ECONOMIC IMPACT OF THE CORONAVIRUS PANDEMIC

26TH JUNE 2021

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CORINNA ECONOMIC ADVISORY PTY LTD

What's new?

The world

- 2.56mn new Covid-19 cases were recorded this week, the lowest number in 18 weeks; while the 'official' global death toll was the lowest since November last year (slide 4)
- With India's 'second wave' continuing to recede, new infections are increasingly concentrated in South America (which accounted for 38% of all new cases this week), although infections are also rising in Indonesia, South Africa and Russia (slides 5-6)
- World trade volumes posted another record high in April, with container shipping data pointing to further growth in May (slide 28)
- Protracted water shortages in Taiwan are having a significant impact on the global semiconductor chip supply (slide 29)
- Container shipping freight rates surged 16% this week (driven by increases of over 30% on China-US routes, adding to 'upstream' price pressures (slide 38)
- The Fed's preferred measure of 'core inflation' rose 3.4% over the year to May, the fastest pace since April 1992, although 'statistical' measures suggest (as they did with last week's CPI) that most of the pick-up in inflation is attributable to 'outliers' (slide 68)
- The US recorded a current account deficit of 3.5% of GDP in Q1, the largest since Q4 2008 (slide 70) – and this is where the 'excess demand' generated by any 'excessive' stimulus to the US economy is more likely to show up in a sustained way
- The Bank of England left its policy settings unchanged (no surprise) but Norges Bank foreshadowed a rise in September (slide 34)
- Central banks in Mexico, Hungary and Czechia hiked rates for the first time this week (slides 74 and 75), following Brazil and Russia last week

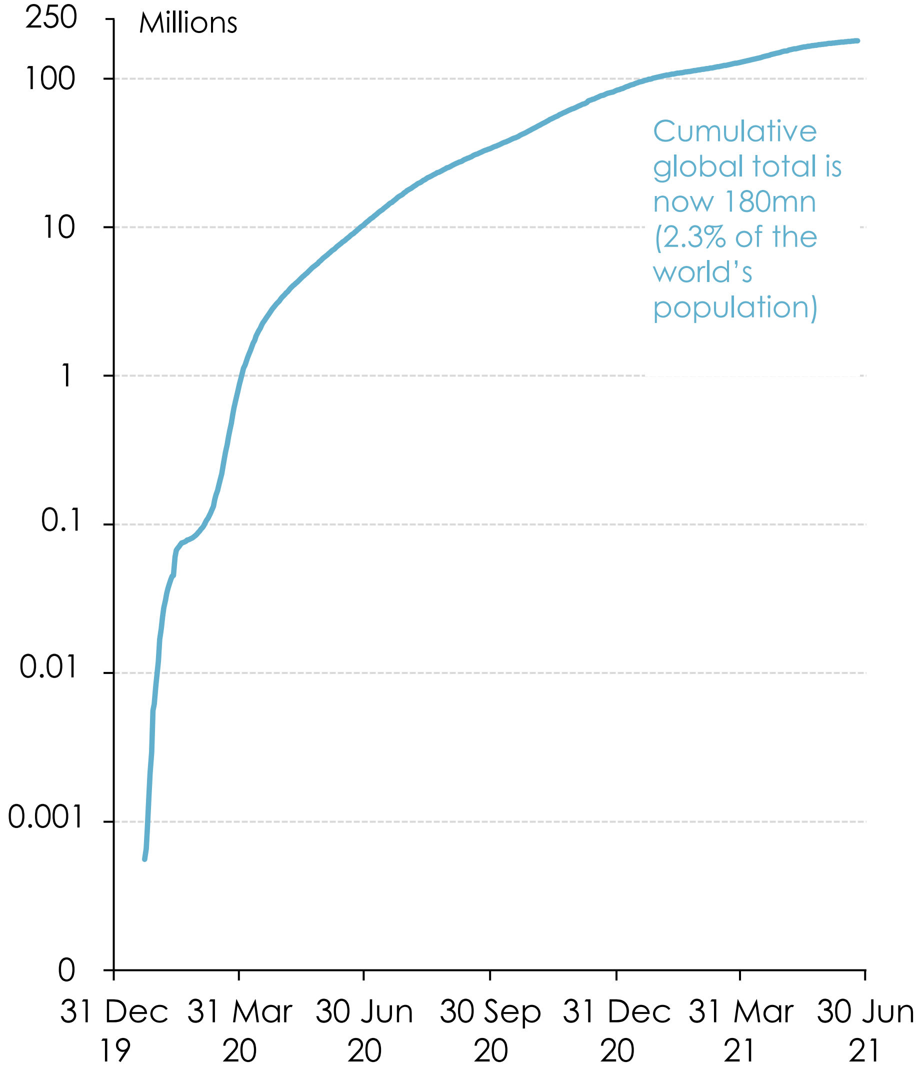
Australia

- Australia recorded 125 new Covid-19 cases this week, 78 of them (the highest number since last December) being 'locally acquired' (slide 7)
- 64 of those 'locally acquired' cases were in Sydney, prompting the NSW State Government to order what is now a 14-day lockdown in the city's central and eastern suburbs, and other states to ban travel from the 'Greater Sydney' metropolitan area (slide 8)
- More detailed results from last week's May labour force survey show that younger and lower-paid workers are continuing to encounter more difficulty finding work than older and better-paid workers (slides 101-103)
- Another ABS survey released this week shows a significant increase in the proportion of businesses looking to increase employment in June (slide 94) but also an increased proportion of businesses encountering difficulty finding suitably skilled staff – probably at least in part as a result of the ongoing closure of Australia's international borders (slide 106)
- Australia's merchandise trade surplus likely widened to a record $11¾bn in May (slide 121) according to preliminary data, thanks to the surge in iron ore prices – which continued this week despite Chinese authorities launching 'probes' into both iron ore and coal prices (slide 119)
- The Government recorded a third consecutive budget surplus in May, as the recovering economy boosts revenues while spending slows (slide 134)
- New South Wales' 2021-22 Budget directed stronger growth in revenue towards a combination of increased spending and deficit reduction while continuing to press on with property tax reform (slide 143)
- There were no major reforms in South Australia's 2021-22 Budget but its fiscal position is improving ahead of next March's election (slide 144)
- 3-year bond yields doubled this week – but the RBA didn't respond (slide 147), which may hint at a forthcoming shift in its cash rate 'guidance'

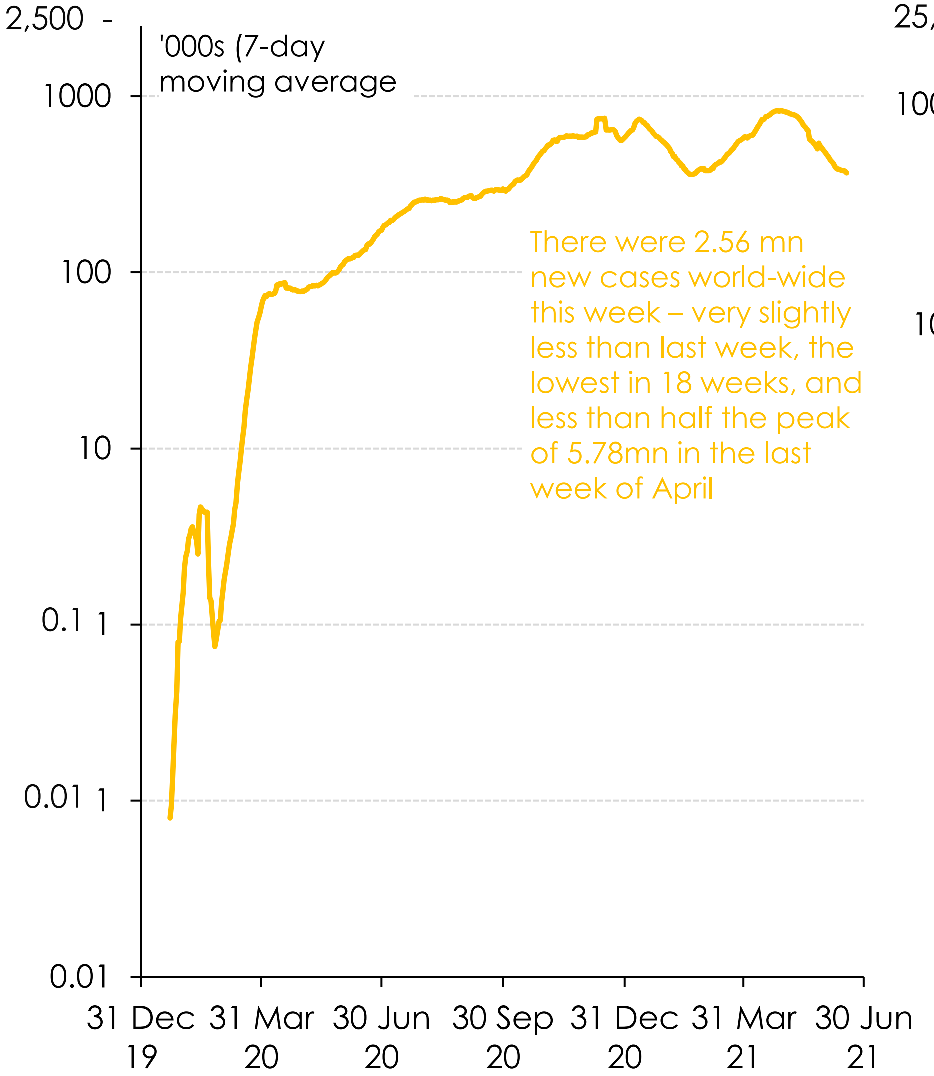
The virus

The global weekly total numbers of new infections and deaths are continuing to decline (although many argue deaths are 'under-counted')

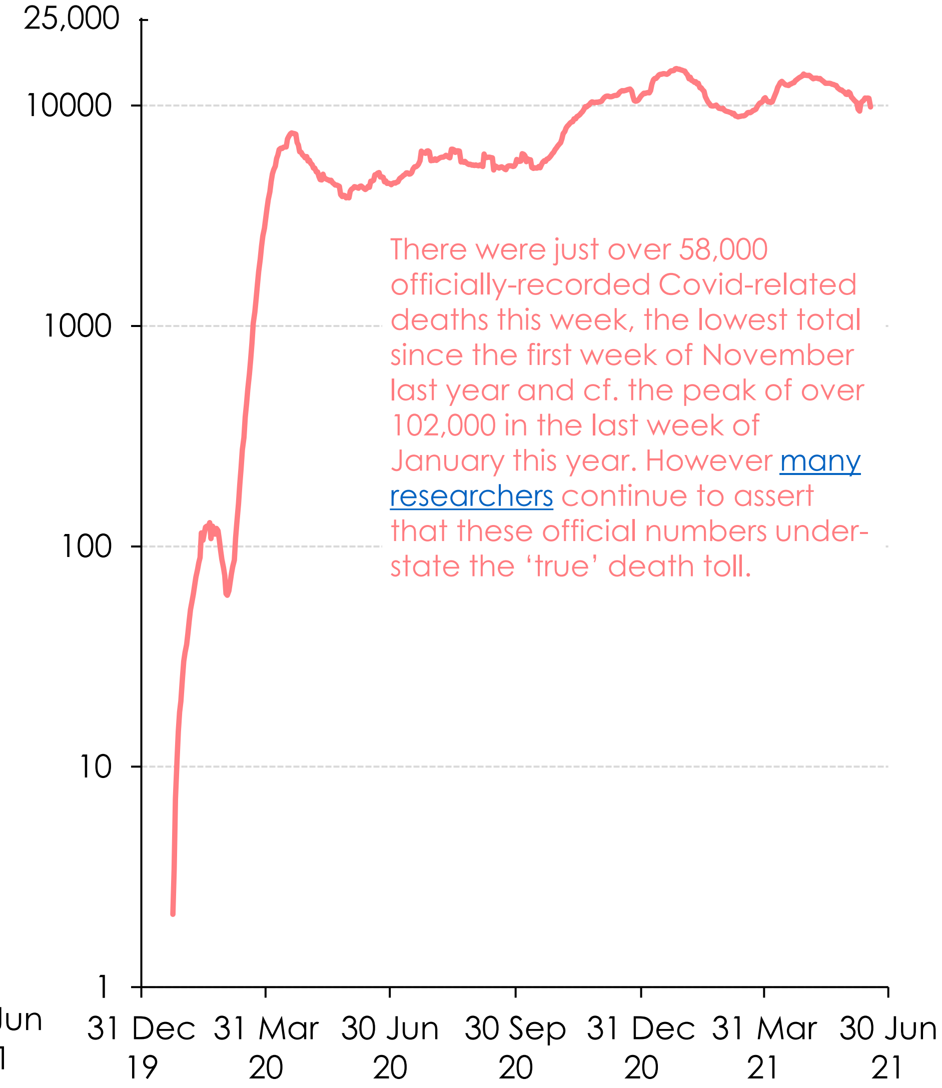
Cumulative confirmed cases – global total



New confirmed cases – global total



New deaths – global total



Note: All charts are on logarithmic scales. Data up to 24th 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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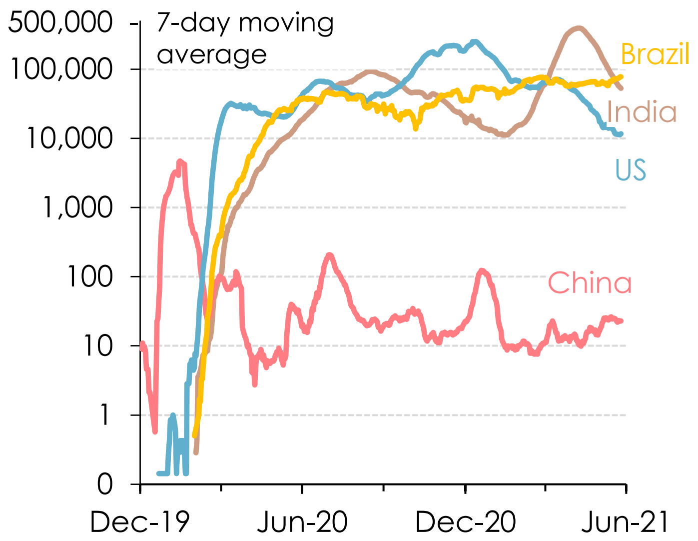
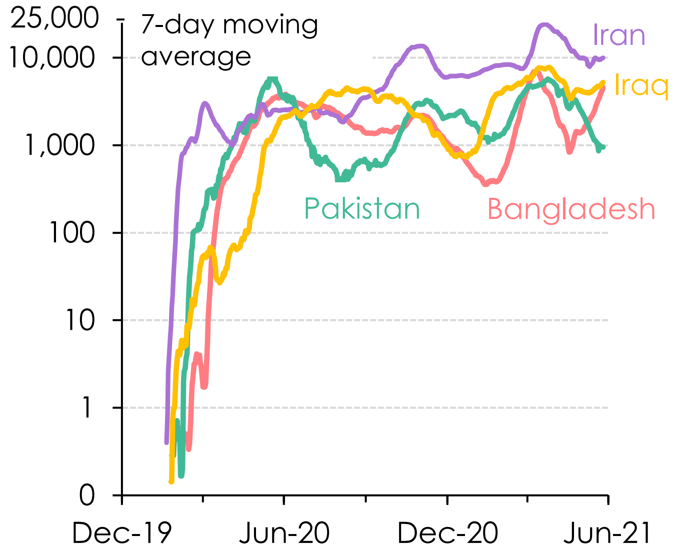
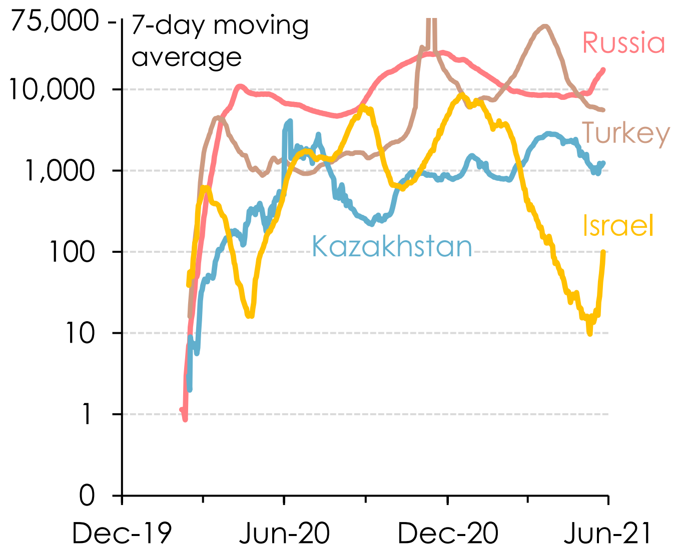
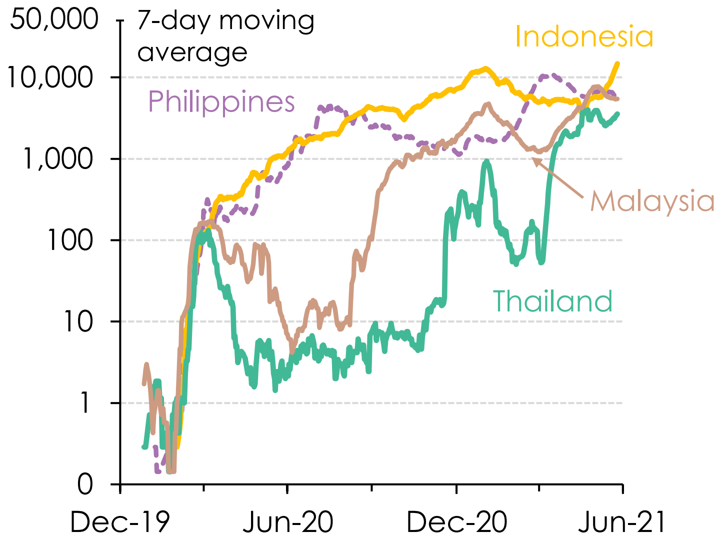
South America is increasingly the world's Covid 'hot spot' with 38% of all new cases this week, India 14½%, SE Asia 8%, Europe 6¾%, Russia 4¾%, & US 3¼%

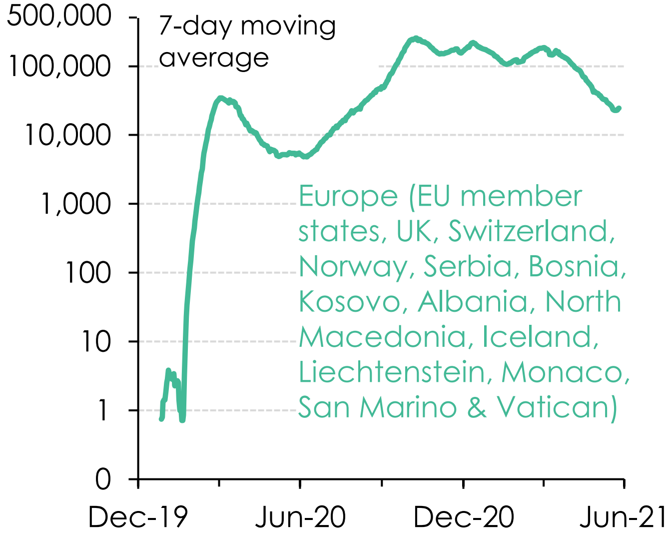
Daily new cases – selected countries with large populations and/or rapid growth in cases

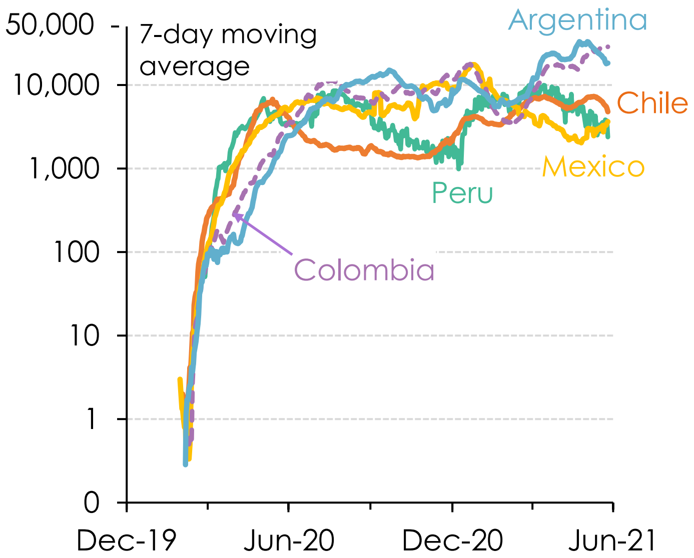


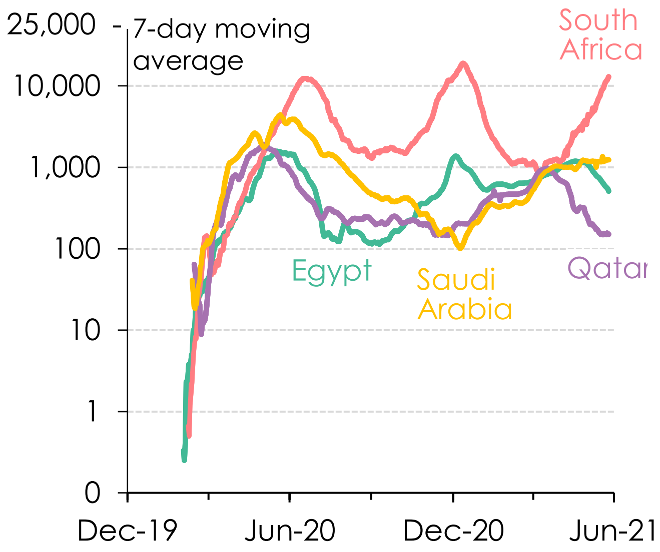


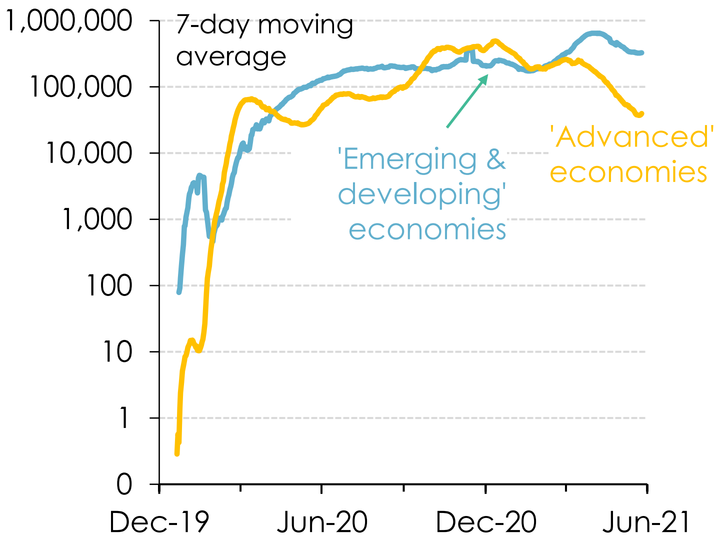












Note: All charts are on logarithmic scales. Data up to 24h June. *Source:* University of Oxford, Our World in Data; Corinna. Return to "What's New".

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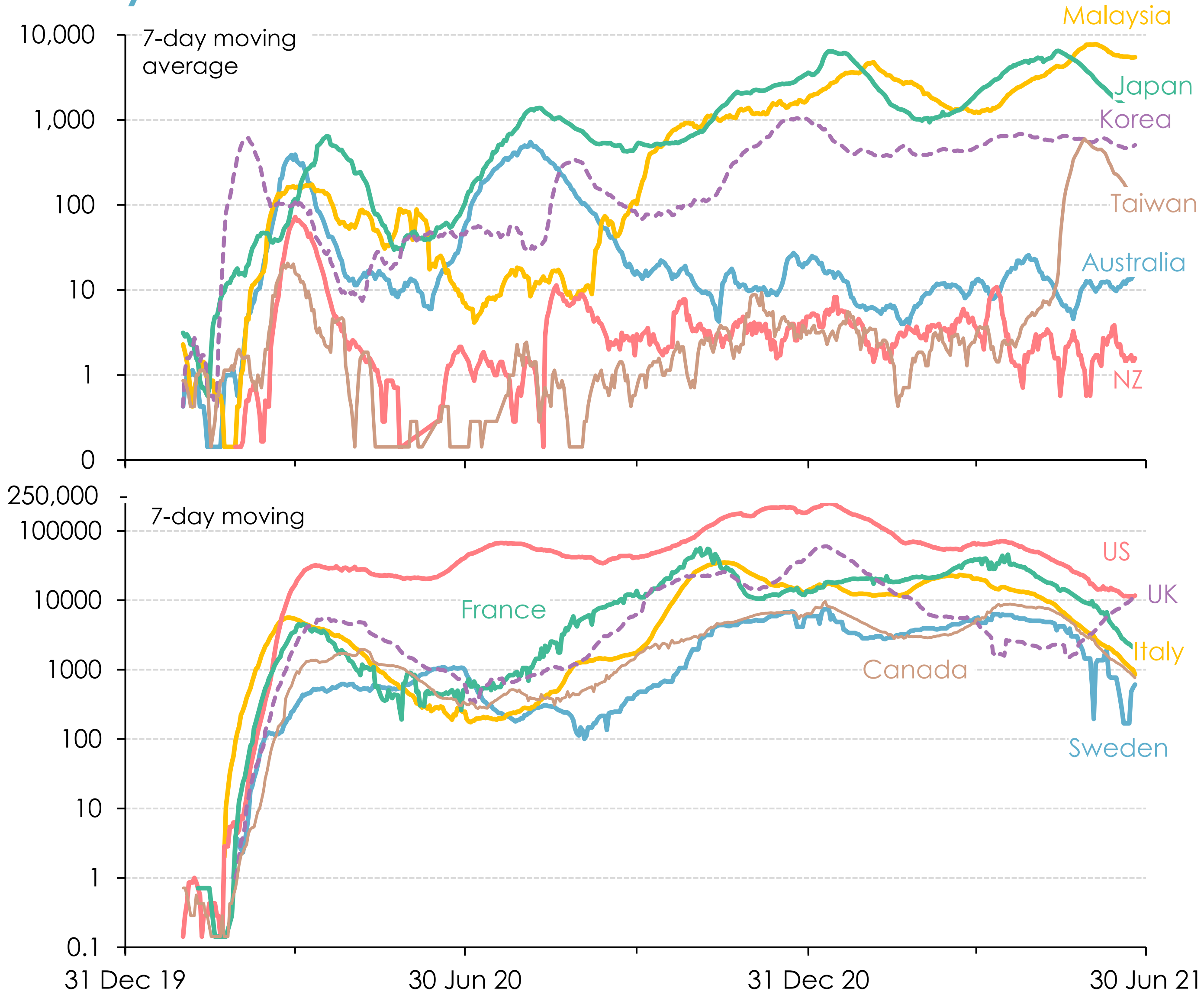
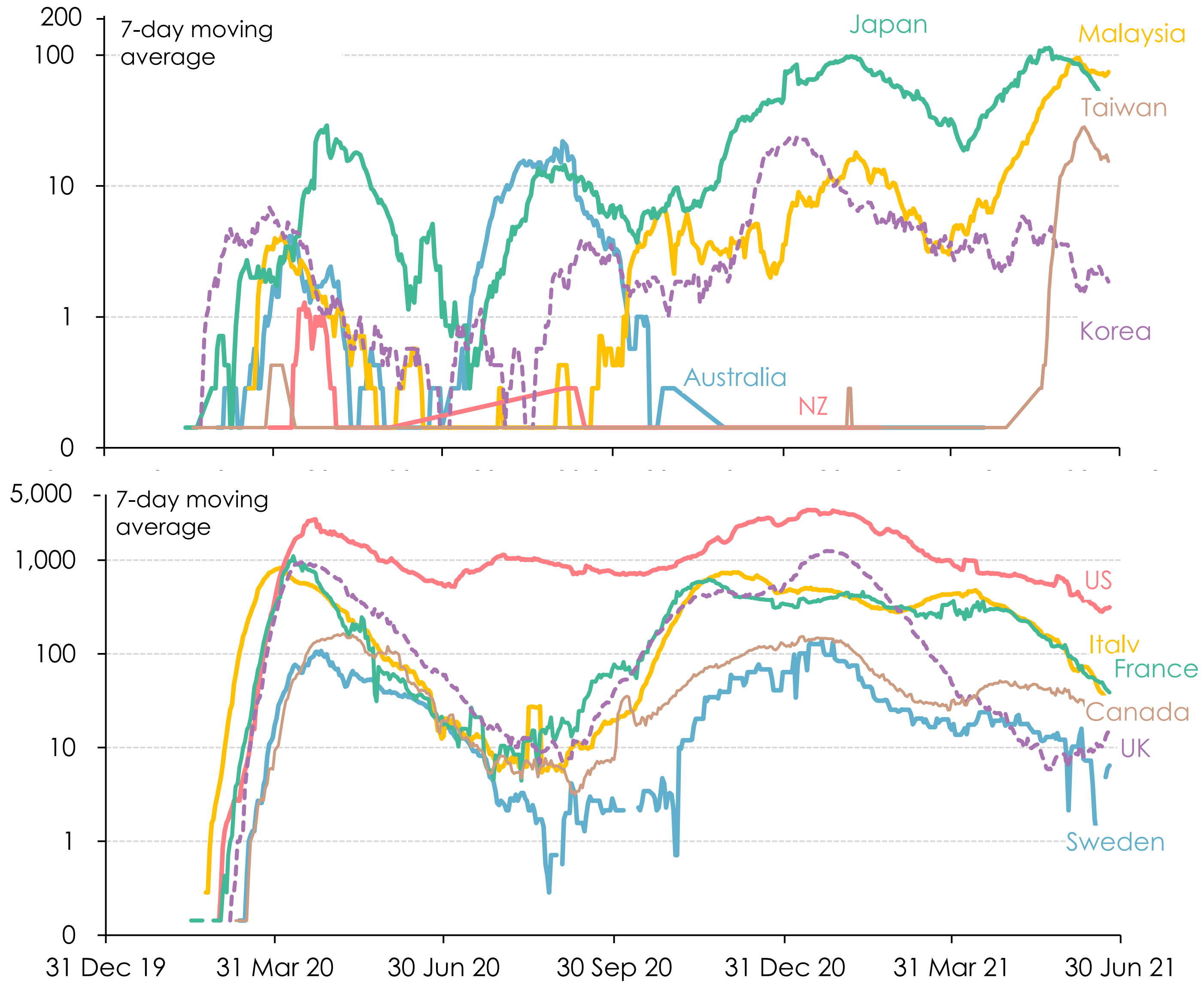
Case numbers and deaths are continuing to decline steadily in the US and Europe, while the more recent rise in cases in Asia may also be peaking

Daily new cases



Daily new deaths



Note: All charts are on logarithmic scales. Data up to 24th June. *Source:* University of Oxford, Our World in Data; Corinna. Return to "What's New".

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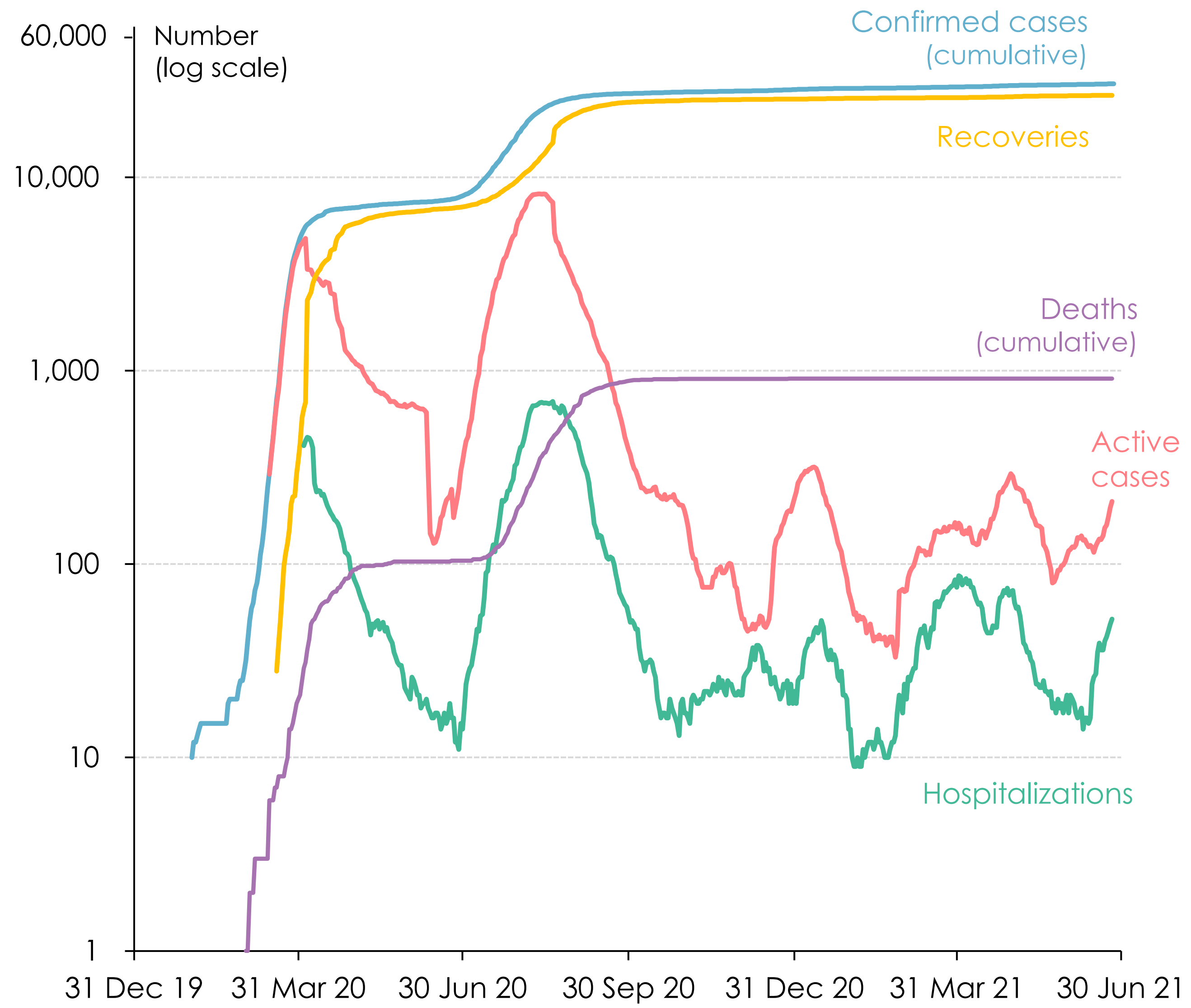
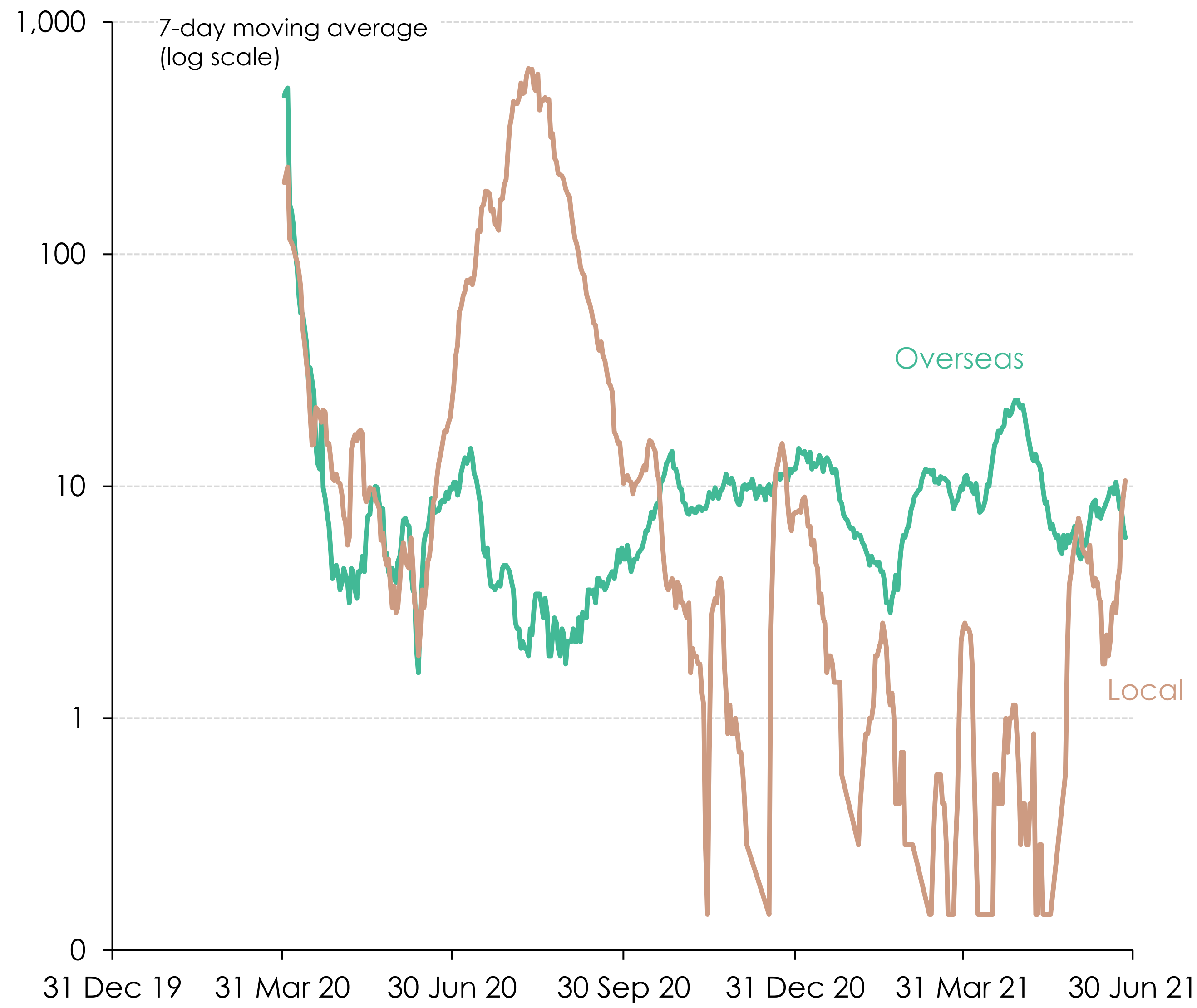
125 new cases were recorded in Australia this week, the highest in 8 weeks – 78 of them locally acquired, the highest number since last December

Cases, recoveries, hospitalizations and deaths



New cases, by source



Note: Data up to 25th June. *Source:* covid19data.com.au. Return to "What's New".

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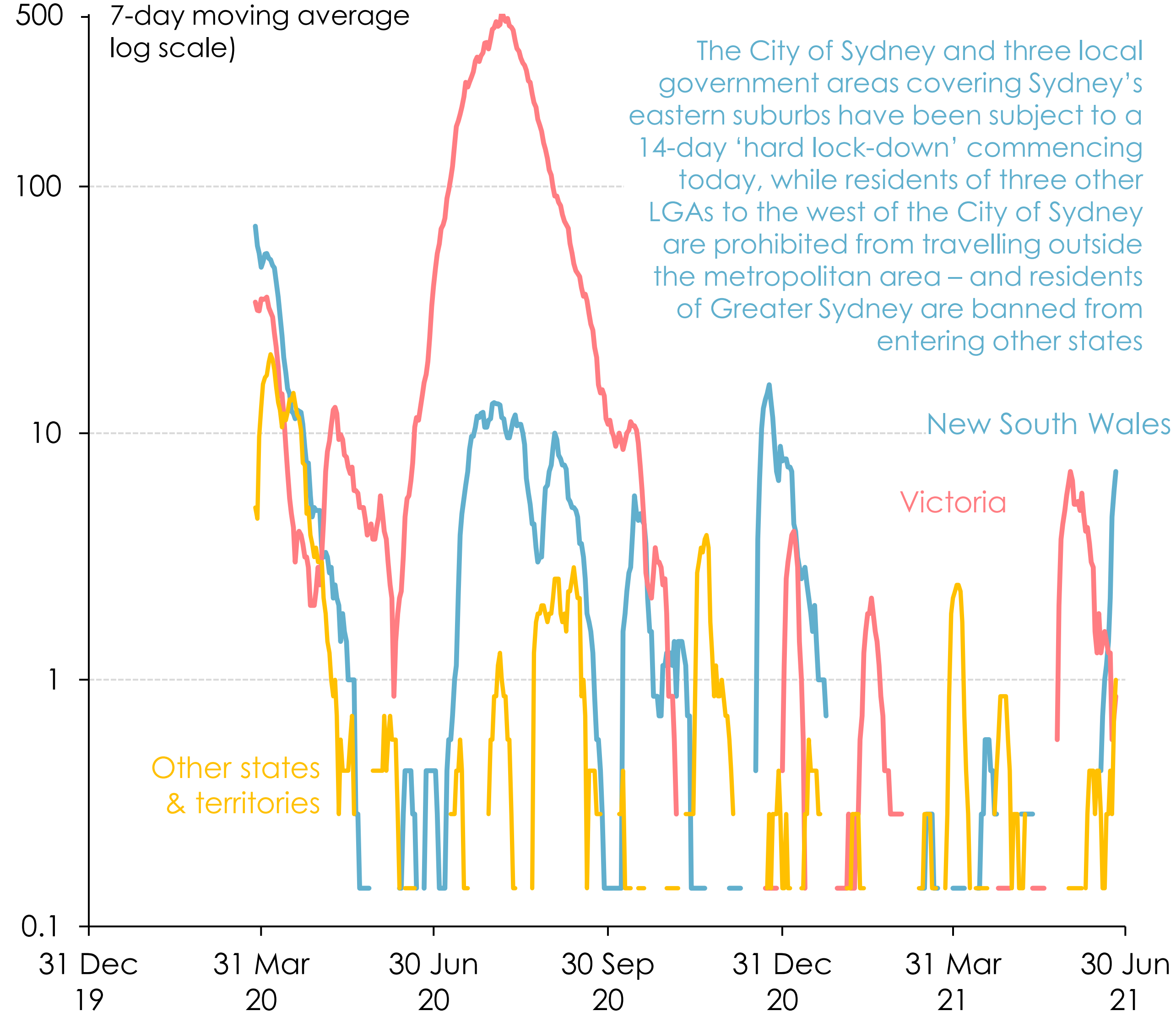
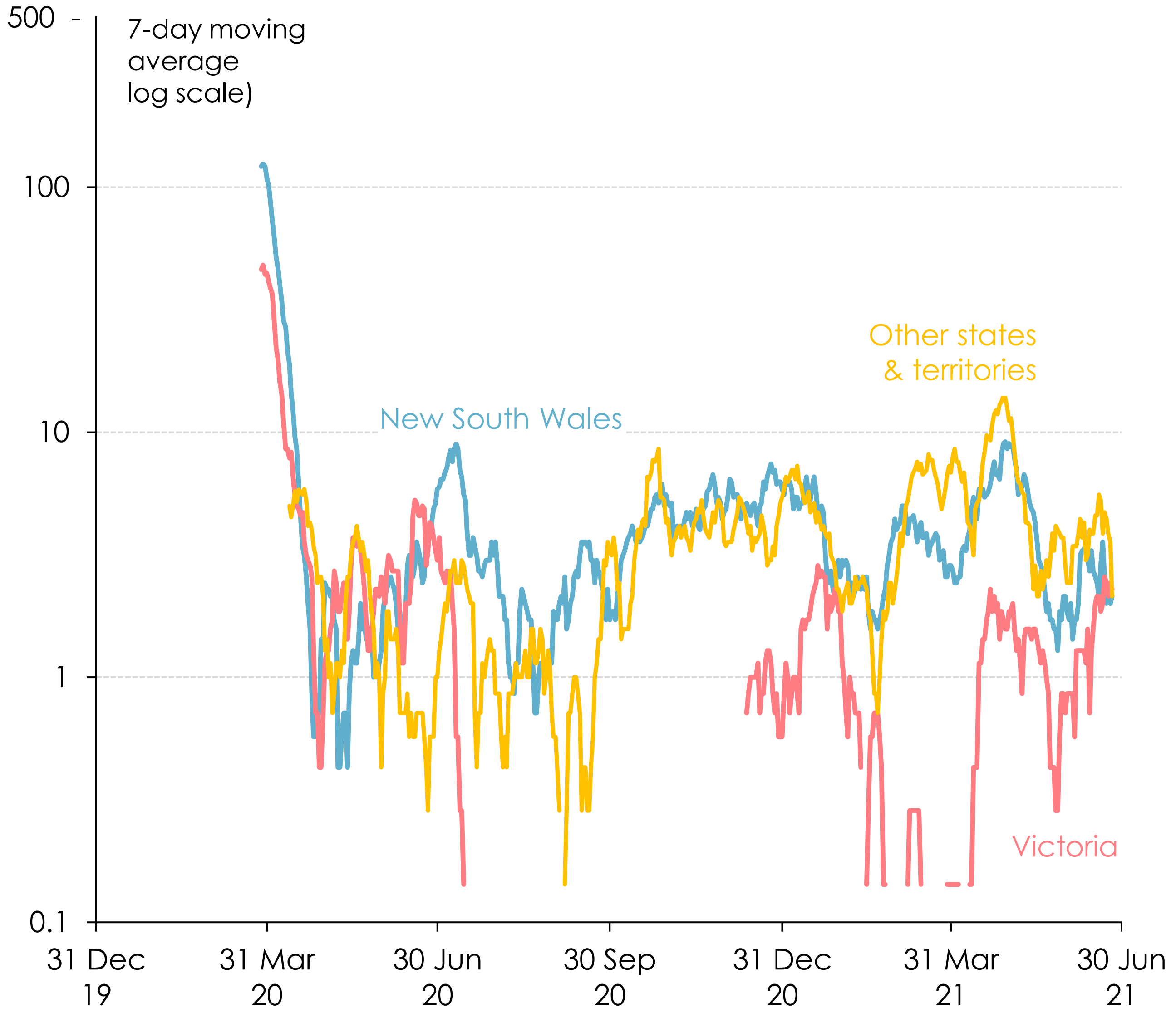
64 of those locally acquired cases were in NSW – prompting the NSW State Government to order a 7-day 'lockdown' in central and eastern Sydney

New locally-acquired cases



New overseas-acquired cases



Note: Data up to 25th June. *Source:* covid19data.com.au. Return to "What's New".

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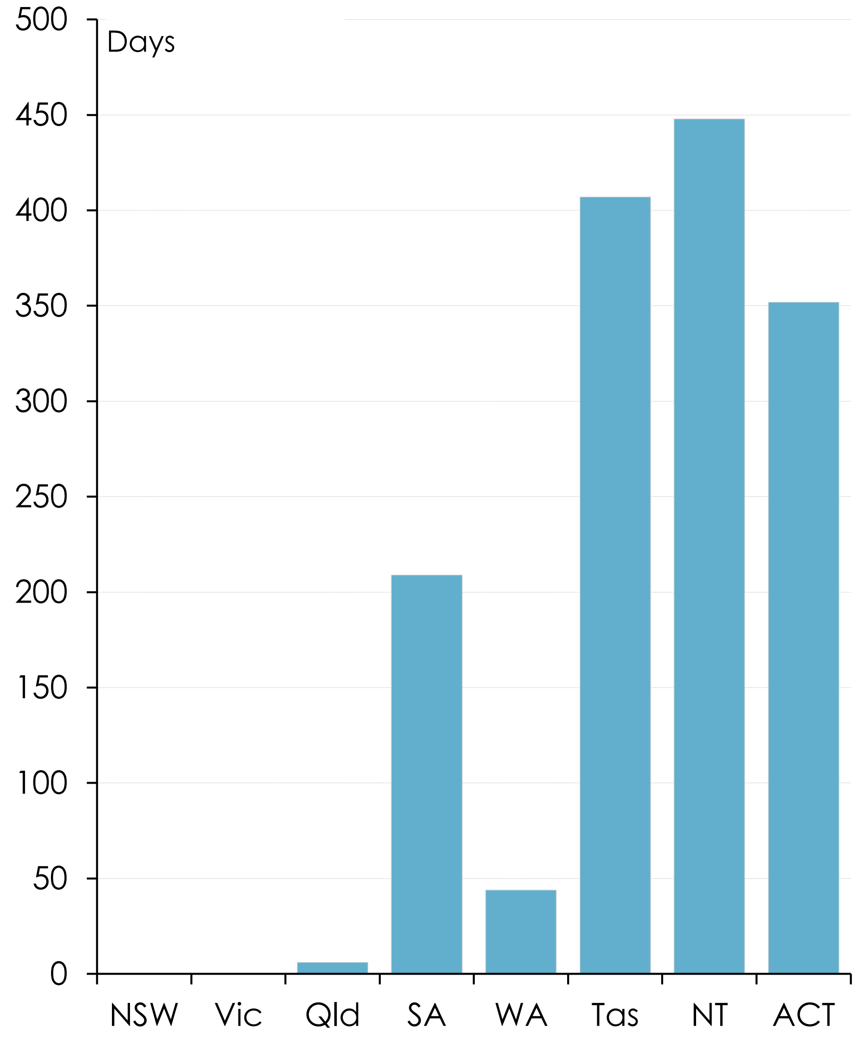
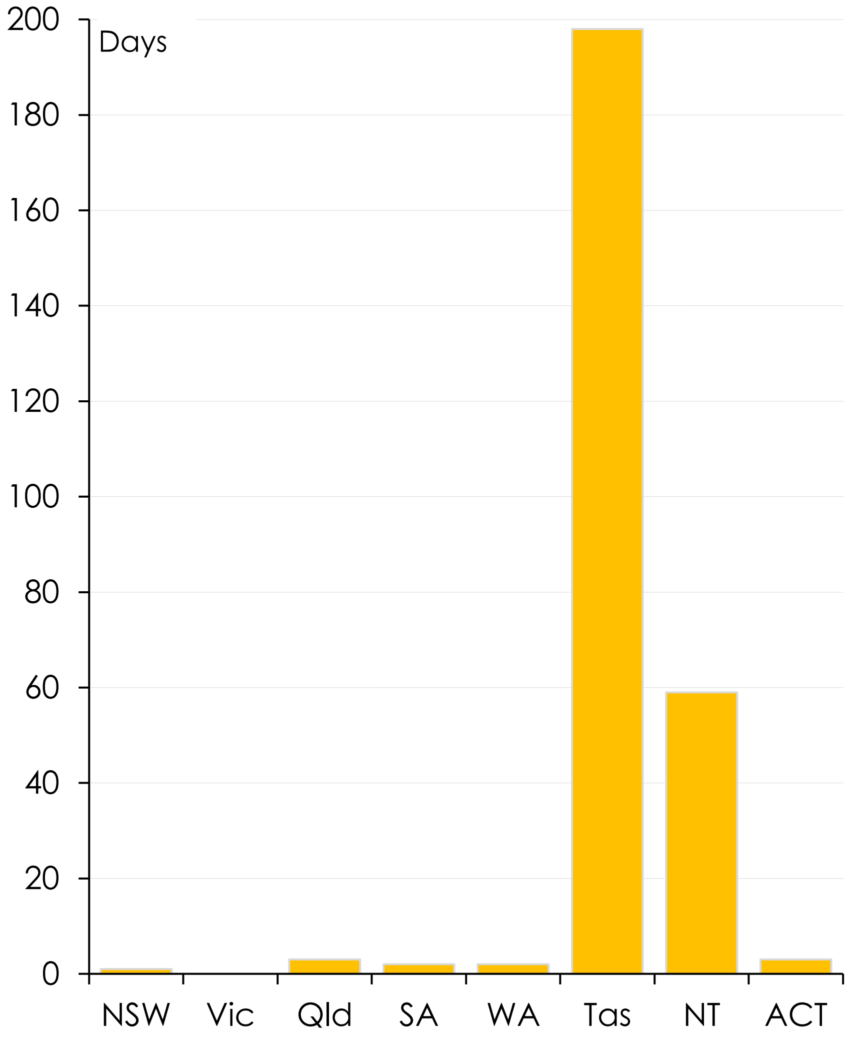
The smaller states and territories have done better at keeping the virus at bay, partly because they receive fewer overseas arrivals

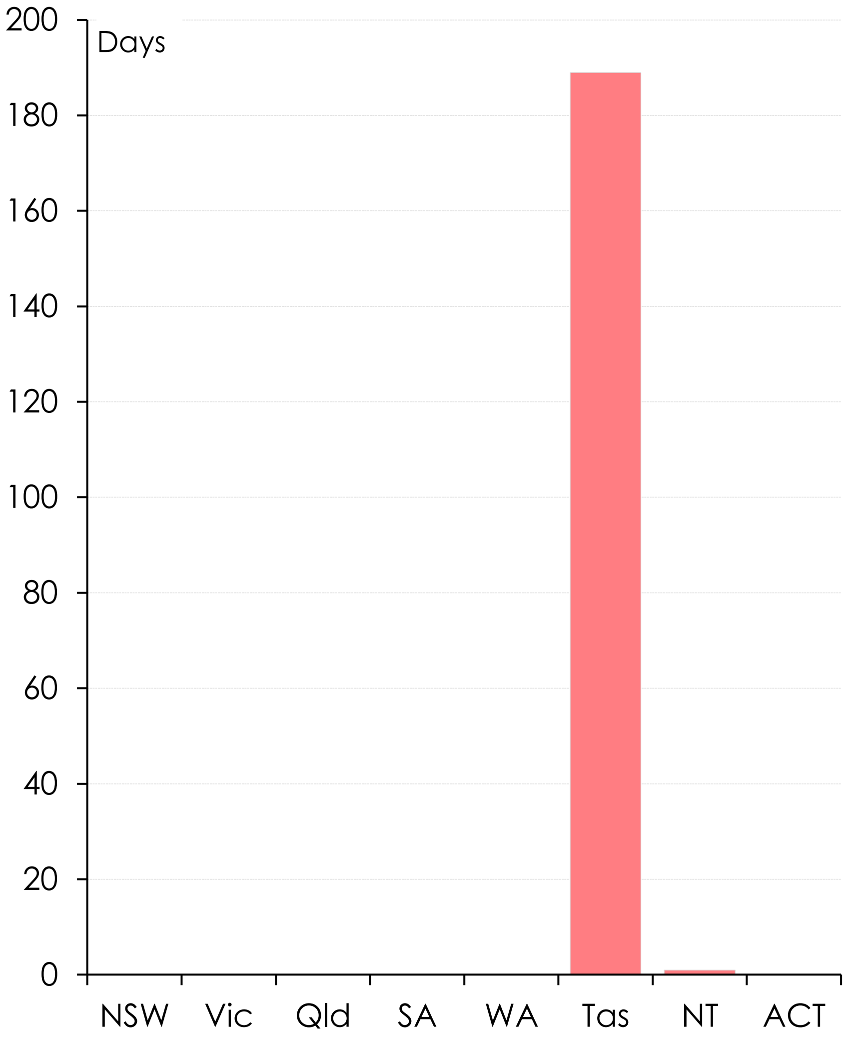
Days since last new locally-acquired case



Days since last new overseas-acquired case



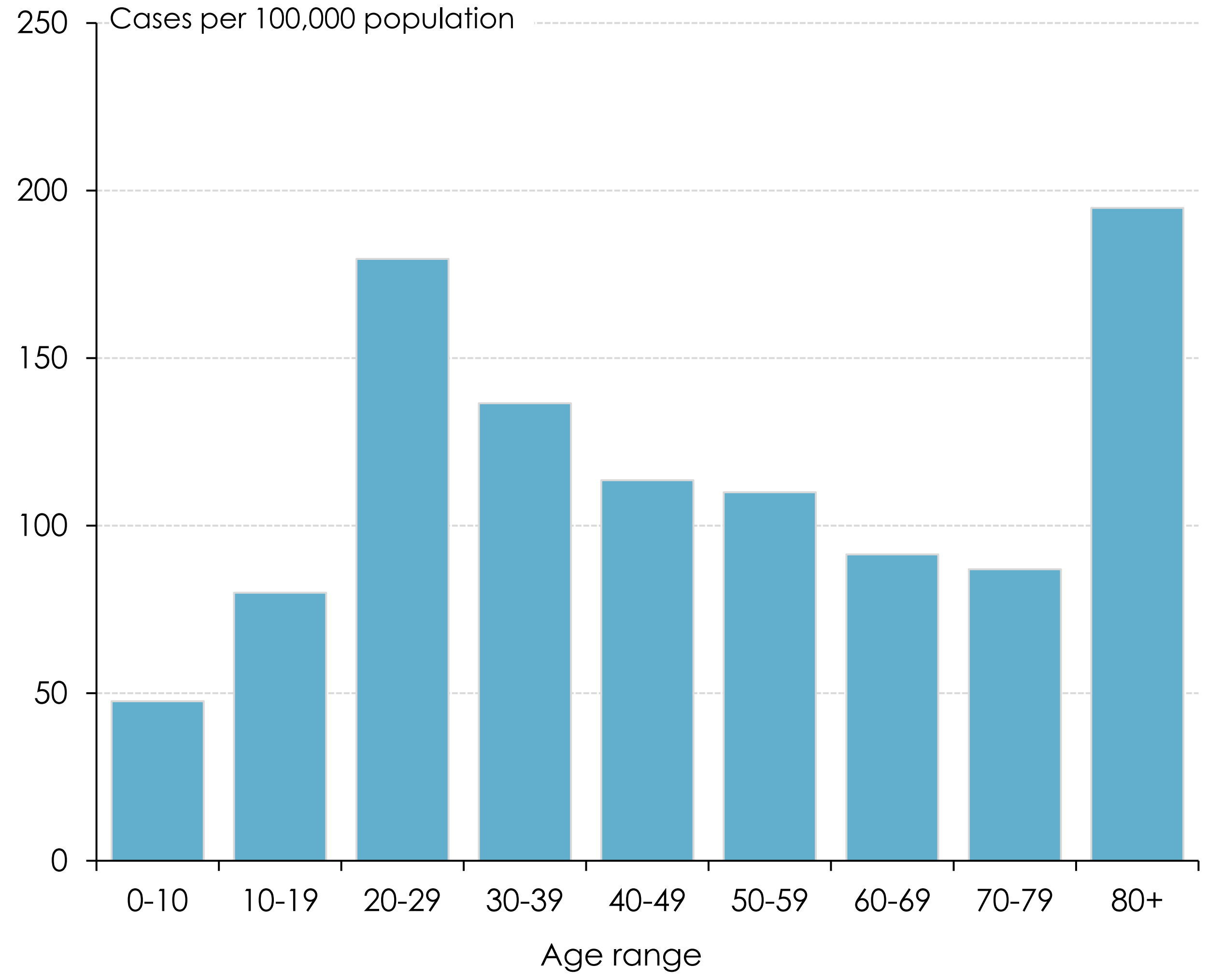
Days since there were any active cases



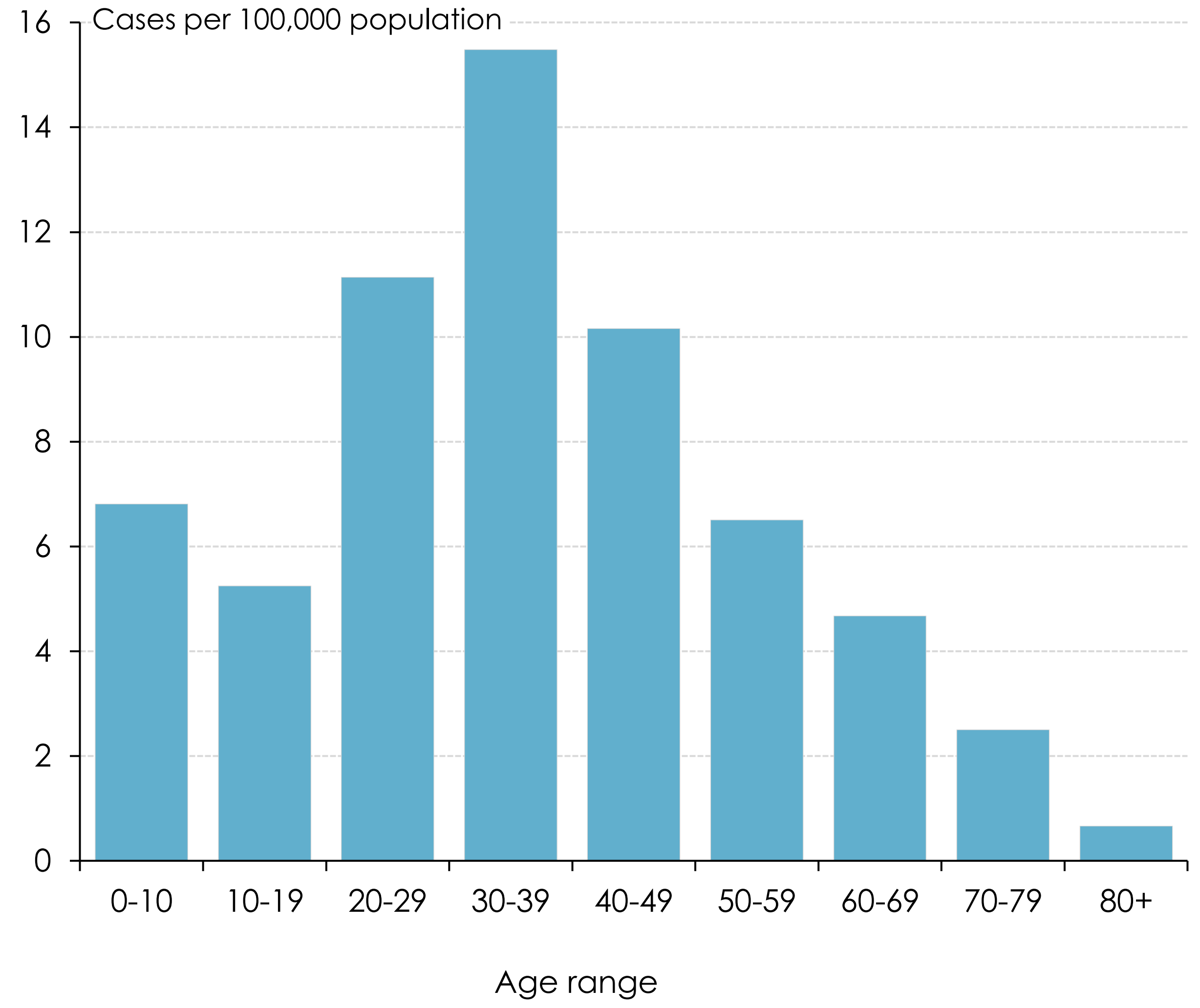
Note: Data are for 25th June. *Source:* covid19data.com.au. Return to "What's New".

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 25th June. *Source:* Australian Government Department of Health, National Notifiable Diseases Surveillance System; ABS; Corinna.

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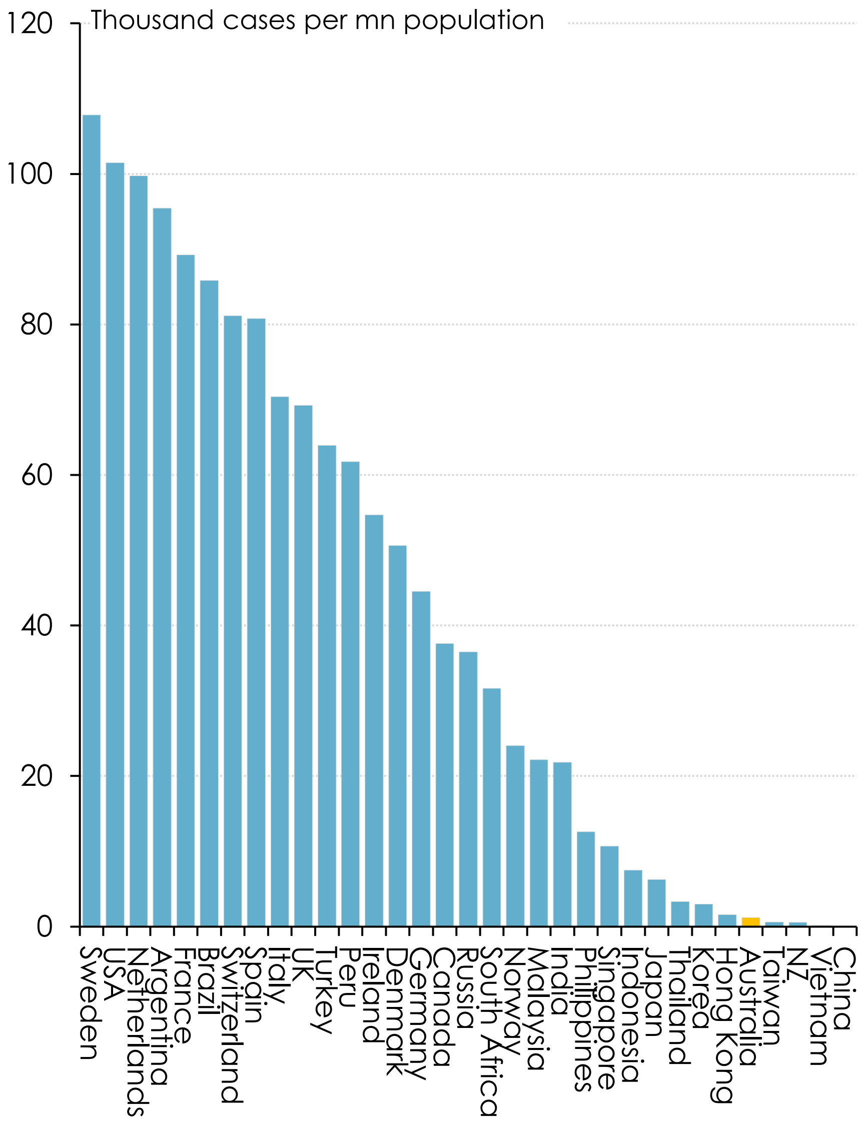
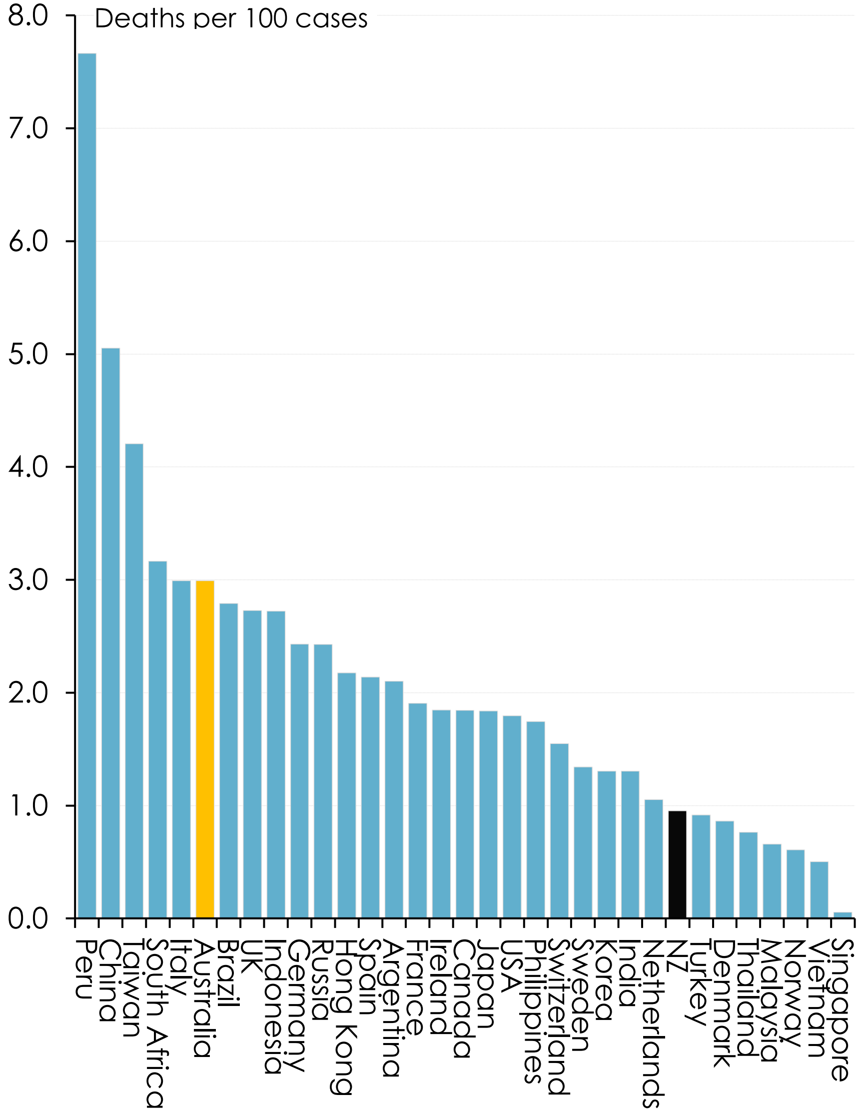
Australia's infection and death rates remain, along with NZ's and most East Asian countries', low by international standards

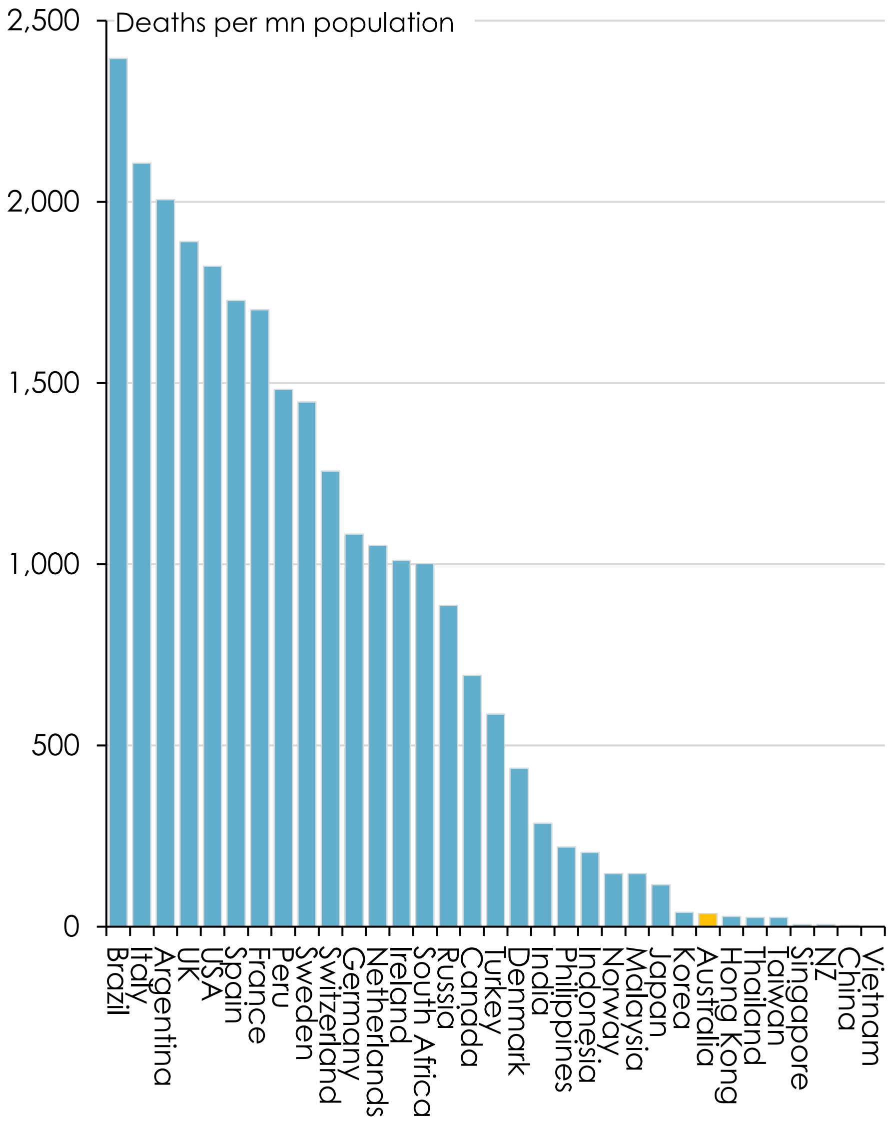
Apparent infection rate



Apparent fatality rate



Death rate



Note: Data up to 24th June. *Sources:* University of Oxford, *Our World in Data*; Corinna. Return to "What's New".

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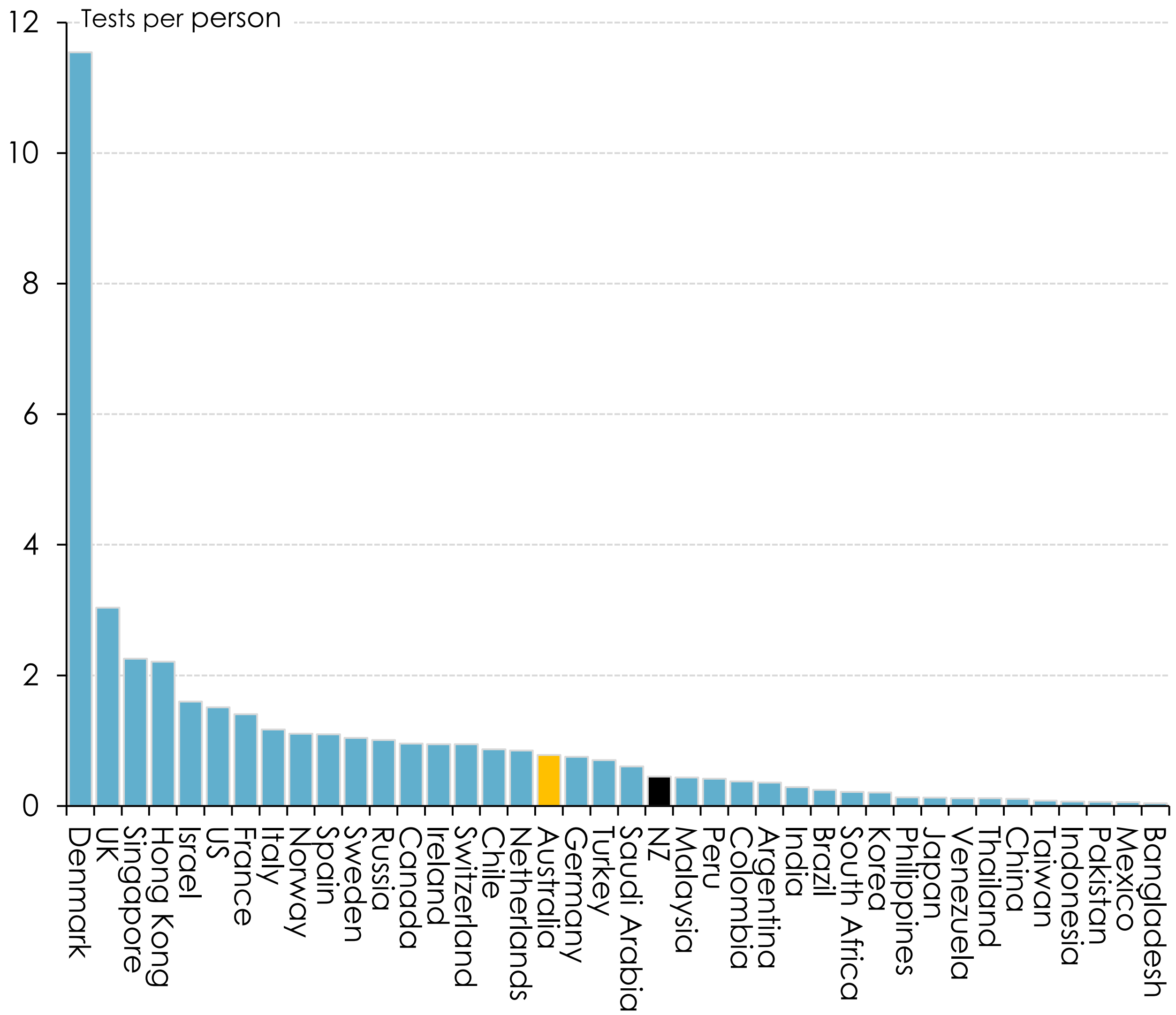
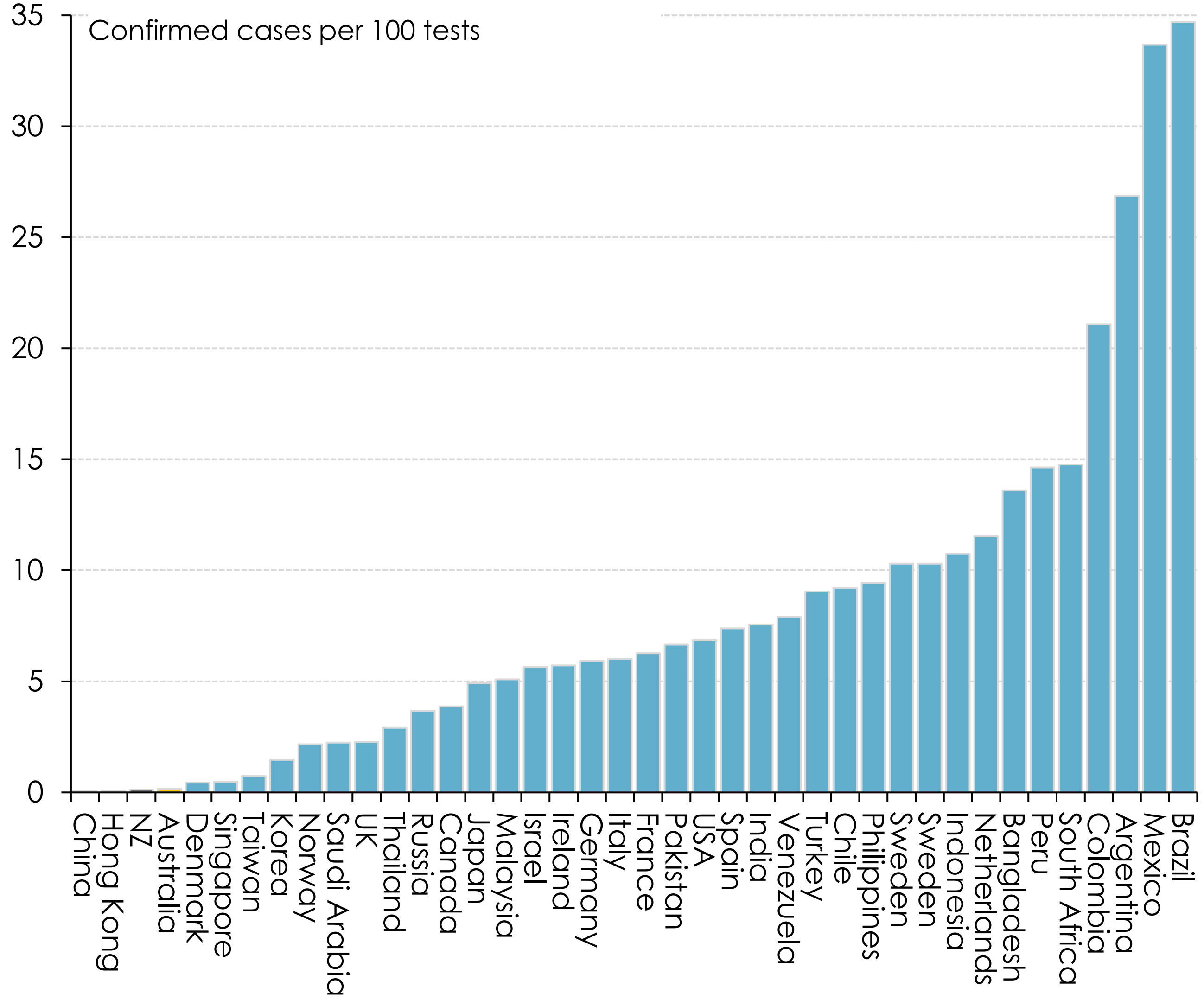
Australia's testing regime appears sufficiently broad for the low infection and death rates to be seen as 'credible' (ie not due to low testing)

Tests per capita



Confirmed cases per 100 tests



Note: Data up to 24th June (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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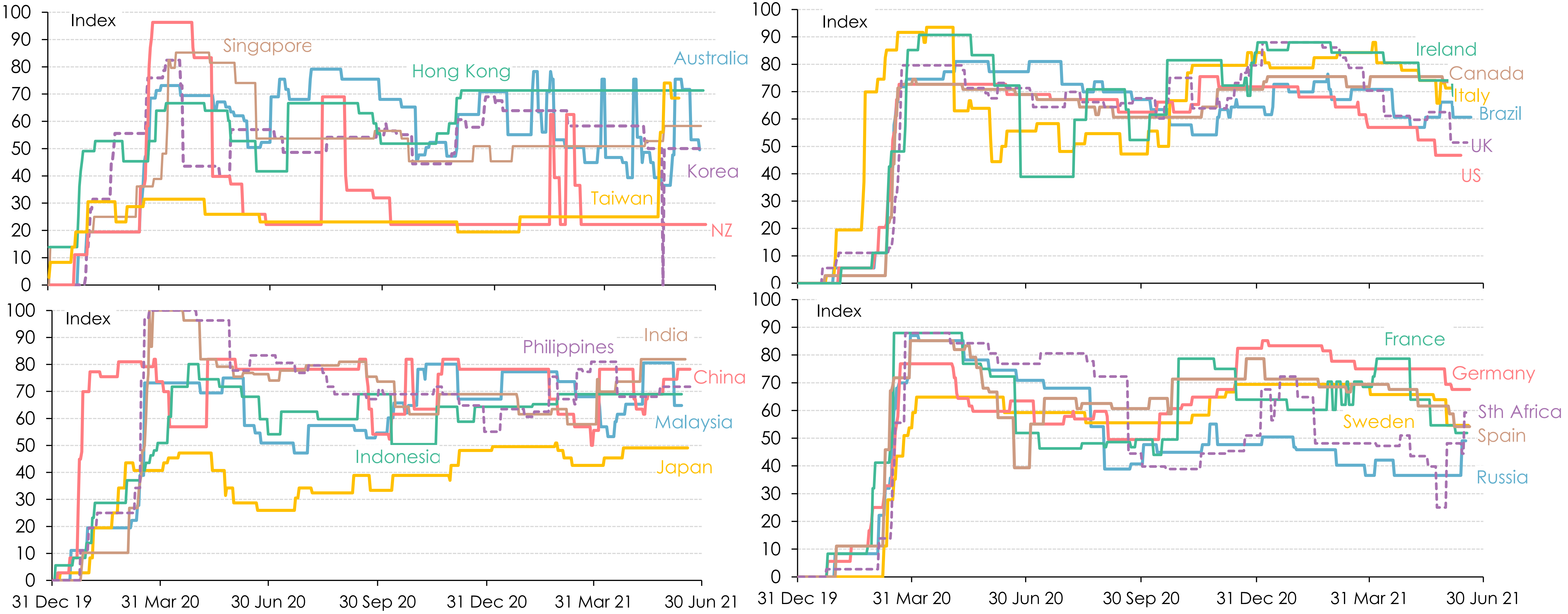
Restrictions have been gradually easing in Europe and the US as case numbers ebb, but remain tight in Asia where infections have been rising

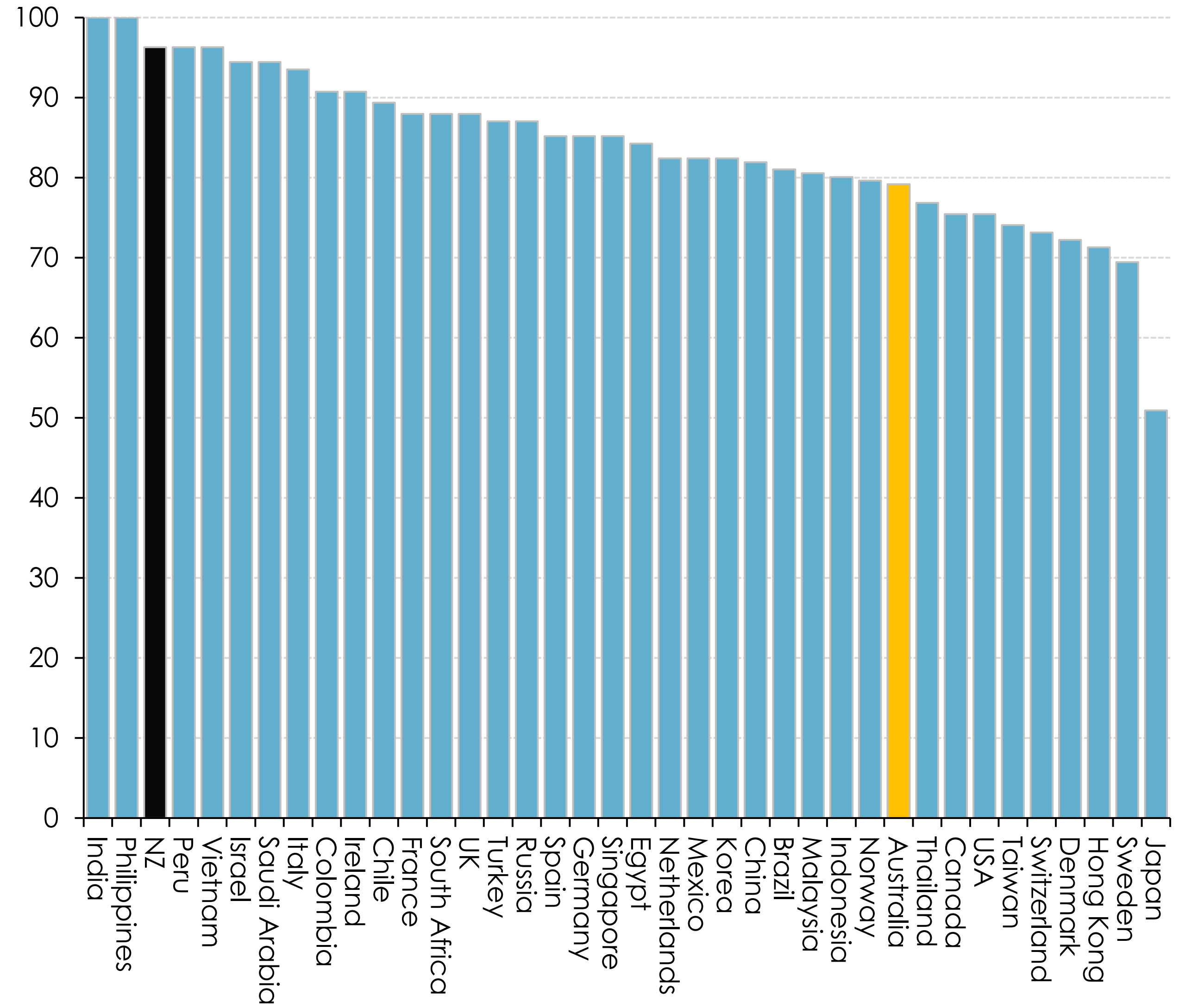
Timing and severity of government restrictions on movement and gathering of people



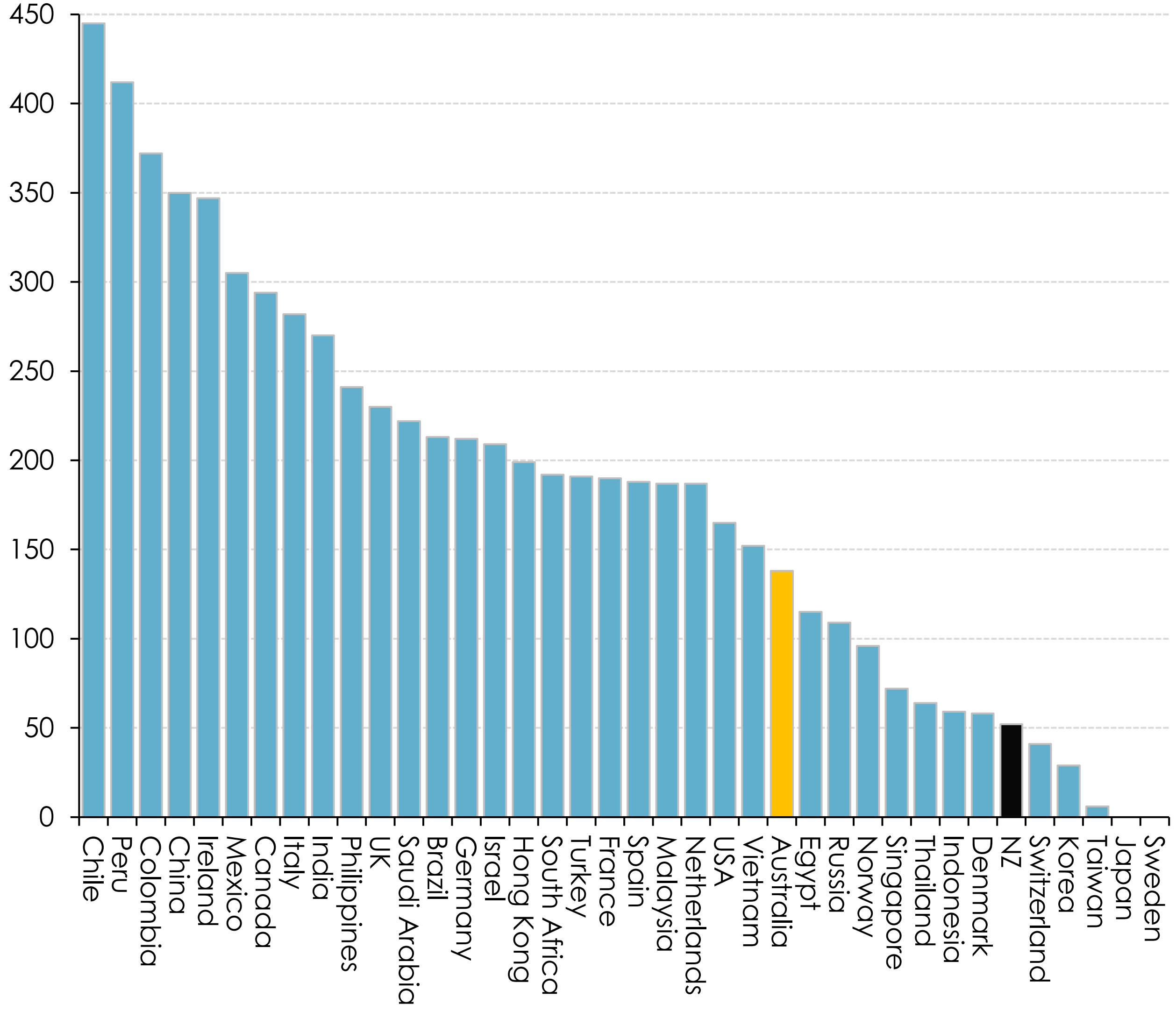
The Oxford COVID-19 Government Response Tracker collects publicly available information on 11 indicators of government response including school & workplace closures, public events cancellations, restrictions on public gatherings, stay at home requirements, public transport closures, domestic & international travel restrictions, public information campaigns, testing and contact tracing. *Source:* Blavatnik School of Government, Oxford University. Data up to 12th – 22nd June, except for Taiwan, 31st May. Data for Australia are up to 17th June so reflect easing of restrictions in Victoria but not the latest restrictions in New South Wales. Return to "What's New".

Australia's restrictions have been less onerous than many other countries although that may change as others make greater progress with vaccines

Highest level of restrictions imposed



Number of days restrictions above 70 on Oxford index



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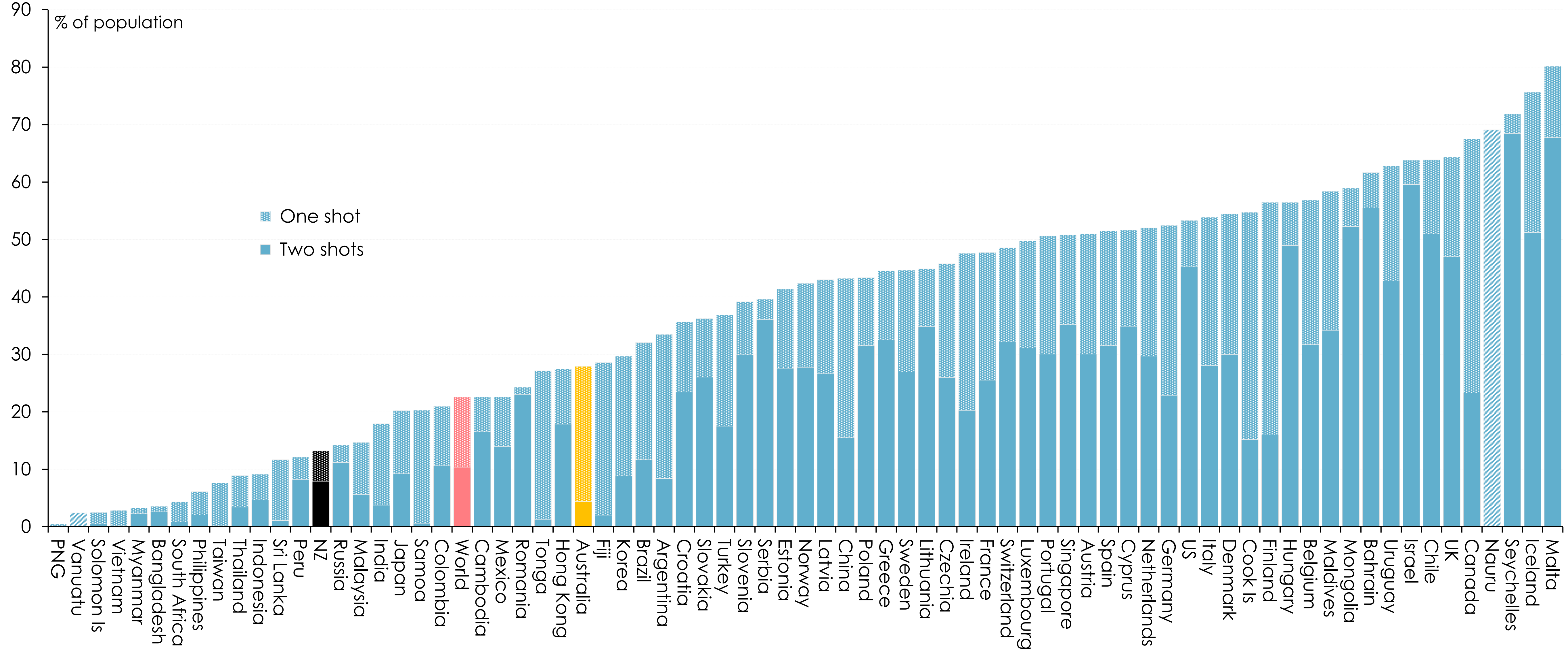
Canada, Israel, the UK, the US and some small countries have made the most progress with vaccines, Europe is catching up, but Asia still lags badly

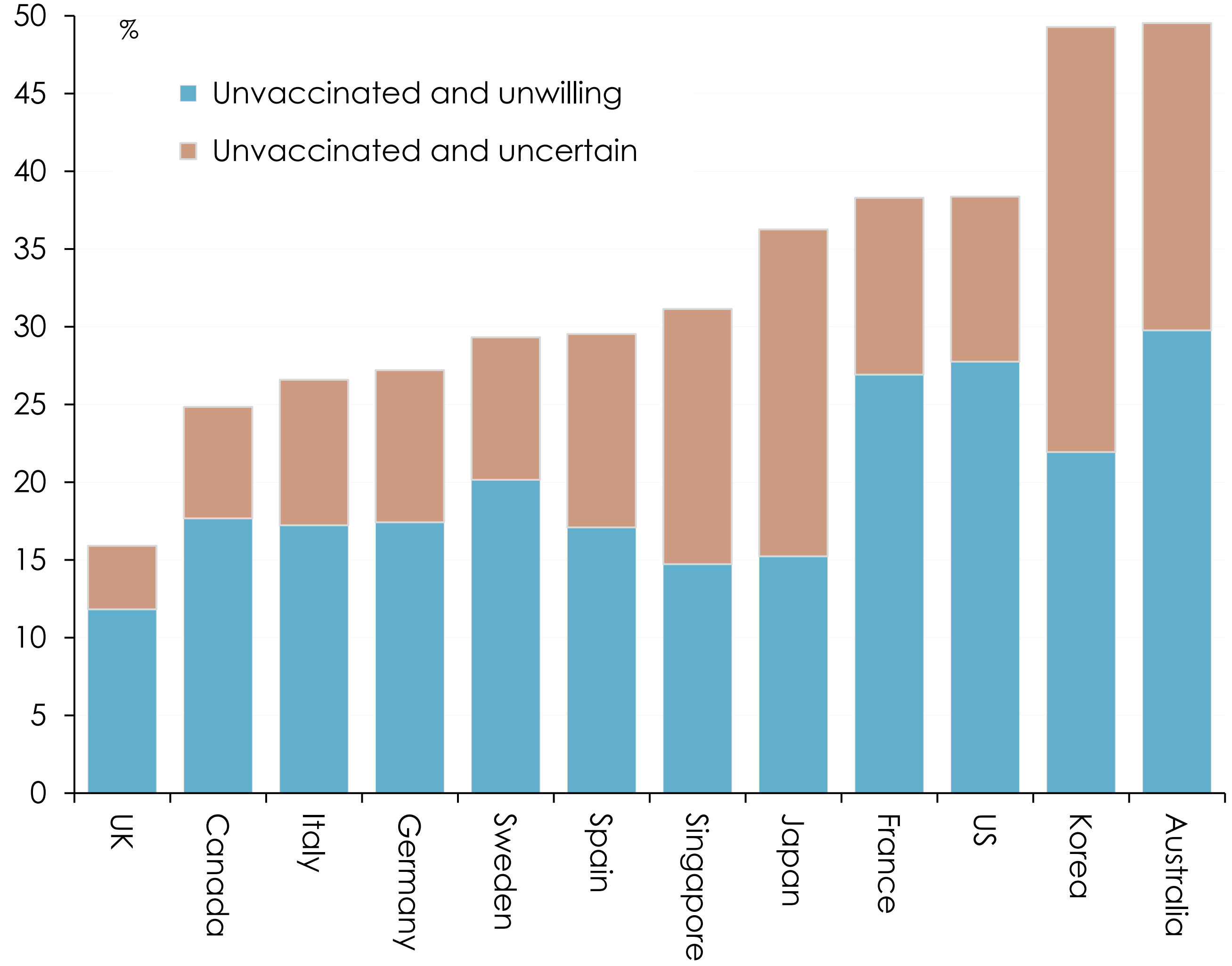
Percentage of population who have had at least one vaccination shot as at 21st – 23rd June



Note: Data for PNG are as at 7th June; Solomon Islands 8th June; China, 10th June; Myanmar 13th June; Ireland and Serbia 20th June. In some cases data for the proportion of the population who are fully vaccinated is a few days older than that for the proportion who have had one shot. *Sources:* Our World in Data, Coronavirus (COVID-19) Vaccinations; covid19data.com.au. Return to "What's New".

‘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

Sources: Imperial College London and YouGov, Covid 19 Behaviour Tracker Data Hub ; ABS, *Household Impacts of Covid-19 Survey*, May 2021. Return to "What's New".

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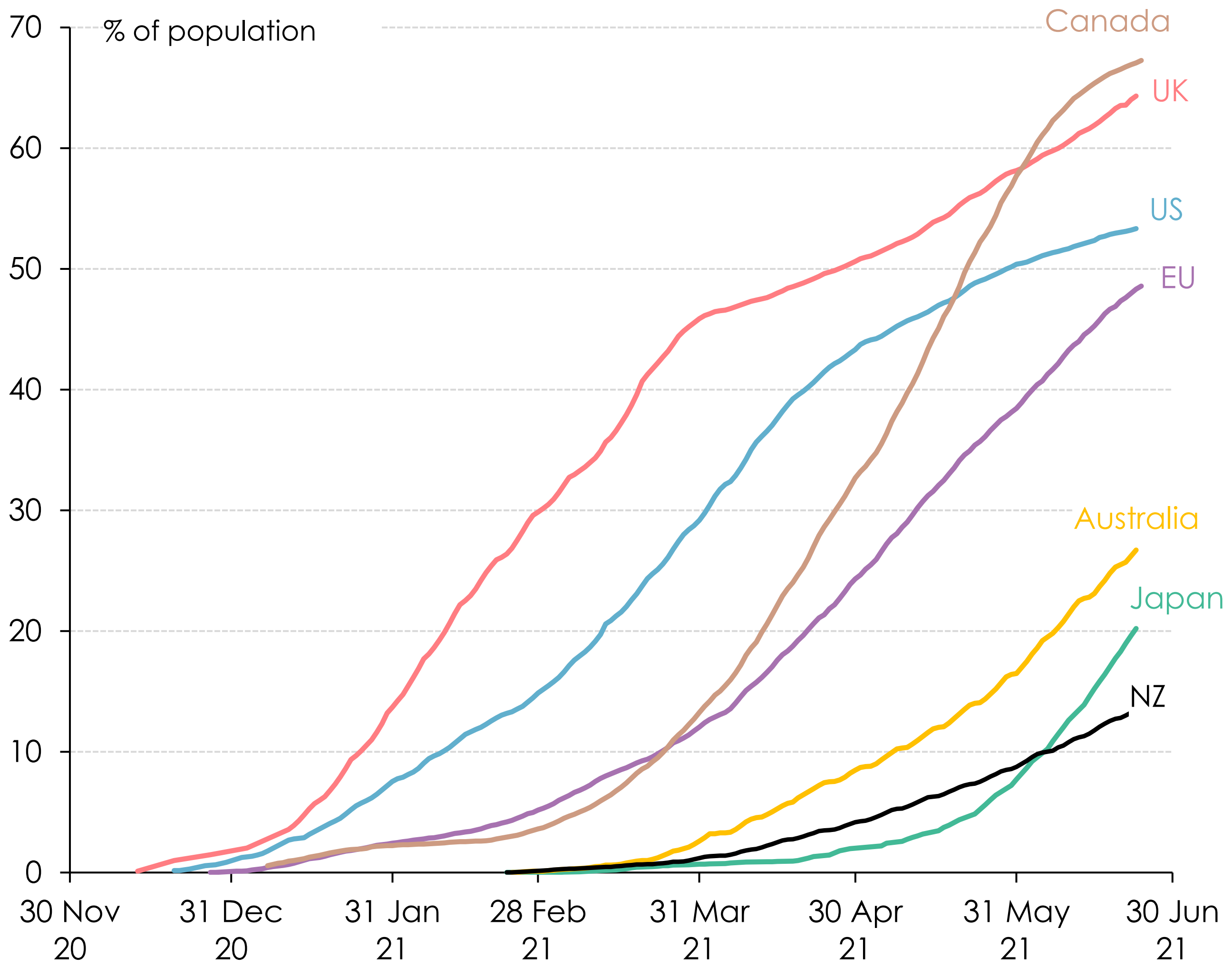
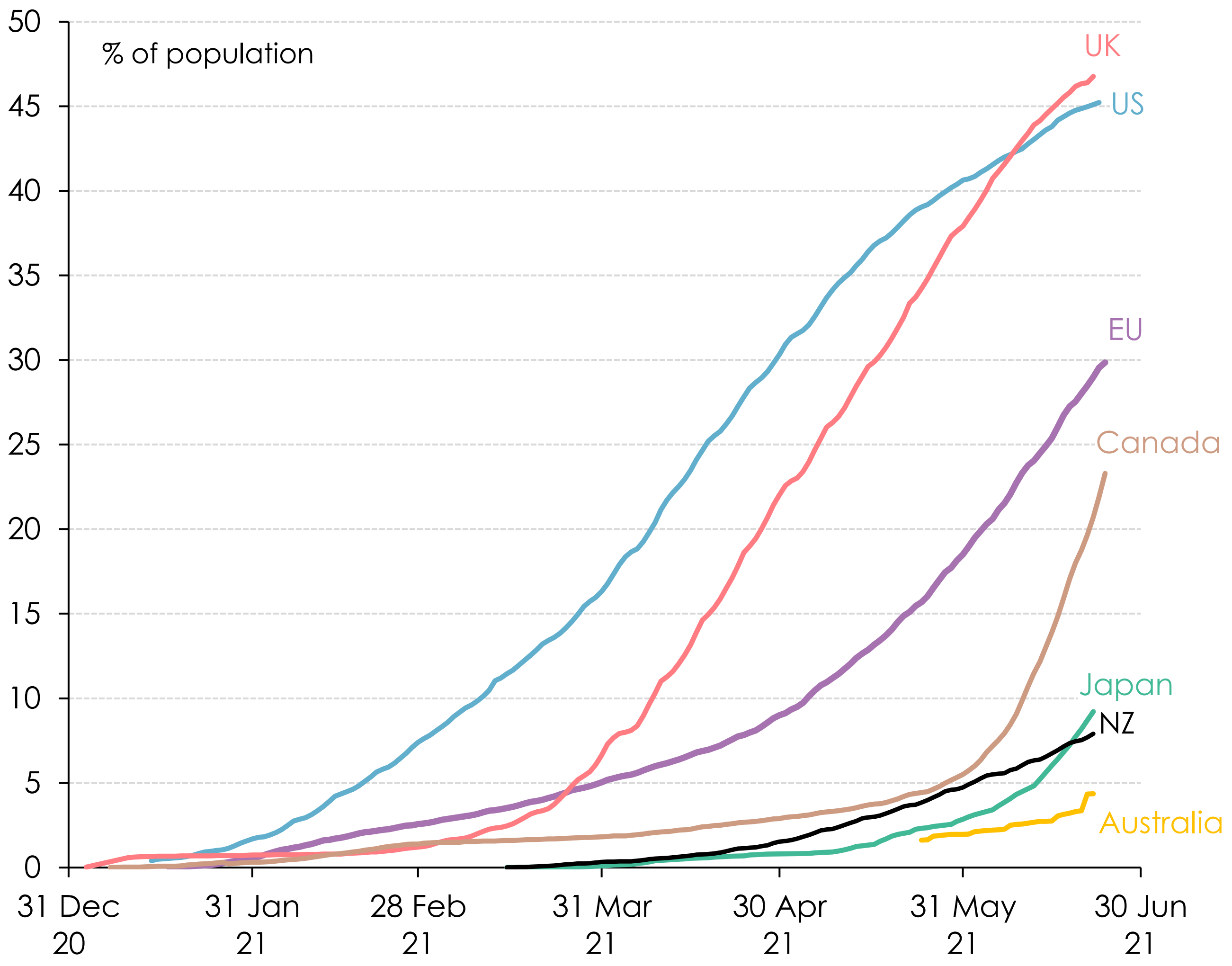
A growing number of 'advanced' economies have vaccinated more than half their population – but Australia remains a long way behind them

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 21st – 23rd June. *Sources:* Our World in Data; Coronavirus (COVID-19) Vaccinations; covid19data.com.au. Return to "What's New".

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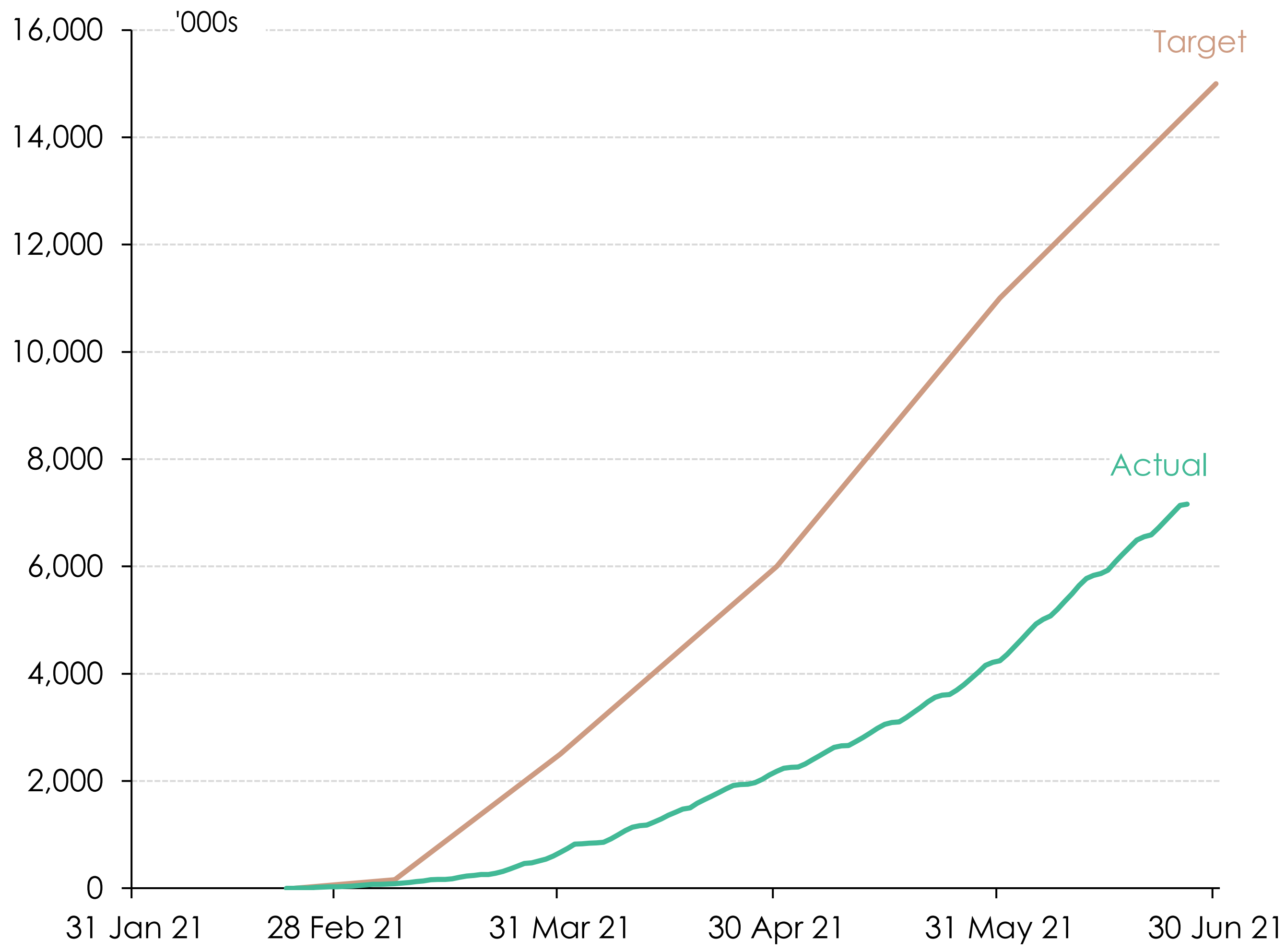
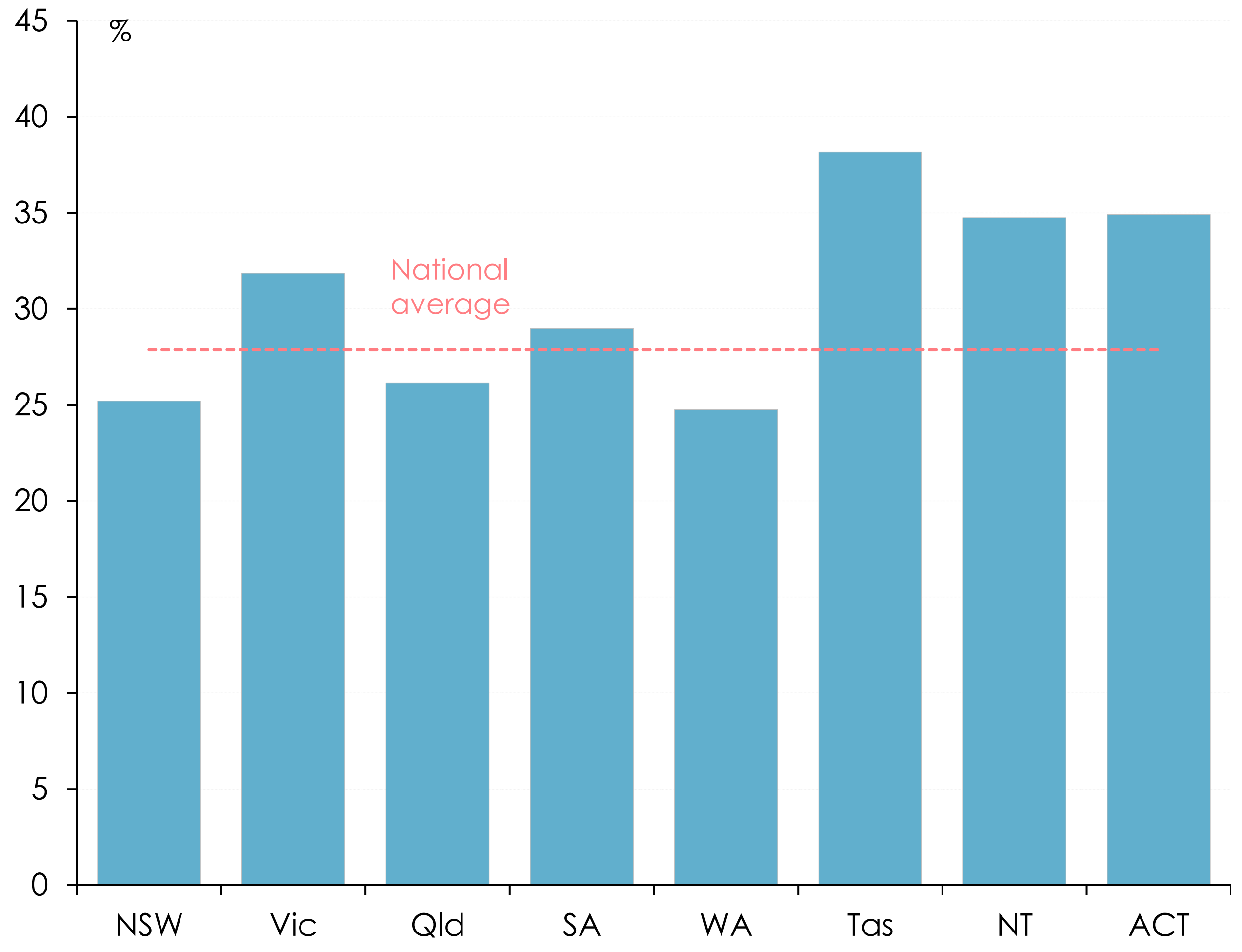
The number of Australians getting vaccinated has picked up in recent weeks but the proportion is still less than 28% (and fully vaccinated less than 4½%)

Number of vaccine doses administered vs Government target



Percentage of population vaccinated, states and territories



Note: Data up to 25th June. *Sources:* covid19data.com.au; Australian Department of Health, COVID-19 vaccine rollout update on 14 March 2021.
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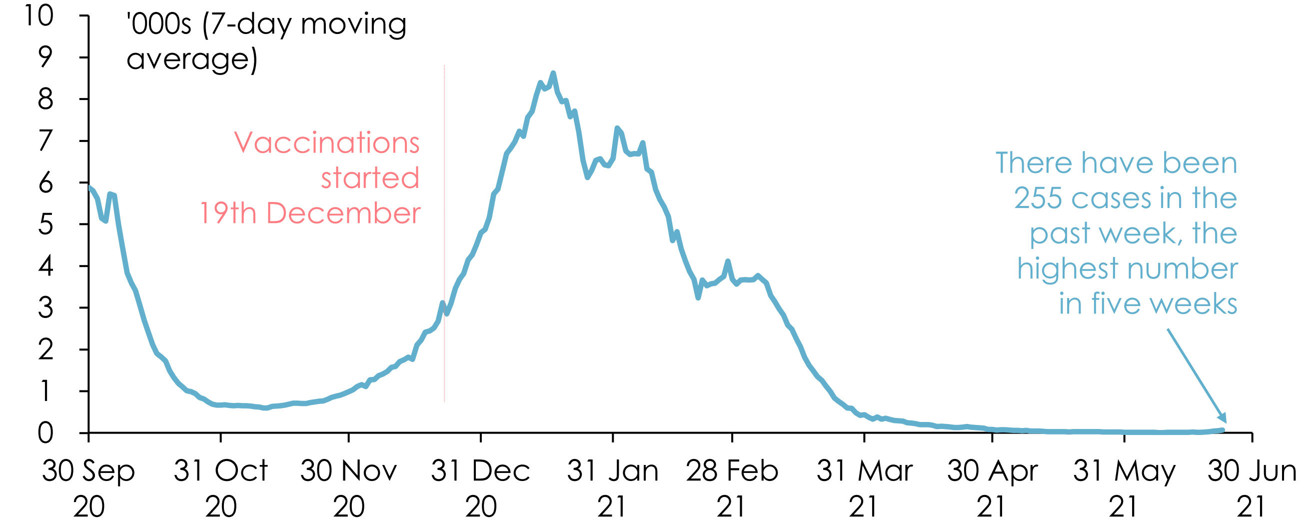
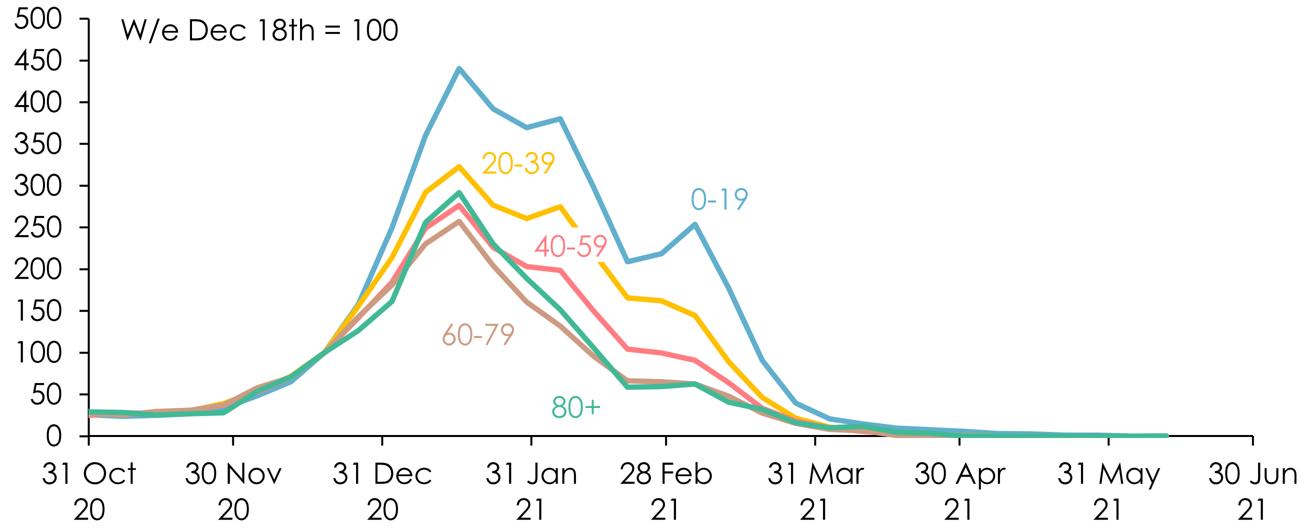
Israel's experience suggests that although vaccines don't completely prevent infections, they do prevent cases from becoming serious

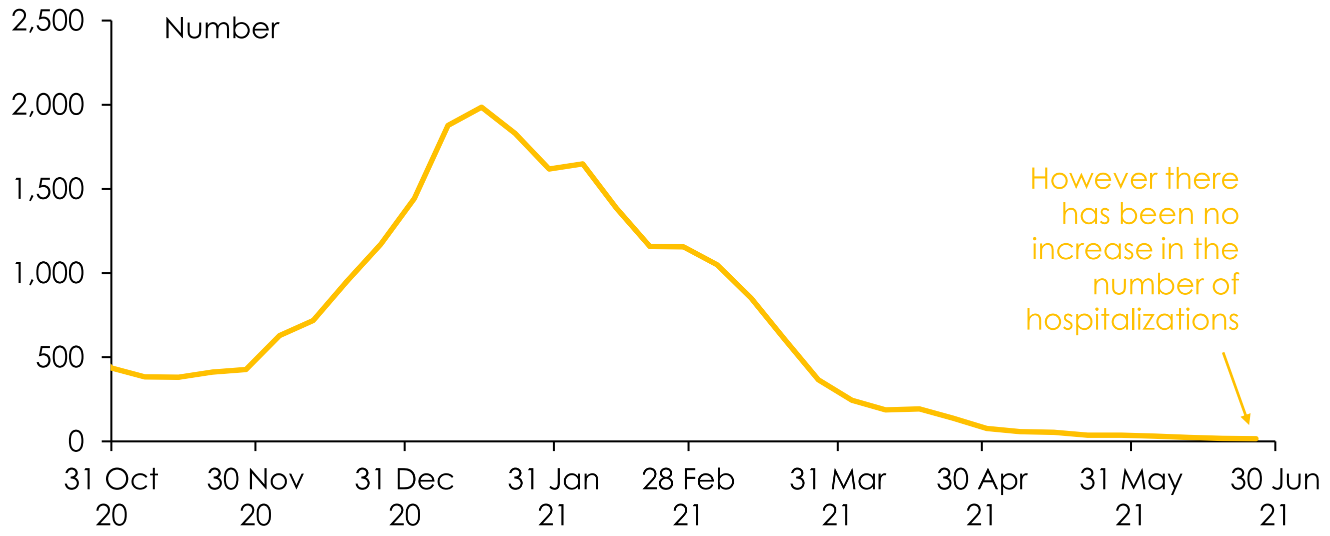
Daily new confirmed cases



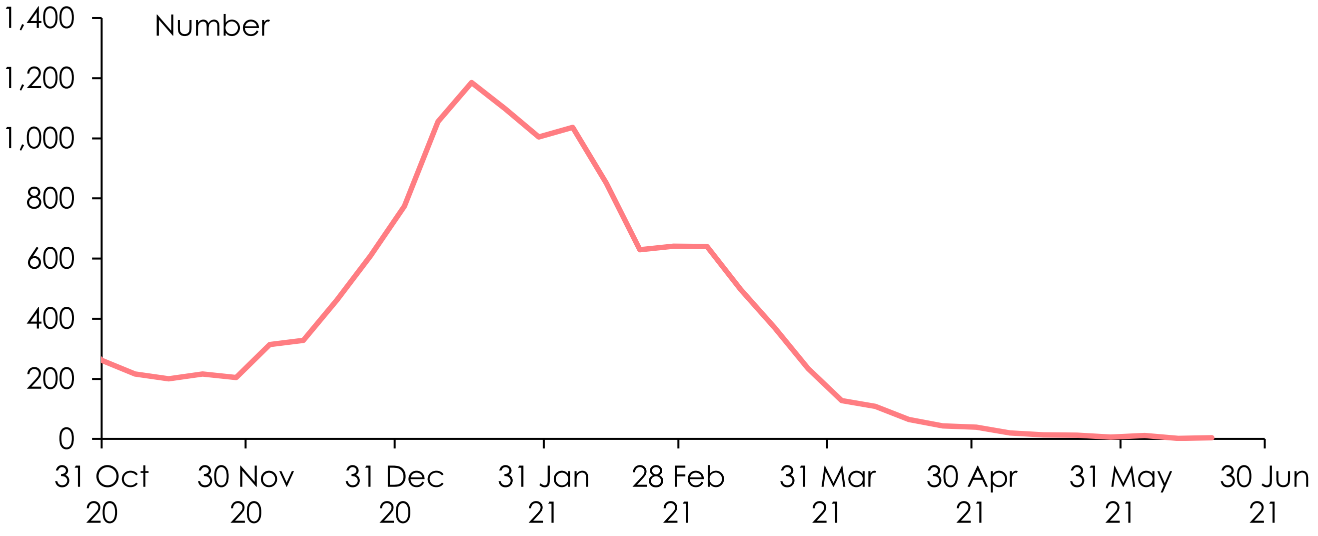
Confirmed cases by age group



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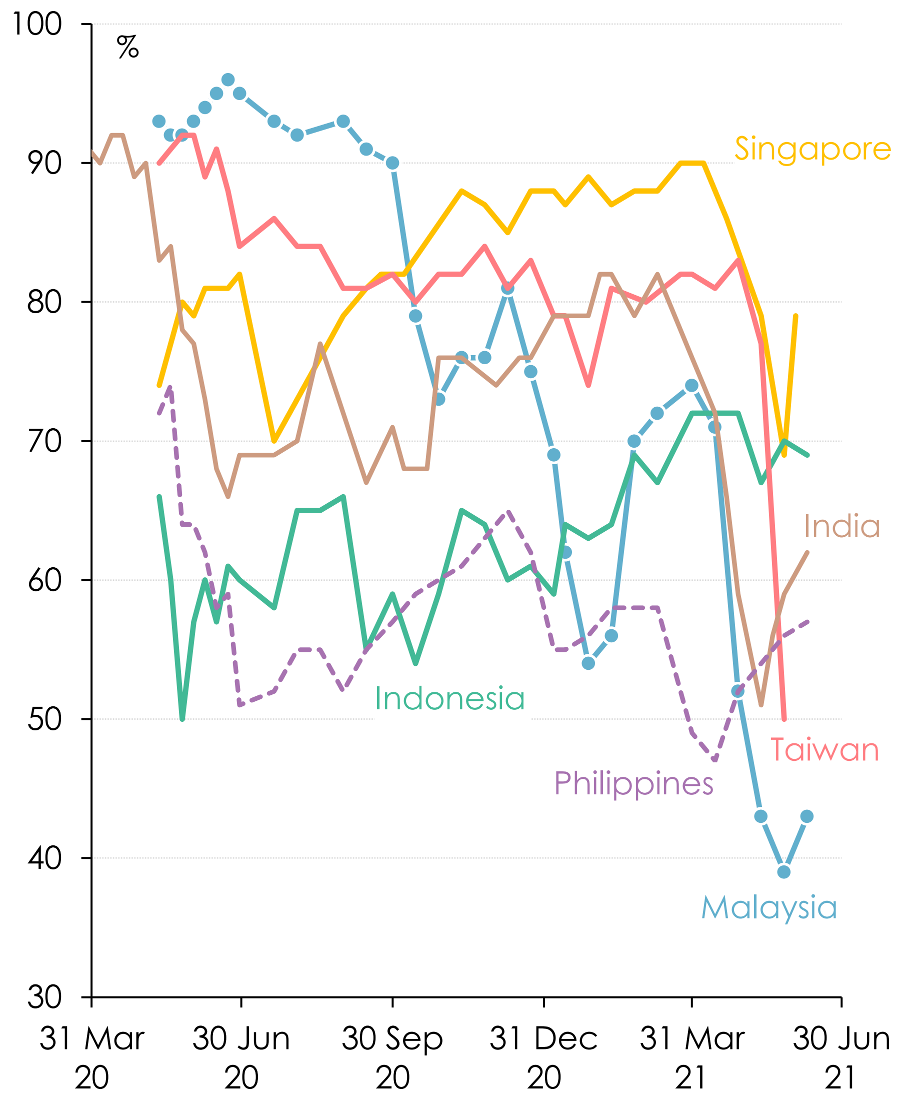
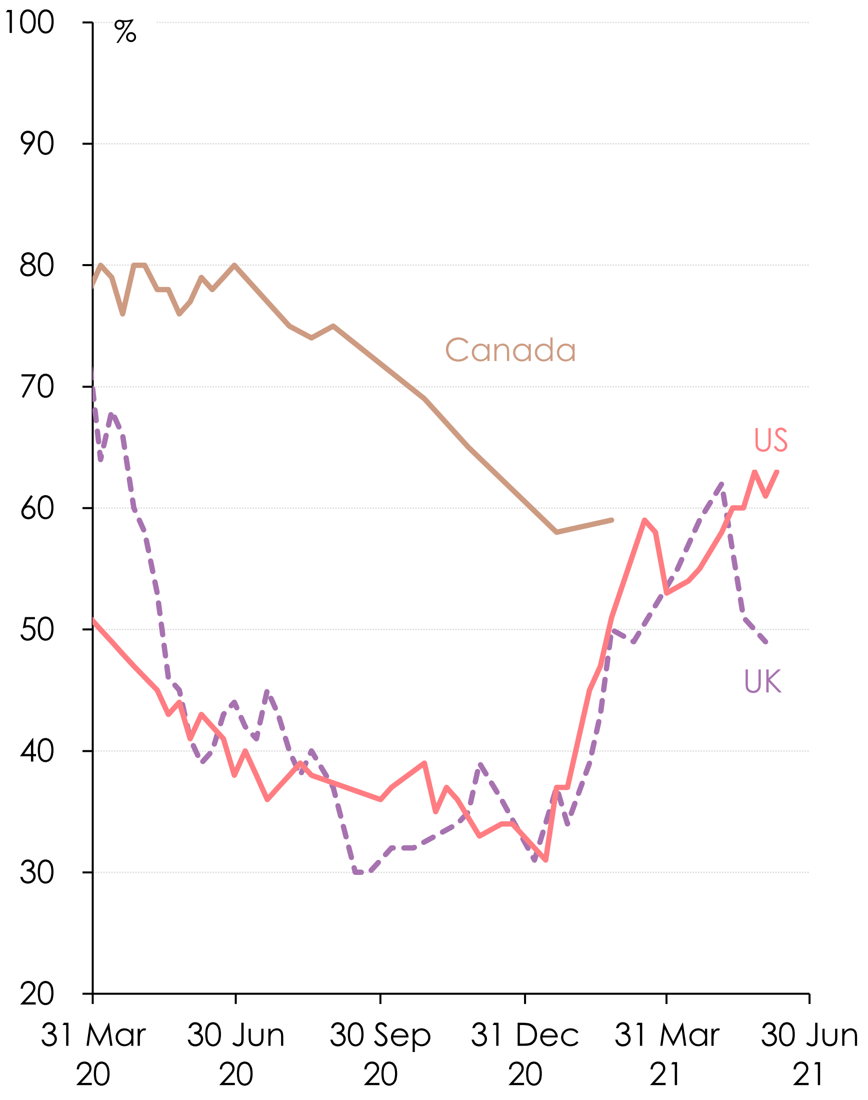
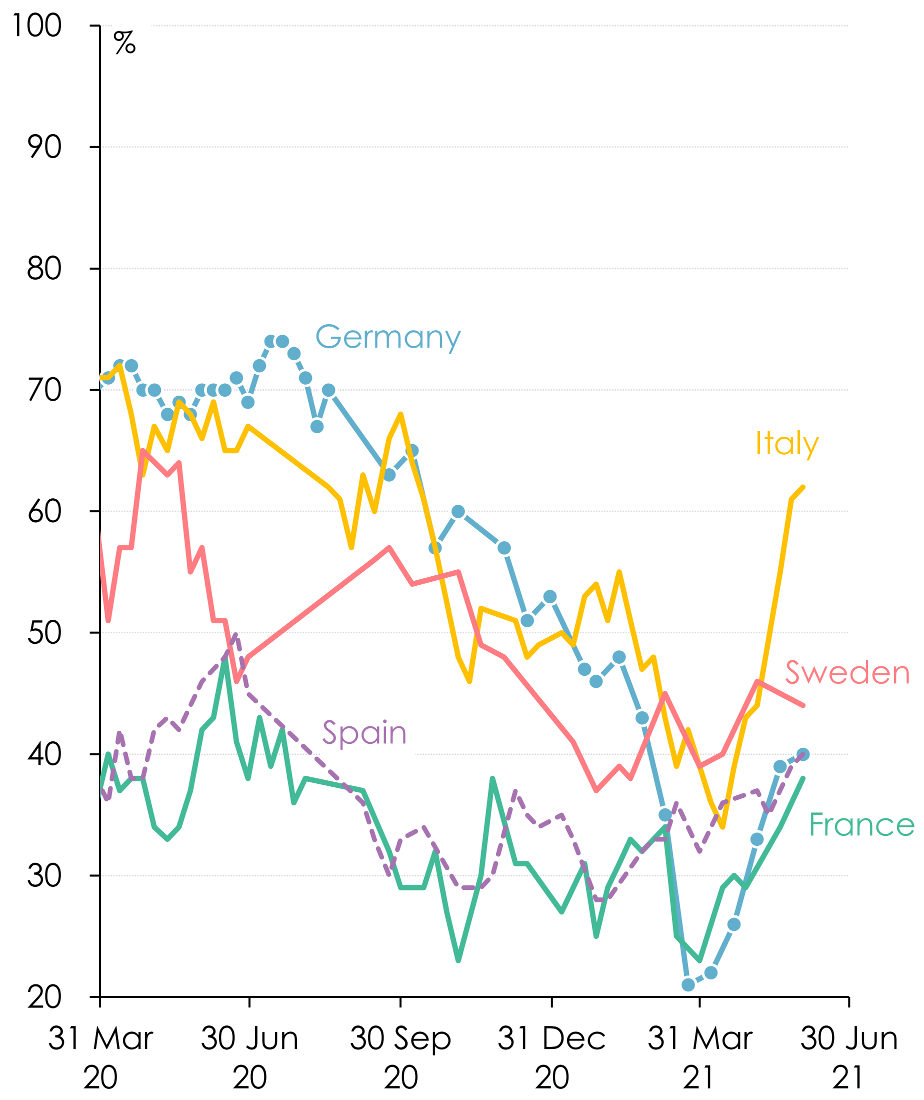
Voter approval of the US government's handling of Covid-19 has risen substantially, and is now improving in most of Europe, but declining in Asia

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







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

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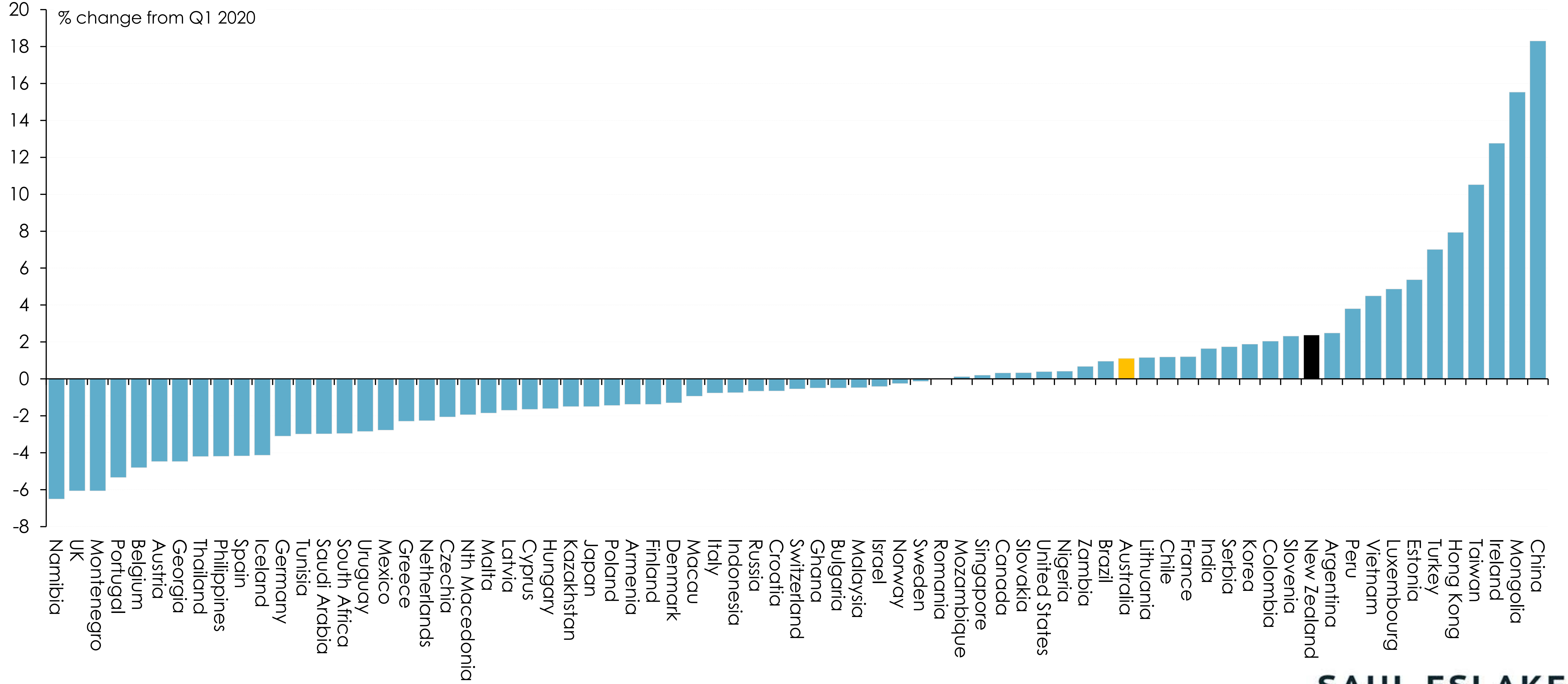
The world

Of the 73 countries which have so far reported Q1 GDP estimates, 29 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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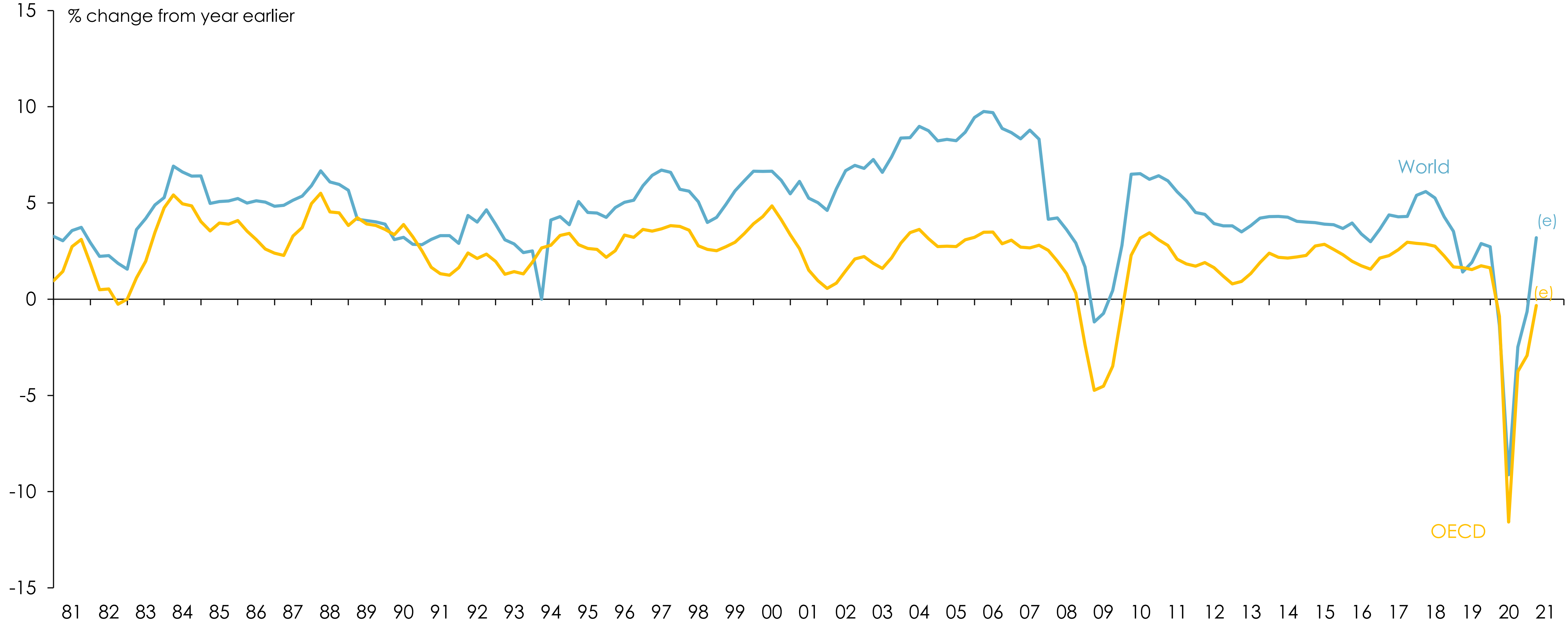
The world economy grew by 3.2% over the year to Q1, largely as a result of the flattering comparison with Q1 last year for China

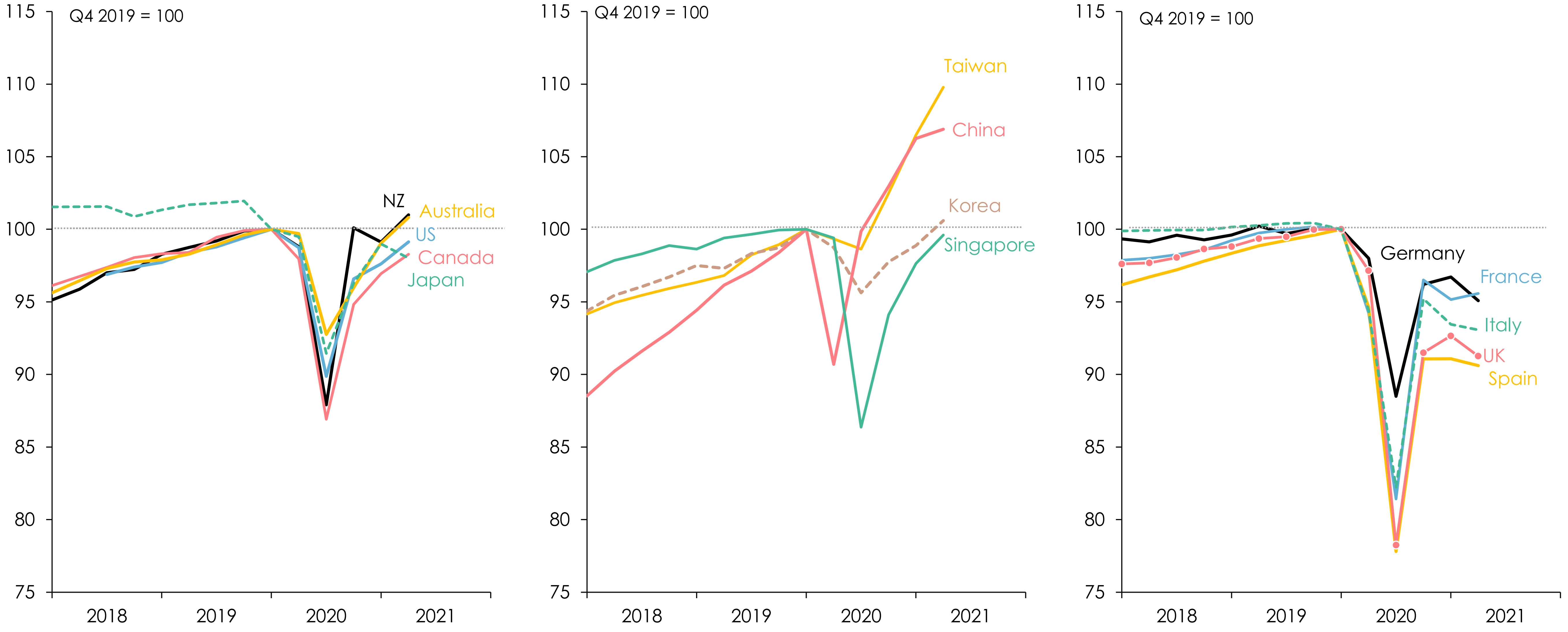
World and OECD area real GDP growth



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 Q1 2021 is based on published results the countries shown in the previous slide.
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

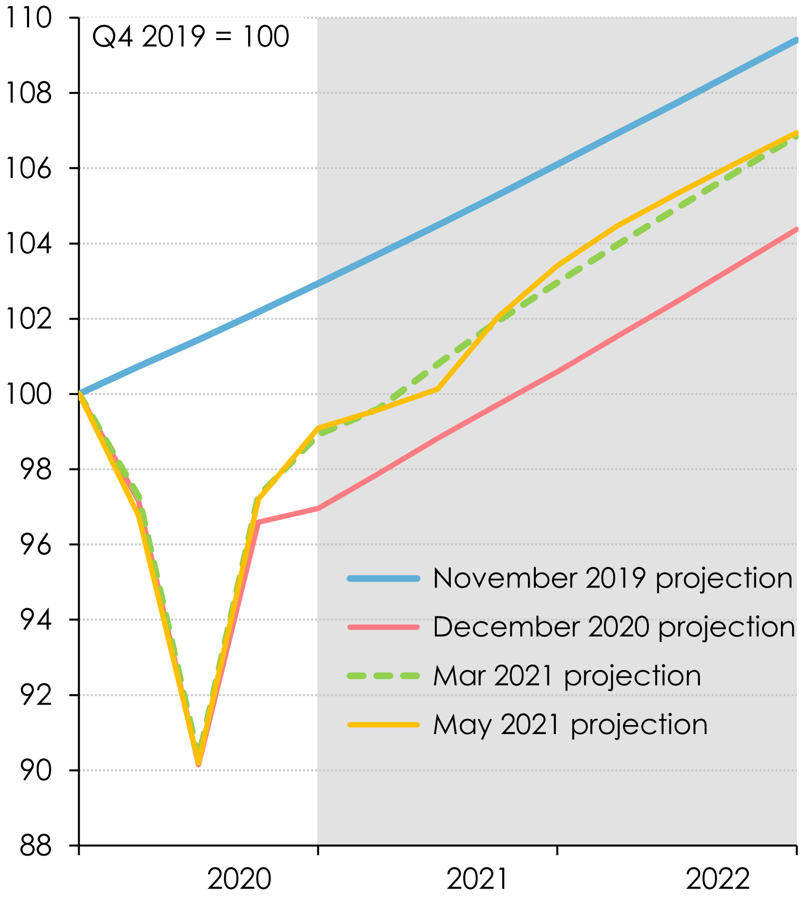
Major global institutions' growth forecasts for 2020, 2021 and 2022 compared

	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".

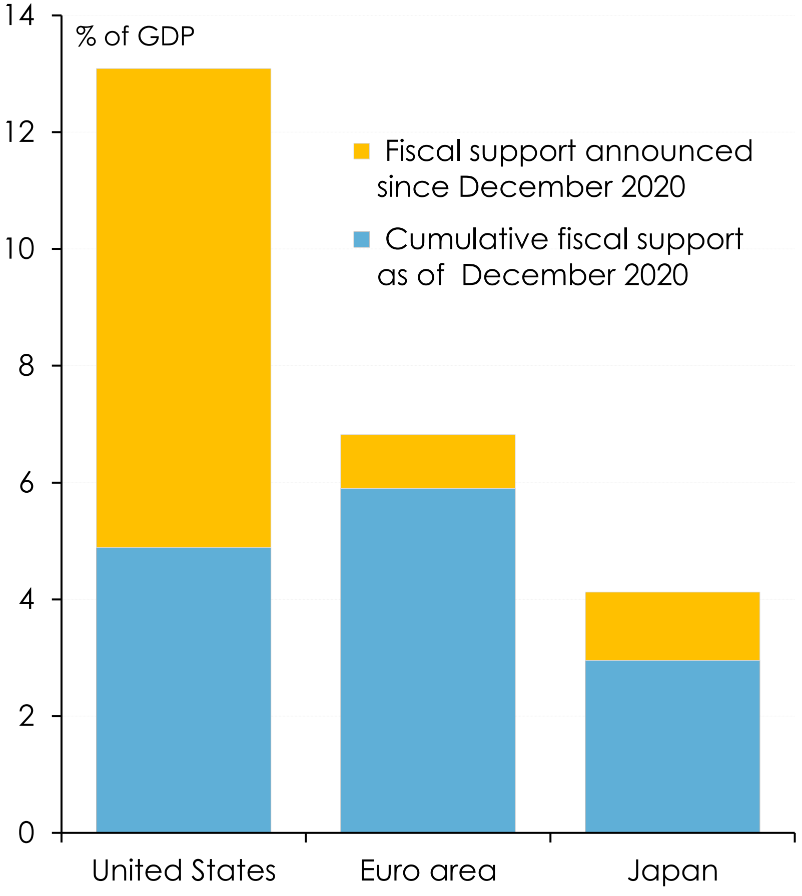
The OECD’s more optimistic view owes much to the size of the additional fiscal stimulus in the US

Global GDP projections



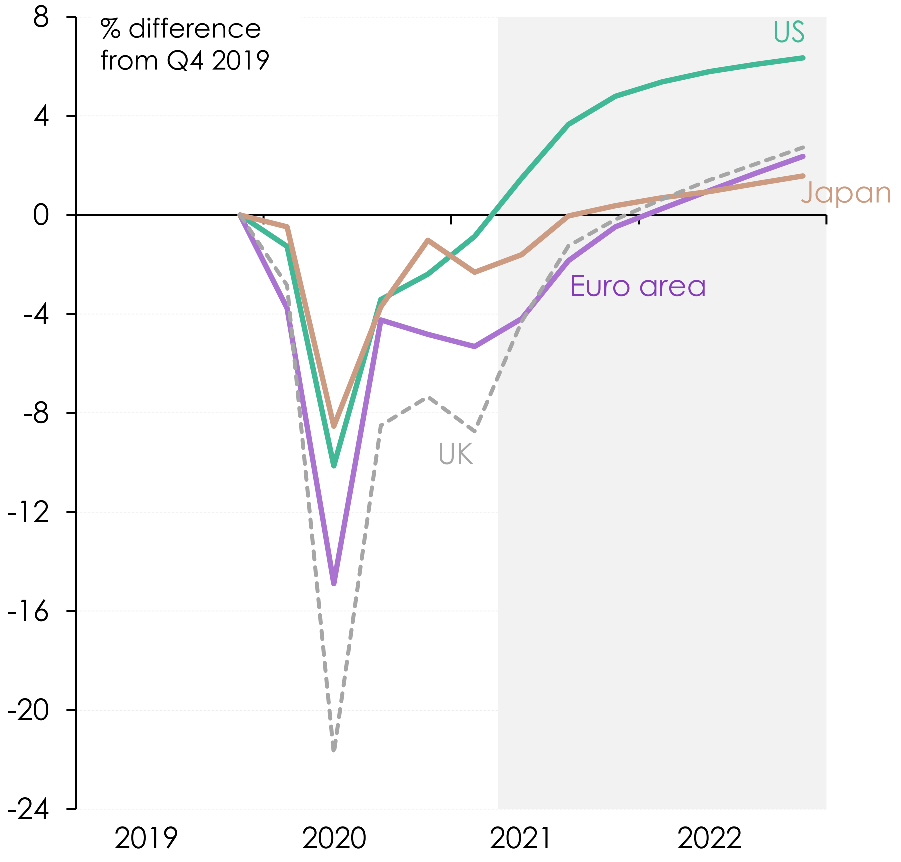
- The OECD now expects global GDP to have returned to its pre-pandemic level by Q1 this year, rather than Q4 as in its November forecast

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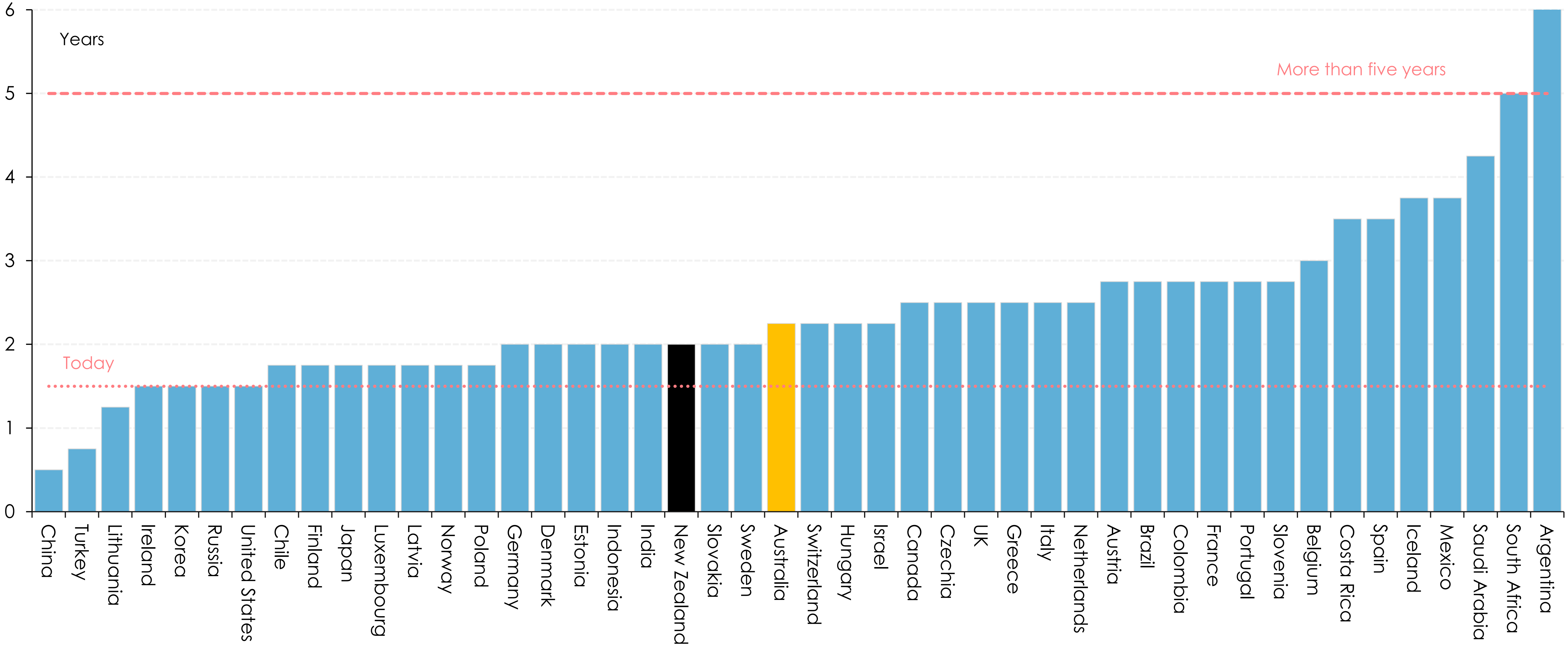
The OECD reckons it will take some countries more than three years to recoup the loss of real per capita GDP

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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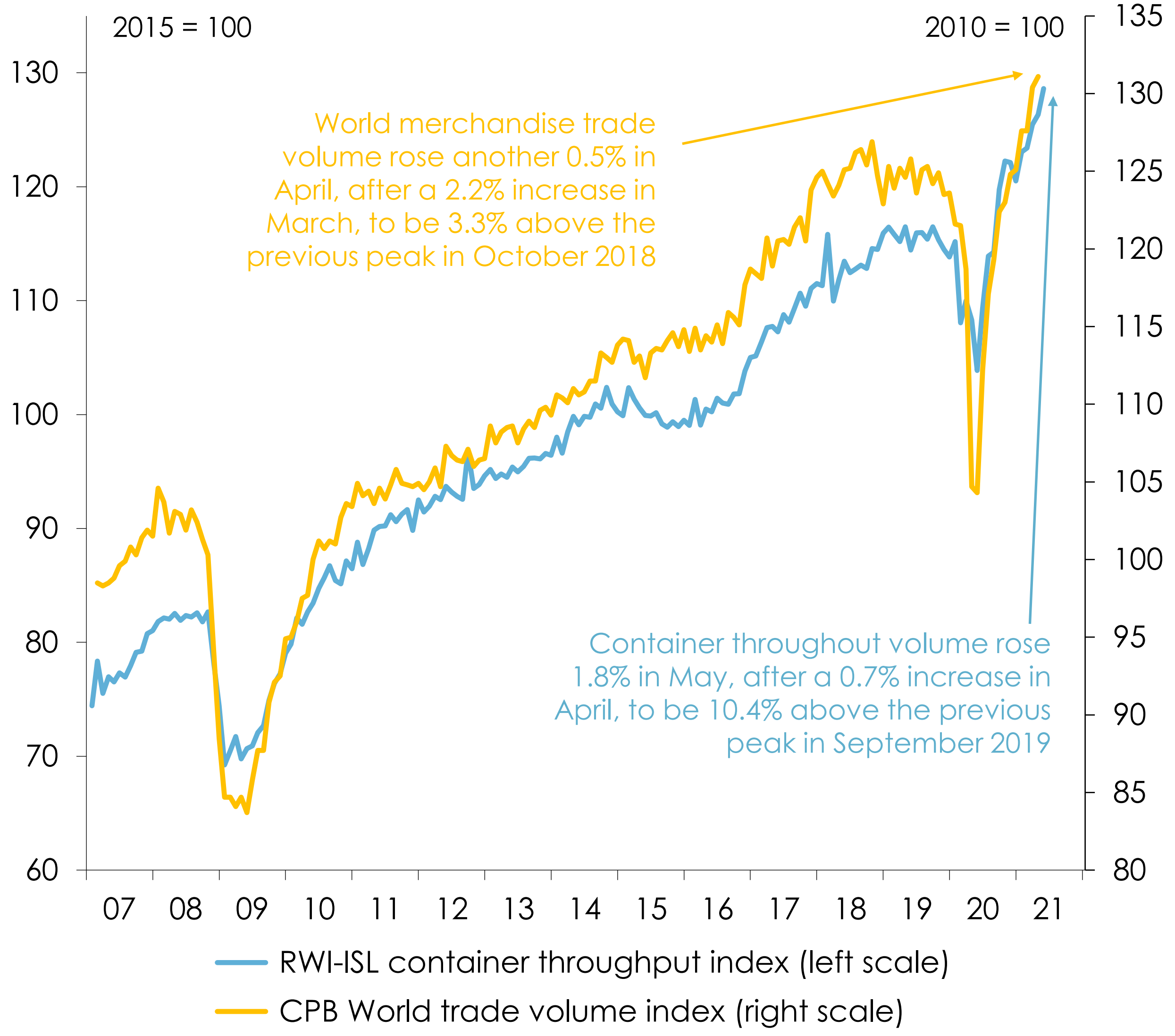
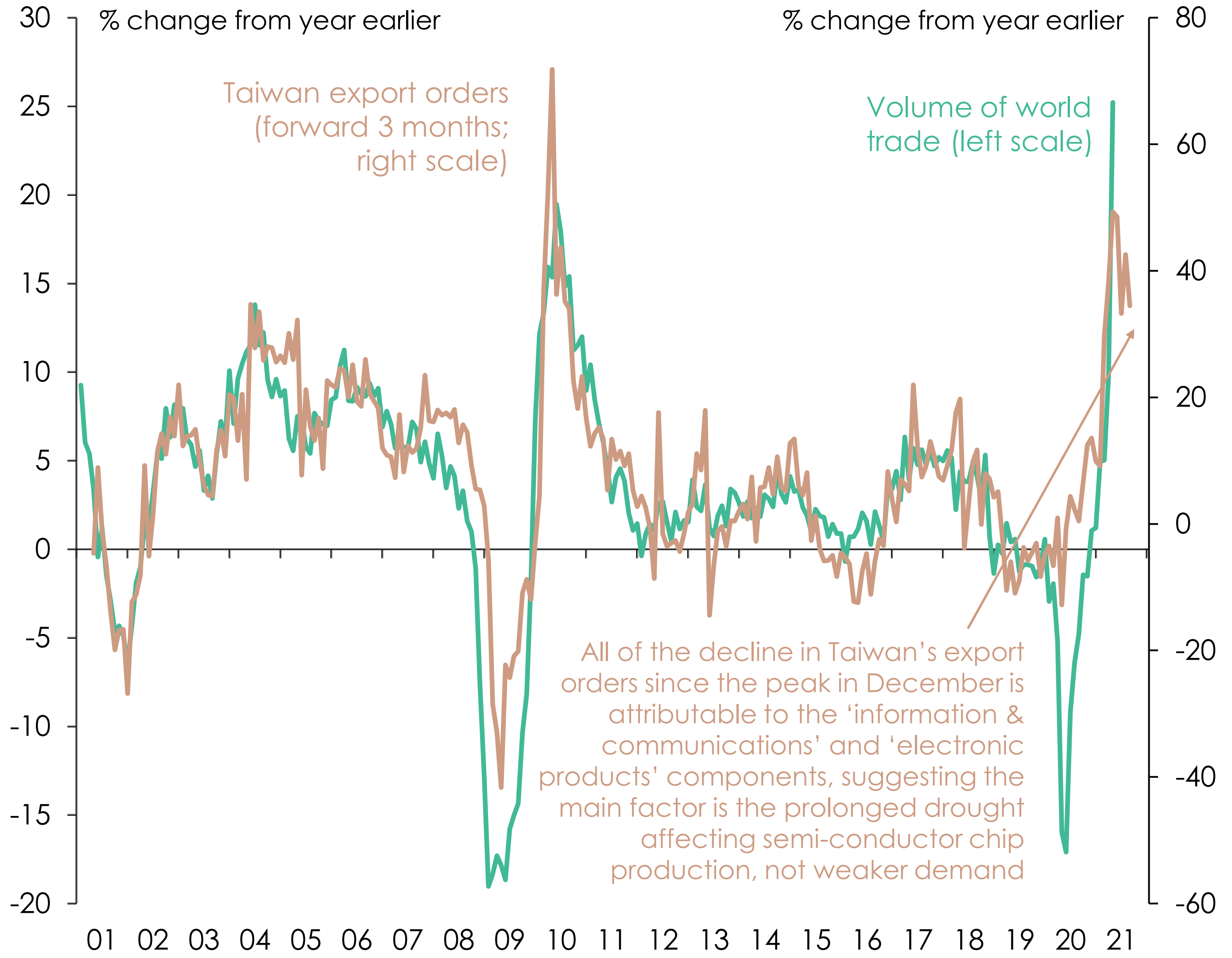
World trade volumes recorded another record high in April, while water shortages are affecting Taiwan's export orders (a good leading indicator)

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* (May data to be released on 23rd July); 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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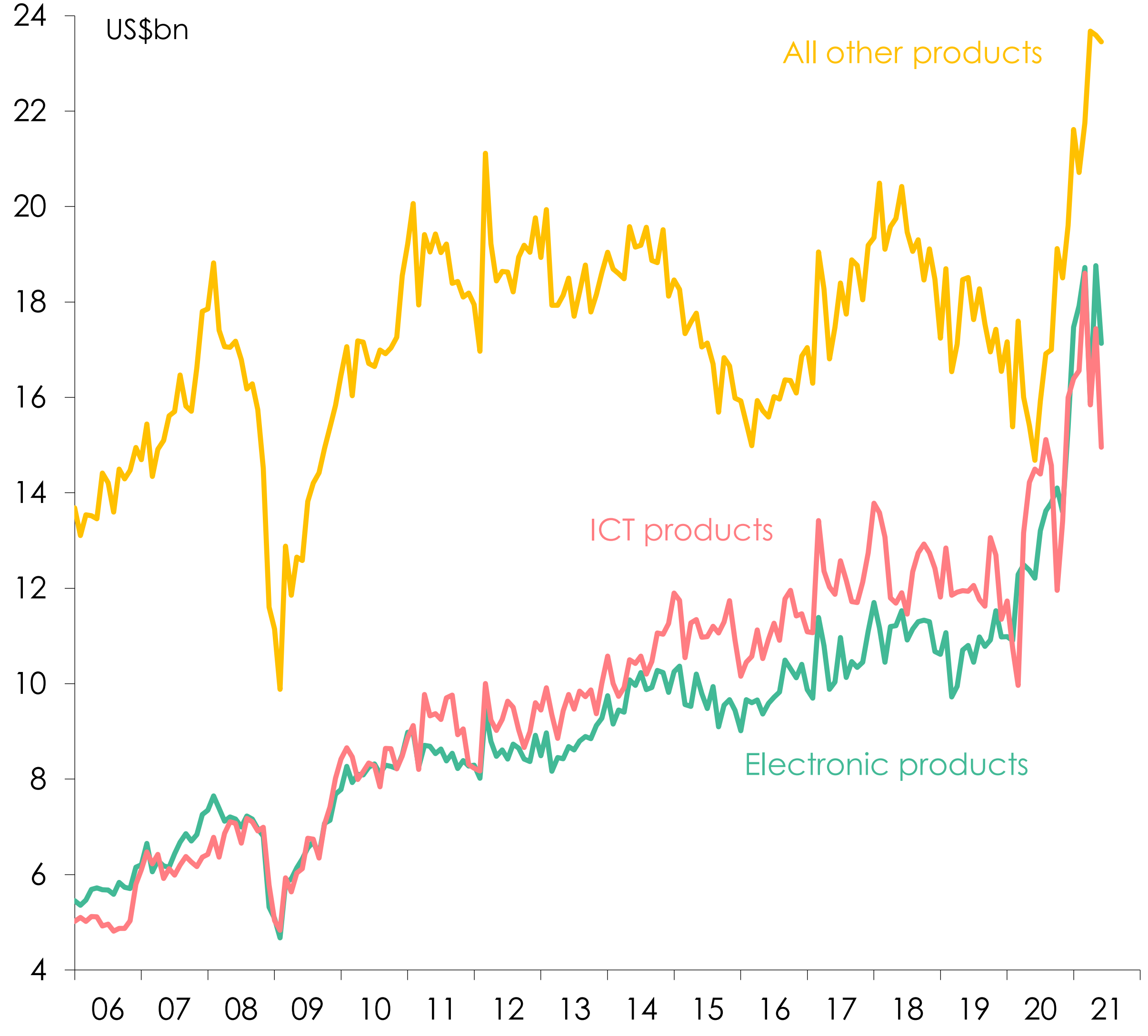
Taiwan's worst drought in over fifty years is a major factor in the surge in prices of semi-conductor chips (and things which use them)

Taiwan export orders, by product

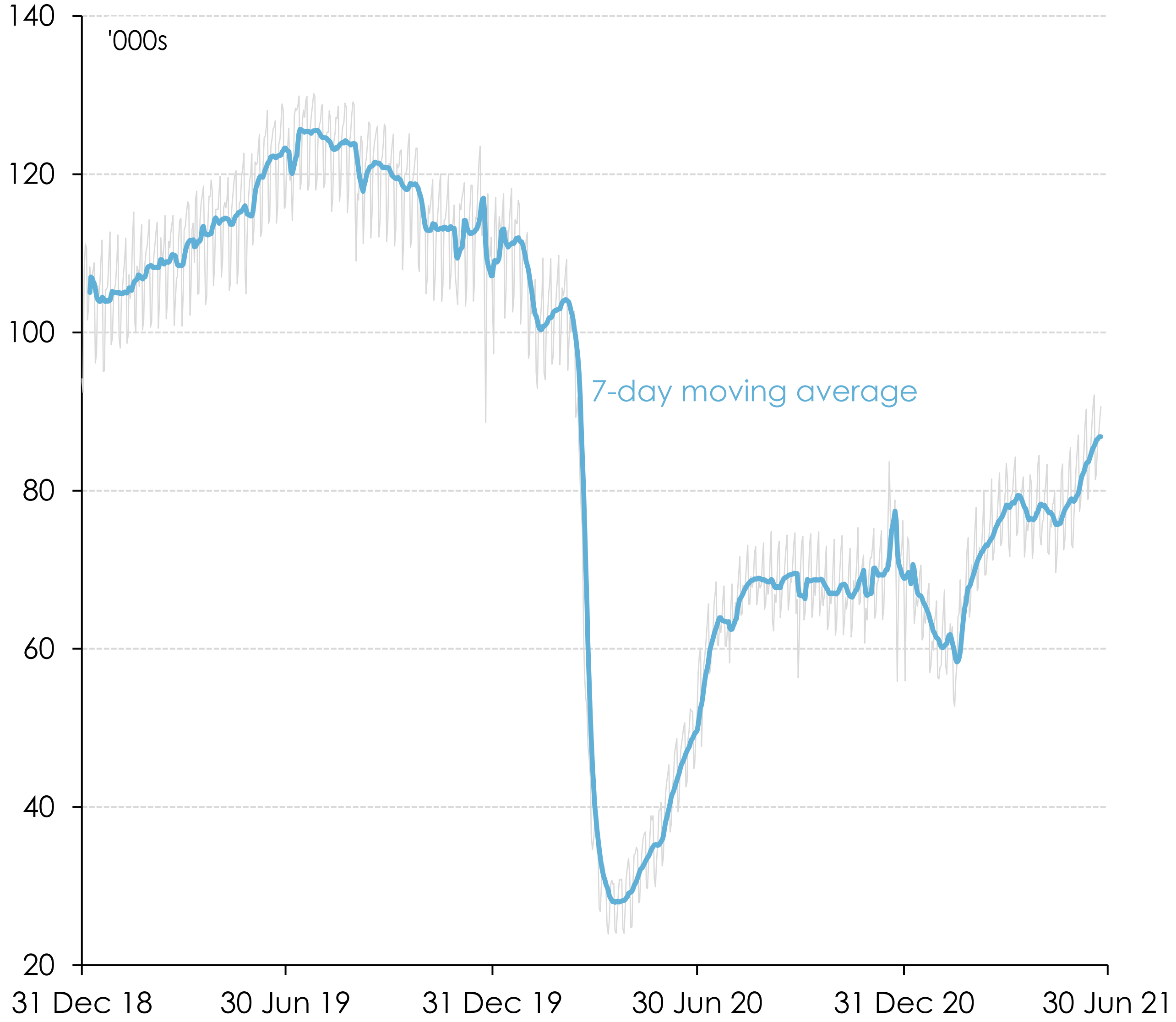


Note: Data have been seasonally adjusted by Corinna using Refinitiv Datastream.
Source: Taiwan Ministry of Economic Affairs. Return to "What's New".

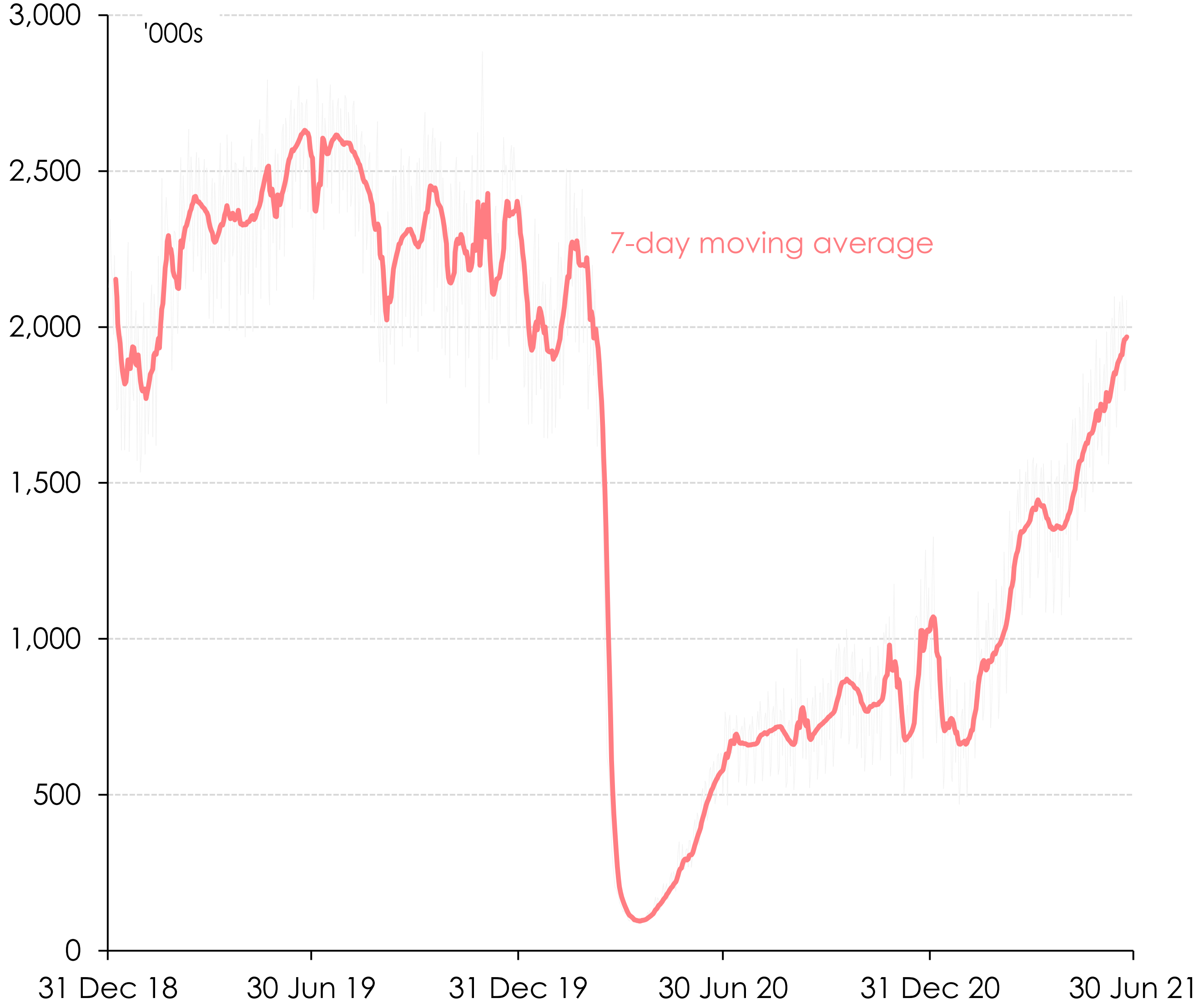
- Taiwan accounts for 63% of the US$85bn global semi-conductor chip market
  - Korea accounts for 18%, and China 6%
  - one Taiwanese company, Taiwan Semiconductor Manufacturing Co (TSMC) has 54% of the world market, and United Microelectronics Co (UMC) a further 7% (Samsung accounts for Korea's 18%)
- Semiconductor fabrication plants ("fabs") use very large amounts of water to rinse chips during their manufacture – a typical fab uses 7½-15 million litres of water daily (and water in Taiwan is very cheap, at less than US40¢/t)
- Taiwan has been experiencing its worst drought in 56 years, with the failure of monsoons to arrive last year and unusually low spring rains this year
  - reservoirs are down to less than 20% of capacity overall – with the Baoshan Reservoir which supplies TMSC's Hsinchu plant down to 7%
  - Taiwan's government has reduced water supplies to irrigated farmland, and to residents and businesses in three cities
  - 'fabs' have been asked to reduce their water consumption by 13%
  - water shortages are also constraining hydro-electricity production
- Taiwan's export orders have fallen by 6% from February's record high through May
  - a 20% fall in orders for ICT products more than accounts for this decline, and orders for electronic products have also declined by 8%
- The challenges facing Taiwan's chip manufacturers combined with the fire at Japan's Renesas plant in March are major factors behind the surge in chip prices

Commercial aviation traffic seems to be 'taking off' again (sorry!) both globally and in the US

Daily commercial flights worldwide



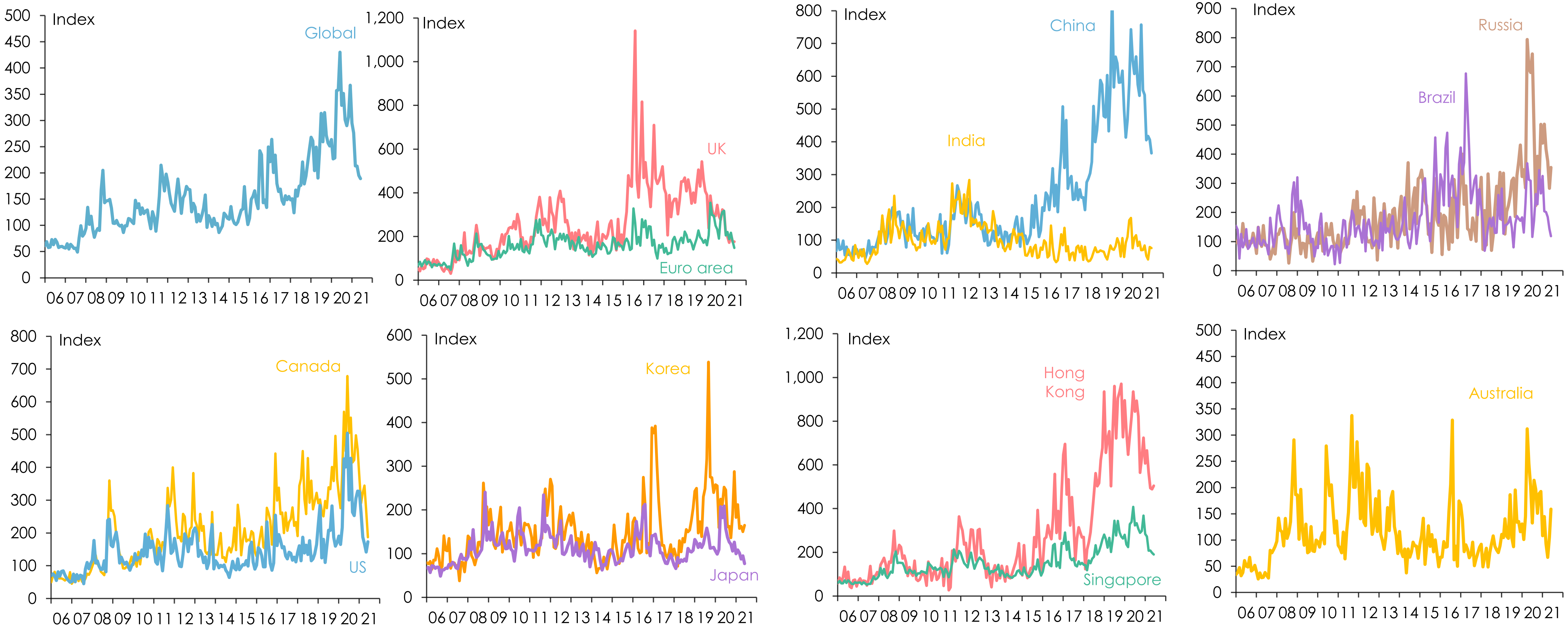
Daily US TSA security checks



Note: Commercial flights include commercial passenger flights, cargo flights, charter flights, and some business jet flights. Data up to 24th 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".

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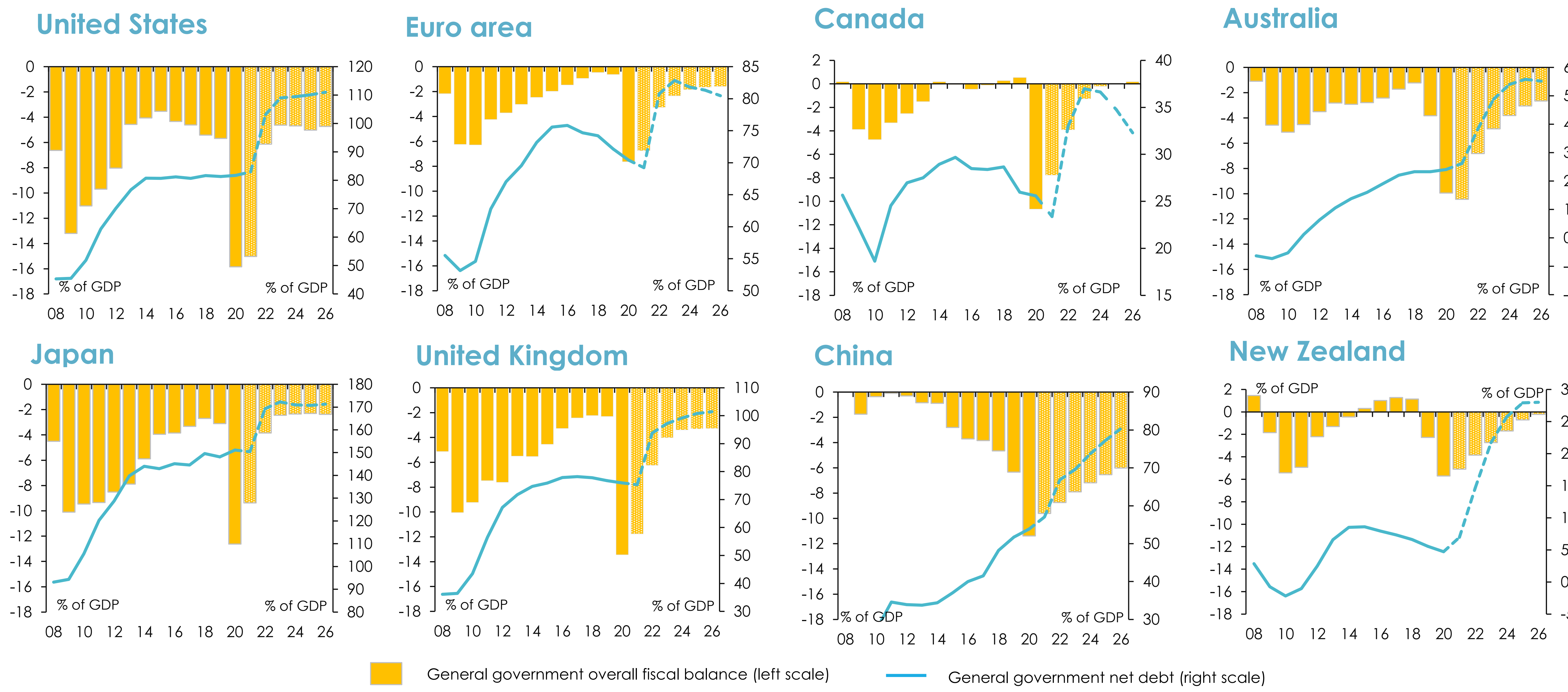
The US fiscal stimulus dwarfs that of any other major economy – although Japan, the UK, Canada and Australia are also doing a lot



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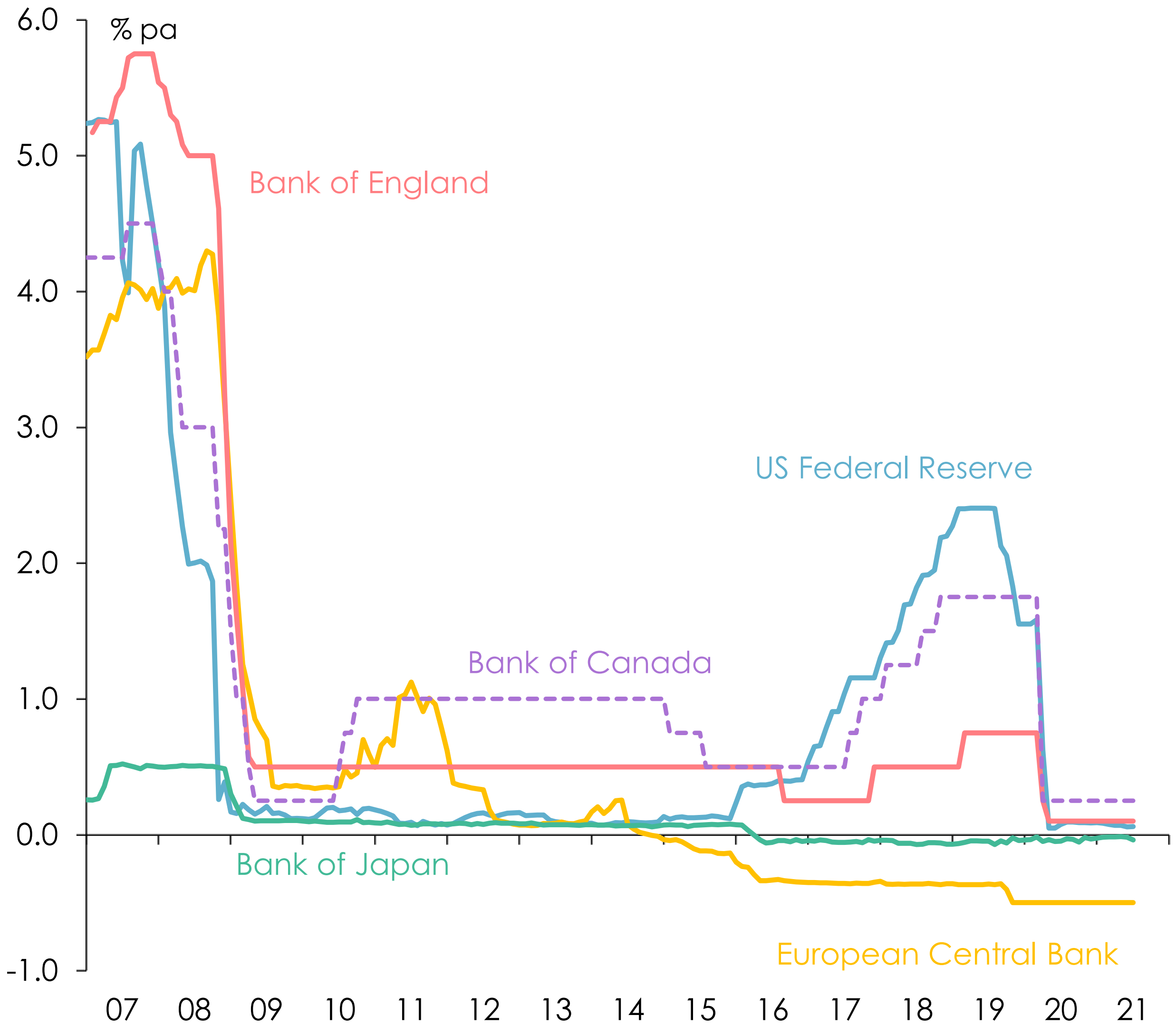
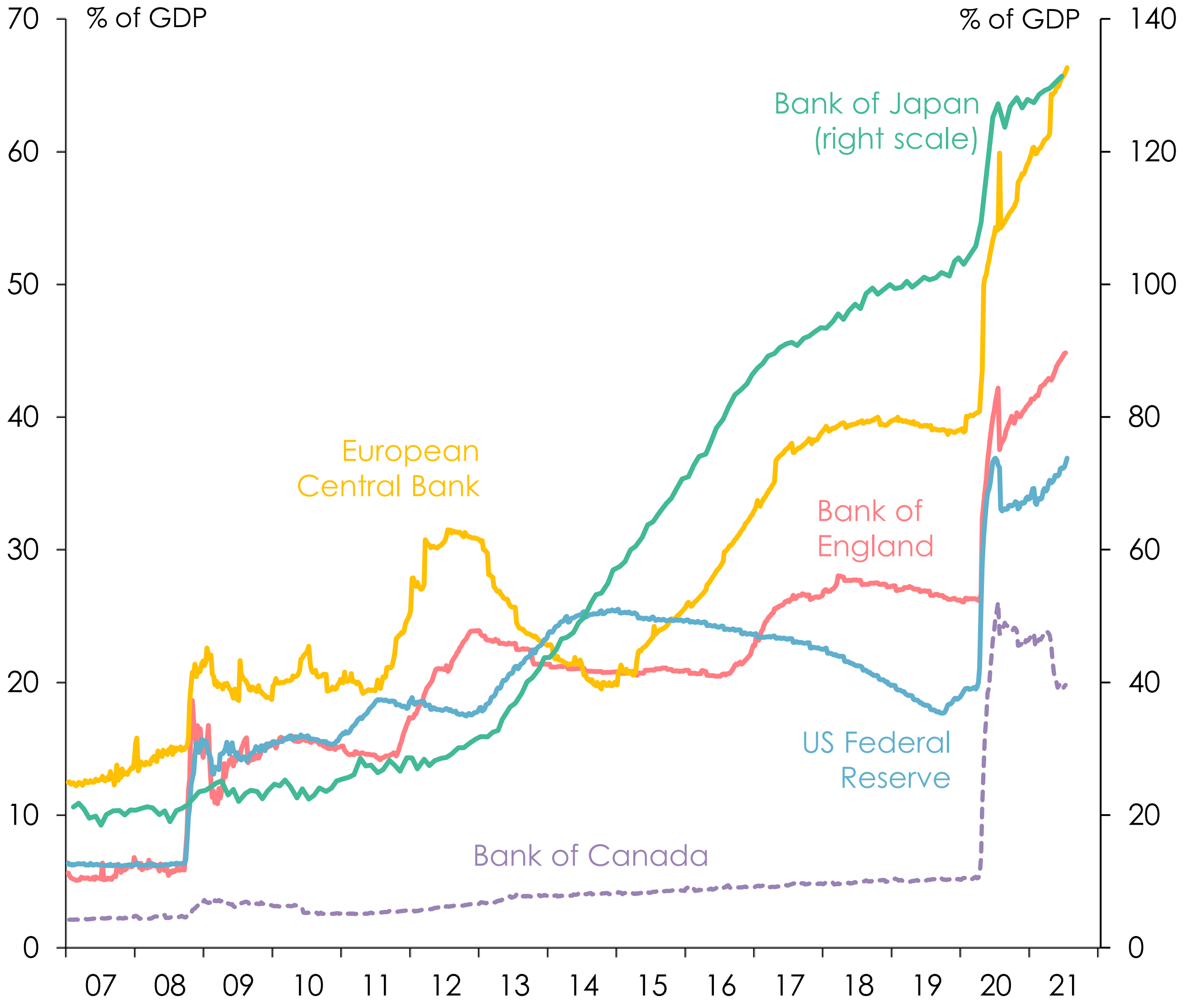
Major central banks have cut interest rates to record lows, and done more 'quantitative easing' than during the global financial crisis

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".

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The Bank of England left its policy settings on hold despite raising its near-term forecasts, while Norges Bank foreshadowed a September rate rise

- The Bank of England left its monetary policy settings 'on hold' at its Monetary Policy Committee meeting on Tuesday
  - although one member (the Bank's Chief Economist, Andrew Haldane) dissented from the decision to maintain the target for the stock of gilt purchases, arguing that "the rapidly improving economic outlook, and rising cost and price pressures, warranted a reduction in the degree of additional stimulus being provided to the UK economy"
- The MPC noted that monthly GDP data for March and April had been "stronger than anticipated" in May, prompting BoE staff to revised their expectations for Q2 GDP growth from 4¼% to 5½% – and that CPI inflation was "likely to exceed 3% for a temporary period, peaking higher than previously thought"
  - nonetheless the Committee's "central expectation was that the economy would experience a temporary period of strong GDP growth and above-target CPI inflation, after which growth and inflation would fall back"
- The Committee re-iterated its previous 'guidance' that it did not intend to tighten monetary policy "at least until there was clear evidence that significant progress was being made in eliminating spare capacity and achieving the 2% inflation target"
  - and unlike some other central banks (most recently the Fed, but also Norges Bank and the RBNZ) chose not to put any time frame on that
- Norges Bank, at its Monetary Policy and Financial Stability Committee meeting on 17th June, strengthened its 'guidance' about a near-term tightening of monetary policy, stating that "the policy rate will most likely be raised in September"
  - Governor Øystein Olsen noted that "a long period of low interest rates increases the risk of a build-up of financial imbalances" and that the Committee had "placed weight on the marked rise in house prices since spring 2020" (even though house price inflation has "recently moderated somewhat") …
  - … and that the likely further easing of Covid-related restrictions will "help a return to more normal economic conditions" which "suggests that it will soon be appropriate to raise the policy rate from the current level"

Return to "What's New".

The US Federal Reserve again left monetary policy settings unchanged last week, but flagged the prospect of rate rises in 2023

- The Fed left its monetary policy settings (the funds rate target of 0-¼% and asset purchases of at least US$120bn a month) unchanged at last week's FOMC meeting
  - although it did make a 'technical' upward adjustment of 5 basis points (to 0.15%) pa to the rate it pays on banks' reserve balances at the Fed, with a view to keeping the fed funds rate closer to the middle of this range rather than at the bottom of it
- However Fed Chair Jay Powell was much more 'upbeat' in his commentary on the US economy, noting that real GDP was "on track to post its fastest rate of increase in decades", with "household spending rising at a rapid pace", the housing sector "strong", and business investment "increasing at a solid pace"
  - however he also observed that "the unemployment rate remained elevated", that this figure "understates the shortfall in employment", and that "joblessness continues to fall disproportionately on lower-wage workers in the services sector and on African Americans and Hispanics"
  - he also acknowledged that "bottleneck effects" on prices "as the economy continues to reopen" have been "larger than anticipated" but welcomed the fact that "longer-term inflation expectations have generally reversed the declines seen earlier in the pandemic and have moved into a range that appears broadly consistent" with the Fed's longer-run 2% target
- FOMC members and other Fed Presidents have significantly upgraded their near-term economic forecasts
  - the median forecast for real GDP growth through Q4 2021 was revised up ½ pc pt to 7% (though forecasts for 2022 and beyond were little changed, as were forecasts for unemployment this year and beyond), while the forecast for 'core' PCE inflation for the year to Q4 2021 was revised up from 2¼% to 3% (though again forecasts for 2022 and 2023 were little changed)
- As a result FOMC members' expectations for interest rates have been brought forward
  - the median 'dot plot' now anticipates two 25bp increases in the funds rate in 2023 (previously none)
  - a significant minority (7out of 20) participants anticipate at least one rate hike in 2022, and 5 expect the funds rate to be above 1% in 2023
- Powell acknowledged that the Fed was now preparing to talk (at future meetings) about a plan for tapering its bond purchases, but emphasized that it would provide "advance notice" before making any such decisions

Return to "What's New".

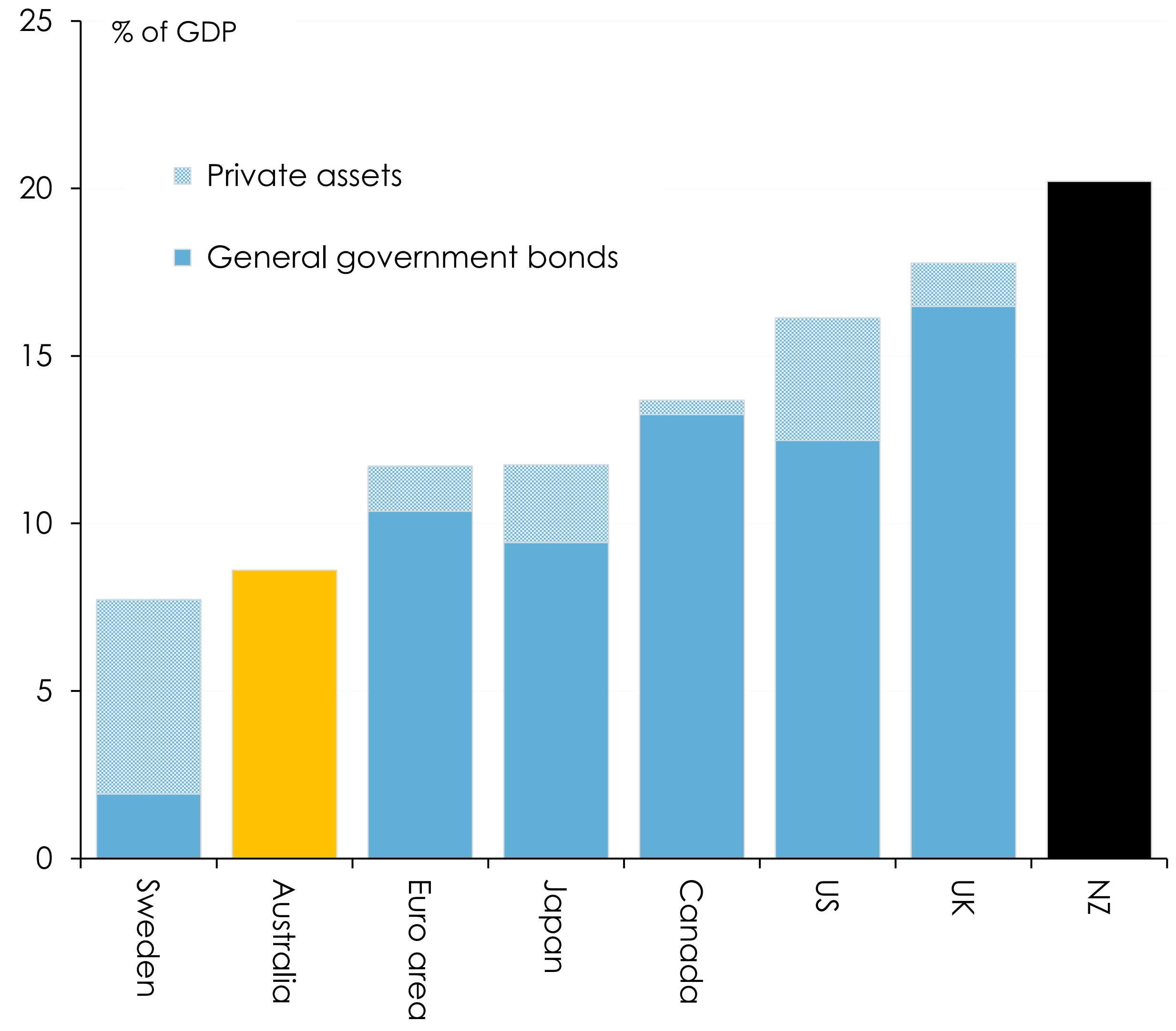
The BoJ left its monetary policy settings on hold last week, as expected, but surprised with the announcement of a 'climate change fund'

- **The Bank of Japan's Policy Board left its monetary policy settings unchanged at last week's monetary policy meeting**
  - but agreed to extend its Special Program to Support Financing in Response to Covid-19 (which supports the provision of finance to businesses) for another six months until March 2022
- **The Policy Board noted that "Japan's economy has picked up at a trend" but remains "in a severe condition due to the impact of Covid-19" with "employment and income remain[ing] weak" and "private consumption … stagnant due to strong downward pressure on consumption of services"**
  - however, the Policy Board anticipated that the economy was "likely to recover" as the impact of Covid-19 waned, aided by "an increase in external demand, accommodative financial conditions and the government's economic measures"
  - the Board expected 'core' inflation to be "at around 0% in the short term" but "thereafter … to increase gradually … on the back of continued improvement in economic activity, the rise in energy prices and a dissipation of the effects of the [recent] reduction in mobile phone charges
- **The surprise from last week's meeting was the announcement of a new "fund-provisioning measure" to provide funds to financial institutions "for investments or loans they make to address climate change issues based on their own decisions"**
  - the BoJ expects this new measure to be launched later this year
- **This announcement reflects a growing interest of central banks around the world in issues related to climate change**
  - earlier this month the RBNZ's Head of Financial Markets referred to "climate change and sustainable finance" as being "at the forefront [of RBNZ officials'] minds" when "looking at the future of our balance sheet" and that the RBNZ will "continue to … support the transition to a climate-resilient, sustainable economy"
  - the minutes of this month's RBA Board meeting (released this Tuesday) record that Board members "discussed the implications of climate change for monetary policy and the [RBA's] financial stability mandate, noted that the RBA together with other regulators was focusing on "building the foundations for financial institutions and corporations to understand climate risks and for the effective pricing of these risks by markets", including by improving the "consistency and effectiveness of climate-related disclosures"

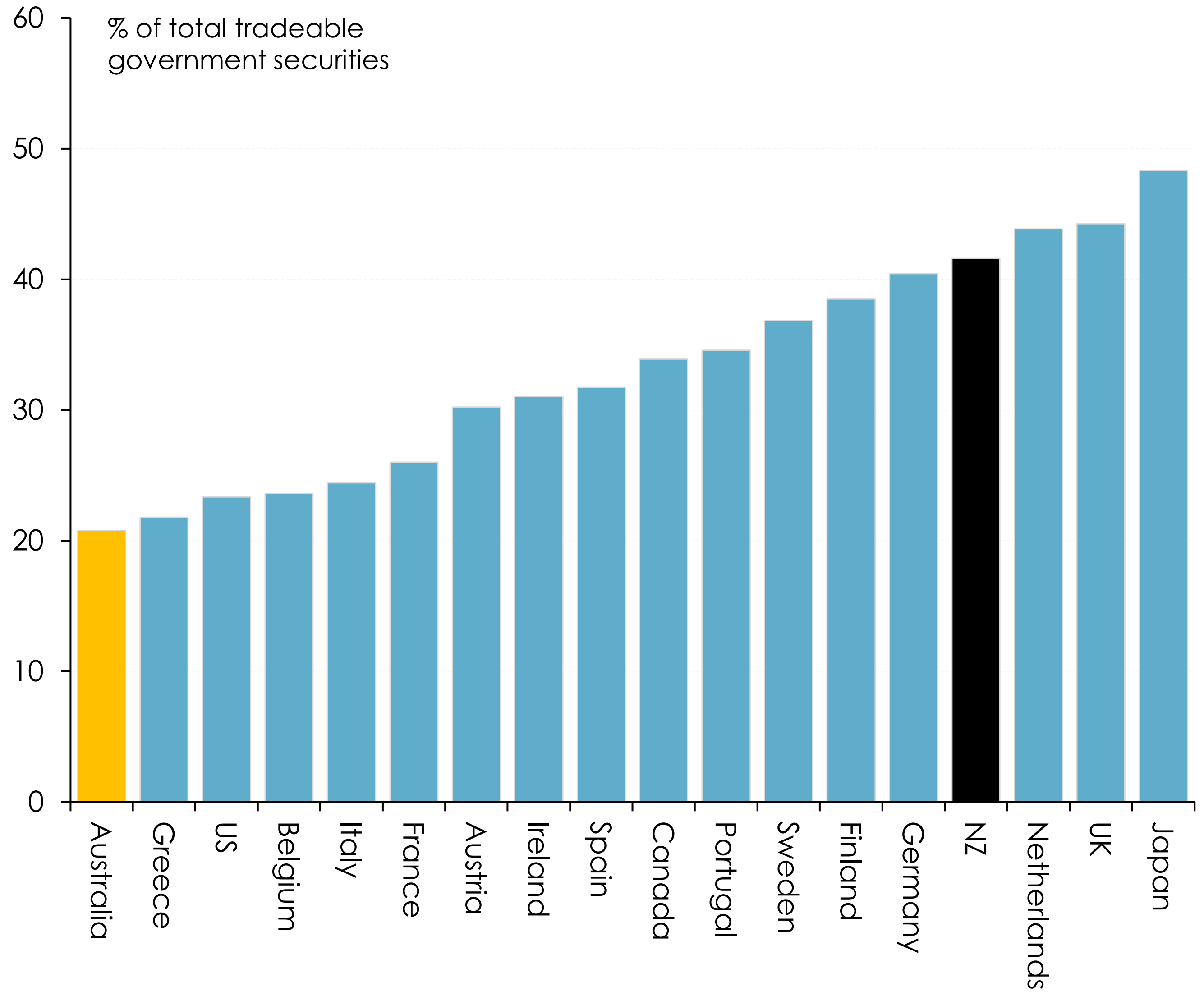
Return to "What's New".

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".

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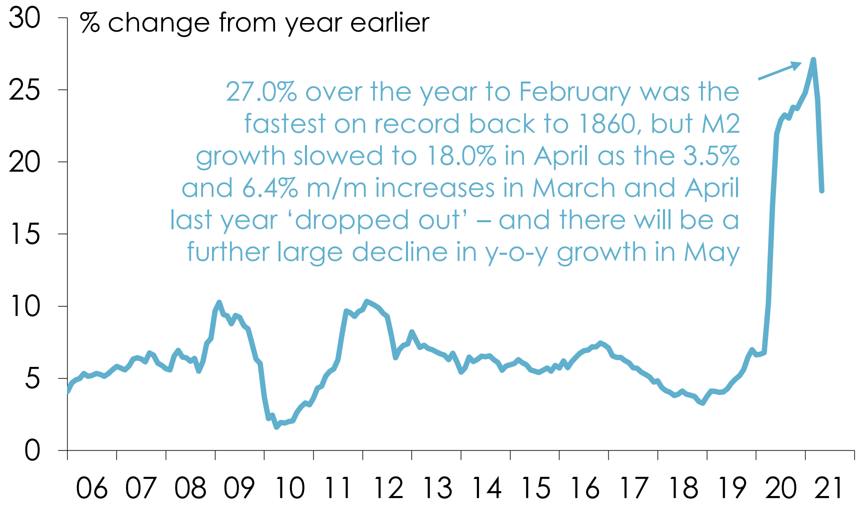
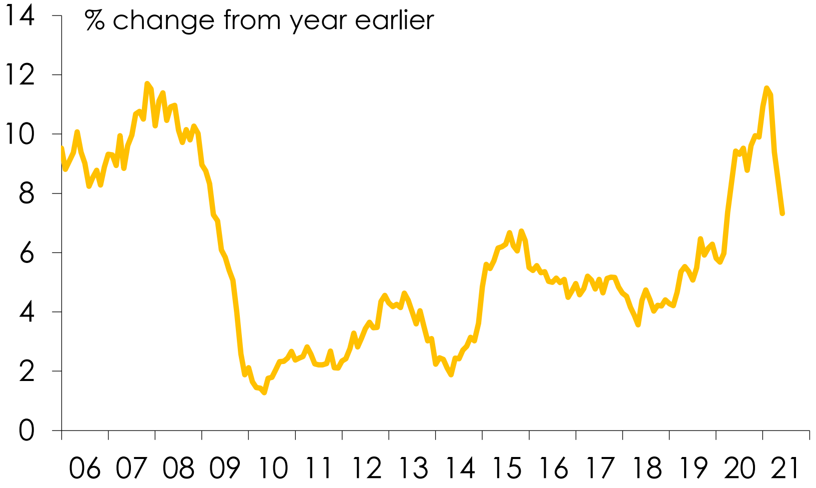
‘QE’ has prompted a faster acceleration in money supply growth than it did during the GFC – although it is now clearly beginning to slow

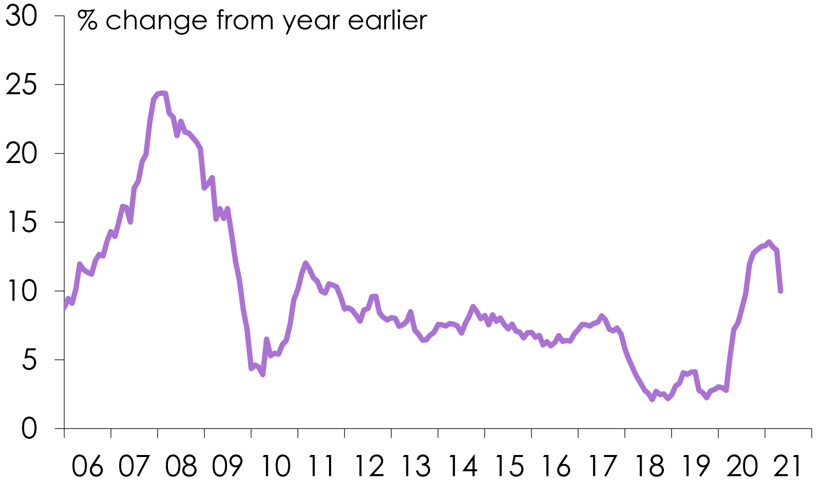
US M2



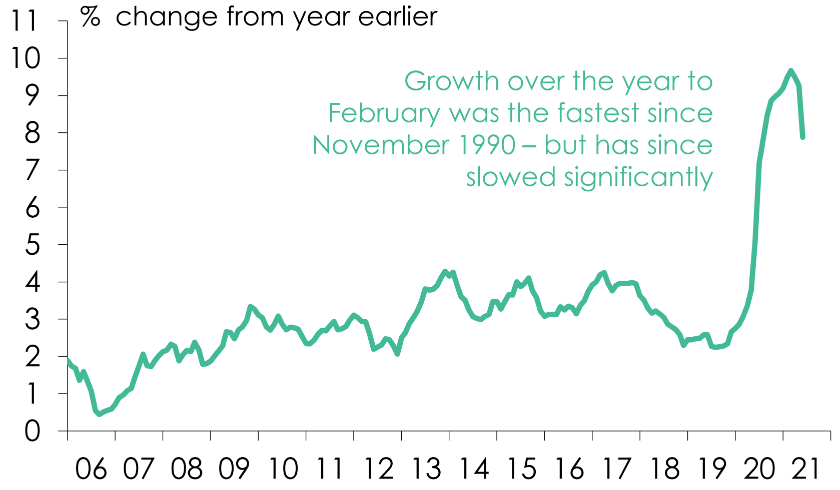
Euro area M2



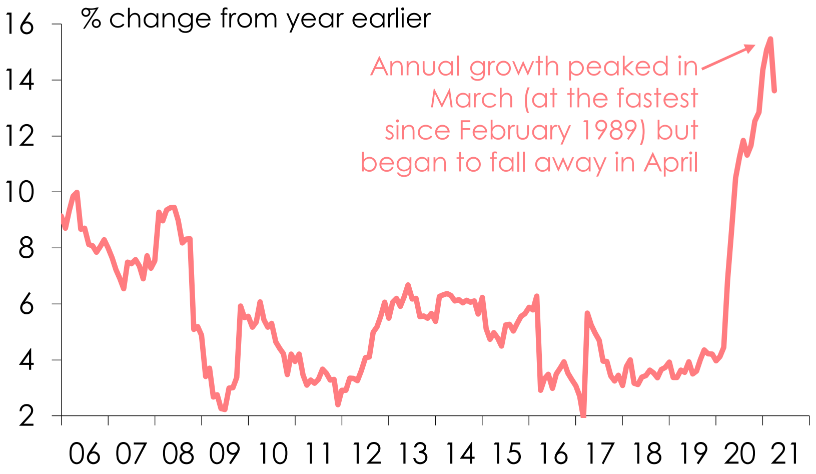
Australia M3



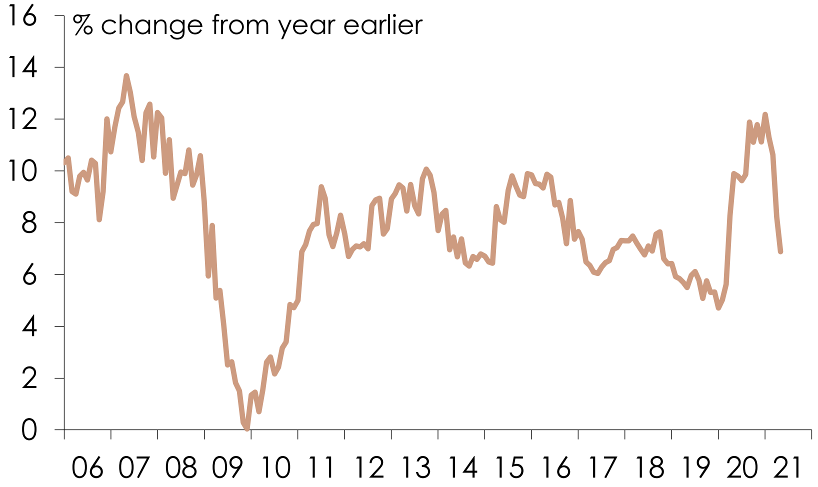
Japan M2 + CDs



UK M2



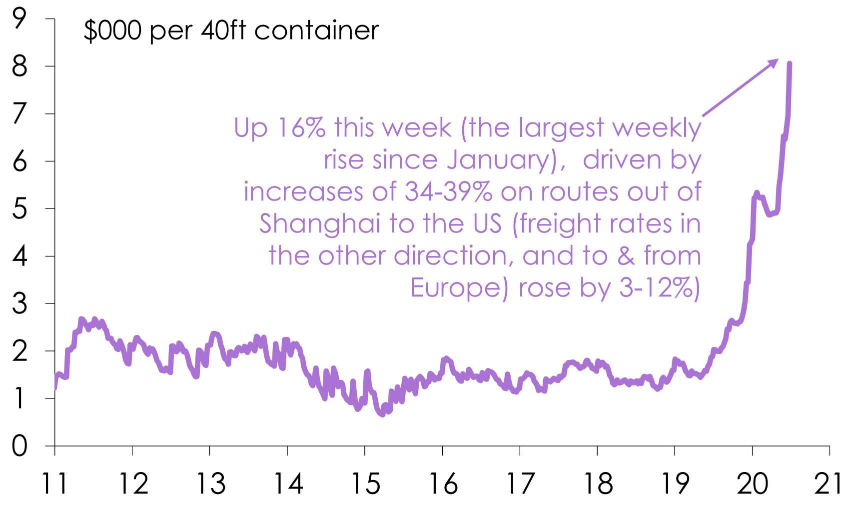
New Zealand M3



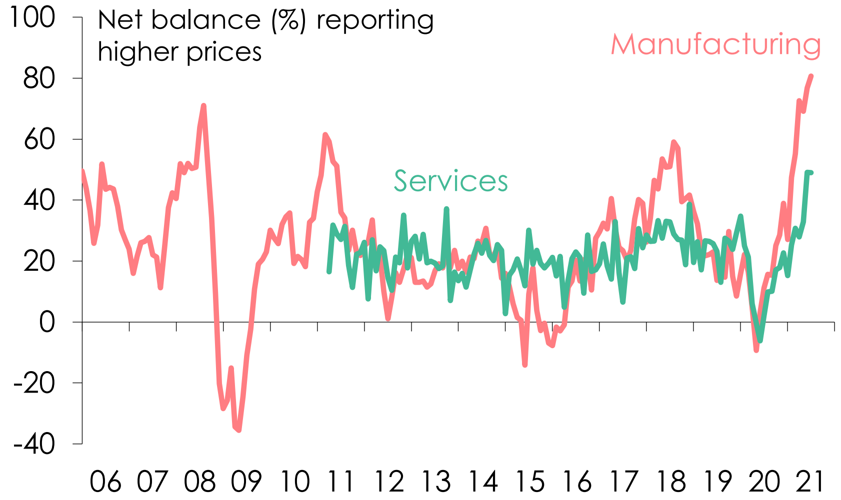
Sources: US Federal Reserve; European Central Bank; Bank of Japan; Bank of England; RBA; RBNZ; Longtermtrends. Return to "What's New“.

Container freight rates surged 16% this week, semi-conductor chip prices also remain elevated, contributing further to 'upstream' price pressures

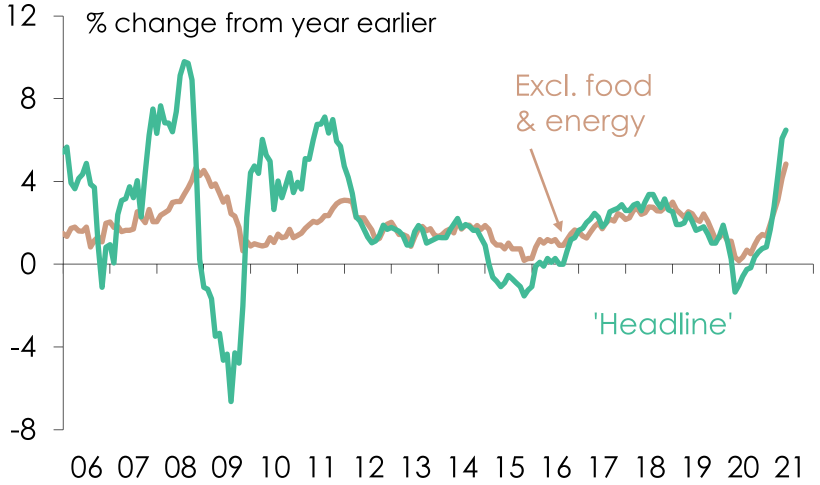
Container freight costs



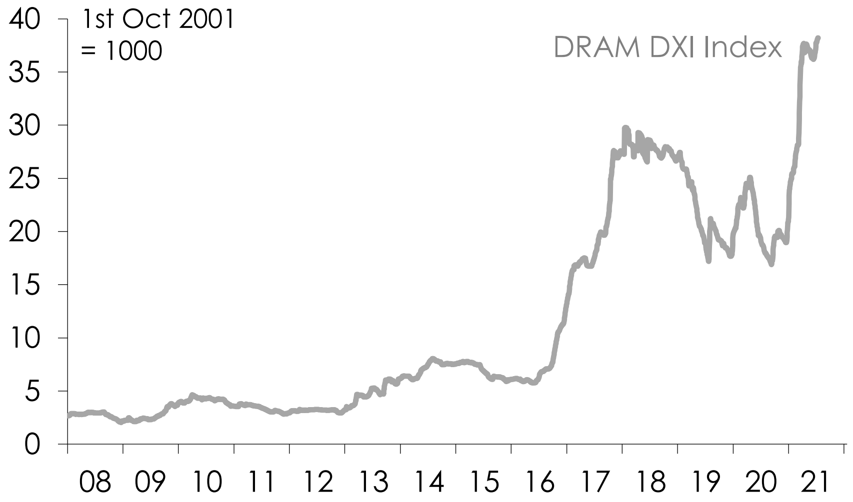
Philadelphia Fed survey prices paid



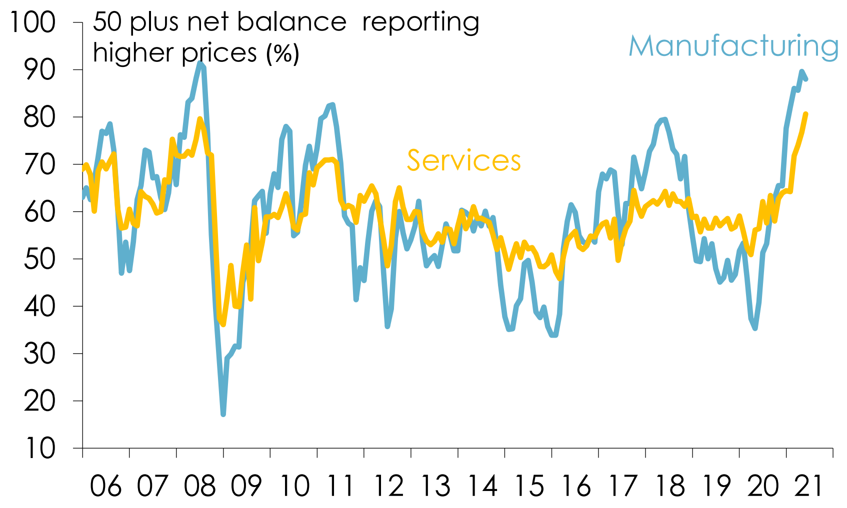
US producer price index (PPI)



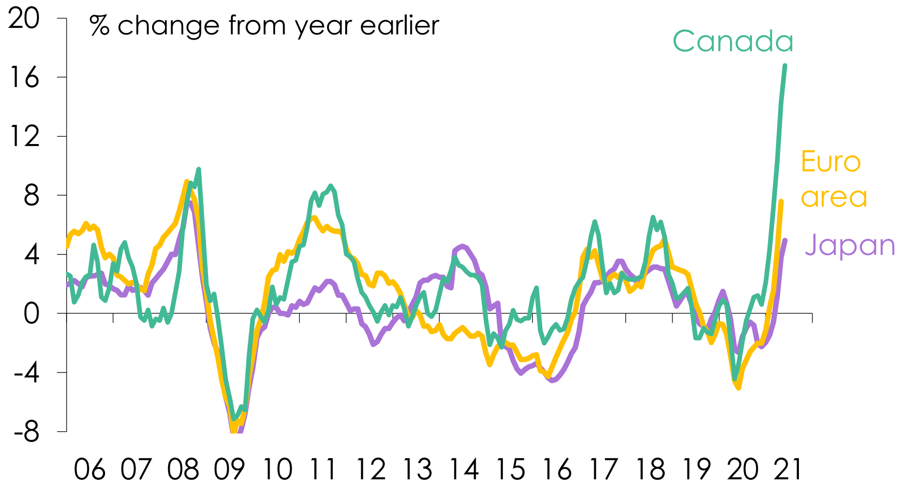
Semiconductor prices



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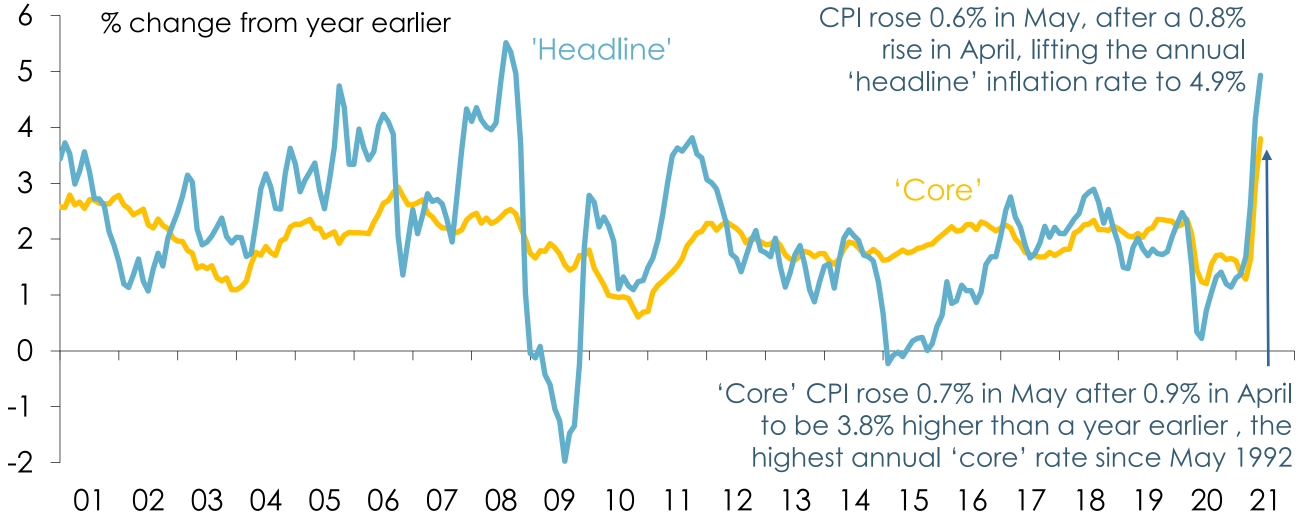
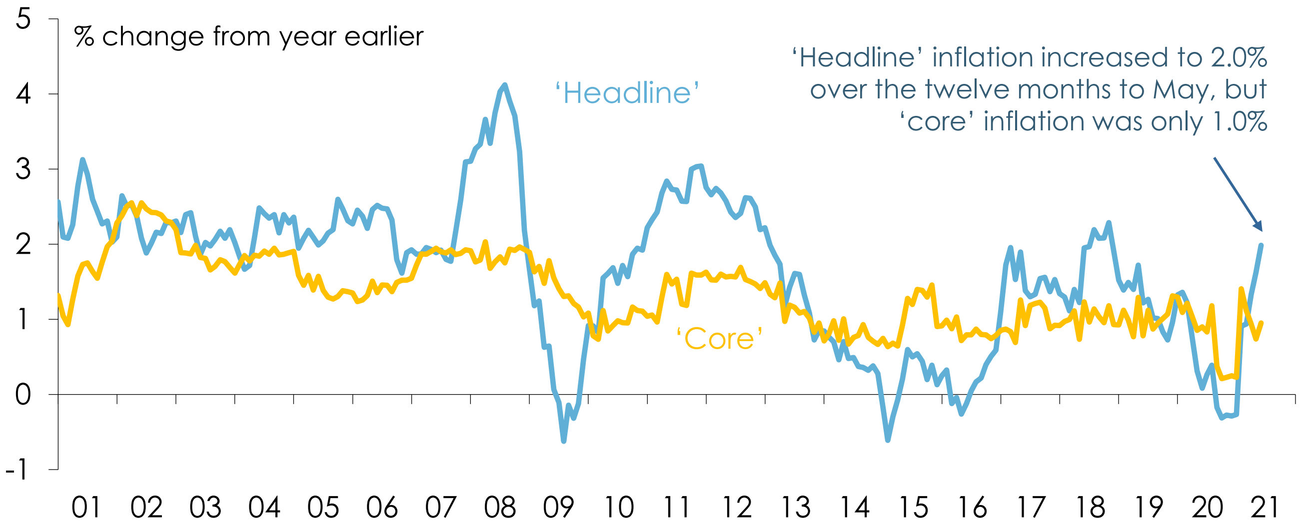
'Headline' and 'core' US CPIs again rose more than expected in May, but markets now seem more willing to accept that it's mostly 'transitory'

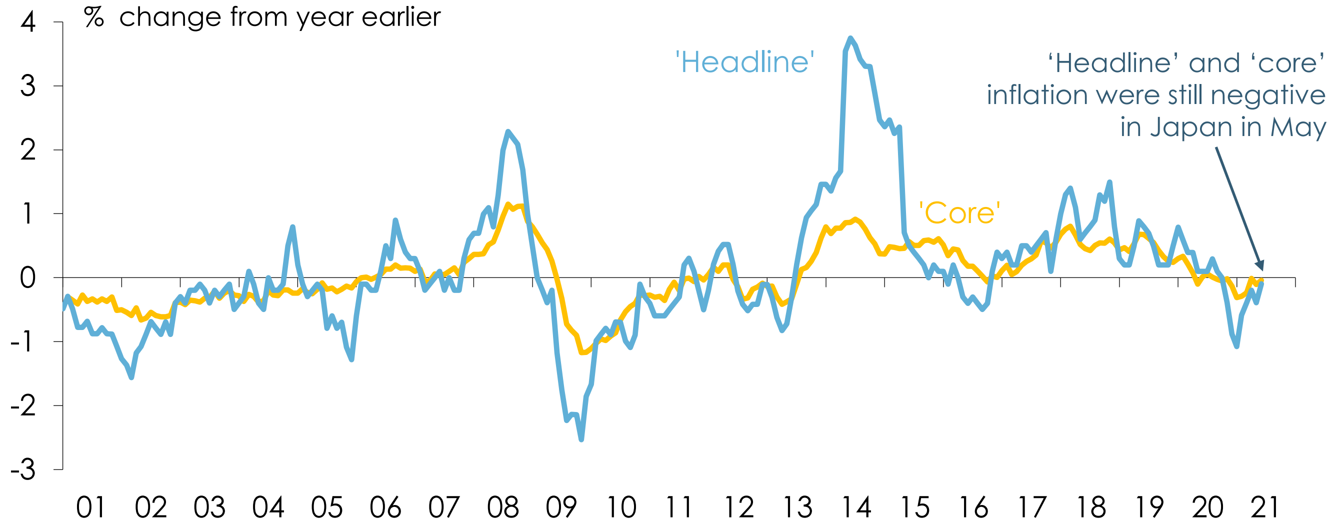
'Headline' and 'core' inflation - US



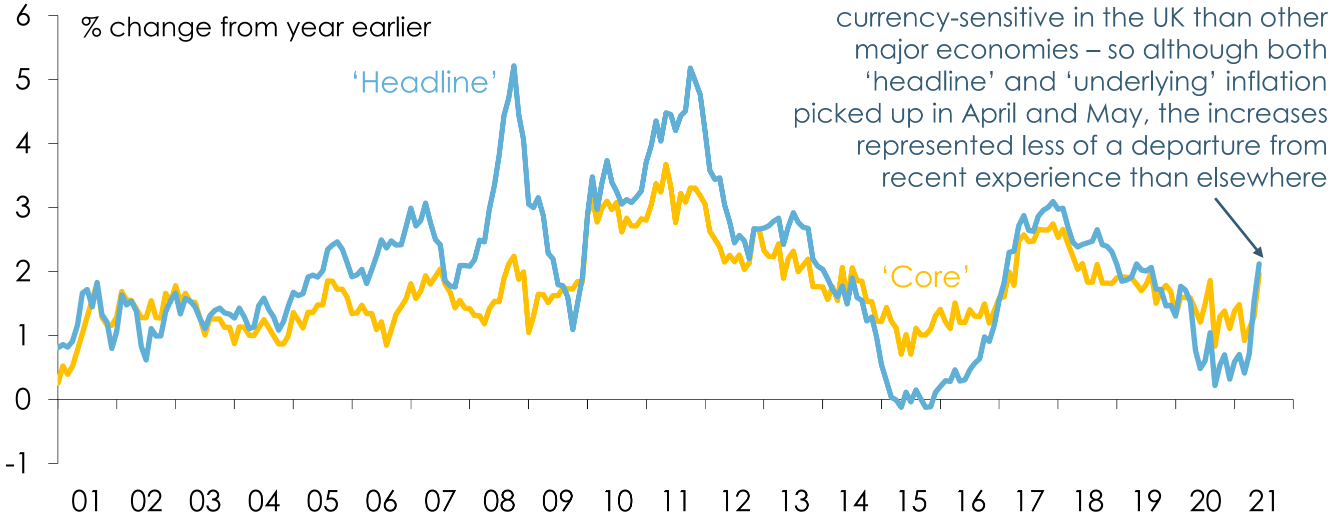
'Headline' and 'core' inflation – Euro area



'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 67-68 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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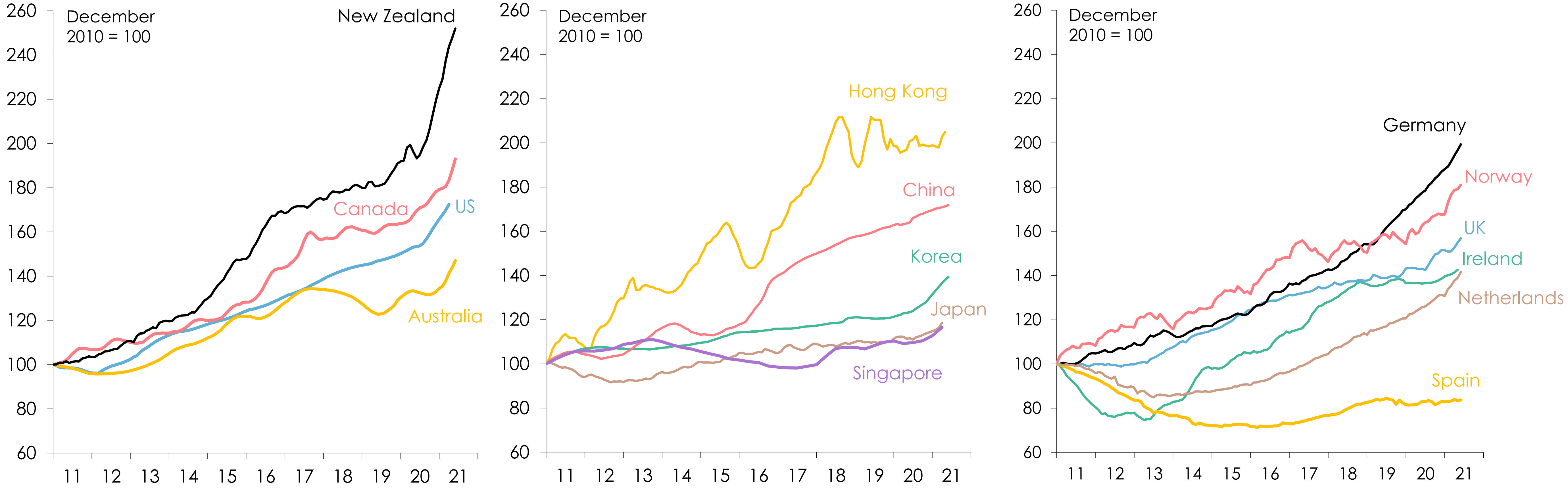
Residential property prices have been remarkably resilient in most countries thanks to record-low interest rates and ample supply of credit

House price indices



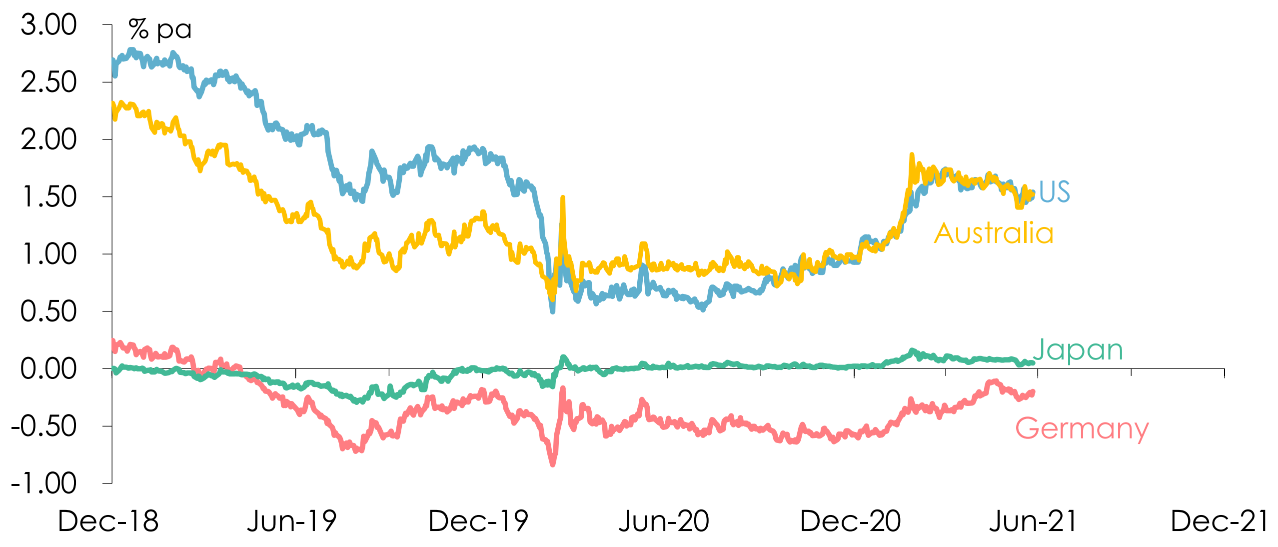
- **Last week the NZ Government and RBNZ formally agreed to add debt-to-income ratio limits to the RBNZ's macro-prudential policy 'tool kit' (slide 159): while Taiwan's central bank affirmed the usefulness of 'selective credit controls' in bringing down high-LVR lending along with other regulatory and tax measures to promote "a healthy real estate market"**

Note: House price indices shown in these charts are those published by S&P-CoreLogic Case Shiller national (United States); Teranet-National Bank (Canada); CoreLogic (Australia); Real Estate Institute of New Zealand; China Index Academy; Japan Real Estate Institute (Tokyo condominiums); Kookmin Bank house price index (Korea); Centaline Centa-City Index (Hong Kong); Urban Redevelopment Authority (Singapore); Europace hauspreisindex (Germany); Halifax house price index (UK); Central Statistics Office RPPI (Ireland); Fotocasa real estate index (Spain); Statistics Netherlands; Eiendom Norge (Norway). These indices have been chosen for their timeliness and widespread recognition: they do not necessarily all measure the same thing in the same way. For more comprehensive residential property price data see the quarterly database maintained by the Bank for International Settlements. Return to "What's New".

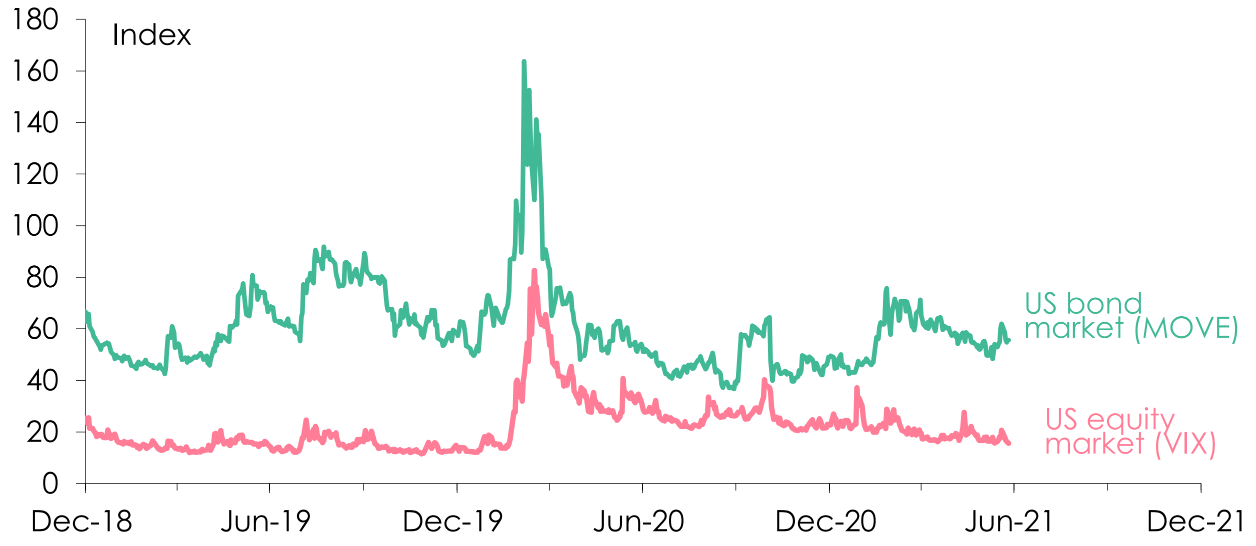
Stocks recovered from their initial adverse reactions to last week's FOMC meeting, and the US$ rose some more against the yen but fell vs the euro

Stock markets

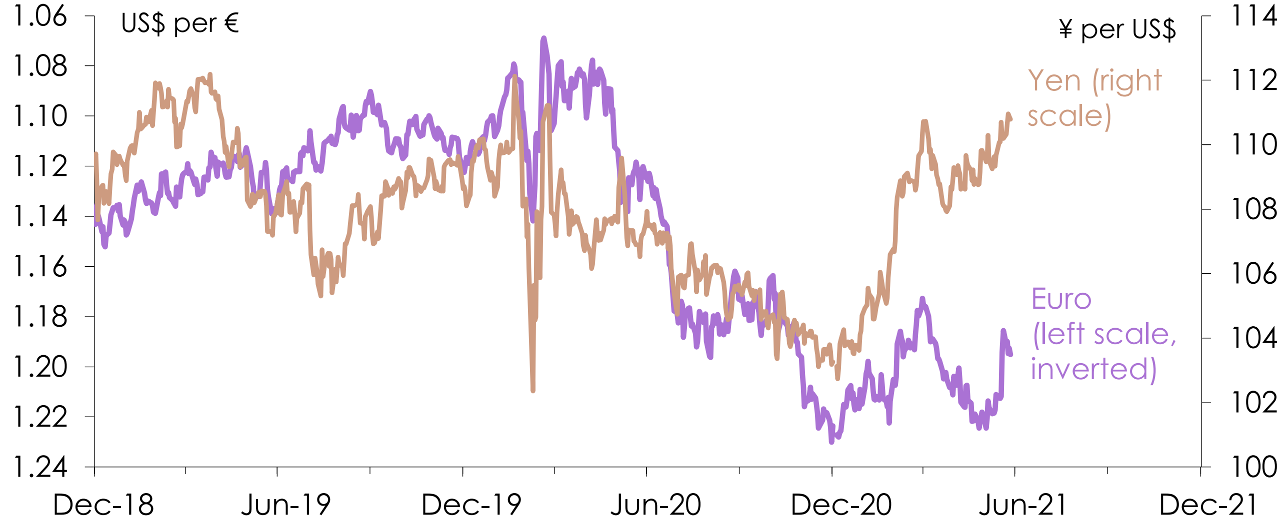
10-year bond yields



Measures of market volatility



US dollar vs euro and yen



Source: Refinitiv Datastream. Data up to 25th June. For charts on commodity prices see slide 119. Return to "What's New".

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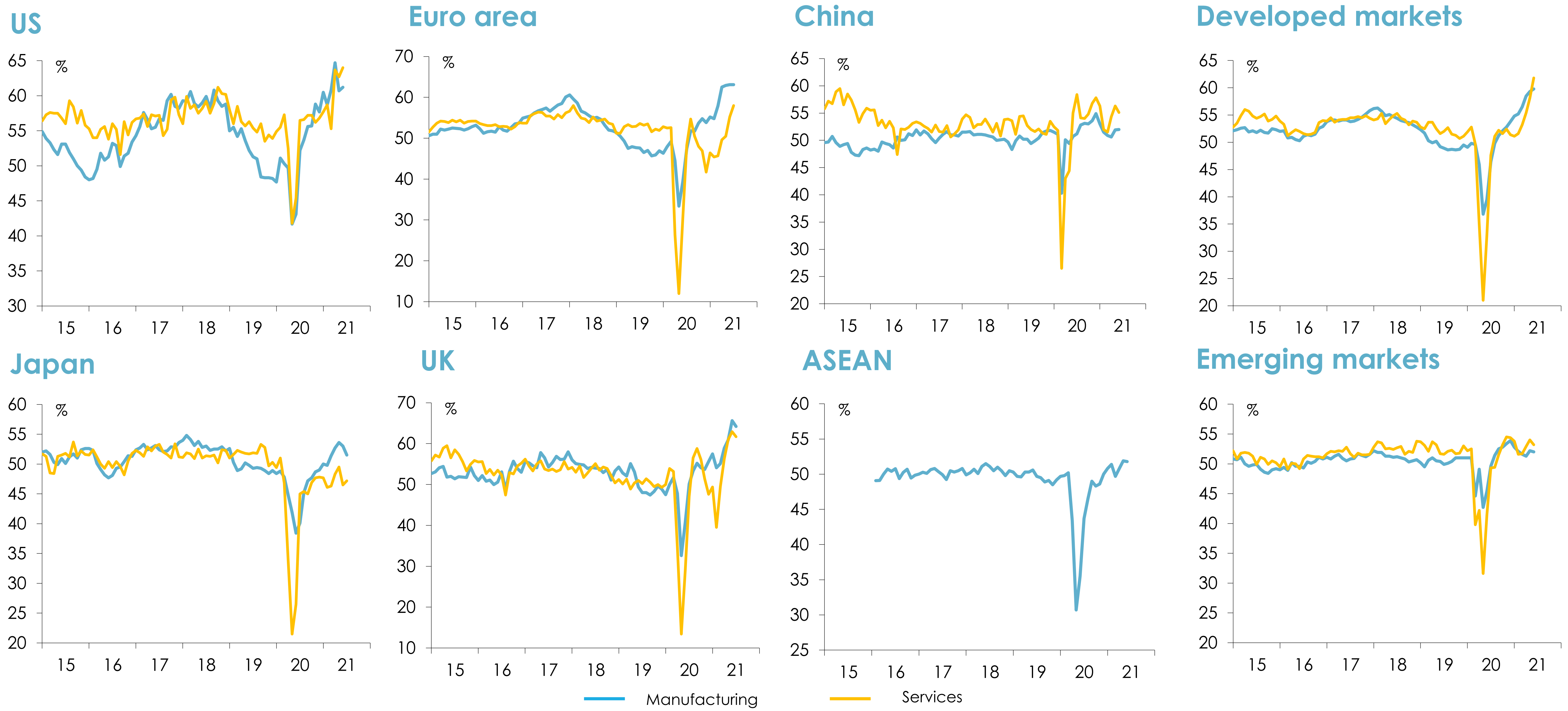
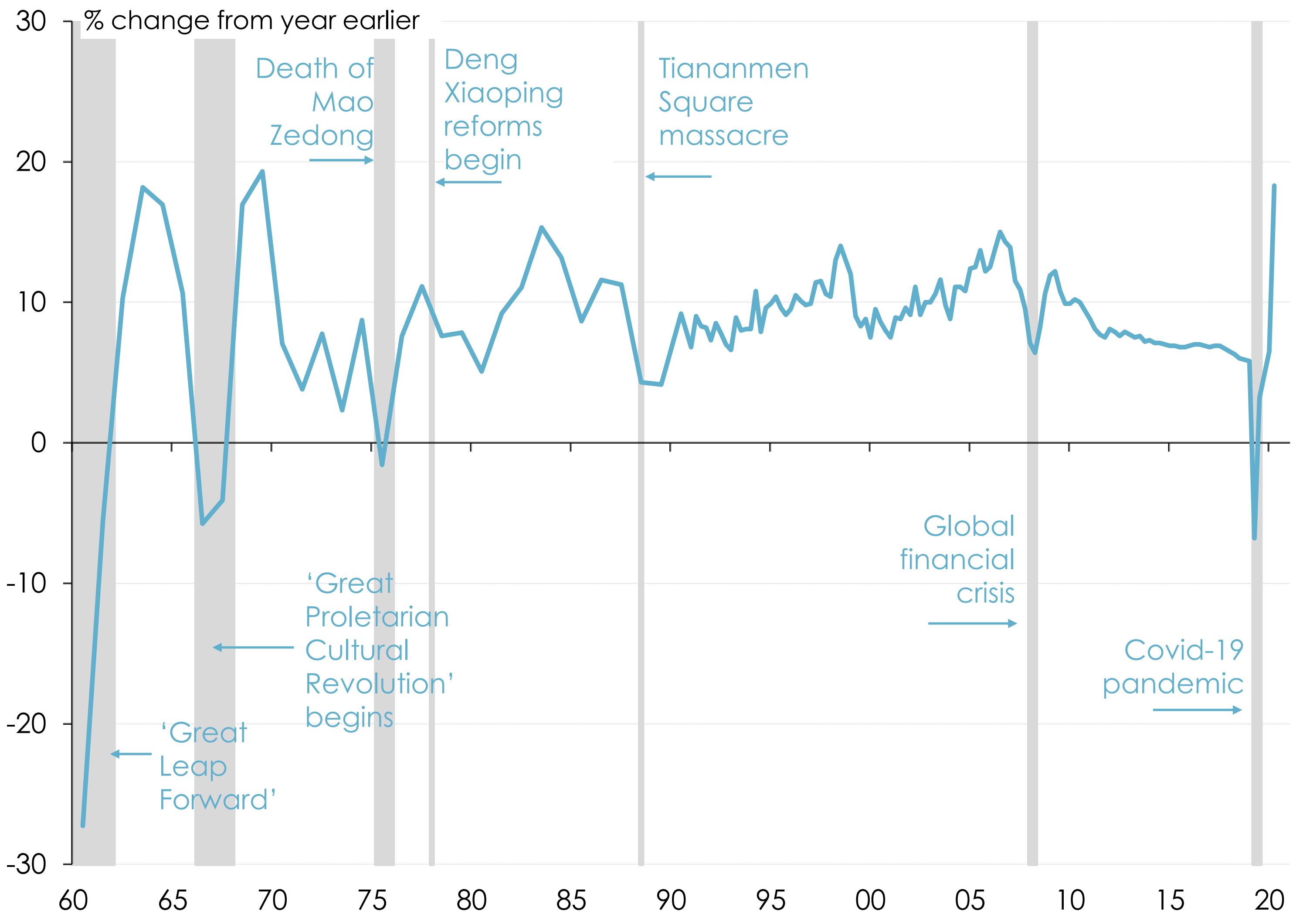
Preliminary June PMIs for Japan, euro area and UK suggest manufacturing still strong though slightly less so than in May



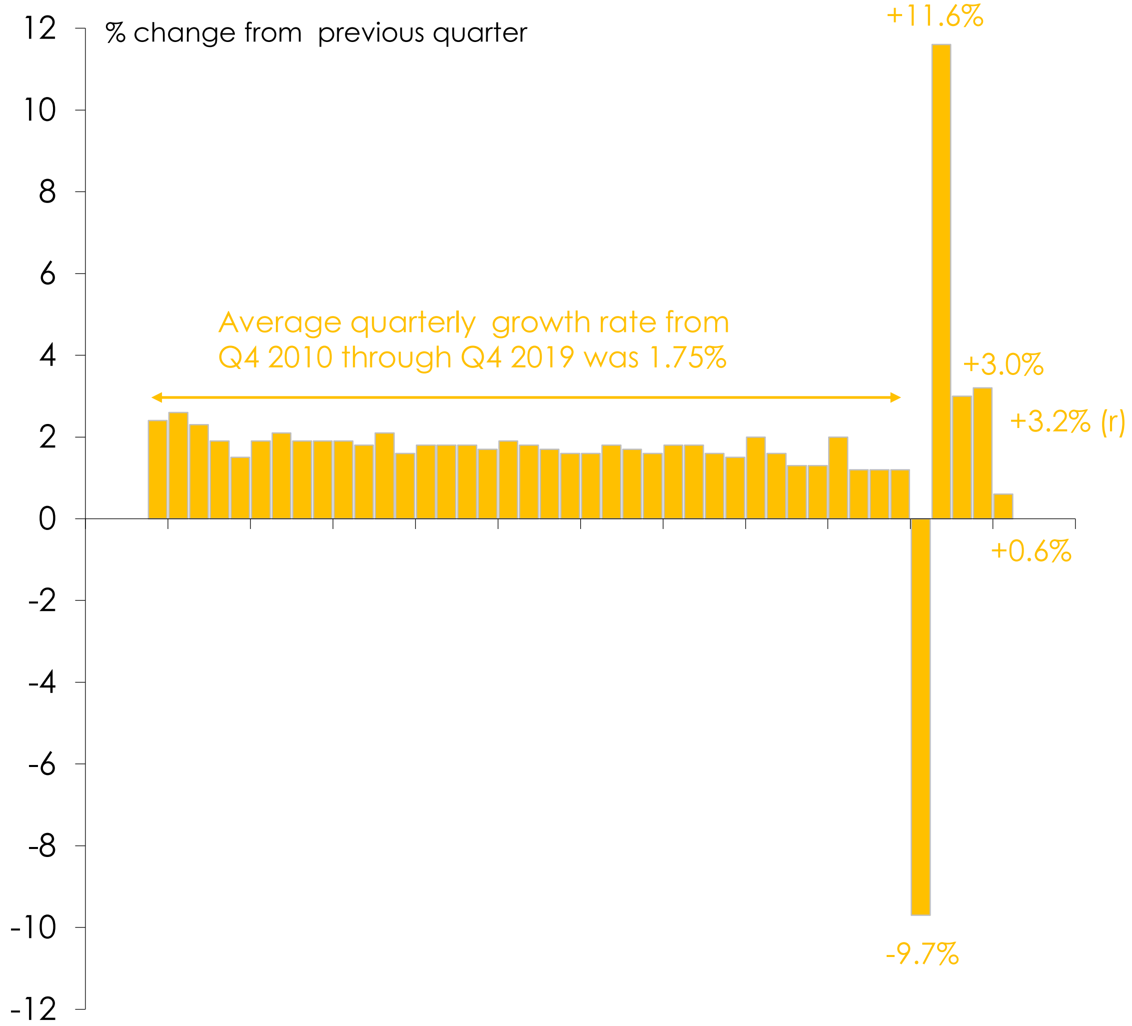
Note: Purchasing Managers' Indexes (PMIs) are derived from surveys of senior executives, who are asked to report whether various dimensions of business activity recorded an increase, decrease or no change compared with the previous month. A reading of 50 indicates an overall increase cf. the previous month, and a reading of less than 50 indicates a decrease. Latest date for Japan, Euro area and UK are preliminary June; others are May. See also PMIs for other Asia-Pacific economies on slide 53. Sources: US Institute for Supply Management; IHS Markit; JP Morgan; Caixin; Refinitiv Datastream. Return to "What's New".

China'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



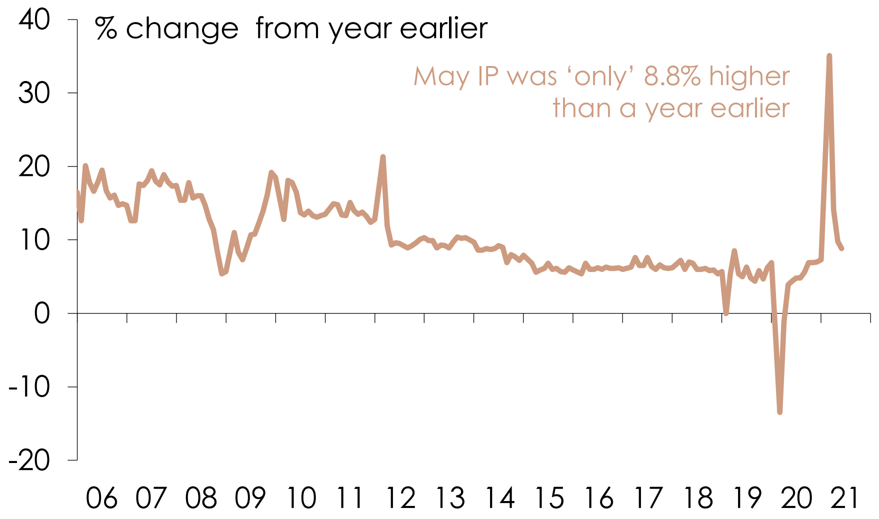
Quarterly real GDP growth, 2010-2020



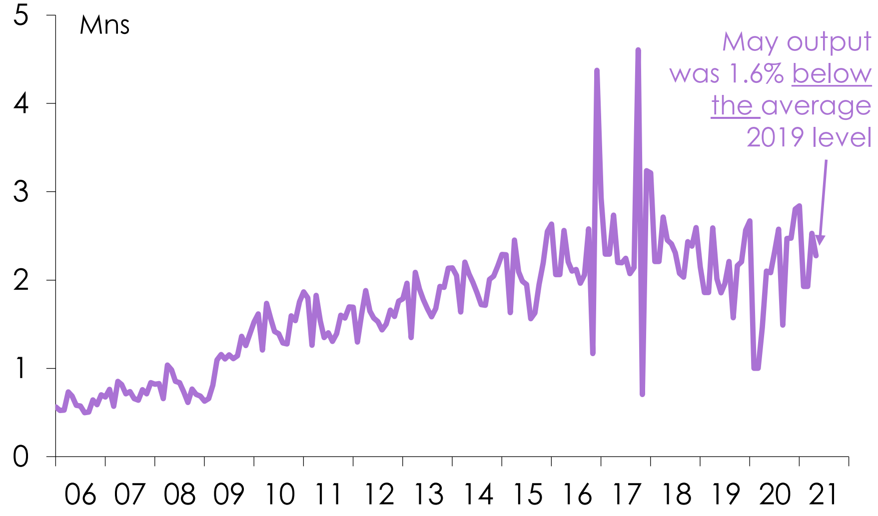
Note: In the left-hand chart, GDP growth rates are annual averages up to the December quarter of 1991, and then quarter-on-corresponding-quarter-of-previous-year thereafter. *Sources:* China National Bureau of Statistics. Return to "What's New".

China's activity data for May were affected by power shortages and a Covid out-break in Guangdong but the underlying trend is also softening

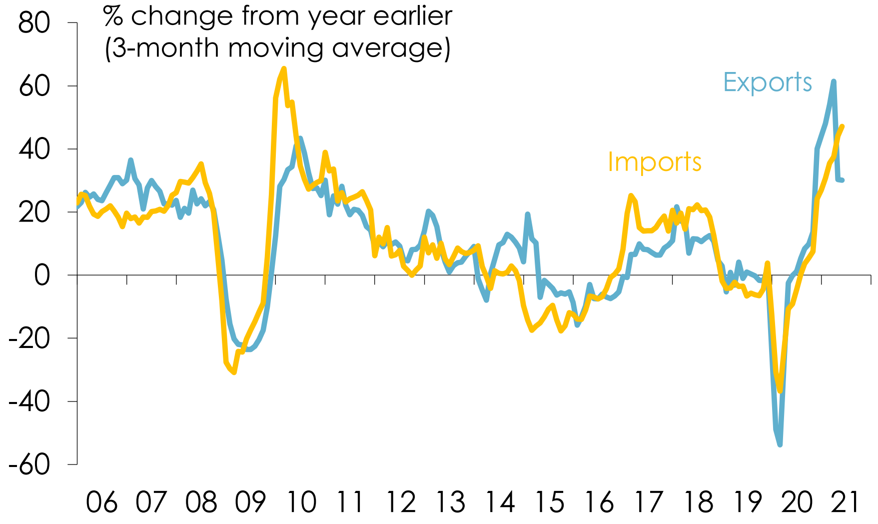
Industrial production



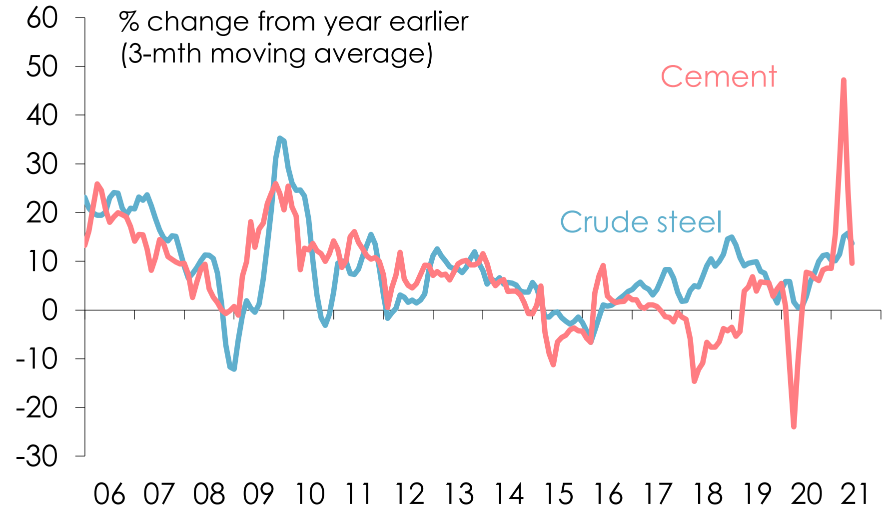
Motor vehicle production



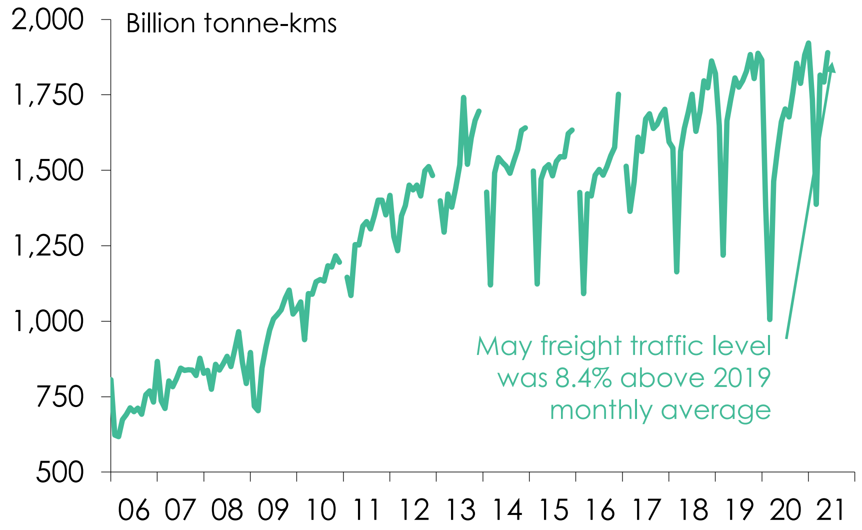
Merchandise trade



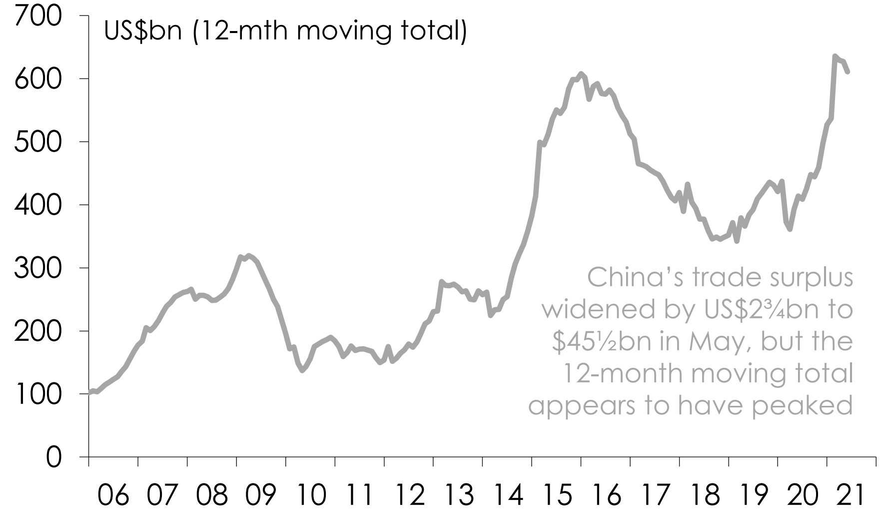
Steel and cement production



Freight traffic volumes



Merchandise trade balance



Note: Latest data are for May. *Sources*: China National Bureau of Statistics; China Association of Automobile Manufacturers; China General Administration of Customs.
[Return to "What's New"](#).

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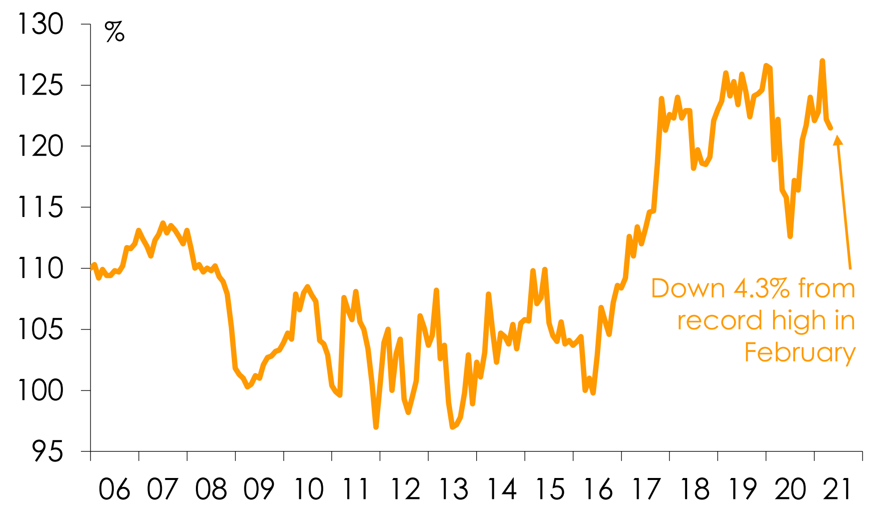
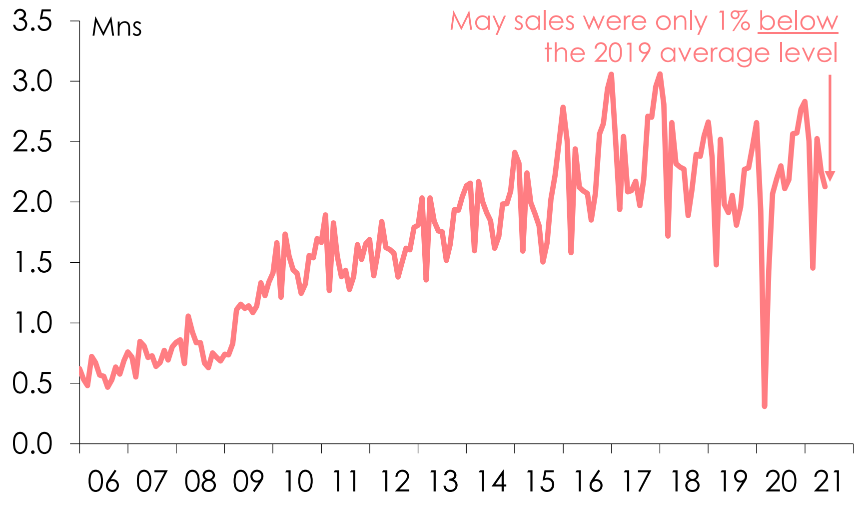
The Guangdong outbreak also had some impact on the 'demand side' in May, but the recovery in demand remains soft in a 'fundamental' sense

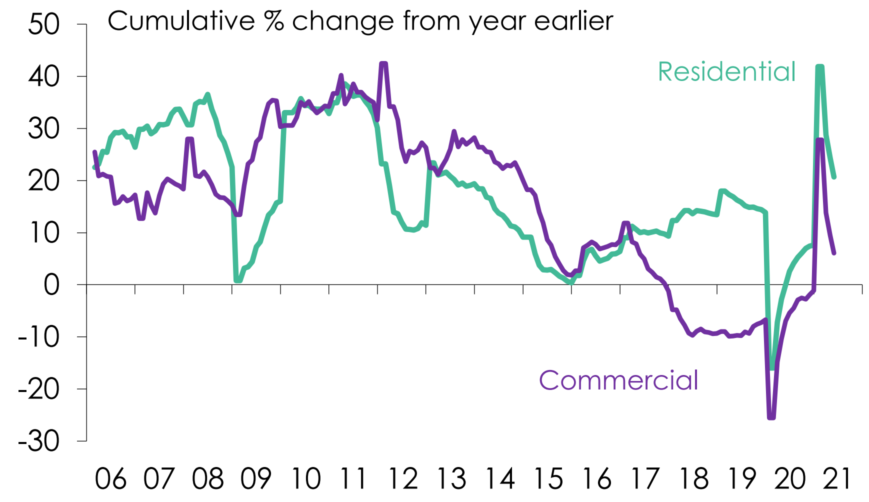
Consumer sentiment



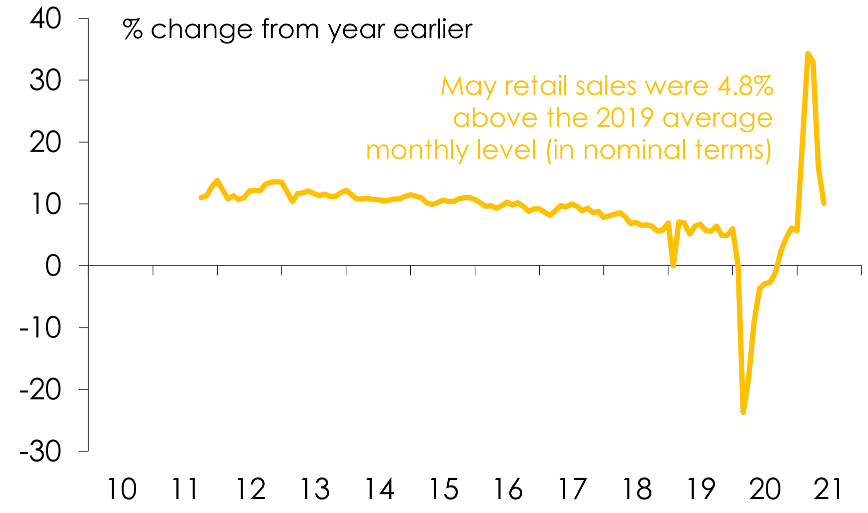
Motor vehicle sales



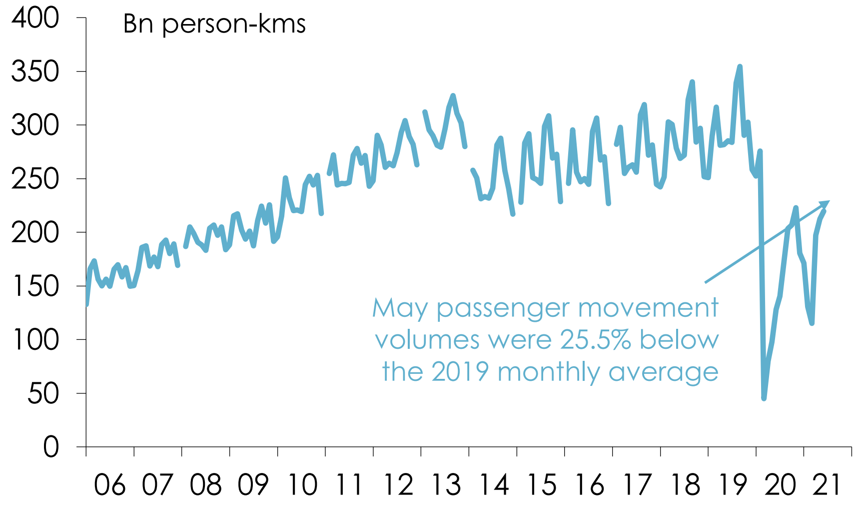
Real estate investment



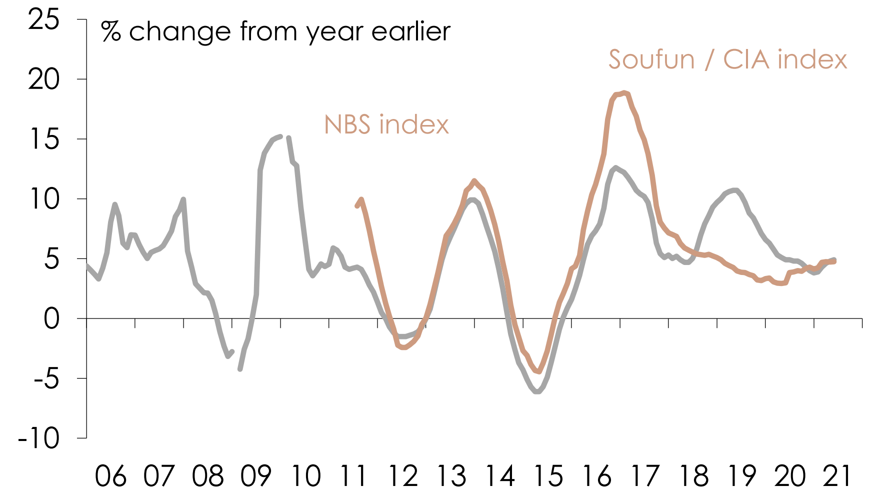
Volume of retail sales



Passenger traffic volumes



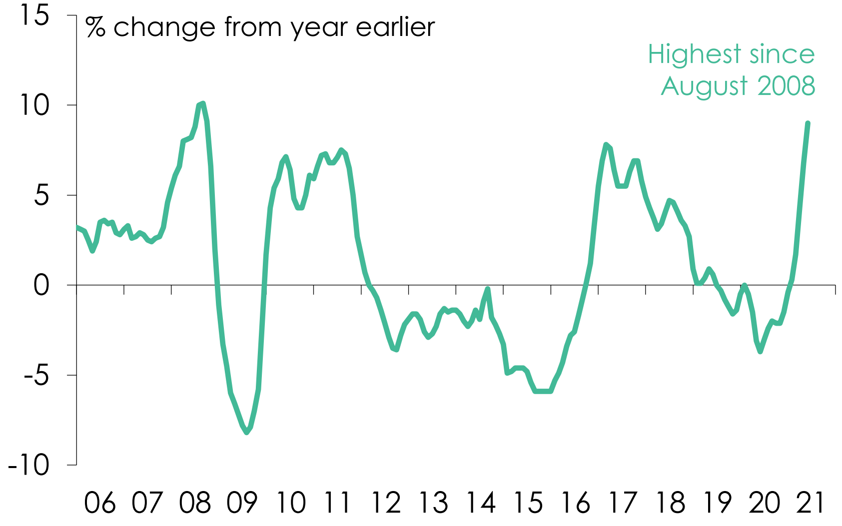
Residential real estate prices



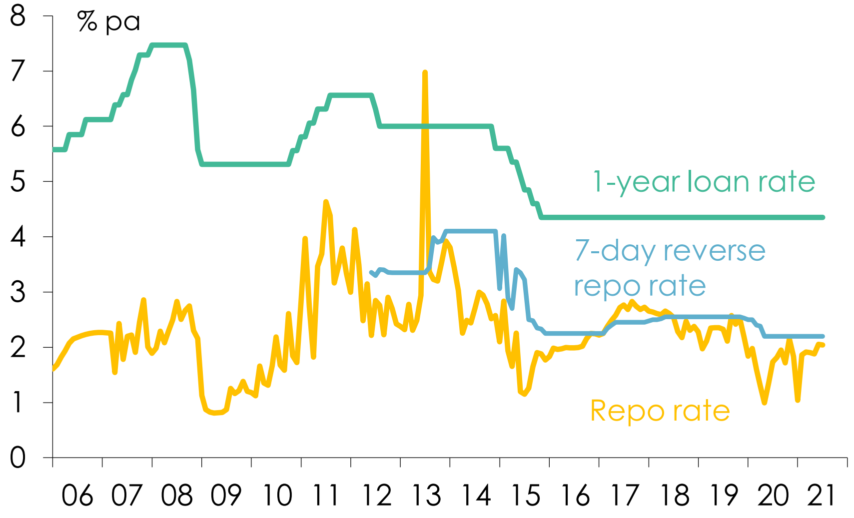
Sources: China National Bureau of Statistics (NBS); China Association of Automobile Manufacturers; China Index Academy (CIA). Latest data are for May. Return to "What's New".

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

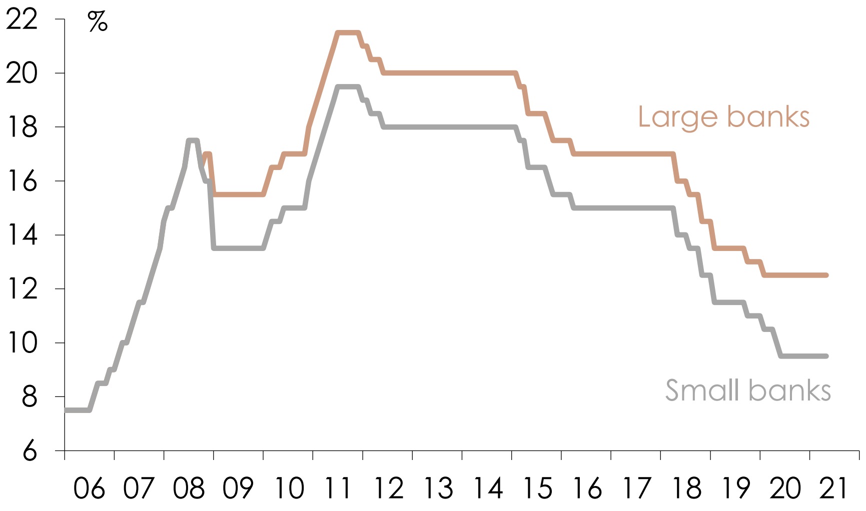
Producer prices



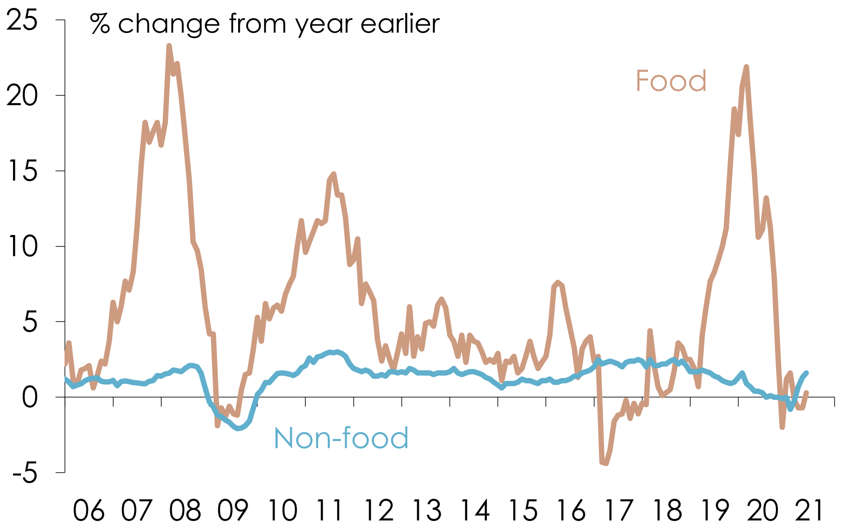
PBoC policy interest rates



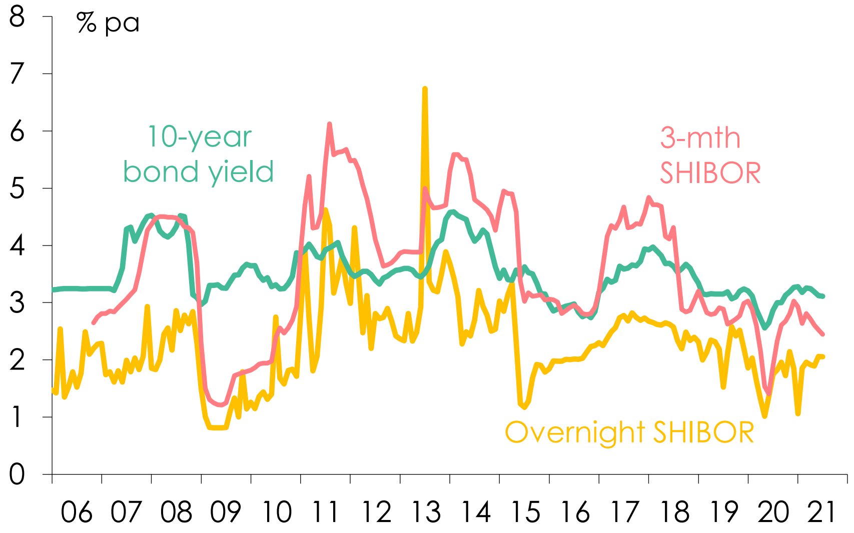
Bank reserve requirement ratios



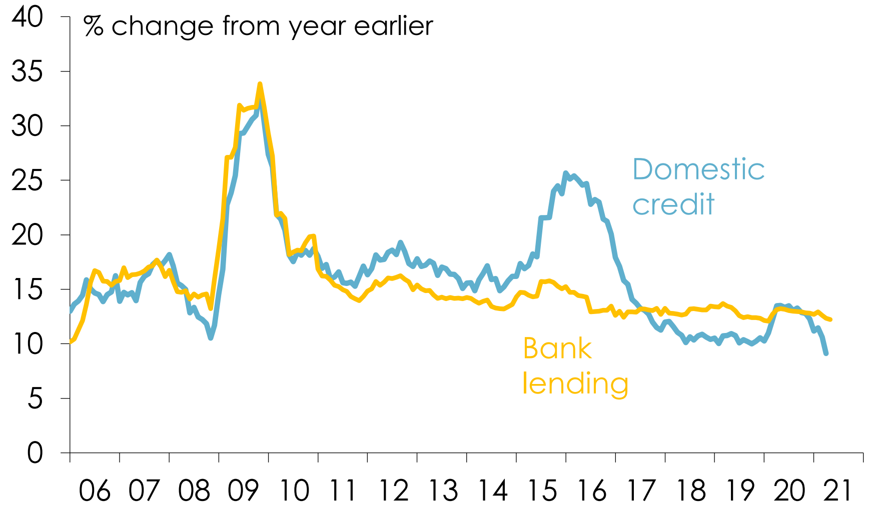
Consumer prices



Market interest rates



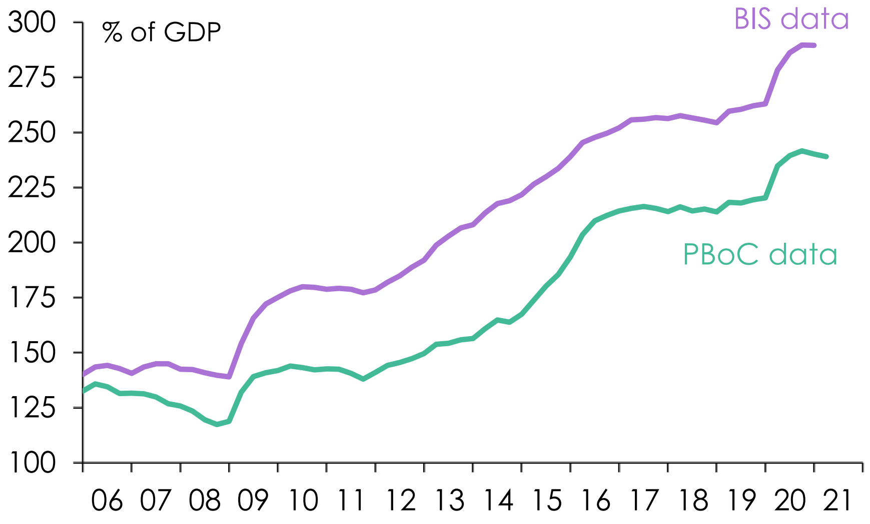
Credit growth



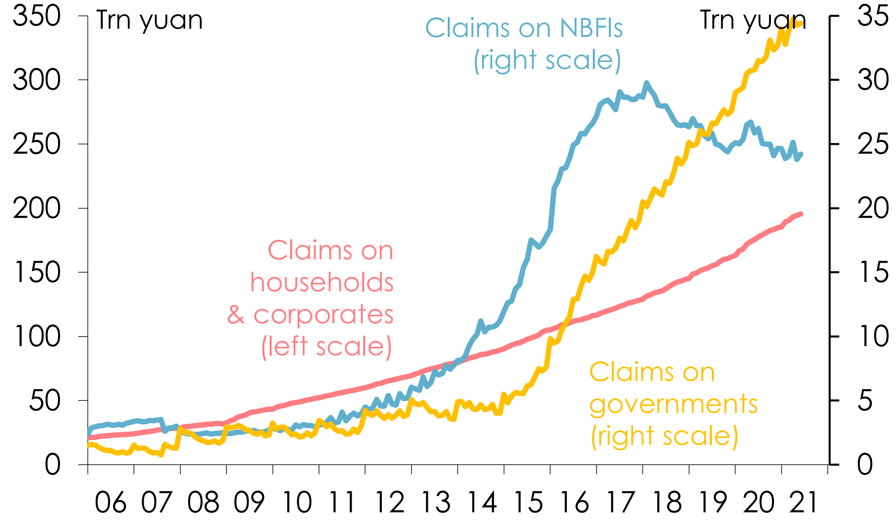
Note: 'SHIBOR' is the Shanghai Inter-Bank Offered Rate.
Sources: China National Bureau of Statistics; Refinitiv Datastream; People's Bank of China. Return to "What's New".

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

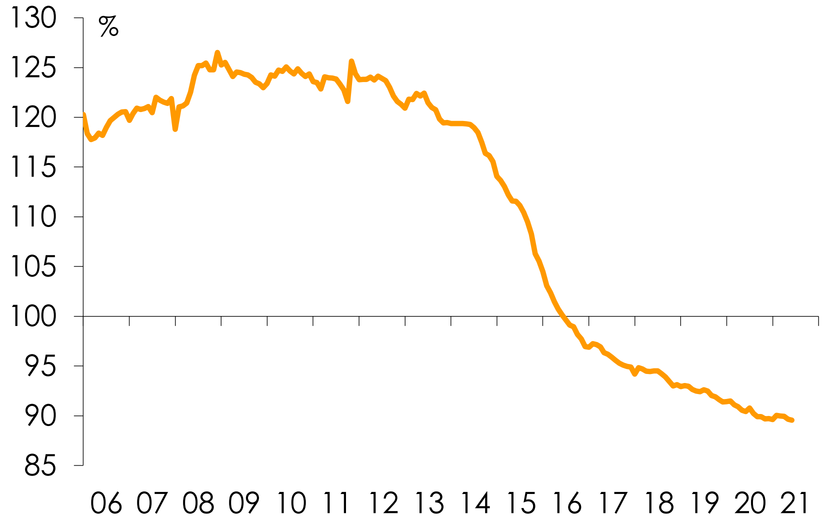
Credit outstanding as a pc of GDP



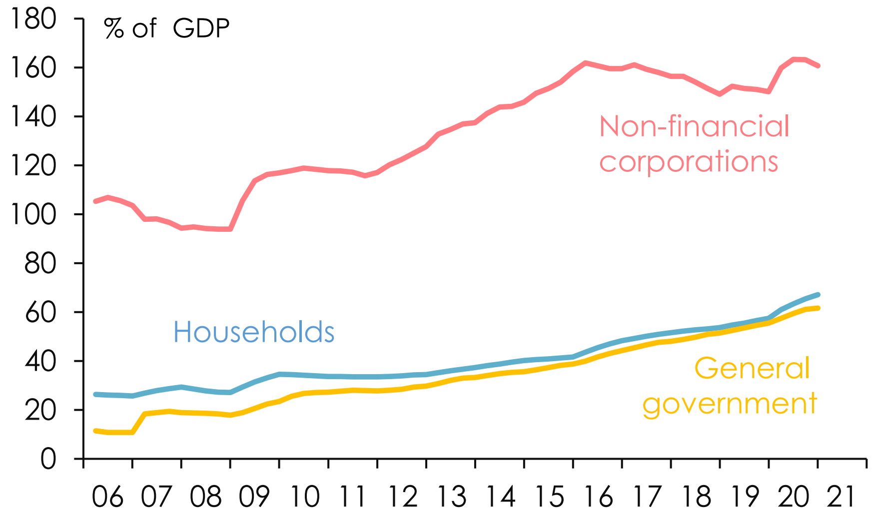
Banks' assets



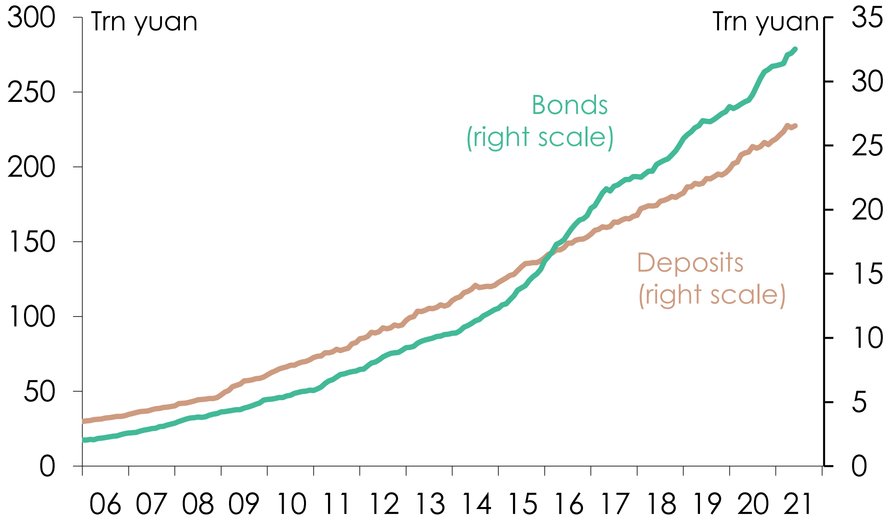
Banks' deposits-to-loans ratio



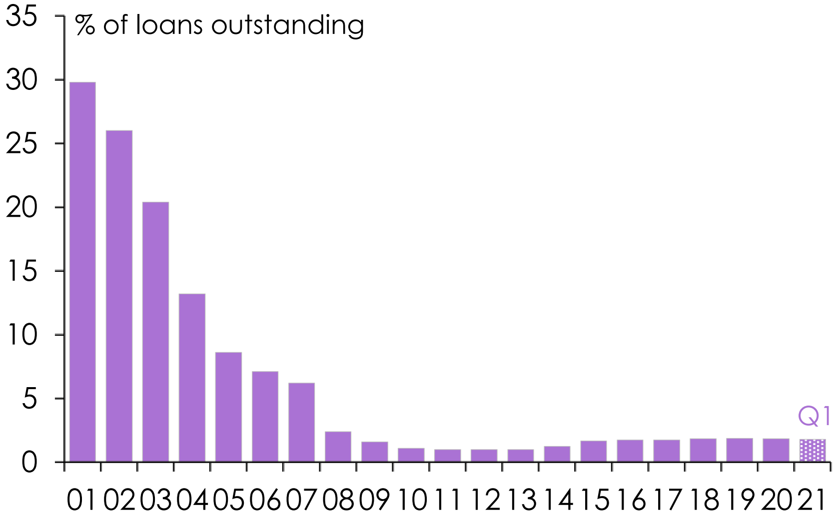
Credit outstanding by sector



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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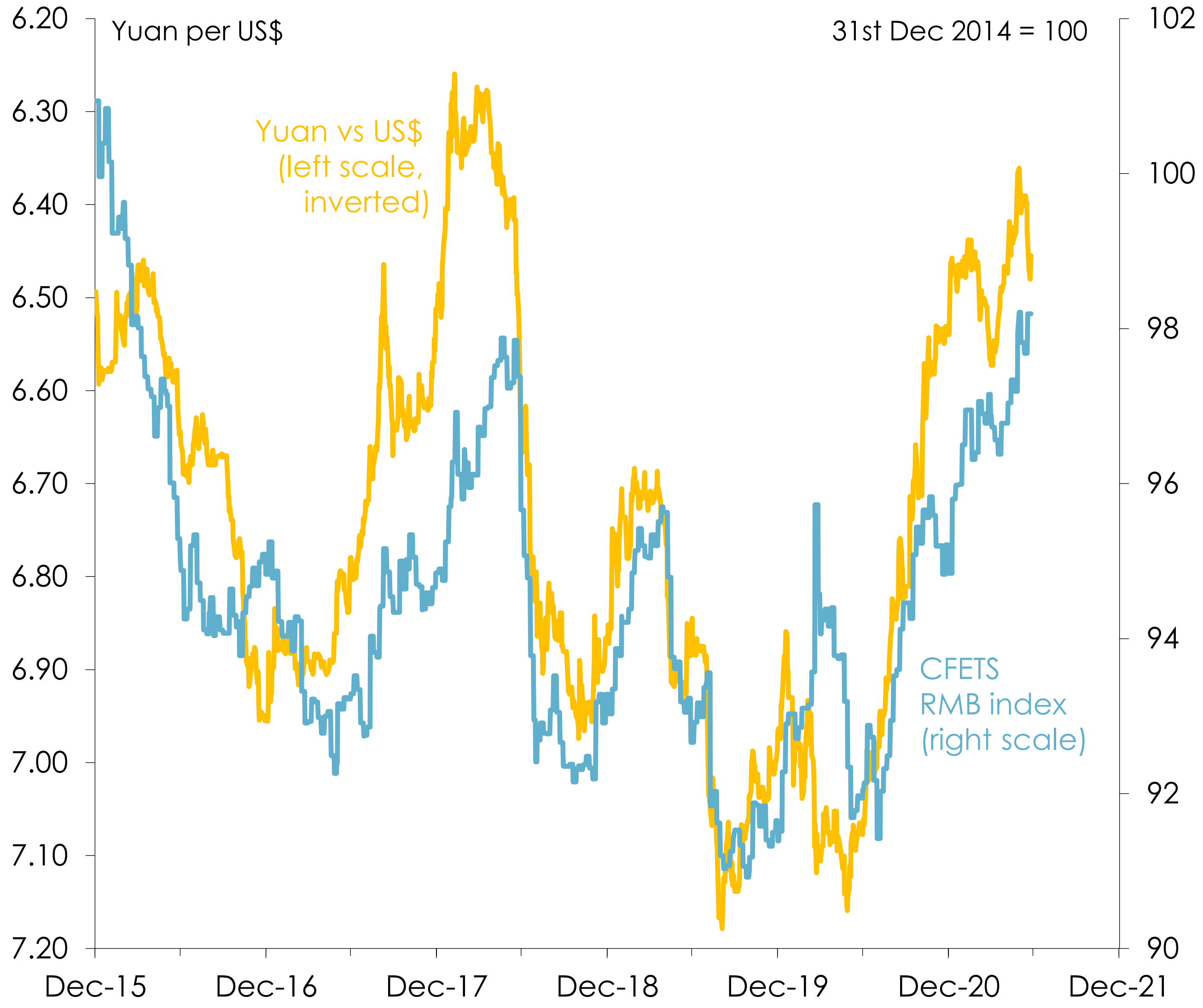
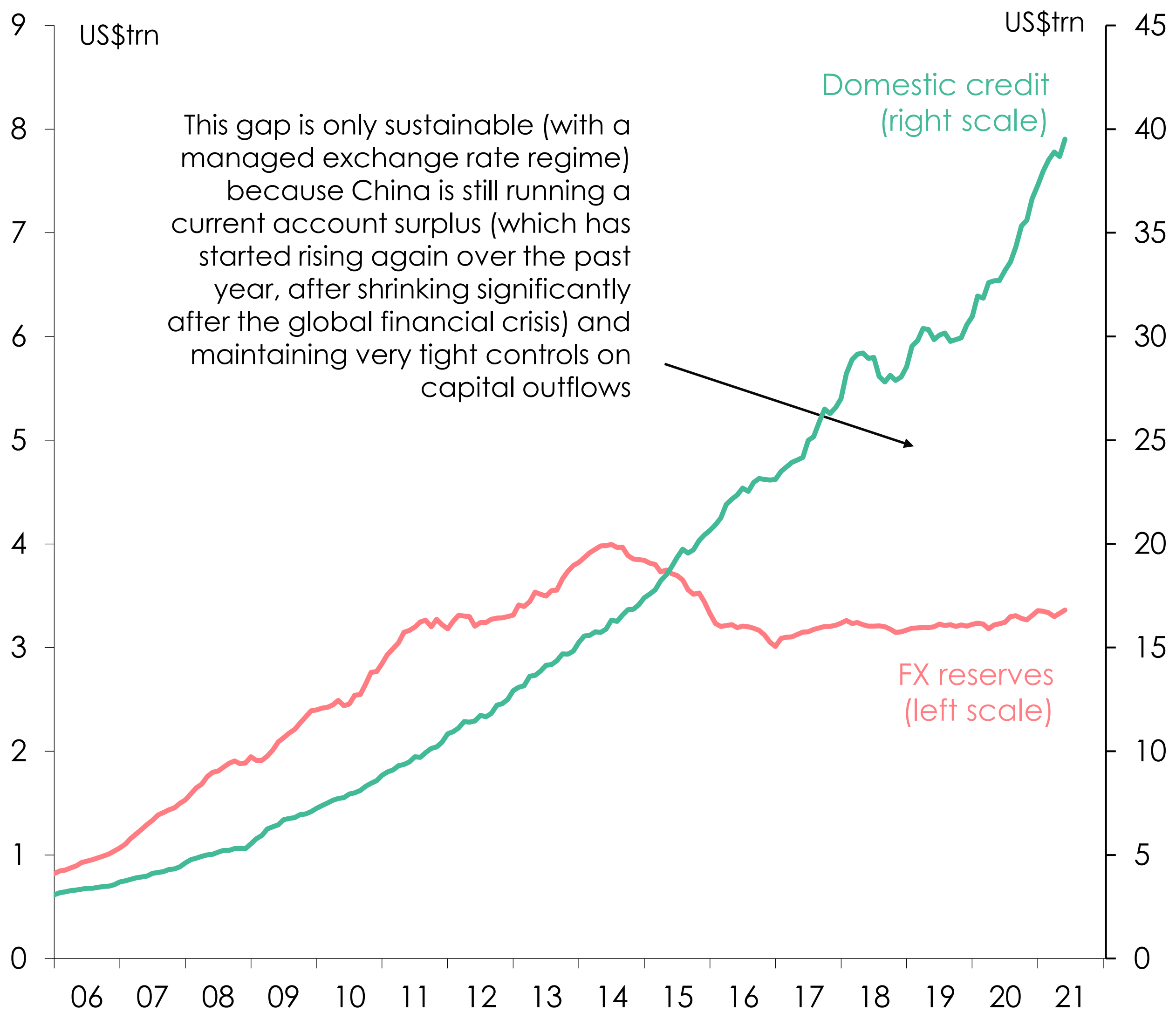
The yuan dropped another 0.2% against the US$ (now down 1½% from end-May peak) but rose 0.5% in trade-weighted terms

Chinese renminbi vs US$ and trade-weighted index



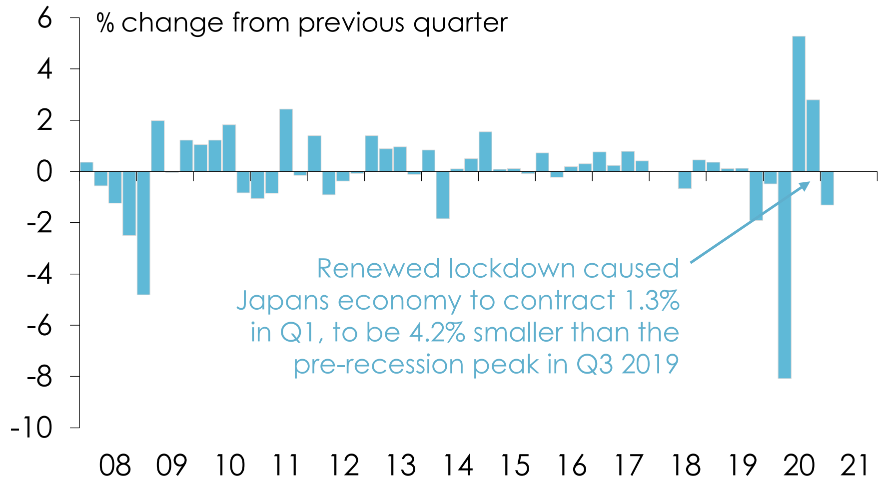
FX reserves and domestic credit



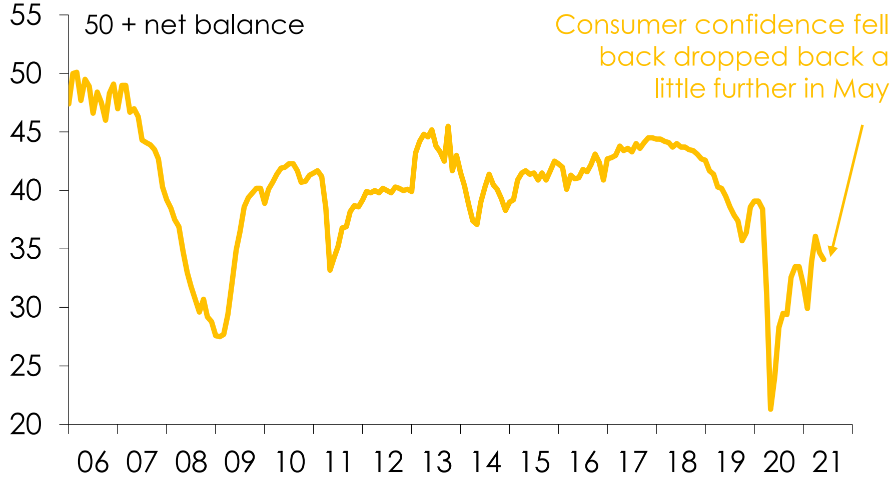
Sources: Refinitiv Datastream; China Foreign Exchange Trading System; People's Bank of China. Exchange rates up to 25th June; FX reserves and credit data up to May. Return to "What's New".

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

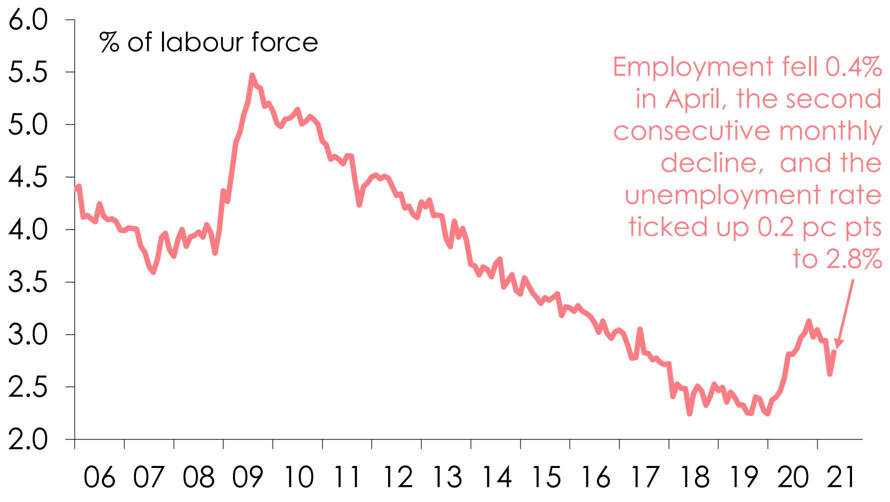
Real GDP



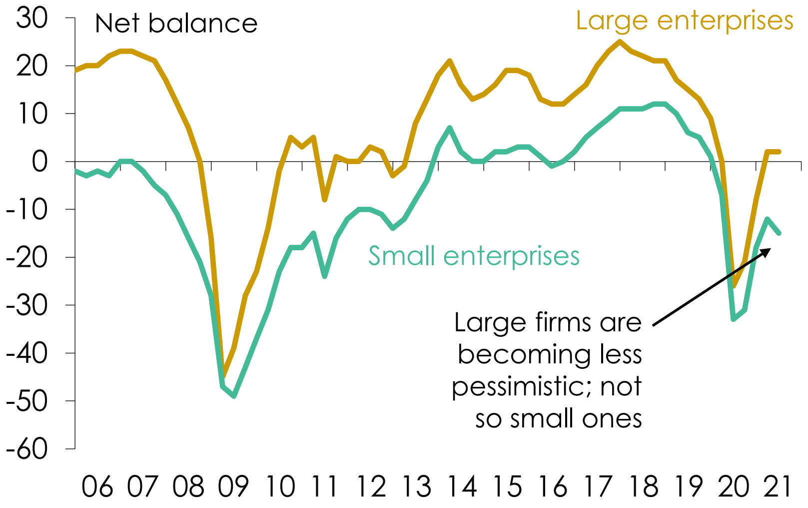
Consumer confidence



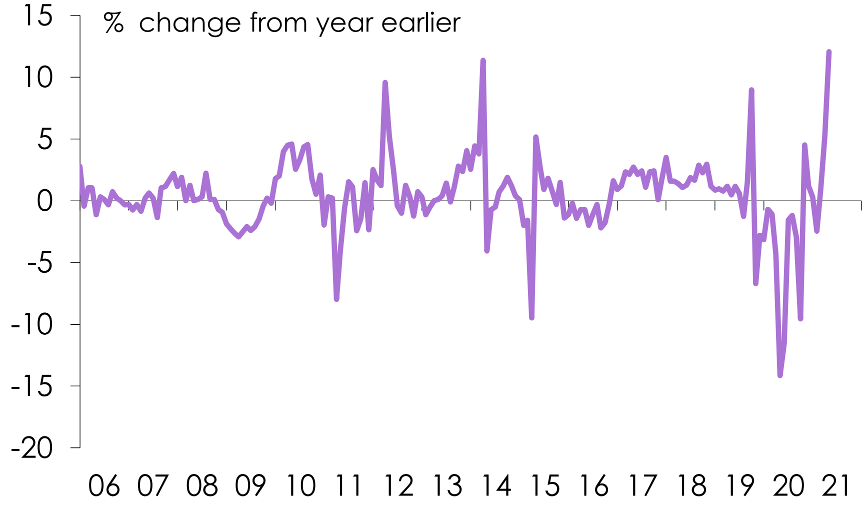
Unemployment



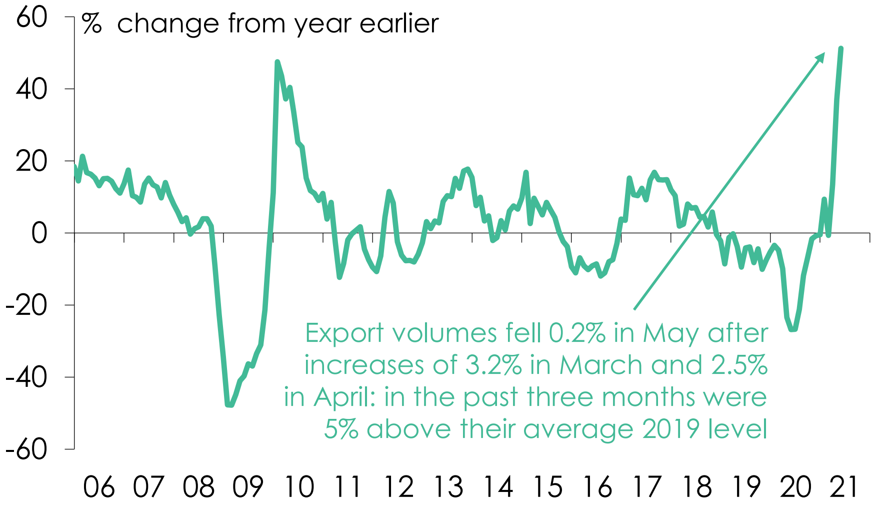
BoJ *Tankan* business conditions



Value of retail sales



Merchandise export volumes



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

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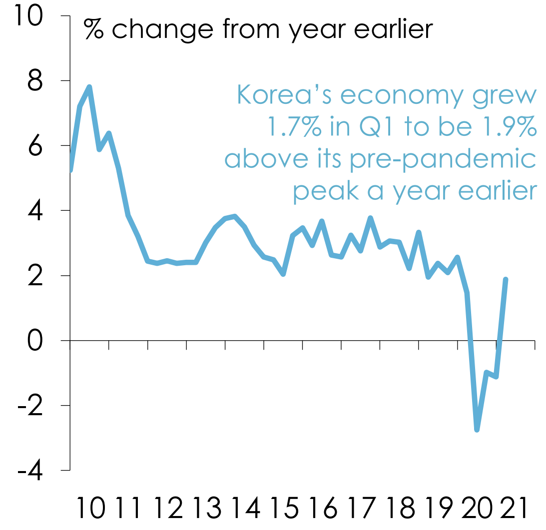
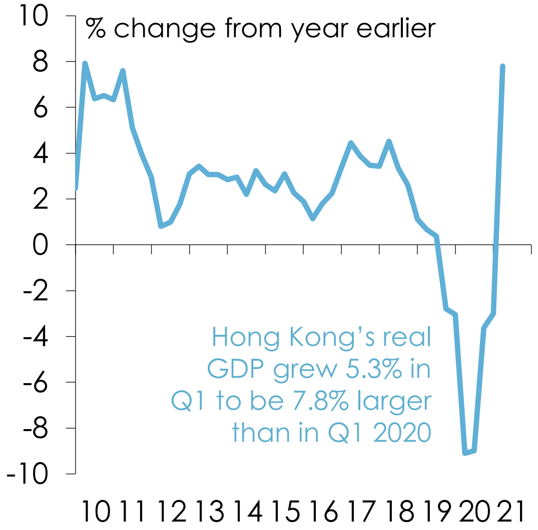
Singapore, Hong Kong, Vietnam, Korea and (especially) Taiwan have surpassed their pre-pandemic levels of real GDP but the others are yet to

Korea

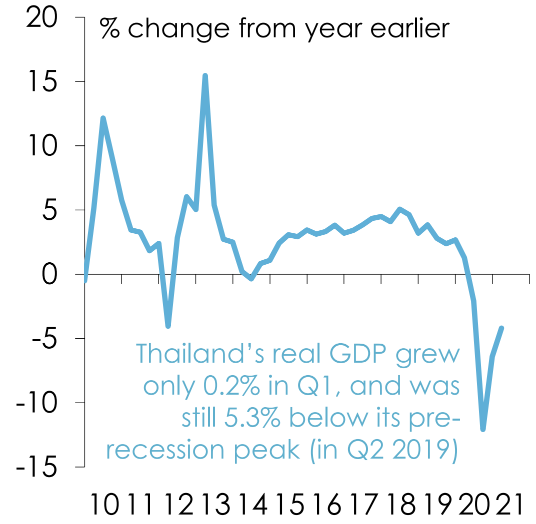


Hong Kong



Indonesia

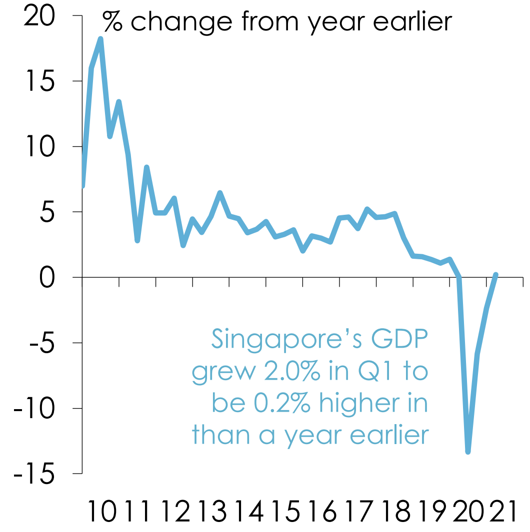
Thailand



Vietnam

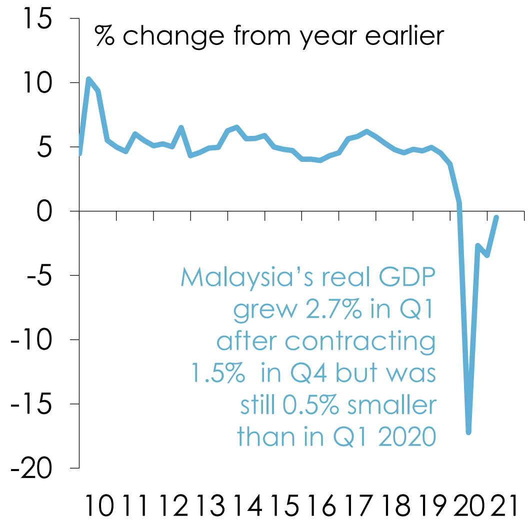
Taiwan

Singapore

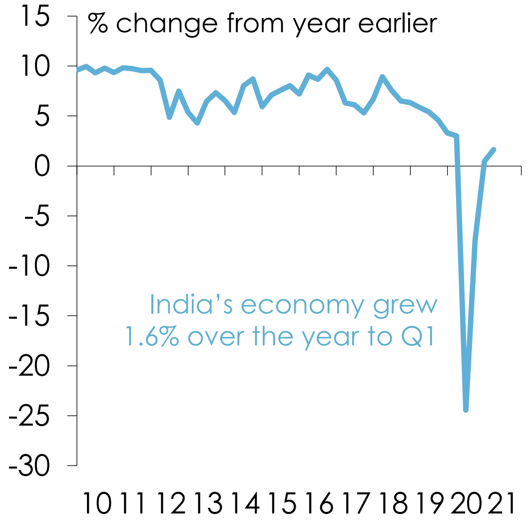


Philippines

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".

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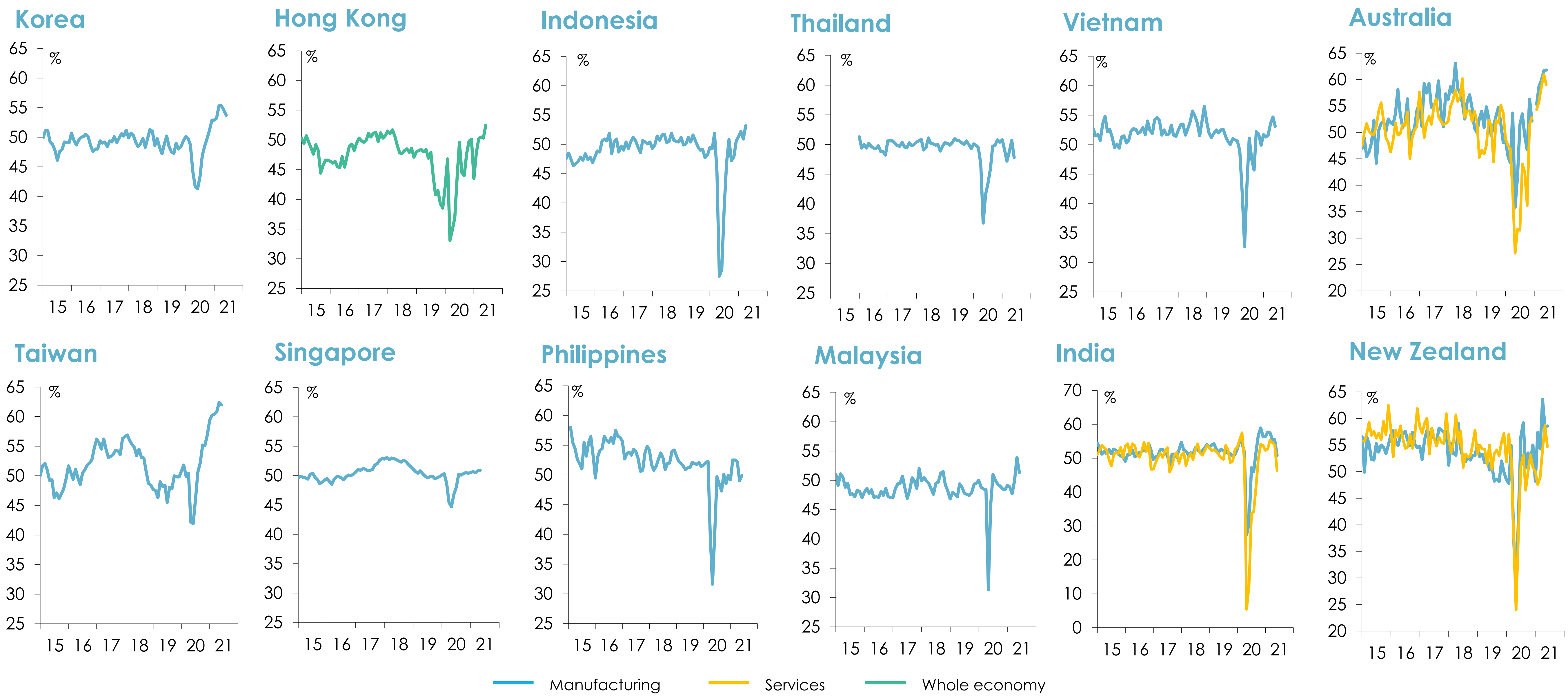
Asian manufacturing PMIs were declined slightly in May but except for Thailand and the Philippines were still consistent with increasing output



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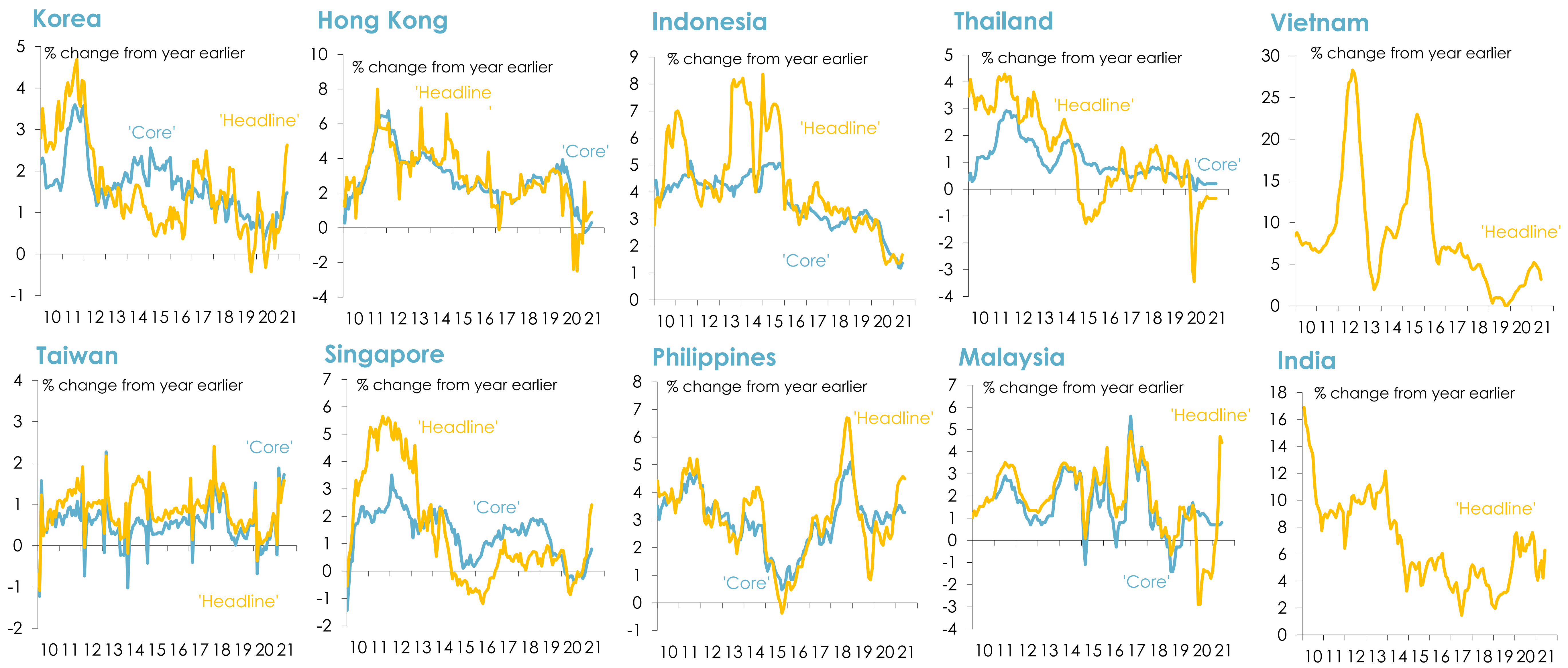
Some (though not all) Asian economies are experiencing temporary upward pressure on inflation as in North America and Europe



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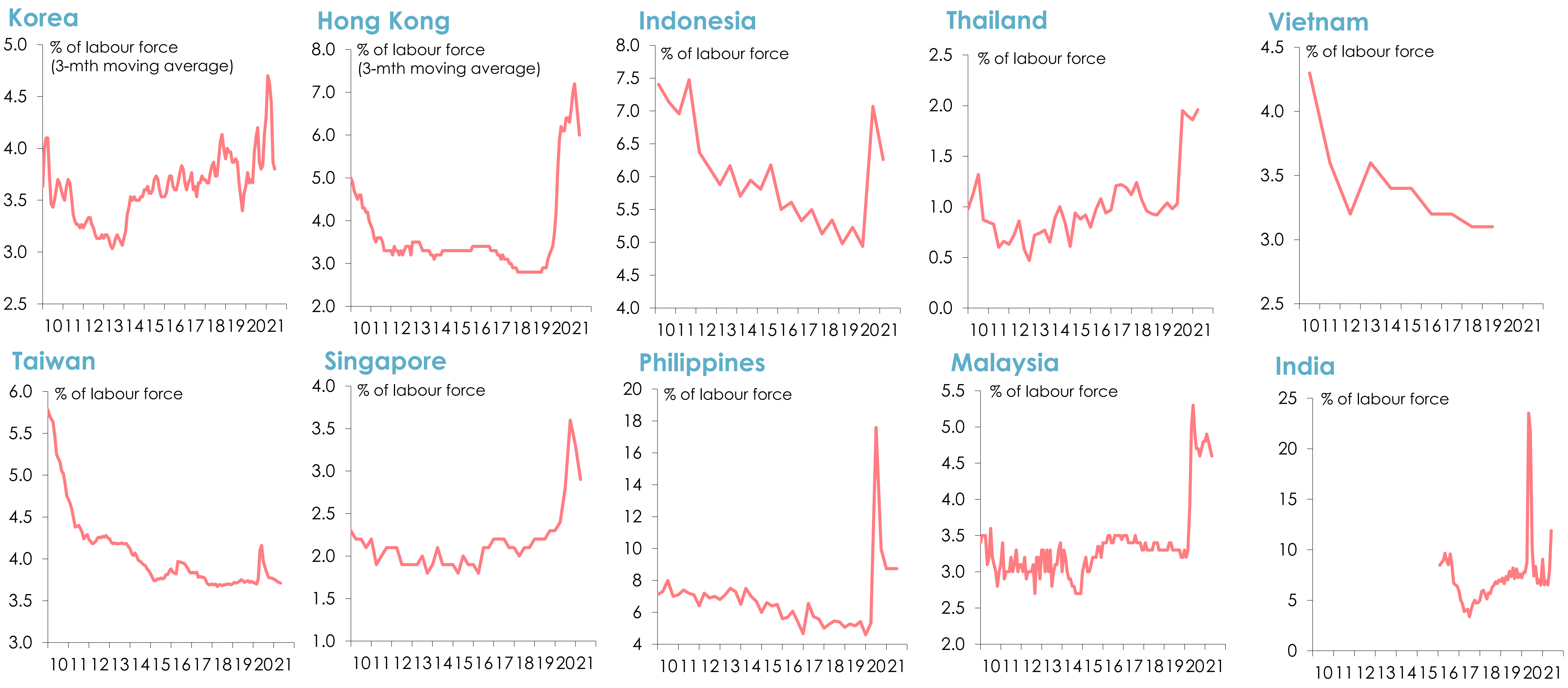
Unemployment rose sharply in most Asian economies last year (except for Taiwan and Thailand) but is now falling in most of them



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

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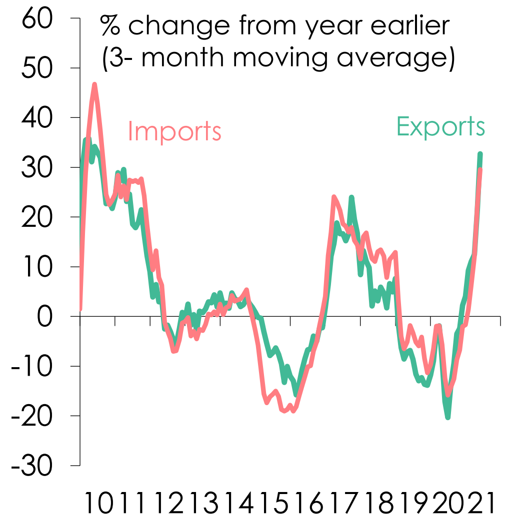
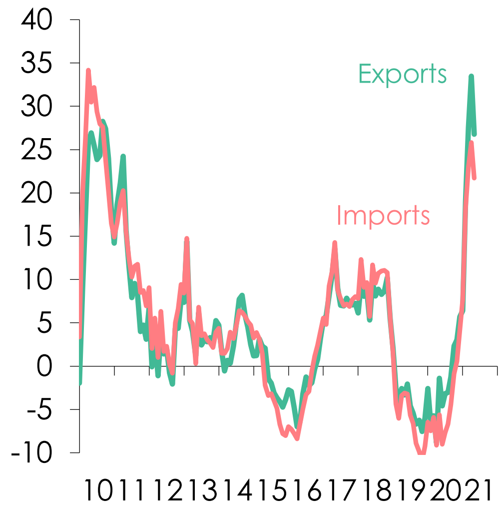
Asian exports are recovering from the Covid-induced slump – although ‘base effects’ from this time last year are inflating the growth

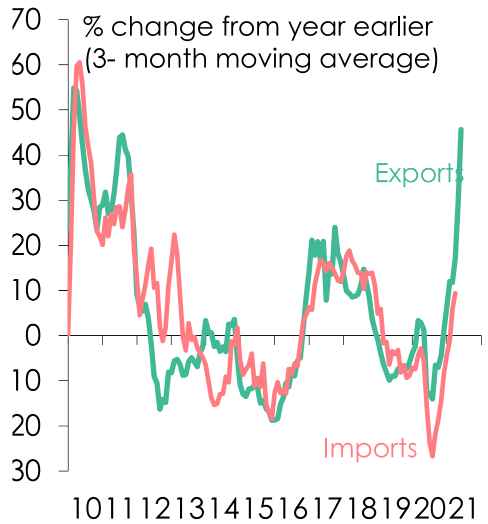
Korea



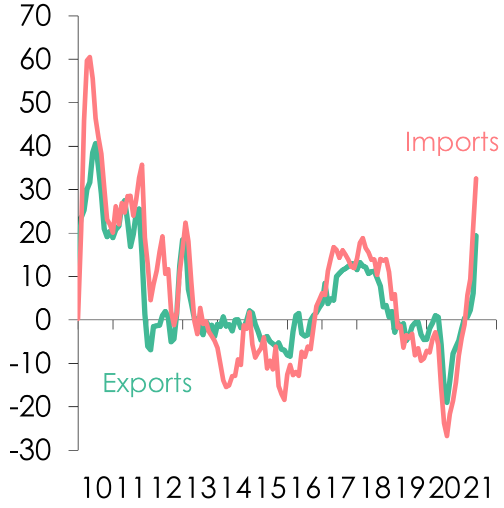
Hong Kong



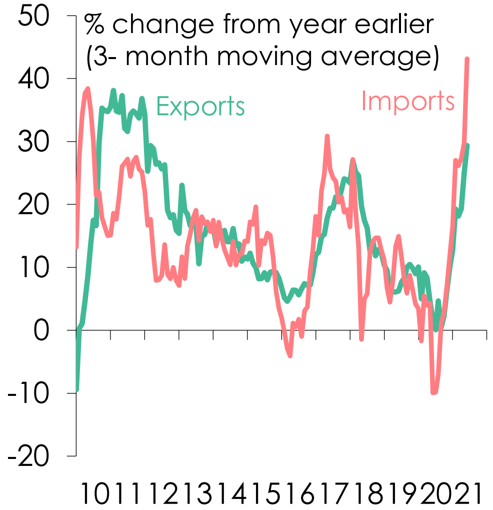
Indonesia



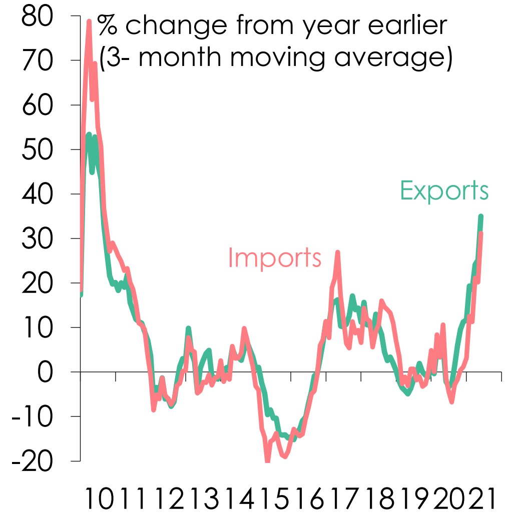
Thailand



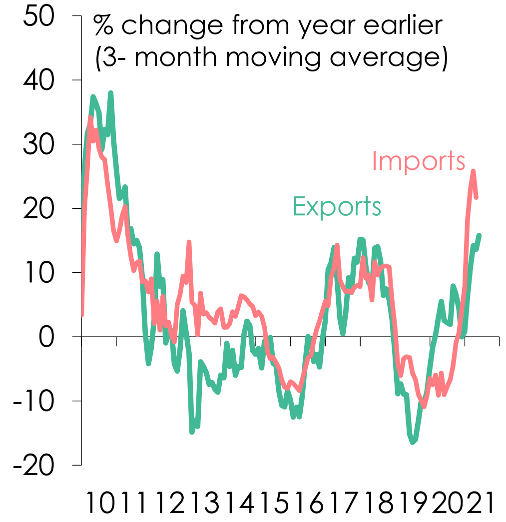
Vietnam



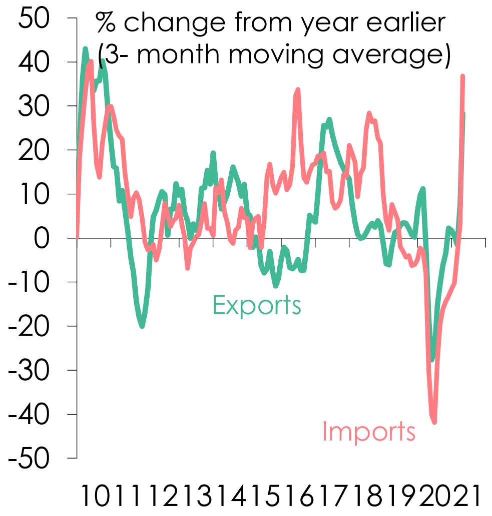
Taiwan



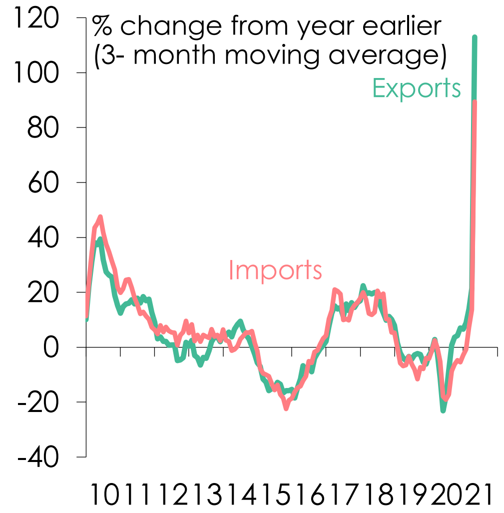
Singapore



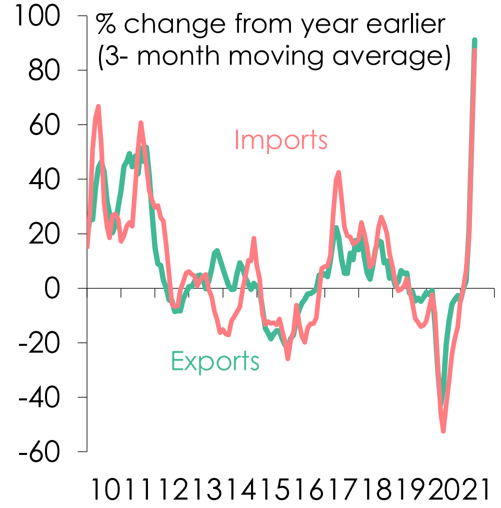
Philippines



Malaysia



India



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

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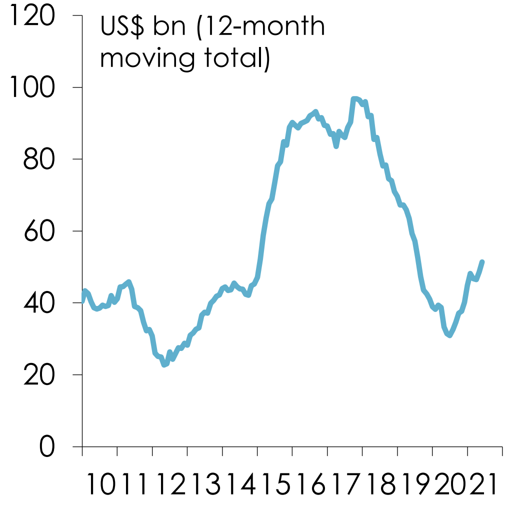
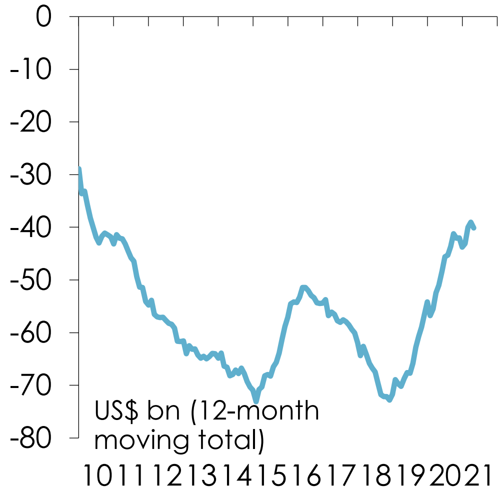
All Asian economies have experienced improvements in their trade balances since the onset of Covid, although some are now turning around

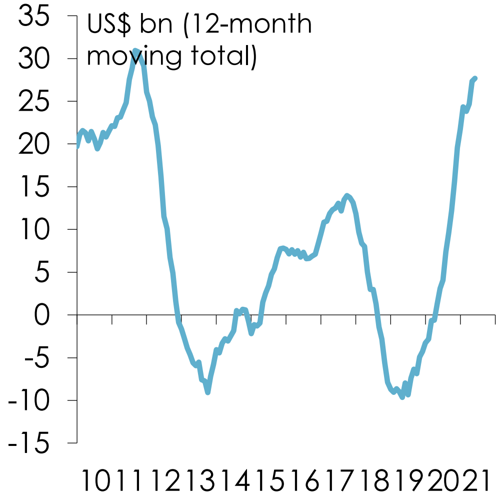
Korea



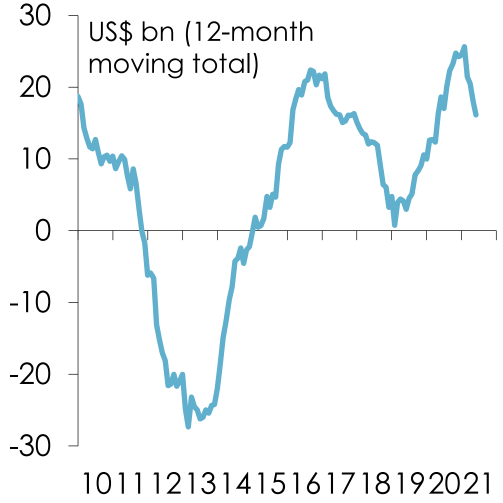
Hong Kong



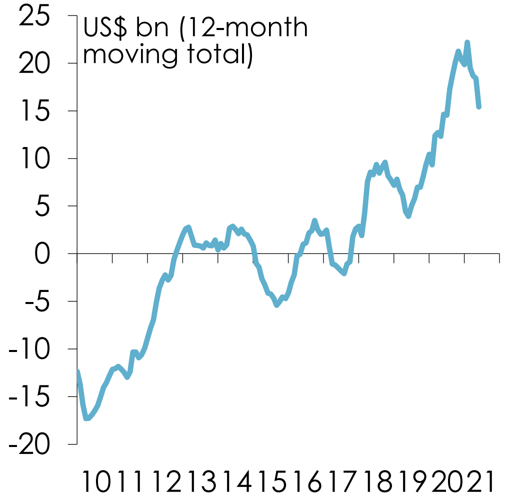
Indonesia



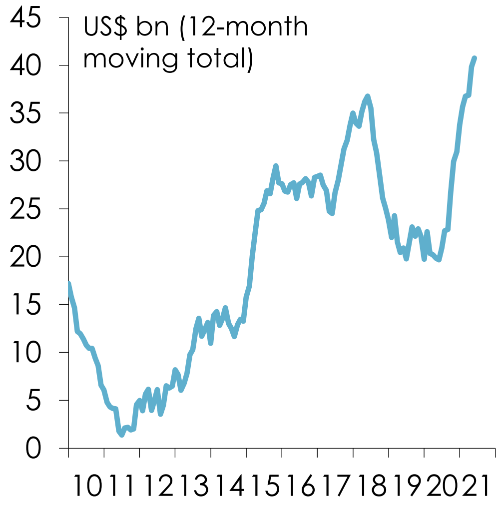
Thailand



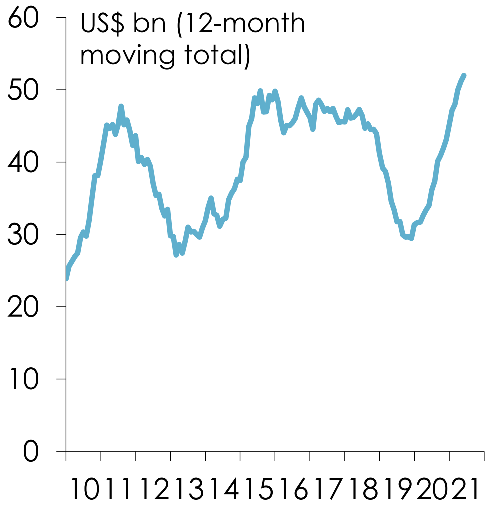
Vietnam



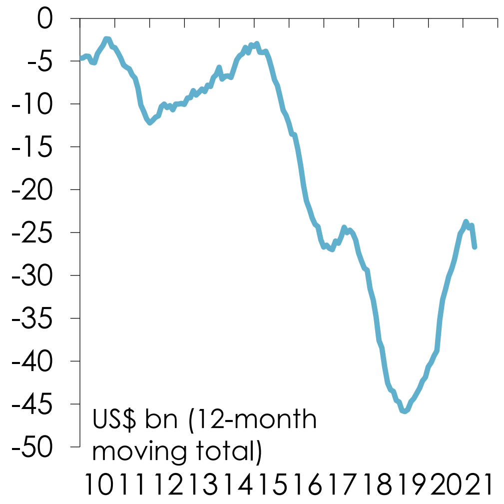
Taiwan



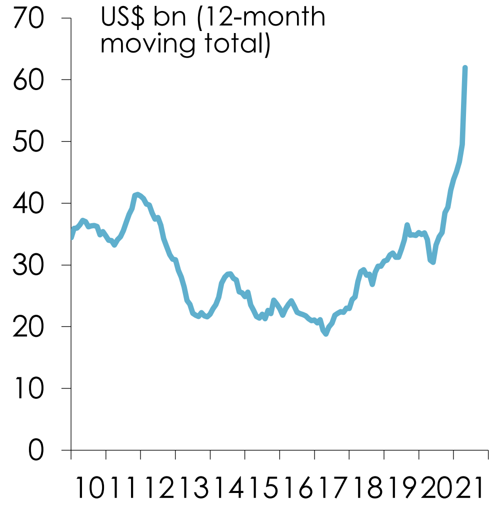
Singapore



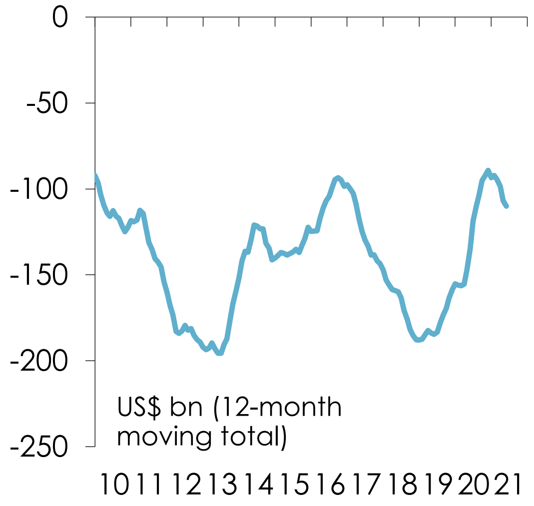
Philippines



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".

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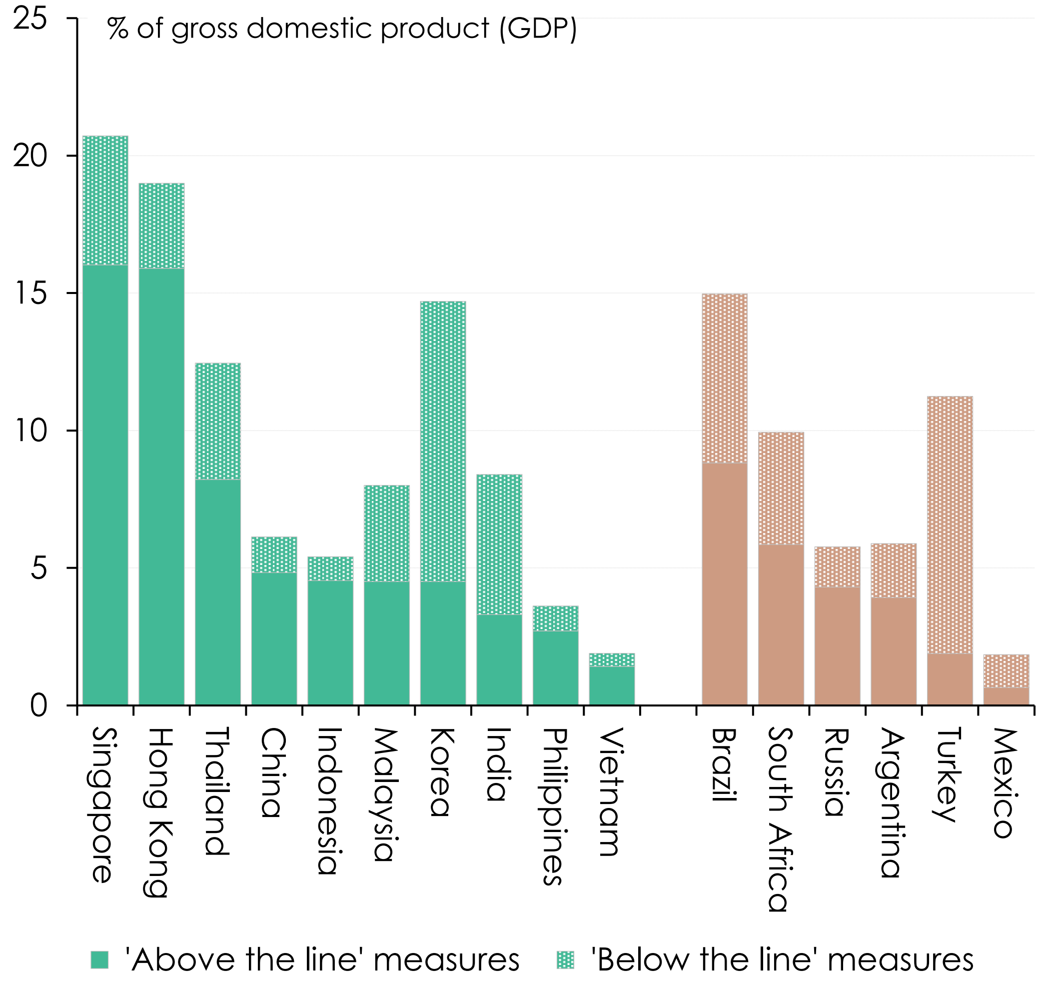
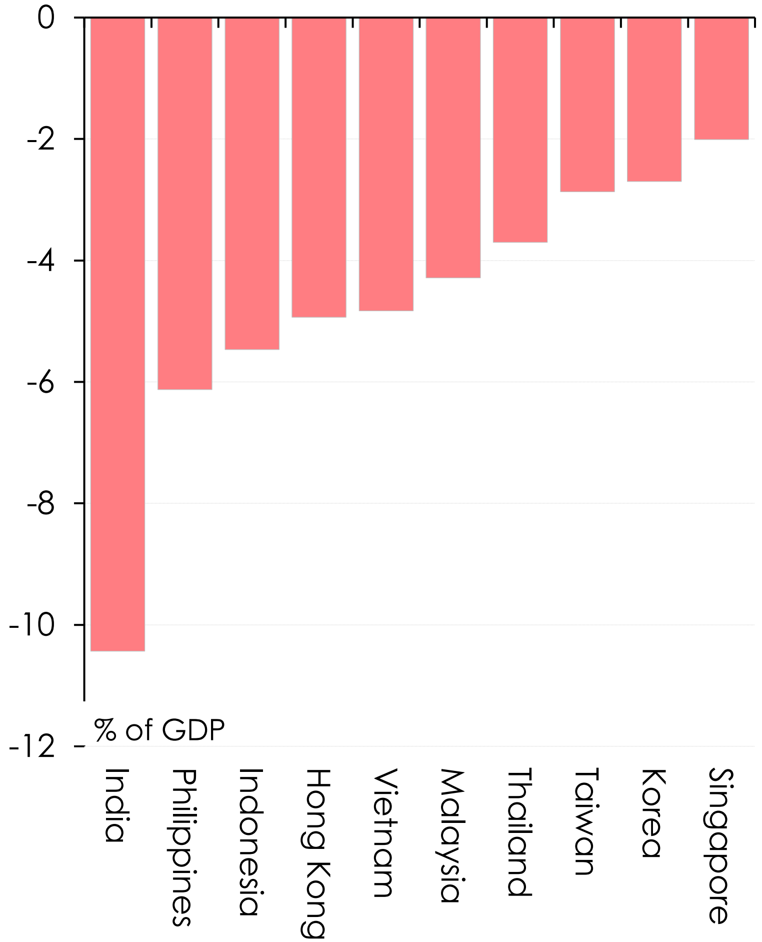
Apart from Singapore, Hong Kong and Thailand, Asian governments' discretionary fiscal responses to Covid-19 have been relatively modest

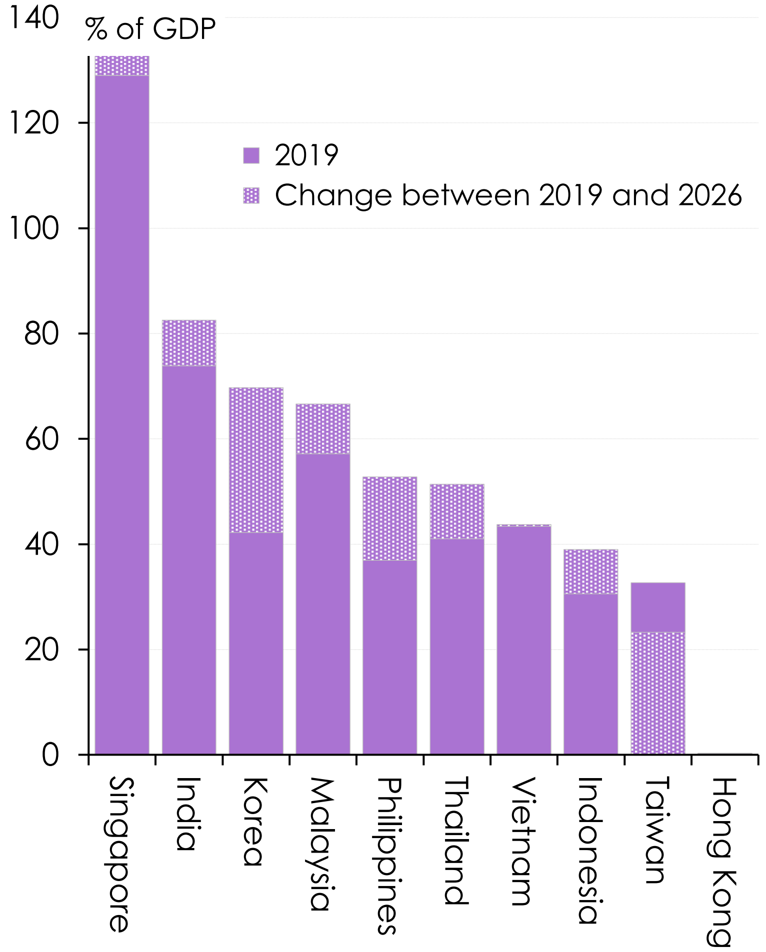
Fiscal policy responses to Covid-19 – Asian & other selected emerging market economies



Budget balances – Asian economies 2020-2022



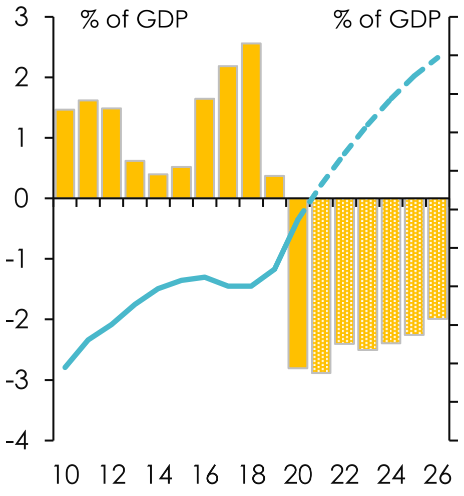
Gross government debt – Asian economies 2019-26



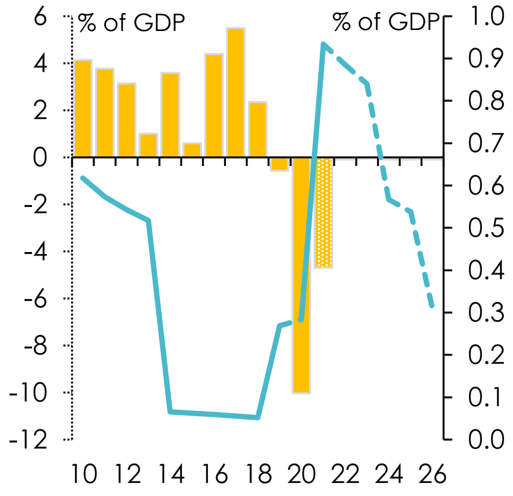
Note: 'Above the line' measures comprise additional or accelerated spending and deferred or foregone revenue. 'Below the line' measures comprise equity injections, loans, asset purchases and debt assumptions, but do not include loan guarantees or other contingent liabilities. 'DMs' means 'developed markets'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

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

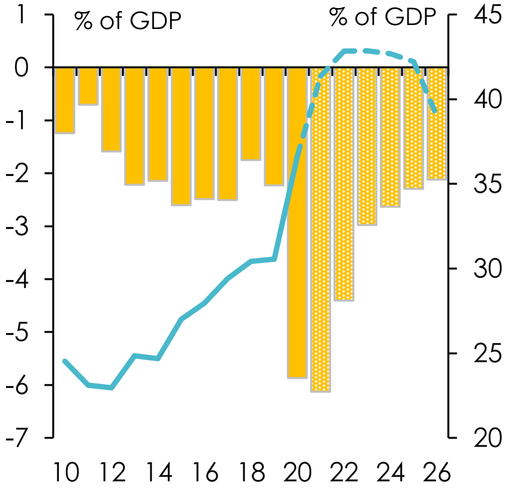
Korea



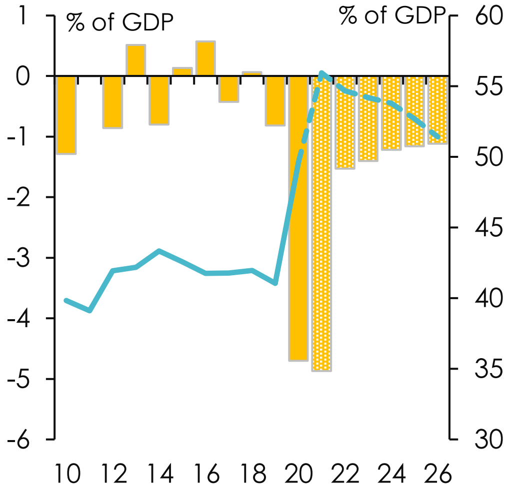
Hong Kong



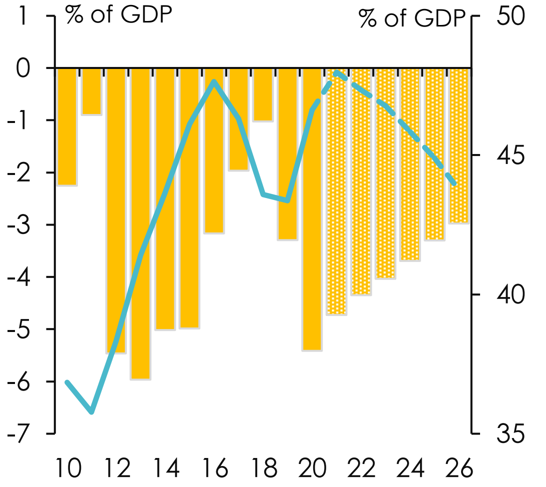
Indonesia



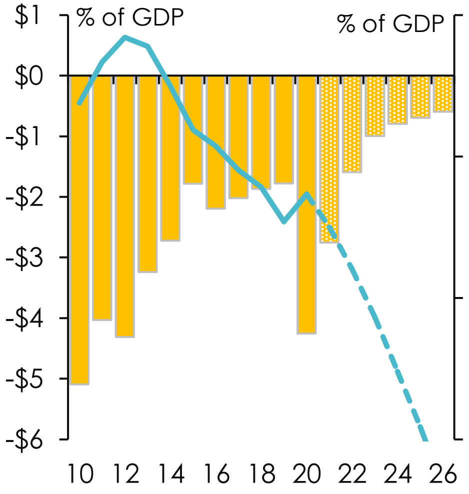
Thailand



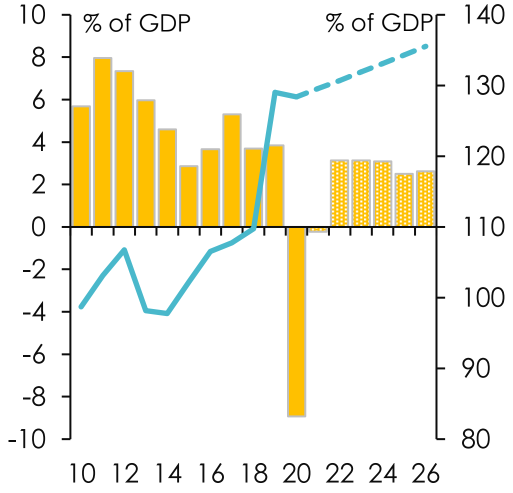
Vietnam



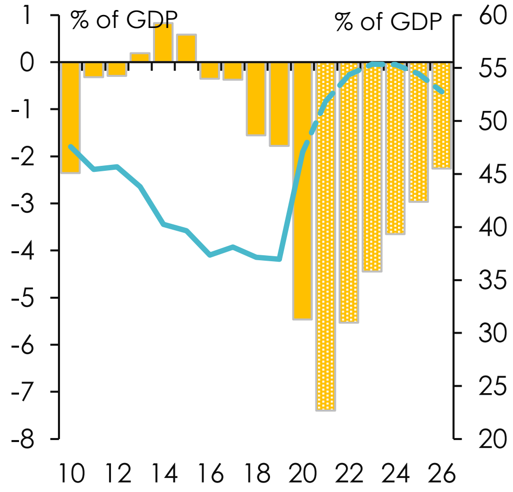
Taiwan



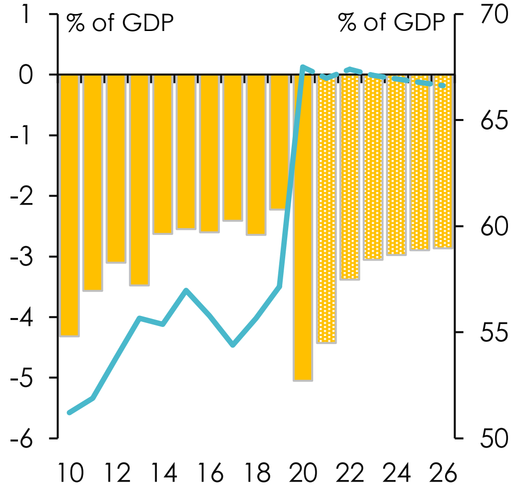
Singapore



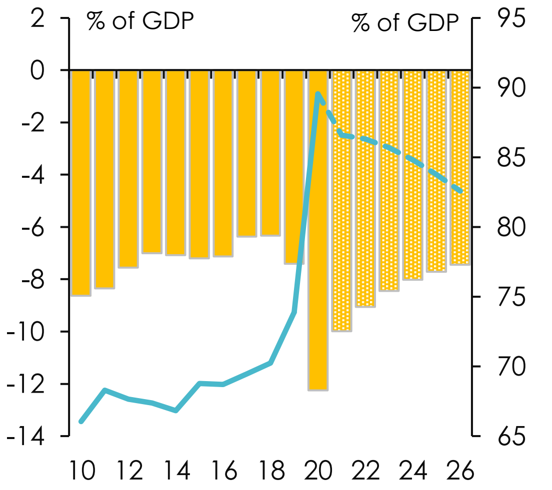
Philippines



Malaysia



India



General government overall fiscal balance (left scale)

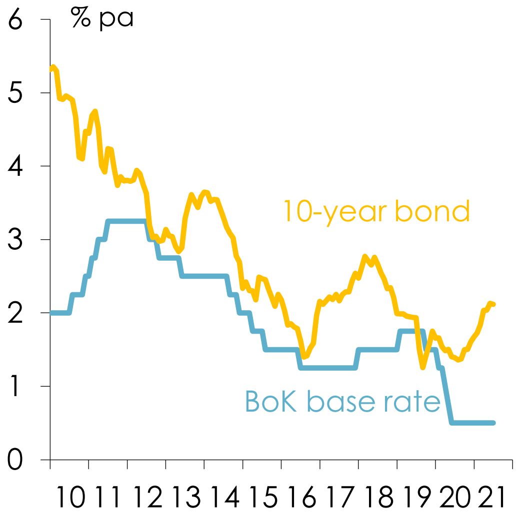
General government net debt (right scale)

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

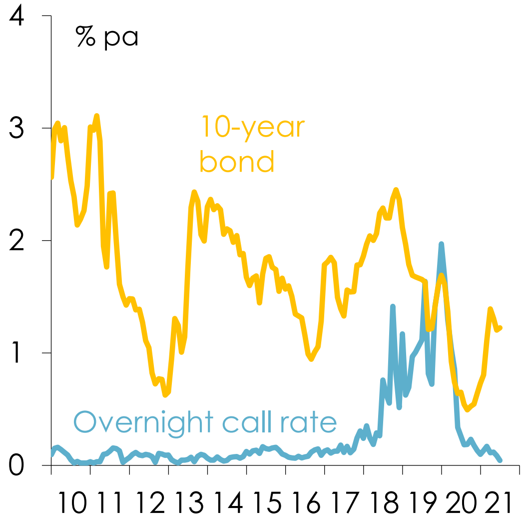
SAUL ESLAKE
CORINNA ECONOMIC ADVISORY PTY LTD

Thailand's and the Philippines' central banks left their policy rates on hold at meetings this week (as have all of their peers in recent months)

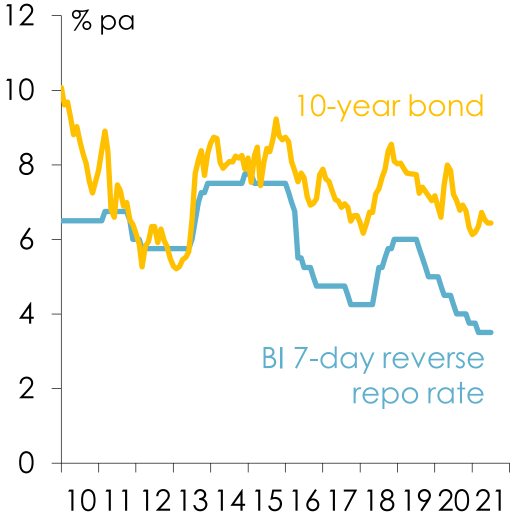
Korea



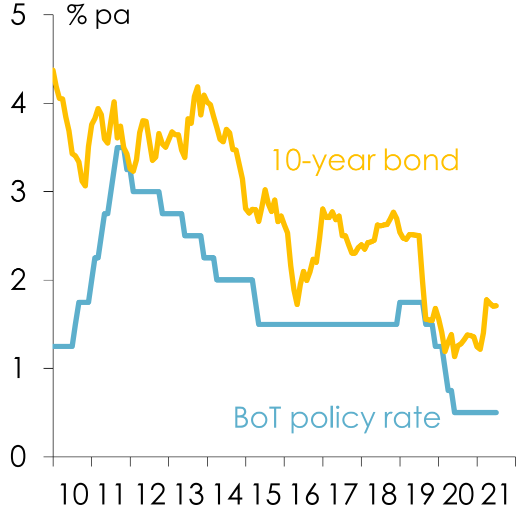
Hong Kong



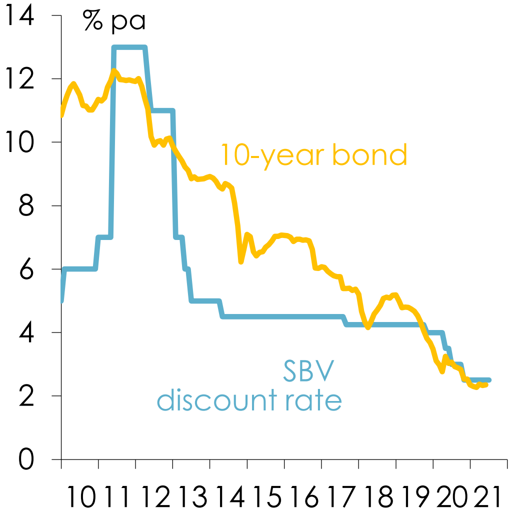
Indonesia



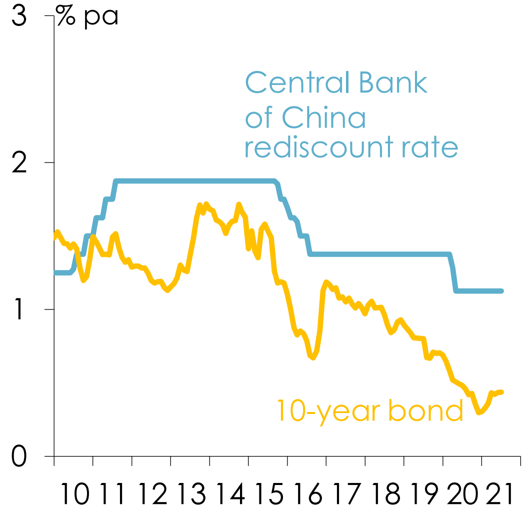
Thailand



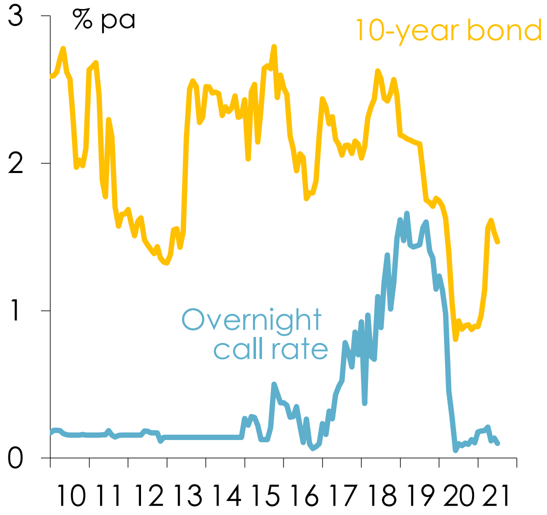
Vietnam



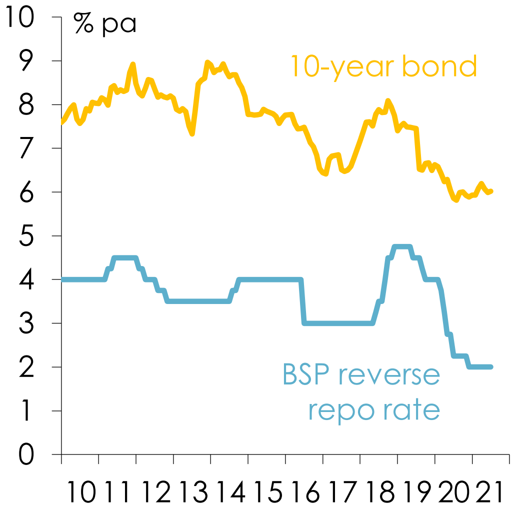
Taiwan



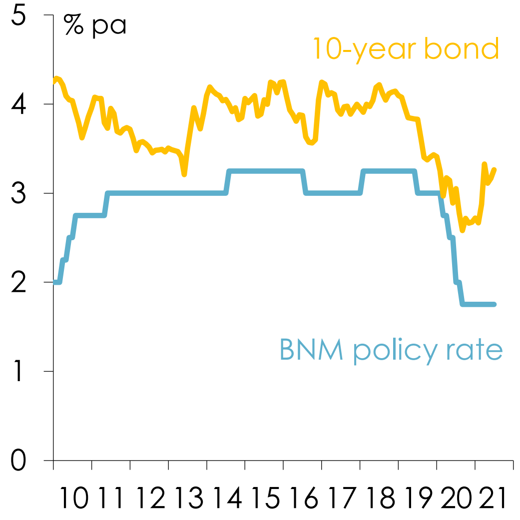
Singapore



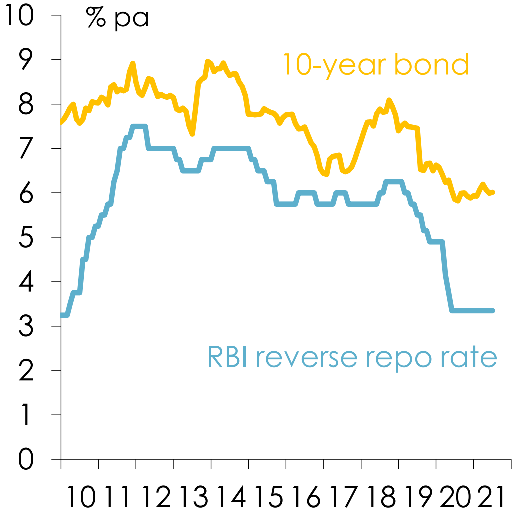
Philippines



Malaysia



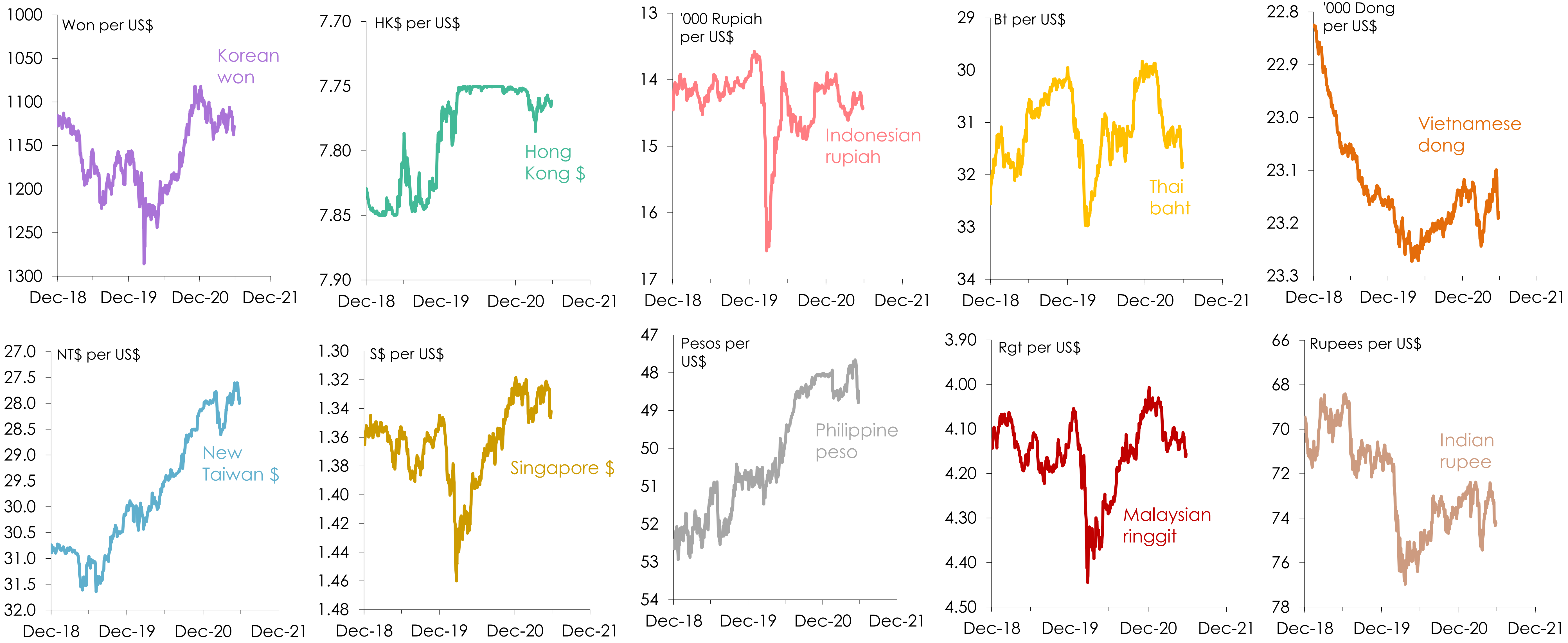
India



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

Asian currencies (other than the Korean won and the S$ & HK$) fell further against the US$ this week, with the baht the biggest loser (↓ 5¾% this year)

Asian currency exchange rates vs US dollar

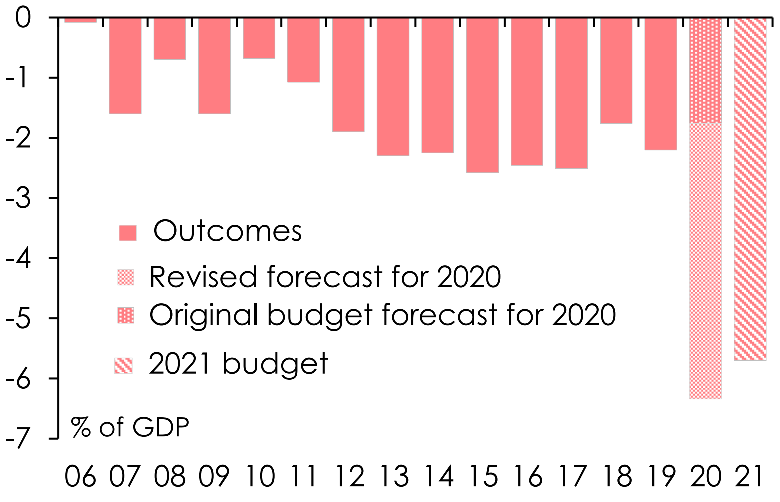


Note: Data up to 25th June. Source: Refinitiv Datastream. Return to "What's New".

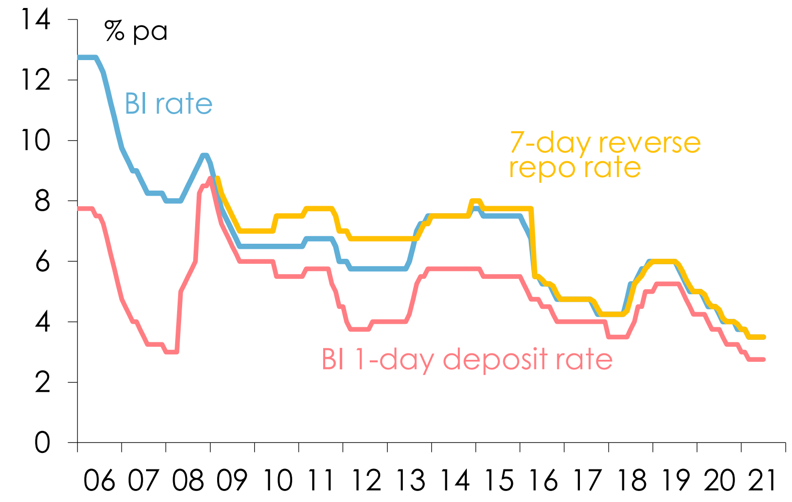
SAUL ESLAKE
CORINNA ECONOMIC ADVISORY PTY LTD

Bank Indonesia's holdings of government bonds have increased by almost 40% over the past two weeks

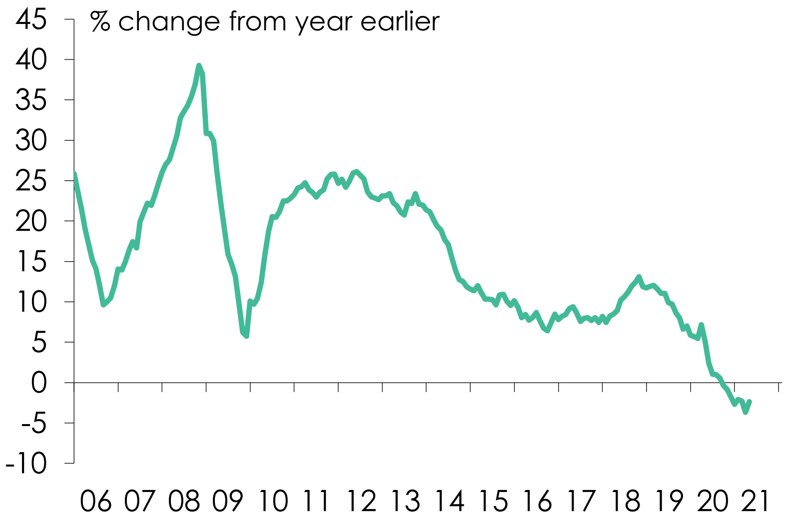
Indonesia budget deficit



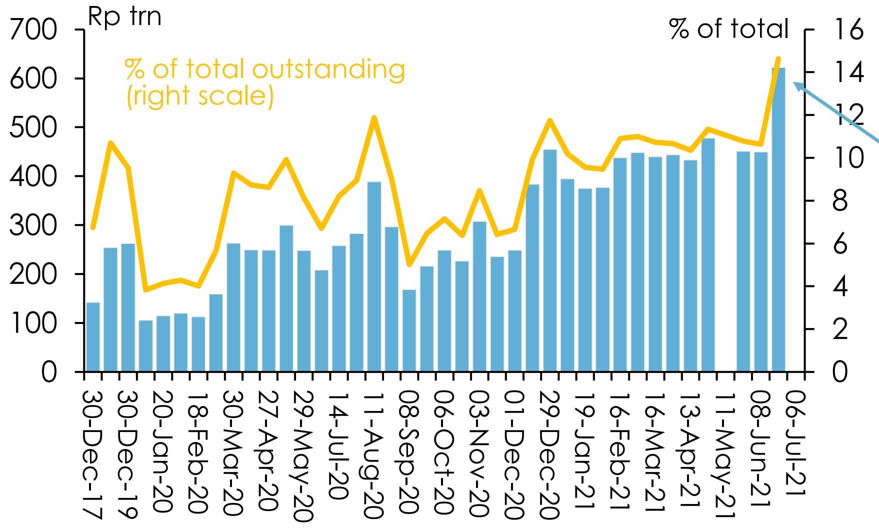
BI monetary policy rates



Bank lending



BI holdings of tradeable SBNs

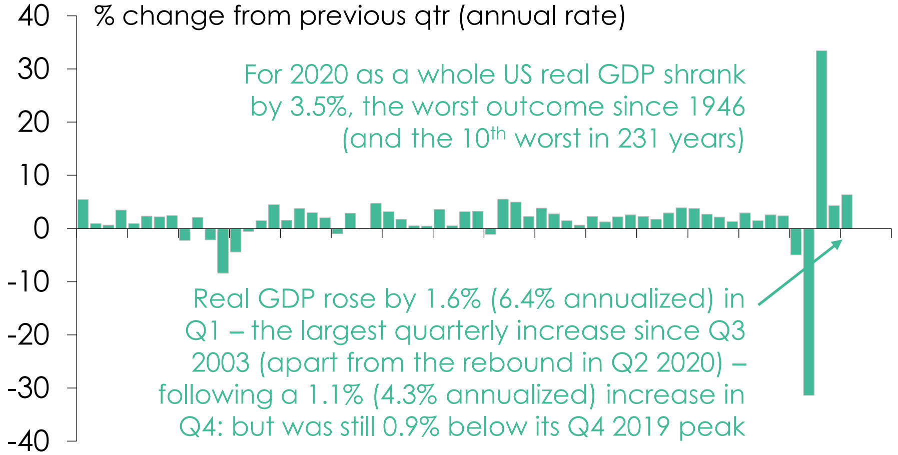


- **In April 2020, the Indonesian Government and Bank Indonesia (BI) agreed to a 'burden-sharing' scheme under which BI will directly purchase bonds equivalent to 25% of this year's budget financing requirement (and return the interest received to the Government), as well as subsidizing interest payments on other bonds**
  - BI calls this 'synergistic monetary expansion'
  - up to 15th June BI has purchased Rp 116trn of SBN in the primary market (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 48% of the increase in Government bonds outstanding since the end of March last year, and BI 25%
  - BI's holdings of SBNs rose by Rp173trn (38%) over the latest fortnight, while banks' holdings fell by Rp144 trn (9%)
  - 'core' inflation at 1.4% in May is below BI's target
- **Parliamentary debate on legislation to expand BI's mandate which was to begin in August has been deferred to at least November**
  - an earlier provision to give Ministers a role in determining monetary policy has been scrapped

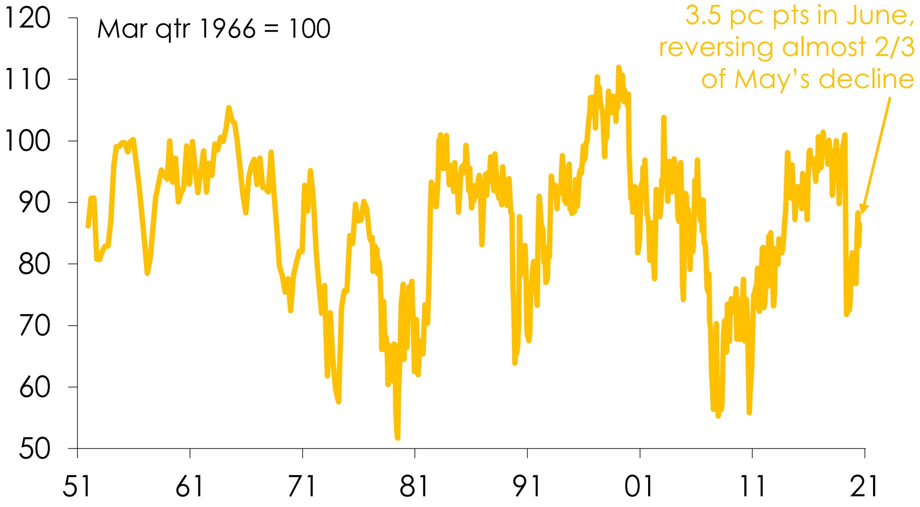
Sources: Indonesia Ministry of Finance (Kementarian Keuangan); Directorate of Government Debt Securities; Bank Indonesia.
Return to "What's New".

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

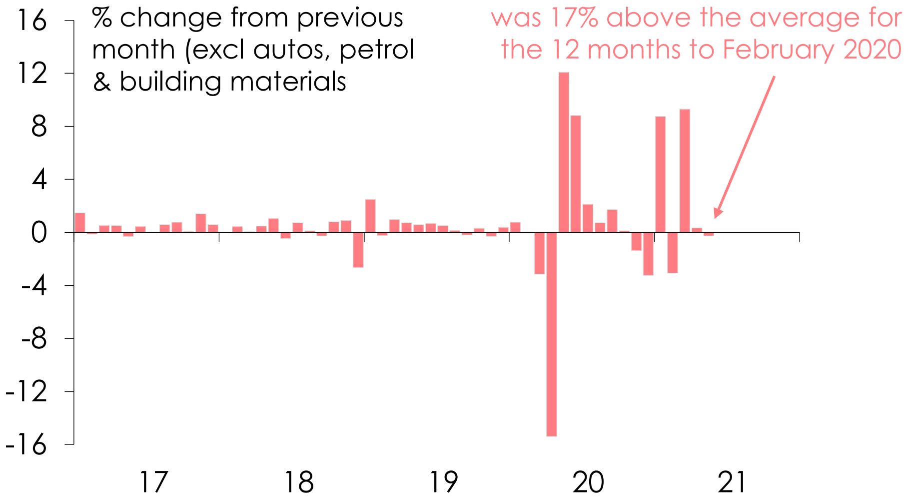
Real GDP



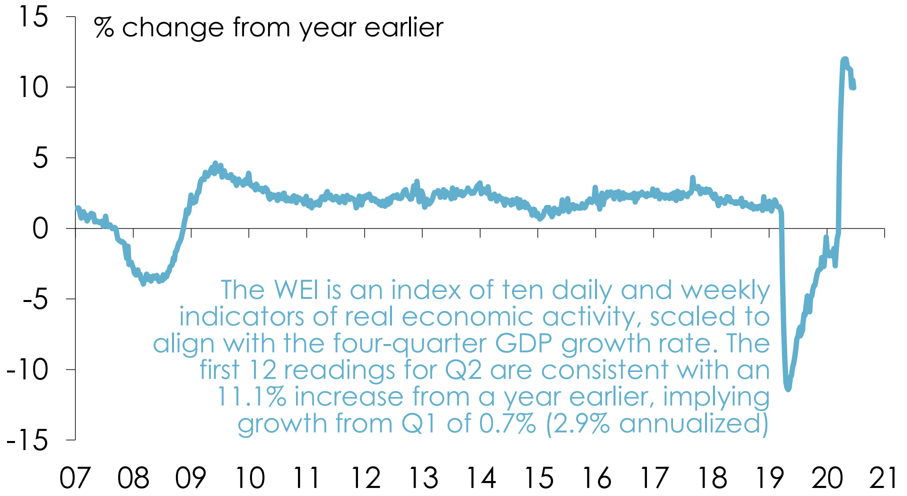
Consumer sentiment



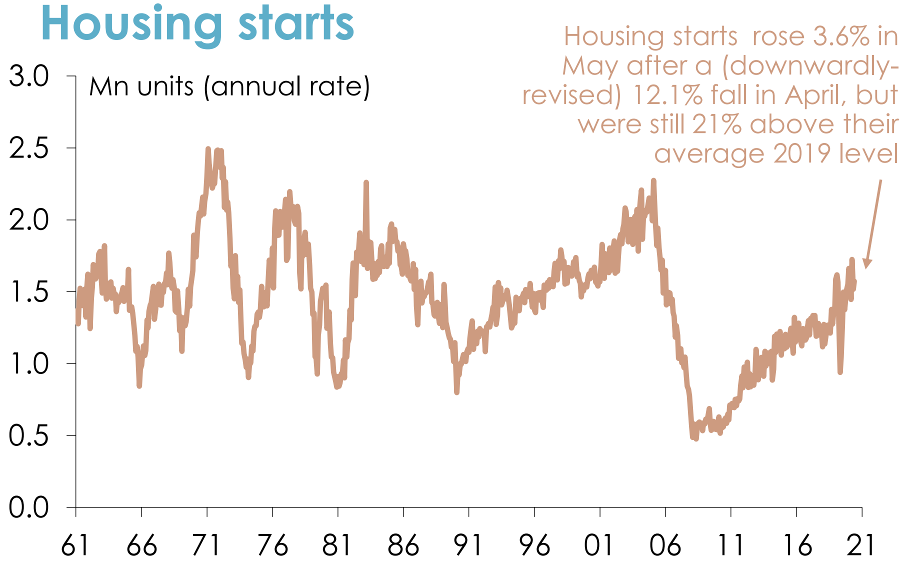
'Core' retail sales



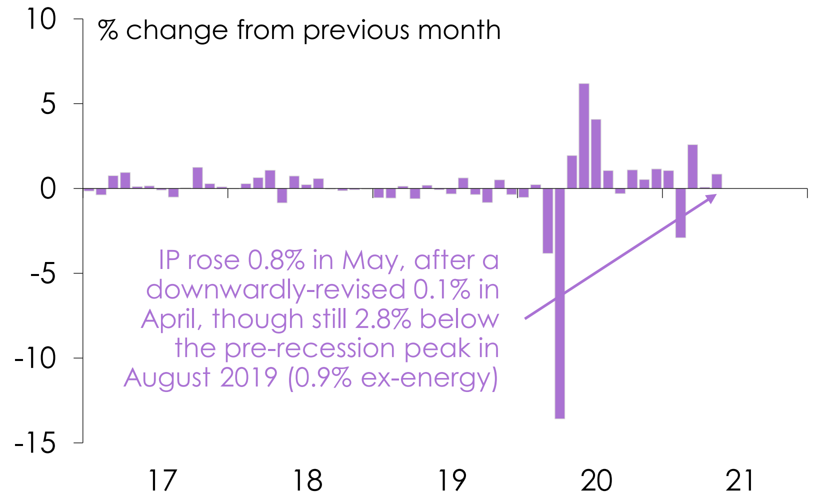
NY Fed weekly economic index



Housing starts



Industrial production

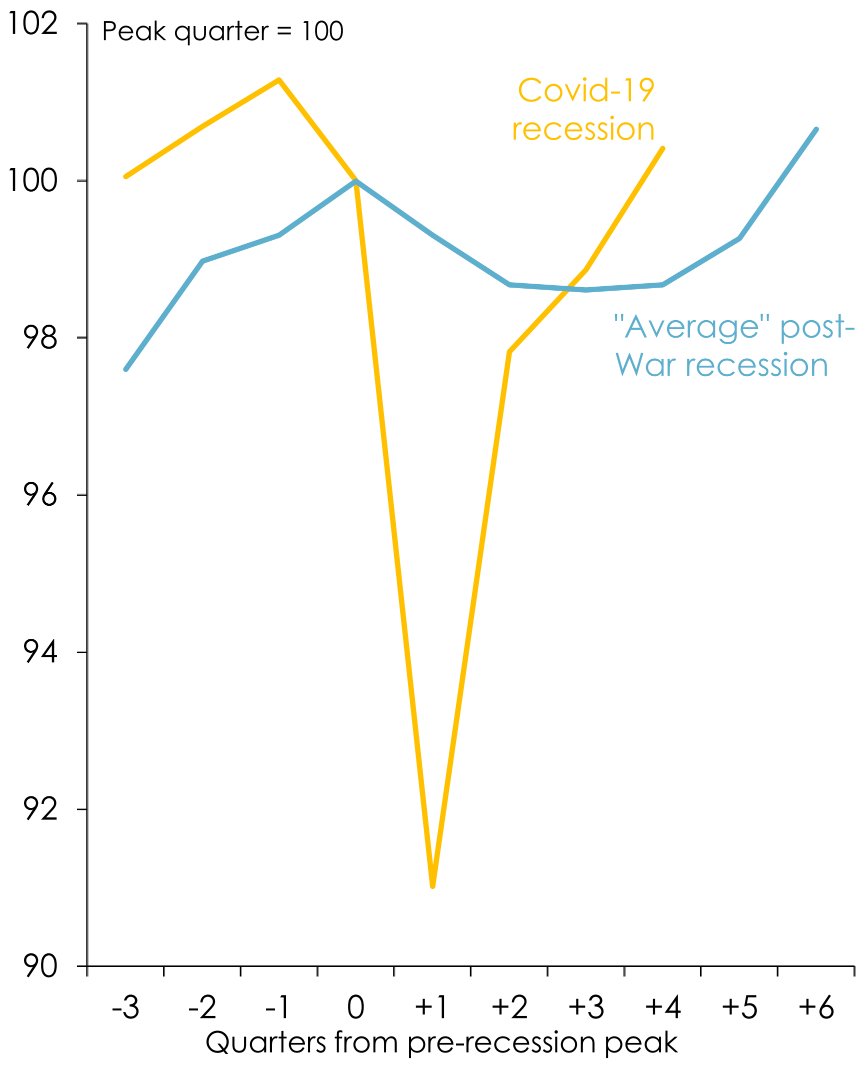


Sources: US Bureau of Economic Analysis; Federal Reserve Bank of New York; Michigan University Survey Research Center; US Commerce Department; Board of Governors of the Federal Reserve System. Return to "What's New".

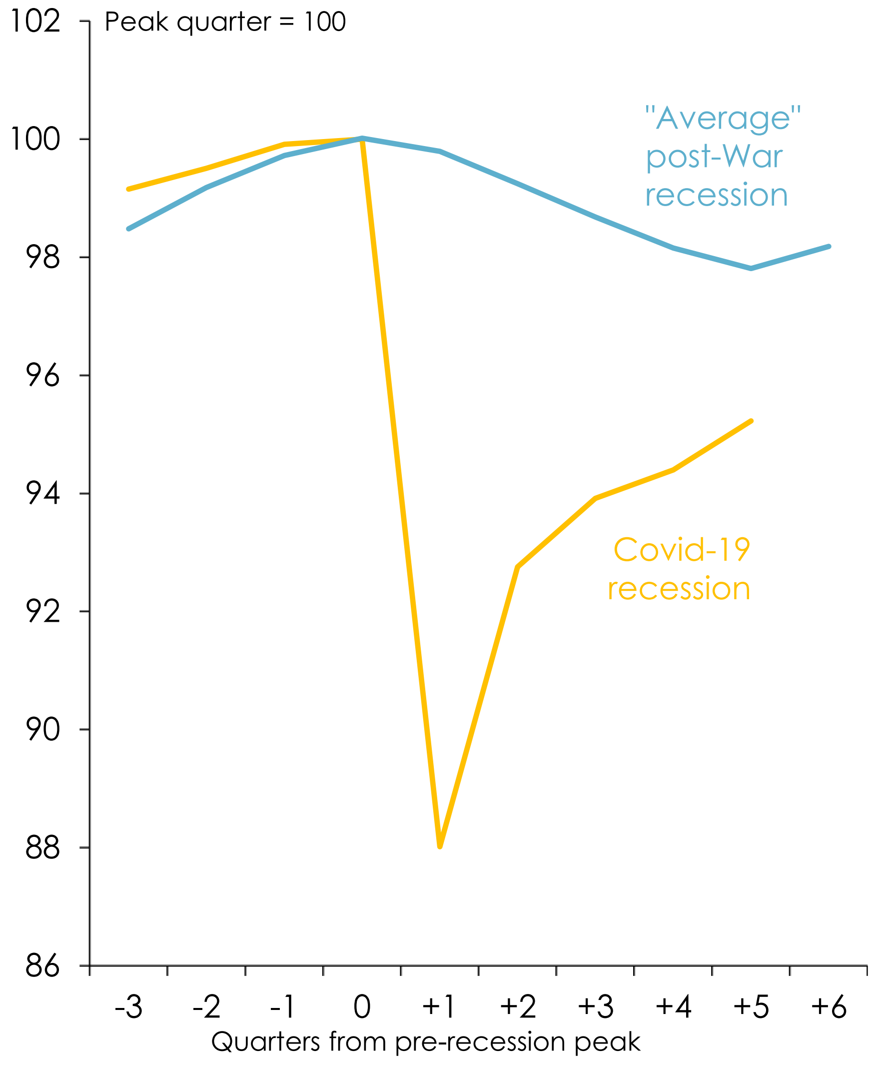
SAUL ESLAKE
CORINNA ECONOMIC ADVISORY PTY LTD

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

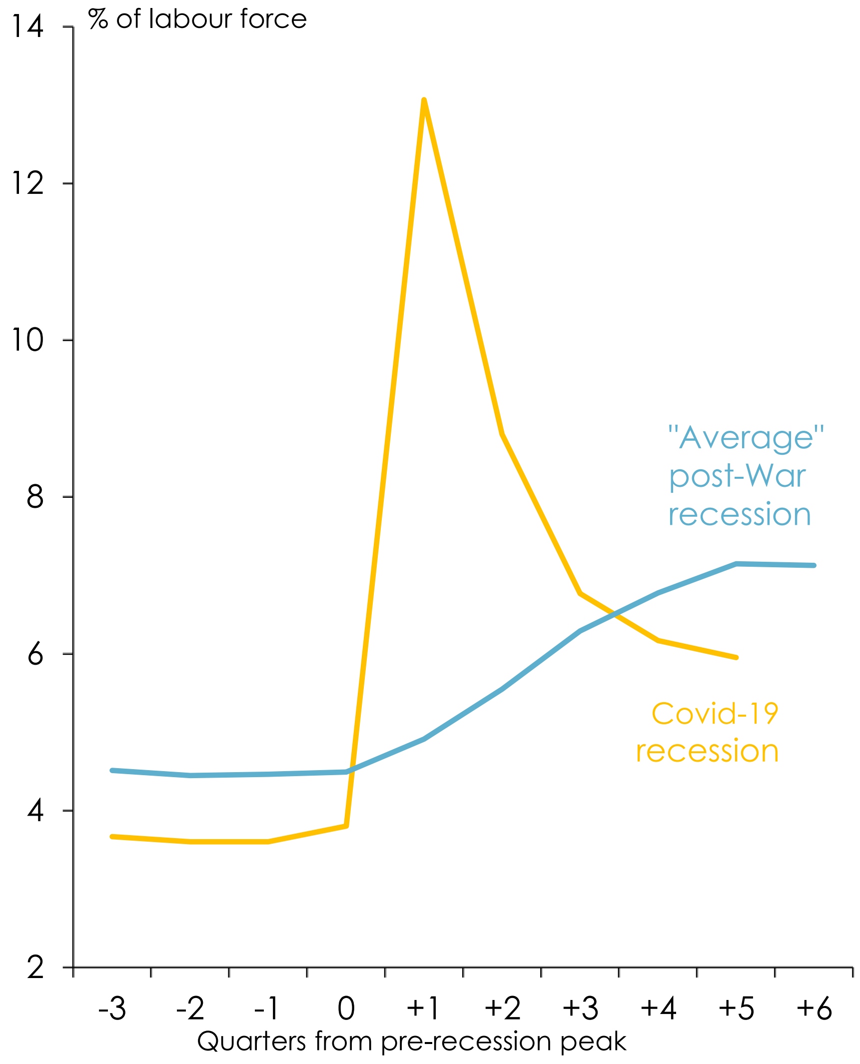
Level of real GDP



Non-farm payroll employment



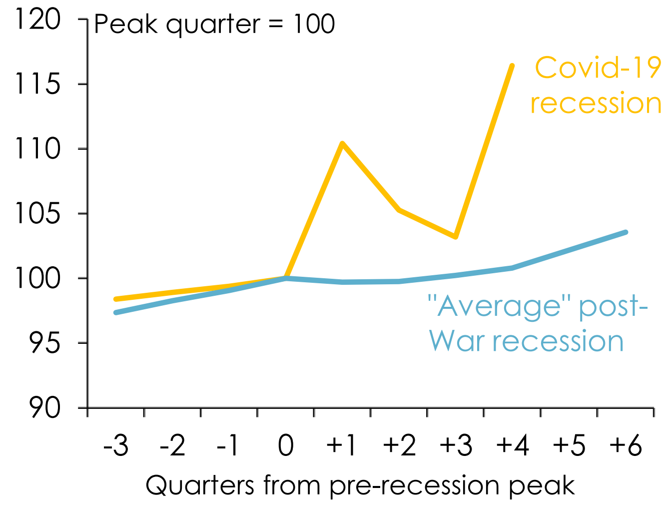
Unemployment rate



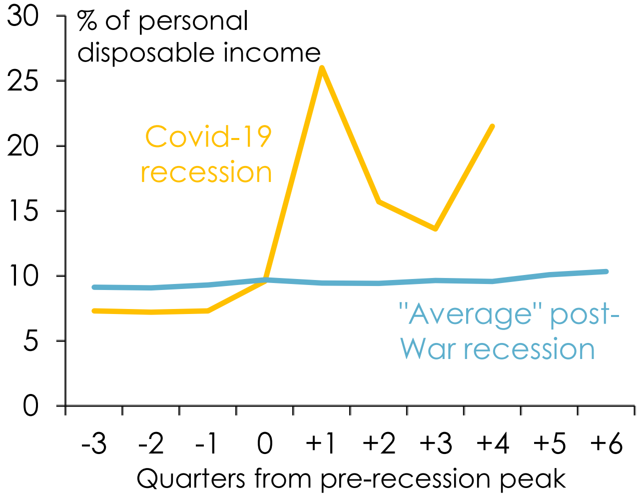
Note: 'average post-war recession' is the average of figures for each of the eleven post-war US recessions as designated by the National Bureau of Economic Research Business Cycle Dating Committee, with the exception of the recession of January-July 1980 (which was too short, and too close to the July 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".

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

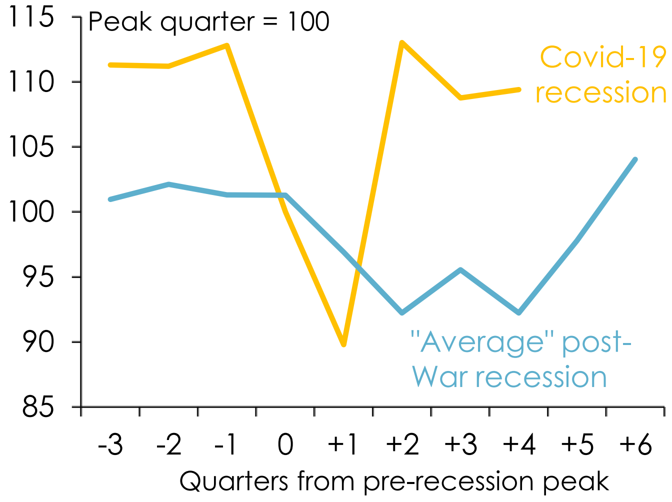
Personal disposable income



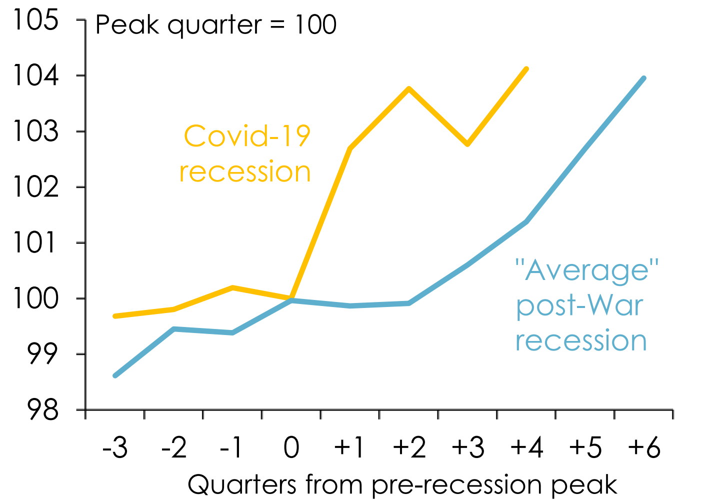
Personal saving rate



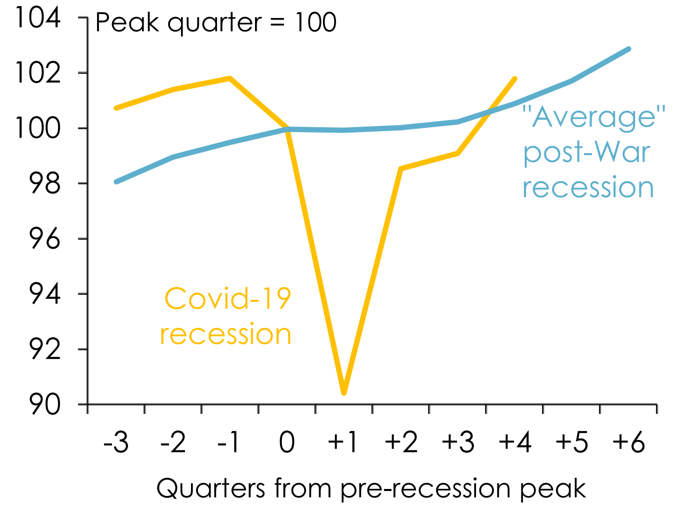
After-tax corporate profits



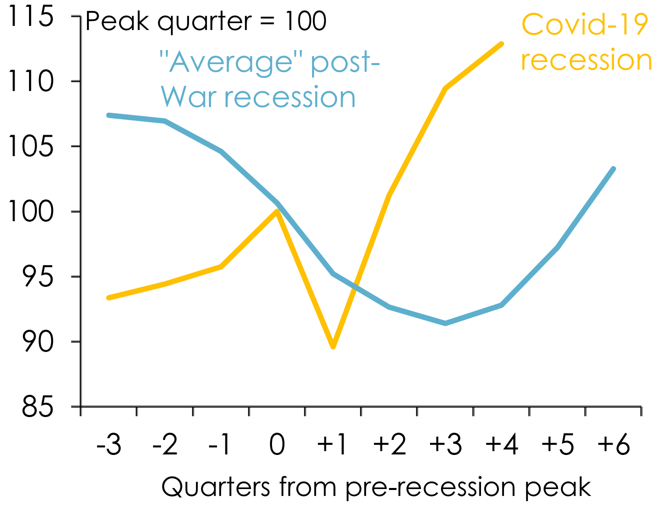
Labour productivity



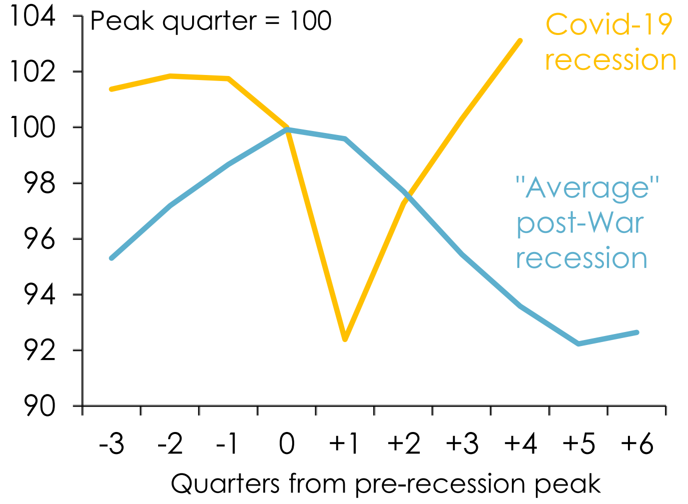
Personal consumption



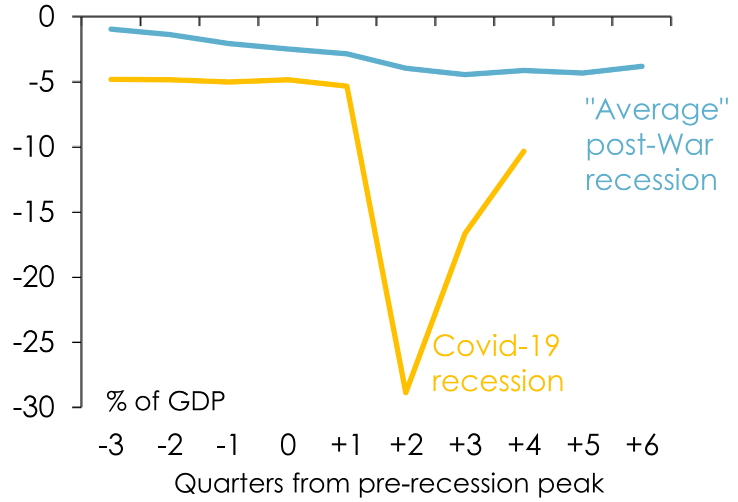
Residential investment



Business investment



Federal budget balance



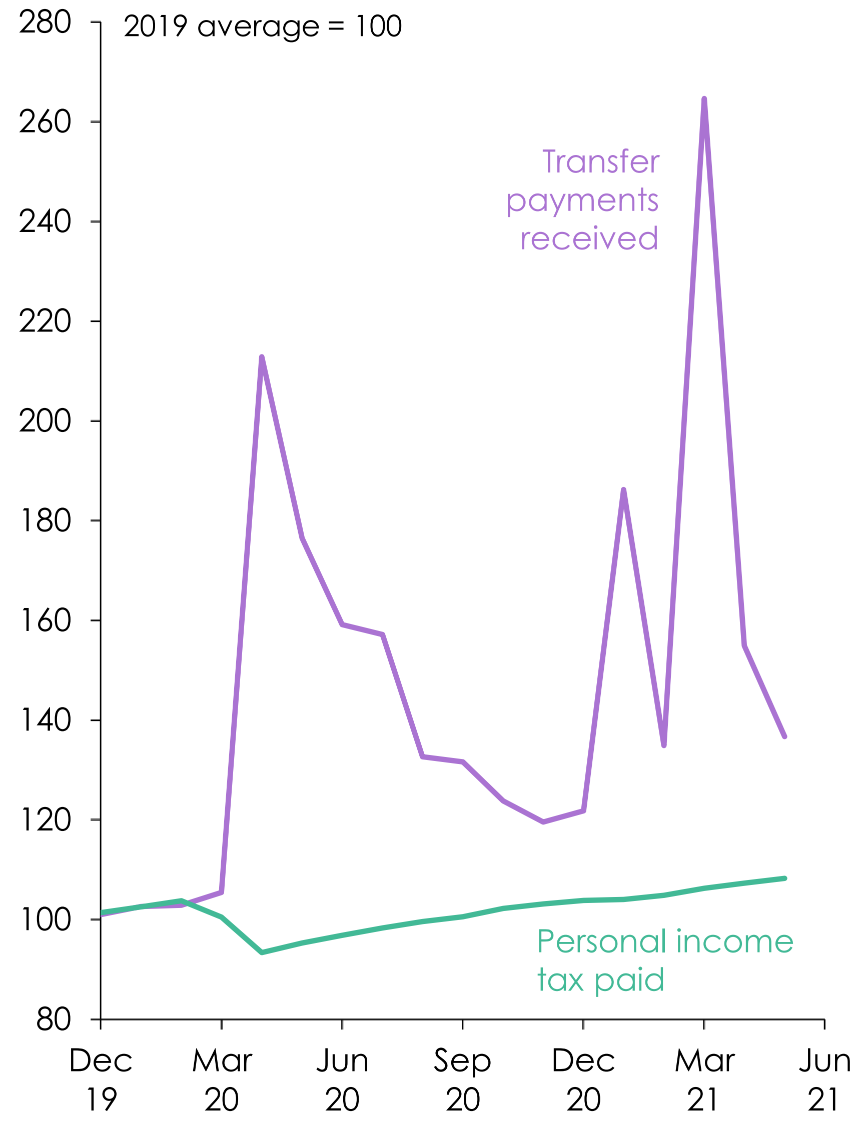
Note: 'average post-war recession' is the average of figures for each of the eleven post-war US recessions as designated by the National Bureau of Economic Research Business Cycle Dating Committee, with the exception of the recession of January-July 1980; 'peak quarter' is the quarter in which real GDP 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".

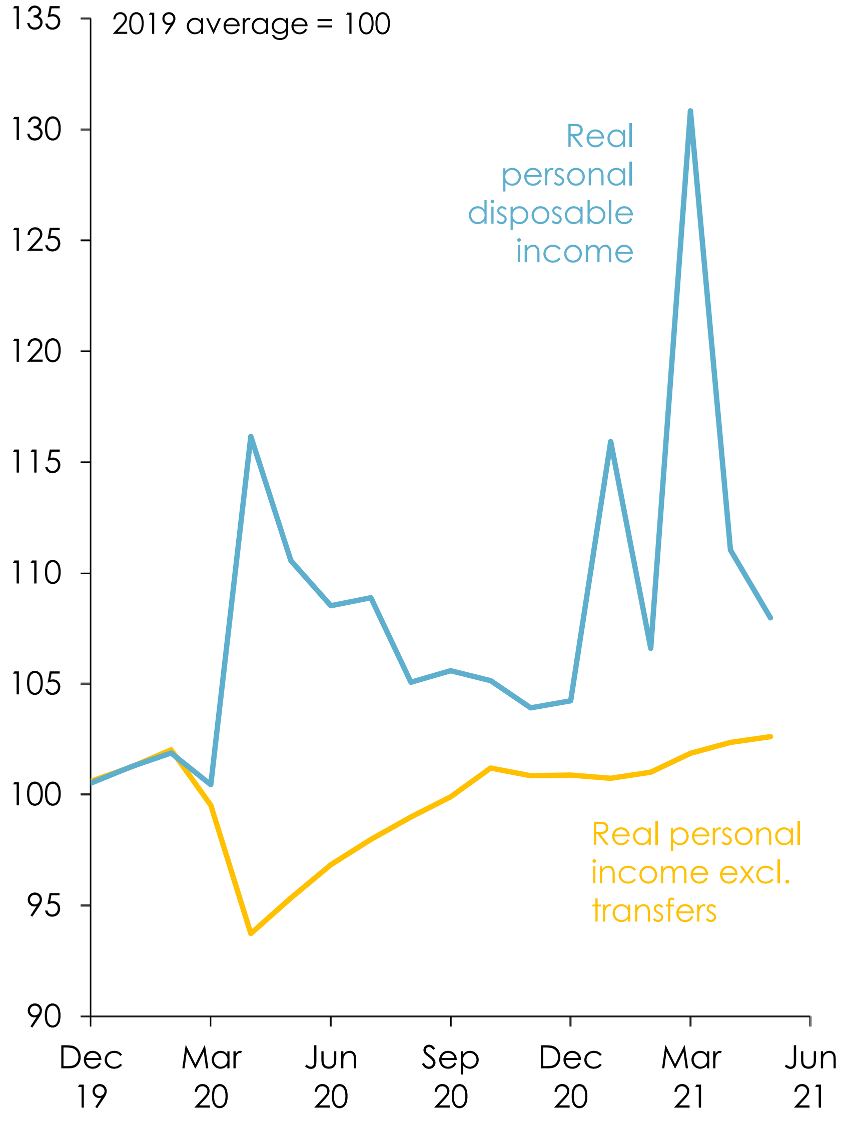
SAUL ESLAKE
CORINNA ECONOMIC ADVISORY PTY LTD

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

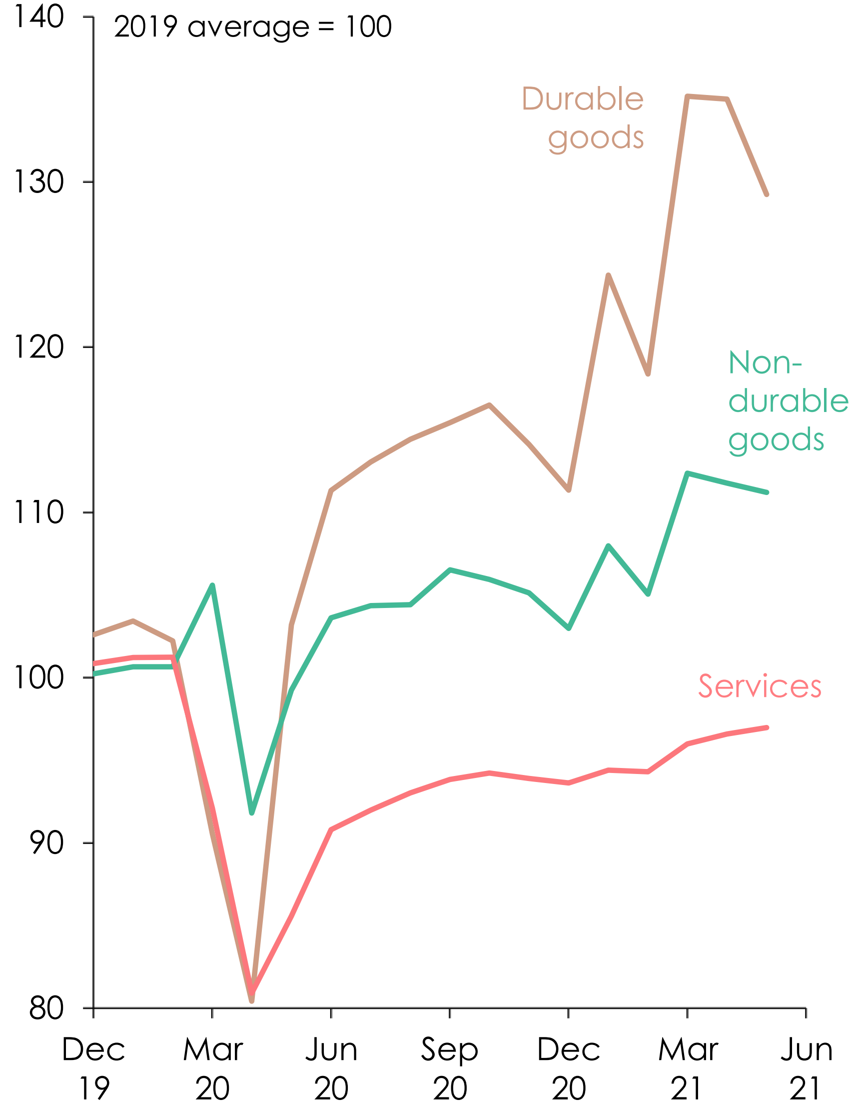
Tax and transfer payments



Real personal income



Real consumption expenditure

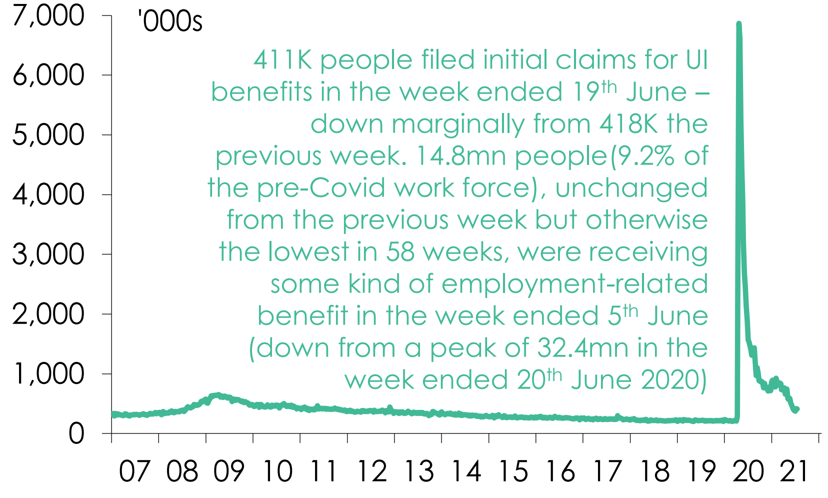


Source: US Bureau of Economic Analysis.

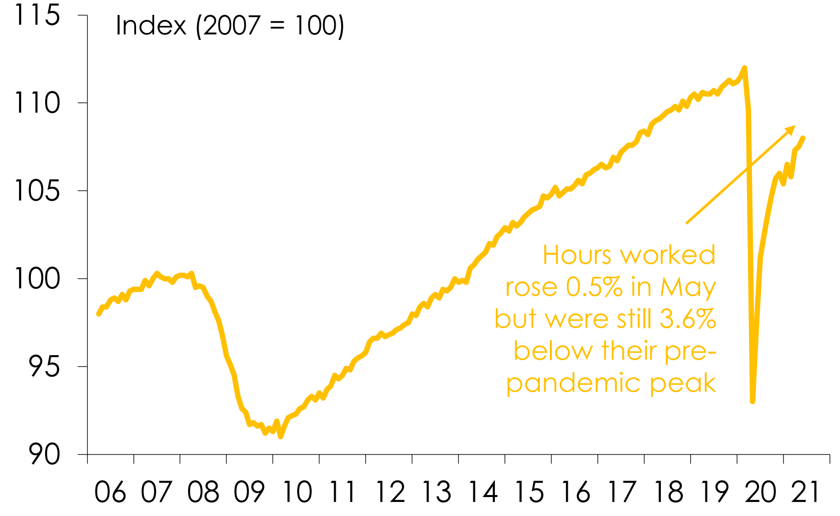
SAUL ESLAKE
CORINNA ECONOMIC ADVISORY PTY LTD

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

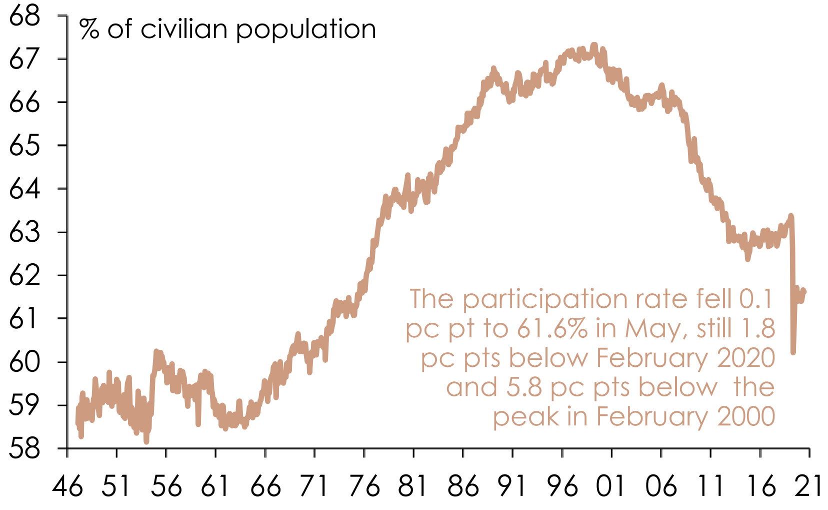
Unemployment benefit claims



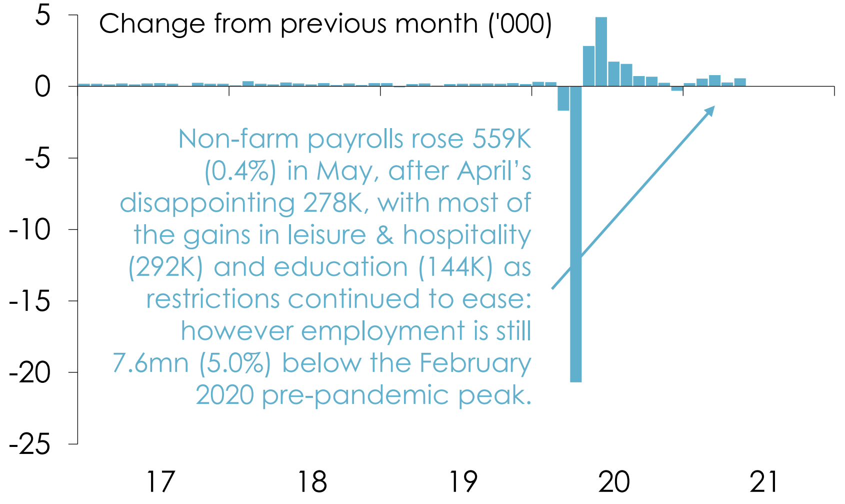
Hours worked (private sector)



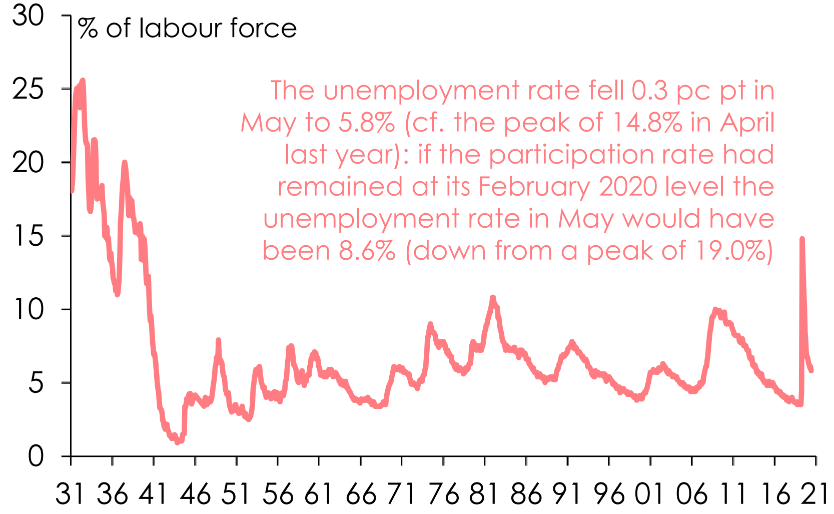
Labour force participation rate



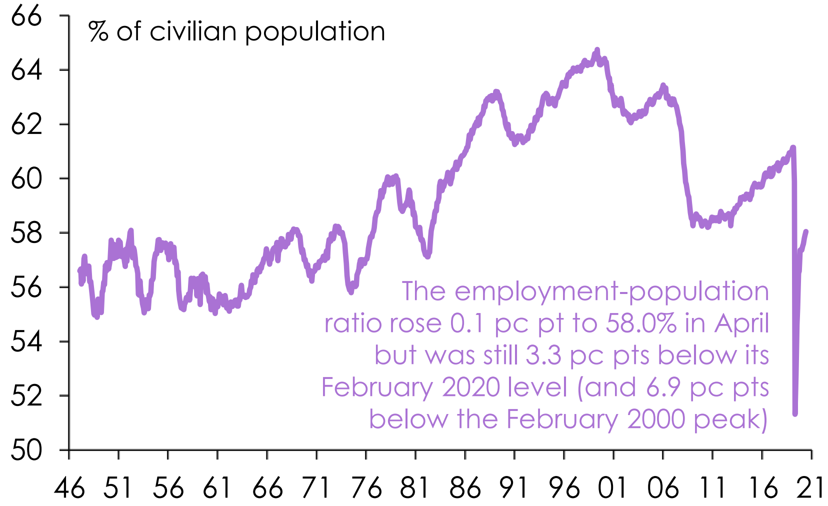
Non-farm payroll employment



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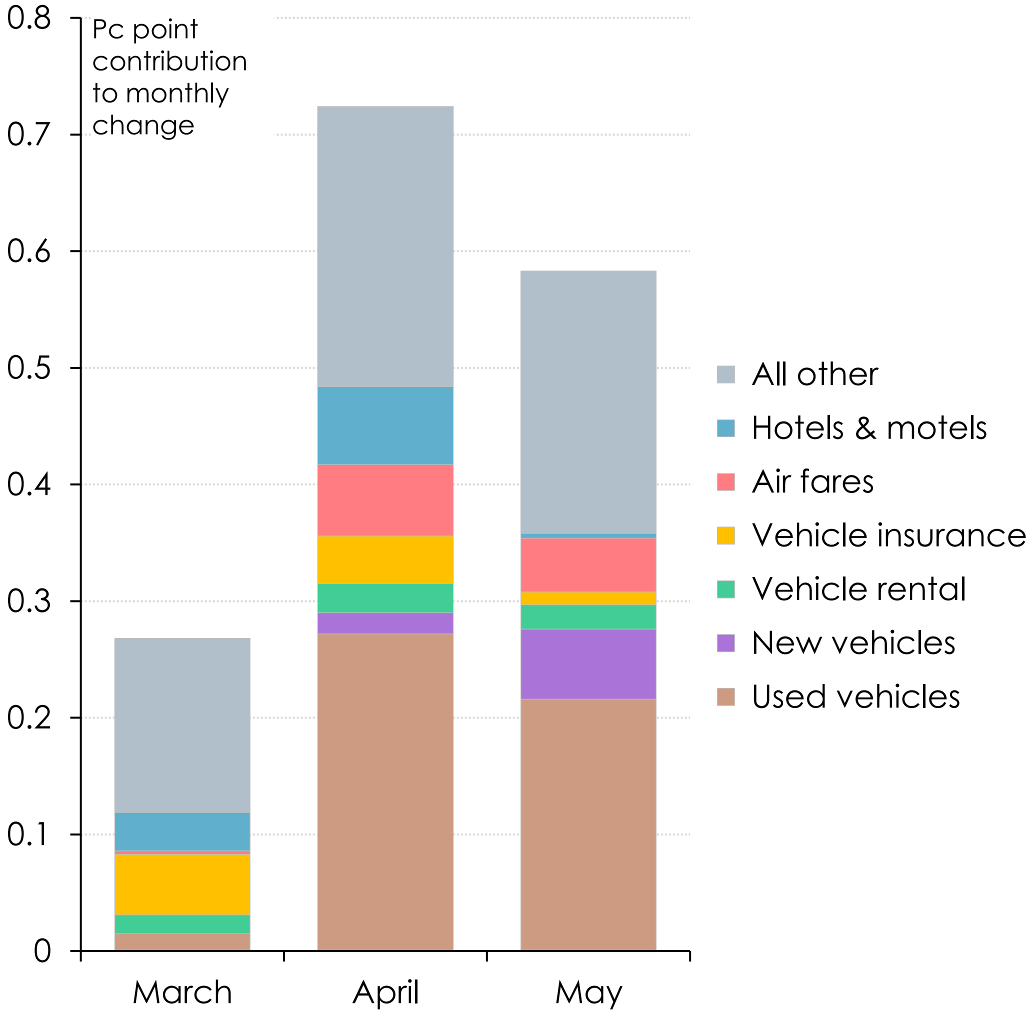
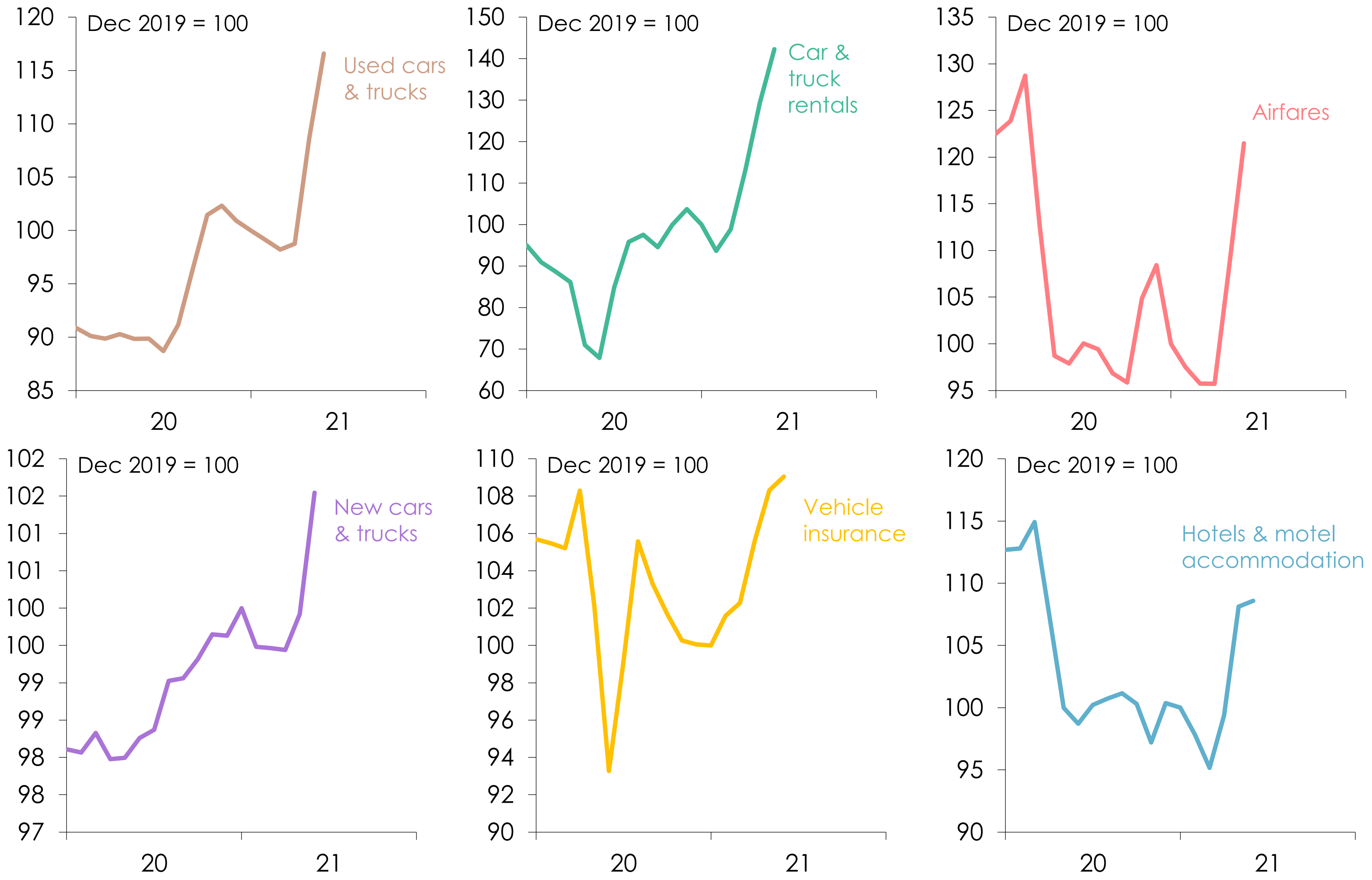
62% of the increase in the 'core' US CPI over the past three months has come from six items which represent 11½% of the 'core' CPI basket

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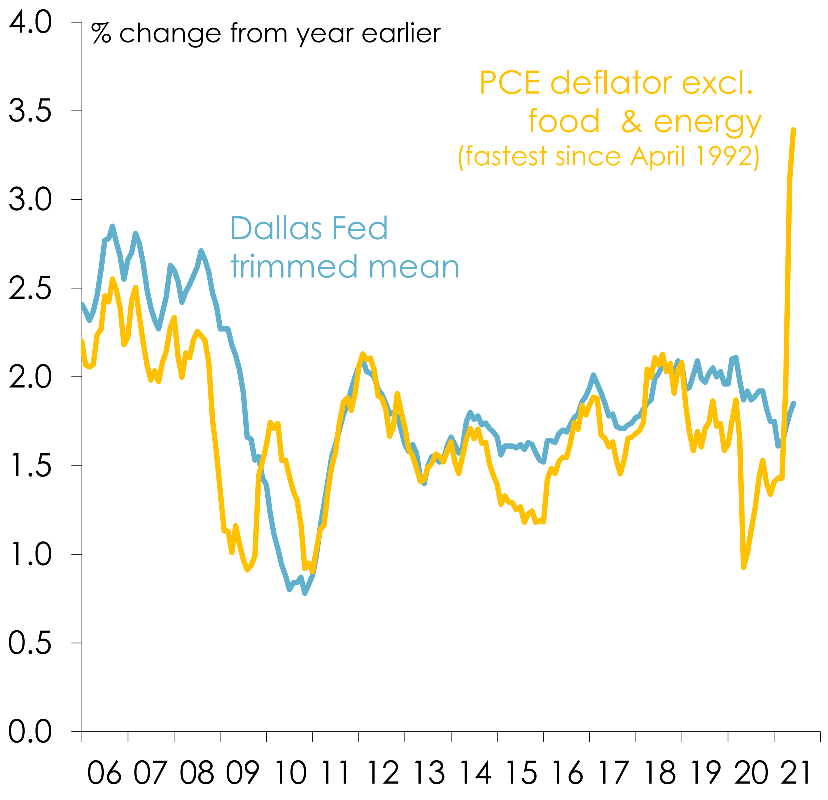
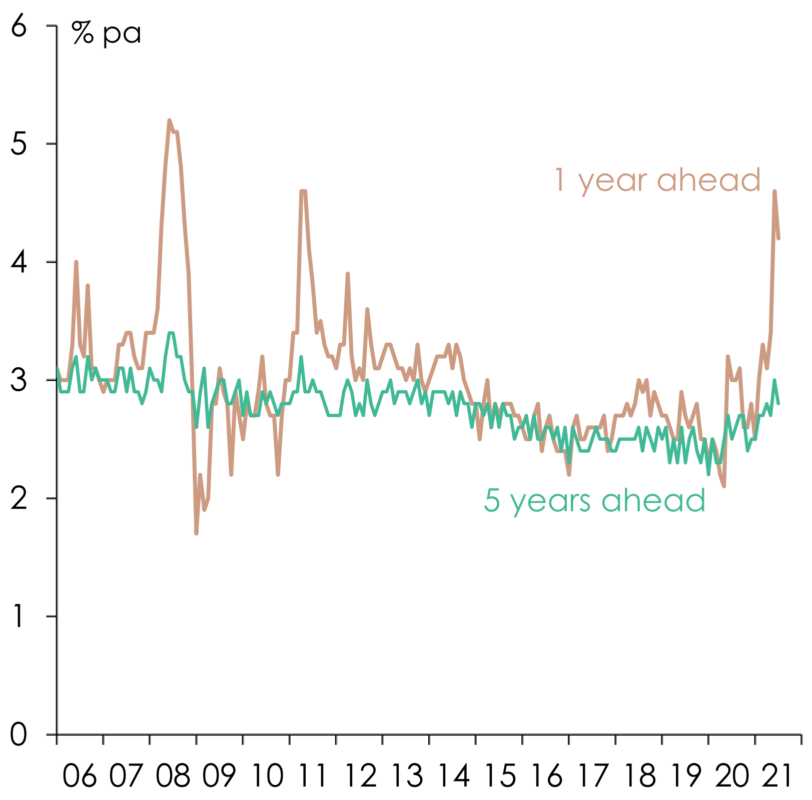
Statistical measures of US ‘underlying’ inflation haven’t moved much, and, importantly, household inflation expectations dropped back in June

Statistical measures of annual ‘core’ inflation in the US



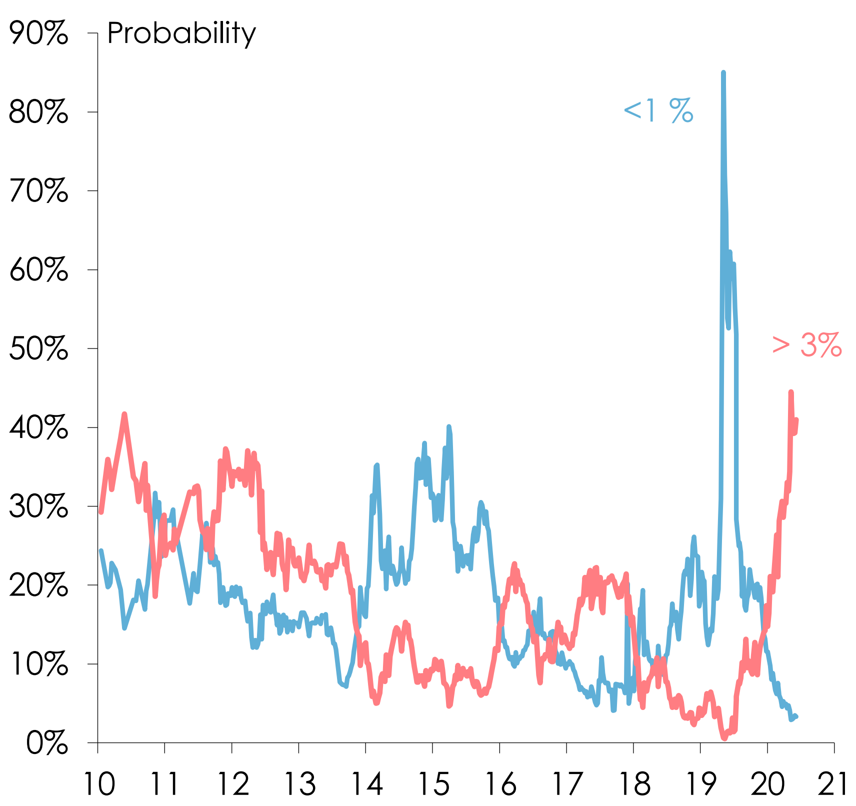
- ❑ **Statistical measures (similar to those used by the RBA) suggest that the rise in ‘core’ inflation is almost entirely due to ‘outliers’ (such as used cars, car rentals, air fares, and hotel charges)**

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 45% 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. The last data for this series is 9th June. *Sources:* US Bureau of Economic Analysis; Federal Reserve Bank of Dallas; Michigan University Survey Research Center; Federal Reserve Bank of Minneapolis. Return to "What's New".

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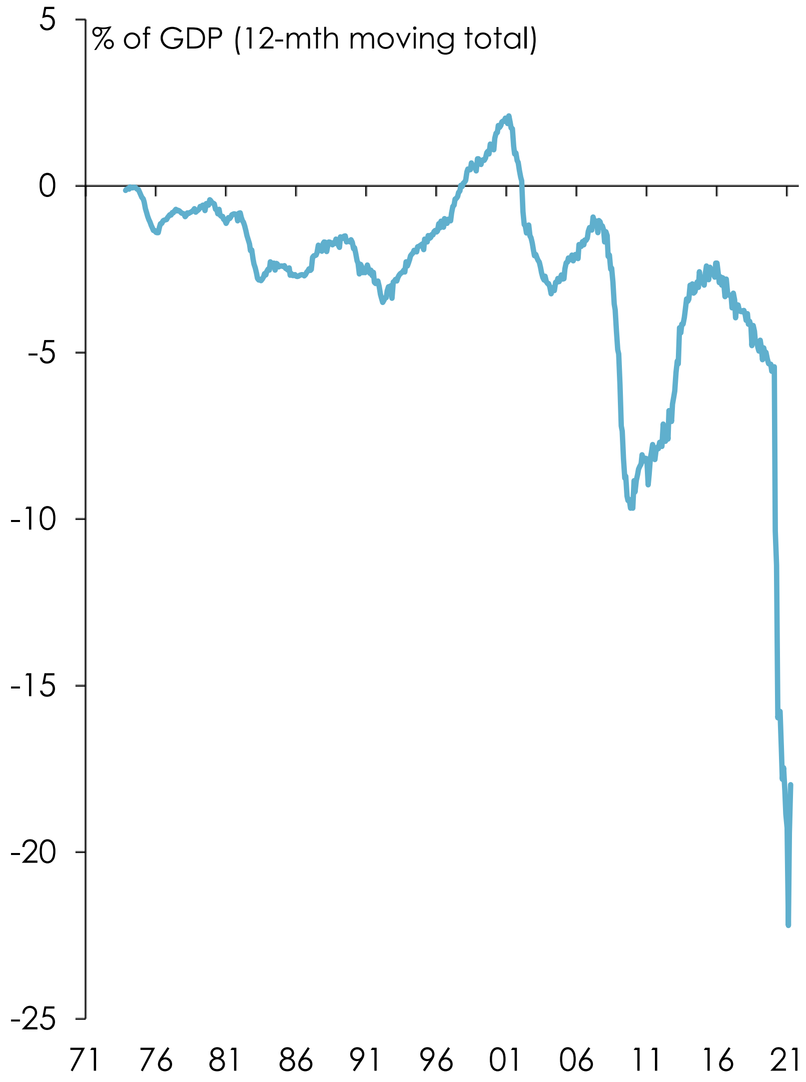
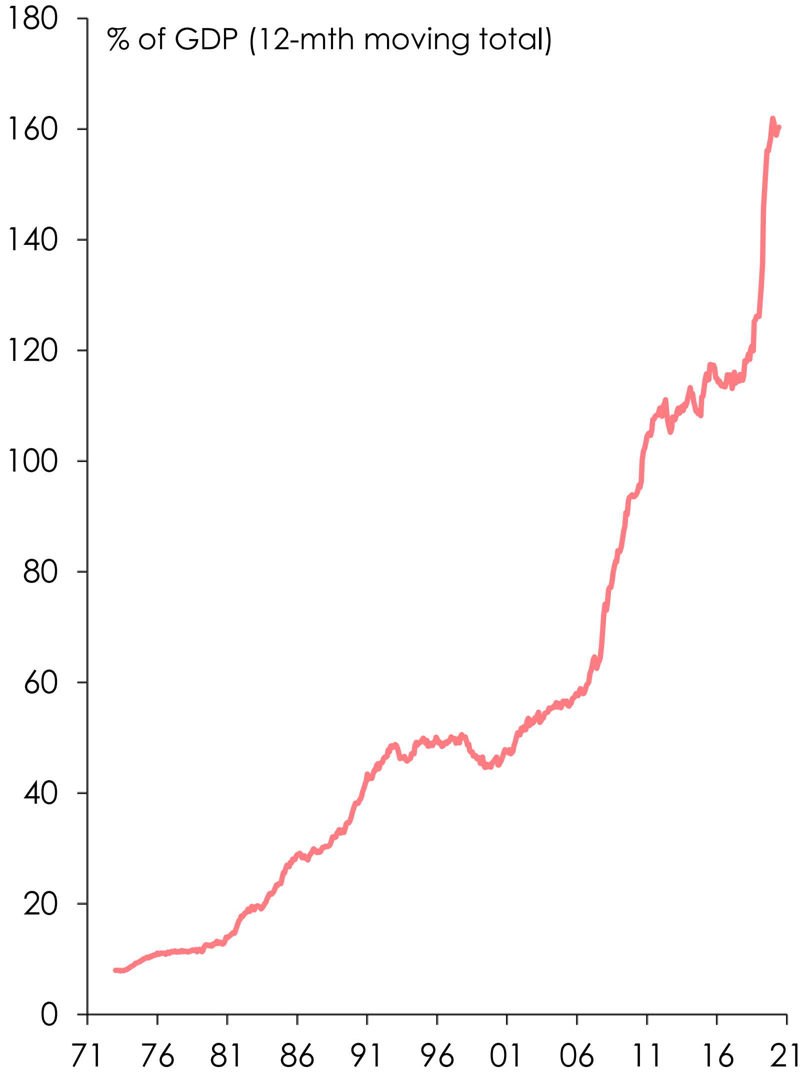
The US budget deficit narrowed further in May due to a second surge in income tax payments but remains very large by historical standards

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)
- As expected the Administration has had to make significant compromises in order to get its infrastructure spending program 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".

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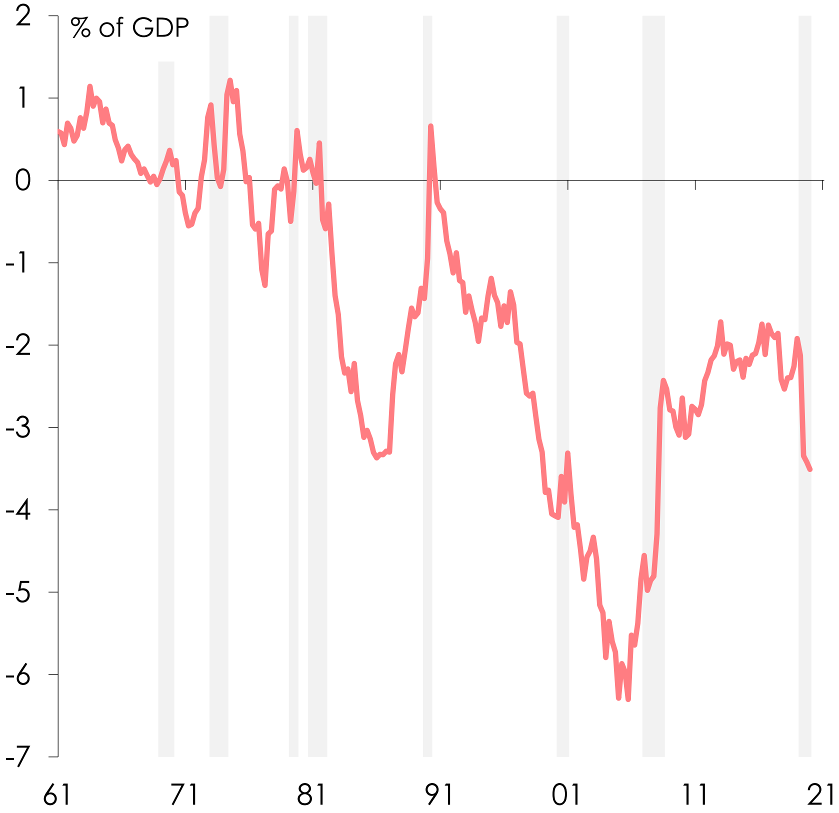
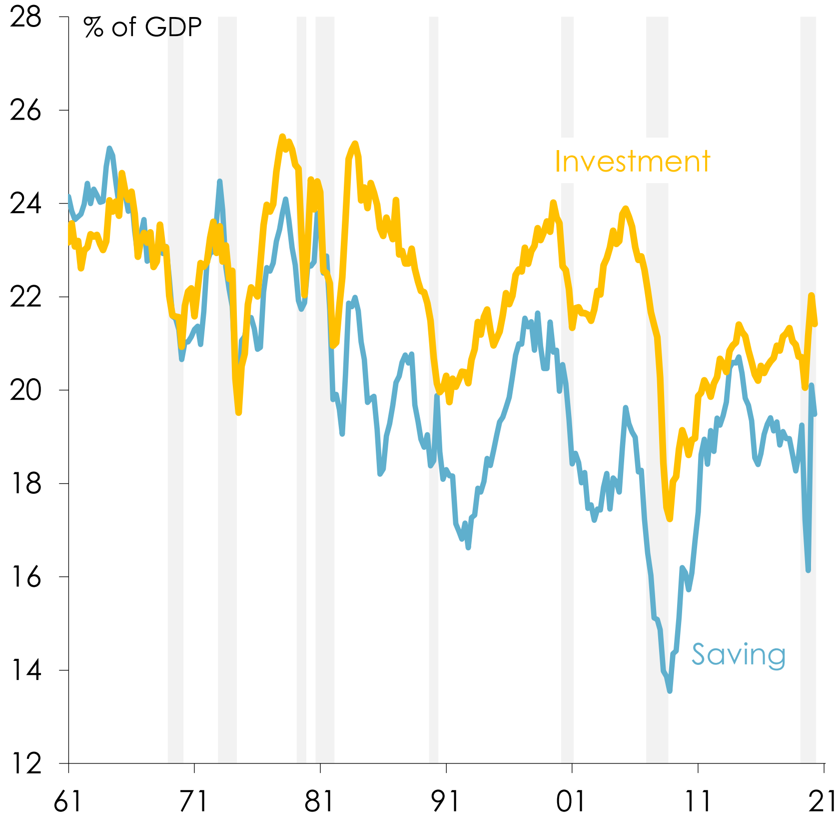
Unusually, the US current account deficit has widened so far during this recession, largely because investment hasn't fallen much

US current account balance



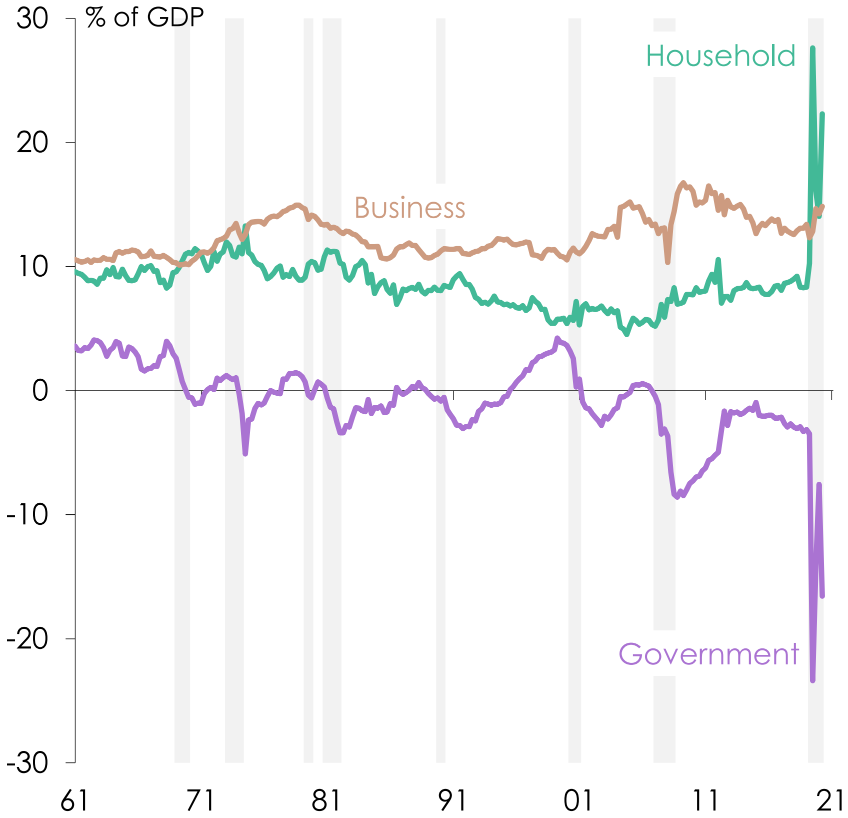
The US current account has *widened* during the recession that began last year – and in Q1 was the largest (as a pc of GDP) since Q4 2008

Gross saving and investment



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

Gross saving by sector



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

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

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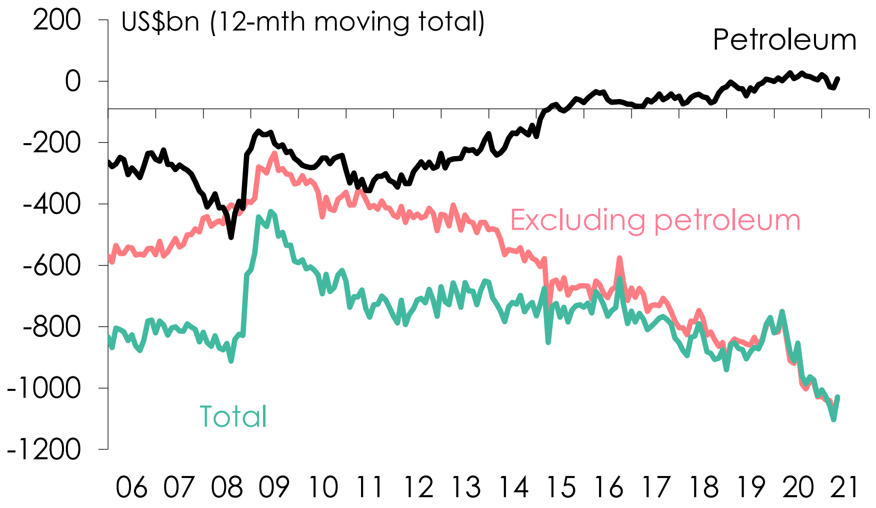
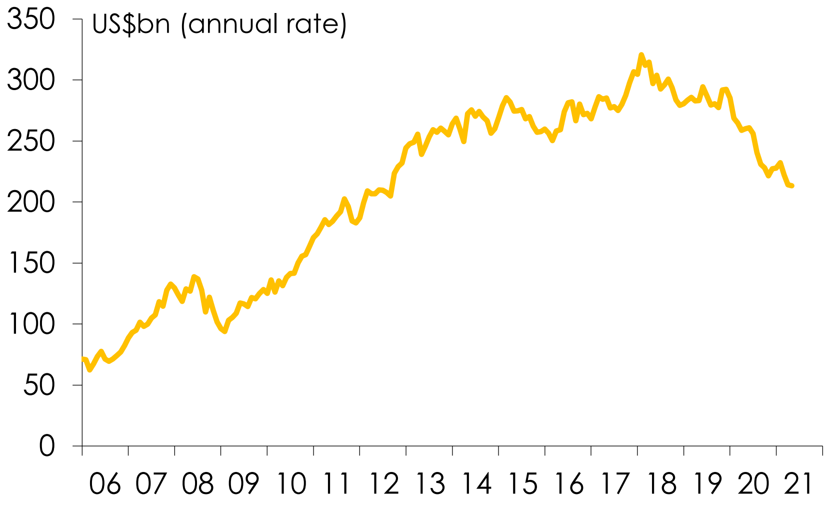
The US goods and services trade deficit narrowed by US$6bn in April but was still the third largest on record (after March and February)

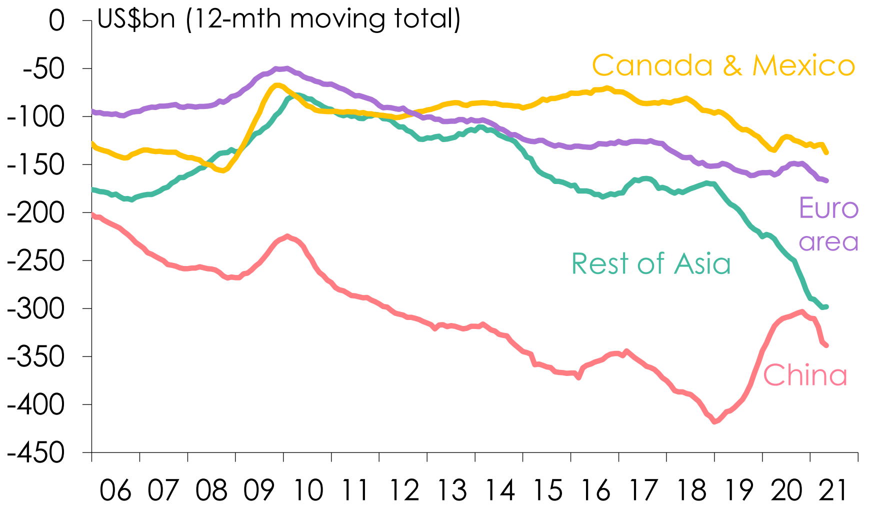
US goods trade balance



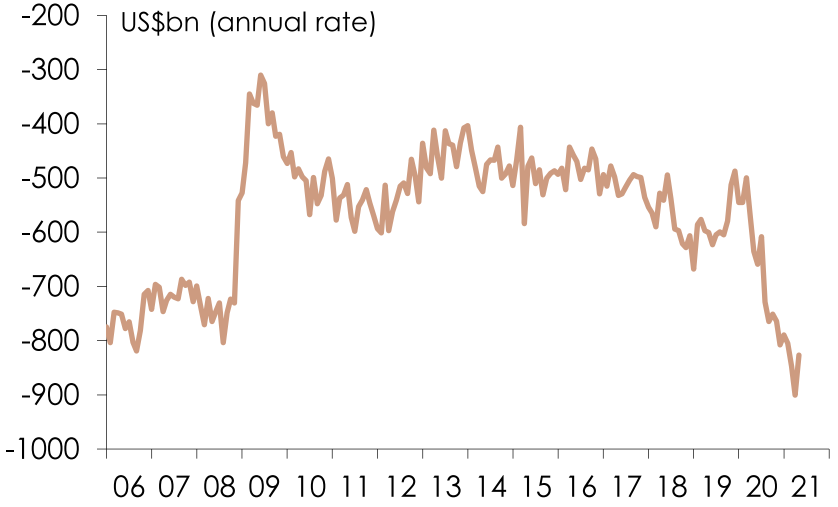
US services trade balance



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".

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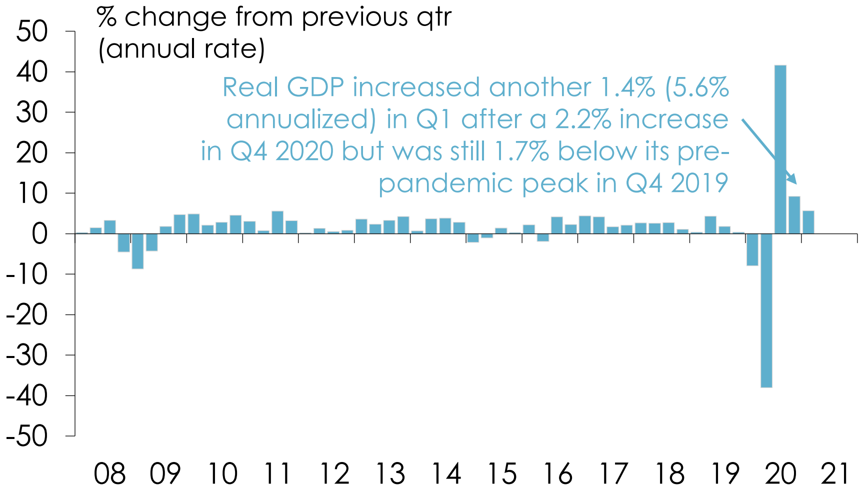
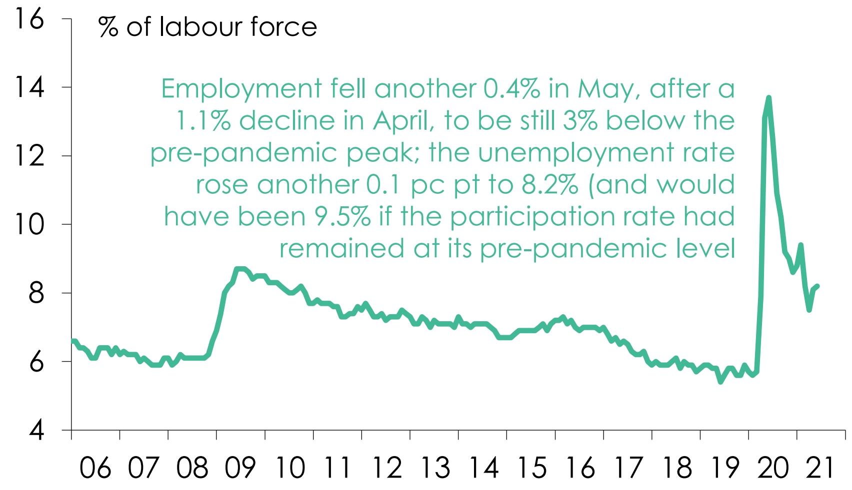
Canada's economy grew another 1.4% in Q1 but is still 1.7% smaller than in the pre-recession peak of Q4 2019, while employment is still down 3%

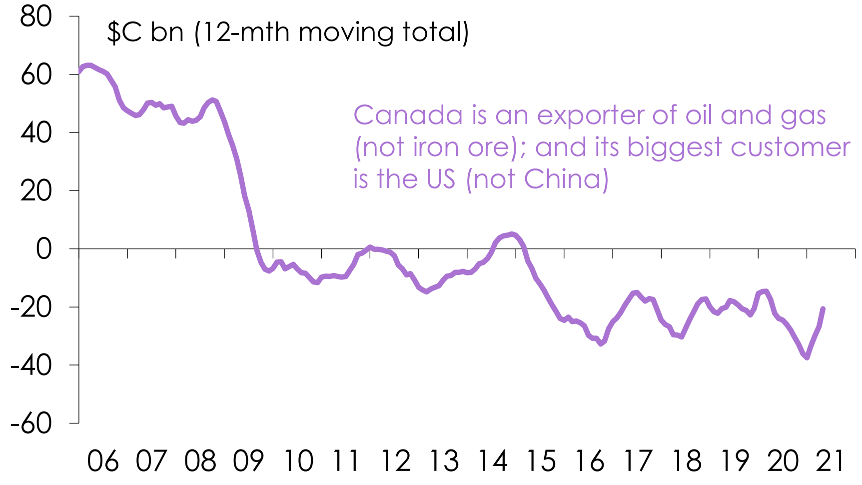
Real GDP



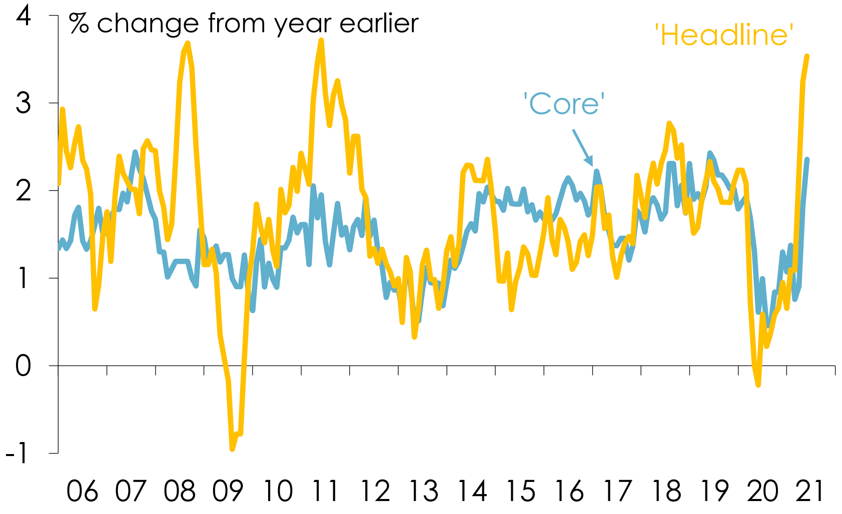
Unemployment rate



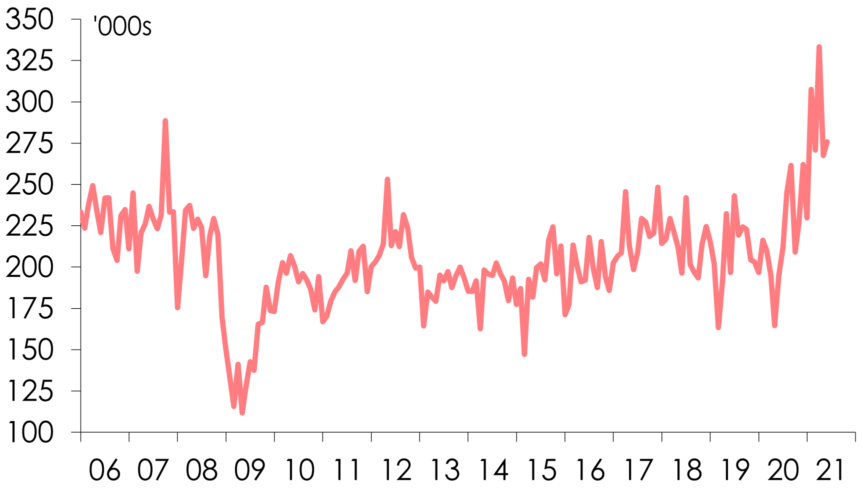
Merchandise trade balance



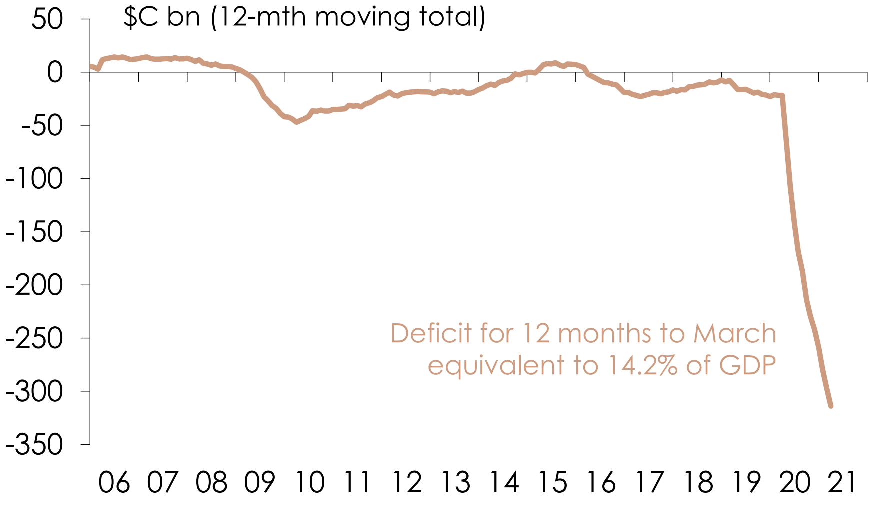
Consumer prices



Housing permits



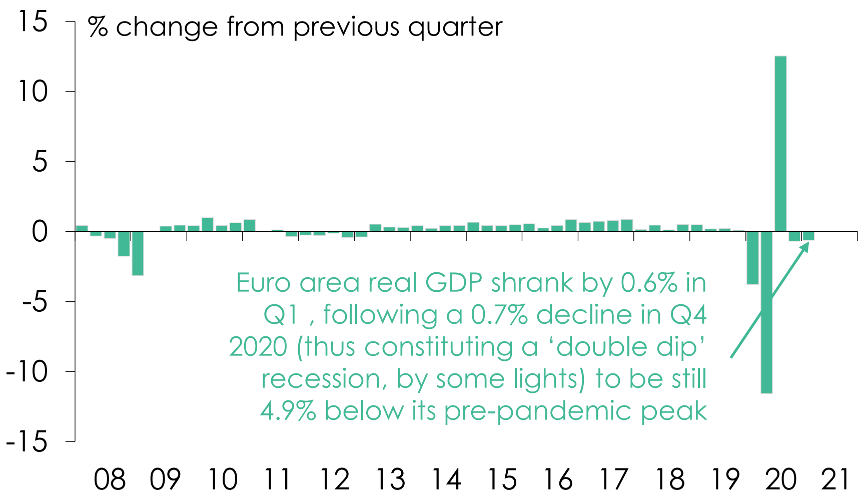
Federal budget balance



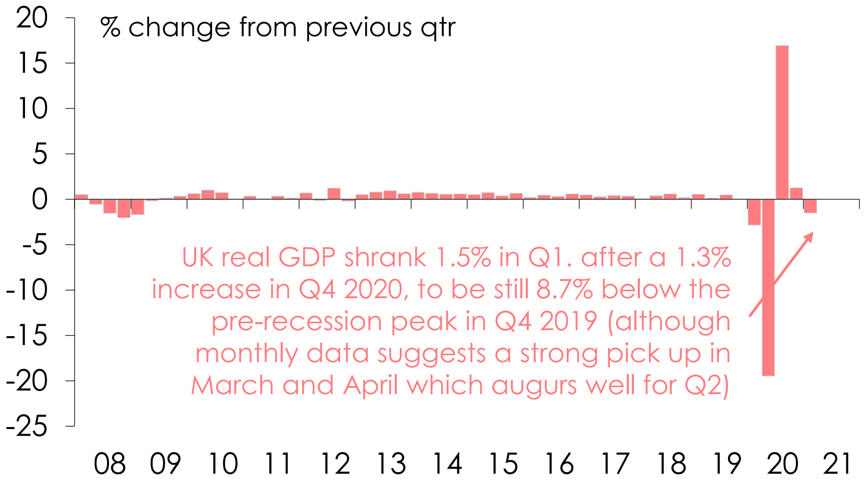
Sources: Statistics Canada; Teranet-National Bank of Canada; Department of Finance Canada. Return to "What's New".

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

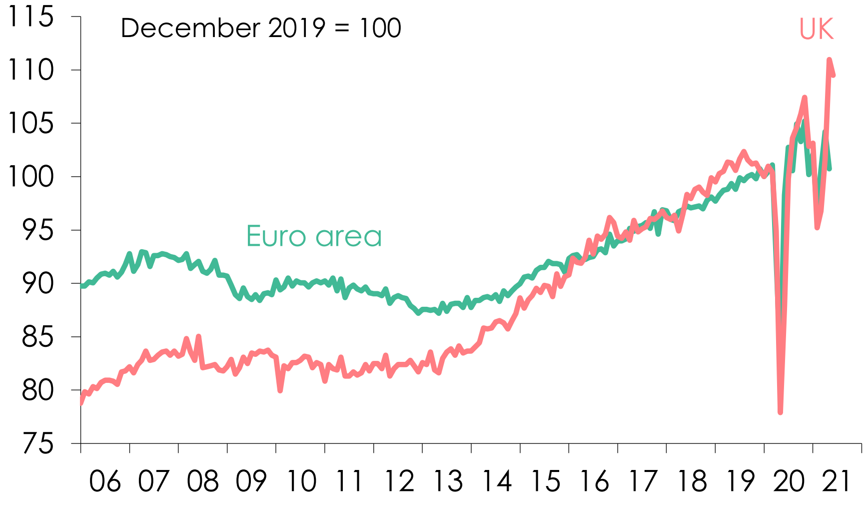
Euro area real GDP



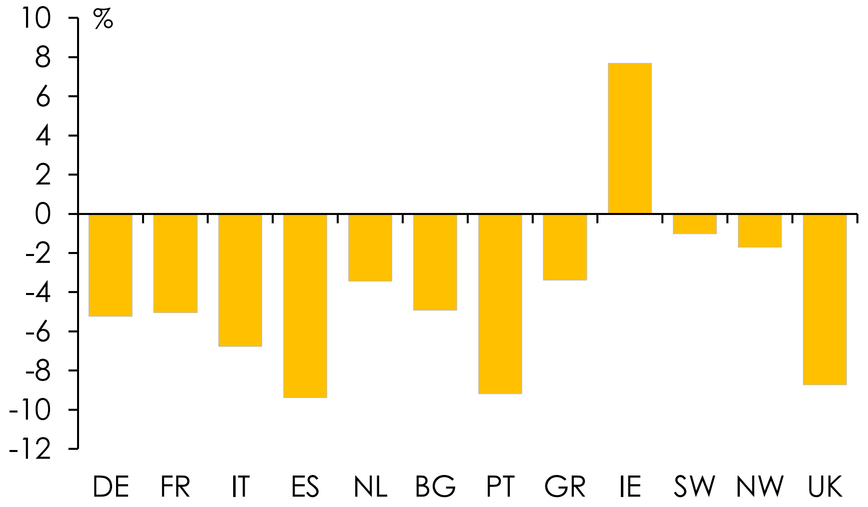
UK real GDP



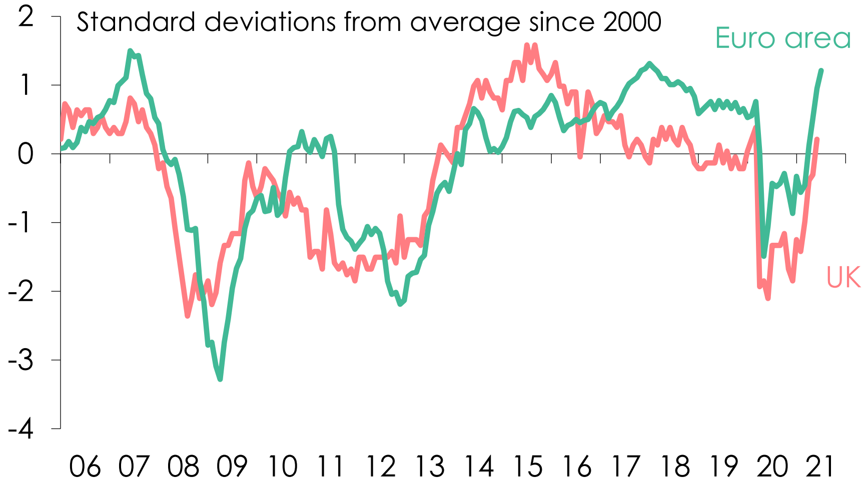
Retail sales volume



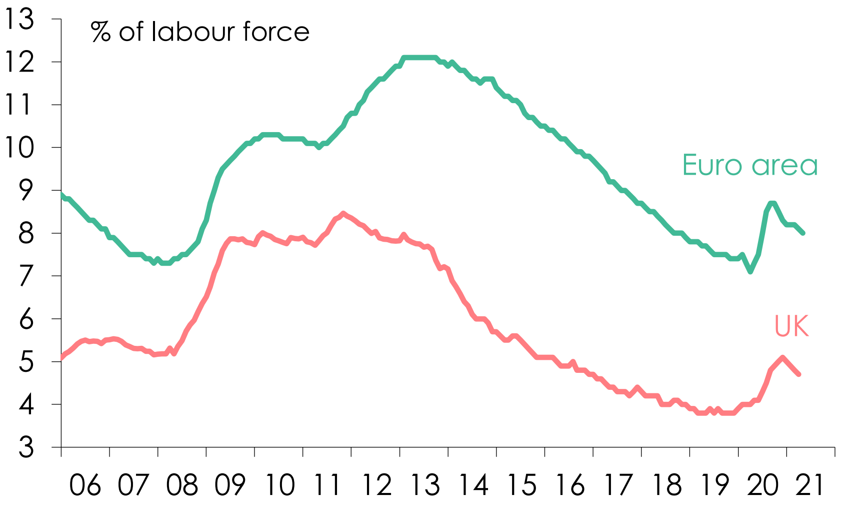
Q4 GDP vs pre-pandemic peak



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.
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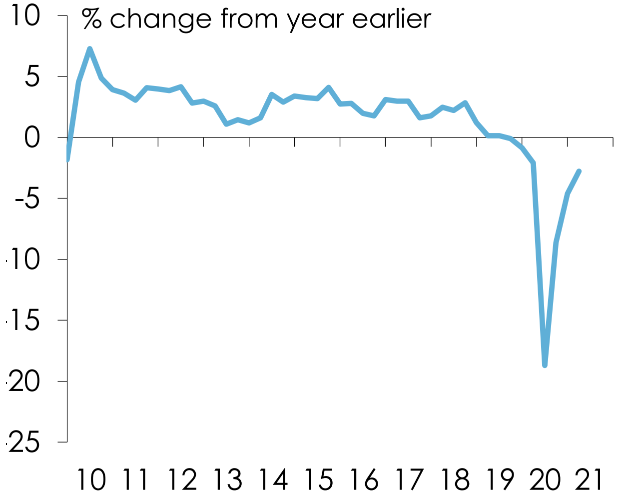
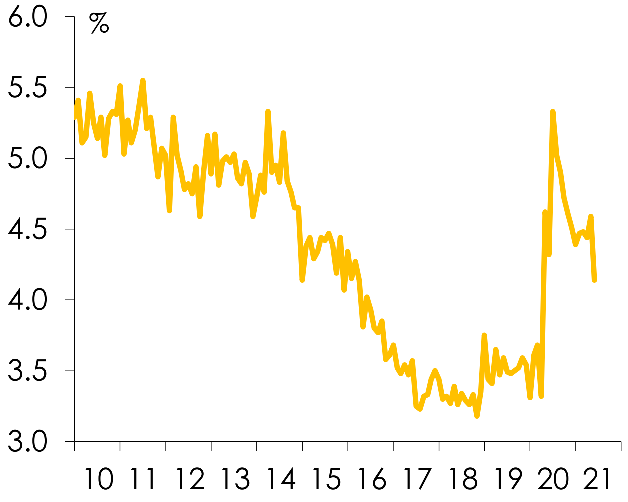
Mexico’s central bank this week followed those of Brazil and Russia in raising interest rates

- **Mexico’s central bank this week raised its policy rate by 25 bp to 4¼%**
  - this rate had been held at 4% since February, which marked the end of a series of rate cuts beginning in August 2019 totalling 425bp
- **In announcing the move, Banco de México’s Governing Board cited upward revisions to its inflation forecasts following “shocks beyond those foreseen” arising from supply chain disruptions**
  - which, though “expected to be of a transitory nature” nonetheless “may pose a risk to the price formation process” …
  - … making it “necessary to strengthen the monetary policy stance in order to avoid adverse effects on inflationary expectations, attain an orderly adjust-ment to relative prices, and enable the convergence of inflation to the 3% target”
- **The Board said it “will take the necessary actions based on incoming information” to attain the target**

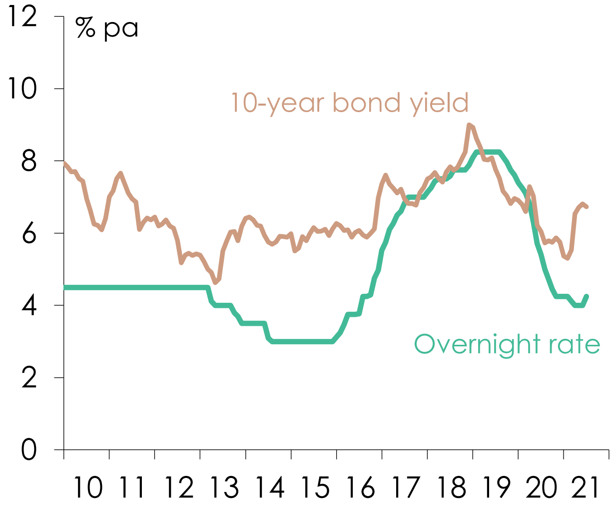
Real GDP growth



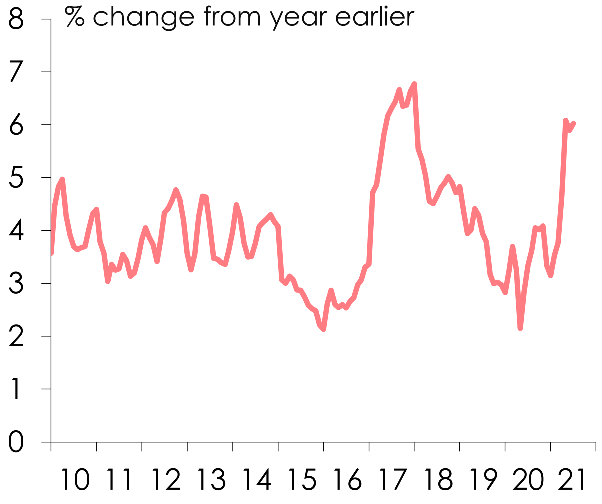
Unemployment



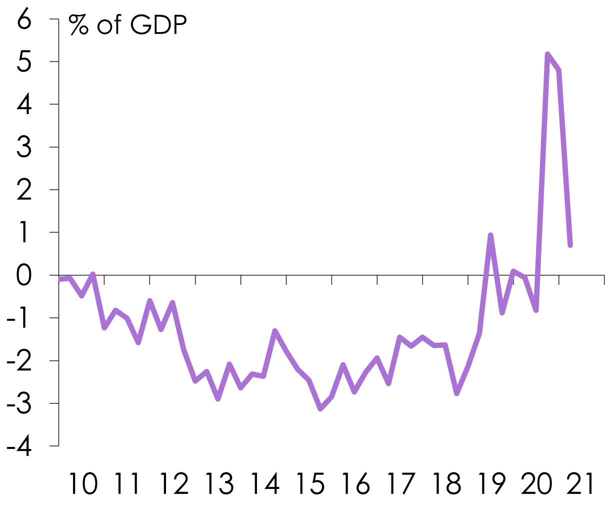
Interest rates



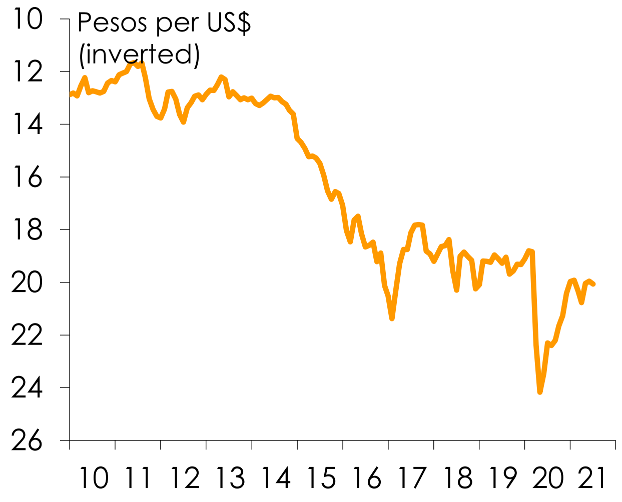
Inflation



Current account balance



Mexican peso vs US$



Sources: Banco de México; Instituto Nacional de Estadística y Geografía (INEGI); Refinitiv Datastream. Return to "What's New".

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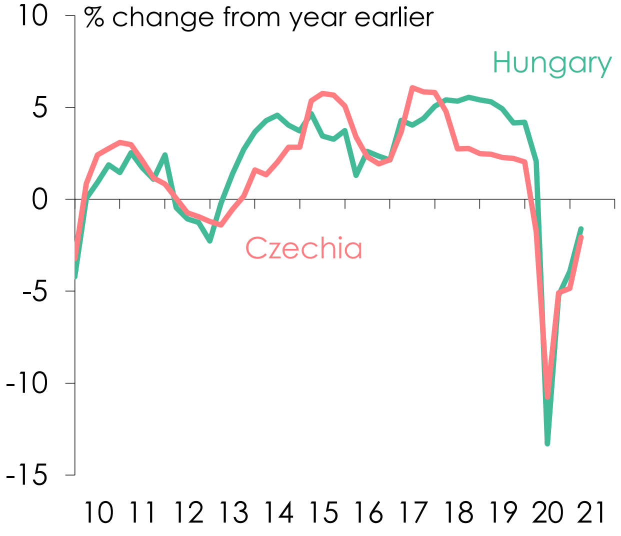
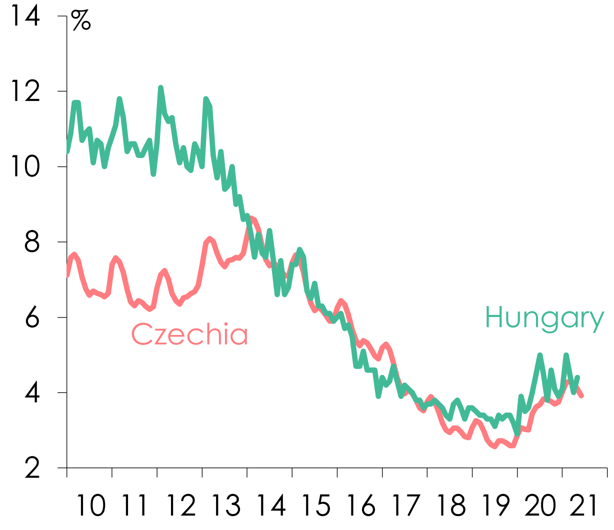
The Hungarian and Czech National Banks also raised interest rates this week

- Hungary's central bank (Magyar Nemzeti Bank) raised its base rate by 30 bp to 0.90% on Tuesday
  - this was the first increase in MNB rates since December 2011
- MNB's Monetary Council's statement foreshadowed that it would "continue the cycle of interest rate hikes until the outlook for inflation stabilizes around the central bank target and inflation risks become evenly balanced on the horizon of monetary policy"
- The following day, the Czech National Bank lifted its 2-week repo rate by 25 bp to 0.50%, and its Lombard rate by a similar amount to 1.25%
  - this represents the first (partial) reversal of the 200 bp reduction in rates implemented between March and May last year
- Explaining the rise the ČNB Board assessed the risks as being "slightly inflationary overall" and indicated that "interest rates can be expected to continue rising in the second half"

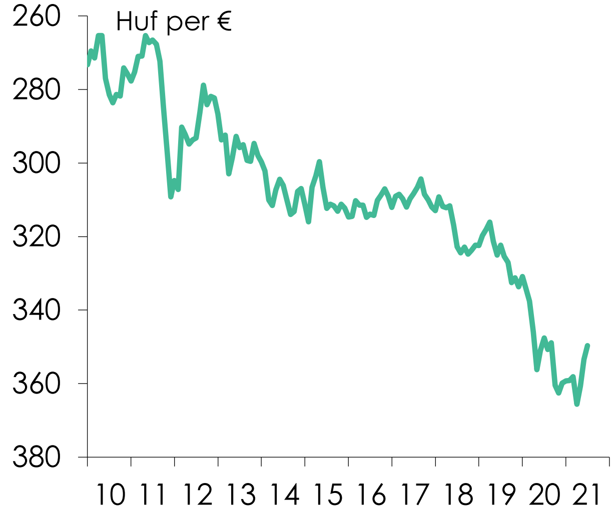
Real GDP growth



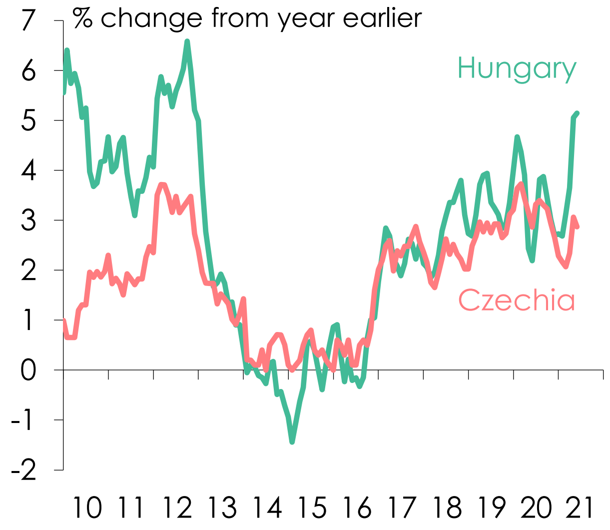
Unemployment



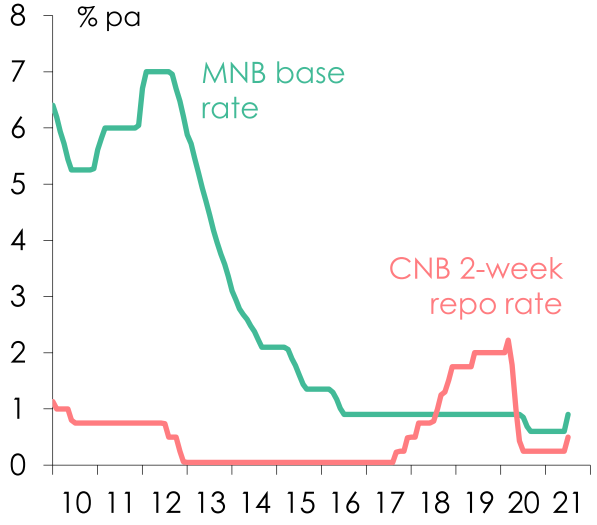
Hungarian forint vs euro



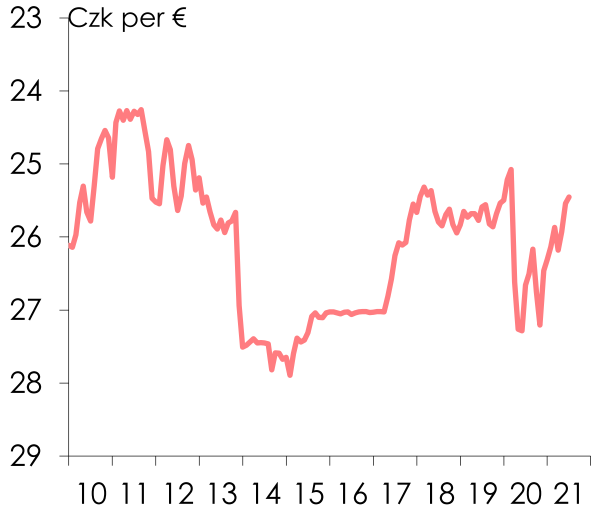
Inflation



Policy interest rates



Czech koruna vs euro



Sources: Magyar Nemzeti Bank; Hungarian Central Statistical Office (KSH); Česká národní banka; Czech Statistical Office (CZSO); Refinitiv Datastream. Return to "What's New".

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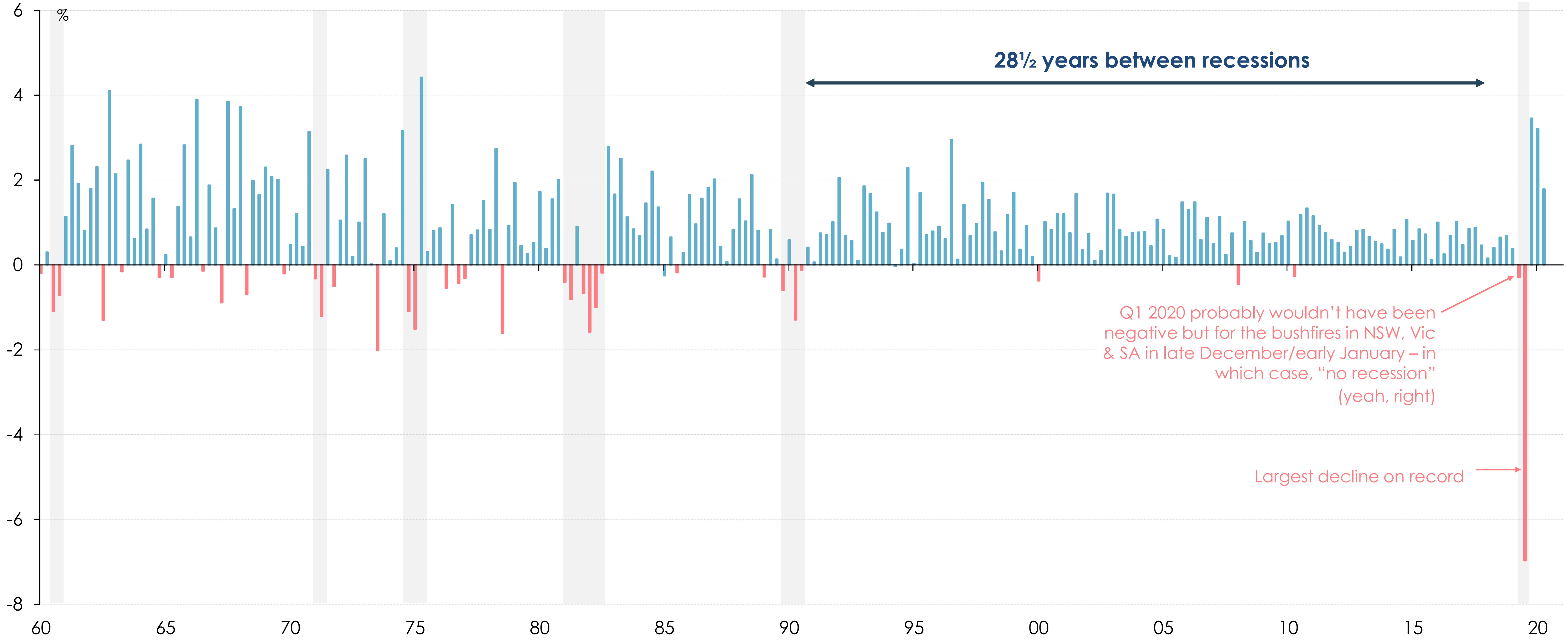
Australia

Australia is 'officially' out of its first recession in nearly three decades, with real GDP increasing 3.4% in Q3 2020, 3.1% in Q4 and 1.8% in Q1 2021

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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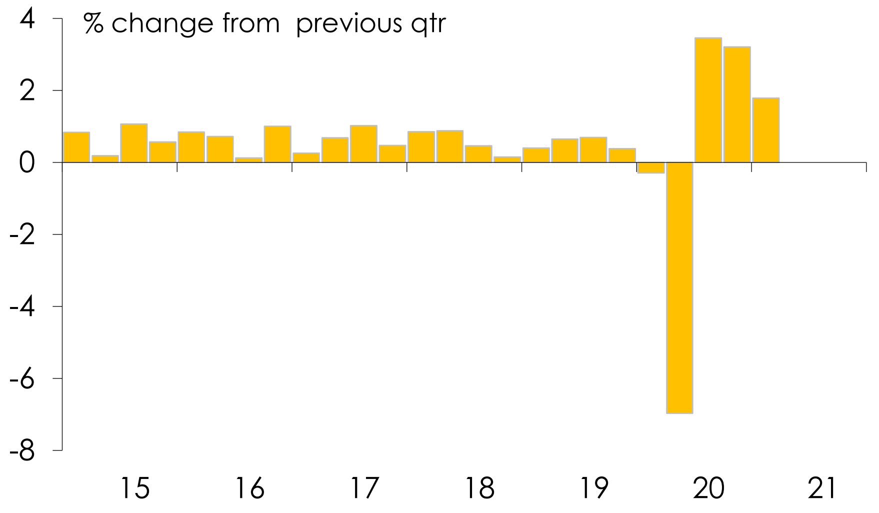
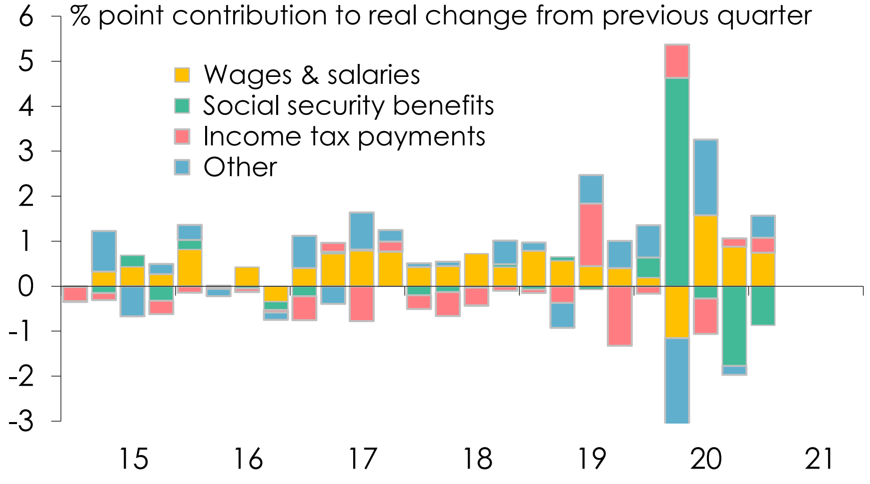
Household consumption accounted for 0.7 pc pts of Q1's 1.8% increase in real GDP, with business and housing investment providing 0.4 & 0.3 pc pts

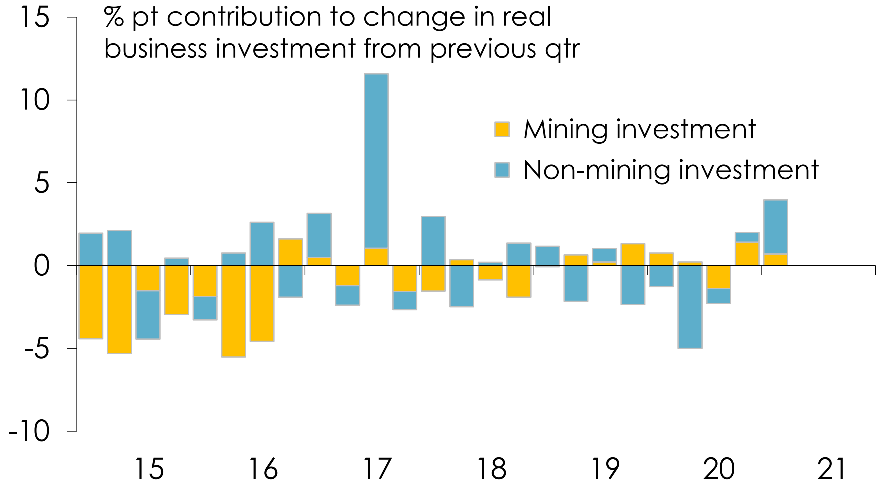
Quarterly change in real GDP



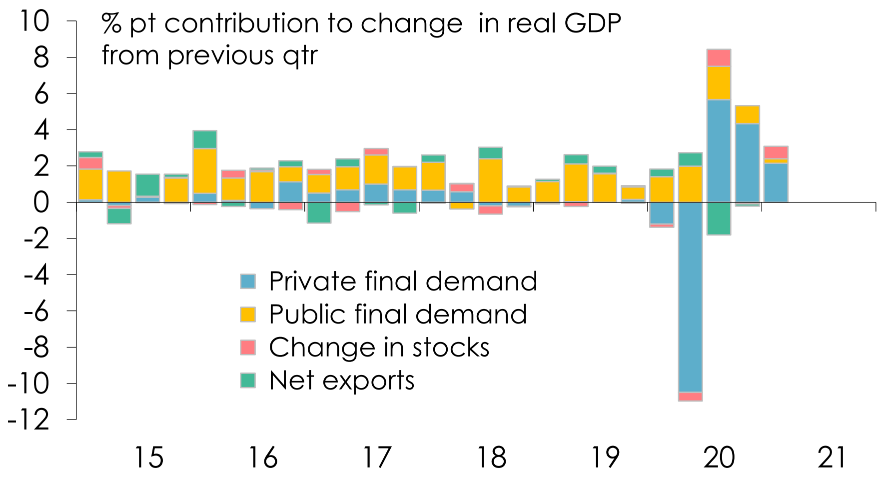
Household disposable income



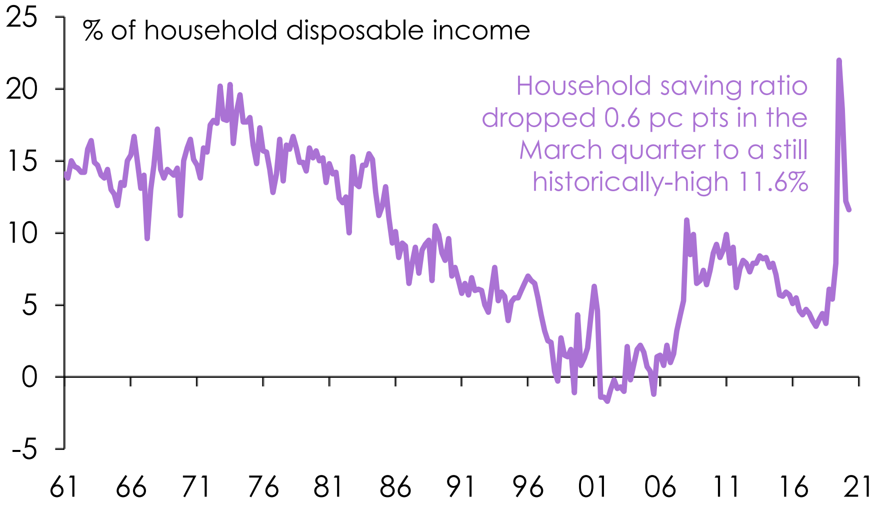
Business investment expenditure



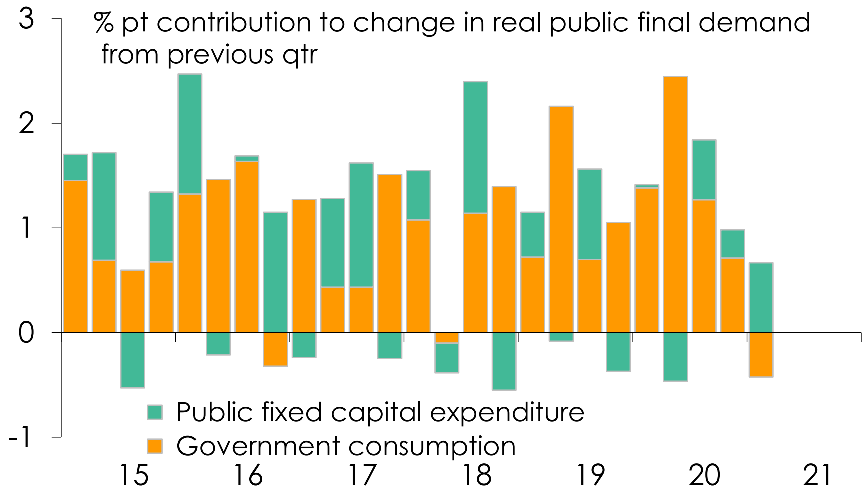
Contributions to quarterly GDP growth



Household saving rate



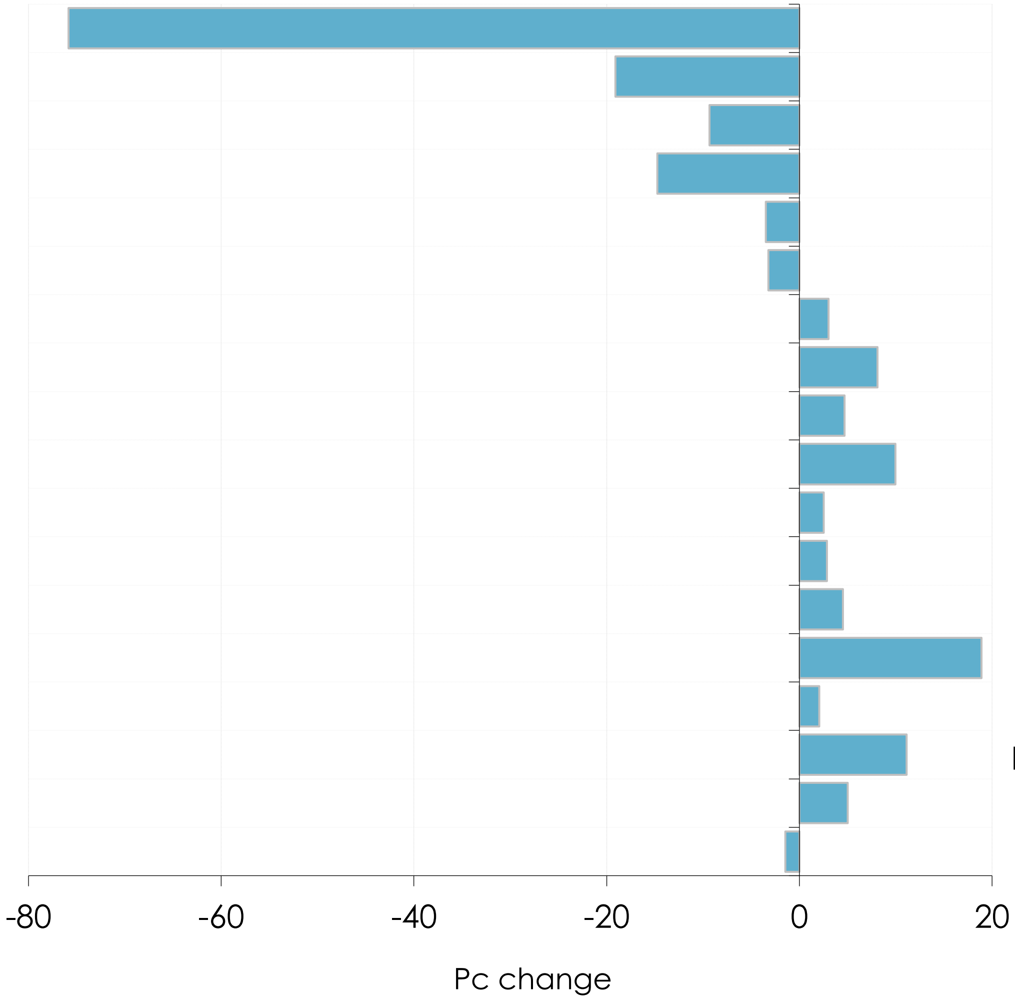
Public expenditure



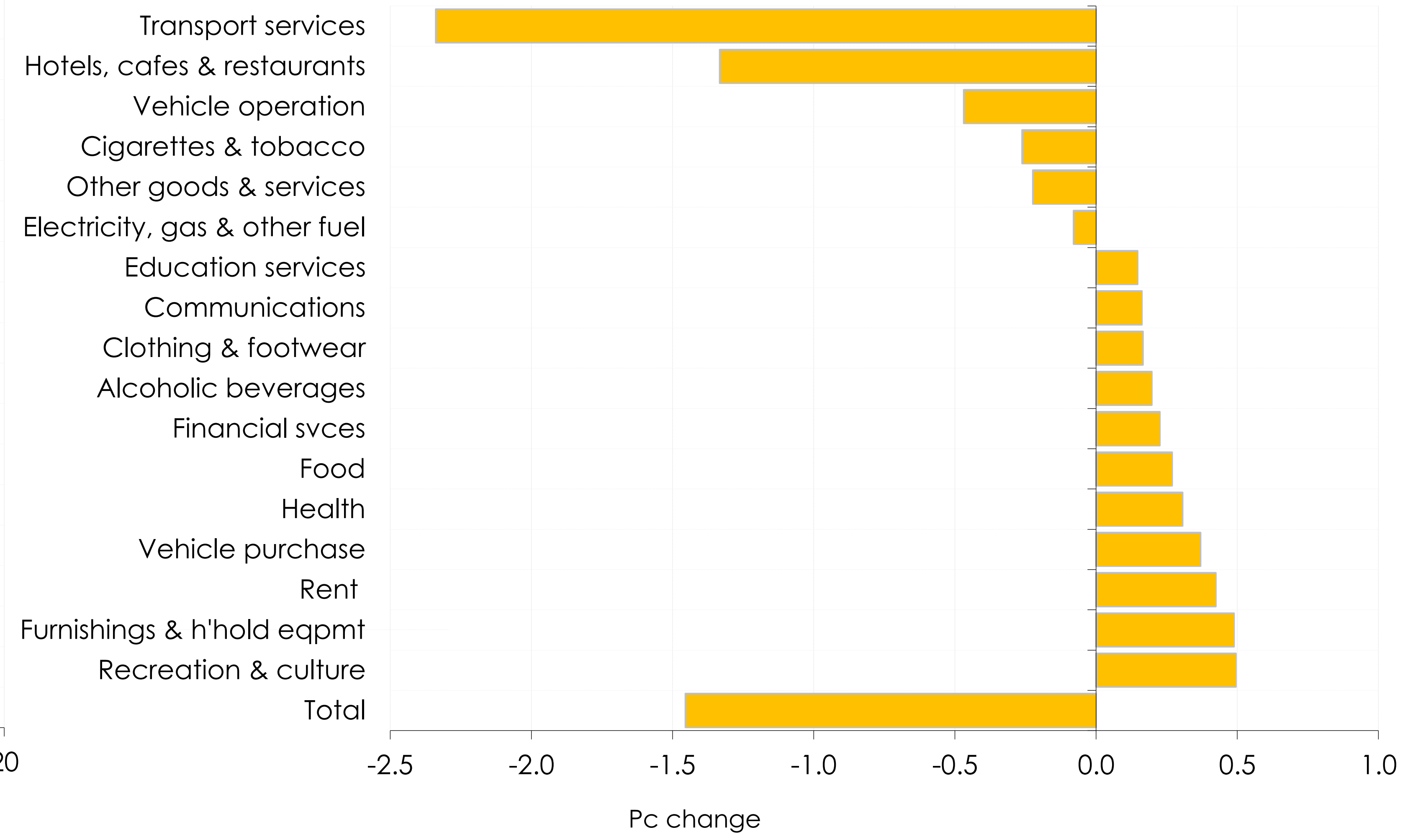
Note: Components of household disposable income are deflated by the implicit price deflator of household final consumption expenditure.
Source: ABS, *Australian National Accounts: National Income, Expenditure and Product*, March quarter 2021. June quarter national accounts will be released on 1st September. Return to "What's New".

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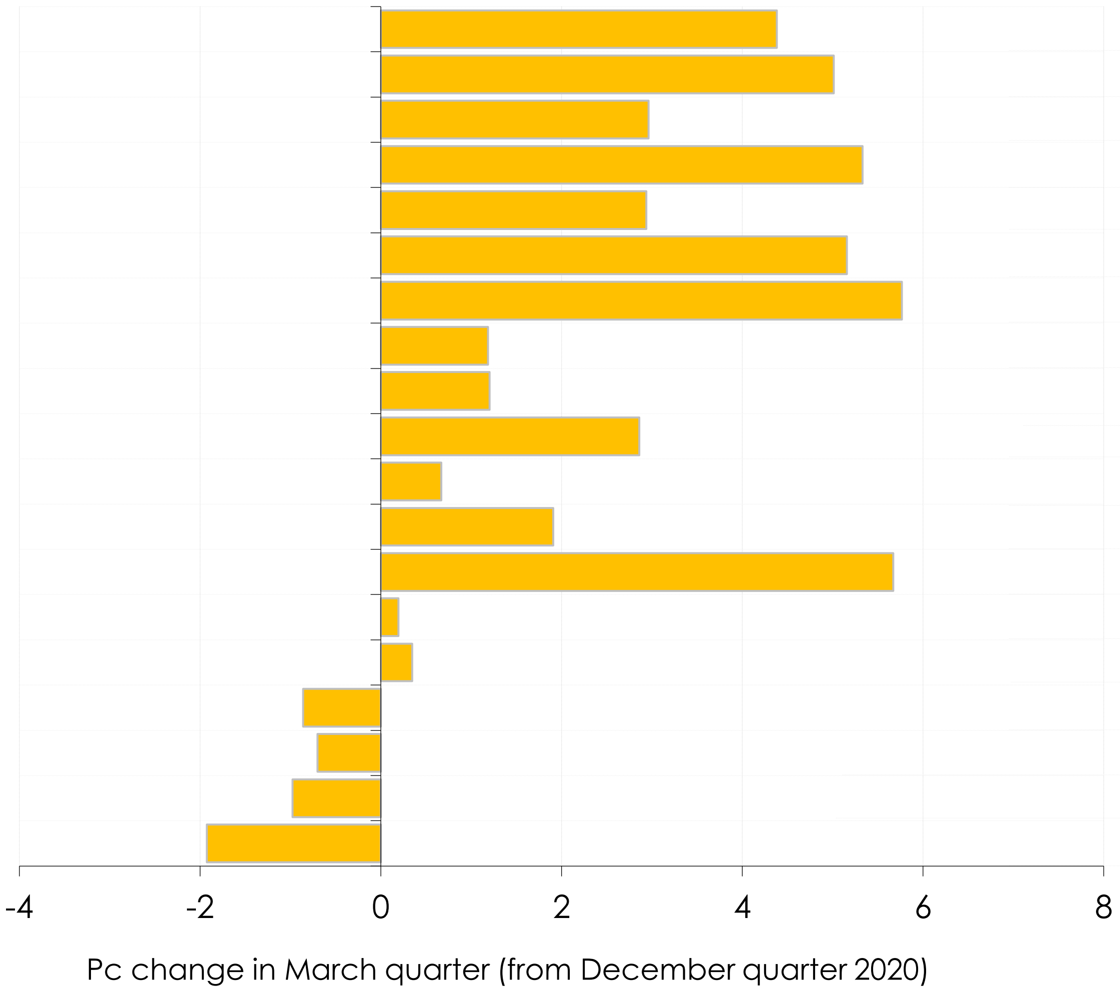
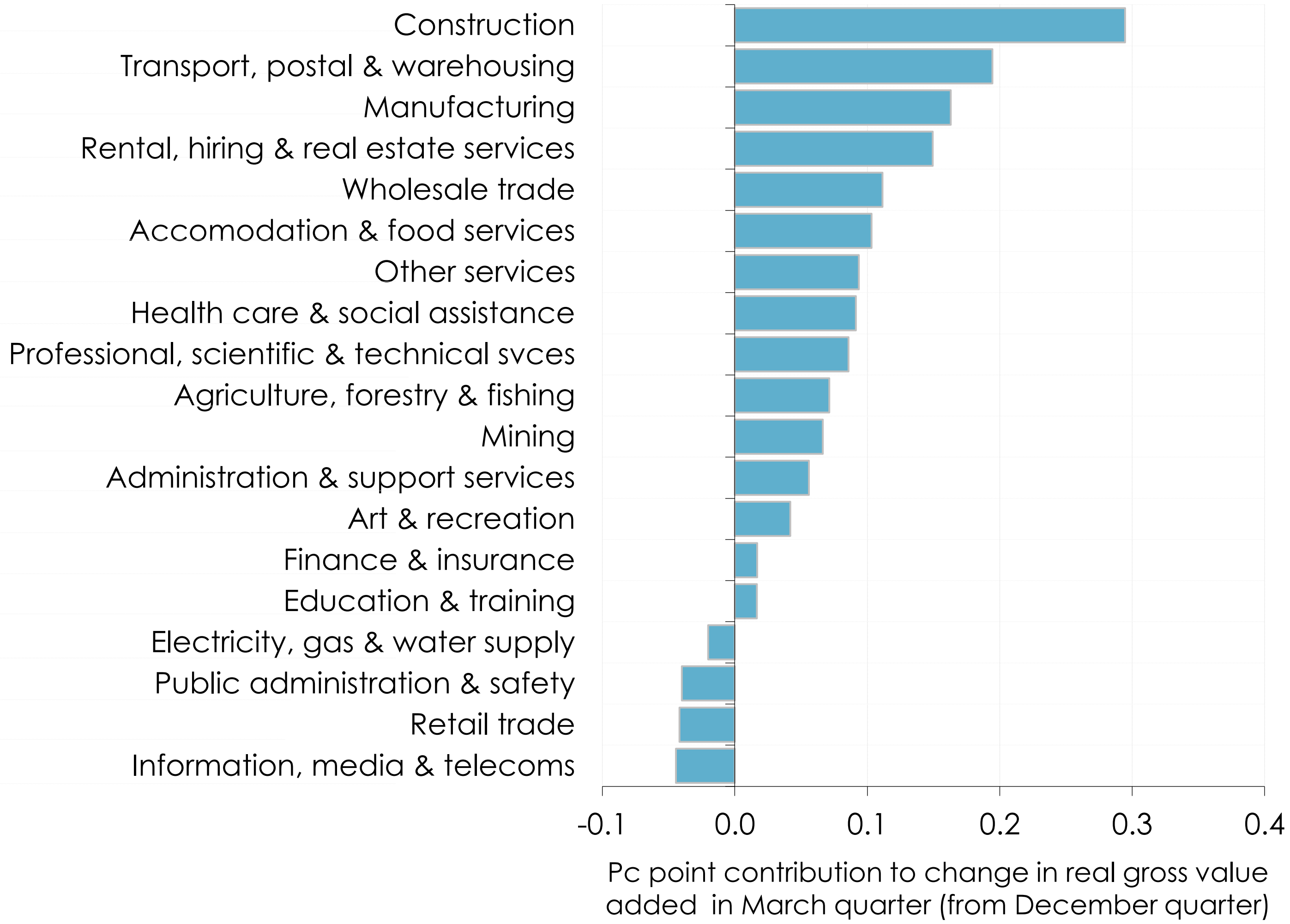
From an industry standpoint GDP Q1 growth was driven primarily by construction, manufacturing and goods distribution activities

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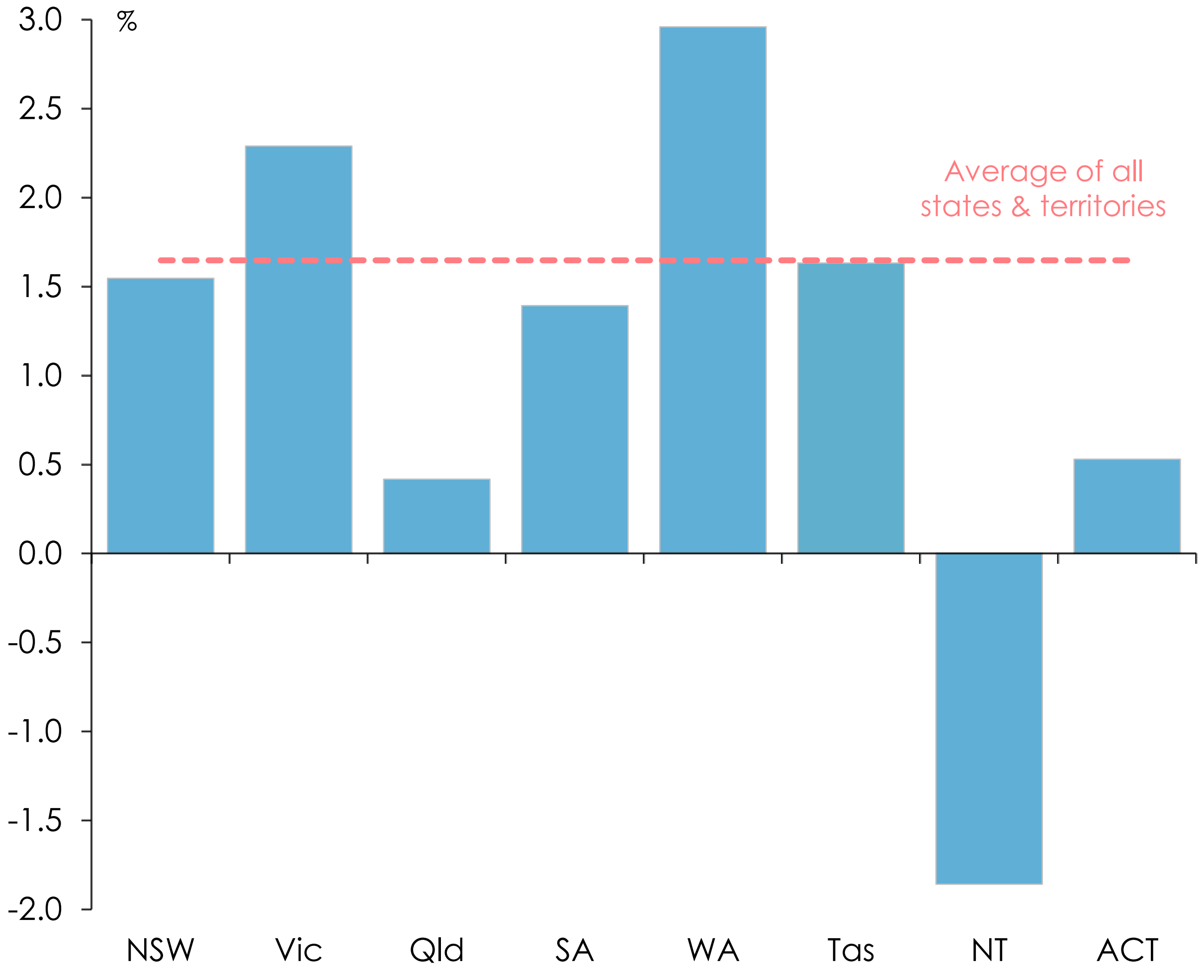
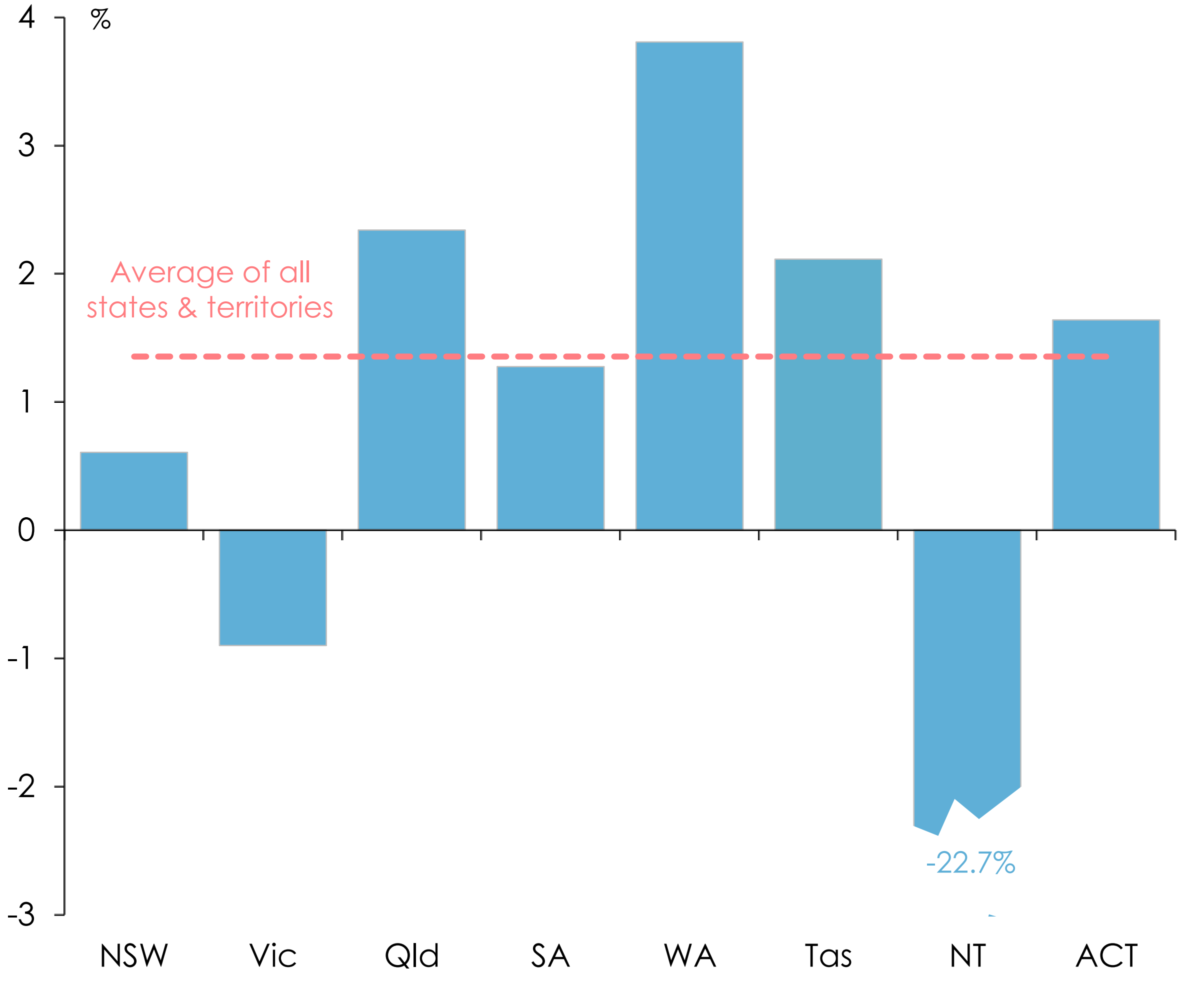
WA has had the strongest recovery in ‘final demand’, while Victoria and (especially) the NT are yet to return to pre-pandemic levels

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“.

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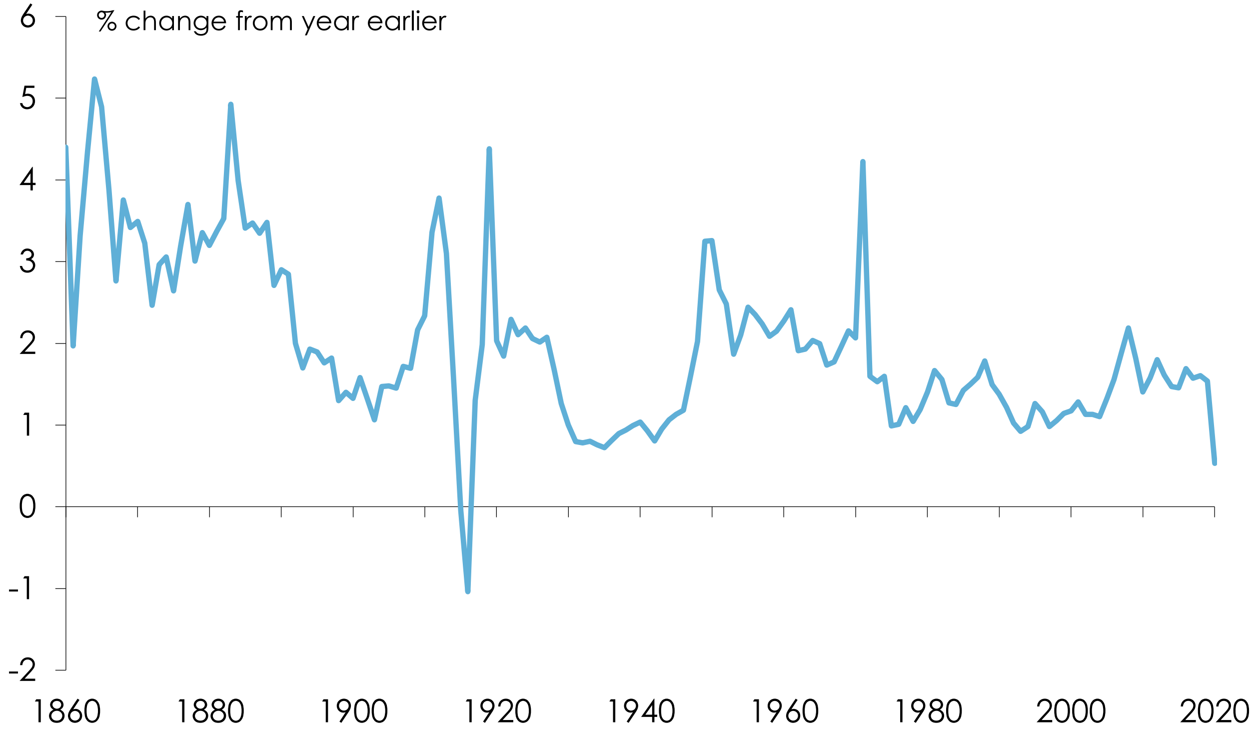
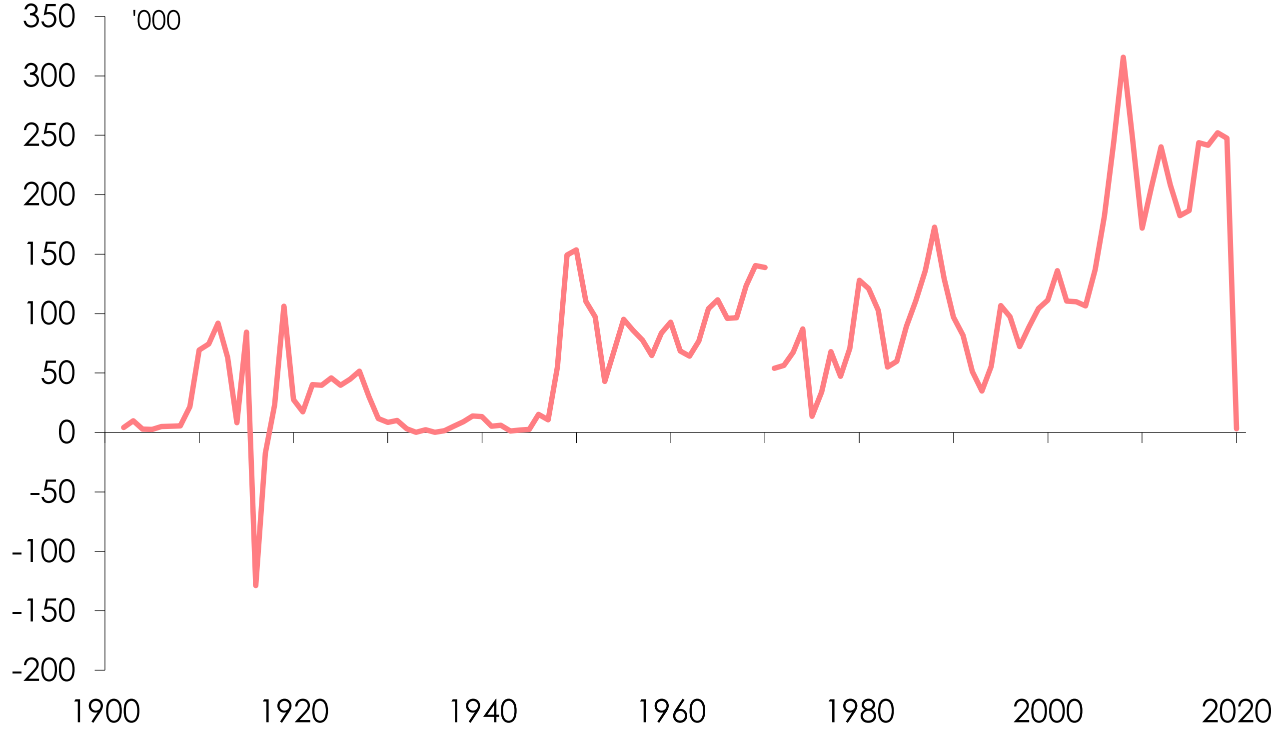
Australia's population grew by just 0.5% during 2020, the slowest rate since 1916, due to the border closure

Australia's population growth, 1860 -2020



Net migration to Australia, 1900-20



- **Only 76K immigrants came to Australia in the last nine months of 2020, while 151K people departed permanently – implying a net outflow of almost 68,000 people**
- **As a result, Australia's population growth rate fell to just 0.5% over the year to Q4 2020, the slowest since 1916**
- **The monthly labour force survey shows that the growth rate of the 'working age' (15+) population has slowed to just 0.2% over the year to Q2 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 99**

Note: The net migration data has a series break at 1971 due to definitional changes. *Sources:* ABS, *National, state and territory population*, December 2020; *Historical Population*, 2016; *Migration, Australia*, 2019-20; *Demography Bulletin*, 1923, 1940, 1950, 1960 and 1971; *Population and Vital Statistics Bulletin*, 1912. Return to "What's New".

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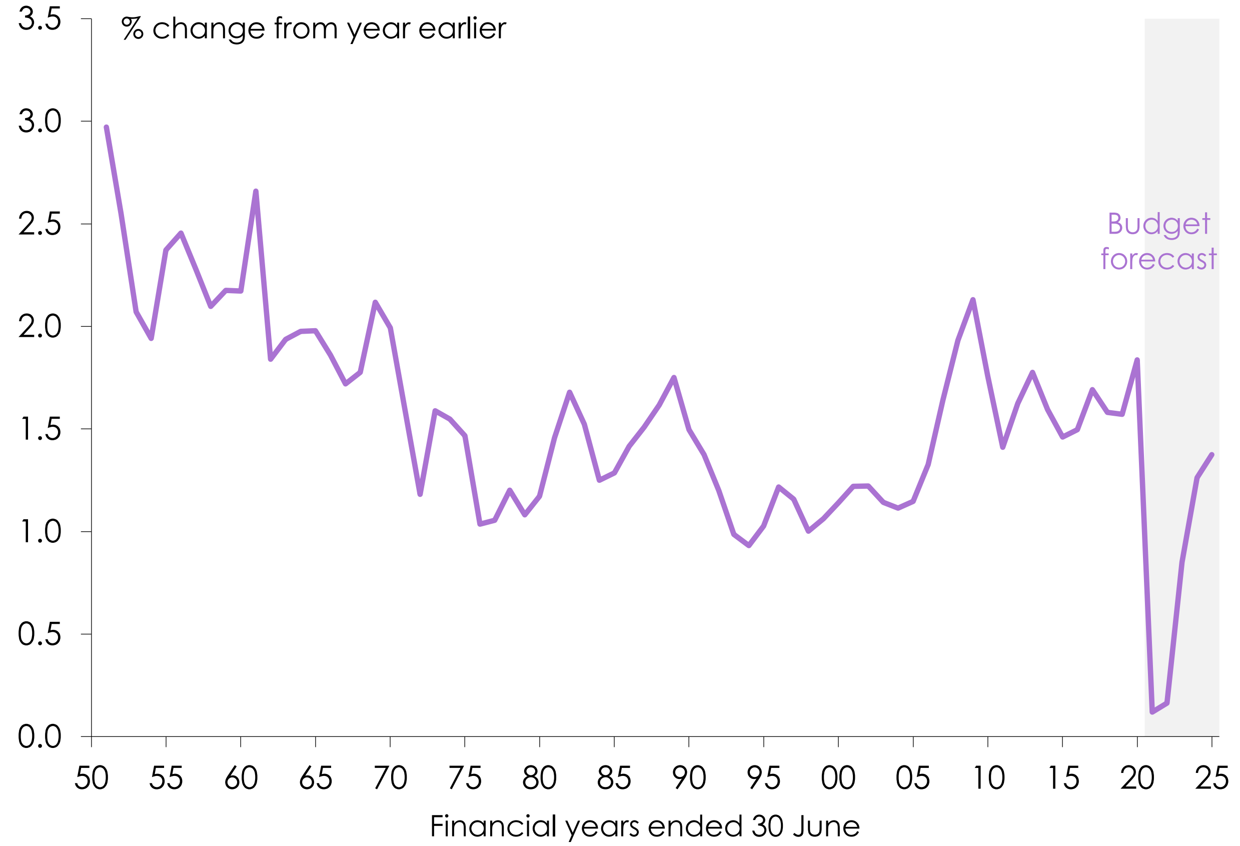
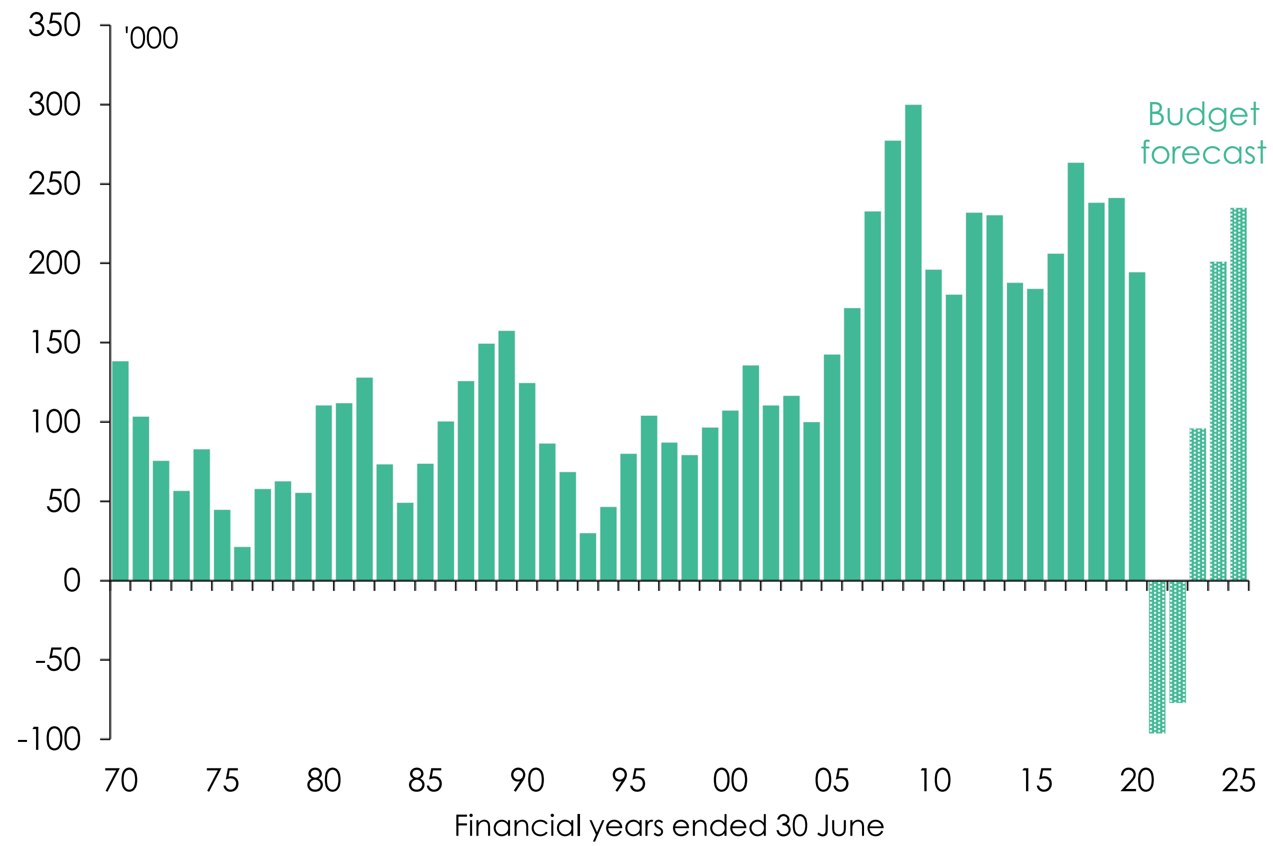
The Budget assumes that Australia's borders remain closed until after the next election – after which migration returns to pre-covid levels by 2024-25

Population growth



Net overseas migration



Opinion polls have consistently indicated very high levels of popular support for keeping Australia's international borders closed – which (more than anything else) likely explains why the Government's position has changed from last year's "we can't keep Australia under the doona" to this year's "our borders will remain shut as long as it's in Australia's interest to protect the health of Australians but also to protect Australia's economy" – and why the assumed date for re-opening the borders is after the latest possible date for the next election (20th May)

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

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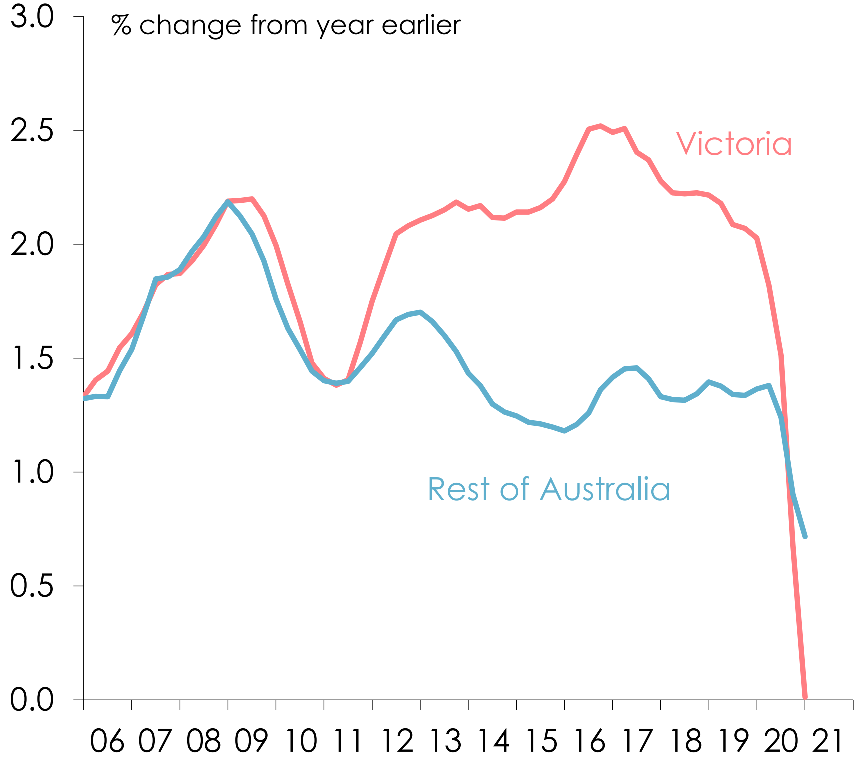
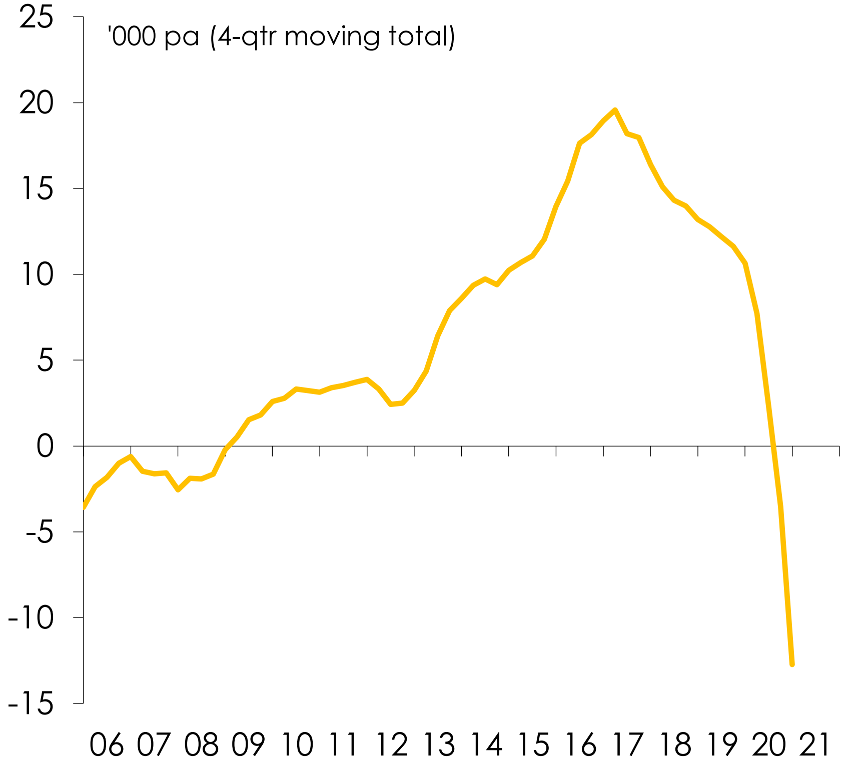
The population slow-down has been most acute in Victoria – probably as a direct result of that state's mis-handling of the pandemic

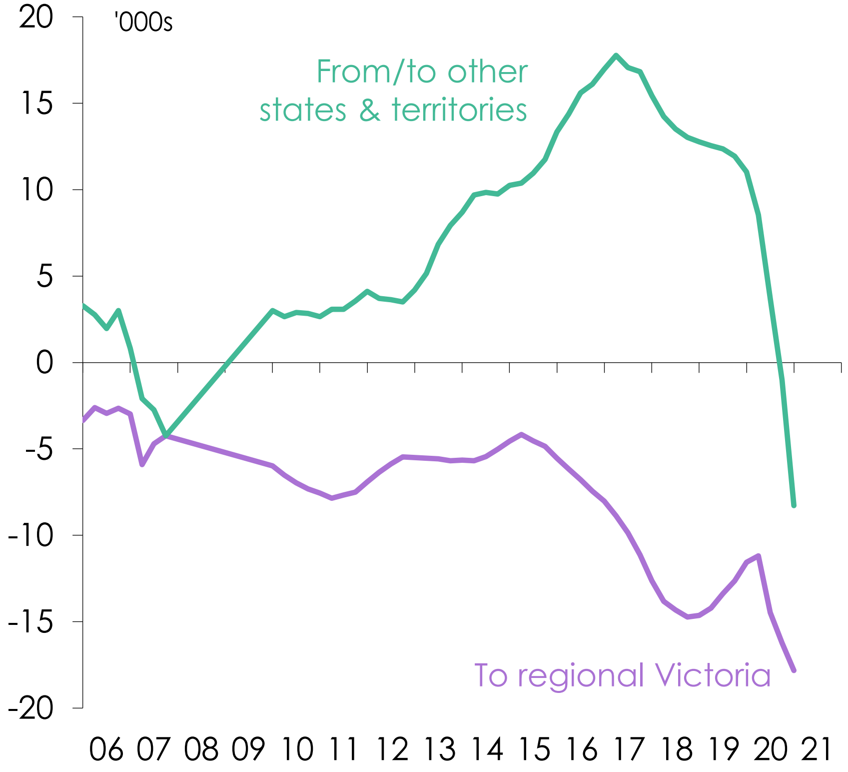
Population growth, states & territories, year to September 2020



Net migration to Victoria from other states & territories



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

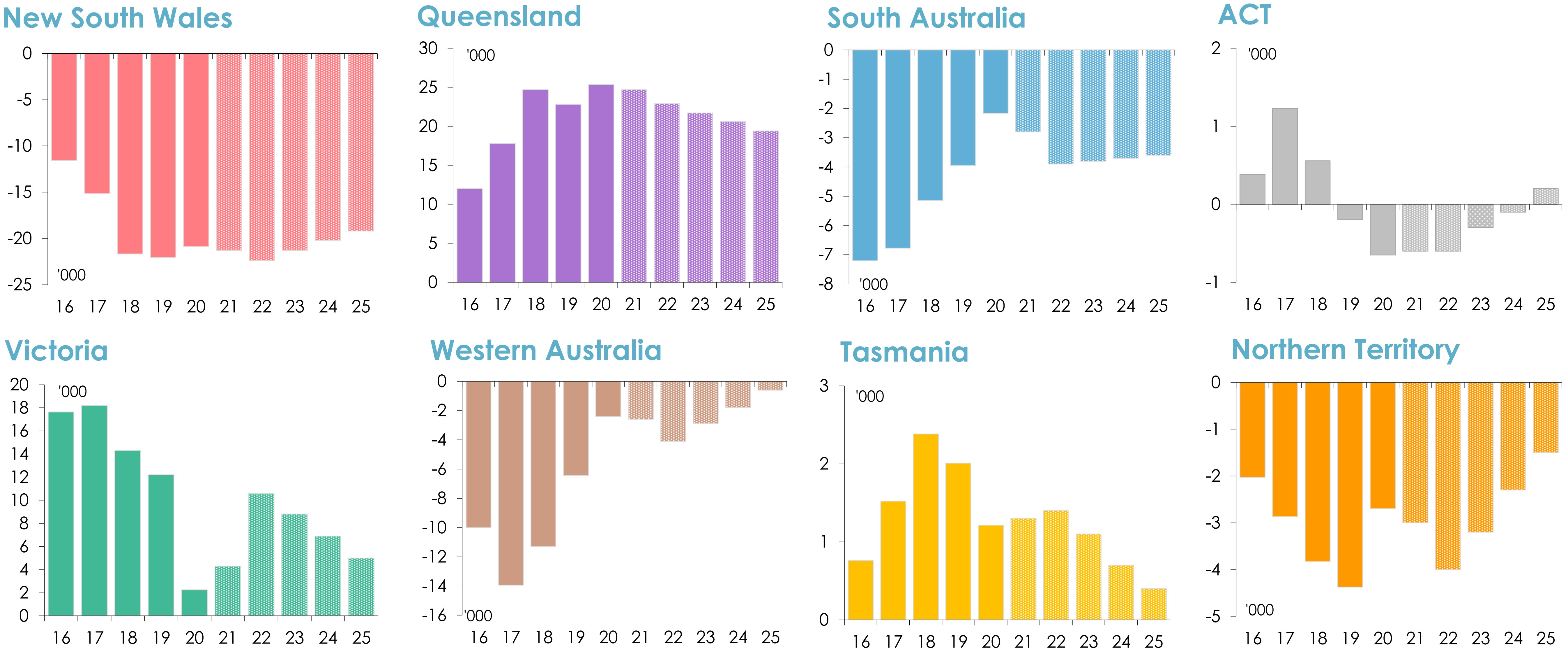


- **Victoria – whose economy has become more dependent on immigration both from overseas and interstate over the past decade than any other state or territory – has experienced the sharpest population slowdown since the onset of Covid-19, dropping from the fastest growth to the slowest**
- **There's 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**

Sources: ABS, National, state and territory population, December 2020; and Regional internal migration estimates, provisional, December 2020 . Return to "What's New".

Last month's Budget projects much lower interstate migration to Victoria – and that may be too optimistic (also too pessimistic for SA and WA)

Net interstate migration – Federal Budget forecasts for 2020-21 to 2024-25



Sources: ABS, National, state and territory population, December 2020; Australian Government, *2021-22 Budget Paper No. 3: Federal Financial Relations - Appendix A: Parameters and Further Information*, May 2021.

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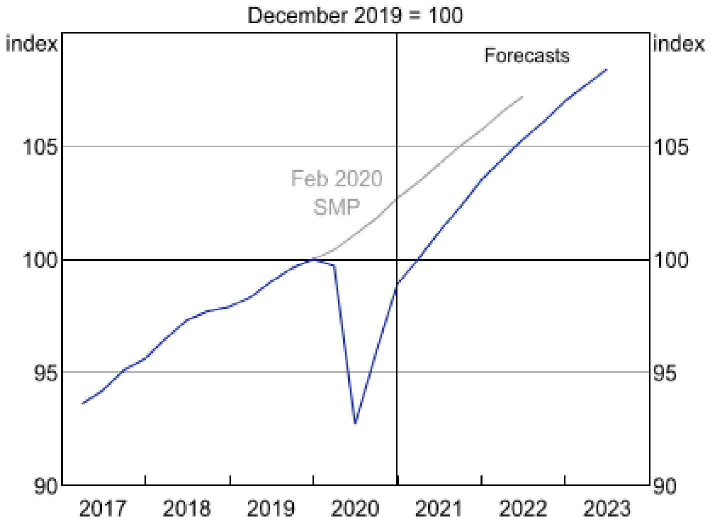
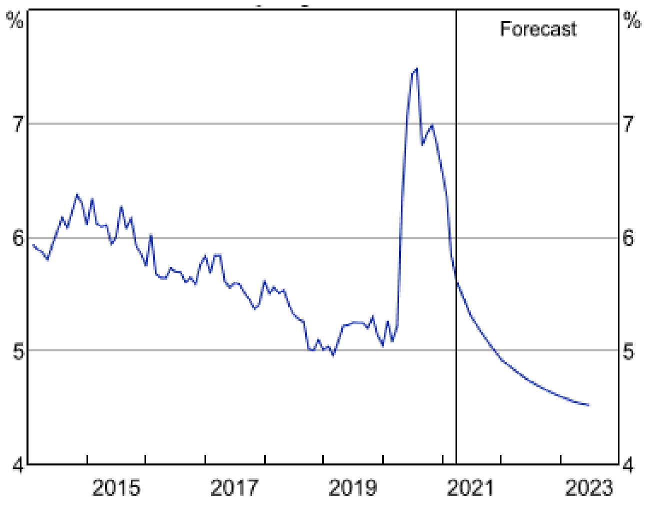
Despite stronger-than-expected economic and employment growth the RBA is sticking to its 'guidance' of no rate rises before '2024 at the earliest'

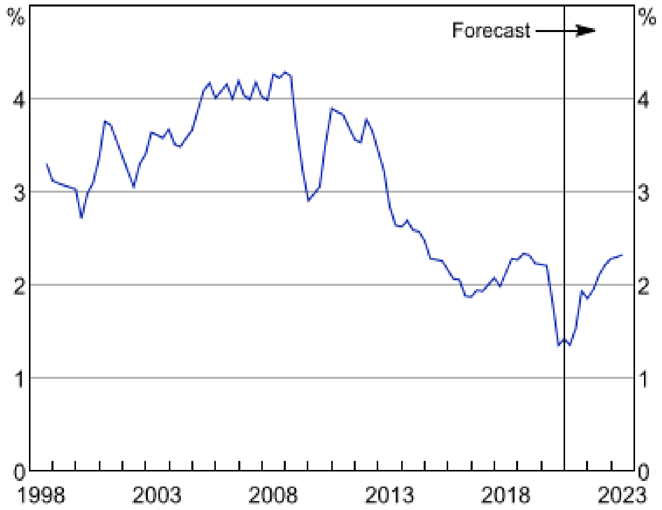
GDP



Unemployment



Wages



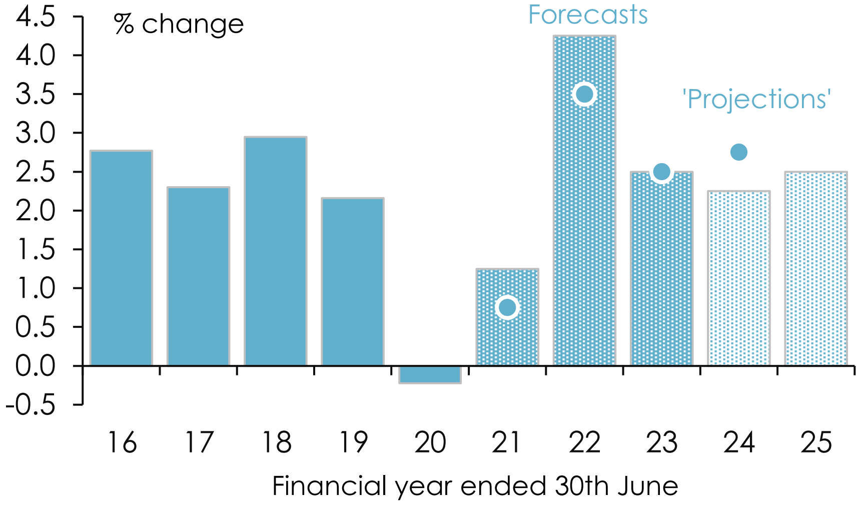
'Underlying' inflation

- 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'

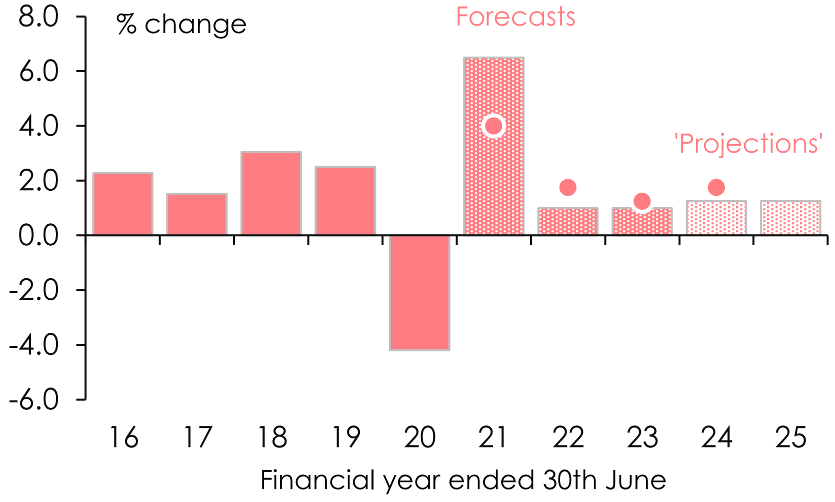
Source: Reserve Bank of Australia, *Statement on Monetary Policy*, 7th May 2021. The RBA's next set of forecasts will be published on Friday 6th August.

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

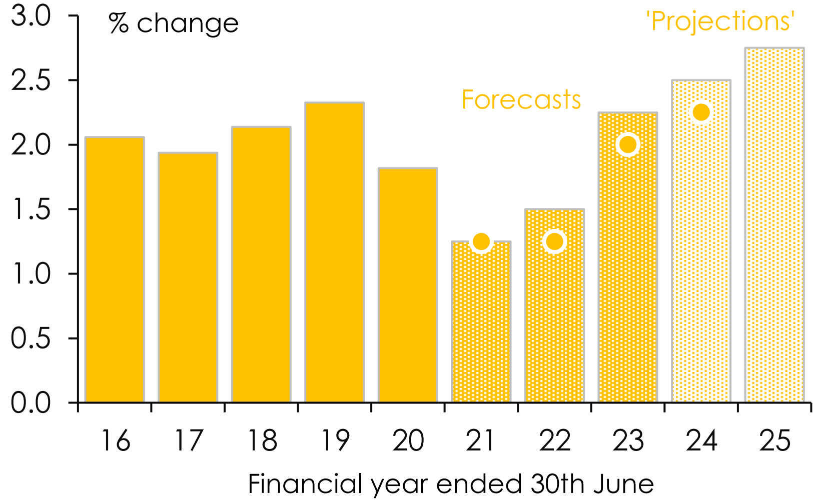
Real GDP



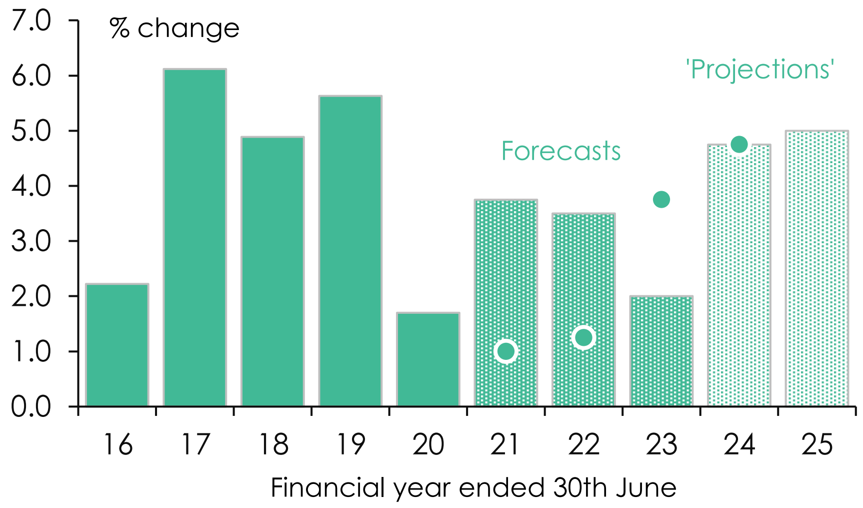
Employment



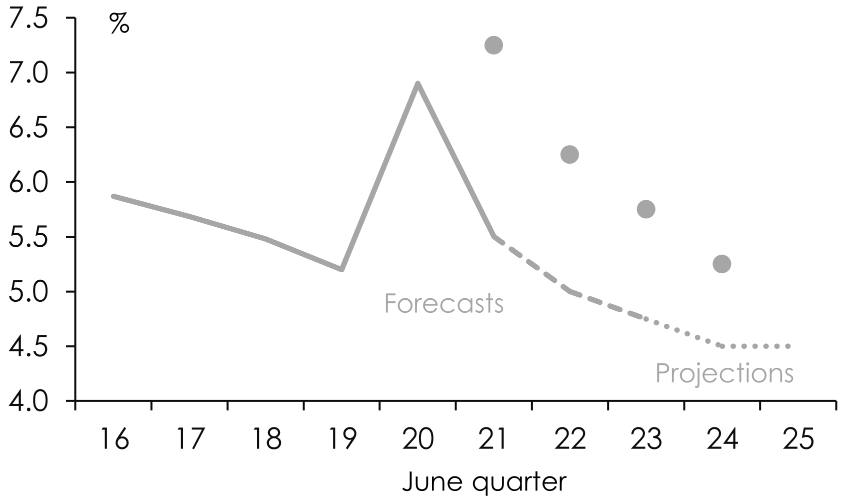
Wage price index



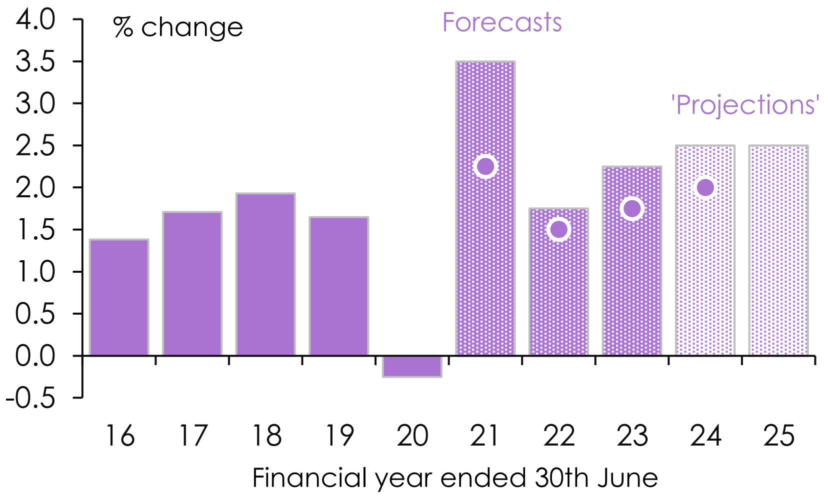
Nominal GDP



Unemployment rate



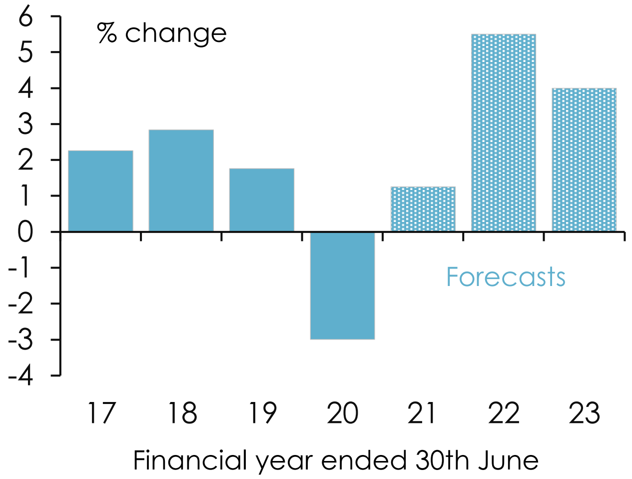
Consumer price index



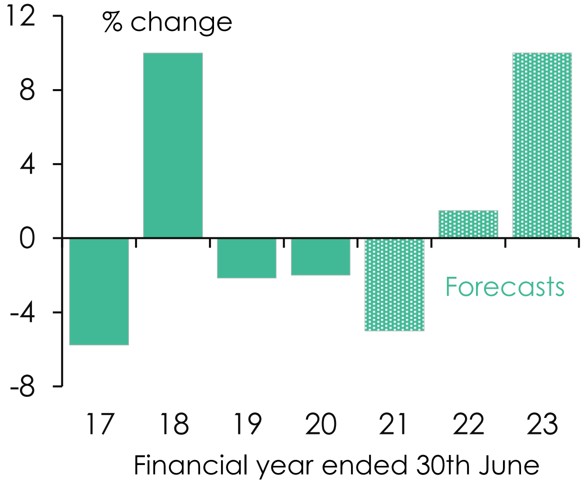
Note: Dots represent the forecasts and projections from the 2020-21 Mid-Year Economic & Fiscal Outlook (MYEFO) published in December last year. 'Forecasts' are Treasury's 'best endeavours' estimates for the current and following two financial years. 'Projections' for 2023-24 and 2024-25 are *not* forecasts,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

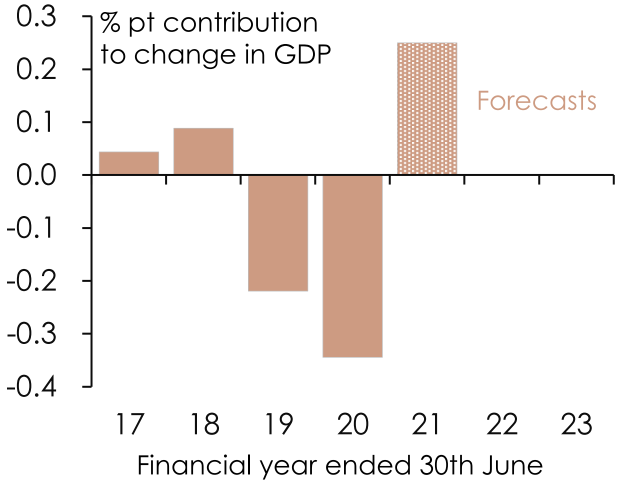
Household consumption



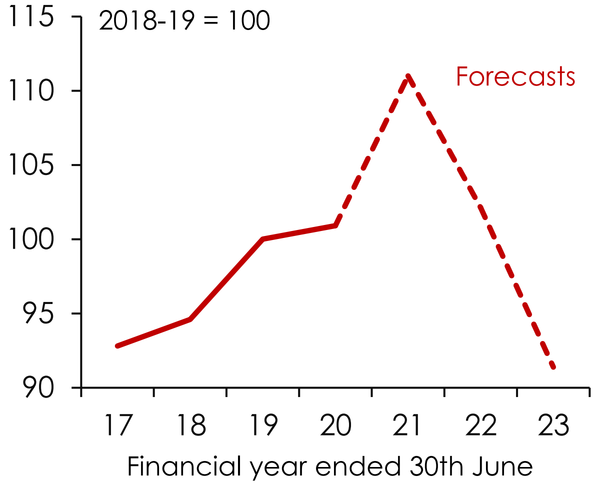
Business investment



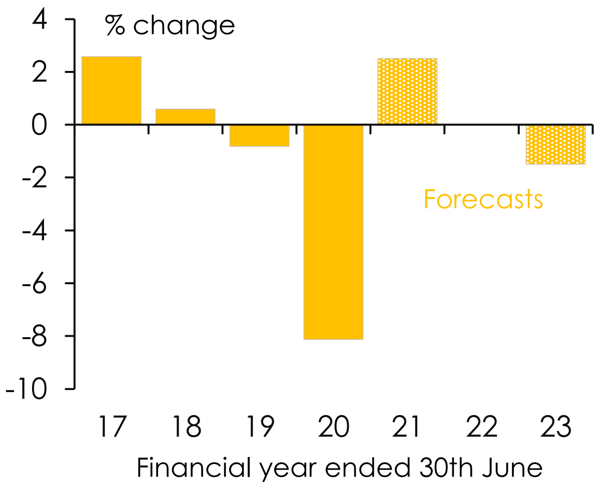
Change in inventories



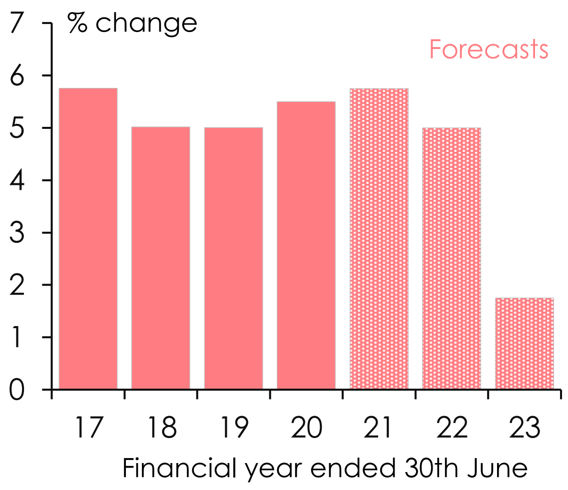
Terms of trade



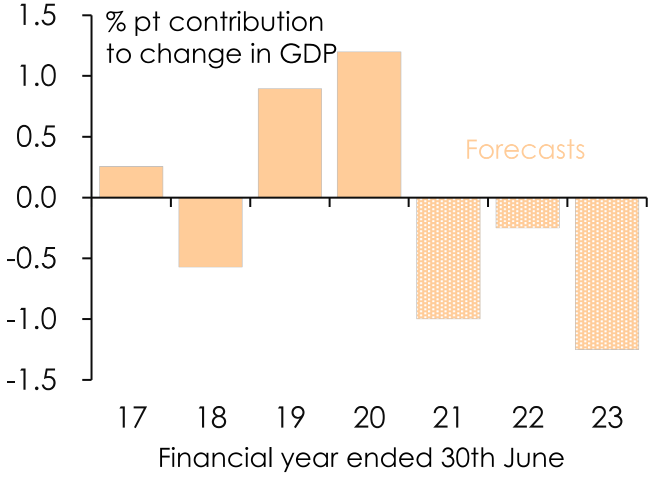
Dwelling investment



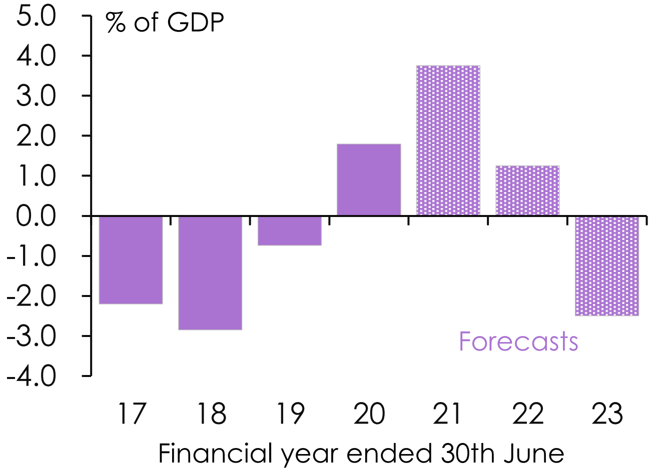
Public spending



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.

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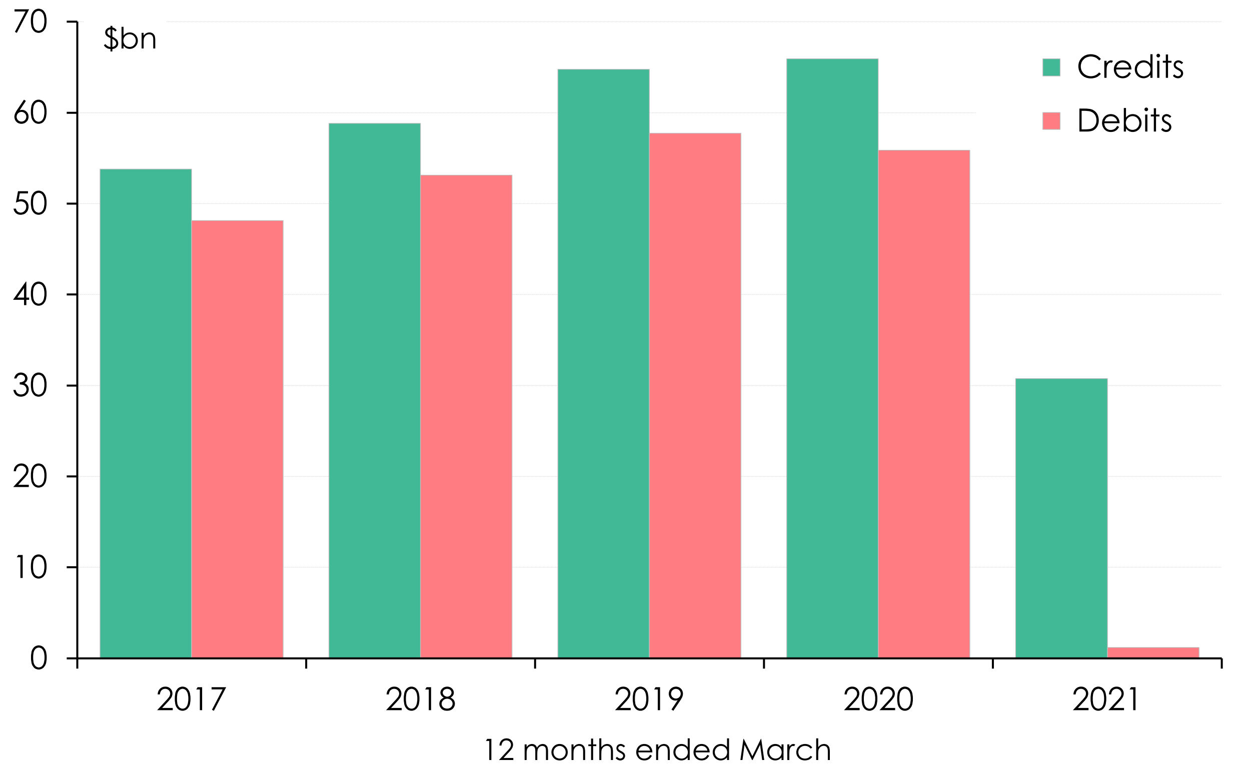
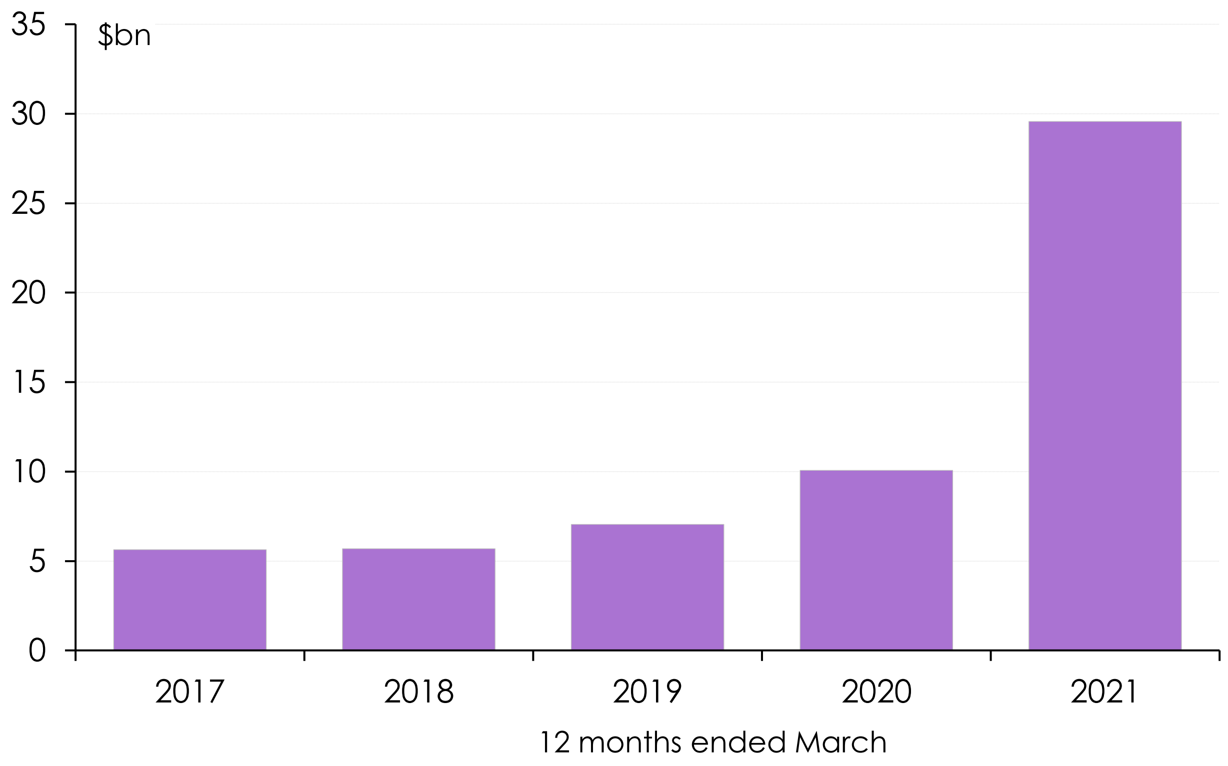
The *fatwa* on Australians leaving the country more than offsets the loss of spending by foreign tourists and students

Travel credits and debits



Net travel transactions

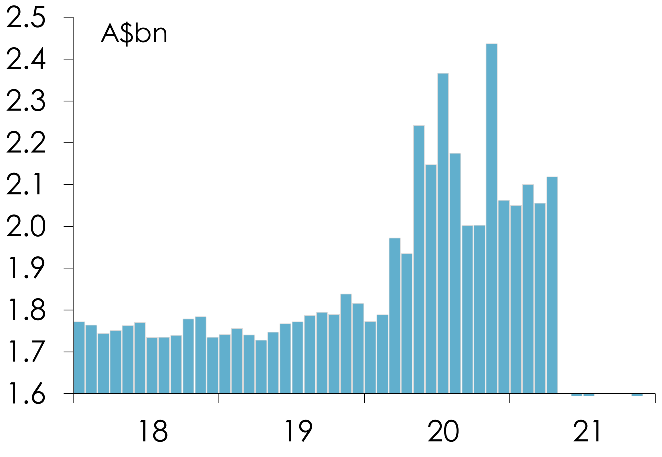


- **Over the four years to March 2020, Australians spent an average of $54bn per annum on overseas travel – as against just $1bn spend in that way over the 12 months to March 2021, 'freeing up' a large amount which appears to have been spent in other ways (electronics, household goods, clothes, cars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

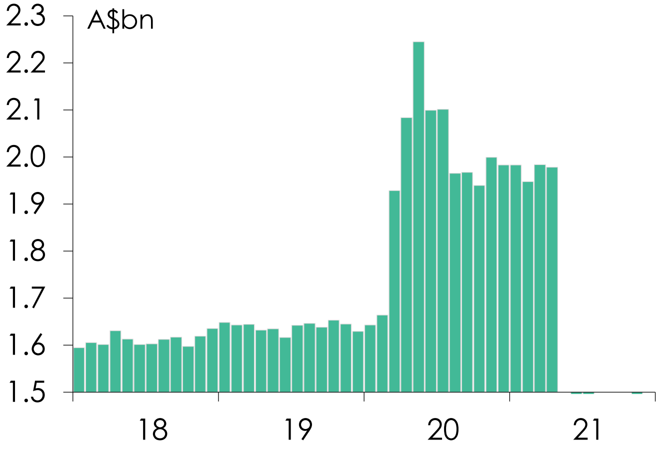
Source: ABS, *International Trade in Goods and Services, Australia*, March 2021.

The >$50bn per annum that Australians would have spent overseas if they'd been allowed to has instead been spent at home

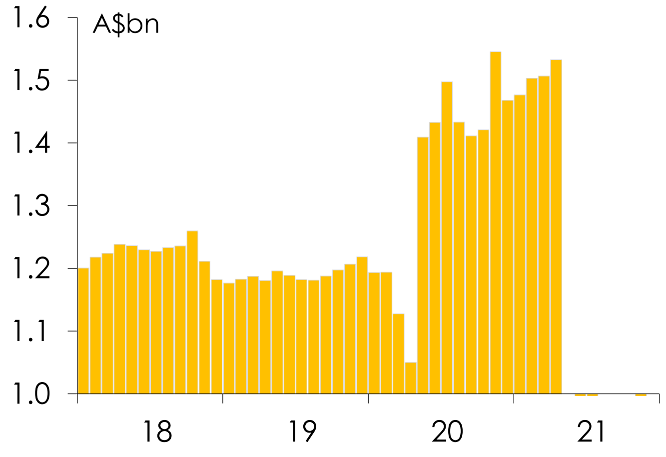
Electronic & electrical goods



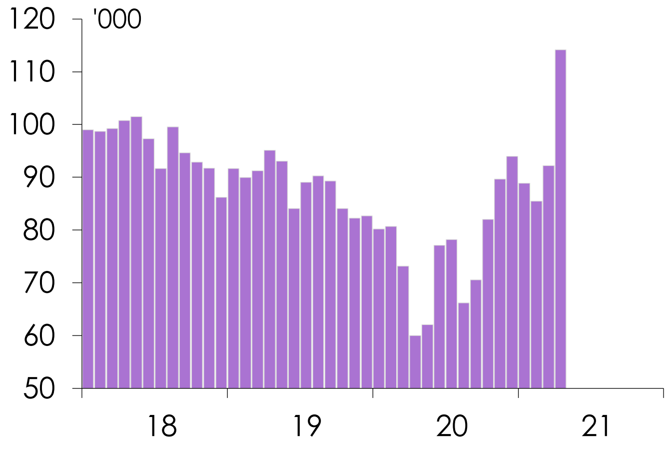
Hardware, building & garden supplies



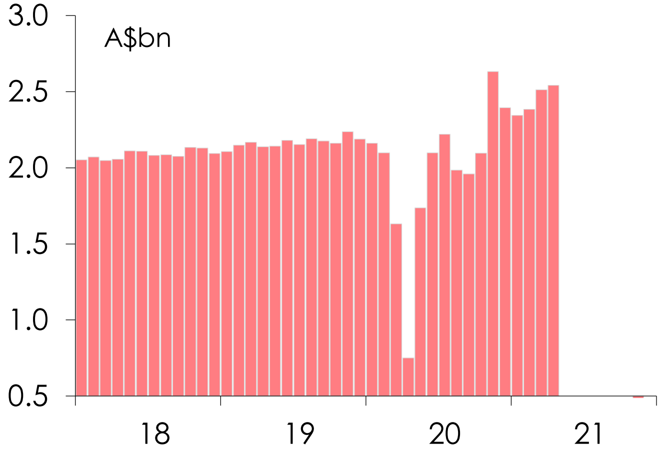
Floor coverings, furniture, housewares etc



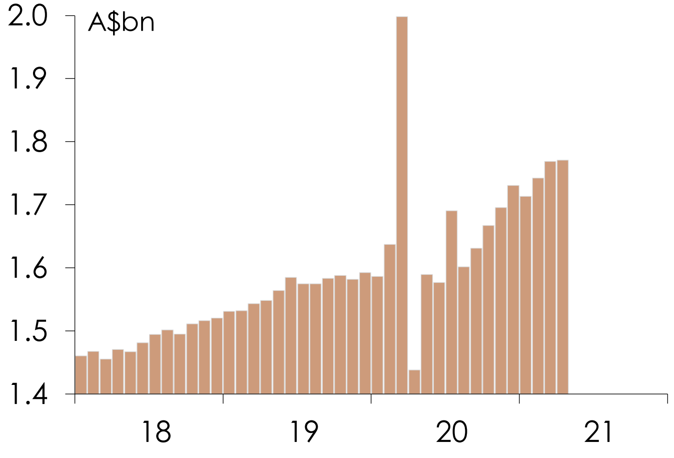
New motor vehicles



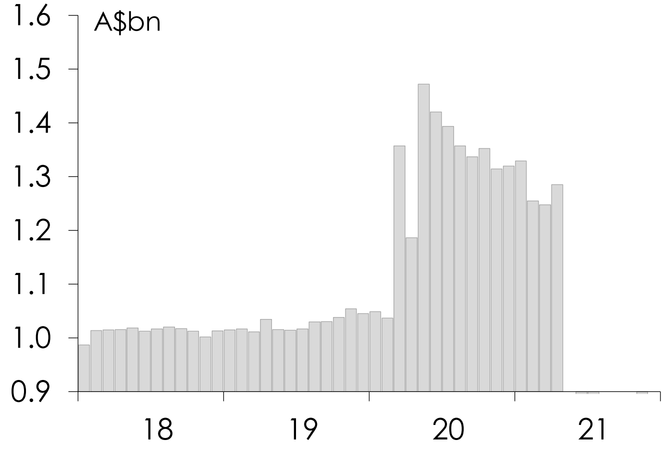
Clothing, footwear & personal accessories



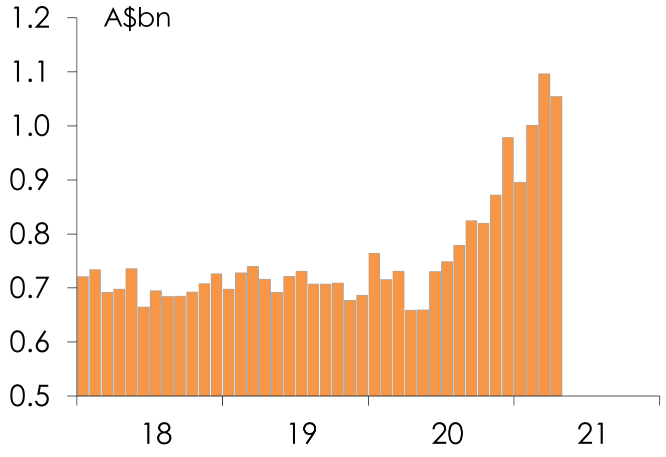
Pharmaceuticals, cosmetics & toiletries



Alcoholic beverages



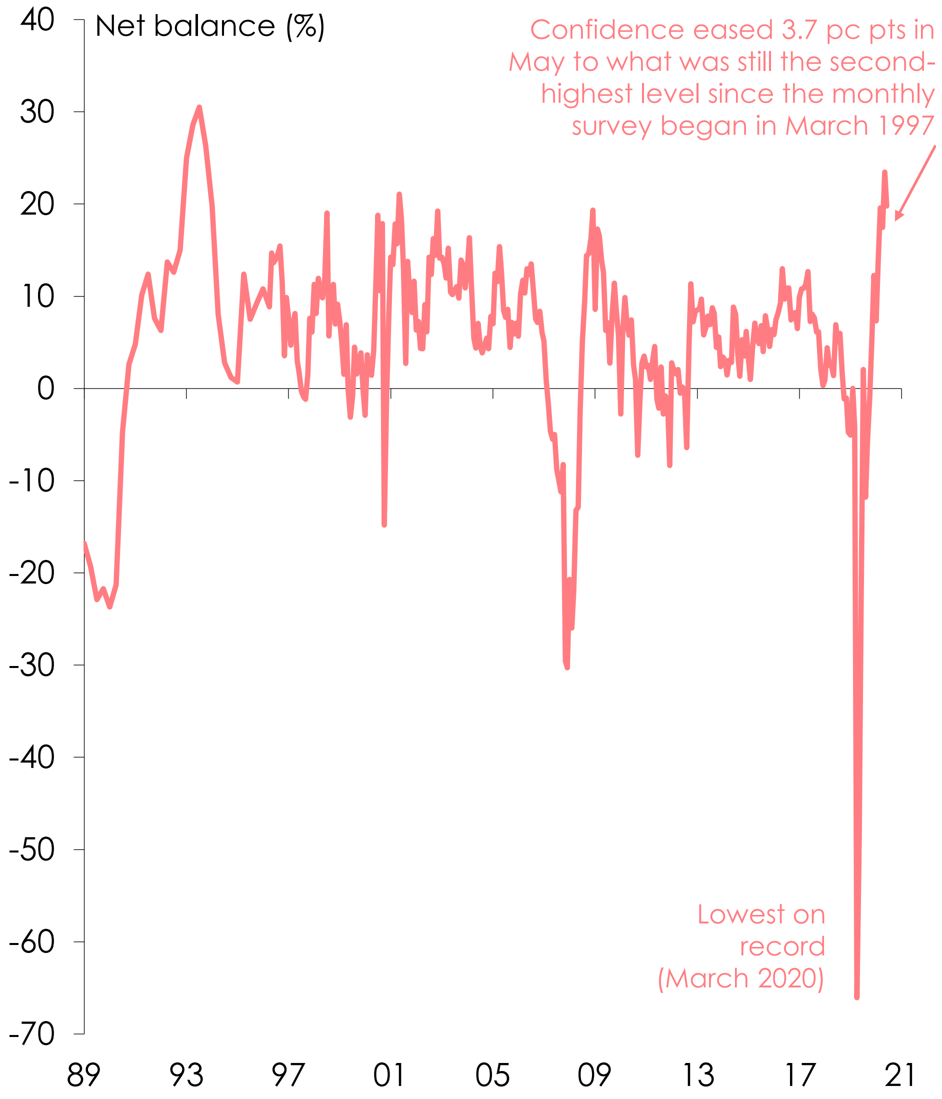
Renovations



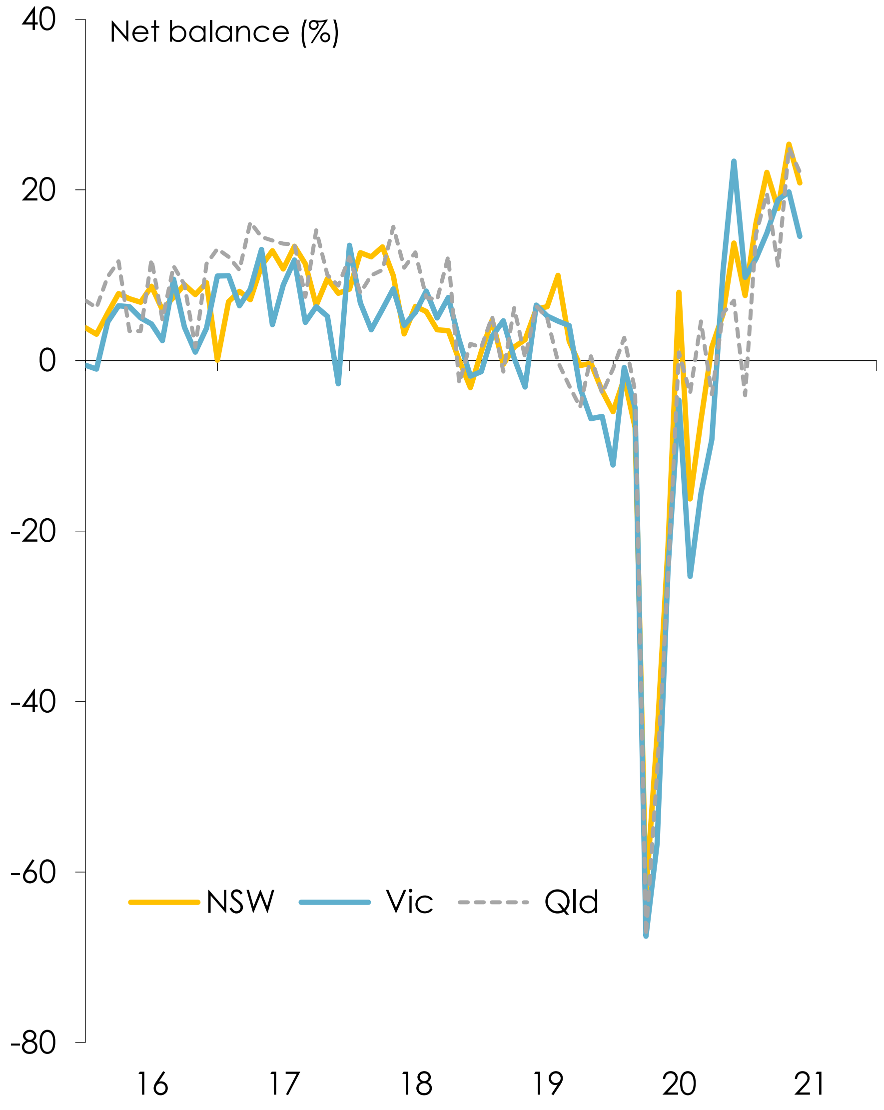
Note: First six charts (from left) are retail sales; new motor vehicles are numbers of vehicles sold; renovations are the value of alterations and additions to residential dwellings approved by local governments. *Sources:* ABS, *Retail Trade, Australia*, April 2021; *Building Approvals, Australia*,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

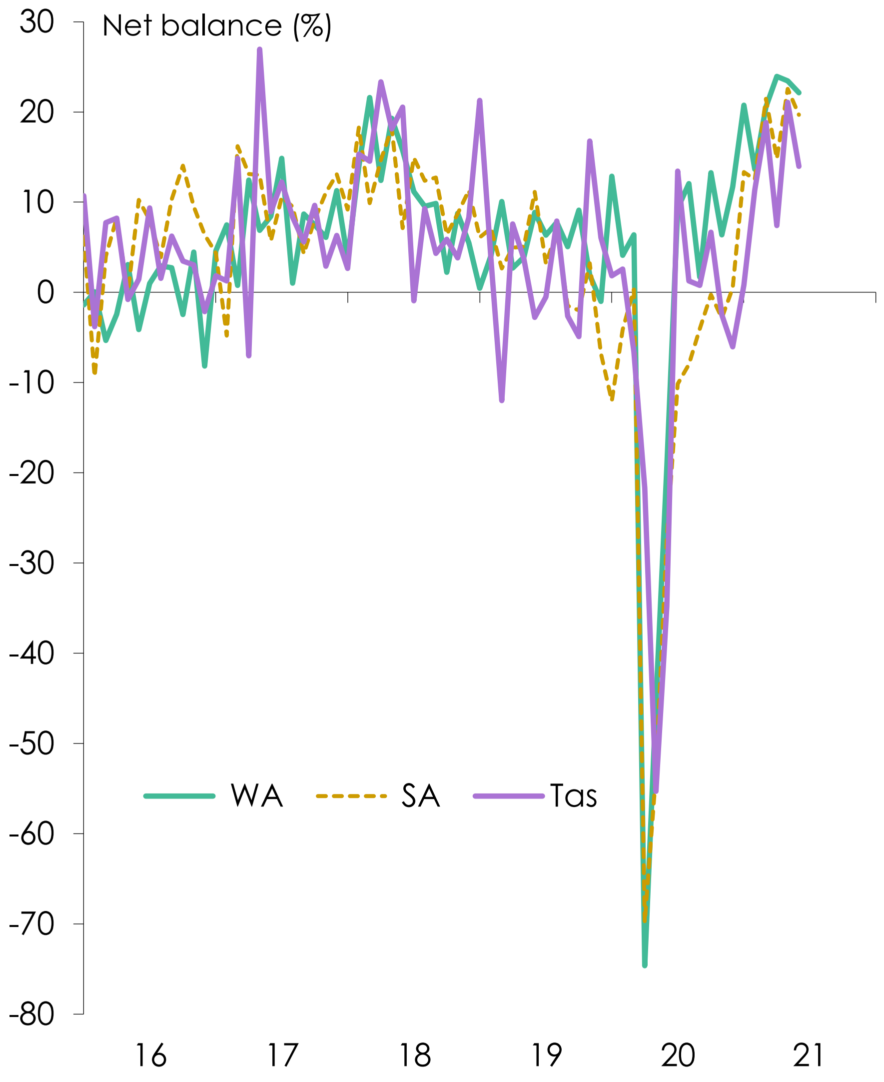
Business confidence eased a little in May from what in April had been the highest since the NAB's monthly survey began in 1997

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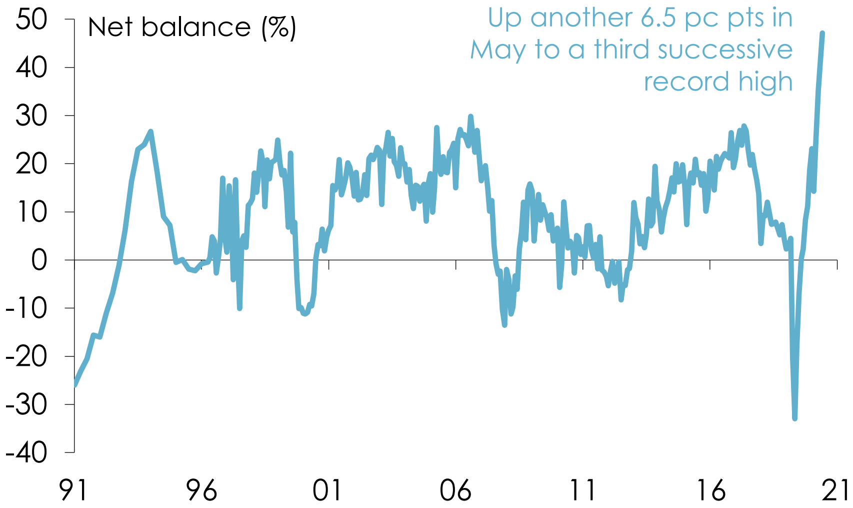
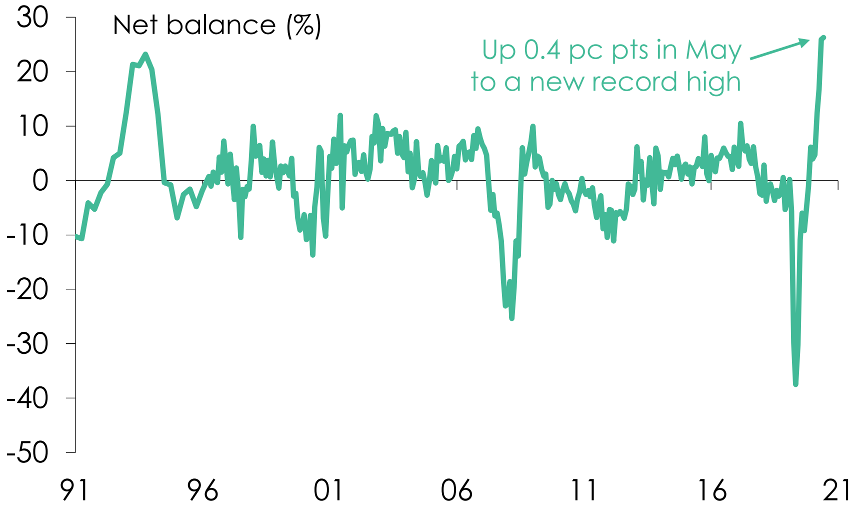
Four of the major components of the NAB monthly business conditions survey registered new record highs in May

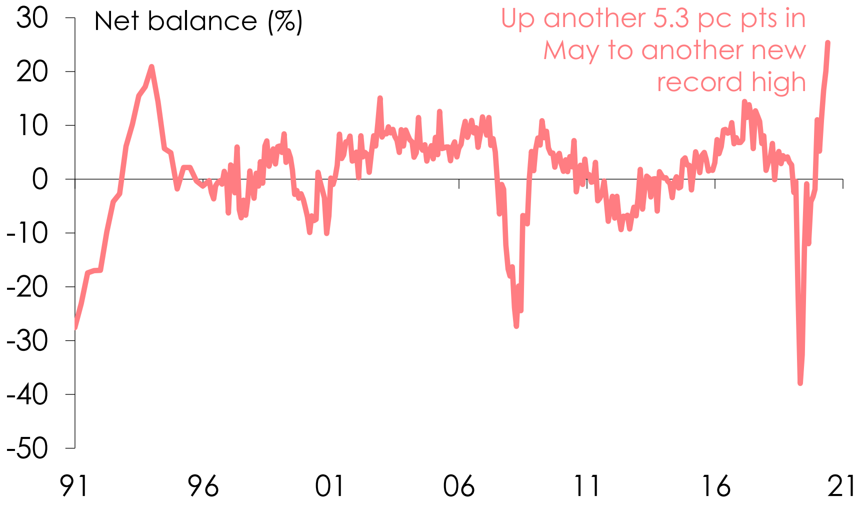
Trading conditions



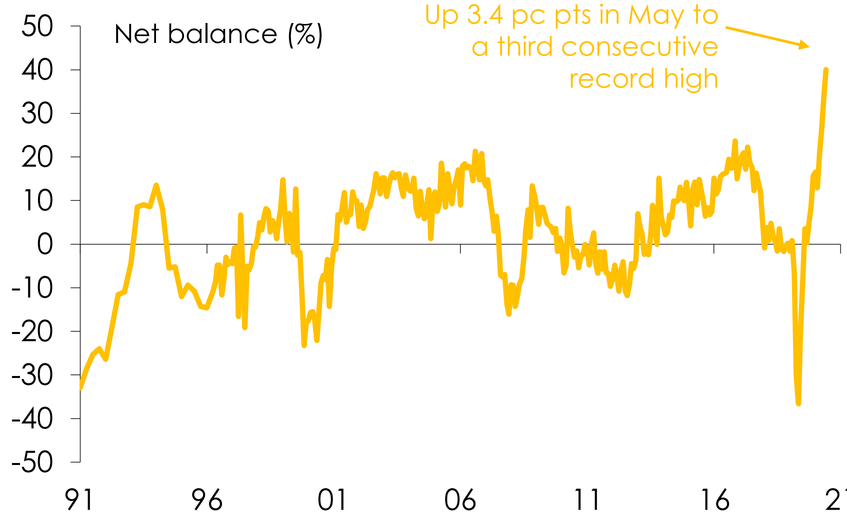
Forward orders



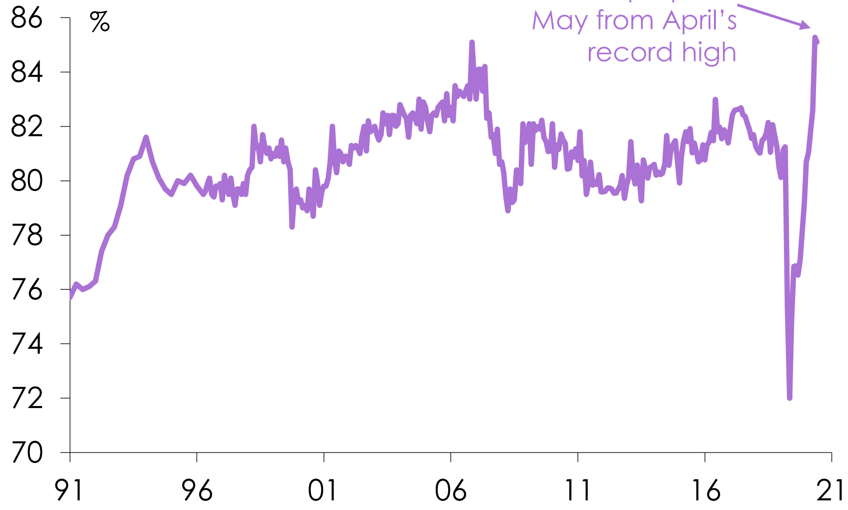
Employee hiring intentions



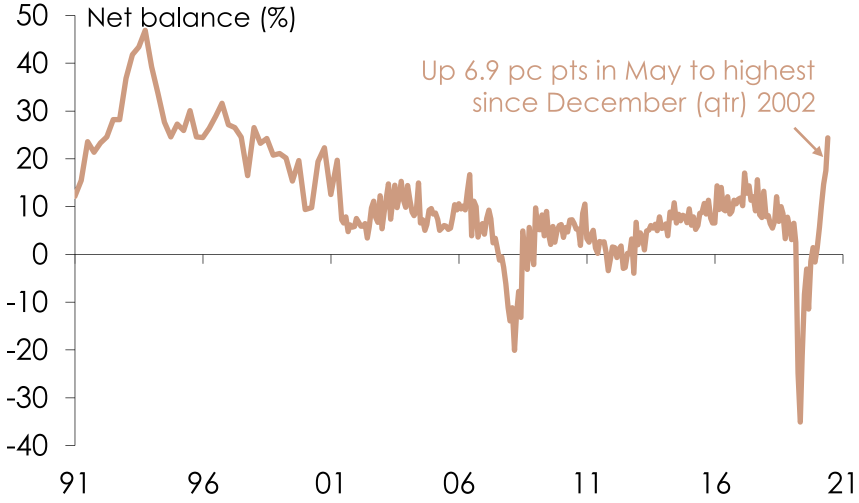
Profitability



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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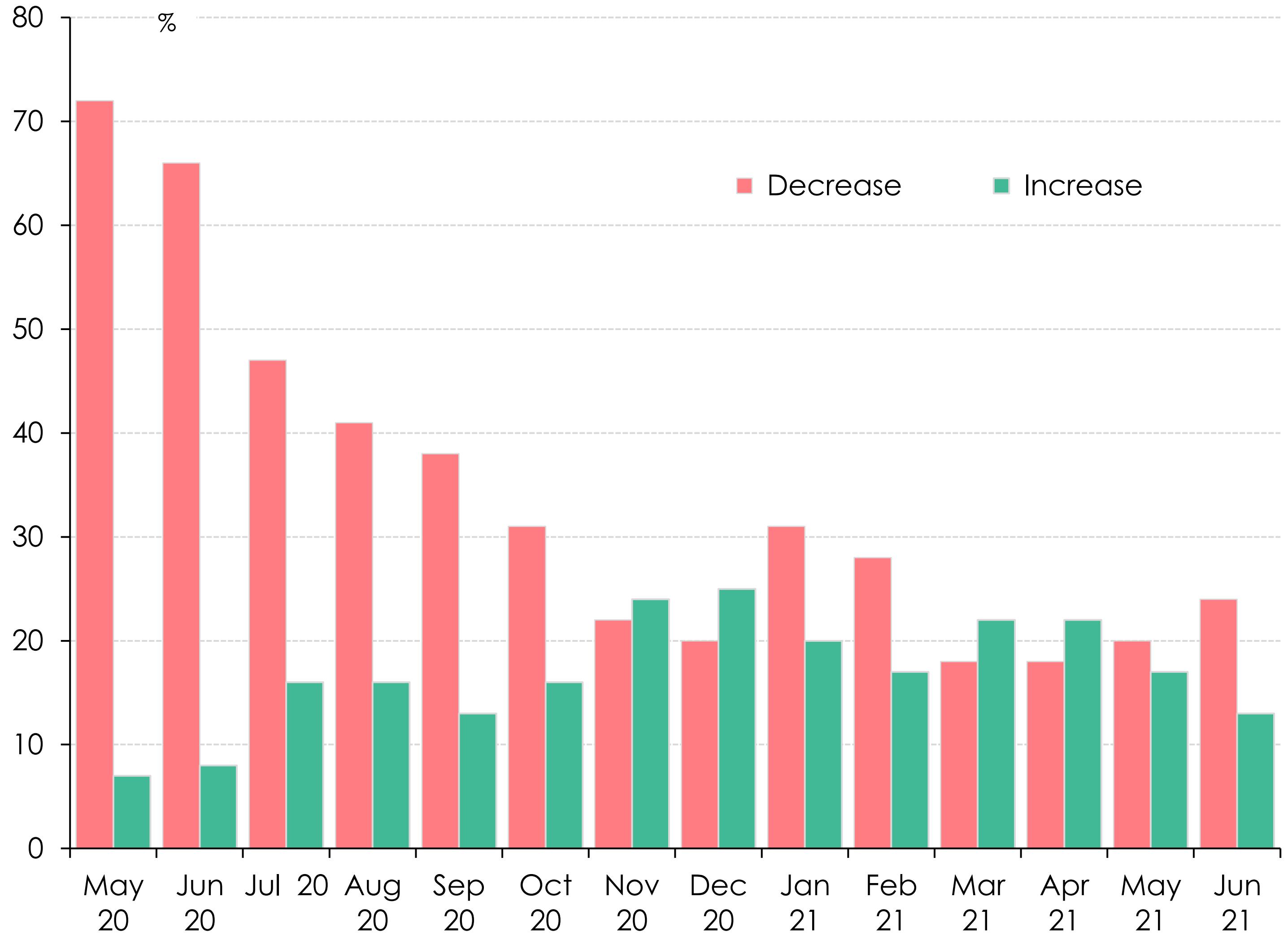
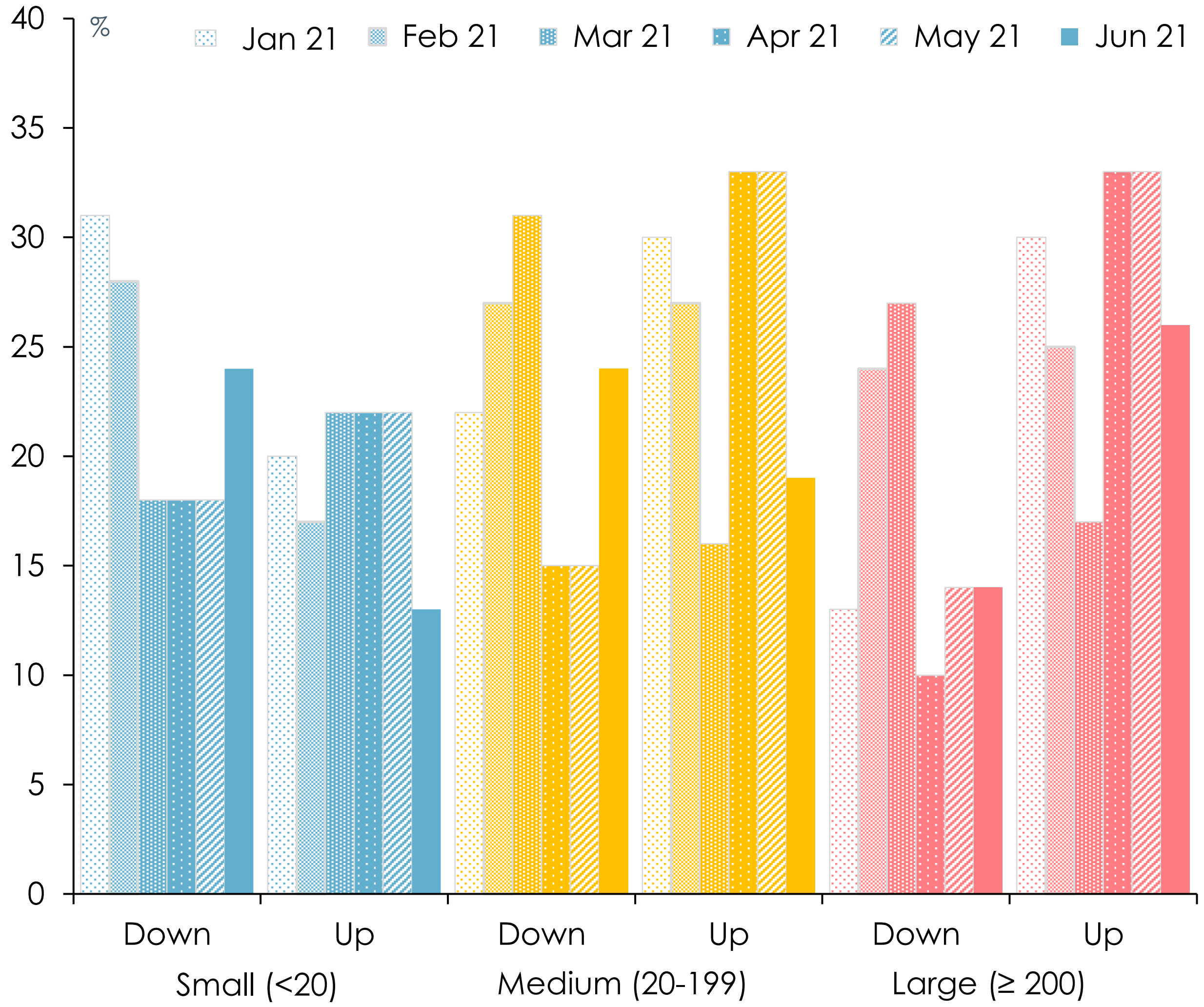
More businesses reported revenue declines in June than increases, especially among SMEs, at least partly due to the Victorian lockdown

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



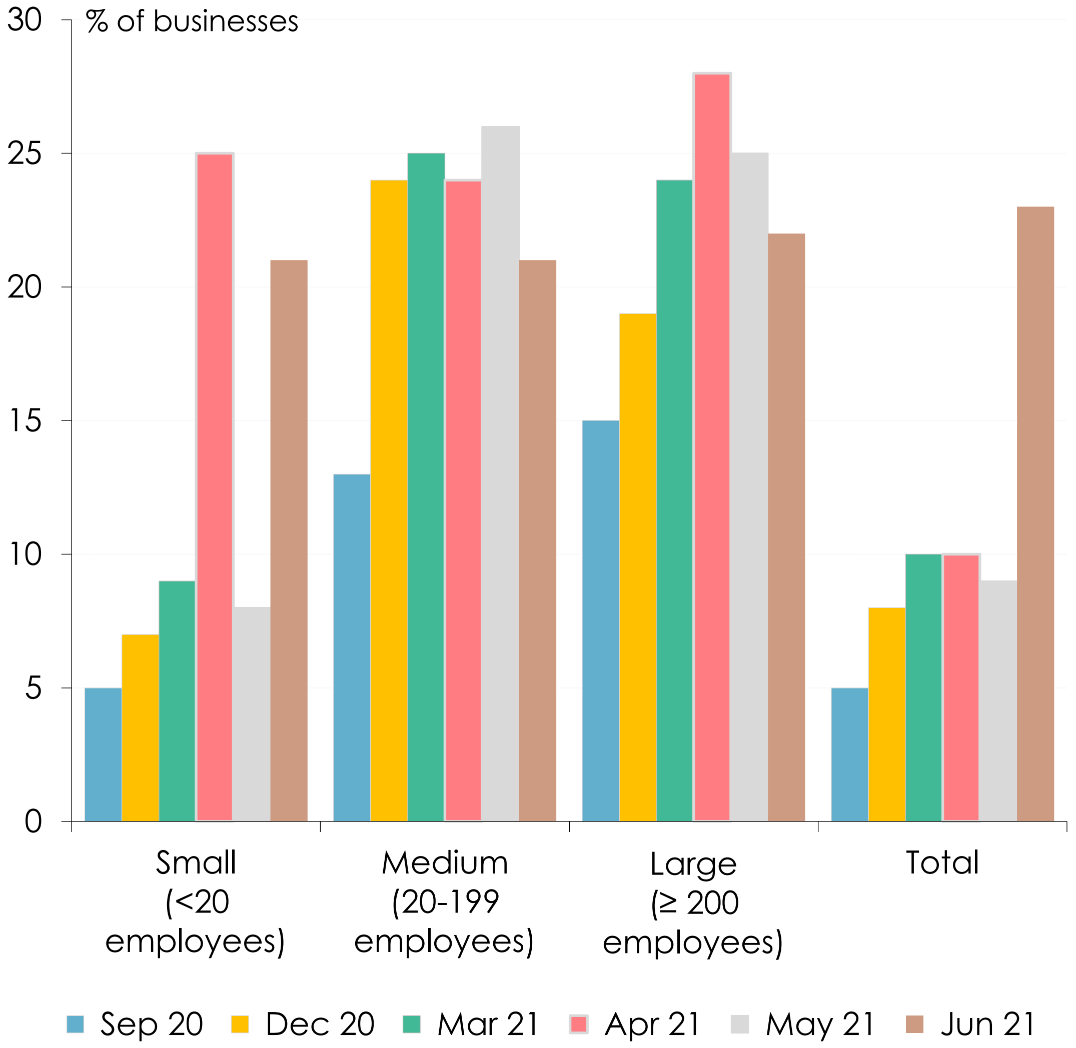
Proportion of businesses reporting decreases or increases in revenue over past month by size



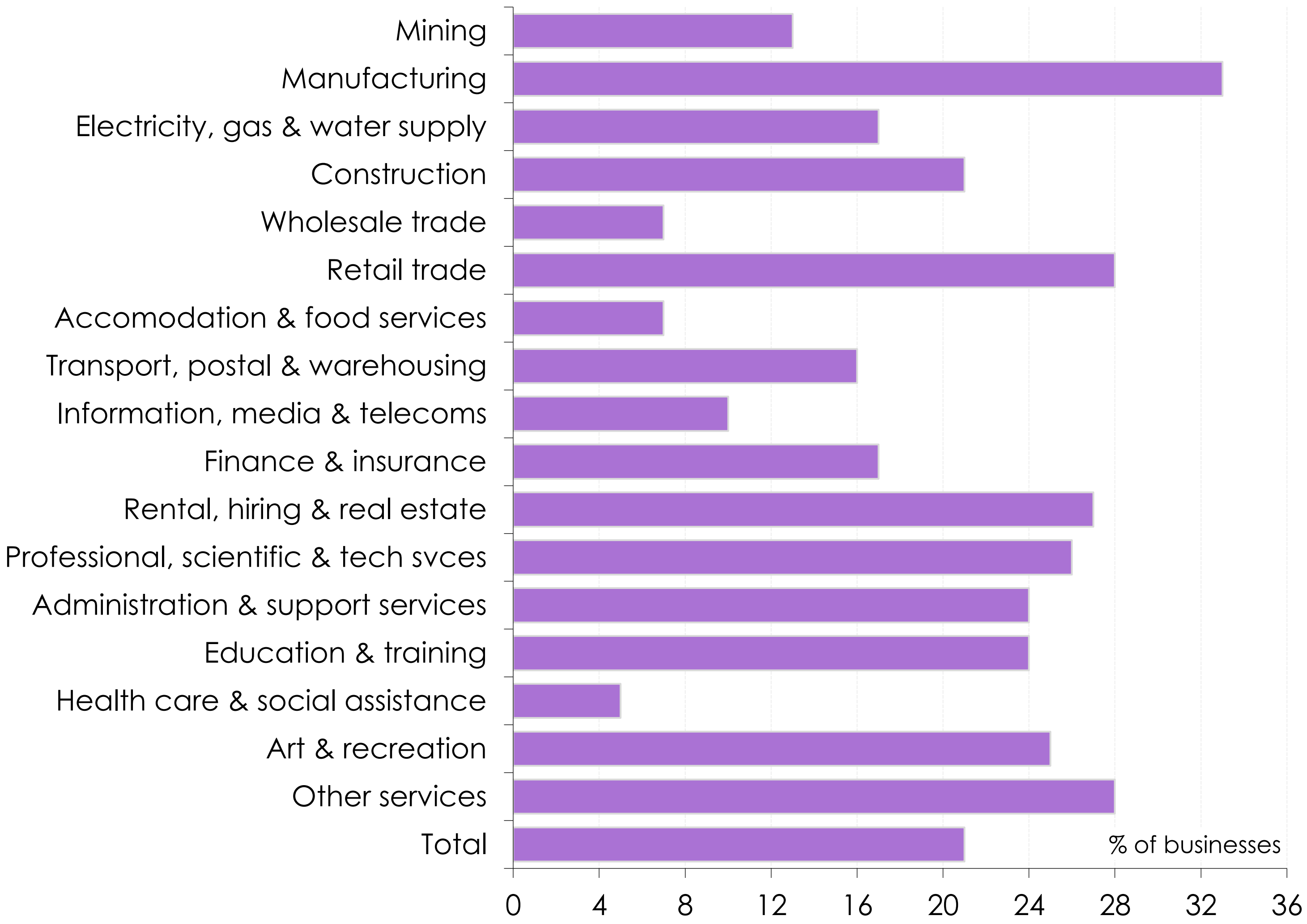
Note: 'size' in the right-hand chart refers to the number of employees. *Source:* ABS, Business Conditions and Sentiments, June 2021. Return to "What's New".

Smaller businesses appear to have (at last) become more willing to contemplate hiring more staff

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



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



Source: ABS, *Business Conditions and Sentiments*, June 2021. See also slide 109for data on capex intentions by business size. Return to "What's New".

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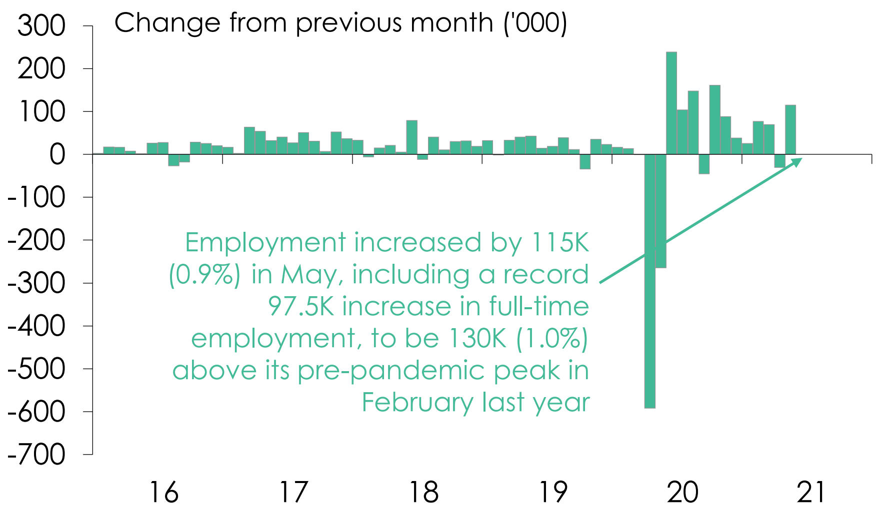
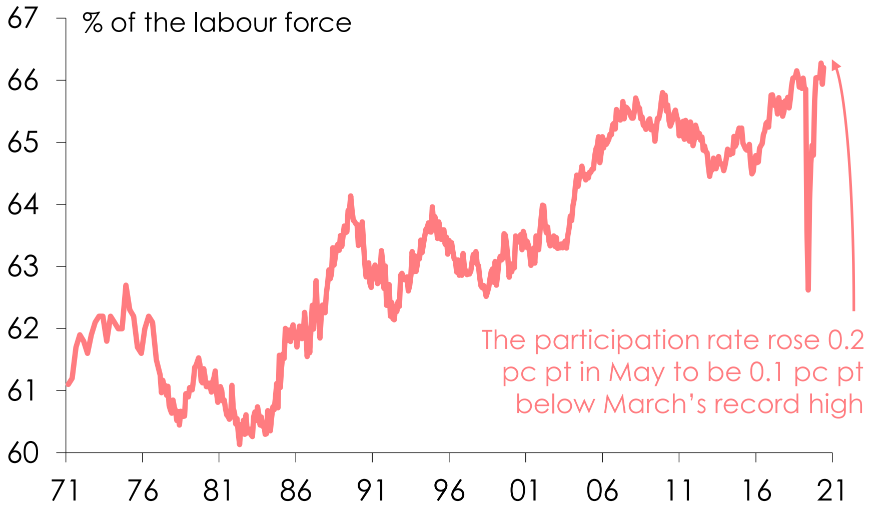
Employment rose 115K (0.9%) in May to be 1% above its pre-recession peak, while unemployment is back to its pre-recession low

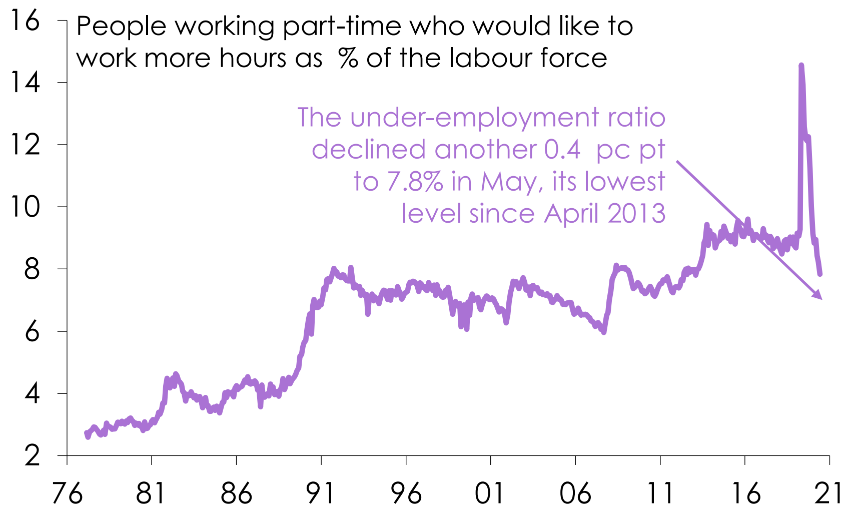
Employment



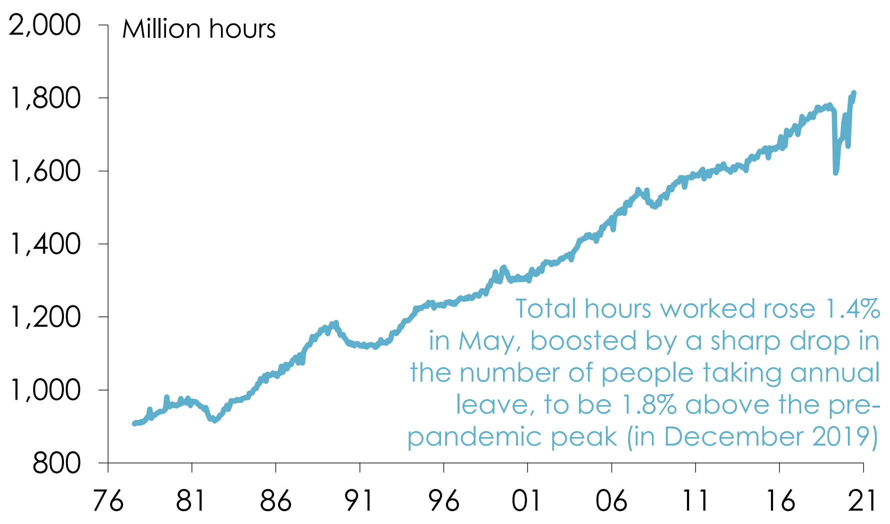
Labour force participation rate



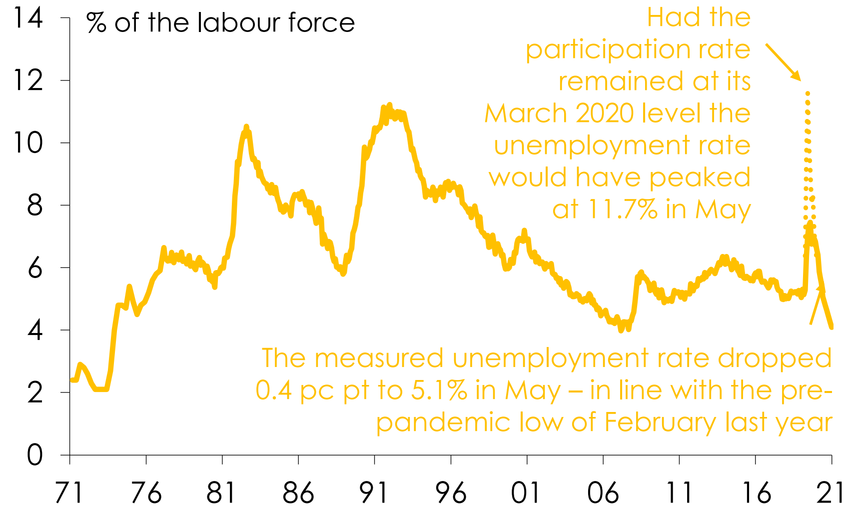
Under-employment ratio



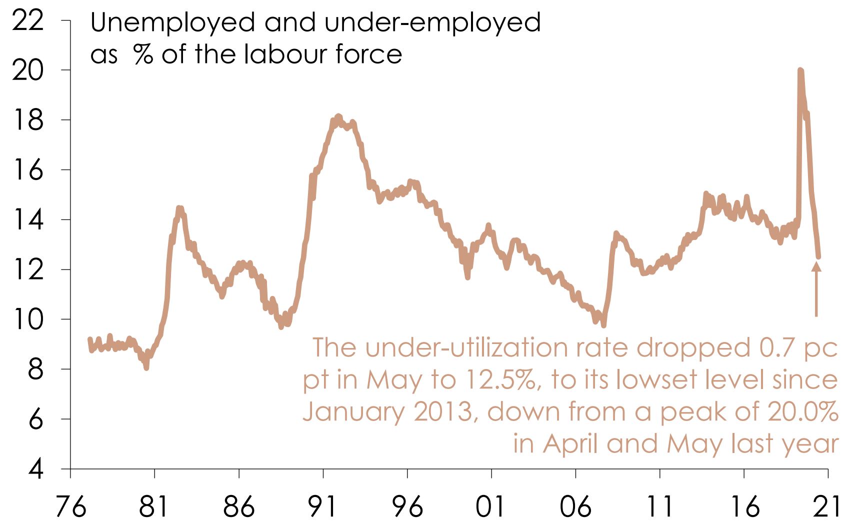
Total hours worked



Unemployment rate



'Under-utilization' rate



Source: ABS, Labour Force, Australia. June data will be released on 15th July. Return to "What's New".

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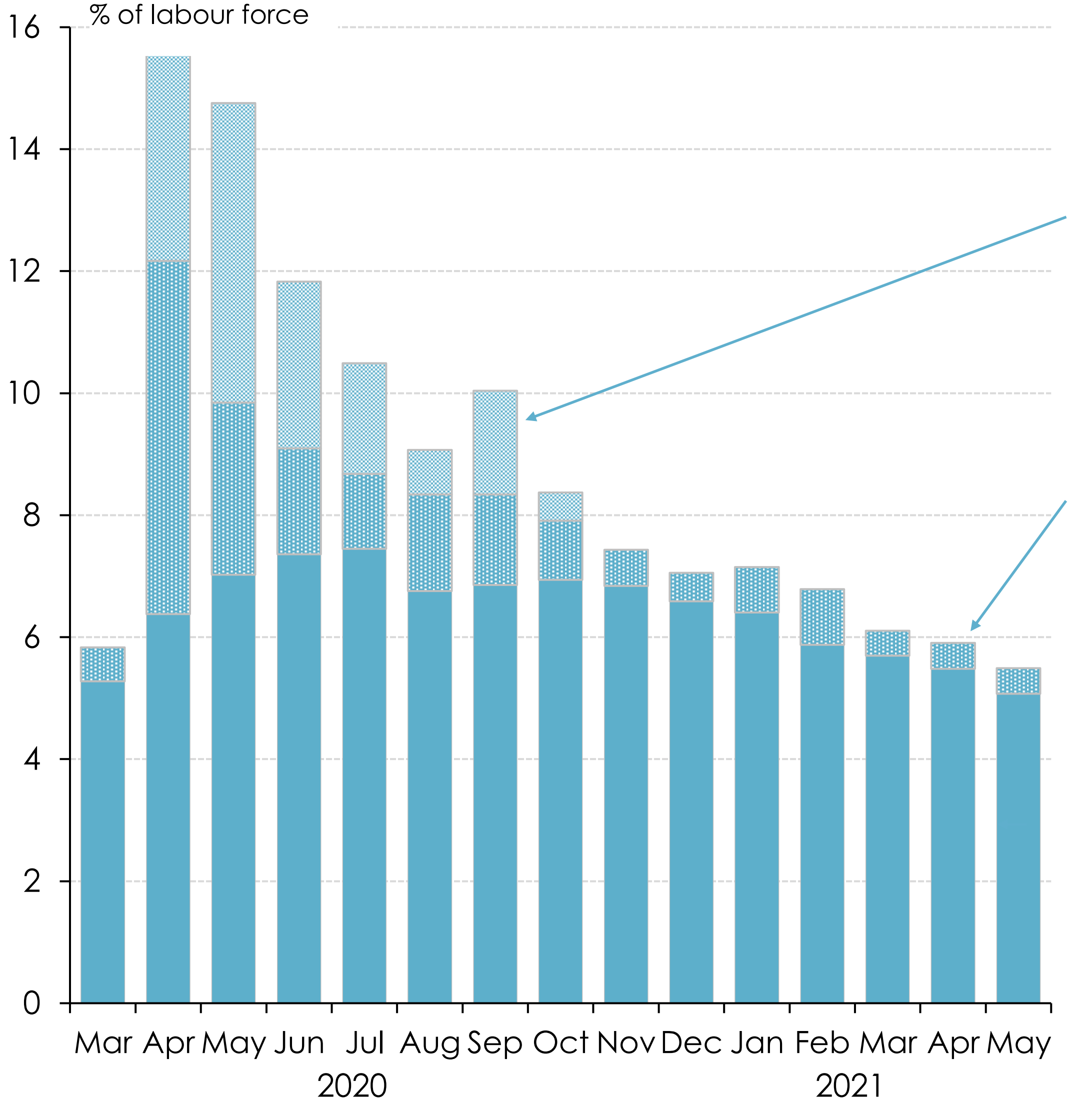
The ‘effective’ unemployment rate has fallen from a peak of 15.3% in April last year to 5.5% in May this year

Alternative measures of unemployment



- The Government’s ‘JobKeeper’ program paid eligible employers a subsidy of $1500 / fortnight for each eligible employee kept on the payroll between 30th March last year and 27th September – reducing to $1200 (with a new lower rate of $750 for people who had been working part-time before the pandemic) at the beginning of October and then to $1000 from the beginning of January this year
- ‘JobKeeper’ ended on 28th March, which Treasury initially estimated may have resulted in 100-150K job losses (pushing the unemployment rate up by ¾ -1 pc pt) – but that estimate now seems to have been too pessimistic
- The number of people counted as ‘employed’ but working zero hours for ‘economic reasons’ peaked at 767K (6¼% of total employment) in April last year – but for the past three months has been less than 60K (½% of total employment), still slightly above the monthly average of 55K between 2015 and 2019
- The number of people working zero hours for other reasons (mainly annual leave) spiked up to over 1.1mn in April (probably because the April survey co-incided with the Easter holidays) but fell back to a more ‘normal’ 262K

Source: ABS, Labour Force, Australia; Corinna. June data will be released on 15th July. Return to "What's New“.

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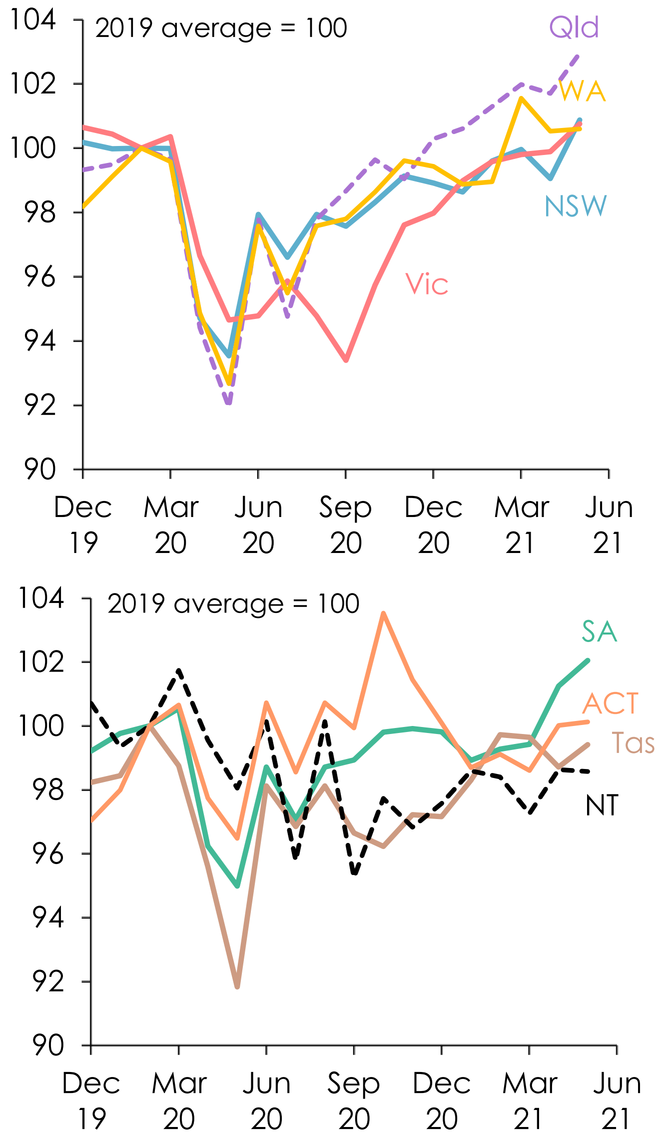
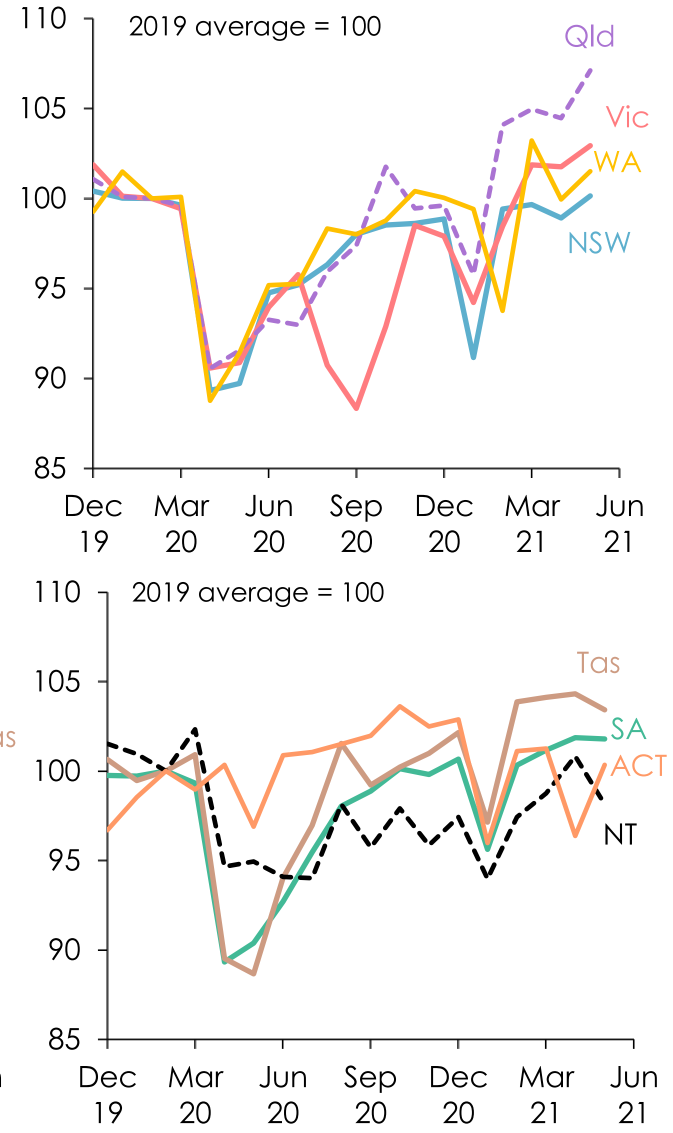
The strongest labour market recoveries have been in Qld and WA, though SA and (in some ways surprisingly) Victoria have also done well

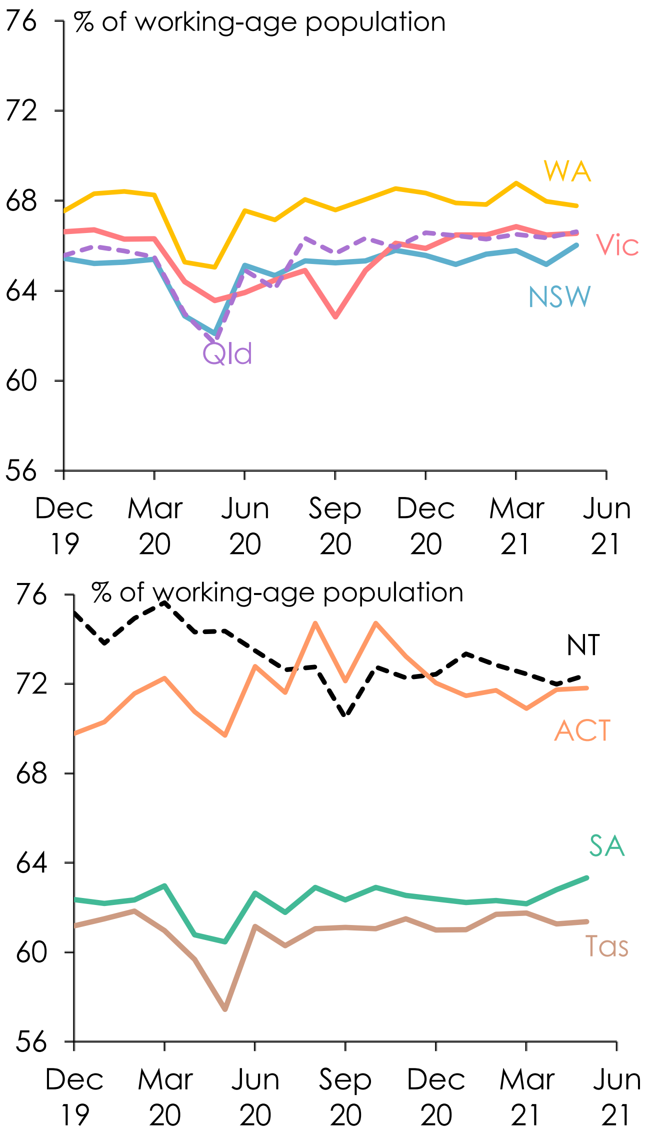
Employment



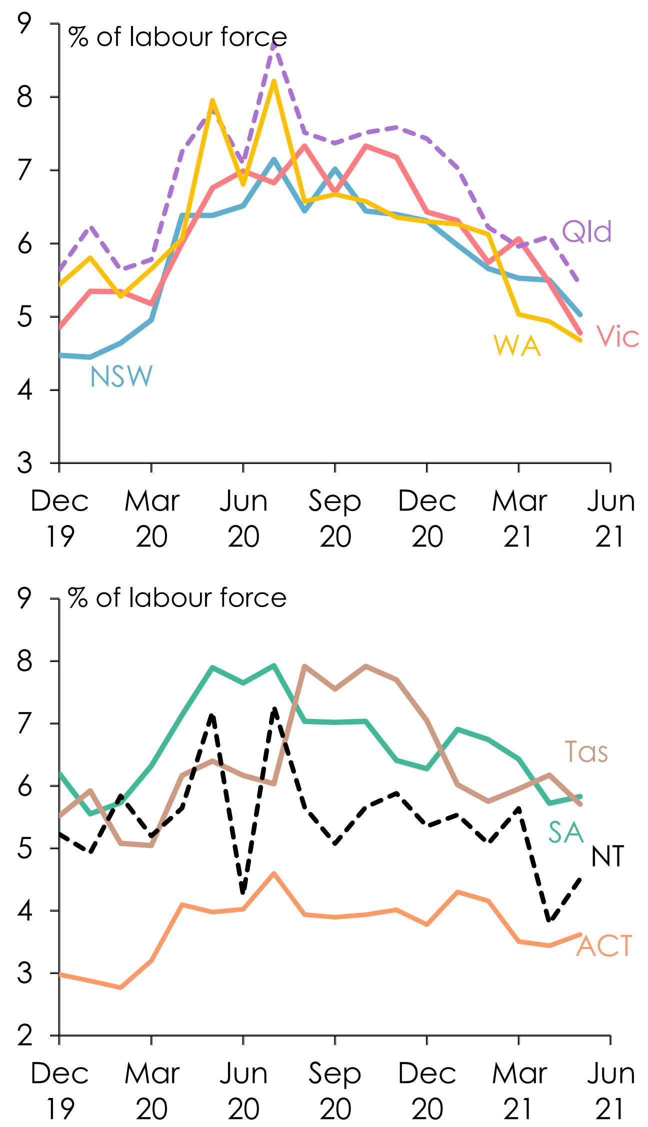
Hours worked



Participation rates



Unemployment rates



Source: ABS, *Labour Force, Australia*; Corinna. June data will be released on 15th July. Return to "What's New".

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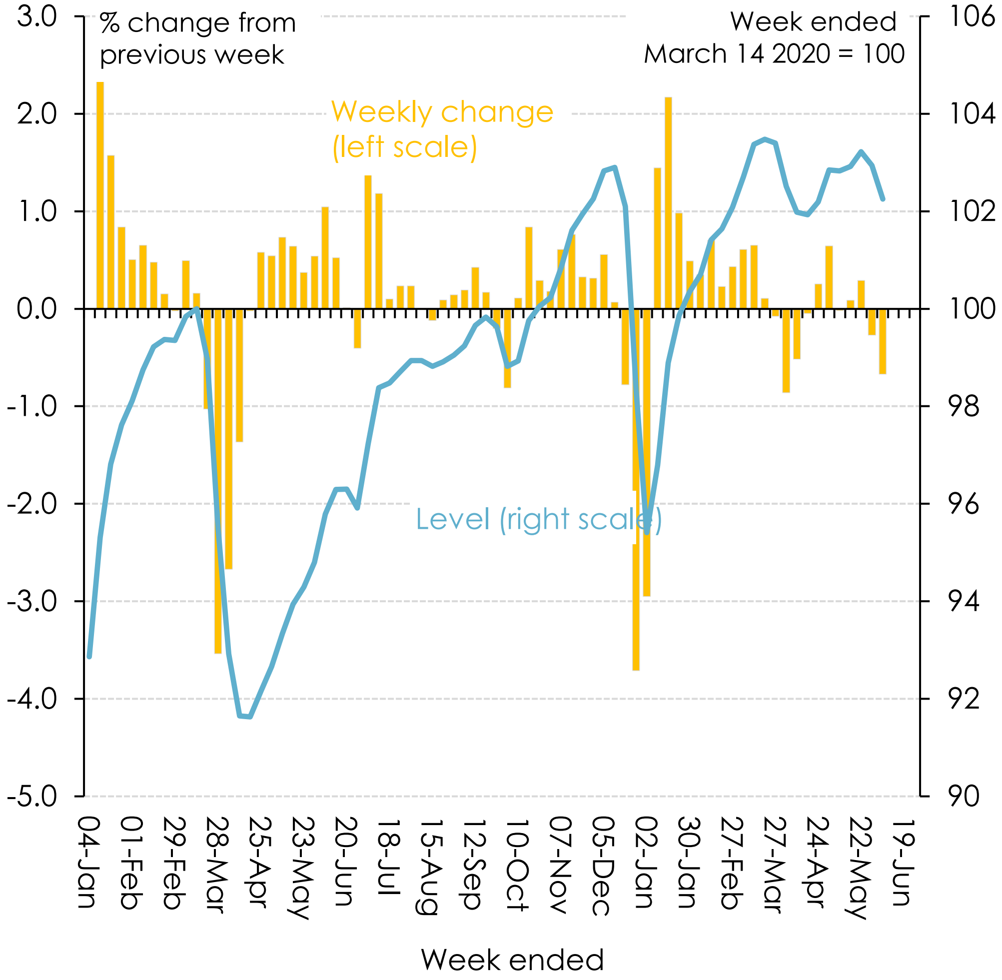
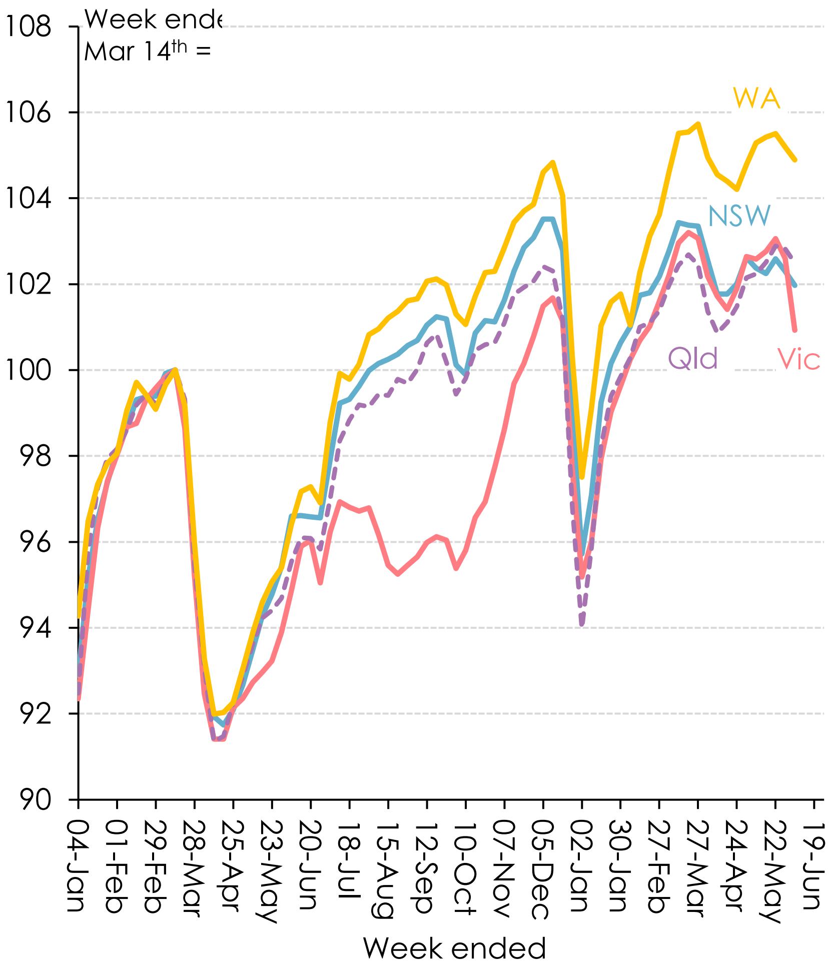
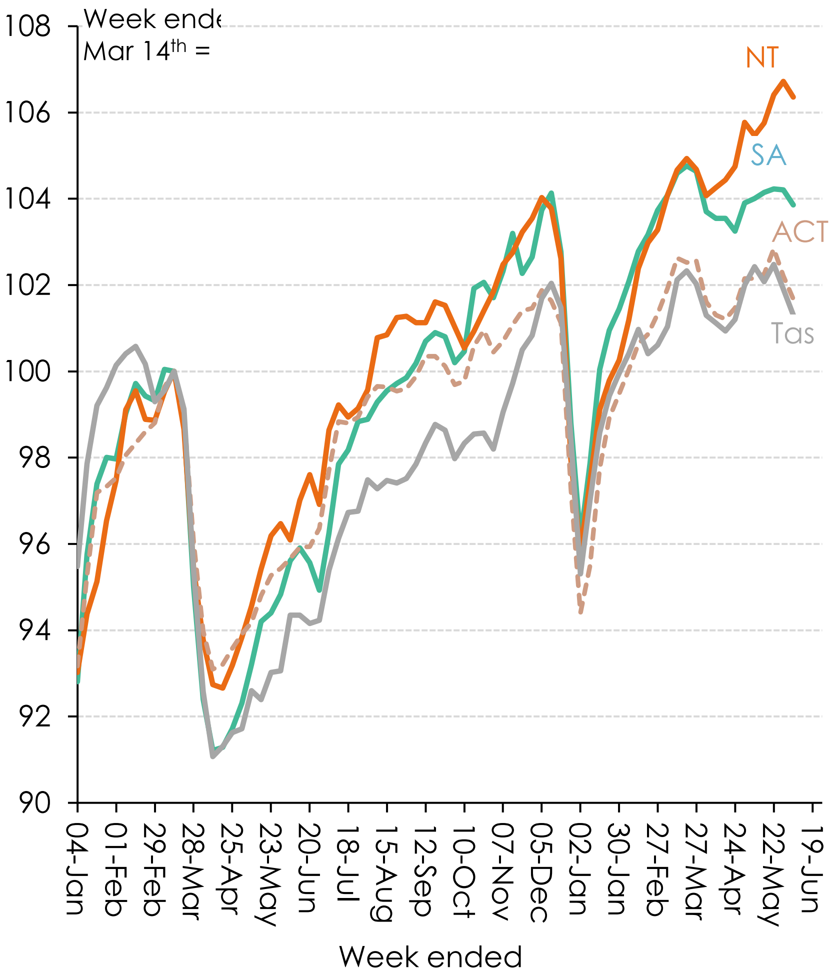
Payroll jobs fell 0.9% over the two weeks to 5th June, led by a 2.1% decline in Victoria but all other states and territories also recording falls

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 19th June will be released on 6th July; after that, this data will then be released monthly. Return to "What's New".

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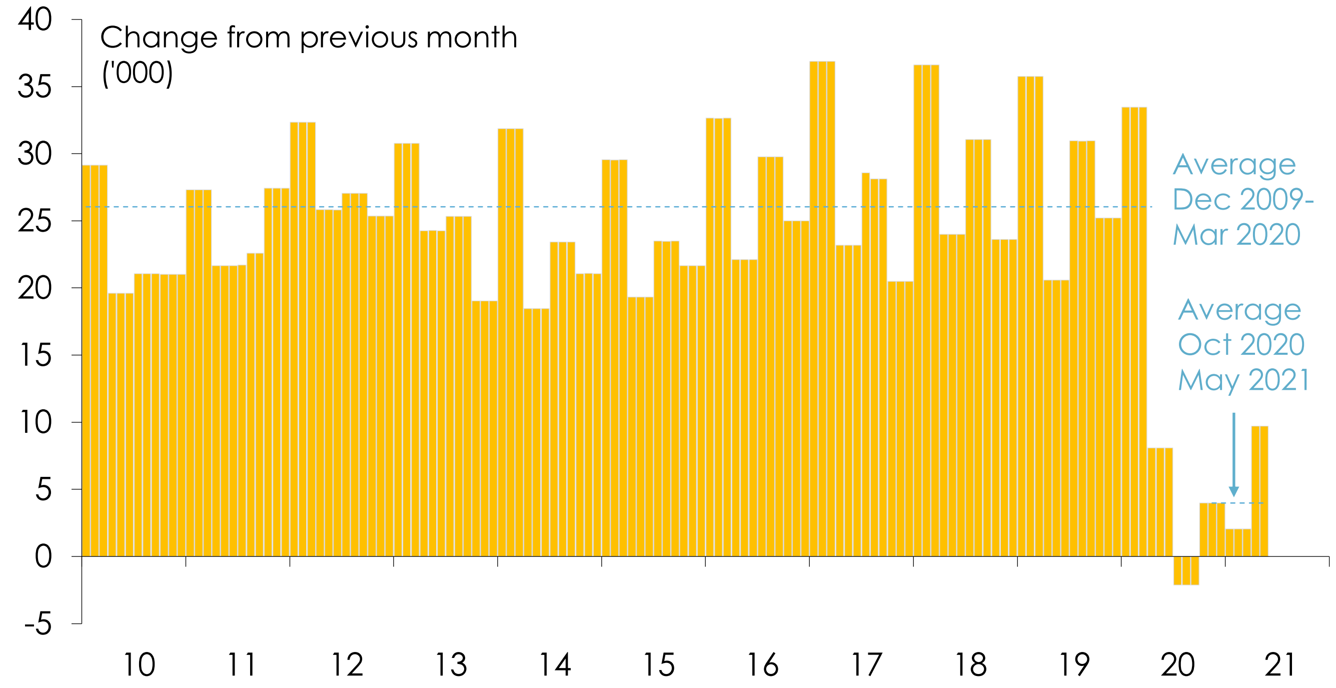
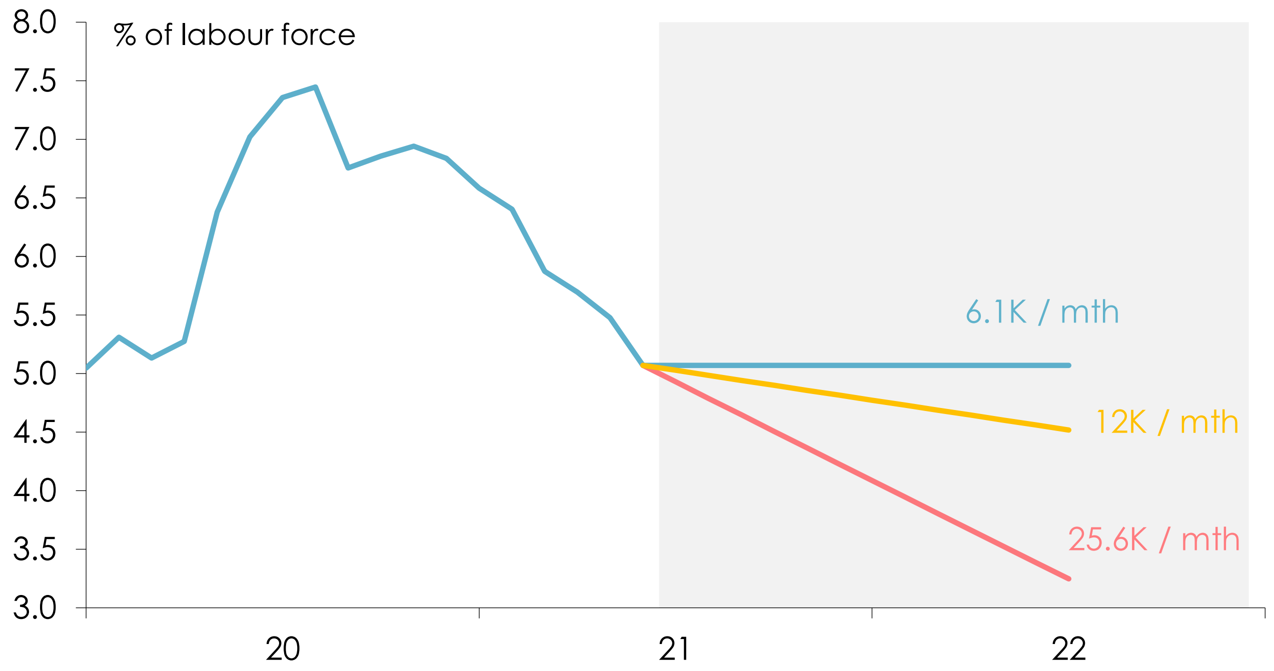
The closure of Australia's borders means that it's much easier to reduce unemployment for any given rate of jobs growth

Monthly growth in civilian working-age population



- Over the decade prior to the onset of Covid-19, the civilian working-age population (people aged 15 and over) grew by an average of 26K a month – meaning that 16½K new jobs a month, on average, were required to keep the unemployment rate constant (assuming an unchanged participation rate)
- But since last October, the working-age population has risen by an average of less than 5K a month – which means that anything more than 3K new jobs a month will result in a fall in the unemployment rate, all else being equal

Unemployment rates for alternative rate of jobs growth

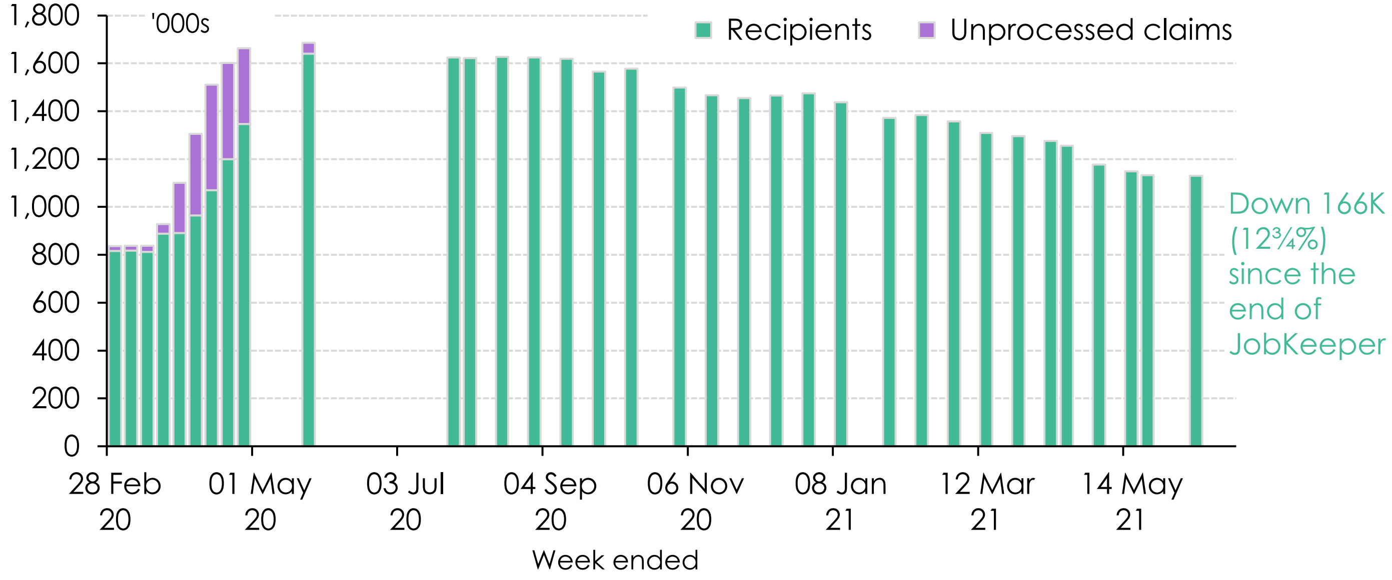


- Assuming the working-age population grows at the same rate as during the current quarter (ie 9.7K a month) and no change in the participation rate, employment growth of more than just 6.1K a month is sufficient to ensure further falls in the unemployment rate
- If employment continued to grow at half the pace so far this year unemployment would be down to 3¼% by June next year - 12K a month is all that's required to get to 4½% by next June

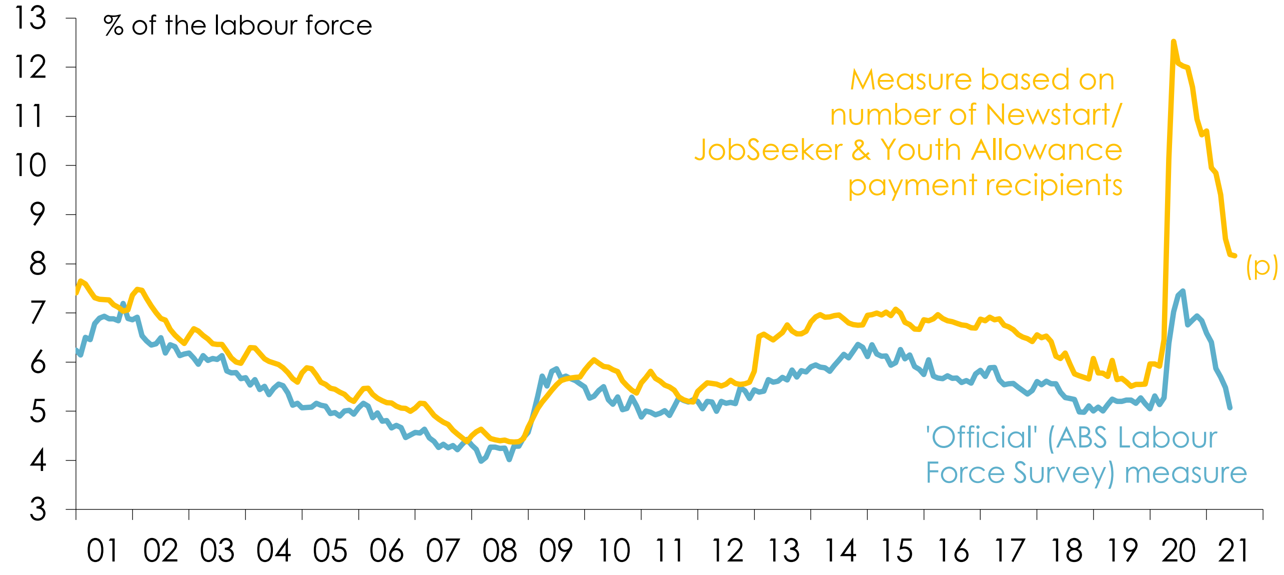
Source: ABS, Labour Force, Australia, May 2021; Corinna.

The number of people receiving 'unemployment benefits' has fallen by about 166K (12¾%) 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 11th June show a decline of 166,150 (12¾%) 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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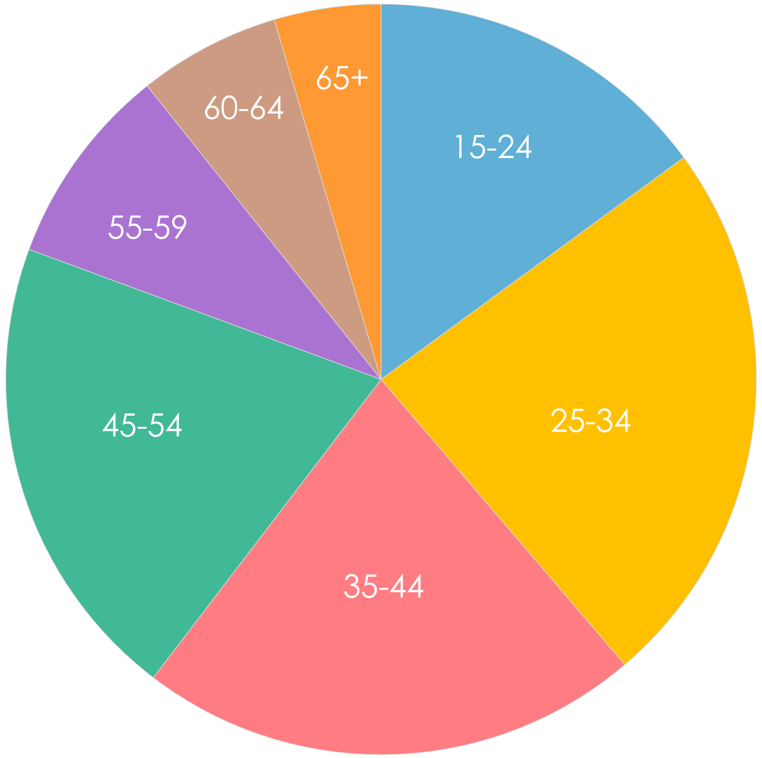
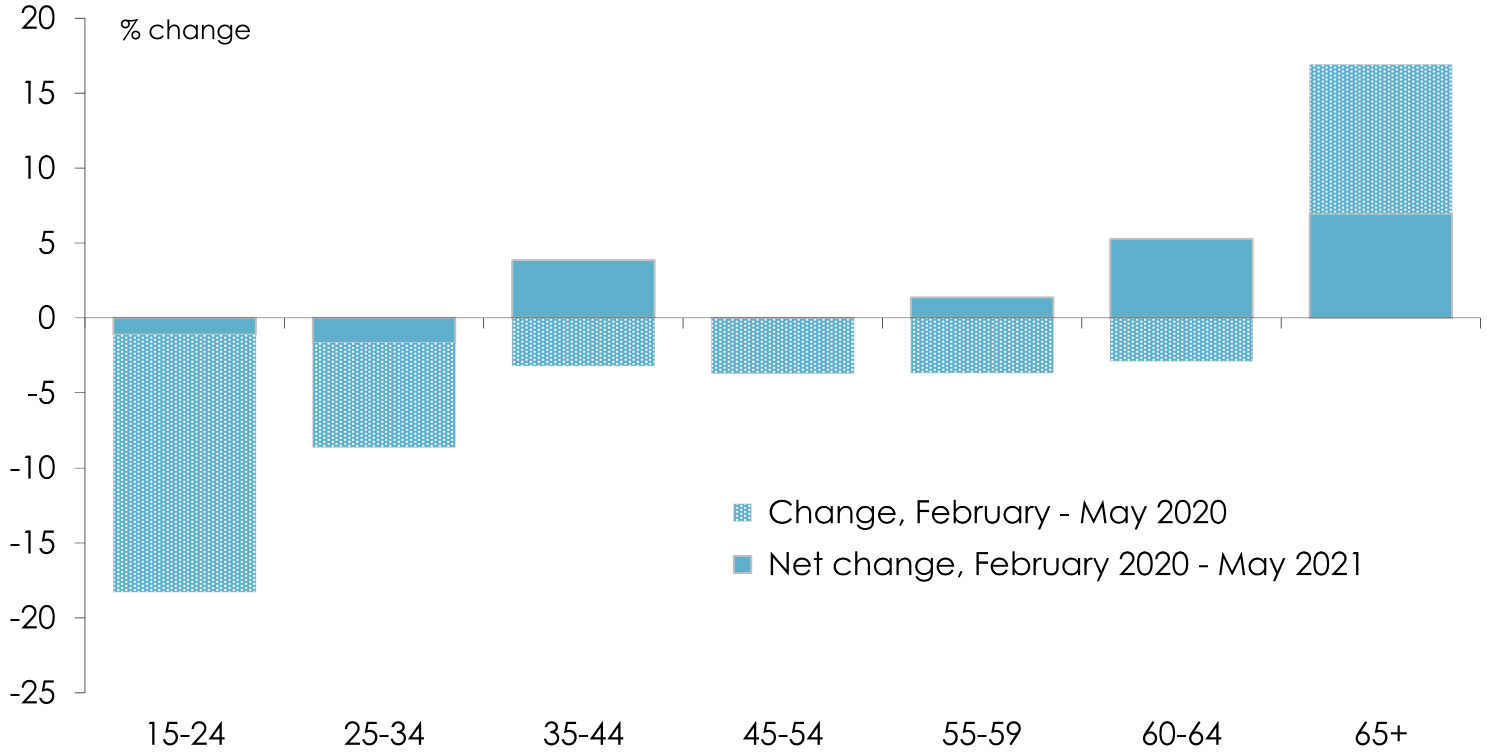
Younger workers bore the brunt of job losses during the early stages of the pandemic and have had a more difficult time regaining jobs

Composition of employment by age group, February 2020



Change in employment between February 2020 and May 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 May their employment was still down 1.1% from where it had been in February 2020, while that of 25-34 year-olds was down by 1.7%**
- **By contrast older age groups have fared much better, with employment of 45-54 year-olds back to its February 2020 level, and that of 35-44 year-olds, 55-59 year-olds, 60-64 year-olds and those aged 65 and over all above pre-recession levels**

Note: data on employment by age group is not seasonally adjusted. *Source:* ABS, Labour Force, Australia, Detailed, May 2021: June data will be released on 22nd July.
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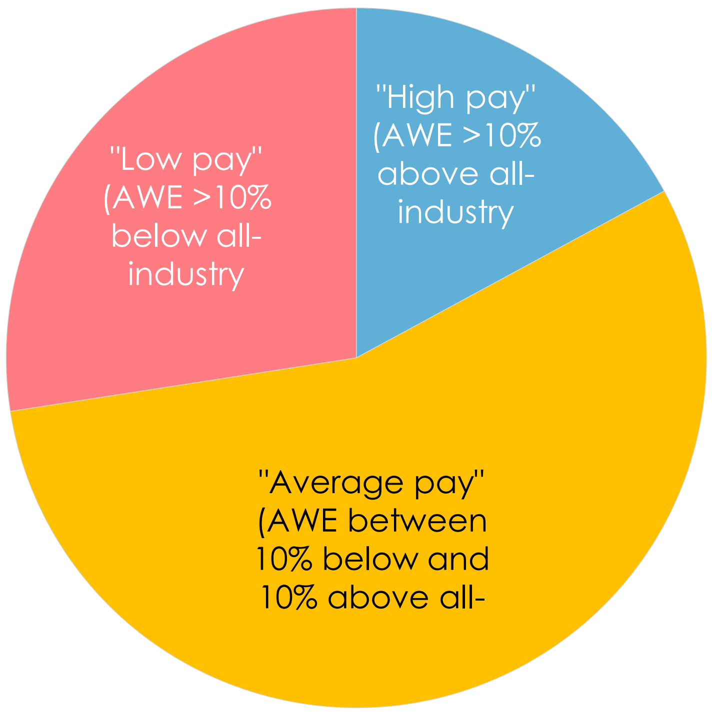
Workers in low-pay industries experienced the bulk of job losses during the downturn and the greatest difficulty regaining them since then

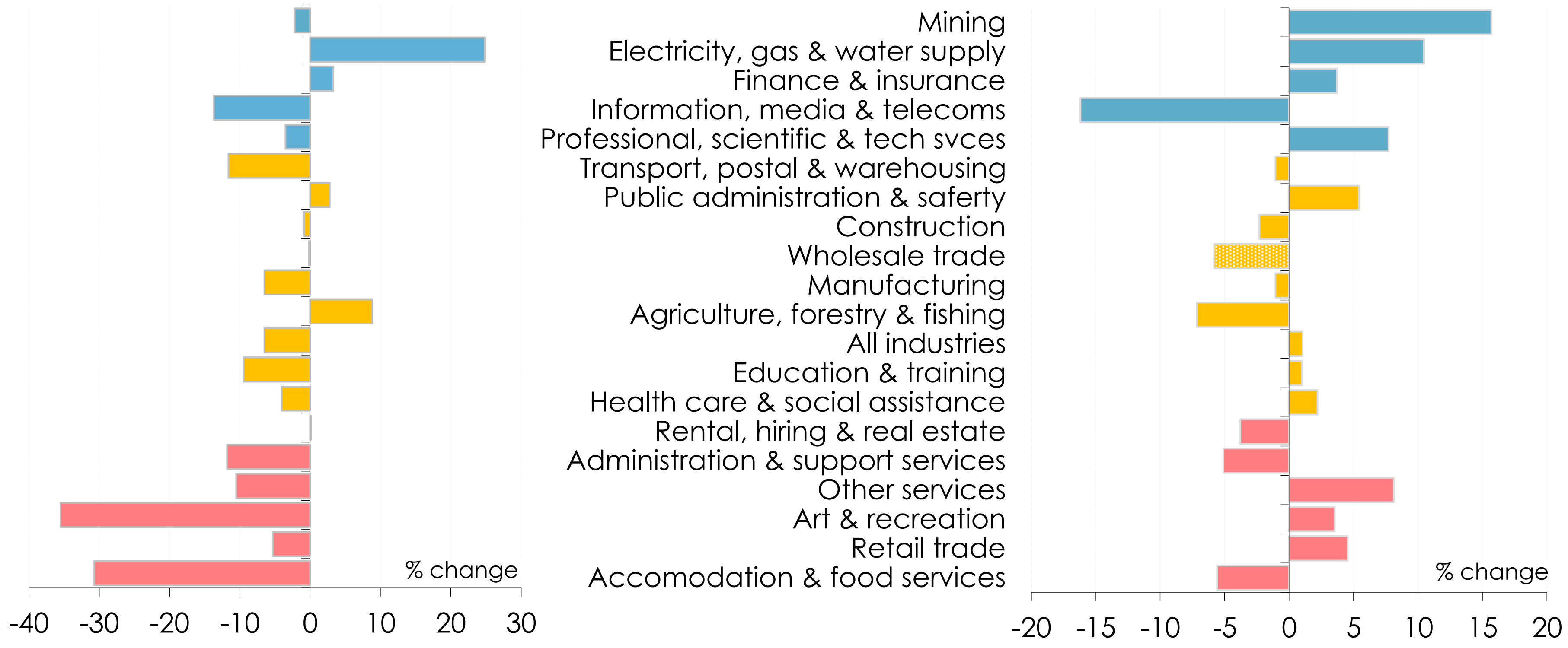
Composition of employment by industry ranked by average weekly earnings, February 2020



Change in employment by industry

February-May 2020

February 2020 – May 2021



- ❑ 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 only 0.6% higher in May this year than it had been in February last year
- ❑ By contrast employment in "high pay" industries (17% of the pre-pandemic workforce) was 5.6% higher than it had been in February last year

Source: ABS, Labour Force, Australia, Detailed, May 2021 and Average Weekly Earnings, Australia, November 2019 . Labour force survey data on employment by occupation are available only for the middle month of each quarter: August data will be released on 23rd September. Return to "What's New".

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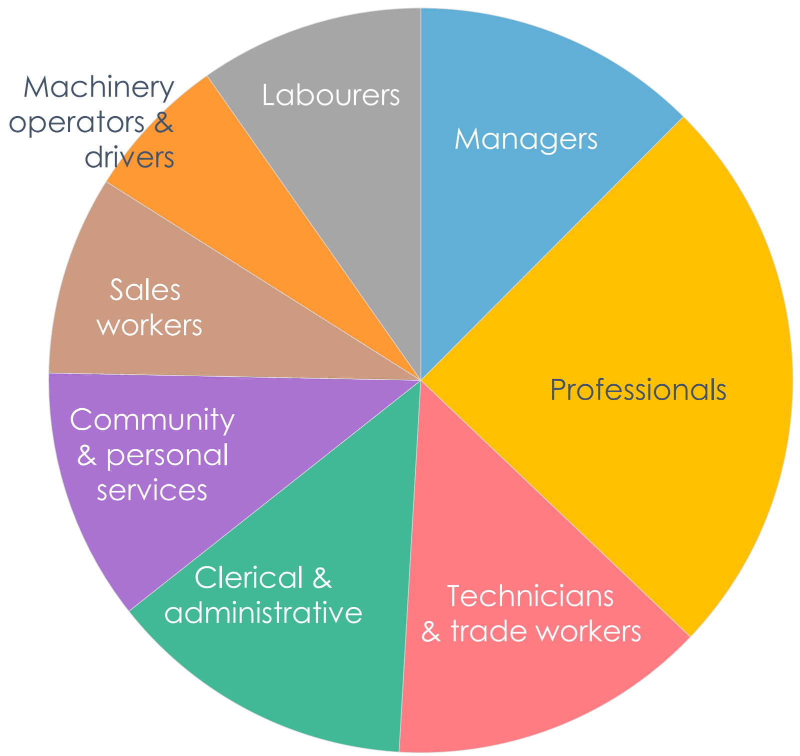
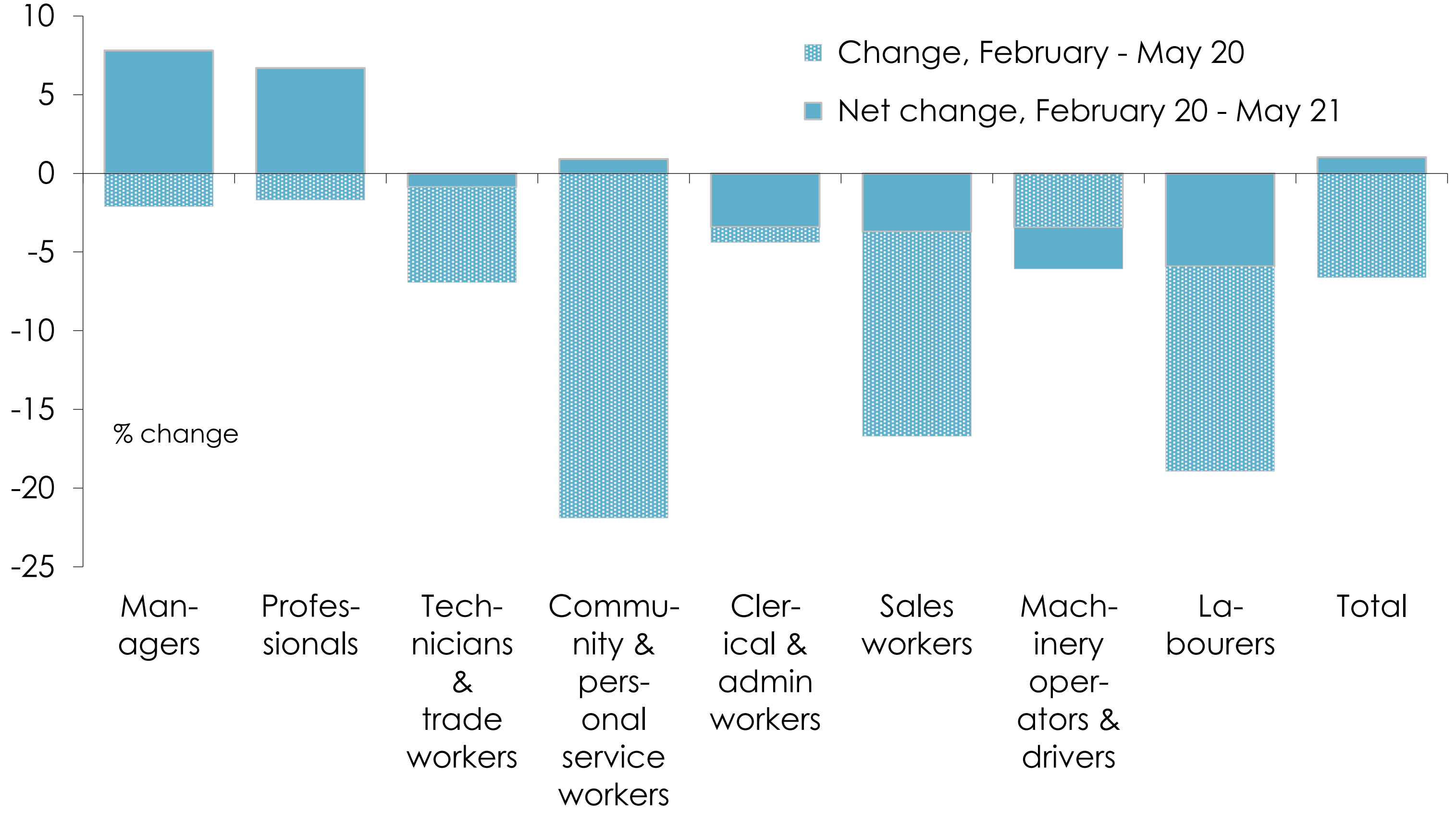
Community & personal service workers, sales workers and labourers have borne the brunt of job losses since the onset of the pandemic

Employment by major occupation category, February 2020



Change in employment between February 2020 and May 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 17% of them still haven't regained their jobs (or found others) …**
- ❑ **… whereas there are 7% more employed managers and professionals than there were in February last year**

Source: ABS, *Labour Force, Australia, Detailed*, May 2021. Labour force survey data on employment by occupation are available only for the middle month of each quarter: August data will be released on 23rd September. Return to "What's New".

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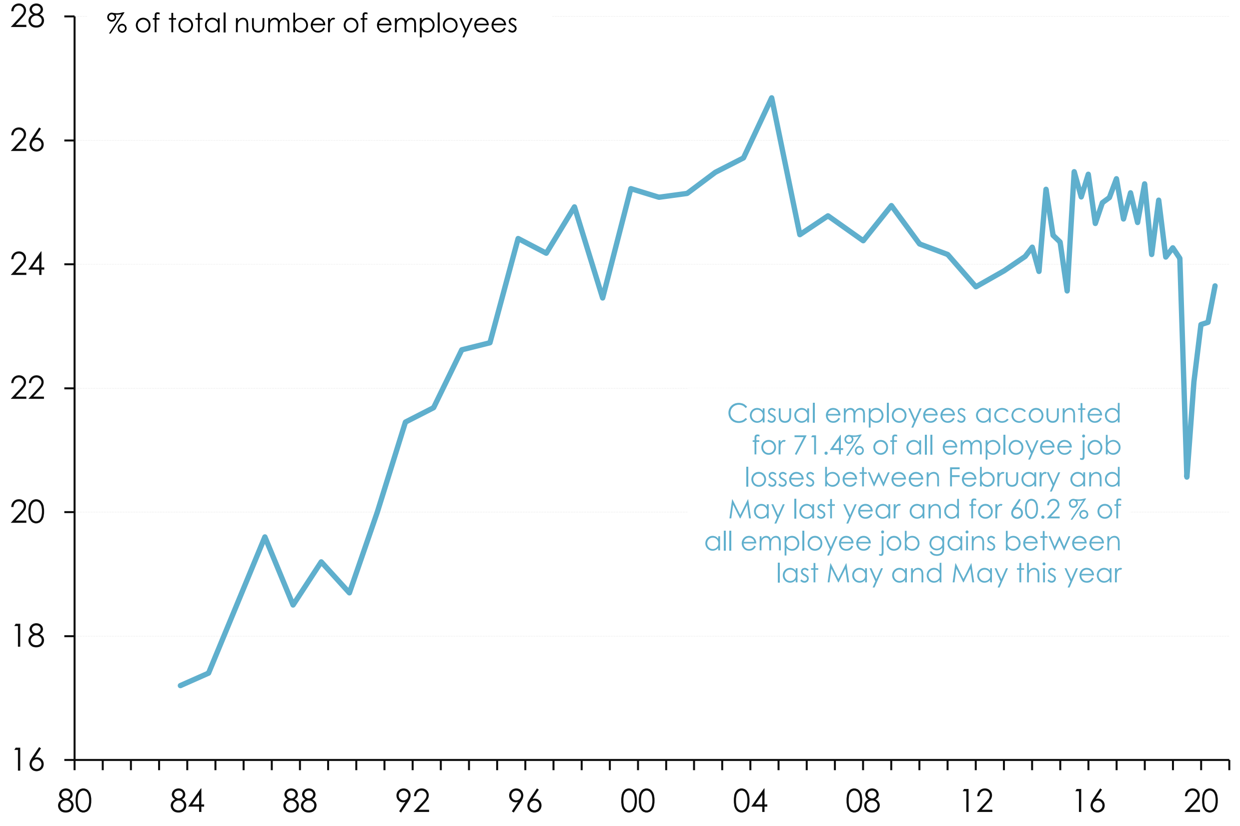
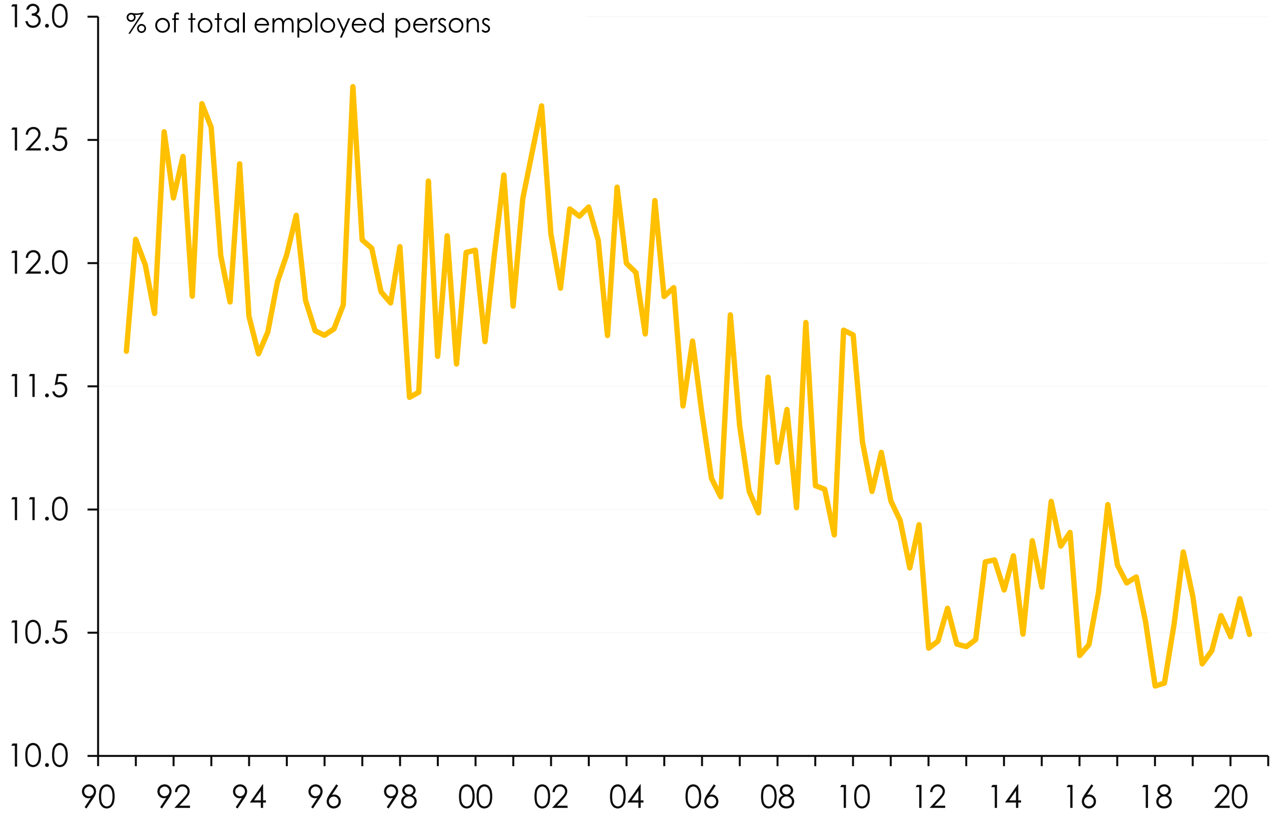
Contrary to popular belief neither casual jobs nor ‘gig economy’ jobs have become more commonplace during the past two decades

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



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



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

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

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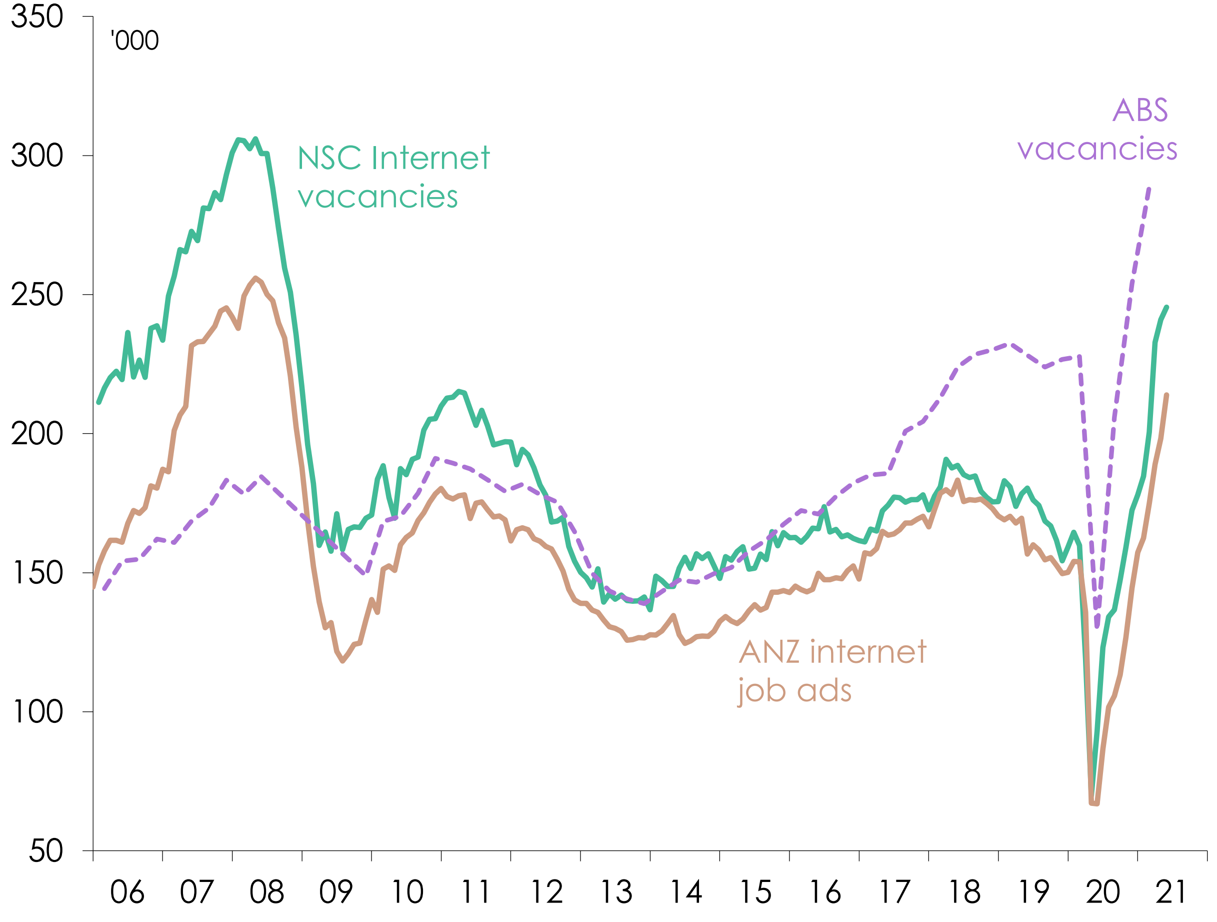
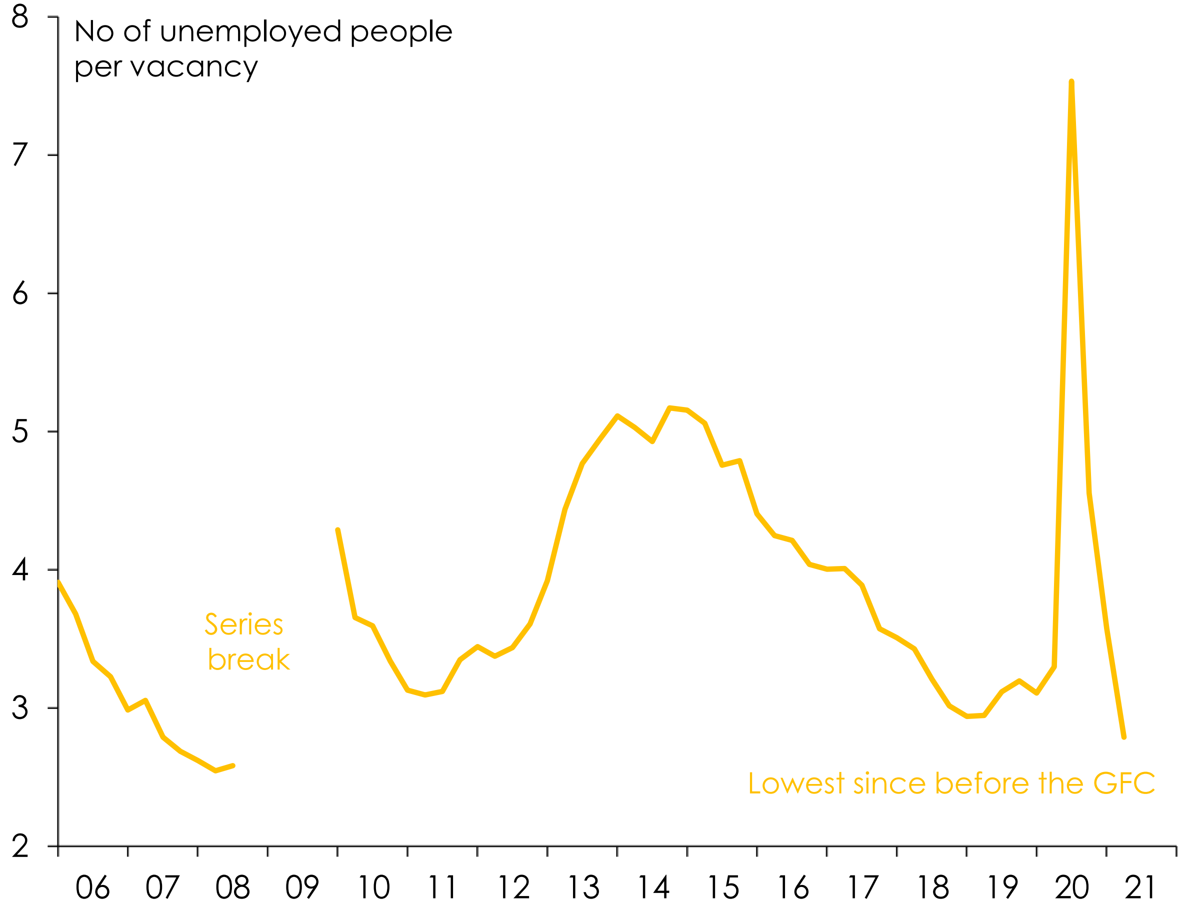
Job vacancies have rebounded swiftly from their recession lows, and the number of unemployed people per vacancy is at a 13-year low …

Measures of job vacancies



Ratio of unemployed people to job vacancies



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

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

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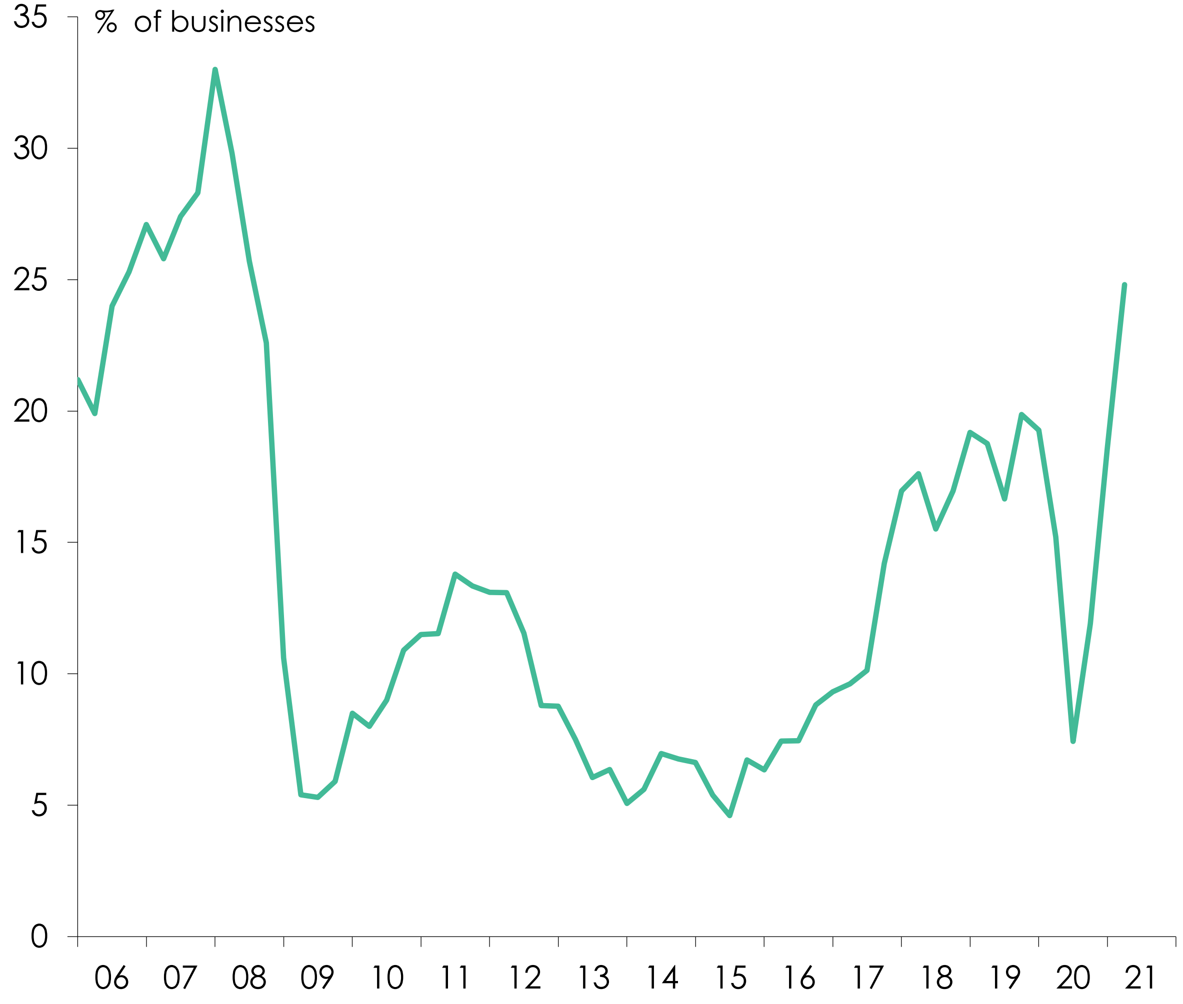
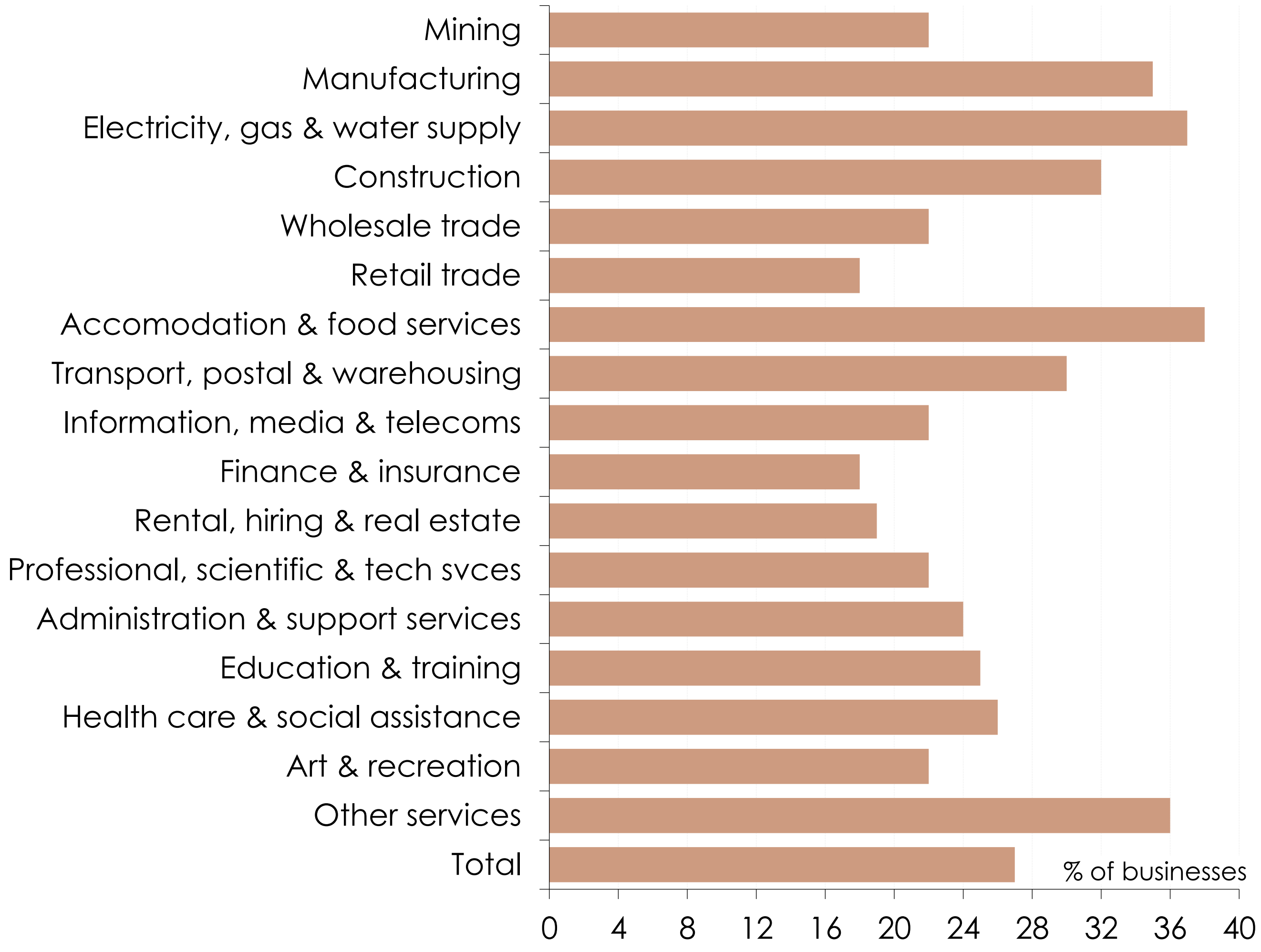
… but employers are encountering increasing difficulty filling those vacancies (at least partly because of the border closure)

Proportion of businesses nominating 'suitable labour as a constraint on output



Businesses reporting difficulty finding suitable staff, by industry



Sources: National Australia Bank, Quarterly Business Survey, March quarter 2021; ABS, Business Conditions and Sentiments, June 2021.

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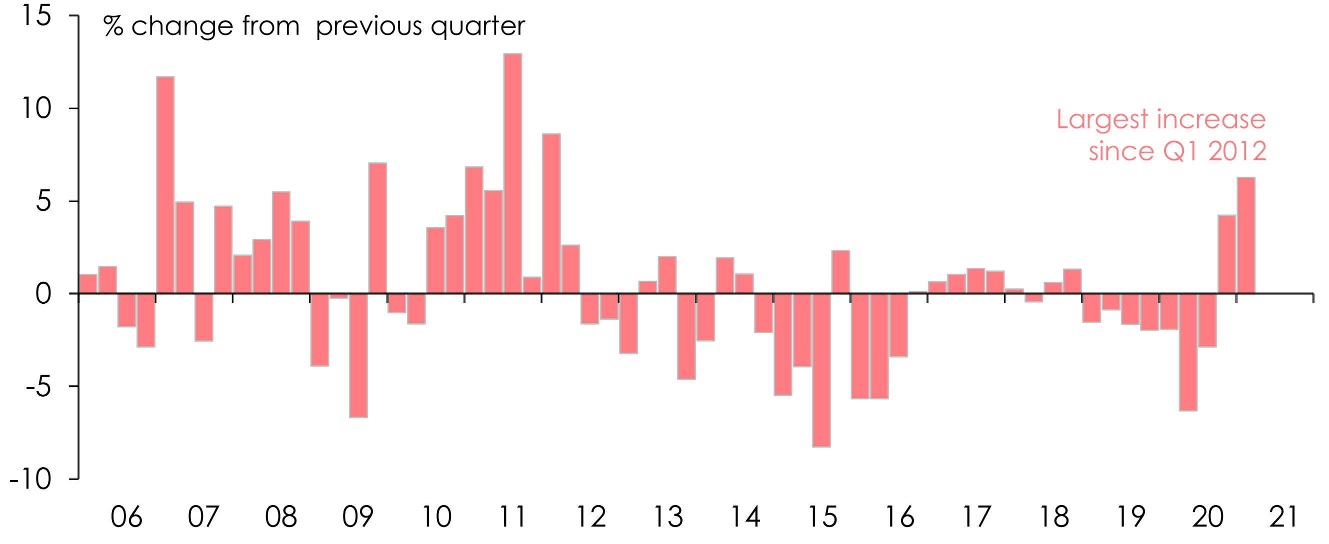
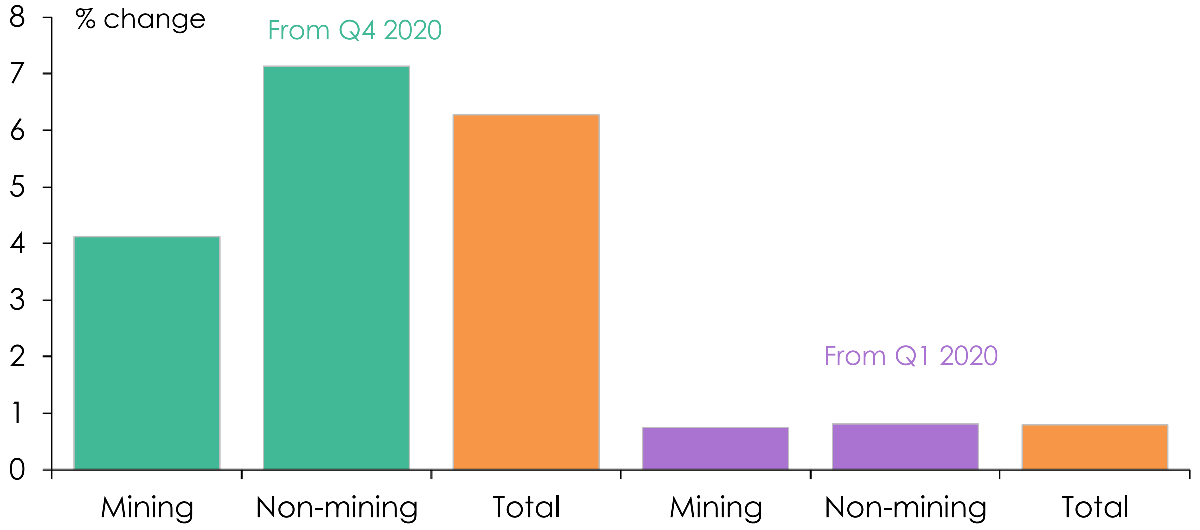
Business capex rose Q1 for the second quarter in a row, and by the largest amount in nine years, led by manufacturing, mining and construction

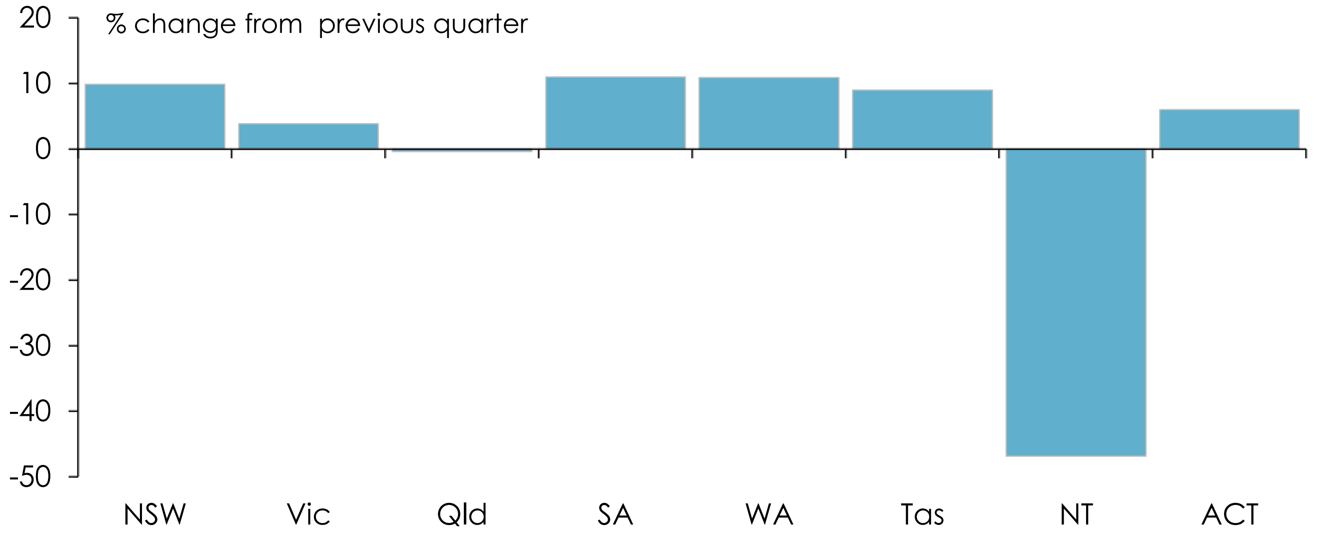
Real business new fixed capital expenditure



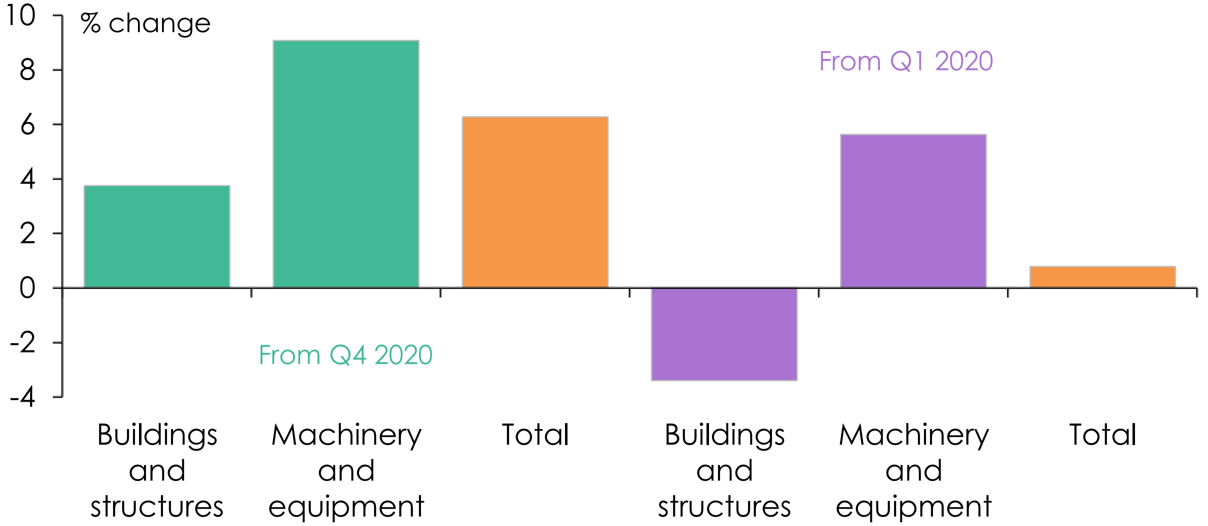
Real business new fixed capex, by industry, Q1



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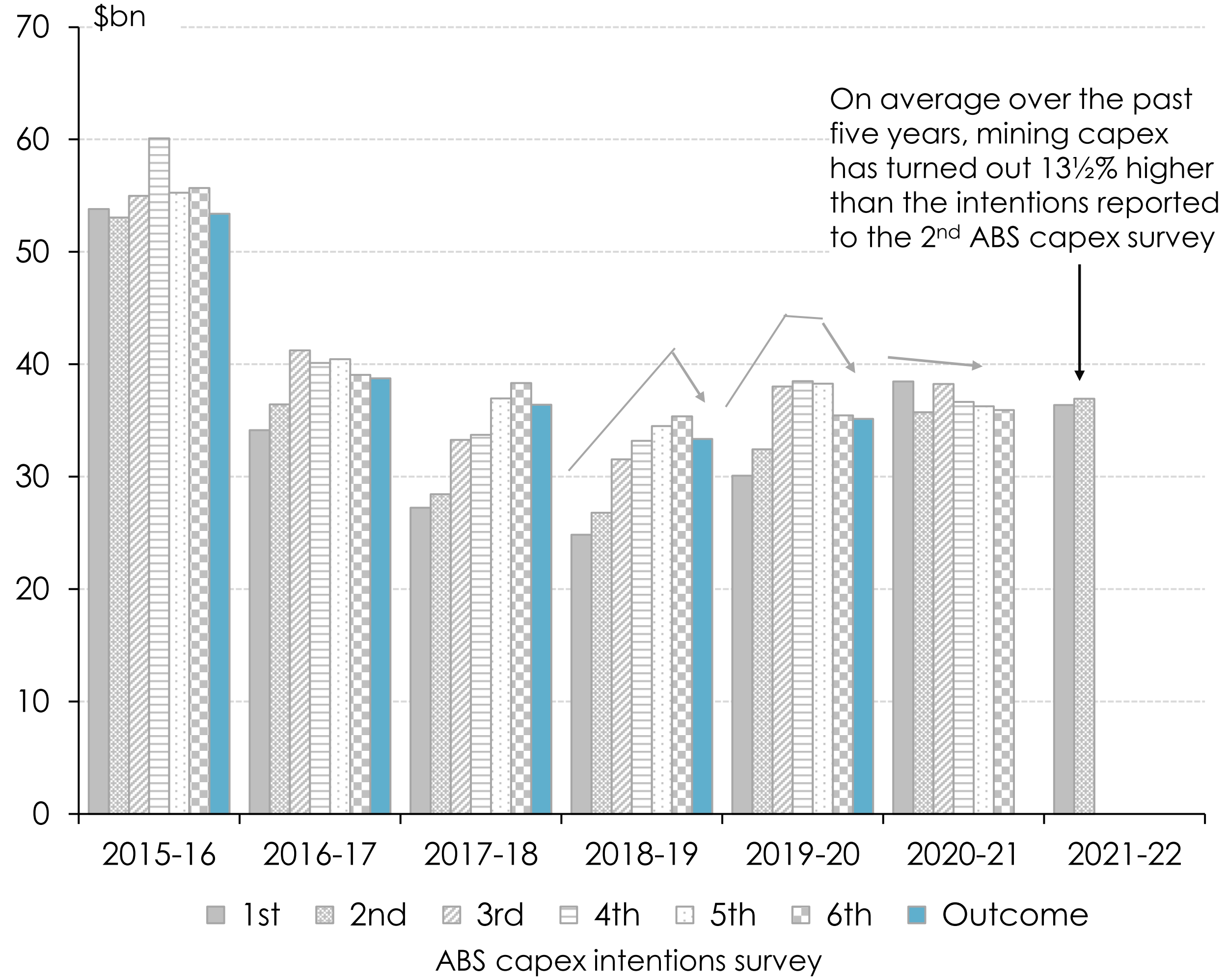
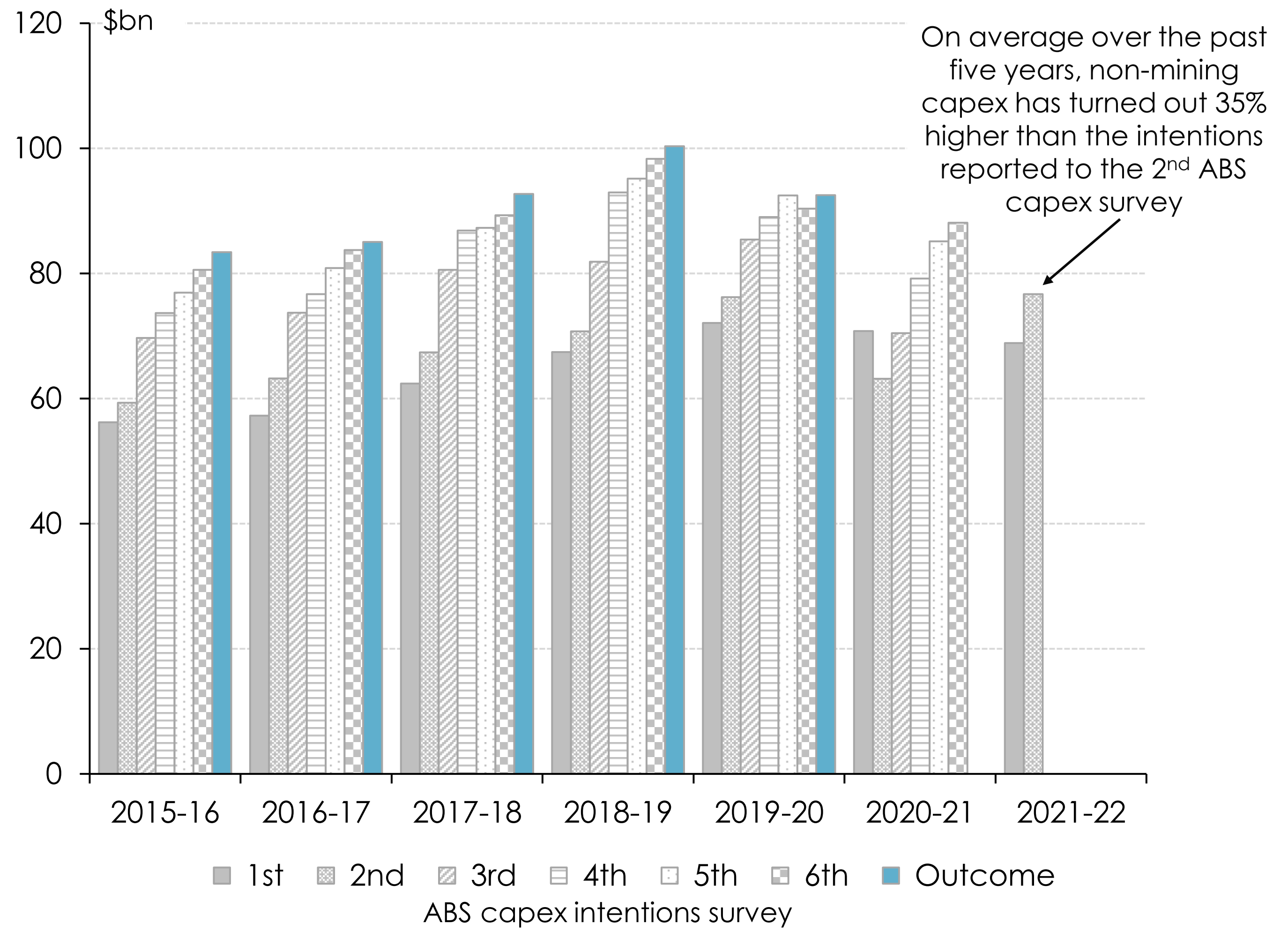
Business capex now looks likely to have fallen by only about 2% in 2020-21, while the 2nd estimate for 2021-22 points to a rise of more than 15%

Capital expenditure intentions - mining



Capital expenditure intentions – non-mining

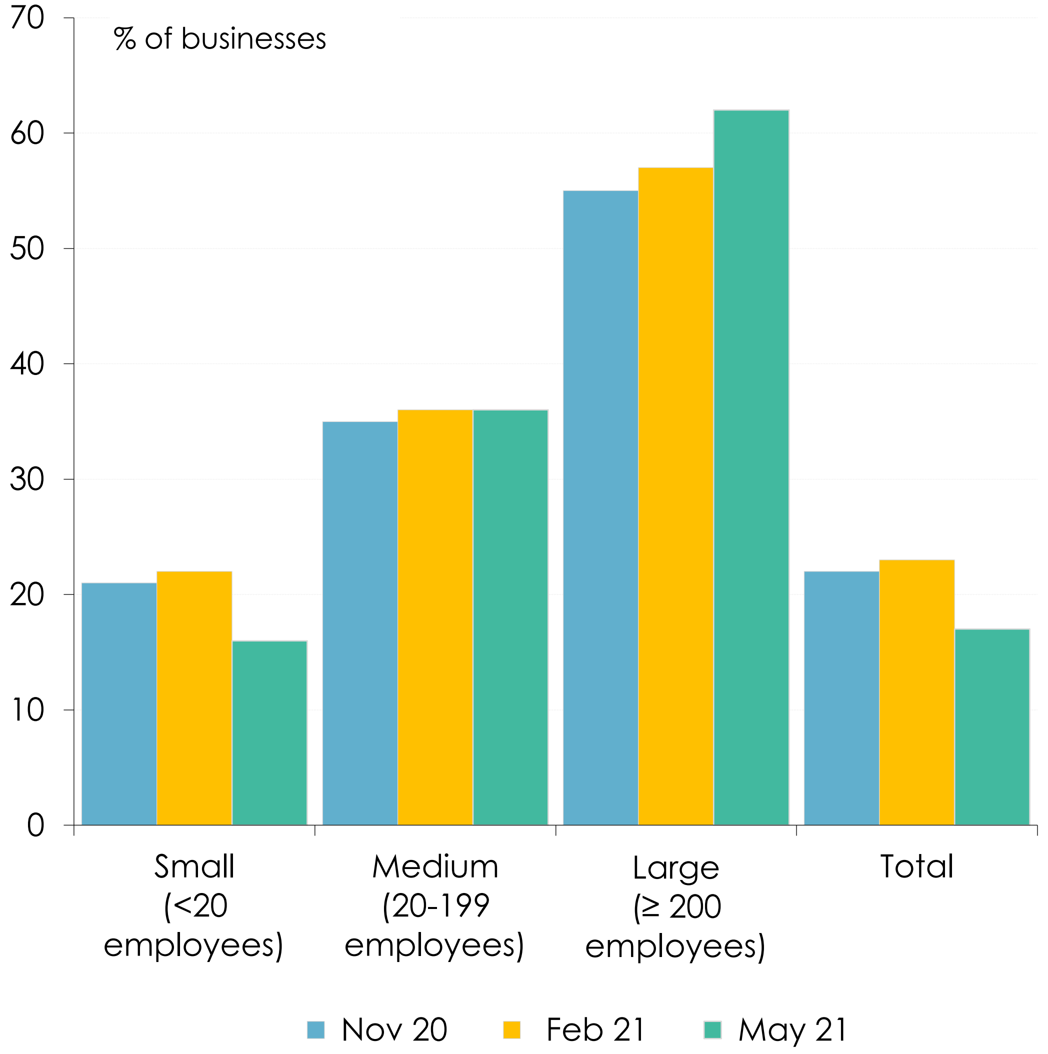


Note: The ABS conducts six surveys of business' capital expenditure intentions in respect of each financial year. The first is conducted in January & February prior to the commencement of the financial year, the second in May & June, the third in July & August of the financial year, the fourth in October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

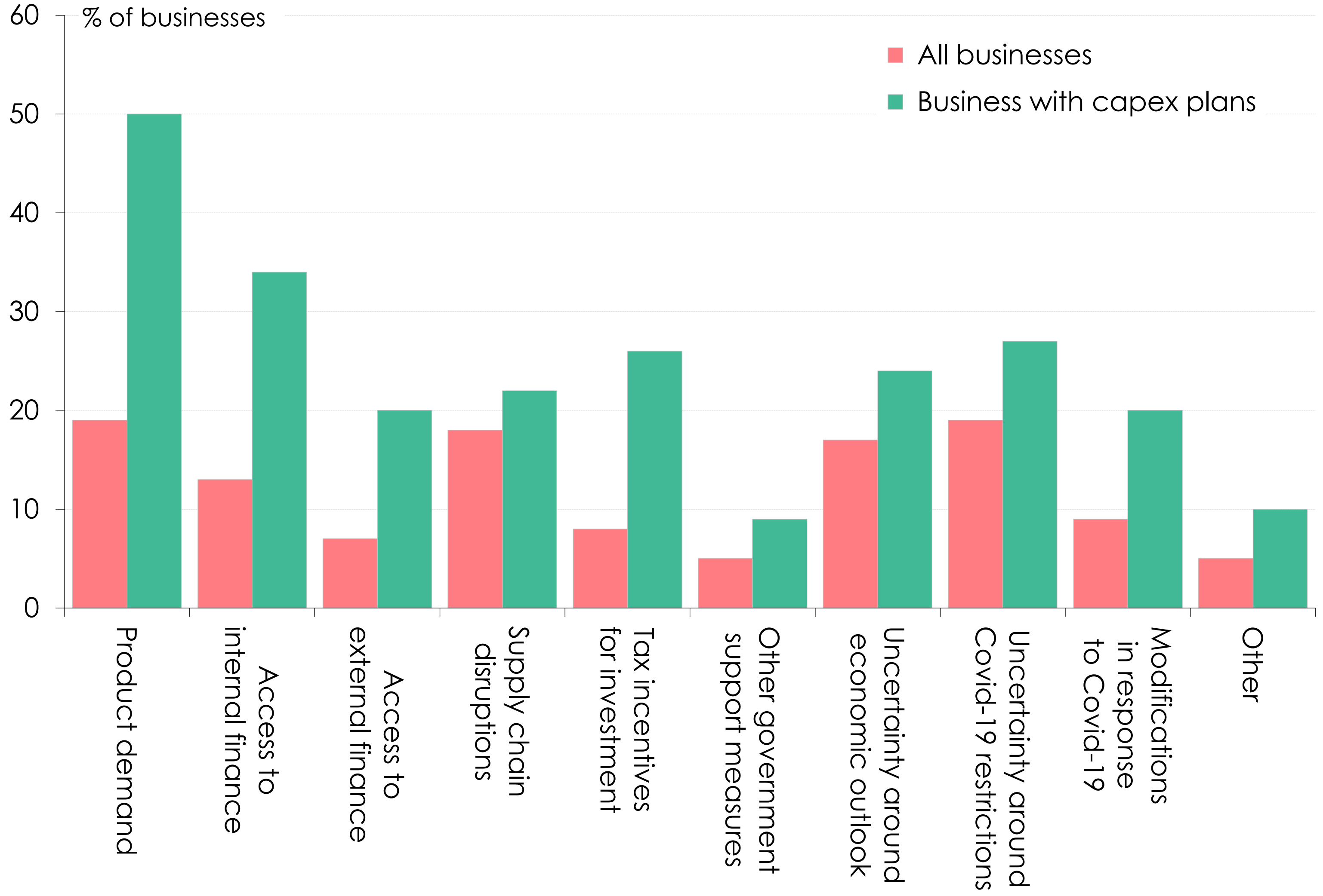
Source: ABS, *Private New Capital Expenditure and Expected Expenditure, Australia* (next update is released on 28th August).

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

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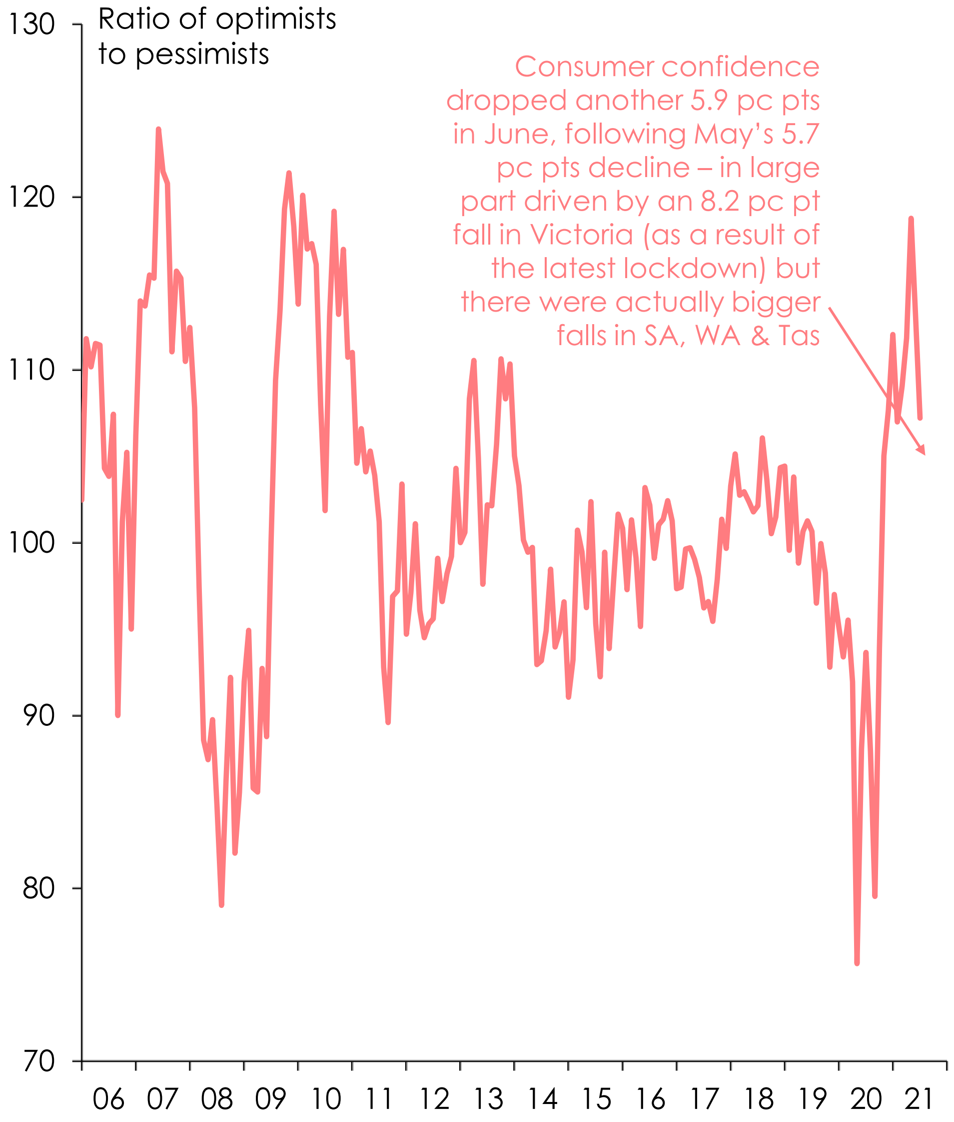
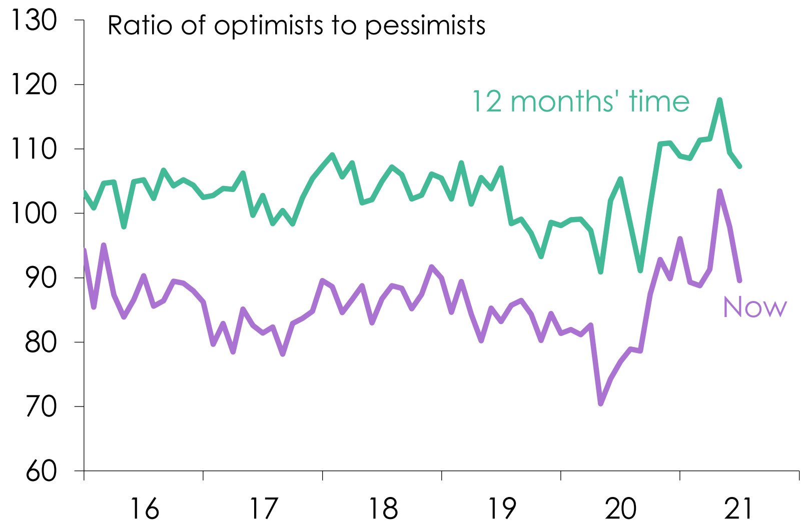
Consumer confidence fell further in June, partly due to the lockdown in Victoria, but also rising concerns about housing affordability and inflation

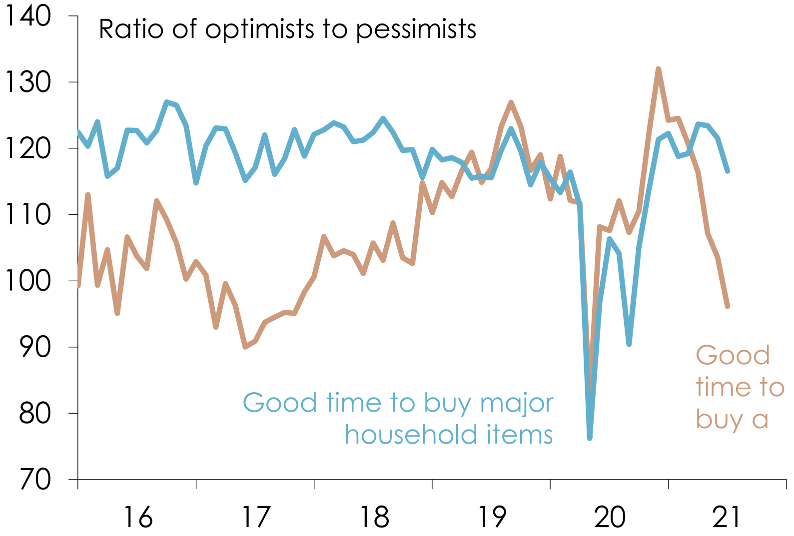
Consumer confidence index



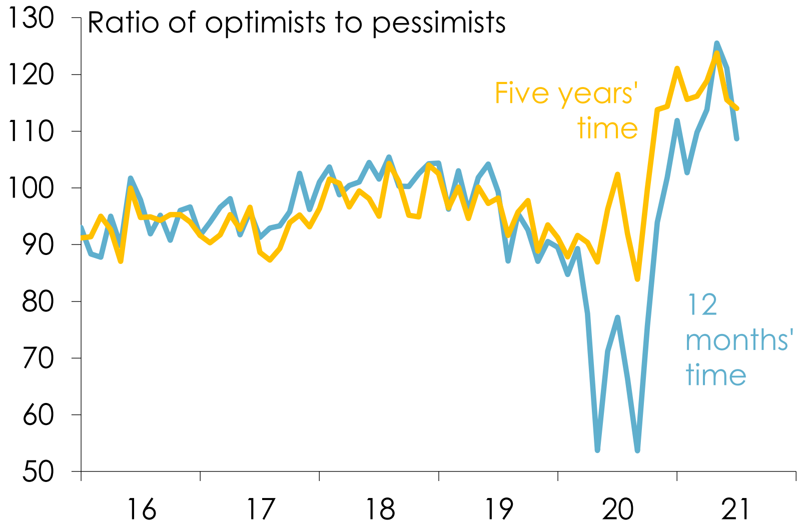
Household finances assessment



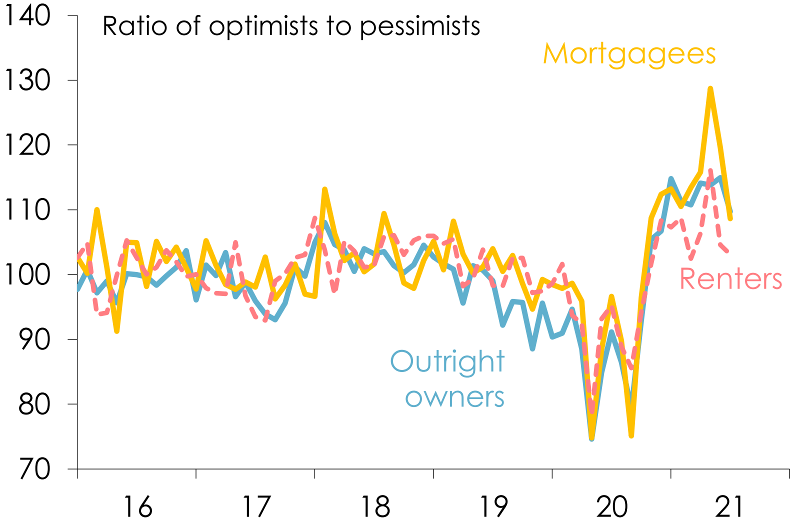
Buying conditions assessment



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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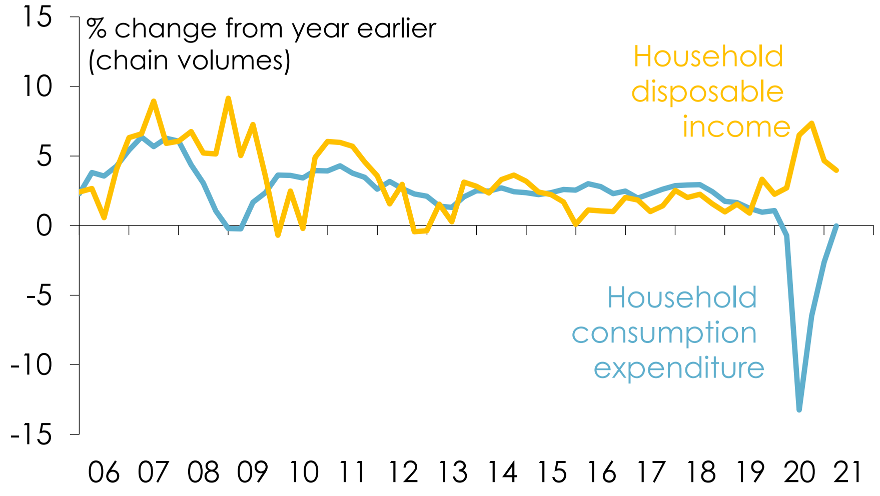
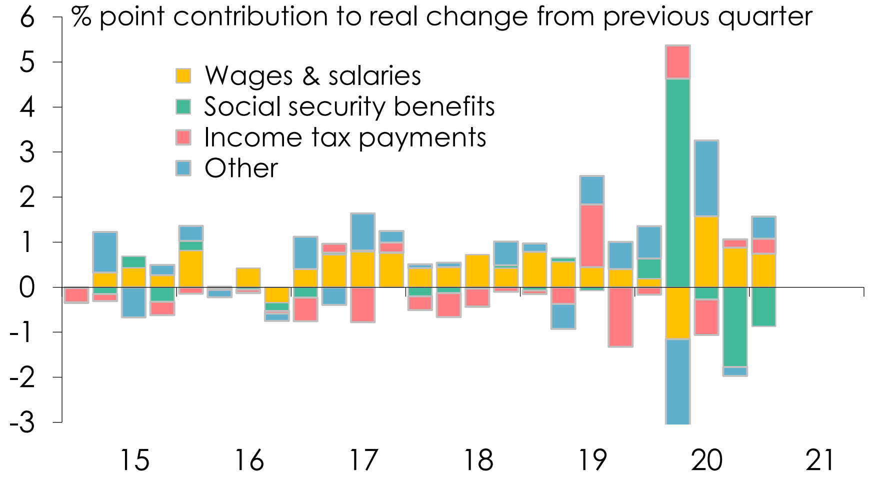
Household incomes have been supported by government payments, but spending has been curtailed, so households have lots of savings to spend

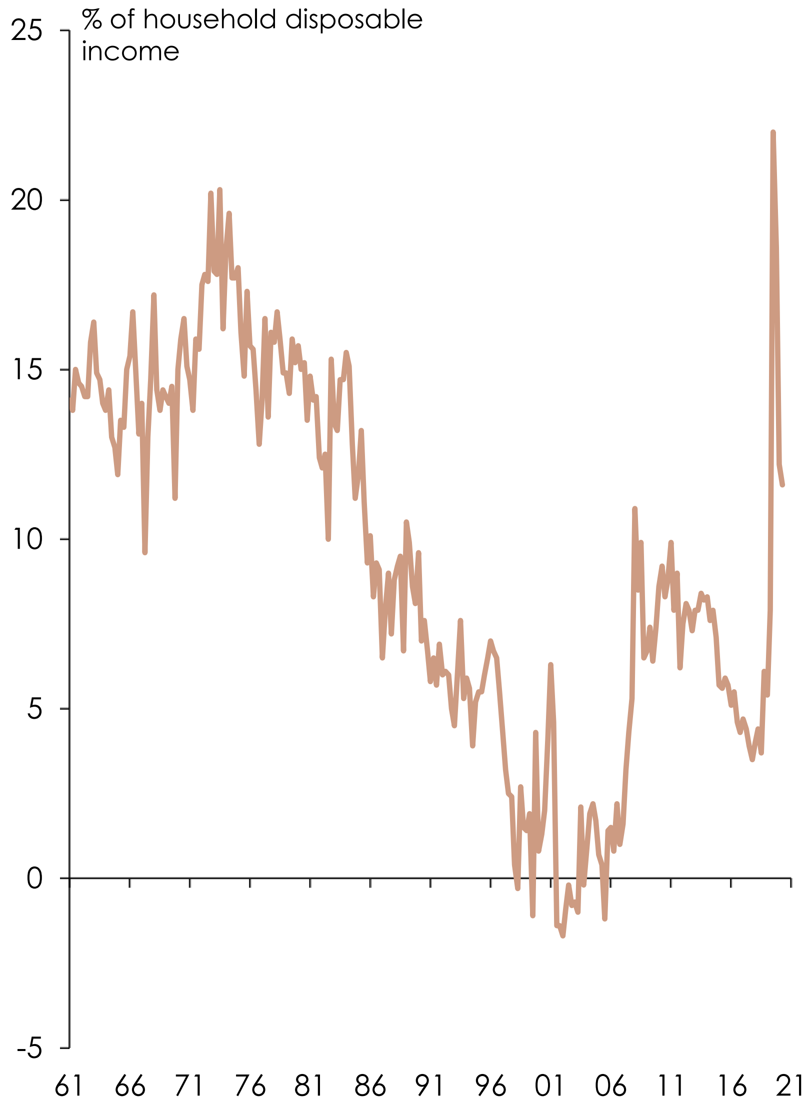
Household income and spending



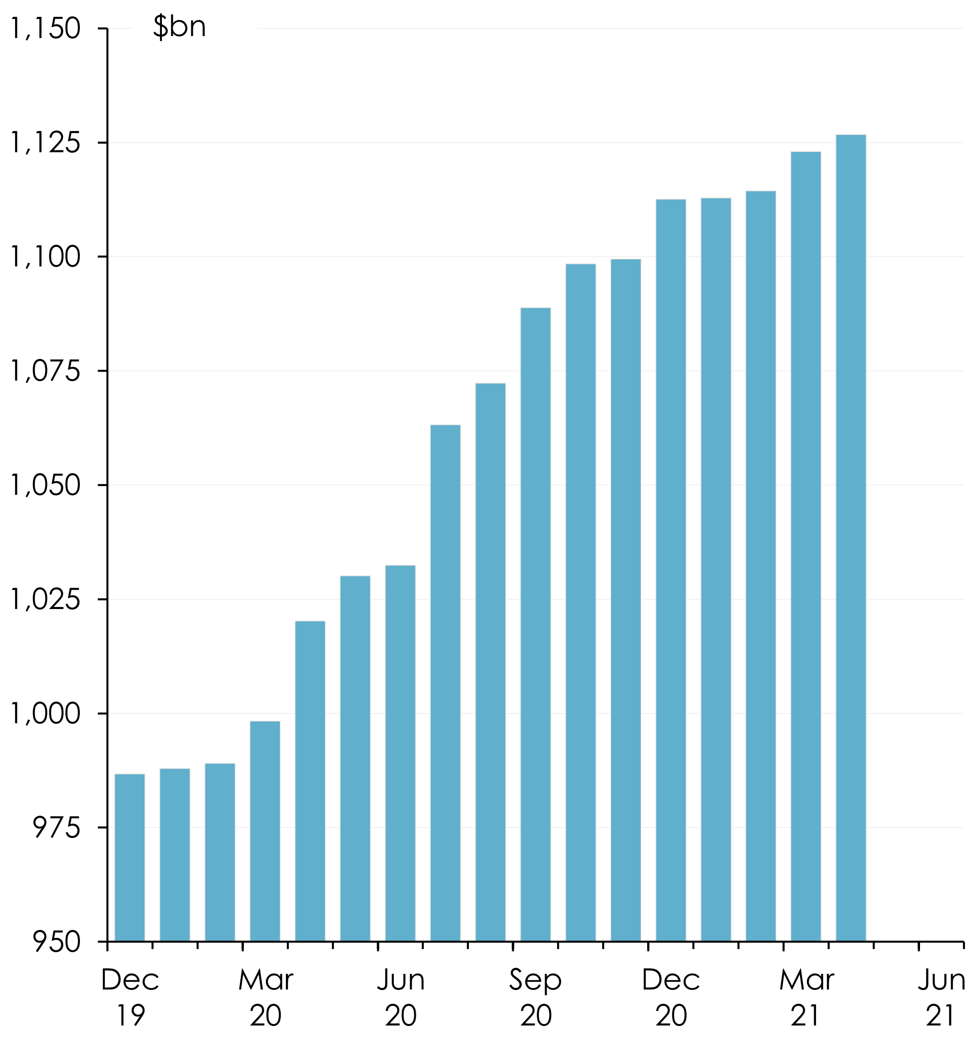
Sources of household income



Household saving ratio



Household bank deposits

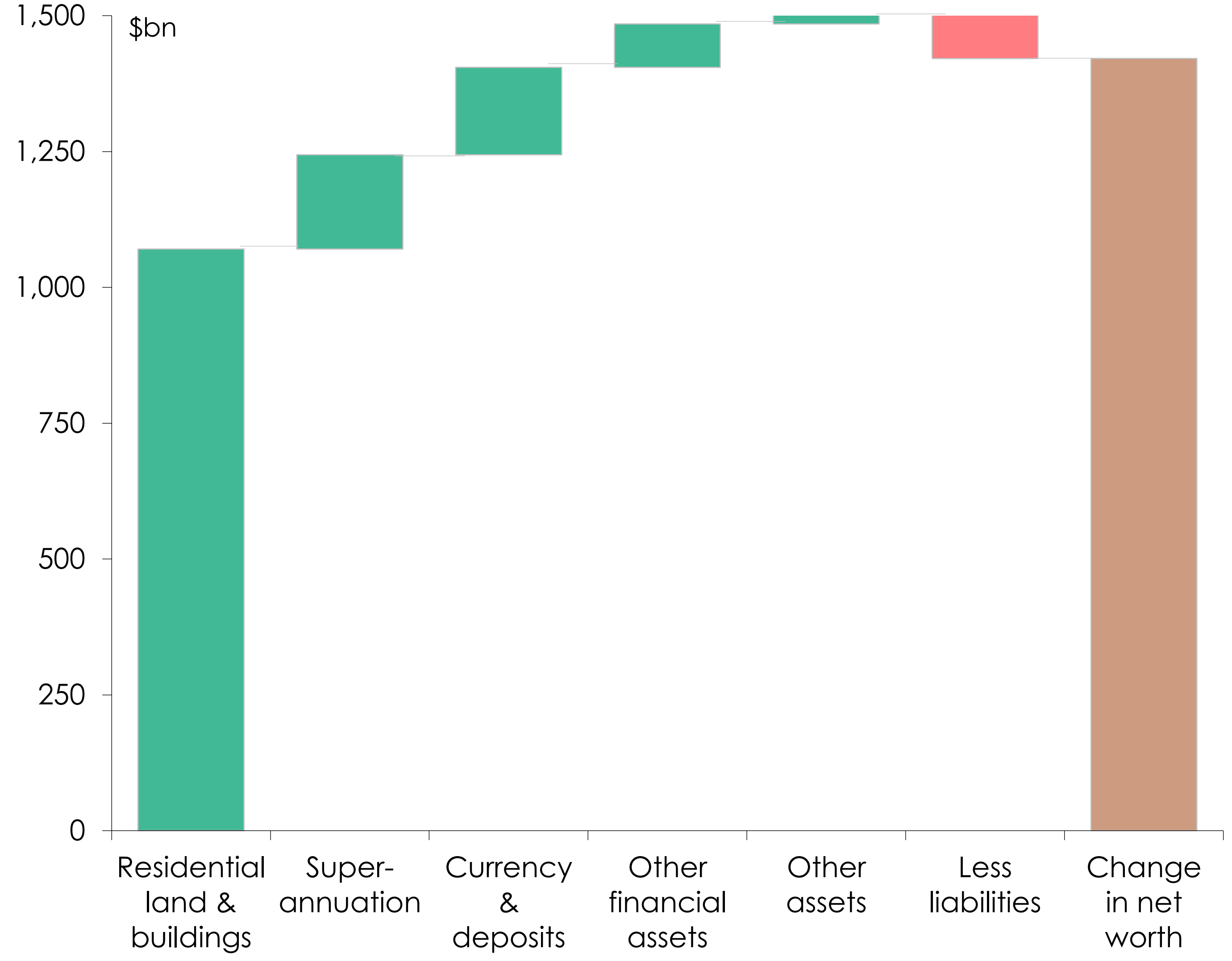


Sources: ABS; APRA.

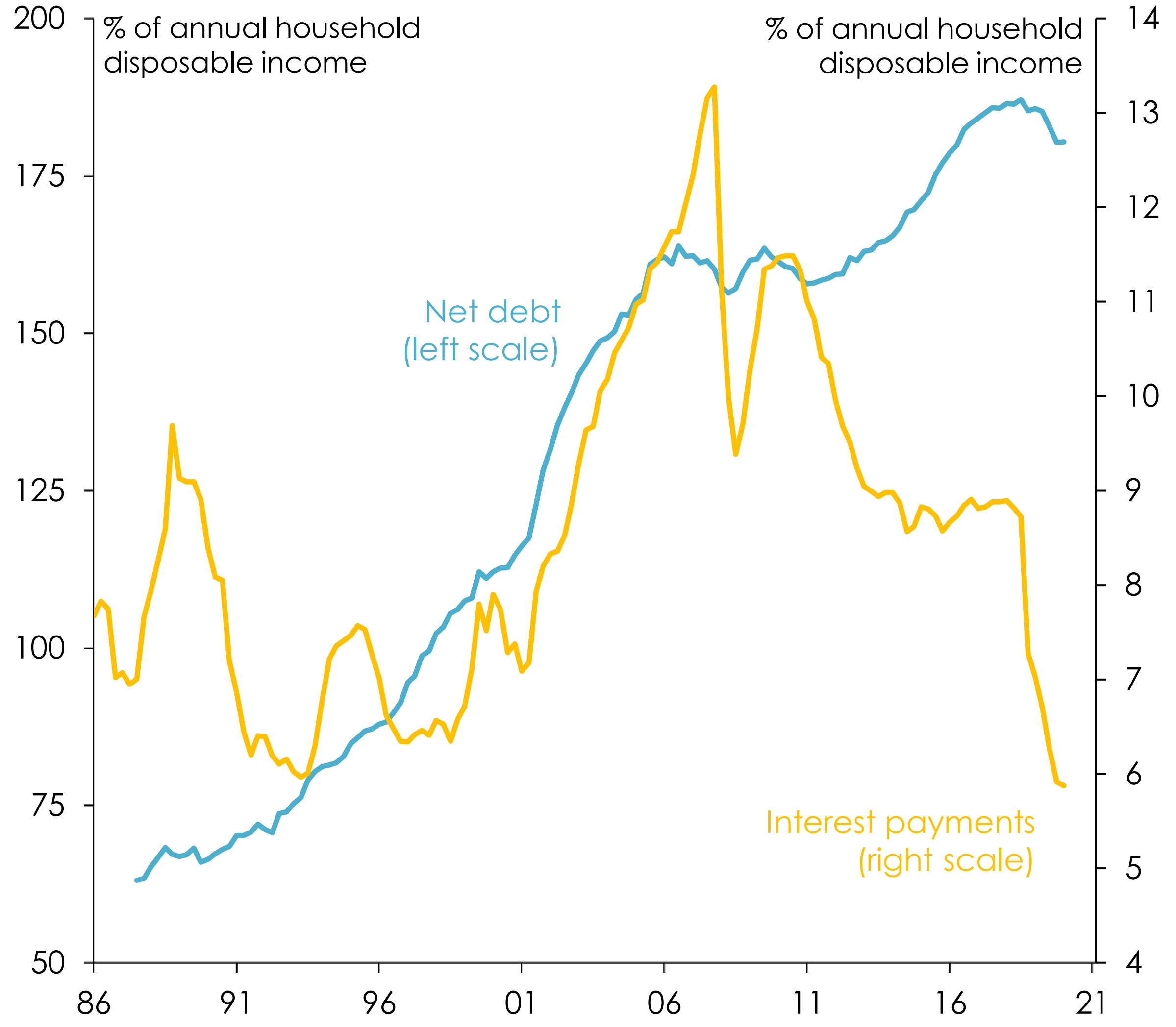
SAUL ESLAKE
CORINNA ECONOMIC ADVISORY PTY LTD

Household net worth has risen by $1.4trn (12½%) since the end of 2019, while debt and interest payments have fallen as a pc of income

Sources of gains in household net worth, Q4 2019 to Q1 2021



Household net debt and interest payments as a percentage of disposable income

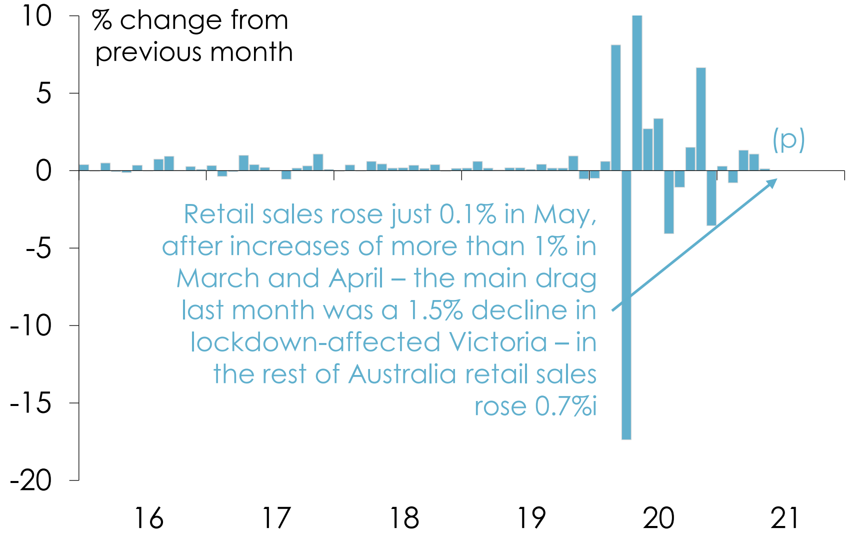


Sources: ABS, *Finance and Wealth Accounts*, March quarter 2021; RBA, *Statistical Tables* E1 & E2. June quarter data will be released on 23rd September.
Return to "What's New".

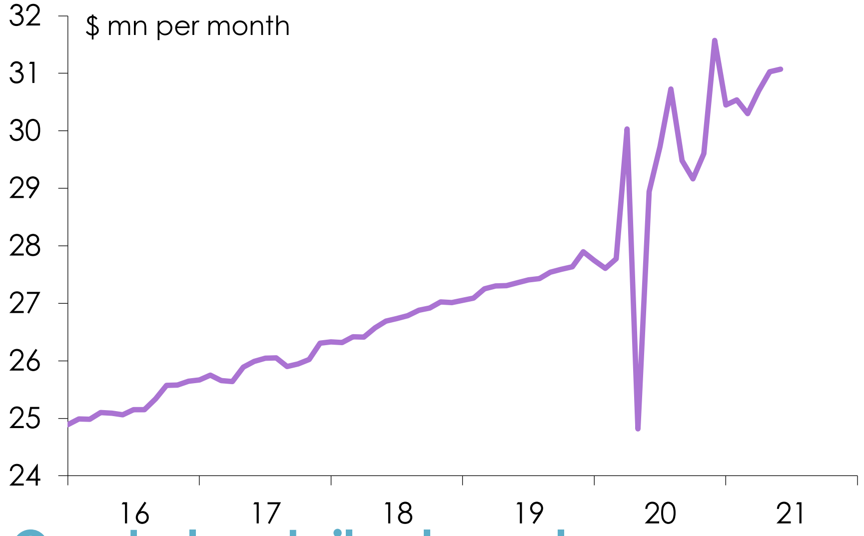
SAUL ESLAKE
CORINNA ECONOMIC ADVISORY PTY LTD

Retail sales rose 0.7% in May, according to preliminary estimates, weighed down by a 1.5% fall in lockdown-affected Victoria (again)

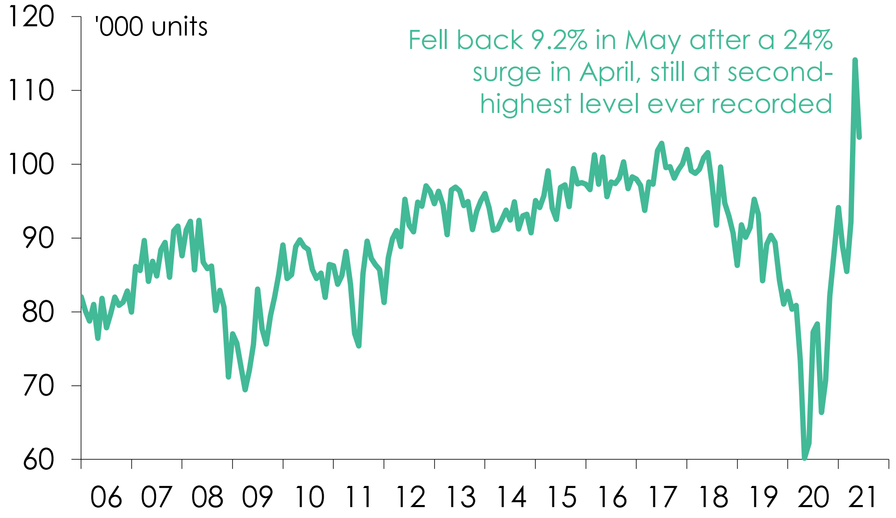
Monthly retail sales



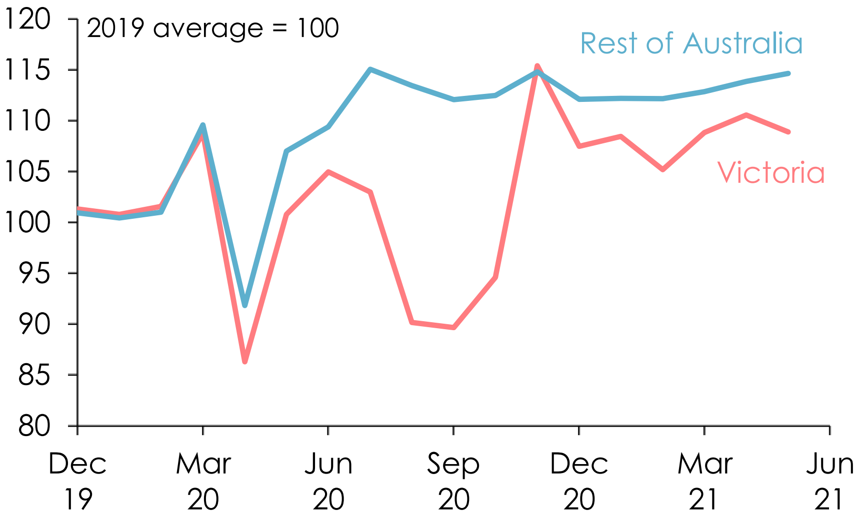
Level of retail sales



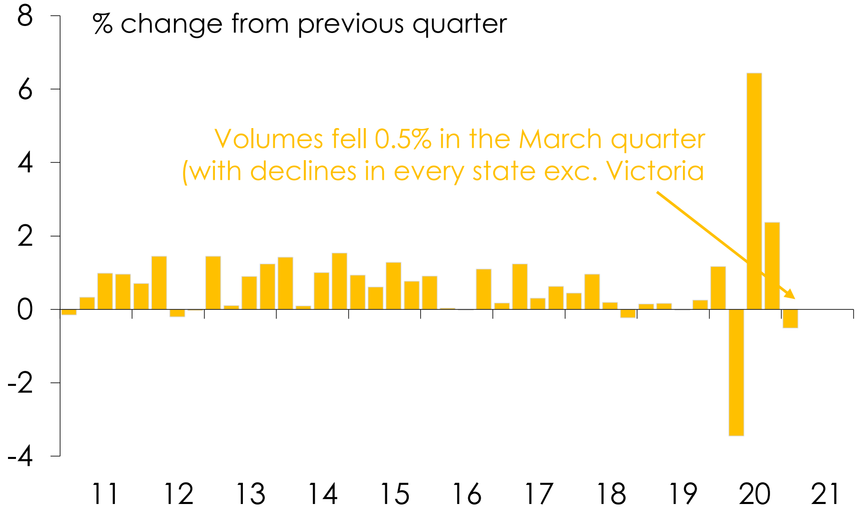
New motor vehicle sales



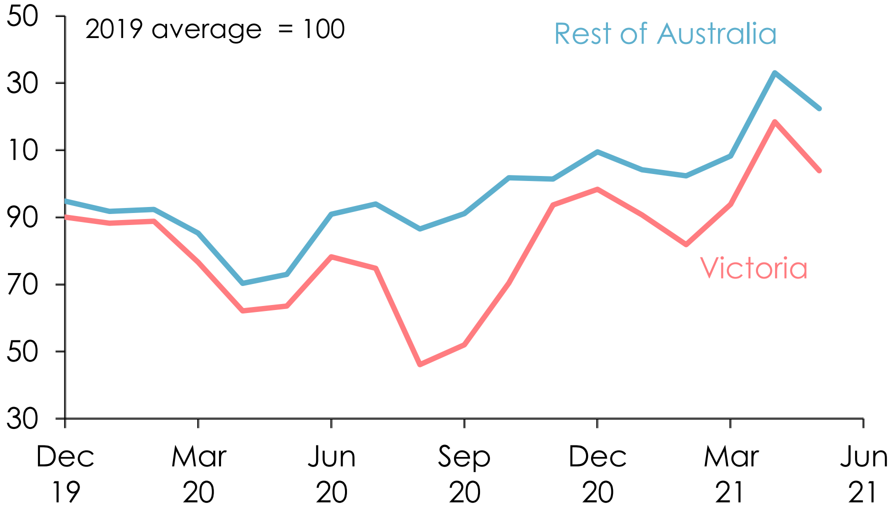
Retail sales – Victoria & the rest



Quarterly retail sales volumes



Vehicle sales – Victoria & the rest

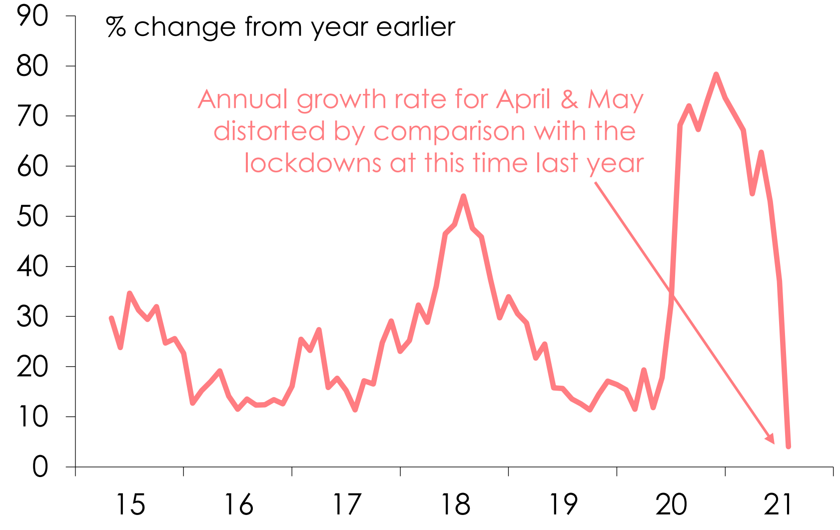


Note: see also slide 90 for more detail on the composition of retail sales since the onset of the pandemic. *Sources:* ABS, *Retail Trade, Australia*; Federal Chamber of Automotive Industries *VFACTS* (seasonal adjustment of FCAI data by Corinna). Final May retail sales data will be released on 5th July ; June motor vehicle sales data will be released in the second week of July. Return to "What's New".

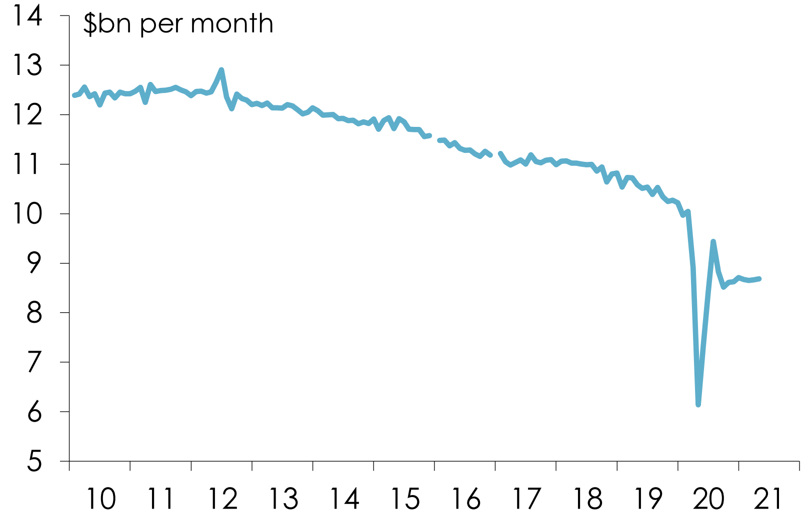
SAUL ESLAKE
CORINNA ECONOMIC ADVISORY PTY LTD

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

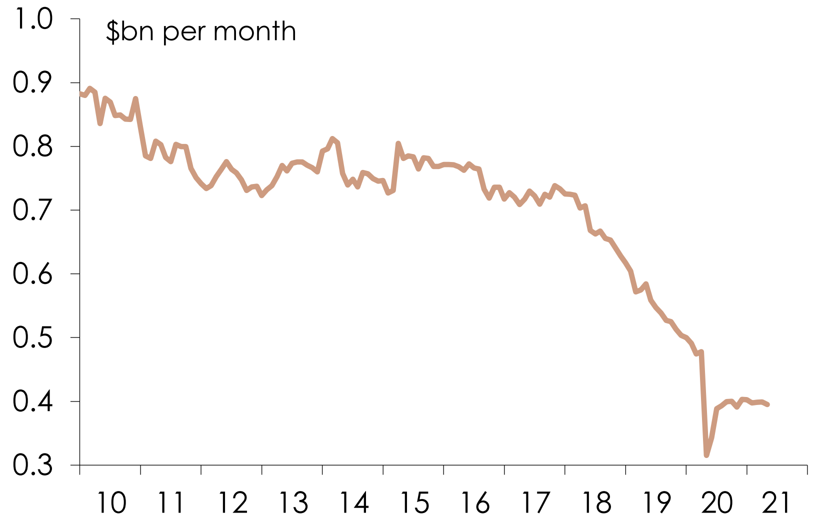
Growth in online retail sales



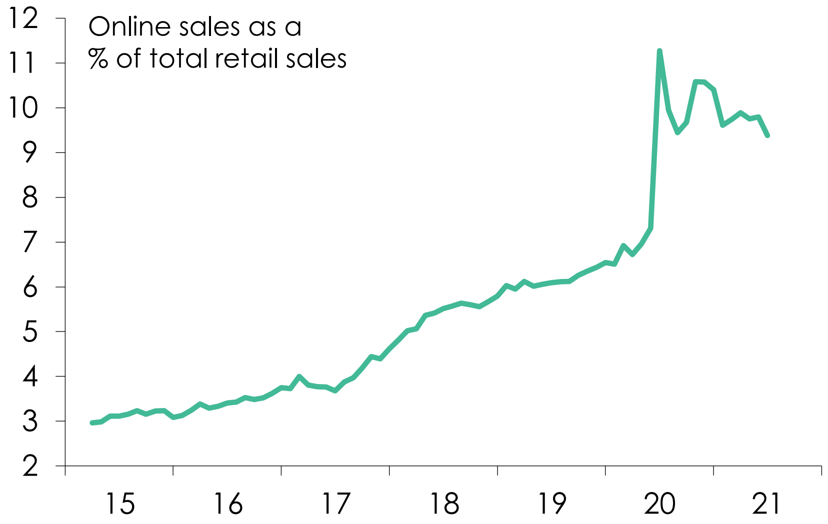
ATM cash withdrawals



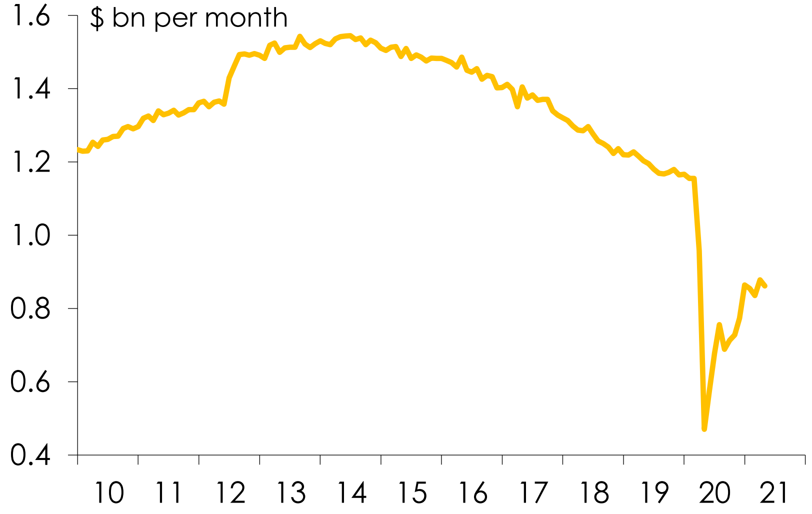
Credit card cash advances



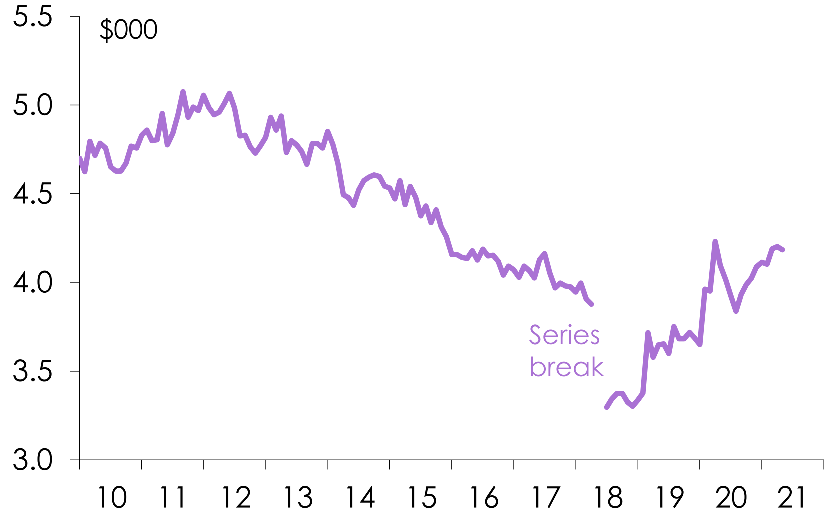
Online retail 'market share'



Debit card cash-outs



Direct entry payments

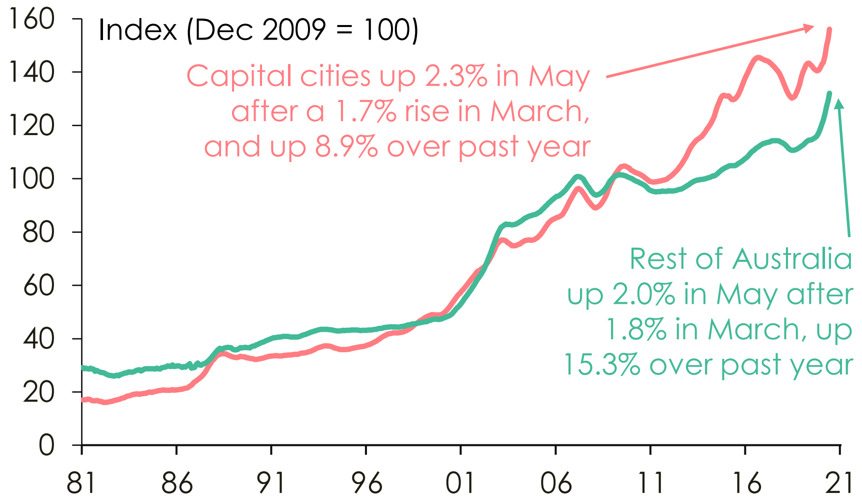


Sources: ABS, *Retail Trade, Australia*; RBA, *Statistical Tables*, C1, C2, C4 and C6. Latest data are for March: May data for online retail sales will be published on 5th July and for the payments system on 7th July.

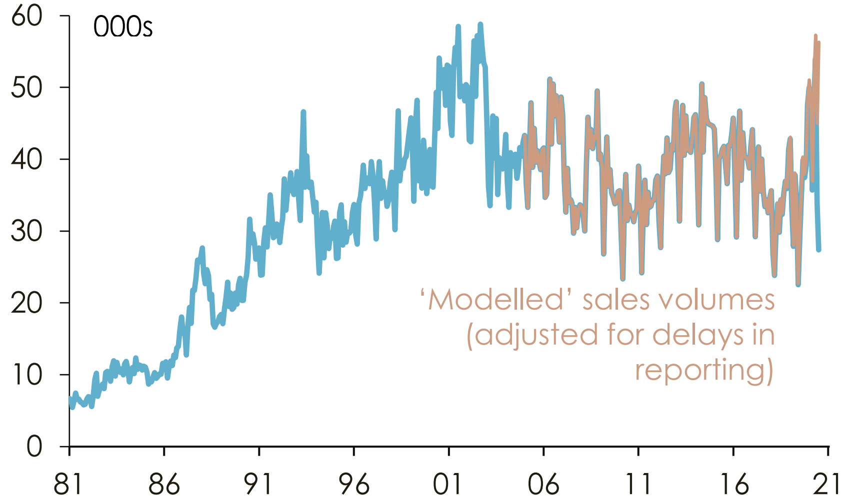
SAUL ESLAKE
CORINNA ECONOMIC ADVISORY PTY LTD

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

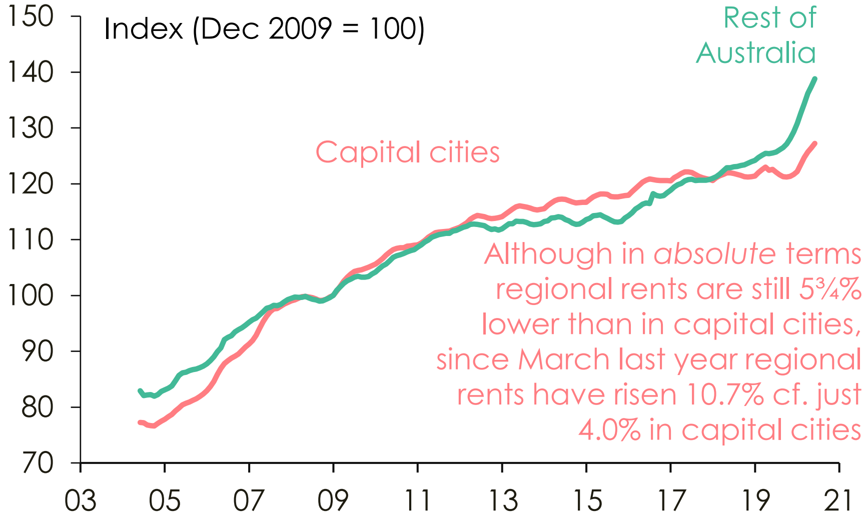
Residential property prices



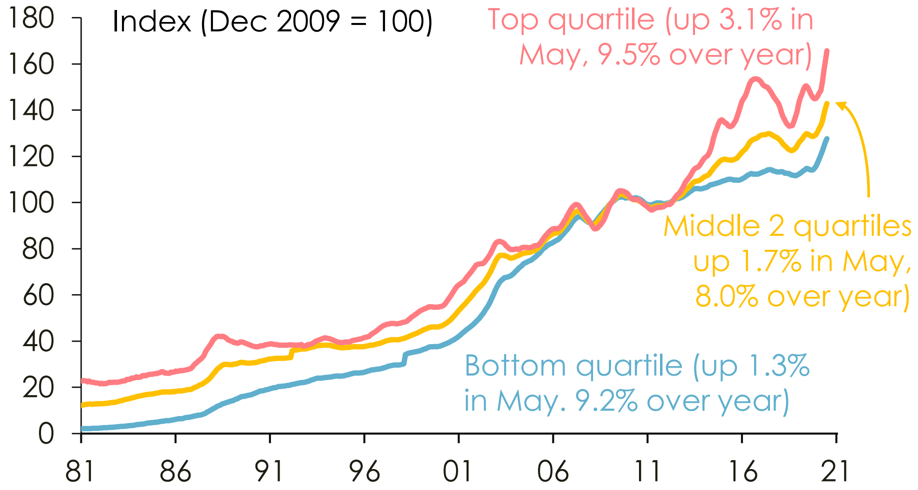
Residential property sales volumes



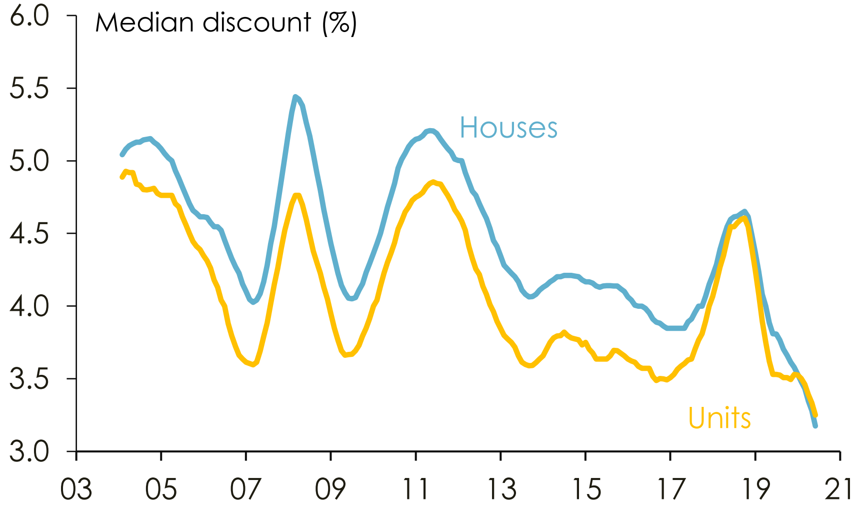
Residential rents



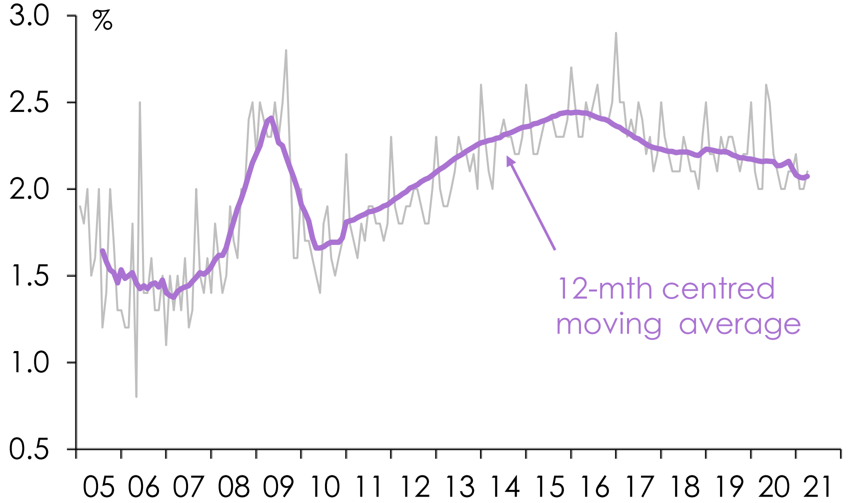
Property prices by tier



Vendor discounting



Capital city rental vacancy rates

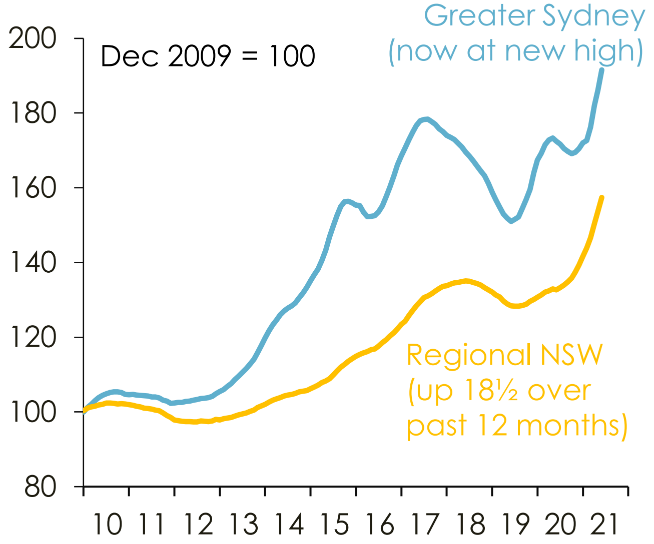


Note: The index of property prices measures the 'organic' change in underlying sales values by using a hedonic regression methodology that takes account of changes in the characteristics of properties being sold from month to month. Property price data are now seasonally adjusted. The index of residential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

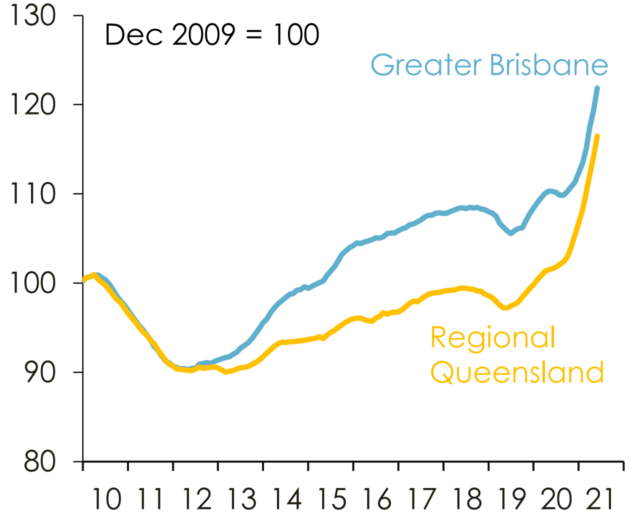
SAUL ESLAKE
CORINNA ECONOMIC ADVISORY PTY LTD

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

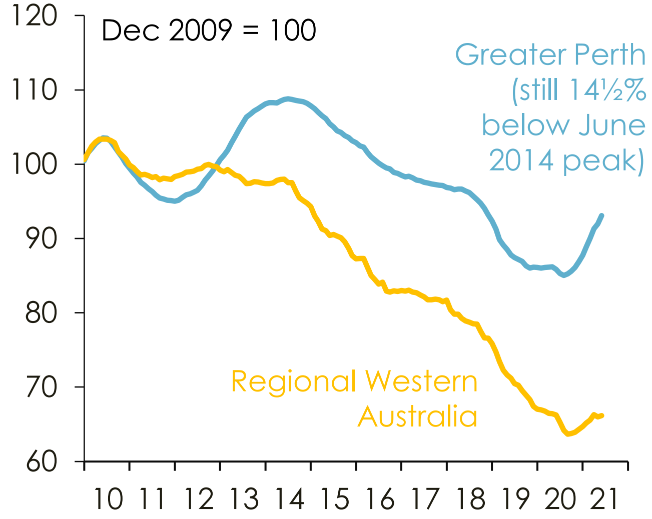
New South Wales



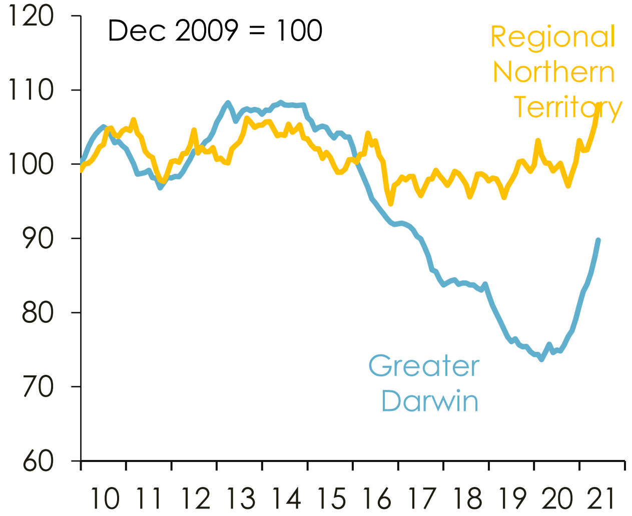
Queensland



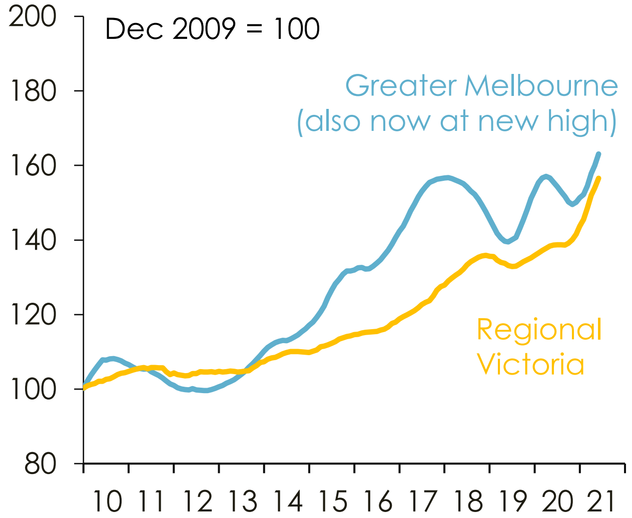
Western Australia



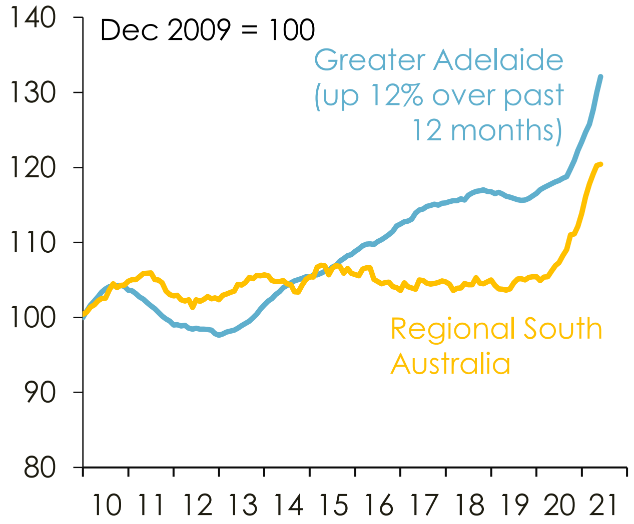
Northern Territory



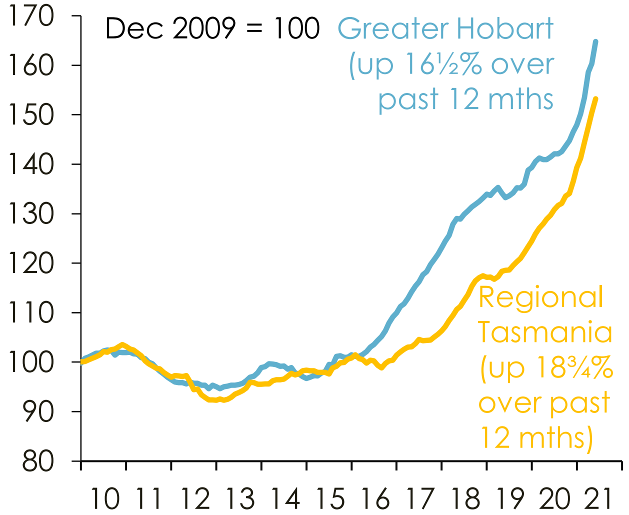
Victoria



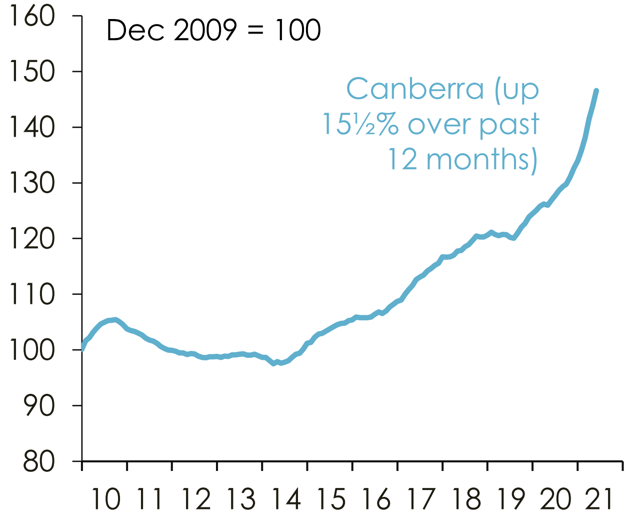
South Australia



Tasmania



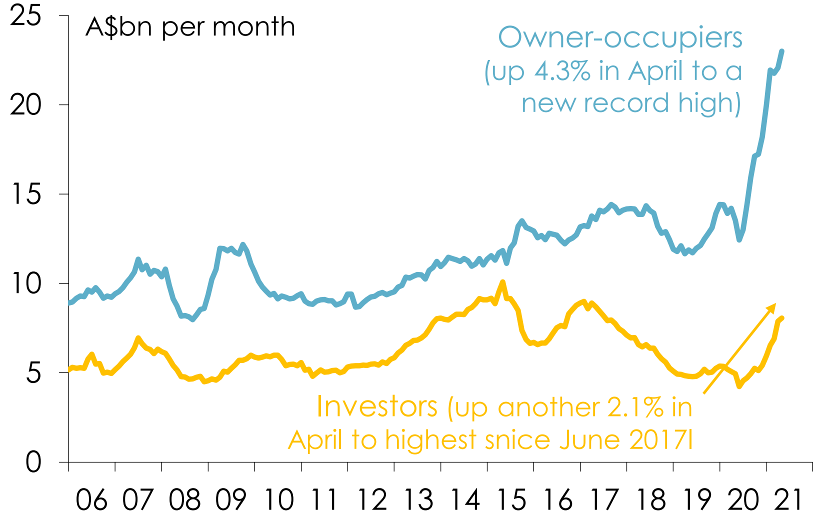
Australian Capital Territory



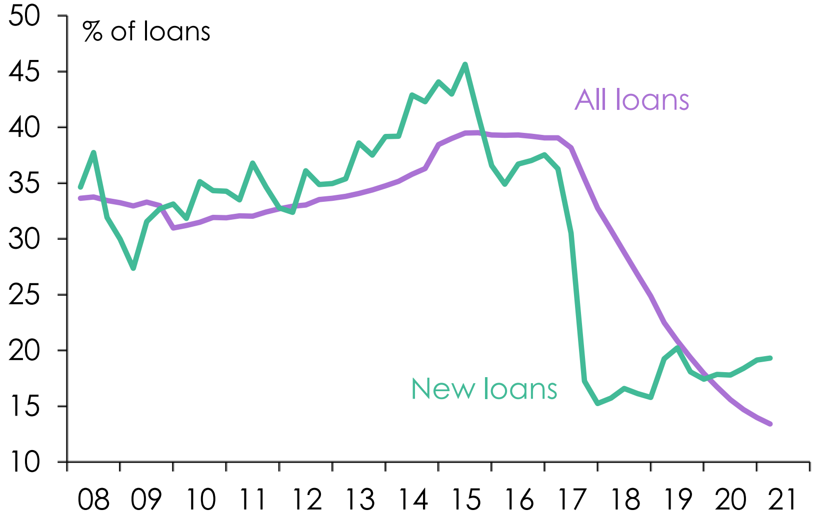
Note: The index of property prices measures the 'organic' change in underlying sales values by using a hedonic regression methodology that takes account of changes in the characteristics of properties being sold from month to month. Property price data are now seasonally adjusted. Latest data are for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

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

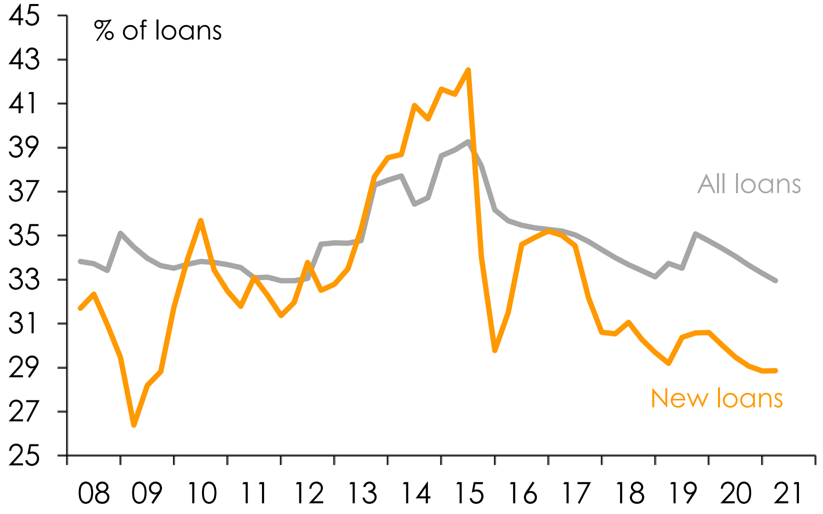
Housing finance commitments



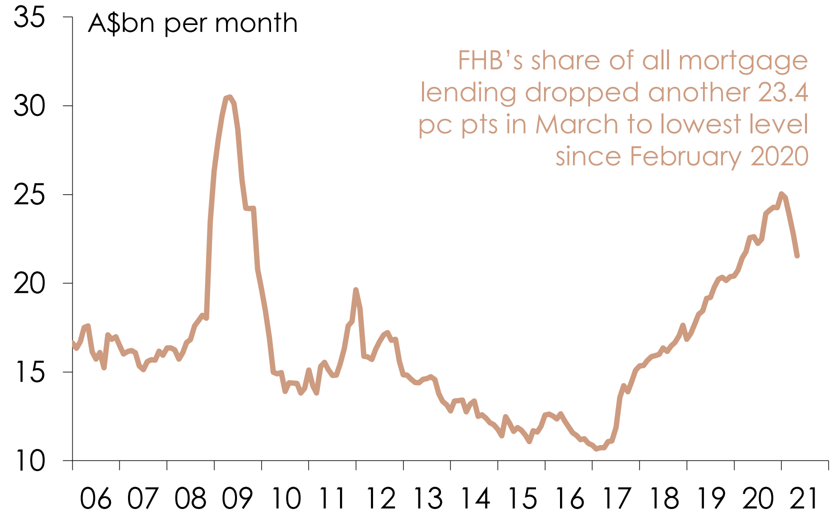
Interest-only loans as pc of total



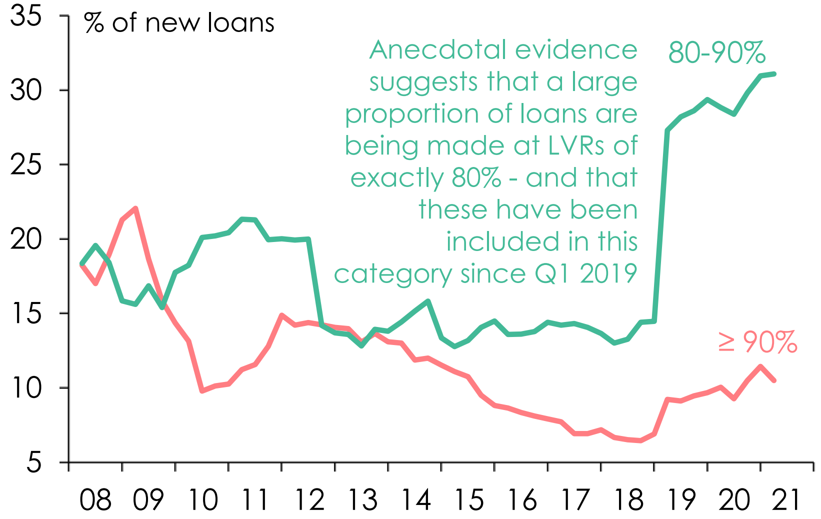
Loans to investors as a pc of total



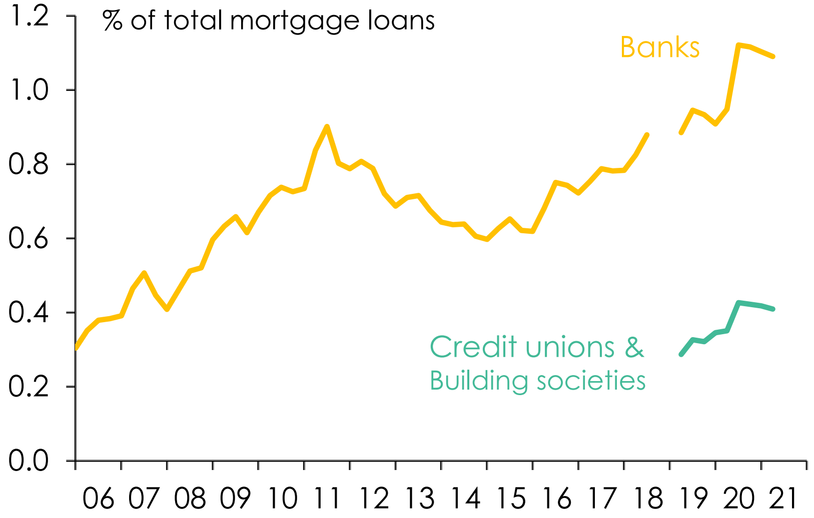
Lending to first home buyers



High LVR loans as a pc of total



Non-performing mortgage loans

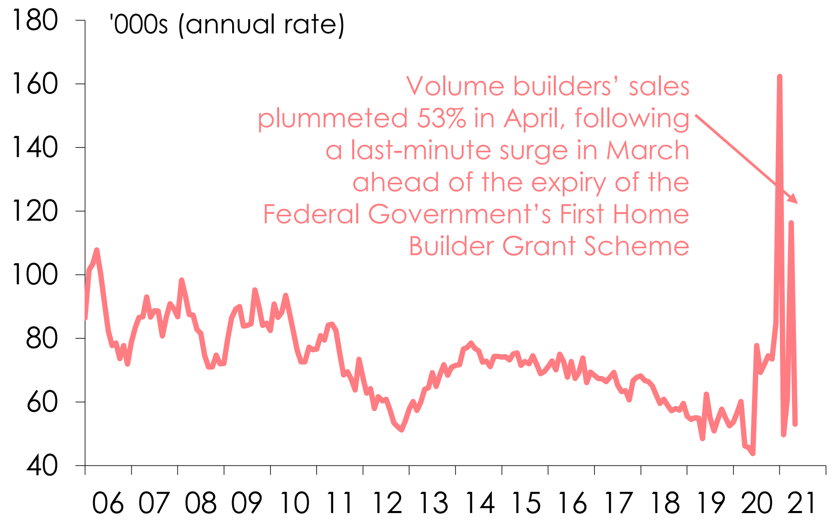


Sources: ABS; Australian Prudential Regulation Authority (APRA), Quarterly authorised deposit-taking institution statistics. May housing finance data will be released on 2nd July; APRA data on ADI property exposures for the June quarter will be released in early September. Return to "What's New".

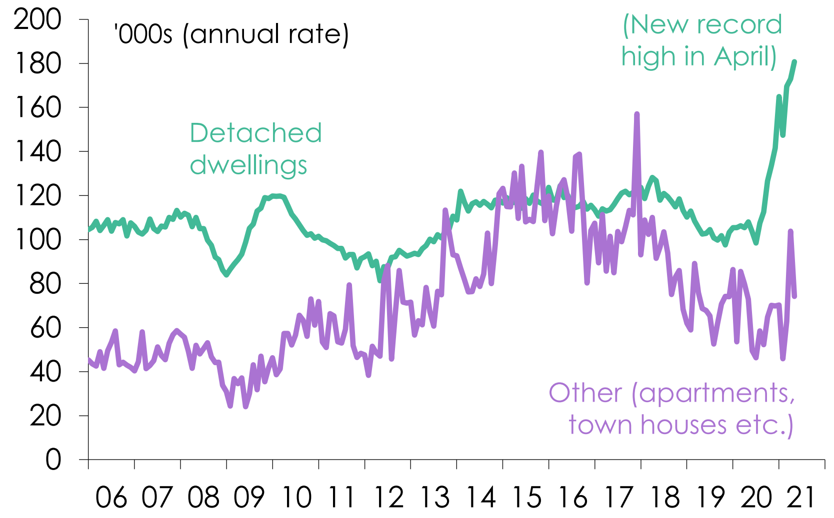
SAUL ESLAKE
CORINNA ECONOMIC ADVISORY PTY LTD

Building approvals remained at a near-record high in April, with a fall in the volatile apartments category offsetting a new record for houses

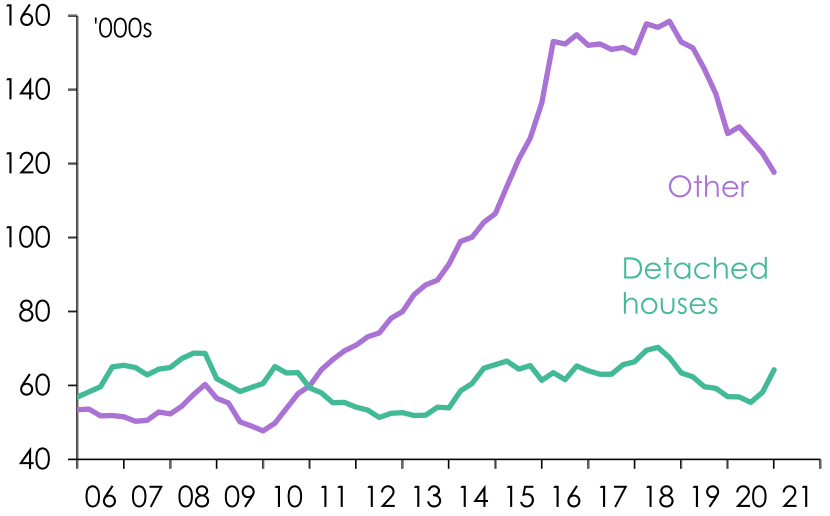
Large builders' new home sales



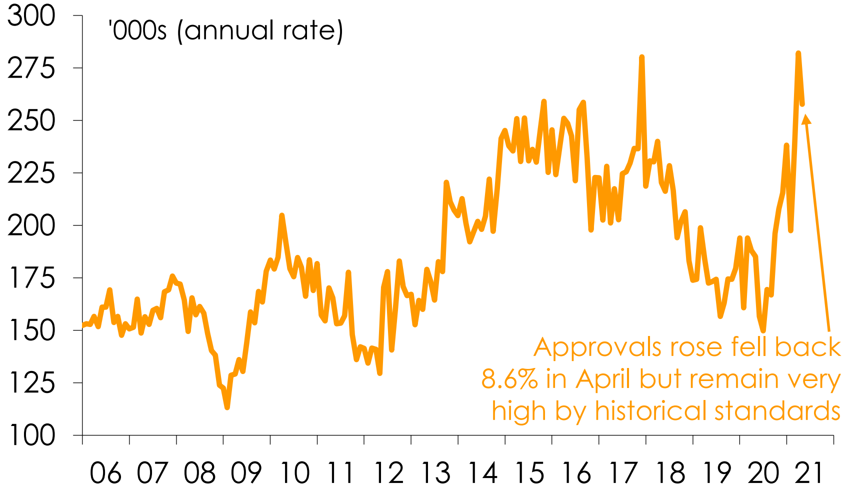
Building approvals, by type



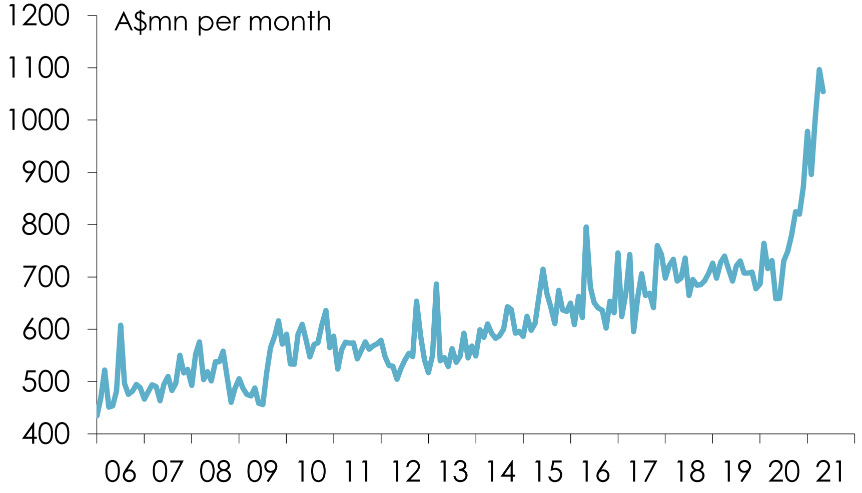
Dwellings under construction



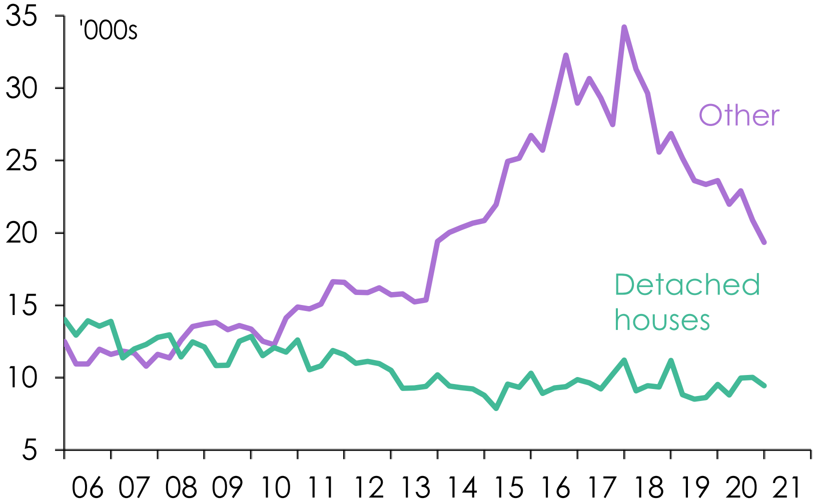
Residential building approvals



Alterations & additions approved



'Pipeline' of work yet to be started

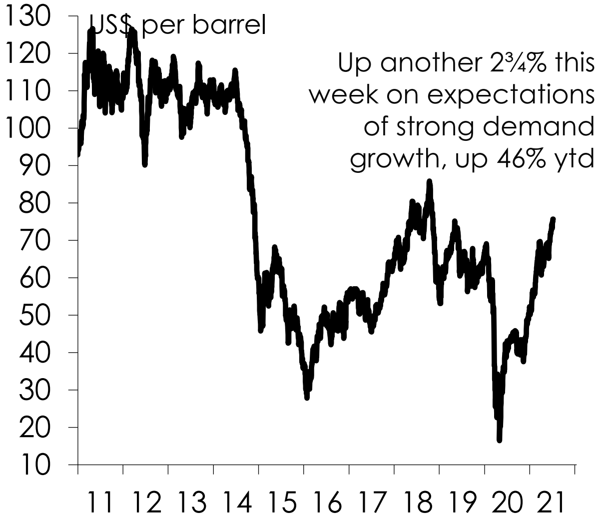


Note: 'New home sales' are of detached dwellings only and exclude small-scale builders. *Sources:* ABS; Housing Industry Association. May building approvals data will be released on 5th July; March quarter dwellings under construction and 'pipeline' data on 14th July. Return to "What's New".

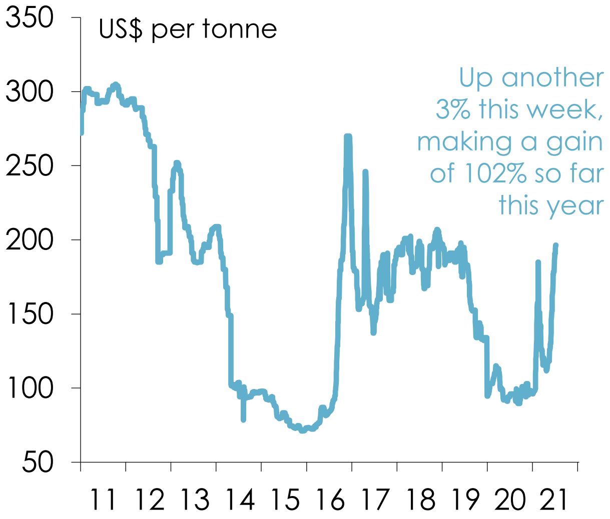
SAUL ESLAKE
CORINNA ECONOMIC ADVISORY PTY LTD

Iron ore and coal prices reversed last week's declines despite China launching 'probes', while base metal prices also rebounded

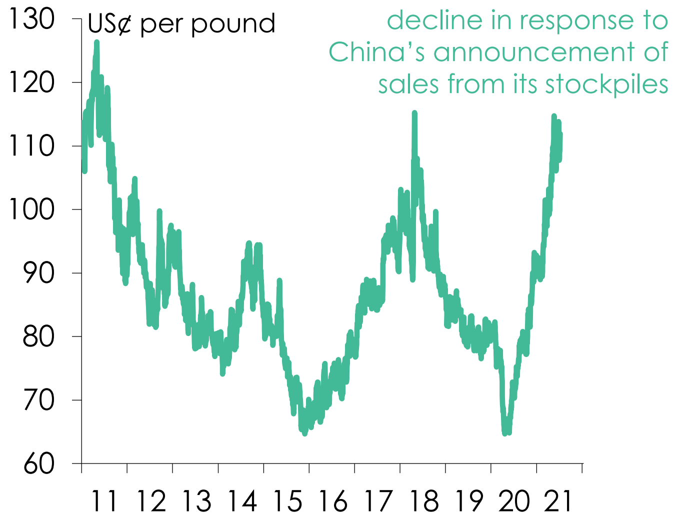
Brent crude oil



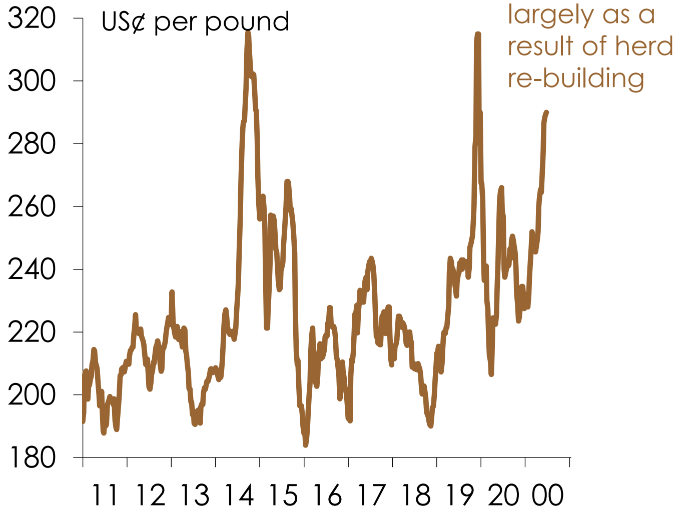
Metallurgical coal



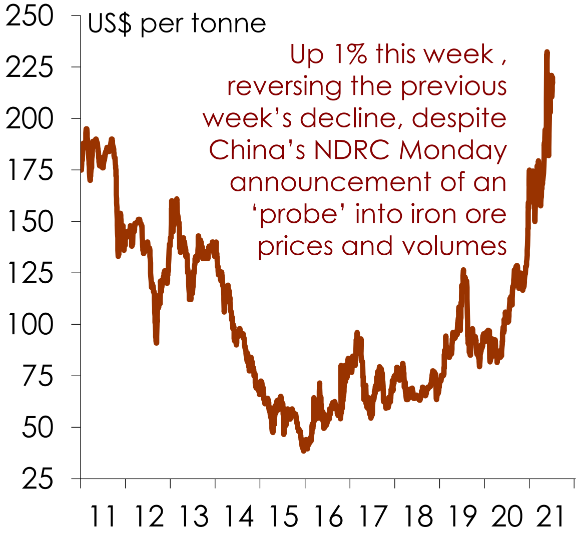
Aluminium



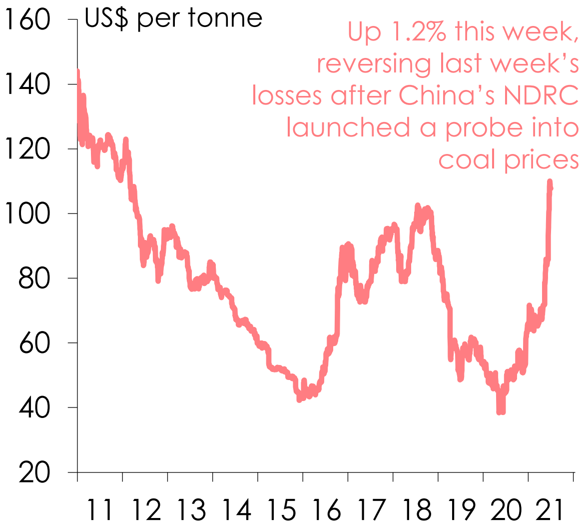
Beef



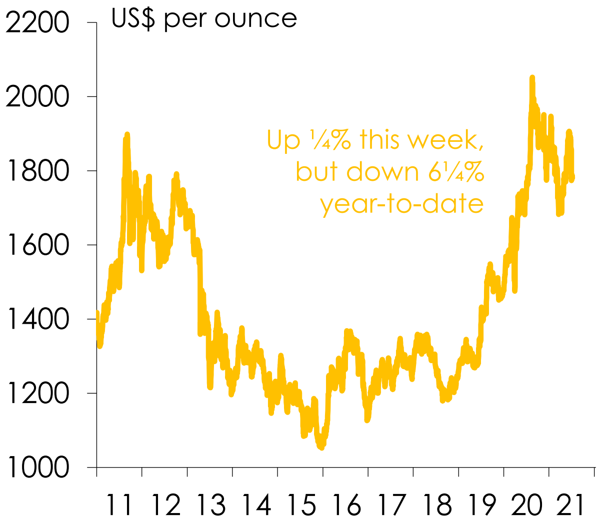
Iron ore



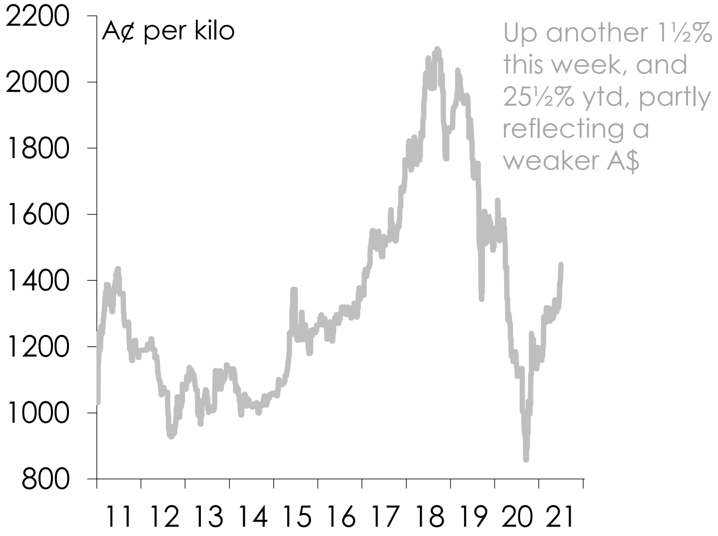
Thermal coal



Gold



Wool

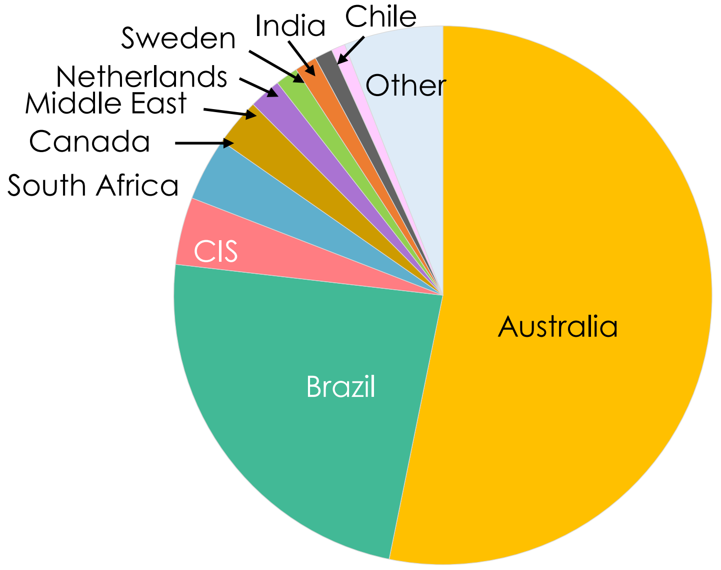


Sources: Refinitiv Datastream; Meat & Livestock Australia; Australian Wool Innovation. See next slide for more on iron ore prices. Data up to 25th June.

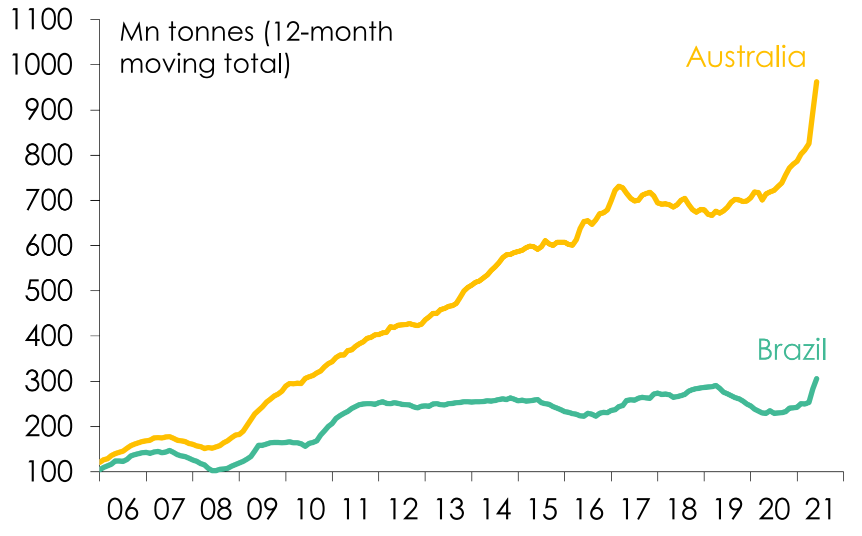
Return to "What's New".

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

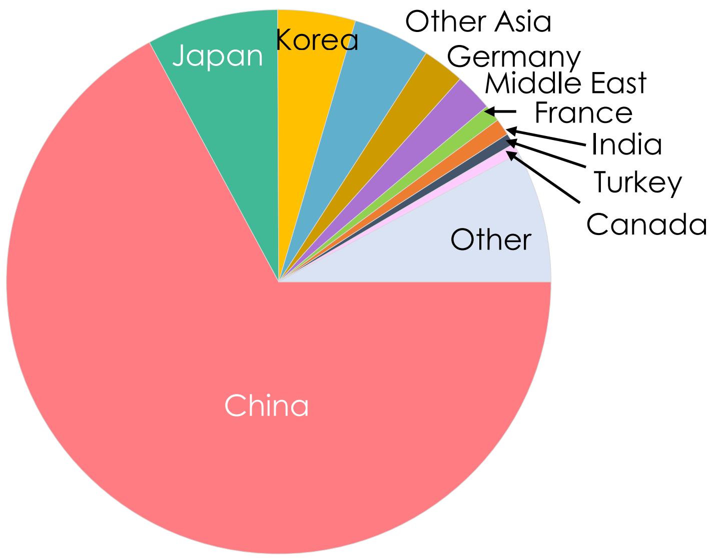
Iron ore exports, 2018



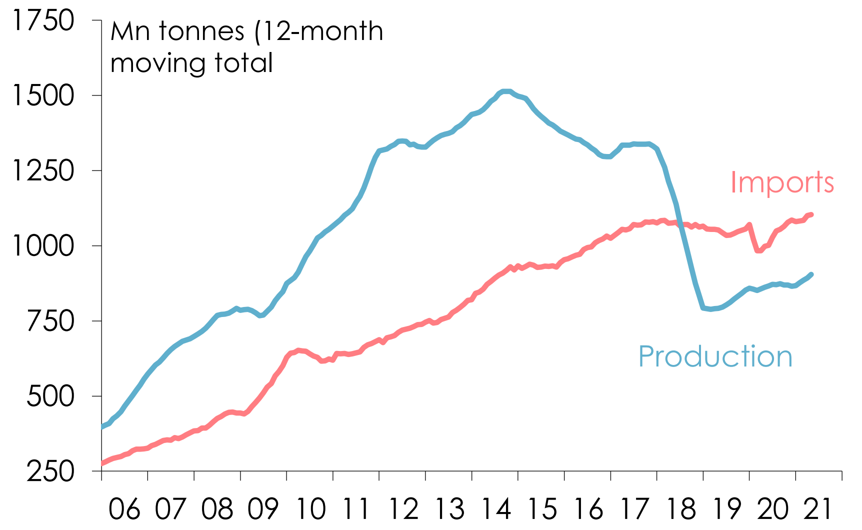
Australia & Brazil iron ore exports



Iron ore imports, 2018



China iron ore production & imports



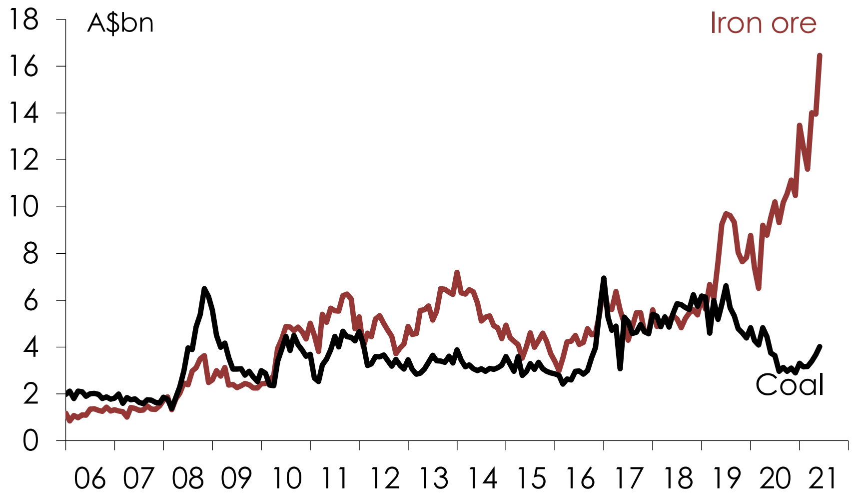
- **The global iron ore trade is dominated by shipments from Australia & Brazil to China (which accounts for 53% of global steel production and 51% of steel use) – no other exporter has more than 4% of the global seaborne trade**
- **Chinese iron ore production has fallen by more than 34% since 2017,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

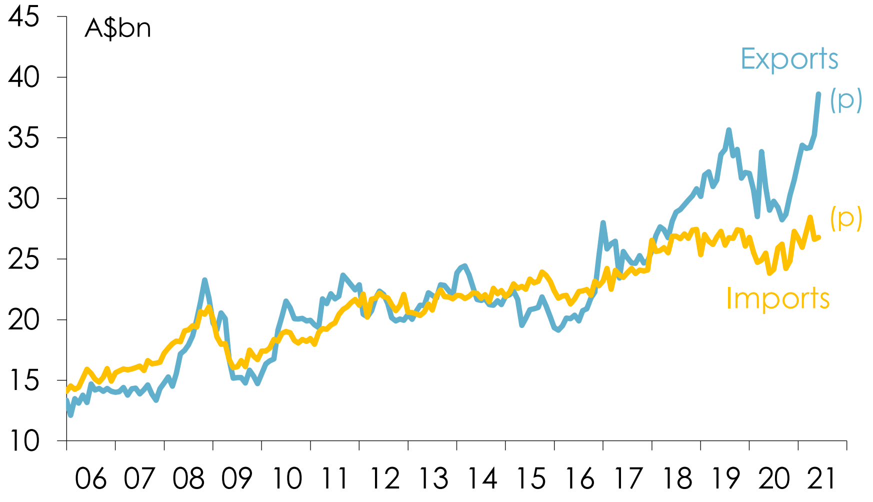
SAUL ESLAKE
CORINNA ECONOMIC ADVISORY PTY LTD

Australia's merchandise trade deficit likely widened to a record $11¾bn in May thanks to (yet) another surge in iron ore, based on preliminary data

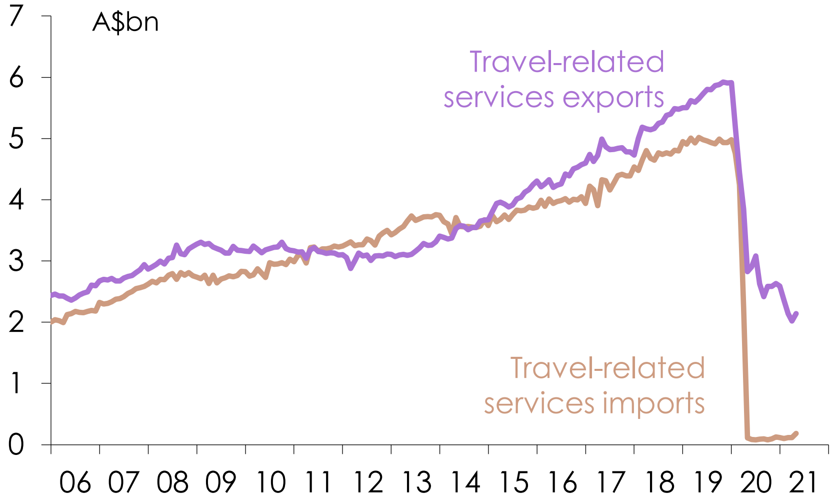
Iron ore and coal exports



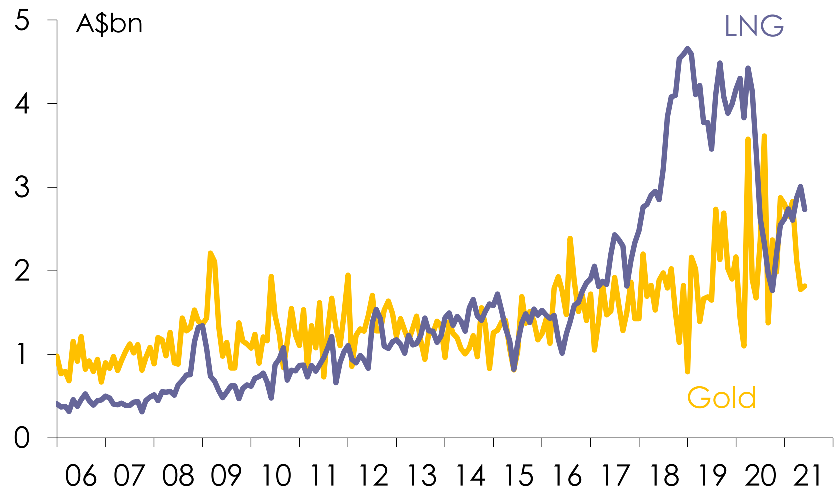
Merchandise exports and imports



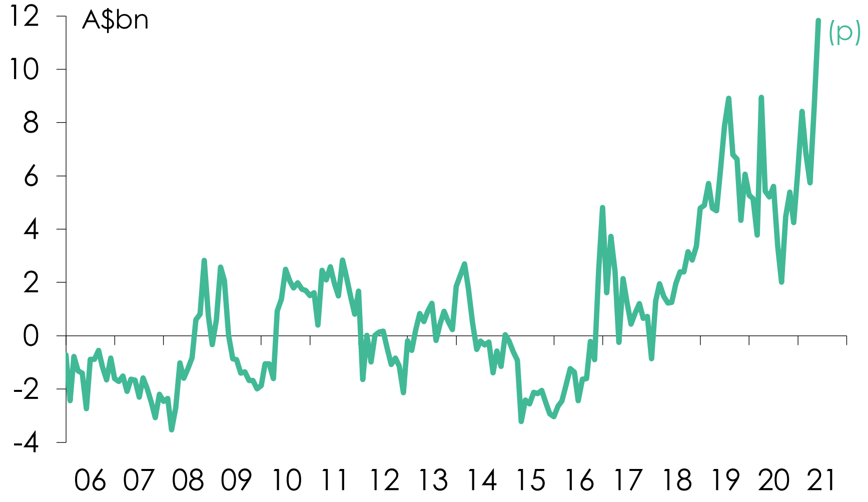
Tourism-related services trade



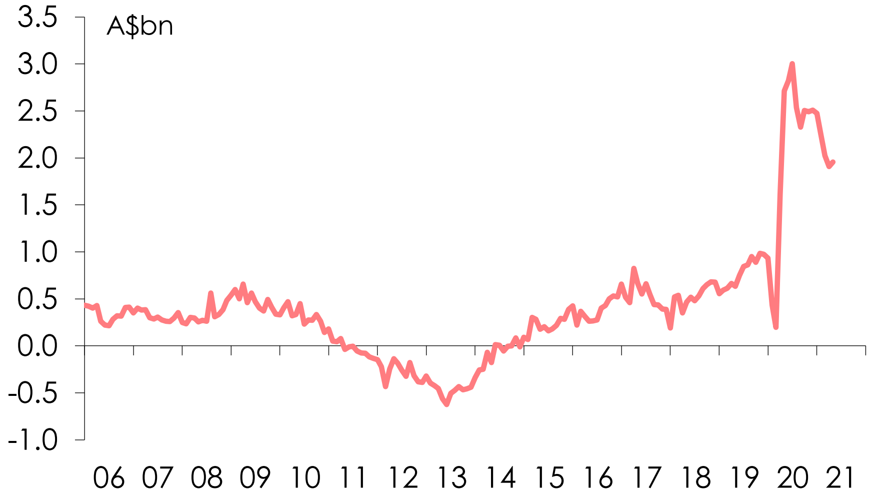
LNG and gold exports



Merchandise trade balance



Tourism services trade balance



Note: (e) Seasonally adjusted estimate for May derived by Corinna assuming identical seasonal factors as applied to original data for May 2020.
Sources: ABS, *International Merchandise Trade, Preliminary, Australia* and *International Trade in Goods and Services, Australia*. Final May data will be published on 1st July. Return to "What's New".

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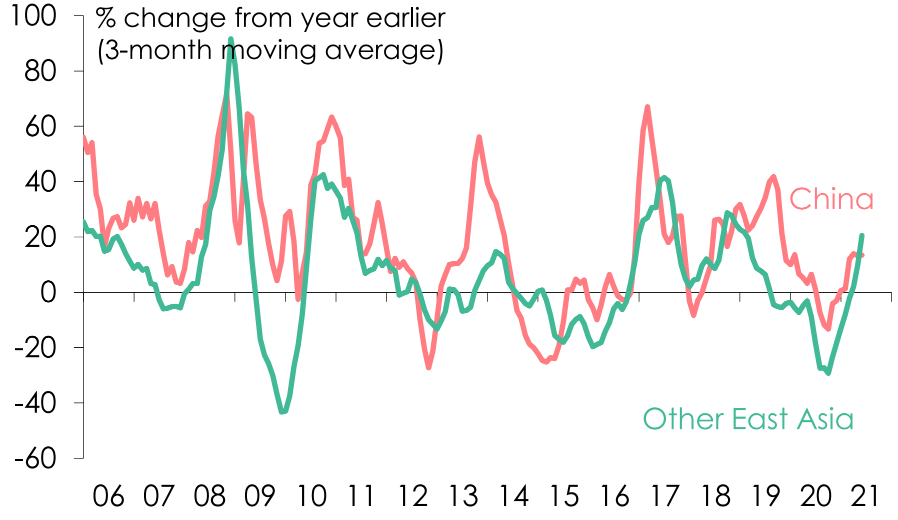
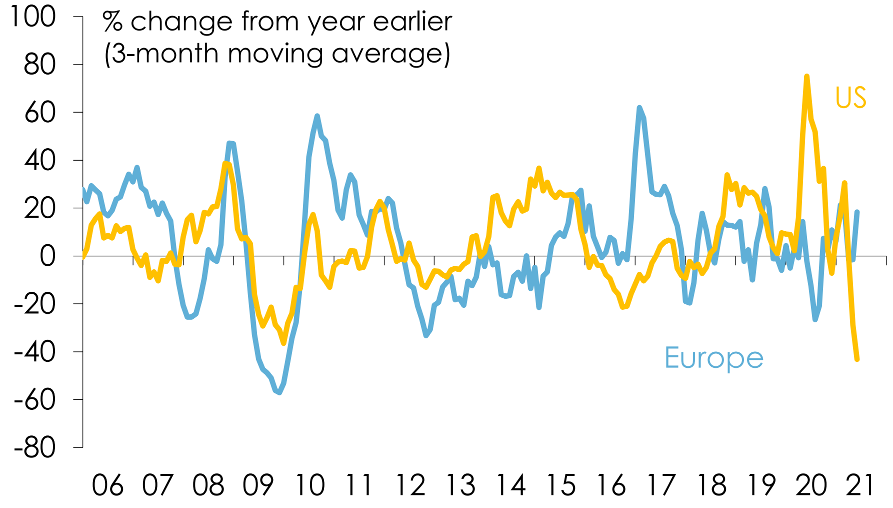
Australia continues to run a large trade surplus with China despite China's sanctions against a range of Australian exports, thanks to iron ore

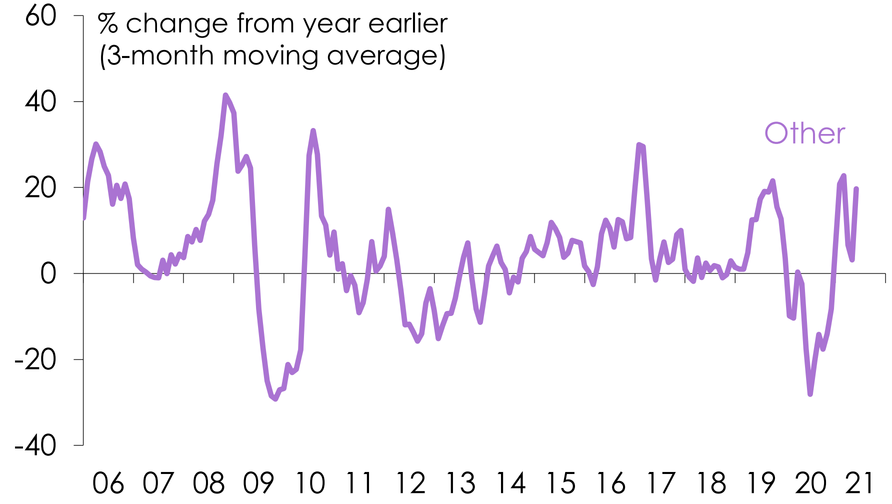
Merchandise exports – East Asia



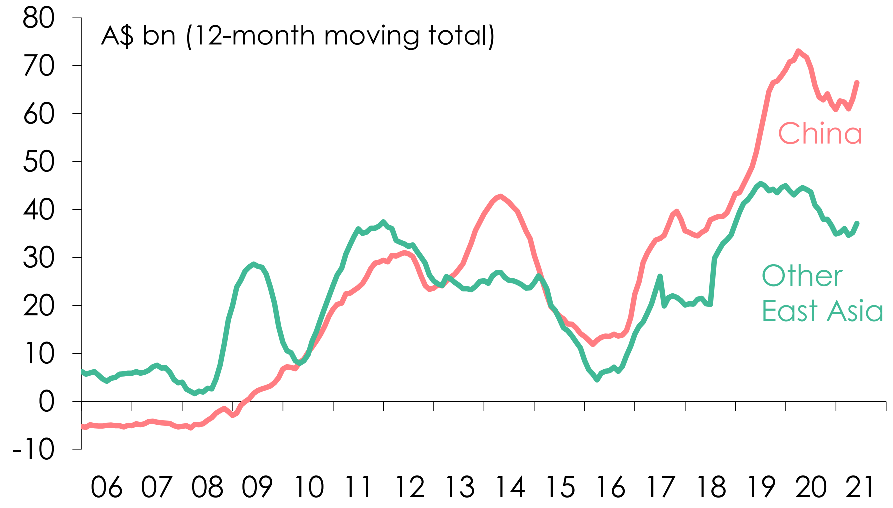
Merchandise exports – US & Europe



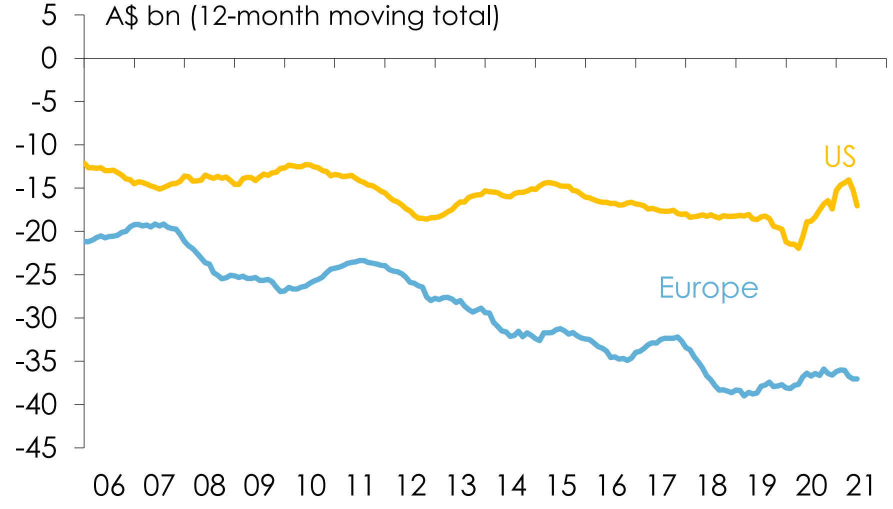
Merchandise exports – other



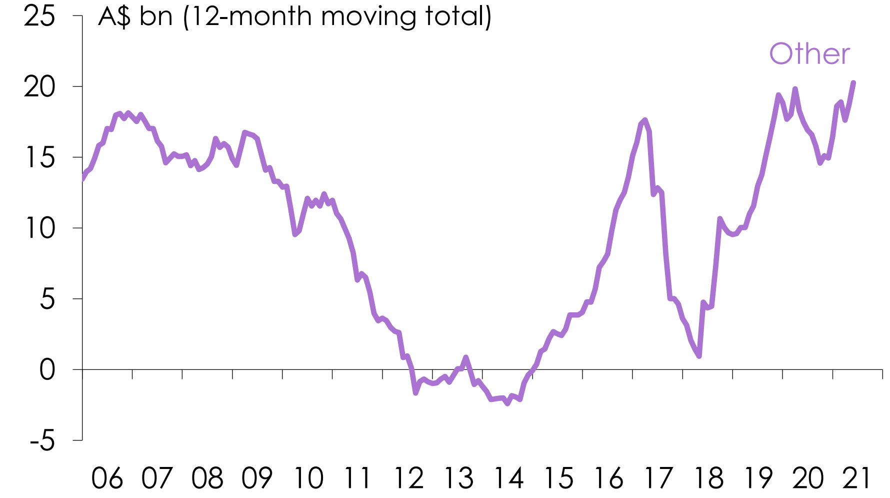
Goods trade balance – East Asia



Goods trade balance – US & Europe



Goods trade balance – other



Note: 'Other East Asia' includes Japan, Korea, Taiwan, Hong Kong and ASEAN. 'Europe' includes the EU, UK and Switzerland. 'Other' includes India, New Zealand and the Pacific, Canada, Latin America, Africa, the Middle East and others not included in the foregoing. Latest data are for May (preliminary). *Sources:* ABS, *International Merchandise Trade, Preliminary, Australia* and *International Trade in Goods and Services, Australia*. Final data for May released on 1st July. Return to "What's New".

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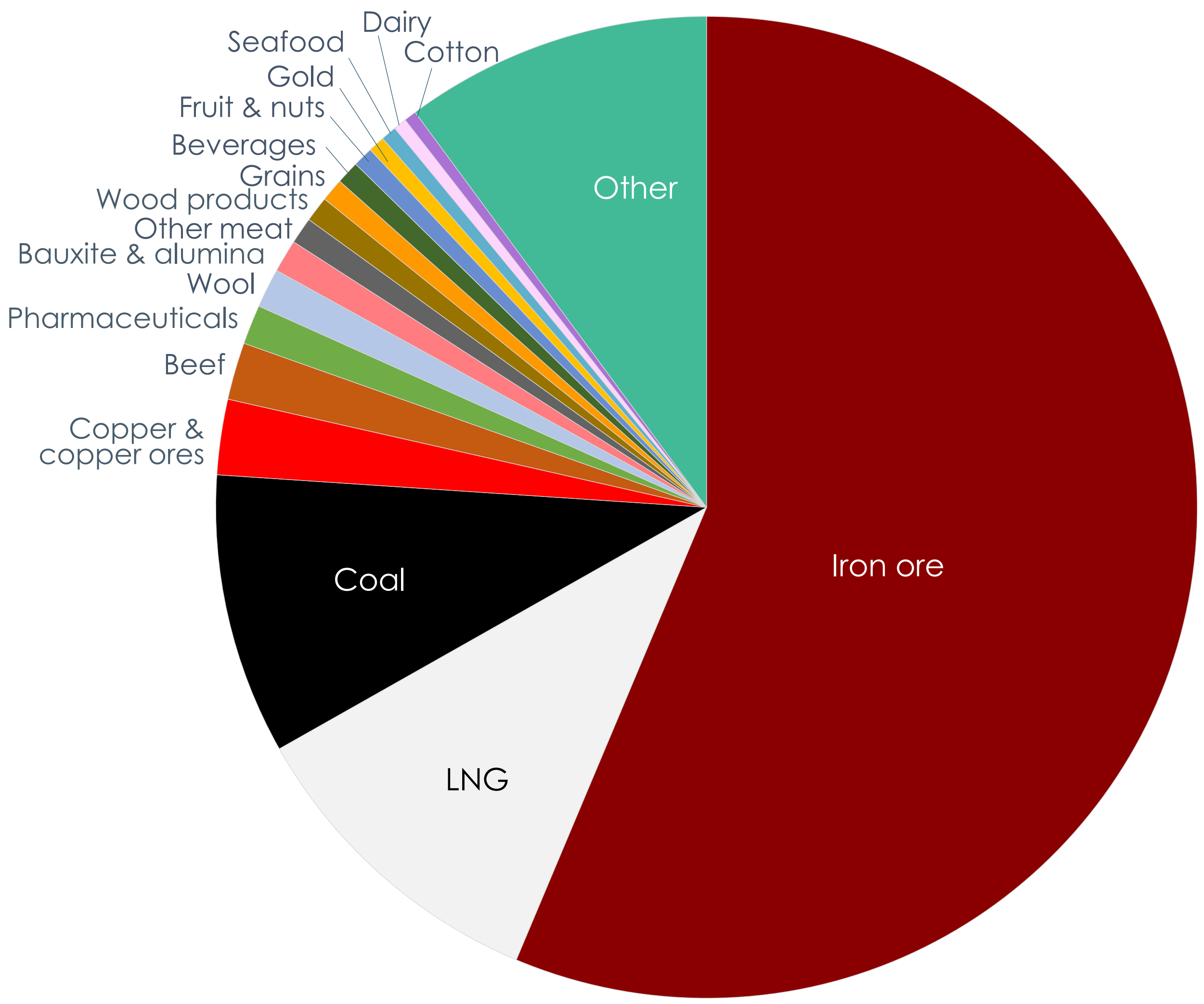
Australia's bilateral relations with China deteriorated sharply in the latter part of 2020 and there's unlikely to be any near-term resolution

Australia's merchandise exports to China, 2019-20

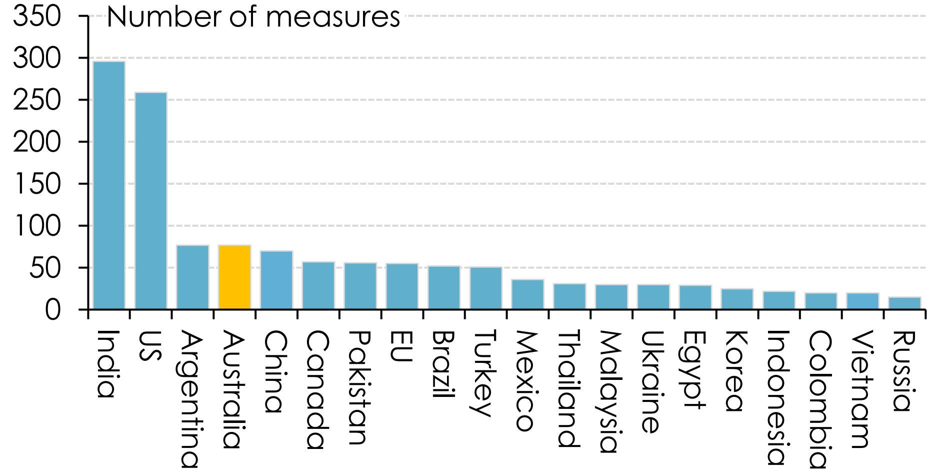


Note: 'Wood' includes wood products; 'dairy' includes milk, cream, butter & cheese; 'seafood' includes crustaceans, fish and processed seafood; 'other' includes confidential items.
Sources: Department of Foreign Affairs & Trade, Trade Statistical Pivot Tables; Corinna.
Return to "What's New".

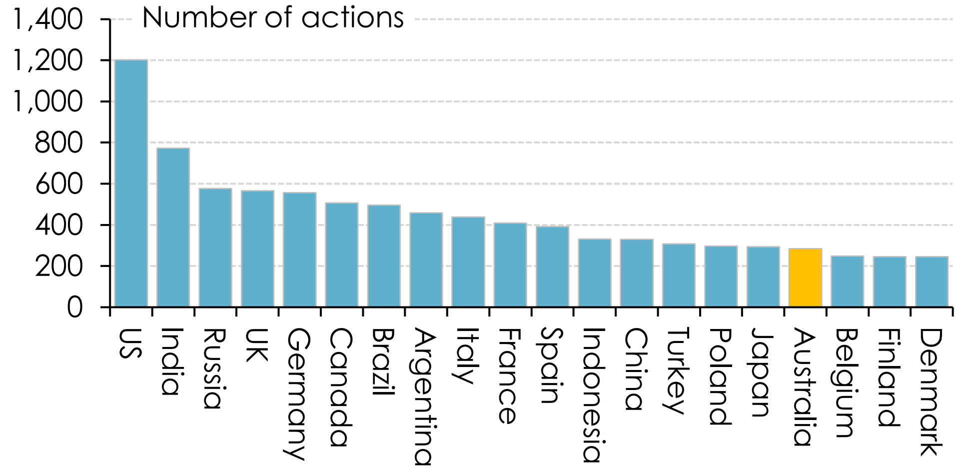
- **China accounted for 39½% of Australia's merchandise exports in FY 2019-20 (the largest proportion any country has since the mid-1950s when 36% of Australia's exports went to the UK)**
  - of which iron ore & concentrates accounts for 56%
- **China also accounted for 19% of Australia's services exports in CY 2019 of which tourism & education accounted for over 90%)**
- **China has no real alternatives to Australian iron ore in the near term (slide 120) 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**
  - Australia's exports of these products to China have dropped from about $25bn in 2019 to an annualized rate of about $5½bn since the sanctions were imposed – although in many cases Australian exporters have been able to find alternative markets
  - last week's Queensland Budget Papers show China's imports of coal from Queensland dropped from 28.6Mt in the six months to April 2020 to just 2.8Mt in the six months to April 2021 – but about two-thirds of this was offset by increased exports to India, Japan and Korea
- **Last month China indefinitely suspended all activities under the 'China-Australia Strategic Dialogue' originally established in 2014 (although there haven't been any 'activities' since 2017)**
- **The Australian Government announced today that it will take China to the WTO over its imposition of 'anti-dumping' duties on Australian wine**

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

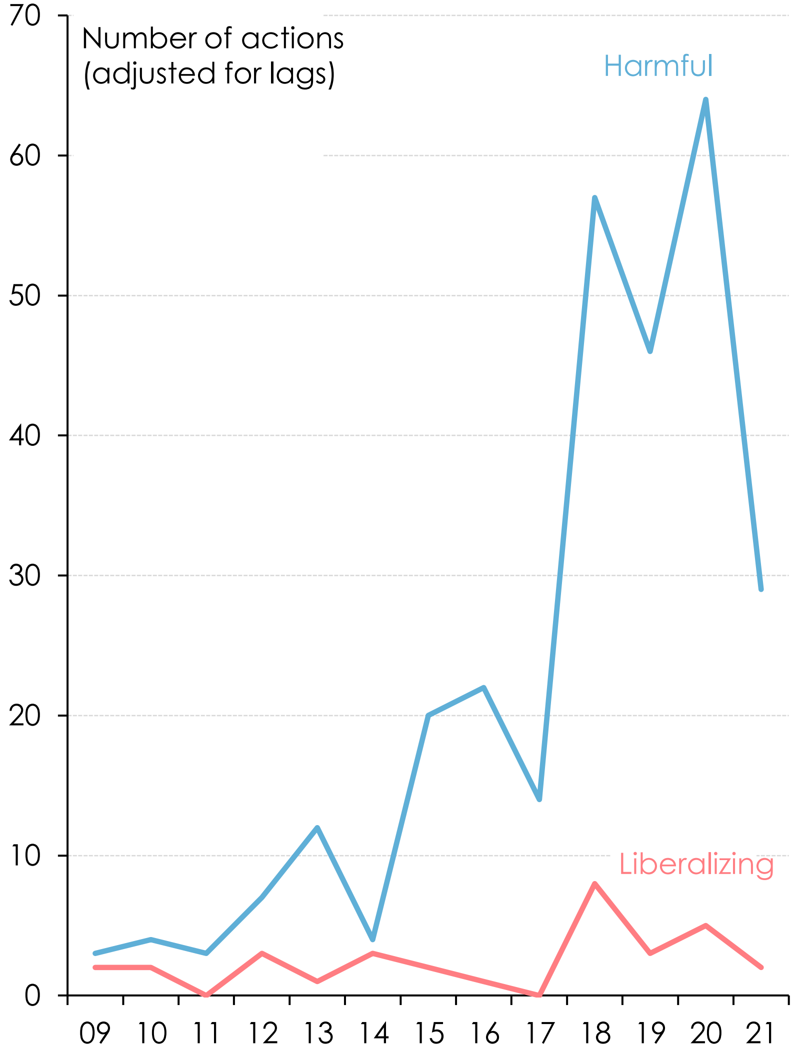
Number of anti-dumping measures imposed, 2015-20



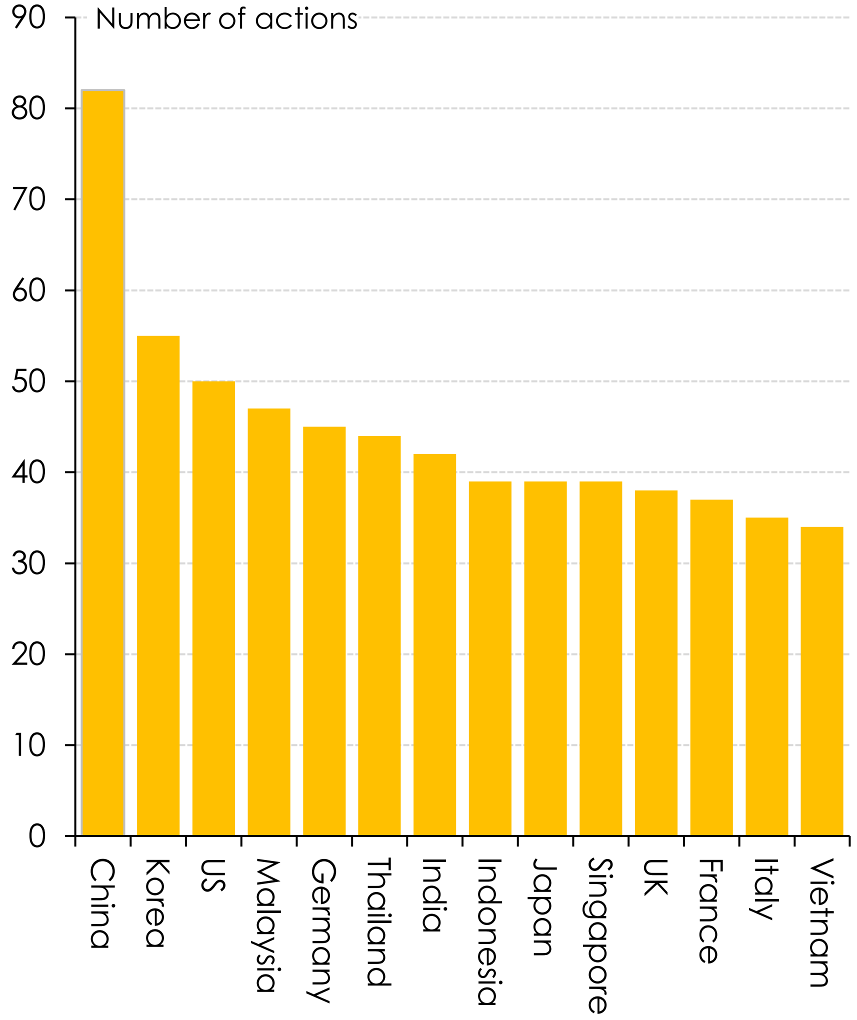
Number of harmful trade policy interventions, 2009-2021



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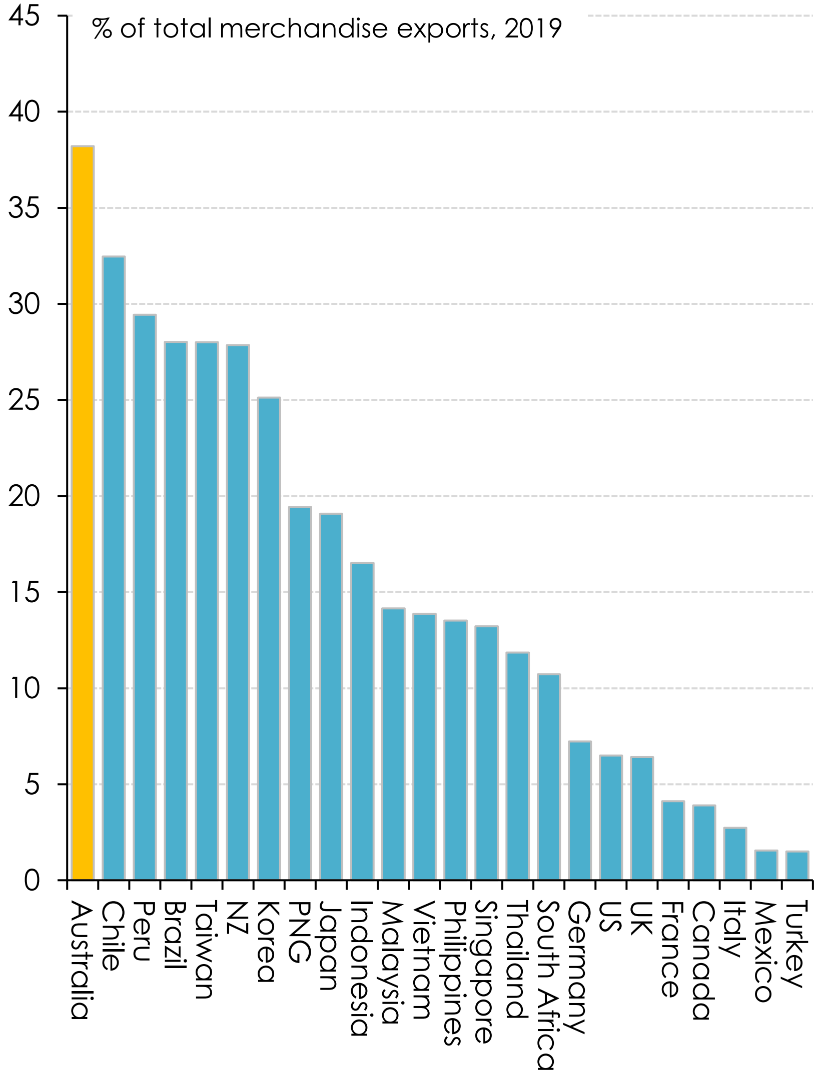
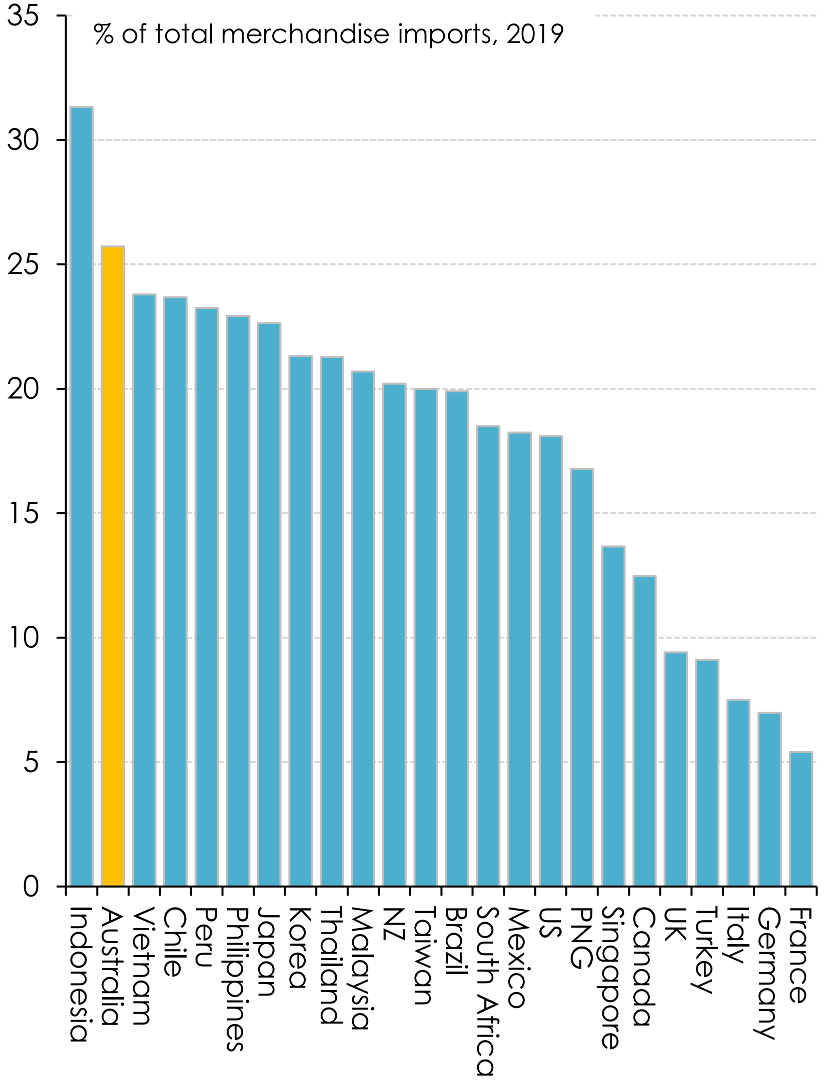
China can cause Australia economic pain because we're very dependent on it, and are one of the few countries with whom China runs a deficit

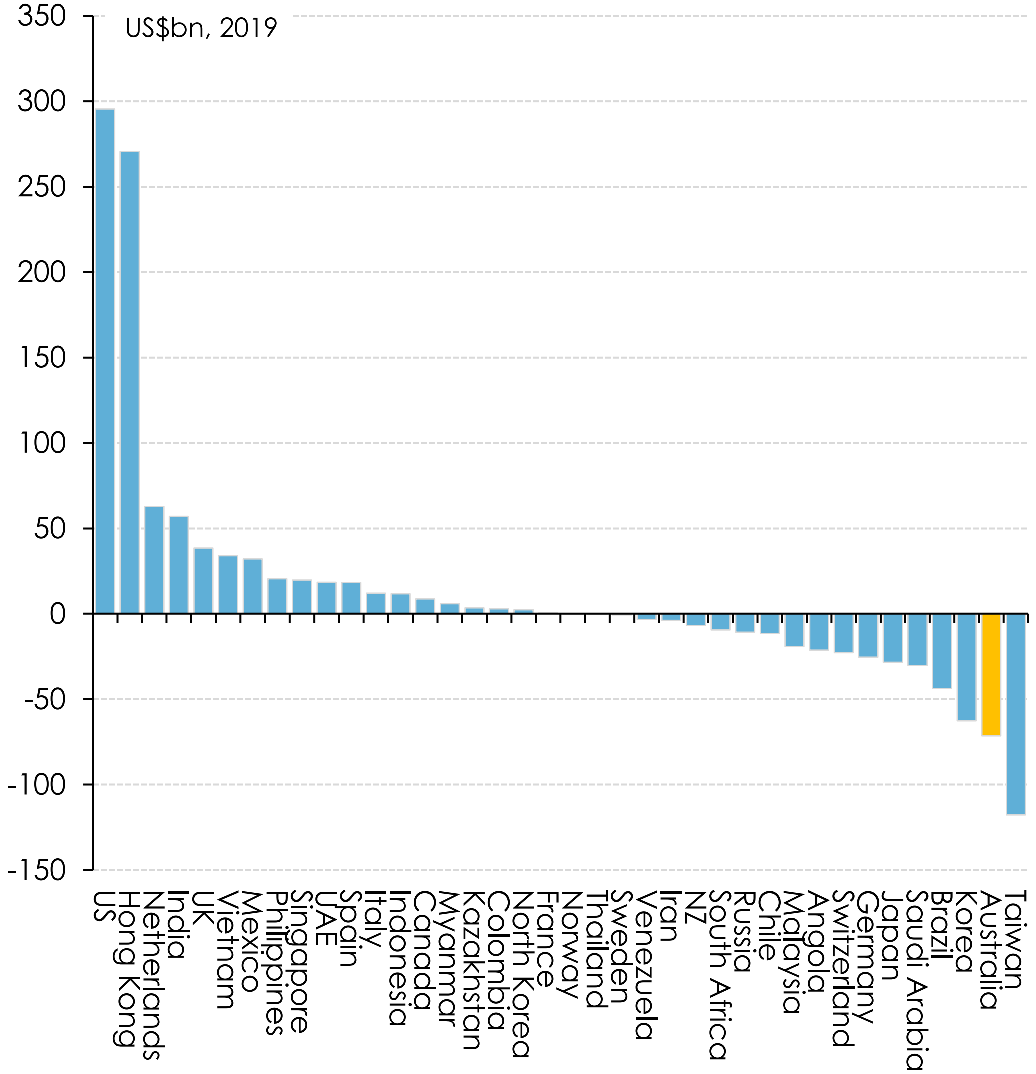
Merchandise exports to China as a pc of total



Merchandise imports from China as a pc of total



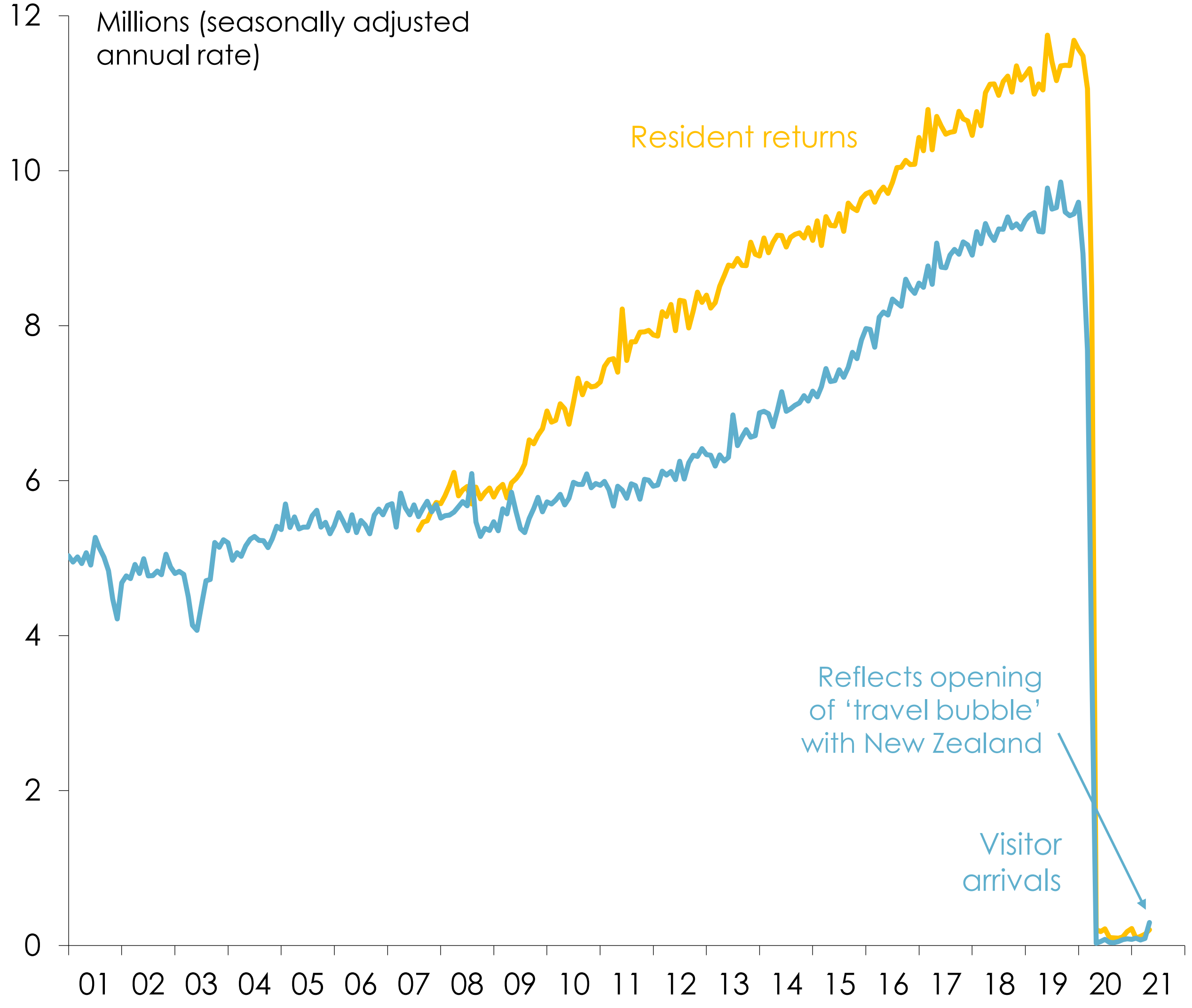
China's bilateral merchandise trade balances



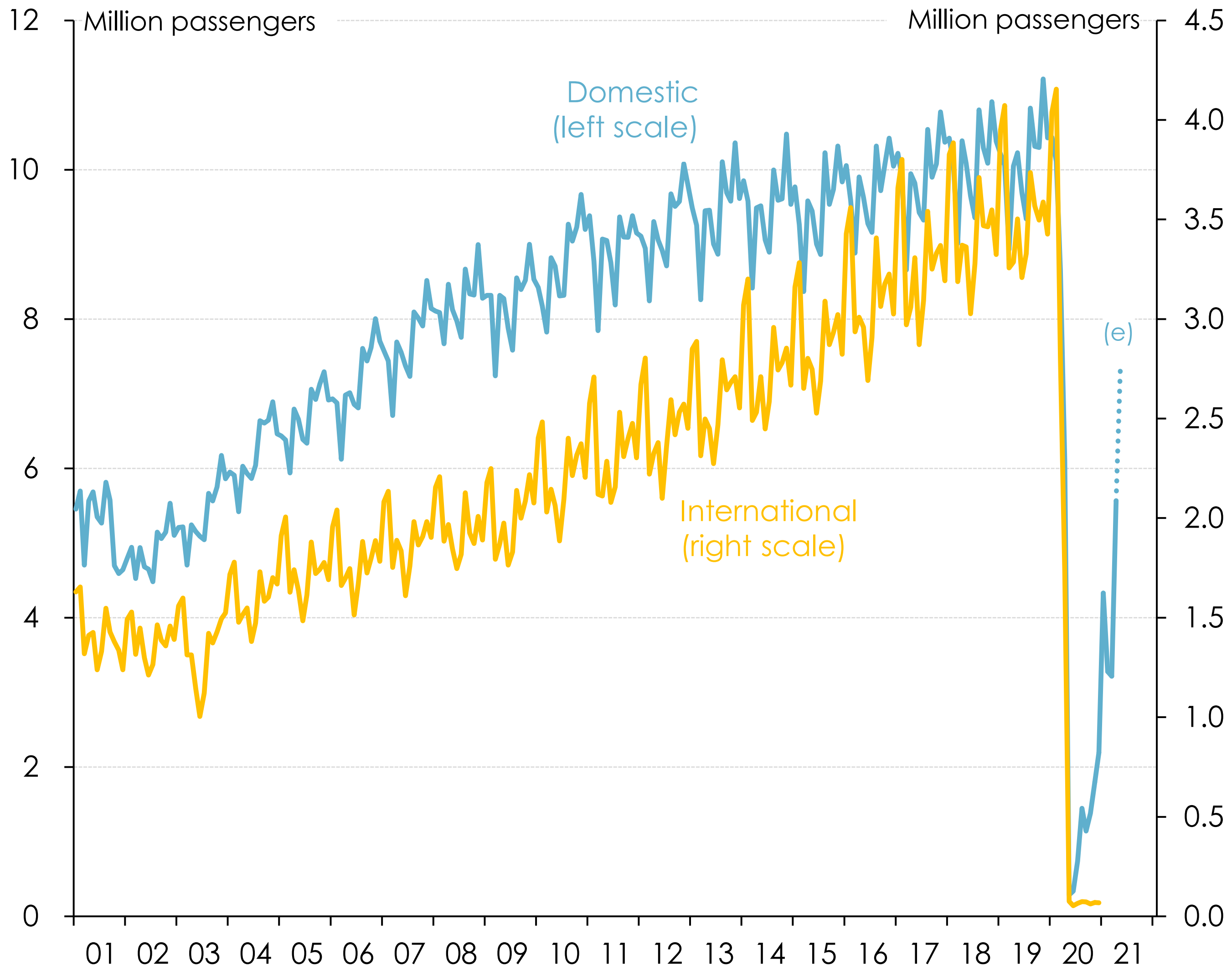
Sources: IMF, *Direction of Trade Statistics*; Taiwan Ministry of Economic Affairs, Bureau of Foreign Trade. Return to "What's New".

Domestic aviation has picked up strongly so far this year … but except for the opening of a 'bubble' with NZ, international travel remains moribund

Short-term visitor arrivals and resident returns



Airport passenger movements

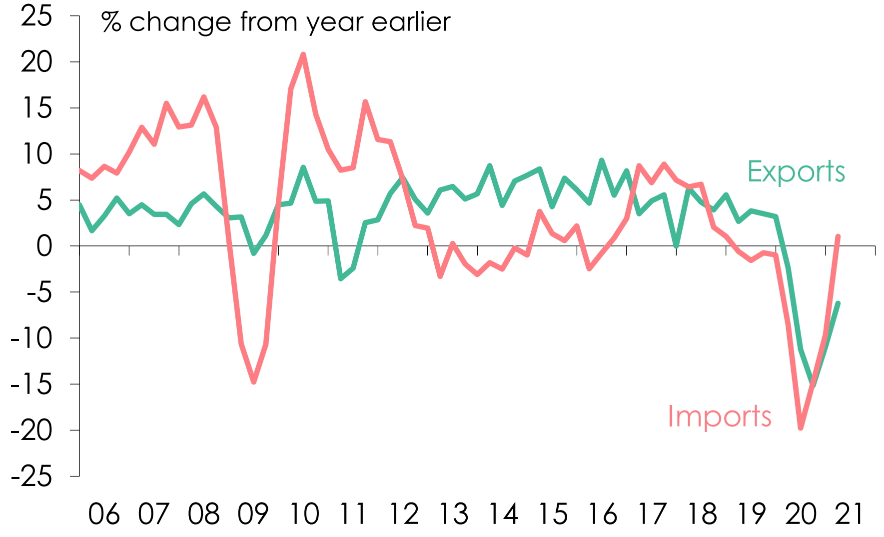


Note: The ABS has suspended publication of seasonally adjusted estimates of short-term visitor arrivals and resident returns, so published original estimates for April 2020 (and beyond) have been seasonally adjusted by Corinna using the same seasonal factors as for the corresponding month of 2019. Latest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

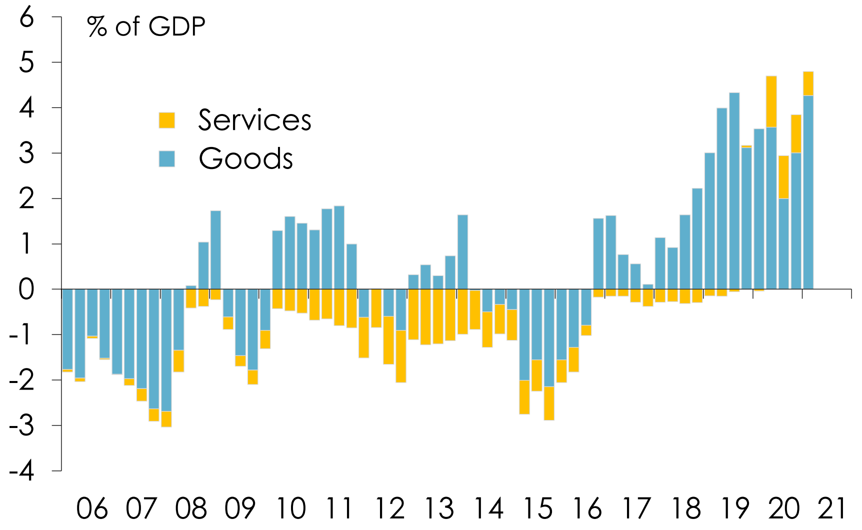
SAUL ESLAKE
CORINNA ECONOMIC ADVISORY PTY LTD

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

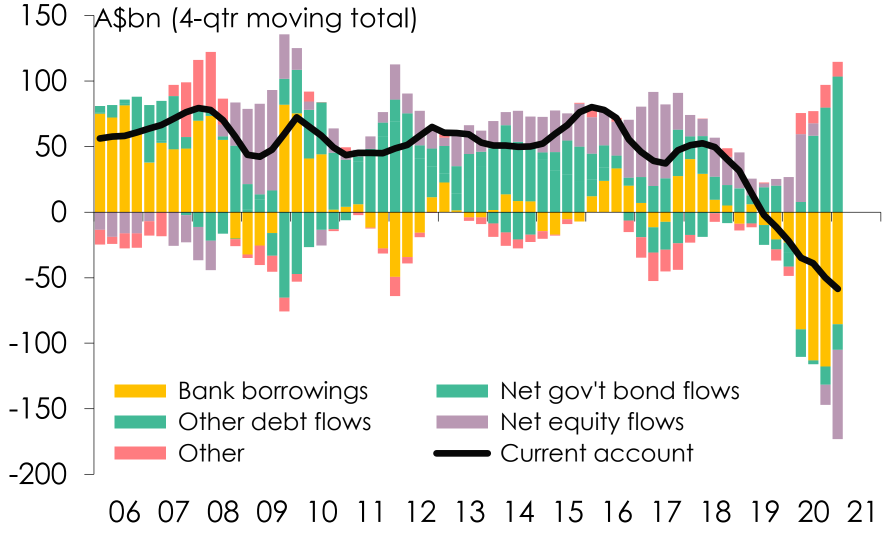
Export and import volumes



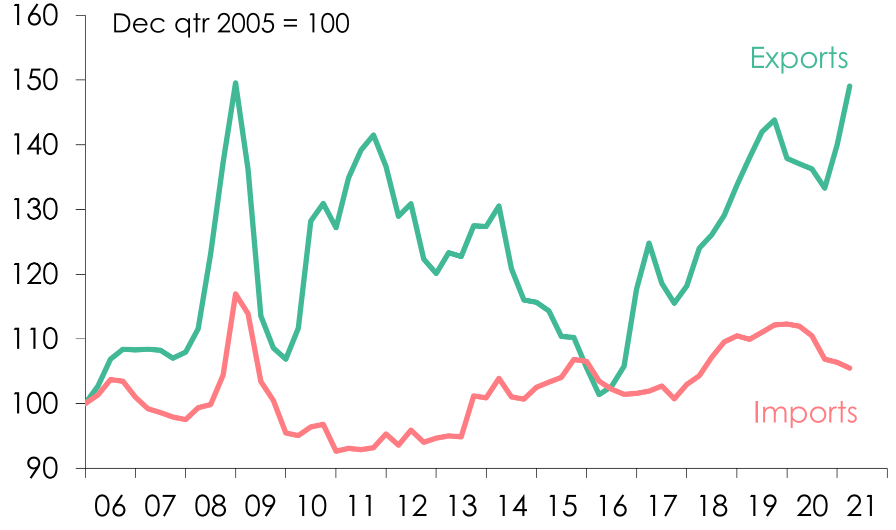
Goods & services trade balances



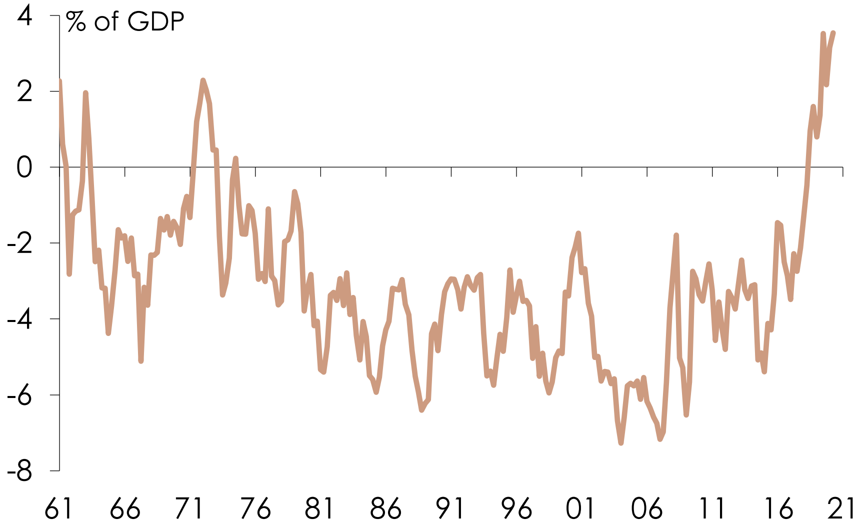
Capital flows



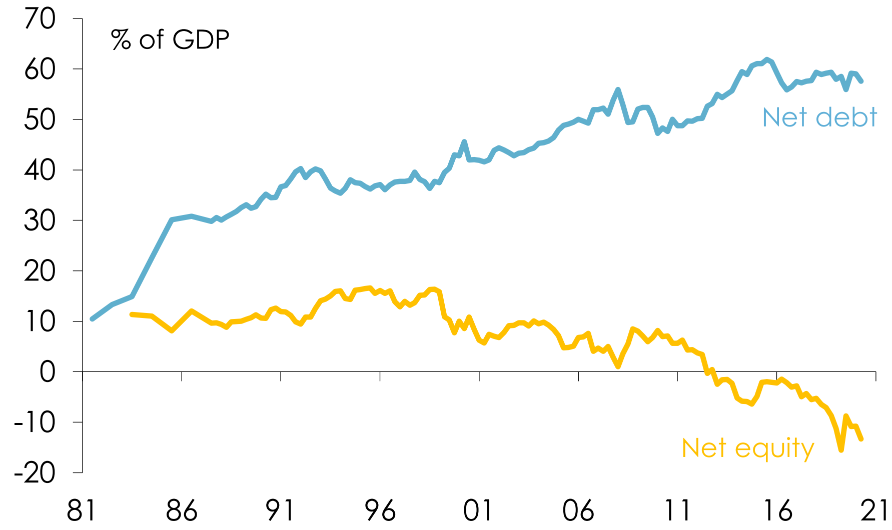
Export and import prices



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".

SAUL ESLAKE
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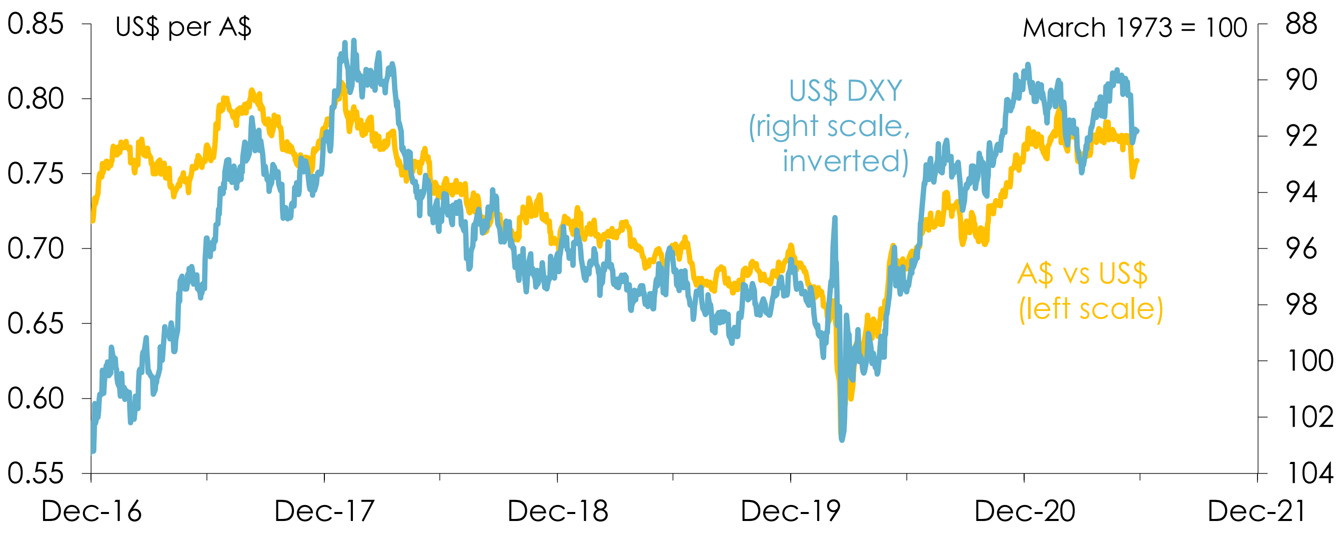
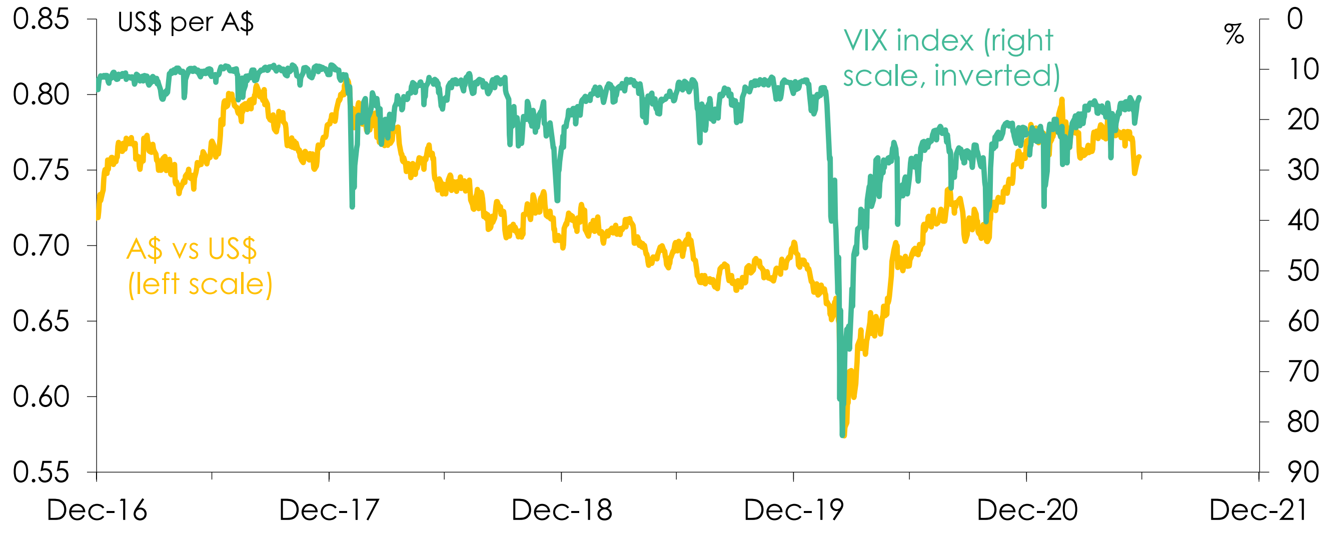
The A$ this week reversed half of last week's 3% fall but remained below US76¢

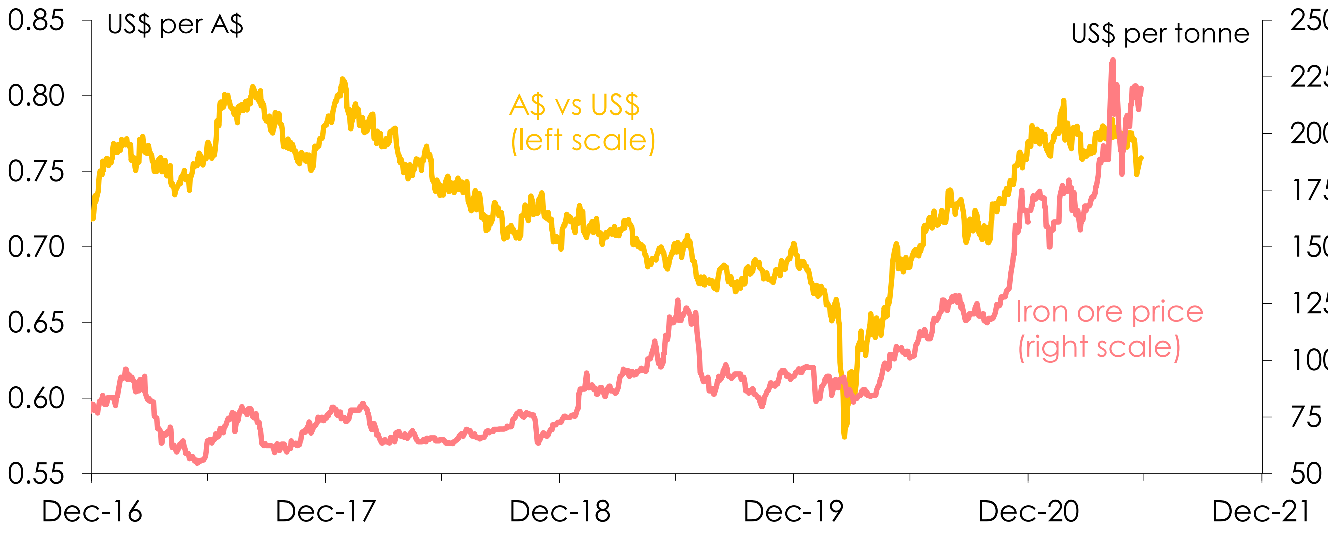
A$-US$ and US$ trade-weighted index



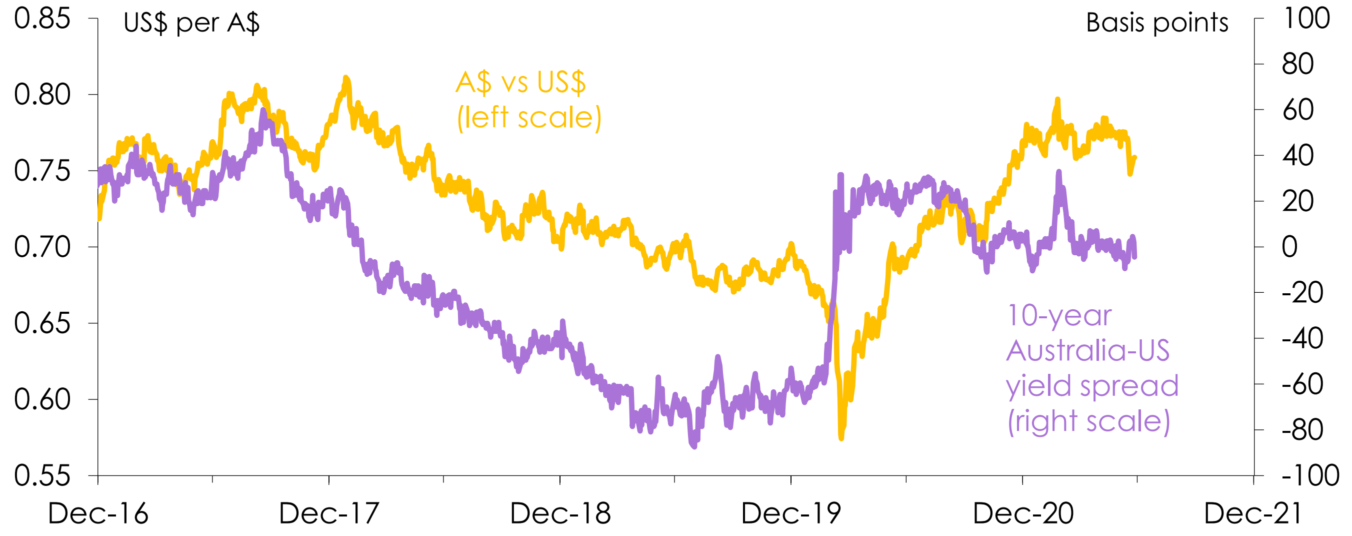
A$-US$ and US equity market volatility



A$-US$ and spot iron ore prices



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



Note: The DXY is an index of the value of the US dollar against 6 other currencies (the euro, yen, pound, Canadian dollar, Swedish krona and Swiss franc). 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 120. *Source:* Refinitiv Datastream. Data up to 25th June. Return to "What's New".

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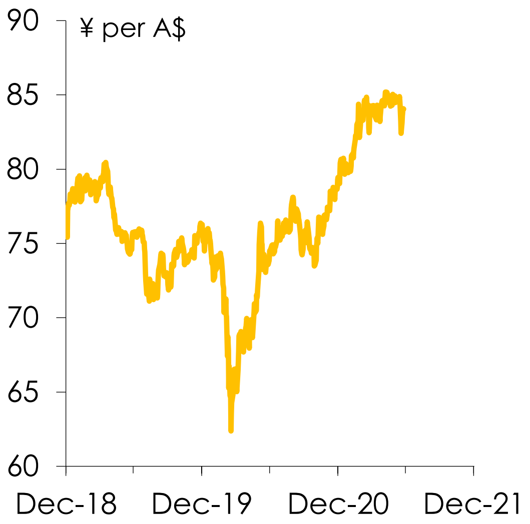
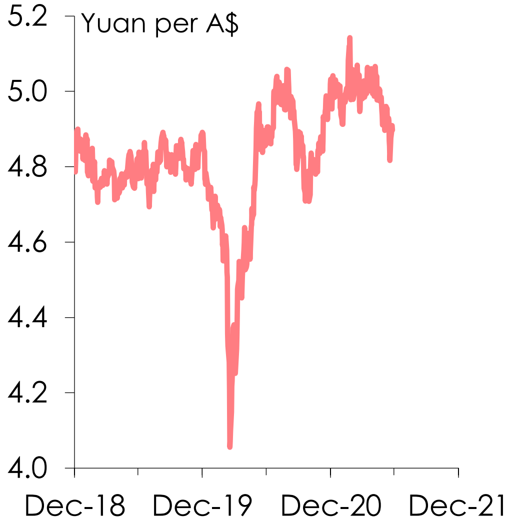
The A$ rose against most third currencies (except for the NZ$), rising 2% vs the yen, 1½% vs the yuan, 1% vs sterling and just over ½% vs the euro

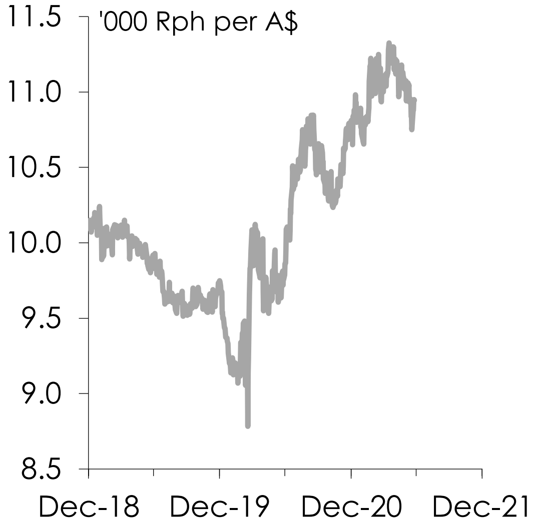
A$ vs Japanese yen



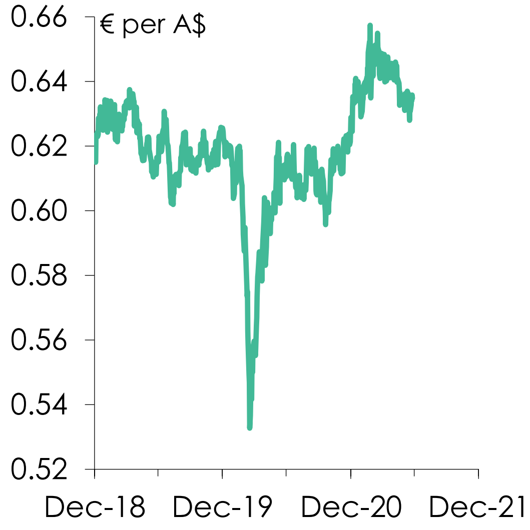
A$ vs Chinese yuan



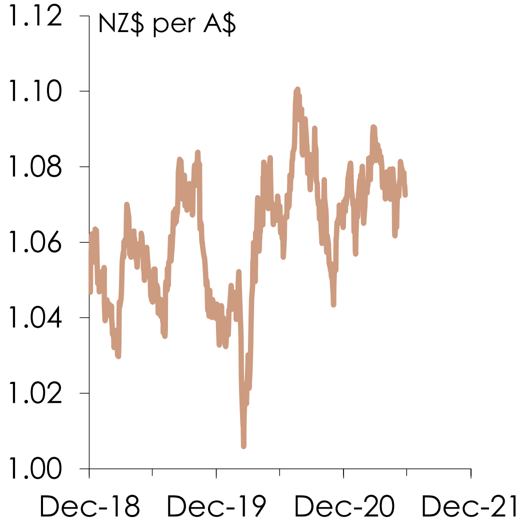
A$ vs Indo rupiah



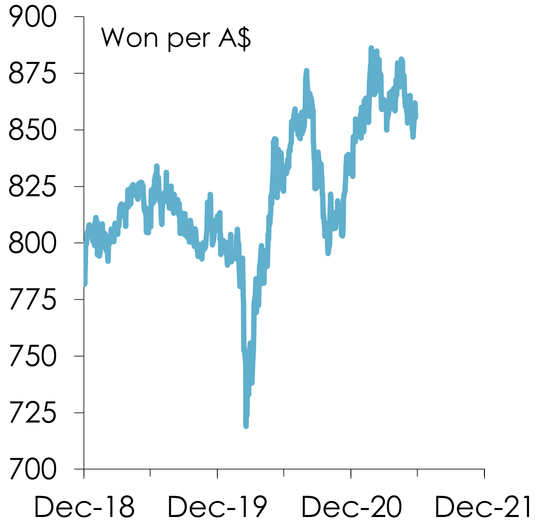
A$ vs Euro



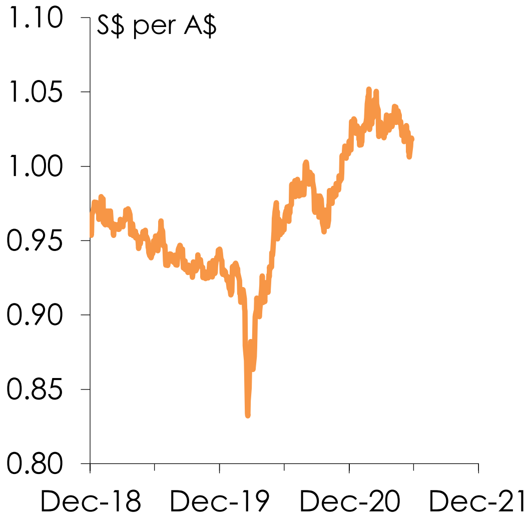
A$ vs NZ$



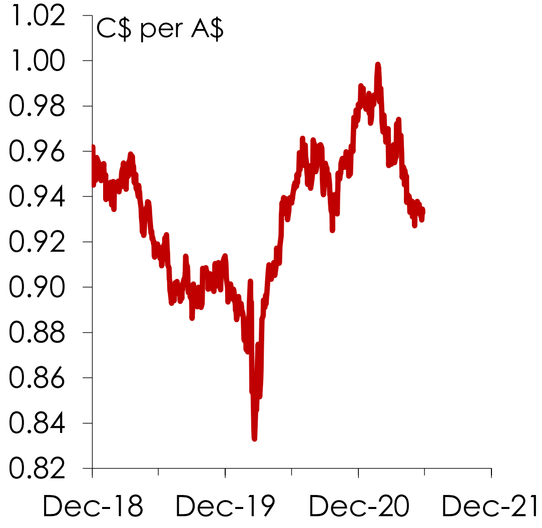
A$ vs Korean won



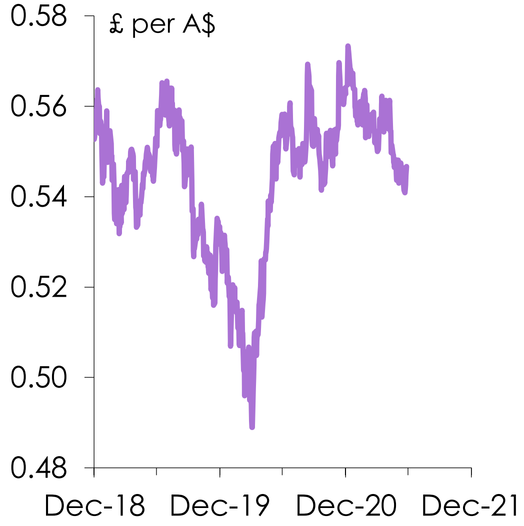
A$ vs Singapore $



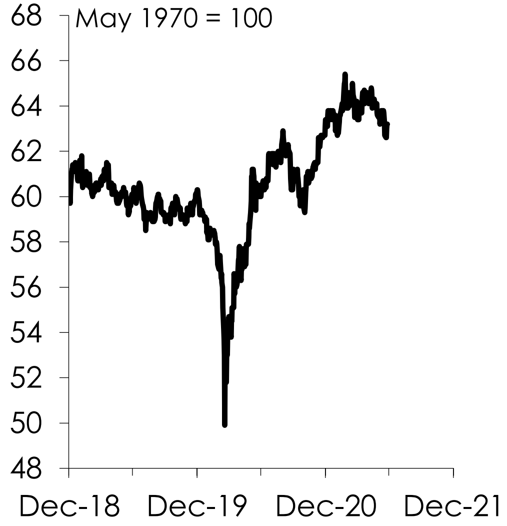
A$ vs Canadian $



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 25th June. Return to "What's New".'

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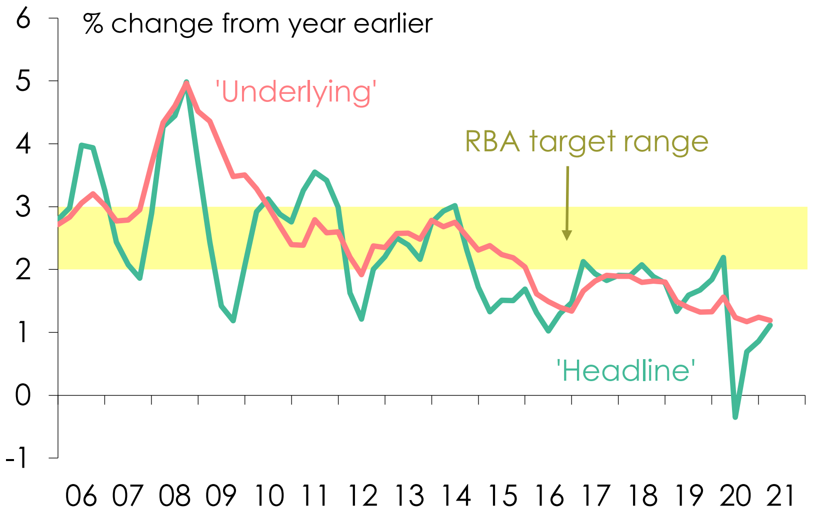
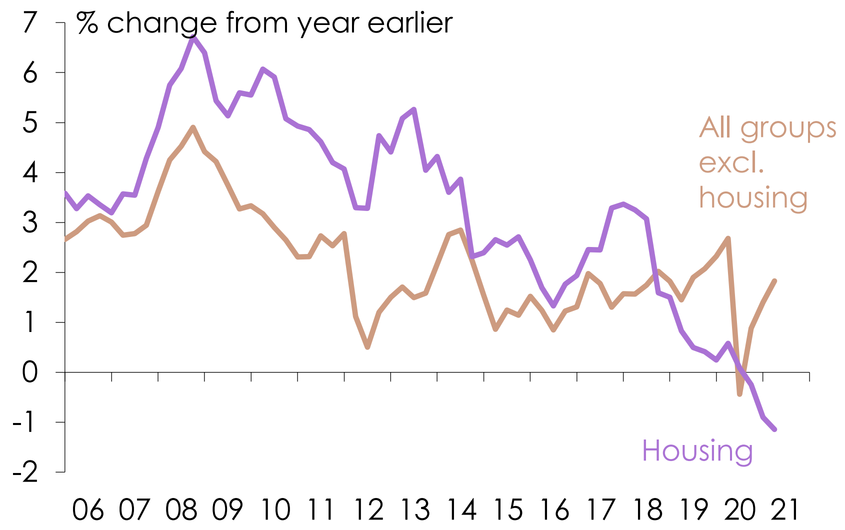
Q1 inflation was less than expected (with annual 'underlying' inflation falling to a record low), partly reflecting the effect of government policies

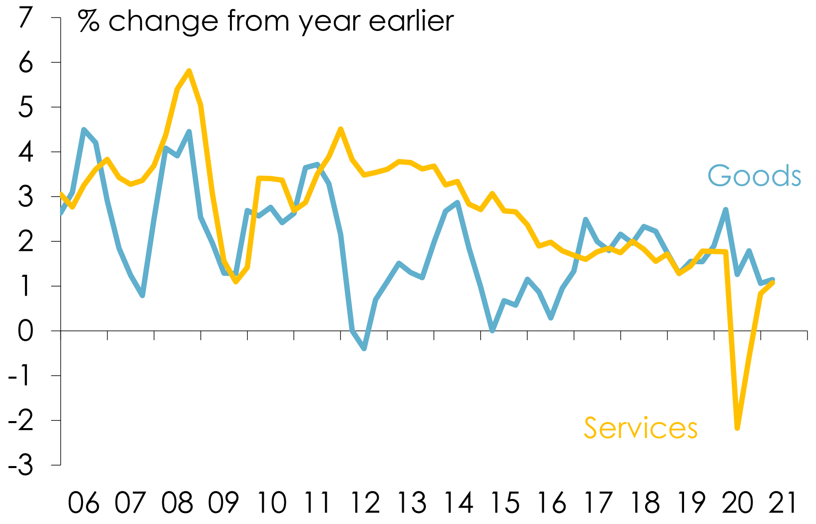
Consumer prices



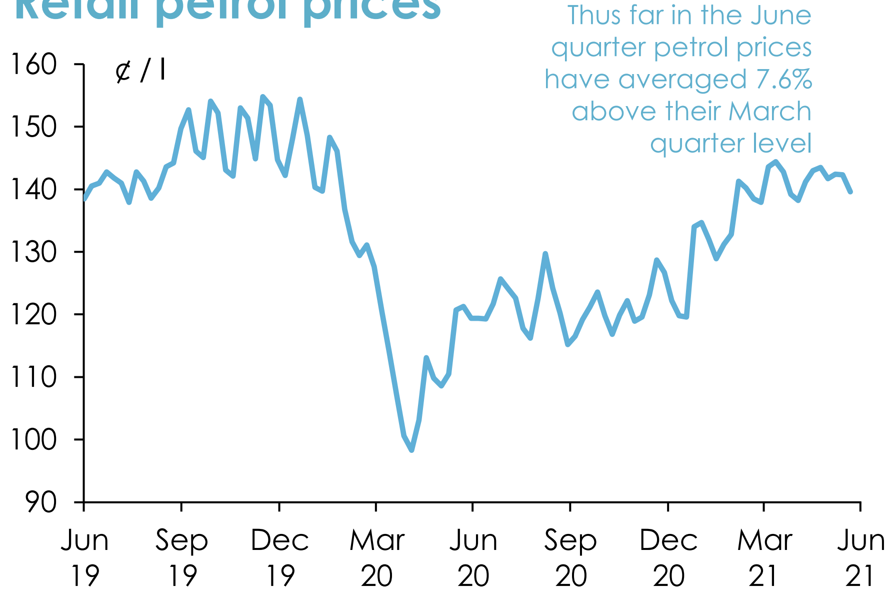
Housing costs



Goods vs services prices



Retail petrol prices

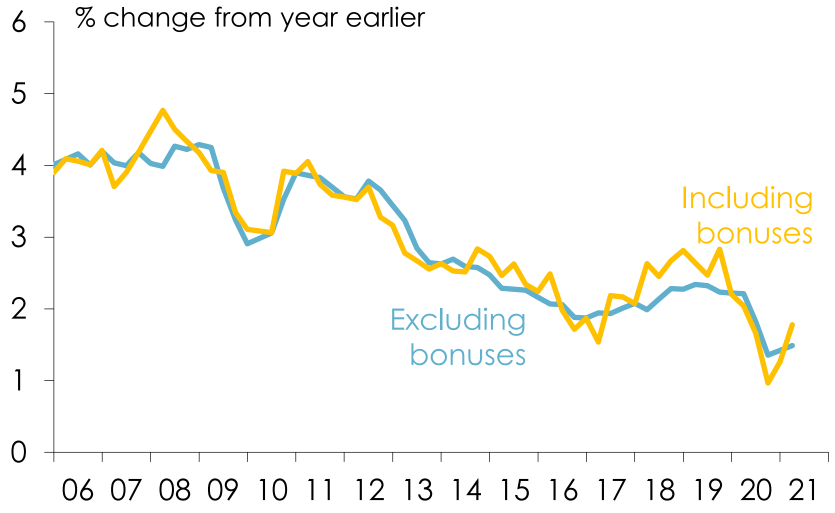


- The CPI rose a smaller-than-expected 0.6% in Q1, pushing the annual 'headline' inflation rate up 0.2 pc pts to 1.1%
- Almost half the Q1 increase in the CPI came from an 8.7% increase in petrol prices
- The main dampening effects came from government policies – including cash grants to first home buyers,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

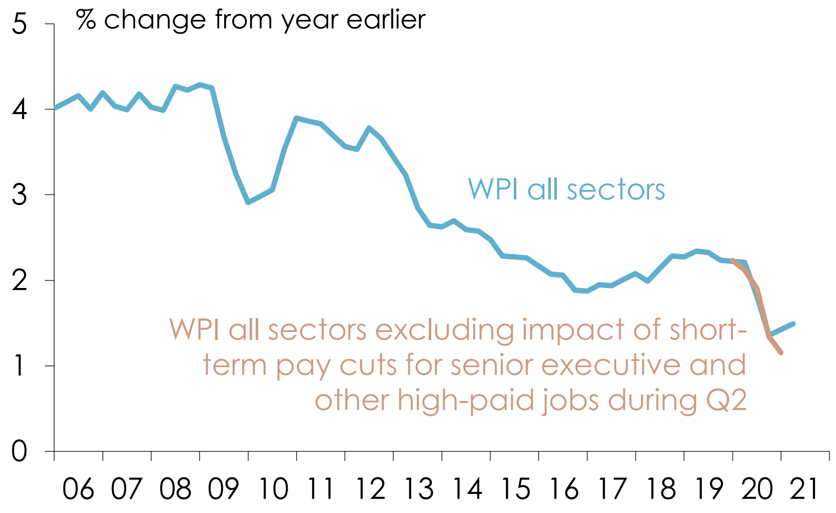
Note: 'Underlying' inflation is the average of the weighted median and trimmed mean CPIs. Wage price indices exclude bonuses.
Sources: ABS, Consumer Price Index, Australia; Australian Institute of Petroleum. The June quarter (Q2) CPI will be released on 28th July.
Return to "What's New".

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

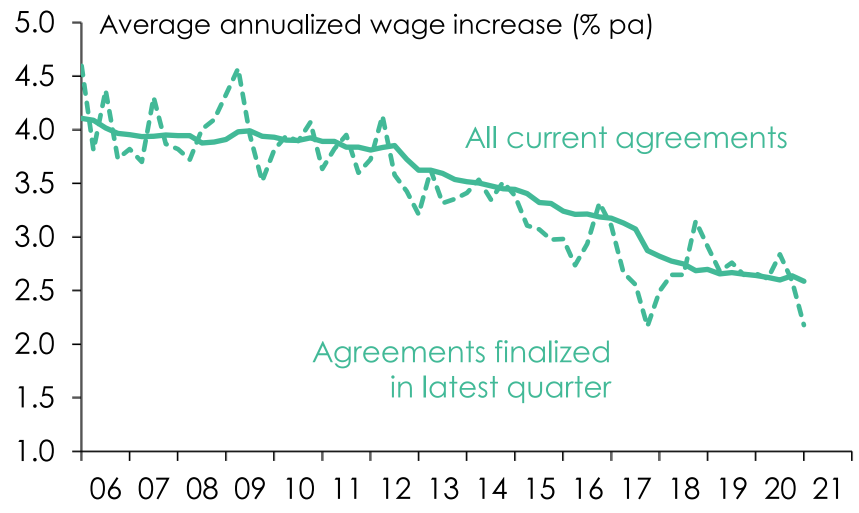
Wage price index – all sectors



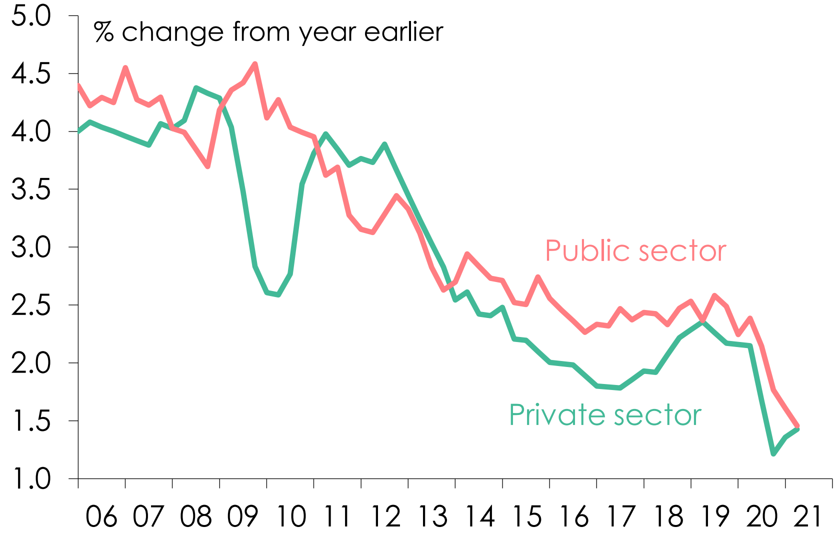
WPI excl. temporary wage cuts



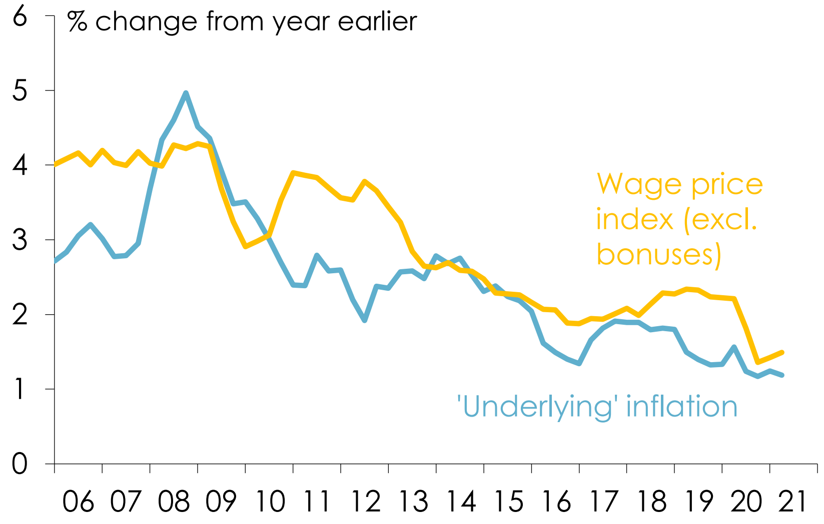
Enterprise bargaining agreements



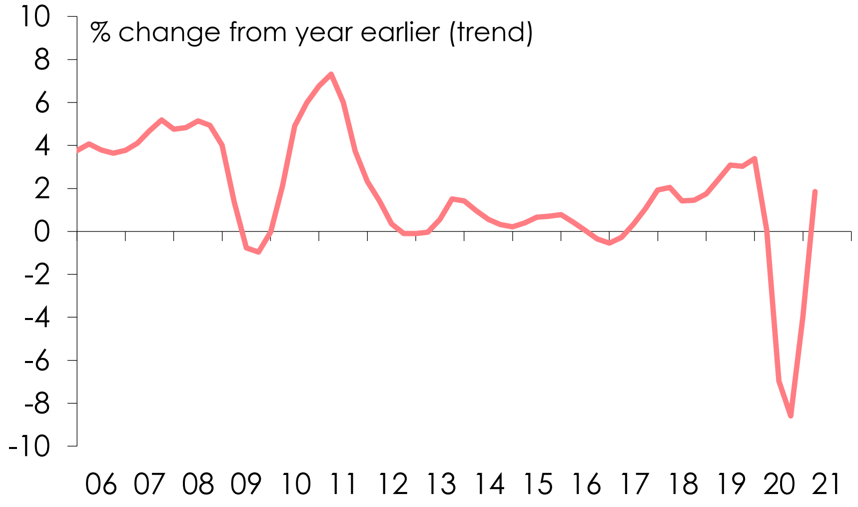
WPI – private vs public sectors



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".

SAUL ESLAKE
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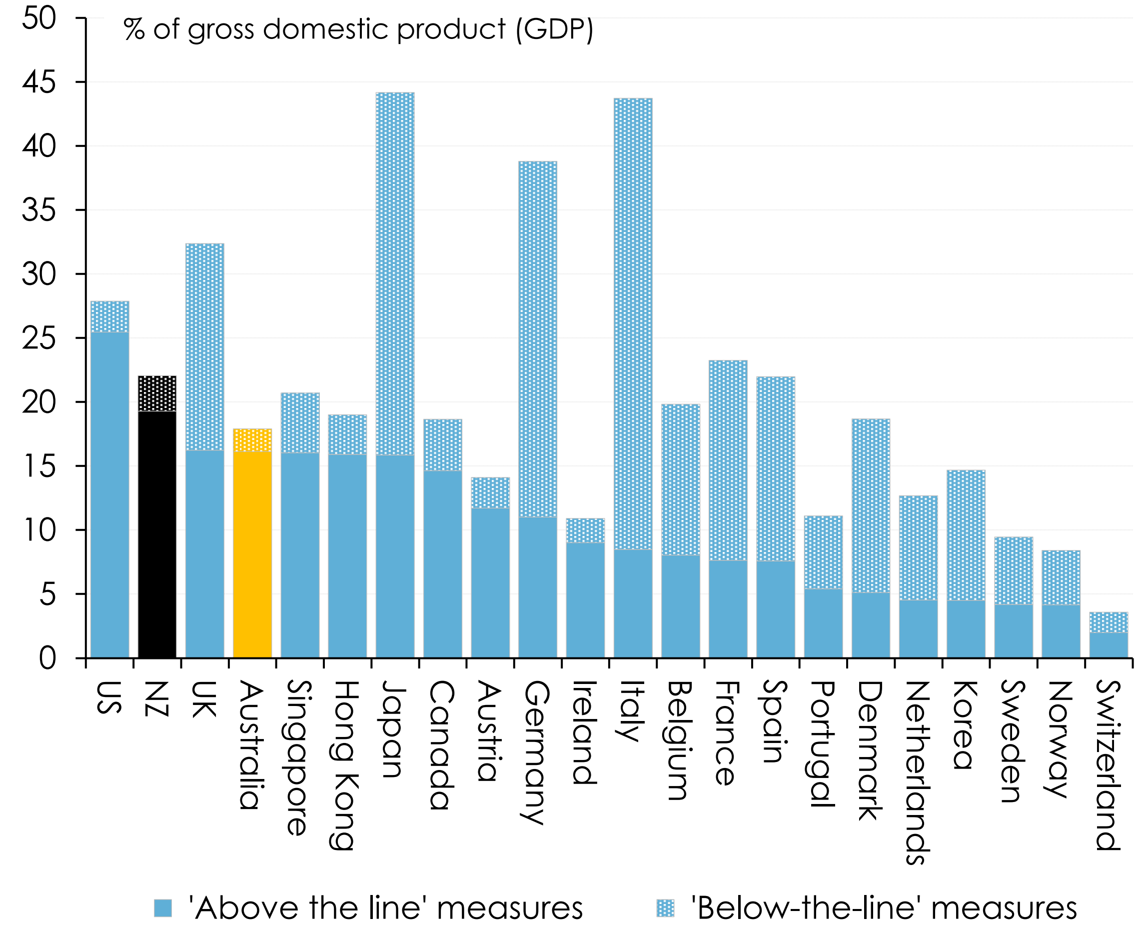
Australia’s fiscal and monetary policy settings

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

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

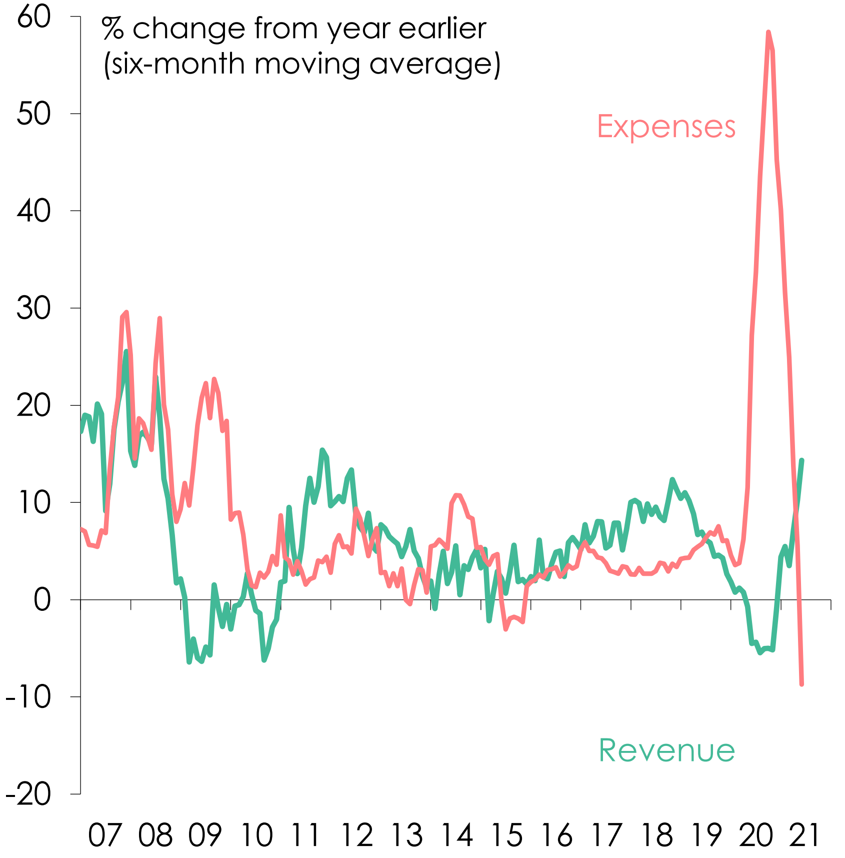


Note: 'Above the line' measures comprise additional or accelerated spending and deferred or foregone revenue. 'Below the line' measures comprise equity injections, loans, asset purchases and debt assumptions, but do not include loan guarantees or other contingent liabilities. 'DMs' means 'developed markets'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

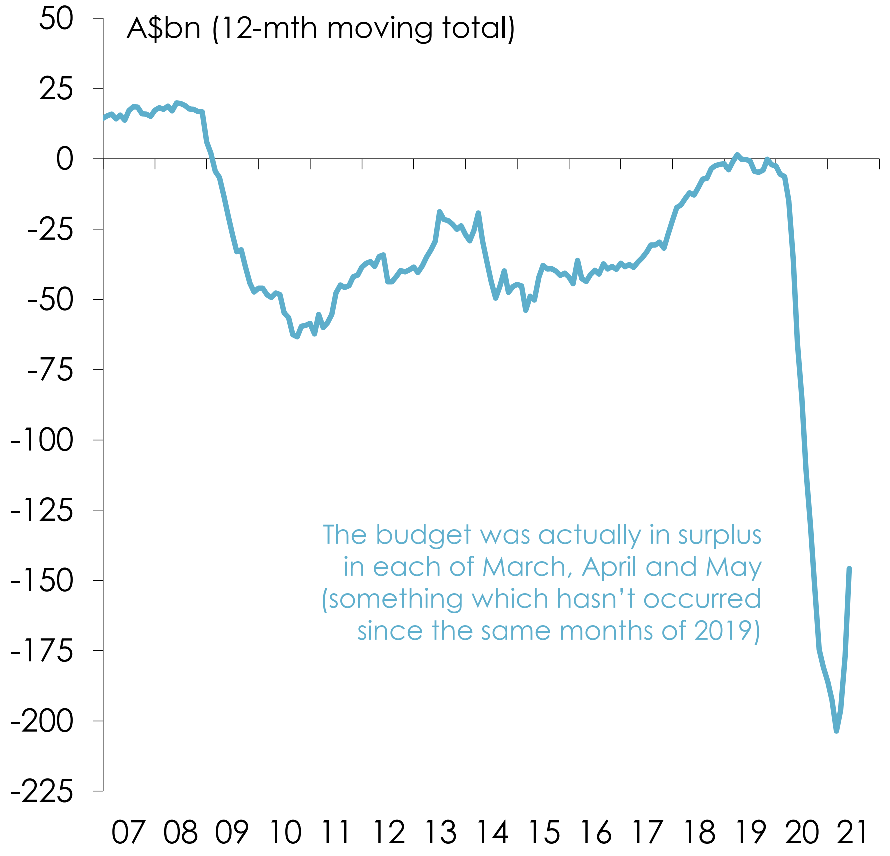
The budget was in surplus for three months in a row between March and May, and for the first 11 months of 2020-21 was $14bn less than forecast

Australian Government revenue and expenses



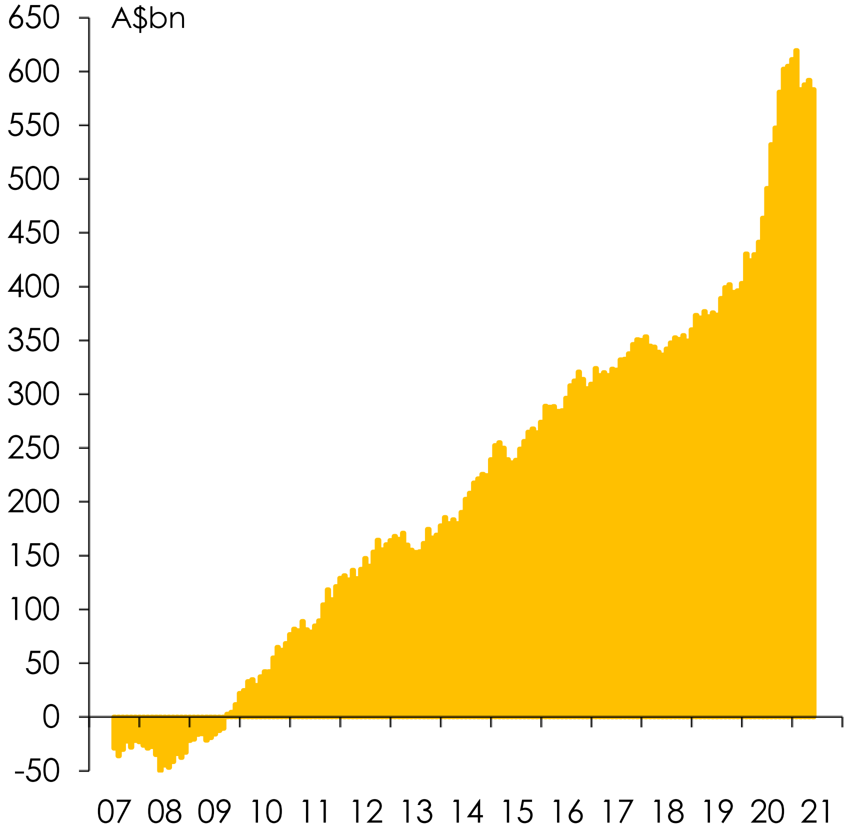
- ❑ **Expenses have now peaked, while revenue is beginning to turn around as the economy picks up**

Australian Government 'underlying' cash balance



- ❑ **The 'underlying' cash balance for the first 11 months of FY 2020-21 was $125bn – $14bn better than the MYEFO profile**

Australian Government net debt



- ❑ **Net debt as at end-May was $583bn (about 25½% of GDP), down from a peak of $619bn at end-January**

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".

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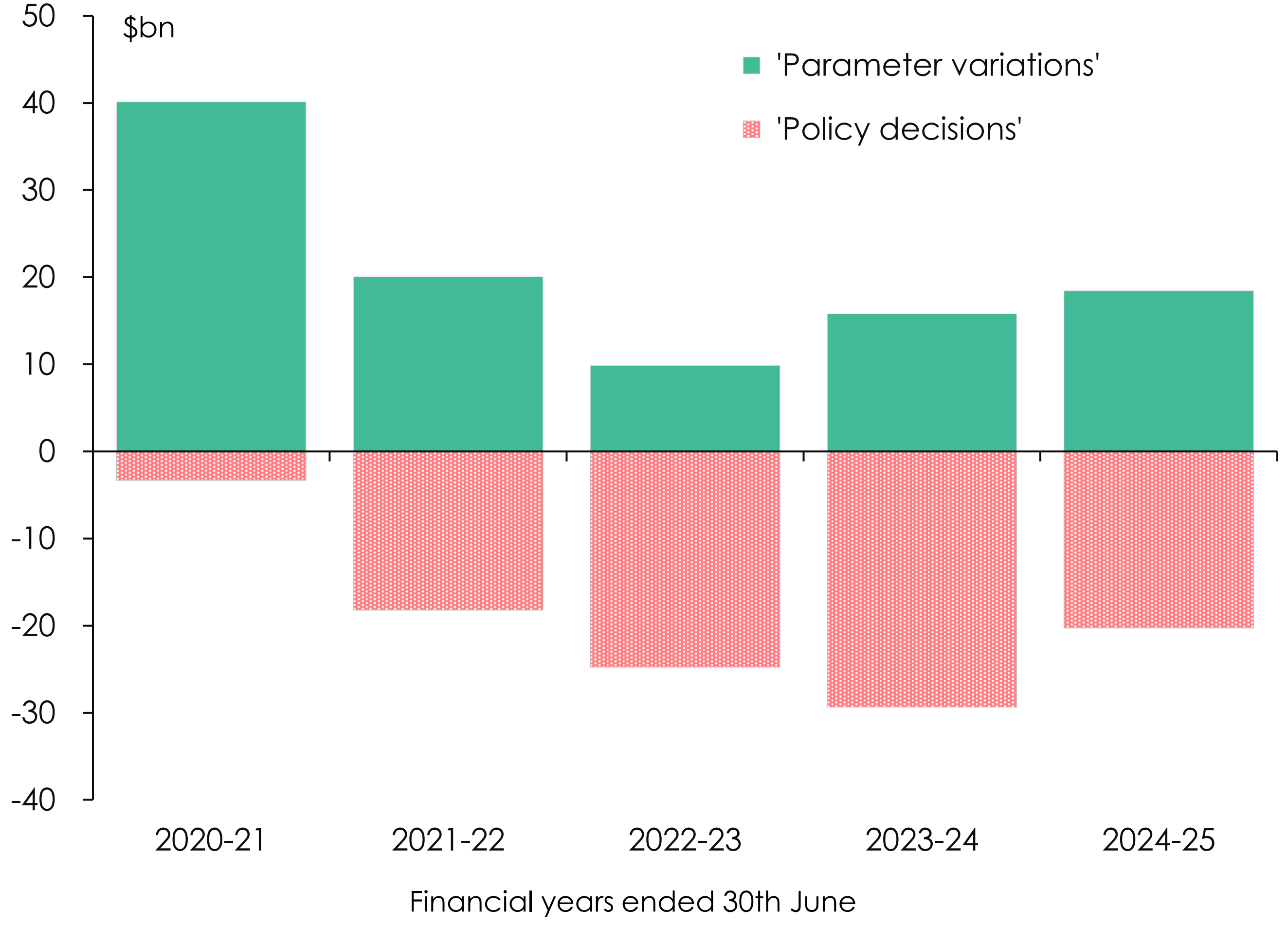
The 2021-22 Budget is unashamedly about 'securing economic recovery' and getting unemployment down – 'budget repair' can wait

- 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.

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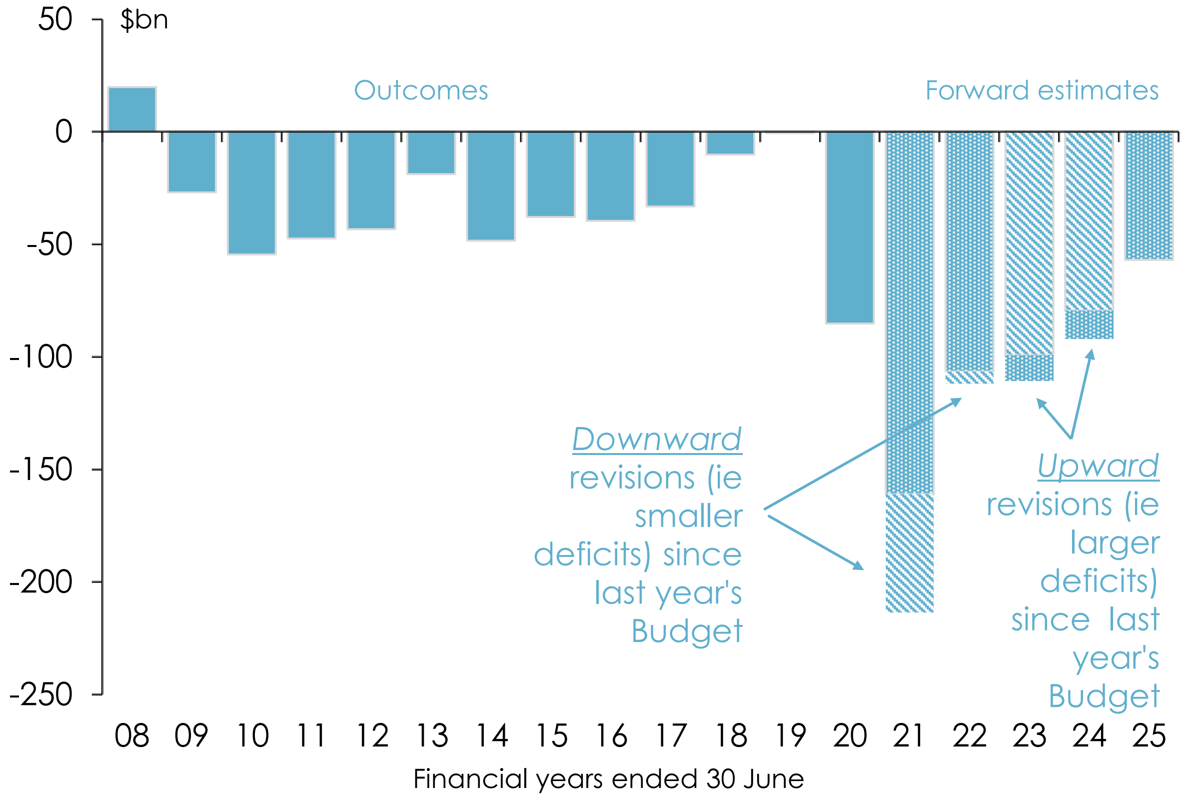
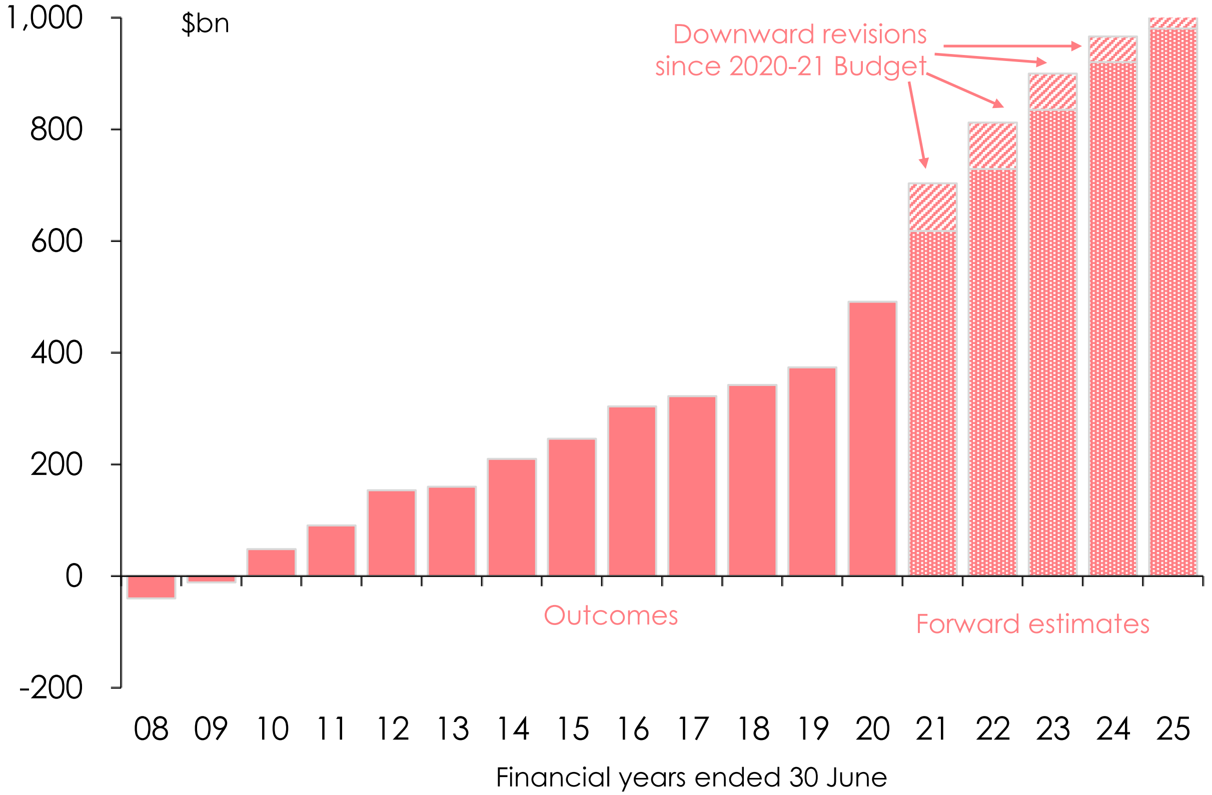
The deficit for 2020-21 will be a lot (and that for 2021-22 a bit) smaller than previously forecast, the deficits for 2022-23 and 2023-24 will be *larger*

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 down by $53bn and $5bn respectively since last year's Budget – but the deficits for 2022-23 and 2023-24 have been revised up 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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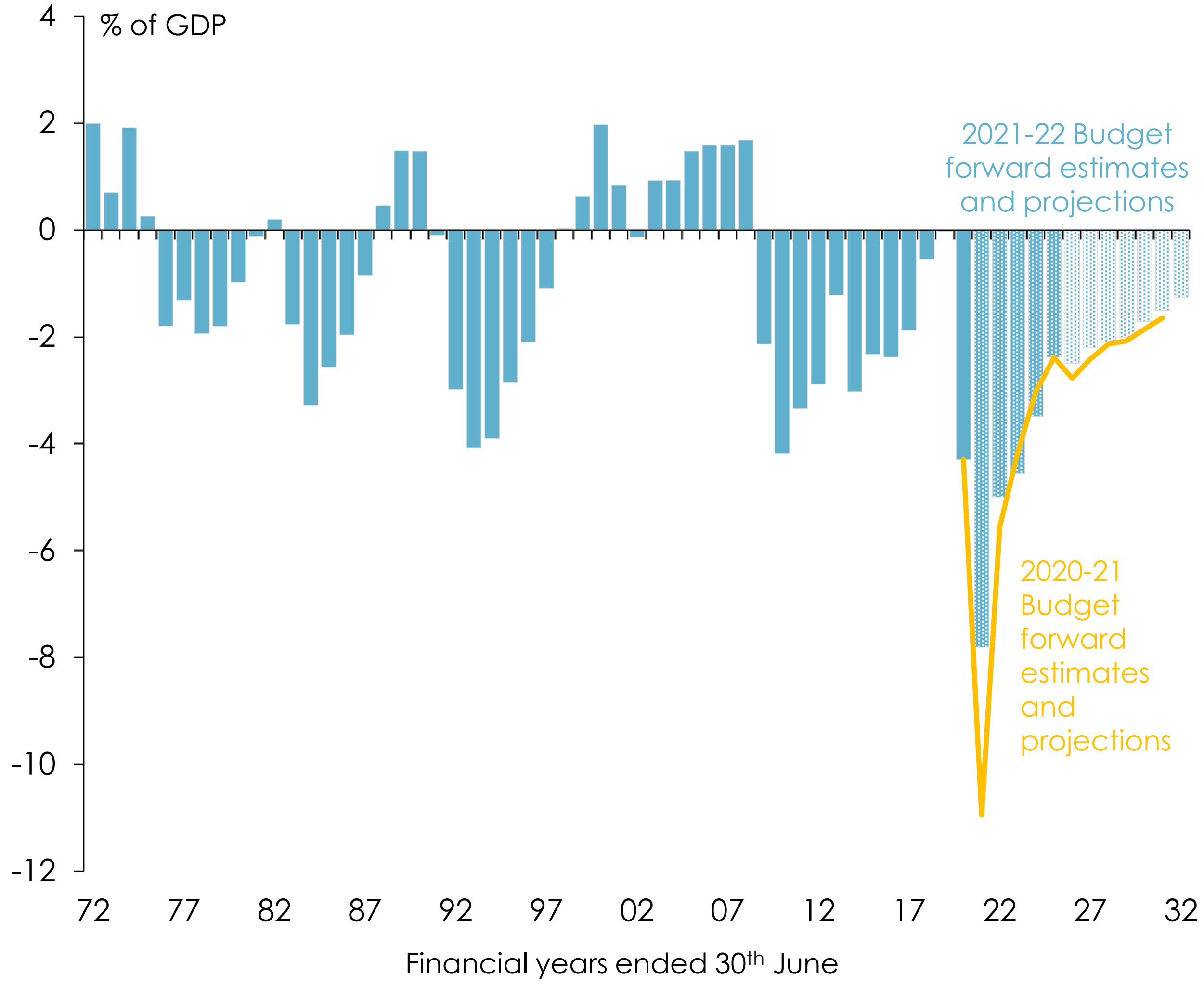
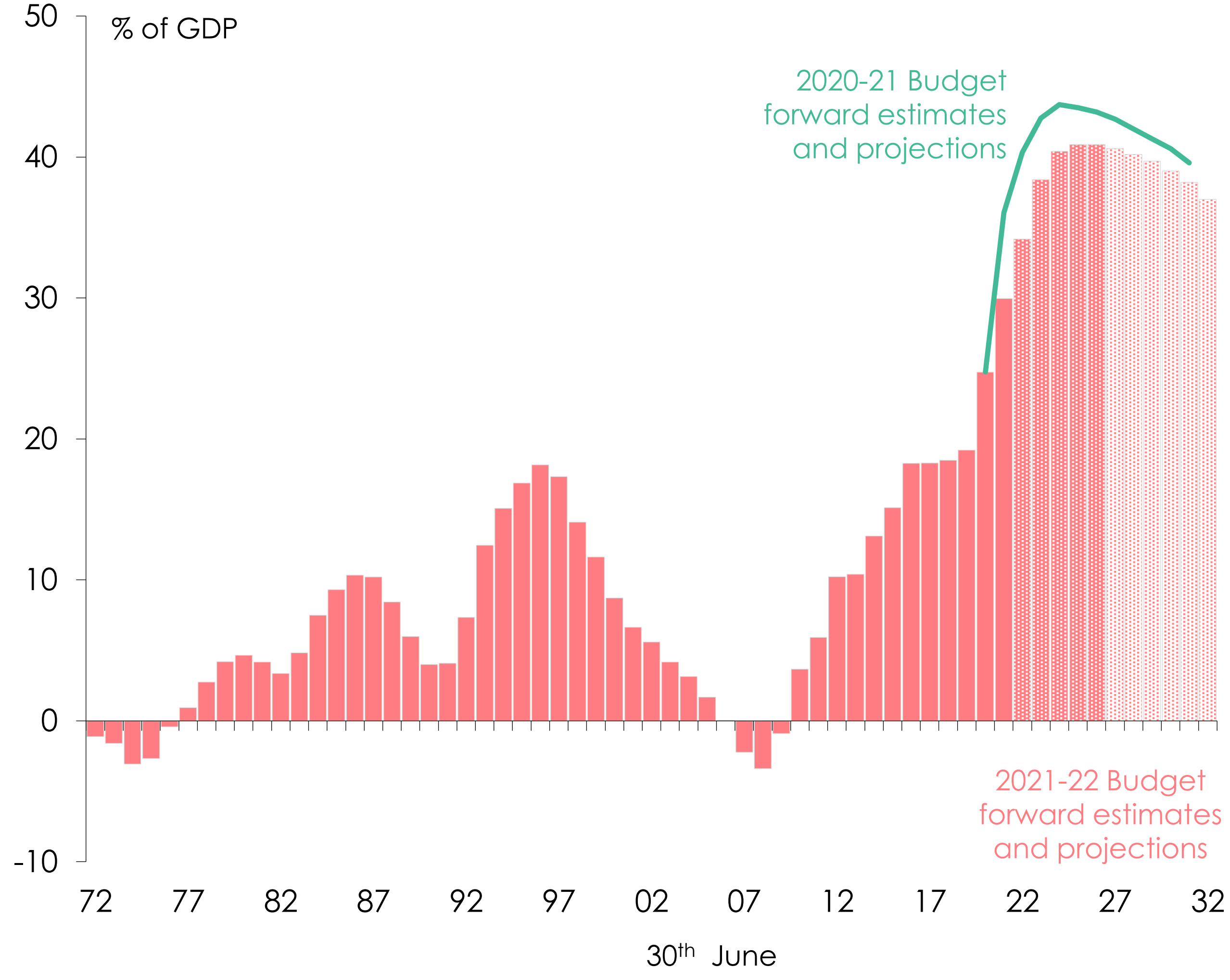
The Budget quite consciously kicks the ‘budget repair’ can down the road (presumably until after the next election …

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

‘Underlying’ cash balance



Net debt

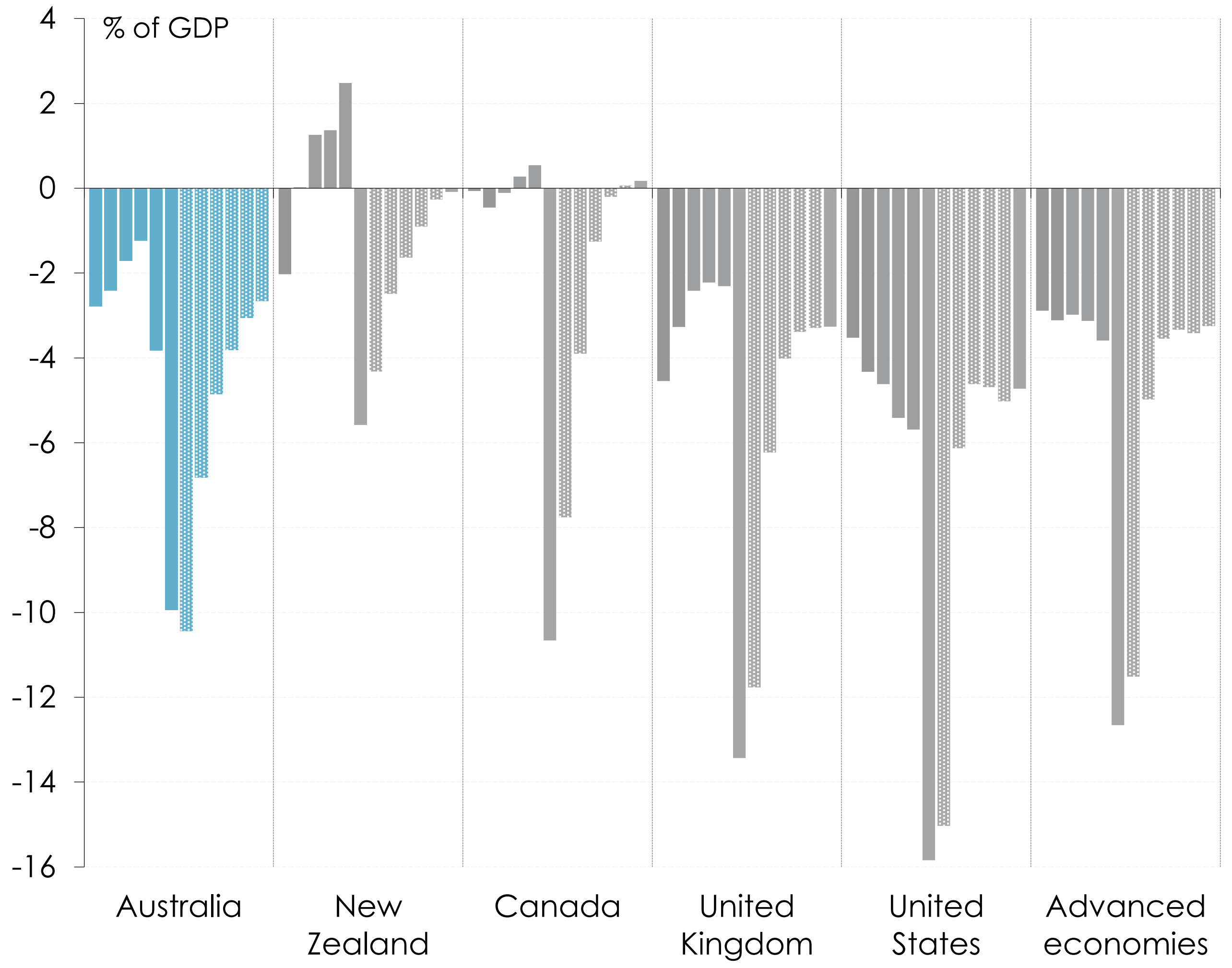


Source: Australian Government, 2021-22 *Budget Paper No. 1, Statement 3: Fiscal Strategy and Outlook* and *Statement 11: Historical Australian Government data*.

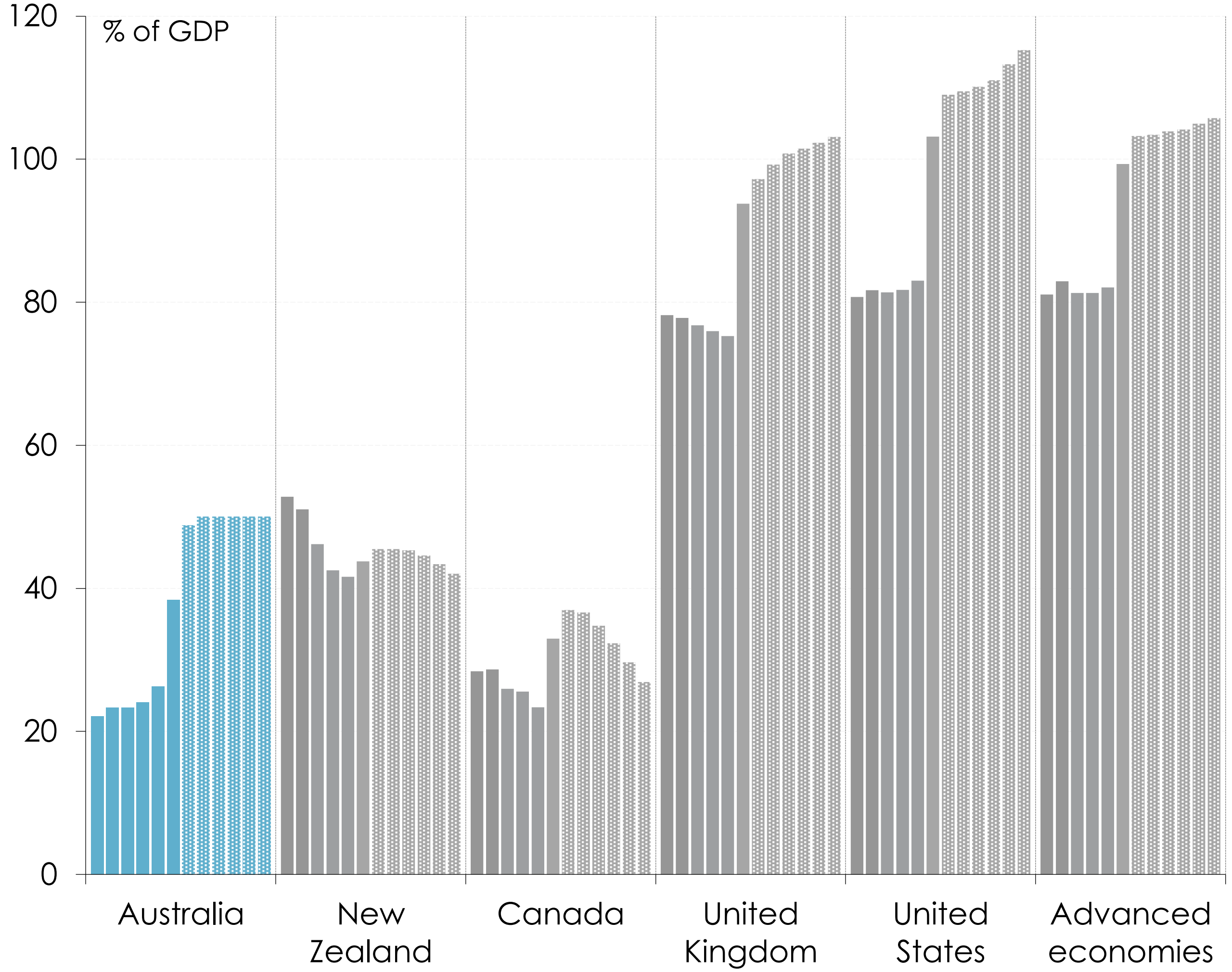
… which it can afford to do given that Australia's public finances are in much better shape than those of most other comparable countries …

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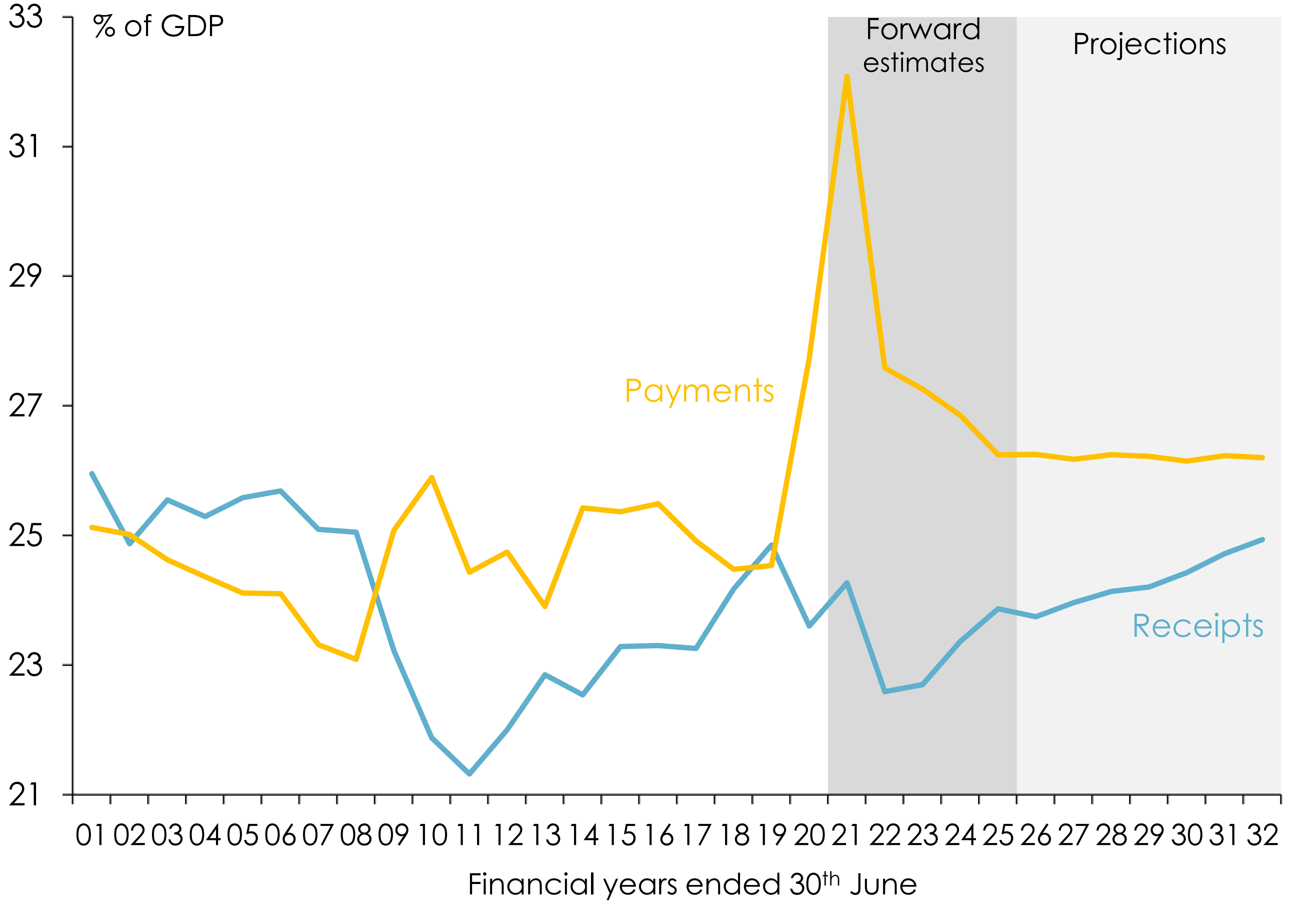
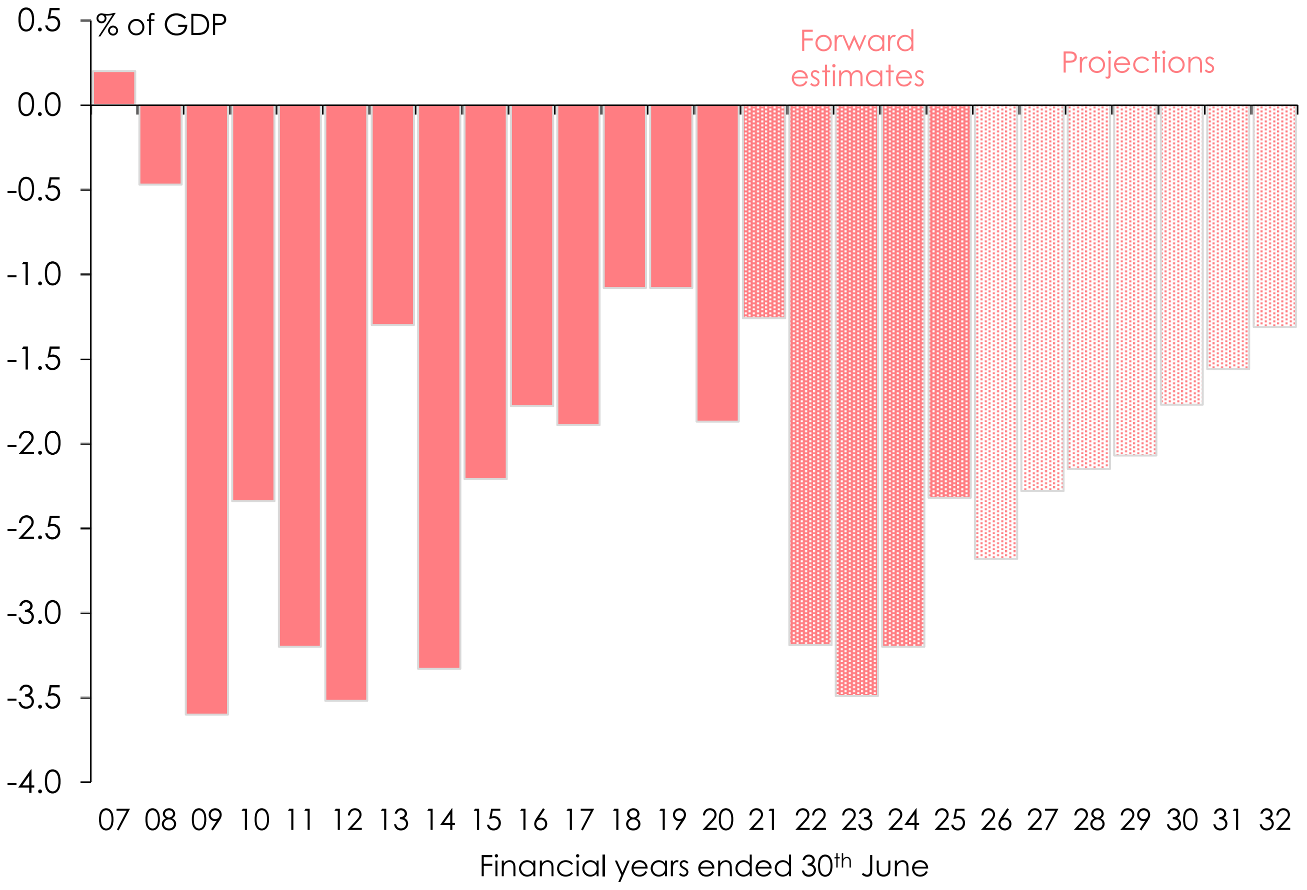
This budget actually *increases* the 'structural' deficit in the next two fiscal years – and it will still be over 1% of GDP in ten years

Receipt and payments as a pc of GDP



- 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

The 'structural' budget balance

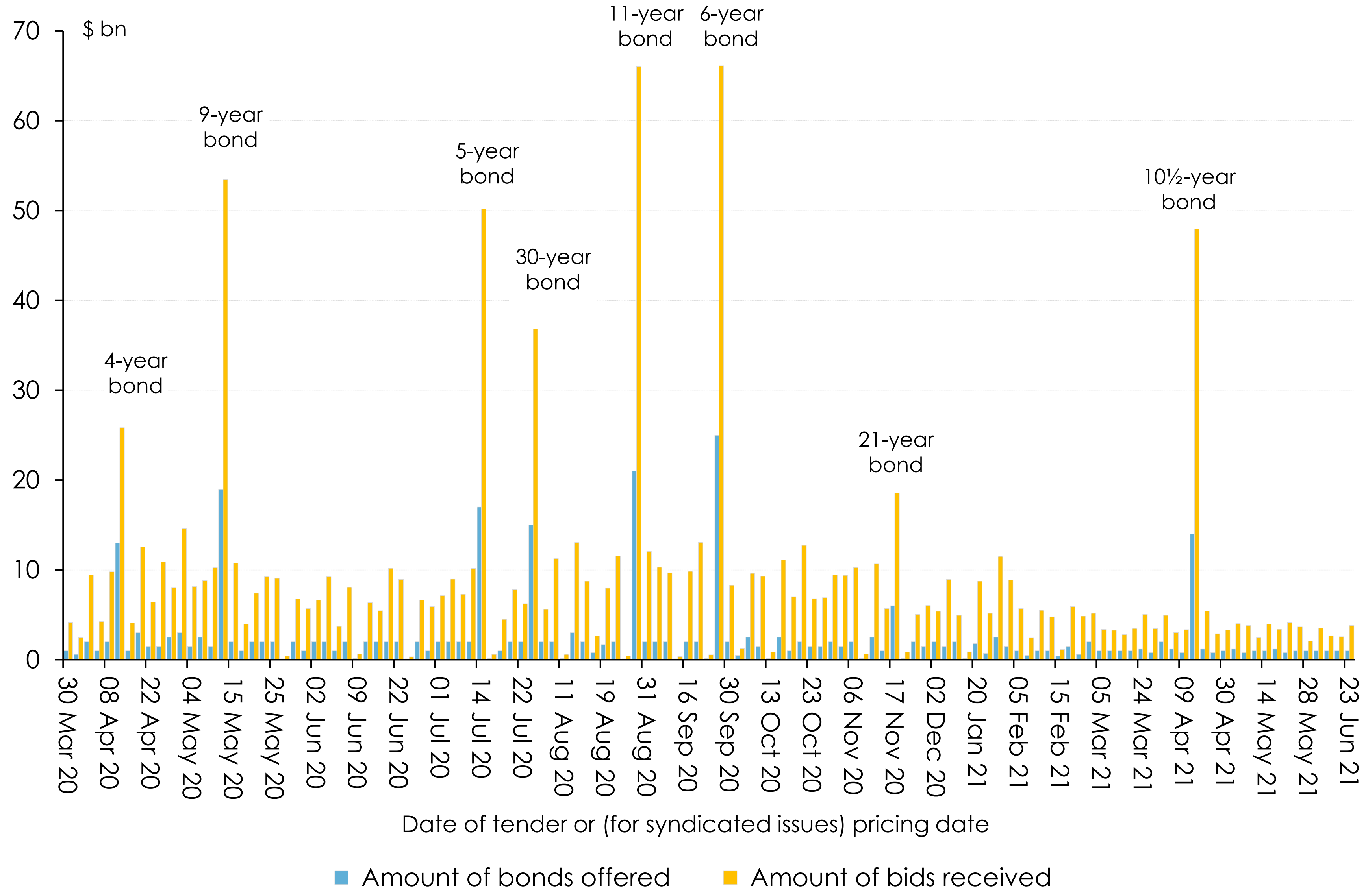


- There will still be a 'structural' budget deficit of 1¼% of GDP in 10 years' time (and note that the structural deficit widens in 2021-22 and 2022-23)

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 $295 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 another $1bn of 11-year bonds this week, bringing its total issuance for FY 2020-21 was $208.3bn or 99% 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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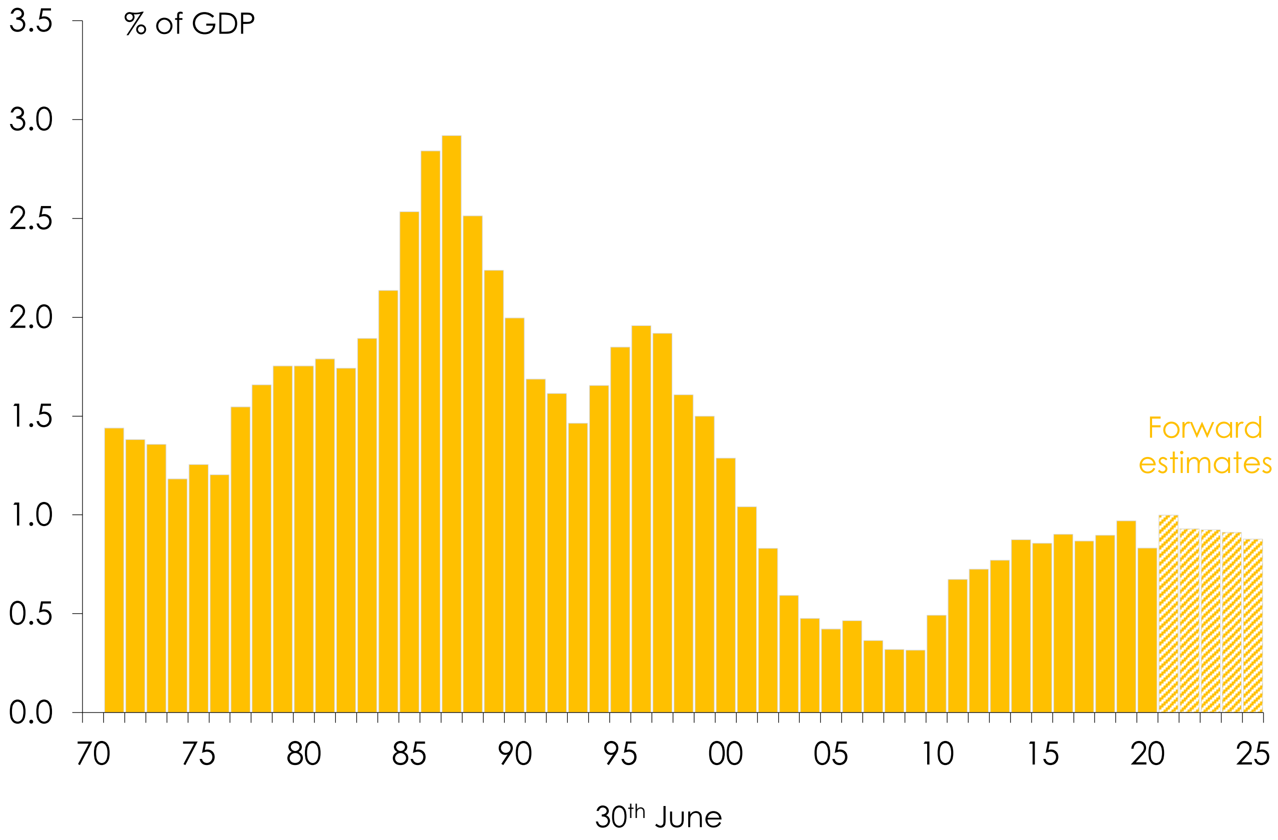
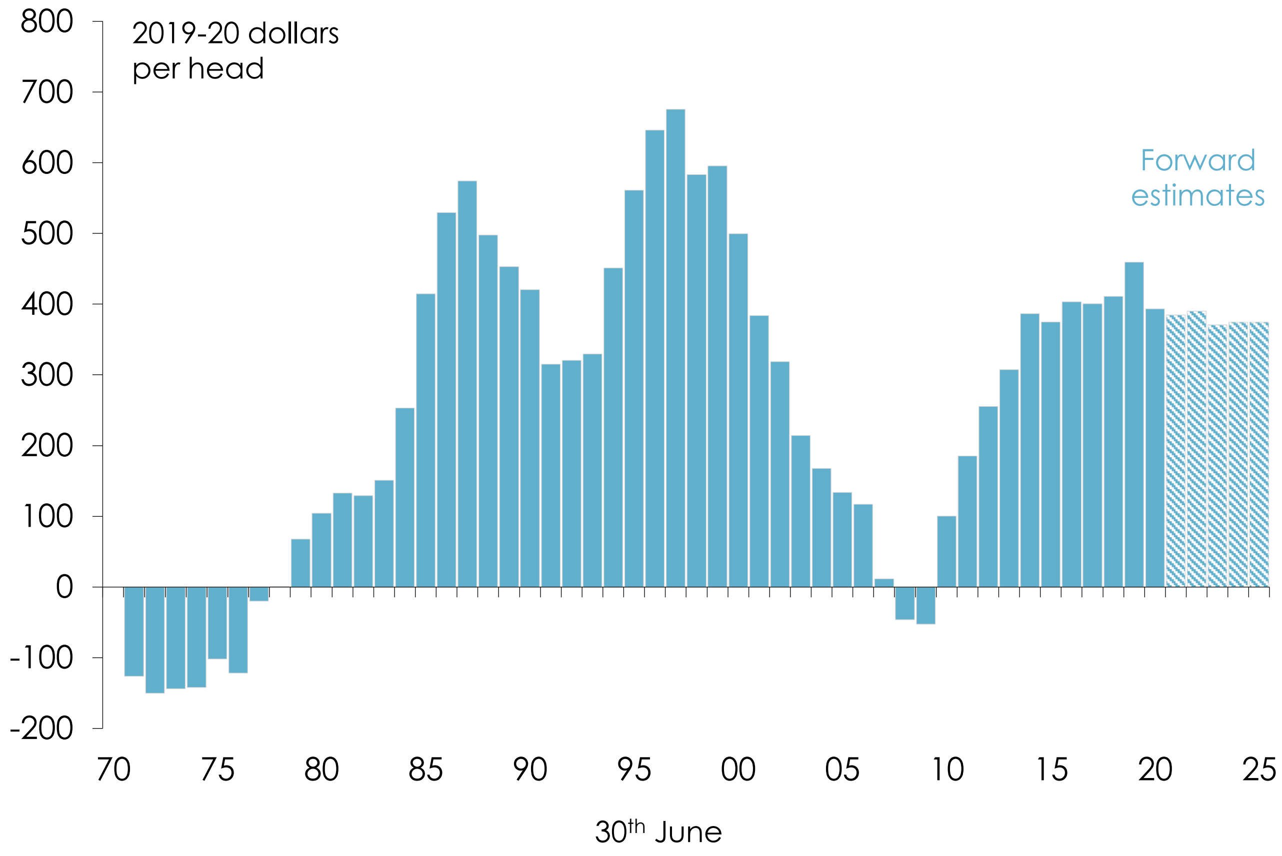
Because interest rates are so low, the cost of servicing the debt which the Government is racking up will be low by historical standards

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

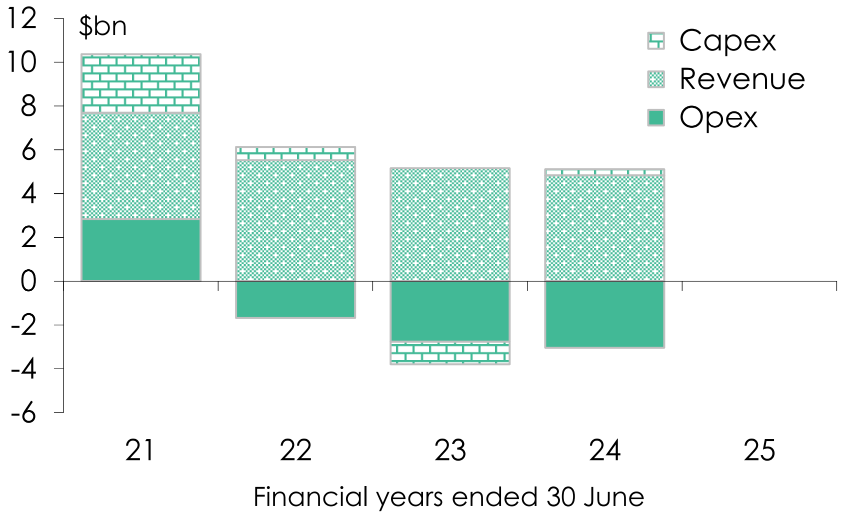


- Net interest payments per head of population will be less than they were in the second half of the 1980s, between 1993-94 and 1999-2000, or between 2015-16 and 2019-20

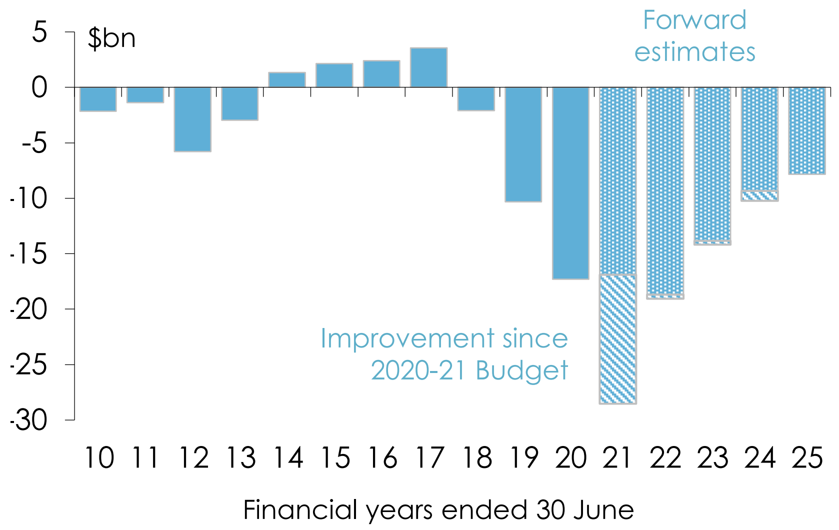
Source: Australian Government, 2021-22 Budget Paper No. 1, Statement 7: Debt Statement and Statement 11: Historical Australian Government data.

New South Wales' 2021-22 Budget applies revenue windfalls to increased opex and capex but also includes a genuine 'reform agenda'

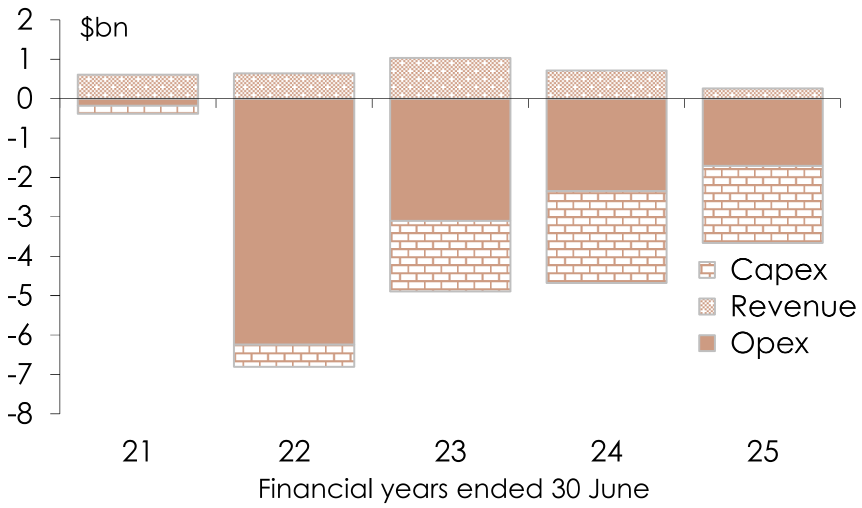
'Parameter variations'



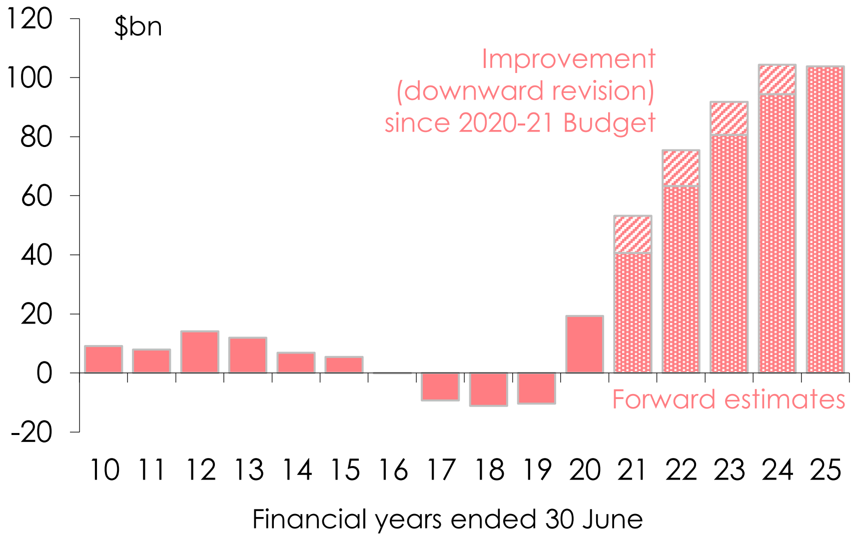
Cash balance



'Policy decisions'



Net debt

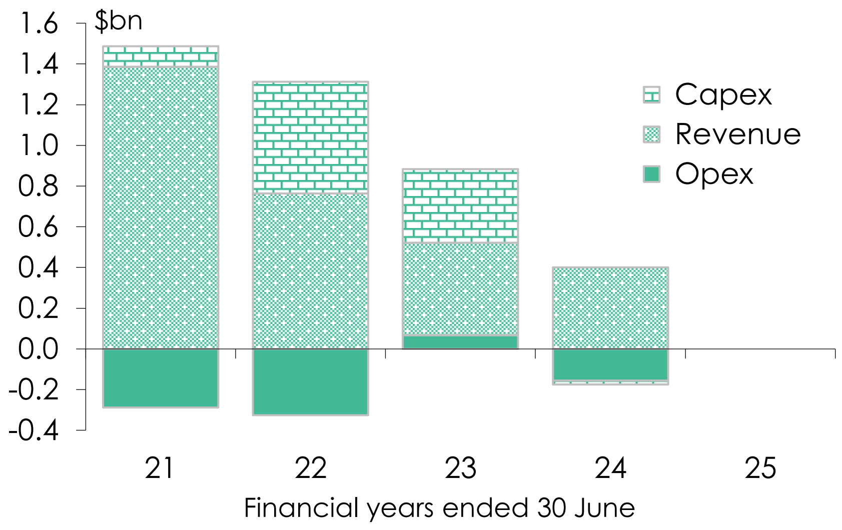


- This year's NSW State Budget benefited from revenue windfalls in excess of $20bn (since last year's Budget), of which about two-thirds was applied to increased opex and capex, and about one-third to deficit and debt reduction
- NSW expects to run cash deficits averaging 1¾% of gross state product over the four years to 2024-25, a bit larger than Queensland (1½%), in line with SA, and considerably smaller than Victoria and the Northern Territory (both 3¼% of GSP)
- NSW's general government sector net debt is forecast to reach 13¾% of GSP by June 2025 – more than Qld (9¼%) but less than SA (18¾%), Victoria (26¾%) and the NT (31¾%)
- The Budget Papers contain some none-too-subtle indications that the NSW Government is frustrated with the continued international border closure
- NSW is arguably the only government in Australia which is actively pursuing an economic reform agenda
  - NSW is the only state to be even talking about tax reform (although it is yet to decide on details of its proposed property tax changes)
  - this year's NSW Budget also spells out a 'productivity agenda' which includes reforms to the state planning system, education curriculum, and teacher training

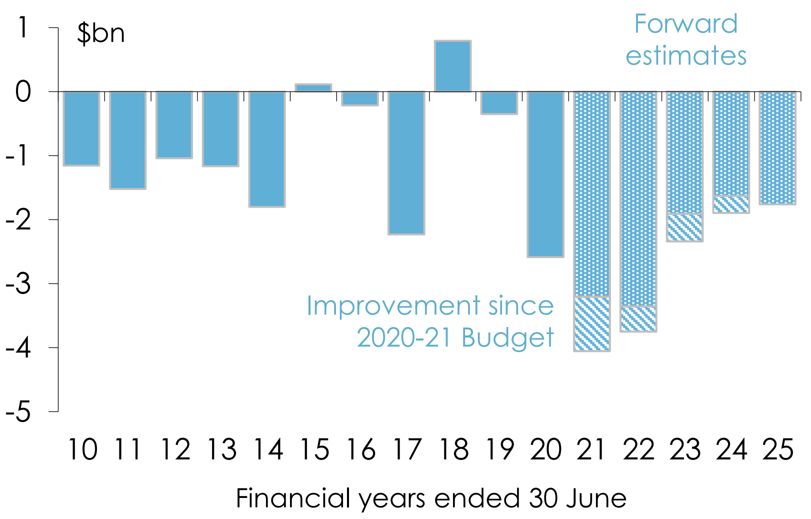
Note: See slide 136 for explanations of 'parameter variations' and 'policy decisions': charts show the impact of each on the 'fiscal balance'. Aggregates shown in the above charts refer to NSW's 'general government' sector (ie, excluding public corporations). *Source:* New South Wales Government, *Budget Paper 1: Budget Statement*. Return to "What's New".

South Australia's 2021-22 State Budget also applies revenue windfalls to increased spending and debt reduction ahead of an election next March

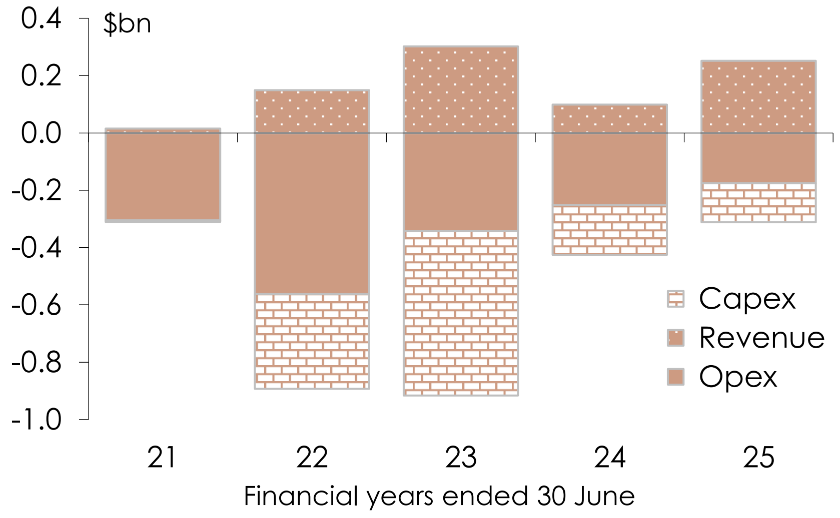
'Parameter variations'



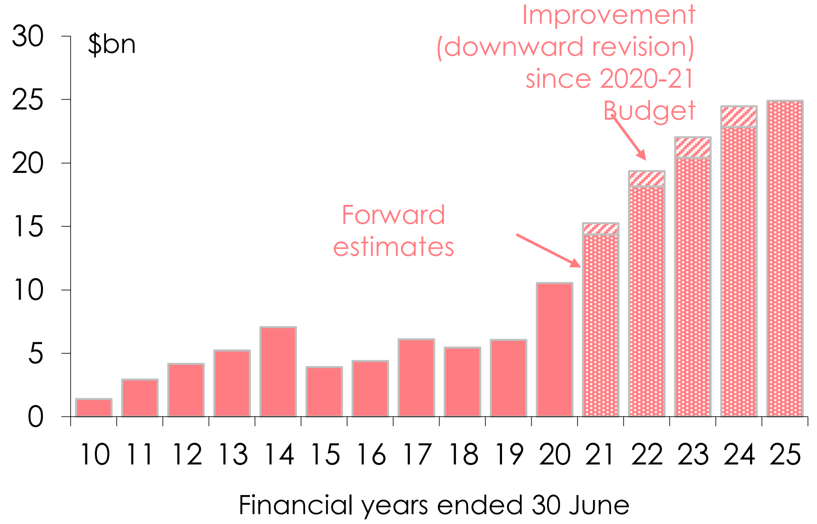
Cash balance



'Policy decisions'



Net debt

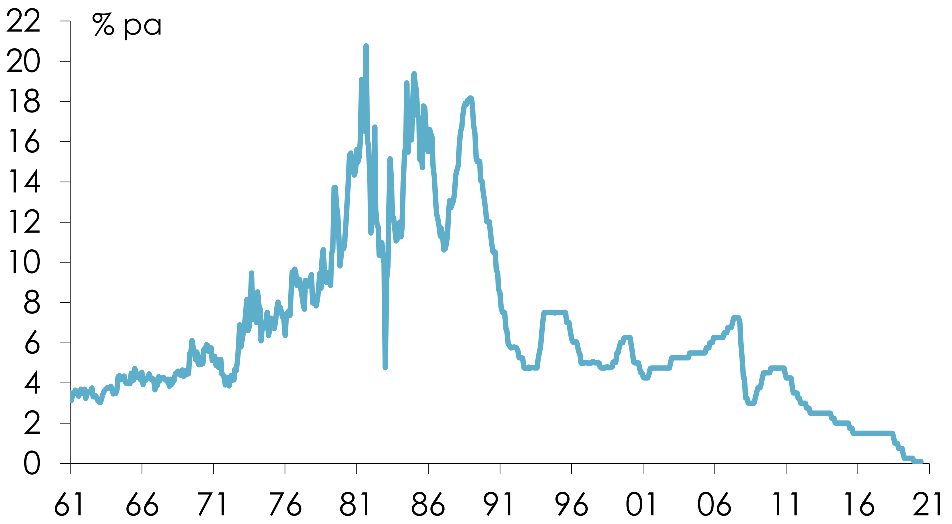


- **As in other states, South Australia's 2021-22 Budget has been aided by upward revisions to revenue projections over the four years to 2023-24 of more than $3bn – which has been applied to increased opex, increased capex and debt reduction in roughly equal measure**
- **The SA Budget forecasts a return to 'operating surplus' in 2022-23, sooner than any other state (except WA which is running very large surpluses a result of its iron ore royalty bonanza and the very favourable – to it - 'deal' regarding the distribution of GST revenues by the Federal Government in 2018, and Tasmania) …**
- **… but because SA has a relatively large capex program (worth about 2¾% of GSP over the four years to 2024-25, more than any other state except Victoria) it will continue to run relatively large cash deficits over the forward estimates period**
- **South Australia's overall financial position (taking into account non-debt liabilities, in particular unfunded superannuation, and the position of its GBEs) is arguably the third strongest of the states and territories – not as strong as WA or Qld, but stronger than NSW, Tasmania or especially Victoria and the Northern Territory**
- **This is the last State Budget before the next state election to be held on 19th March 2022**

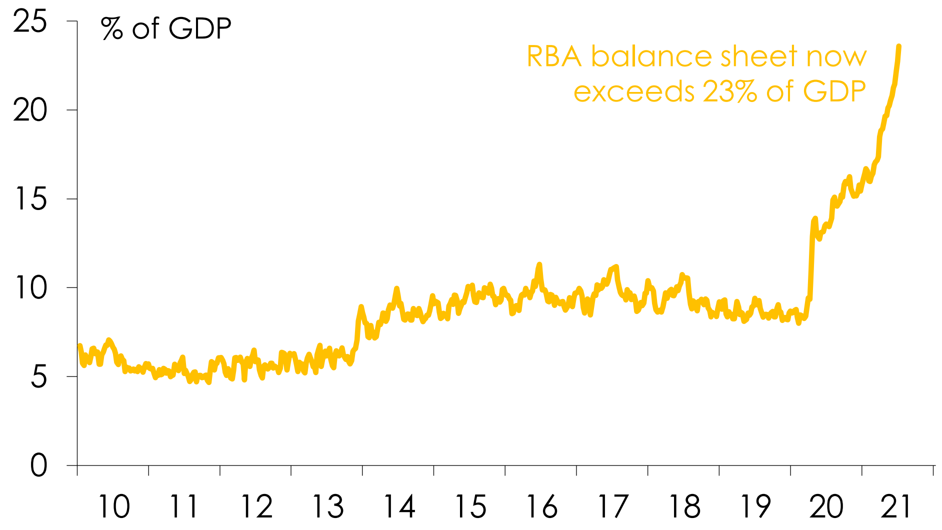
Note: See slide 136 for explanations of 'parameter variations' and 'policy decisions': charts show the impact of each on the 'fiscal balance'. Aggregates shown in the above charts refer to NSW's 'general government' sector (ie, excluding public corporations). *Source:* South Australian Government, *Budget Statement: Budget Paper 3*. Return to "What's New".

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

Reserve Bank cash rate



Reserve Bank assets as a pc of GDP



Source: Reserve Bank of Australia, [*Statistical Tables*] A3 and F1.1.

[Return to "What's New"].

- **Last year the RBA cut its cash rate target from 0.75% to 0.10% (and in practice 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 $120bn of federal government bonds and $31bn of state and territory government bonds – and under which it plans to purchase another $49bn 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 $162.6bn (including $63bn over the past seven 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 July meeting whether to switch its target for the 3-year yield from the April 2024 bond to the November 2024 one and whether to extend its Bond Purchase Program beyond September – issues which Governor Lowe explored in a speech last week - see [next slide])**

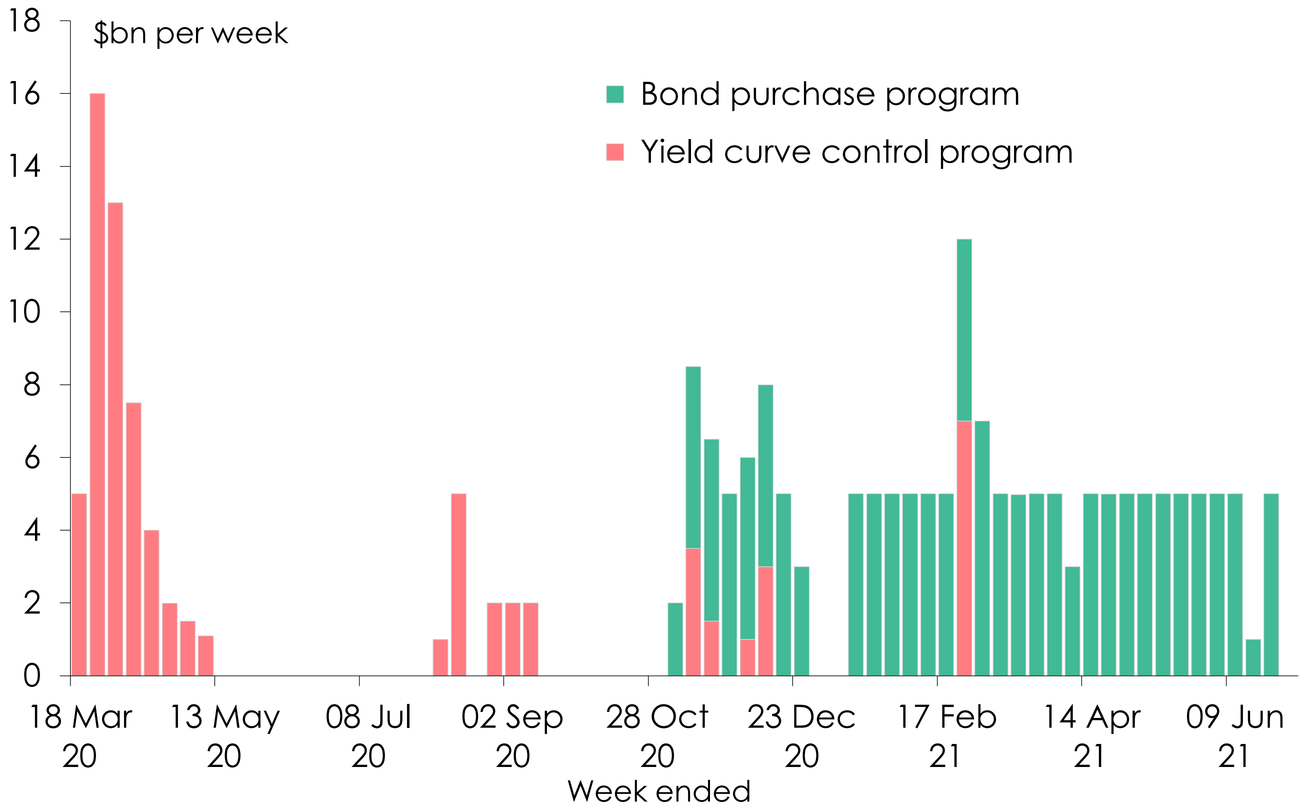
Is the RBA 'laying the ground work' for a shift in its guidance about the timing of a first rate increase?

- RBA Governor Phillip Lowe gave a speech in Toowoomba, Queensland, last week which *could* be interpreted as subtly hinting at possible changes to the RBA's long-standing guidance as to how long it will keep its official cash rate at the current record low of 0.10% ("until 2024 at the earliest"
- Lowe was very positive in his description of Australia's recovery thus far, but emphasized that recovery was "being underpinned by unprecedented fiscal and monetary policy measures that will not last forever" and that "we still have a way to go before the recovery is complete" – but that it was "time … to be thinking about how we transition from recovery mode to expansion mode"
- Lowe discussed (in more detail than he has previously) the issues which the RBA will be considering at next month's Board meeting where it will decide the future of its asset purchase programs
  - regarding the issue of whether to shift the 3-year yield target from the April 2024 bond to the November 2024 bond, the "central issue" will be "the probability of the cash rate increasing" over the period between now and November 2024 – and he noted that the Board has "reviewed a number of scenarios" in which the conditions for a rate rise are, or are not, met in 2024
  - regarding the longer-term bond purchase program (the current instalment of which expires in September), the Board is considering four options – one of which (ceasing the program altogether at end-September) has been ruled out, but the others (another $100mn over six months, a smaller amount over the same period or the same amount over a longer period, and "an approach where the pace of bond purchases is reviewed more frequently") remain 'live'
- Governor Lowe re-iterated the RBA's long-standing criteria for raising the cash rate (a labour market sufficiently tight to generate wages growth sufficiently strong for inflation to be "sustainably within the 2-3% target range")
  - however, rather than re-iterating that this was not expected to occur until "2024 at the earliest" – as he has done in every speech, and the Board has done in every post-meeting statement, this year – he instead said simply "this still seems some way off"
- Is this an acknowledgement that rates could start rising before 2024 – it probably should be, but time will tell whether it's what the RBA does

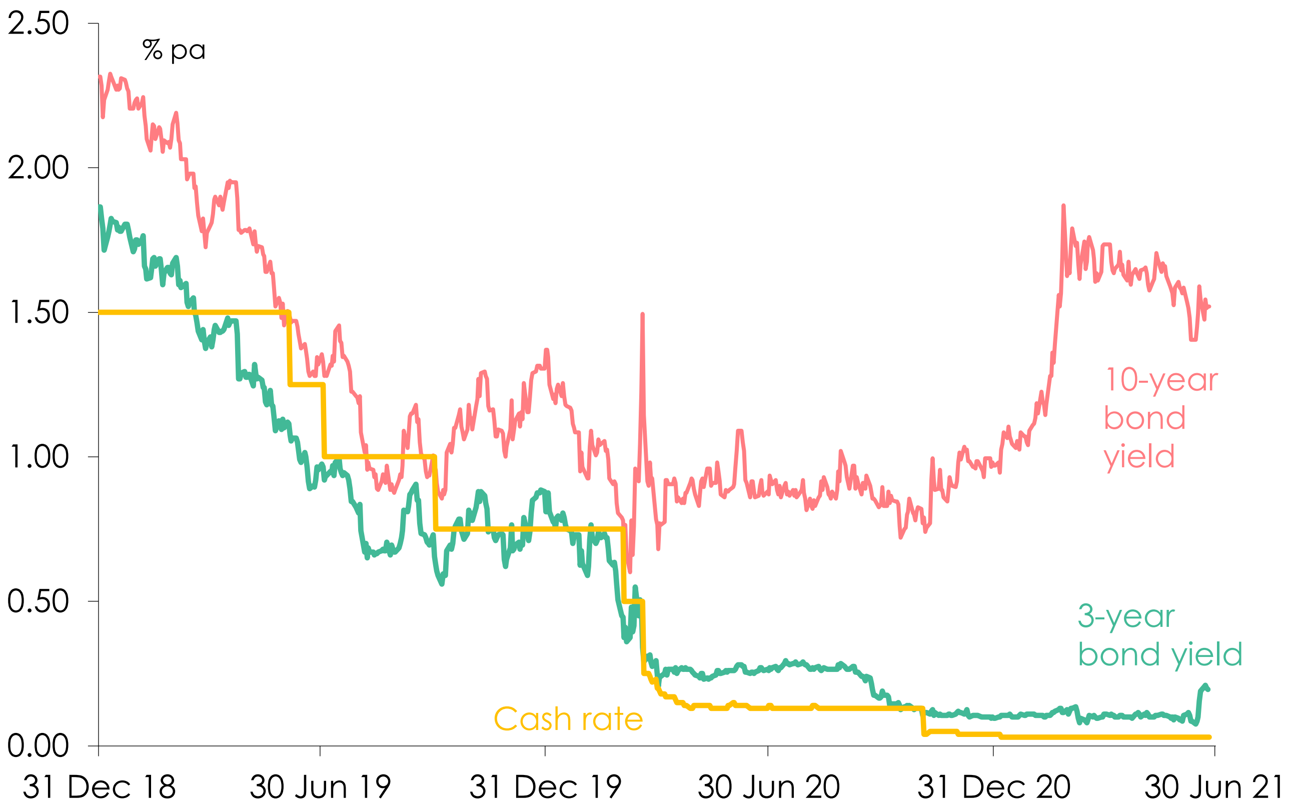
Return to "What's New".

The 3-year yield doubled this week (from 0.1 to 0.2%) without any response from the RBA

RBA open market bond purchases



Interest rates

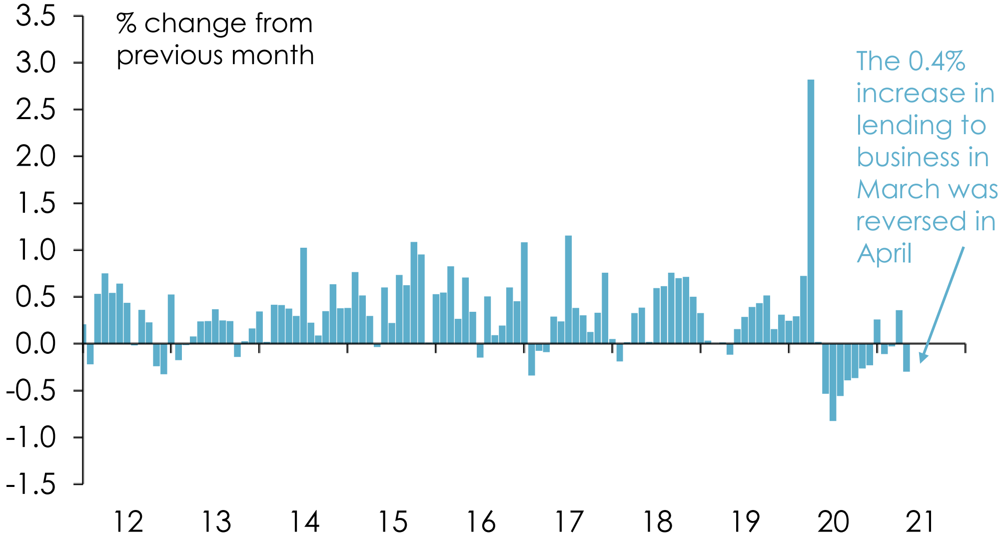


- The 3-year yield doubled this week from 0.10% (at which level the RBA had sought to hold it since November last year) to 0.20% - without any response from the RBA, which adds to speculation that the RBA is preparing to adjust its 'guidance' about how long it proposes to keep the cash rate at 0.1%, as foreshadowed in Governor Lowe's speech last week (slide 146) and the much-stronger-than-expected May labour force data (slide 98)
- The RBA did buy another $5bn of bonds this week (after having only bought $1bn last week presumably due to the Monday public holiday) under its longer-term Bond Purchase Program, bringing its total purchases since commencing 'QE' to $230bn (11½% of GDP) – 10 year yields finished 3 bp lower over the course of the week

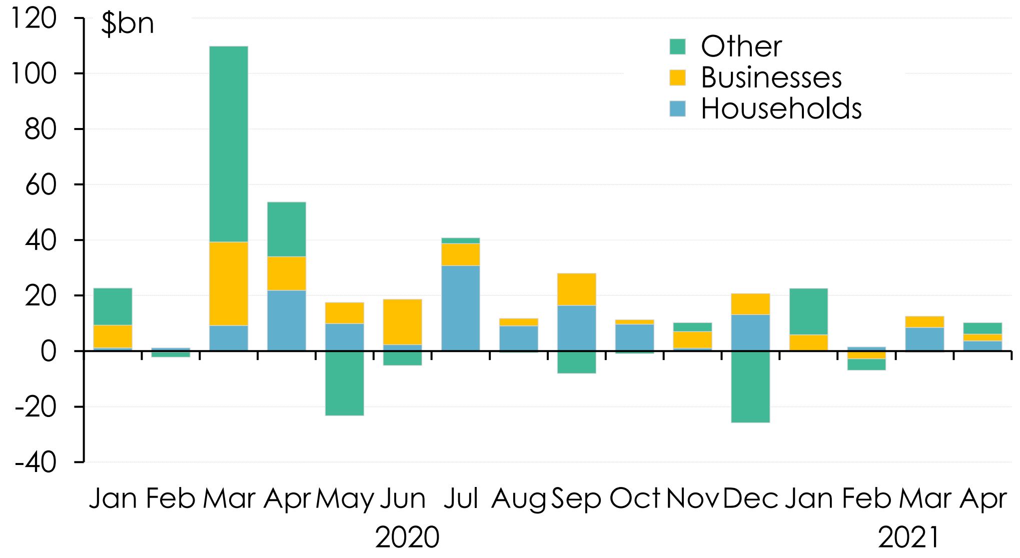
Source: Reserve Bank of Australia, *Statistical Tables* A3 and F2. Data up 25th June. Return to "What's New".

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

Business credit outstanding



Monthly change in bank deposits



- 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 last year, 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".

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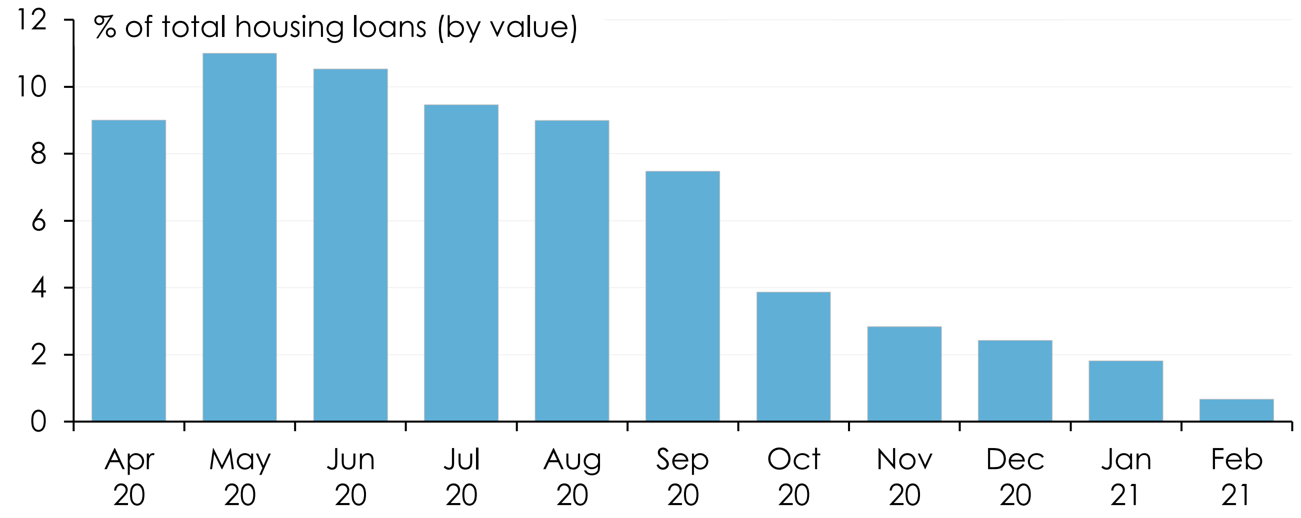
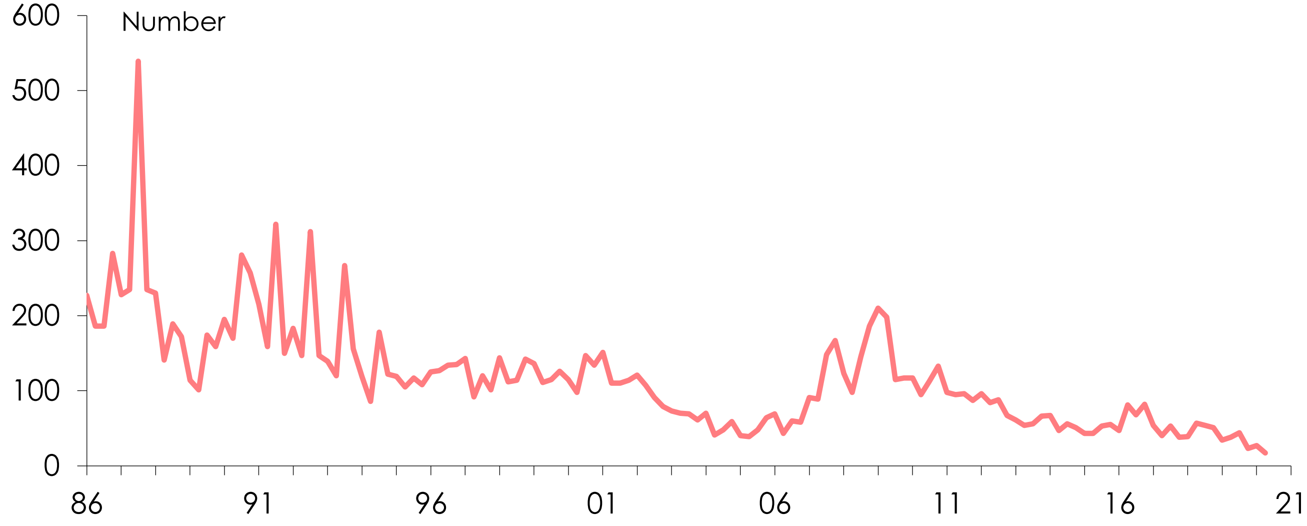
Debt service payment deferral schemes have so far been unwound very smoothly although the end of JobKeeper may see a rise in bankruptcies

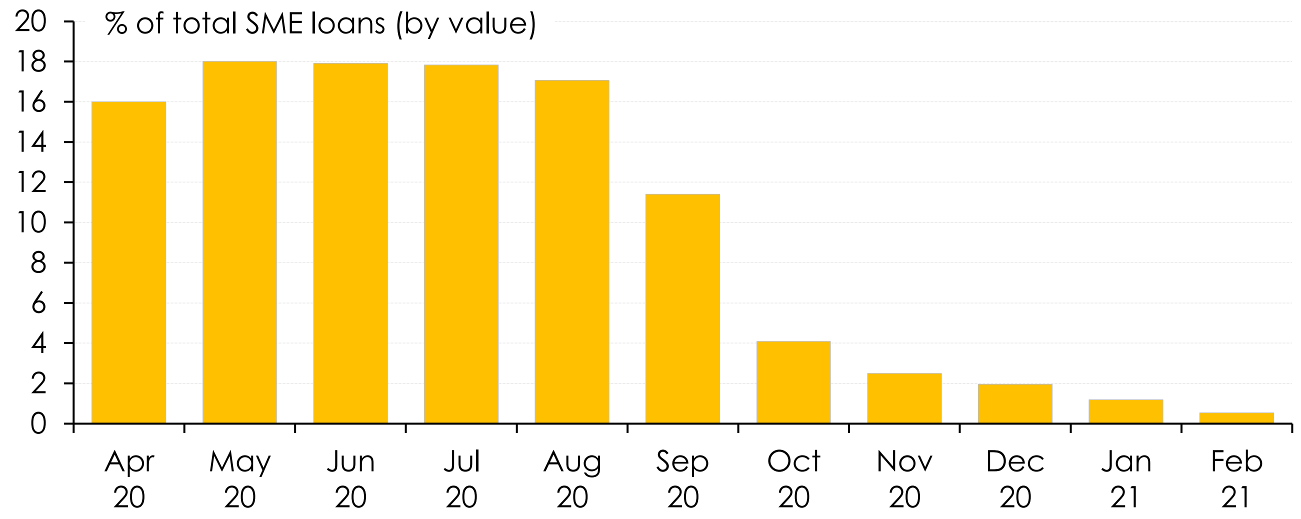
Mortgage repayment deferrals



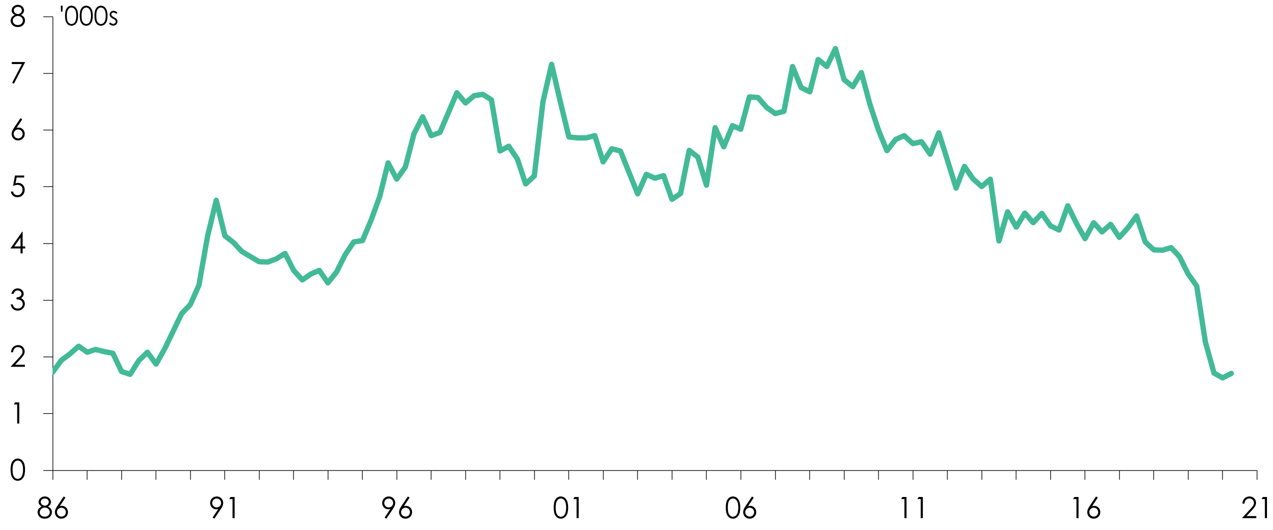
Personal insolvencies



SME loan repayment deferrals



Bankruptcies



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

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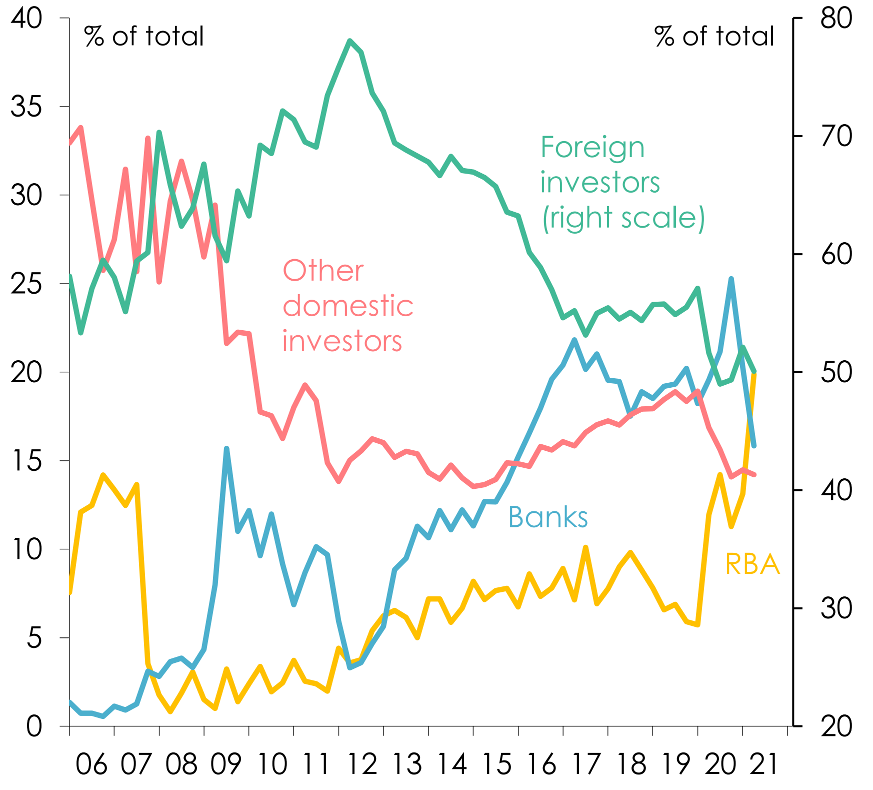
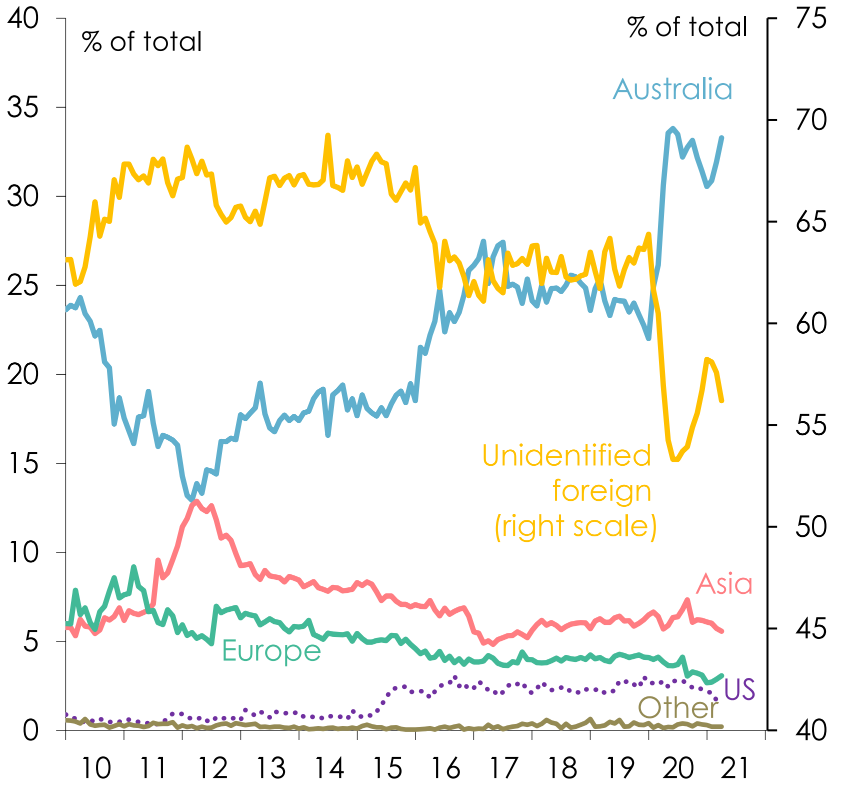
The RBA has (indirectly) absorbed almost half the increase in government debt since the end of 2019, banks 23% and foreign investors 28%

Holders of Australian Government bonds



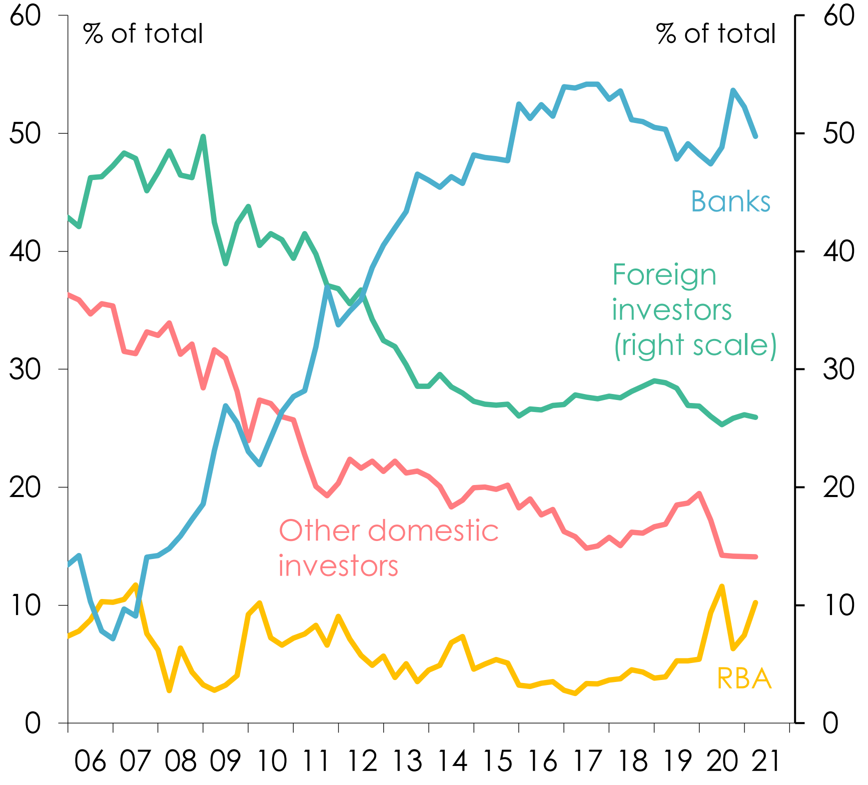
Australian Gov't bonds on issue have increased by $219bn since the end of 2019 – of which $133bn (61%) have been absorbed by the RBA, $65bn by foreigners and $20bn by banks

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 have increased by $101bn since the end of 2019, of which $54bn have been absorbed by banks, $24bn by the RBA and $23bn by foreigners

Sources: ABS, *Finance and Wealth Accounts*; Australian Office of Financial Management. June quarter data will be released on 23rd September.
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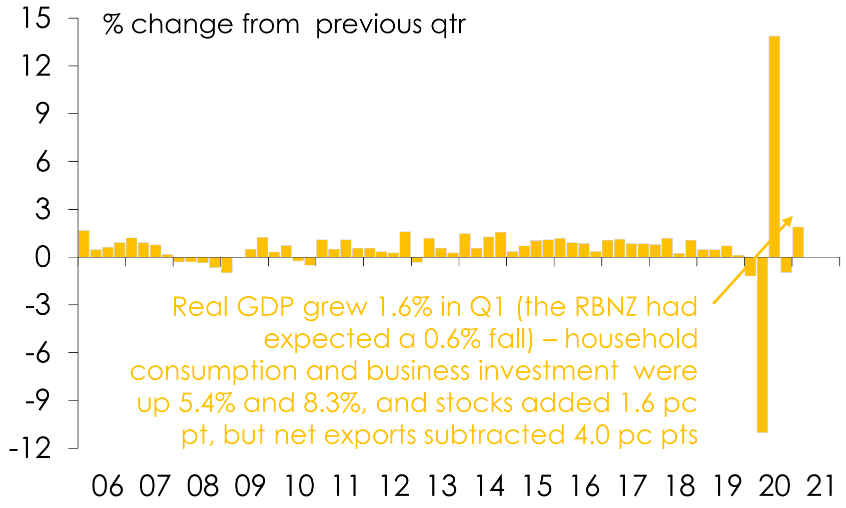
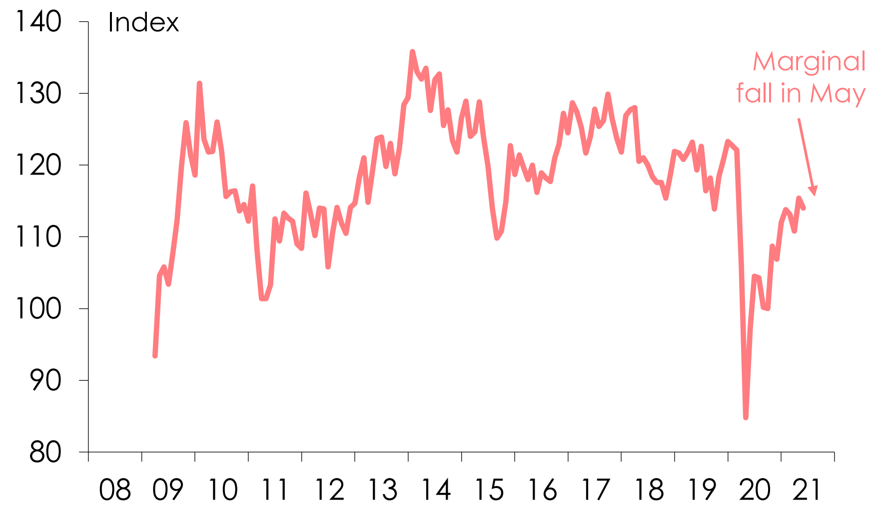
New Zealand

New Zealand's economy grew a much stronger-than-expected 1.6% in Q1 to be 1.0% above its pre-pandemic peak (in Q4 2019)

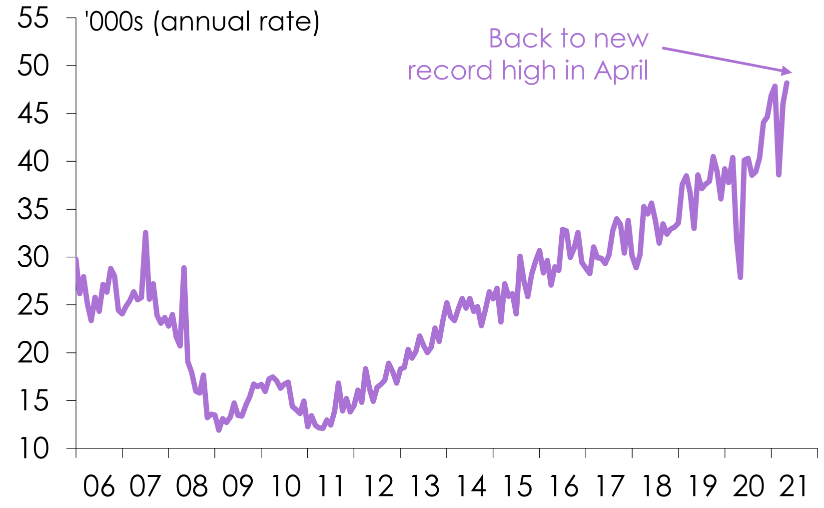
Real GDP



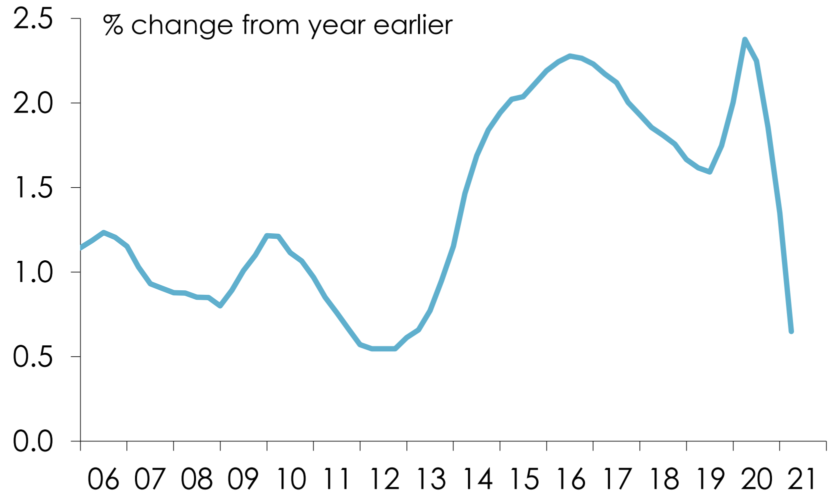
Consumer confidence



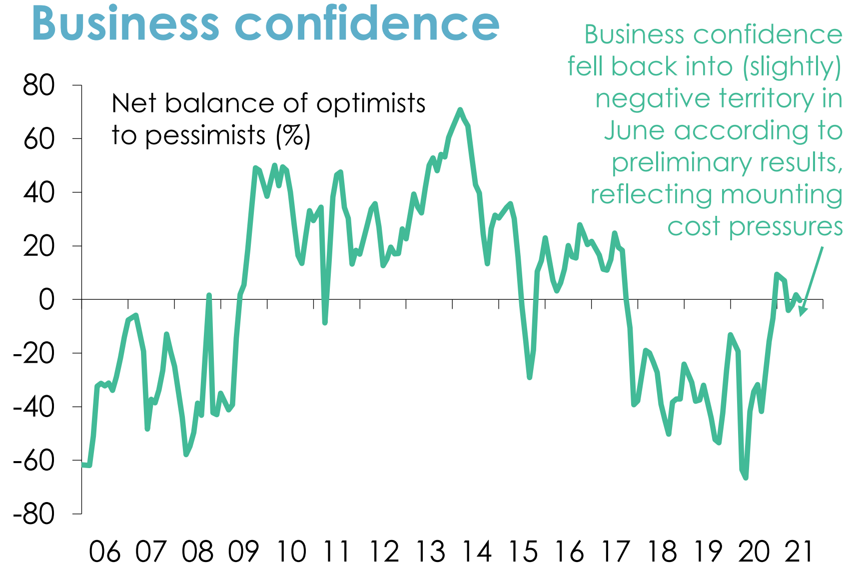
Dwelling 'consents' (permits)



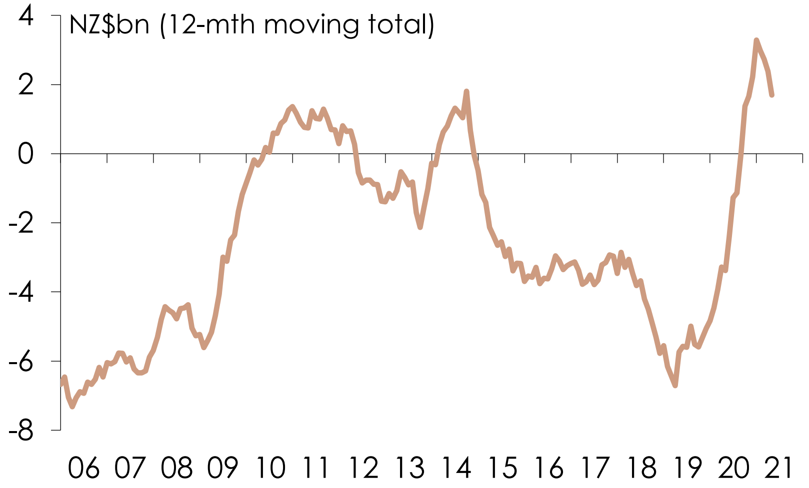
Population growth



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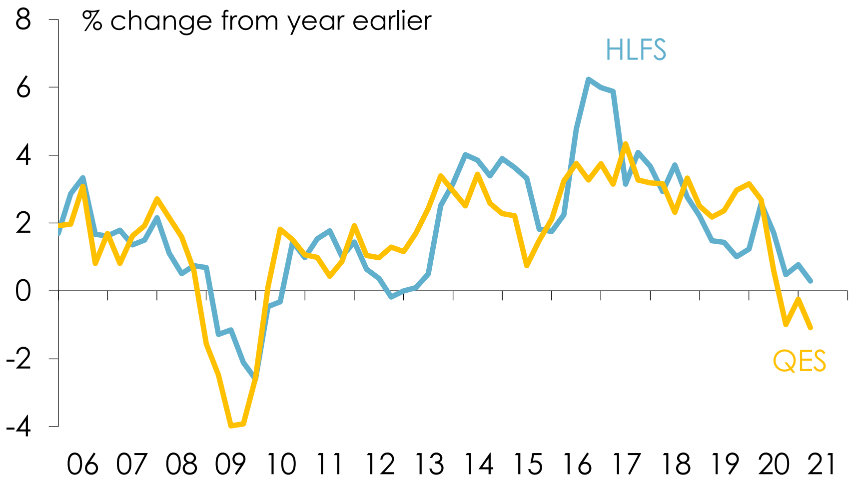
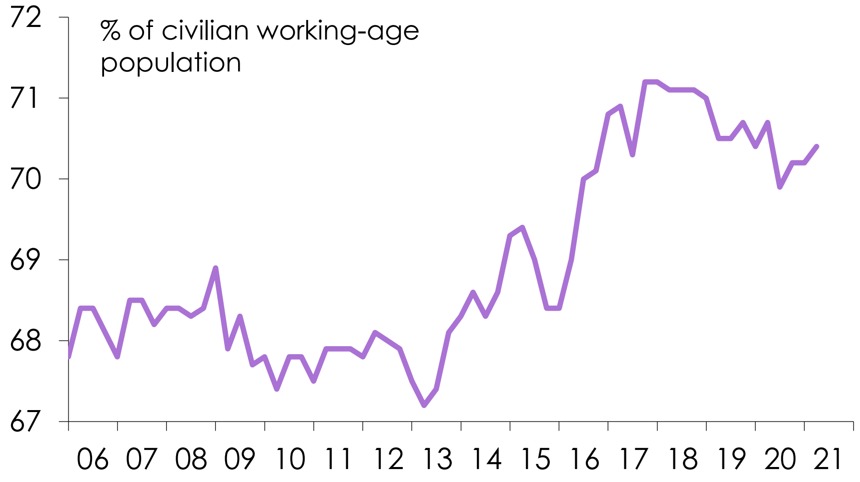
Employment rose another 0.5% in Q1 (after 0.6% in Q4 2020) to be 0.3% above its pre-pandemic peak while the unemployment rate fell to 4.7%

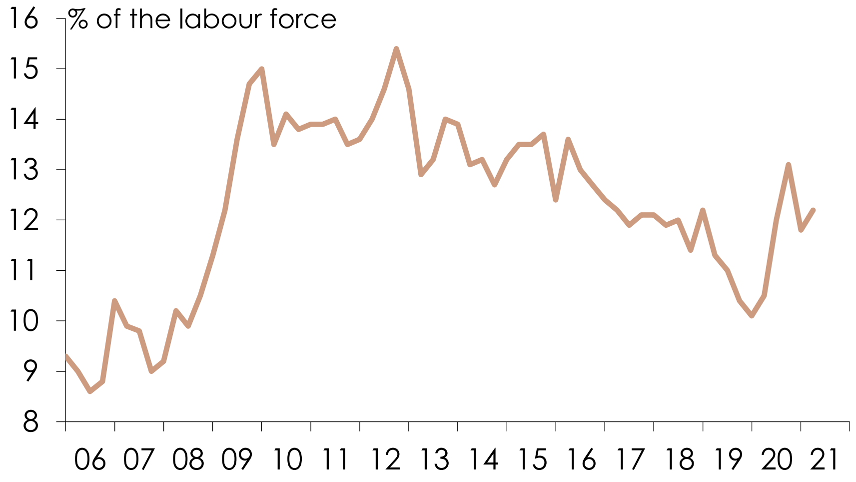
Employment



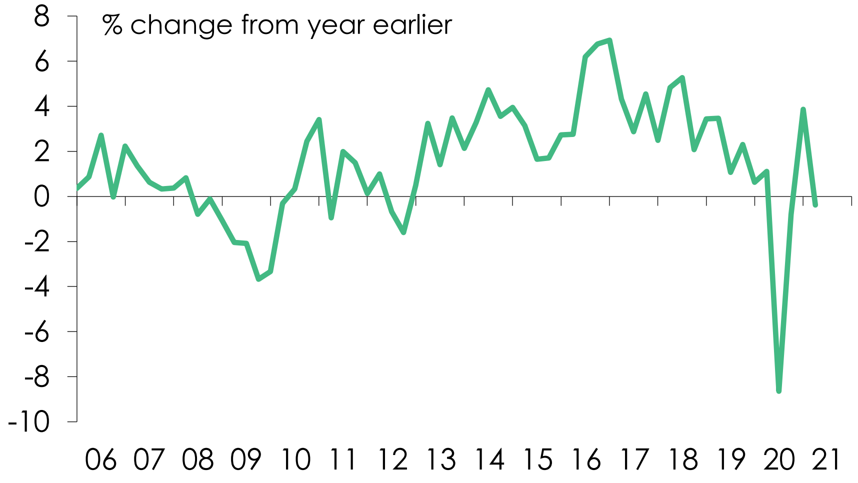
Labour force participation rate



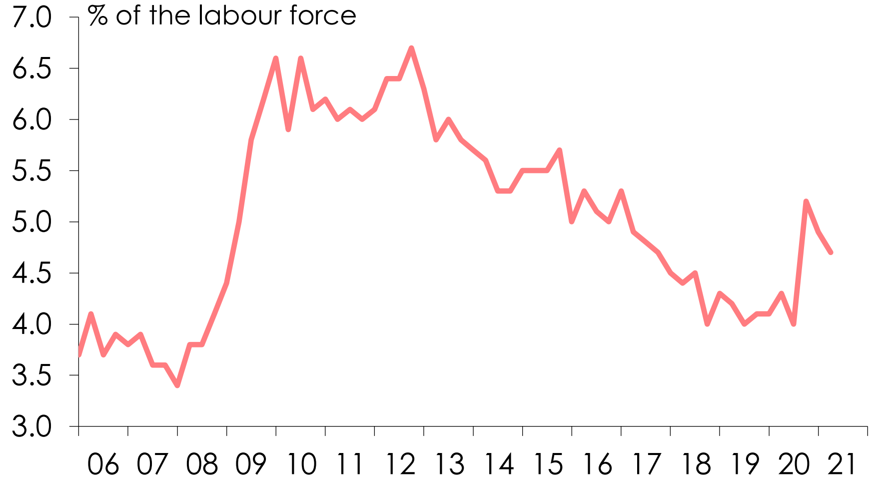
Labour force under-utilization rate



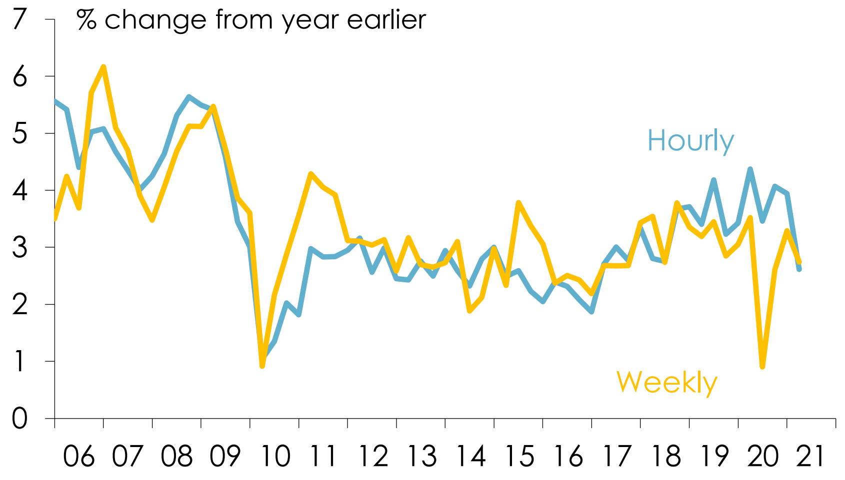
Hours worked



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".

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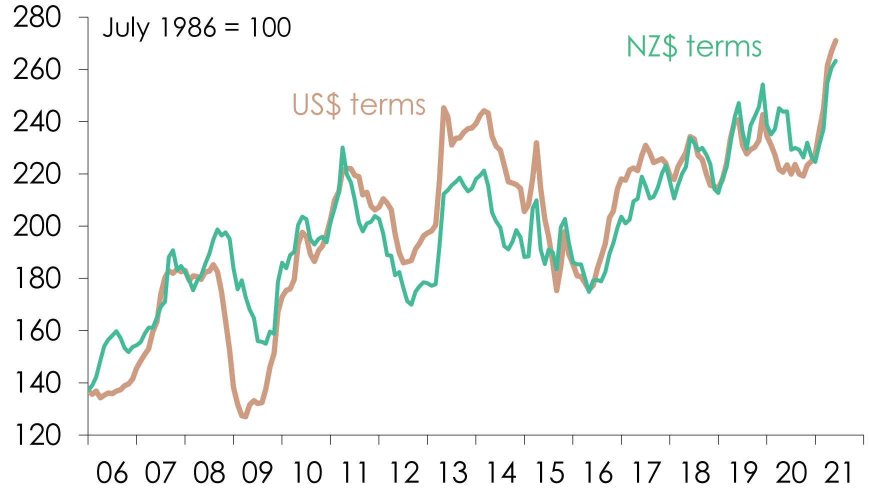
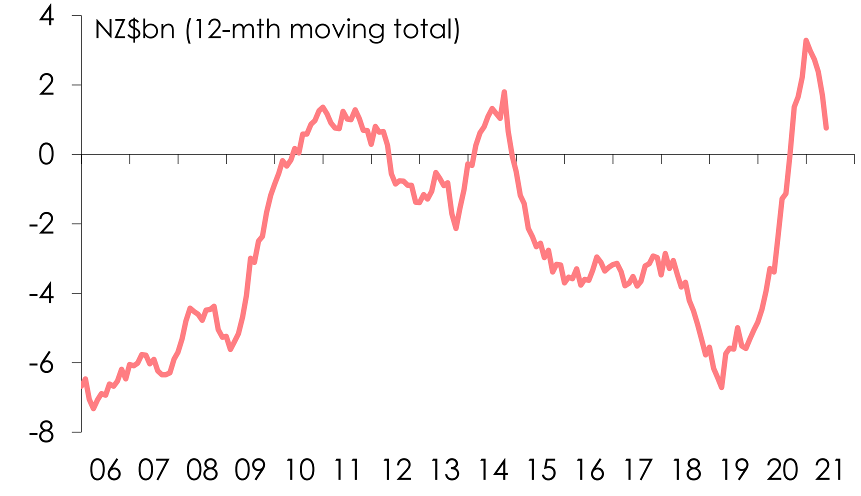
Although New Zealand's export commodity prices are at a record high, unlike Australia its current account has remained in deficit

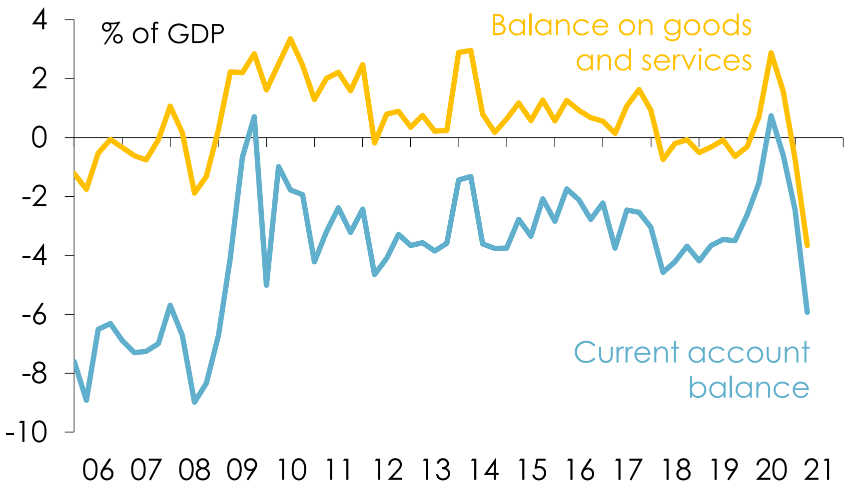
Export commodity prices



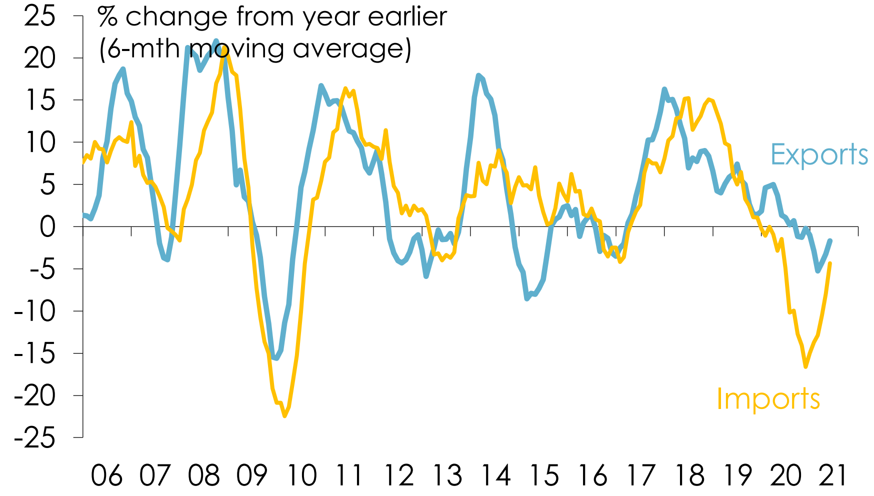
Merchandise trade balance



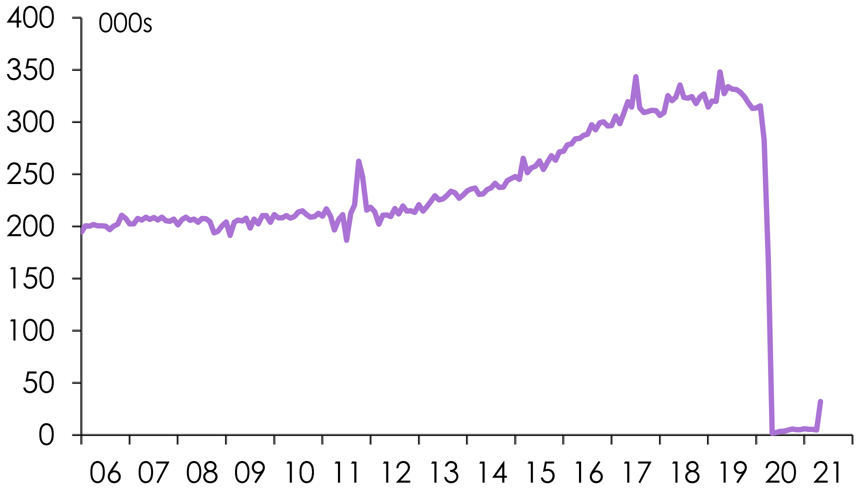
Balance of payments



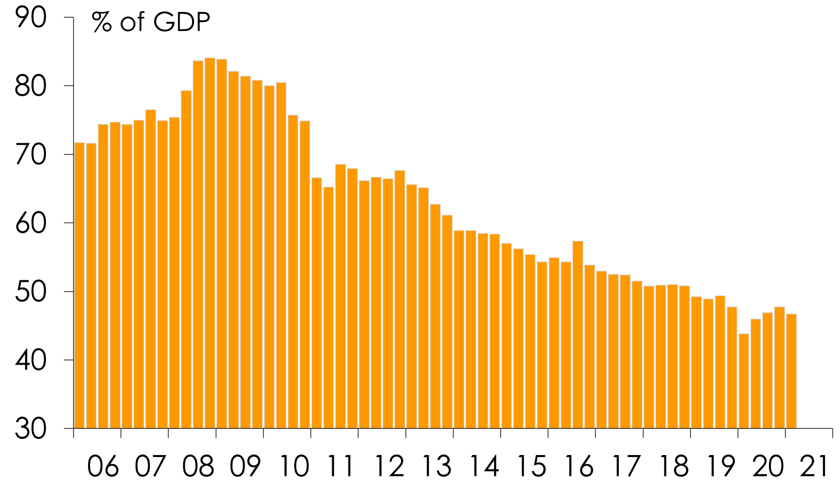
Merchandise exports and imports



Overseas visitor arrivals



Net foreign debt



Note: latest merchandise trade data is for May: June data will be released on 26th July; latest balance of payments and net foreign debt data is for the March quarter; June quarter data will be released on 15th September. *Sources:* ANZ Bank; Statistics New Zealand.

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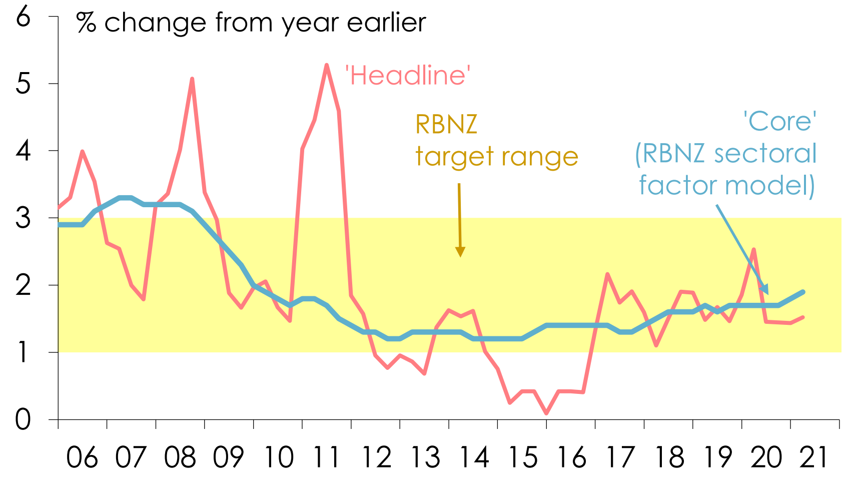
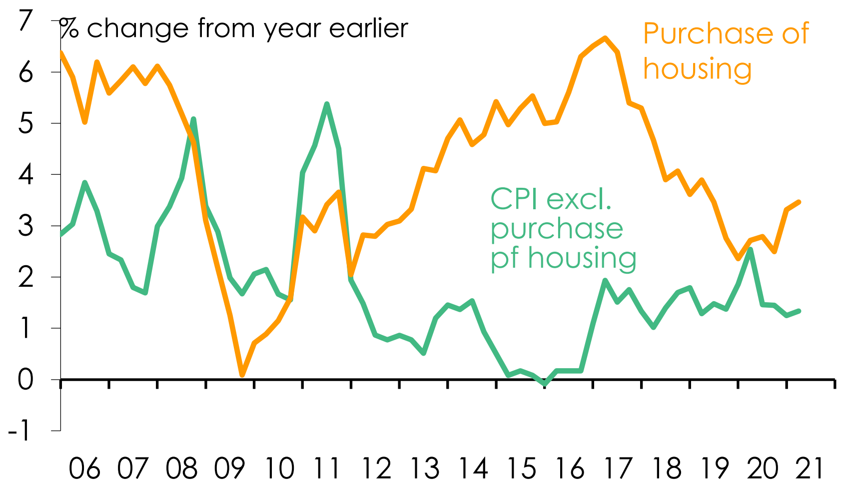
Consumer prices rose 0.8% in Q1 2021 nudging the annual 'headline' inflation rate up 0.1 pc pt to 1.5% (less than the RBNZ had expected)

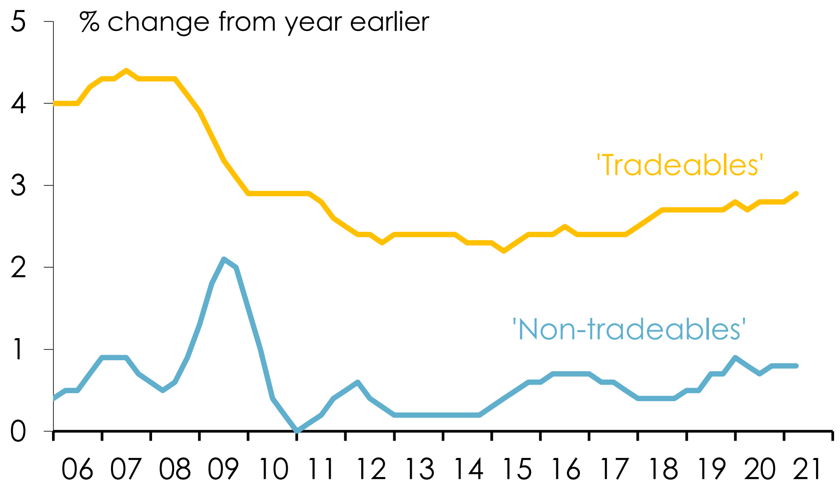
Consumer prices



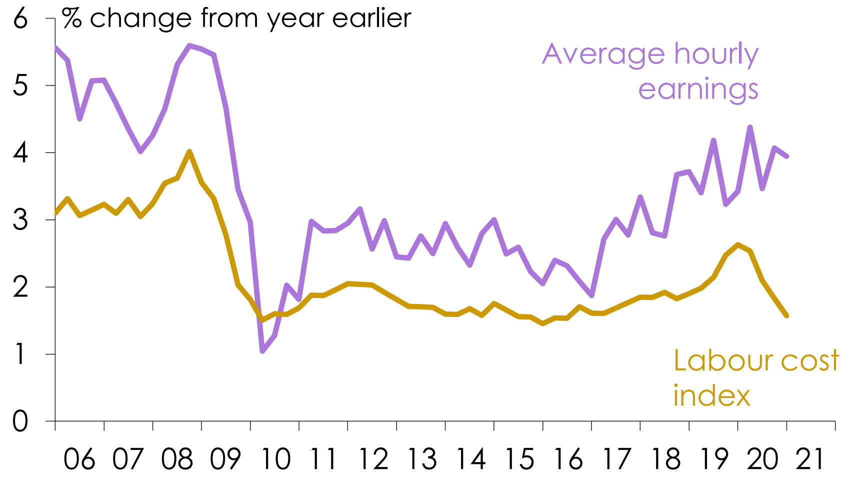
Housing costs in the CPI



Components of 'core' inflation



Labour costs



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

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

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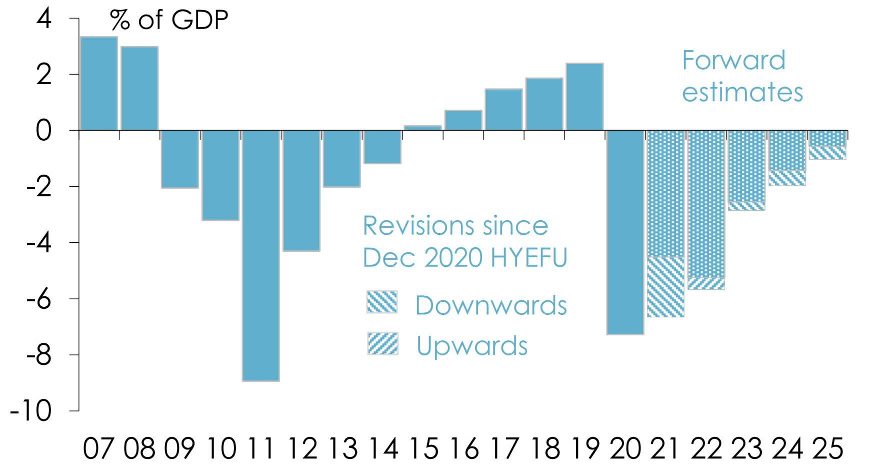
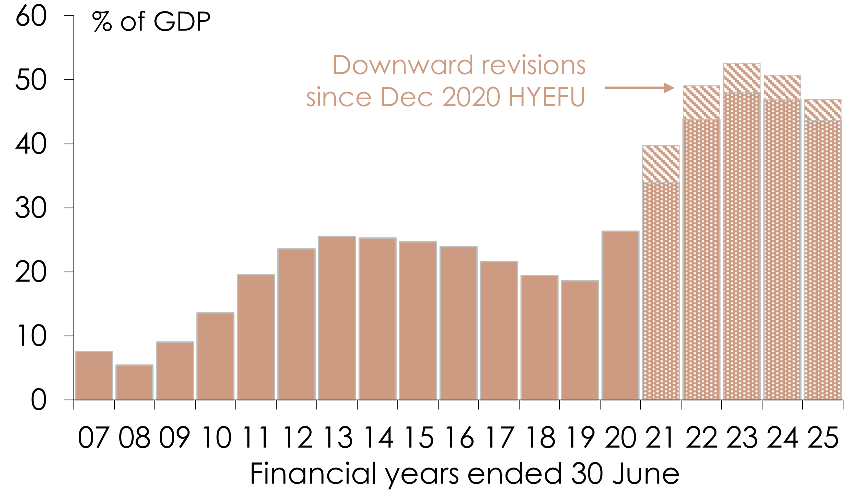
The 2021 NZ Budget uses gains from an improved economic outlook to fund additional spending as well as a slightly improved 'bottom line'

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".

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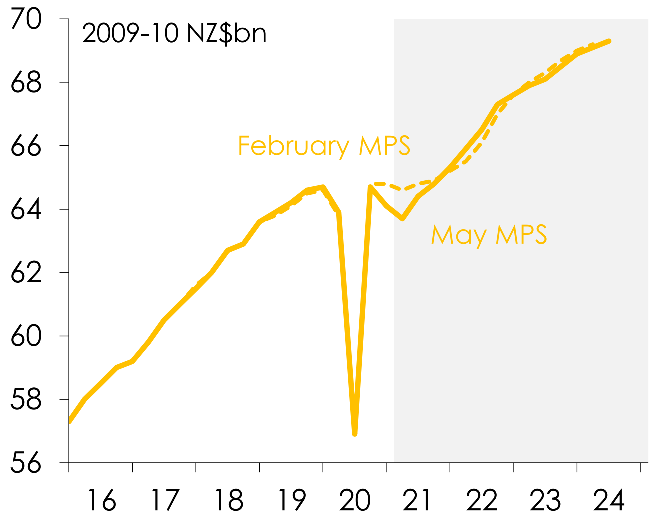
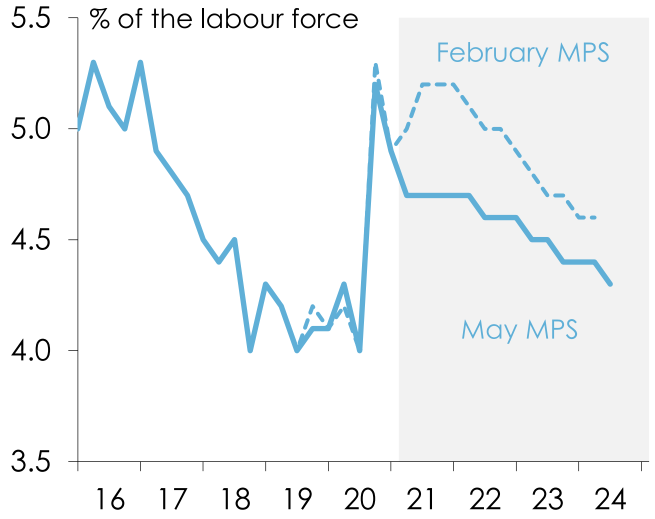
The RBNZ's Monetary Policy Committee last month kept rates on hold as expected but flagged OCR rate hikes starting in the second half of 2022

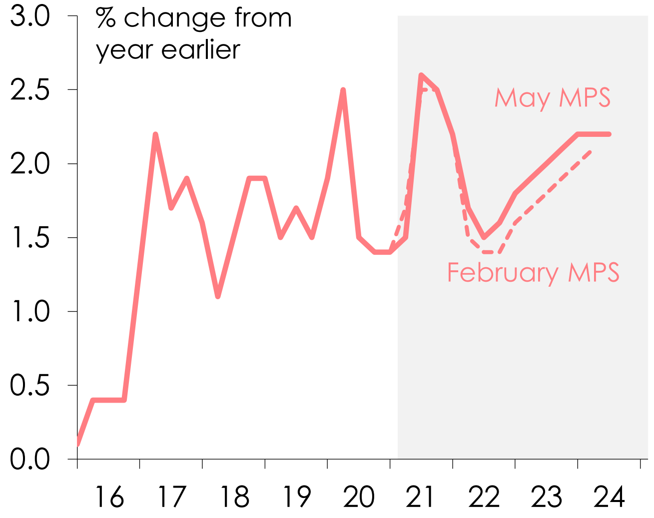
GDP



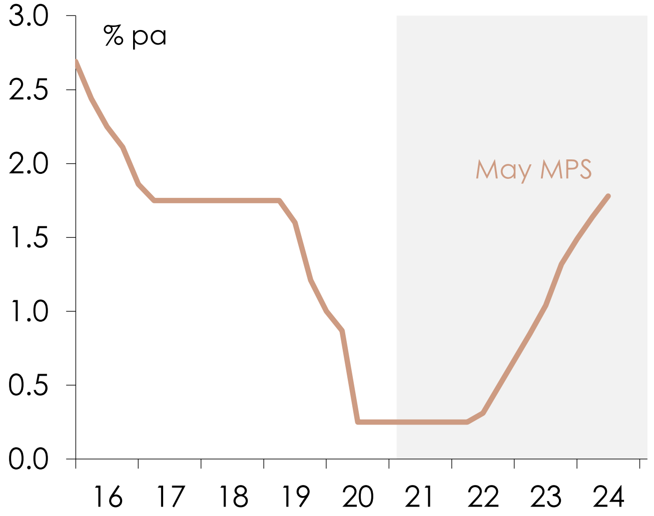
Unemployment



Inflation



Official cash rate

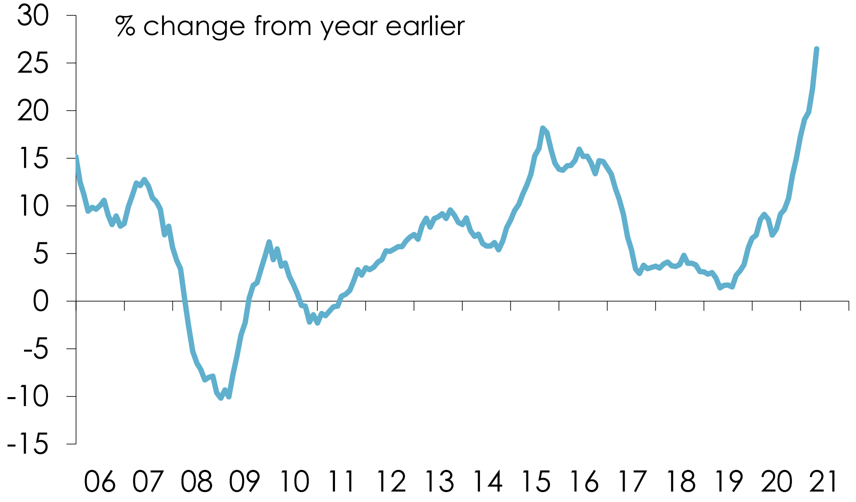


- **The RBNZ marginally downgraded its forecast for GDP growth in 2021 (from 3¾% to 3½%) largely resulting from the contraction in Q4 2020, but upgraded its 2022 forecast (from 2½% to 3½%) and lowered its unemployment rate forecasts for Q4 2021 from 5¼% to 4¾% and for Q4 2022 from 5% to just above 4½%**
- **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**

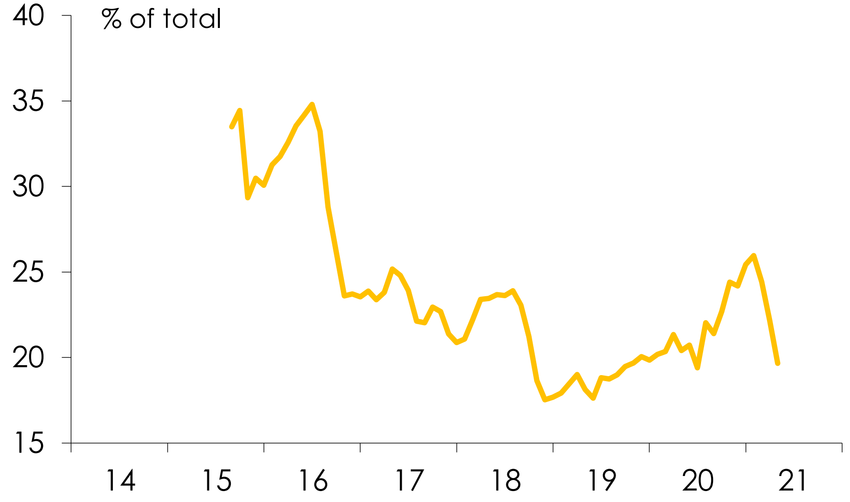
Source: Reserve Bank of New Zealand, *Monetary Policy Statement May 2021*.

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

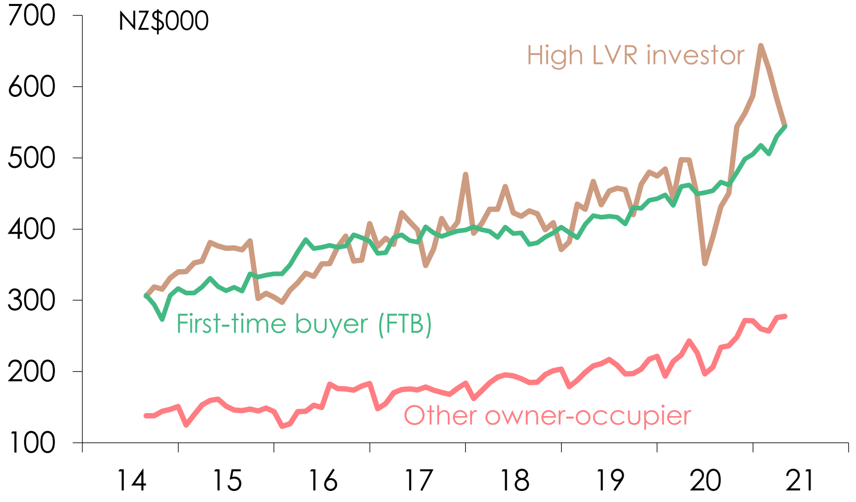
House price inflation



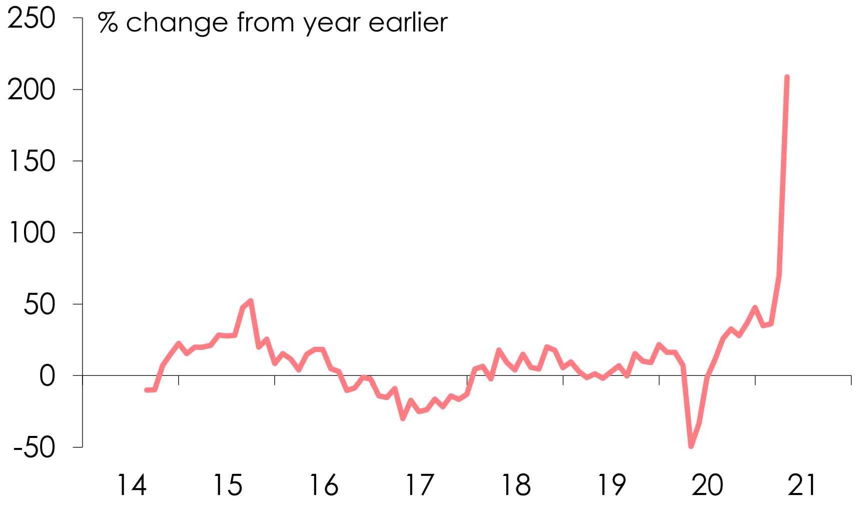
Lending to investors as pc of total



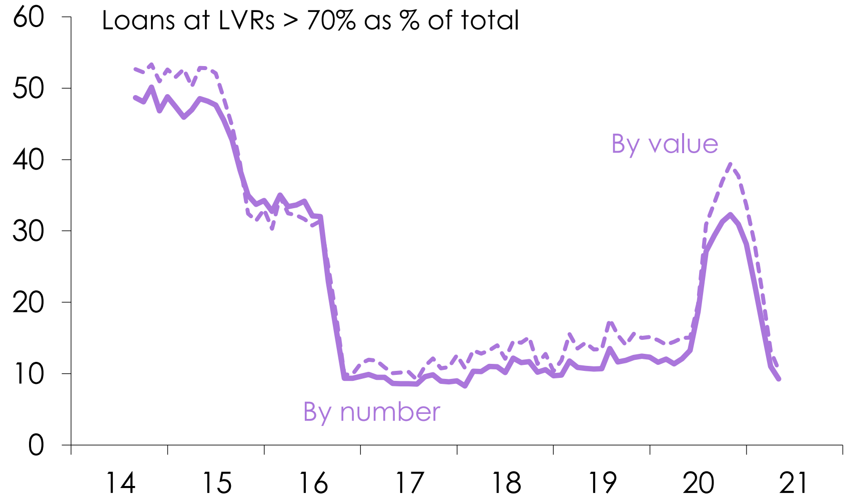
Average new mortgage



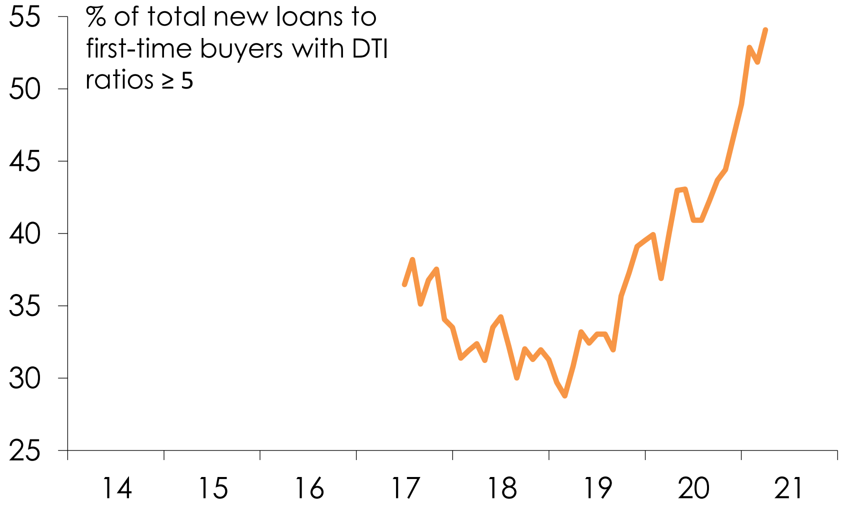
Mortgage lending growth



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".

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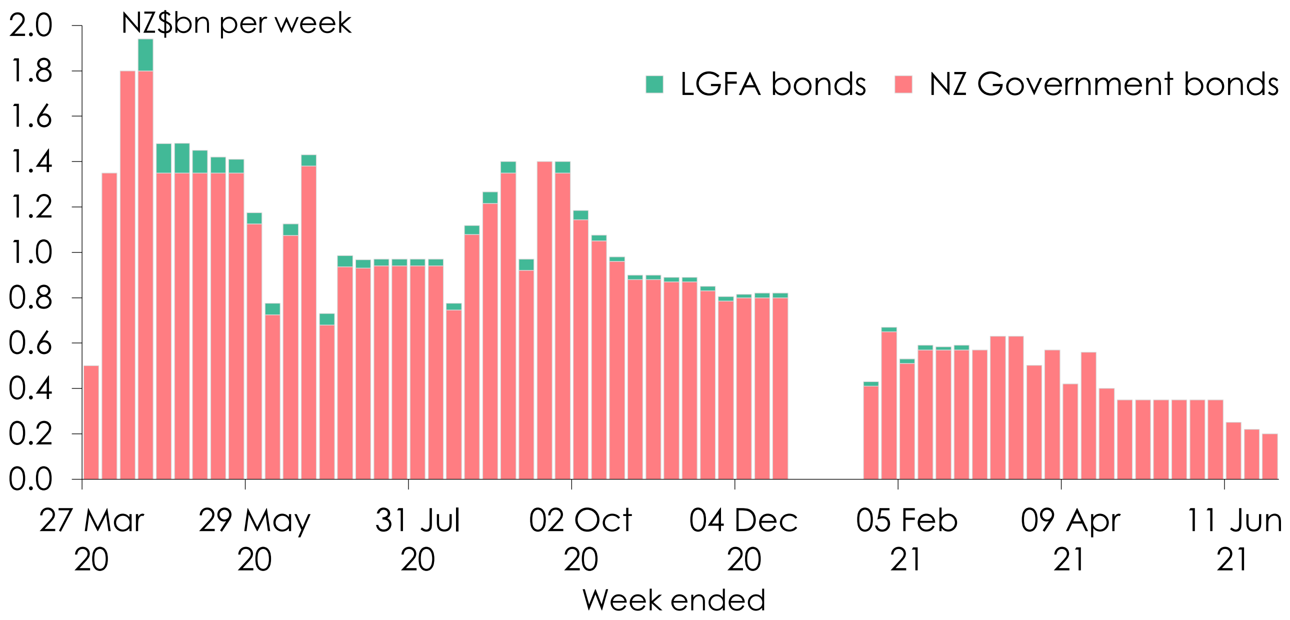
The NZ Government and the RBNZ last week added a debt-to-income limit to the RBNZ's 'macro-prudential policy tool kit'

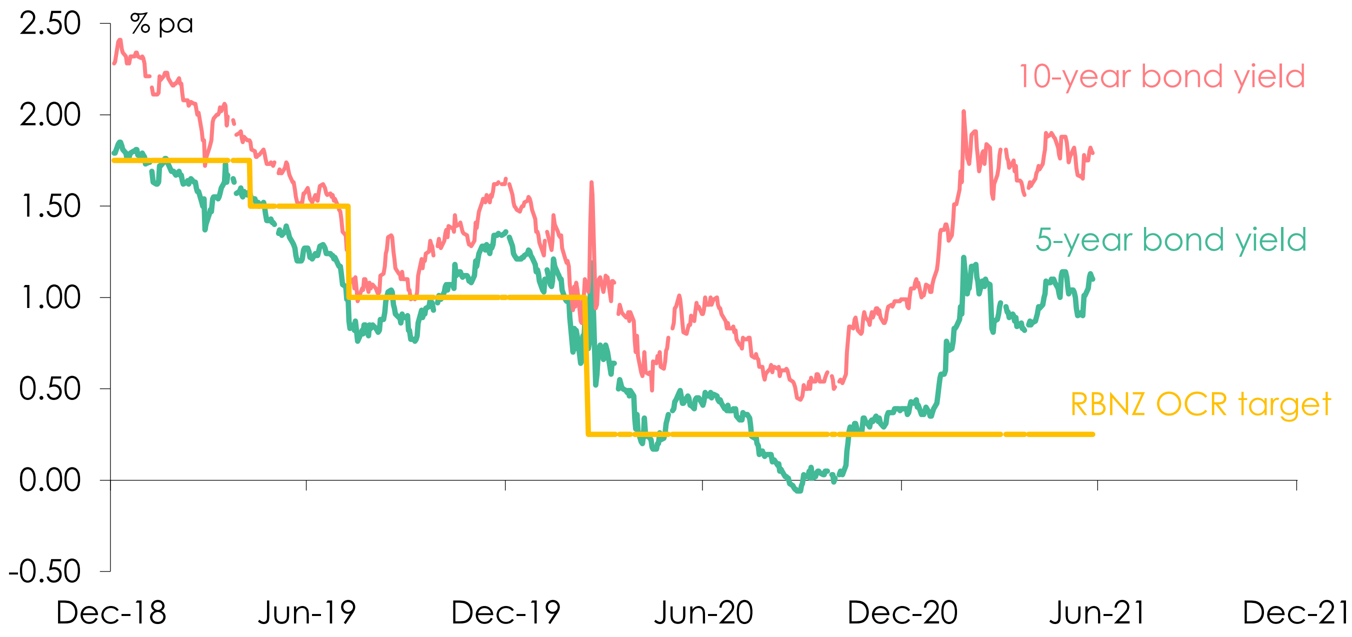
- The Finance Minister and the RBNZ last week formally added debt serviceability restrictions (such as a debt-to-income limit on the size of new mortgages) to its 'macro-prudential tool kit' (following the extension of the RBNZ's 'remit' to include house price sustainability in February)
  - the RBNZ's analysis of options suggests that s DTI limit would "primarily impact investors and higher-income owner-occupiers, who borrower at higher DTI ratios than average", and that such a limit "could be calibrated to exempt the large majority of first-home buyers" – whereas "restricting interest-only lending would be challenging to implement and enforce"
  - the Bank indicated that it will now discuss with lenders the feasibility of implementing such a tool, although that "does not indicate that [it has] any immediate plans to implement [it]"
- This step comes after a series of tax policy and other measures announced by the Government in March designed to dampen investor demand for housing and encourage stronger growth in new dwelling construction …
  - 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
- … and the tightening of restrictions on high-LVR lending 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)

The RBNZ continued to 'taper' its bond purchase program this week, and bond yields rose further at both the short and long ends

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 continued the apparent 'tapering' of its asset purchase program, buying only $200mn of bonds this week, the third successive week in which it has reduced its purchases**
  - **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"**
- **Bond yields at all points on the curve rose further this week, as markets price in an earlier move away from current record low interest rates than previously anticipated, following last month's MPC meeting and last week's stronger-than-expected Q1 GDP number**

Note: LGFA = Local Government Financing Authority. *Source:* Reserve Bank of New Zealand, Statistics Tables B2 and D3. Data up to 25th June. Return to "What's New".

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Important information

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Corinna Economic Advisory is a partner (with Llewellyn Consulting, of 1 St Andrews Hill, London EC4V 5BY) in Independent Economics.

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