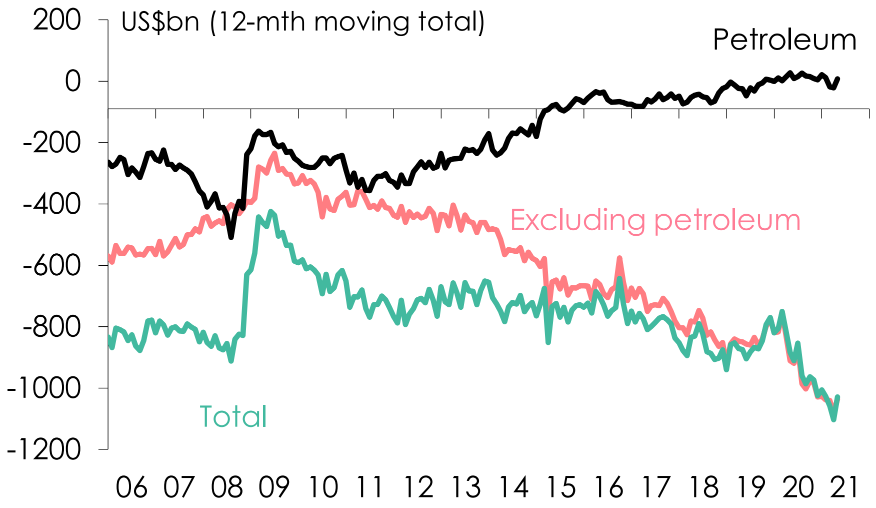
The dramatic increase in the budget deficit has been largely (but not totally) offset by an increase in house-hold saving

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".

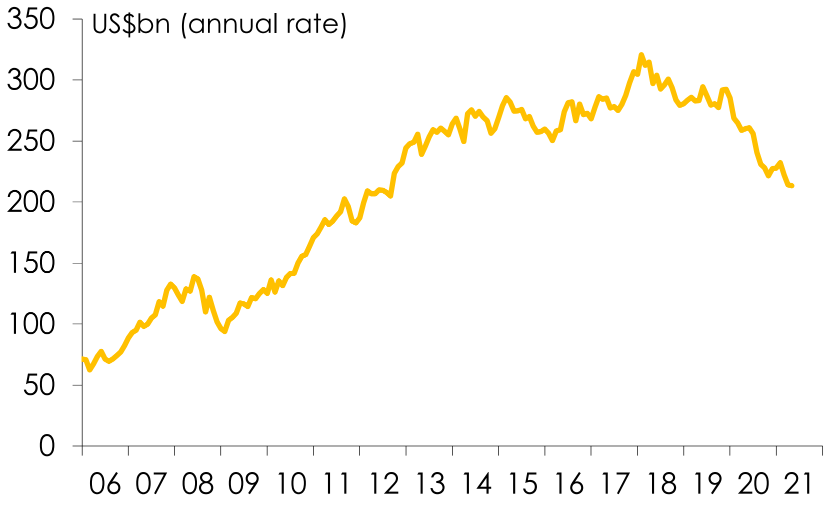
SAUL ESLAKE
CORINNA ECONOMIC ADVISORY

The US goods and services trade deficit narrowed by US$6bn in April but was still the third largest on record (after March and February)

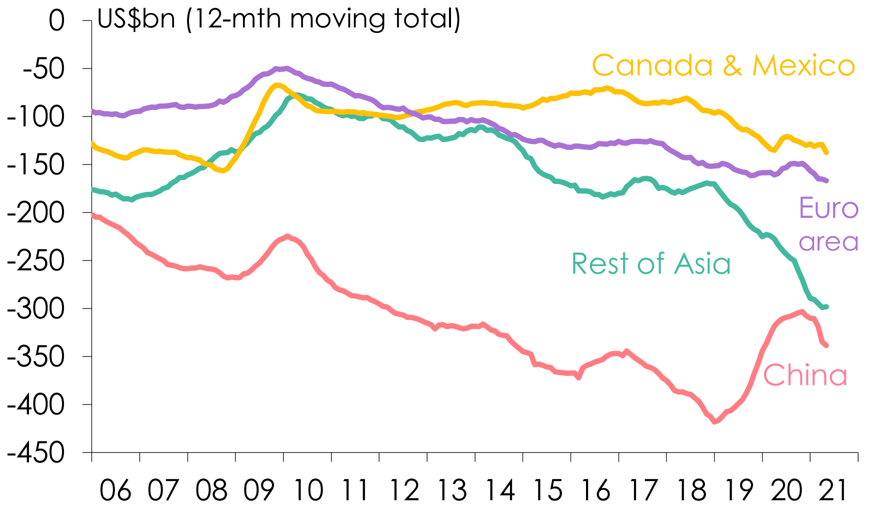
US goods trade balance



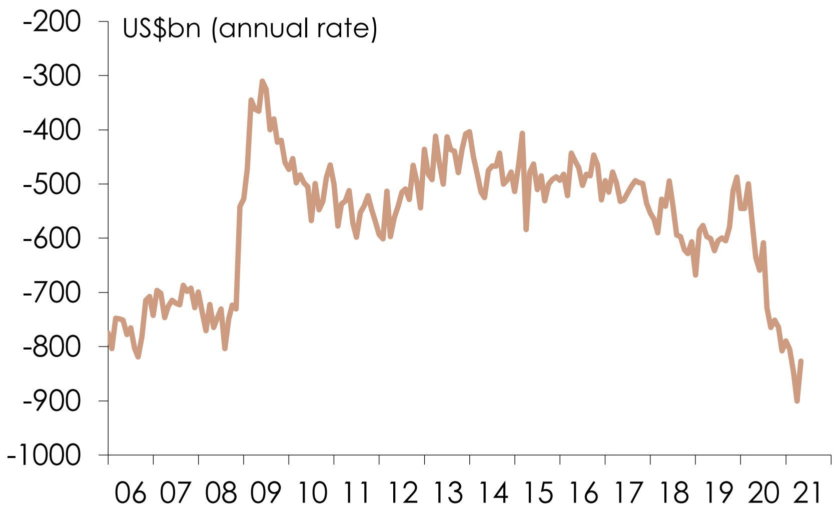
US services trade balance



US bilateral goods trade balances



US goods & services trade balance

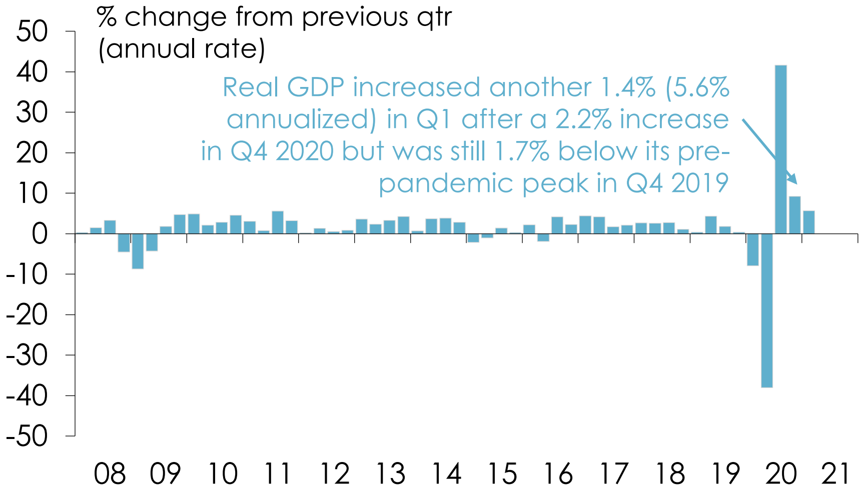


- **The US goods and services trade deficit narrowed to US$69bn in April from a record $75bn in March**
  - this was still the third largest deficit on record (after March and February)
  - goods & services exports rose 1.1% & 1.2% respectively in April, while goods imports fell 1.9% (large falls in consumer goods & cars)and services imports rose 1.8%
- **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
- **History suggests that any 'excess demand' resulting from 'over'-stimulatory fiscal and monetary policies is more likely to show up in a larger current account deficit than in higher inflation – and these numbers are consistent with that**

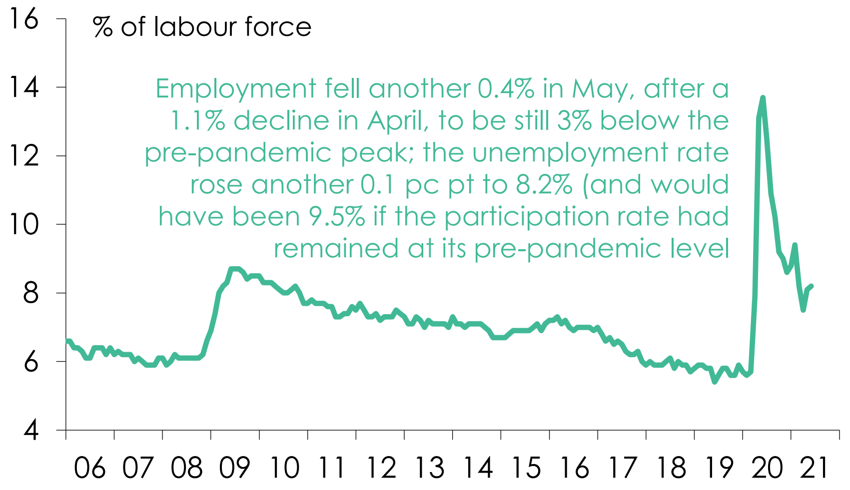
Note: March merchandise trade data are 'advance'. *Source:* US Census Bureau. Return to "What's New".

Canada's economy grew another 1.4% in Q1 but is still 1.7% smaller than in the pre-recession peak of Q4 2019, while employment is still down 3%

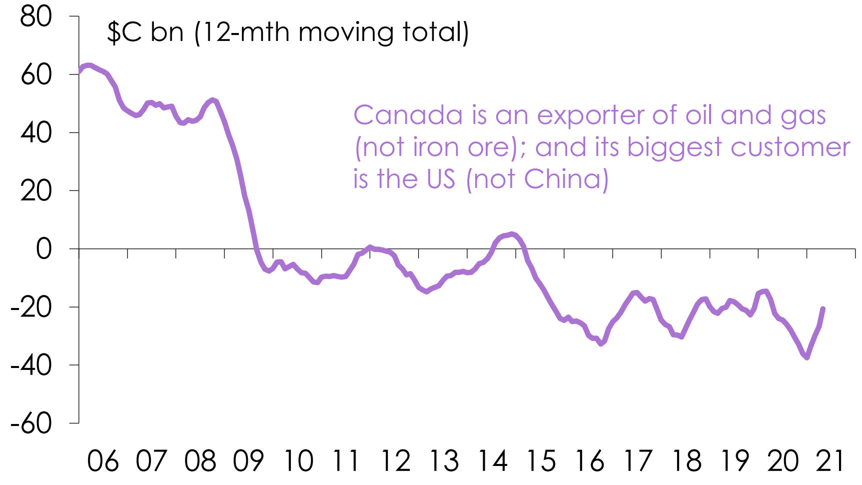
Real GDP



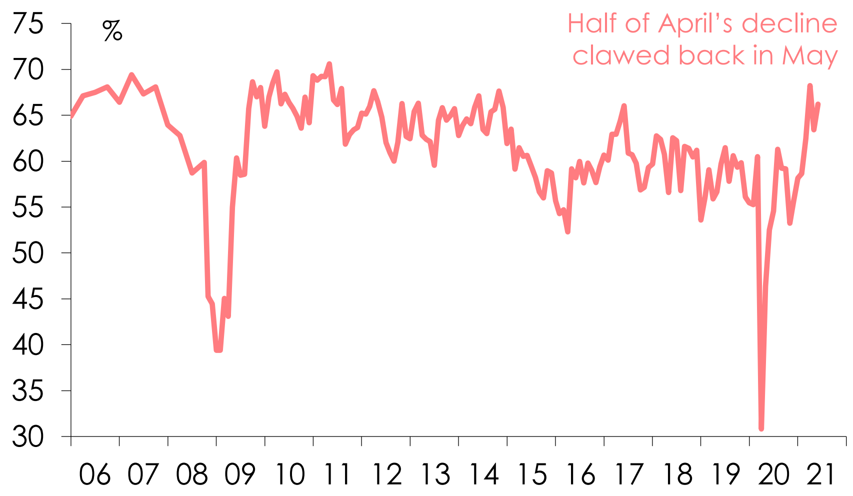
Unemployment rate



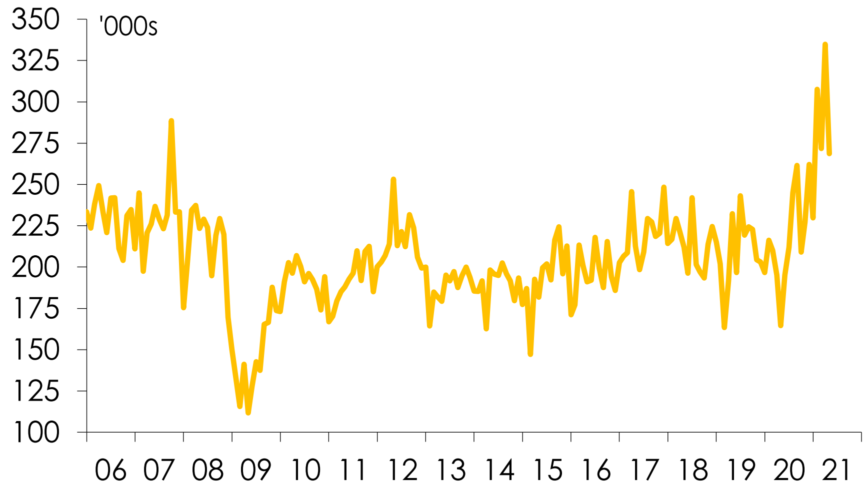
Merchandise trade balance



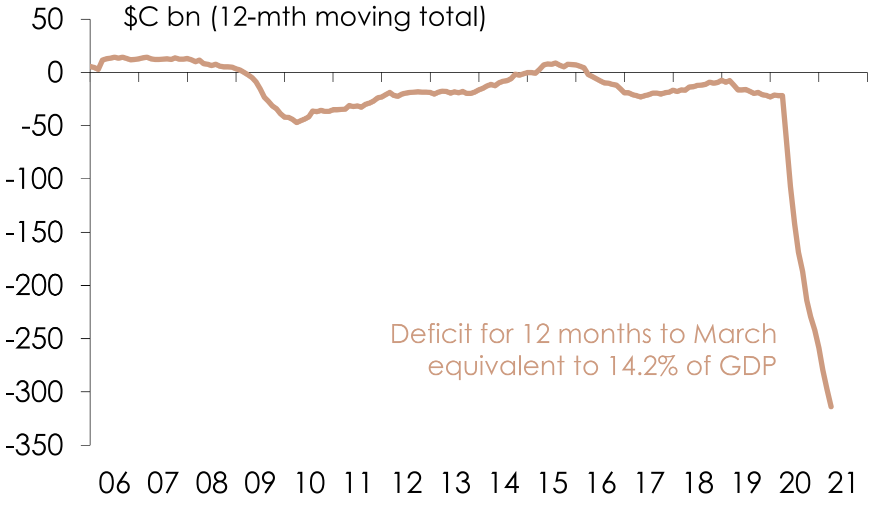
CFIB 'business barometer'



Housing permits



Federal budget balance

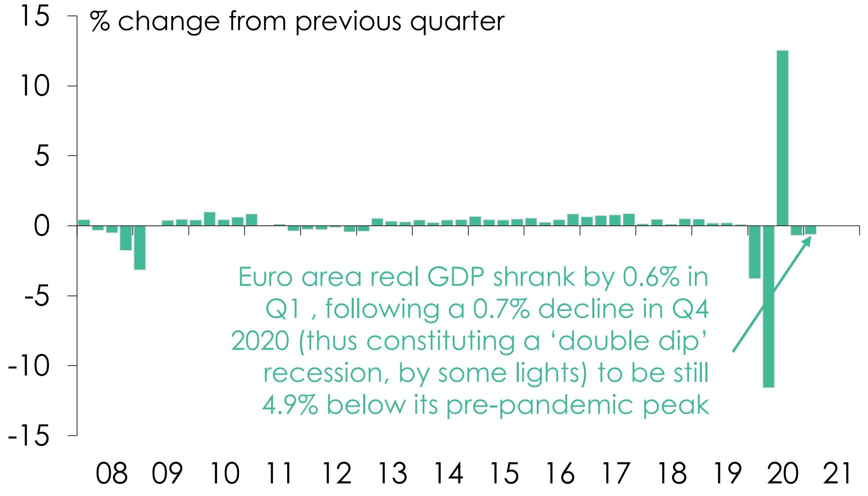


Sources: Statistics Canada; Canadian Federation of Independent Businesses; Teranet-National Bank of Canada; Department of Finance Canada. Return to "What's New".

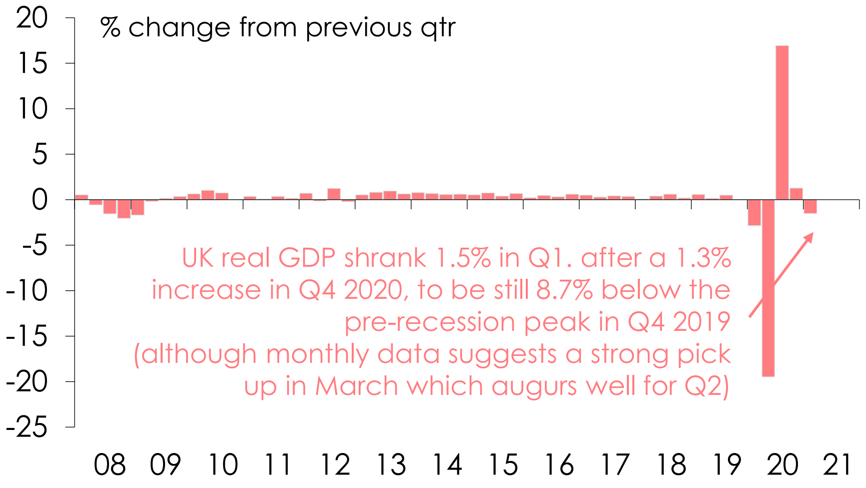
SAUL ESLAKE
CORINNA ECONOMIC ADVISORY

The euro area 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

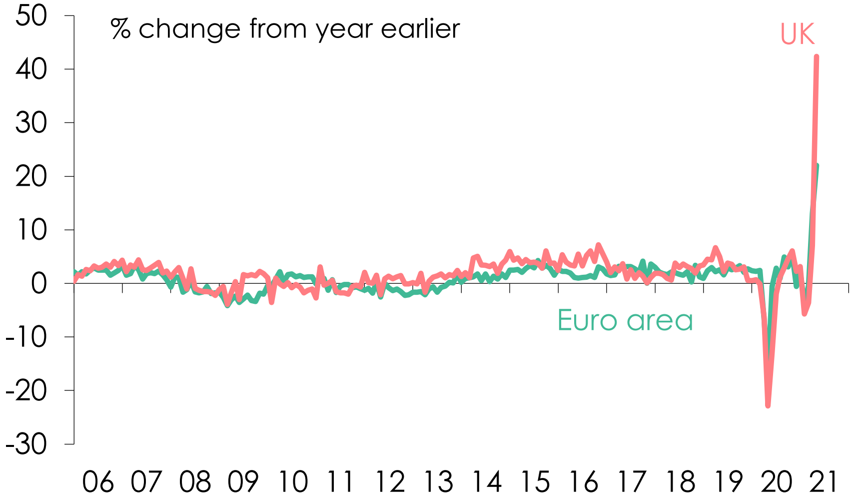
Euro area real GDP



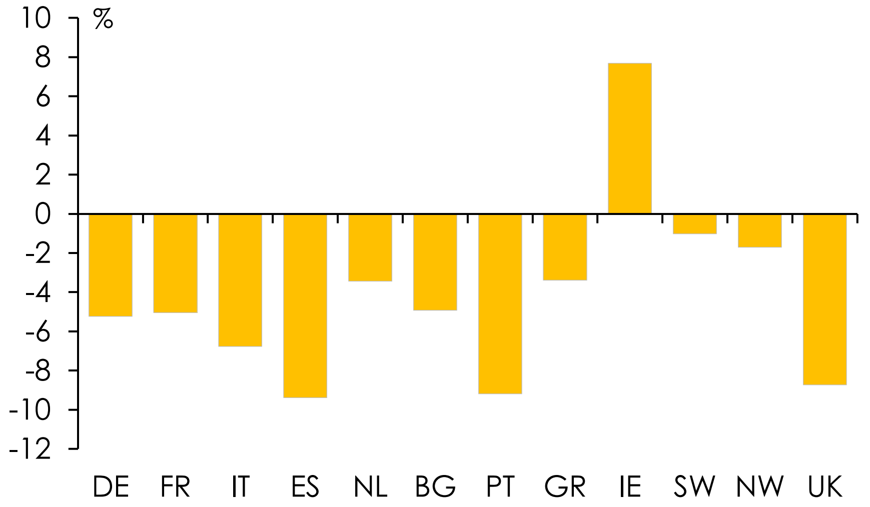
UK real GDP



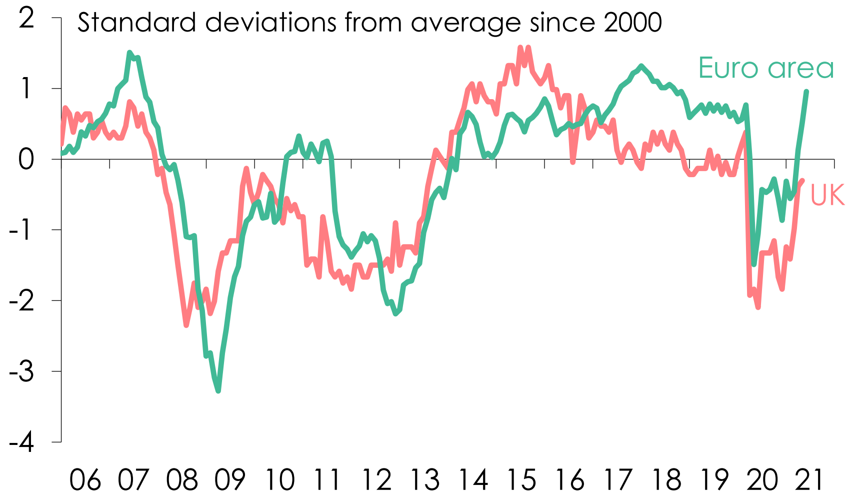
Retail sales volume



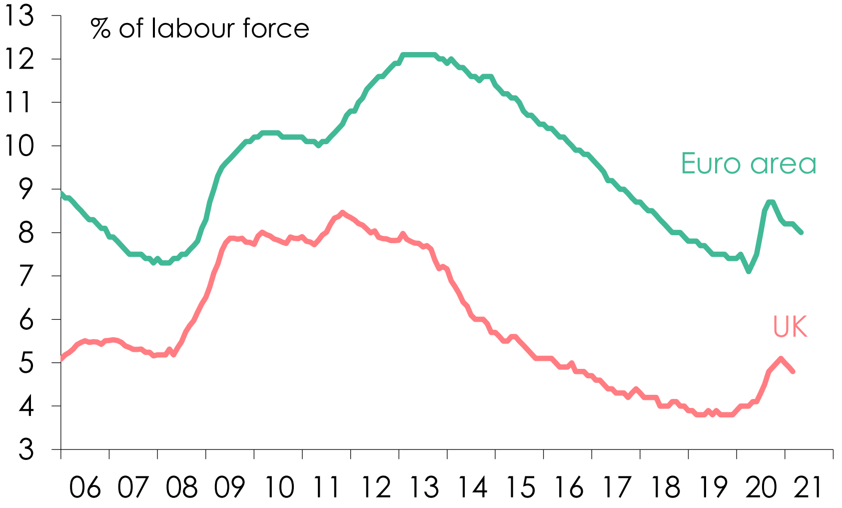
Q4 GDP vs pre-pandemic peak



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.

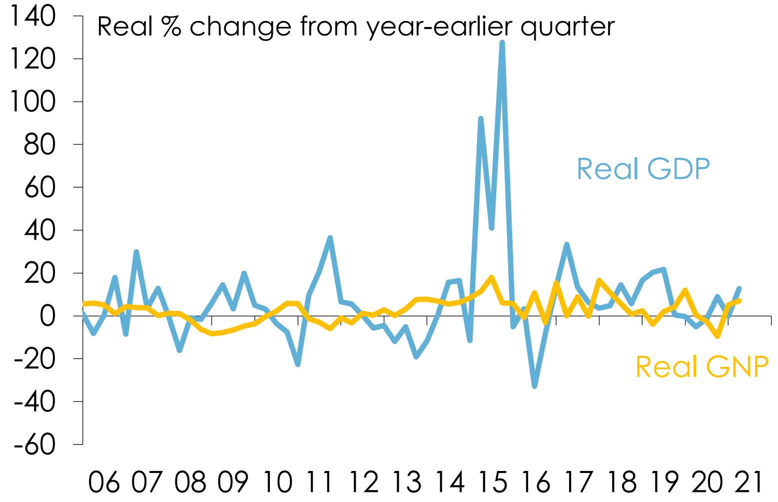
Return to "What's New".

SAUL ESLAKE
CORINNA ECONOMIC ADVISORY

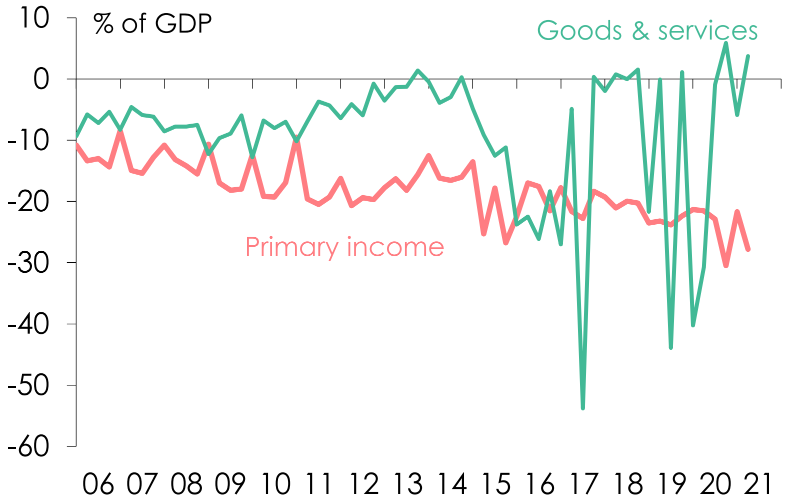
Ireland's 12.8% growth in real GDP over the year to Q1 is deceptive – Ireland isn't doing *that* well

- **Ireland's real GDP grew by 7.8% in Q1, to be 12.8% larger than in Q1 last year, and 7.7% above its pre-pandemic peak in Q4 2019**
- **However Irish GDP figures are highly volatile, and often a misleading indicator of 'underlying' economic growth**
  - As Ireland's CSO explains, they are distorted by large gross flows (both trade and income payments) associated with the activities of multi-national enterprises and aircraft leasing companies located in Ireland
  - real gross *national* product (GNP), which abstracts from net factor income payments abroad, is much more stable than real GDP – it is still 2.1% below its pre-pandemic peak
- **The CSO publishes an alternative measure called 'modified domestic demand', which fell 5.4% in Q1, and is still 8.2% below its Q3 2019 pre-pandemic peak**
  - Irish personal consumption is still 13.1% below its pre-pandemic peak in Q2 2019
- **Irish unemployment at 5.8% is down 0.9 pc pts from its peak in September last year but is still 1.2 pc pts above its pre-recession low**

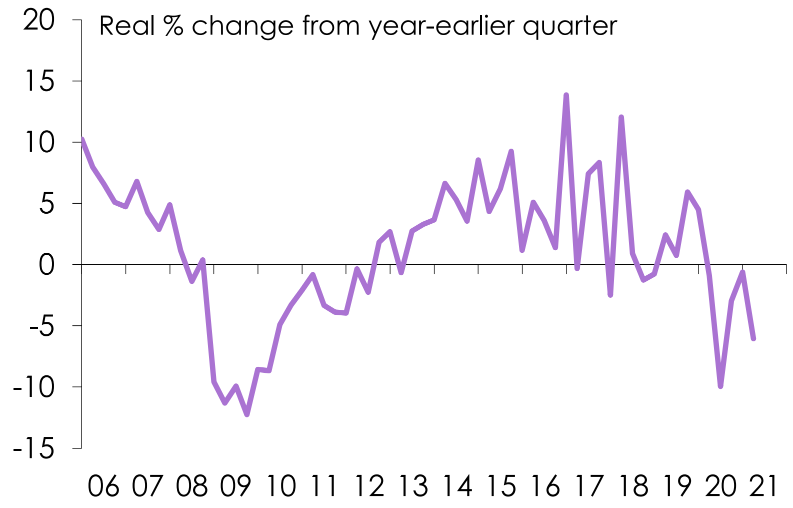
Real GDP and GNP



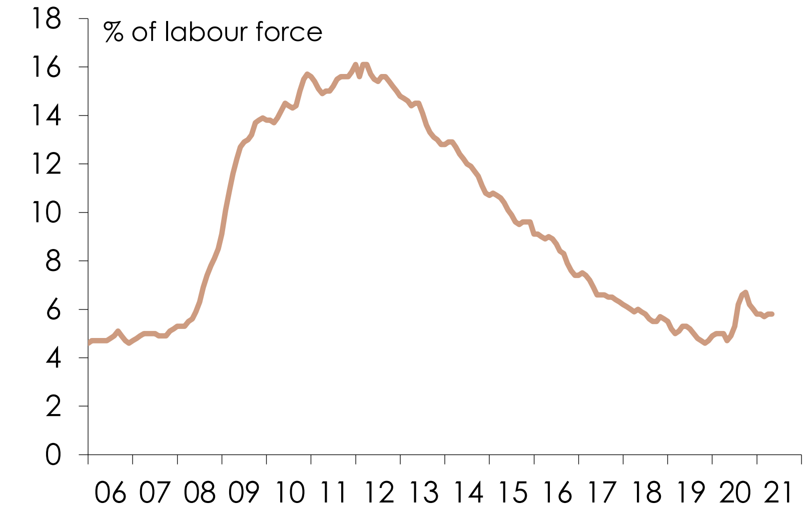
Balance of payments



'Modified domestic demand'



Unemployment



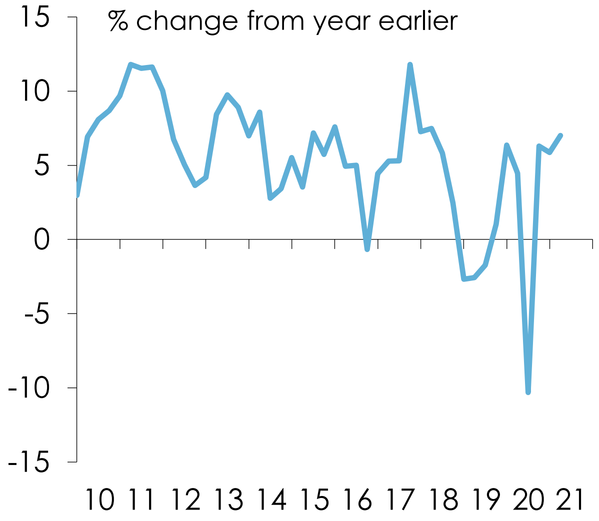
Sources: Ireland Central Statistics Office; Refinitiv Datastream . Return to "What's New".

SAUL ESLAKE
CORINNA ECONOMIC ADVISORY

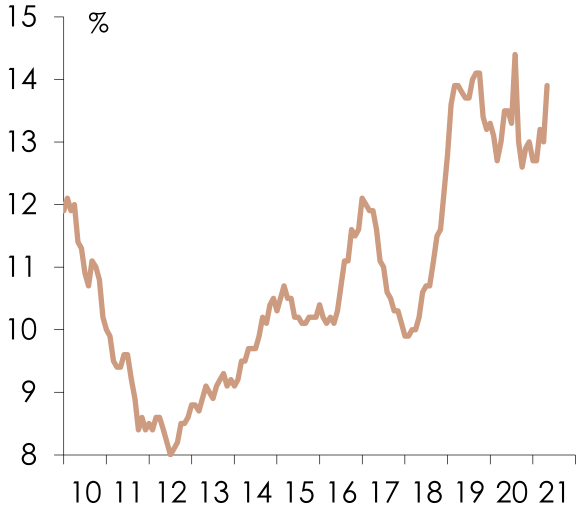
Turkey's strong Q1 growth is unlikely to be maintained in the face of very tight monetary policy settings – unemployment rose 0.9 pc pts in April

- Turkey's real GDP increased 1.7% in Q1 to be 6.7% above the pre-recession peak in Q1 last year
  - Q1 growth was however entirely attributable to net exports (and in particular a 9.1% drop in imports) as the current account deficit narrowed by 3¼ pc pts of GDP
  - consumer spending dropped by 1.7%
- Turkey's economy had a very strong rebound in Q3 last year growing 16% after an 11% drop in Q2
  - this was fuelled by an unsustainable credit boom which peaked last October after the CBRT hiked interest rates by 9 pc pts to dampen inflation and defend the currency
  - prompting the President to sack the CBRT governor (again)
- Despite this the CBRT raised rates another 2 pc pts in March, and flagged its intention to maintain tight monetary policy until "strong indicators pointed to a permanent fall in inflation"

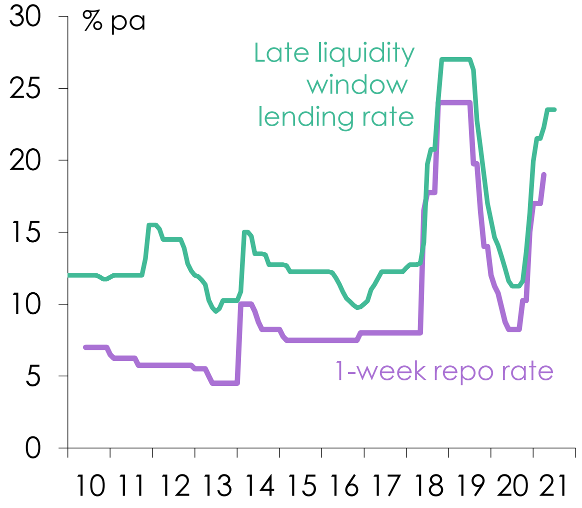
Real GDP growth



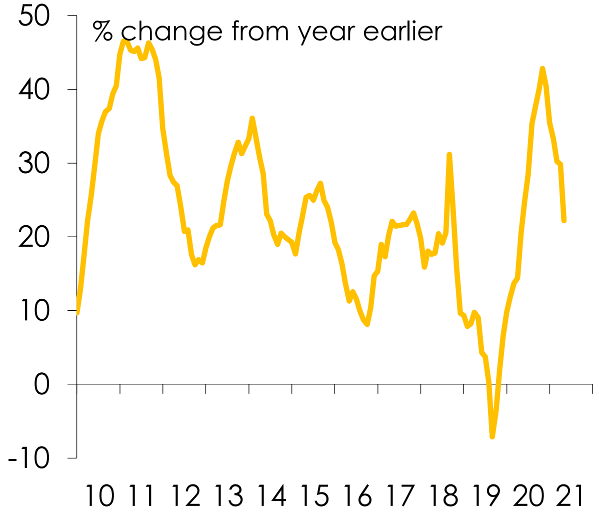
Unemployment



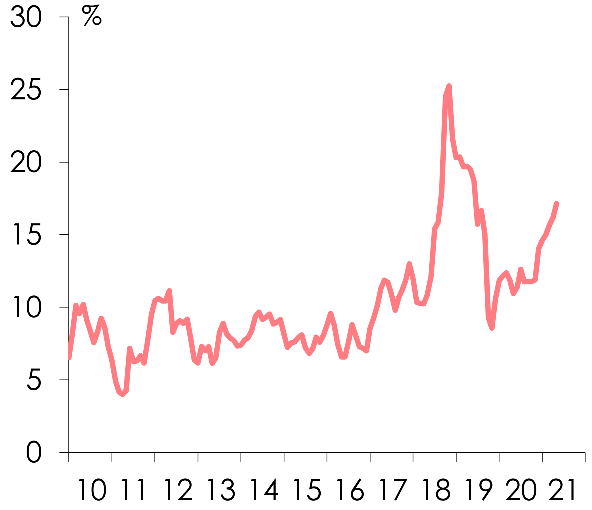
Interest rates



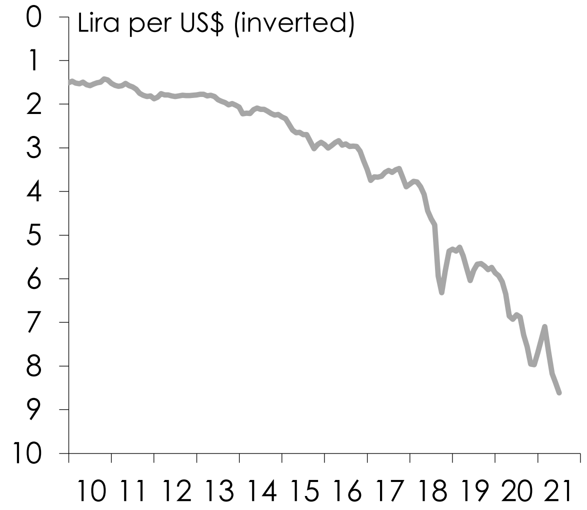
Bank lending



Inflation



Turkish lira vs US$



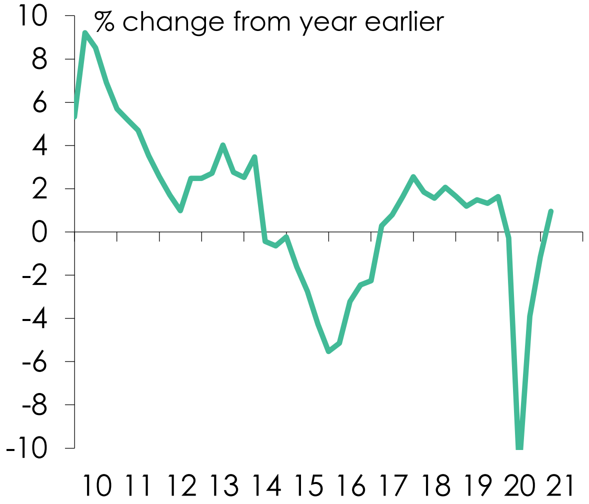
Sources: Turkey Statistical Institute (TÜİK); Central Bank of the Republic of Turkey (TCMB); Refinitiv Datastream. Return to "What's New".

SAUL ESLAKE
CORINNA ECONOMIC ADVISORY

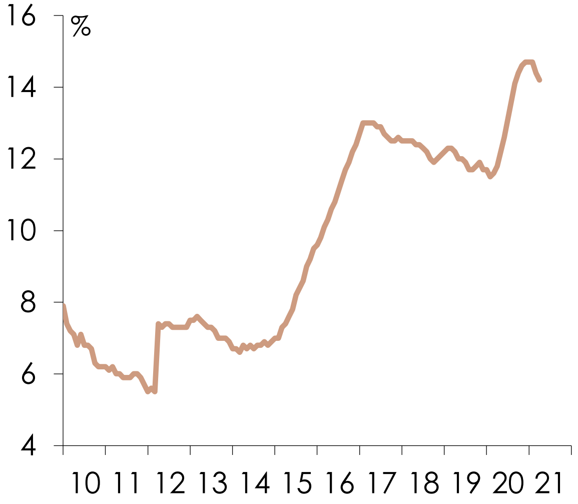
Brazil also recorded stronger-than-expected economic growth in Q1, but this too seems unlikely to be sustained

- Brazil's real GDP grew1.2% in Q1, after increases of 7.8% in Q3 and 3.2% in Q4 last year, to be back to its pre-recession level of Q4 2019
  - although GDP was still 2.1% below its previous peak in Q4 2014
- The unexpectedly strong Q1 result was largely attributable to a 5.7% lift in agricultural output
  - consumer spending fell 0.1% and remains 3.1% below its pre-pandemic level
  - although fixed investment rose a strong 4.6% (though it's still more than 9% below its Q3 2013 peak
- Inflation has risen from 2.1% to 8.9% over the past 12 months, prompting Brazil's central bank to raise its policy rate (SELIC) 150 bp so far this year
  - and it's flagged rate increases of another 200 bp over the remainder of this year in pursuit of its inflation target of 2¼-5¼%
- Unemployment remains elevated at 14.2%

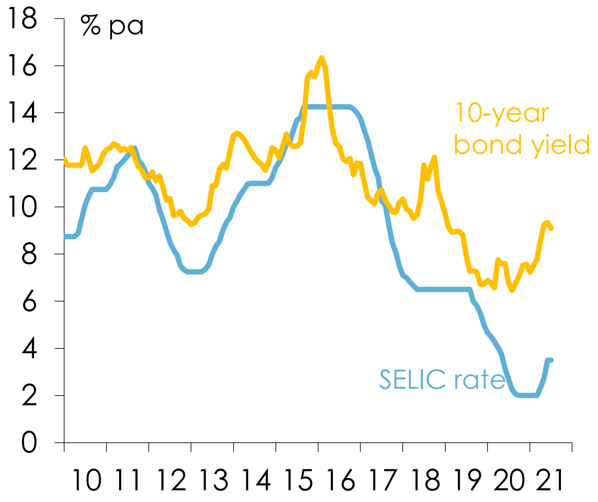
Real GDP growth



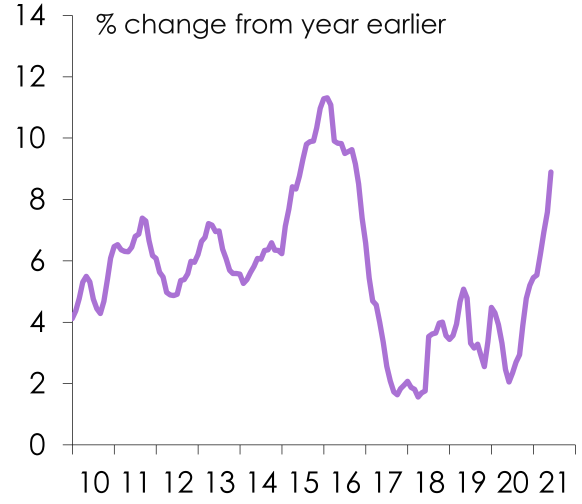
Unemployment



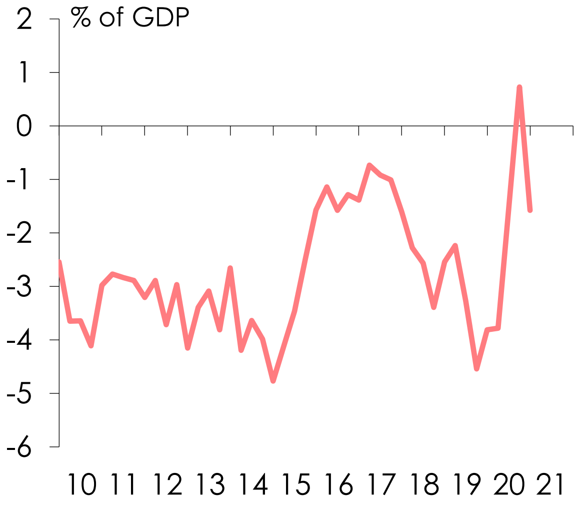
Interest rates



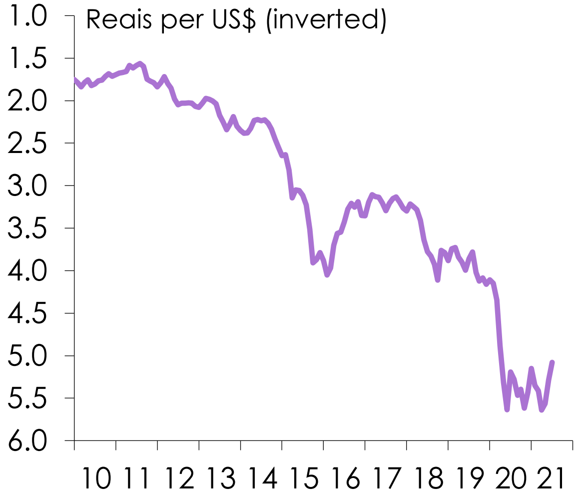
Inflation



Current account balance



Brazilian real vs US$



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

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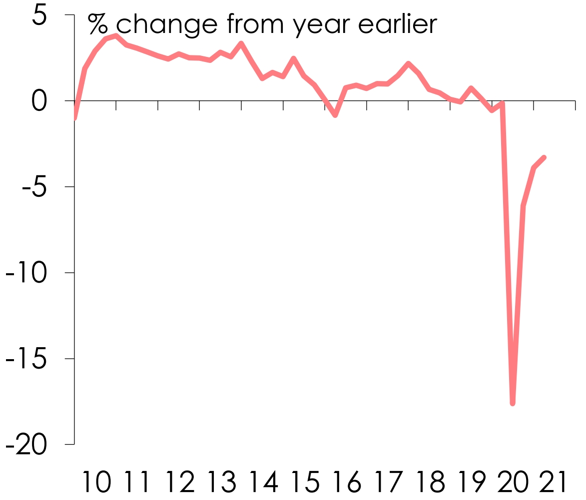
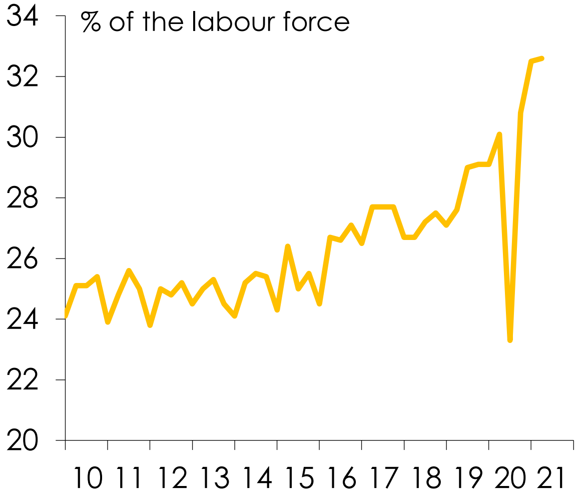
South Africa is yet to emerge completely from a protracted recession despite favourable movements in commodity prices

- **South Africa's economy went into recession in Q1 2019 (ie well before the onset of the pandemic)**
  - real GDP contracted by 17.8% between Q4 2018 and Q2 2020
  - and remains 3.9% below its pre-pandemic peak in Q1 despite a stronger-than-expected 1.1% gain
  - favourable terms of trade gains have boosted incomes and household consumption (and pushed the current account into surplus)
  - but fixed investment remains 22% below its peak (in 2017 Q4)
- **The ongoing weakness in economic activity is starkly apparent from the unemployment rate which began trending up in 2016 and appears now to be 'topping out' at just over 32%**
- **Higher food and electricity prices have pushed 'headline' inflation up to 4.4% although a stronger rand is keeping 'core' inflation at around 3%**
  - the SARB's Quarterly Projection Model suggests increases in the repo rate of 50 bp over the second half of 2021

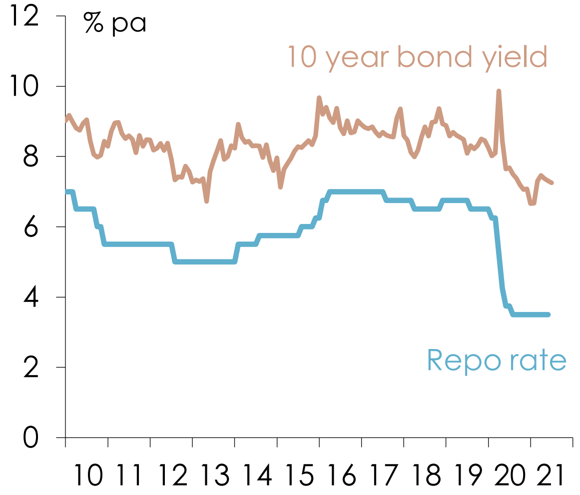
Real GDP growth



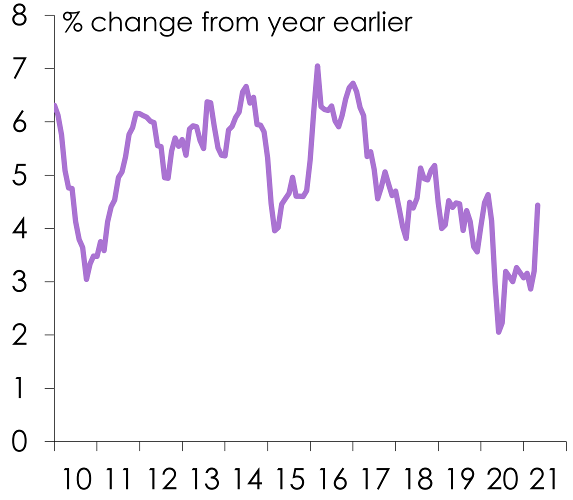
Unemployment



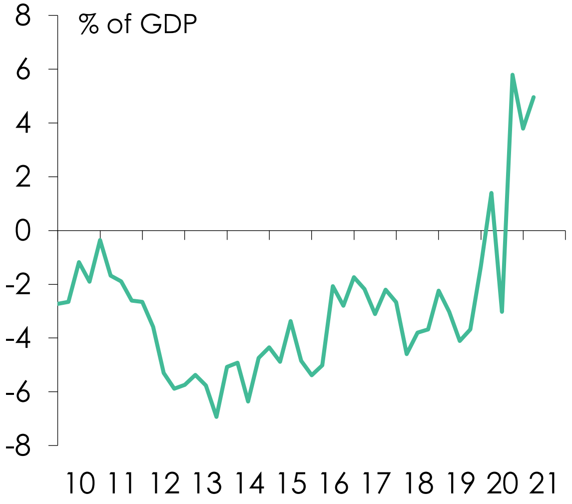
Interest rates



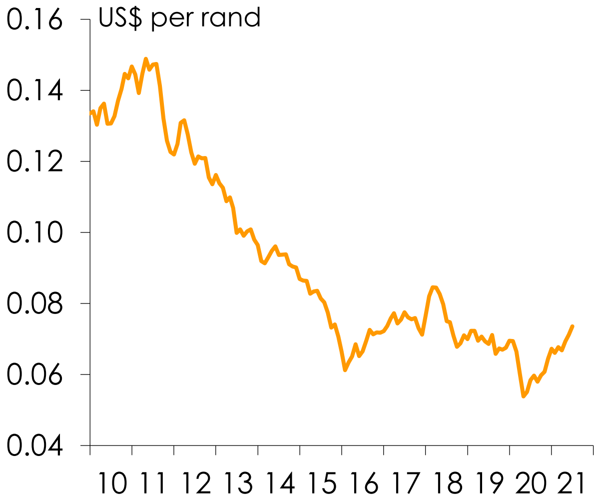
Inflation



Current account balance



Rand vs US$



Sources: Statistics South Africa; South African Reserve Bank; Refinitiv Datastream. Return to "What's New".

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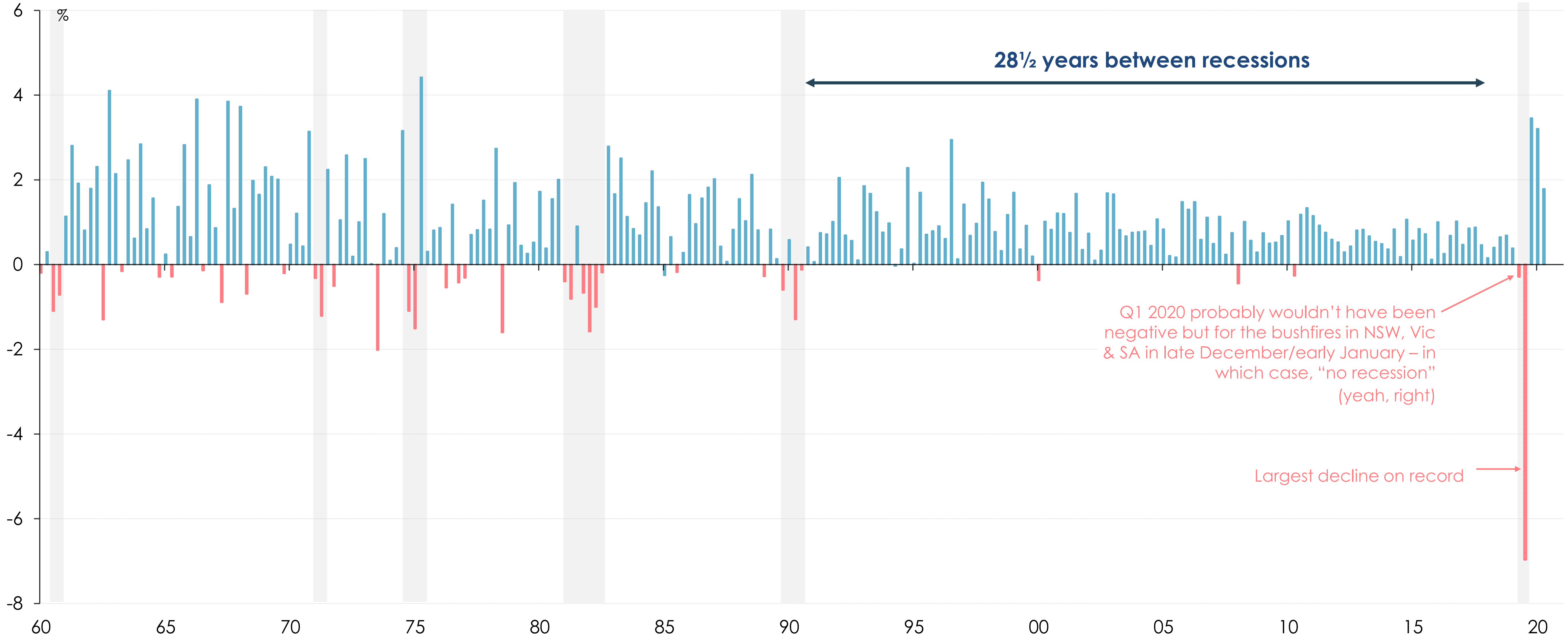
Australia

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

Quarterly growth in Australian real GDP, 1960-2020



Note: Shaded areas denote recessions. *Source:* ABS, *Australian National Accounts: National Income, Expenditure and Product*, March quarter 2021.
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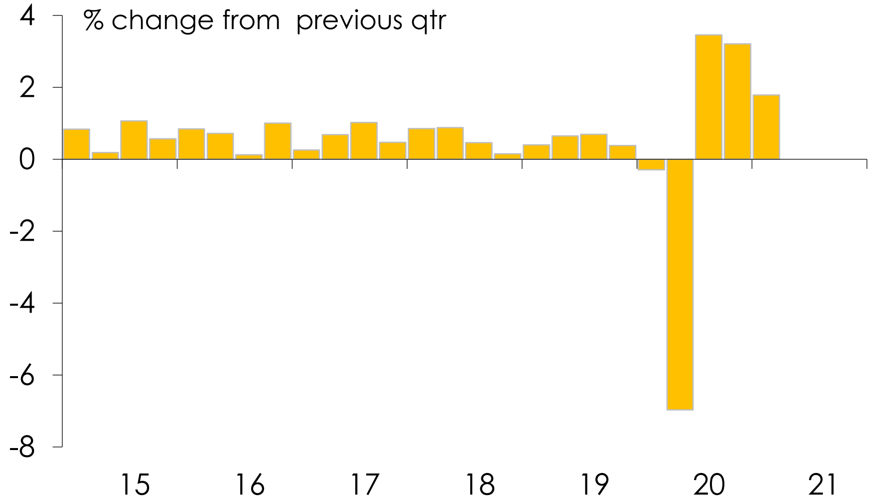
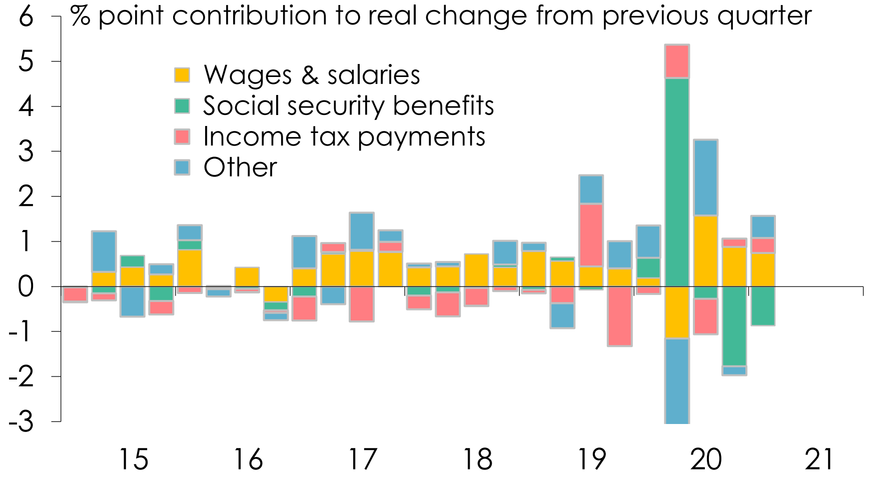
Household consumption accounted for 0.7 pc pts of Q1's 1.8% increase in real GDP, with business and housing investment providing 0.4 & 0.3 pc pts

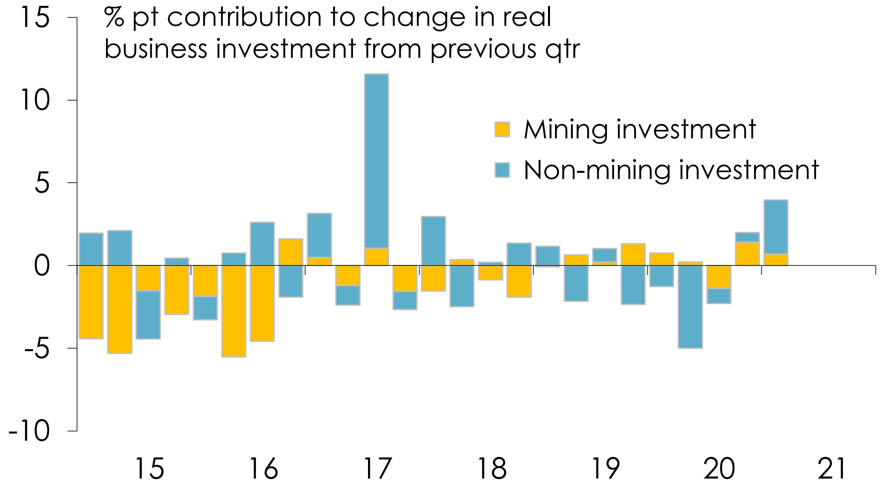
Quarterly change in real GDP



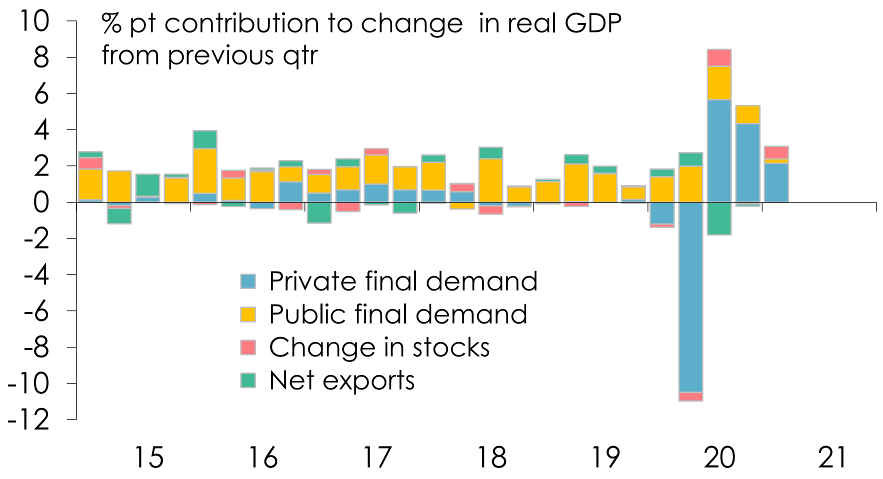
Household disposable income



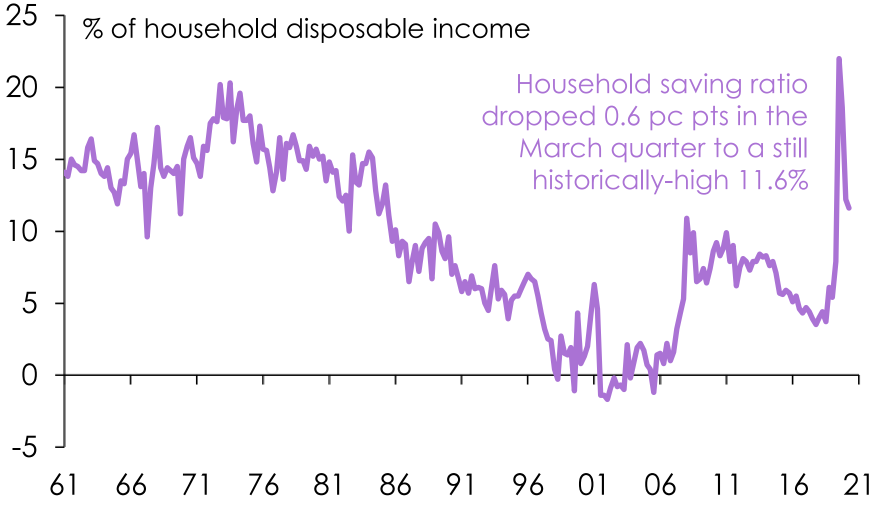
Business investment expenditure



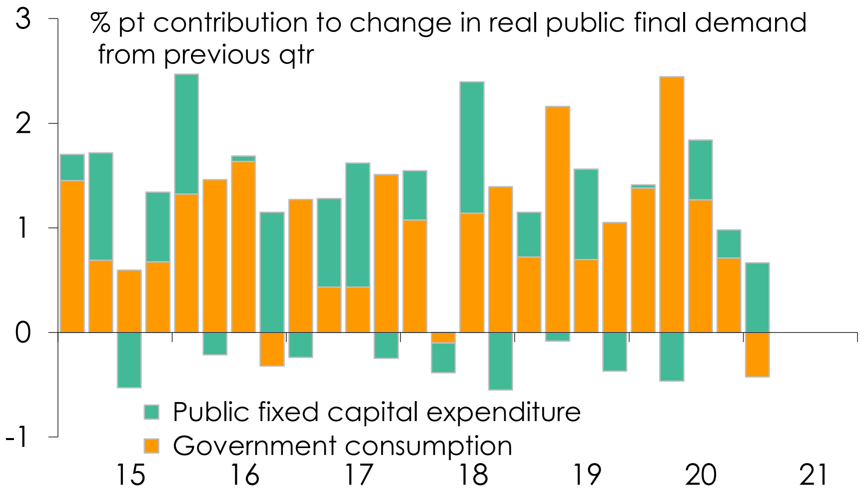
Contributions to quarterly GDP growth



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*, March quarter 2021. June quarter national accounts will be released on 1st September. Return to "What's New".

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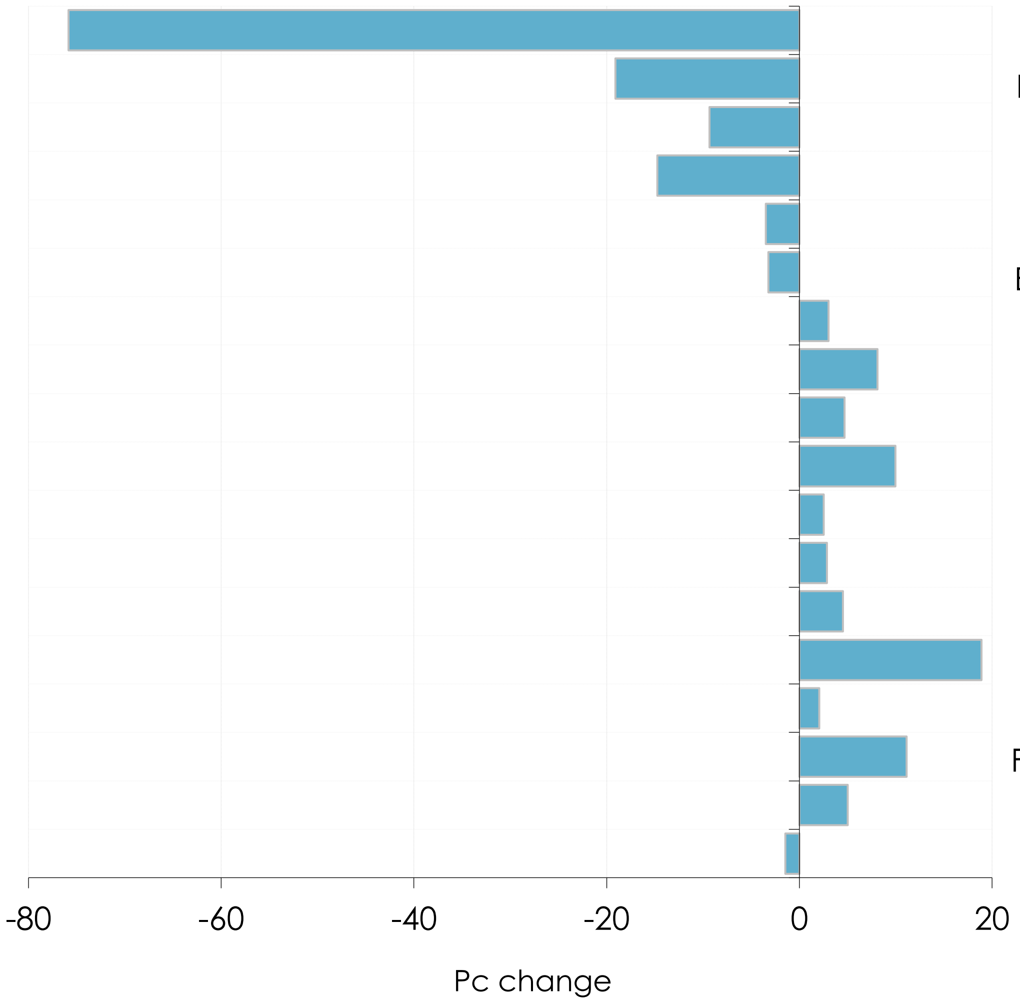
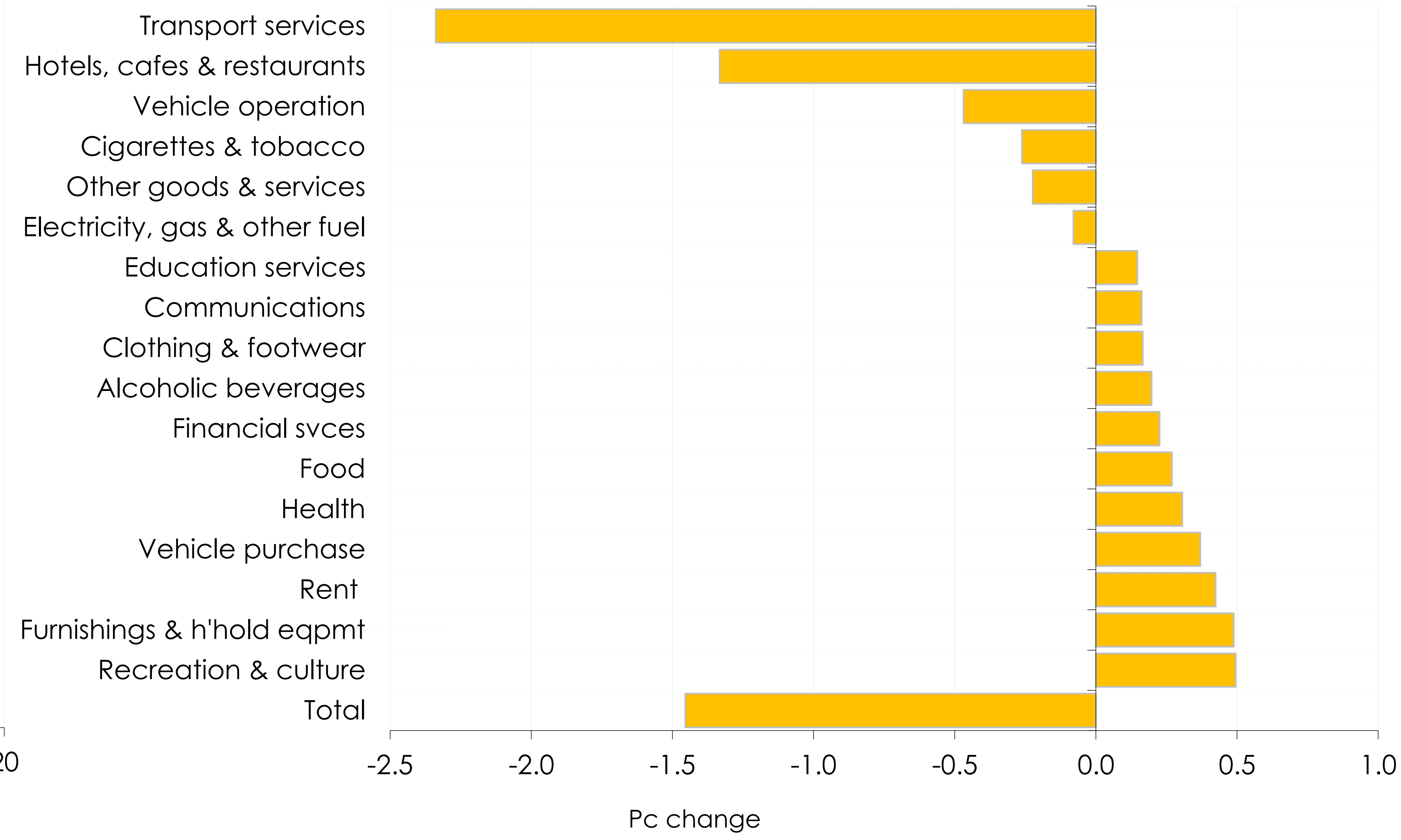
Household spending is still 1½% below its pre-pandemic peak – with spending on discretionary goods partly offsetting the huge drop in travel

Change in household consumption spending, by category, December qtr 2019 to March qtr 2021



Contribution to change in household consumption spending, by category, December qtr 2019 to March qtr 2021



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*, March quarter 2021. June quarter national accounts will be released on 1st September. Return to "What's New".

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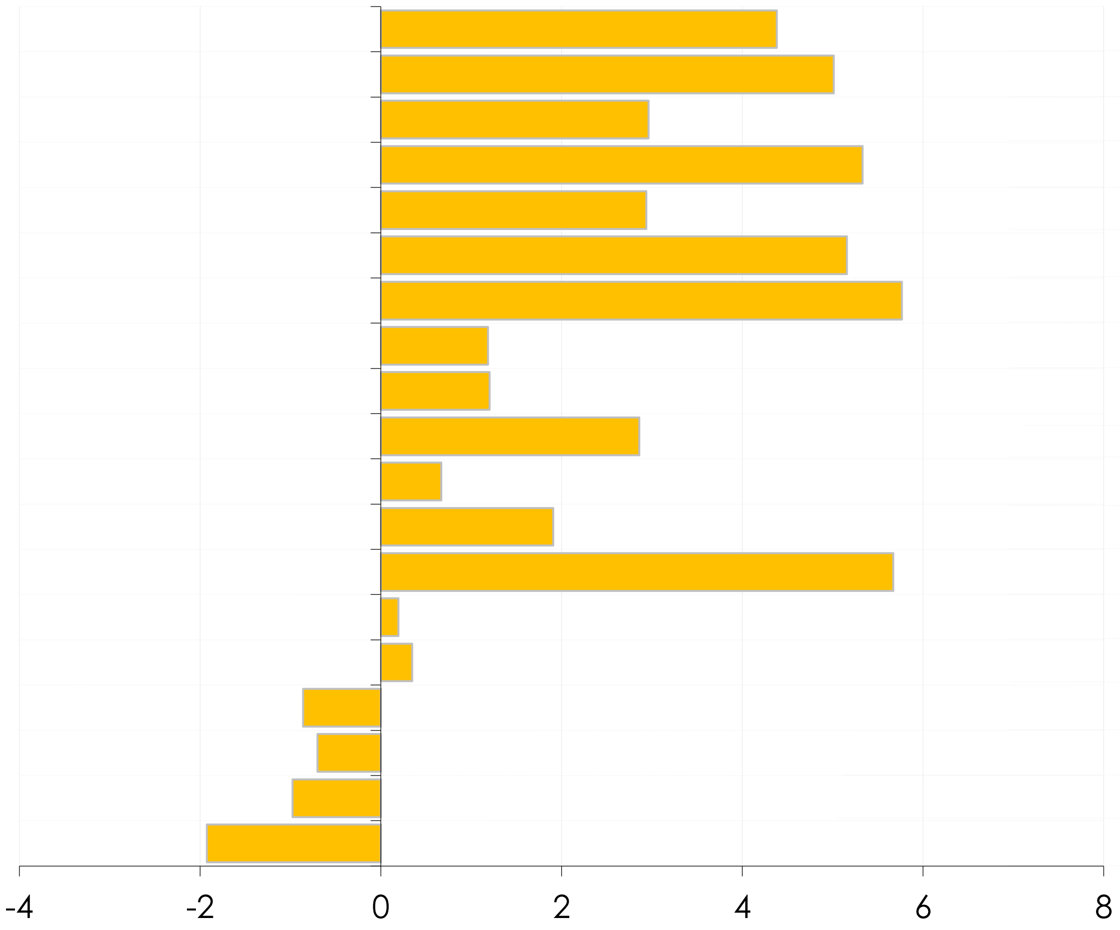
From an industry standpoint GDP Q1 growth was driven primarily by construction, manufacturing and goods distribution activities

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



Contribution to change in real GDP, by industry, March 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*, March quarter 2021. June quarter national accounts will be released on 1st September. Return to "What's New".

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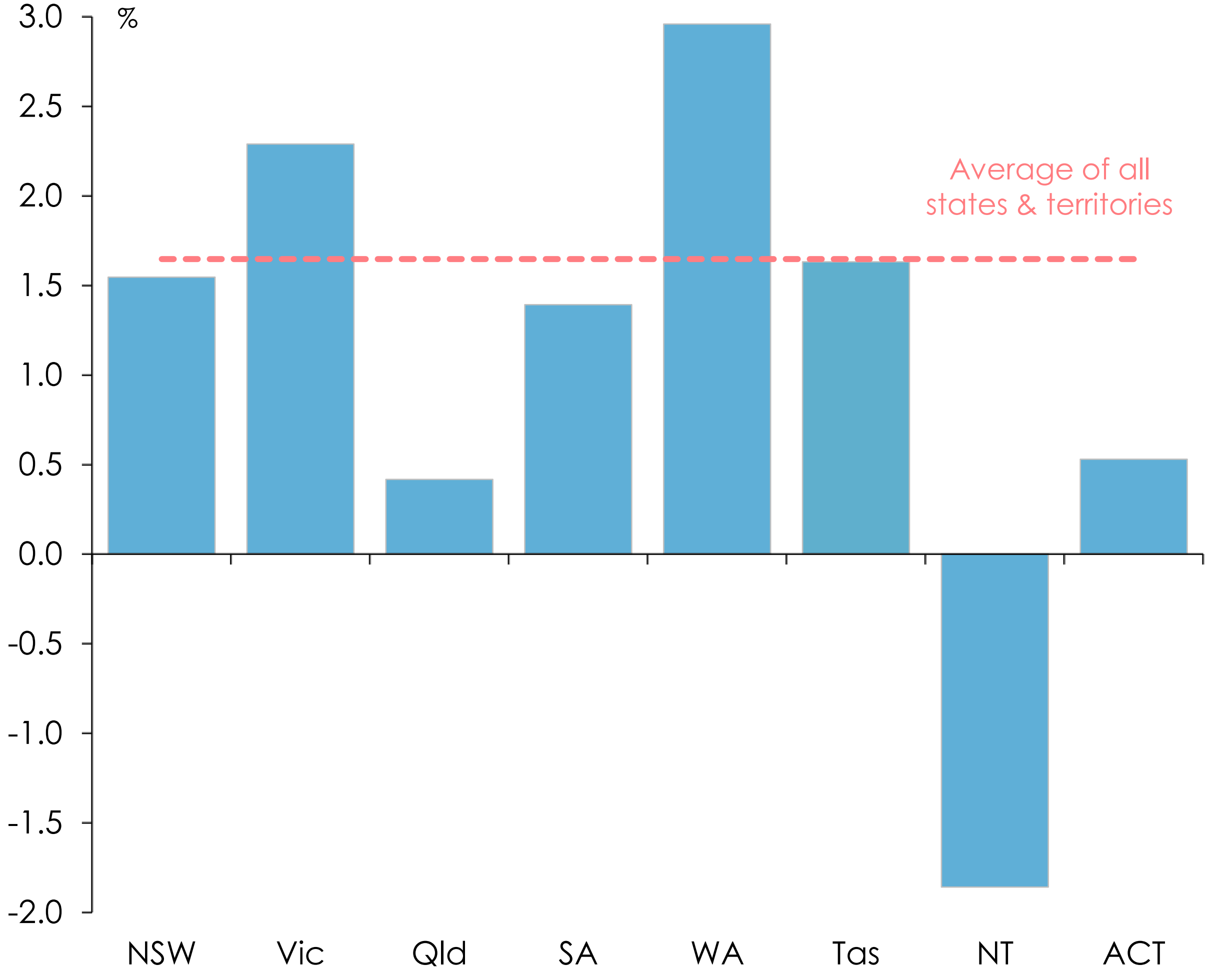
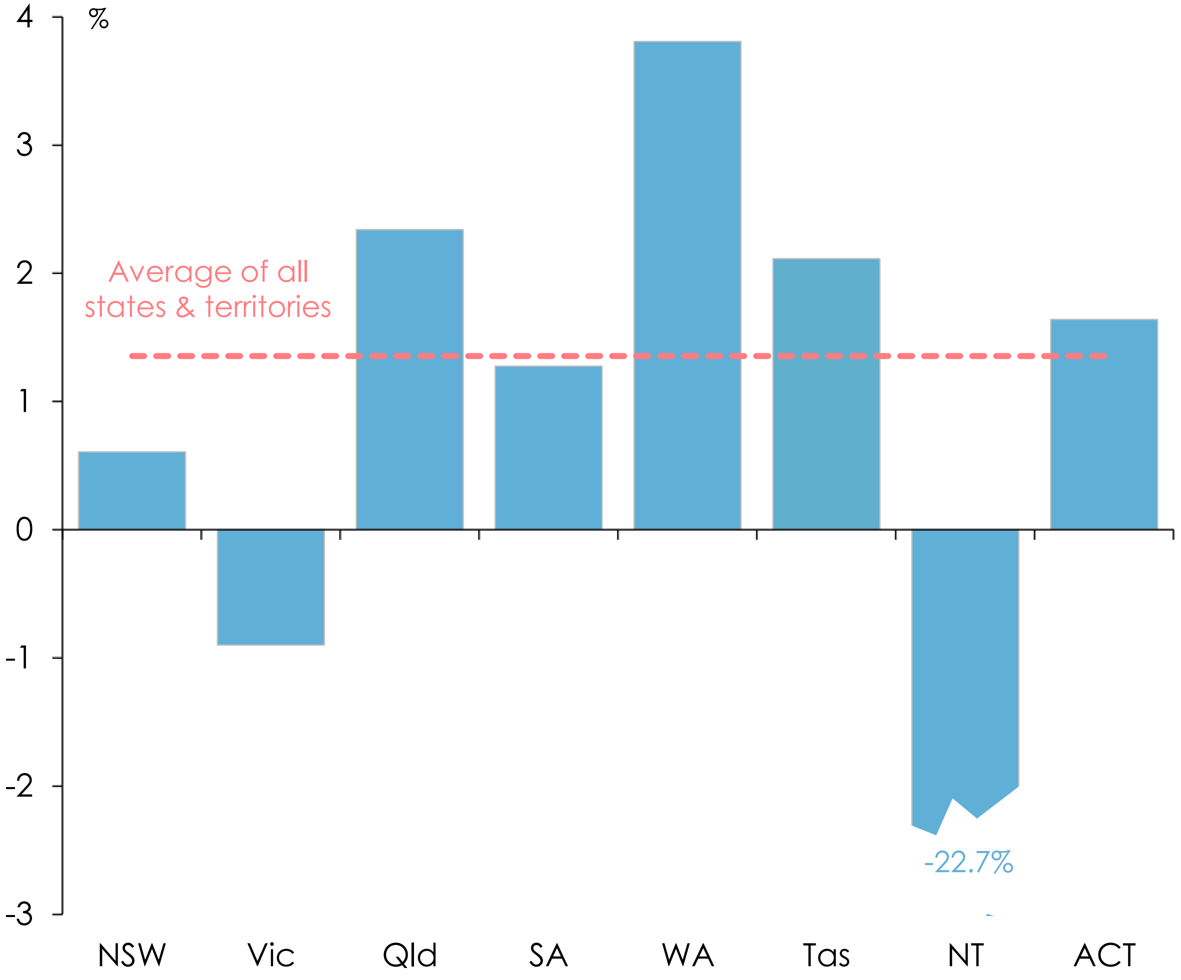
WA has had the strongest recovery in 'final demand', while Victoria and (especially) the NT are yet to return to pre-pandemic levels

Change in real state final demand, March quarter 2021 compared with December quarter 2020



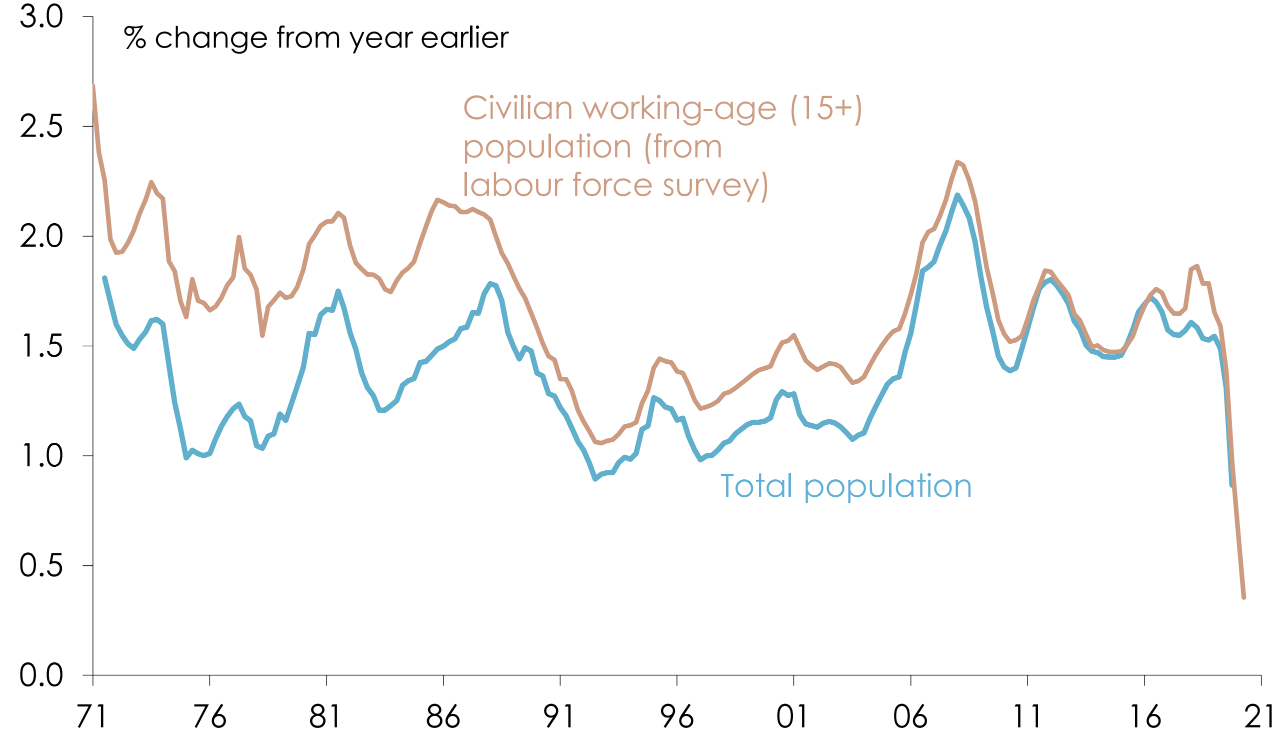
Shortfall between March quarter state final demand and pre-recession peak



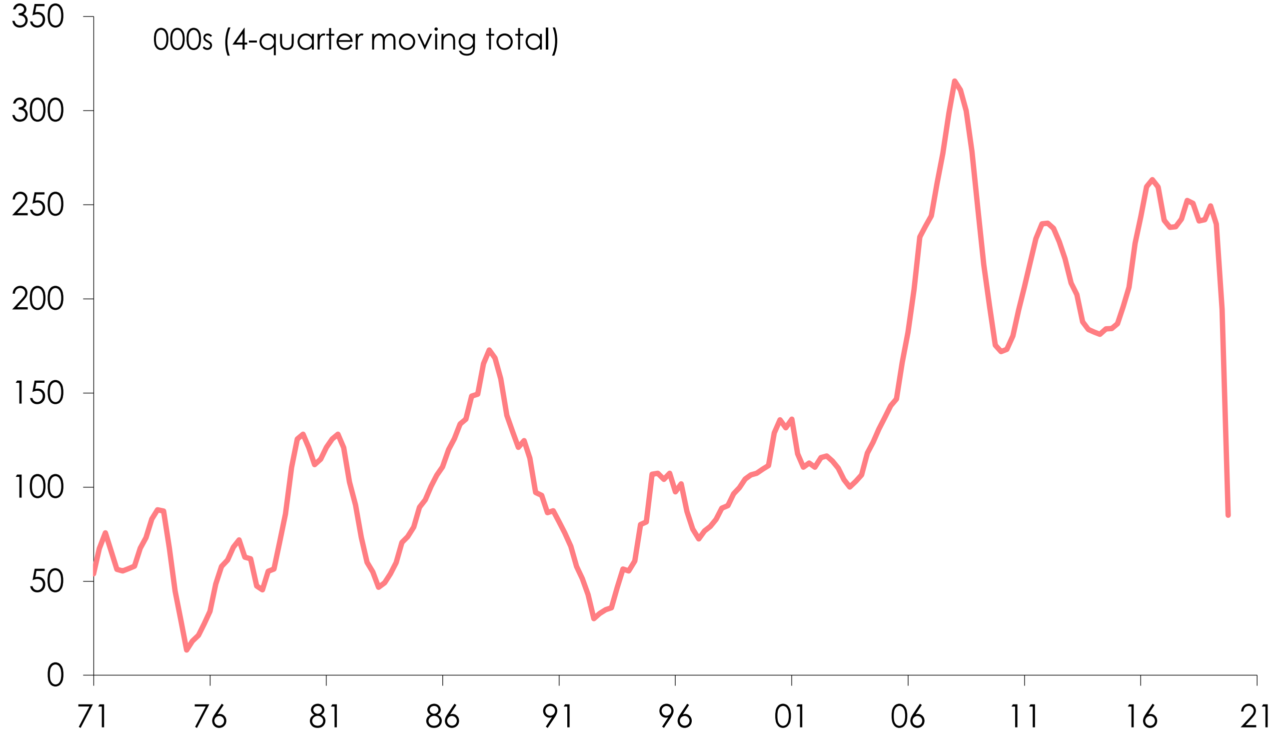
Note: 'State final demand' is the sum of spending by households, businesses and governments within a state or territory's borders: it differs (conceptually) from gross state product (GSP), which is only available on a financial year basis, by the sum of net international and interstate trade, and changes in business inventories. *Source:* ABS, *Australian National Accounts: National Income, Expenditure and Product*, March quarter 2021. June quarter national accounts will be released on 1st September.. Return to "What's New".

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

Australia's population growth, 1971-20



Net migration to Australia, 1971-20

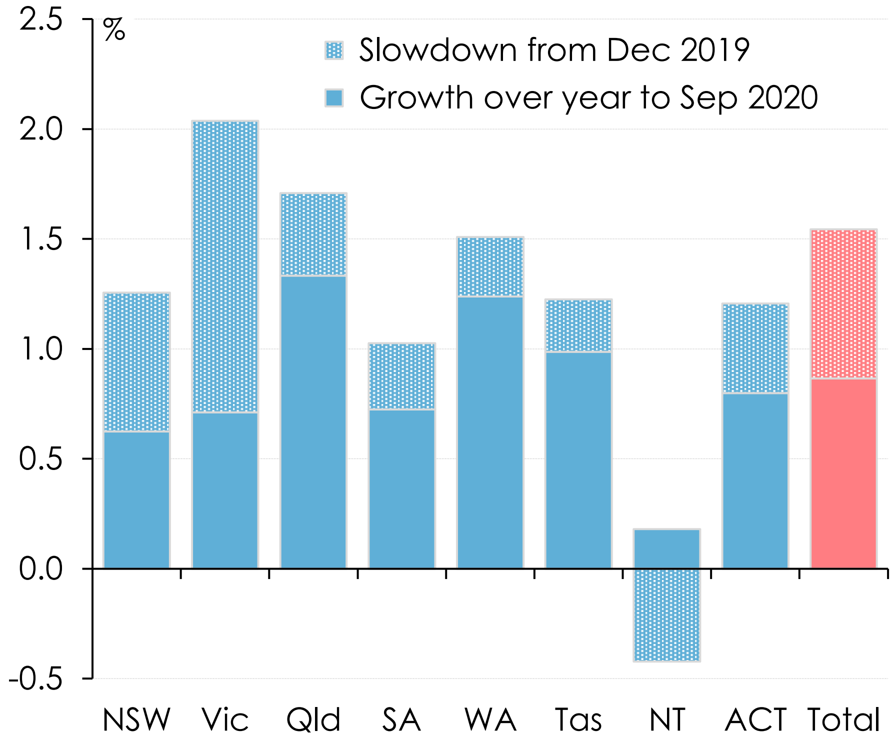


- **Net immigration was -35K in Q3 last year, after -7K in Q2, following the closure of Australia's international borders in response to Covid-19 – the first net outflow since Q2 1993, and the first for consecutive quarters since 1975**
- **As a result, Australia's population growth rate fell to just 0.9% over the year to Q3 2020, the slowest since 1942**
- **The monthly labour force survey shows that the growth rate of the 'working age' (15+) population has slowed to just 0.4% over the year to Q1 2021**
- **Slower growth in the working-age population does however mean that a given rate of employment growth results in faster reductions in the unemployment rate (all else being equal) – see slide 93**

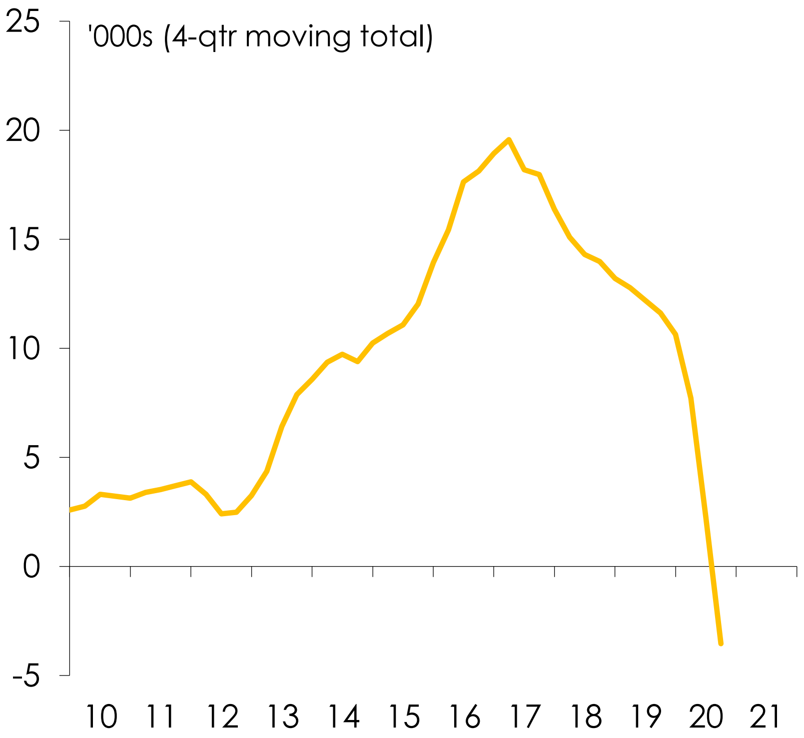
Note: Civilian working-age population for March quarter 2021 is average of January and February. *Sources:* ABS, *National, state and territory population*, September 2020; and *Labour Force, Australia*, February 2021. Return to "What's New".

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

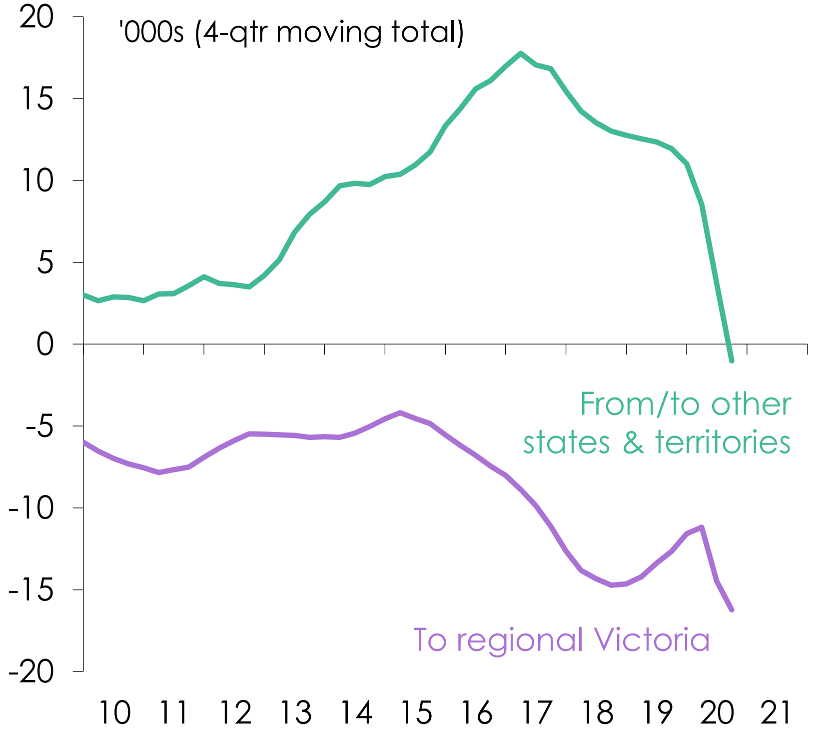
Population growth, states & territories, year to September 2020



Net migration to Victoria from other states & territories



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



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

Note: The NT's population declined by 0.2% over the year to December 2019, but grew by 0.2% over the year to September 2020 as the rate of net emigration from the NT slowed. *Sources:* ABS, National, state and territory population, September 2020; and Regional internal migration estimates, provisional, September 2020 . Return to "What's New".

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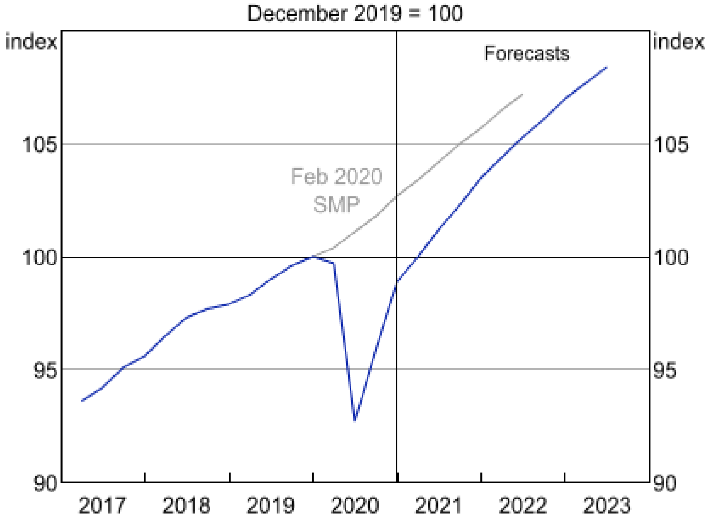
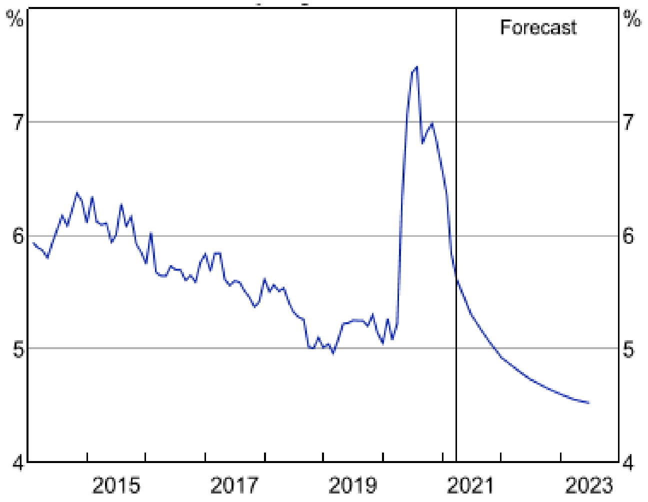
Despite stronger-than-expected economic and employment growth the RBA is sticking to its 'guidance' of no rate rises before '2024 at the earliest'

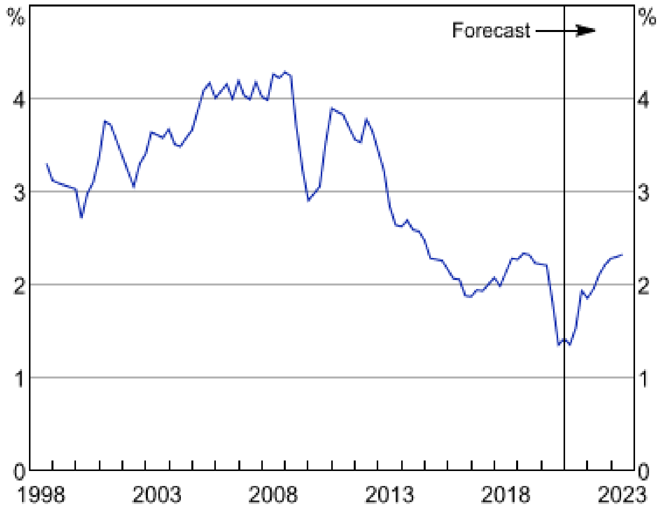
GDP



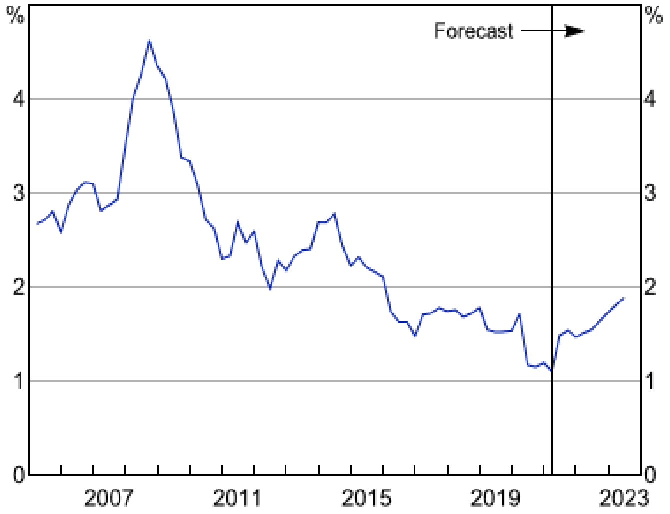
Unemployment



Wages



'Underlying' inflation

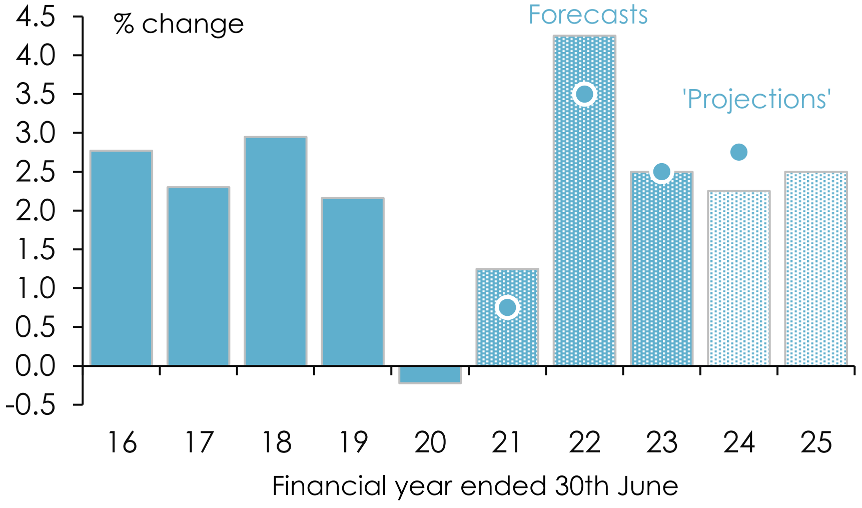


- Economic growth and in particular employment growth has been stronger than the RBA has forecast – but wage and price inflation haven't been
- In its latest *Statement on Monetary Policy* published Friday, the RBA has revised upwards its forecast for GDP growth over the year to Q2 2021 to 9¼% (from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

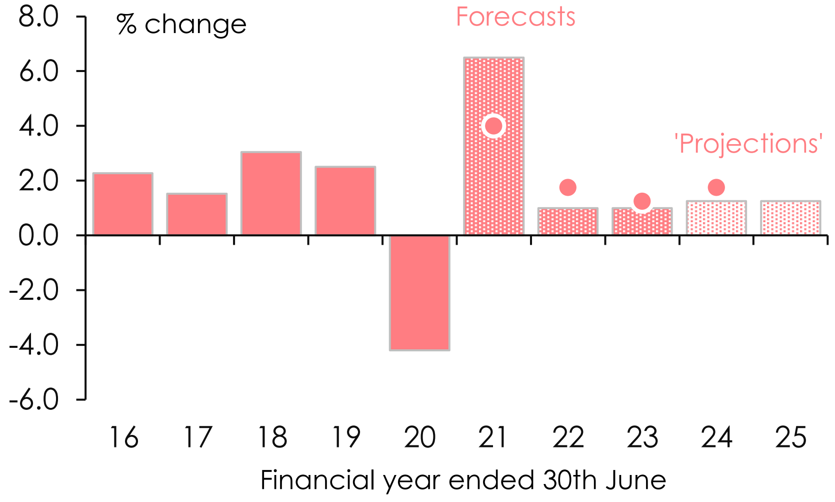
Source: Reserve Bank of Australia, *Statement on Monetary Policy*, 7th May 2021. The RBA's next set of forecasts will be published on Friday 6th August.

In the 2021-22 Budget Papers, Treasury revised up its forecasts for economic and employment growth, but wage and price forecast were little changed

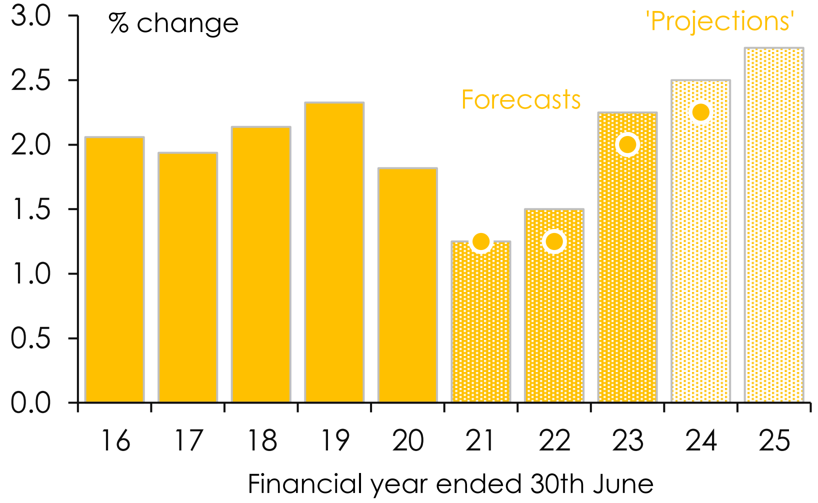
Real GDP



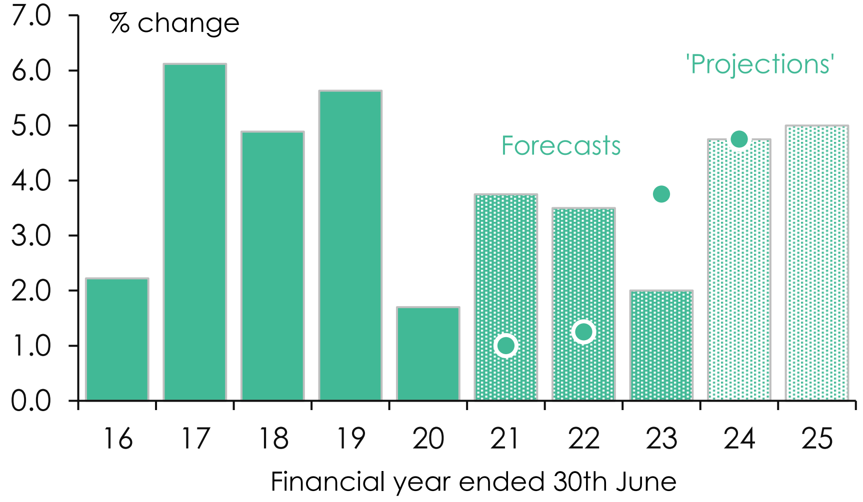
Employment



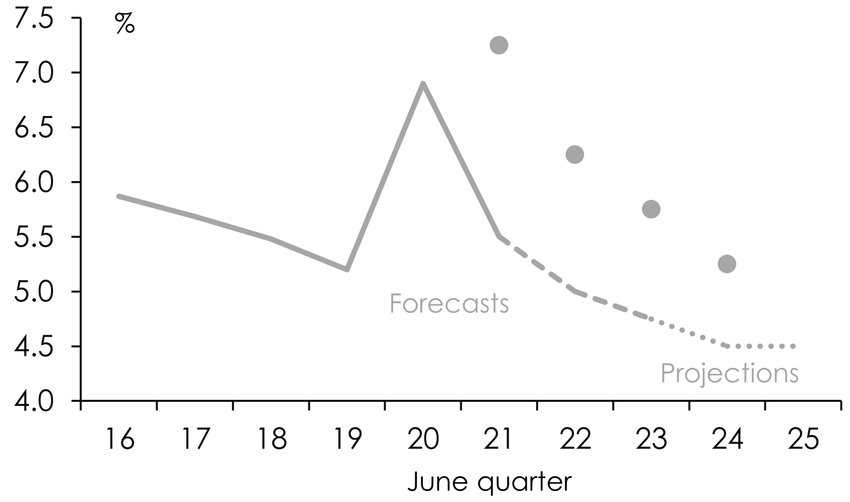
Wage price index



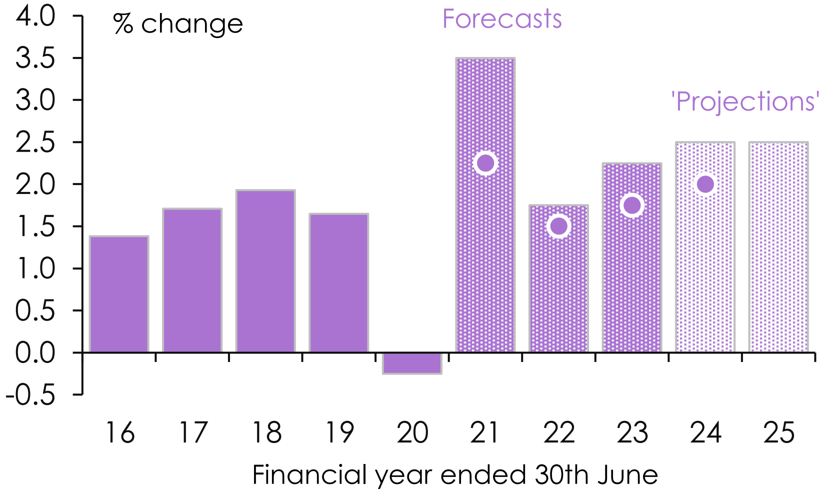
Nominal GDP



Unemployment rate



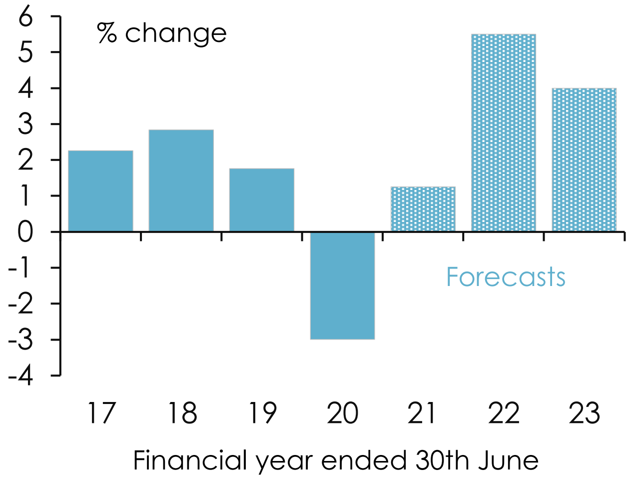
Consumer price index



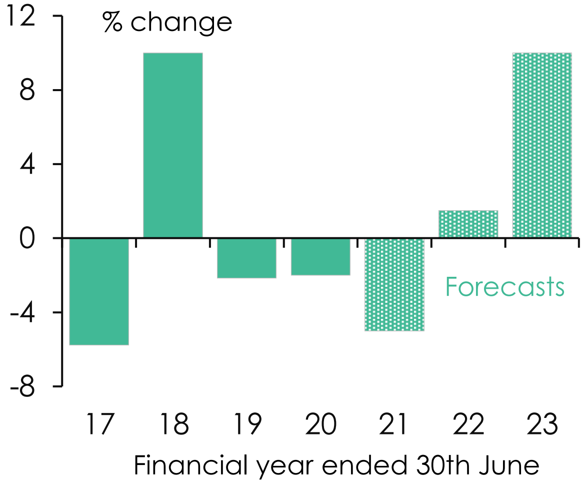
Note: Dots represent the forecasts and projections from the 2020-21 Mid-Year Economic & Fiscal Outlook (MYEFO) published in December last year. 'Forecasts' are Treasury's 'best endeavours' estimates for the current and following two financial years. 'Projections' for 2023-24 and 2024-25 are *not* forecasts, 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*.

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

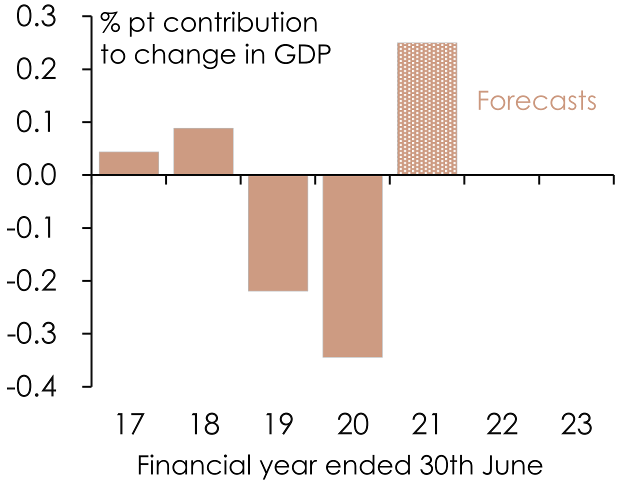
Household consumption



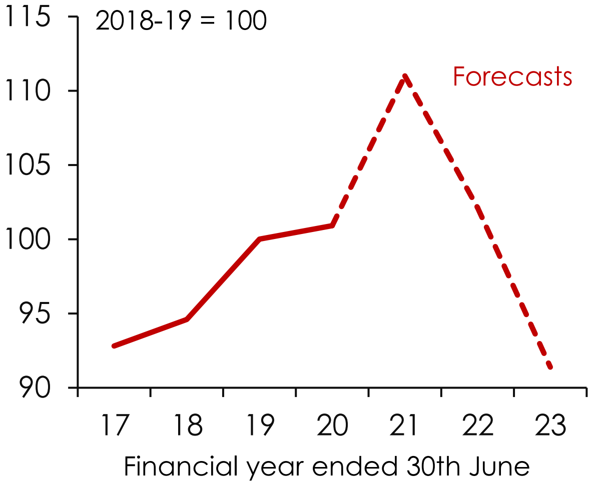
Business investment



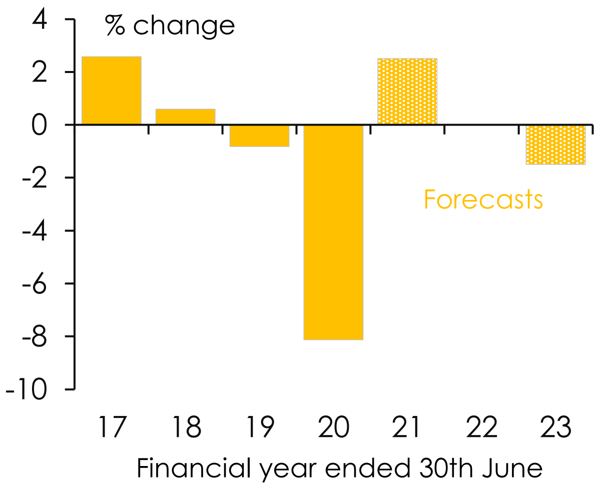
Change in inventories



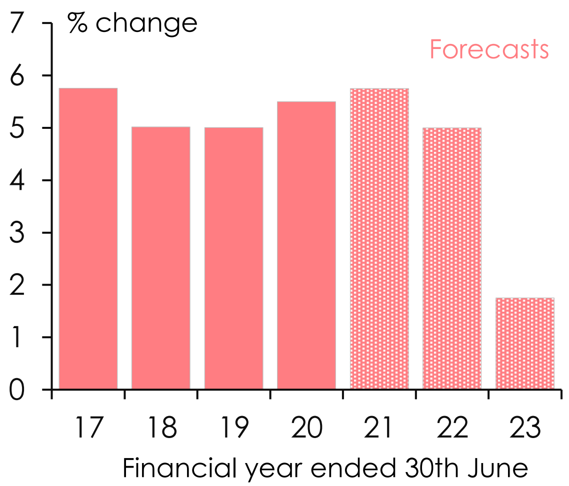
Terms of trade



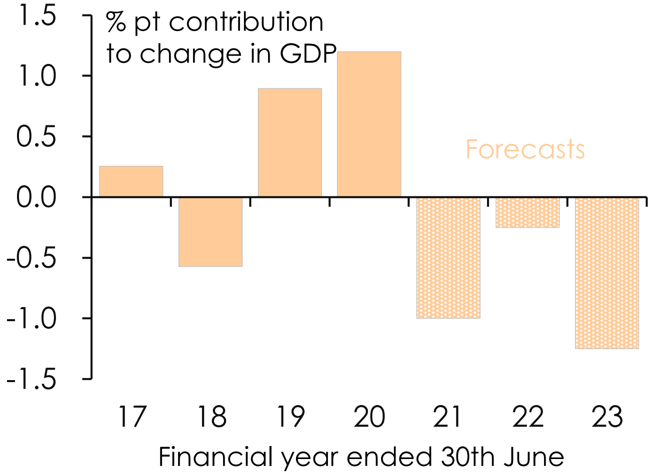
Dwelling investment



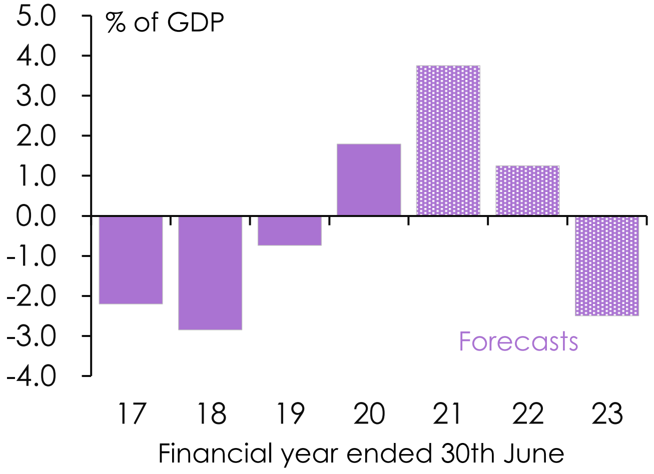
Public spending



Net exports



Current account balance

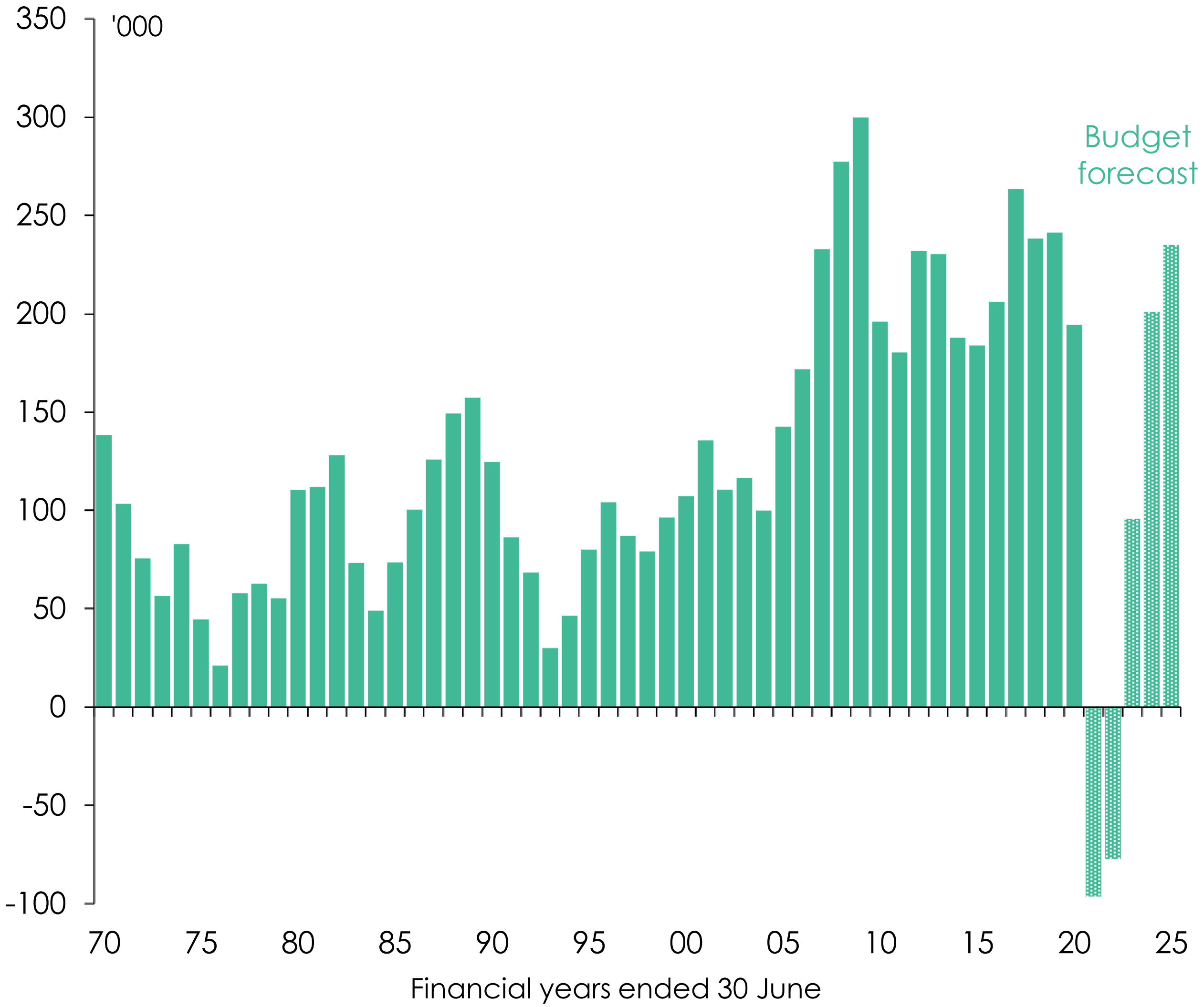


Note: Business investment and public spending exclude transactions in second-hand assets. Employment growth is June quarter on June quarter; unemployment rate is June quarter; all other figures are for financial years. Net overseas migration assumed to be -97K in 2020-21 and -77K in 2021-22 before turning 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].

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

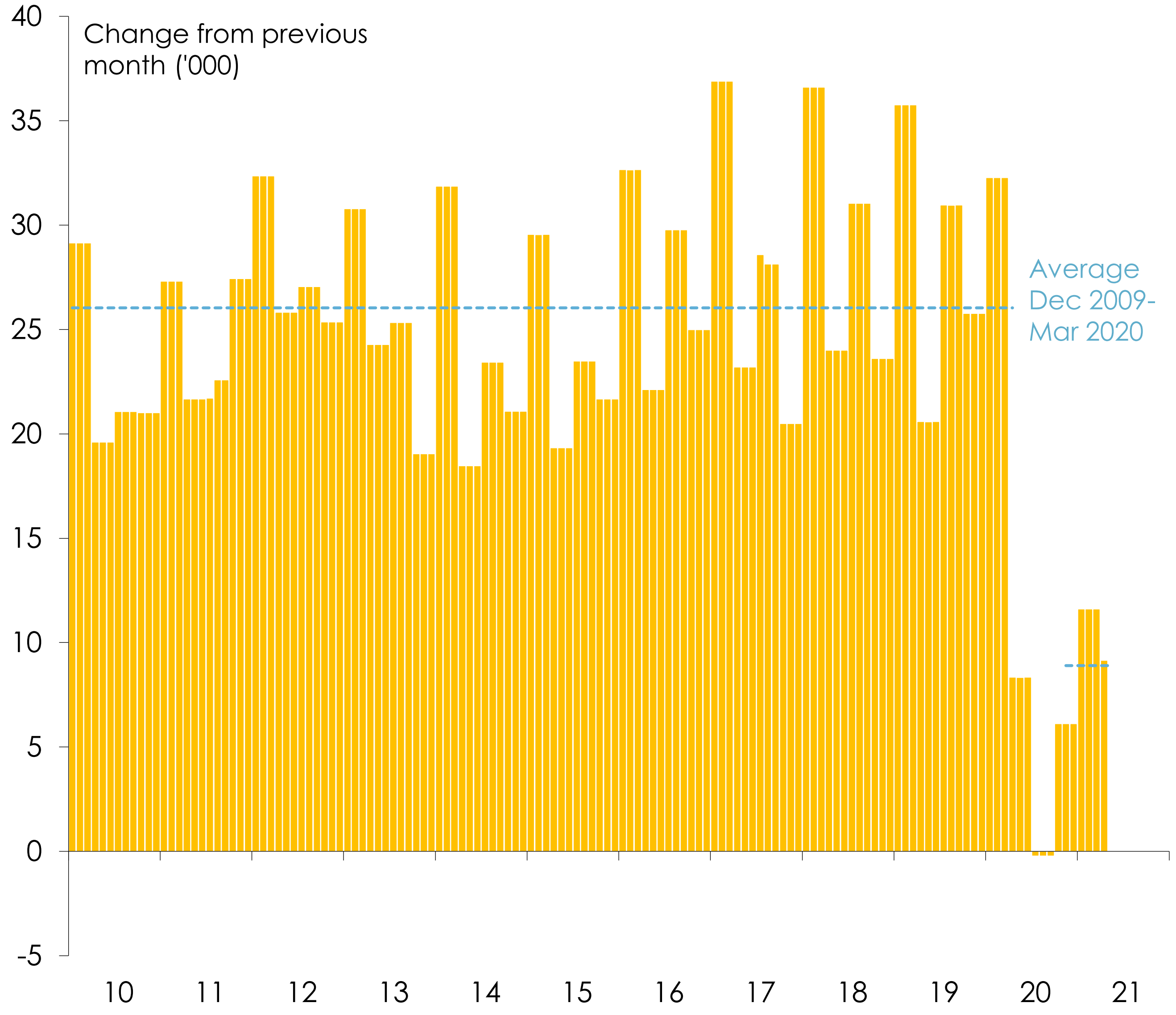
Net overseas migration



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.

The closure of Australia's borders means that people looking for work aren't competing with migrants for the available jobs …

Monthly growth in civilian working-age population



Source: ABS, Labour Force, Australia, April 2021.

- 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 5.3% in the March 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
  - which is what's been happening

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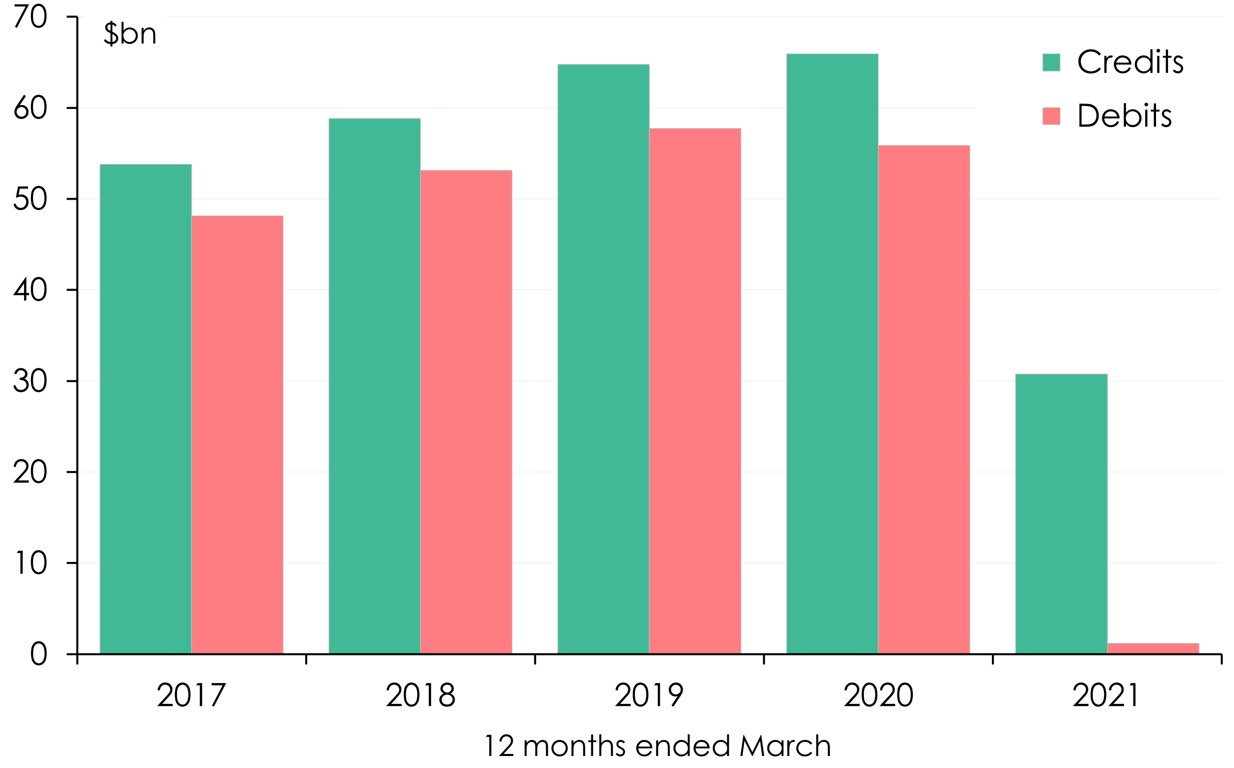
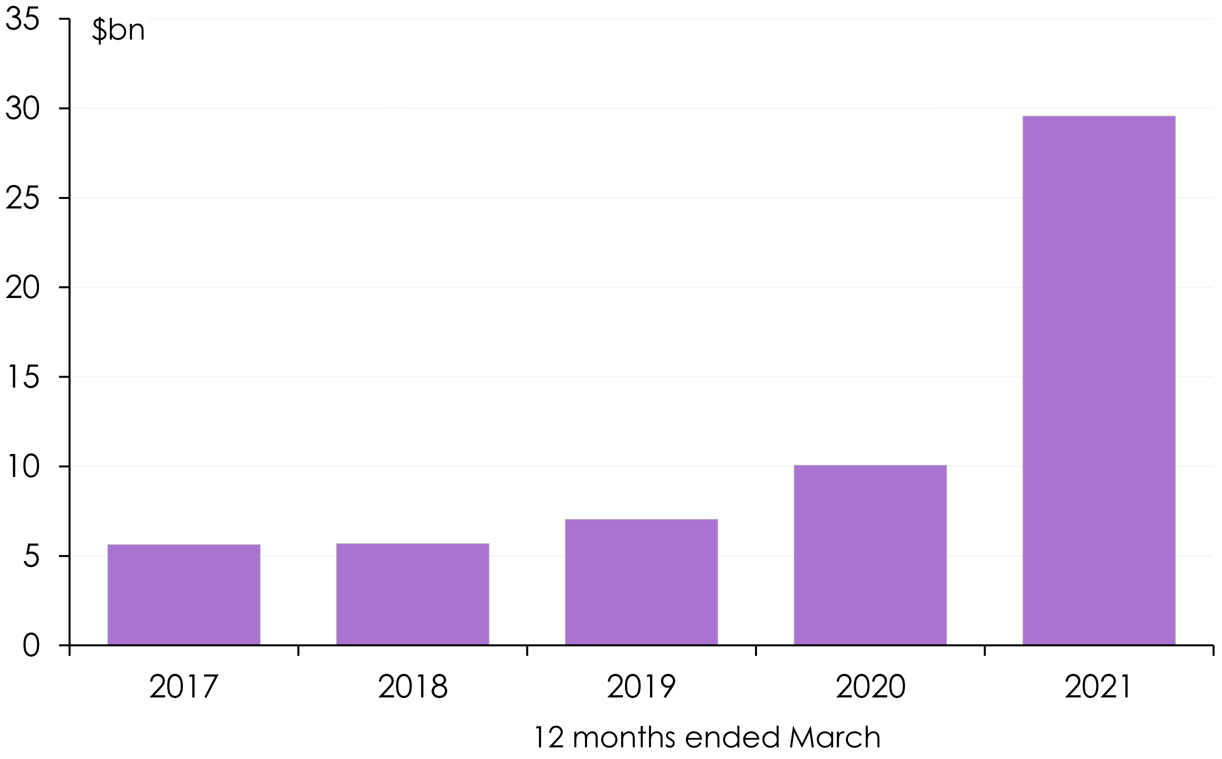
… and the *fatwa* on Australians leaving the country more than offsets the loss of spending by foreign tourists and students

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.

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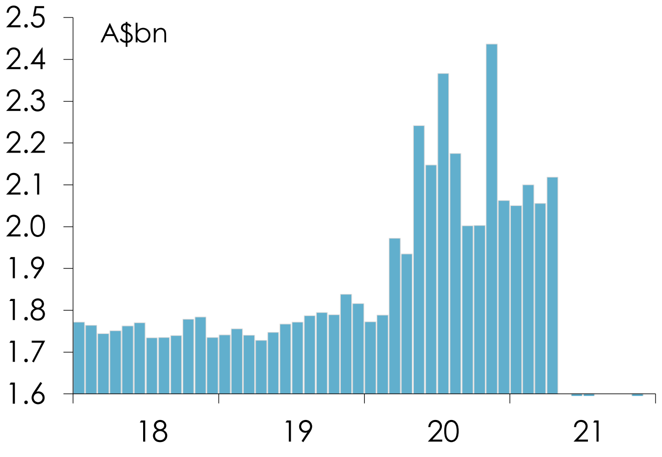
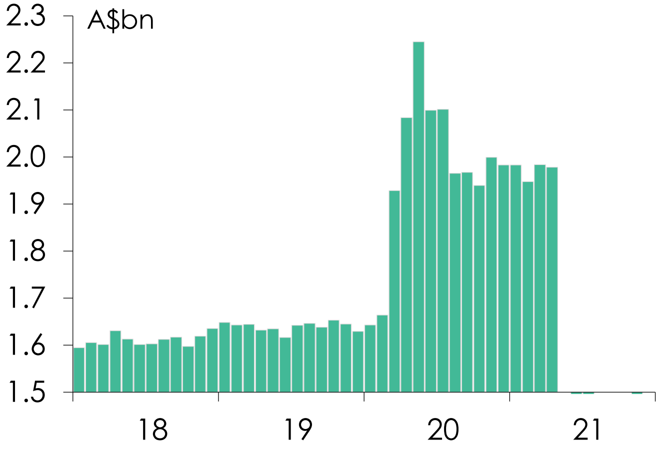
Detail of the April retail sales figures further illustrate how the ban on overseas travel is boosting domestic spending

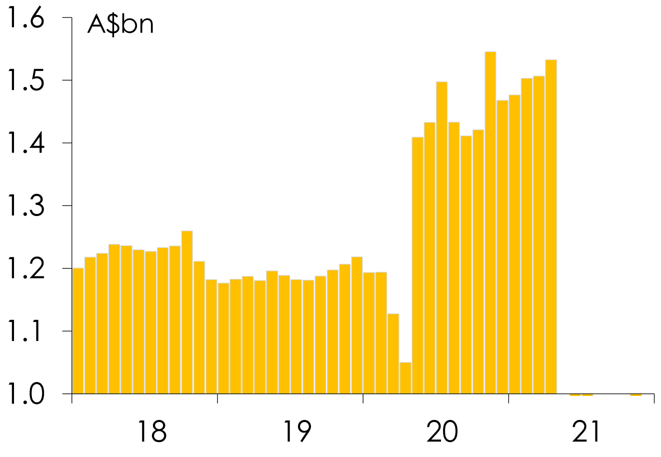
Electronic & electrical goods



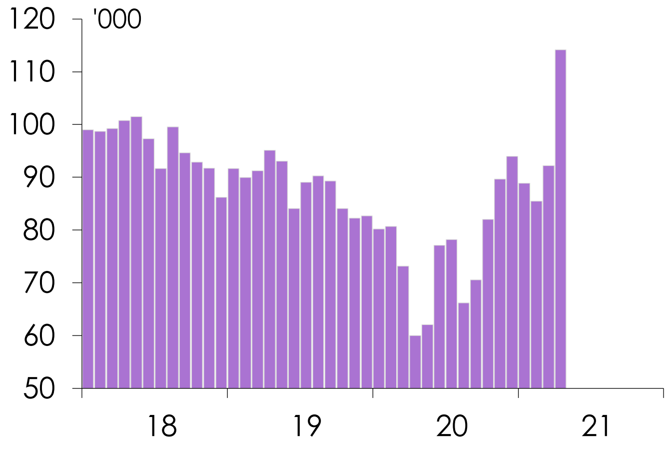
Hardware, building & garden supplies



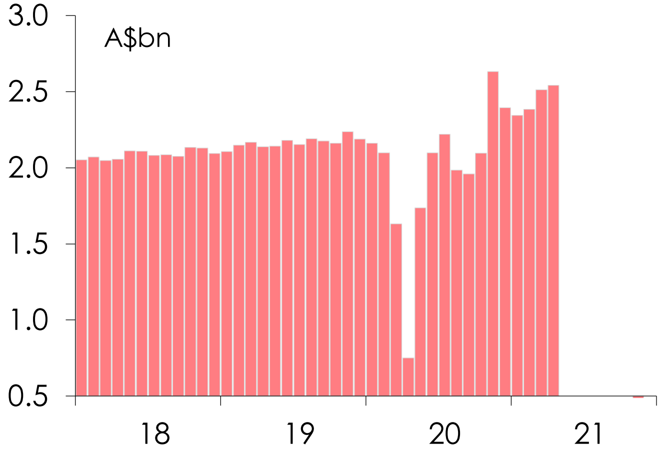
Floor coverings, furniture, housewares etc



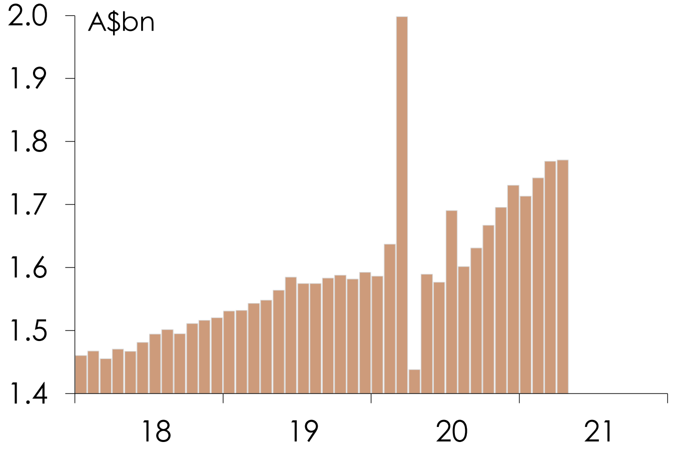
New motor vehicles



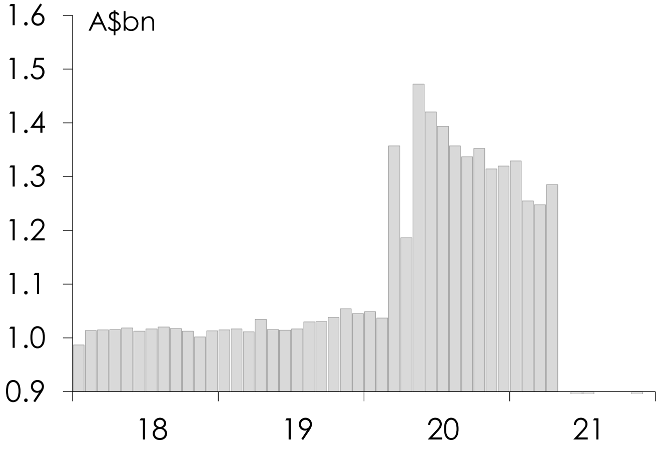
Clothing, footwear & personal accessories



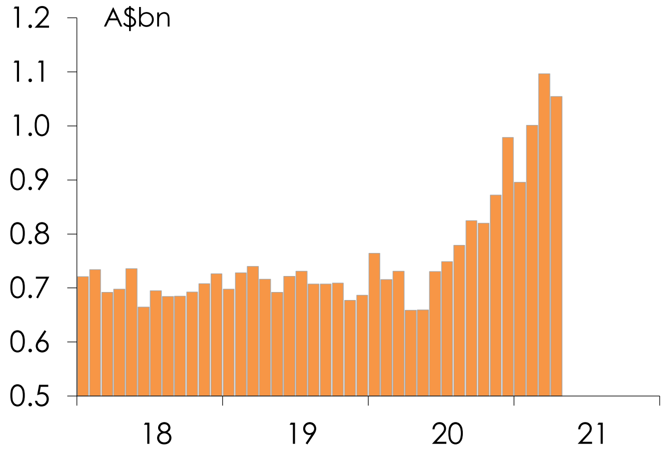
Pharmaceuticals, cosmetics & toiletries



Alcoholic beverages



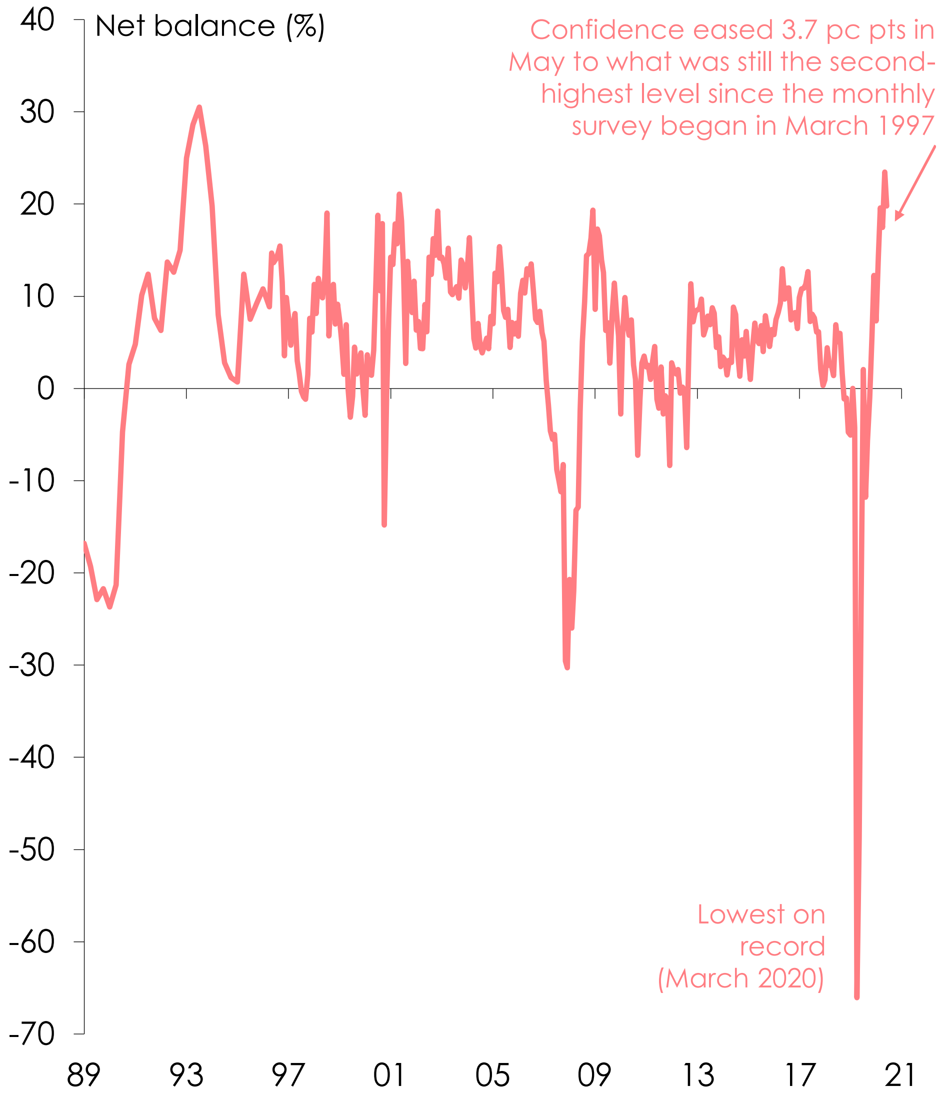
Renovations



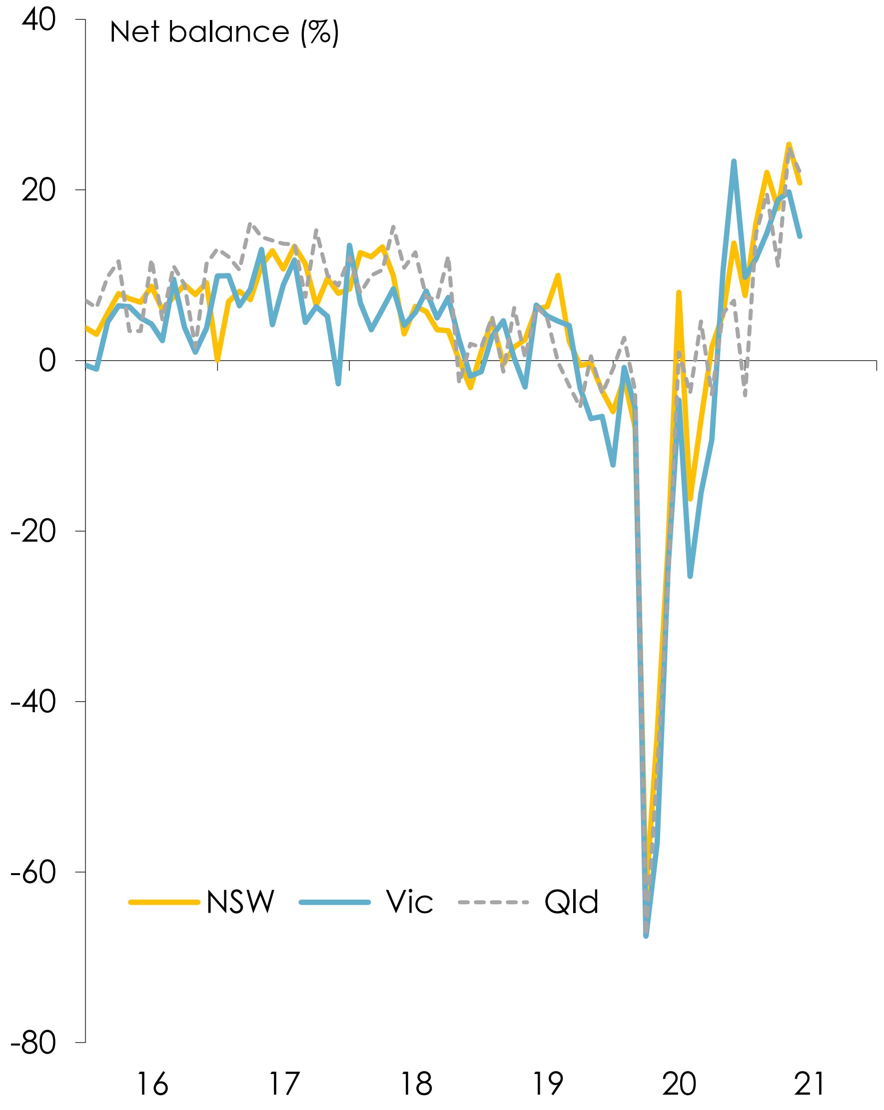
Note: First six charts (from left) are retail sales; new motor vehicles are numbers of vehicles sold; renovations are the value of alterations and additions to residential dwellings approved by local governments. *Sources:* ABS, *Retail Trade, Australia*, April 2021; *Building Approvals, Australia*,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

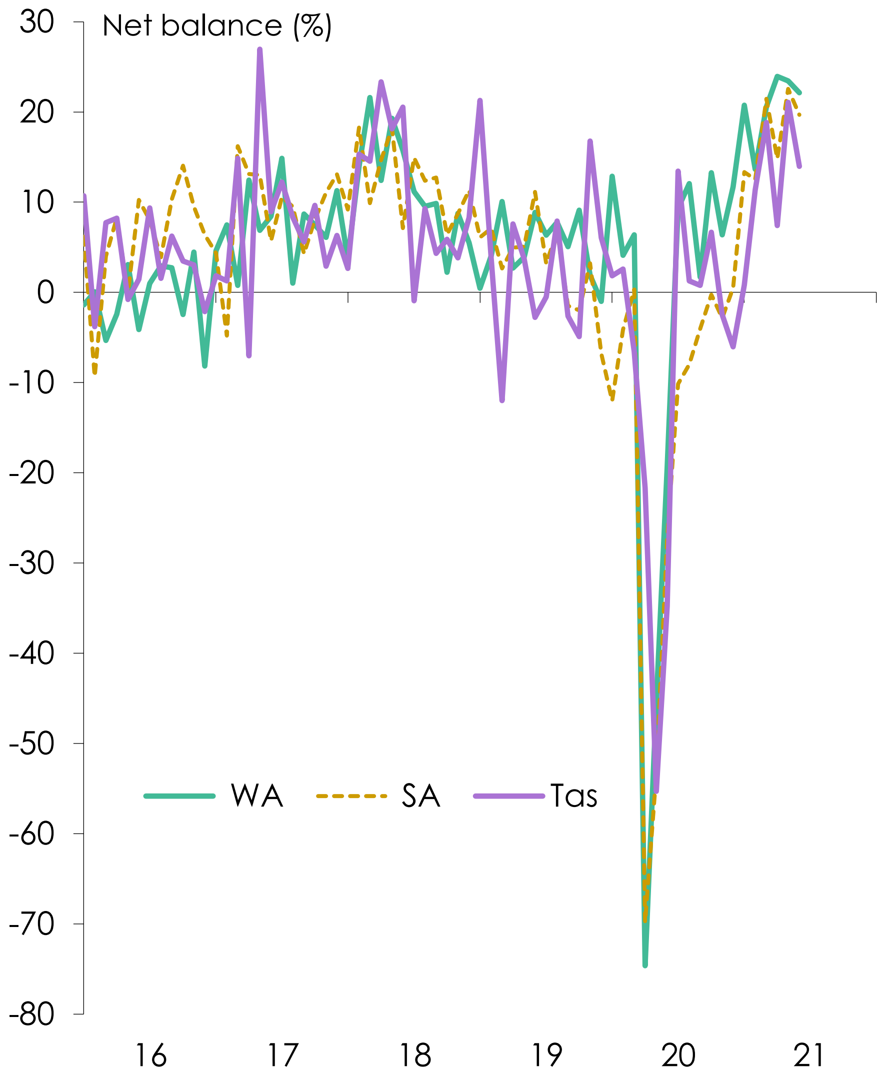
Business confidence eased a little in May from what in April had been the highest since the NAB's monthly survey began in 1997

Business confidence



Business confidence, states and territories





Sources: National Australia Bank. June survey results will be released on 13th July. Return to "What's New".

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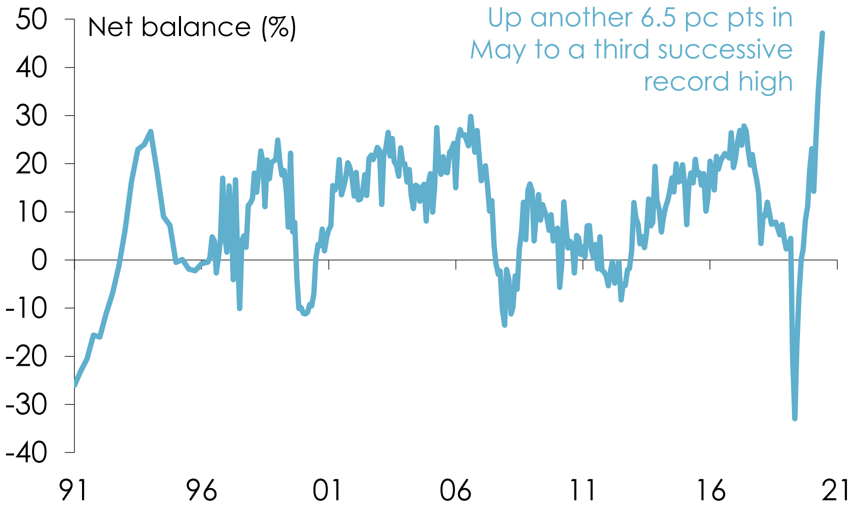
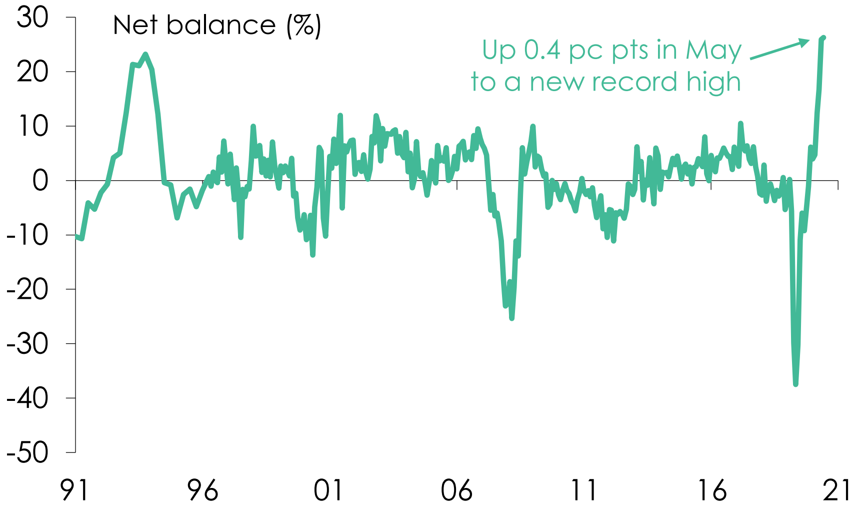
Four of the major components of the NAB monthly business conditions survey registered new record highs in May

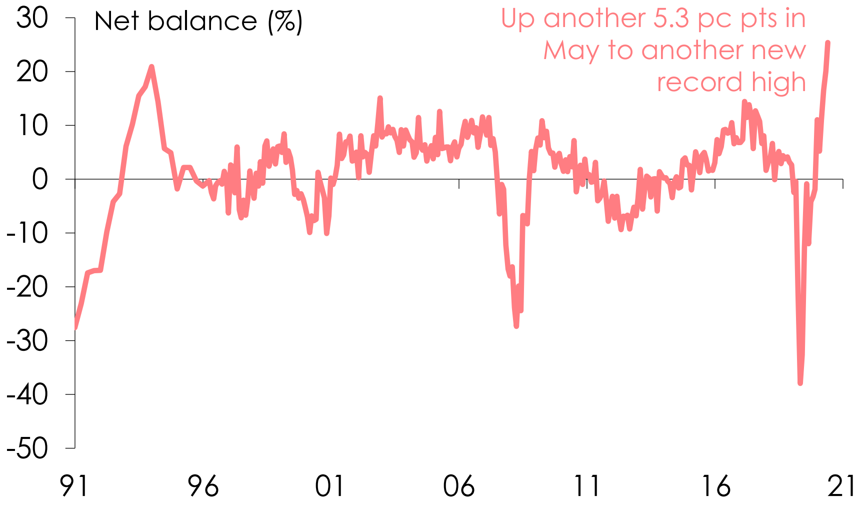
Trading conditions



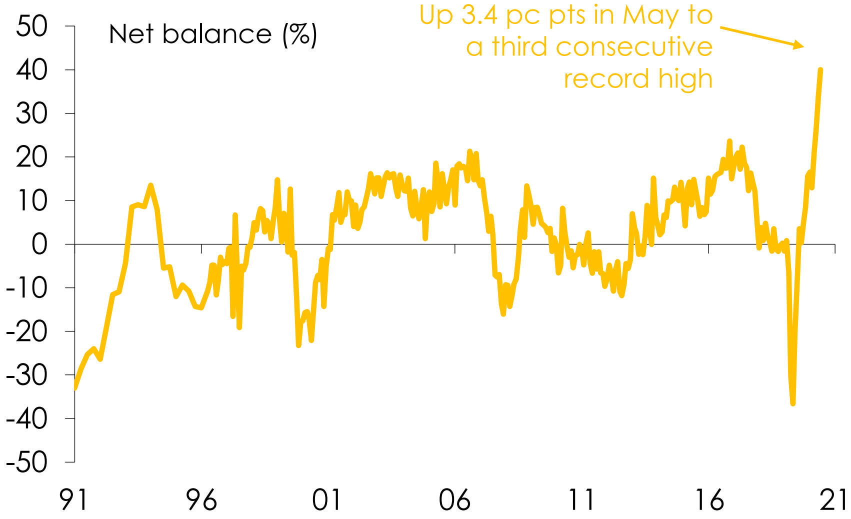
Forward orders



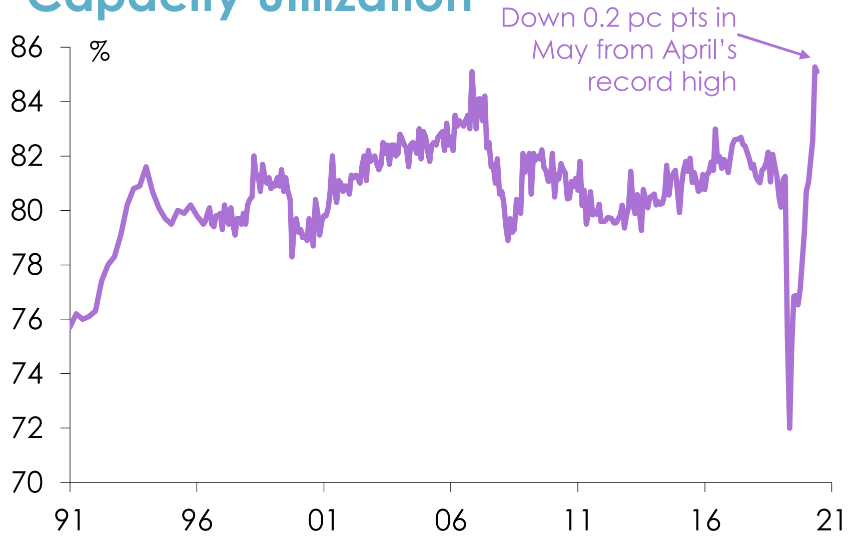
Employee hiring intentions



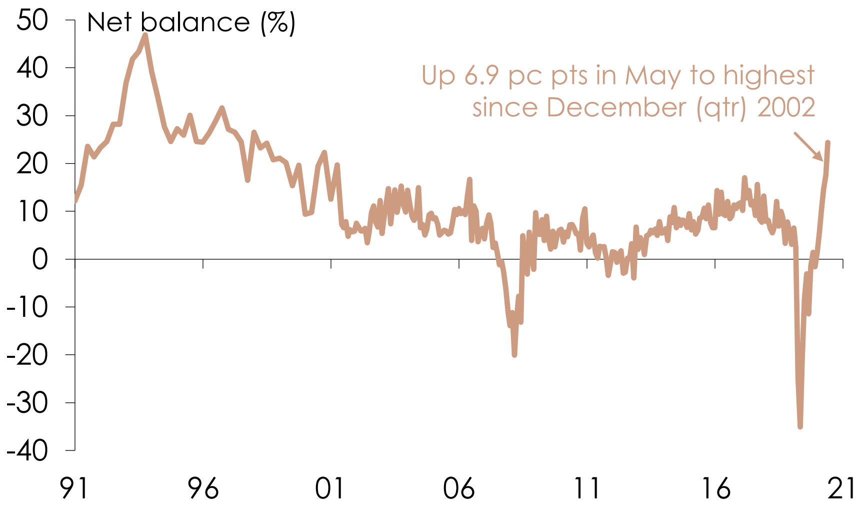
Profitability



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, May 2021; June survey results will be released on 13th July. Return to "What's New".

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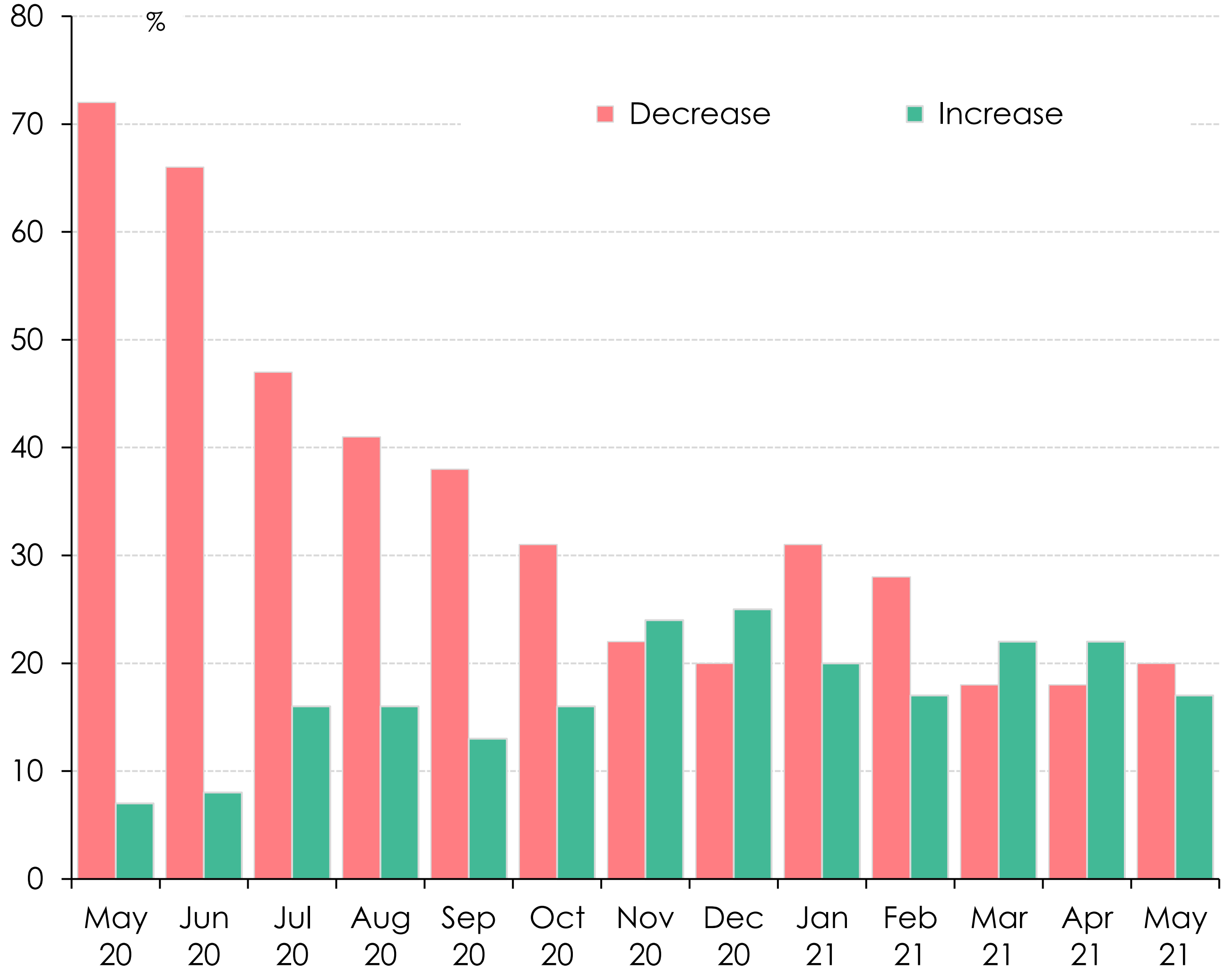
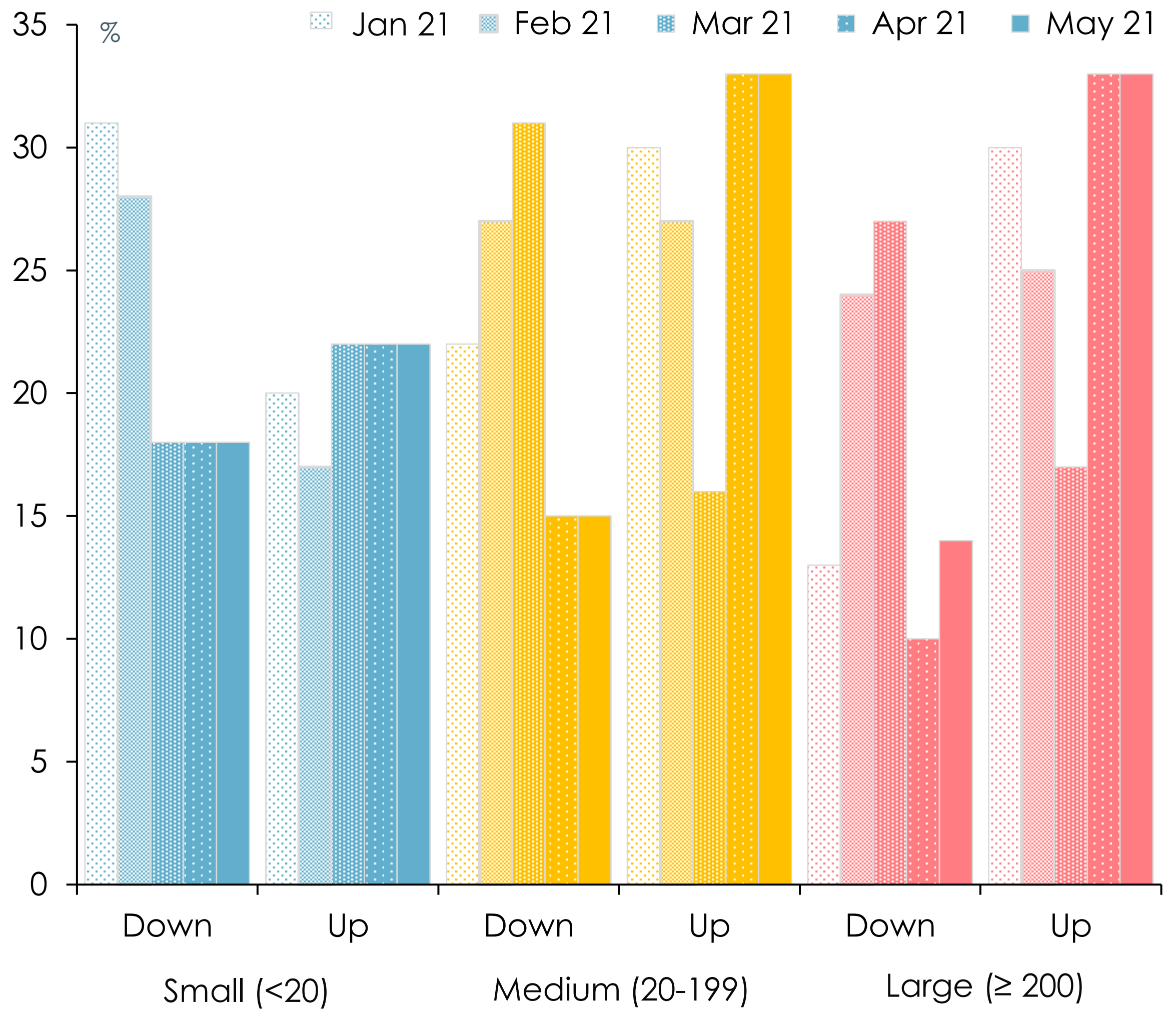
For the first time in 3 months, more businesses experienced revenue declines than gains in May – but this was entirely due to small businesses

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



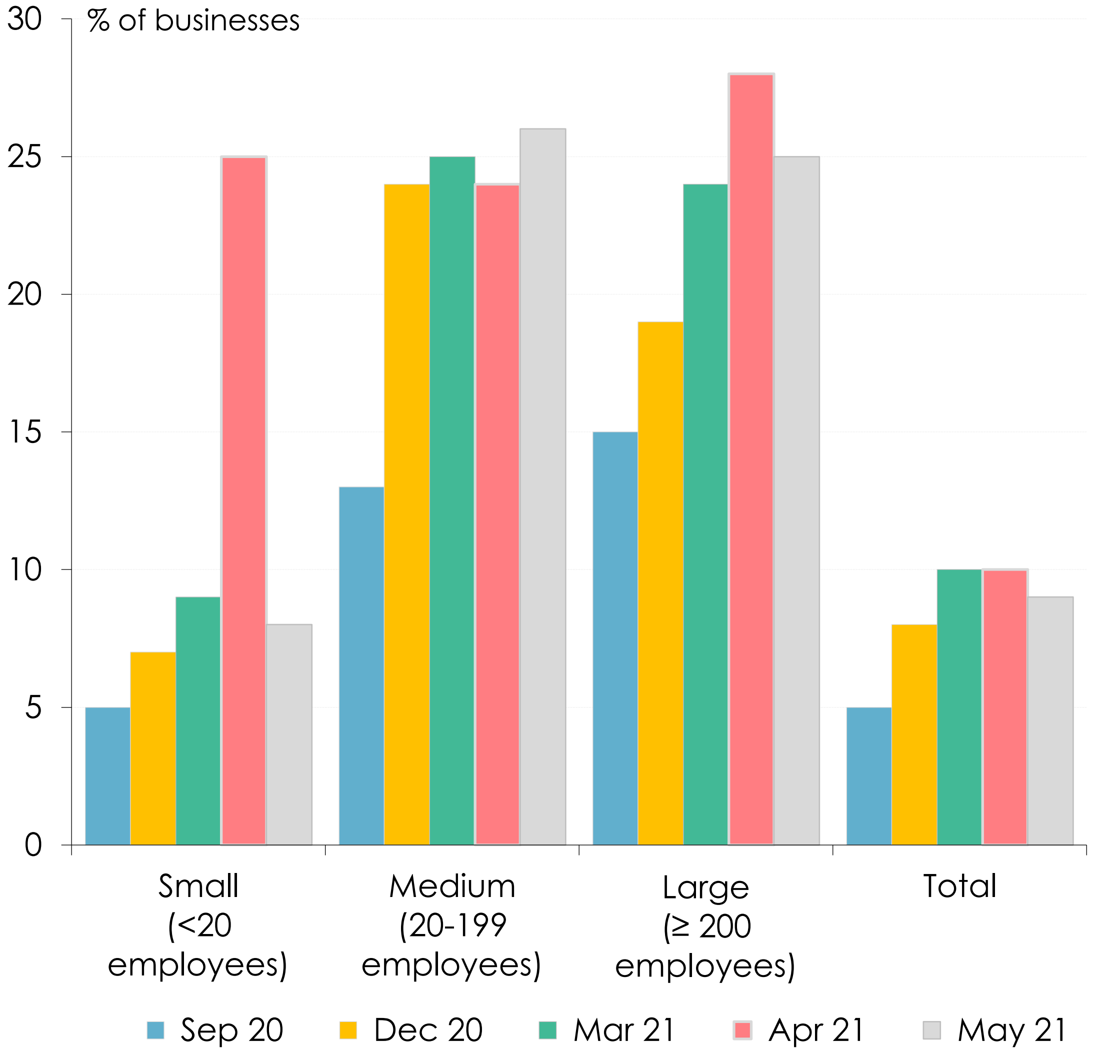
Proportion of businesses reporting decreases or increases in revenue over past month by size



Note: 'size' in the right-hand chart refers to the number of employees. *Source:* ABS, Business Conditions and Sentiments, May 2021. Return to "What's New".

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

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



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

Source: ABS, *Business Conditions and Sentiments*, May 2021. See also slide 111 for data on capex intentions by business size. Return to "What's New".

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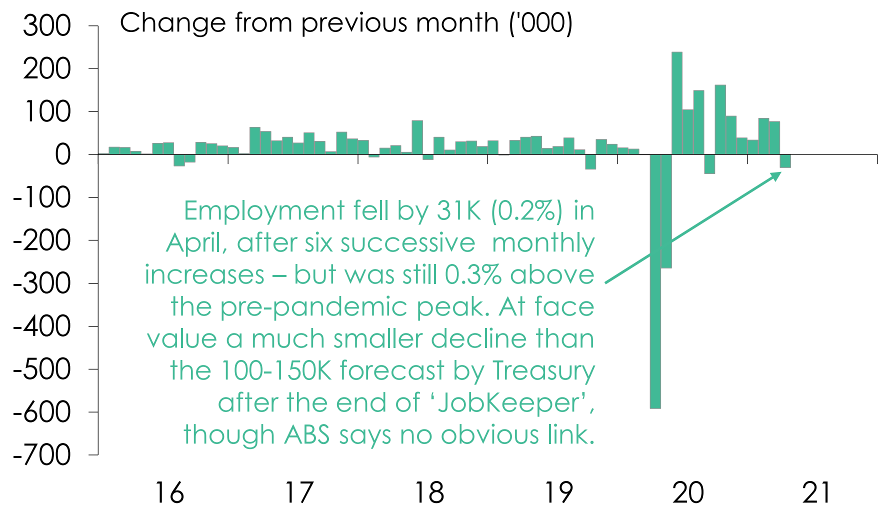
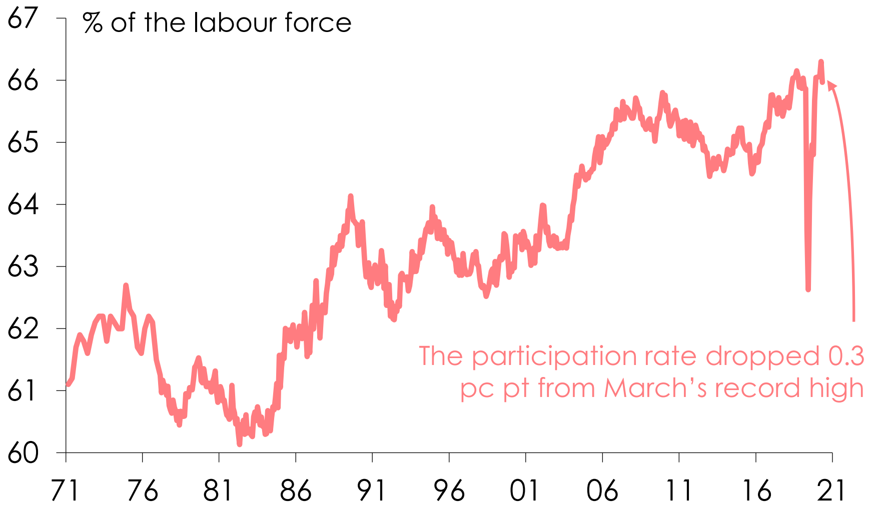
Employment dropped 31K (0.2%) in April, a lot less than the 100-150K forecast as possible after the end of the 'JobKeeper' scheme

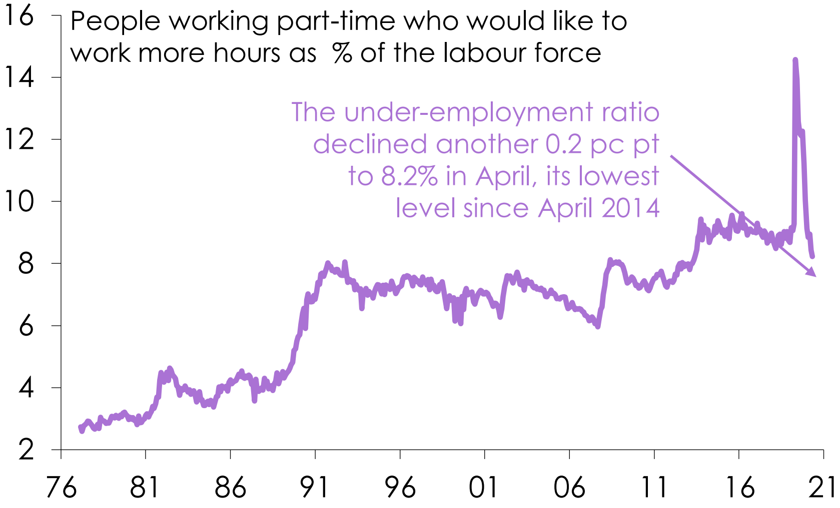
Employment



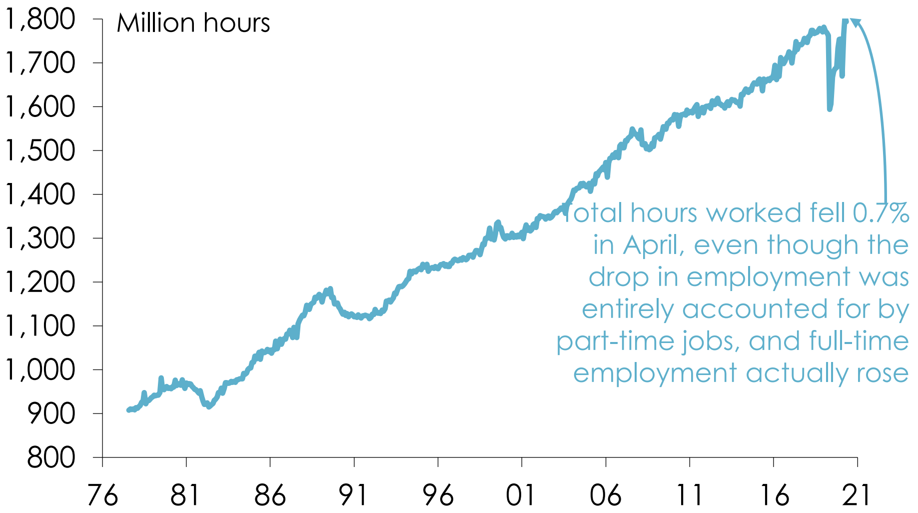
Labour force participation rate



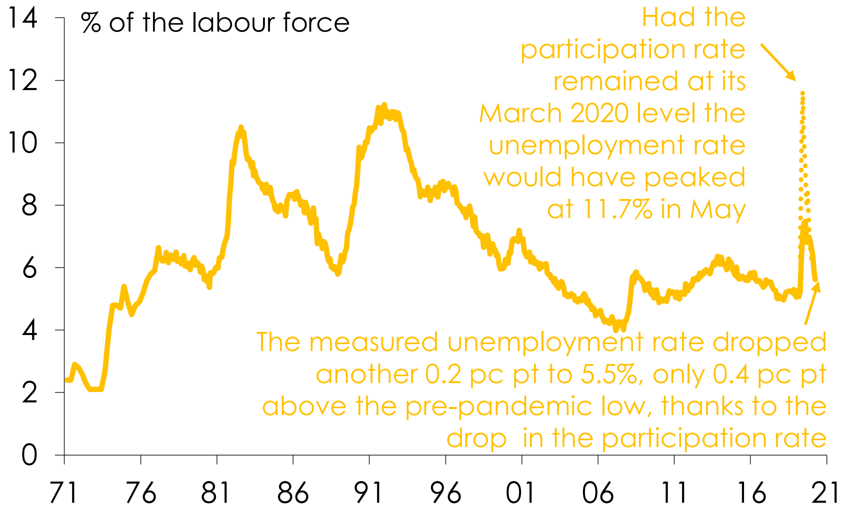
Under-employment ratio



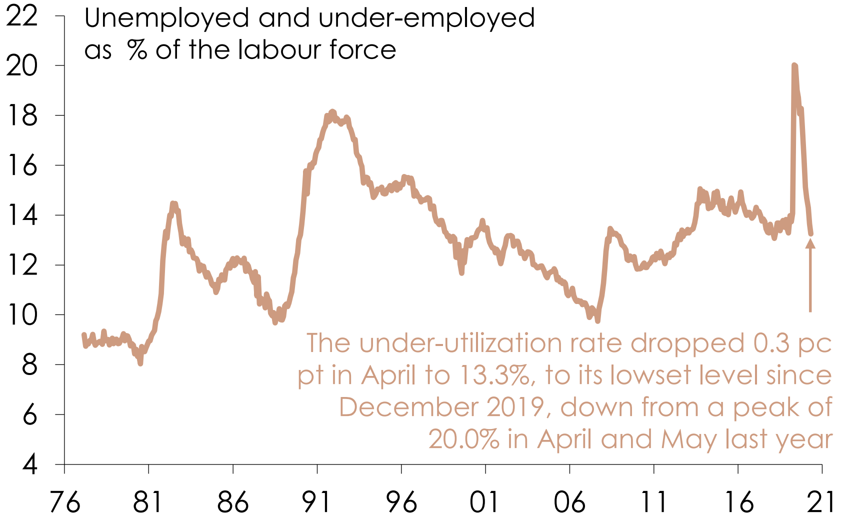
Total hours worked



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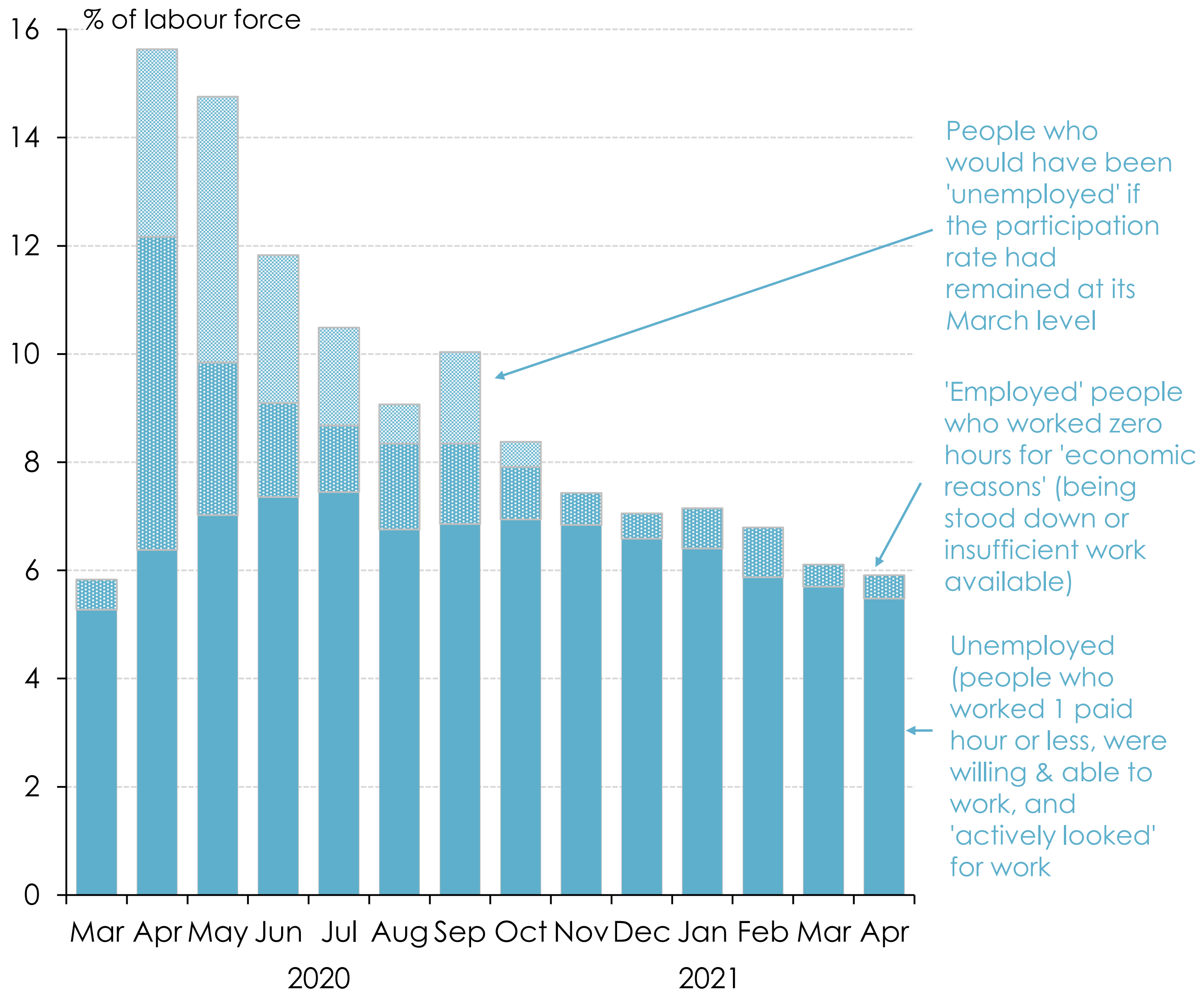
The ‘effective’ unemployment rate fell from a peak of 15.3% in April last year to 5.9% in April this year

Alternative measures of unemployment

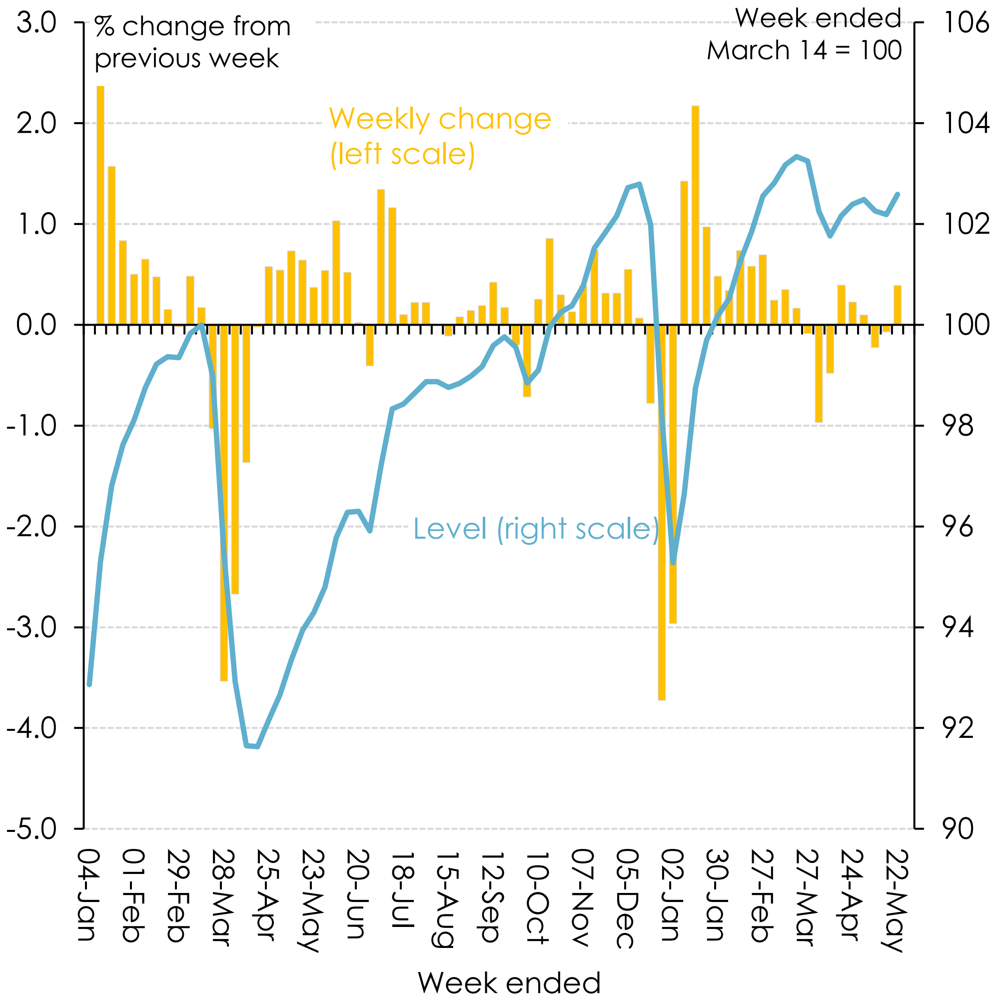


- **The Government’s ‘JobKeeper’ program paid eligible employers a subsidy of $1500 per fortnight for each eligible employee kept on the payroll between 30th March and 27th September – reducing to $1200 per fortnight (with a new lower rate of $750 for people who had been working part-time before the 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’**

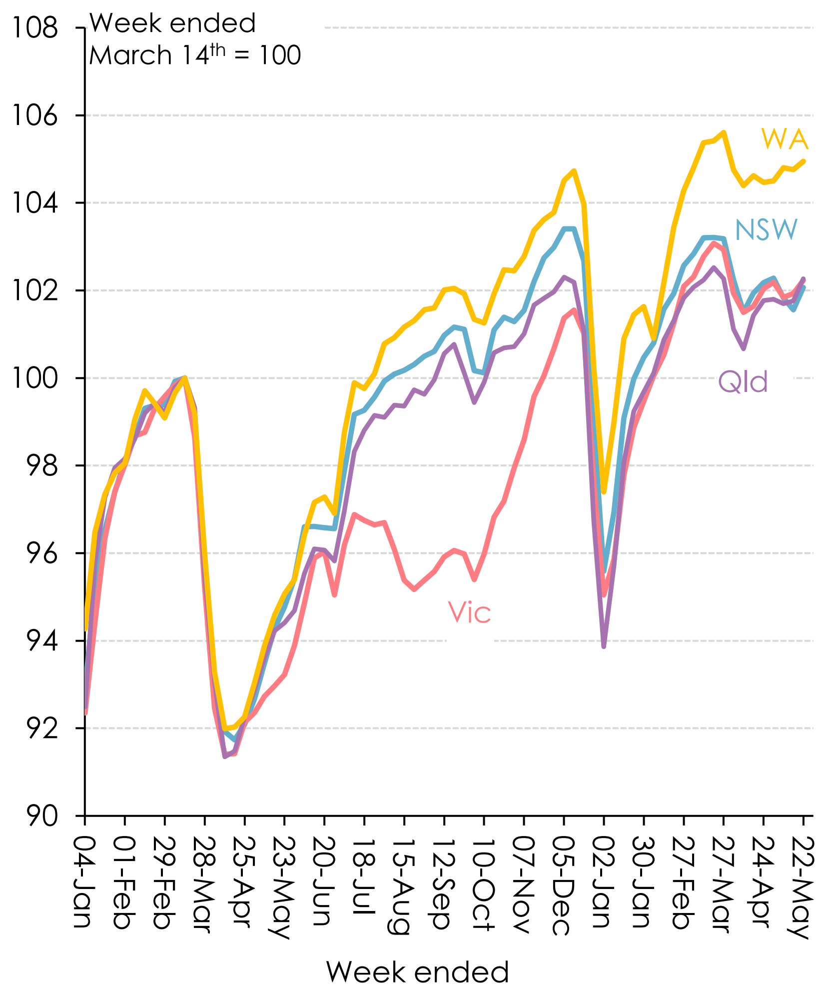
Source: ABS, Labour Force, Australia; Corinna. May data will be released on 17th June. Return to "What's New“.

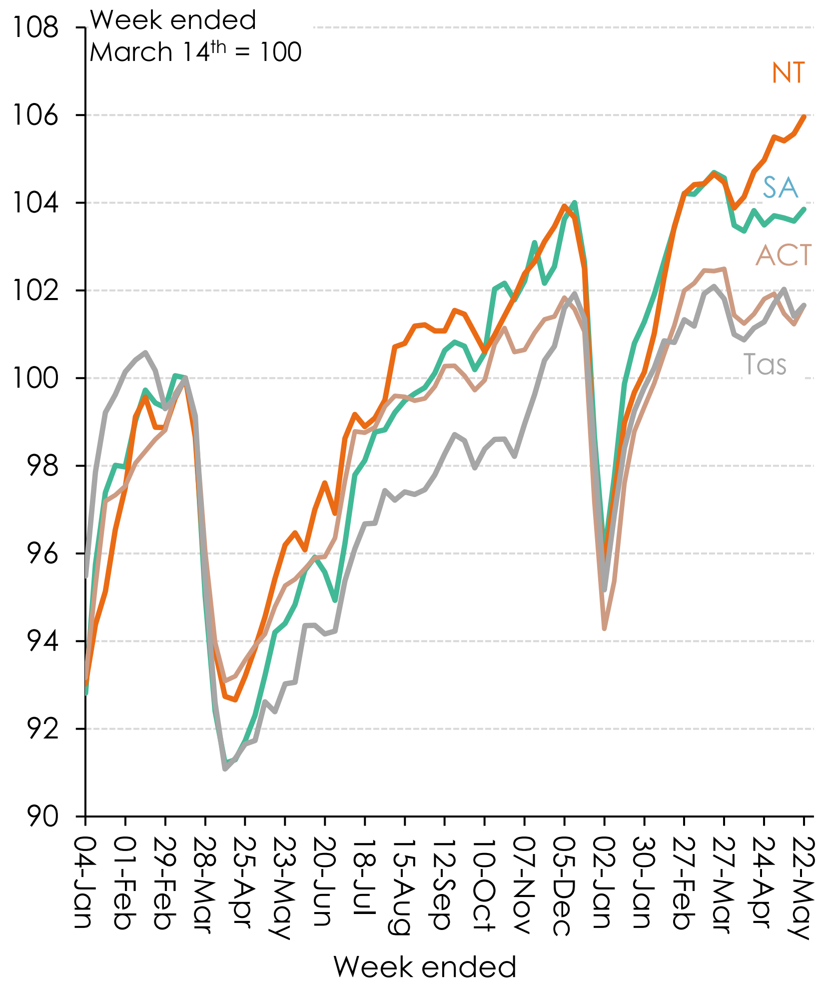
Payroll jobs rose 0.3% over the two weeks to 22nd May though are still 0.6% lower than the last week of March when 'JobKeeper' ended

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): and the two most recent weeks are subject to (what have often been large) revisions. Data for two weeks ended 5th June will be released on 22nd June. Return to "What's New".

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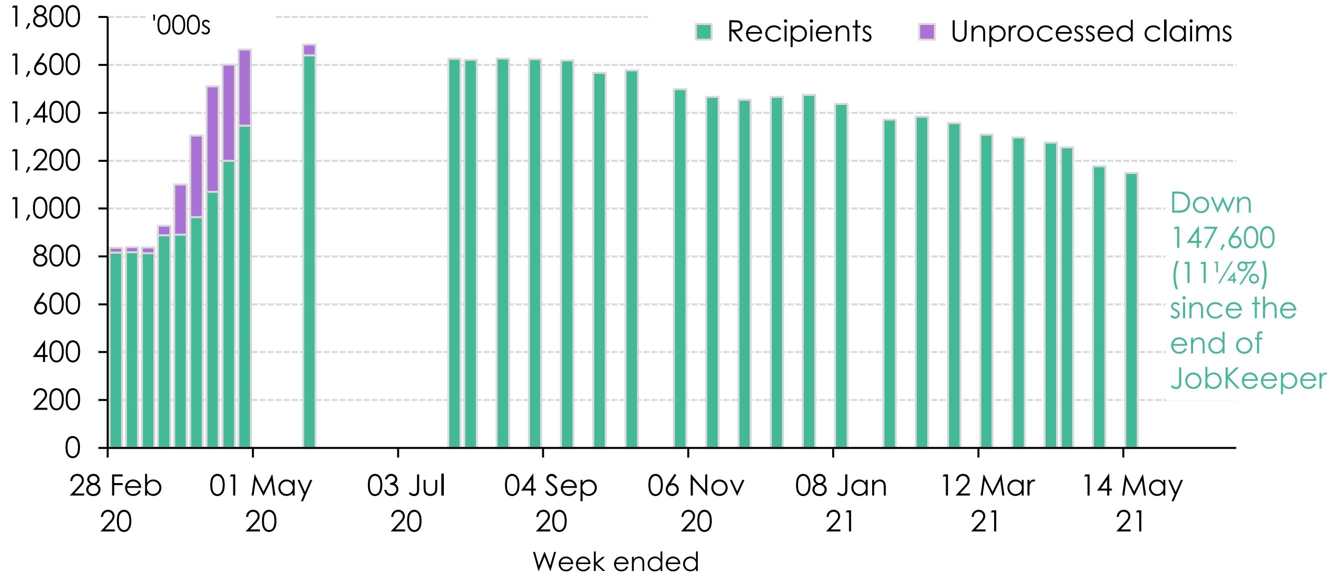
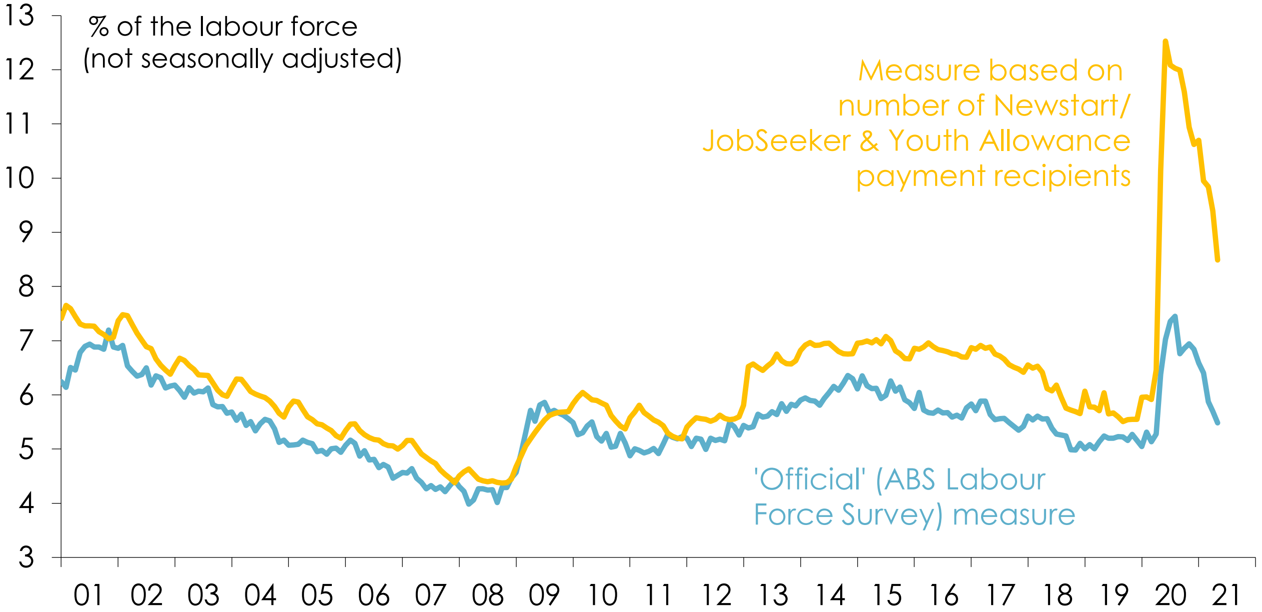
The number of people receiving 'unemployment benefits' has fallen by about 148K (11¼%) since the end of the Government's 'JobKeeper' scheme

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 147,600 (11¼%) 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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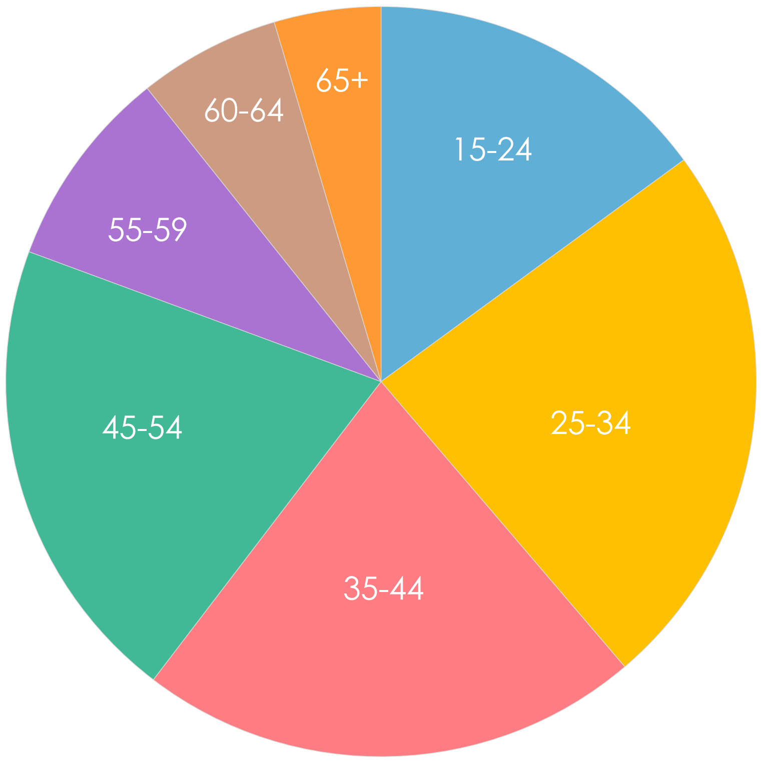
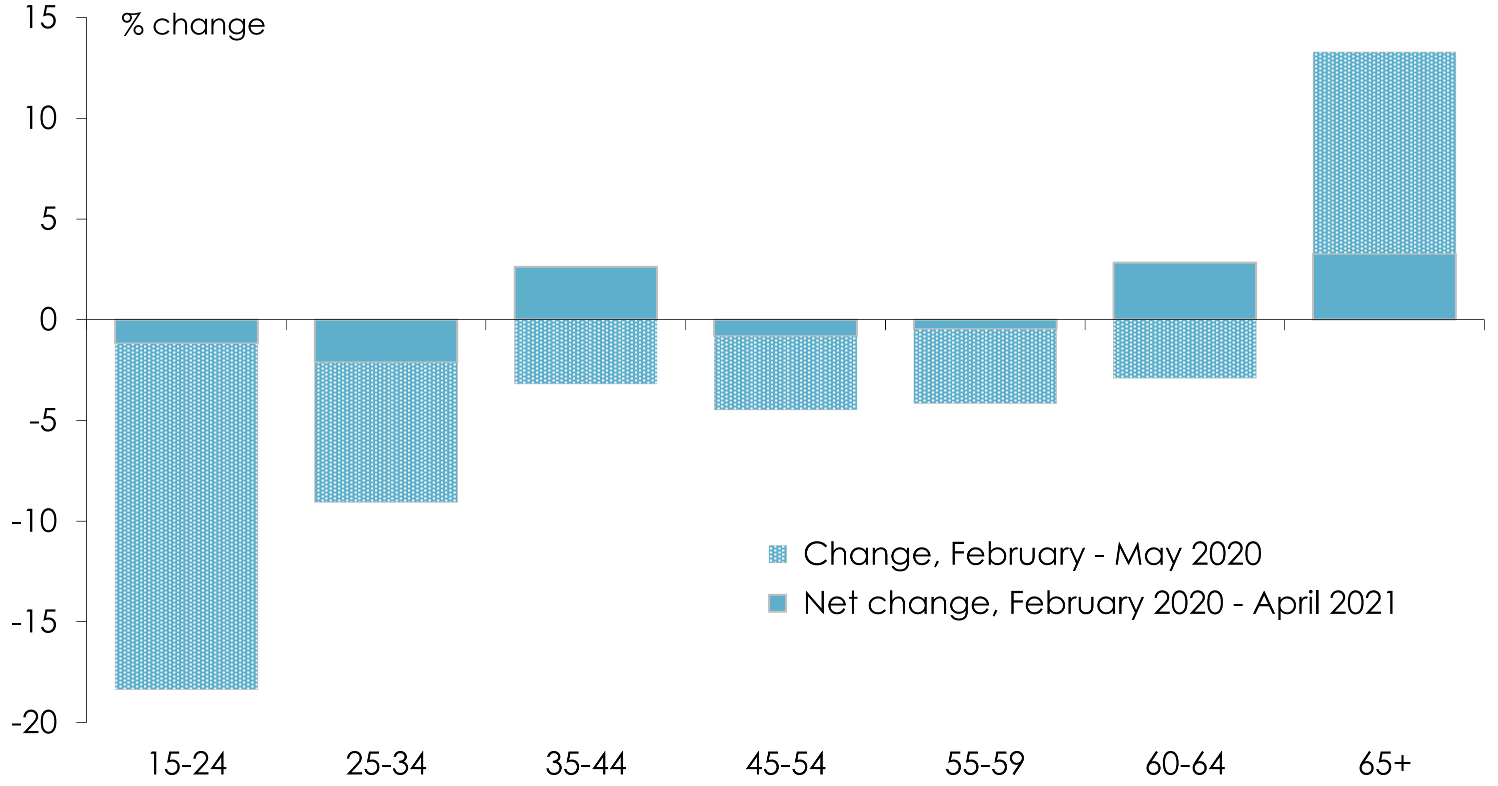
Younger workers bore the brunt of job losses during the early stages of the pandemic and have had a more difficult time regaining jobs

Composition of employment by age group, February 2020



Change in employment between February 2020 and April 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 April their employment was still down 1.2% 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 2½-3¼% (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, April 2021: May data will be released on 211th June.
Return to "What's New".

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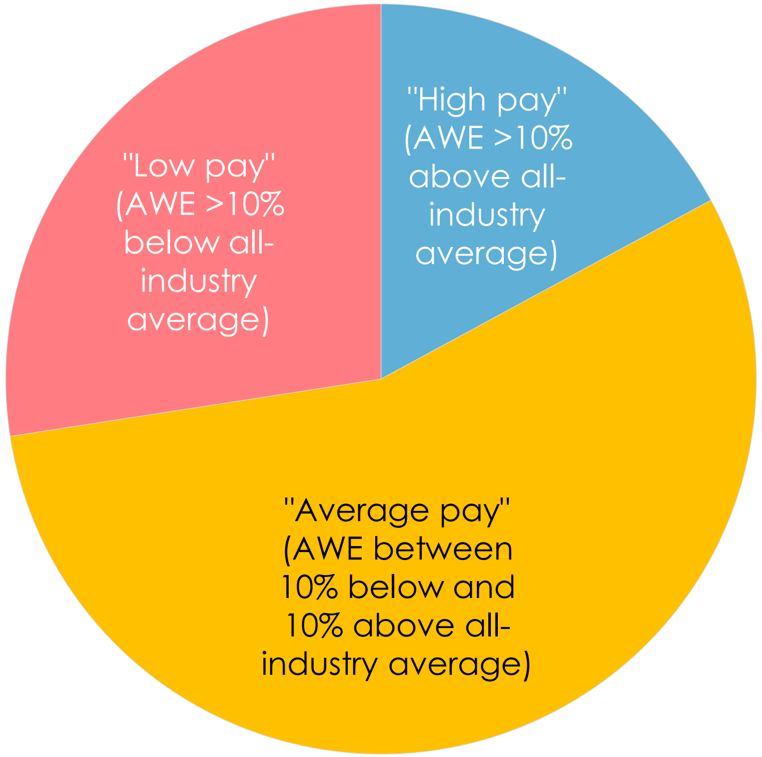
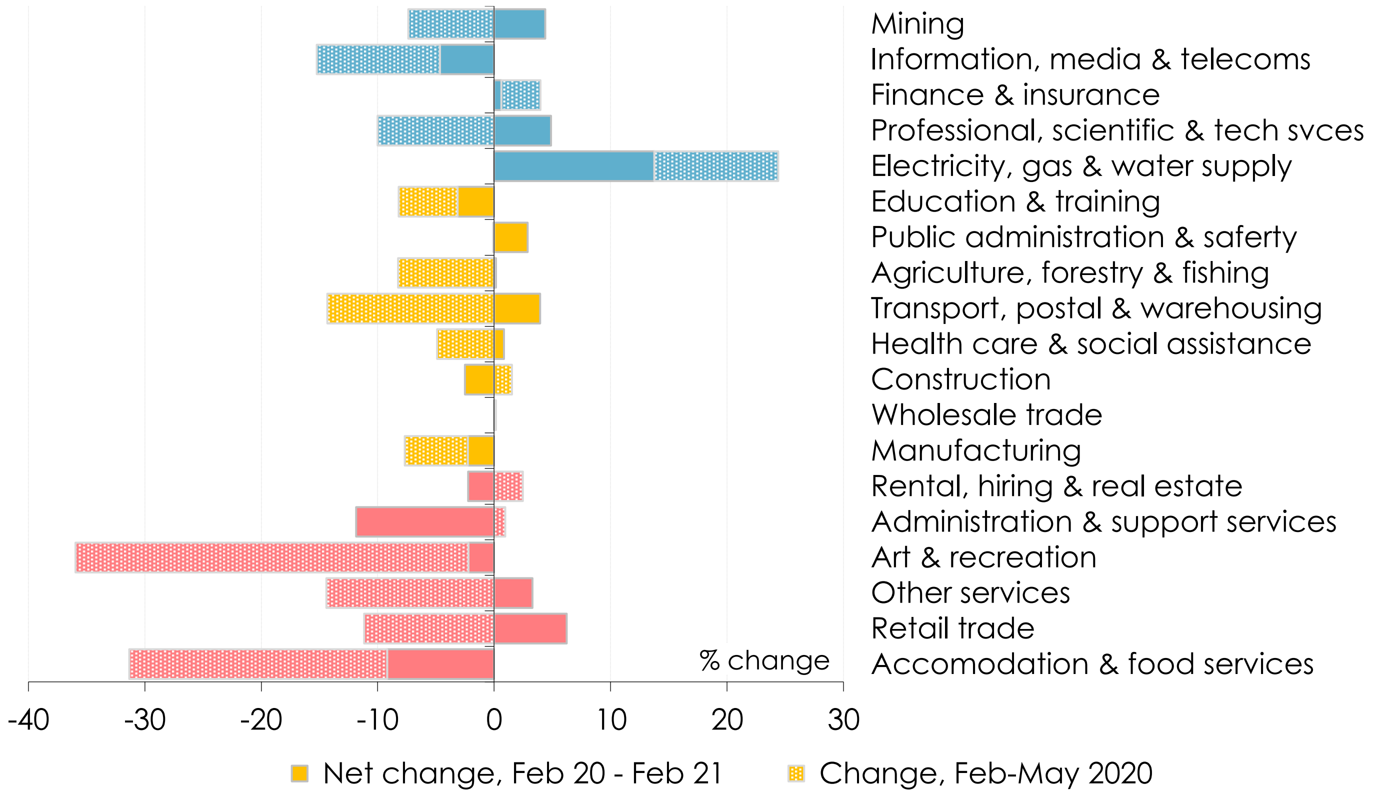
Workers in low-pay industries experienced the bulk of job losses during the downturn and the greatest difficulty regaining them since then

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



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

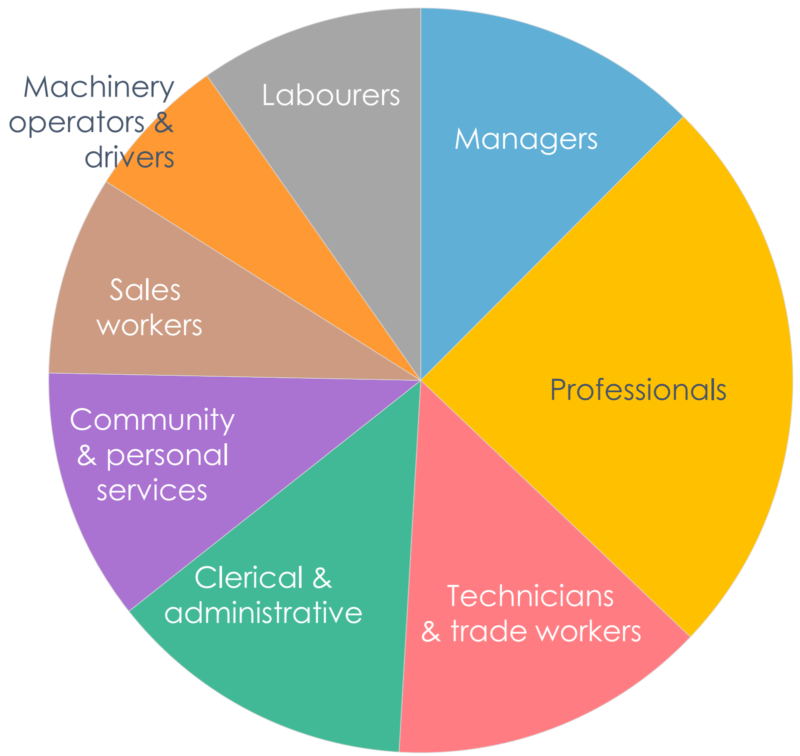


- Industries with average earnings which are 10% or more below average accounted for 27½% of the pre-pandemic workforce, but experienced 64% of the job losses between February and May last year – and employment in those industries was still 9% lower in February this year than in February last year
- 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%

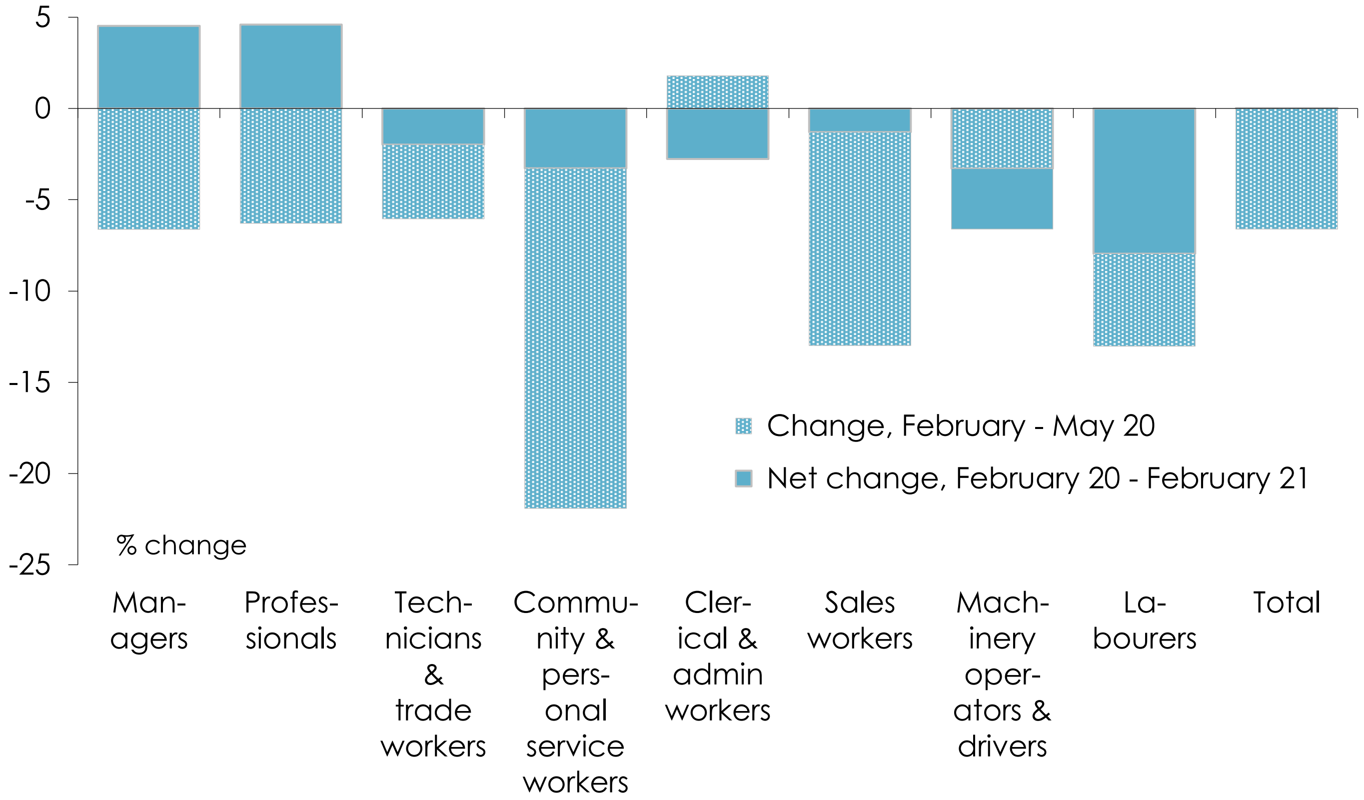
Source: ABS, Labour Force, Australia, Detailed, February 2021 and Average Weekly Earnings, Australia, November 2020 . Labour force survey data on employment by occupation are available only for the middle month of each quarter: May data will be released on 211th June. Return to "What's New".

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

Employment by major occupation category, February 2020



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

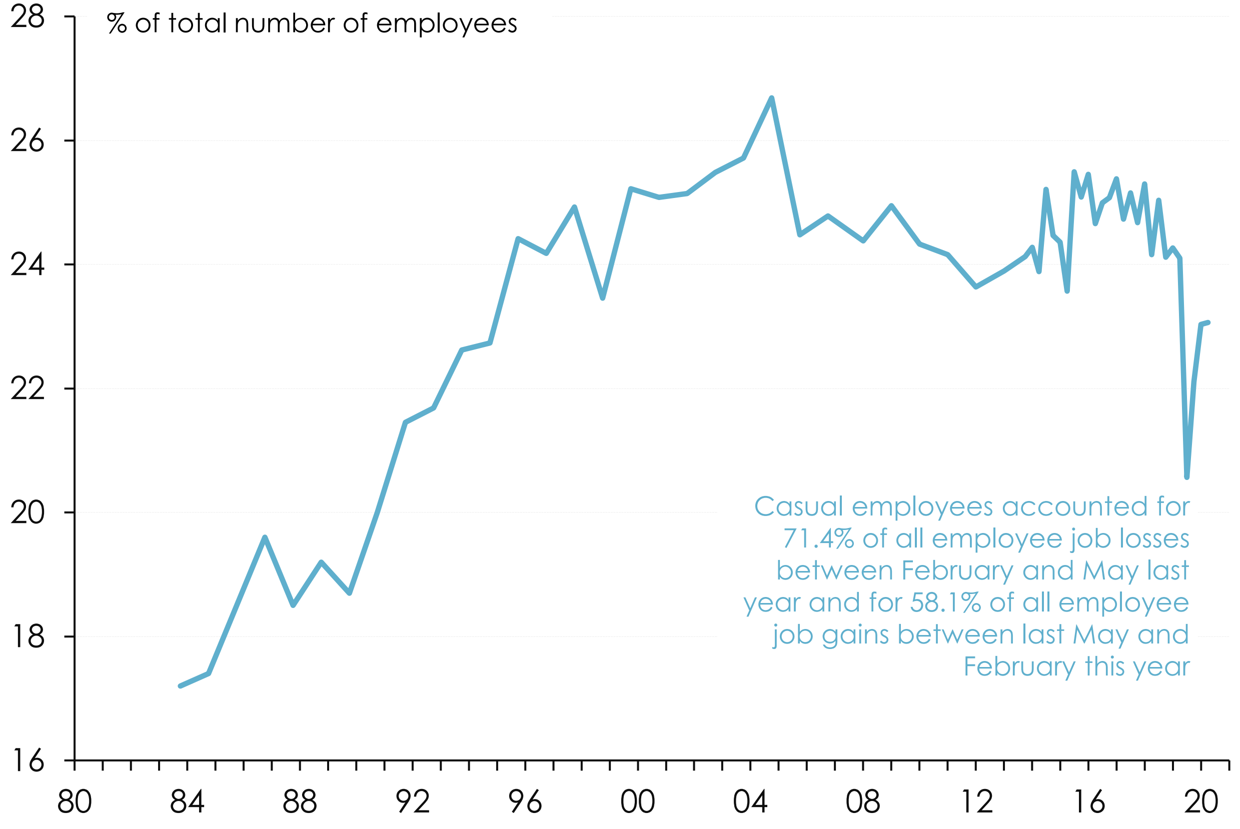


- **Community & personal services workers, sales workers and labourers accounted for 29% of the pre-covid work force, but experienced 73% of the job losses during the recession – and 25% of them still haven't regained their jobs (or found others) …**
- **… whereas there are 4½% more employed managers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

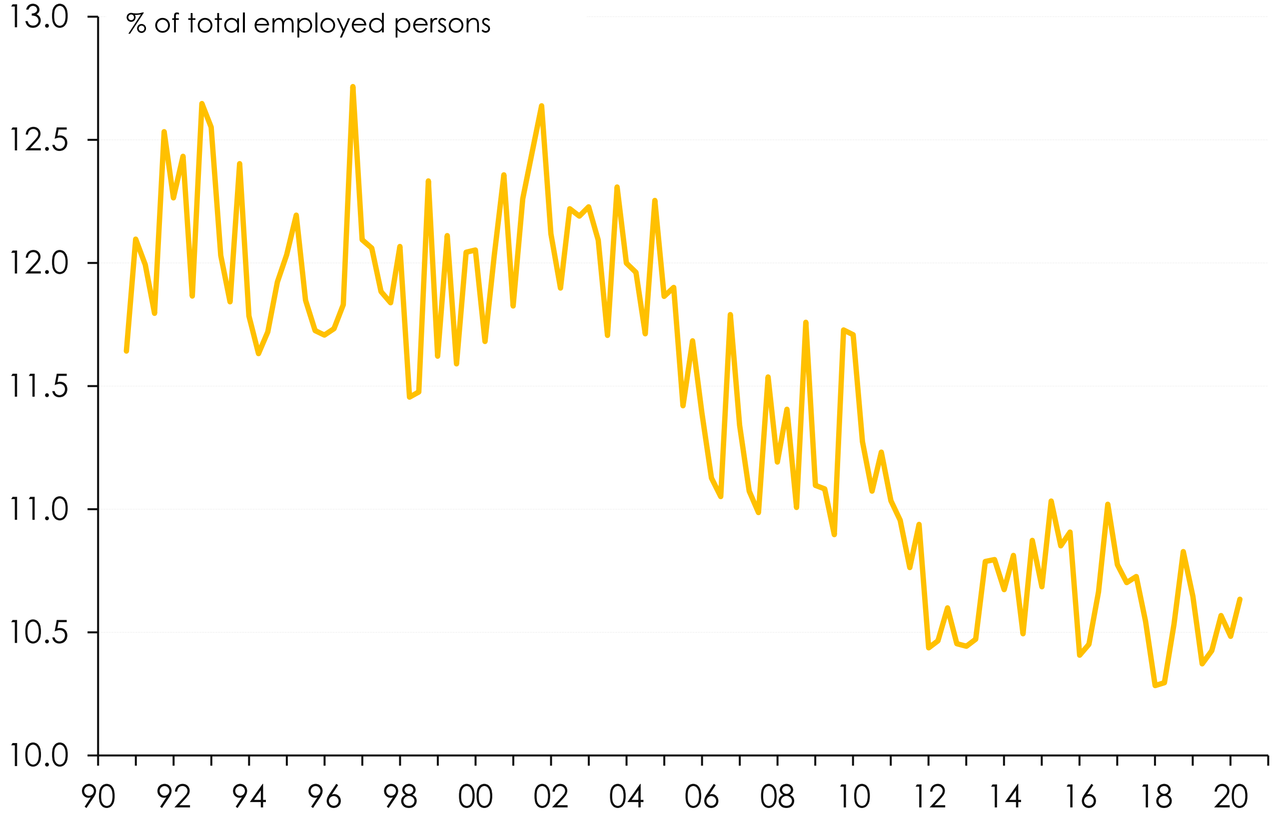
Source: ABS, *Labour Force, Australia, Detailed*, February 2021. Labour force survey data on employment by occupation are available only for the middle month of each quarter: May data will be released on 211th June. Return to "What's New".

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

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



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

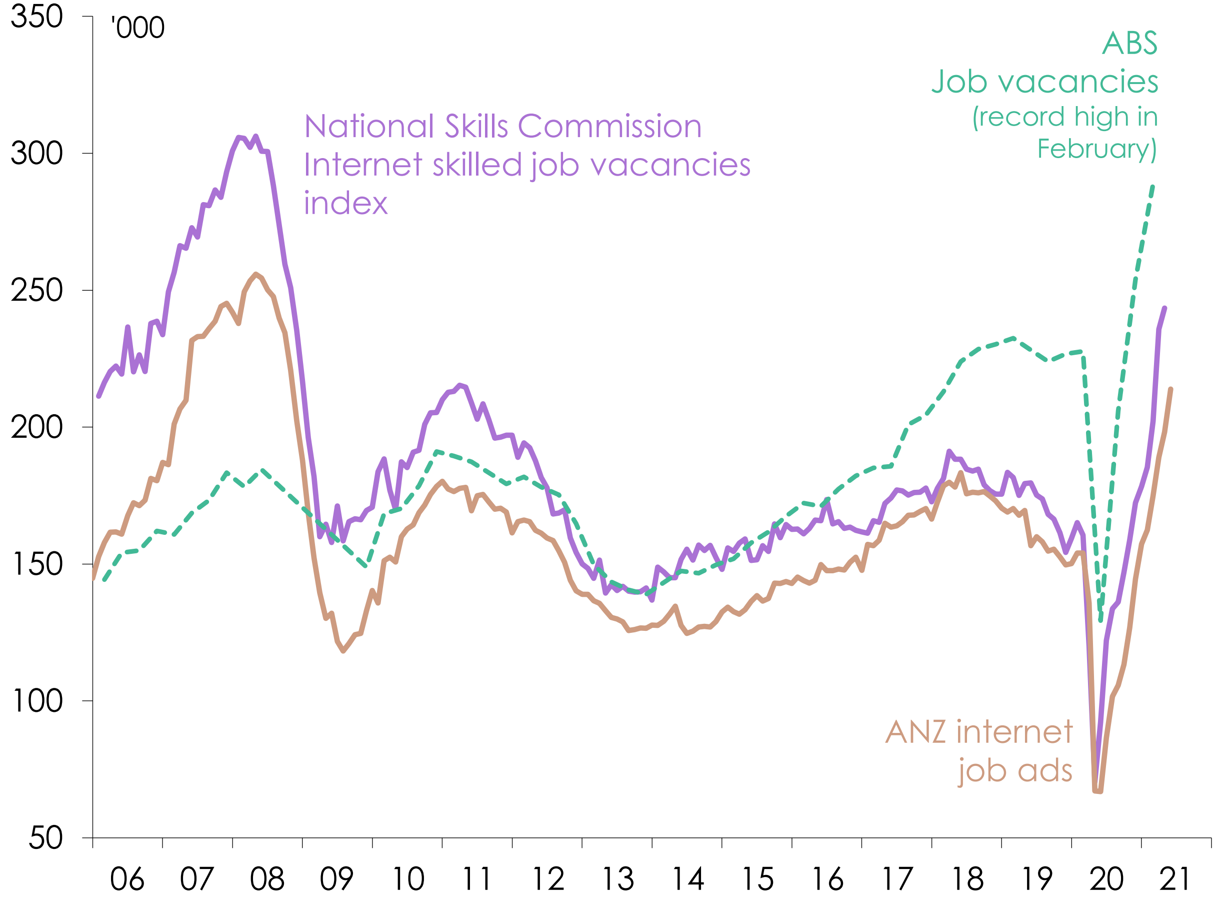


- **Casual employment increased significantly as a share of the total during the 1980s, 1990s and early 2000s but has not changed significantly since then – except for a sharp drop during the current recession**
- **'Independent contractors' have actually declined as a share of the workforce since the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

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

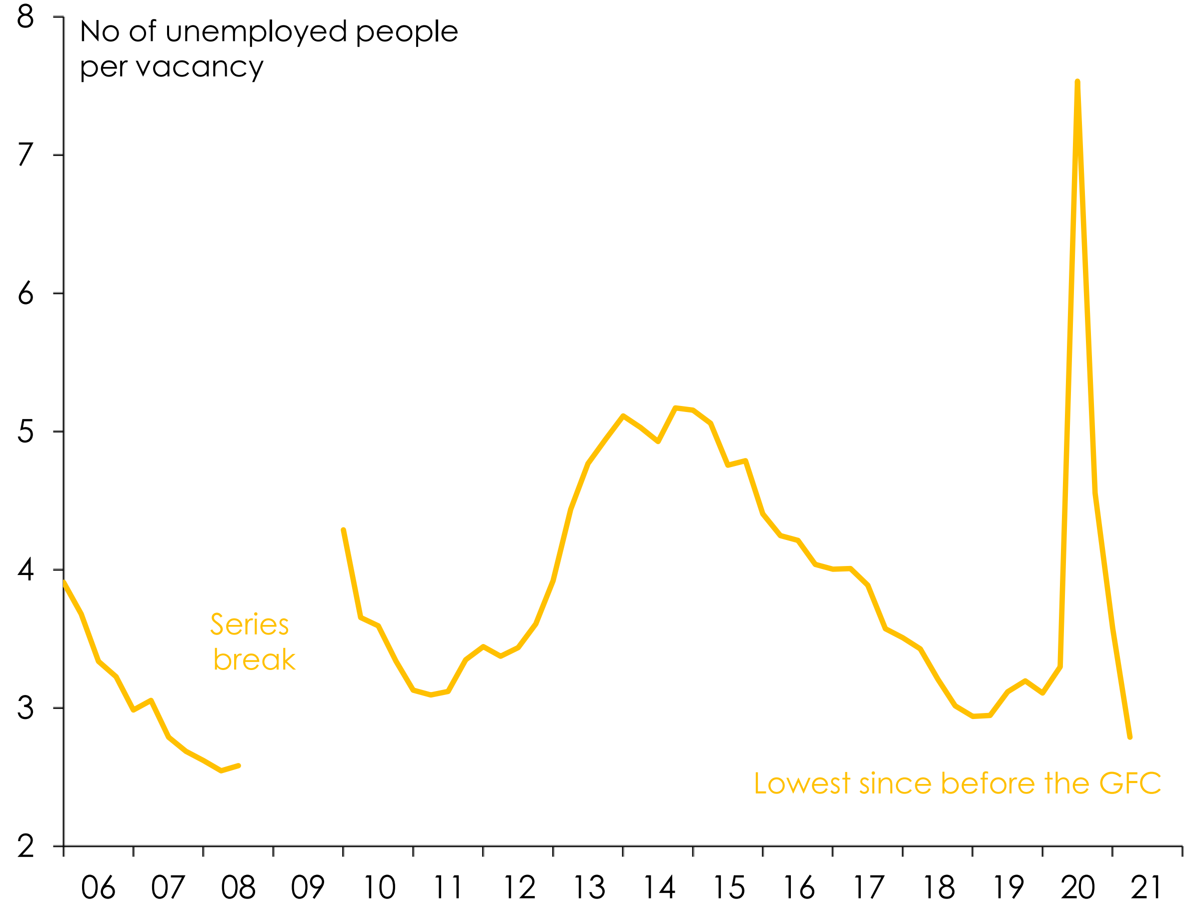
Job vacancies have rebounded swiftly from their recession lows, and the number of unemployed people per vacancy is at a 13-year low

Measures of job vacancies



- 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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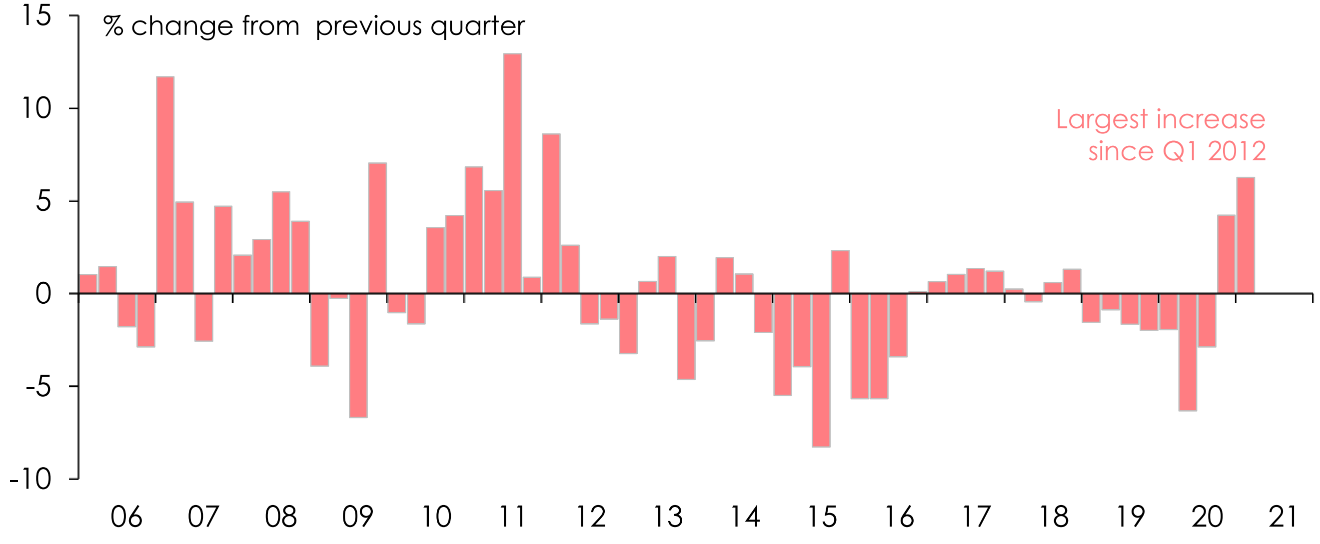
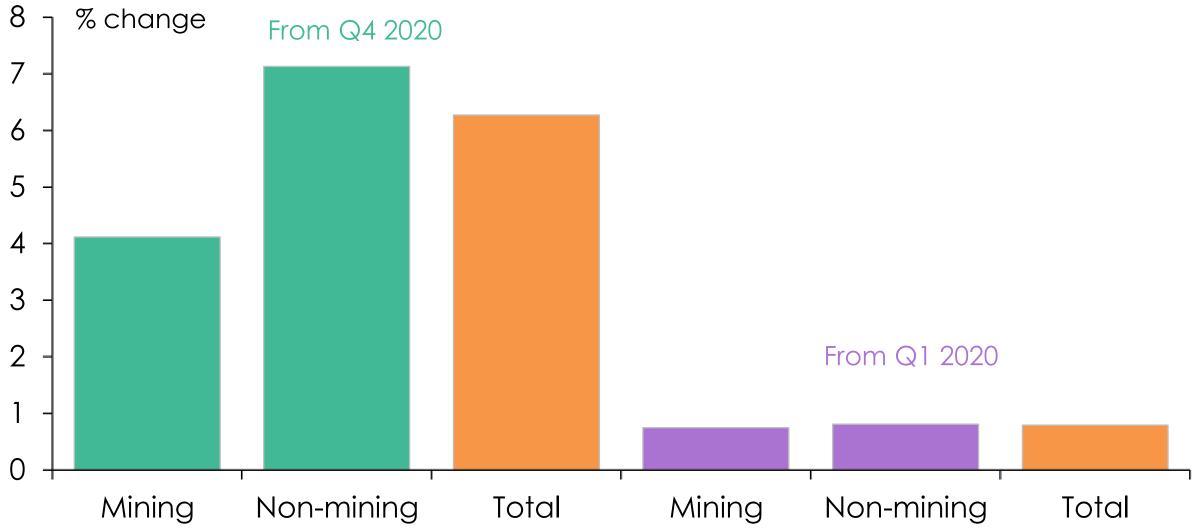
Business capex rose Q1 for the second quarter in a row, and by the largest amount in nine years, led by manufacturing, mining and construction

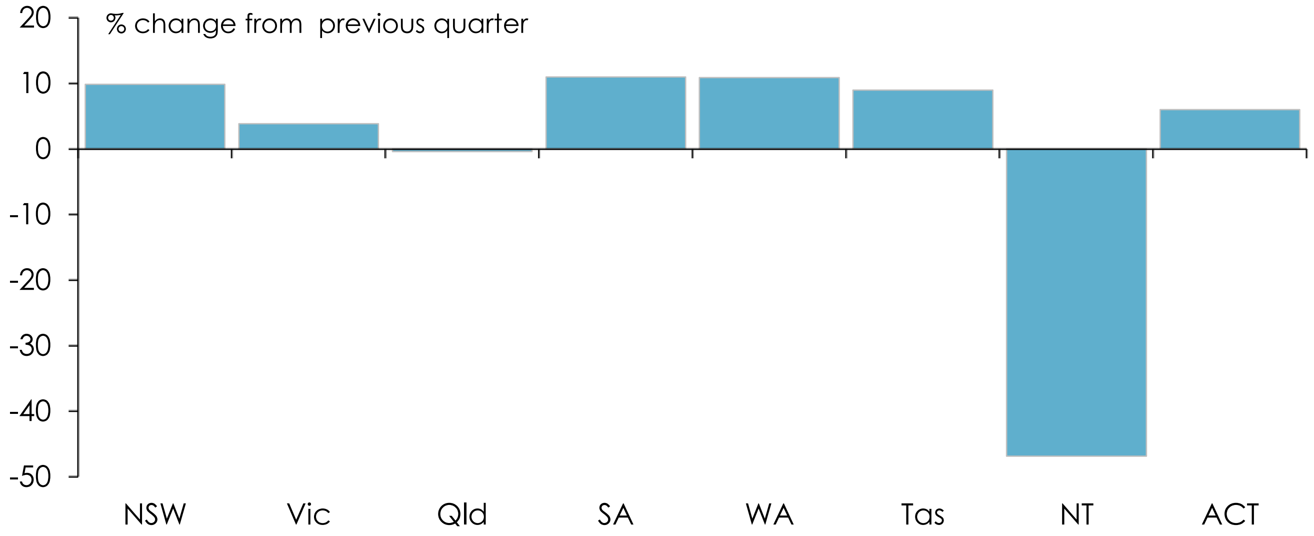
Real business new fixed capital expenditure



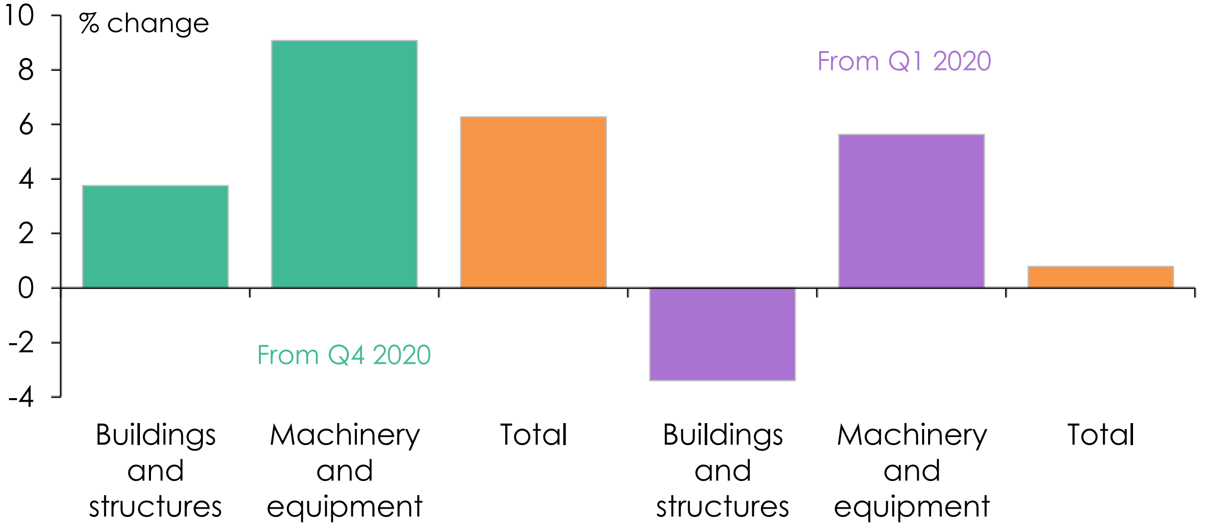
Real business new fixed capex, by industry, Q1



Real business new fixed capex, by state, Q1 2021



Real business new fixed capex, by asset, Q1



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 26th August. Return to "What's New".

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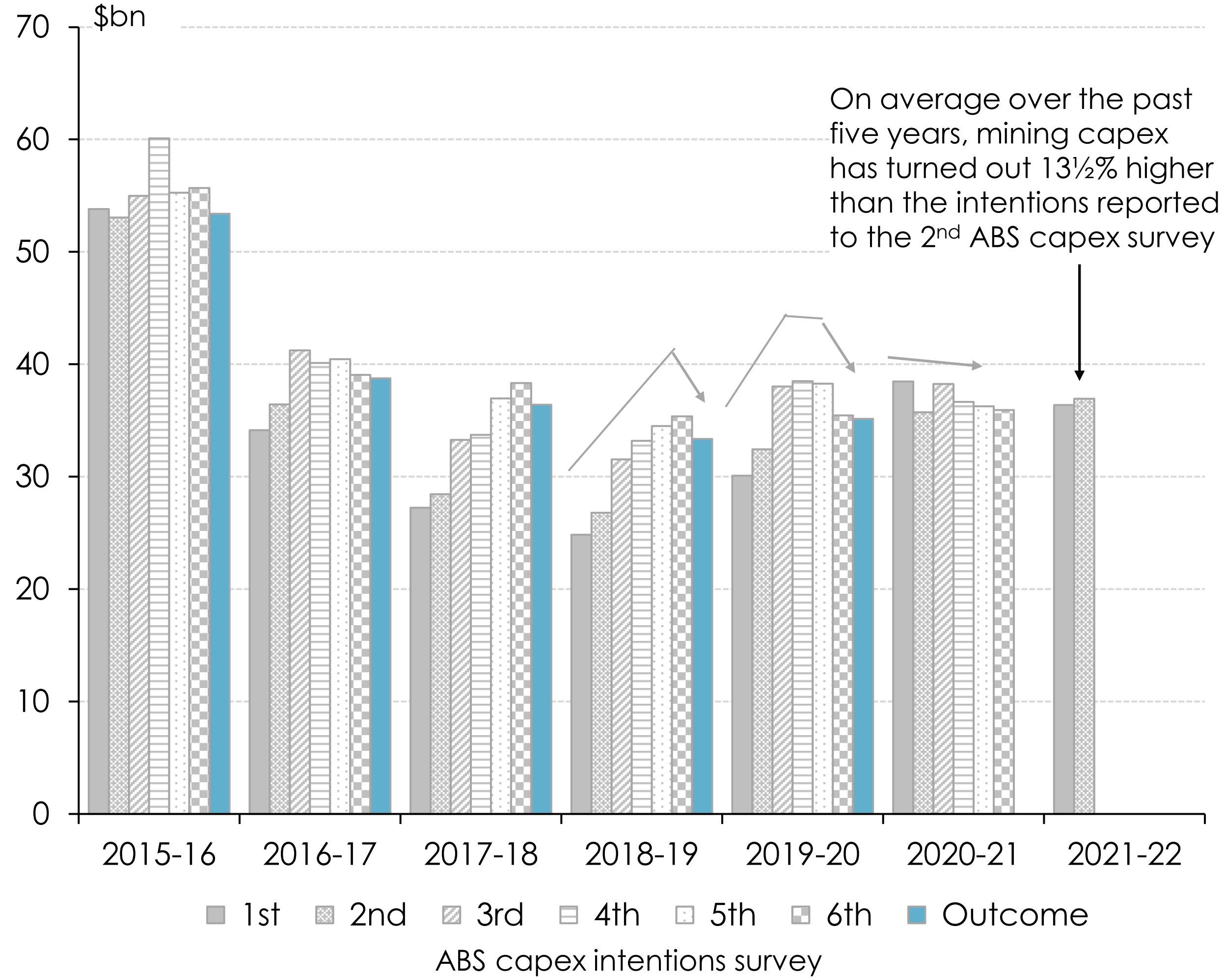
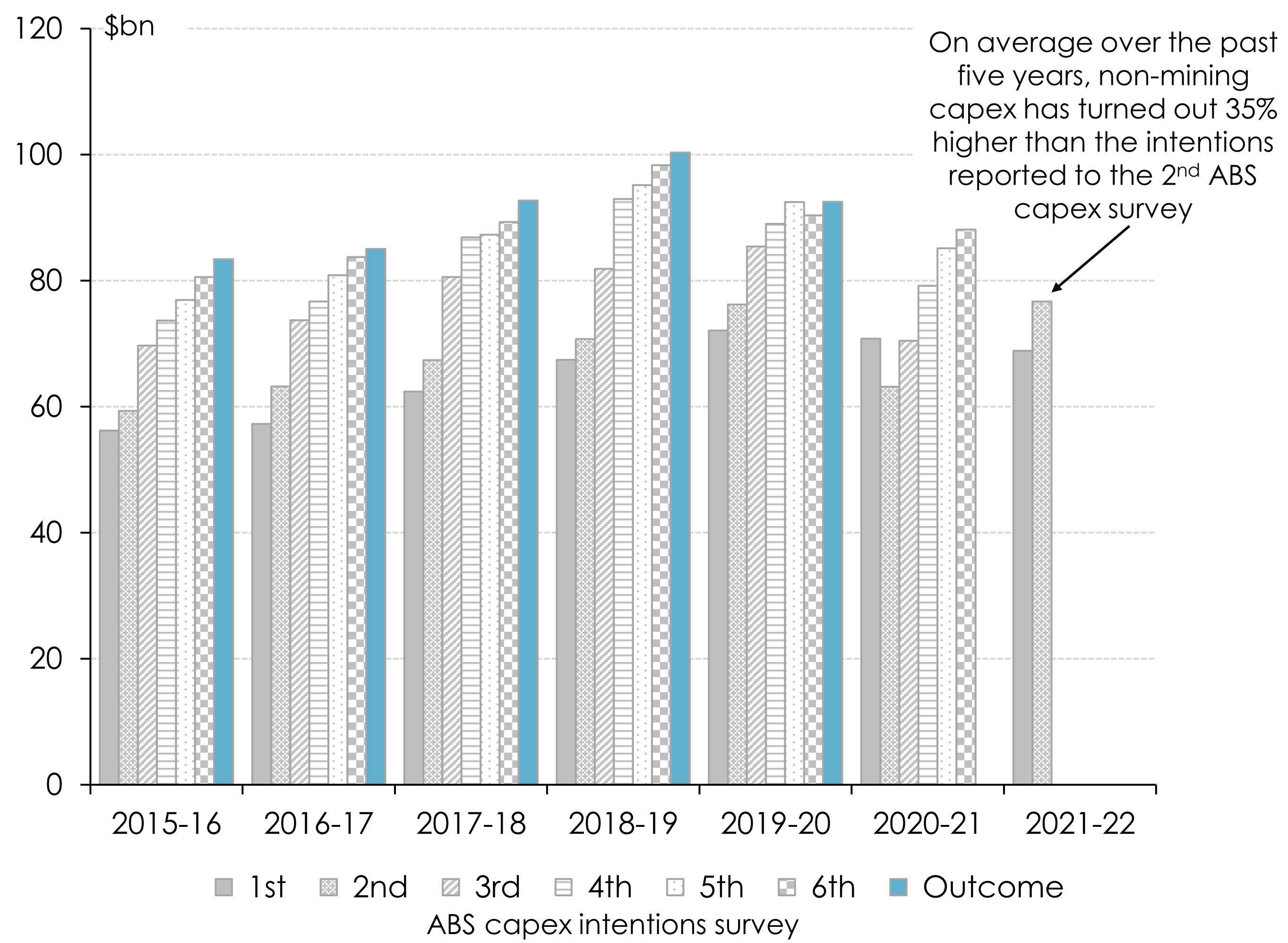
Business capex now looks likely to have fallen by only about 2% in 2020-21, while the 2nd estimate for 2021-22 points to a rise of more than 15%

Capital expenditure intentions - mining



Capital expenditure intentions – non-mining

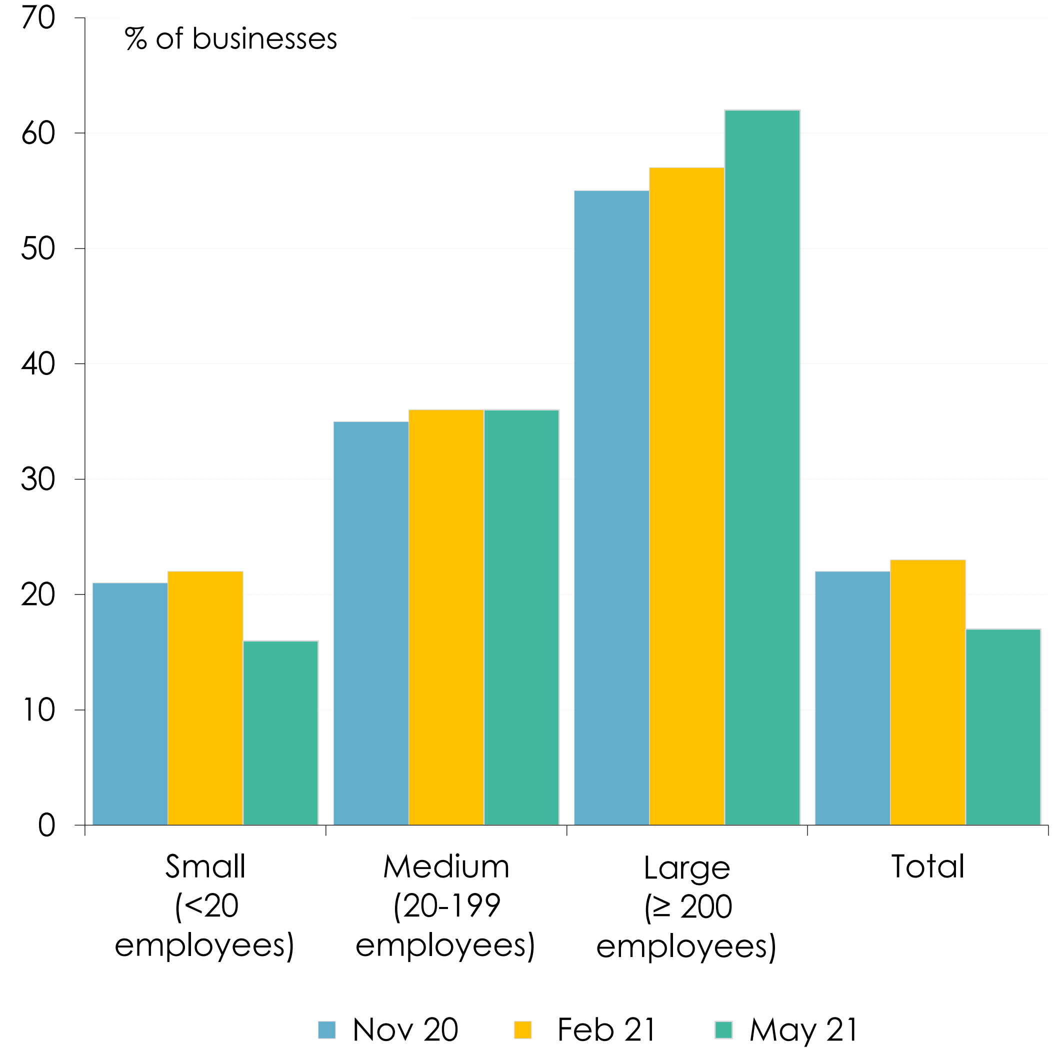


Note: The ABS conducts six surveys of business' capital expenditure intentions in respect of each financial year. The first is conducted in January & February prior to the commencement of the financial year, the second in May & June, the third in July & August of the financial year, the fourth in October & 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. The estimates shown above are in nominal terms.

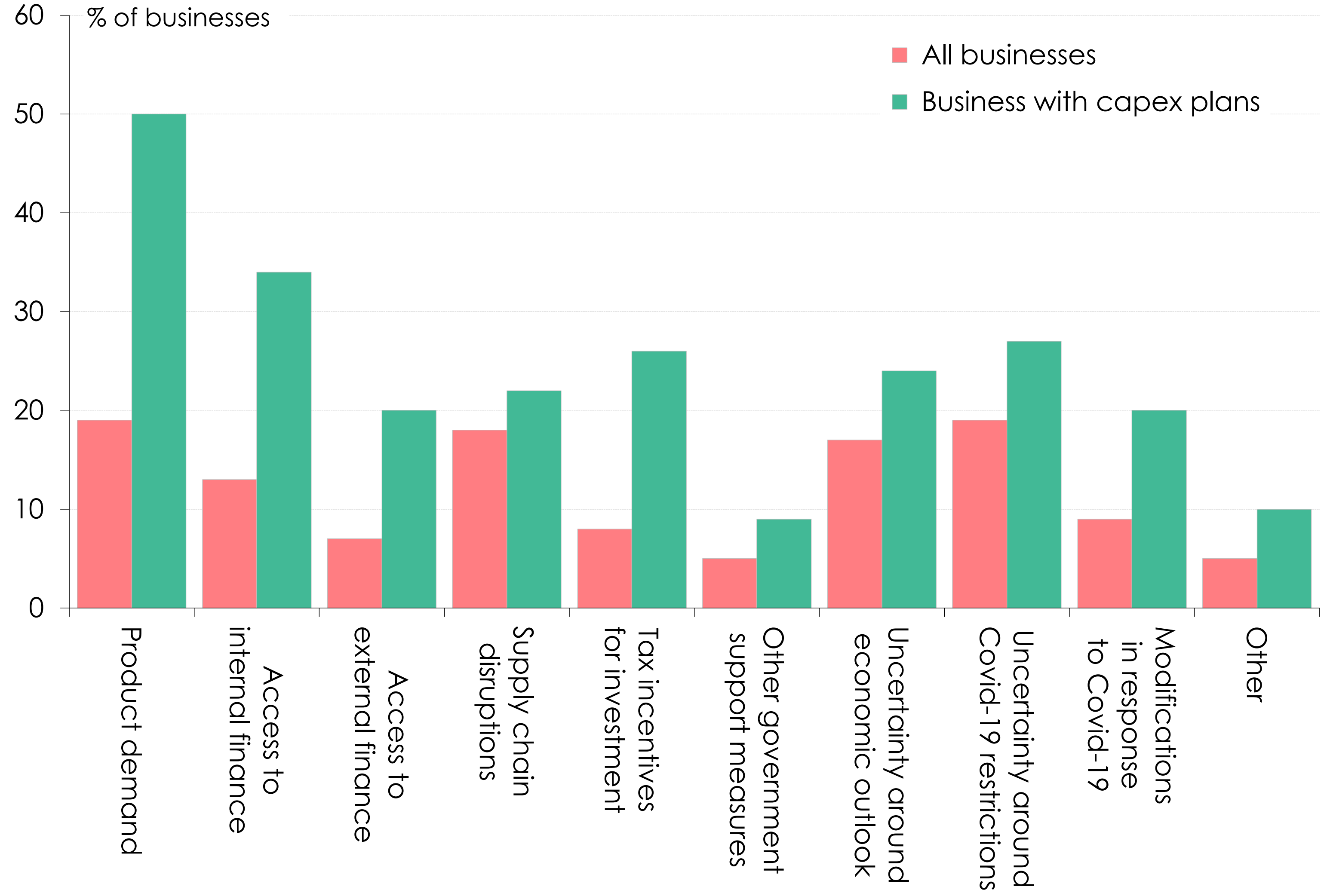
Source: ABS, *Private New Capital Expenditure and Expected Expenditure, Australia* (next update is released on 28th August).

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, May 2021

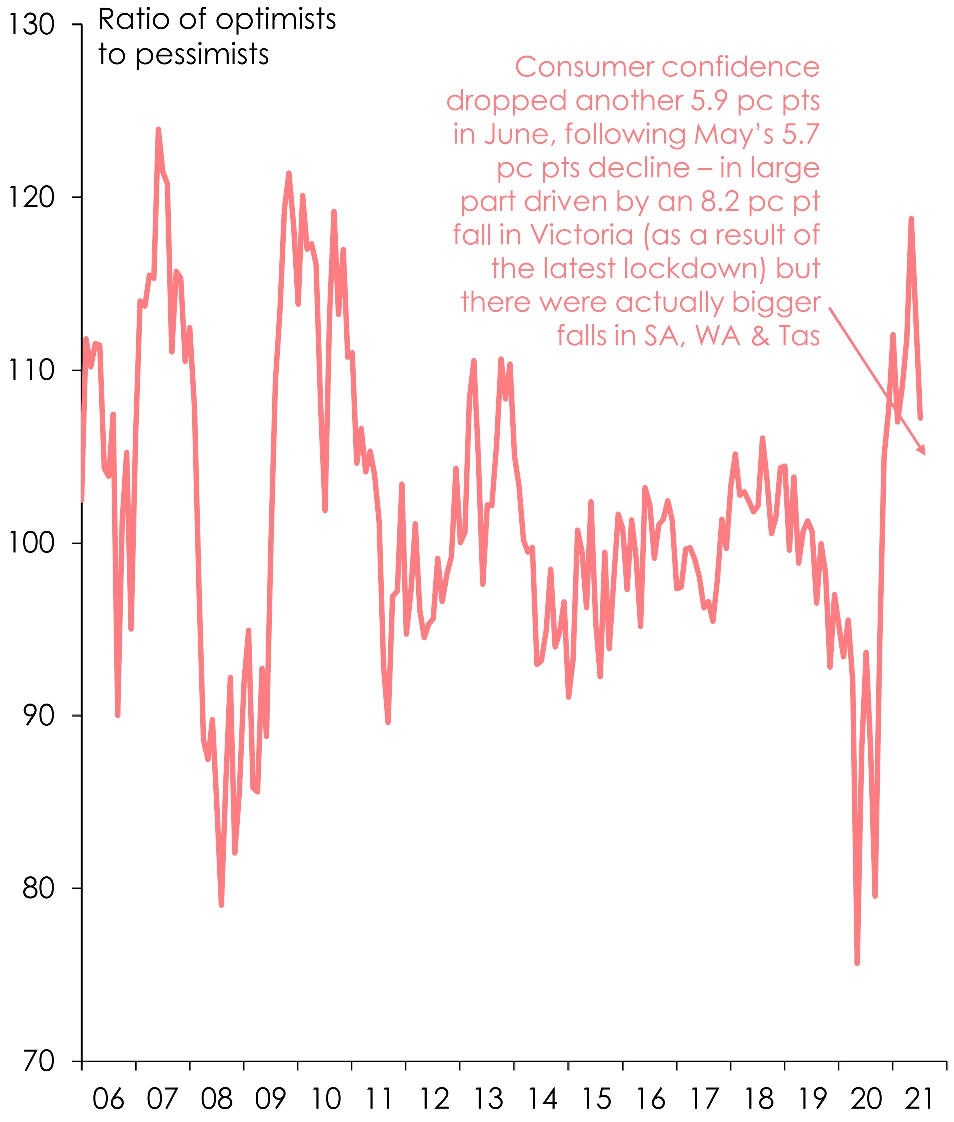


Source: ABS, *Business Conditions and Sentiments* , May 2021. See slide 99 for data on employee hiring intentions by business size. Return to "What's New".

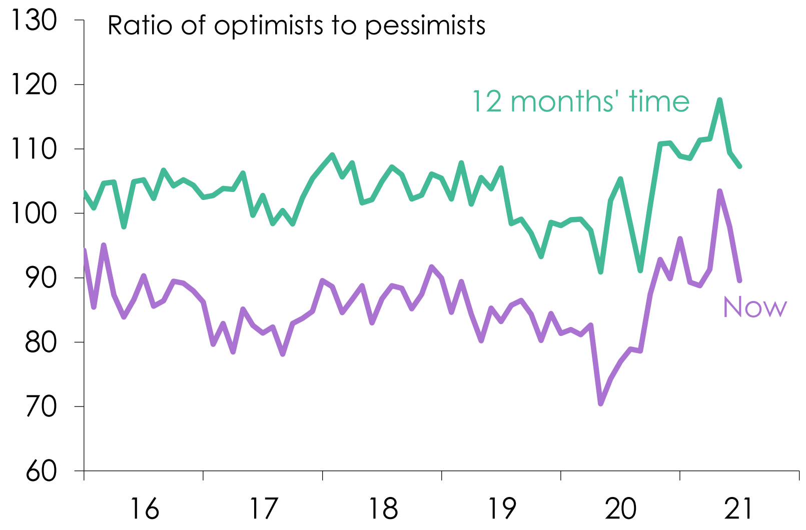
SAUL ESLAKE
CORINNA ECONOMIC ADVISORY

Consumer confidence fell further in June, partly due to the lockdown in Victoria, but also rising concerns about housing affordability and inflation

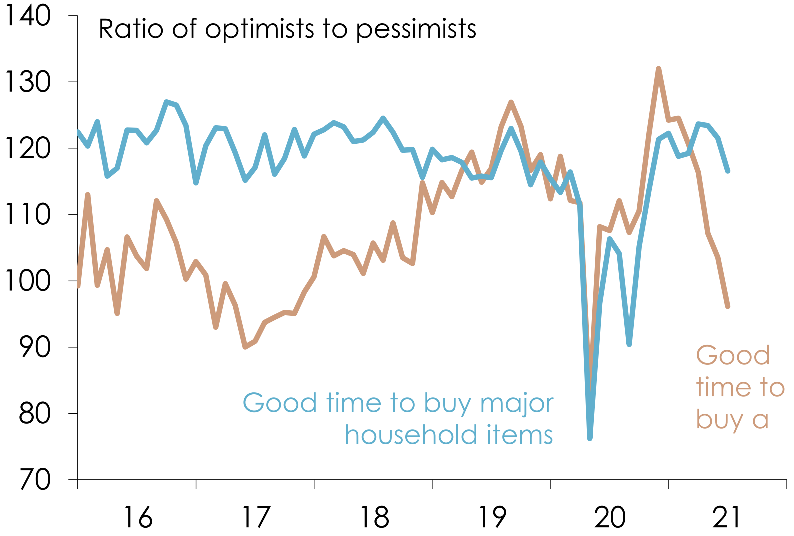
Consumer confidence index



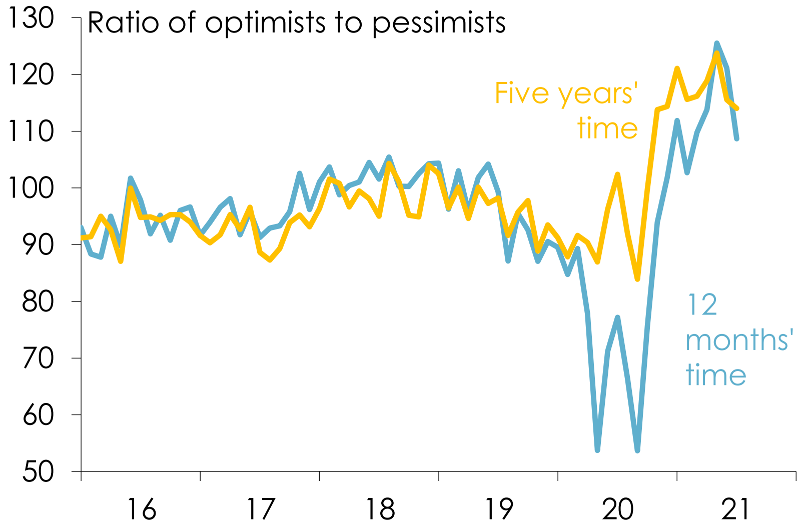
Household finances assessment



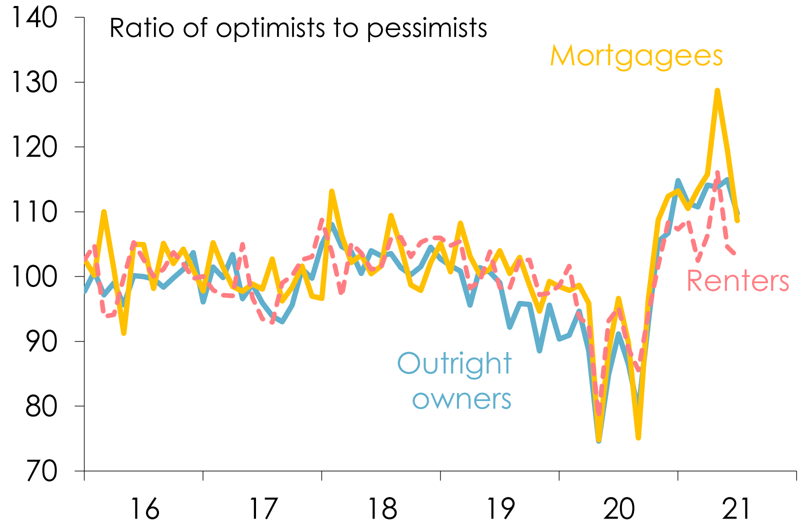
Buying conditions assessment



Economic conditions assessment



Confidence by housing tenure



Source: Westpac Banking Corporation. July consumer confidence will be released on 14th July. Return to "What's New".

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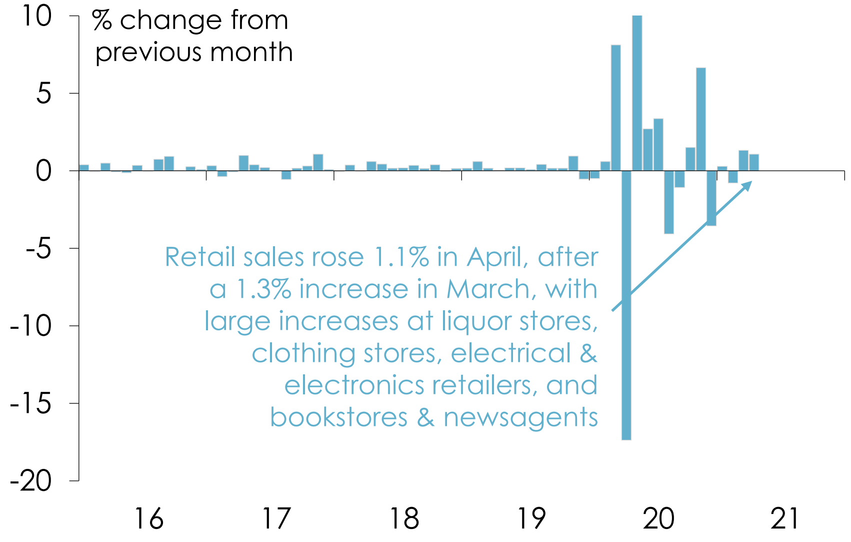
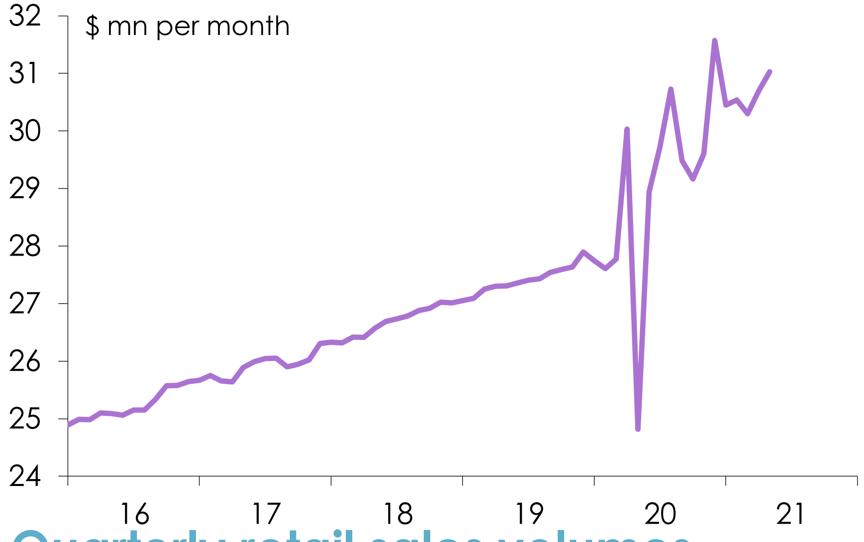
Retail sales rose 1.1% in April, after a 1.3% increase in March, to be 6½% above their average 2019 level, while car sales eased a little in May

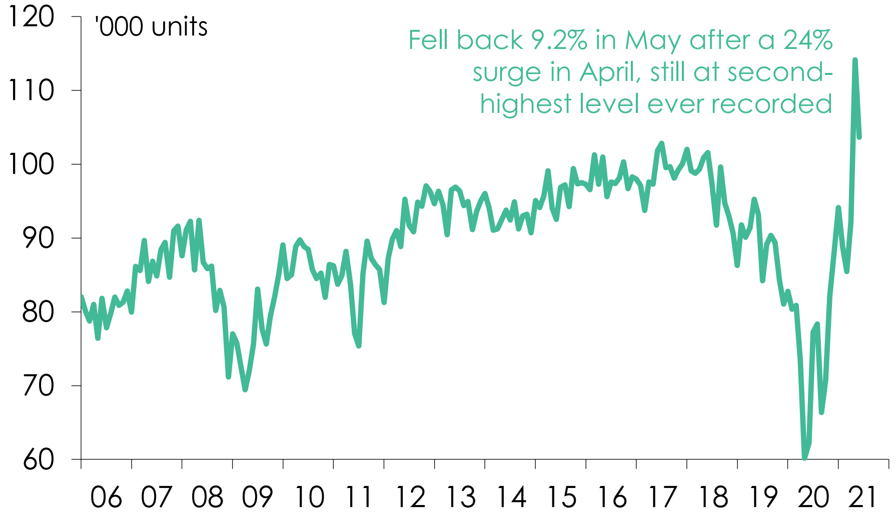
Monthly retail sales



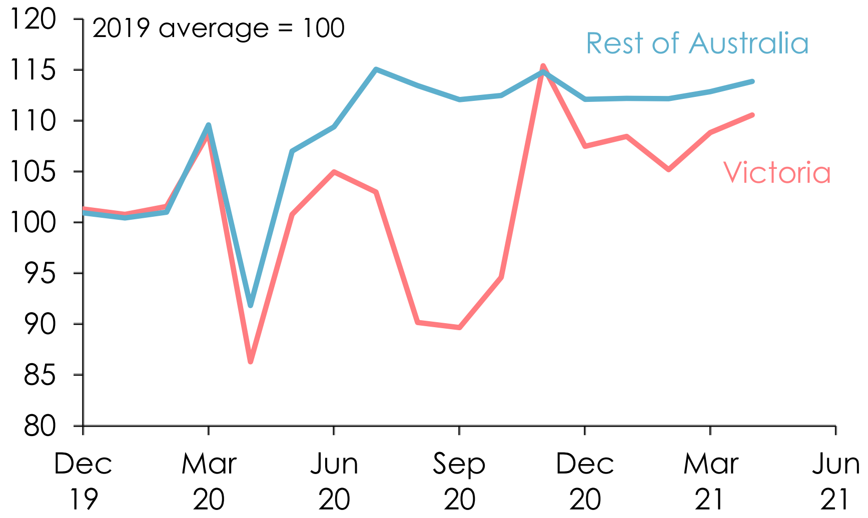
Level of retail sales



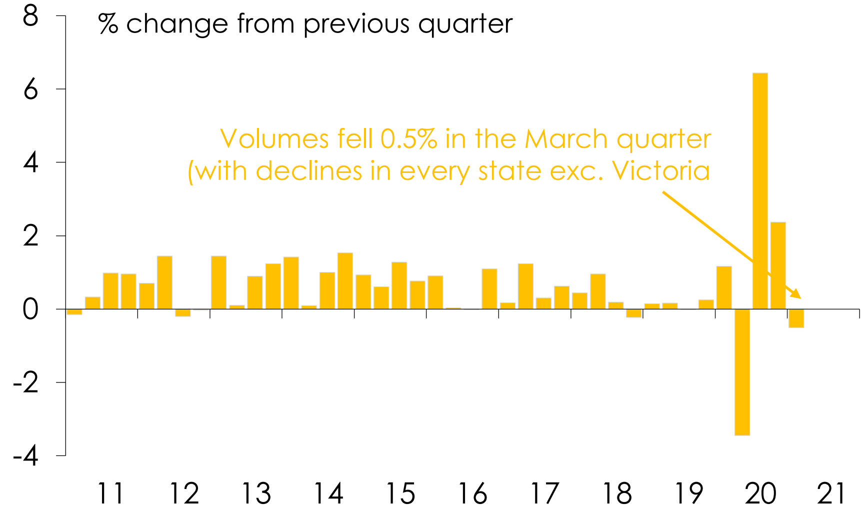
New motor vehicle sales



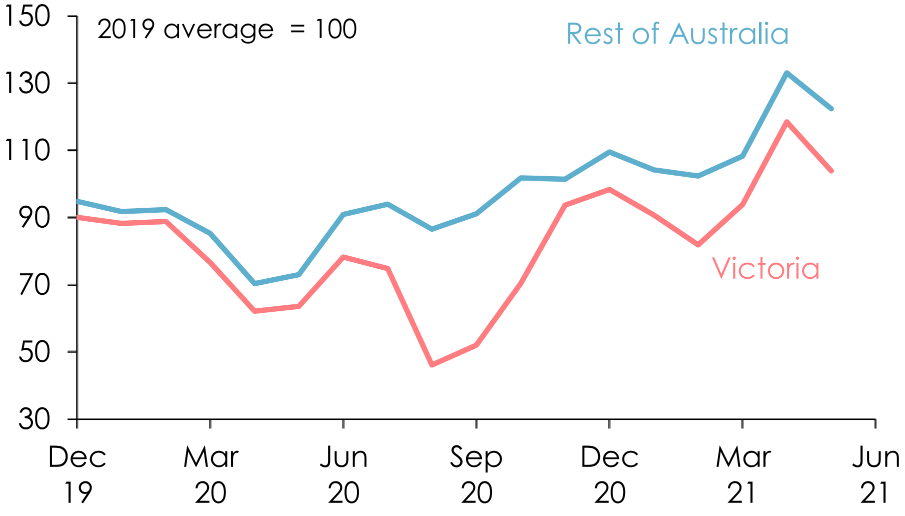
Retail sales – Victoria & the rest



Quarterly retail sales volumes



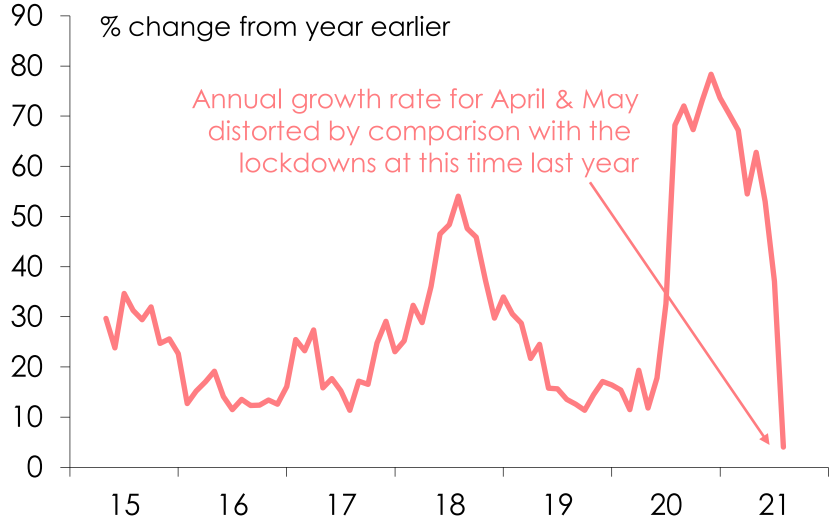
Vehicle sales – Victoria & the rest



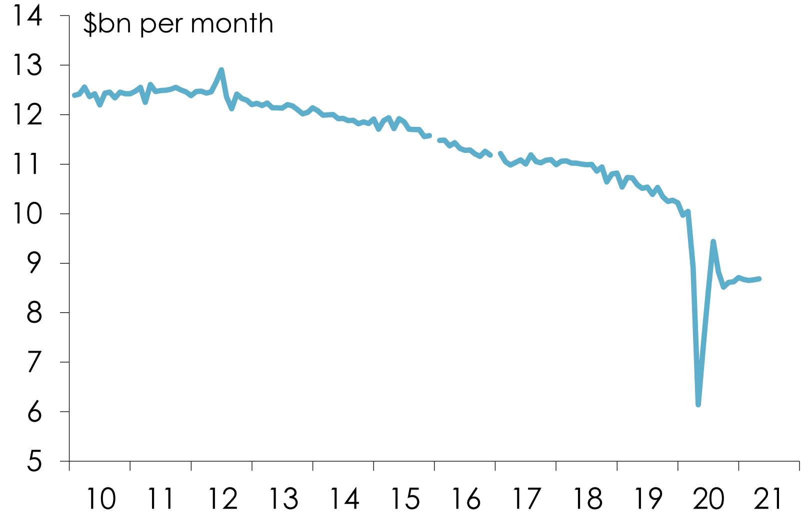
Note: see also slide 95 for more detail on the composition of retail sales since the onset of the pandemic. *Sources:* ABS, *Retail Trade, Australia*; Federal Chamber of Automotive Industries *VFACTS* (seasonal adjustment of FCAI data by Corinna). May retail sales data will be released on 5th July with preliminary data a few days earlier; June motor vehicle sales data will be released in the second week of July. Return to "What's New".

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

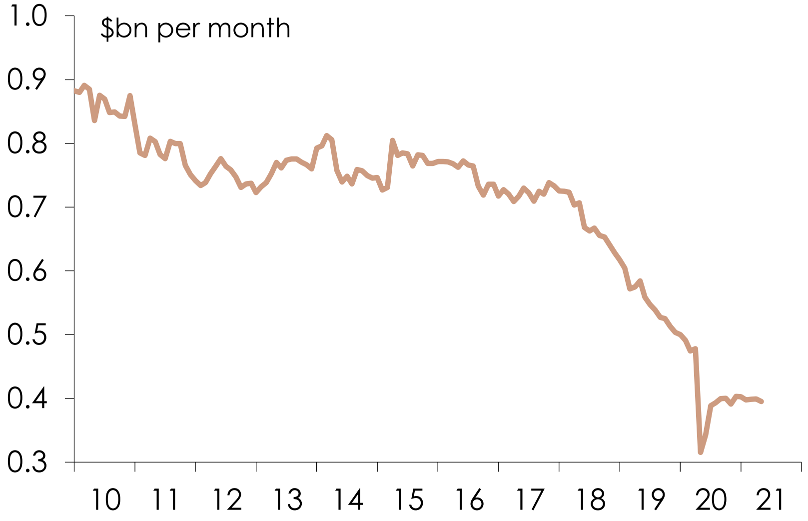
Growth in online retail sales



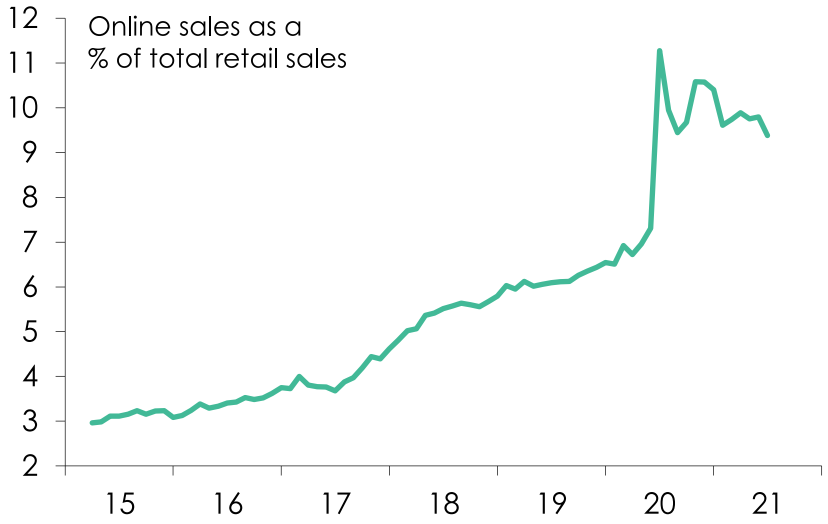
ATM cash withdrawals



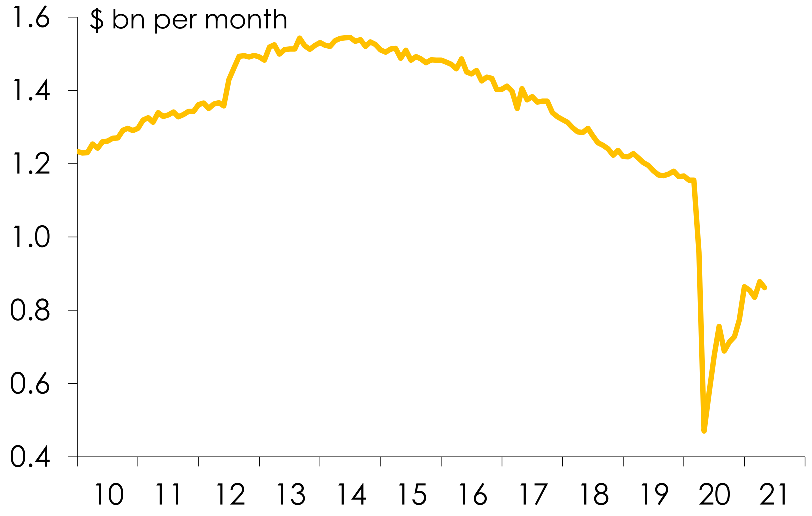
Credit card cash advances



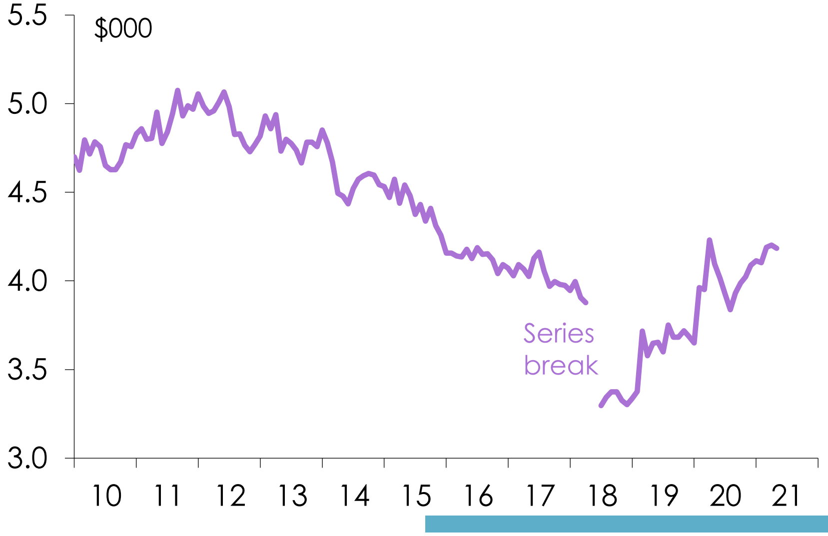
Online retail 'market share'



Debit card cash-outs



Direct entry payments

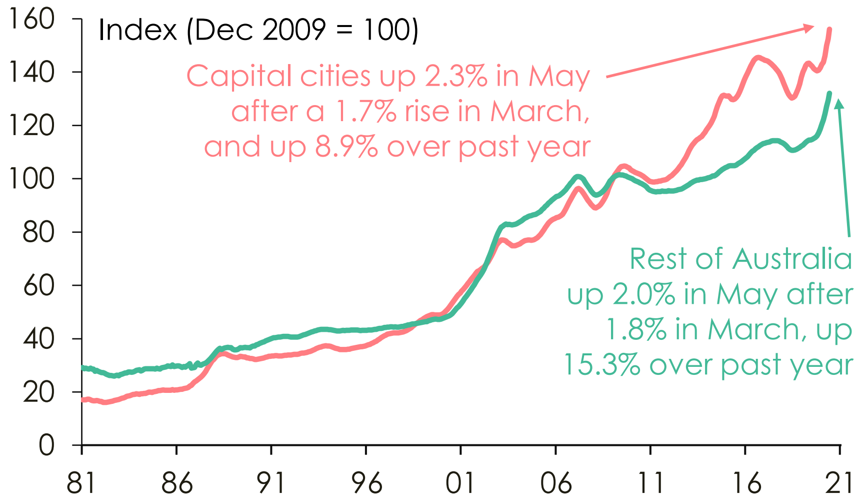


Sources: ABS, Retail Trade, Australia; RBA, Statistical Tables, C1, C2, C4 and C6. Latest data are for March: May data for online retail sales will be published on 5th July and for the payments system on 7th July.

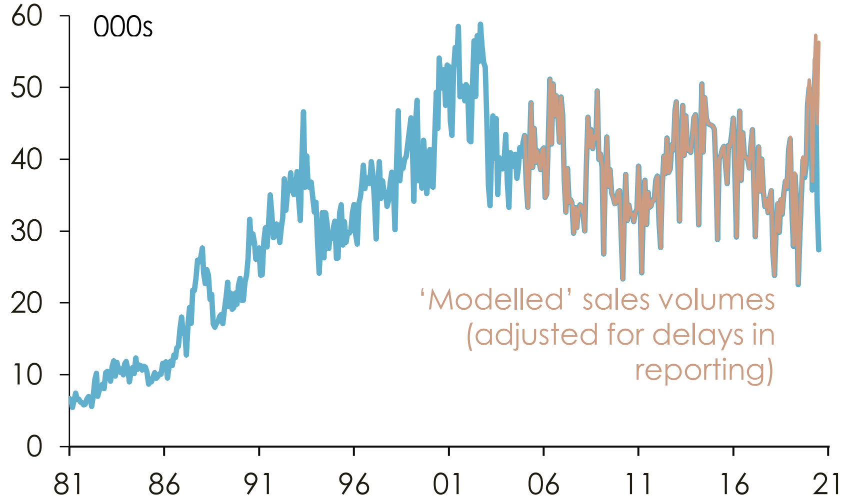
SAUL ESLAKE
CORINNA ECONOMIC ADVISORY

Property prices rose another 2.3% in May, for a gain of 9.4% so far this year and 10.2% since May last year

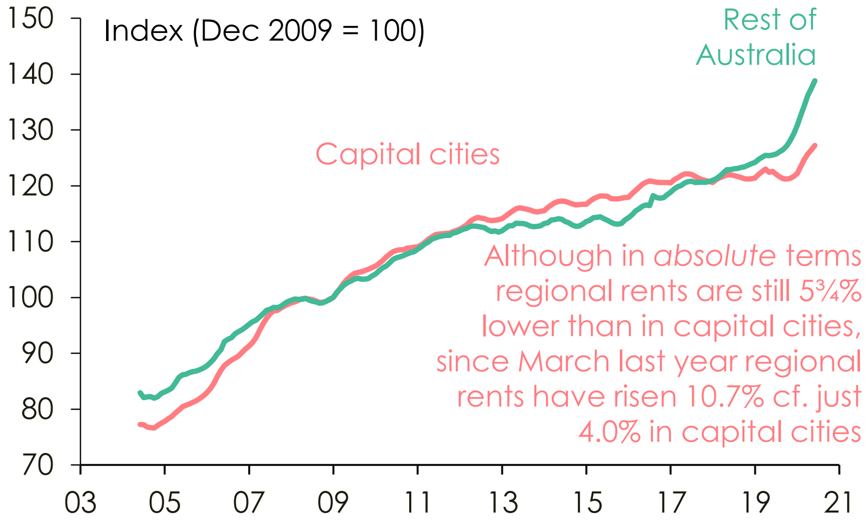
Residential property prices



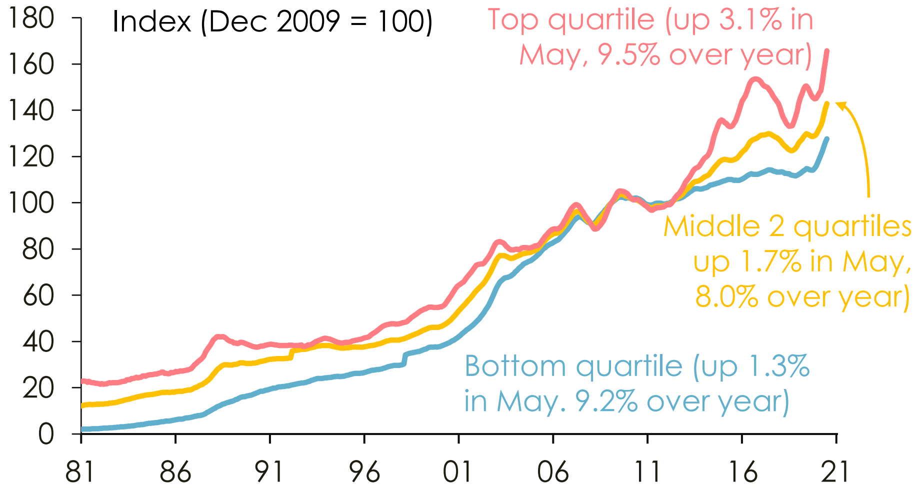
Residential property sales volumes



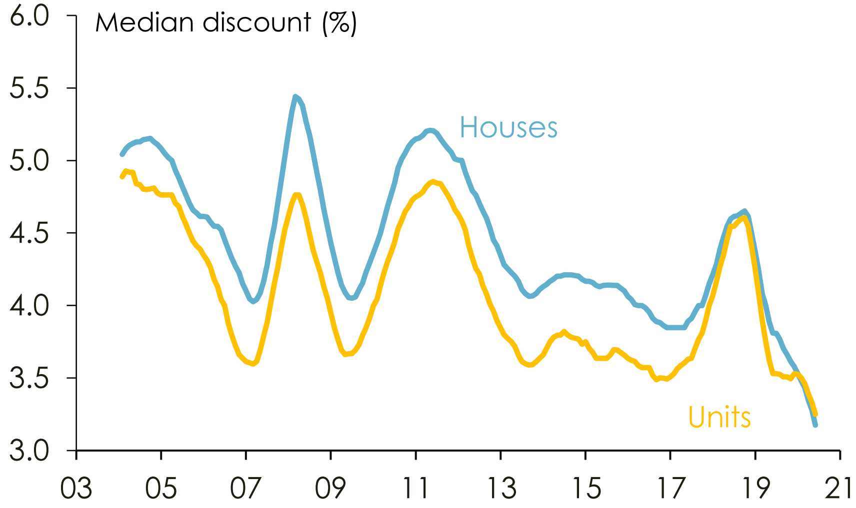
Residential rents



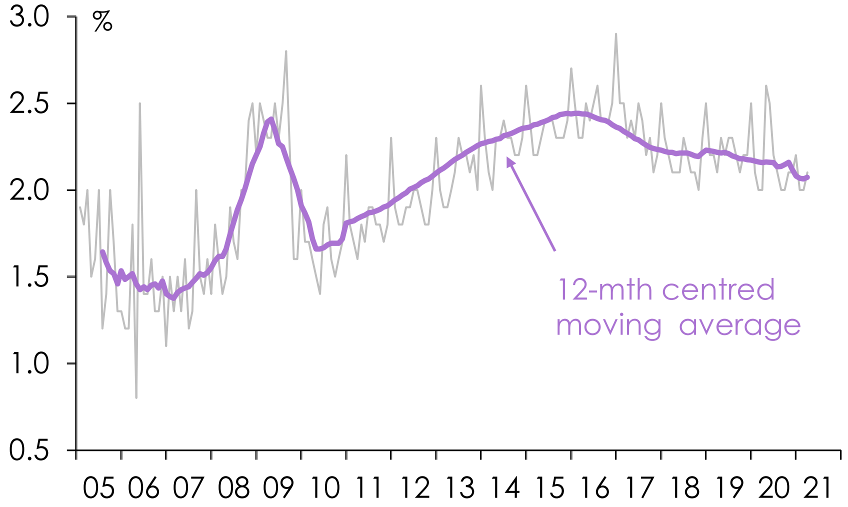
Property prices by tier



Vendor discounting



Capital city rental vacancy rates



Note: The index of property prices measures the 'organic' change in underlying sales values by using a hedonic regression methodology that takes account of changes in the characteristics of properties being sold from month to month. Property price data are now seasonally adjusted. The index of residential rents uses a similar methodology to measure the 'organic' change in underlying rents. The 'modelled' sales volume estimates seek to account for delays in receiving information on transactions that have yet to settle (which can be more than six weeks after the contract date). Latest data are for May (except for vacancy rates which is April). June prices, sales volumes and rents data will be released on 1st July. *Sources:* CoreLogic; SQM Research. Return to "What's New".

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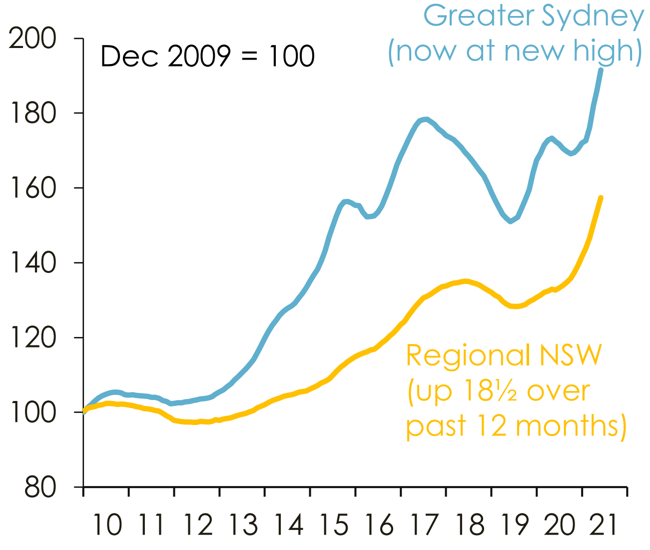
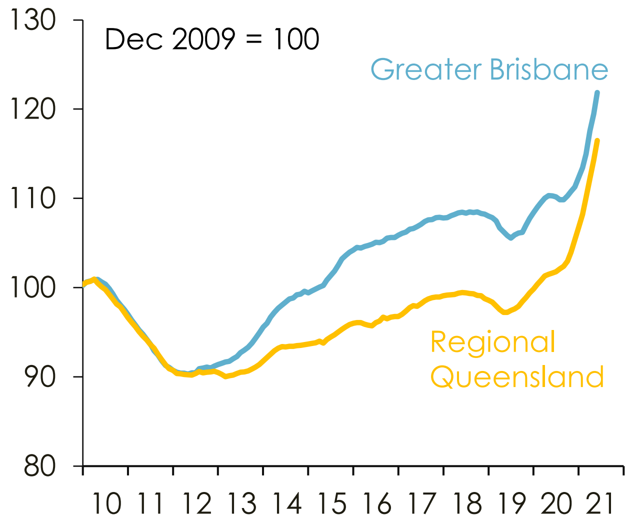
Perth and Darwin are now the only capital cities where property prices are still below their pre-pandemic (or mining boom) peaks

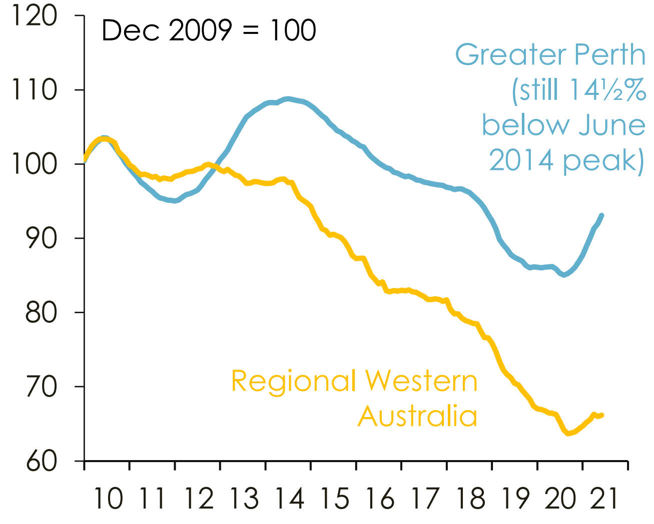
New South Wales



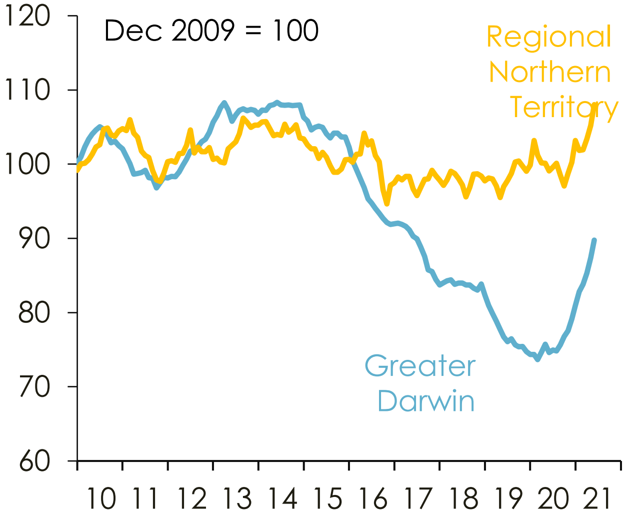
Queensland



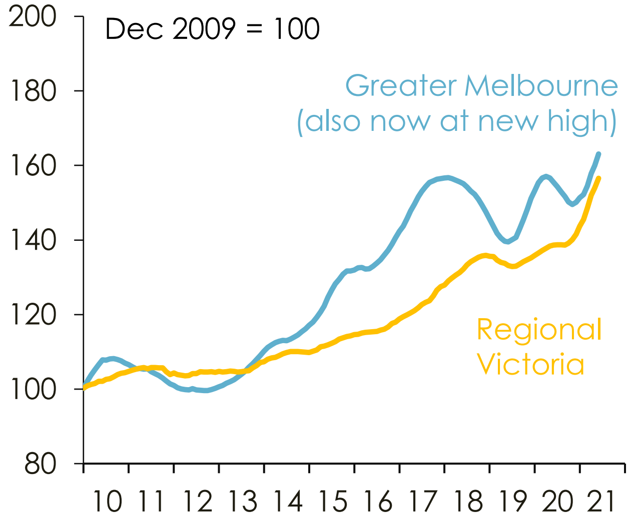
Western Australia



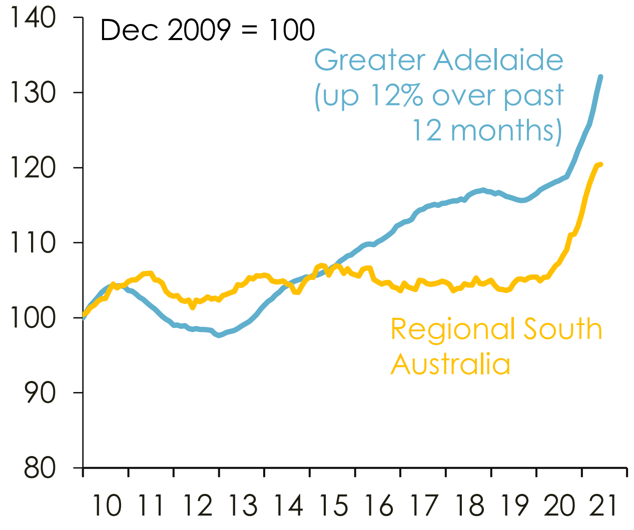
Northern Territory



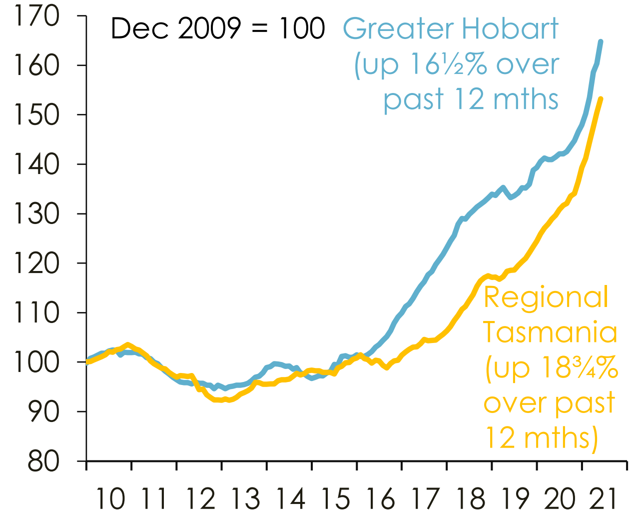
Victoria



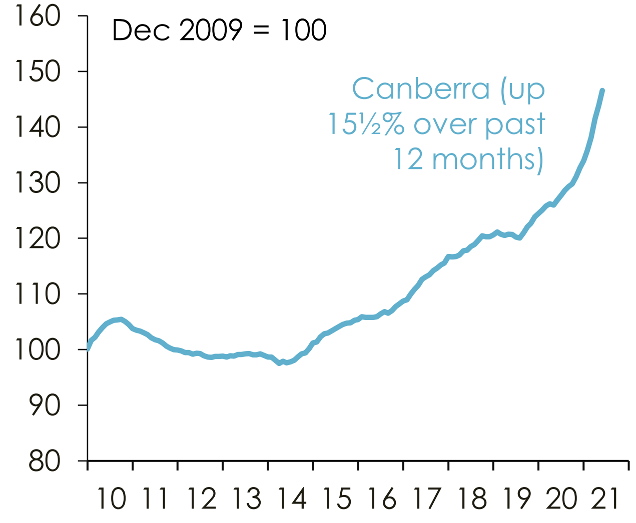
South Australia



Tasmania



Australian Capital Territory

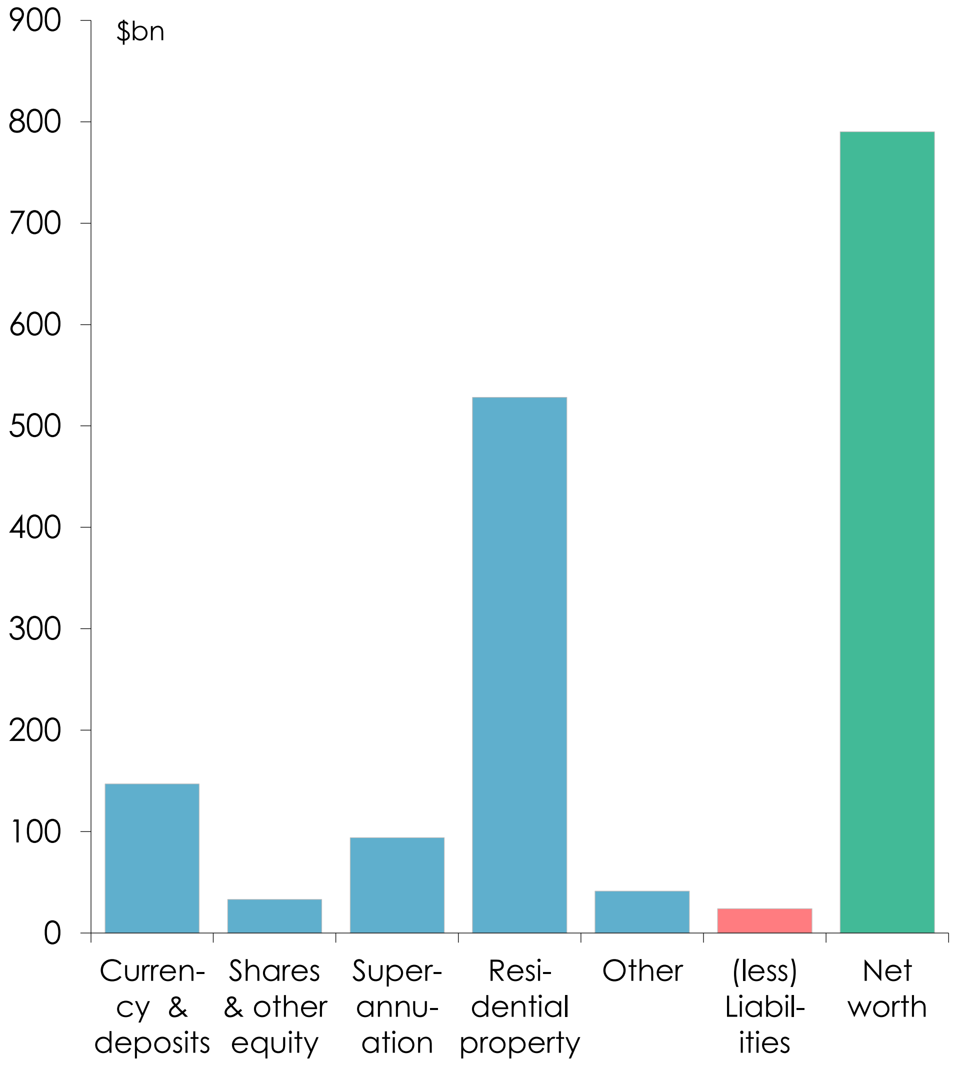


Note: The index of property prices measures the 'organic' change in underlying sales values by using a hedonic regression methodology that takes account of changes in the characteristics of properties being sold from month to month. Property price data are now seasonally adjusted. Latest data are for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

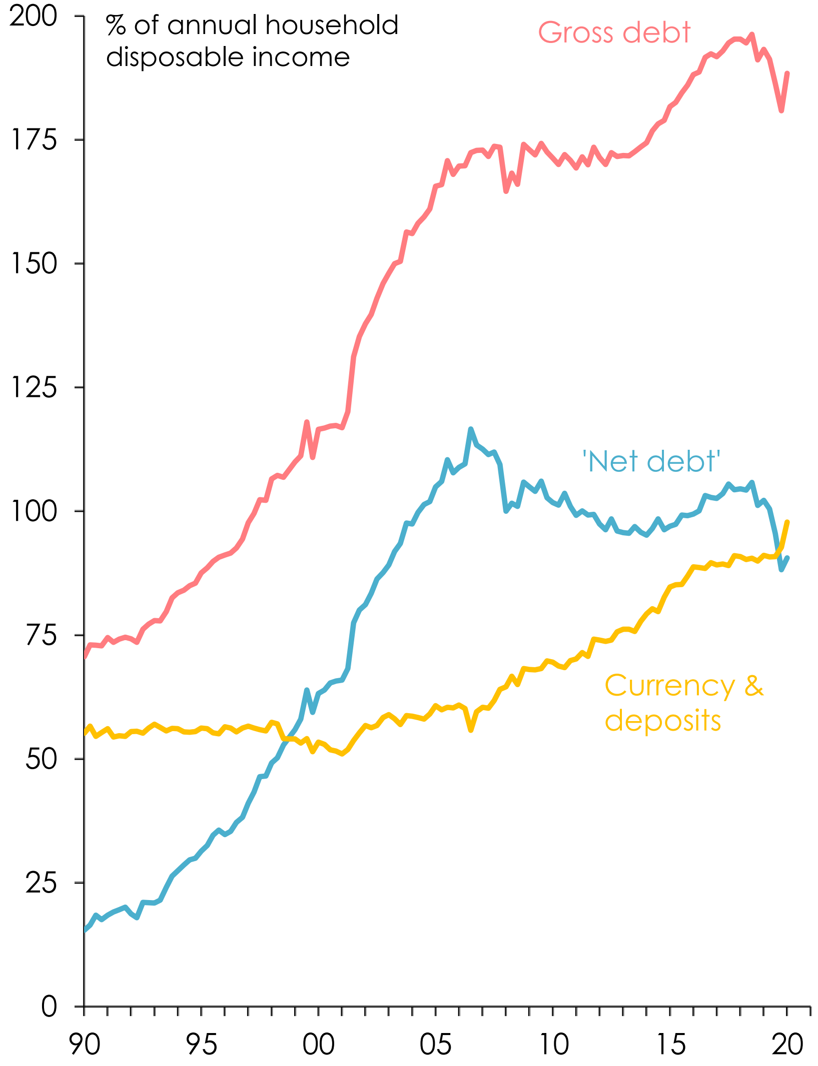
SAUL ESLAKE
CORINNA ECONOMIC ADVISORY

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

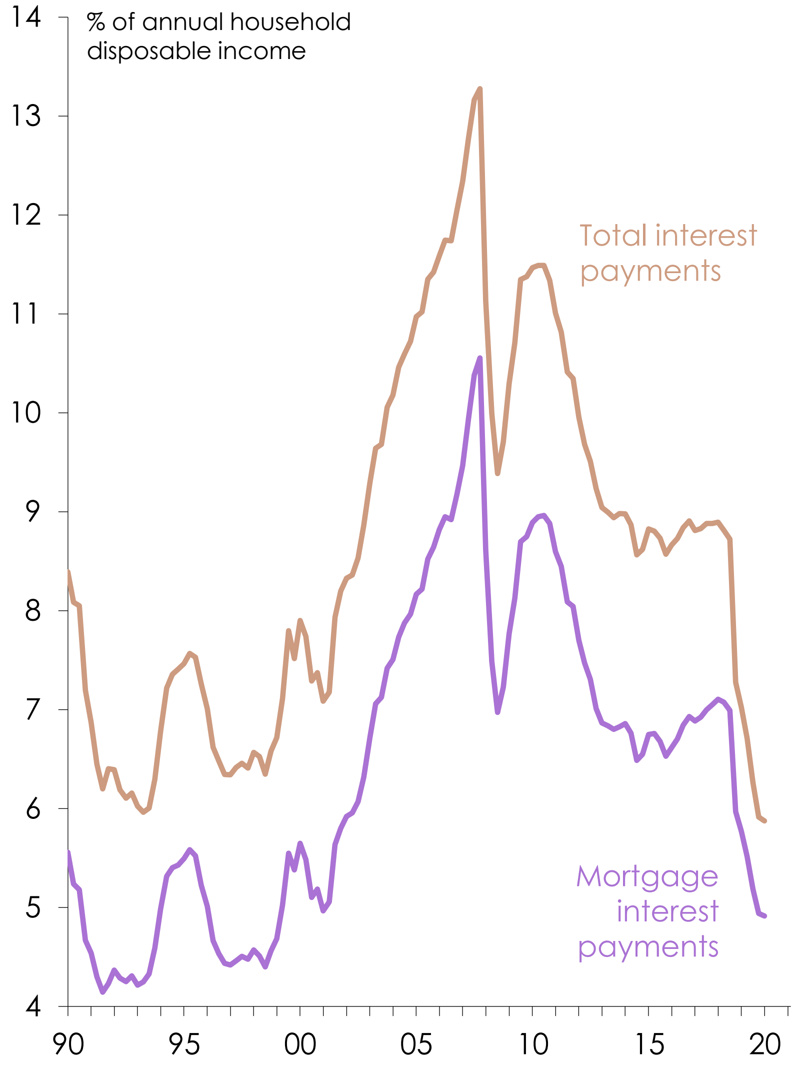
Sources of gains in household net worth, Q4 2019 to Q4 2020



Household debt-to-income ratio



Household interest-to-income ratio



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

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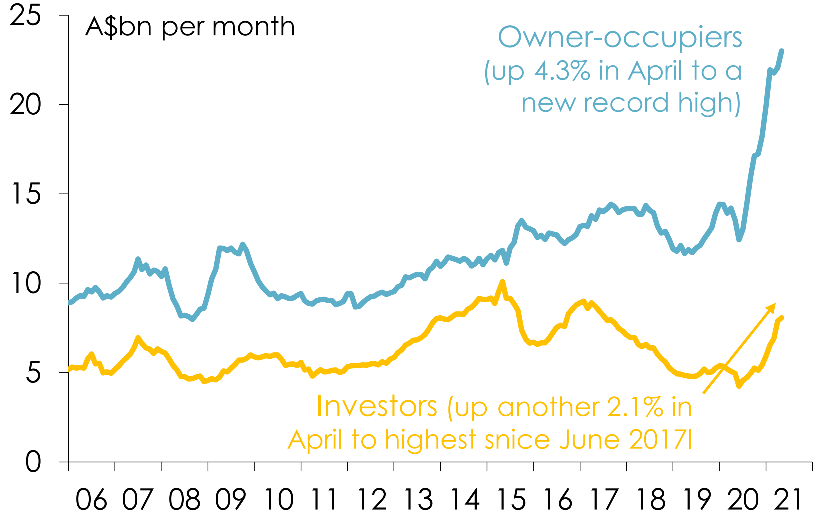
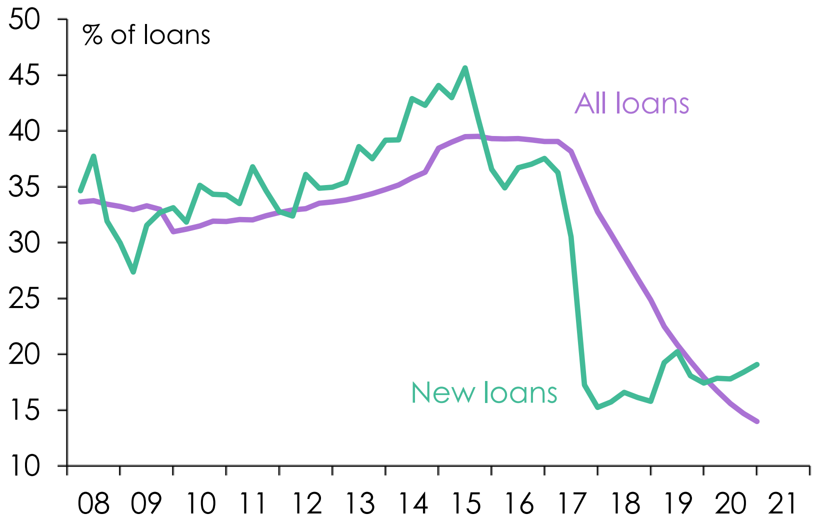
Lending to property investors and to existing home-owners ‘trading up’ has risen sharply in recent months while FHBs are again being ‘squeezed out’

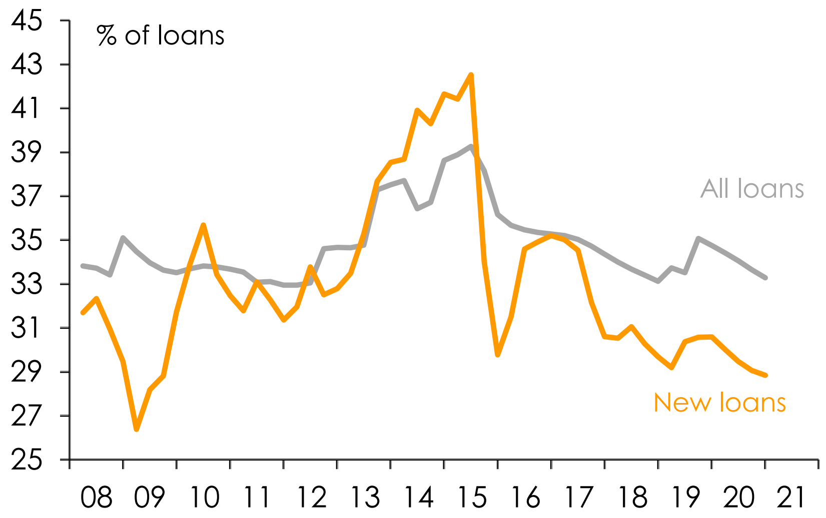
Housing finance commitments



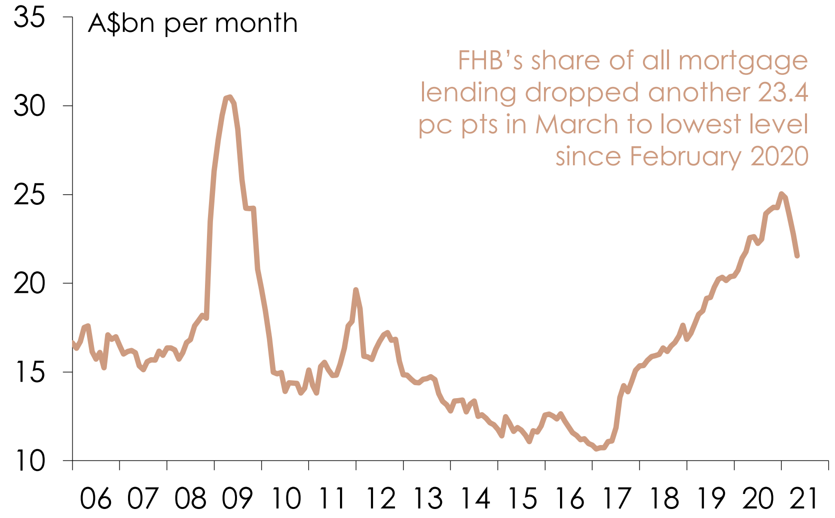
Interest-only loans as pc of total



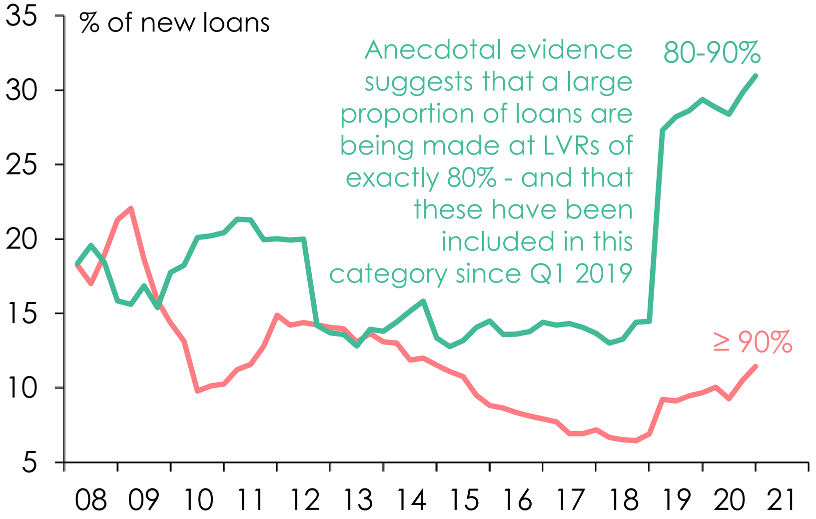
Loans to investors as a pc of total



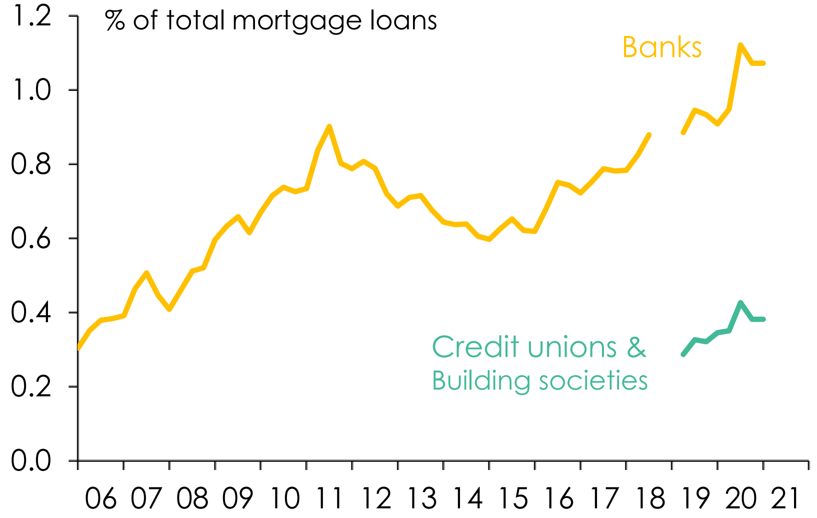
Lending to first home buyers



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. May housing finance data will be released on 2nd July; 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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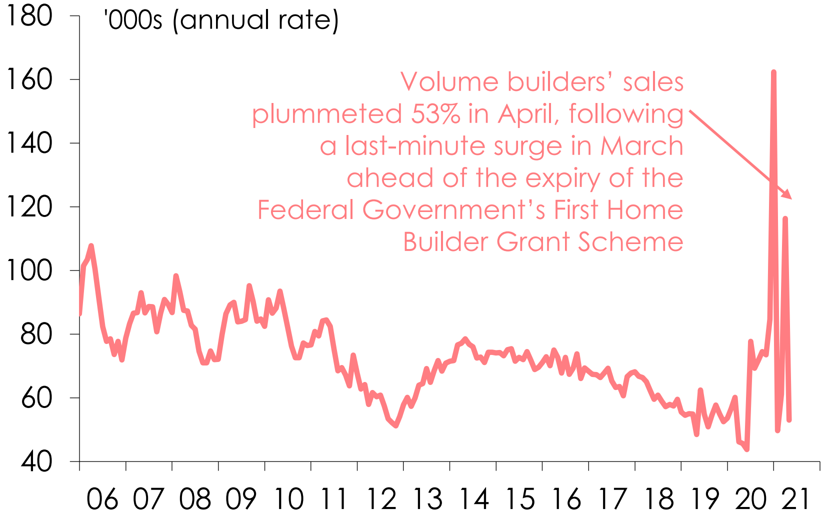
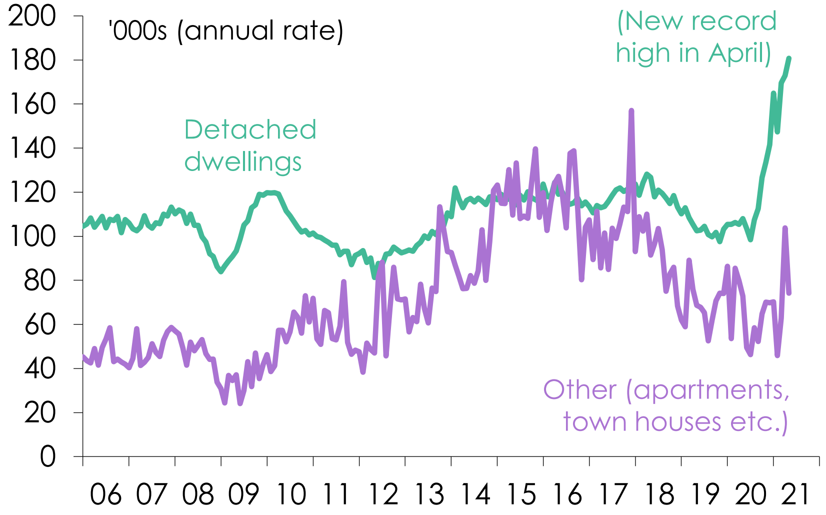
Building approvals remained at a near-record high in April, with a fall in the volatile apartments category offsetting a new record for houses

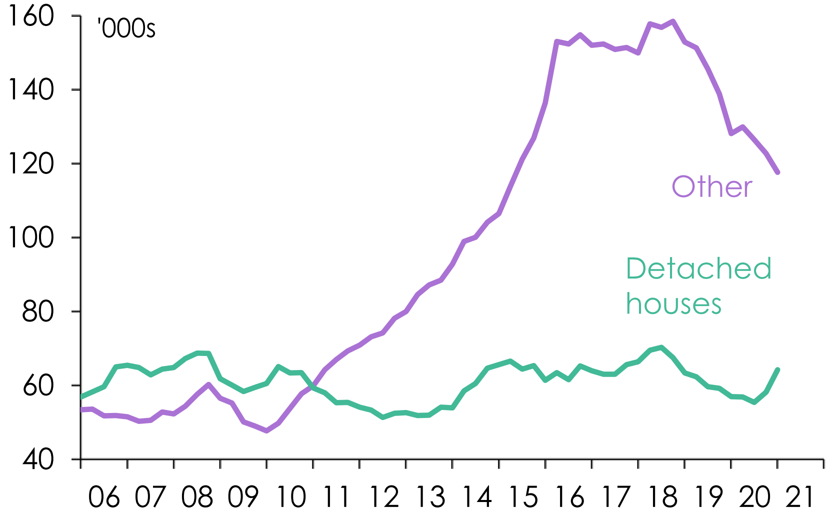
Large builders' new home sales



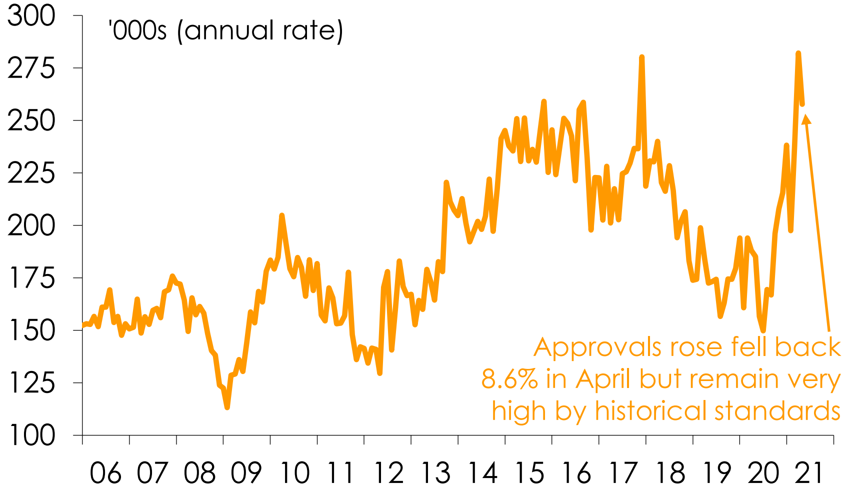
Building approvals, by type



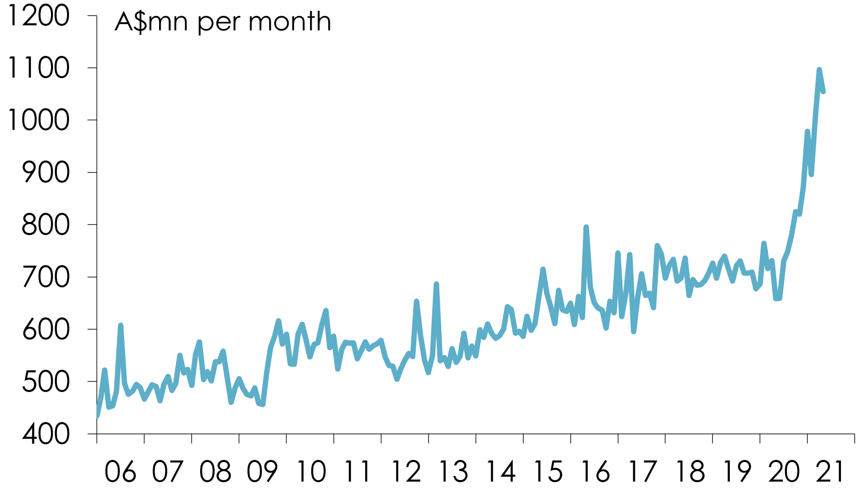
Dwellings under construction



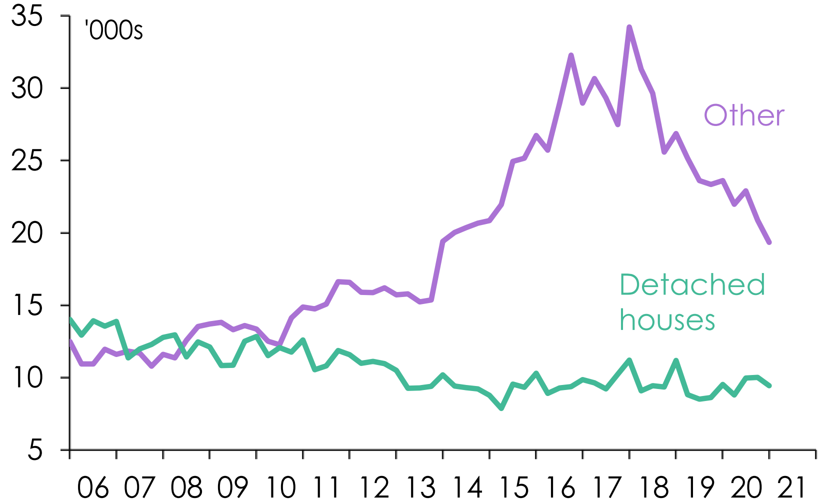
Residential building approvals



Alterations & additions approved



'Pipeline' of work yet to be started

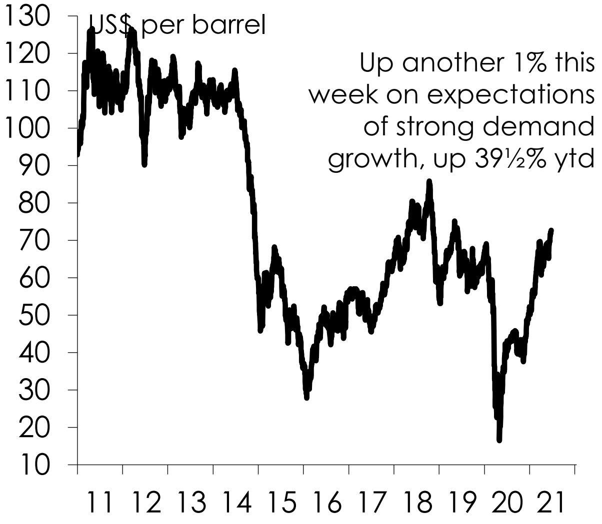


Note: 'New home sales' are of detached dwellings only and exclude small-scale builders. *Sources:* ABS; Housing Industry Association. May building approvals data will be released on 5th July; March quarter dwellings under construction and 'pipeline' data on 14th July. Return to "What's New".

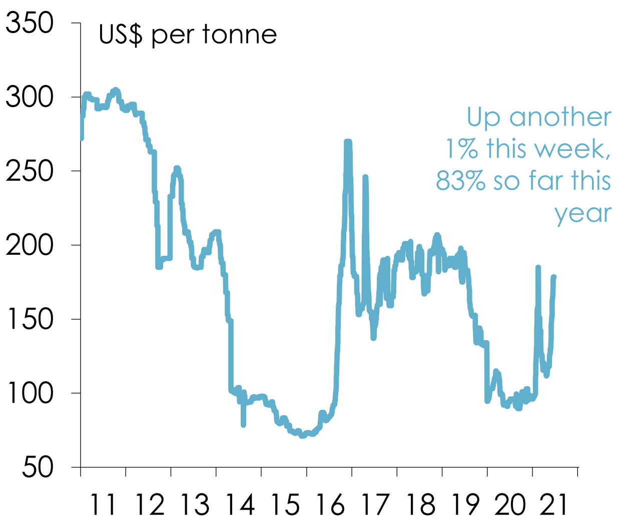
SAUL ESLAKE
CORINNA ECONOMIC ADVISORY

Iron and coal prices rose further this week, as did oil and most ag commodities

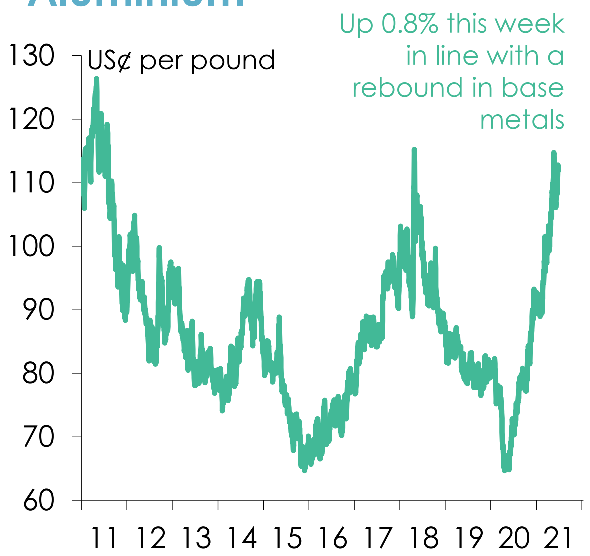
Brent crude oil



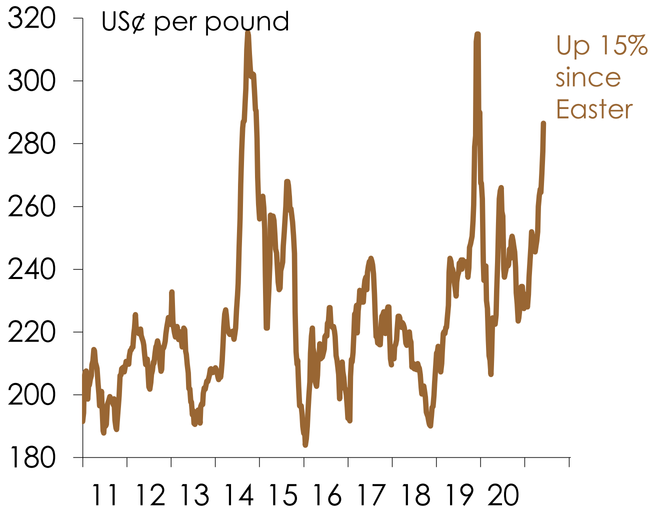
Metallurgical coal



Aluminium

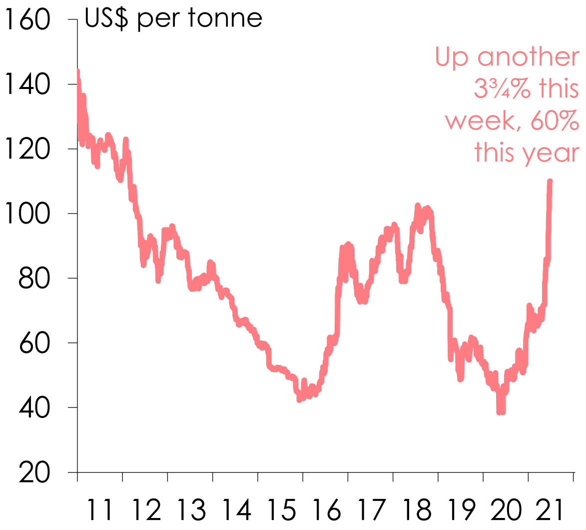


Beef

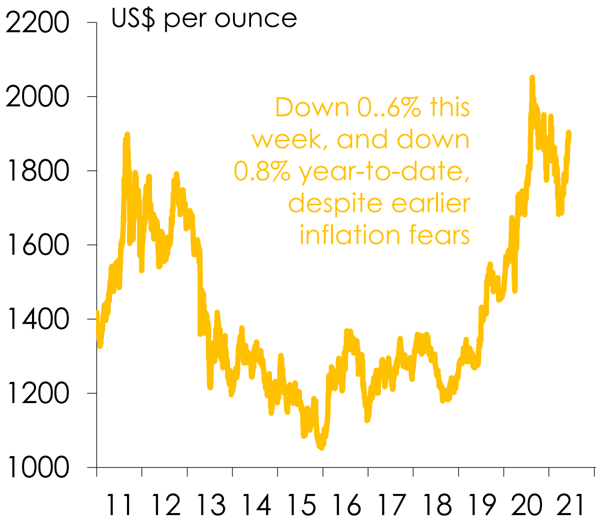


Iron ore

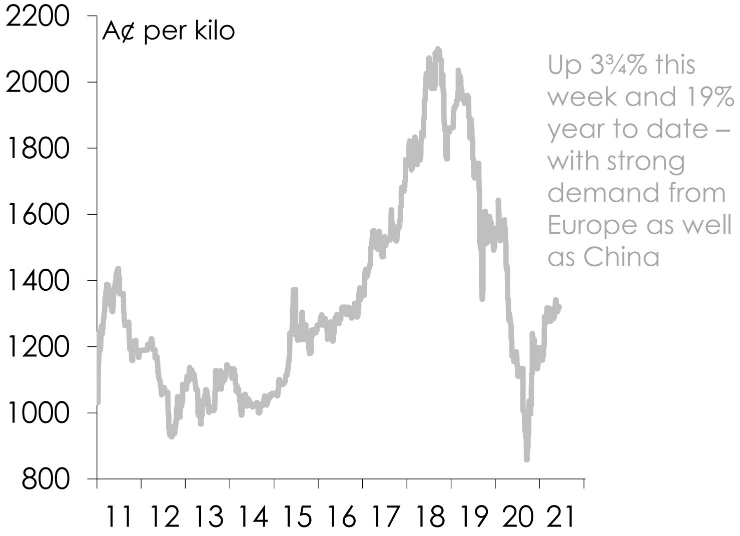
Thermal coal



Gold



Wool



Sources: Refinitiv Datastream; Meat & Livestock Australia; Australian Wool Innovation. See next slide for more on iron ore prices. Data up to 11th June.
Return to "What's New".

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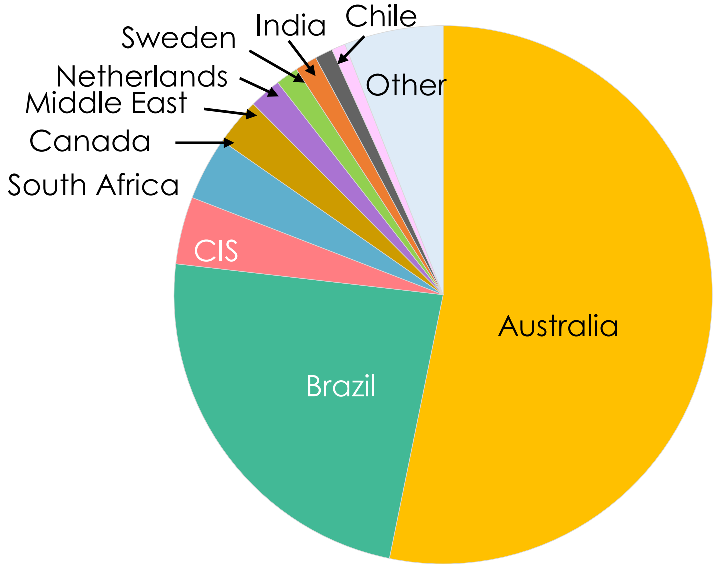
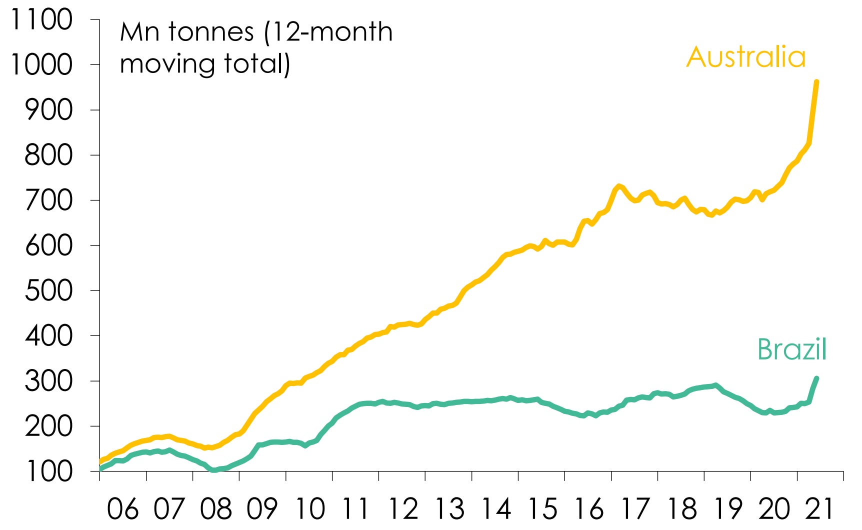
The resilience of iron ore prices stems from strong Chinese demand, declining Chinese production and constraints on Brazilian exports

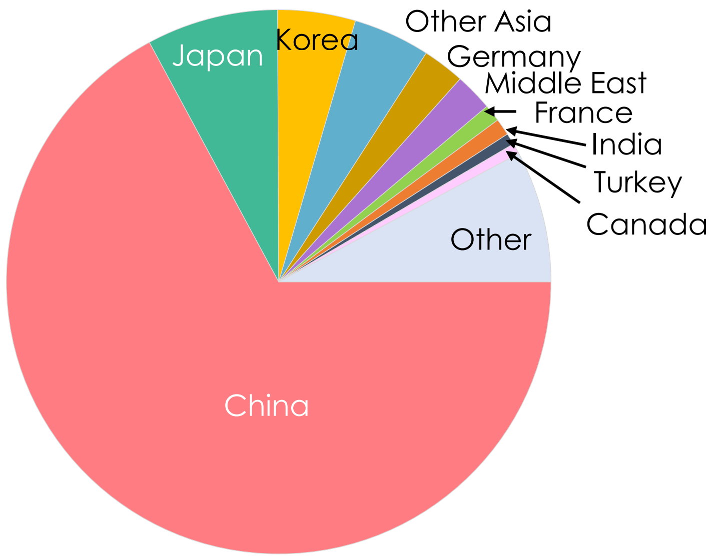
Iron ore exports, 2018



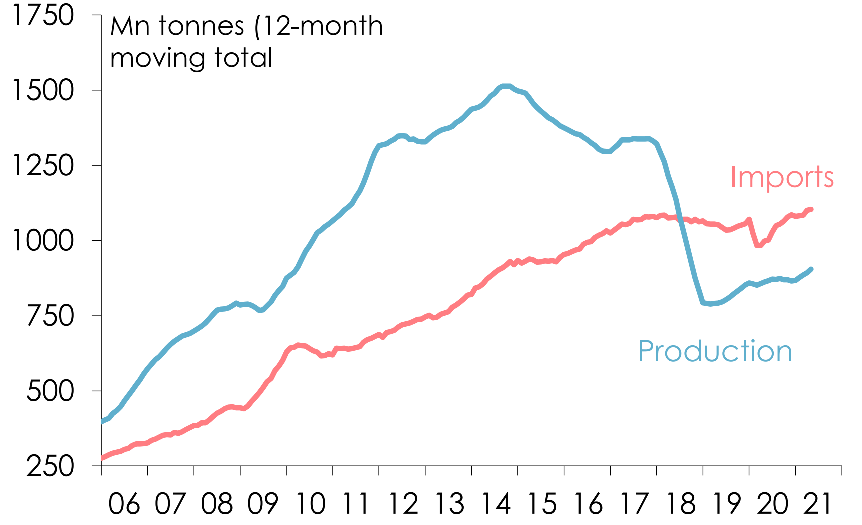
Australia & Brazil iron ore exports



Iron ore imports, 2018



China iron ore production & imports

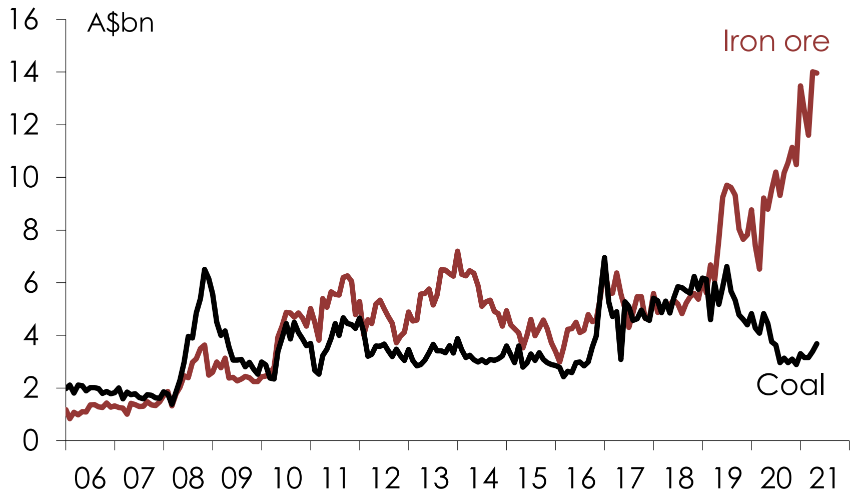


- The global iron ore trade is dominated by shipments from Australia & Brazil to China (which accounts for 53% of global steel production and 51% of steel use) – no other exporter has more than 4% of the global seaborne trade
- Chinese iron ore production has fallen by more than 34% since 2017, largely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

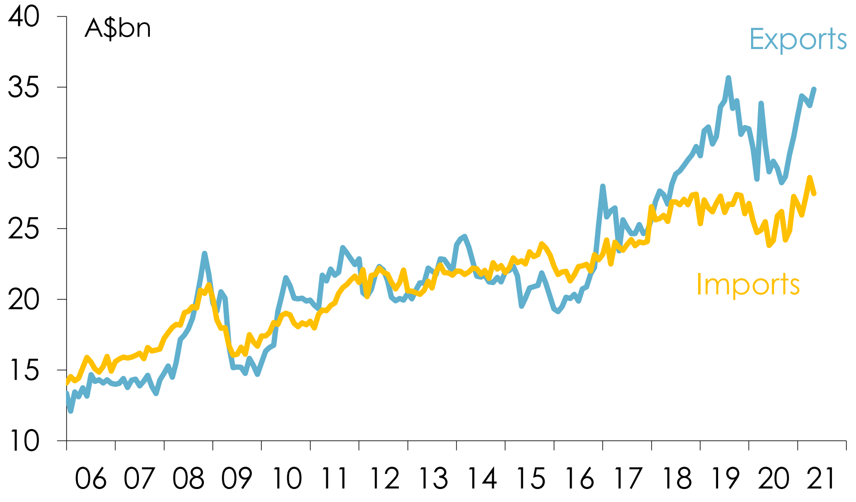
Note: Export volume data for Australia and Brazil derived by dividing export values (in US$) from ABS and IGBE by the average US$ price of Chinese iron ore imports.
Sources: World Steel Association; China National Bureau of Statistics; China General Administration of Customs; Refinitiv Datastream; ABS;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

Australia's (goods and services) trade balance jumped $2¼bn to $8bn in April, with exports up 3% and imports down 3¼%

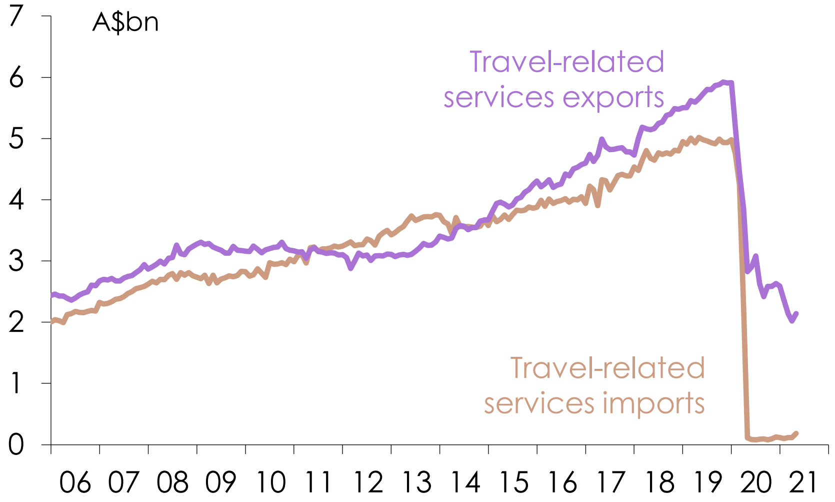
Iron ore and coal exports



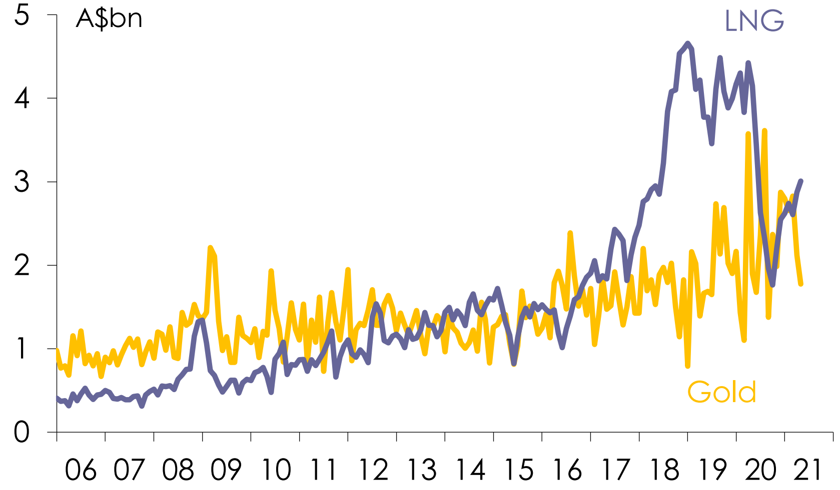
Merchandise exports and imports



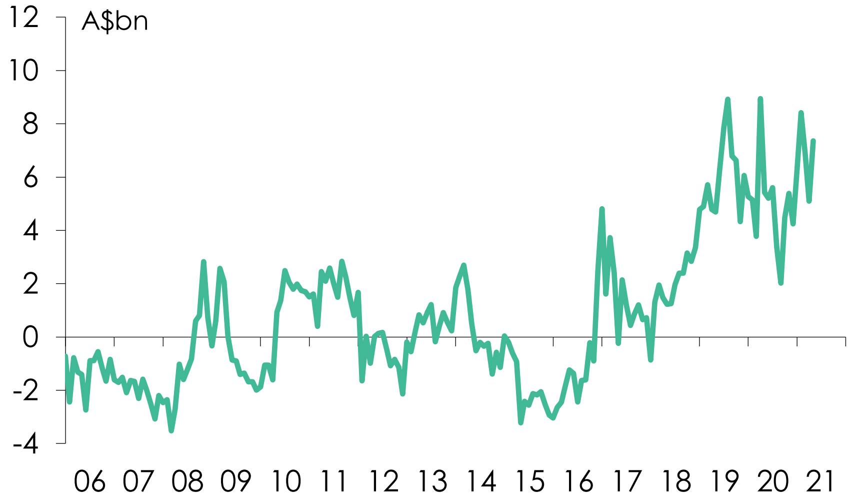
Tourism-related services trade



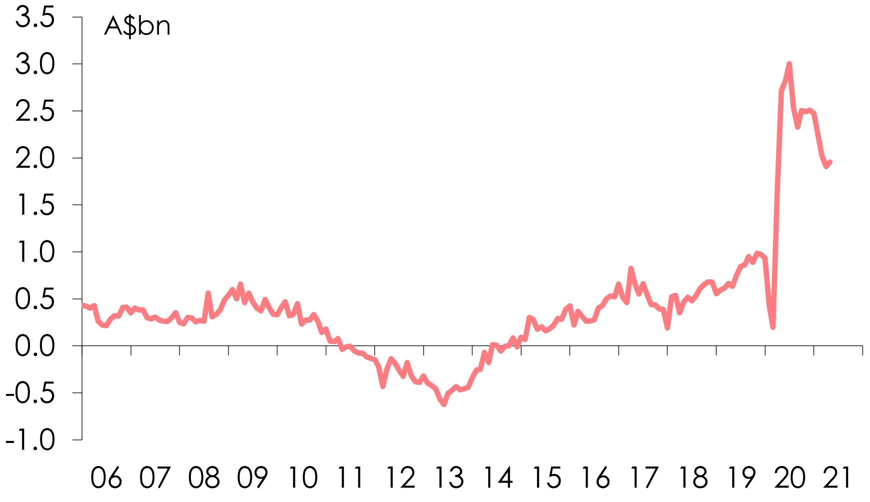
LNG and gold exports



Merchandise trade balance



Tourism services trade balance

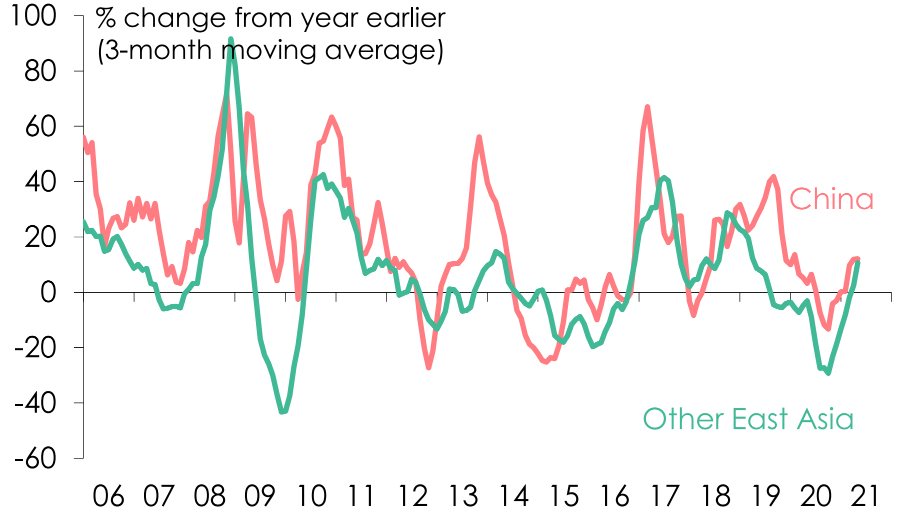


Note: (e) Seasonally adjusted estimate for April derived by Corinna assuming identical seasonal factors as applied to original data for April 2020.
Source: ABS, International Trade in Goods and Services, Australia. May data will be published on 1st July with preliminary (and not seasonally adjusted) merchandise trade data a week or so earlier. Return to "What's New".

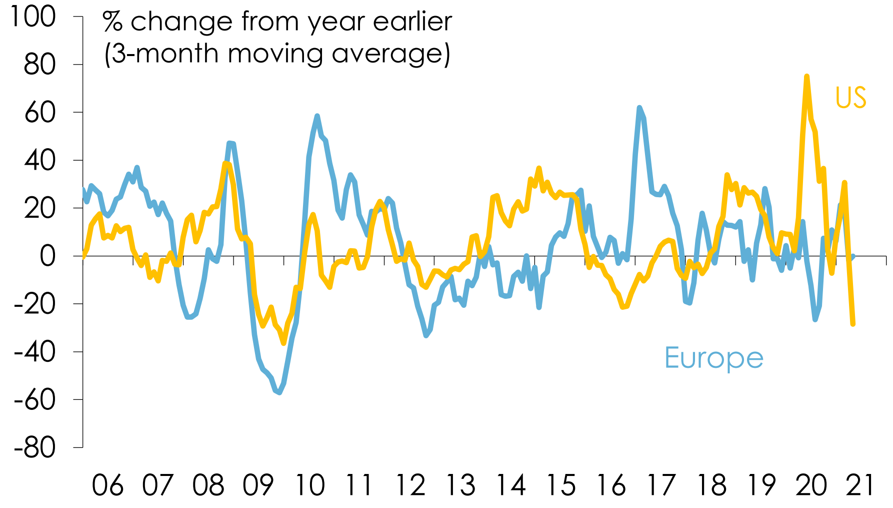
SAUL ESLAKE
CORINNA ECONOMIC ADVISORY

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

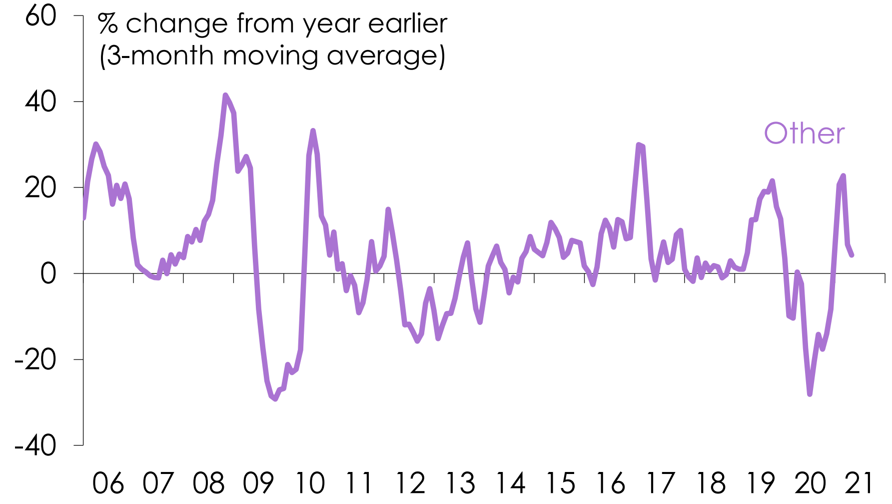
Merchandise exports – East Asia



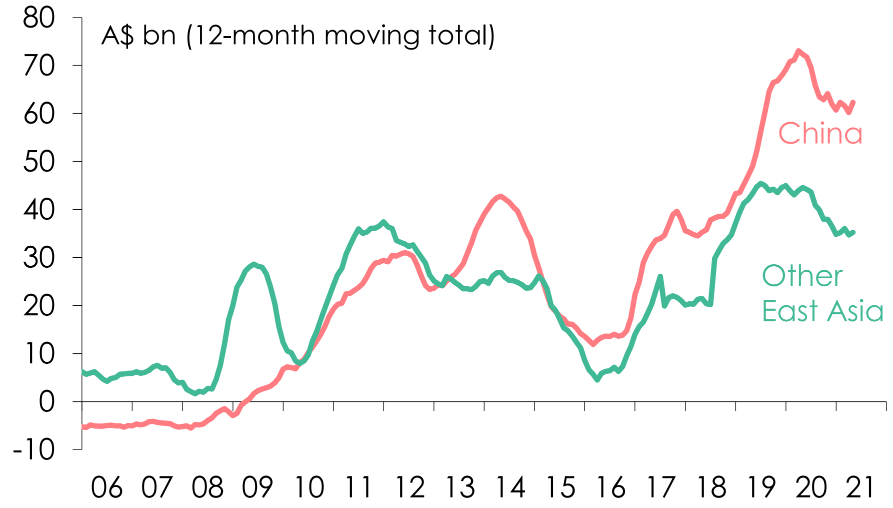
Merchandise exports – US & Europe



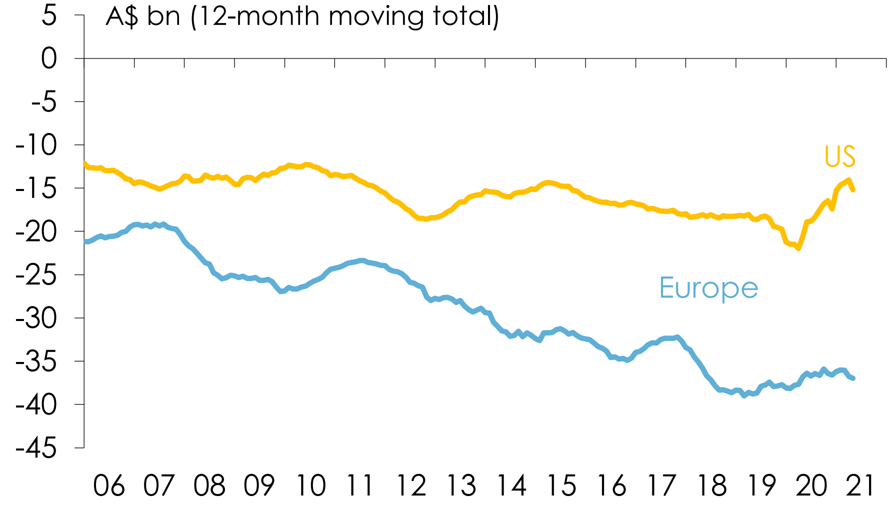
Merchandise exports – other



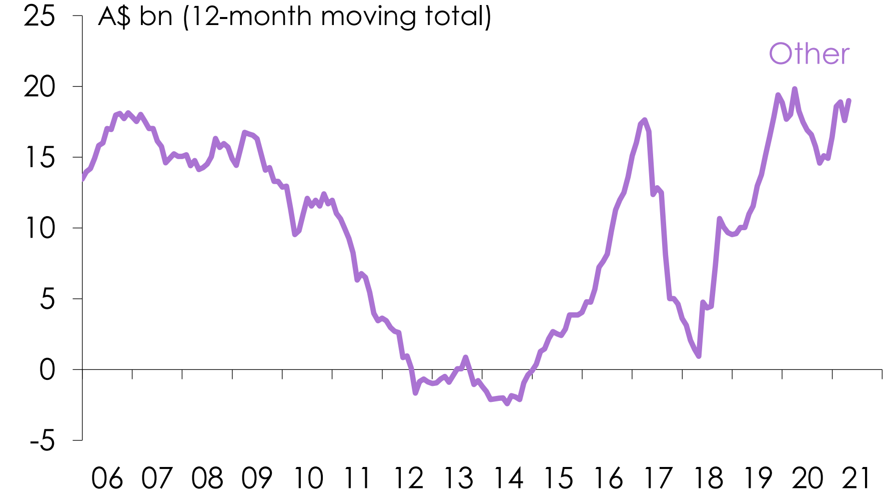
Goods trade balance – East Asia



Goods trade balance – US & Europe



Goods trade balance – other



Note: 'Other East Asia' includes Japan, Korea, Taiwan, Hong Kong and ASEAN. 'Europe' includes the EU, UK and Switzerland. 'Other' includes India, New Zealand and the Pacific, Canada, Latin America, Africa, the Middle East and others not included in the foregoing. Latest data are for March. *Source:* ABS, *International Merchandise Trade, Preliminary, Australia* and *International Trade in Goods and Services, Australia*. Final data for April released on 10th June. Return to "What's New".

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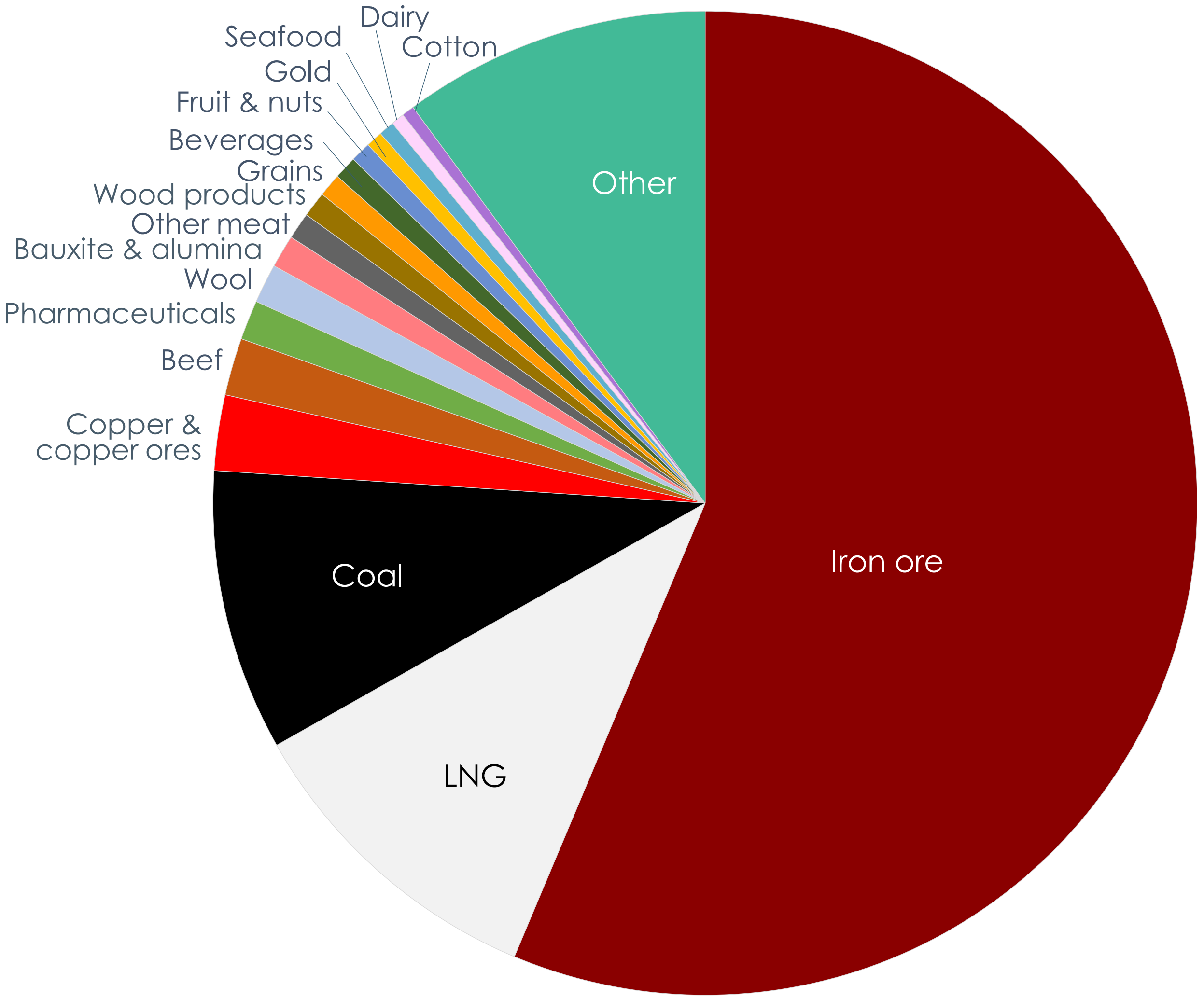
Australia's bilateral relations with China deteriorated sharply in the latter part of 2020 and there are likely to be material economic effects

Australia's merchandise exports to China, 2019-20

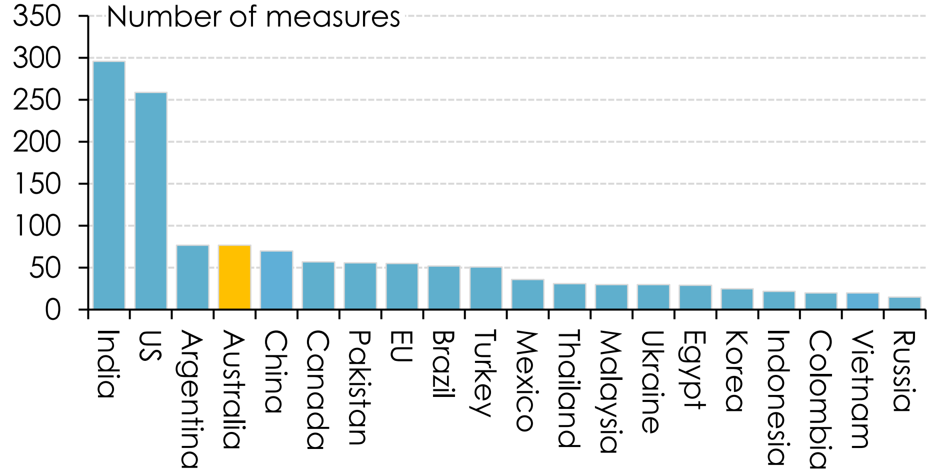


Note: 'Wood' includes wood products; 'dairy' includes milk, cream, butter & cheese; 'seafood' includes crustaceans, fish and processed seafood; 'other' includes confidential items.
Sources: Department of Foreign Affairs & Trade, Trade Statistical Pivot Tables; Corinna.
Return to "What's New".

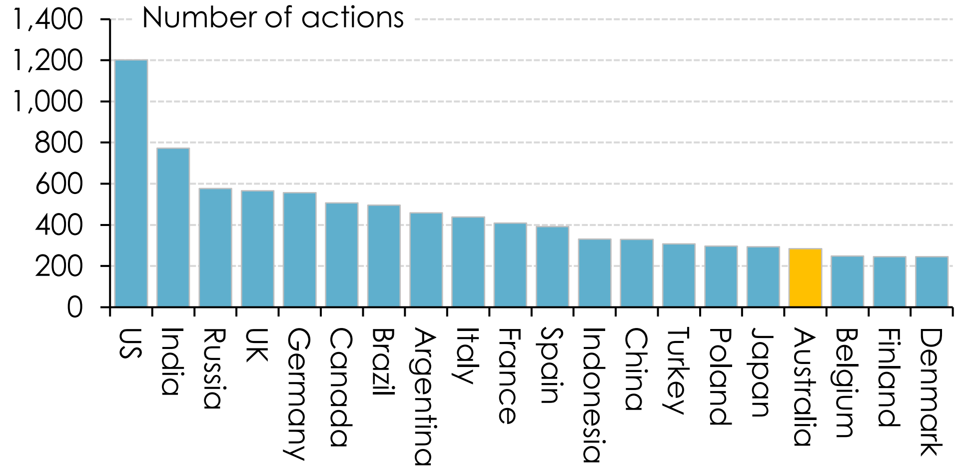
- China accounted for 39½% of Australia's merchandise exports in FY 2019-20 (the largest proportion any country has since the mid-1950s when 36% of Australia's exports went to the UK)
  - of which iron ore & concentrates accounts for 56%
- China also accounted for 19% of Australia's services exports in CY 2019
  - of which 'travel' (tourism & education) accounted for over 90%)
- China has no real alternatives to Australian iron ore (slide 121)
- 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
- Last month 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

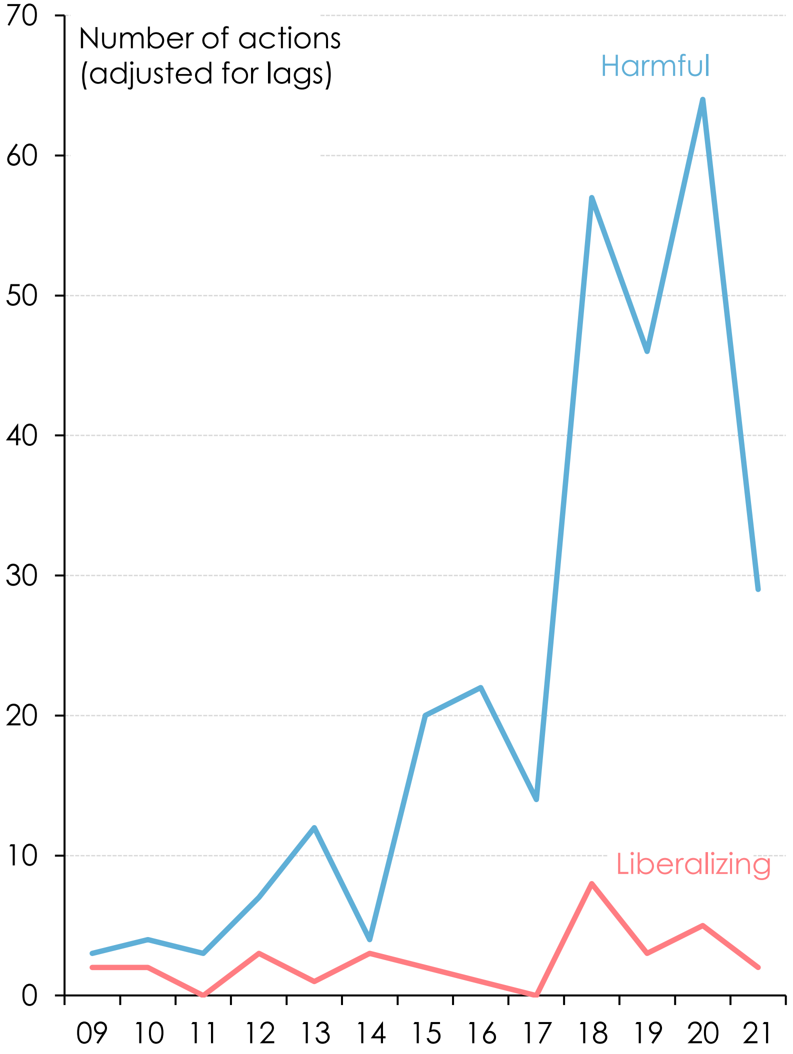
Number of anti-dumping measures imposed, 2015-20



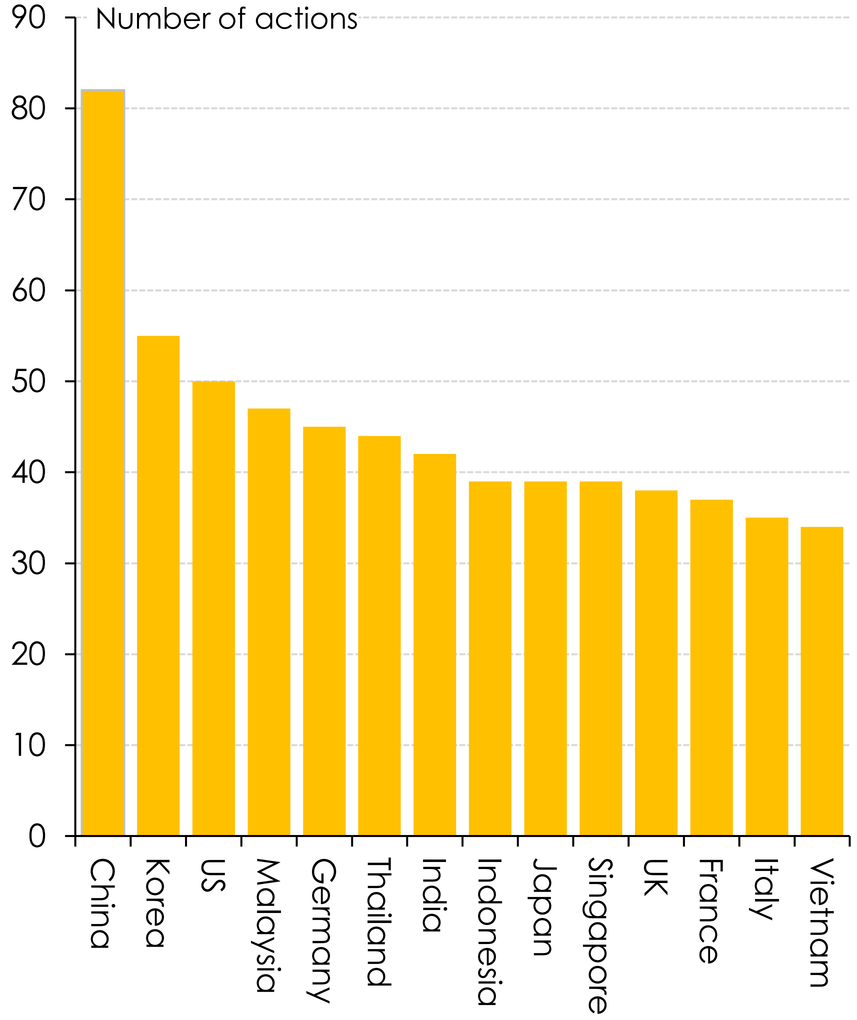
Number of harmful trade policy interventions, 2009-2021



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 11th June). Return to "What's New".

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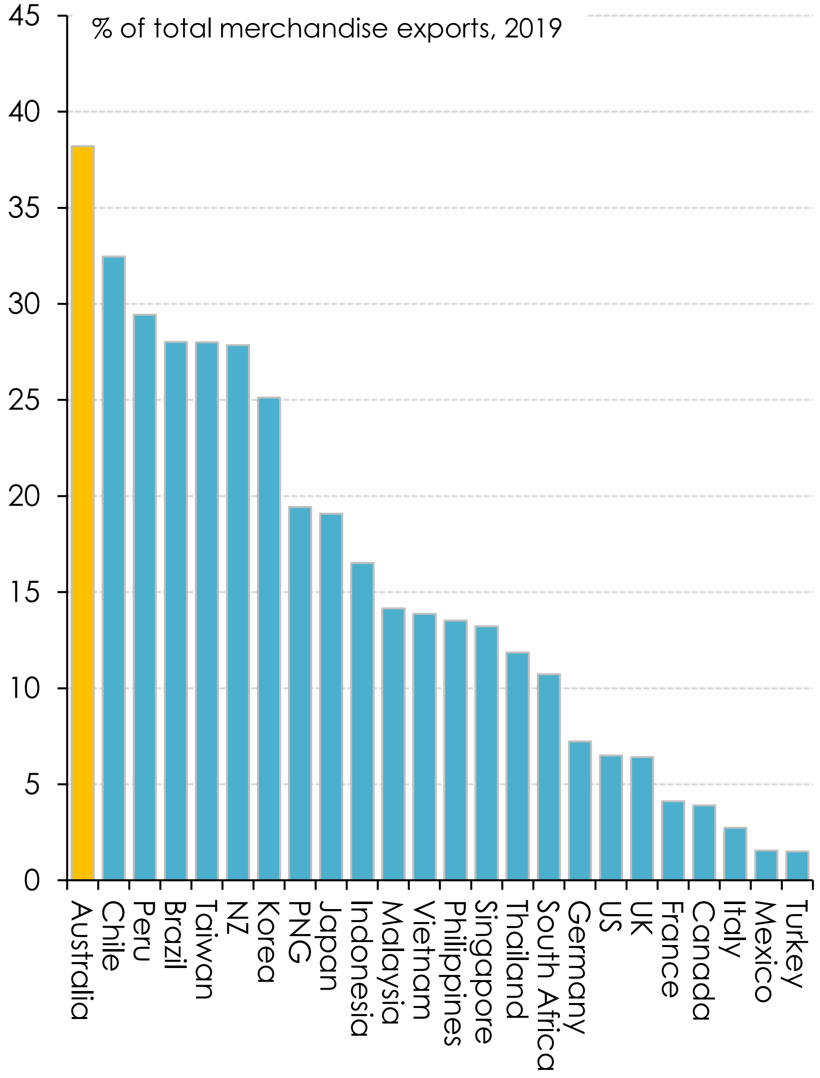
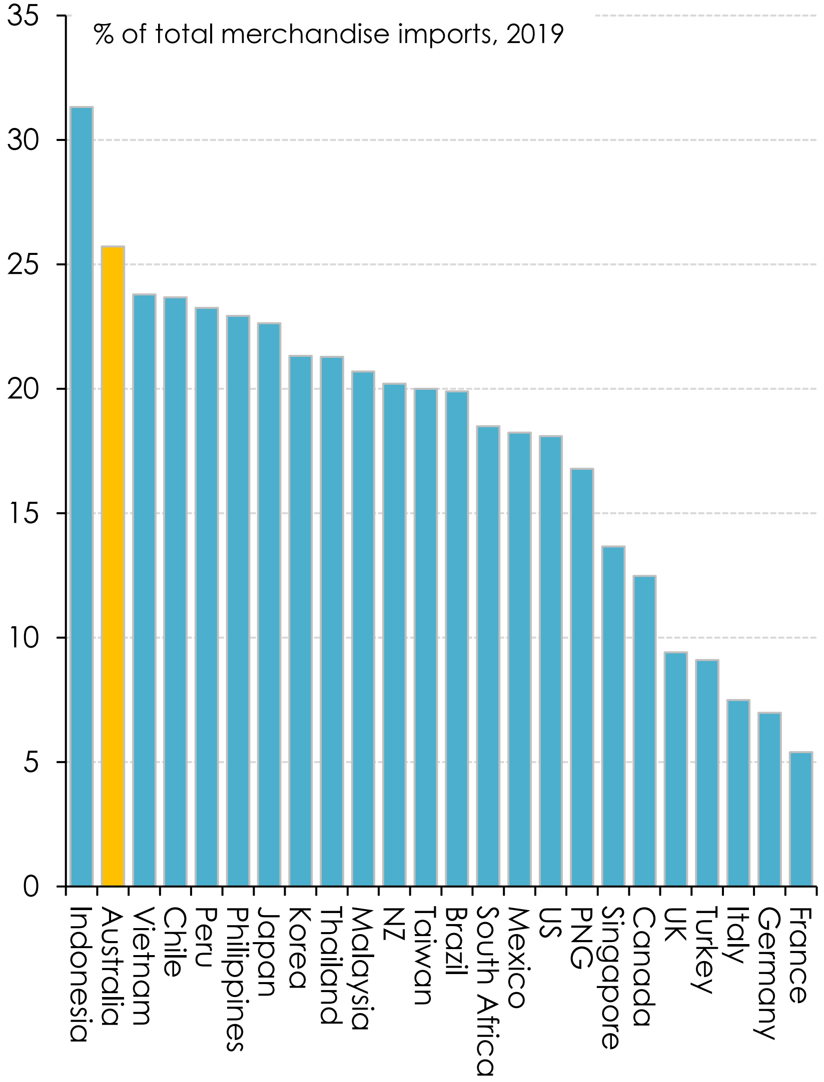
China can cause Australia economic pain because we're very dependent on it, and are one of the few countries with whom China runs a deficit

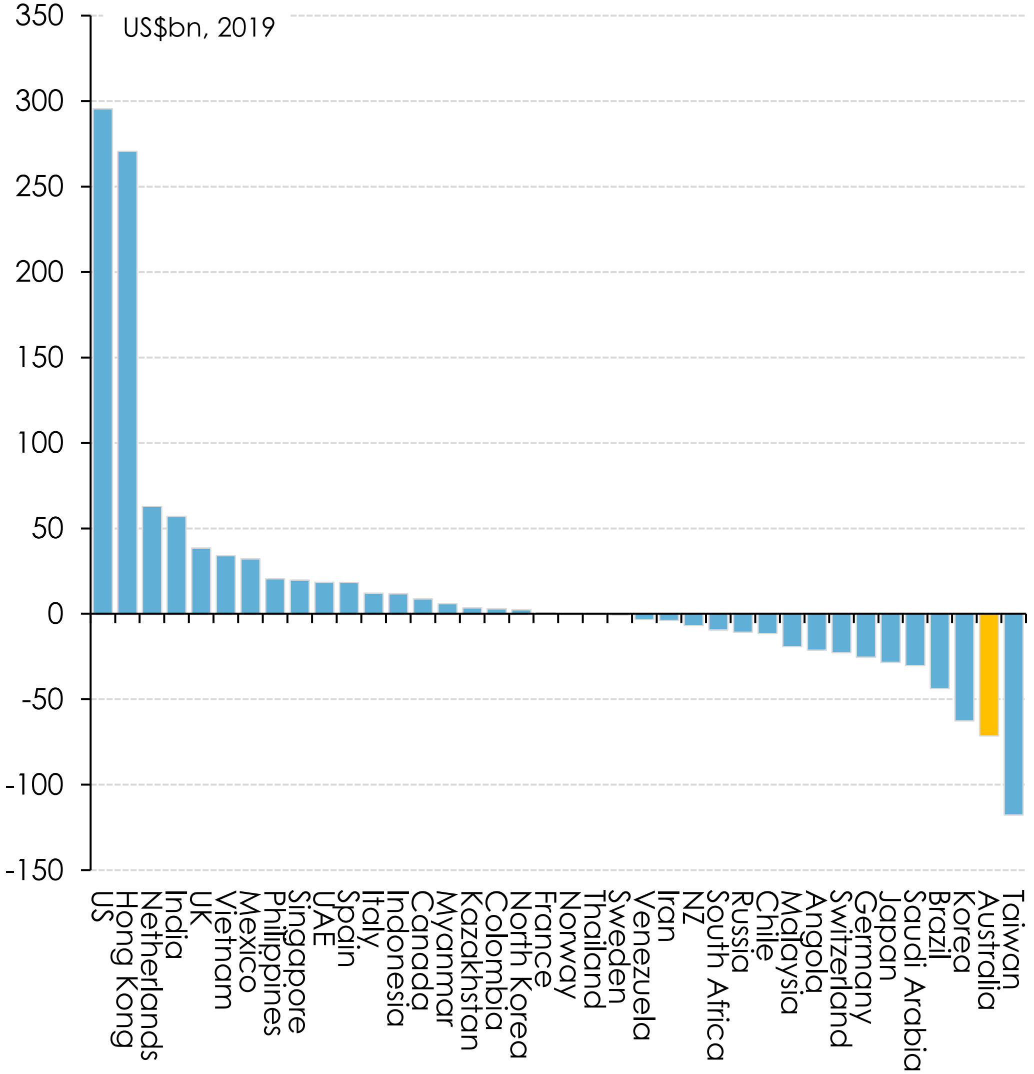
Merchandise exports to China as a pc of total



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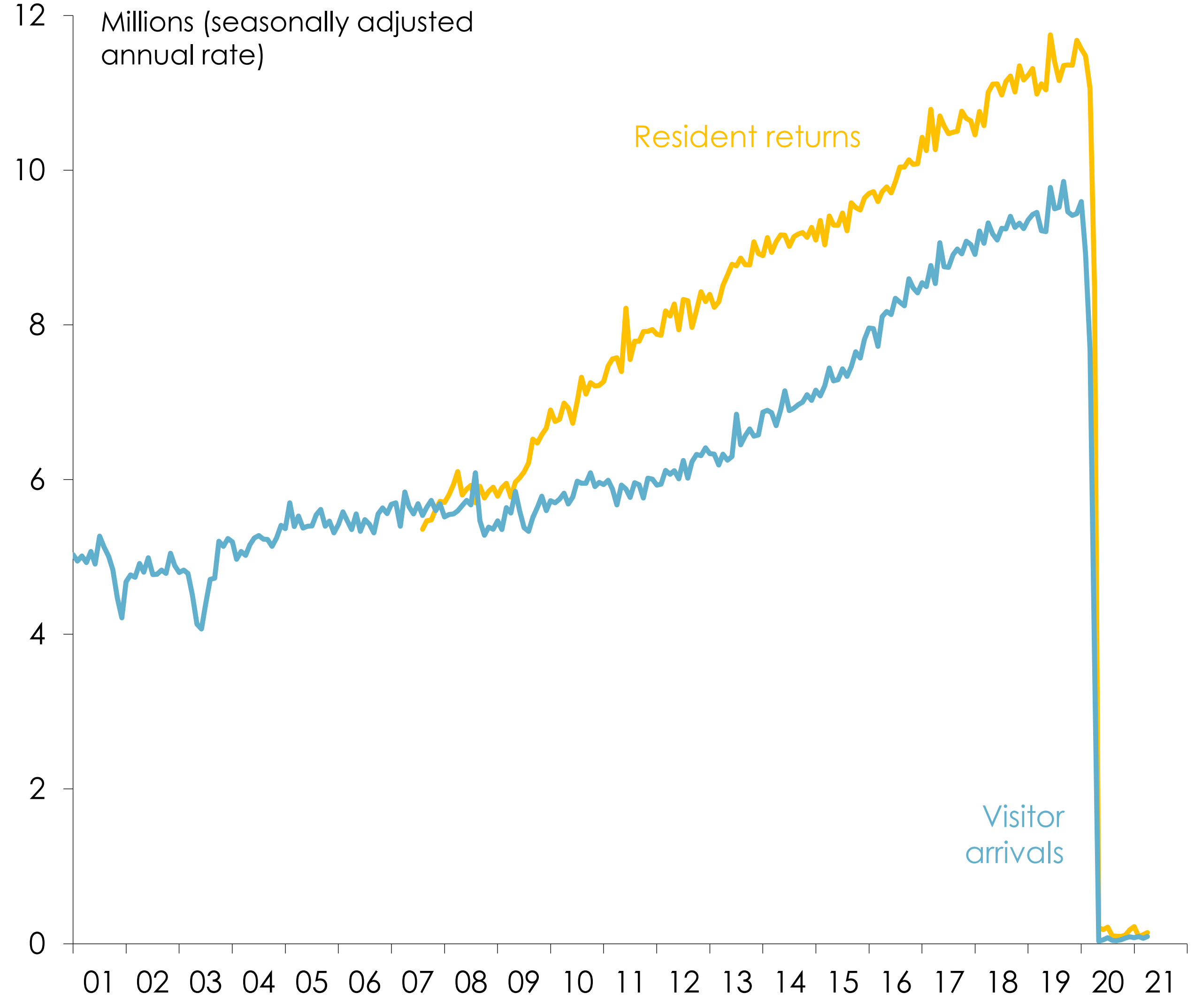
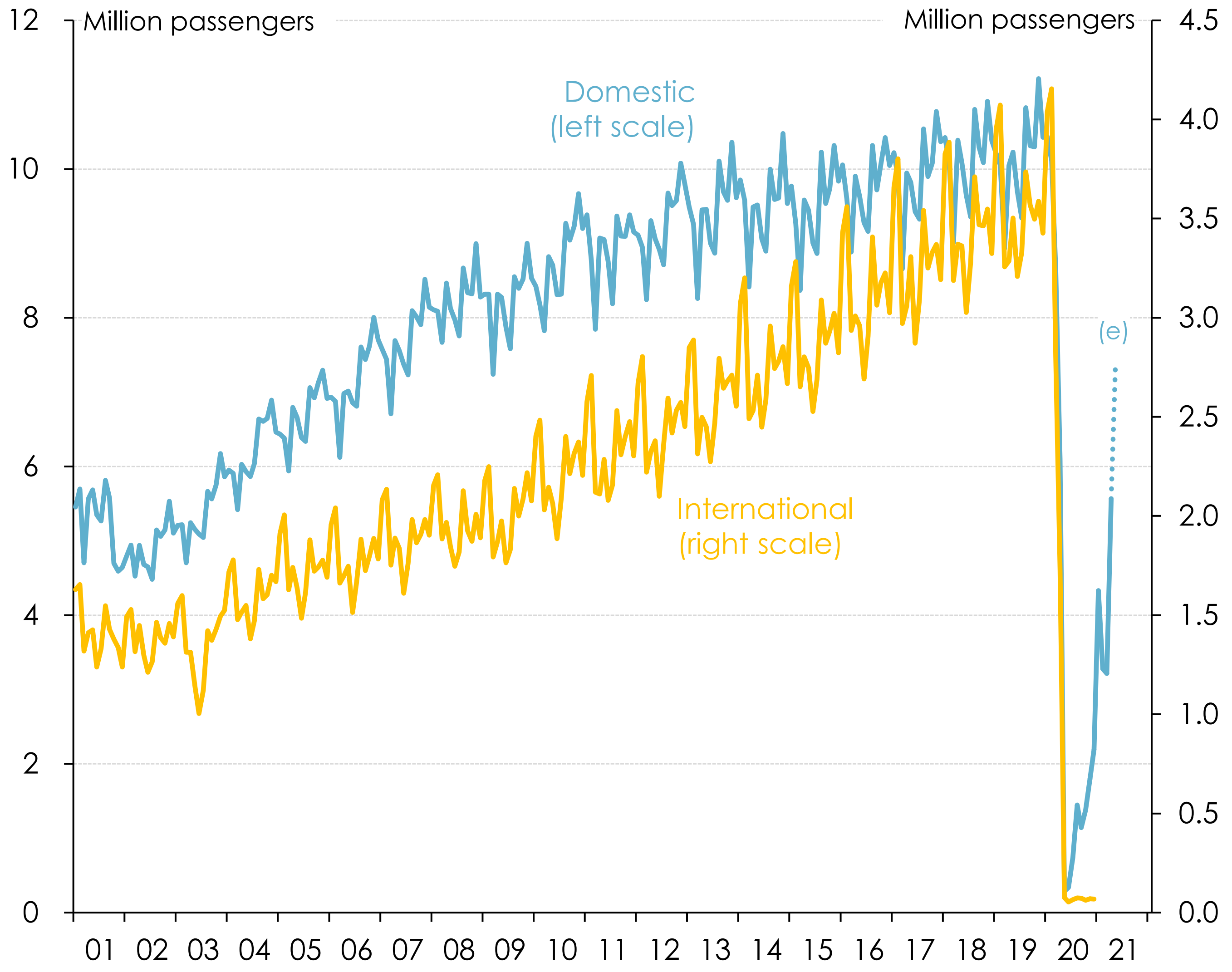
Domestic aviation has picked up strongly since December – but international traffic remains almost non-existent as border controls continue

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 March; April 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".

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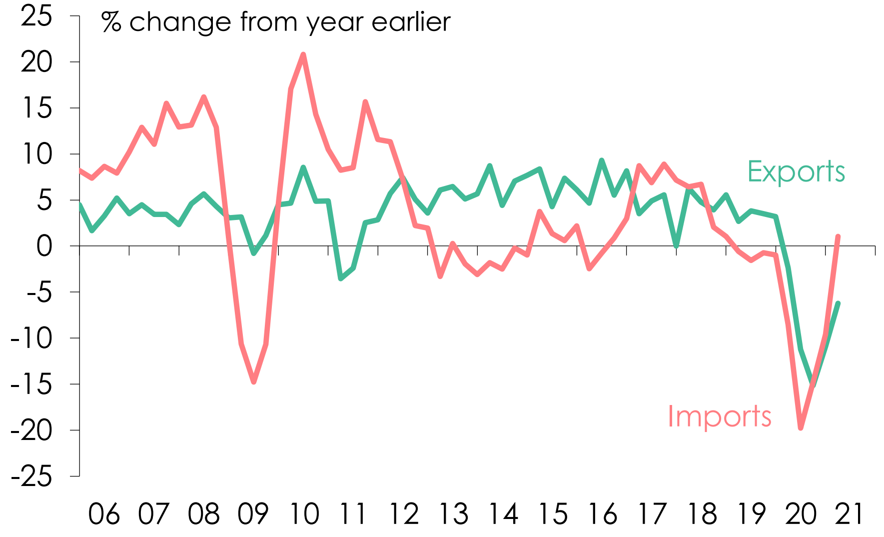
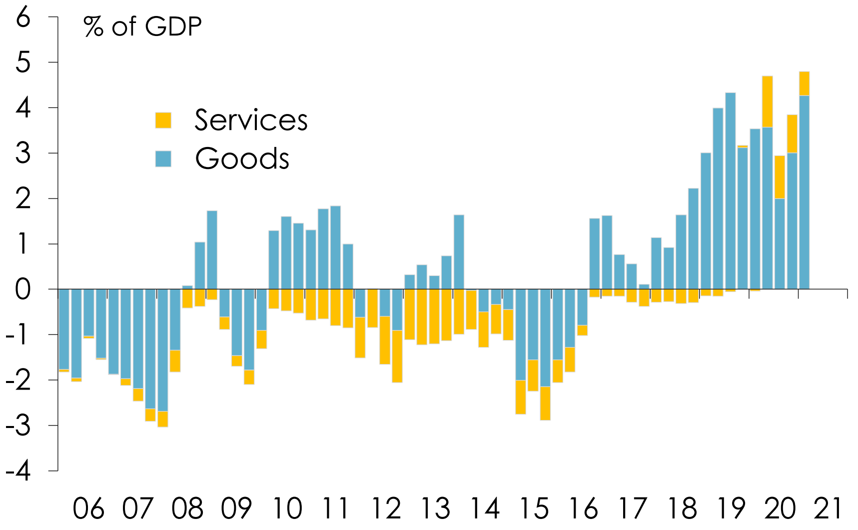
Australia recorded a record current account surplus in the March quarter, thanks to another large gain in export prices

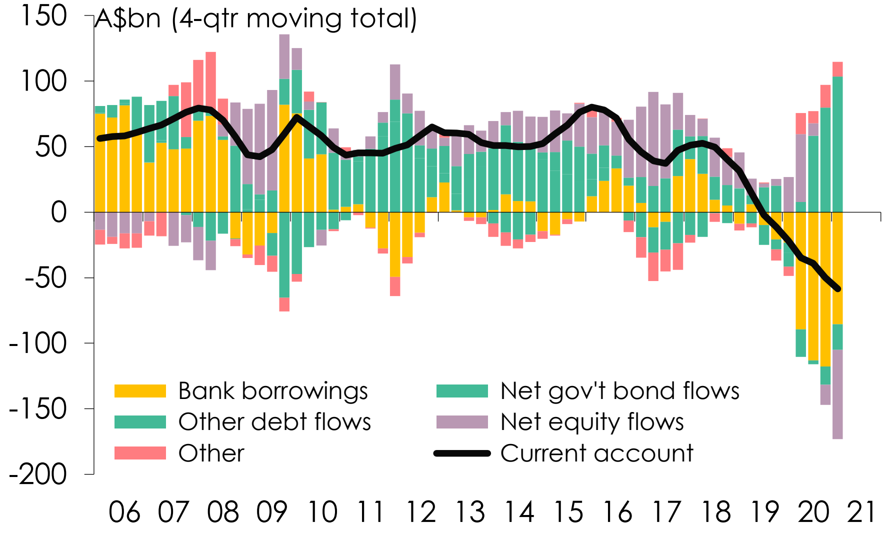
Export and import volumes



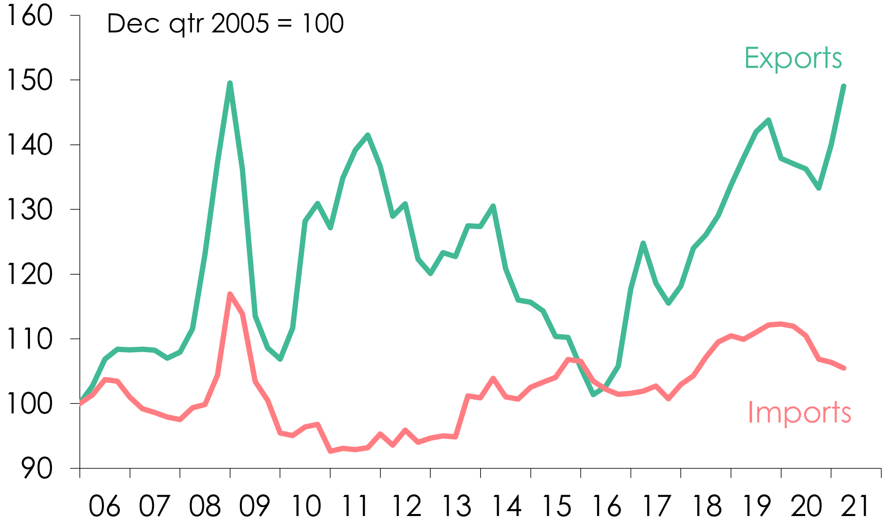
Goods & services trade balances



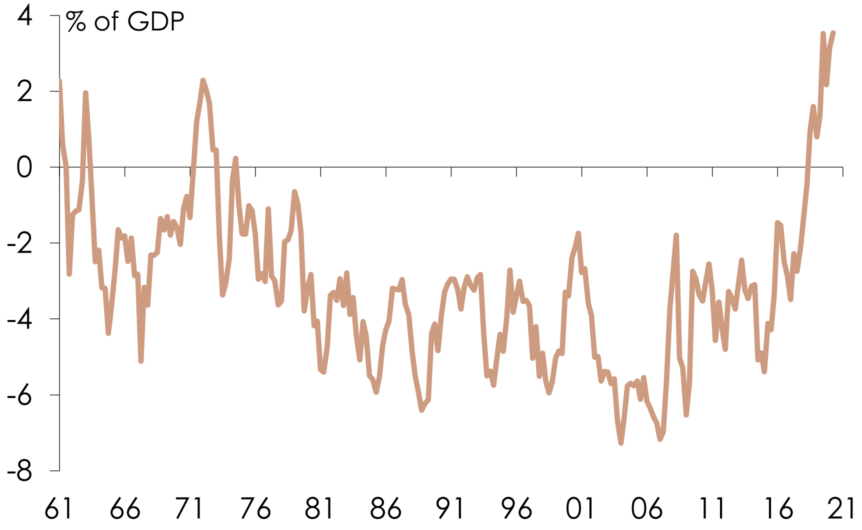
Capital flows



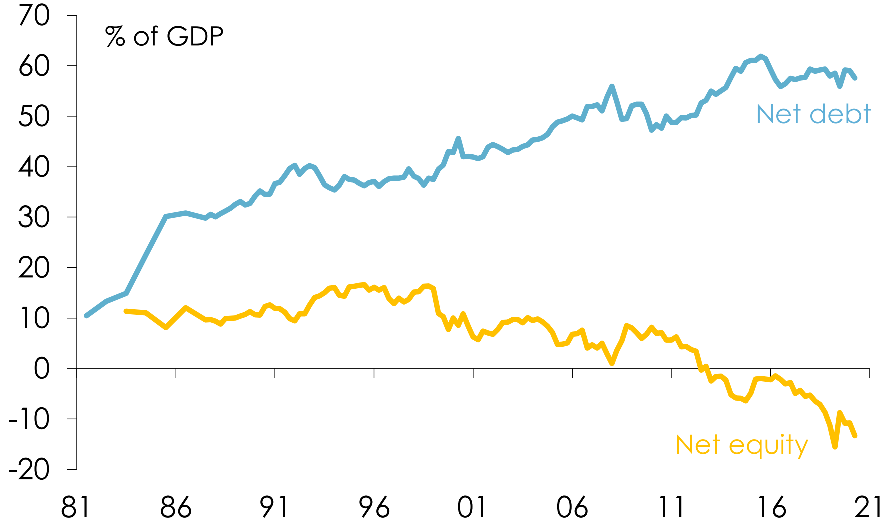
Export and import prices



Current account balance



Net international investment position



Note: The chart of Australia's international capital flows shows inflows (eg borrowings from abroad) as a positive and outflows (eg repayments of debt, or purchases of foreign equity assets)as a negative. Likewise the chart of Australia's international investment position shows net foreign debt as a positive and net equity assets as a negative. Latest data are for the March quarter 2021; June quarter data will be released on 31st August. *Source:* ABS, *Balance of Payments and International Investment Position, Australia*.

Return to "What's New".

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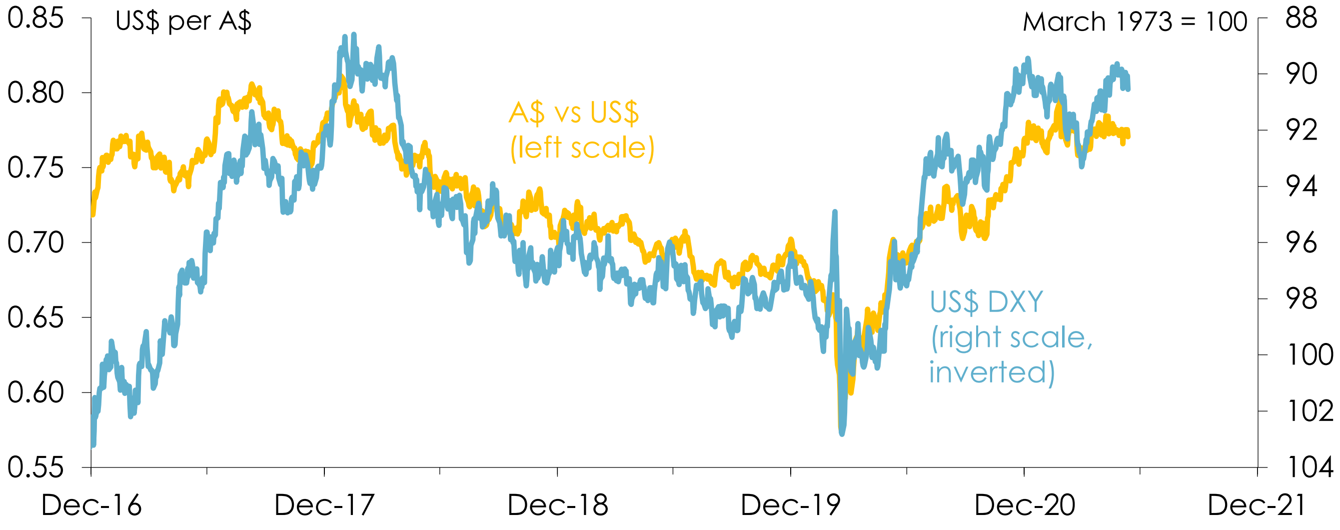
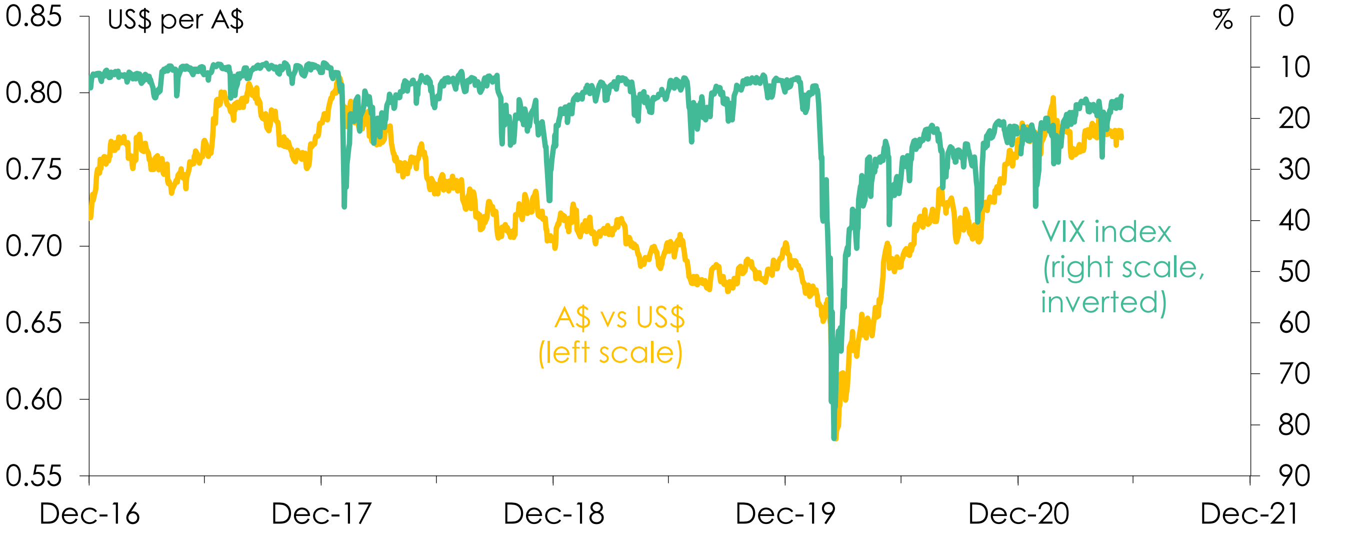
The A$ drifted lower this week, finishing just above US77¢, against a generally stronger US$ and despite a further rise in the iron ore price

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

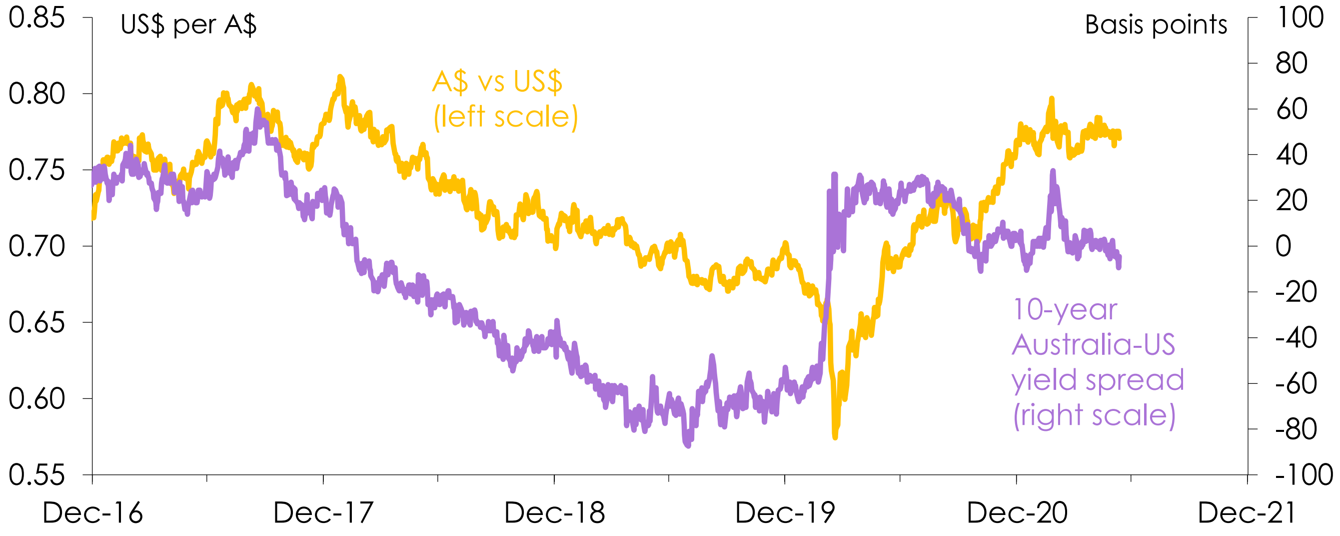


A$-US$ and US equity market volatility



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 121. *Source:* Refinitiv Datastream. Data up to 11th June. Return to "What's New".

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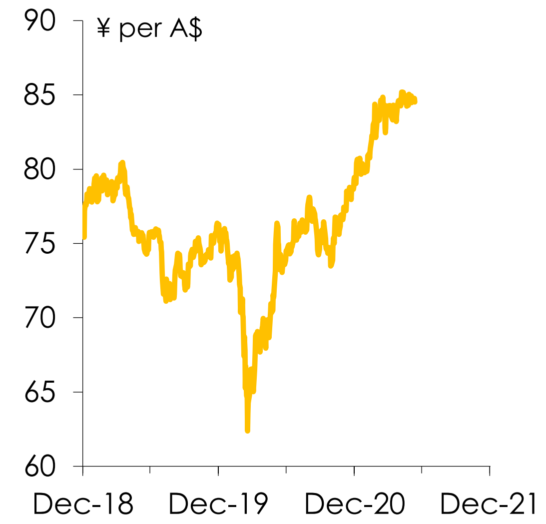
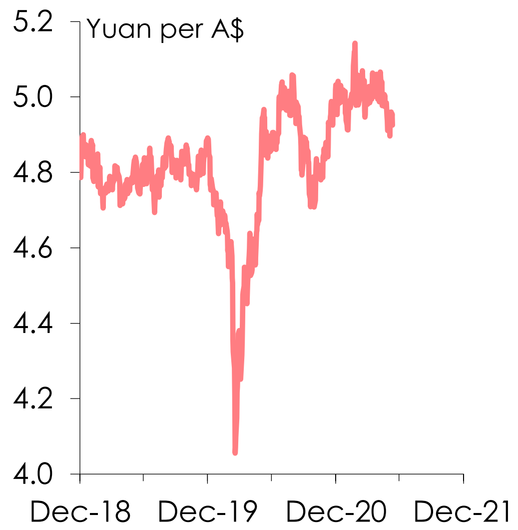
The A$ was therefore also weaker against Asian currencies this week but was little changed against Europeans, and rose 0.8% against the NZ$

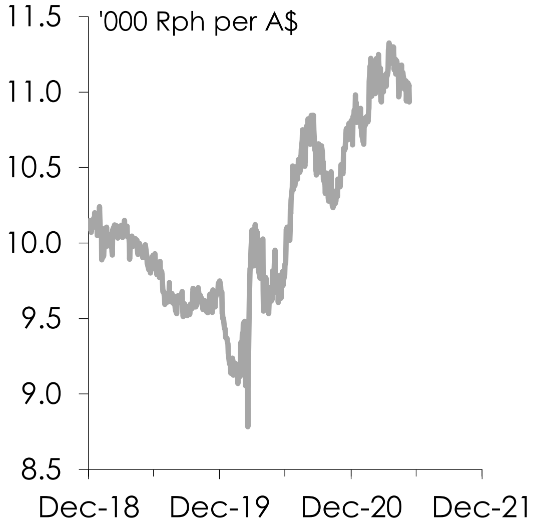
A$ vs Japanese yen



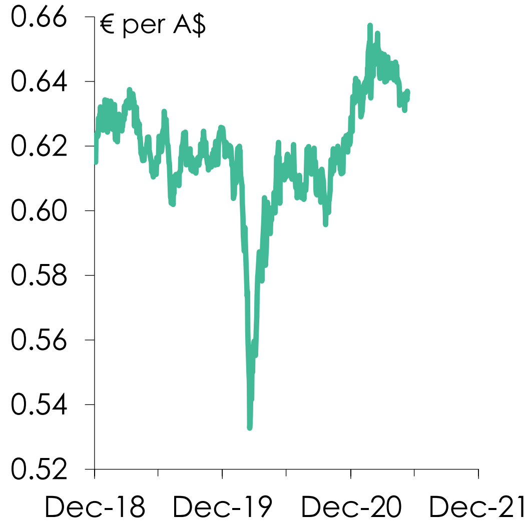
A$ vs Chinese yuan



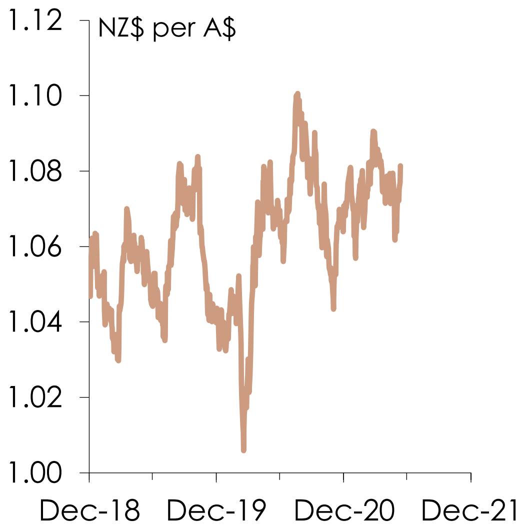
A$ vs Indo rupiah



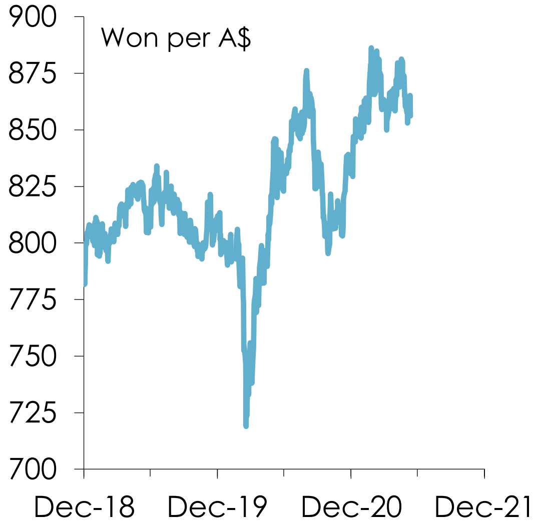
A$ vs Euro



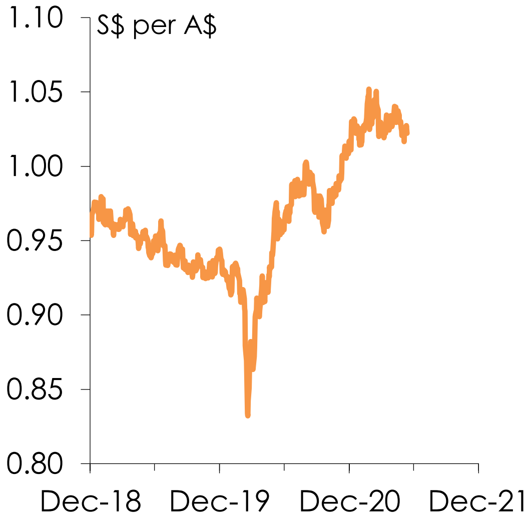
A$ vs NZ$



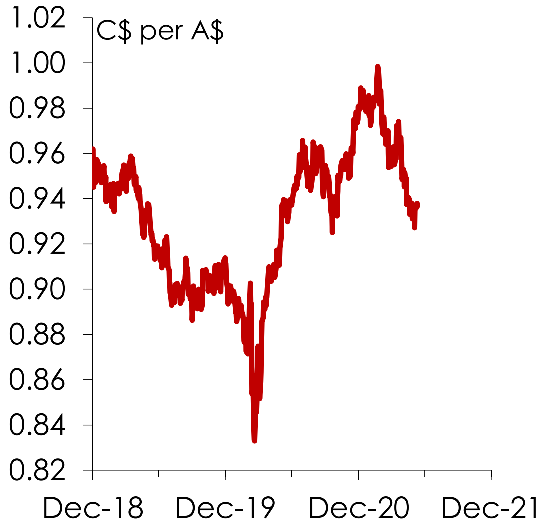
A$ vs Korean won



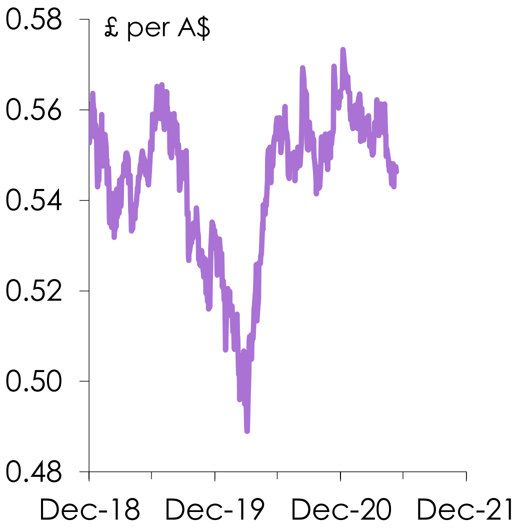
A$ vs Singapore $



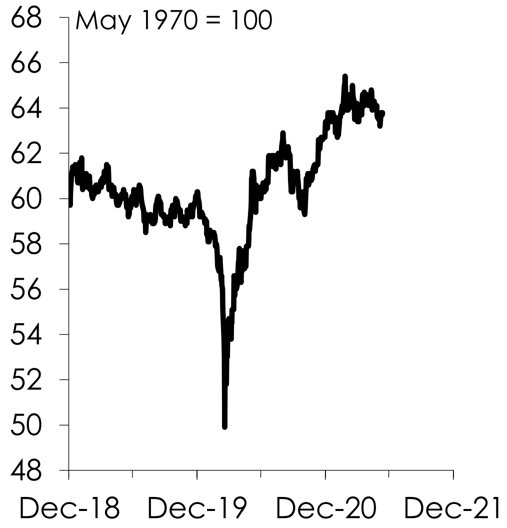
A$ vs Canadian $



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 11th June. Return to "What's New".'

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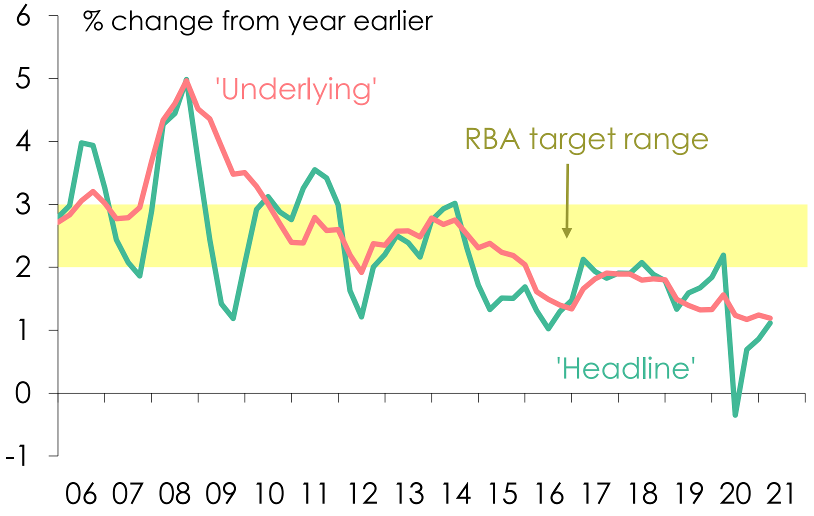
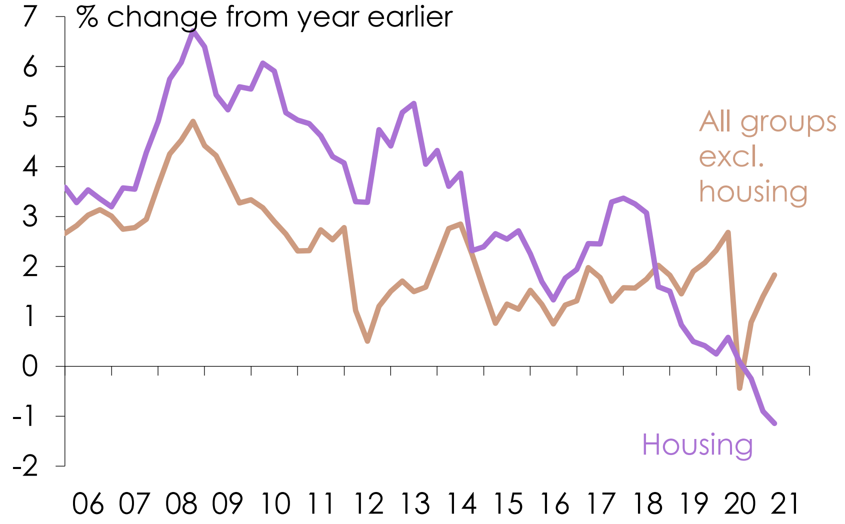
Q1 inflation was less than expected (with annual 'underlying' inflation falling to a record low), partly reflecting the effect of government policies

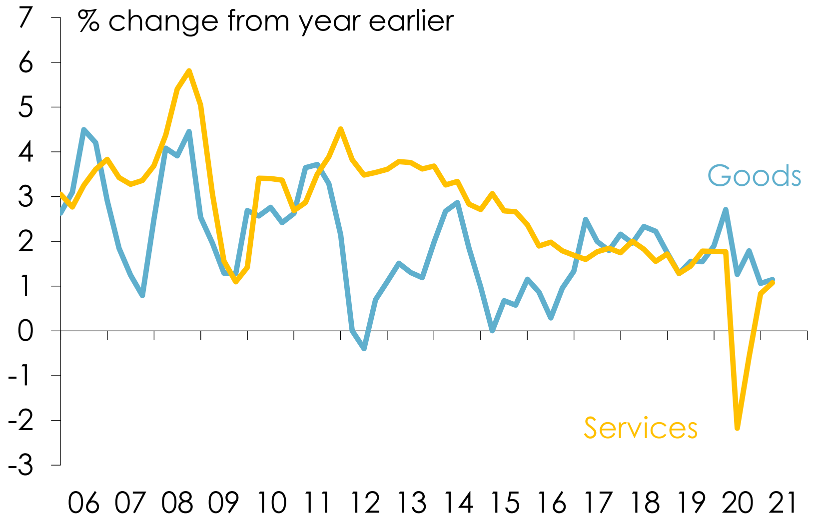
Consumer prices



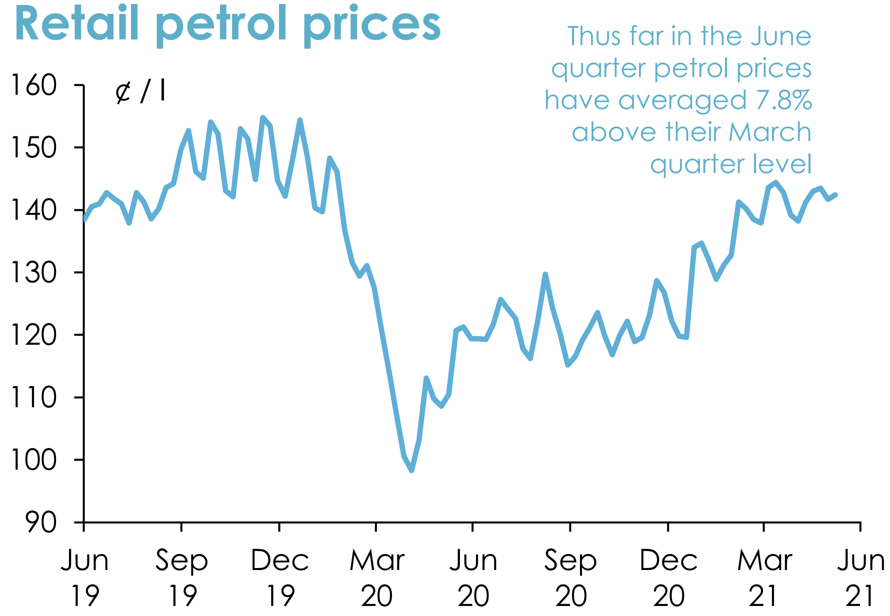
Housing costs



Goods vs services prices



Retail petrol prices

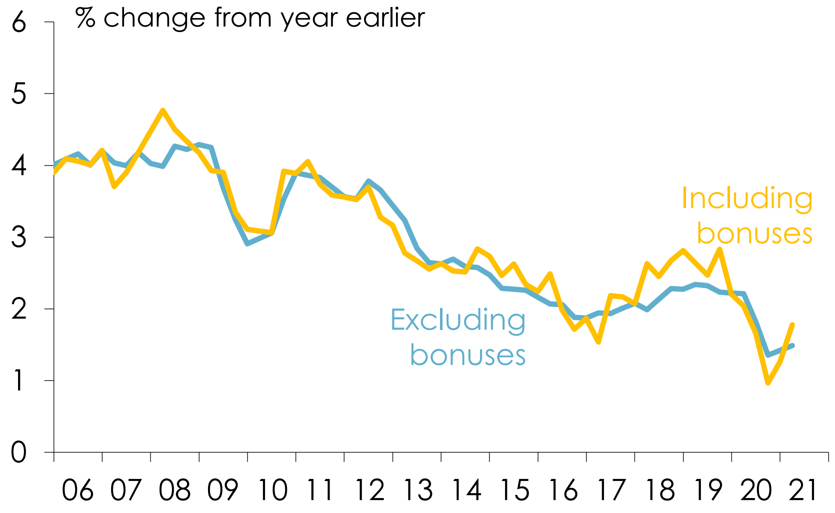


- The CPI rose a smaller-than-expected 0.6% in Q1, pushing the annual 'headline' inflation rate up 0.2 pc pts to 1.1%
- Almost half the Q1 increase in the CPI came from an 8.7% increase in petrol prices
- The main dampening effects came from government policies – including cash grants to first home buyers,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

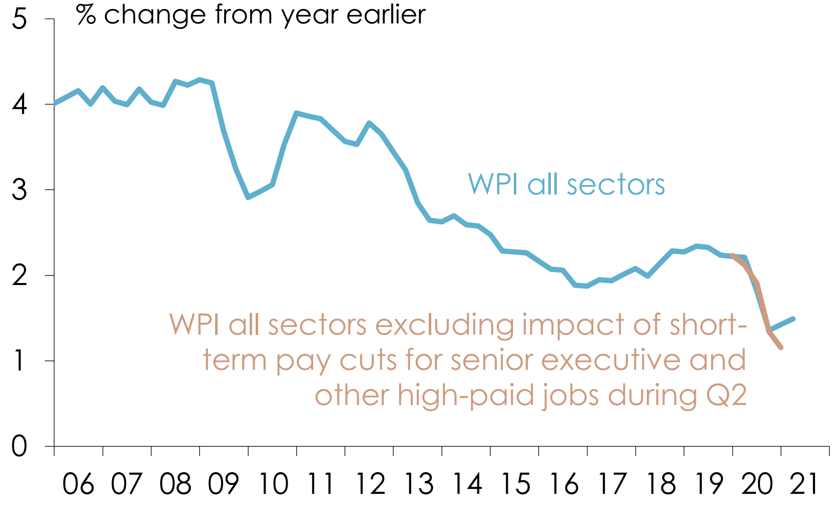
Note: 'Underlying' inflation is the average of the weighted median and trimmed mean CPIs. Wage price indices exclude bonuses.
Sources: ABS, Consumer Price Index, Australia; Australian Institute of Petroleum. The June quarter (Q2) CPI will be released on 28th July.
Return to "What's New".

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

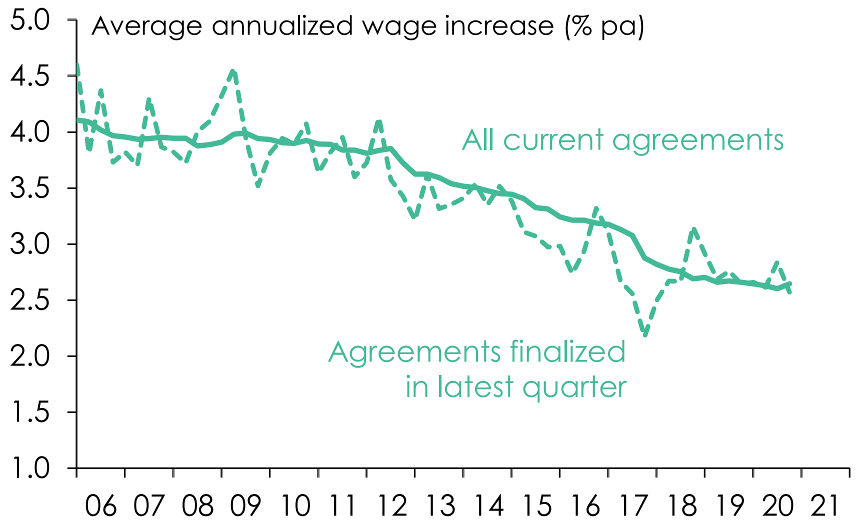
Wage price index – all sectors



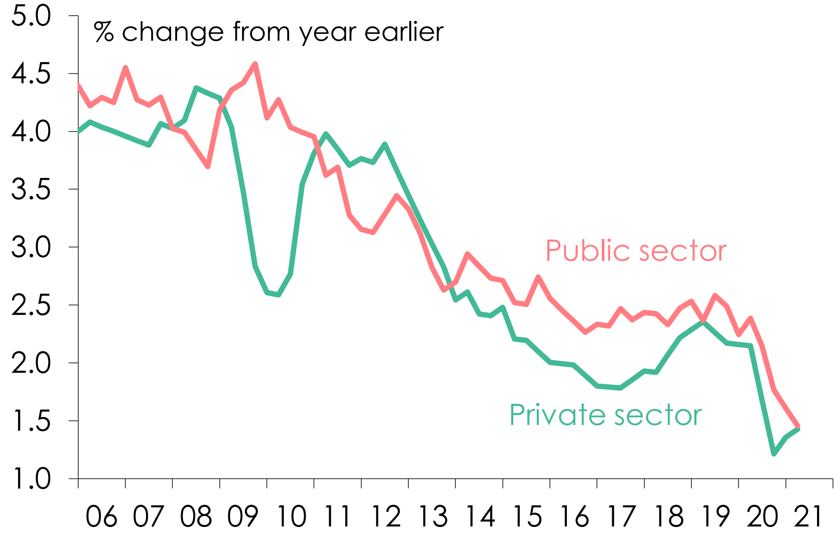
WPI excl. temporary wage cuts



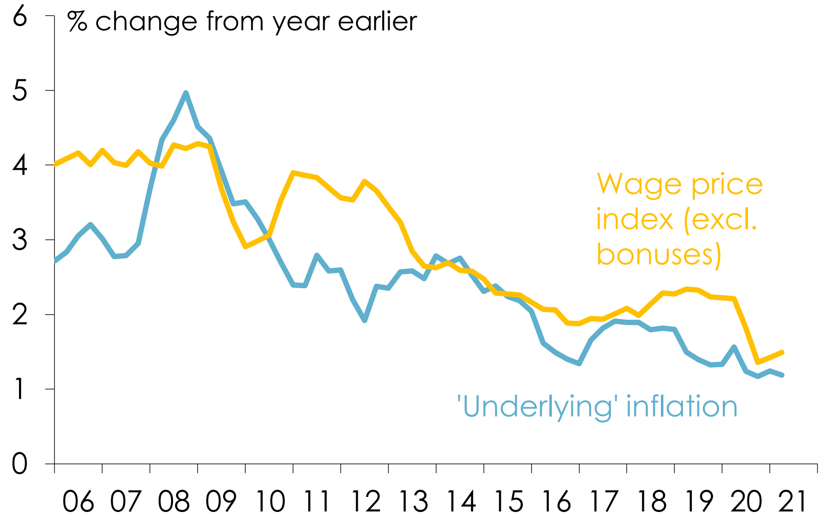
Enterprise bargaining agreements



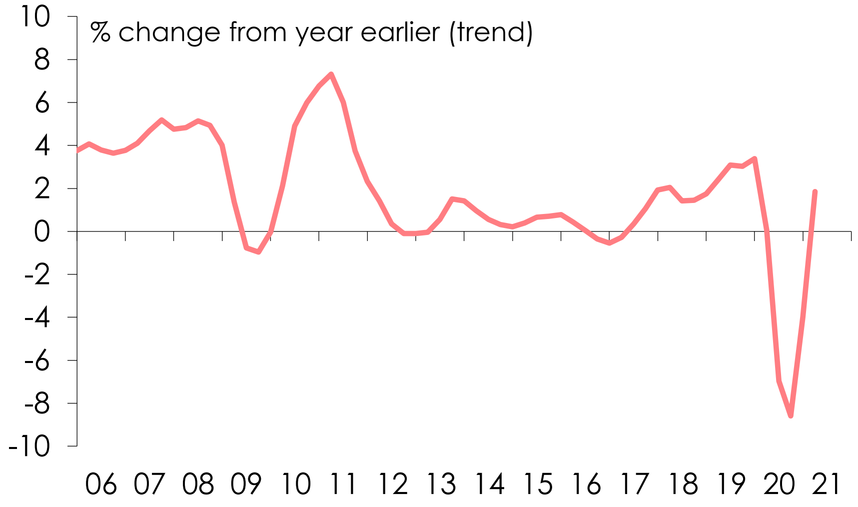
WPI – private vs public sectors



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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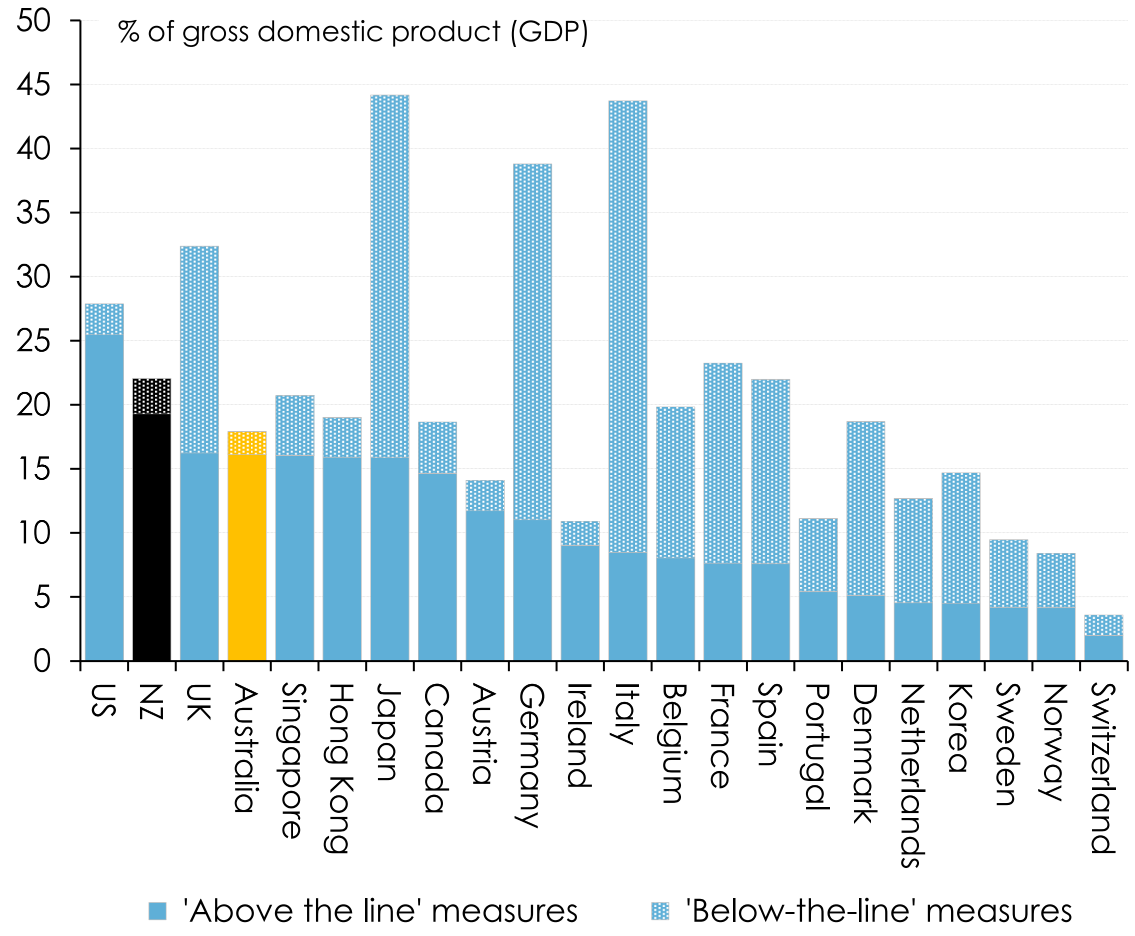
Australia’s fiscal and monetary policy settings

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

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

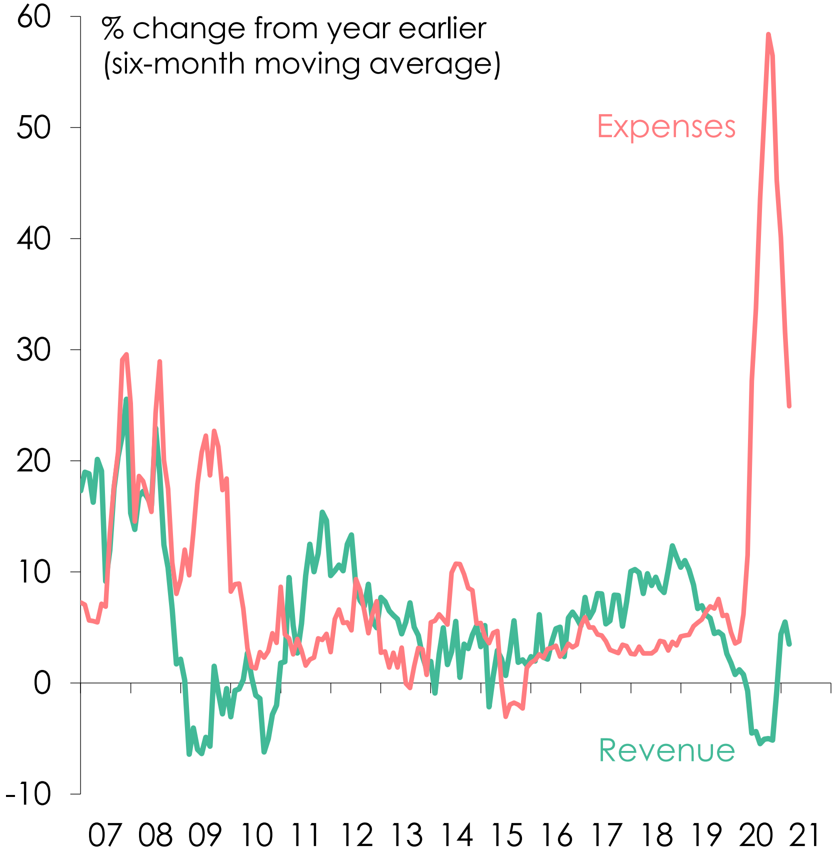


Note: 'Above the line' measures comprise additional or accelerated spending and deferred or foregone revenue. 'Below the line' measures comprise equity injections, loans, asset purchases and debt assumptions, but do not include loan guarantees or other contingent liabilities. 'DMs' means 'developed markets'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

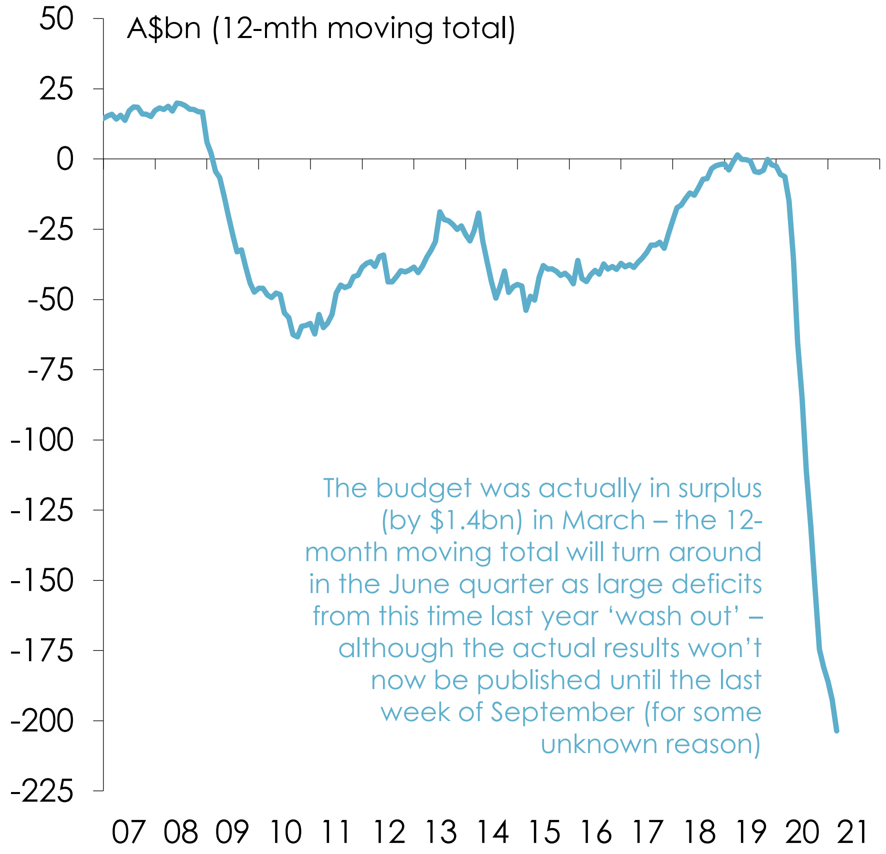
The budget deficit for the first nine months of FY 2020-21 was about $29bn (18%) lower than the Mid-Year Outlook ‘profile’ projection

Australian Government revenue and expenses



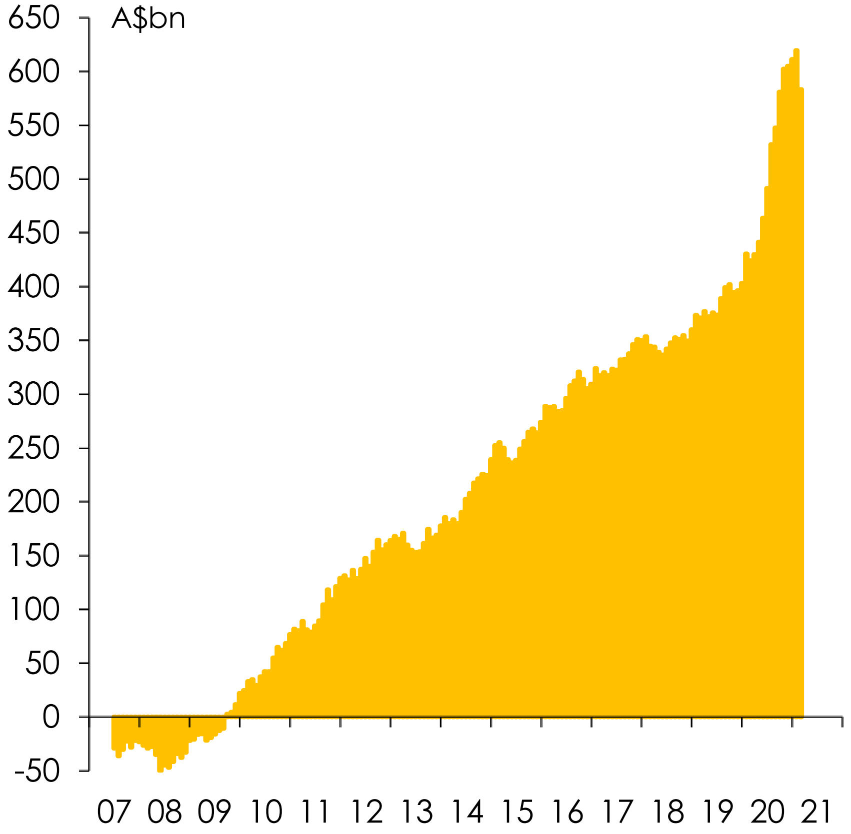
- Growth in expenses has slowed, while revenue is beginning to turn around as the economy picks up

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

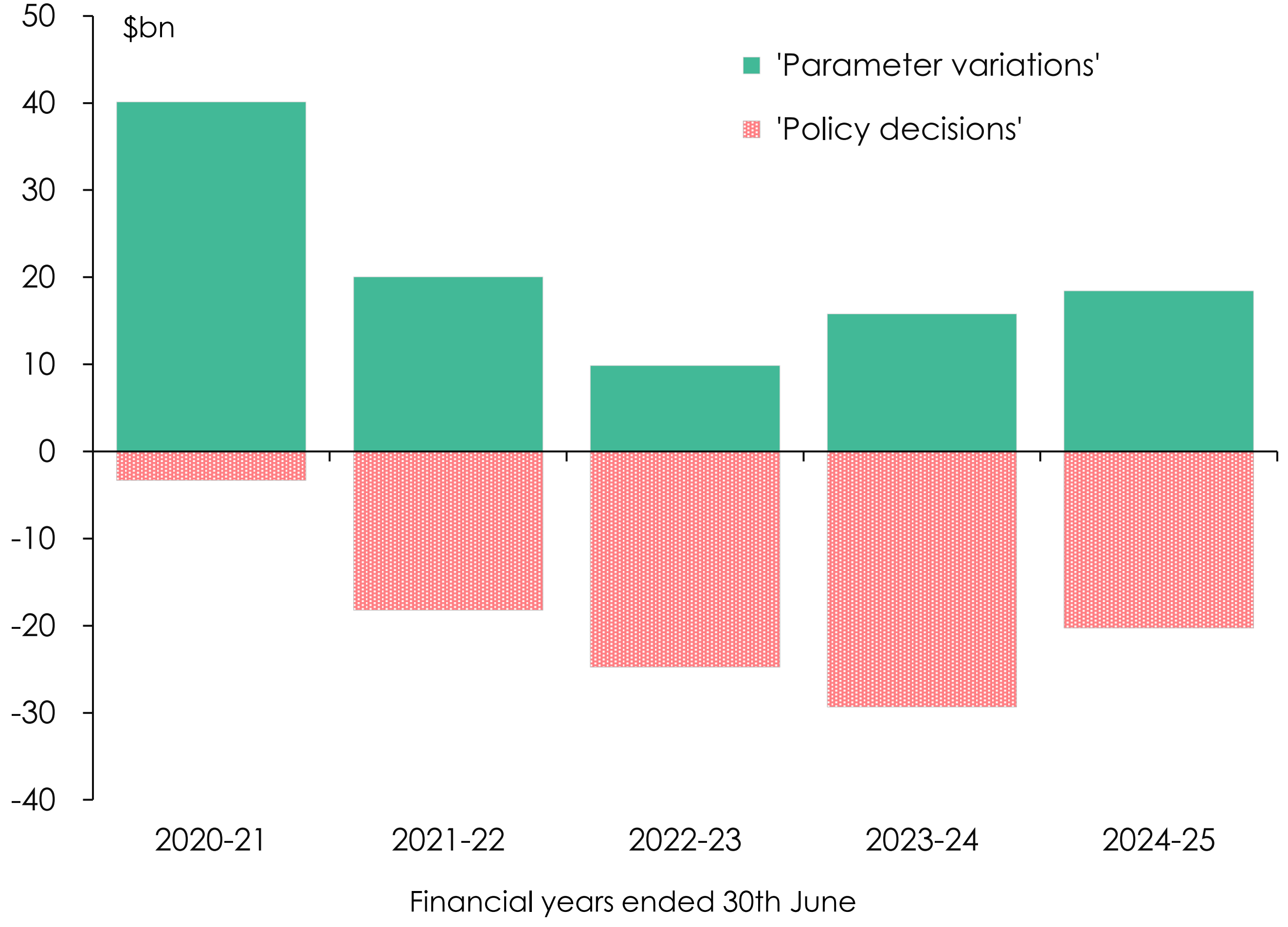
Note: Revenue and expenses are accrual accounting items. The ‘underlying’ cash balance is (cash) receipts minus payments, excluding transactions in financial assets for policy purposes and net earnings of the Future Fund. Net debt is total interest-bearing liabilities (government securities, deposits, 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



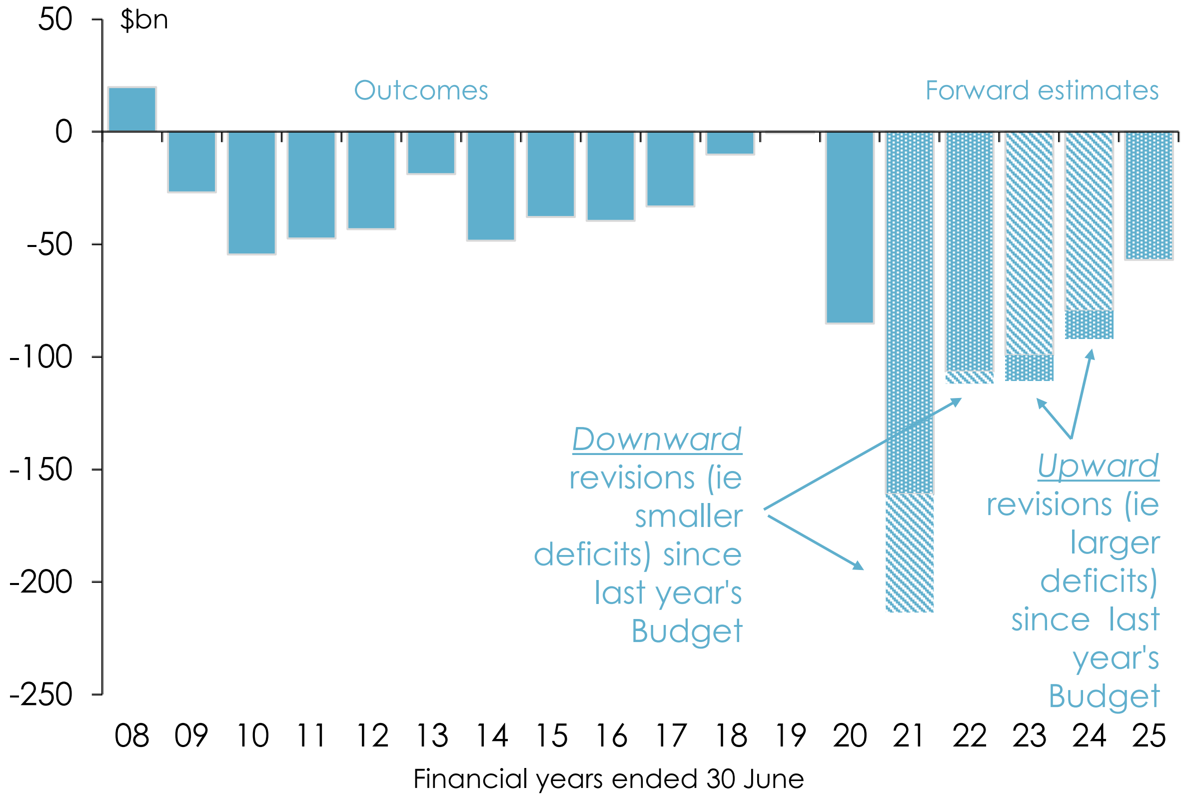
- **The budget affects the economy (through the 'policy decisions' which the Government makes as it puts the Budget together) – but the economy also affects the Budget (via what the Budget Papers call 'parameter variations' in receipts and payments)**
- **'Parameter variations' between last December's 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*.

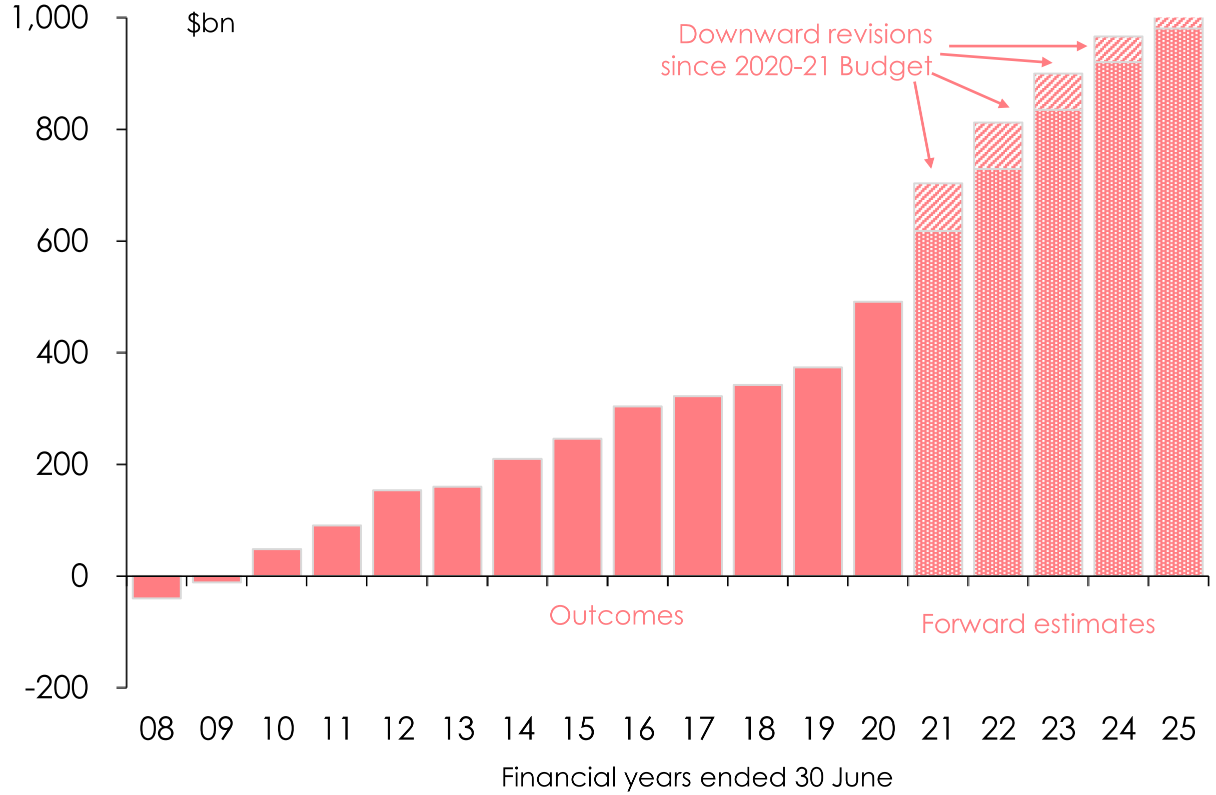
The deficit for 2020-21 will be a lot (and that for 2021-22 a bit) smaller than previously forecast, the deficits for 2022-23 and 2023-24 will be *larger*

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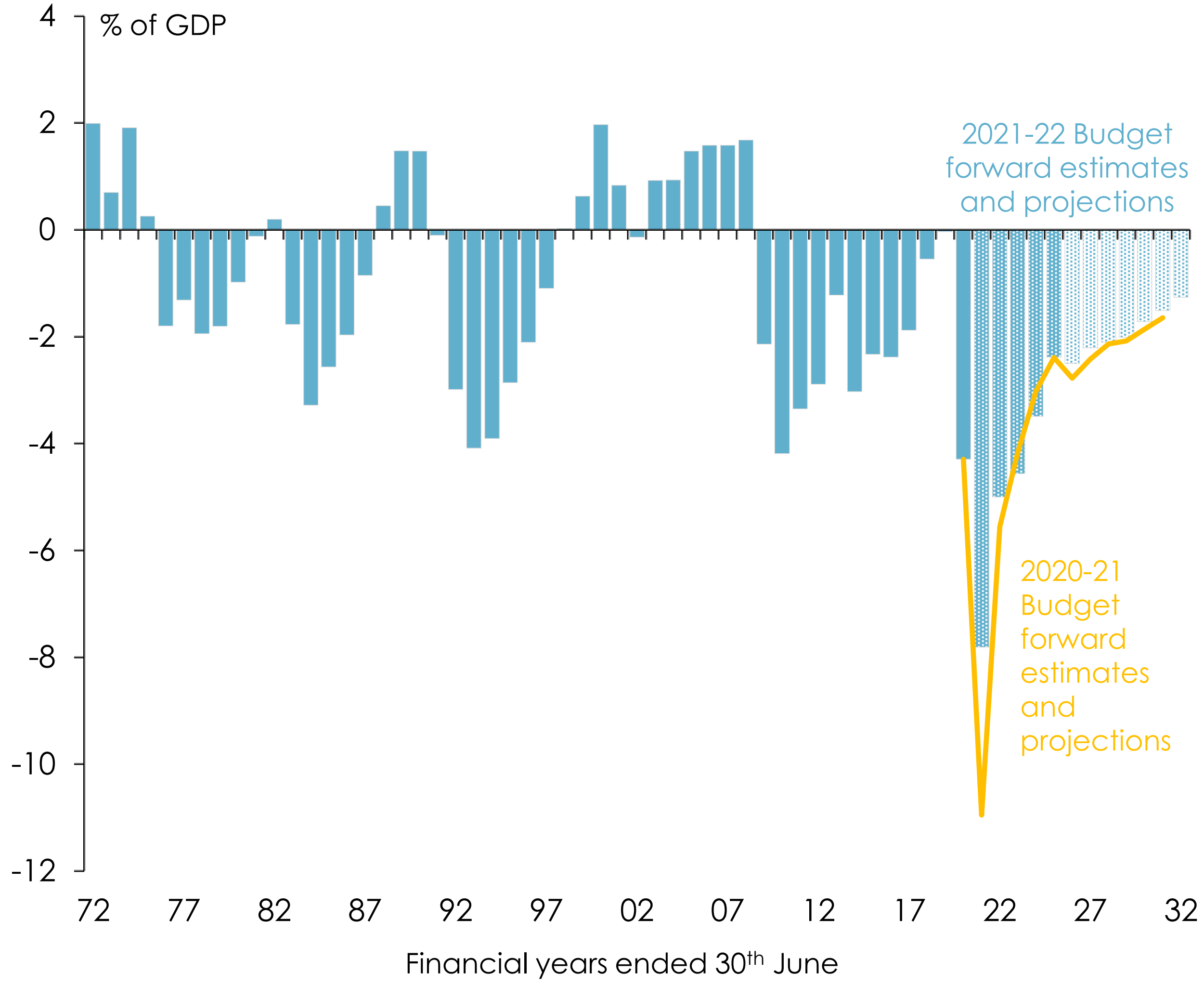
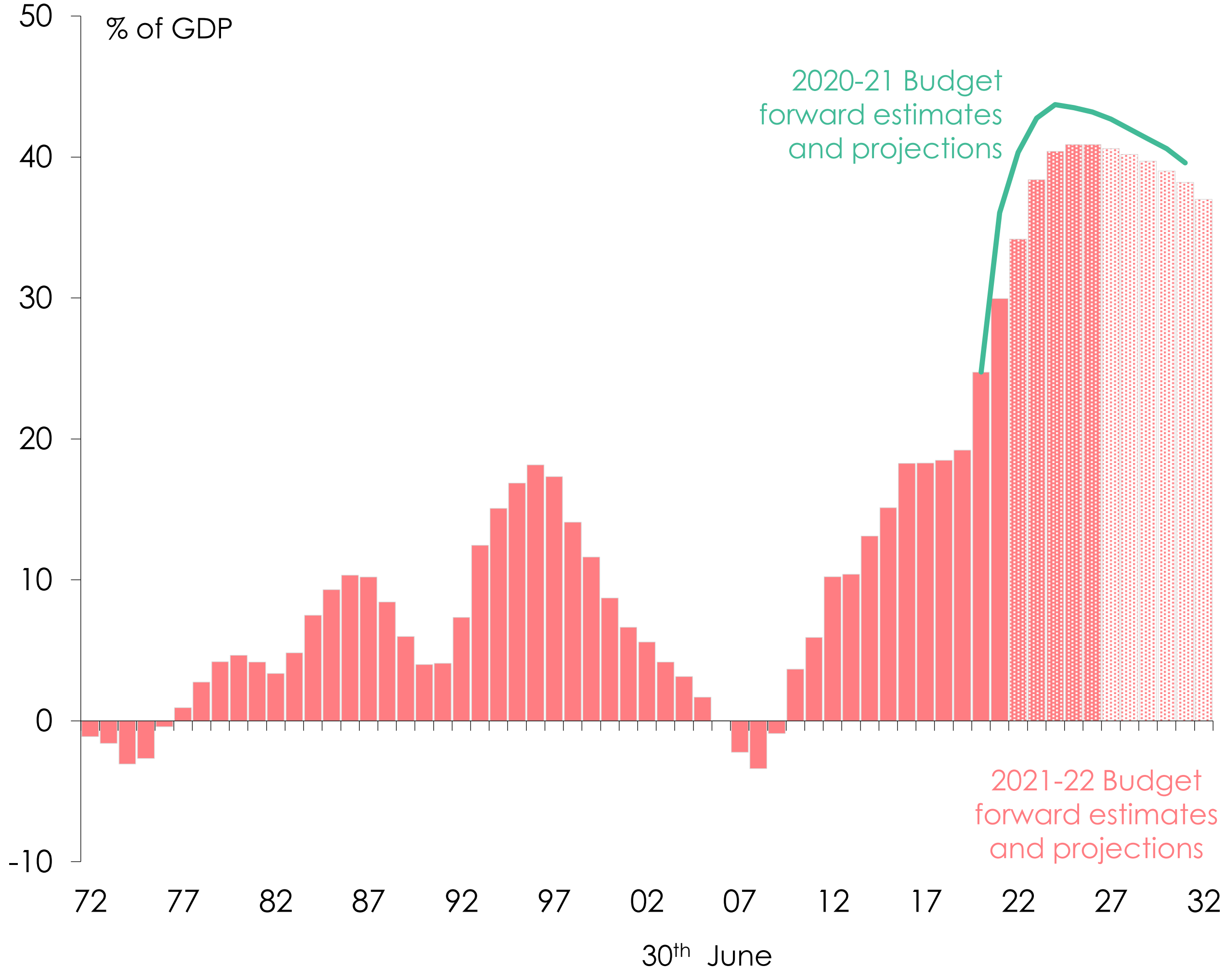
The Budget quite consciously kicks the 'budget repair' can down the road (presumably until after the next election …

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

'Underlying' cash balance



Net debt

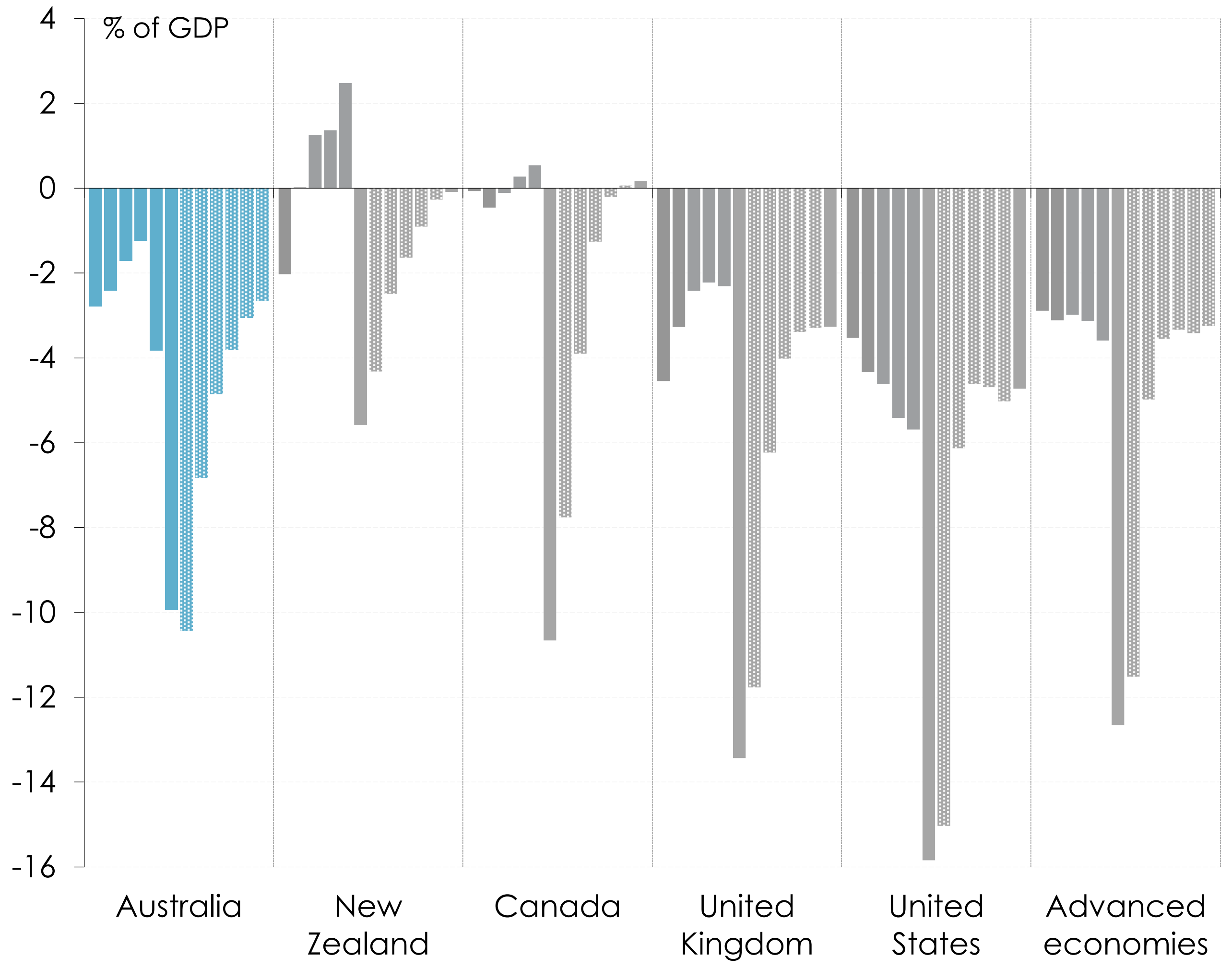


Source: Australian Government, 2021-22 *Budget Paper No. 1, Statement 3: Fiscal Strategy and Outlook* and *Statement 11: Historical Australian Government data*.

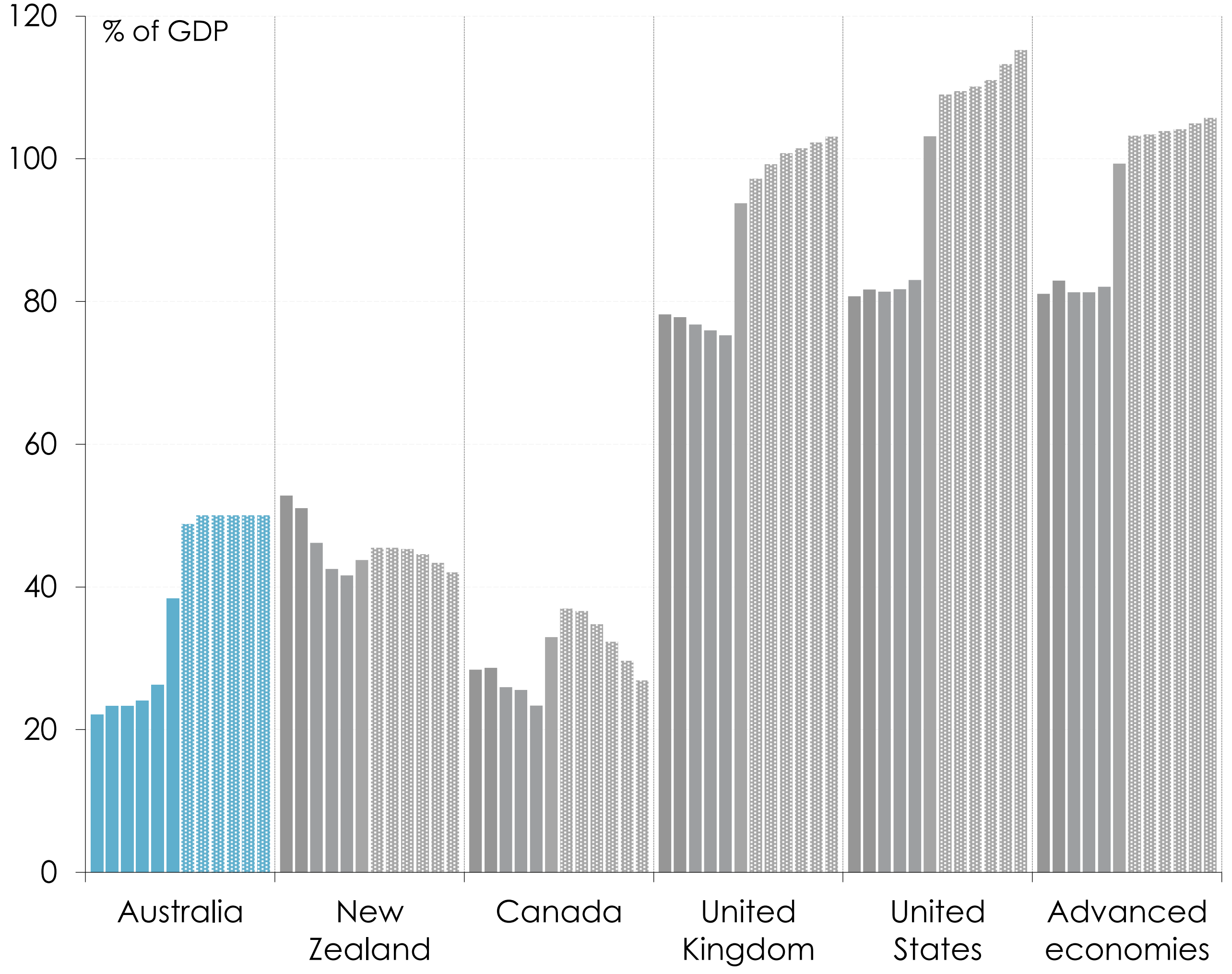
… which it can afford to do given that Australia's public finances are in much better shape than those of most other comparable countries …

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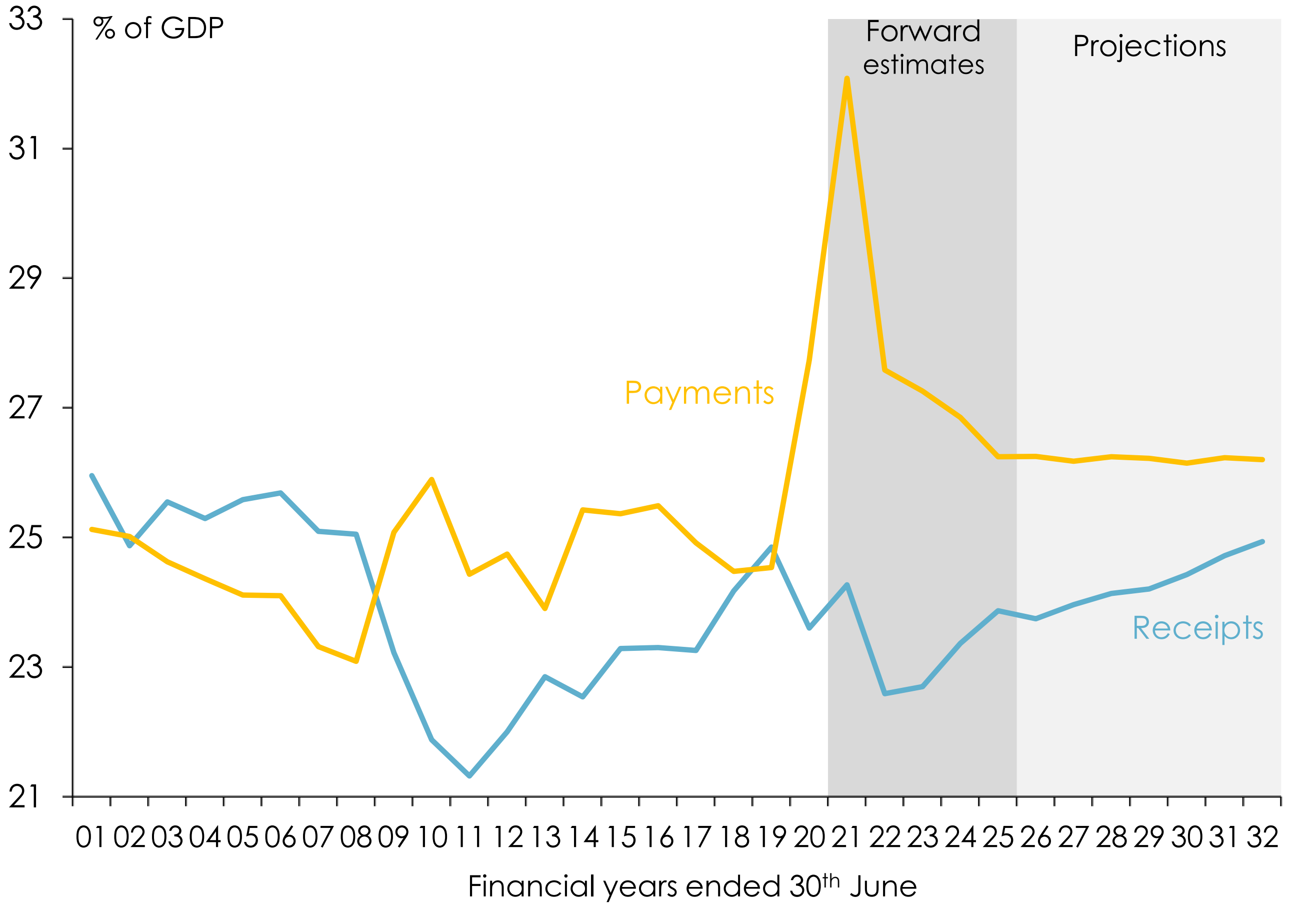
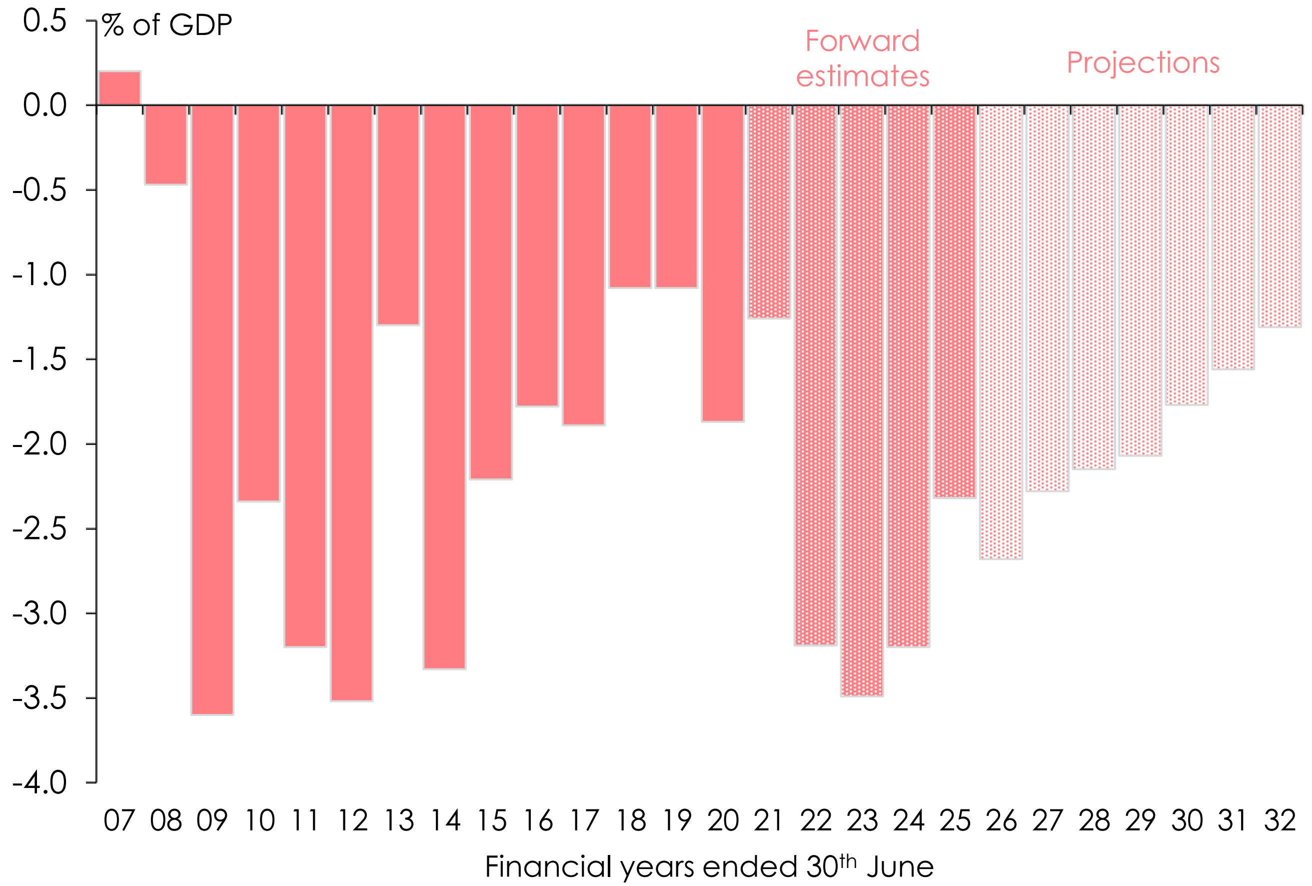
This budget actually *increases* the 'structural' deficit in the next two fiscal years – and it will still be over 1% of GDP in ten years

Receipt and payments as a pc of GDP



The 'structural' budget balance

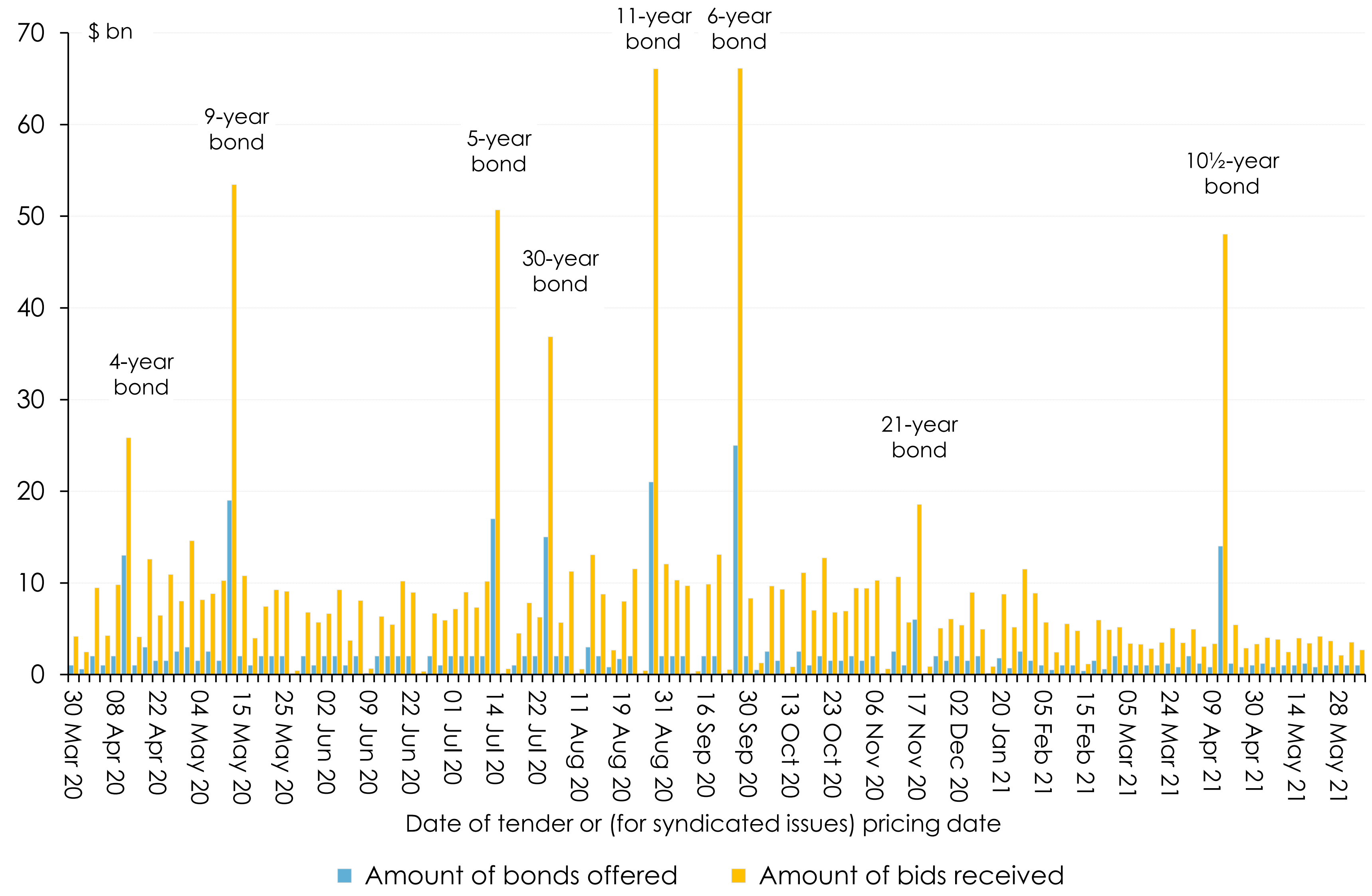


- **In 10 years' time, payments will still be 1¾ pc pts of GDP higher than the average for the 20 years prior to the pandemic while receipts will be ¼ pc pt of GDP lower**
- **There will still be a 'structural' budget deficit of 1¼% of GDP in 10 years' time (and note that the structural deficit widens 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*.

The Government continues to find a ready appetite for its bond issuance – and it will issue $80bn 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 $293 bn of Treasury bonds – based on the volume of bids received it could have borrowed almost $1.1 trn with yields at most 4 basis points (0.04 of a pc point) above the highest yields actually accepted**
- **The AOFM issued $1bn of 10-year bonds this week, bringing its total issuance for FY 2020-21 was $206.3bn or 98¼¼% of the (revised) budget financing task for the current financial year – which following the Budget was lowered from $230bn to $210bn**
- **Following the presentation 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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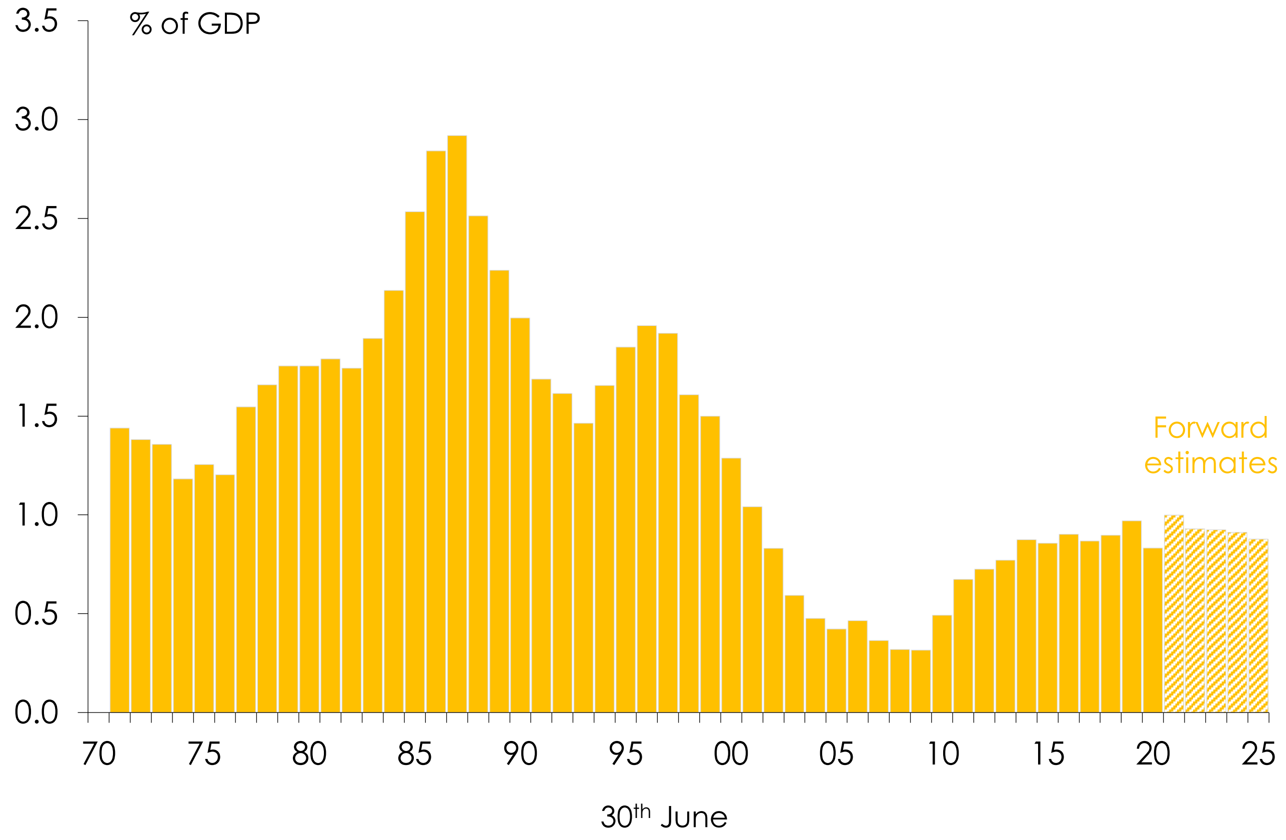
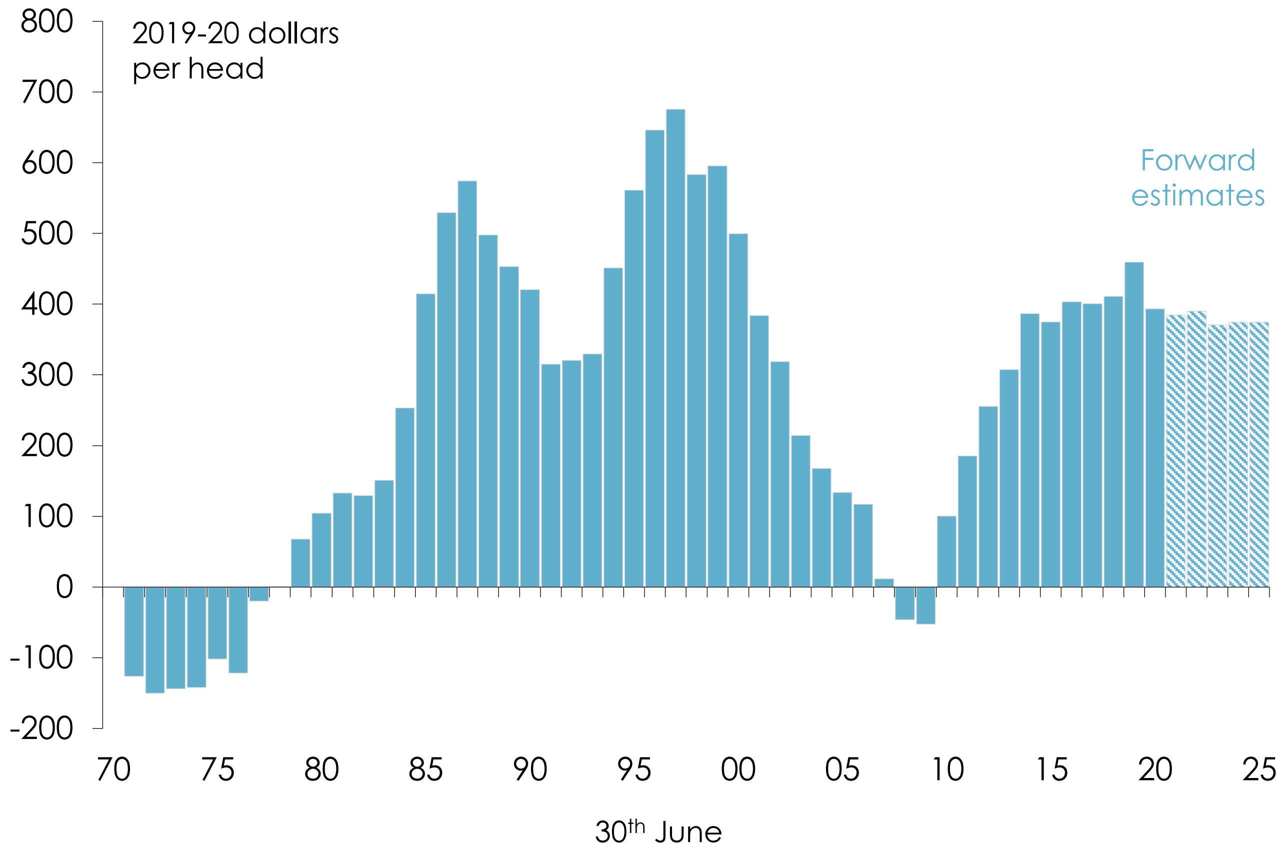
Because interest rates are so low, the cost of servicing the debt which the Government is racking up will be low by historical standards

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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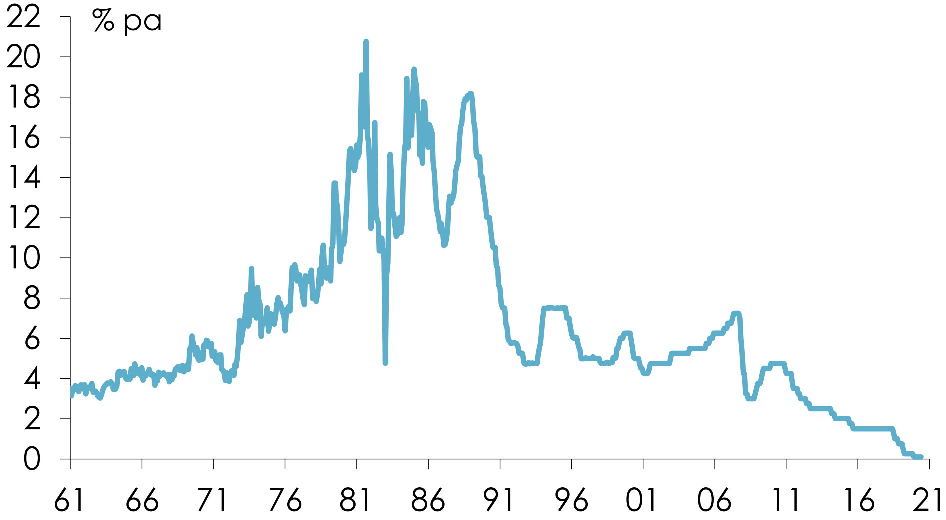
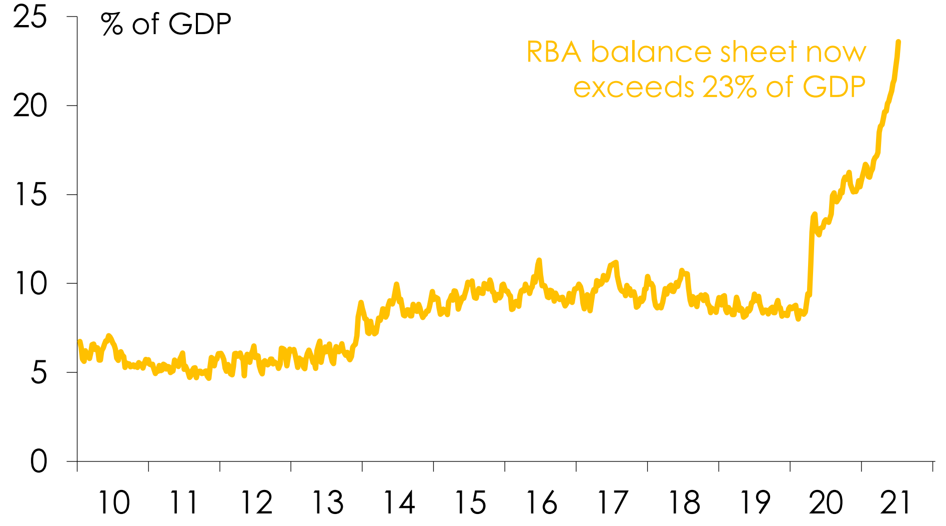
The RBA has cut its cash rate as low as it can go (without going negative) and has launched a range of 'QE' programs

Reserve Bank cash rate



Reserve Bank assets as a pc of GDP

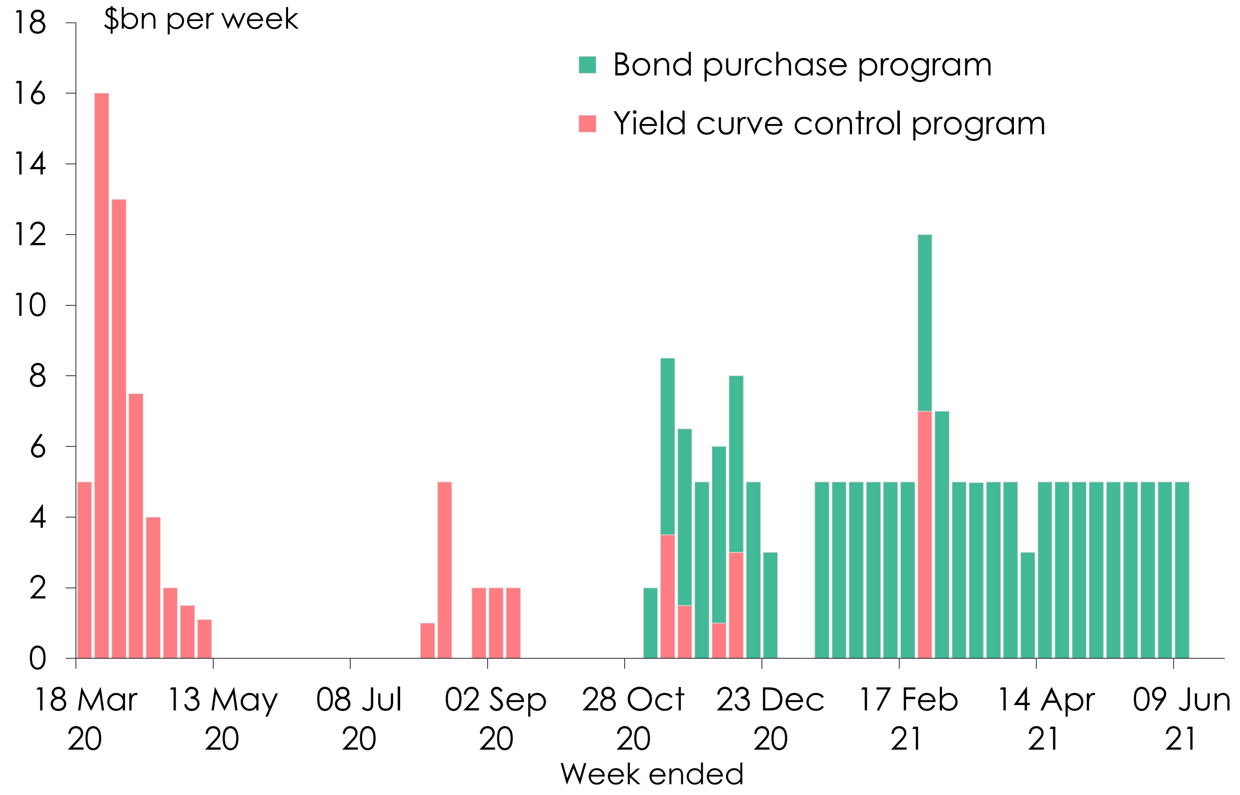


Source: Reserve Bank of Australia, *Statistical Tables* A3 and F1.1.
Return to "What's New".

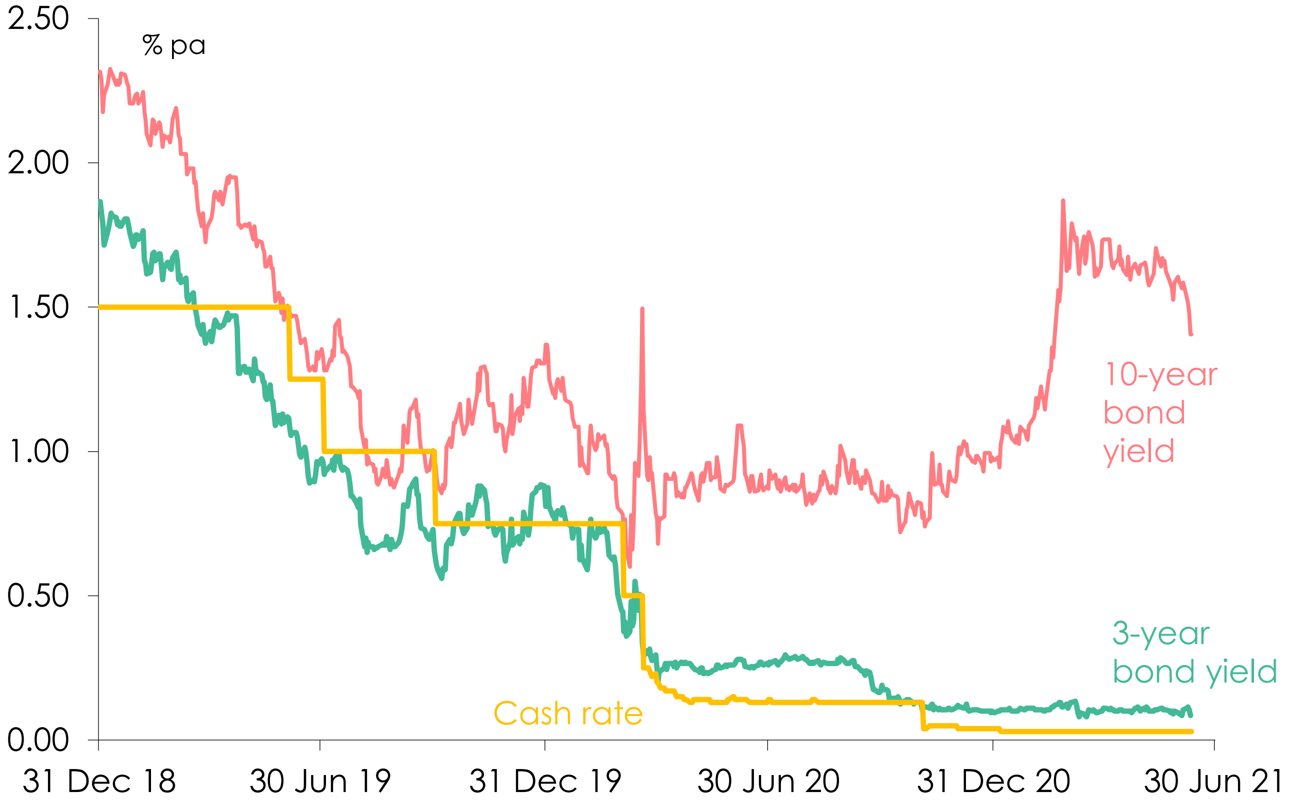
- **Last year the RBA cut its cash rate target from 0.75% to 0.10% (and in practice has allowed the cash rate to fall to 0.03%)**
  - the RBA Board again left all its monetary policy settings unchanged at its latest meeting this month
  - and re-iterated its previous 'guidance' that it will "not increase 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 $116bn of federal government bonds and $29bn of state and territory government bonds – and under which it plans to purchase another $59bn by September this year
  - a BoE-style 'Term Funding Facility' under which it has provided funding 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 $138.1bn (including $39bn over the past five weeks) out of a potential $200bn – this facility will close at the end of this month
- **The RBA has flagged that it will decide at its next meeting (on July 3rd) whether to switch its target for the 3-year yield from the April 2024 bond to the November 2024 one (possibly not), and whether to extend its Bond Purchase Program beyond September (which will likely depend on what other central banks are doing and where the A$ is)**

10-year bond yields dropped to their lowest since mid-February, echoing the big falls in US yields

RBA open market bond purchases



Interest rates



- The RBA again bought $5bn of bonds this week under its Bond Purchase Program, bringing its total purchases under this program to just under $145bn, or to $223bn (11.2% of GDP) including its Yield Curve Target program
- 3-year yields briefly moved above the RBA's target of 0.10% this week, touching 0.12%, but fell back to 0.09% at week's end, while the 10-year yields dropped 18bp to 1.41% (lowest since mid-February) in line with the big fall in US yields
- It seems increasingly likely that the RBA won't shift the target bond for its 3-year yield target from April to November 2024 at next month's meeting, and that it may lower the pace of longer-term bond purchases after October

Source: Reserve Bank of Australia, *Statistical Tables* A3 and F2. Data up 11th June. Return to "What's New".`

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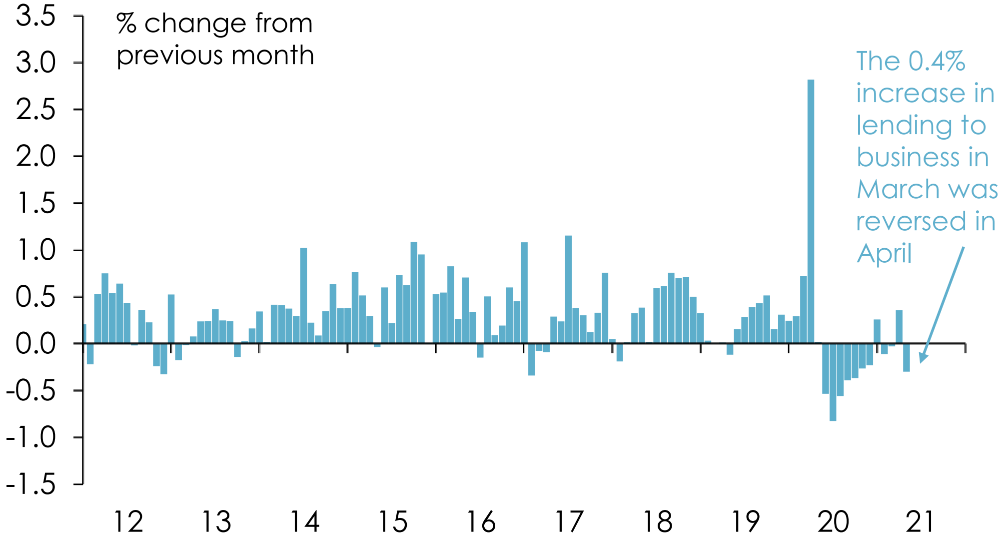
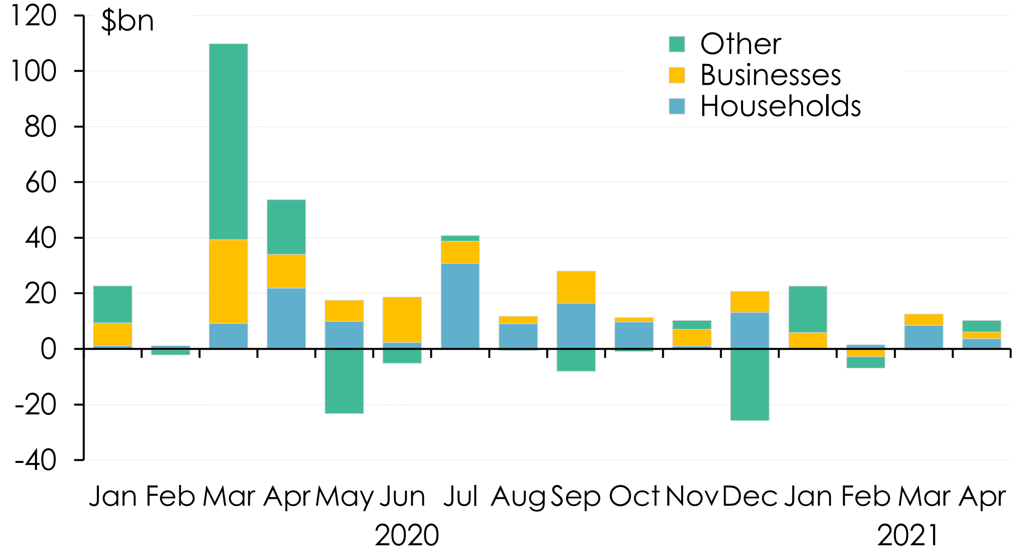
Banks have played an important role in assisting borrowers cope with shutdowns, and have been swamped with deposits

Business credit outstanding



Monthly change in bank deposits

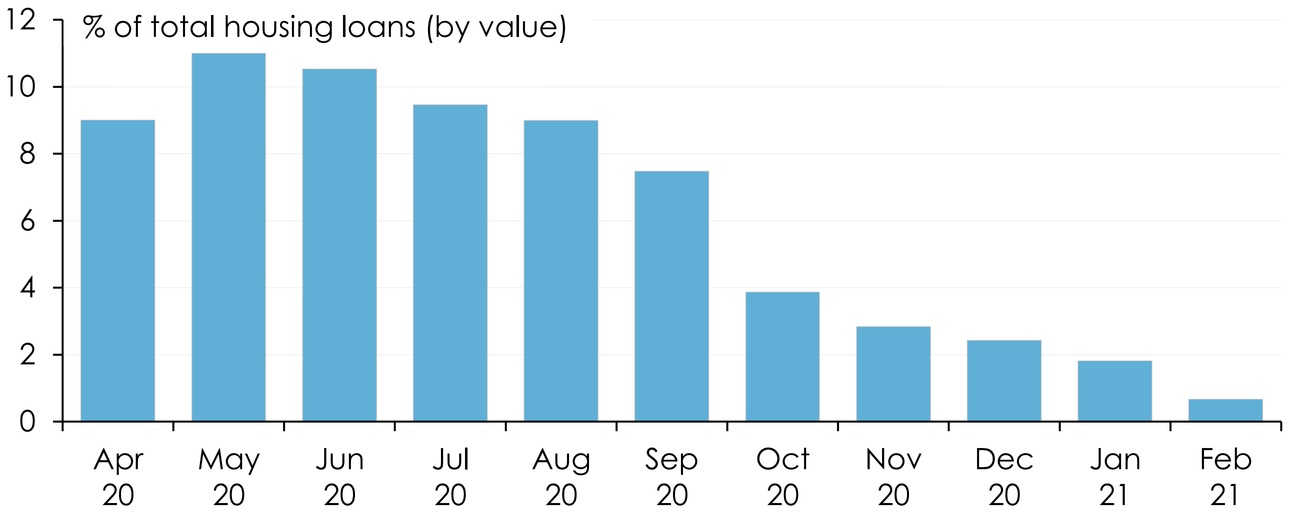


- **Banks have cut interest rates on small business loans by more than the official cash rate since June last year (when the RBA started cutting rates again)**
- **Banks have made credit readily available when needed – particularly in the early stages of the pandemic**
- **Banks extended 'repayment holidays' 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 $298bn (14%) 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 haven't drawn as much as might otherwise have been expected from the RBA's Term Funding Facility
- **Household deposits have risen by $138bn (14%) since last February – of which $36bn has been sourced from early release of superannuation savings – while business deposits have risen by $113bn (19%)**

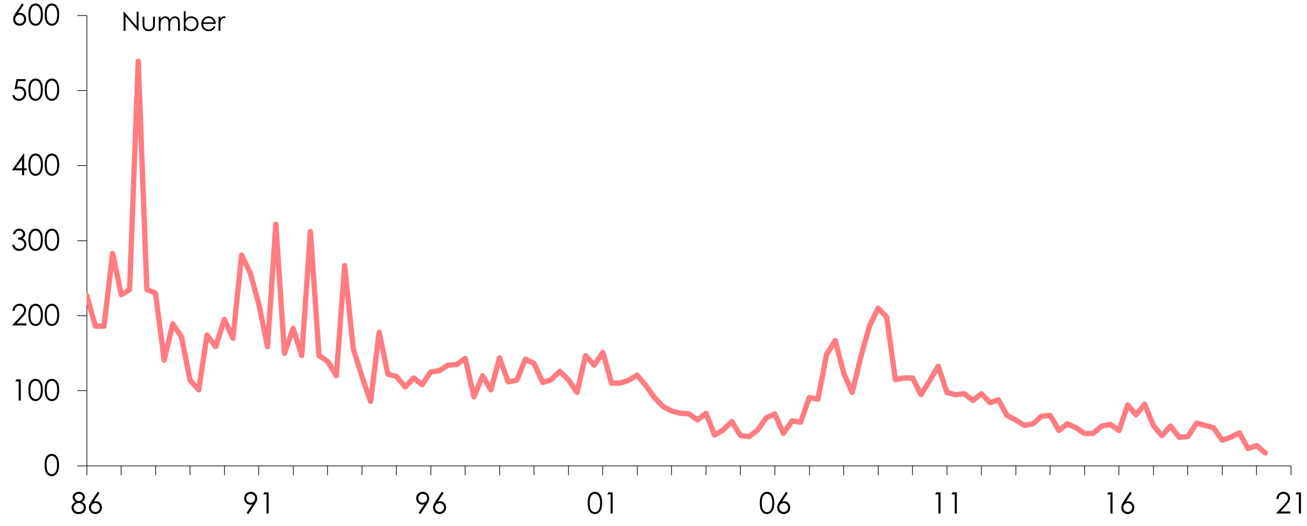
Sources: Reserve Bank of Australia; APRA. Return to "What's New".

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

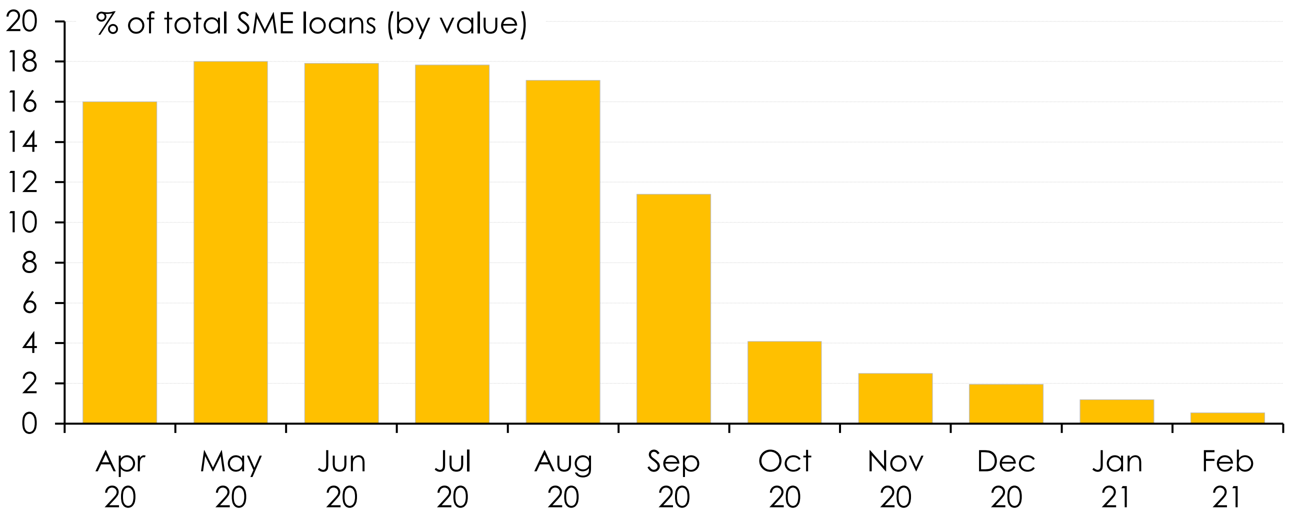
Mortgage repayment deferrals



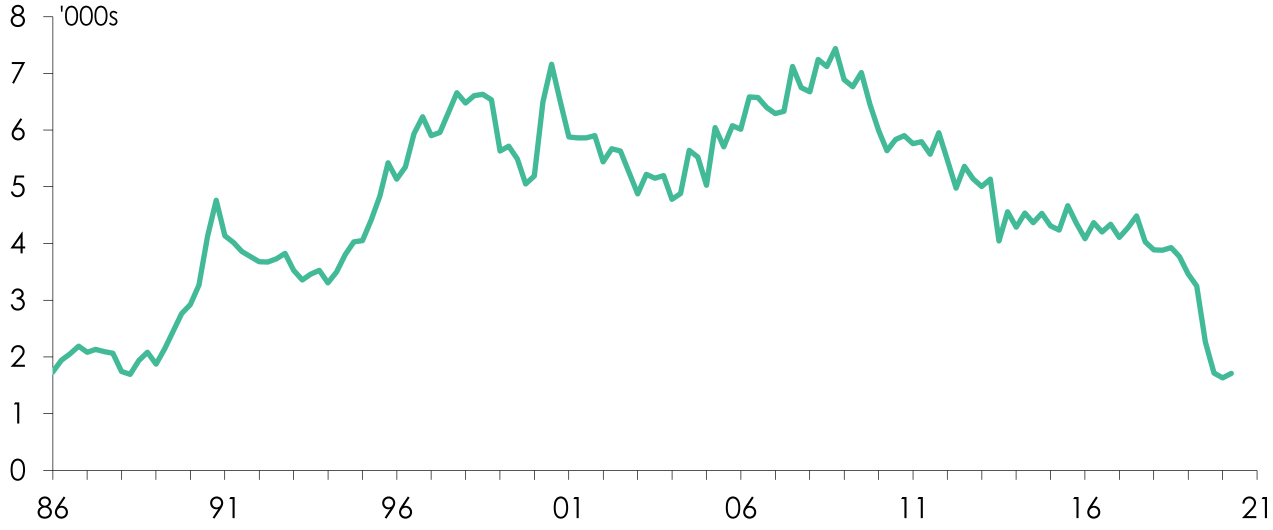
Personal insolvencies



SME loan repayment deferrals



Bankruptcies



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

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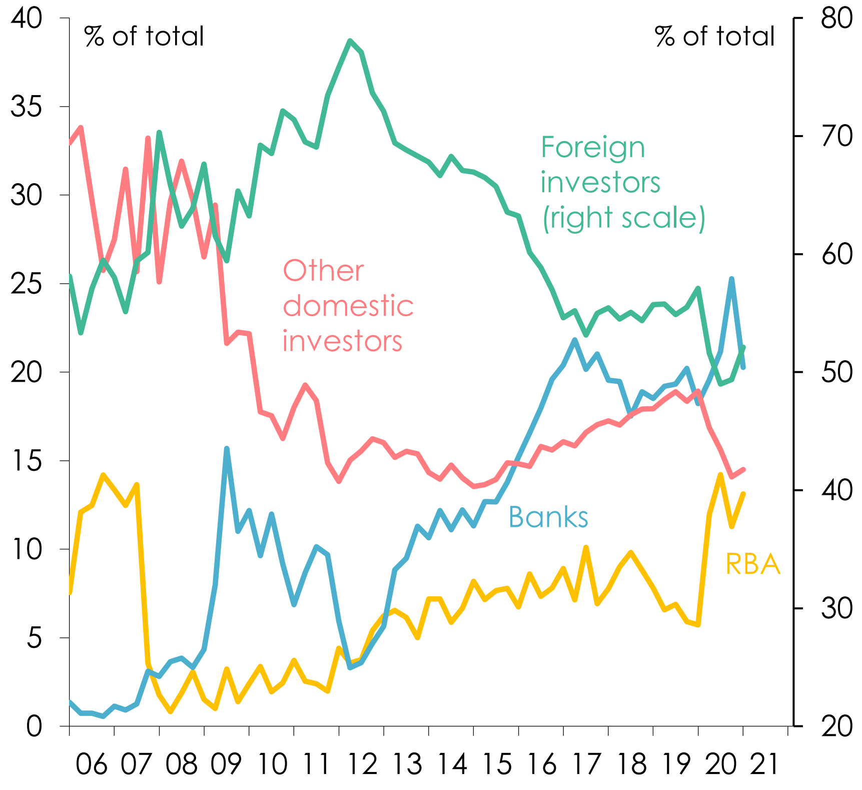
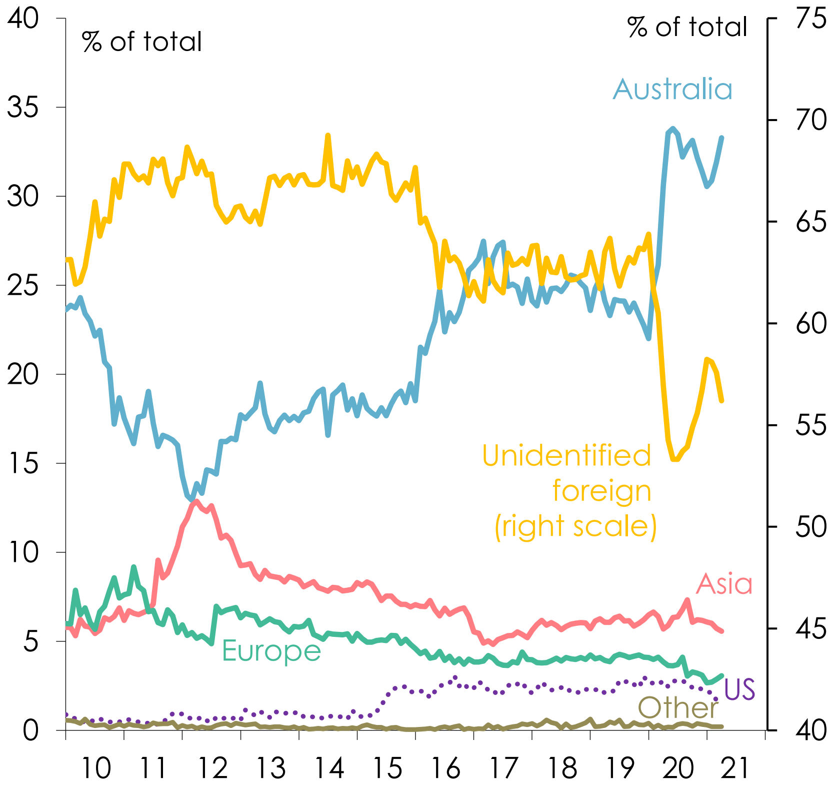
Domestic banks absorbed 37% of the $331bn increase in government debt on issue in 2020, foreign investors 34% and the RBA 27%

Holders of Australian Government bonds



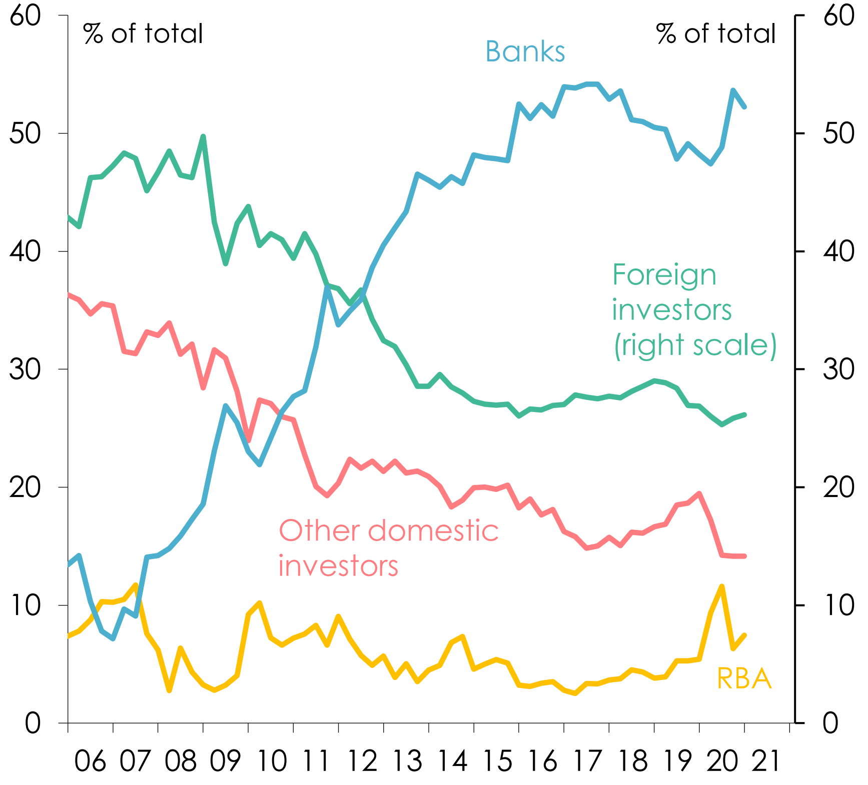
Australian Gov't bonds on issue rose by $232bn in 2020 – of which foreign investors absorbed $89bn (38%), the RBA $77bn, and domestic banks $60bn

Nationality of Australian Government bond holders



Domestic holdings of Australian Gov't bonds rose by $94bn over the 12 months to March while foreign holdings rose by $142bn

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 211th June.
Return to "What's New".

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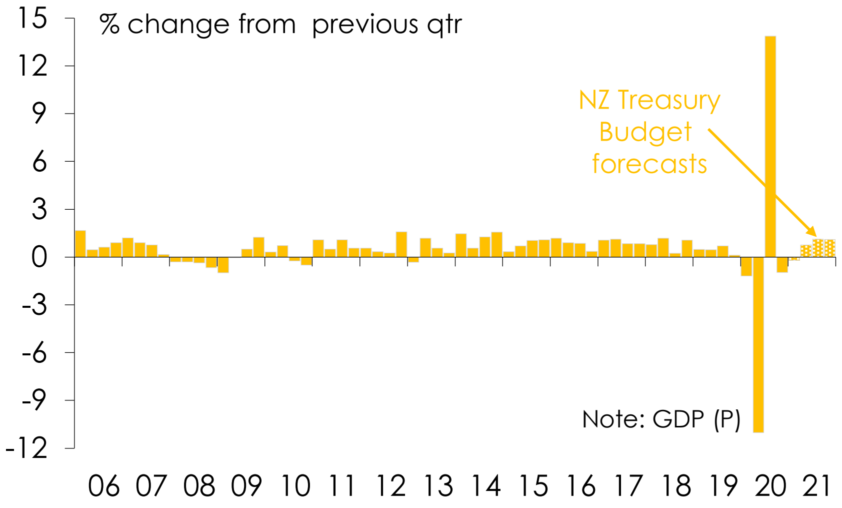
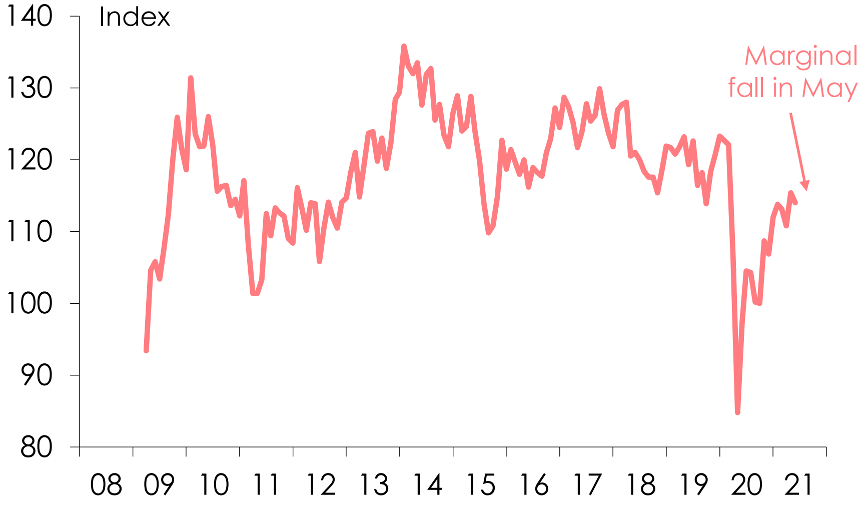
New Zealand

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

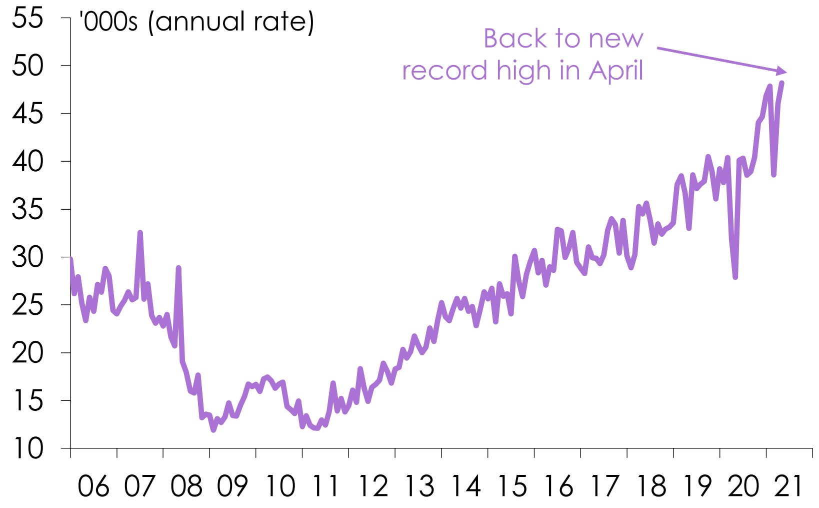
Real GDP



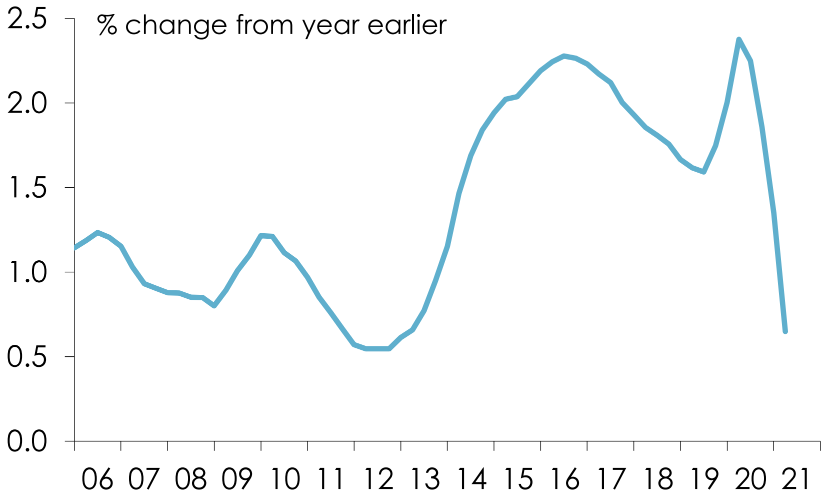
Consumer confidence



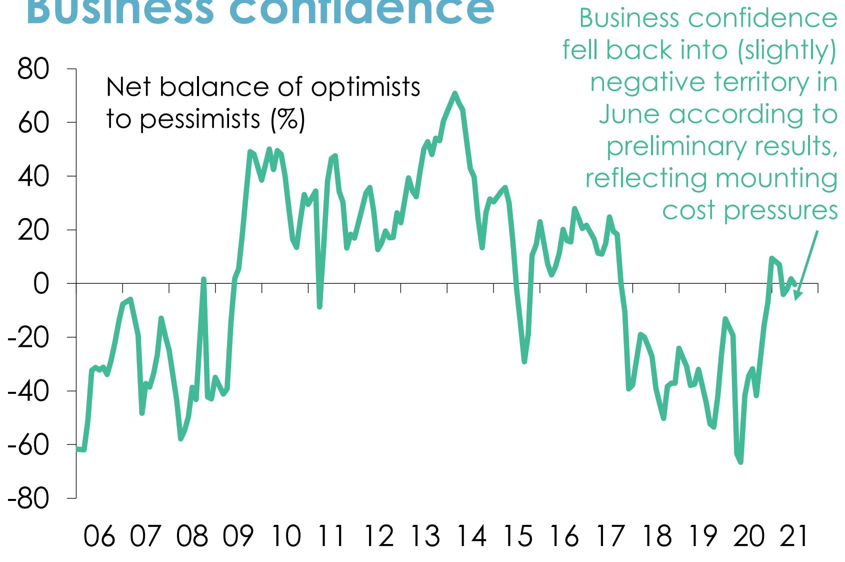
Dwelling 'consents' (permits)



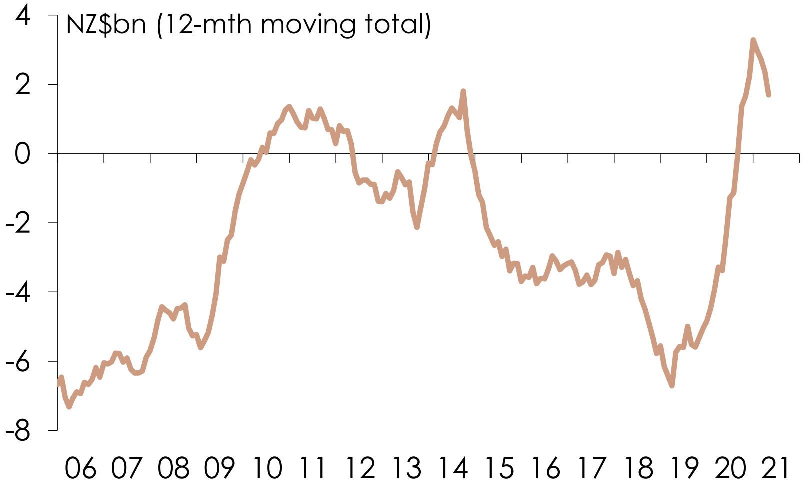
Population growth



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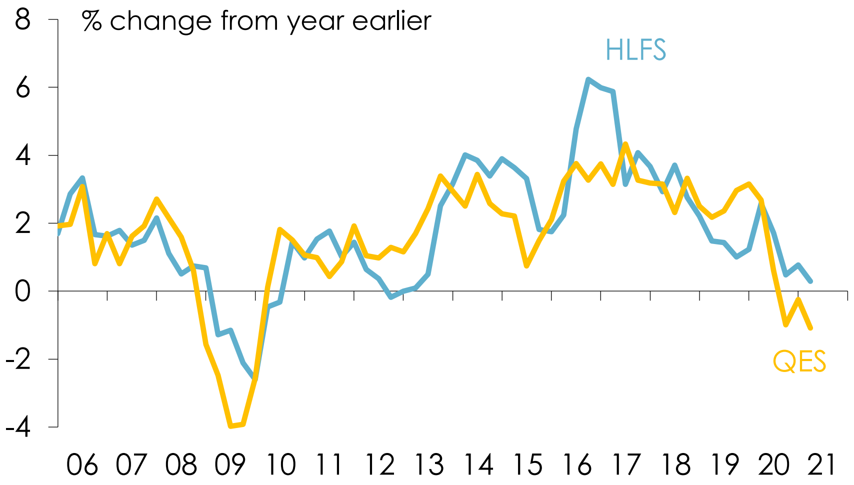
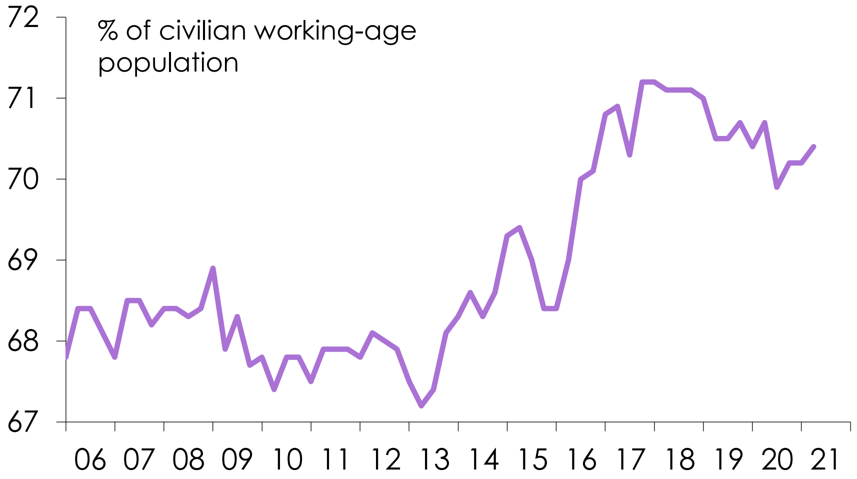
Employment rose another 0.5% in Q1 (after 0.6% in Q4 2020) to be 0.3% above its pre-pandemic peak while the unemployment rate fell to 4.7%

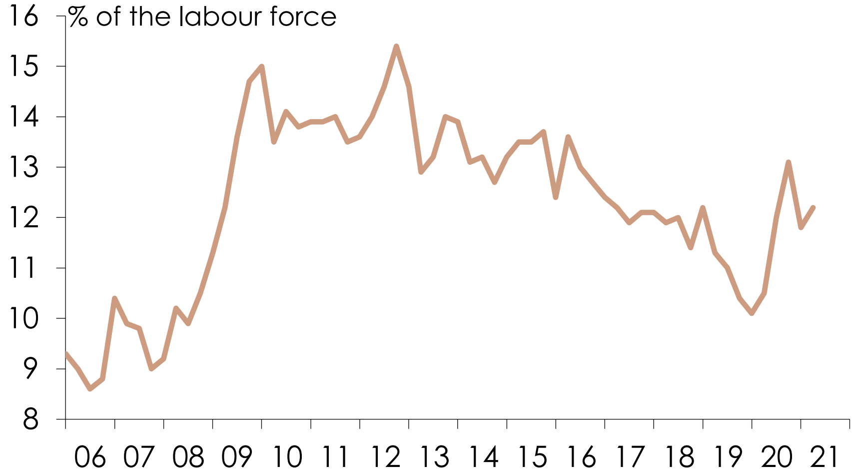
Employment



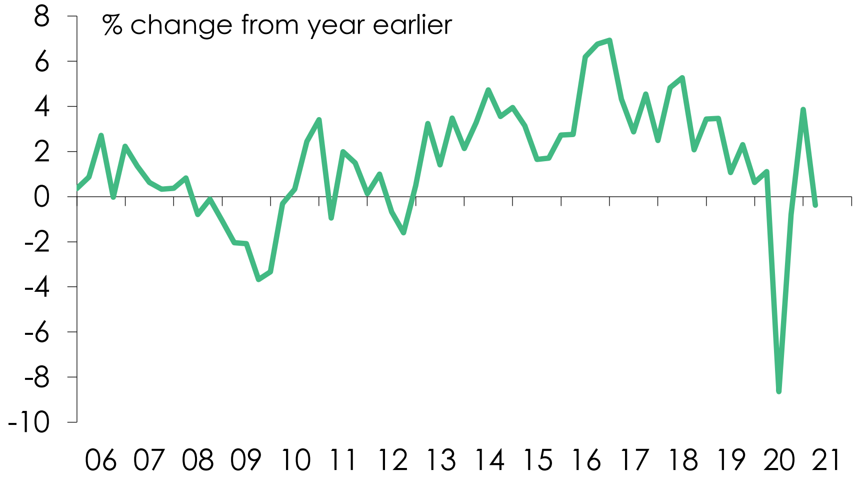
Labour force participation rate



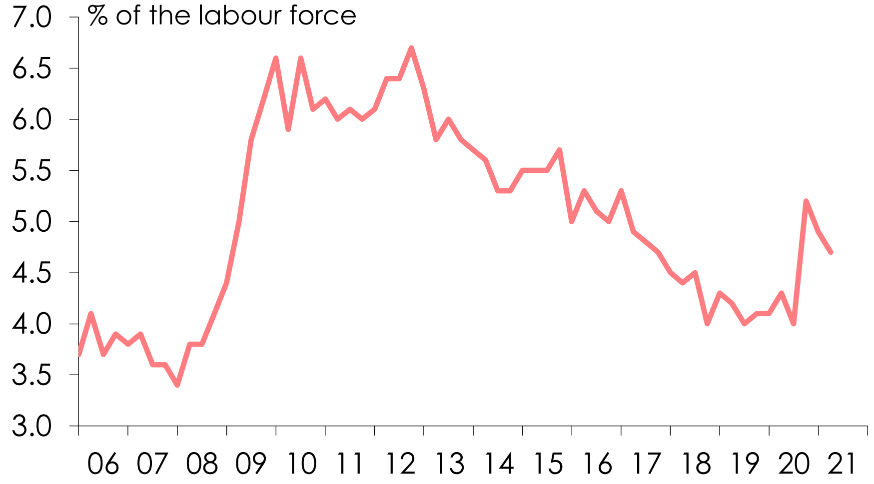
Labour force under-utilization rate



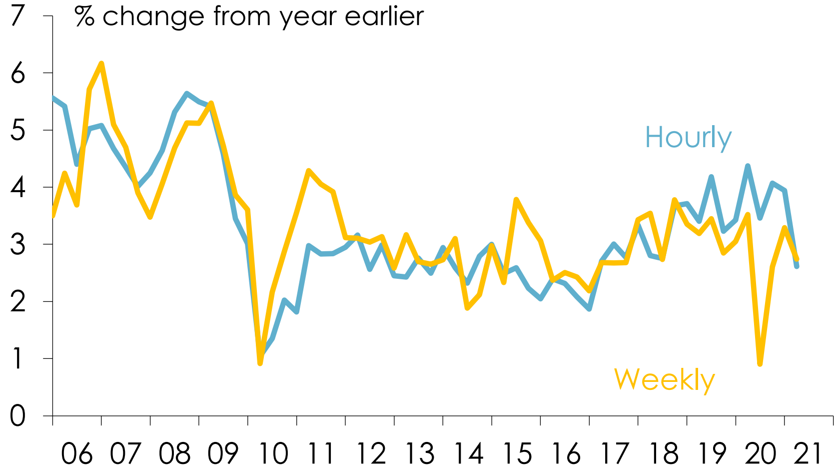
Hours worked



Unemployment rate



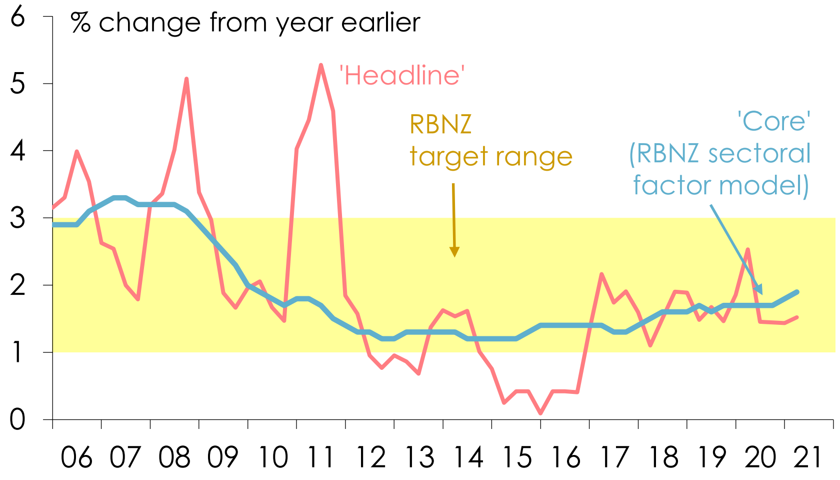
Average weekly earnings



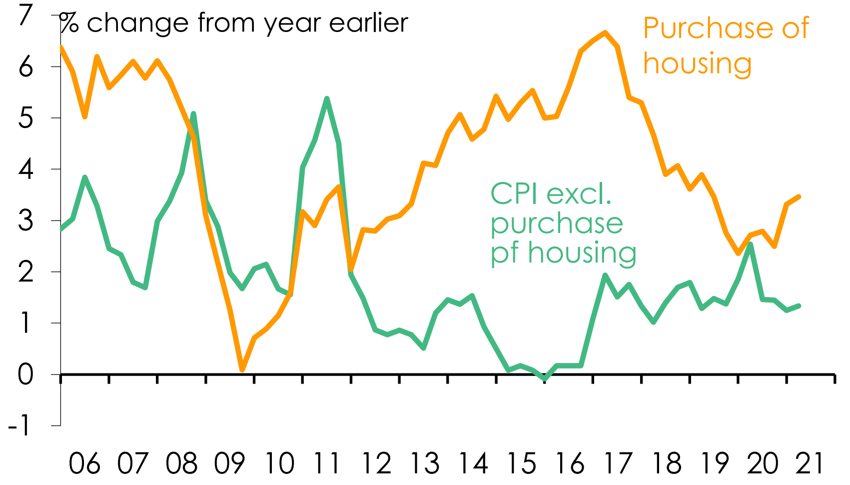
Note: New Zealand labour force data are only published quarterly. There are two 'headline' series on employment – the household labour force survey (HLFS) which counts the number of people in employment during the quarter; and the quarterly employment survey (QES), which counts the number of 'filled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

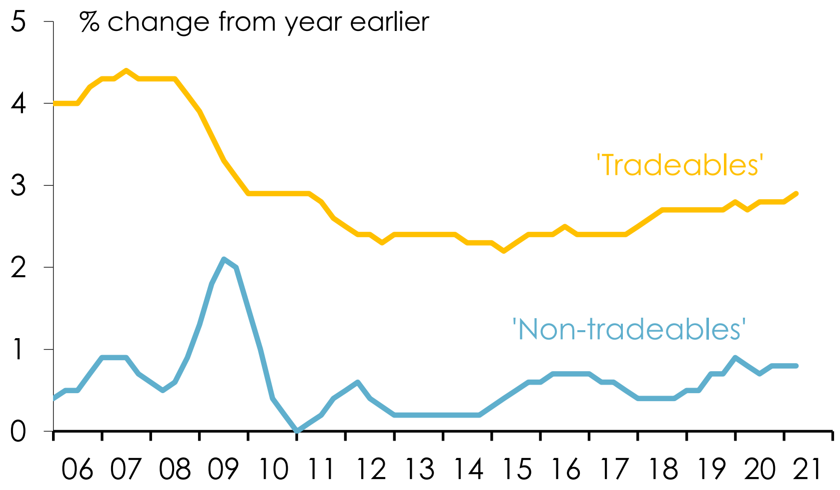
Consumer prices



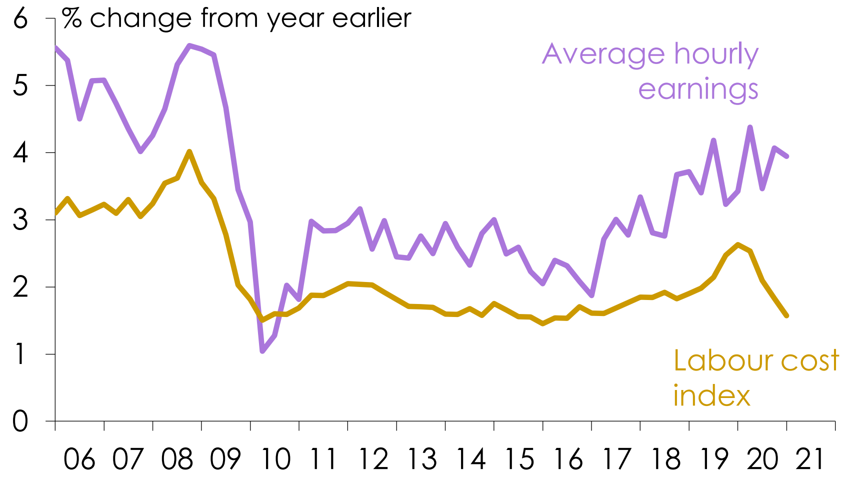
Housing costs in the CPI



Components of 'core' inflation



Labour costs



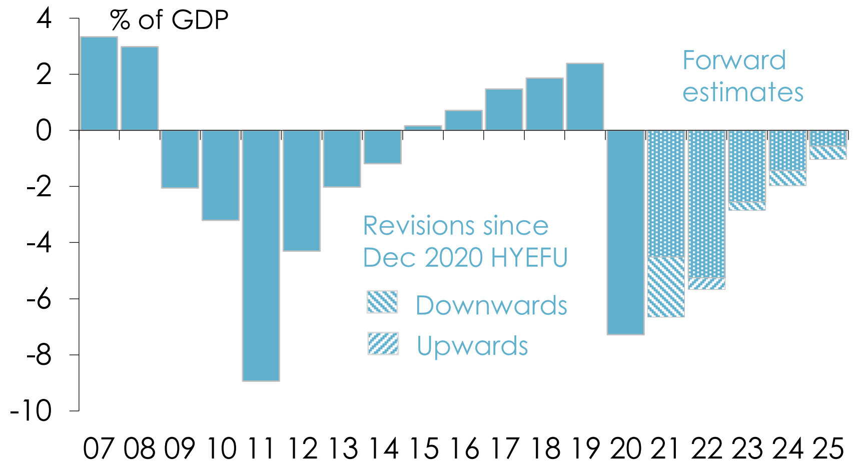
- **The CPI rose 0.8% in Q1, the largest quarterly increase in a year, nudging the annual 'headline' inflation rate up 0.1 pc pt to 1.5%**
- **The Q1 rise in the CPI was largely due to a 7.2% rise in petrol prices, a 4.4% increase in used-car prices, a 1.2% increase in new housing prices, a 1.0% increase 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".

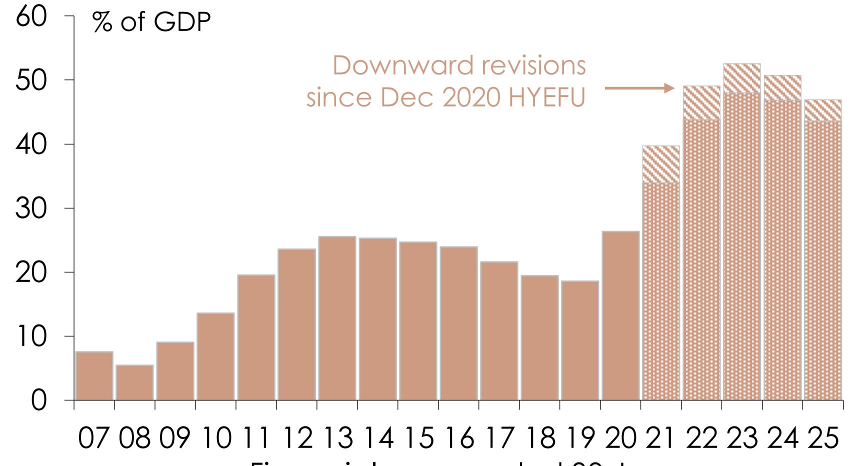
SAUL ESLAKE
CORINNA ECONOMIC ADVISORY

The 2021 NZ 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'



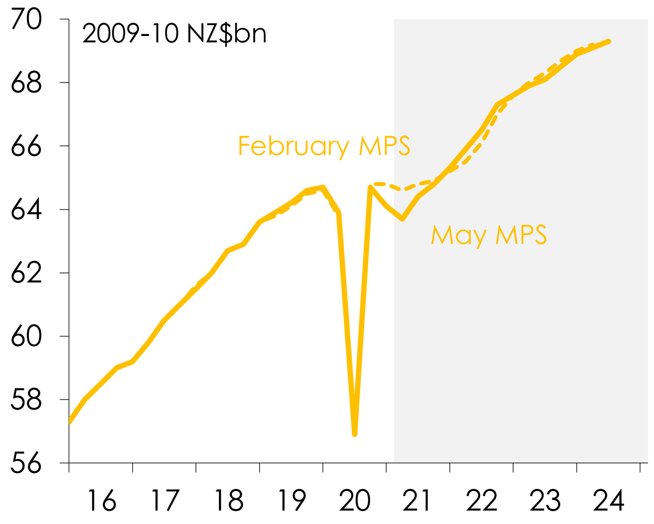
- **As was also the case in Australia, the 2021-22 New Zealand Budget presented by Finance Minister Grant Robertson in May benefited from a much stronger economic performance than had been anticipated in last year's Budget, or in last December's Half-Year Economic & Fiscal Update (HYEFU)**
  - Treasury 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".

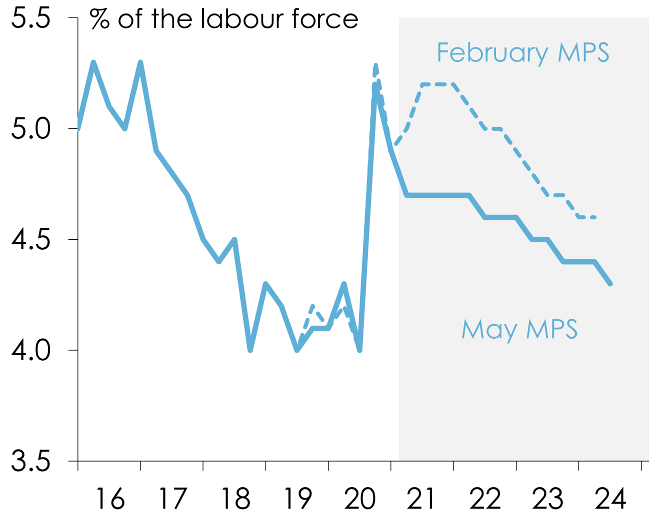
SAUL ESLAKE
CORINNA ECONOMIC ADVISORY

The RBNZ's Monetary Policy Committee last month kept rates on hold as expected but flagged OCR rate hikes starting in the second half of 2022

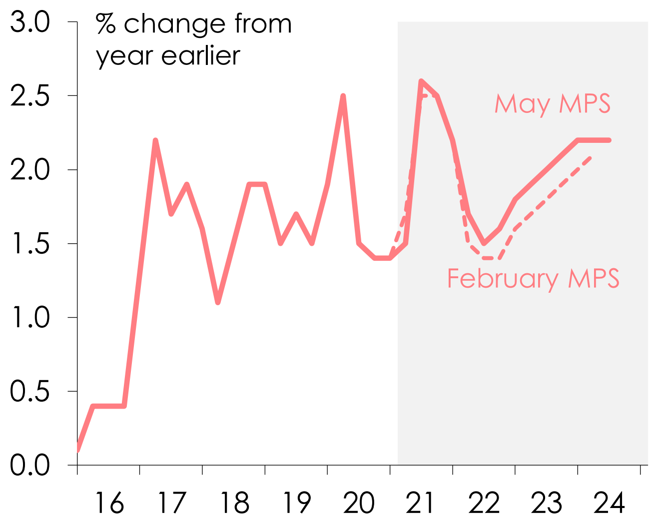
GDP



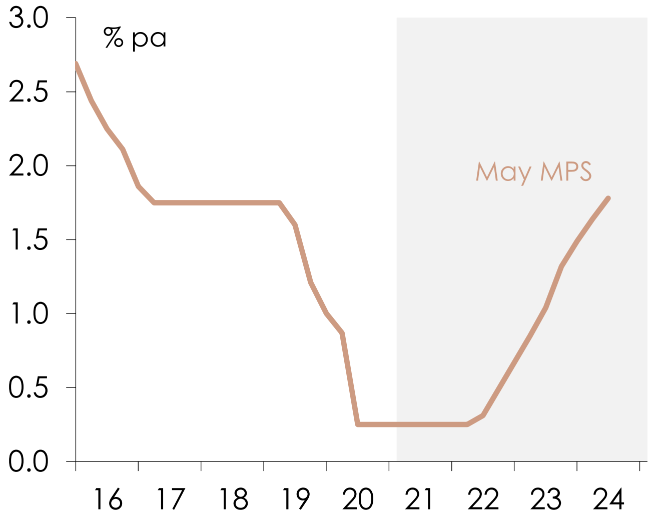
Unemployment



Inflation



Official cash rate

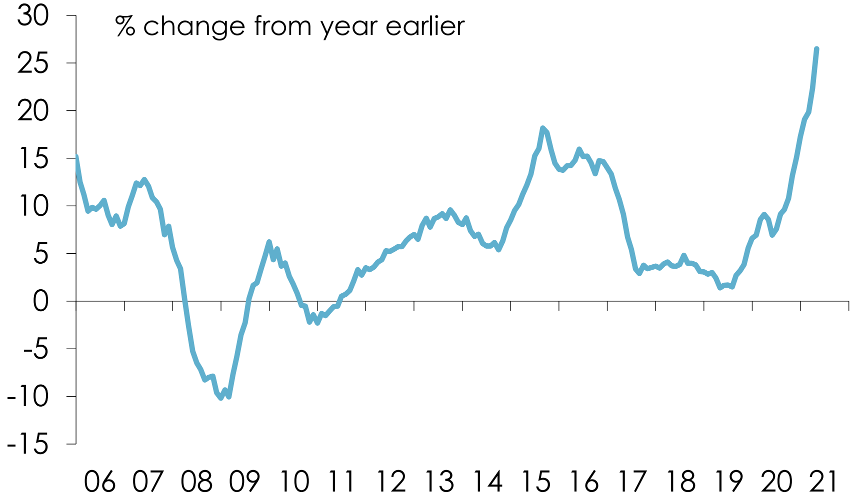


- **The RBNZ marginally downgraded its forecast for GDP growth in 2021 (from 3¾% to 3½%) largely resulting from the contraction in Q4 2020, but upgraded its 2022 forecast (from 2½% to 3½%) and lowered its unemployment rate forecasts for Q4 2021 from 5¼% to 4¾% and for Q4 2022 from 5% to just above 4½%**
- **The forecast for 'headline' inflation through 2021 was left unchanged at 2¼%, but forecasts for 2022 and beyond were raised by around ¼ pc pt per annum, with inflation now expected sustainably to reach 2% by mid-2023**
- **Noting that the it is now required to consider house price sustainability in its monetary policy decisions, the RBNZ concluded that "some of the factors" which have been driving rapid house price growth "may be reversing", and that recent tax policy changes and restrictions on high LVR lending will have a dampening impact, warning "there is a risk that house prices will fall from current levels"**
- **Formally, the MPC agreed to "maintain the current level of monetary stimulus until they were confident that the inflation and unemployment objectives would be met", which would "require considerable time and patience" – but nonetheless flagged increases in the OCR starting in the second half of 2022**

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

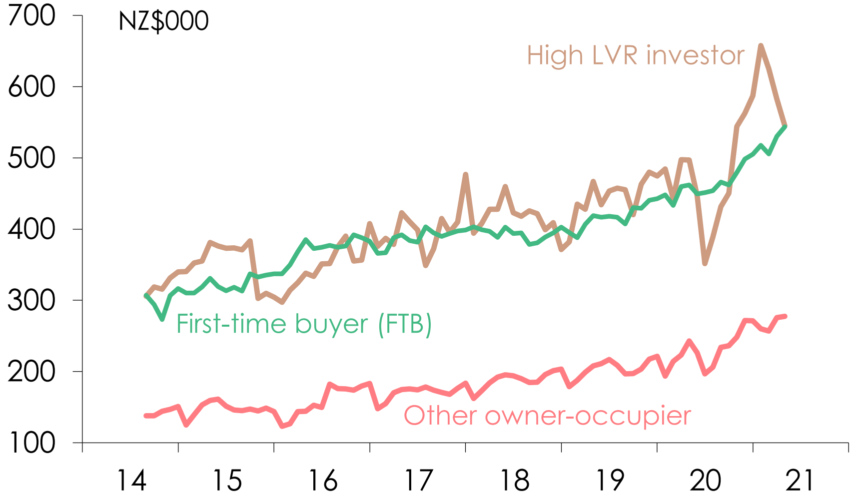
NZ's housing price boom has been fuelled by investors (a large proportion of them with very high LVRs) – but recent changes have had some impact

House price inflation

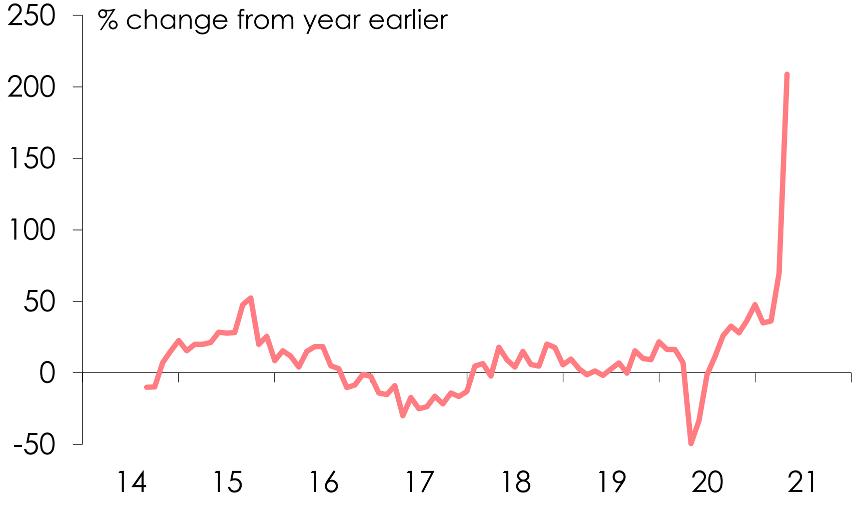


Lending to investors as pc of total

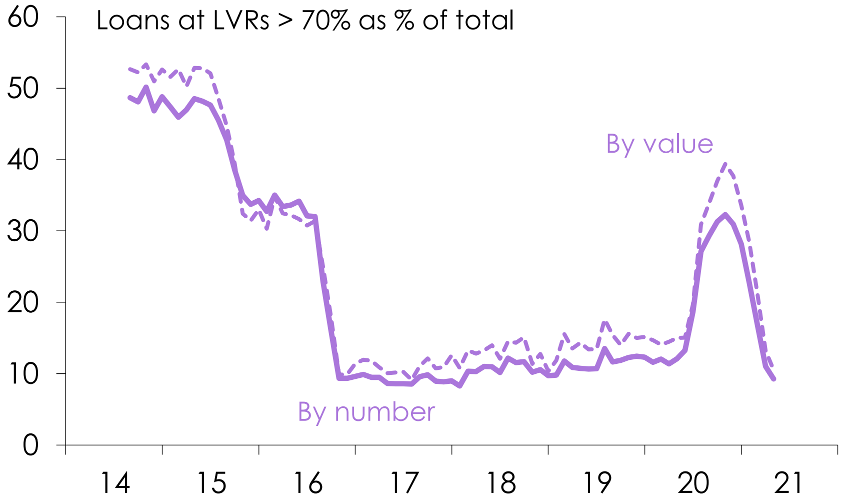
Average new mortgage



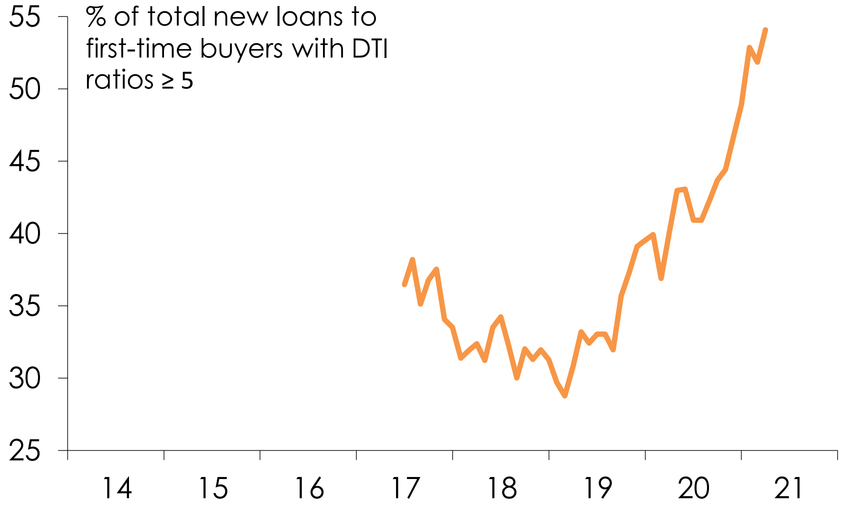
Mortgage lending growth



High-LVR loans to investors



Loans to FTBs at over 5 times income



Note: New Zealand's tax system allows 'negative gearing' (ie, investors can offset the excess of interest costs over net rental income against their other income for tax purposes) but does not impose any tax on capital gains, making borrowing for property investment more attractive in after-tax terms than in almost any other 'advanced' economy. *Sources:* Real Estate Institute of NZ; Reserve Bank of New Zealand (Tables C30, C31 and C40). Return to "What's New".

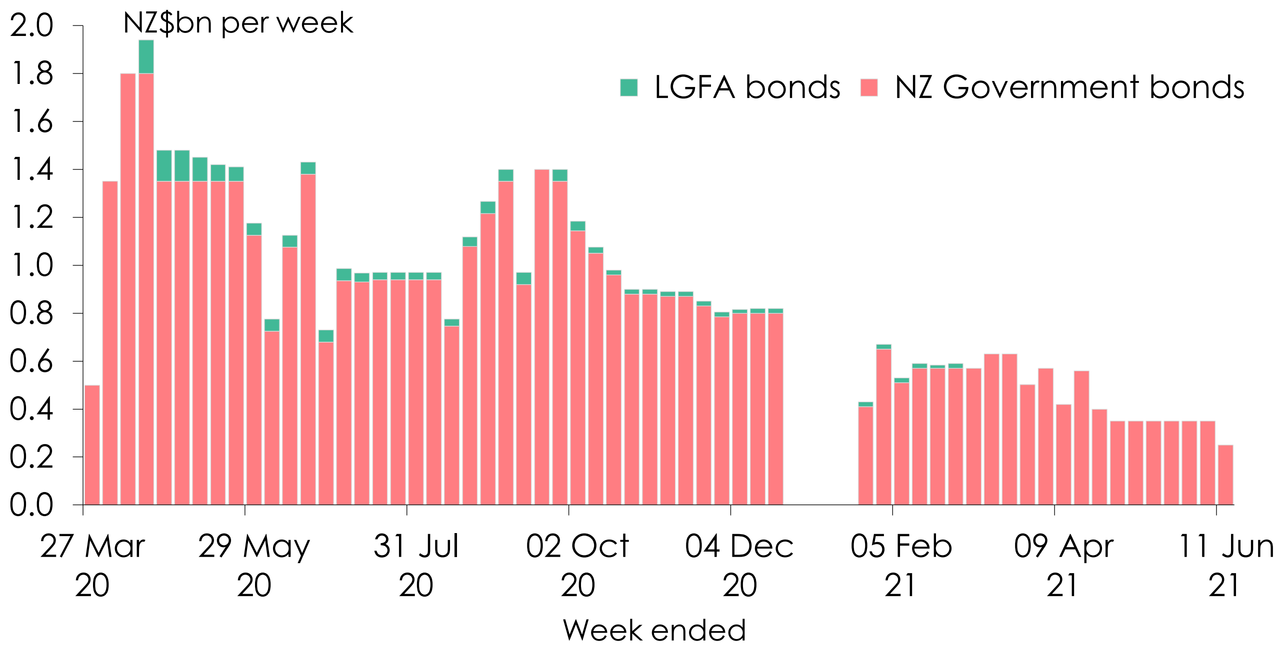
SAUL ESLAKE
CORINNA ECONOMIC ADVISORY

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

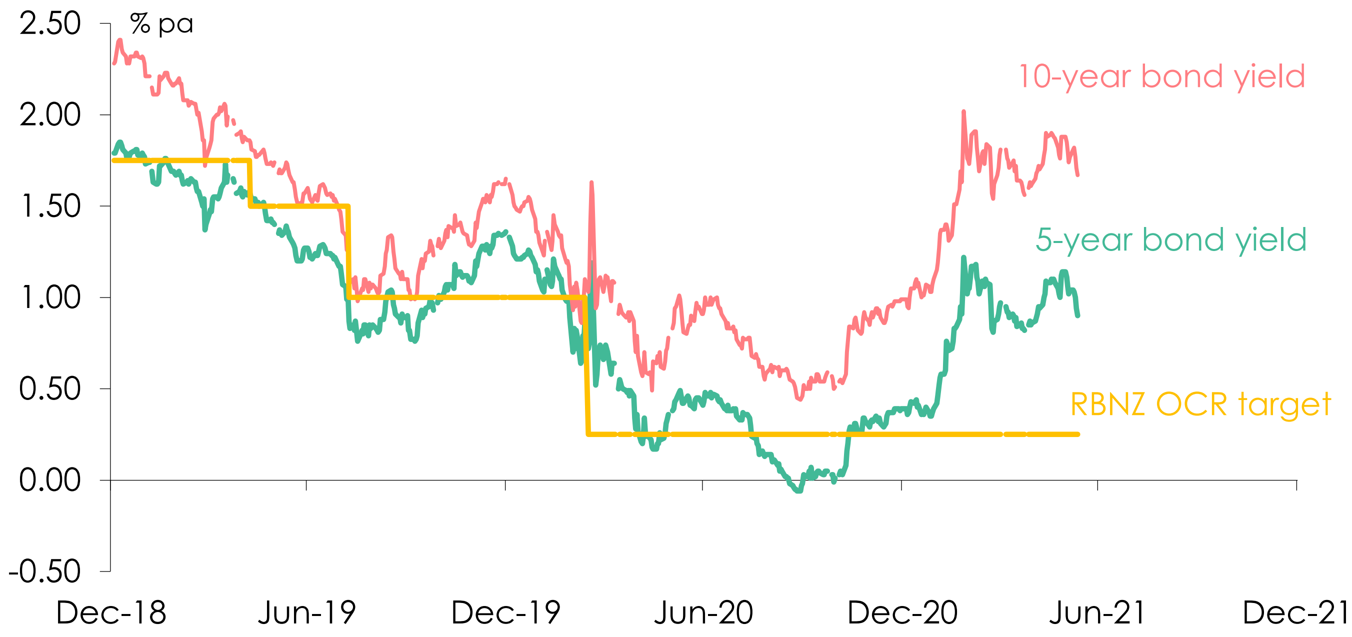
- **The Government’s announcements have five key elements**
  - the period for which investment properties must be held before any profits upon sale become exempt from income tax (the so-called ‘bright line test’) will be extended from five years to ten years
  - interest on loans taken out to finance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

The RBNZ's bond purchases this week were smaller than in any week since its 'QE' program began, but 10-year yields still fell, echoing falls overseas

RBNZ open market bond purchases



New Zealand interest rates



- RBNZ has adopted an ECB-style QE, establishing a Large Scale Asset Program initially set at $NZ33bn (10½% of GDP), increased to $60bn (19½% of GDP) in May, and in October to $100bn (32½% of GDP) by June 2022
- The RBNZ bought only NZ$250mn of bonds this week (the smallest since its asset purchase program began), bringing its total purchases to NZ$52.9 bn (16½% of GDP)
  - but at last month's MPC meeting the RBNZ indicated that the $100bn LSAP target 'could not be reached' by June 2022 given reduced government bond issuance, noting that the $100bn figure was "a limit, not a target"
- Longer-term bond yields eased 10 bp this week, echoing (though not completely matching) falls in major markets
- This week the RBNZ's Head of Financial Markets outlined that "climate change and sustainable development" is at the forefront of the RBNZ's mind "when looking at the future of our balance sheet"

Note: LGFA = Local Government Financing Authority. *Source:* Reserve Bank of New Zealand, *Statistics* Tables B2 and D3. Data up to 11th June. Return to "What's New".

Important information

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

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