

ECONOMIC IMPACT OF THE CORONAVIRUS PANDEMIC

10TH JULY 2021

SAUL ESLAKE

CORINNA ECONOMIC ADVISORY

What's new?

The world

- ❑ 2.92 mn new Covid-19 cases were recorded this week, the second successive increase, but the death toll has continued to decline ([slide 4](#))
- ❑ South America accounted for 25% of this week's new cases, but new infections have risen rapidly in Europe (which recorded 19% of all new cases this week) and are continuing to rise in South-East Asia (12% of this week's cases) while falling in India ([slide 5](#))
- ❑ A (belated) re-examination of the OECD's latest forecasts (issued a month ago) shows they think that this year's US-led growth surge will prove temporary, in large part because there seems little prospect of any improvement in investment or productivity growth ([slides 26-27](#))
- ❑ The European Central Bank this week re-calibrated its monetary policy framework, changing its inflation target from "below, but close to 2%" to simply "2%", emphasizing that this was a "symmetrical target", that the ECB would tolerate a "transitory period" of moderately above-target inflation, and that it would also have regard to movements in house prices ([slide 34](#))
- ❑ Financial market fears of a sustained acceleration in US inflation appear to be receding, at least for now ([slide 68](#)), prompting a large decline in longer-term bond yields ([slides 42](#) and [136](#))
- ❑ The surge in China's producer prices may have crested in June, while consumer price inflation remains low and stable ([slide 47](#))
- ❑ Indonesia's central bank's bond holdings have risen by more than 50% over the past four weeks, as domestic banks sell down part of their holdings ([slide 61](#))

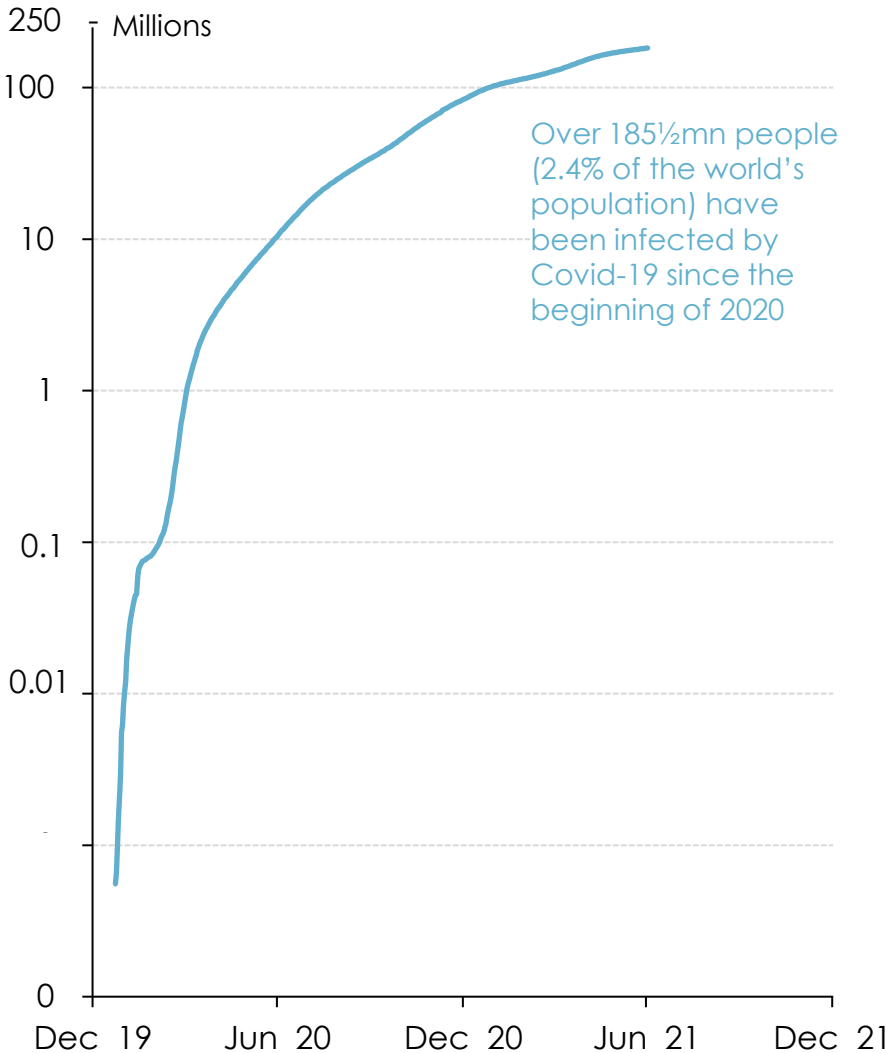
Australia

- ❑ Australia recorded 270 new Covid-19 cases this week, the highest number since mid-September, with 229 of them 'locally acquired' ([slide 7](#))
- ❑ 212 of this week's 'locally acquired' infections were in NSW, prompting that state to tighten and extend the 'lockdown' in the 'Greater Sydney' metropolitan area for at least another week ([slide 8](#))
- ❑ Australia's vaccination rate is picking up, but remains well behind other 'advanced' economies ([slides 14](#) and [16-17](#))
- ❑ Australia continues to have the highest rate of 'vaccine hesitancy' among any of 12 'advanced' economies ([slide 19](#))
- ❑ The RBA left its cash rate unchanged at 0.1% at this week's Board meeting (as expected), but foreshadowed a 'tapering' of its longer-term bond purchase program after end-September, and appeared to acknowledge that the first rate increase could occur before 2024, although 2024 remains its 'central scenario' ([slide 135](#))
- ❑ The RBA Governor this week pointed to the large number of immigrants on temporary visas as one of a number of factors contributing to persistently low wage growth in the years leading up to the onset of the pandemic ([slide 102](#))
- ❑ Retail sales rose 0.4% in May, despite a drag from Victoria's lockdown – while new motor vehicle sales plunged 25% in June (normally a strong month because of end-of-financial-year sales) ([slide 109](#))
- ❑ Residential building approvals fell 7% in May, after a 5¾% fall in April, but remain at historically high levels – in particular approvals for detached dwellings and renovations are close to all-time highs ([slide 114](#))
- ❑ China's Foreign Ministry this week openly acknowledged that it was targeting imports from Australia for 'political' reasons ([slides 119-120](#))

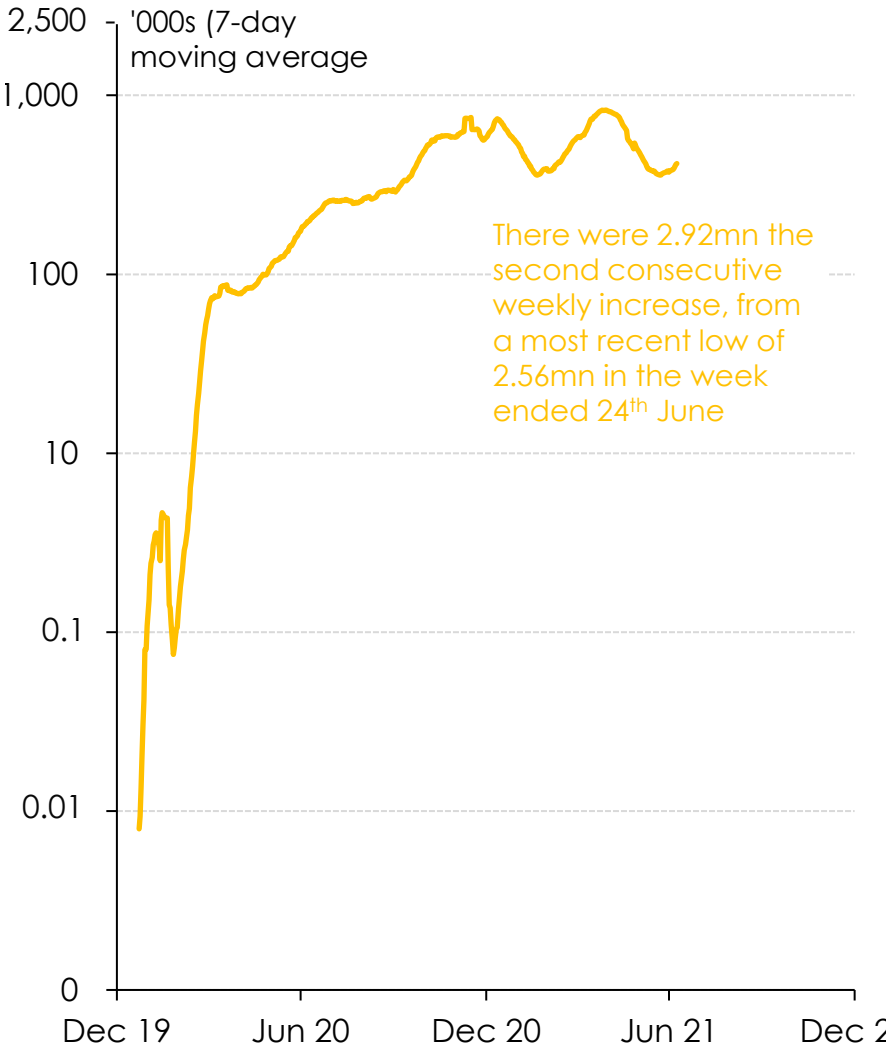
The virus

The world-wide number of new infections rose again this week, the second week in a row, but the number of deaths is continuing to decline

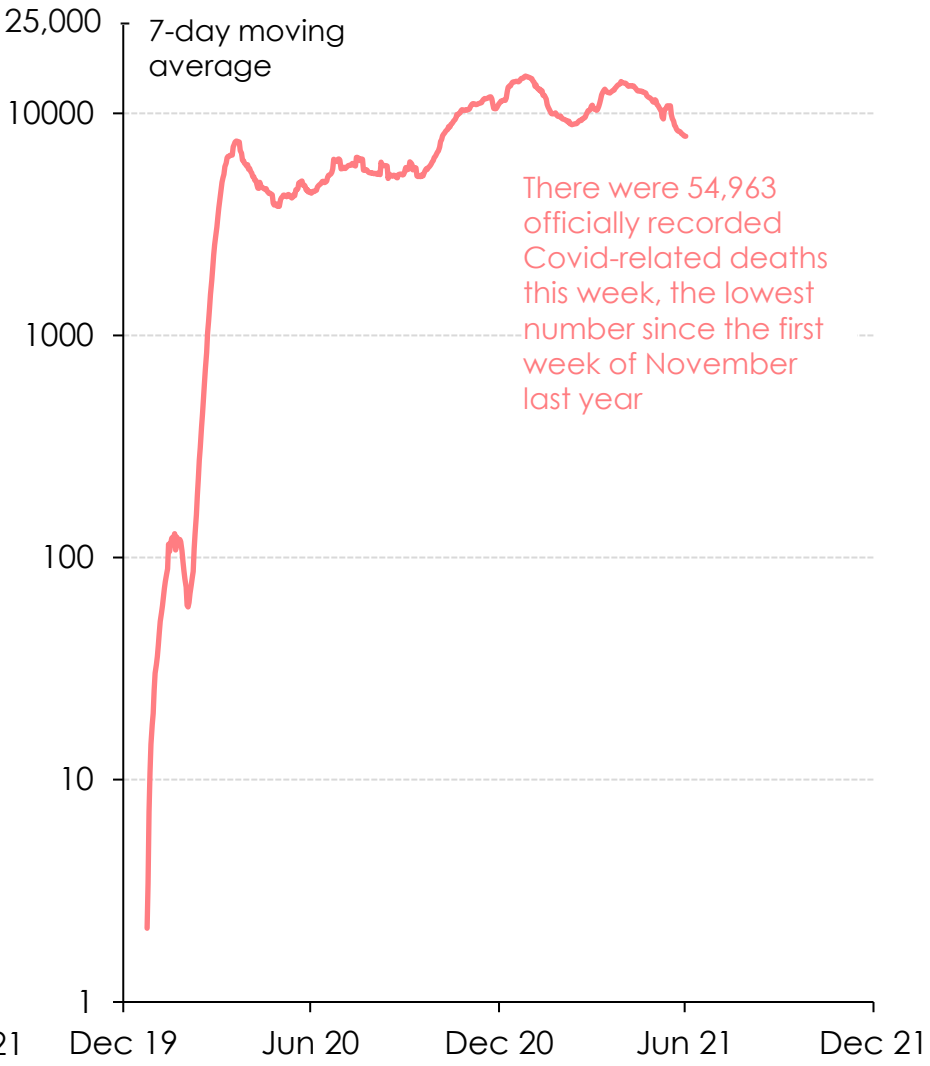
Cumulative confirmed cases – global total



New confirmed cases – global total



New deaths – global total



Note: All charts are on logarithmic scales. Data up to 8th July. 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"](#).

25% of this week's new cases were in South America, 19% in Europe, 12% in SE Asia, 9½% in Africa, 8¼% in the Middle East and 3¾% in the US

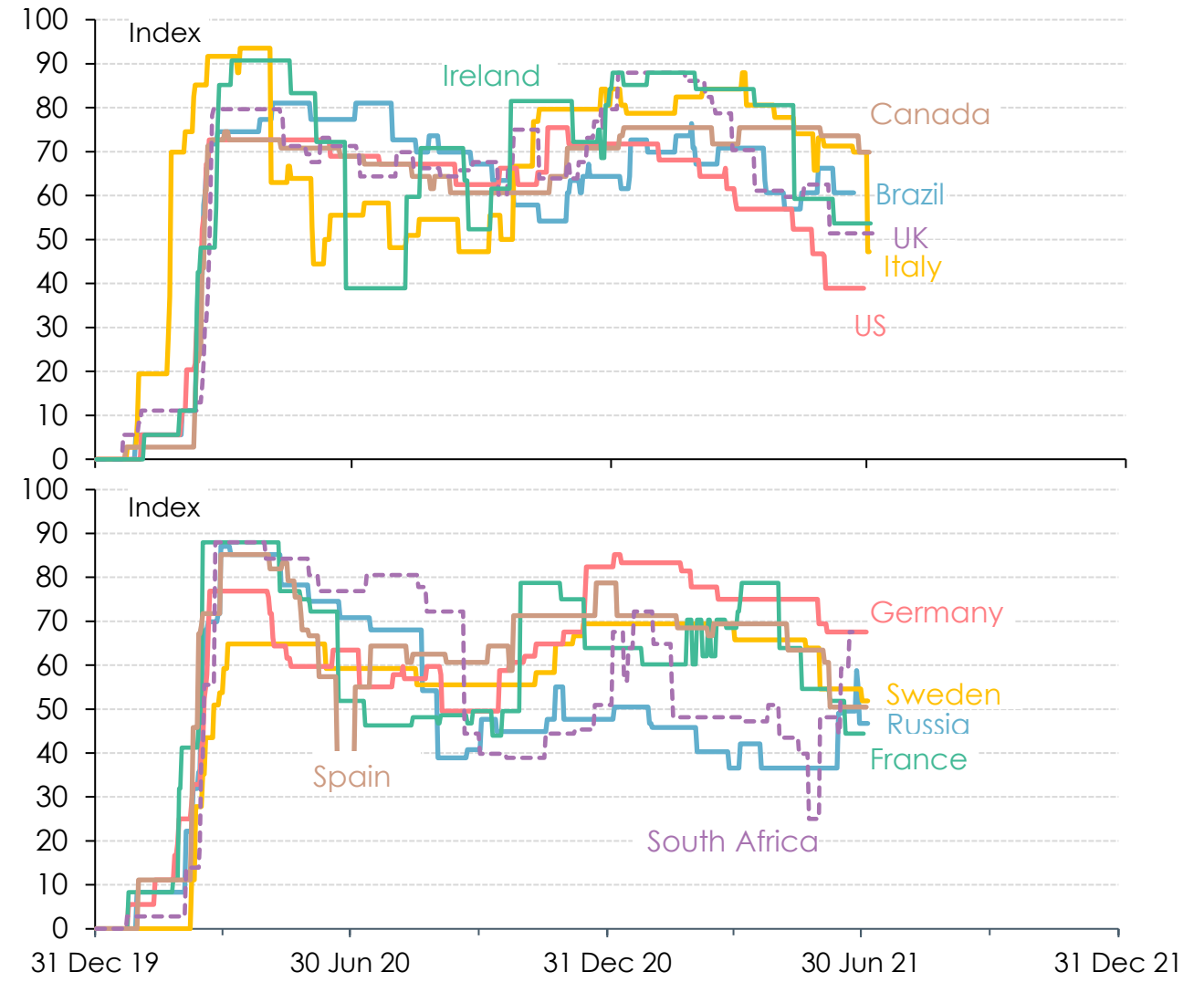
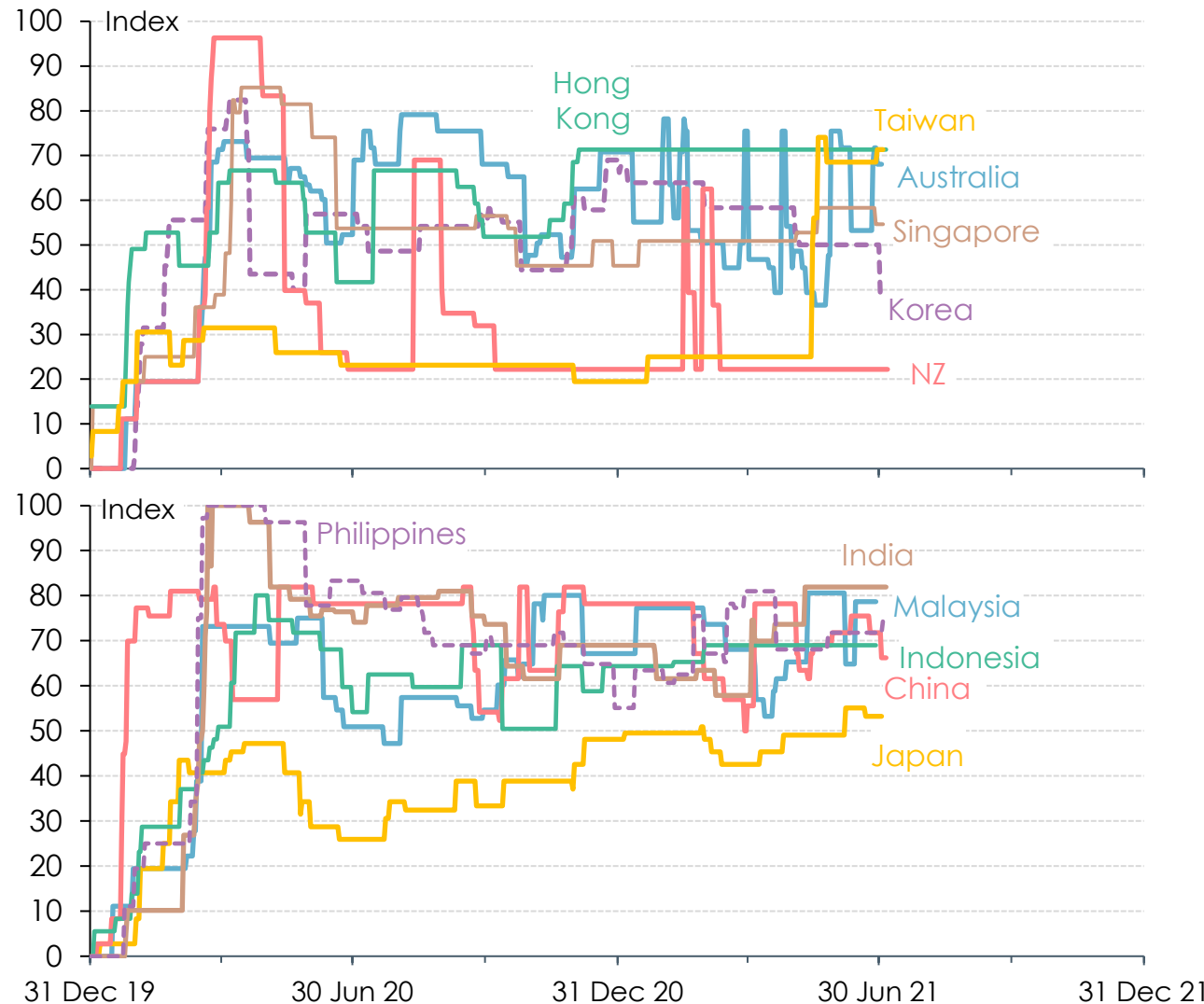
Daily new cases – selected countries with large populations and/or rapid growth in cases



Note: All charts are on logarithmic scales. Data up to 8th July. Source: University of Oxford, [Our World in Data](#); Corinna. [Return to "What's New"](#).

Restrictions have been gradually easing in Europe and the US as case numbers ebb, but remain tight in Asia where infections have been rising

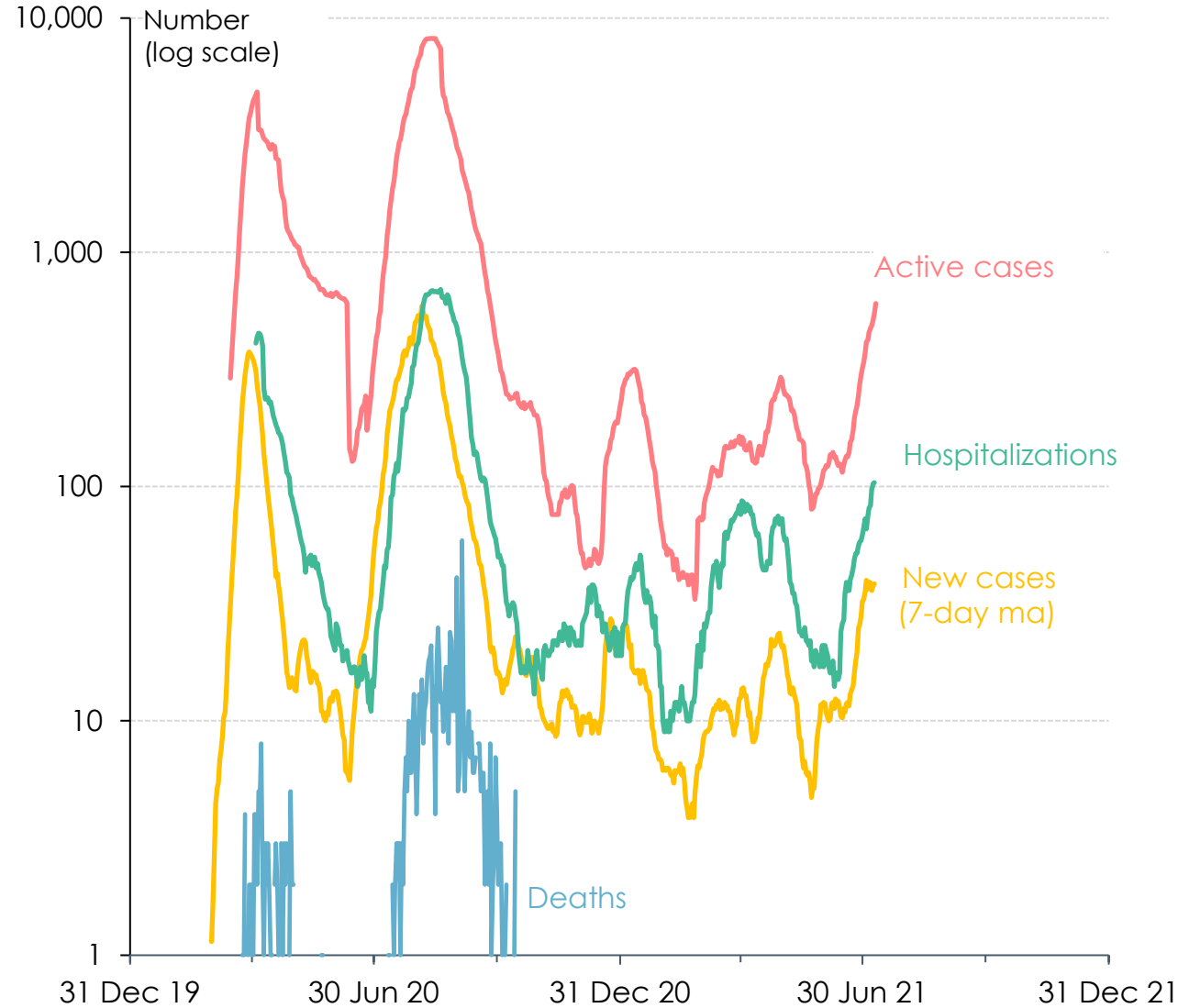
Timing and severity of government restrictions on movement and gathering of people



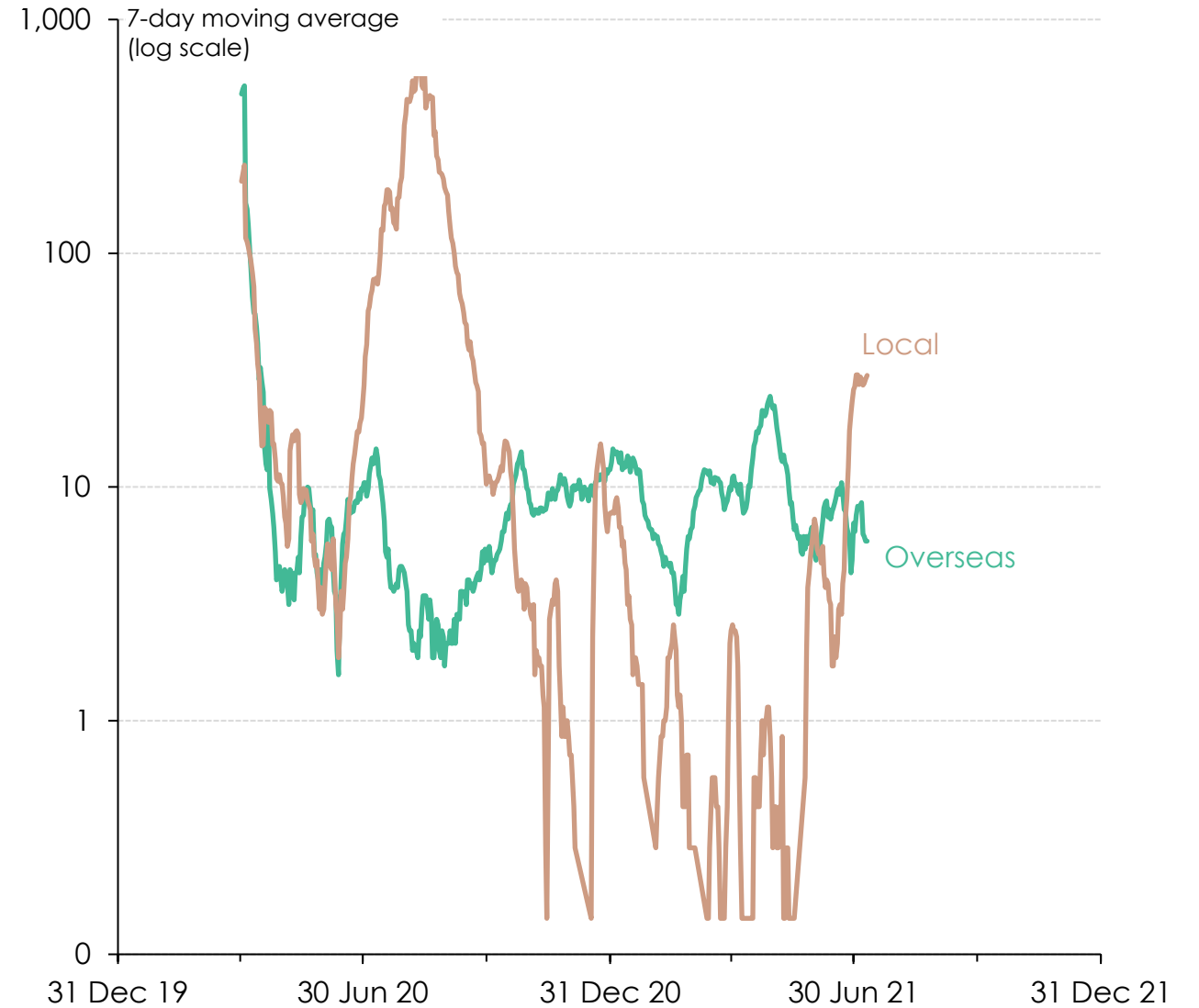
The Oxford COVID-19 Government Response Tracker collects publicly available information on 11 indicators of government response including school & workplace closures, public events cancellations, restrictions on public gatherings, stay at home requirements, public transport closures, domestic & international travel restrictions, public information campaigns, testing and contact tracing. Source: [Blavatnik School of Government, Oxford University](#). Data up to 2nd - 7th July, except for Brazil, 21st June, South Africa, 24th June, and Indonesia, Malaysia and US, 28th June. [Return to "What's New"](#).

Australia recorded 270 new cases this week, the highest number since September last year – and 229 of them were ‘locally acquired’

Cases, recoveries, hospitalizations and deaths



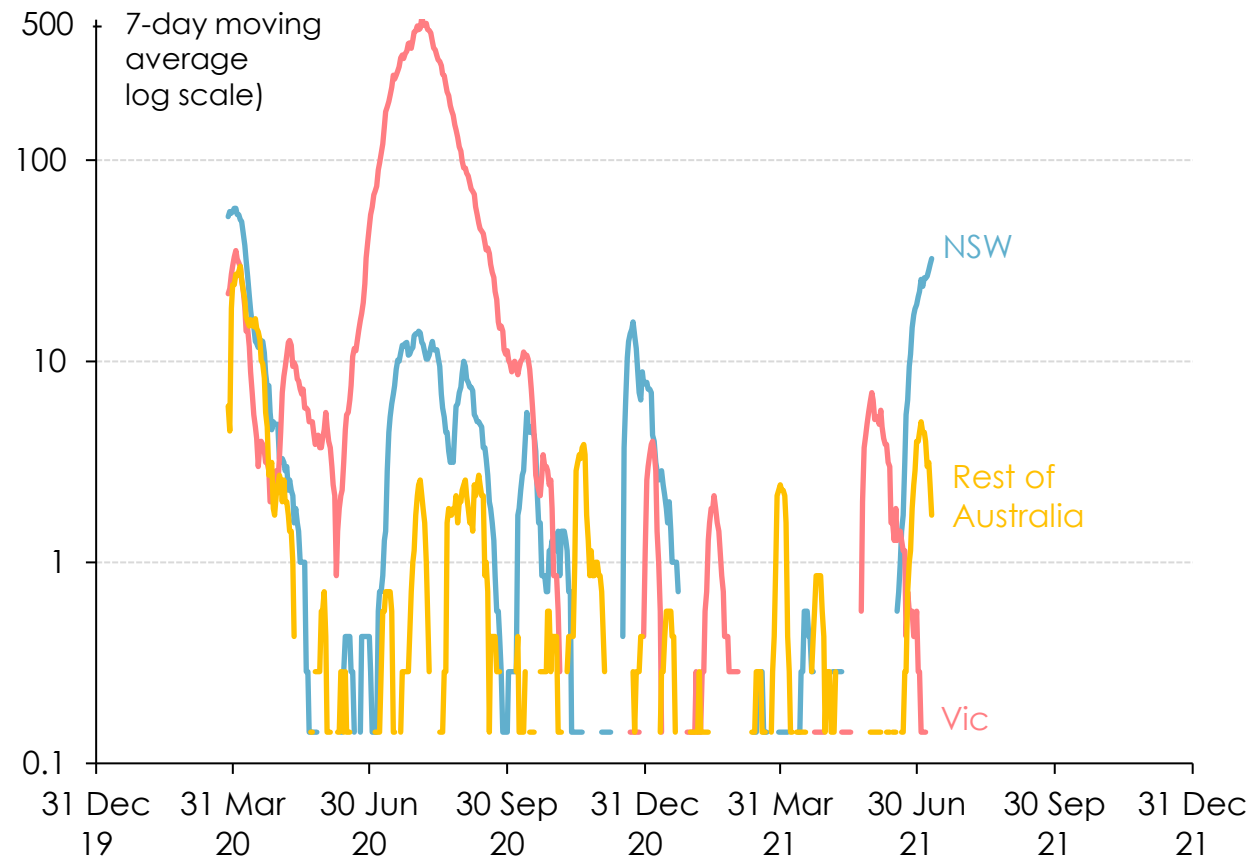
New cases, by source



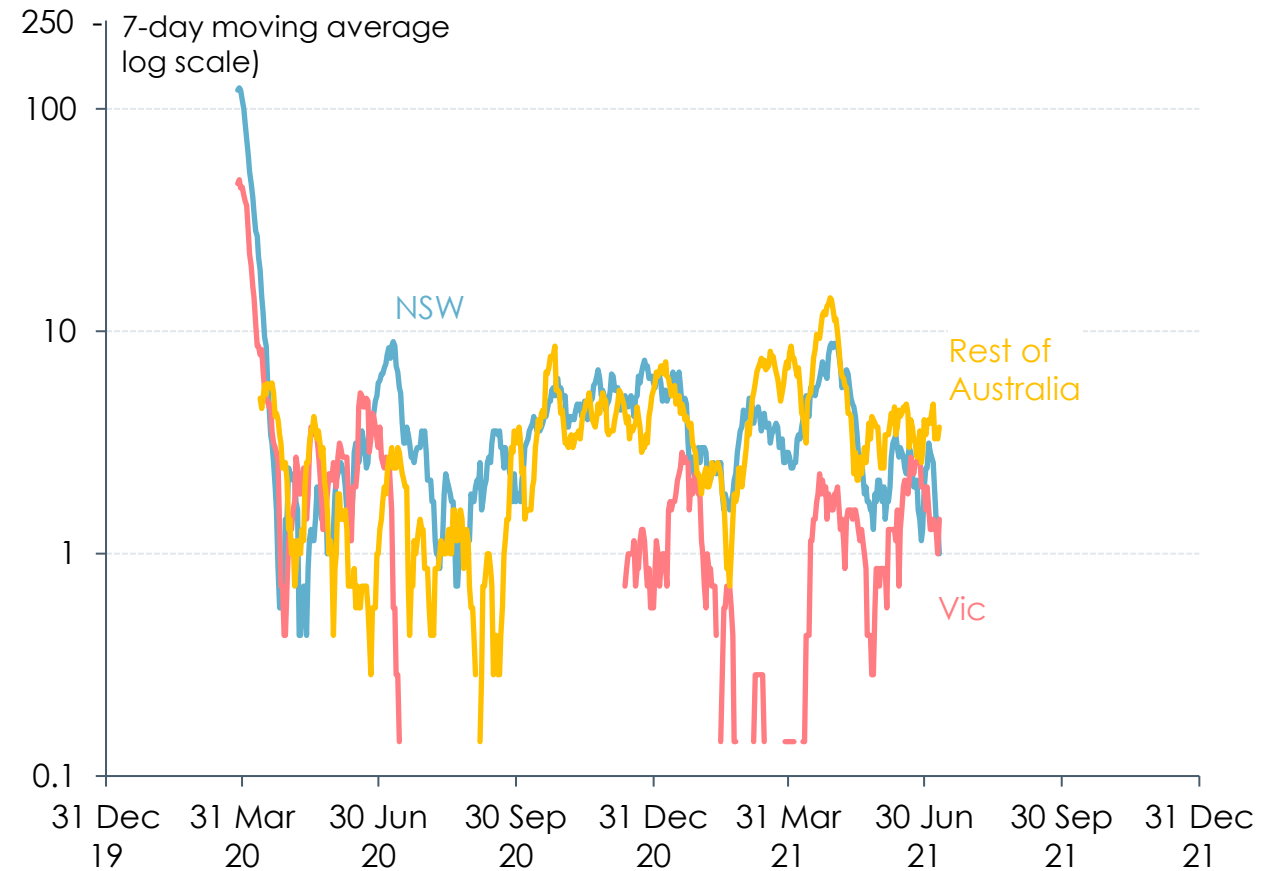
Note: Data up to 9th July. Source: covid19data.com.au. [Return to "What's New"](#).

'Locally-acquired' cases continued to increase in Sydney this week, prompting an extension and hardening of its 'lockdown'

New locally-acquired cases



New overseas-acquired cases

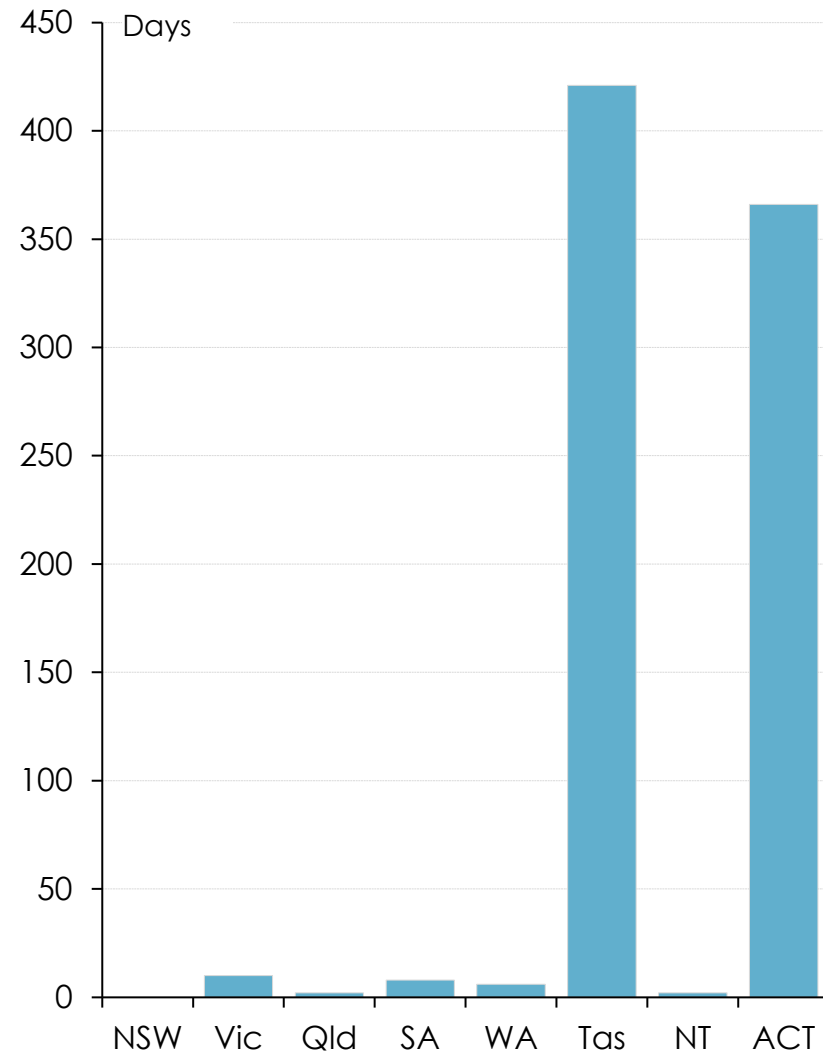


- ❑ Greater Sydney's 'lockdown' has been extended to until at least Friday 16th July, and the restrictions have been further tightened – with residents being ordered to 'stay at home' unless they have a 'reasonable excuse'
- ❑ Meanwhile restrictions have been eased in other states and territories where they had been in force (Victoria, Queensland, Western Australia & Northern Territory) – except for restrictions on travel to and from New South Wales (which have been tightened by most other states)

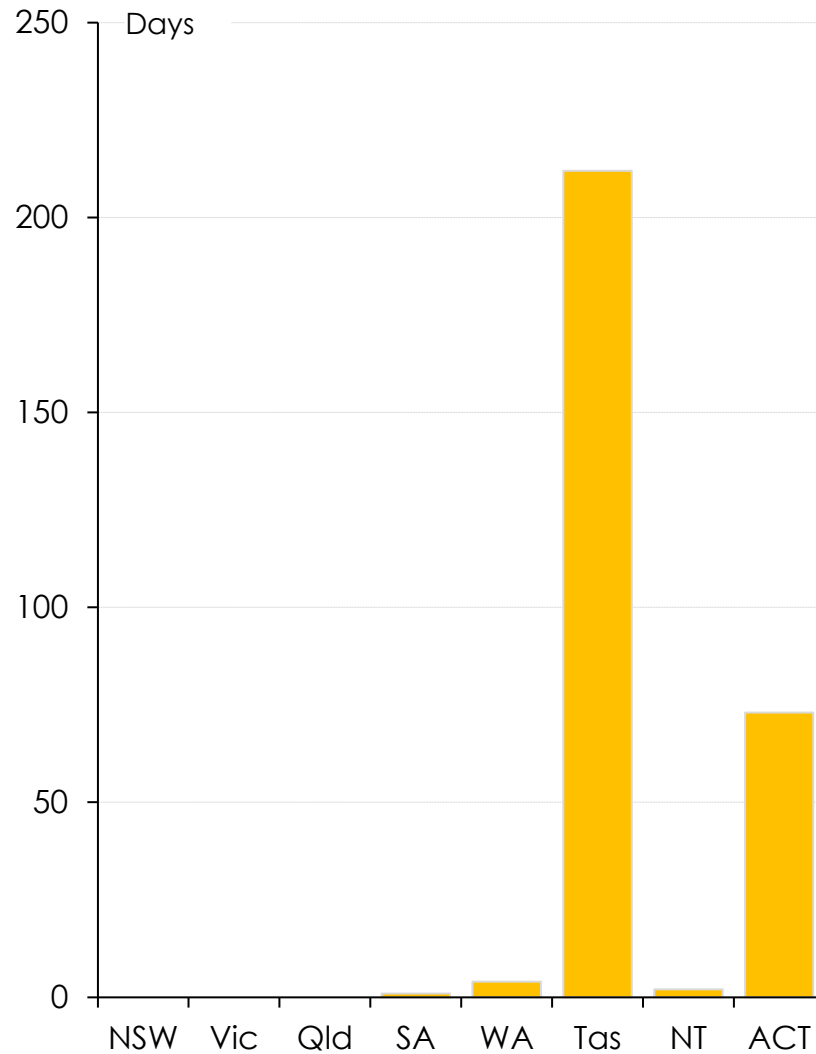
Note: Data up to 9th July. Source: covid19data.com.au. [Return to "What's New"](#).

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

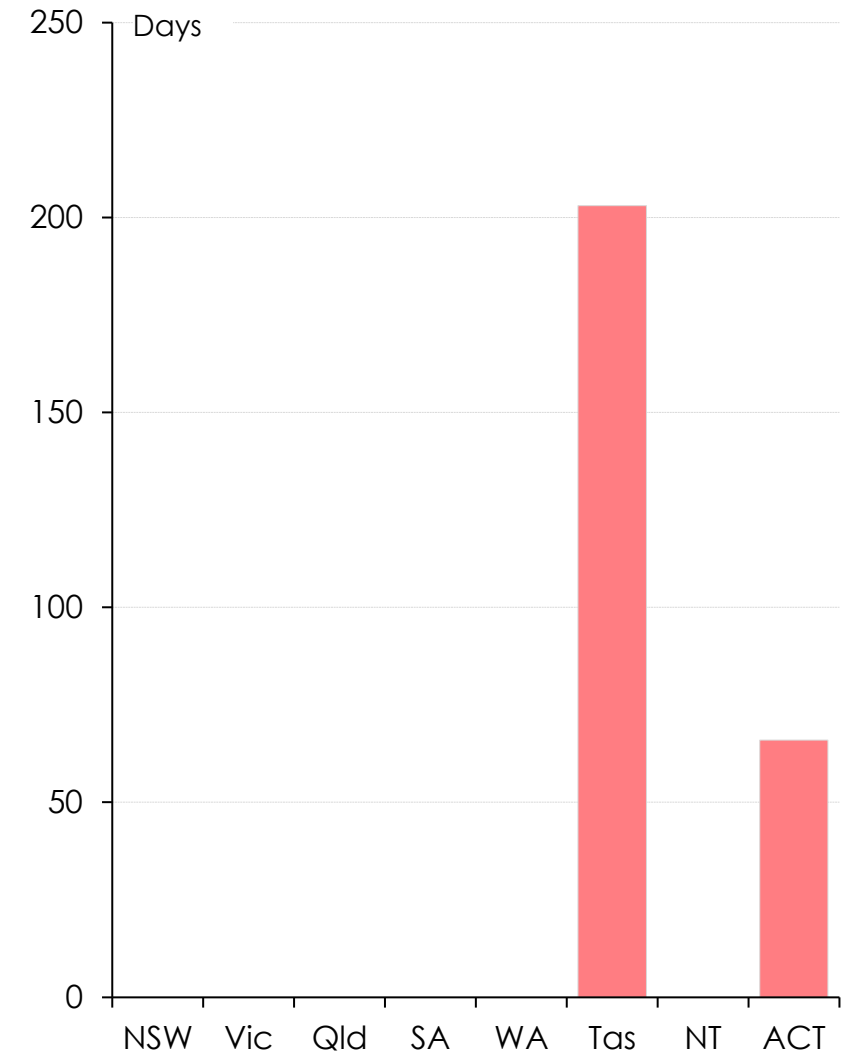
Days since last new locally-acquired case



Days since last new overseas-acquired case



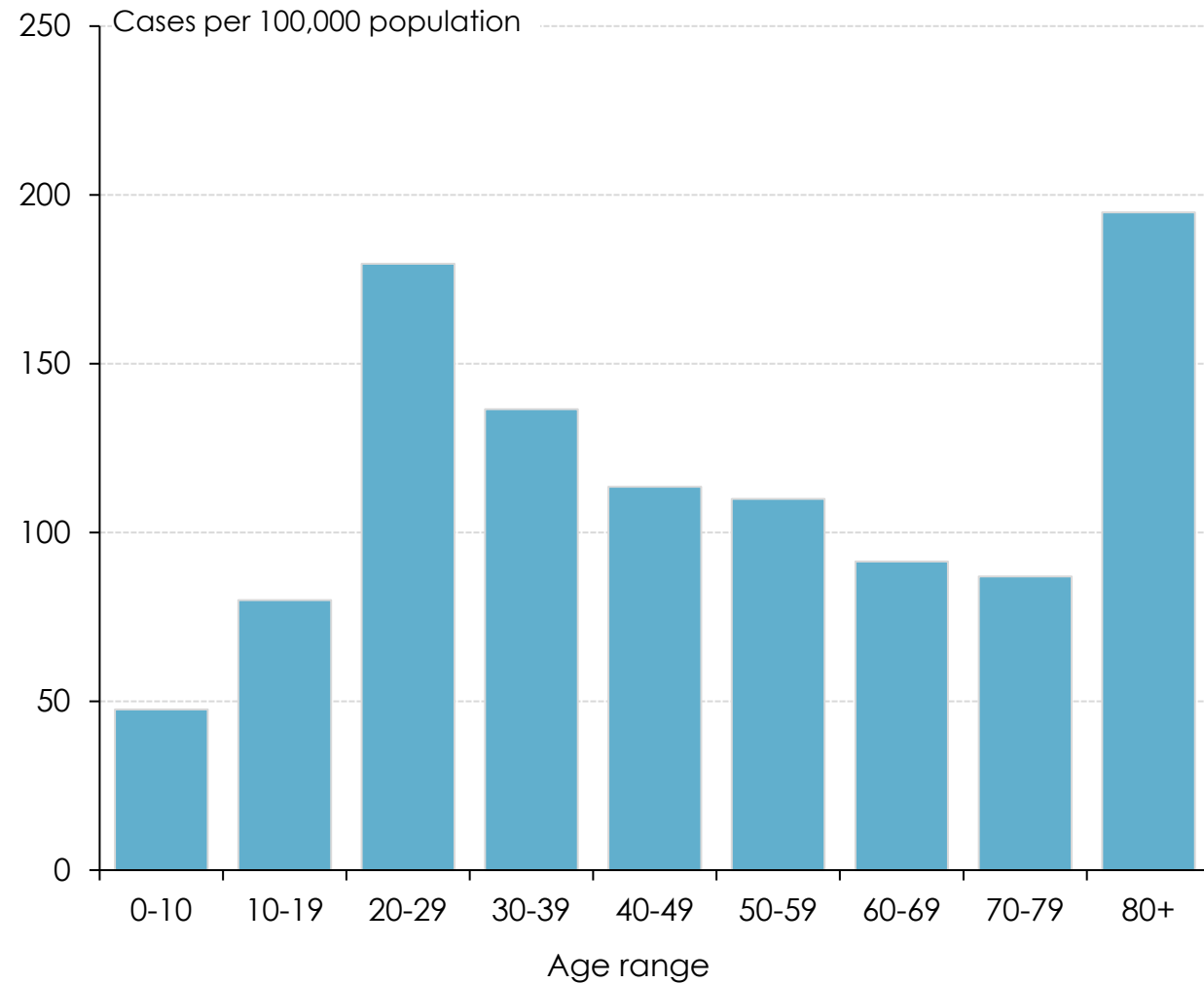
Days since there were any active cases



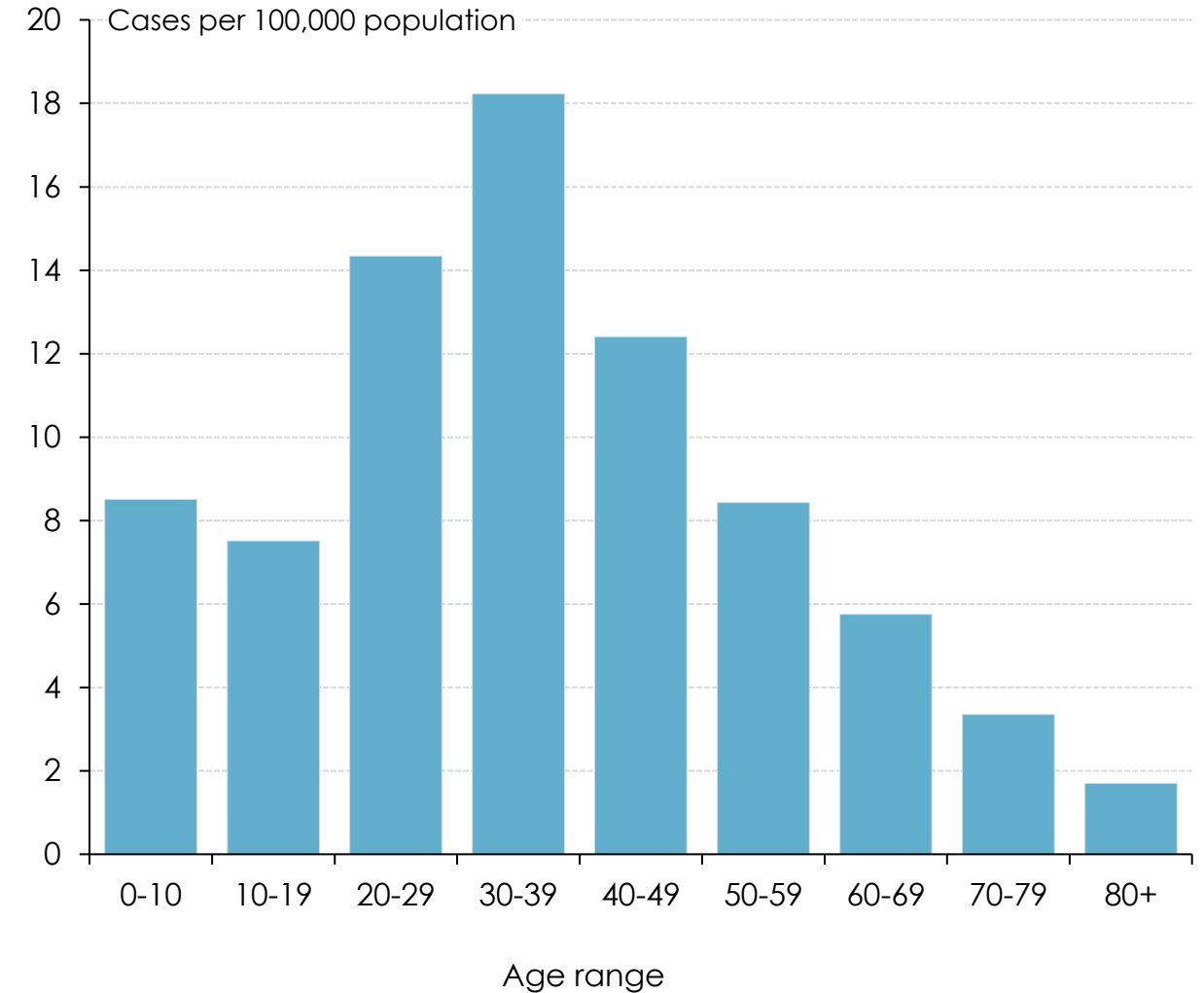
Note: Data are for 9th July. Source: covid19data.com.au. [Return to "What's New"](#).

Unlike last year, this year Australian infections have been highest among people in their 30s (partly reflecting the 'delta variant')

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



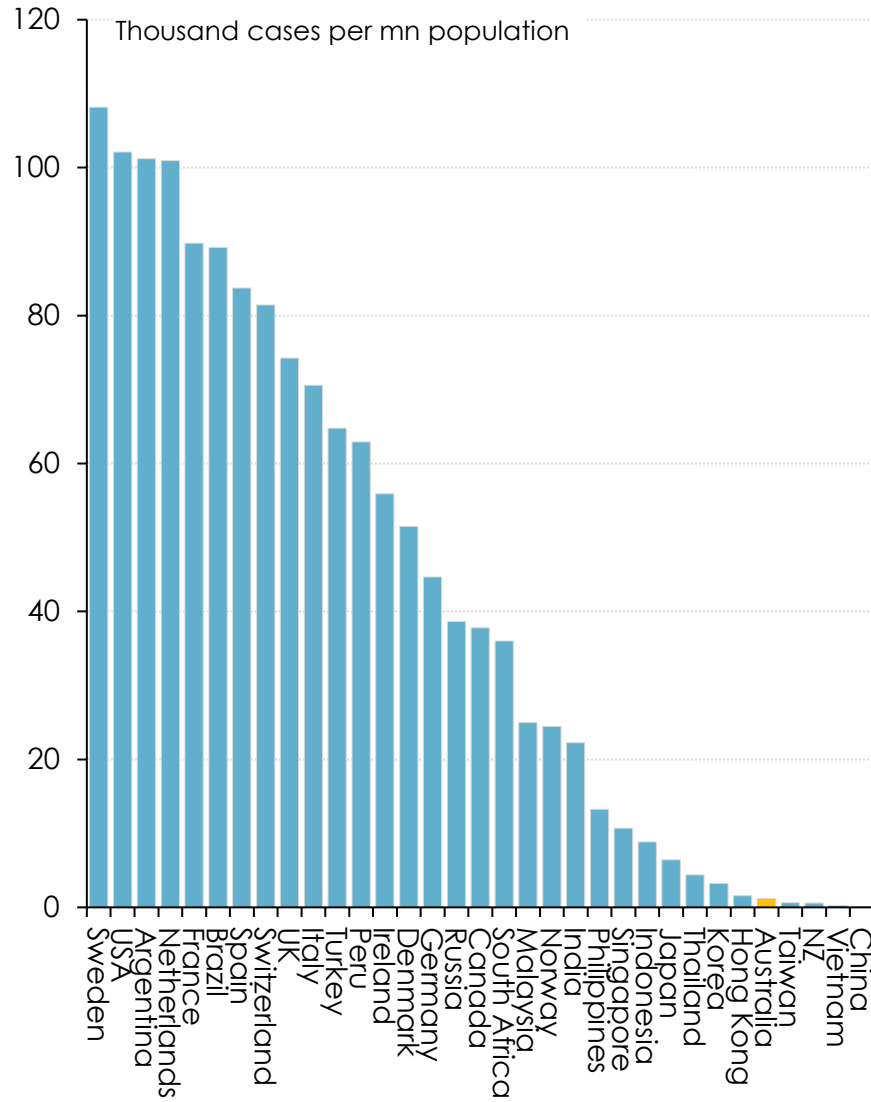
Cumulative confirmed cases per 100,000 population, by age group - 2021 to date



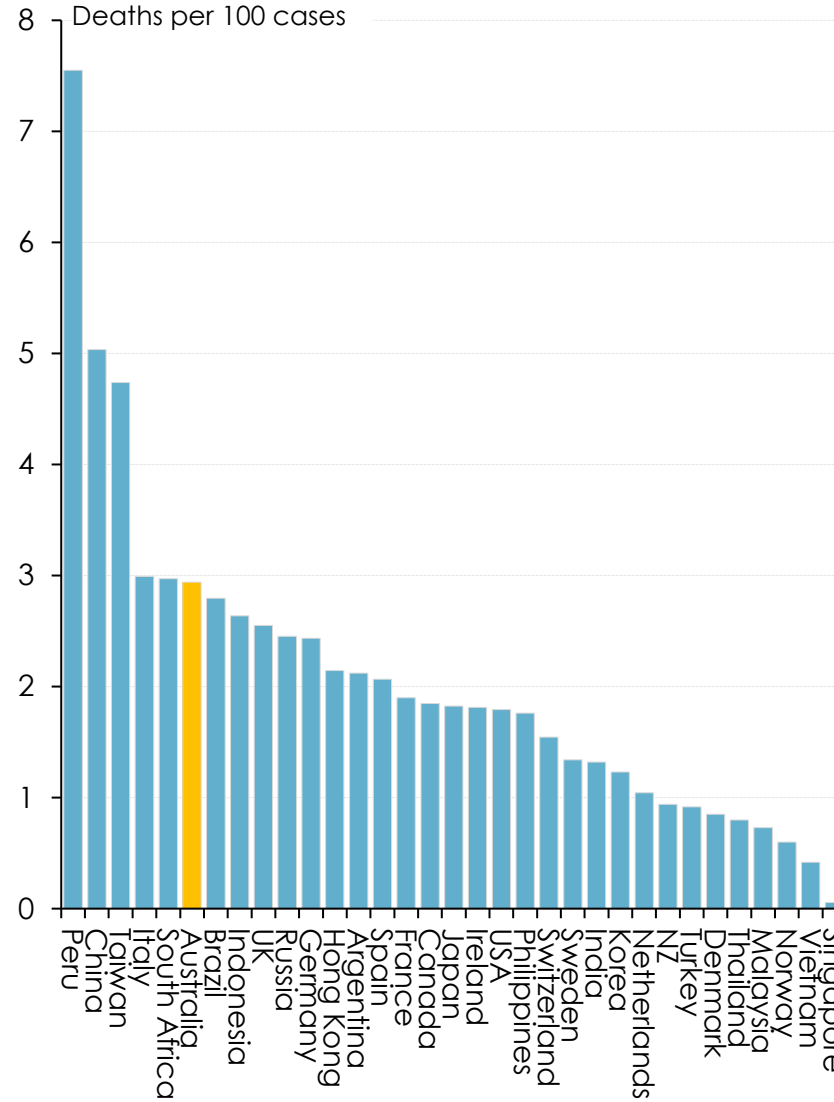
Note: Data up to 9th July. Source: Australian Government Department of Health, [National Notifiable Diseases Surveillance System](#); ABS; Corinna. [Return to "What's New"](#).

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

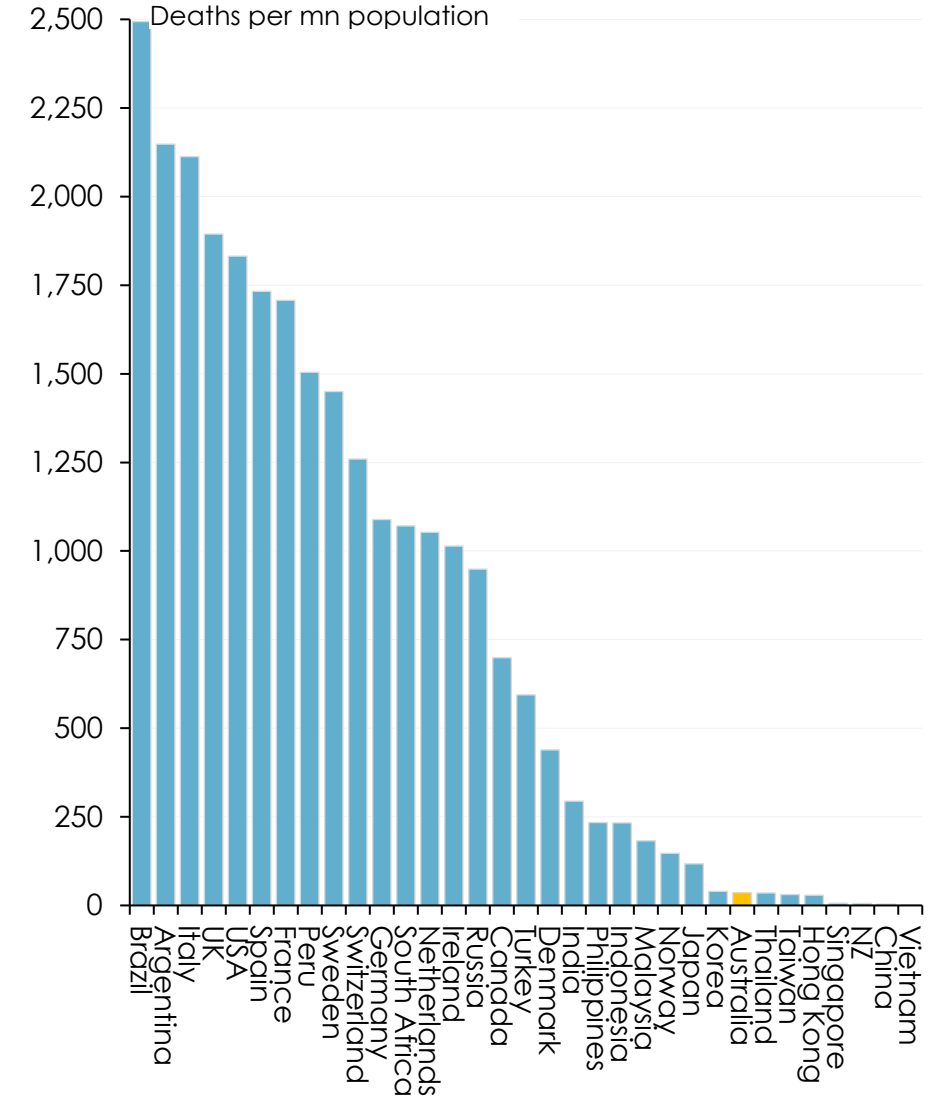
Apparent infection rate



Apparent fatality rate



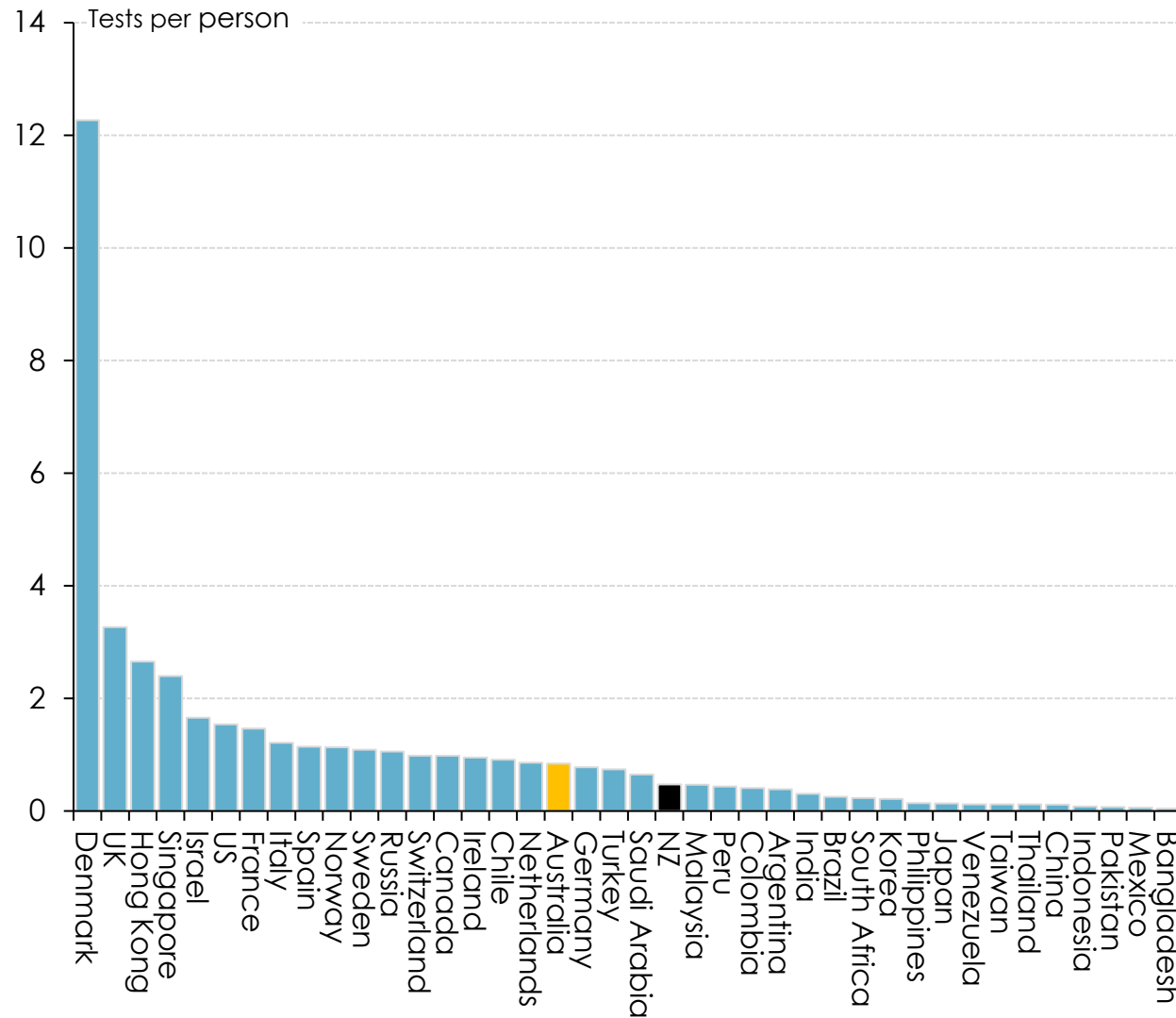
Death rate



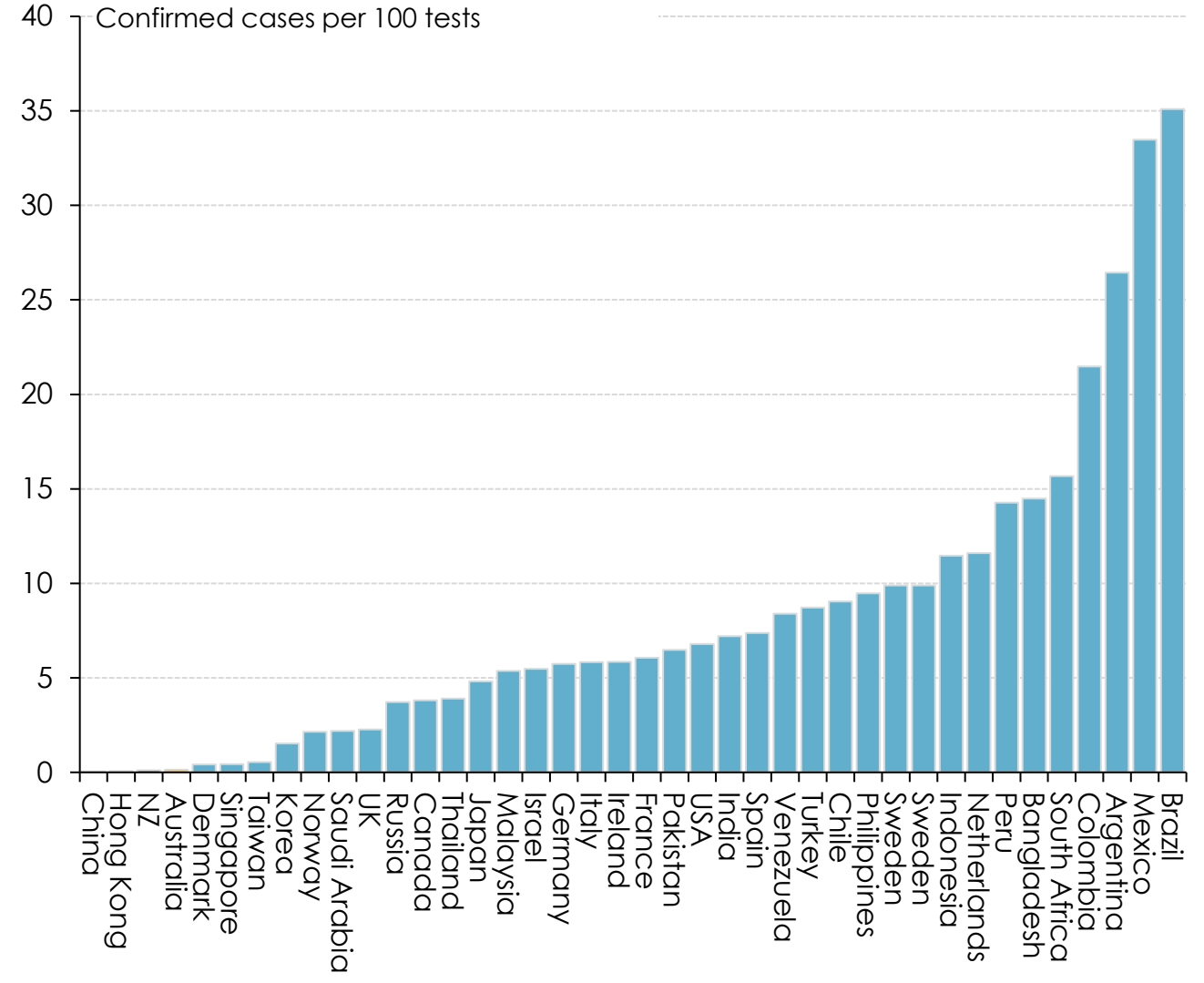
Note: Data up to 8th July. Sources: University of Oxford, [Our World in Data](#); Corinna. [Return to "What's New"](#).

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

Tests per capita



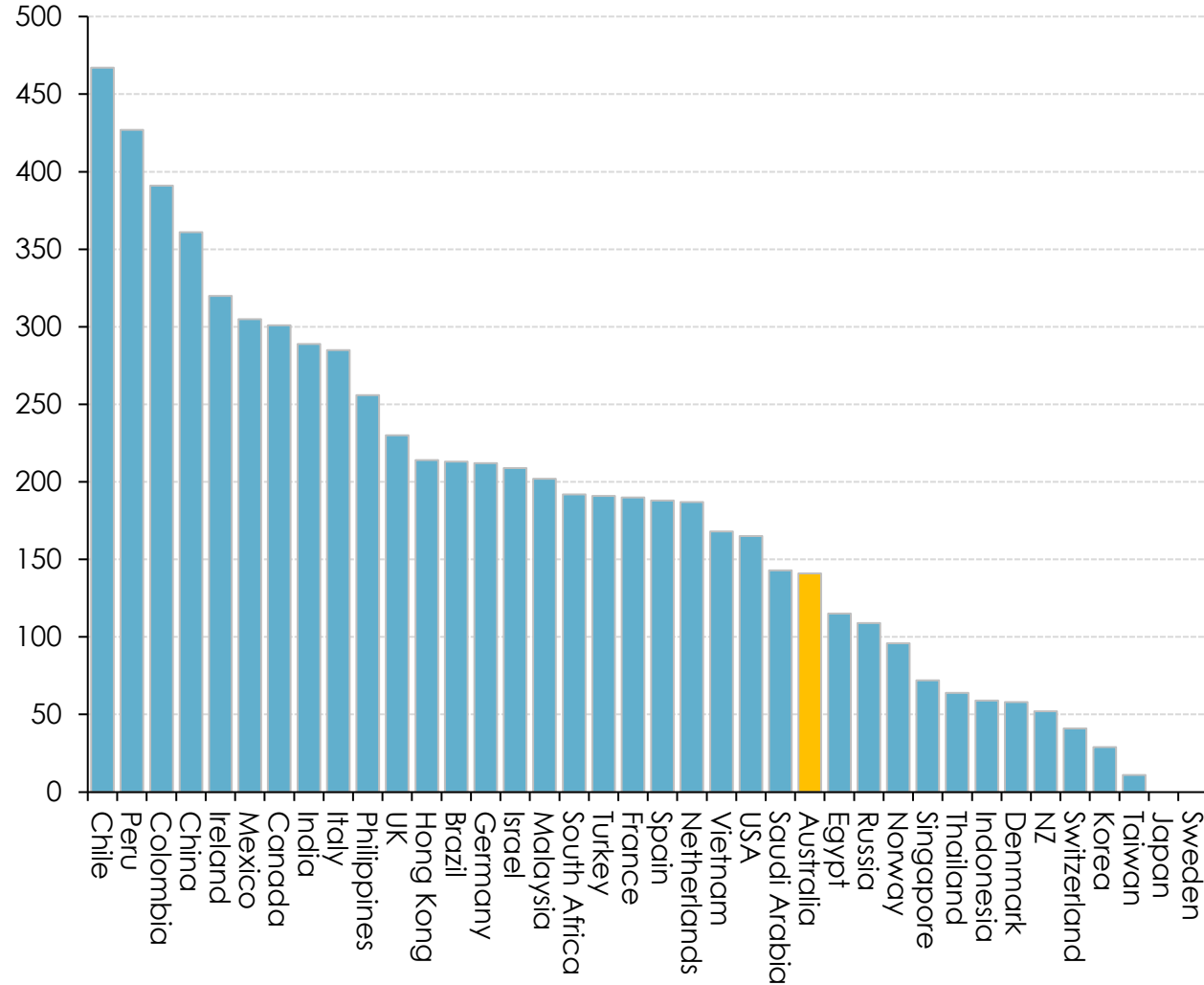
Confirmed cases per 100 tests



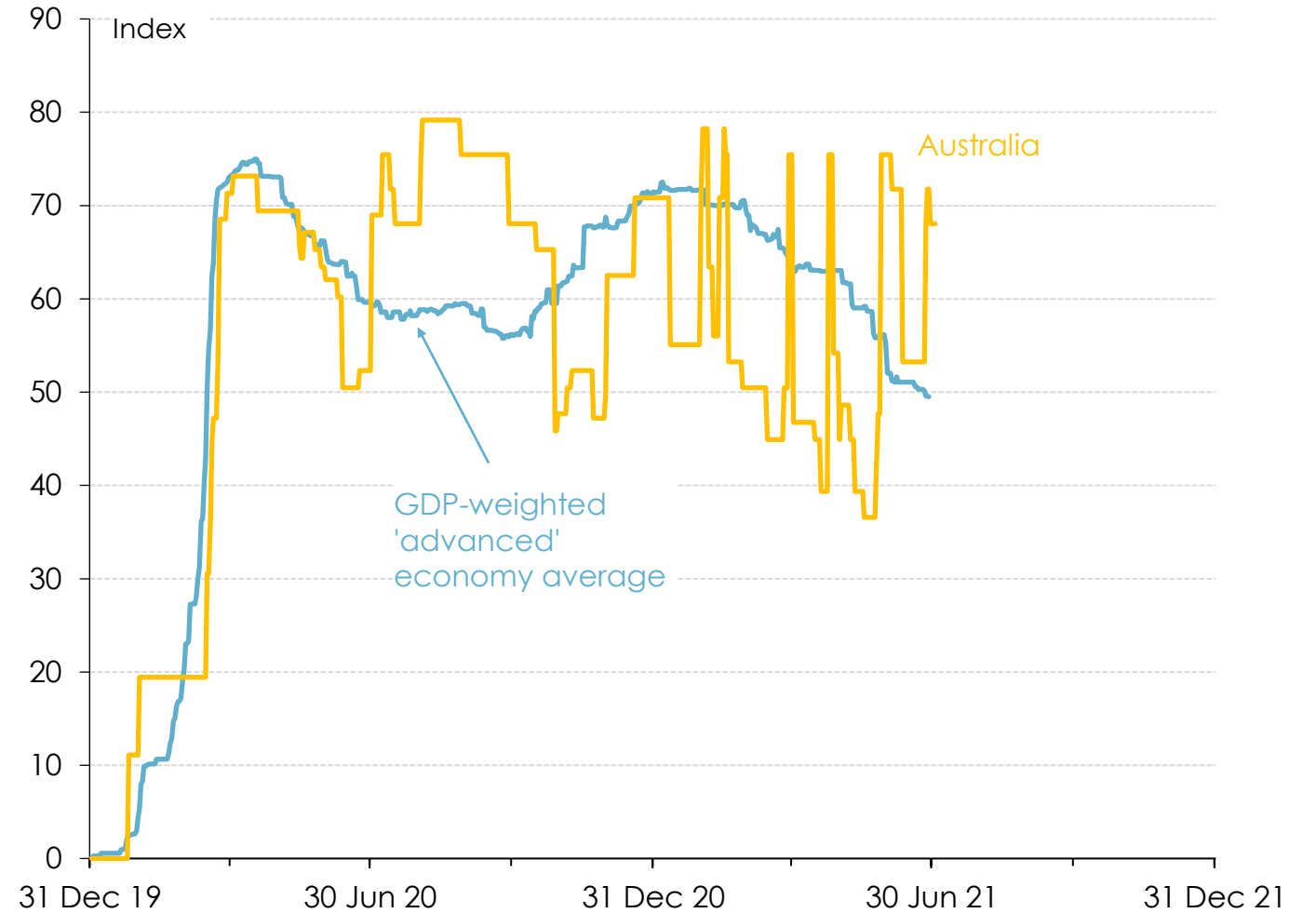
Note: Data up to 9th July (and yes it appears, at face value, that Denmark has tested its entire population more than a dozen times, the UK more than three times, and Singapore, Israel, Hong Kong, the US, France, Italy and Spain at least once). A high number of confirmed cases per 100 tests combined 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"](#).

Australia's restrictions are now once again more stringent than the average of 'advanced' economies

Number of days for which the stringency of restrictions has been above 70 on the Oxford Index



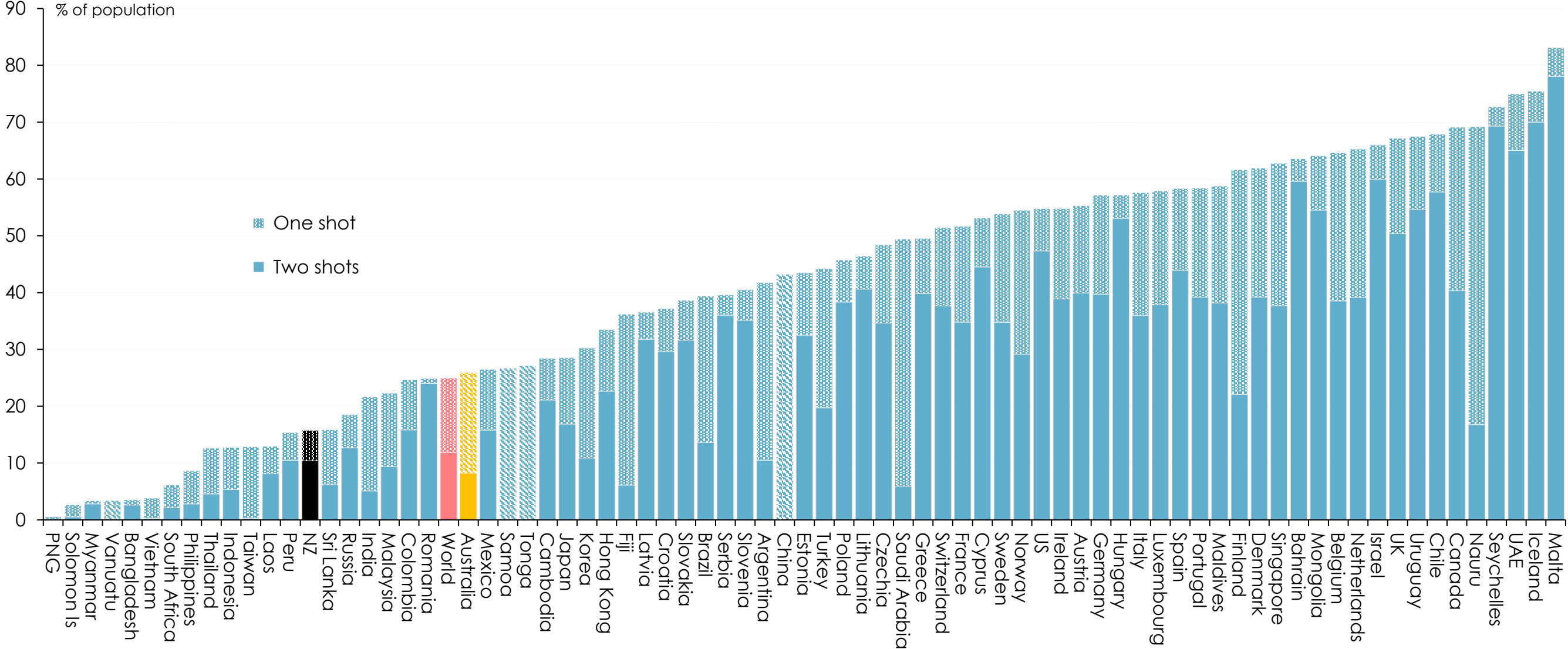
Stringency of Australia's restrictions compared with an average of other 'advanced' economies



The Oxford COVID-19 Government Response Tracker collects publicly available information on 11 indicators of government response including school and workplace closures, public events cancellations, restrictions on public gatherings, stay at home requirements, public transport closures, domestic and international travel restrictions, public information campaigns, testing and contact tracing. Source: [Blavatnik School of Government, Oxford University](#). Data up to 2nd - 7th July, except for Brazil, 21st June, South Africa, 24th June, and Indonesia, Malaysia and US, 28th June. [Return to "What's New"](#).

Canada & the UK are the vaccination rate leaders among large countries; Europe is catching up with the US; Asia, Australia & NZ are still lagging badly

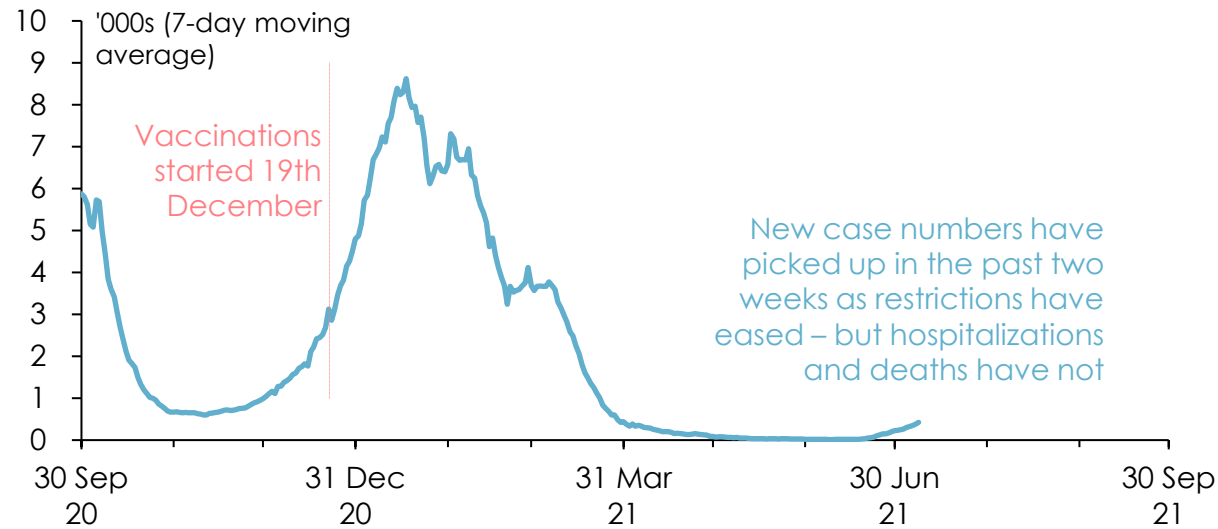
Percentage of population who have had at least one vaccination shot as at 6th – 8th July



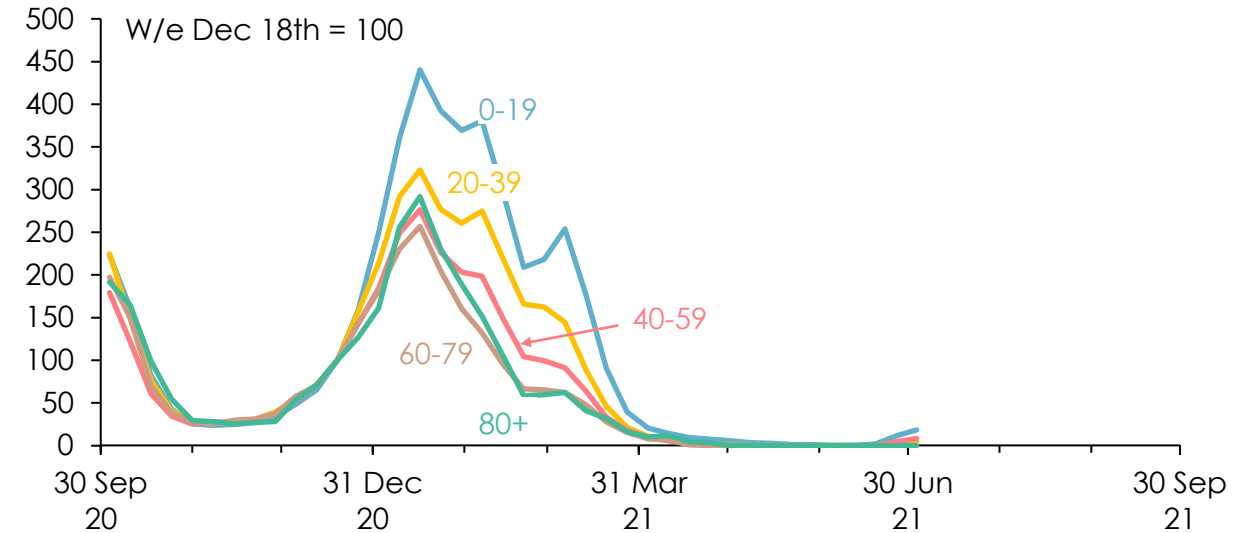
Note: Data for China is 10th June; Serbia 20th June; Nauru, PNG and Tonga 25th June; Solomon Islands 29th June; Laos and Switzerland 4th July; Maldives, Myanmar, New Zealand, Seychelles and Singapore 5th July. Data for China, Samoa, Tonga and Vanuatu are proportion of the population who have had at least one shot.
 Source: Our World in Data, [Coronavirus \(COVID-19\) Vaccinations](#). [Return to "What's New"](#).

Israel's experience suggests that although vaccines don't completely prevent infections, they do prevent cases from becoming serious

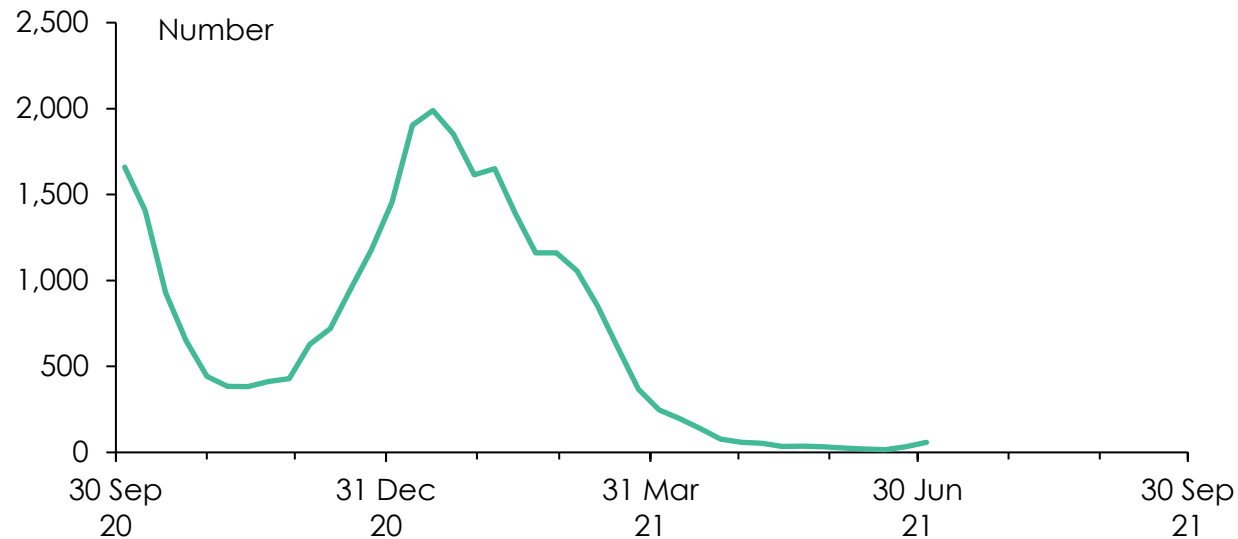
Daily new confirmed cases



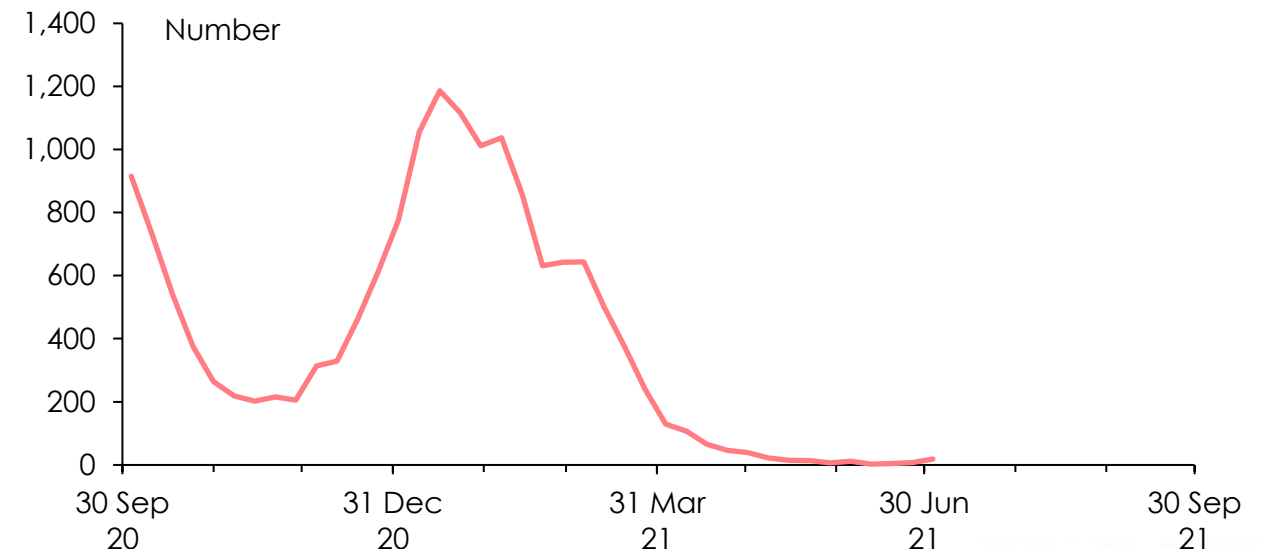
Confirmed cases by age group



New hospitalizations for Covid-19



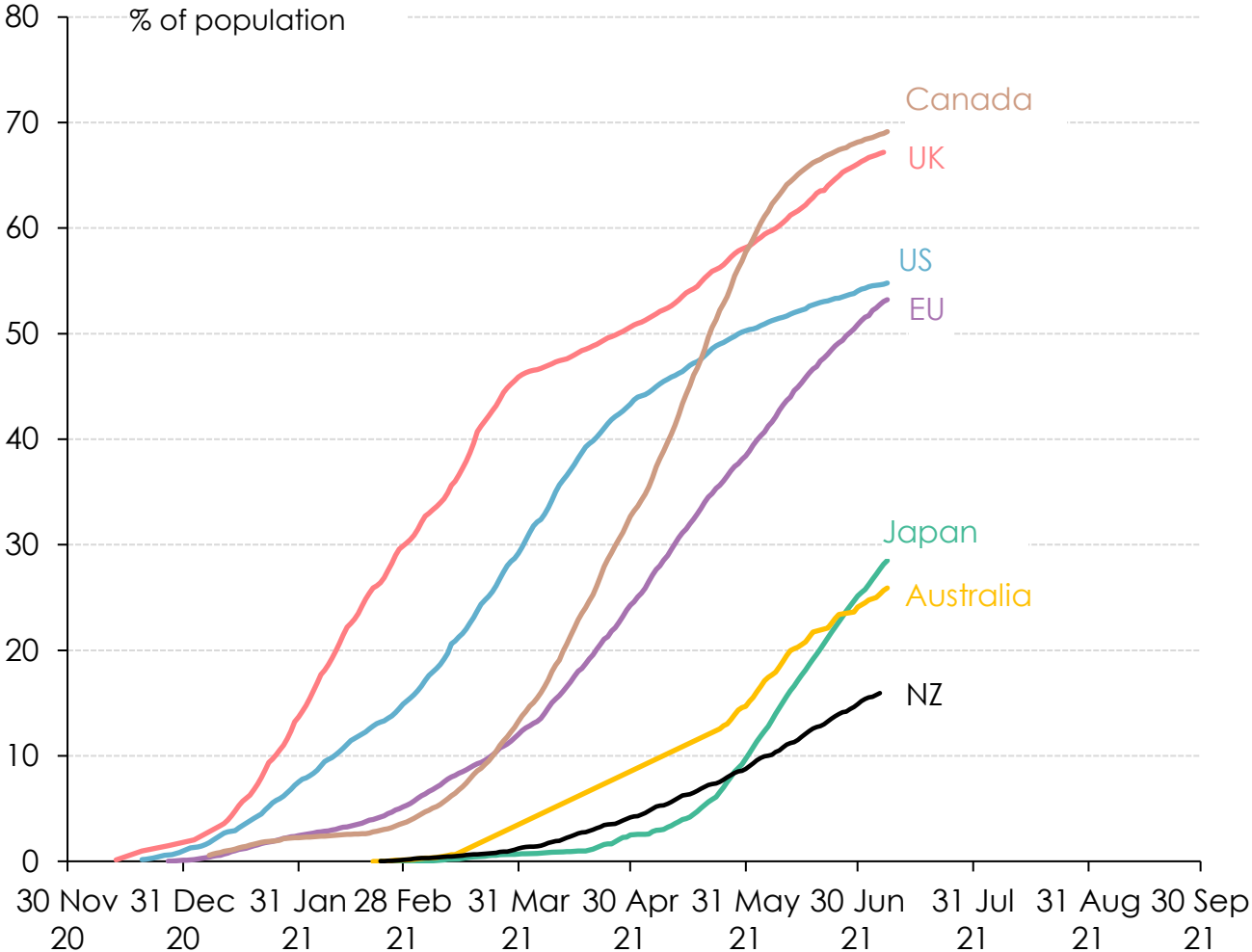
New ICU admissions for Covid-19



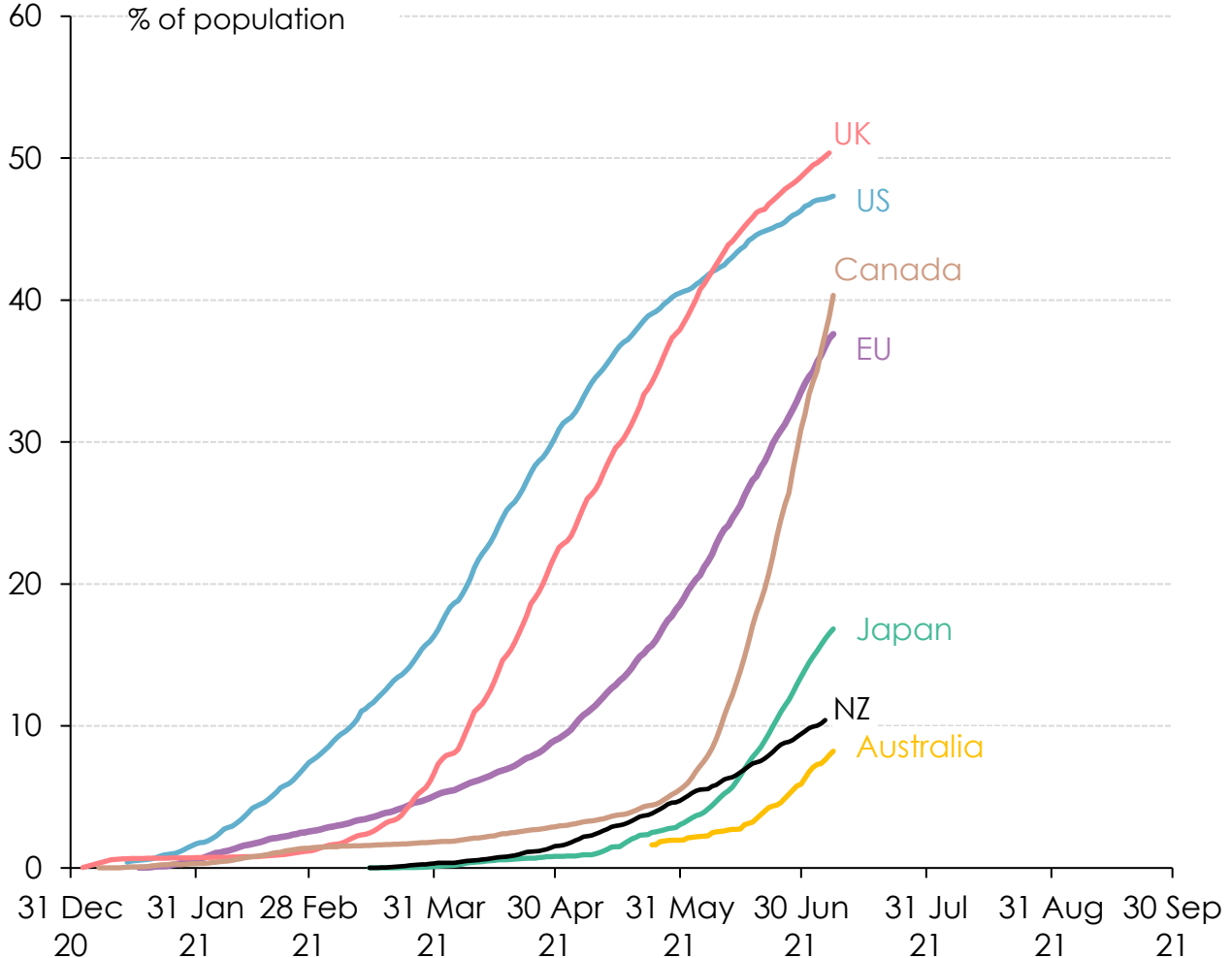
Source: Our World in Data, [Coronavirus \(COVID-19\) Vaccinations](#); Government of Israel.

Australia still lags a long way behind other 'advanced' economies in vaccinating (and especially fully vaccinating) its population

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



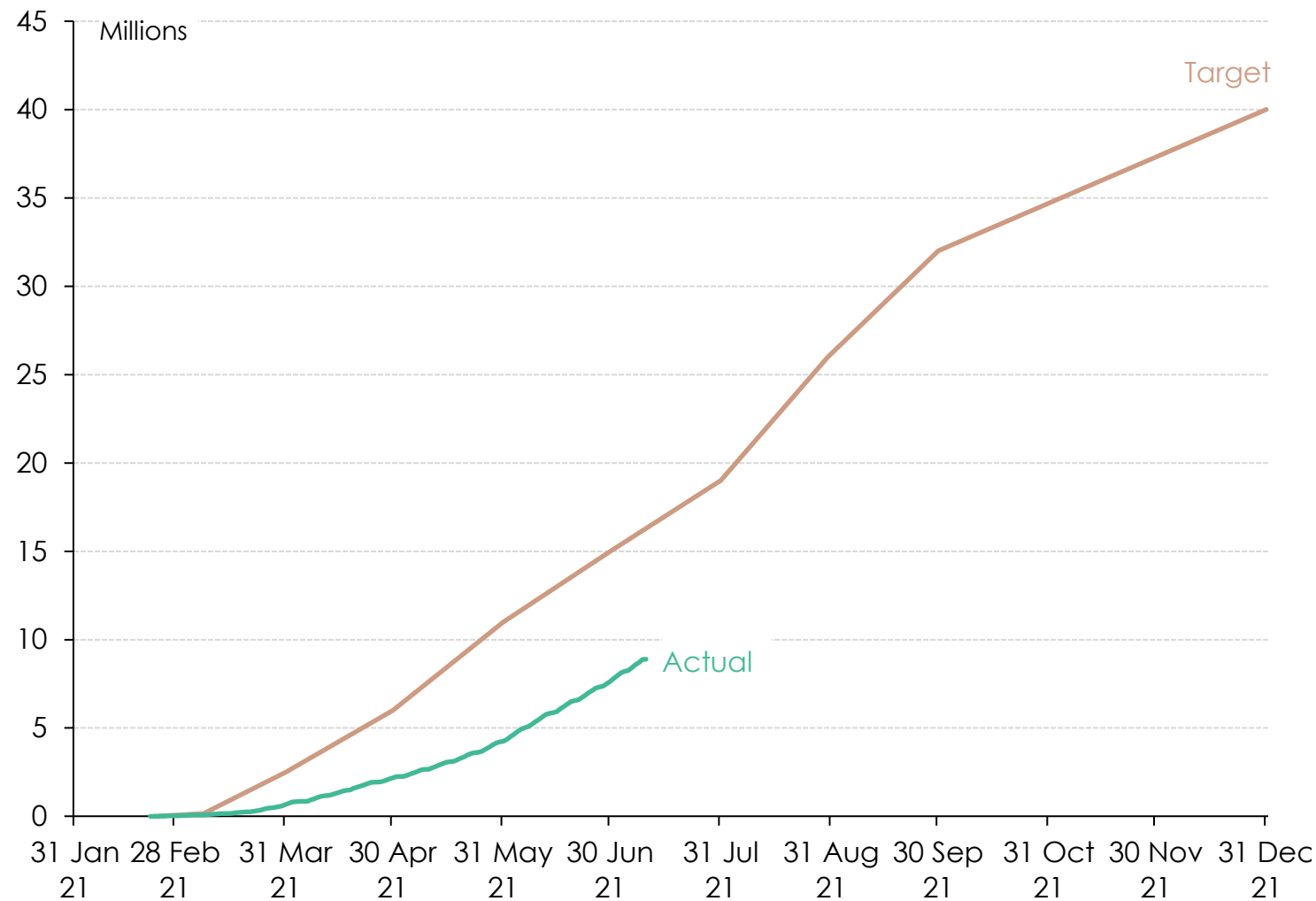
Percentage of major 'advanced' economies' populations who have had two shots



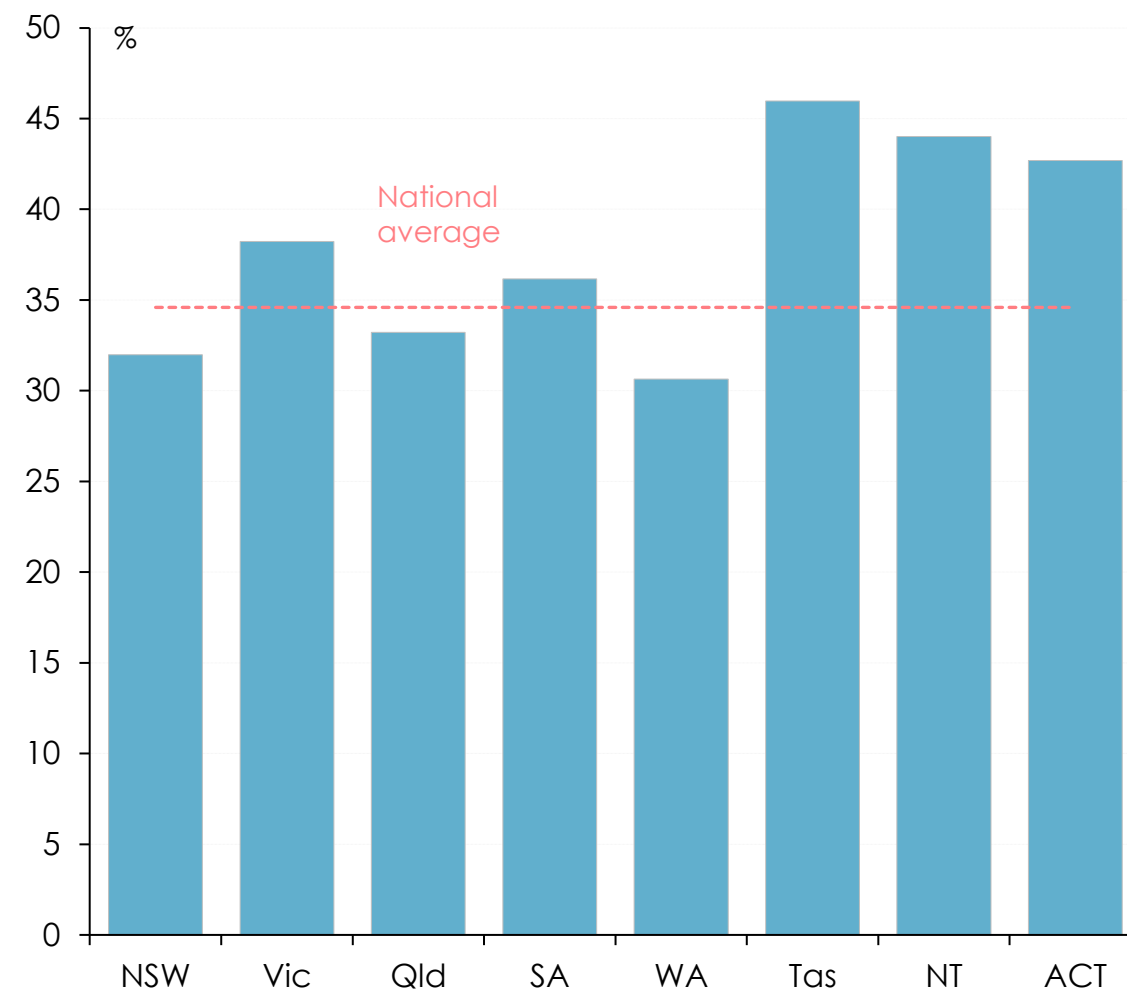
Note: Data up to 6th – 8th July. Source: [Our World in Data](#); [Coronavirus \(COVID-19\) Vaccinations](#). [Return to "What's New"](#).

34.5 vaccine doses have been administered per 100 of Australia's population – but only 26% have had one shot, and only 8¼% have had both shots

Number of vaccine doses administered vs Government target



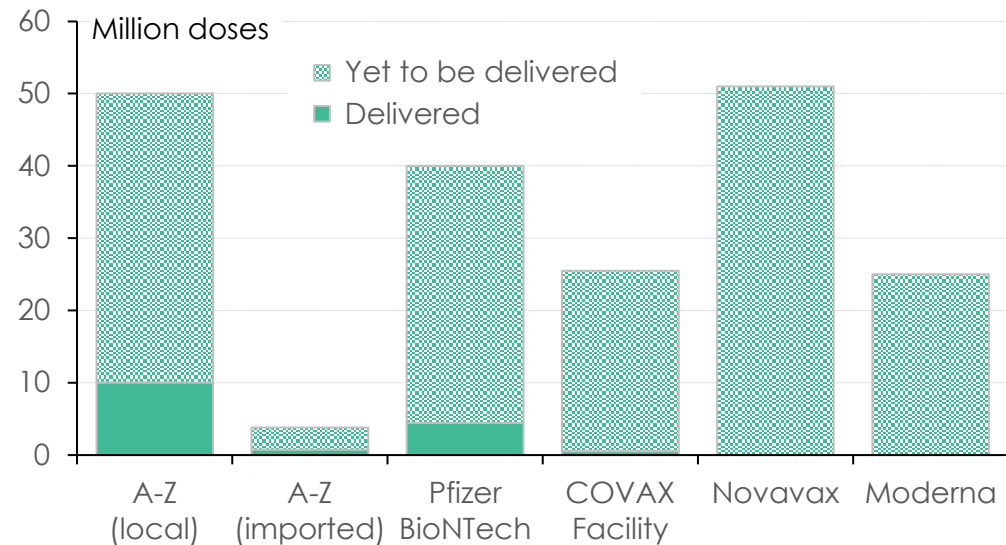
Percentage of population vaccinated, states and territories



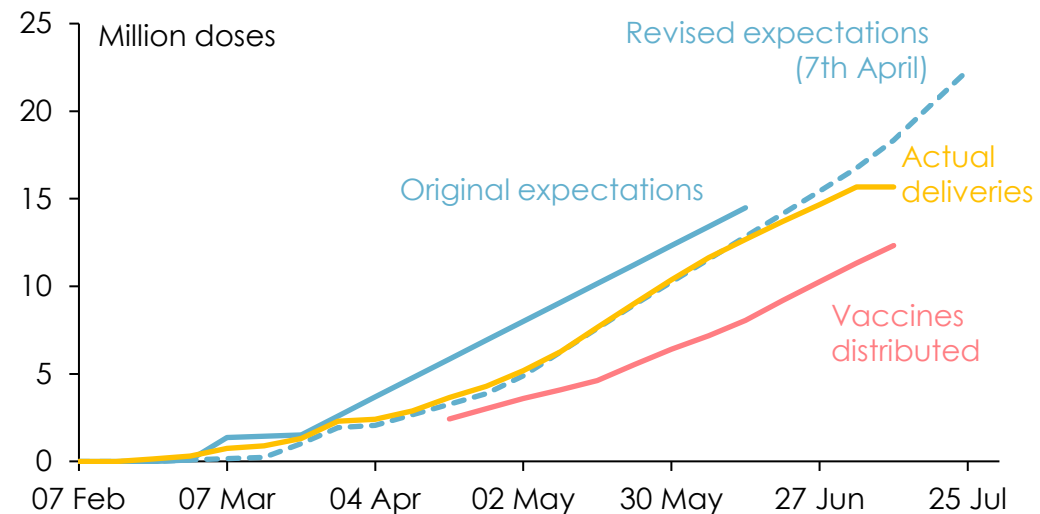
Note: Data up to 9th July. Sources: covid19data.com.au; Australian Department of Health, [COVID-19 vaccine rollout update on 14 March 2021](#).
[Return to "What's New"](#).

What's gone wrong with Australia's vaccine roll-out?

Australia's vaccine supplies



Original & revised expectations vs supplies



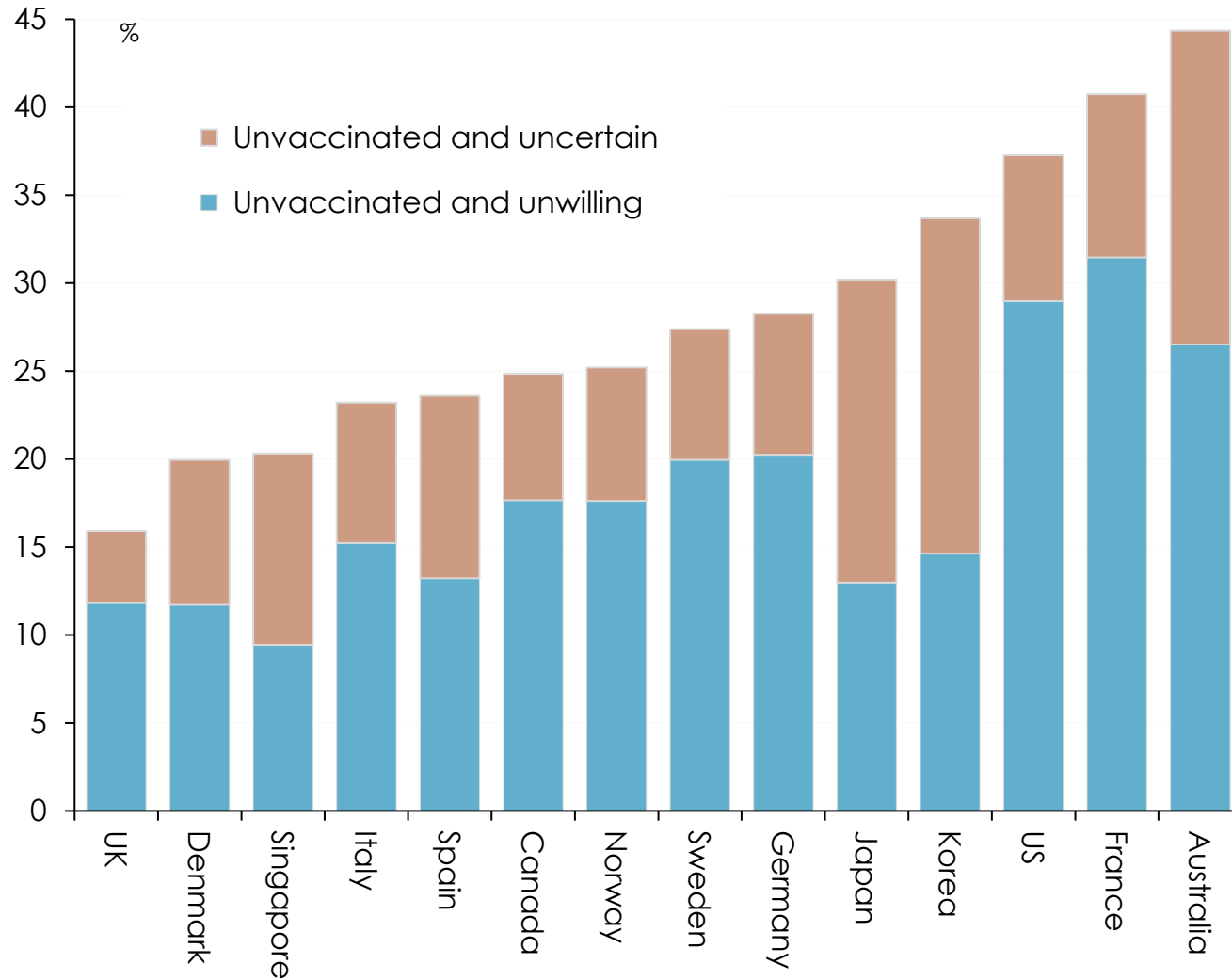
Note: Vaccine supplies are as at 10th July.

Source: <https://www.covid19data.com.au/vaccines>

- ❑ Australia originally put too many of its vaccine 'eggs' in the Astra-Zeneca 'basket'
 - partly because the Astra-Zeneca vaccine was easier to store, and considerably cheaper, than the Pfizer vaccine
 - and partly out of a (misplaced, with the benefit of hindsight) concern over 'sovereignty' (ie the Astra-Zeneca vaccine could be manufactured in Australia, whereas mRNA vaccines like Pfizer and Moderna can't be)
- ❑ Deliveries of the Astra-Zeneca vaccine were slower than expected
 - partly because the EU, at Italy's behest, blocked the delivery of up to 3.1mn doses to Australia (although the EU denies that)
 - local production of the Astra-Zeneca vaccine has taken longer to 'ramp up' than expected – as of early May, less than half the originally expected 3mn doses had been produced; as of this weekend, local production is still 1mn doses behind the 'revised' schedule
- ❑ Australia's success in suppressing the virus probably bred complacency on the part of the population about getting vaccinated
- ❑ Concerns about the risk of potentially fatal blood-clots as a side-effect of the Astra-Zeneca vaccine prompted the Government's medical advisors to warn against giving A-Z to people under 60
 - advice that was also (ironically) coloured by the much lower infection rates in Australia (which thus meant a different 'balance of risks' against side effects than in countries with much higher infection rates)
- ❑ Australia has a very high rate of 'vaccine hesitancy' (see next slide) which concerns about A-Z side effects 'played into'

'Vaccine hesitancy' is a barrier to returning to 'normal' – and Australia has the highest vaccine hesitancy out of 14 'advanced' economies

Covid-19 vaccine hesitancy, selected 'advanced' economies, June 2021



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

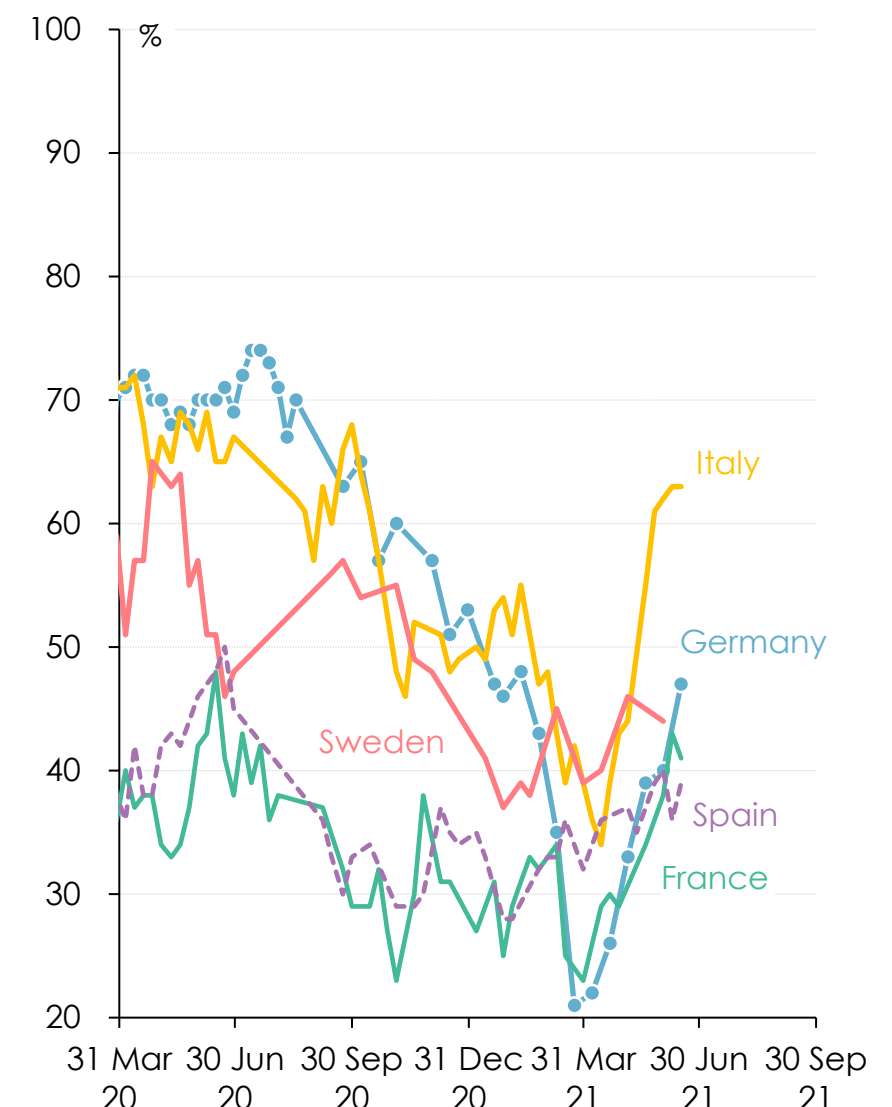
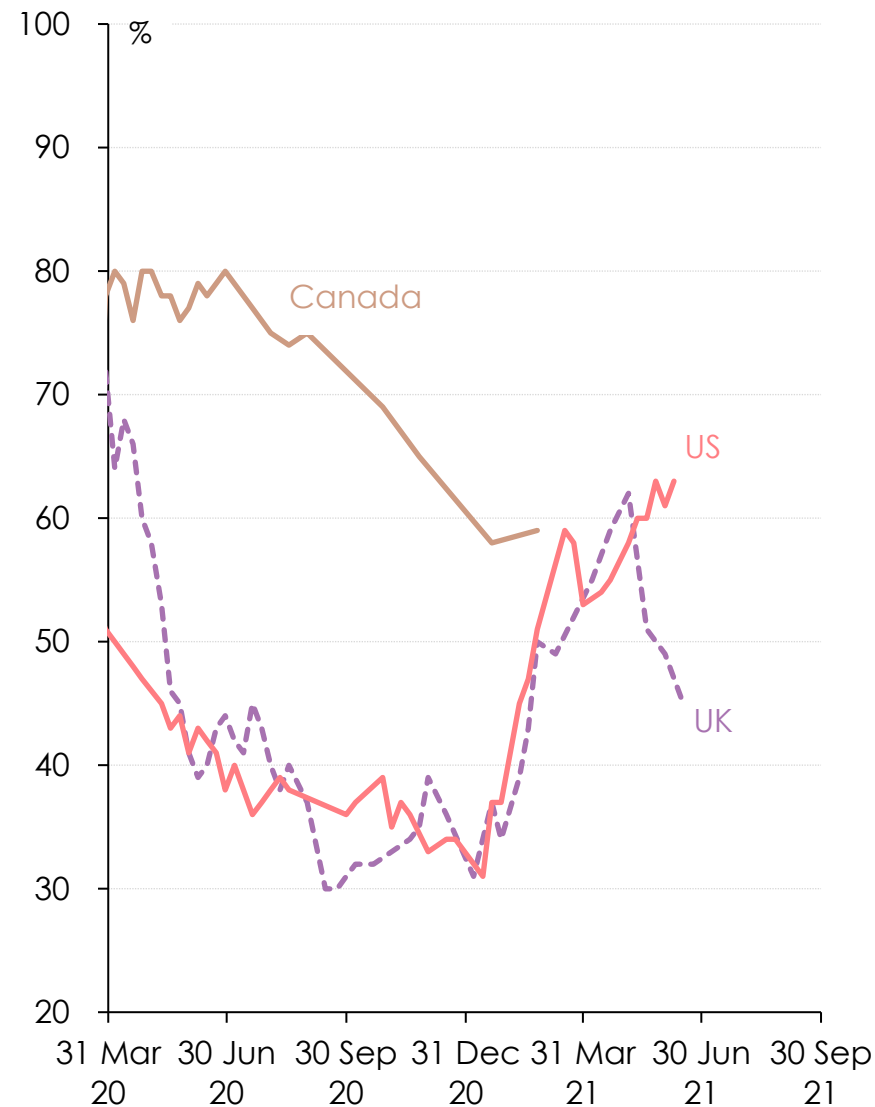
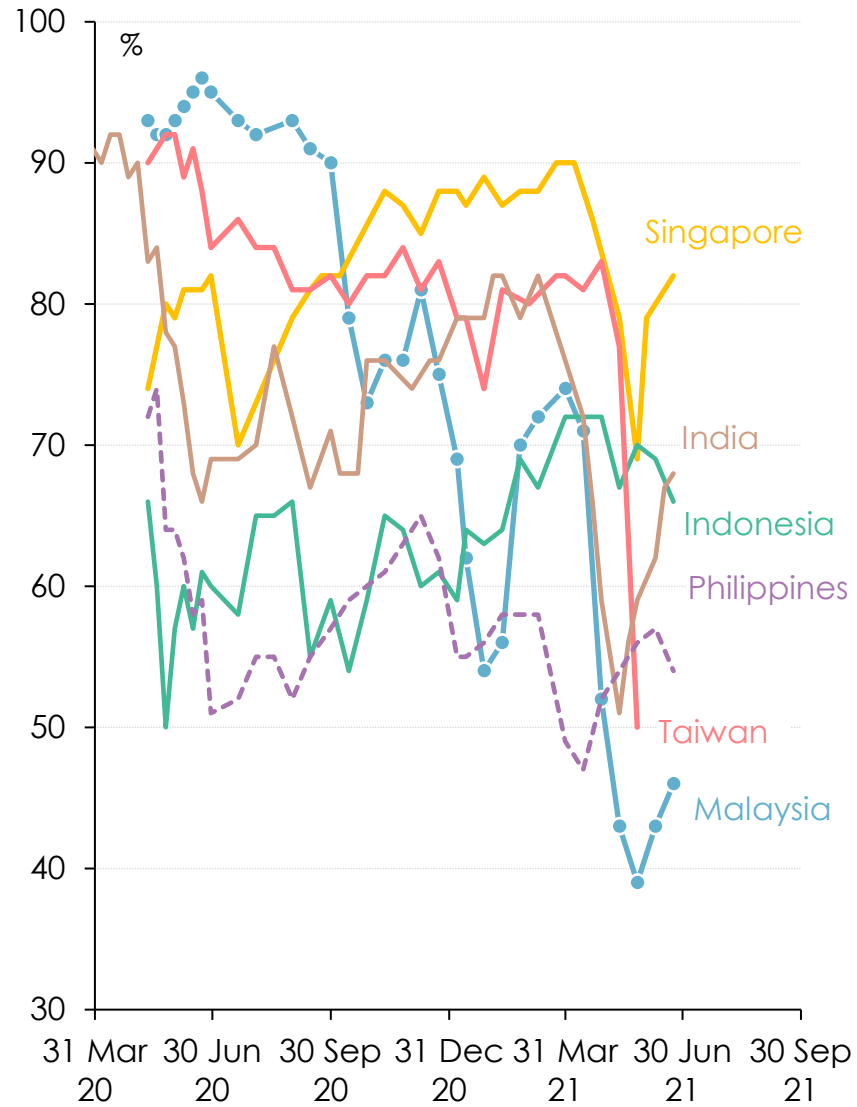


Note: Results for UK and Canada are for May. June results for Australian states will be released on Wednesday 14th July.

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"](#).

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

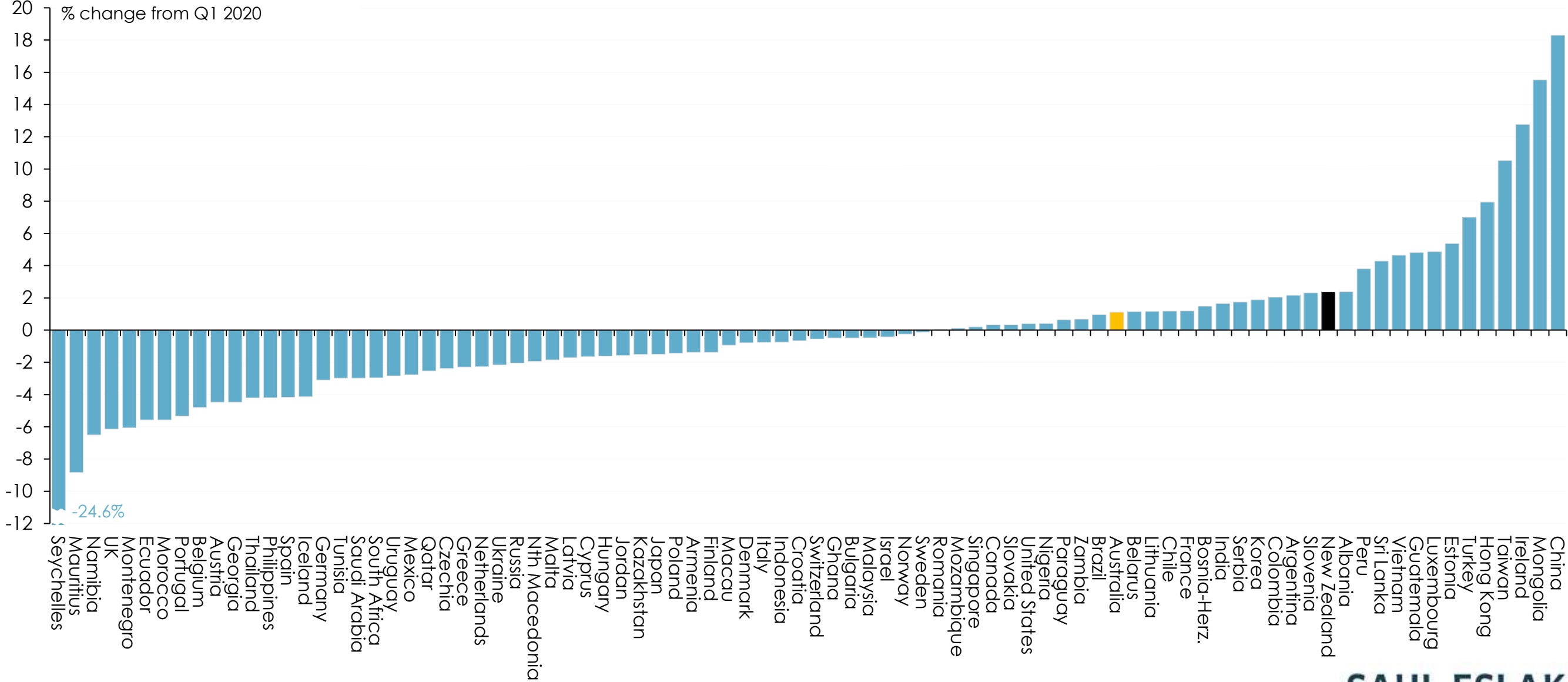
Voter approval of their government's handling of the coronavirus pandemic



The world

Of the 86 countries which have so far reported Q1 GDP estimates, 36 have recorded positive growth from Q1 last year

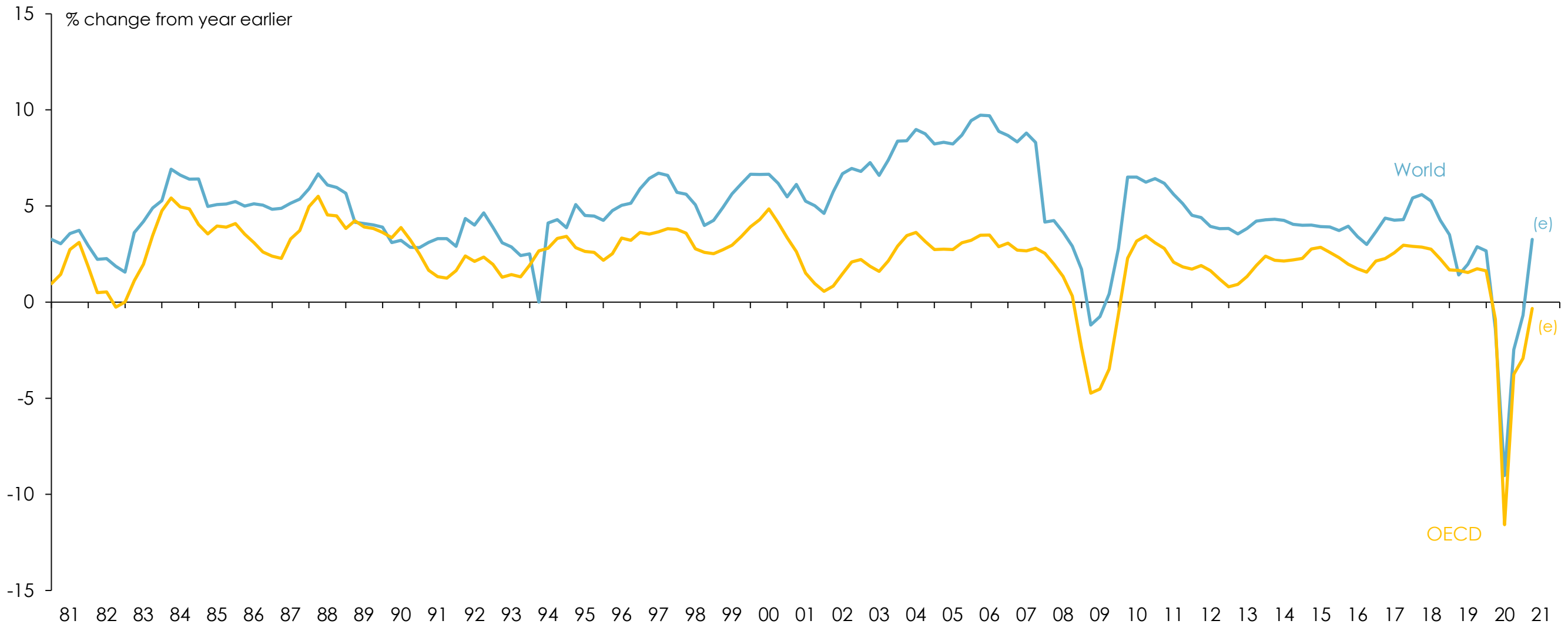
Growth in real GDP over the year to Q1 2021



Source: National statistical agencies and central banks. [Return to "What's New"](#).

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

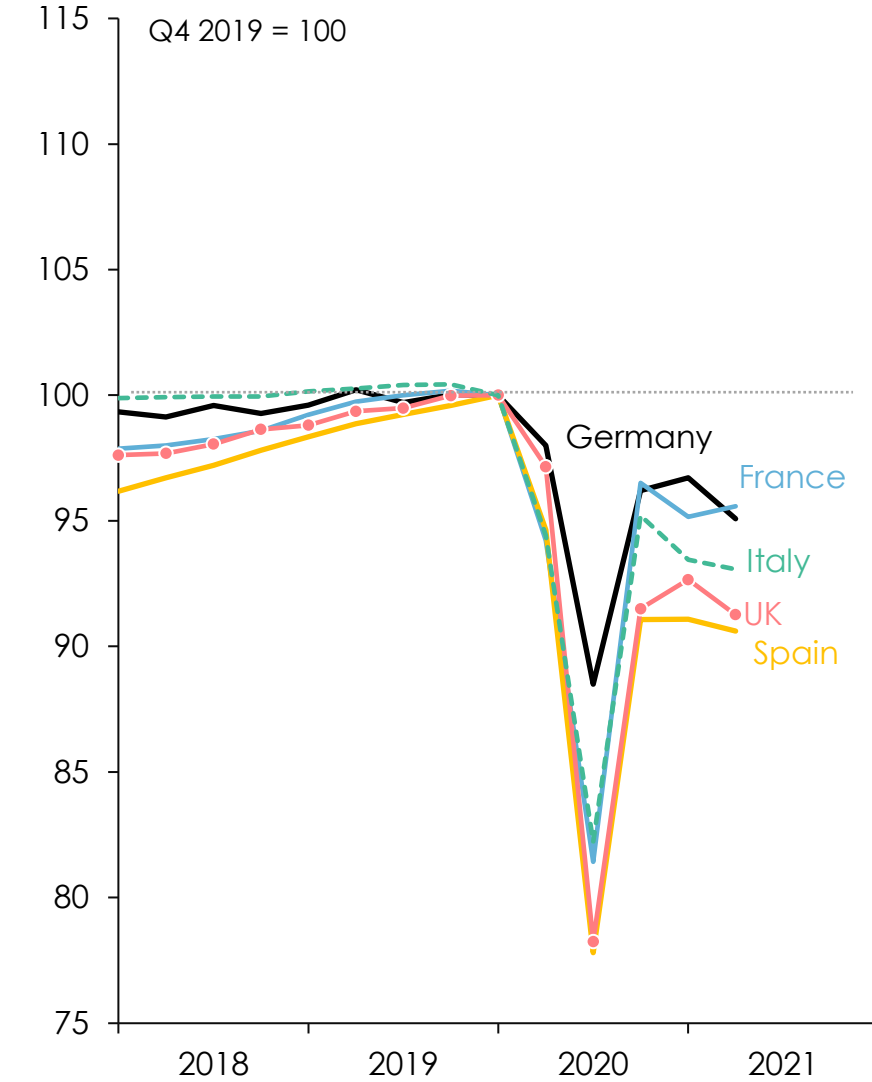
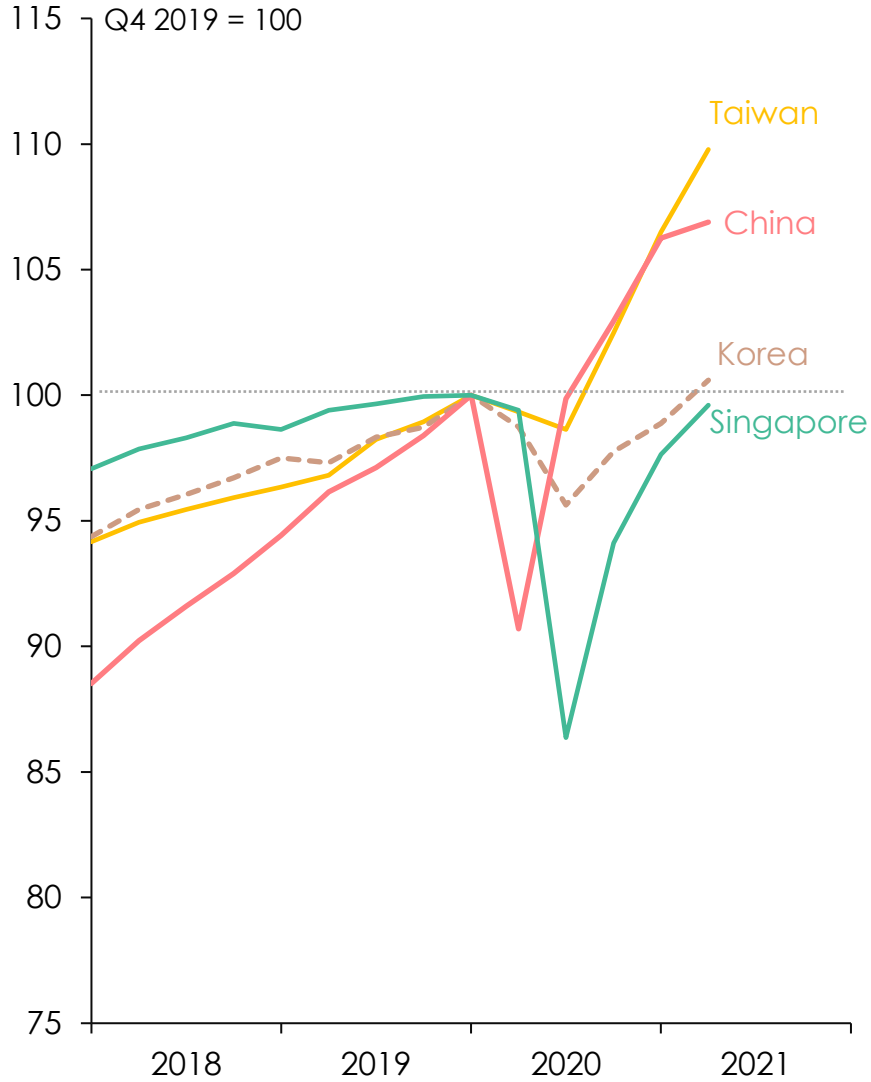
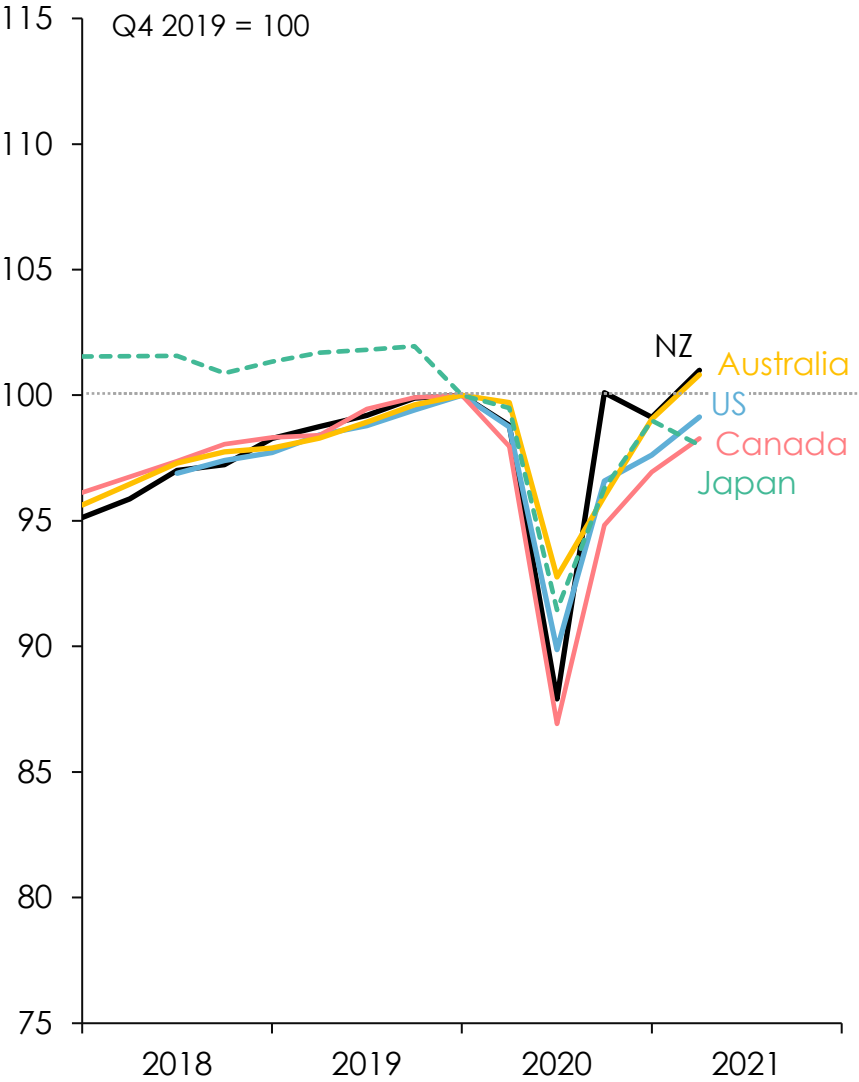
World and OECD area real GDP growth



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. (e) 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.

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 ...

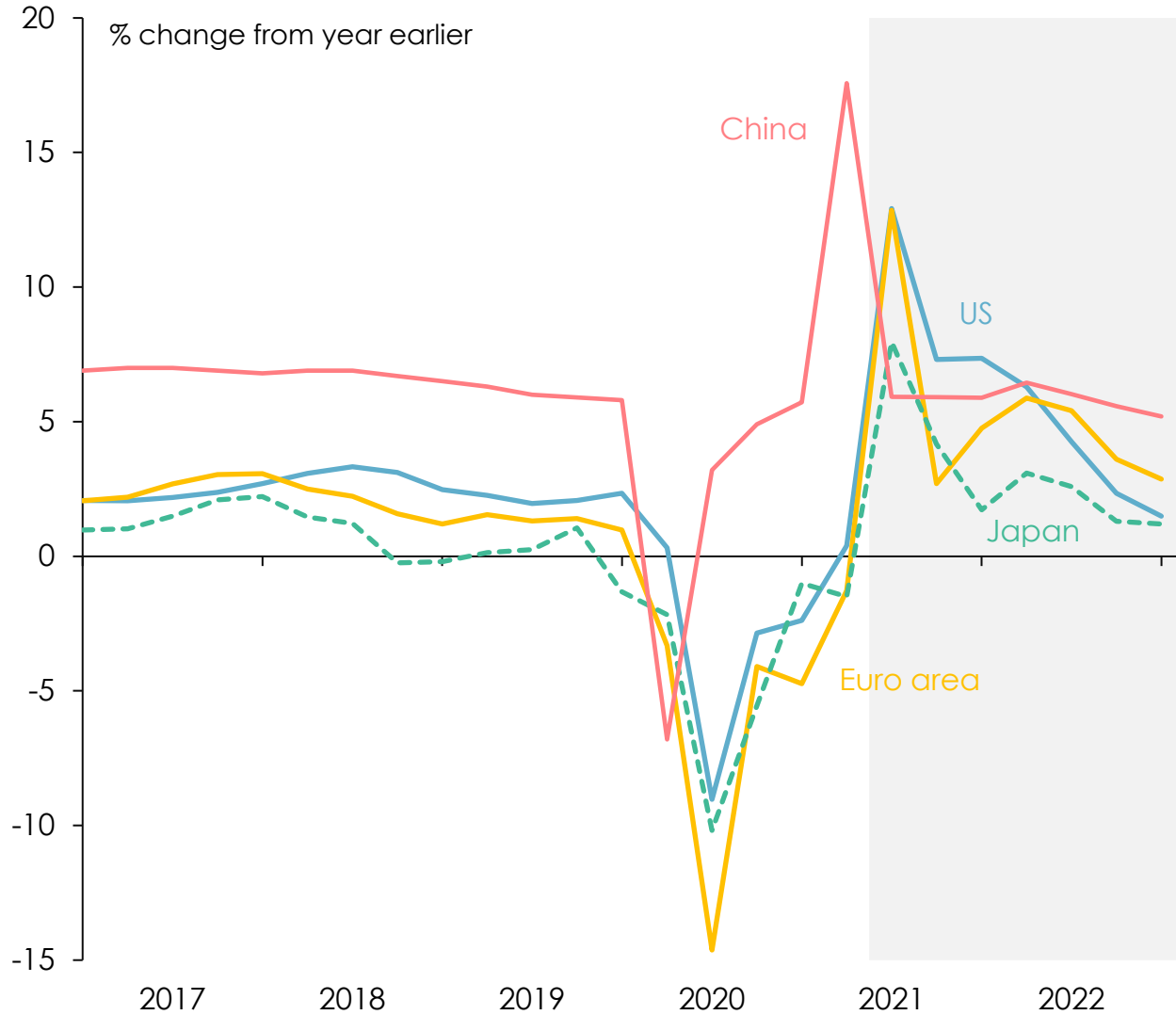
Major global institutions' growth forecasts for 2020, 2021 and 2022 compared

	<i>Actual</i>		<i>IMF</i>		<i>World Bank</i>		<i>OECD</i>		<i>Australian Treasury</i>	
	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

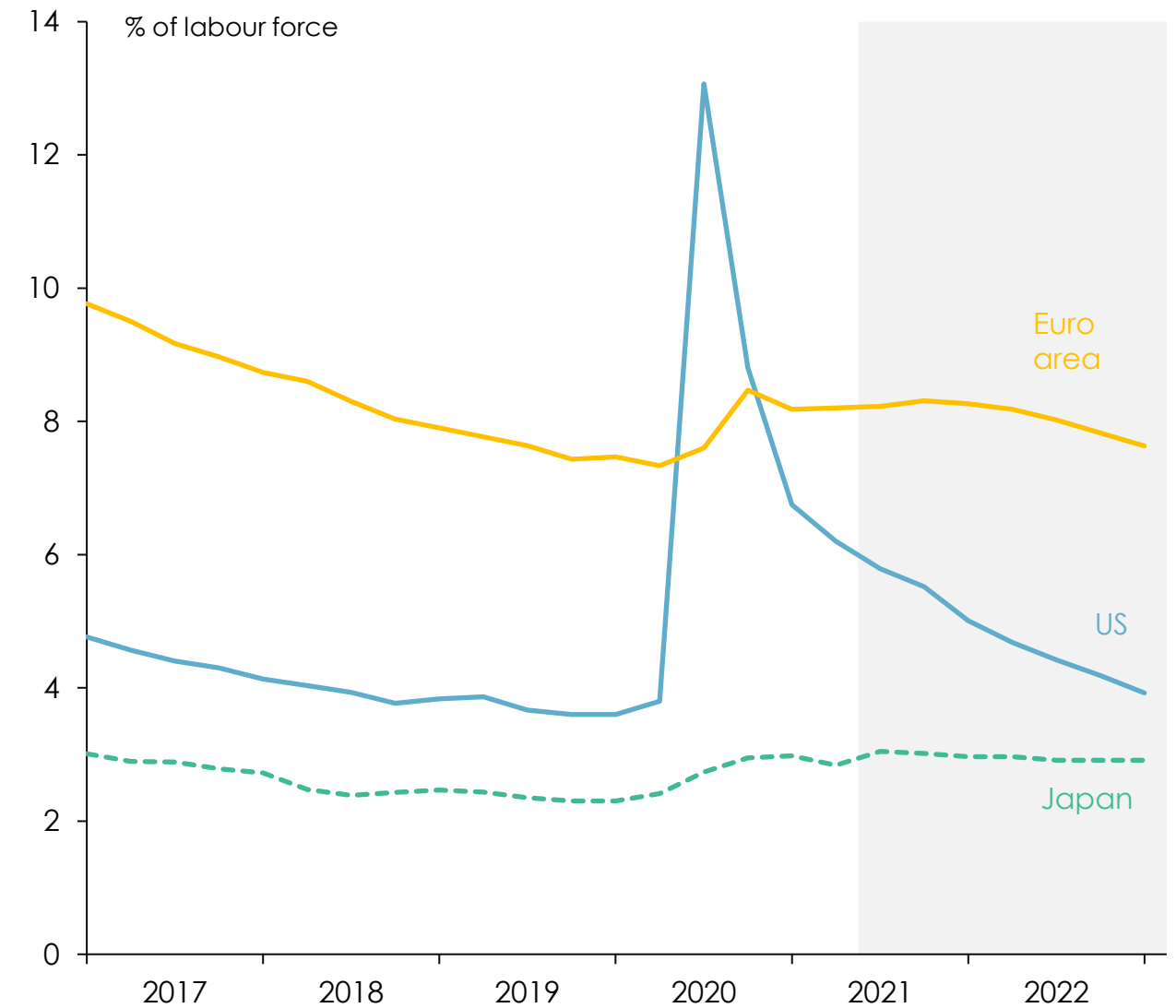
Note: * Forecasts for fiscal years beginning 1st July (and finishing 30th June following year) † Forecasts by New Zealand Treasury for fiscal years beginning 1st July
Sources : International Monetary Fund (IMF), [World Economic Outlook](#), 6th April 2021; The World Bank, [Global Economic Prospects](#), 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"](#).

... but it expects the US-led spurt of growth this year to be relatively short-lived, with growth slowing noticeably through 2022 ...

OECD real GDP growth forecasts



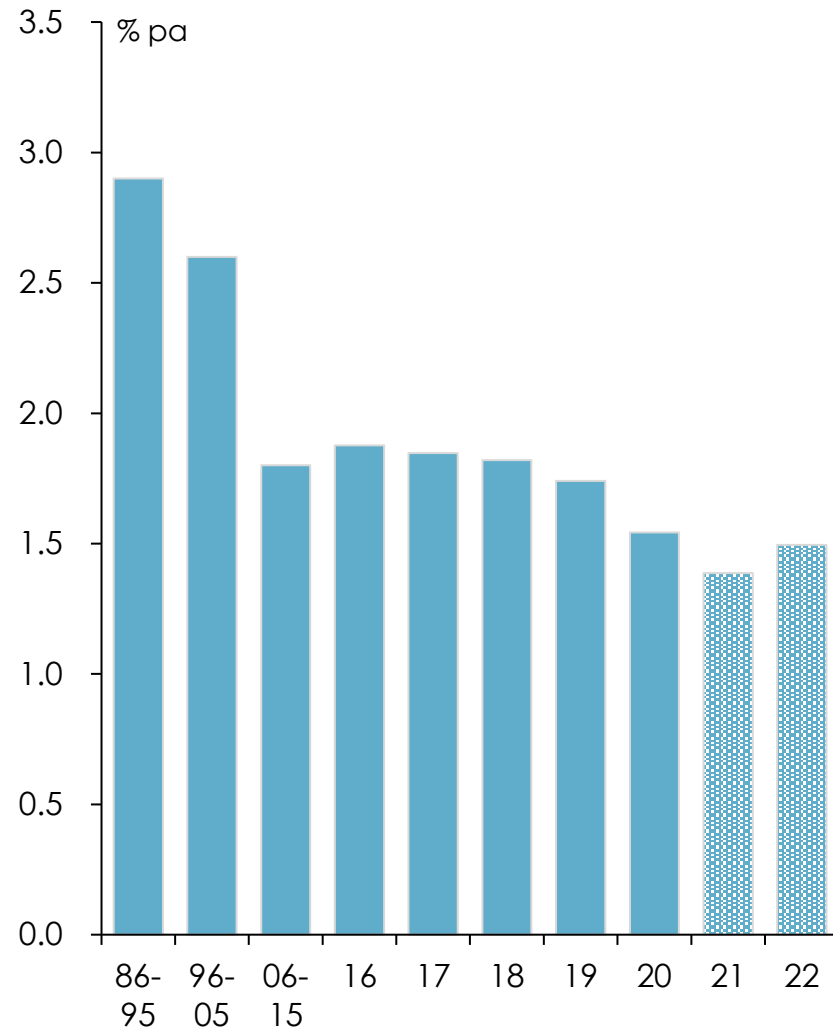
OECD unemployment rate forecasts



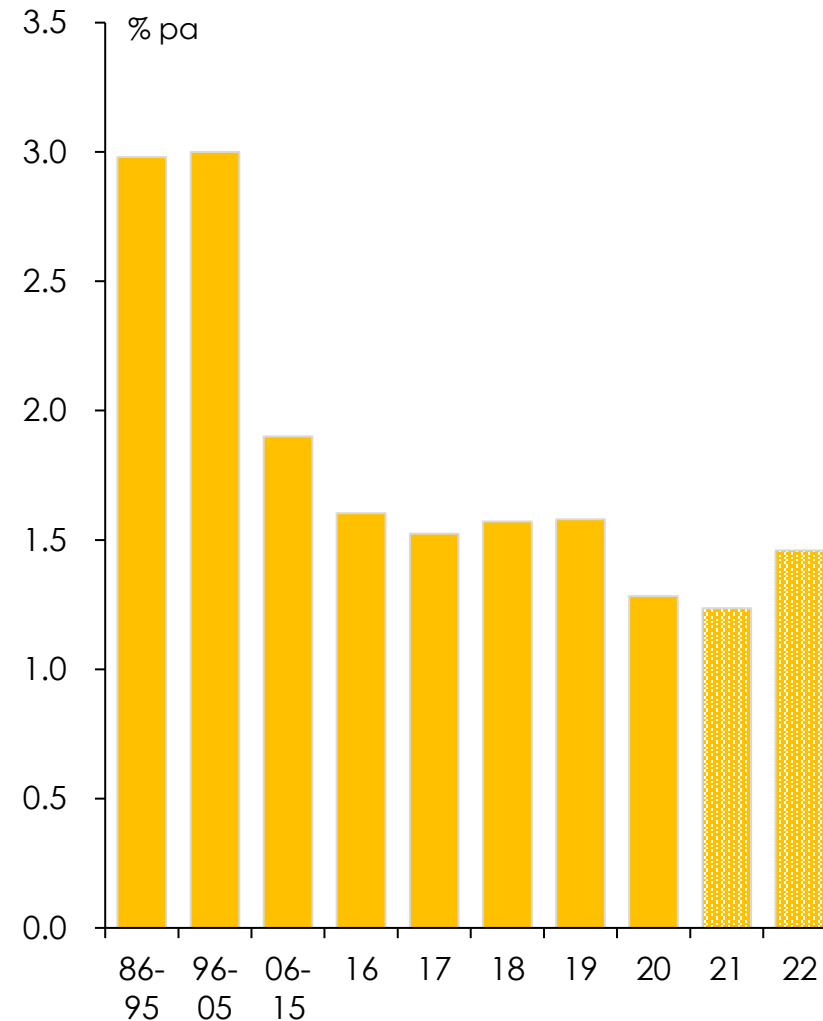
Sources: OECD, [Economic Outlook No. 109 - Statistical Annex](#), Volume 2021, No. 1, 31st May 2021; Corinna.

... because (with the partial exception of the US) nothing has been done (or will be) to tackle long-standing 'structural' headwinds to growth

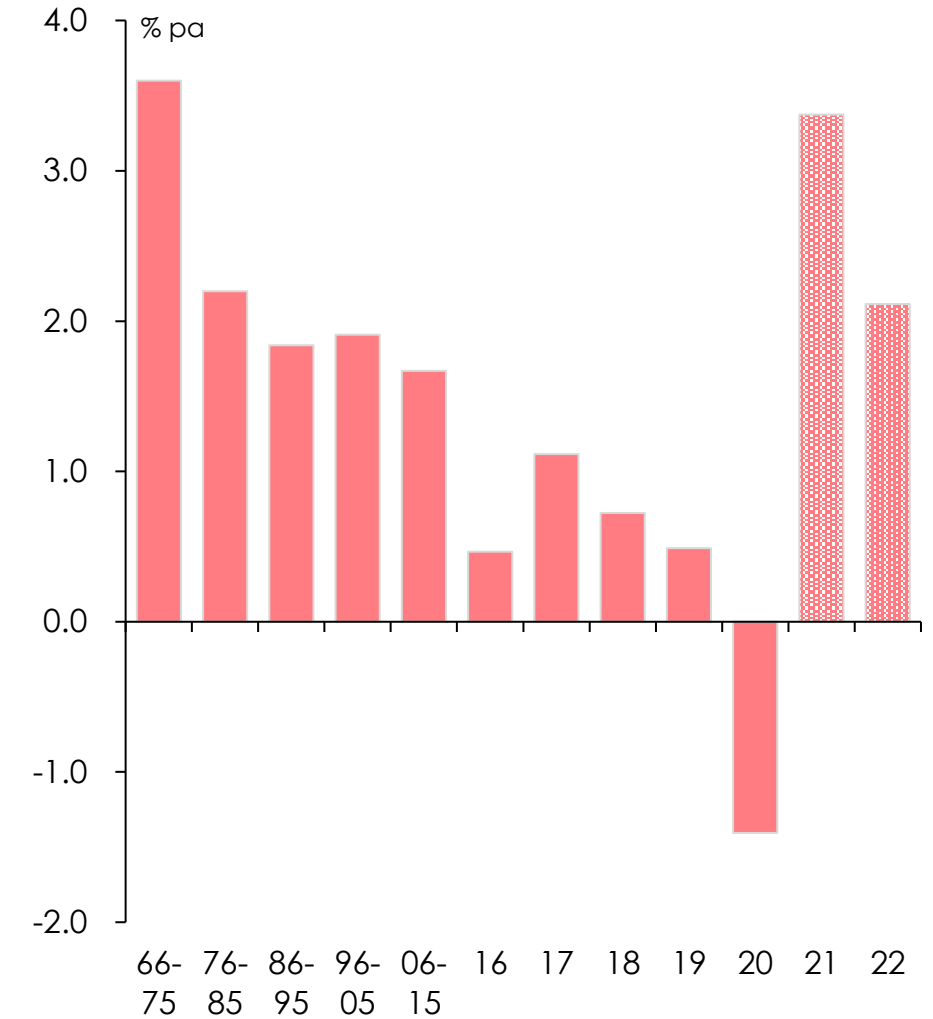
OECD area potential GDP growth



Growth in the OECD area productive capital stock



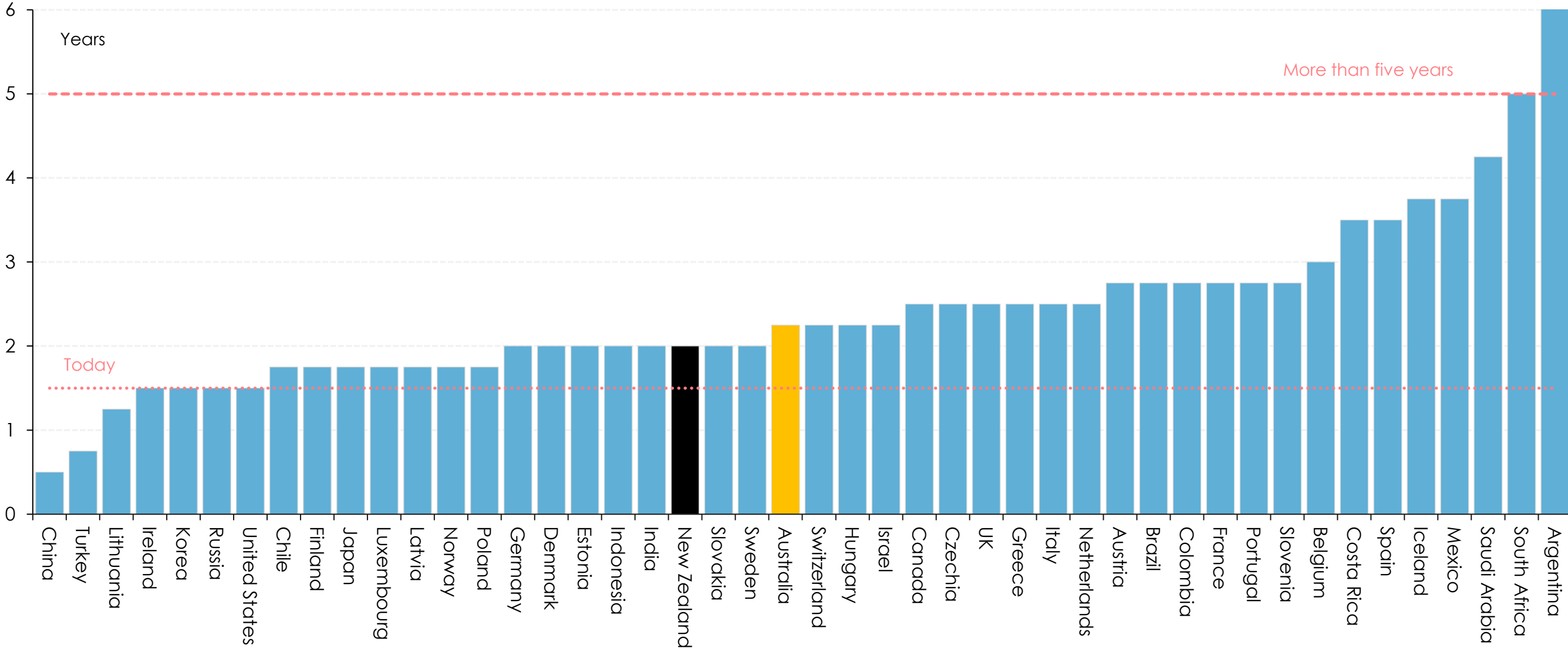
OECD area labour productivity growth



Sources: OECD, [Economic Outlook No. 109 - Statistical Annex](#), Volume 2021, No. 1, 31st May 2021; Corinna.

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

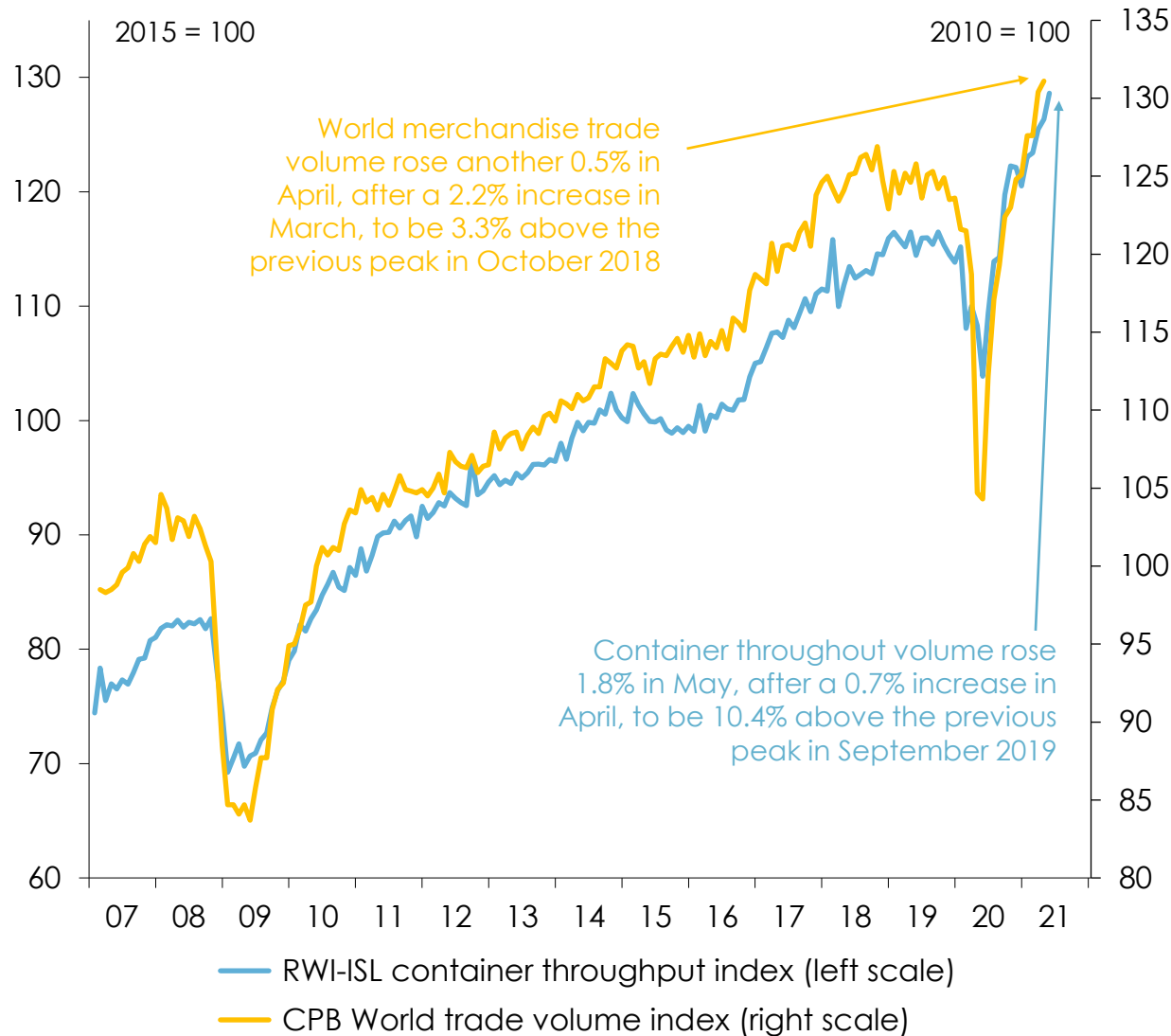
OECD estimate of number of years since Q4 2019 to return to pre-pandemic real per capita GDP



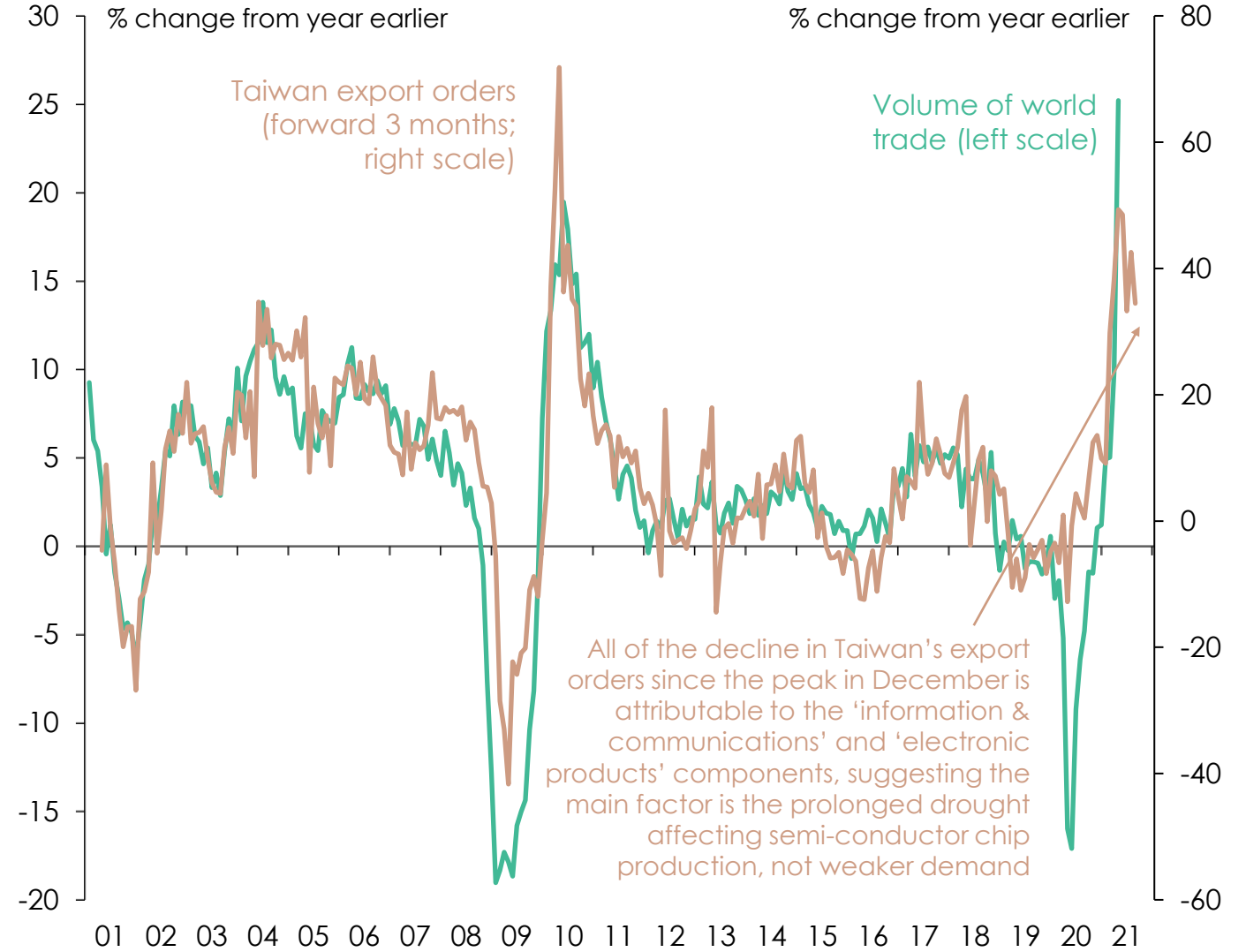
Source: Organization for Economic Co-operation & Development (OECD), [Economic Outlook No. 109](#), 31st May 2021. [Return to "What's New"](#).

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



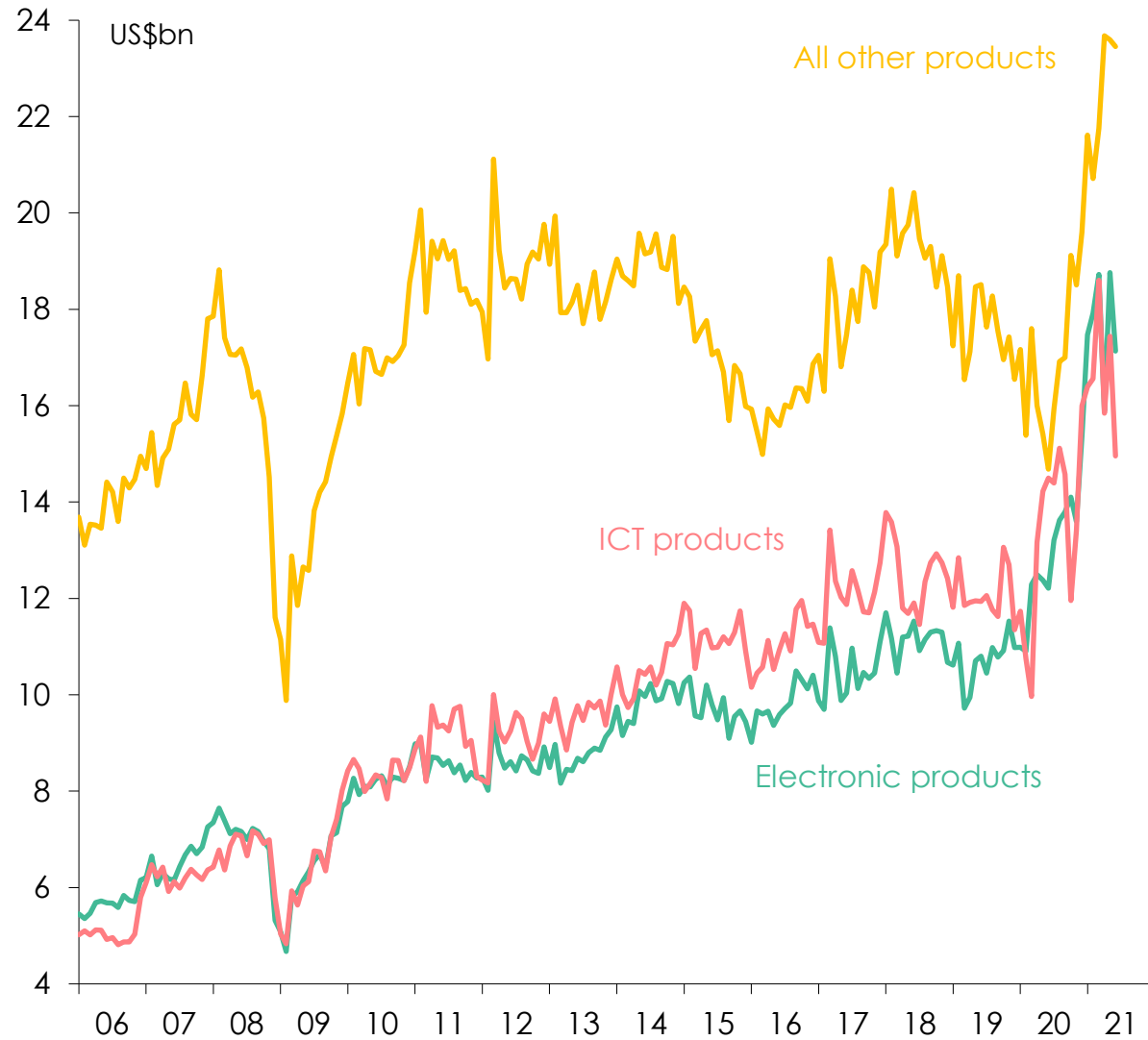
Taiwan export orders and world trade volumes



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"](#).

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

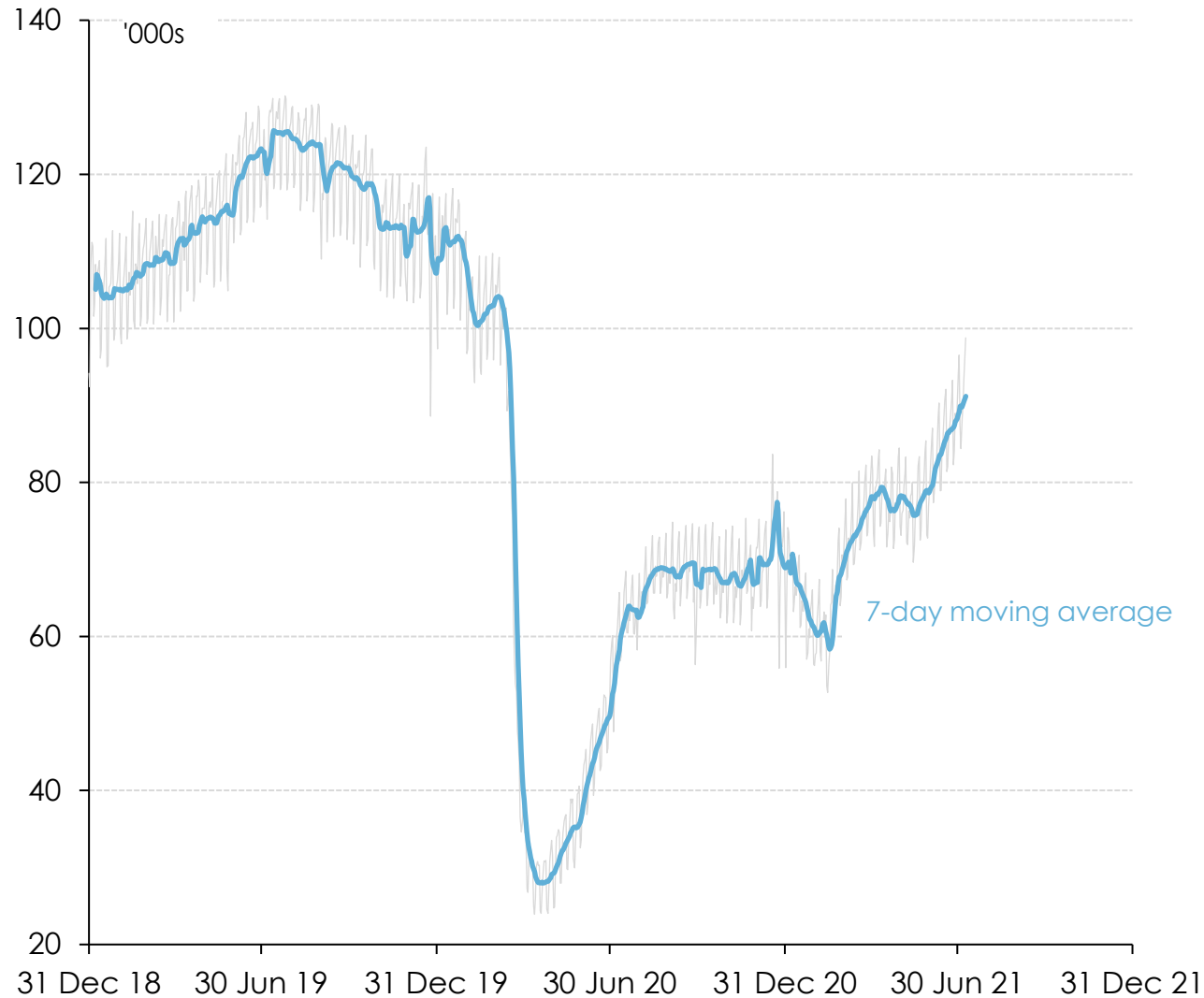


Note: Data have been seasonally adjusted by Corinna using Refinitiv Datastream.
Source: Taiwan [Ministry of Economic Affairs](#). [Return to "What's New"](#).

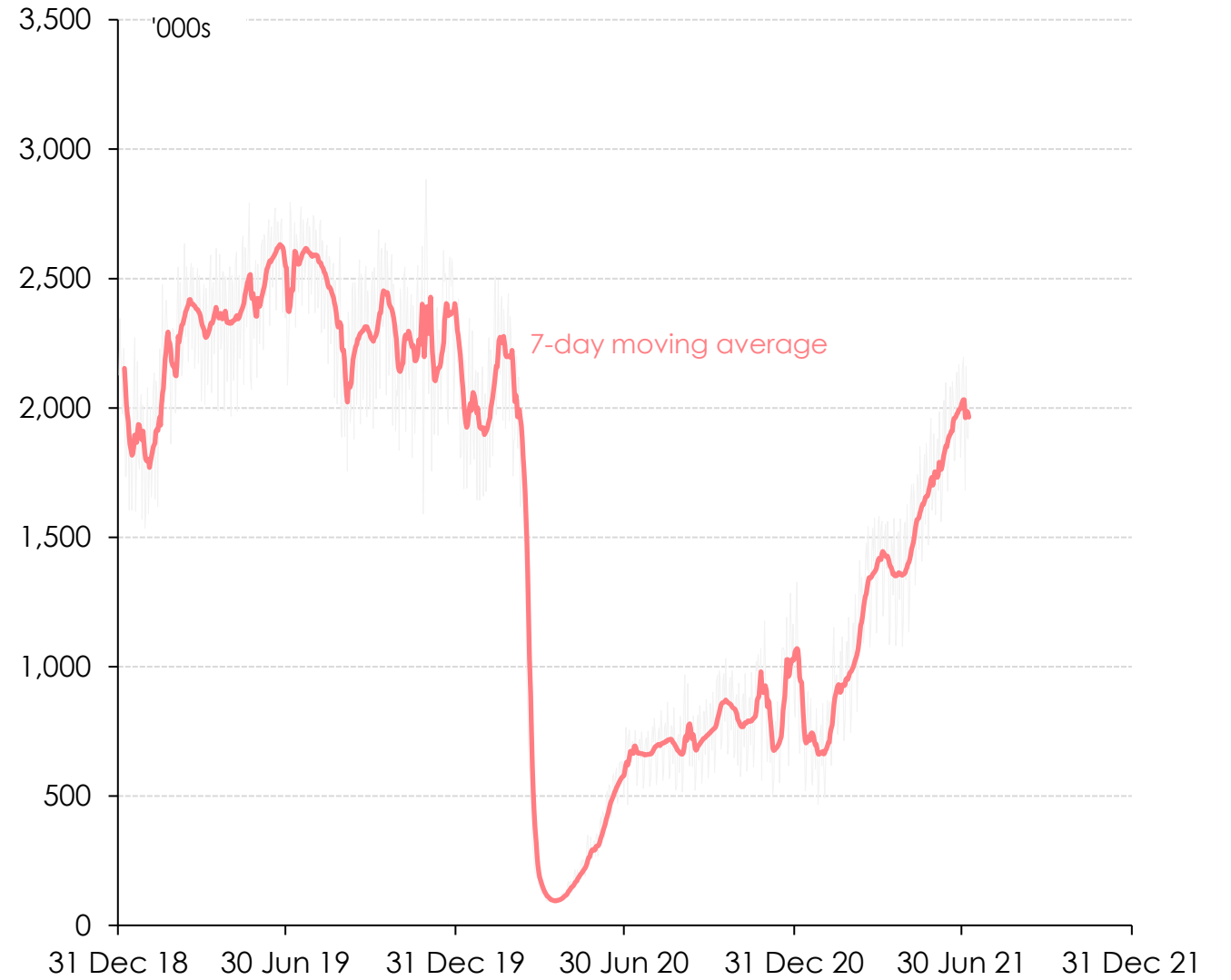
- ❑ Taiwan accounts for 63% of the US\$85bn global semi-conductor chip market
 - Korea accounts for 18%, and China 6%
 - one Taiwanese company, Taiwan Semiconductor Manufacturing Co (TSMC) has 54% of the world market, and United Microelectronics Co (UMC) a further 7% (Samsung accounts for Korea's 18%)
- ❑ 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 TSMC'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 has been rising strongly since February with only a brief interruption in late April

Daily commercial flights worldwide



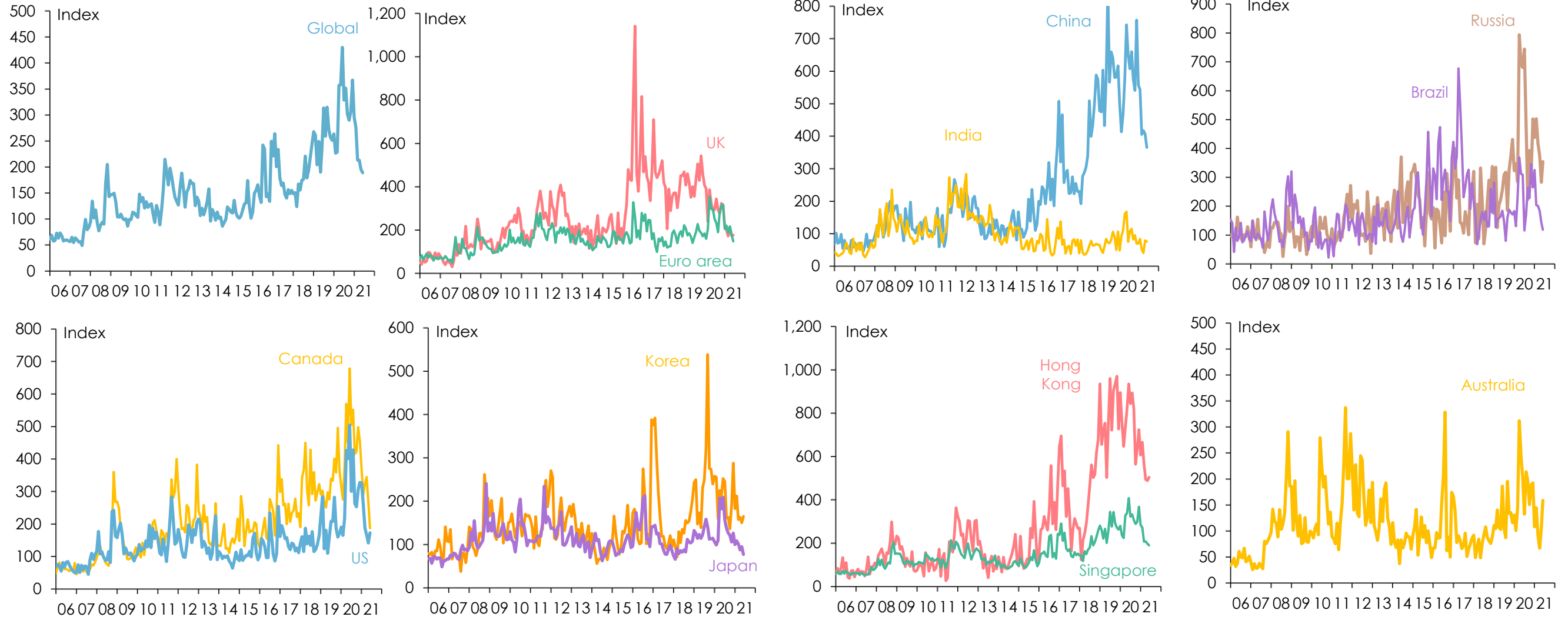
Daily US TSA security checks



Note: Commercial flights include commercial passenger flights, cargo flights, charter flights, and some business jet flights. Data up to 9th July for number of commercial flights and 8th July for TSA security checks. Thicker coloured lines are 7-day centred moving averages of daily data plotted in thin grey lines. Sources: [Flightradar24.com](https://www.flightradar24.com); [US Transport Safety Administration](https://www.transportation.gov) (at last, something useful produced by aviation 'security'!!!). [Return to "What's New"](#).

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

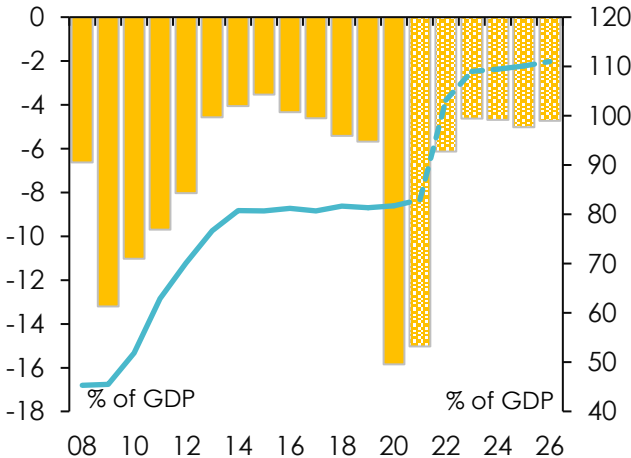
Economic policy uncertainty indices



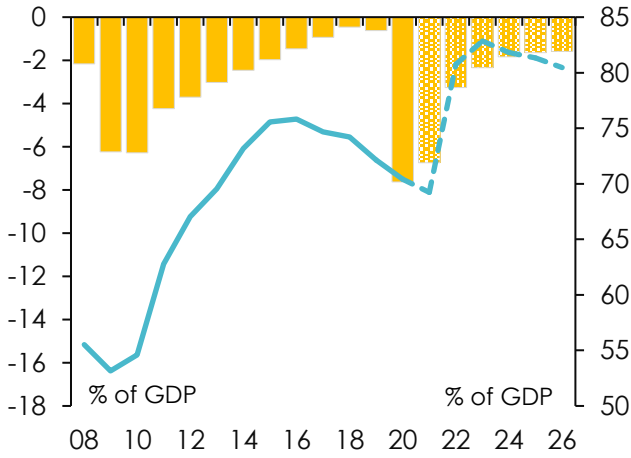
Note: The Economic Policy Uncertainty Index is derived from a count of newspaper articles containing the words "uncertain" or "uncertainty", "economy" or "economic", and policy-relevant terms pertaining to regulation, monetary or fiscal policy, central bank, taxation, tariffs, deficit, budget, etc. The index for the euro area is a GDP-weighted average of indices for Germany, France, Italy, Spain, the Netherlands and Ireland constructed by Corinna. Latest data are for May 2021.
 Source: [Global Policy Uncertainty](#); Scott Banker, Nick Bloom & Steven Davis, 'Measuring Economic Policy Uncertainty', *Quarterly Journal of Economics*, 131, no. 4 (November 2016), pp. 1593-1636. [Return to "What's New"](#).

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

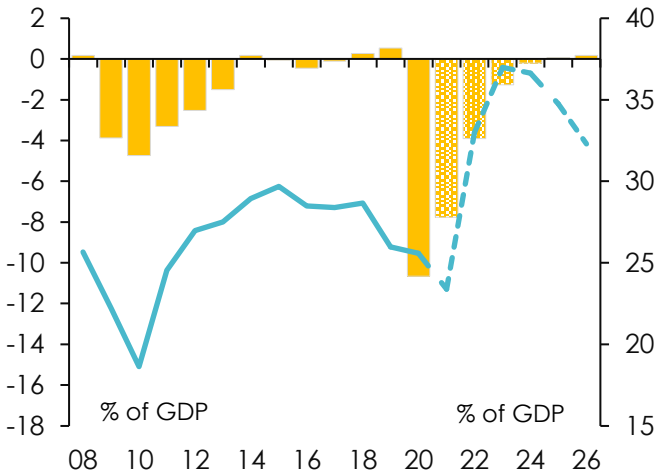
United States



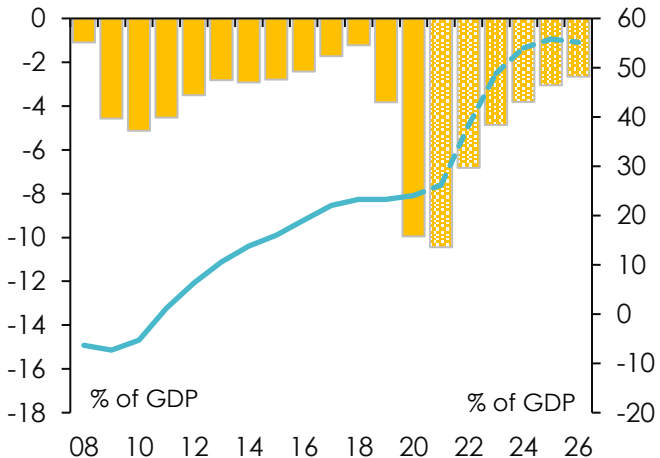
Euro area



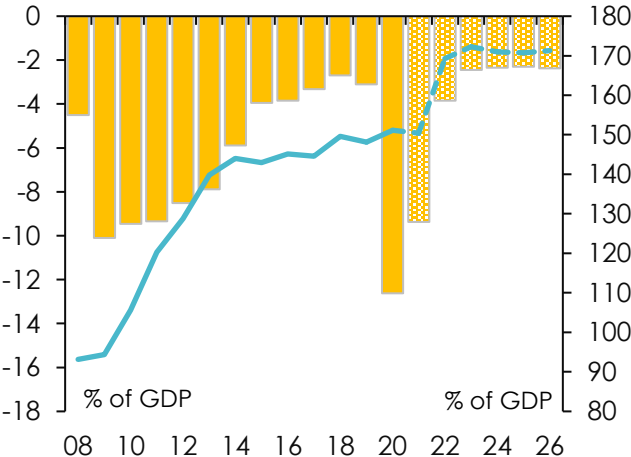
Canada



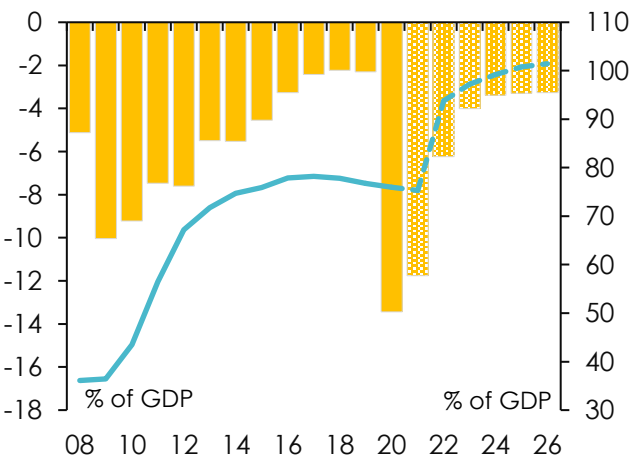
Australia



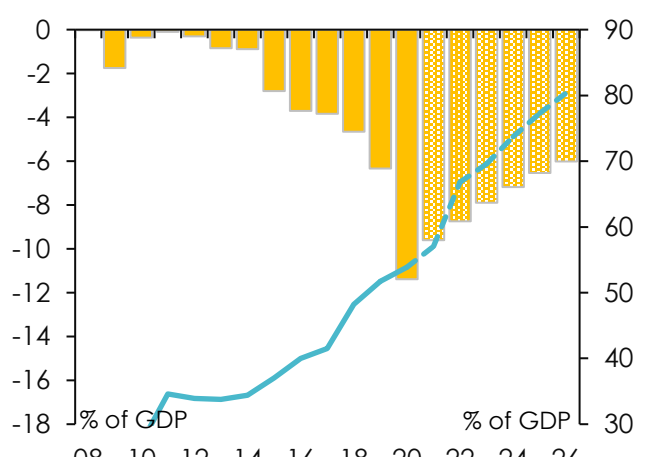
Japan



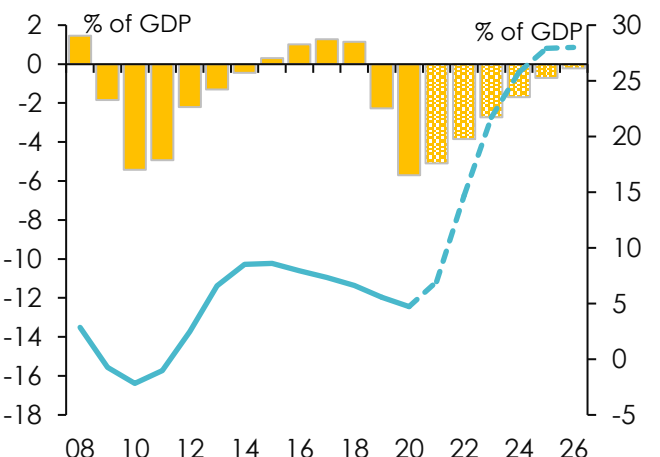
United Kingdom



China



New Zealand

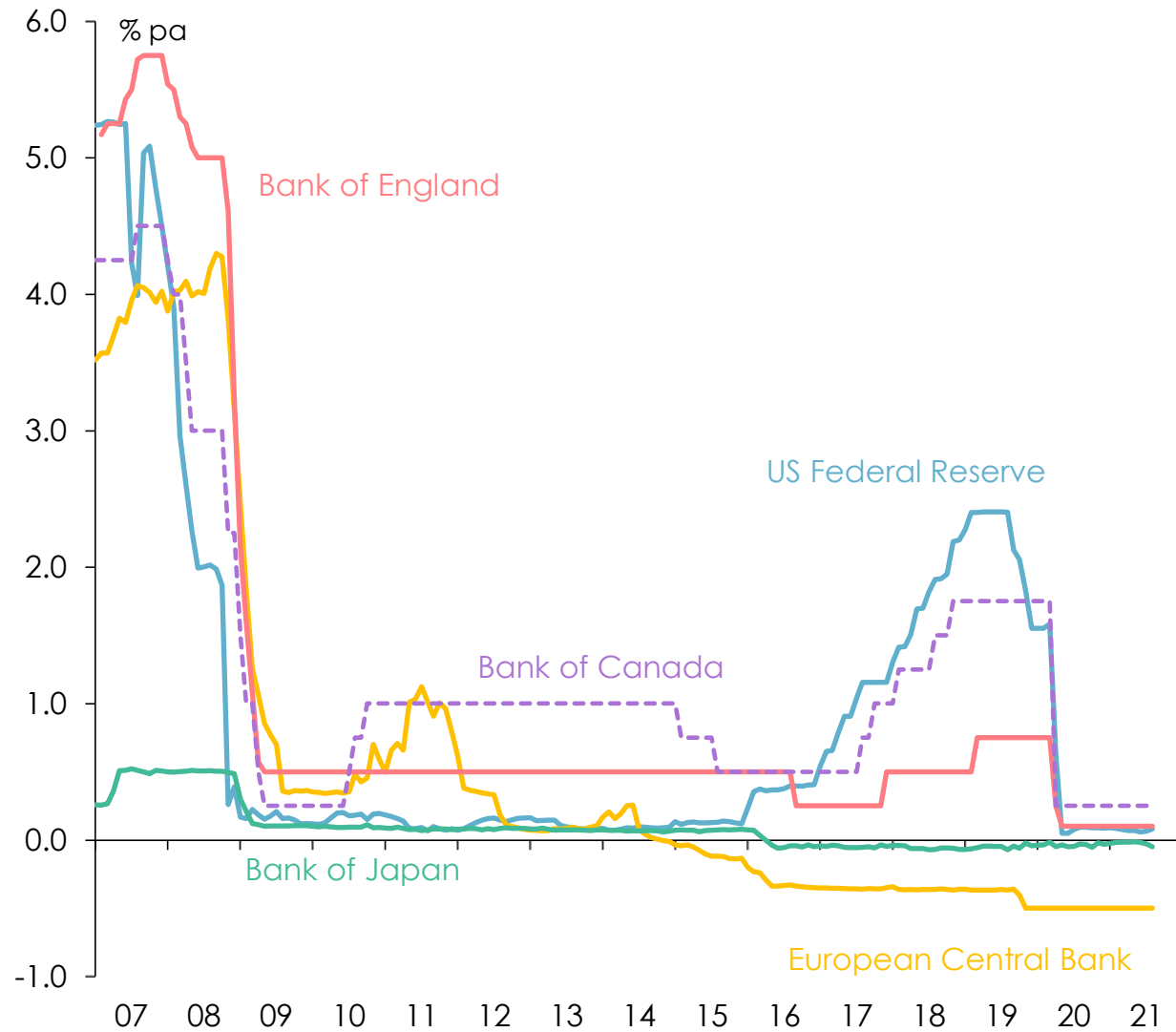


General government overall fiscal balance (left scale)
 General government net debt (right scale)

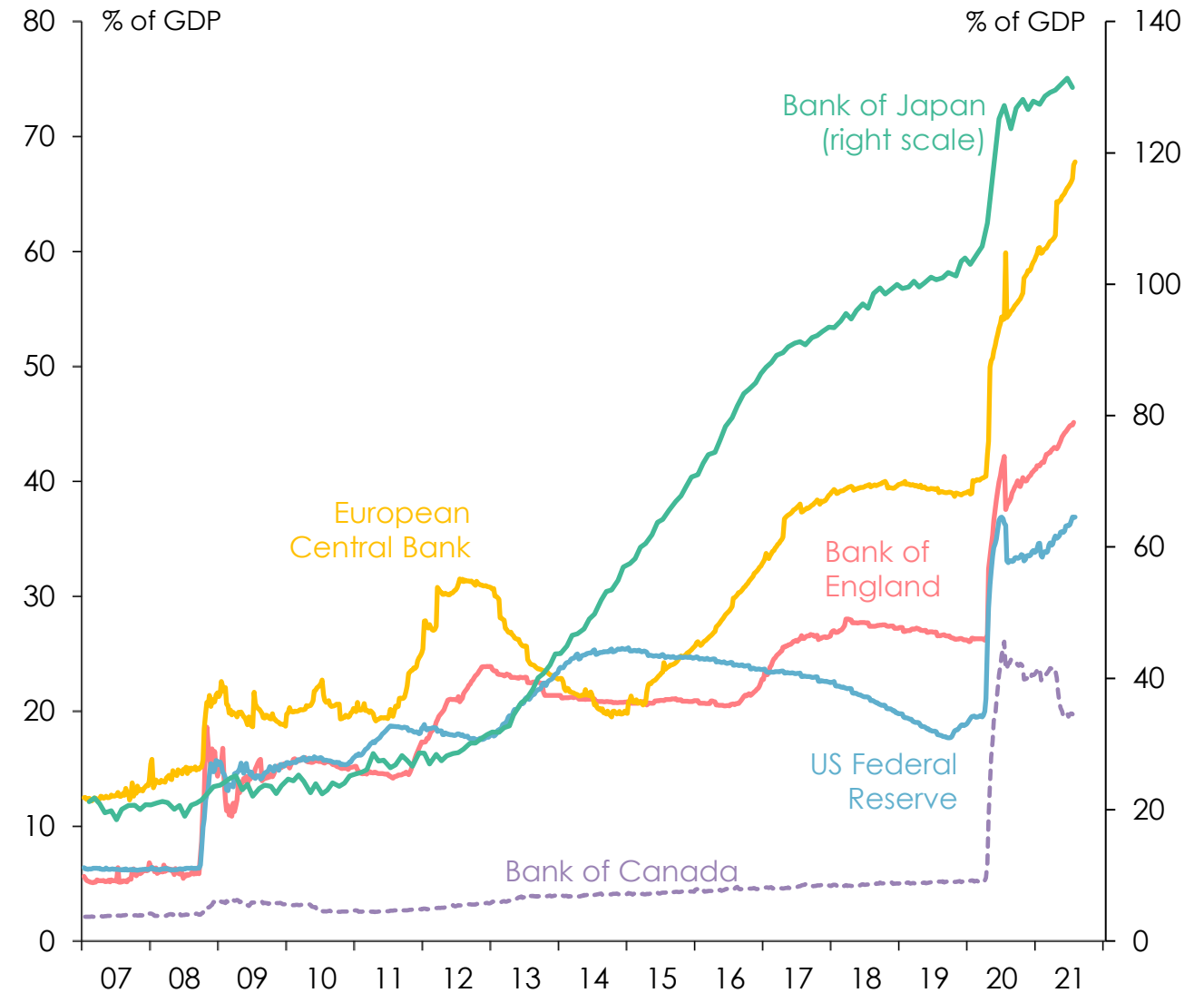
Note: China debt is gross debt, not net. Sources: International Monetary Fund, [Fiscal Monitor](#), and [World Economic Outlook](#), April 2021. [Return to "What's New"](#)

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

Major central bank policy interest rates



Major central bank balance sheets



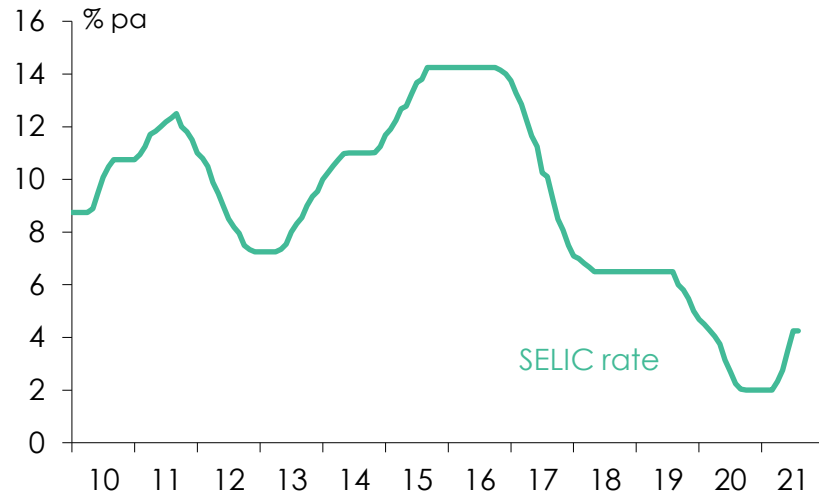
Note: estimates of central bank assets as a pc of GDP in Q2 2020 were inflated by the sharp drop in nominal GDP in that quarter: conversely, declines in estimates of central bank assets as a pc of GDP in Q3 2020 are in large part due to rebounds in nominal GDP. Sources: [US Federal Reserve](#); [European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

The ECB this week announced a change to its inflation target following a 'strategy review'

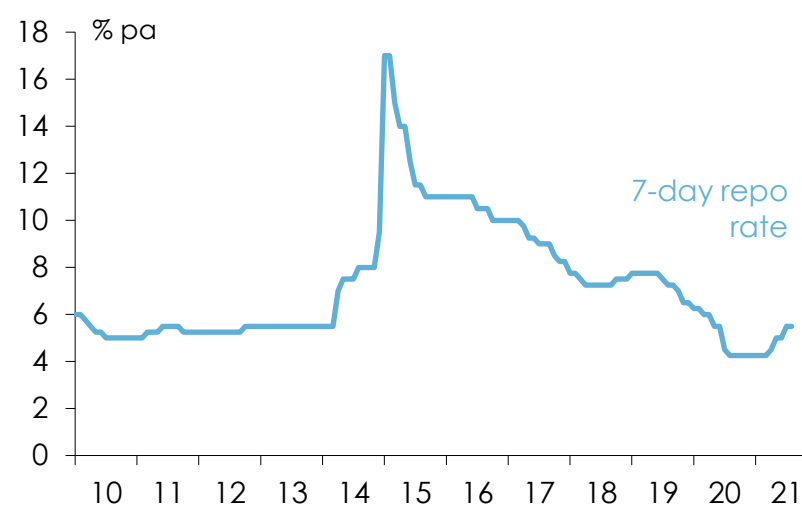
- ❑ The European Central Bank on Thursday announced the outcome of its [strategy review](#) intended to ensure that its monetary policy strategy is “fit for purpose, both today and in the future”
- ❑ The ‘headline’ from this strategy review is that the ECB’s inflation target will shift from “below, but close to, 2%” to simply “2% over the medium term”
 - which the ECB says is “simple, clear and easy to communicate and [will therefore] contribute to a more solid anchoring of longer-term inflation expectations”
- ❑ Importantly, both the [Monetary Policy Strategy Statement](#) and, in her [Press Conference remarks](#), ECB President Christine Lagarde, emphasized that this is a symmetrical target
 - which in turn means that the ECB is willing to tolerate “a transitory period in which inflation is moderately above target” in the aftermath of “especially forceful or persistent monetary policy measures to avoid negative deviations from the target becoming entrenched” (something which had not previously been at all clear)
 - however she also stressed “very squarely” that the ECB is not doing ‘average inflation targeting’ [like the Fed](#)
- ❑ The ECB’s target will continue to be expressed in terms of ‘headline’ (not ‘core’ or ‘underlying’) inflation – but the ECB will also have regard to movements in housing costs
 - ultimately the ECB would like to see a measure of owner-occupied housing (OOH) costs in the harmonized index of consumer prices (HICP) which it targets – but, in the meantime, an index of OOH costs will play “an important supplementary role in assessing the impact of housing costs on inflation” and thus will “inform” the ECB’s monetary policy assessments
- ❑ The strategy review also formally ditched the ‘two pillars’ framework for analyzing the ‘risks to price stability’ (inherited from the Bundesbank) in favour of an “integrated analytical framework”
 - in which the economic analysis of “real and nominal economic developments” (including the analysis of “structural trends” and the use of “newly available granular data” is combined with a monetary and financial analysis which focuses on the “operation of the monetary transmission mechanism”

Six central banks have raised their policy interest rates in the six weeks (two of them, Brazil and Russia, for the third time this year)

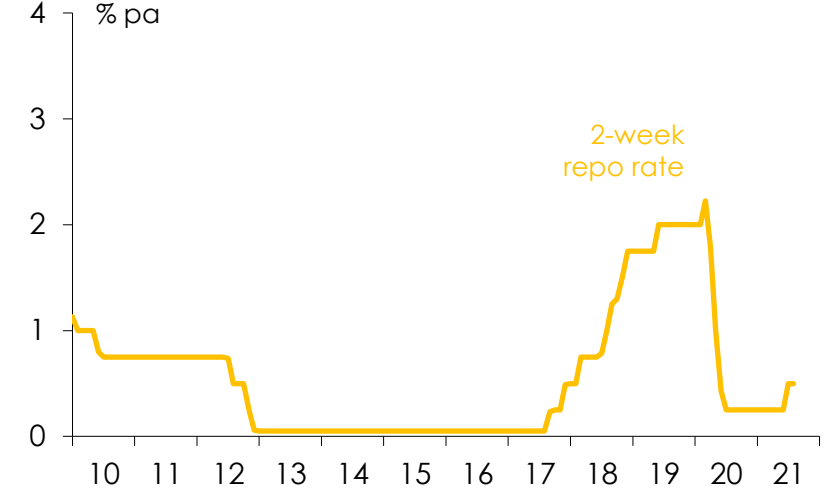
Brazil



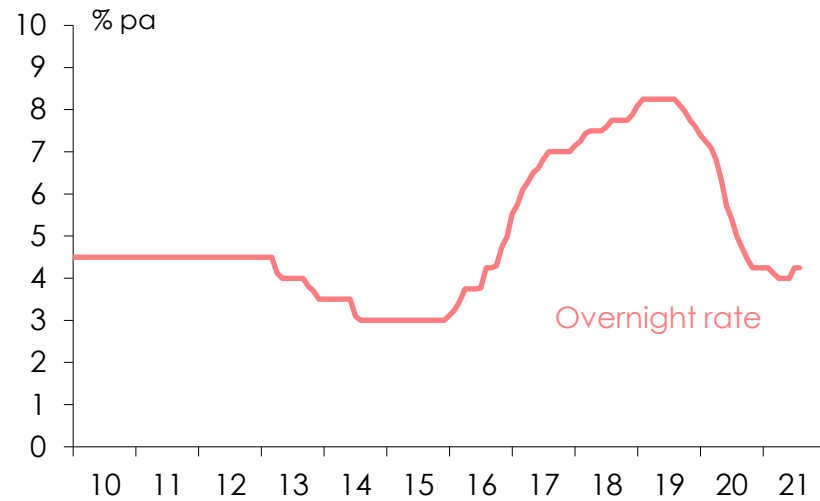
Russia



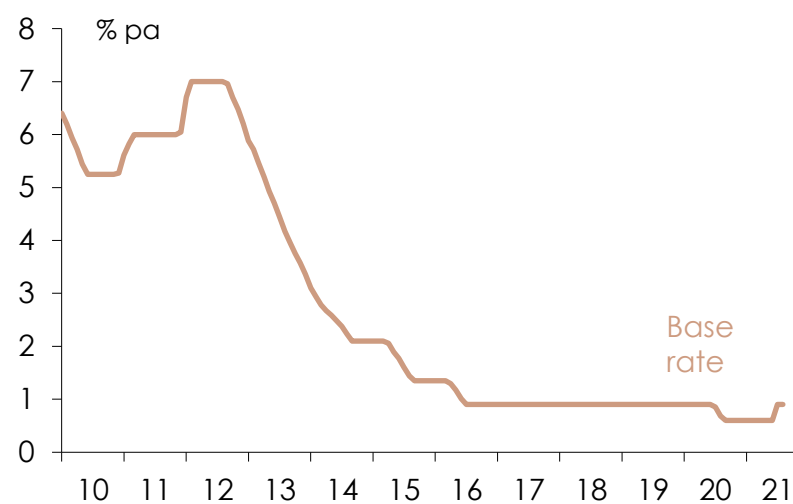
Czechia



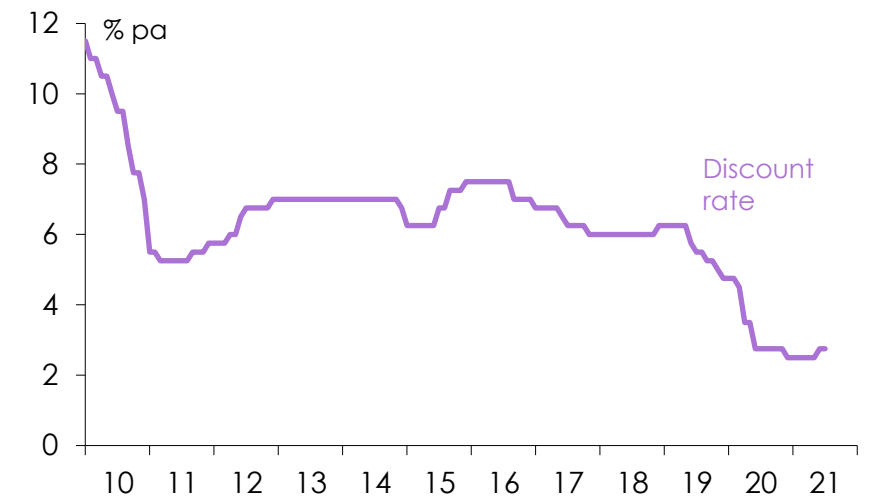
Mexico



Hungary



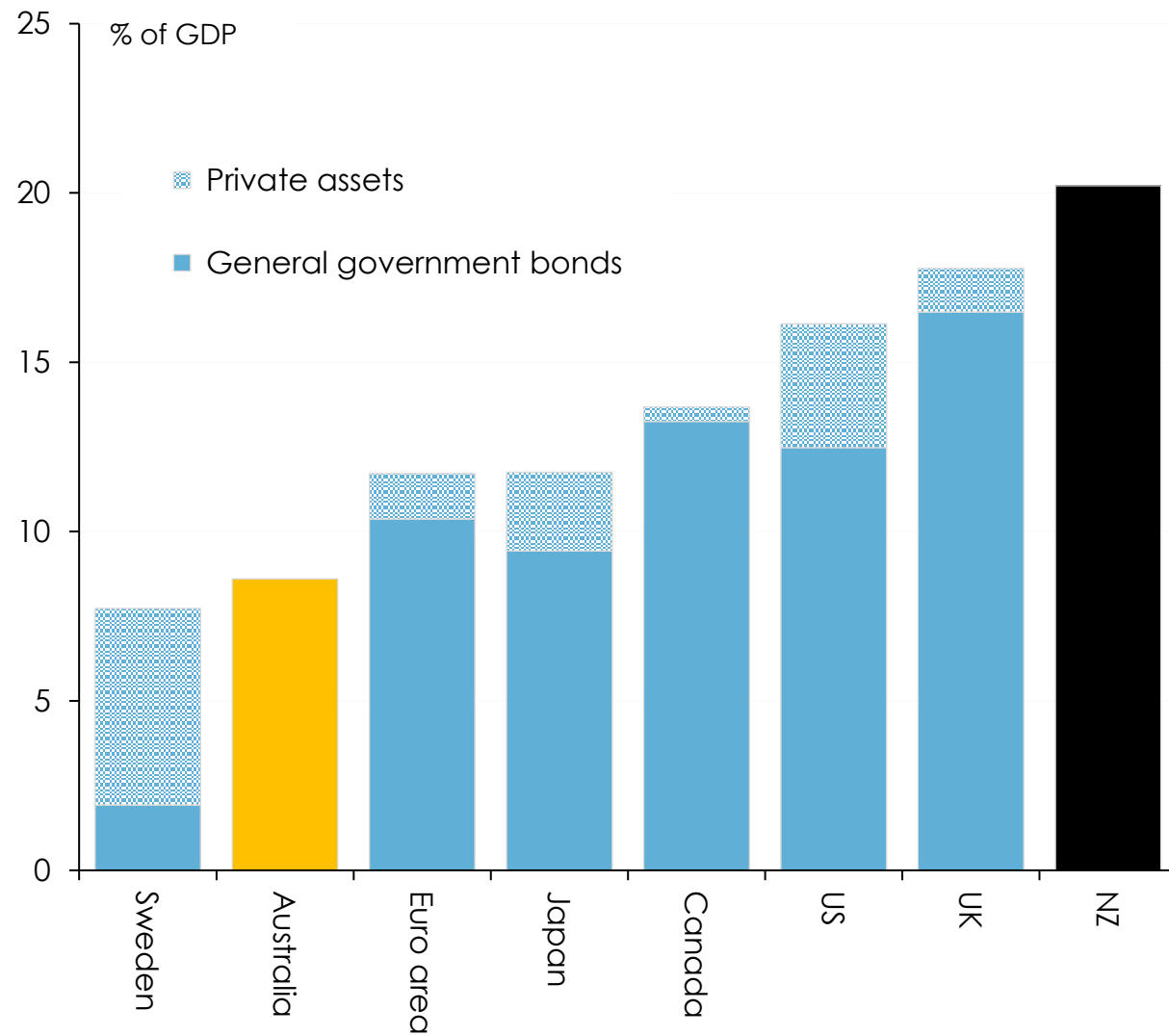
Iceland



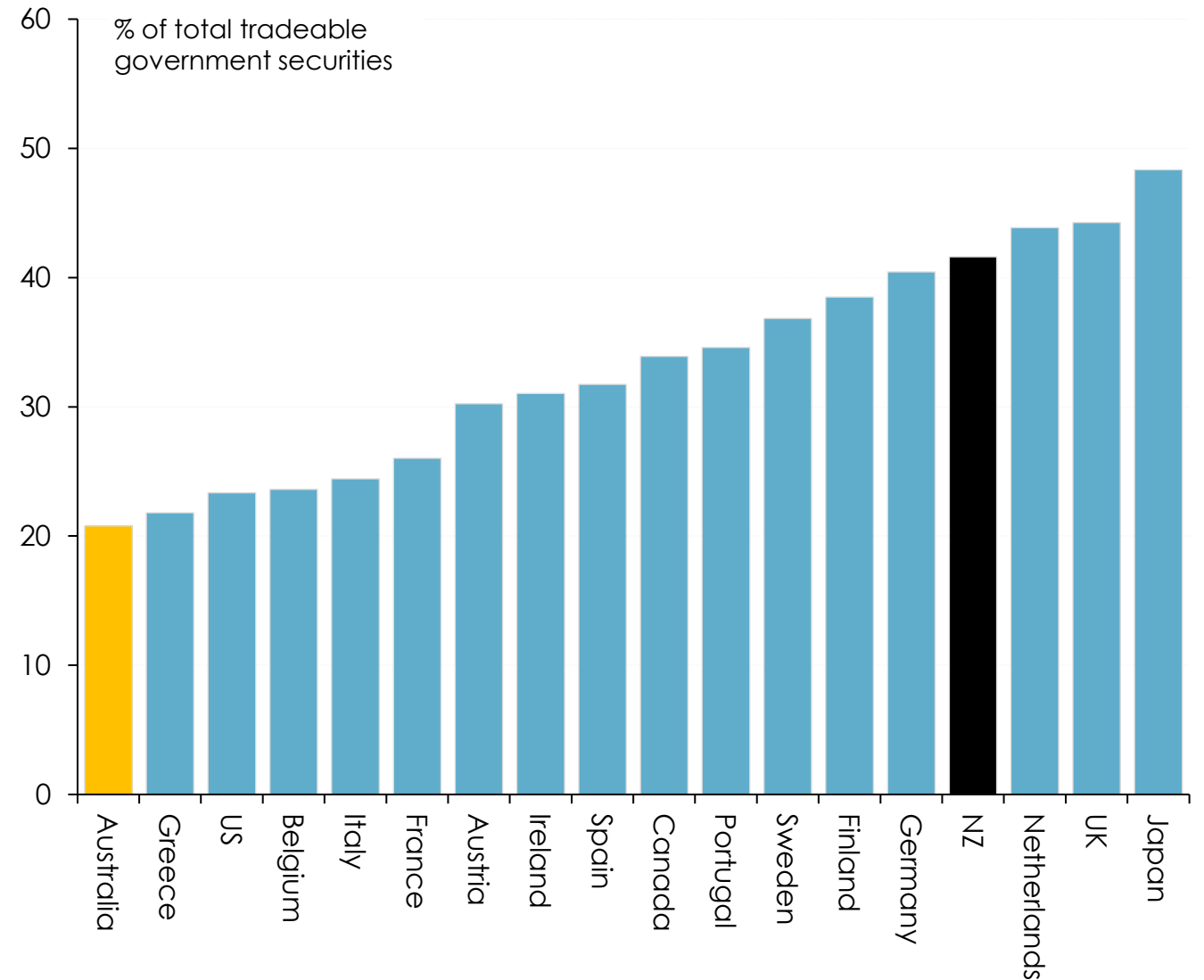
Sources: [Banco Central do Brasil](#); [Banco de México](#); [Bank of Russia](#); [Magyar Nemzeti Bank](#); [Česká národní banka](#); [Seðlabanki Íslands](#).

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



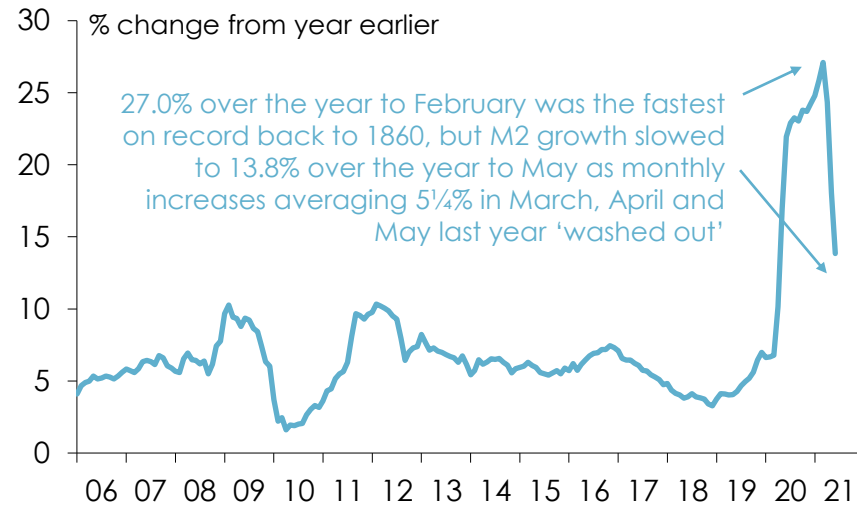
Central bank holdings of government securities



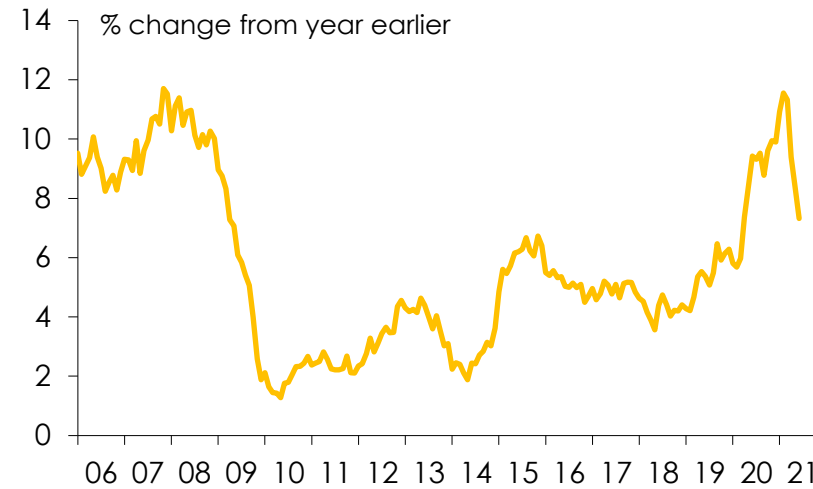
Note: 'Private assets' include corporate bonds, commercial paper, asset-backed securities and exchange-traded funds.
 Source: OECD, [Economic Outlook No. 109](#), 31st May 2021. [Return to "What's New"](#).

Money supply growth has slowed sharply from the peaks recorded earlier this year as large monthly increases a year ago 'wash out'

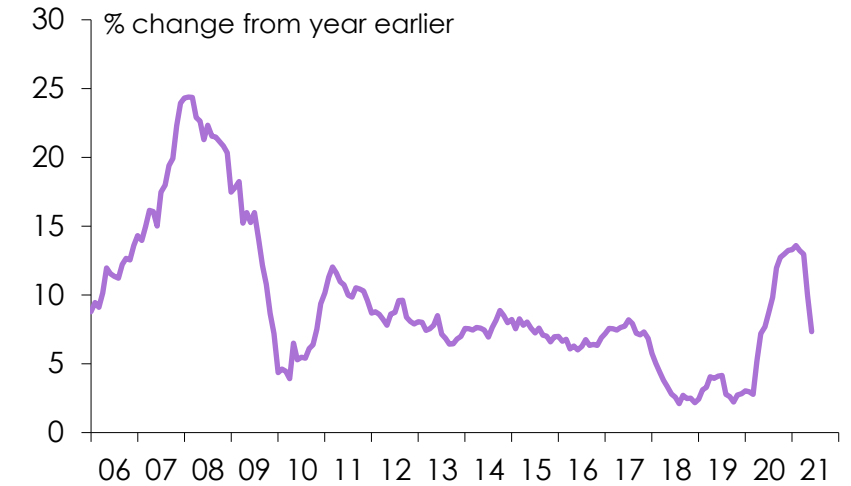
US M2



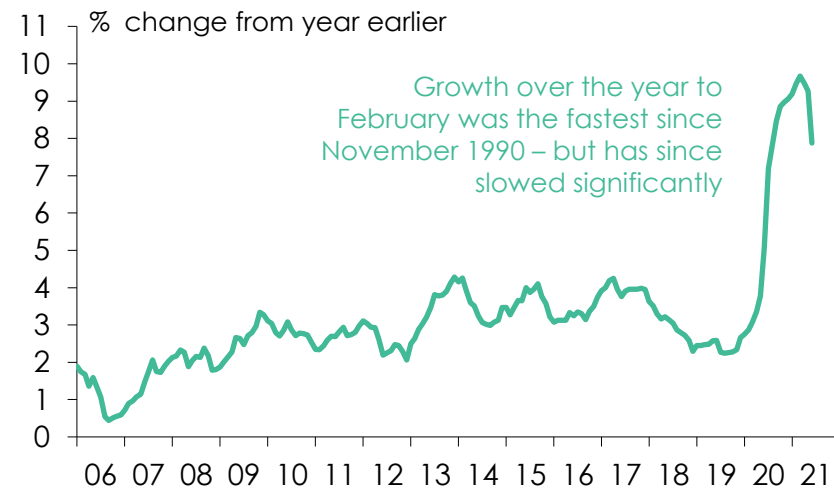
Euro area M2



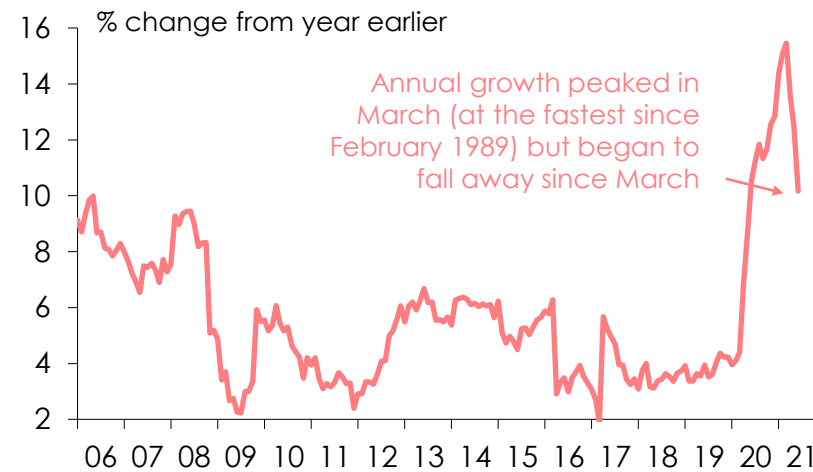
Australia M3



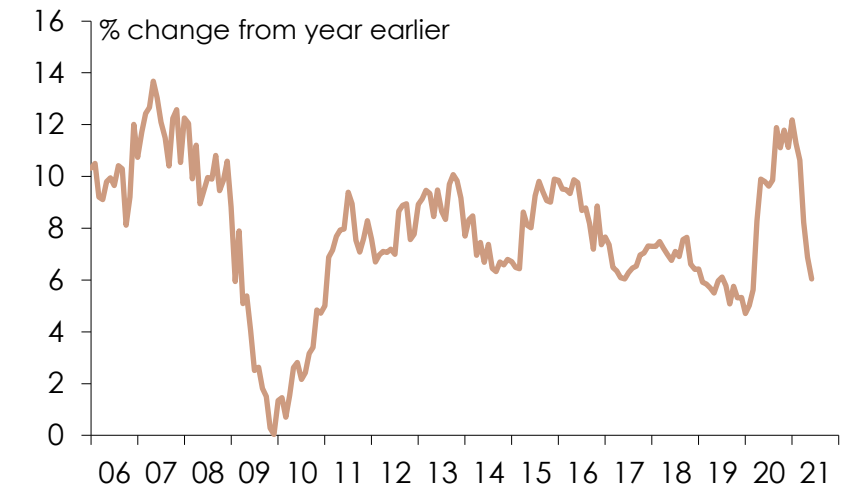
Japan M2 + CDs



UK M2

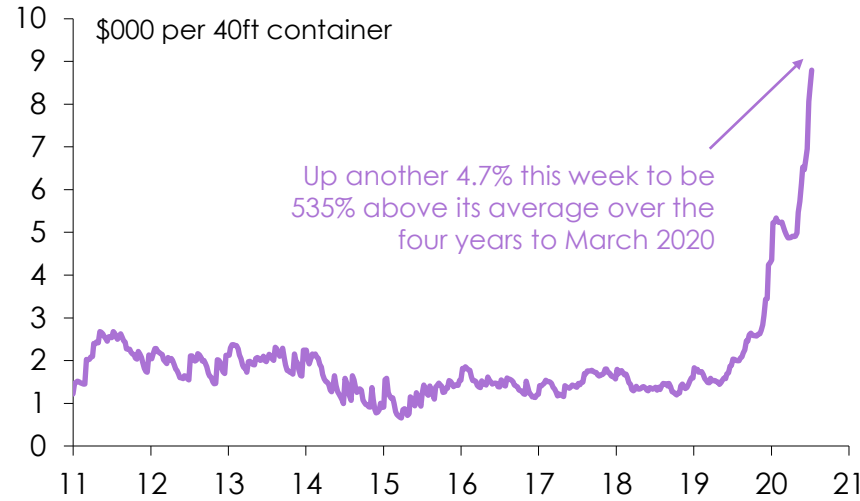


New Zealand M3

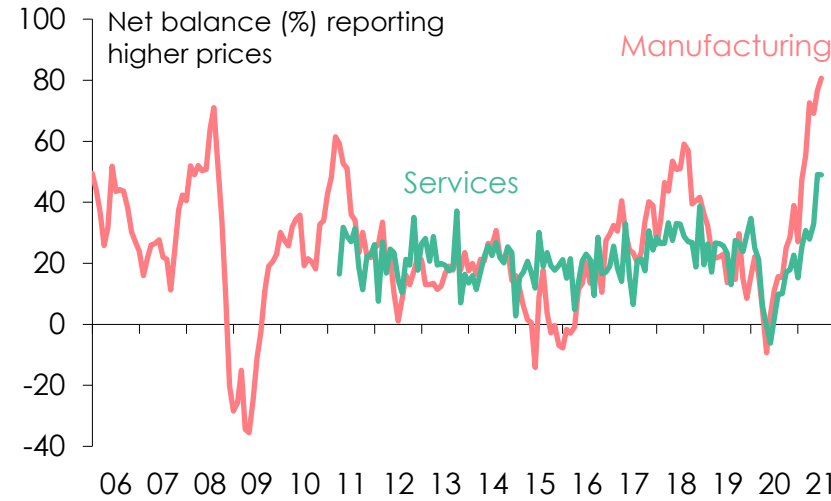


Container freight rates rose another 4% this week, with no near-term end to this (or other) sources of 'upstream' price pressure in sight

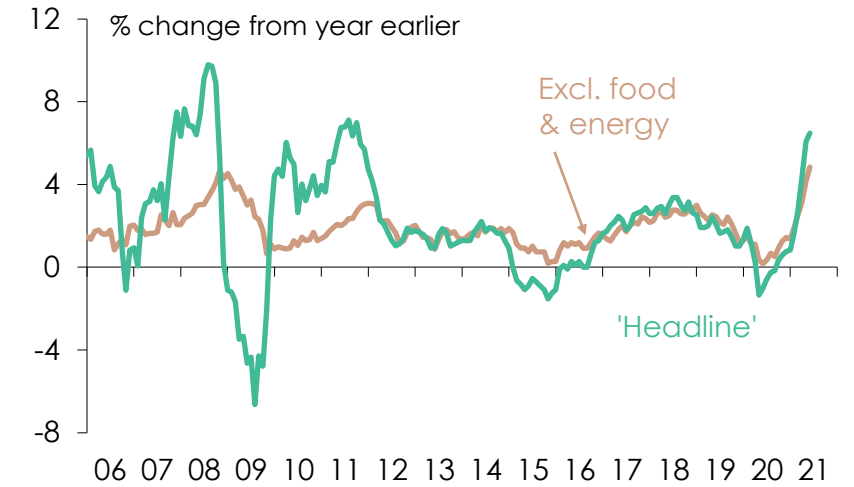
Container freight costs



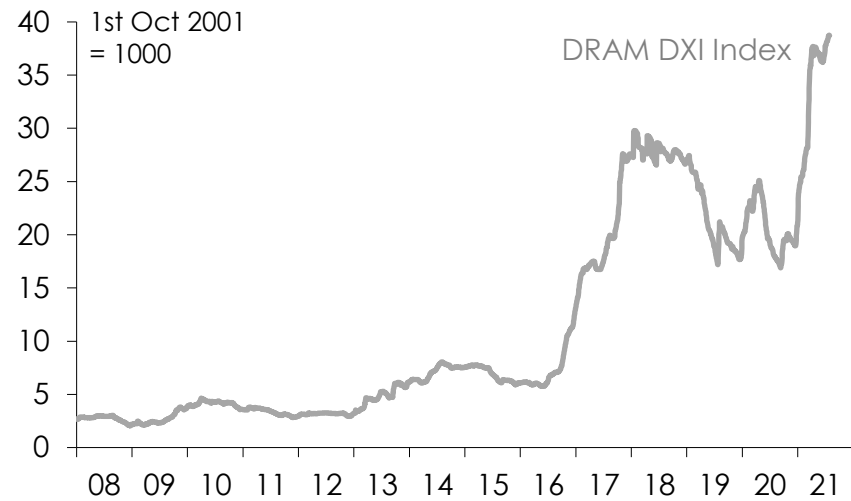
Philadelphia Fed survey prices paid



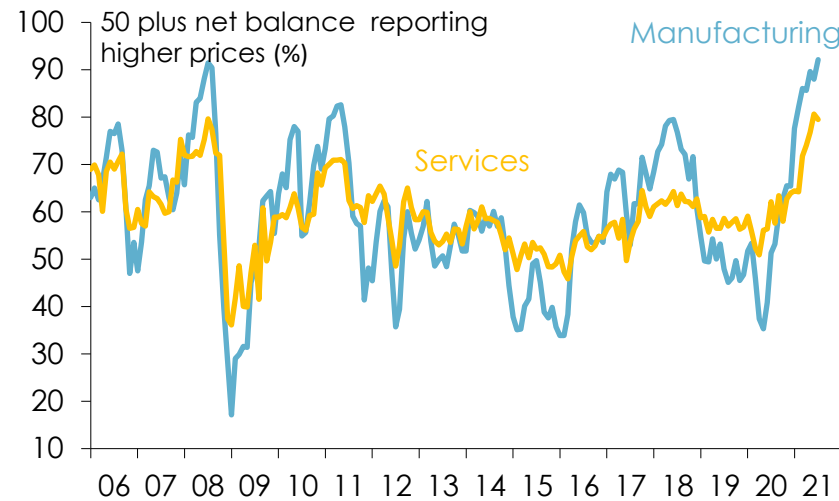
US producer price index (PPI)



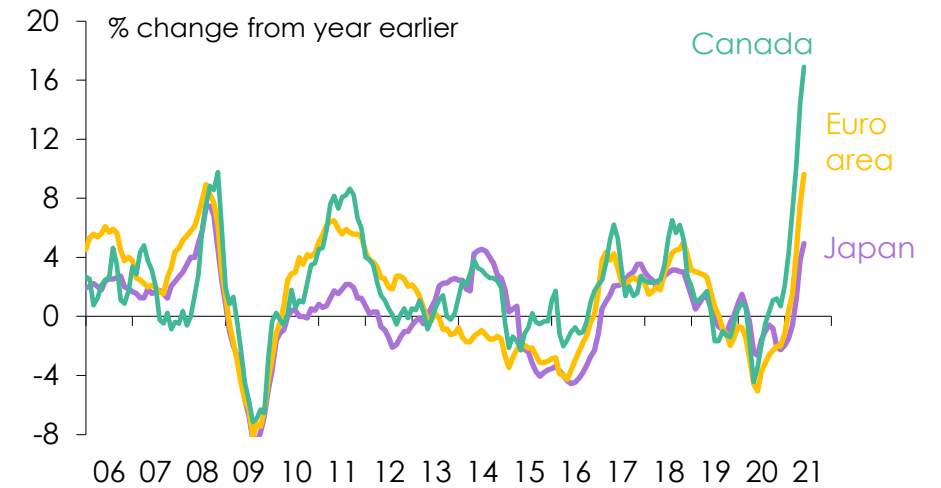
Semiconductor prices



US ISM prices paid



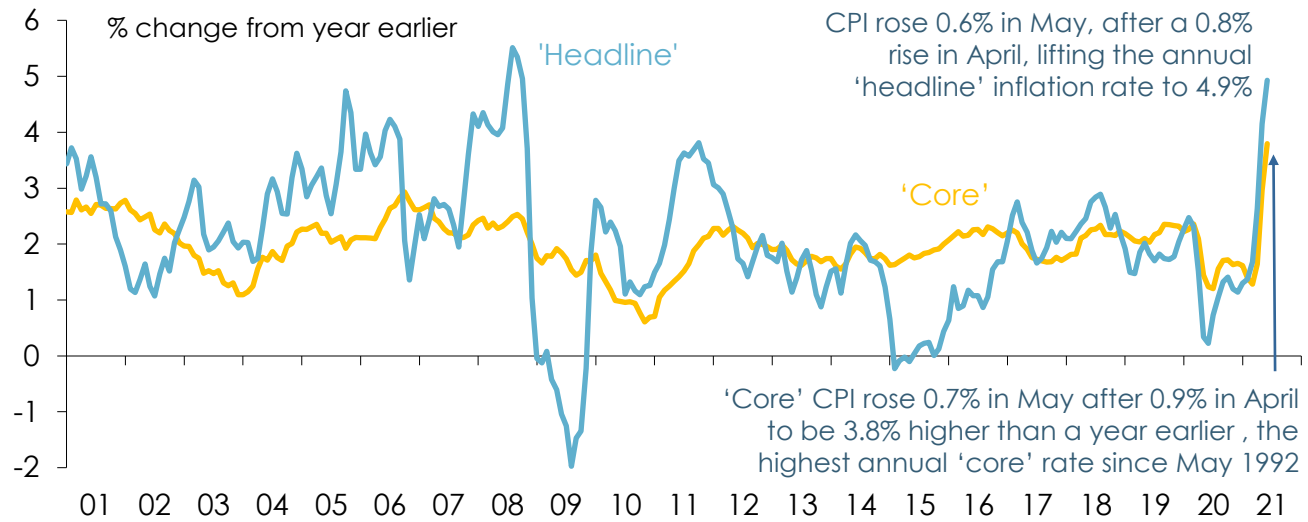
Other countries' PPIs



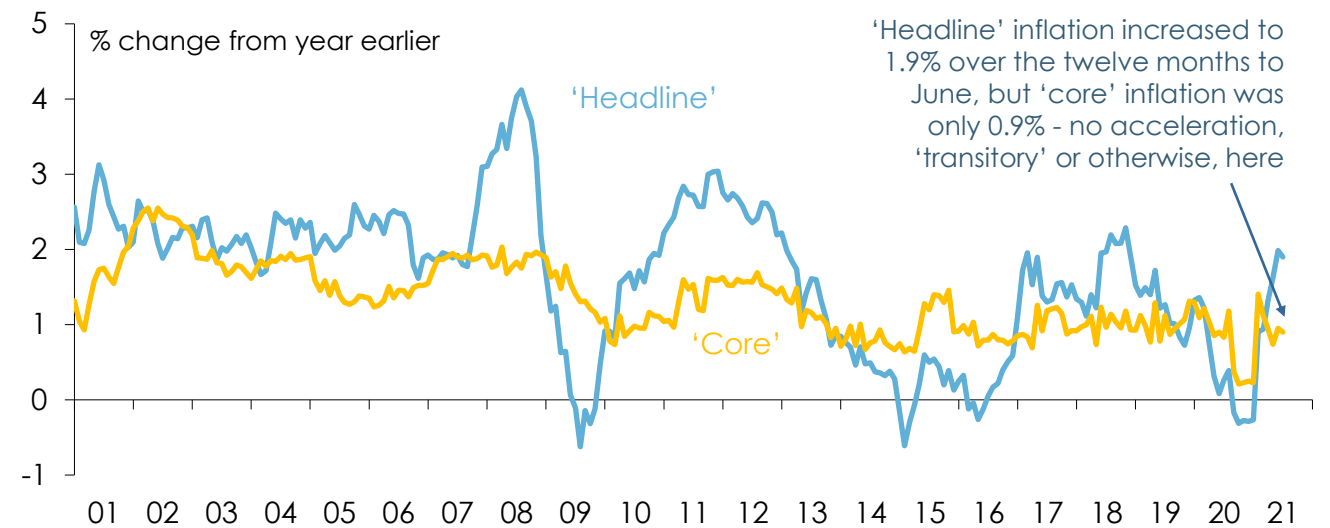
Sources: [Drewry Supply Chain Advisors](#); [Refinitiv Datastream](#); [US Institute for Supply Management](#); [Federal Reserve Bank of Philadelphia](#); [US Bureau of Labor Statistics](#); [Eurostat](#); [Bank of Japan](#); [Statistics Canada](#). [Return to "What's New"](#).

Annual 'headline' and 'core' inflation rates have risen significantly in the US and the UK, but not in the euro area or Japan

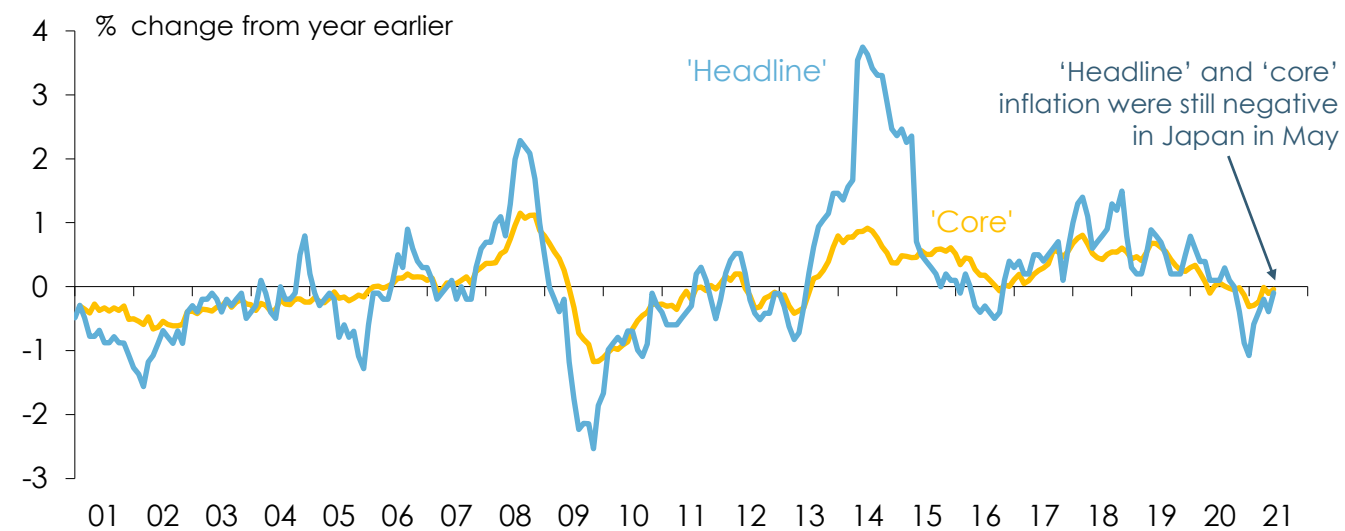
'Headline' and 'core' inflation - US



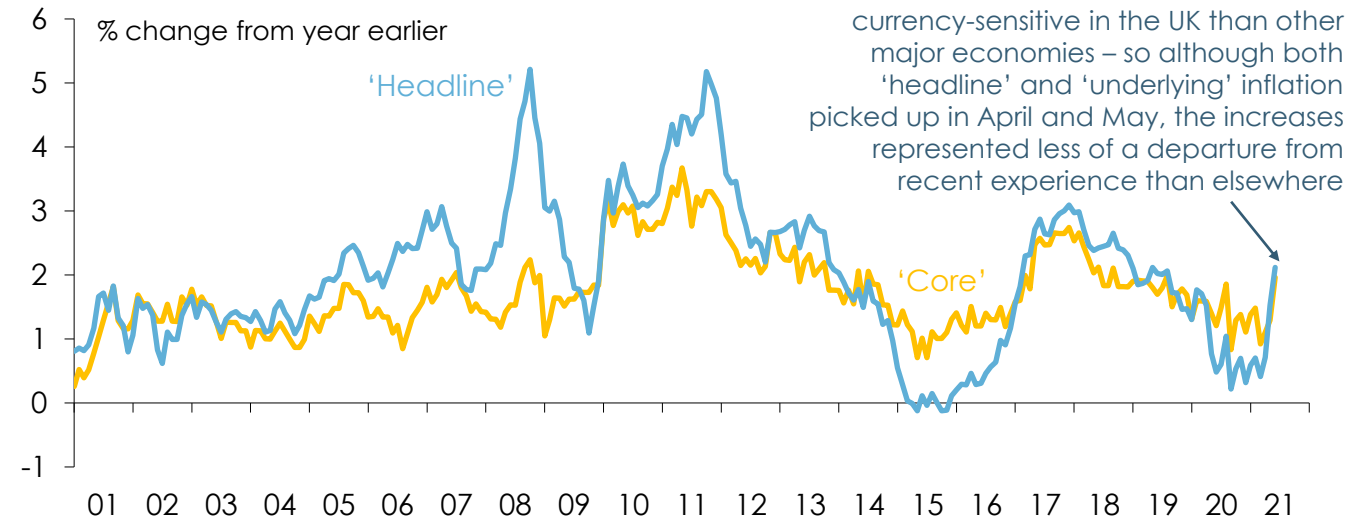
'Headline' and 'core' inflation – Euro area



'Headline' and 'core' inflation - Japan



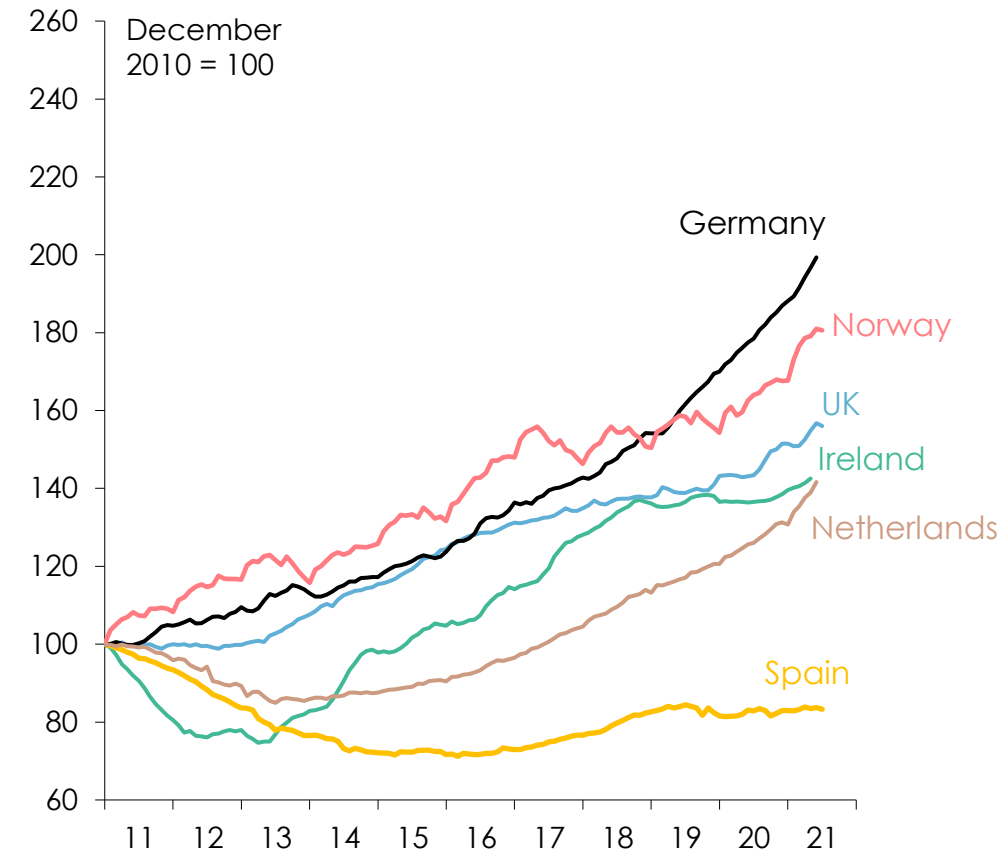
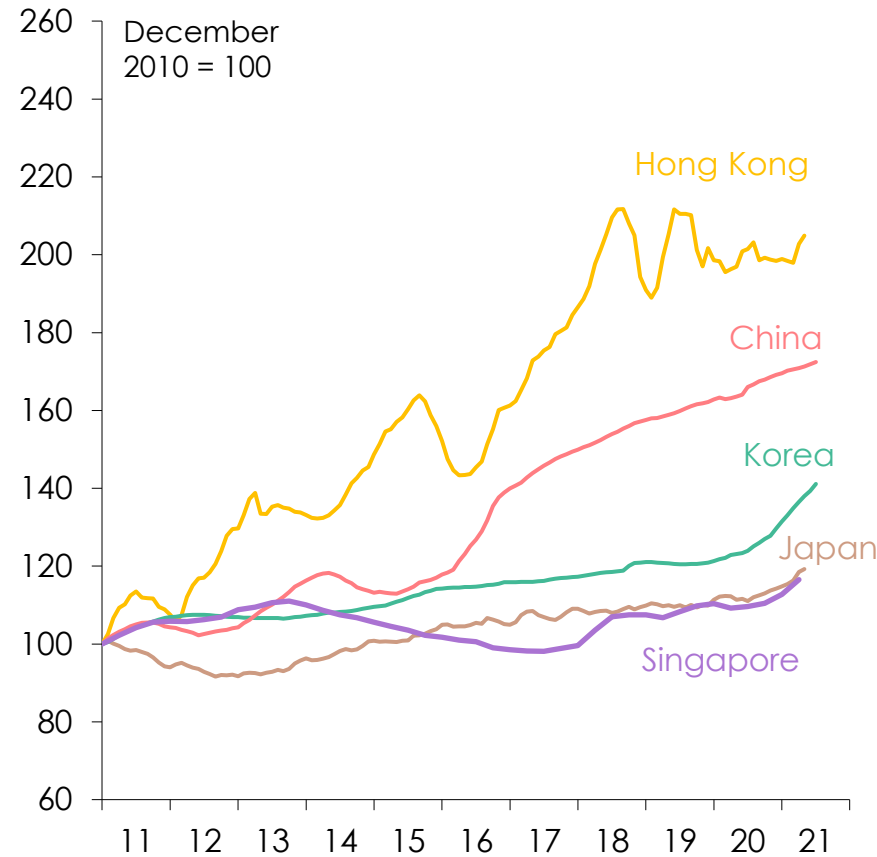
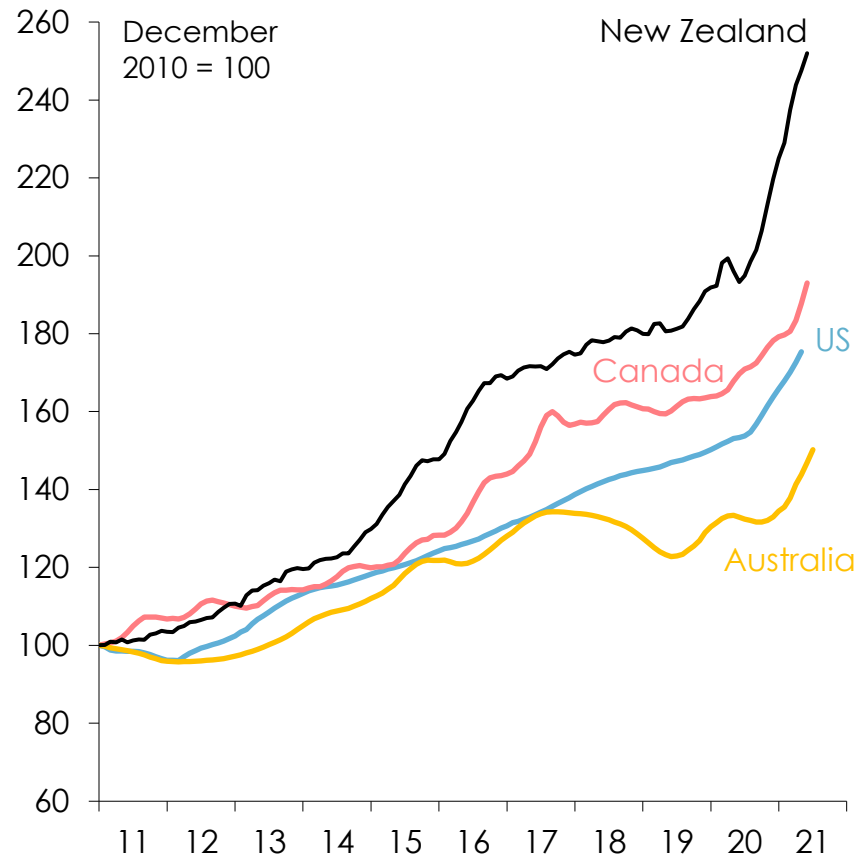
'Headline' and 'core' inflation – UK



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

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

House price indices

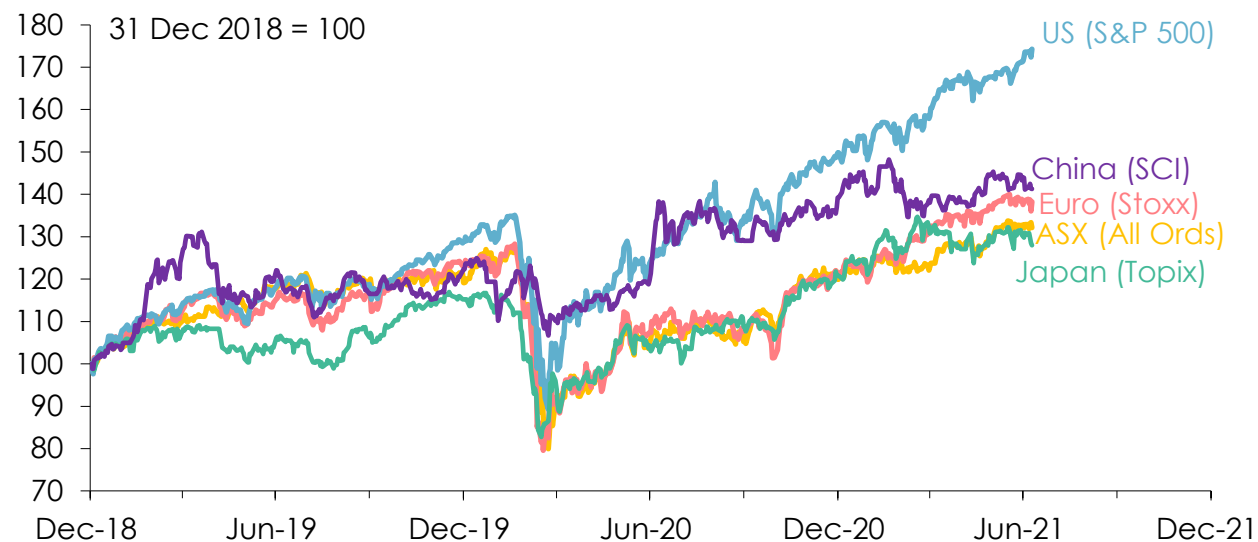


- ❑ Last month the NZ Government and RBNZ formally agreed to add debt-to-income ratio limits to the RBNZ's macro-prudential policy 'tool kit' ([slide 147](#)): while Taiwan's central bank [affirmed](#) the usefulness of 'selective credit controls' in bringing down high-LVR lending along with other regulatory and tax measures to promote "a healthy real estate market"

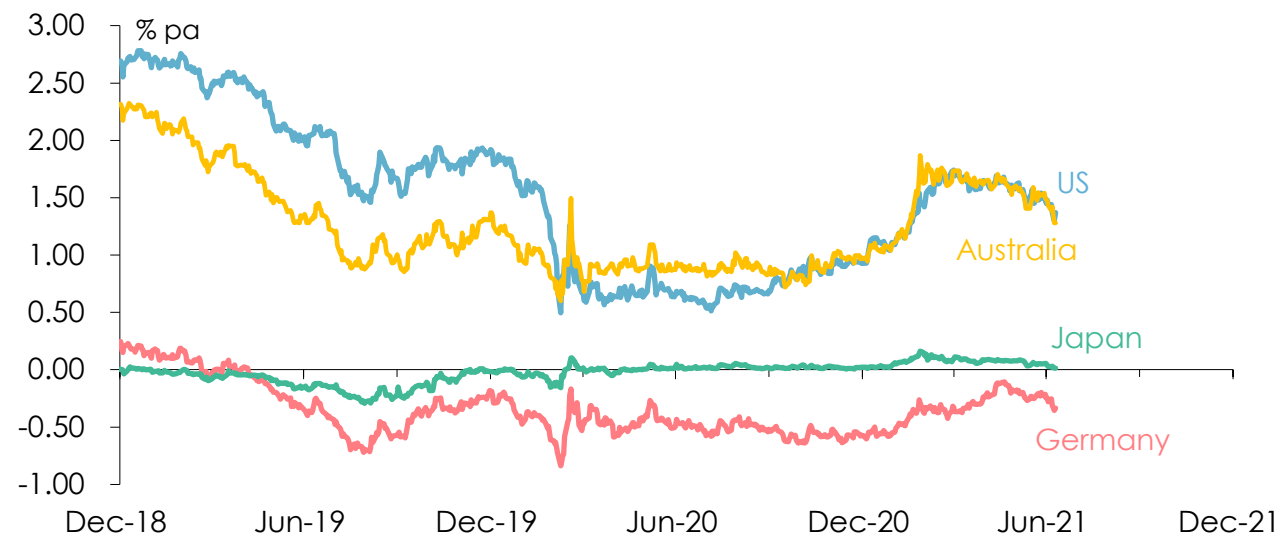
Note: House price indices shown in these charts are those published by [S&P-CoreLogic Case Shiller national](#) (United States); [Teranet-National Bank](#) (Canada); [CoreLogic](#) (Australia); [Real Estate Institute of New Zealand](#); [China Index Academy](#); [Japan Real Estate Institute](#) (Tokyo 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"](#).

Bond yields fell further this week as markets seemingly abandoned earlier inflation fears, the US\$ fell a bit, stocks rose in the US but fell elsewhere

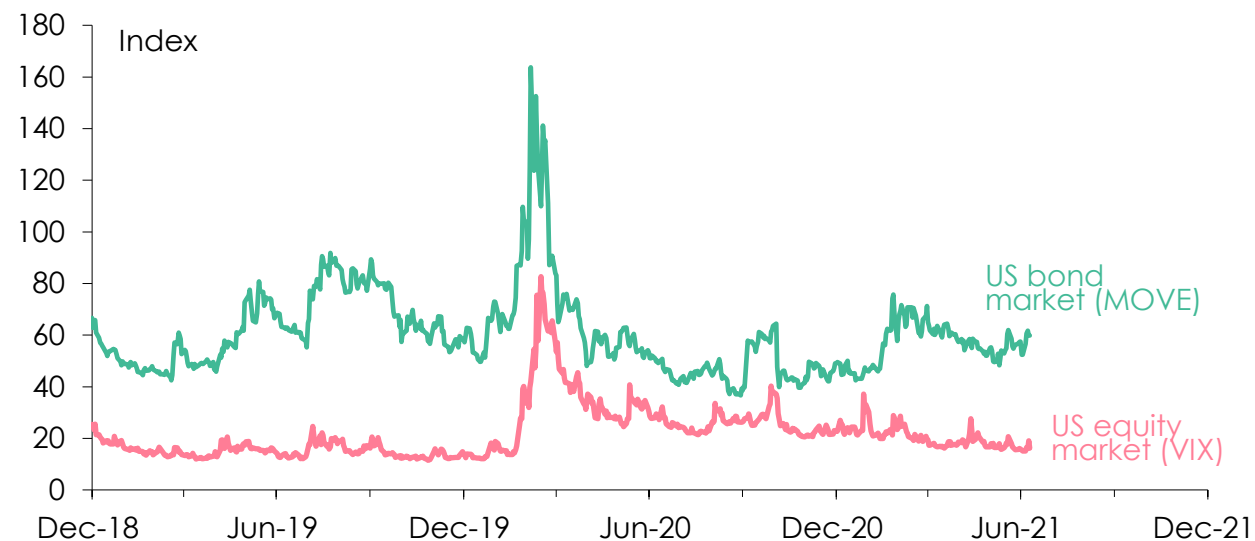
Stock markets



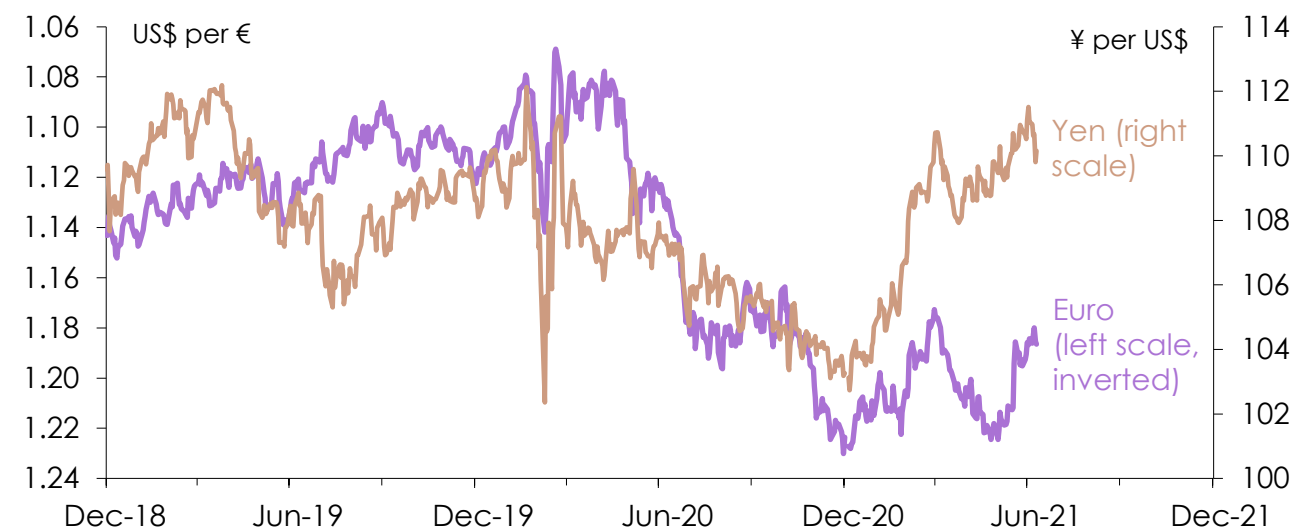
10-year bond yields



Measures of market volatility



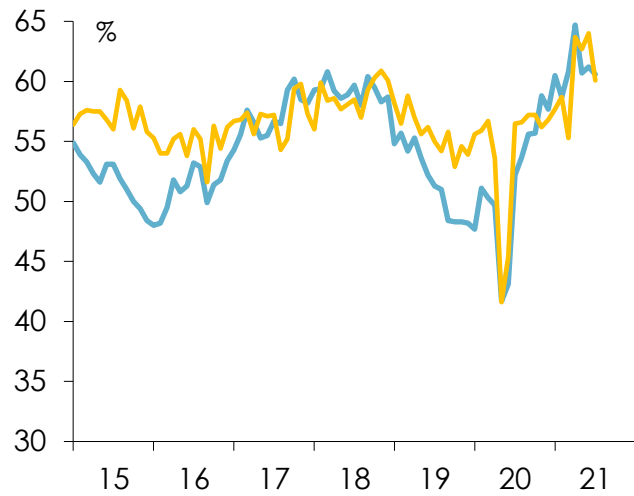
US dollar vs euro and yen



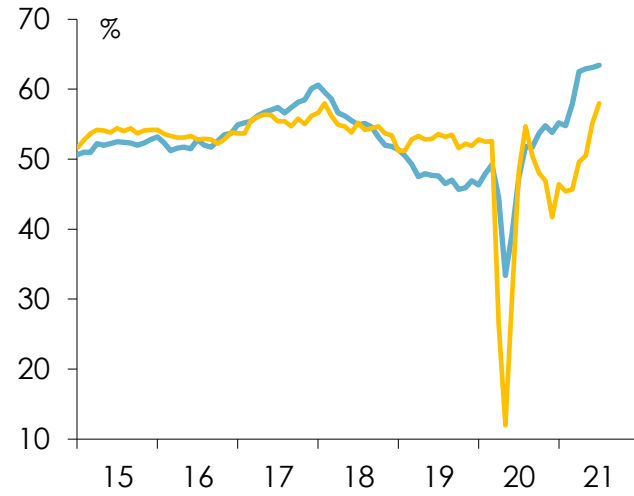
Source: Refinitiv Datastream. Data up to 9th July. [Return to "What's New"](#).

June PMIs point to a slight softening in manufacturing and a more marked easing in services (other than Europe), but in both cases from strong levels

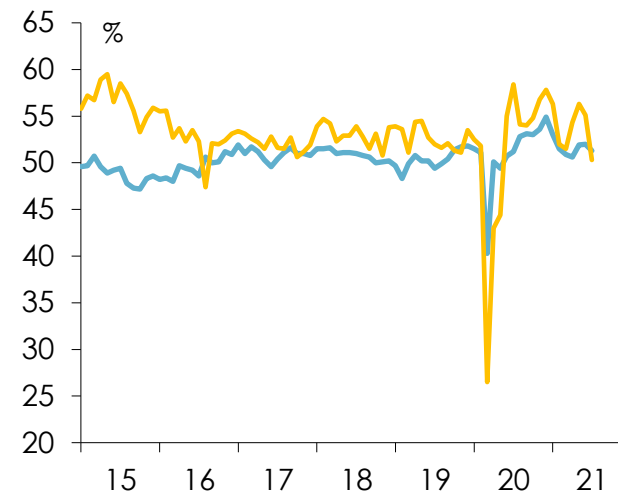
US



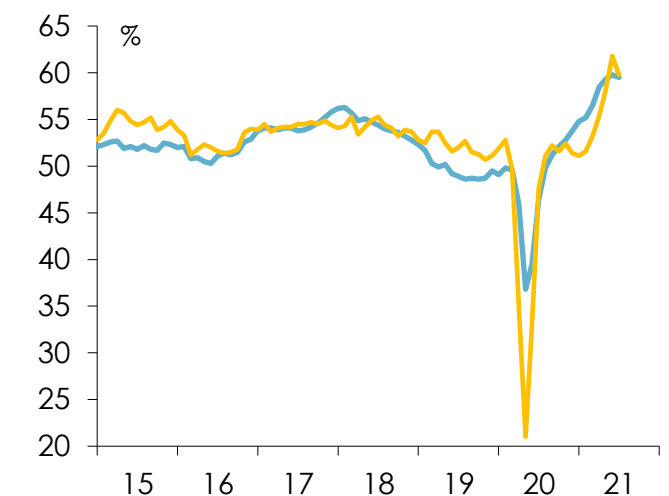
Euro area



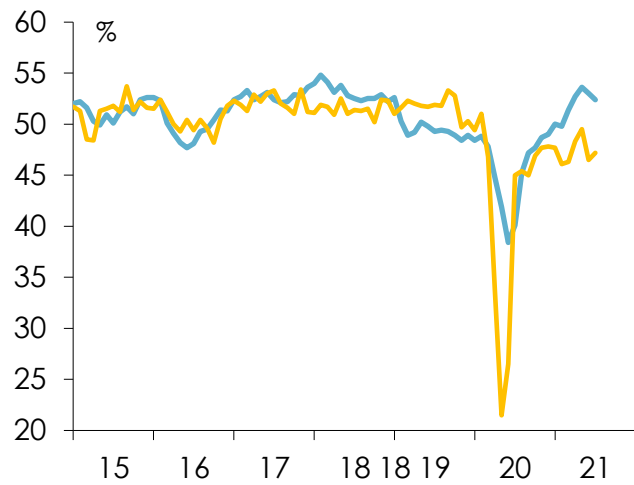
China



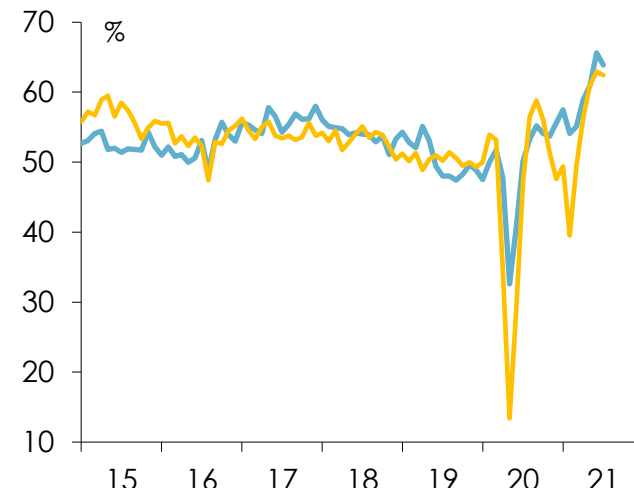
Developed markets



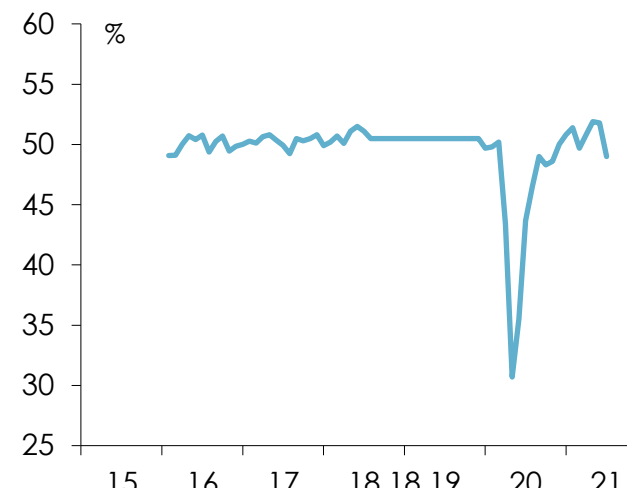
Japan



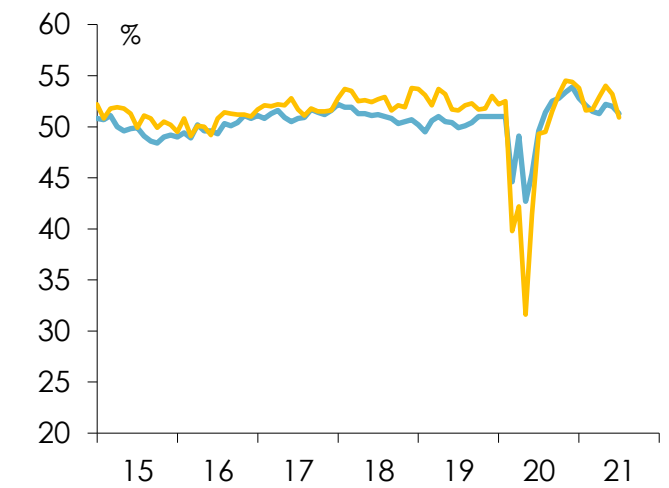
UK



ASEAN



Emerging markets



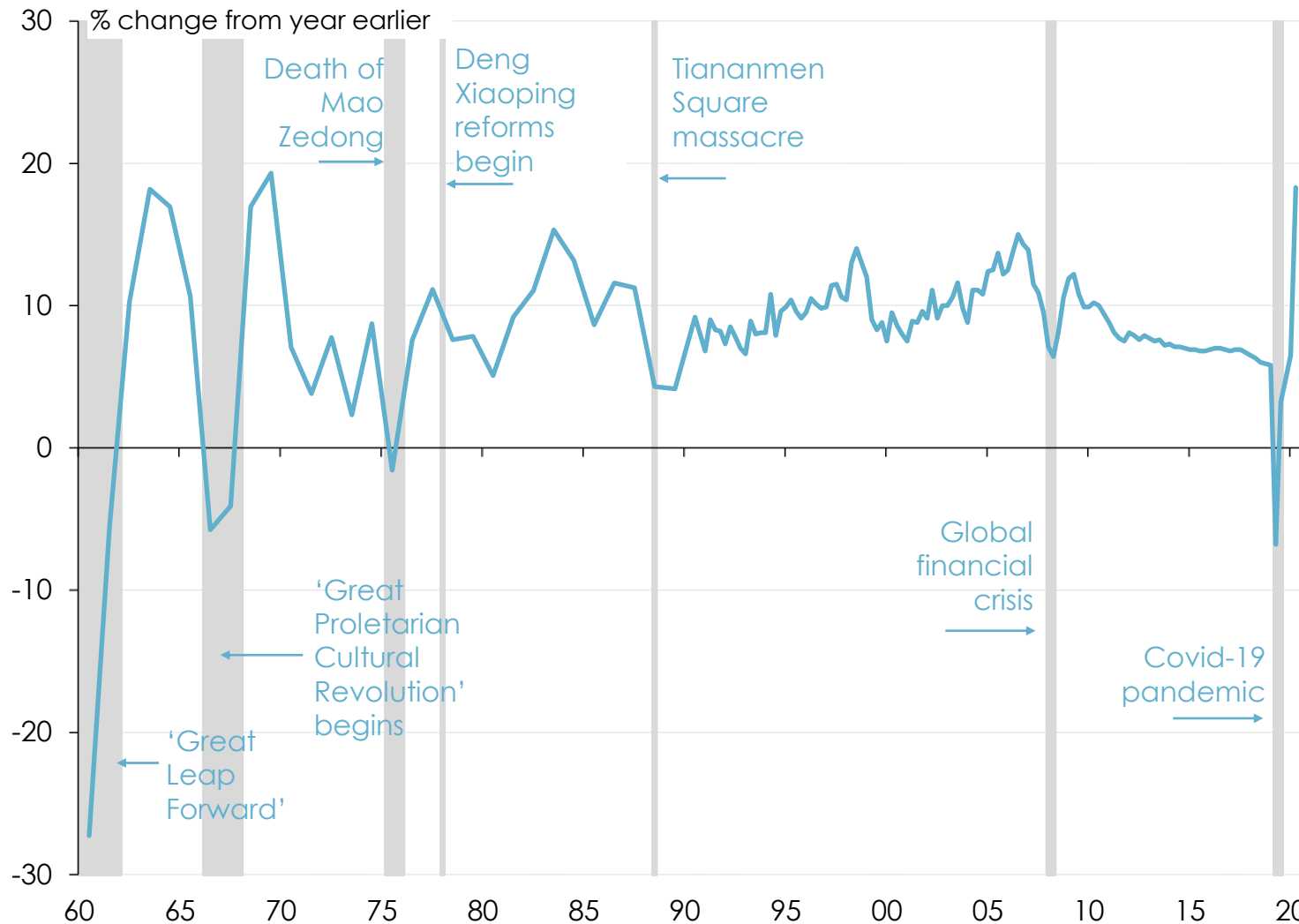
— Manufacturing

— Services

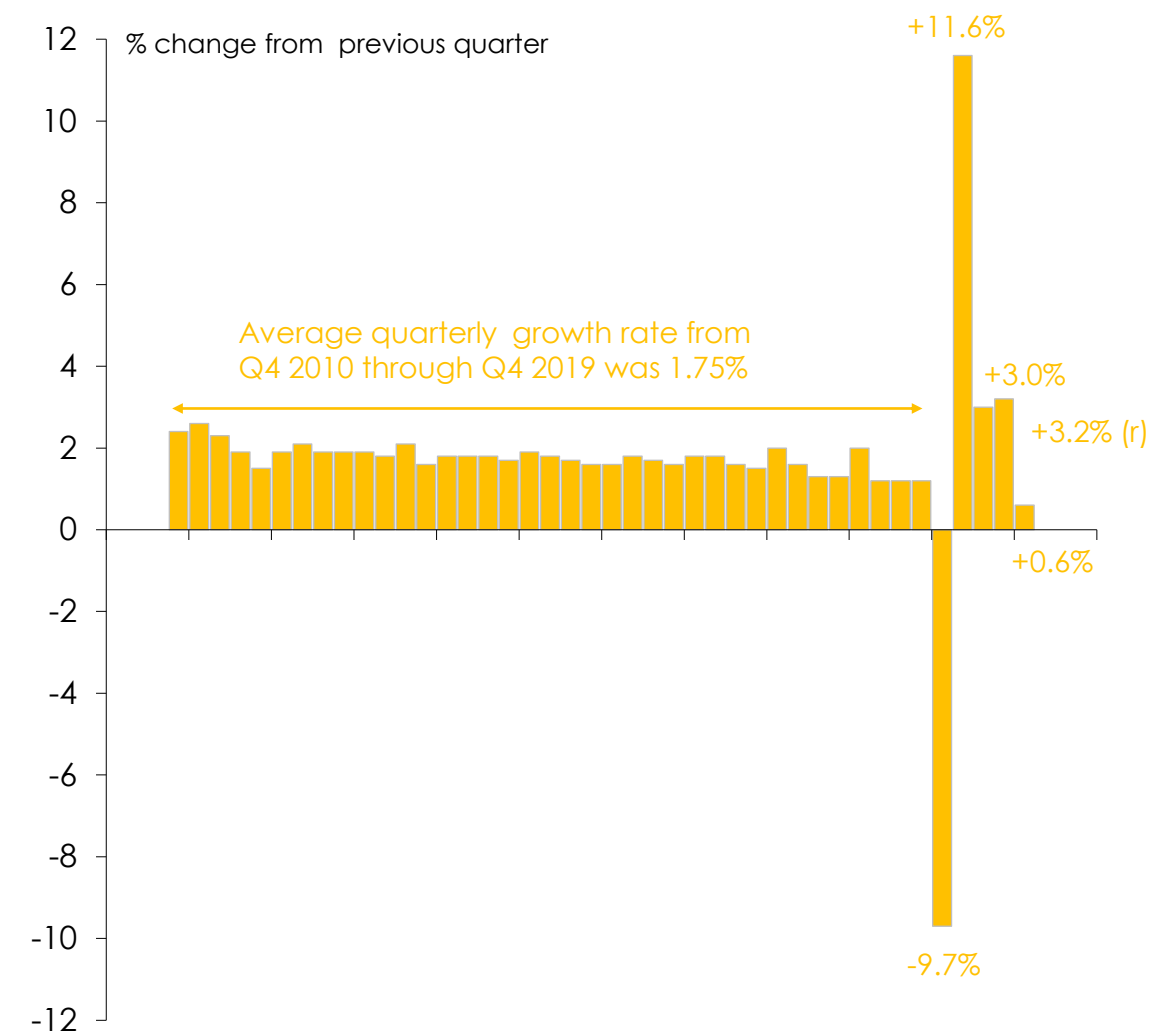
Note: Purchasing Managers' Indexes (PMIs) are derived from surveys of senior executives, who are asked to report whether various dimensions of business activity recorded an increase, decrease or no change compared with the previous month. A reading of 50 indicates an overall increase cf. the previous month, and a reading of less than 50 indicates a decrease. Latest data are for June, except for services in US, China, DMs & EMs. See also PMIs for other Asia-Pacific economies on [slide 52](#). Sources: [US Institute for Supply Management](#); [IHS Markit](#); JP Morgan; [Caixin](#); Refinitiv Datastream. [Return to "What's New"](#).

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

Real GDP growth, from year earlier, 1961-2020



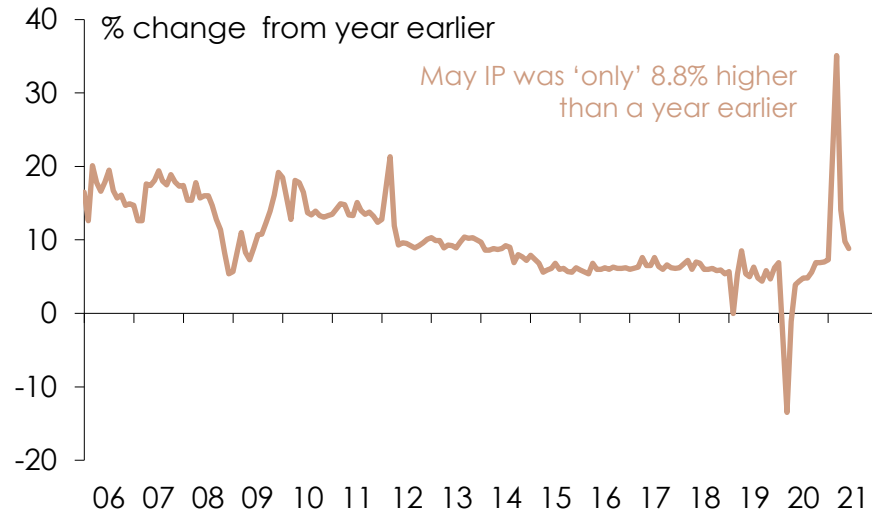
Quarterly real GDP growth, 2010-2020



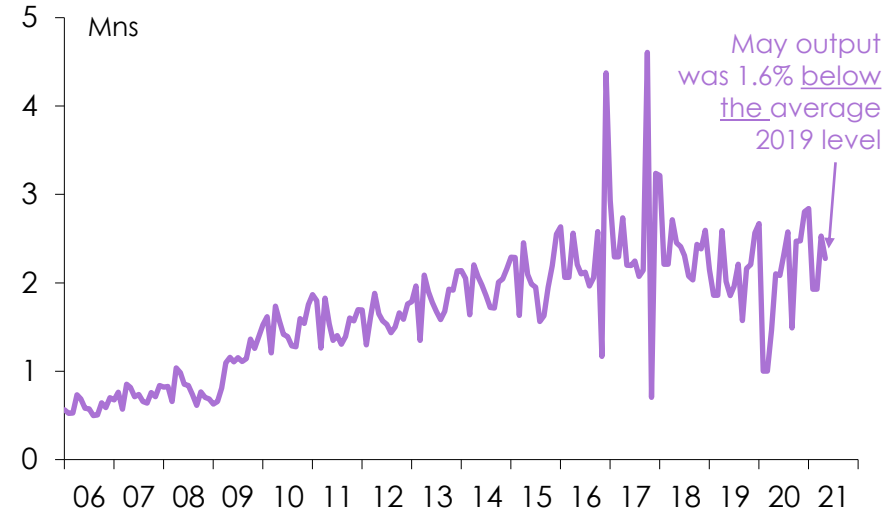
Note: In the left-hand chart, GDP growth rates are annual averages up to the December quarter of 1991, and then quarter-on-corresponding-quarter-of-previous-year thereafter. Sources: China National Bureau of Statistics. [Return to "What's New"](#).

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

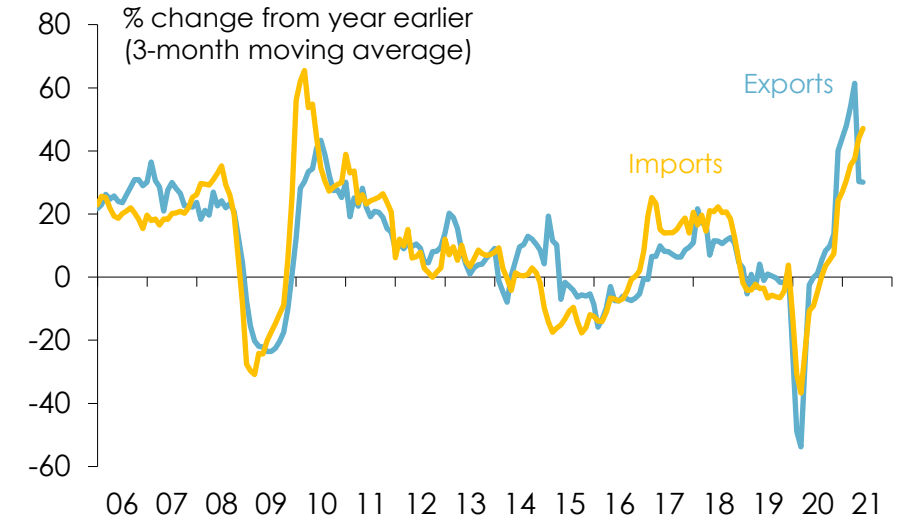
Industrial production



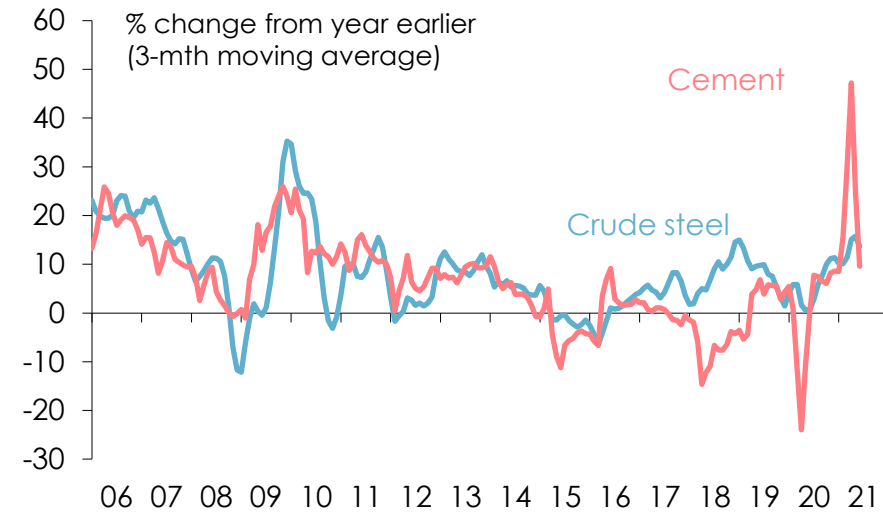
Motor vehicle production



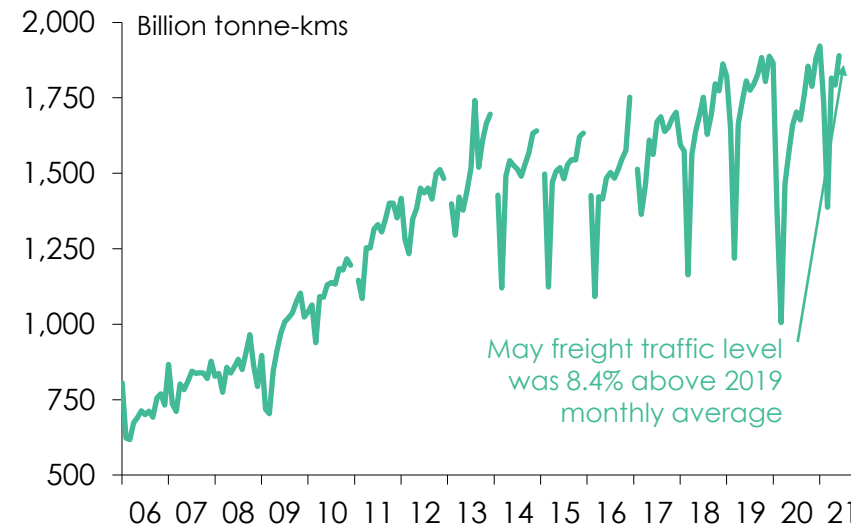
Merchandise trade



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.

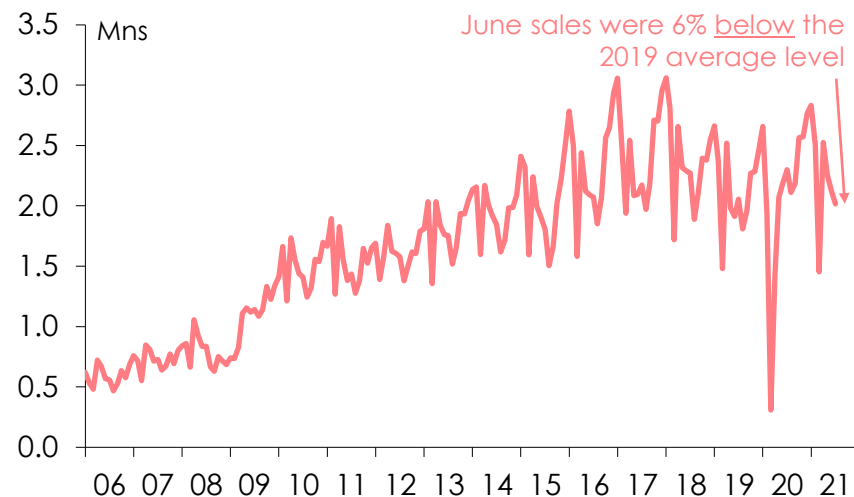
[Return to "What's New".](#)

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

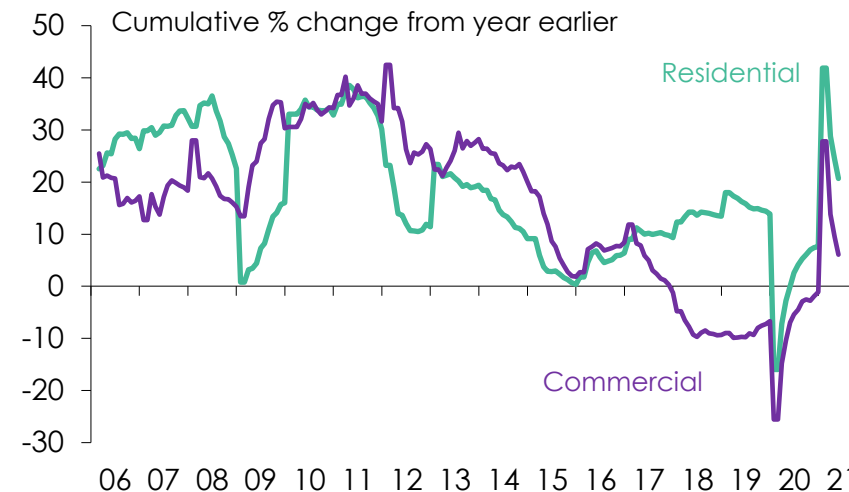
Consumer sentiment



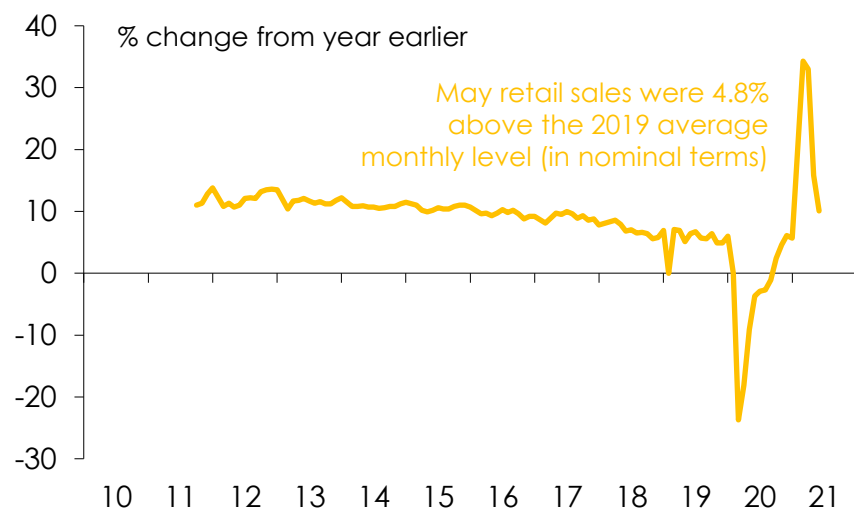
Motor vehicle sales



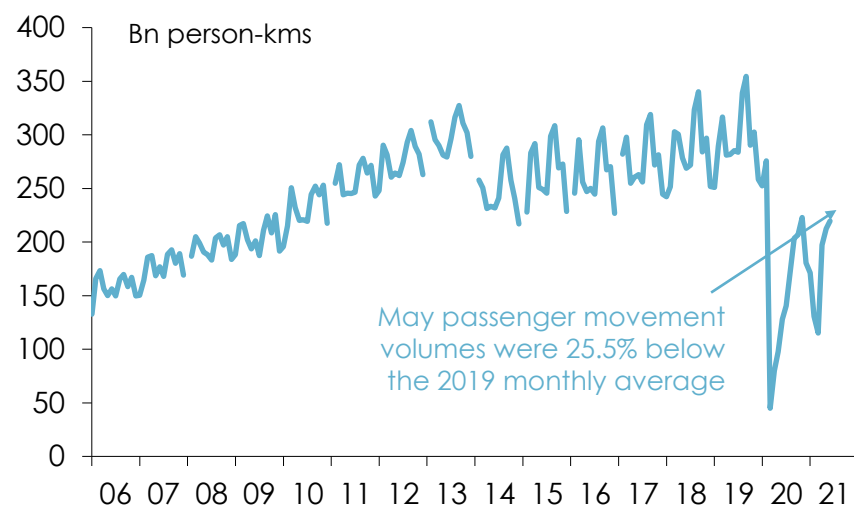
Real estate investment



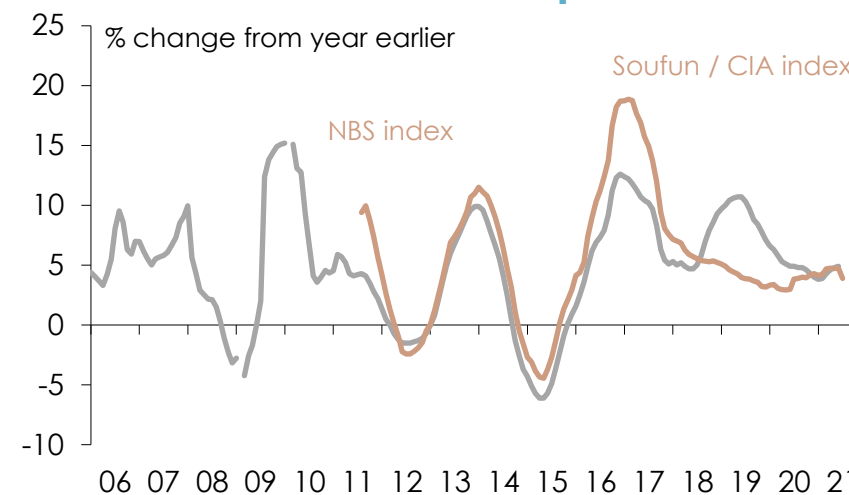
Volume of retail sales



Passenger traffic volumes



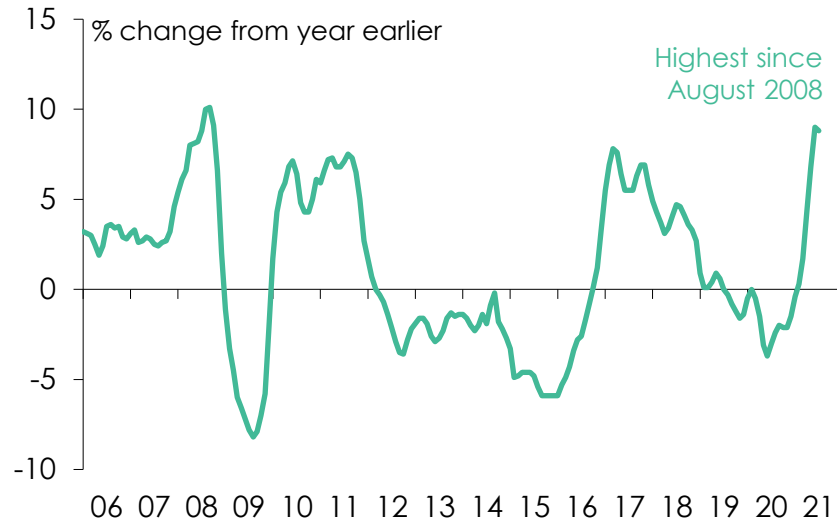
Residential real estate prices



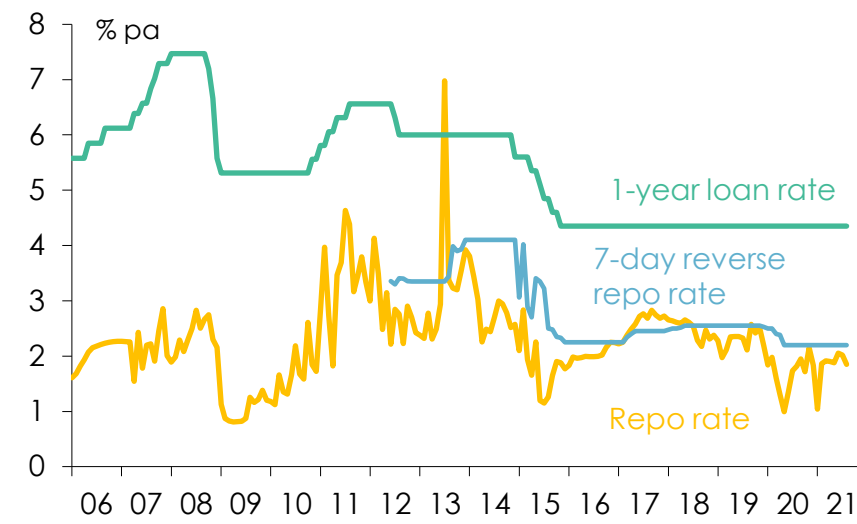
Sources: China National Bureau of Statistics (NBS); China Association of Automobile Manufacturers; China Index Academy (CIA). Latest data are for May (except for CIA house prices which are June). [Return to "What's New"](#).

Inflation has picked up in 2021 (after briefly turning negative last year), but both producer and consumer price inflation eased slightly in June

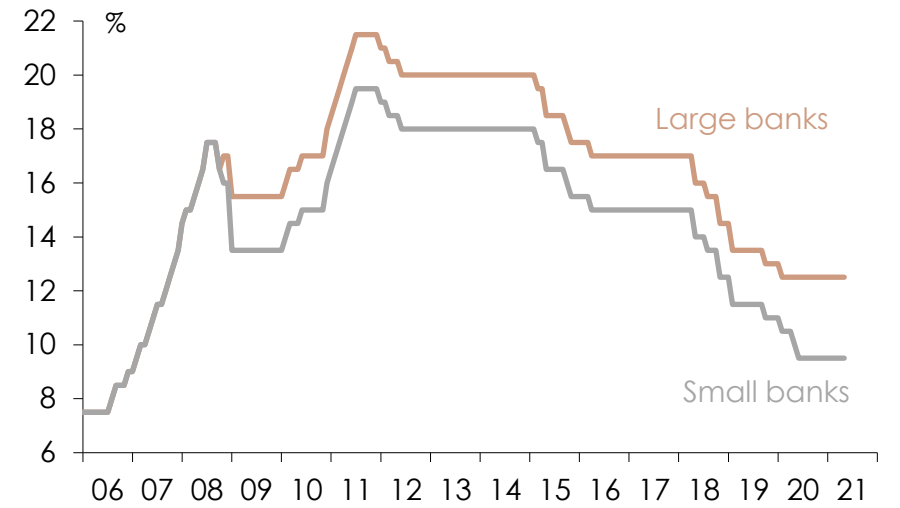
Producer prices



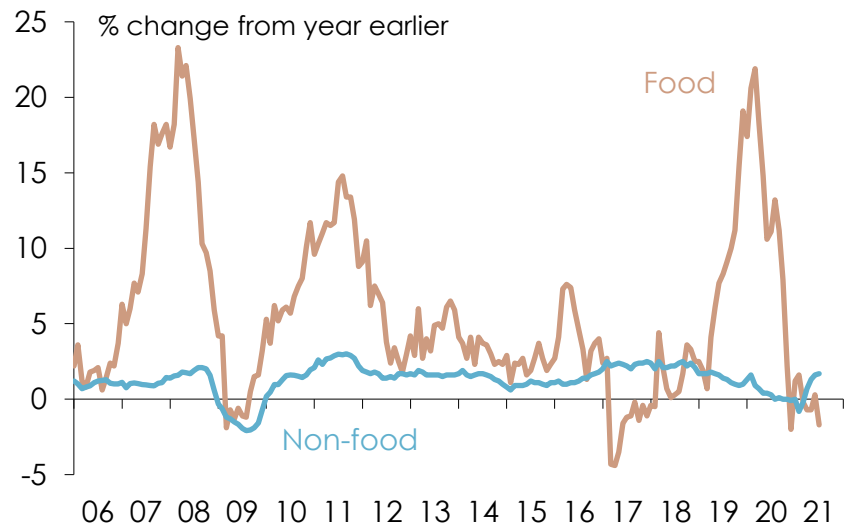
PBoC policy interest rates



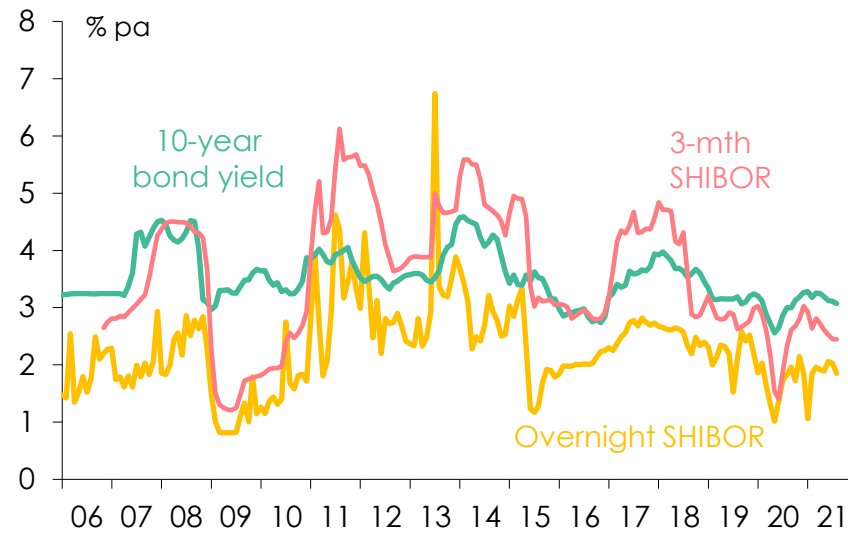
Bank reserve requirement ratios



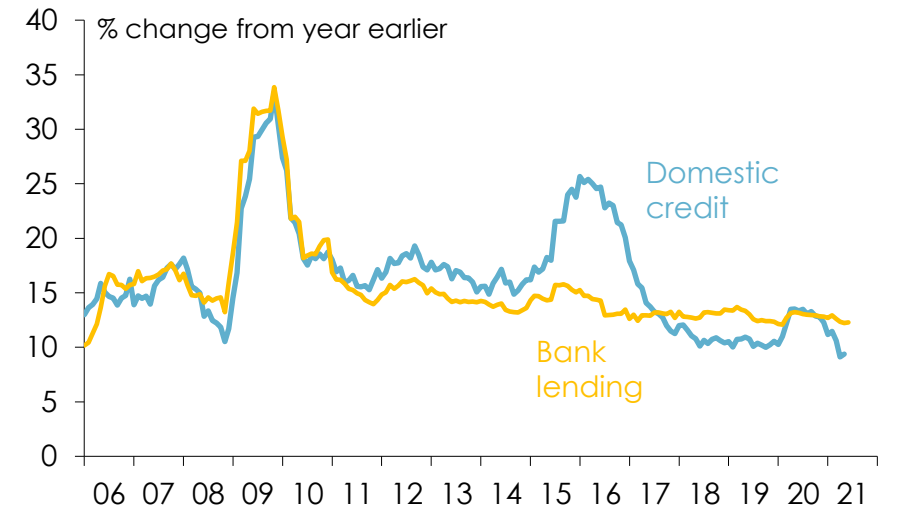
Consumer prices



Market interest rates



Credit growth

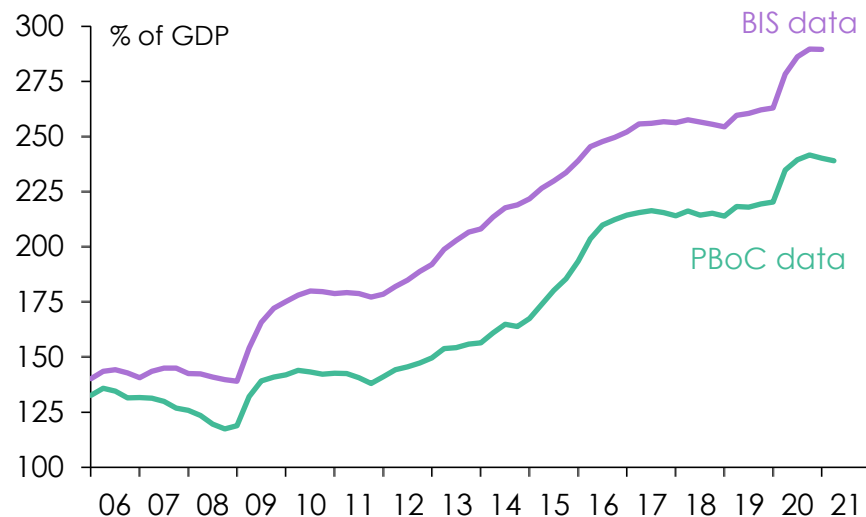


Note: 'SHIBOR' is the Shanghai Inter-Bank Offered Rate. Latest inflation data are for June.

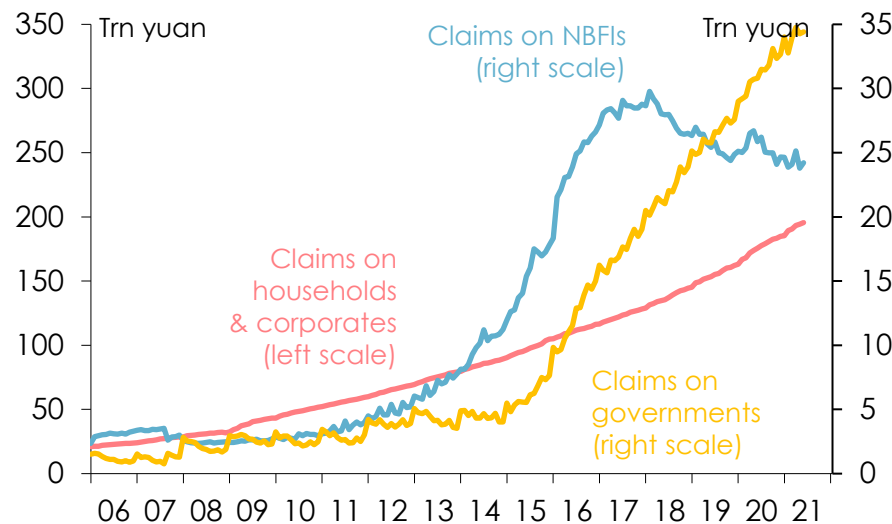
Sources: China National Bureau of Statistics; Refinitiv Datastream; [People's Bank of China](#). [Return to "What's New"](#).

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

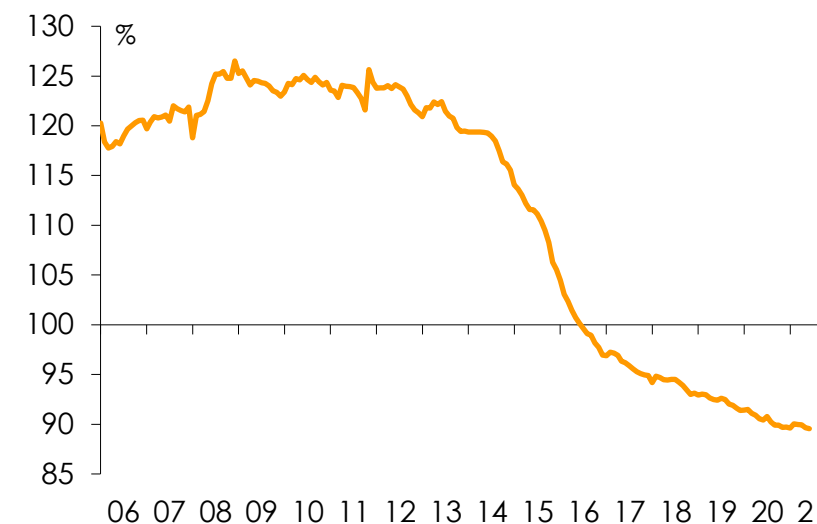
Credit outstanding as a pc of GDP



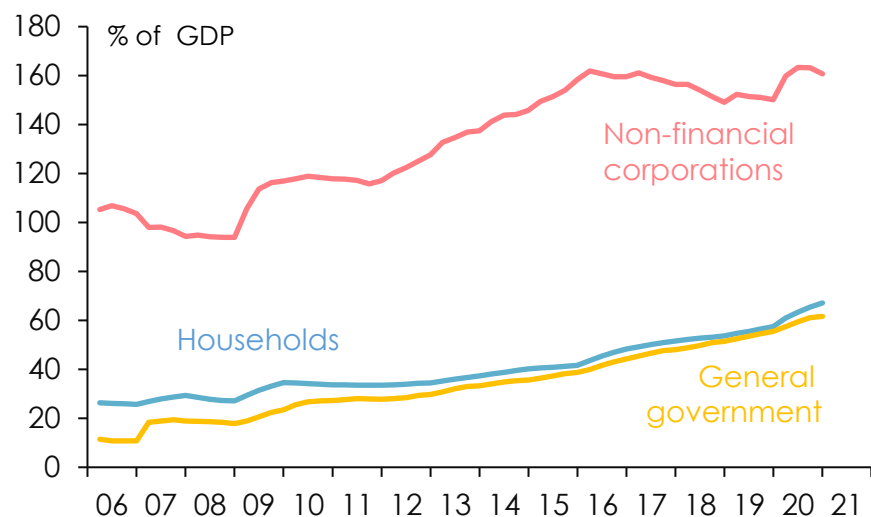
Banks' assets



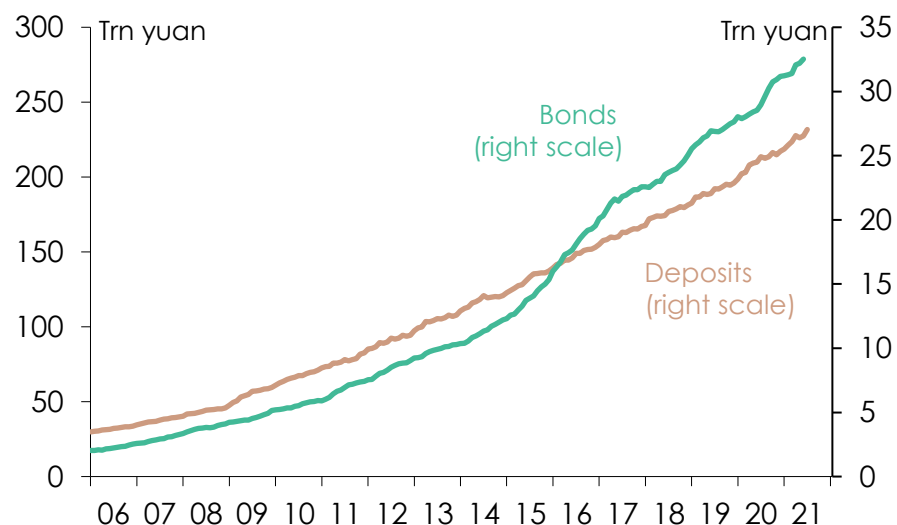
Banks' deposits-to-loans ratio



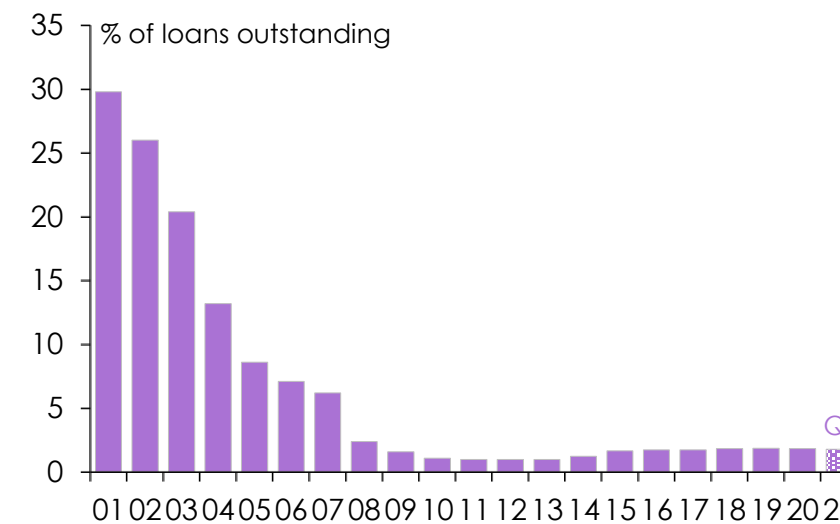
Credit outstanding by sector



Banks' liabilities



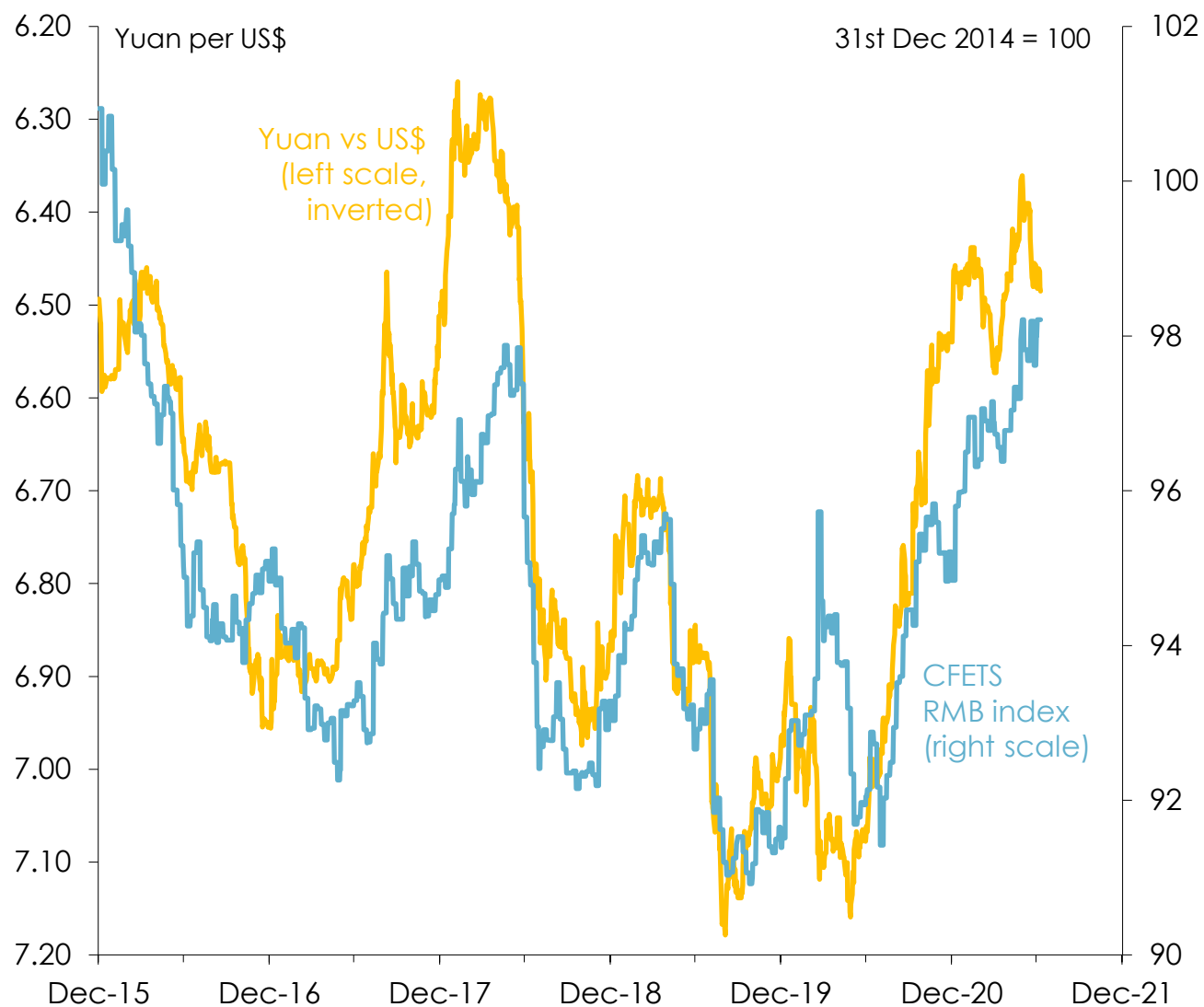
Banks NPLs – official estimates



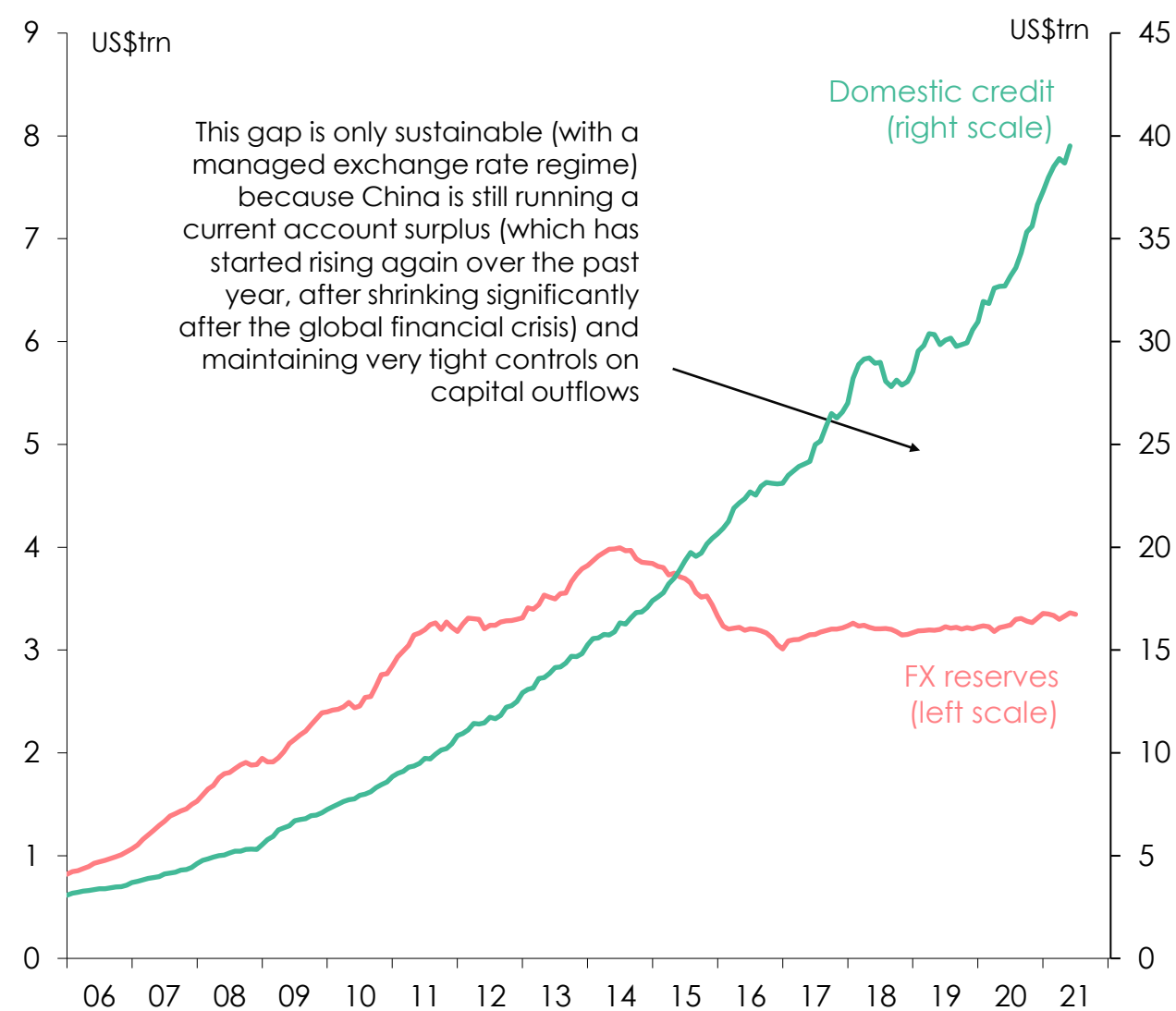
Sources: [People's Bank of China](#); [Bank for International Settlements](#); [China Banking and Insurance Regulatory Commission](#). [Return to "What's New"](#).

The yuan fell marginally against the US\$ this week but rose 0.2% vs the PBoC's trade-weighted index

Chinese renminbi vs US\$ and trade-weighted index



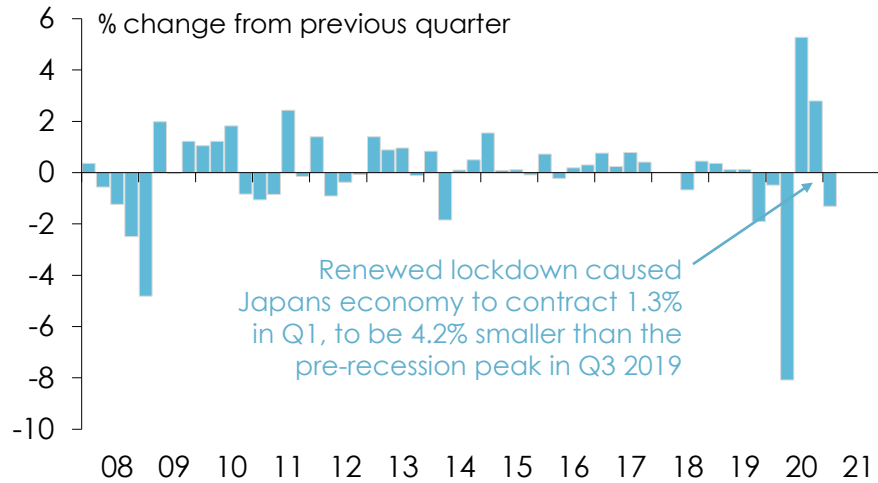
FX reserves and domestic credit



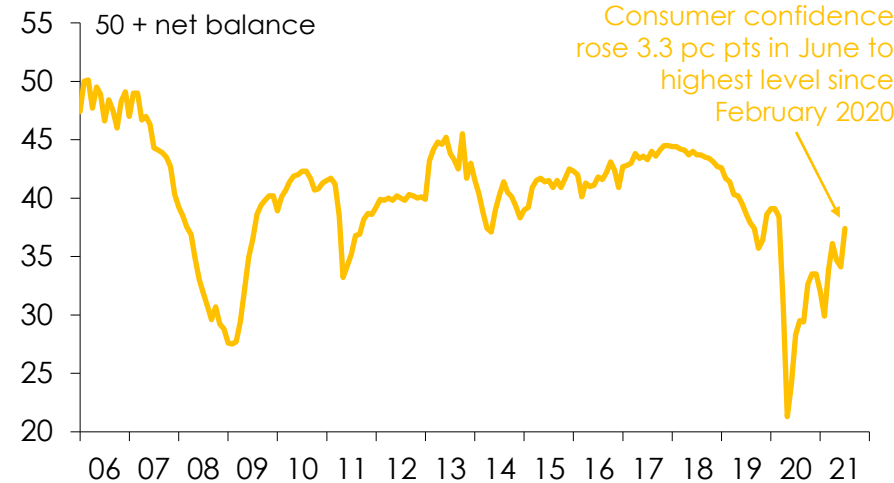
Sources: Refinitiv Datastream; China Foreign Exchange Trading System; People's Bank of China. Exchange rates up to 9th July; FX reserves up to June; and credit data up to May. [Return to "What's New"](#).

Japan's continuing lock-down prompted a 1.3% contraction in real GDP in Q1 and three consecutive monthly falls in employment to May

Real GDP



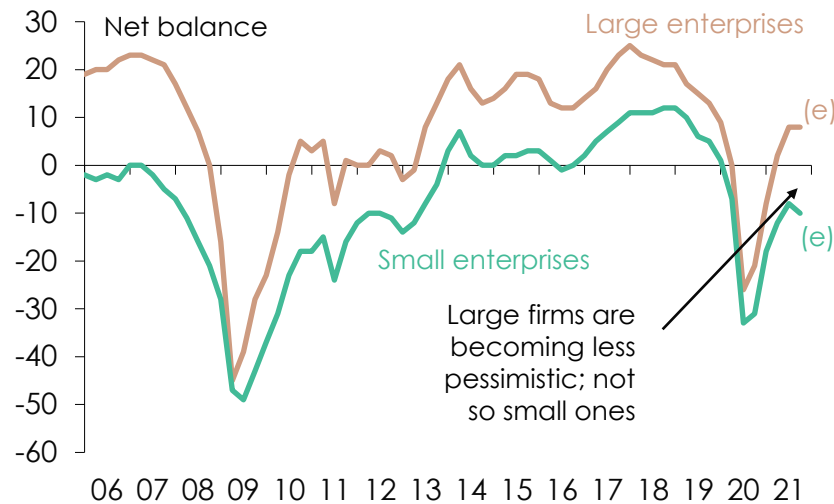
Consumer confidence



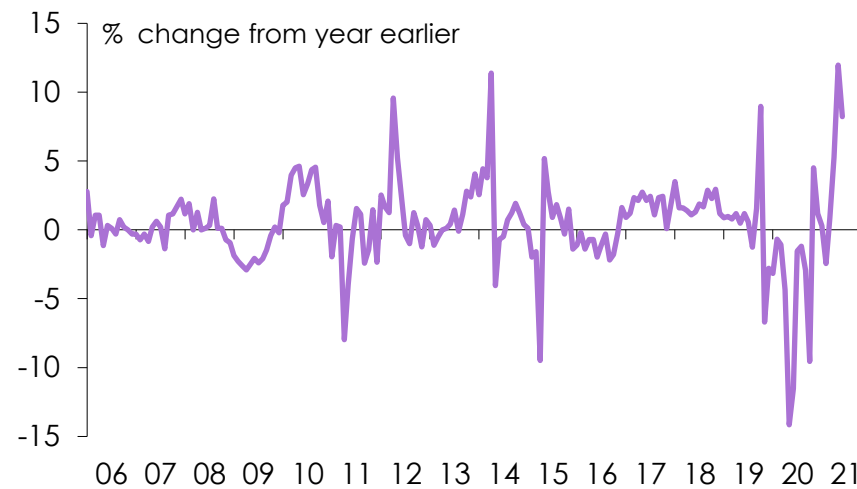
Unemployment



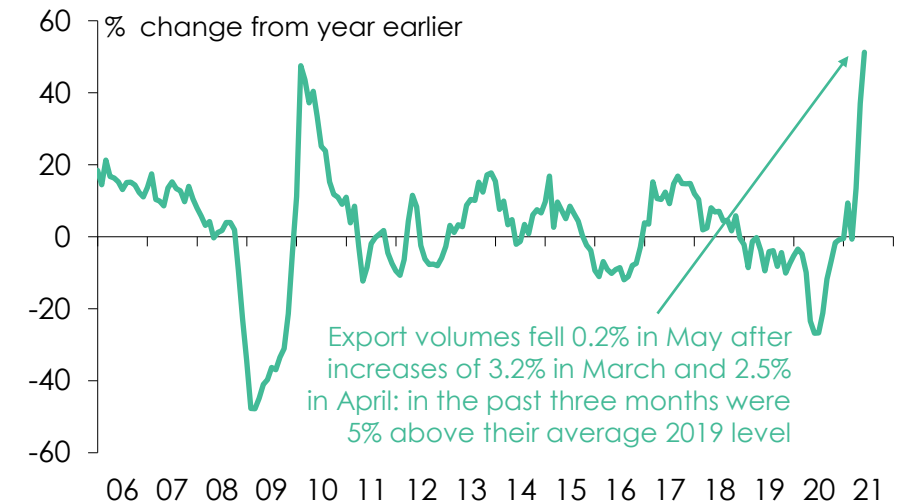
BoJ Tankan business conditions



Value of retail sales



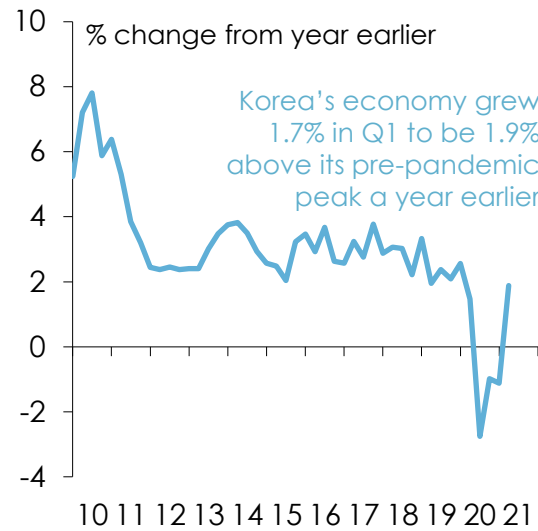
Merchandise export volumes



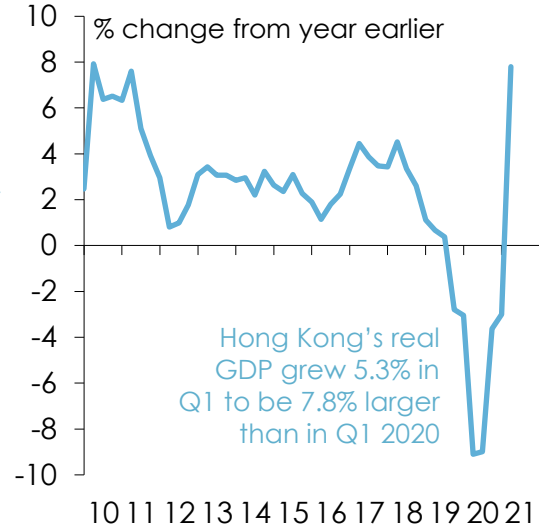
Sources: Japan Cabinet Office [Economic and Social Research Institute](#); [Bank of Japan](#); [Statistics Bureau of Japan](#); Japan [Ministry of Finance](#). [Return to "What's New"](#).

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

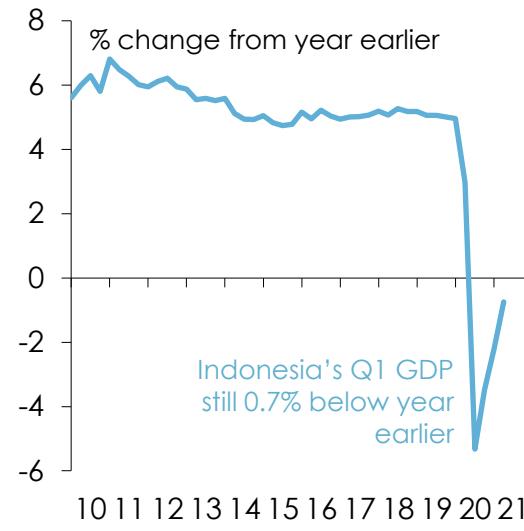
Korea



Hong Kong



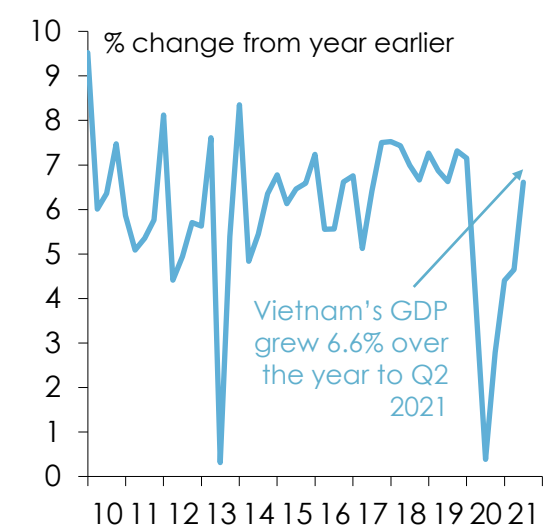
Indonesia



Thailand



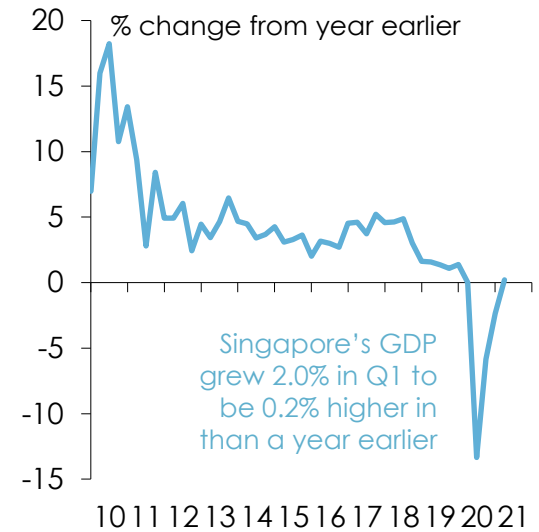
Vietnam



Taiwan



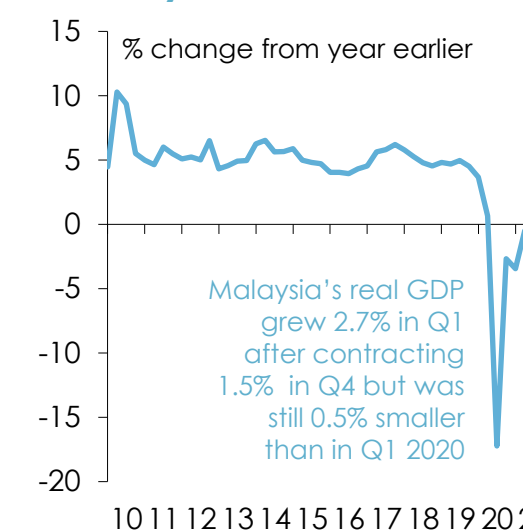
Singapore



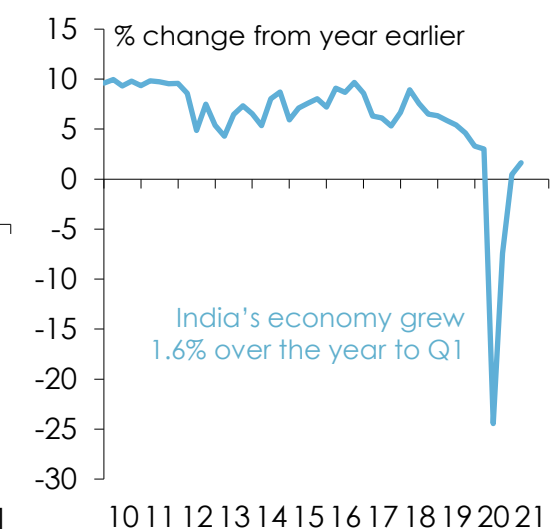
Philippines



Malaysia



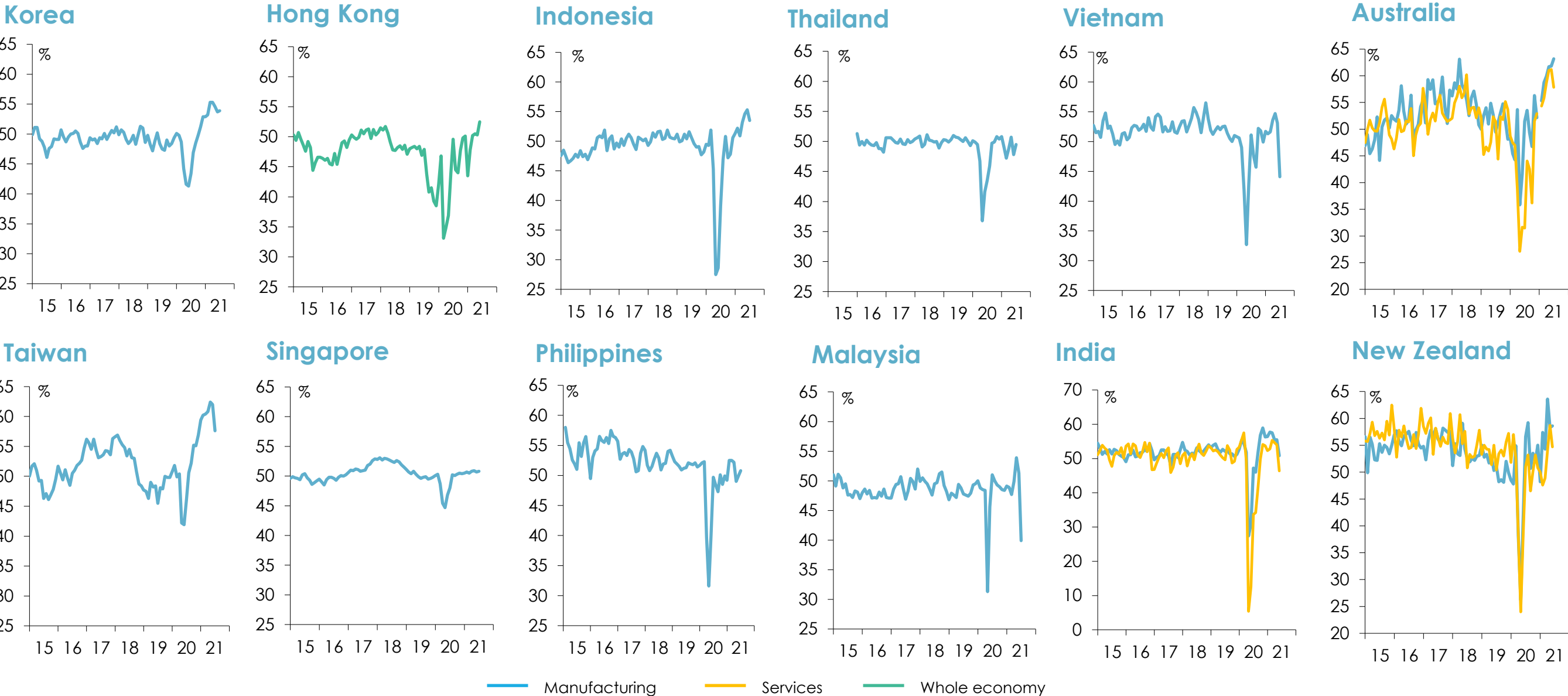
India



Note: Latest data are Q2 for Vietnam and Q1 for other countries. 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.

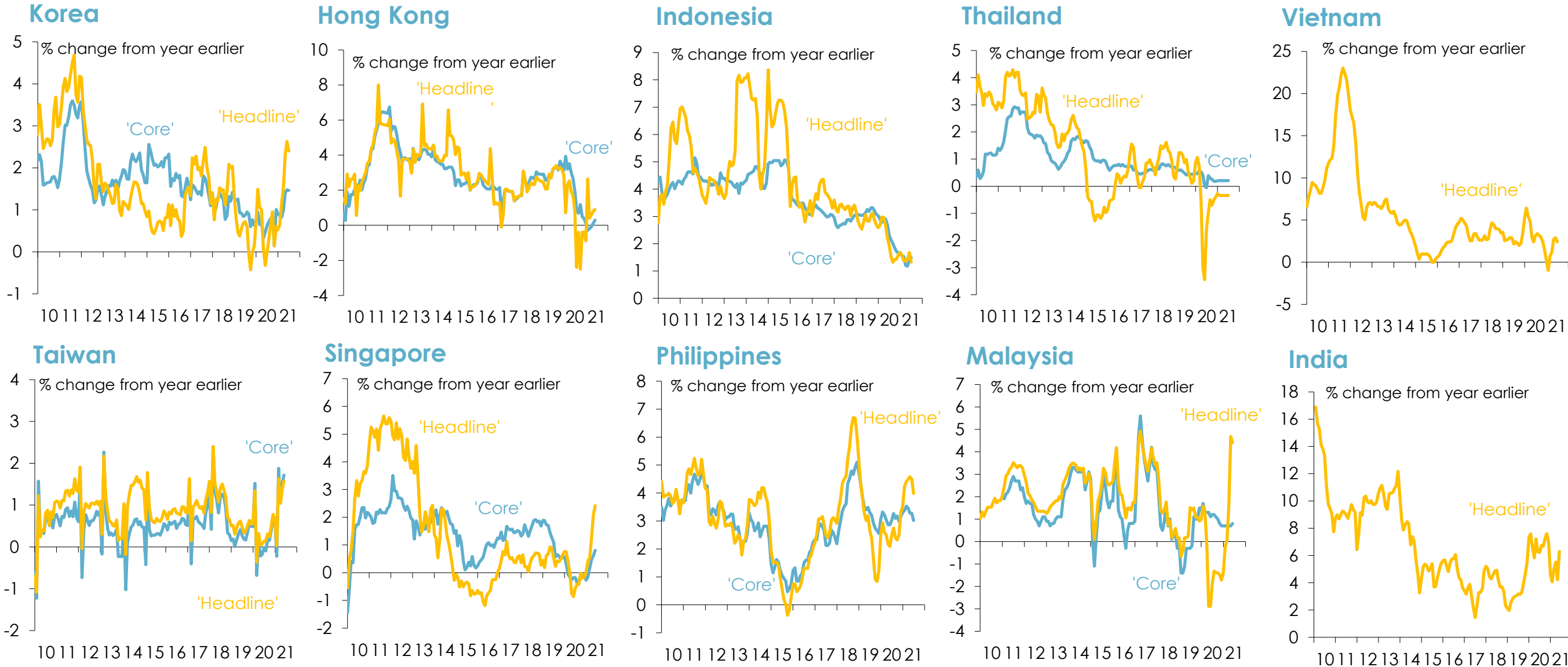
[Return to "What's New"](#).

PMIs for June show the impact of renewed virus outbreaks on manufacturing activity in Taiwan and in south-east Asia



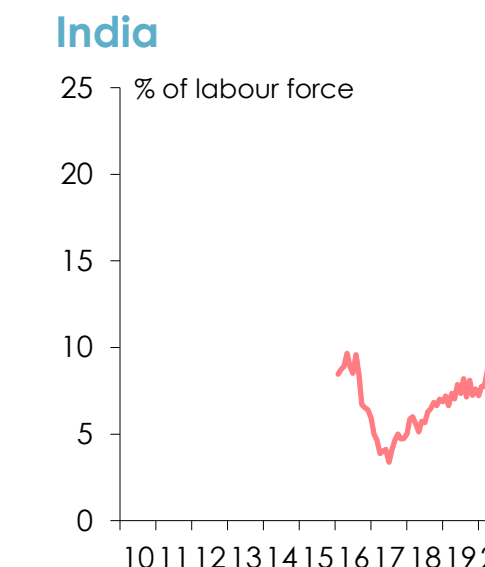
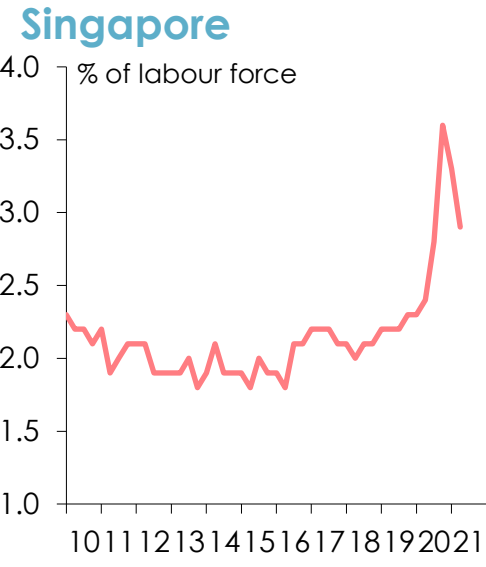
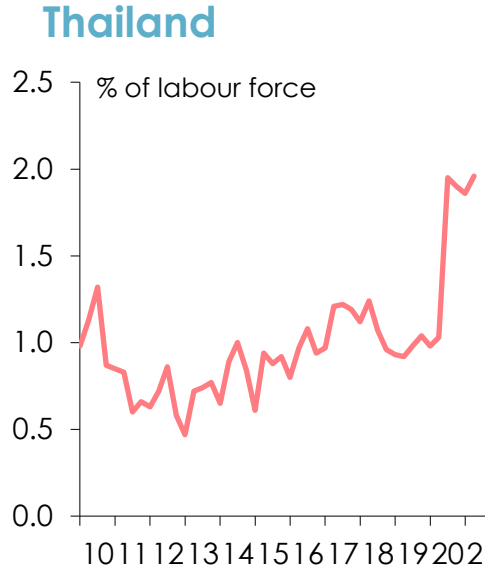
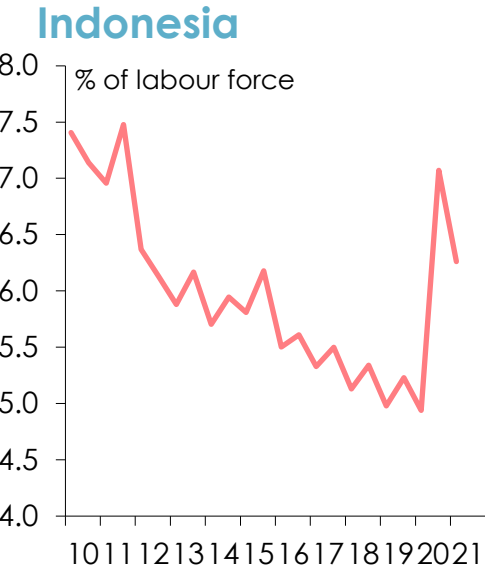
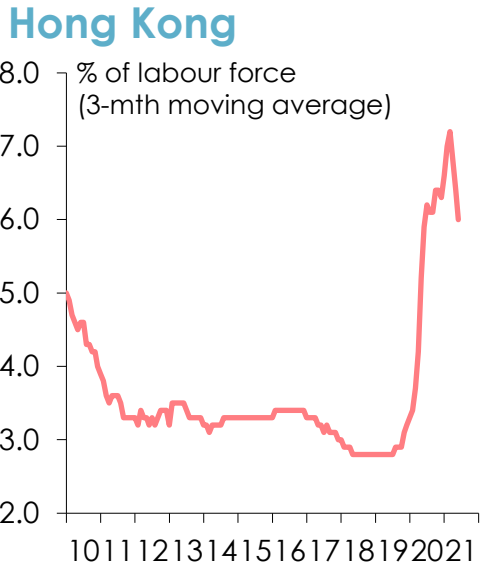
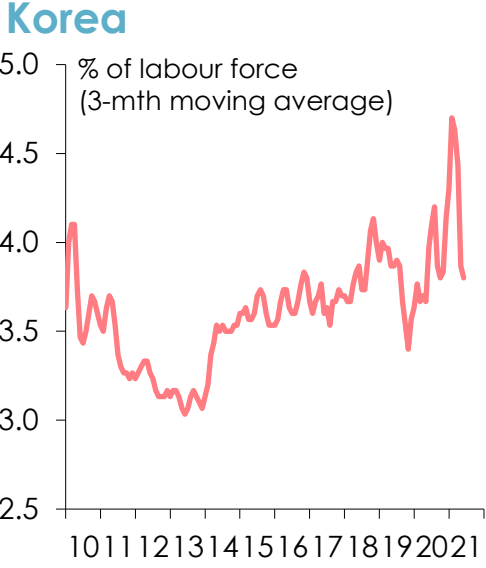
Note: Purchasing Managers' Indexes (PMIs) are derived from surveys of senior executives, who are asked to report whether various dimensions of business activity recorded an increase, decrease or no change compared with the previous month. A reading of 50 indicates an overall increase cf. the previous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

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



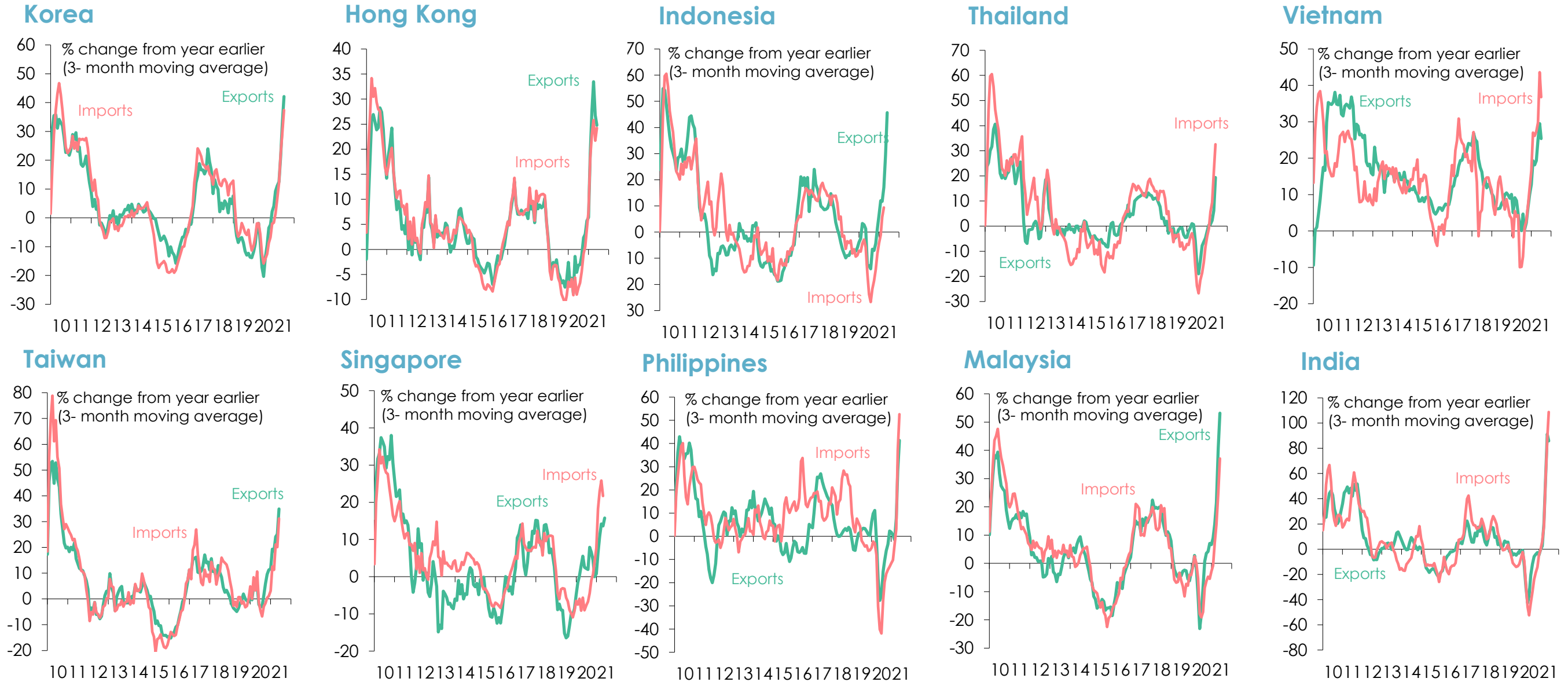
Note: 'Core' inflation in Korea excludes agricultural products and oil; in Taiwan it excludes fresh fruit, vegetables and energy; in Singapore it excludes accommodation and private transport; and in Hong Kong it excludes the effect of 'one-off government relief measures'. 'Core' inflation in Indonesia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

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



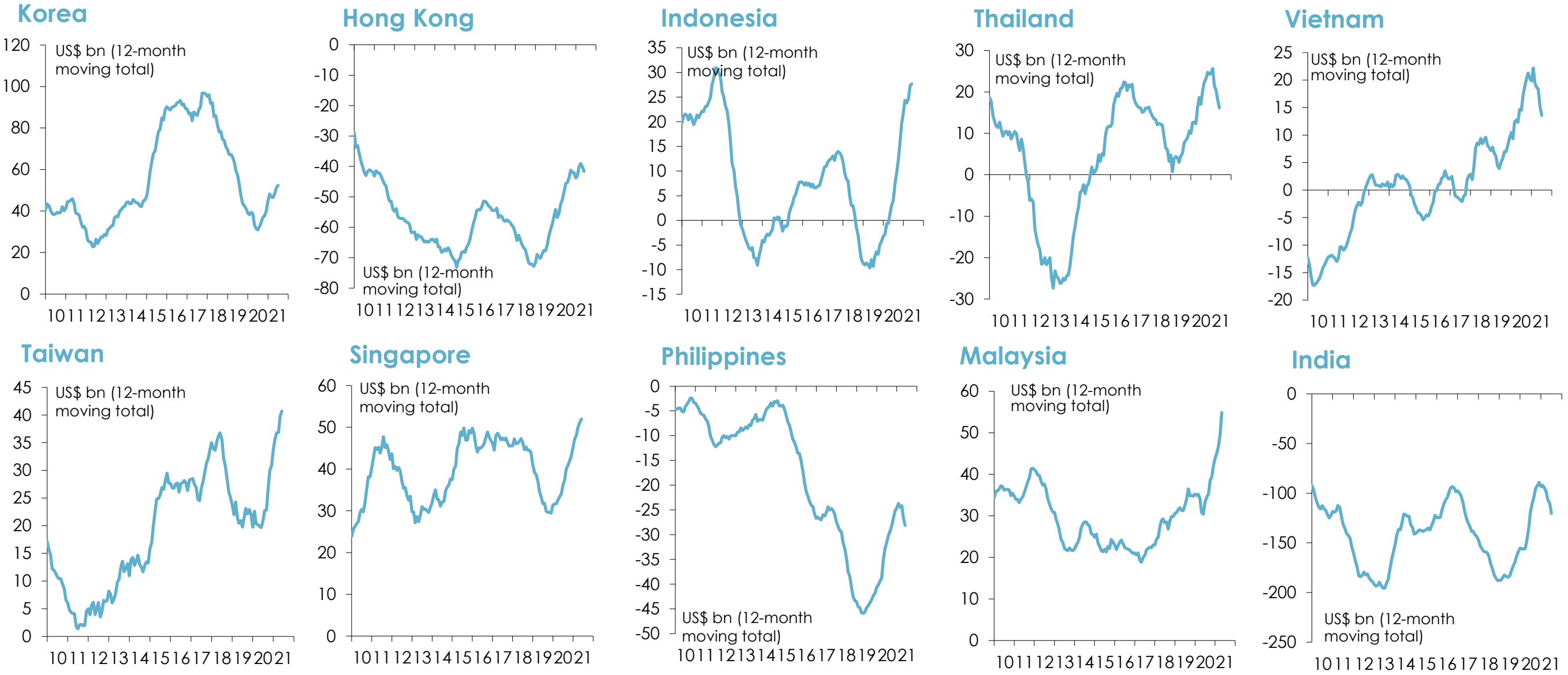
Note: Unemployment data is published monthly in Korea, Taiwan, Hong Kong, Thailand and Malaysia; quarterly in Singapore and the Philippines; semi-annually (February and August) in Indonesia; and annually in Vietnam (with the latest reading being for 2019). There is no official unemployment data in India: 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"](#).

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



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

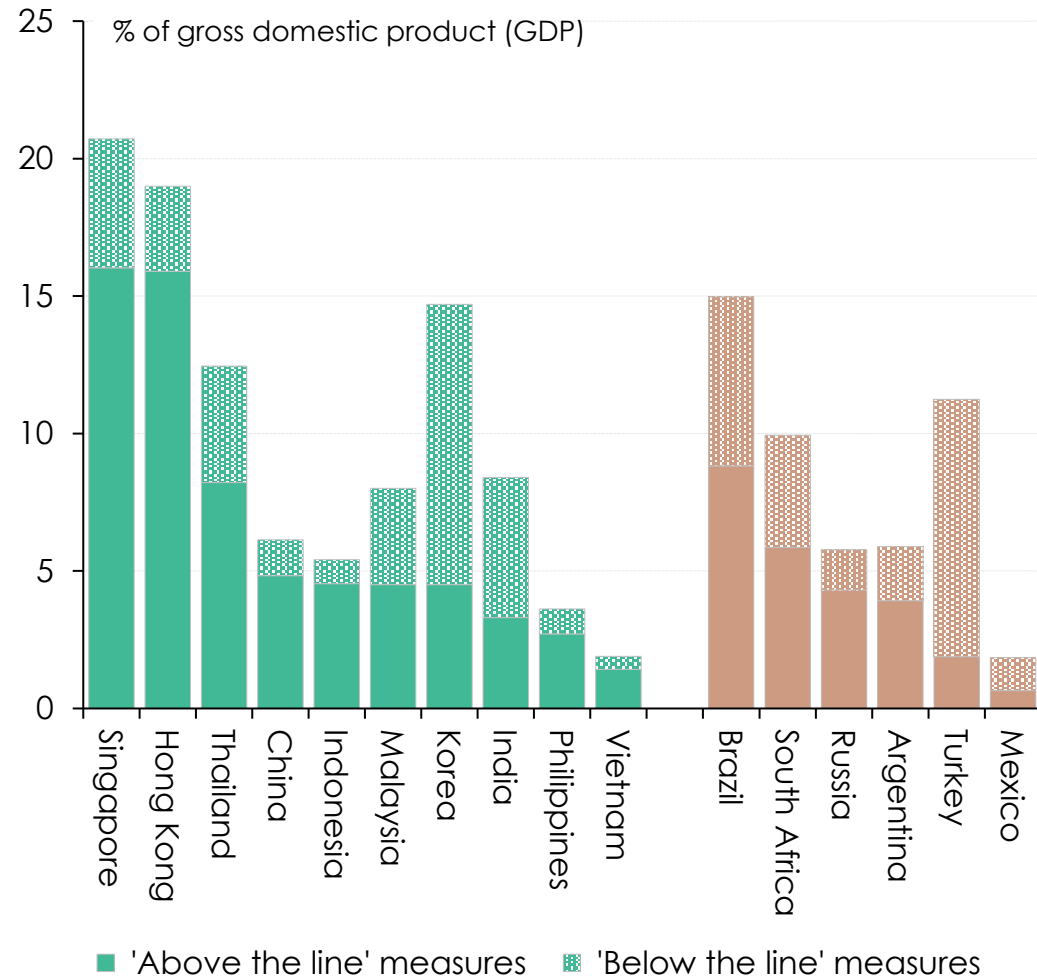
All Asian economies have experienced improvements in their trade balances since the onset of Covid, although some are now turning around



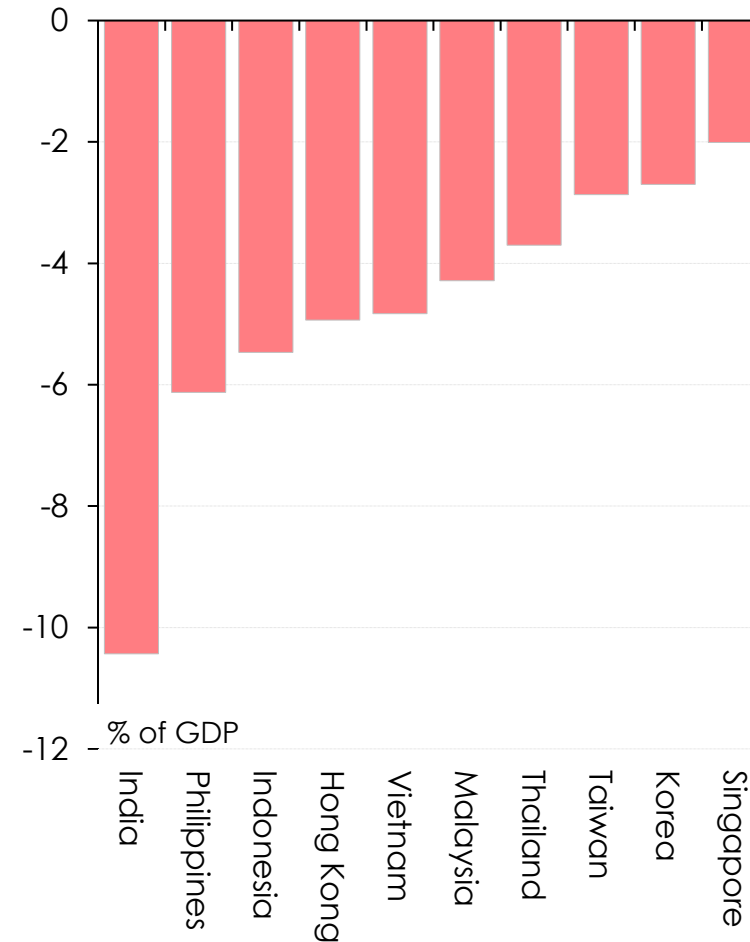
Note: Data for Hong Kong, Singapore and Malaysia are published in national currencies and converted to US dollars by Corinna using month-average exchange rates. Sources: national statistical agencies and central banks. [Return to "What's New"](#).

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

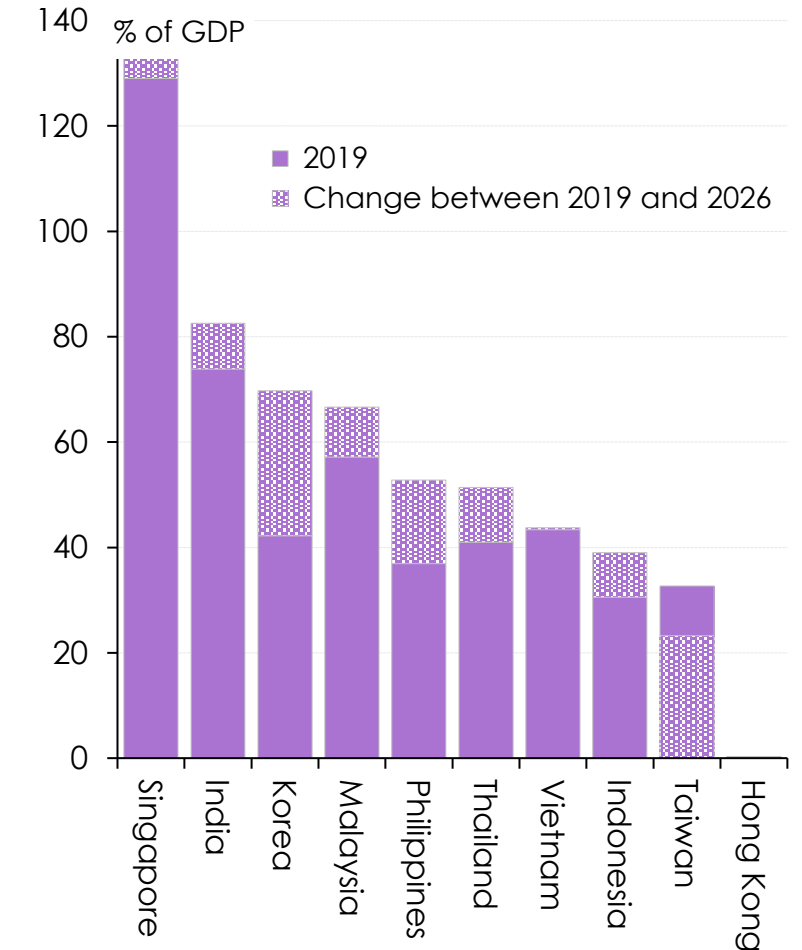
Fiscal policy responses to Covid-19 – Asian & other selected emerging market economies



Budget balances – Asian economies 2020-2022



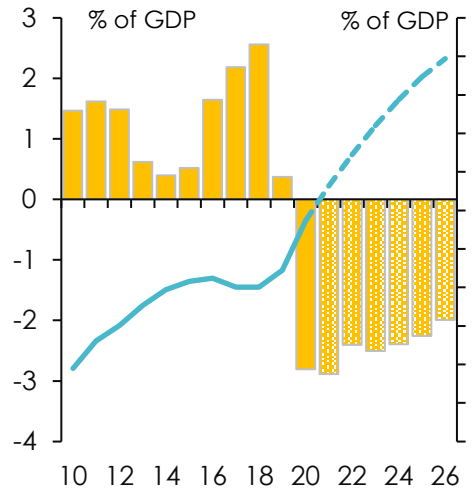
Gross government debt – Asian economies 2019-26



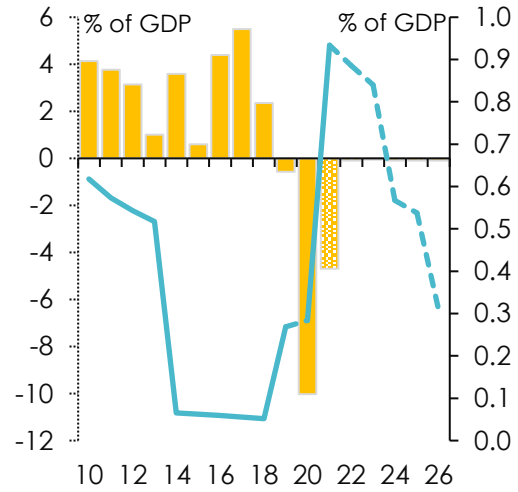
Note: 'Above the line' measures comprise additional or accelerated spending and deferred or foregone revenue. 'Below the line' measures comprise equity injections, loans, asset purchases and debt assumptions, but do not include loan guarantees or other contingent liabilities. 'DMS' means 'developed markets' (or 'advanced economies'). Data includes measures announced up until 17th March 2021. Singapore's apparently very large gross debt is offset by substantial financial asset holdings. Taiwan's gross debt is projected to decline as a percentage of GDP between 2019 and 2026. Sources: IMF, [Fiscal Monitor Database of Country Fiscal Measures in Response to the COVID-19 Pandemic](#) and [Fiscal Monitor](#), April 2021. [Return to "What's New"](#).

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

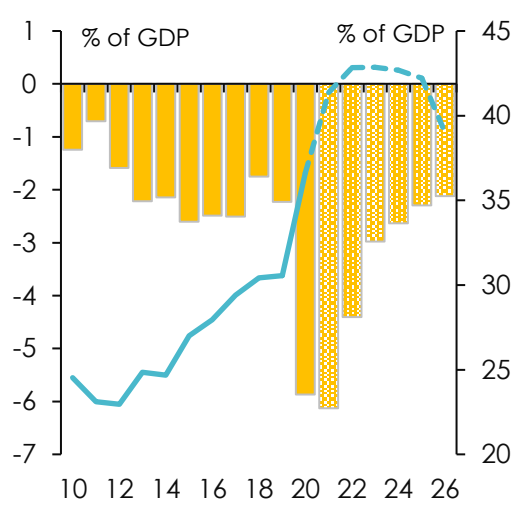
Korea



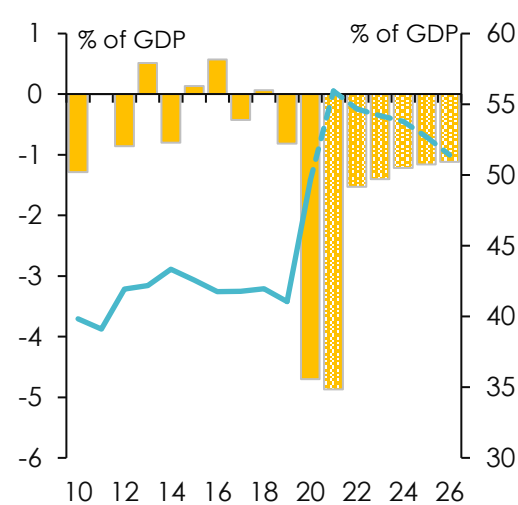
Hong Kong



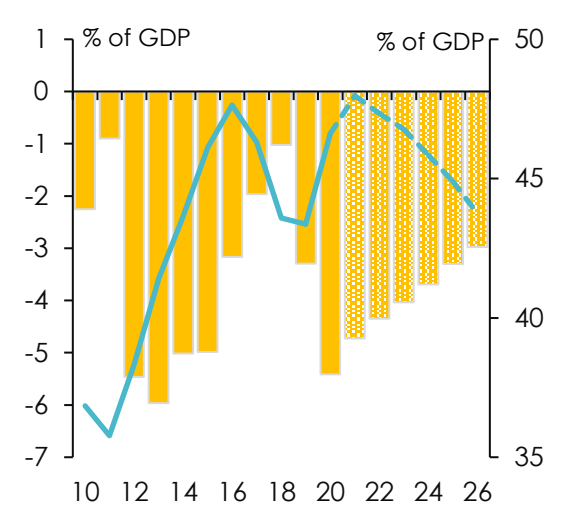
Indonesia



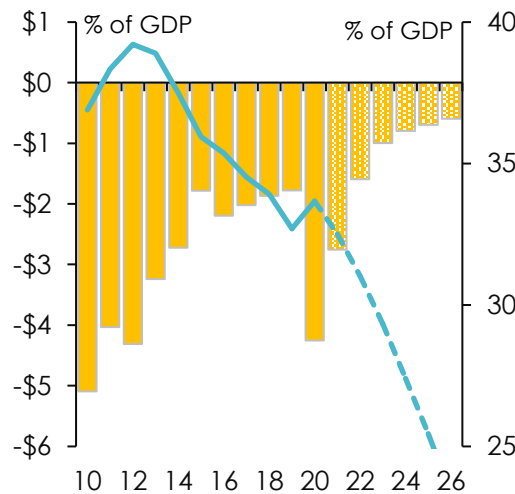
Thailand



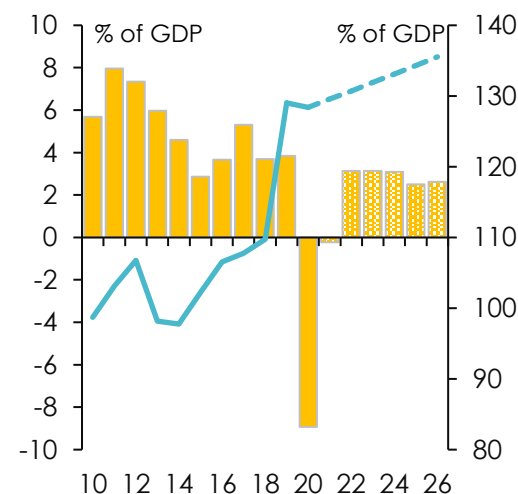
Vietnam



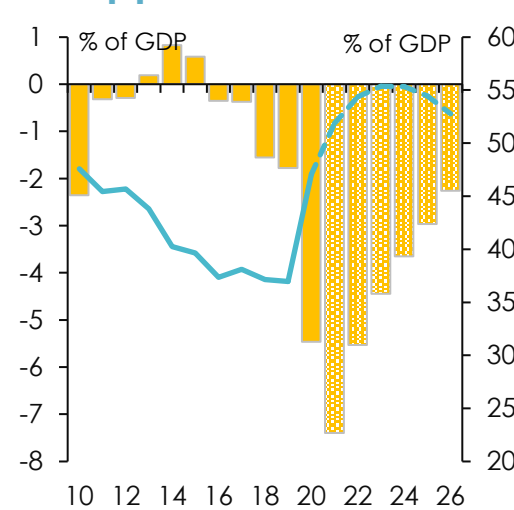
Taiwan



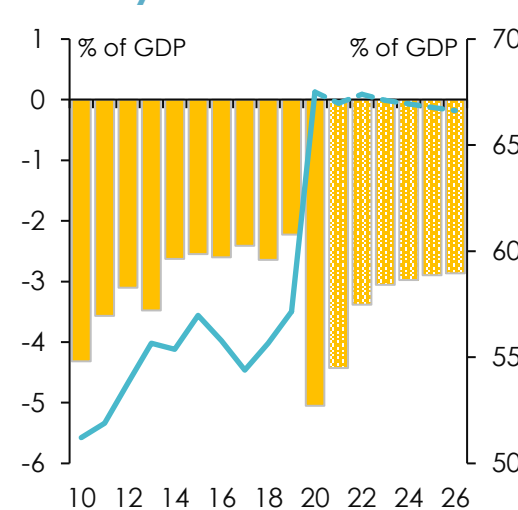
Singapore



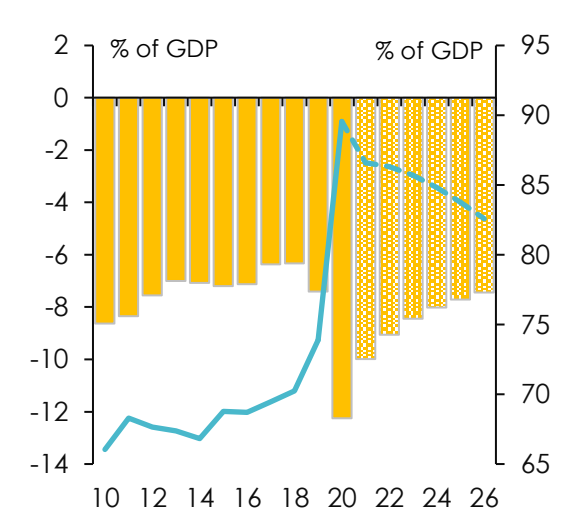
Philippines



Malaysia

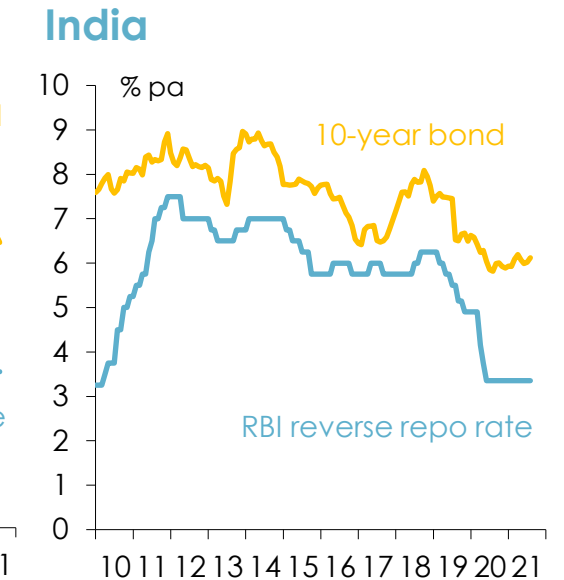
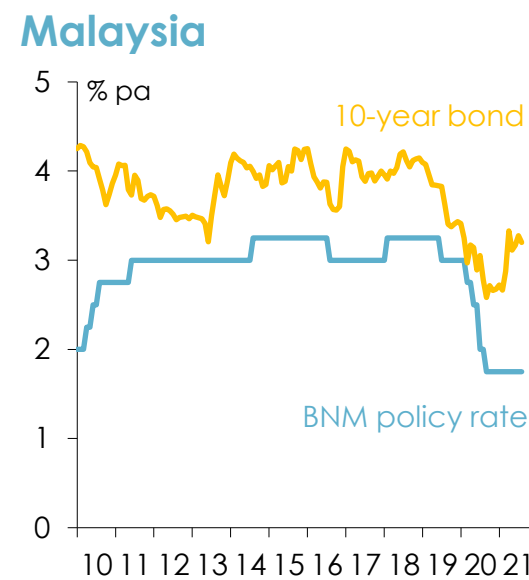
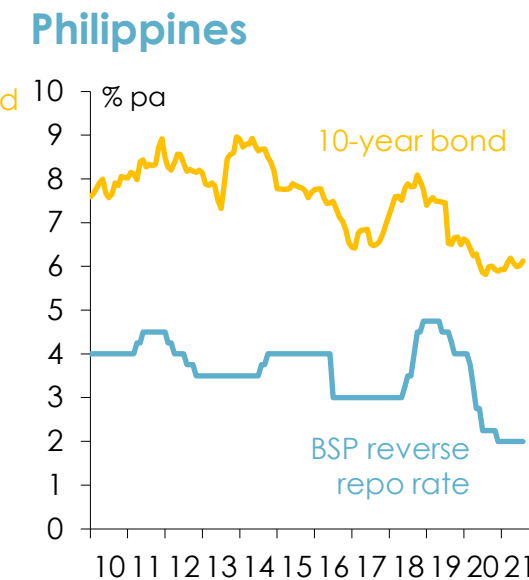
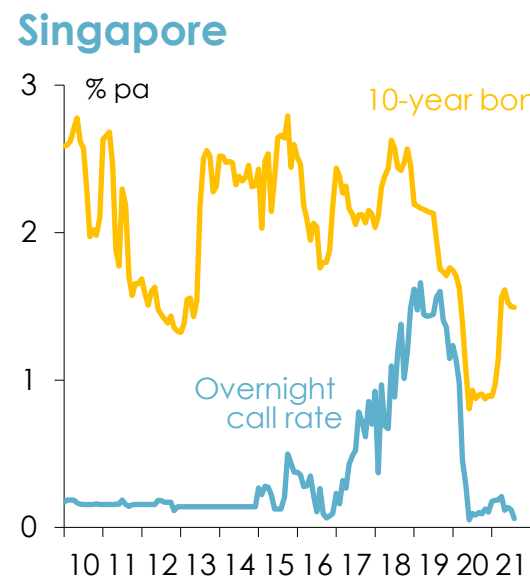
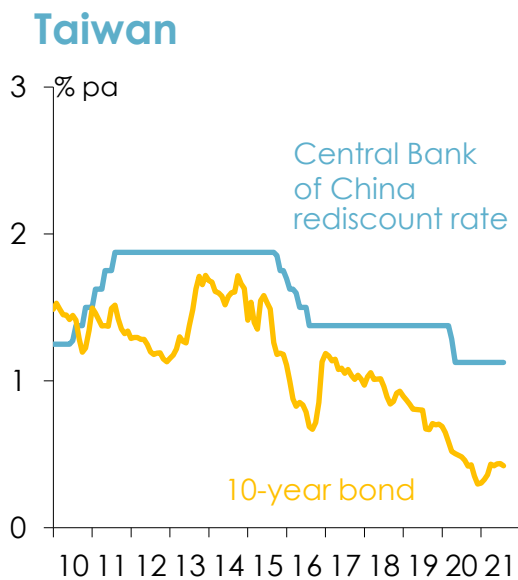
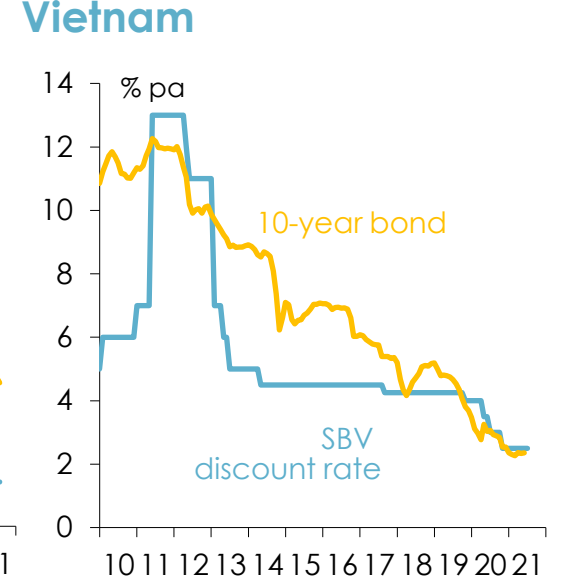
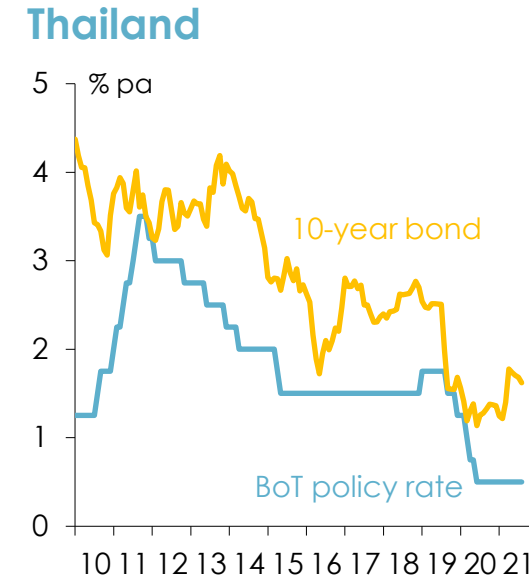
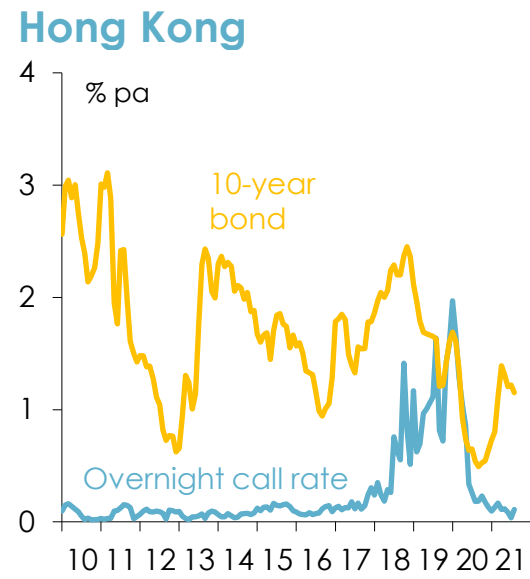
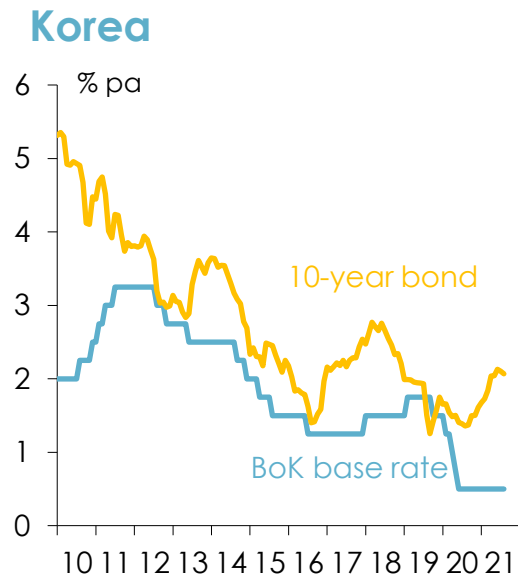


India



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

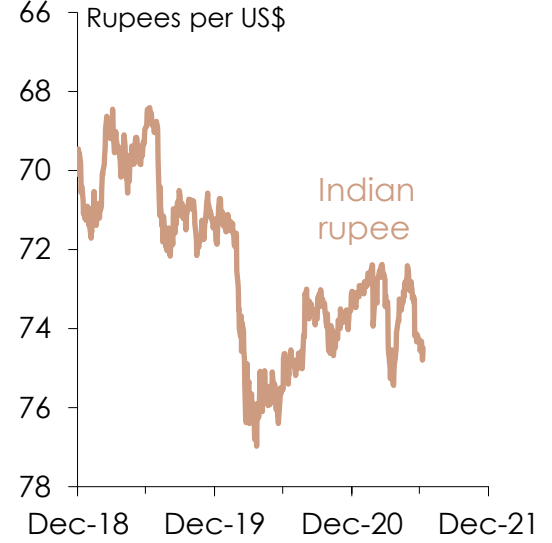
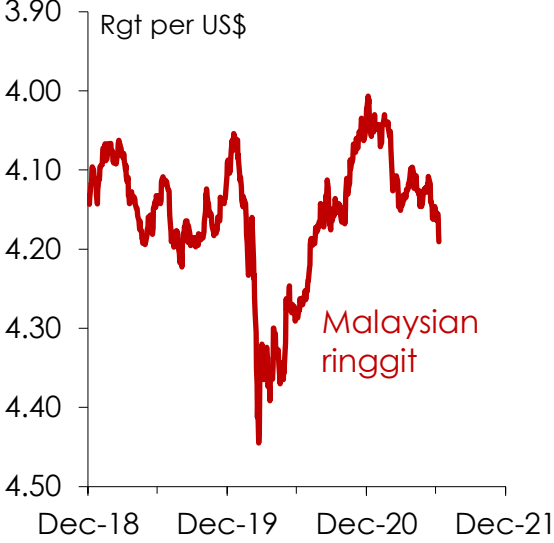
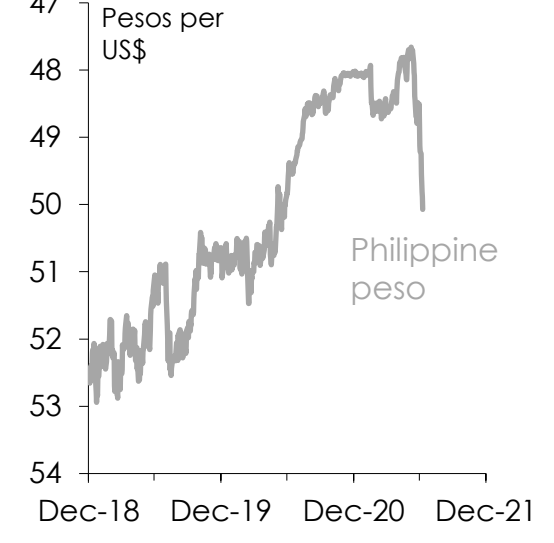
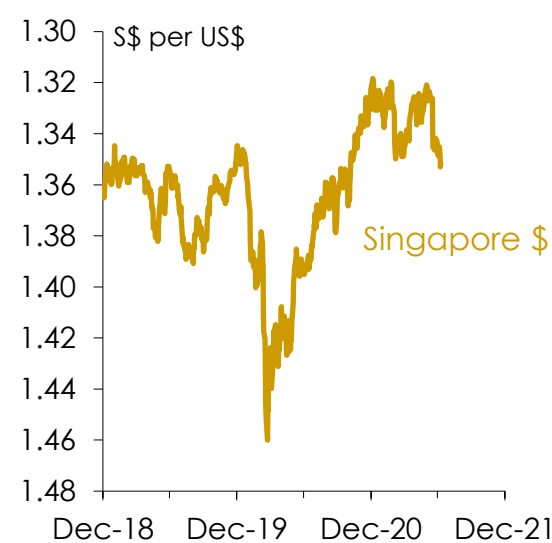
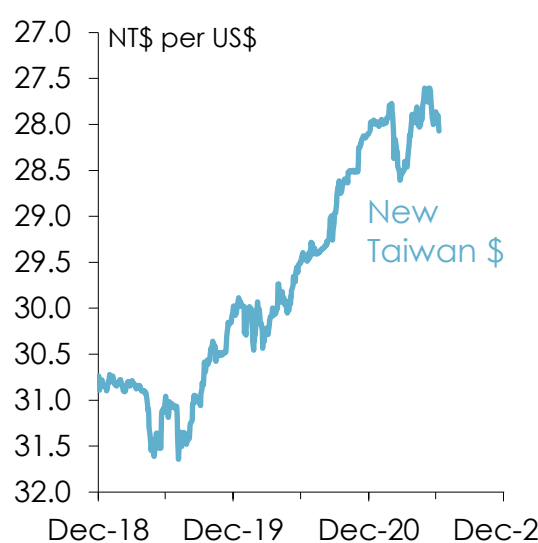
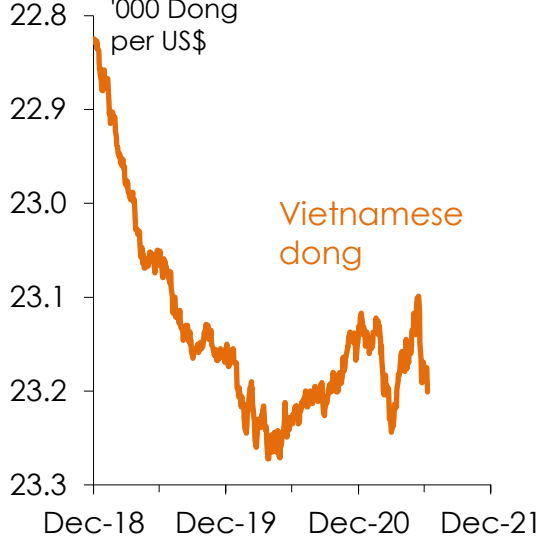
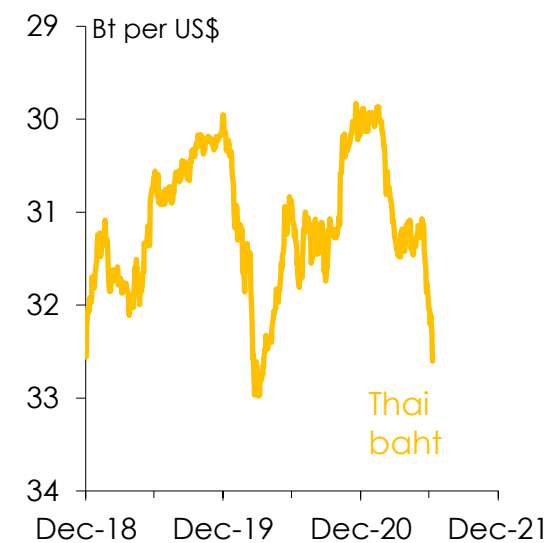
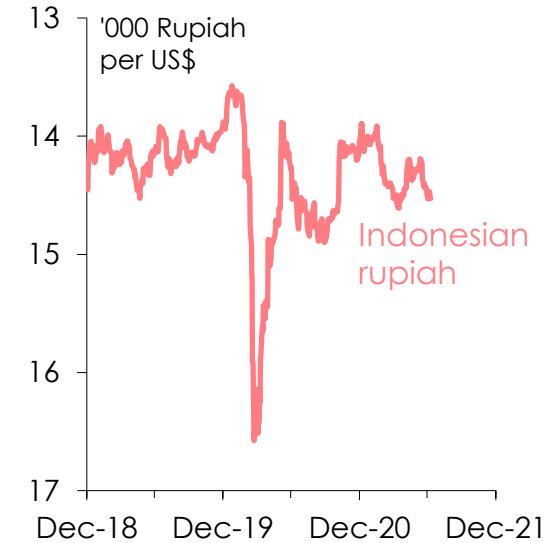
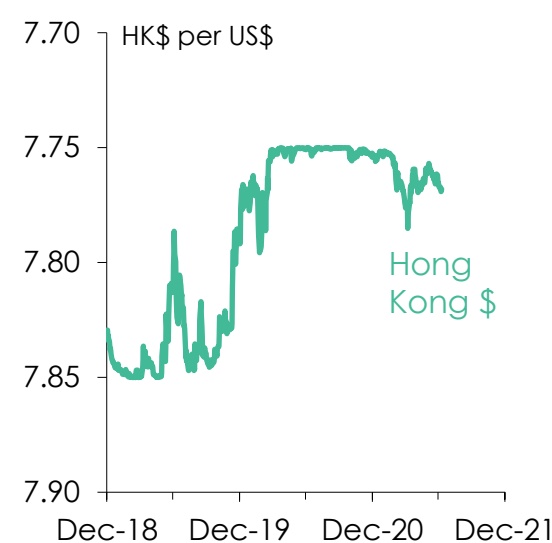
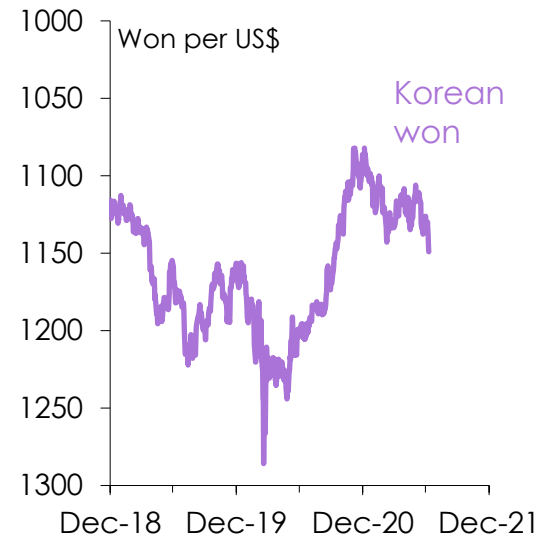
No Asian central bank has given any hint of any near- or medium-term tightening of monetary policy



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 July 2021. Sources: national central banks; Refinitiv Datastream. [Return to "What's New"](#).

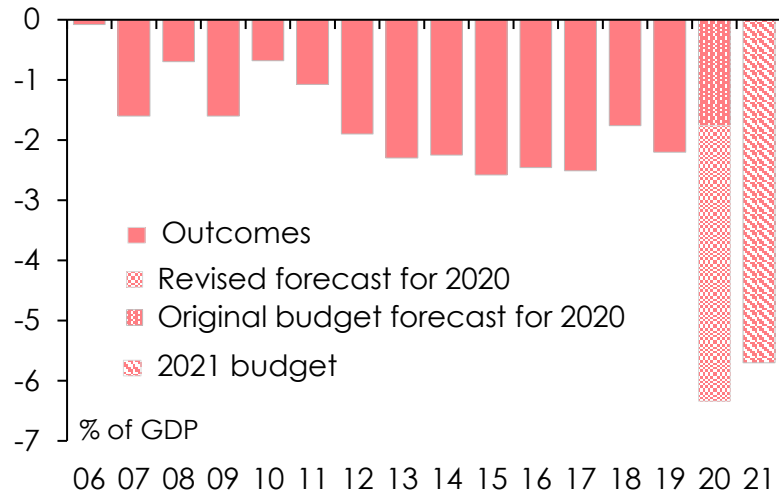
Asian currencies (other than the rupiah and rupee) fell further against the US\$ this week, with the peso down 1³/₄% and the won & baht down 1¹/₄%

Asian currency exchange rates vs US dollar

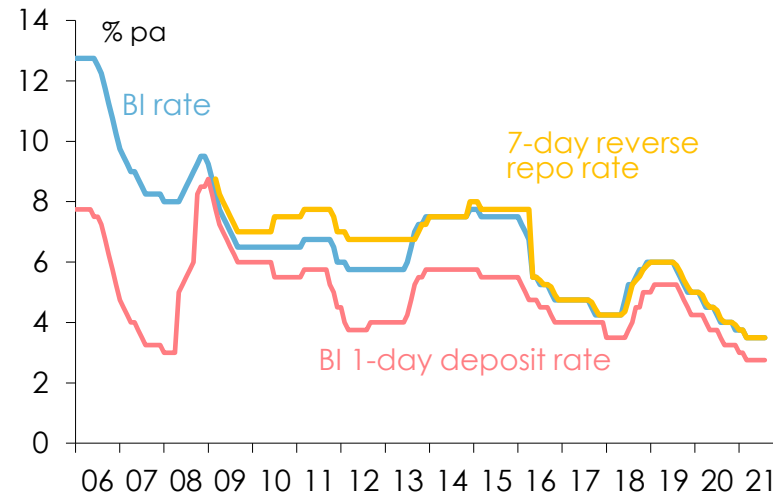


Bank Indonesia's holdings of government bonds have increased by more than 50% over the past 4 weeks as banks reduce their holdings

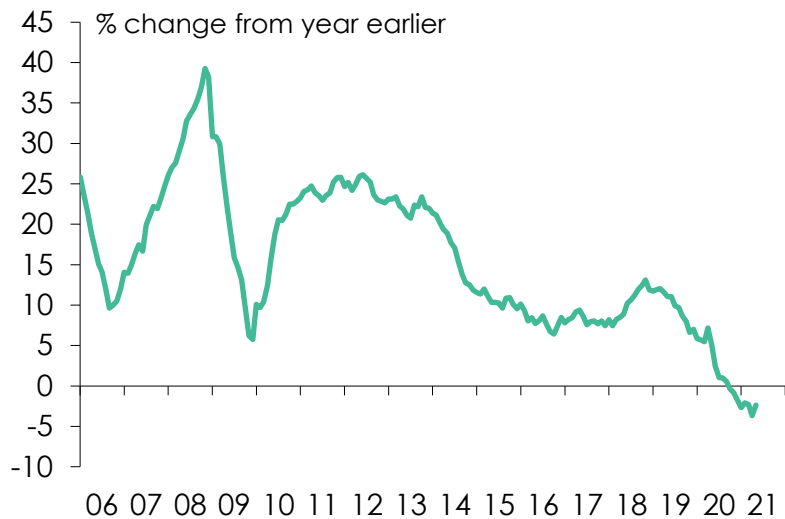
Indonesia budget deficit



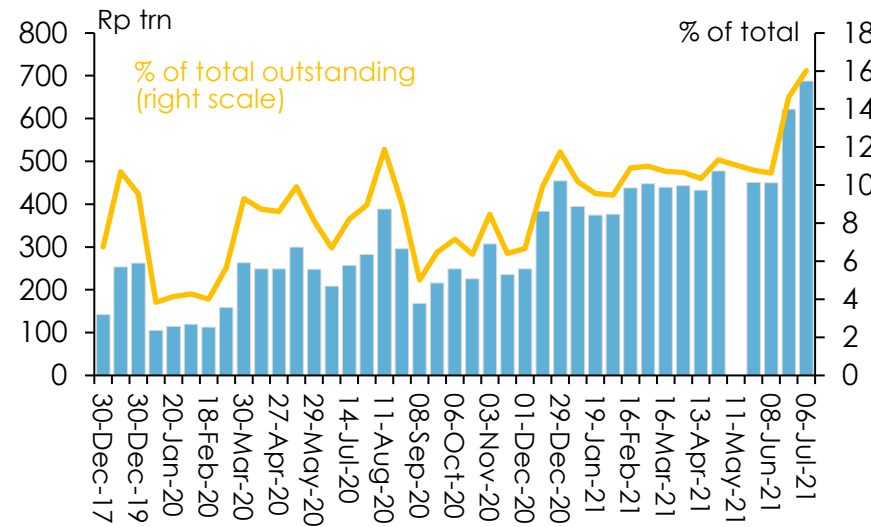
BI monetary policy rates



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

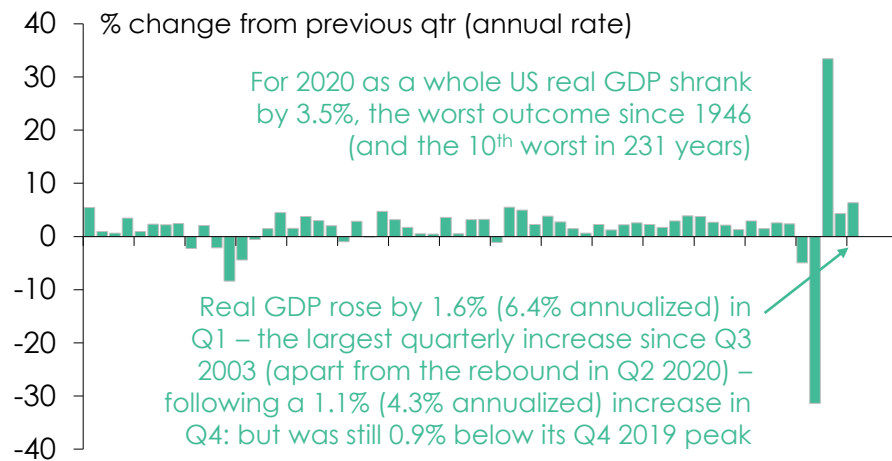
 - BI calls this 'synergistic monetary expansion'
 - up to 15th June BI has purchased Rp 116trn of SBN in the primary market (cf. Rp 473trn in 2020)
 - BI has indicated that it will be a 'standby buyer' for up to one-quarter of government borrowing requirements through 2022
 - banks have absorbed 44% of the increase in Government bonds outstanding since the end of March last year, and BI 29%
- BI's holdings of SBNs have risen by Rp238 trn (53%) over past four weeks, while banks' holdings have fallen by Rp188 trn (12%)
- This 'QE' isn't adding to inflationary pressure because lending to the private sector is declining

 - 'core' inflation at 1.5% in June is below BI's target of 2-4%
- The Government this week lowered its growth forecast for 2021 to 3³/₄-4¹/₂% (from 4¹/₂-5¹/₄%) and foreshadowed a budget deficit of 4³/₄% of GDP in 2022 (cf an earlier commitment to less than 3%)

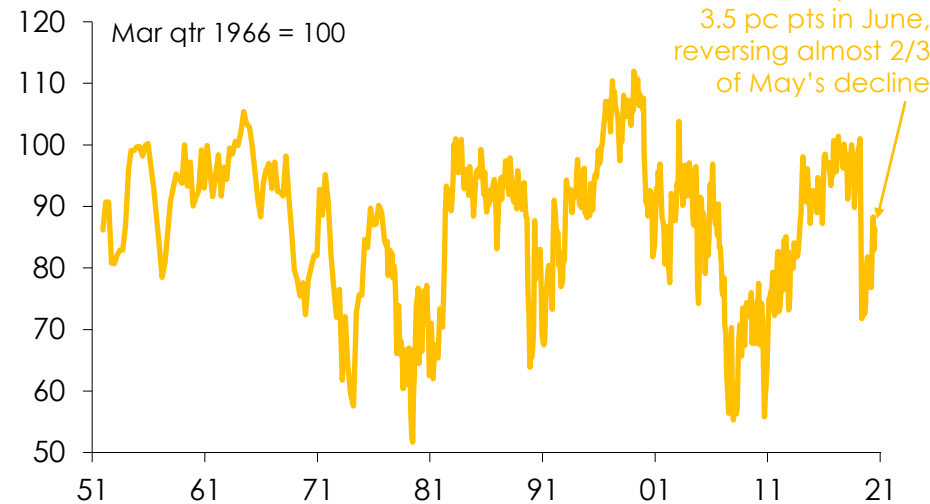
Sources: [Indonesia Ministry of Finance \(Kementerian Keuangan\)](#); [Directorate of Government Debt Securities](#); Bank Indonesia. [Return to "What's New"](#).

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

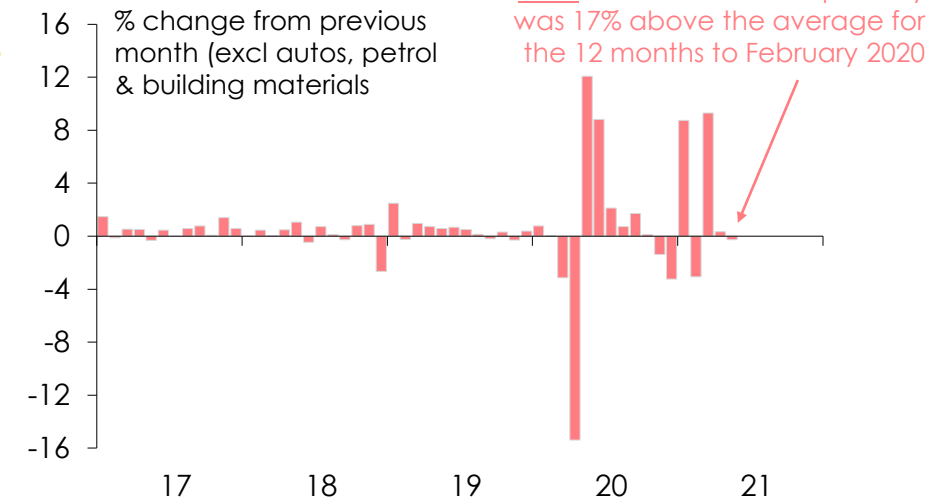
Real GDP



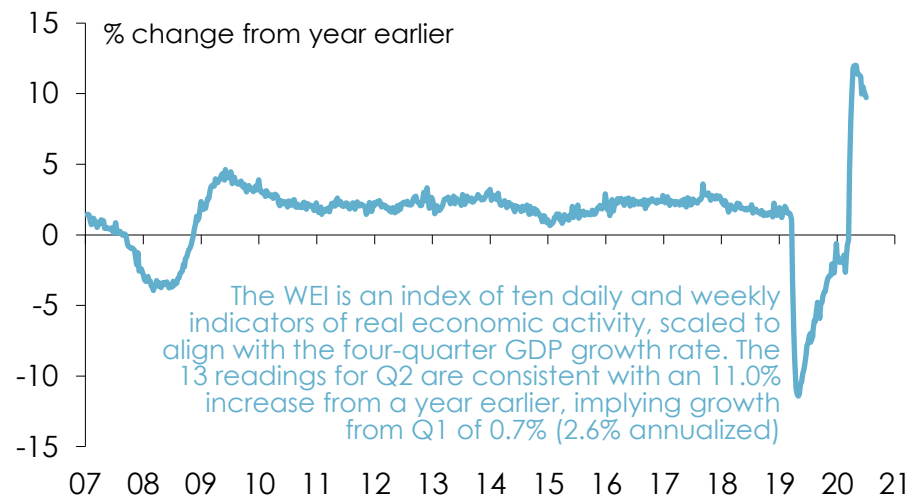
Consumer sentiment



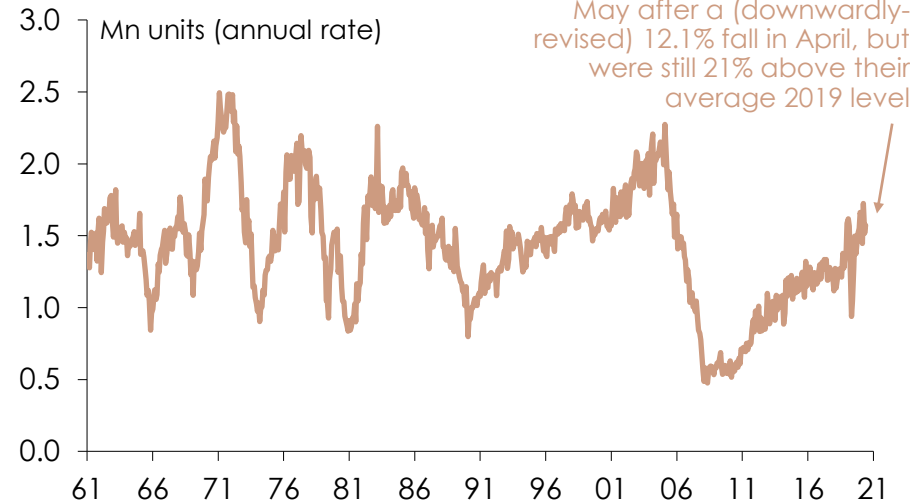
'Core' retail sales



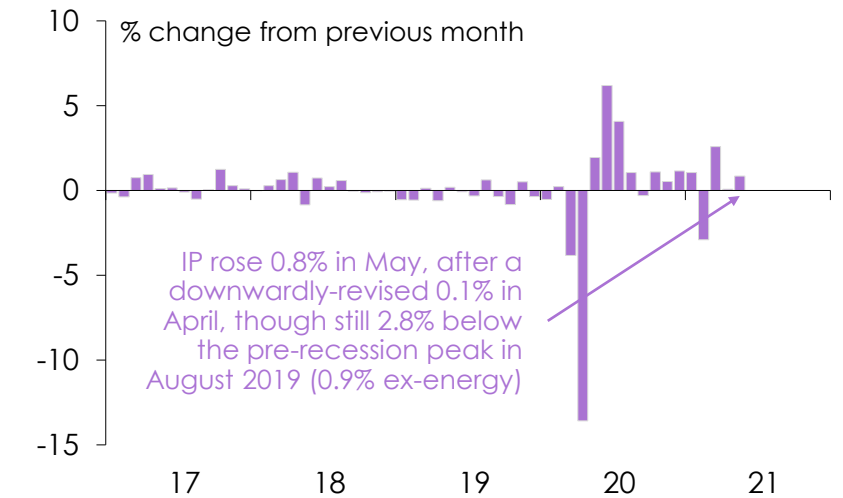
NY Fed weekly economic index



Housing starts

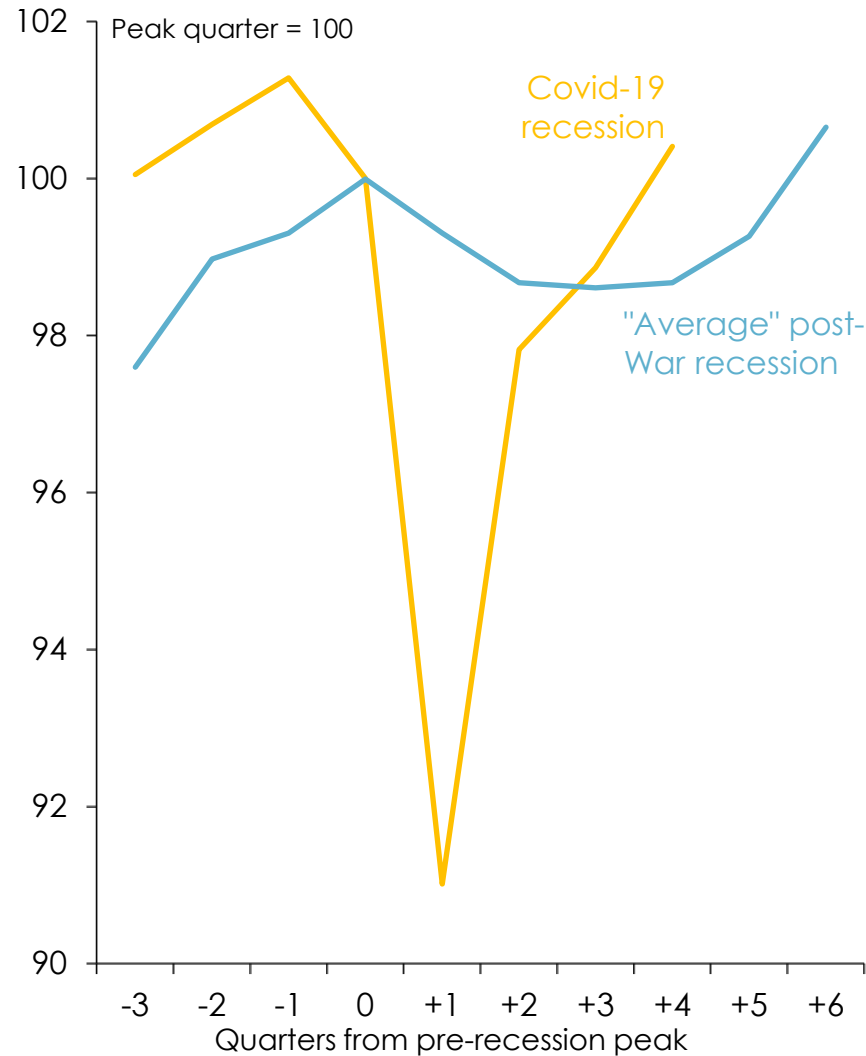


Industrial production

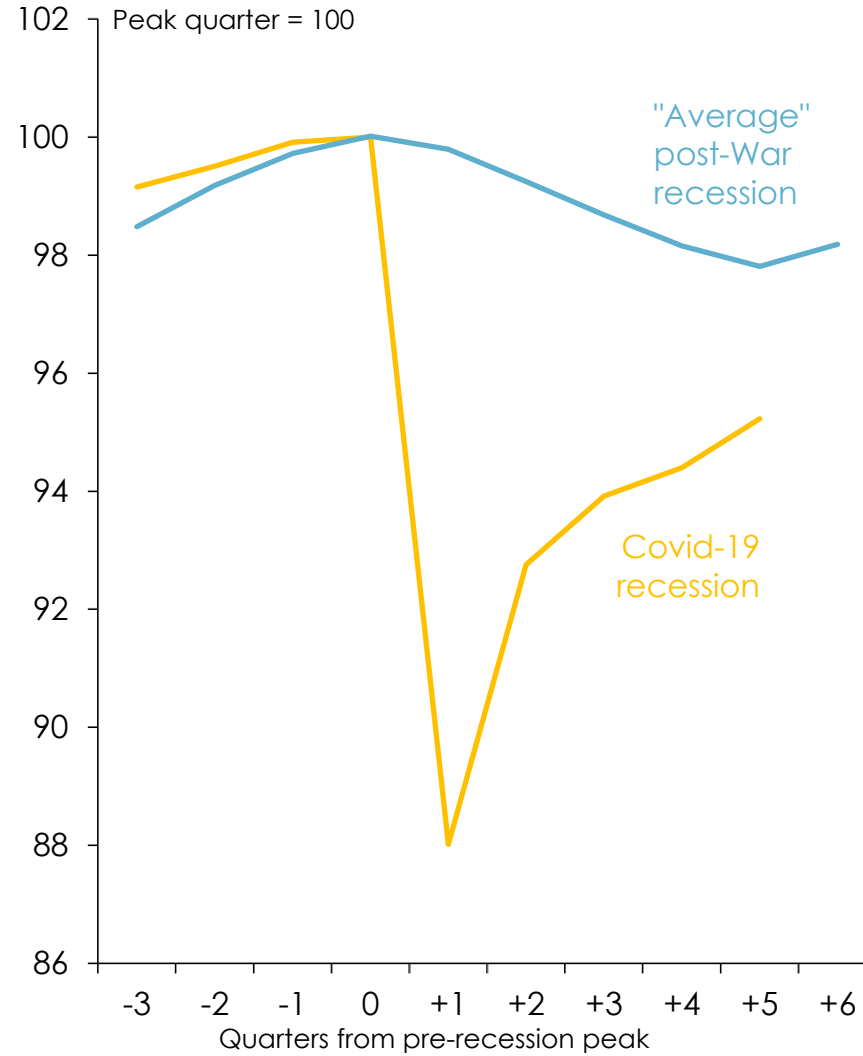


The Covid-19 recession has been quite unlike any other of the recessions the US has experienced since the end of World War II

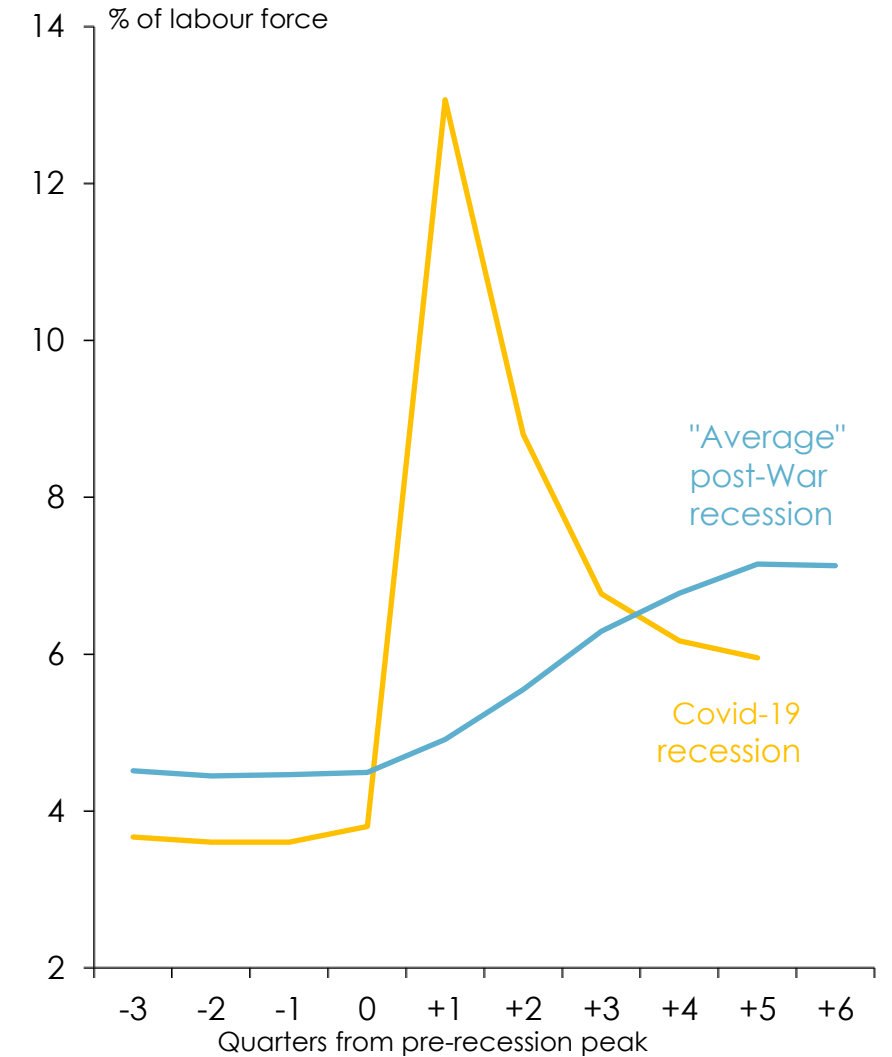
Level of real GDP



Non-farm payroll employment



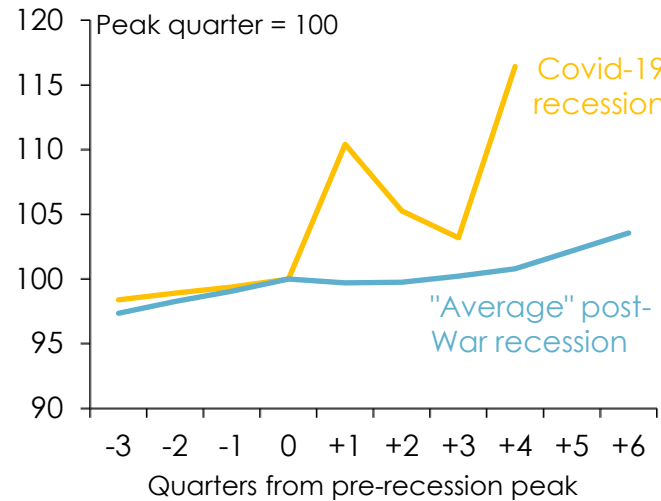
Unemployment rate



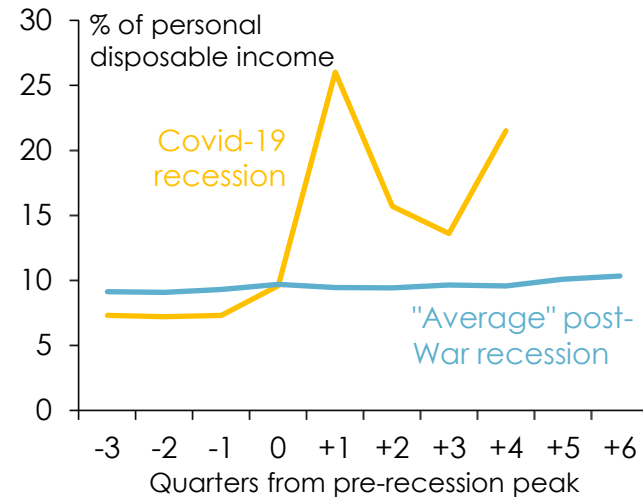
Note: 'average post-war recession' is the average of figures for each of the eleven post-war US recessions as designated by the [National Bureau of Economic Research Business Cycle Dating Committee](#), with the exception of the recession of January-July 1980 (which was too short, and too close to the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

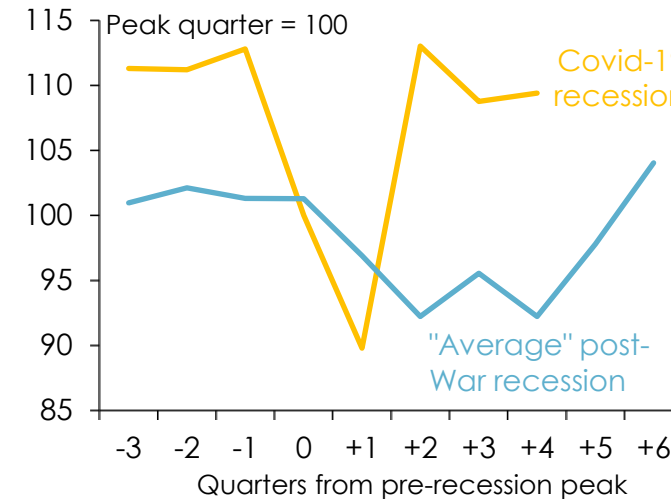
Personal disposable income



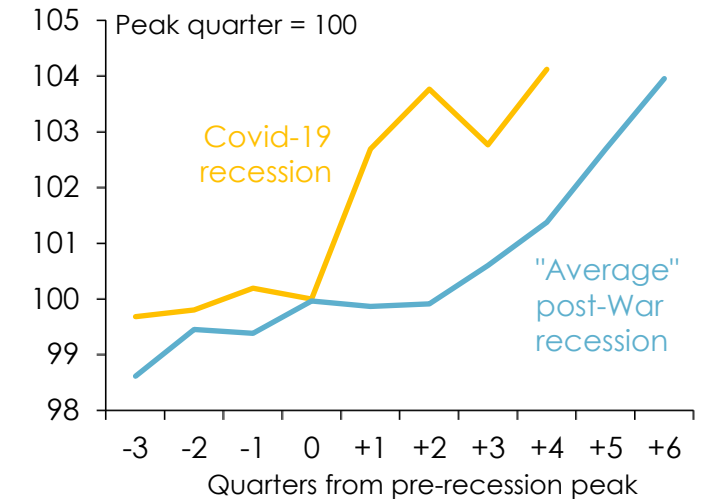
Personal saving rate



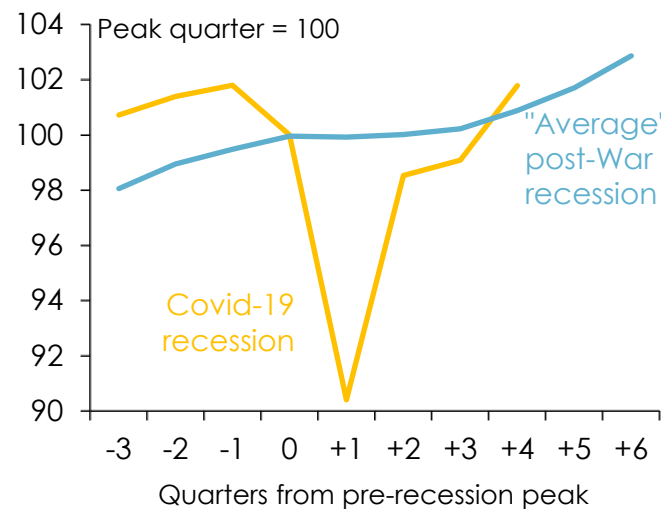
After-tax corporate profits



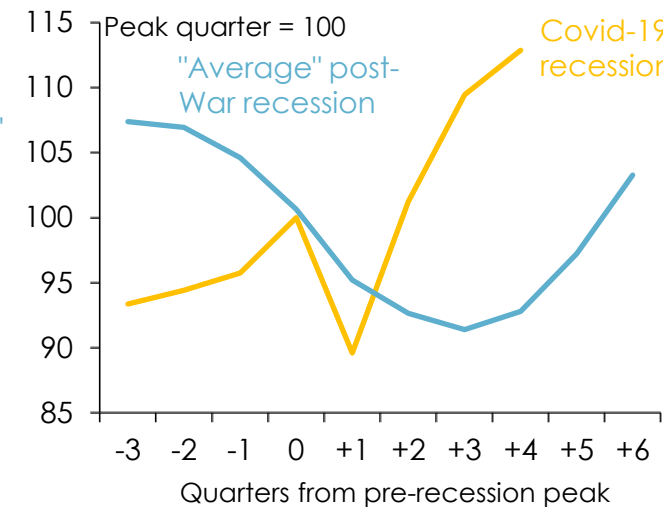
Labour productivity



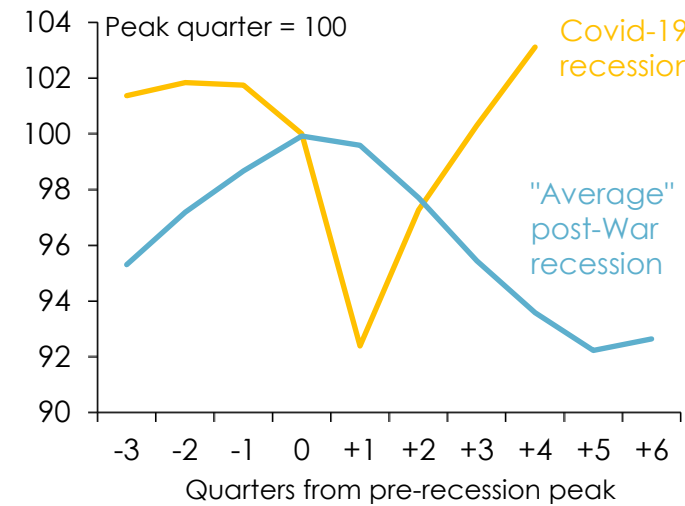
Personal consumption



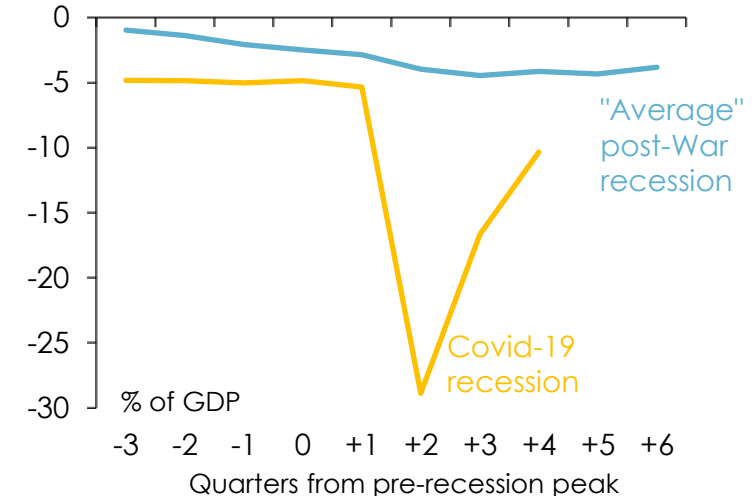
Residential investment



Business investment



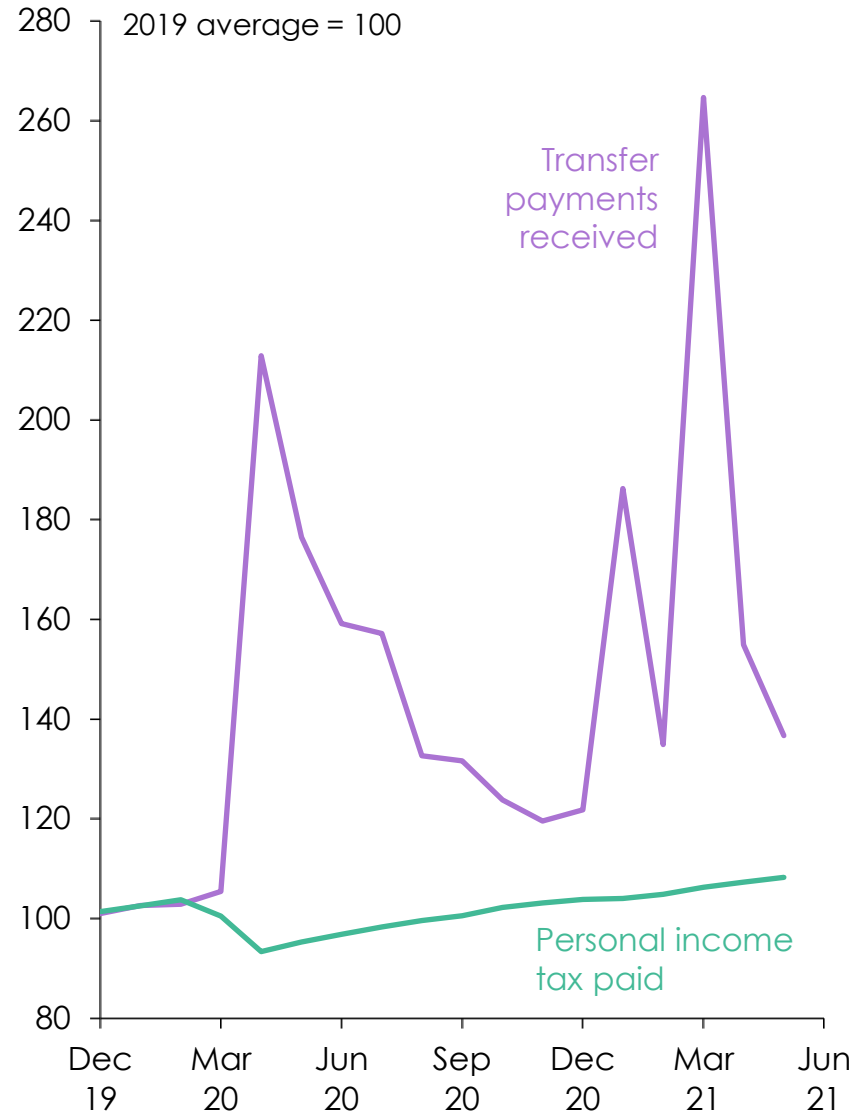
Federal budget balance



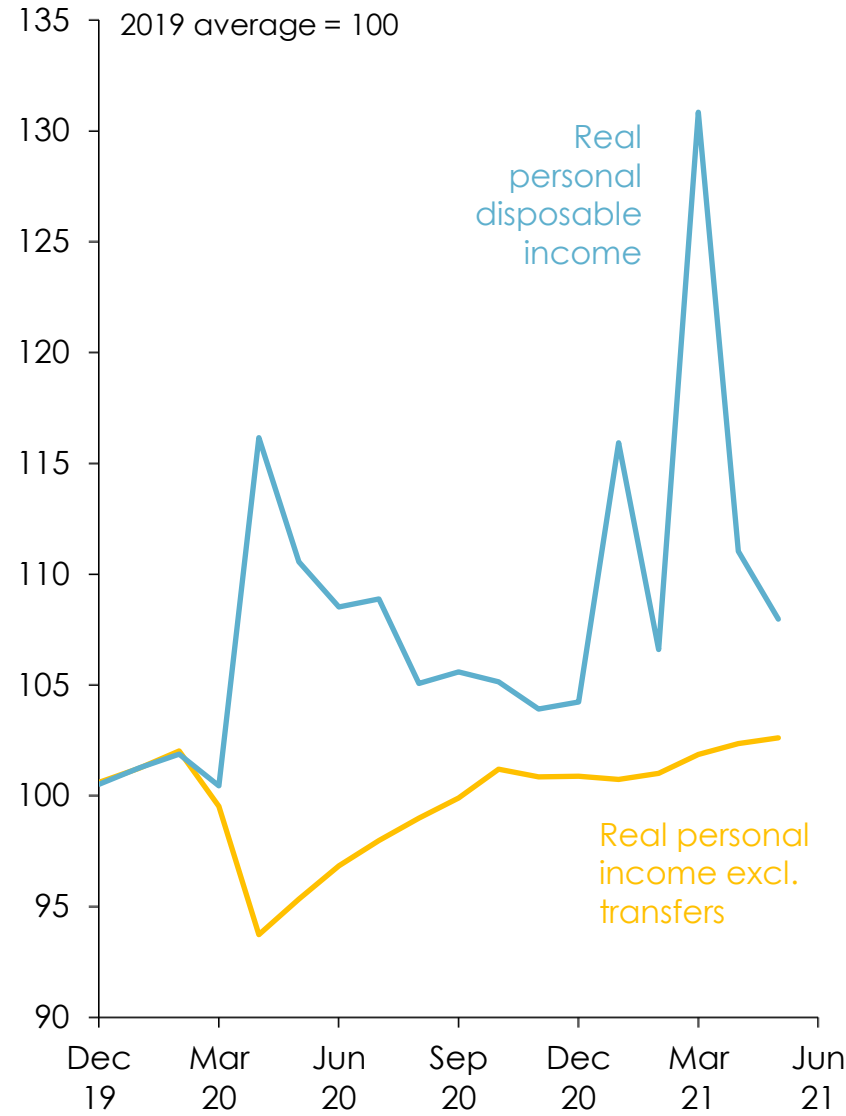
Note: 'average post-war recession' is the average of figures for each of the eleven post-war US recessions as designated by the [National Bureau of Economic Research Business Cycle Dating Committee](#), with the exception of the recession of January-July 1980; 'peak quarter' is the quarter in which real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

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

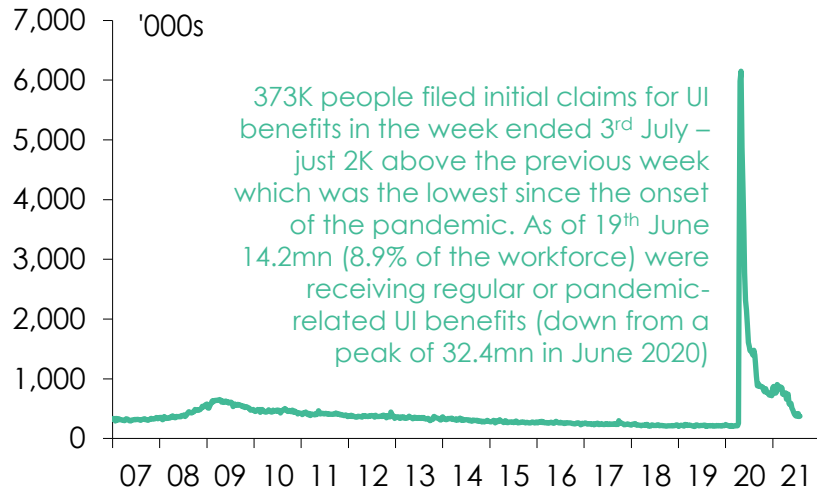


Real consumption expenditure

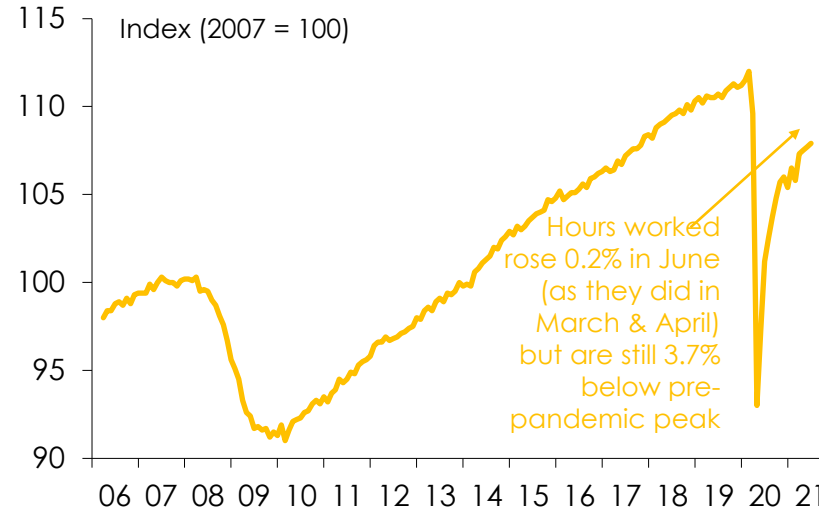


US non-farm payrolls rose 850K (0.6%) in June but are still 6.8mn (4.4%) below their pre-pandemic peak, and unemployment rose 0.1 pc pt to 5.9%

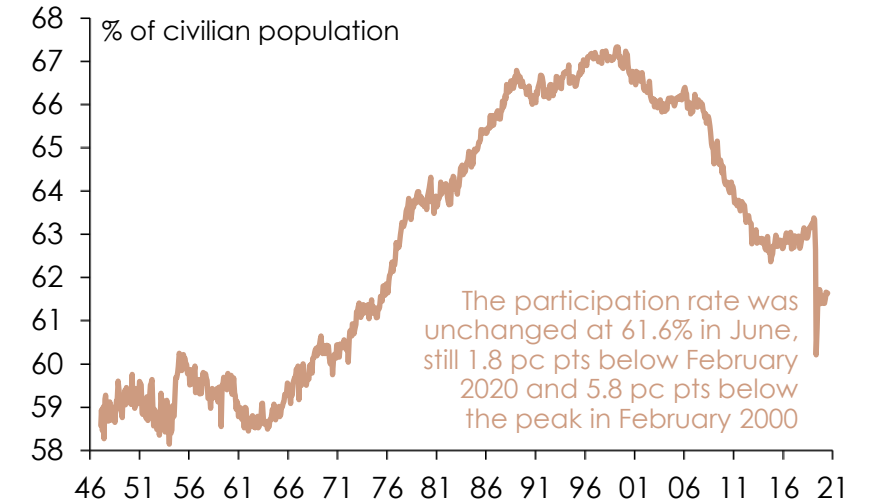
Unemployment benefit claims



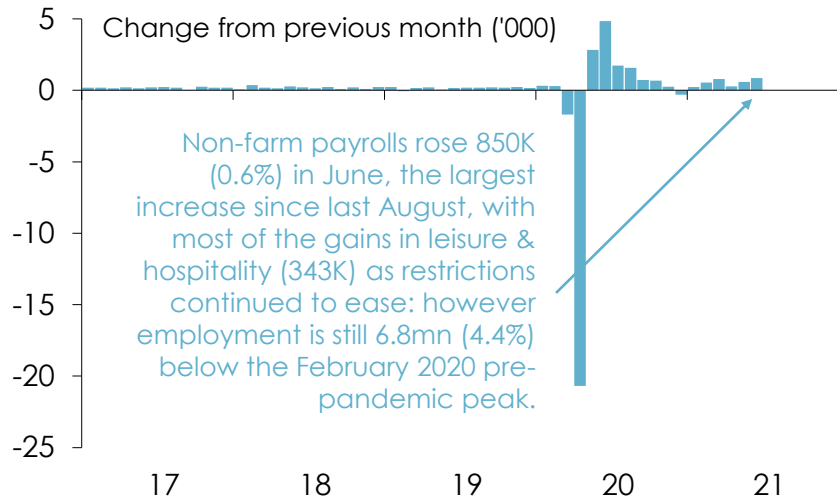
Hours worked (private sector)



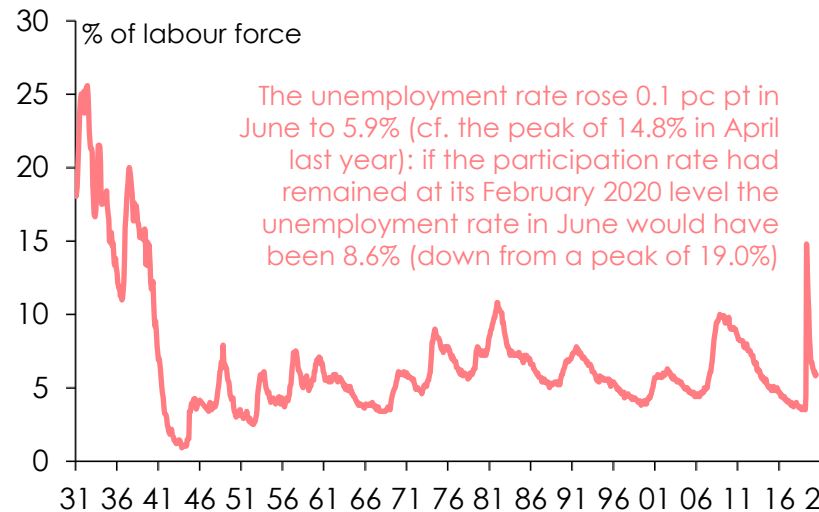
Labour force participation rate



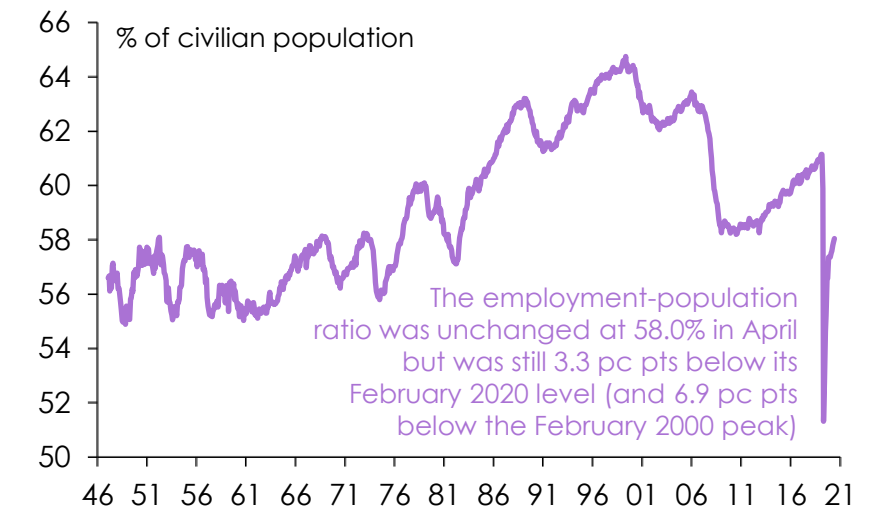
Non-farm payroll employment



Unemployment rate

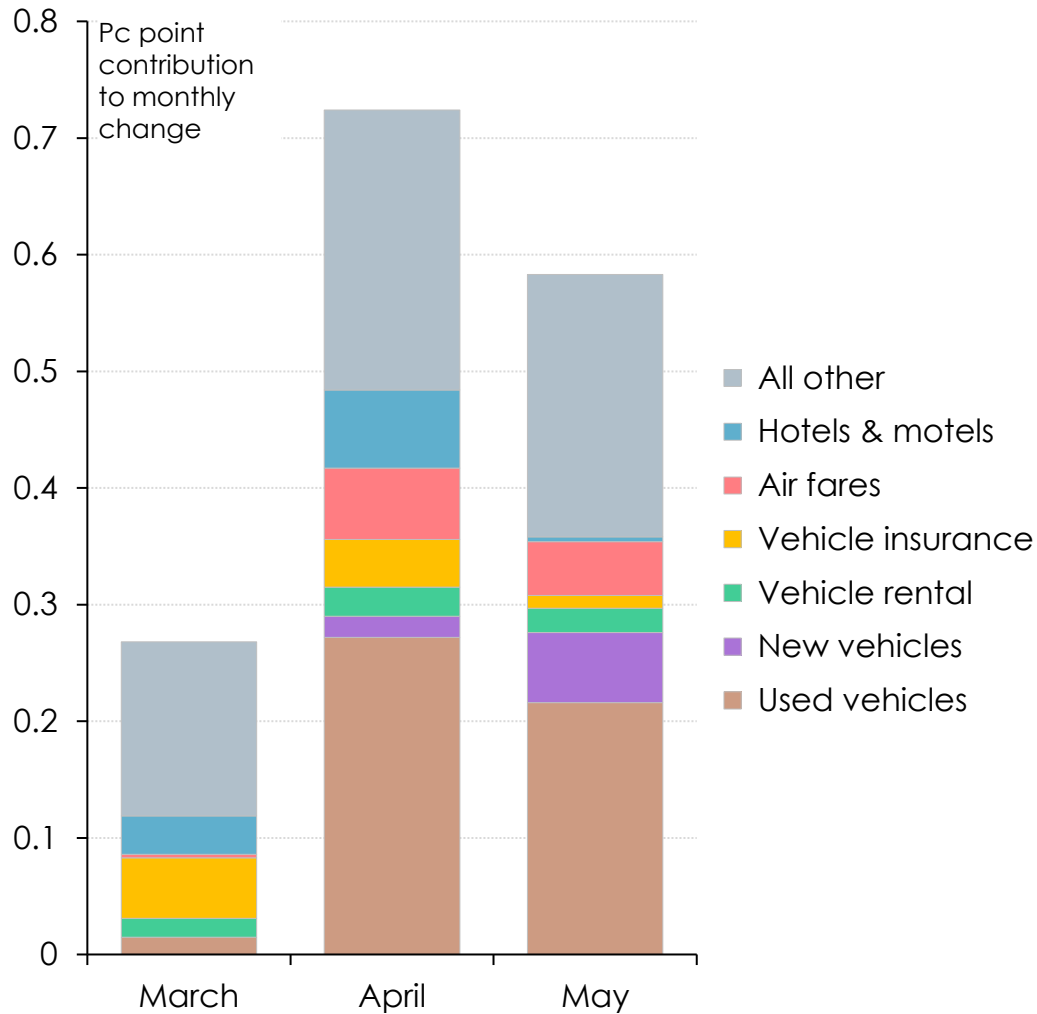


Employment to population ratio



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



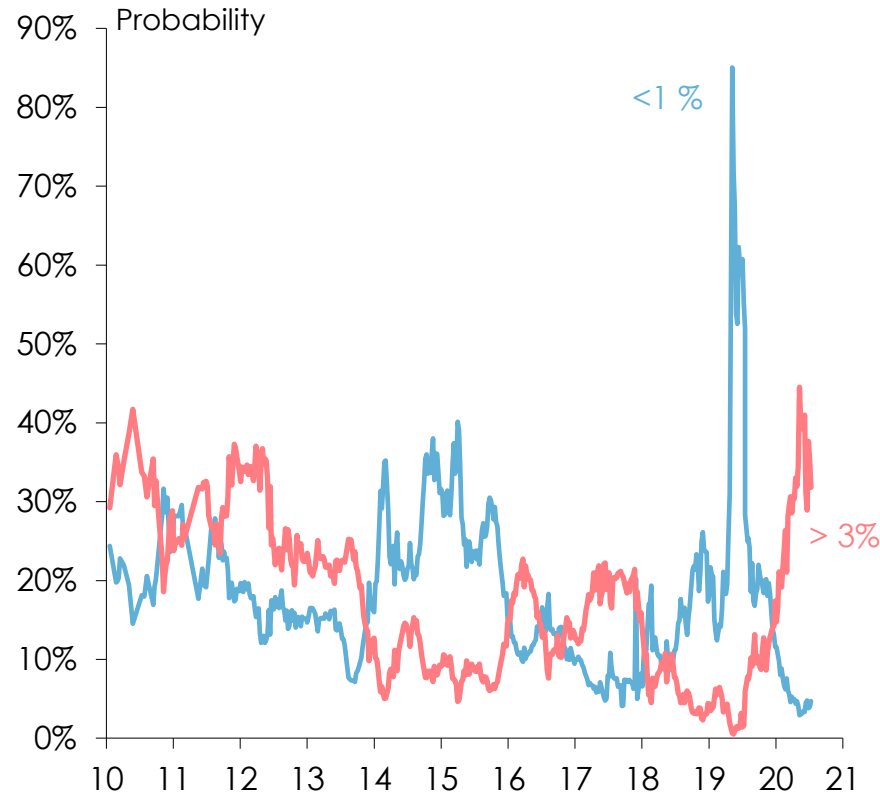
Price indices for items which have contributed most to recent monthly changes in the 'core' US CPI (rebased to December 2019 = 100)



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

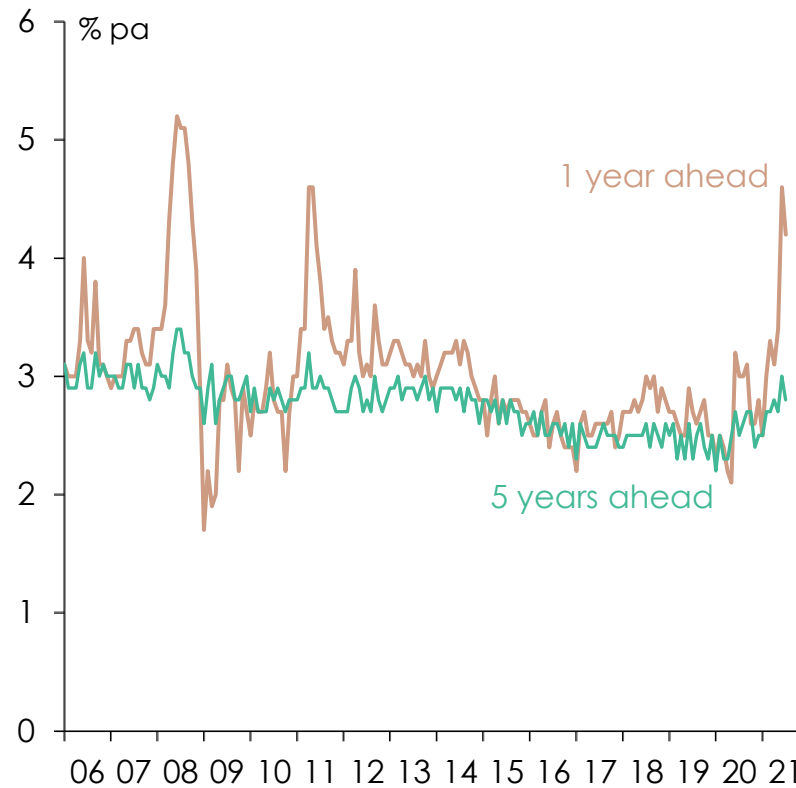
Financial market fears of a sustained pick-up in US inflation appear to be receding (for now) and inflation expectations remain 'anchored'

Market-implied probabilities of inflation in 5 years' time



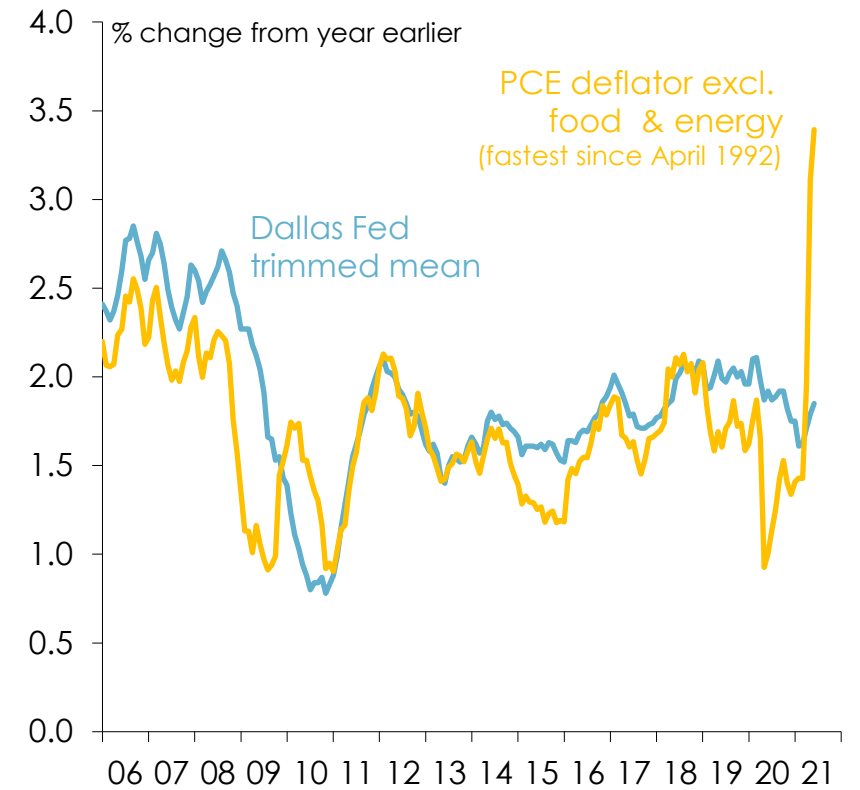
- As of early July options pricing imply markets are giving a 32% probability to inflation exceeding 3% in 5 years' time, down from a peak of 44% in early May

Household inflationary expectations



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

Statistical measures of annual 'core' inflation in the US

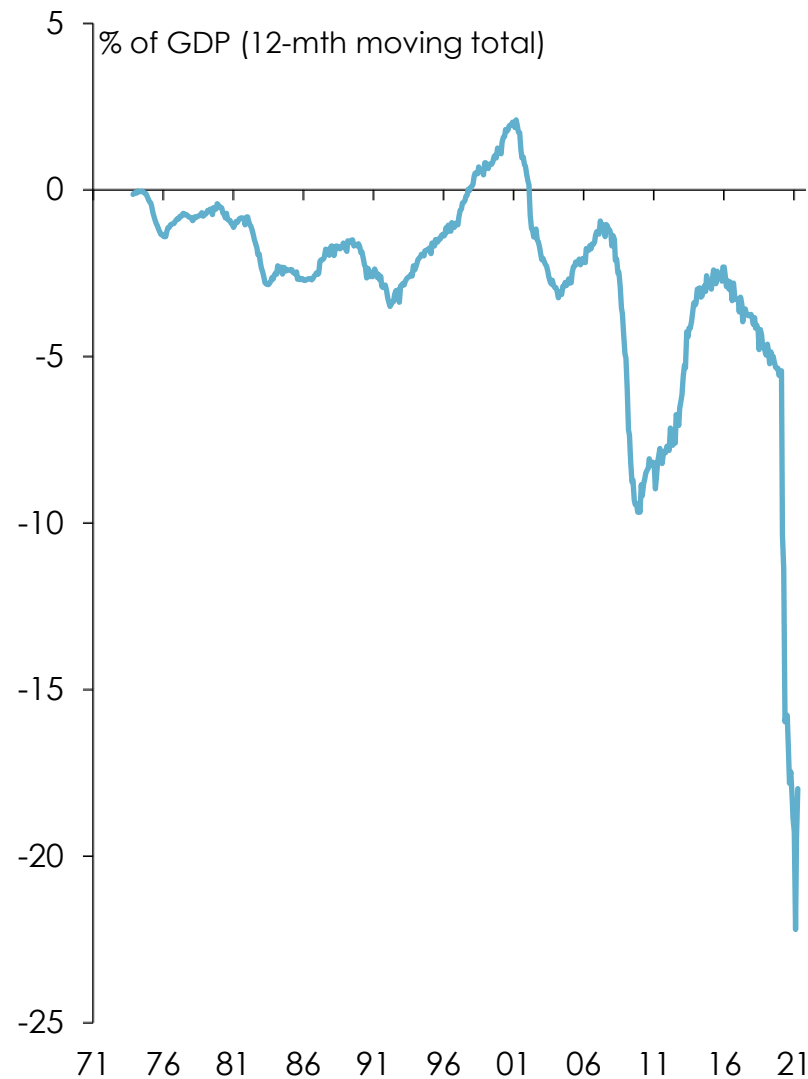


- Statistical measures (similar to those used by the RBA) suggest that the rise in 'core' inflation is almost entirely due to 'outliers' (such as used cars, car rentals, air fares, and hotel charges)

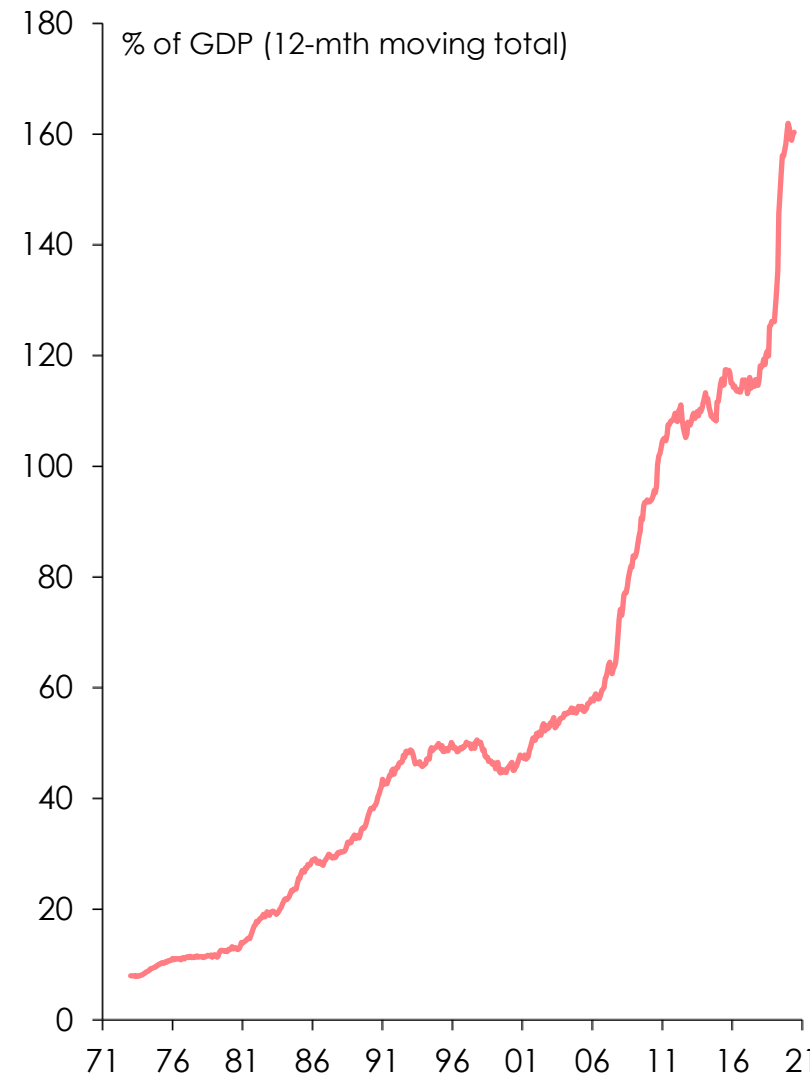
Note: 'Market-implied probabilities' of higher or lower inflation are derived from options pricing. The 'trimmed mean' CPI inflation rate excludes the components of the CPI whose weights fall in the top and bottom 8% of the distribution of price changes; the median is the component whose price change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

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

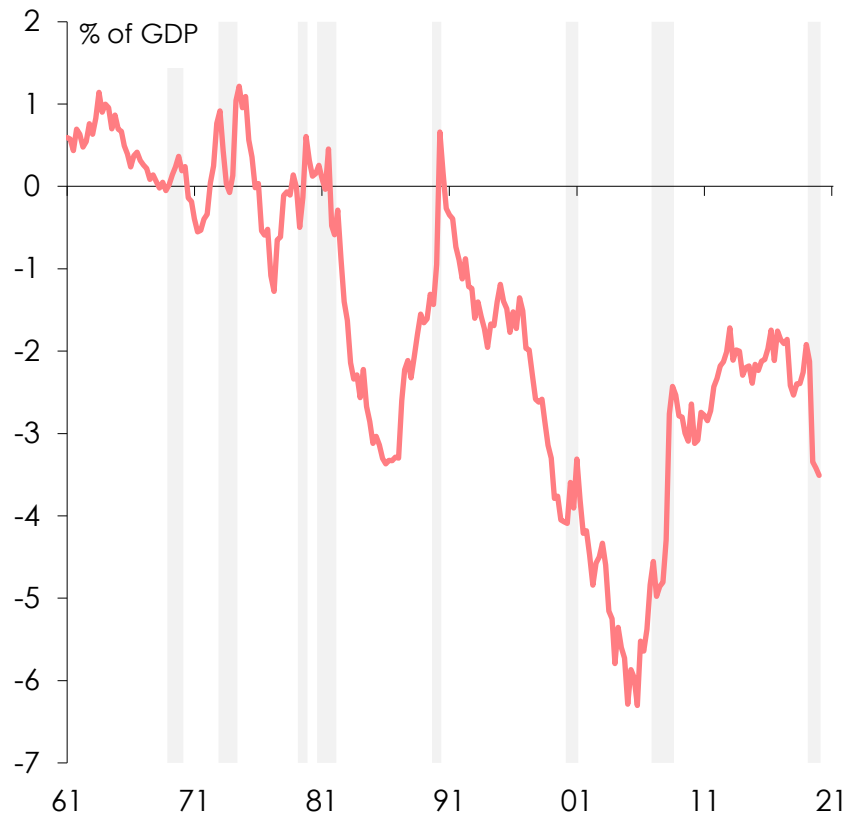


- ❑ The US Federal Government budget deficit narrowed further to US\$131.2bn in May, from \$225.6bn in April, reflecting receipts of non-PAYG income tax payments deferred from April
- ❑ Over the 12 months to April, the budget deficit totalled US\$3.3trn (18.0% of GDP) – down from \$3.6trn in the 12 months 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"](#).

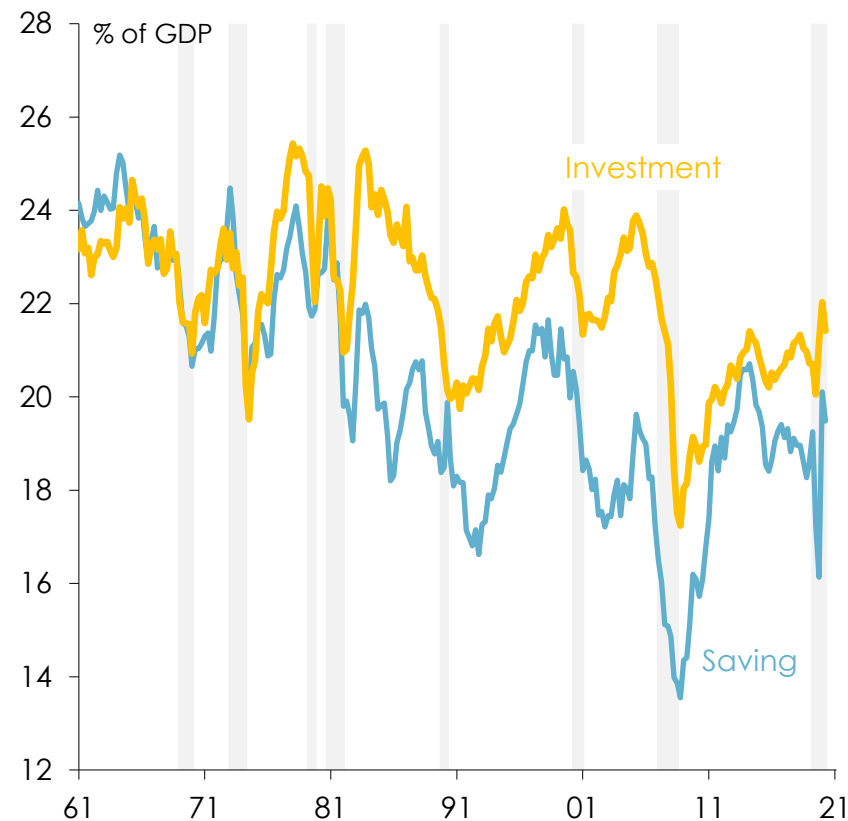
Unusually, the US current account deficit has widened so far during this recession, largely because investment hasn't fallen much

US current account balance



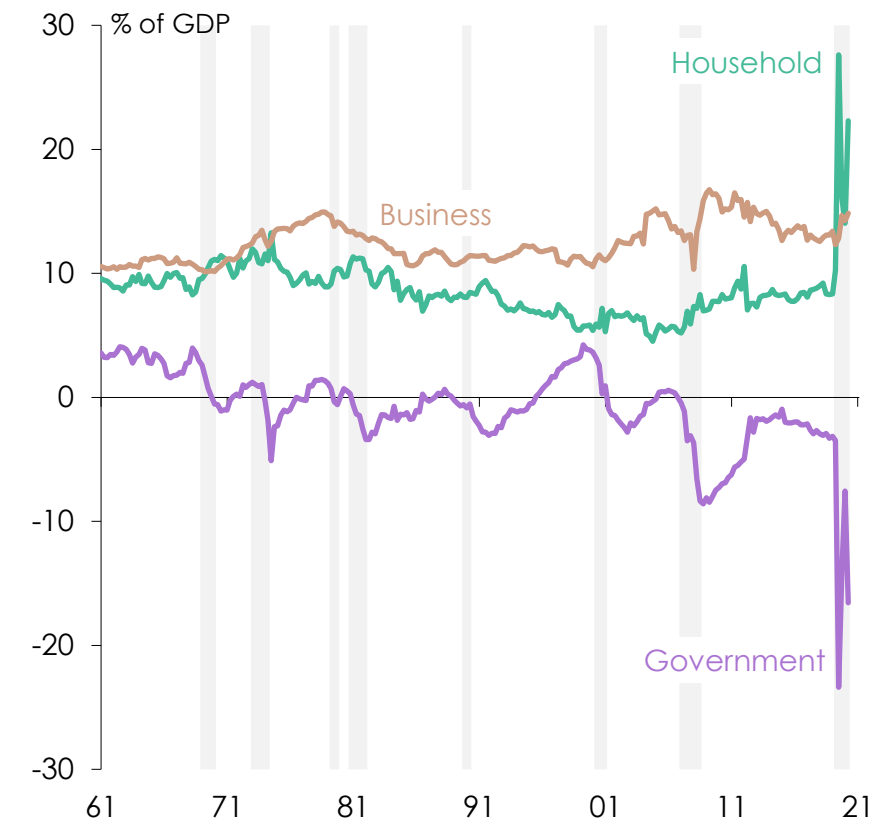
The US current account has *widened* during the recession that began last year – and in Q1 was the largest (as a pc of GDP) since Q4 2008

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



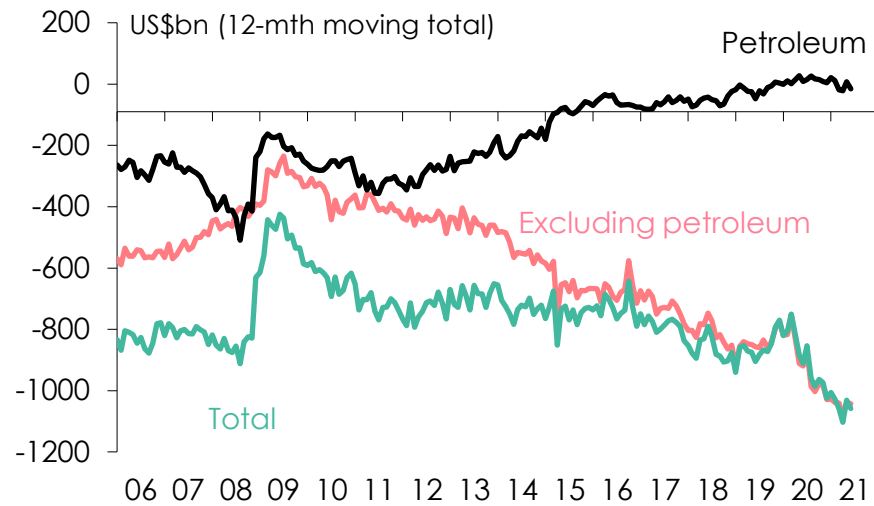
The dramatic increase in the budget deficit has been largely (but not totally) offset by an increase in household saving

Note: shaded areas denote recessions as designated by the US [National Bureau of Economic Research](#).

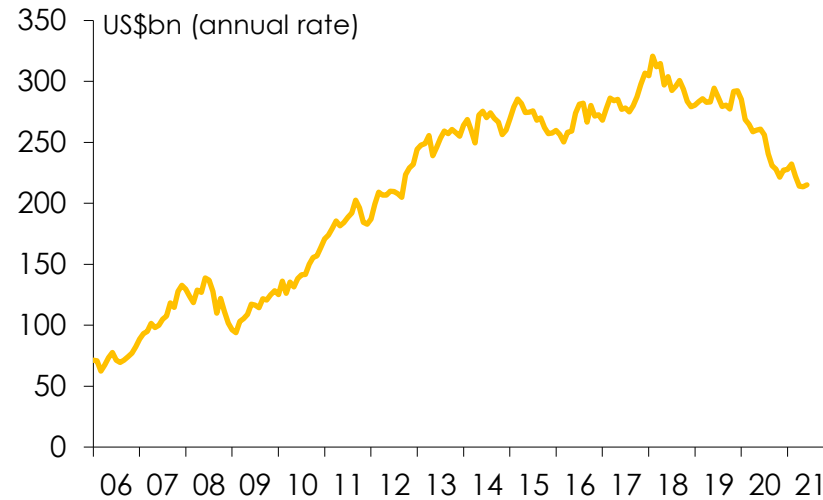
Source: US [Bureau of Economic Analysis](#). [Return to "What's New"](#).

The US goods and services trade deficit widened to US\$71¼bn in May, the second-highest on record

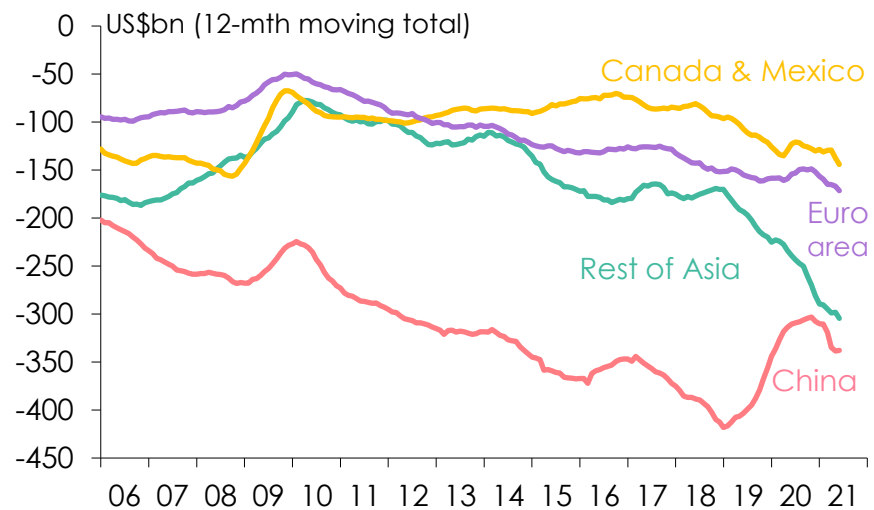
US goods trade balance



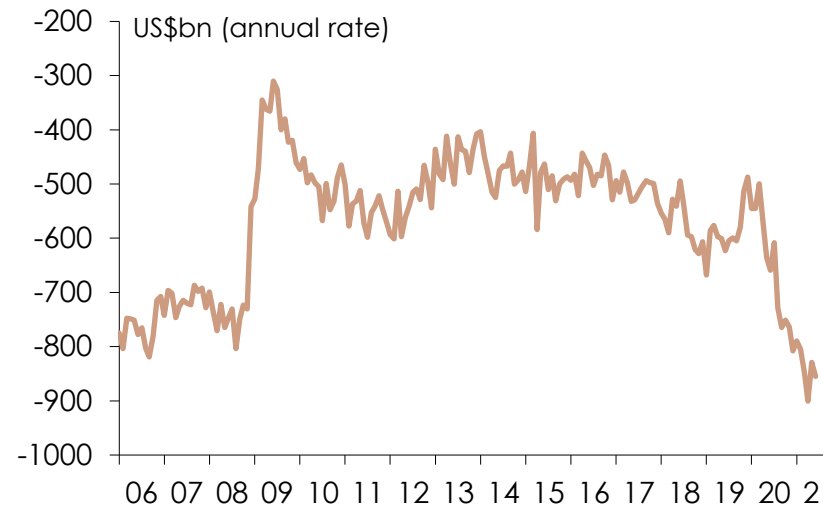
US services trade balance



US bilateral goods trade balances



US goods & services trade balance

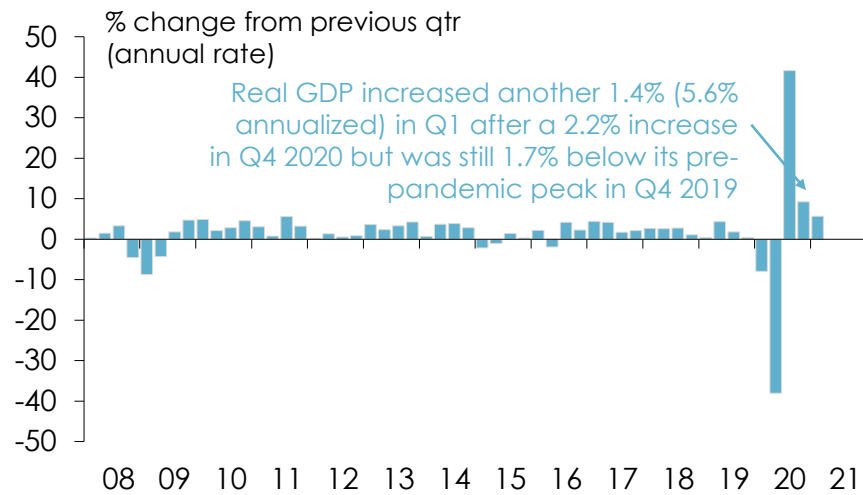


- ❑ The US goods and services trade deficit widened by US\$2bn to \$71.2bn in May
 - this was still the second largest deficit on record (after March's \$75bn)
 - goods & services exports rose 0.6% in May while imports rose 1.3%
 - the increase in the deficit in May was almost entirely due to a swing from surplus to deficit on the petroleum trade balance
- ❑ The Trump Administration's protectionist trade policies did nothing to prevent the deficit from widening
 - they simply deflected part of the bilateral deficit with China to other countries
 - the Biden Administration is unlikely to continue down that path, but nor will it unwind the Trump tariffs
- ❑ History suggests that any 'excess demand' resulting from 'over'-stimulatory fiscal and monetary policies is more likely to show up in a larger current account deficit than in higher inflation – and these numbers are consistent with that

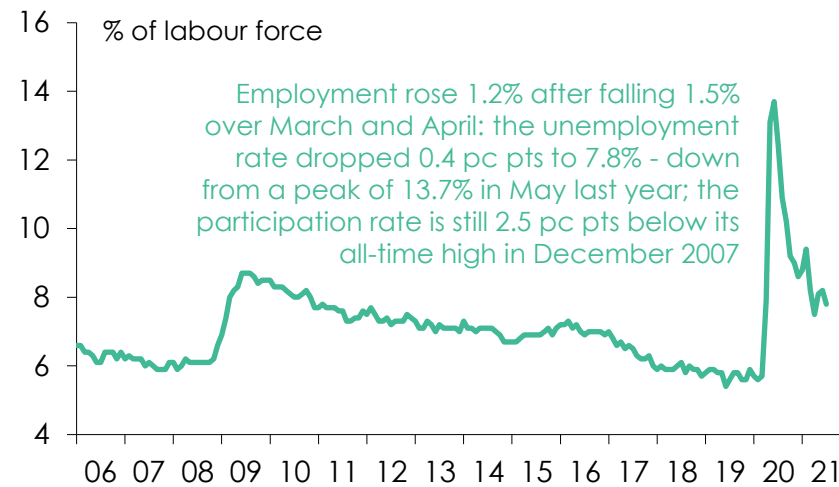
Note: March merchandise trade data are 'advance'. Source: US [Census Bureau](#). [Return to "What's New"](#).

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

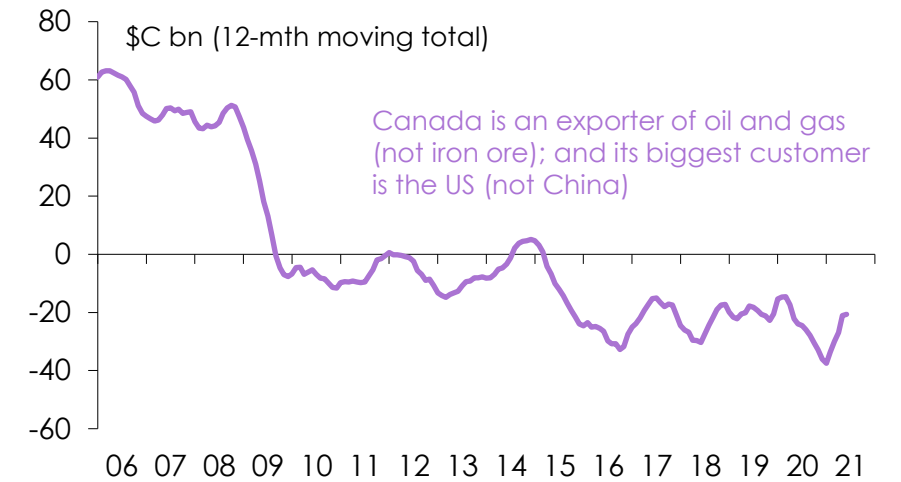
Real GDP



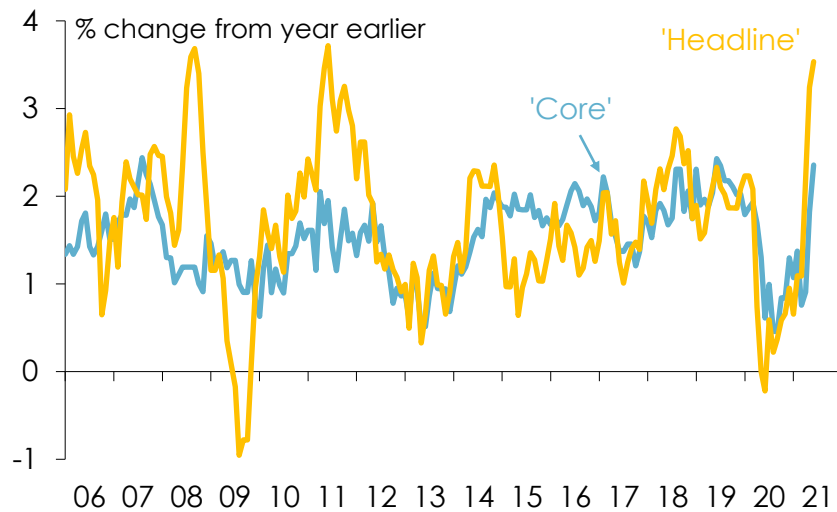
Unemployment rate



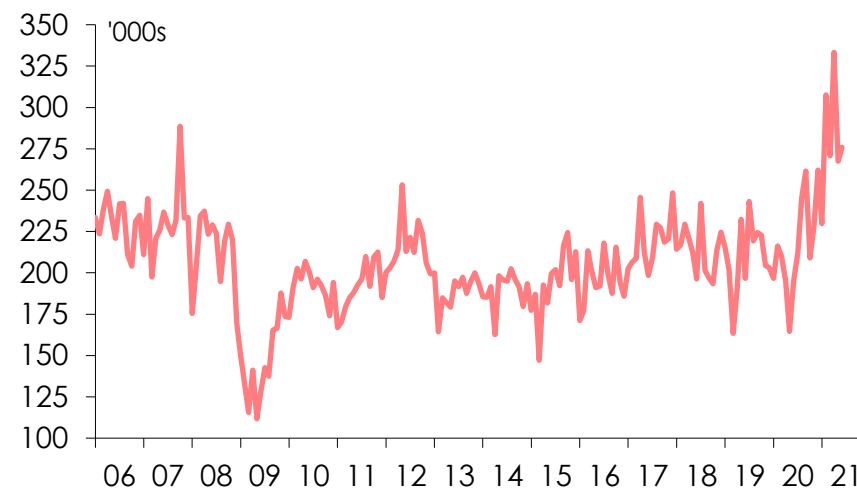
Merchandise trade balance



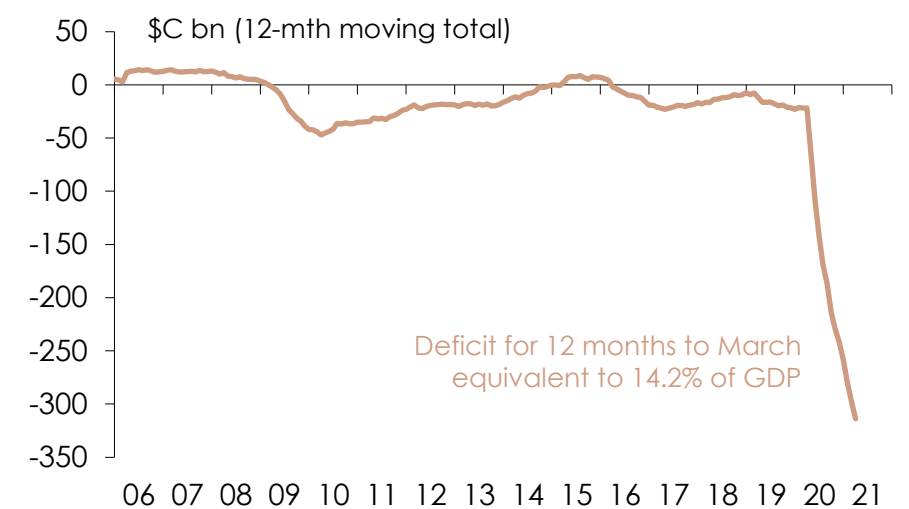
Consumer prices



Housing permits



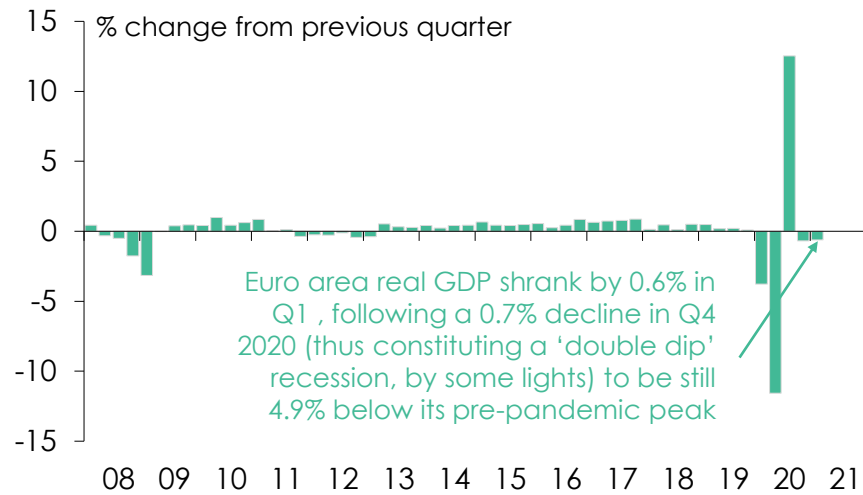
Federal budget balance



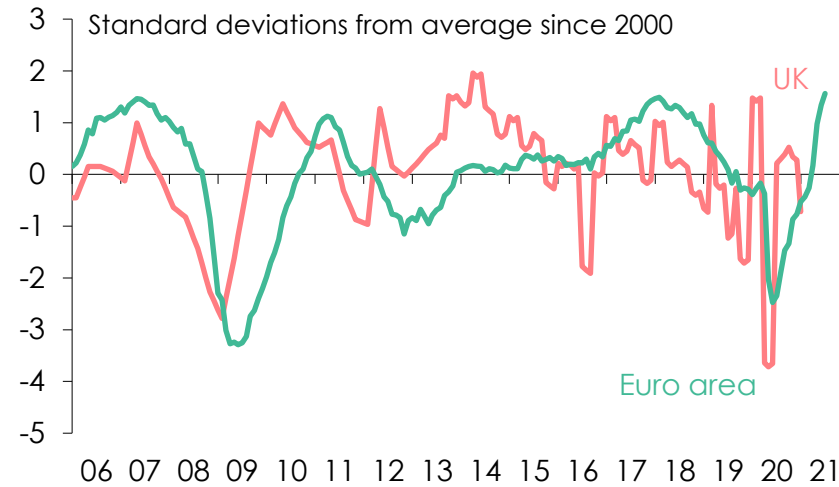
Sources: [Statistics Canada](#); [Teranet-National Bank of Canada](#); [Department of Finance Canada](#). [Return to "What's New"](#).

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

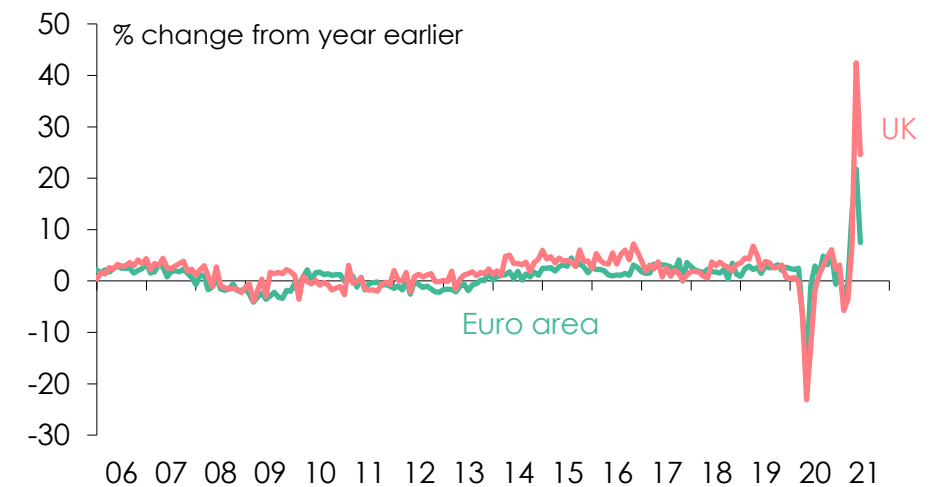
Euro area real GDP



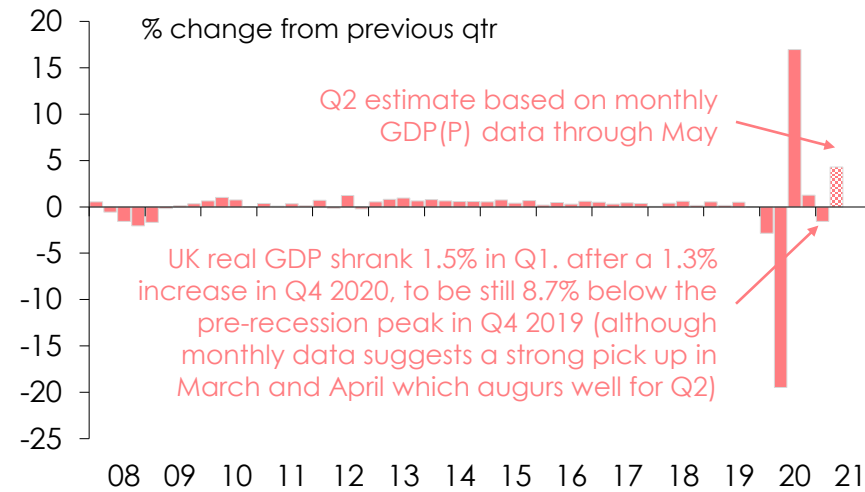
Business confidence



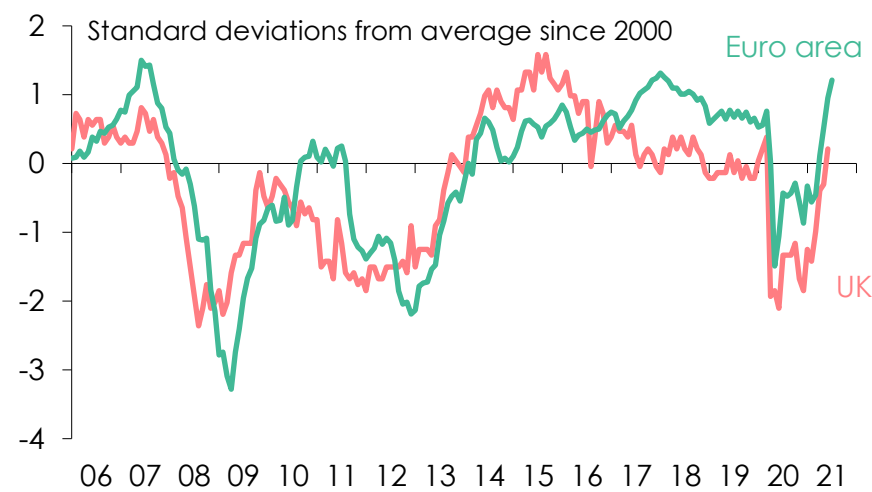
Retail sales volume



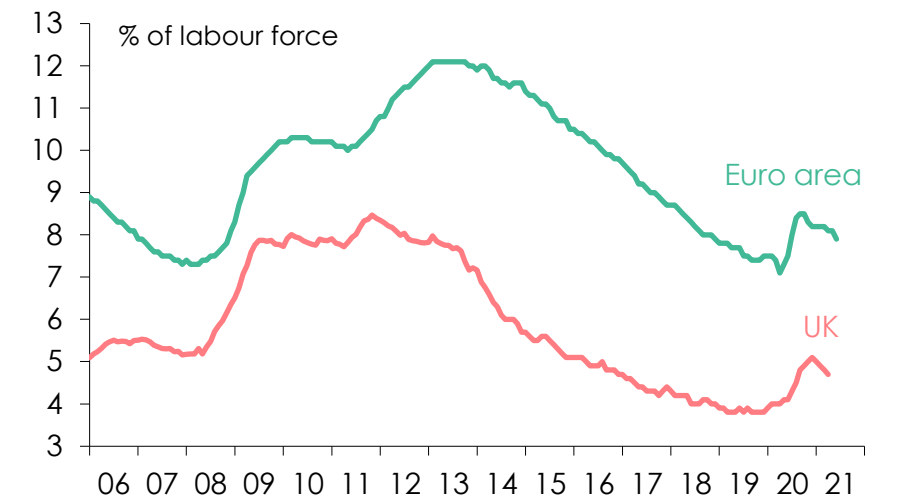
UK real GDP



Consumer confidence



Unemployment

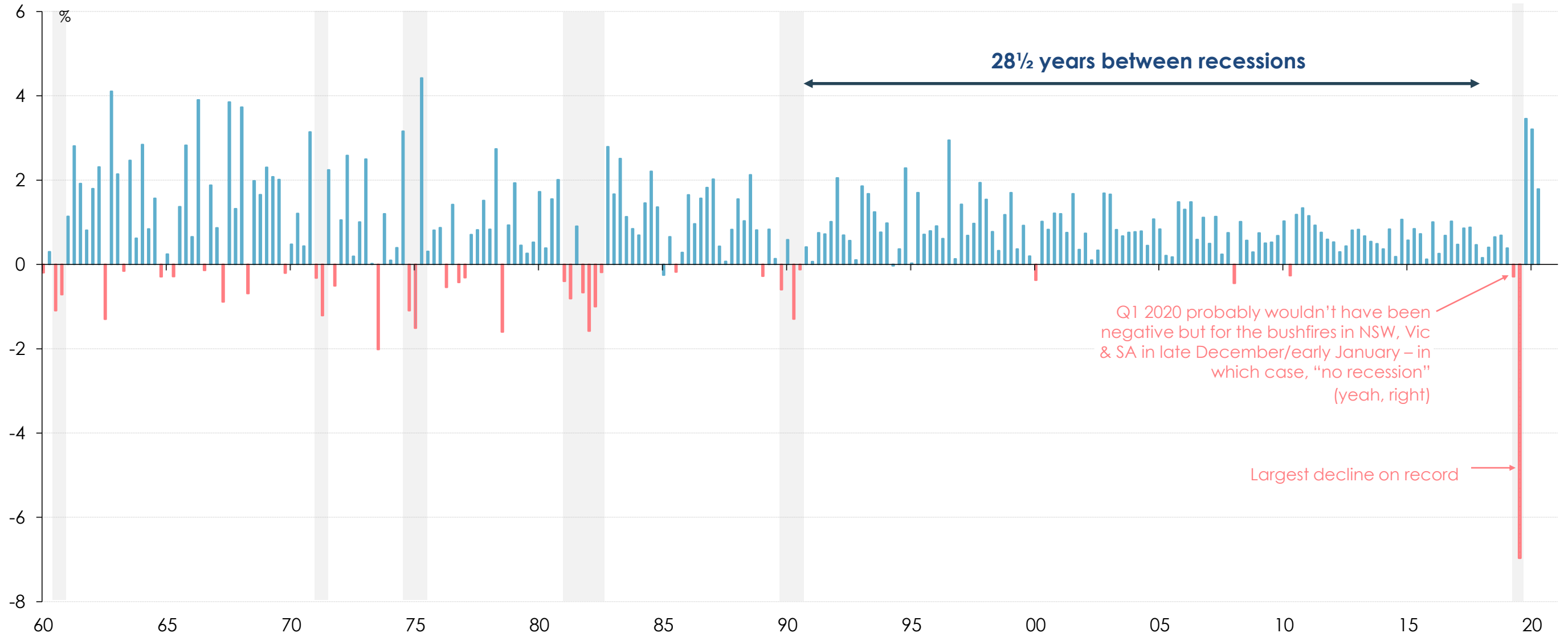


Sources: Eurostat; UK Office for National Statistics; Confederation of British Industry. The UK unemployment rate is published as a 3-month moving average.
[Return to "What's New"](#).

Australia

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

Quarterly growth in Australian real GDP, 1960-2020

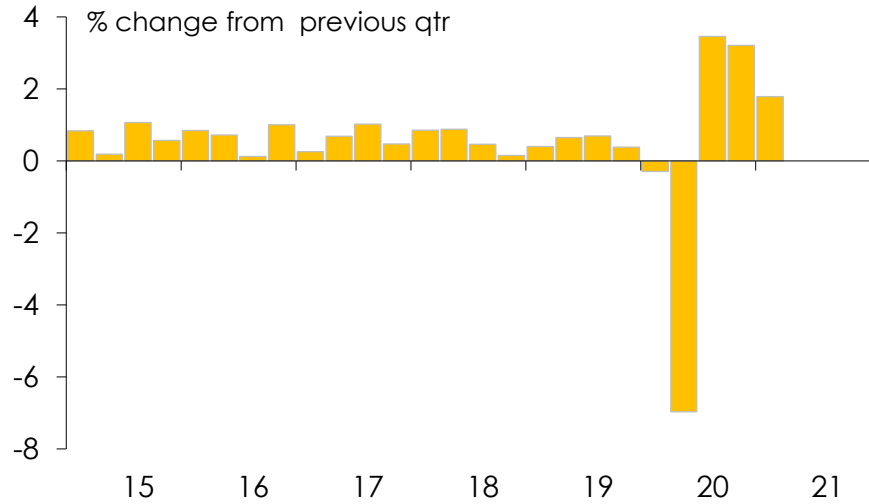


Note: Shaded areas denote recessions. Source: ABS, [Australian National Accounts: National Income, Expenditure and Product](#), March quarter 2021.

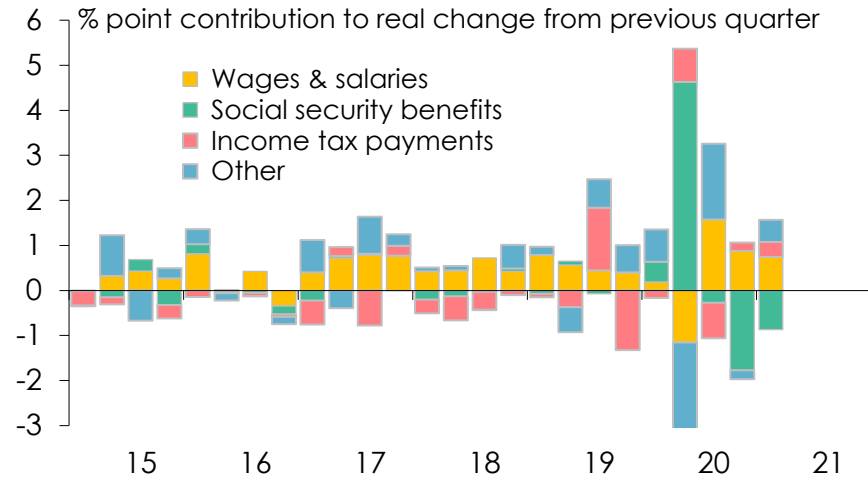
[Return to "What's New"](#).

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

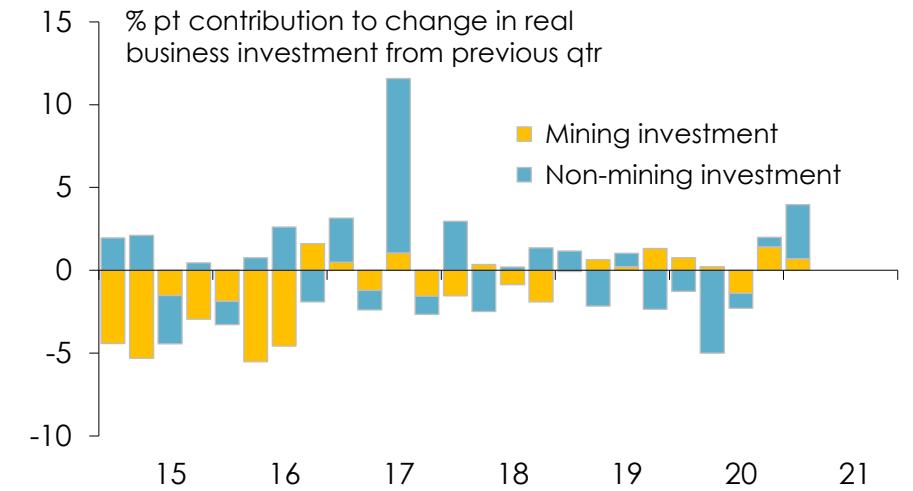
Quarterly change in real GDP



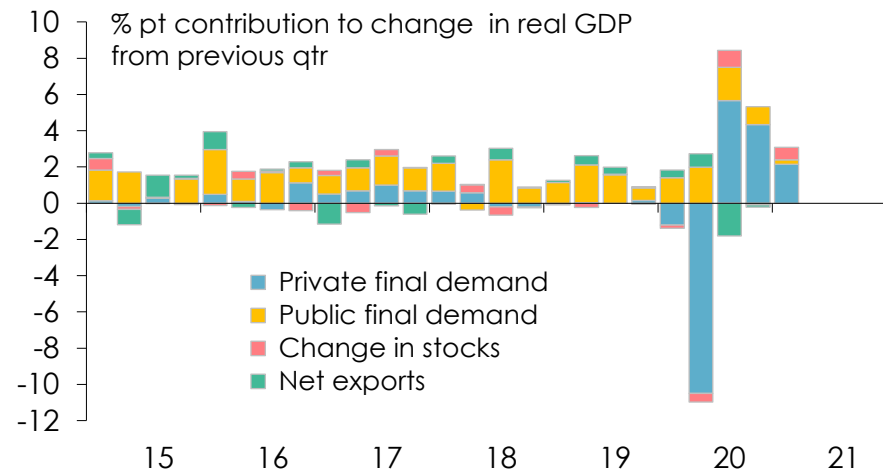
Household disposable income



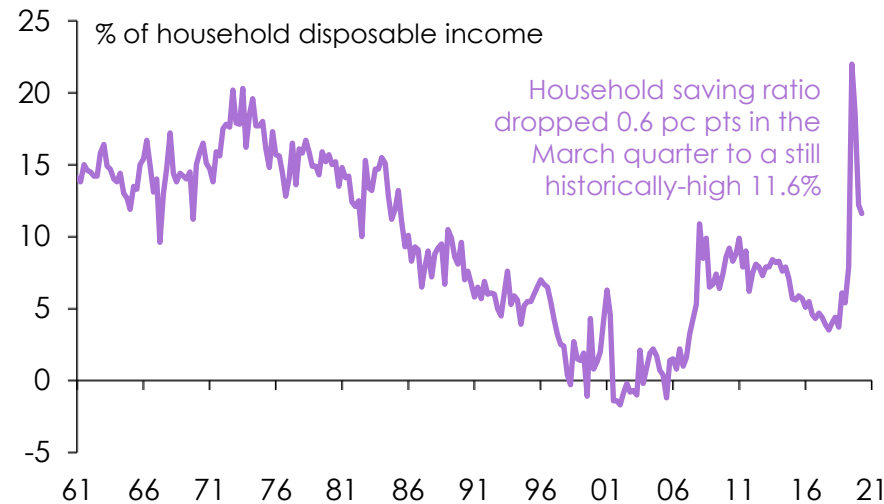
Business investment expenditure



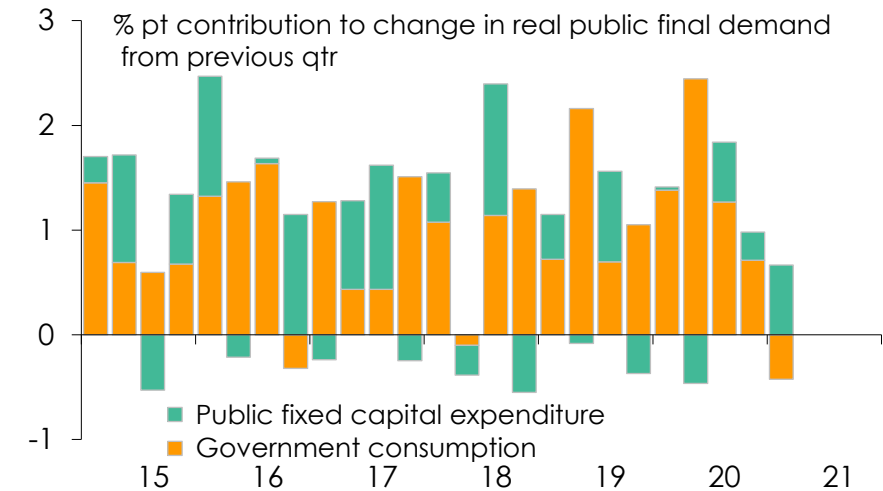
Contributions to quarterly GDP growth



Household saving rate



Public expenditure



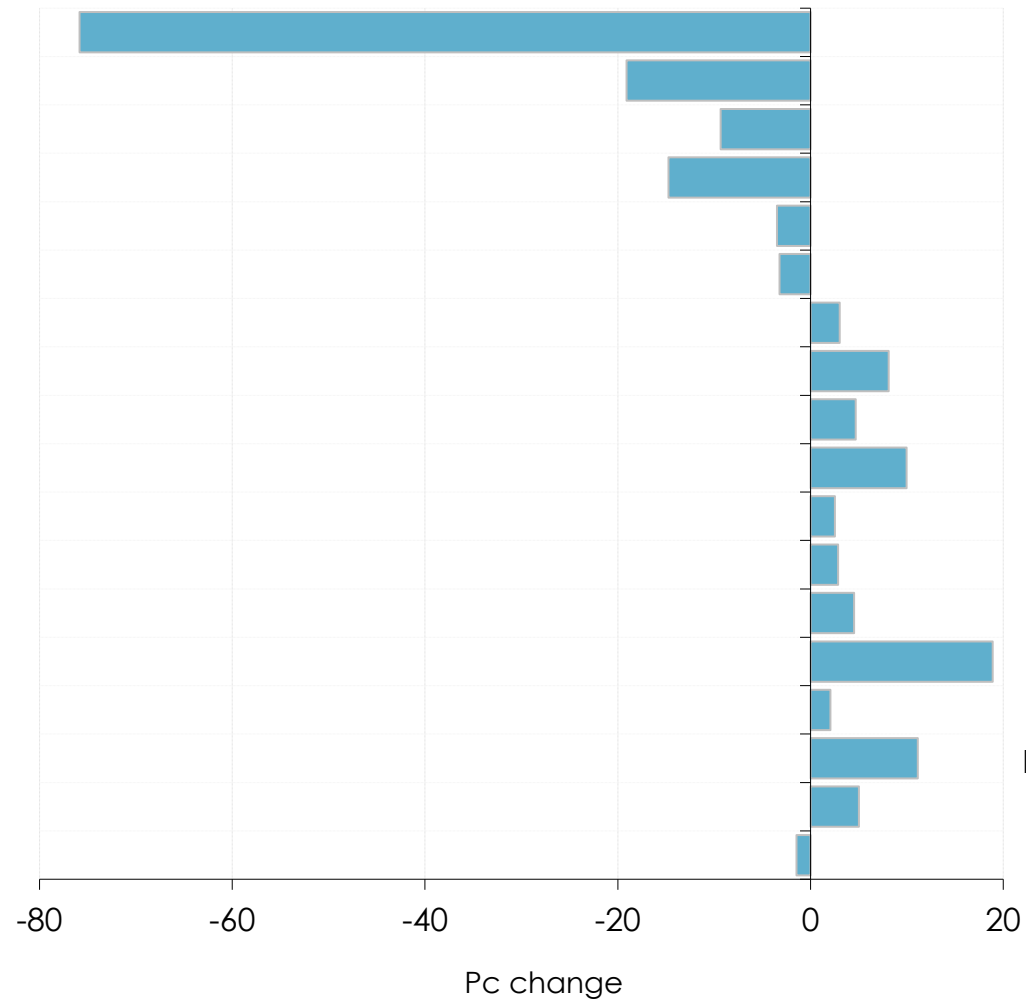
Note: Components of household disposable income are deflated by the implicit price deflator of household final consumption expenditure.

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"](#).

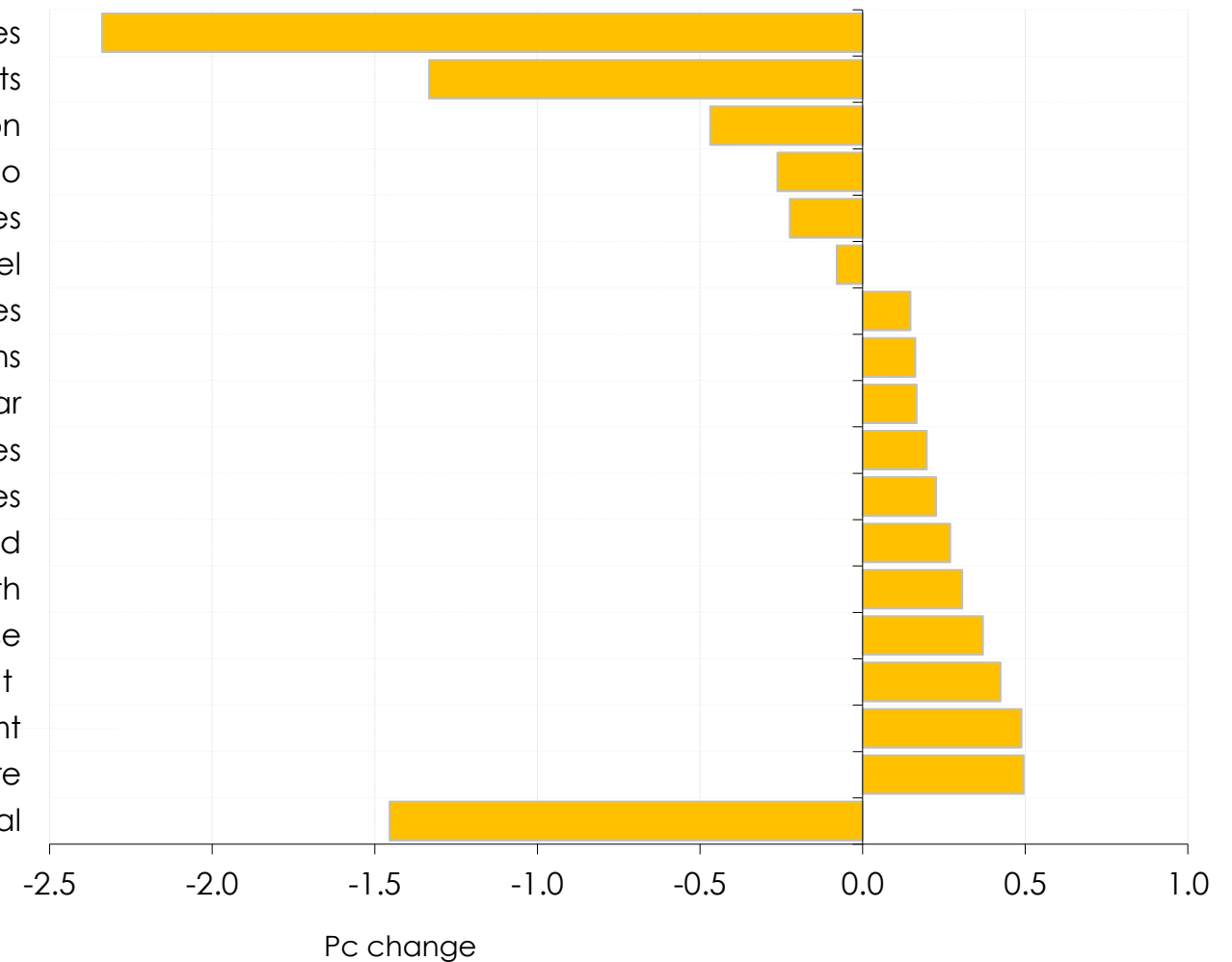
Household spending is still 1½% below its pre-pandemic peak – with spending on discretionary goods partly offsetting the huge drop in travel

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



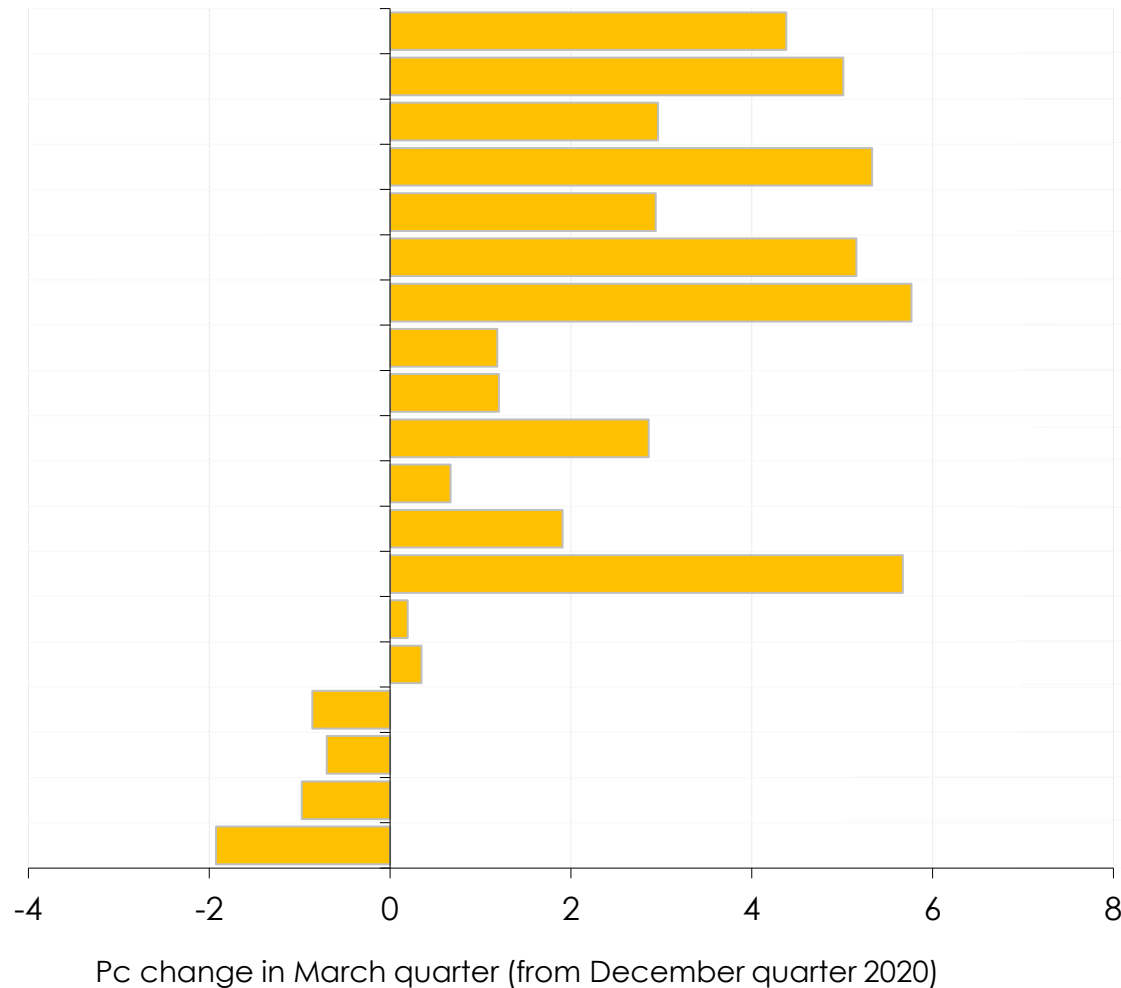
- Transport services
- Hotels, cafes & restaurants
- Vehicle operation
- Cigarettes & tobacco
- Other goods & services
- Electricity, gas & other fuel
- Education services
- Communications
- Clothing & footwear
- Alcoholic beverages
- Financial svces
- Food
- Health
- Vehicle purchase
- Rent
- Furnishings & h'hold eqpmt
- Recreation & culture
- Total



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"](#).

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

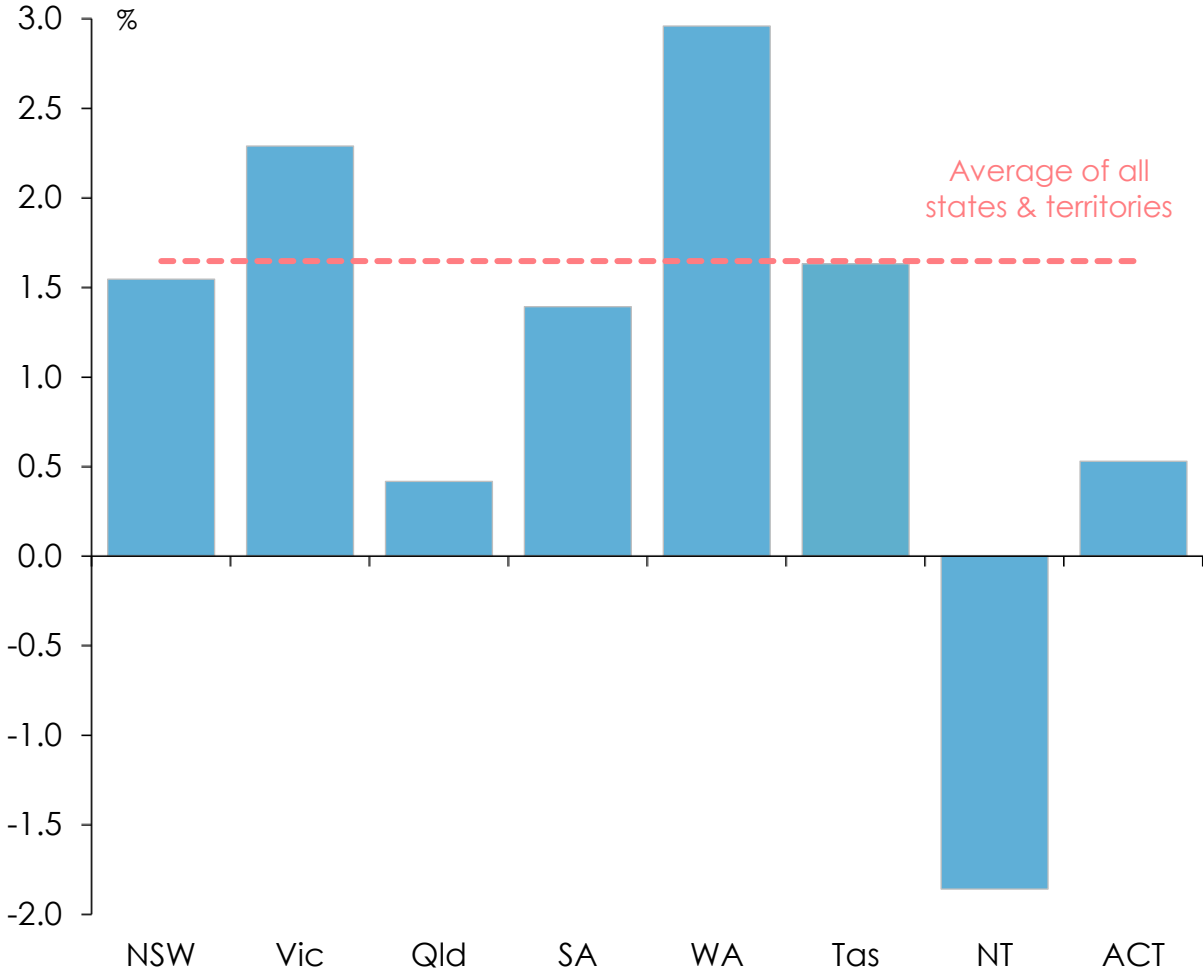


Note: Changes in, and contributions to the change in real GDP from, ownership of dwellings and net indirect taxes are not shown in the above charts.

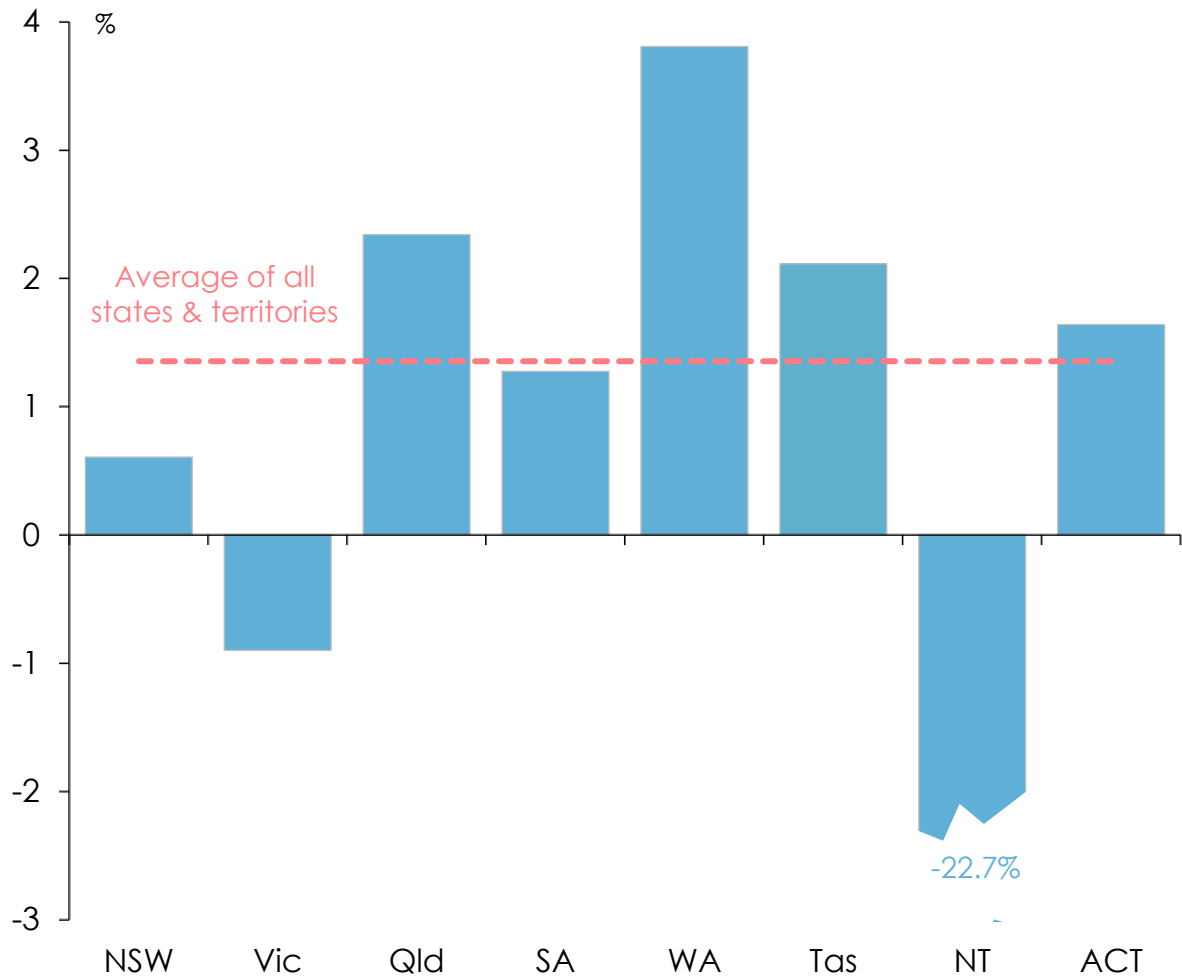
Source: Source: ABS, [Australian National Accounts: National Income, Expenditure and Product](#), March quarter 2021. June quarter national accounts will be released on 1st September. [Return to "What's New"](#).

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

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



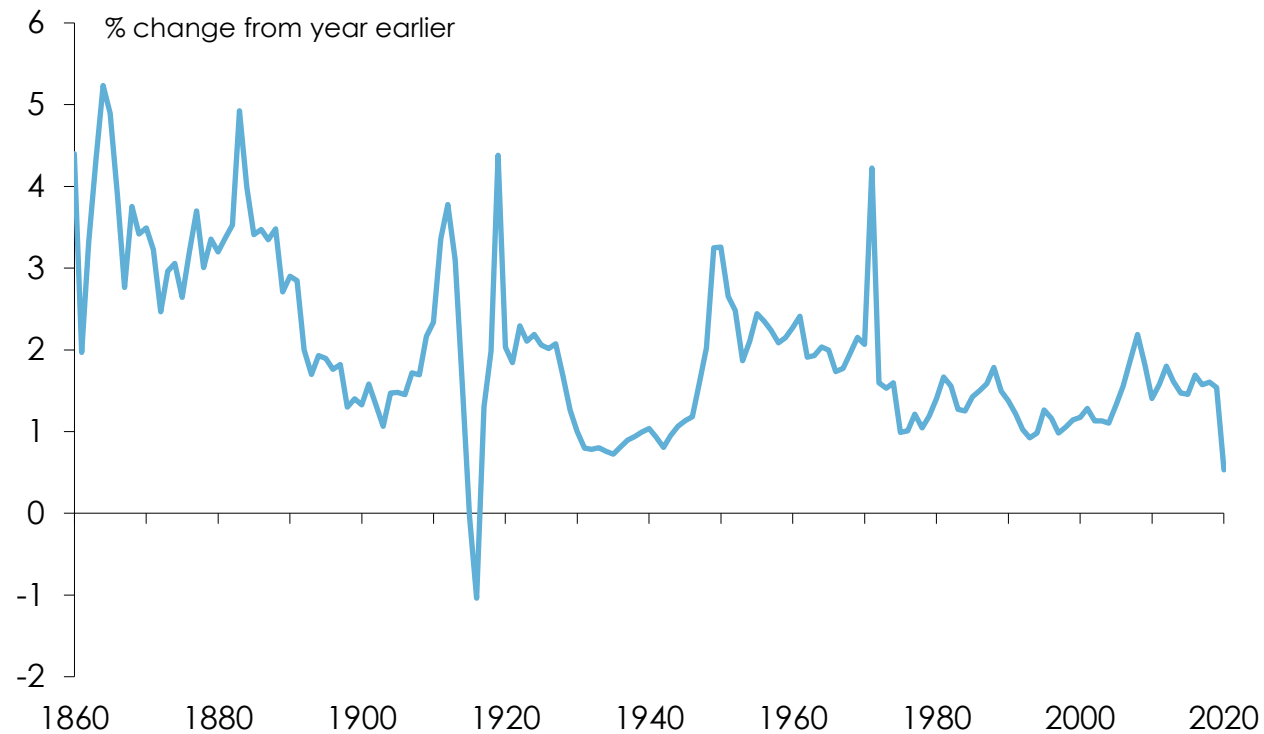
Shortfall between March quarter state final demand and pre-recession peak



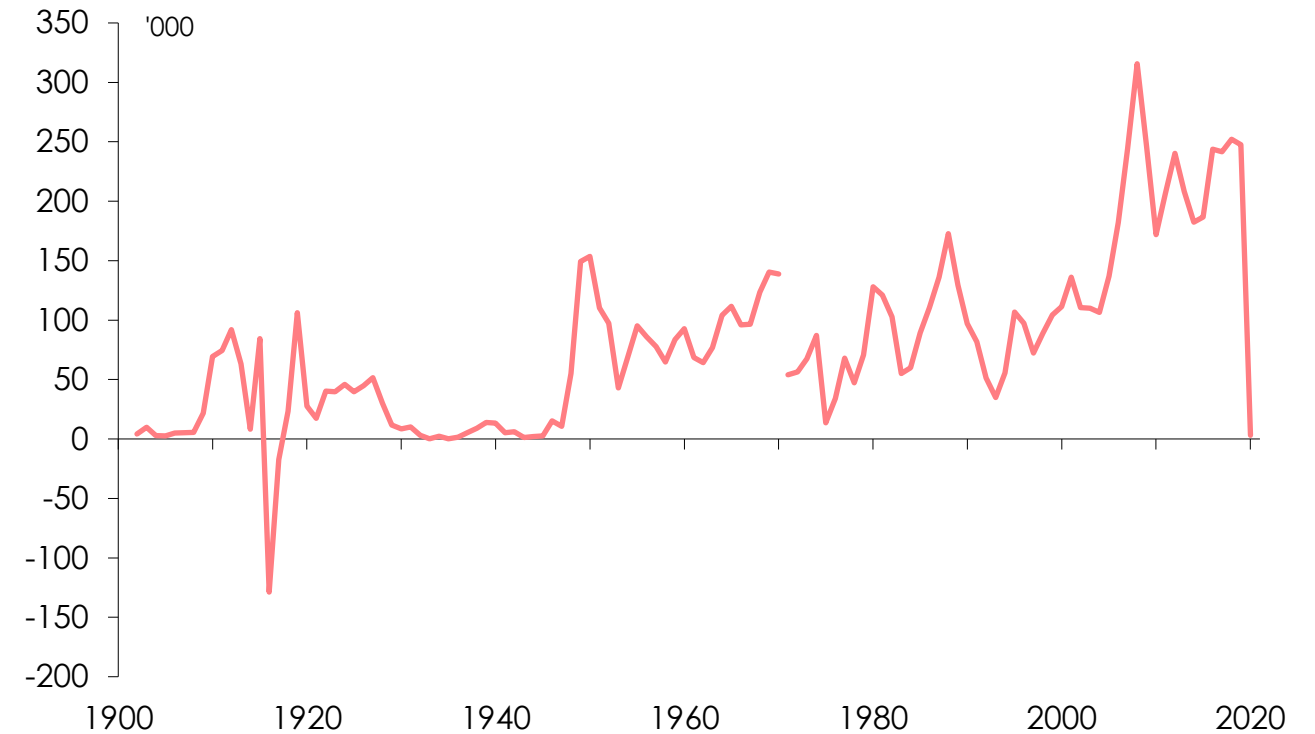
Note: 'State final demand' is the sum of spending by households, businesses and governments within a state or territory's borders: it differs (conceptually) from gross state product (GSP), which is only available on a financial year basis, by the sum of net international and interstate trade, and changes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

Australia's population 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

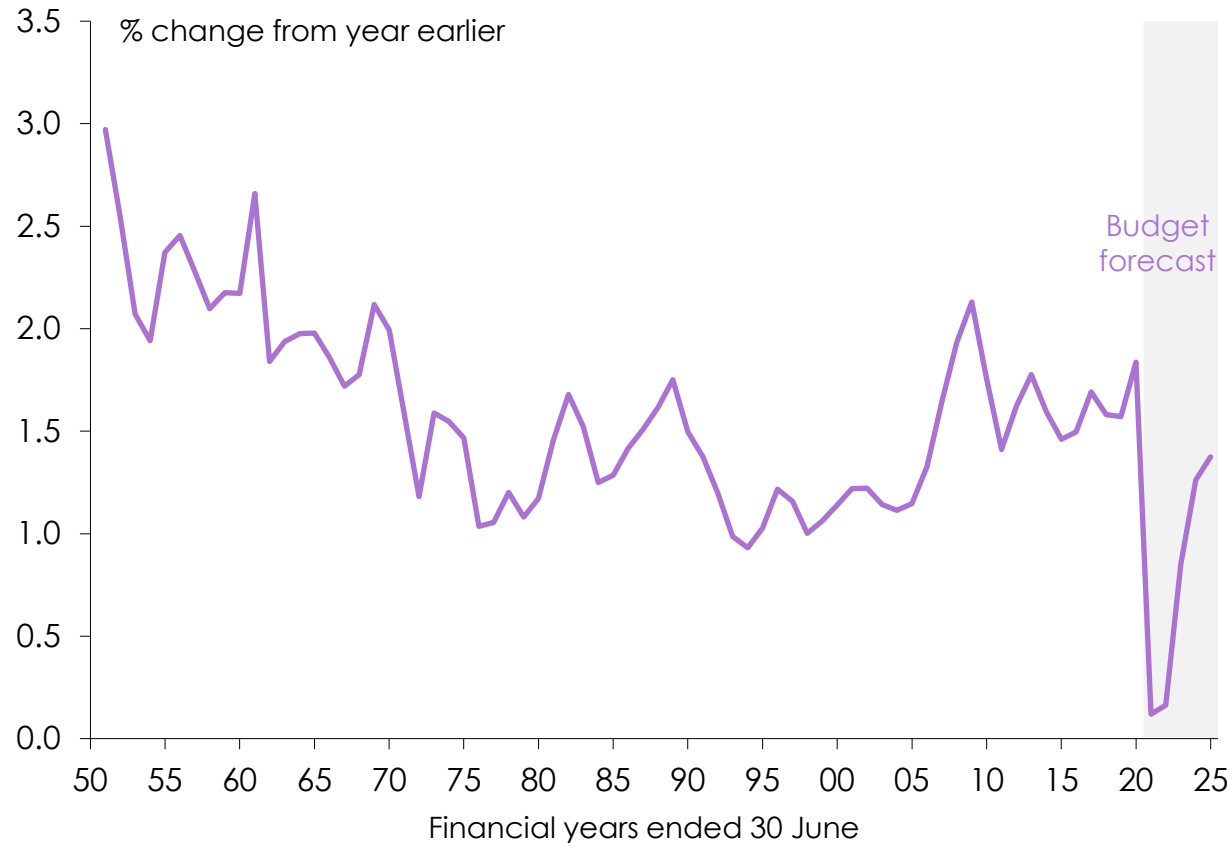


- ❑ Only 76K immigrants came to Australia in the last nine months of 2020, while 151K people departed permanently – implying a net outflow of almost 68,000 people
- ❑ As a result, Australia's population growth rate fell to just 0.5% over the year to Q4 2020, the slowest since 1916
- ❑ Last week's halving of the 'cap' on the number of arrivals allowed into Australia (from 6,070 to 3,035 per week) will likely result in a further slowing in population growth (for as long as the lower 'cap' lasts – no time limit has been given)
- ❑ 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 94

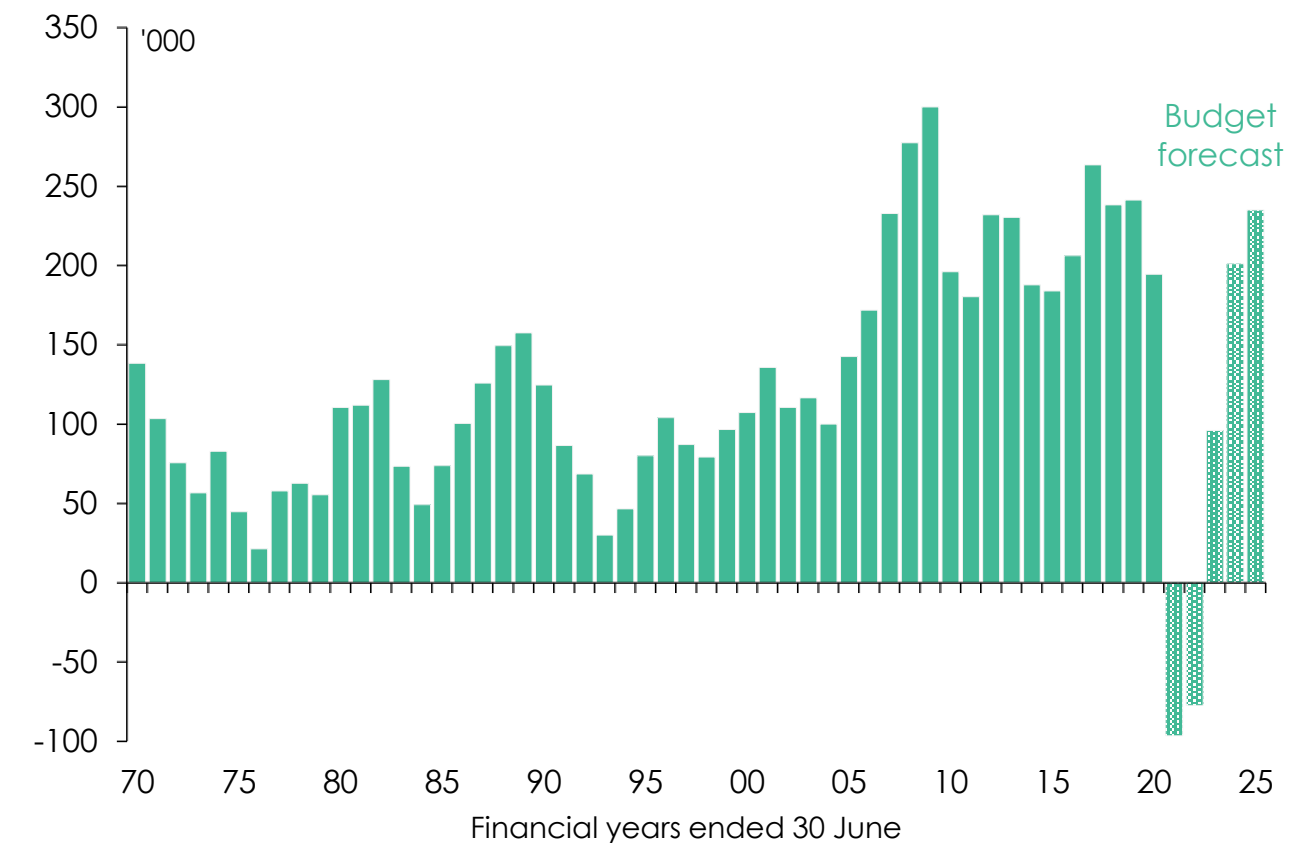
Note: The net migration data has a series break at 1971 due to definitional changes. Sources: ABS, [National, state and territory population](#), December 2020; [Historical Population](#), 2016; [Migration, Australia](#), 2019-20; [Demography Bulletin](#), 1923, 1940, 1950, 1960 and 1971; [Population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

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

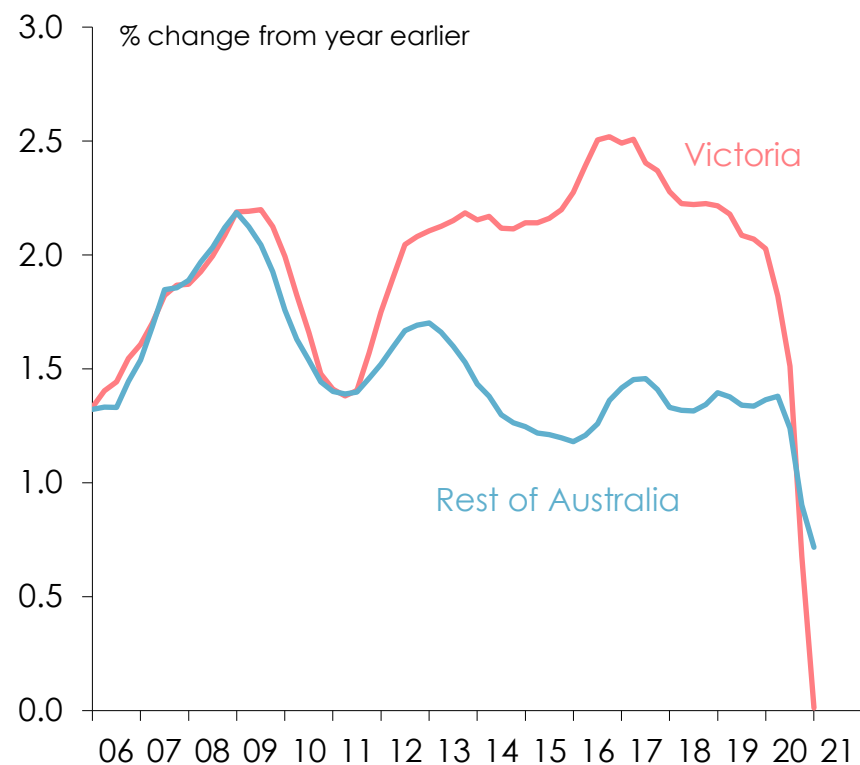


Opinion polls have consistently indicated very high levels of popular support for keeping Australia's international borders closed – which (more than anything else) likely explains why the Government's position has changed from last year's "we can't keep Australia under the doona" to this year's "our 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)

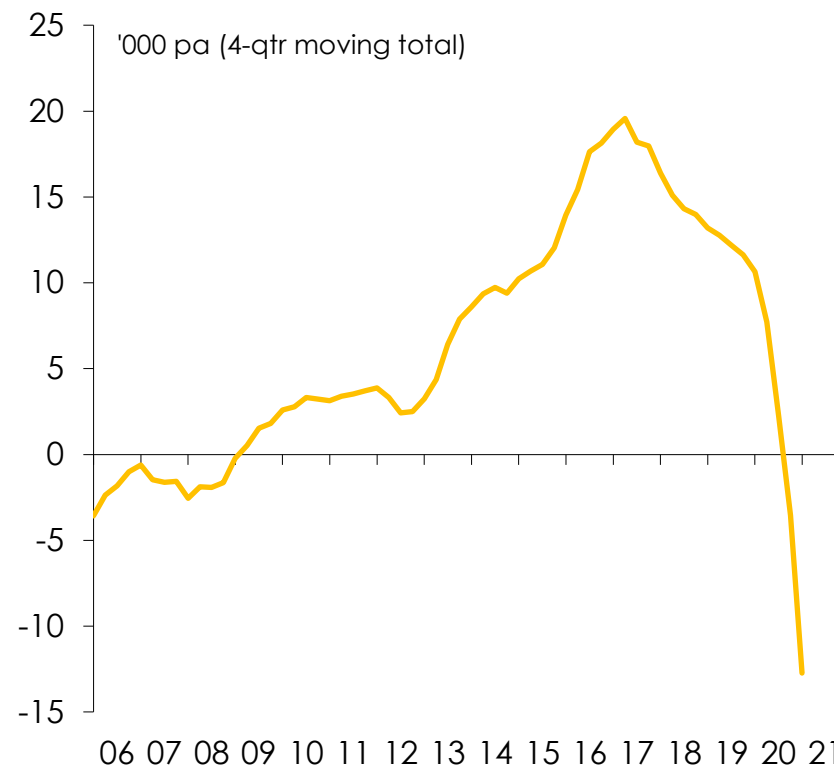
Sources: ABS, [National, state and territory population](#); Australian Government, 2021-22 [Budget Paper No. 1, Statement No. 2](#) and [Budget Paper No. 3, Appendix A](#).

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

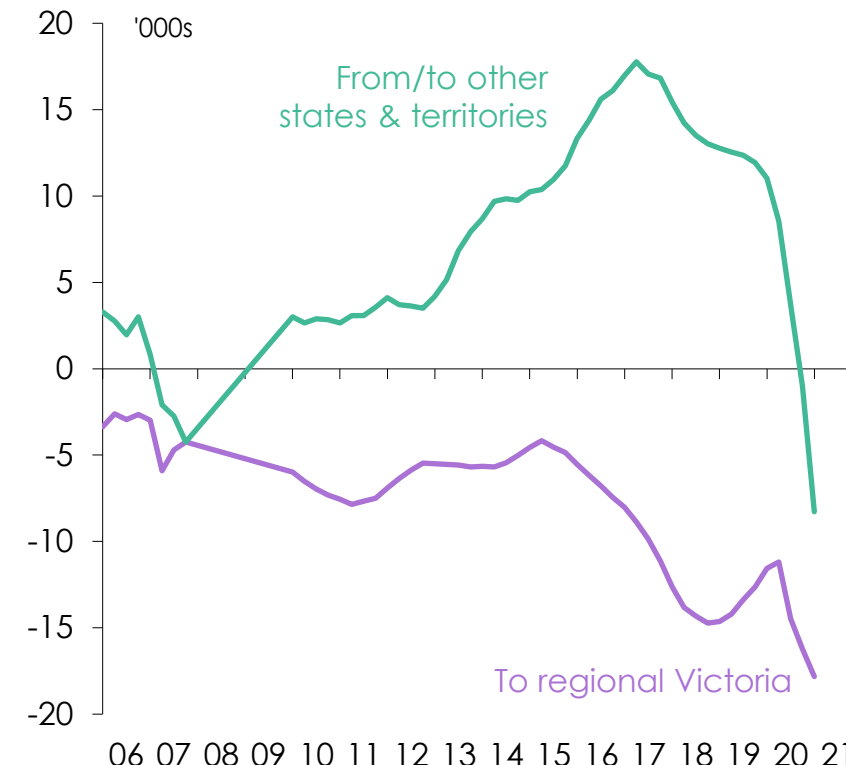
Population growth, states & territories, year to September 2020



Net migration to Victoria from other states & territories



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



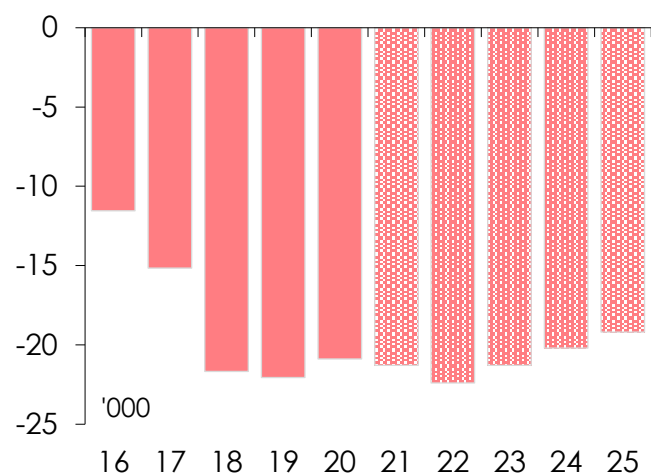
- ❑ Victoria – whose economy has become more dependent on immigration both from overseas and interstate over the past decade than any other state or territory – has experienced the sharpest population slowdown since the onset of Covid-19, dropping from the fastest growth to the slowest
- ❑ There’s been 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"](#).

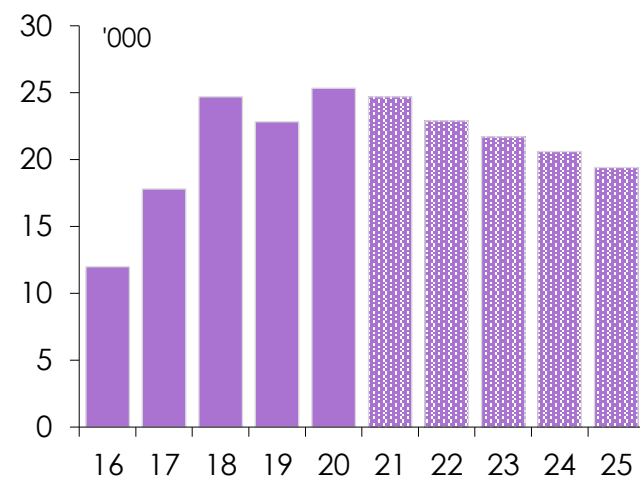
The 2021-22 Budget projects much lower interstate migration to Victoria – and that may be too optimistic (also too pessimistic for SA and WA)

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

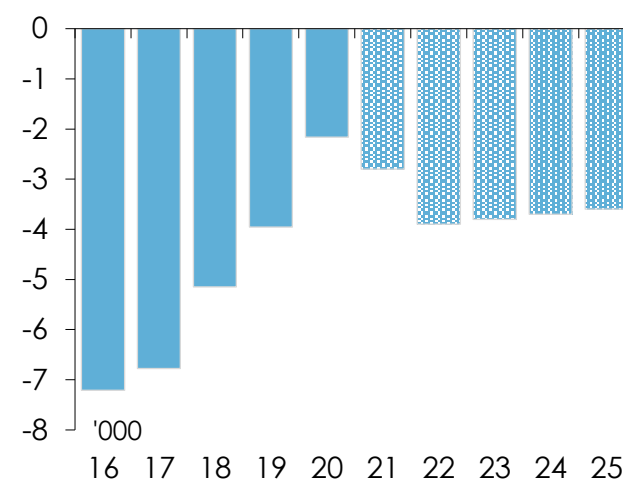
New South Wales



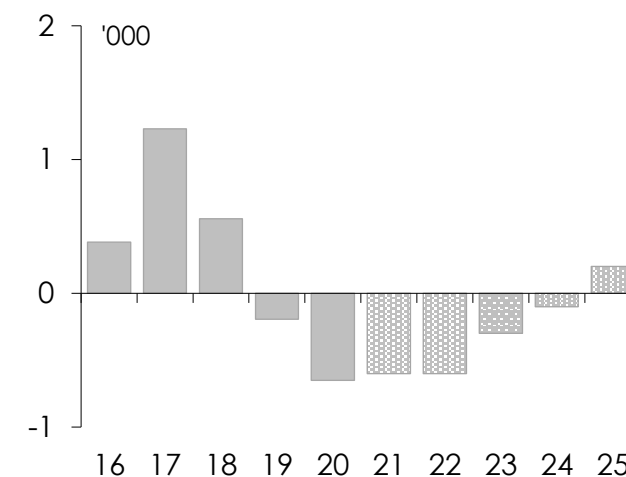
Queensland



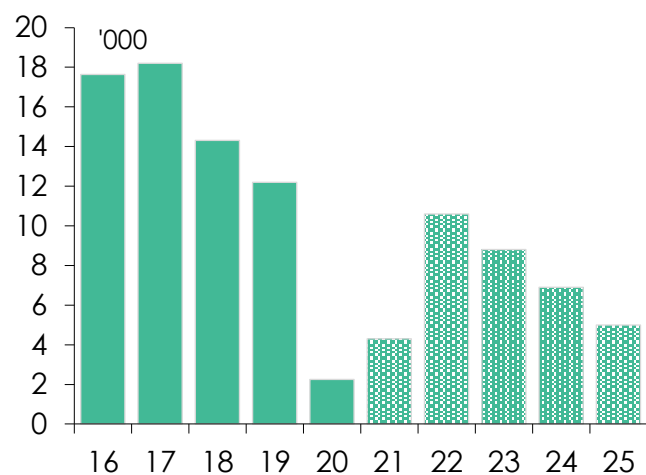
South Australia



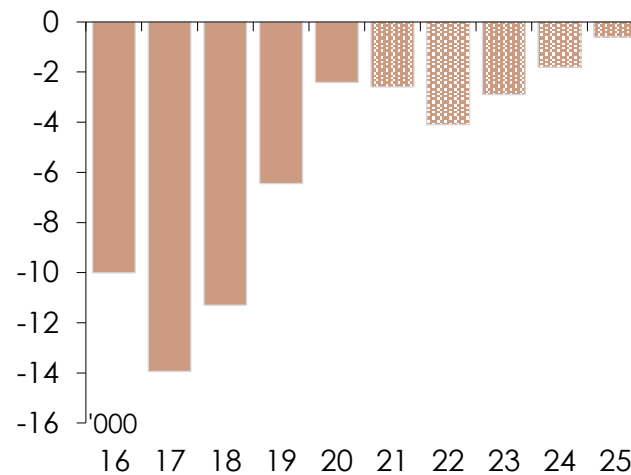
ACT



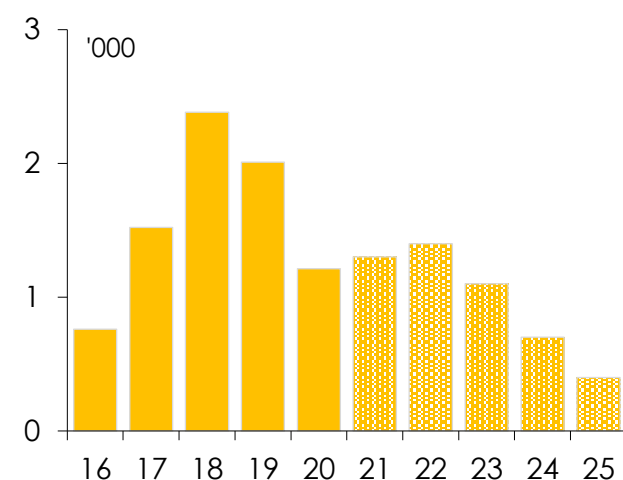
Victoria



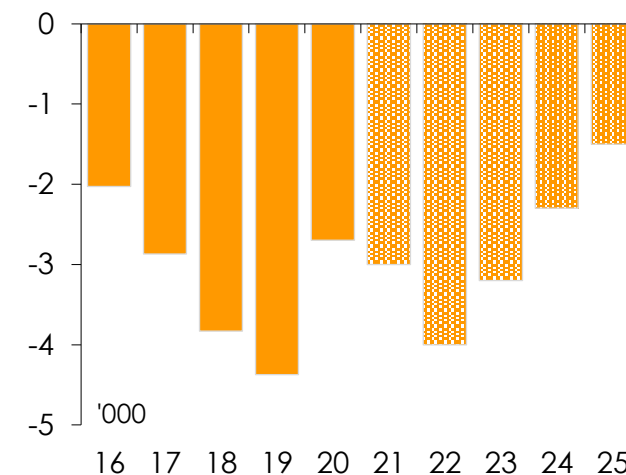
Western Australia



Tasmania



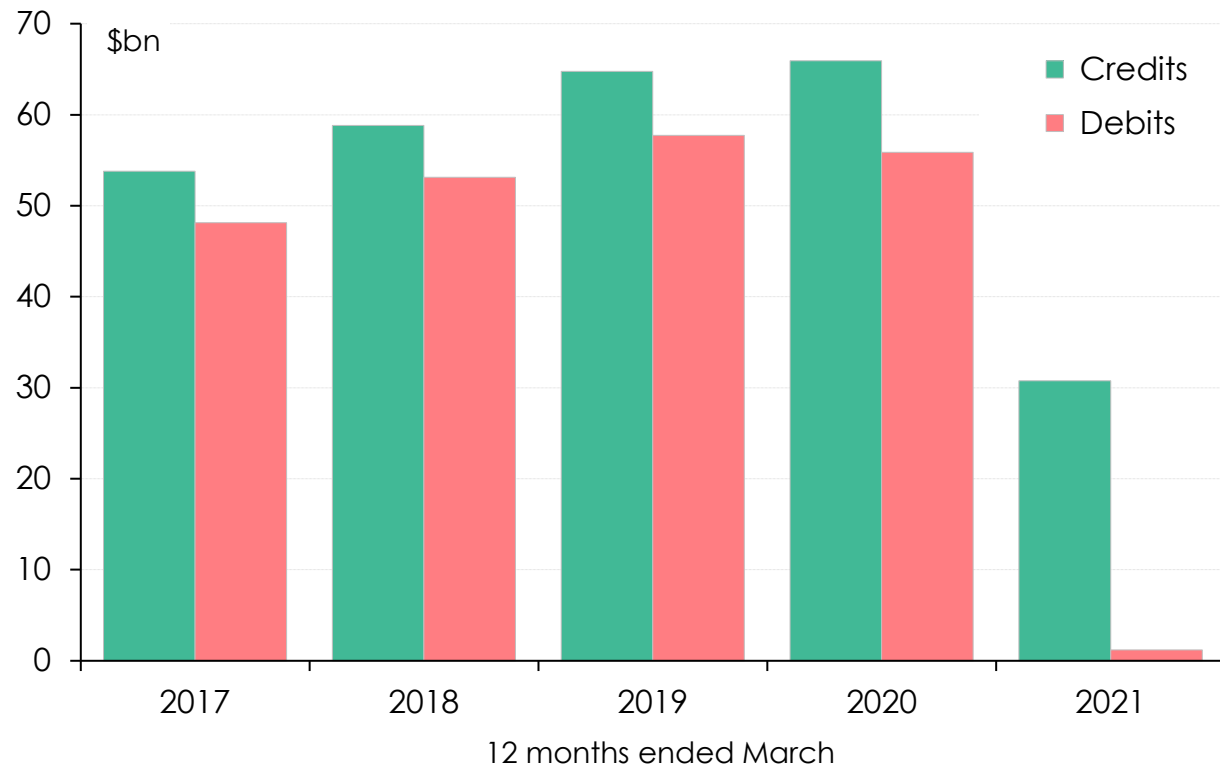
Northern Territory



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.

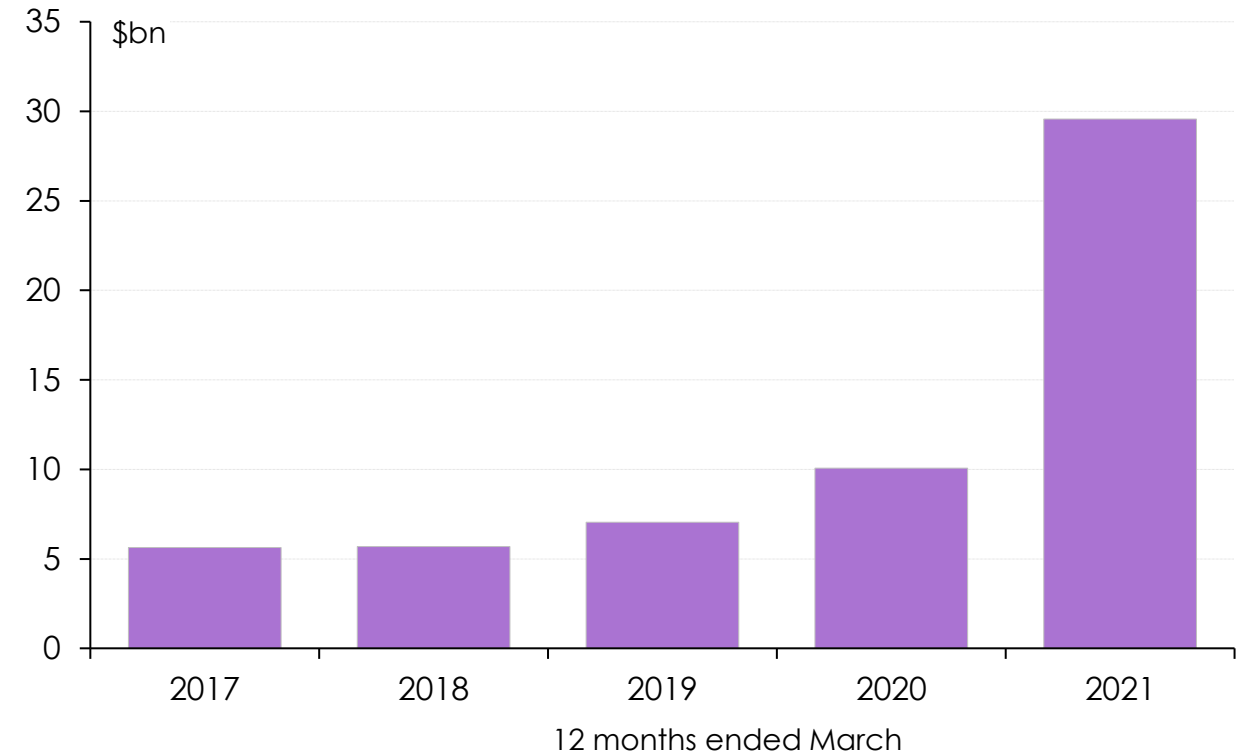
The *fatwa* on Australians leaving the country more than offsets the loss of spending by foreign tourists and students

Travel credits and debits



- 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.)

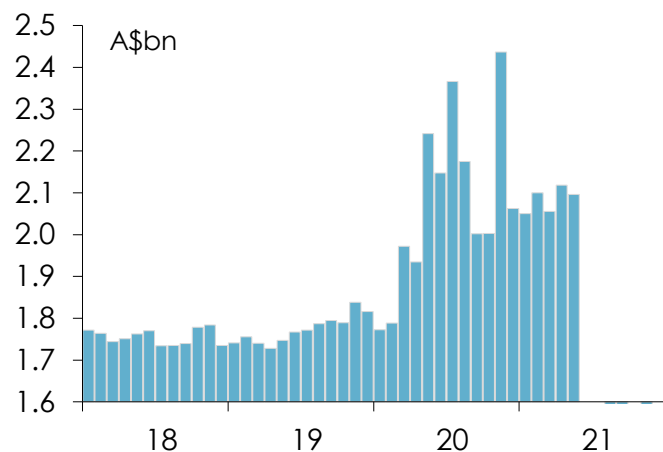
Net travel transactions



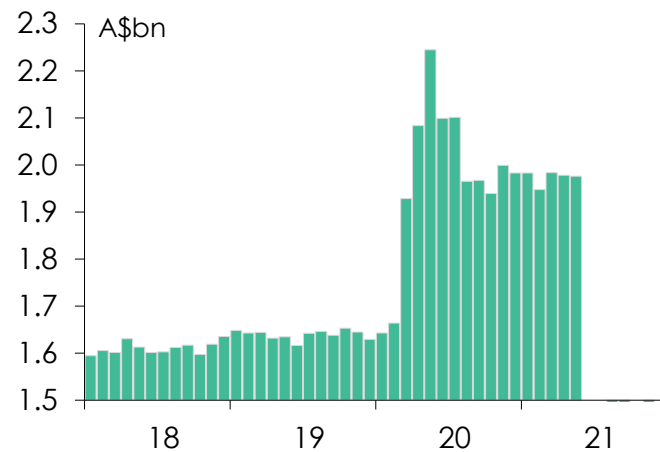
- Despite restrictions, foreigners still spent \$31bn in Australia in the 12 months to March 2021 (cf. an average of \$61bn per annum over the previous four years) implying a *net gain* to Australia during 12 months to March this year of almost \$22½bn by comparison with the 2016-19 average – equivalent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

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

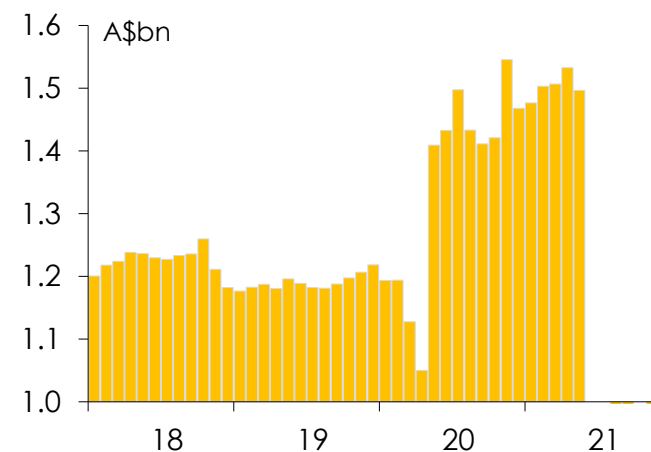
Electronic & electrical goods



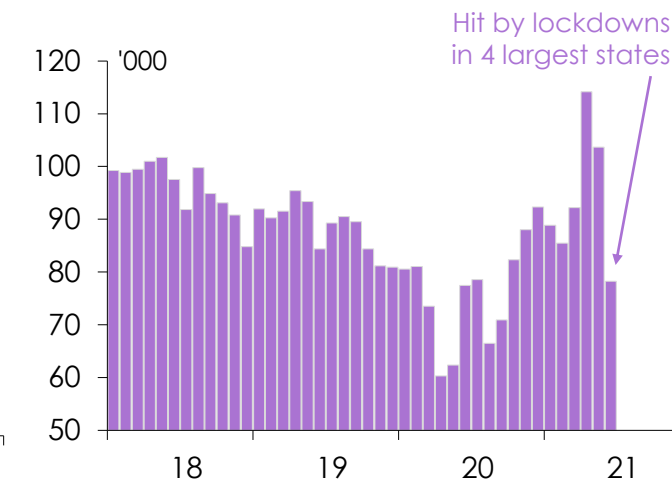
Hardware, building & garden supplies



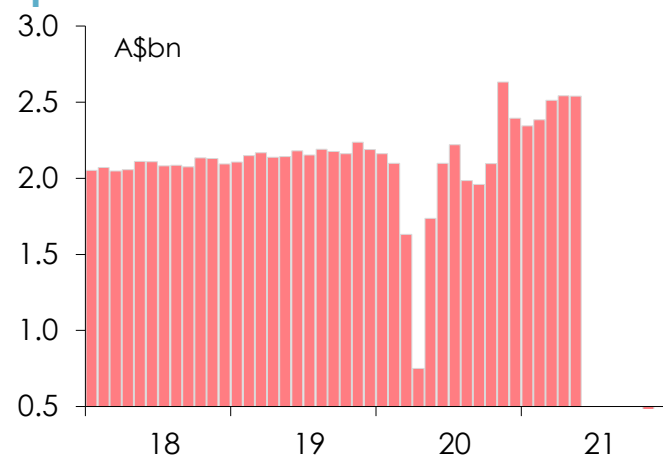
Floor coverings, furniture, housewares etc



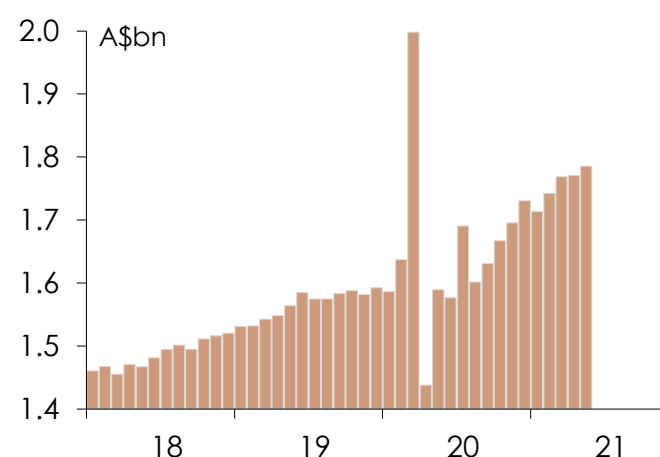
New motor vehicles



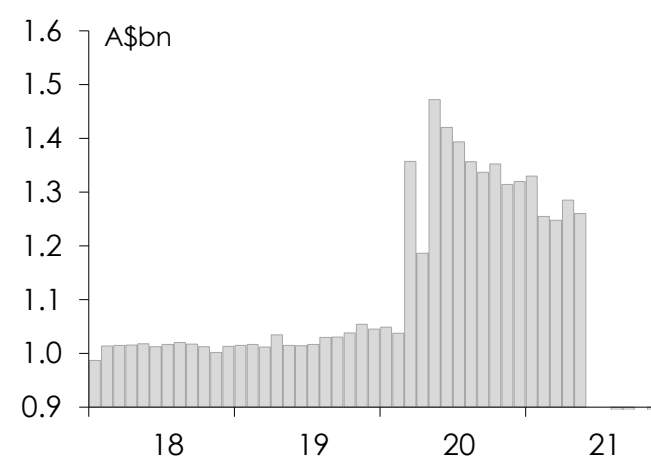
Clothing, footwear & personal accessories



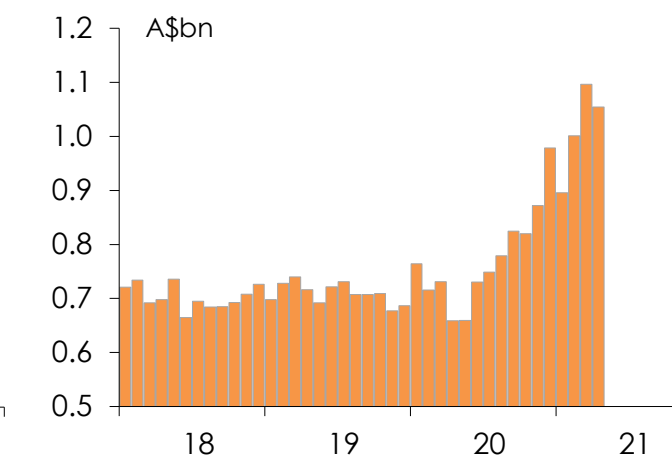
Pharmaceuticals, cosmetics & toiletries



Alcoholic beverages



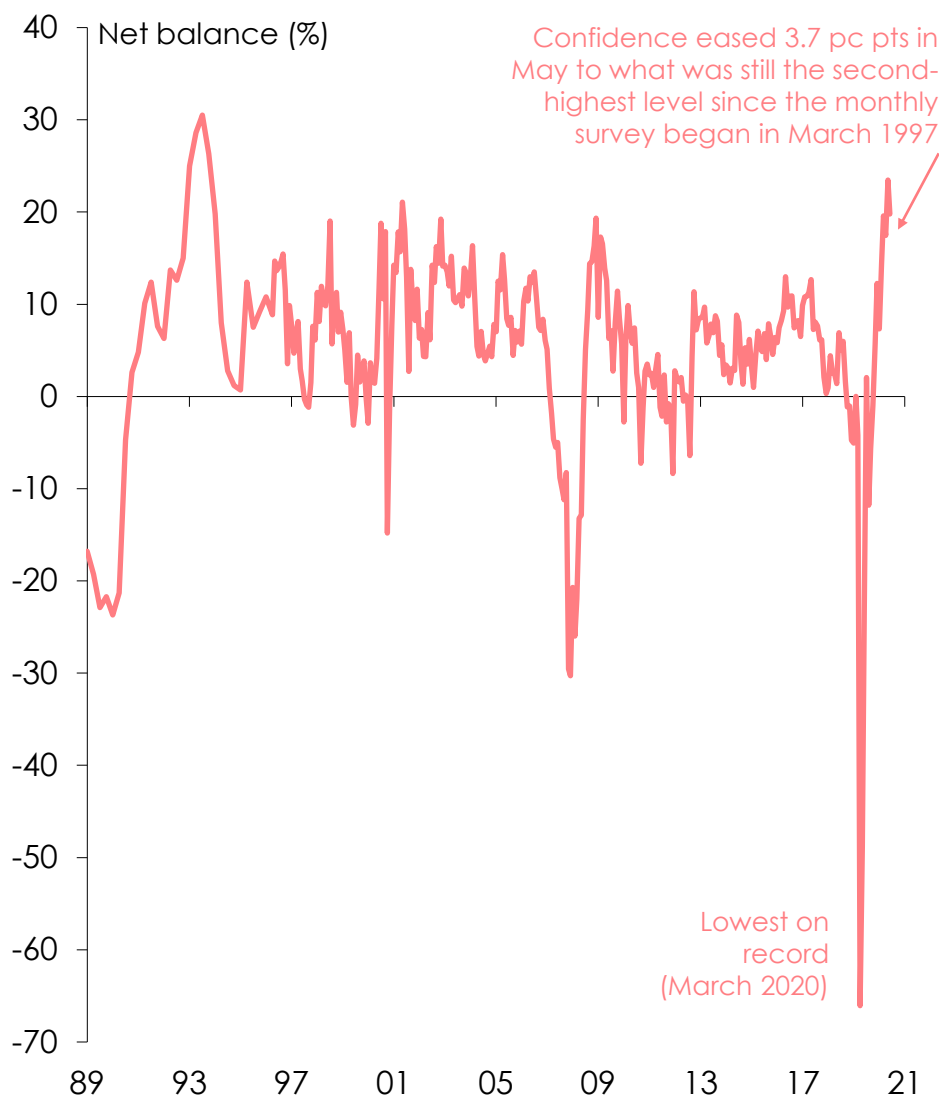
Renovations



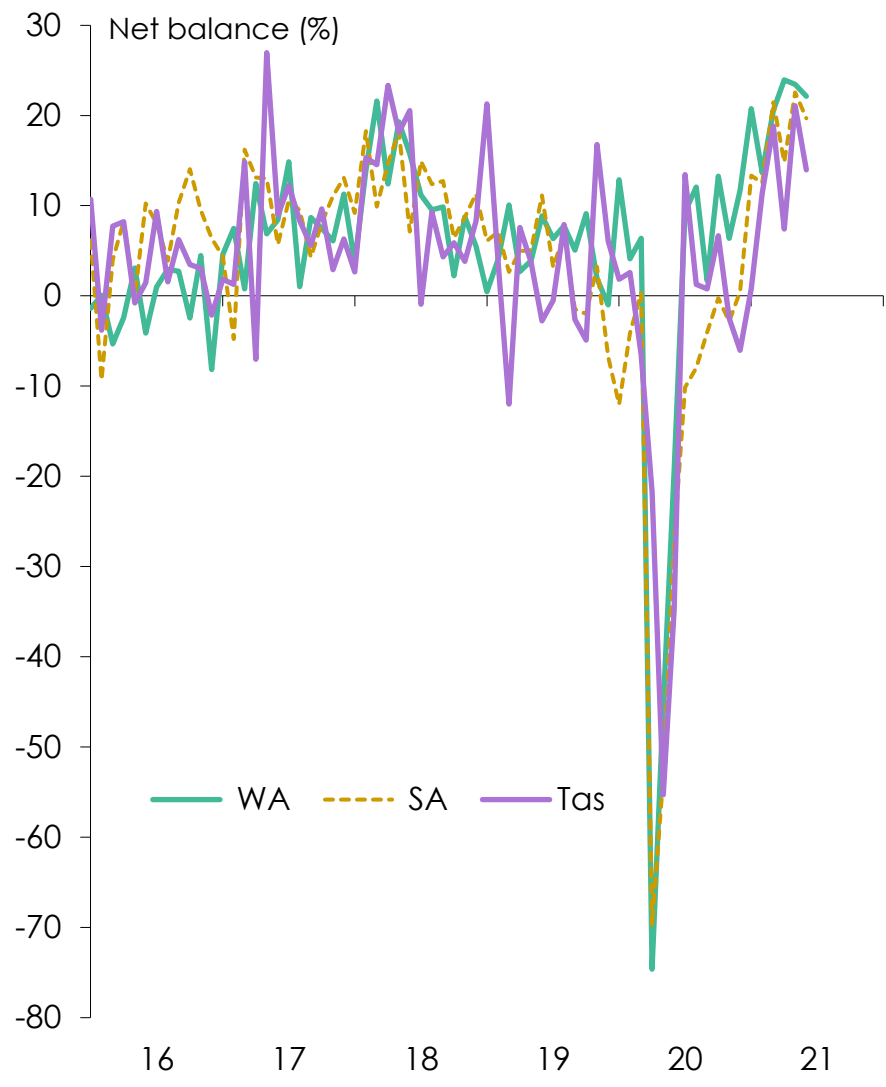
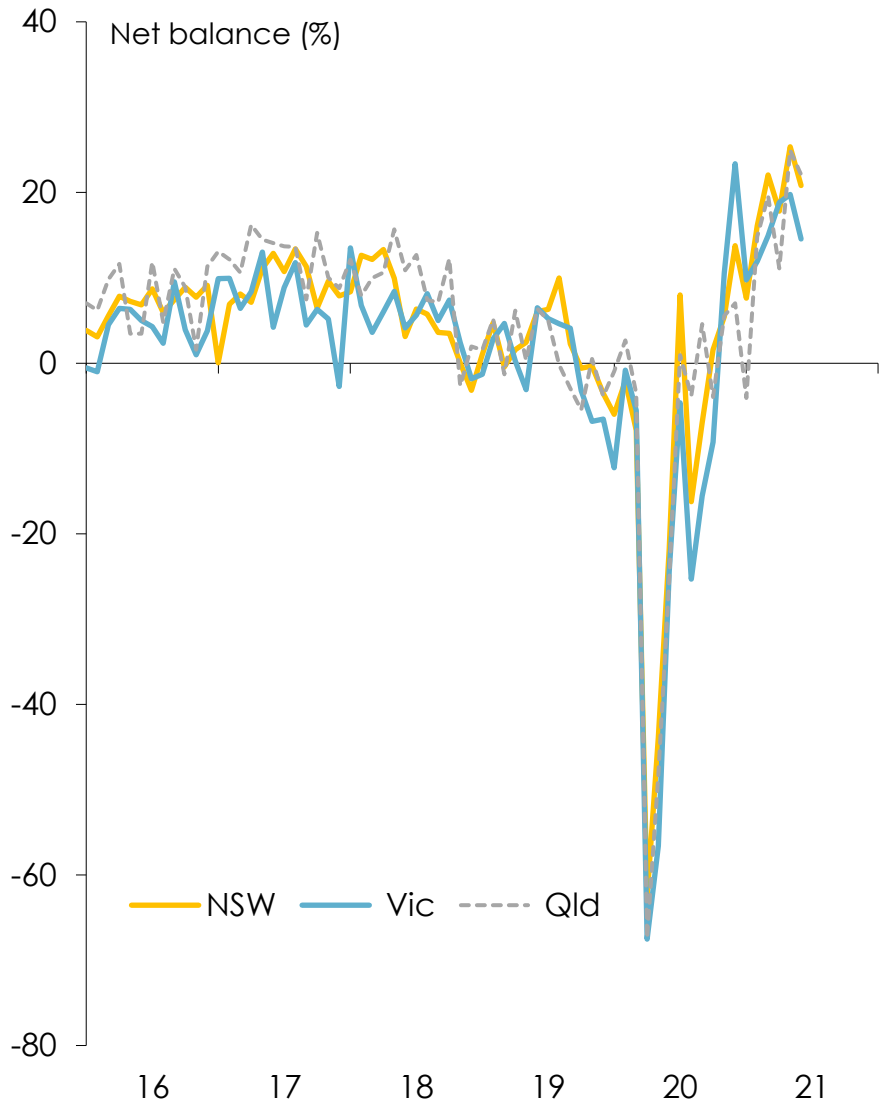
Note: First six charts (from left) are retail sales; new motor vehicles are numbers of vehicles sold; renovations are the value of alterations and additions to residential dwellings approved by local governments. Sources: ABS, [Retail Trade, Australia](#), May 2021; [Building Approvals, Australia](#), May 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

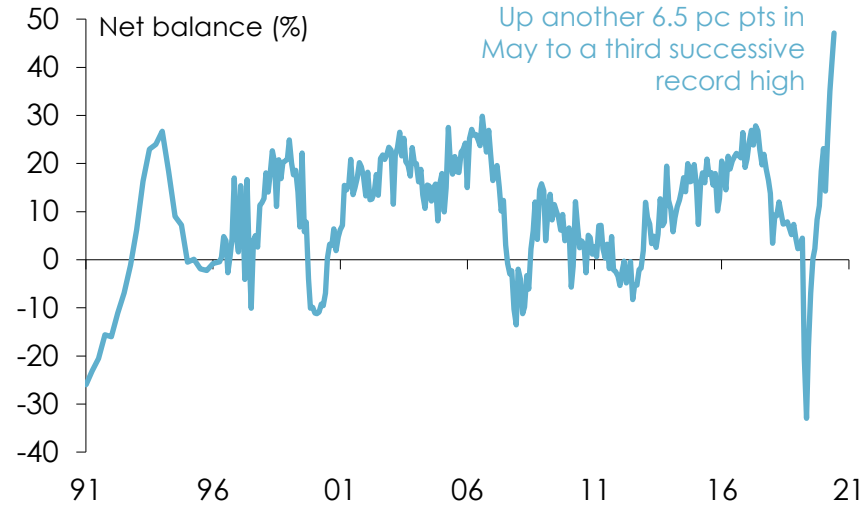


Business confidence, states and territories

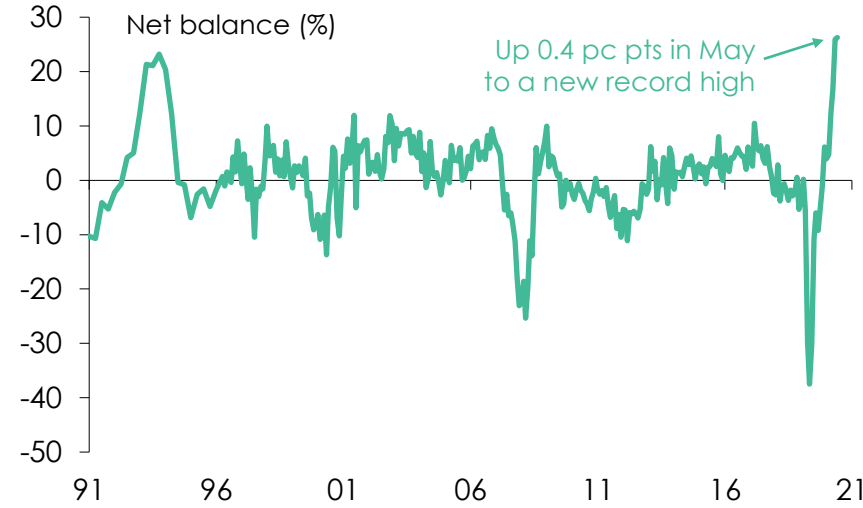


Four of the major components of the NAB monthly business conditions survey registered new record highs in May

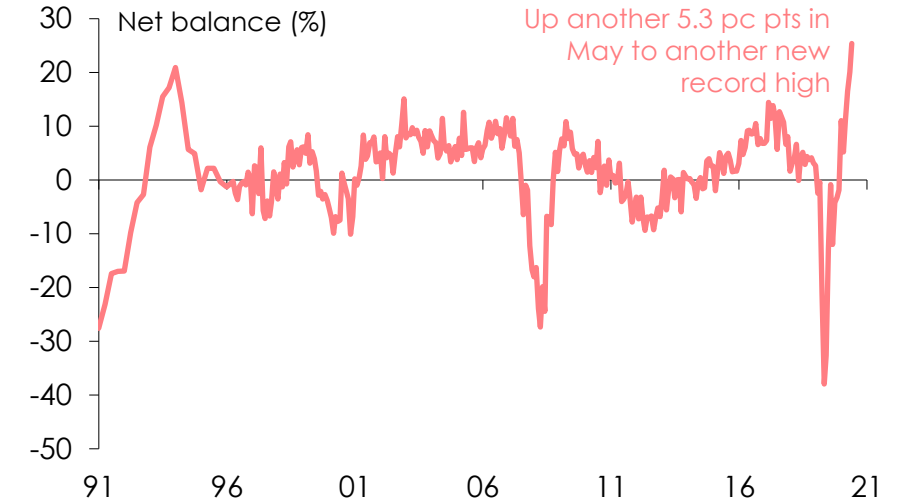
Trading conditions



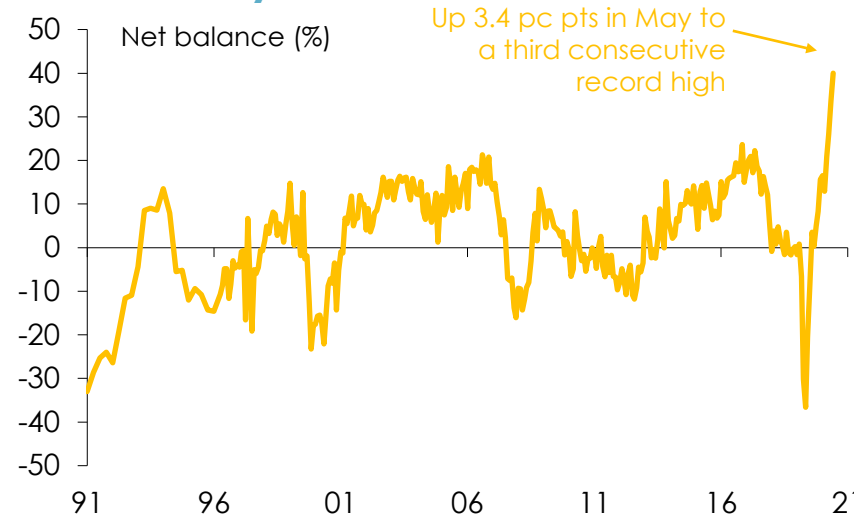
Forward orders



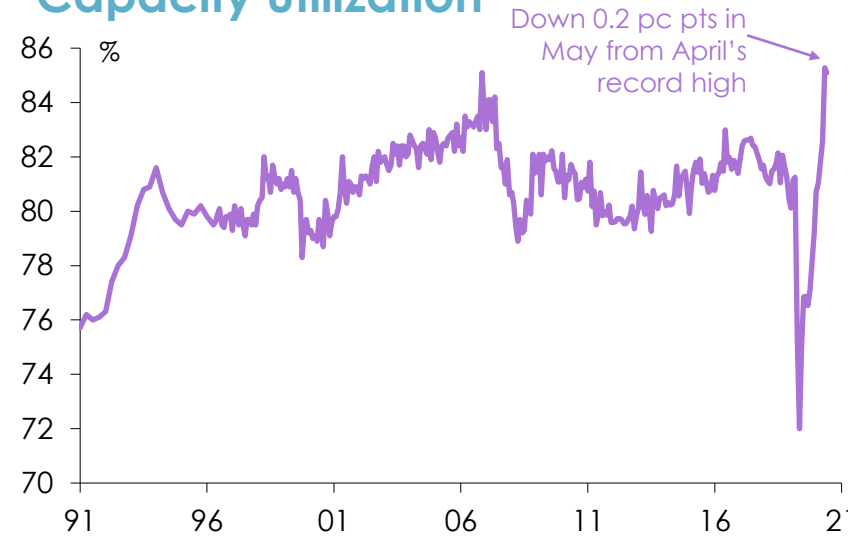
Employee hiring intentions



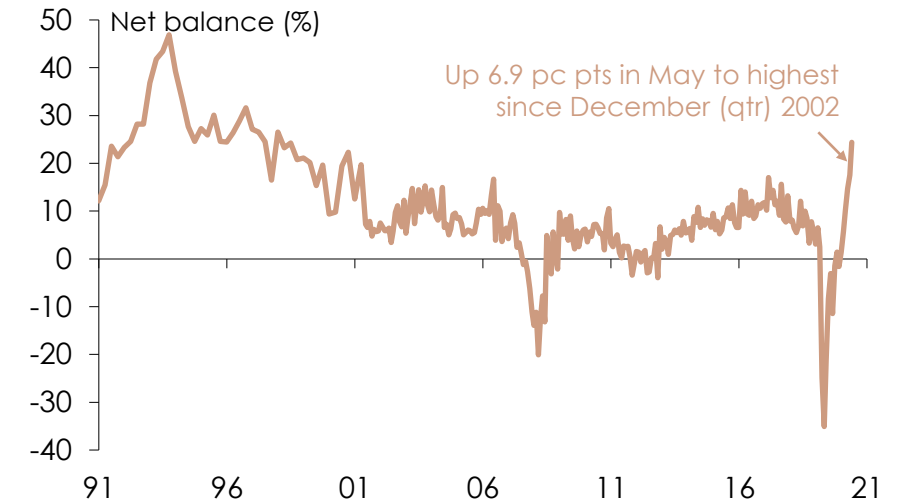
Profitability



Capacity utilization



Capital expenditure intentions

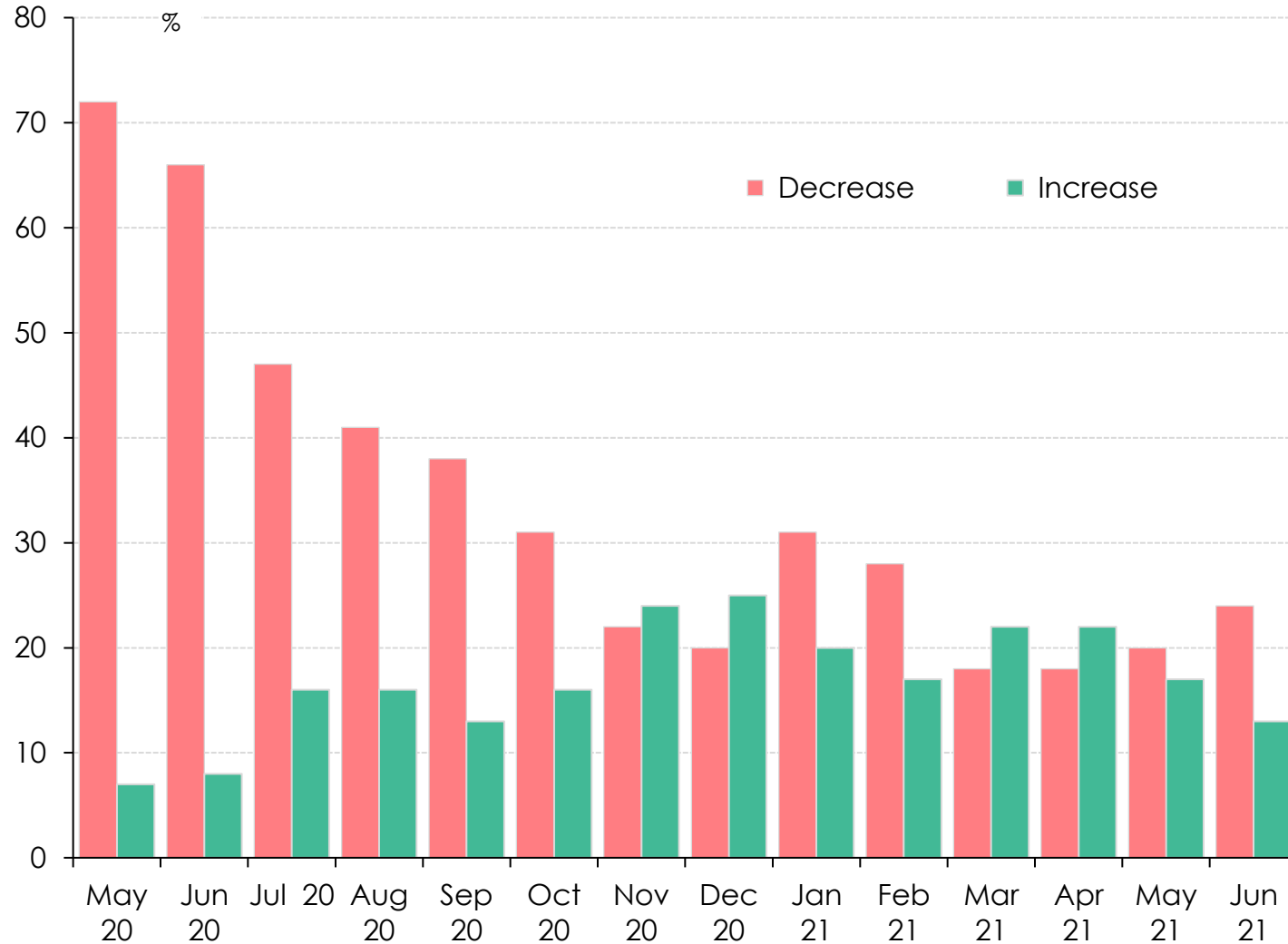


Note: Quarterly data up to March 1997 (May 2002 for capex intentions), monthly thereafter.

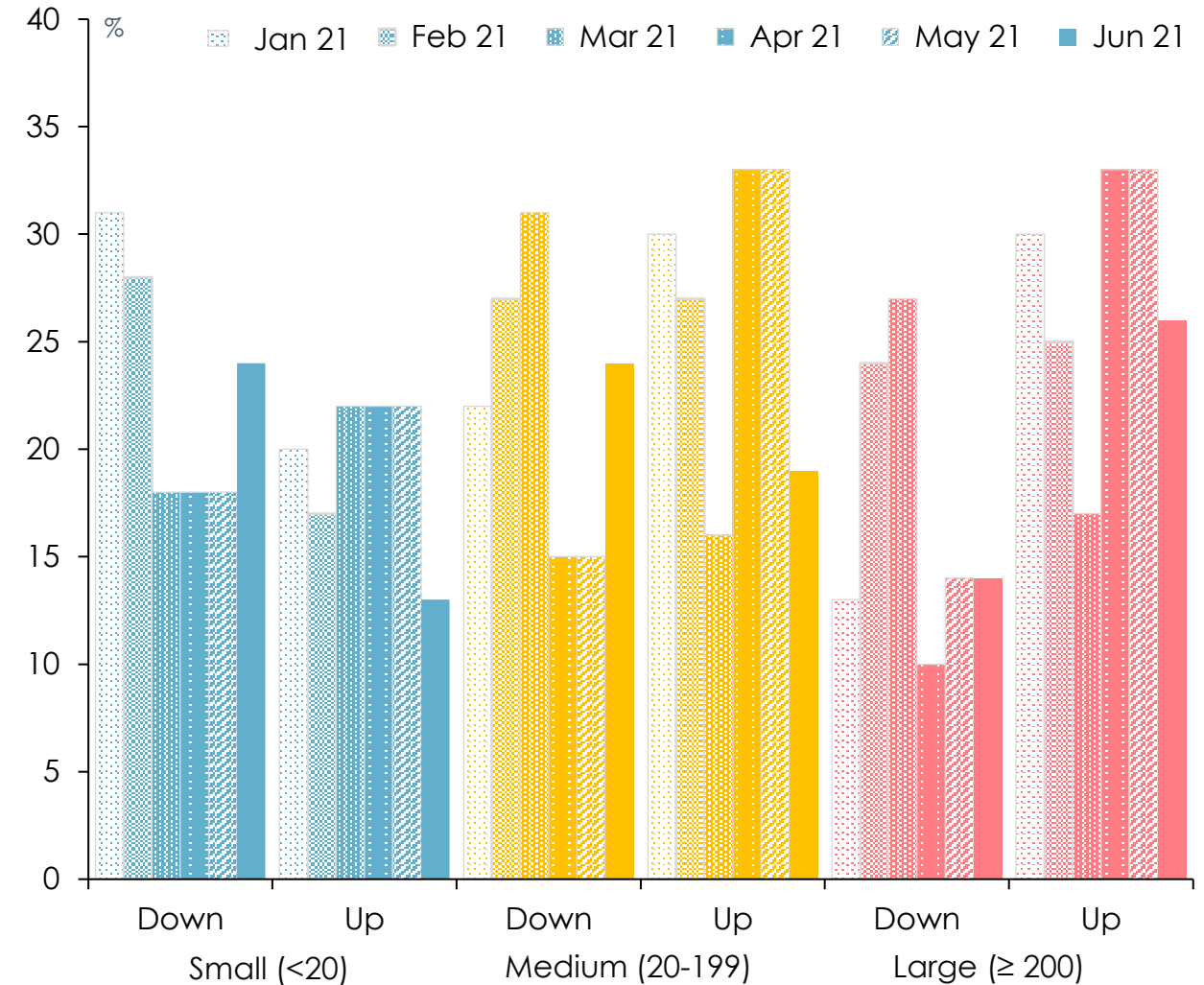
Source: National Australia Bank [Monthly Business Survey](#), May 2021; June survey results will be released on 13th July. [Return to "What's New"](#).

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



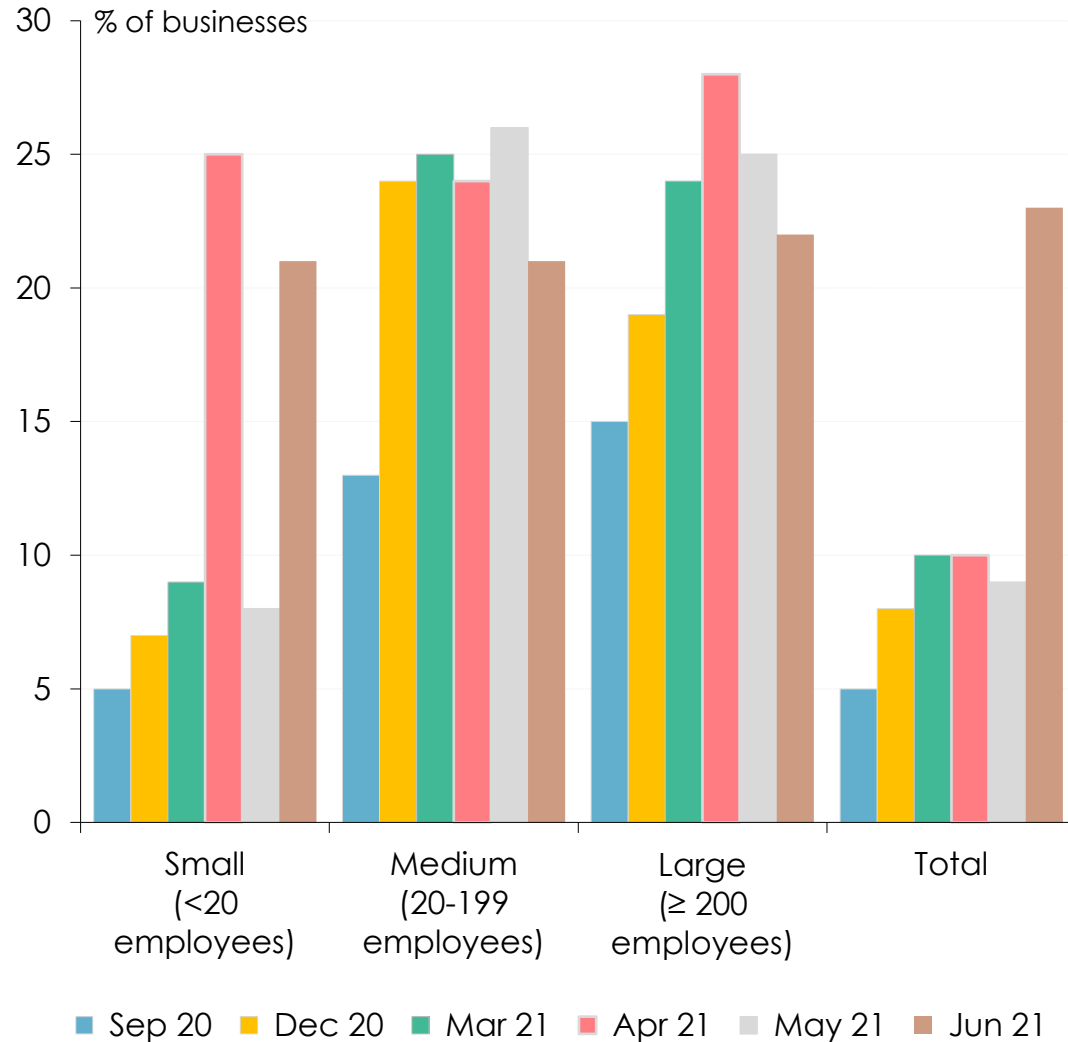
Proportion of businesses reporting decreases or increases in revenue over past month by size



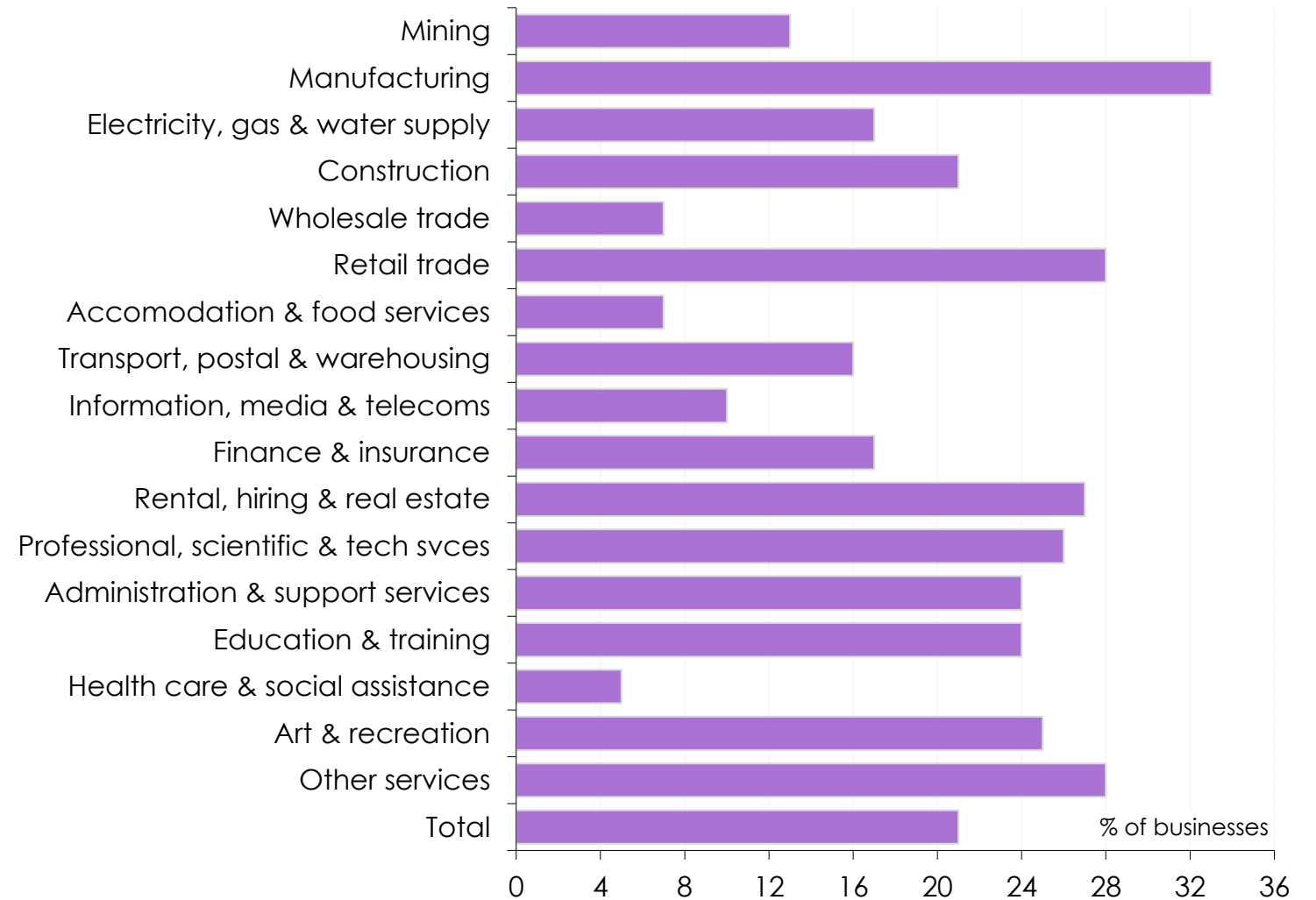
Note: 'size' in the right-hand chart refers to the number of employees. Source: ABS, [Business Conditions and Sentiments](#), June 2021. [Return to "What's New"](#).

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



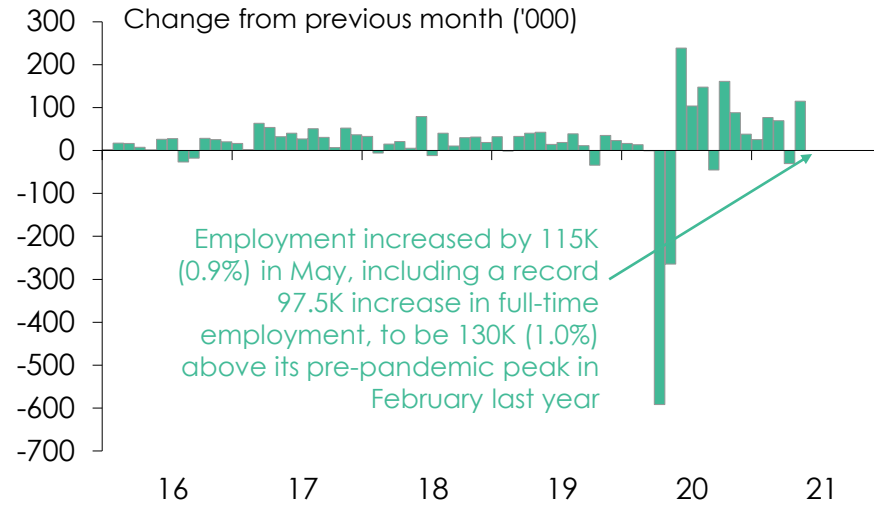
Proportion of businesses planning to increase employment, by industry, June 2021



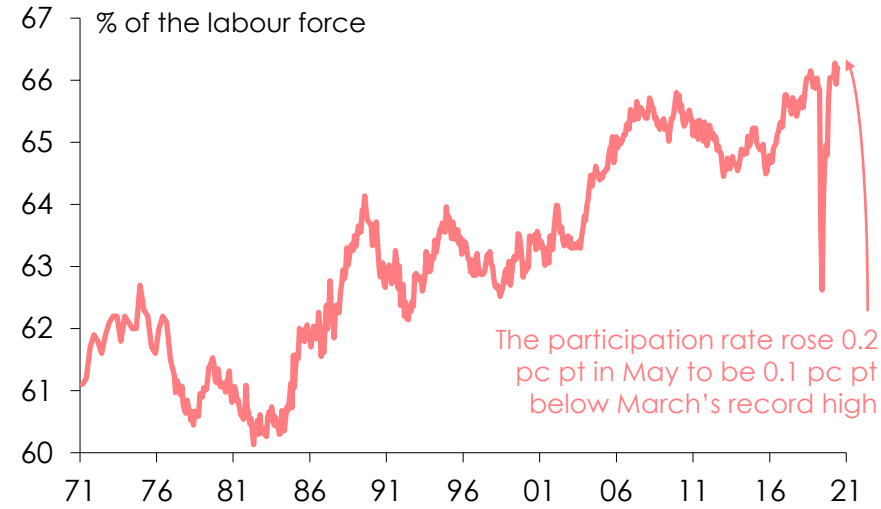
Source: ABS, [Business Conditions and Sentiments](#), June 2021. See also [slide 105](#) for data on capex intentions by business size. [Return to "What's New"](#).

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

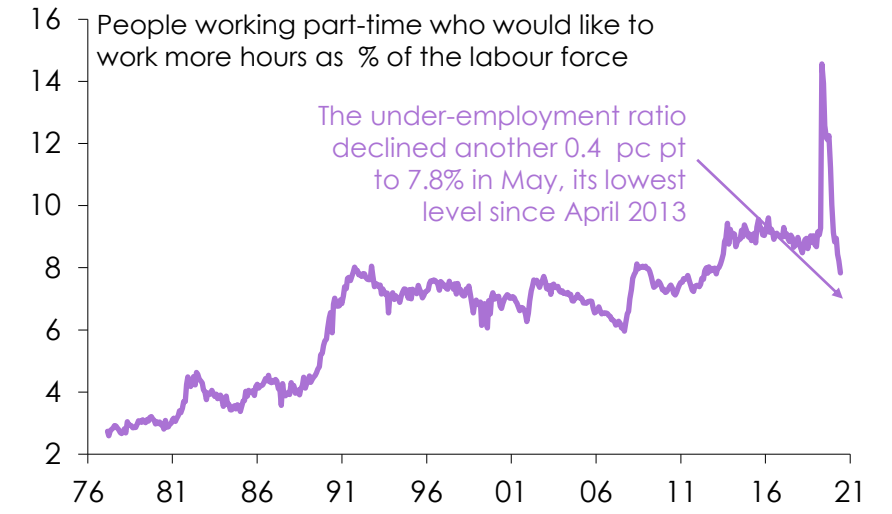
Employment



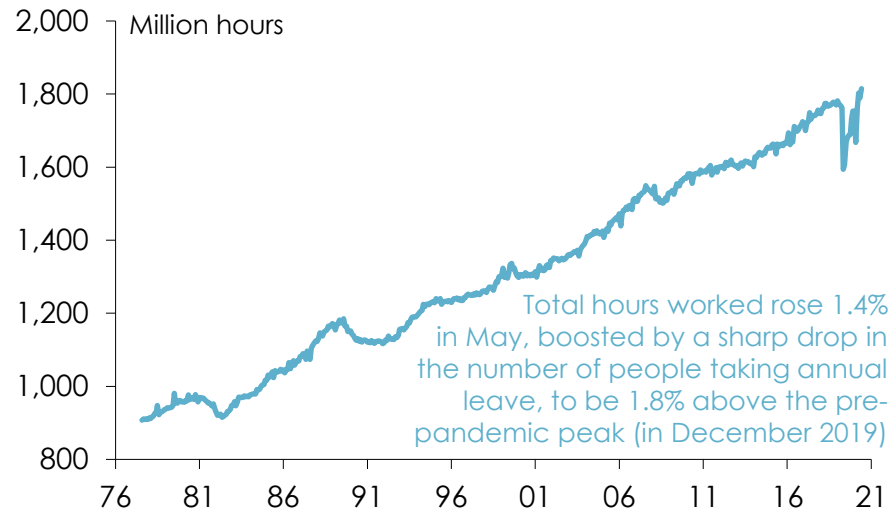
Labour force participation rate



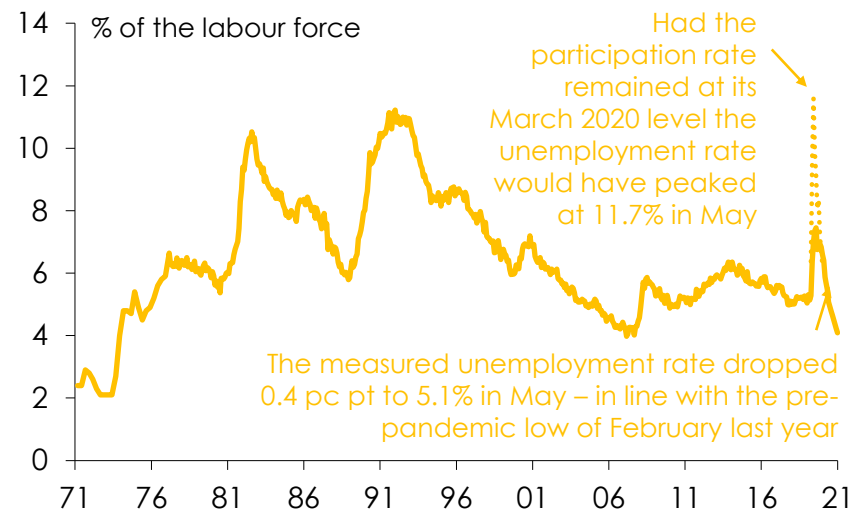
Under-employment ratio



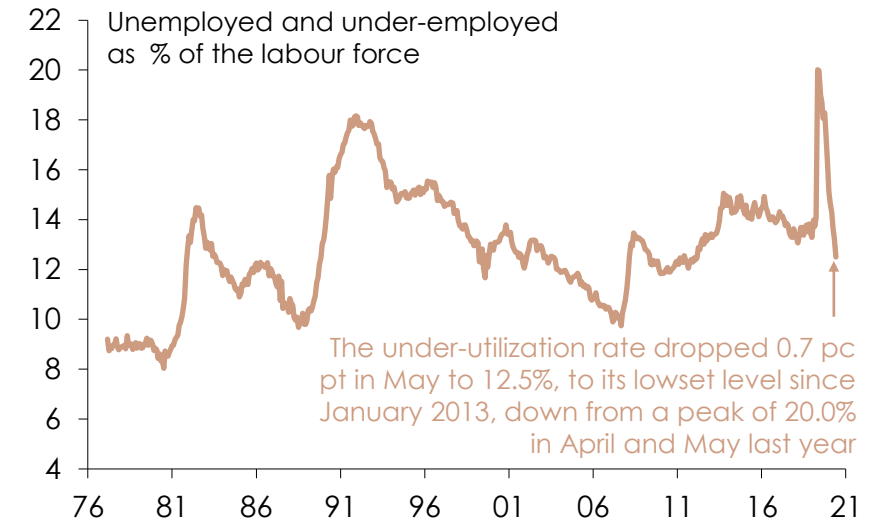
Total hours worked



Unemployment rate



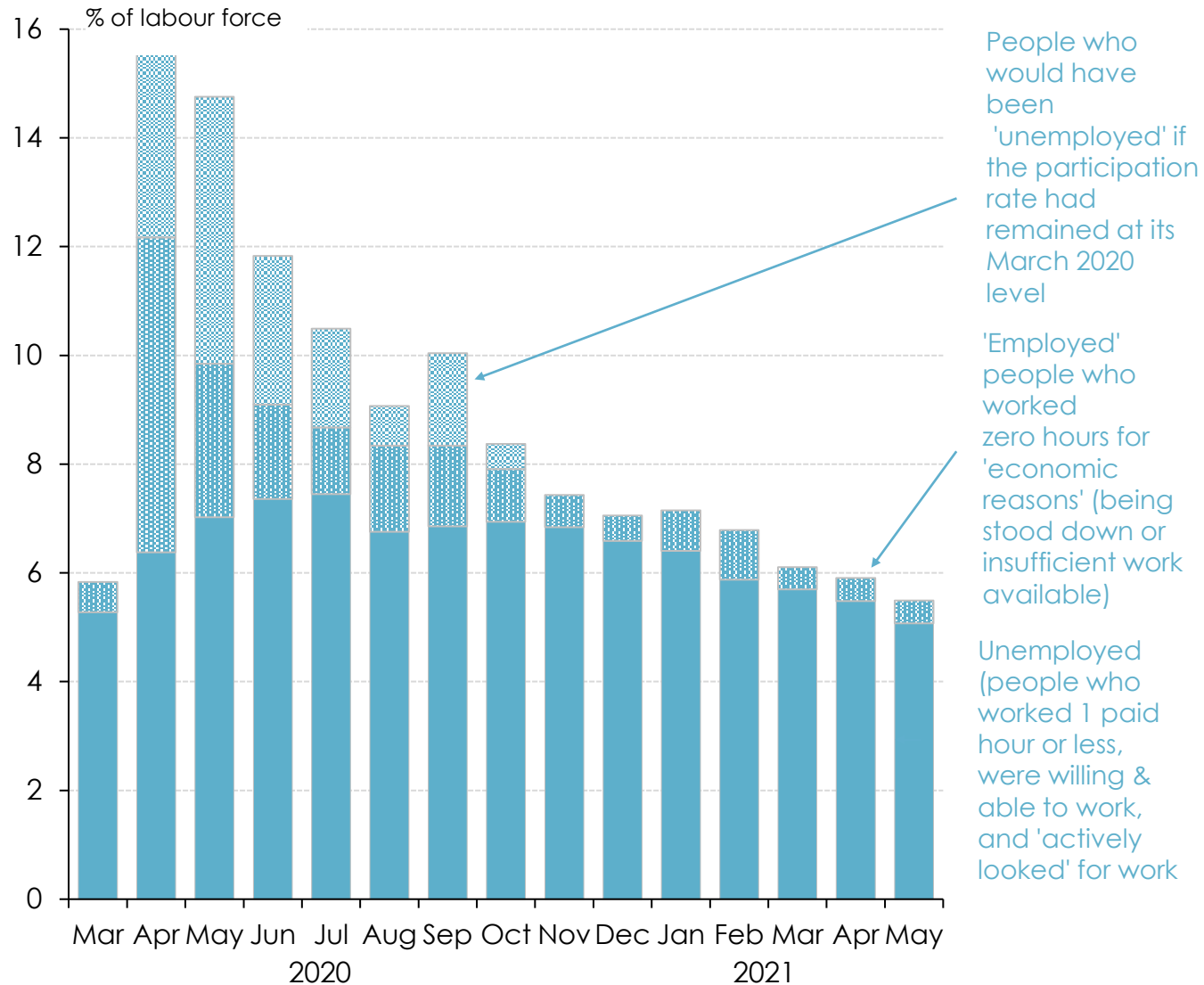
'Under-utilization' rate



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

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

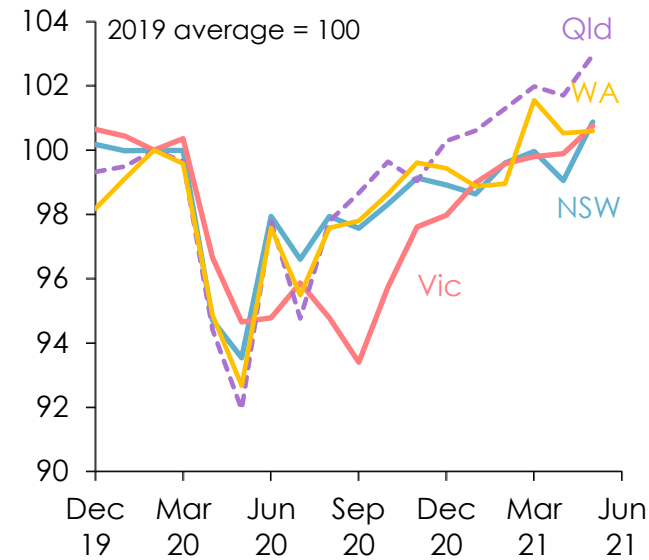


- ❑ The Government's 'JobKeeper' program paid eligible employers a subsidy of \$1500 / fortnight for each eligible employee kept on the payroll between 30th March last year and 27th September – reducing to \$1200 (with a new lower rate of \$750 for people who had been working part-time before the pandemic) 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 $\frac{3}{4}$ - 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 (6 $\frac{1}{4}$ % of total employment) in April last year – but for the past three months has been less than 60K ($\frac{1}{2}$ % 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-incident with the Easter holidays) but fell back to a more 'normal' 262K

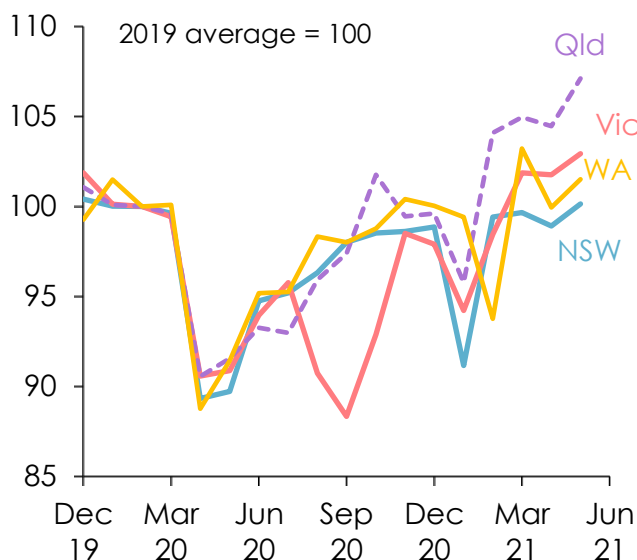
Source: ABS, [Labour Force, Australia](#); Corinna. June data will be released on 15th July. [Return to "What's New"](#).

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

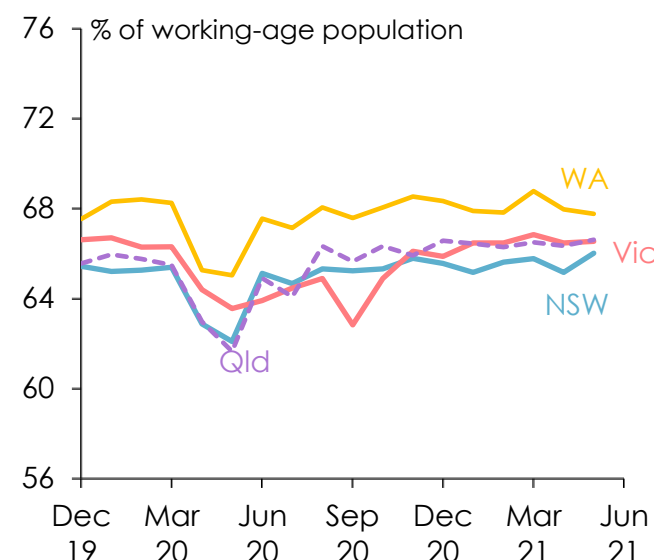
Employment



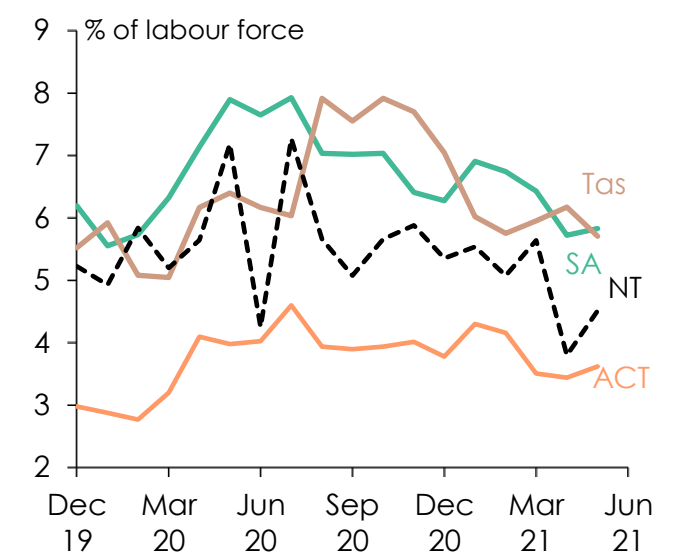
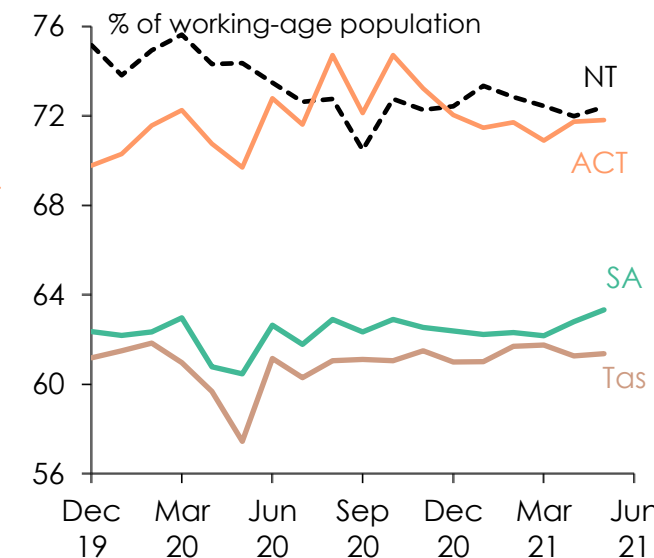
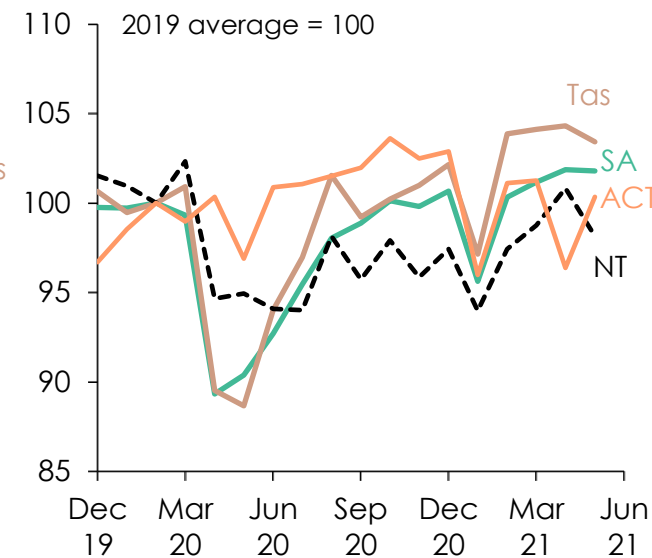
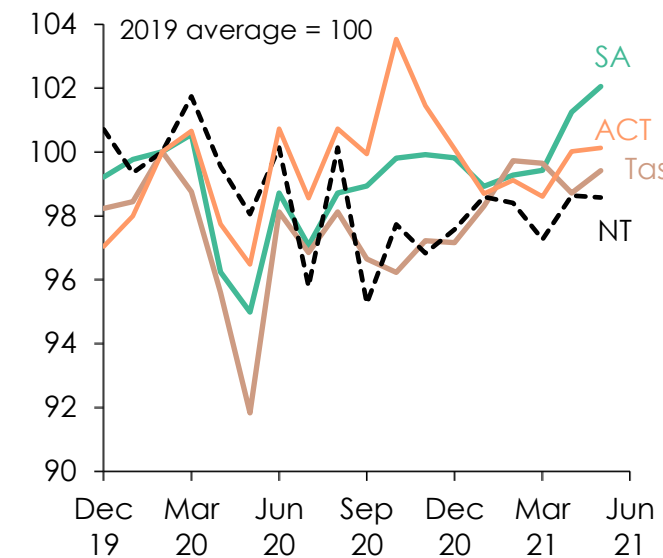
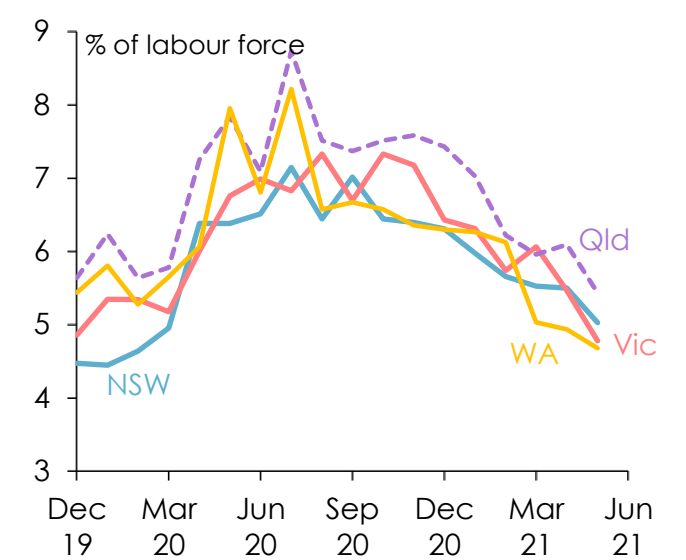
Hours worked



Participation rates



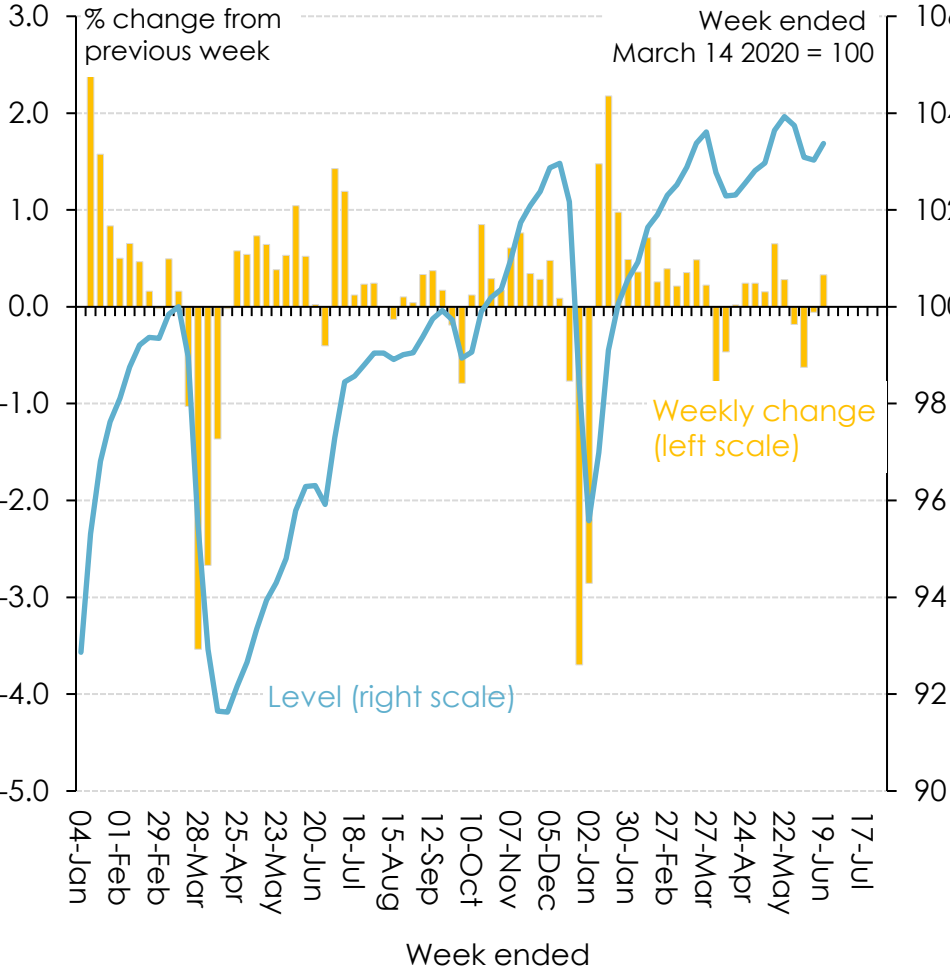
Unemployment rates



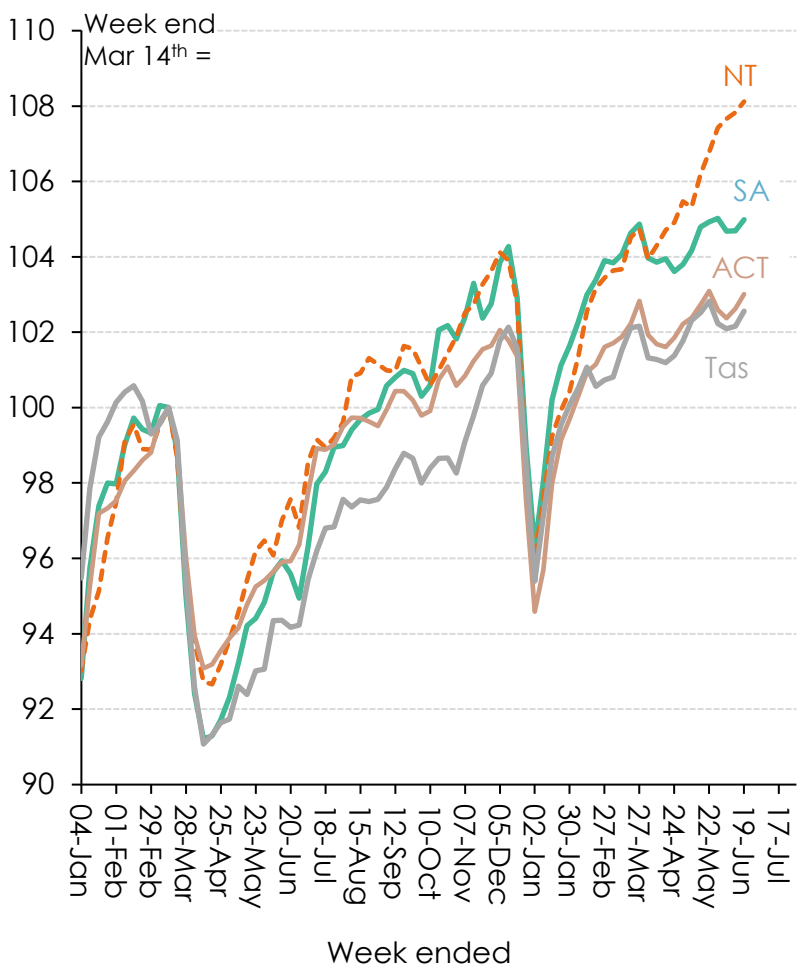
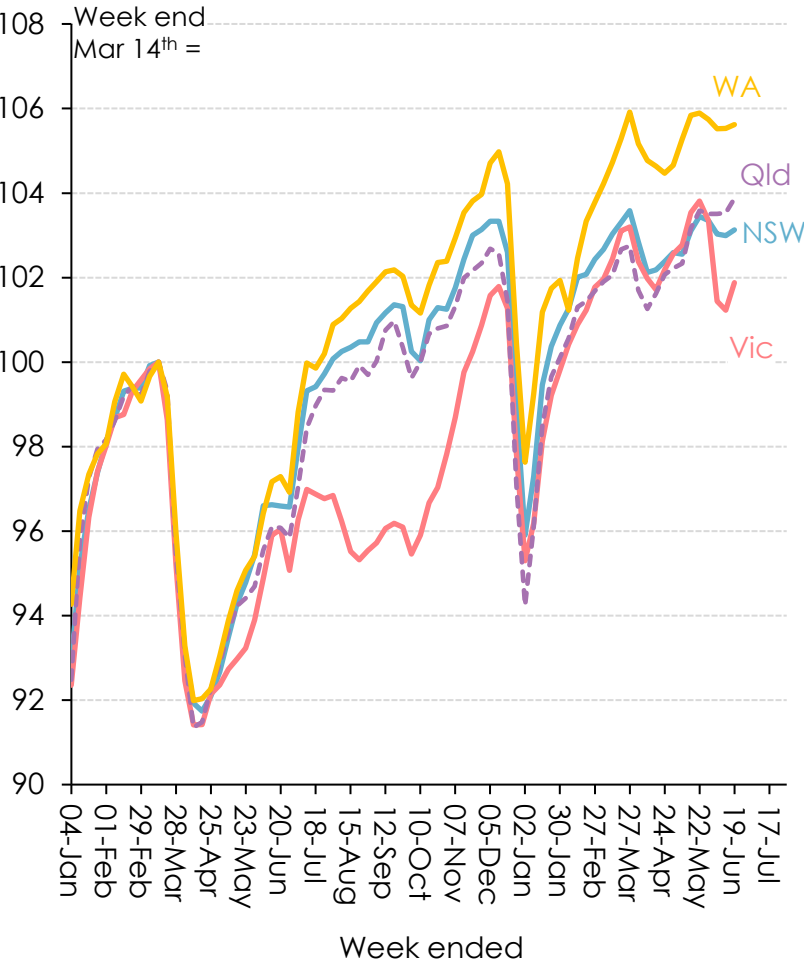
Source: ABS, [Labour Force, Australia](#); Corinna. June data will be released on 15th July. [Return to "What's New"](#).

Payroll jobs rose 0.3% over the first two weeks of June, after a decline of 0.8% over the previous fortnight

Level and weekly change in the number of payroll jobs



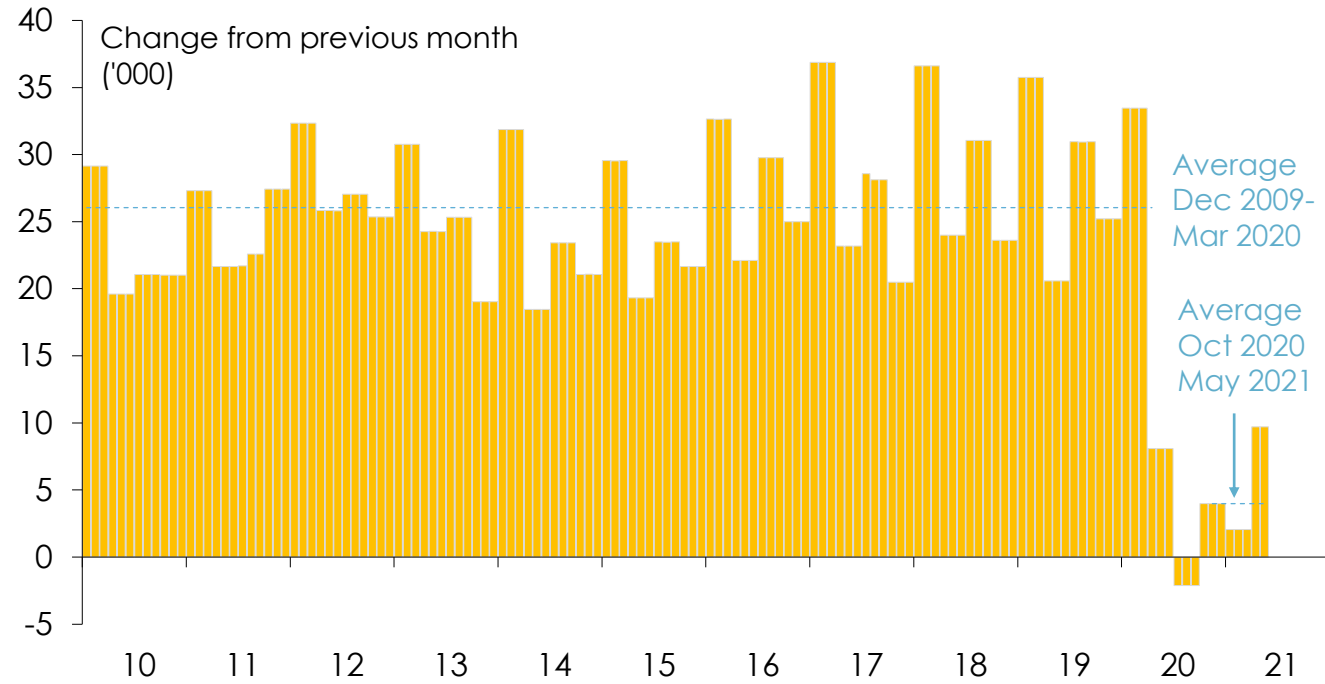
Payroll jobs by State & Territory



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 3rd July June will be released on 22nd July. [Return to "What's New"](#).

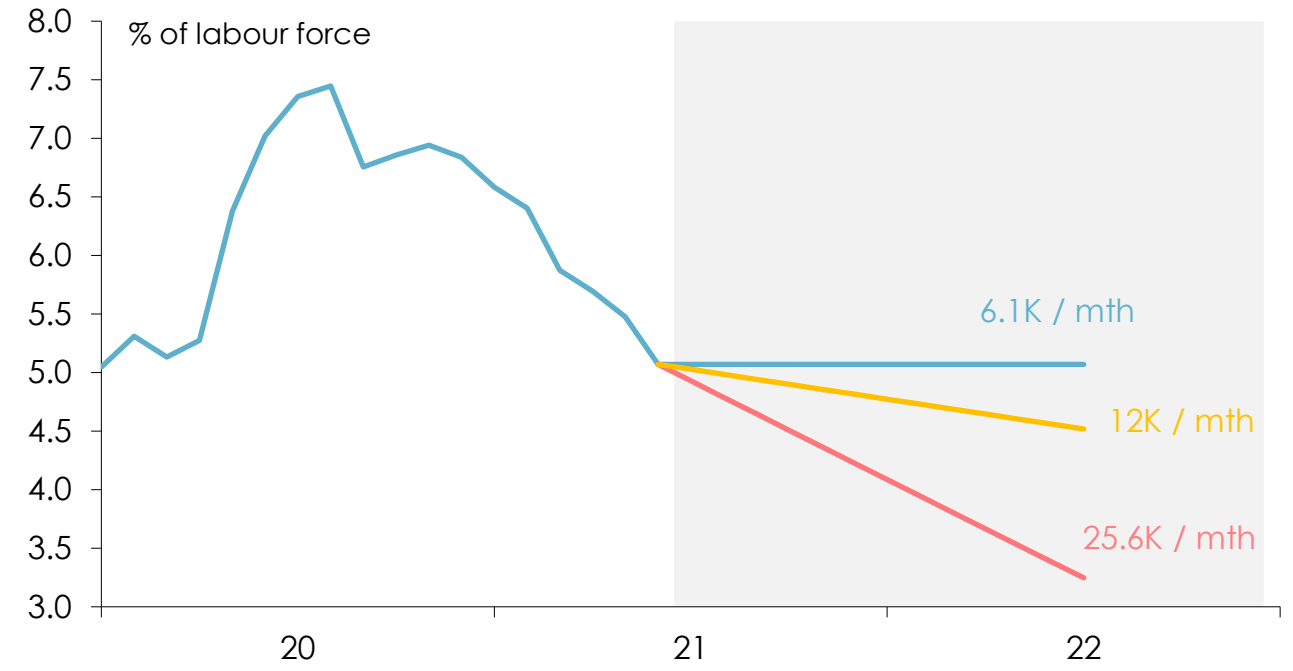
The closure of Australia's borders means that it's much easier to reduce unemployment for any given rate of jobs growth

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

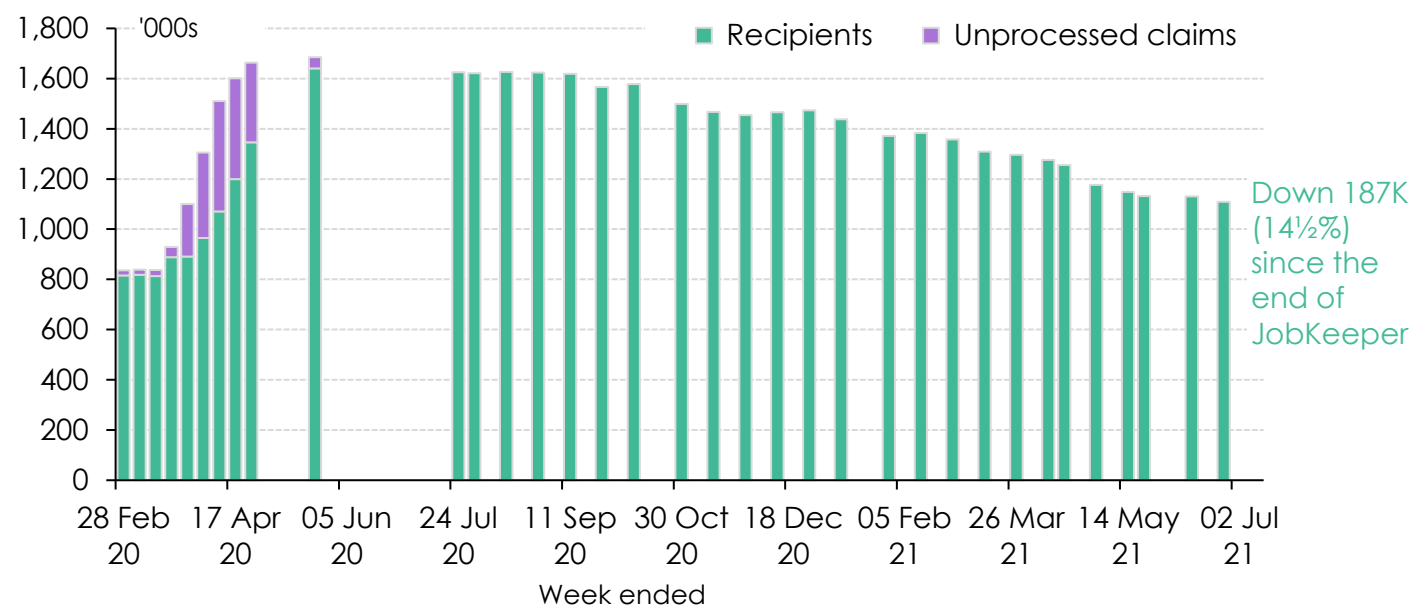
Unemployment rates for alternative rate of jobs growth



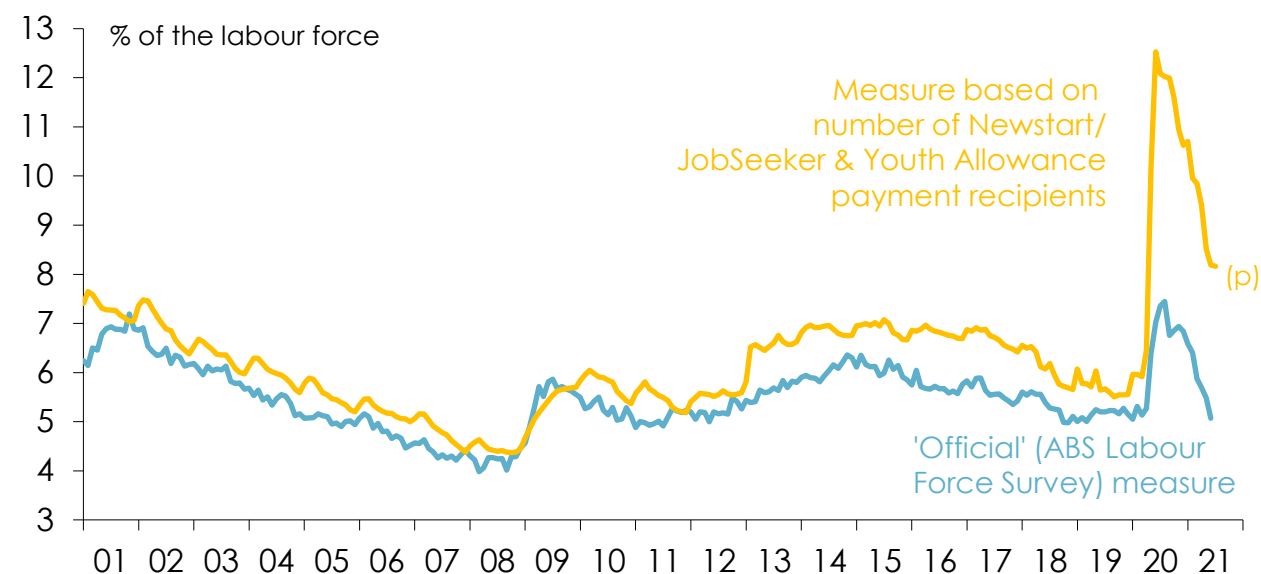
- ❑ Assuming the working-age population grows at the same rate as during the current quarter (ie 9.7K a month) and no change in the participation rate, employment growth of more than just 6.1K a month is sufficient to ensure further falls in the unemployment rate
- ❑ If employment continued to grow at 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

The number of people receiving 'unemployment benefits' has fallen by about 187K (14½%) since the end of the Government's 'JobKeeper' scheme

Number of people receiving or seeking Newstart/ JobSeeker or Youth Allowance payments



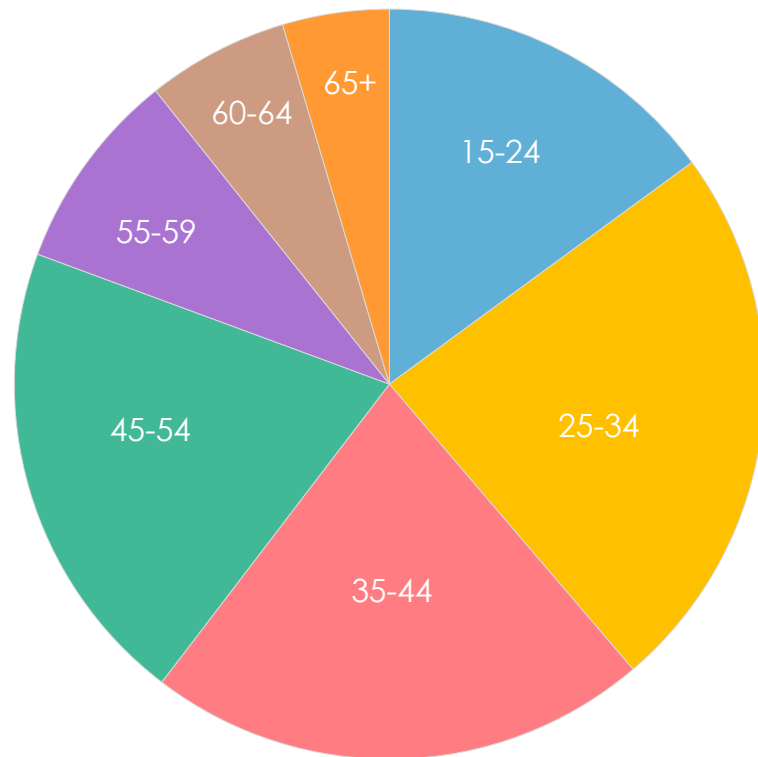
Jobless income support beneficiaries and labour force survey unemployed as a pc of the labour force



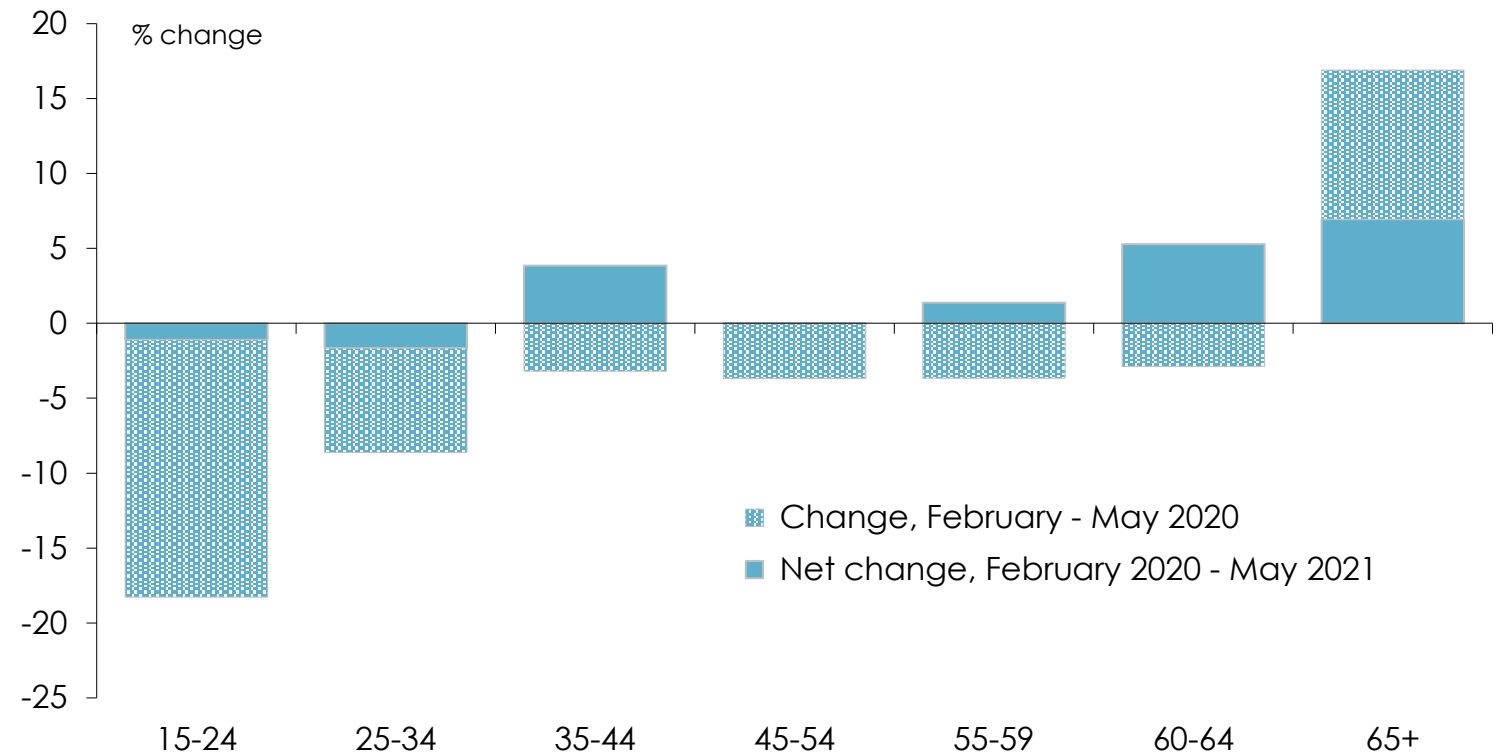
- ❑ Ministers receive weekly data on the number of people on JobSeeker and Youth Allowance (Other) benefits – which since late July last year the Department of Social Services has made this available every second week to the Senate Select Committee examining the Government's responses to Covid-19
- ❑ Data for the week ended 25th June show a decline of 187,275 (14½%) in the number of people receiving these two benefits from 26th March
- ❑ These numbers aren't seasonally adjusted but at face value they suggest that unemployment has continued to decline despite the cessation of 'JobKeeper' at the end of March – these numbers will bear watching to assess the impact of the current 'lockdown' in Sydney

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

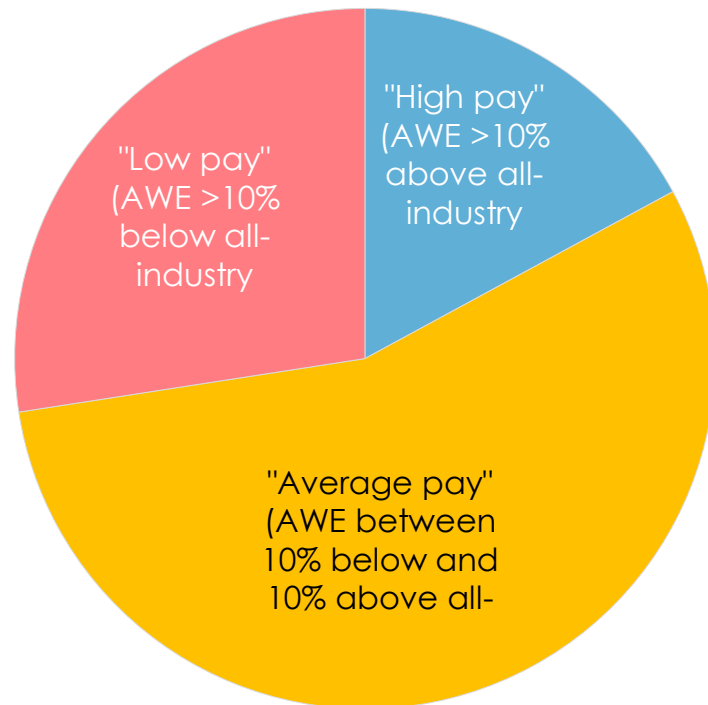


- ❑ People aged 15-24 accounted for 15% of pre-covid employment but experienced 39% of all job losses between February and May last year – and as of May their employment was still down 1.1% from where it had been in February 2020, while that of 25-34 year-olds was down by 1.7%
- ❑ By contrast older age 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

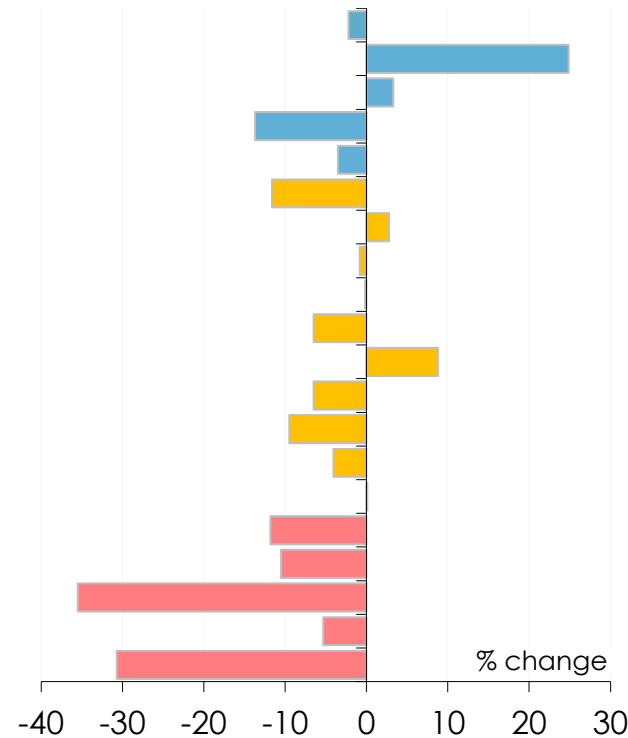
Note: data on employment by age group is not seasonally adjusted. Source: ABS, [Labour Force, Australia, Detailed](#), May 2021: June data will be released on 22nd July. [Return to "What's New"](#).

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

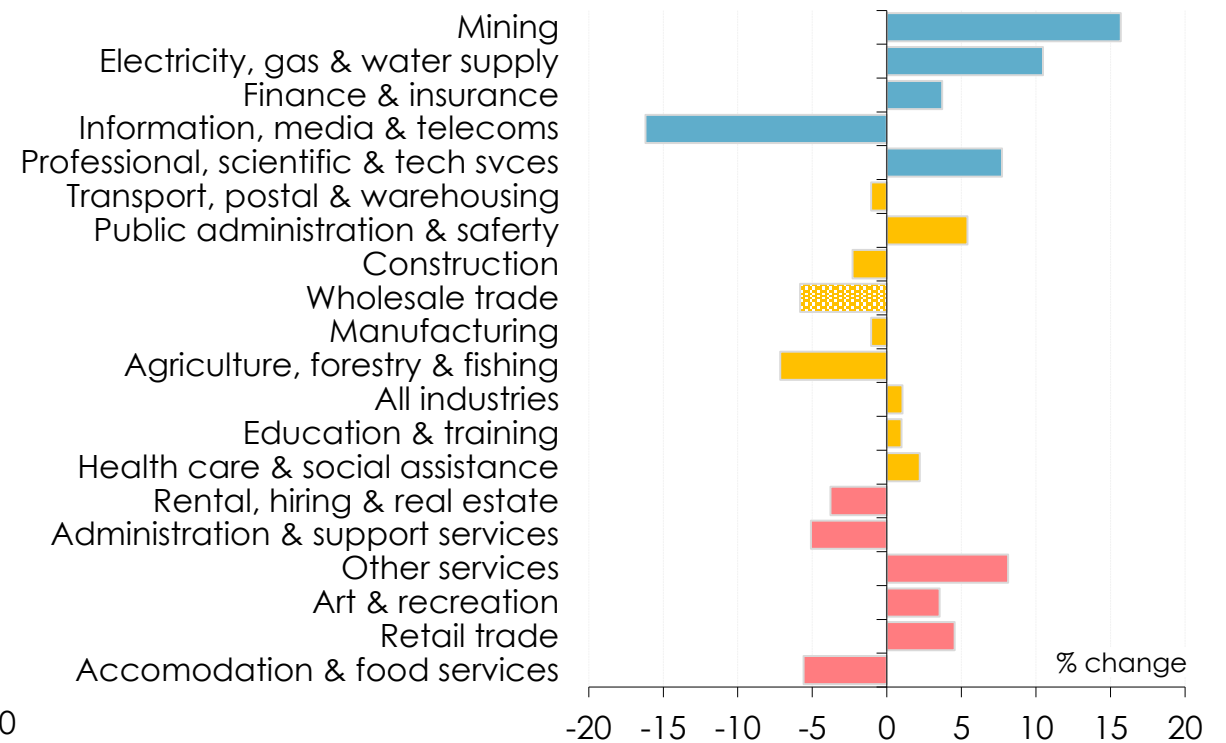
Composition of employment by industry ranked by average weekly earnings, February 2020



Change in employment by industry
February-May 2020



February 2020 – May 2021

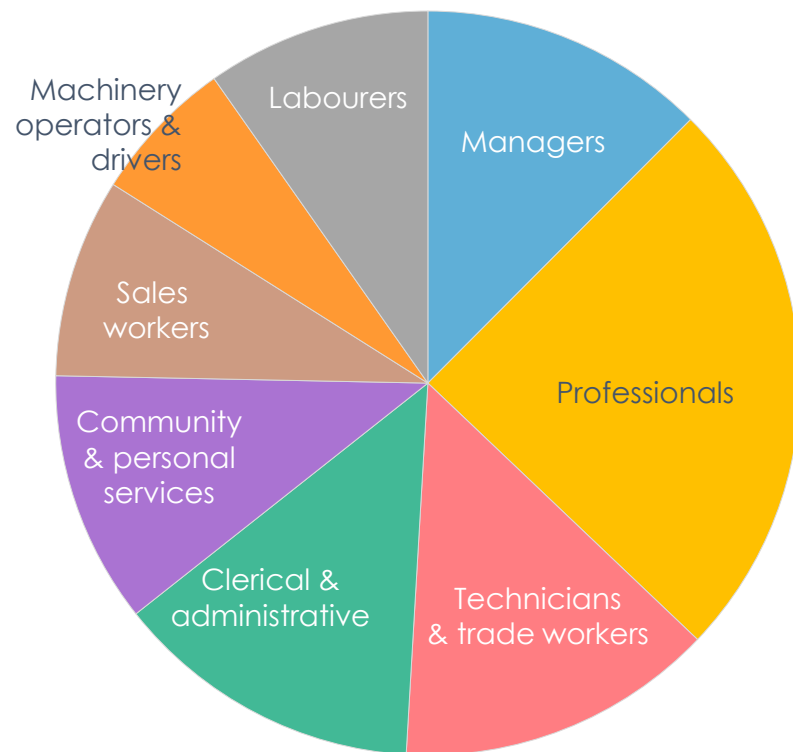


- ❑ Industries with average earnings which are 10% or more below average accounted for 27½% of the pre-pandemic workforce, but experienced 64% of the job losses between February and May last year – and employment in those industries was only 0.6% higher in May this year than it had been in February last 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

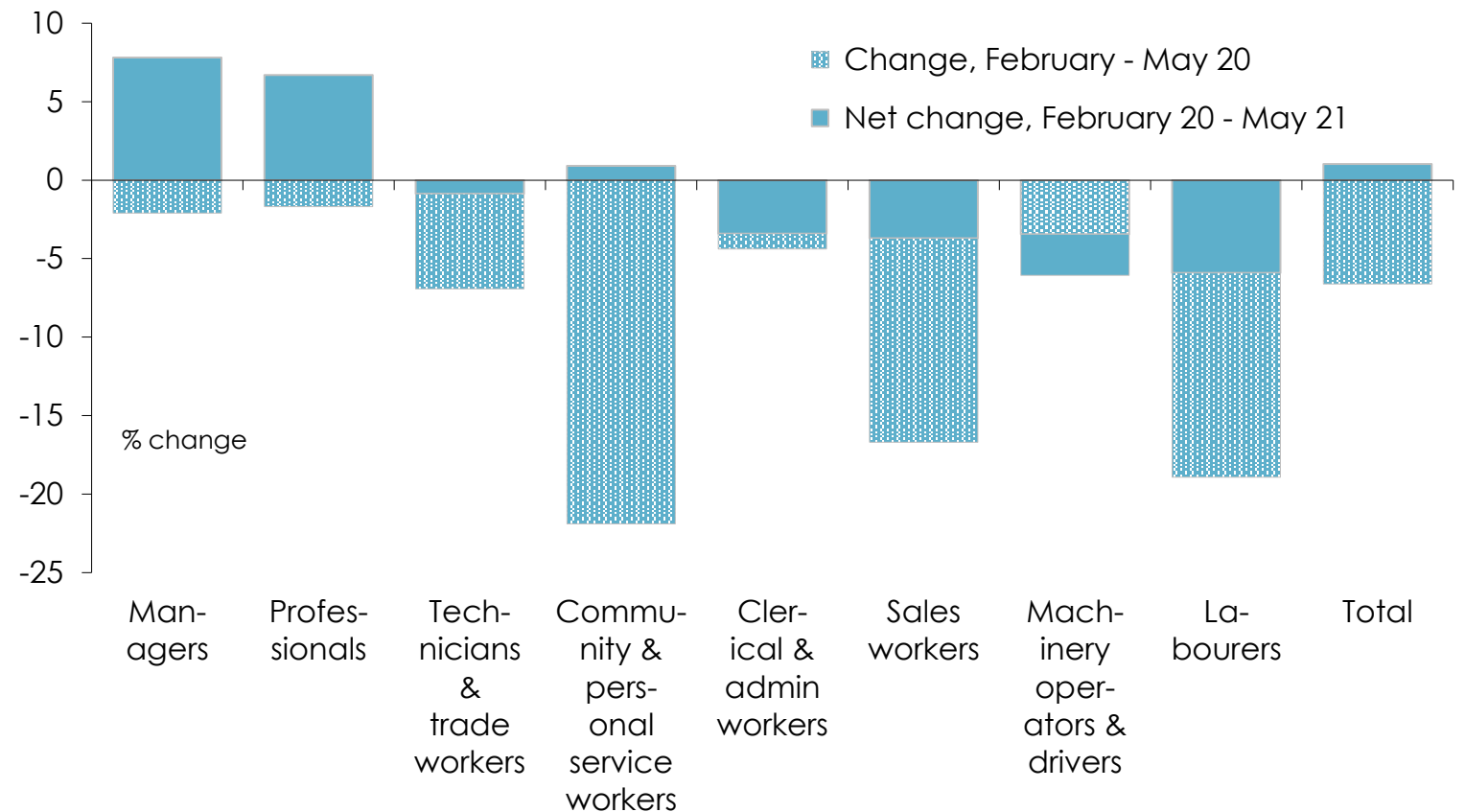
Source: ABS, [Labour Force, Australia, Detailed](#), May 2021 and [Average Weekly Earnings, Australia](#), November 2019. Labour force survey data on employment by occupation are available only for the middle month of each quarter: August data will be released on 23rd September. [Return to "What's New"](#).

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

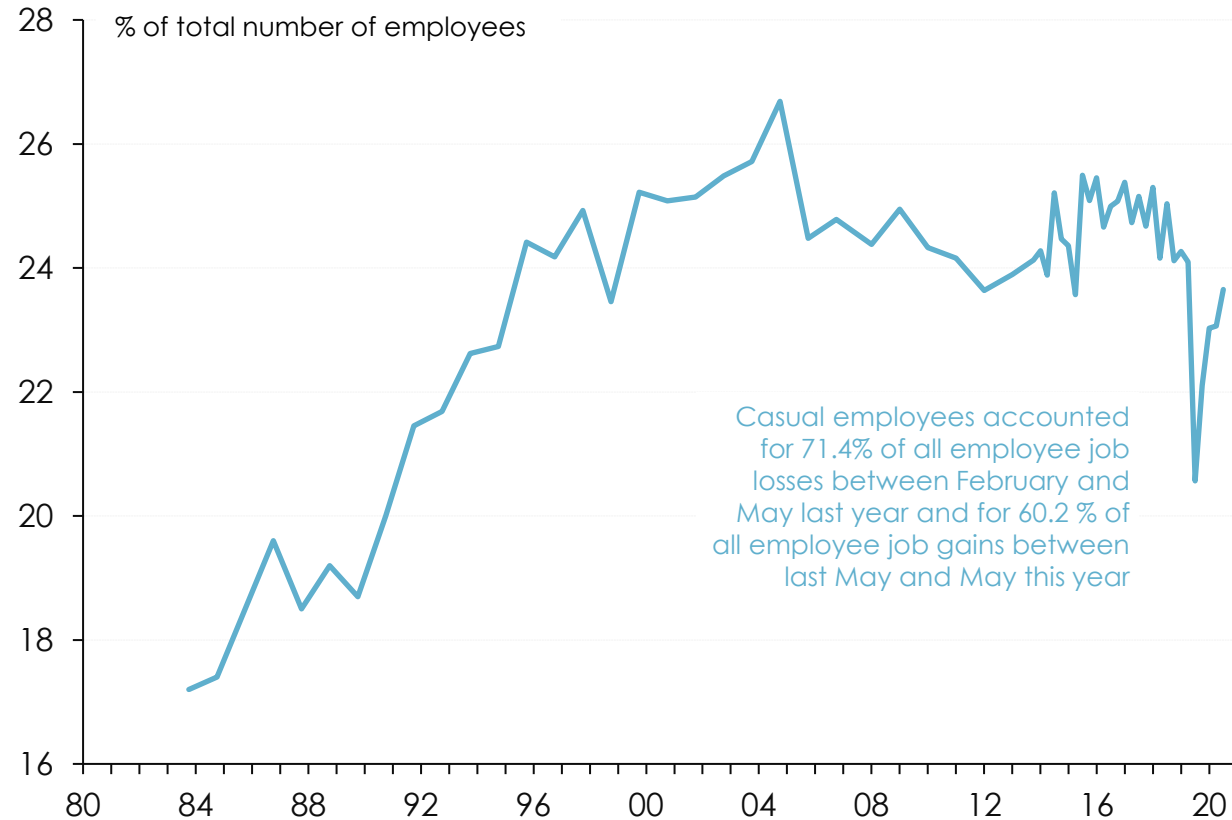


- Community & personal services workers, sales workers and labourers accounted for 29% of the pre-covid work force, but experienced 73% of the job losses during the recession – and 17% of them still haven't regained their jobs (or found others) ...
- ... whereas there are 7% more employed managers and 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"](#).

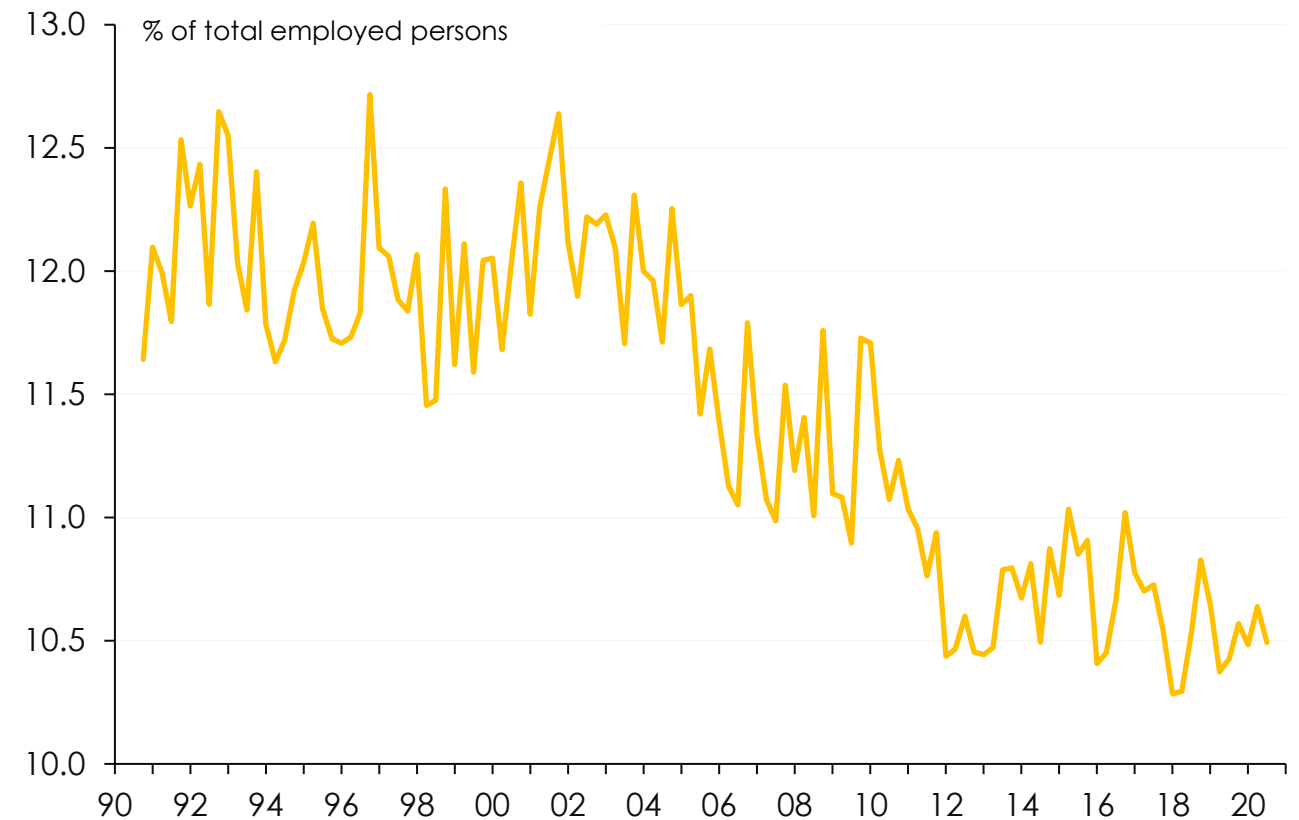
Contrary to popular belief neither casual jobs nor 'gig economy' jobs have become more commonplace during the past two decades

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



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

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

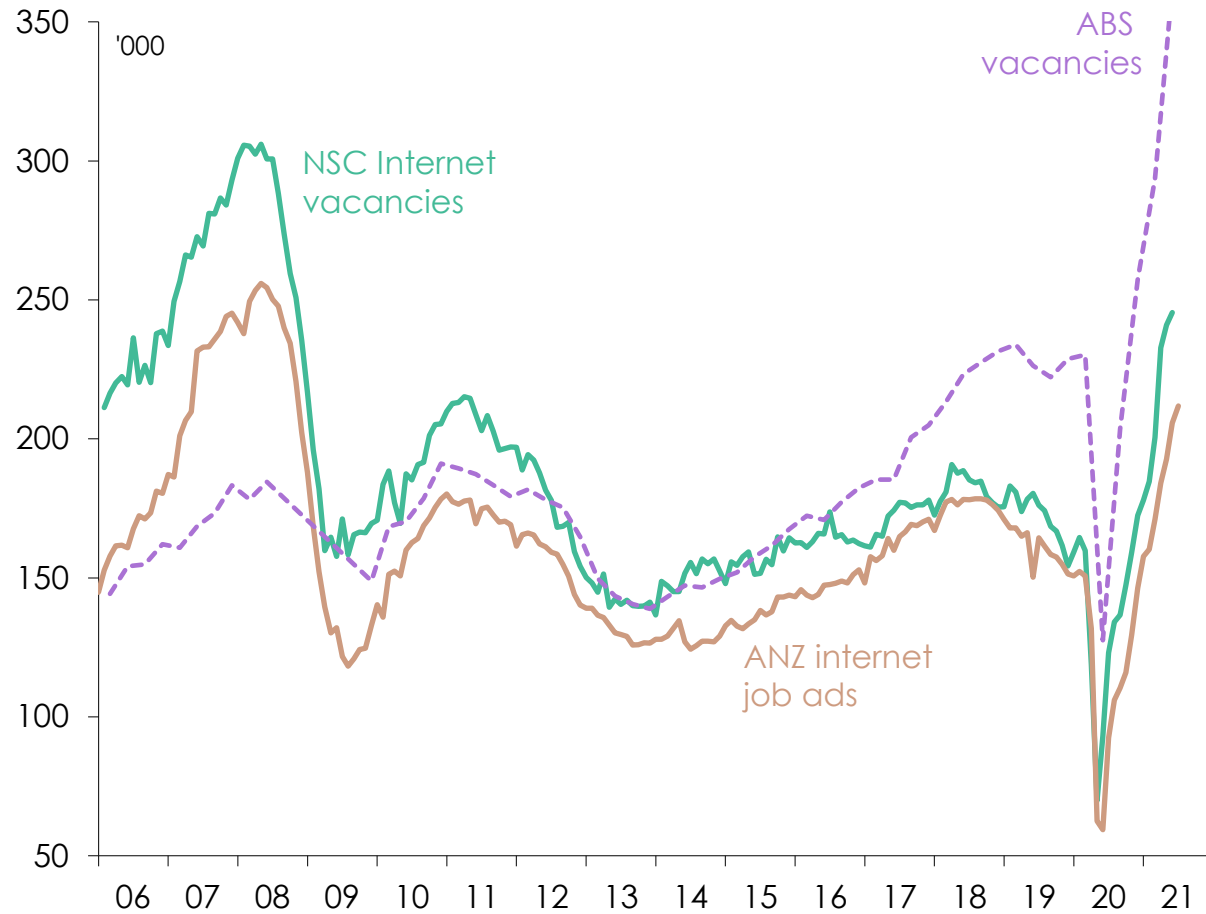


- ❑ 'Independent contractors' have actually declined as a share of the workforce since the early 2000s – had haven't increased during the current recession

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

Job vacancies have rebounded swiftly from their recession lows – there are now fewer than two jobseekers for every vacancy, a record low

Measures of job vacancies



- Both the ANZ and NSC job advertisements measures have more than recouped their pandemic-induced losses, while the ABS vacancies measure is at an all-time high

Ratio of unemployed people to job vacancies

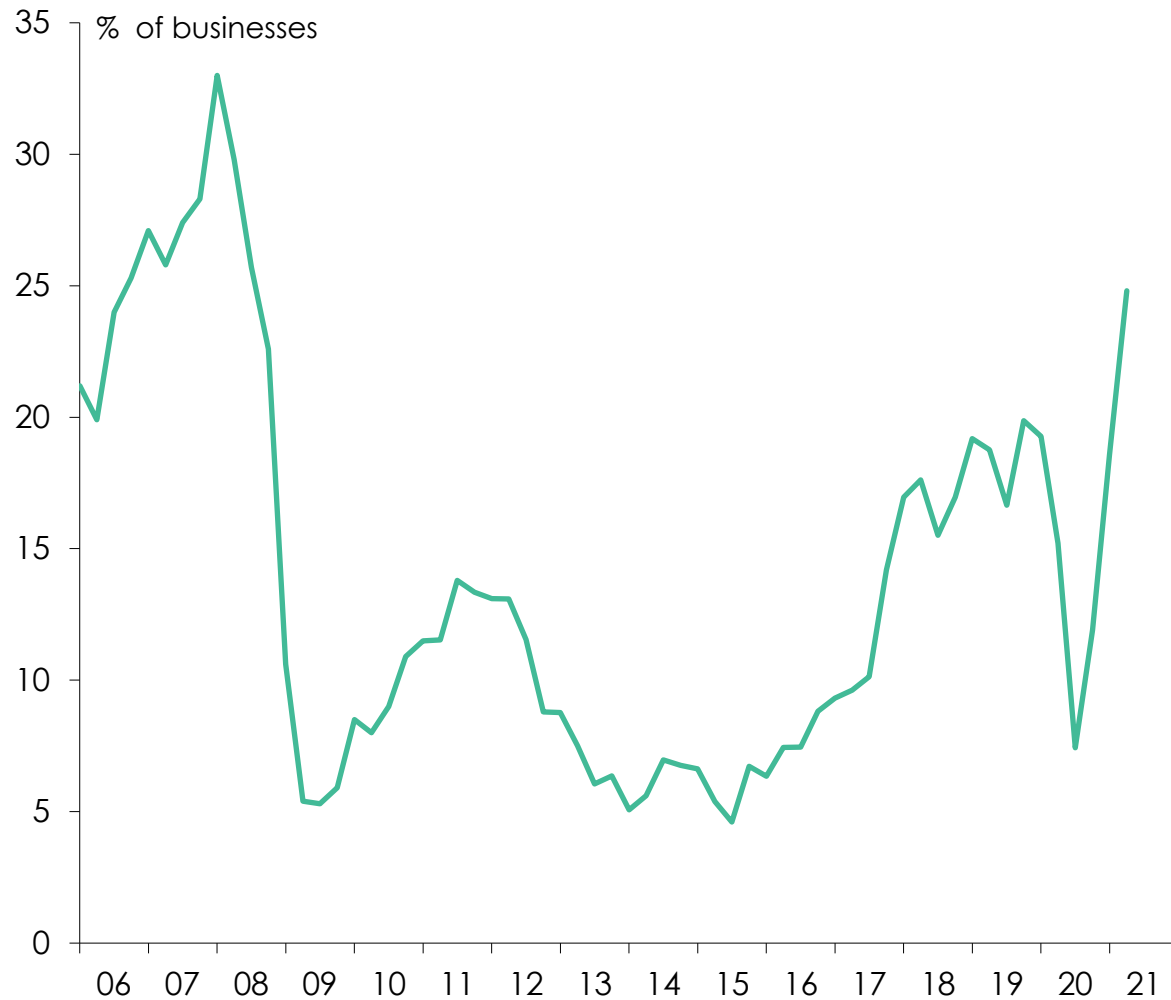


- In May there were just over 1³/₄ unemployed people for every vacancy reported to ABS – a record low – and the halving of ‘caps’ on arrivals to Australia may push that ratio down even more

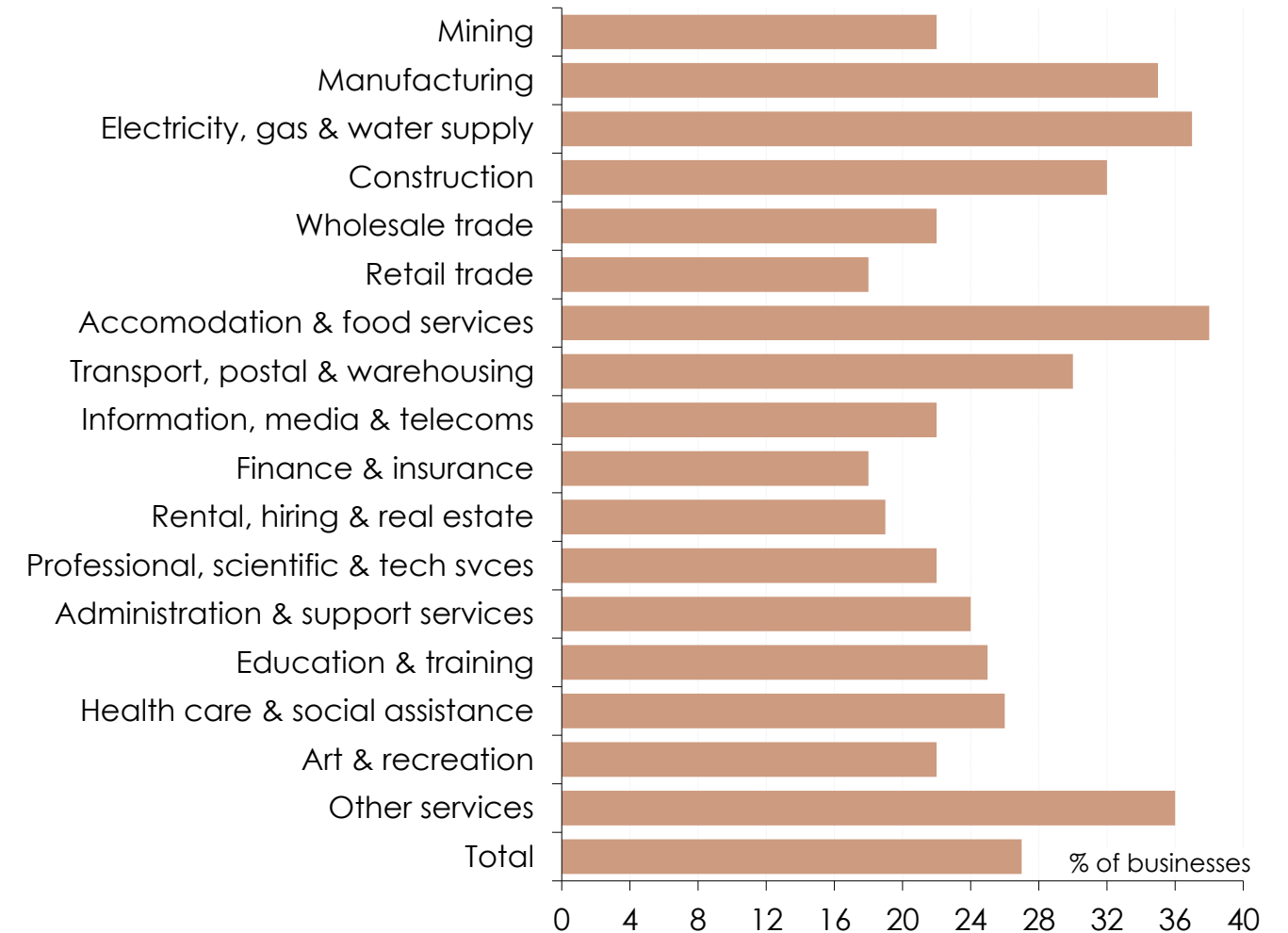
Sources: Australian Government, [Labour Market Information Portal](#); [ANZ Research](#); ABS, [Job Vacancies, Australia](#).

... 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



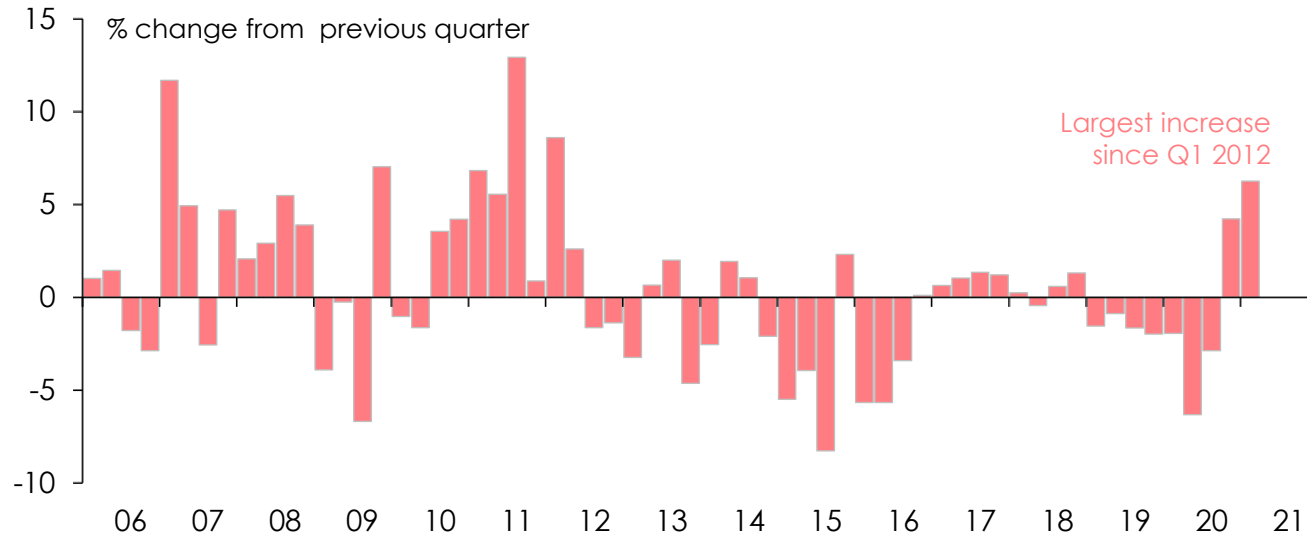
Sources: National Australia Bank, [Quarterly Business Survey](#), March quarter 2021; ABS, [Business Conditions and Sentiments](#), June 2021.

RBA Governor Lowe this week made some important points about immigration, the labour market and wages (and border closures)

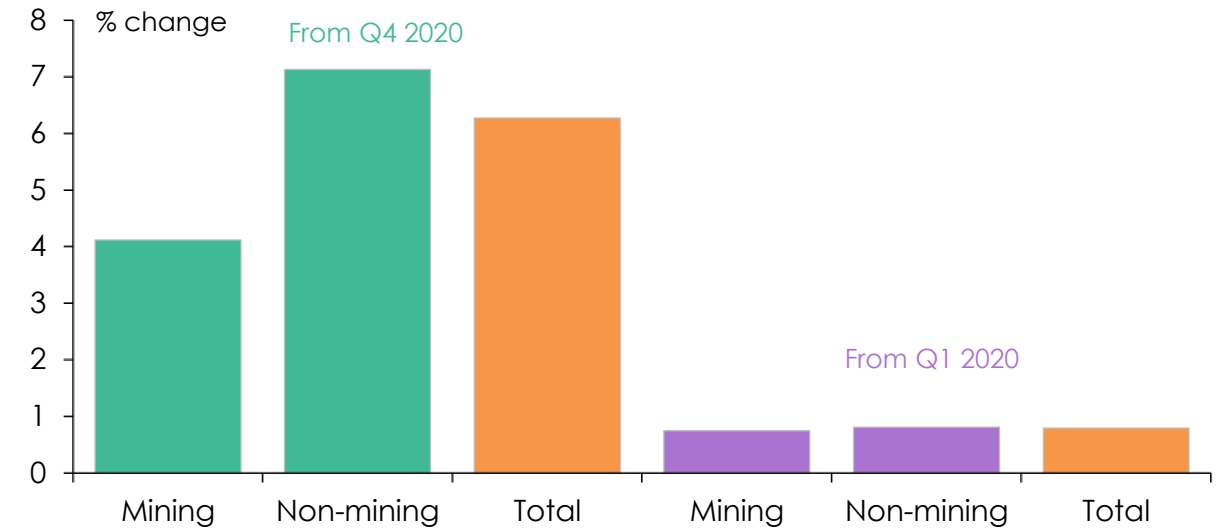
- ❑ In a [speech](#) on Thursday, Governor Phillip Lowe highlighted the role of three important ‘supply side’ developments in altering the relationship between the state of the labour market and the rate of wages growth
- ❑ First, the significant increase in labour force participation since around 2005 (especially by women of all ages, and people aged 55 and over), largely as a result of the increased availability of flexible and part-time work, has allowed labour supply to increase in parallel with labour demand, which has “lessened the upward pressure on wages”
- ❑ Second, the enhanced capacity (and willingness) of employers to “draw on overseas workers when skills or workers were in short supply in Australia” also “dilutes the upward pressure on wages” in labour market hotspots (with possible “spillovers to the rest of the labour market”) as well as “dilut[ing] the incentive for businesses to train workers to do the job”
 - at the 2016 Census there were 430,000 people in Australia working on temporary visas, who filled 18% of food trades jobs, 13% of hospitality, cleaning & laundry, and food preparation jobs, 8% of factory process jobs and 7% of farm jobs
 - this “ability to tap into the global labour market for workers that are in short supply” implies a “flattening of the supply curve for these workers” which is “one of the factors which has contributed to wages being less sensitive to shifts in demand”
- ❑ Third, the greater flexibility which employers have in “scal[ing] up and down hours of work when demand changes rather than the alternative of people being hired and fired” means that under-employment is a more important indicator of the state of the labour market than previously
- ❑ In addition to these factors, Governor Lowe pointed to the shift by firms from fixed to variable remuneration which allows employers to pay higher remuneration “for a time” while “avoiding a permanent increase in the cost base”
- ❑ Governor Lowe re-iterated that the RBA now thinks that “unemployment will need to be sustained in the low 4s” for the economy to be considered “at full employment”
 - but he also acknowledged that “if Australia’s borders remain closed for an extended period”, wages growth “could pick up more quickly than currently expected”

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

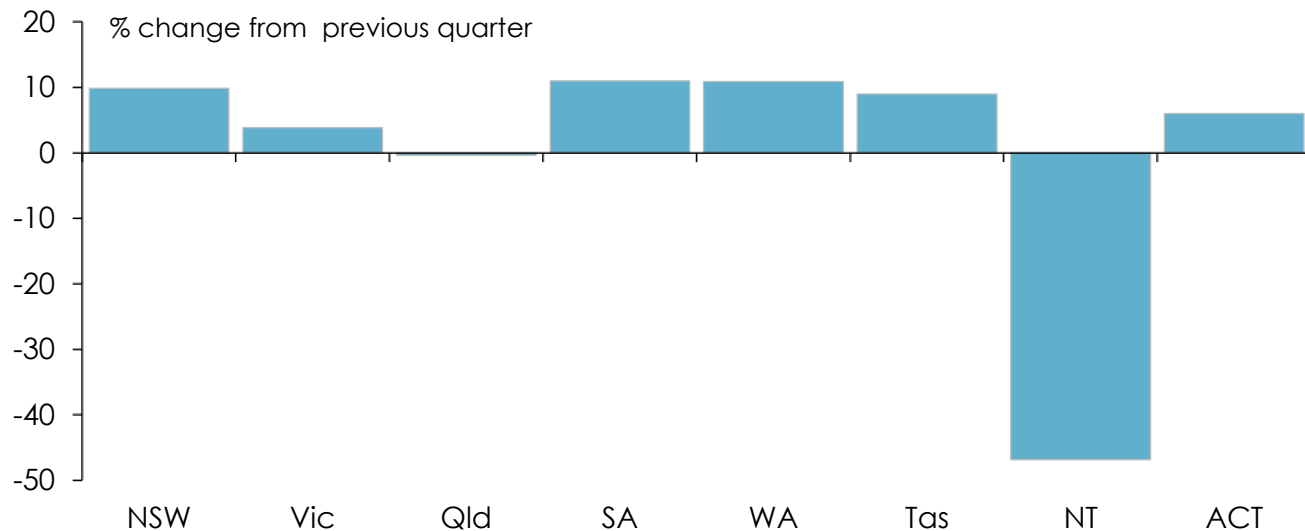
Real business new fixed capital expenditure



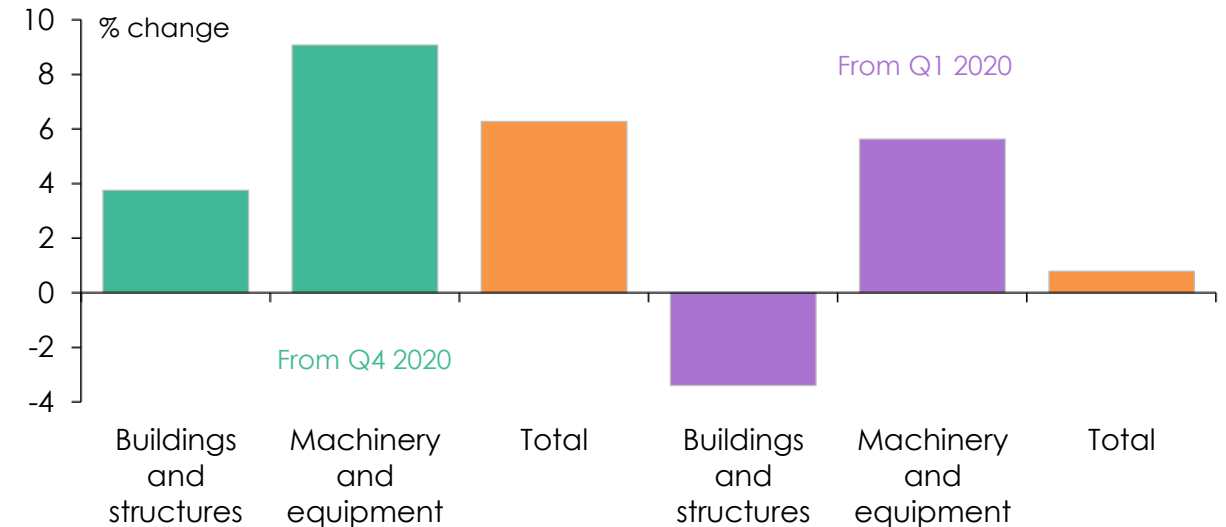
Real business new fixed capex, by industry, Q1



Real business new fixed capex, by state, Q1 2021



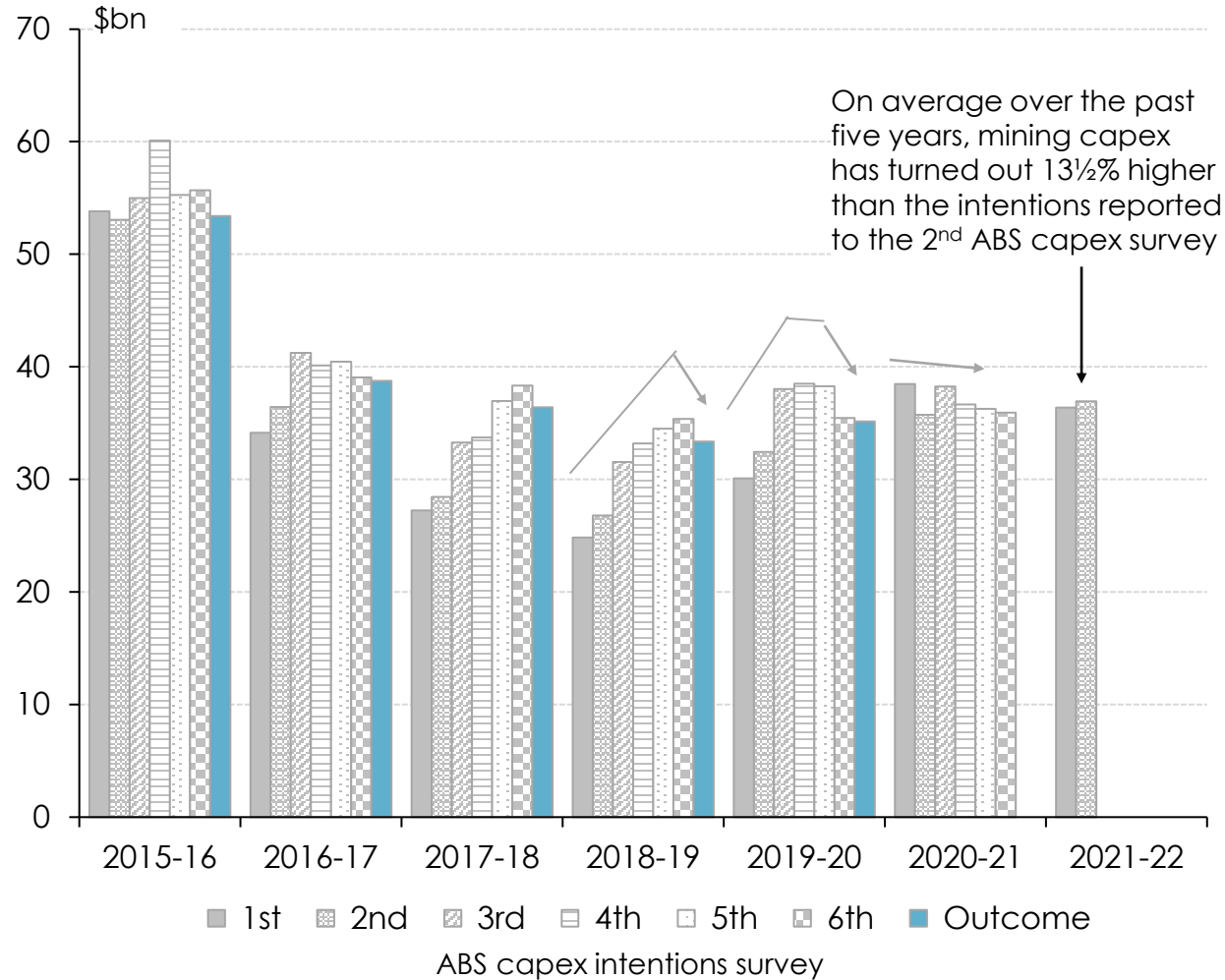
Real business new fixed capex, by asset, Q1



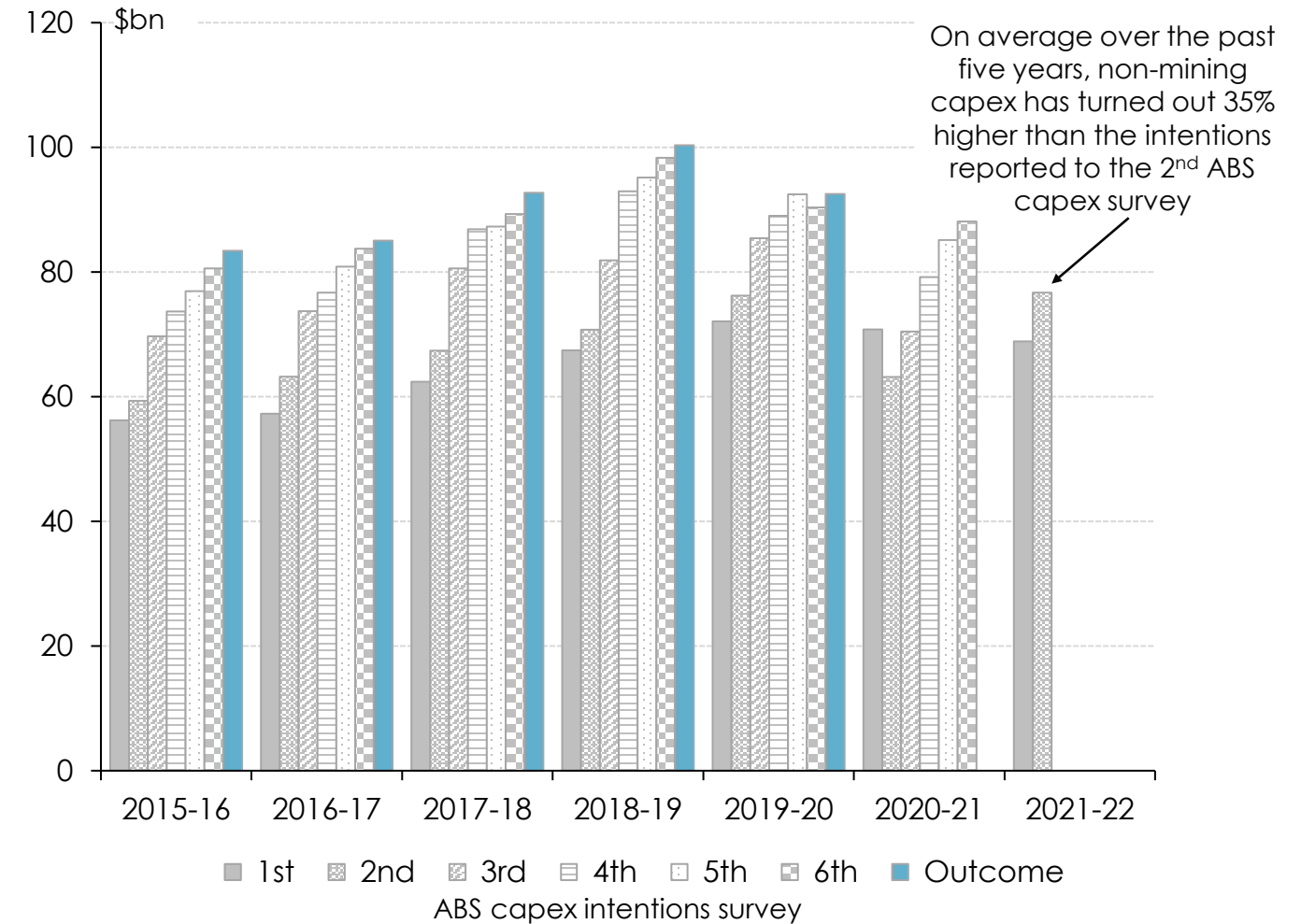
Note: the ABS Survey of New Capital Expenditure excludes the agriculture, forestry & fishing, and public administration & defence sectors, and superannuation funds.
 Source: ABS, [Private New Capital Expenditure and Expected Expenditure, Australia](#); March quarter data will be released on 26th August. [Return to "What's New"](#).

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

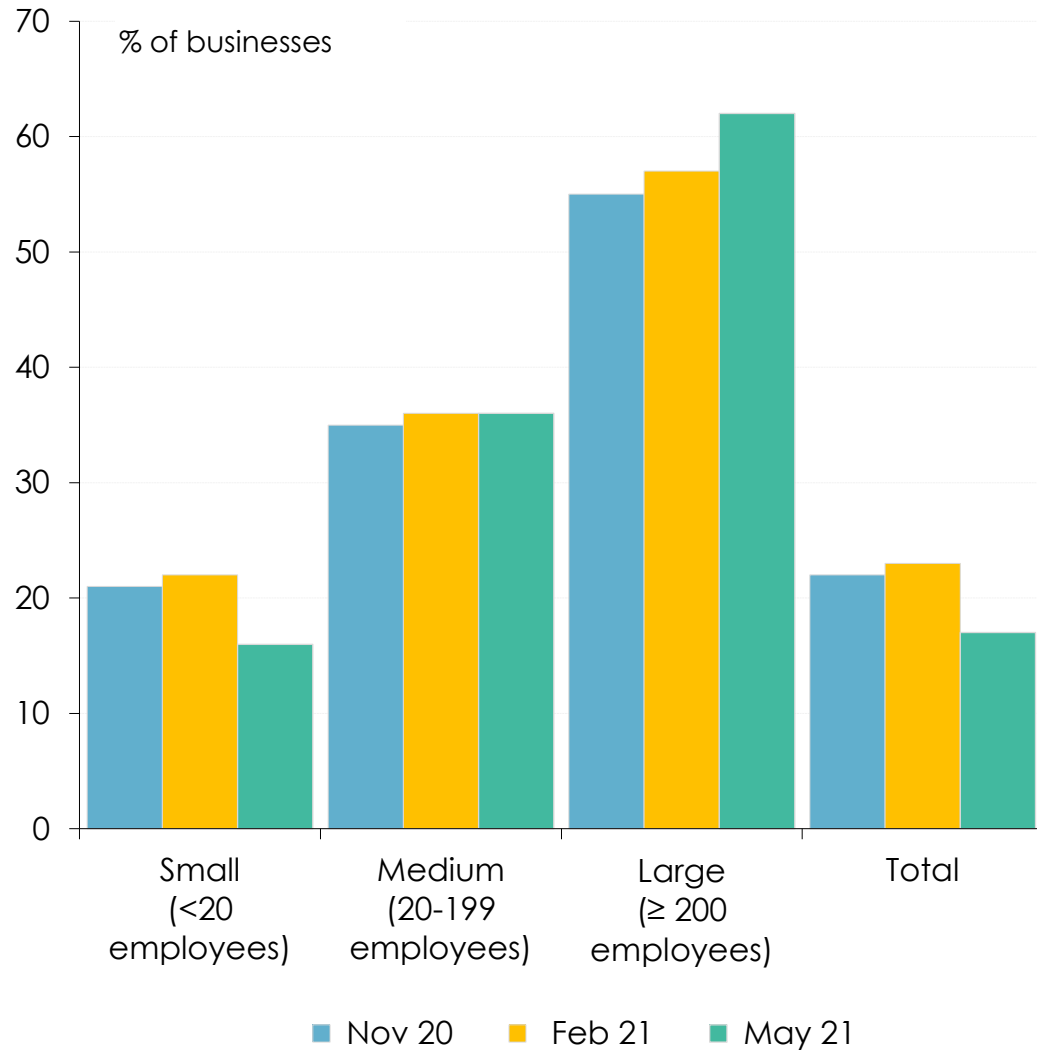


Note: The ABS conducts six surveys of business' capital expenditure intentions in respect of each financial year. The first is conducted in January & February prior to the commencement of the financial year, the second in May & June, the third in July & August of the financial year, the fourth in October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

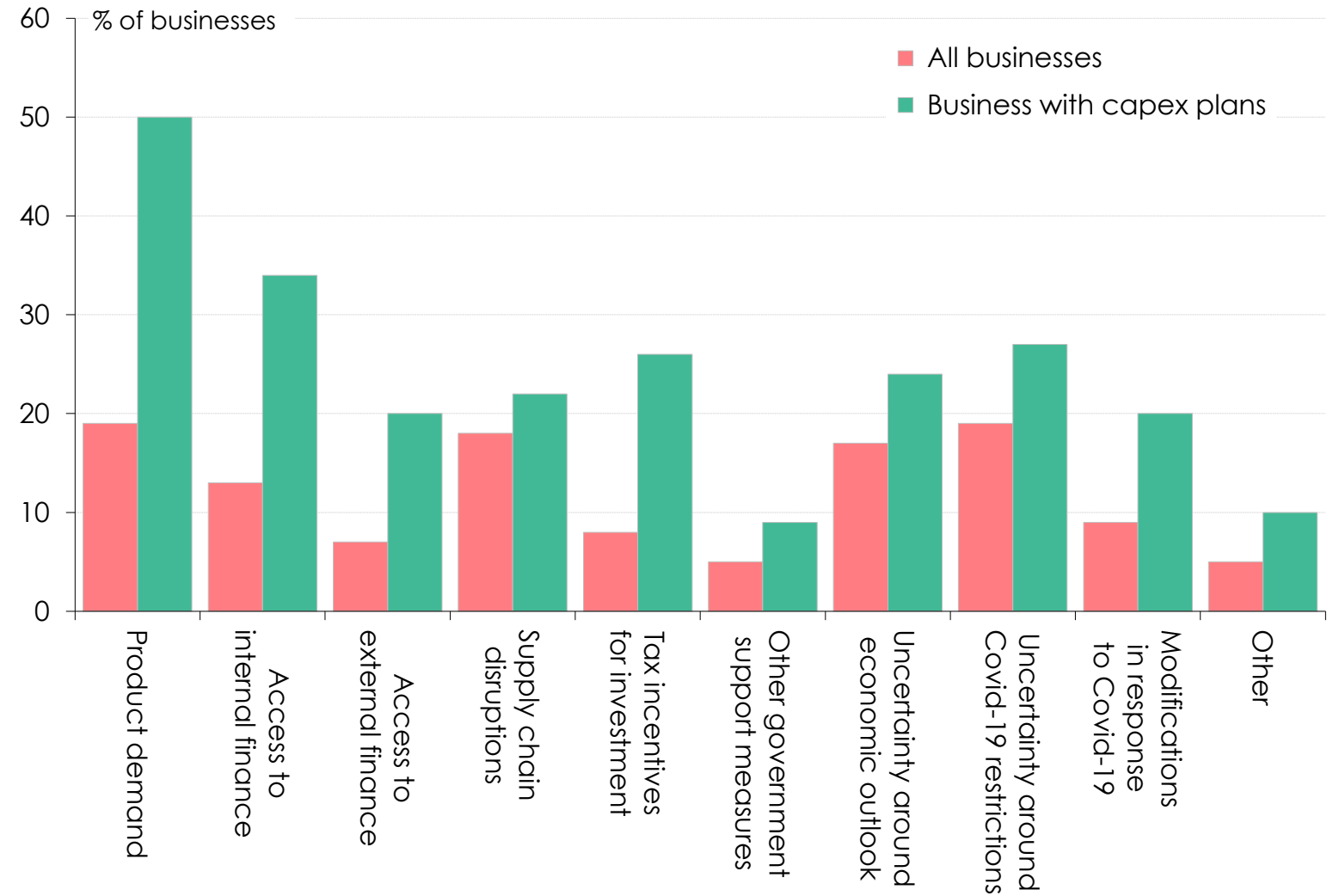
Source: ABS, [Private New Capital Expenditure and Expected Expenditure, Australia](#) (next update is released on 28th August).

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



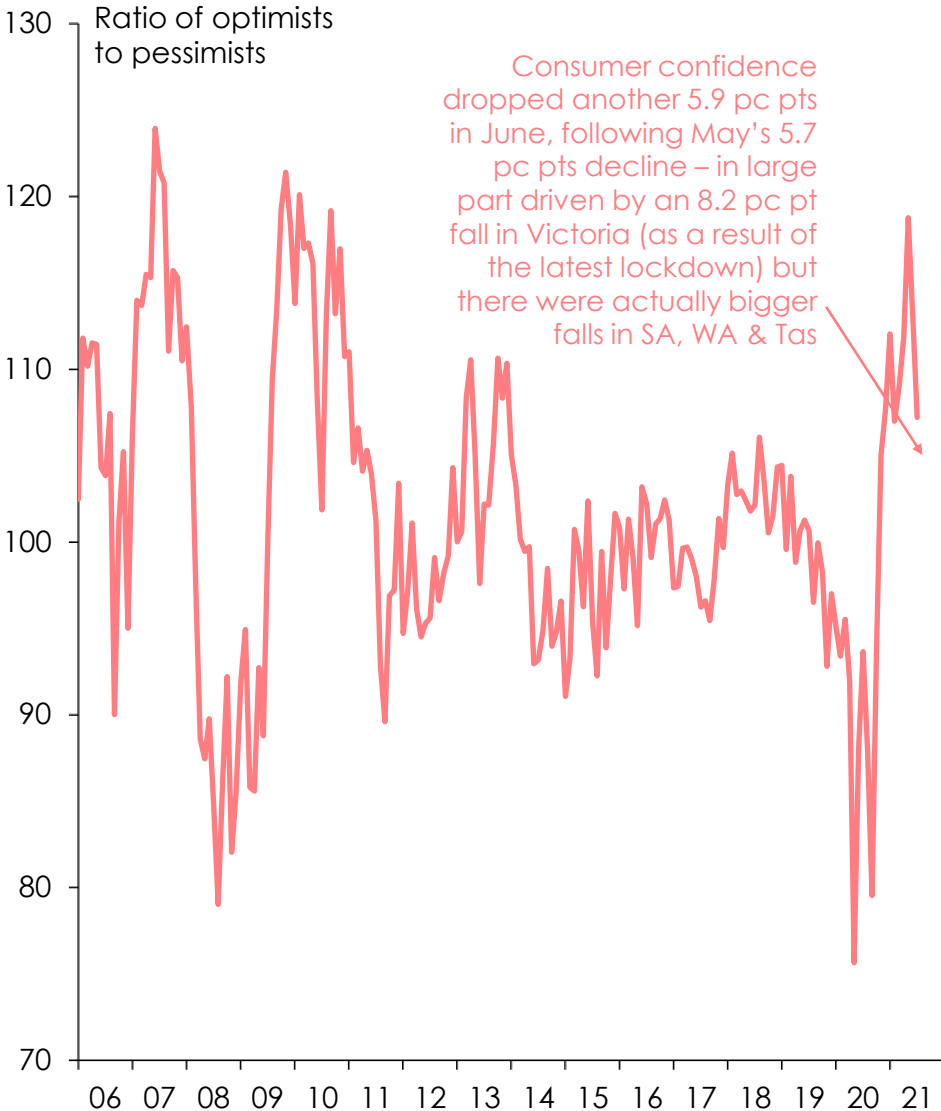
Factors affecting business capital expenditure decisions, May 2021



Source: ABS, [Business Conditions and Sentiments](#), May 2021. See [slide 89](#) for data on employee hiring intentions by business size. [Return to "What's New"](#).

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

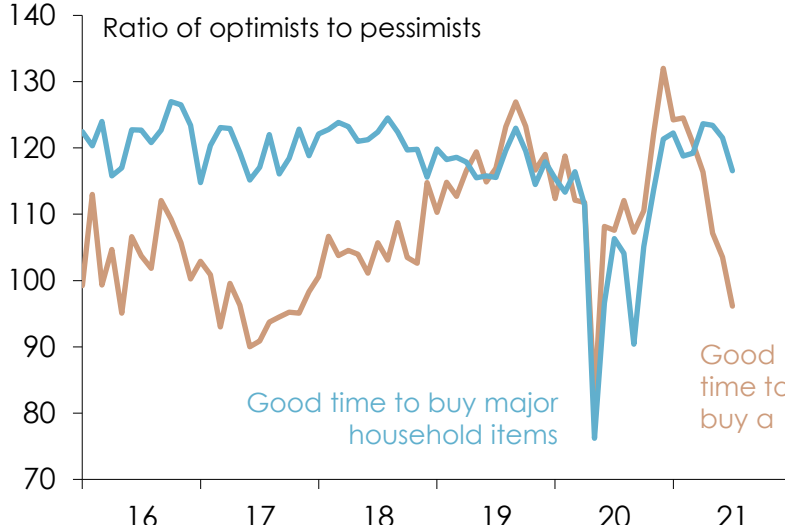
Consumer confidence index



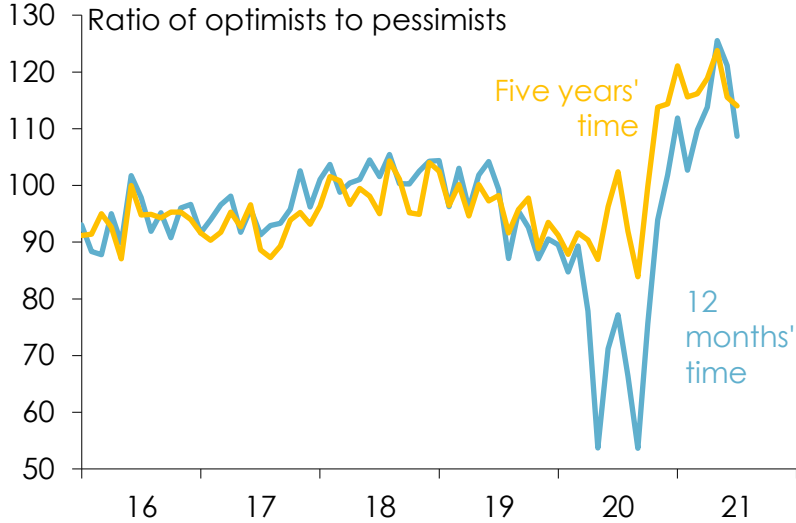
Household finances assessment



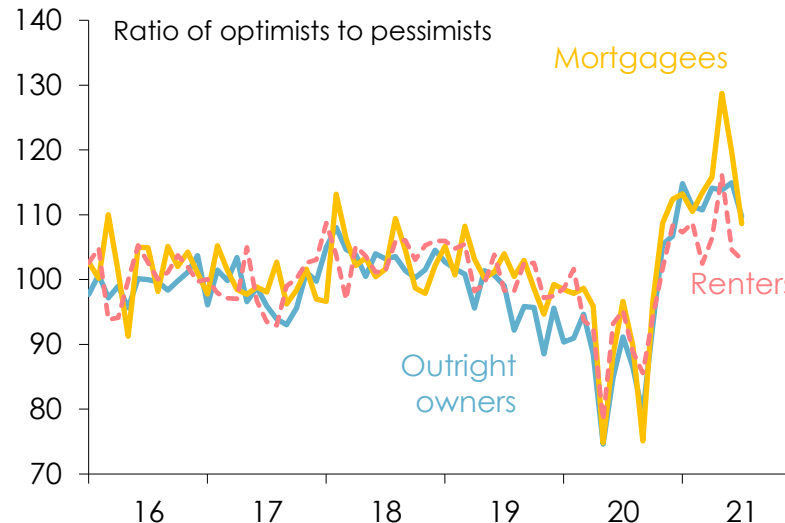
Buying conditions assessment



Economic conditions assessment



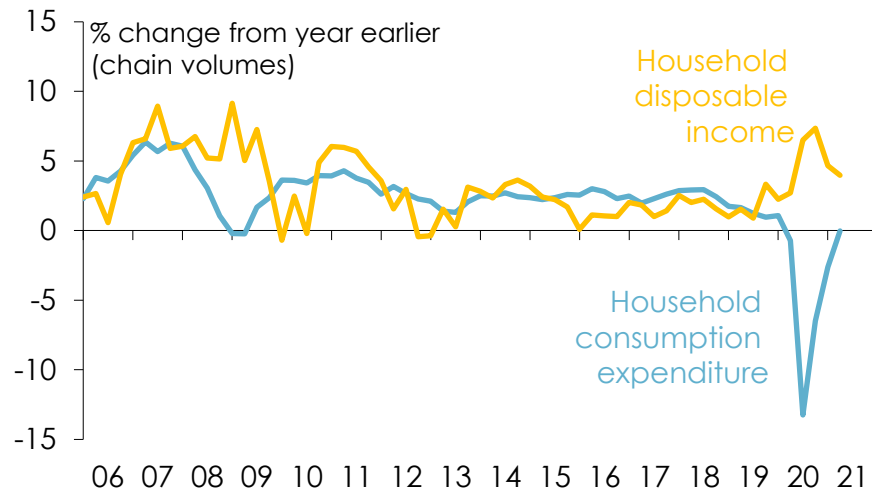
Confidence by housing tenure



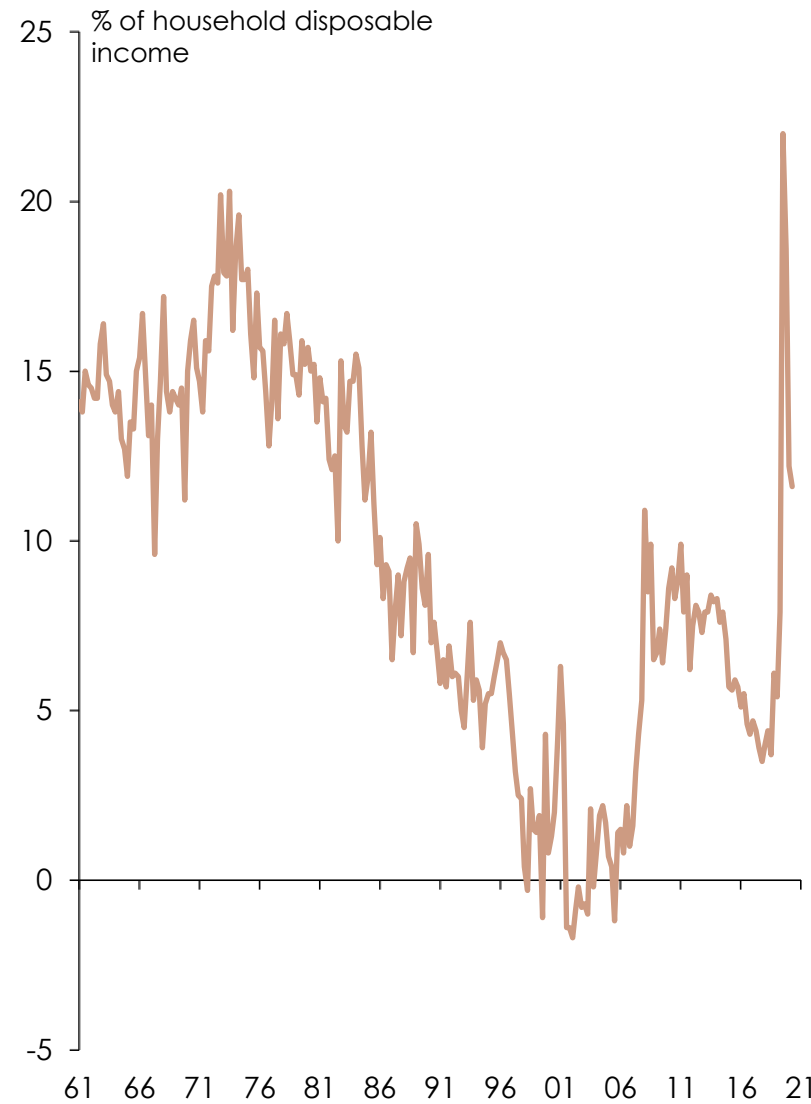
Source: Westpac Banking Corporation. July consumer confidence will be released on 14th July. [Return to "What's New"](#).

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

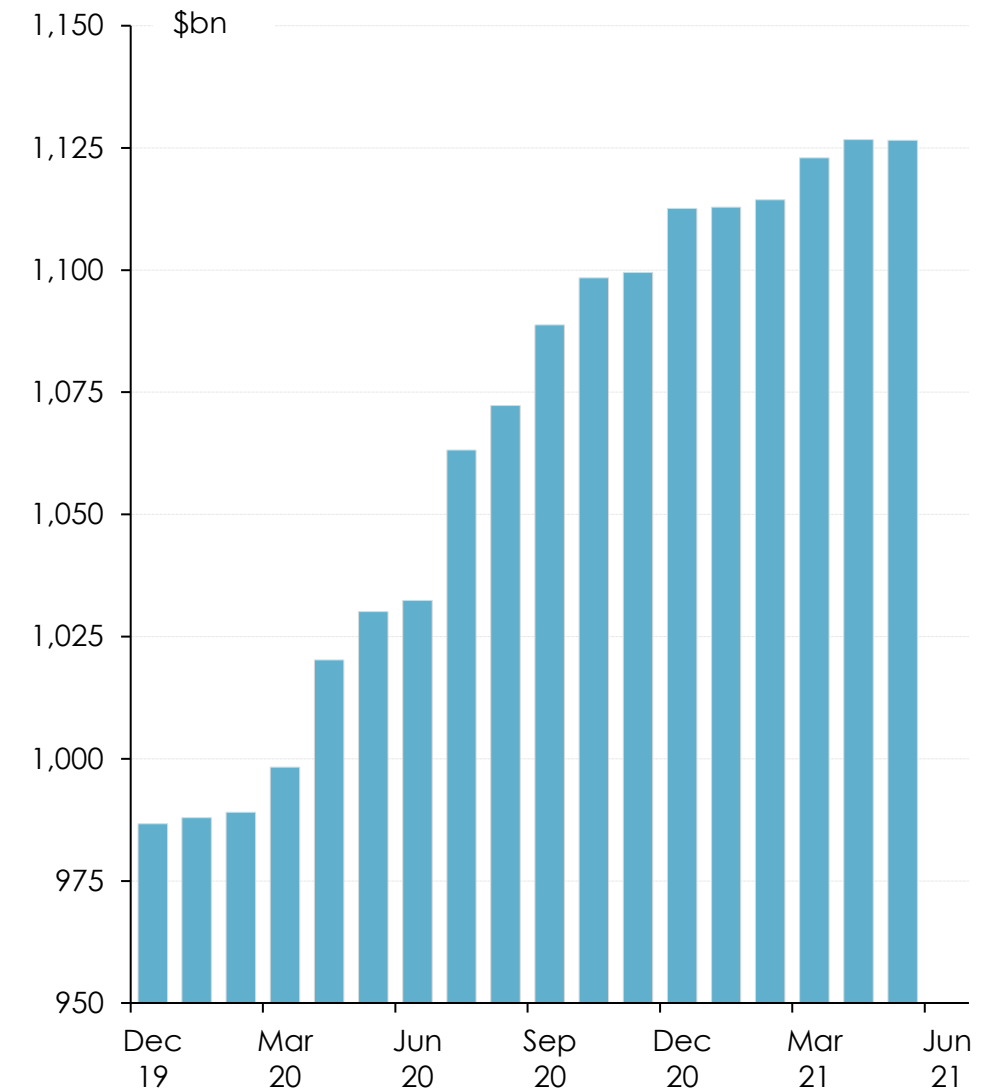
Household income and spending



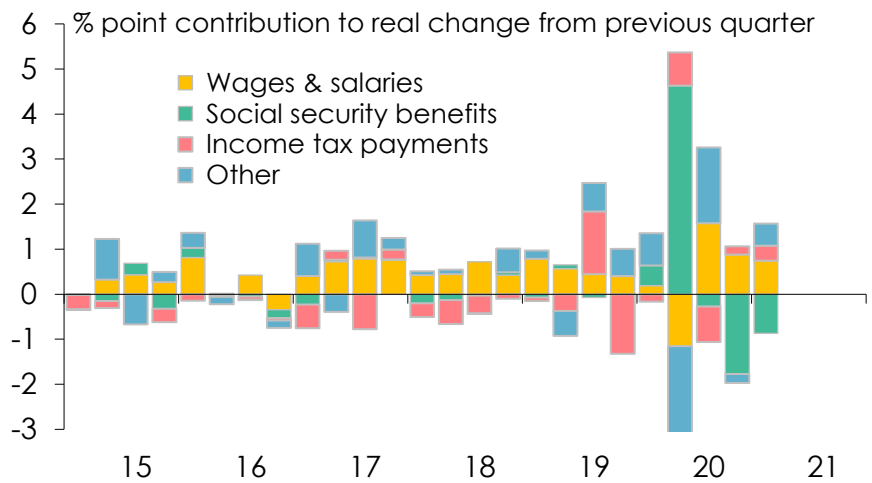
Household saving ratio



Household bank deposits

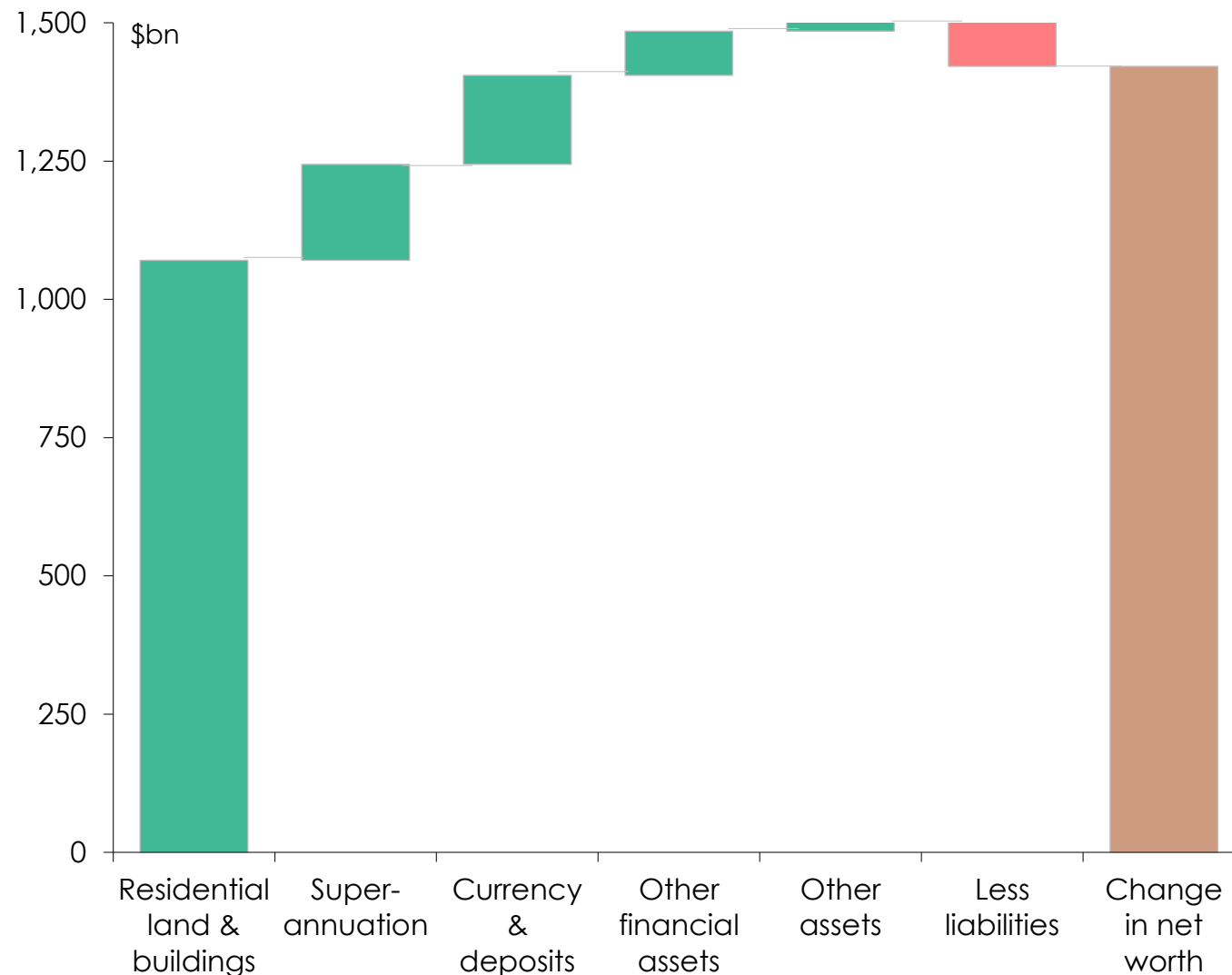


Sources of household income

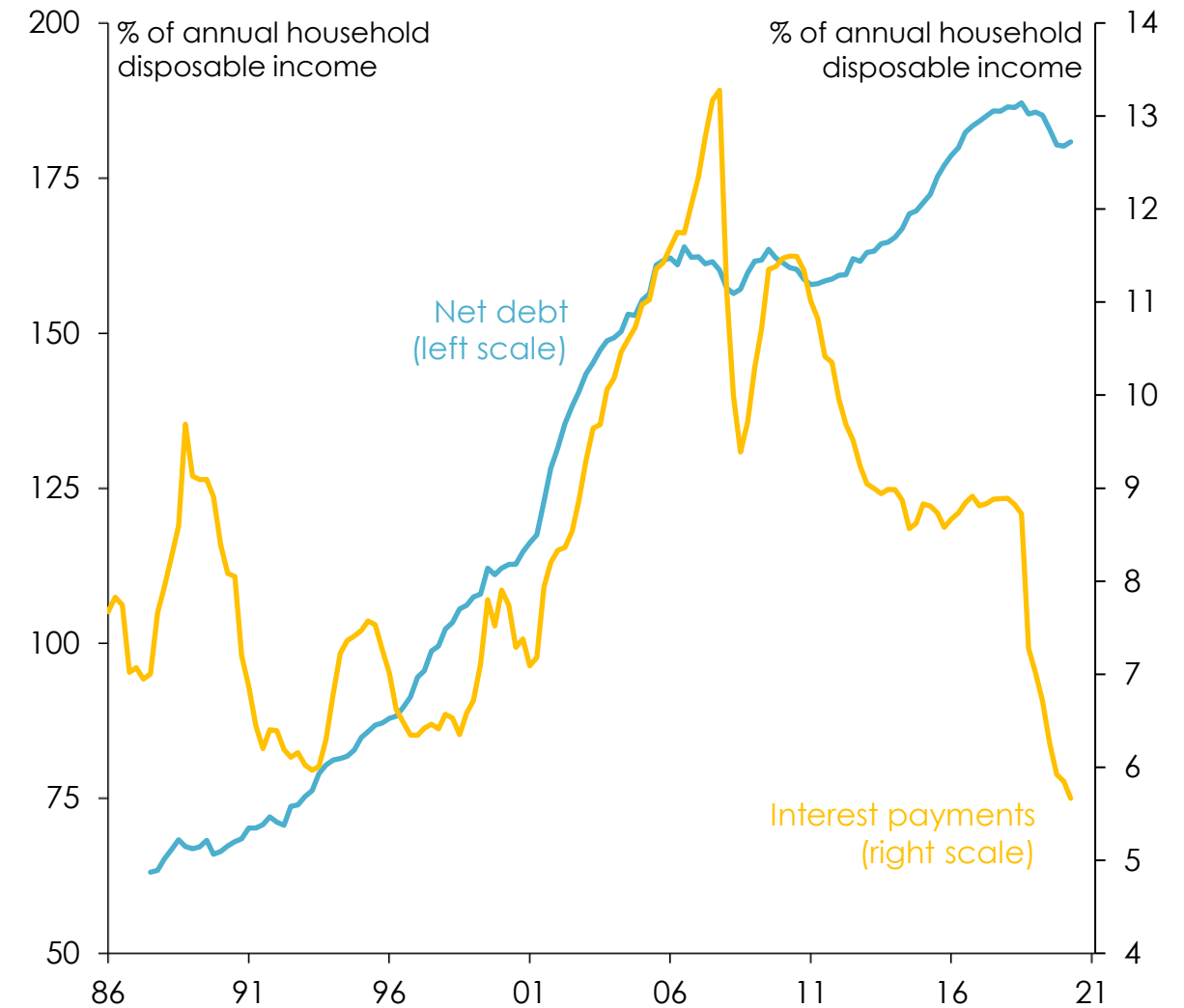


Household net worth has risen by \$1.4trn (12½%) since the end of 2019, while debt and interest payments have fallen as a pc of income

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



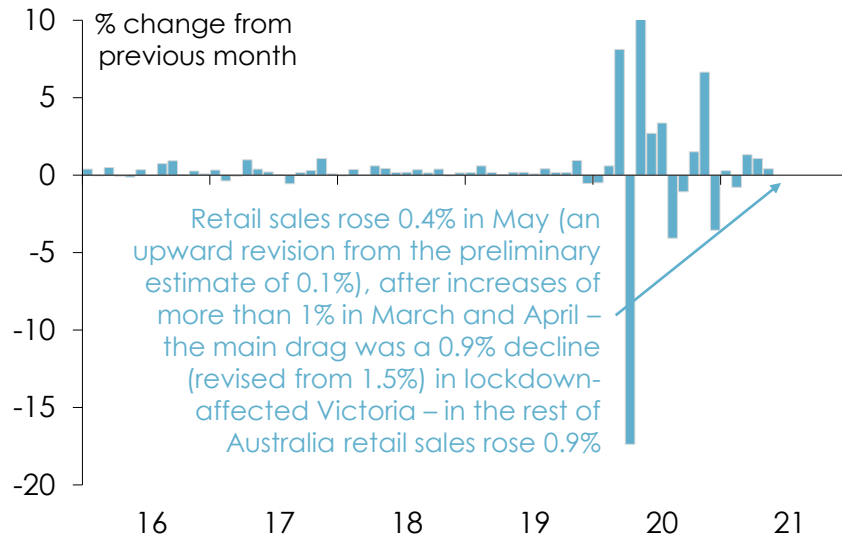
Household net debt and interest payments as a percentage of disposable income



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"](#).

Retail sales rose 0.4% in May, weighed down by Victoria's – while lockdowns in four states prompted a 25% fall in motor vehicle sales in June

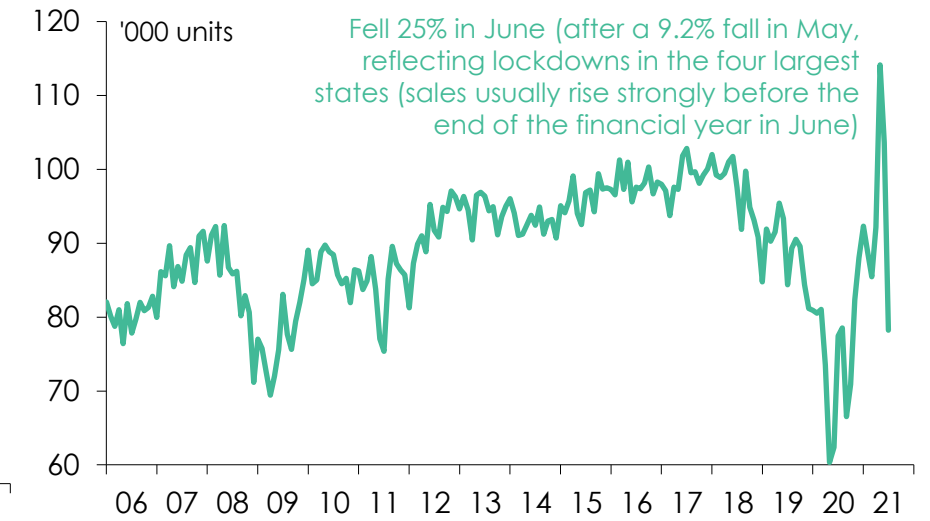
Monthly retail sales



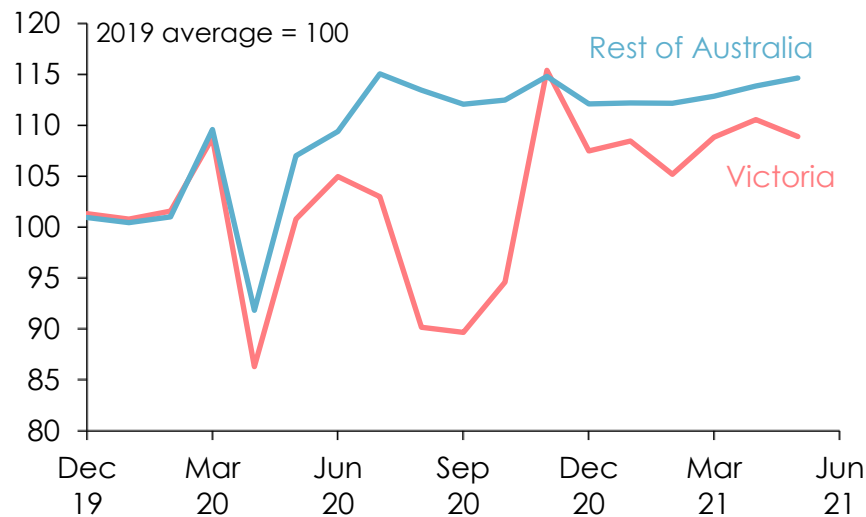
Level of retail sales



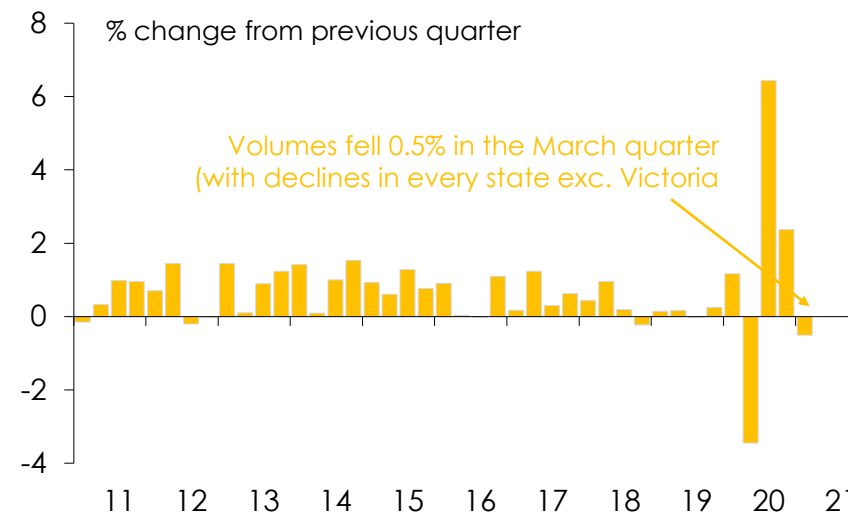
New motor vehicle sales



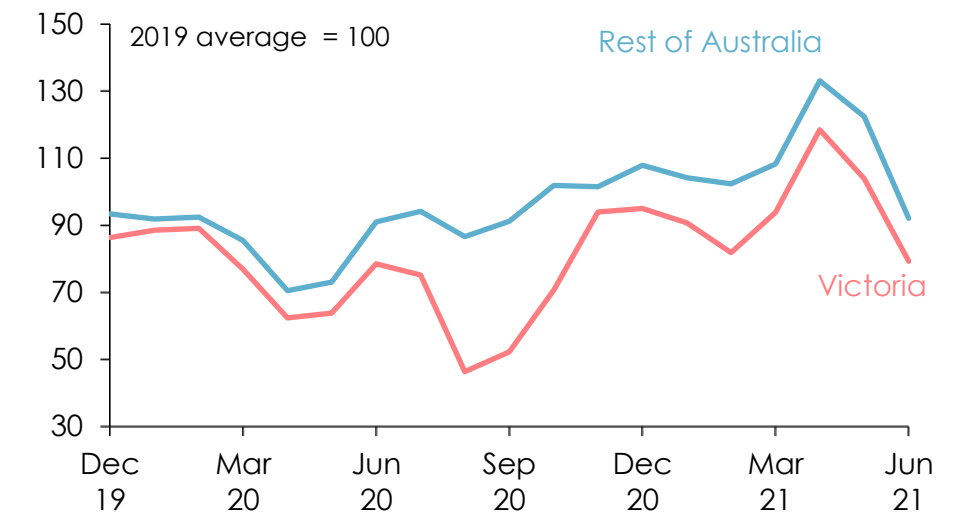
Retail sales – Victoria & the rest



Quarterly retail sales volumes



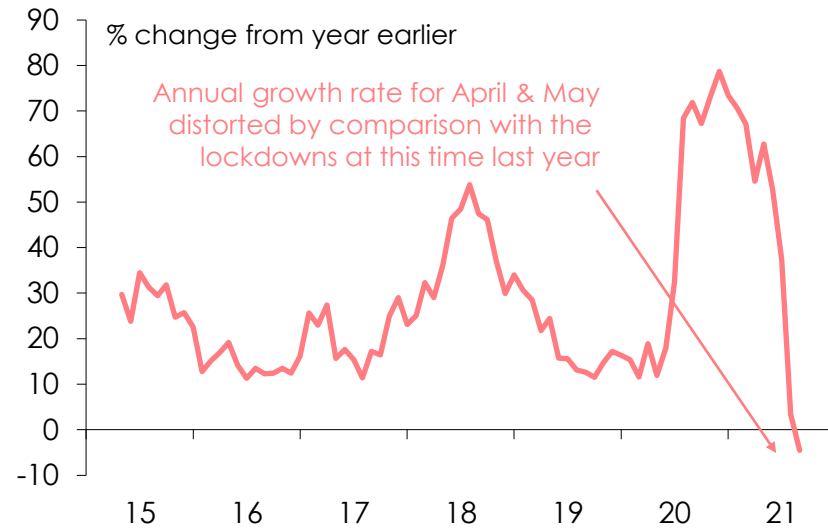
Vehicle sales – Victoria & the rest



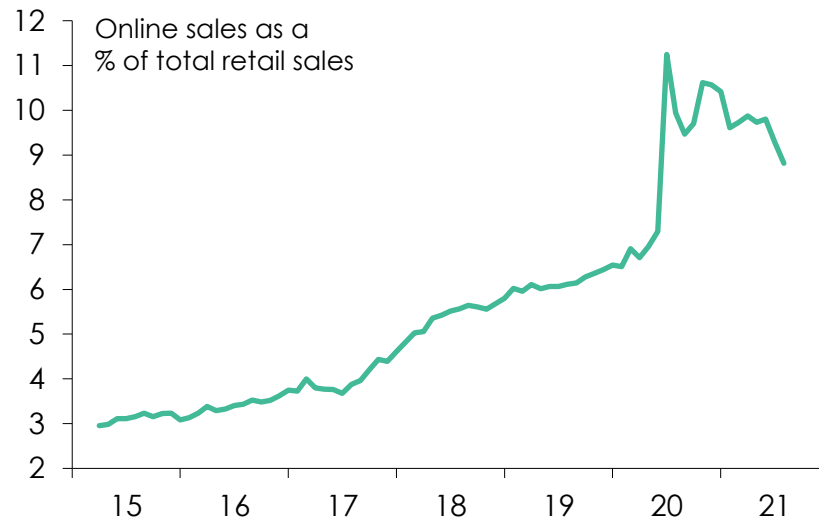
Note: see also [slide 85](#) for more detail on the composition of retail sales since the onset of the pandemic. Sources: ABS, [Retail Trade, Australia](#); Federal Chamber of Automotive Industries [VFACTS](#) (seasonal adjustment of FCAI data by Corinna). June retail sales data will be released on 4th August; July motor vehicle sales data will be released in the second week of August. [Return to "What's New"](#).

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

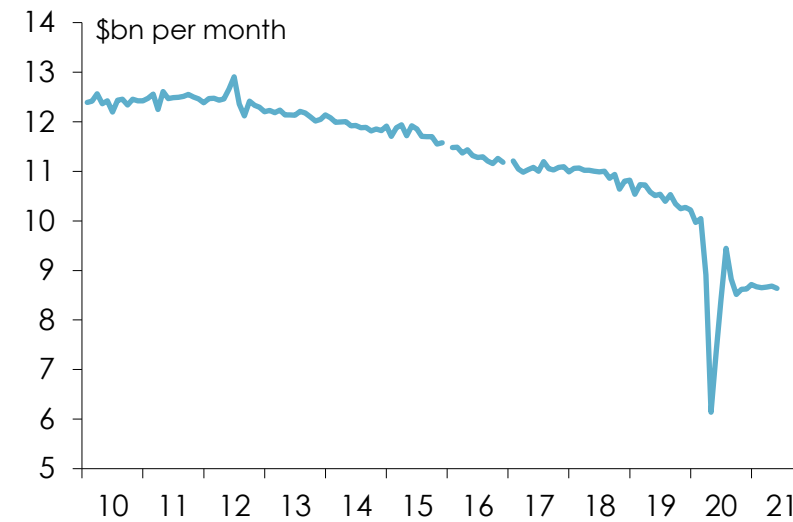
Growth in online retail sales



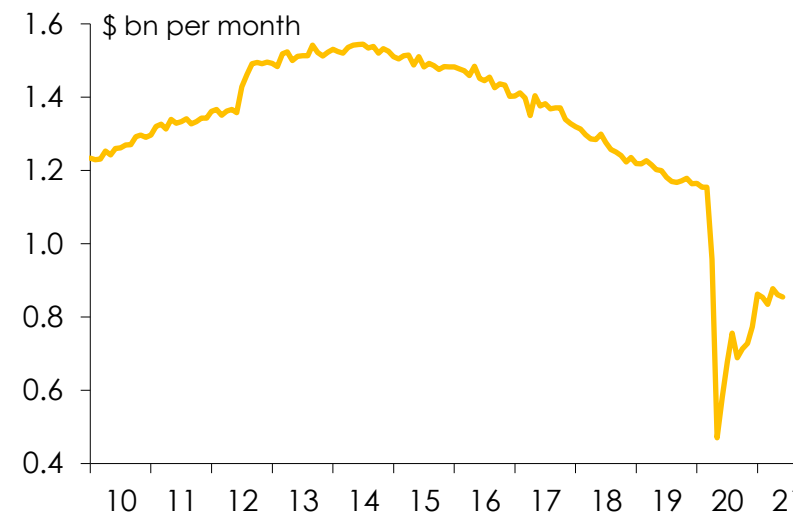
Online retail 'market share'



ATM cash withdrawals



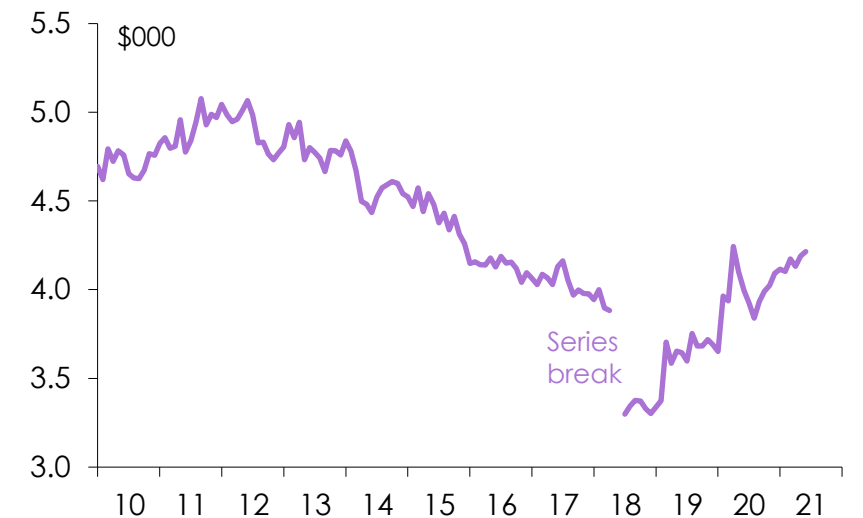
Debit card cash-outs



Credit card cash advances



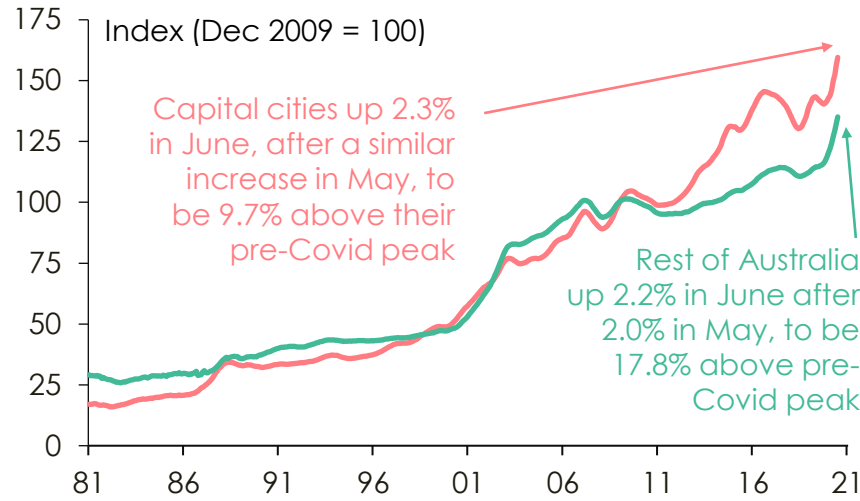
Direct entry payments



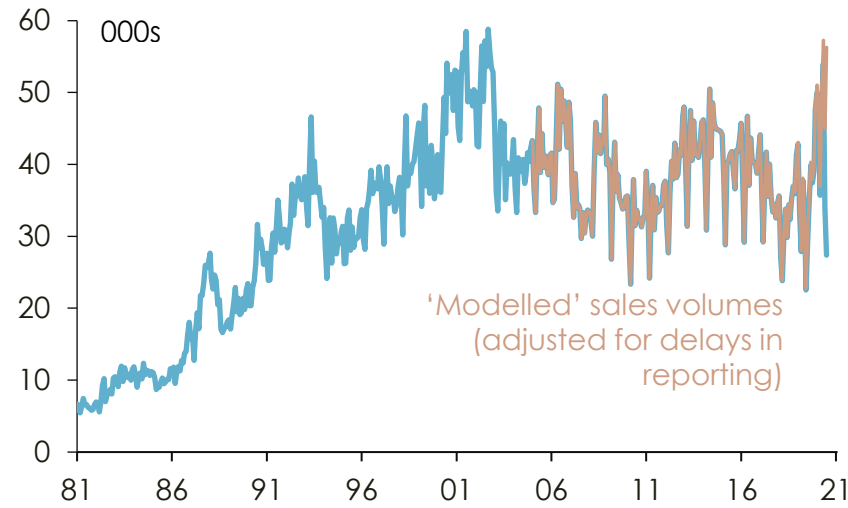
Sources: ABS, [Retail Trade, Australia](#); RBA, [Statistical Tables](#), C1, C2, C4 and C6. Latest data are for May : June online retail sales will be published on 4th August and for the payments system on 7th August.

Property prices rose another 2.3% in June, for a cumulative gain of 11¾% so far this year, to be almost 12% above their pre-Covid peak

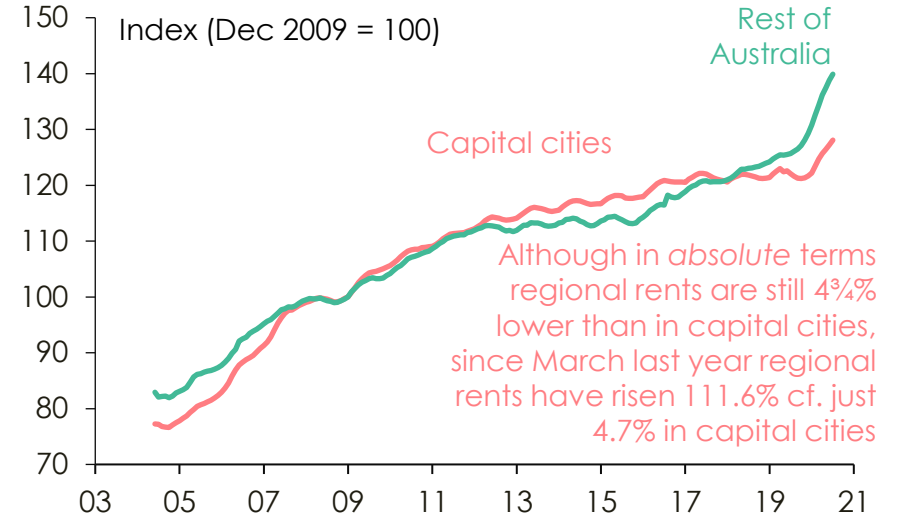
Residential property prices



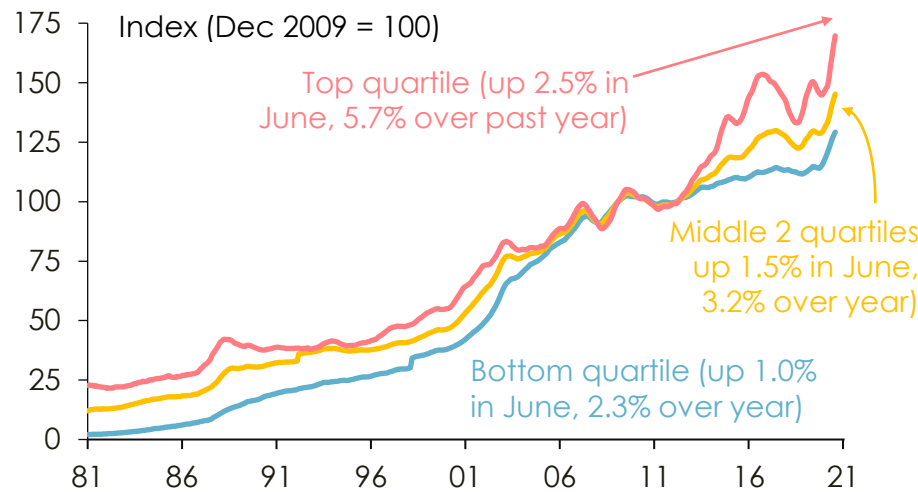
Residential property sales volumes



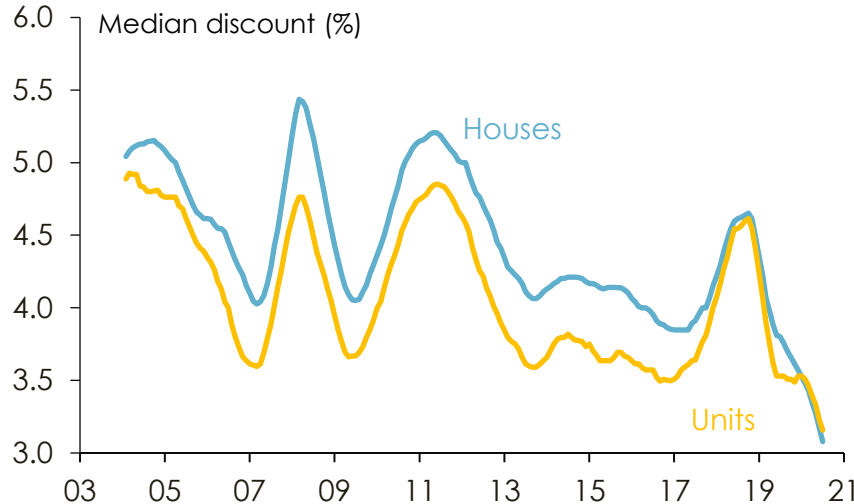
Residential rents



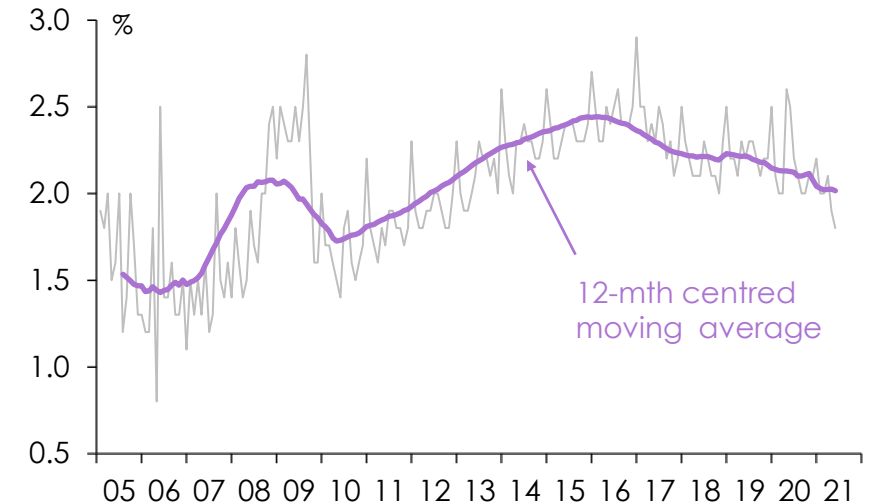
Property prices by tier



Vendor discounting



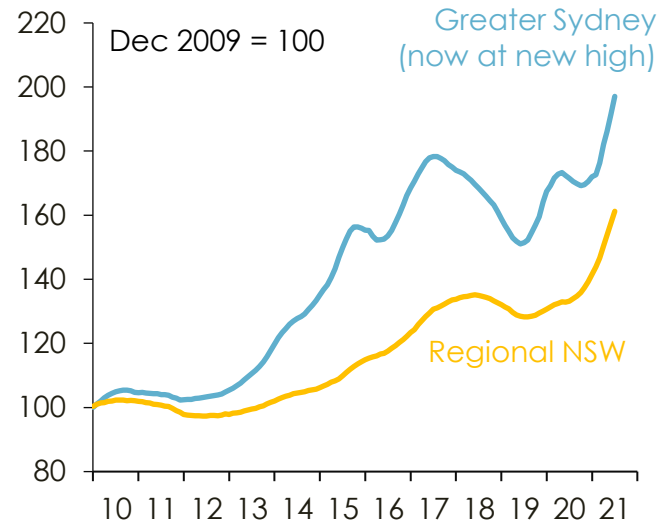
Capital city rental vacancy rates



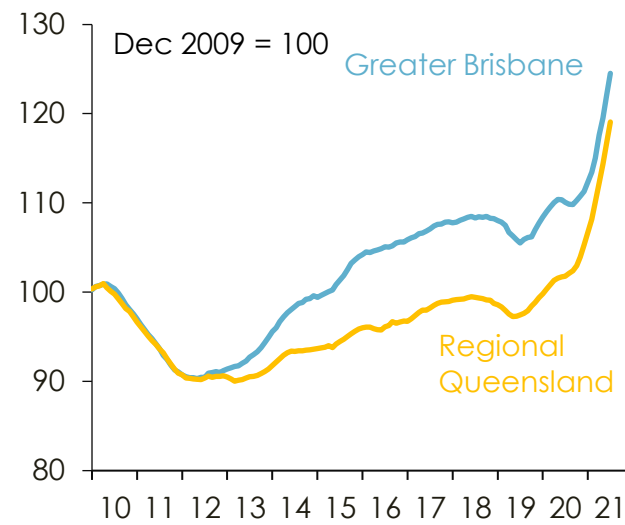
Note: The index of property prices measures the 'organic' change in underlying sales values by using a hedonic regression methodology that takes account of changes in the characteristics of properties being sold from month to month. Property price data are now seasonally adjusted. The index of residential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

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

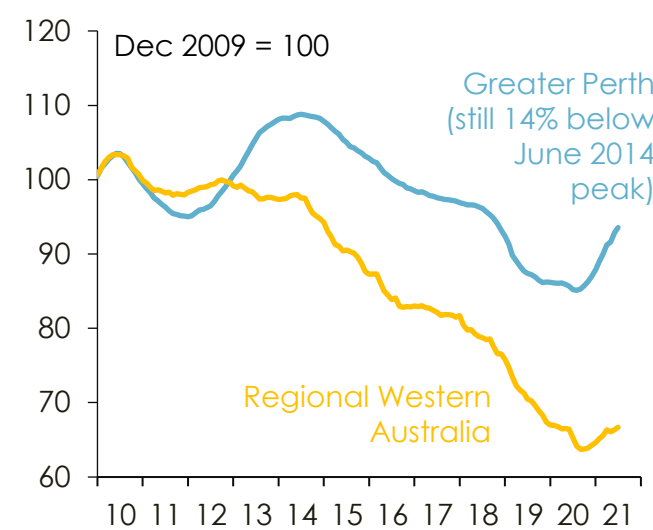
New South Wales



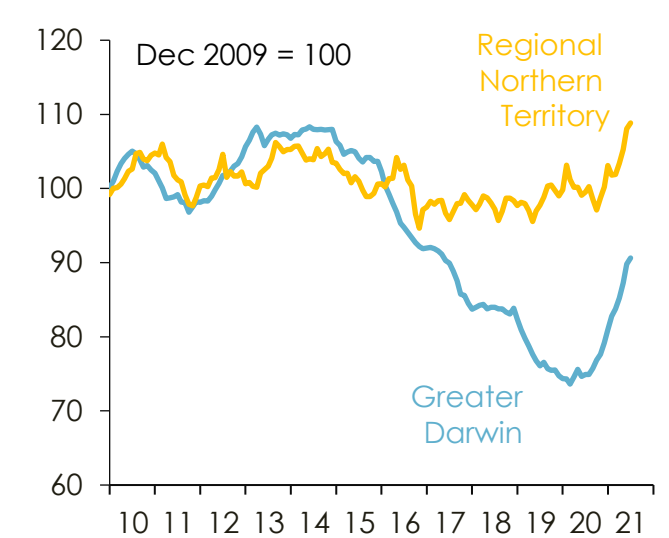
Queensland



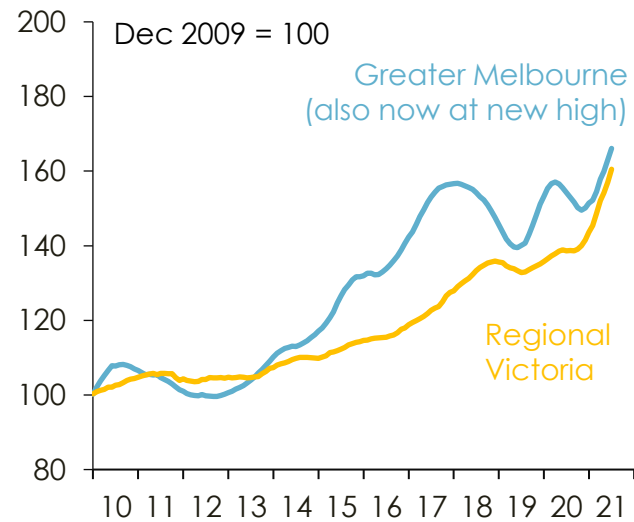
Western Australia



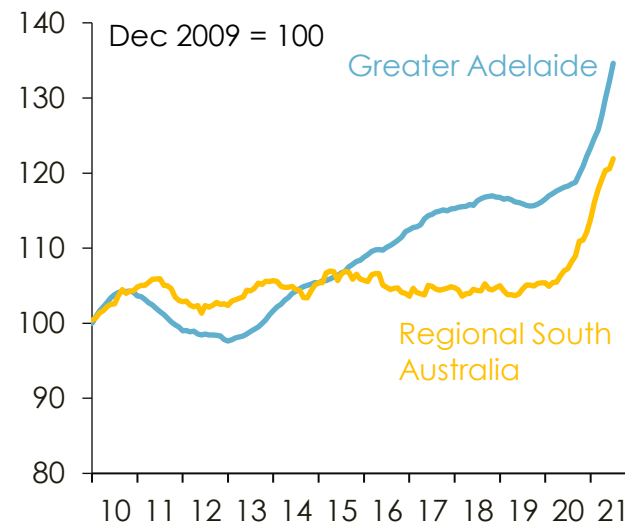
Northern Territory



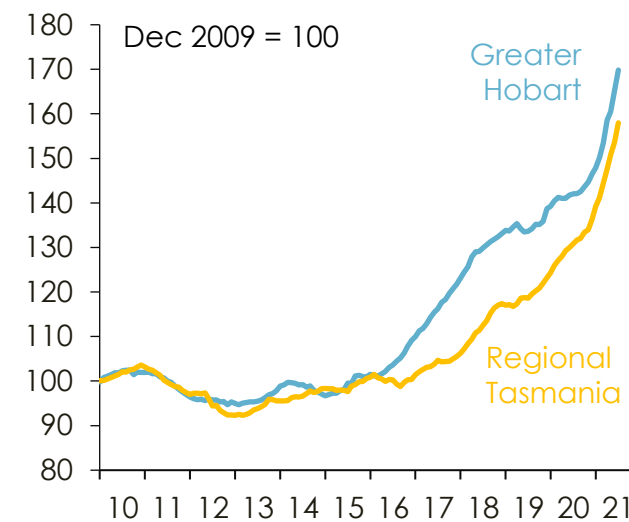
Victoria



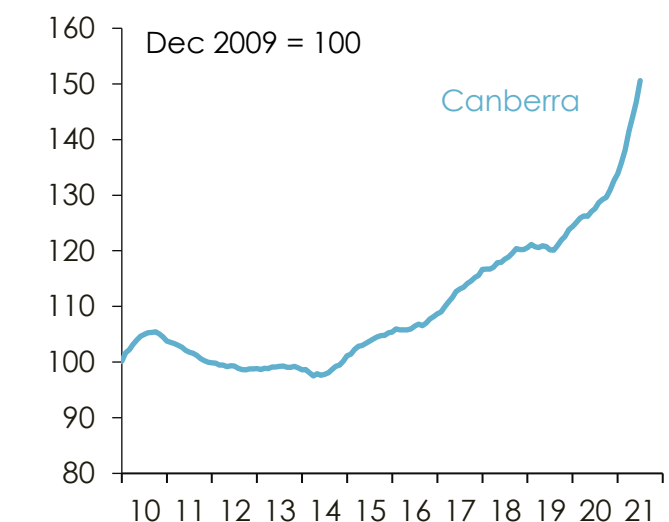
South Australia



Tasmania



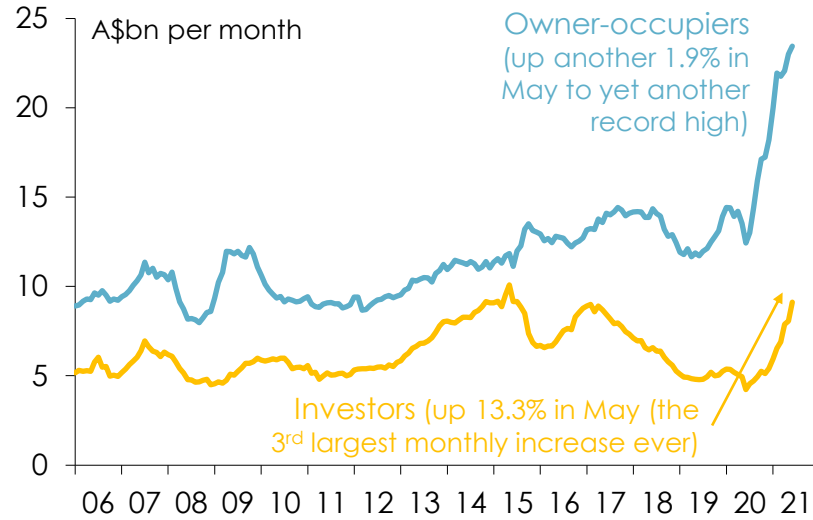
Australian Capital Territory



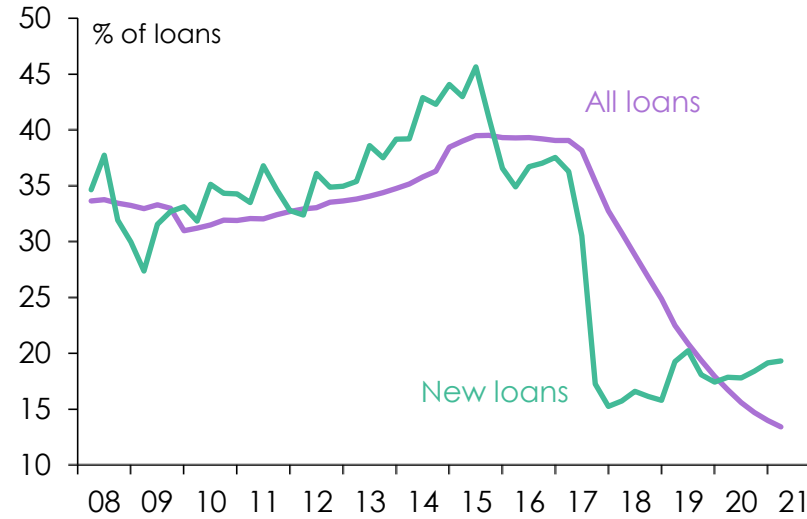
Note: The index of property prices measures the 'organic' change in underlying sales values by using a hedonic regression methodology that takes account of changes in the characteristics of properties being sold from month to month. Property price data are now seasonally adjusted. Latest data are for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

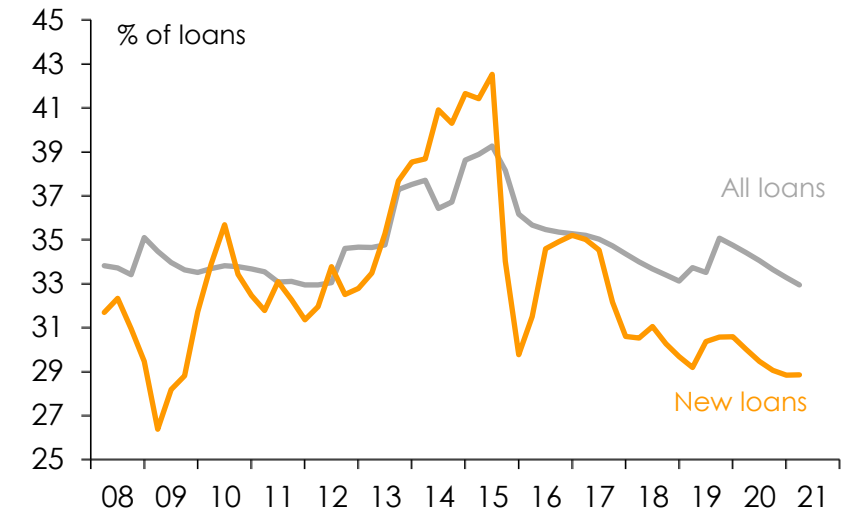
Housing finance commitments



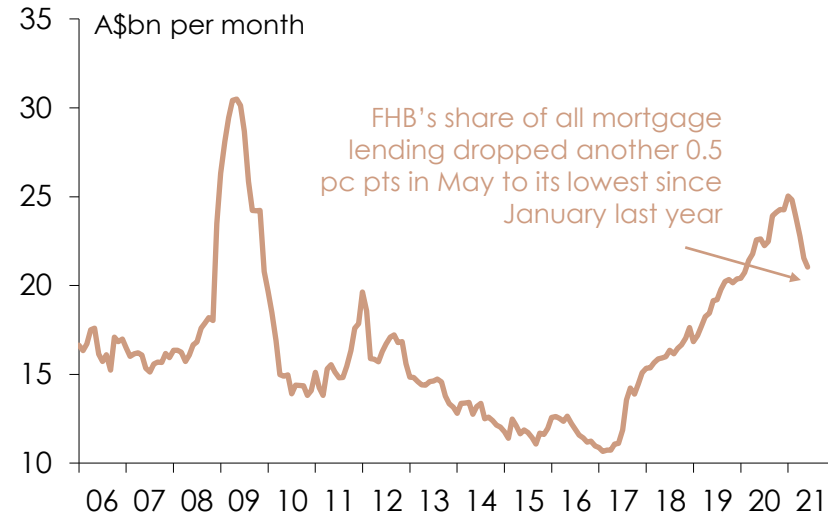
Interest-only loans as pc of total



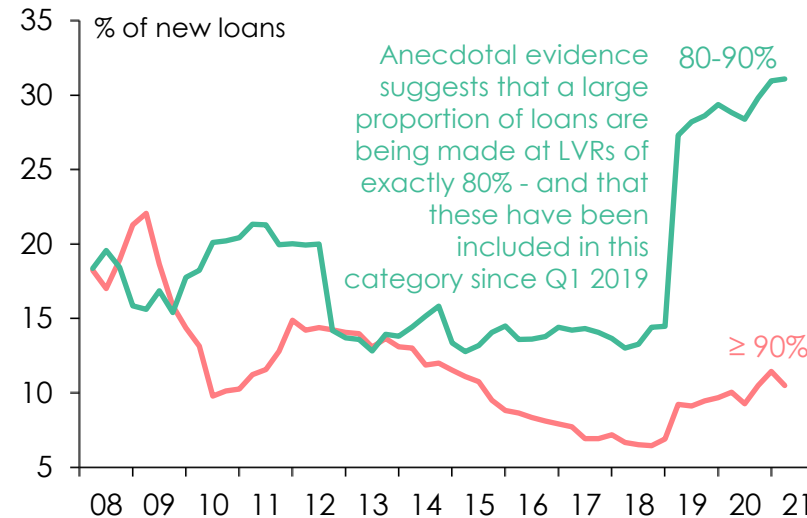
Loans to investors as a pc of total



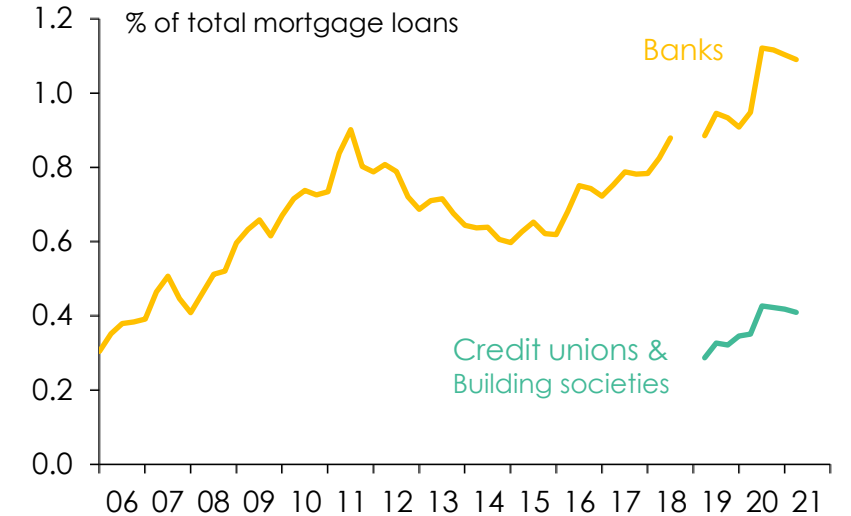
Lending to first home buyers



High LVR loans as a pc of total



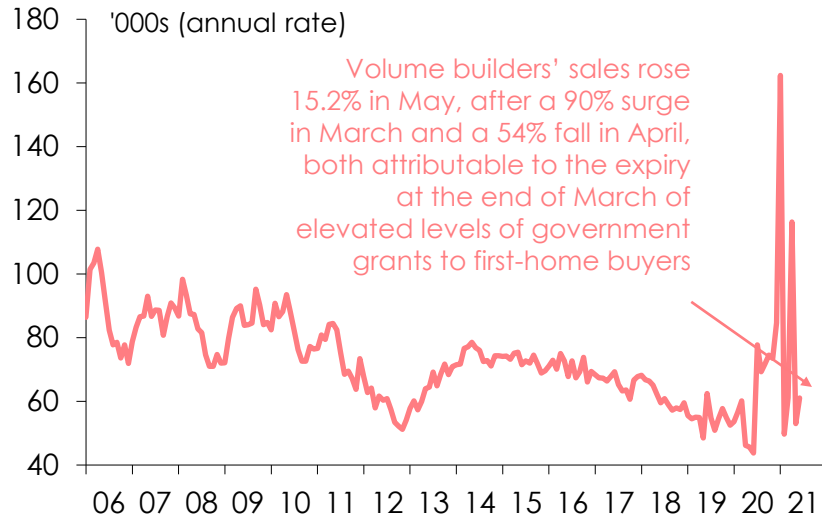
Non-performing mortgage loans



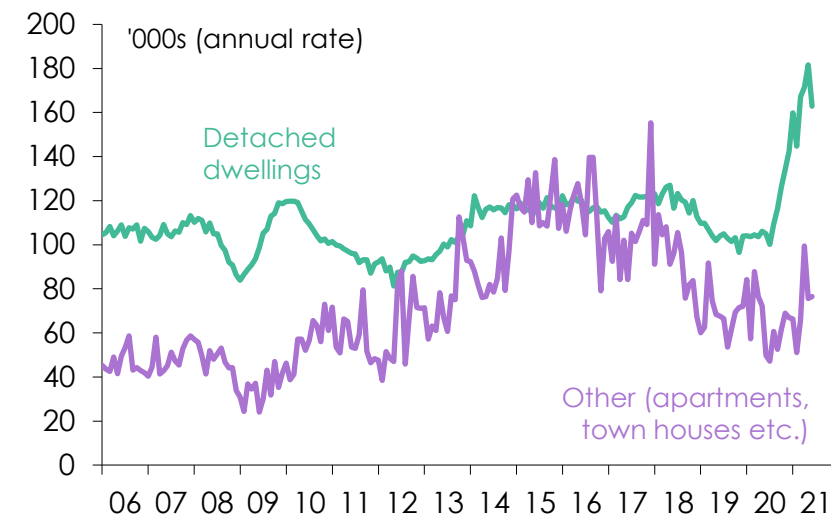
Sources: ABS; Australian Prudential Regulation Authority (APRA), [Quarterly authorised deposit-taking institution statistics](#). June housing finance data will be released on 3rd August; APRA data on ADI property exposures for the June quarter will be released in early September. [Return to "What's New"](#).

May residential building approvals were down 12½% from the record high in March but remain 26% above the average for the previous decade

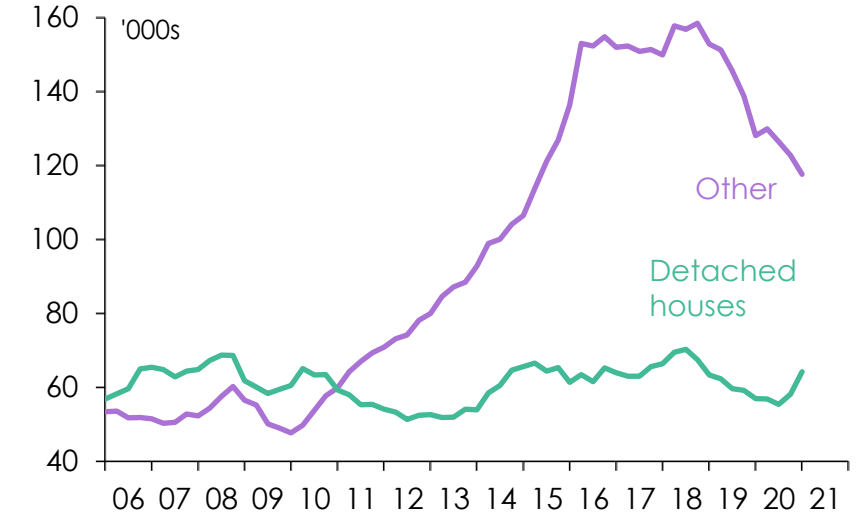
Large builders' new home sales



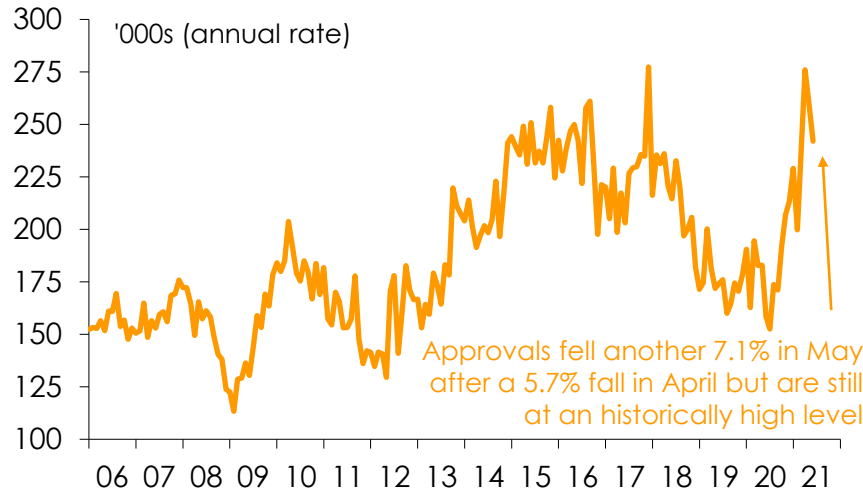
Building approvals, by type



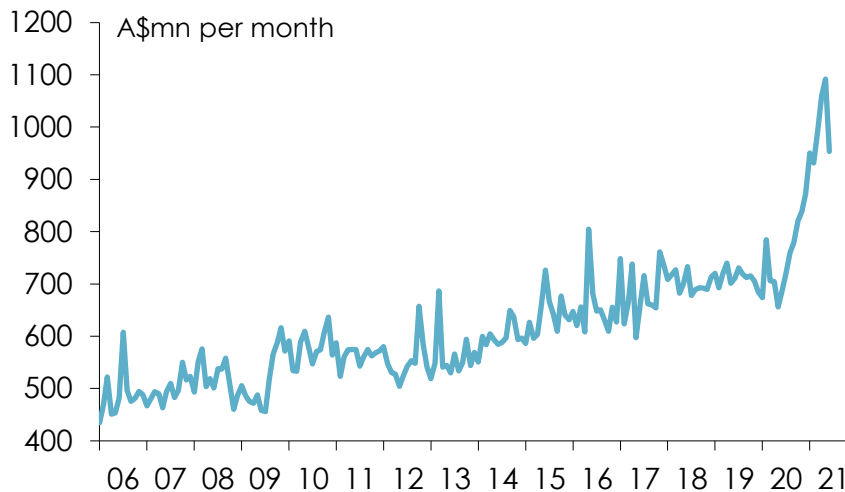
Dwellings under construction



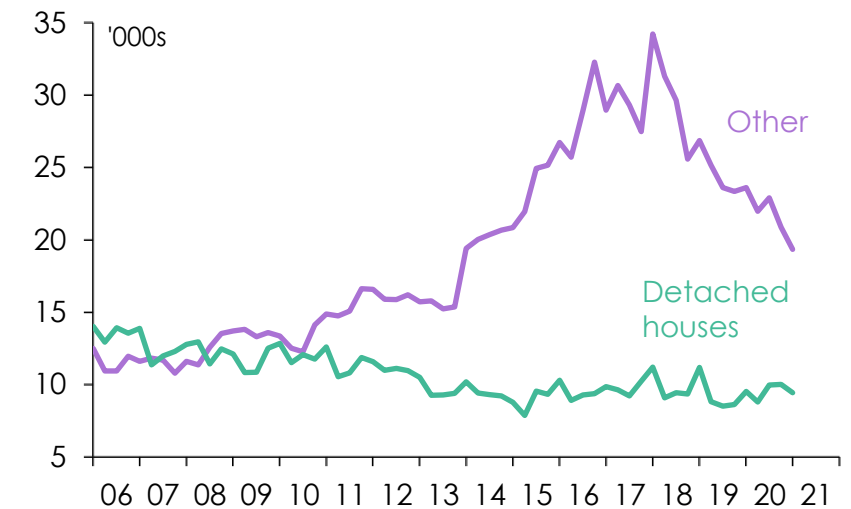
Residential building approvals



Alterations & additions approved



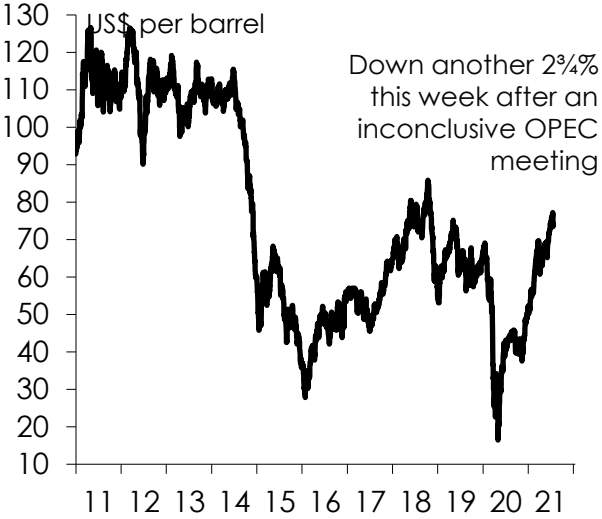
'Pipeline' of work yet to be started



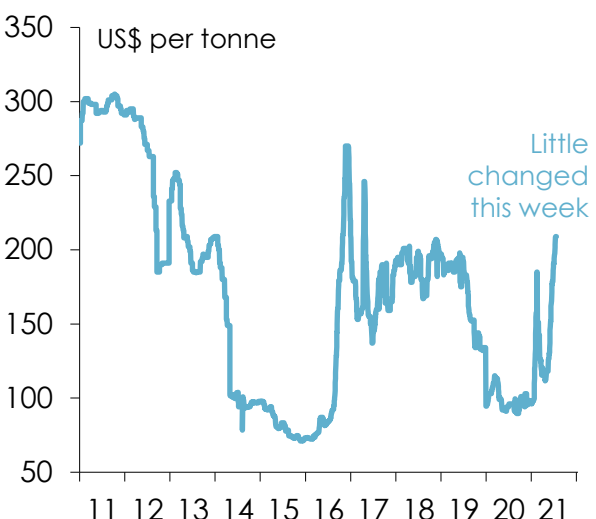
Note: 'New home sales' are of detached dwellings only and exclude small-scale builders. Sources: ABS; Housing Industry Association. June building approvals data will be released on 3rd August; March quarter dwellings under construction and 'pipeline' data on 14th July. [Return to "What's New"](#).

Commodity prices were more subdued this week following the strong gains of the past couple of months

Brent crude oil



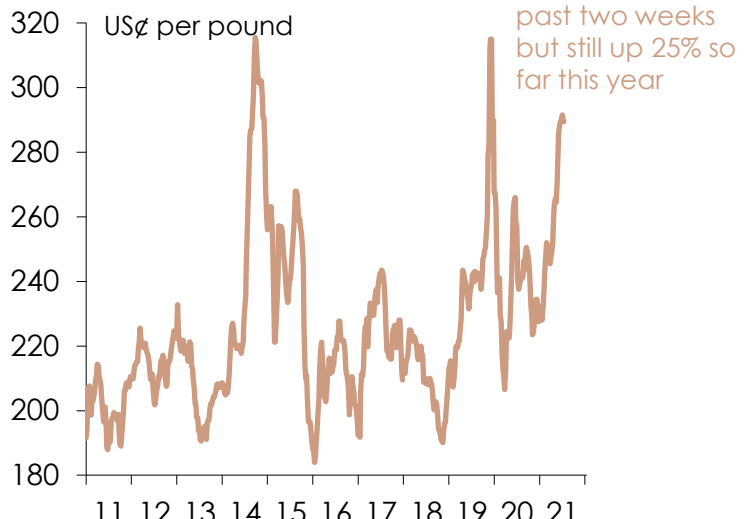
Metallurgical coal



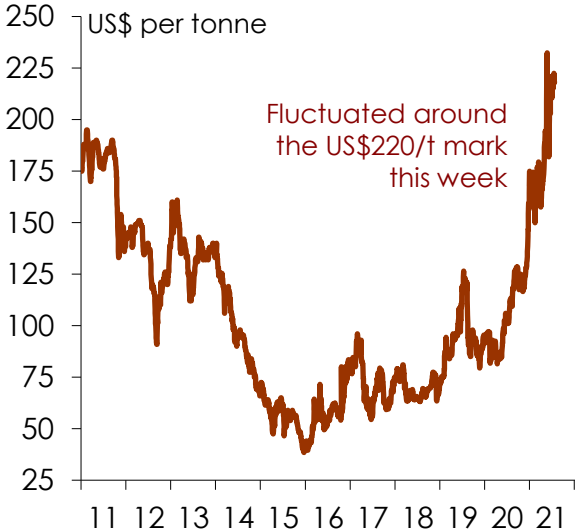
Aluminium



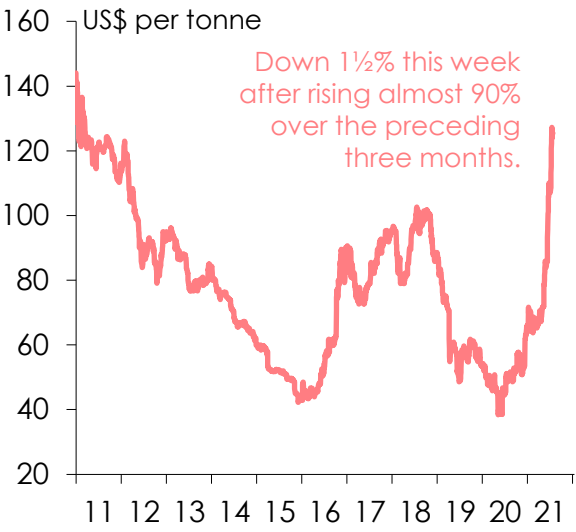
Beef



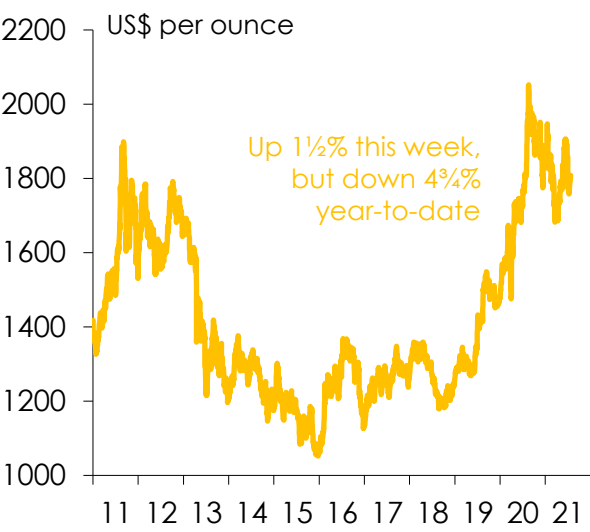
Iron ore



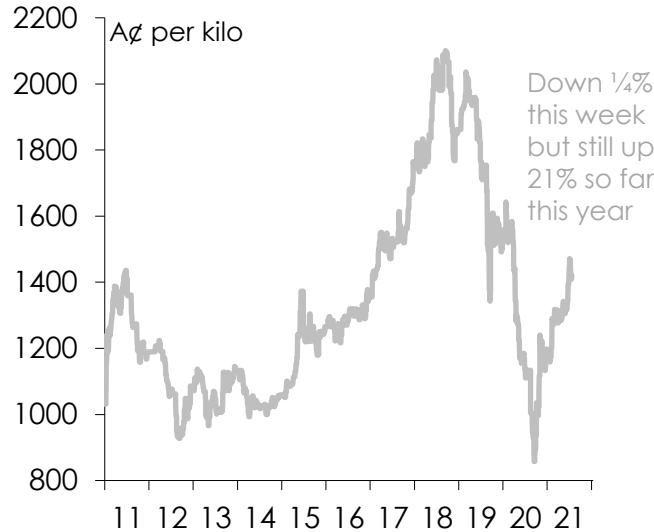
Thermal coal



Gold



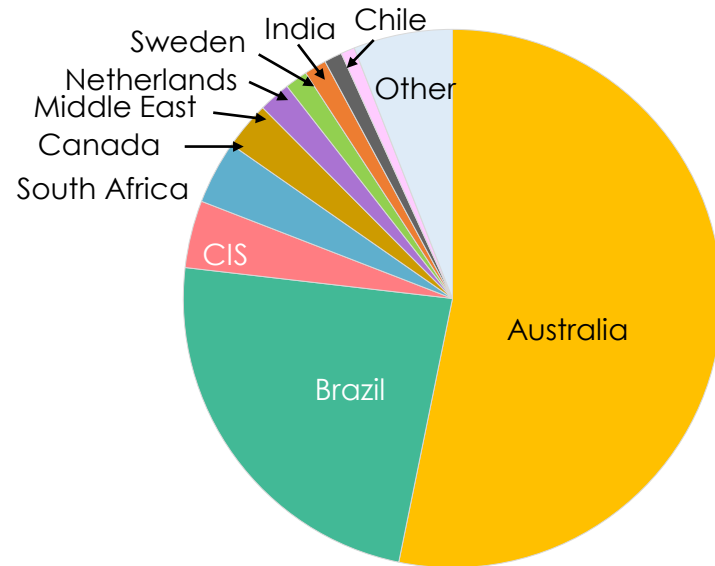
Wool



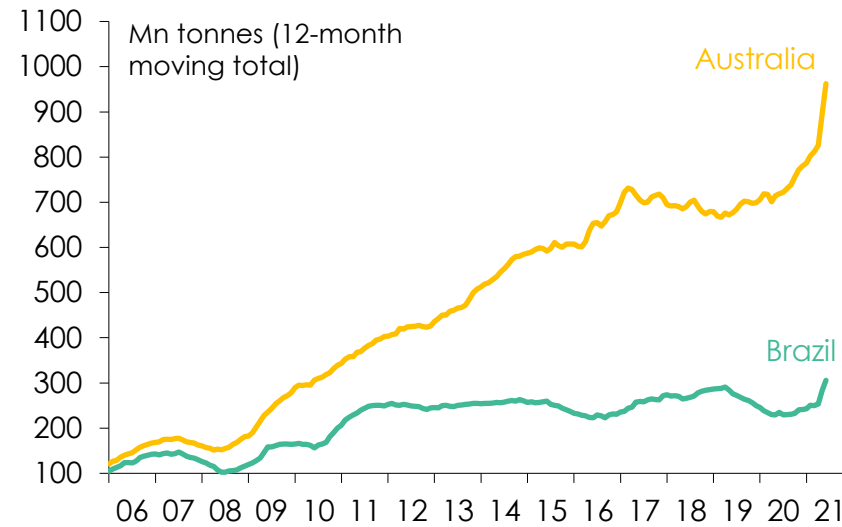
Sources: Refintiv Datastream; Meat & Livestock Australia; Australian Wool Innovation. See [next slide](#) for more on iron ore prices. Data up to 9th July. [Return to "What's New"](#).

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

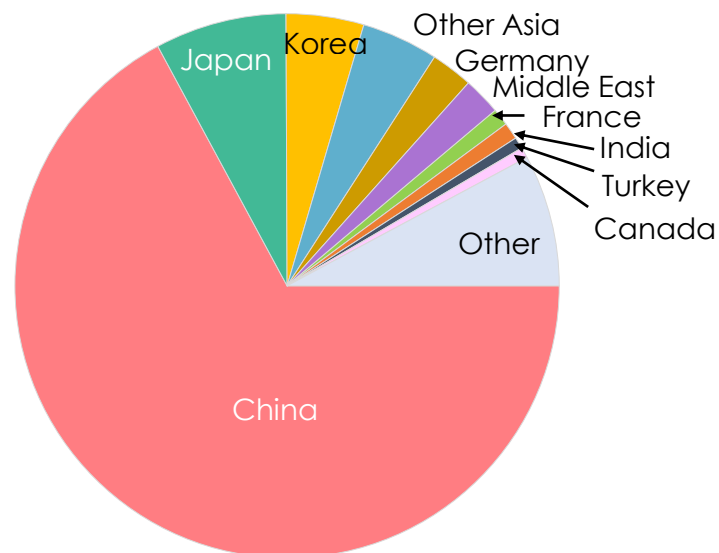
Iron ore exports, 2018



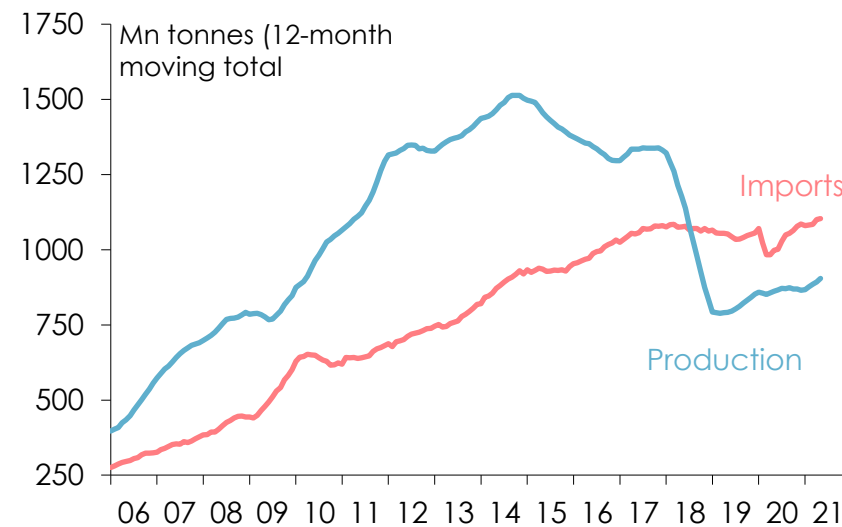
Australia & Brazil iron ore exports



Iron ore imports, 2018



China iron ore production & imports

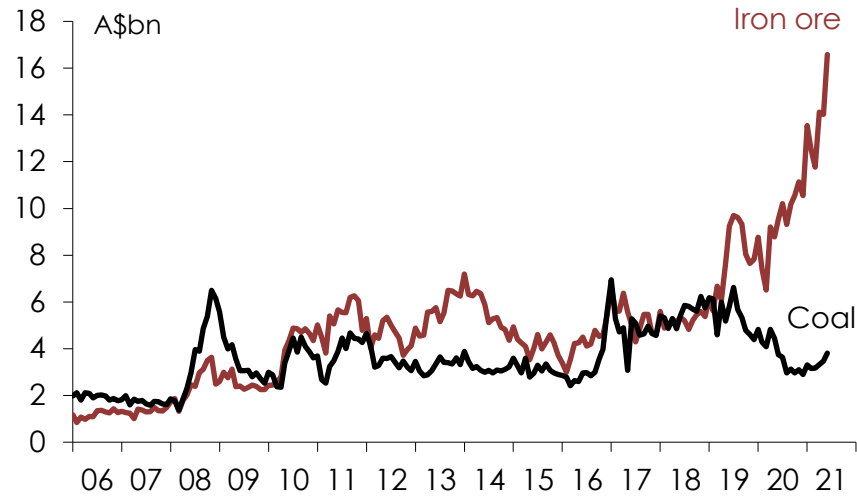


- ❑ The global iron ore trade is dominated by shipments from Australia & Brazil to China (which accounts for 53% of global steel production and 51% of steel use) – no other exporter has more than 4% of the global seaborne trade
- ❑ Chinese iron ore production has fallen by more than 34% since 2017, largely because of rapidly declining quality – forcing Chinese steel mills to become more dependent on imports
- ❑ Brazilian exports are expected to recover from 320 mn tonnes in 2021 to 375mn in 2022 and 400 mn in 2023
- ❑ China is seeking to develop other sources in West Africa – in particular the [Simandou project](#) in Guinea – although there are big logistical hurdles to be overcome there
- ❑ By 2030, China's demand for iron ore is expected to be lower than today as crude steel production plateaus and the scrap-to-steel ratio rises

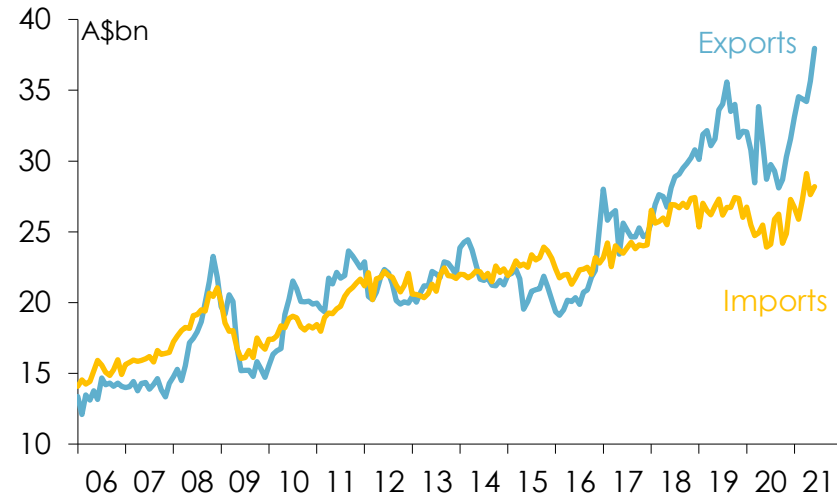
Note: Export volume data for Australia and Brazil derived by dividing export values (in US\$) from ABS and IGBE by the average US\$ price of Chinese iron ore imports.
Sources: World Steel Association; China National Bureau of Statistics; China General Administration of Customs; Refinitiv Datastream;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

Australia recorded another record trade surplus of \$9.7bn in May, with exports up 6.1% and imports up 2.9% from April

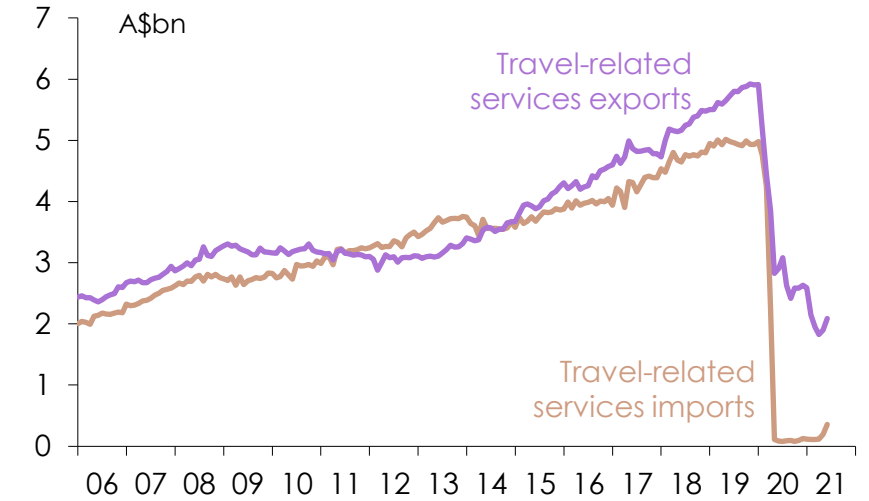
Iron ore and coal exports



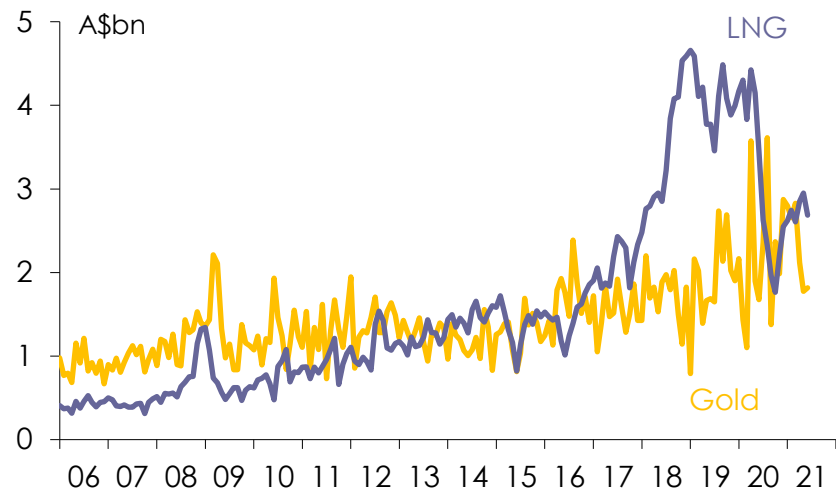
Merchandise exports and imports



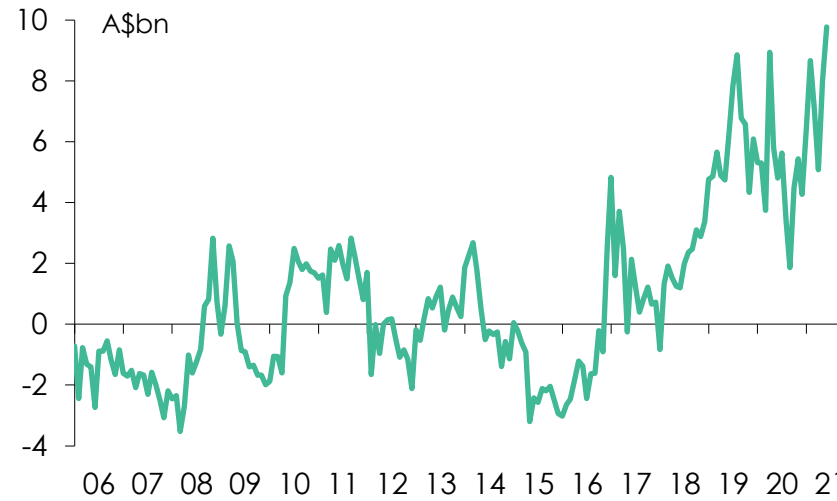
Tourism-related services trade



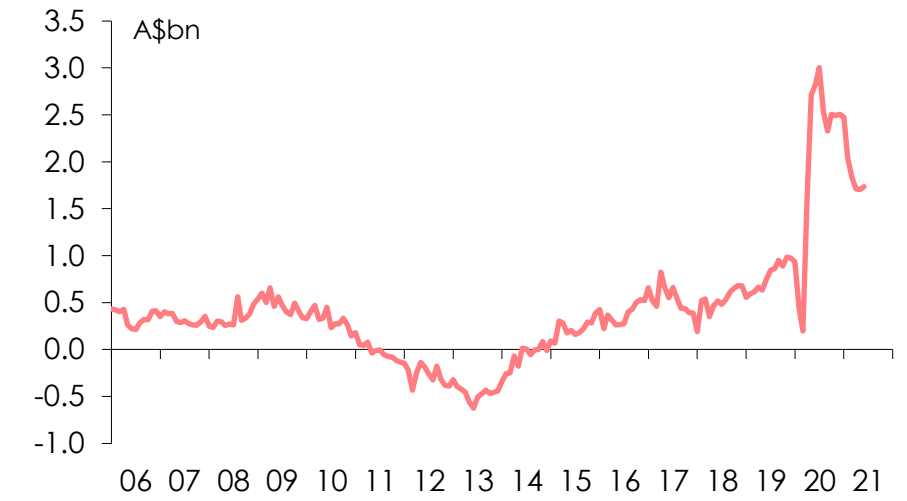
LNG and gold exports



Merchandise trade balance



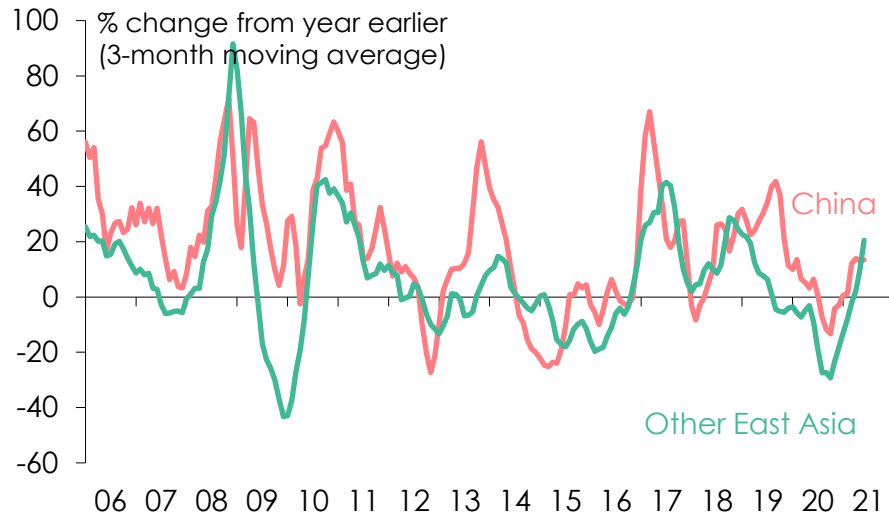
Tourism services trade balance



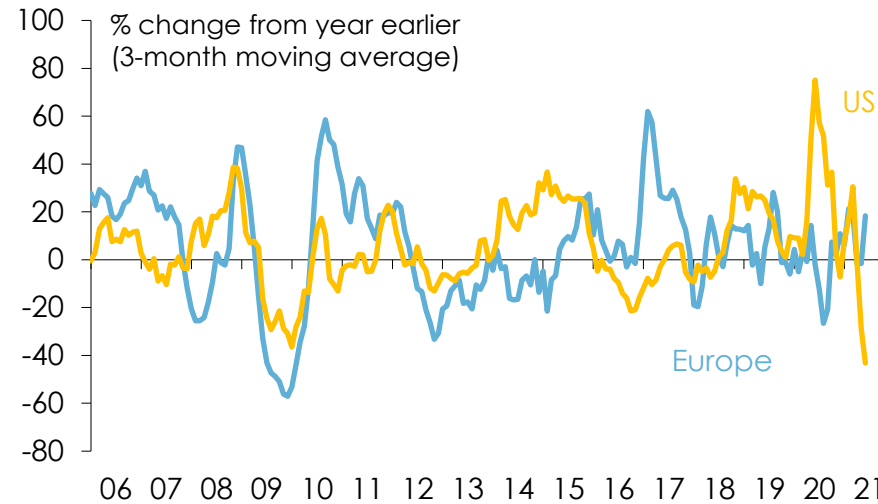
Source: ABS, [International Trade in Goods and Services, Australia](#), May 2021. June data will be released on 5th July. [Return to "What's New"](#).

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

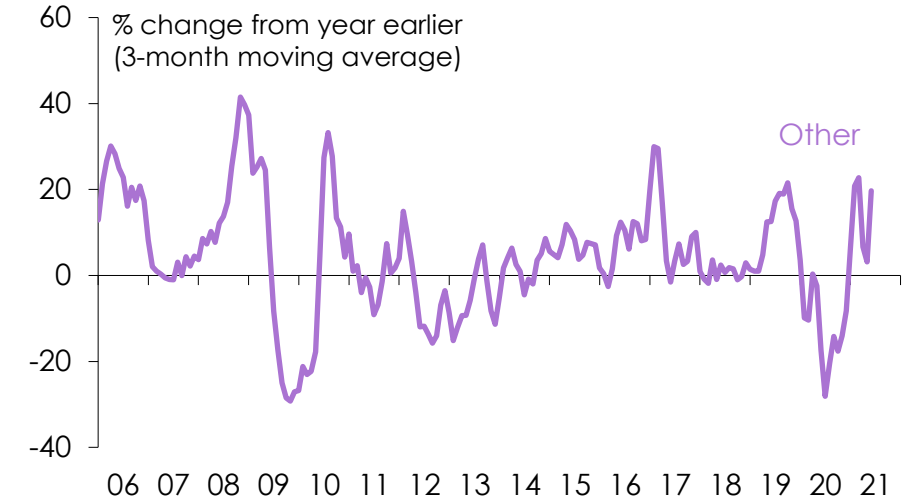
Merchandise exports – East Asia



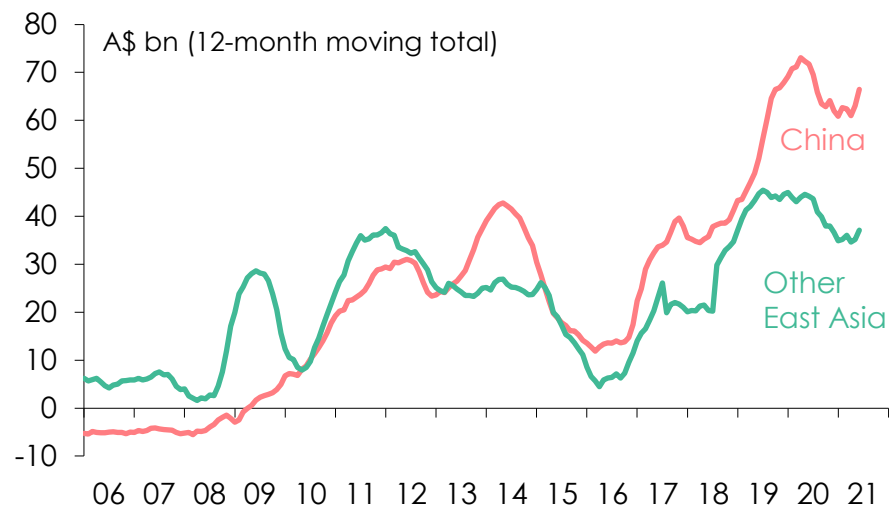
Merchandise exports – US & Europe



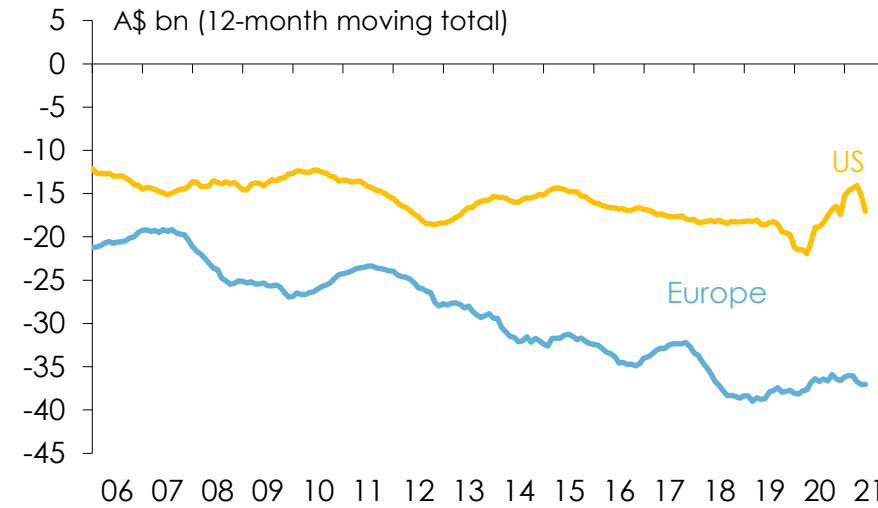
Merchandise exports – other



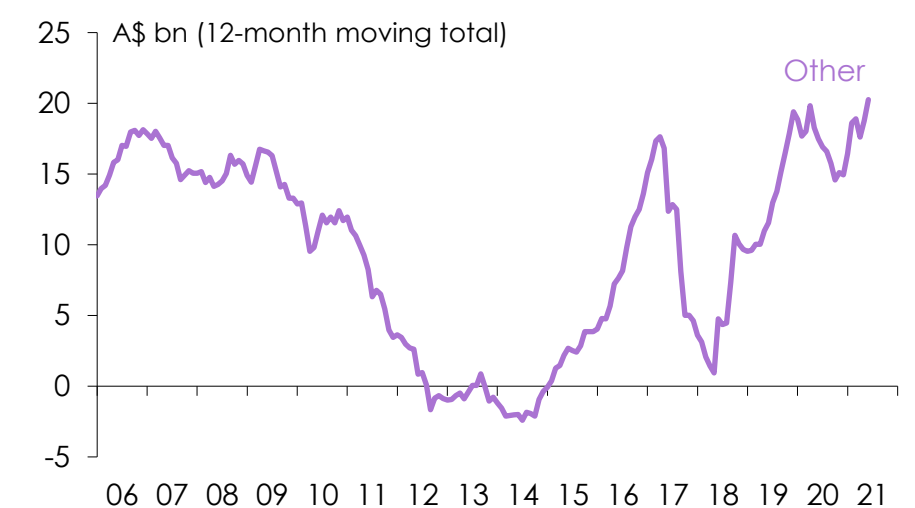
Goods trade balance – East Asia



Goods trade balance – US & Europe



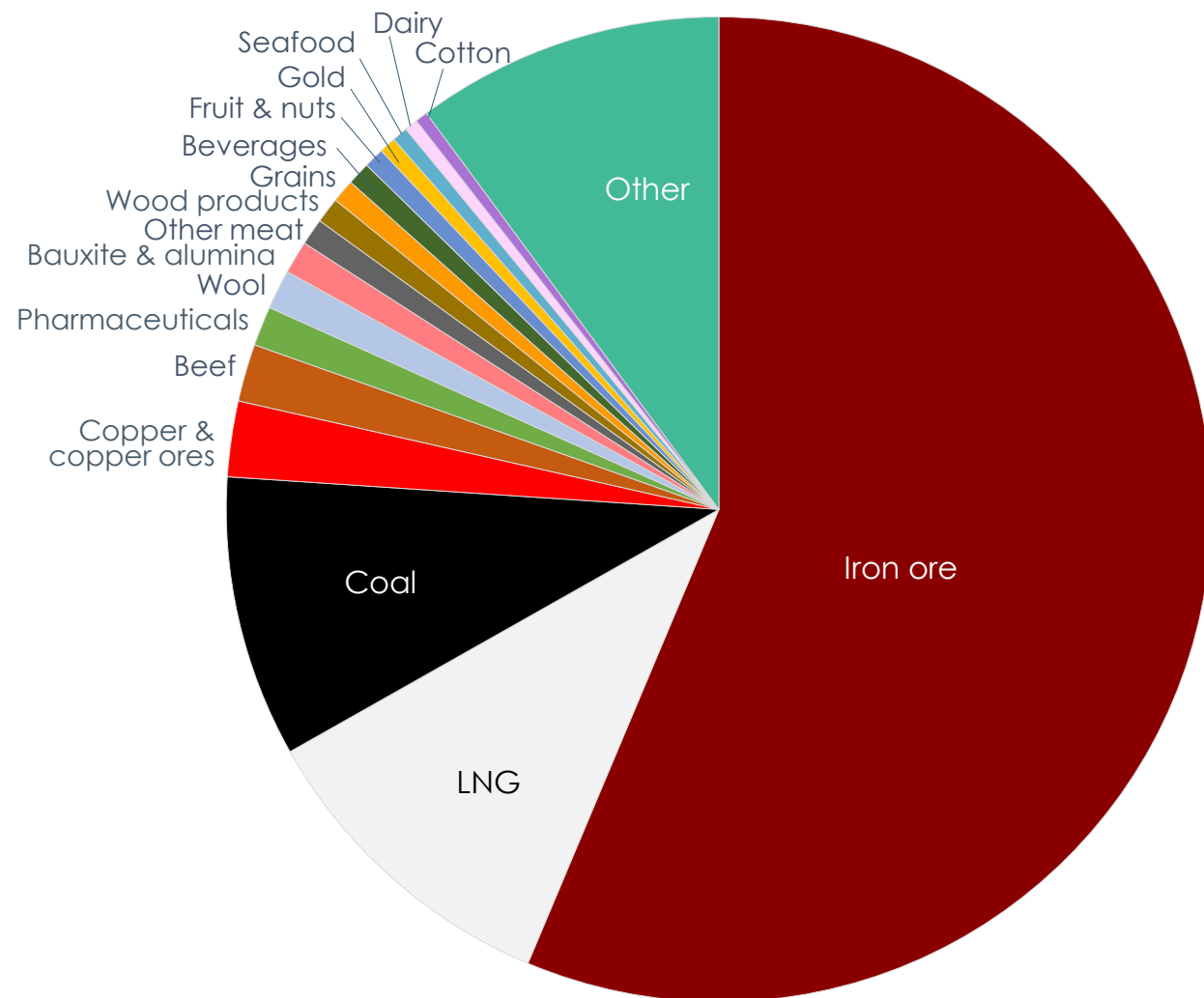
Goods trade balance – other



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. Sources: ABS, [International Trade in Goods and Services, Australia](#), May 2021. [Return to "What's New"](#).

China this week openly acknowledged that its 'trade war' on Australia is politically motivated

Australia's merchandise exports to China, 2019-20



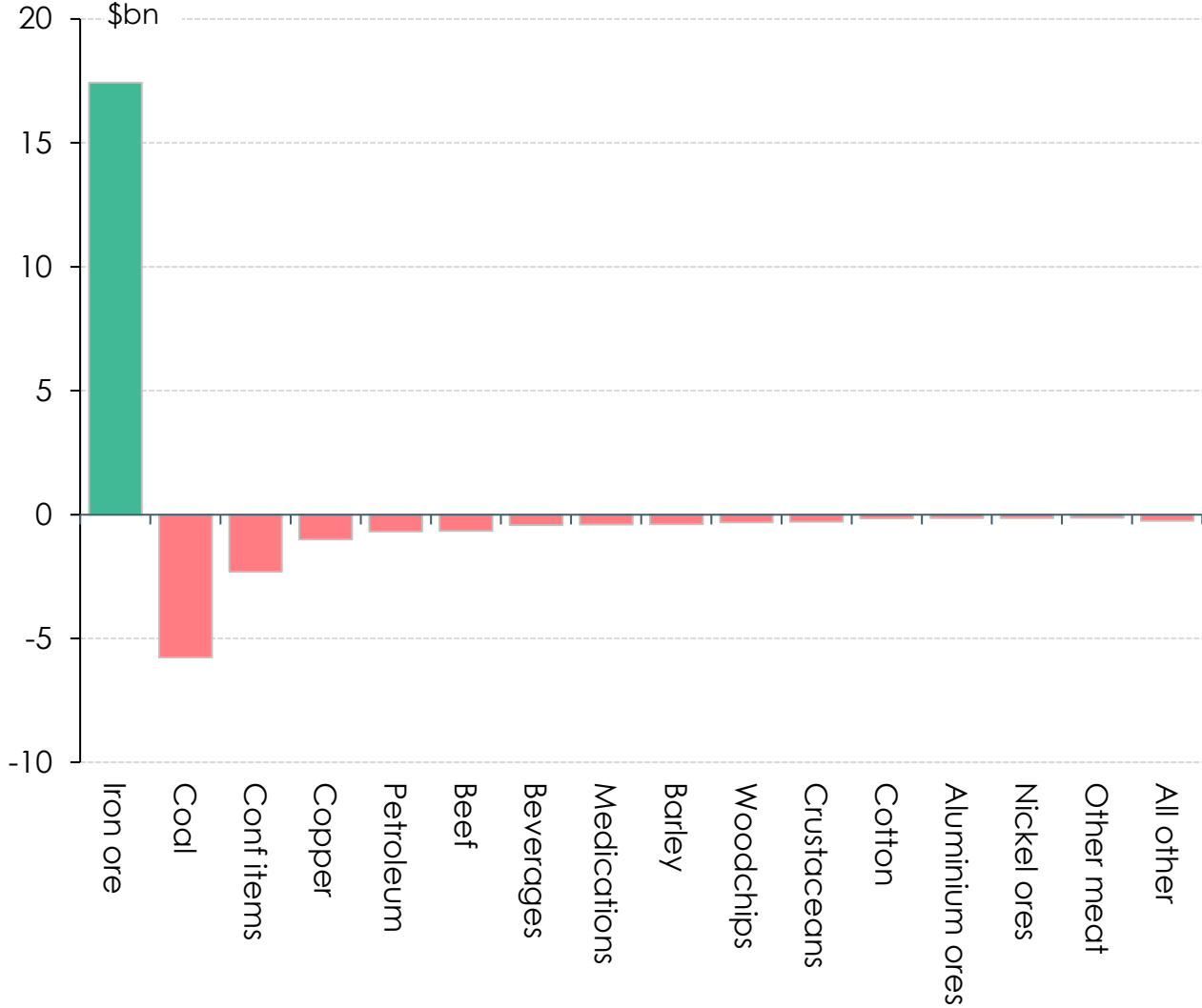
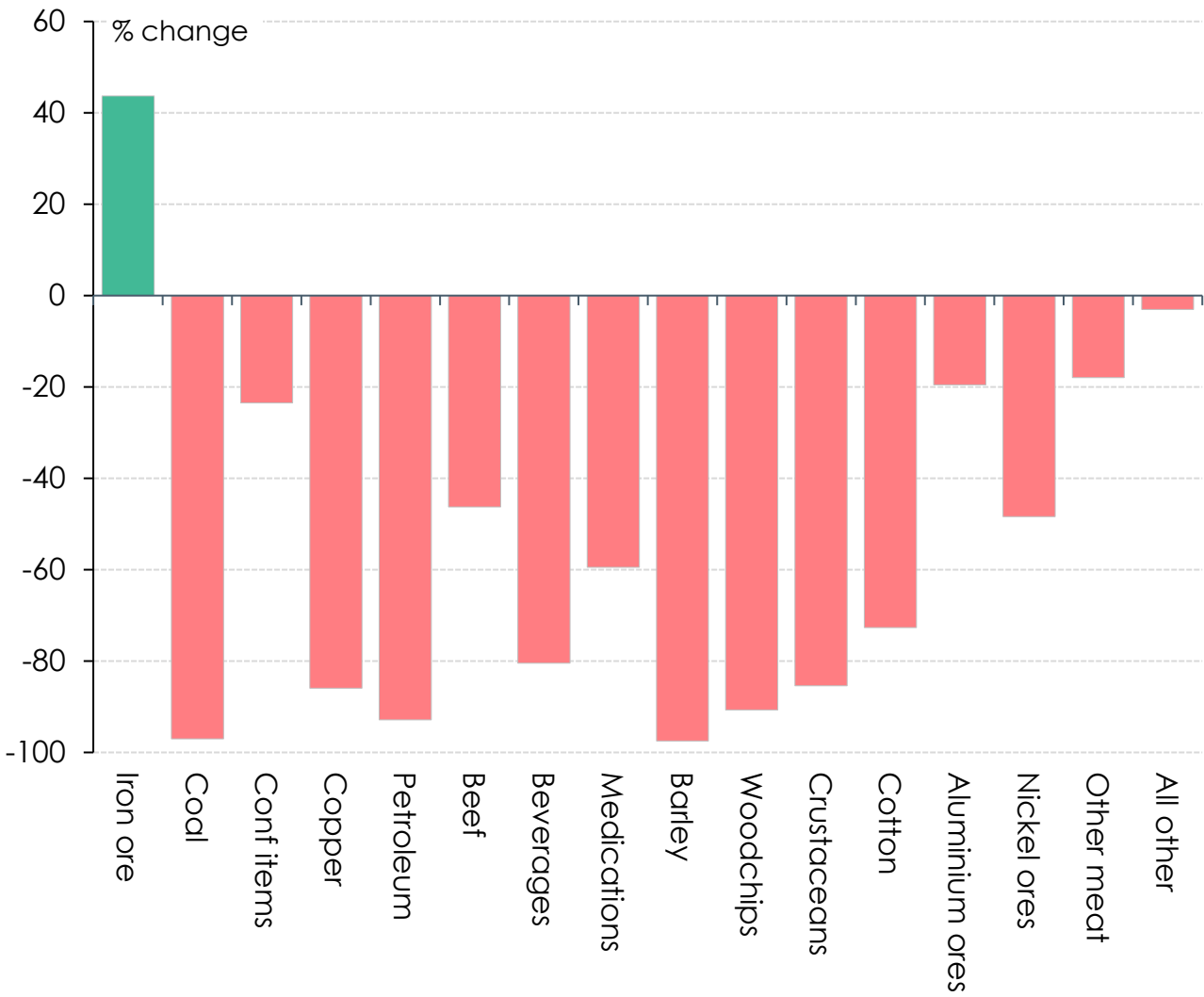
- ❑ China accounted for 39½% of Australia's merchandise exports in FY 2019-20 (the largest proportion any country has since the mid-1950s when 36% of Australia's exports went to the UK)
 - of which iron ore & concentrates accounts for 56%
- ❑ China also accounted for 19% of Australia's services exports in CY 2019 of which tourism & education accounted for over 90%)
- ❑ China has no real alternatives to Australian iron ore in the near term – but it 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 (see next slide)
 - last month'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
- ❑ This week China's Foreign Ministry openly acknowledged that it was seeking to 'punish' Australia for “groundlessly accusing and smearing China and undermining China's core interests based on ideology” and “acting as a cat's paw” for the United States

Note: 'Wood' includes wood products; 'dairy' includes milk, cream, butter & cheese; 'seafood' includes crustaceans, fish and processed seafood; 'other' includes confidential items.

Sources: Australian Department of Foreign Affairs & Trade, [Trade Statistical Pivot Tables](#); Corinna.

Australia's iron ore exports to China rose 44% over the year to the six months ended April – but all other exports dropped by 41%

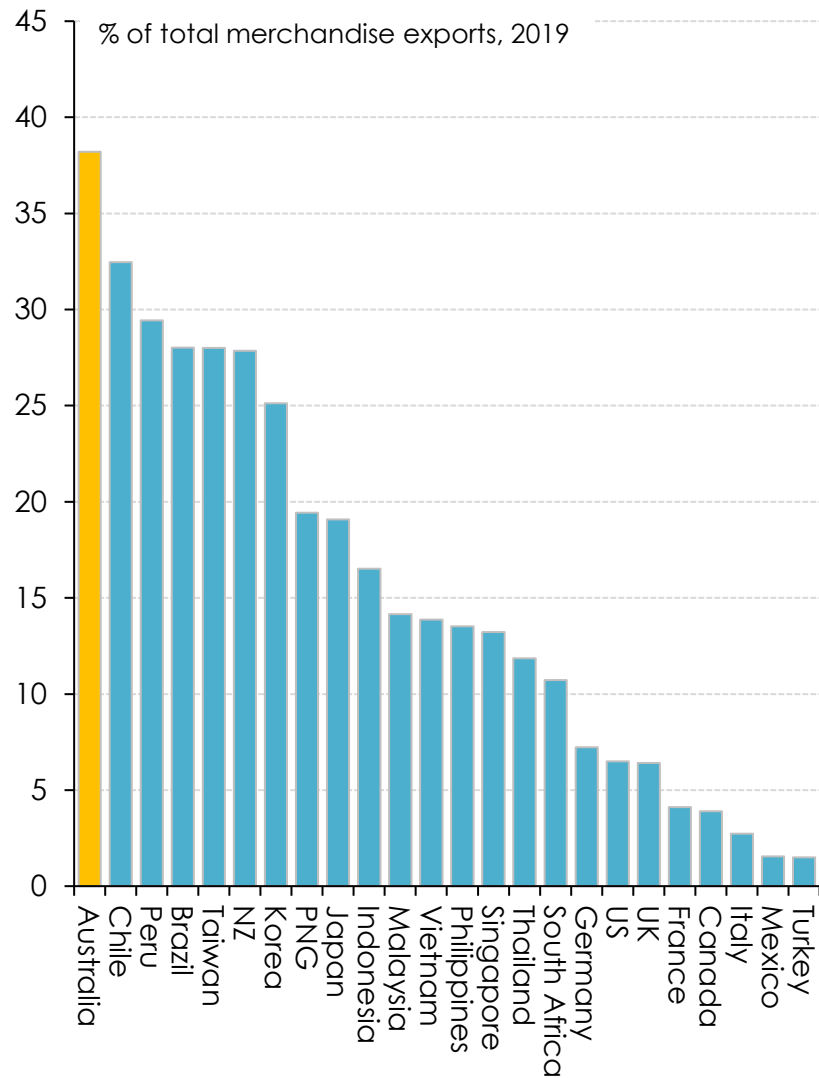
Change in Australian exports to China, six months to April 2021 compared with six months to April 2020



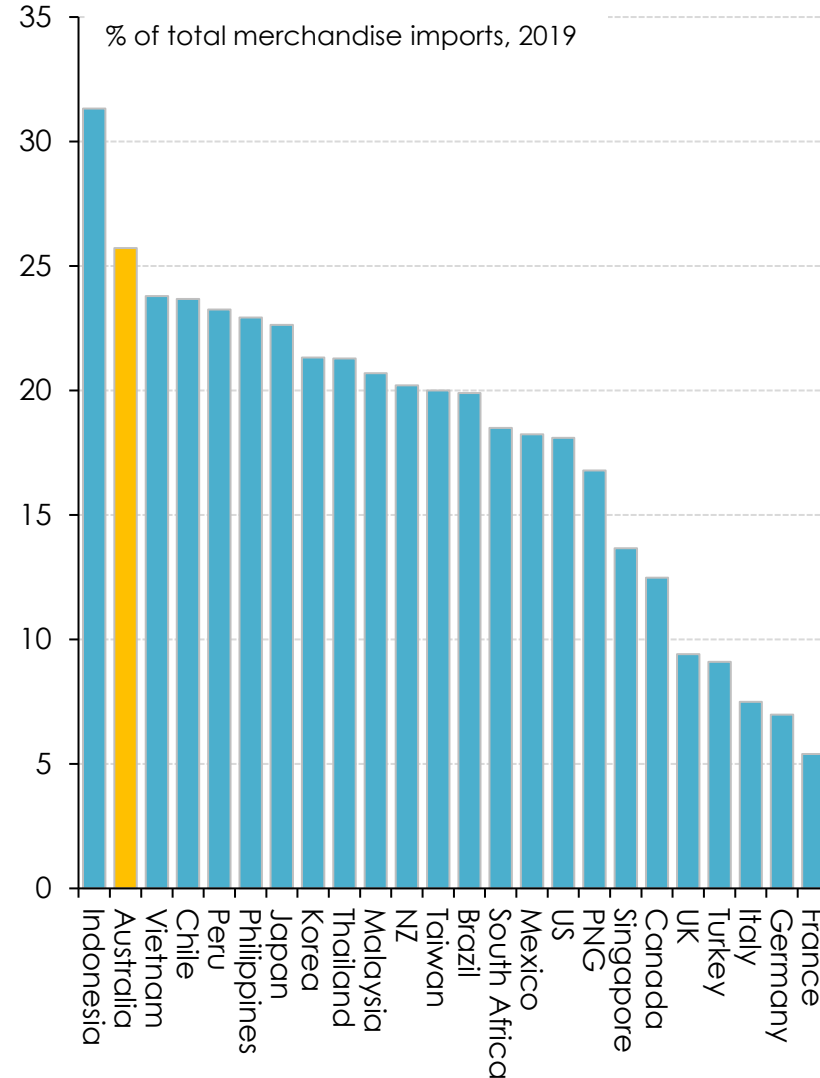
Source: Australian Department of Foreign Affairs and Trade, [Trade Statistical Pivot Tables - Country and commodity pivot table monthly](#); Corinna.

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

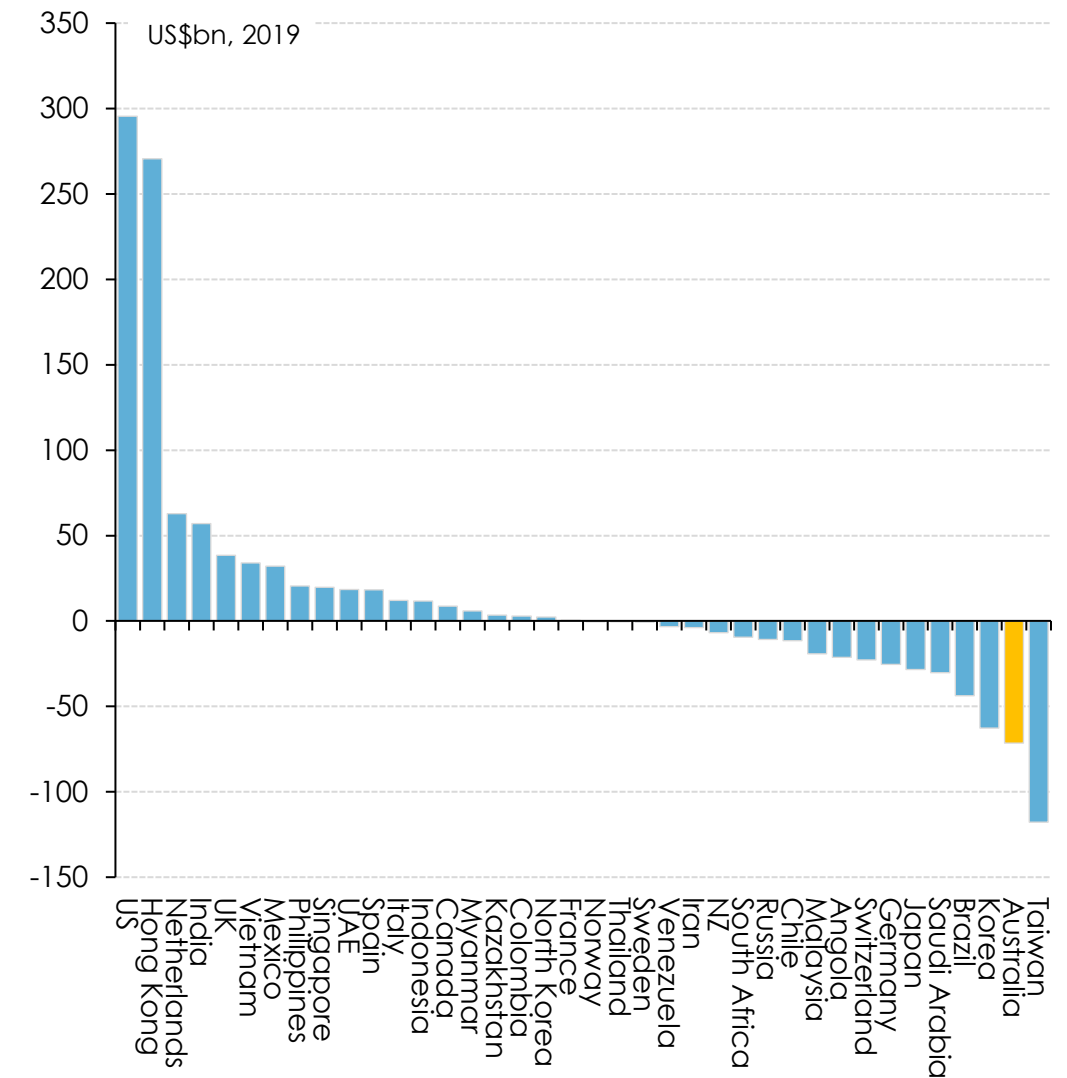
Merchandise exports to China as a pc of total



Merchandise imports from China as a pc of total



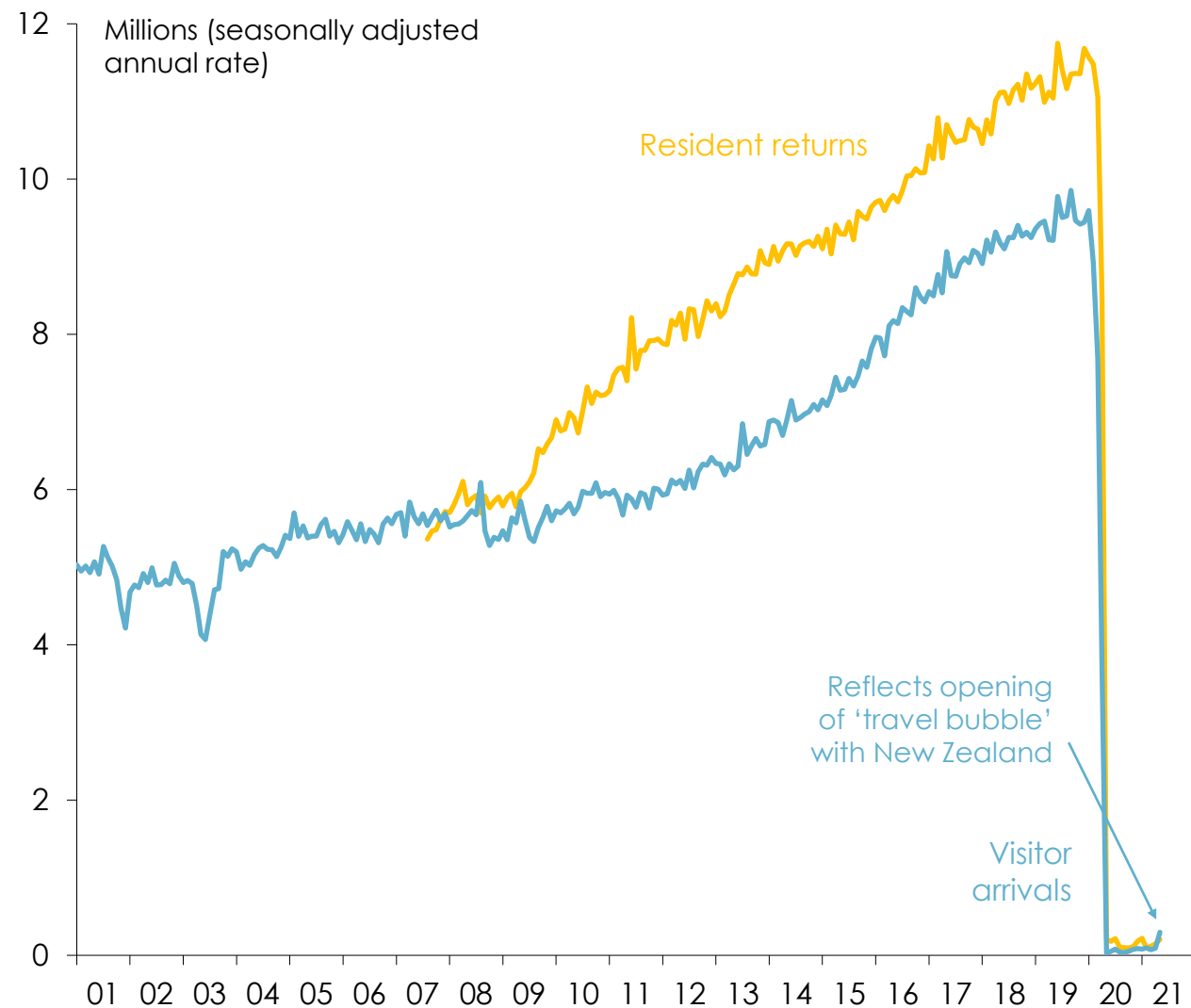
China's bilateral merchandise trade balances



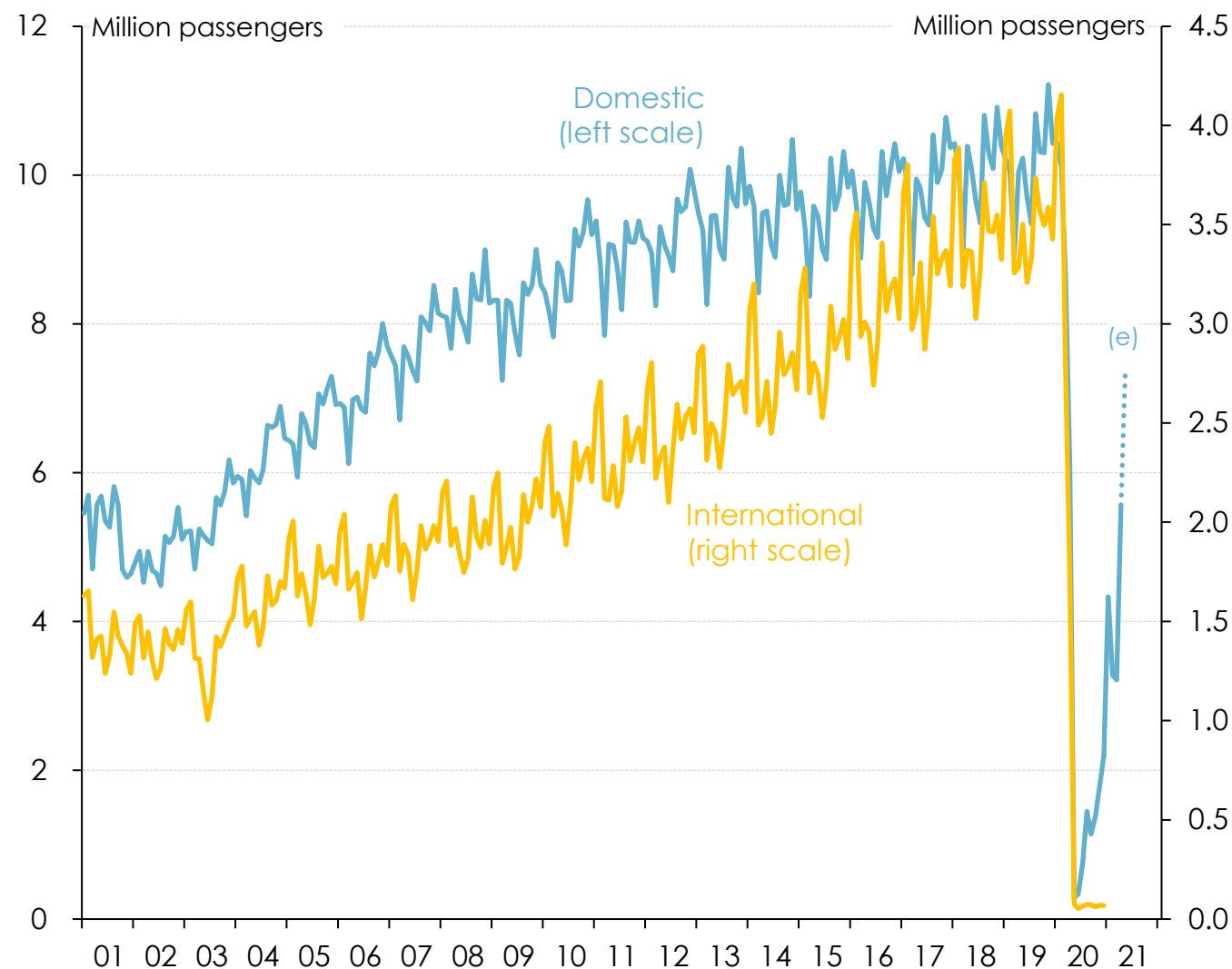
Sources: IMF, Direction of Trade Statistics; Taiwan Ministry of Economic Affairs, Bureau of Foreign Trade. [Return to "What's New"](#).

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



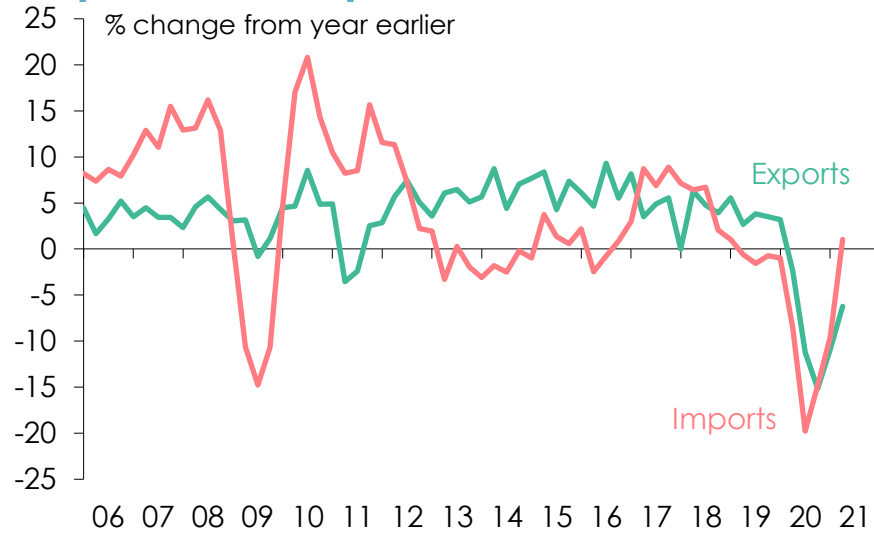
Airport passenger movements



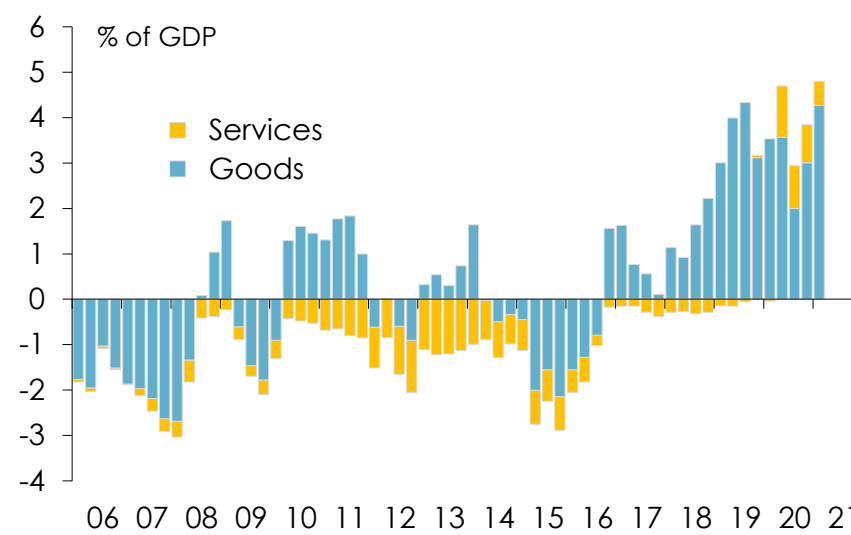
Note: The ABS has suspended publication of seasonally adjusted estimates of short-term visitor arrivals and resident returns, so published original estimates for April 2020 (and beyond) have been seasonally adjusted by Corinna using the same seasonal factors as for the corresponding month of 2019. Latest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

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

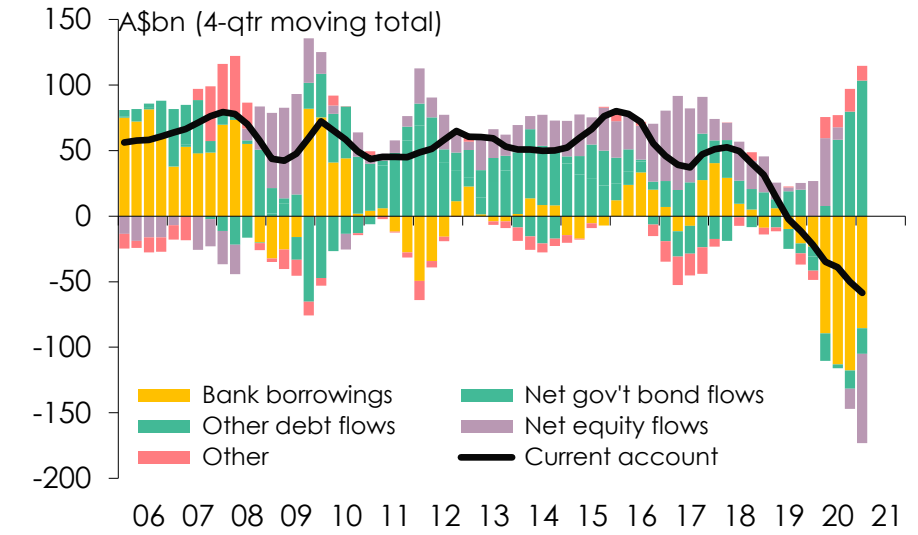
Export and import volumes



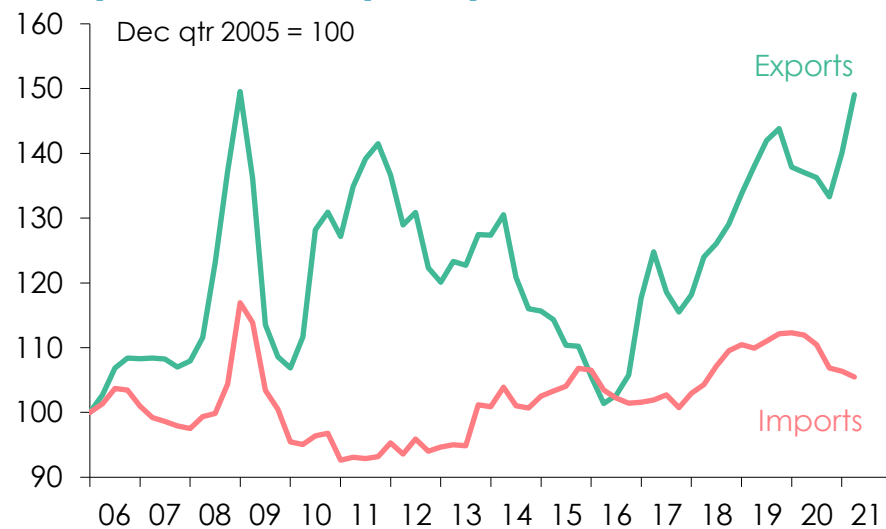
Goods & services trade balances



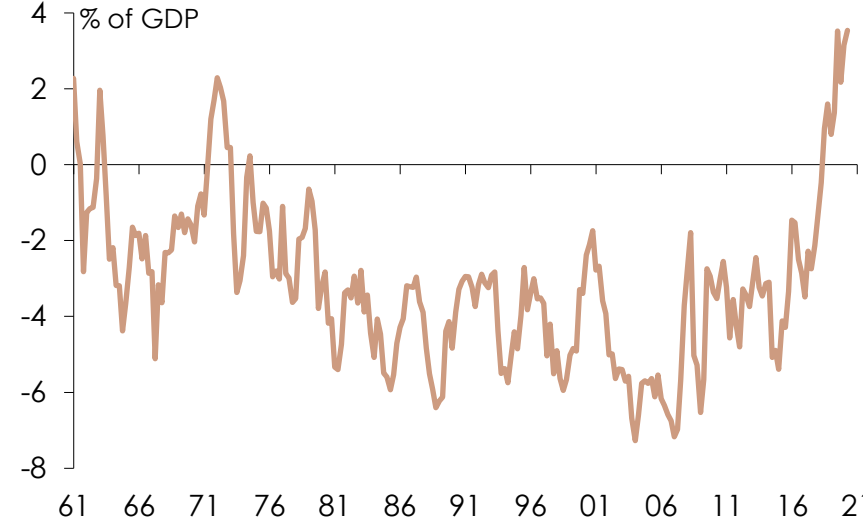
Capital flows



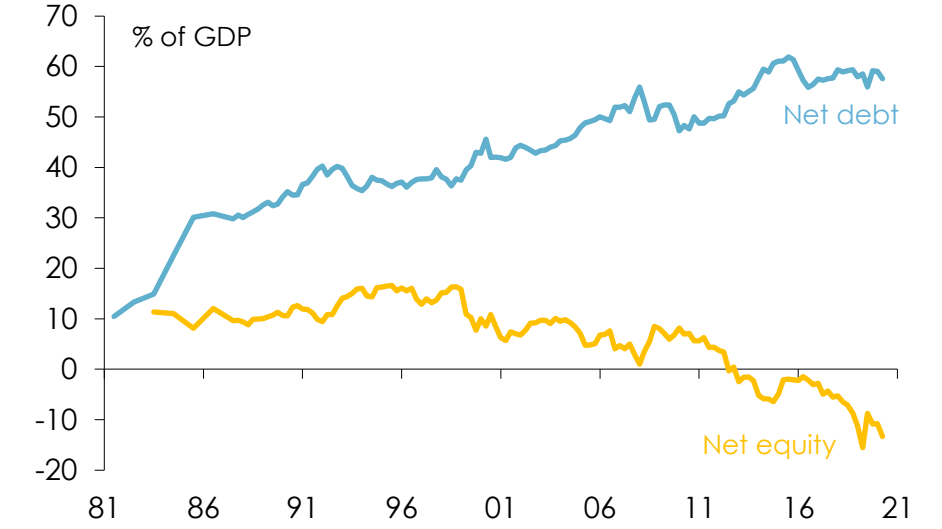
Export and import prices



Current account balance



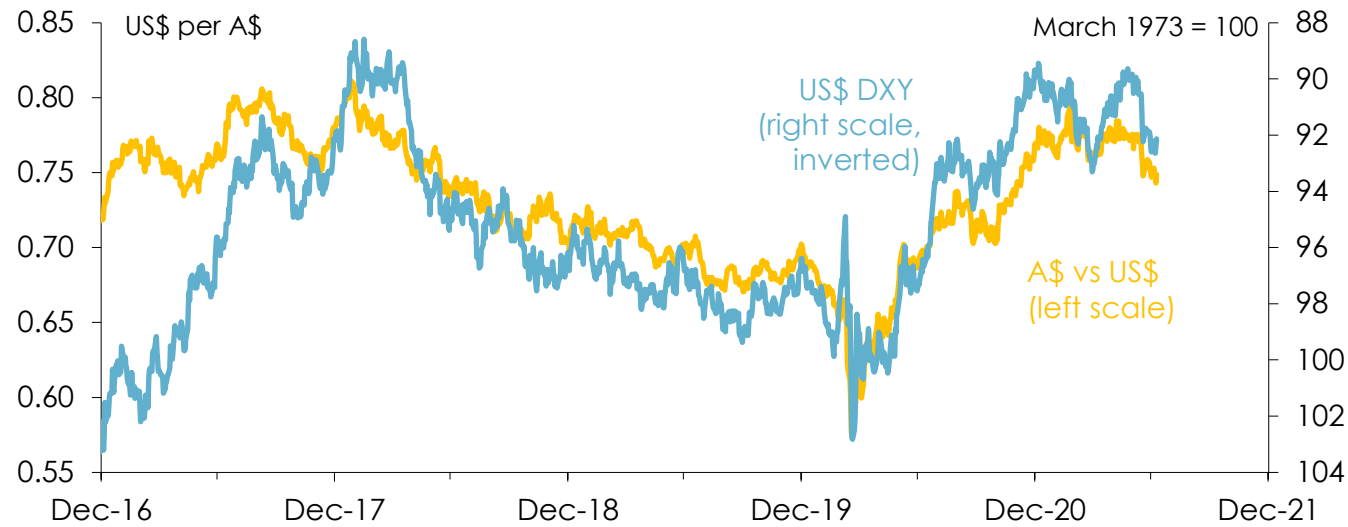
Net international investment position



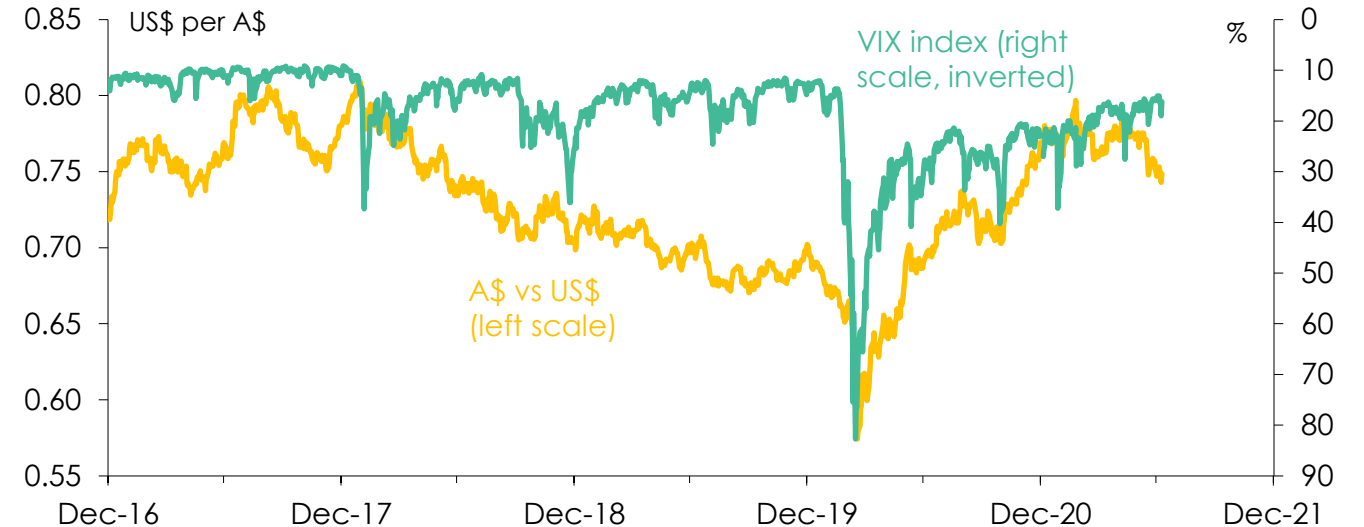
Note: The chart of Australia's international capital flows shows inflows (eg borrowings from abroad) as a positive and outflows (eg repayments of debt, or purchases of foreign equity assets) as a negative. Likewise the chart of Australia's international investment position shows net foreign debt as a 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"](#).

The A\$ dropped another 1/2% this week, reflecting a stronger US\$ and (perhaps) market acceptance that the RBA won't be following the Fed

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



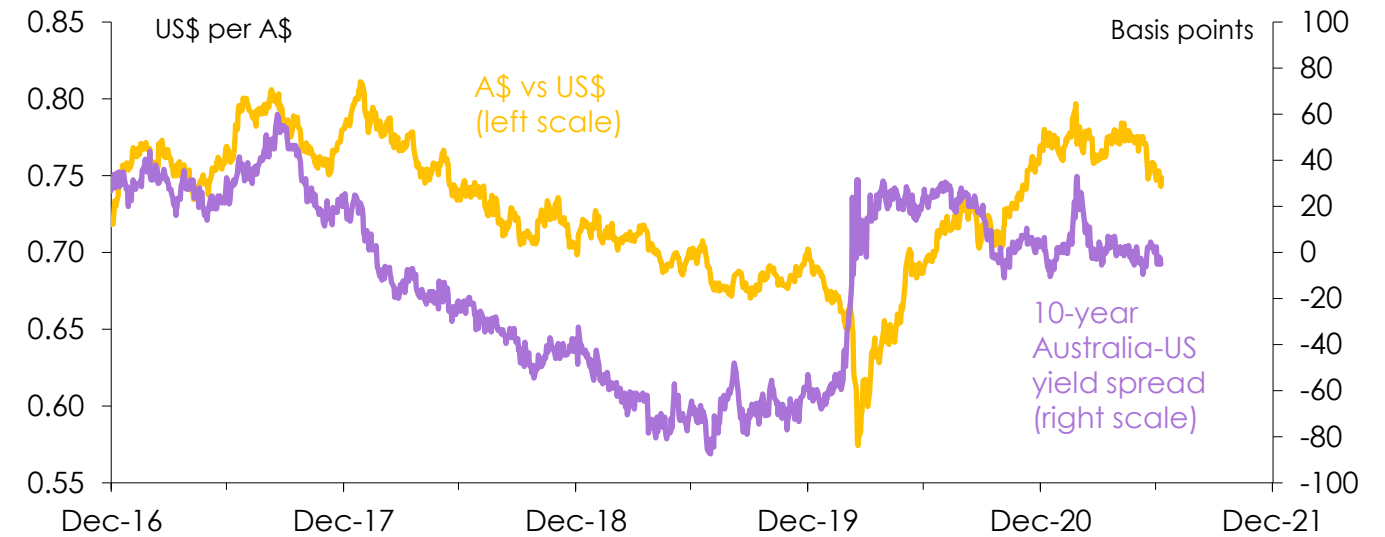
A\$-US\$ and US equity market volatility



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



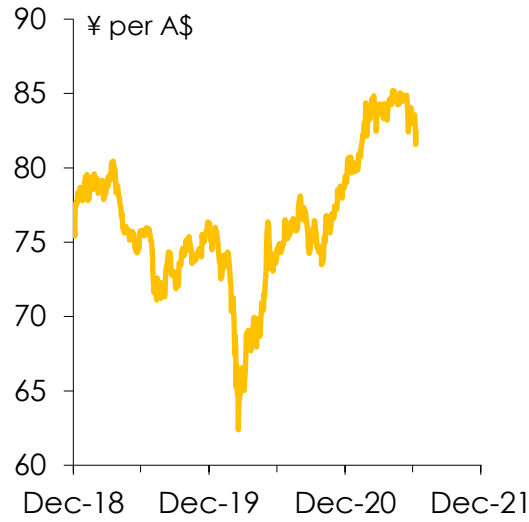
A\$-US\$ and Australia-US 10-year bond yield spread



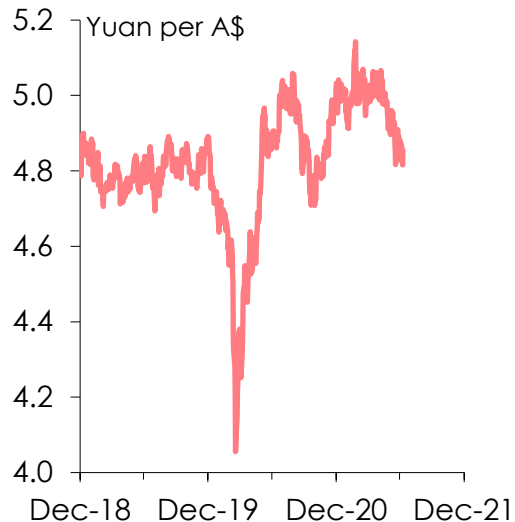
Note: The DXY is an index of the value of the US dollar against 6 other currencies (the euro, yen, pound, Canadian dollar, Swedish krona and Swiss franc). The VIX index is a measure of the implied volatility of S&P500 options and is widely interpreted as an indicator of investor risk appetite or aversion. For an explanation of the factors underpinning the strength in the iron ore price see [slide 116](#). Source: Refinitiv Datastream. Data up to 9th July. [Return to "What's New"](#).

The A\$ also fell further against most third currencies, with the exceptions of the won and the C\$

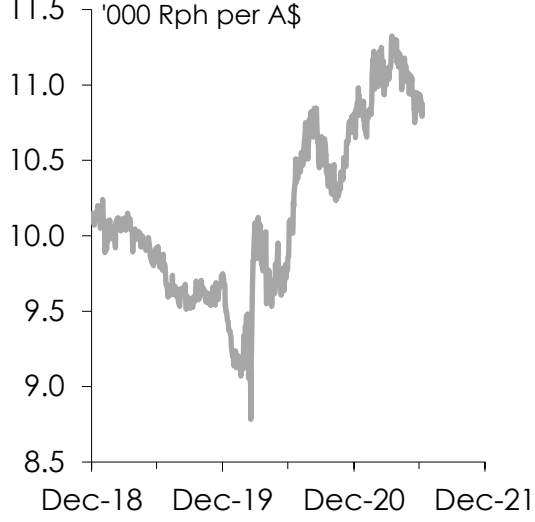
A\$ vs Japanese yen



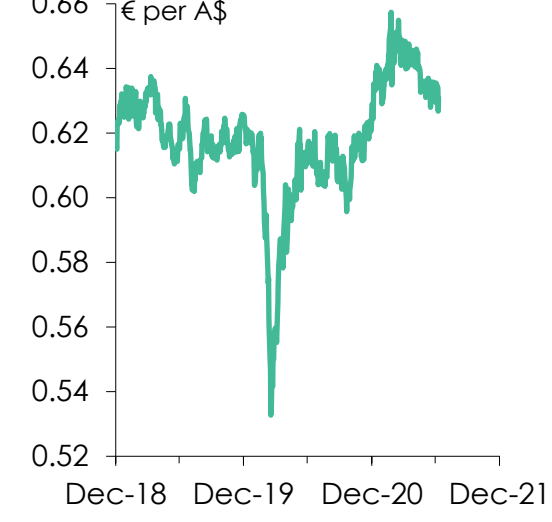
A\$ vs Chinese yuan



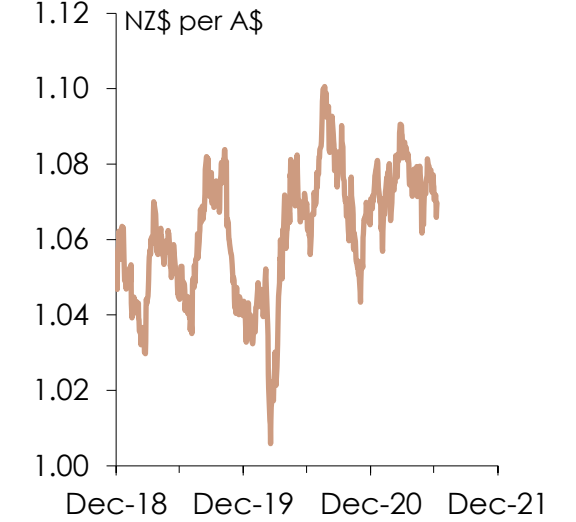
A\$ vs Indo rupiah



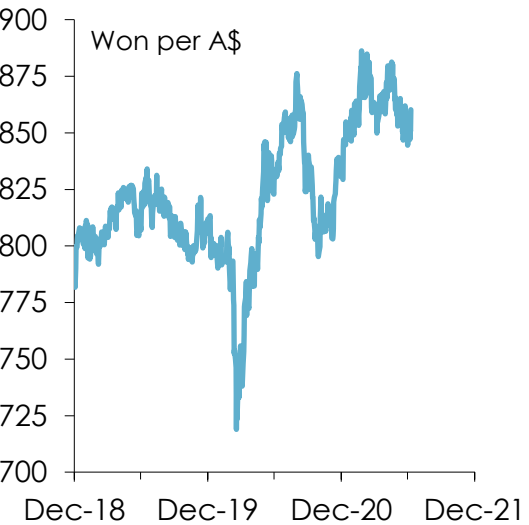
A\$ vs Euro



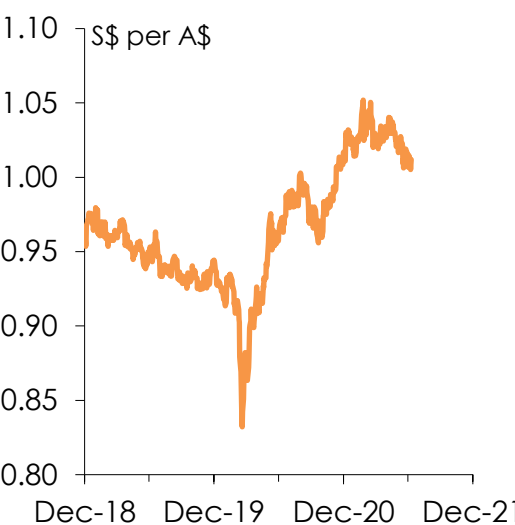
A\$ vs NZ\$



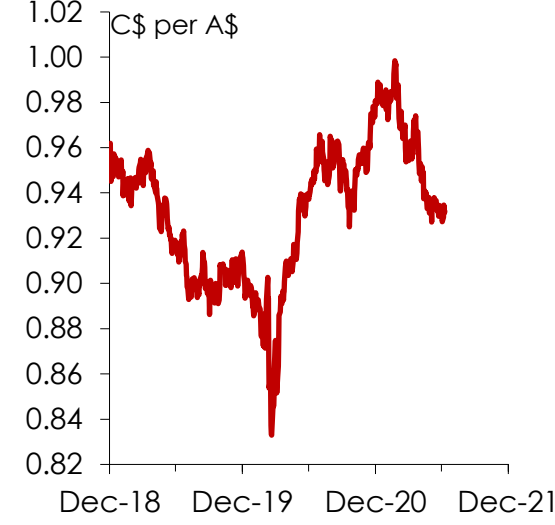
A\$ vs Korean won



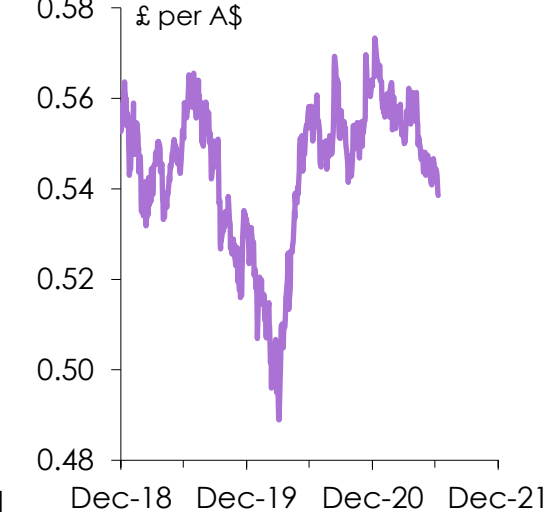
A\$ vs Singapore \$



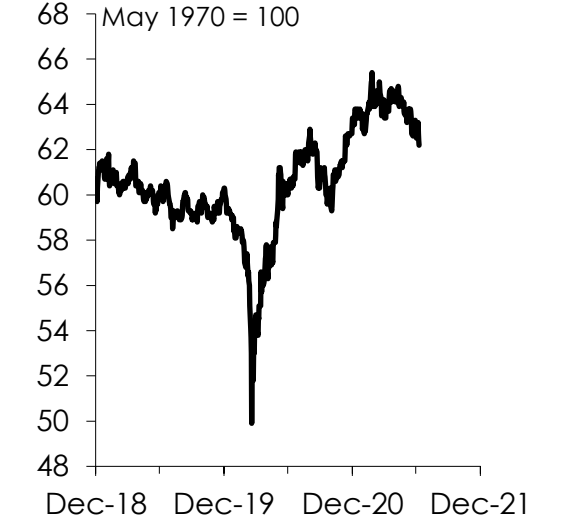
A\$ vs Canadian \$



A\$ vs British pound



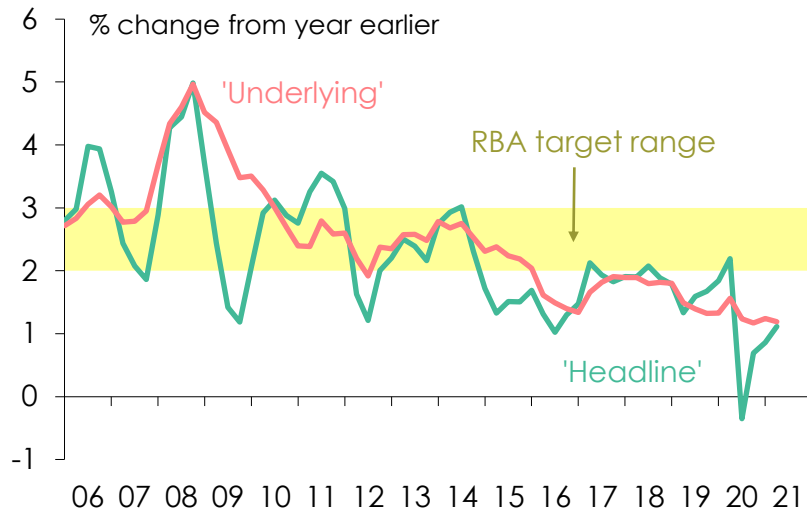
A\$ TWI



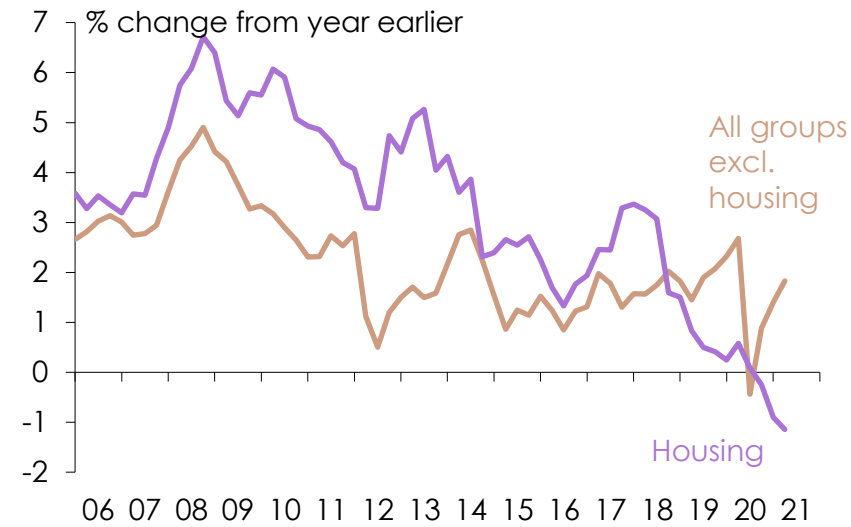
Note: The 'TWI' is the RBA's [trade-weighted index](#) of the A\$. Source: Refinitiv Datastream. Data up to 9th July. [Return to "What's New"!](#)

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

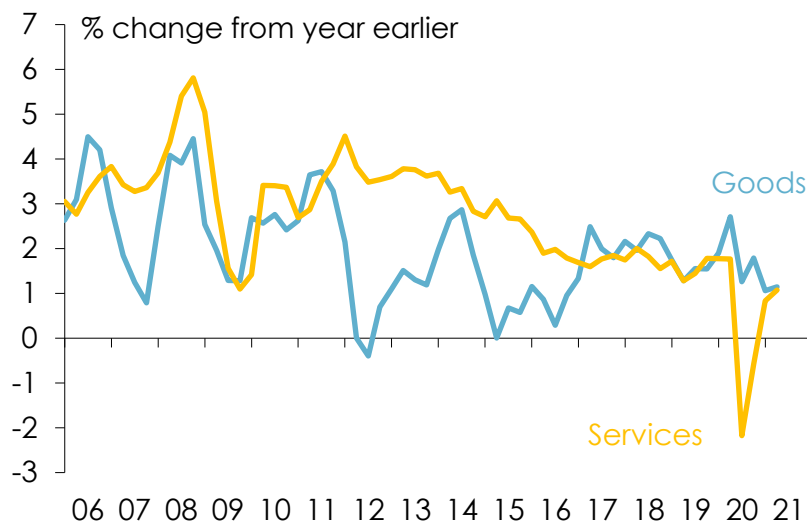
Consumer prices



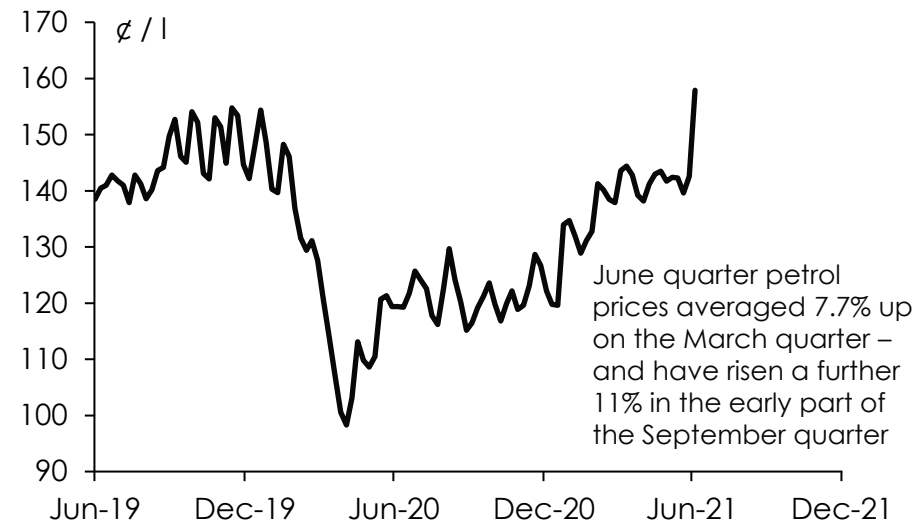
Housing costs



Goods vs services prices



Retail petrol prices

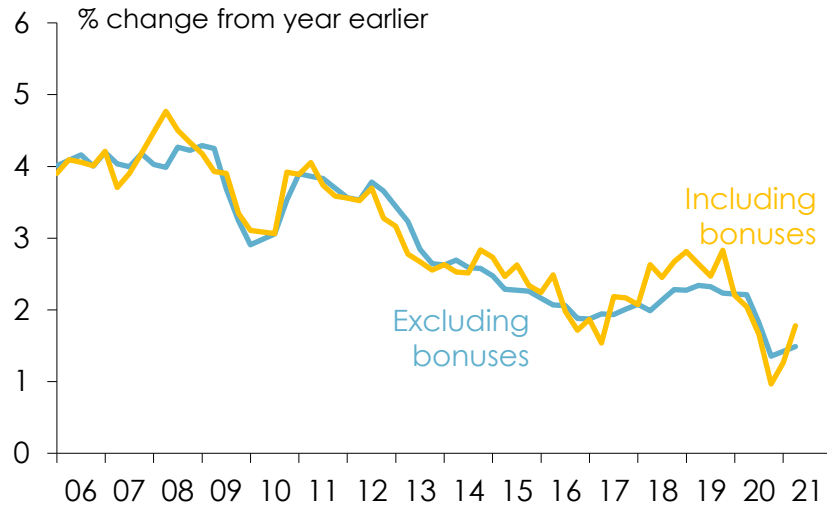


- ❑ The CPI rose a smaller-than-expected 0.6% in Q1, pushing the annual 'headline' inflation rate up 0.2 pc pts to 1.1%
- ❑ Almost half the Q1 increase in the CPI came from an 8.7% increase in petrol prices
- ❑ The main dampening effects came from government policies – including cash grants to first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

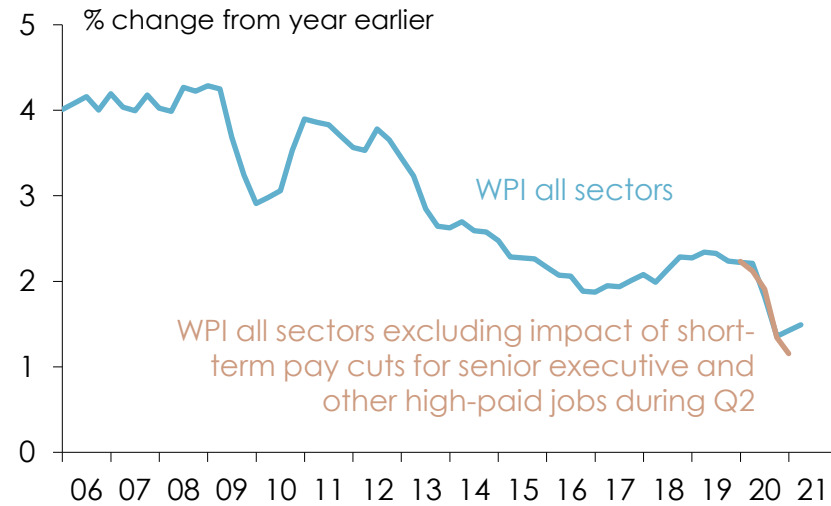
Note: 'Underlying' inflation is the average of the weighted median and trimmed mean CPIs. Wage price indices exclude bonuses.
Sources: ABS, [Consumer Price Index, Australia](#); [Australian Institute of Petroleum](#). The June quarter (Q2) CPI will be released on 28th July.
[Return to "What's New"](#).

Wages rose by 1.5% 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

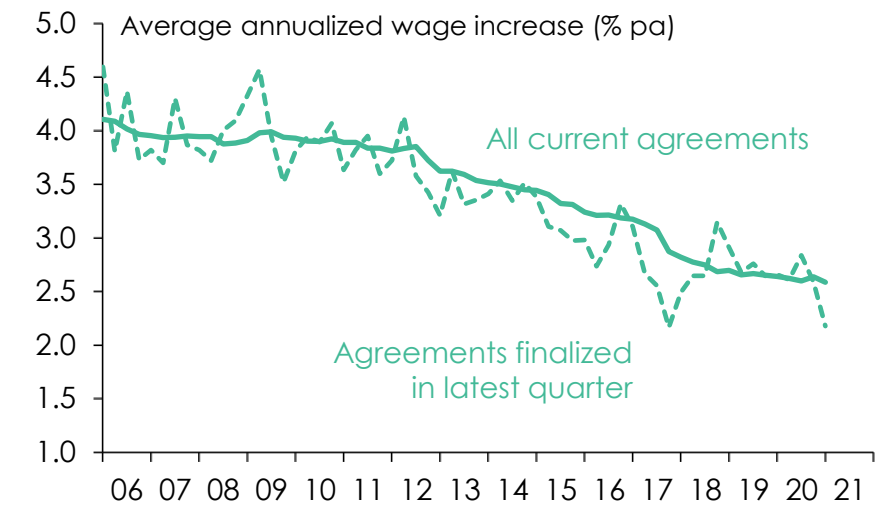
Wage price index – all sectors



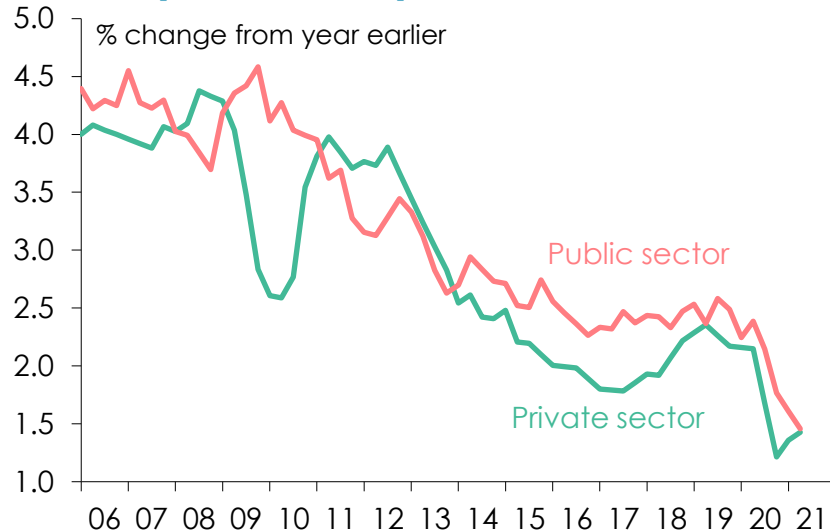
WPI excl. temporary wage cuts



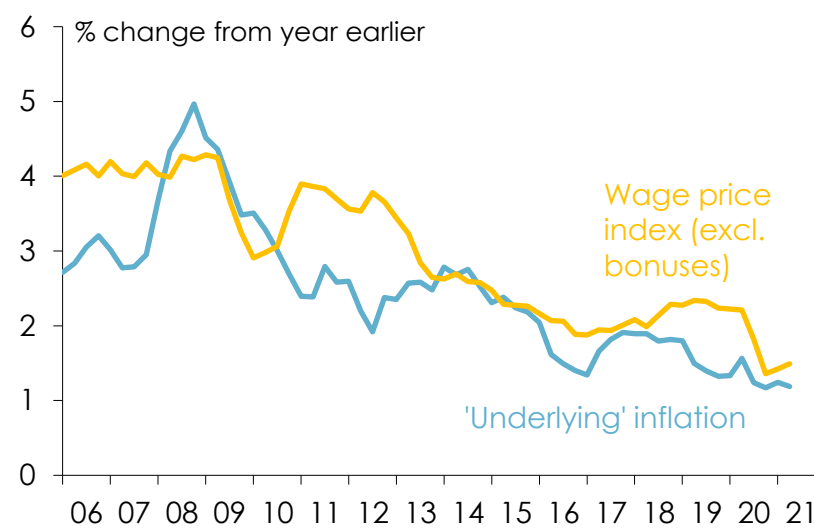
Enterprise bargaining agreements



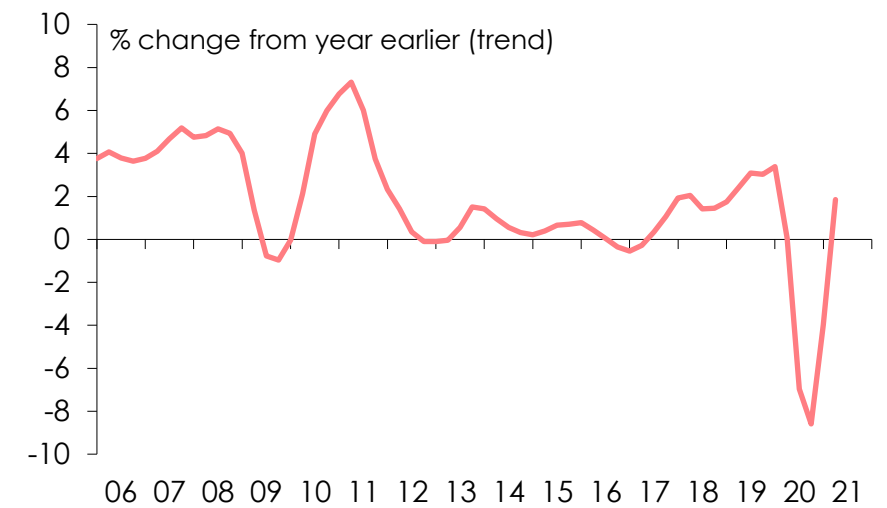
WPI – private vs public sectors



WPI and 'underlying' CPI inflation



Unit labour costs



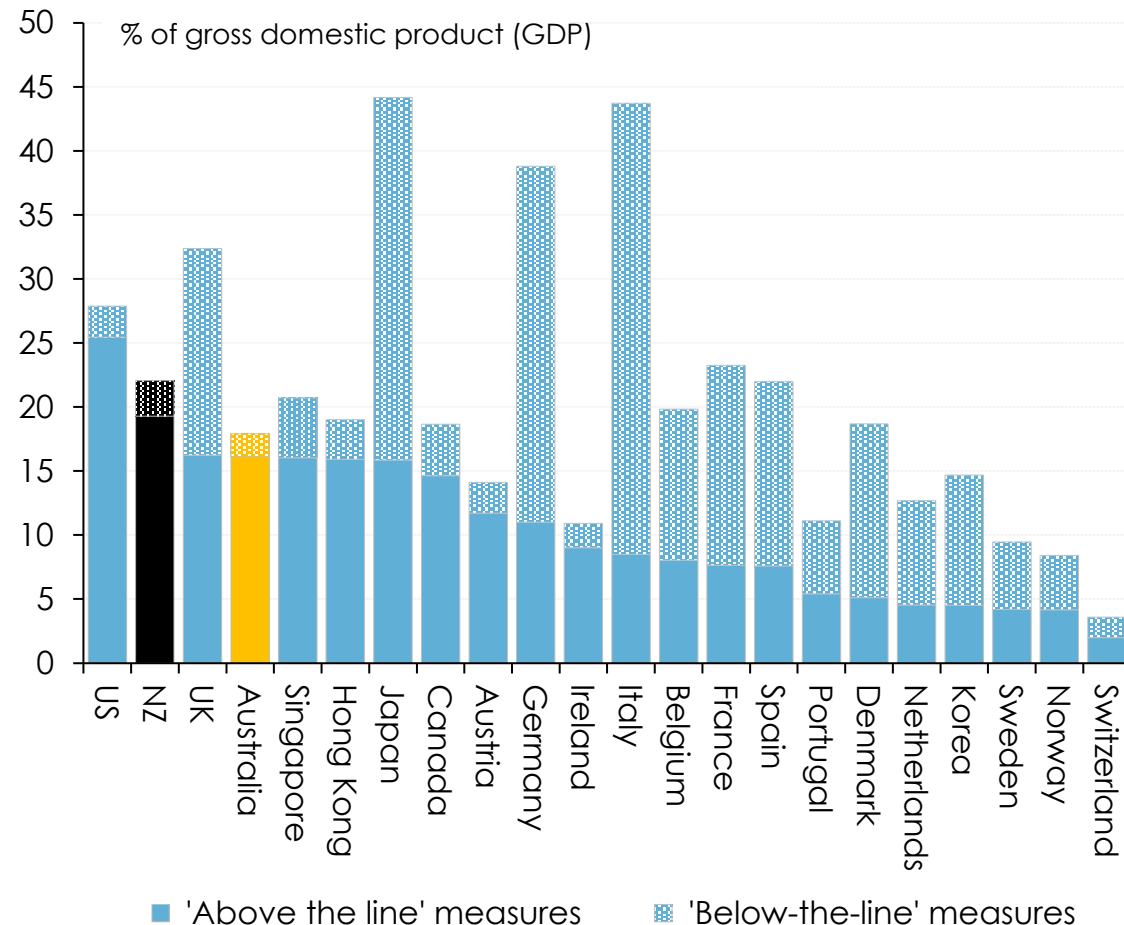
Note: Unit labour costs is compensation of employees (including fringe benefits and social insurance contributions) per hour worked divided by (real) gross value added per hour worked (ie, labour productivity) for the non-farm sector. Source: ABS; Attorney-General's Department. June quarter WPI data will be released on 18th August.

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

Australia's fiscal and monetary policy settings

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

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

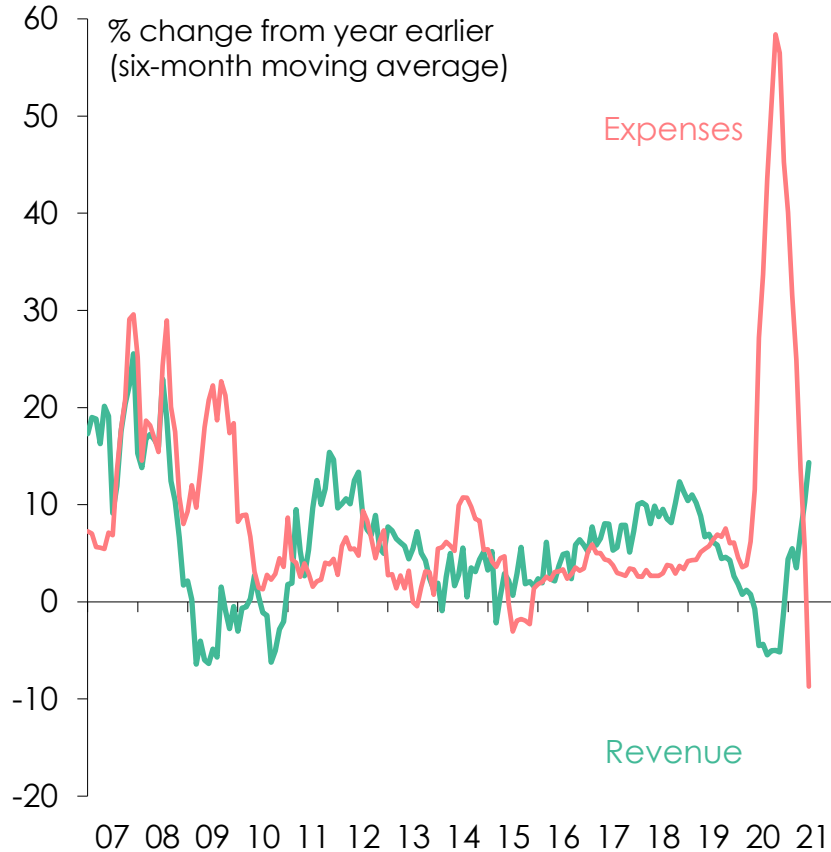


Note: 'Above the line' measures comprise additional or accelerated spending and deferred or foregone revenue. 'Below the line' measures comprise equity injections, loans, asset purchases and debt assumptions, but do not include loan guarantees or other contingent liabilities. 'DMs' means 'developed markets' (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 11³/₄% of one year's GDP – which is large by international standards (and double what was done during the GFC)
 - the IMF's latest *Fiscal Monitor Update* estimates that measures announced up to 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

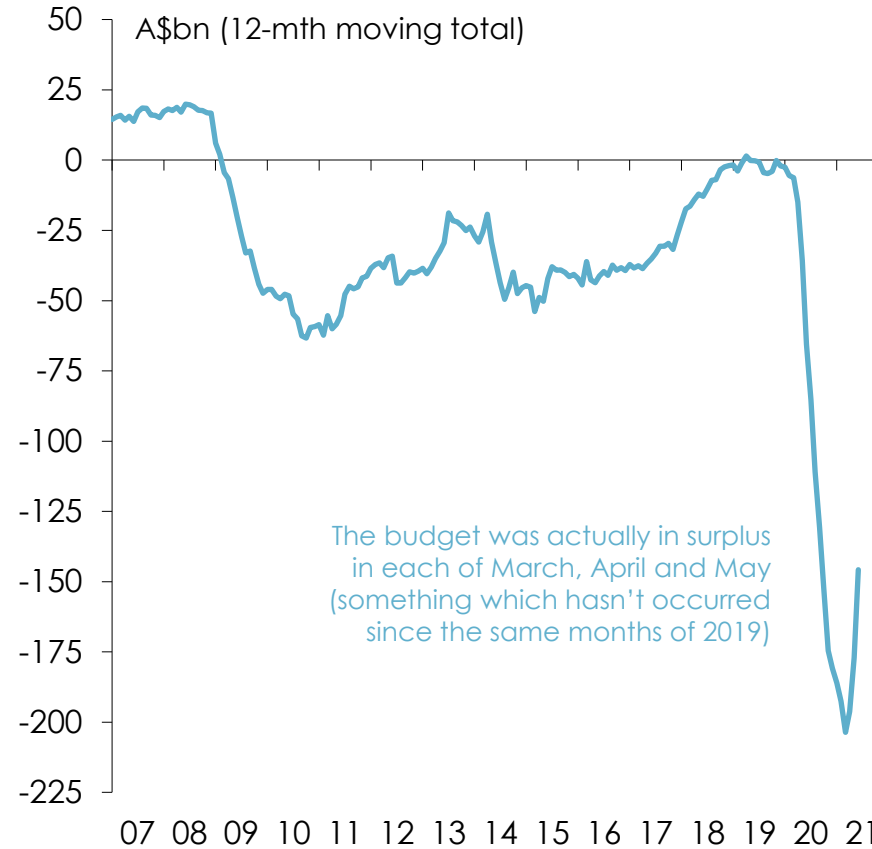
The budget was in surplus for three months in a row between March and May, and for the first 11 months of 2020-21 was \$14bn less than forecast

Australian Government revenue and expenses



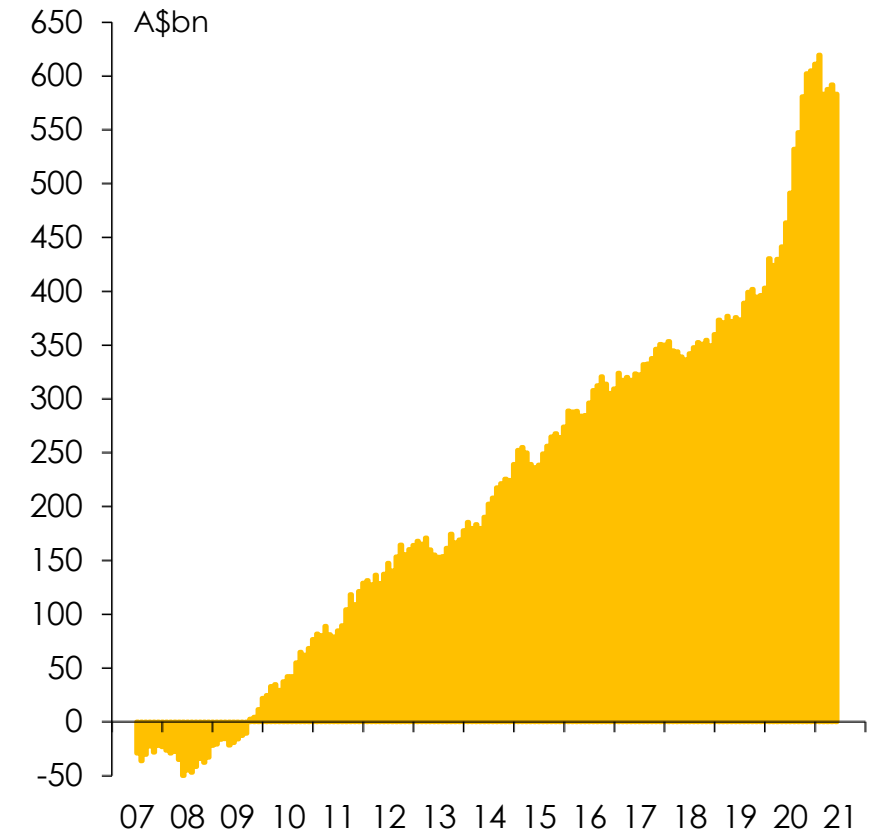
- Expenses have now peaked, while revenue is beginning to turn around as the economy picks up

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

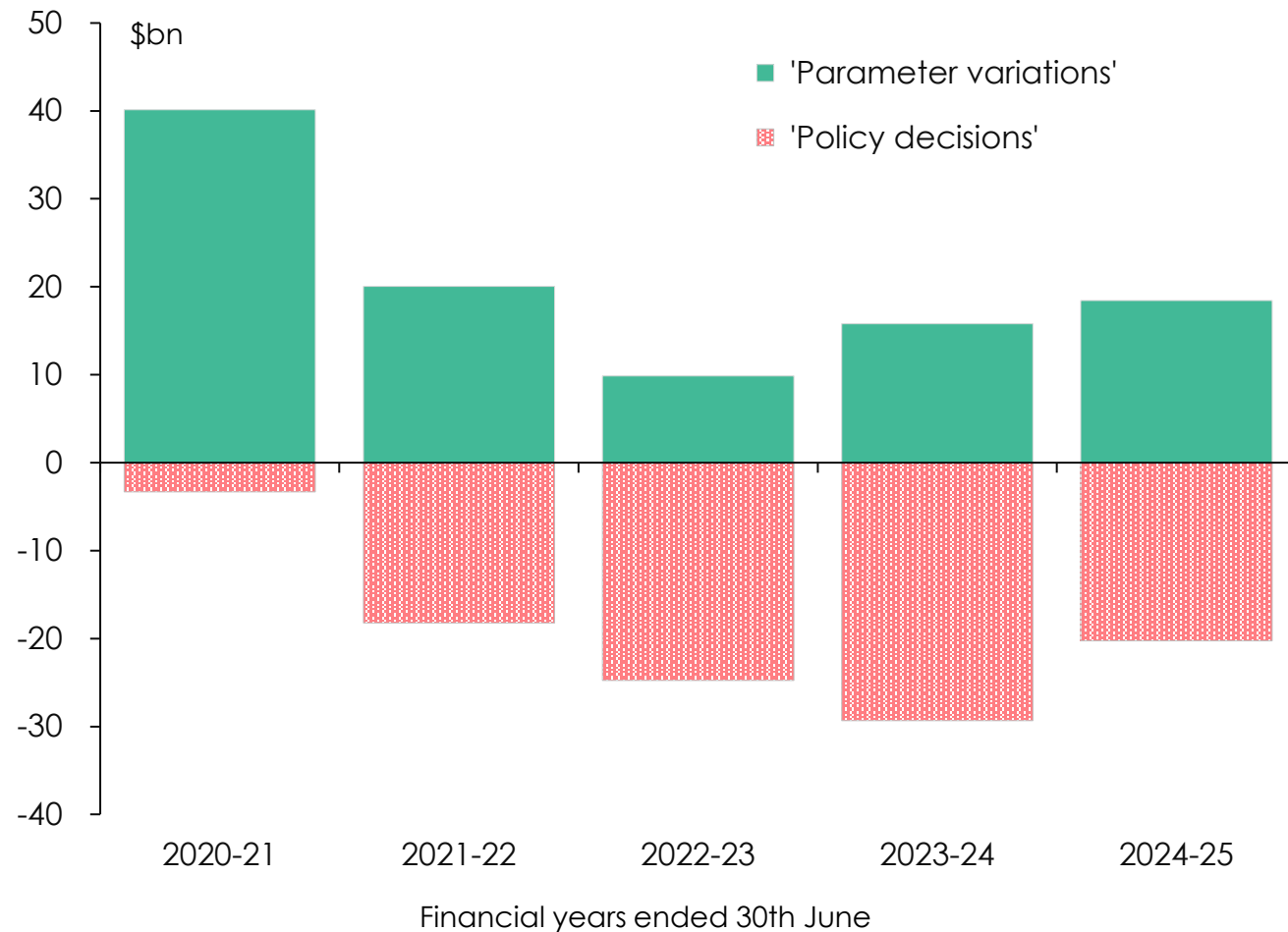


- Net debt as at end-May was \$583bn (about 25½% of GDP), down from a peak of \$619bn at end-January

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"](#).

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

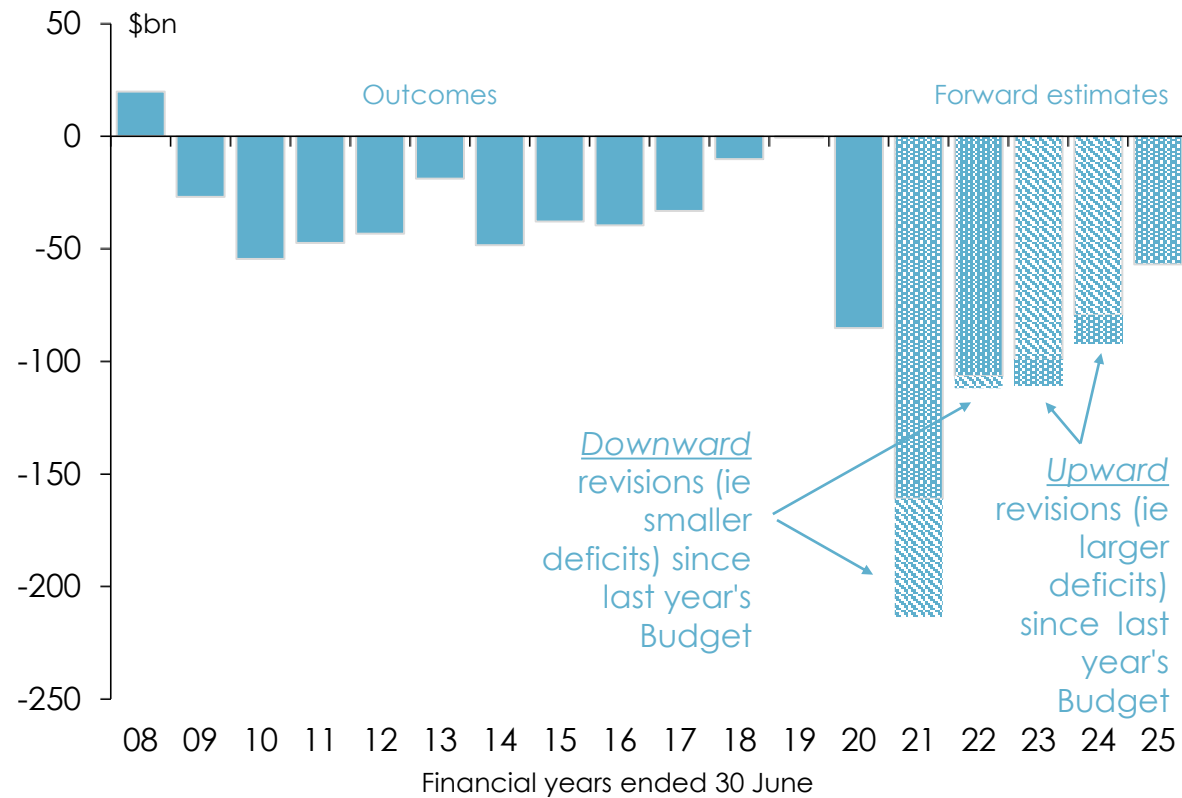


- ❑ The budget affects the economy (through the 'policy decisions' which the Government makes as it puts the Budget together) – but the economy also affects the Budget (via what the Budget Papers call 'parameter variations' in receipts and payments)
- ❑ 'Parameter variations' between last December's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

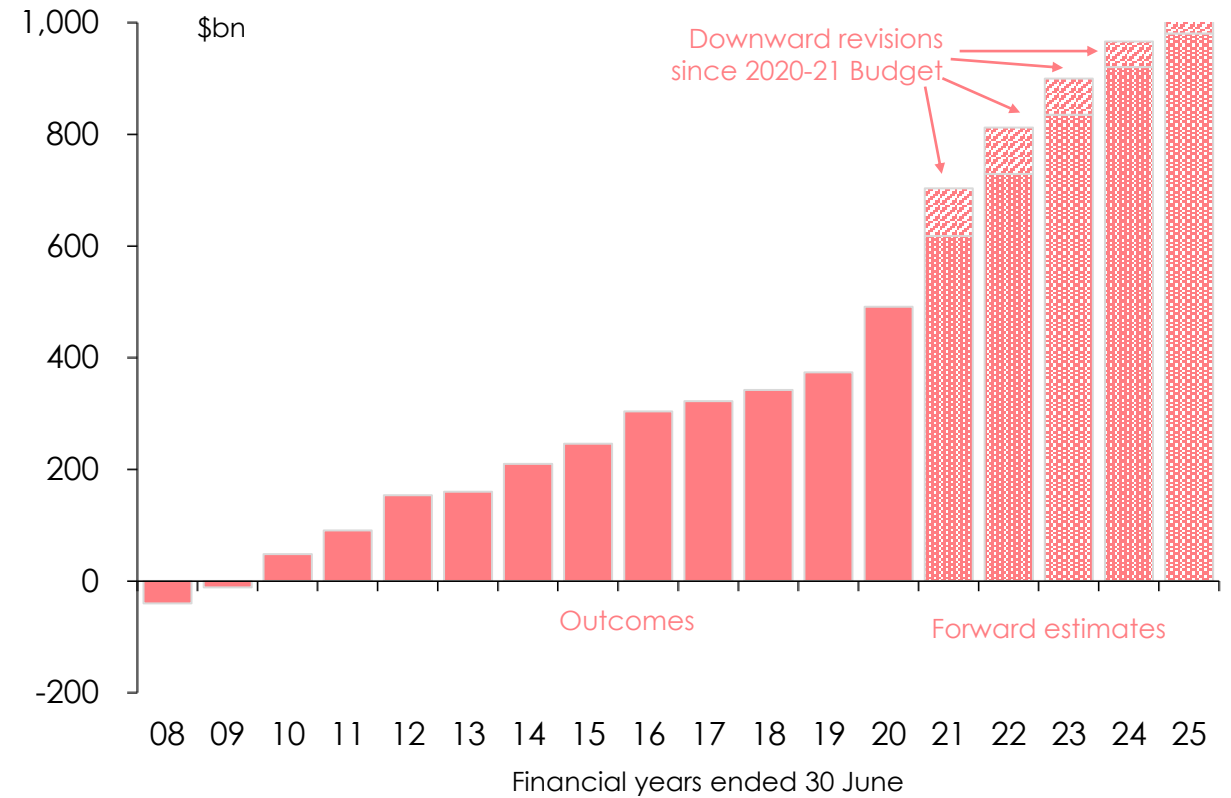
The deficit for 2020-21 will be a lot (and that for 2021-22 a bit) smaller than previously forecast, the deficits for 2022-23 and 2023-24 will be larger

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

'Underlying' cash balance



Net debt

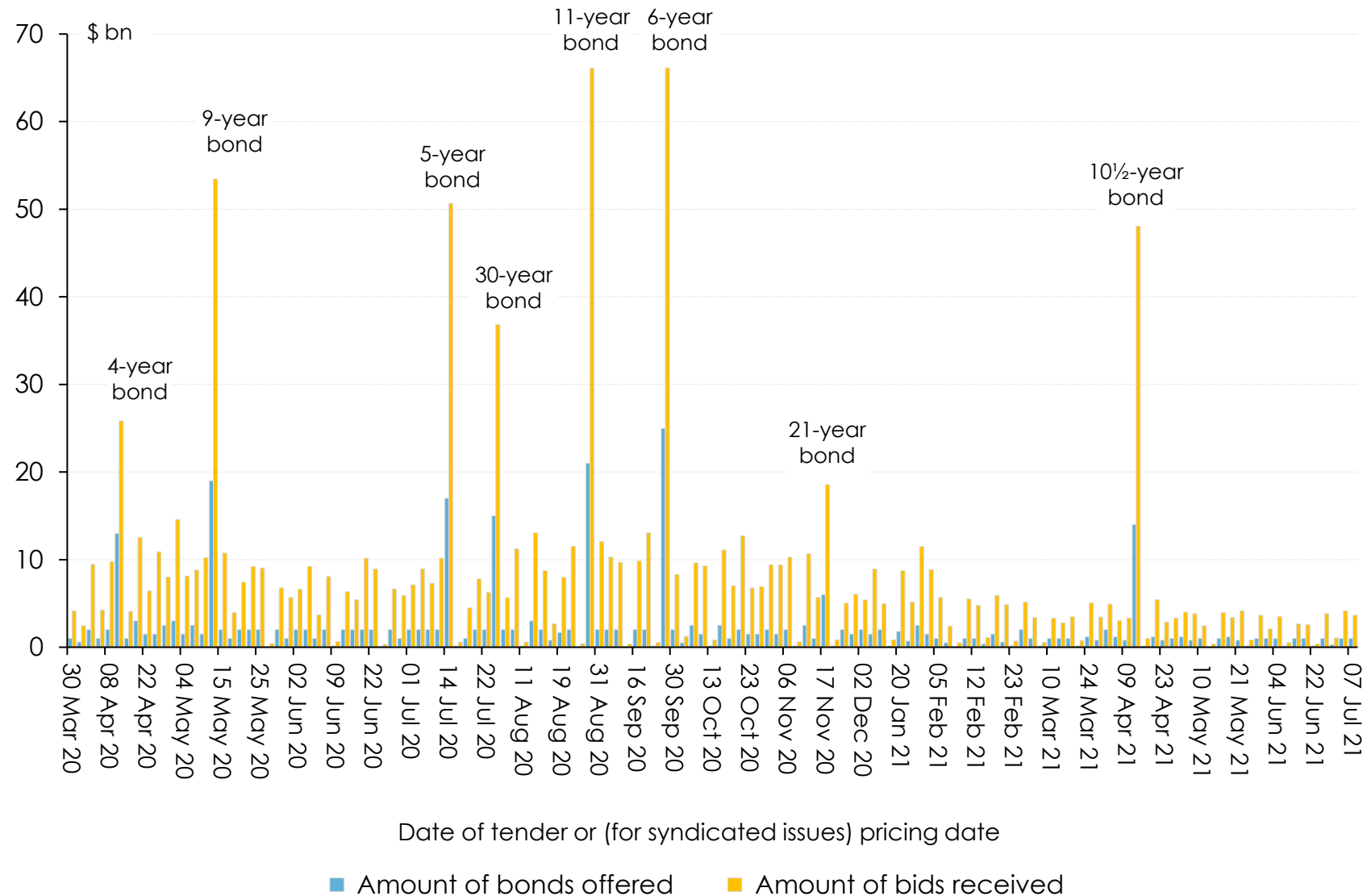


❑ The deficits for 2020-21 and 2021-22 have been revised down by \$53bn and \$5bn respectively since last year's Budget – but the deficits for 2022-23 and 2023-24 have been revised up by \$11bn and \$13bn respectively

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

The Government continues to find a ready appetite for its bond issuance – and it will issue \$80bn less in FY 2021-22 than in 2020-21

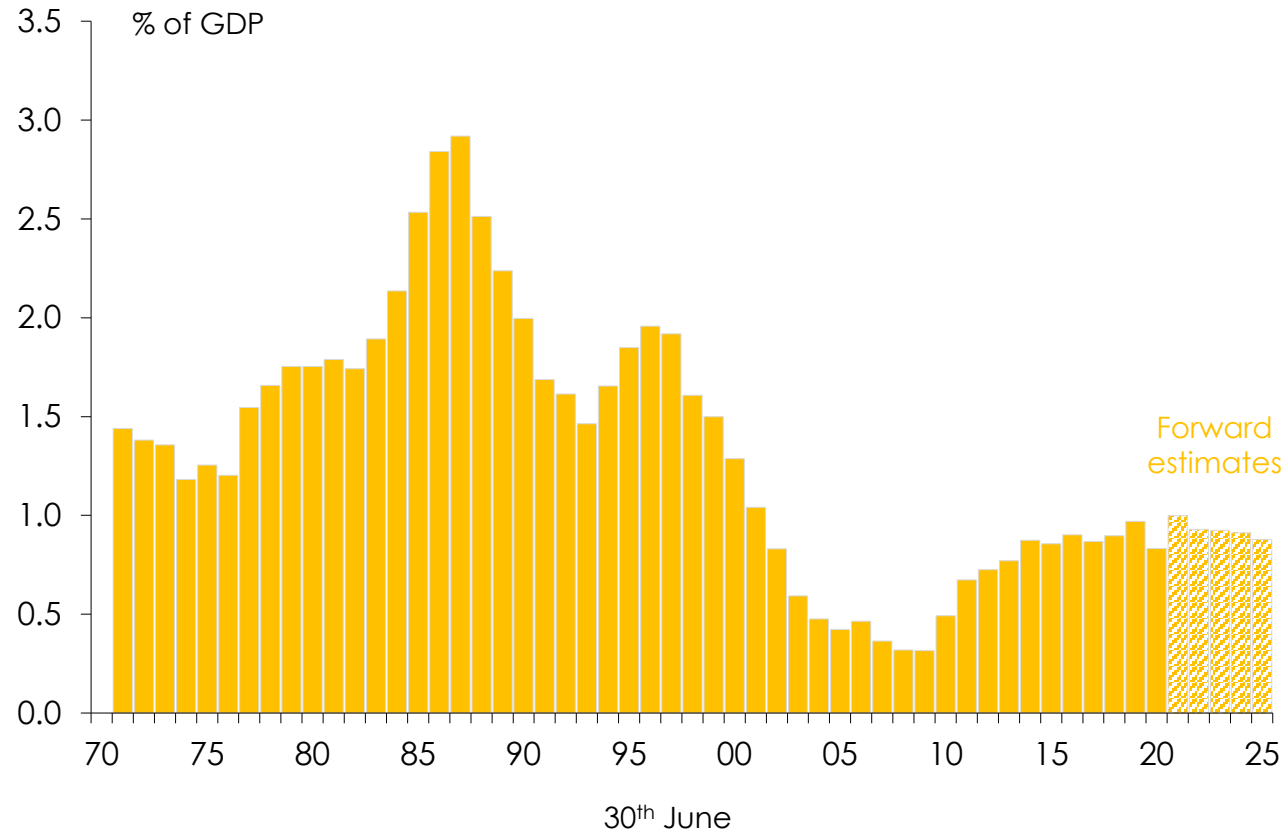
Australian government bond issuance since March 2020



- ❑ Since 30th March 2020, the Australian Office of Financial Management has issued \$299 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 10-year bonds this week at an average yield of 1.33% - it could have sold \$3.67bn at an average of 1.35%
- ❑ 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)

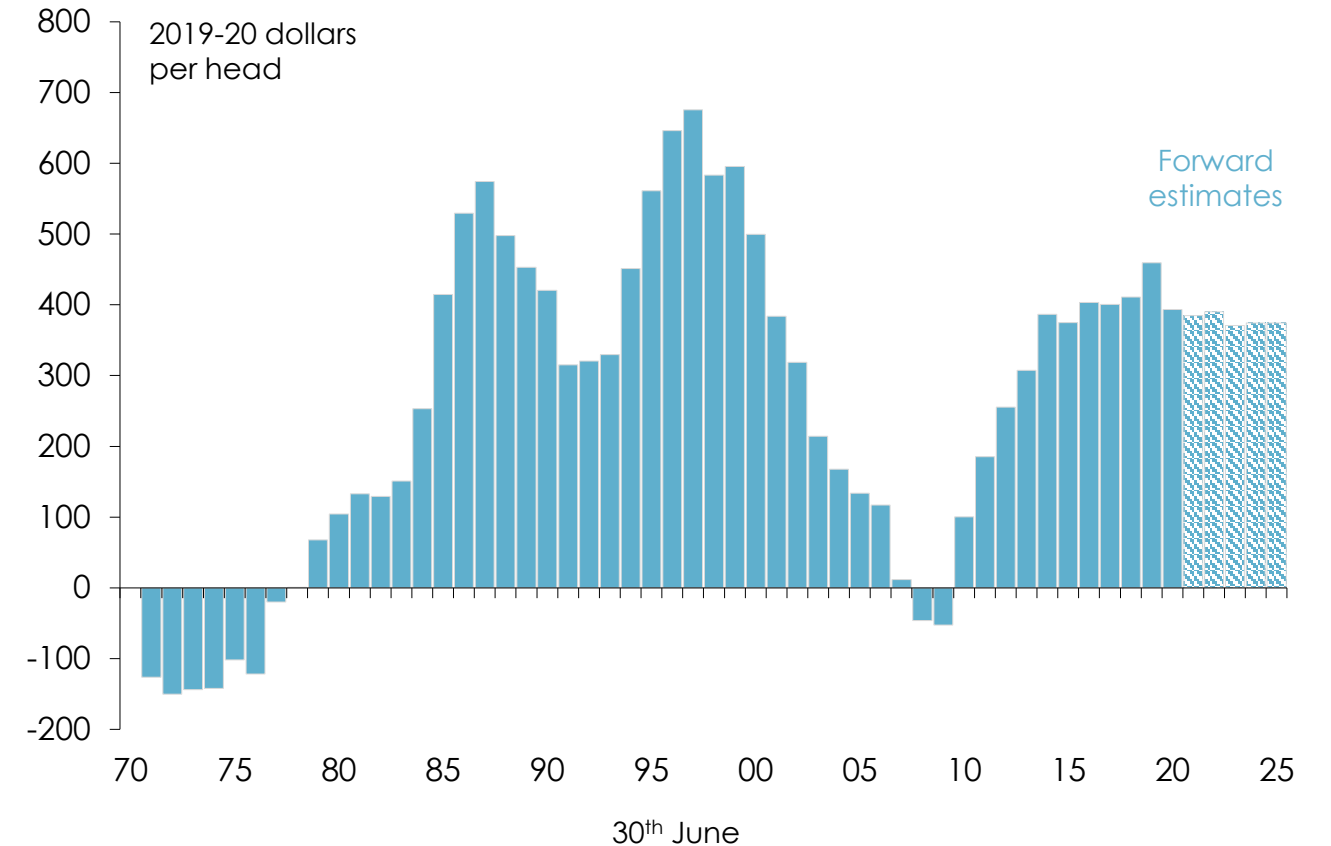
Because interest rates are so low, the cost of servicing the debt which the Government is racking up will be low by historical standards

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

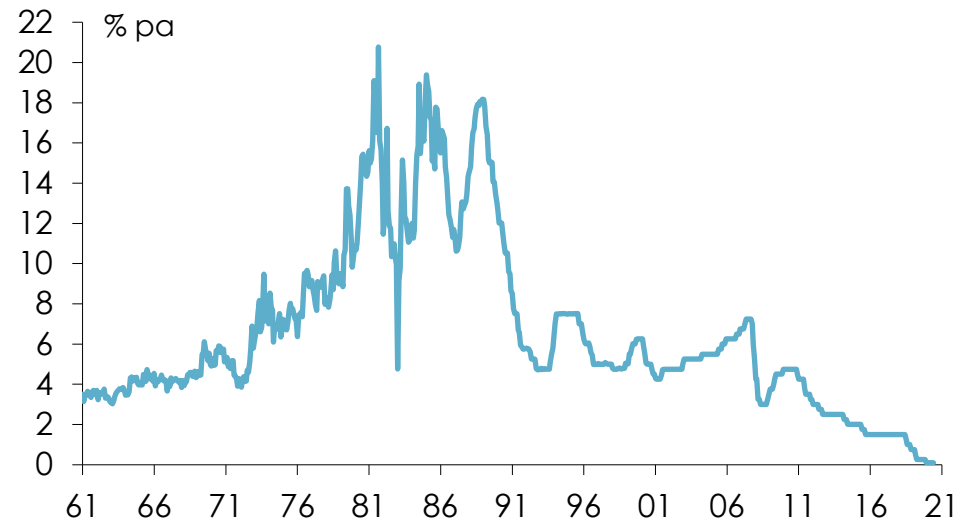
Australian Government net interest payments per head of population in 2019-20 dollars



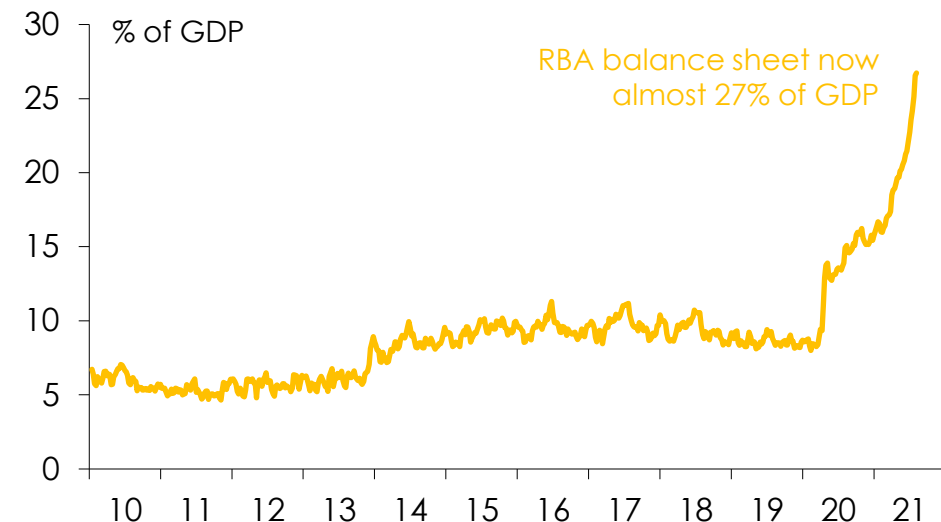
Net interest payments per head of population will be less than they were in the second half of the 1980s, between 1993-94 and 1999-2000, or between 2015-16 and 2019-20

The RBA this week acknowledged the possibility that it could start raising rates before 2024 (although that's not its 'central scenario')

Reserve Bank cash rate



Reserve Bank assets as a pc of GDP

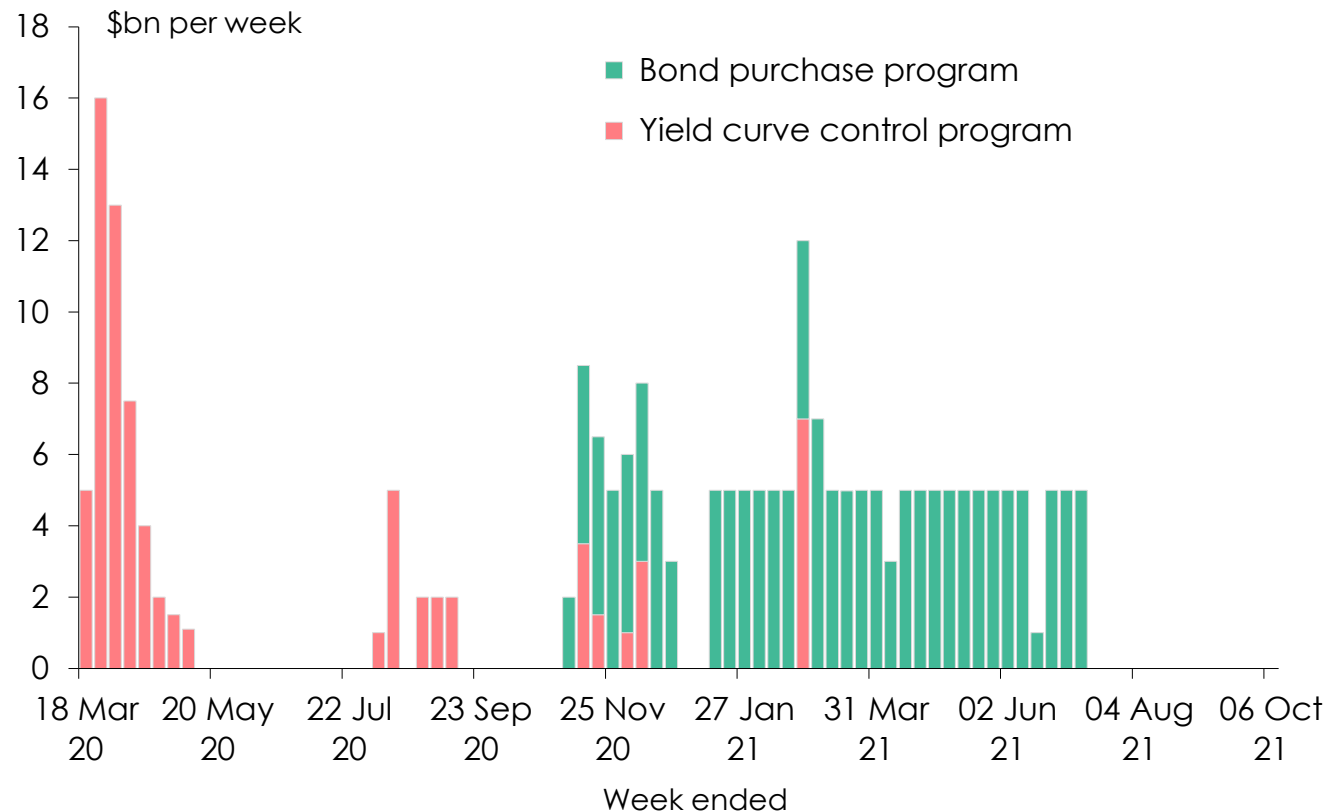


Source: Reserve Bank of Australia, [Statistical Tables](#) A3 and F1.1. [Return to "What's New"](#).

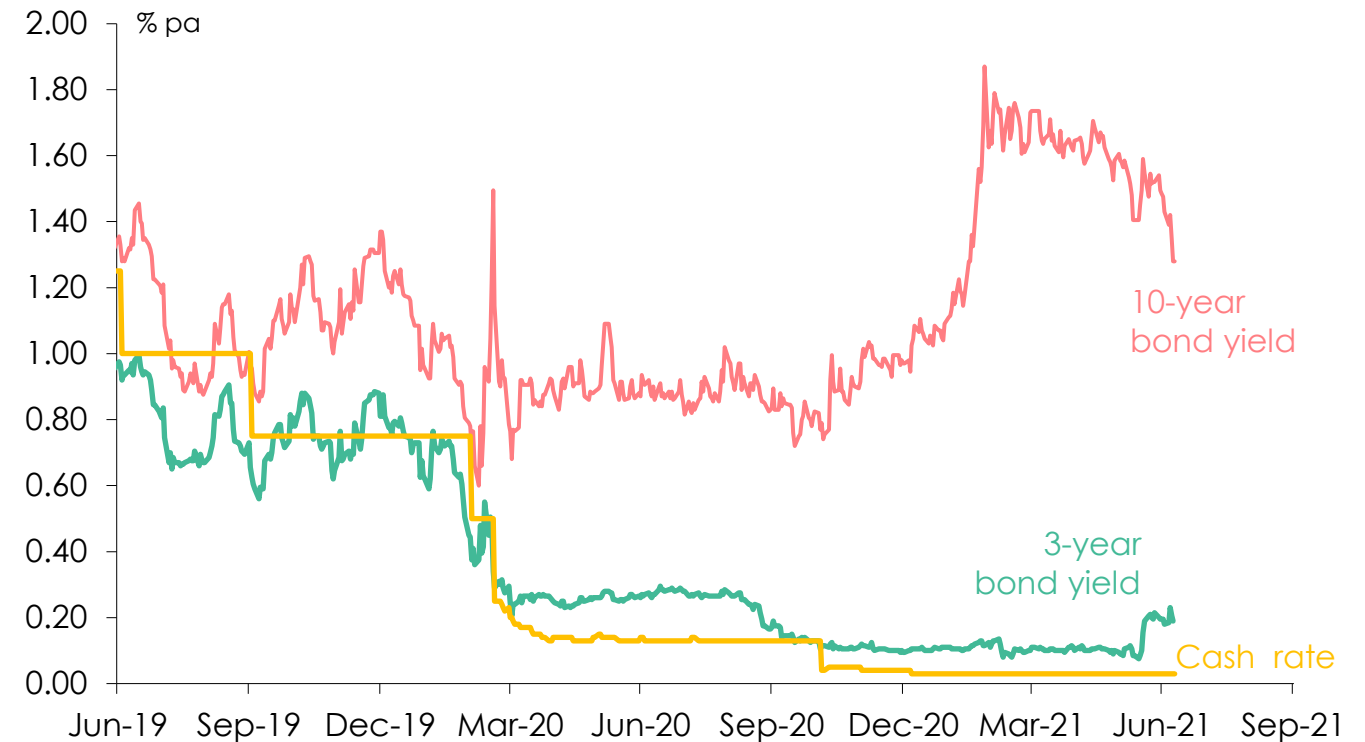
- ❑ At this week's meeting the RBA Board decided to
 - maintain the cash rate target at 0.10% (where it has been since November 2020)
 - retain the April 2024 bond as the target for its 'yield curve control' program (rather than the alternative of shifting the target to the November 2024 bond), and keep the target for the yield on that bond at 0.10%
 - 'taper' the volume of purchases under its longer-term Bond Purchase Program (after the current program ends on 30th September) from \$5bn a week to \$4bn a week, with a further review in mid-November
- ❑ As expected, the RBA Board subtly shifted its 'guidance' regarding the timing of any future first tightening of monetary policy
 - Governor Lowe's [post-meeting statement](#) re-iterated that monetary policy wouldn't be tightened until "actual inflation is sustainably within the 2-3% range" (emphasis added)
 - and that meeting this will "require the labour market to be tight enough to generate wages growth that is materially higher than it is currently",
 - instead of (as previously) saying this wouldn't be "until 2024 at the earliest", Governor Lowe characterized the RBA's "central scenario" as being that "this condition will not be met before 2024"
 - which appears to be an acknowledgement that the conditions for a first tightening *could* be met before 2024 (although the RBA doesn't presently expect that)
- ❑ Asked (at a rare post-meeting [press conference](#)) about the relevance of indications from other central banks (the RBNZ, BoC and Fed) that they were likely to raise rates before 2024, Governor Lowe drew attention to the fact that inflation rates in those economies were closer to their [lower] targets than was the case in Australia

The 10-year yield fell another 15 bp this week to its lowest level since mid-February, largely mirroring US trends and despite RBA 'tapering'

RBA open market bond purchases



Interest rates

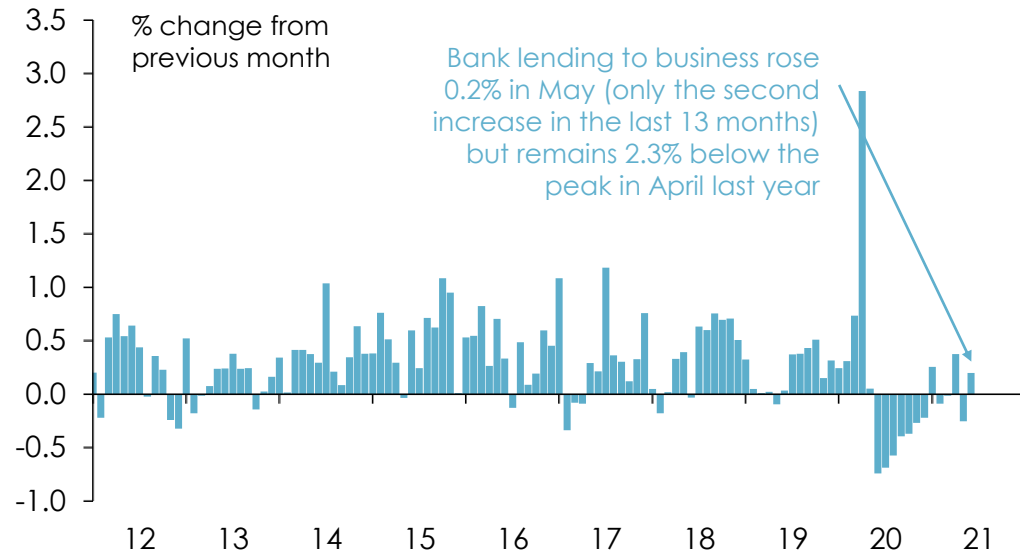


- ❑ The 3-year yield reached 0.23% on Tuesday but came back to 0.19% by week's end (still well above the RBA's 'target' of 0.10%) – the RBA Board decided to keep the April 2024 bond as its short term target so strictly speaking this is no longer a 3-year target
- ❑ The RBA bought another \$5bn of longer-term bonds this week as part of its Bond Purchase Program – and this week the RBA Board foreshadowed reducing the pace of purchases under this Program to \$4bn a week after end-September with a further review in mid-November (see [slide 135](#))
- ❑ Meanwhile the 10-year yield fell 15bp to a 5-month low of 1.28% largely reflecting US movements

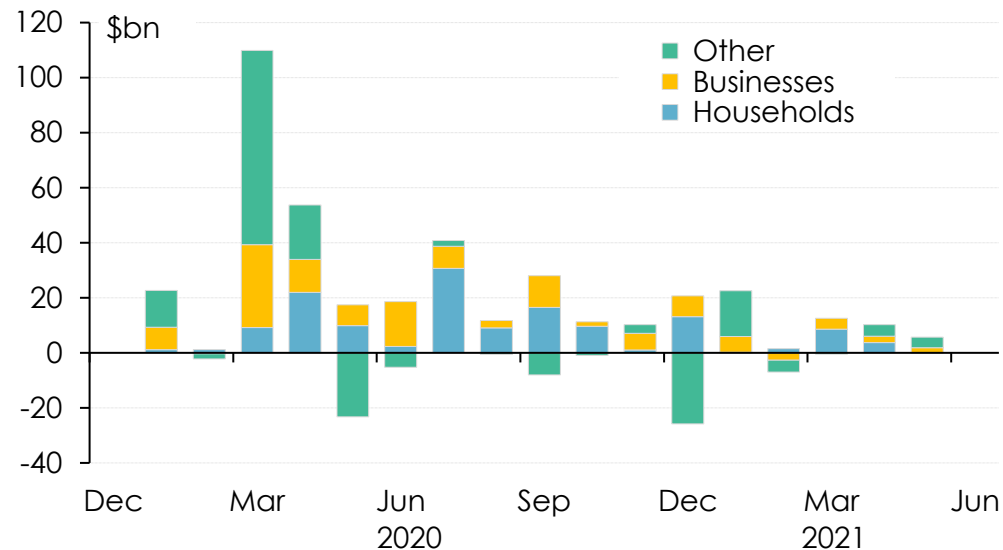
Source: Reserve Bank of Australia, [Statistical Tables](#) A3 and F2. Data up 9th July. [Return to "What's New"](#).

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

Business credit outstanding



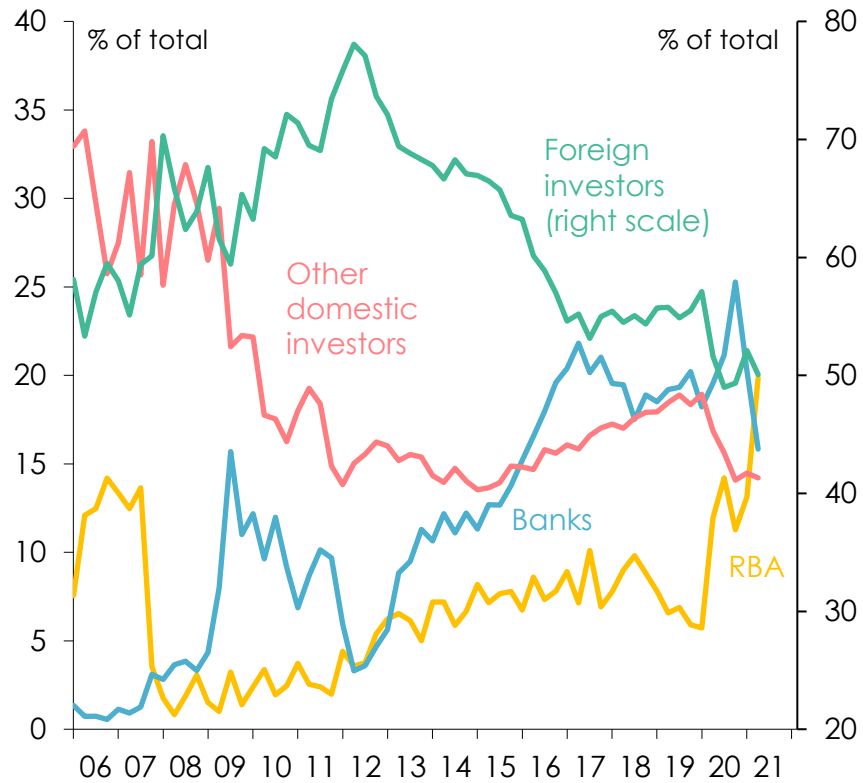
Monthly change in bank deposits



- ❑ Banks have cut interest rates on small business loans by more than the official cash rate since June 2019 (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 fell to less than 1% by end-February ahead of the end of these arrangements in March (see [next slide](#))
- ❑ Bank deposits have swelled by \$304bn (14¼%) 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 \$114½bn (19¼%)

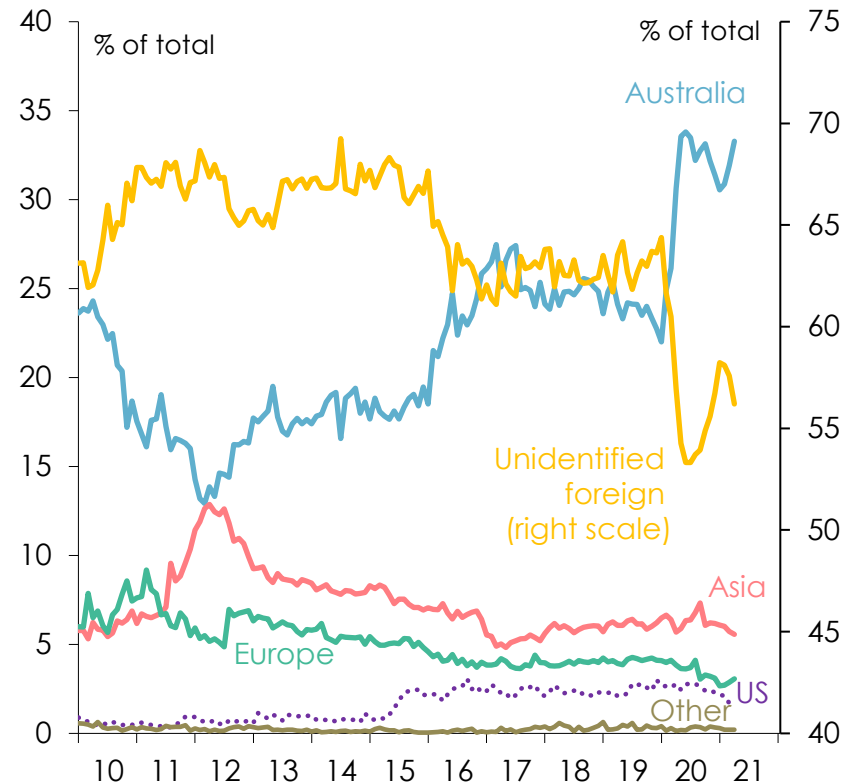
The RBA has (indirectly) absorbed almost half the increase in government debt since the end of 2019, banks 23% and foreign investors 28%

Holder of Australian Government bonds



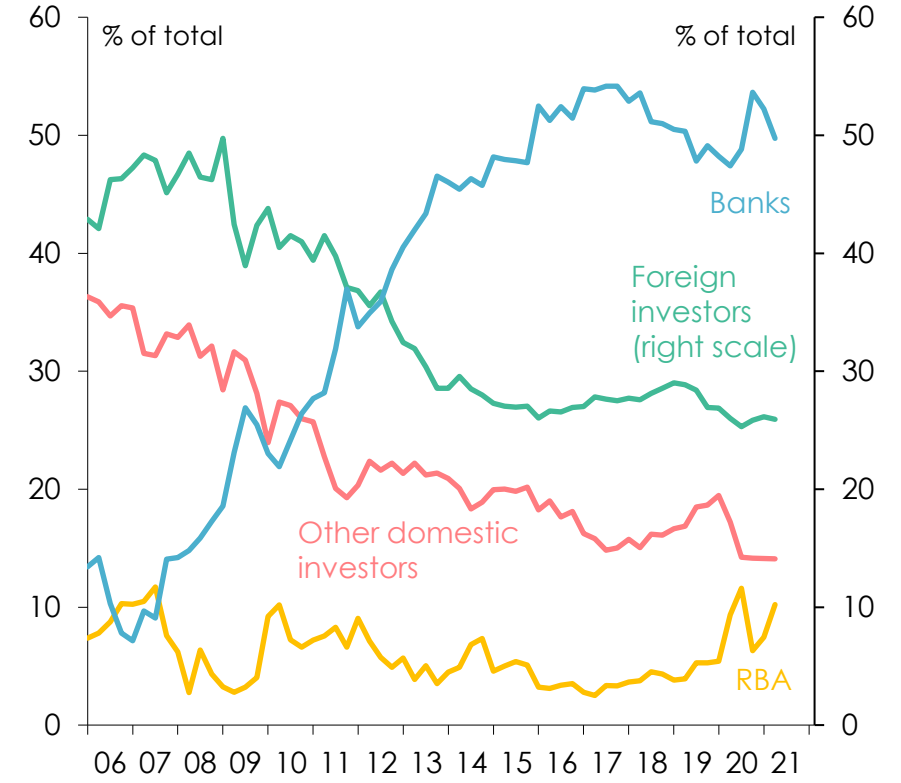
Australian Gov't bonds on issue have increased by \$219bn since the end of 2019 – of which \$133bn (61%) have been absorbed by the RBA, \$65bn by foreigners and \$20bn by banks

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

Holder of State and Territory Government bonds



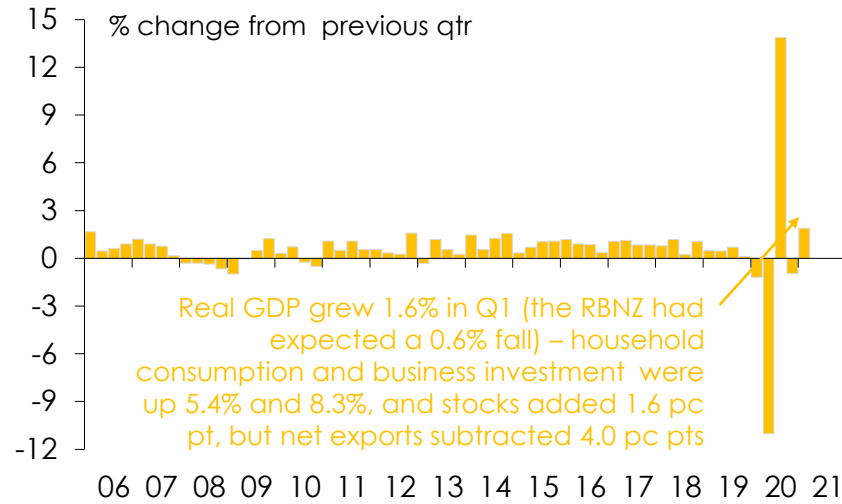
State & Territory Gov't bonds on issue increased have increased by \$101bn since the end of 2019, of which \$54bn have been absorbed by banks, \$24bn by the RBA and \$23bn by foreigners

Sources: ABS, [Finance and Wealth Accounts](#); [Australian Office of Financial Management](#). June quarter data will be released on 23rd September. [Return to "What's New"](#).

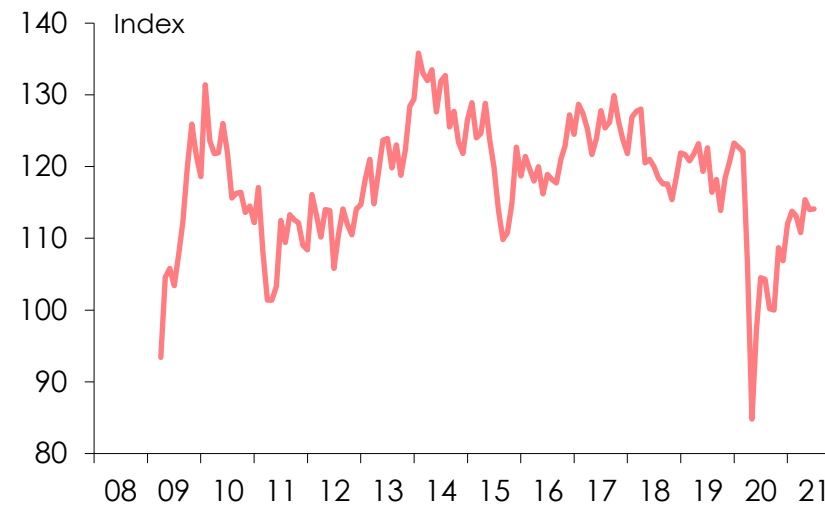
New Zealand

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)

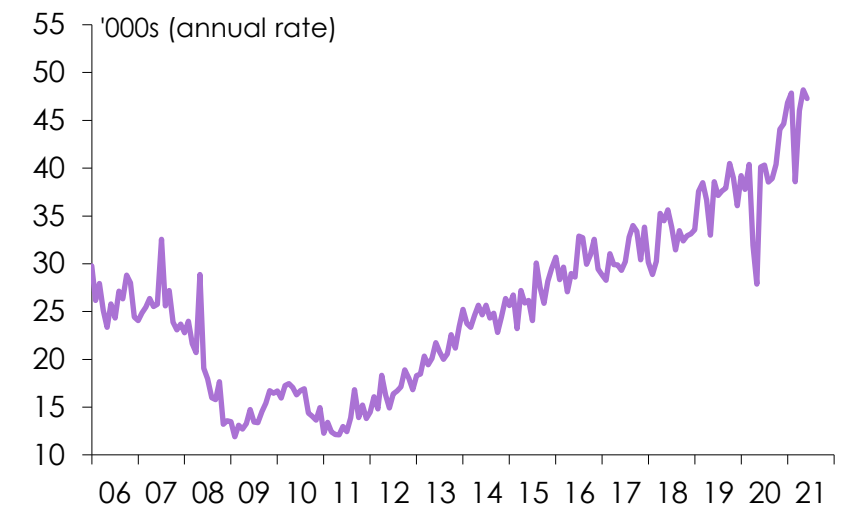
Real GDP



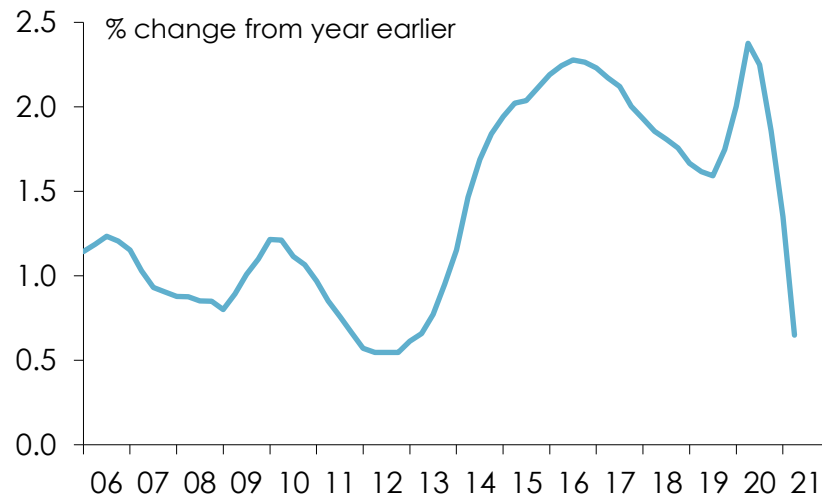
Consumer confidence



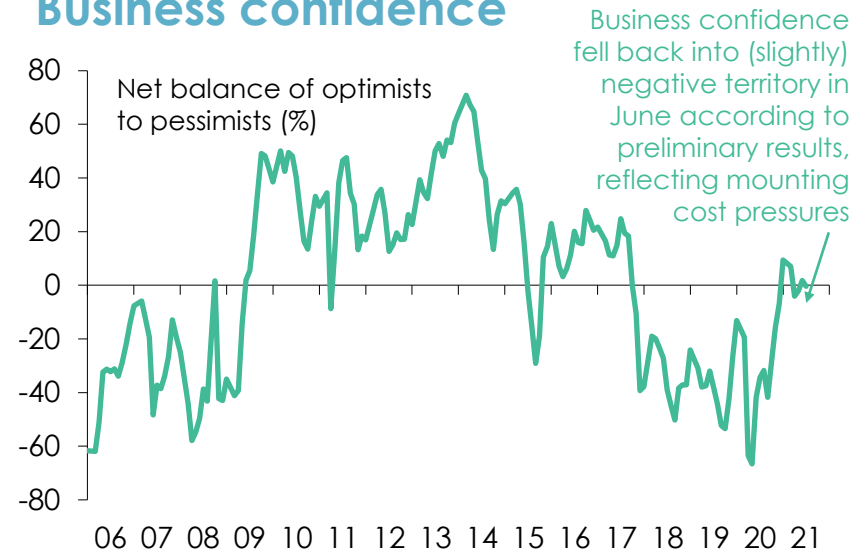
Dwelling 'consents' (permits)



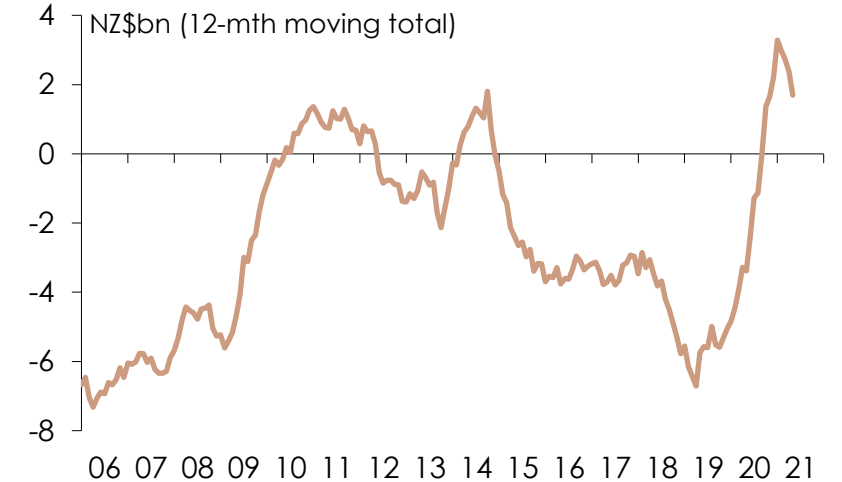
Population growth



Business confidence



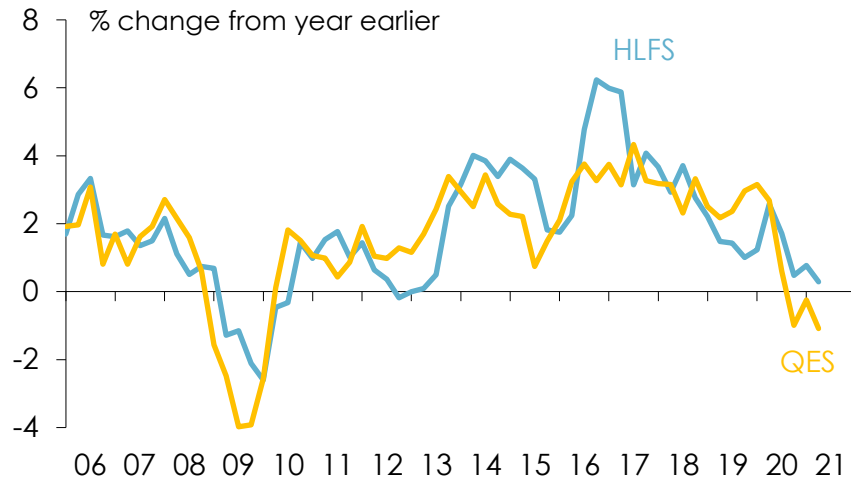
Merchandise trade balance



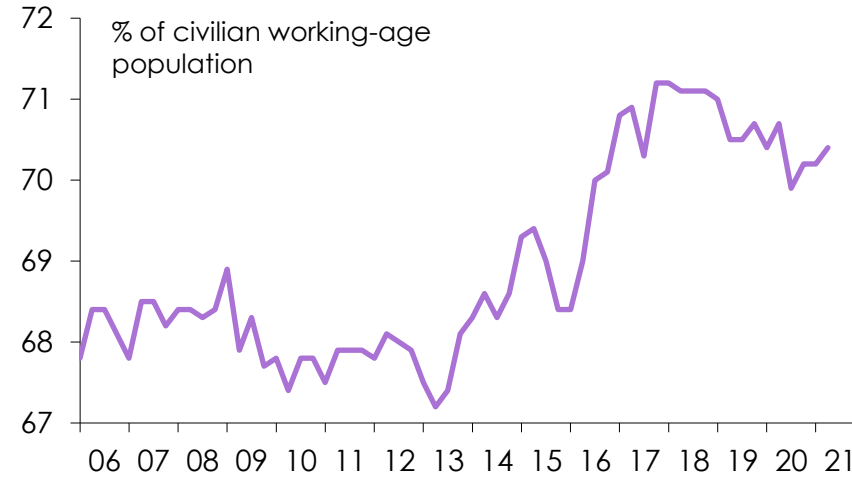
Note: New Zealand uses GDP(P) as its preferred measure of GDP. Unemployment rates are quarterly.
Sources: [Statistics NZ](#); NZ Treasury, [Budget Economic and Fiscal Update 2021](#); ANZ-Roy Morgan; [ANZ Bank NZ](#). [Return to "What's New"](#).

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%

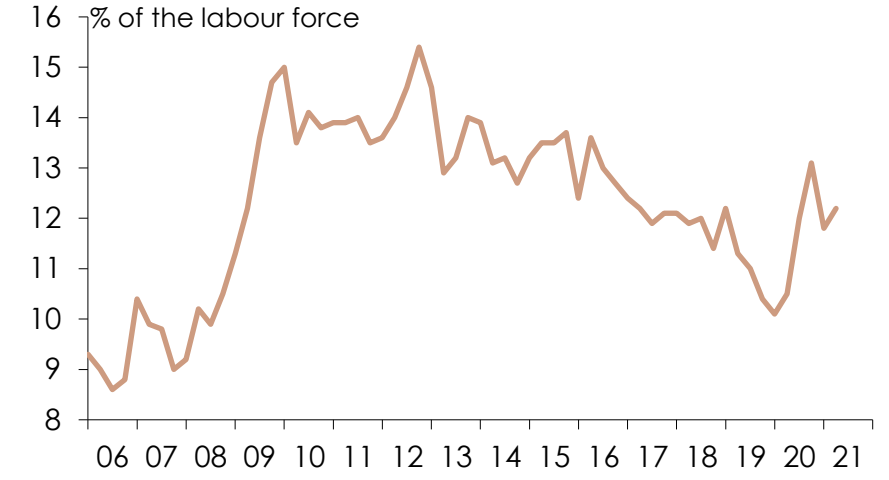
Employment



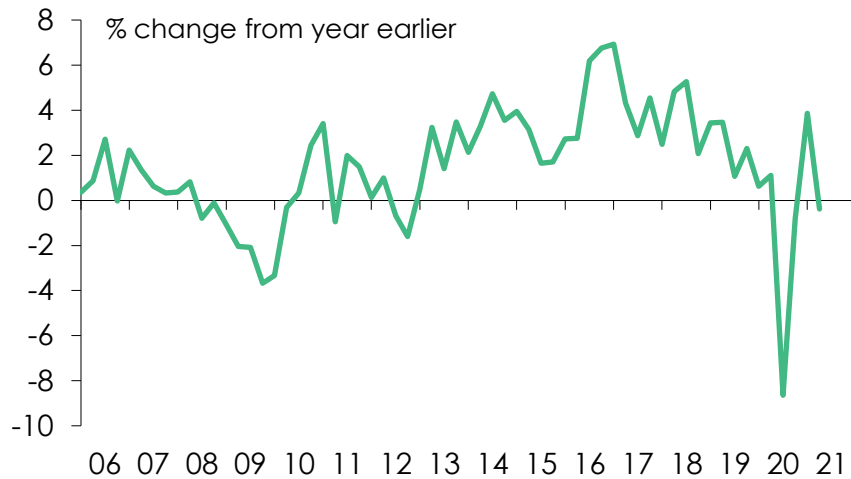
Labour force participation rate



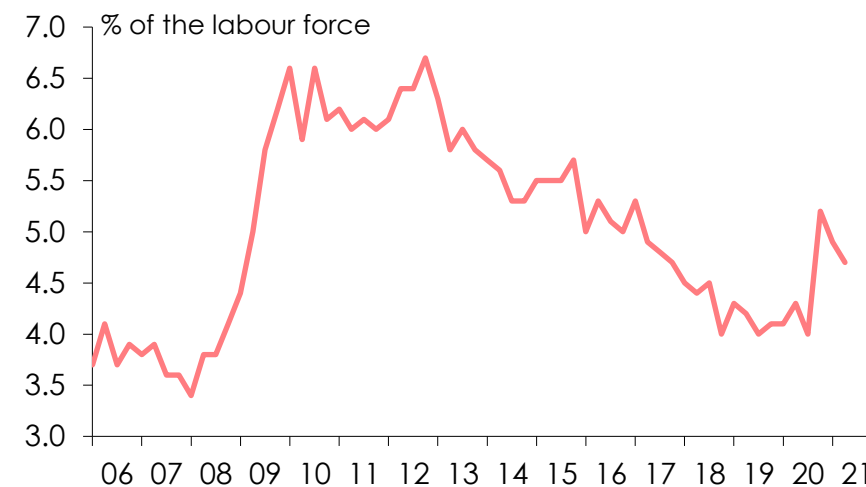
Labour force under-utilization rate



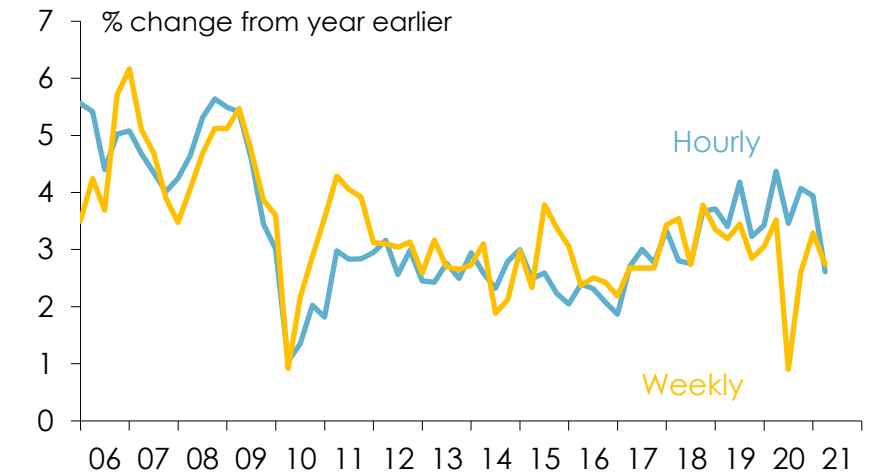
Hours worked



Unemployment rate



Average weekly earnings

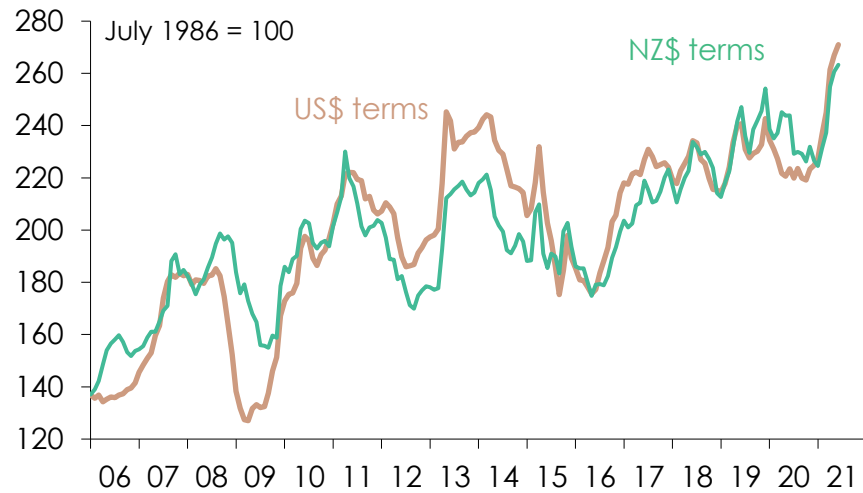


Note: New Zealand labour force data are only published quarterly. There are two 'headline' series on employment – the household labour force survey (HLFS) which counts the number of people in employment during the quarter; and the quarterly employment survey (QES), which counts the number of 'filled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

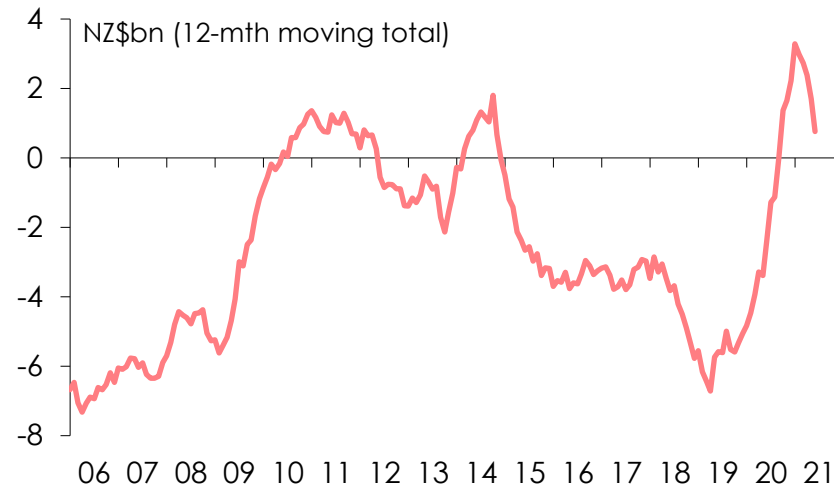
Source: [Statistics NZ](#). June quarter data will be released on 7th August. [Return to "What's New"](#).

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

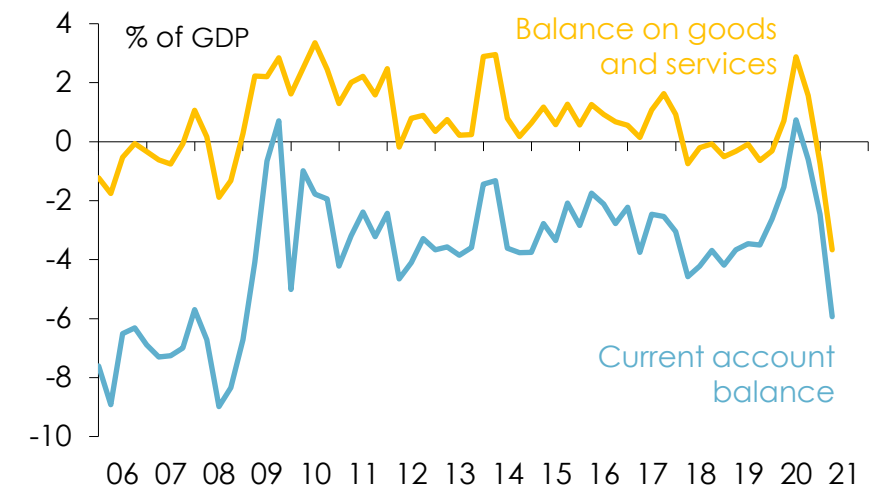
Export commodity prices



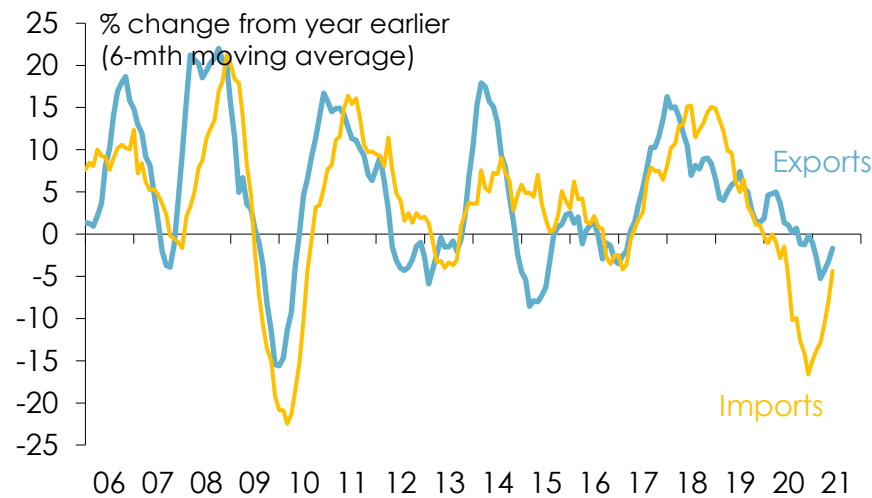
Merchandise trade balance



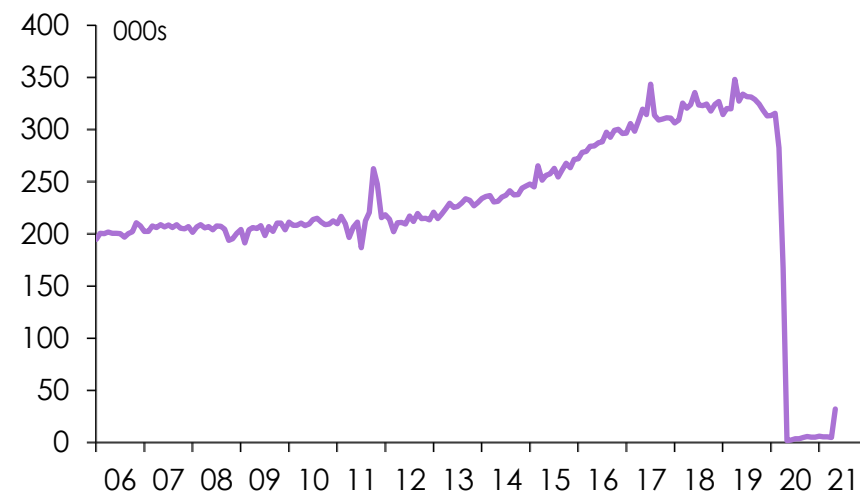
Balance of payments



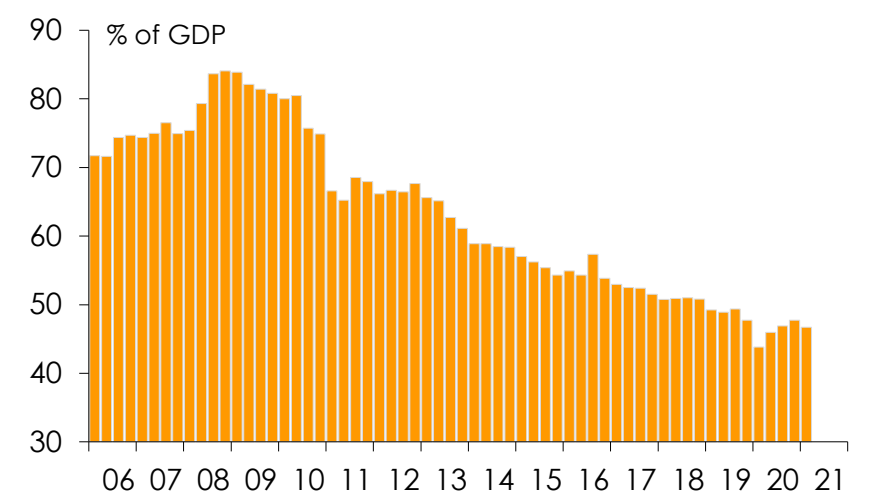
Merchandise exports and imports



Overseas visitor arrivals



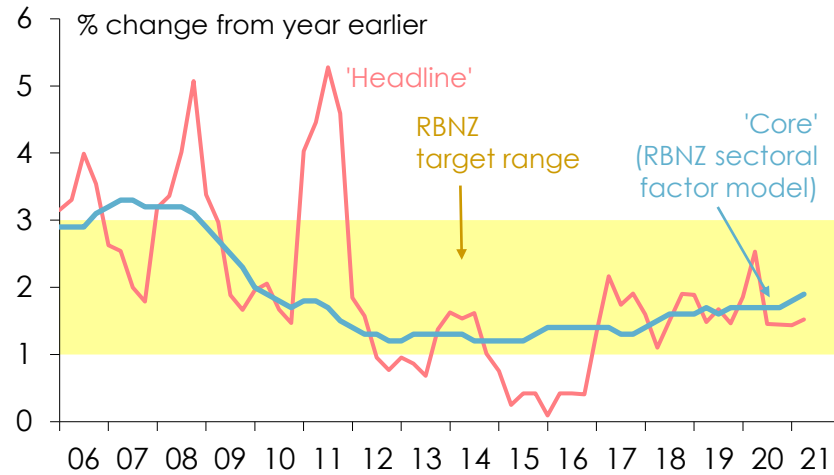
Net foreign debt



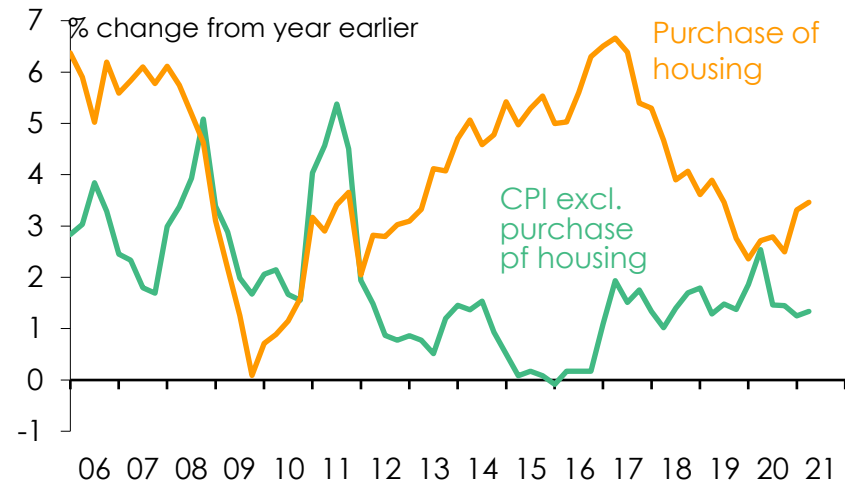
Note: latest merchandise trade data is for May: June data will be released on 26th July; latest balance of payments and net foreign debt data is for the March quarter; June quarter data will be released on 15th September. Sources: [ANZ Bank](#); [Statistics New Zealand](#).

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)

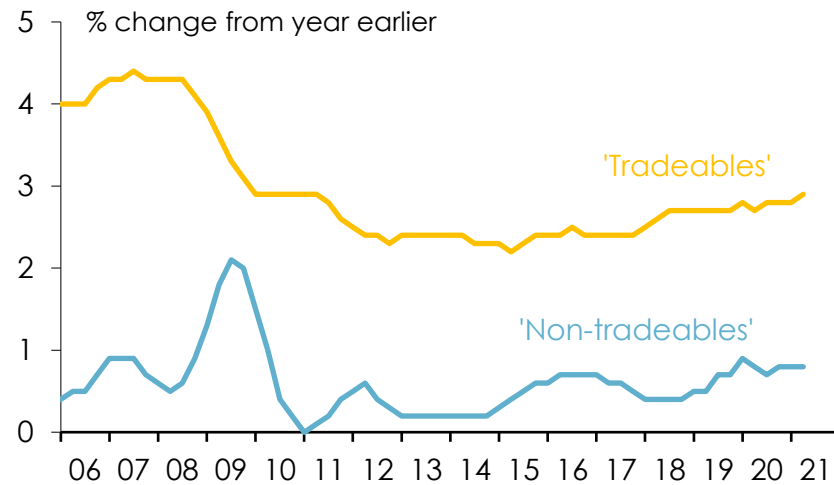
Consumer prices



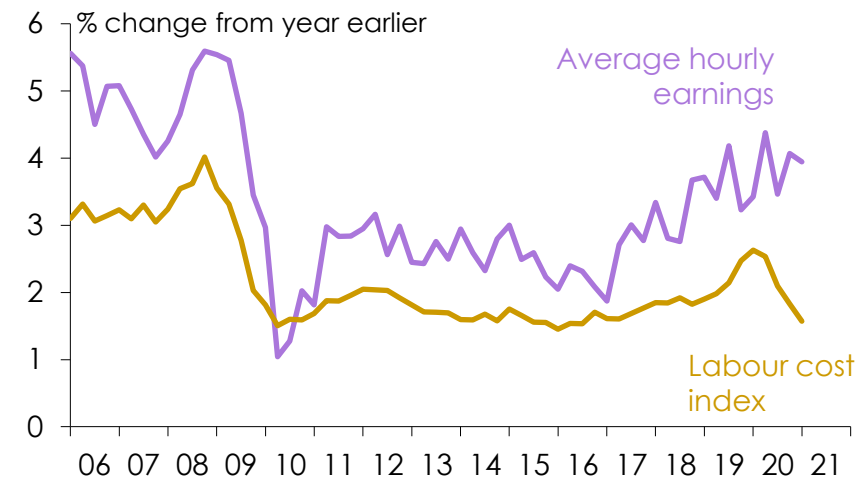
Housing costs in the CPI



Components of 'core' inflation



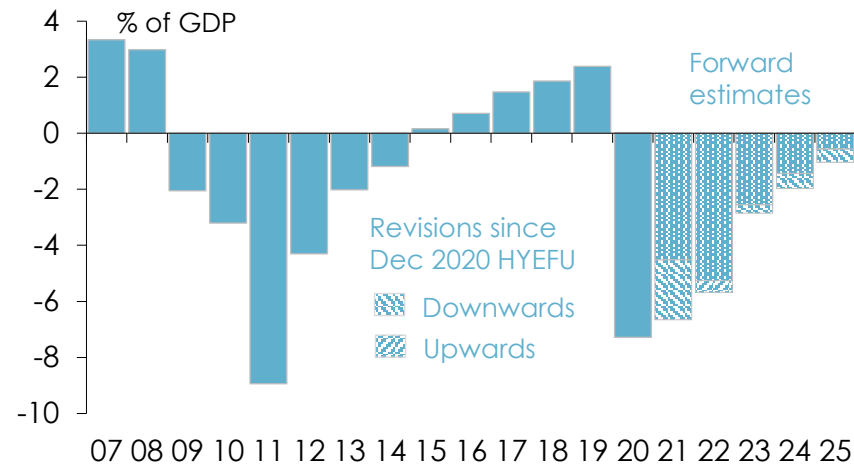
Labour costs



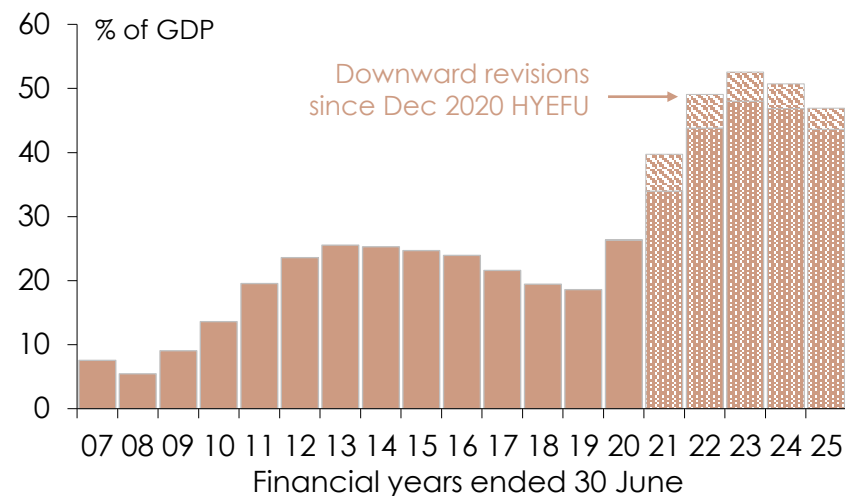
- ❑ The CPI rose 0.8% in Q1, the largest quarterly increase in a year, nudging the annual 'headline' inflation rate up 0.1 pc pt to 1.5%
- ❑ The Q1 rise in the CPI was largely due to a 7.2% rise in petrol prices, a 4.4% increase in used-car prices, a 1.2% increase in new housing prices, a 1.0% increase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

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'

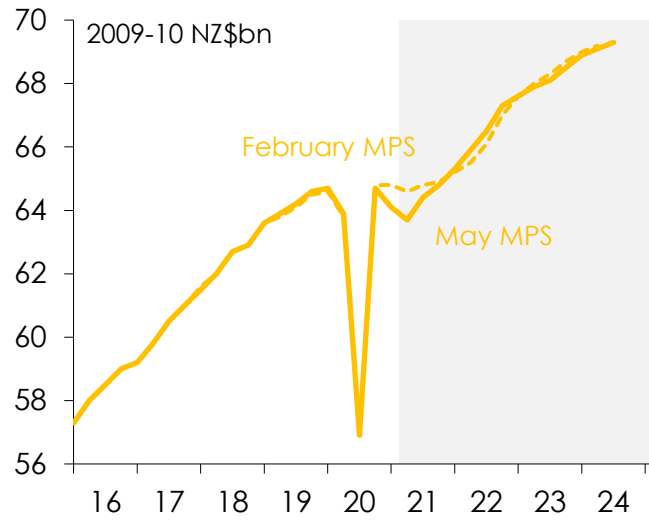


- ❑ As was also the case in Australia, the 2021-22 New Zealand Budget presented by Finance Minister Grant Robertson in May benefited from a much stronger economic performance than had been anticipated in last year's Budget, or in last December's Half-Year Economic & Fiscal Update (HYEFU)
 - Treasury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

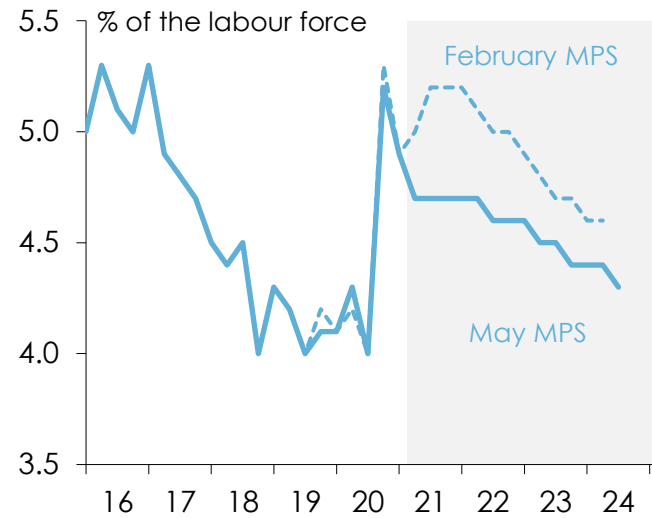
Note: The measure of the NZ Government budget balance is 'OBEGAL', which stands for 'operating balance excluding gains and losses' (an accrual accounting measure). Net 'core Crown debt' excludes assets of the NZ Super Fund, student loans and other advances, and financial assets held for public policy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

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

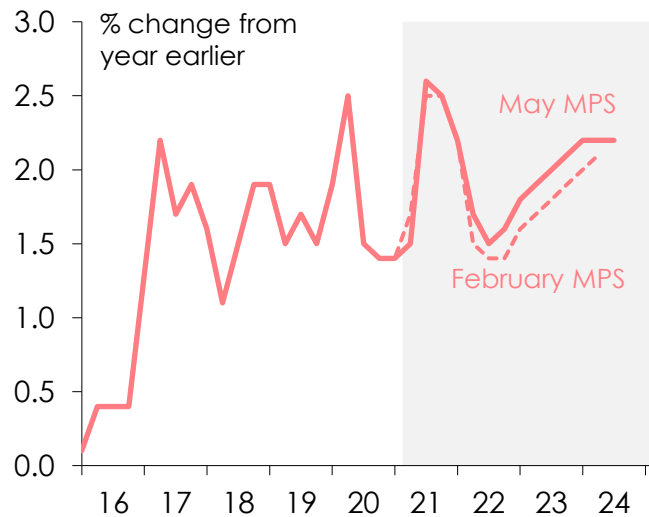
GDP



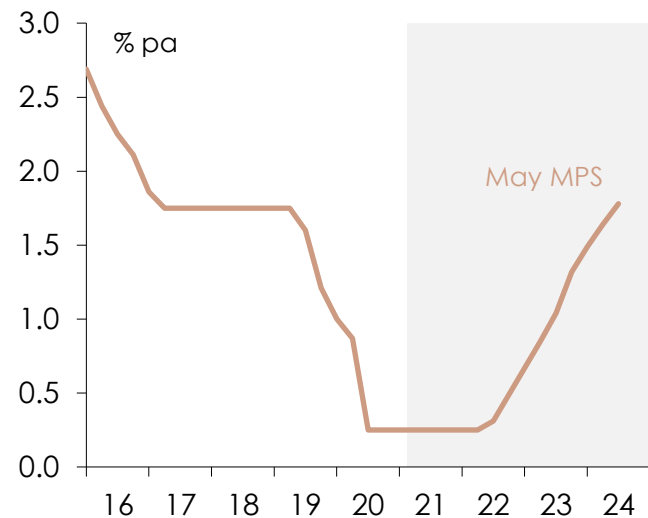
Unemployment



Inflation



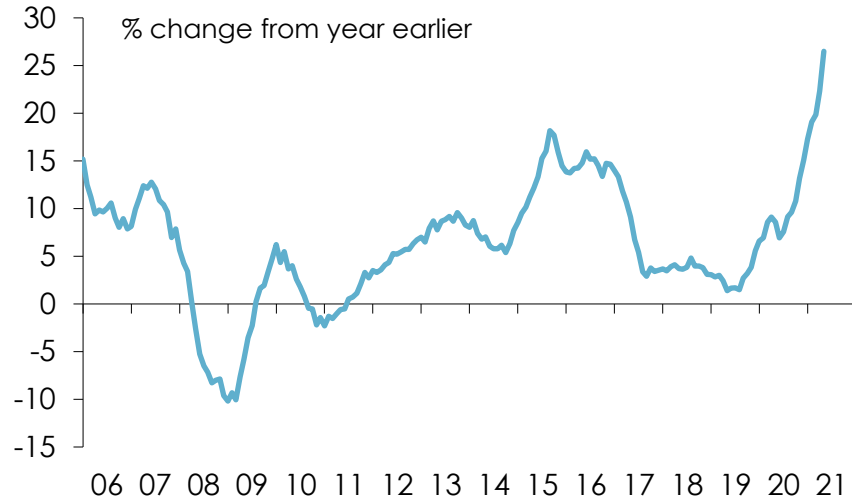
Official cash rate



- ❑ 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

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

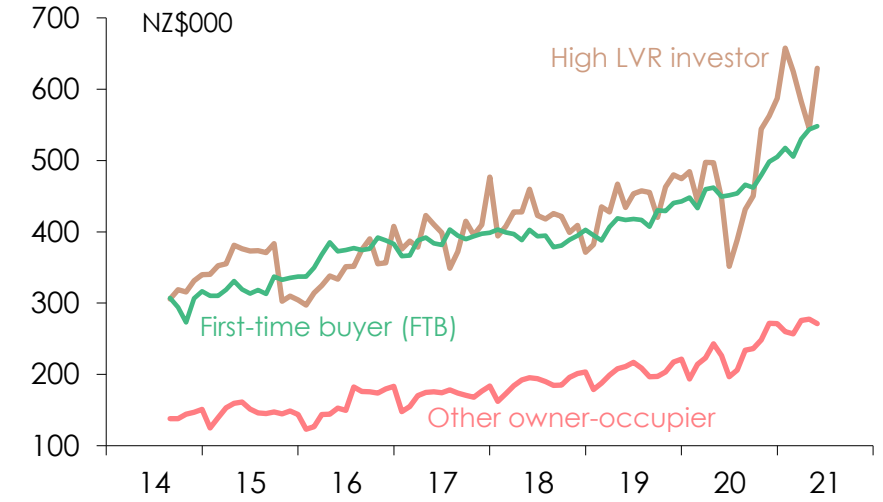
House price inflation



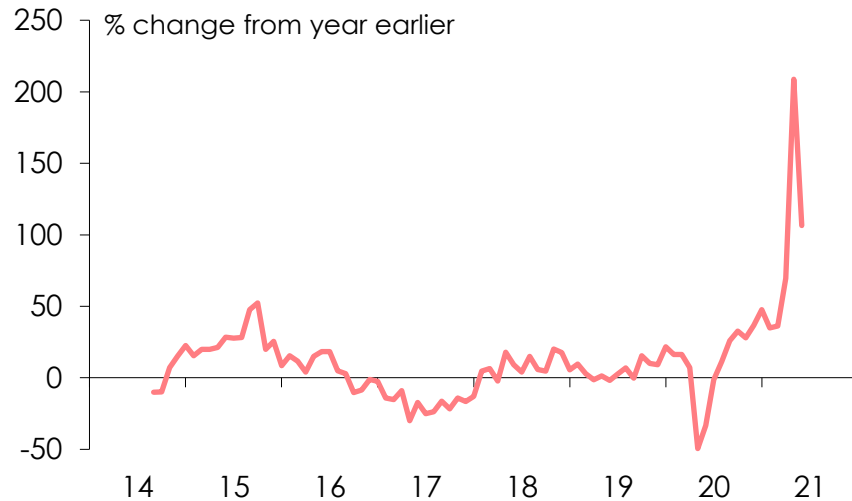
Lending to investors as pc of total



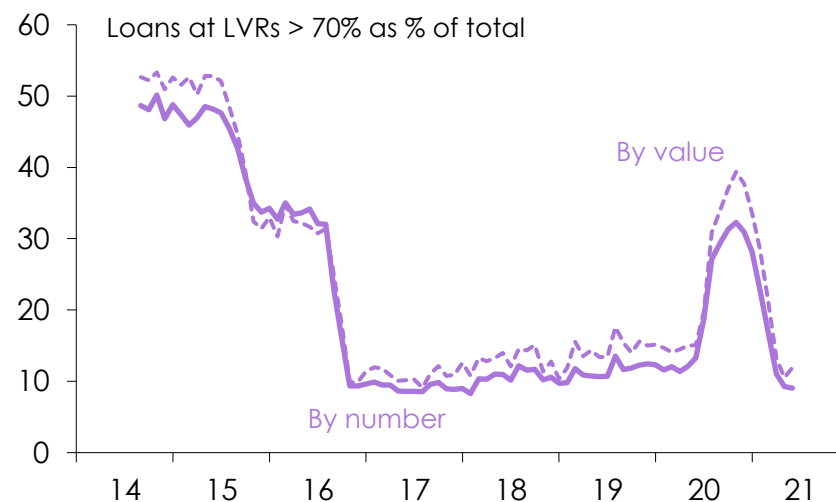
Average new mortgage



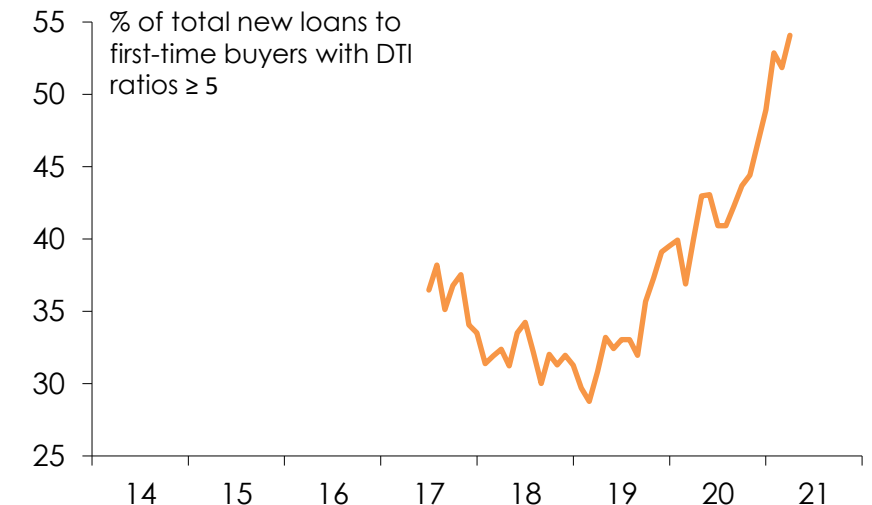
Mortgage lending growth



High-LVR loans to investors



Loans to FTBs at over 5 times income



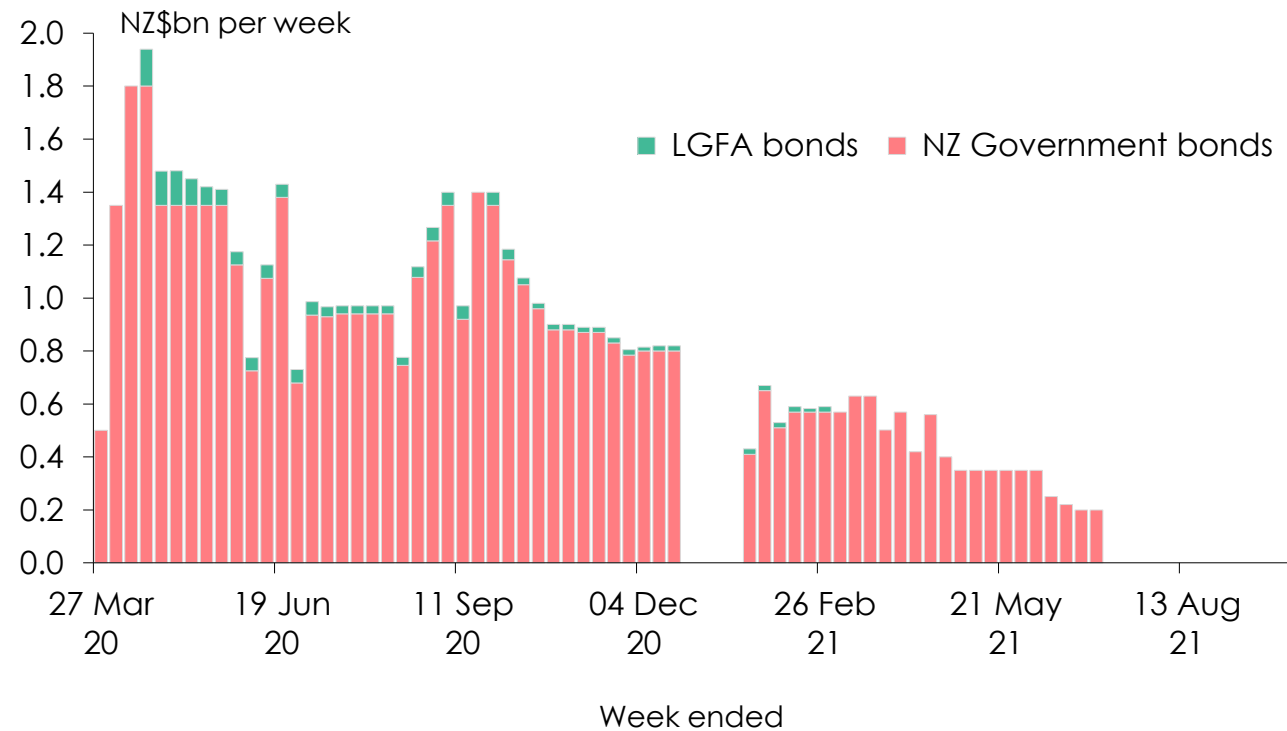
Note: New Zealand's tax system allows 'negative gearing' (ie, investors can offset the excess of interest costs over net rental income against their other income for tax purposes) but does not impose any tax on capital gains, making borrowing for property investment more attractive in after-tax terms 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"](#).

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

- ❑ The Finance Minister and the RBNZ last month **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 its lower level (\$200mn) of bond purchases this week having 'tapered' over the previous four weeks

RBNZ open market bond purchases



New Zealand interest rates



- ❑ RBNZ has adopted an ECB-style QE, establishing a Large Scale Asset Program initially set at \$NZ33bn (10½% of GDP), increased to \$60bn (19½% of GDP) in May, and in October to \$100bn (32½% of GDP) by June 2022
- ❑ The RBNZ bought another NZ\$200mn of bonds this week (although in two tranches rather than the usual three) bringing its total purchases to \$53.7bn (16½% of GDP)
- ❑ 2-year yields rose 10 bp to 0.58% this week as markets continued to price earlier hikes in the OCR than the RBNZ has foreshadowed, even though 10-year yields fell 18 bp to 1.54%, the lowest since mid-February, in line with the fall in US long yields

Important information

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

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

This document has been prepared for the use of the party or parties named on the first page hereof, and is not to be further circulated or distributed without permission.

This document does not purport to constitute investment advice. It should not be used or interpreted as an invitation or offer to engage in any kind of financial or other transaction, nor relied upon in order to undertake, or in the course of undertaking, any such transaction.

The information herein has been obtained from, and any opinions herein are based upon, sources believed reliable. The views expressed in this document accurately reflect the author's personal views, including those about any and all financial instruments referred to herein. Neither Saul Eslake nor Corinna Economic Advisory Pty Ltd however makes any representation as to its accuracy or completeness and the information should not be relied upon as such. All opinions and estimates herein reflect the author's judgement on the date of this document and are subject to change without notice. The author, Corinna Economic Advisory Pty Ltd and Independent Economics expressly disclaim any responsibility, and shall not be liable, for any loss, damage, claim, liability, proceedings, cost or expense ("Liability") arising directly or indirectly (and whether in tort (including negligence), contract, equity or otherwise) out of or in connection with the contents of and/or any omissions from this communication except where a Liability is made non-excludable by legislation.

Any opinions expressed herein should not be attributed to any other organization with which Saul Eslake is affiliated.

SAUL ESLAKE
CORINNA ECONOMIC ADVISORY