

# ECONOMIC IMPACT OF THE CORONAVIRUS PANDEMIC

24<sup>TH</sup> JULY 2021

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INDEPENDENT ECONOMICS

# What's new?

## The world

- ❑ 3.65 mn new Covid-19 cases were recorded this week, the fourth successive increase, as the 'delta variant' spreads ([slide 4](#))
- ❑ The latest increase in infections continues to be sharpest in Europe and South-East Asia, which accounted for 22% and 16¼%, respectively, of all new cases this week ([slide 5](#))
- ❑ Europe (especially the UK) and the US have continued to loosen restrictions despite the increases in 'delta variant' cases ([slide 7](#)), with the evidence from countries with relatively high vaccination rates suggesting that vaccines don't curb the spread of the virus but do significantly reduce its severity ([slide 10](#))
- ❑ The volume of world trade fell in May, for the first time in 12 months, with the decline largely concentrated in East Asia – and there may be further declines ahead ([slide 29](#))
- ❑ One of the reasons for the decline in trade in Asia seems to be ongoing constraints on semi-conductor production ([slide 30](#))
- ❑ Supply-chain problems are persisting in the US, especially in the auto sector ([slide 70](#)) – and there are also some signs of a tightening in the US labour market, although these appear to result from restrictions on immigration and factors suppressing the return to work of particular population segments – and there is no general acceleration in wages ([slides 71-72](#))
- ❑ The ECB left its policy settings on hold this week, but its attempt to provide clearer 'forward guidance' may have failed ([slide 35](#))
- ❑ Russia's and Ukraine's central banks raised rates again ([slides 36-37](#) and [79](#)) but Indonesia's ([slide 62](#)) and South Africa's ([slide 80](#)) left theirs unchanged

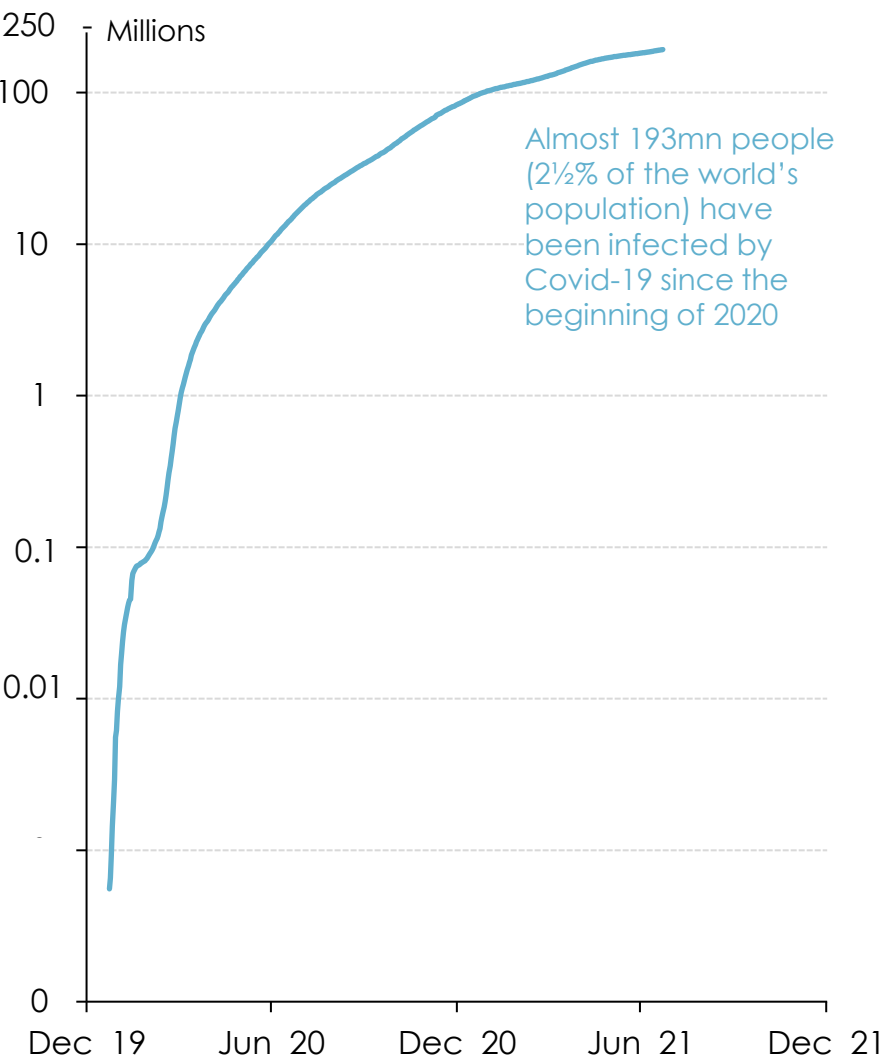
## Australia and New Zealand

- ❑ Australia recorded 950 new Covid-19 cases this week, the most since the fourth week of August last year, and over 900 over those were 'locally acquired' ([slide 12](#))
- ❑ The number of people 'infectious while in the community' in the 'Greater Sydney' area has continued to rise, suggesting that the lockdown is likely to be extended even further – whereas the lockdowns in Victoria and SA appear thus far to have been more effective ([slide 13](#))
- ❑ Australia's vaccination program has picked up but continues to lag badly behind other 'advanced' economies ([slides 9](#) and [18-20](#))
- ❑ Mobility indicators show the impact of the lockdowns in three states ([slide 87](#)), making it likely that the economy will have contracted in the current quarter ([slide 88](#))
- ❑ Another indication of the negative effect of the current lockdowns was the 1.8% fall in retail sales in June, according to preliminary estimates, weighed down by large falls in NSW and Victoria ([slide 118](#))
- ❑ The impact of the lockdowns is also evident in a fresh slump in passenger movements through Australian airports in June ([slide 131](#))
- ❑ Australia likely recorded another \$10bn merchandise trade surplus in June, based on preliminary estimates, thanks to yet another surge in iron ore exports ([slide 126](#)) – although iron ore prices fell 8% this week after Chinese authorities ordered curbs on steel production ([slide 124](#))
- ❑ Q2 CPI data out this coming Wednesday will likely show the annual 'headline' inflation rate spiking above 3% - but that will be entirely due to a 1.9% decline in Q2 last year 'dropping out' of the base; the 'underlying' inflation rate is likely to remain close to 1½% ([slide 135](#))

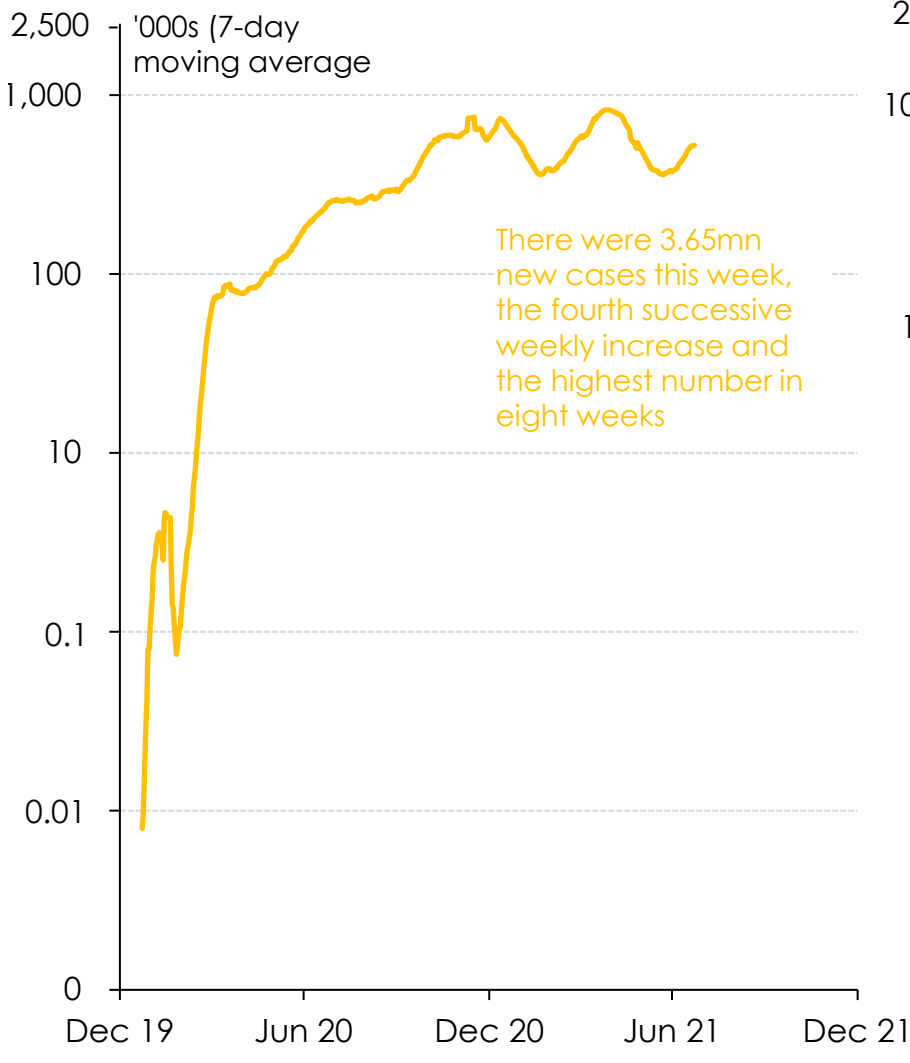
**The virus**

# The global tally of new infections rose this week for the fourth week in a row, and the 'official' death toll rose for a second week to its highest in five

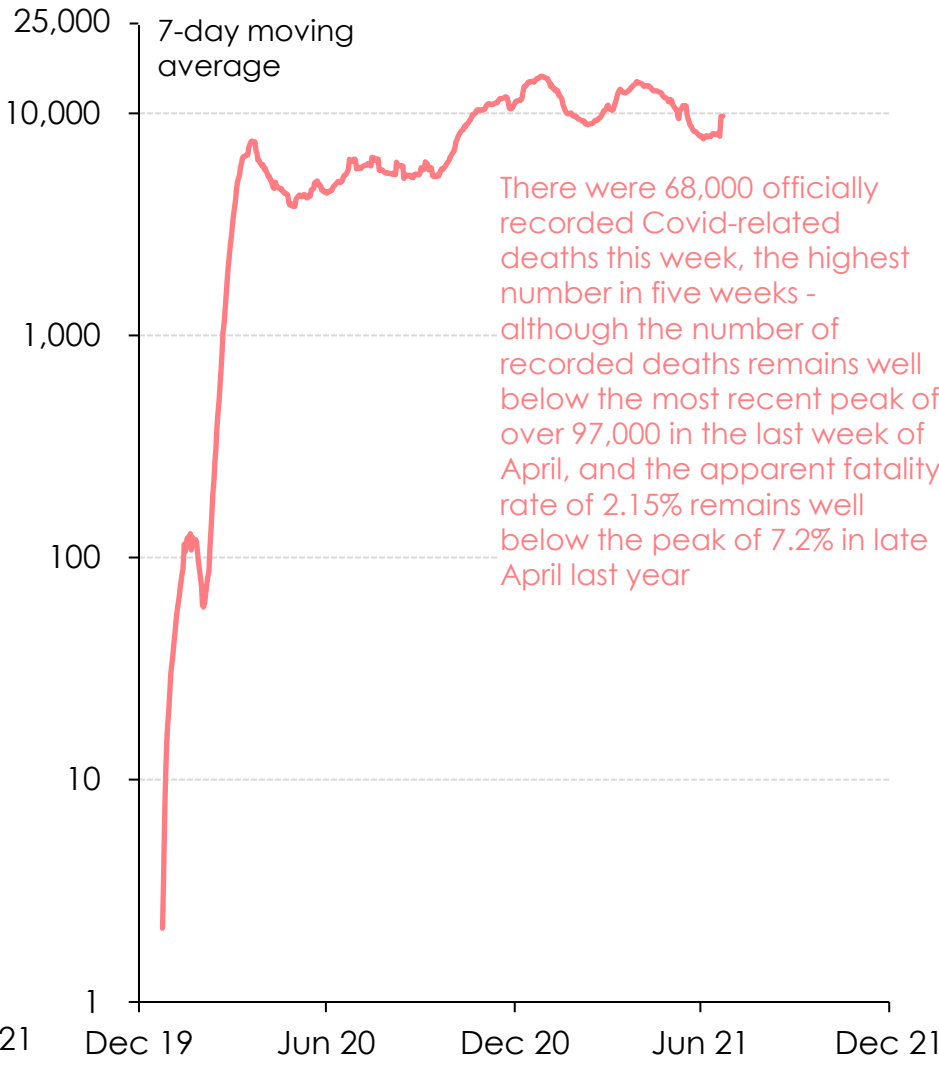
Cumulative confirmed cases – global total



New confirmed cases – global total



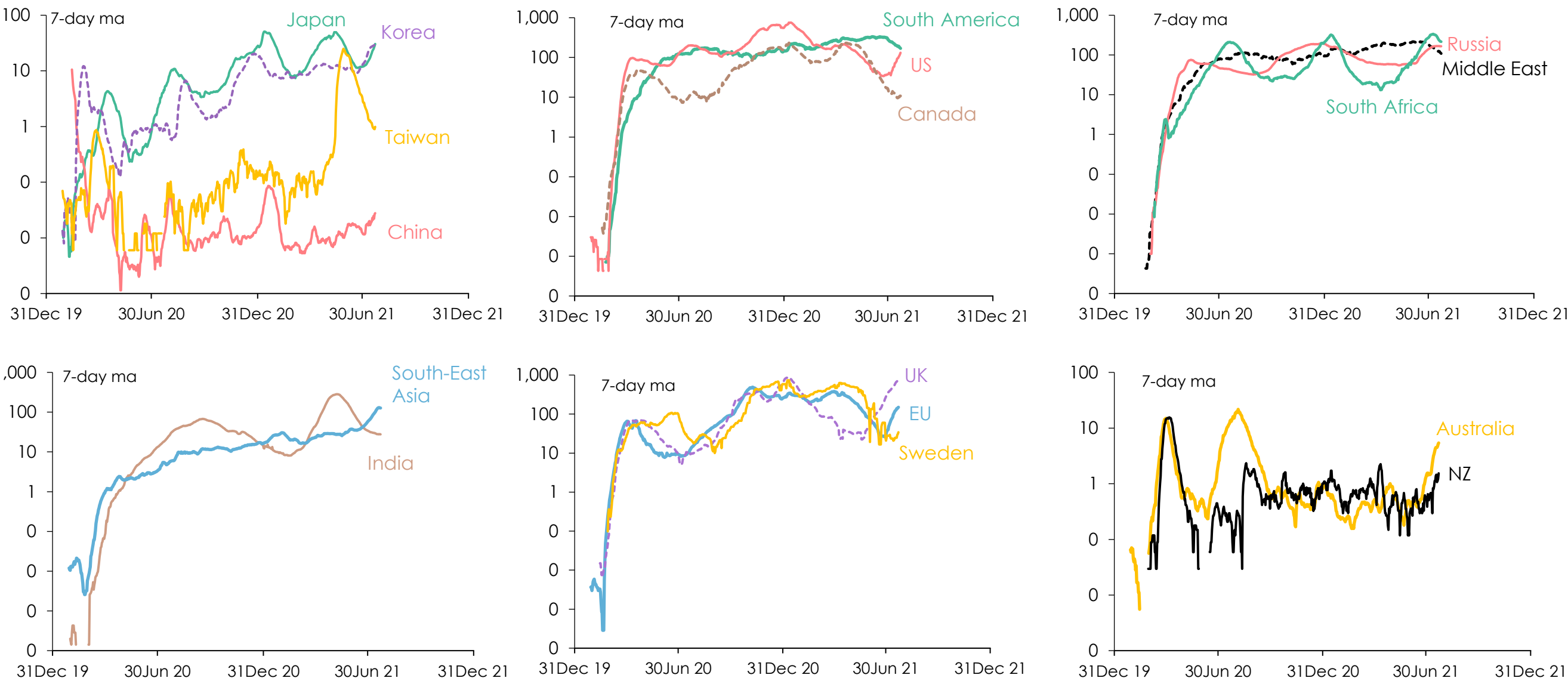
New deaths – global total



Note: All charts are on logarithmic scales. Data up to 22<sup>nd</sup> 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"](#).

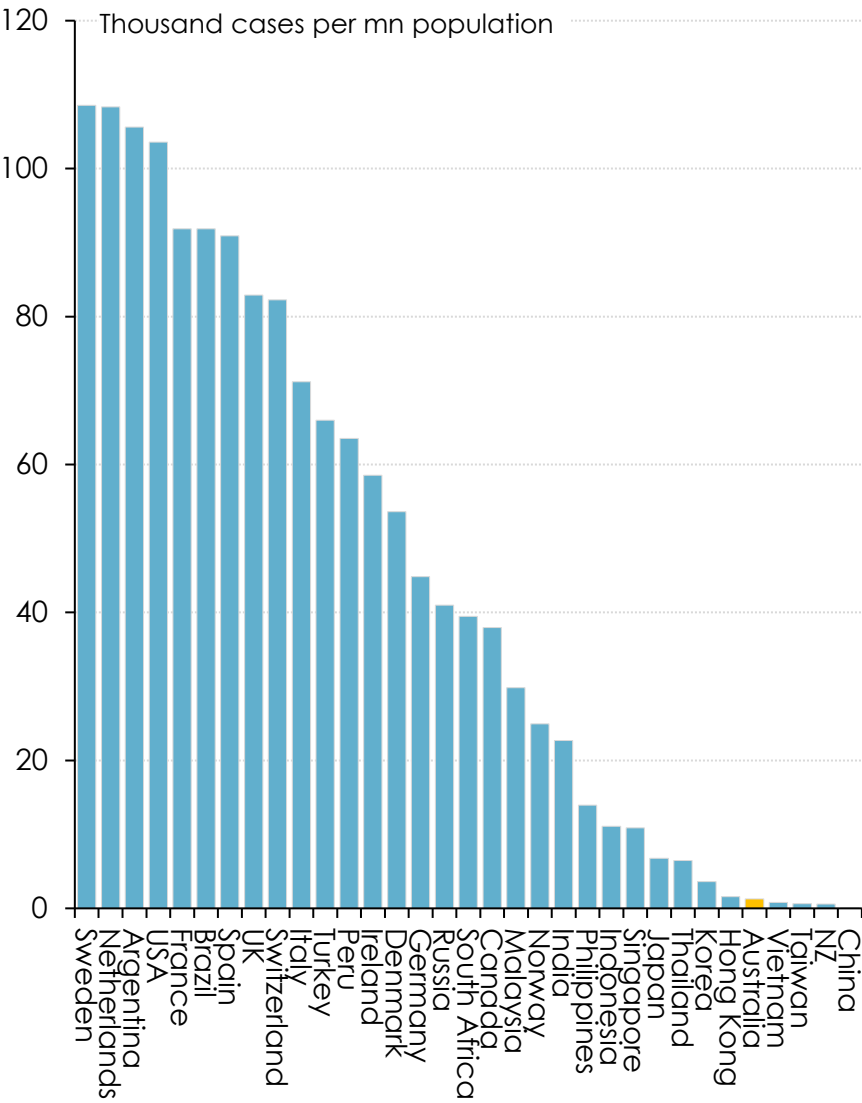
# 22% of this week's new cases were in Europe (including 9% in the UK), 16¼% in SE Asia, 14% in Sth America, 7¼% in India, 9% in Middle East & 8½% in US

Daily new cases per million population – major countries and regions

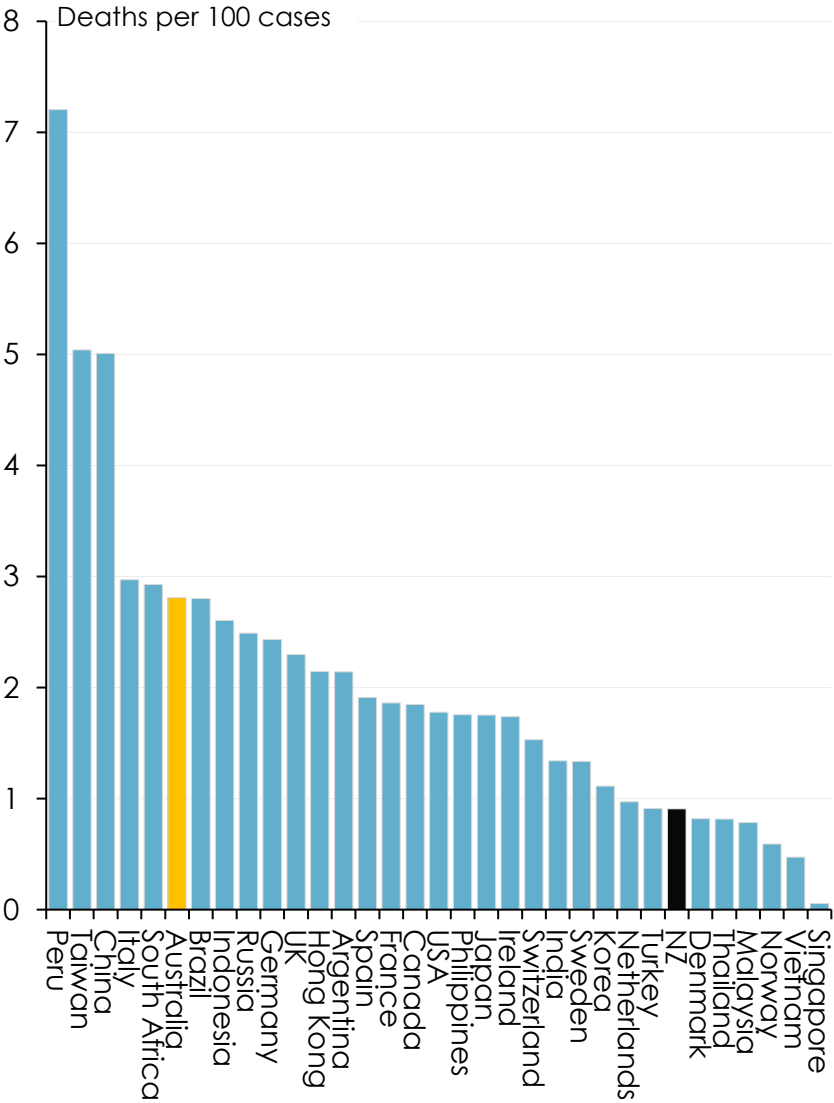


# The highest infection and death rates have been in Europe, South and North America

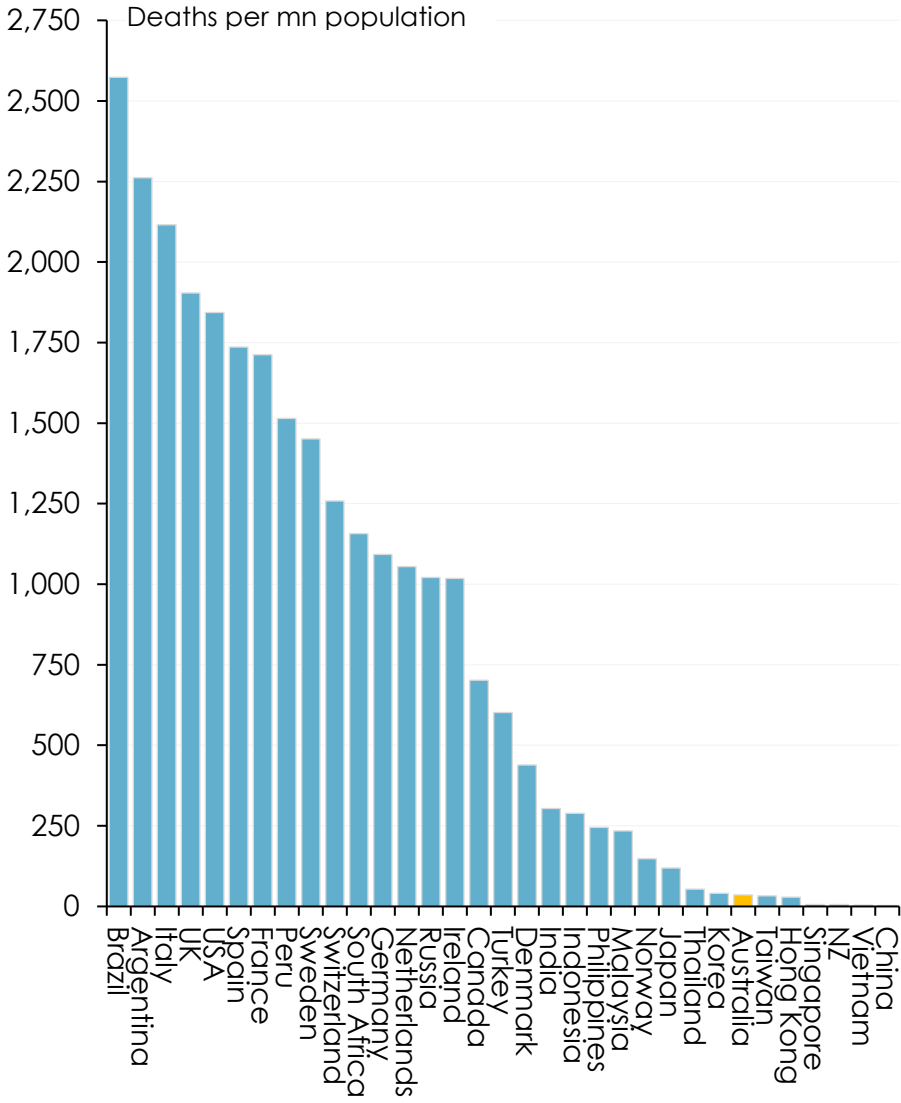
Apparent infection rate



Apparent fatality rate



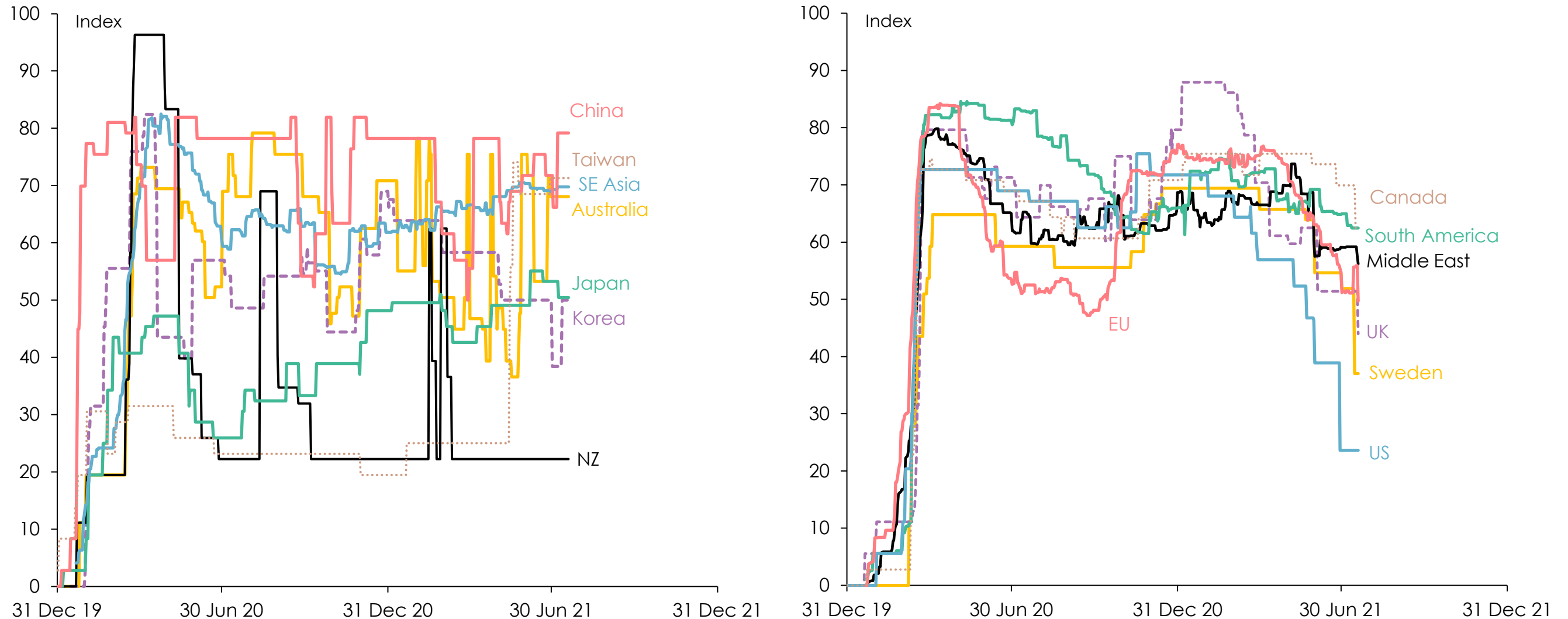
Death rate



Note: Data up to 22<sup>nd</sup> July. Sources: University of Oxford, [Our World in Data](#); Corinna. [Return to "What's New"](#).

# Restrictions have been easing in Europe and North America (but may need to be tightened again) but tightening in much of Asia

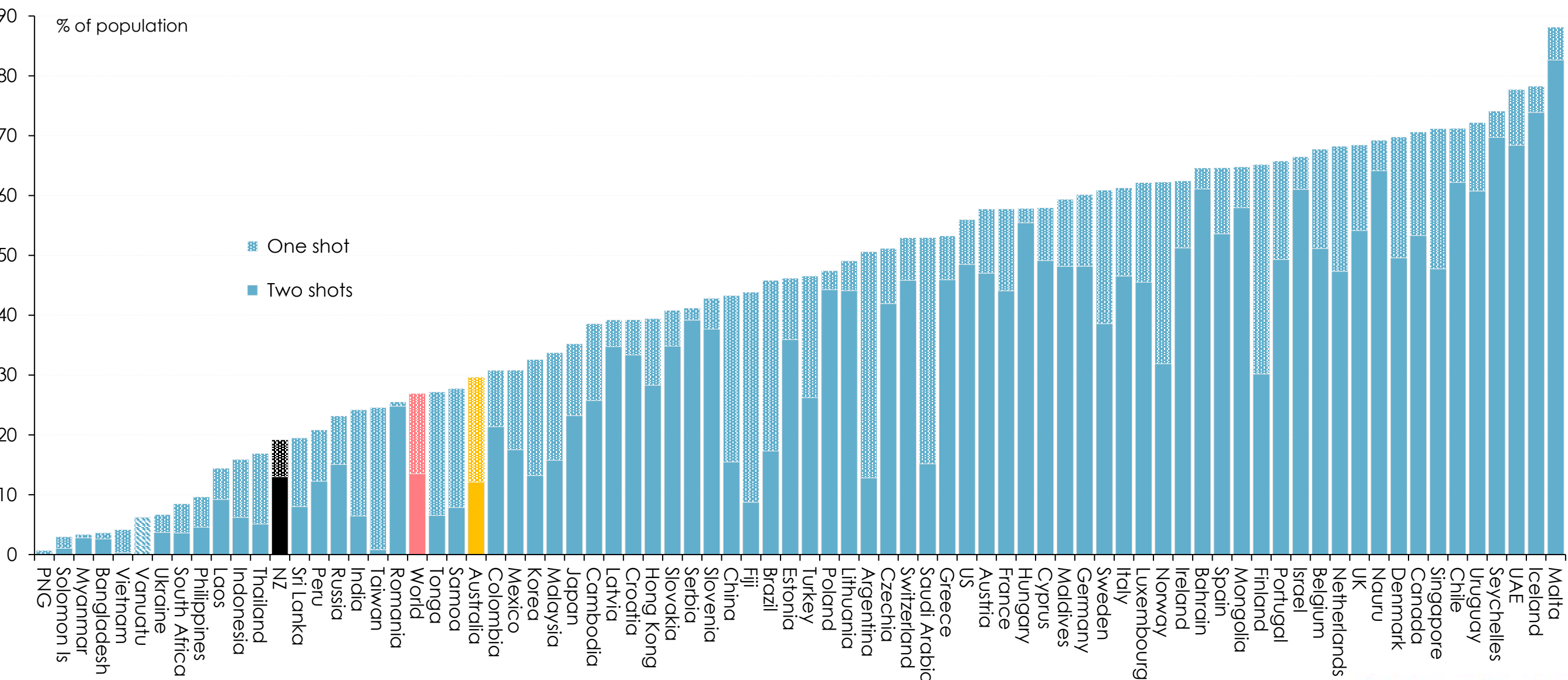
## Timing and severity of government restrictions on movement and gathering of people



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](#). Series for South-East Asia, the EU, South America and the Middle East are population-weighted averages for individual constituent countries. Data up to 19<sup>th</sup> July. [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 20<sup>th</sup> – 22<sup>nd</sup> July

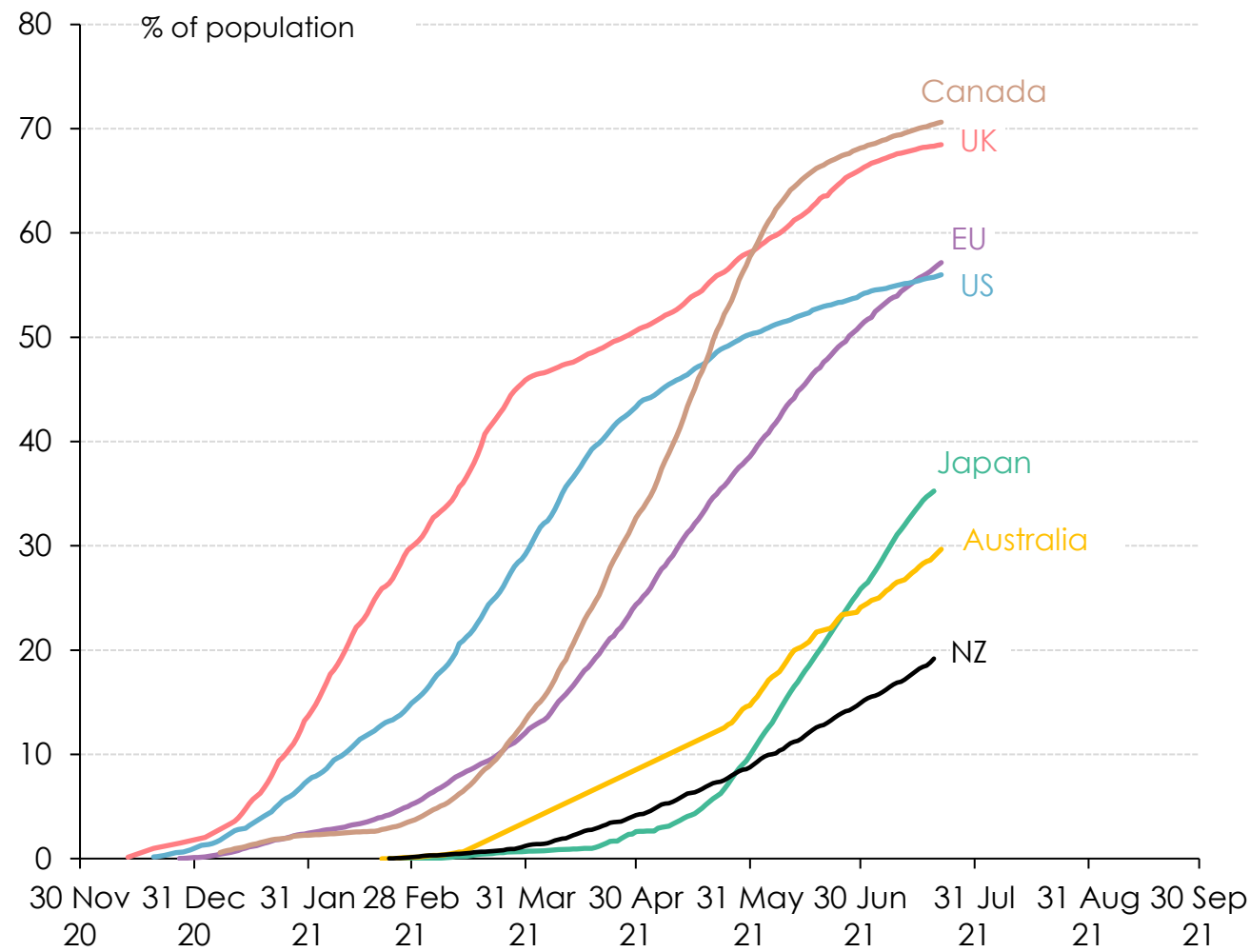


Note: Data for Myanmar is 5<sup>th</sup> June; China 10<sup>th</sup> June; PNG 13<sup>th</sup> July; Iceland 15<sup>th</sup> July; and Laos 17<sup>th</sup> July.  
Source: Our World in Data, [Coronavirus \(COVID-19\) Vaccinations](#). [Return to "What's New"](#).

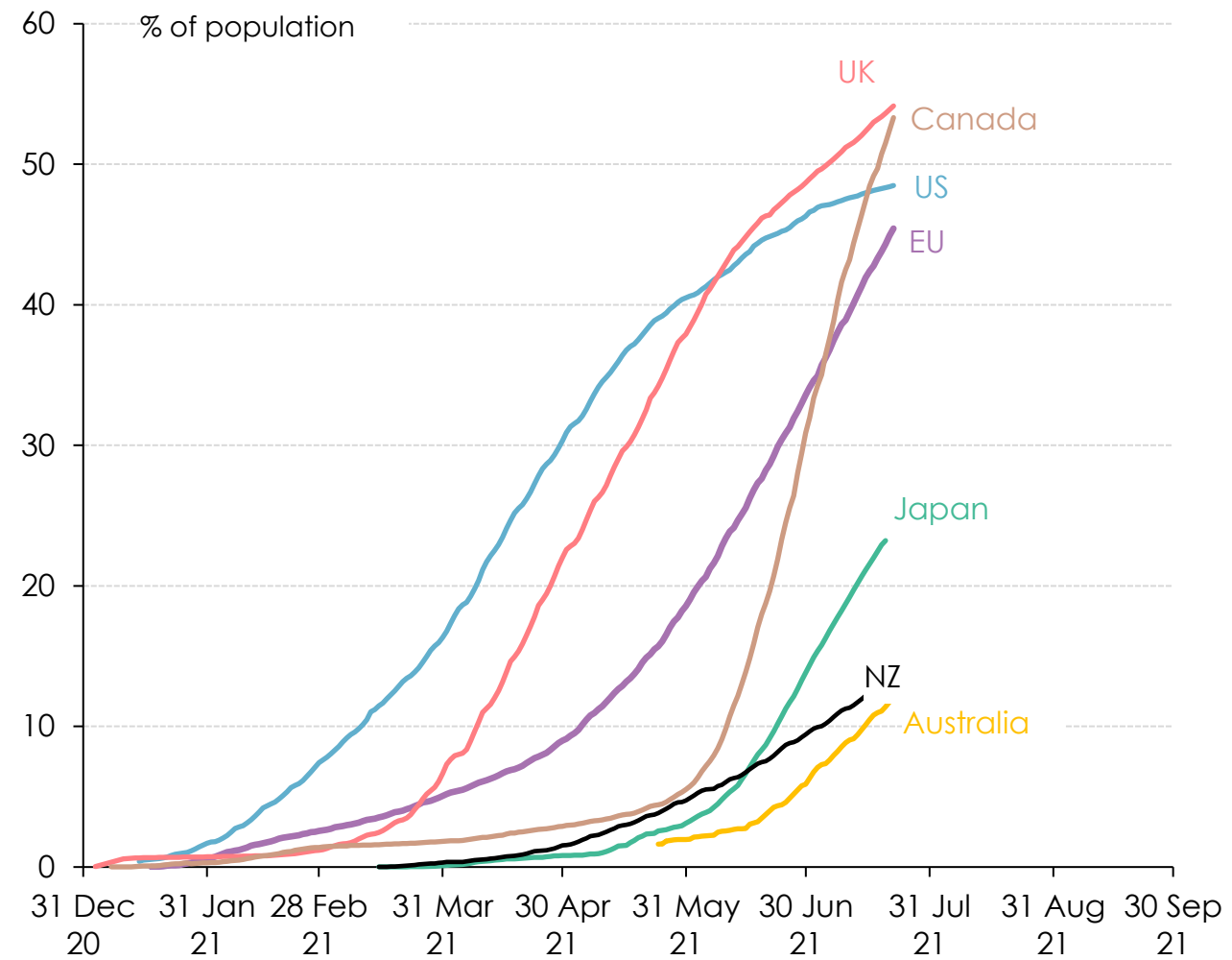


# Canada and the UK have the highest vaccination rates among 'advanced' economies, and Australia and New Zealand the lowest

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



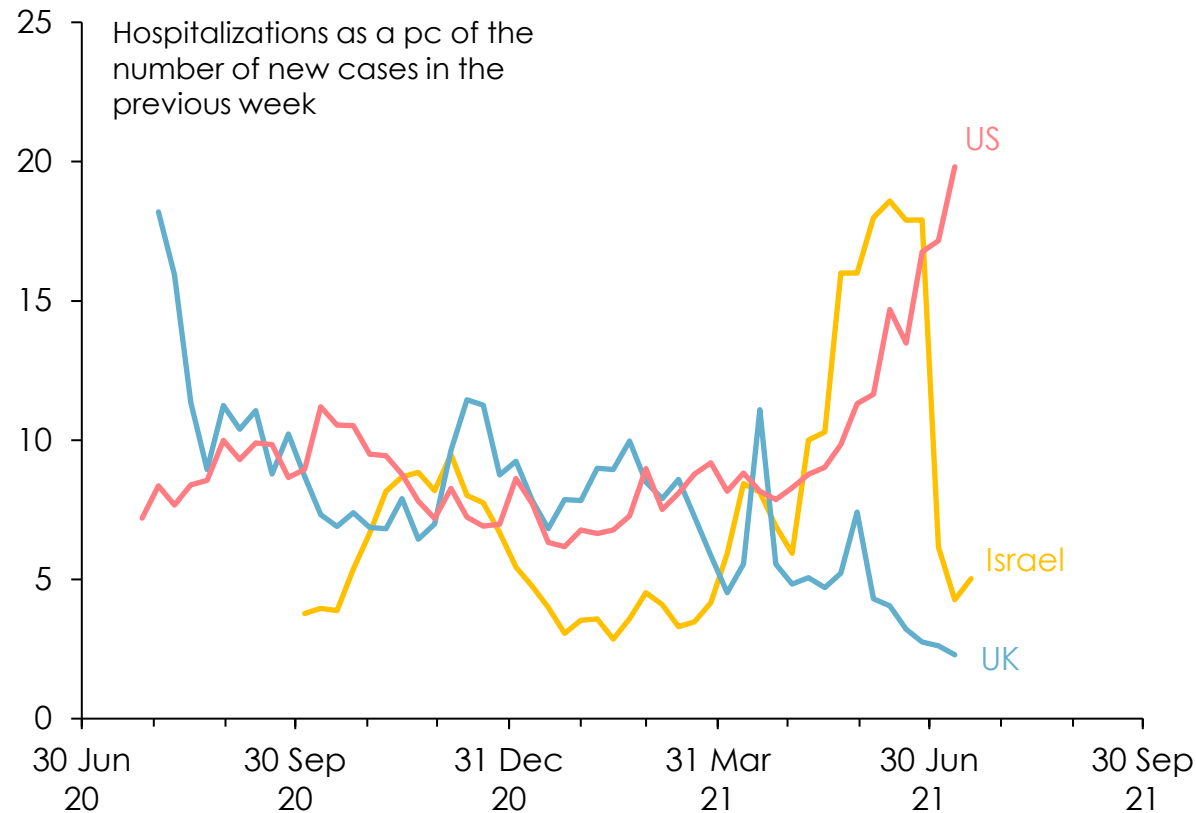
Percentage of major 'advanced' economies' populations who have had two shots



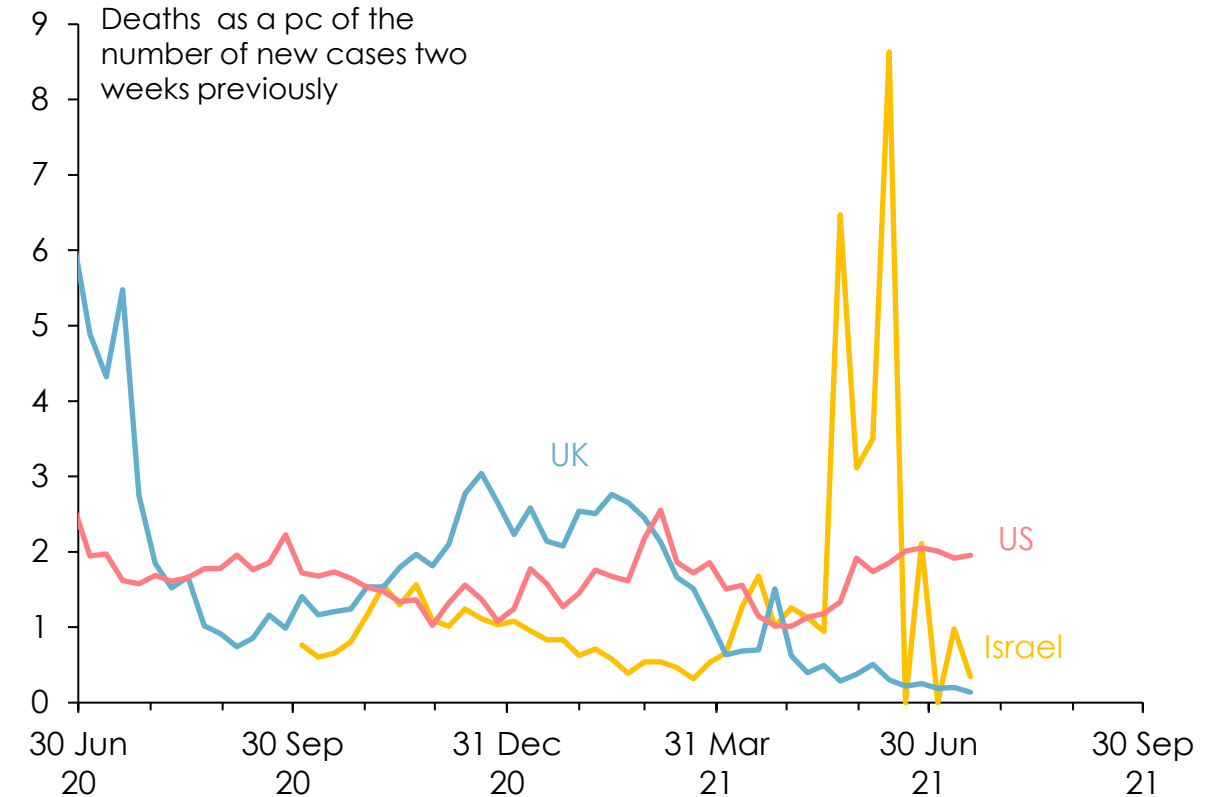
Note: Data up to 20<sup>th</sup> – 22<sup>nd</sup> July. Source: [Our World in Data](#); [Coronavirus \(COVID-19\) Vaccinations](#). [Return to "What's New"](#).

# Although vaccination appears not to prevent the 'delta variant' from spreading, it does appear to reduce hospitalization and death rates

## Hospitalization rates



## Fatality rates

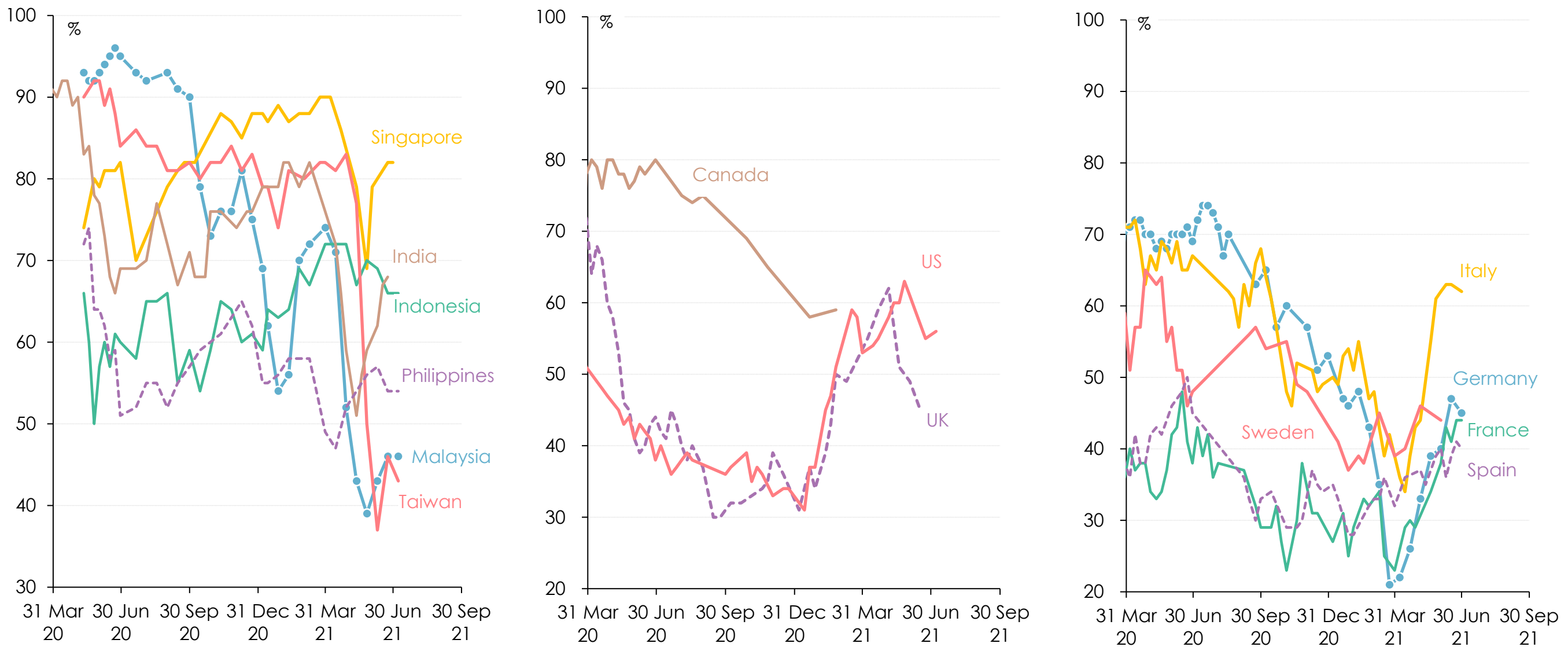


- ❑ Israel, the UK and the US have all experienced a surge in the number of 'delta variant' cases in recent weeks
- ❑ In the US, the increase in cases is concentrated in states and counties where vaccination rates are well below the national average
- ❑ In Israel, the UK and those US states with above-average vaccination rates, hospitalization and death rates from Covid-19 as the delta variant has spread have been much lower than they were in 2020

Note: Data up to 22<sup>nd</sup> July. Source: [Our World in Data](#). [Return to "What's New"](#).

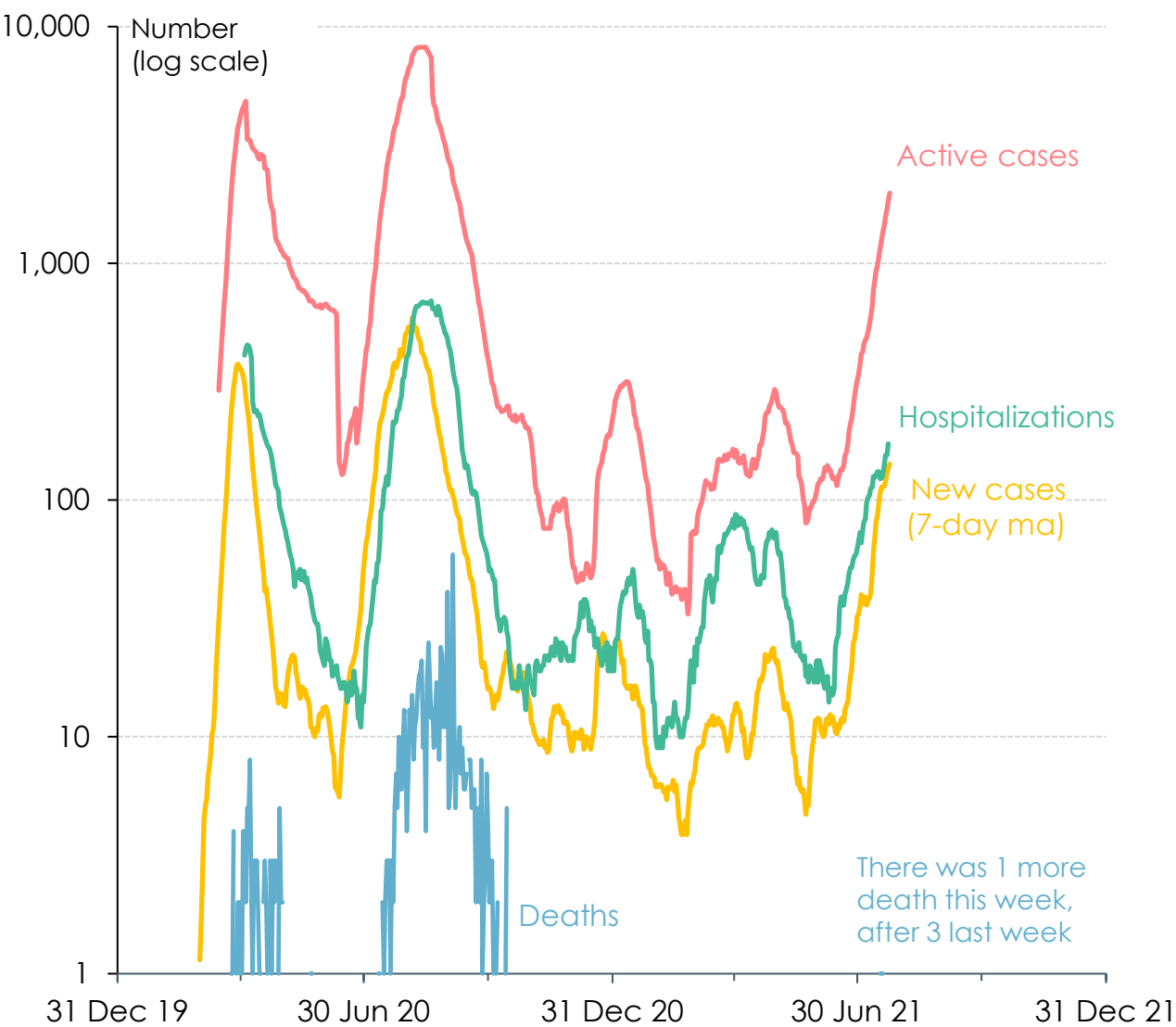
# Voter approval of some Asian governments' handling of Covid has declined with the recent rise in infections – as it also has in the UK

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

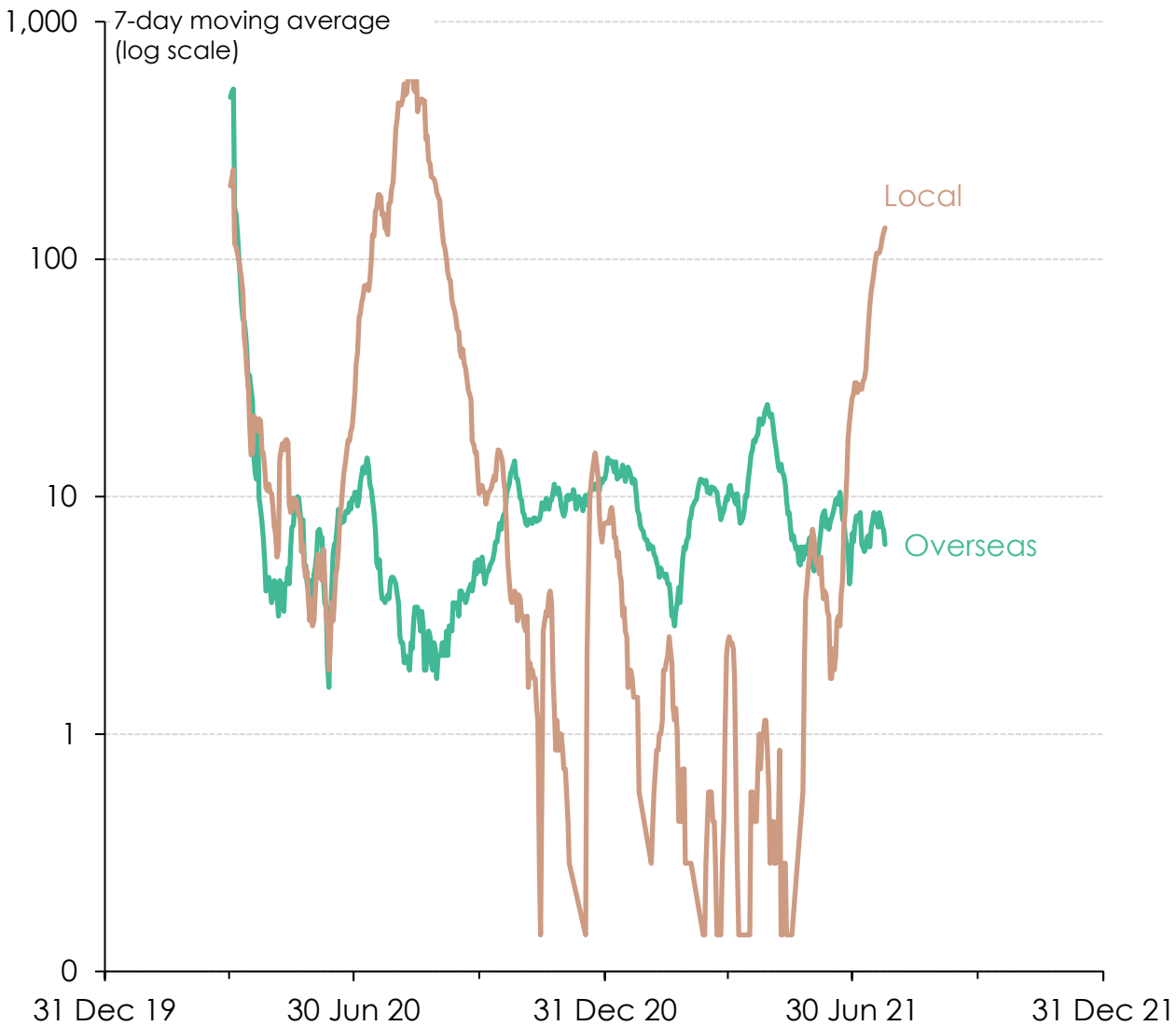


# Australia recorded 950 new cases this week, the most since the last week of August last year – and 903 of them were ‘locally acquired’

Cases, recoveries, hospitalizations and deaths



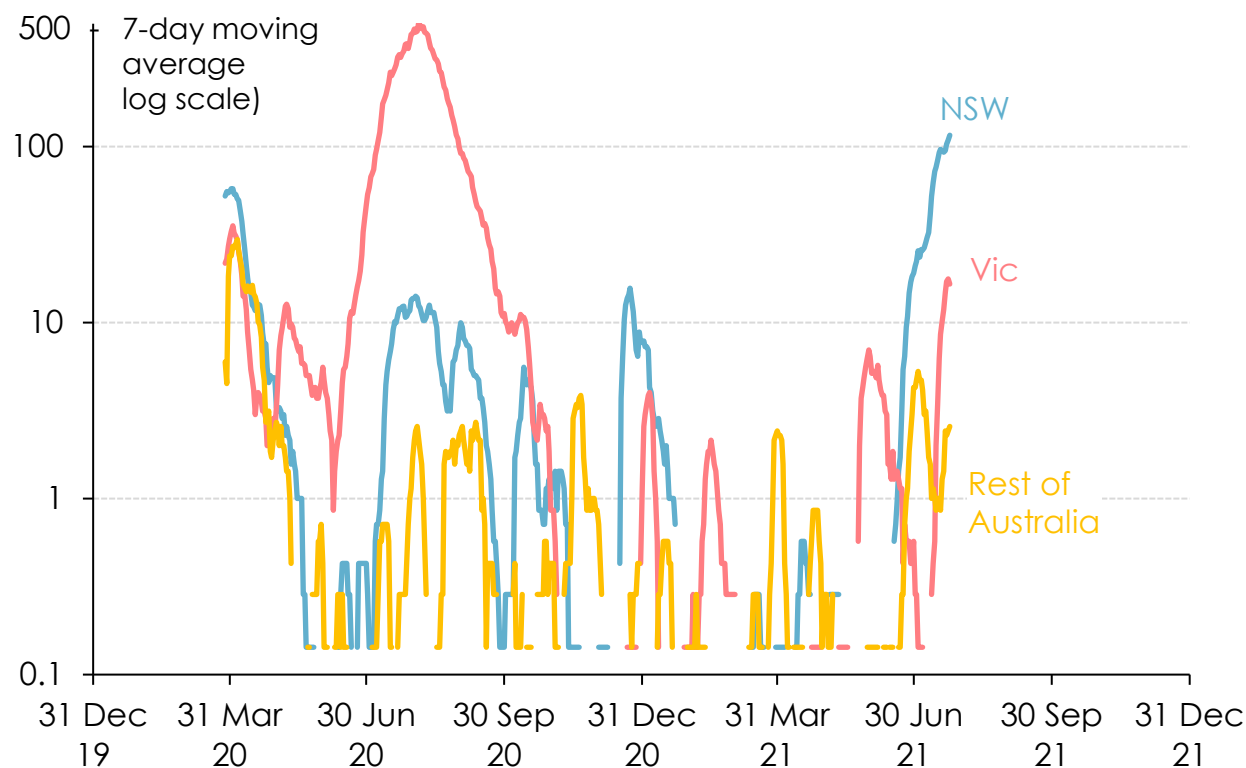
New cases, by source



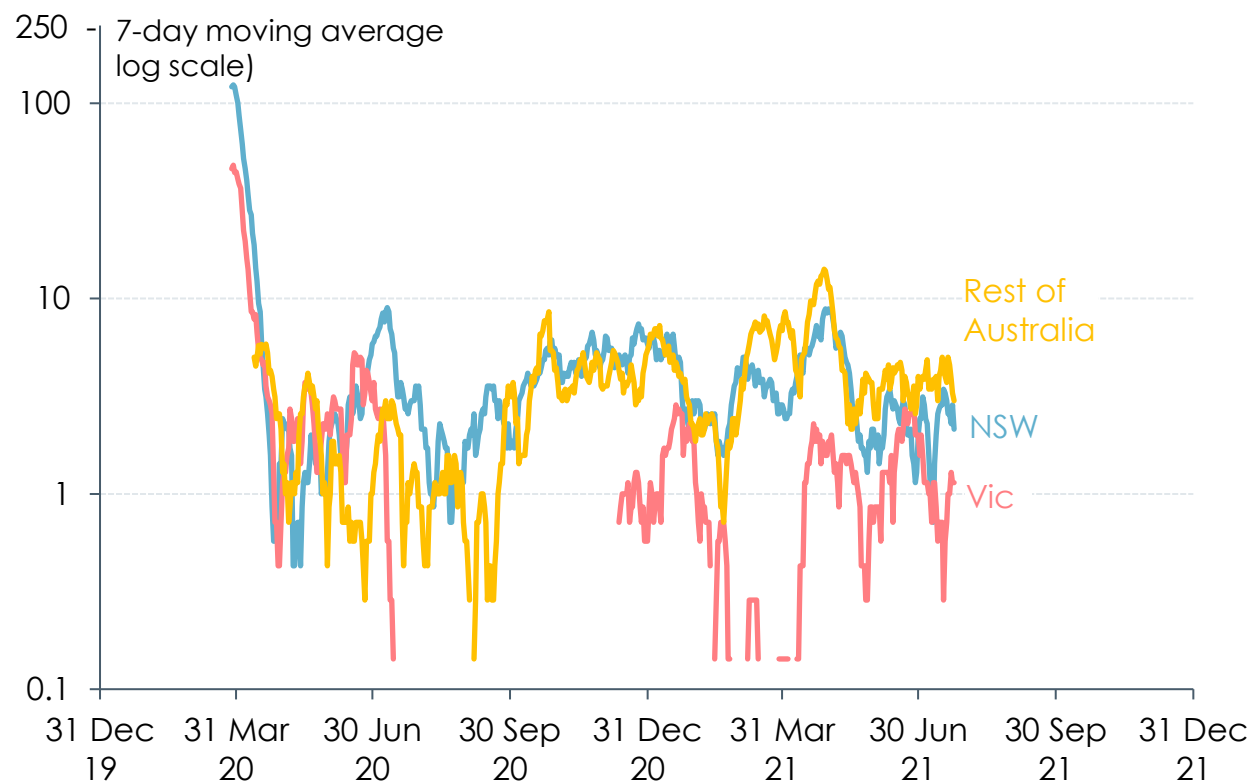
Note: Data up to 23<sup>rd</sup> July. Source: [covid19data.com.au](https://covid19data.com.au). [Return to "What's New"](#).

# NSW has yet to curb the spread of 'locally acquired' infections, with more than 760 this week (cf. 590 last week)

## New locally-acquired cases



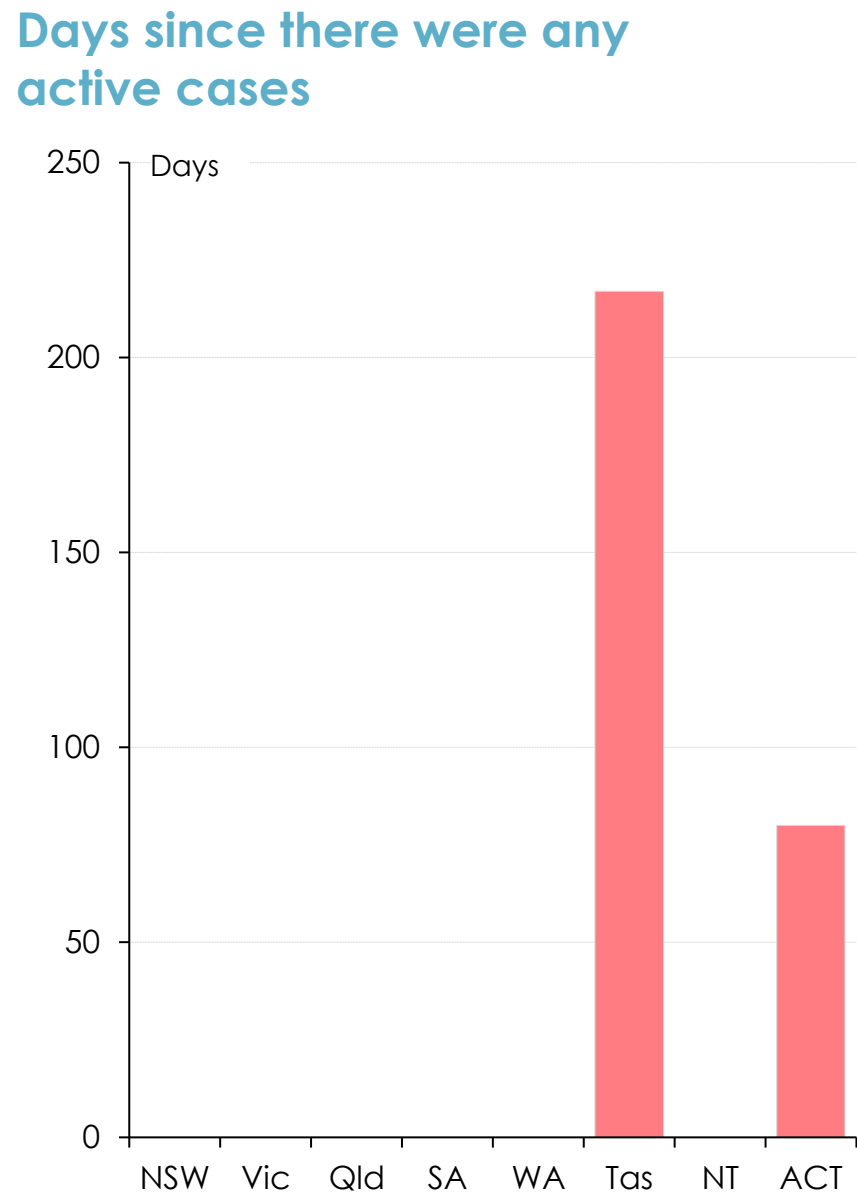
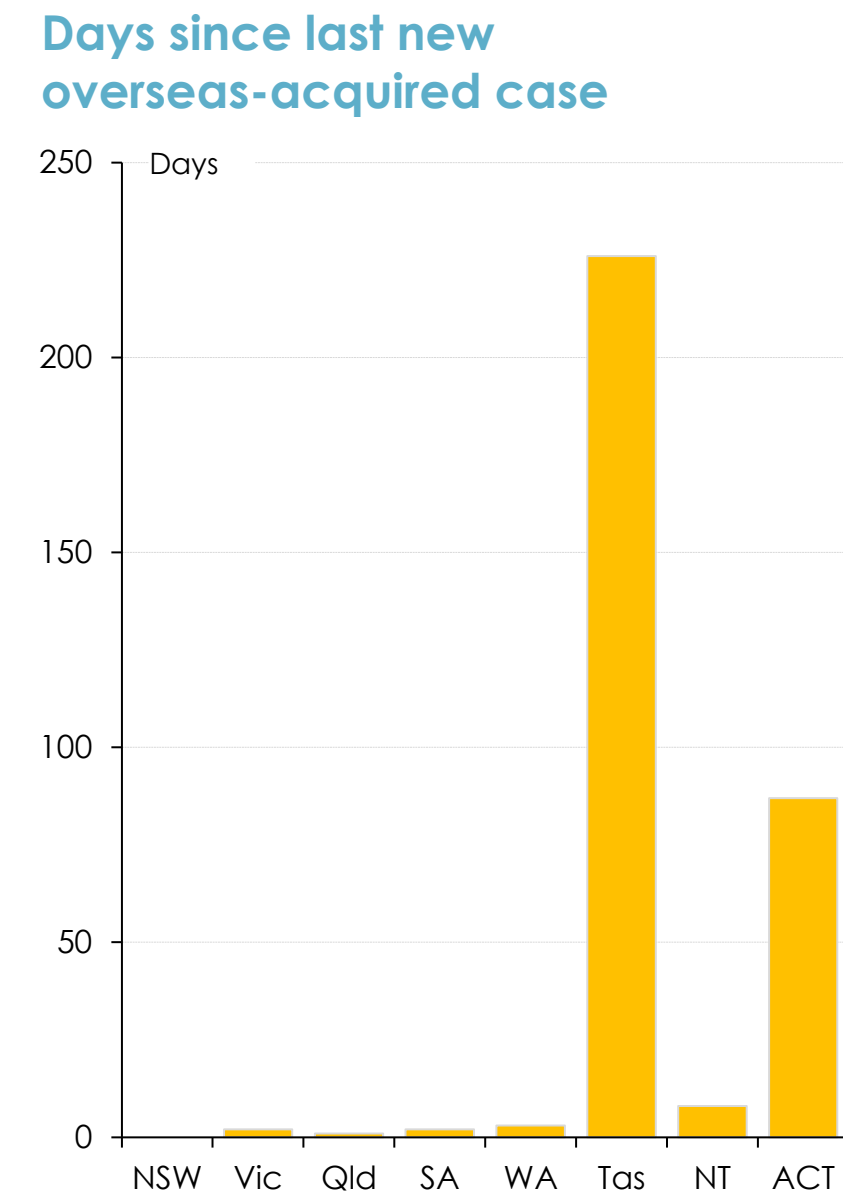
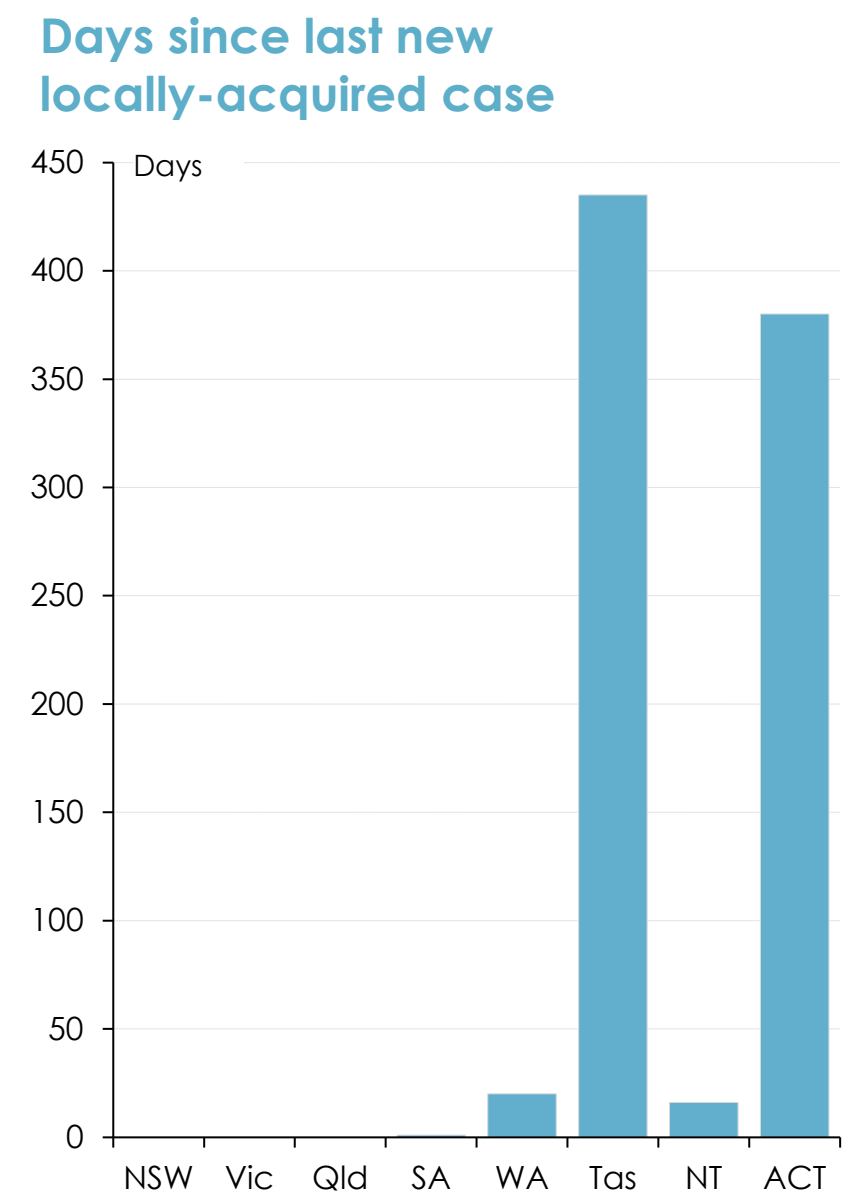
## New overseas-acquired cases



- ❑ Of particular concern to NSW public health authorities is the ongoing high number of new cases of people 'infectious while in the community' (ie not in quarantine or isolation), which rose from 30-45 per day last week to 70 per day in the past three days – Sydney's lockdown is unlikely to end until this number is reduced to near zero
- ❑ By contrast in Victoria the number of new 'infectious while in the community' cases has fallen from a peak of 19 last week to just 2 a day by the end of this week, raising hopes that Victoria's lockdown could end next week
- ❑ The number of new 'infectious while in the community cases' in South Australia peaked at 7 on Wednesday but has since fallen to zero, raising hopes of an end to that state's lockdown at the end of next week

Note: Data up to 24<sup>th</sup> July. Source: [covid19data.com.au](https://covid19data.com.au). [Return to "What's New"](#).

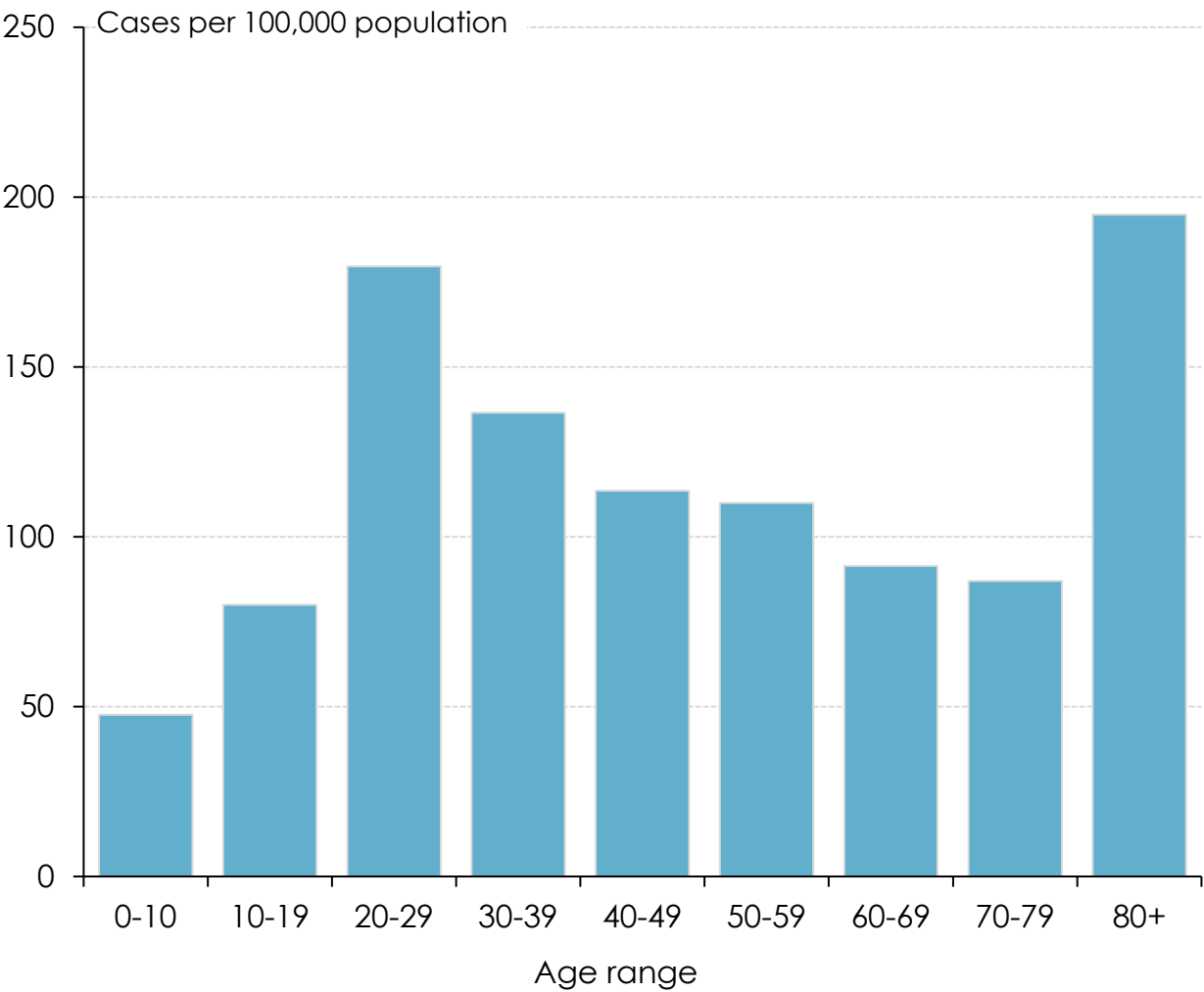
# The smaller states and territories have done better at keeping the virus at bay, partly because they receive fewer overseas arrivals



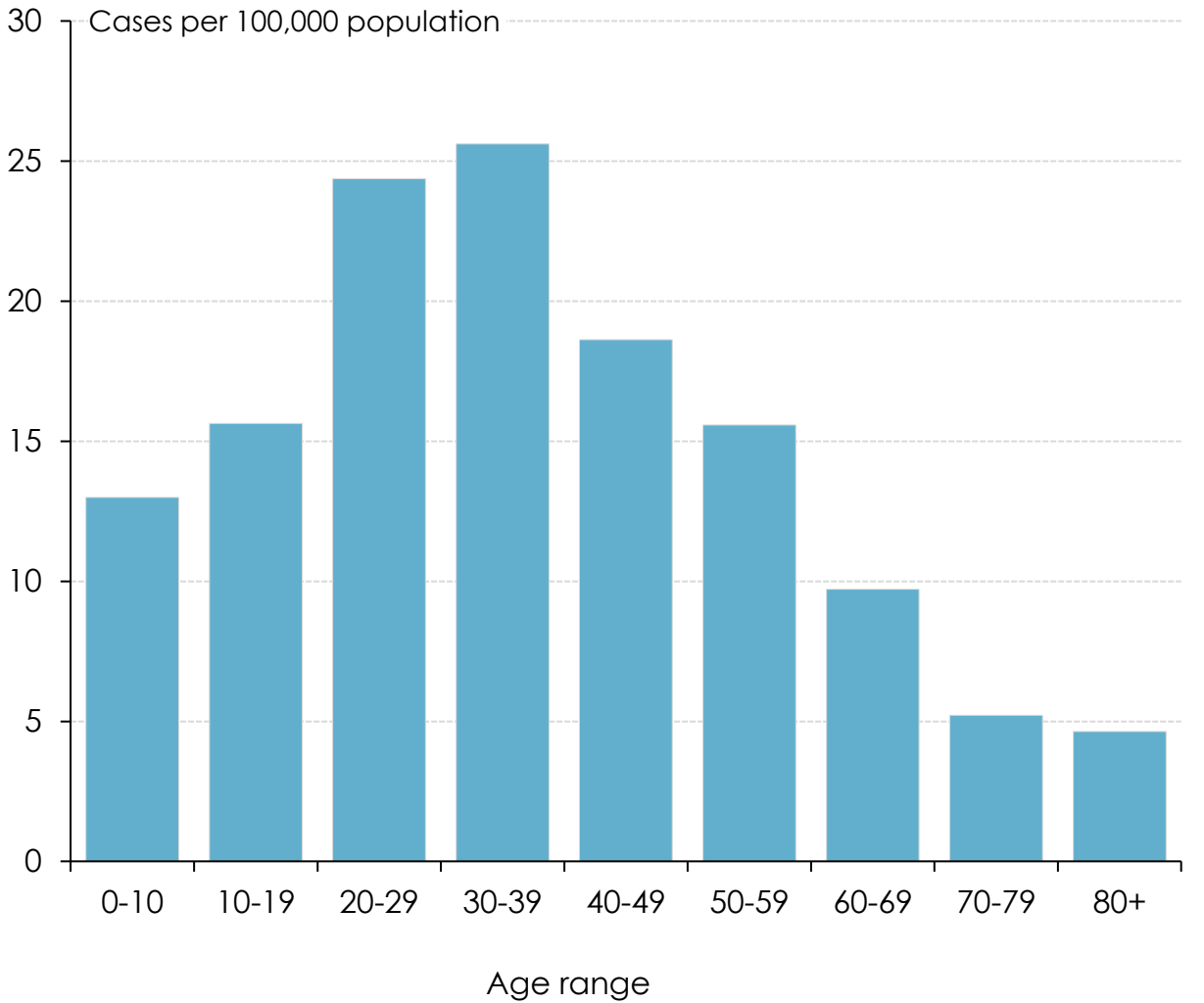
Note: Data are for 23<sup>rd</sup> July. Source: [covid19data.com.au](https://covid19data.com.au). [Return to "What's New"](#).

# This year Australian infections have been highest among people in their 20s and 30s (partly reflecting their much lower vaccination rates)

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



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

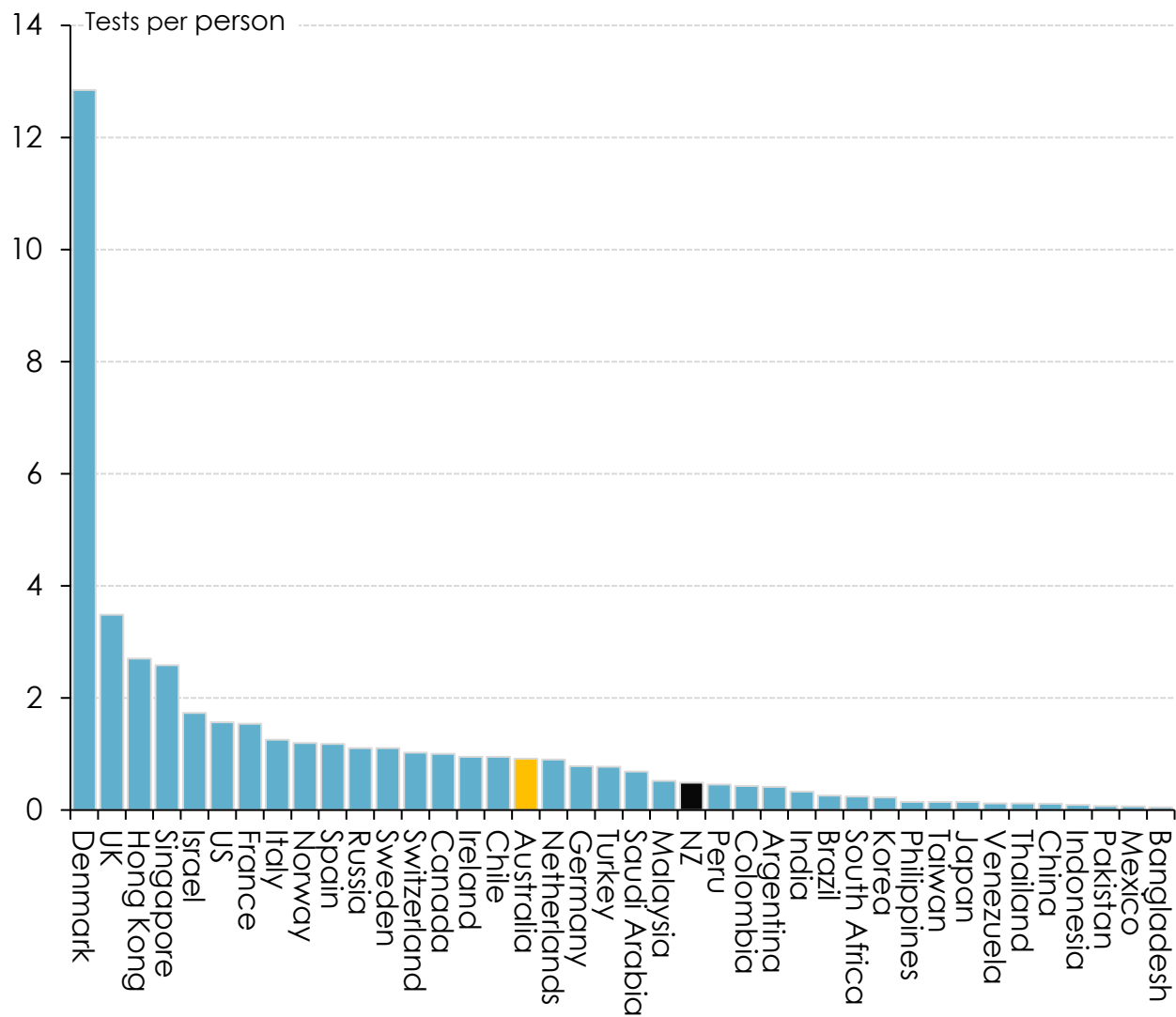


Note: Data up to 23<sup>rd</sup> July. Source: Australian Government Department of Health, [National Notifiable Diseases Surveillance System](#); ABS; Corinna.  
[Return to "What's New"](#).

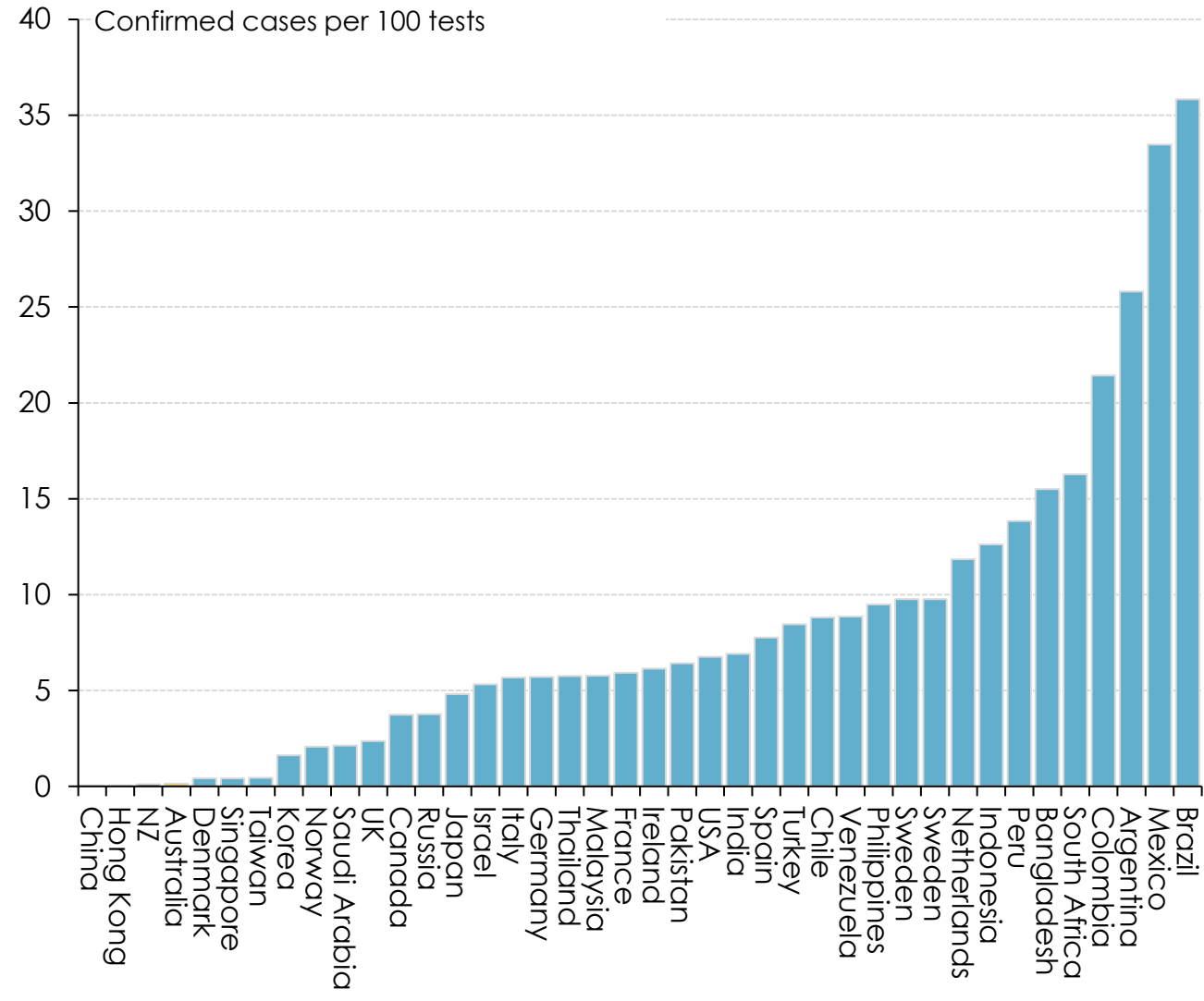


# Australia's testing regime appears sufficiently broad for the low infection and death rates to be seen as 'credible' (ie not due to low testing)

Tests per capita



Confirmed cases per 100 tests

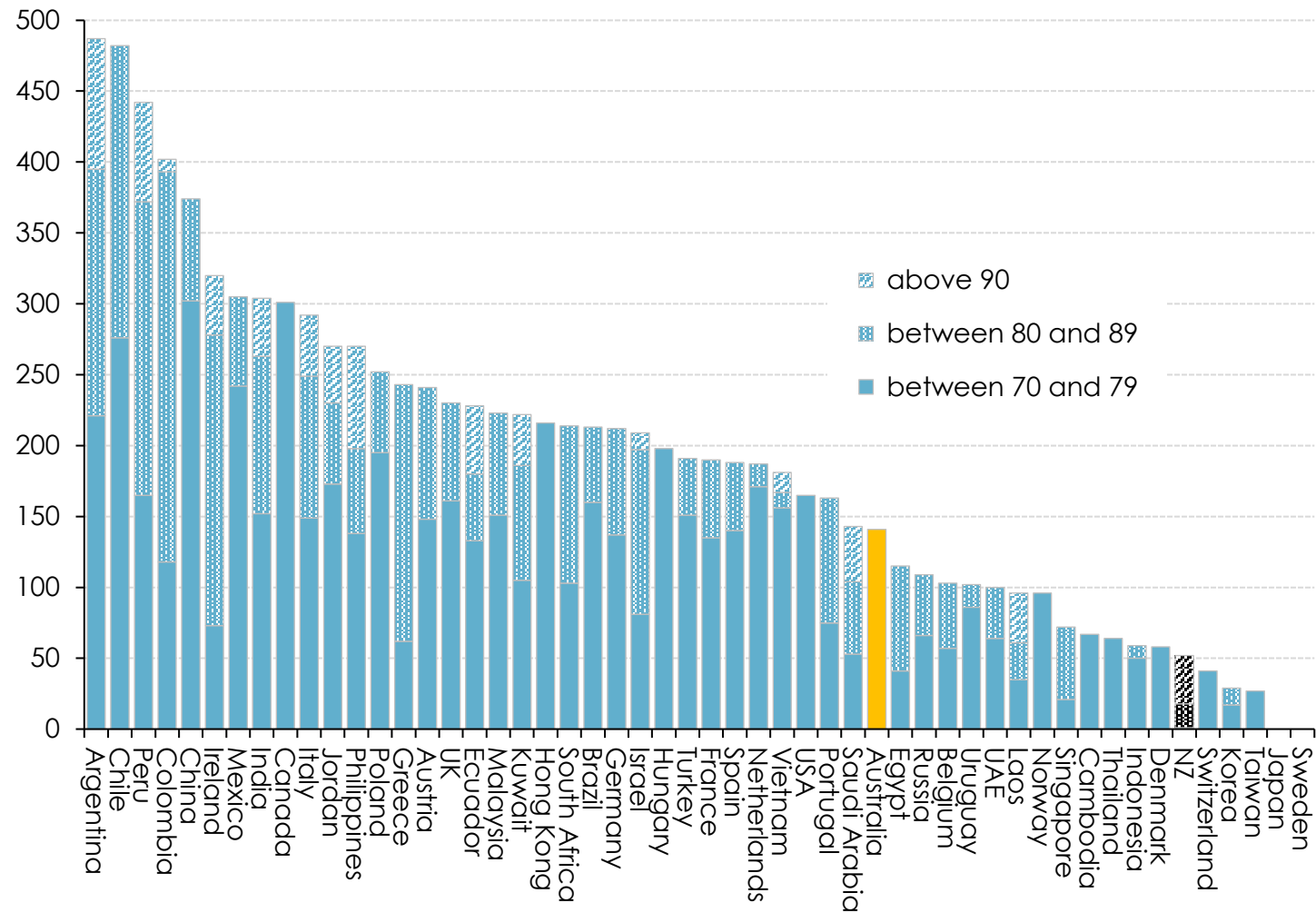


Note: Data up to 22<sup>nd</sup> July (and yes it appears, at face value, that Denmark has tested its entire population more than a dozen times, the UK more than three times, and Singapore, Israel, Hong Kong, the US, France, Italy and Spain at least once). A high number of confirmed cases per 100 tests 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"](#).

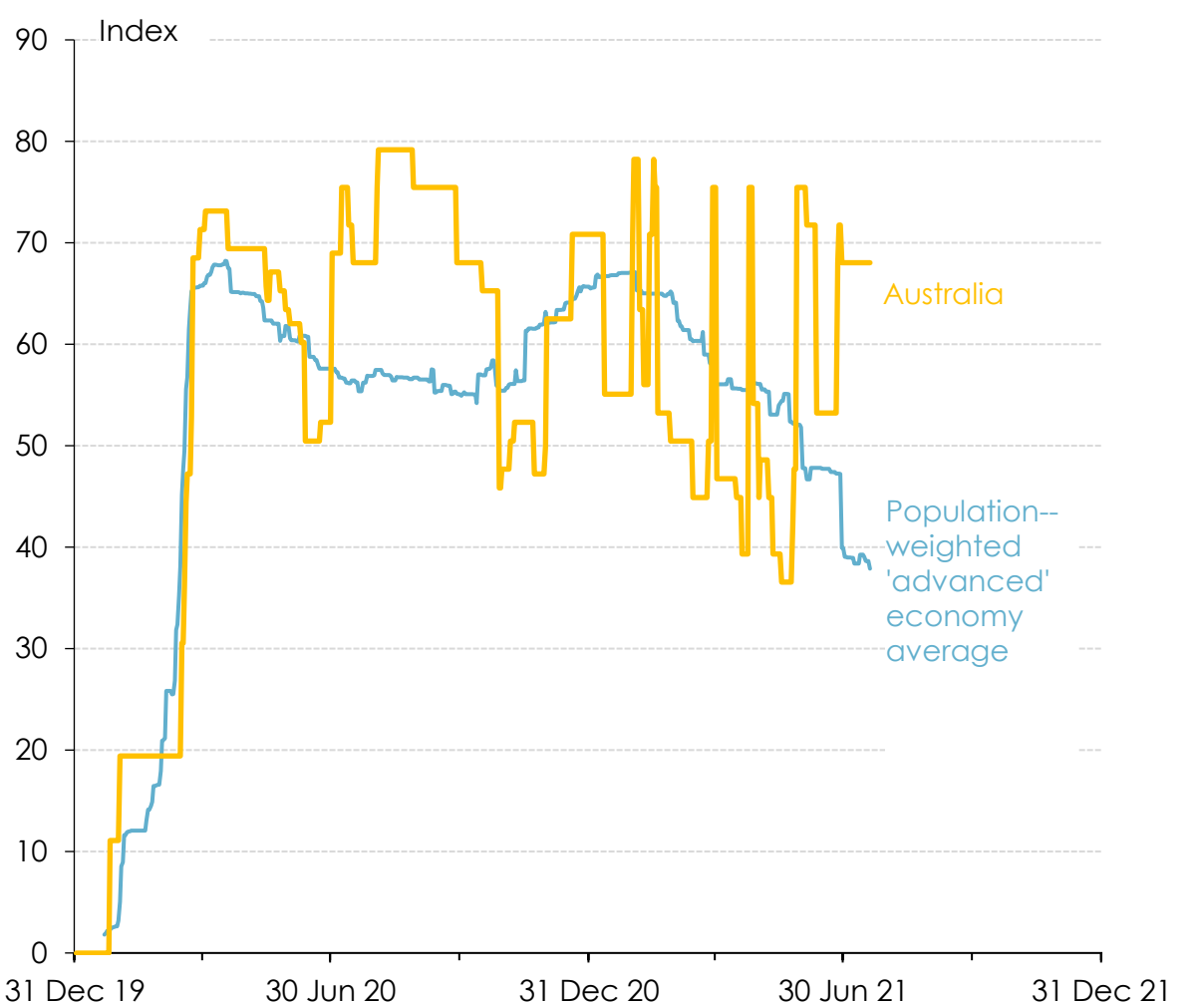


# Australia's health restrictions are now significantly more onerous than in other 'advanced' economies, on average

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



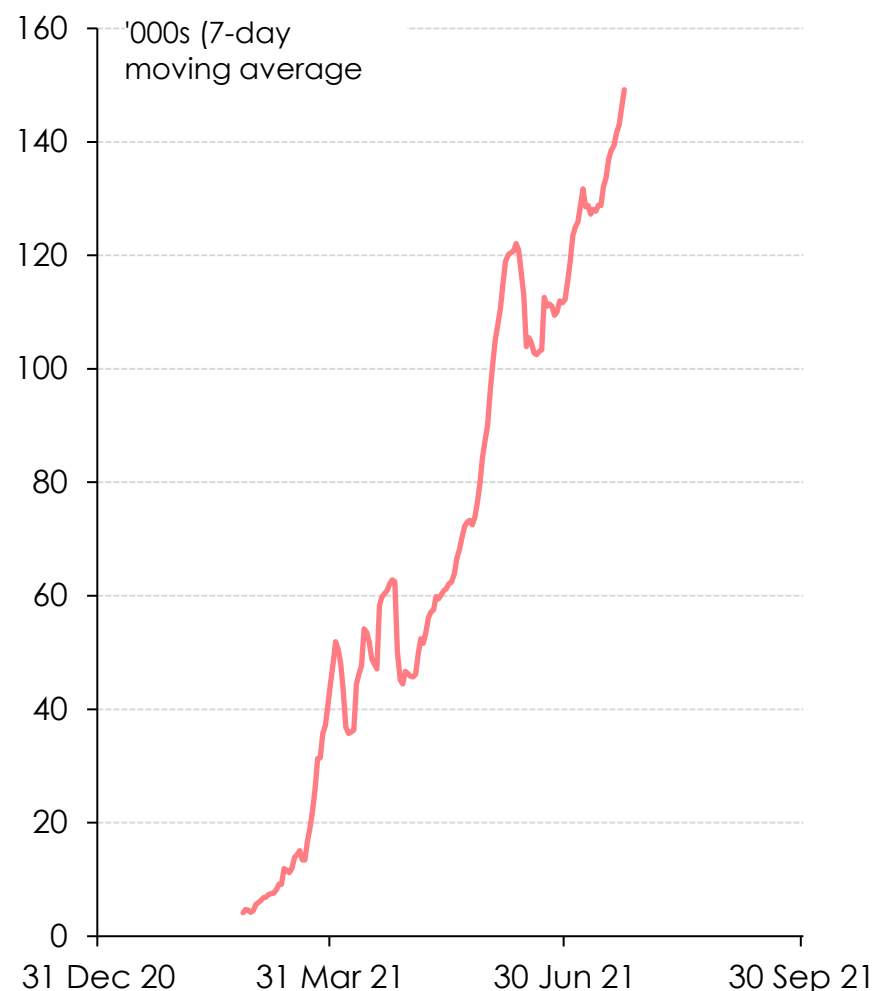
Stringency of Australia's restrictions compared with an average of other 'advanced' economies



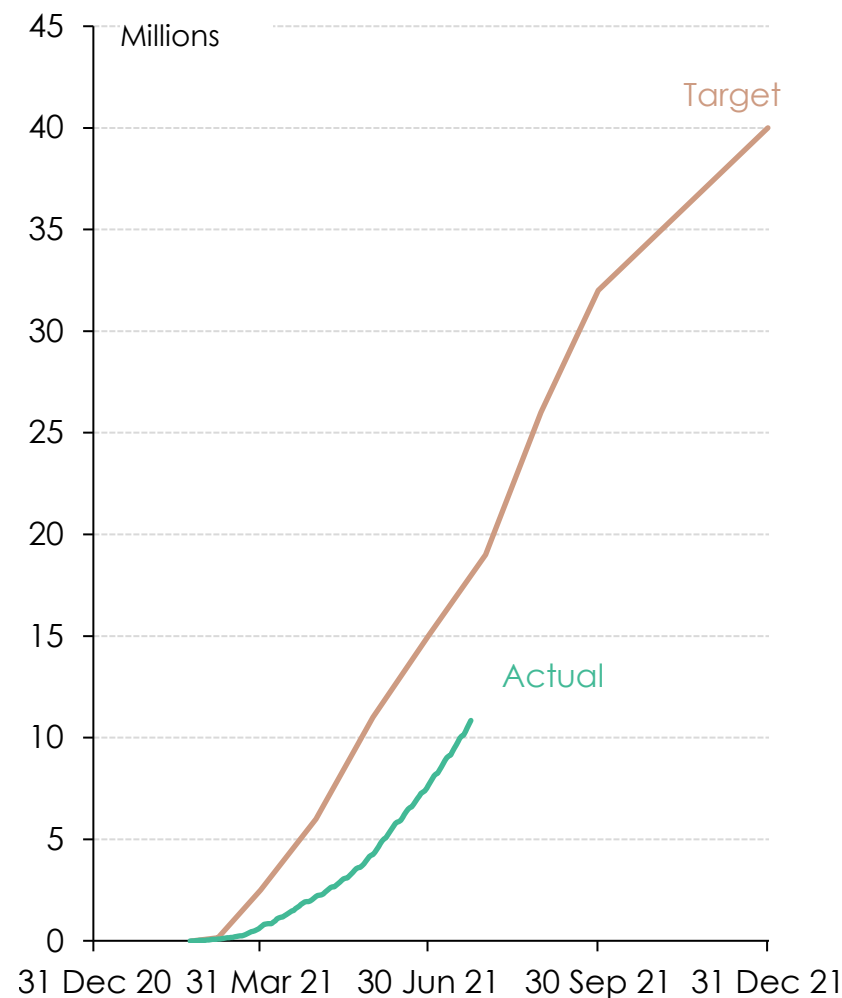
The Oxford COVID-19 Government Response Tracker collects publicly available information on 11 indicators of government response including school and workplace closures, public events cancellations, restrictions on public gatherings, stay at home requirements, public transport closures, domestic and international travel restrictions, public information campaigns, testing and contact tracing. Source: [Blavatnik School of Government, Oxford University](#). Data up to 19<sup>th</sup> July. [Return to "What's New"](#).

# The number of Australians getting vaccinated is now accelerating, but its still way behind original Government targets (and behind most other countries)

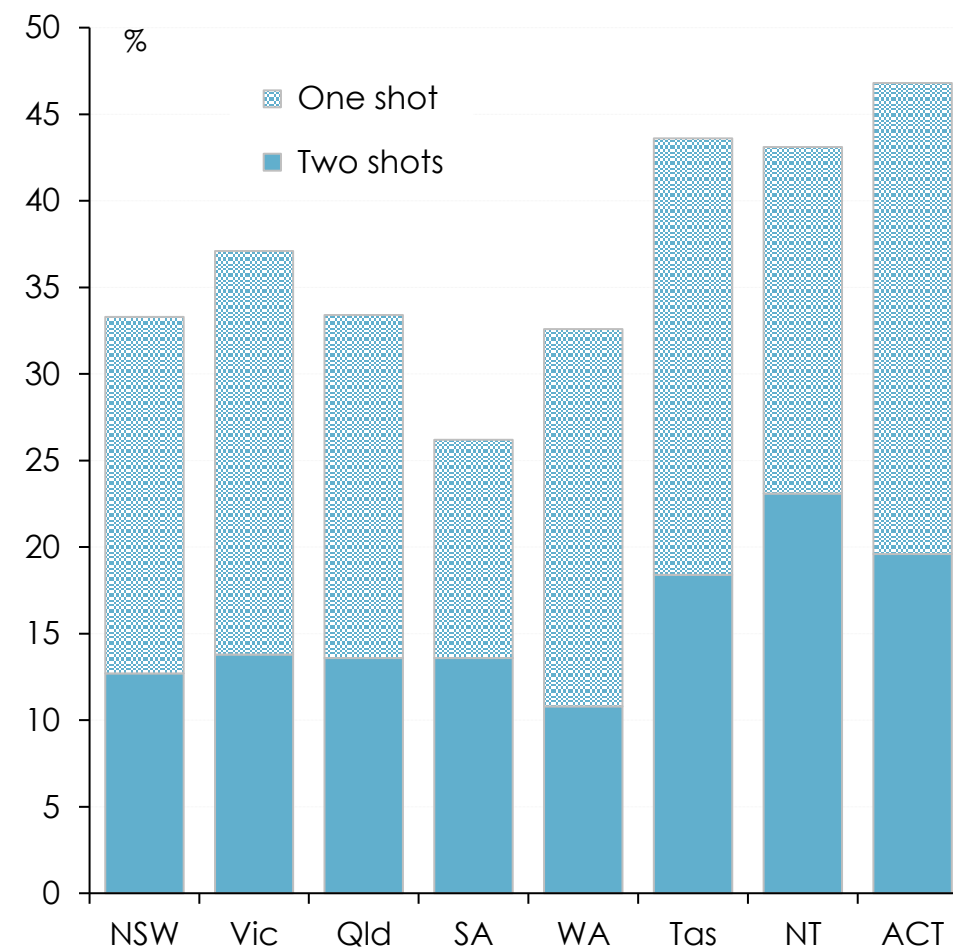
## Daily number of vaccines administered



## Vaccine doses administered vs Government target



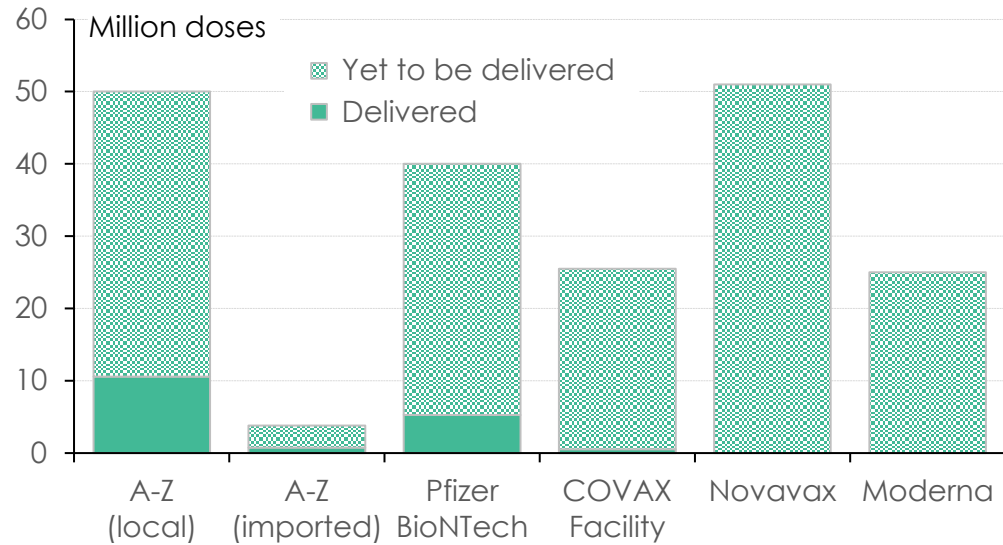
## Percentage of population vaccinated, states and territories



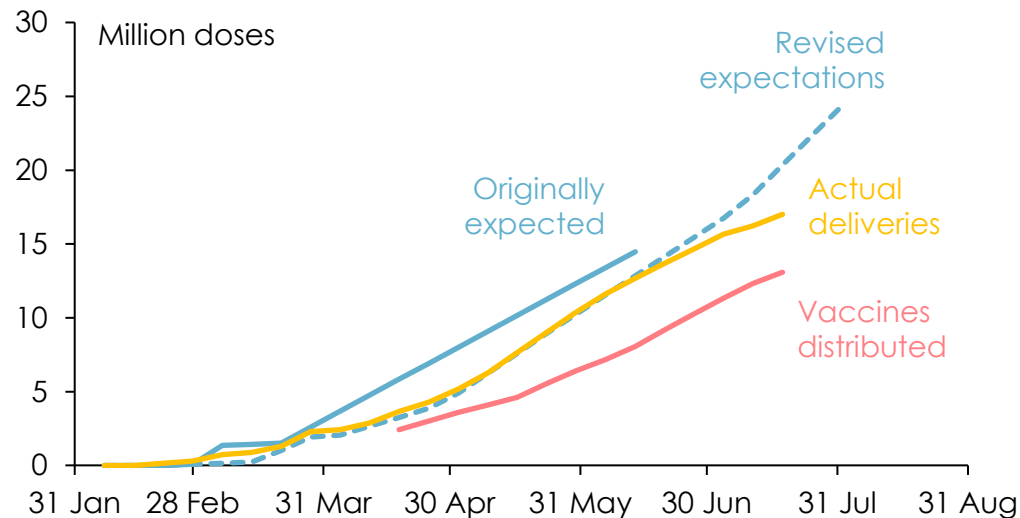
Note: Data up to 23<sup>rd</sup> July. Sources: [covid19data.com.au](https://covid19data.com.au); Australian Department of Health, [COVID-19 vaccine rollout update on 14 March 2021](#).  
[Return to "What's New"](#).

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

## Australia's vaccine supplies



## Original & revised expectations vs supplies



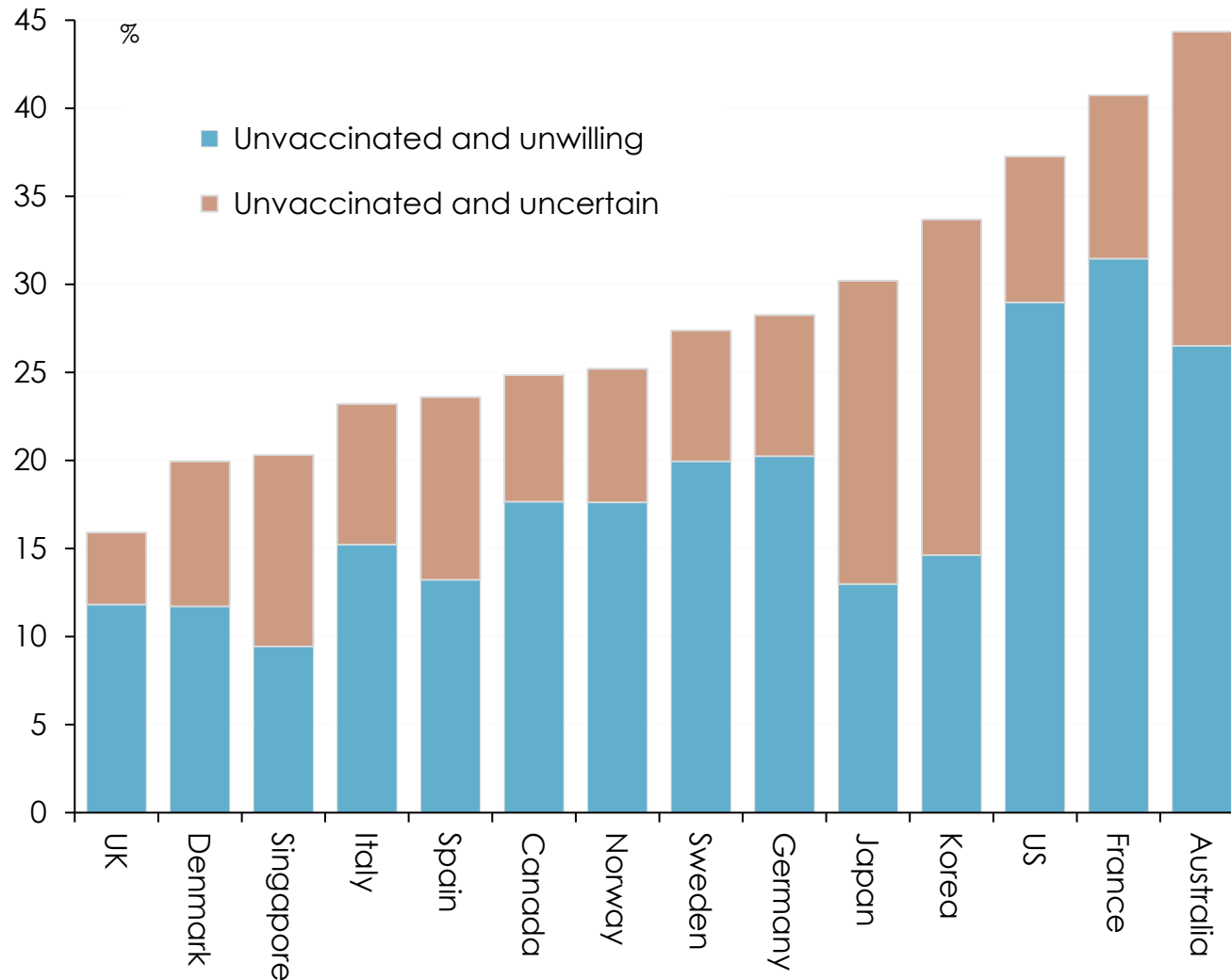
Note: Vaccine supplies are as at 18<sup>th</sup> July.

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



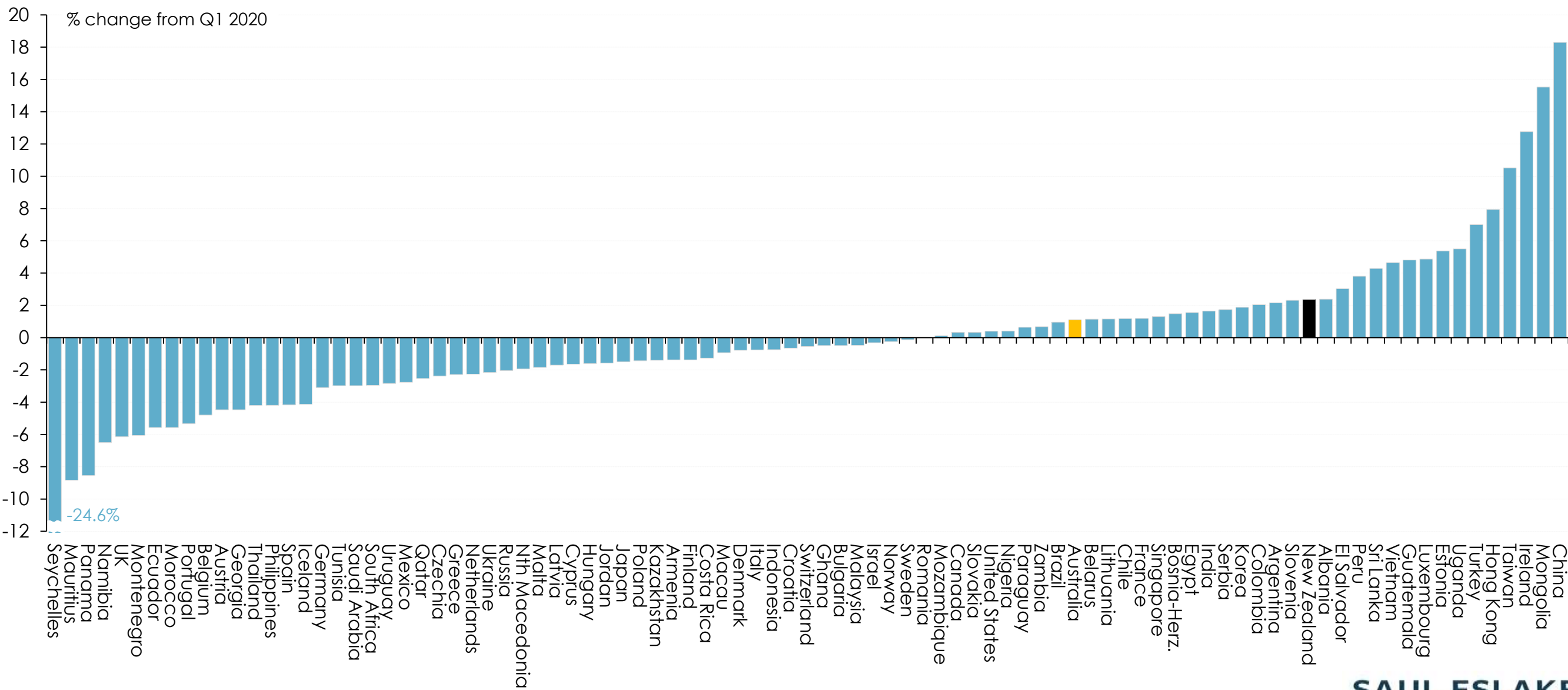
Note: Results for UK and Canada are for May.

Sources: Imperial College London and YouGov, [Covid 19 Behaviour Tracker Data Hub](#); ABS, [Household Impacts of Covid-19 Survey](#), June 2021. [Return to "What's New"](#).

**The world**

# Of the 91 countries which have so far reported Q1 GDP estimates, 39 have recorded positive growth from Q1 last year

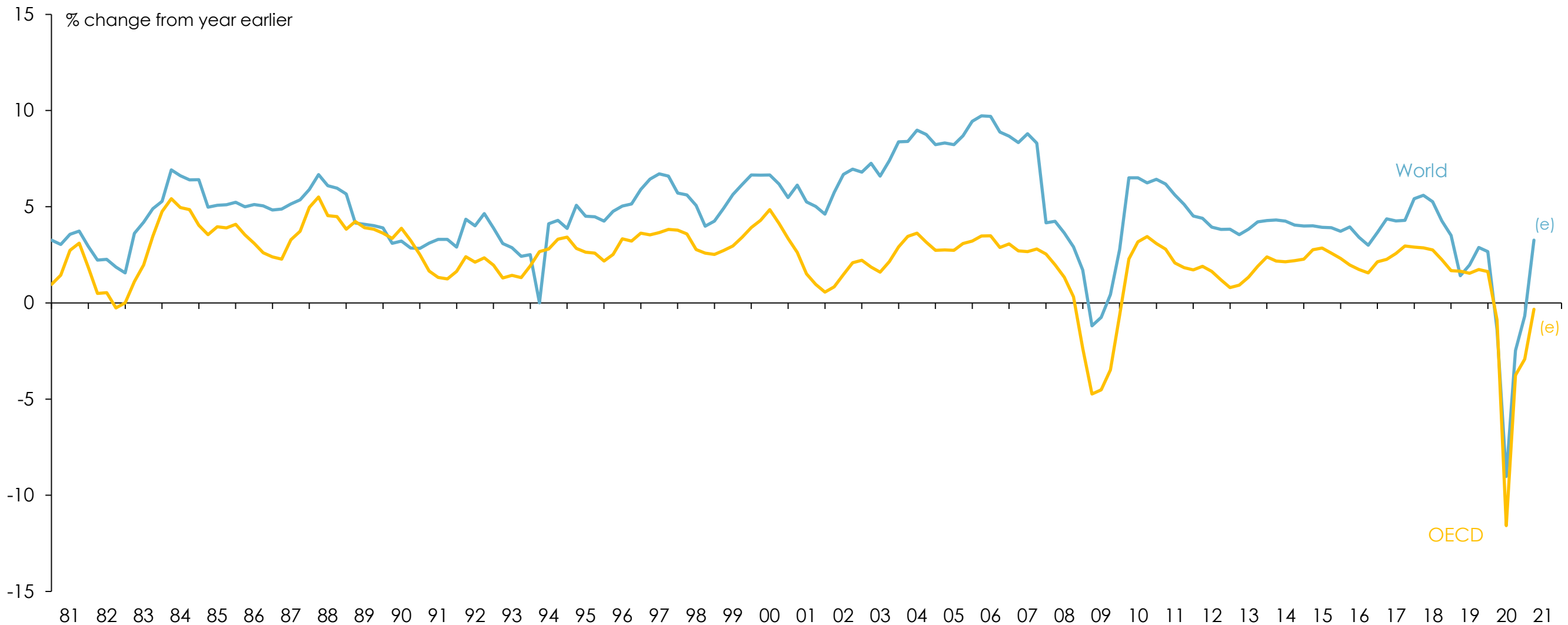
Growth in real GDP over the year to Q1 2021



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

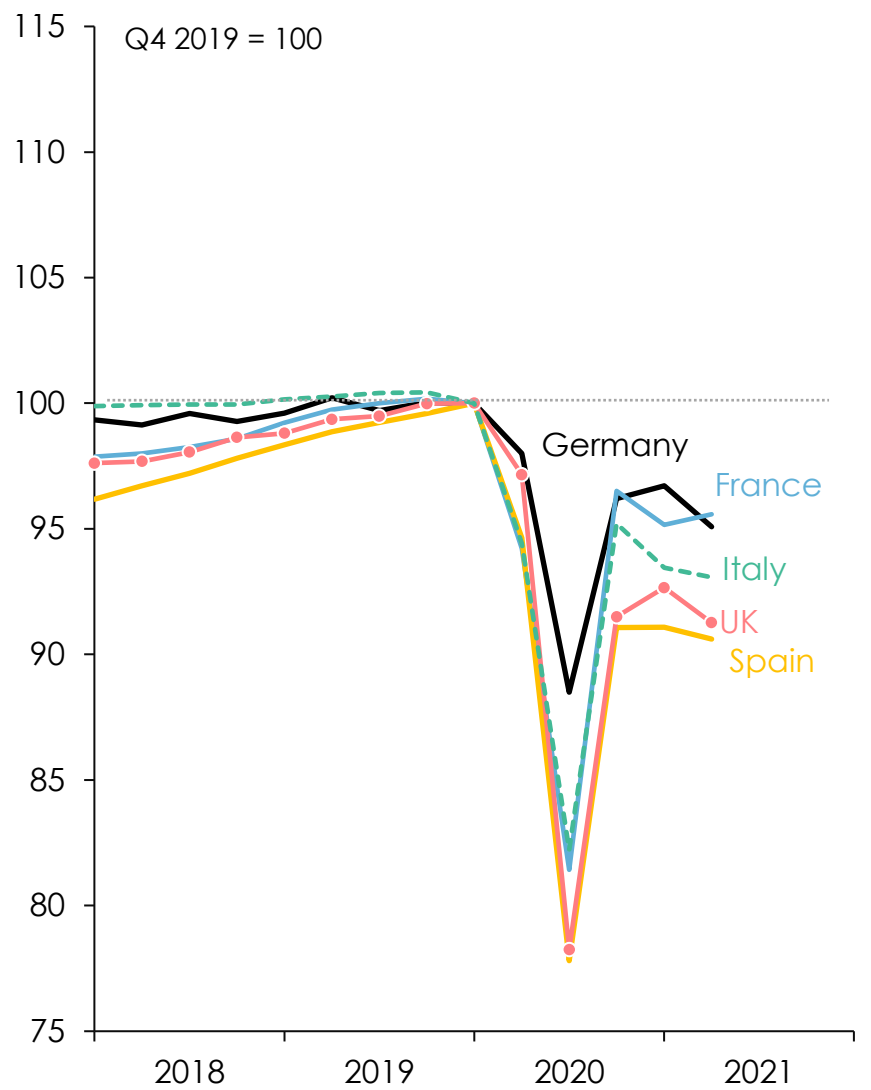
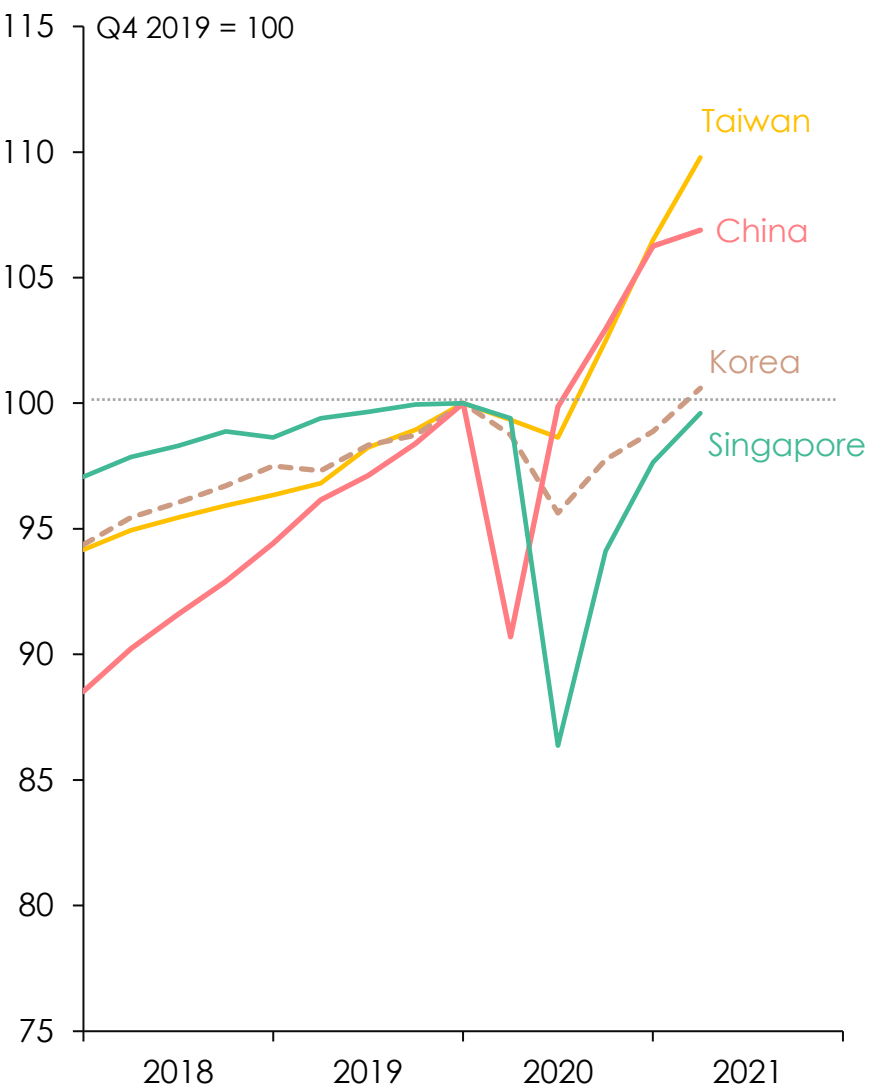
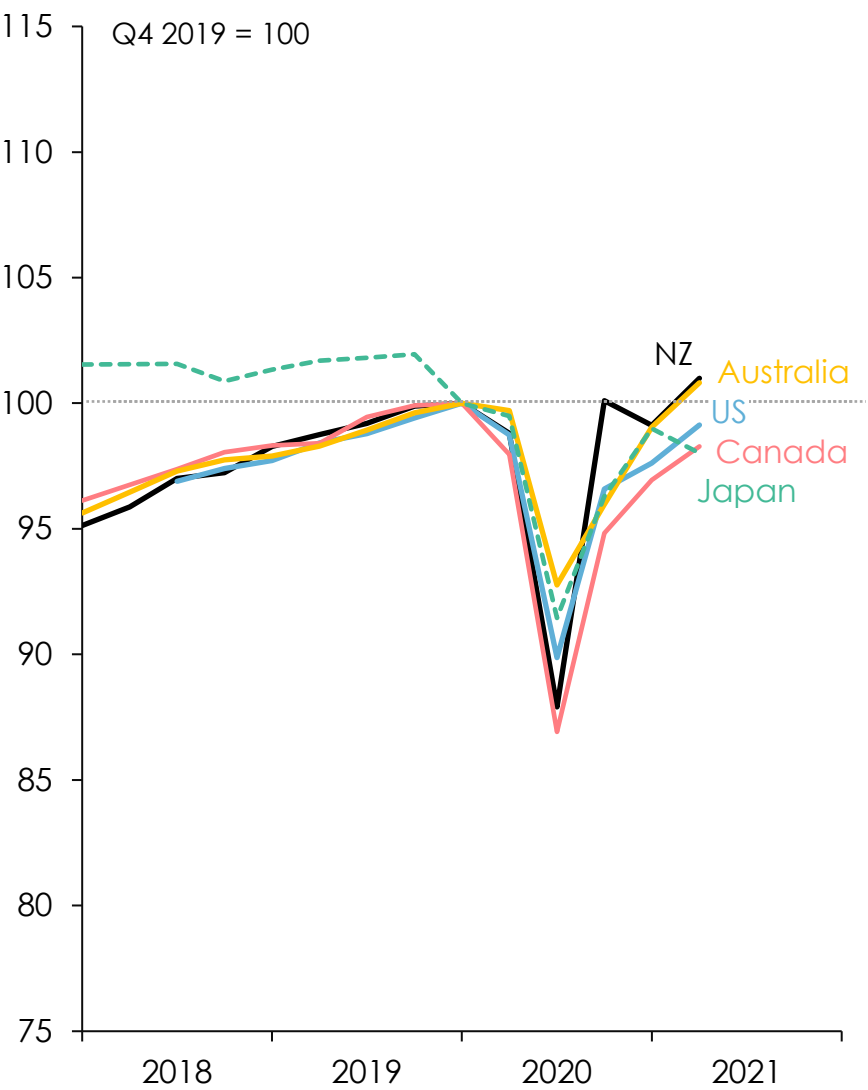
## World and OECD area real GDP growth



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 ...

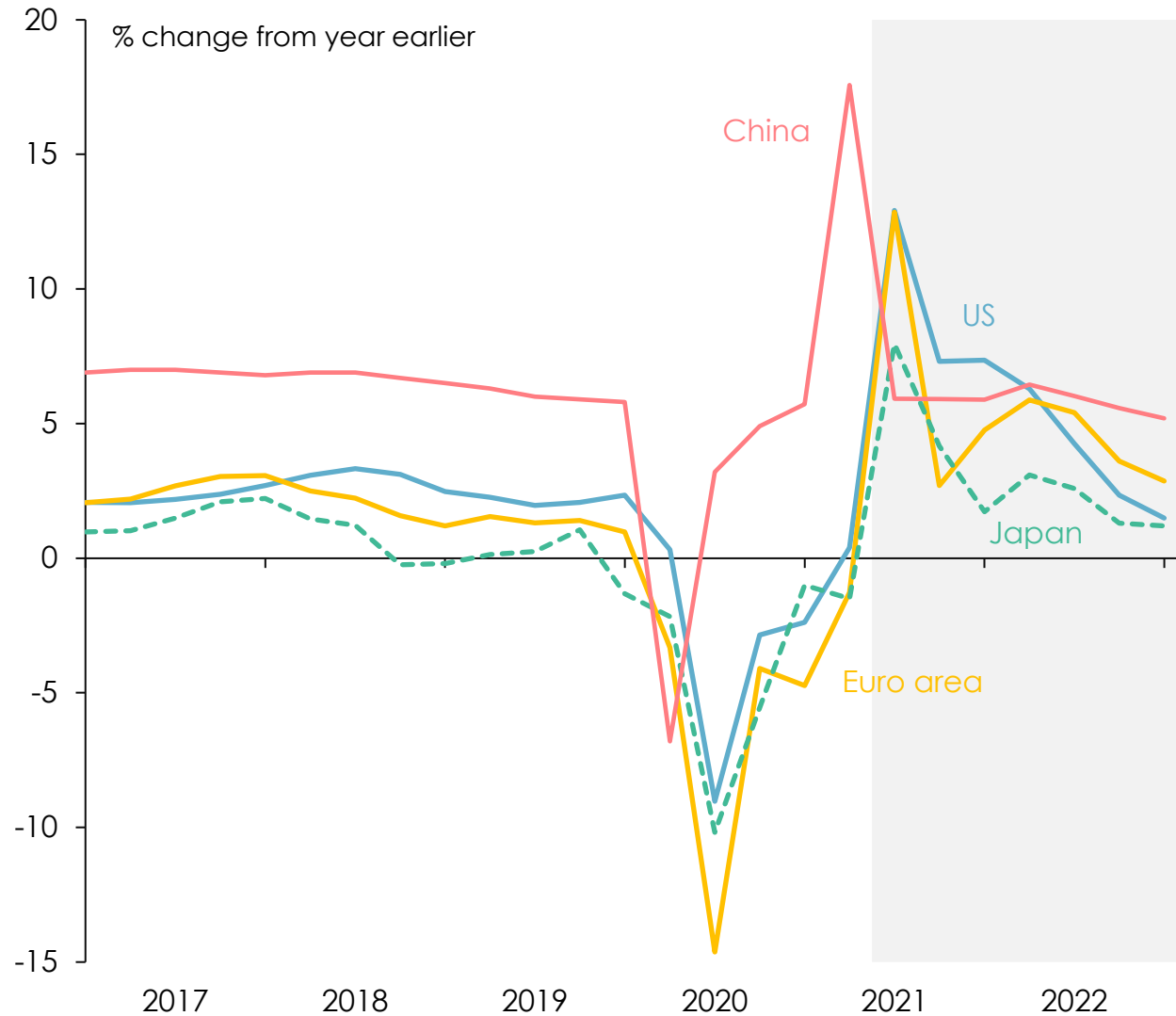
## Major global institutions' growth forecasts for 2020, 2021 and 2022 compared

	<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

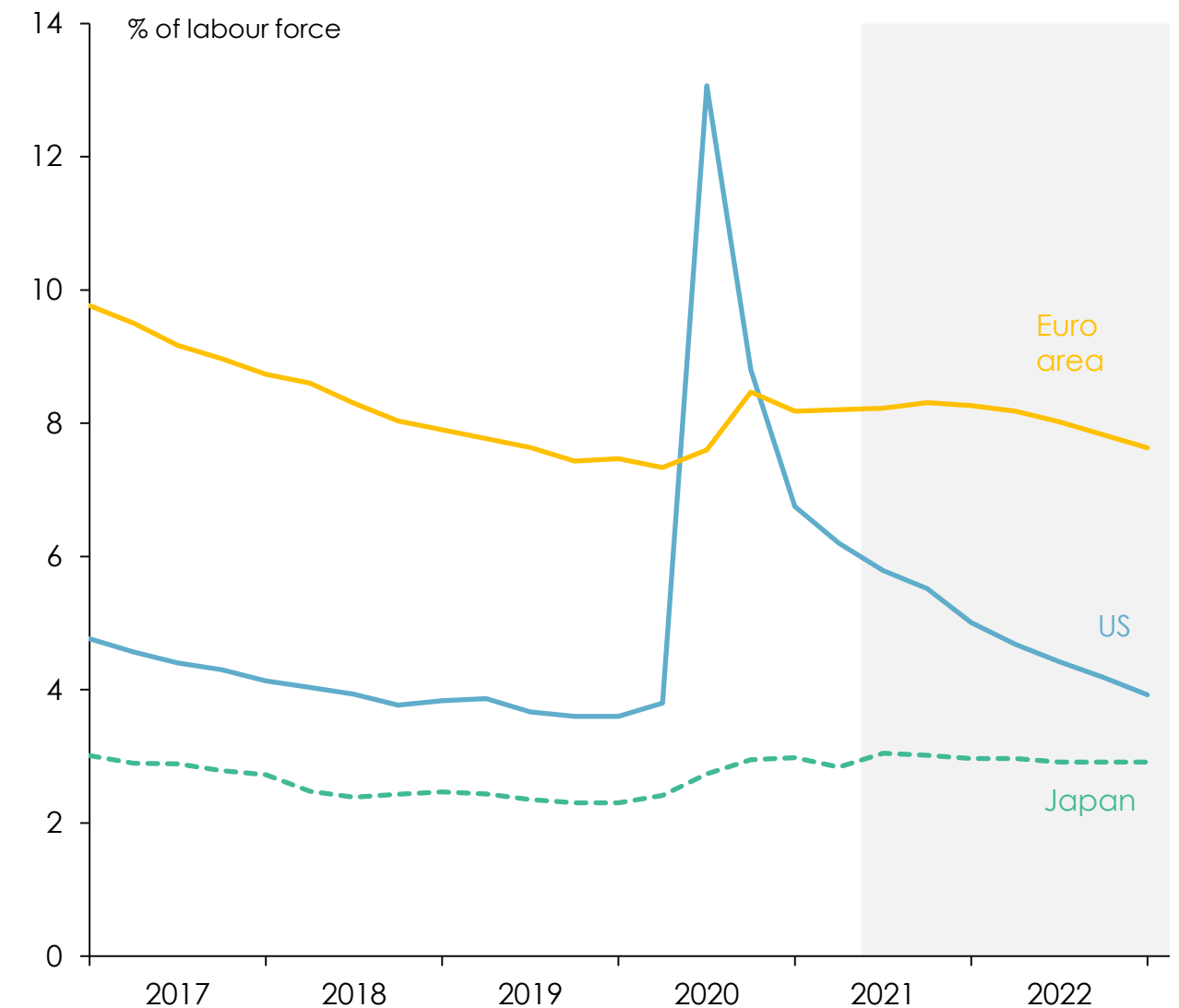
Note: \* Forecasts for fiscal years beginning 1<sup>st</sup> July (and finishing 30<sup>th</sup> June following year) † Forecasts by New Zealand Treasury for fiscal years beginning 1<sup>st</sup> July  
Sources : International Monetary Fund (IMF), [World Economic Outlook](#), 6<sup>th</sup> April 2021; The World Bank, [Global Economic Prospects](#), 6<sup>th</sup> January 2021; Organization for Economic Co-operation & Development (OECD), [Economic Outlook No. 109](#), 31<sup>st</sup> May 2021; Australian Treasury, 2021-22 [Budget Paper No. 1, Statement No. 2](#), 11<sup>th</sup> May 2021; New Zealand Treasury, [Budget Economic and Fiscal Update 2021](#), 20<sup>th</sup> 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



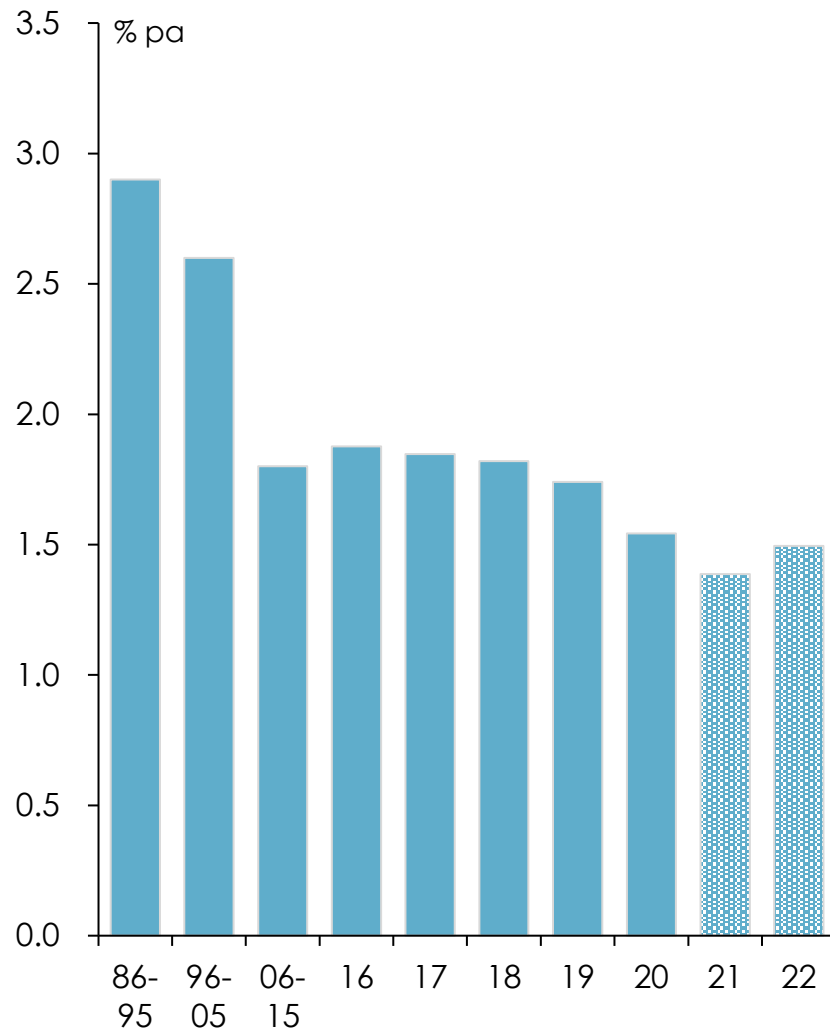
## OECD unemployment rate forecasts



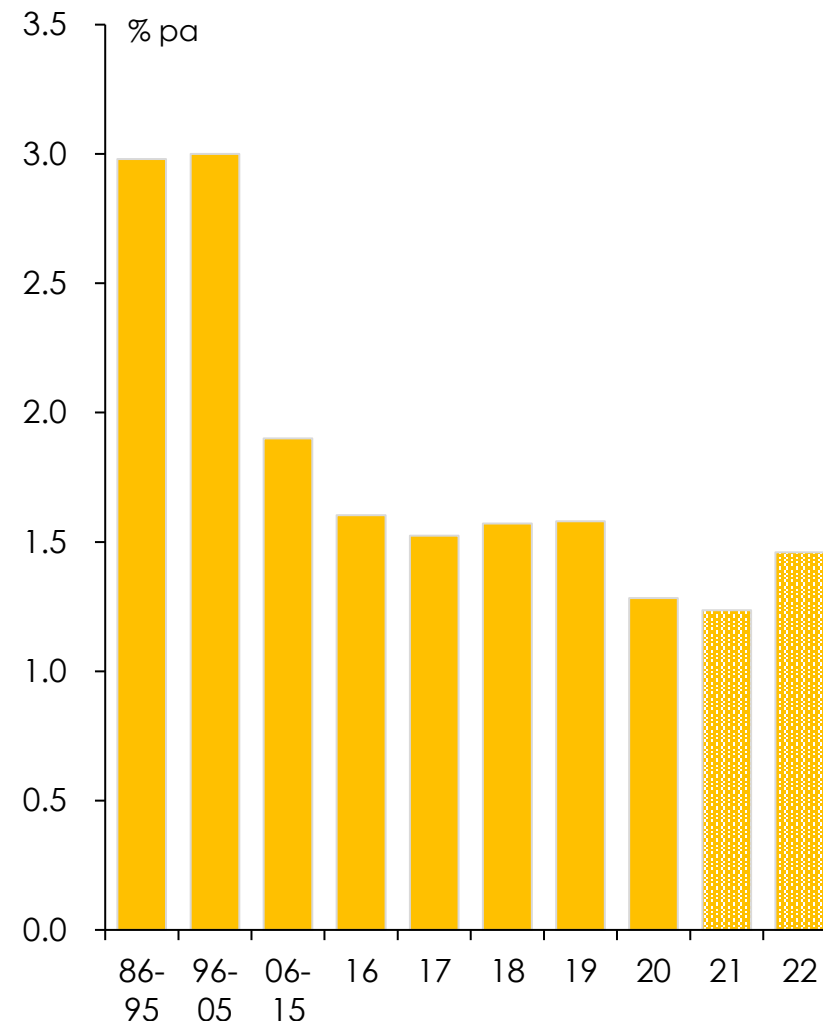
Sources: OECD, [Economic Outlook No. 109 - Statistical Annex](#), Volume 2021, No. 1, 31<sup>st</sup> May 2021; Corinna.

# ... 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

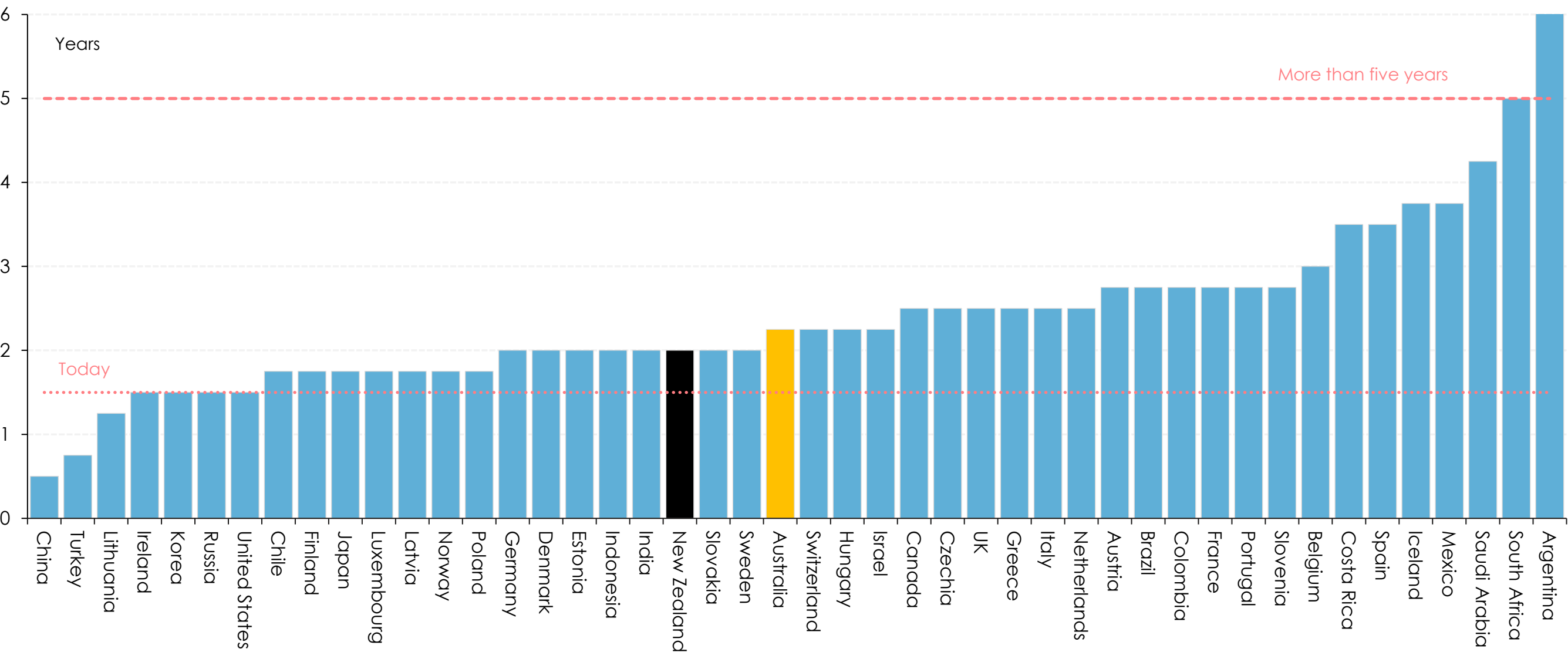


OECD area labour productivity growth



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

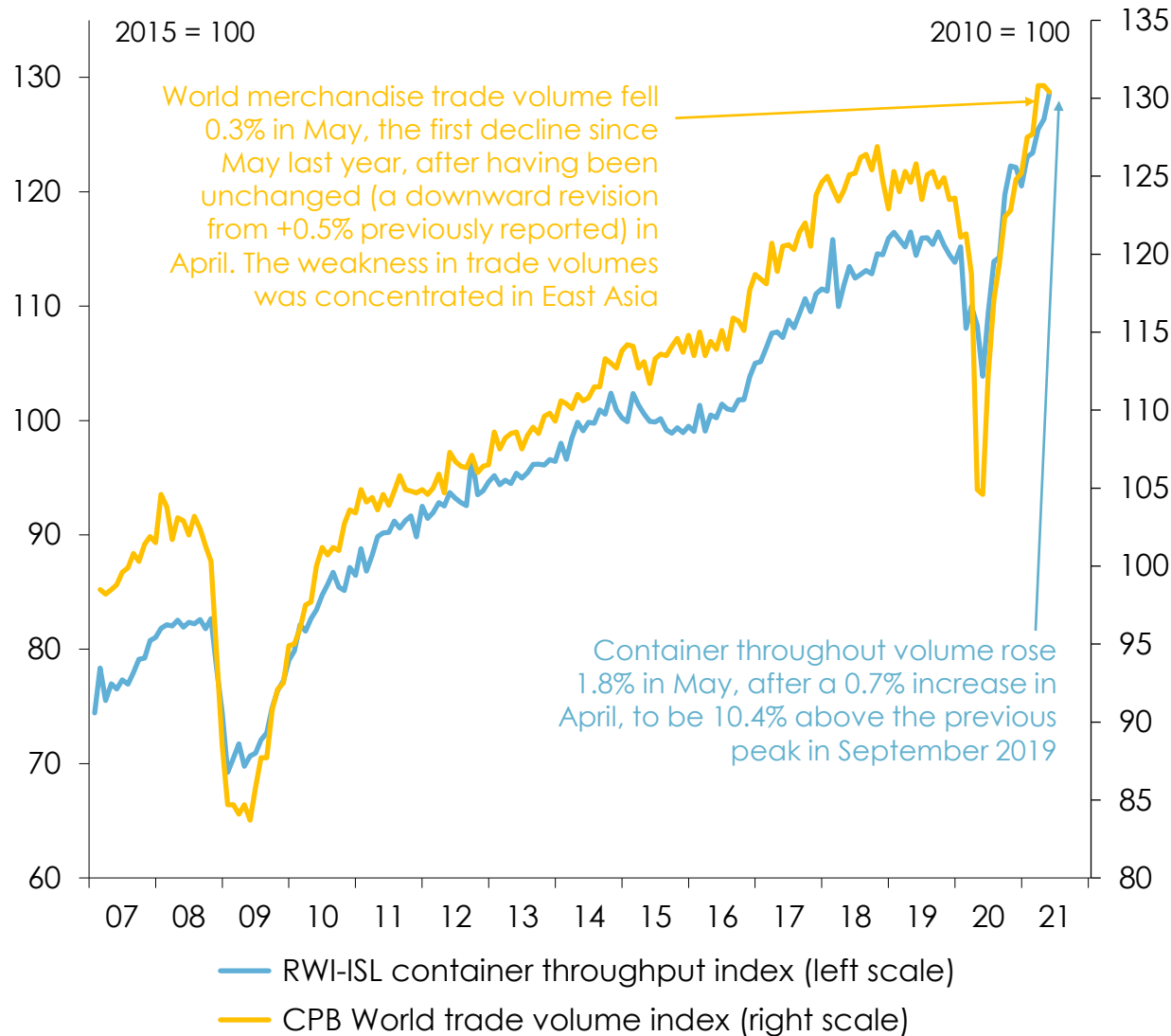
OECD estimate of number of years since Q4 2019 to return to pre-pandemic real per capita GDP



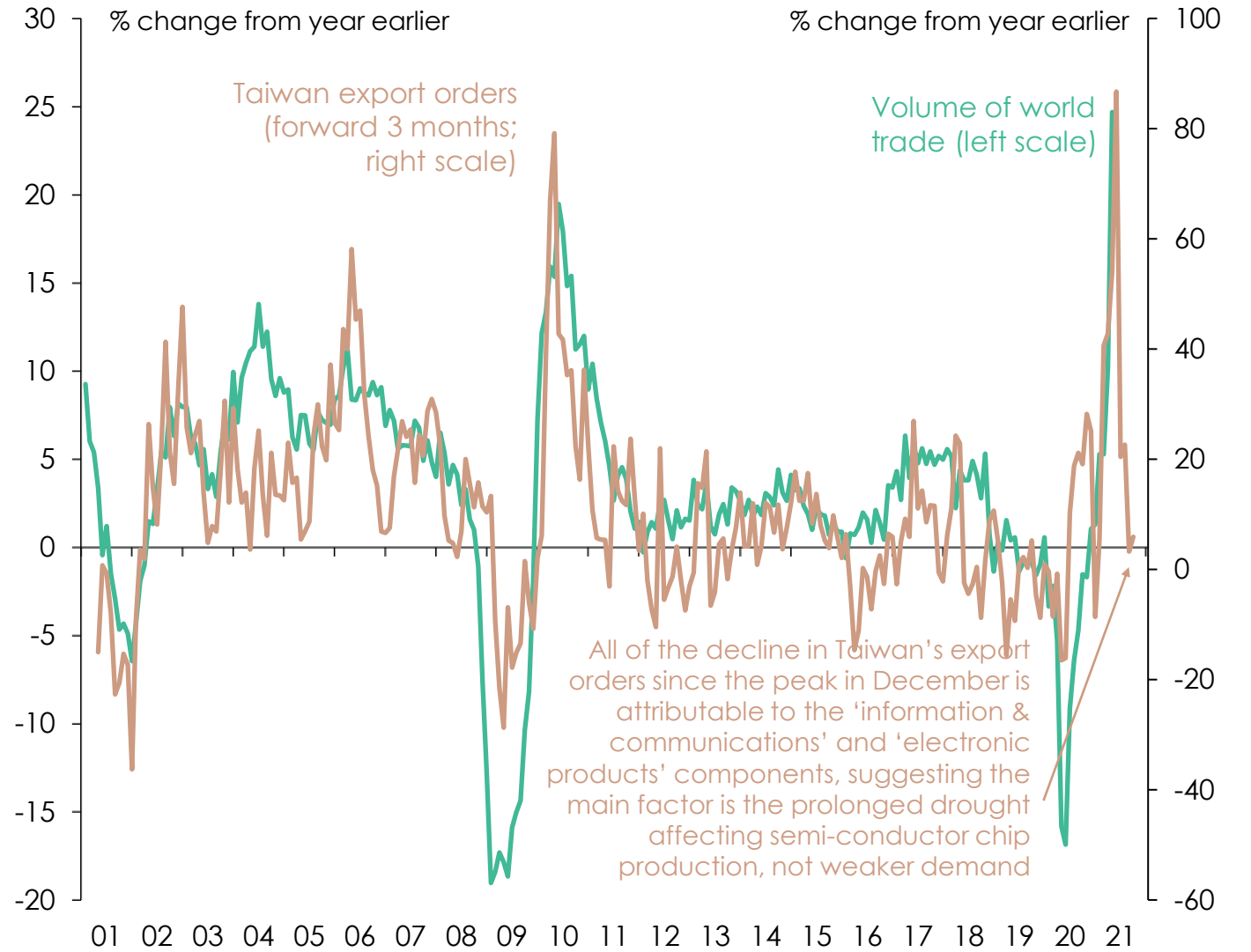
Source: Organization for Economic Co-operation & Development (OECD), [Economic Outlook No. 109](#), 31<sup>st</sup> May 2021. [Return to "What's New"](#).

# World trade volumes fell in May for the first time in a year, with the weakness concentrated in East Asia – and there may be more ahead

## World trade volumes and container throughput



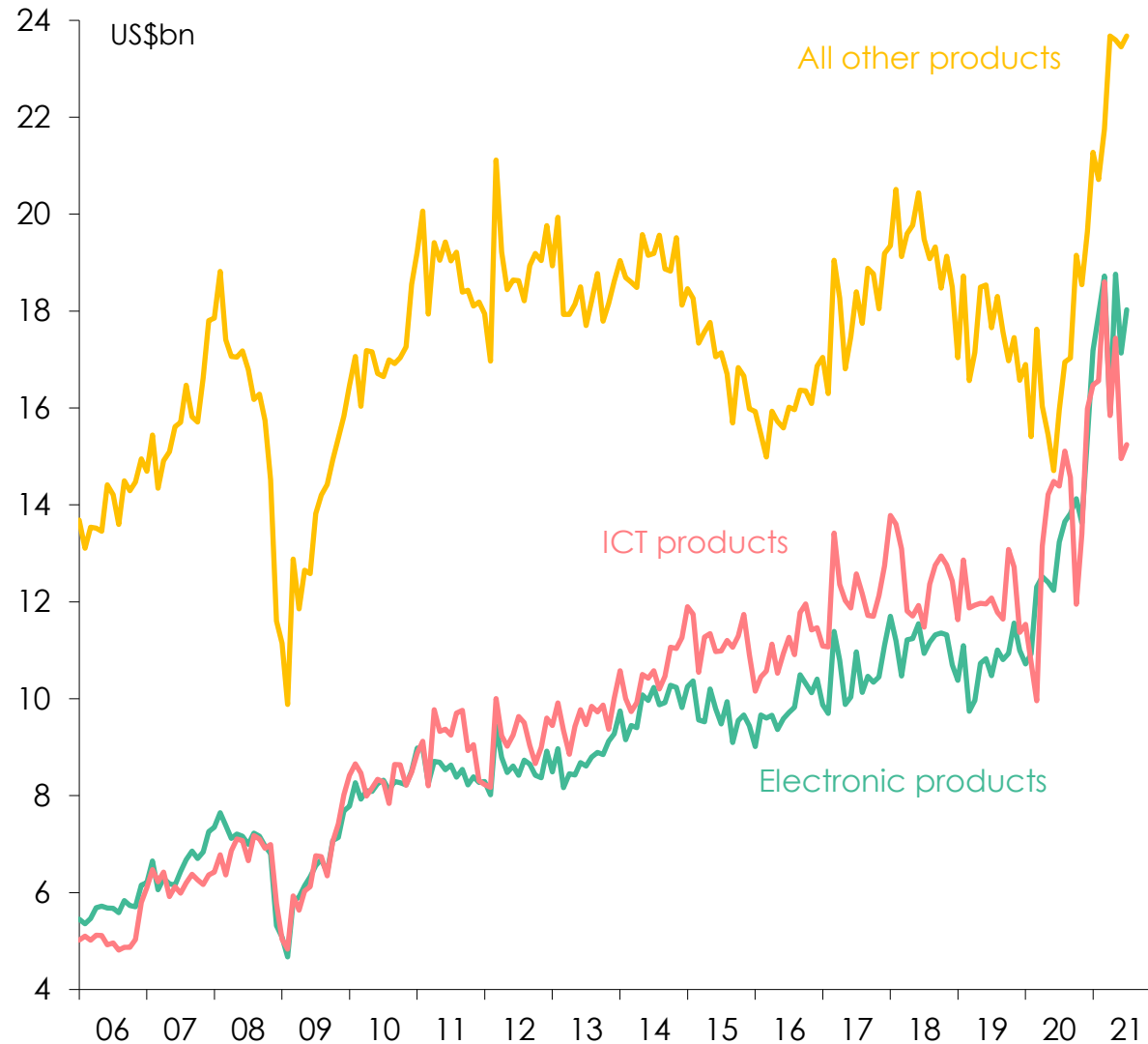
## Taiwan export orders and world trade volumes



Note: The shipping container throughput index is based on reports from 91 ports around the world handling over 60% of global container shipping.  
 Sources: CPB Netherlands Economic Planning Bureau, [World Trade Monitor](#) (June data to be released on 25<sup>th</sup> August); 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

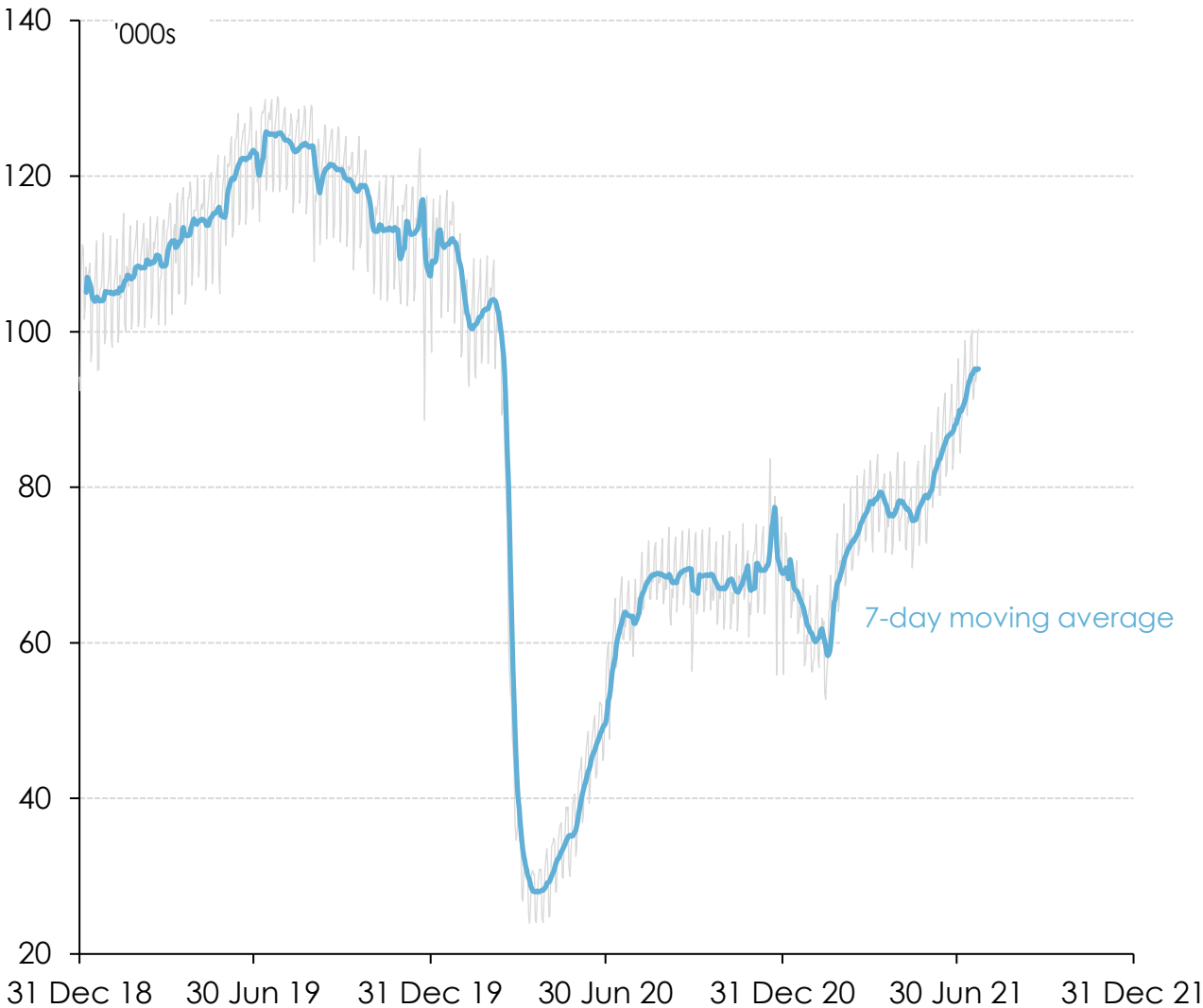


Note: Data have been seasonally adjusted by Corinna using Refinitiv Datastream. Latest data are for June. Source: Taiwan [Ministry of Economic Affairs](#). [Return to "What's New"](#).

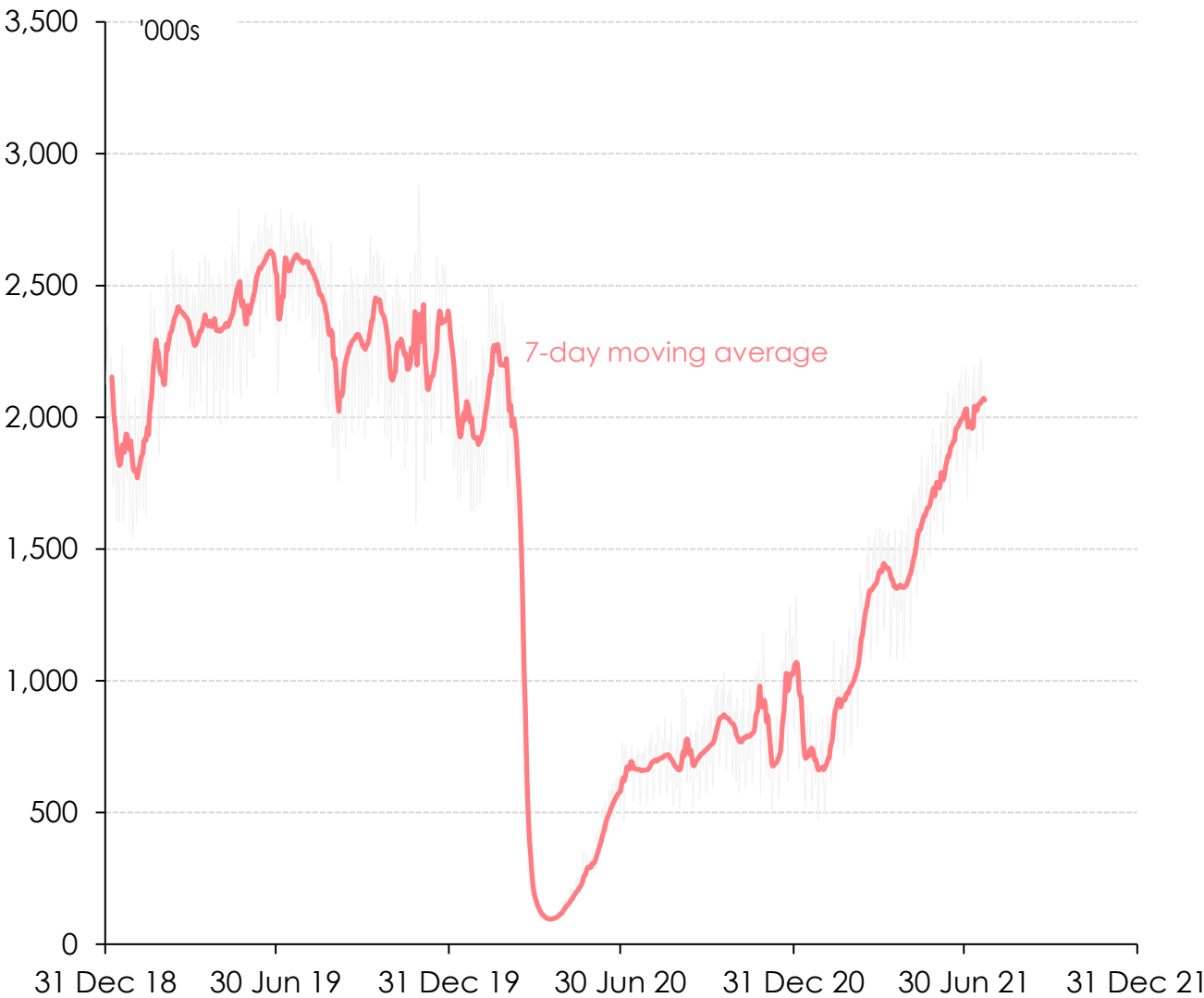
- ❑ Taiwan accounts for 63% of the US\$85bn global semi-conductor chip market
  - Korea accounts for 18%, and China 6%
  - one Taiwanese company, Taiwan Semiconductor Manufacturing Co (TSMC) has 54% of the world market, and United Microelectronics Co (UMC) a further 7% (Samsung accounts for Korea's 18%)
- ❑ 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 fell % from February's record high through May, before rising 2.5% in June
  - June orders for ICT products were still 18% below their February peak, while orders for electronic products were 3¾% below February
- ❑ 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

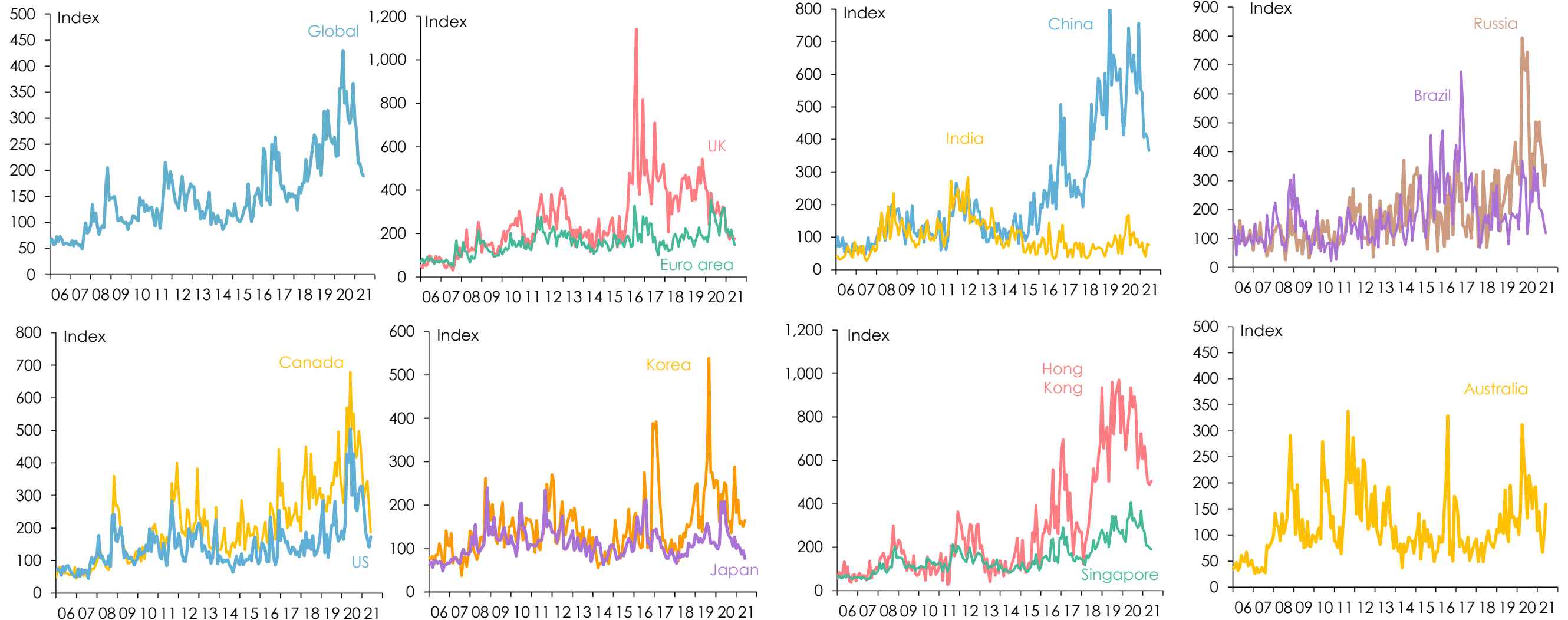


Note: Commercial flights include commercial passenger flights, cargo flights, charter flights, and some business jet flights. Data for commercial flights up to 23<sup>rd</sup> July, for TSA 'security' checks up to 22<sup>nd</sup> July. Thicker coloured lines are 7-day centred moving averages of daily 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)

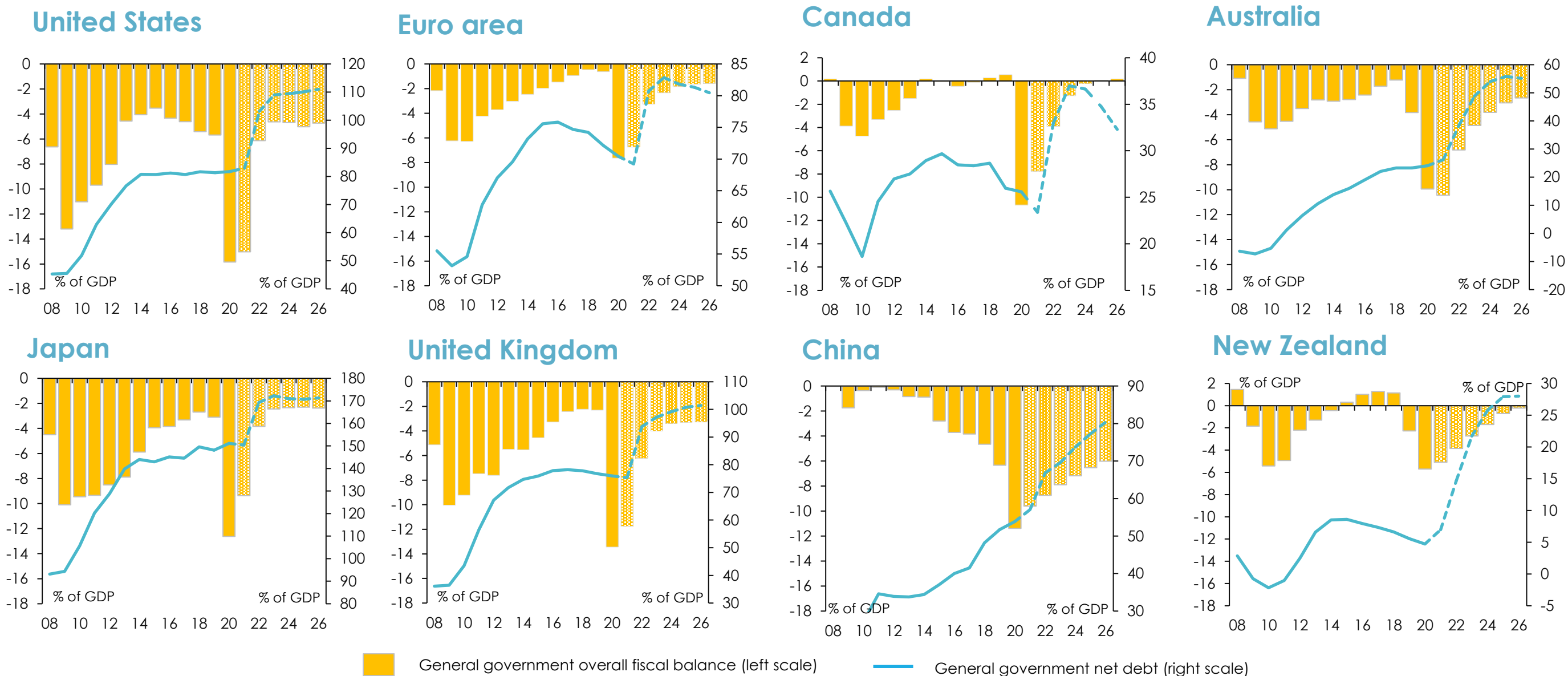
## Economic policy uncertainty indices



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"](#).



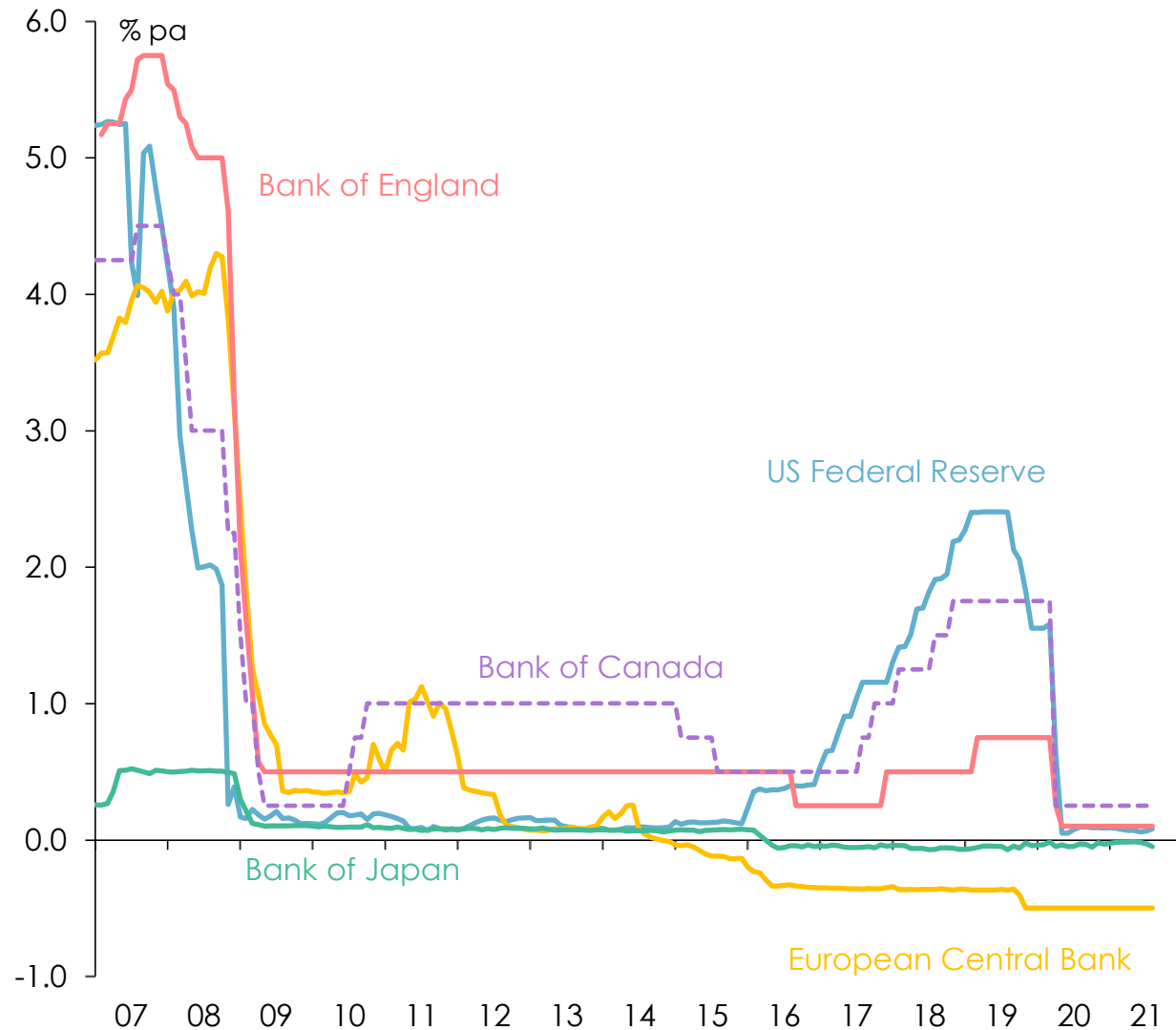
# The US fiscal stimulus dwarfs that of any other major economy – although Japan, the UK, Canada and Australia are also doing a lot



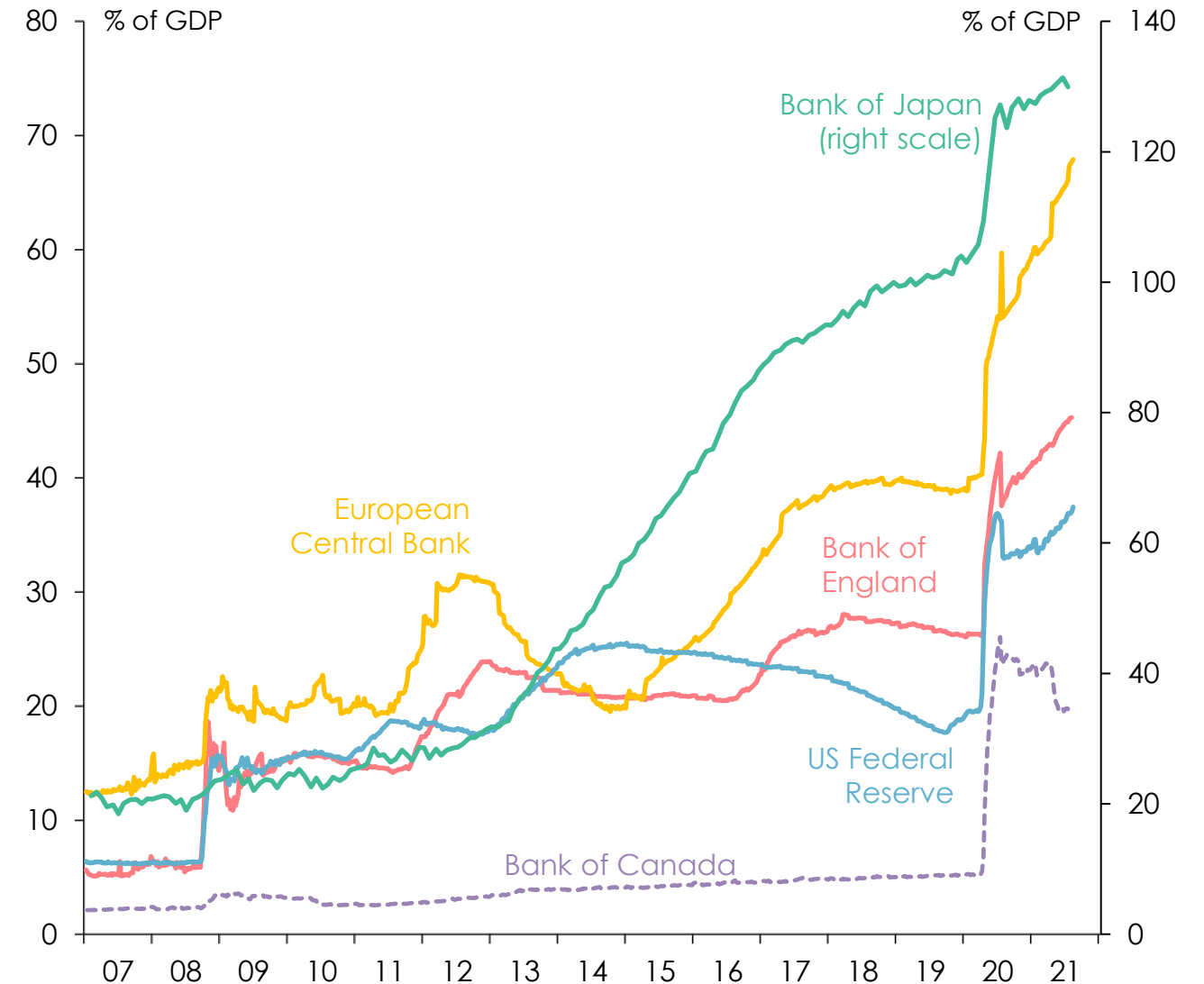
Note: China debt is gross debt, not net. Sources: International Monetary Fund, [Fiscal Monitor](#), and [World Economic Outlook](#), April 2021. [Return to "What's New"](#)

# 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 left its policy settings unchanged at this week's Governing Council meeting, but seemed to imply that rates would be "lower for longer"

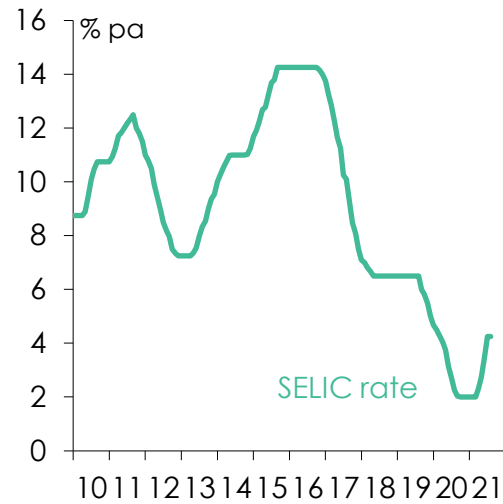
- ❑ The European Central Bank left its policy settings unchanged at this Thursday's [Governing Council meeting](#), the first since the announcement earlier this month of its new [Monetary Policy Strategy Statement](#)
  - which included a commitment to continued bond purchases under its Pandemic Emergency Purchase Program during the current quarter "at a significantly higher pace than during the first months of [this] year"
- ❑ Financial markets focused on the commitment to keep policy interest rates at their present level until "it sees inflation reaching 2% well ahead of the end of [the ECB's] projection horizon [currently 2023] and durably for the rest of the projection horizon and it judges that realized progress in underlying inflation is sufficiently advanced to be consistent with inflation stabilizing at 2% over the medium term"
  - which, the ECB said, "may also imply a transitory period in which inflation is moderately above target"
- ❑ In her post-meeting [press conference](#) ECB President Christine Lagarde sought to characterize the ECB's "forward guidance" (as to how long rates would stay at current levels) as having "three legs"
  - first, the ECB wants to be able (credibly) to forecast 2% inflation well before the end of its forecast horizon
  - second, it needs to be confident that inflation will then stay at around 2% ("oscillate a little bit but not go below 2%") after that
  - third, that at the time when the ECB is considering raising rates, "underlying inflation components" imply an "upward trend"
- ❑ Mme Lagarde sought to rebut suggestions that the ECB's statement implied that interest rates would be "lower for longer", but instead portrayed it as indicating that "none of us would want to tighten prematurely" (a concern which she implied was informed by reflections on the 'policy mistake' which the ECB made after the GFC)
  - although the currency markets seem to have placed more emphasis on the perception that the ECB's 2% inflation target (albeit with some tolerance for a period of 'moderately above') is more hawkish than the Fed's 'average inflation' target
- ❑ Financial markets also focussed on the fact that the ECB's decision was not unanimous (which Mme Lagarde readily acknowledged), with Bundesbank President Jens Weidmann and National Bank of Belgium Governor Pierre Wunsch dissenting

# Central banks in Russia and Ukraine this week raised interest rates (again), but in South Africa and Indonesia left theirs unchanged

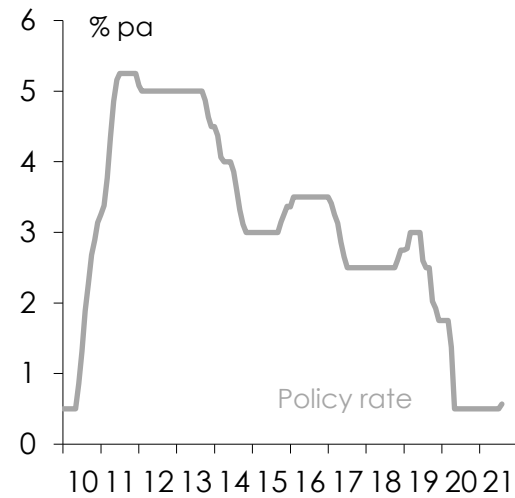
- ❑ The [Bank of Russia](#) increased its 7-day repo rate by 100bp to 6.5% - the fourth increase this year, for a total of 225 bp
  - the decision “aims to constrain the risk” posed by “faster growth of demand compared to output expansion capacity” and “high inflation expectations” that “may cause inflation to deviate upwards from its target [of 4%] for a longer period”
  - the Bank warned that “if the situation develops in line with the baseline forecast” it will “consider the necessity of further rate increases at its upcoming meetings”
- ❑ The [National Bank of Ukraine](#) raised its key policy rate by 50 bp to 8% (following increases of 50bp in March and 100bp in April), and foreshadowed a further increase to 8.5%
  - Ukrainian inflation has risen from below 2½% in the middle of last year to 5% in December last year and to 9.5% in May and June, well above the NBU’s target of 5%
  - these rate hikes have occurred despite the Ukrainian economy having contracted by 2.2% over the year to Q1 and unemployment having risen to 10.5% in Q1, the highest since Q4 2014, from a low of 8.1% in Q3 2019
- ❑ The [South African Reserve Bank](#) left its repo rate unchanged at 3.5% (where it has been since July last year)
  - although SARB’s Quarterly Projection Model indicated a 25bp increase in Q4 this year and one in each quarter next year
  - SARB revised up its inflation forecast for 2021 from 4.2% to 4.3%, and revised down its 2022 forecast from 4.4% to 4.2%
  - it left its GDP growth forecasts for 2021, 2022 and 2023 unchanged at 4.2%, 2.3% and 2.4%, respectively, noting that faster than expected growth of 4.6% in Q1 this year would be “fully negated” by the “recent unrest” in Gauteng and Kwa-Zulu Natal
- ❑ [Bank Indonesia](#) left its policy interest rates unchanged at this week’s Board of Governors meeting “amidst low inflation forecasts and efforts to support economic growth from Covid-19”
  - BI lowered its growth forecast for 2021 to 3½-4¼% (from 4.1-5.1% previously) because of the tighter restrictions imposed in response to the current surge in Covid-19 infections
  - BI expects inflation (1.3% over the year to June) to be within its 2-4% target range in 2021 and 2022
  - BI is continuing its “synergistic monetary expansion” policy under which it purchases government bonds in the primary market (see [slide 62](#))

# Ten central banks in Latin America and the European periphery have raised their policy interest rates (some several times) in the past two months

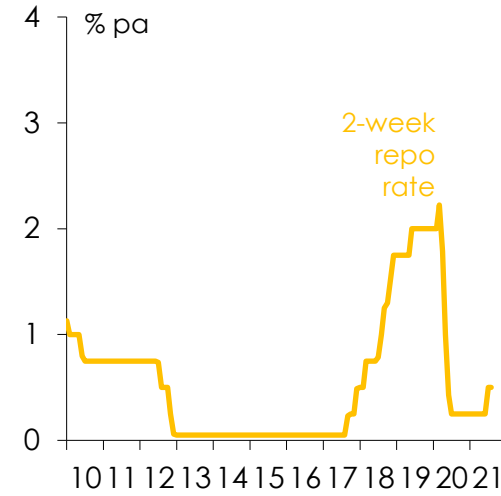
## Brazil



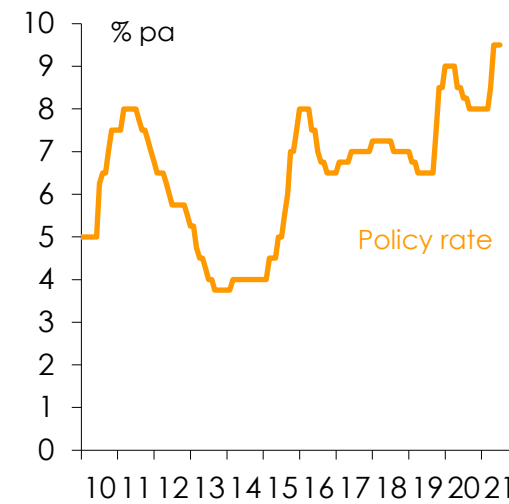
## Chile



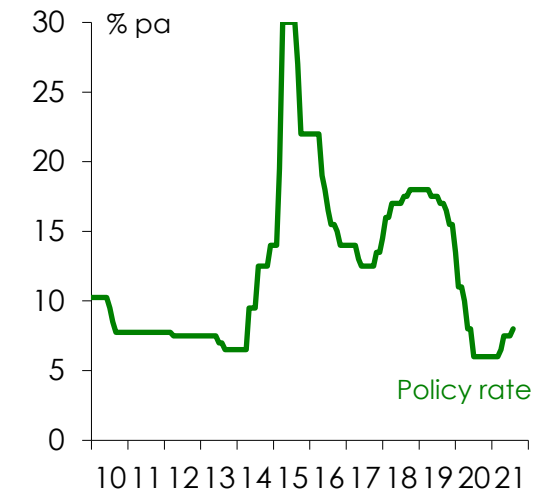
## Czechia



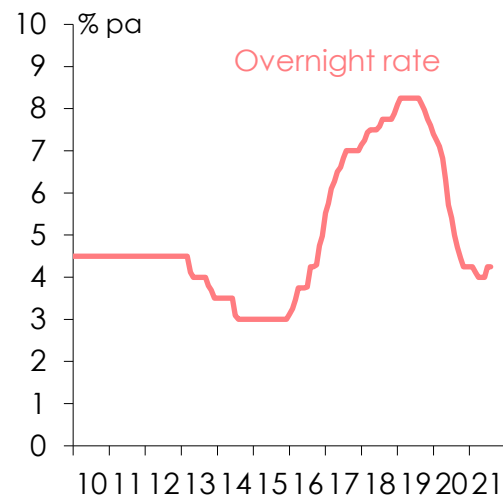
## Georgia



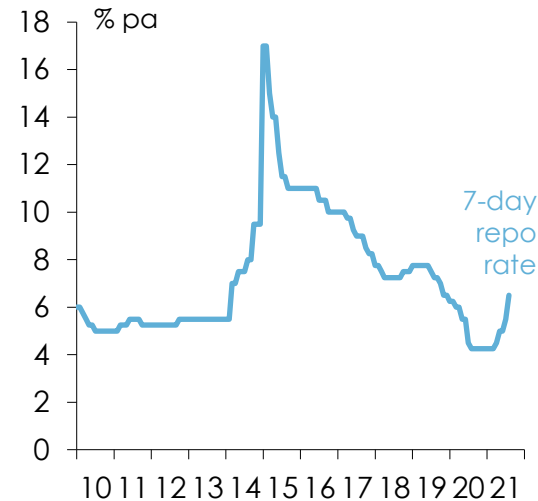
## Ukraine



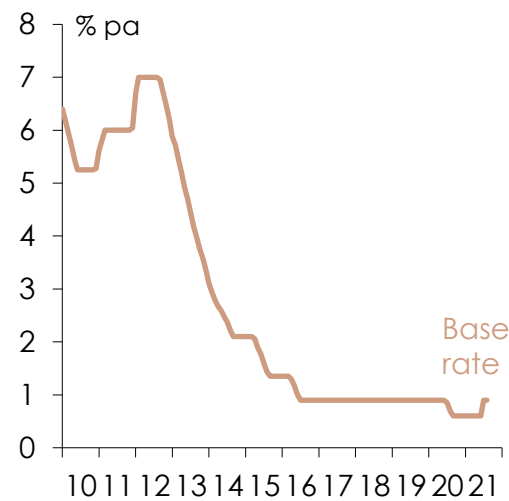
## Mexico



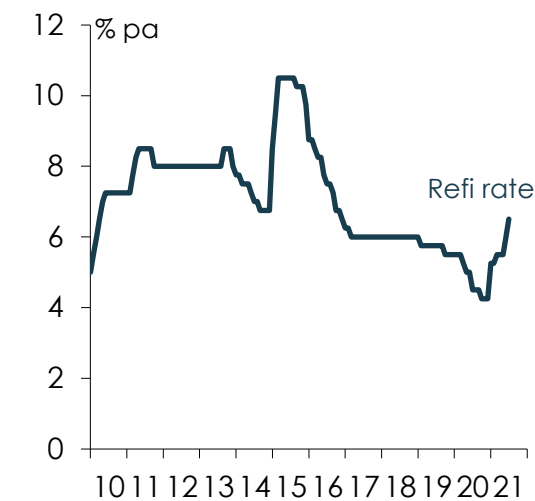
## Russia



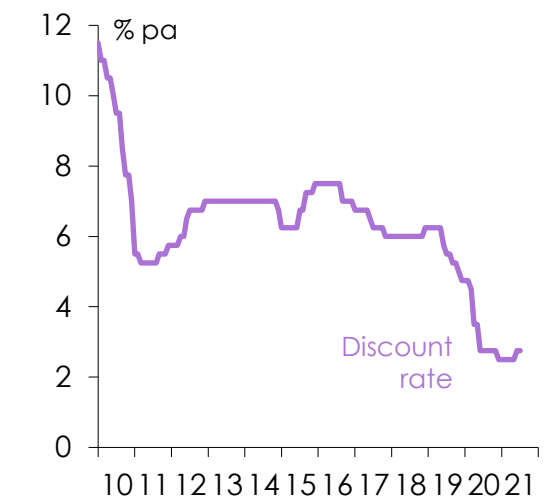
## Hungary



## Armenia



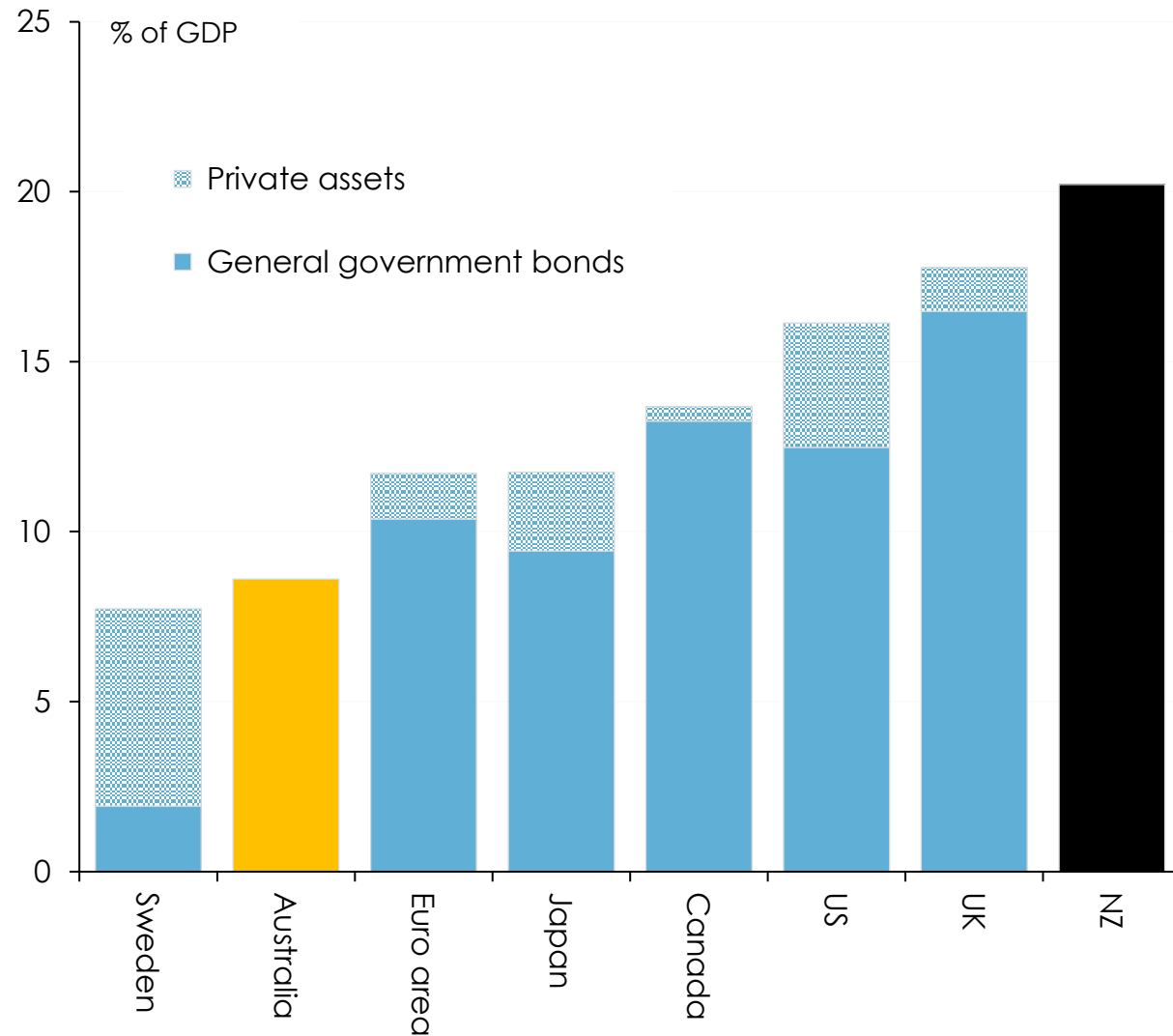
## Iceland



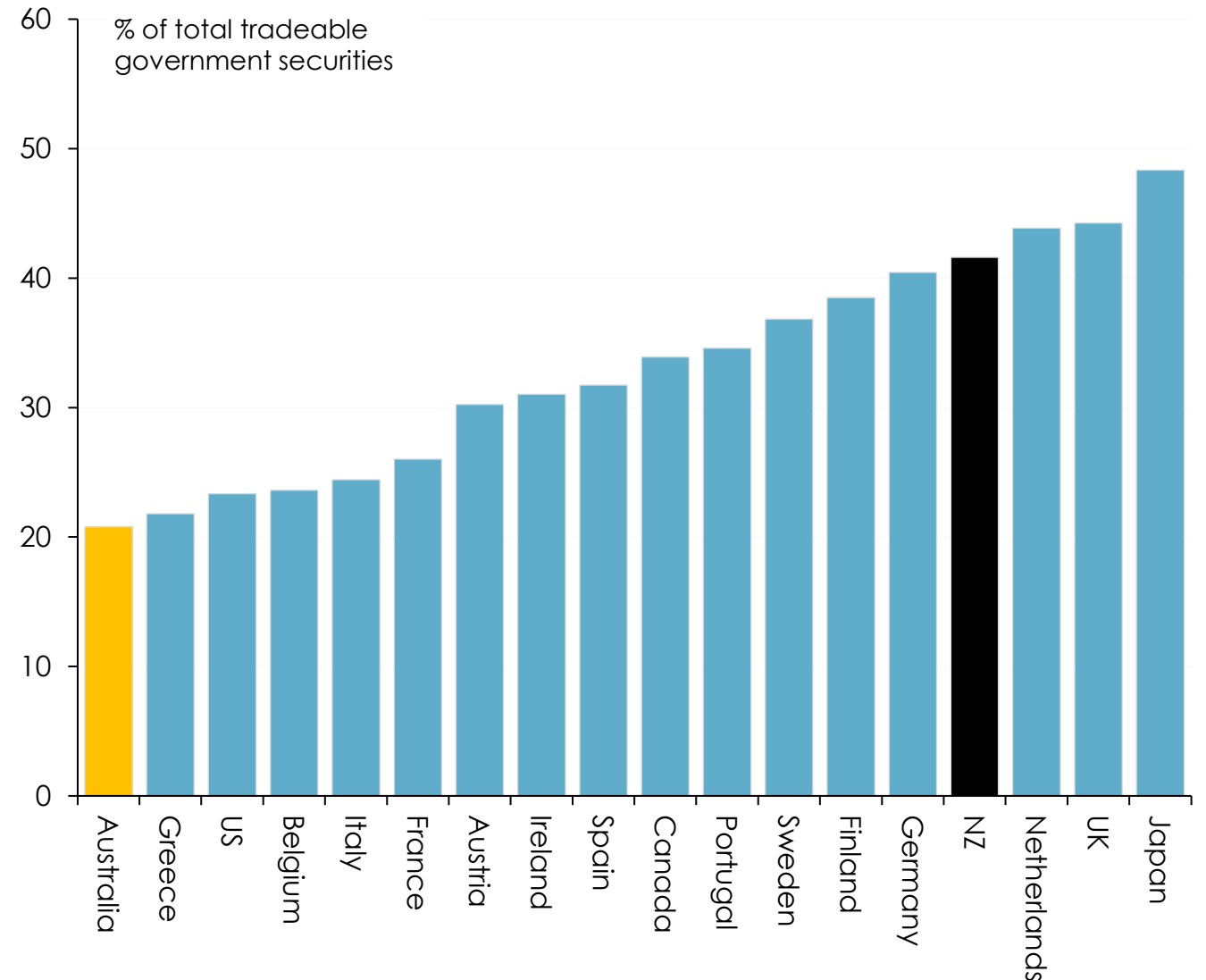
Sources: [Banco Central do Brasil](#); [Banco de México](#); [Banco Central de Chile](#); [Bank Rossii](#); [Magyar Nemzeti Bank](#); [Česká národní banka](#); [Sakartvelos Erovnuli Bank'i](#); [Hayastani Kentronakan Bank](#); [National Bank of Ukraine](#); [Seðlabanki Íslands](#). [Return to "What's New"](#).

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

## Central bank asset purchases since end-2019



## Central bank holdings of government securities



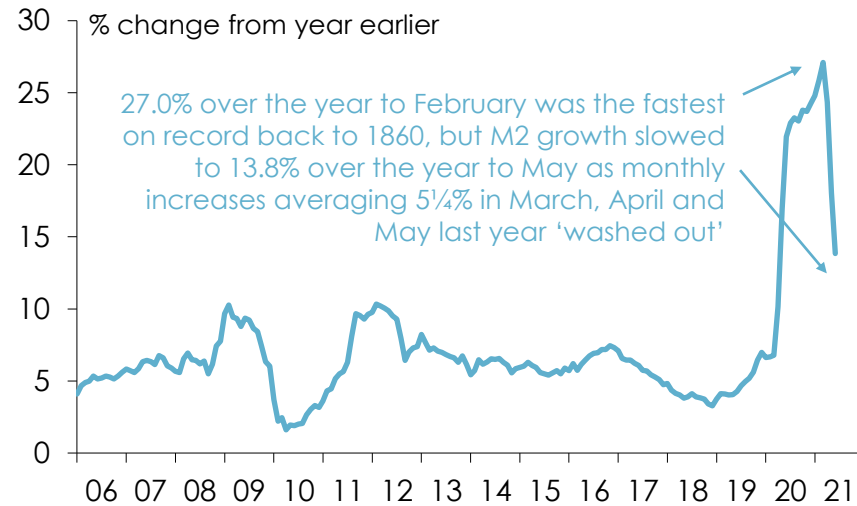
Note: 'Private assets' include corporate bonds, commercial paper, asset-backed securities and exchange-traded funds.

Source: OECD, [Economic Outlook No. 109](#), 31<sup>st</sup> May 2021. [Return to "What's New"](#).

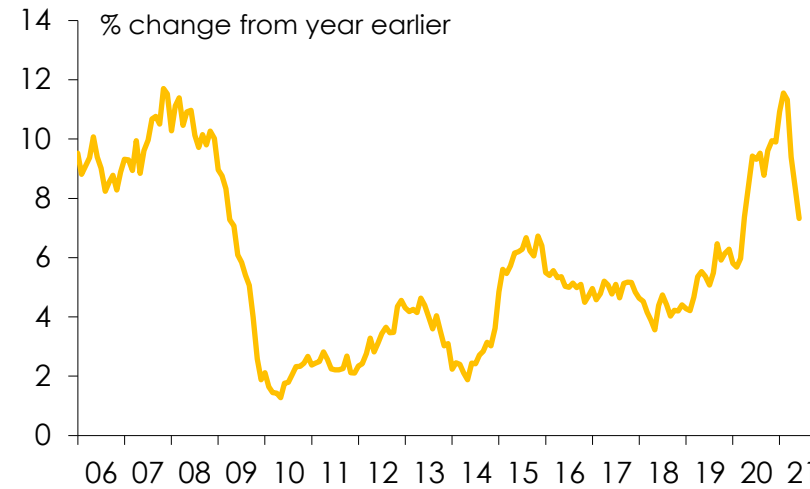


# Money supply growth has slowed sharply from the peaks recorded earlier this year as large monthly increases a year ago 'wash out'

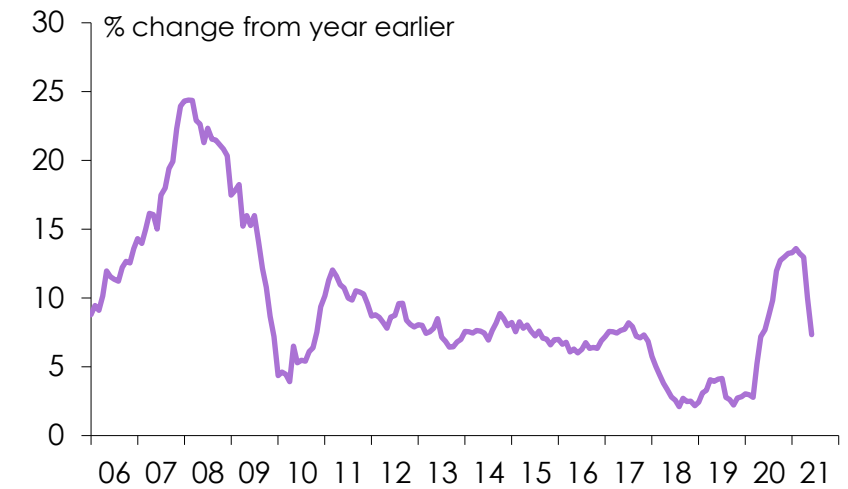
## US M2



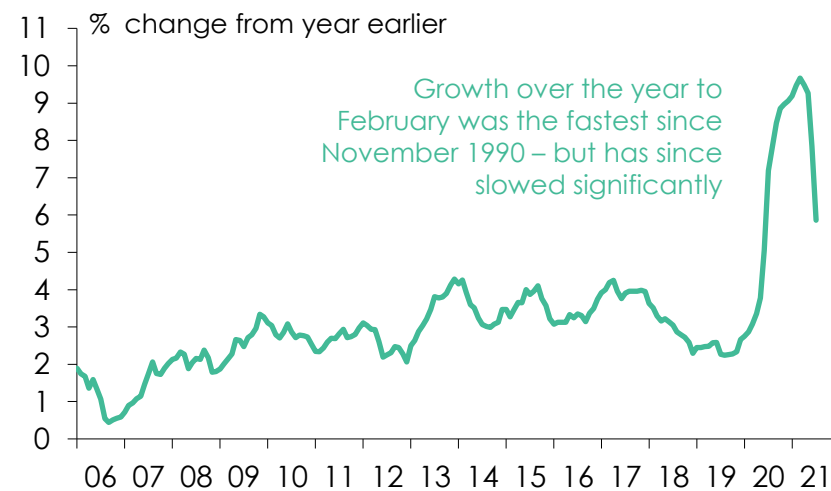
## Euro area M2



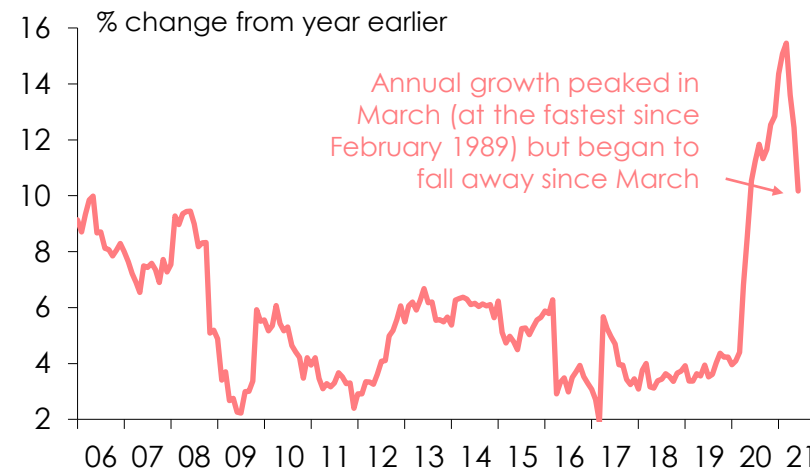
## Australia M3



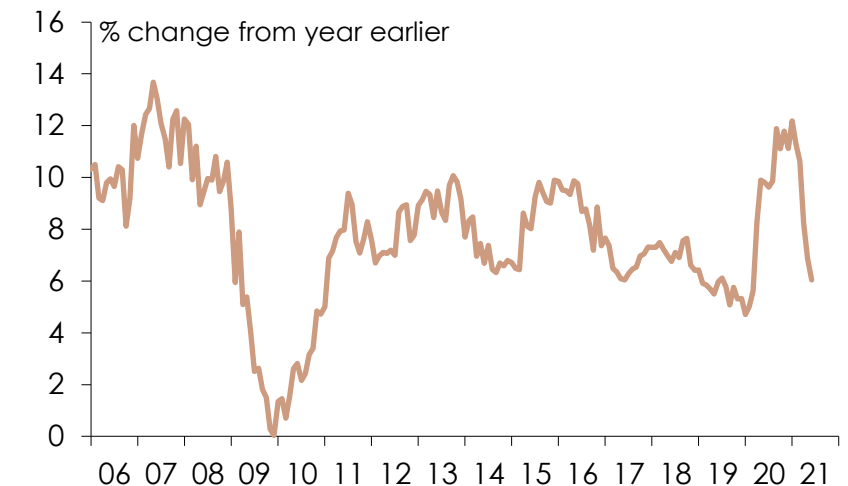
## Japan M2 + CDs



## UK M2

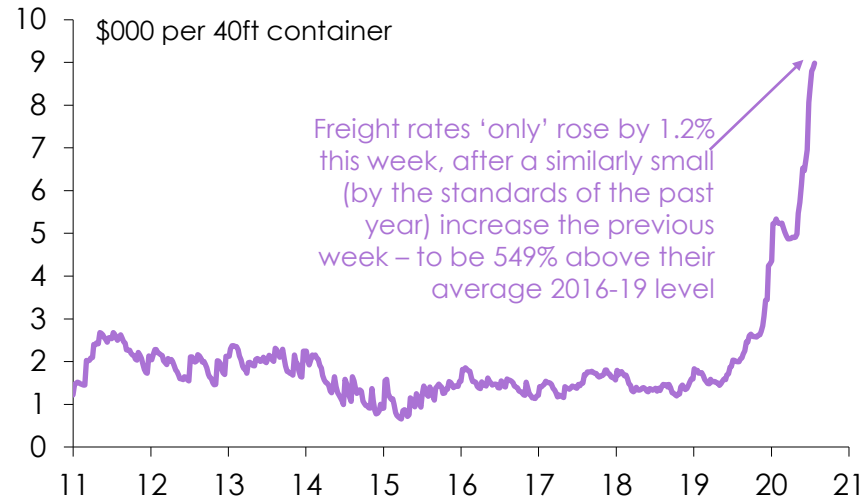


## New Zealand M3

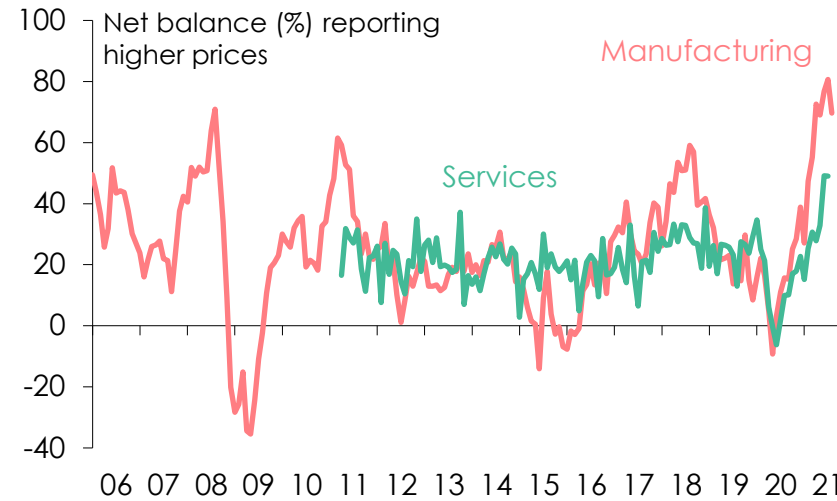


# 'Upstream' price pressures globally show little sign of abating

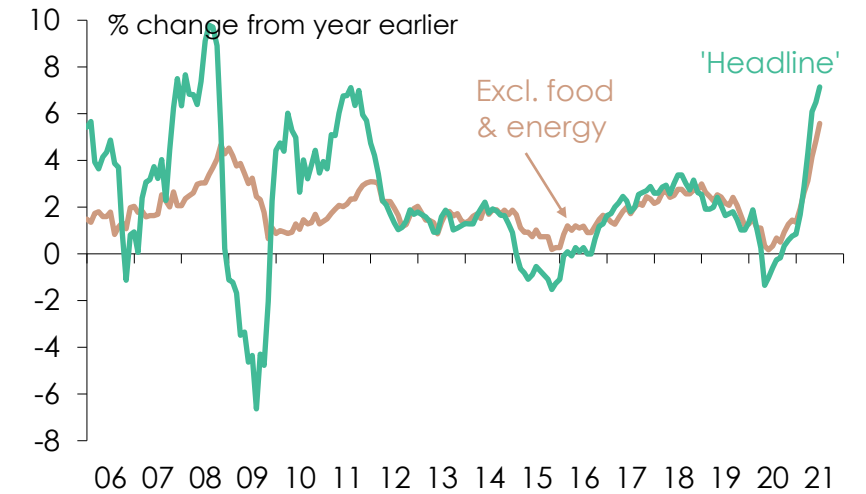
## Container freight costs



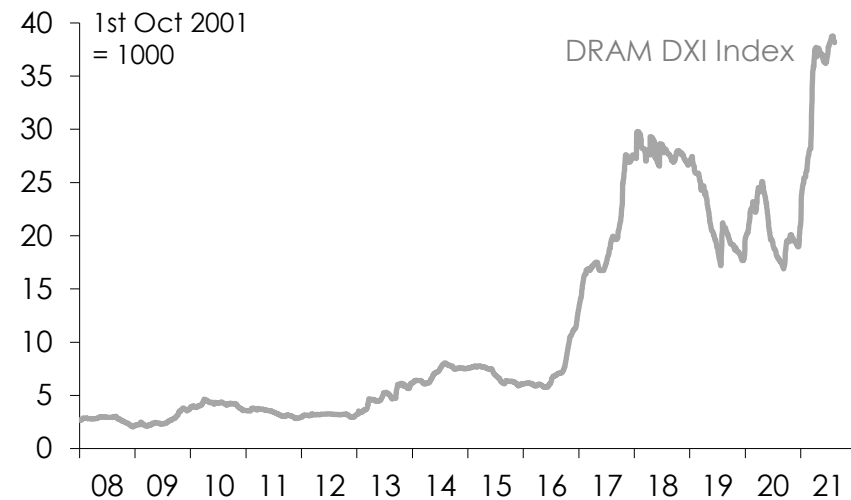
## Philadelphia Fed survey prices paid



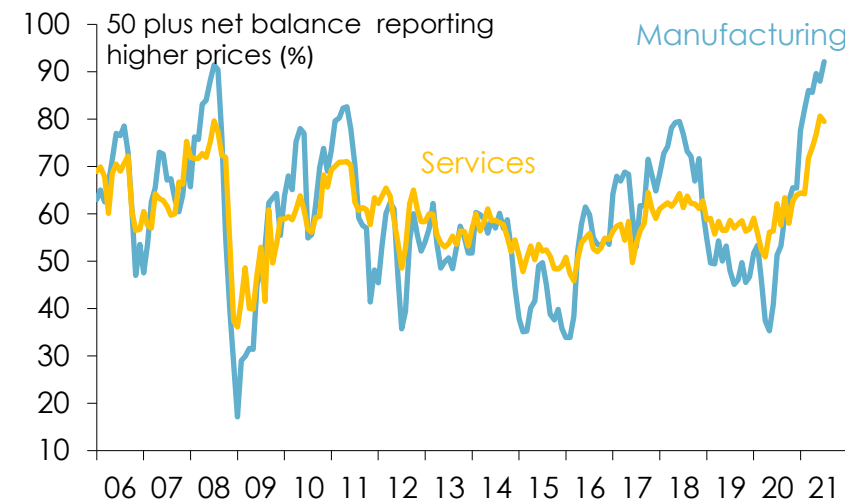
## US producer price index (PPI)



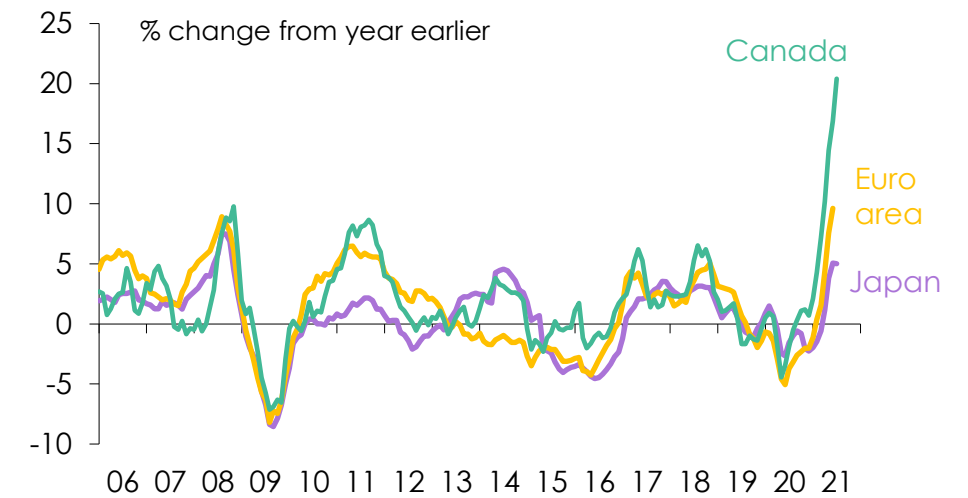
## Semiconductor prices



## US ISM prices paid



## Other countries' PPIs

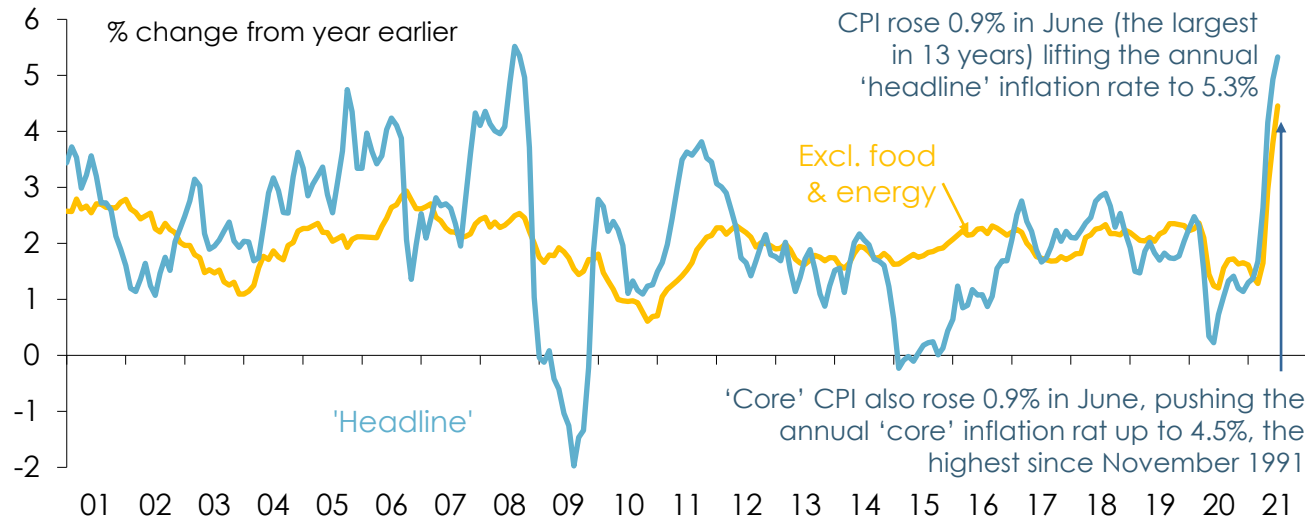


Sources: [Drewry Supply Chain Advisors](#); [Refinitiv Datastream](#); [US Institute for Supply Management](#); [Federal Reserve Bank of Philadelphia](#); [US Bureau of Labor Statistics](#); [Eurostat](#); [Bank of Japan](#); [Statistics Canada](#). [Return to "What's New"](#).

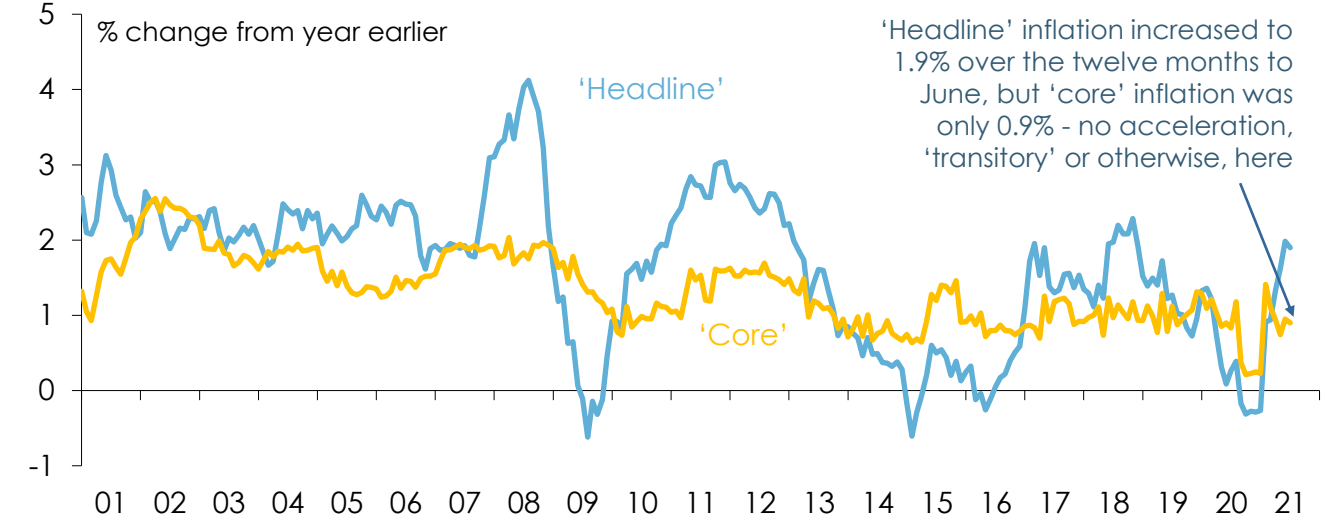


# Annual 'headline' and 'core' inflation rates have risen significantly in the US and (to a lesser extent) the UK, but not in the euro area or Japan

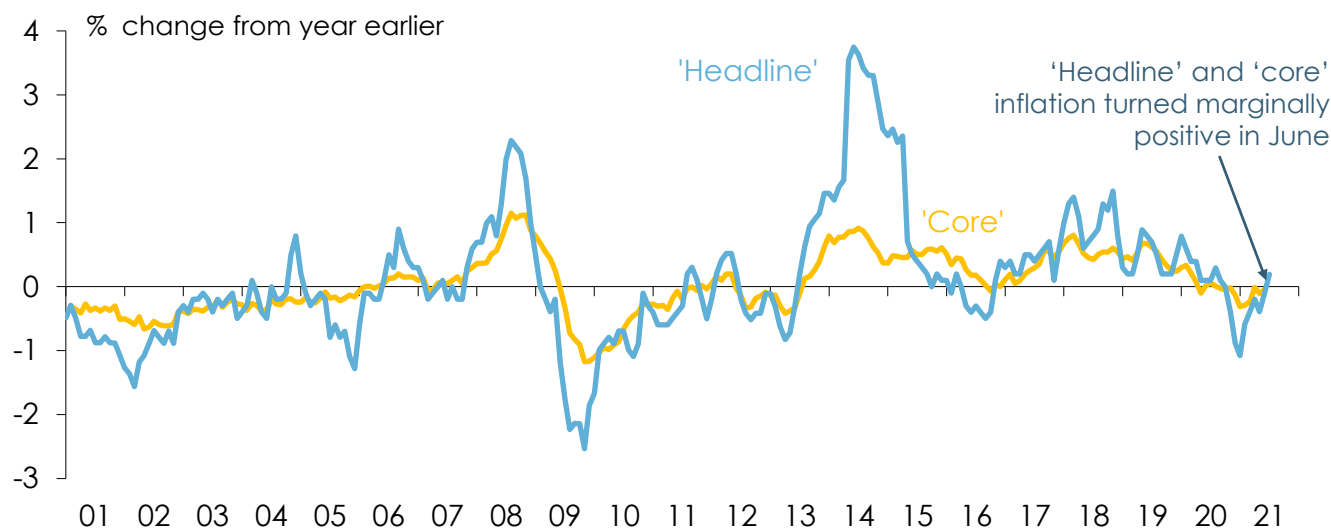
## 'Headline' and 'core' inflation - US



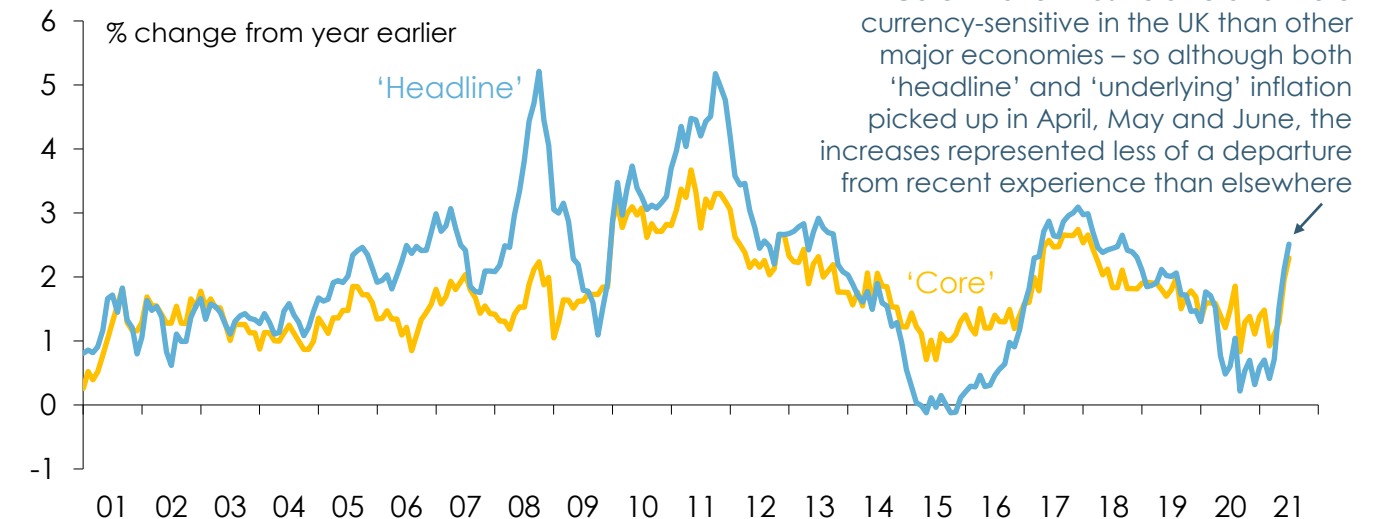
## 'Headline' and 'core' inflation – Euro area



## 'Headline' and 'core' inflation - Japan



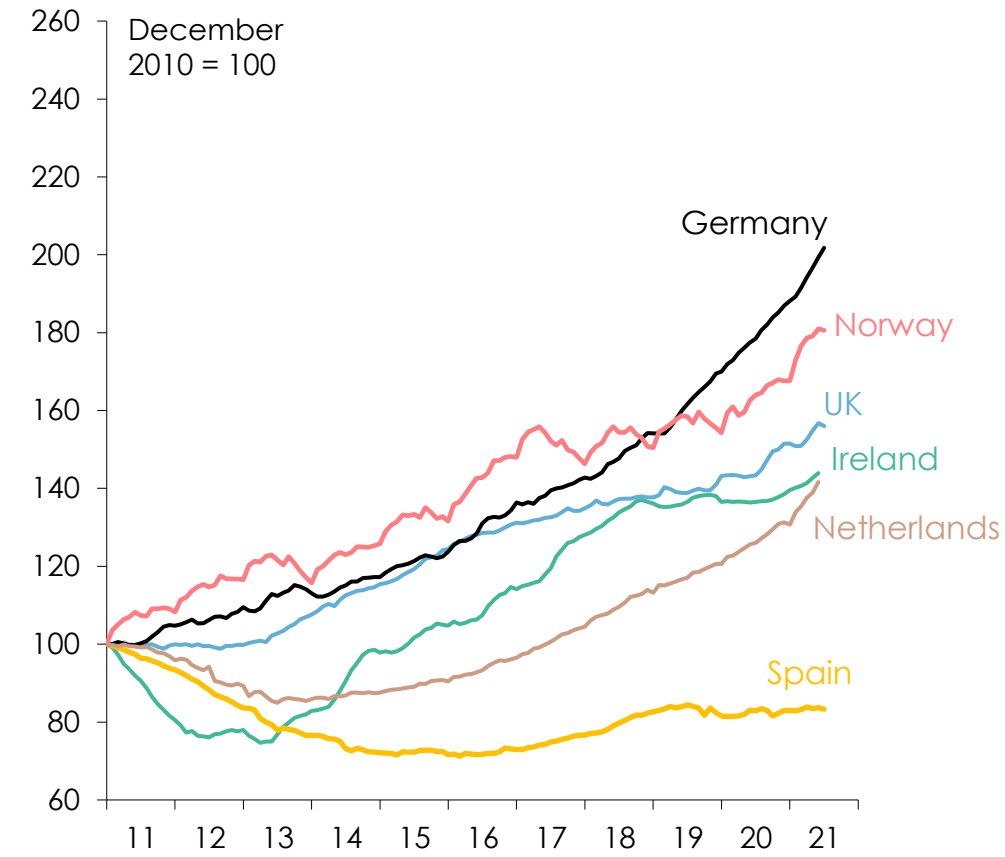
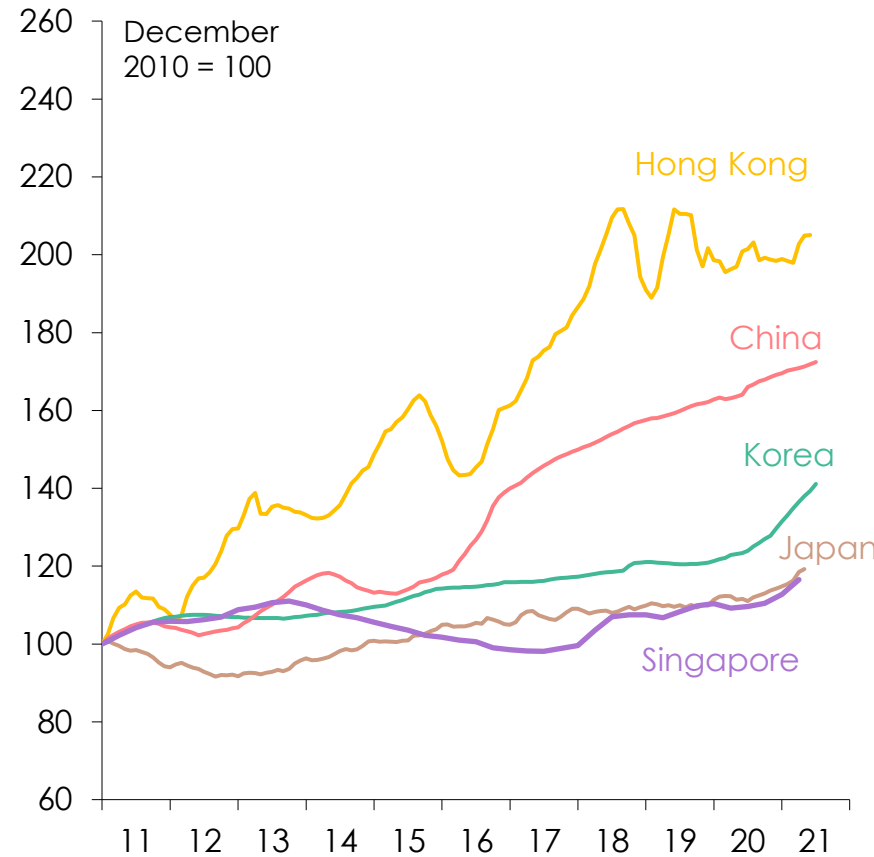
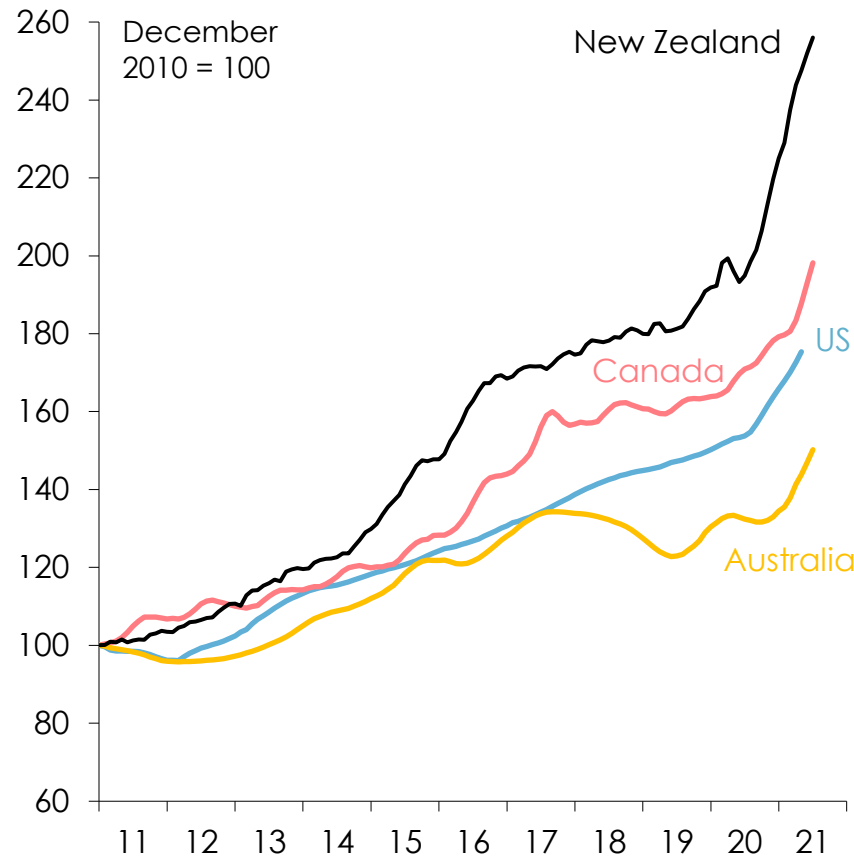
## 'Headline' and 'core' inflation – UK



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 68-69](#) for further analysis of recent movements in the US CPI. Sources: [US Bureau of Labor Statistics](#); [Eurostat](#); [Statistics Bureau of Japan](#); [Bank of Japan](#); [UK Office for National Statistics](#). [Return to "What's New"](#).

# 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 155](#)): 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"

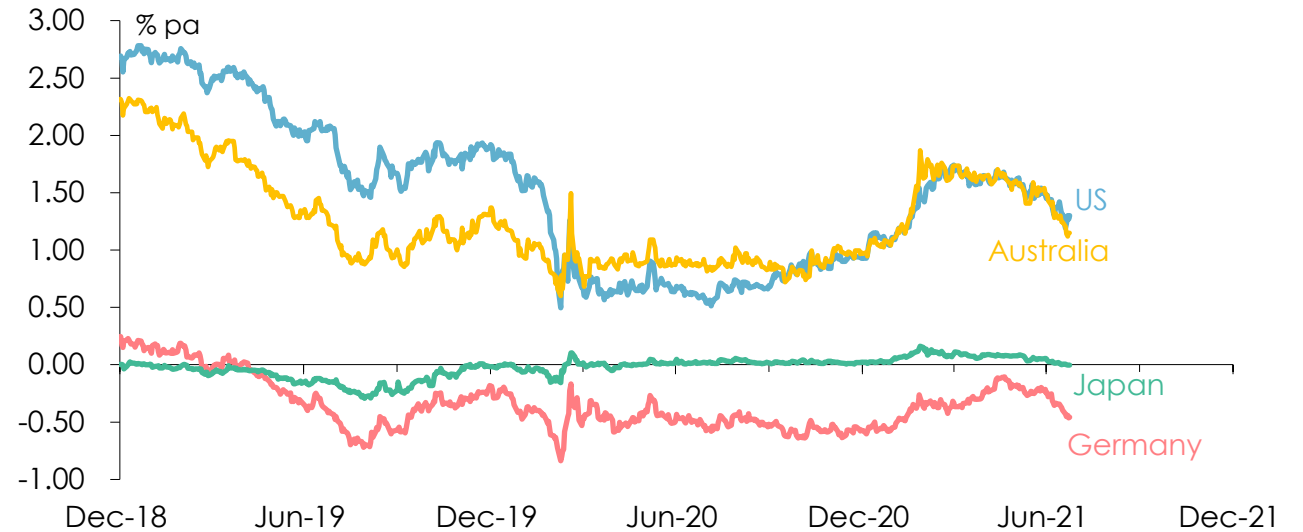
Note: House price indices shown in these charts are those published by [S&P-CoreLogic Case Shiller national](#) (United States); [Teranet-National Bank](#) (Canada); [CoreLogic](#) (Australia); [Real Estate Institute of New Zealand](#); [China Index Academy](#); [Japan Real Estate Institute](#) (Tokyo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

# US and European stocks rebounded from 'delta-induced' falls early in the week, bonds did the opposite, and the US\$ rose another 1/4%

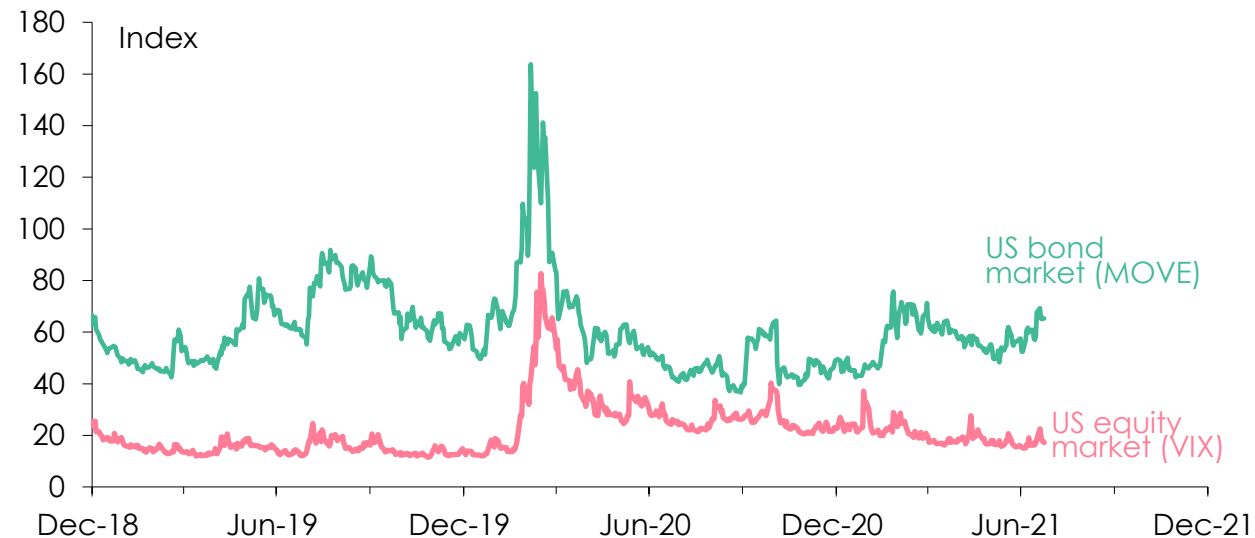
## Stock markets



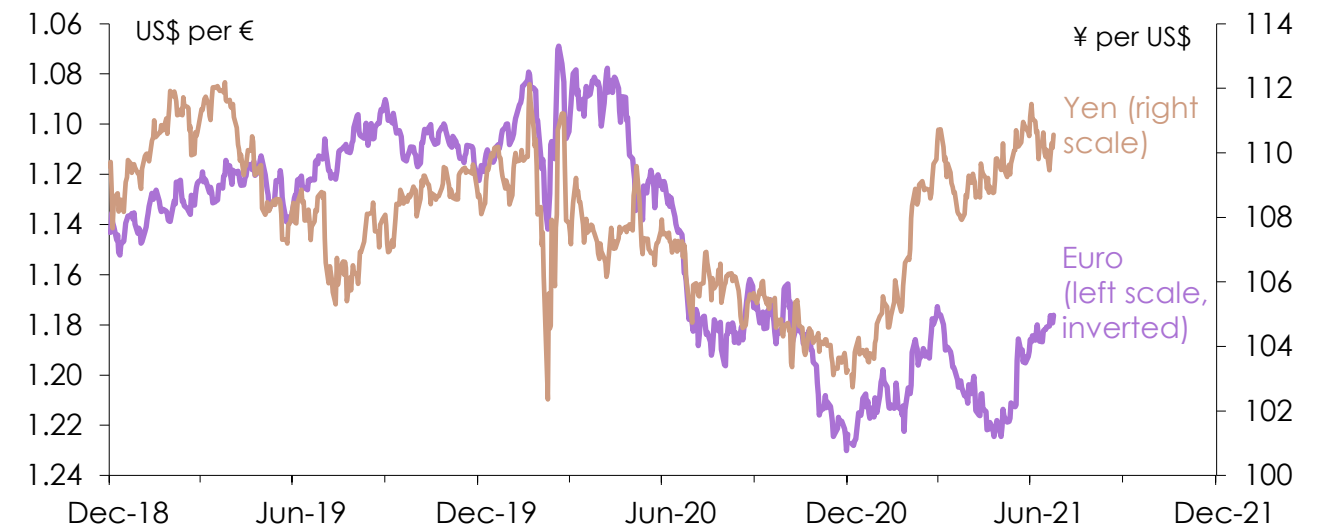
## 10-year bond yields



## Measures of market volatility



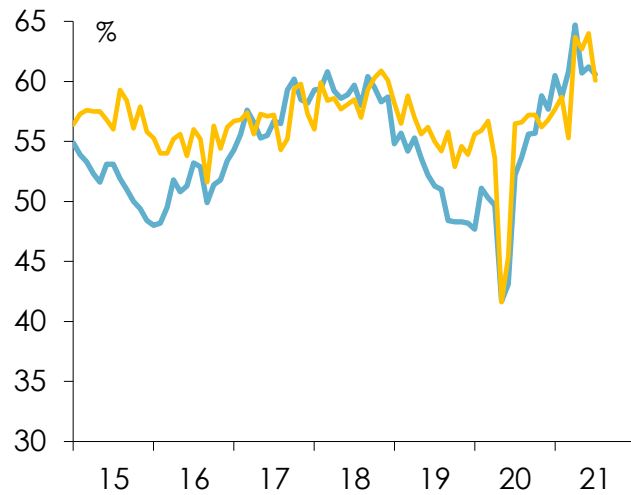
## US dollar vs euro and yen



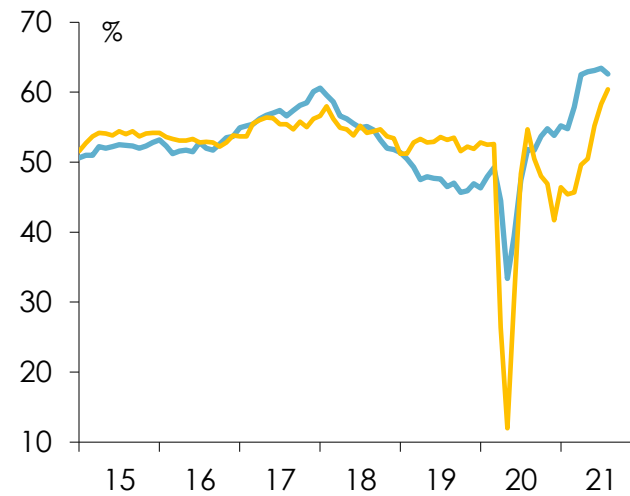
Source: Refinitiv Datastream. Data up to 23<sup>rd</sup> July. [Return to "What's New"](#).

# Preliminary July PMIs show continued growth in manufacturing and recovery in services in the euro area, but a softening in the UK

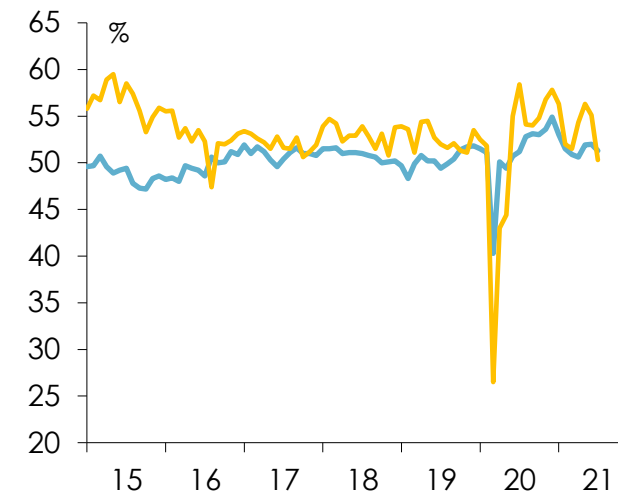
## US



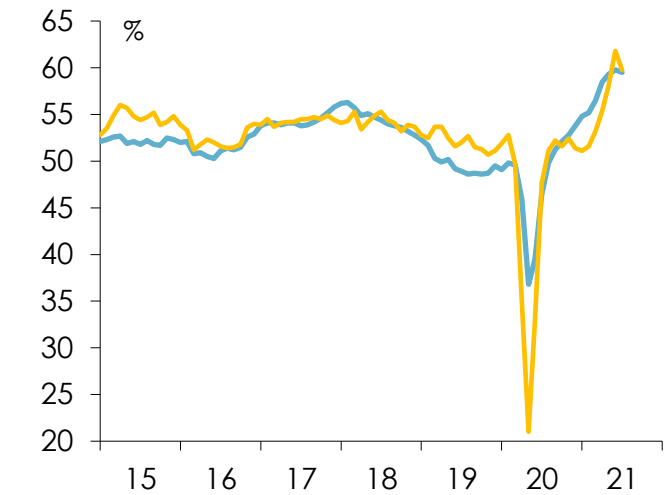
## Euro area



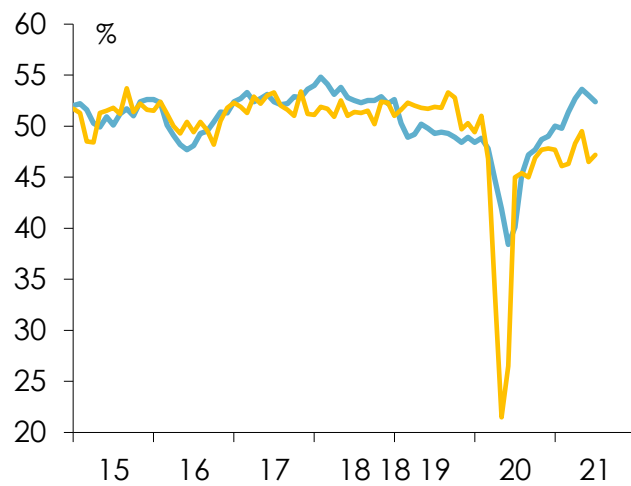
## China



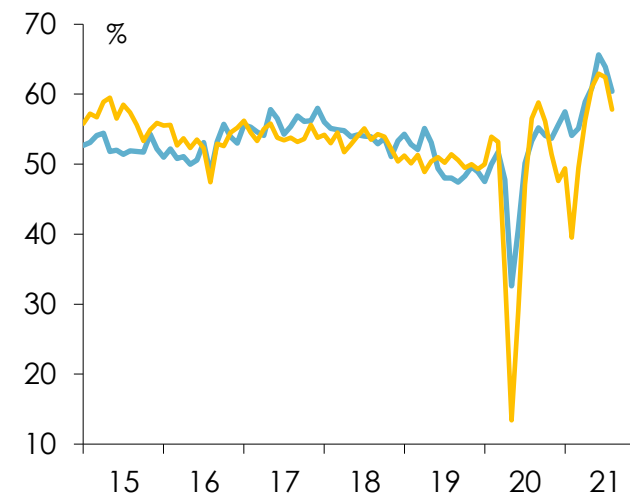
## Developed markets



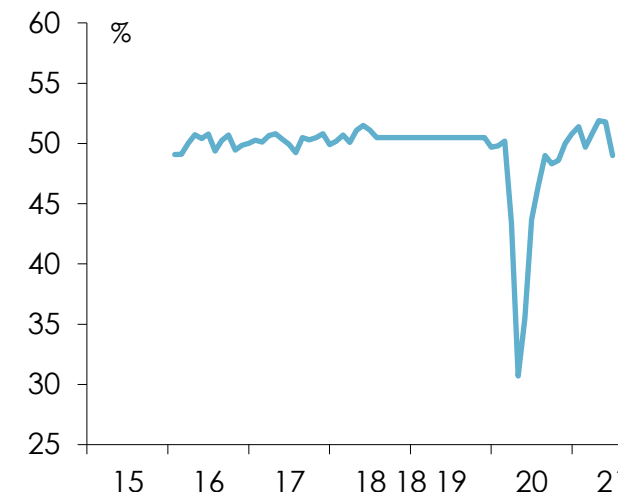
## Japan



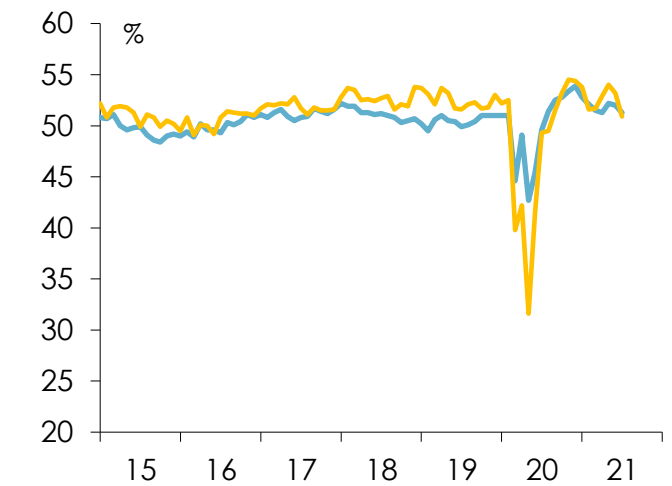
## UK



## ASEAN



## Emerging markets



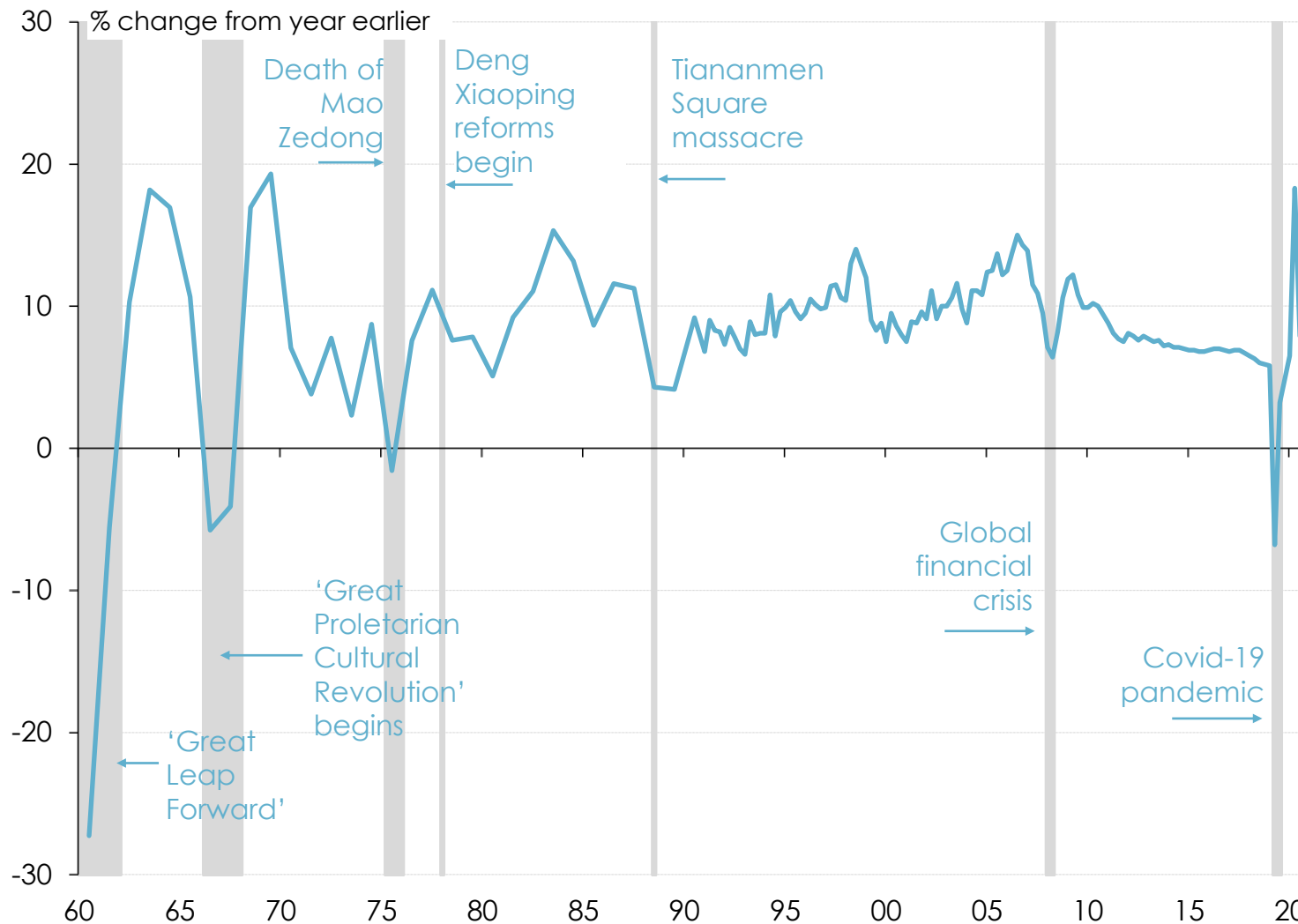
— Manufacturing

— Services

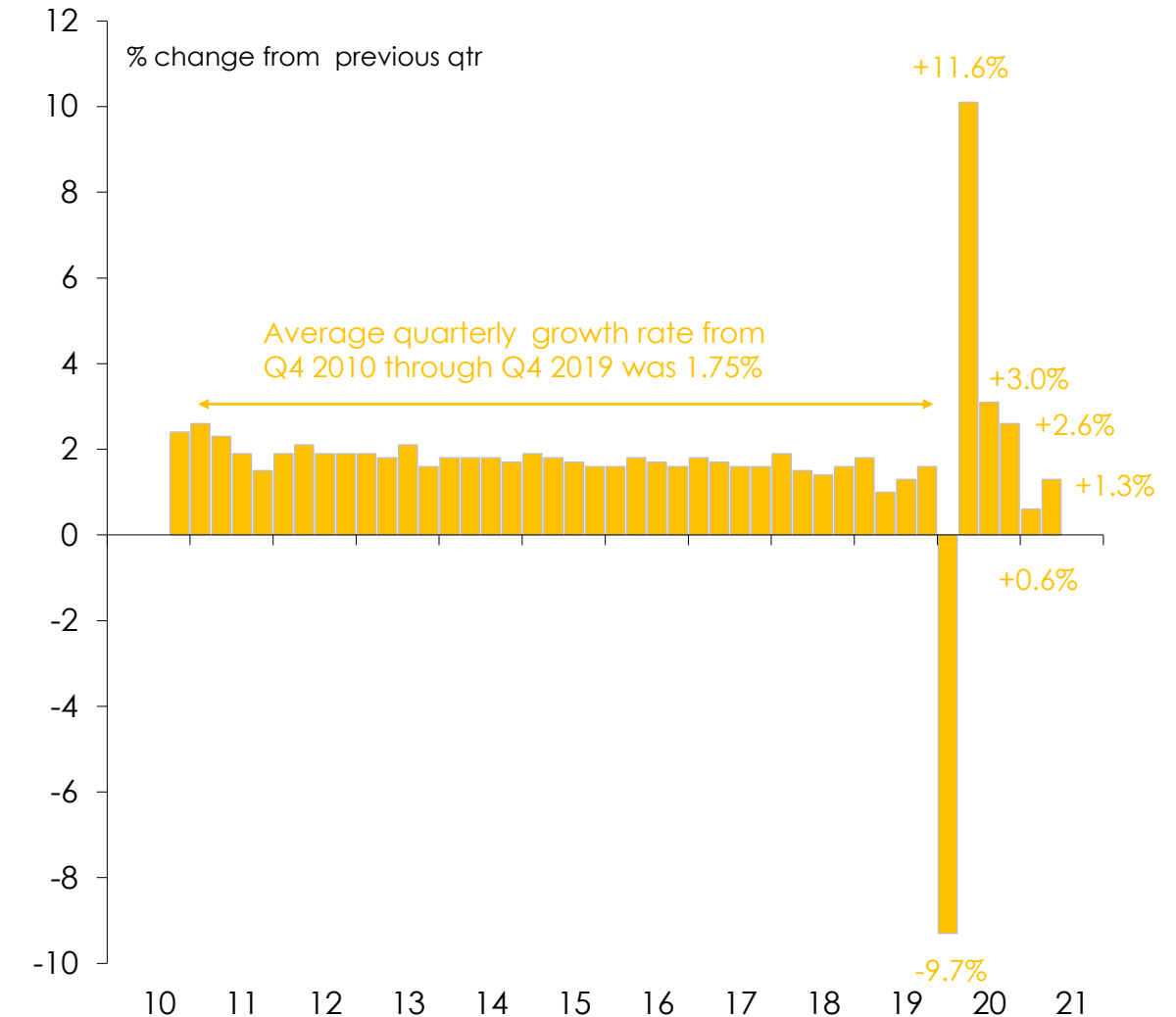
Note: Purchasing Managers' Indexes (PMIs) are derived from surveys of senior executives, who are asked to report whether various dimensions of business activity recorded an increase, decrease or no change compared with the previous month. A reading of 50 indicates an overall increase cf. the previous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

# China's real GDP grew by 1.3% in Q2, double the Q1 growth rate but below the pre-pandemic pace

## Real GDP growth, from year earlier, 1961-2020



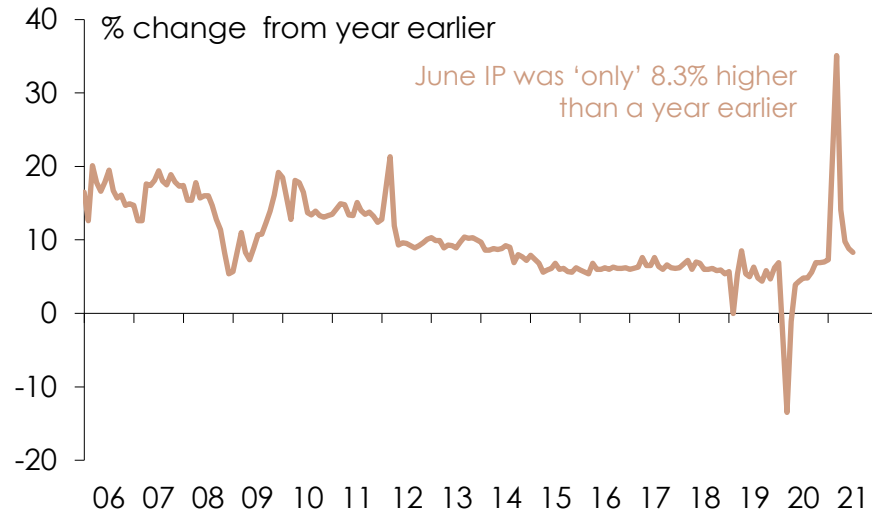
## Quarterly real GDP growth, 2010-2020



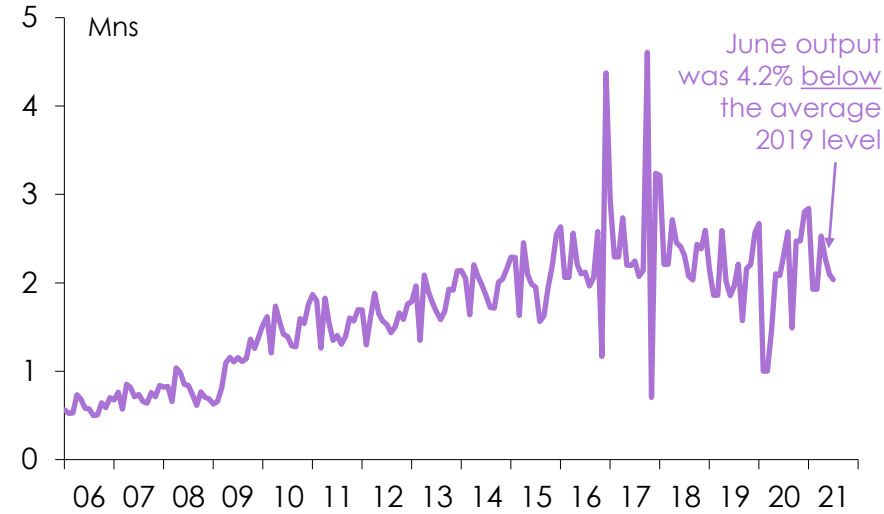
Note: In the left-hand chart, GDP growth rates are annual averages up to the December quarter of 1991, and then quarter-on-corresponding-quarter-of- previous-year thereafter. Source: China National Bureau of Statistics. [Return to "What's New"](#).

# 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

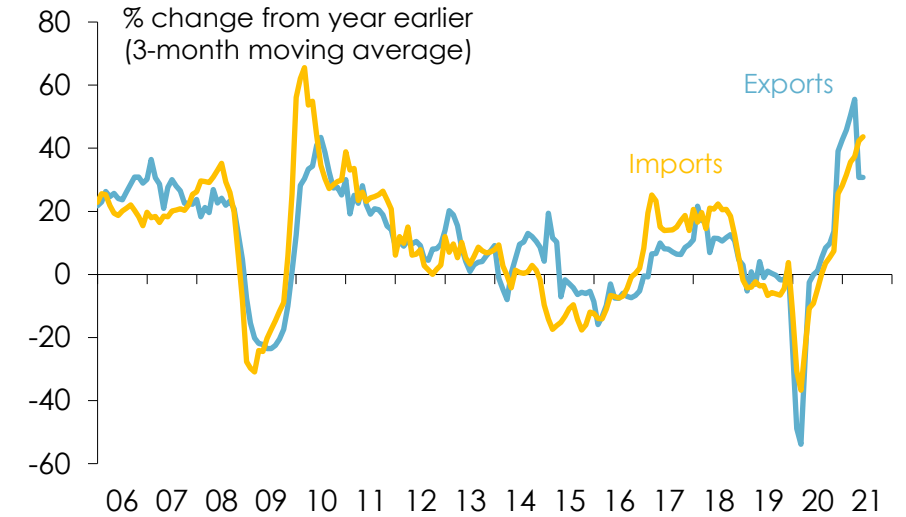
## Industrial production



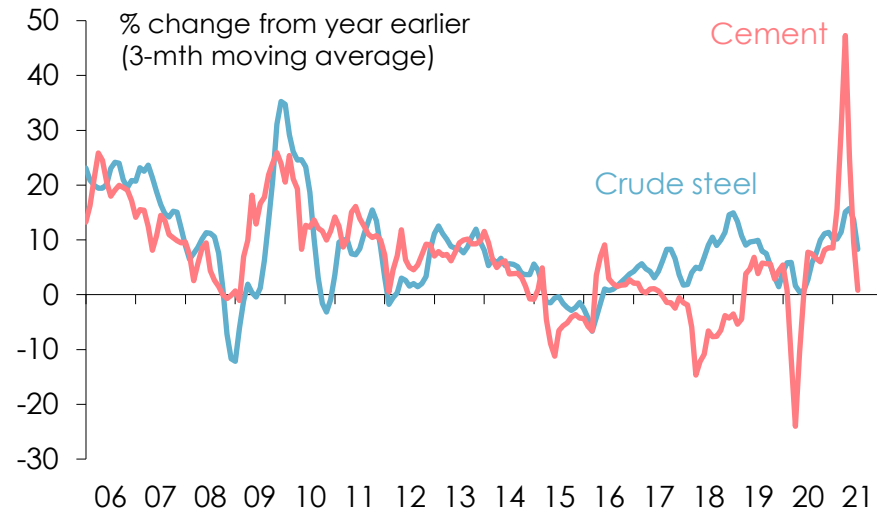
## Motor vehicle production



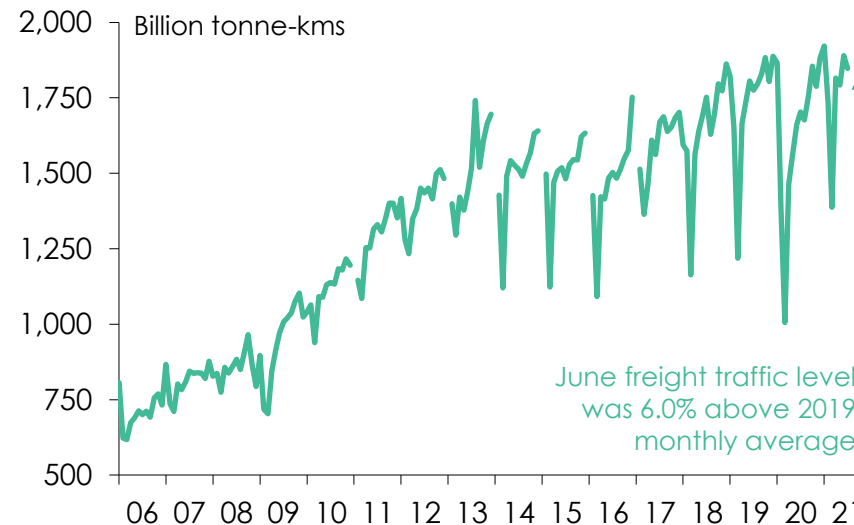
## Merchandise trade



## Steel and cement production



## Freight traffic volumes



## Merchandise trade balance



Note: Latest data are for June. Sources: China National Bureau of Statistics; China Association of Automobile Manufacturers; China General Administration of Customs.

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

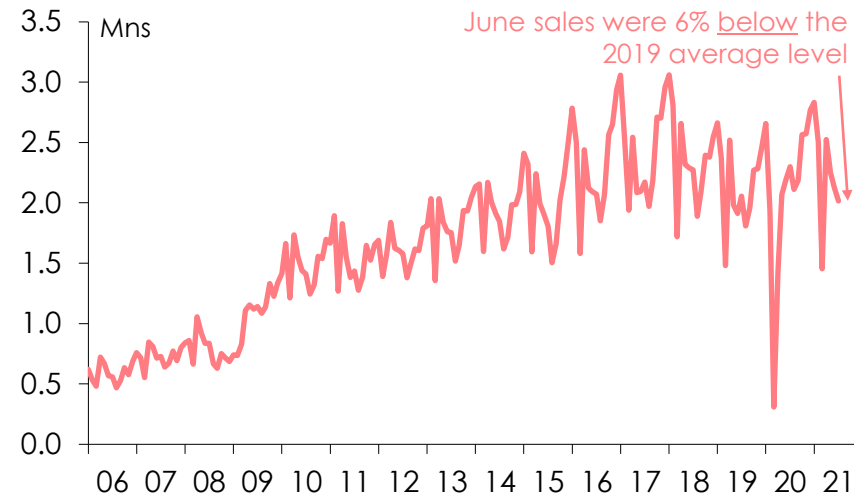


# Most measures of consumer spending and of property market activity are also softening

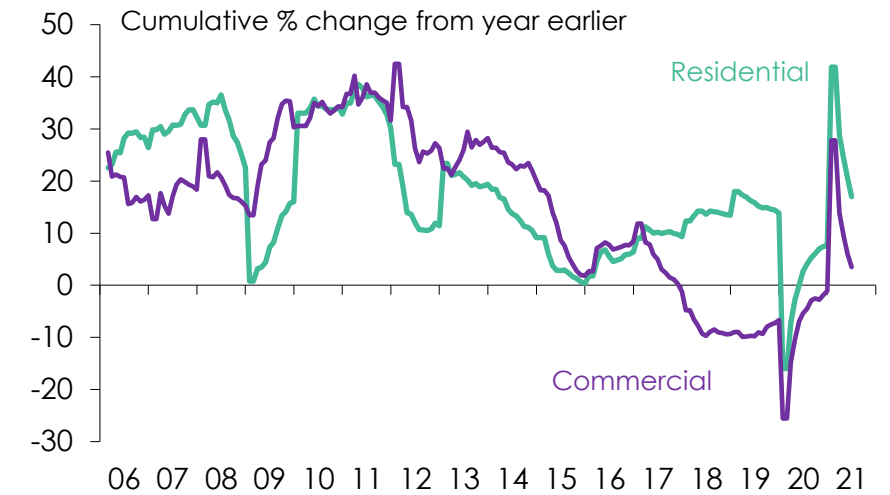
## Consumer sentiment



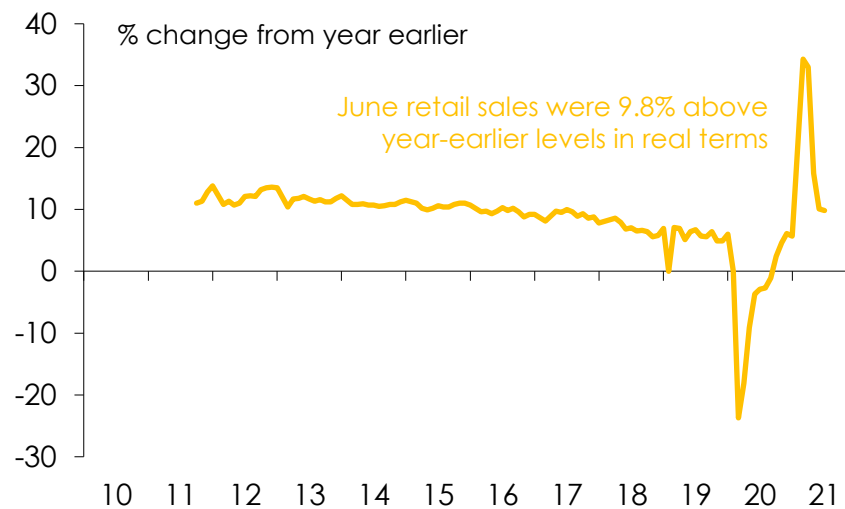
## Motor vehicle sales



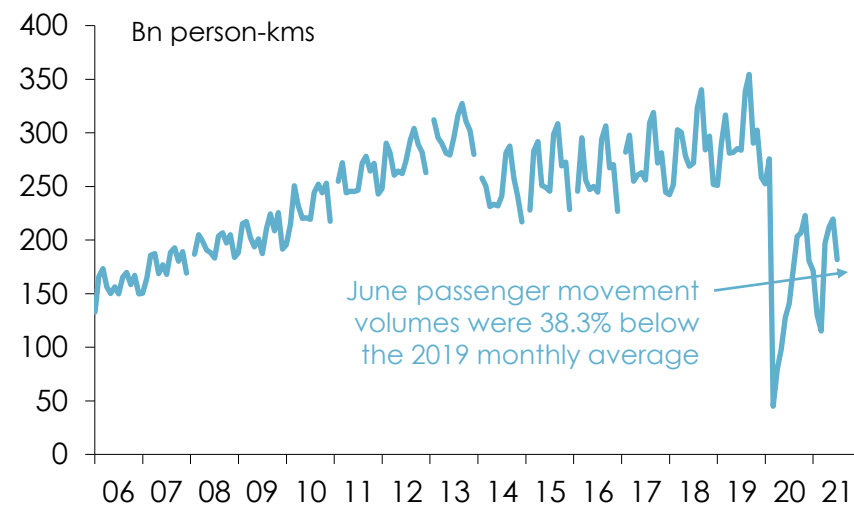
## Real estate investment



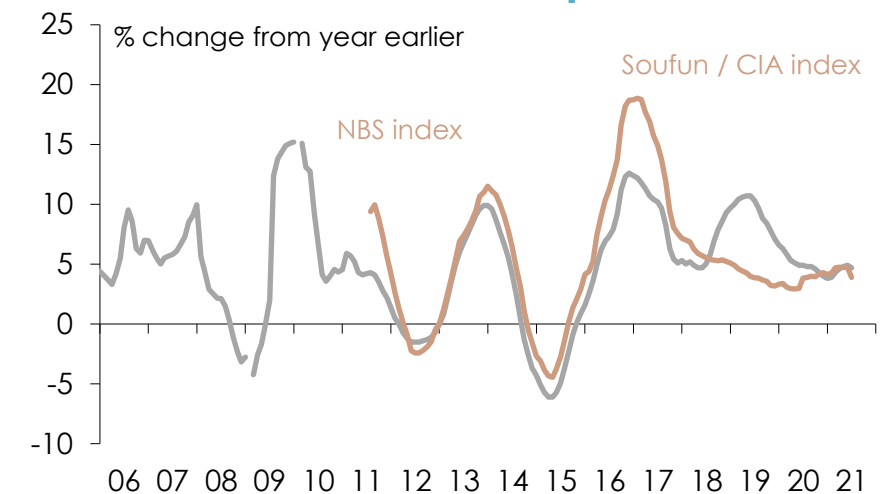
## Volume of retail sales



## Passenger traffic volumes



## Residential real estate prices

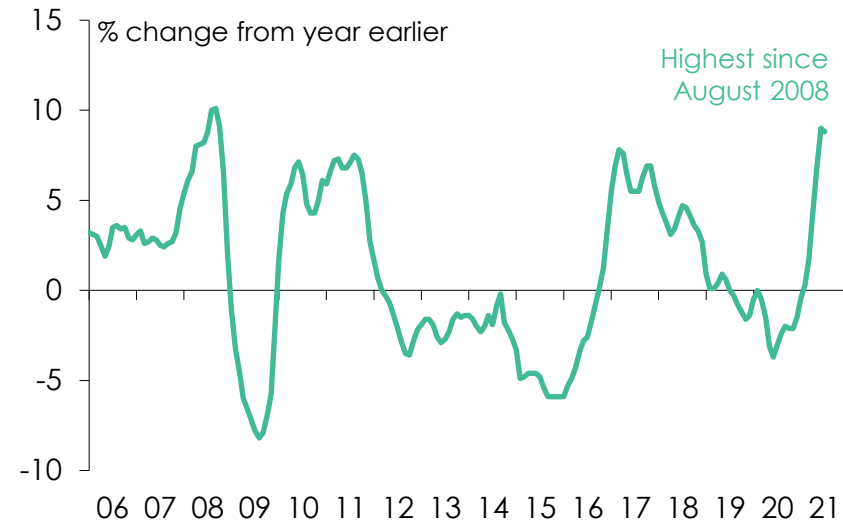


Sources: China National Bureau of Statistics (NBS); China Association of Automobile Manufacturers; China Index Academy (CIA). Latest data are for June, except for consumer sentiment which is May. [Return to "What's New"](#).

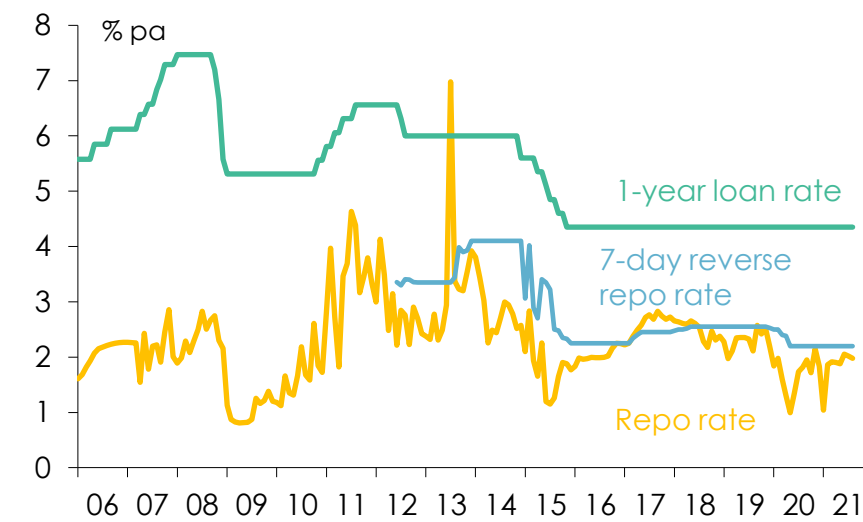


# The People's Bank of China cut banks' reserve requirement ratios by 50 bp with effect from this Thursday

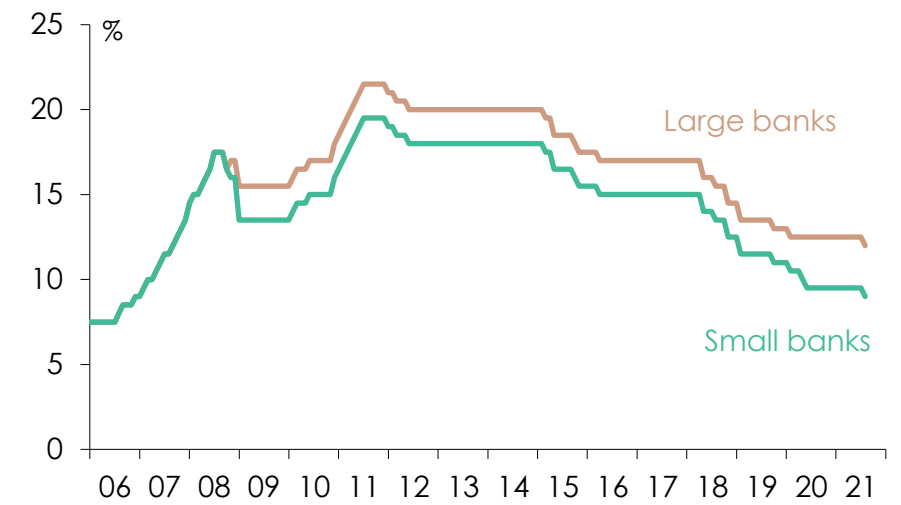
## Producer prices



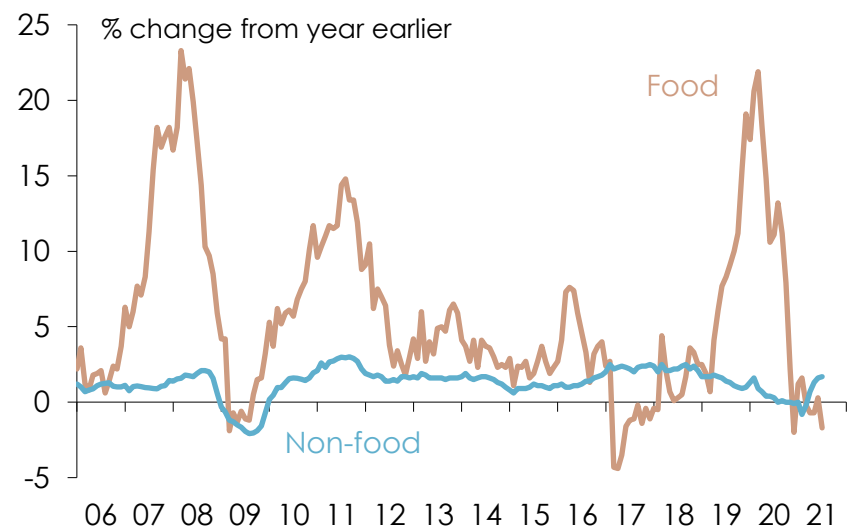
## PBoC policy interest rates



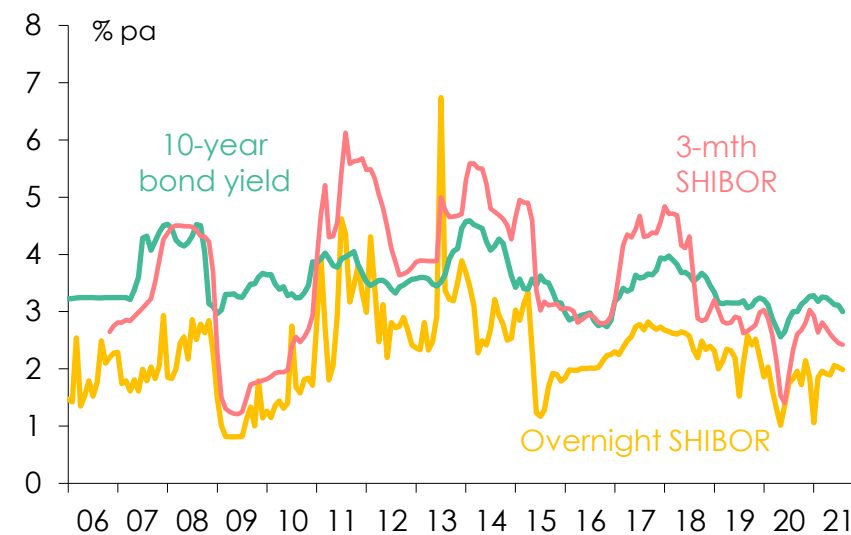
## Bank reserve requirement ratios



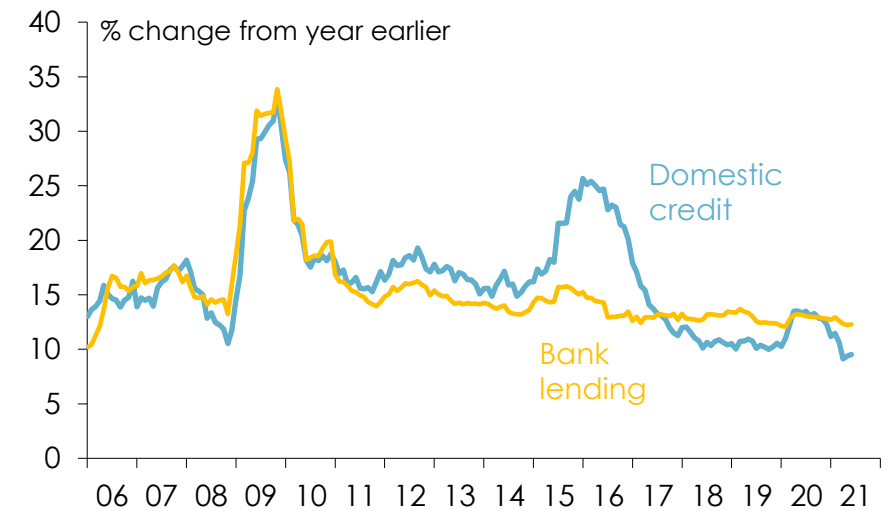
## Consumer prices



## Market interest rates



## Credit growth

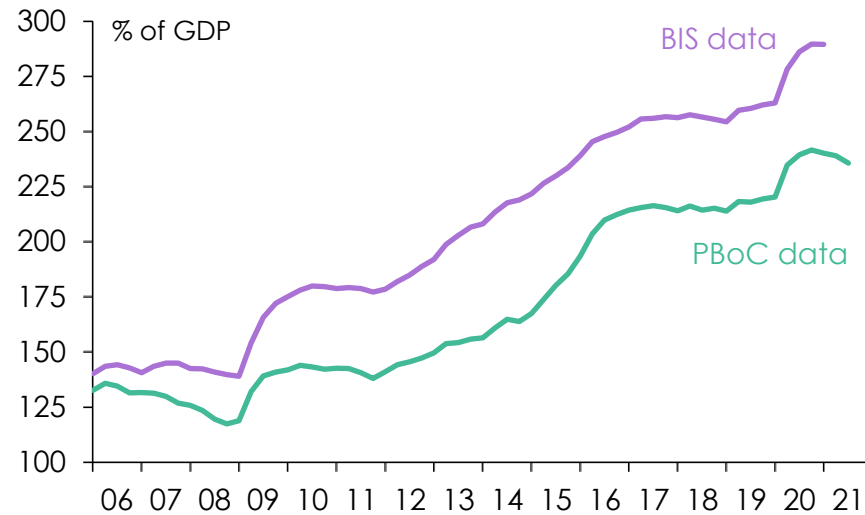


Note: 'SHIBOR' is the Shanghai Inter-Bank Offered Rate. Latest inflation data are for June.

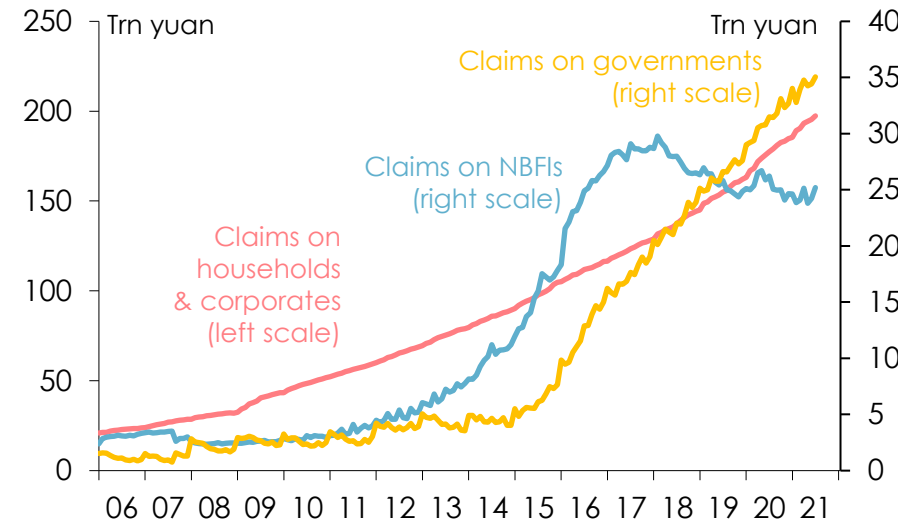
Sources: China National Bureau of Statistics; Refinitiv Datastream; [People's Bank of China](#). [Return to "What's New"](#).

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

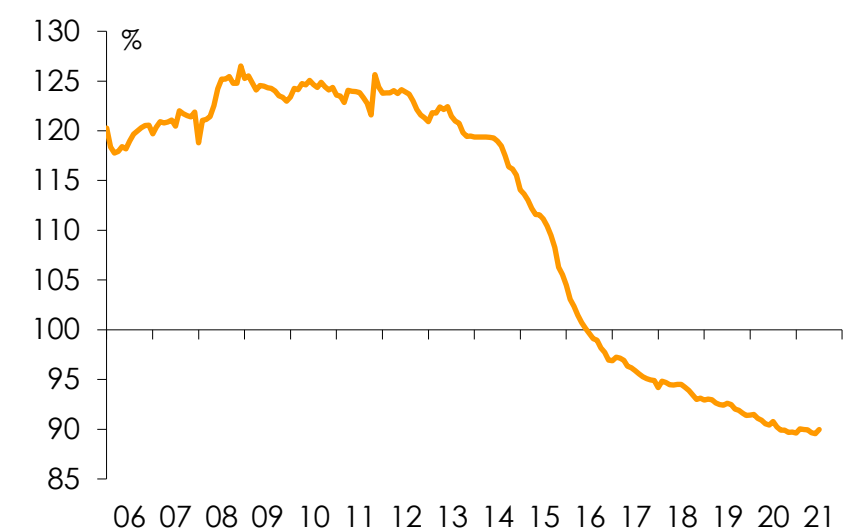
## Credit outstanding as a pc of GDP



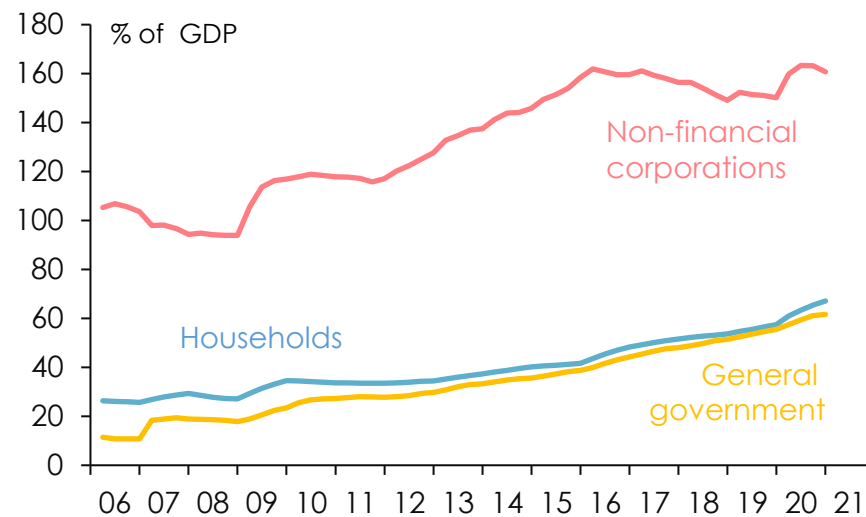
## Banks' assets



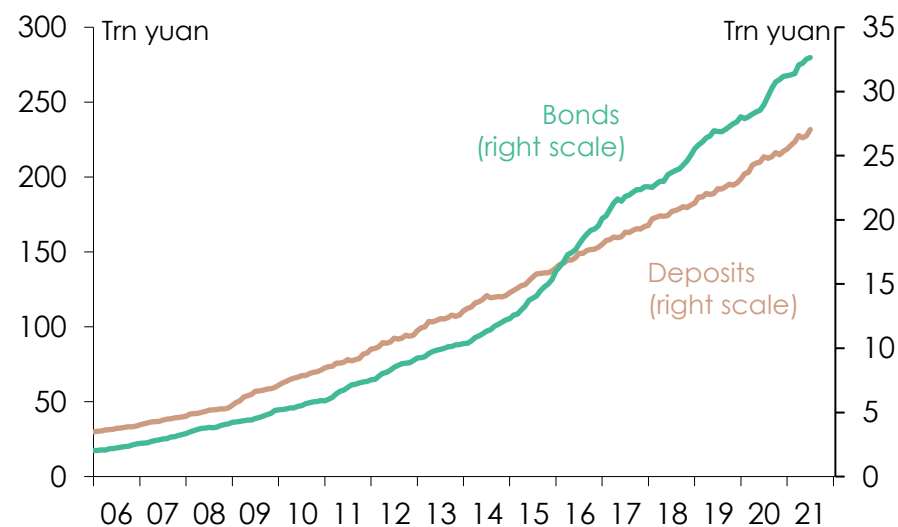
## Banks' deposits-to-loans ratio



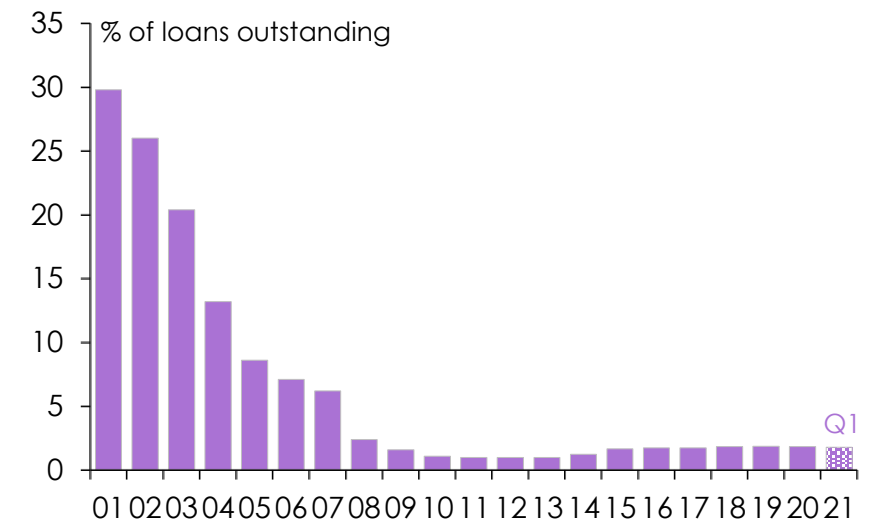
## Credit outstanding by sector



## Banks' liabilities

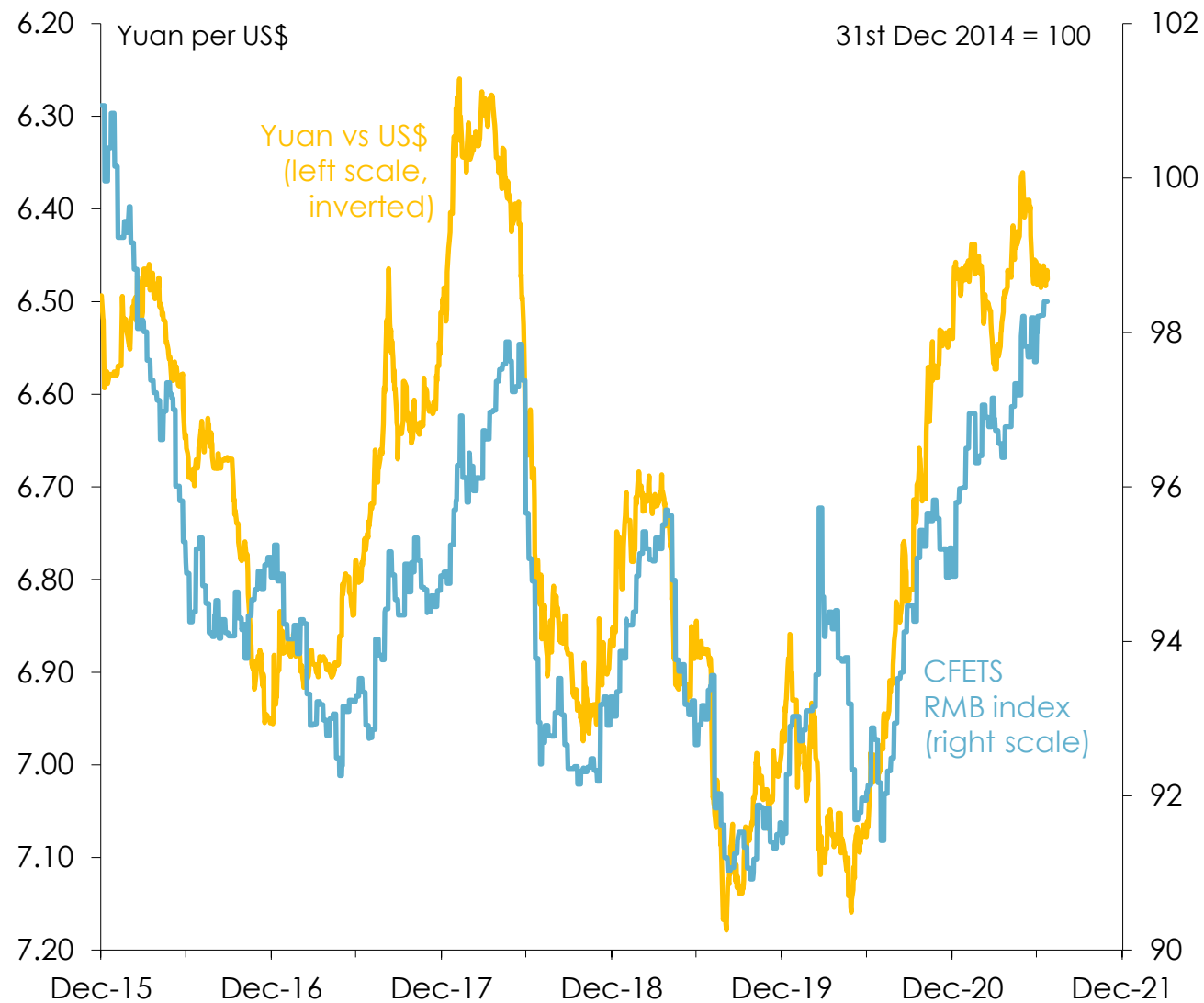


## Banks NPLs – official estimates

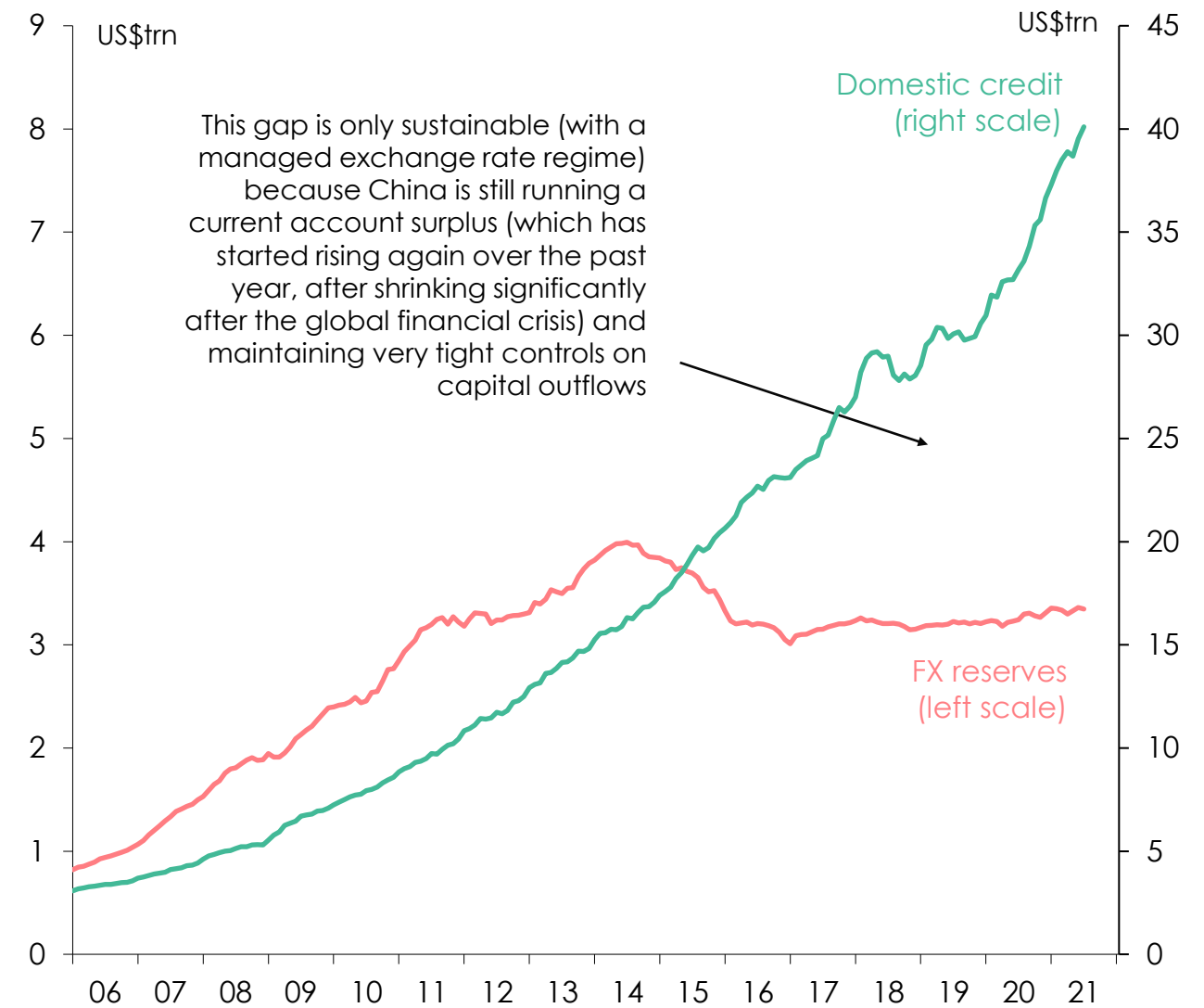


# The yuan fell marginally against a stronger US dollar this week but gained about 0.2% in trade-weighted terms

## Chinese renminbi vs US\$ and trade-weighted index



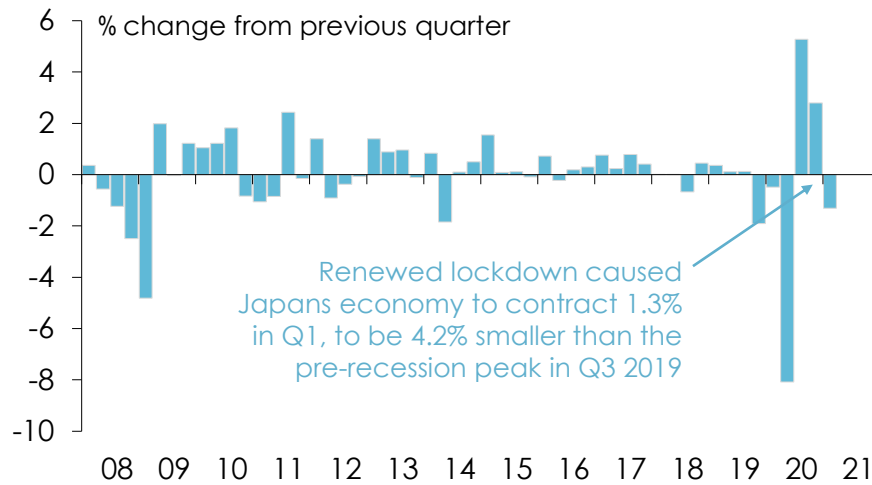
## FX reserves and domestic credit



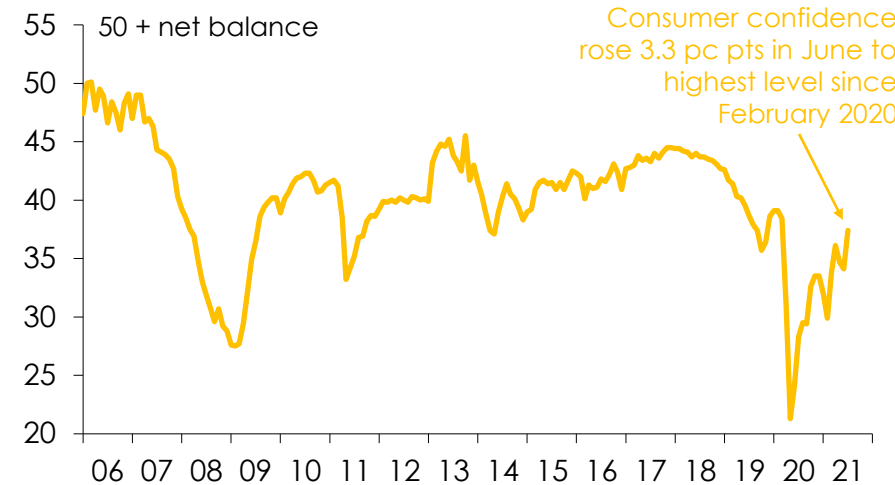
Sources: Refinitiv Datastream; China Foreign Exchange Trading System; People's Bank of China. Exchange rates up to 23<sup>rd</sup> July; FX reserves and domestic credit data up to June. [Return to "What's New"](#).

# 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



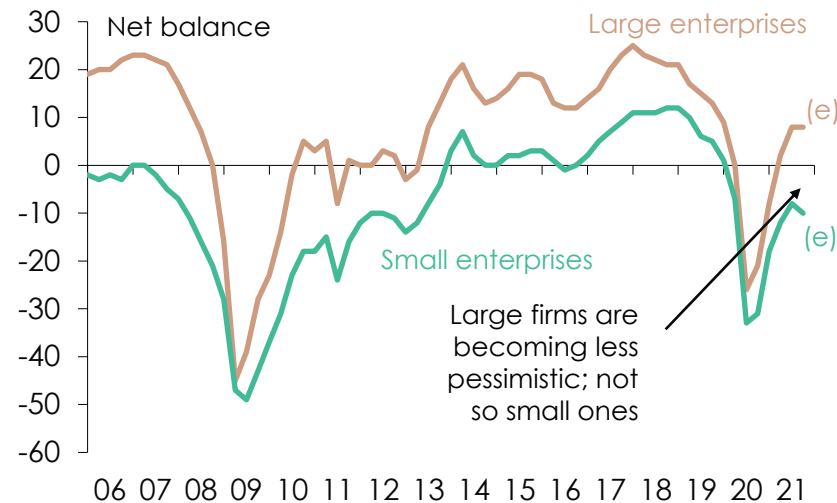
## Consumer confidence



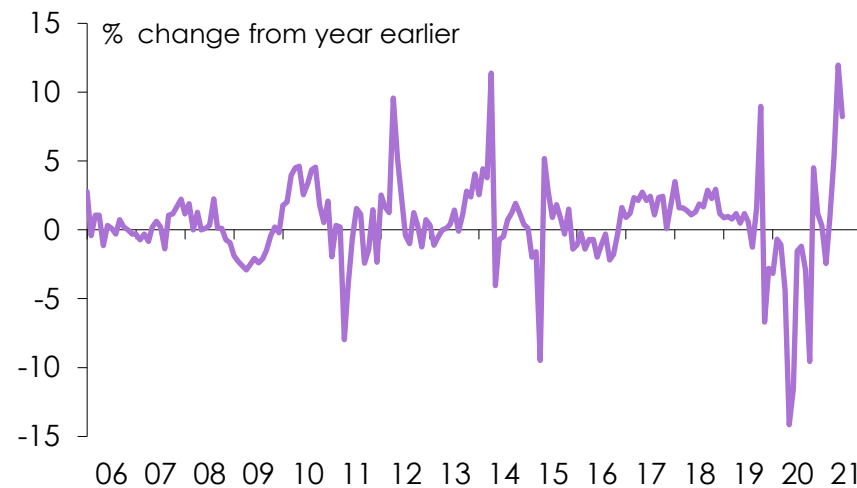
## Unemployment



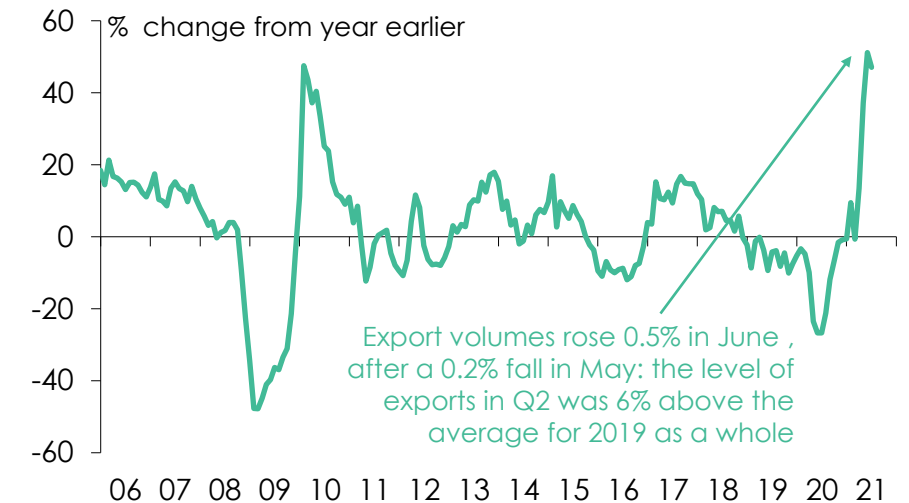
## BoJ Tankan business conditions



## Value of retail sales

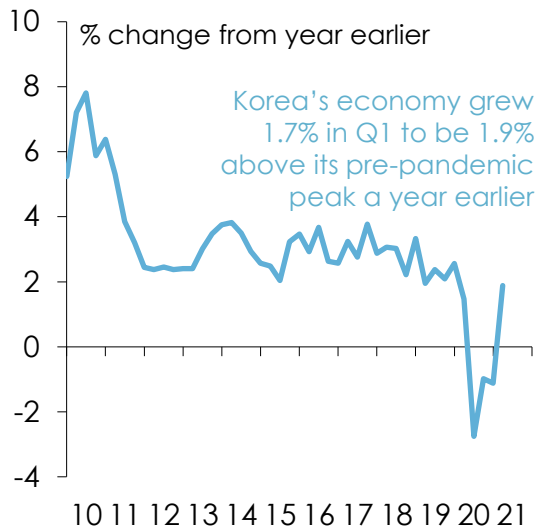


## Merchandise export volumes

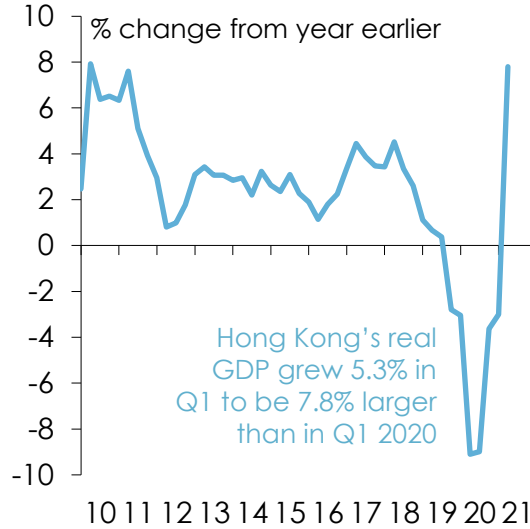


# Singapore, Hong Kong, Vietnam, Korea and (especially) Taiwan have surpassed their pre-pandemic levels of real GDP but the others are yet to

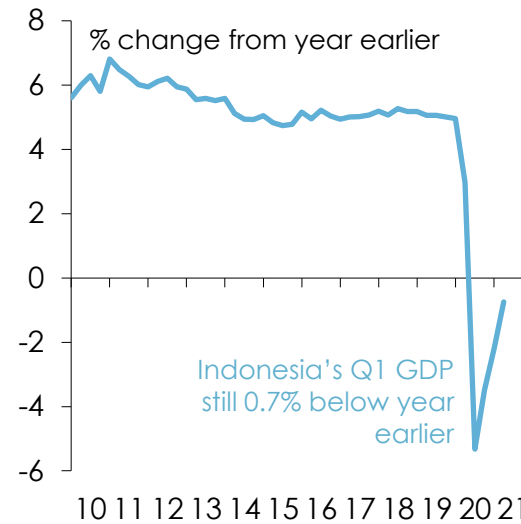
## Korea



## Hong Kong



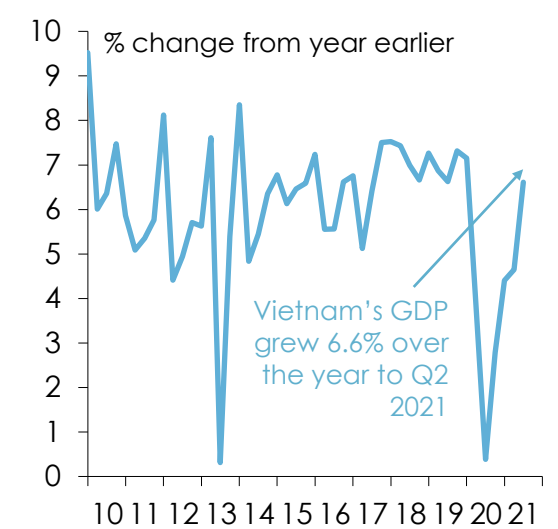
## Indonesia



## Thailand



## Vietnam



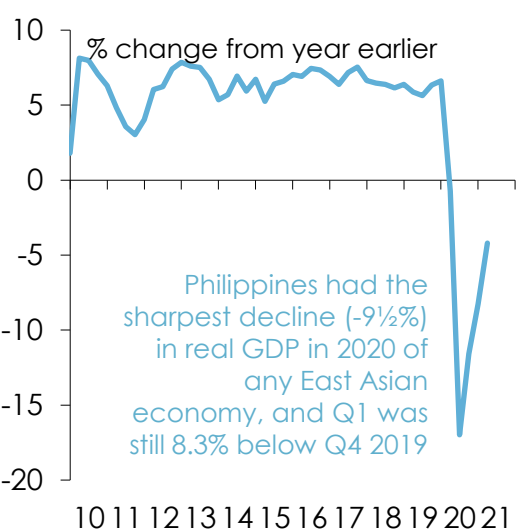
## Taiwan



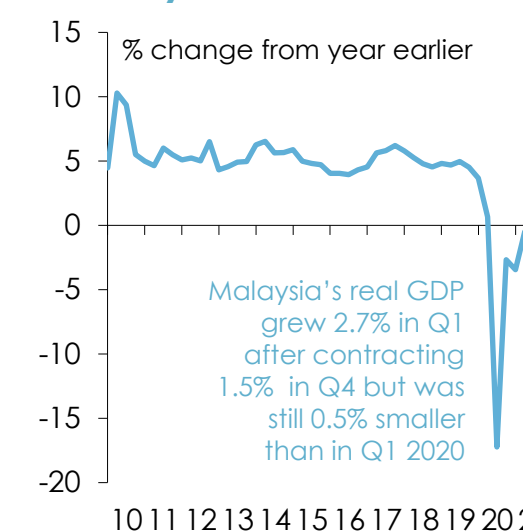
## Singapore



## Philippines



## Malaysia



## India

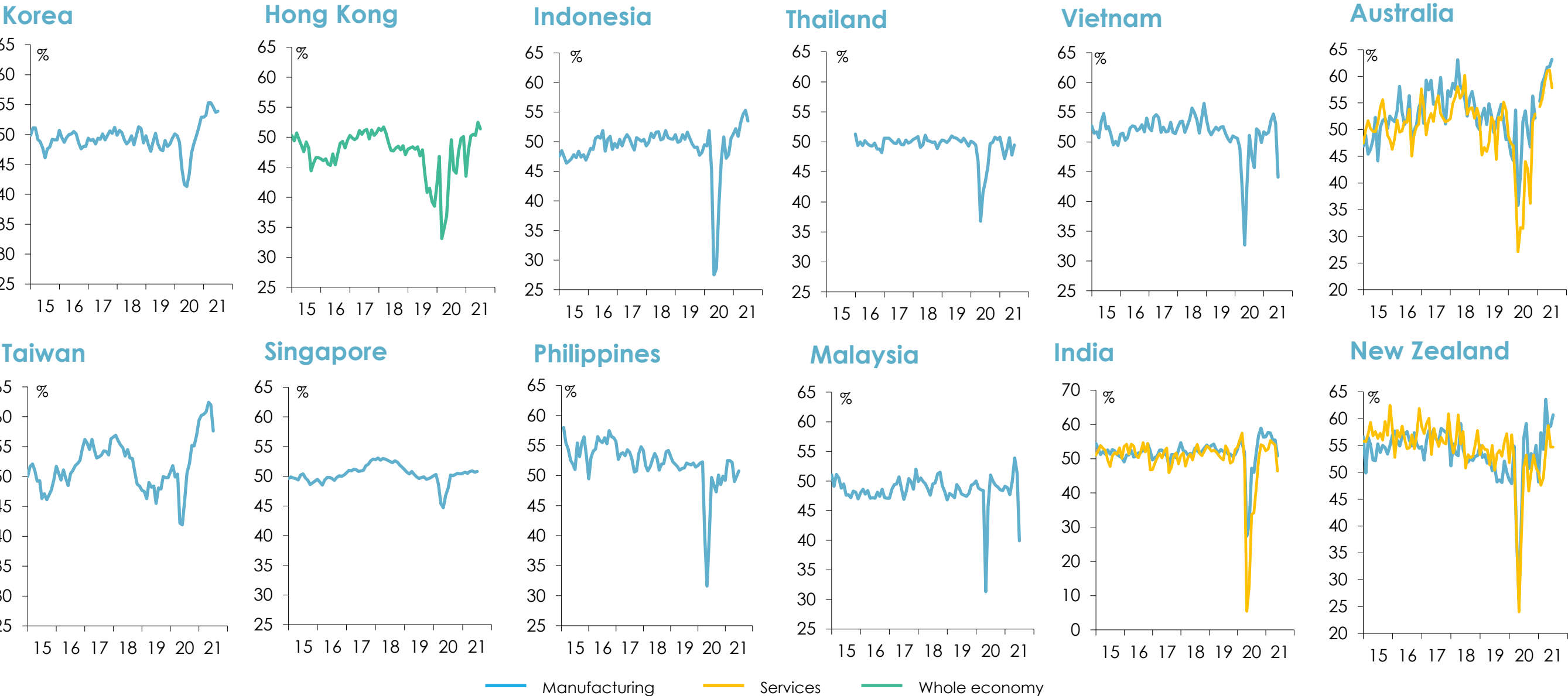


Note: Latest data are Q2 for Vietnam and Q1 for other countries. Sources: Bank of Korea; Taiwan Directorate-General of Budget, Accounting & Statistics; Hong Kong Census & Statistics Department; Singapore Ministry of Trade and Industry; Department of Statistics Malaysia; Office of the National Economic & 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".](#)

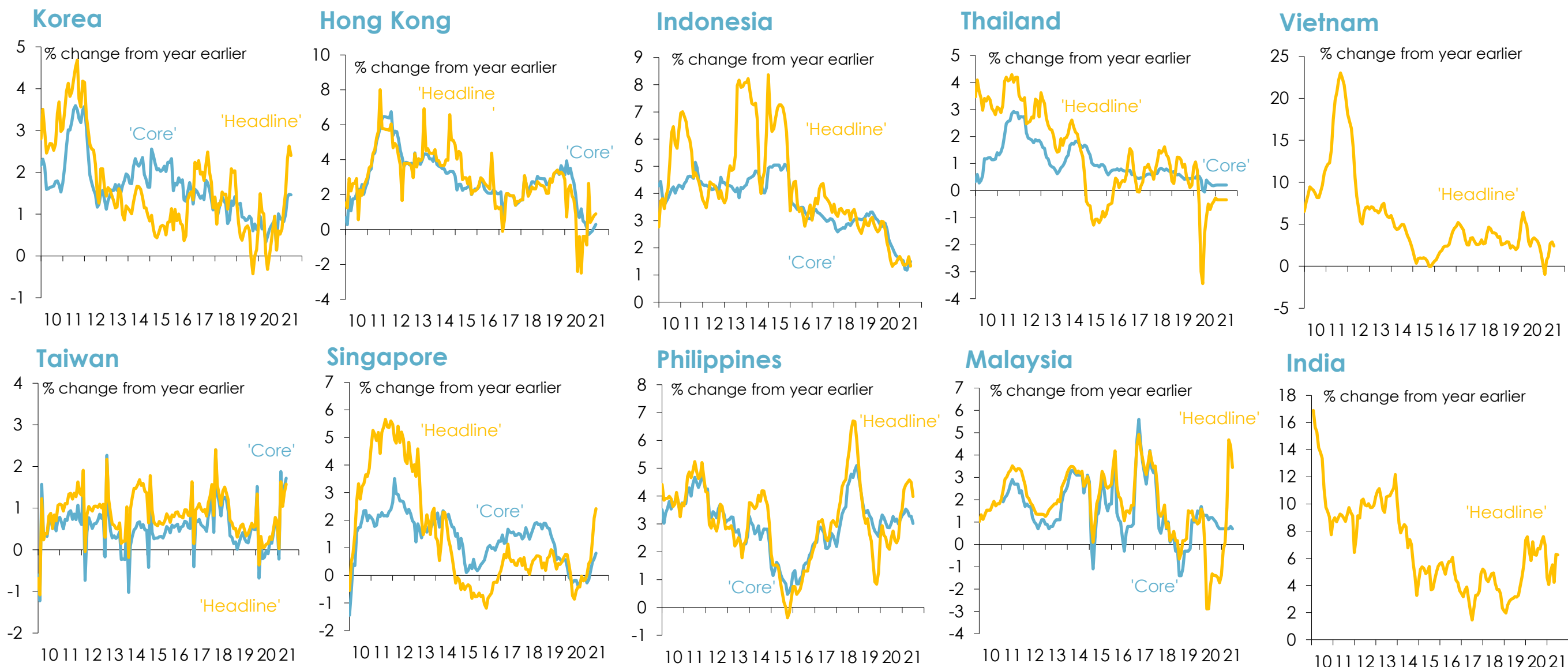


# PMIs for June show the impact of renewed virus outbreaks on manufacturing activity in Taiwan and in south-east Asia



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. 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"](#).

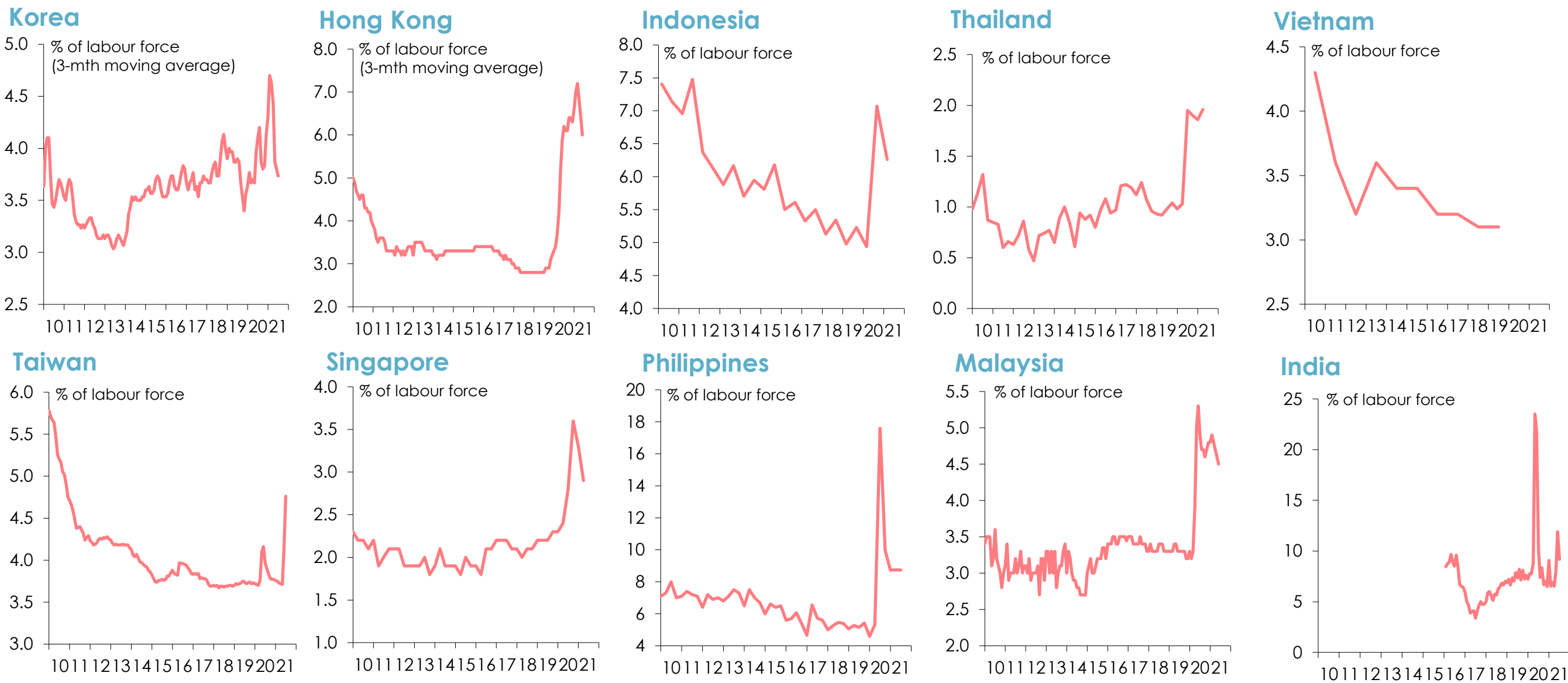
# Some (though not all) Asian economies are experiencing temporary upward pressure on inflation as in North America and Europe



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"](#).

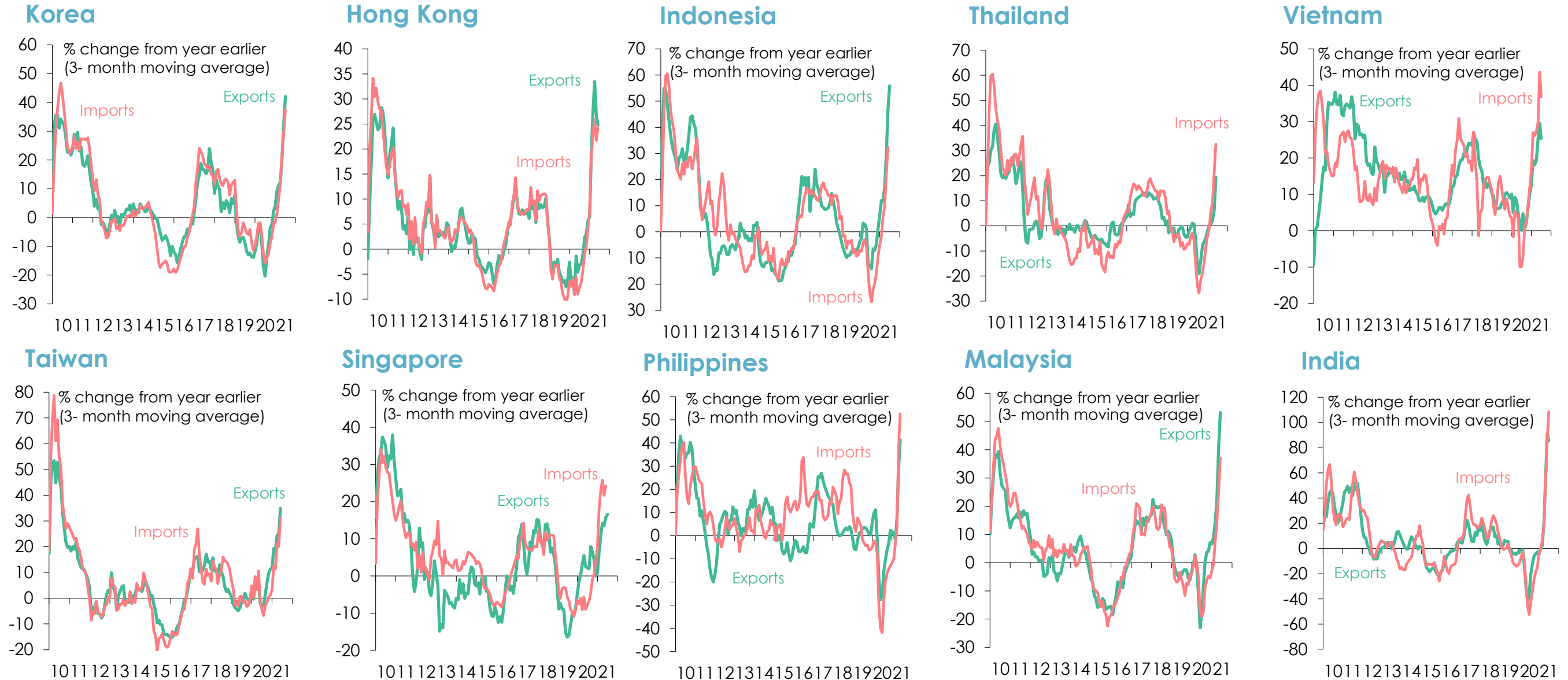


# Unemployment rose sharply in most Asian economies last year (except for Taiwan and Thailand) but is now falling in most of them



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"](#).

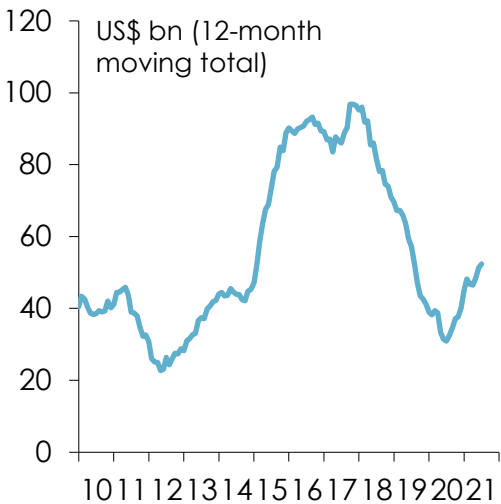
# Asian exports are recovering from the Covid-induced slump – although ‘base effects’ from this time last year are inflating the growth



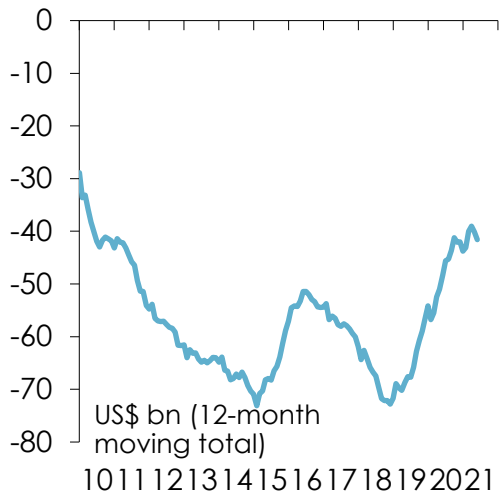
Note: Data for Hong Kong, Singapore and Malaysia are published in national currencies and converted to US dollars by Corinna using month-average exchange rates.  
Sources: national statistical agencies and central banks. [Return to "What's New"](#).

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

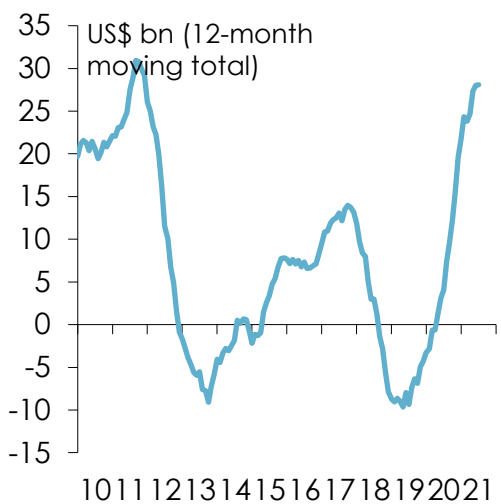
Korea



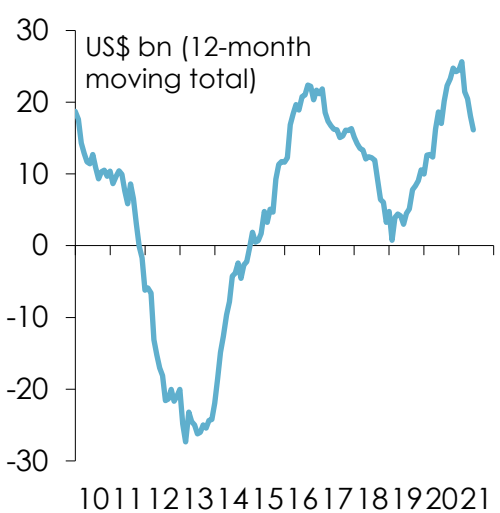
Hong Kong



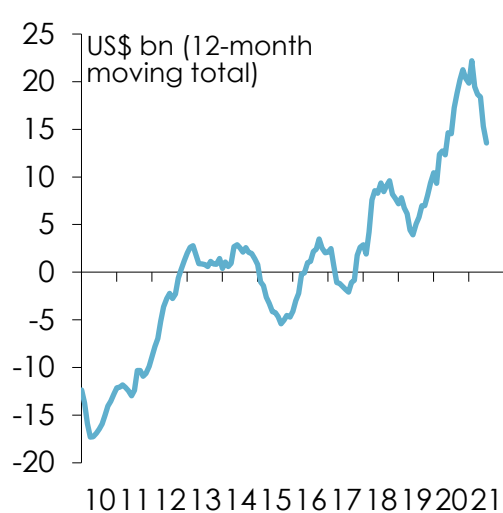
Indonesia



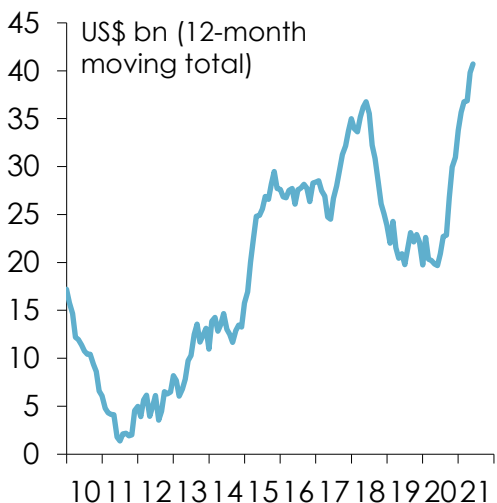
Thailand



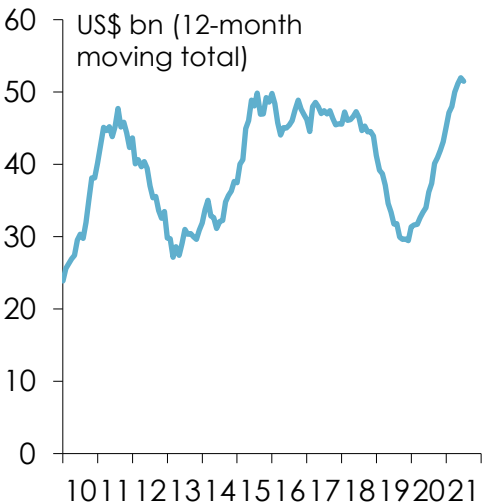
Vietnam



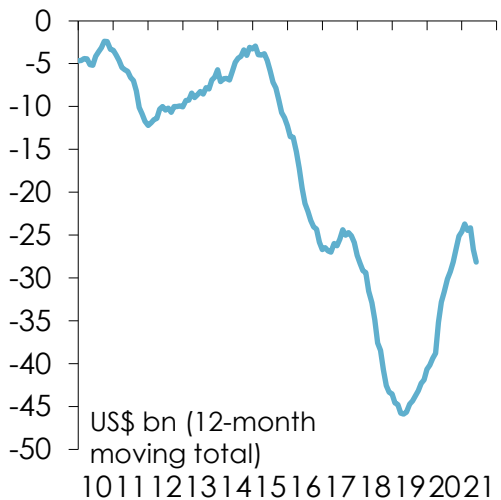
Taiwan



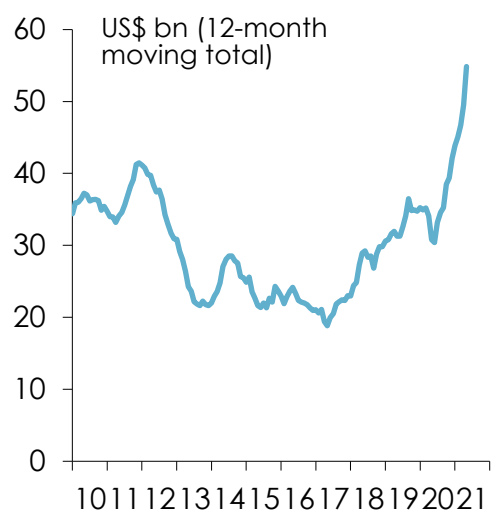
Singapore



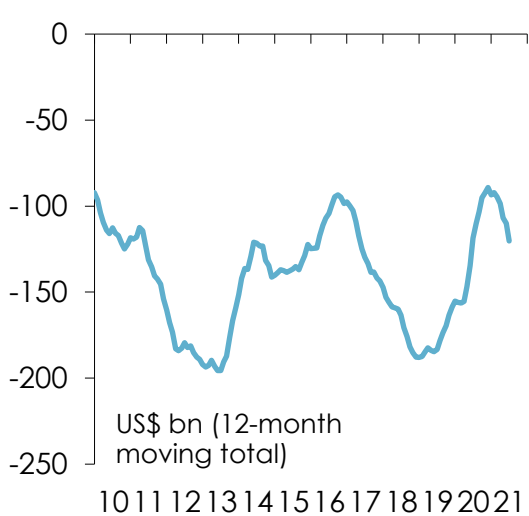
Philippines



Malaysia



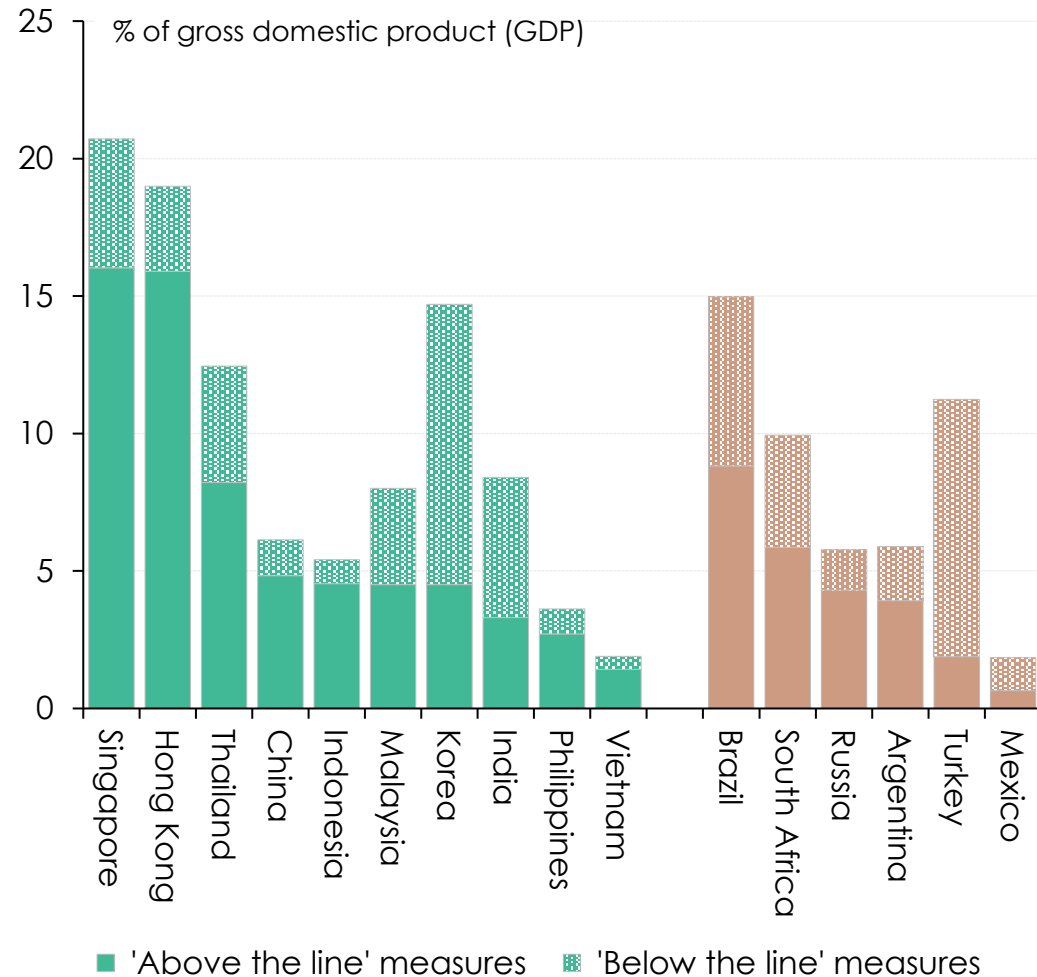
India



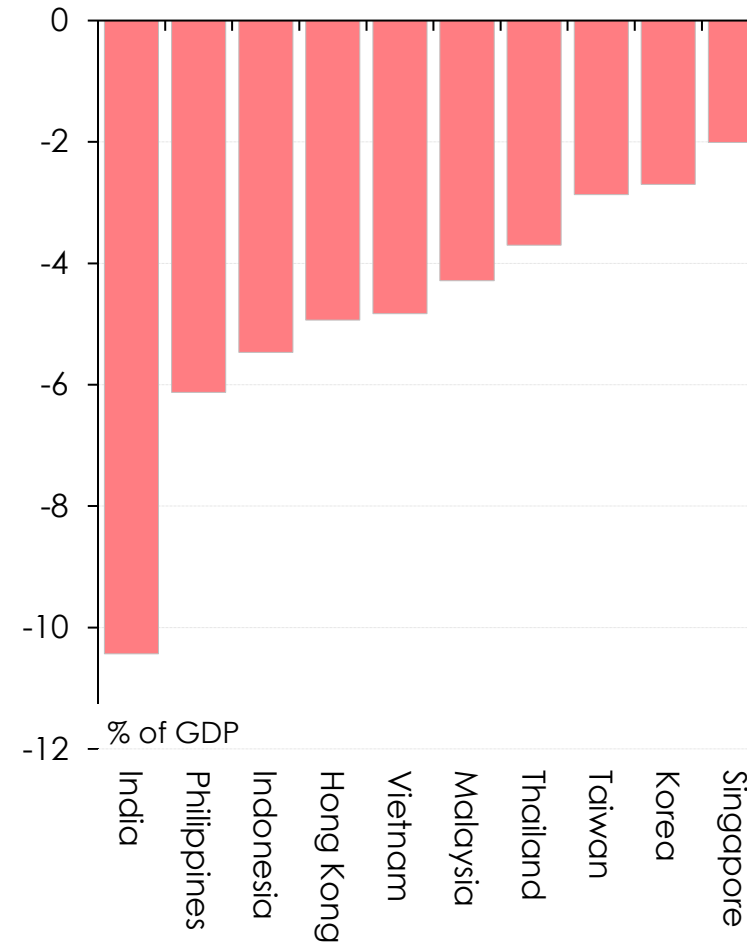
Note: Data for Hong Kong, Singapore and Malaysia are published in national currencies and converted to US dollars by Corinna using month-average exchange rates.  
Sources: national statistical agencies and central banks. [Return to "What's New"](#).

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

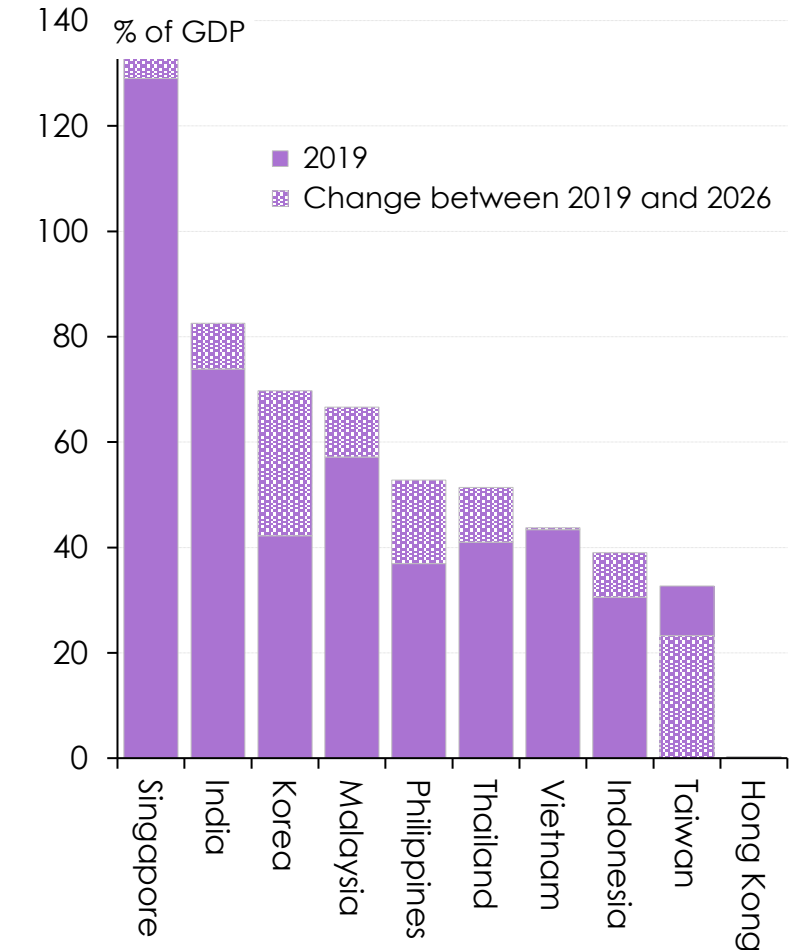
## Fiscal policy responses to Covid-19 – Asian & other selected emerging market economies



## Budget balances – Asian economies 2020-2022

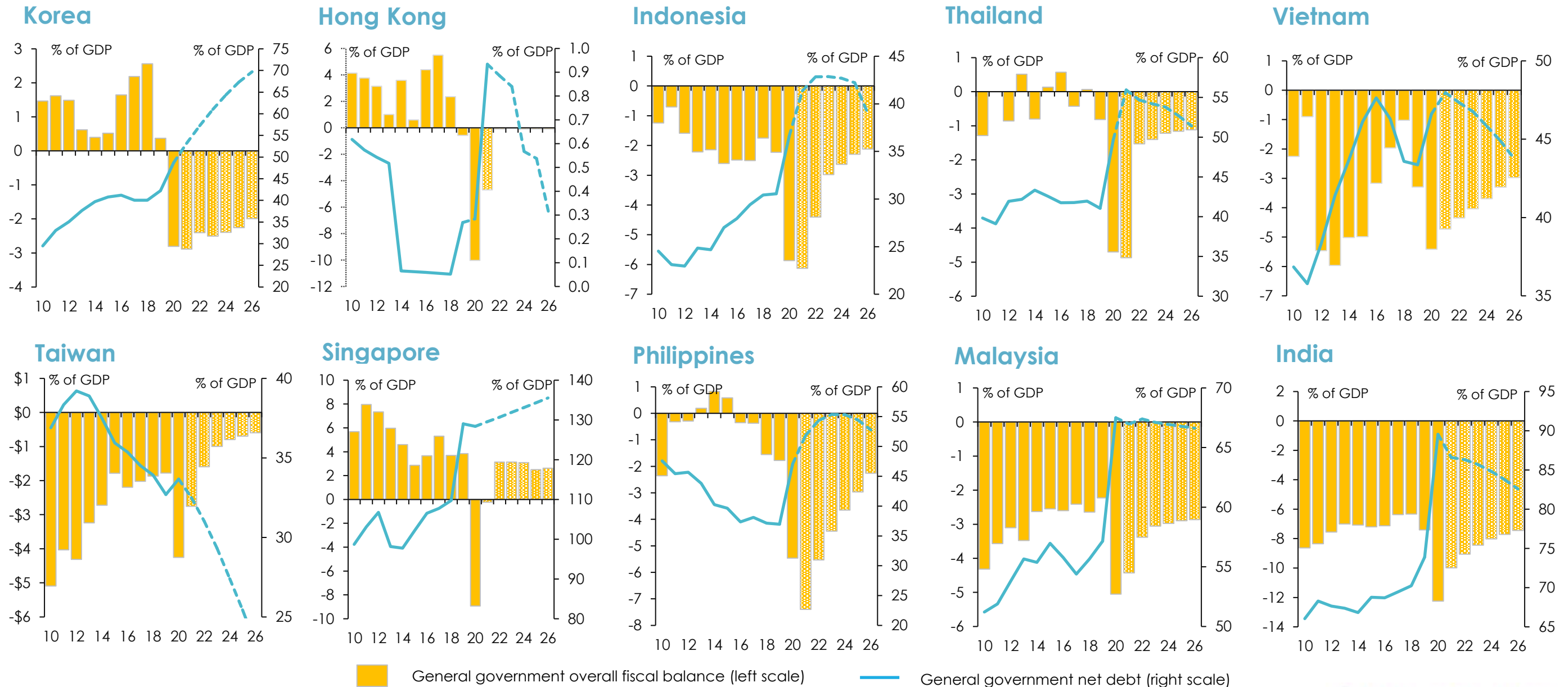


## Gross government debt – Asian economies 2019-26

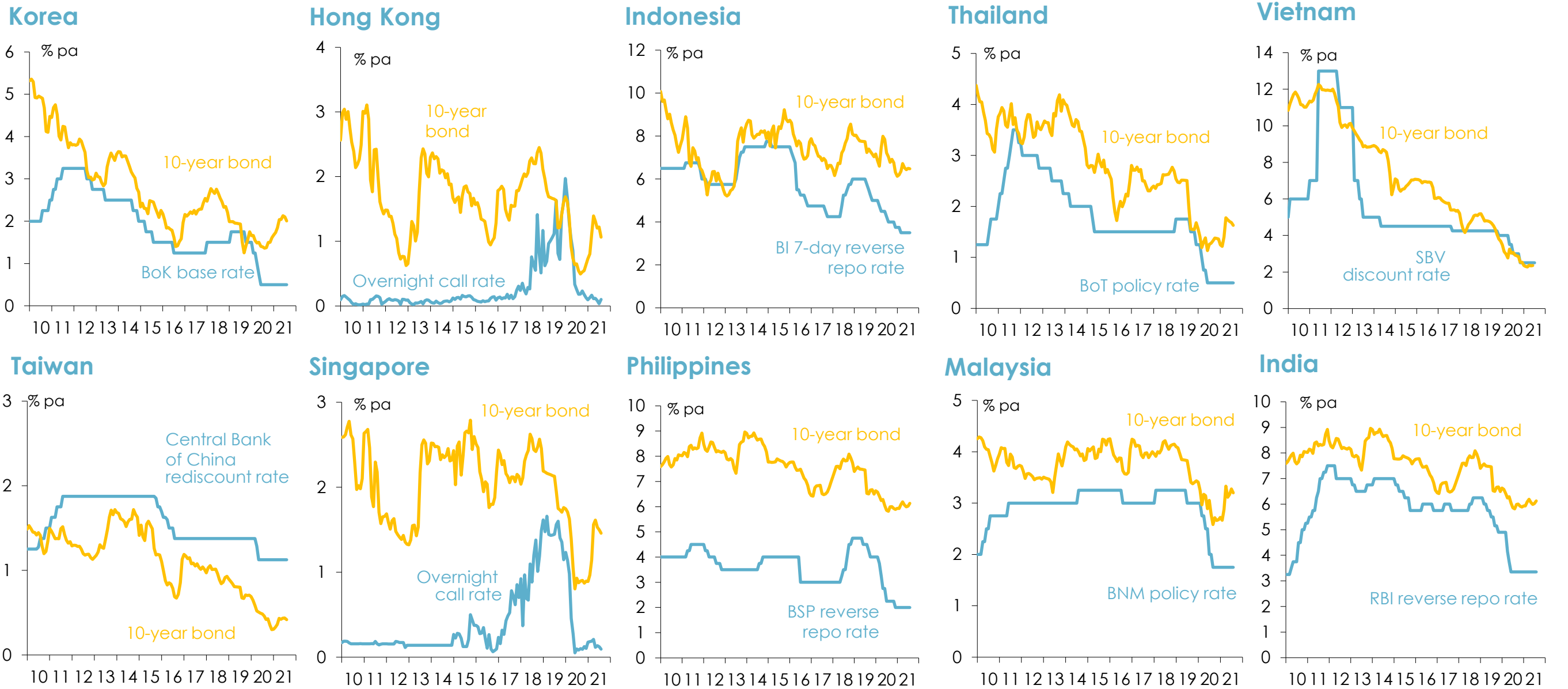


Note: 'Above the line' measures comprise additional or accelerated spending and deferred or foregone revenue. 'Below the line' measures comprise equity injections, loans, asset purchases and debt assumptions, but do not include loan guarantees or other contingent liabilities. 'DMs' means 'developed markets' (or 'advanced economies'). Data includes measures announced up until 17<sup>th</sup> 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



# No Asian central bank has given any hint of any near- or medium-term tightening of monetary policy (in contrast to other EM regions)



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"](#).

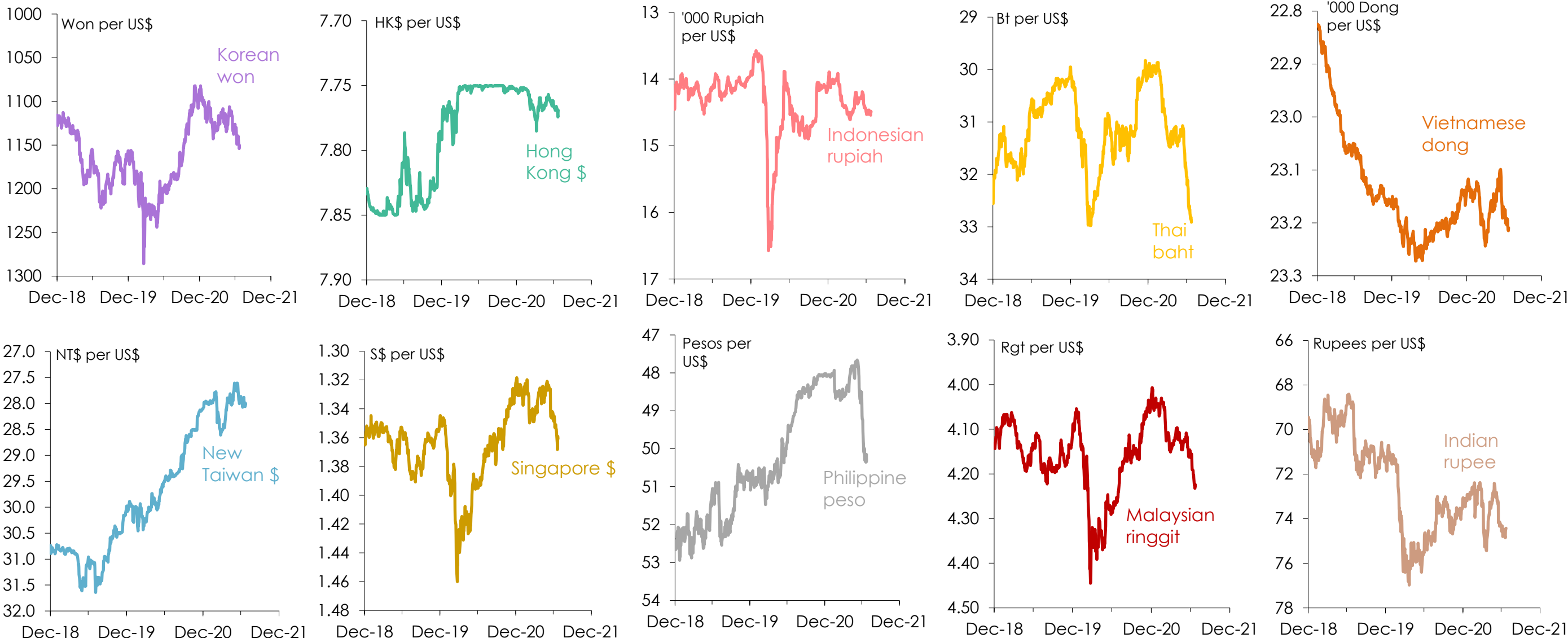
SAUL ESLAKE

CORINNA ECONOMIC ADVISORY  
INDEPENDENT ECONOMICS



# Most Asian currencies – except for the rupiah and rupee – weakened vs the US dollar this week, the won losing 1%, and the baht ½% (down 9% ytd)

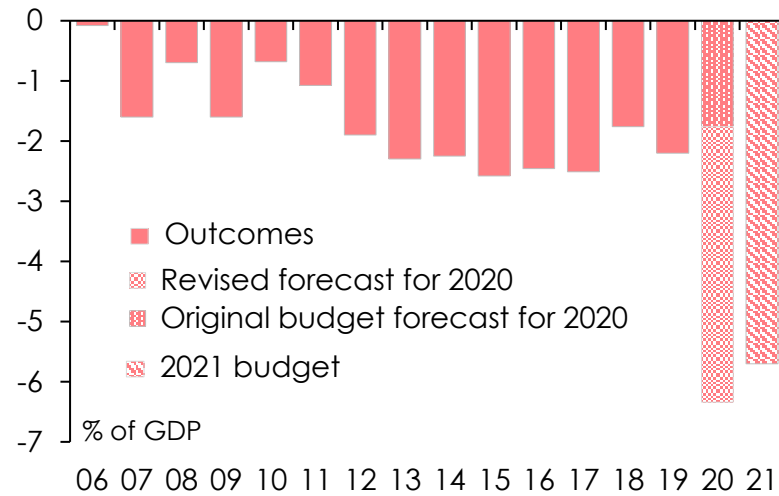
## Asian currency exchange rates vs US dollar



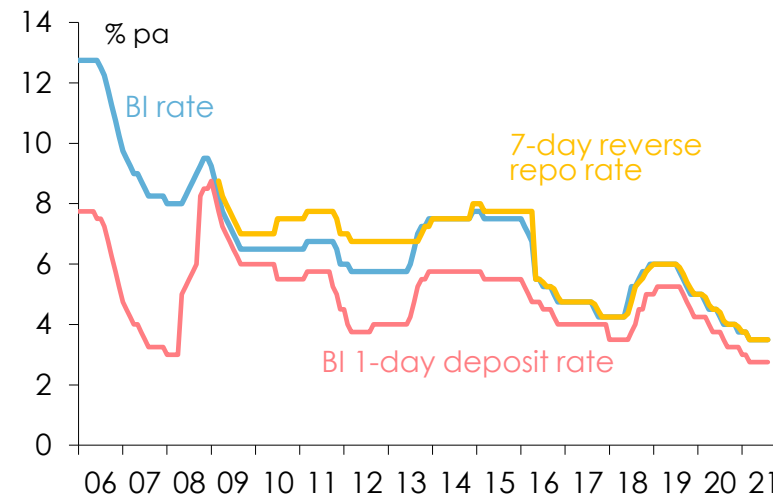


# Bank Indonesia left monetary policy settings on hold this week, but its holdings of government debt have risen very sharply in recent weeks

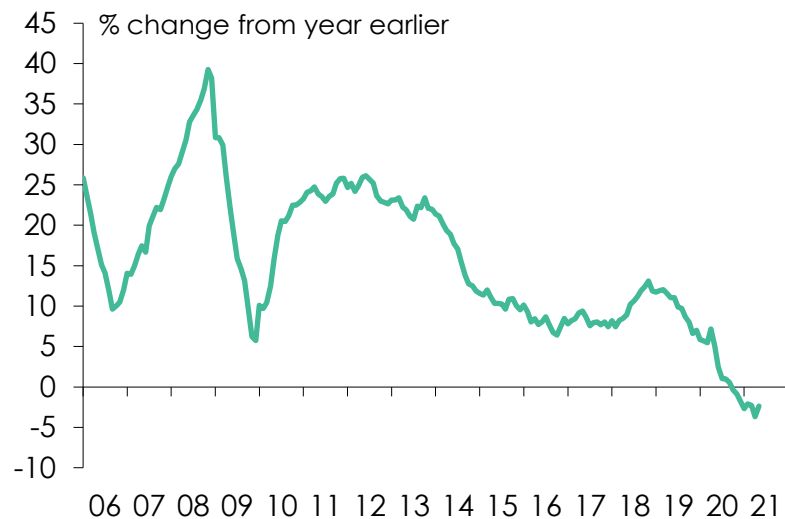
## Indonesia budget deficit



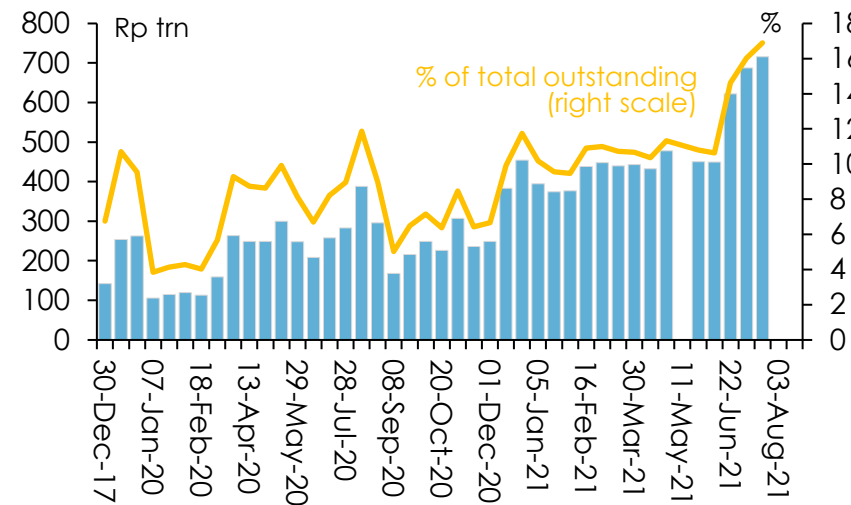
## BI monetary policy rates



## Bank lending



## BI holdings of tradeable SBNs

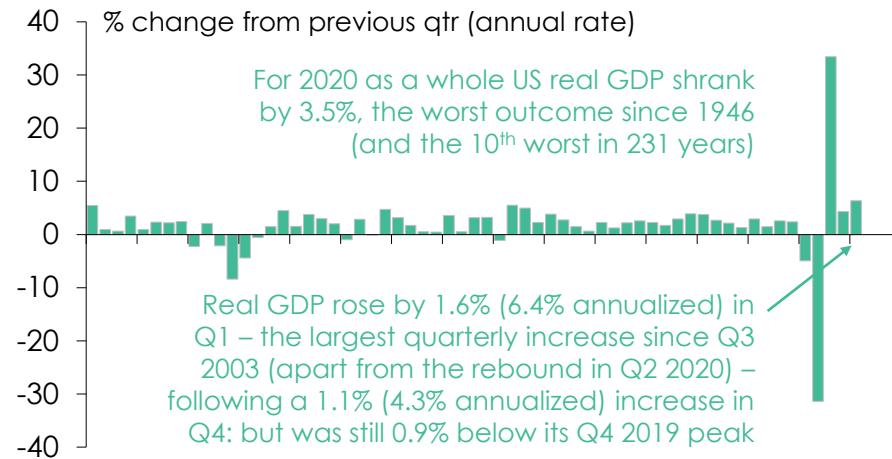


- ❑ In April 2020, the Indonesian Government and Bank Indonesia (BI) agreed to a 'burden-sharing' scheme under which BI will directly purchase bonds equivalent to 25% of this year's budget financing requirement (and return the interest received to the Government), as well as subsidizing interest payments on other bonds
  - BI calls this 'synergistic monetary expansion'
  - up to 19<sup>th</sup> July BI has purchased Rp 124trn 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
- ❑ BI's holdings of SBNs have risen by Rp266 trn (59%) over past six weeks, while banks' holdings have fallen by Rp260 trn (16%)
  - BI has absorbed 72% of the increase in the total stock of SBNs outstanding so far this year, cf. just 17% in 2020
- ❑ 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%
- ❑ BI again left its policy settings unchanged this week's Governing Council meeting
  - BI lowered its growth forecast for 2021 to 3½-4¼% (from 4.1-5.1% previously)

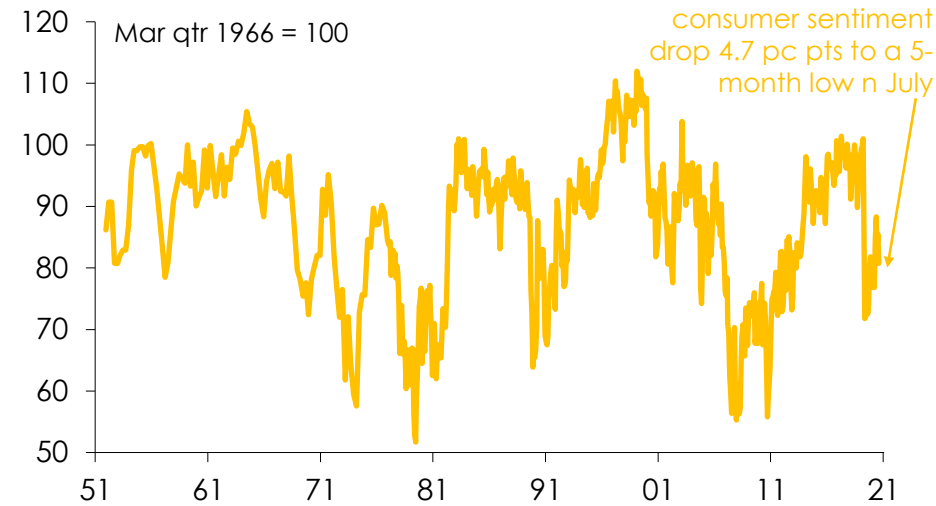
Sources: [Indonesia Ministry of Finance \(Kementerian Keuangan\)](#); [Directorate of Government Debt Securities](#); Bank Indonesia. [Return to "What's New"](#).

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

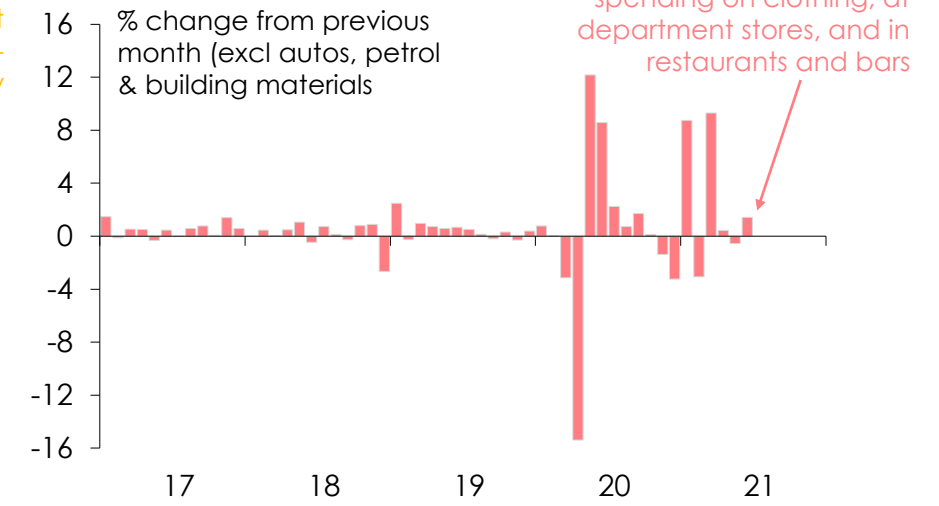
## Real GDP



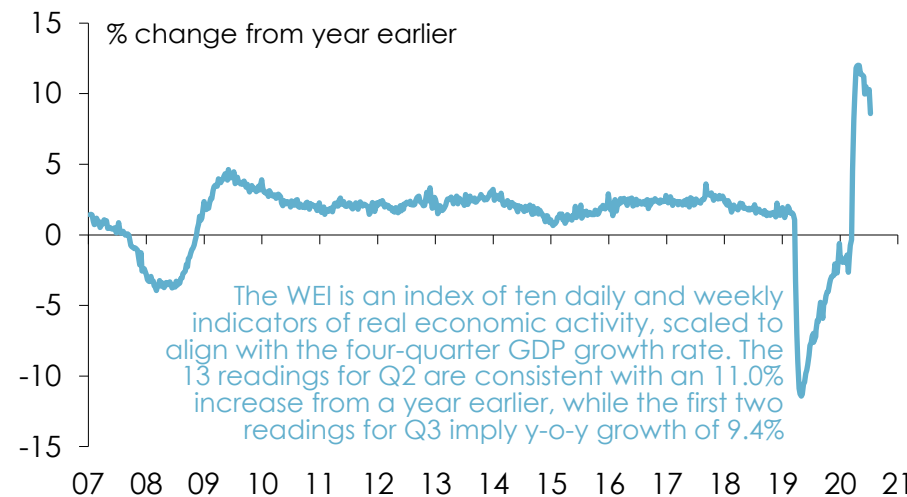
## Consumer sentiment



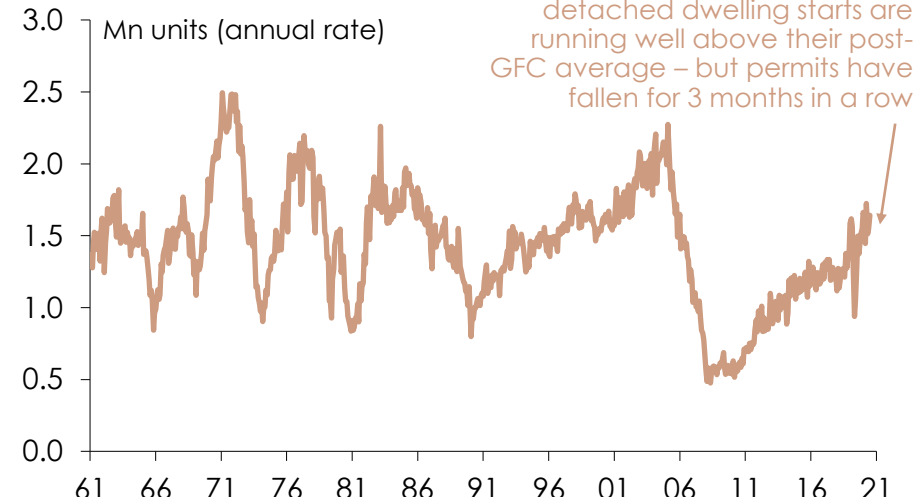
## 'Core' retail sales



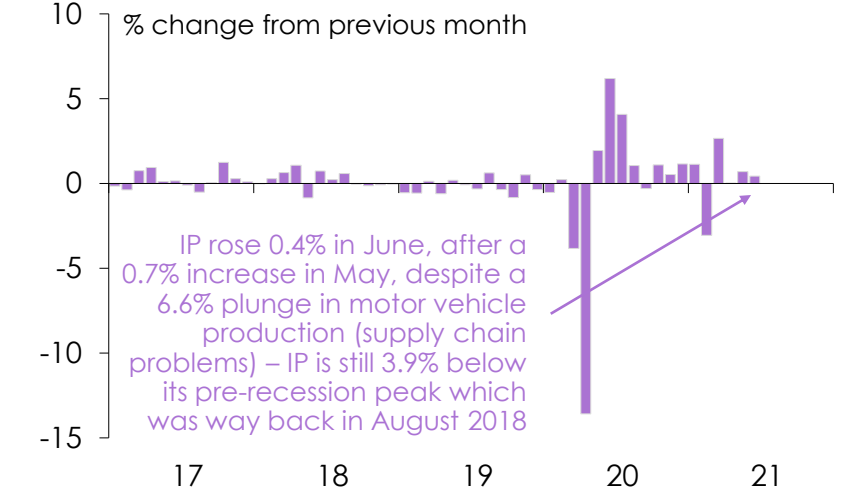
## NY Fed weekly economic index



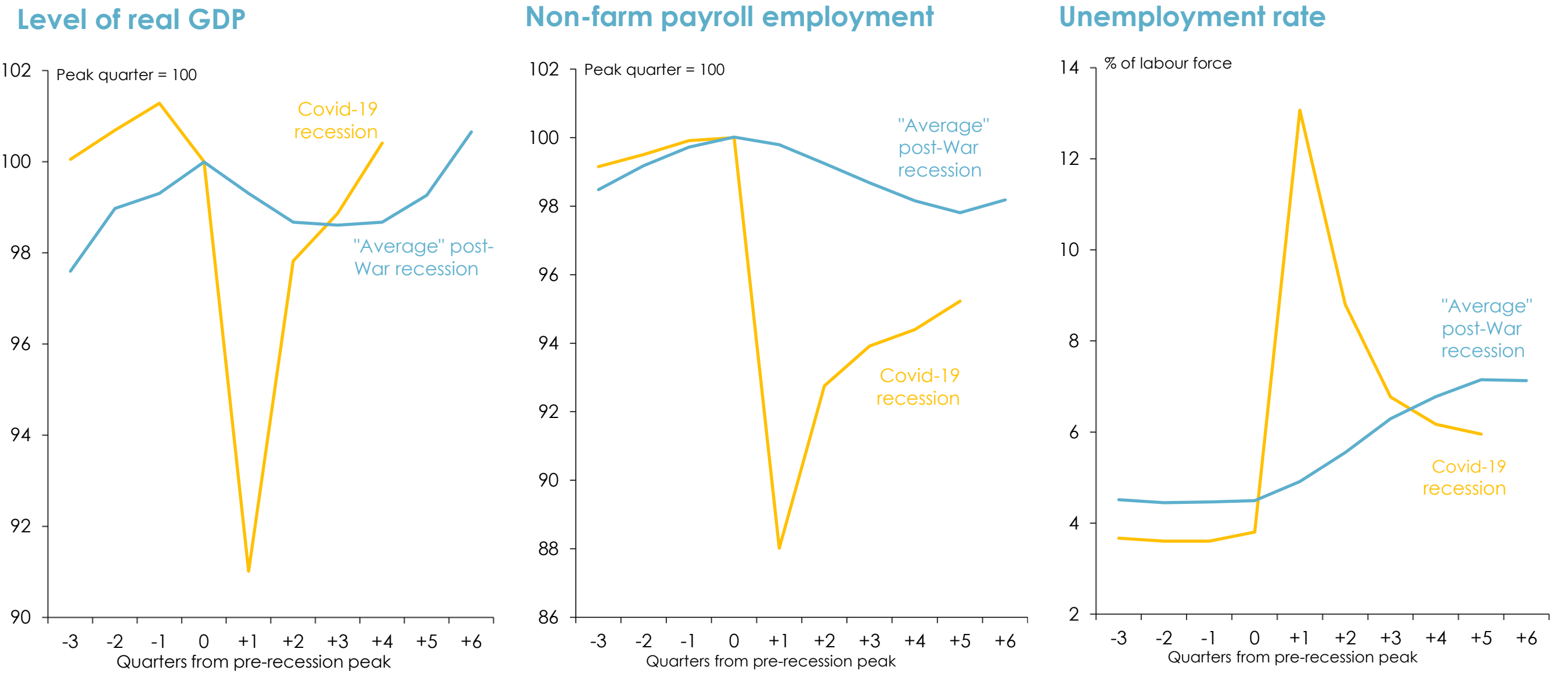
## Housing starts



## Industrial production



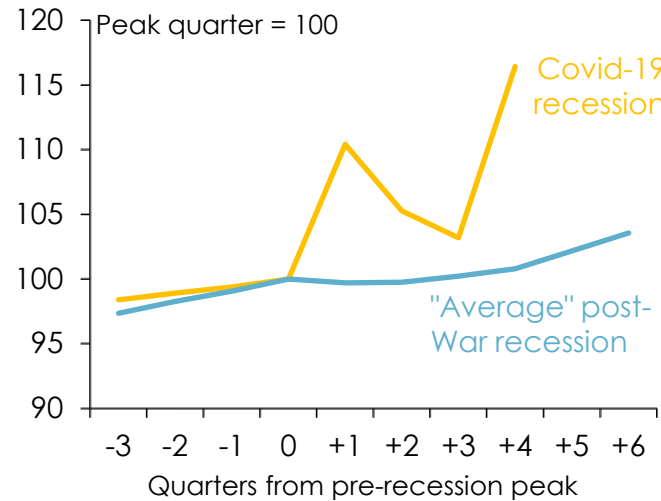
# The Covid-19 recession has been quite unlike any other of the recessions the US has experienced since the end of World War II



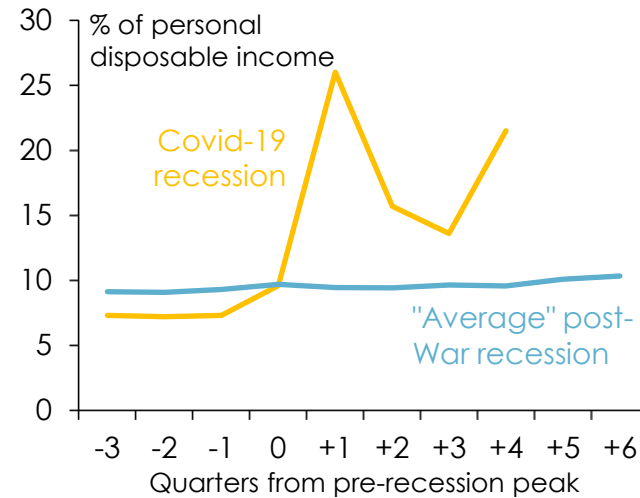
Note: 'average post-war recession' is the average of figures for each of the eleven post-war US recessions as designated by the [National Bureau of Economic Research Business Cycle Dating Committee](#), with the exception of the recession of January-July 1980 (which was too short, and too close to the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

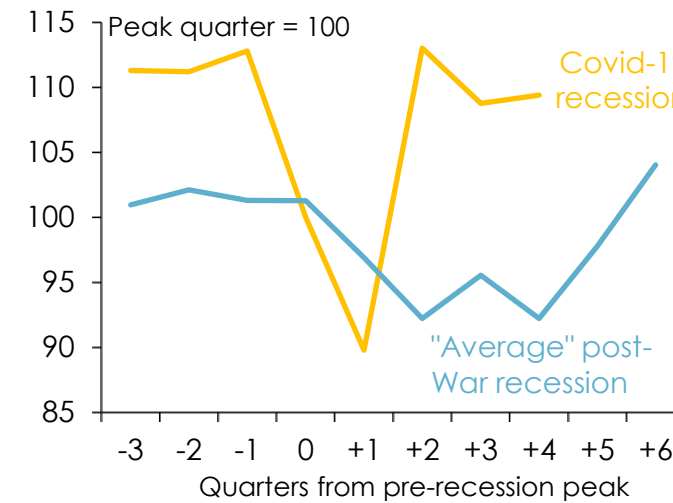
## Personal disposable income



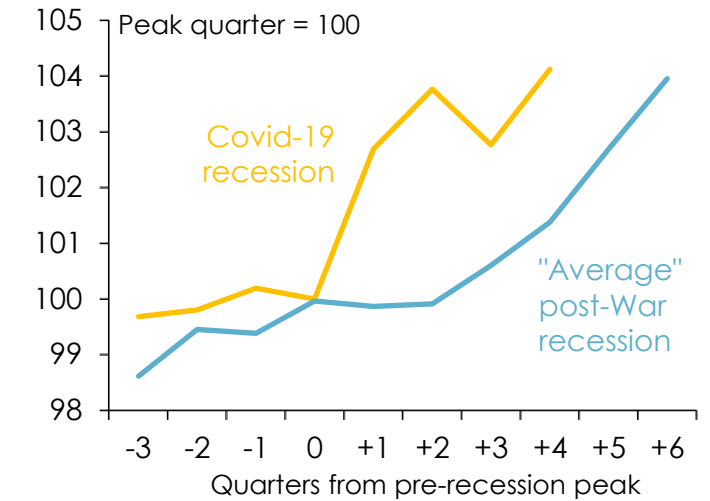
## Personal saving rate



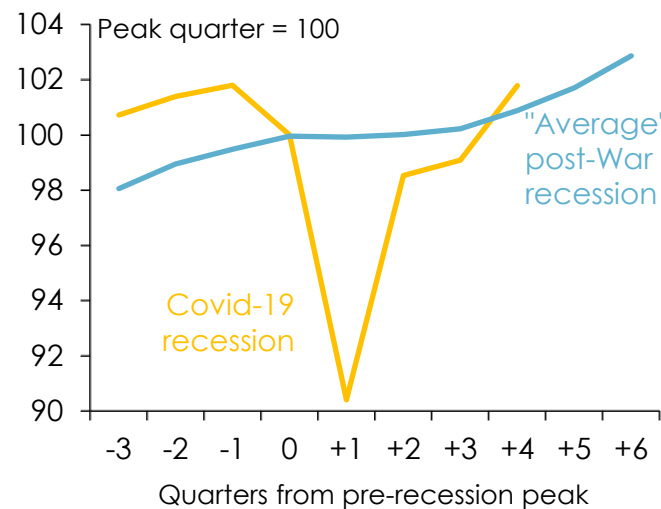
## After-tax corporate profits



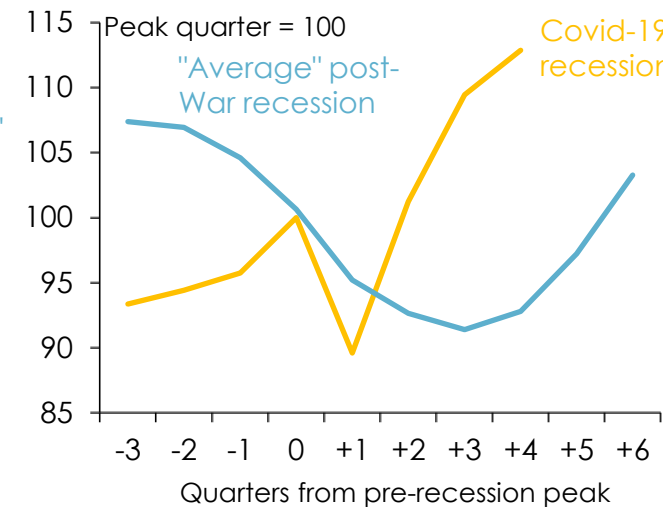
## Labour productivity



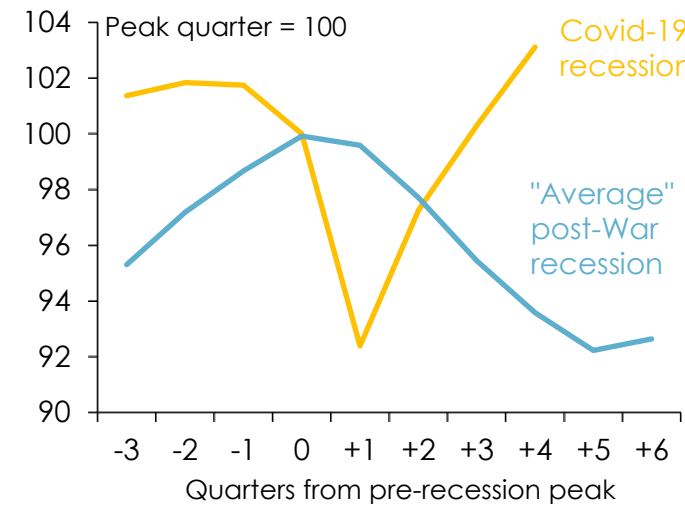
## Personal consumption



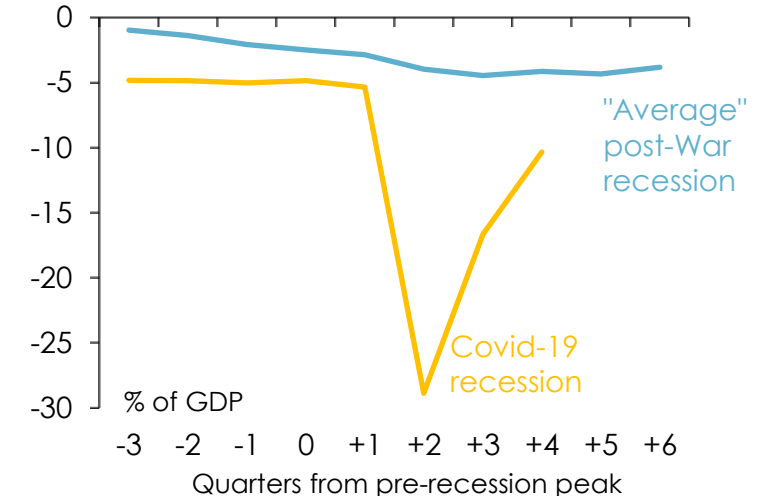
## Residential investment



## Business investment



## Federal budget balance



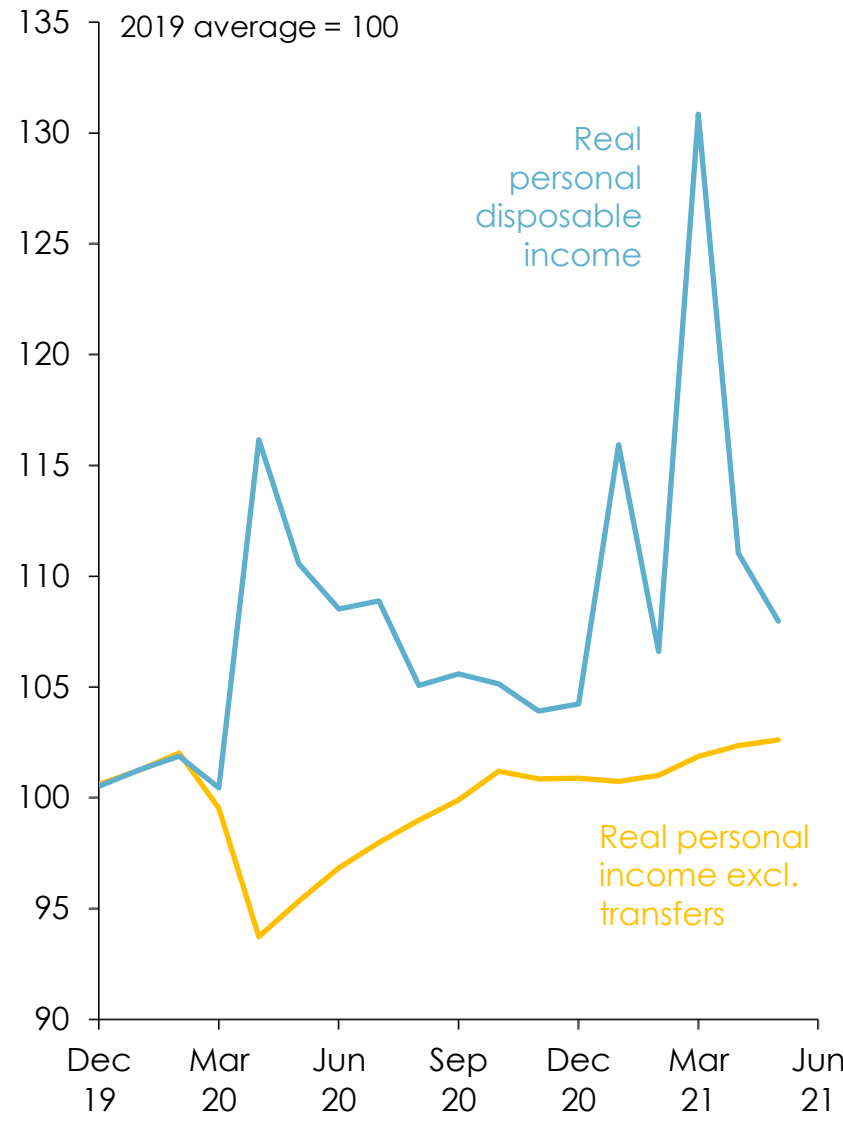
Note: 'average post-war recession' is the average of figures for each of the eleven post-war US recessions as designated by the [National Bureau of Economic Research Business Cycle Dating Committee](#), with the exception of the recession of January-July 1980; 'peak quarter' is the quarter in which real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

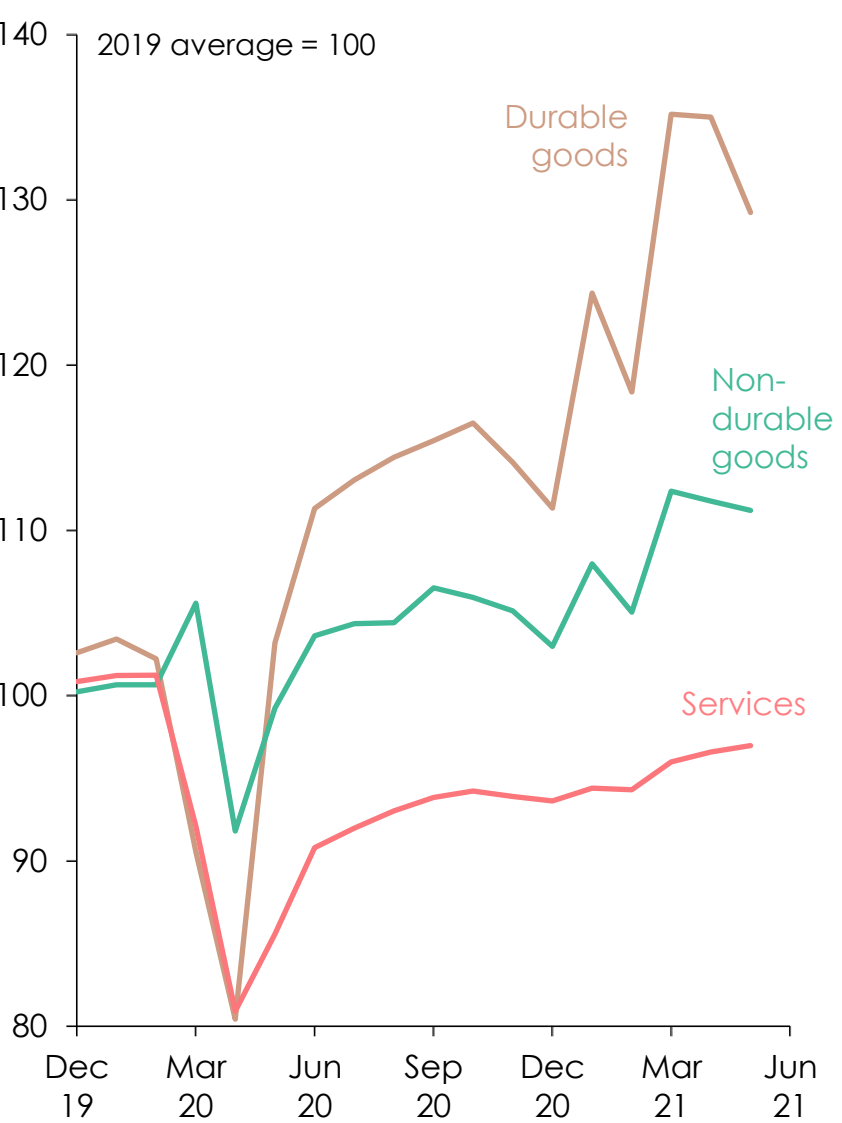
Tax and transfer payments



Real personal income



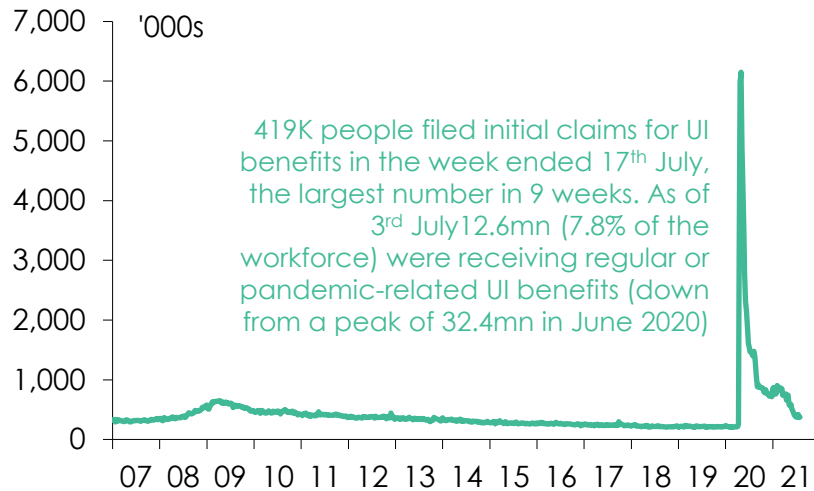
Real consumption expenditure



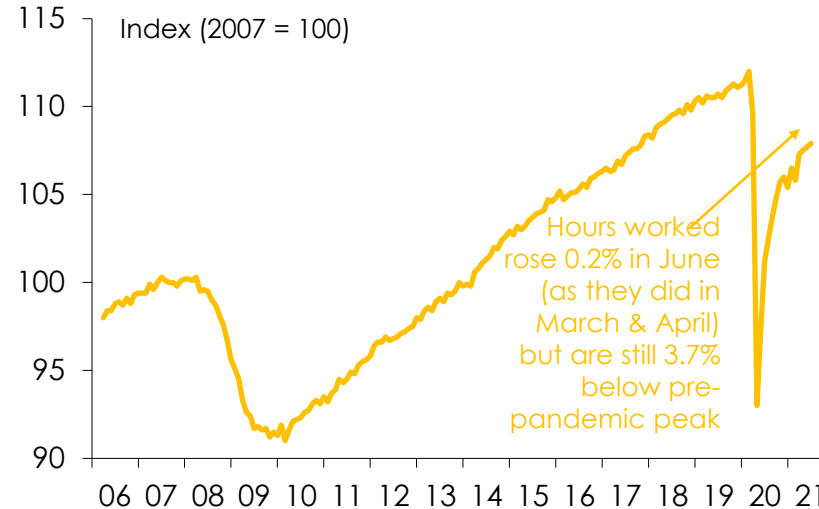


# US non-farm payrolls rose 850K (0.6%) in June but are still 6.8mn (4.4%) below their pre-pandemic peak, and unemployment rose 0.1 pc pt to 5.9%

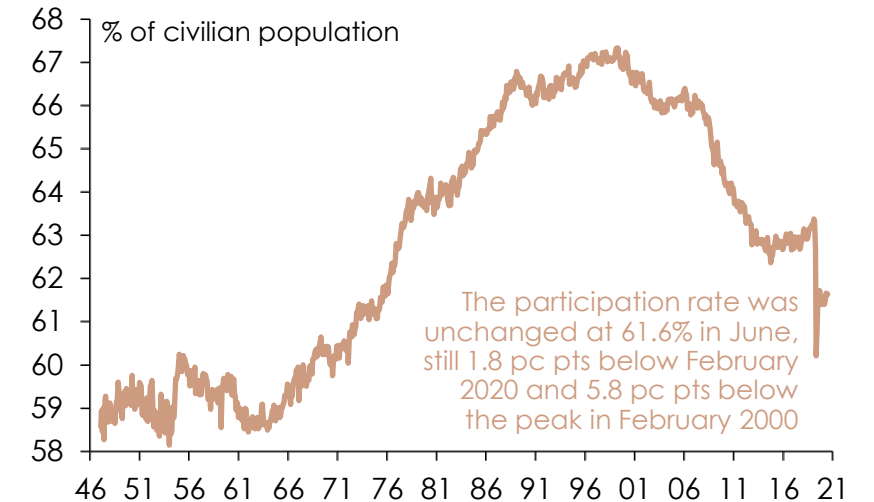
## Unemployment benefit claims



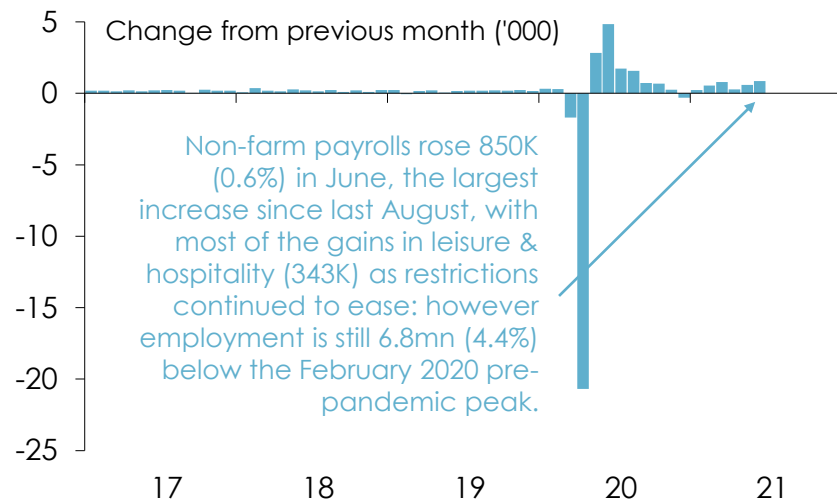
## Hours worked (private sector)



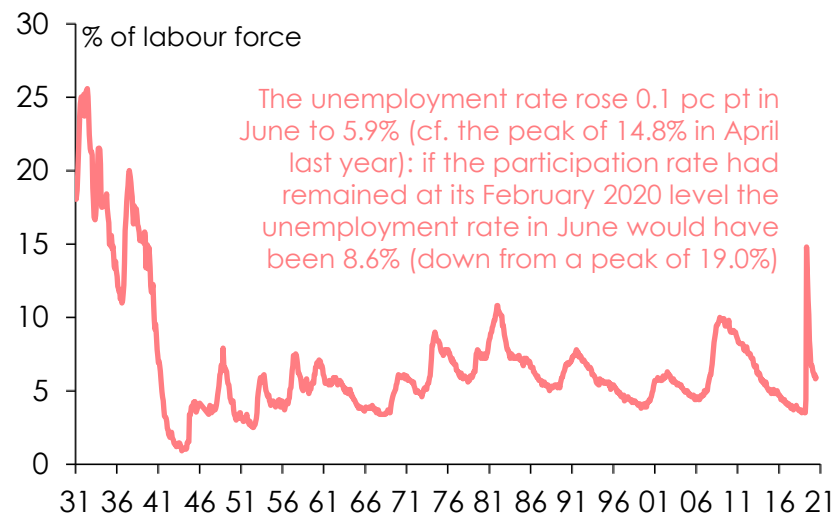
## Labour force participation rate



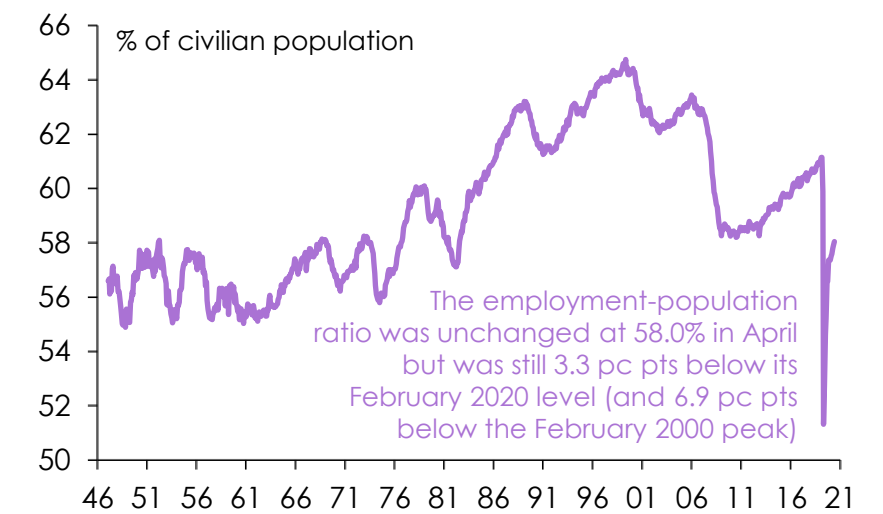
## Non-farm payroll employment



## Unemployment rate

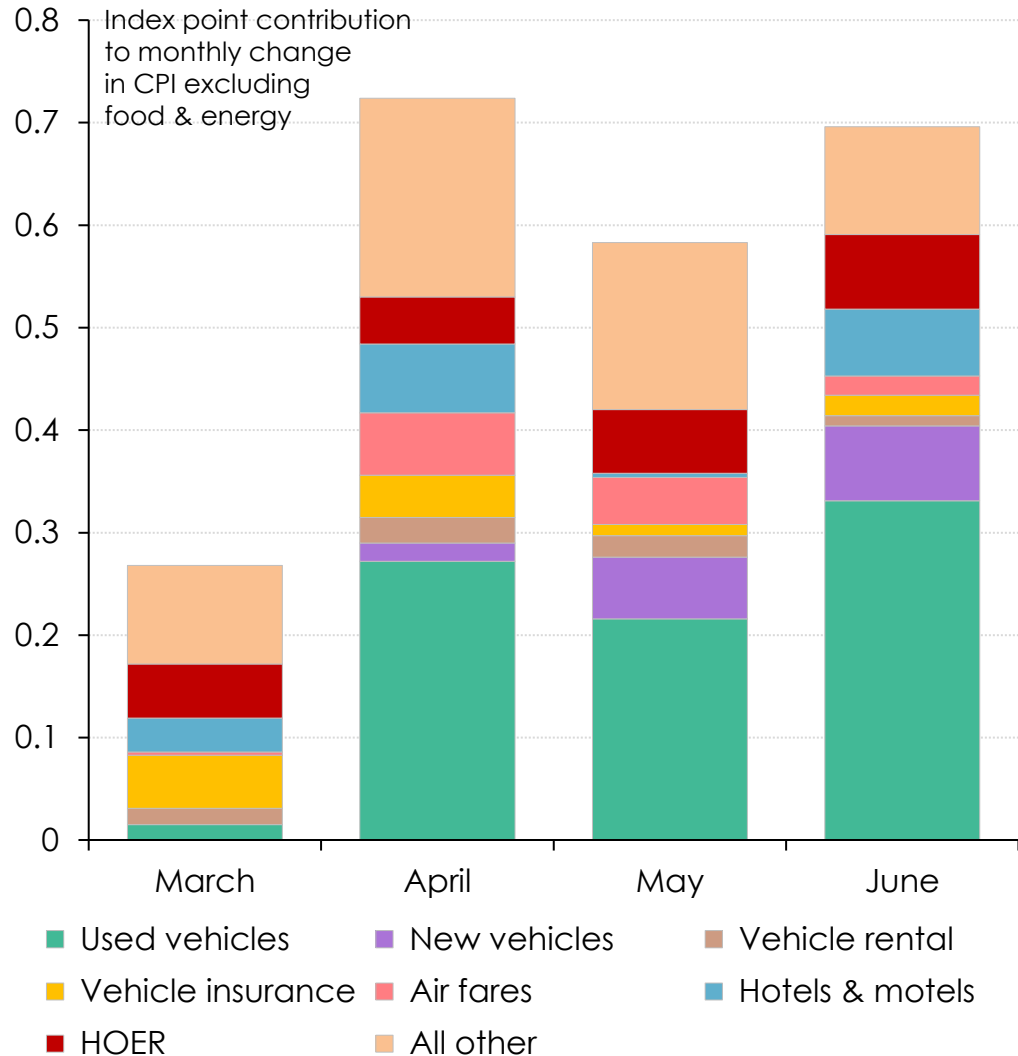


## Employment to population ratio



# 65% of the increase in the 'core' US CPI over the past three months has come from six items which represent 13% 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)

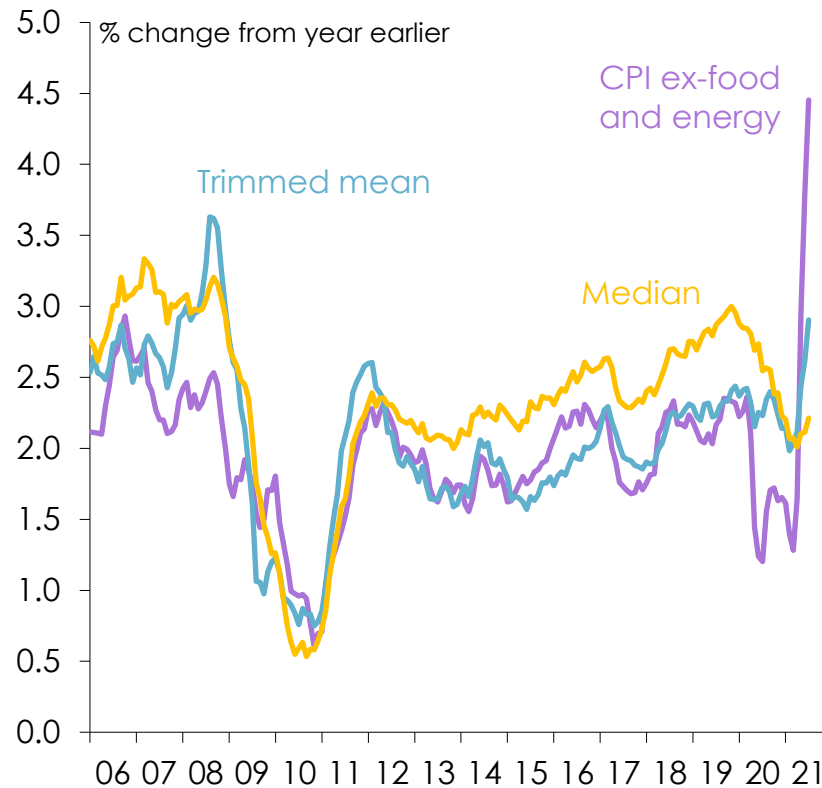


Note: 'HOER' = home-owners' equivalent rent (a measure of the 'imputed rent' notionally paid by owner-occupiers to themselves), and which accounts for 28½% of the CPI excluding food and energy. Source: US [Bureau of Labor Statistics](#), Consumer Price Index Table 6; Corinna. [Return to "What's New"](#).



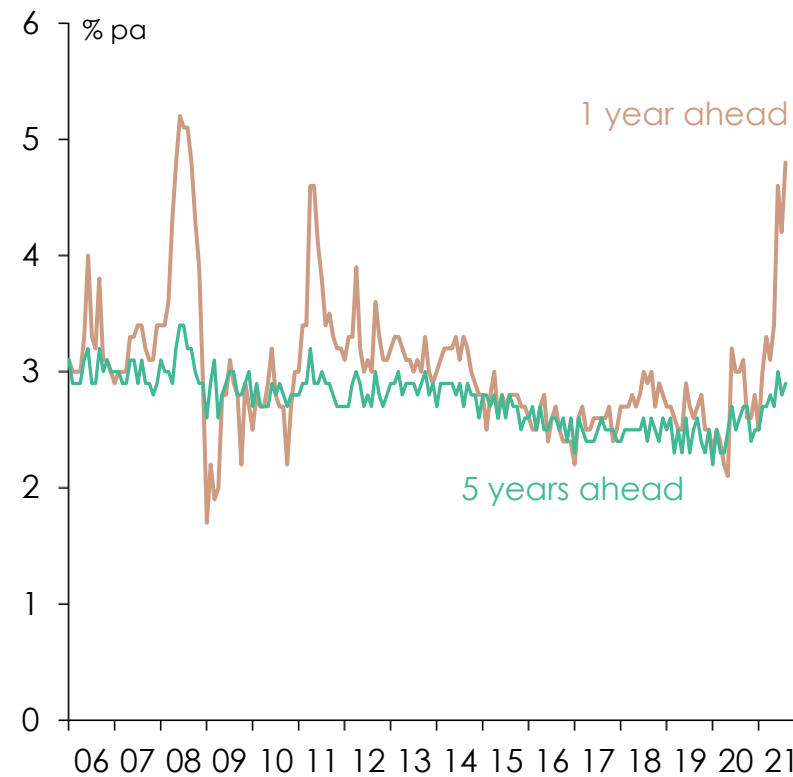
# Statistical measures of 'core' inflation haven't increased very much, nor have longer-term inflation expectations, and market concerns have eased

## Statistical measures of annual 'core' inflation in the US



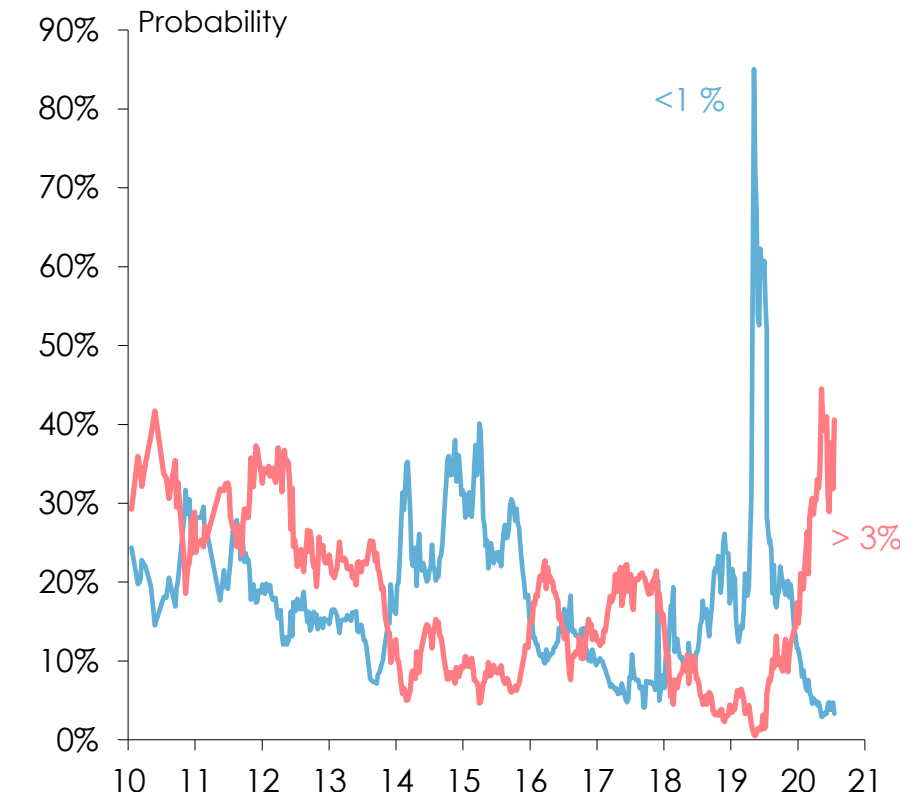
- ❑ Statistical measures (similar to those used by the RBA) confirm that the rise in 'core' inflation is almost entirely due to 'outliers' (see previous slide)

## Household inflationary expectations



- ❑ Short-term household inflation expectations have risen sharply but longer-term expectations remain 'well anchored' (which is important for the Fed)

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

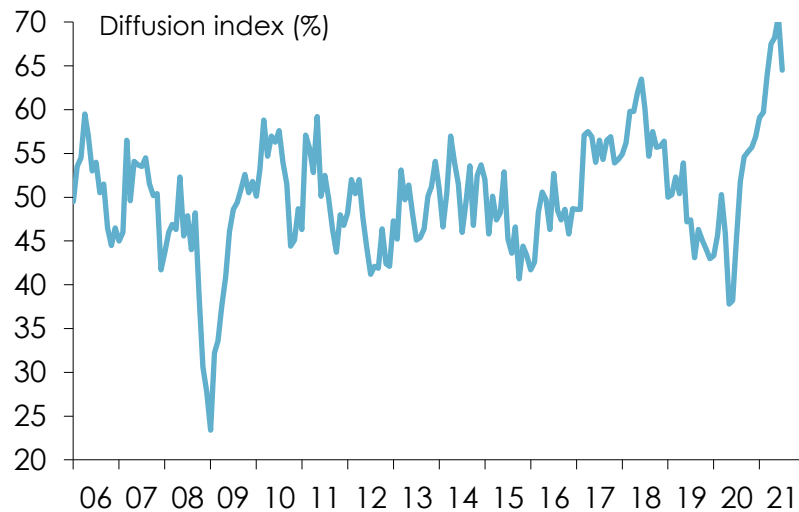


- ❑ As of mid-July options pricing imply markets are giving a 41% probability to inflation exceeding 3% in 5 years' time, down from a peak of 44% in early May

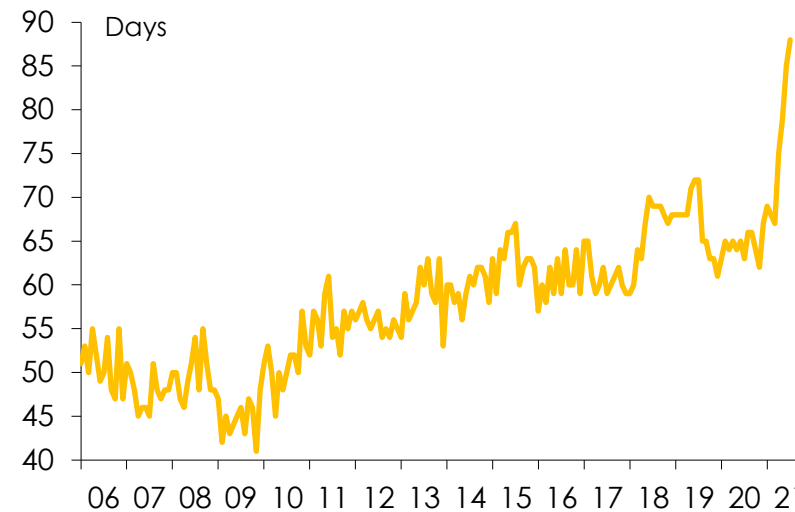
Note: The 'trimmed mean' CPI inflation rate excludes the components of the CPI whose weights fall in the top and bottom 8% of the distribution of price changes; the median is the component whose price change is in the middle of the distribution of price changes. 'Market-implied probabilities' of higher or lower inflation are derived from options pricing (latest data is for 7<sup>th</sup> July). Sources: [US Bureau of Economic Analysis](#); [Federal Reserve Bank of Cleveland](#); [Michigan University Survey Research Center](#); and [Federal Reserve Bank of Minneapolis](#). [Return to "What's New"](#).

# There are some serious supply-chain difficulties in the US – particularly in the auto sector – which will probably persist for some months yet

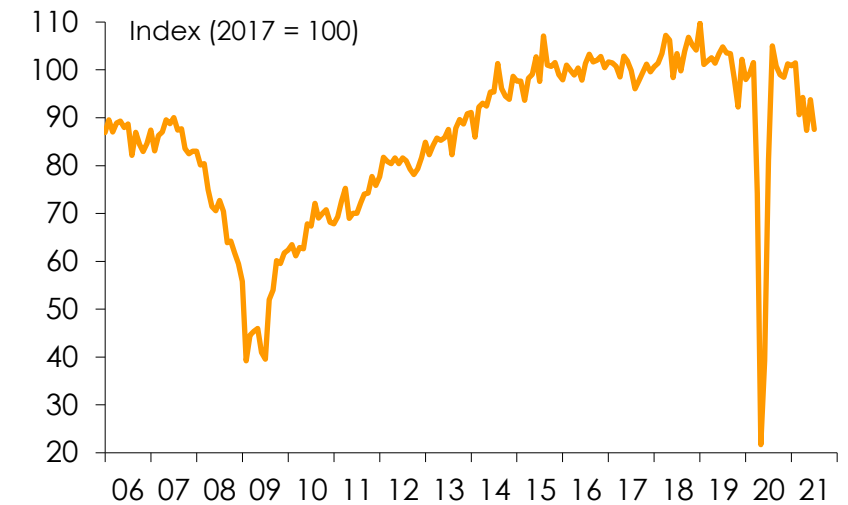
## Manufacturers' order backlogs



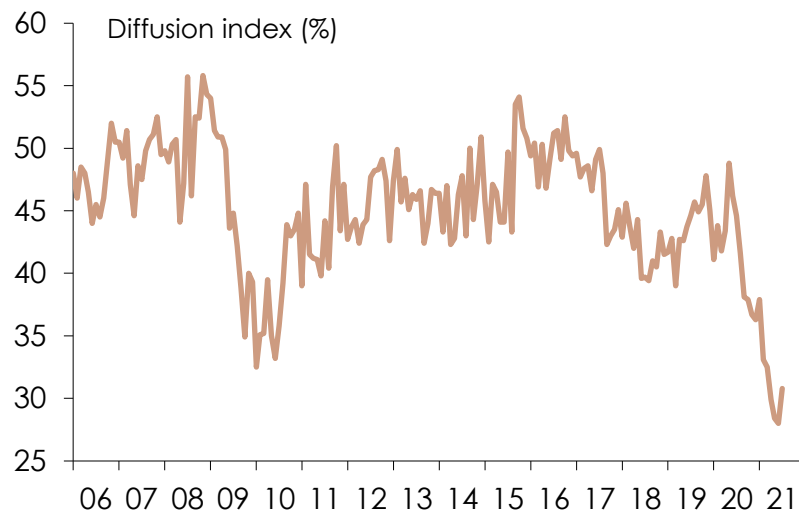
## Lead-time for production materials



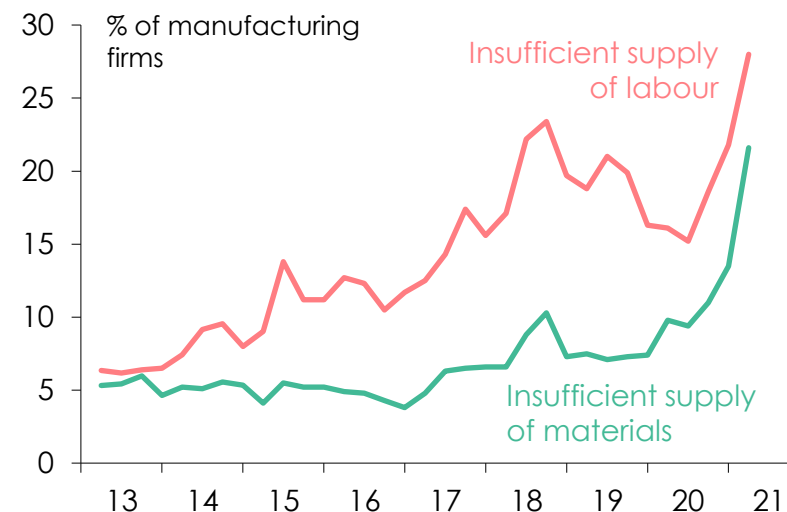
## Motor vehicles & parts production



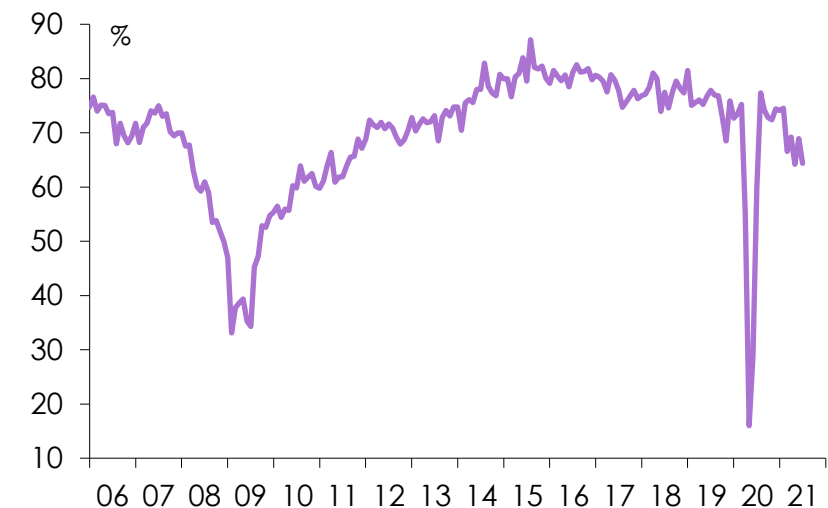
## Manufacturers' customer inventories



## Reasons for < full capacity



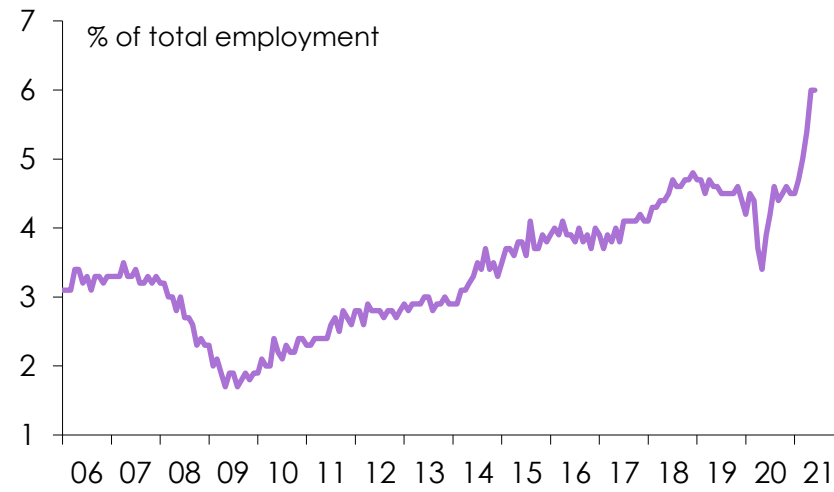
## Auto industry capacity utilization



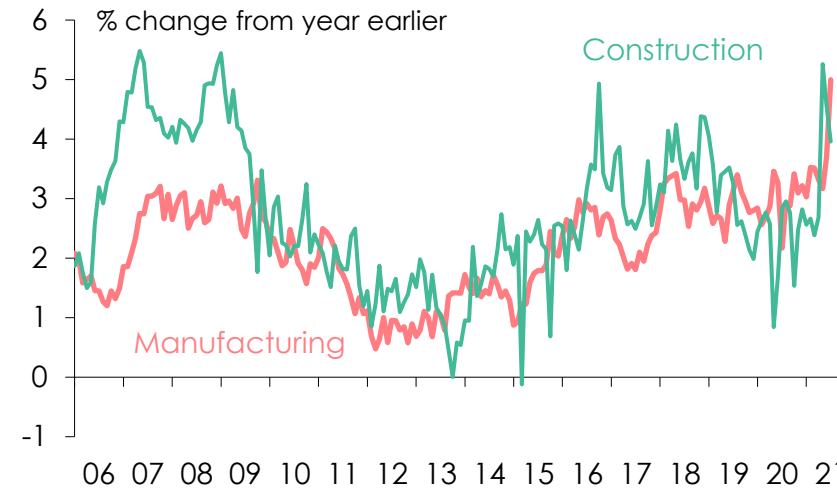
Note: The diffusion index of order backlogs is 50 plus the percentage of respondents reporting longer backlogs minus the percentage reporting shorter backlogs (and similarly for customer inventories). 'Reasons for < full capacity' means reasons for operating at less than full capacity. Sources: Institute for Supply Management, [Report on Business](#); US Census Bureau, [Quarterly Survey of Plant Capacity Utilization](#); Board of Governors of the Federal Reserve System, [Industrial Production and Capacity Utilization - G17](#). [Return to "What's New"](#).

# The US labour market appears to be tightening, and wages are rising in some sectors – but there is no evidence of economy-wide wage pressures

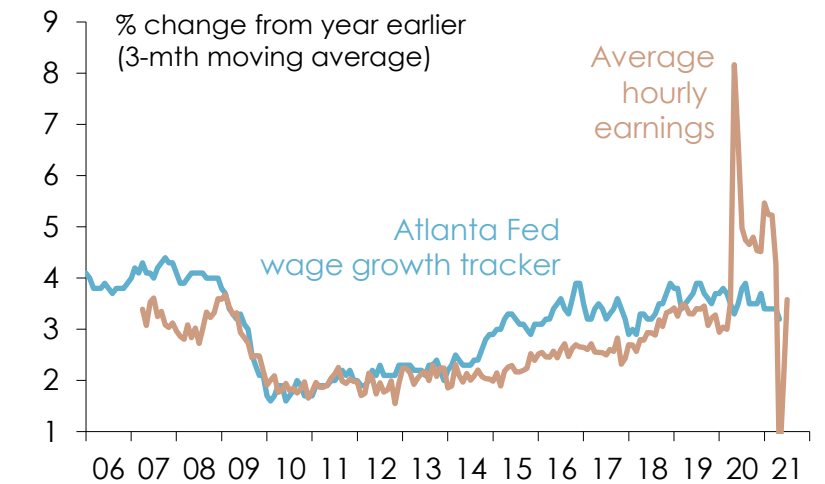
## Job openings



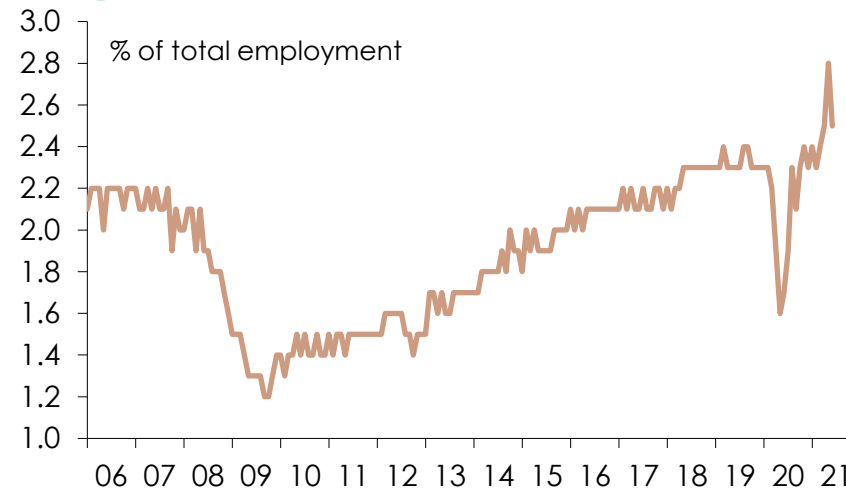
## Average hourly earnings



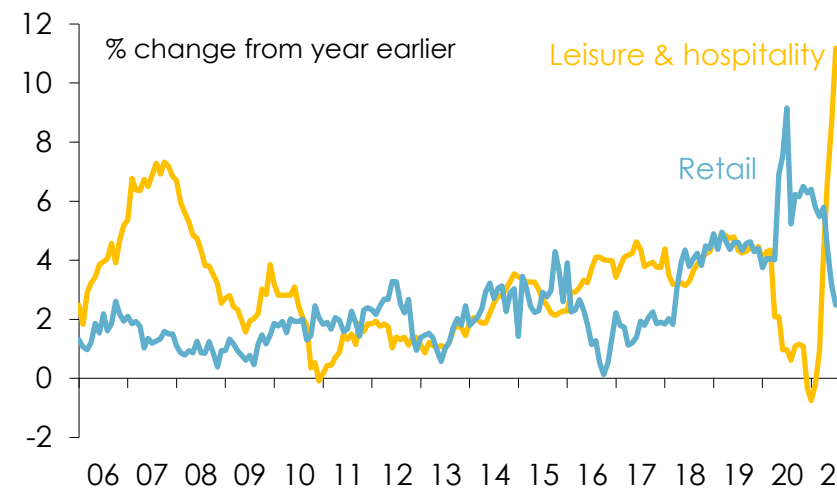
## Overall wages growth - monthly



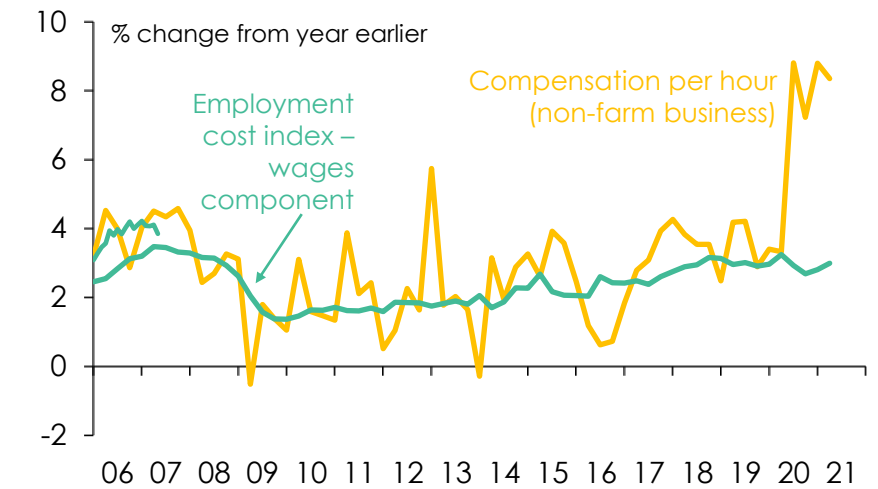
## Quit rate



## Average hourly earnings



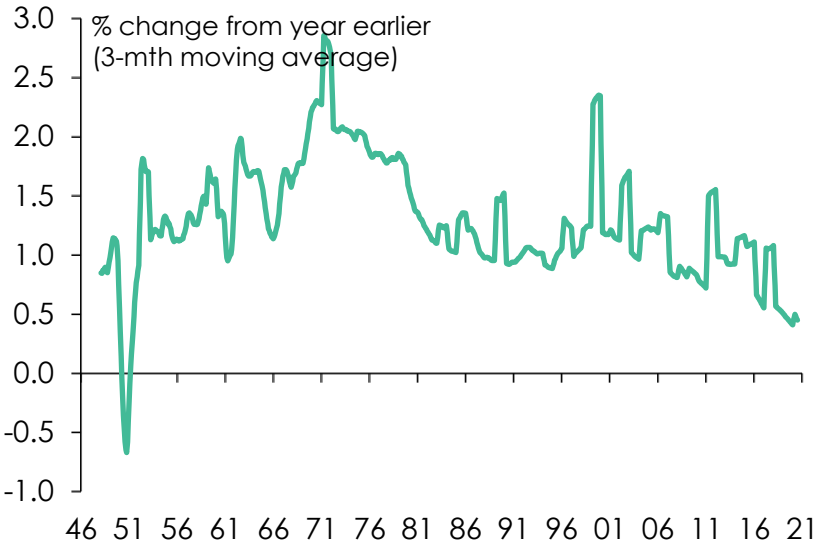
## Wages growth - quarterly



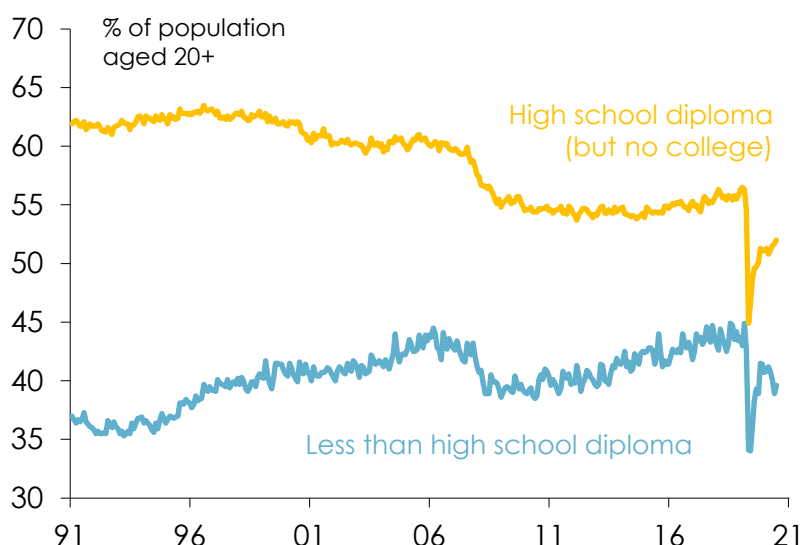
Note: Measures of average hourly earnings (especially the all-industries measures) and of average compensation per hour are affected by changes in the composition of employment (so for example they rose sharply in Q2 2020 when large numbers of low-paid workers were laid off and fell markedly when they returned to work) whereas the Atlanta Fed 'wage growth tracker' (which tracks the wage growth of individuals) and the wages component of the ECI (which is very similar to the ABS' Wage Price Index) are not. Sources: US Bureau of Labor Statistics, [Job Openings and Labor Turnover Survey](#), [Current Employment Statistics](#), [Employment Cost Trends](#) and [Labor Productivity and Costs](#). [Return to "What's New"](#).

# US labour market tightness owes a lot to restrictions on immigration, and to barriers to the return to the labour market of specific groups

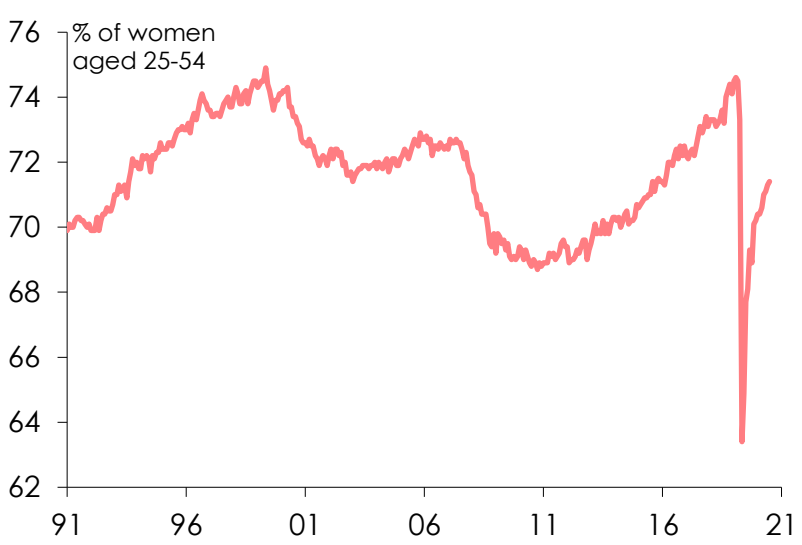
Civilian working age population



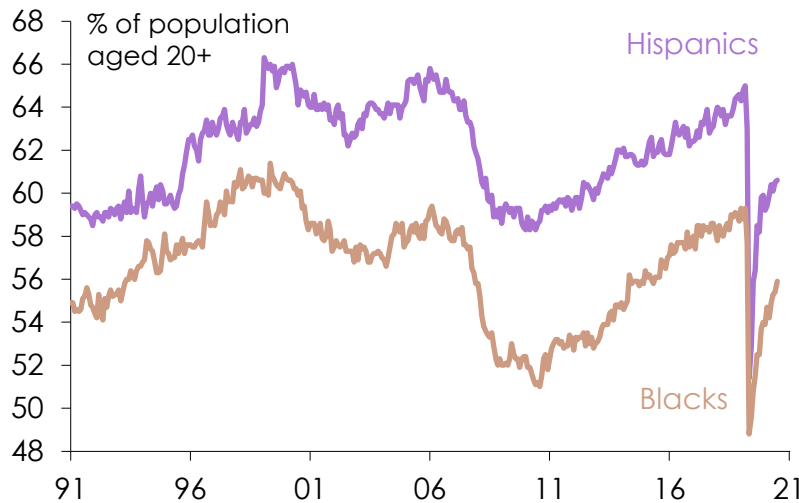
'E-pop' ratio – by education



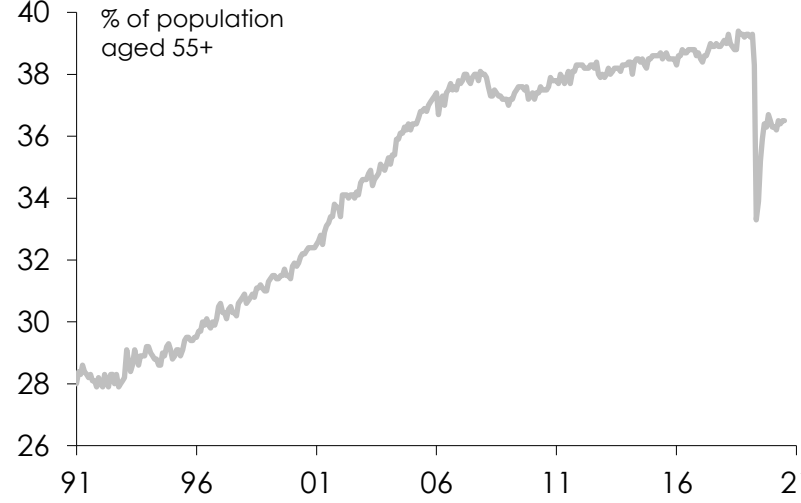
'E-pop' ratio – women 25-54



'E-Pop' ratio – Blacks & Hispanics



'E-pop' ratio – people 55 & over



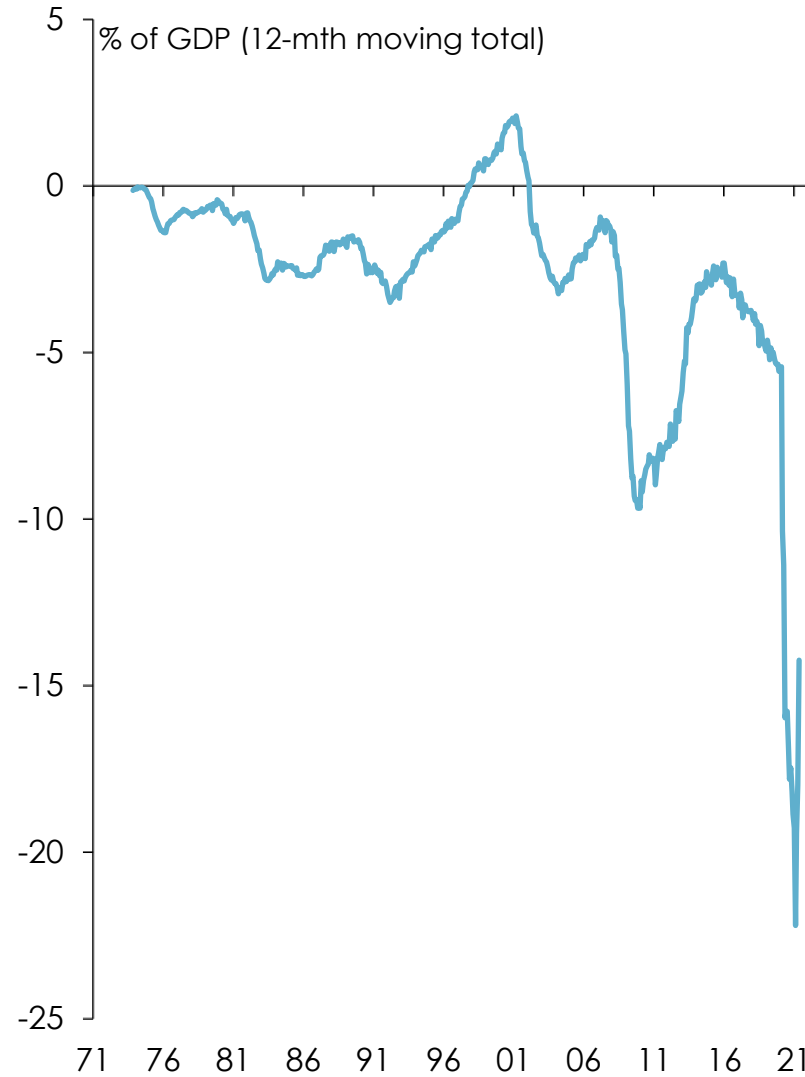
Change from Jan-Feb 2020 to Apr-May 2021(pc of population)

Group	Not in the labor force	Not in the labor force and caregiving
All individuals aged 16 and older	1.7	.7
Women aged 25 to 54 without children	1.8	1.0
Mothers aged 25 to 54 with only children aged 5 and younger	1.4	1.4
Mothers aged 25 to 54 with children aged 6 to 17	2.6	2.6
White	2.7	2.5
Black or African American	2.8	3.6
Asian	2.3	1.3
Hispanic or Latino	5.0	4.0
Fathers aged 25 to 54 with children aged 6 to 17	.7	.6

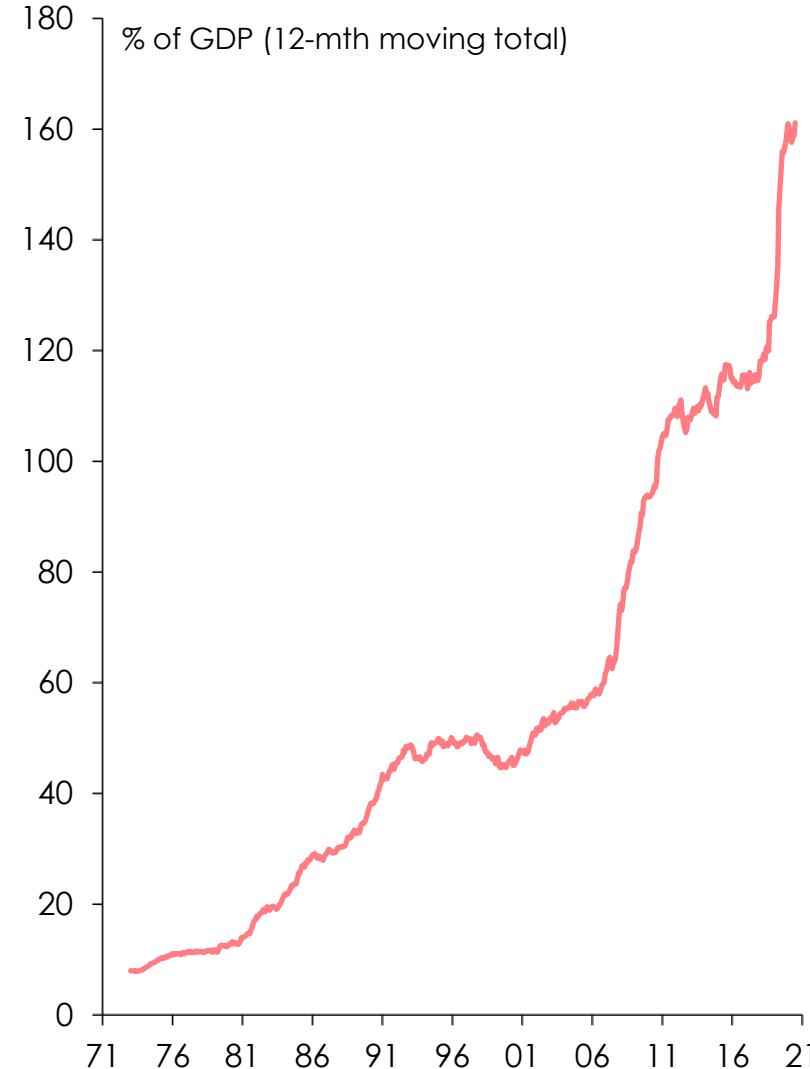
Note: 'E-pop' ratio means employment as a percentage of the civilian (non-institutionalized) population. Sources: US Bureau of Labor Statistics, [Current Employment Statistics](#); Board of Governors of the Federal Reserve System, [Monetary Policy Report - July 2021](#). [Return to "What's New"](#).

# The US budget deficit is now starting to decline as economic recovery boosts tax revenues while spending growth slows

## US Federal budget deficit



## US gross Federal debt



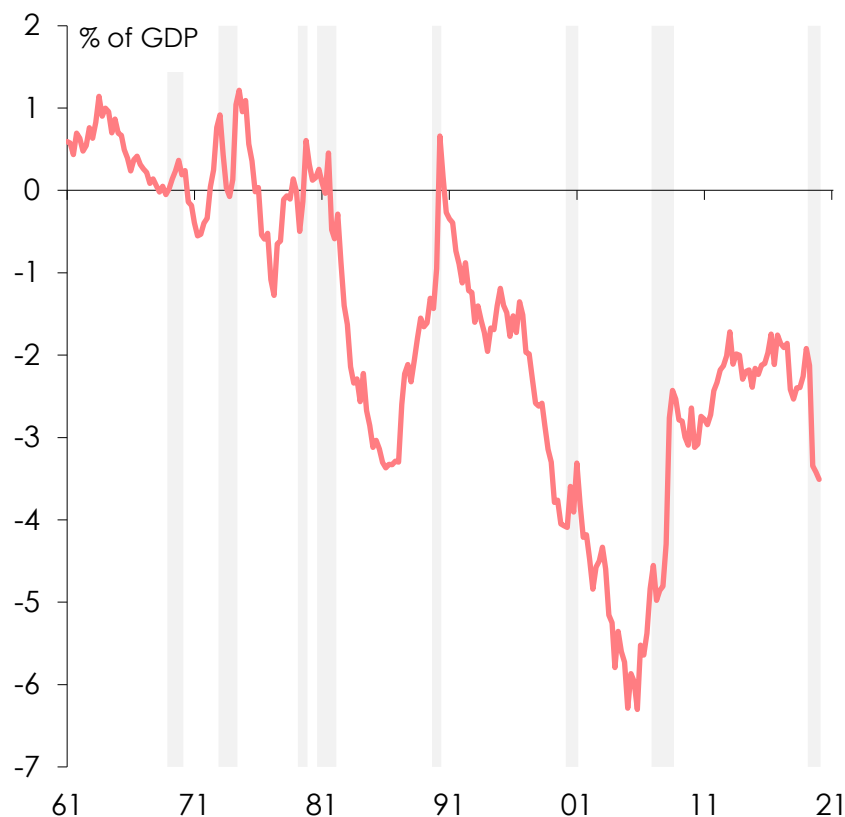
- ❑ The US Federal Government budget deficit widened by US\$42bn to \$174.2bn in June – although that was a lot less than last June's \$864bn
- ❑ The deficit for the 12 months ended June was US\$2.6 trn, down from a peak of \$4.1 trn in the 12 months ended March, and from \$3.0 trn in the 12 months to June last year
- ❑ Revenue in the 12 months ended June was 35.5% higher than in the previous 12 months, whereas outlays were up by 'only' 12.2%
- ❑ The 'face value' of gross federal debt outstanding rose by US\$330bn (to \$28.5 trn) in June, reflecting large borrowings by the US Treasury (for much of the current fiscal year the Treasury has been running down cash balances)
- ❑ The market value of gross debt outstanding rose by \$431bn to \$29.7 trn (161% of GDP), boosted by falling bond yields
- ❑ Just over 40% of the outstanding debt is held by US Government trust funds or the Federal Reserve: the amount in private (including foreign) hands is US\$17.7 trn (96% of GDP)

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"](#).



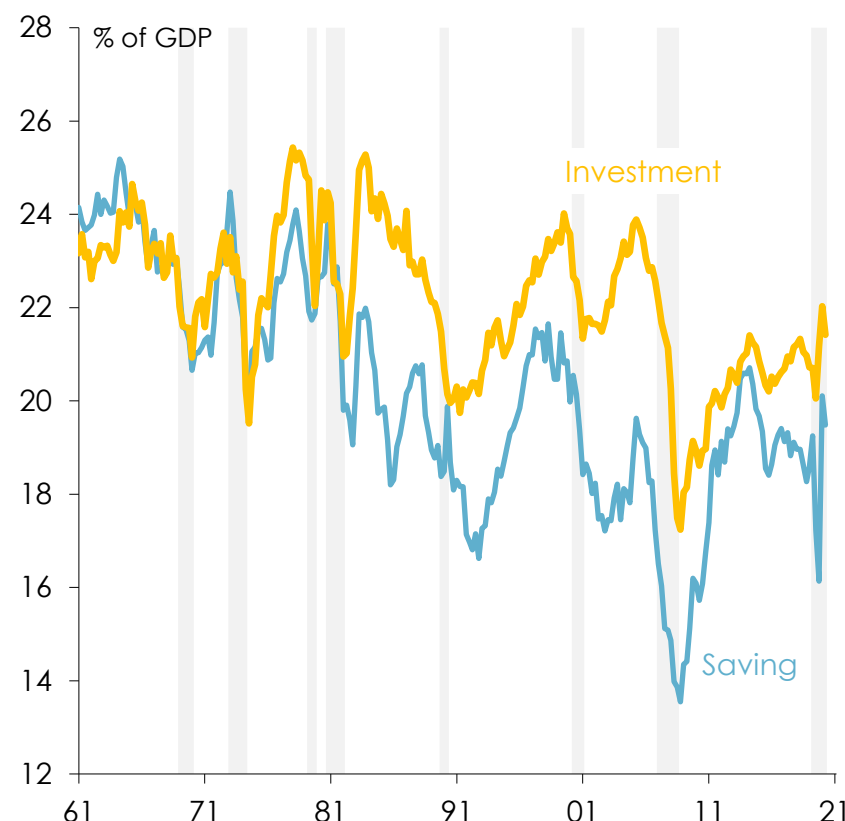
# Unusually, the US current account deficit has widened so far during this recession, largely because investment hasn't fallen much

## US current account balance



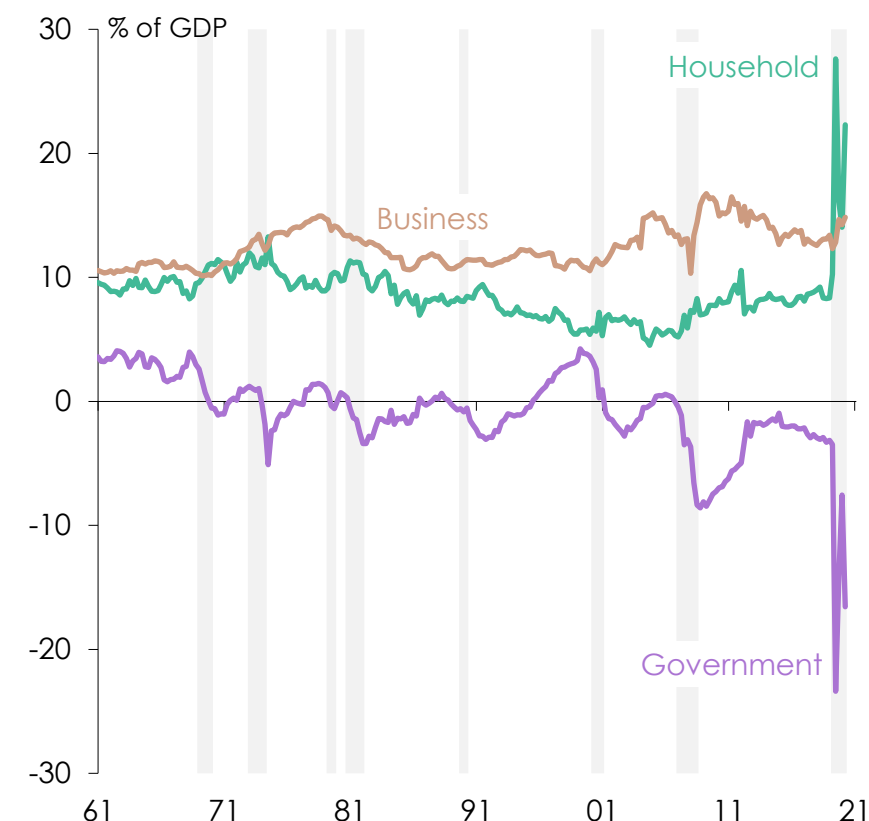
The US current account has *widened* during the recession that began last year – and in Q1 was the largest (as a pc of GDP) since Q4 2008

## 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



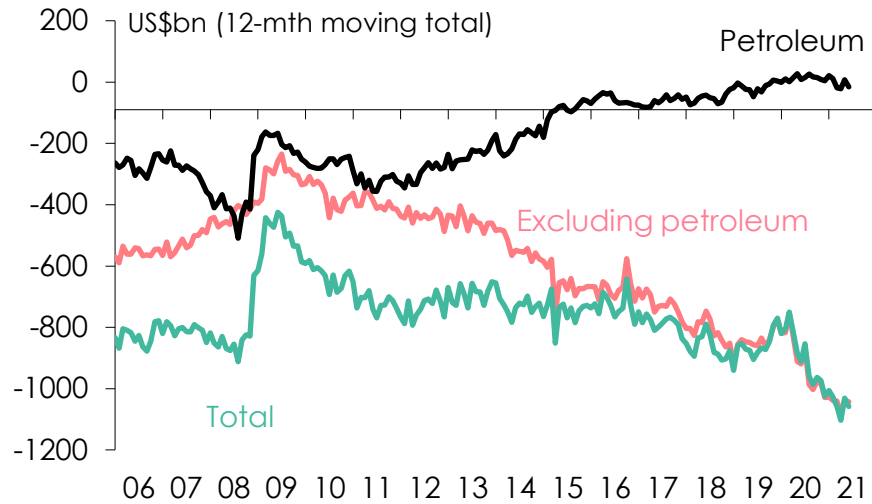
The dramatic increase in the budget deficit has been largely (but not totally) offset by an increase in household saving

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"](#).

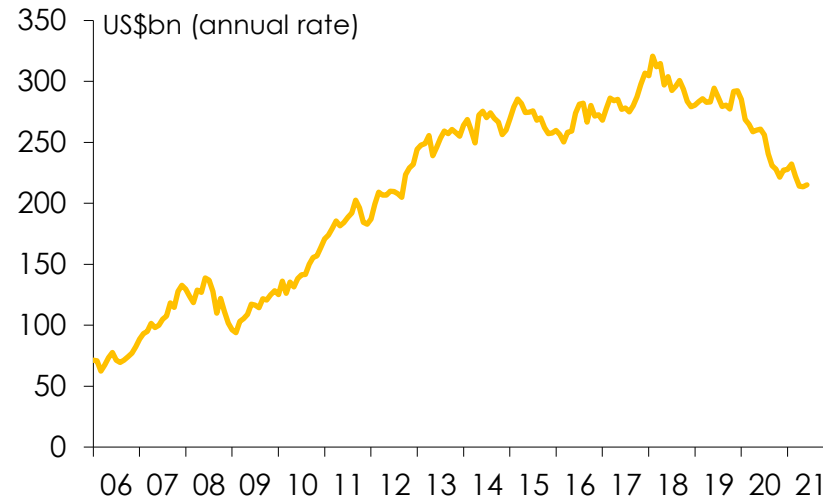


# The US goods and services trade deficit widened to US\$71¼bn in May, the second-highest on record

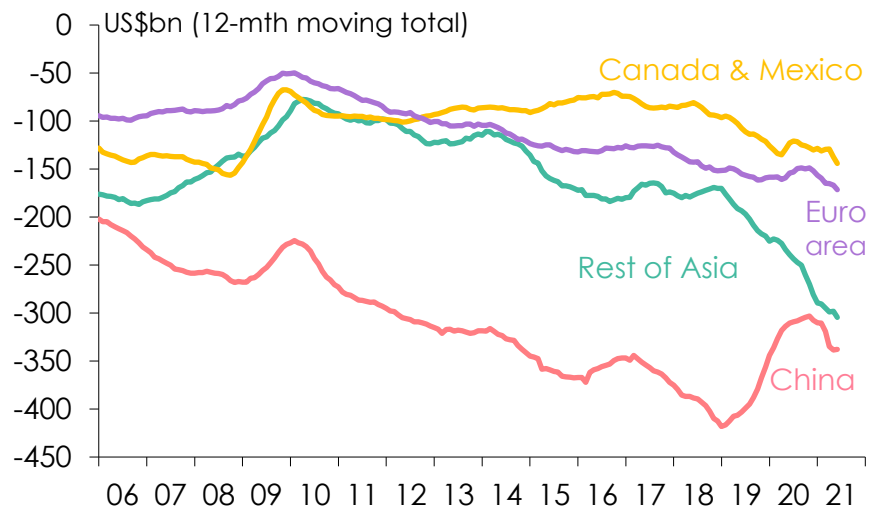
## US goods trade balance



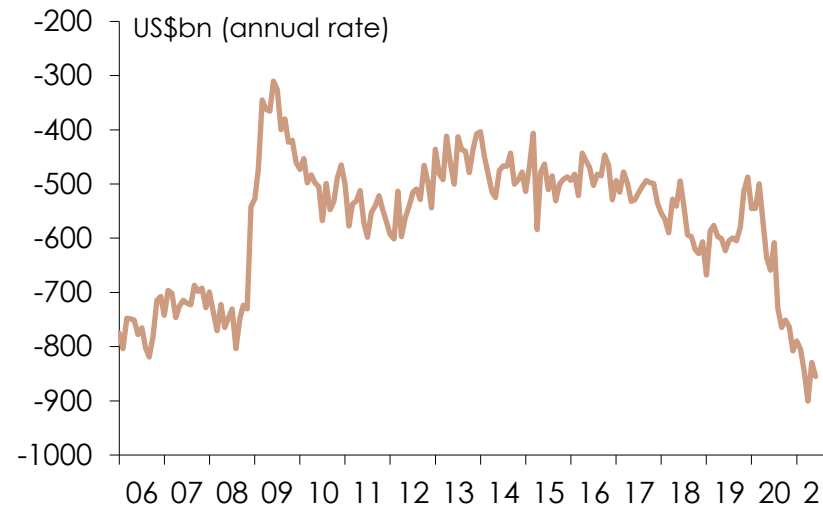
## US services trade balance



## US bilateral goods trade balances



## US goods & services trade balance

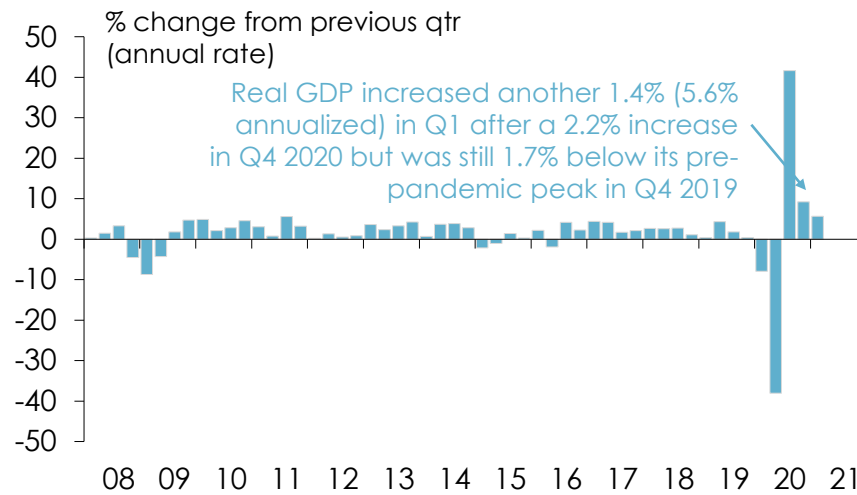


- ❑ The US goods and services trade deficit widened by US\$2bn to \$71.2bn in May
  - this was still the second largest deficit on record (after March's \$75bn)
  - goods & services exports rose 0.6% in May while imports rose 1.3%
  - the increase in the deficit in May was almost entirely due to a swing 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

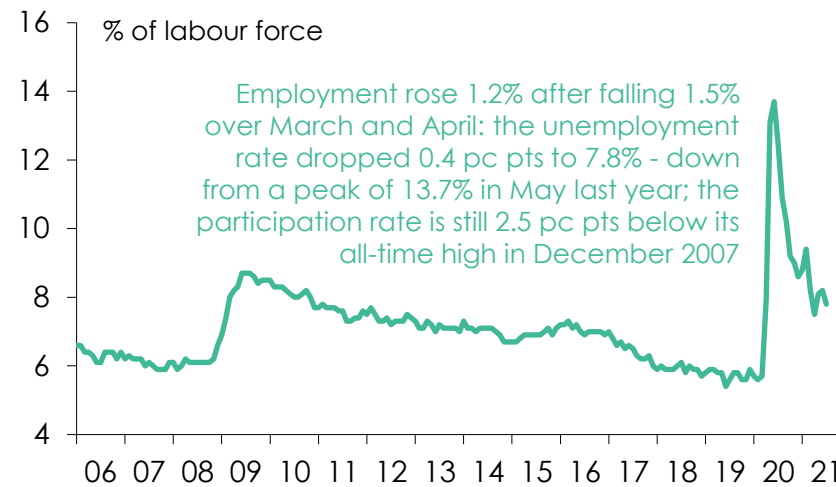
Note: March merchandise trade data are 'advance'. Source: US [Census Bureau](#). [Return to "What's New"](#).

# 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%

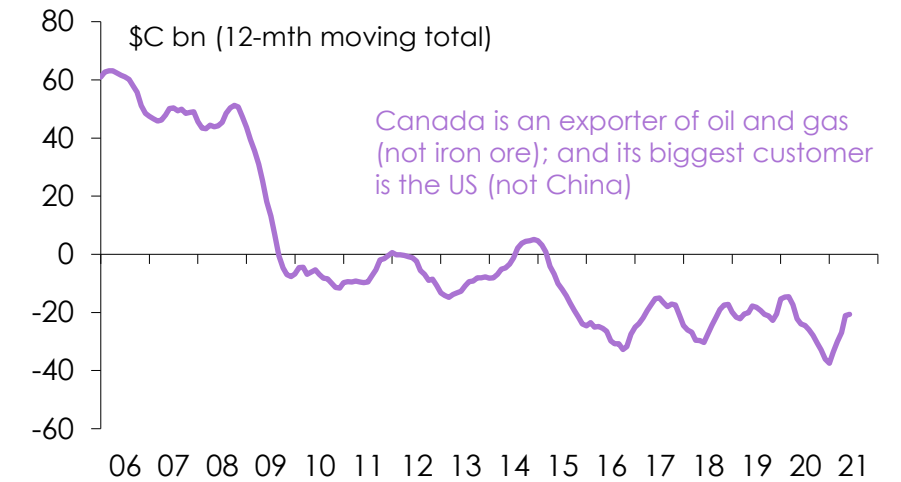
## Real GDP



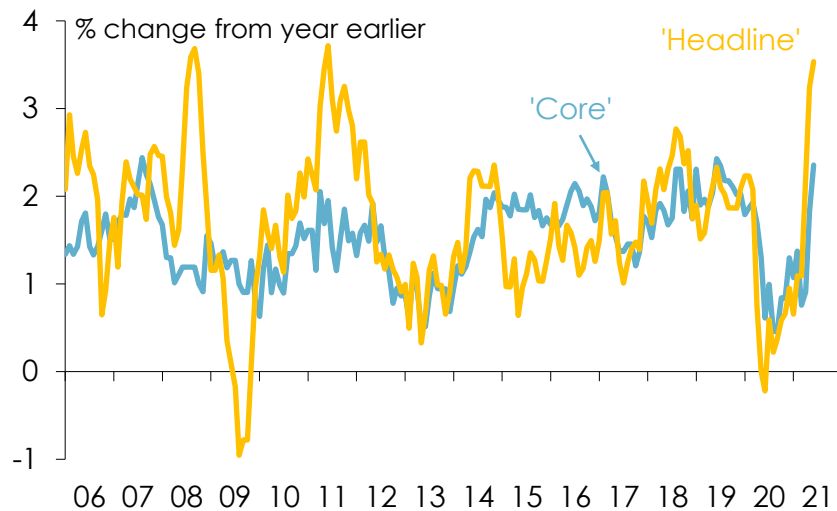
## Unemployment rate



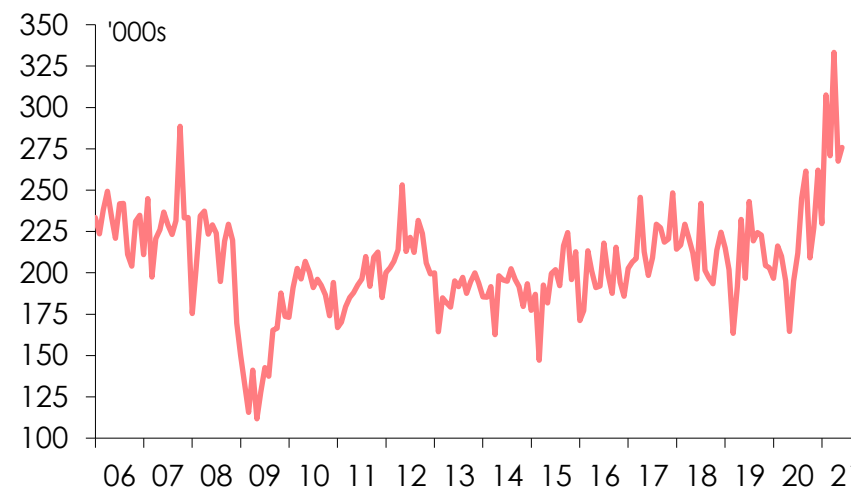
## Merchandise trade balance



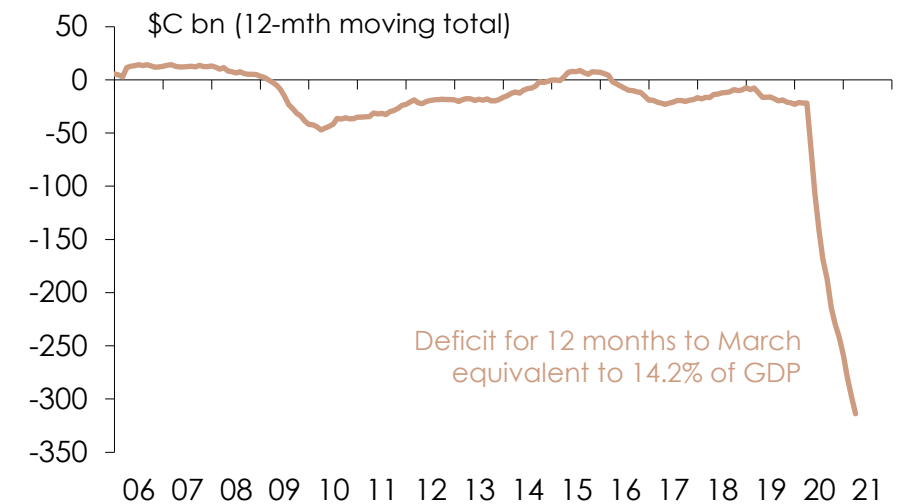
## Consumer prices



## Housing permits



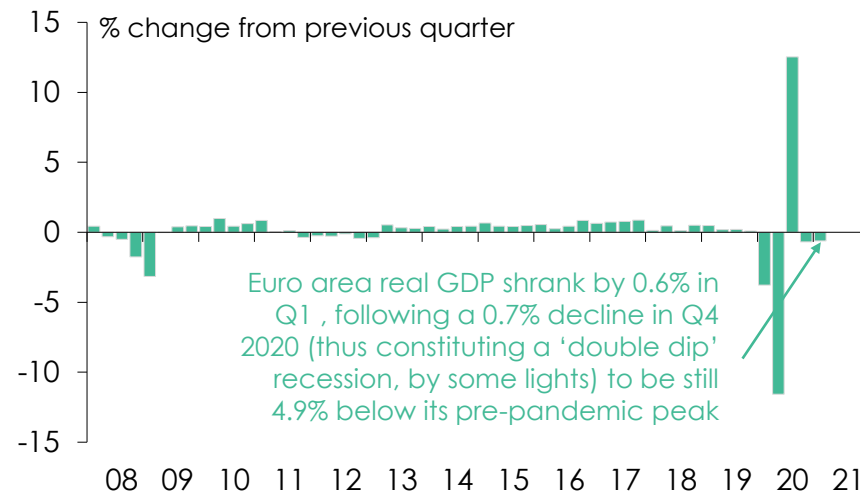
## Federal budget balance



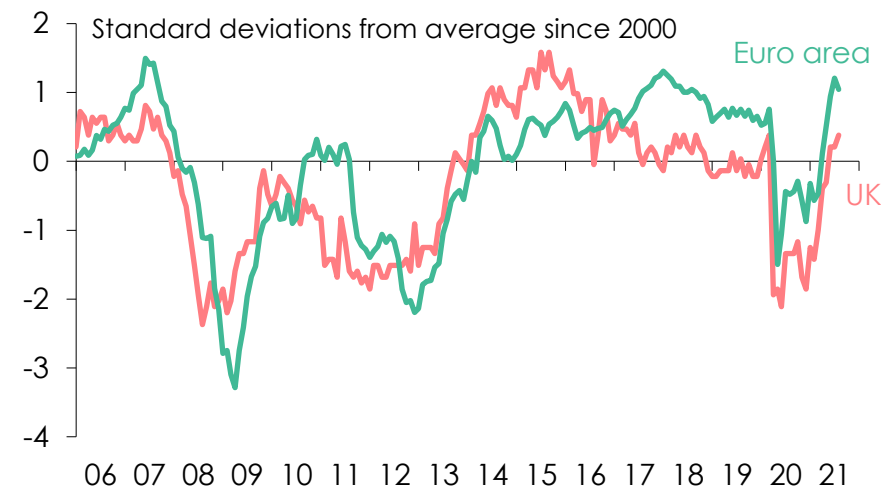
Sources: [Statistics Canada](#); [Teranet-National Bank of Canada](#); [Department of Finance Canada](#). [Return to "What's New"](#).

# 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

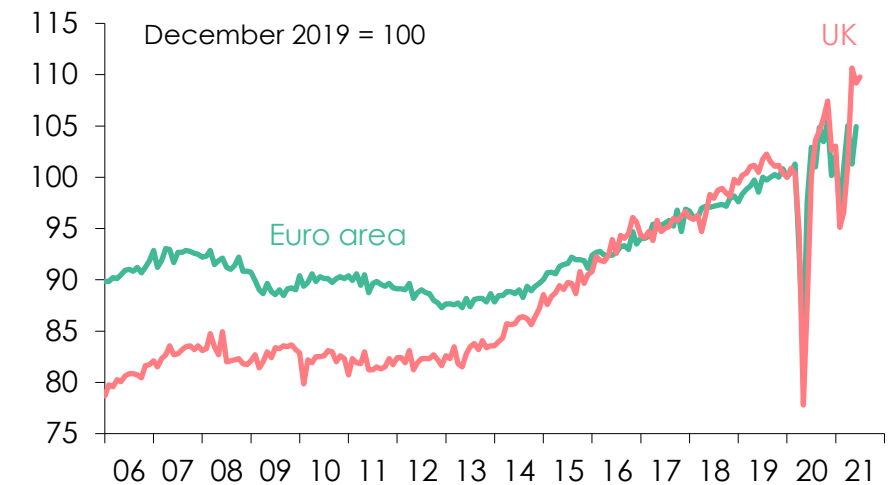
## Euro area real GDP



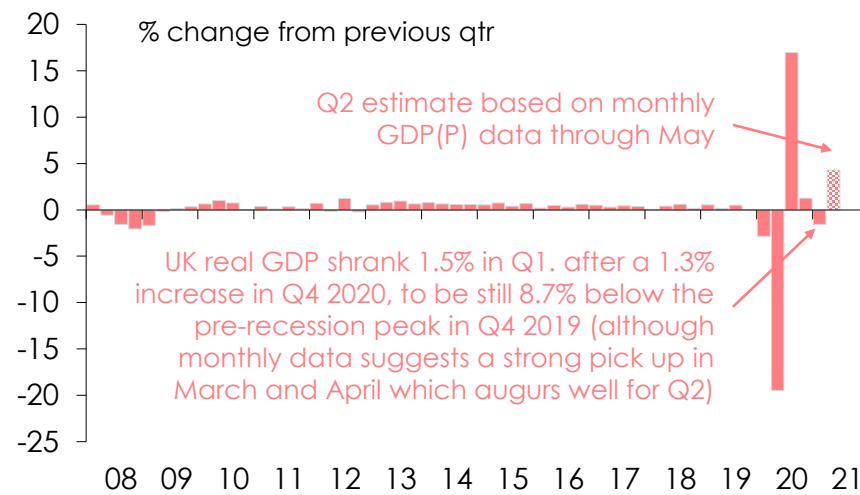
## Consumer confidence



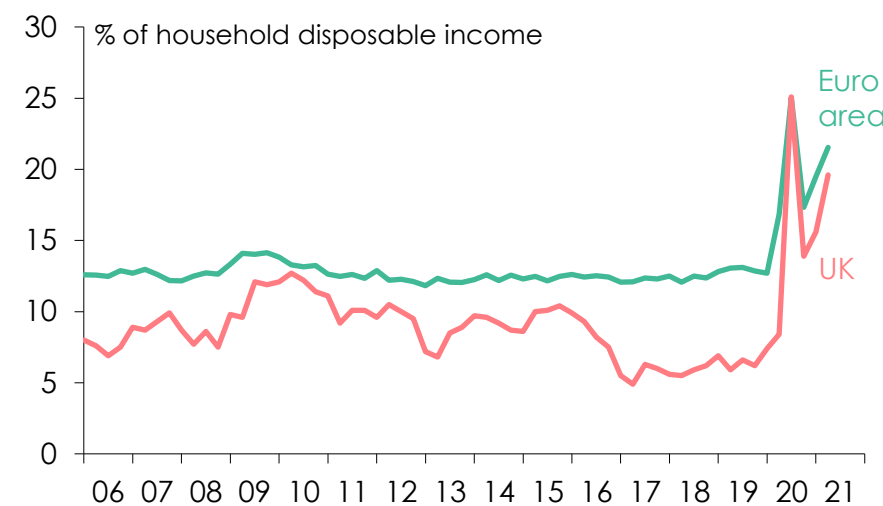
## Retail sales volume



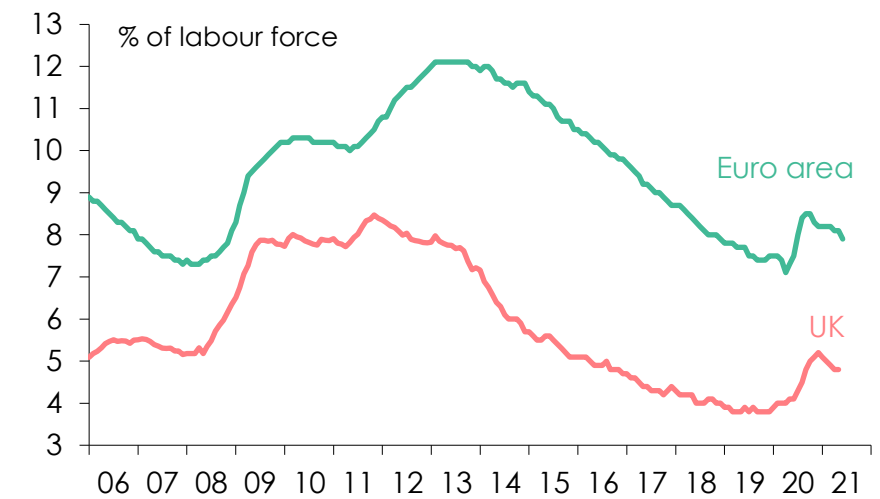
## UK real GDP



## Household saving ratio



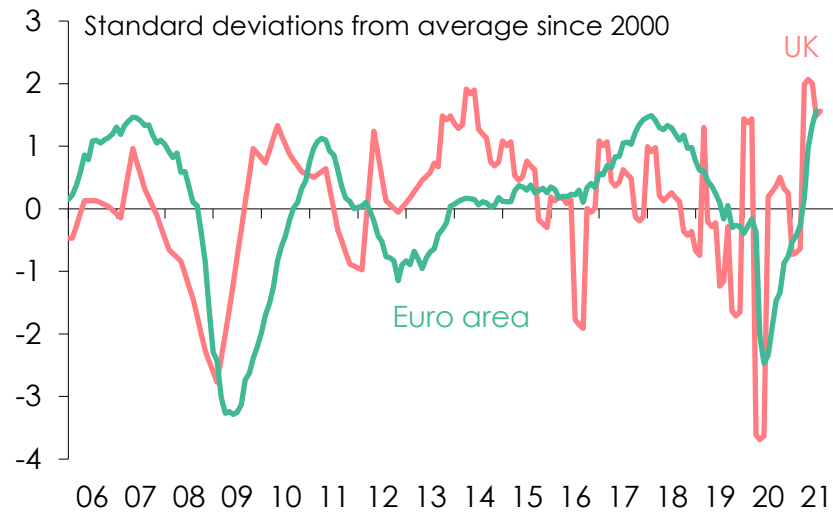
## Unemployment



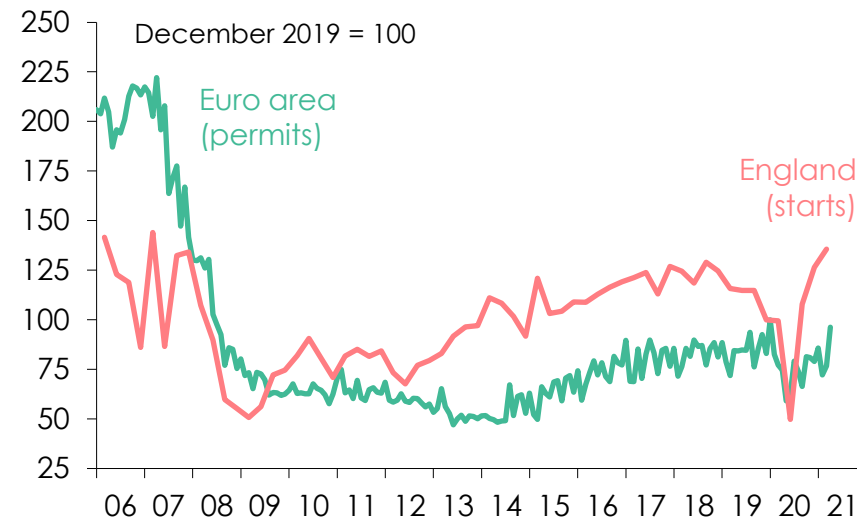
Sources: Eurostat; UK Office for National Statistics; GfK. The UK unemployment rate is published as a 3-month moving average.  
[Return to "What's New".](#)

# The euro area's recovery is stronger than the UK's (except for housing) even though the UK has provided more fiscal stimulus

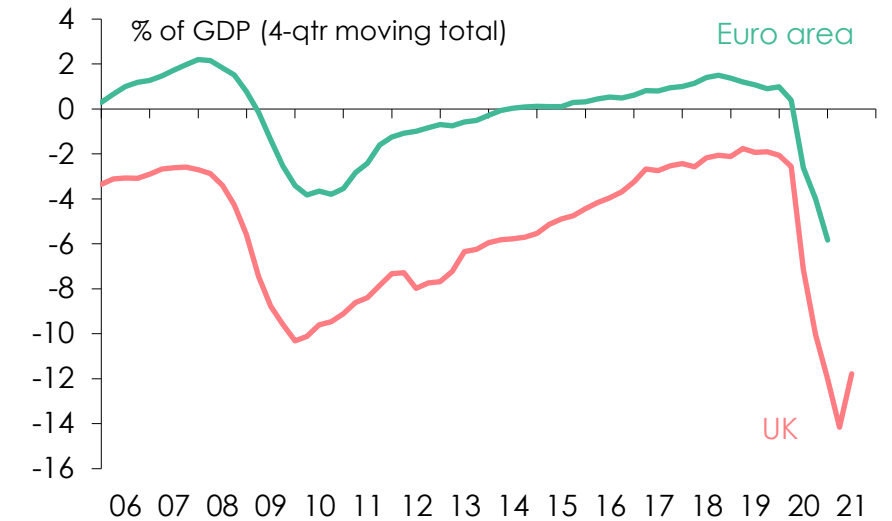
## Business confidence



## Housing activity



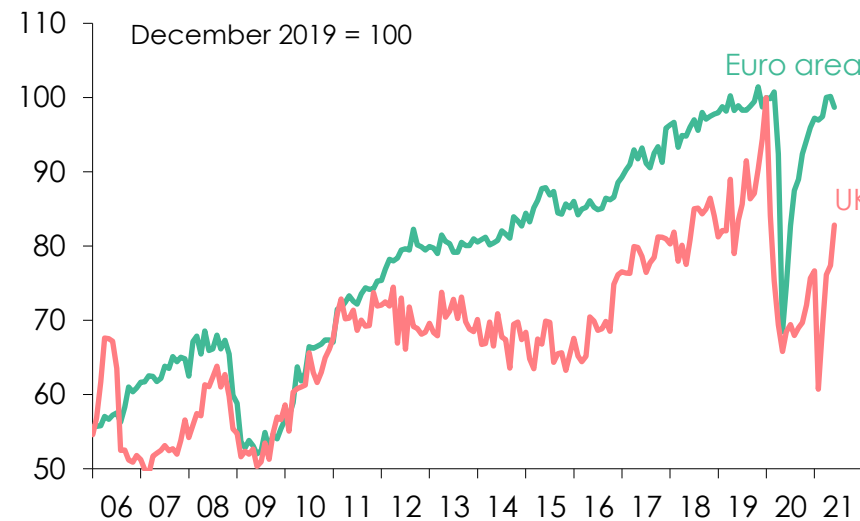
## Government fiscal balance



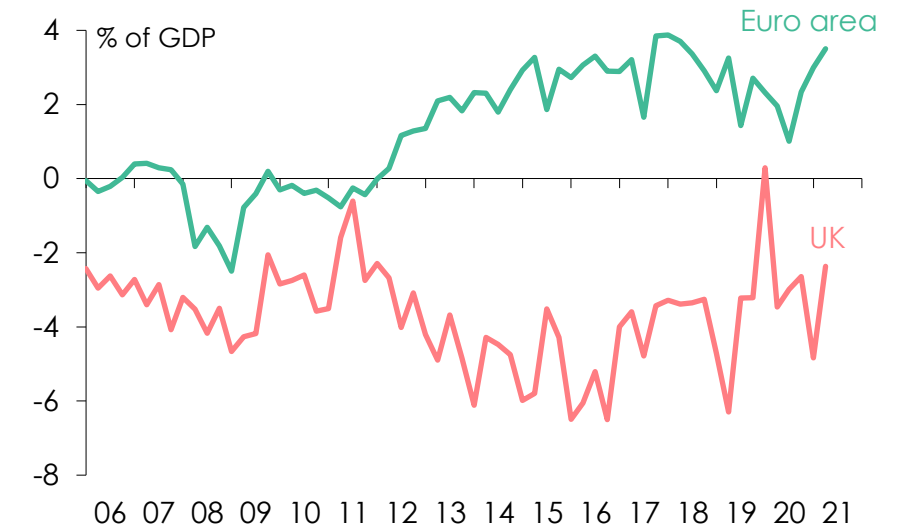
## Manufacturing production



## Merchandise exports

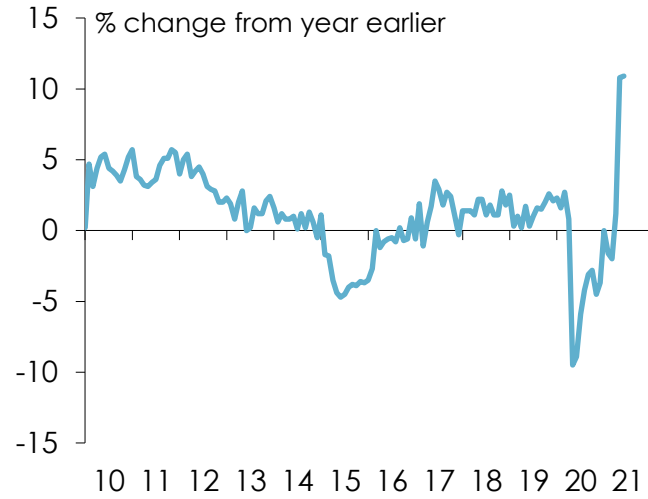


## Current account balance

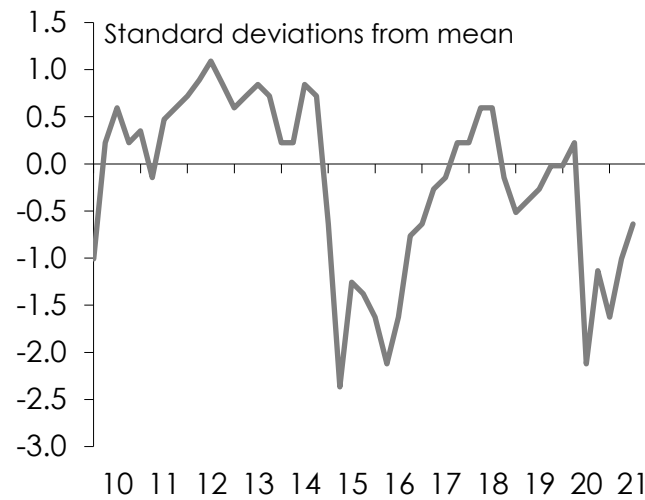


# Russia's economy has regained its pre-pandemic level of economic activity and inflation has risen significantly

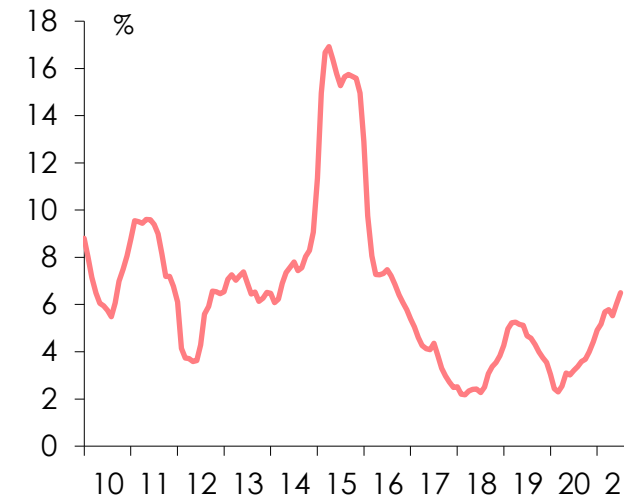
## Real GDP growth



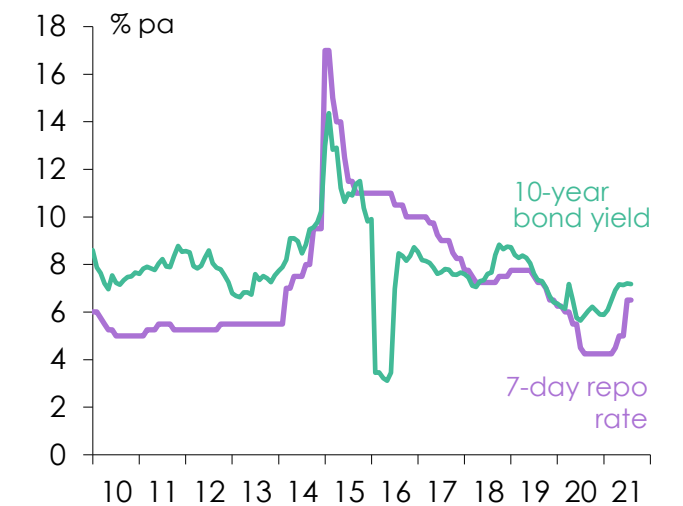
## Consumer confidence



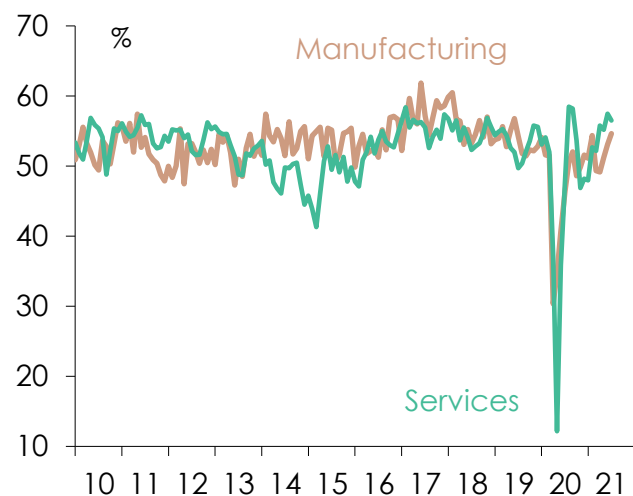
## Inflation



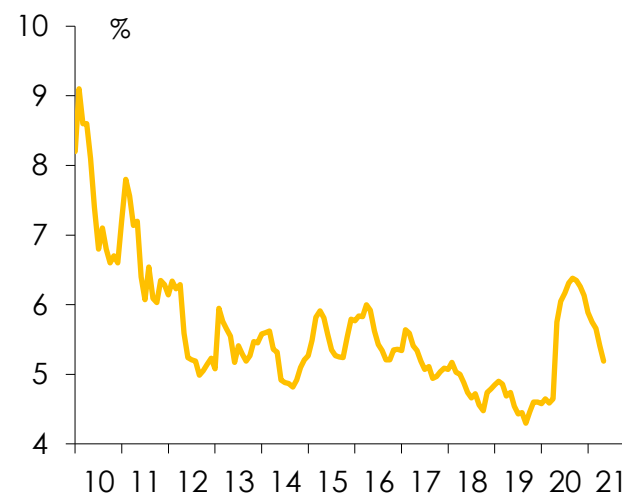
## Interest rates



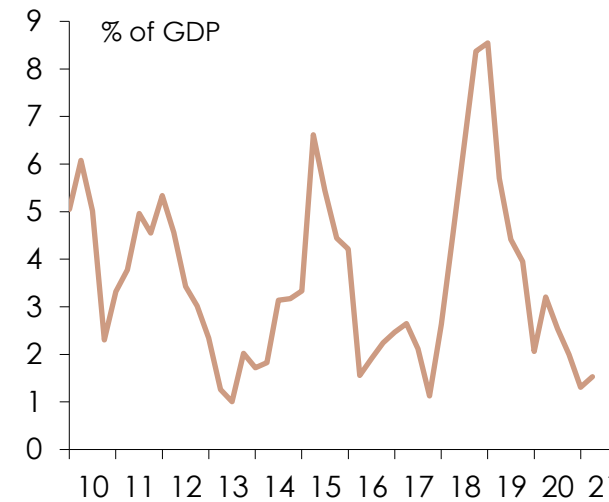
## PMIs



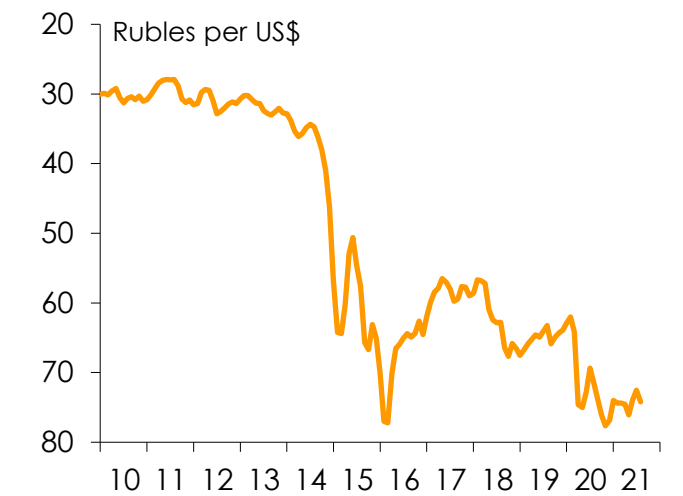
## Unemployment



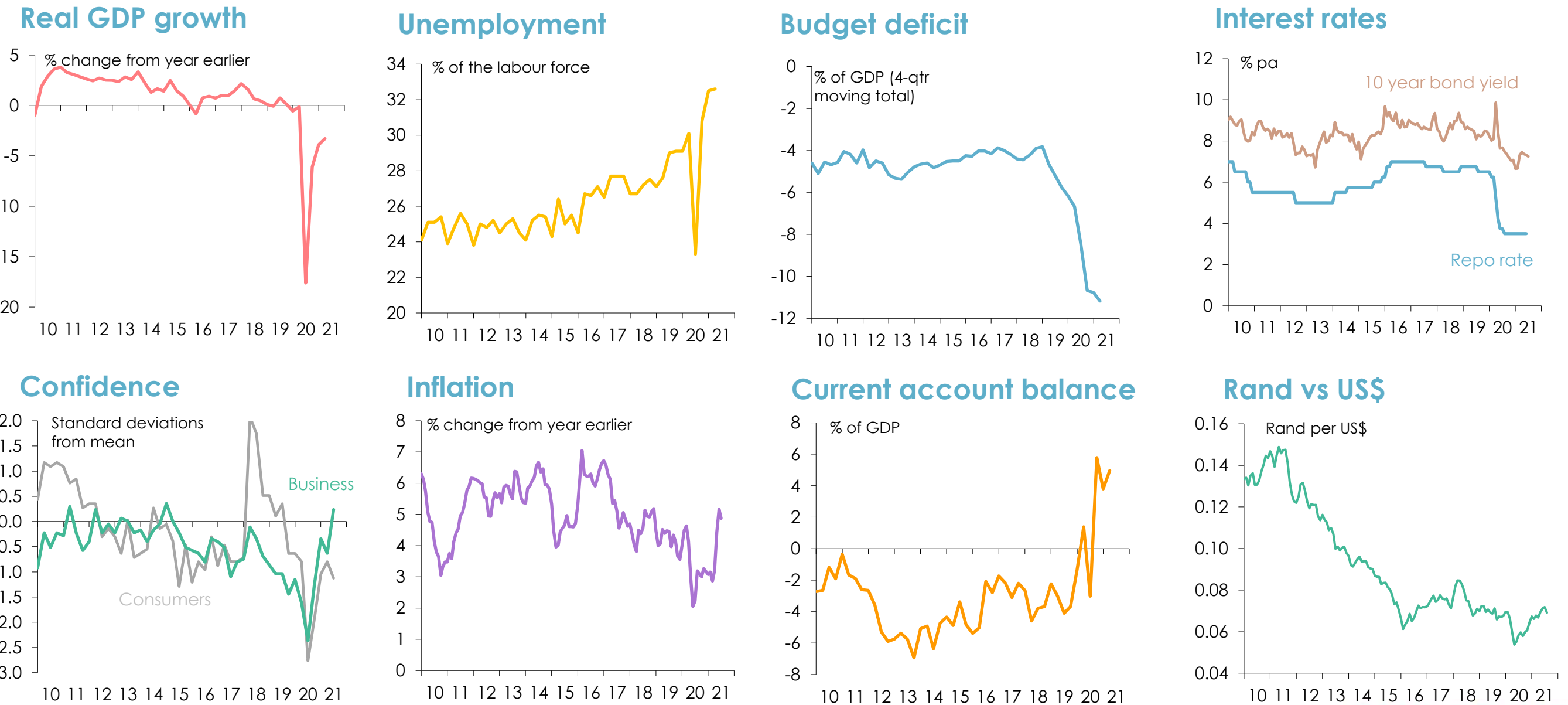
## Current account balance



## Ruble vs US\$



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

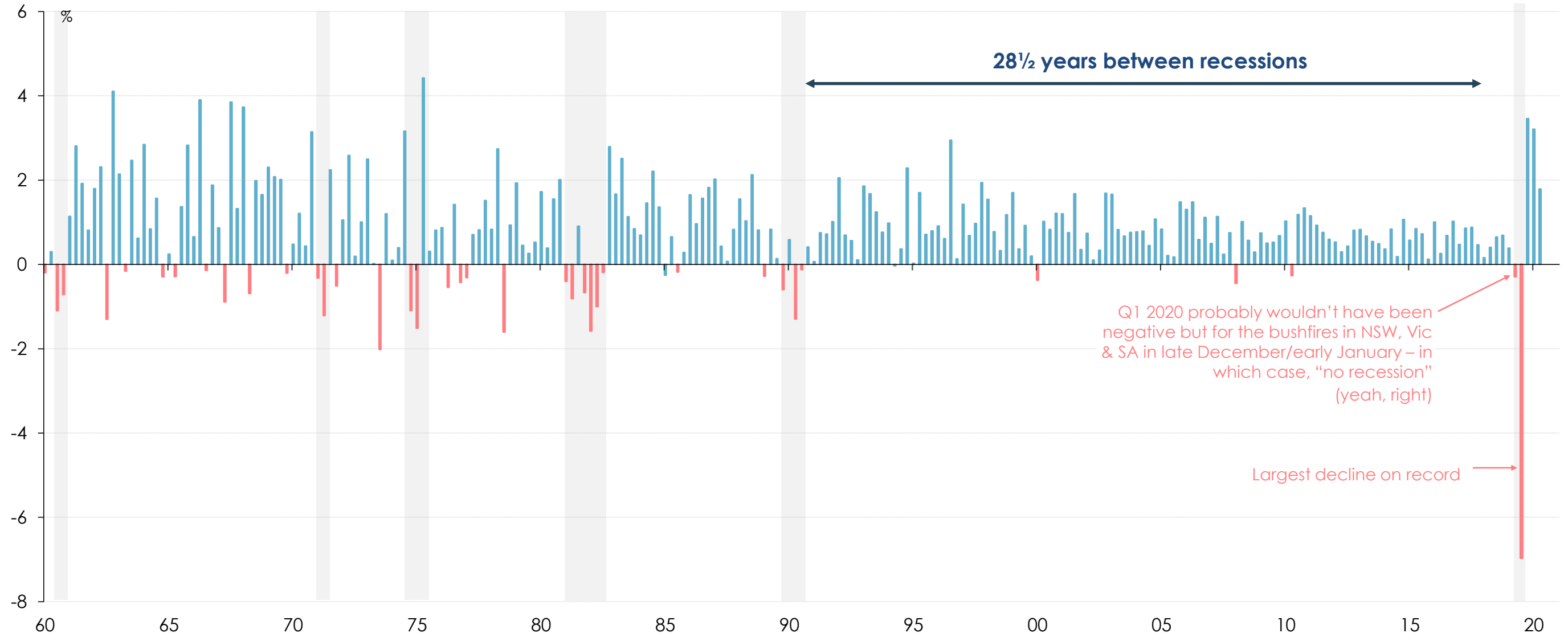




**Australia**

# 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

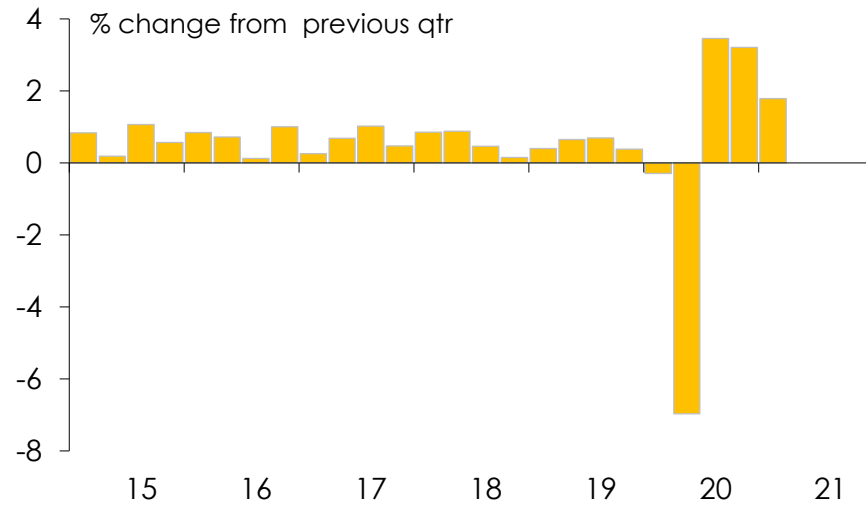


Note: Shaded areas denote recessions. Source: ABS, [Australian National Accounts: National Income, Expenditure and Product](#), March quarter 2021.

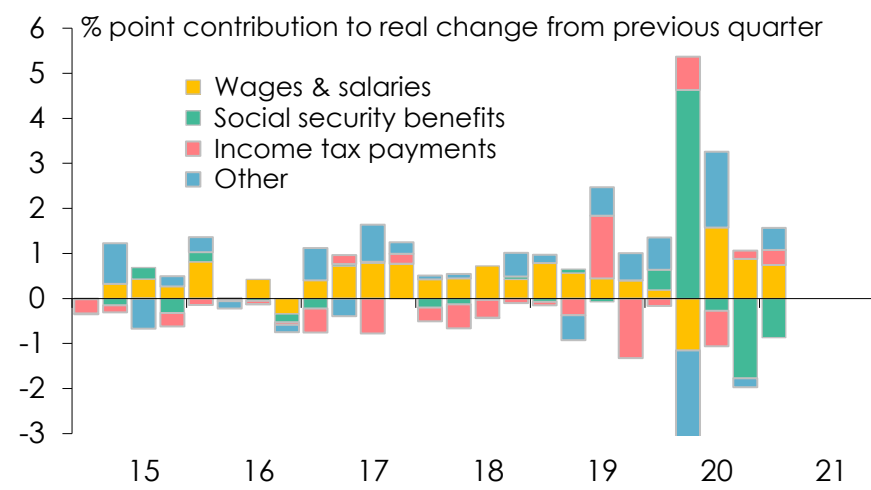
[Return to "What's New"](#).

# 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

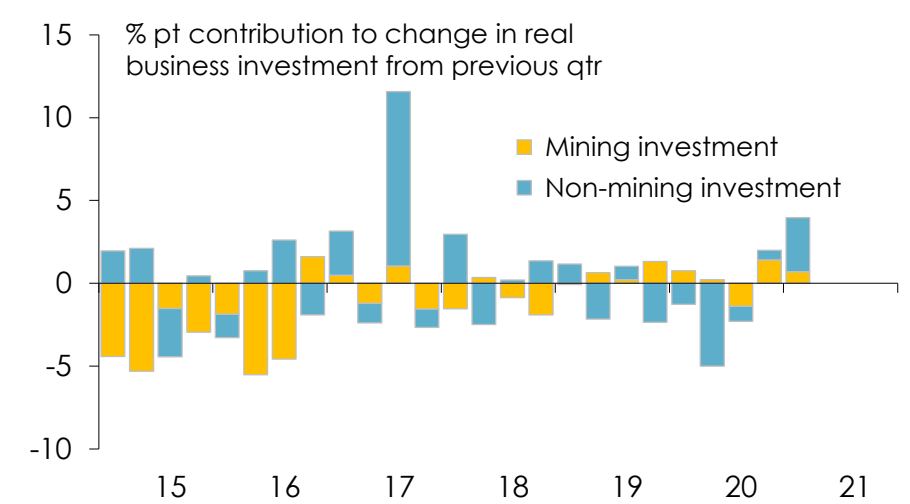
## Quarterly change in real GDP



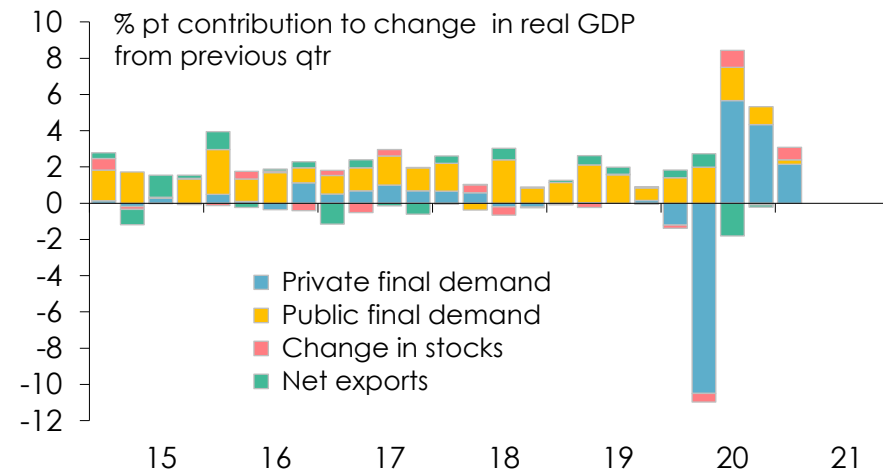
## Household disposable income



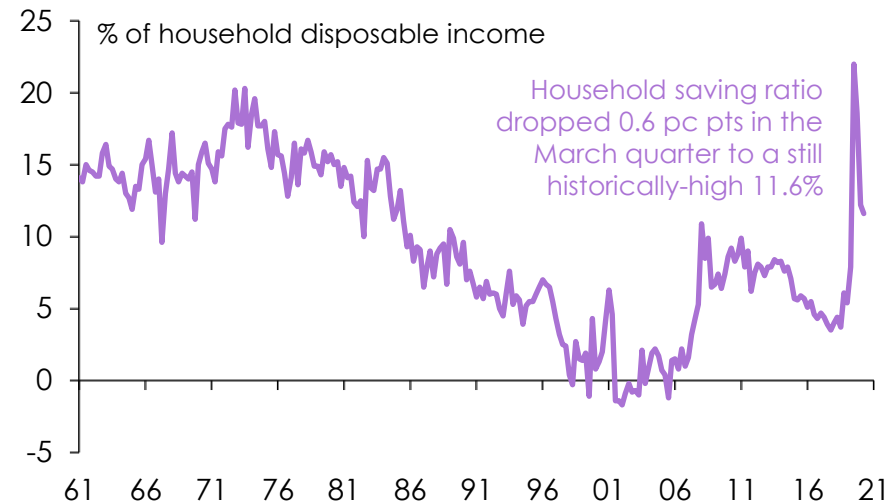
## Business investment expenditure



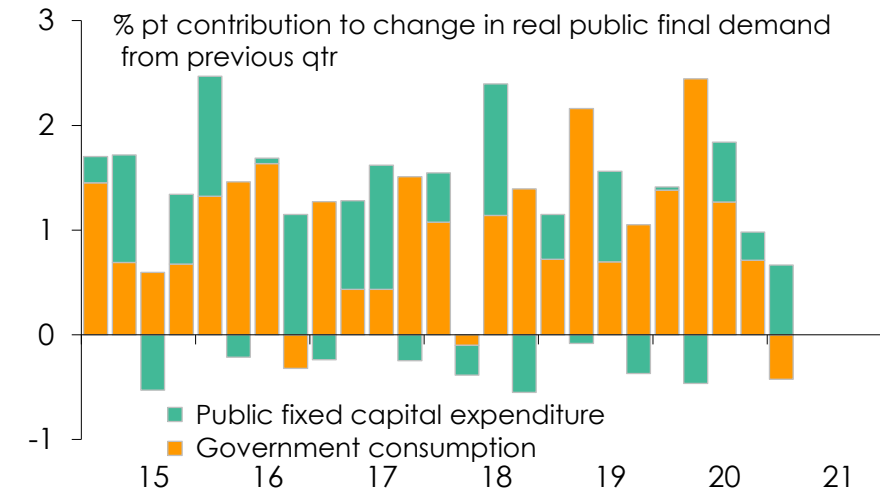
## Contributions to quarterly GDP growth



## Household saving rate



## Public expenditure



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

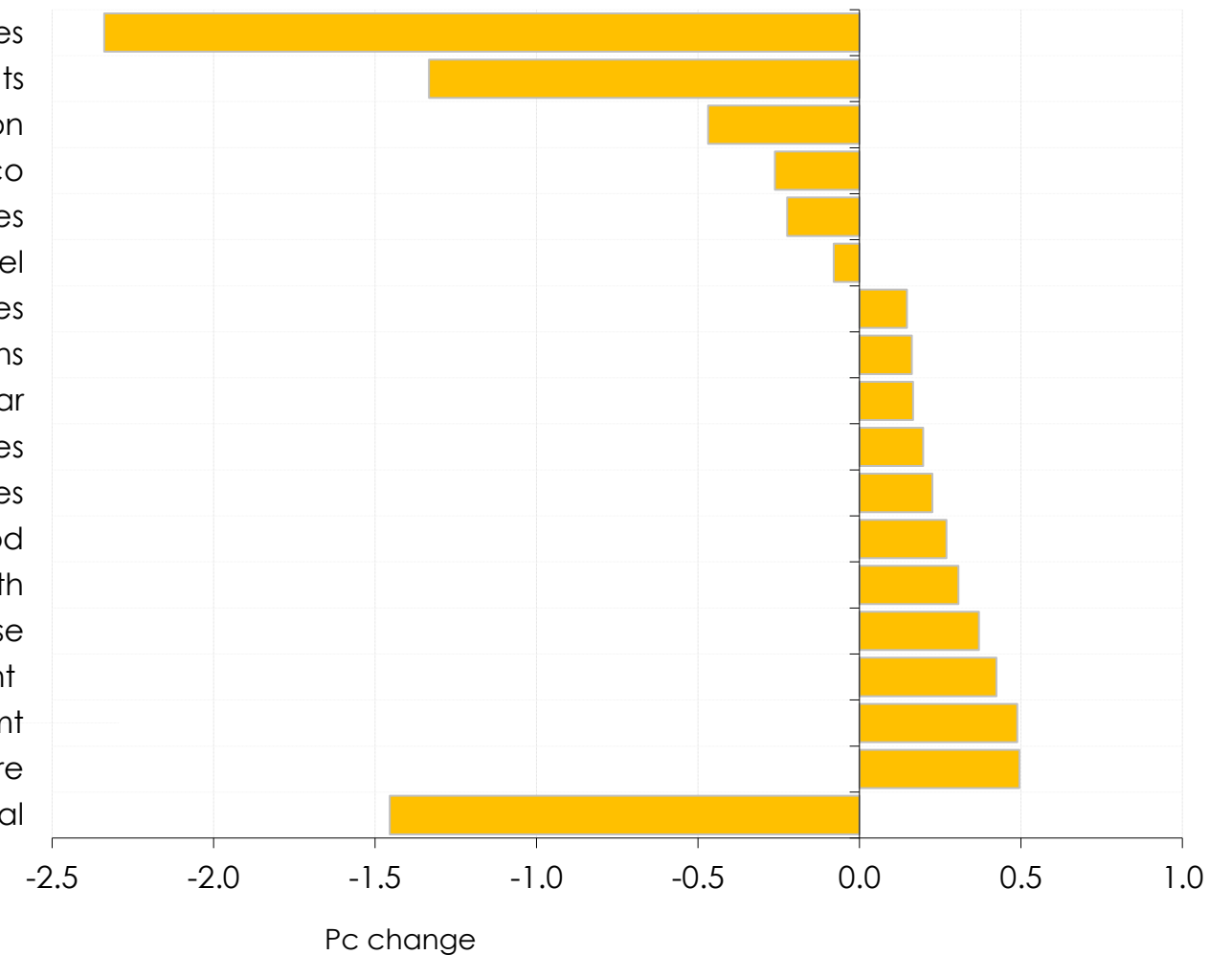
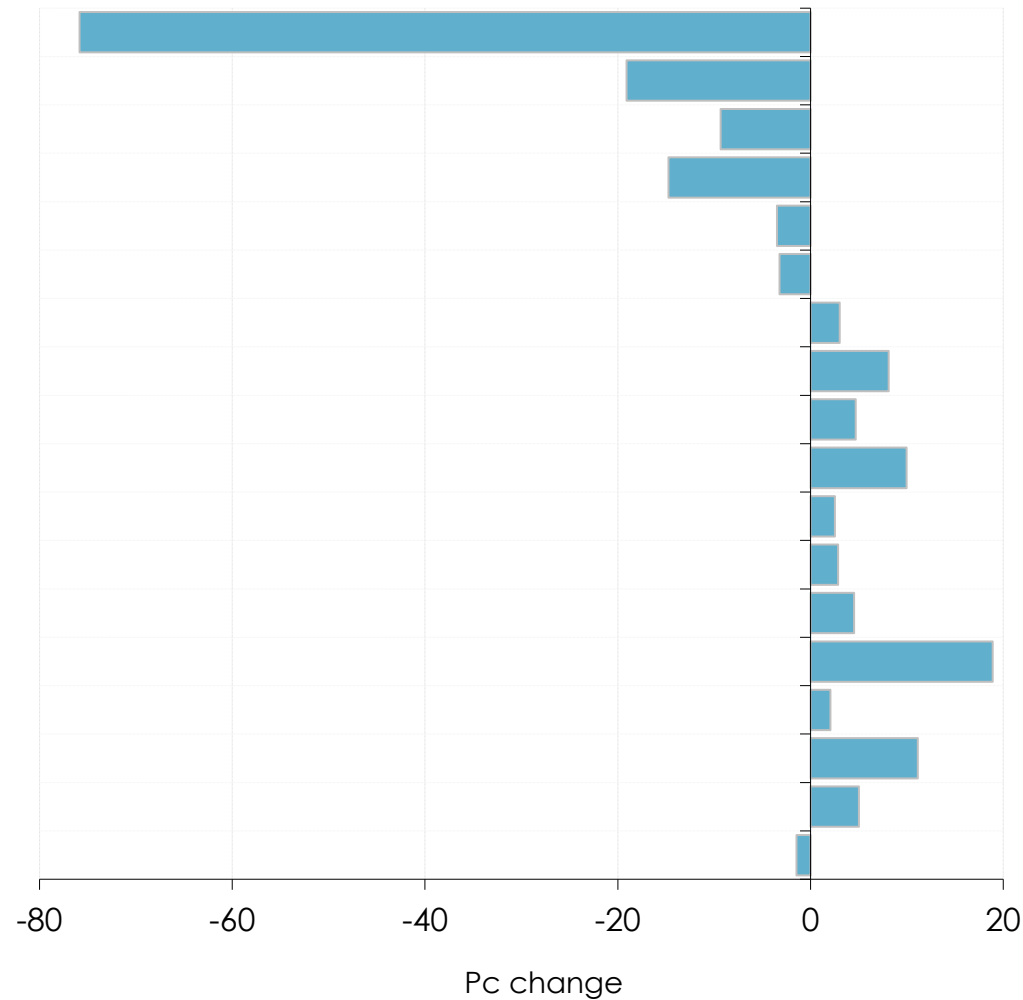
Source: ABS, [Australian National Accounts: National Income, Expenditure and Product](#), March quarter 2021. June quarter national accounts will be released on 1<sup>st</sup>

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

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

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

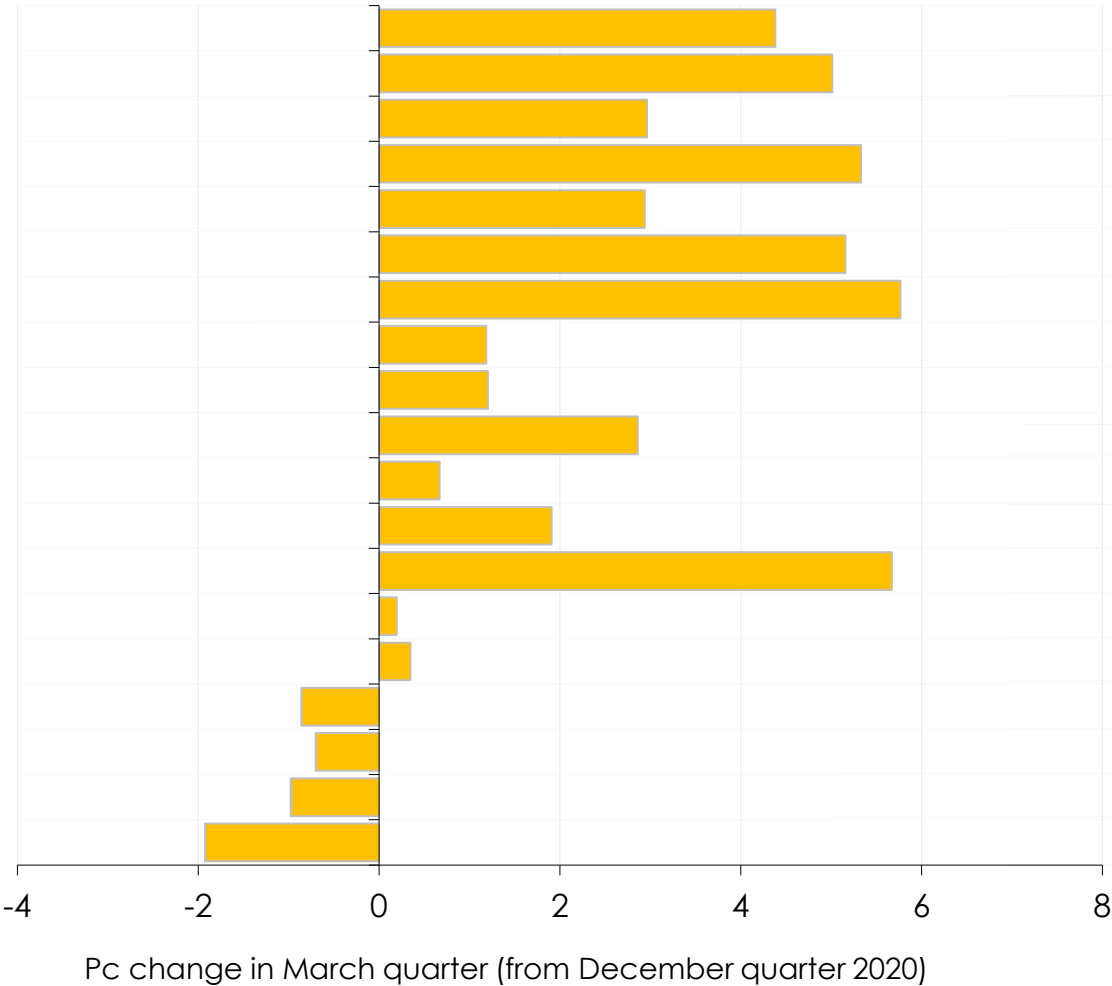
Contribution to change in household consumption spending, by category, December qtr 2019 to March qtr 2021



Note: 'Rent and dwelling services' includes the imputed rent which home-owners pay to (and receive from) themselves in the national accounts (so that changes in the home-ownership rate over time don't distort measured household consumption or GDP). Source: ABS, [Australian National Accounts: National Income, Expenditure and Product](#), March quarter 2021. June quarter national accounts will be released on 1<sup>st</sup> 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



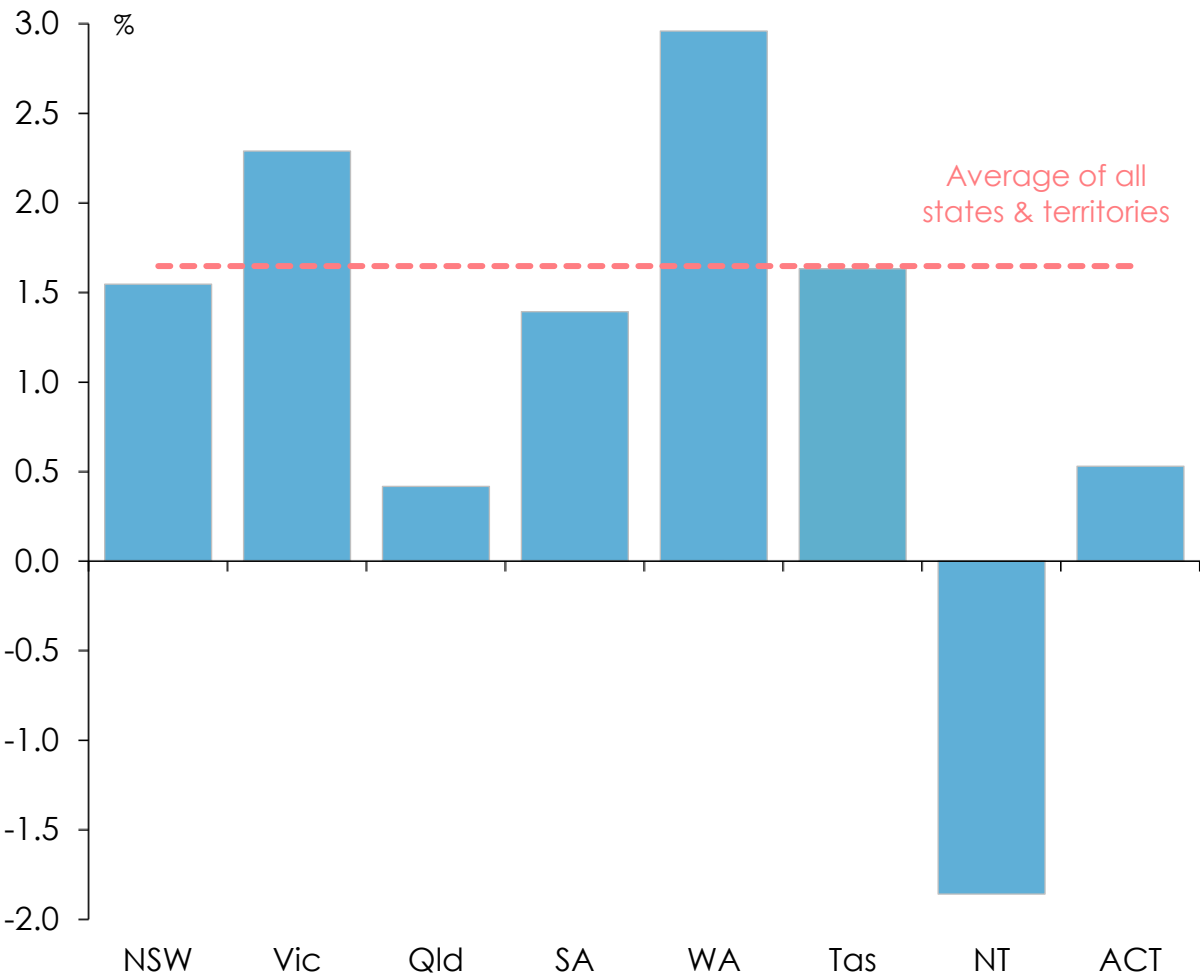
Contribution to change in real GDP, by industry, March quarter 2020



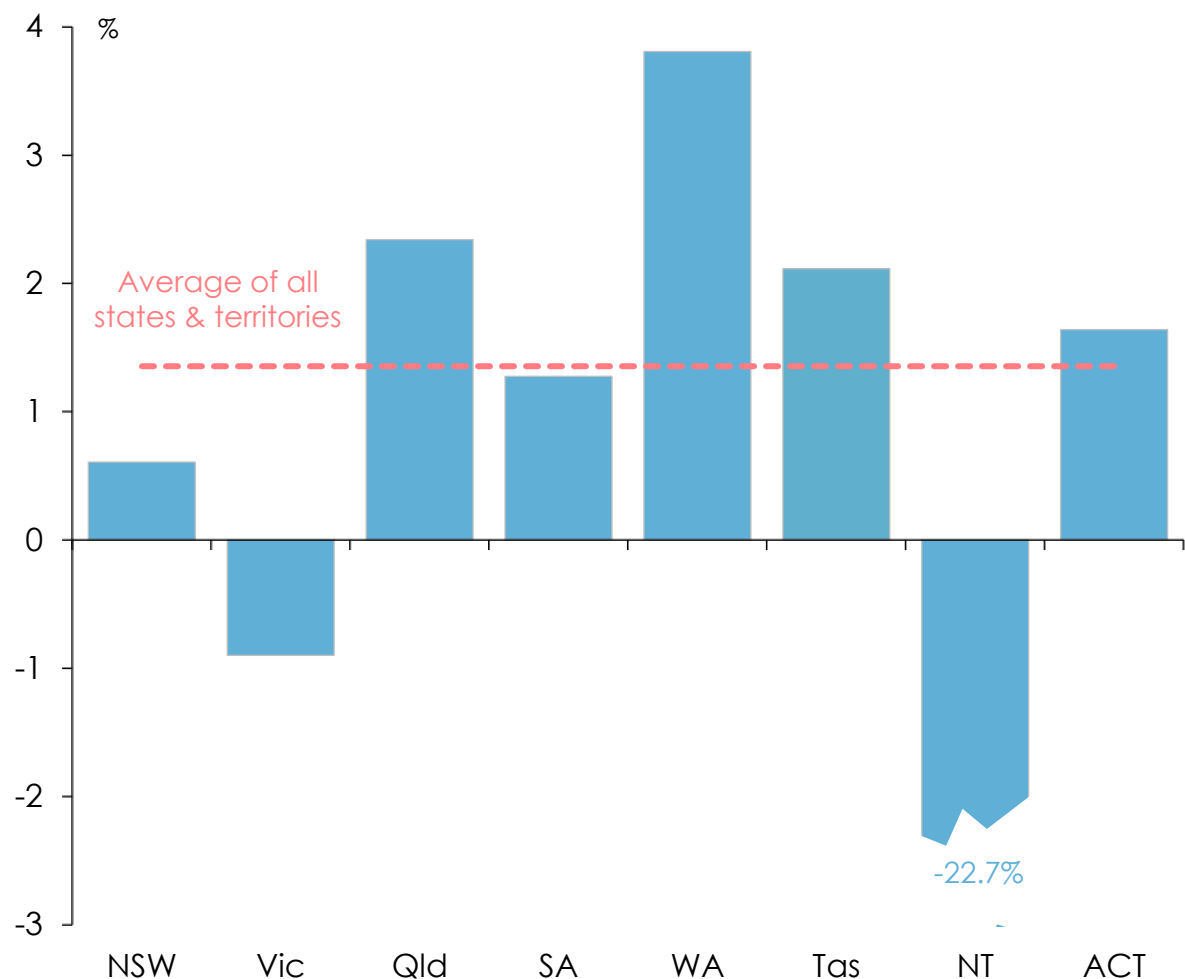
Note: Changes in, and contributions to the change in real GDP from, ownership of dwellings and net indirect taxes are not shown in the above charts.  
Source: Source: ABS, [Australian National Accounts: National Income, Expenditure and Product](#), March quarter 2021. June quarter national accounts will 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



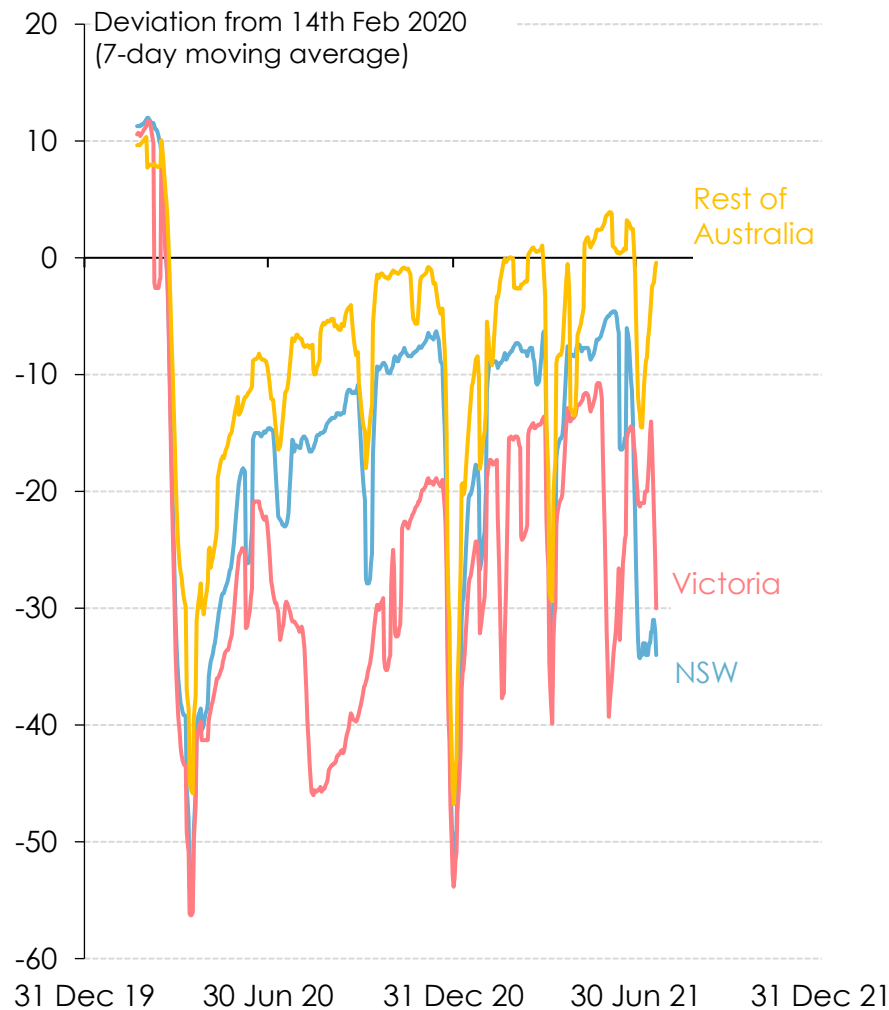
Note: 'State final demand' is the sum of spending by households, businesses and governments within a state or territory's borders: it differs (conceptually) from gross state product (GSP), which is only available on a financial year basis, by the sum of net international and interstate trade, and changes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



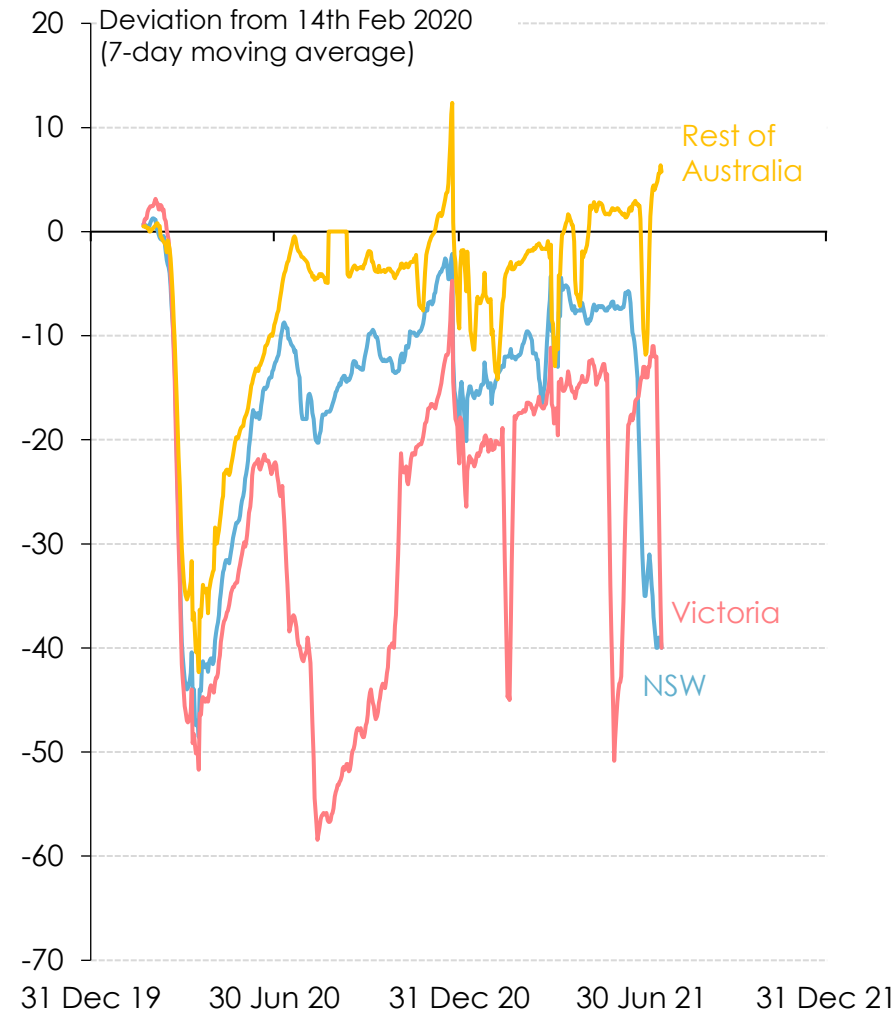
# 'Mobility indicators' provide a clear indication that the lockdowns in Sydney, Victoria and SA will interrupt this recovery

## Google mobility indicators

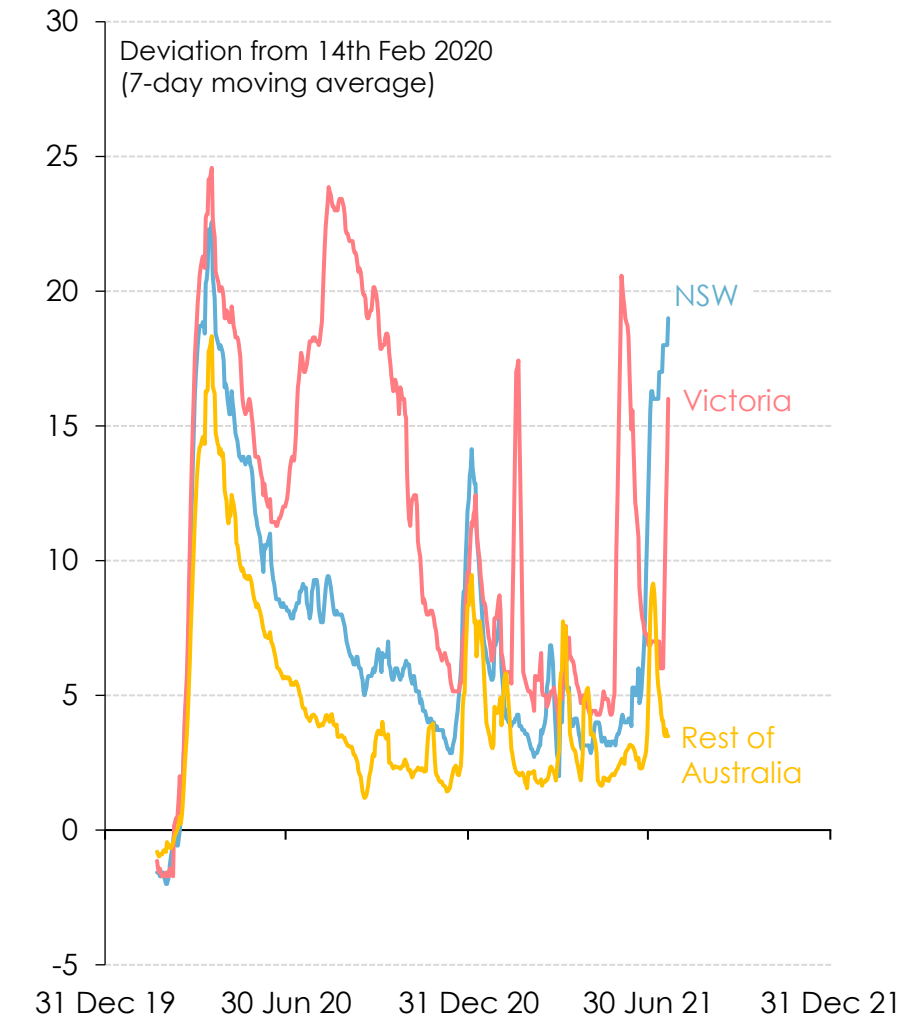
### Workplaces



### Retail and recreation



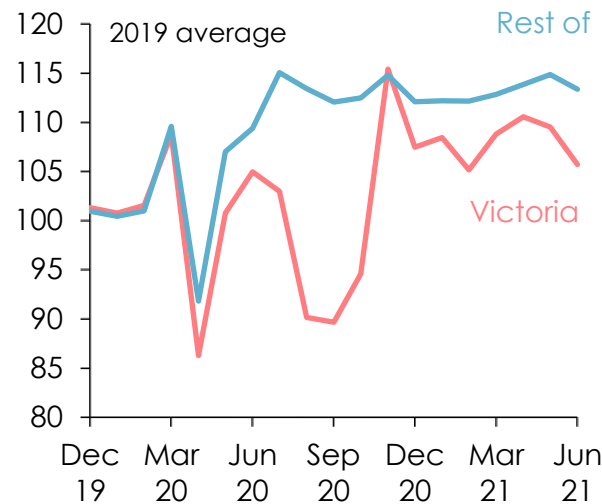
### Residences



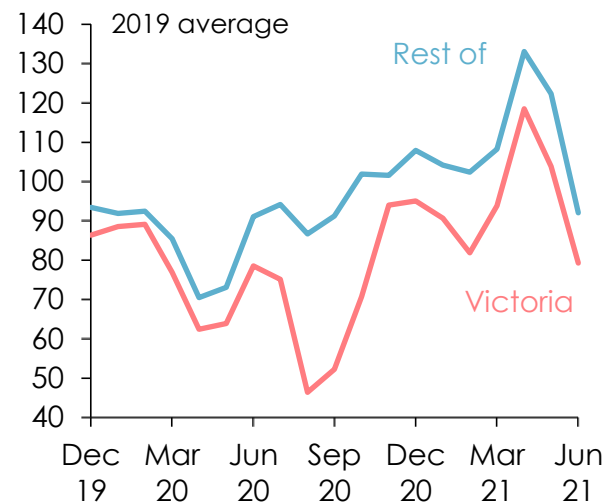
Note: data up to 20<sup>th</sup> July. Sources: [Google Community Mobility Reports](#); Corinna.

# The lockdowns in Sydney, Victoria and SA will probably turn Q3 GDP growth negative, but there should be a strong rebound in Q4

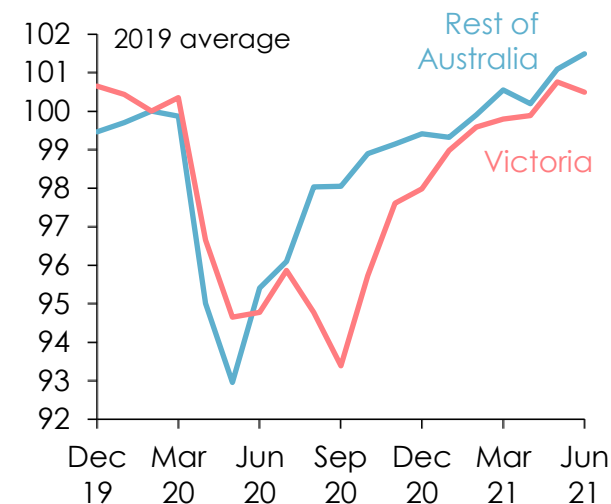
## Retail sales



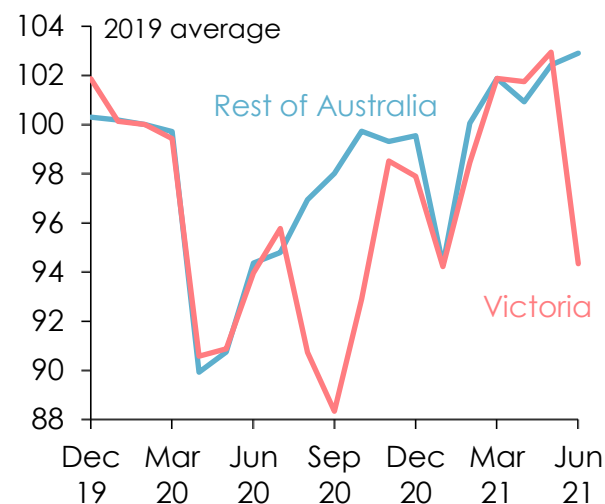
## Motor vehicle sales



## Employment



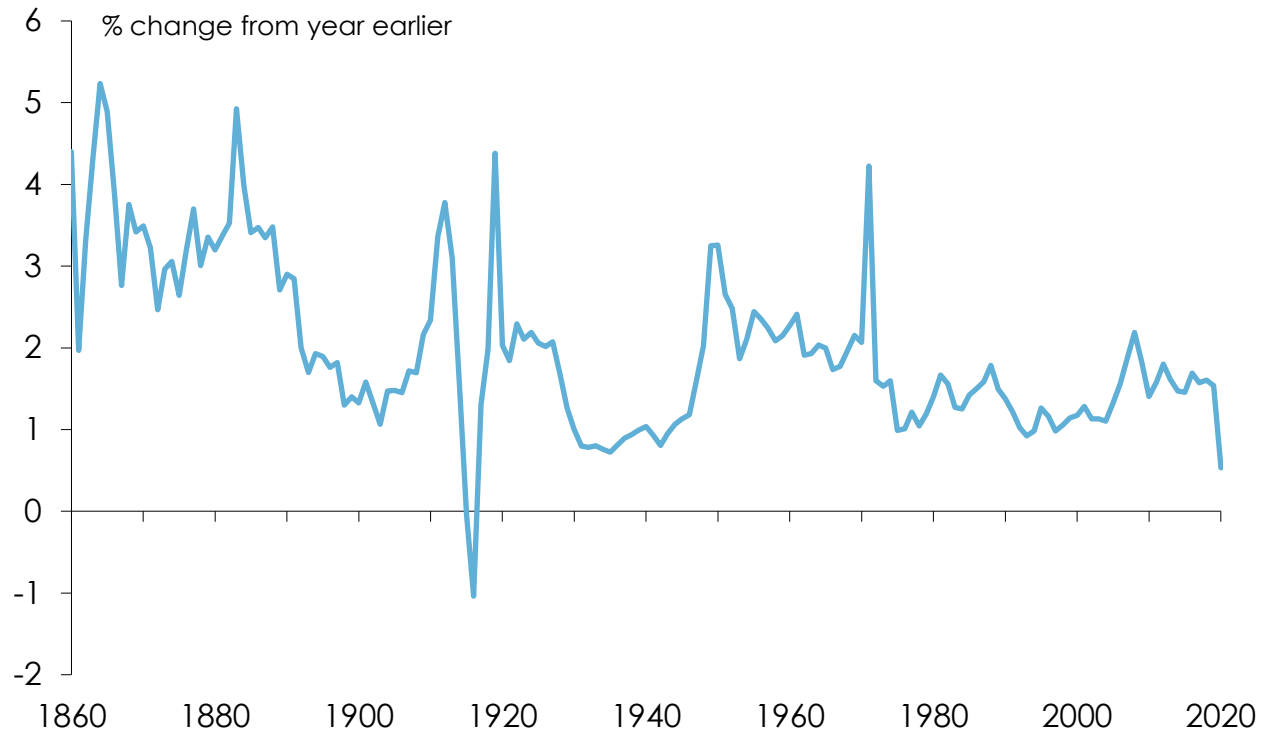
## Hours worked



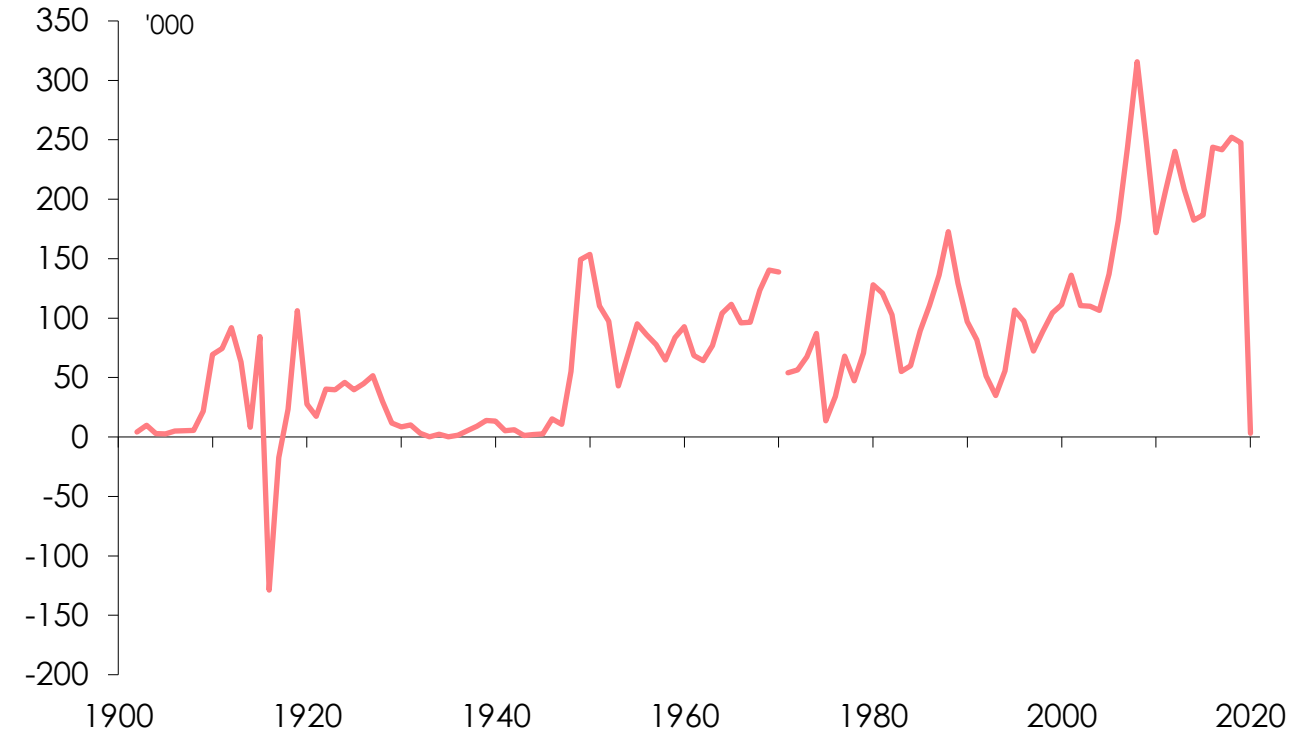
- ❑ A widely-quoted estimate is that the 'Greater Sydney' lockdown has a 'cost' (economic activity foregone) of about \$1bn a week
  - if the 'Greater Sydney' lockdown lasts until (say) 3<sup>rd</sup> September (10 weeks) that would imply a 'cost' of \$10bn
- ❑ The state-wide lockdown in Victoria would likely have a similar weekly cost to that in 'Greater Sydney', but it probably won't last as long
  - if it lasts 3 weeks, Victoria's lockdown will 'cost' around \$3bn
- ❑ The South Australian lockdown would 'cost' around \$250mn a week
  - so if it lasts two weeks, it will 'cost' around \$1/2bn
- ❑ Hence the total cost of the lockdowns in three states (given these assumptions about how long they last) could be of the order of \$13 1/2bn
- ❑ Australia's GDP is about \$2,100 billion a year (\$525bn a quarter, \$40 billion a week)
  - real GDP might have grown by (say) 1 1/4% in the September quarter without lockdowns
  - under the above assumptions, real GDP would instead contract by about 1 1/4% in the September quarter
  - but previous experience also suggests that December quarter growth will be stronger than it would otherwise have been

# 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

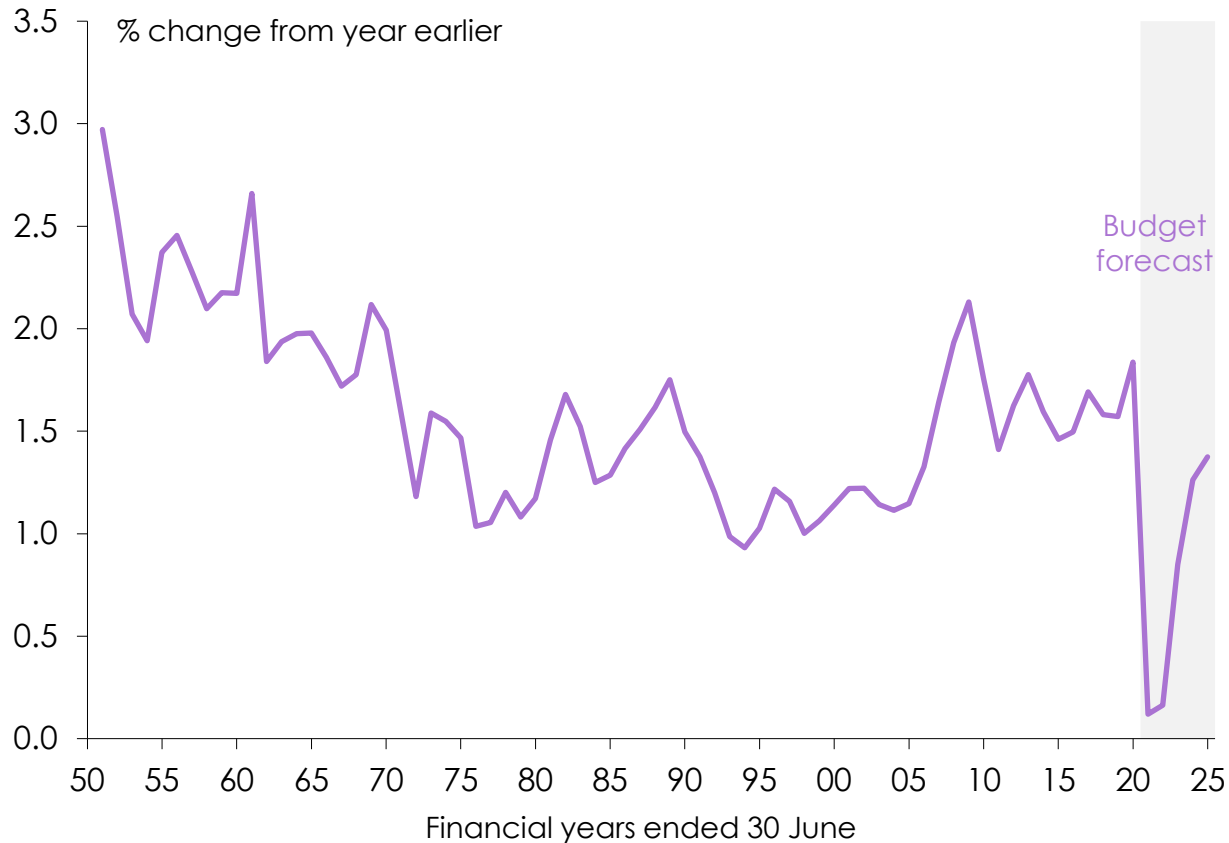


- ❑ Only 76K immigrants came to Australia in the last nine months of 2020, while 151K people departed permanently – implying a net outflow of almost 68,000 people
- ❑ As a result, Australia's population growth rate fell to just 0.5% over the year to Q4 2020, the slowest since 1916
- ❑ Last week's halving 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 103

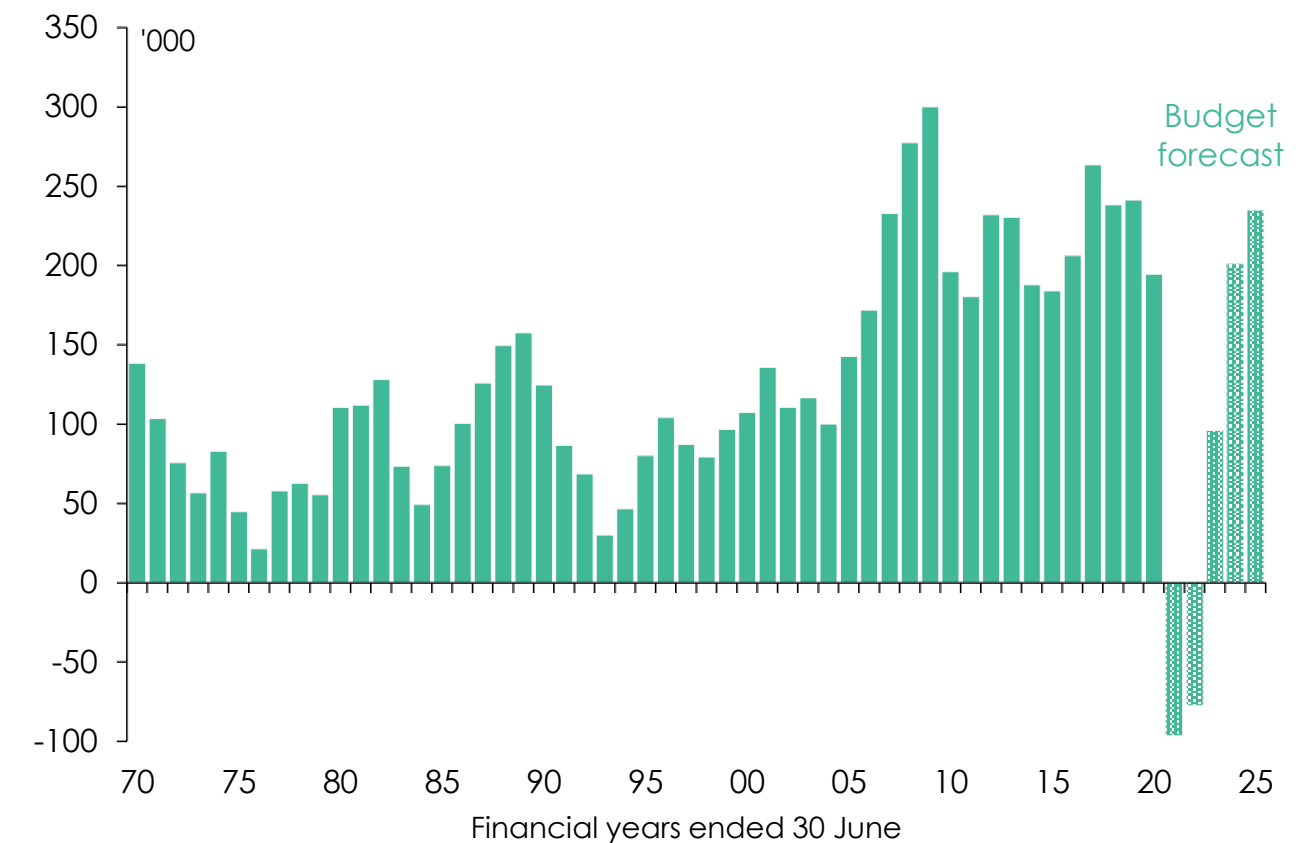
Note: The net migration data has a series break at 1971 due to definitional changes. Sources: ABS, [National, state and territory population](#), December 2020; [Historical Population](#), 2016; [Migration, Australia](#), 2019-20; [Demography Bulletin](#), 1923, 1940, 1950, 1960 and 1971; [Population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



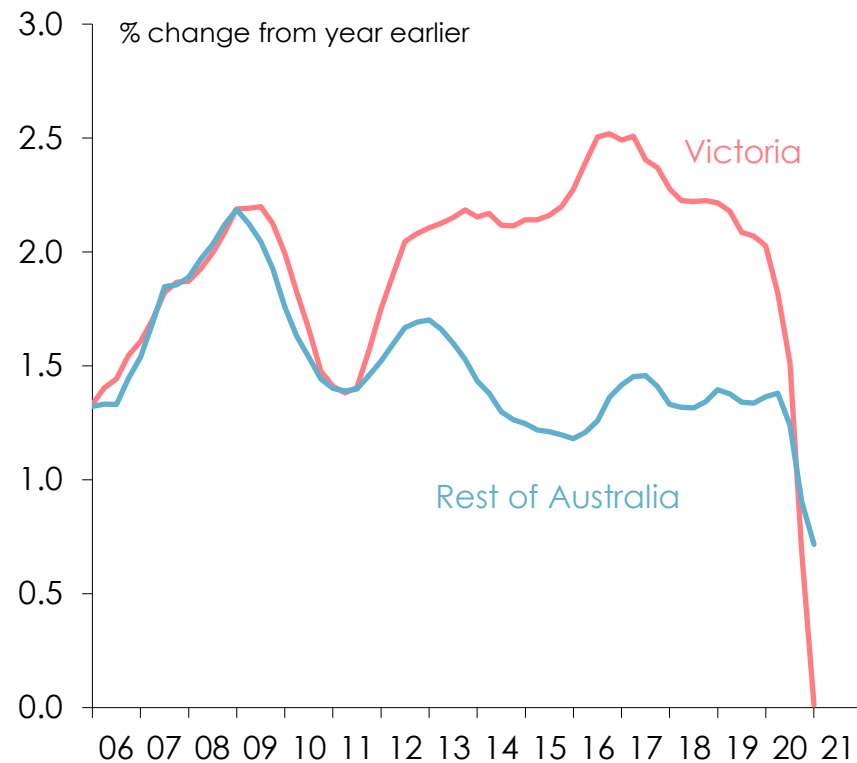
## Net overseas migration



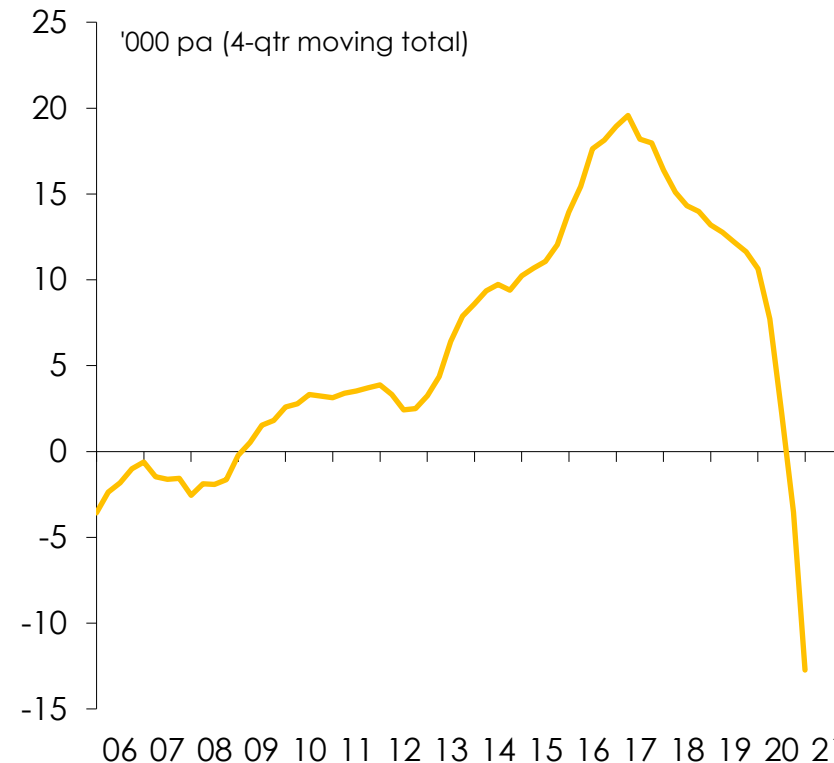
**Opinion polls** have consistently indicated very high levels of popular support for keeping Australia's international borders closed – which (more than anything else) likely explains why the Government's position has changed from last year's "we can't keep Australia under the doona" to this year's "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 (20<sup>th</sup> May)

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

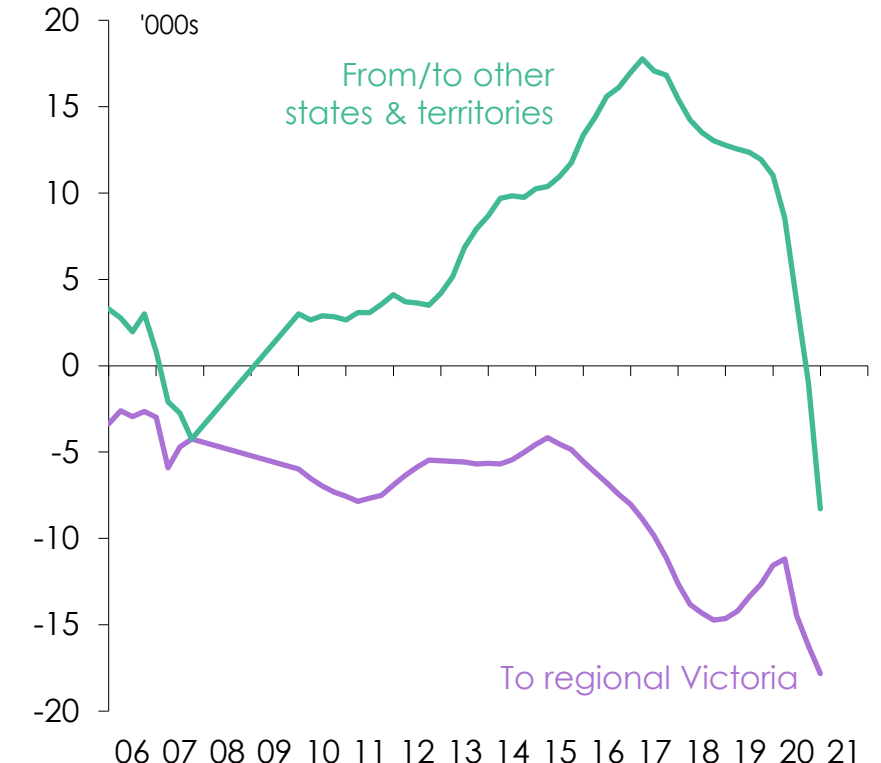
Population growth, states & territories, year to September 2020



Net migration to Victoria from other states & territories



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



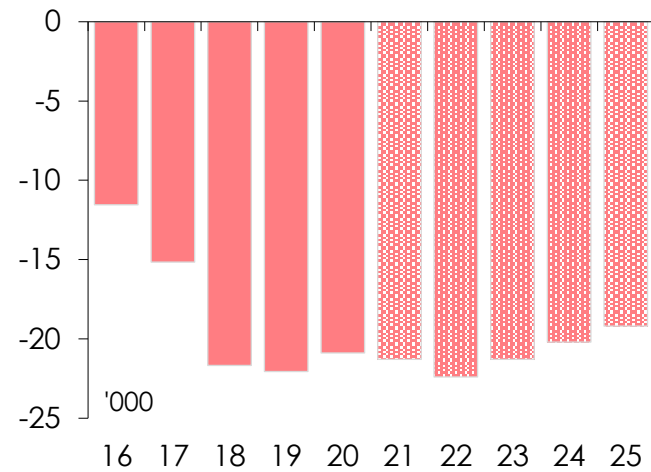
- ❑ Victoria – whose economy has become more dependent on immigration both from overseas and interstate over the past decade than any other state or territory – has experienced the sharpest population slowdown since the onset of Covid-19, dropping from the fastest growth to the slowest
- ❑ There's been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

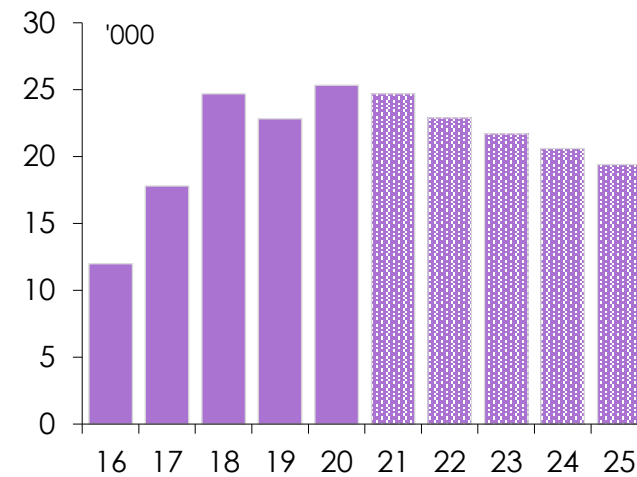
# The 2021-22 Budget projects much lower interstate migration to Victoria – and that may be too optimistic (also too pessimistic for SA and WA)

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

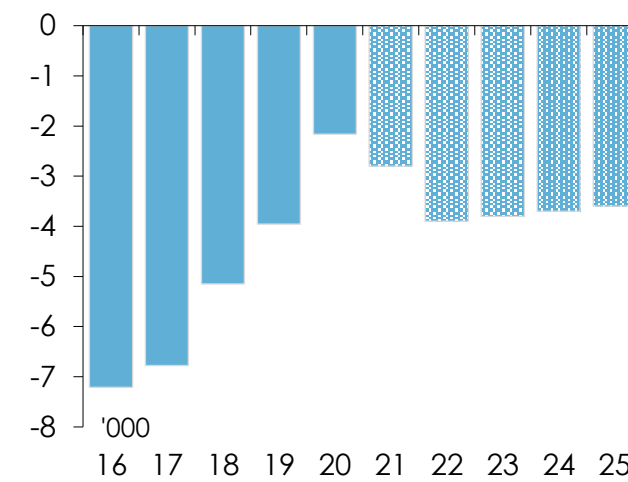
### New South Wales



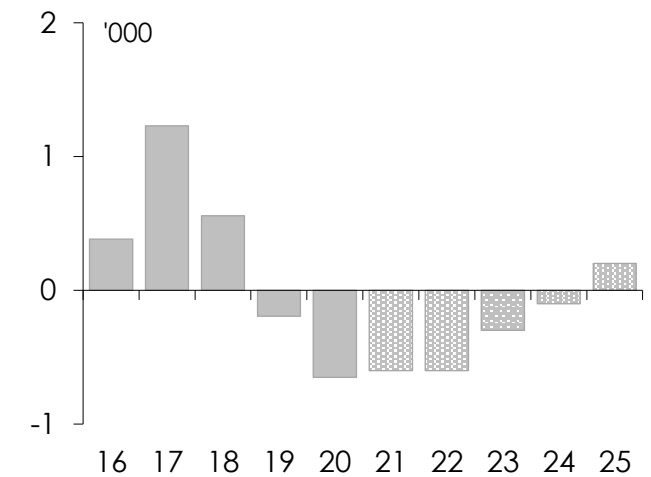
### Queensland



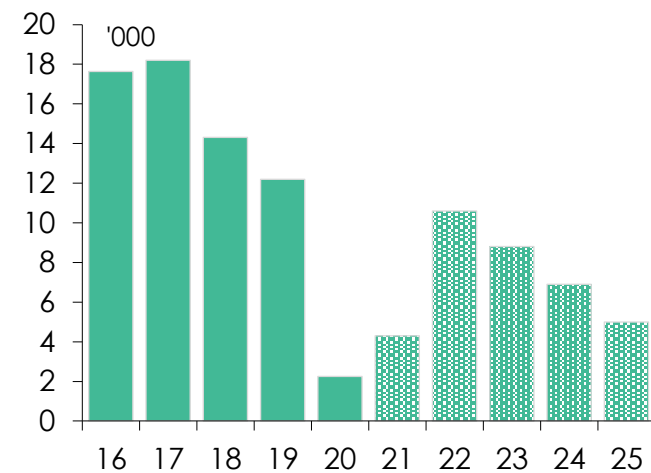
### South Australia



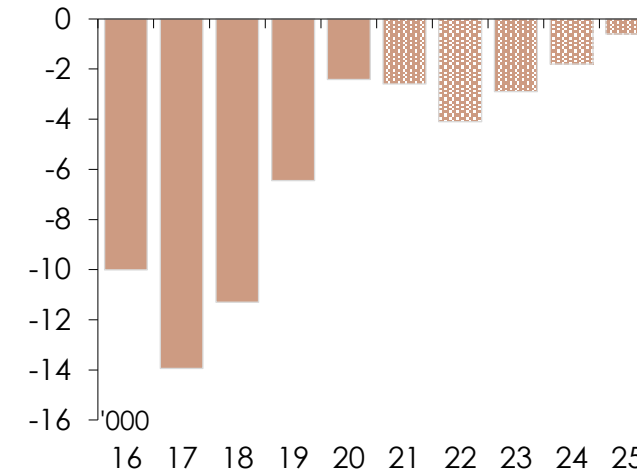
### ACT



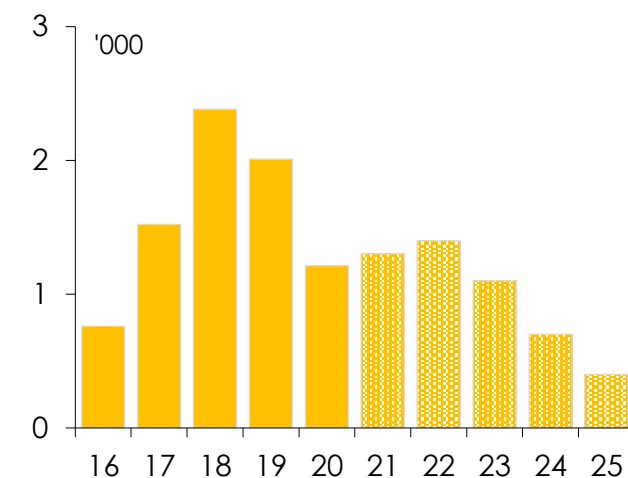
### Victoria



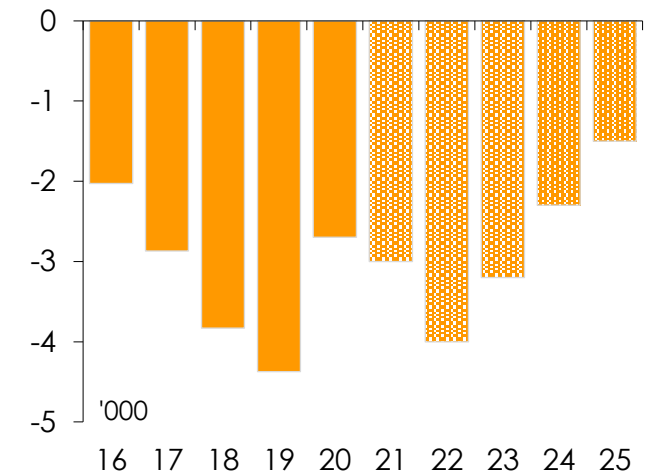
### Western Australia



### Tasmania



### Northern Territory

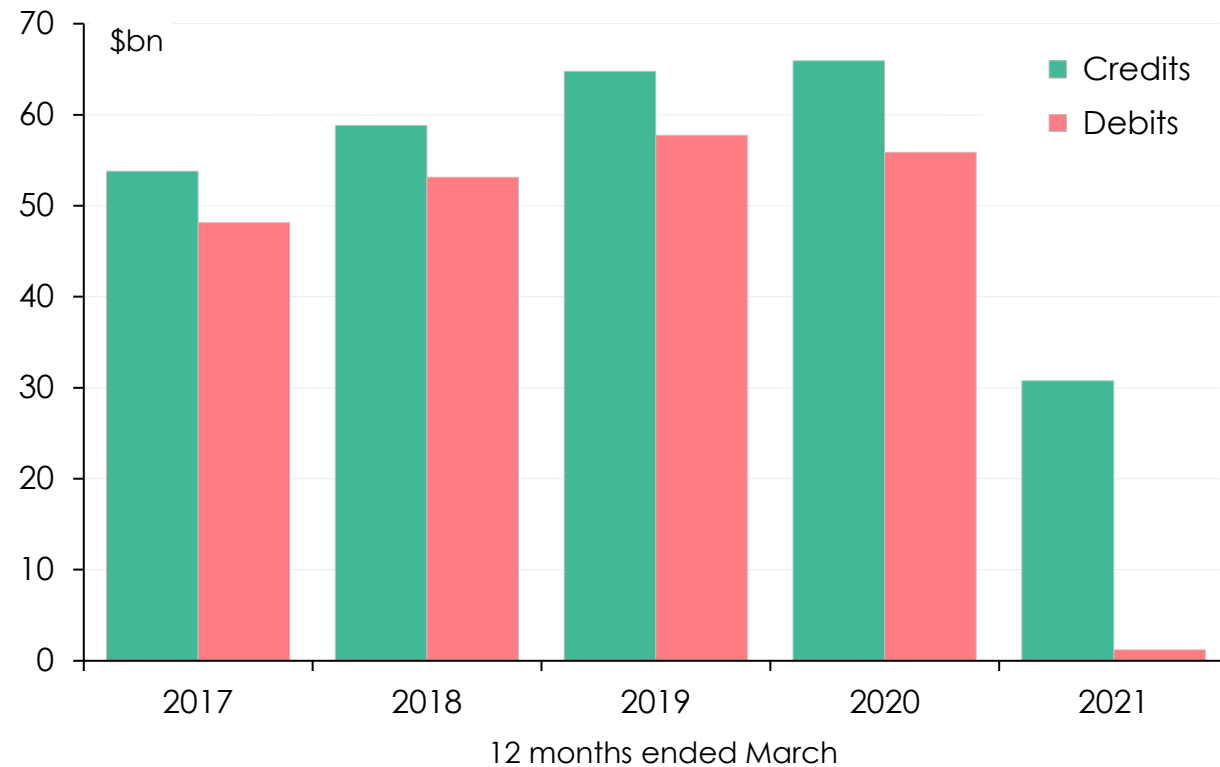


Sources: ABS, [National, state and territory population](#), December 2020; Australian Government, [2021-22 Budget Paper No. 3: Federal Financial Relations - Appendix A: Parameters and Further Information](#), May 2021.



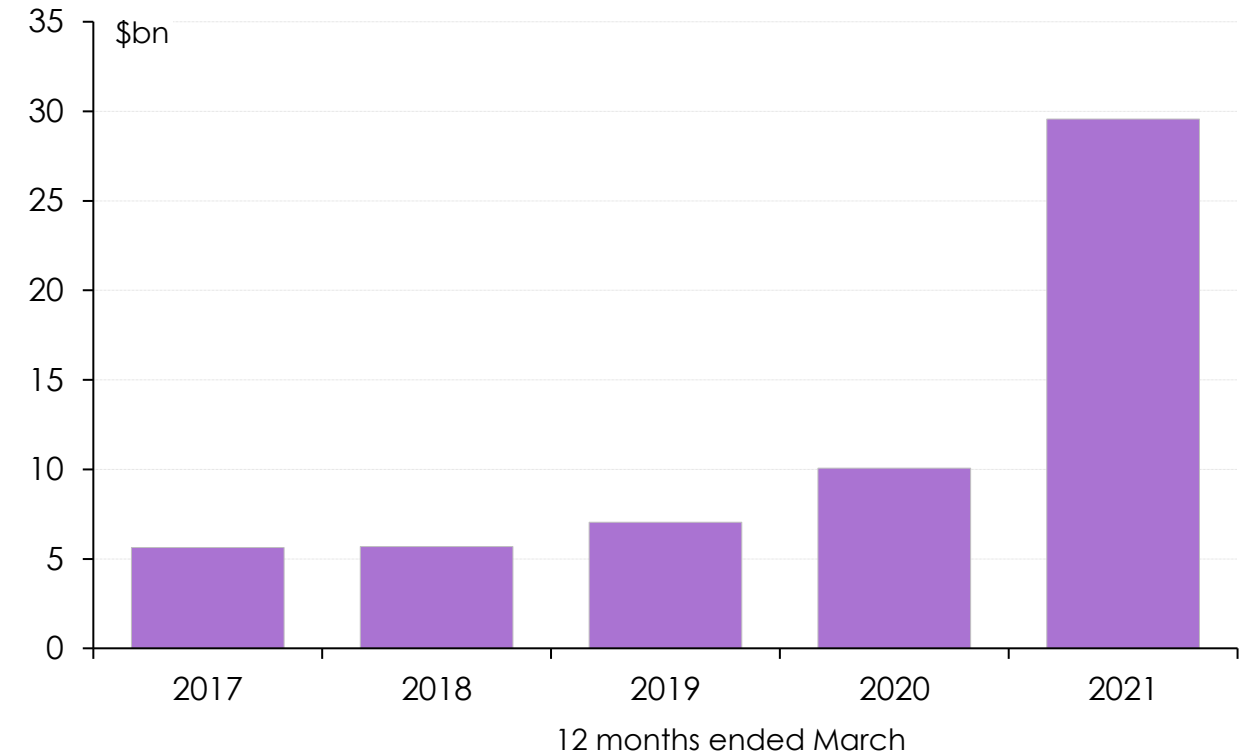
# The *taboo* on Australians leaving the country more than offsets the loss of spending by foreign tourists and students

## 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.)

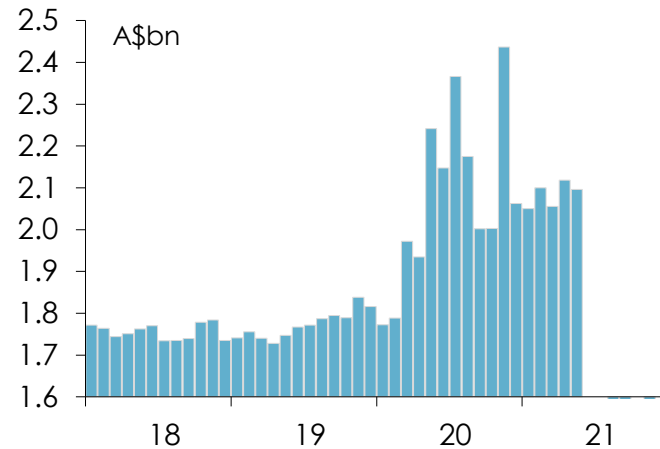
## Net travel transactions



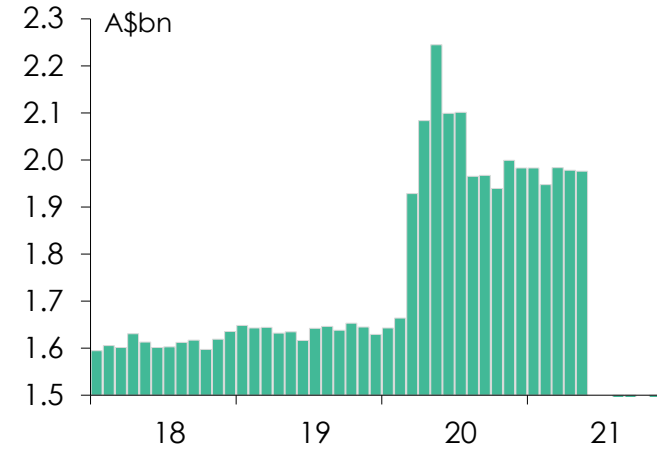
- ❑ Despite restrictions, foreigners still spent \$31bn in Australia in the 12 months to March 2021 (cf. an average of \$61bn per annum over the previous four years) implying a *net gain* to Australia during 12 months to March this year of almost \$22½bn by comparison with the 2016-19 average – equivalent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

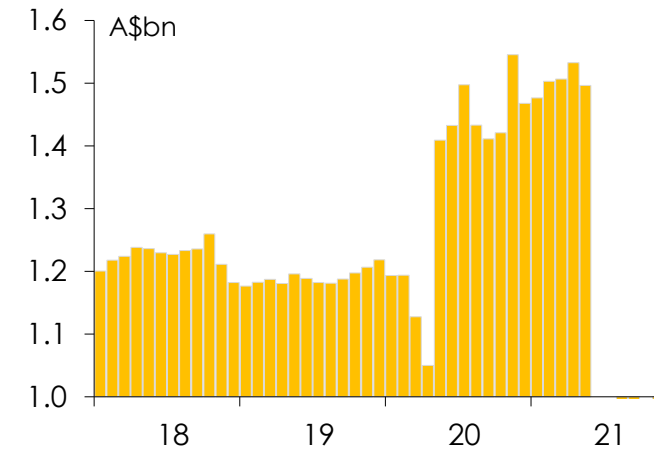
## Electronic & electrical goods



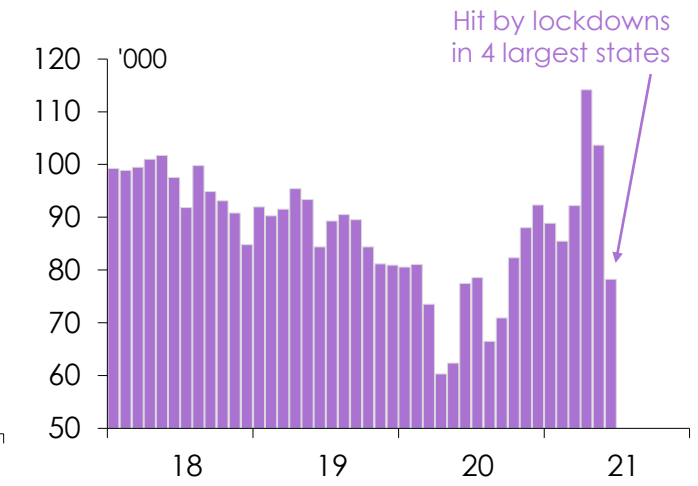
## Hardware, building & garden supplies



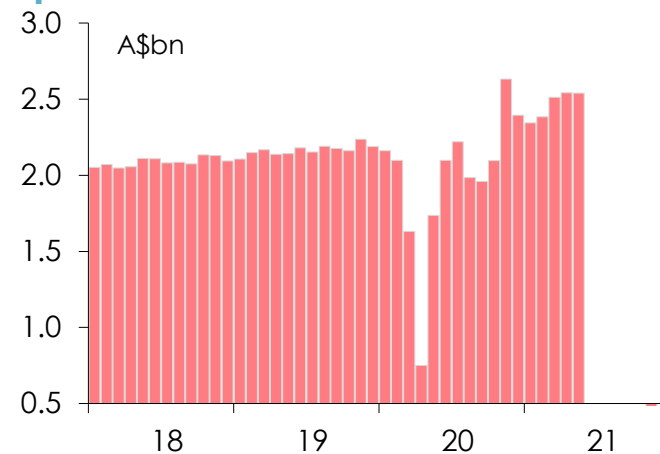
## Floor coverings, furniture, housewares etc



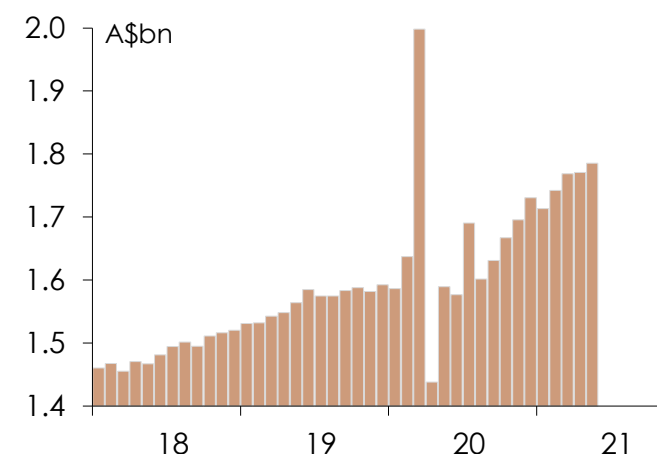
## New motor vehicles



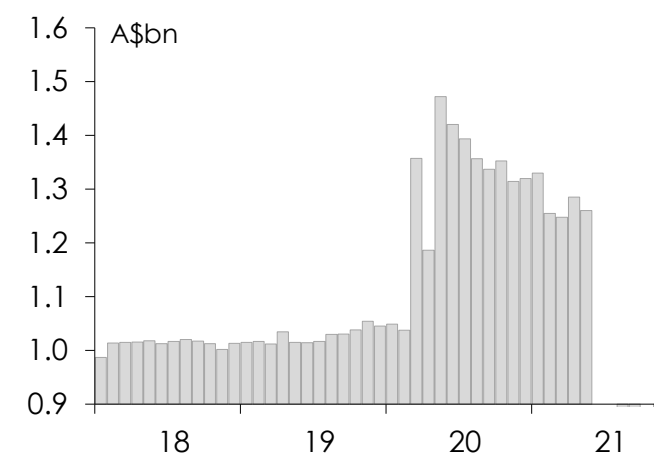
## Clothing, footwear & personal accessories



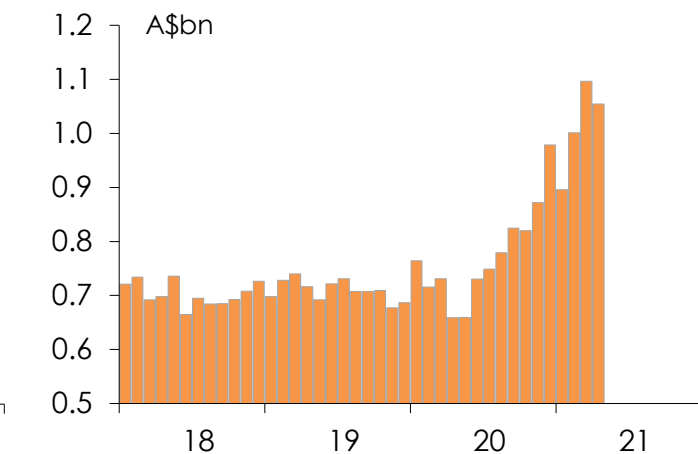
## Pharmaceuticals, cosmetics & toiletries



## Alcoholic beverages



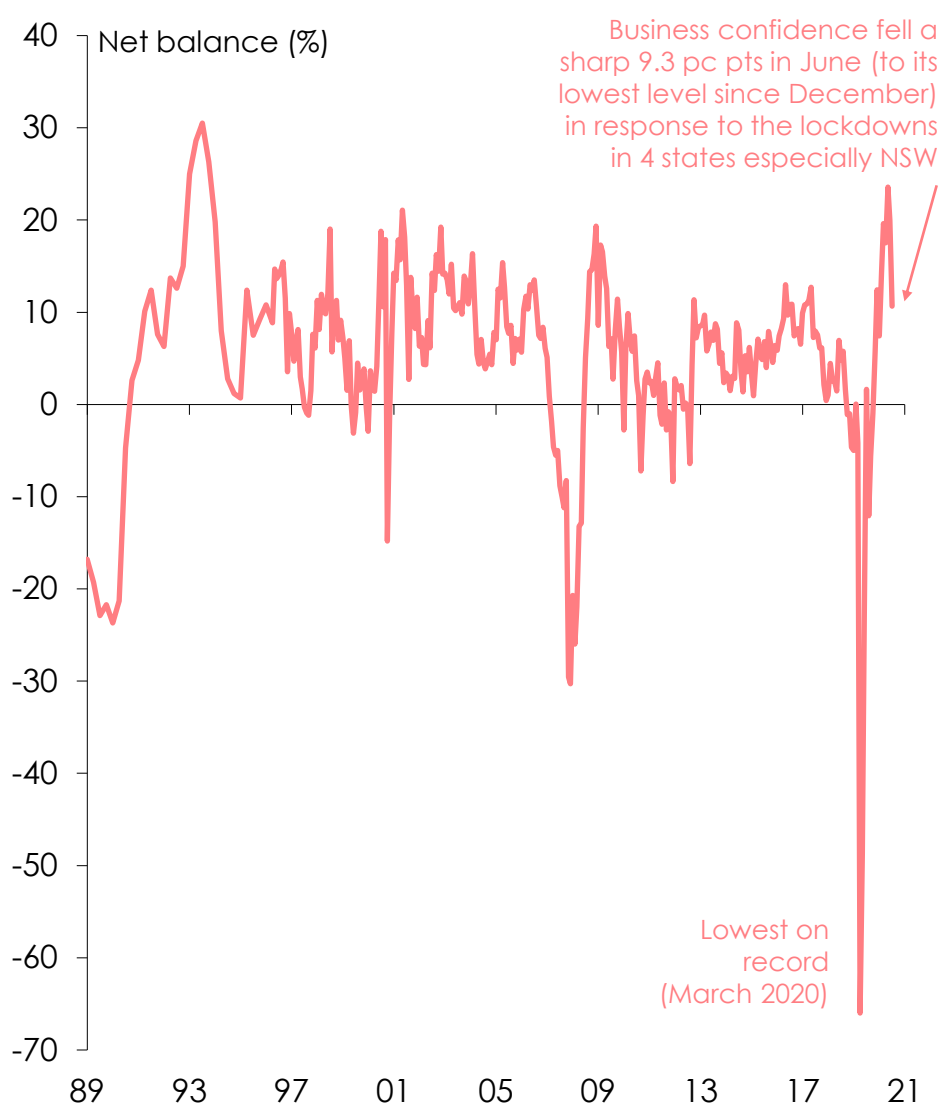
## Renovations



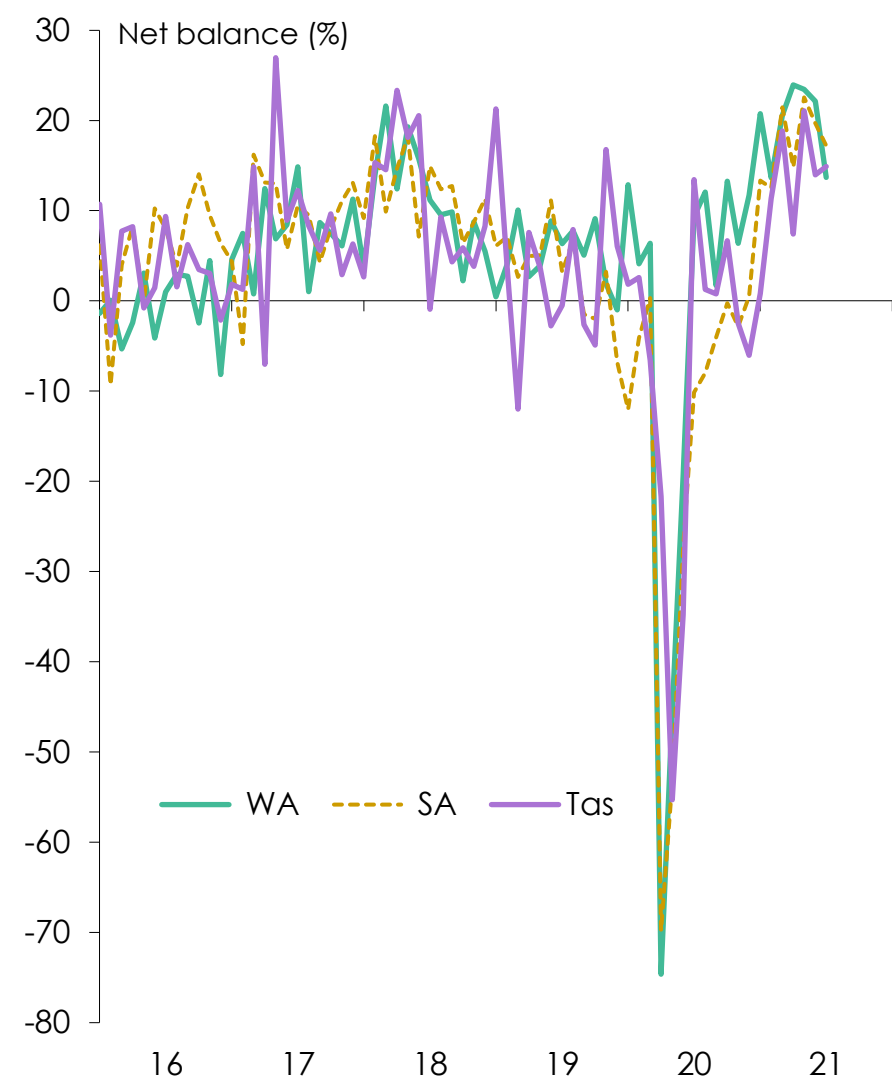
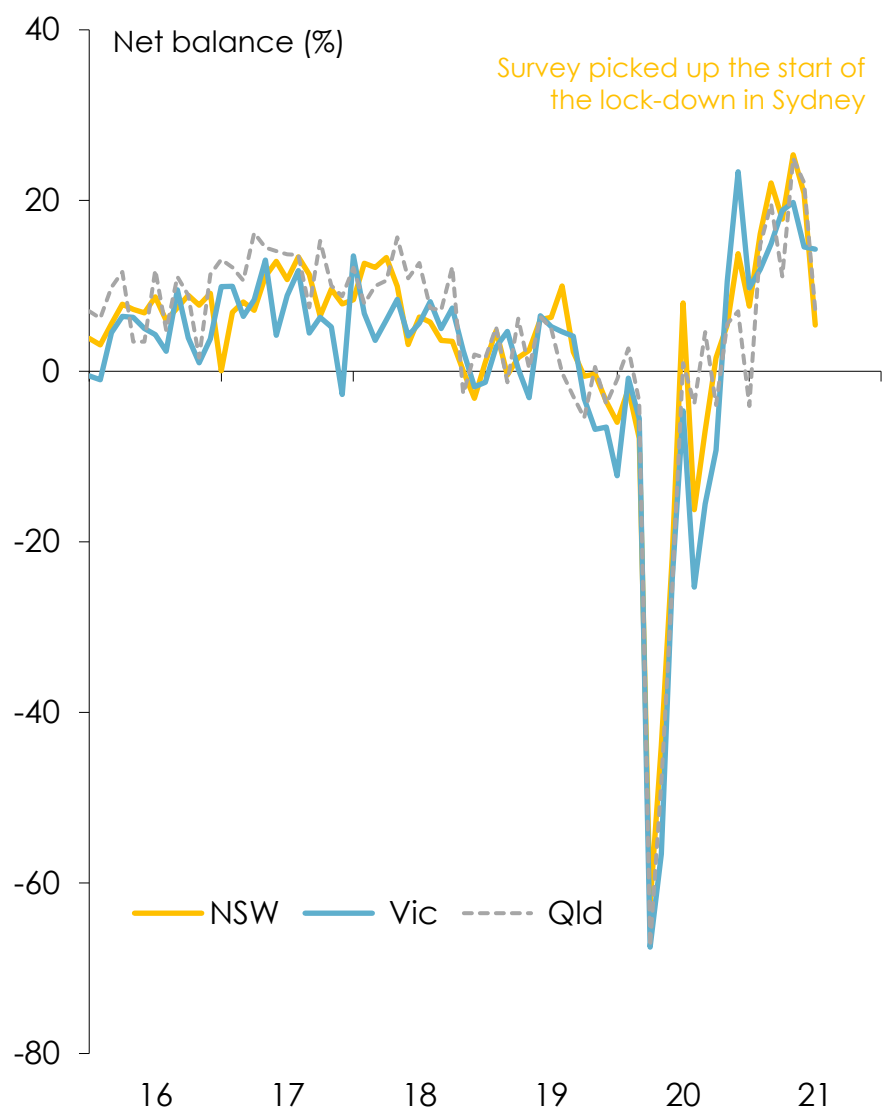
Note: First six charts (from left) are retail sales; new motor vehicles are numbers of vehicles sold; renovations are the value of alterations and additions to residential dwellings approved by local governments. Sources: ABS, [Retail Trade, Australia](#), May 2021; [Building Approvals, Australia](#),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

# Business confidence fell sharply in June as a result of the lockdowns in four states and in particular NSW and Queensland

Business confidence

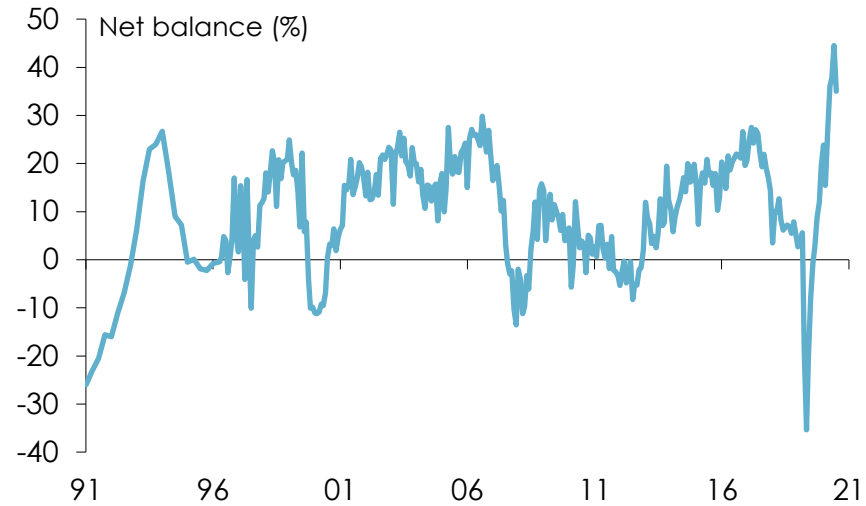


Business confidence, states and territories

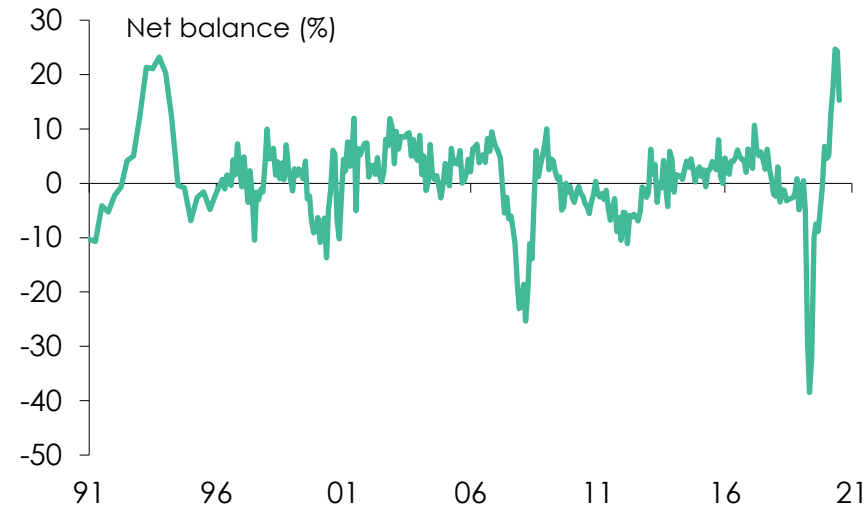


# All of the components of 'business conditions' fell back in June although except for capex intentions they are all still close to historical highs

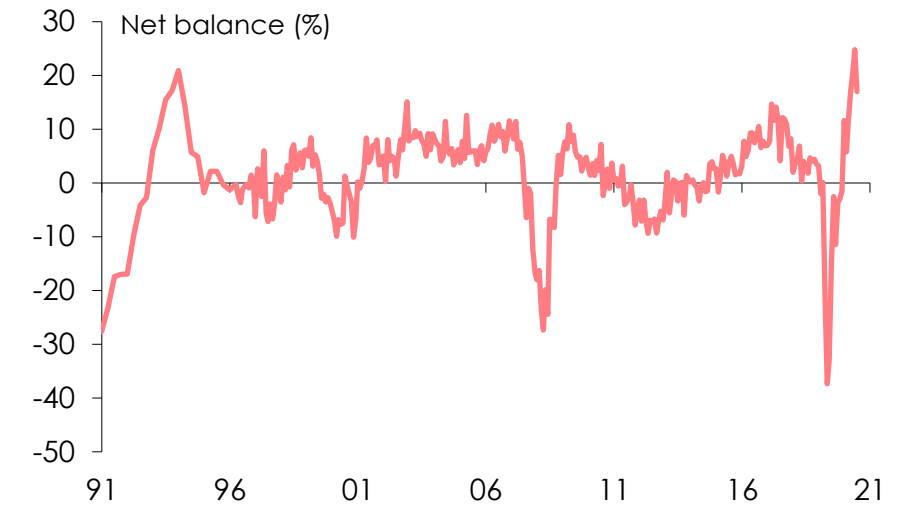
## Trading conditions



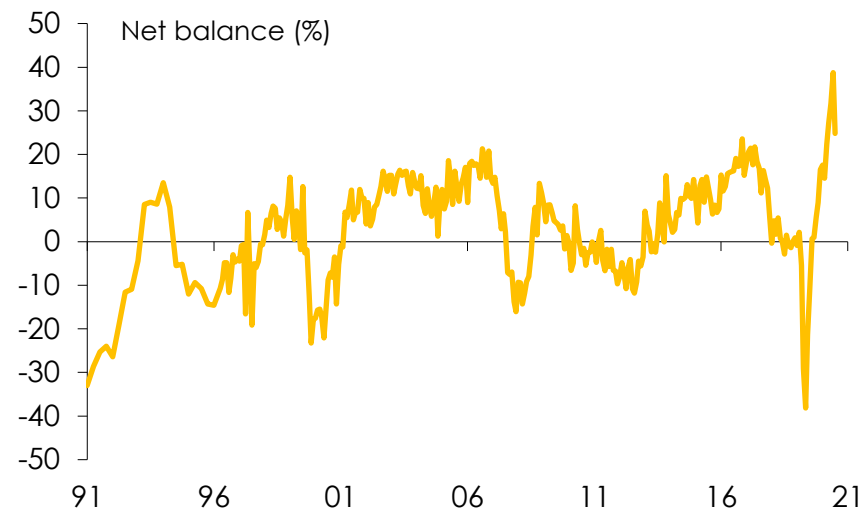
## Forward orders



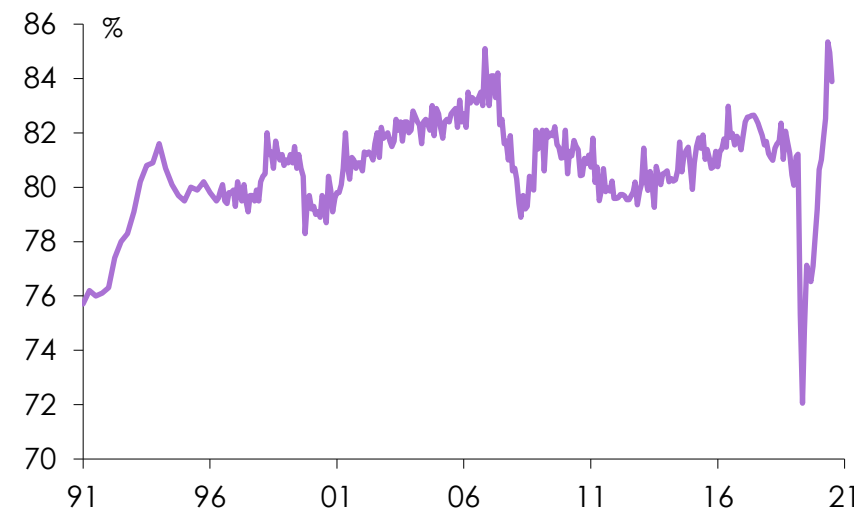
## Employee hiring intentions



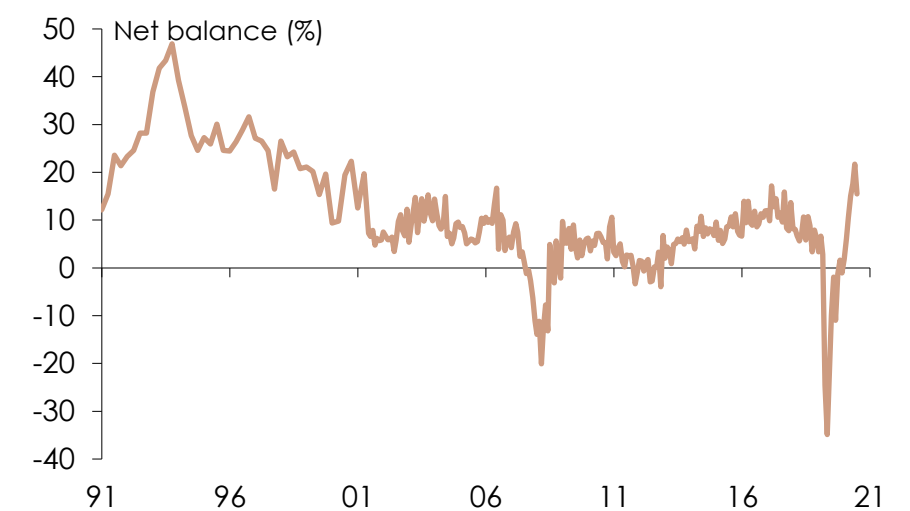
## Profitability



## Capacity utilization



## Capital expenditure intentions

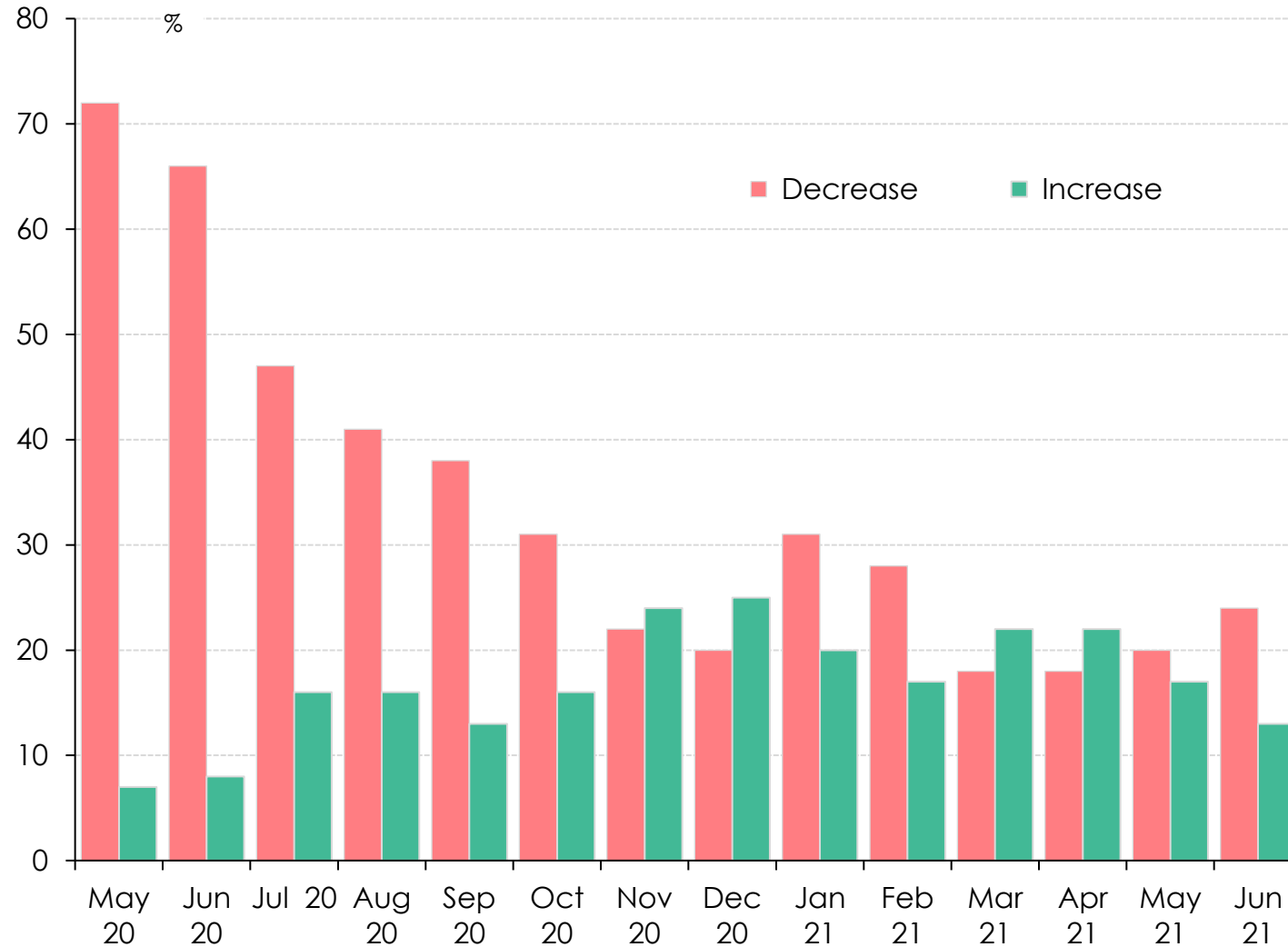


Note: Quarterly data up to March 1997 (May 2002 for capex intentions), monthly thereafter.

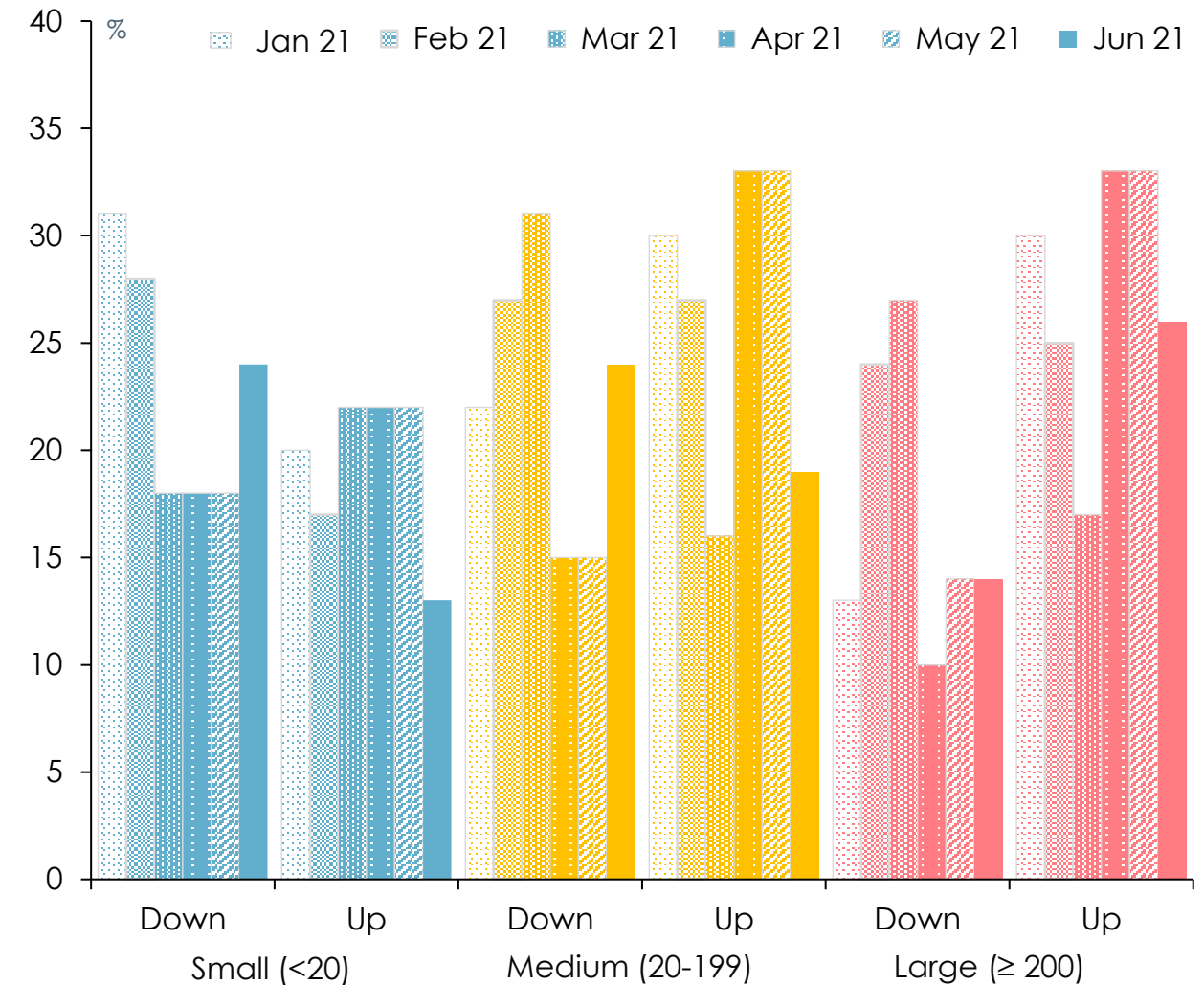
Source: National Australia Bank [Monthly Business Survey](#), June 2021; July survey results will be released on 10<sup>th</sup> August. [Return to "What's New"](#).

# 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



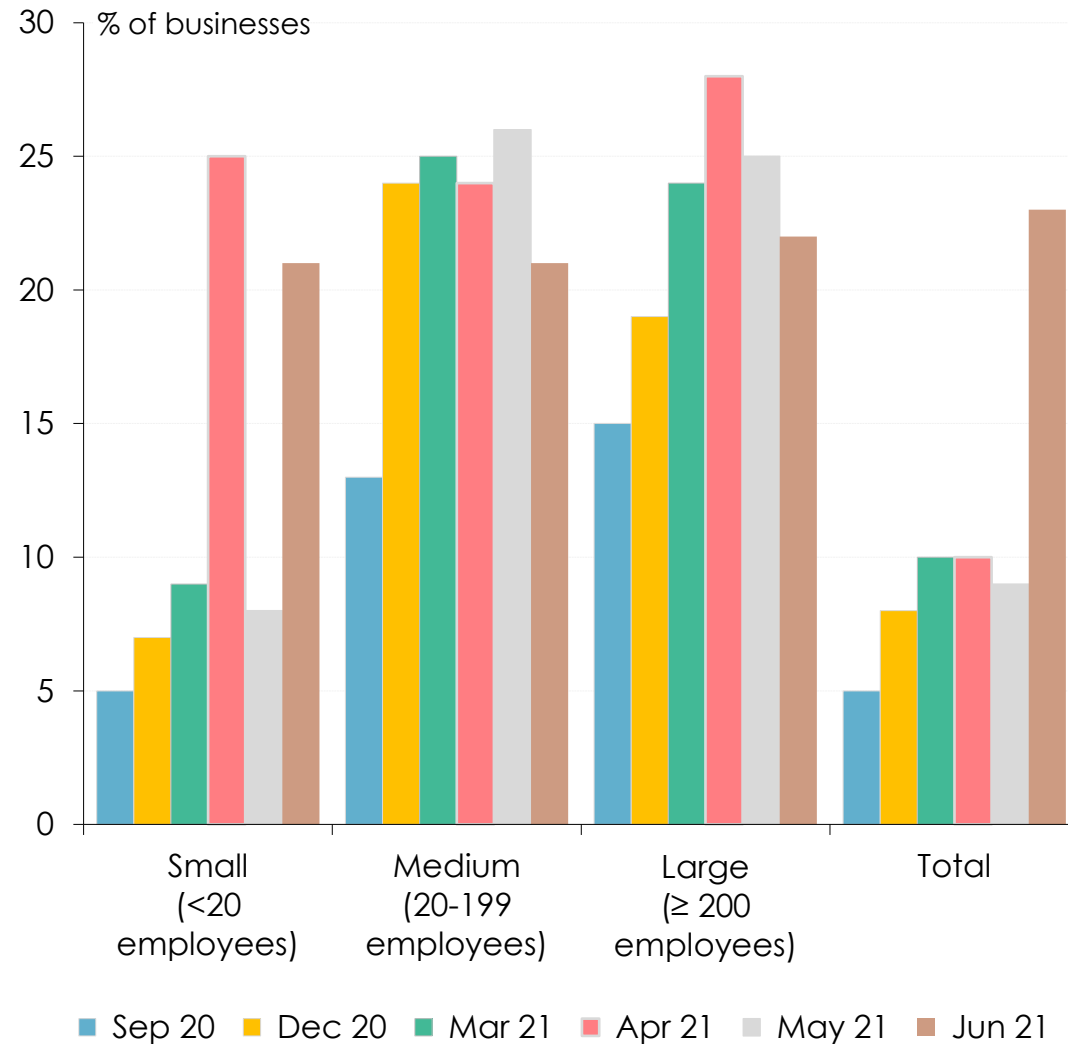
Proportion of businesses reporting decreases or increases in revenue over past month by size



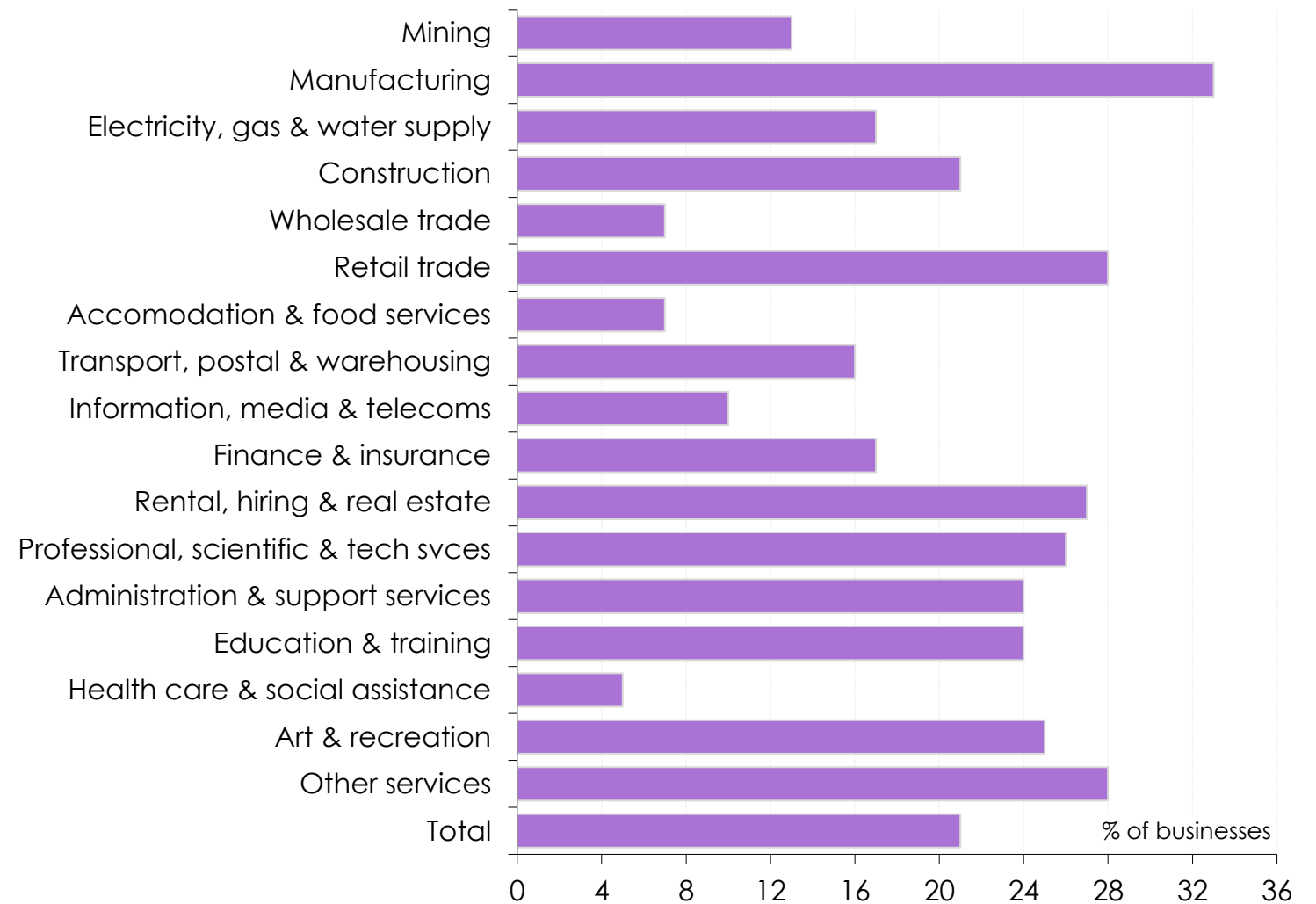
Note: 'size' in the right-hand chart refers to the number of employees. Source: ABS, [Business Conditions and Sentiments](#), June 2021. [Return to "What's New"](#).

# 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

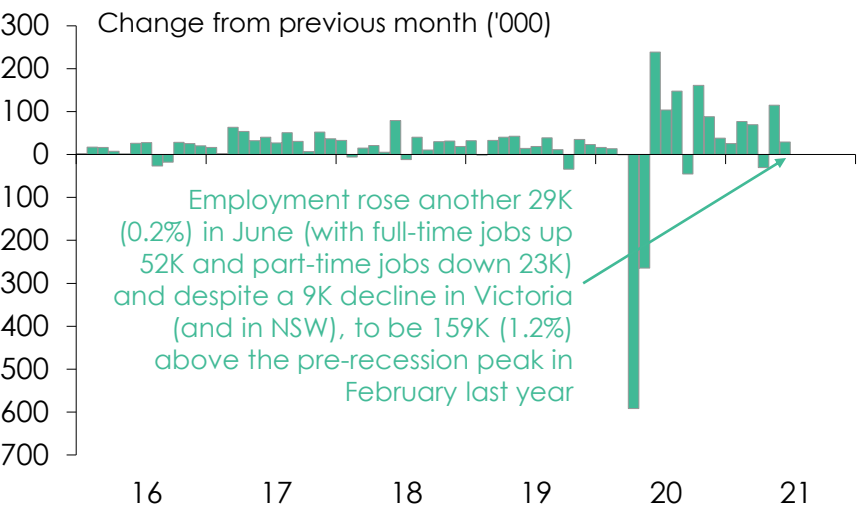


Source: ABS, [Business Conditions and Sentiments](#), June 2021. See also [slide 114](#) for data on capex intentions by business size. [Return to "What's New"](#).

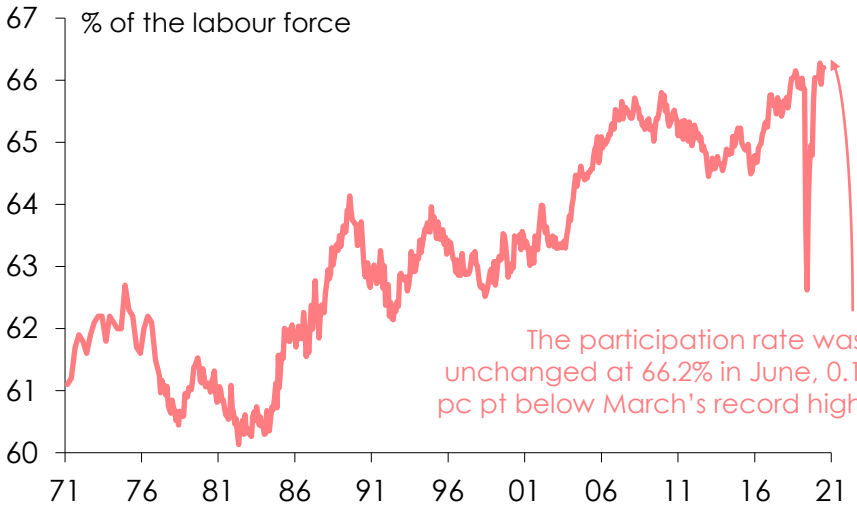


# Employment rose another 29K (0.2%) in June to be 1.2% above its pre-pandemic peak while the unemployment rate fell 0.2 pc pts to 4.9%

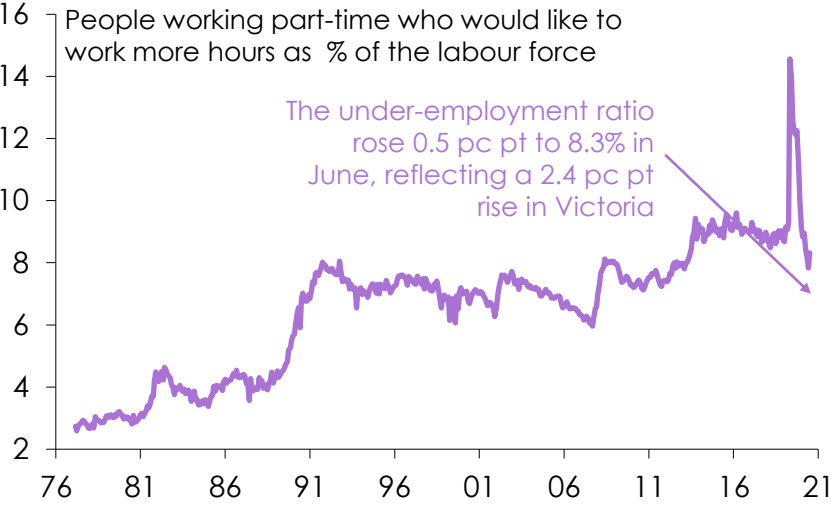
## Employment



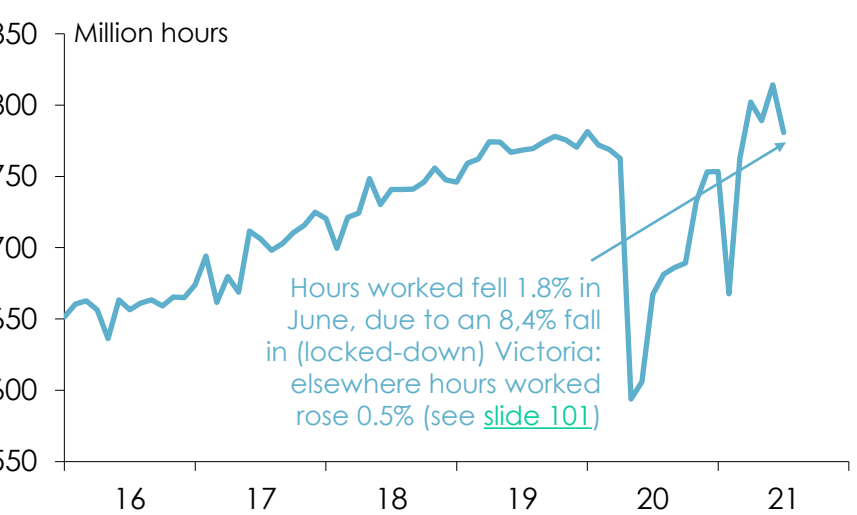
## Labour force participation rate



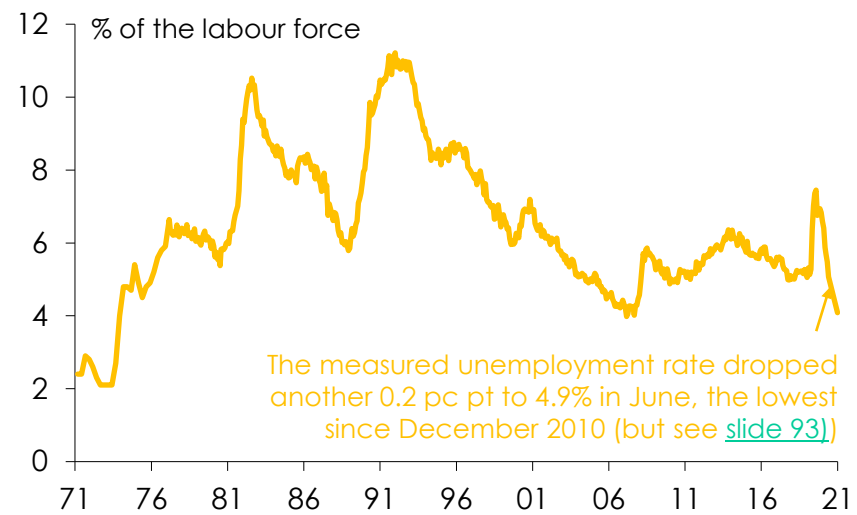
## Under-employment ratio



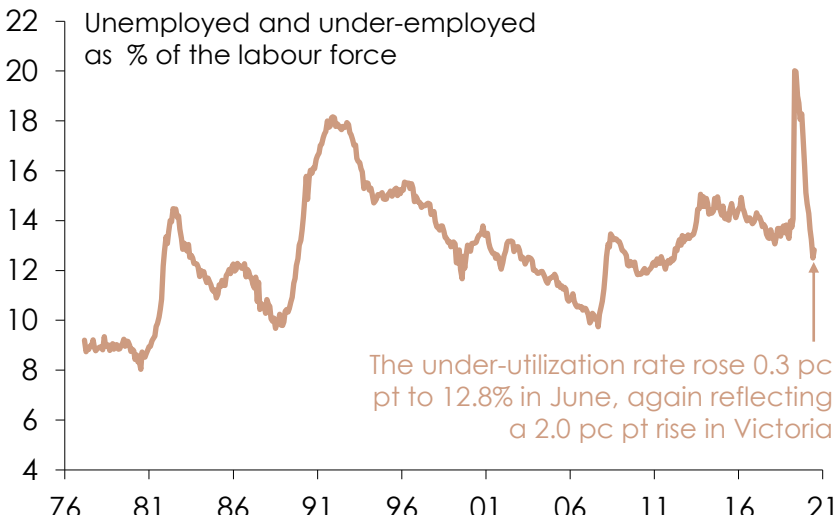
## Total hours worked



## Unemployment rate

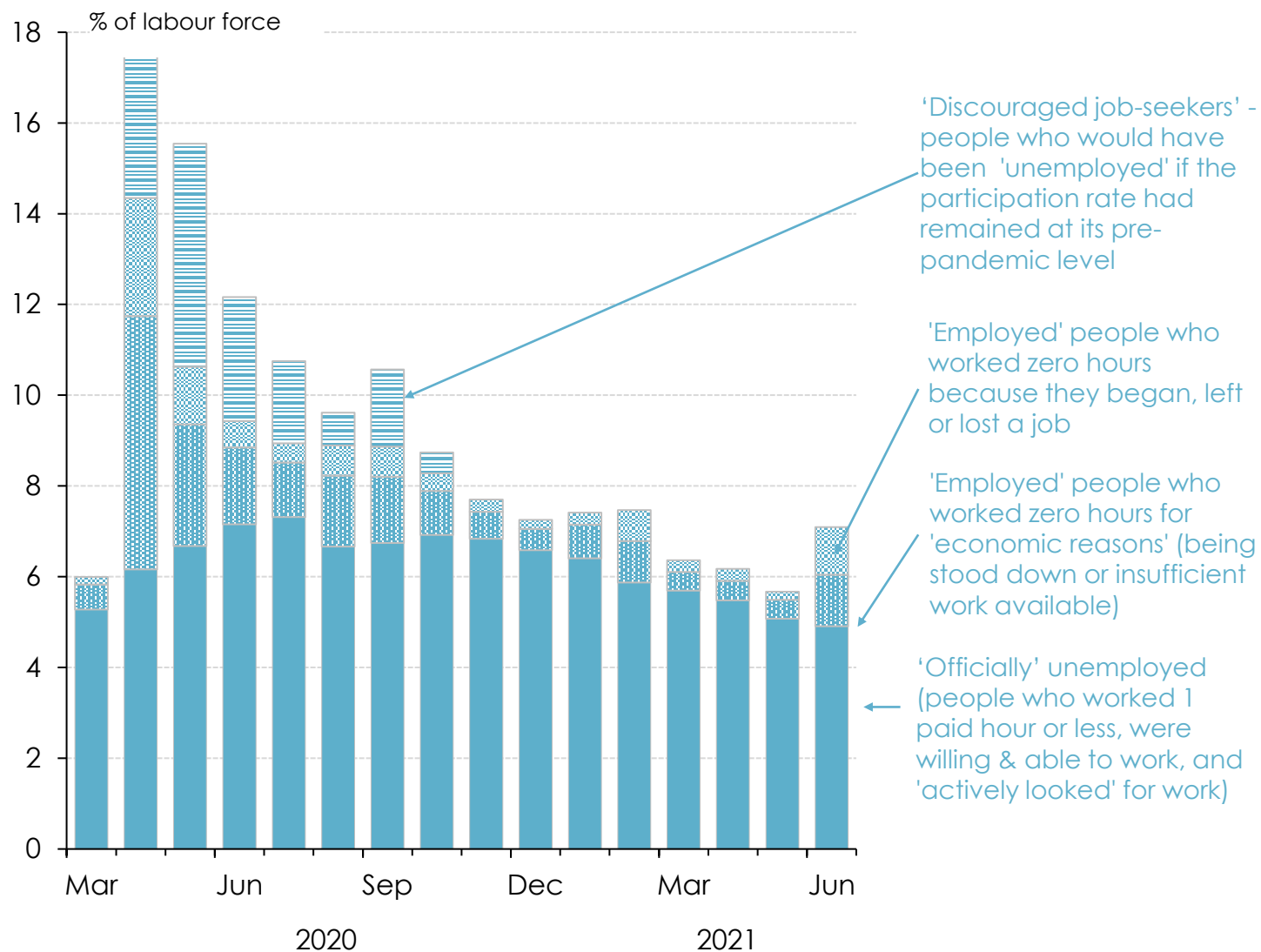


## 'Under-utilization' rate



# The 'effective' unemployment rate rose from 5.7% in May to 7.1% in June, due to a 235K increase in people 'working zero hours' in Victoria

## Alternative measures of unemployment

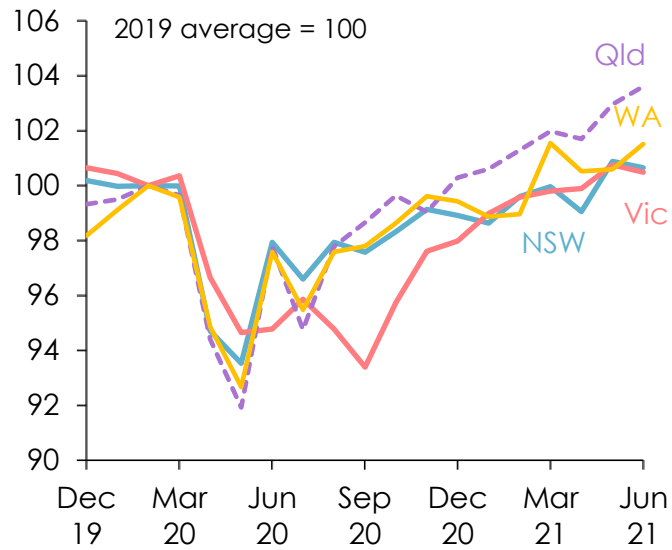


- ❑ The number of people counted as 'employed' but who worked zero hours for 'economic reasons' (no or insufficient work, or 'stood down') jumped by 98K in June, reflecting a 114K rise in Victoria (due to the lockdown) partly offset by declines in other states
- ❑ There was also a 124K increase in the number of people counted as 'employed' who worked zero hours because they began, left or lost a job during the month (again all in Victoria)
- ❑ If these people are instead regarded as having been 'unemployed' (as they would be in the US or Canada), then the 'effective' unemployment rate would have risen to 7.1% in June, from 5.7% in May
  - although that's still well down from a peak of 17.8% in April last year
- ❑ Something similar (but possibly larger) can be expected to appear in the July data as a result of the current lockdown in New South Wales
  - which started after the June labour force survey was conducted

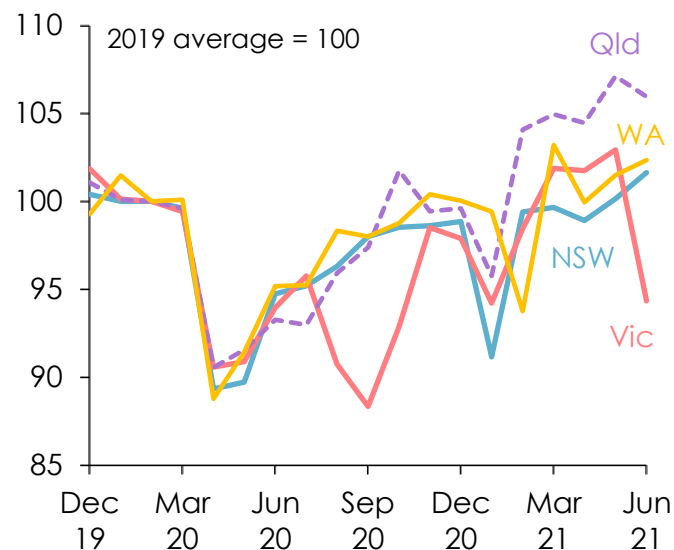
Source: ABS, [Labour Force, Australia](#); Corinna. July data will be released on 19<sup>th</sup> August. [Return to "What's New"](#).

# Qld and WA continue to have the strongest employment recoveries: last month's Victorian lockdown showed up in an 8½% fall in hours worked

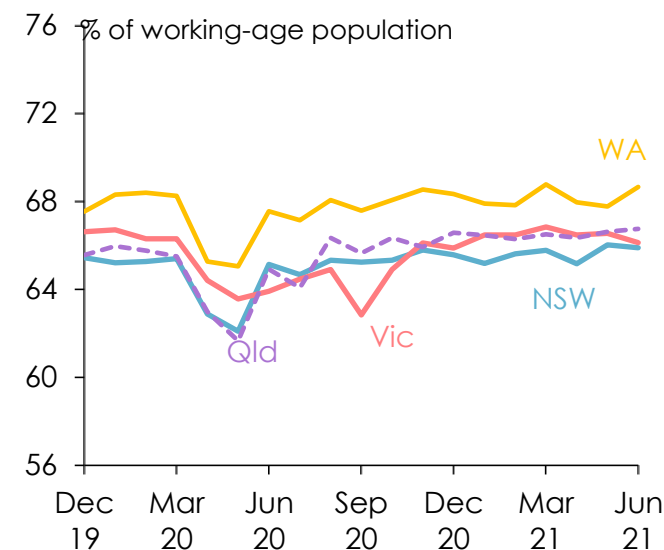
## Employment



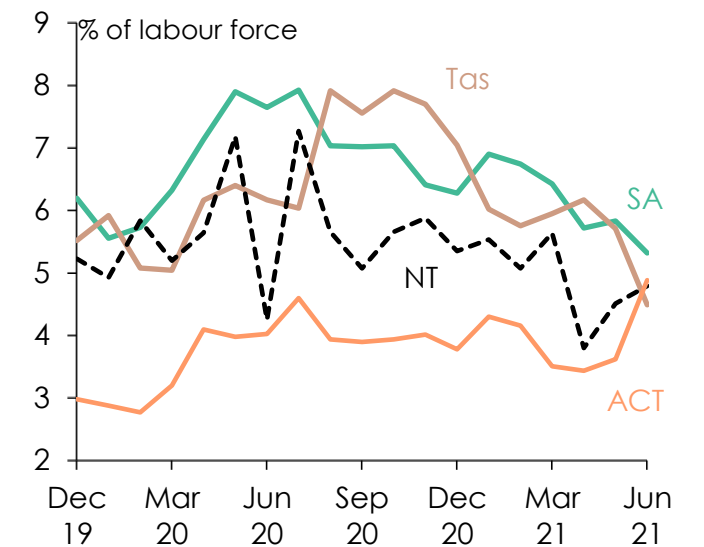
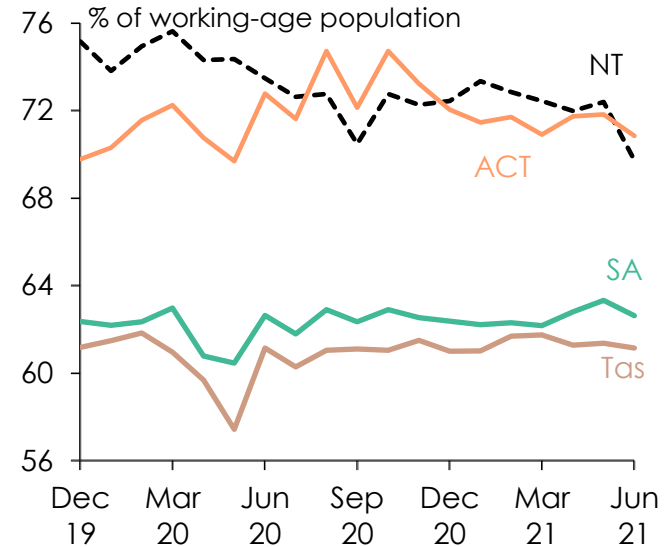
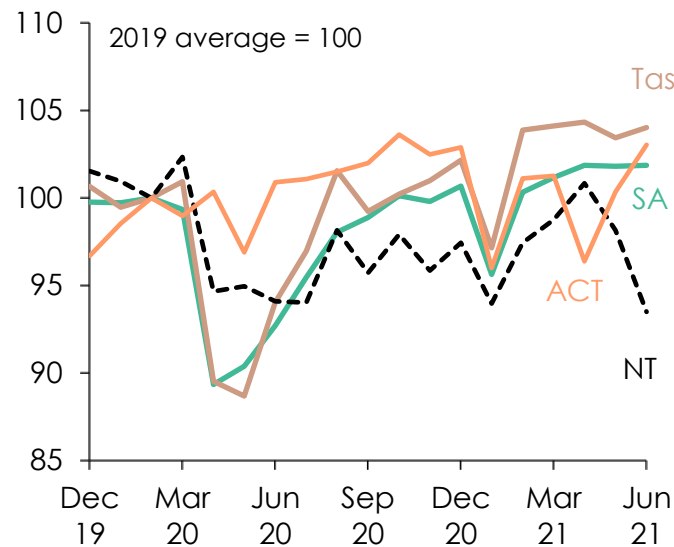
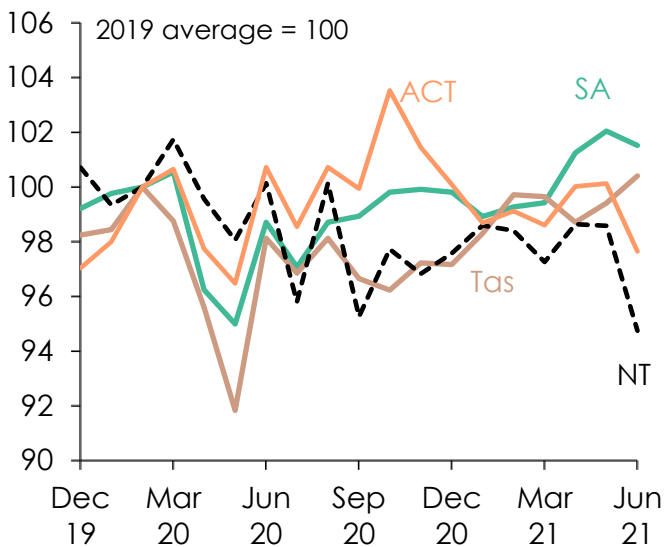
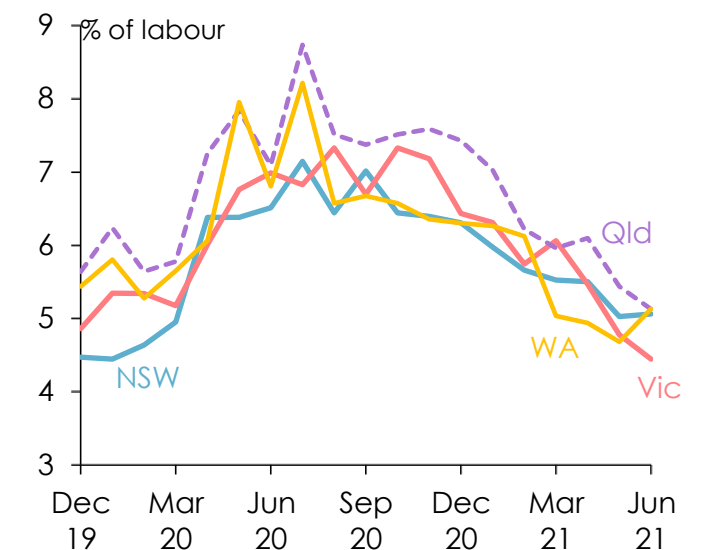
## Hours worked



## Participation rates



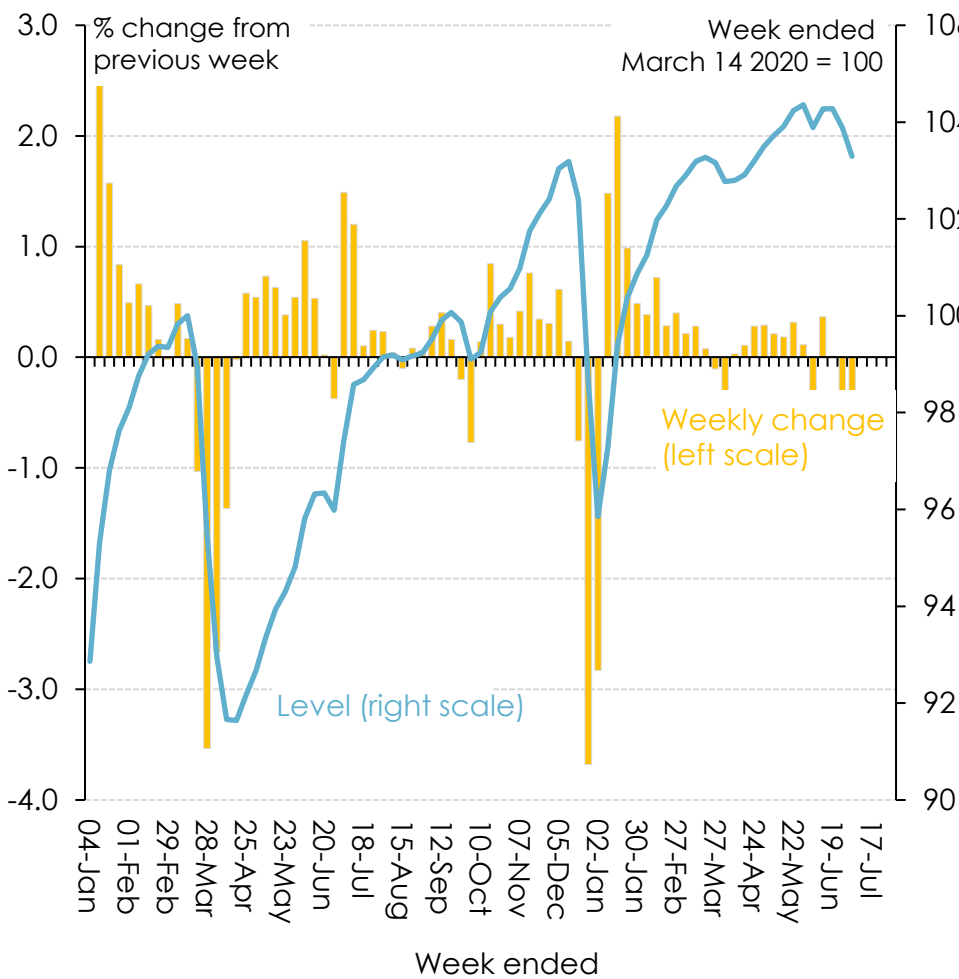
## Unemployment rates



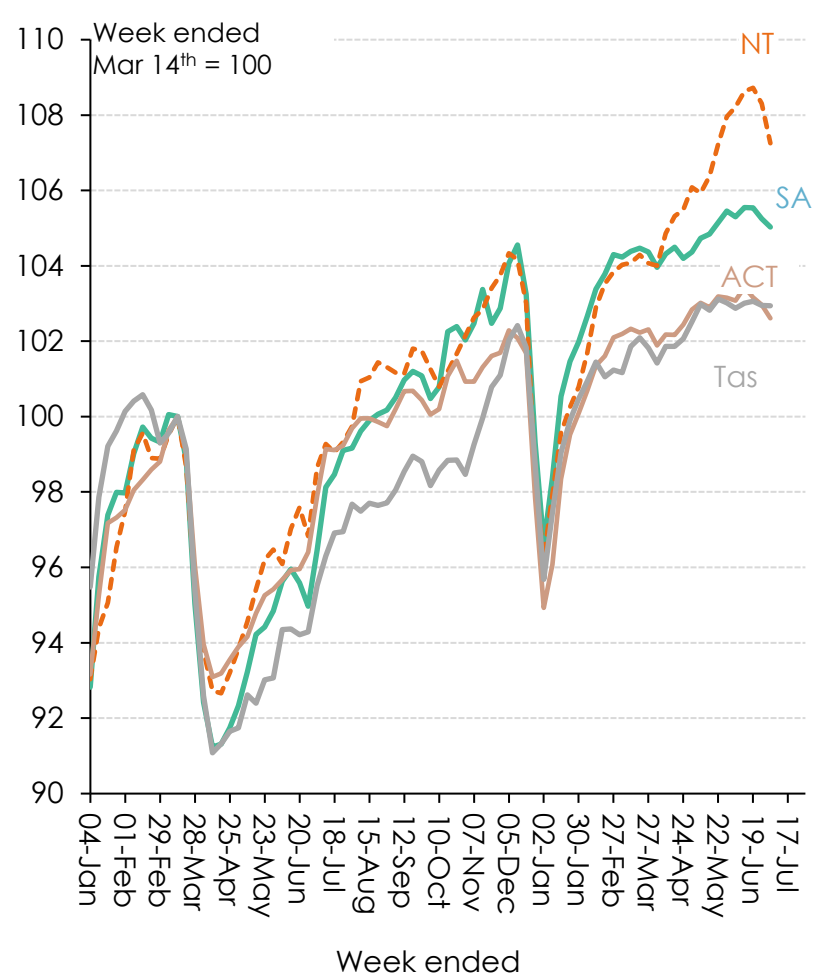
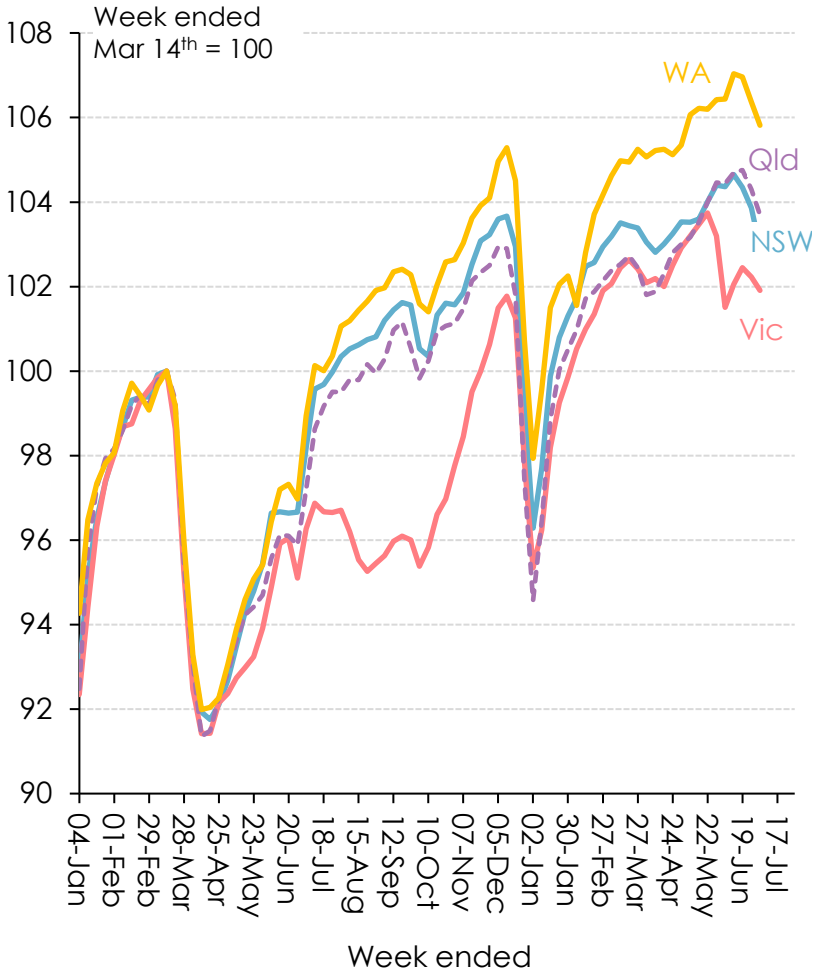
Source: ABS, [Labour Force, Australia](#); Corinna. July data will be released on 19<sup>th</sup> August. [Return to "What's New"](#).

# Payroll jobs fell 0.9% over the two weeks to 3<sup>rd</sup> July, with the largest falls in NSW and the NT (1.4%), WA (1.1%) and Qld (1.0%)

Level and weekly change in the number of payroll jobs



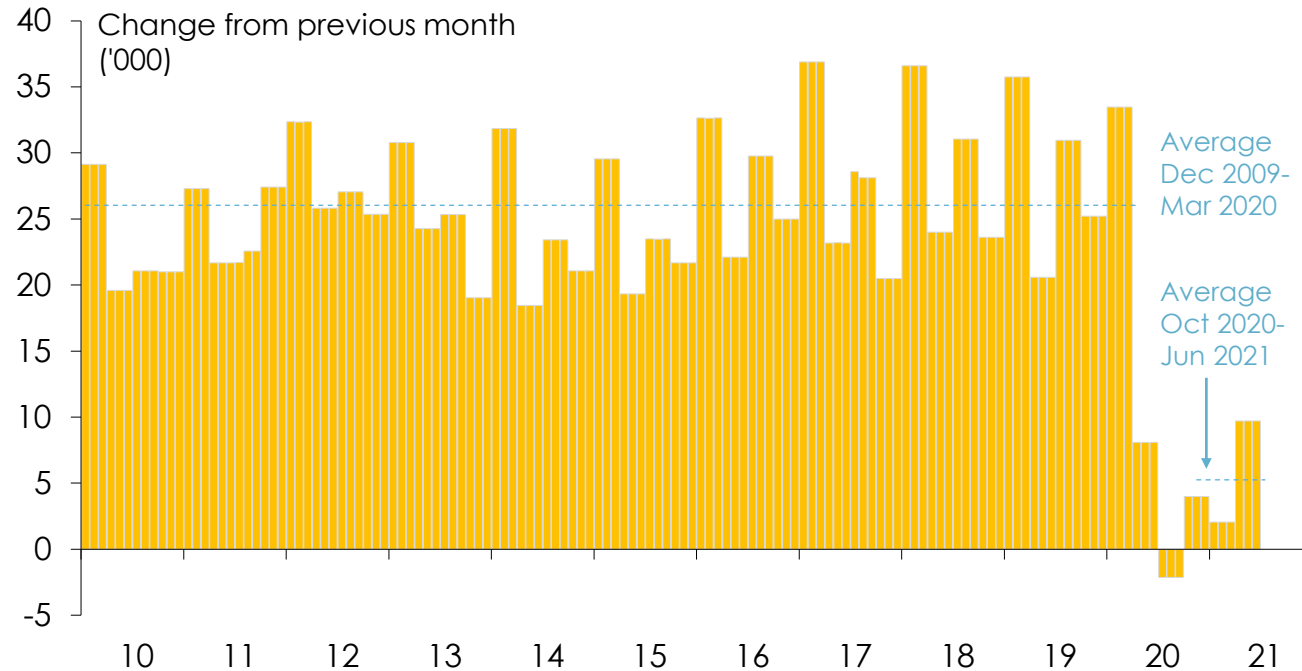
Payroll jobs by State & Territory



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 17<sup>th</sup> July will be released on 5<sup>th</sup> August. [Return to "What's New"](#).

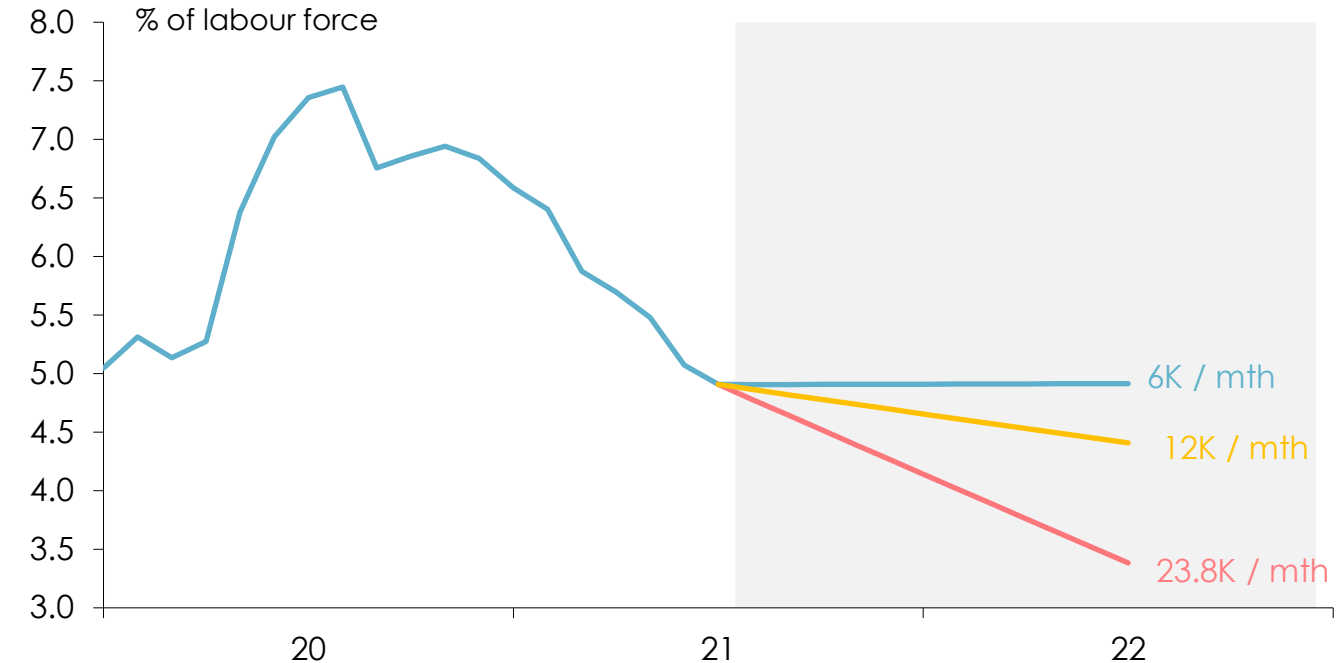
# The closure of Australia's borders means that it's much easier to reduce unemployment for any given rate of jobs growth

## 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 just over 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

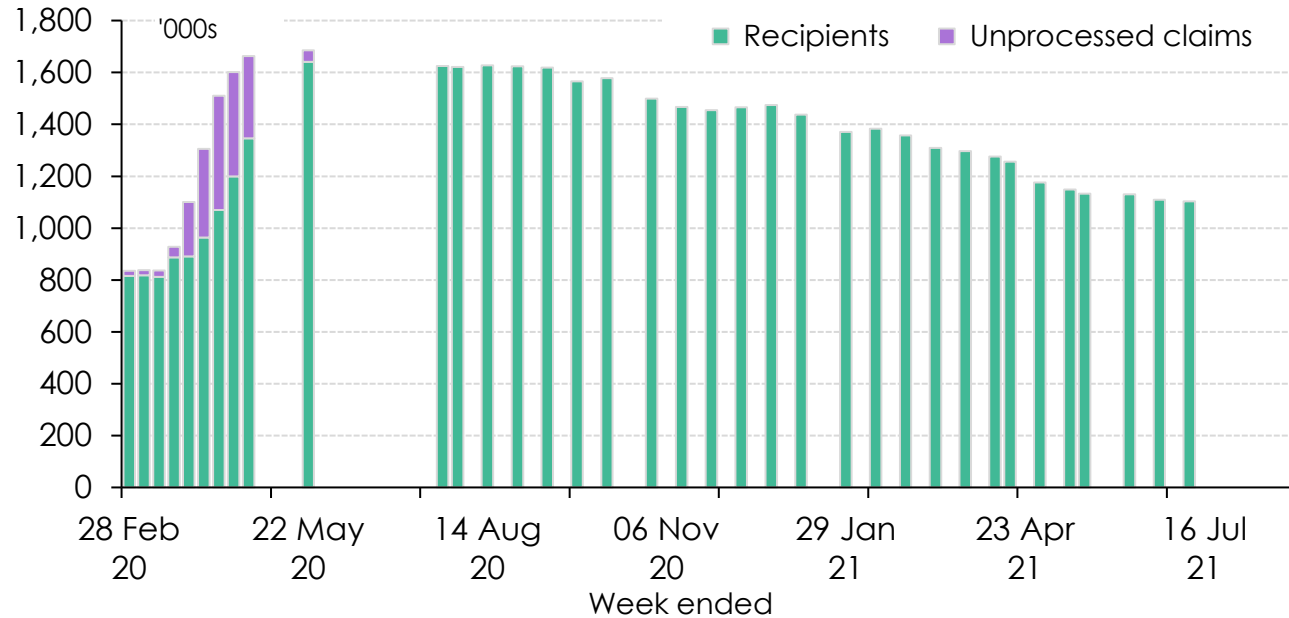


- ❑ Assuming the working-age population grows at the same rate as during the current quarter (ie 9.7K a month) and no change in the participation rate, employment growth of more than just 6K a month is sufficient to ensure further falls in the unemployment rate
- ❑ If employment continued to grow at half the pace so far this year unemployment would be down to 3¼% by June next year – a quarter of that pace (12K a month) is all that's required to get below 4½% by next June

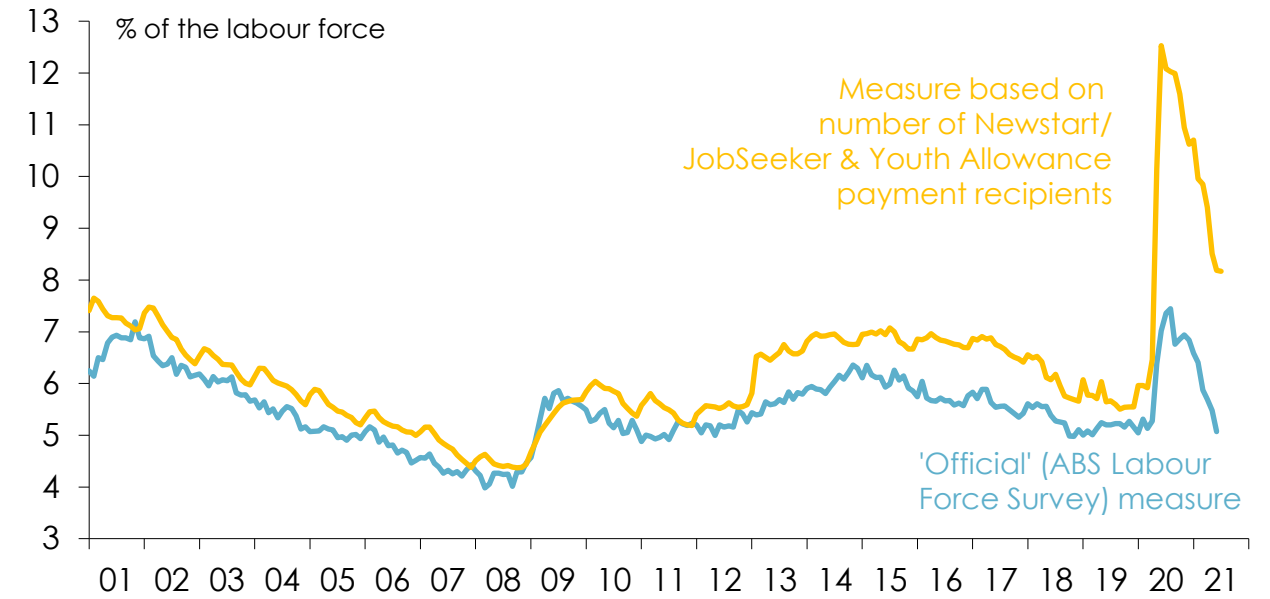


# The number of people receiving 'unemployment benefits' has fallen by 193K (15%) since the end of the Government's 'JobKeeper' scheme

## 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

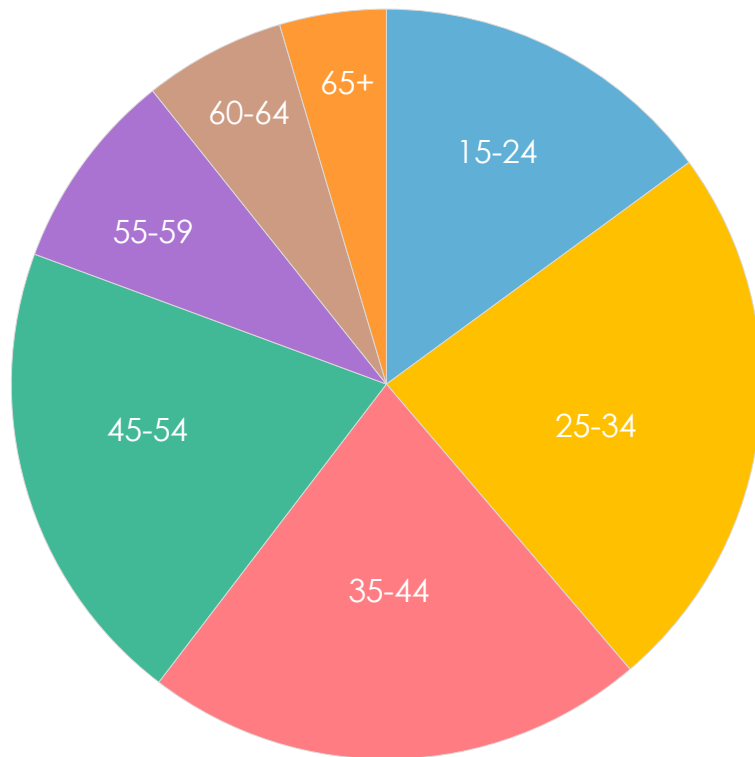


- ❑ Ministers receive weekly data on the number of people on JobSeeker and Youth Allowance (Other) benefits – which since late July last year the Department of Social Services has made this available every second week to the Senate Select Committee examining the Government's responses to Covid-19
- ❑ Data for the week ended 9<sup>th</sup> July show a decline of 193,374 (15%) in the number of people receiving these two benefits since 26<sup>th</sup> 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

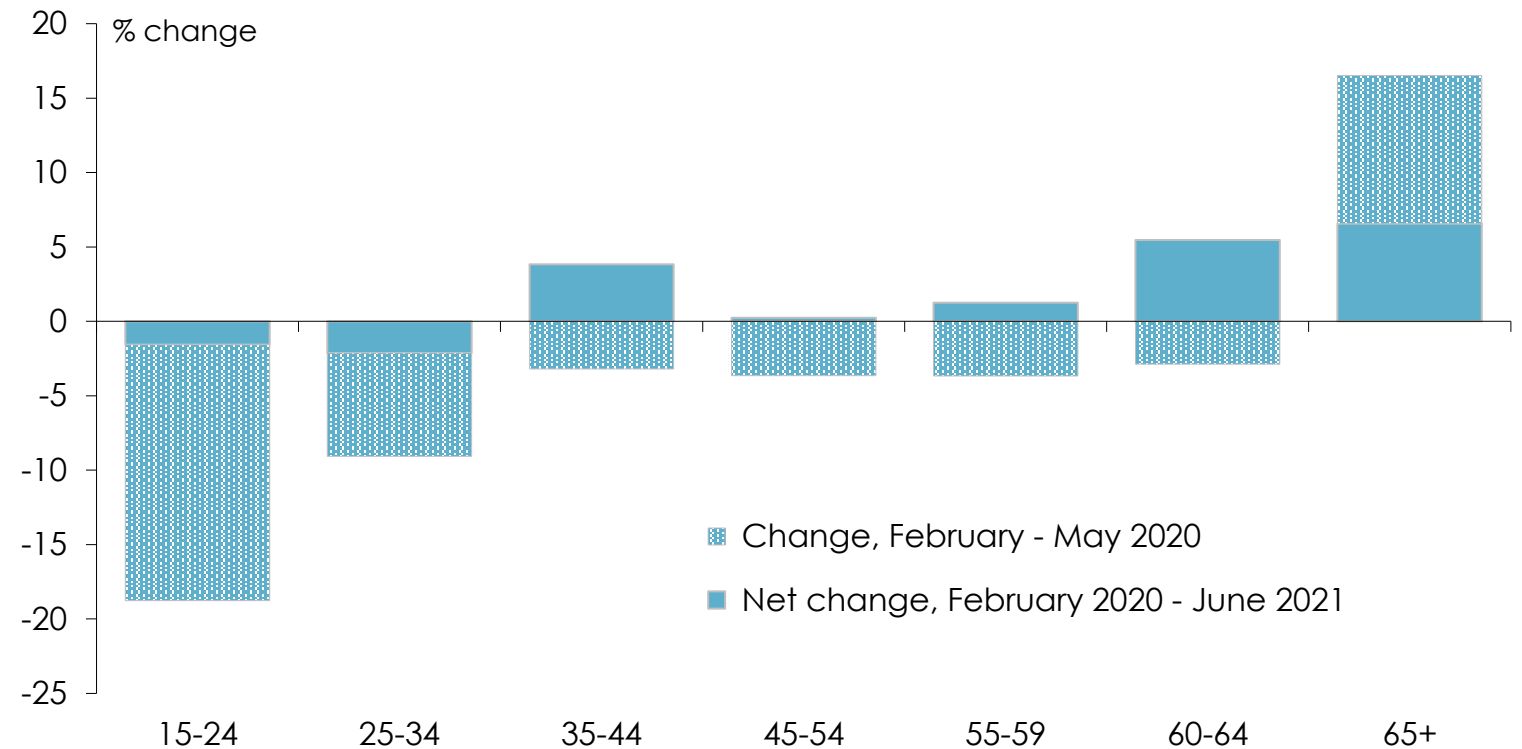


# Younger workers bore the brunt of job losses during the early stages of the pandemic and have had a more difficult time regaining jobs

Composition of employment by age group, February 2020



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

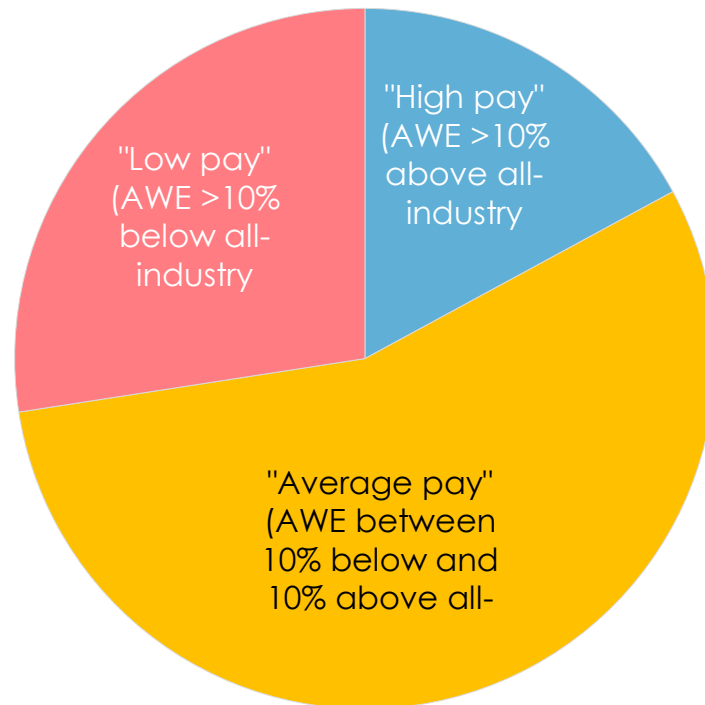


- ❑ People aged 15-24 accounted for 15% of pre-covid employment but experienced 39% of all job losses between February and May last year – and as of June this year their employment was still down 16% from where it had been in February 2020, while that of 25-34 year-olds was down by 2.1%
- ❑ By contrast older age groups have fared much better, with employment of 60-64 year-olds and those aged 65 & over 5.5% and 6.6%, respectively above where it was in February last year, and that of 35-44 year-olds up by 3.8%

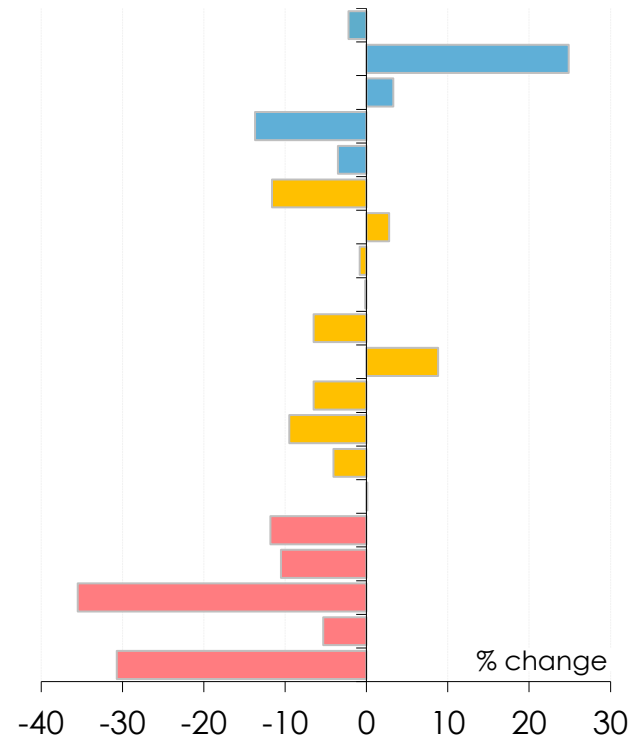
Note: data on employment by age group is not seasonally adjusted. Source: ABS, [Labour Force, Australia, Detailed](#), June 2021: July data will be released on 26<sup>th</sup> August.  
[Return to "What's New"](#).

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

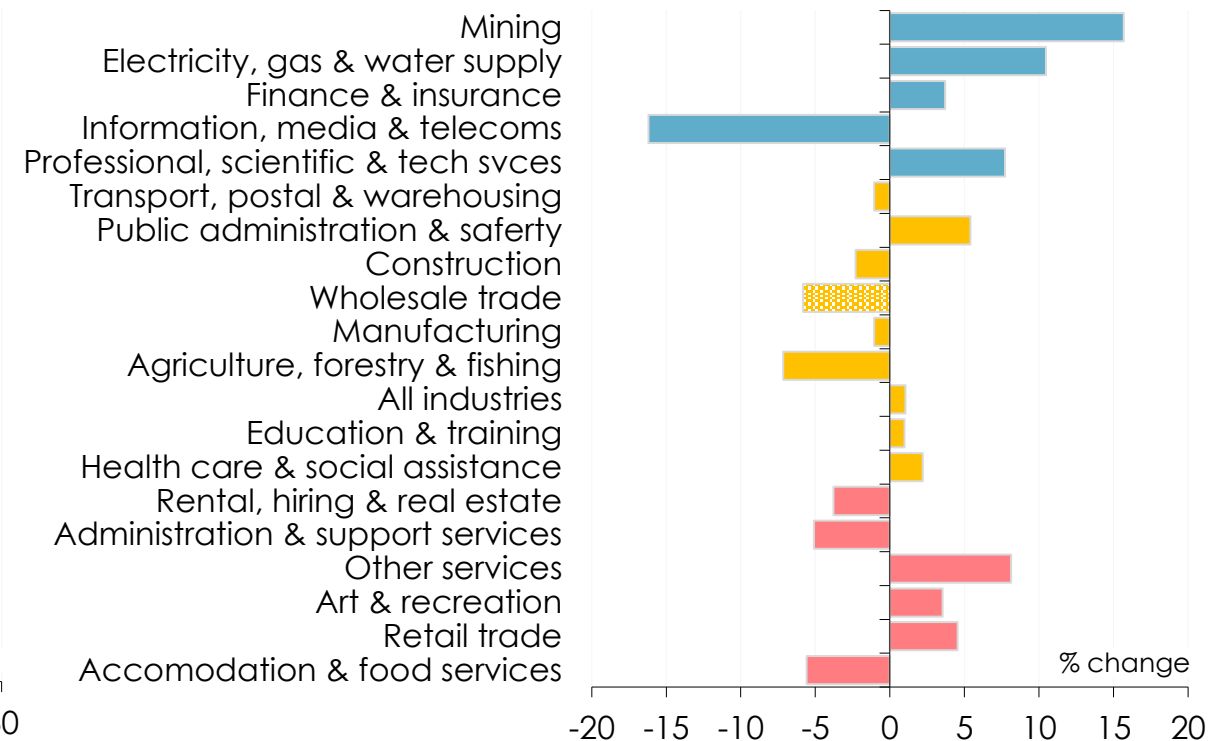
Composition of employment by industry ranked by average weekly earnings, February 2020



Change in employment by industry  
February-May 2020



February 2020 – May 2021

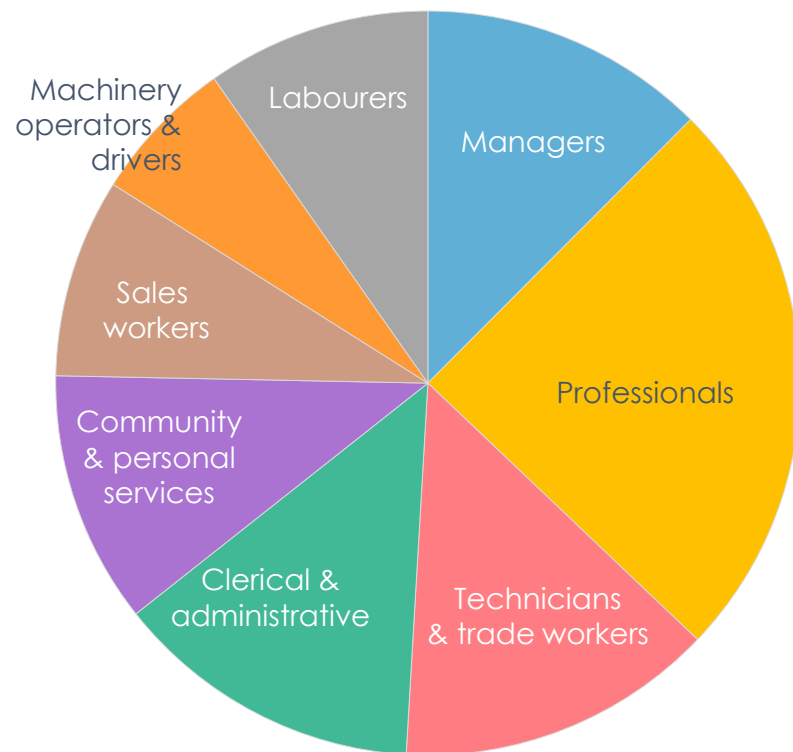


- ❑ Industries with average earnings which are 10% or more below average accounted for 27½% of the pre-pandemic workforce, but experienced 64% of the job losses between February and May last year – and employment in those industries was only 0.6% higher in May this year than it had been in February last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

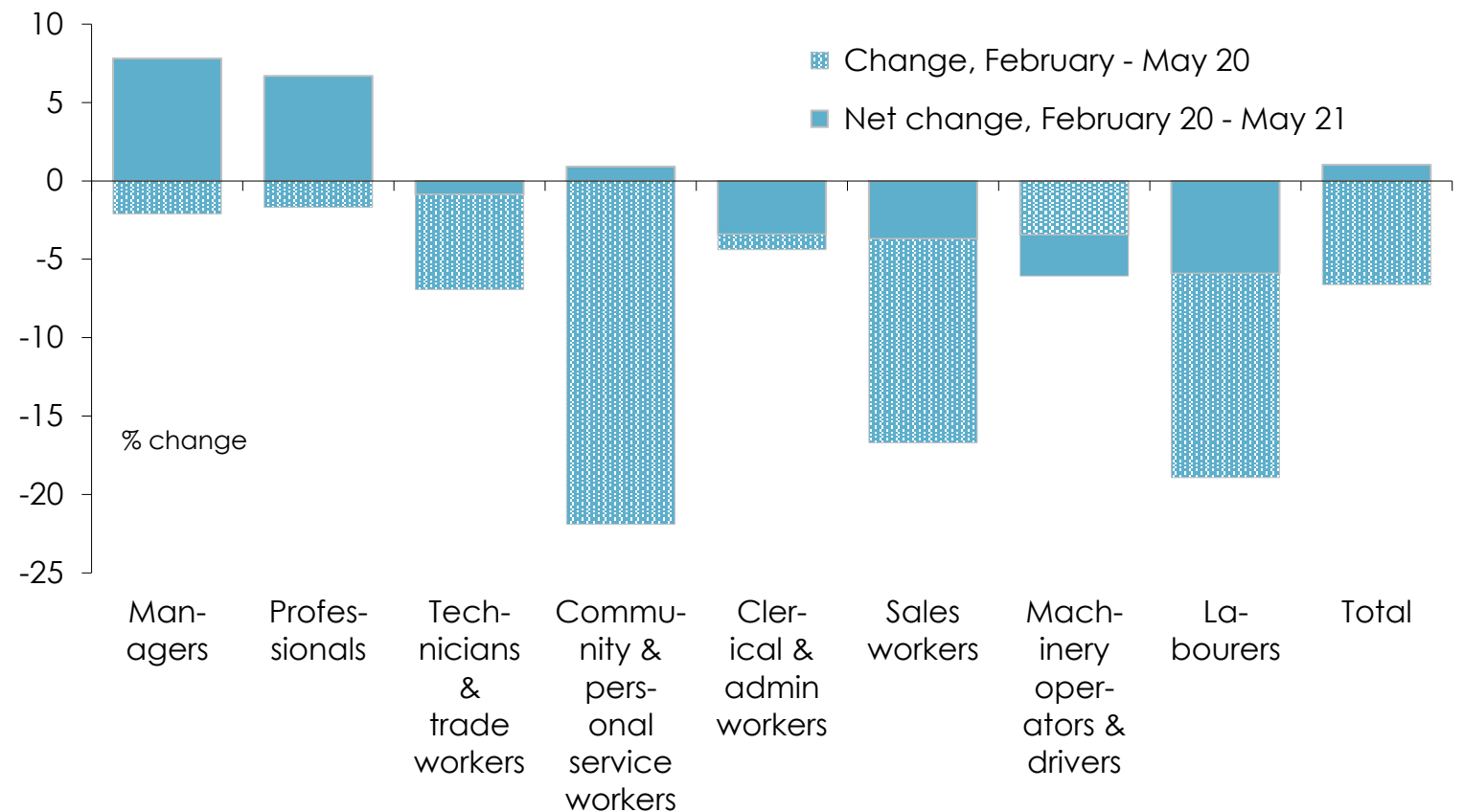
Source: ABS, [Labour Force, Australia, Detailed](#), May 2021 and [Average Weekly Earnings, Australia](#), November 2019. Labour force survey data on employment by occupation are available only for the middle month of each quarter: August data will be released on 23<sup>rd</sup> September. [Return to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



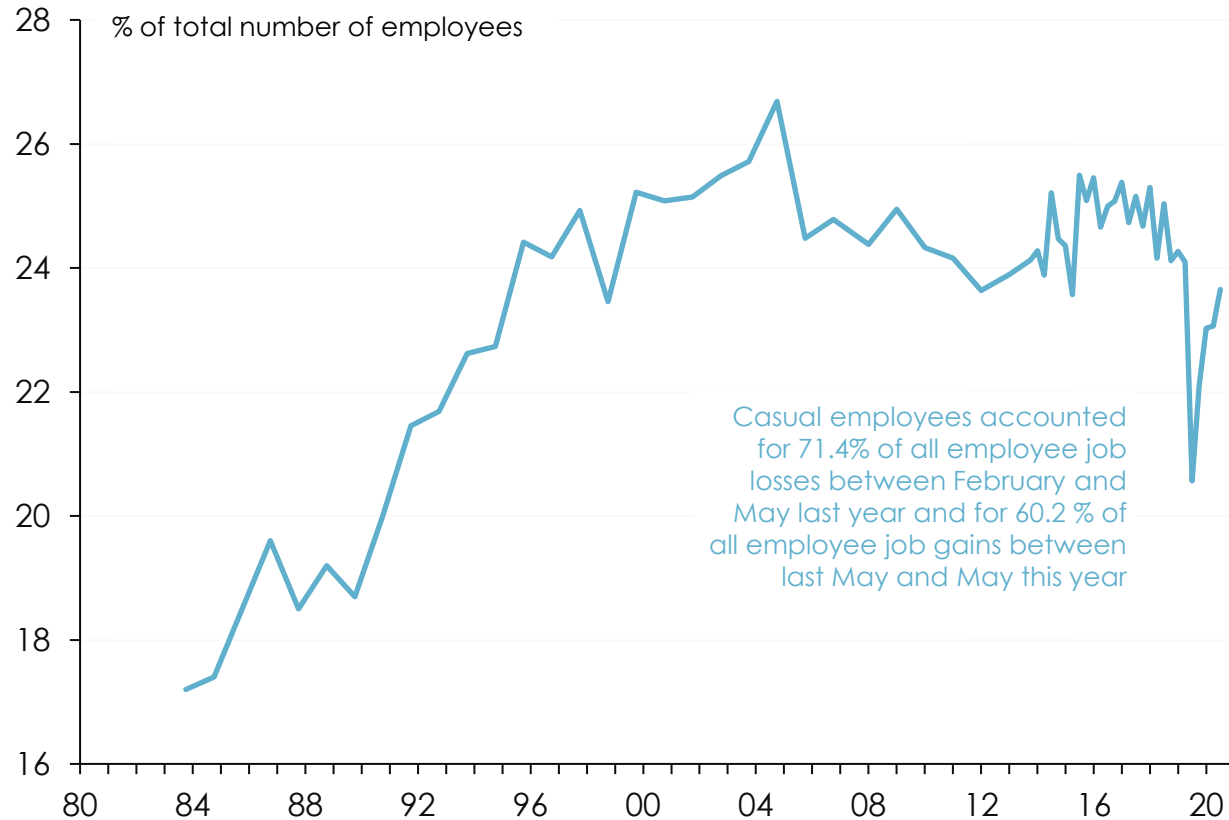
Change in employment between February 2020 and May 2021, by occupation



- ❑ 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

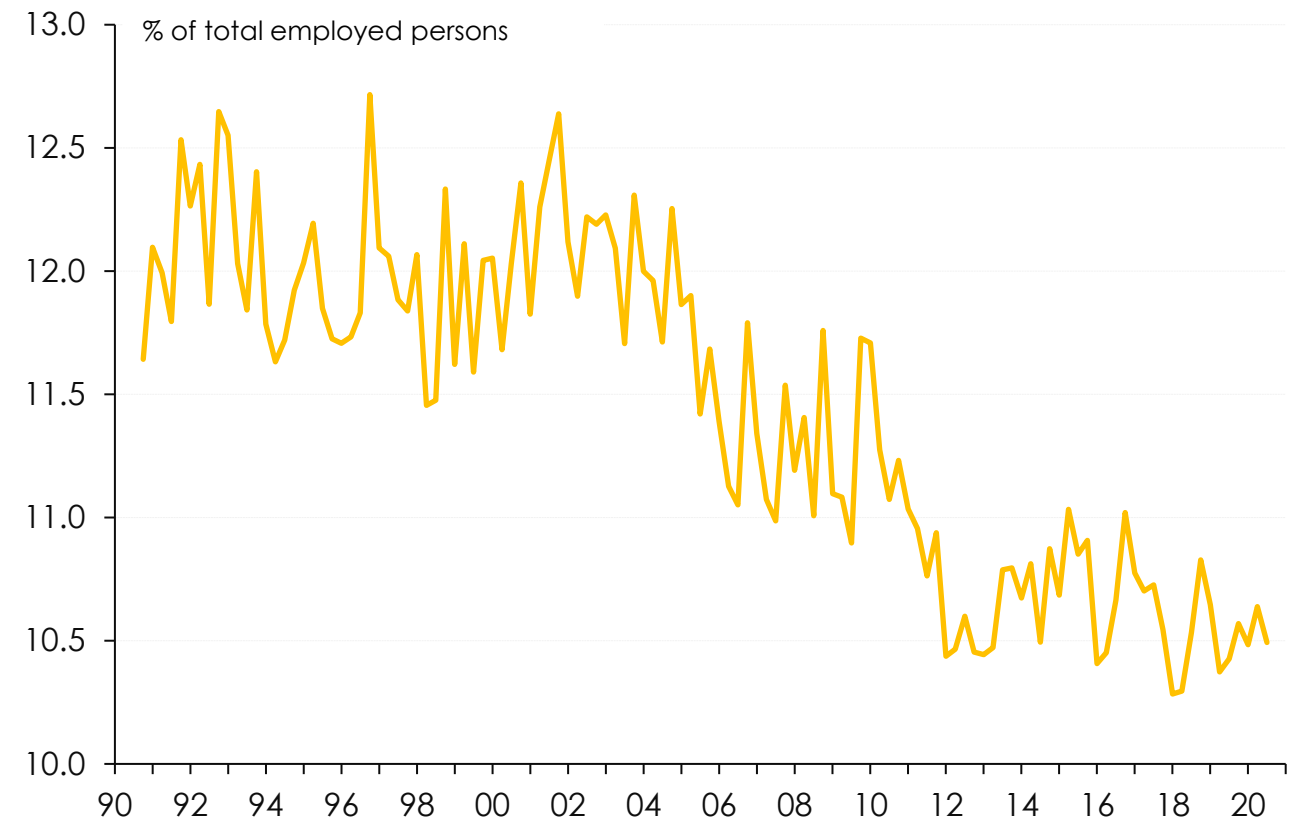
# Contrary to popular belief neither casual jobs nor 'gig economy' jobs have become more commonplace during the past two decades

## '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

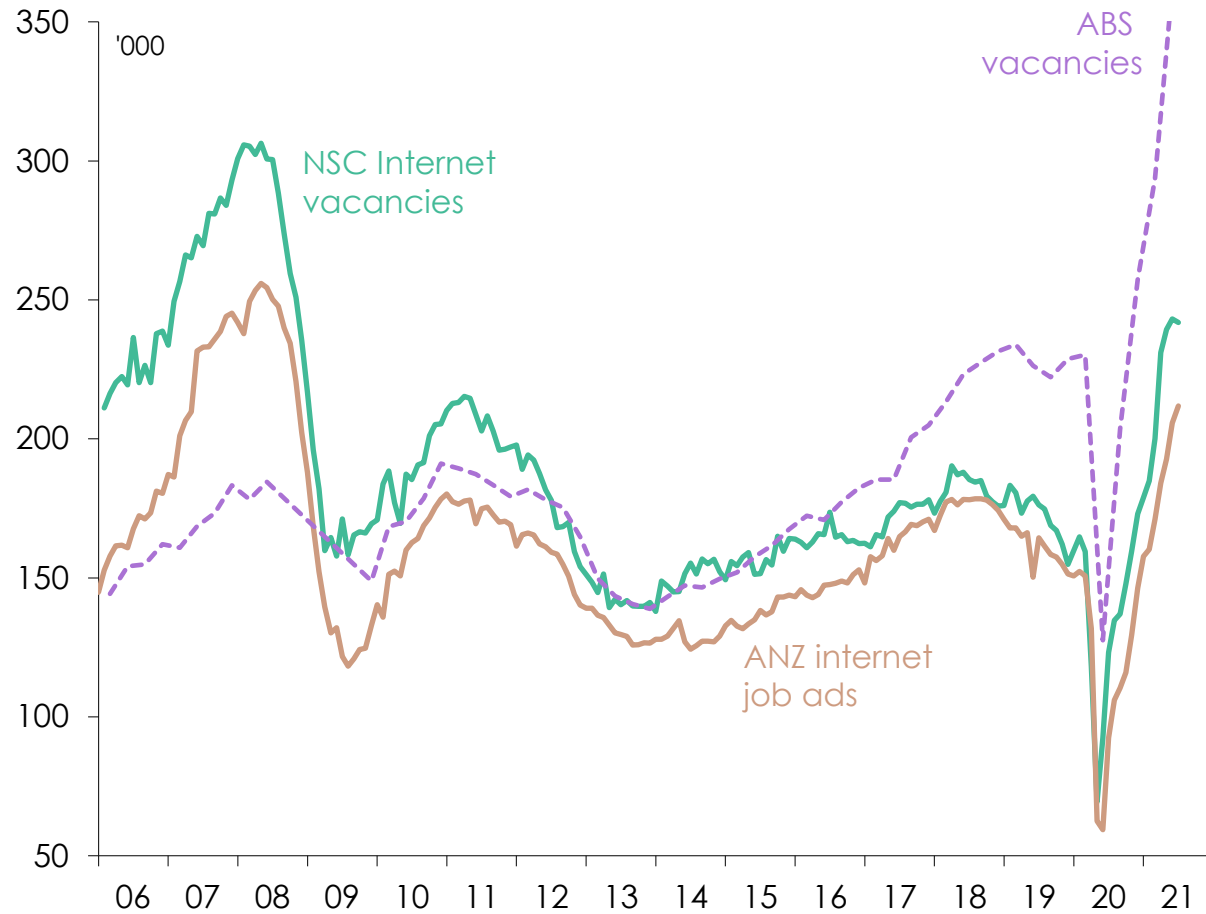


- ❑ 'Independent contractors' have actually declined as a share of the workforce since the early 2000s – had haven't increased during the current recession

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

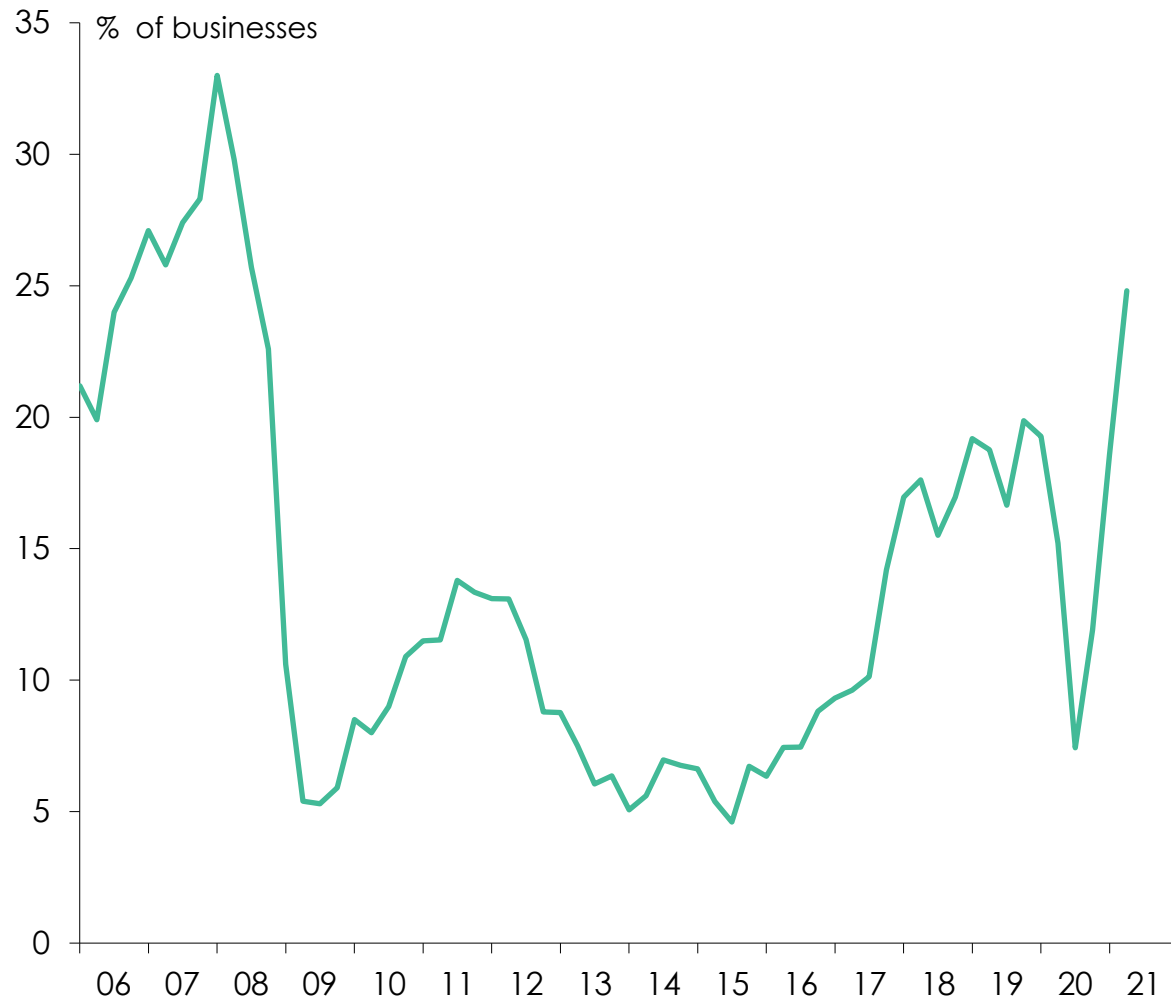
## Ratio of unemployed people to job vacancies



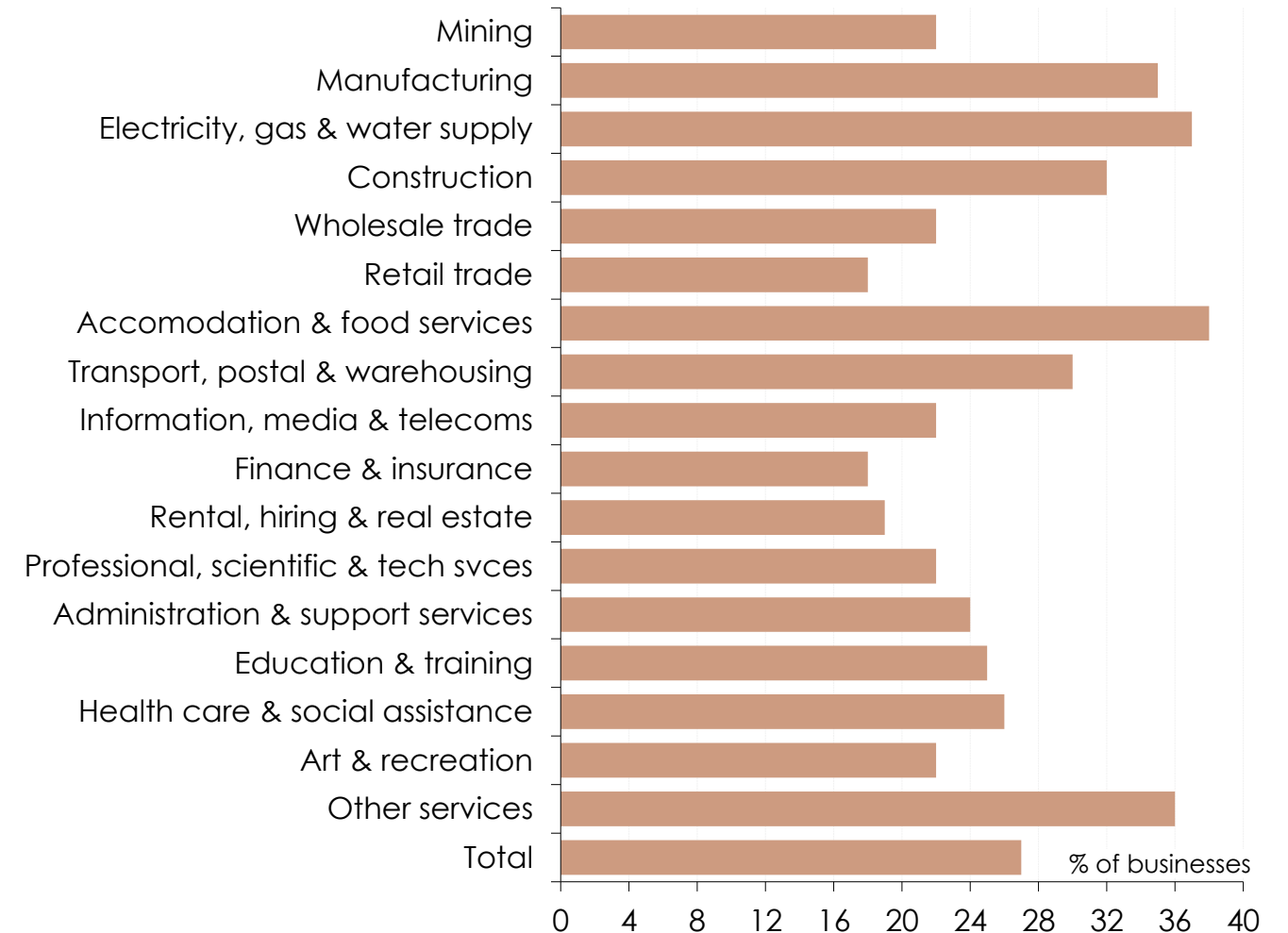
- ❑ In May there were just over 1 $\frac{3}{4}$  unemployed people for every vacancy reported to ABS – a record low – and the halving of 'caps' on arrivals to Australia may push that ratio down even more

# ... 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



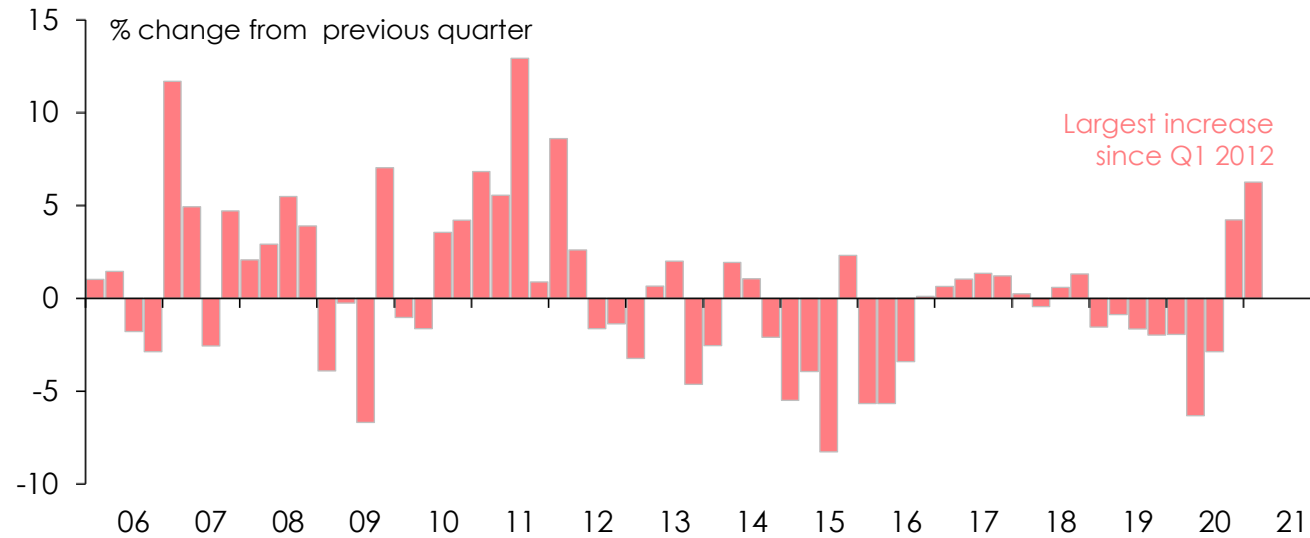


# RBA Governor Lowe this month made some important points about immigration, the labour market and wages (and border closures)

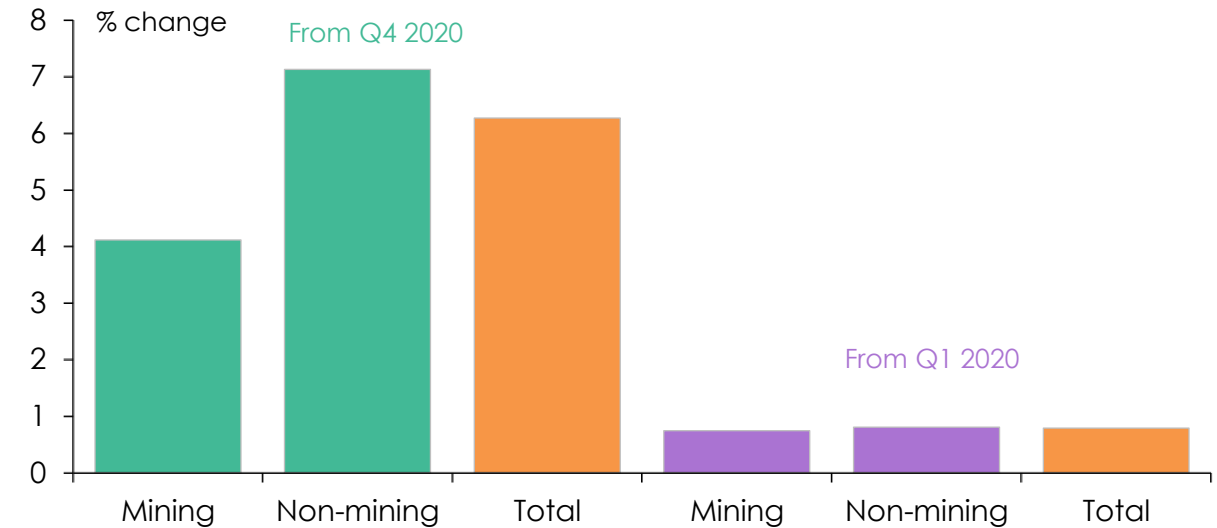
- ❑ In a [speech](#) earlier this month, Governor Phillip Lowe highlighted the role of three important 'supply side' developments in altering the relationship between the state of the labour market and the rate of wages growth
- ❑ First, the significant increase in labour force participation since around 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

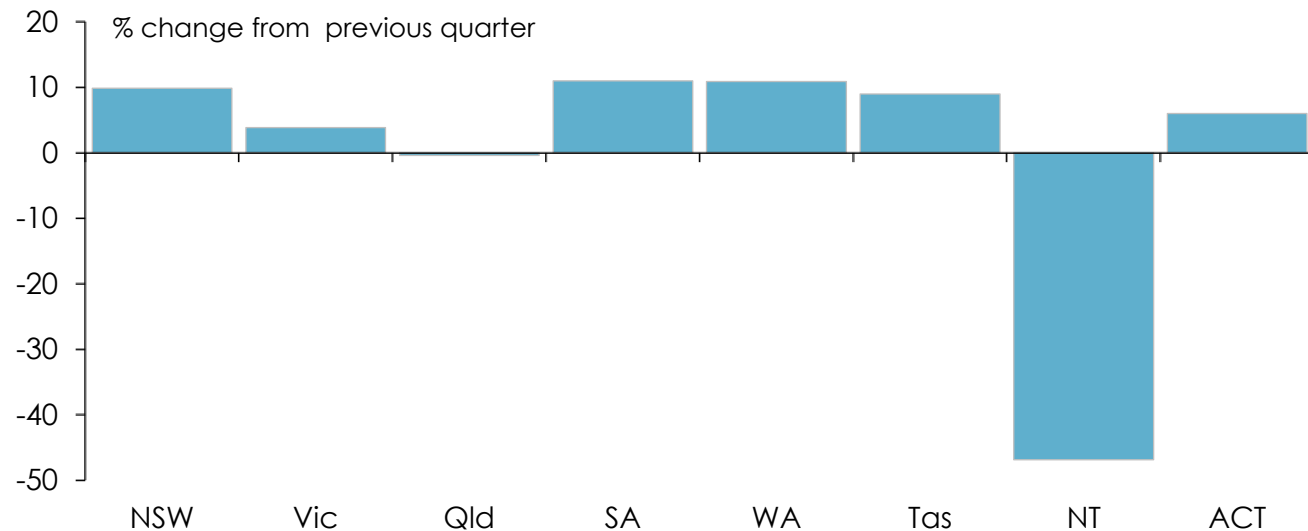
## Real business new fixed capital expenditure



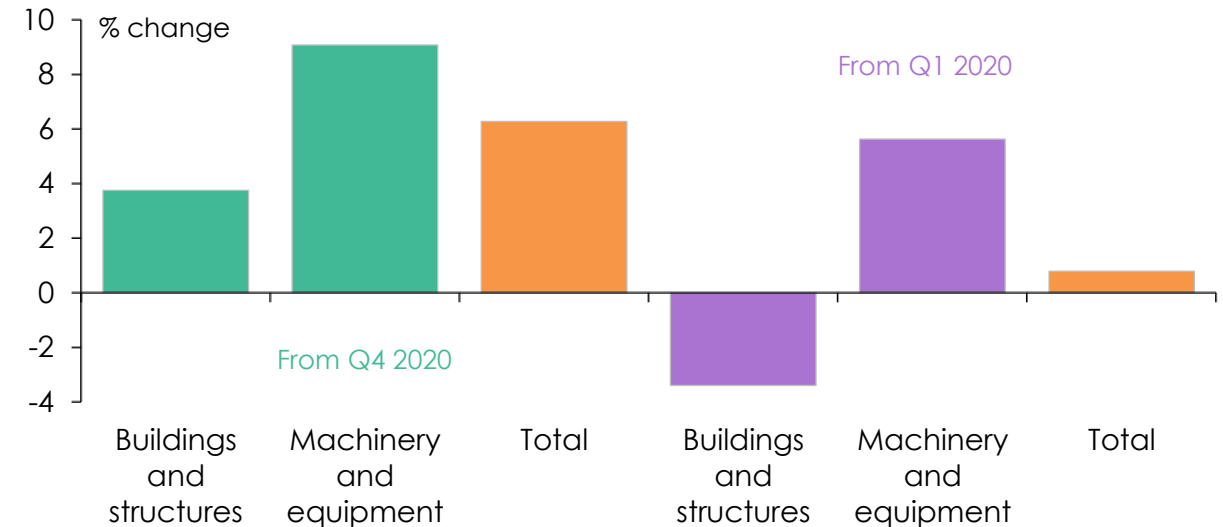
## Real business new fixed capex, by industry, Q1



## Real business new fixed capex, by state, Q1 2021



## Real business new fixed capex, by asset, Q1

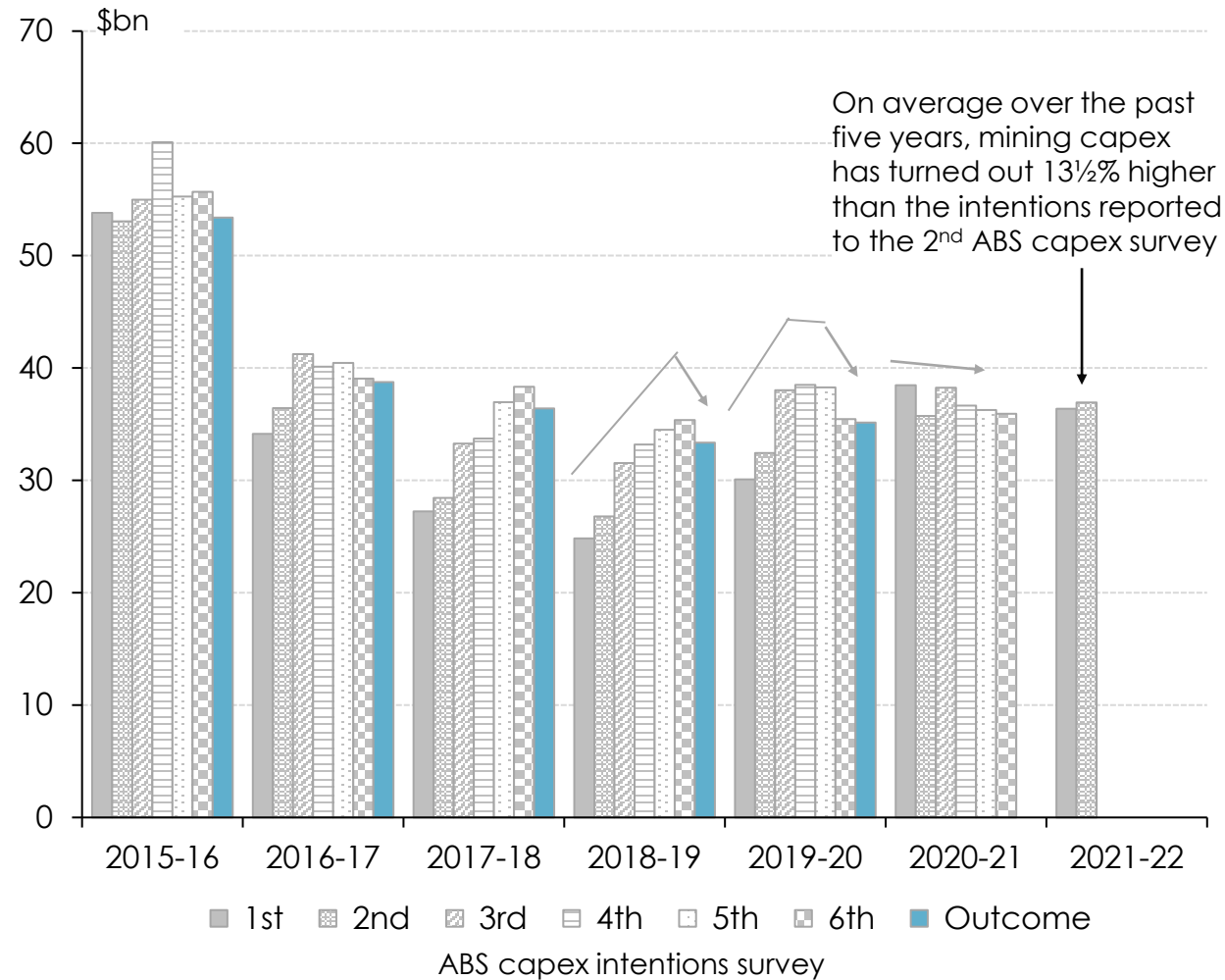


Note: the ABS Survey of New Capital Expenditure excludes the agriculture, forestry & fishing, and public administration & defence sectors, and superannuation funds.

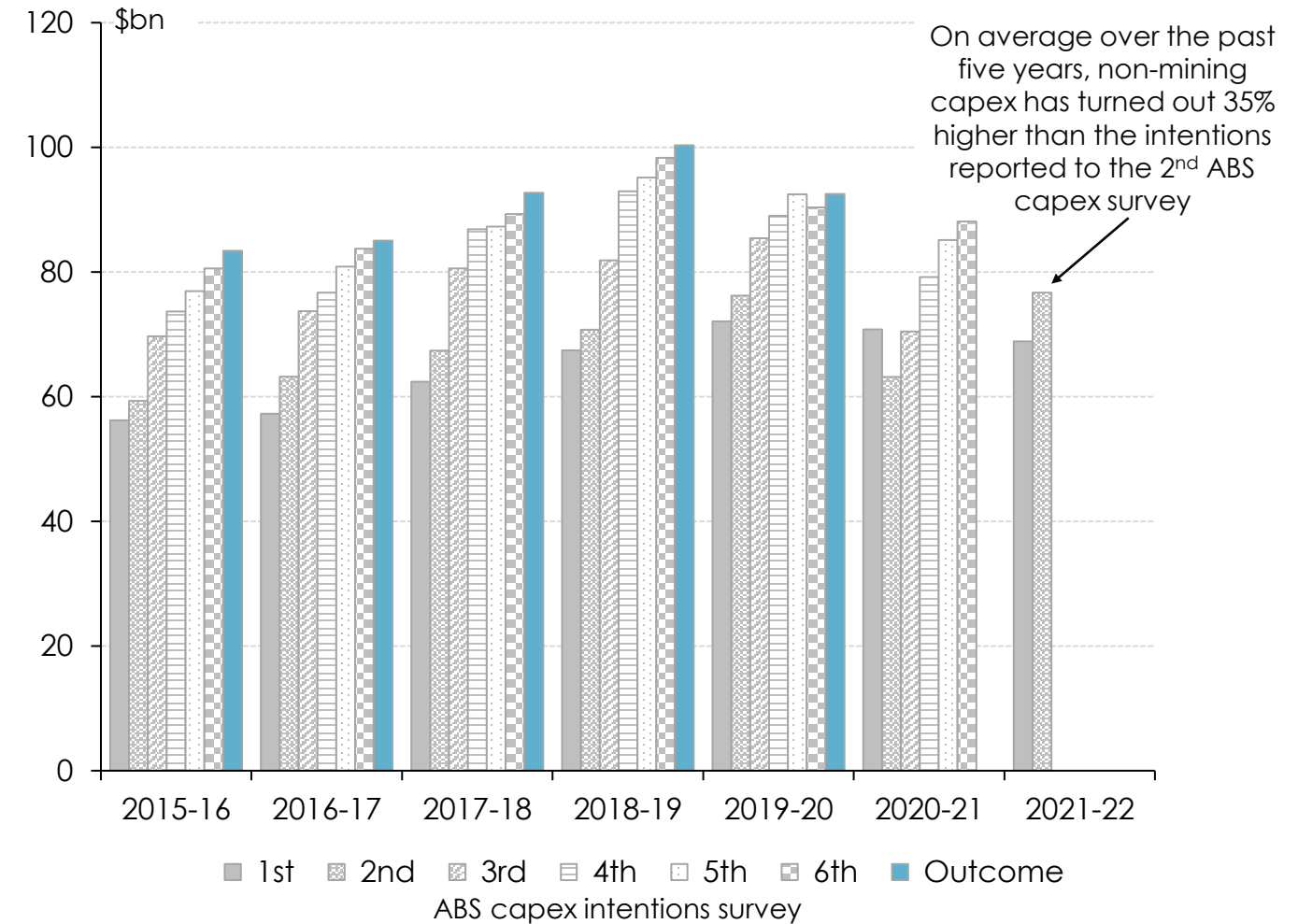
Source: ABS, [Private New Capital Expenditure and Expected Expenditure, Australia](#); March quarter data will be released on 26<sup>th</sup> August. [Return to "What's New"](#).

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

## Capital expenditure intentions - mining



## Capital expenditure intentions – non-mining

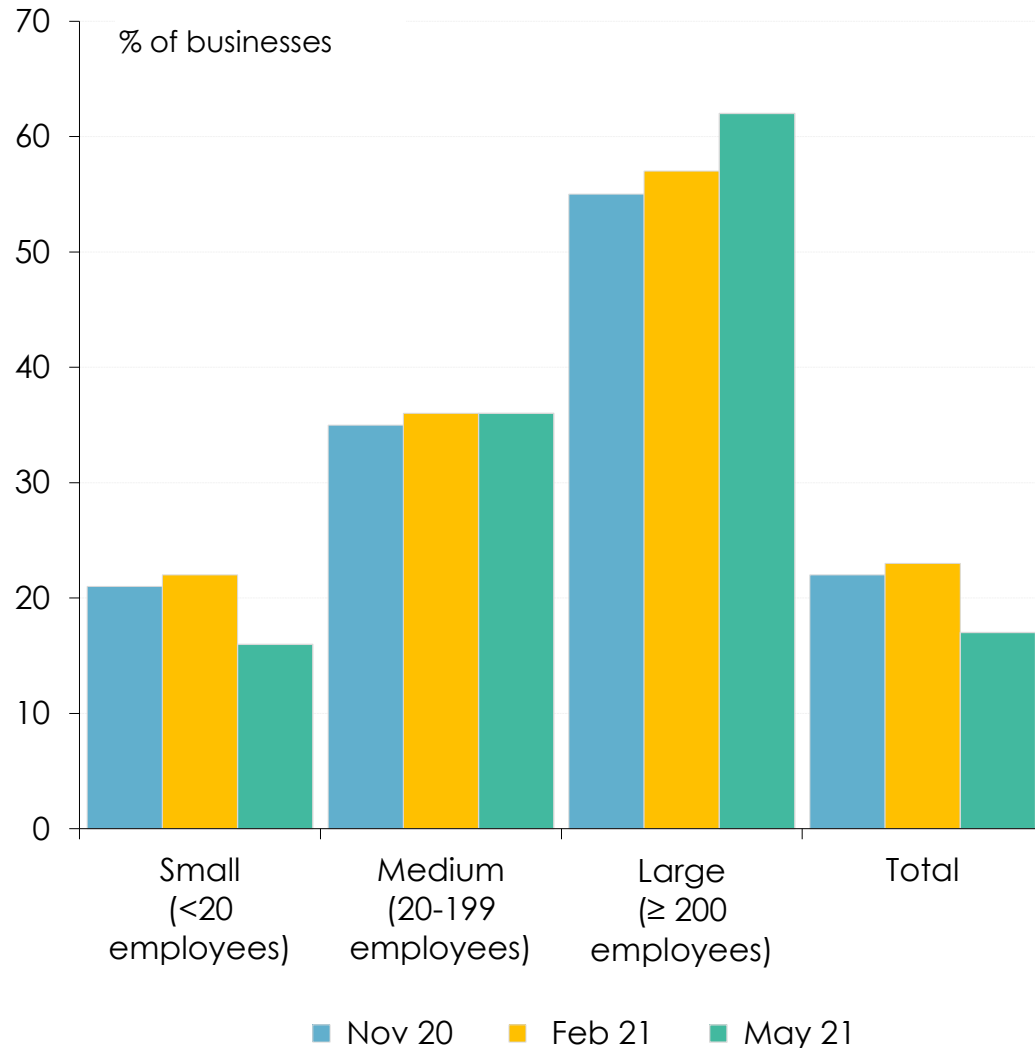


Note: The ABS conducts six surveys of business' capital expenditure intentions in respect of each financial year. The first is conducted in January & February prior to the commencement of the financial year, the second in May & June, the third in July & August of the financial year, the fourth in October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

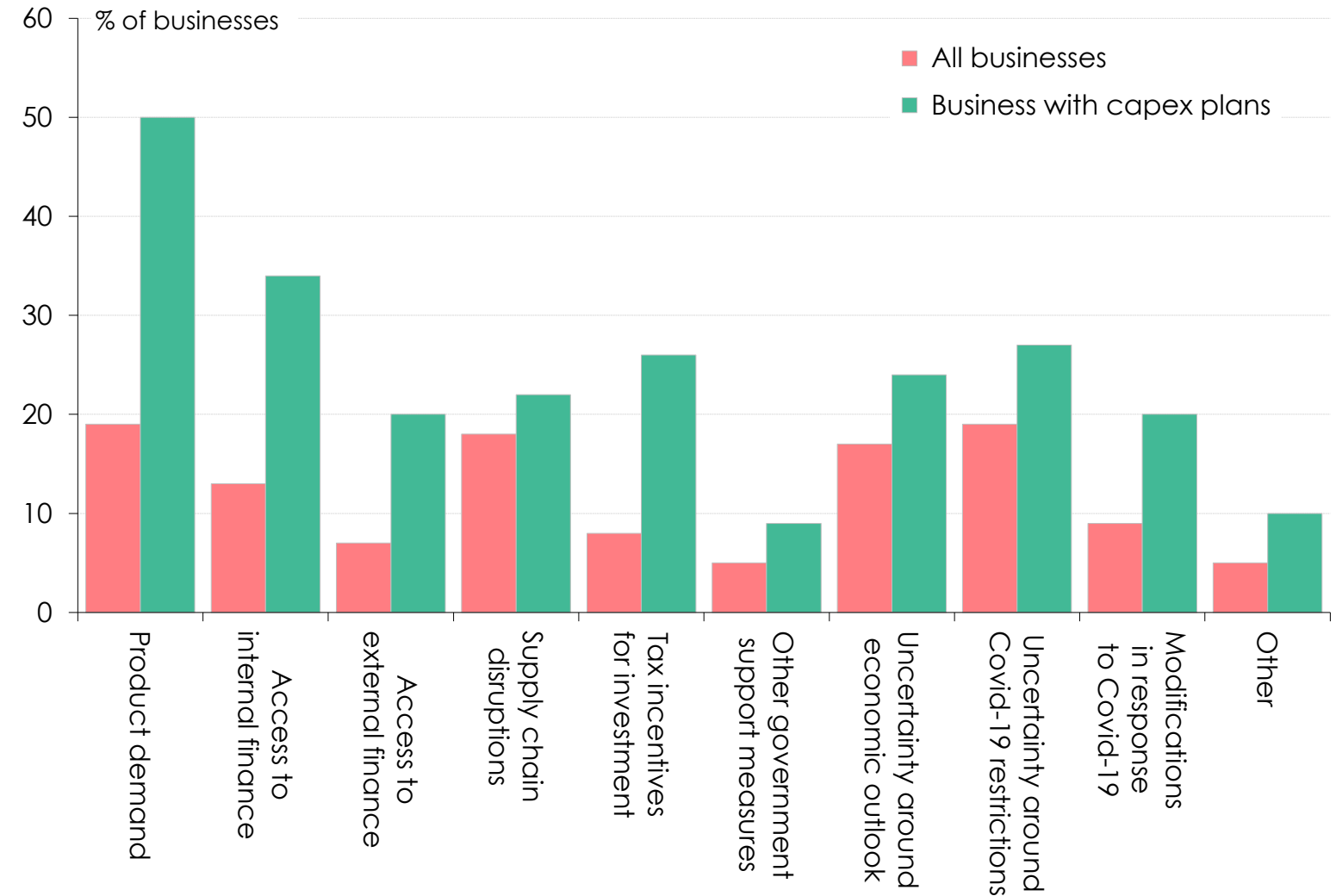
Source: ABS, [Private New Capital Expenditure and Expected Expenditure, Australia](#) (next update is released on 28<sup>th</sup> August).

# 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



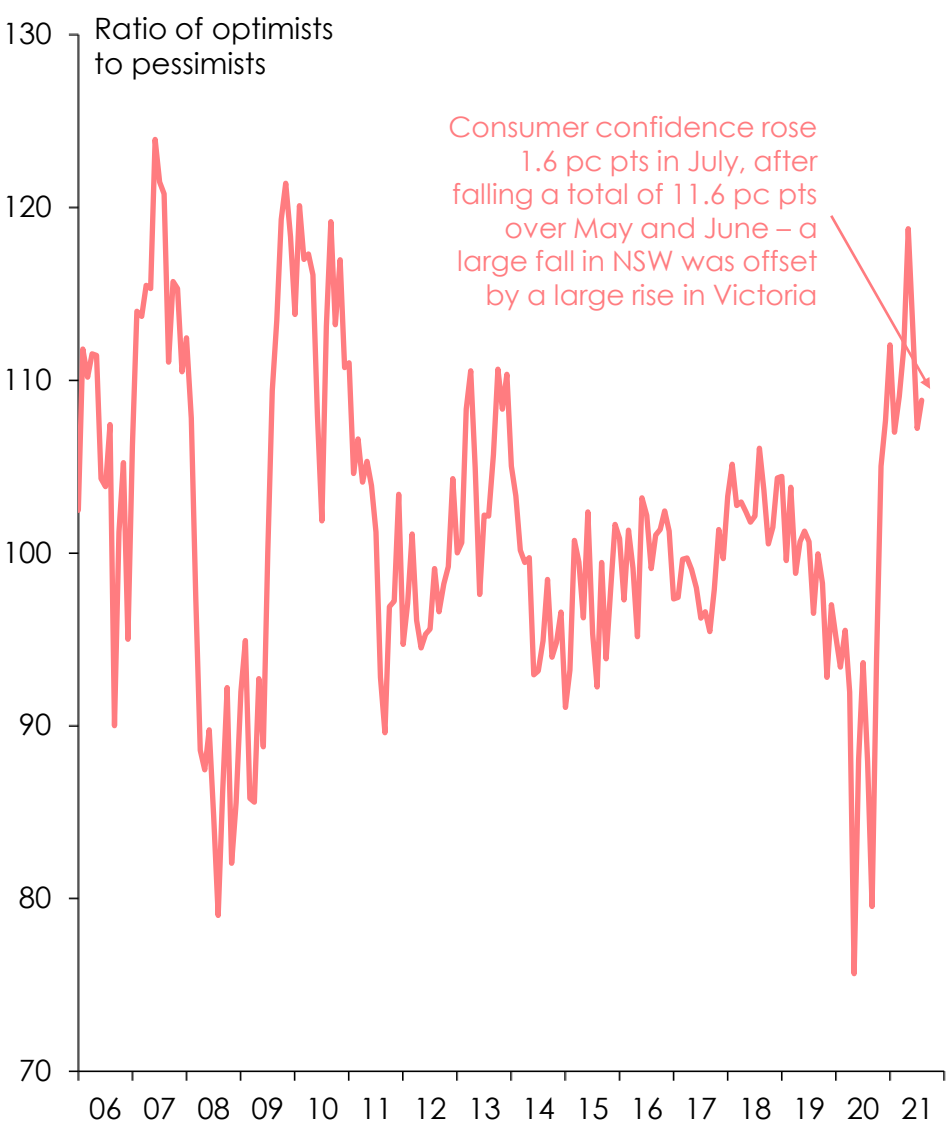
Factors affecting business capital expenditure decisions, May 2021



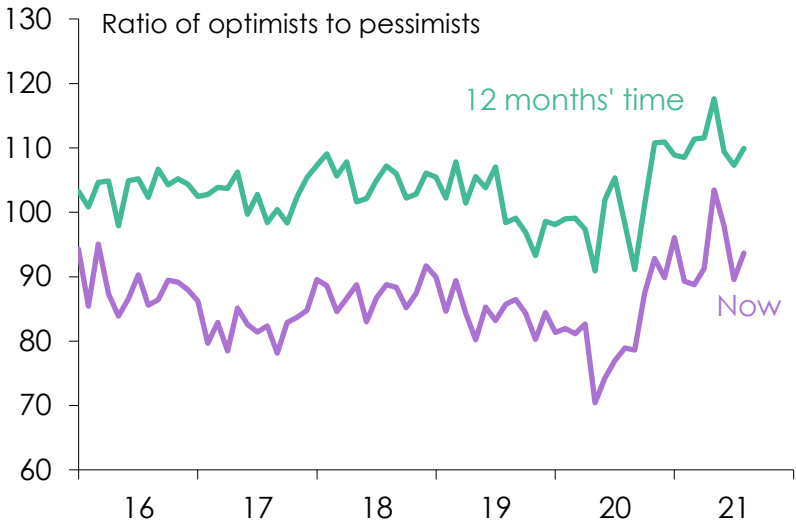
Source: ABS, [Business Conditions and Sentiments](#), May 2021. See [slide 98](#) for data on employee hiring intentions by business size. [Return to "What's New"](#).

# Consumer confidence rose slightly in July, with a 12 pt fall in New South Wales offset by increases of 15 pts in Victoria and 11 pts in Western Australia

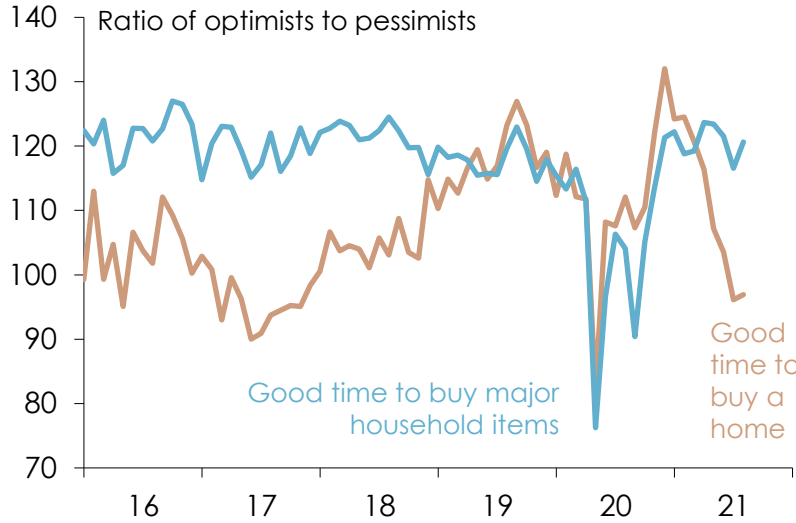
## Consumer confidence index



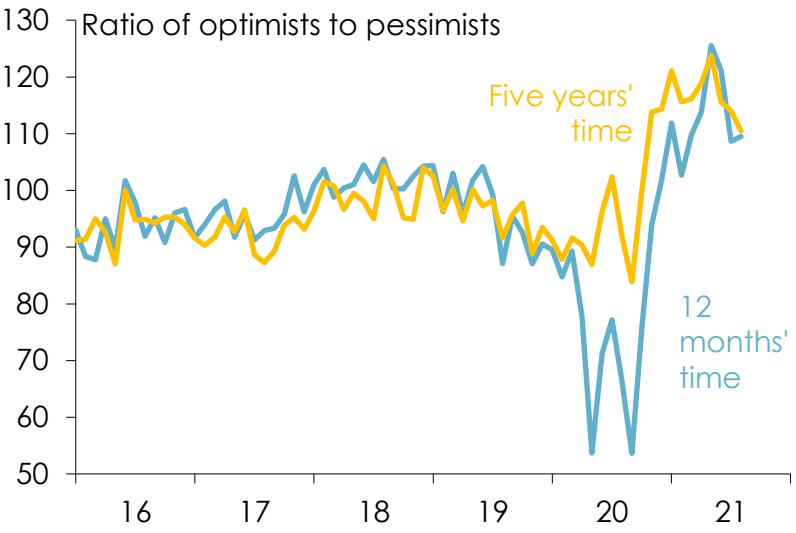
## Household finances assessment



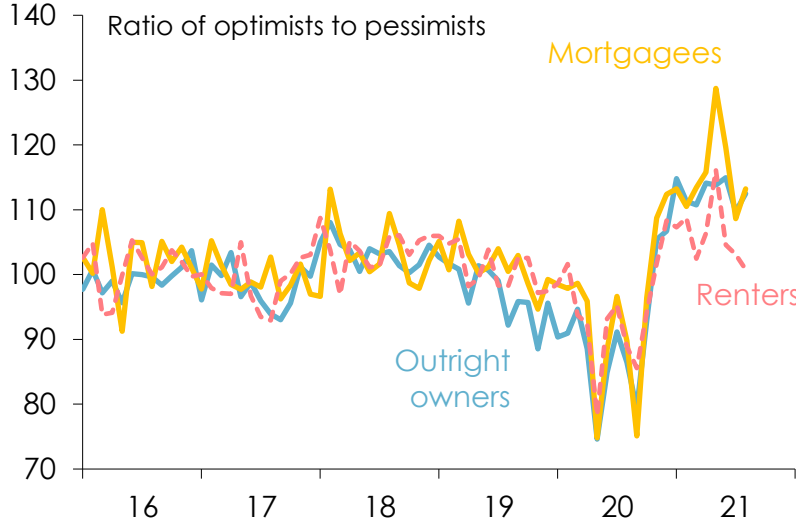
## Buying conditions assessment



## Economic conditions assessment

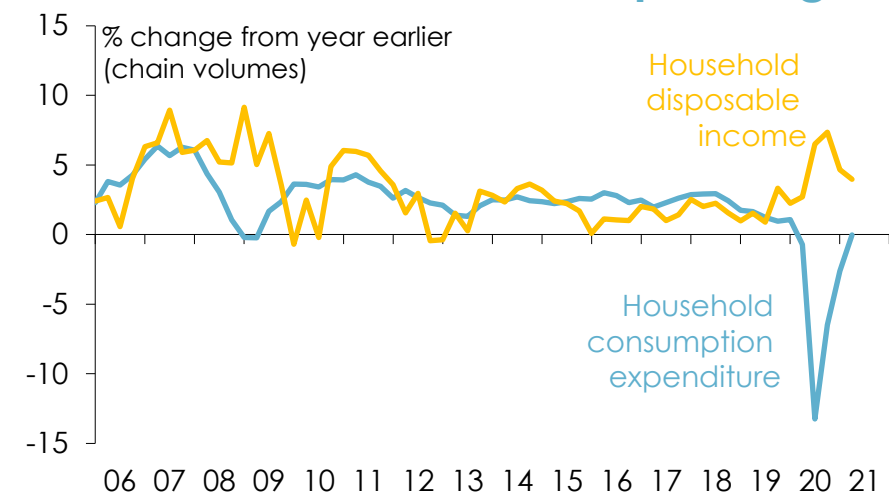


## Confidence by housing tenure

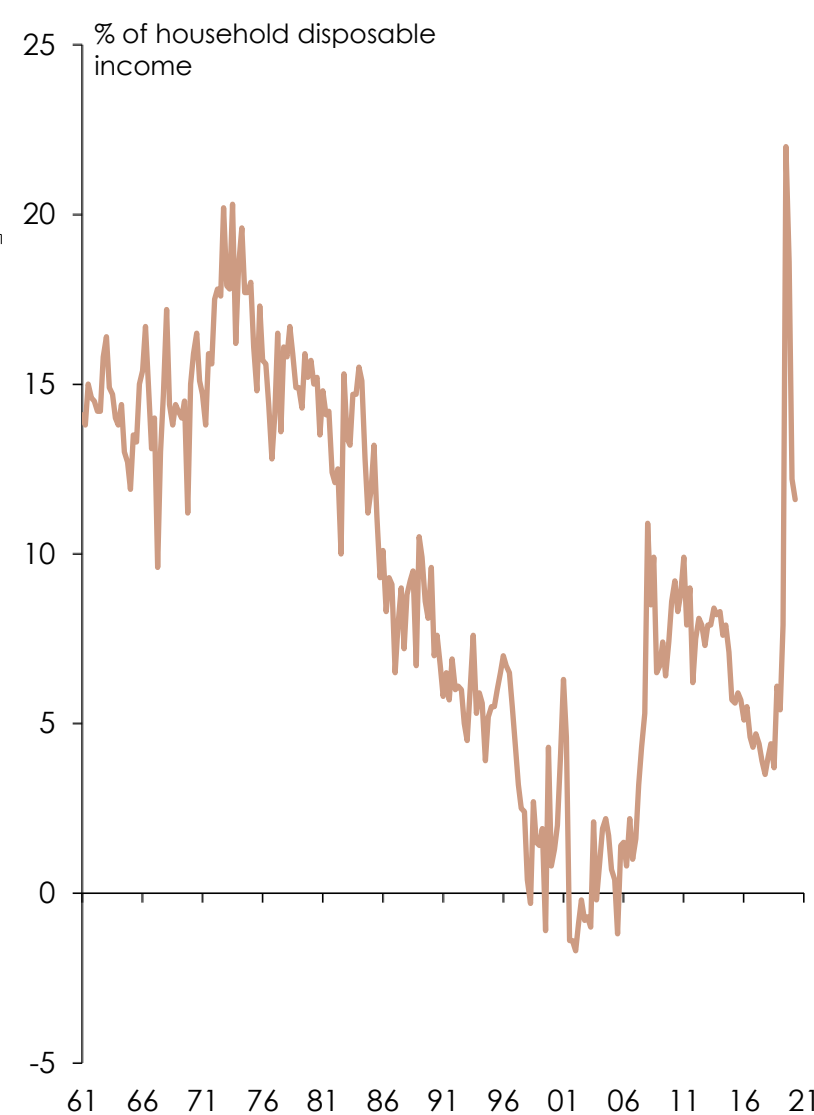


# Household incomes have been supported by government payments, but spending has been curtailed, so households have lots of savings to spend

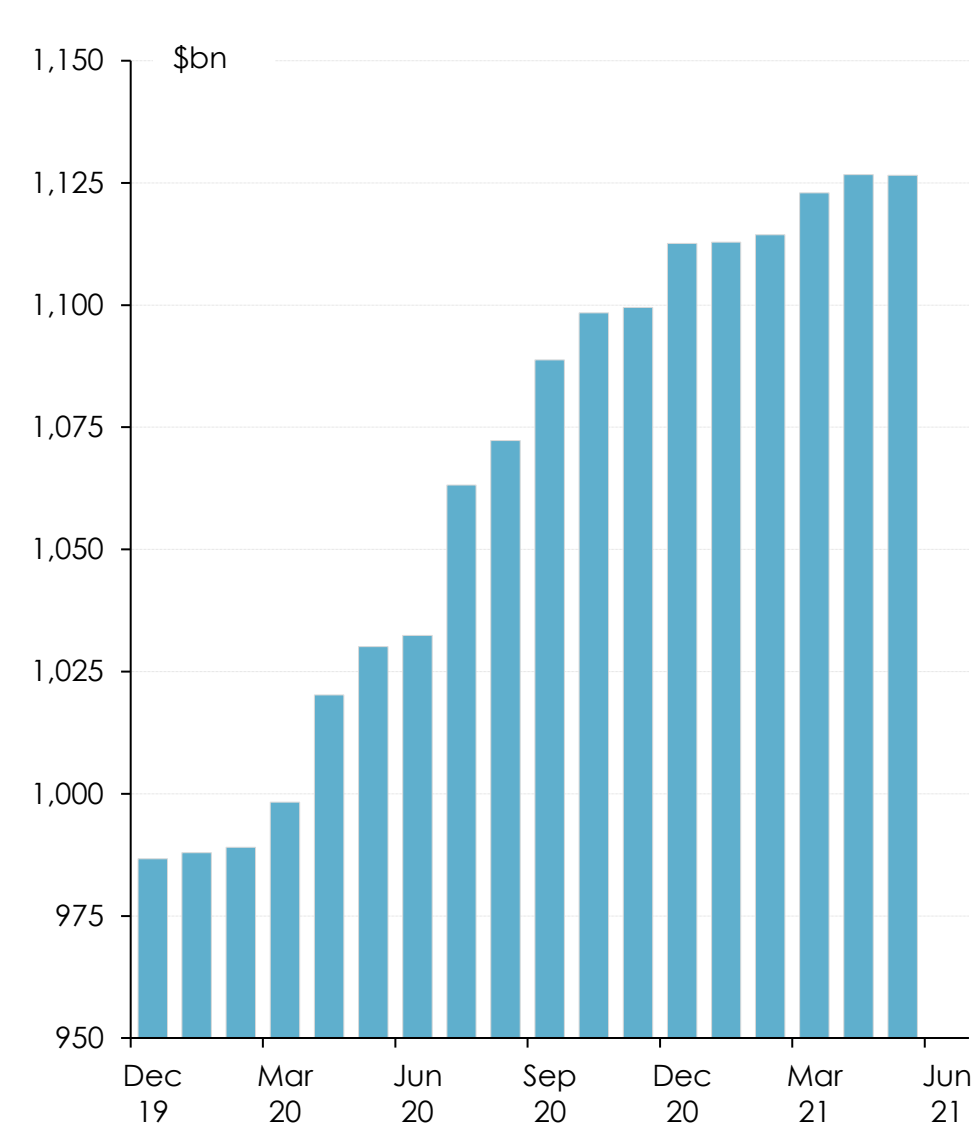
Household income and spending



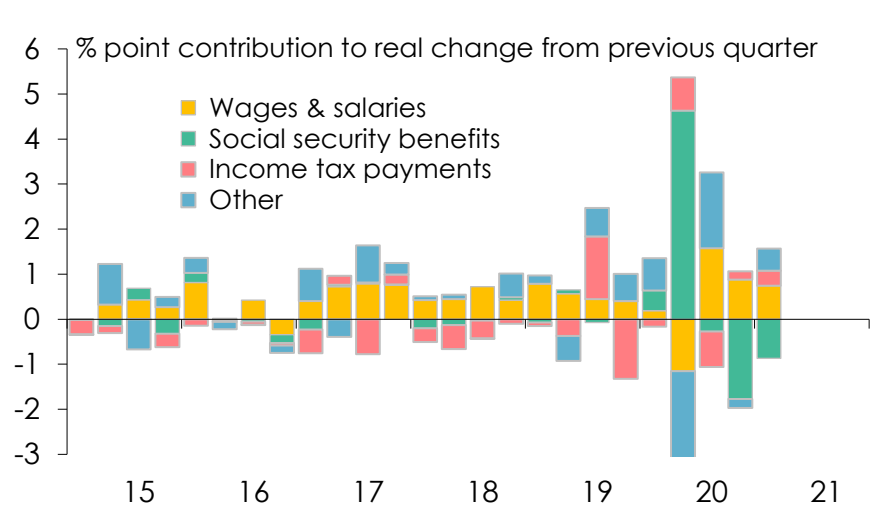
Household saving ratio



Household bank deposits



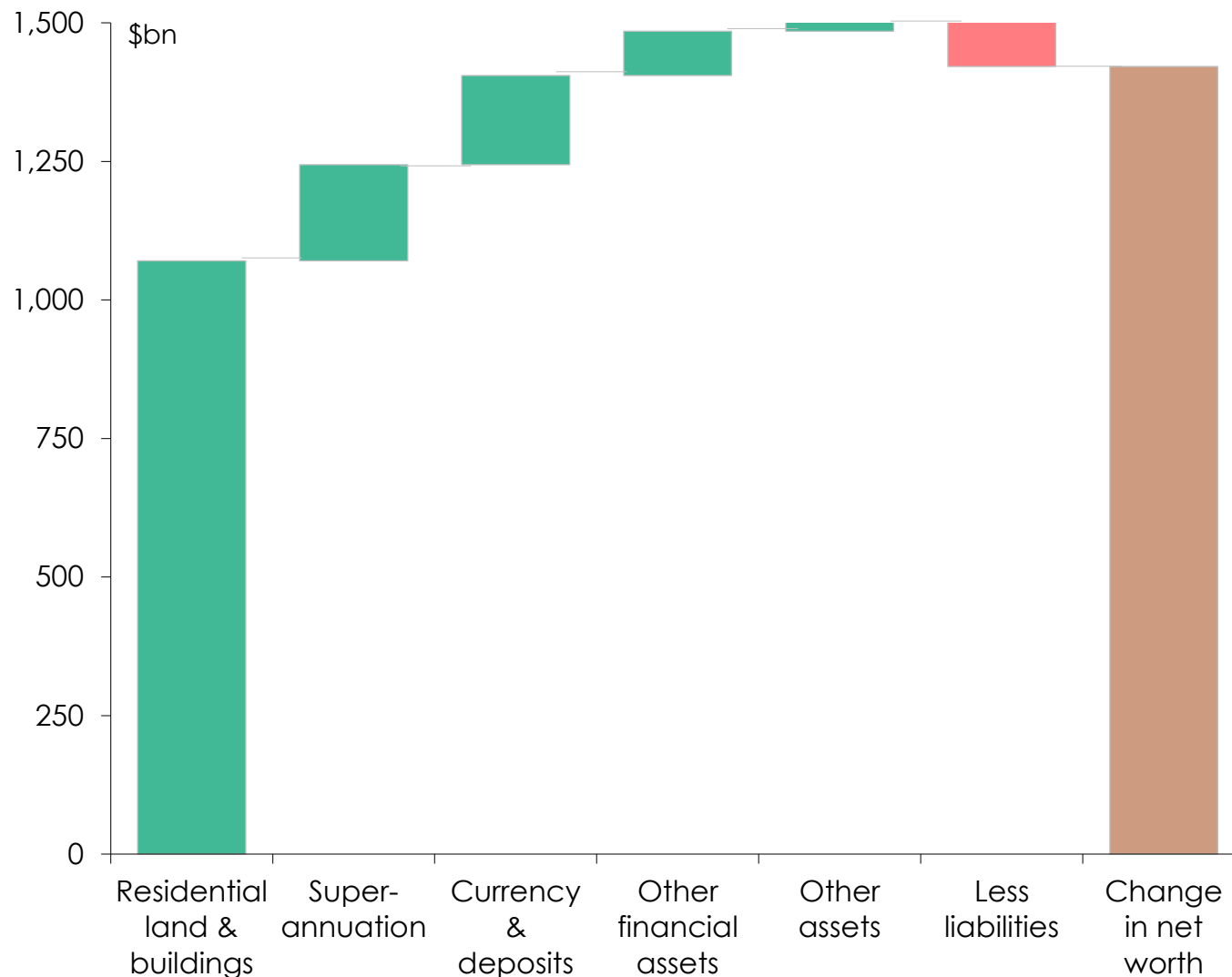
Sources of household income



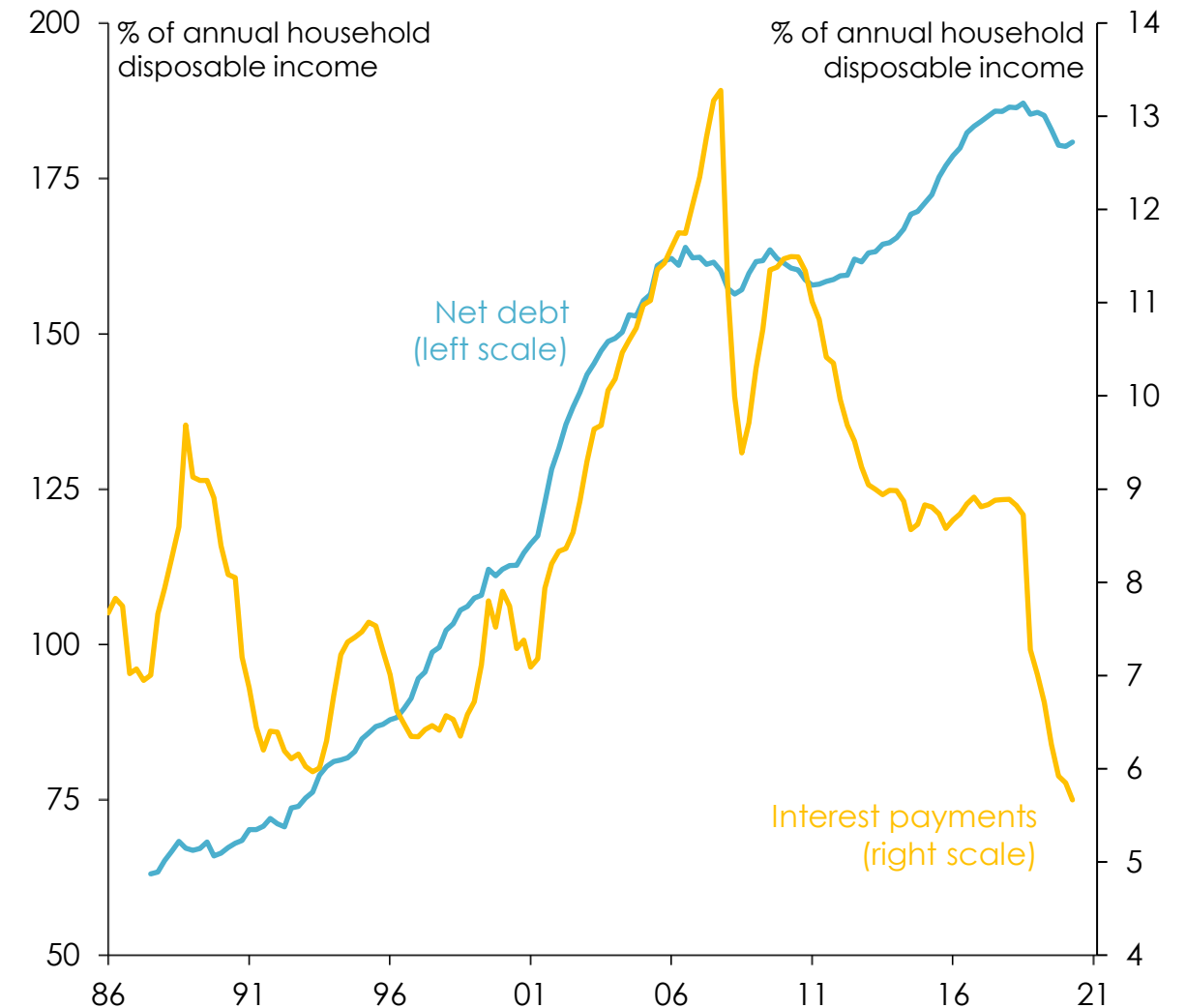


# Household net worth has risen by \$1.4trn (12½%) since the end of 2019, while debt and interest payments have fallen as a pc of income

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



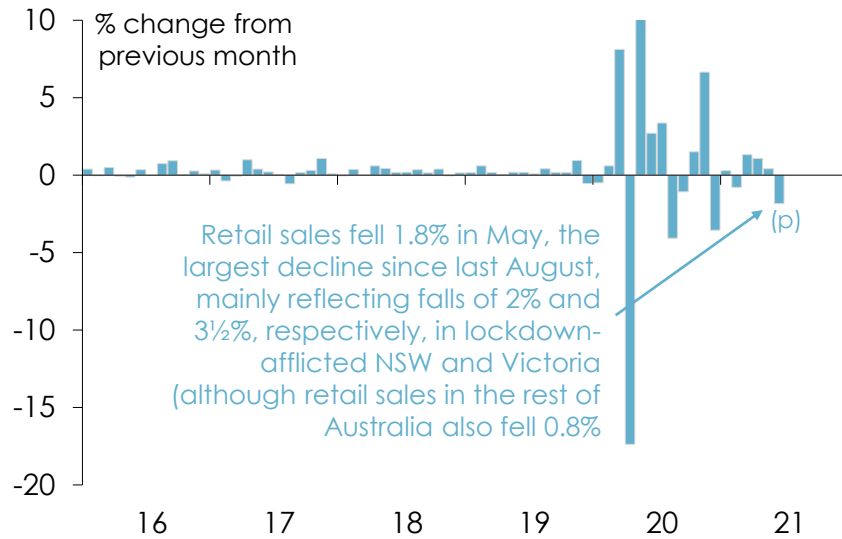
## Household net debt and interest payments as a percentage of disposable income



Sources: ABS, [Finance and Wealth Accounts](#), March quarter 2021; RBA, [Statistical Tables](#) E1 & E2. June quarter data will be released on 23<sup>rd</sup> September.  
[Return to "What's New"](#).

# Retail sales fell 1.8% in June (according to preliminary estimates), weighed down by lockdowns in NSW and Victoria

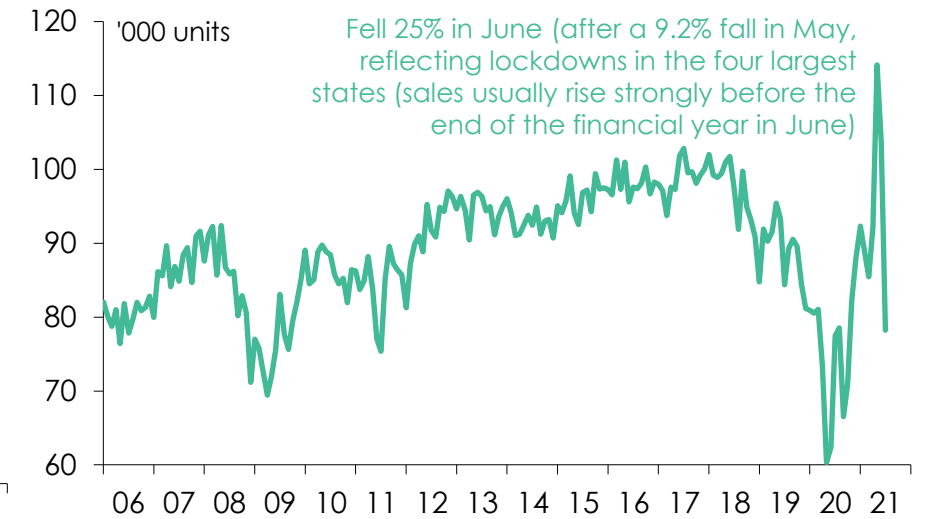
## Monthly retail sales



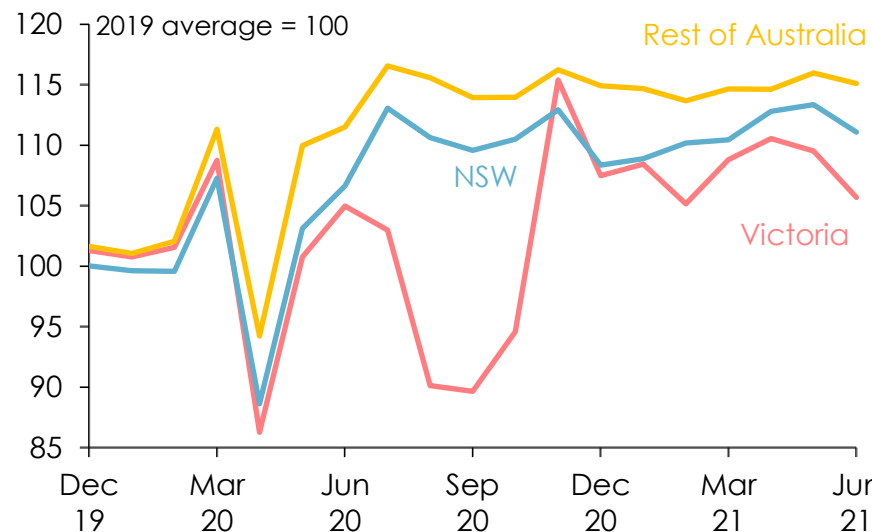
## Level of retail sales



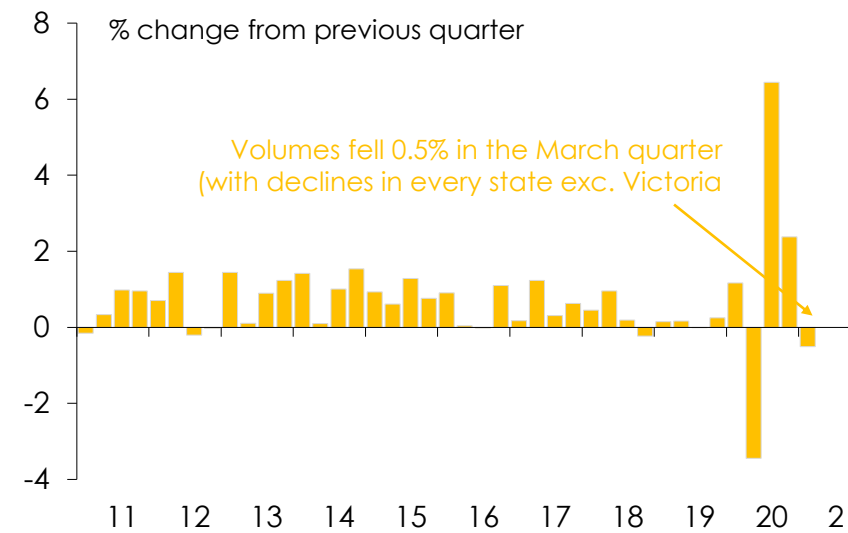
## New motor vehicle sales



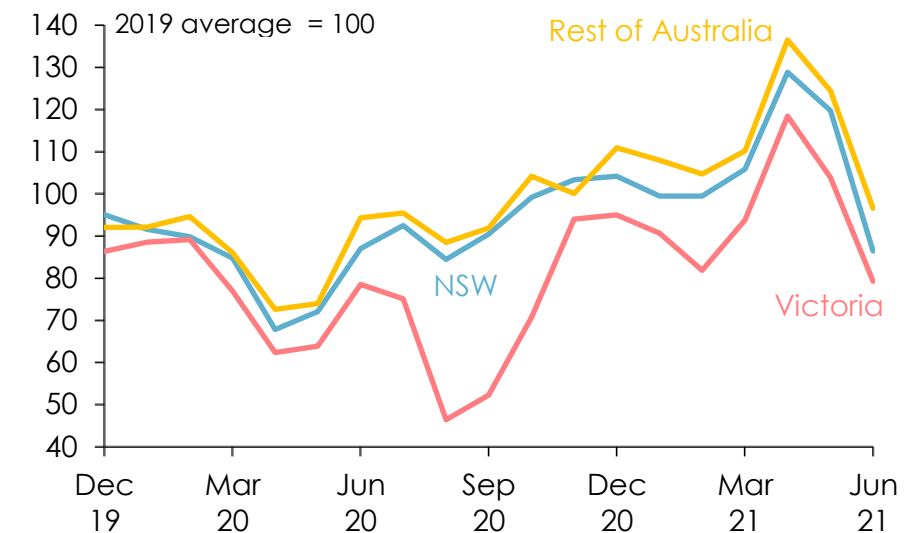
## Retail sales – NSW, Vic & the rest



## Quarterly retail sales volumes



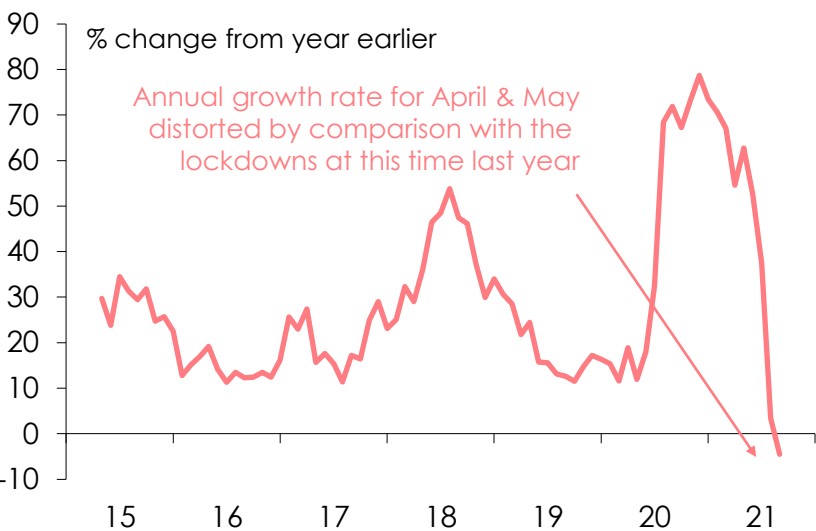
## Vehicle sales – NSW, Vic & the rest



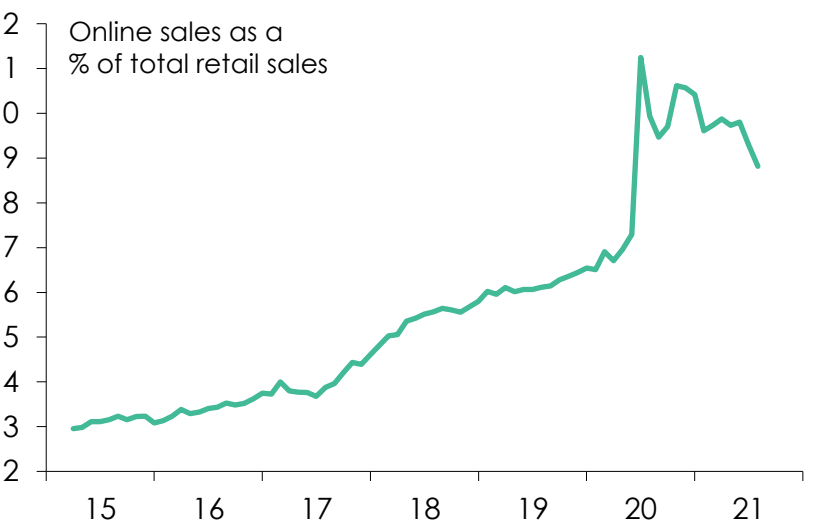
Note: see also [slide 94](#) for more detail on the composition of retail sales since the onset of the pandemic. Sources: ABS, [Retail Trade, Australia, Preliminary](#); Federal Chamber of Automotive Industries [VFACTS](#) (seasonal adjustment of FCAI data by Corinna). Final June retail sales data will be released on 4<sup>th</sup> 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

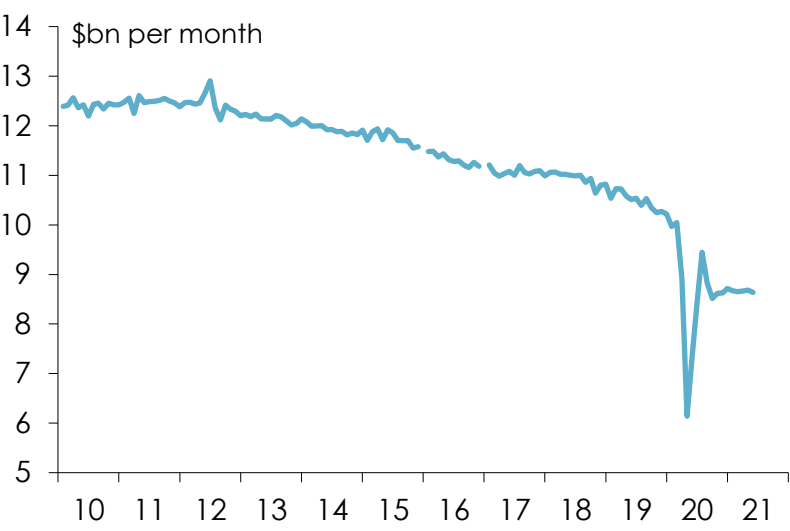
## Growth in online retail sales



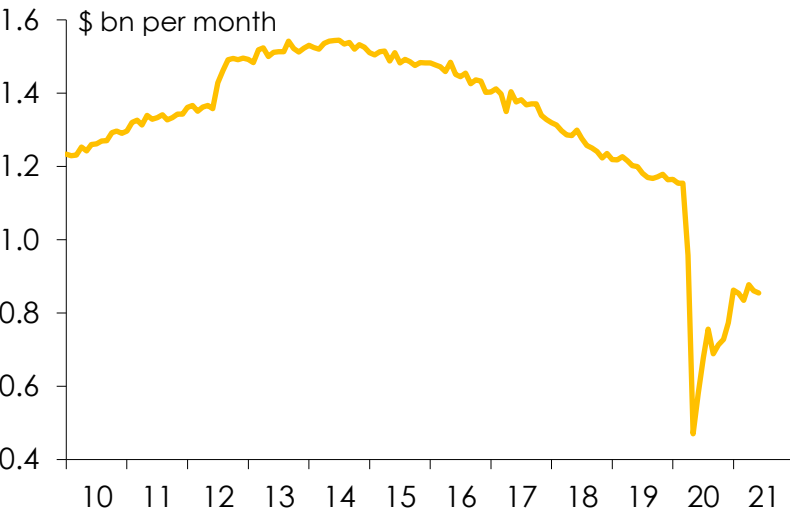
## Online retail 'market share'



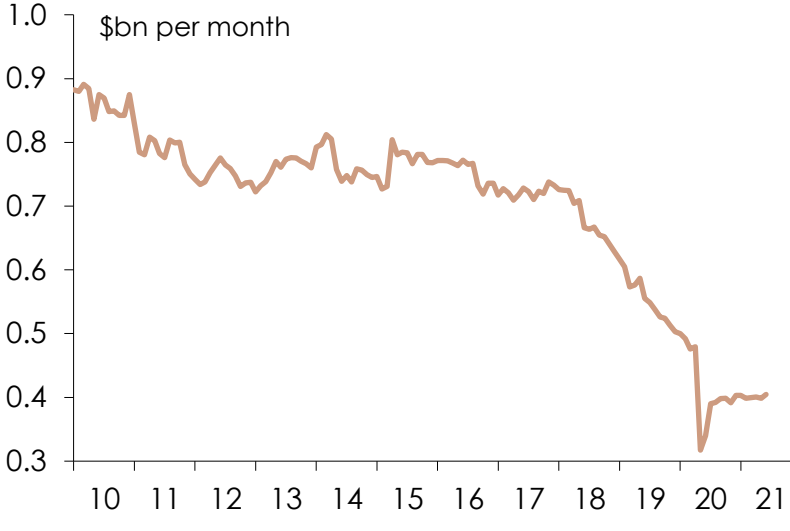
## ATM cash withdrawals



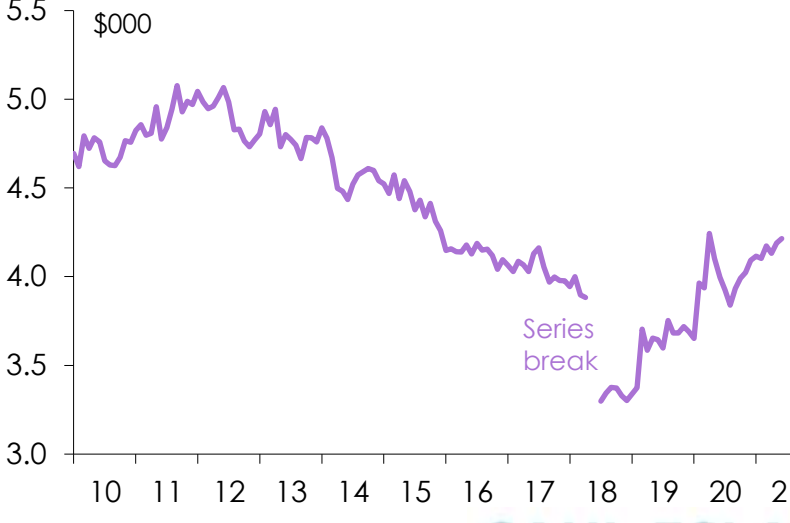
## Debit card cash-outs



## Credit card cash advances



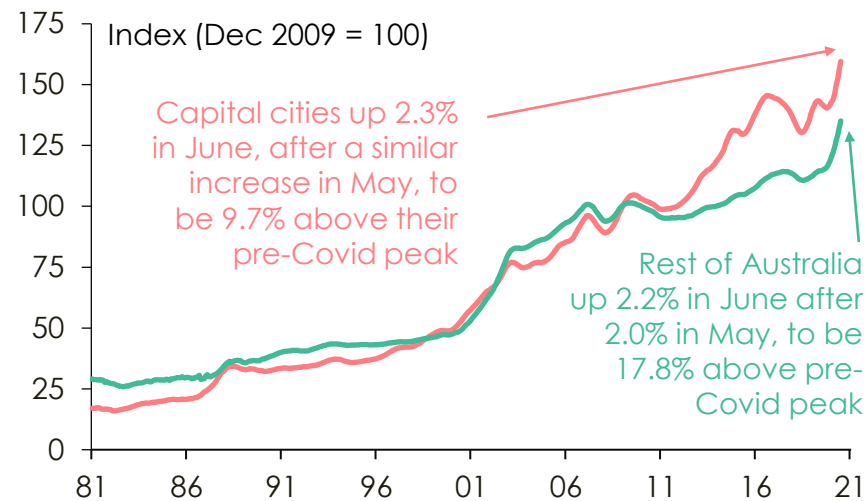
## Direct entry payments



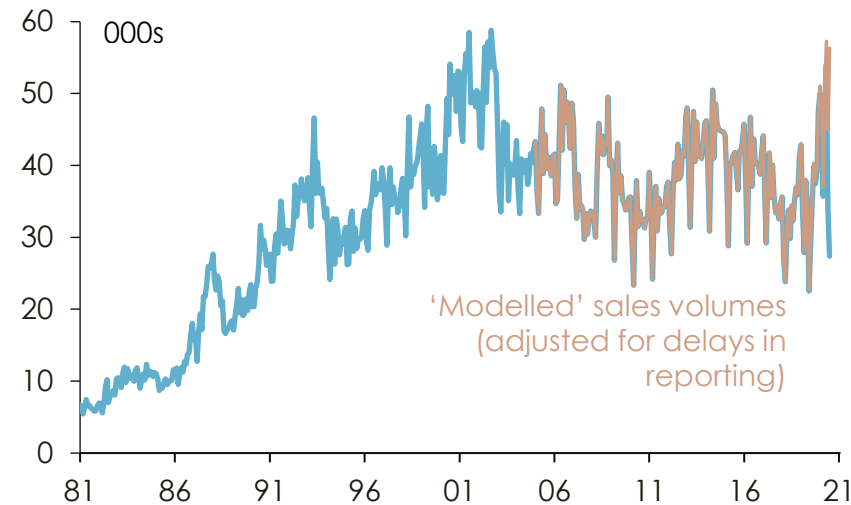
Sources: ABS, [Retail Trade, Australia](#); RBA, [Statistical Tables](#), C1, C2, C4 and C6. Latest data are for May : June online retail sales will be published on 4<sup>th</sup> August and for the payments system on 7<sup>th</sup> August.

# 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

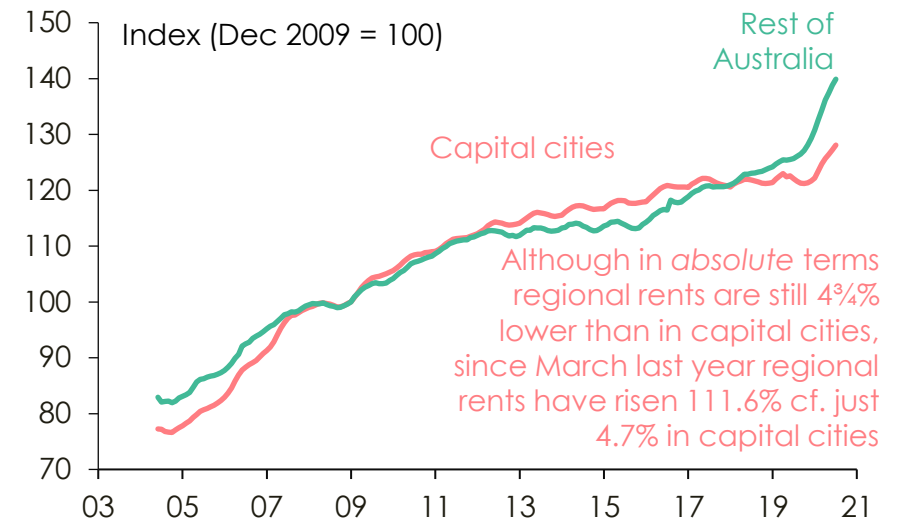
## Residential property prices



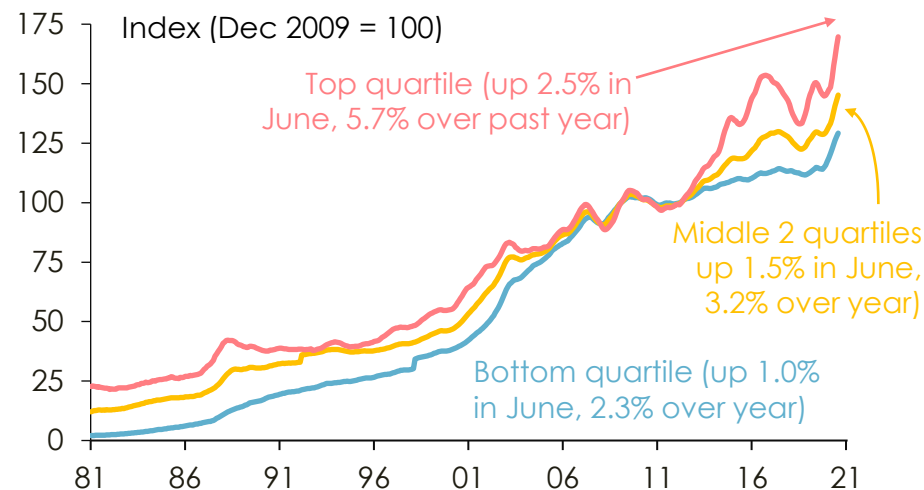
## Residential property sales volumes



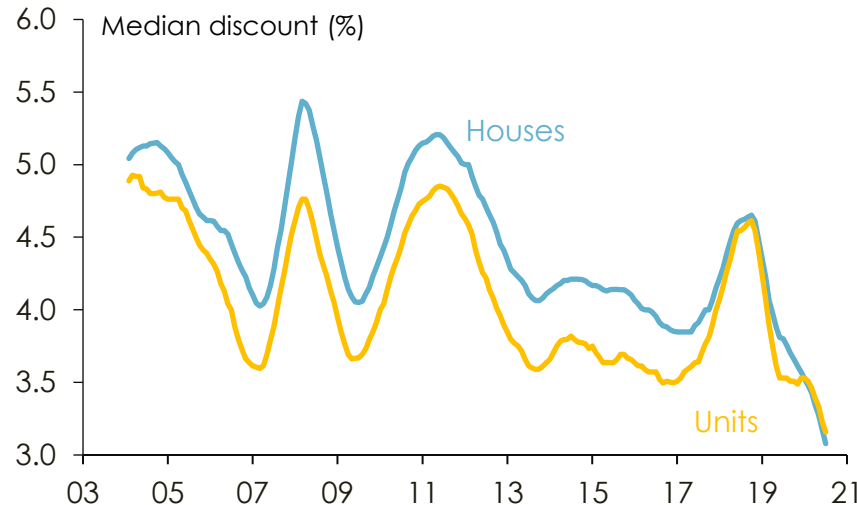
## Residential rents



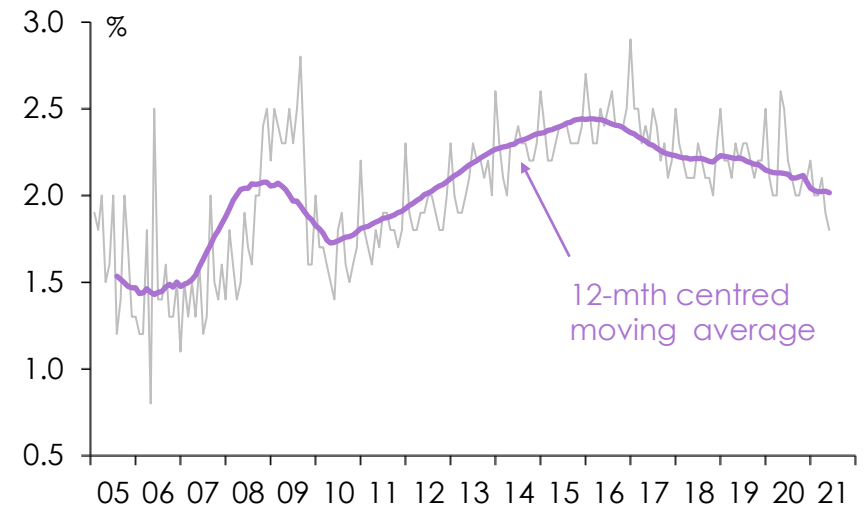
## Property prices by tier



## Vendor discounting

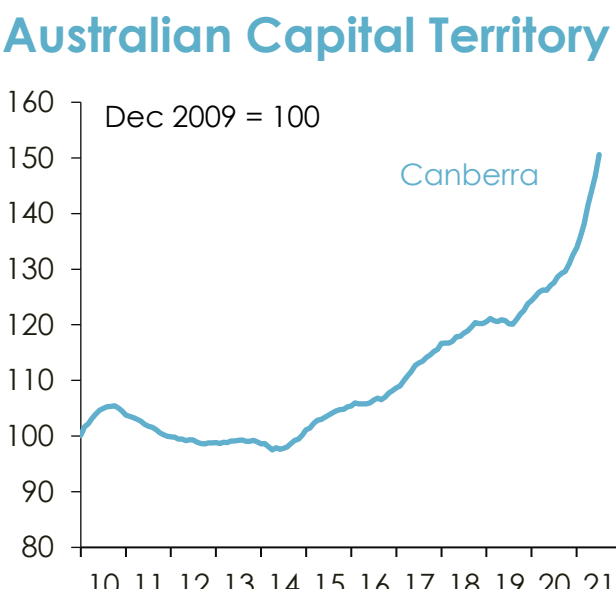
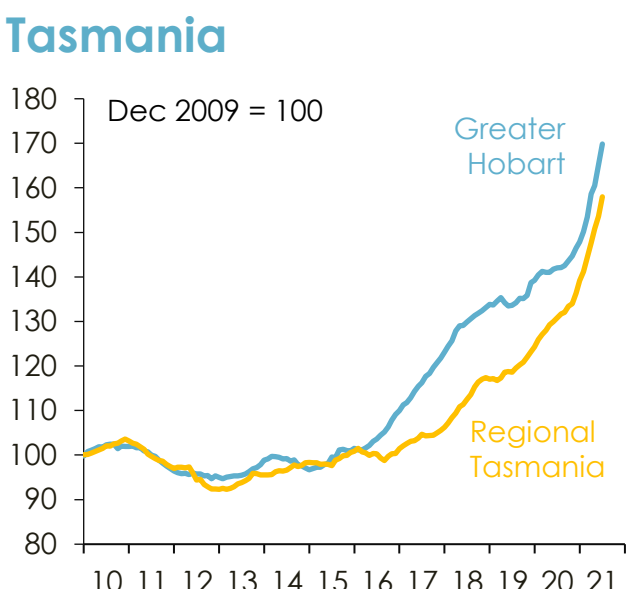
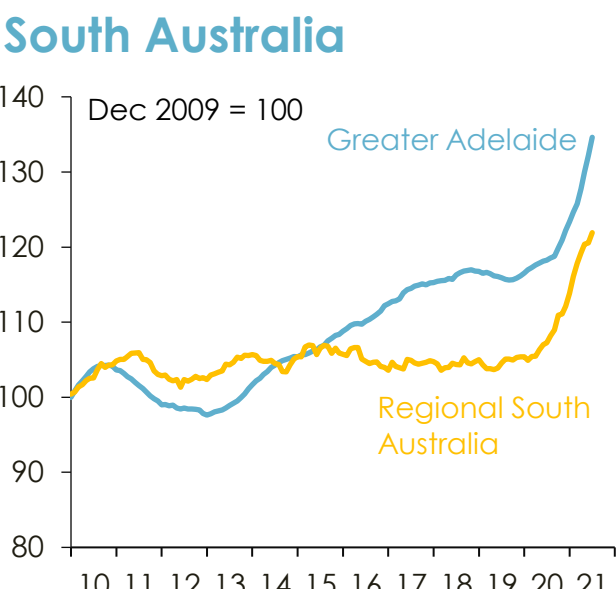
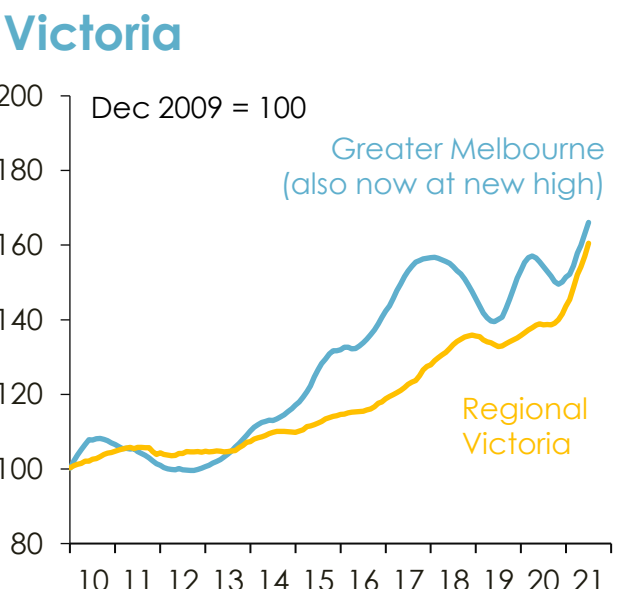
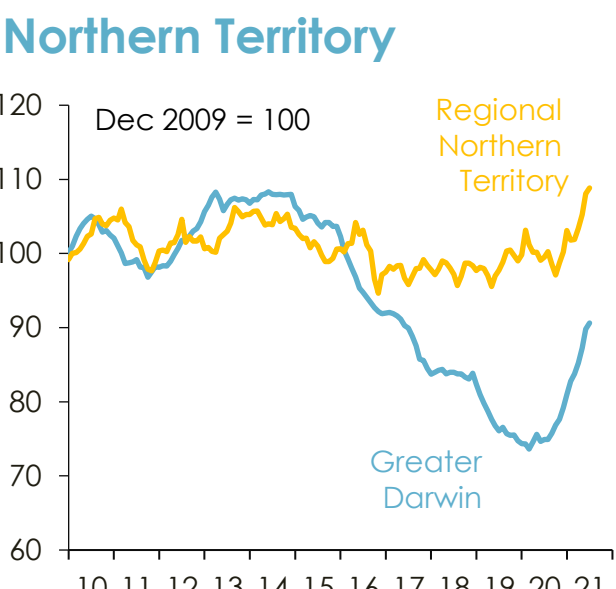
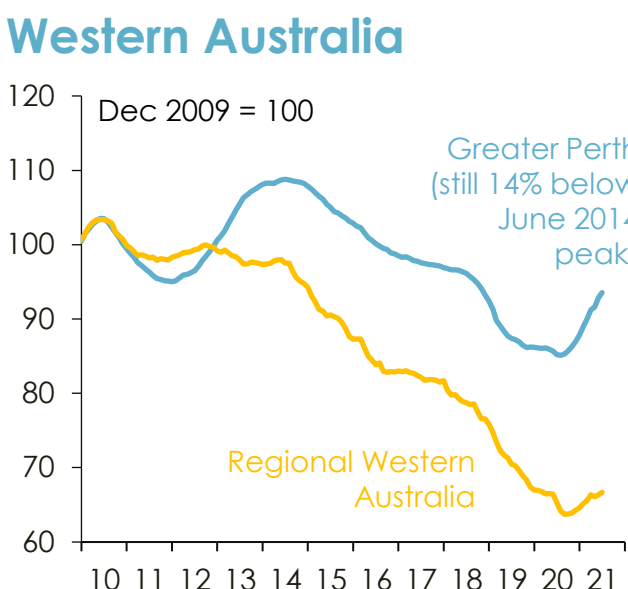
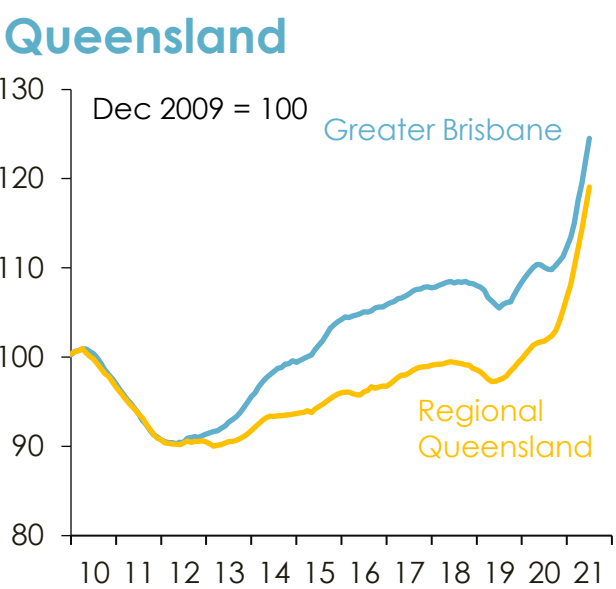
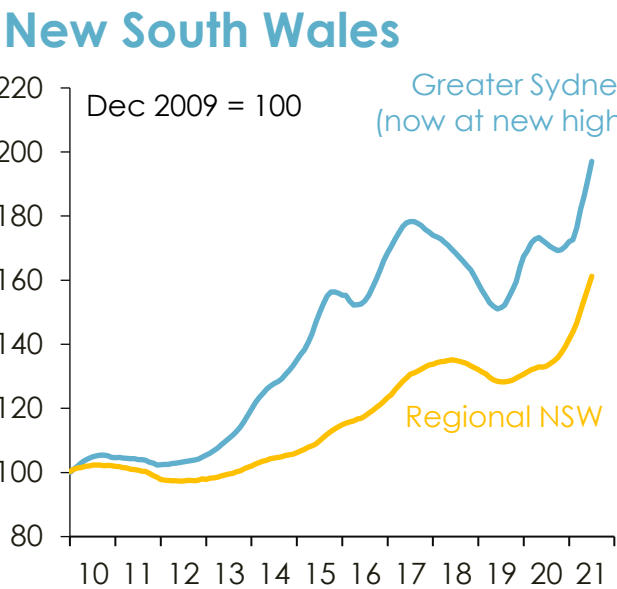


## Capital city rental vacancy rates



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 1<sup>st</sup> August. Sources: [CoreLogic](#); [SQM Research](#). [Return to "What's New"](#).

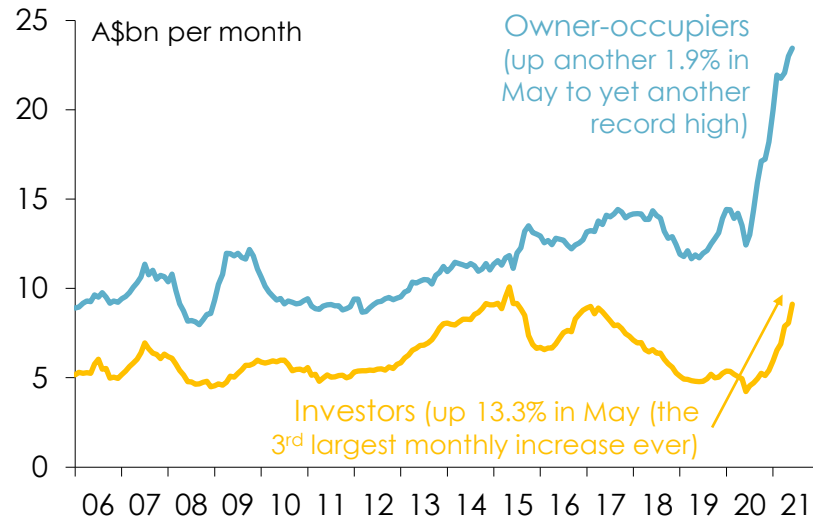
# Perth and Darwin are now the only capital cities where property prices are still below their pre-pandemic (or mining boom) peaks



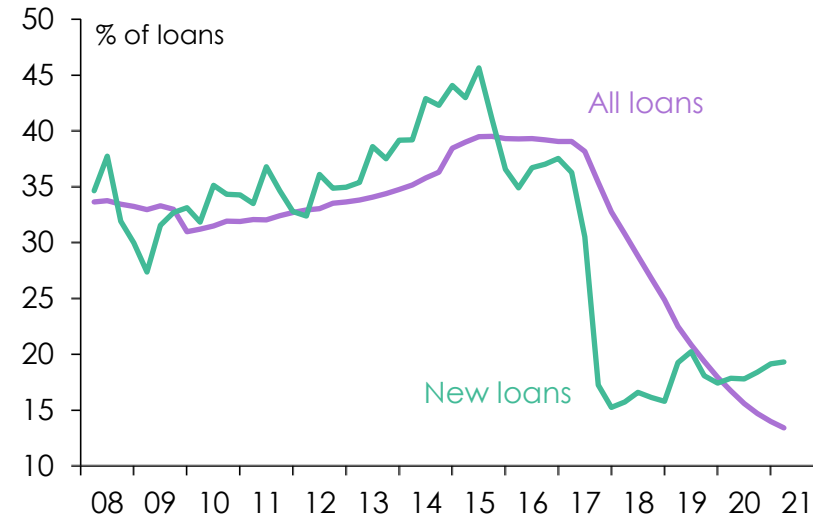
Note: The index of property prices measures the 'organic' change in underlying sales values by using a hedonic regression methodology that takes account of changes in the characteristics of properties being sold from month to month. Property price data are now seasonally adjusted. Latest data are for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

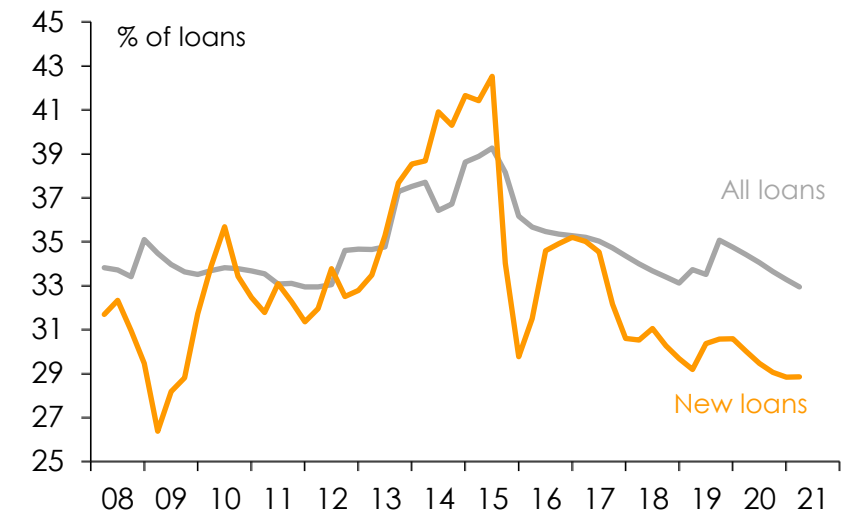
## Housing finance commitments



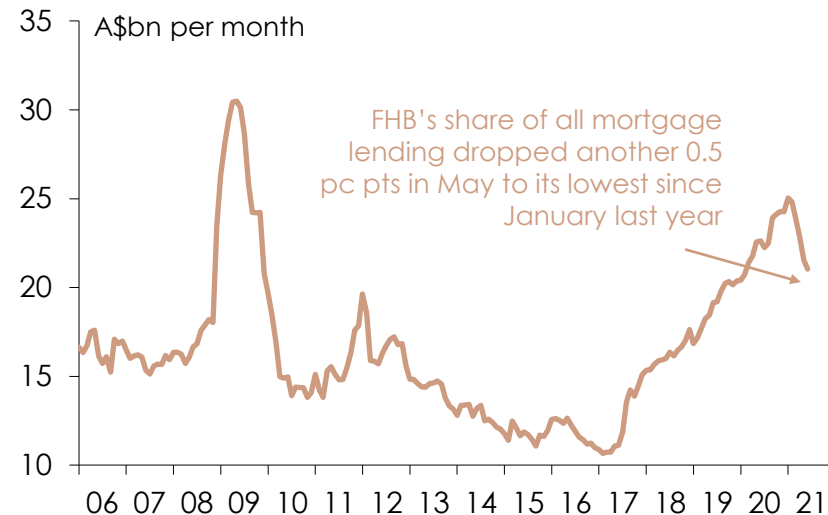
## Interest-only loans as pc of total



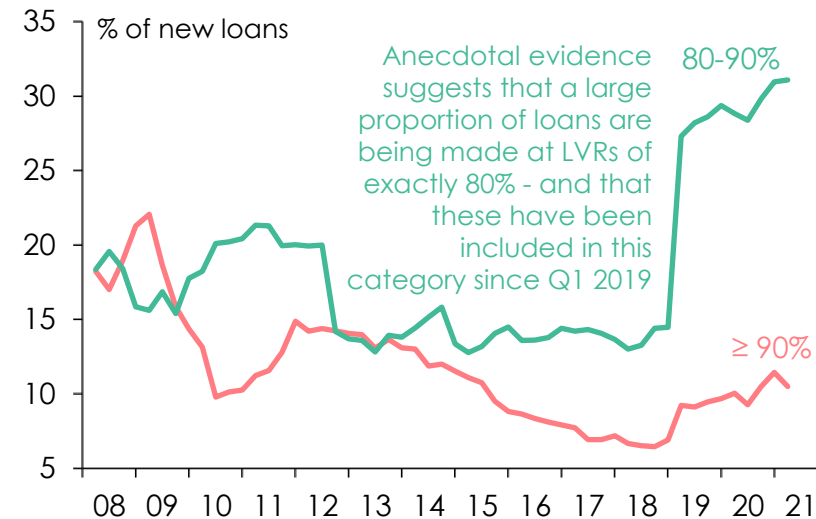
## Loans to investors as a pc of total



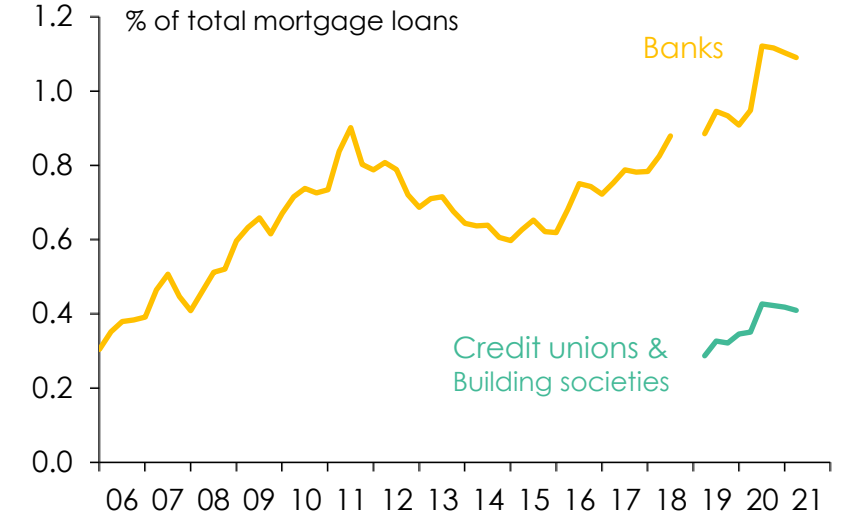
## Lending to first home buyers



## High LVR loans as a pc of total



## Non-performing mortgage loans

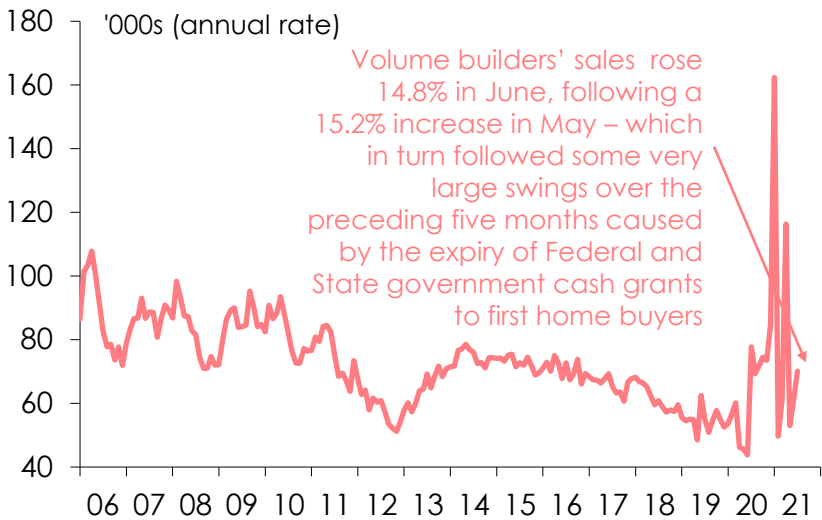


Sources: ABS; Australian Prudential Regulation Authority (APRA), [Quarterly authorised deposit-taking institution statistics](#). June housing finance data will be released on 3<sup>rd</sup> August; APRA data on ADI property exposures for the June quarter will be released in early September. [Return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

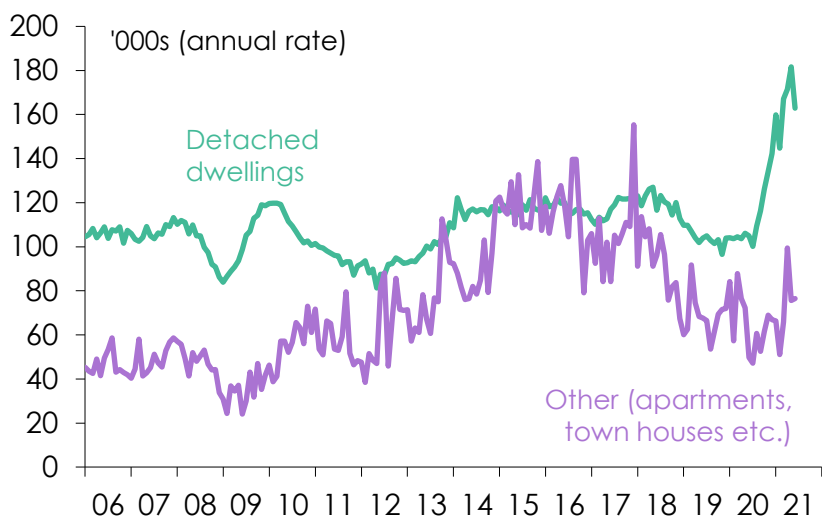


# May residential building approvals were down 12½% from the record high in March but remain 26% above the average for the previous decade

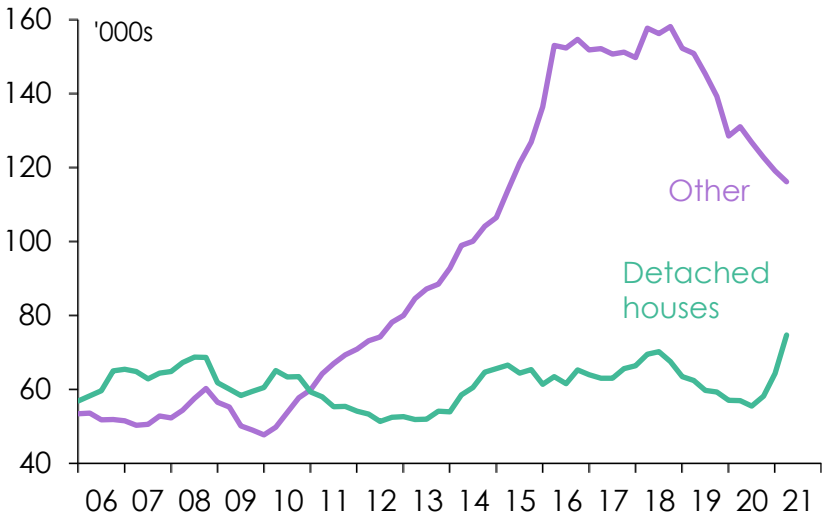
## Large builders' new home sales



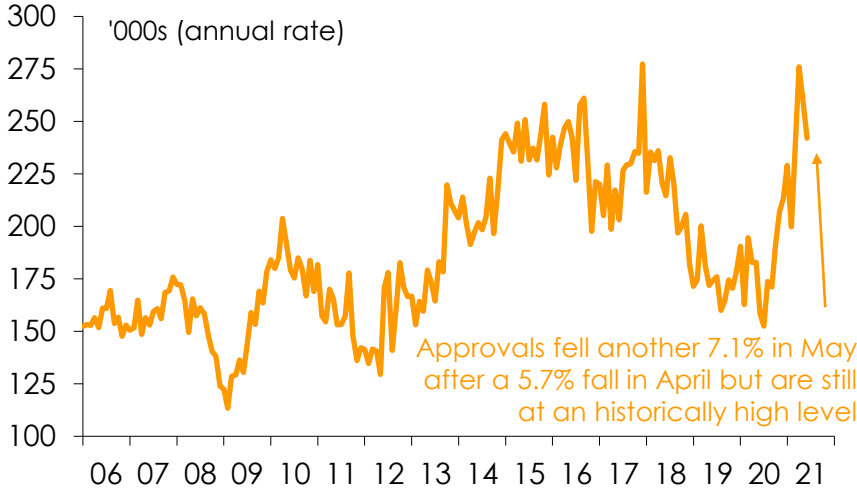
## Building approvals, by type



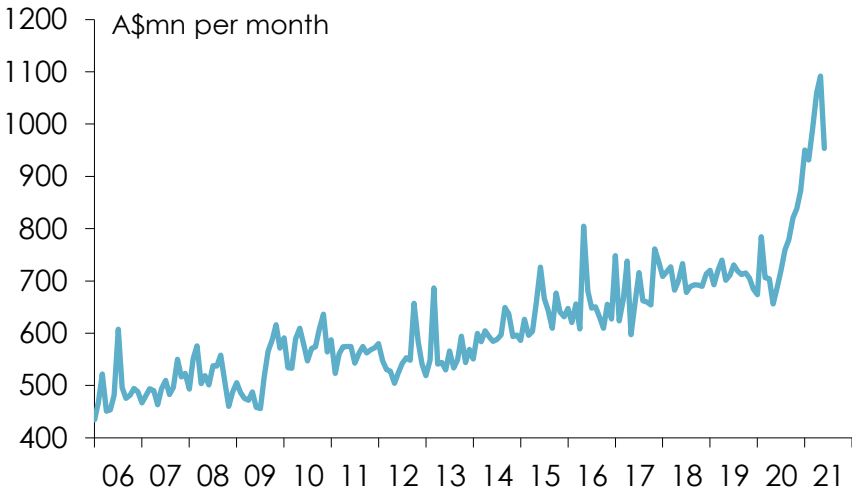
## Dwellings under construction



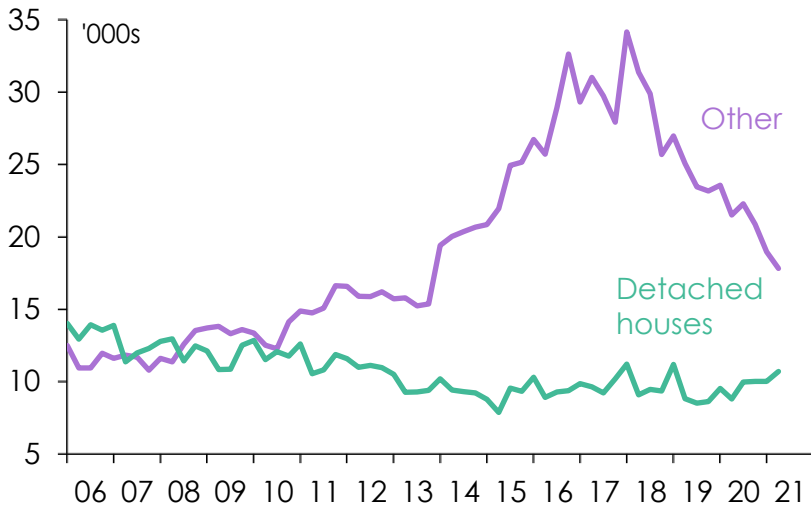
## Residential building approvals



## Alterations & additions approved



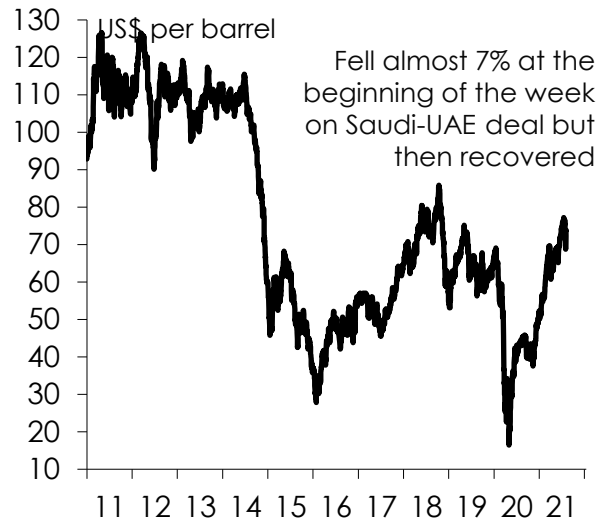
## 'Pipeline' of work yet to be started



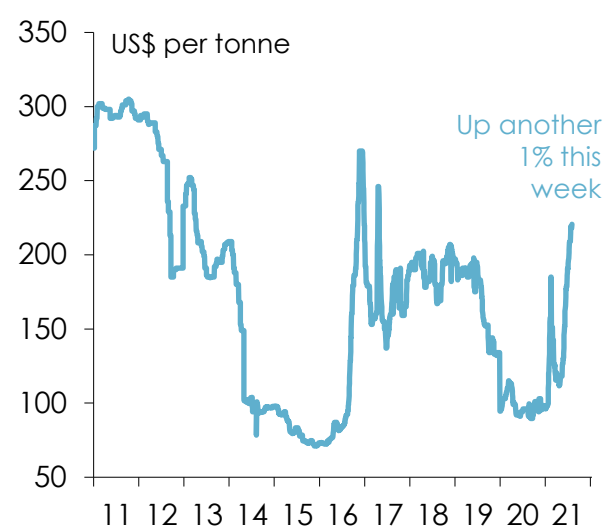
Note: 'New home sales' are of detached dwellings only and exclude small-scale builders. Sources: ABS; Housing Industry Association. June building approvals data will be released on 3<sup>rd</sup> August; June quarter dwellings under construction and 'pipeline' data on 13<sup>th</sup> October. [Return to "What's New"](#).

# The iron ore price fell 8% this week after Chinese authorities moved to curb steel production

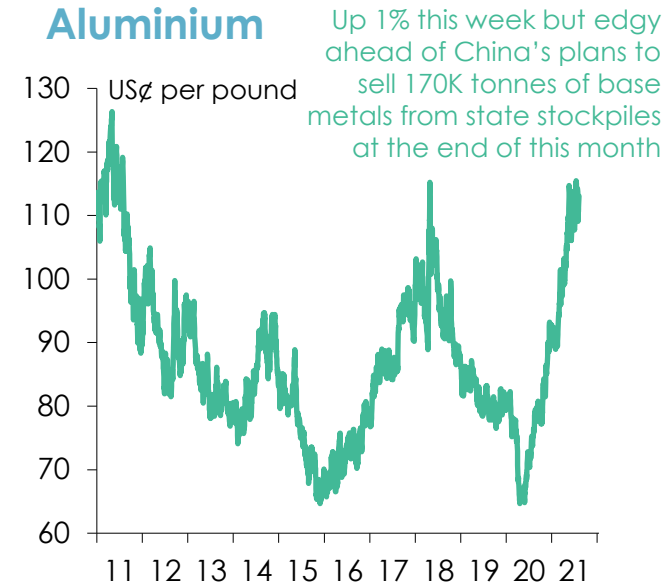
## Brent crude oil



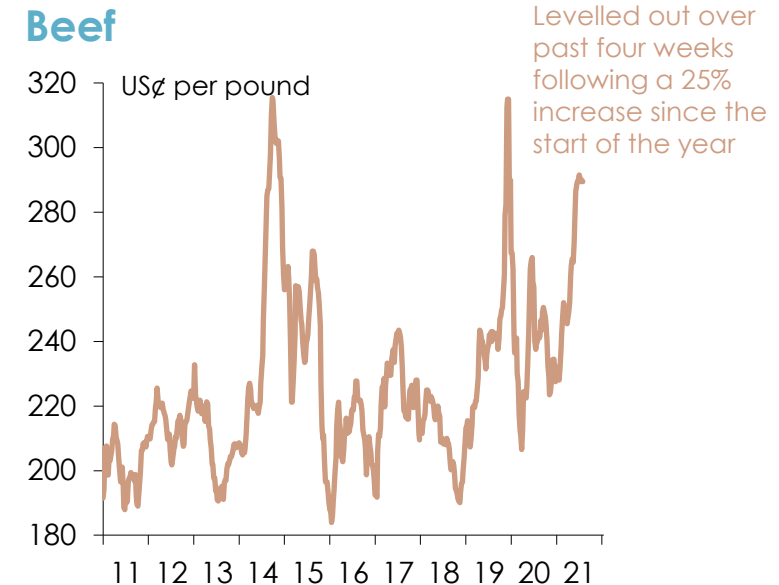
## Metallurgical coal



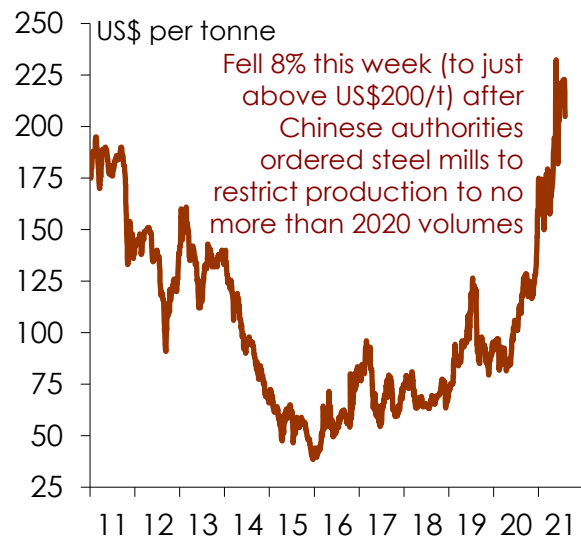
## Aluminium



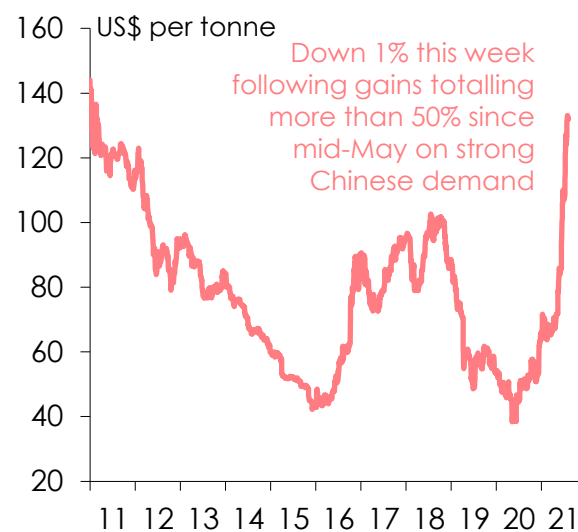
## Beef



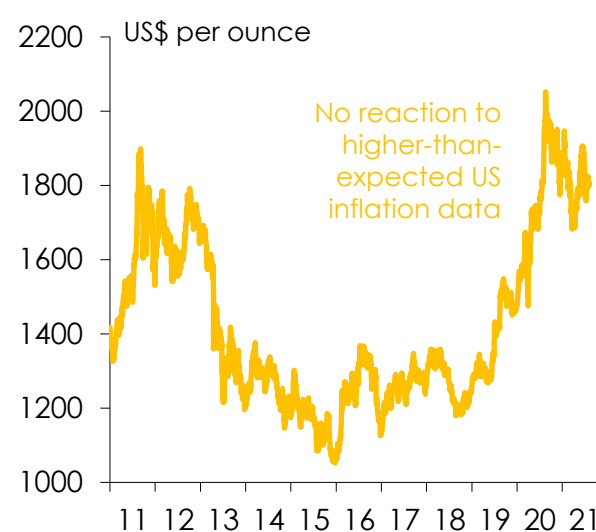
## Iron ore



## Thermal coal



## Gold



## Wool

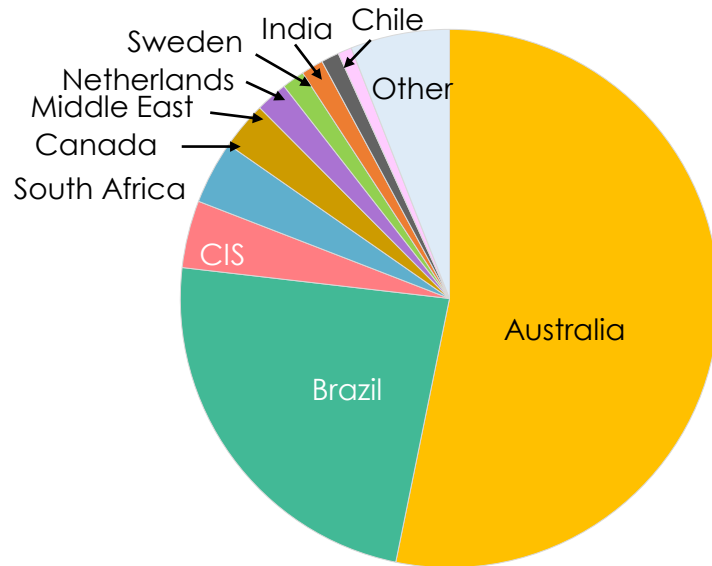


Sources: Refinitiv Datastream; Meat & Livestock Australia; Australian Wool Innovation. See [next slide](#) for more on iron ore prices. Data up to 23<sup>rd</sup> July.

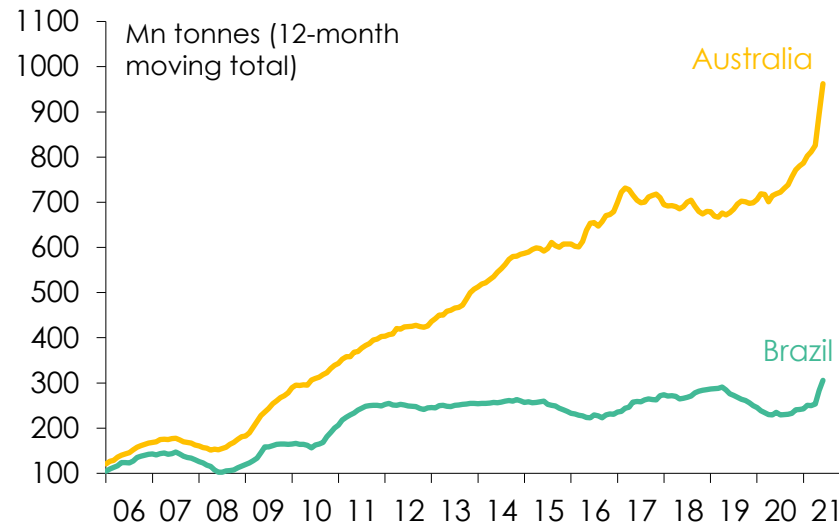
[Return to "What's New".](#)

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

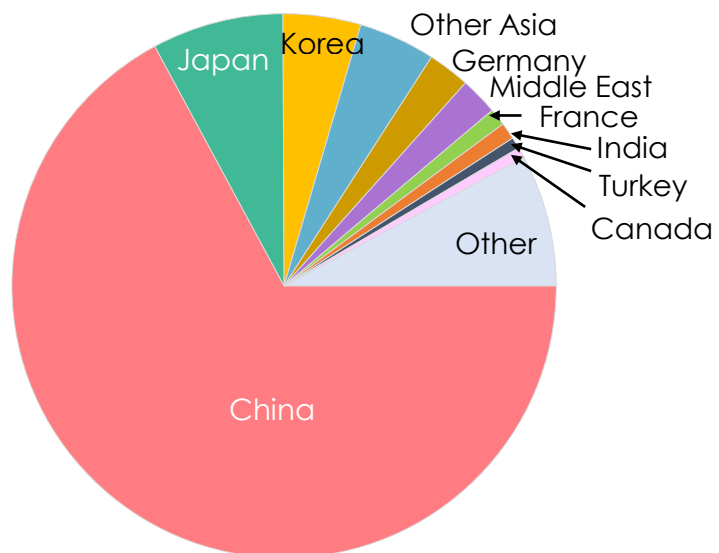
## Iron ore exports, 2018



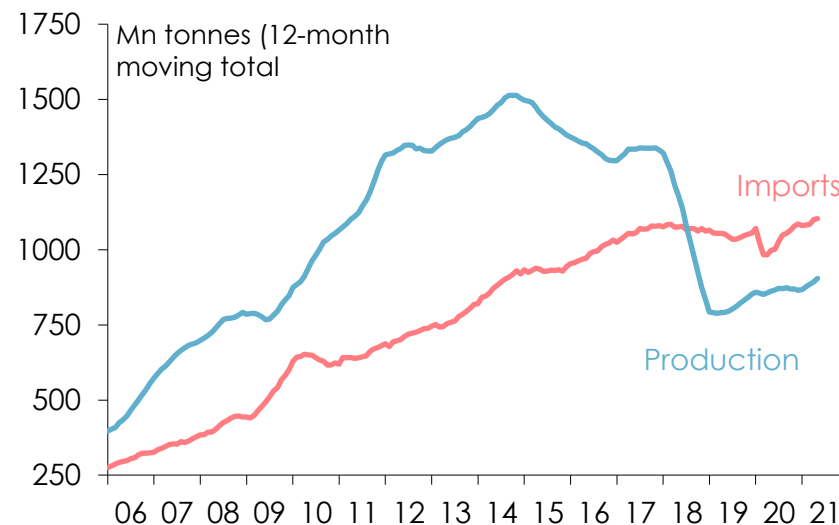
## Australia & Brazil iron ore exports



## Iron ore imports, 2018



## China iron ore production & imports



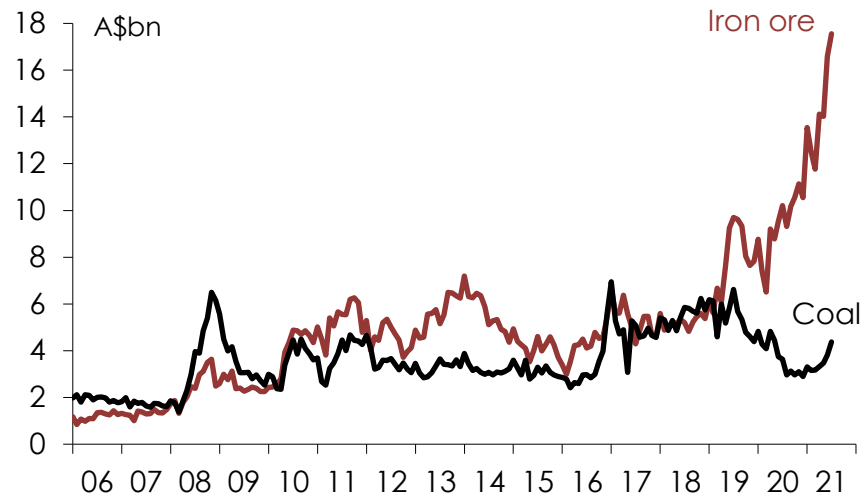
- ❑ The global iron ore trade is dominated by shipments from Australia & Brazil to China (which accounts for 53% of global steel production and 51% of steel use) – no other exporter has more than 4% of the global seaborne trade
- ❑ Chinese iron ore production has fallen by more than 34% since 2017, largely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

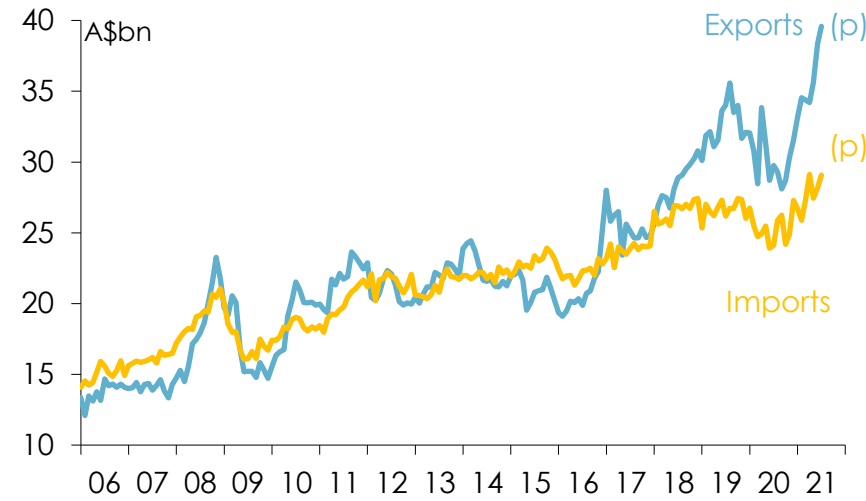
Sources: World Steel Association; China National Bureau of Statistics; China General Administration of Customs; Refinitiv Datastream; ABS; IGBE; BHP; Corinna.

# Australia likely recorded another \$10bn-plus merchandise trade surplus in June, based on preliminary figures, thanks to surging iron ore exports

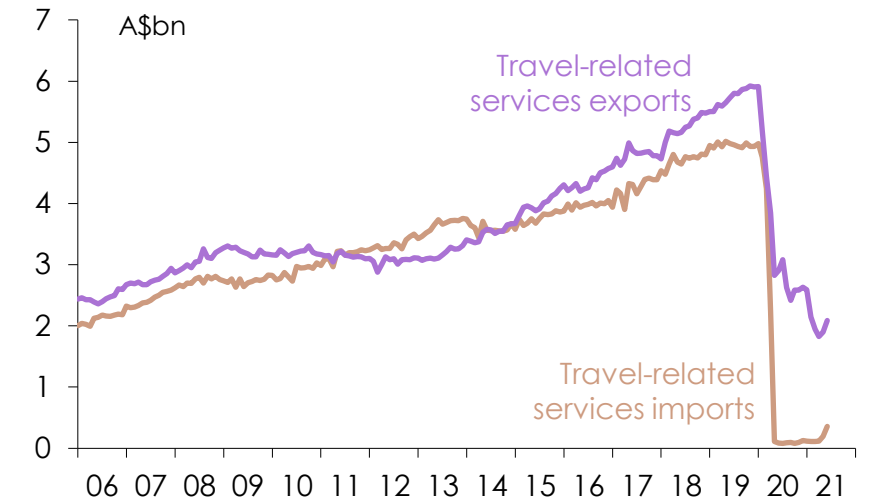
## Iron ore and coal exports



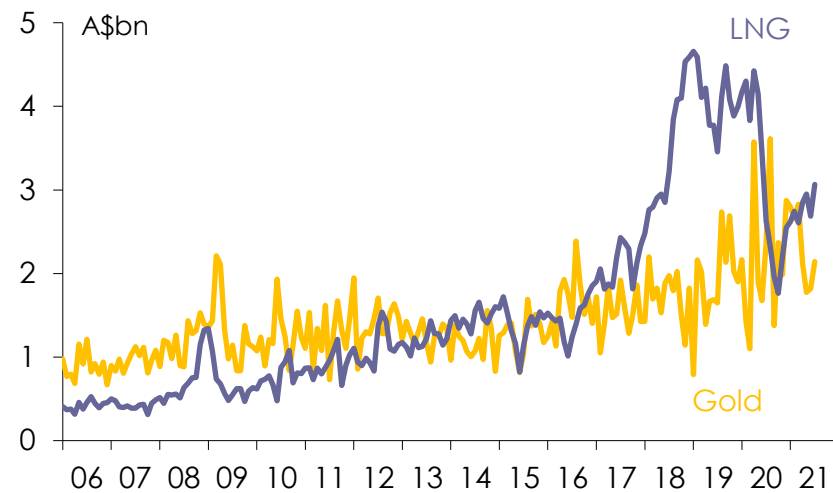
## Merchandise exports and imports



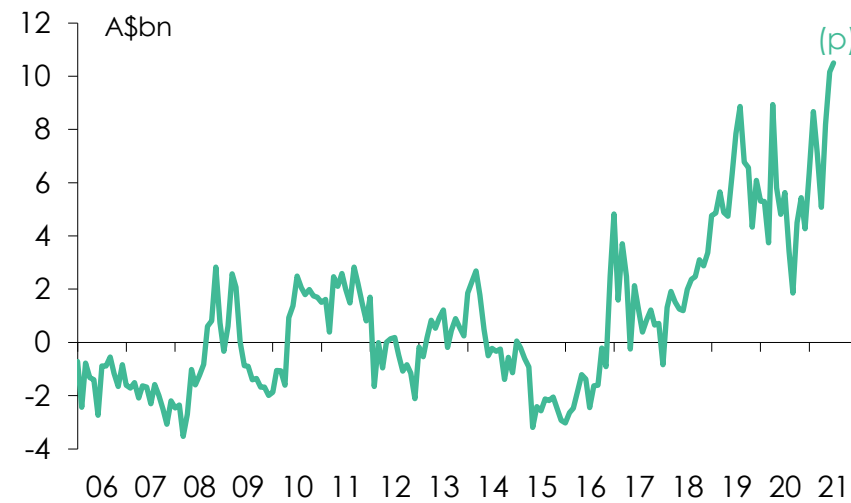
## Tourism-related services trade



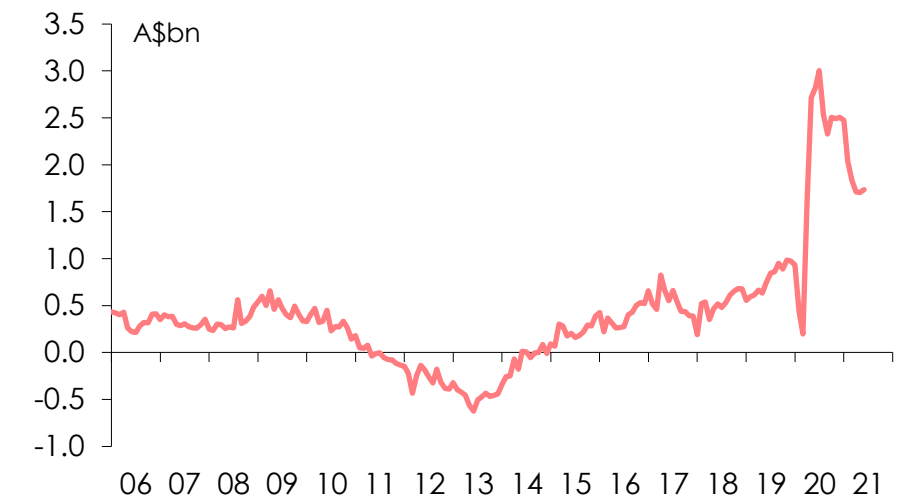
## LNG and gold exports



## Merchandise trade balance



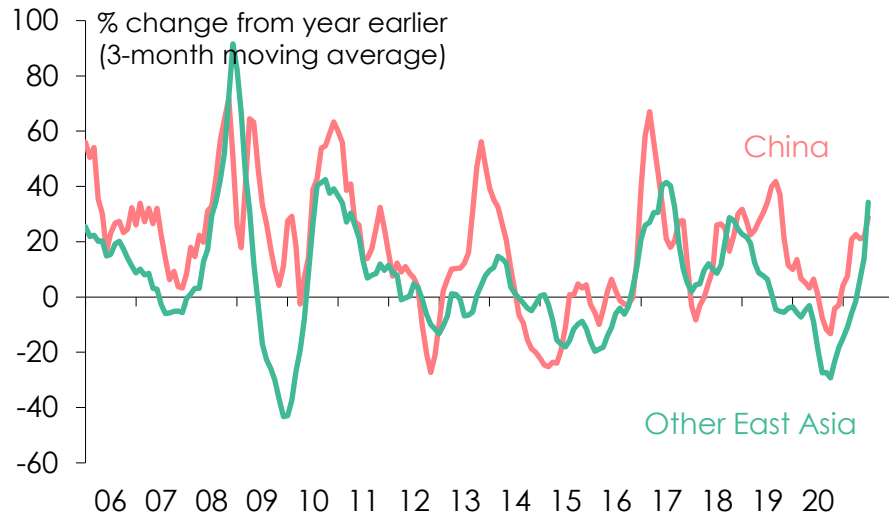
## Tourism services trade balance



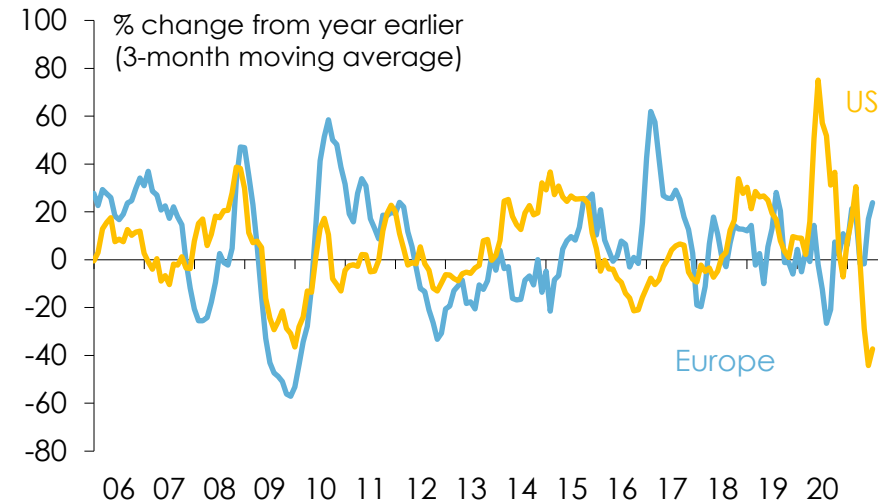
Source: ABS, [International Trade in Goods and Services, Preliminary, Australia](#), June 2021. Final June data will be released on 5th August. [Return to "What's New"](#).

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

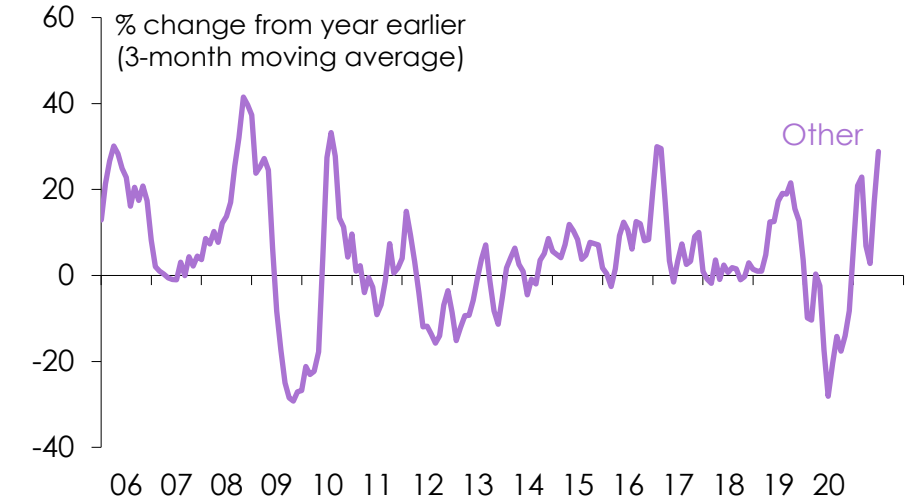
## Merchandise exports – East Asia



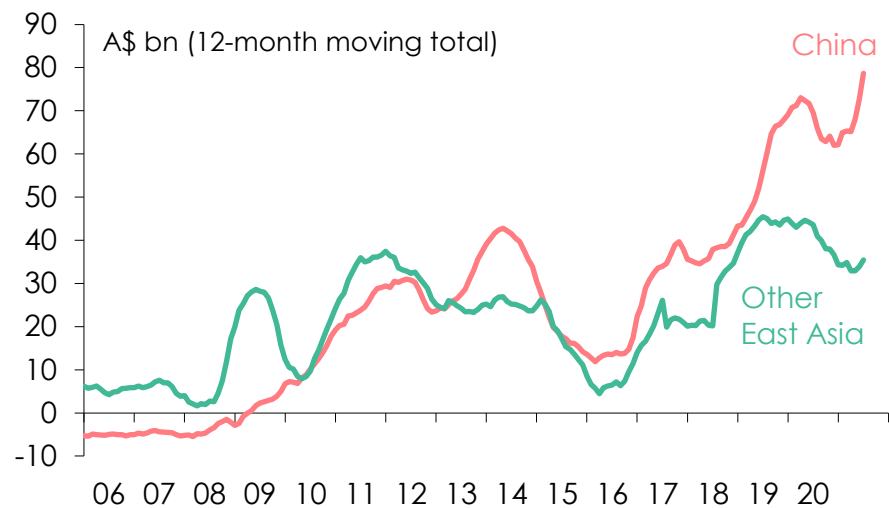
## Merchandise exports – US & Europe



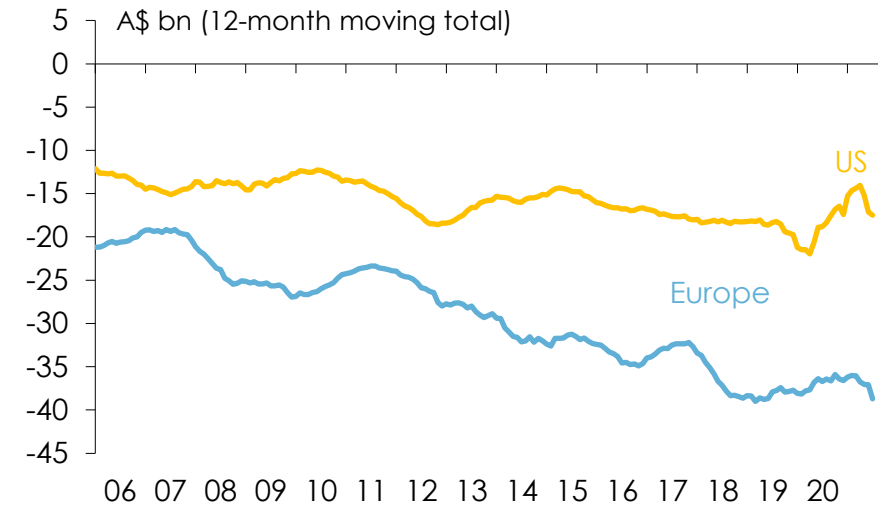
## Merchandise exports – other



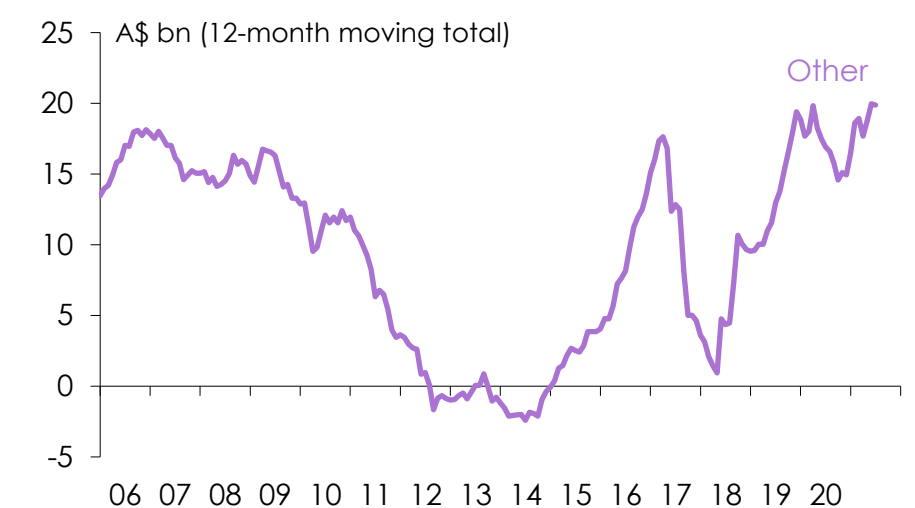
## Goods trade balance – East Asia



## Goods trade balance – US & Europe



## Goods trade balance – other

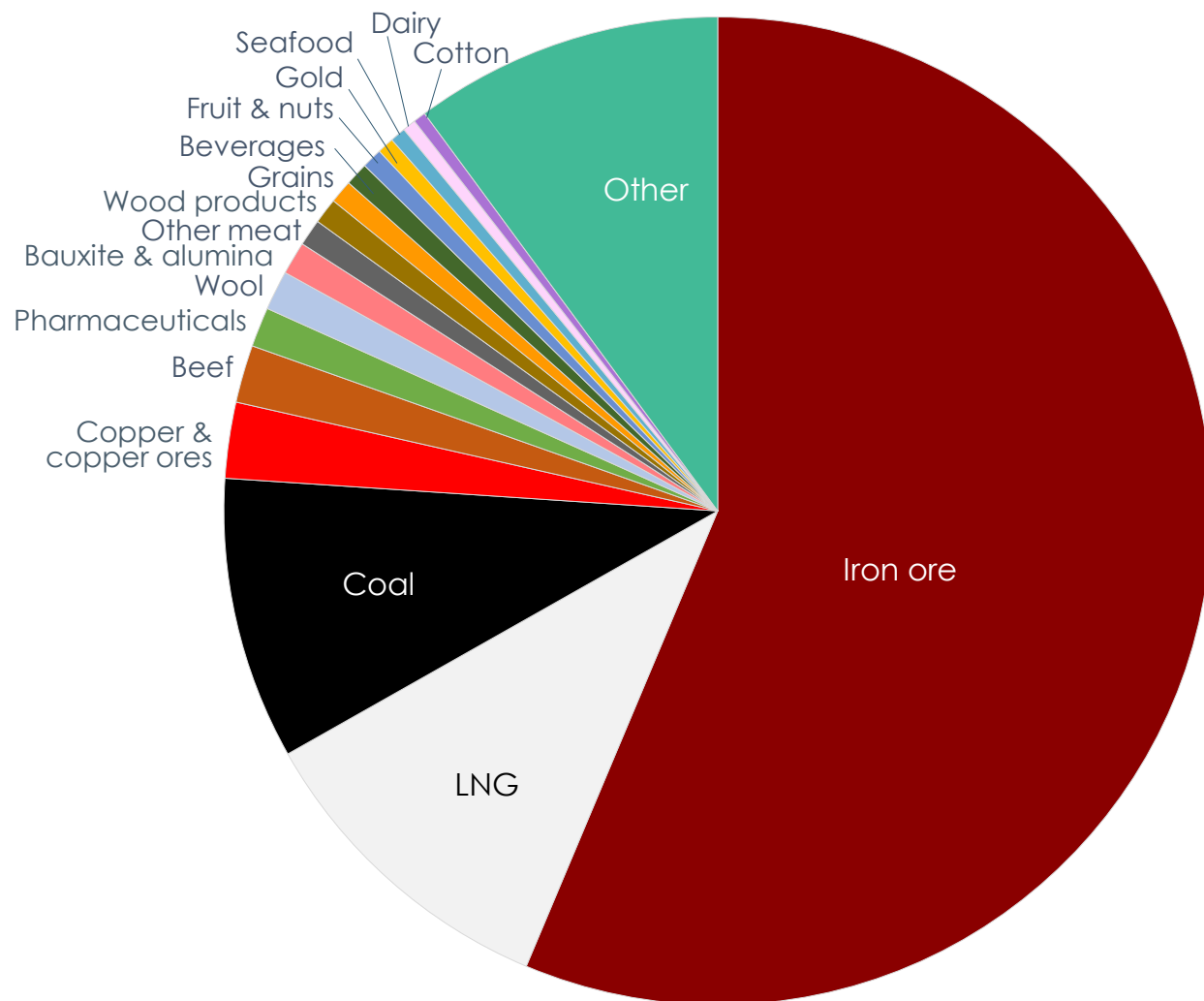


Note: 'Other East Asia' includes Japan, Korea, Taiwan, Hong Kong and ASEAN. 'Europe' includes the EU, UK and Switzerland. 'Other' includes India, New Zealand and the Pacific, Canada, Latin America, Africa, the Middle East and others not included in the foregoing. Latest data are for June. ABS, [International Trade in Goods and Services, Preliminary, Australia](#), June 2021. Final June data will be released on 5th August. [Return to "What's New"](#).



# China has now 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 month 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

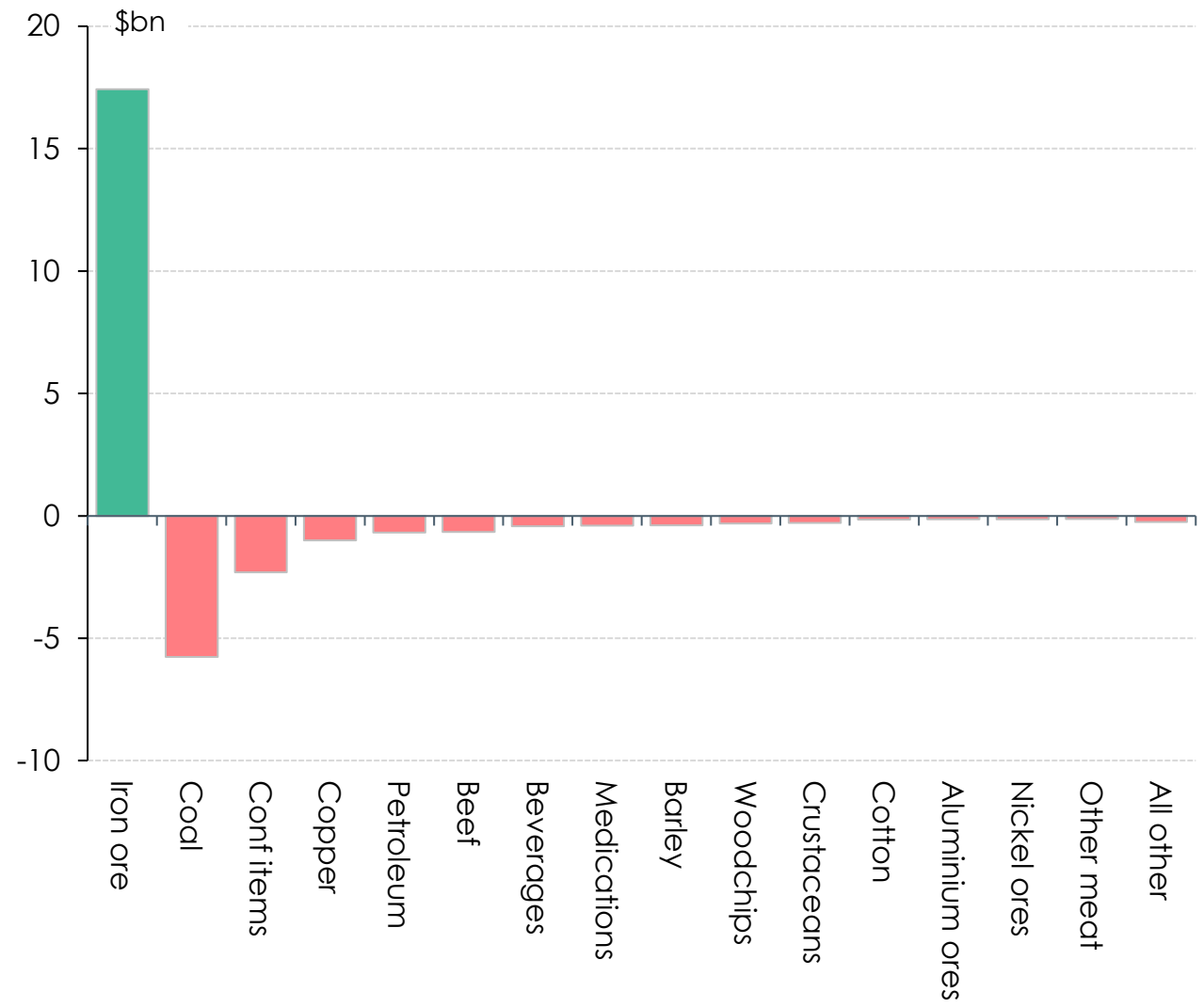
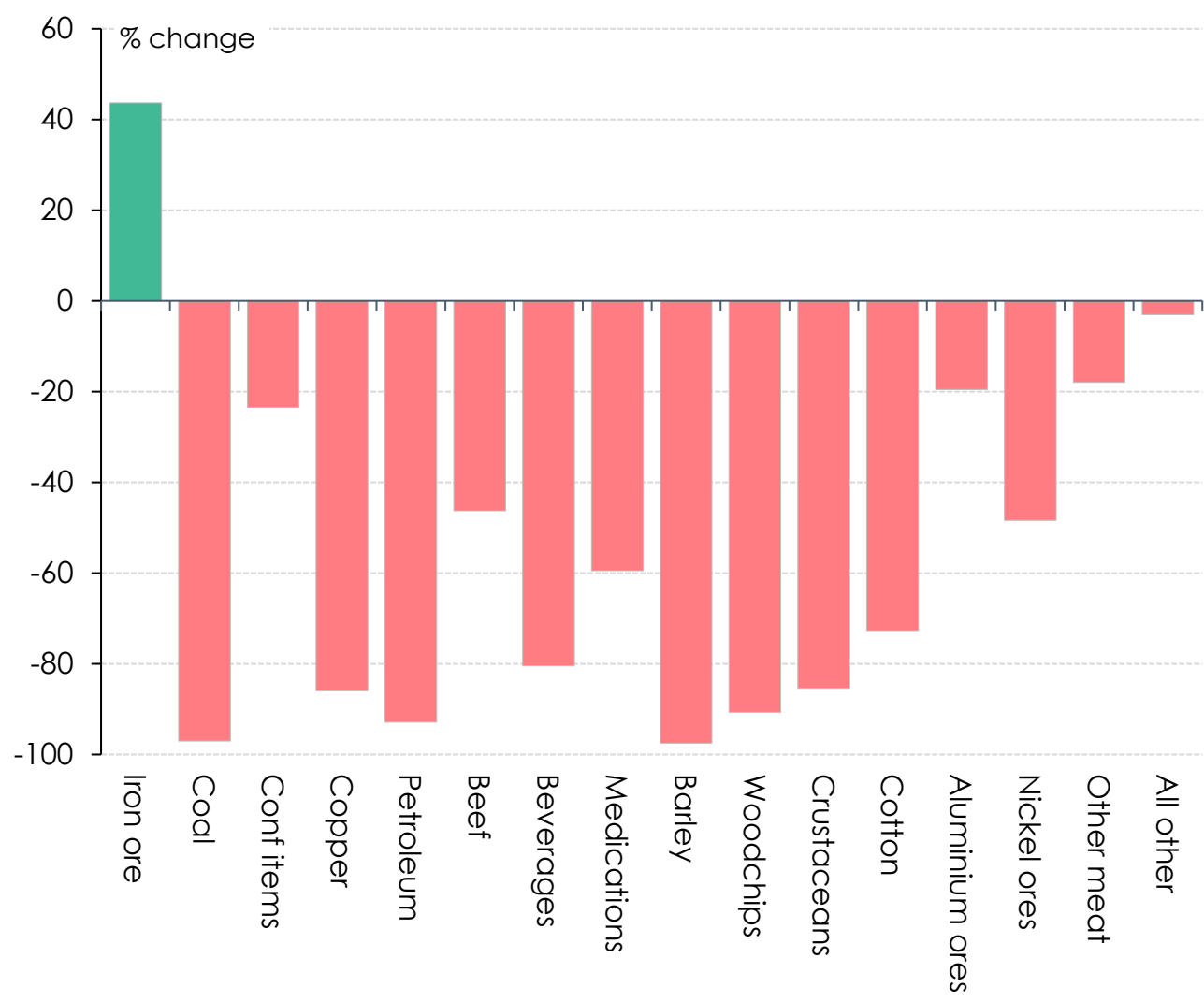
Note: 'Wood' includes wood products; 'dairy' includes milk, cream, butter & cheese; 'seafood' includes crustaceans, fish and processed seafood; 'other' includes confidential items.

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%

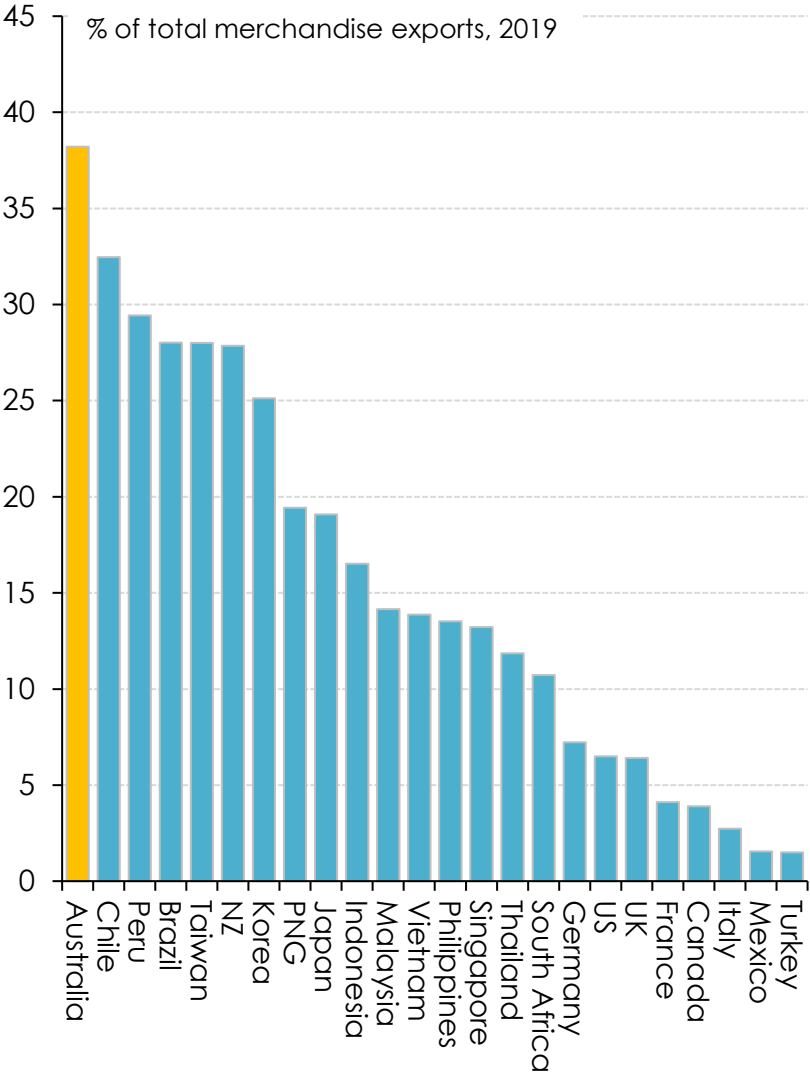
Change in Australian exports to China, six months to April 2021 compared with six months to April 2020



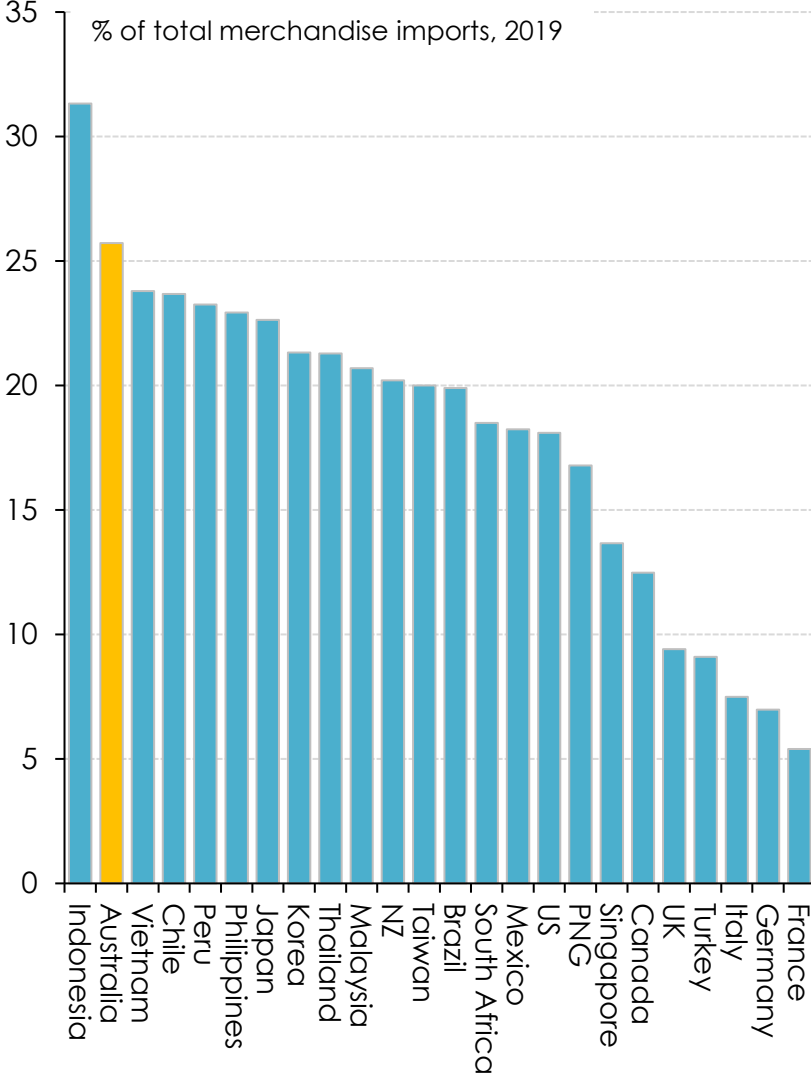
Source: Australian Department of Foreign Affairs and Trade, [Trade Statistical Pivot Tables - Country and commodity pivot table monthly](#); Corinna.

# 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

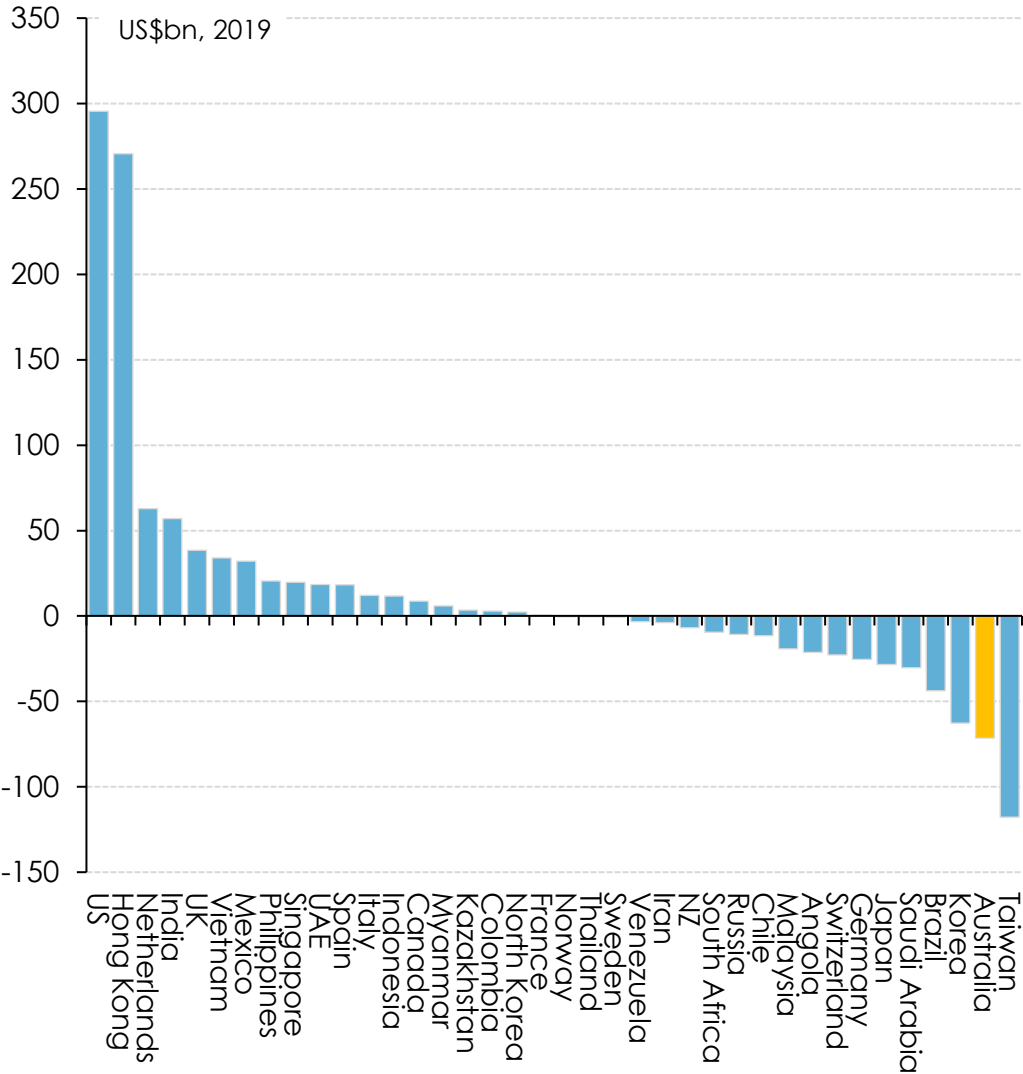
Merchandise exports to China as a pc of total



Merchandise imports from China as a pc of total



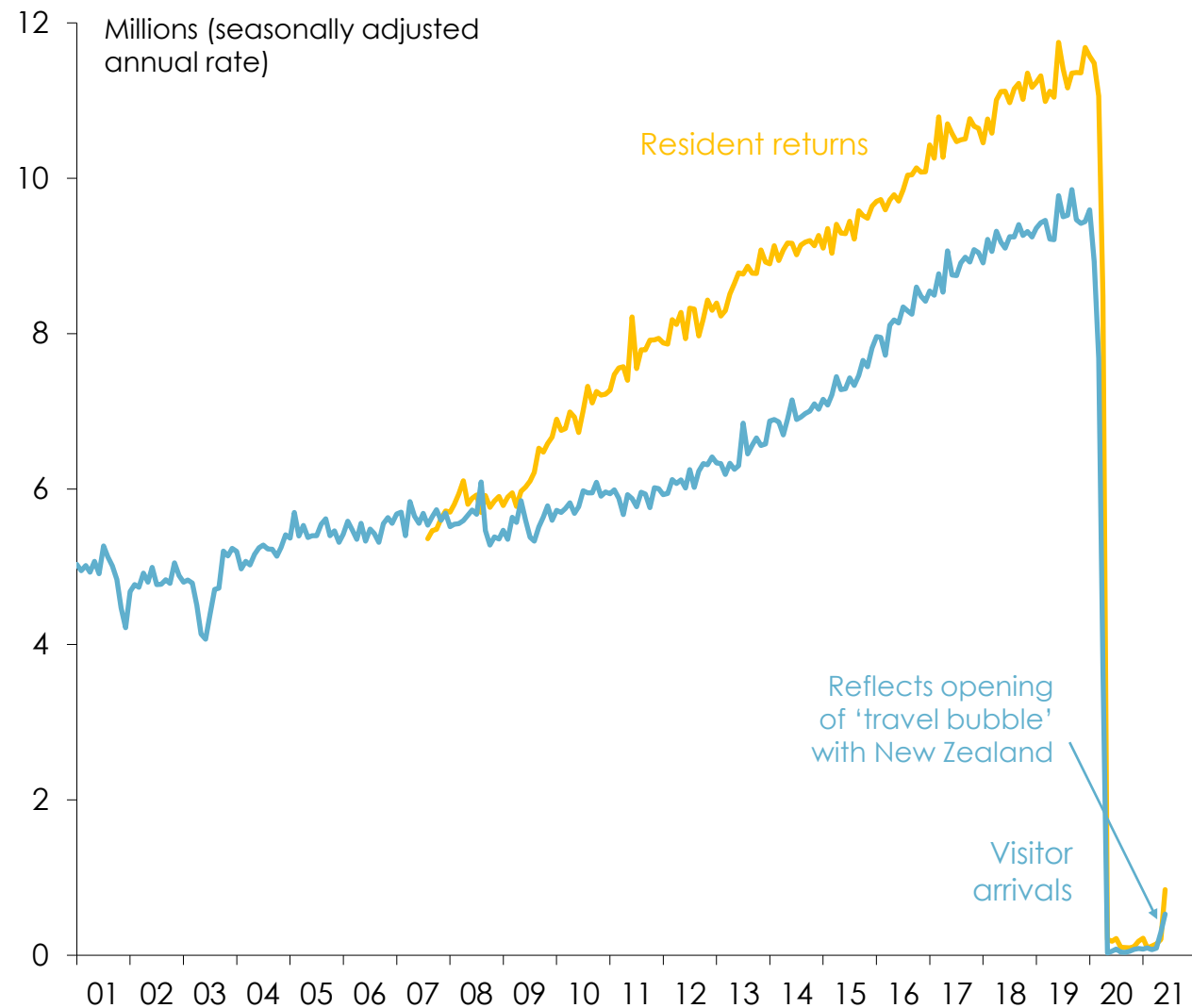
China's bilateral merchandise trade balances



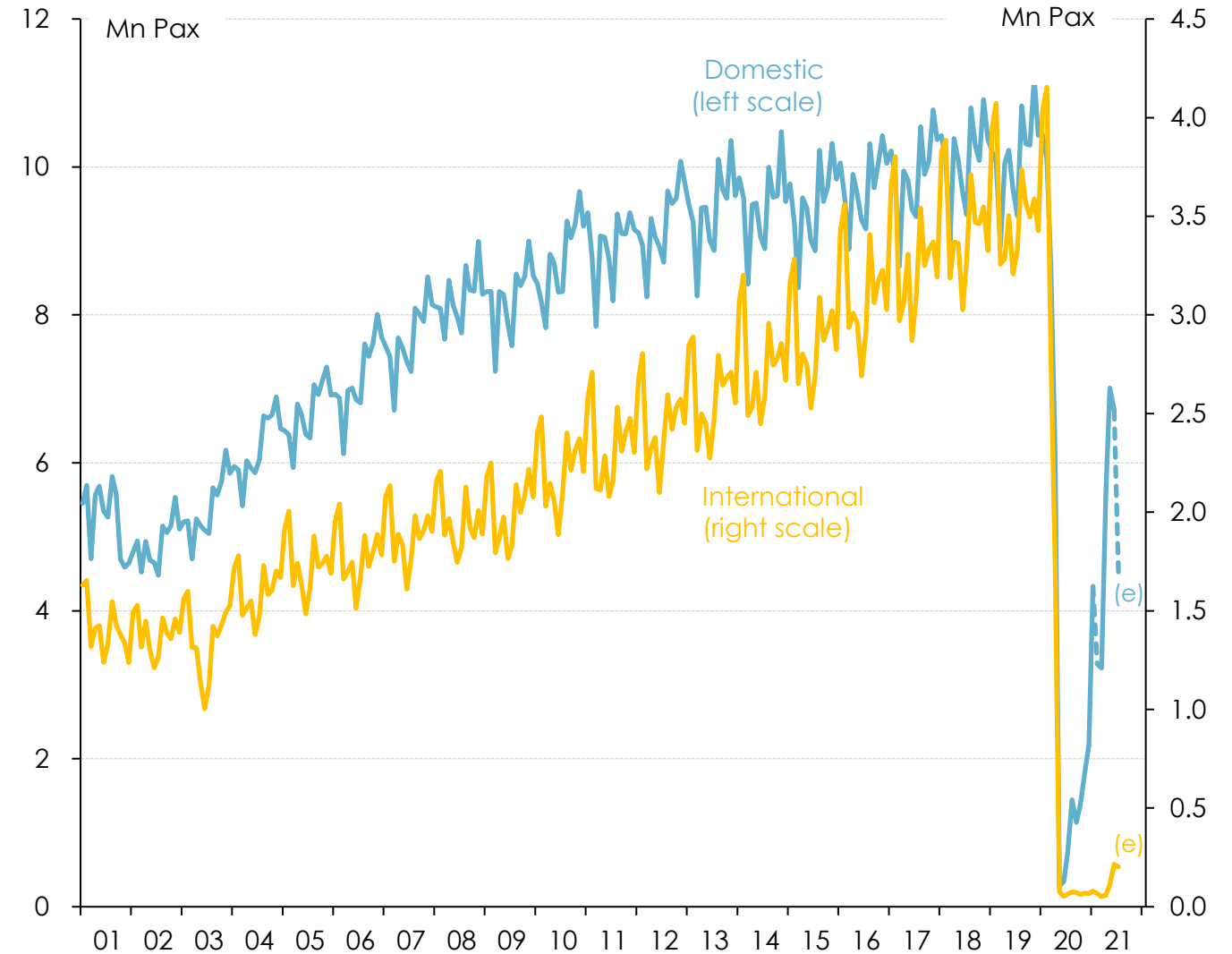
Sources: IMF, Direction of Trade Statistics; Taiwan Ministry of Economic Affairs, Bureau of Foreign Trade. [Return to "What's New"](#).

# Domestic aviation picked up strongly between last November and May – but slumped in June with renewed lockdowns and interstate border closures

## Short-term visitor arrivals and resident returns



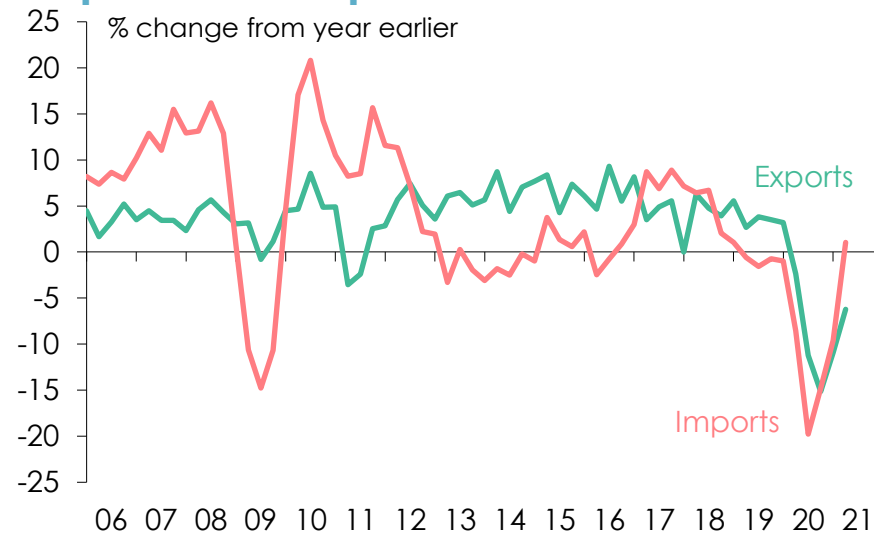
## Airport passenger movements



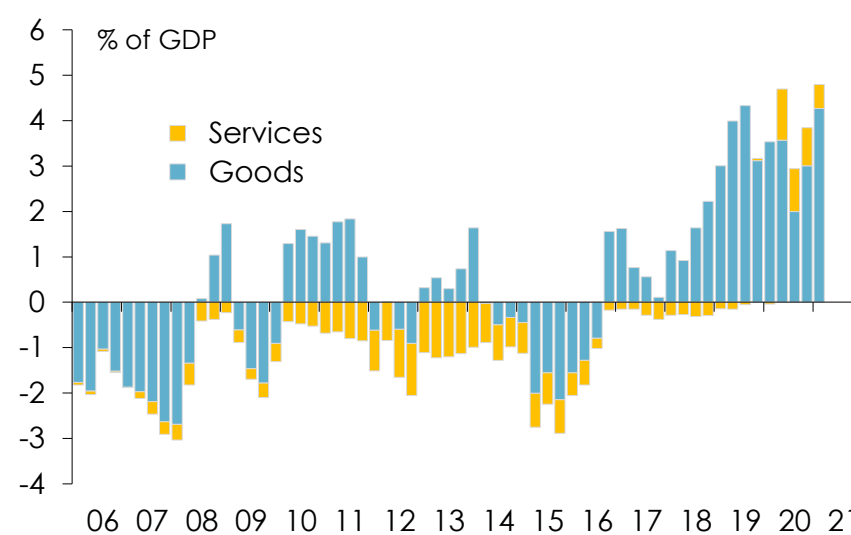
Note: The ABS has suspended publication of seasonally adjusted estimates of short-term visitor arrivals and resident returns, so published original estimates for April 2020 (and beyond) have been seasonally adjusted by Corinna using the same seasonal factors as for the corresponding month of 2019. Latest ABS data on arrivals and departures are for May; BITRE data on airport passenger movements are for May; June 2021 estimate(e) has been extrapolated from data for Sydney Airport published by Sydney Airport Ltd. Sources: [ABS](#); [Bureau of Industry, Transport and Regional 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

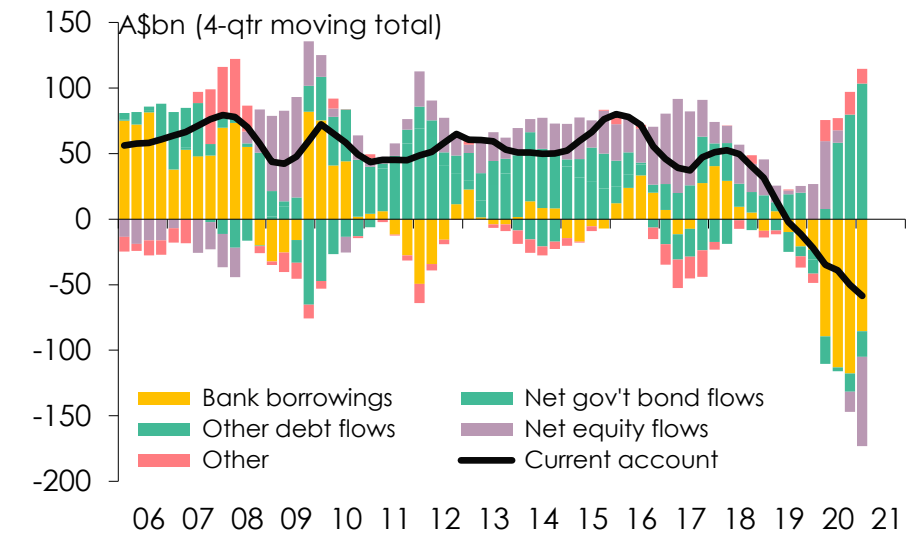
## Export and import volumes



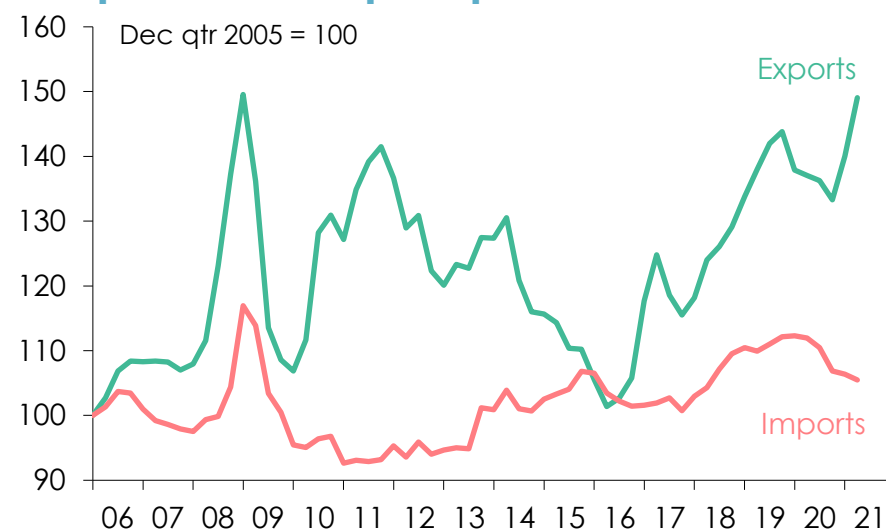
## Goods & services trade balances



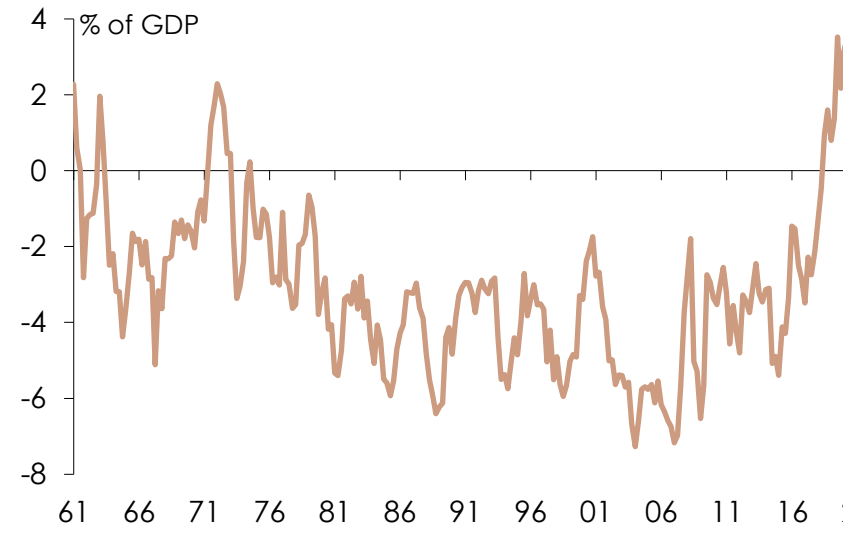
## Capital flows



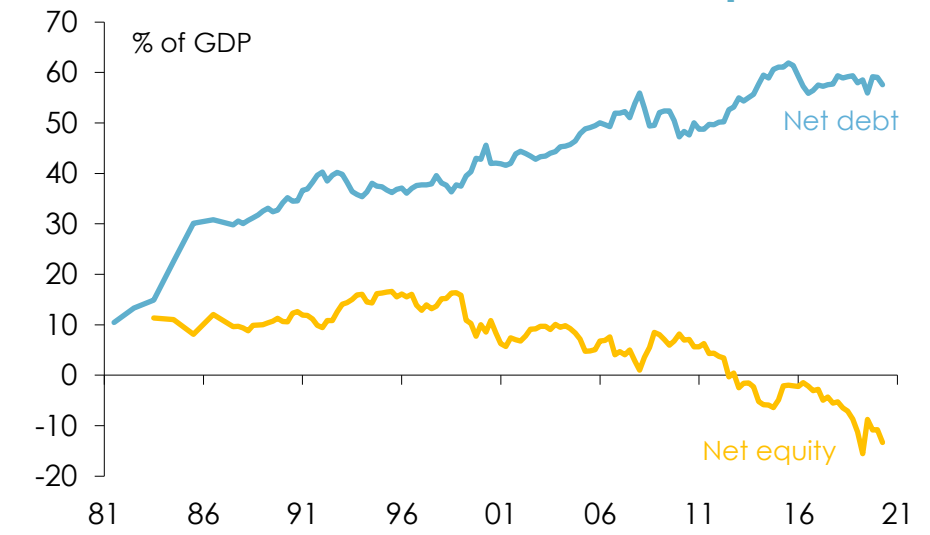
## Export and import prices



## Current account balance



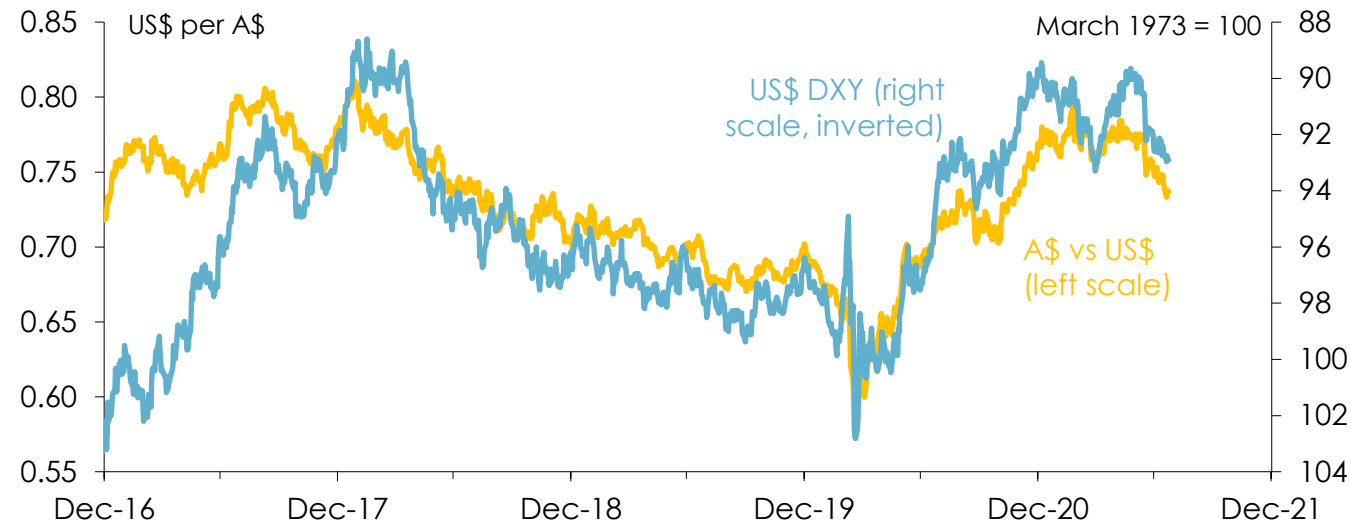
## Net international investment position



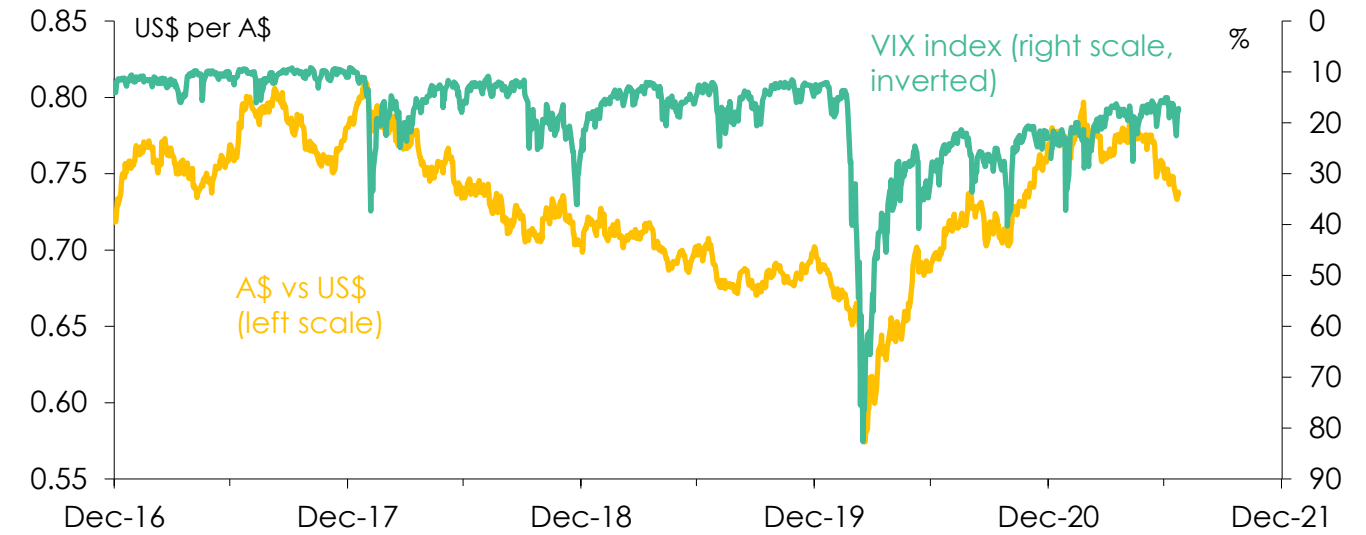
Note: The chart of Australia's international capital flows shows inflows (eg borrowings from abroad) as a positive and outflows (eg repayments of debt, or purchases of foreign equity assets) as a negative. Likewise the chart of Australia's international investment position shows net foreign debt as a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

# The A\$ dropped another ½% against the US\$ this week, to its lowest level since late November, reflecting the stronger US\$ and lower iron ore prices

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



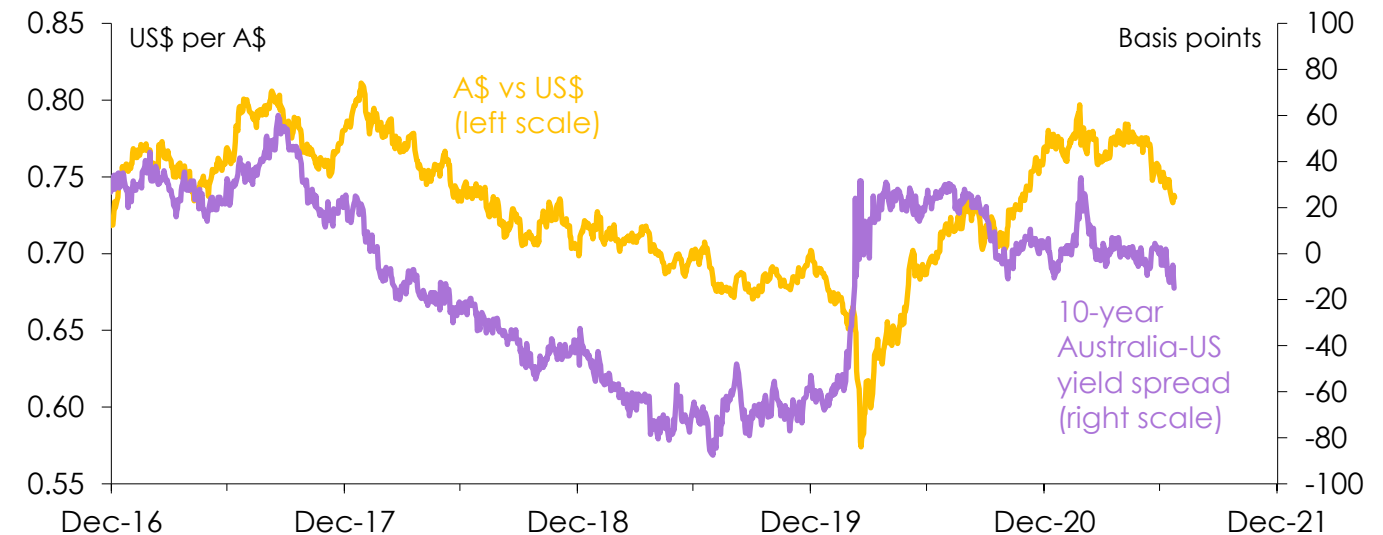
## A\$-US\$ and US equity market volatility



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

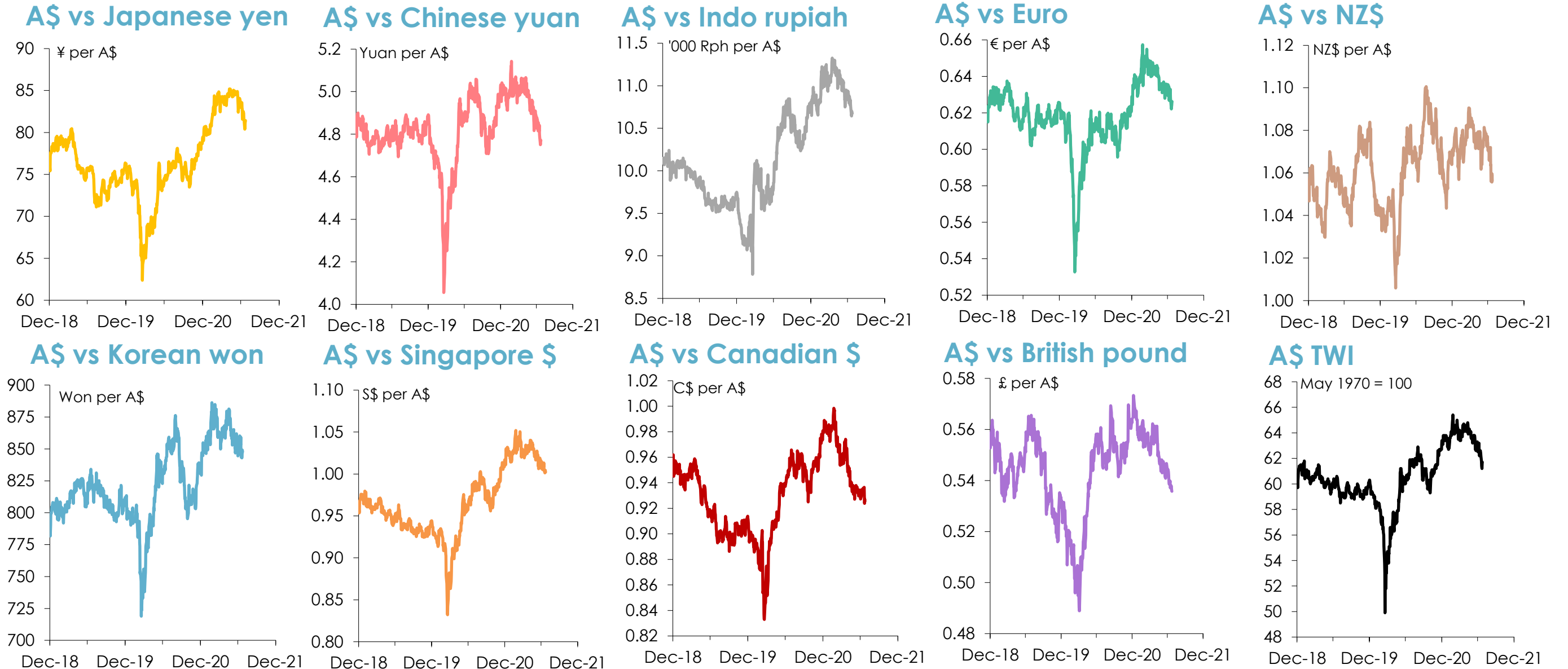


## A\$-US\$ and Australia-US 10-year bond yield spread



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 125](#). Source: Refinitiv Datastream. Data up to 23<sup>rd</sup> July. [Return to "What's New"](#).

# The A\$ also lost ground against most third currencies this week, except for the won (which fell more) and the NZ\$

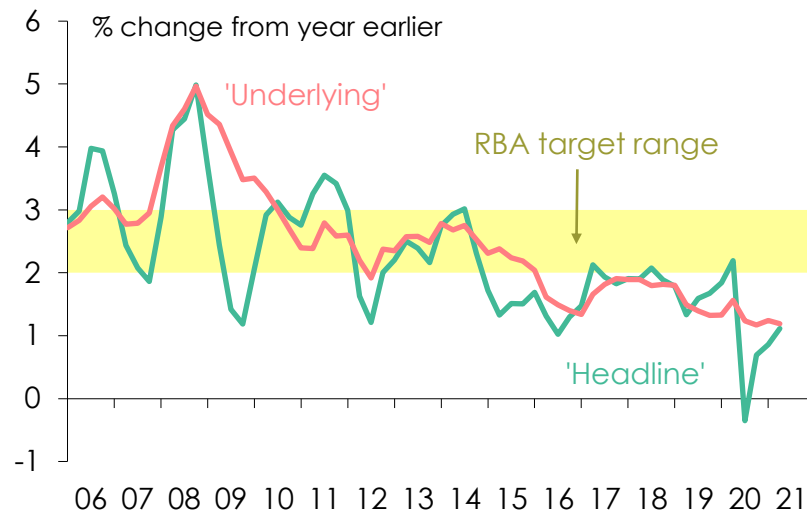


Note: The 'TWI' is the RBA's [trade-weighted index](#) of the A\$. Source: Refinitiv Datastream. Data up to 23<sup>rd</sup> July. [Return to "What's New"](#).

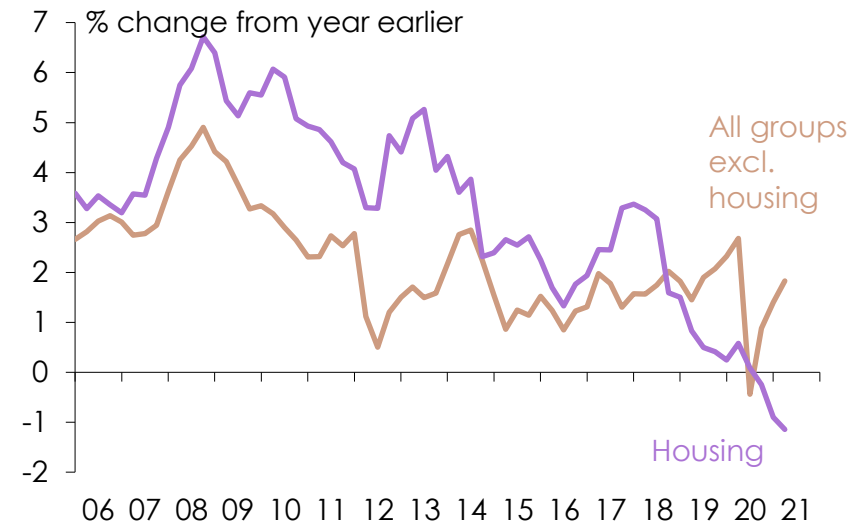


# Wednesday's Q2 CPI release is likely to show 'headline' inflation above 3% due to 'base effects' and higher petrol prices

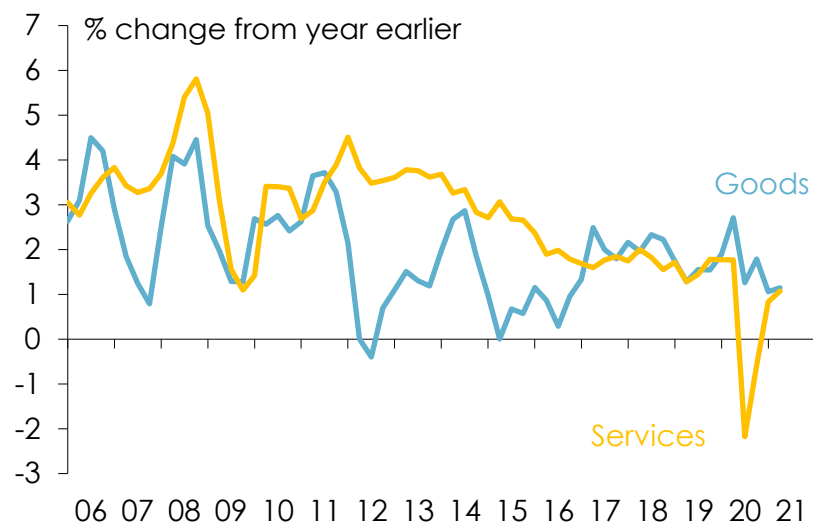
## Consumer prices



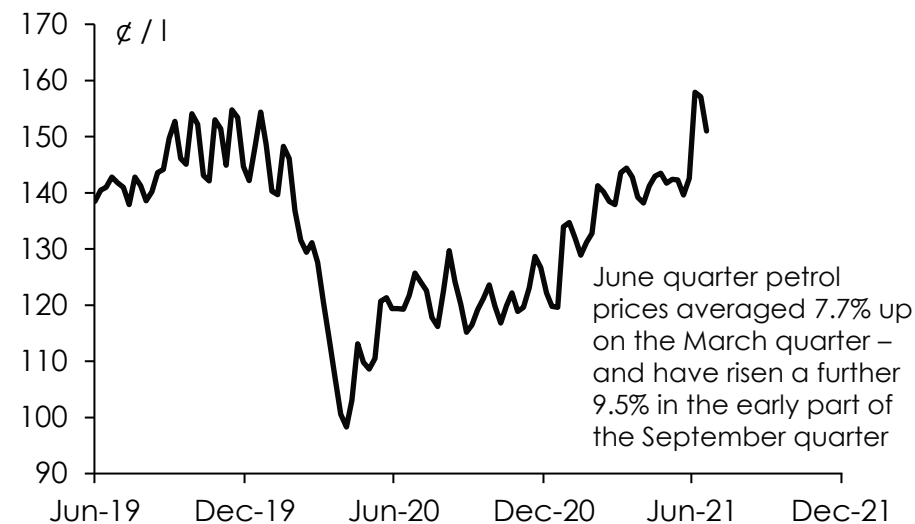
## Housing costs



## Goods vs services prices



## Retail petrol prices

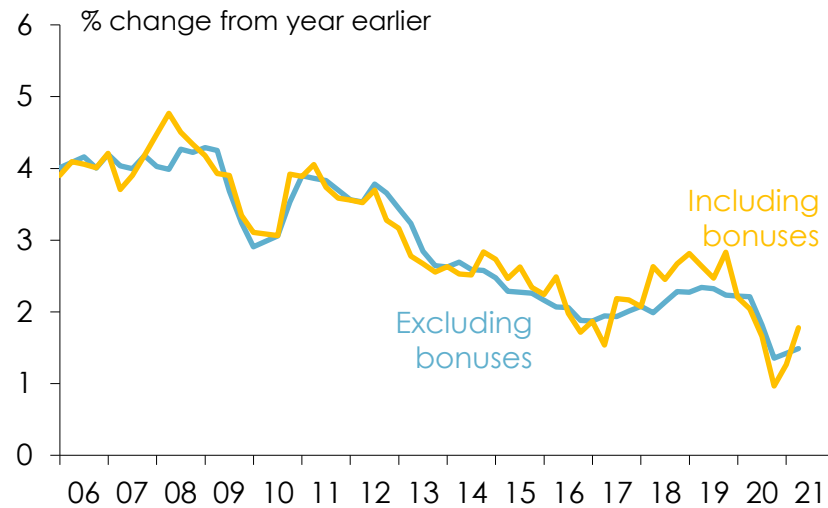


- ❑ The CPI rose a smaller-than-expected 0.6% in Q1, pushing the annual 'headline' inflation rate up 0.2 pc pts to 1.1%
- ❑ Almost half the Q1 increase in the CPI came from an 8.7% increase in petrol prices
- ❑ The main dampening effects came from government policies – including cash grants to first 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)
- ❑ 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'
- ❑ This week's Q2 CPI is likely to show 'headline' inflation above 3% as a result of the 1.9% fall in Q2 last year (due to free child care and the sharp fall in petrol prices) 'washing out' – but measures of 'core' inflation are likely to remain at around 1½%

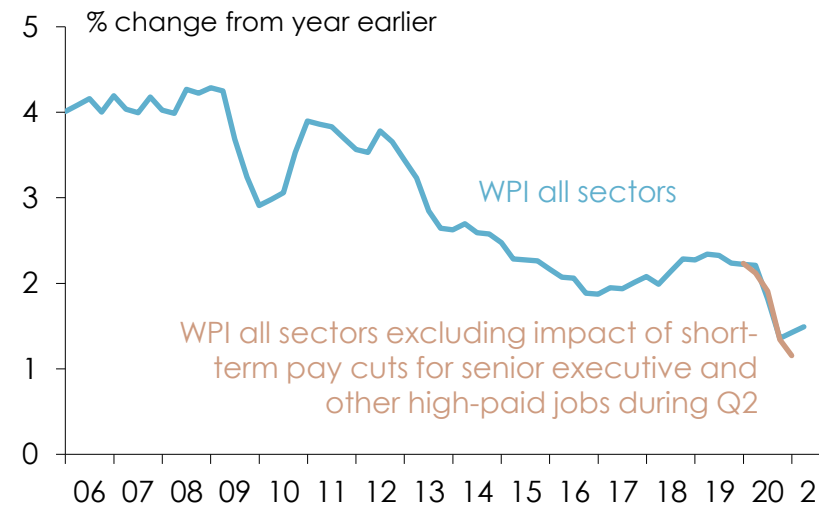
Note: 'Underlying' inflation is the average of the weighted median and trimmed mean CPIs. Wage price indices exclude bonuses.  
Sources: ABS, [Consumer Price Index, Australia](#); [Australian Institute of Petroleum](#). The June quarter (Q2) CPI will be released on 28<sup>th</sup> July.  
[Return to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

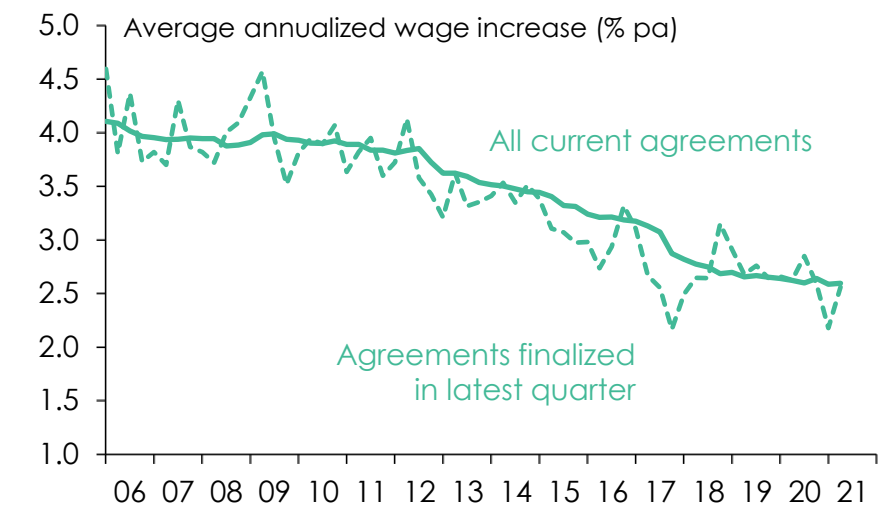
## Wage price index – all sectors



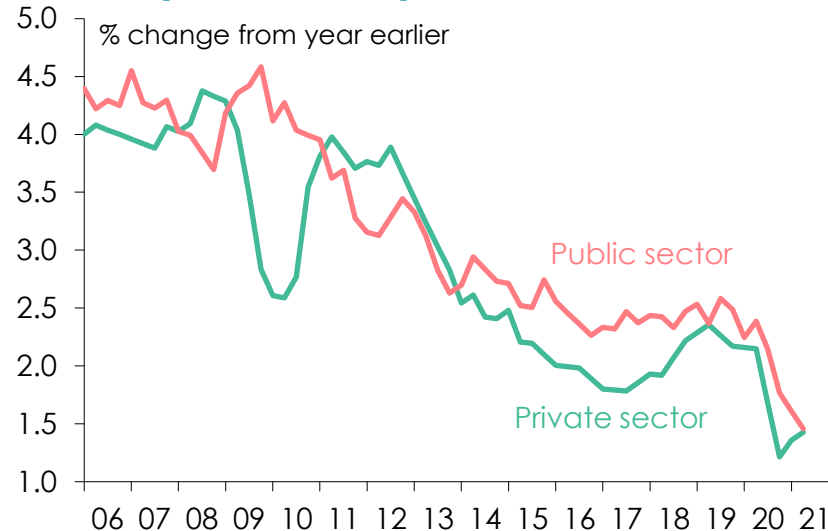
## WPI excl. temporary wage cuts



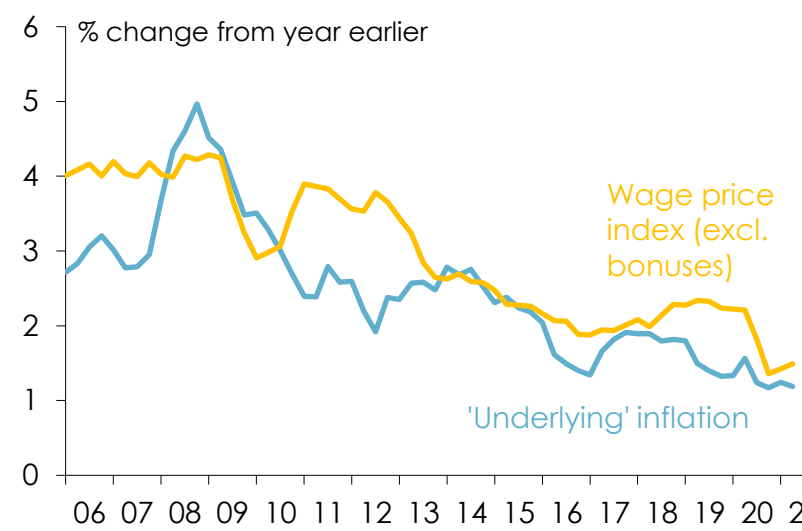
## Enterprise bargaining agreements



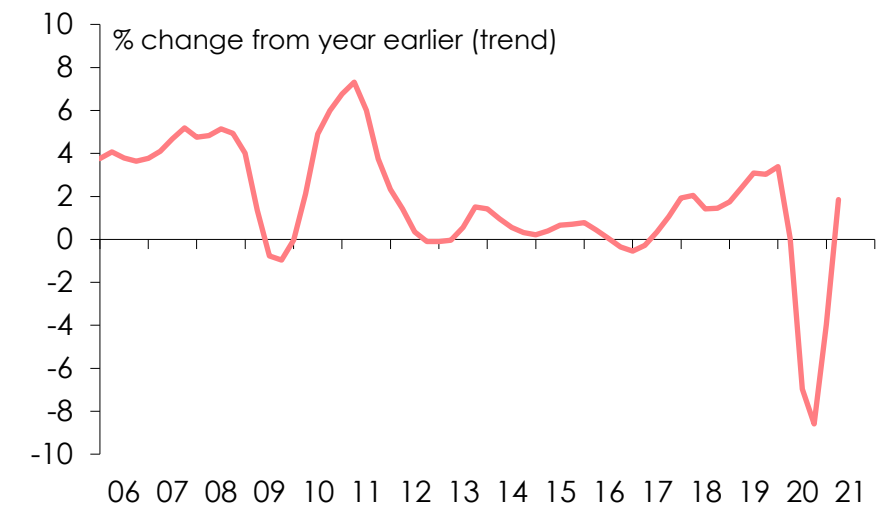
## WPI – private vs public sectors



## WPI and 'underlying' CPI inflation



## Unit labour costs

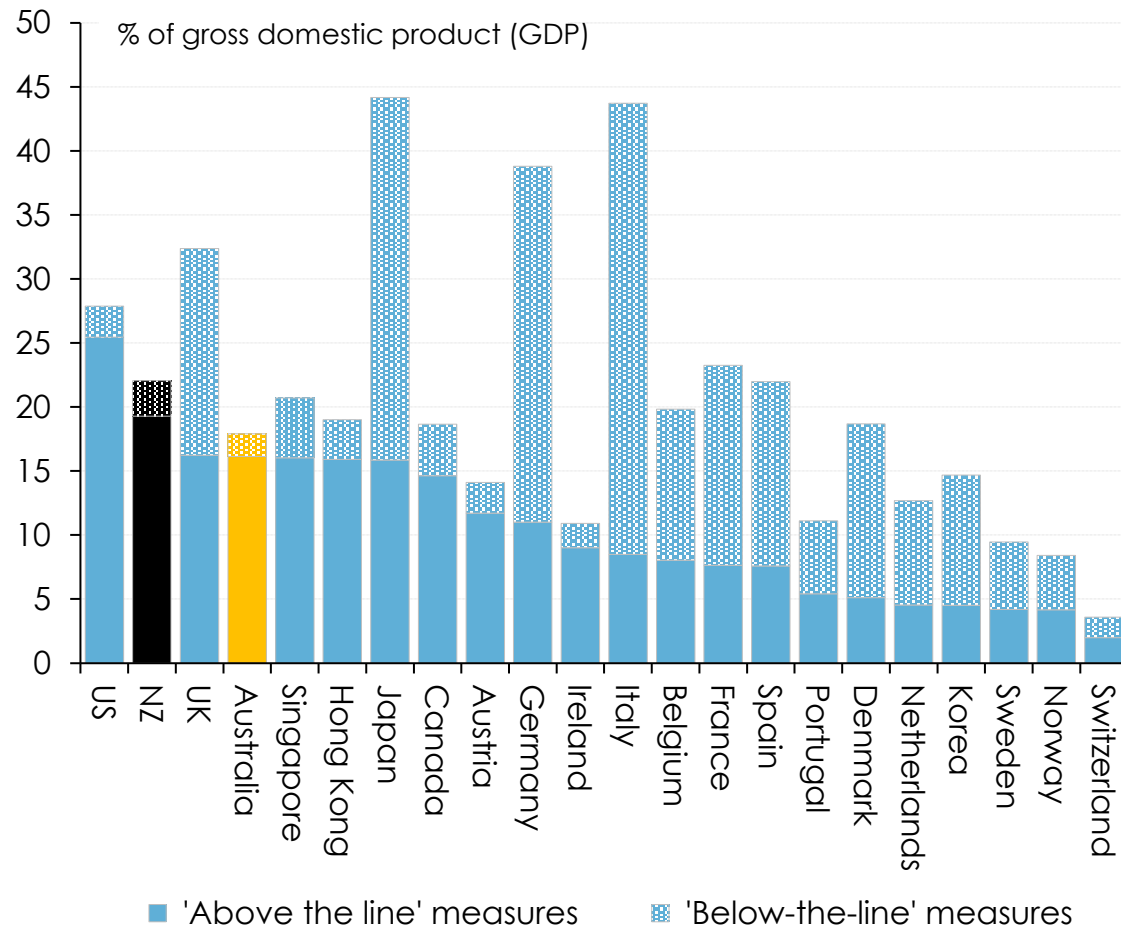


Note: Unit labour costs is compensation of employees (including fringe benefits and social insurance contributions) per hour worked divided by (real) gross value added per hour worked (ie, labour productivity) for the non-farm sector. Sources: ABS, [Wage Price Index, Australia](#) and [Australian National Accounts: National Income, Expenditure and Product](#); Attorney-General's Department, [Trends in Federal Enterprise Bargaining](#); June quarter WPI data will be released on 18<sup>th</sup> August. [Return to "What's New"](#).

# Australia's fiscal and monetary policy settings

# The Federal Government has announced new support measures week for workers and businesses affected by lock-downs

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

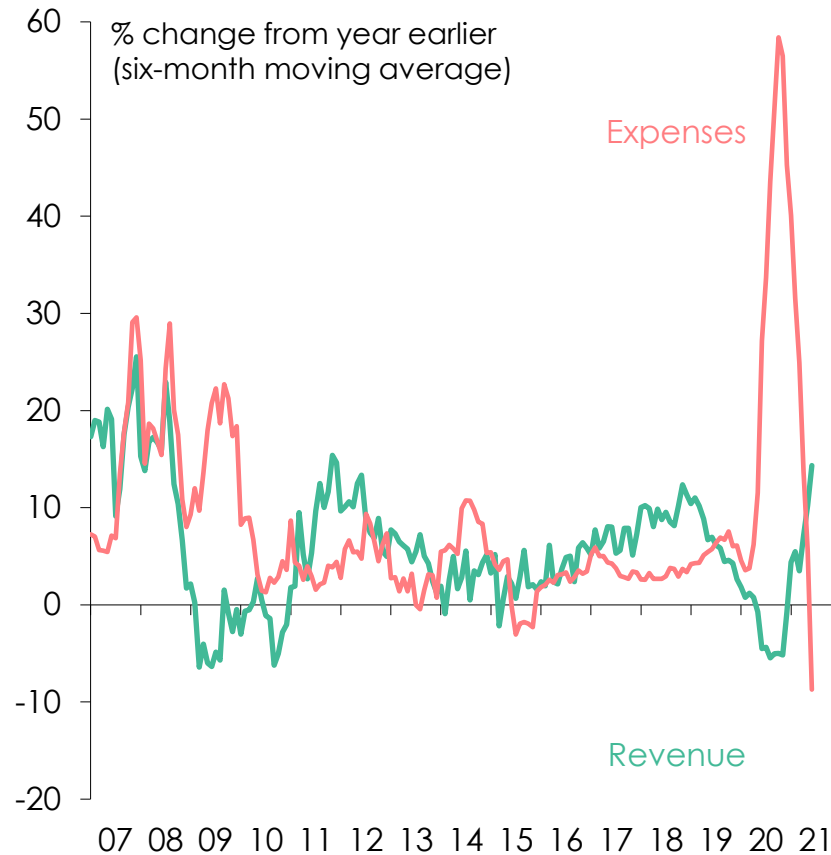


Note: 'Above the line' measures comprise additional or accelerated spending and deferred or foregone revenue. 'Below the line' measures comprise equity injections, loans, asset purchases and debt assumptions, but do not include loan guarantees or other contingent liabilities. 'DMs' means 'developed markets' (or 'advanced economies'). Data includes measures announced up until 17<sup>th</sup> 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 by the Australian and state/territory governments in response to Covid-19 (up to March this year) have been equivalent to about 16% of GDP – the fourth highest of any 'advanced' economy, according to IMF estimates
- ❑ Most of these measures have now terminated
- ❑ Last week the Federal Government announced a range of new support measures for employees losing jobs and (small) businesses adversely affected by the lockdowns in Victoria and the Greater Sydney metropolitan area
  - individuals living in a 'Commonwealth declared hotspot' which is subject to a lockdown of more than 7 days and who lose 8-20 hours of work per week will be eligible for a 'Covid Disaster Payment' of \$375 per week, rising to \$600 per week for people who lose more than 20 hours of work
  - businesses with annual turnovers of up to \$50mn and whose turnover falls by 30% or more due to lockdowns lasting more than two weeks will be eligible for 'support payments' equal to 40% of their wages bill, up to a maximum of \$10,000 per week (or \$1,000 per week for sole traders)
- ❑ No estimates of the budgetary cost of these measures have so far been provided

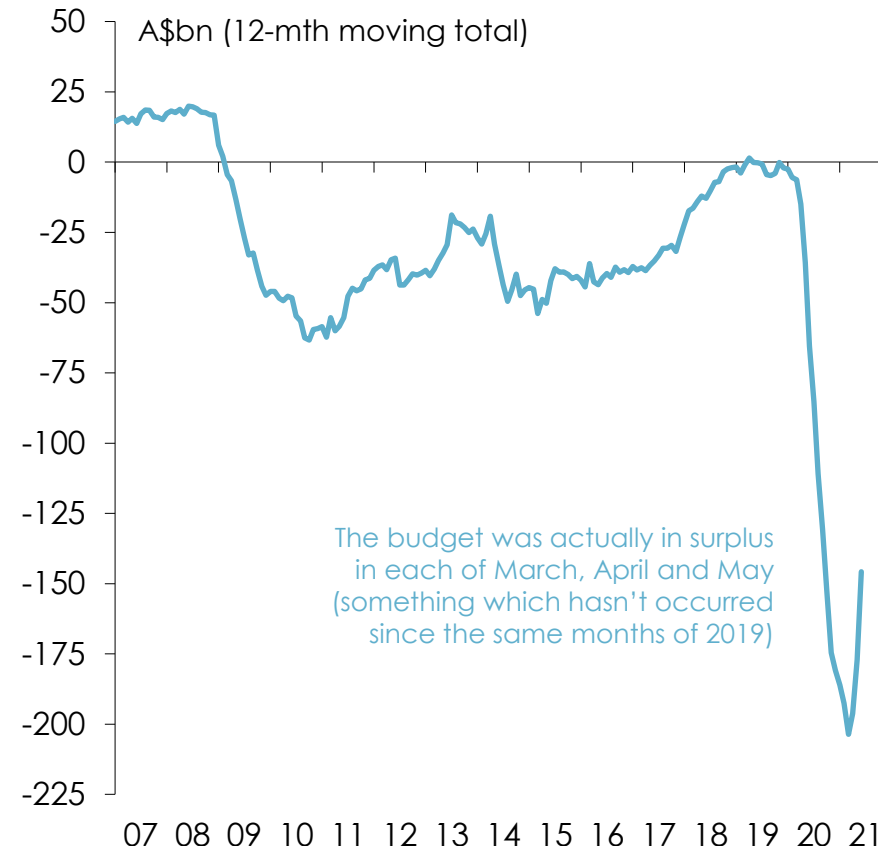
# The budget was in surplus for three months in a row between March and May, and for the first 11 months of 2020-21 was \$14bn less than forecast

## Australian Government revenue and expenses



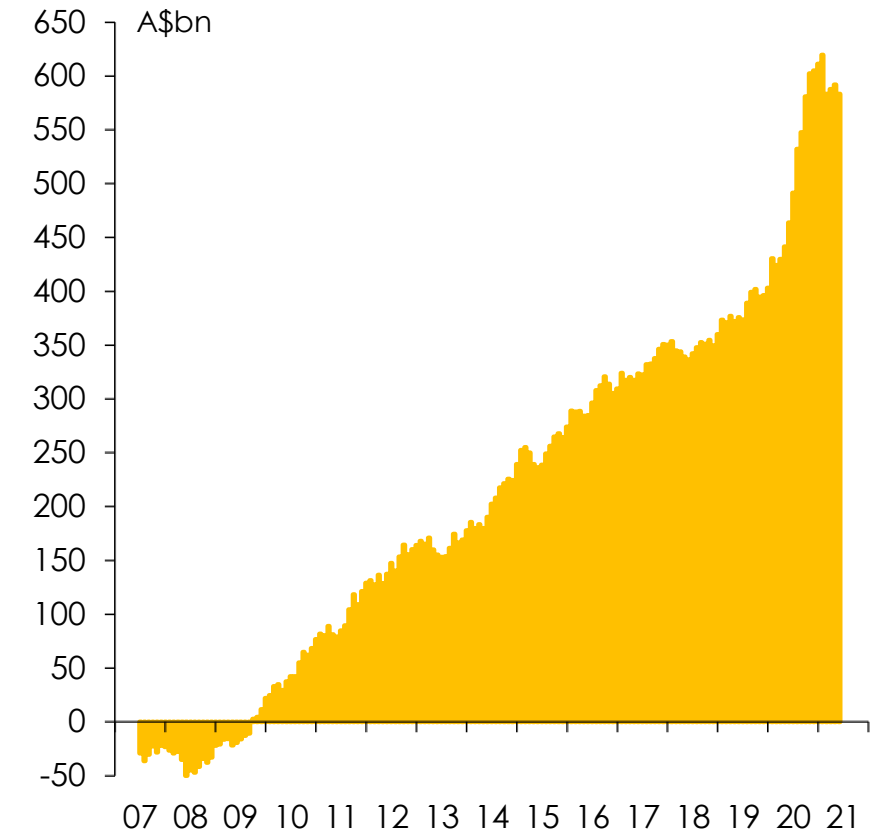
- ❑ Expenses have now peaked, while revenue is beginning to turn around as the economy picks up

## 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

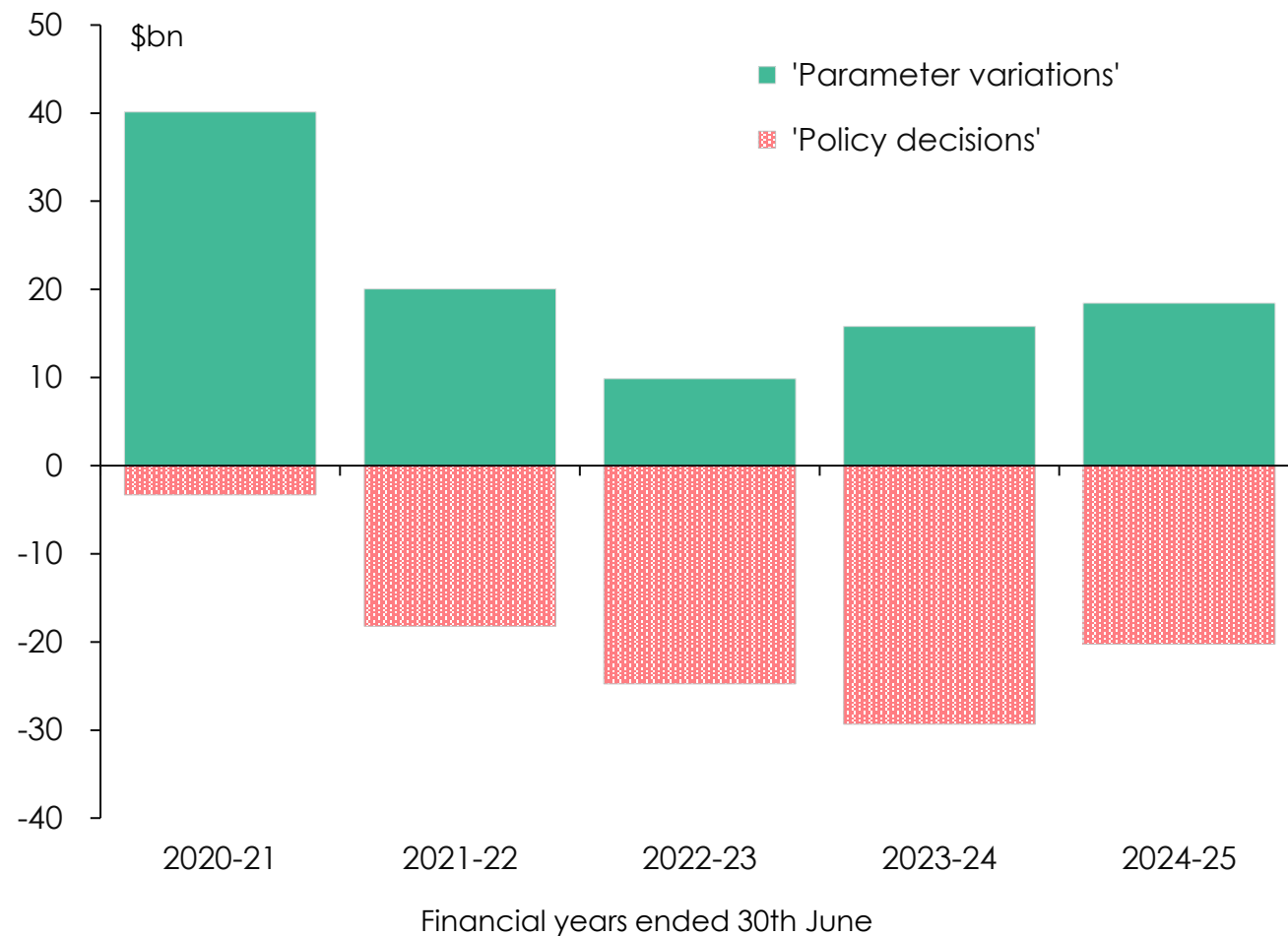


- ❑ Net debt as at end-May was \$583bn (about 25½% of GDP), down from a peak of \$619bn at end-January

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



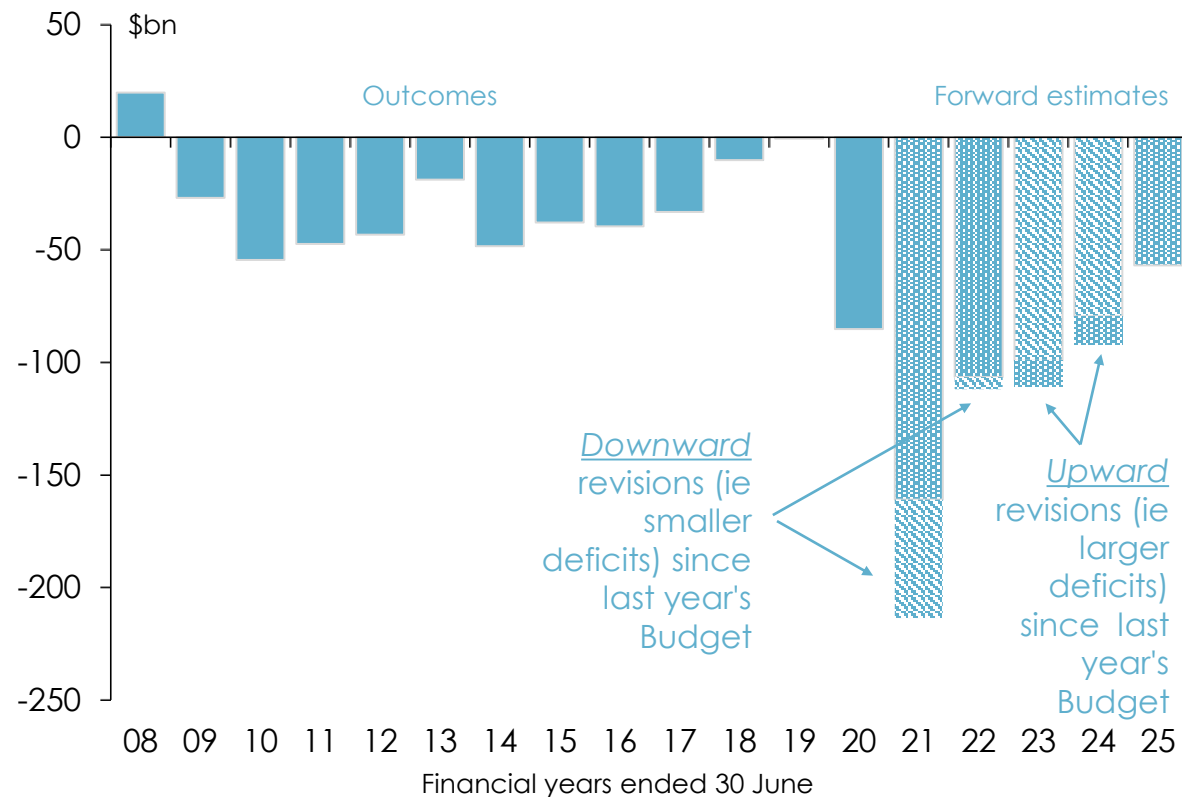
- ❑ The budget affects the economy (through the 'policy decisions' which the Government makes as it puts the Budget together) – but the economy also affects the Budget (via what the Budget Papers call 'parameter variations' in receipts and payments)
- ❑ 'Parameter variations' between last December's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

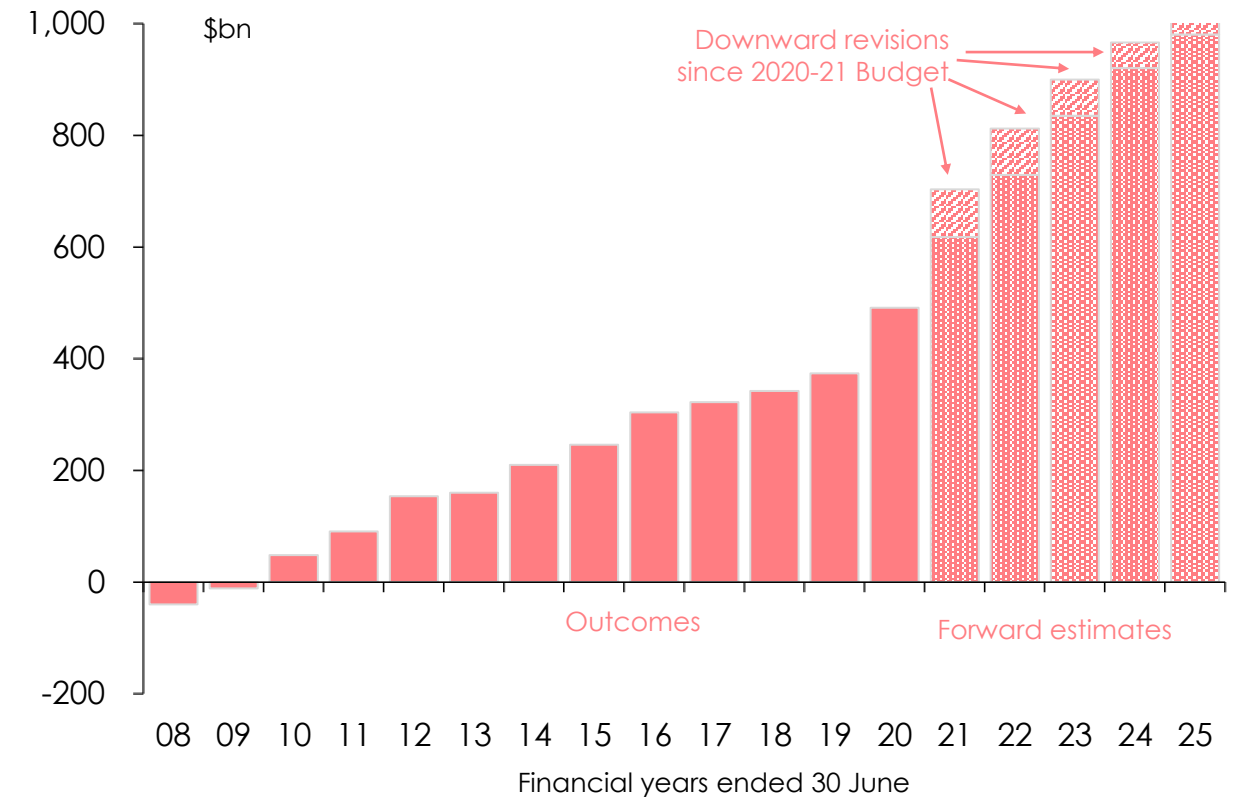
## 2021-22 Budget forward estimates compared with those from last year's (2020-21) Budget

### 'Underlying' cash balance



- ❑ 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

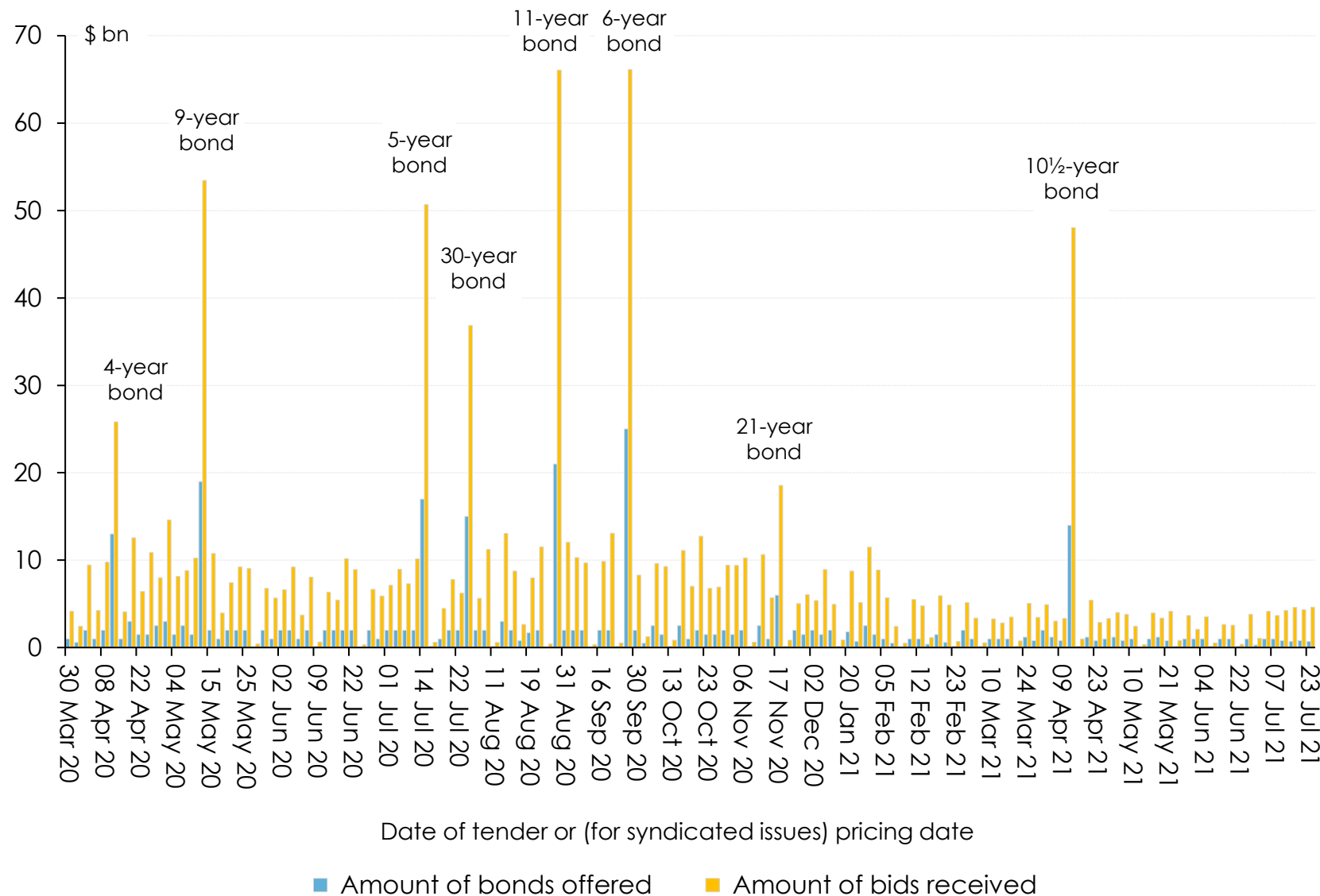
### Net debt



- ❑ In last year's Budget, net debt was forecast to \$966bn by 30<sup>th</sup> 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

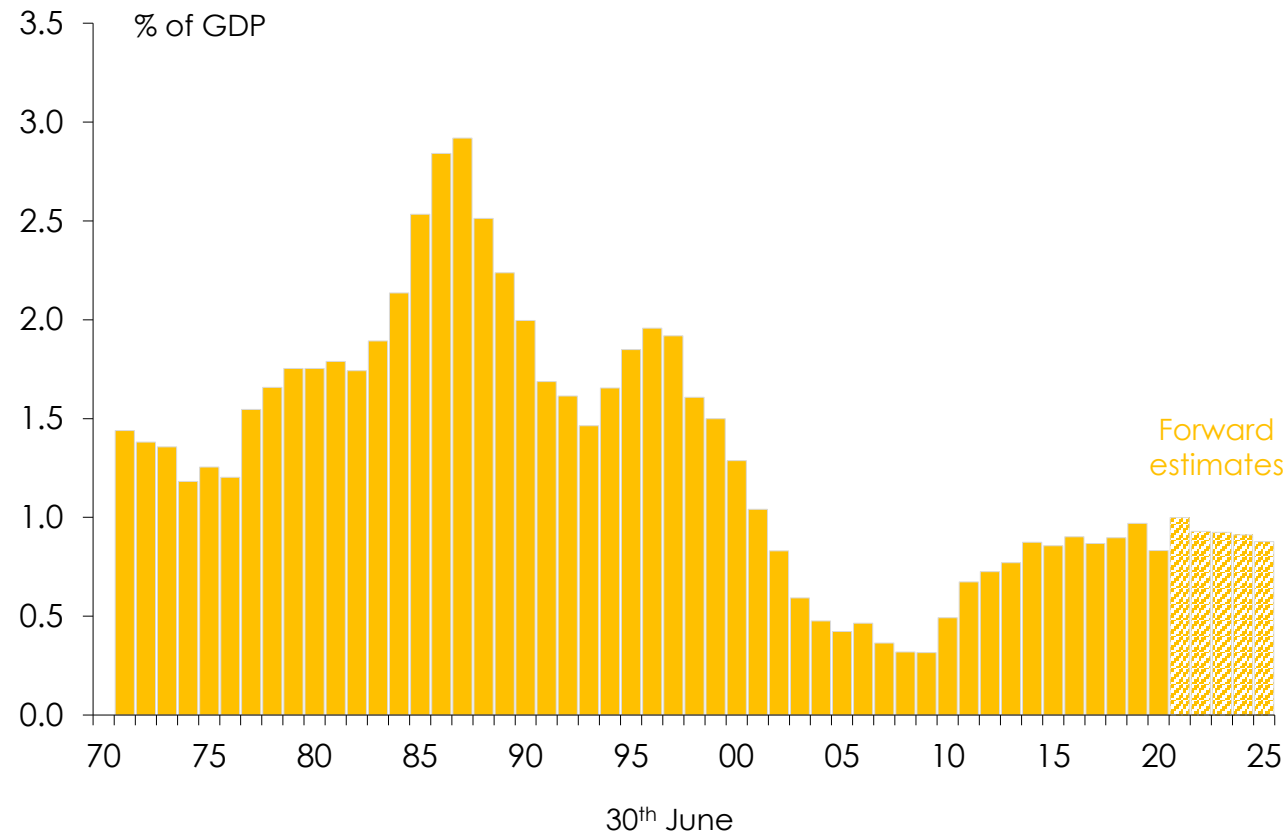
## Australian government bond issuance since March 2020



- Since 30<sup>th</sup> March 2020, the Australian Office of Financial Management has issued \$302 bn of Treasury bonds – based on the volume of bids received it could have borrowed more than \$1.12 trn with yields at most 4 basis points (0.04 of a pc point) above the highest yields actually accepted
- The AOFM issued another \$1.5bn of bonds, the same as last week, \$800mn of Dec 2030s at an average yield of 1.12% and \$700mn of April 2026s at 0.51% - it received bids totalling almost \$9bn for these bonds
- 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)

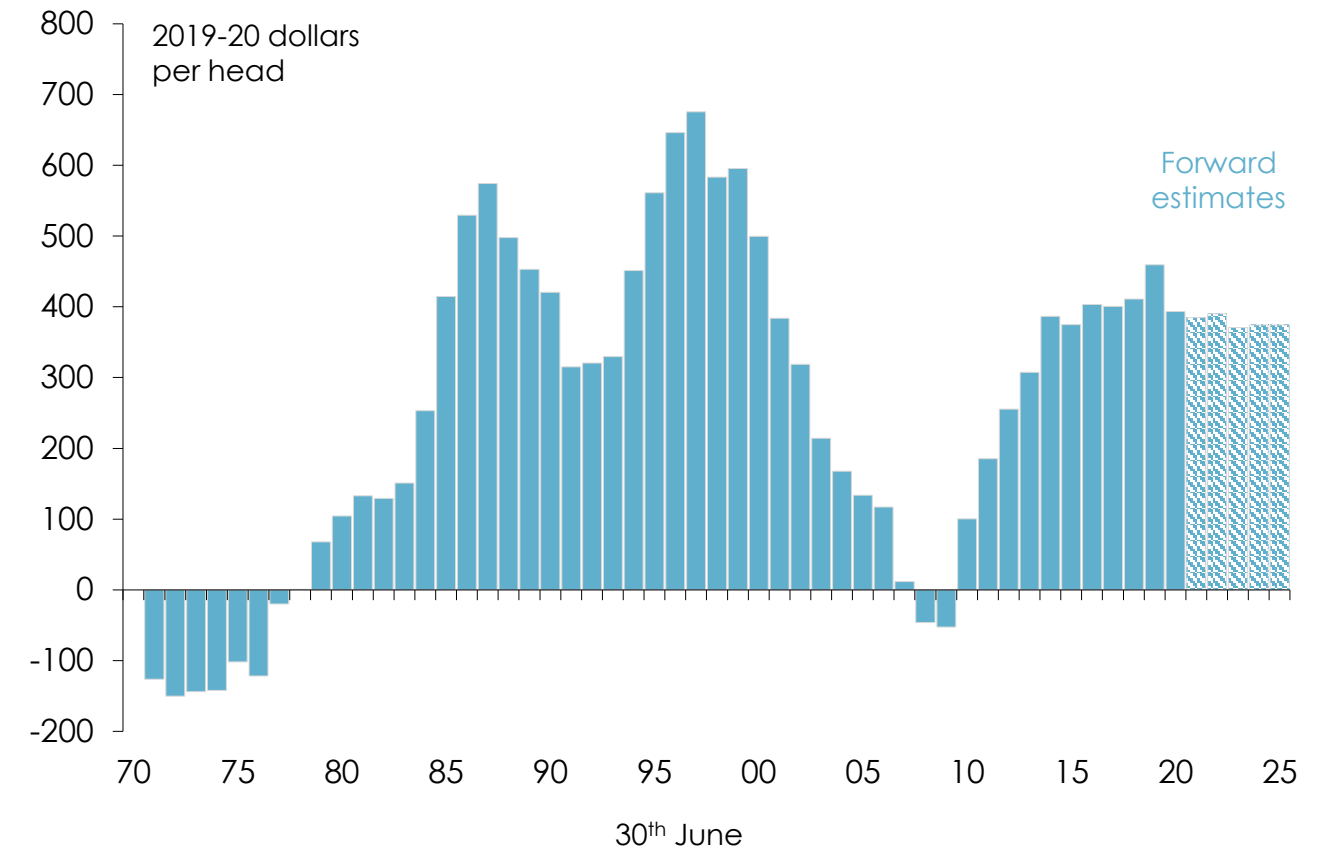
# Because interest rates are so low, the cost of servicing the debt which the Government is racking up will be low by historical standards

## 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

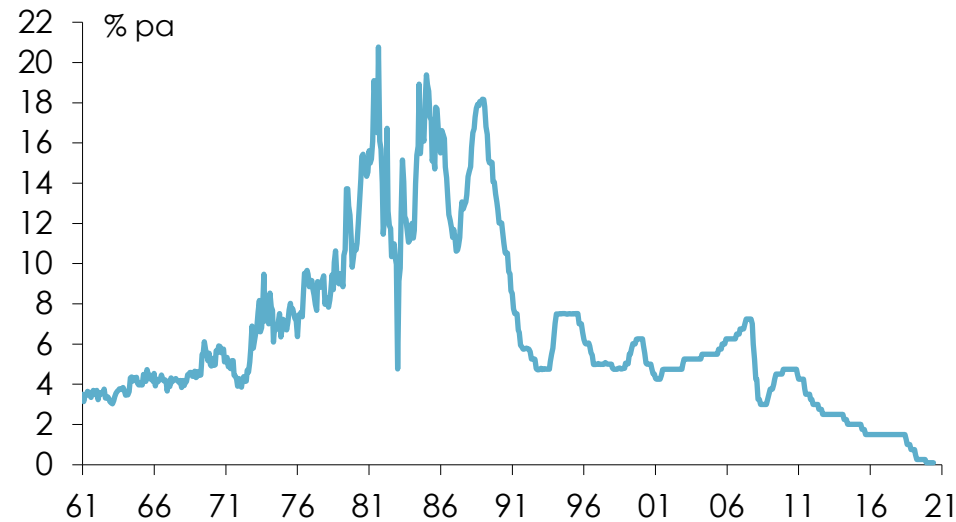
## Australian Government net interest payments per head of population in 2019-20 dollars



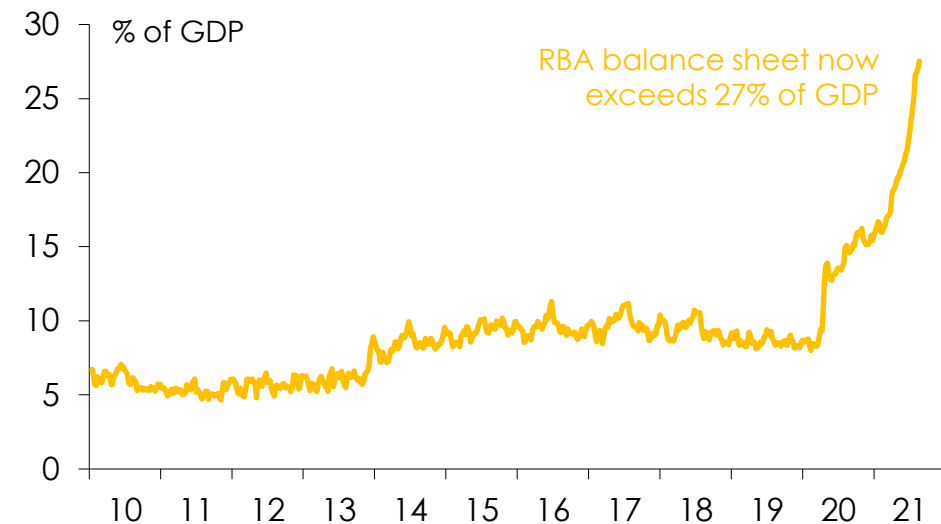
- ❑ Net interest payments per head of population will be less than they were in the second half of the 1980s, between 1993-94 and 1999-2000, or between 2015-16 and 2019-20

# The RBA last 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

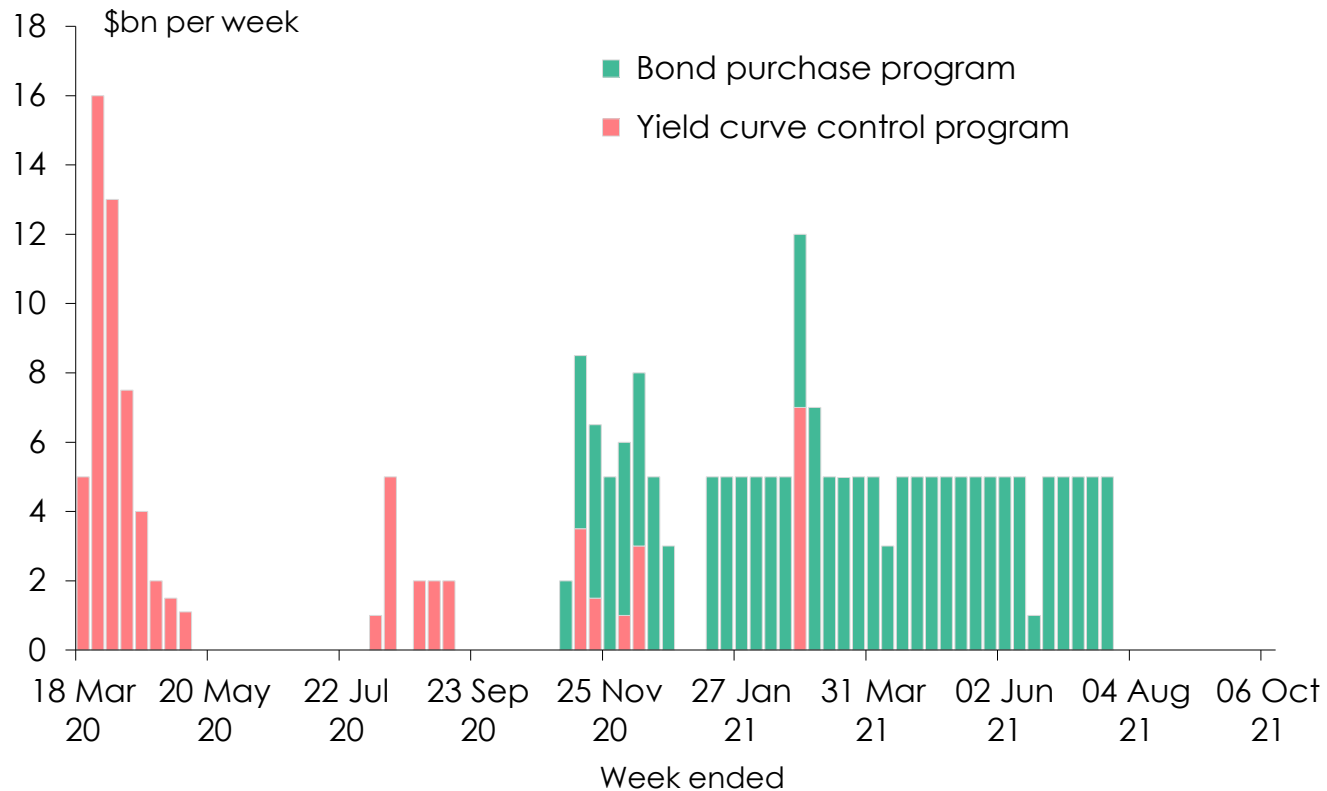


Source: Reserve Bank of Australia, [Statistical Tables](#) A3 and F1.1.  
[Return to "What's New"](#).

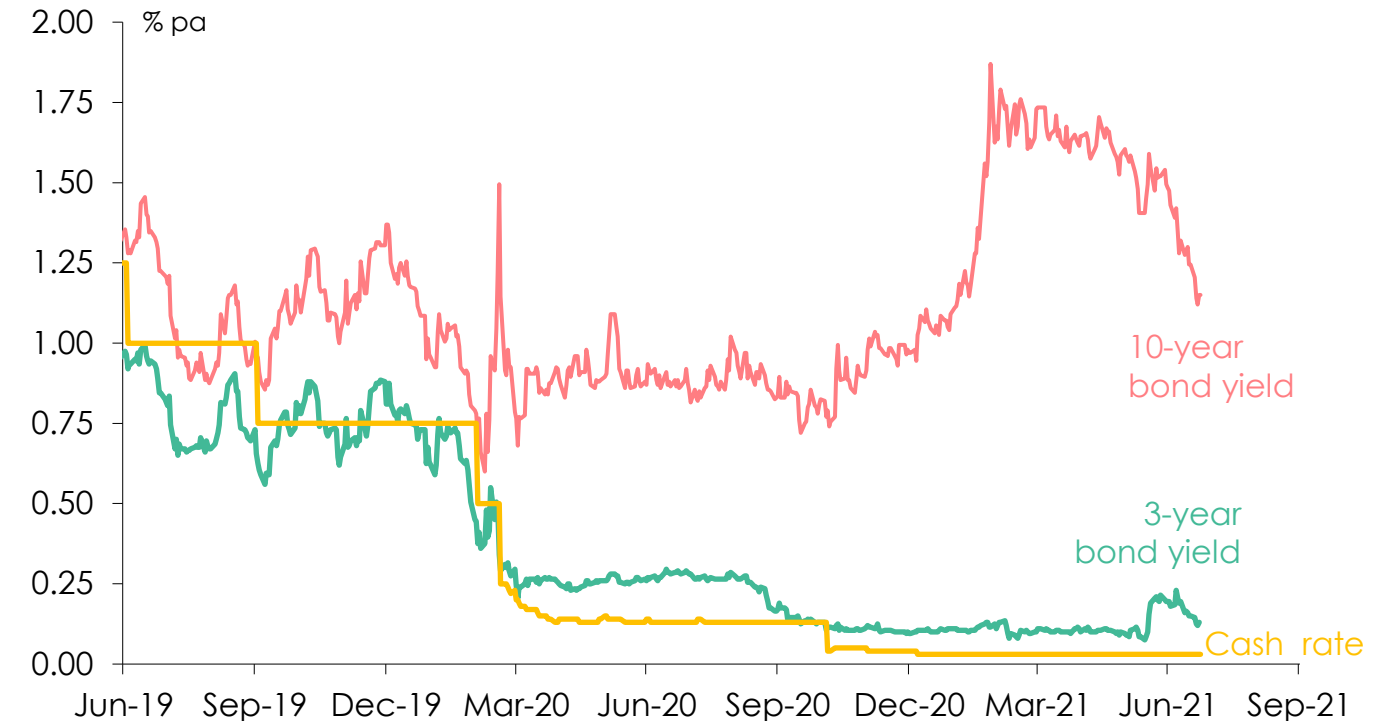
- ❑ At its meeting earlier this month the RBA Board decided to
  - maintain the cash rate target at 0.10% (where it has been since November 2020)
  - retain the April 2024 bond as the target for its 'yield curve control' program (rather than the alternative of shifting the target to the November 2024 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 30<sup>th</sup> 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

# Australian bond yields fell further this week, in parallel with but by more than global yields, as concerns over the 'delta variant' spread increased

## RBA open market bond purchases



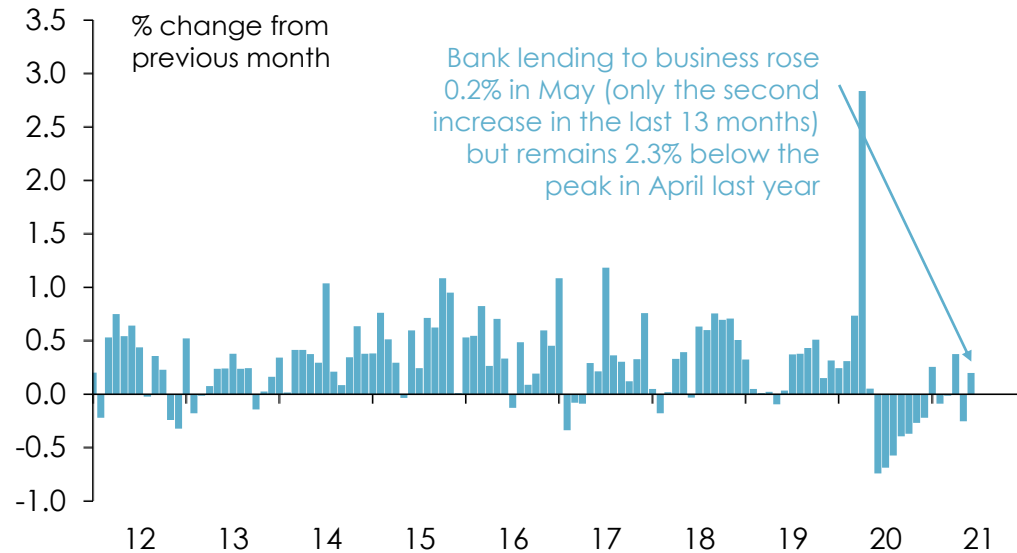
## Interest rates



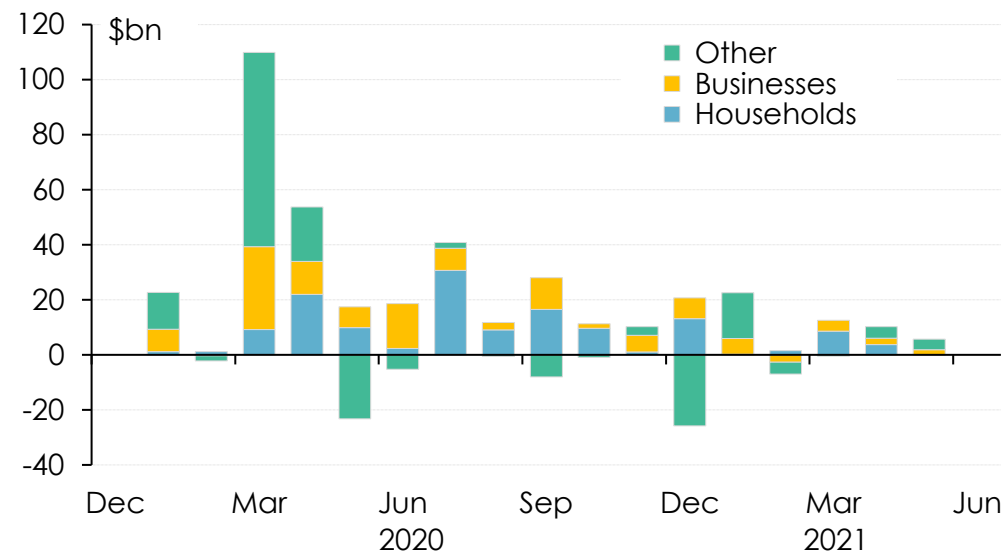
- ❑ Short- and longer-term bond yields continued to decline this week, in parallel with but to a greater extent than in the US, as market participants focussed on the implications of the spread of the 'delta variant' on economic activity globally and in Australia, and on the possible consequences of that for the timing of central bank policy changes
- ❑ The RBA bought another \$5bn of longer-term bonds this week as part of its Bond Purchase Program, bringing its total purchases under this program to \$170bn, which together with the \$79bn of purchases under its 3-year yield target program (up until February) brings the total to \$249bn (equivalent to 12½% of GDP)

# 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

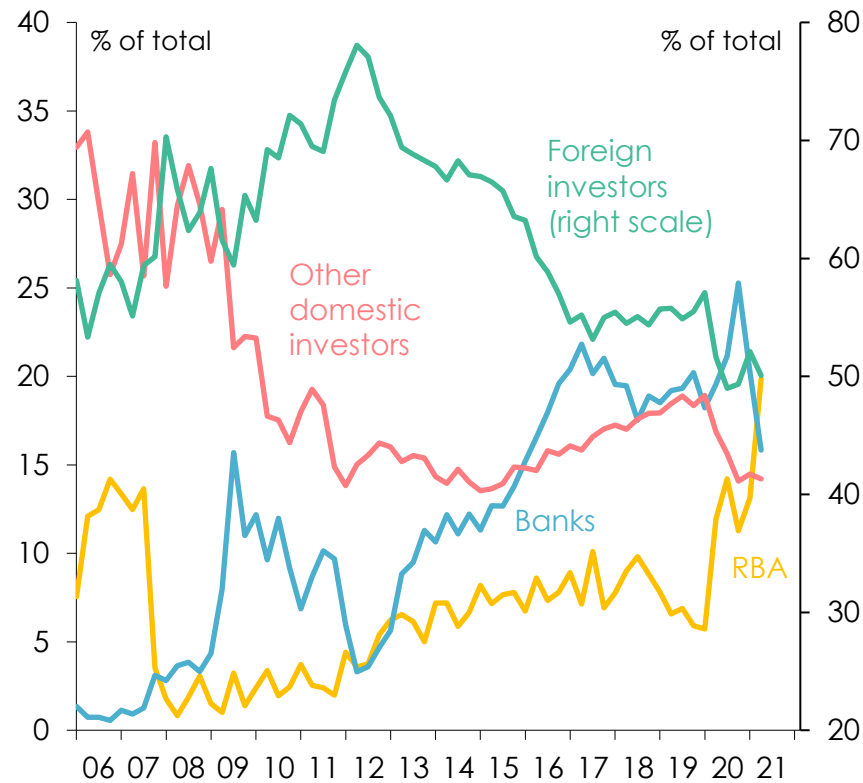


- ❑ Banks have cut interest rates on small business loans by more than the official cash rate since June 2019 (when the RBA started cutting rates again)
- ❑ Banks have made credit readily available when needed – particularly in the early stages of the pandemic
- ❑ Banks extended ‘repayment holidays’ 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%)



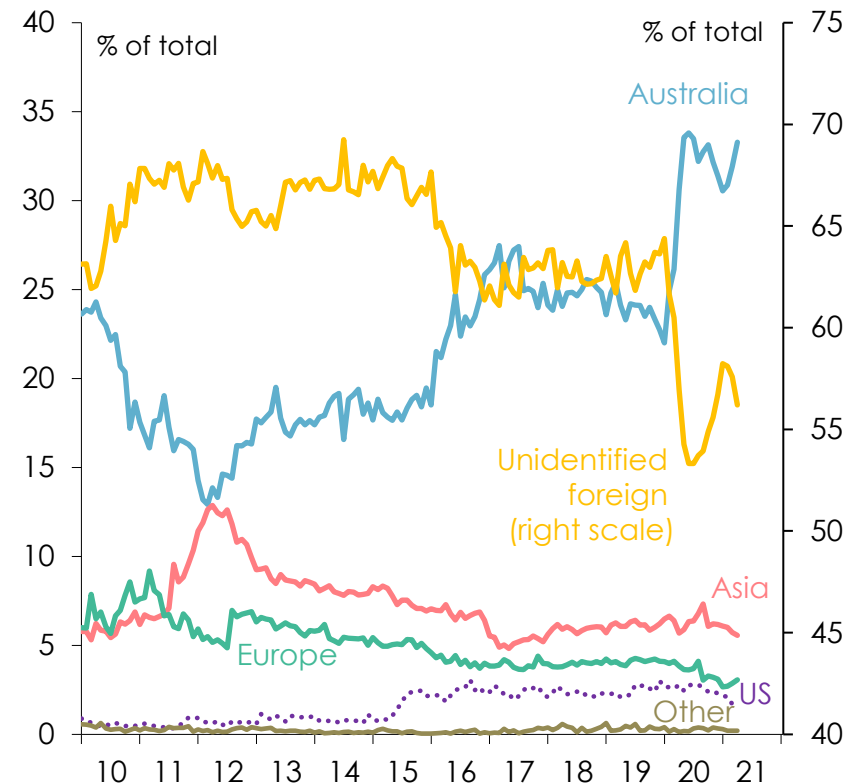
# The RBA has (indirectly) absorbed almost half the increase in government debt since the end of 2019, banks 23% and foreign investors 28%

## Holder of Australian Government bonds



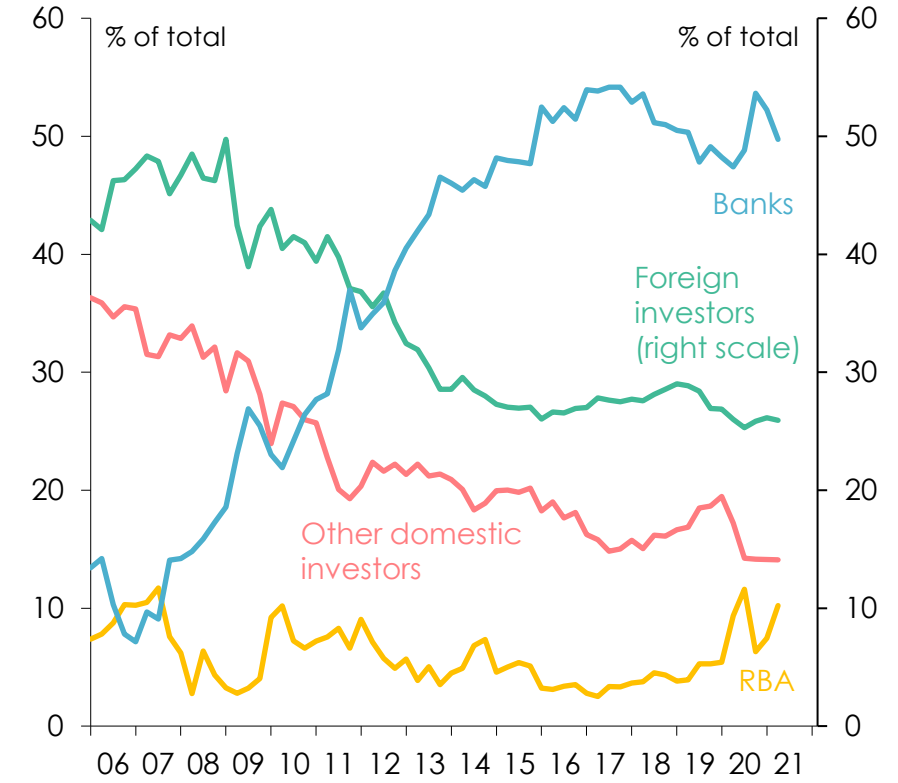
Australian Gov't bonds on issue have increased by \$219bn since the end of 2019 – of which \$133bn (61%) have been absorbed by the RBA, \$65bn by foreigners and \$20bn by banks

## 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

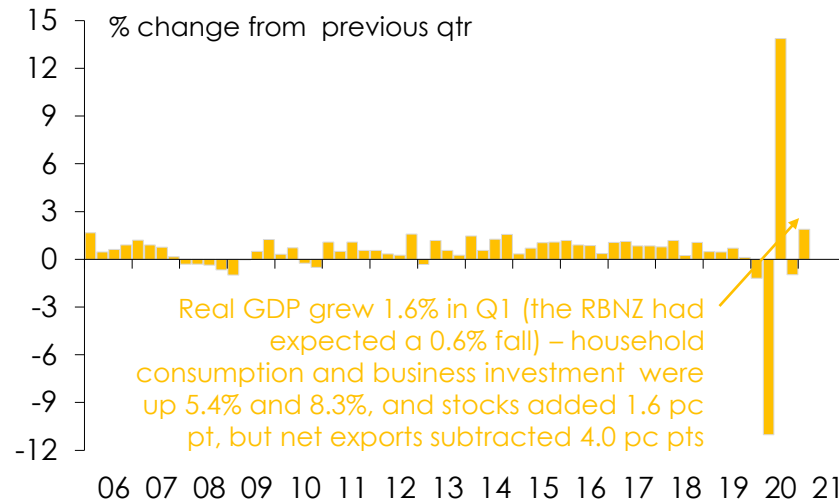


State & Territory Gov't bonds on issue increased have increased by \$101bn since the end of 2019, of which \$54bn have been absorbed by banks, \$24bn by the RBA and \$23bn by foreigners

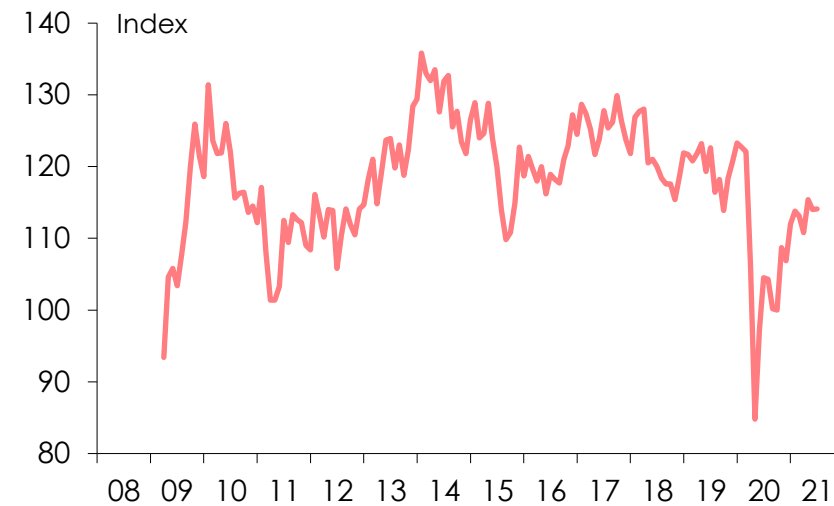
**New Zealand**

# 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)

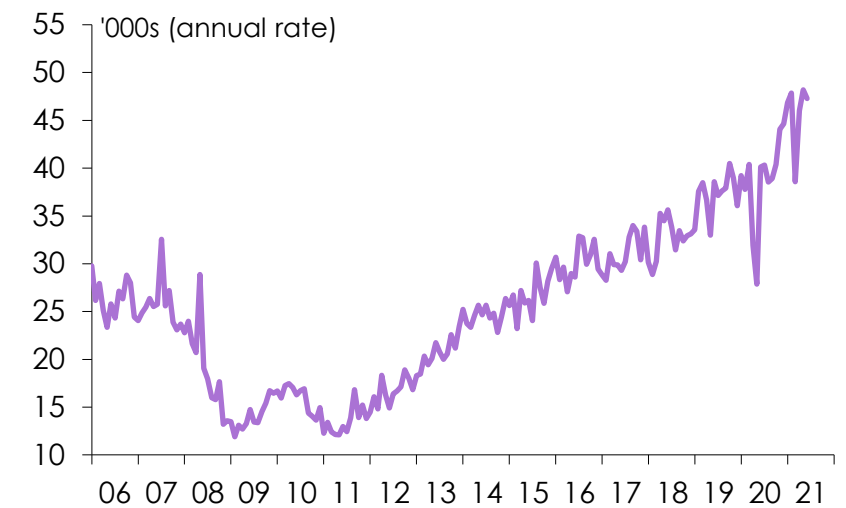
## Real GDP



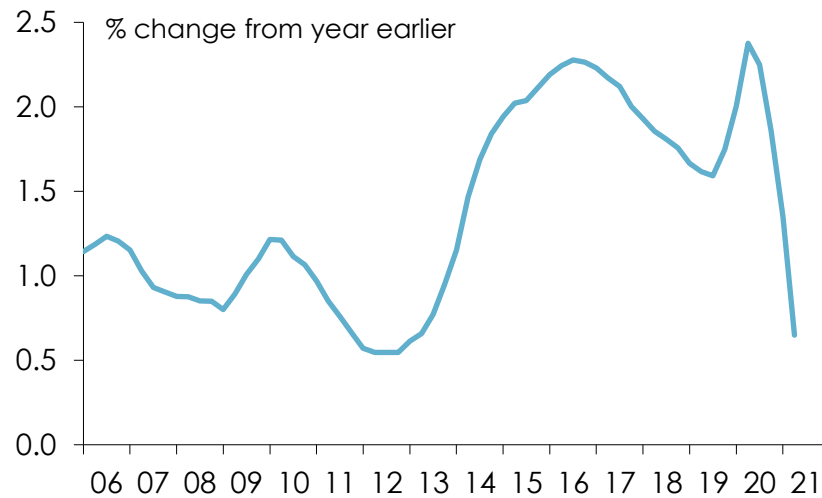
## Consumer confidence



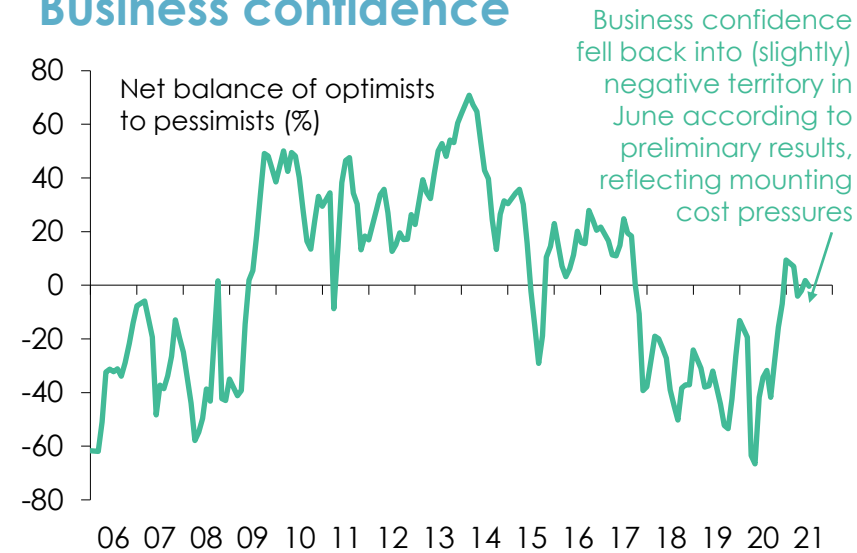
## Dwelling 'consents' (permits)



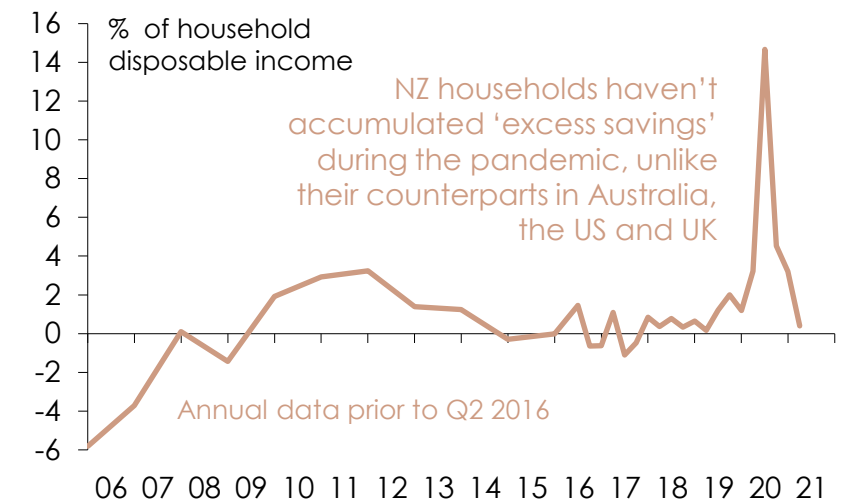
## Population growth



## Business confidence



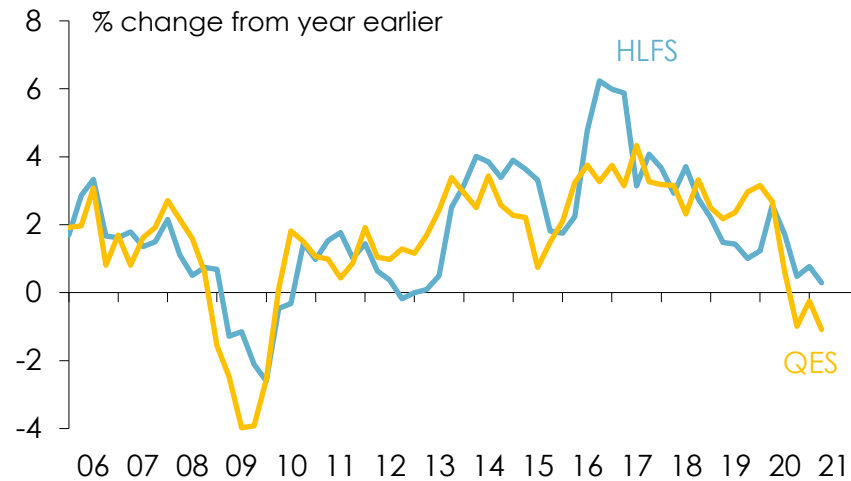
## Household saving ratio



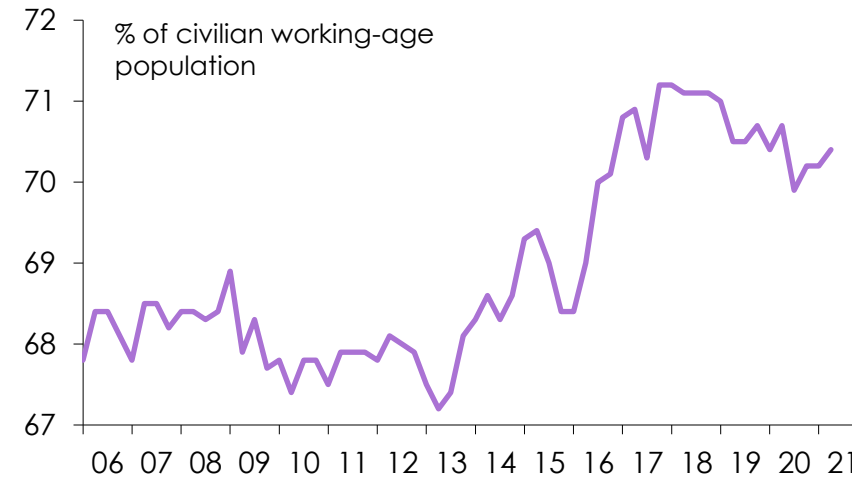
Note: New Zealand uses GDP(P) as its preferred measure of GDP. Unemployment rates are quarterly.  
Sources: [Statistics NZ](#); NZ Treasury, [Budget Economic and Fiscal Update 2021](#); ANZ-Roy Morgan; [ANZ Bank NZ](#). [Return to "What's New"](#).

# 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%

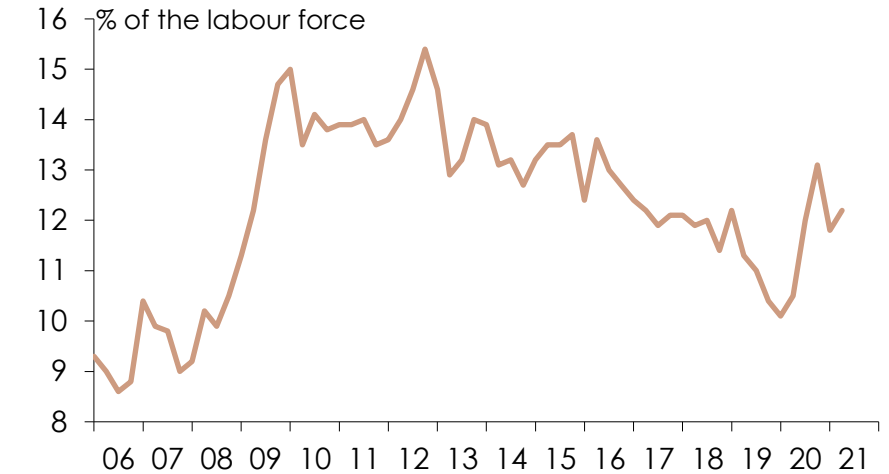
## Employment



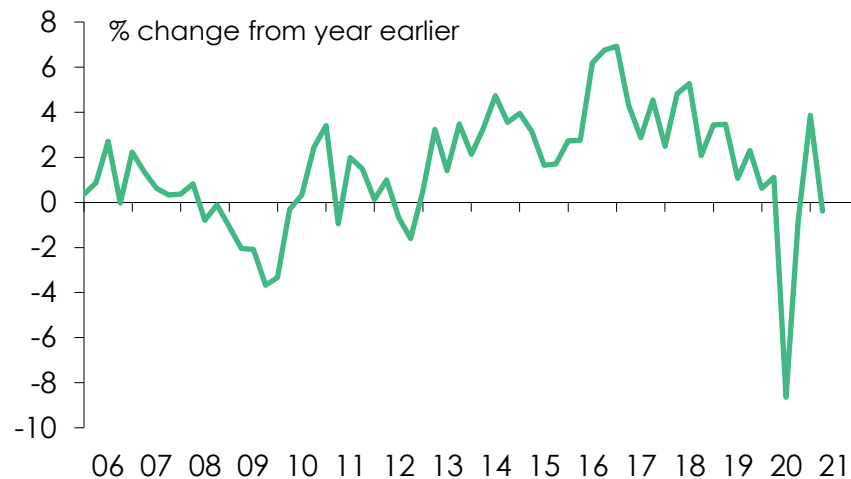
## Labour force participation rate



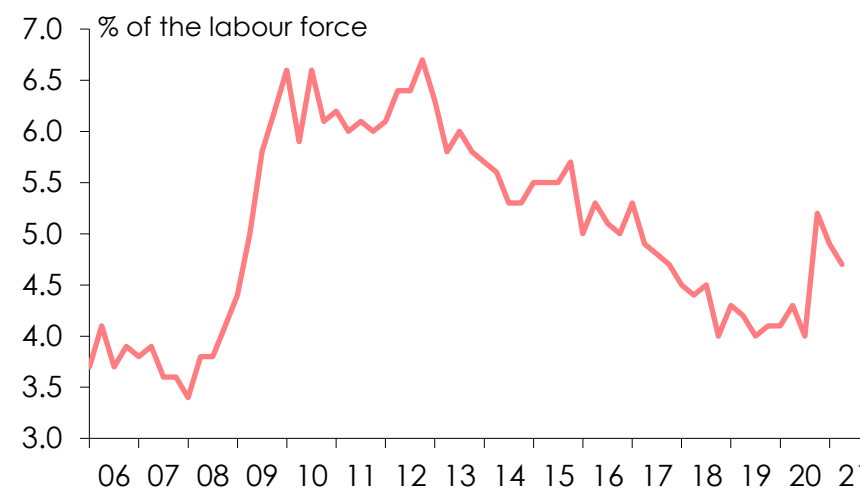
## Labour force under-utilization rate



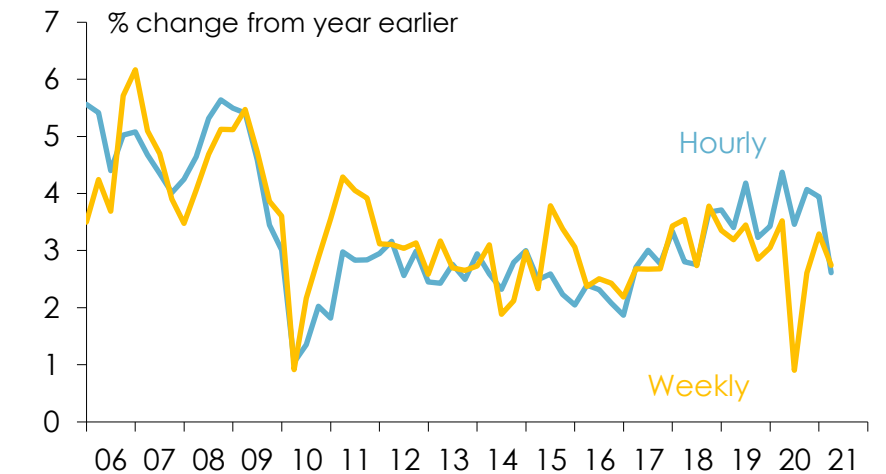
## Hours worked



## Unemployment rate



## Average weekly earnings

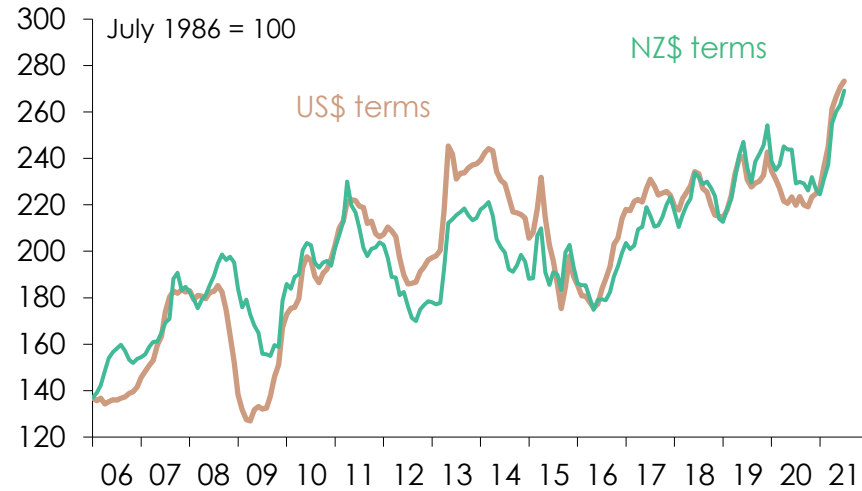


Note: New Zealand labour force data are only published quarterly. There are two 'headline' series on employment – the household labour force survey (HLFS) which counts the number of people in employment during the quarter; and the quarterly employment survey (QES), which counts the number of 'filled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

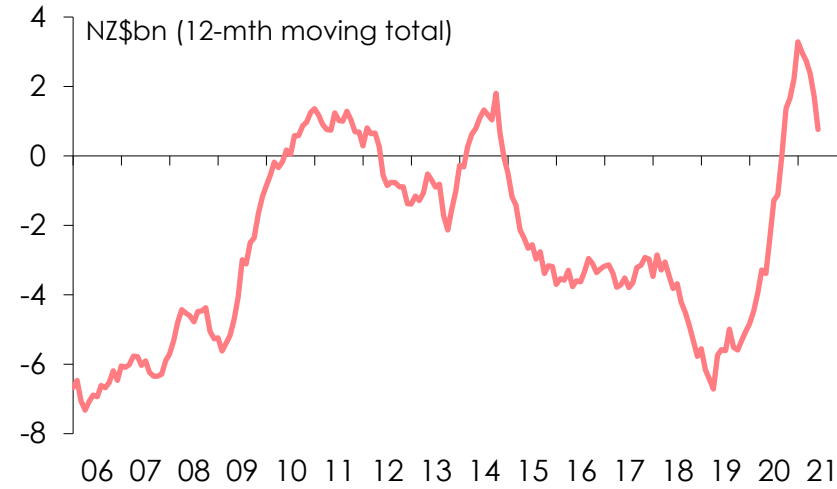
Source: [Statistics NZ](#). June quarter data will be released on 4<sup>th</sup> August. [Return to "What's New"](#).

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

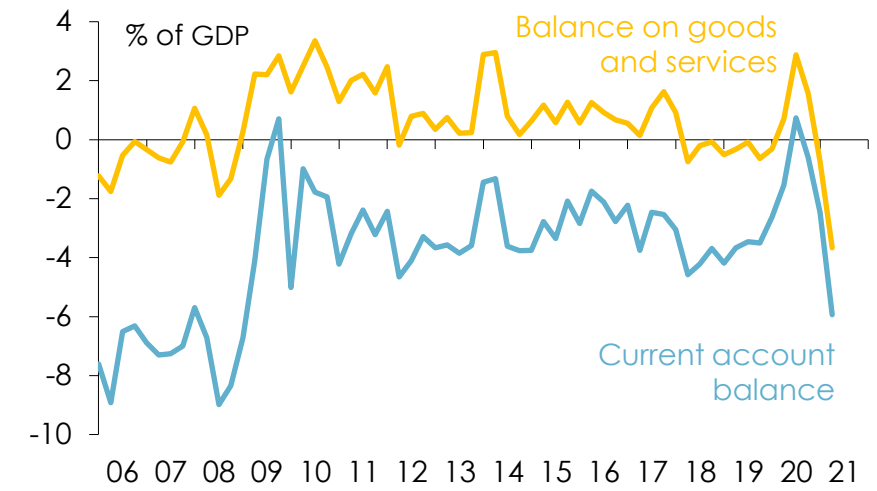
## Export commodity prices



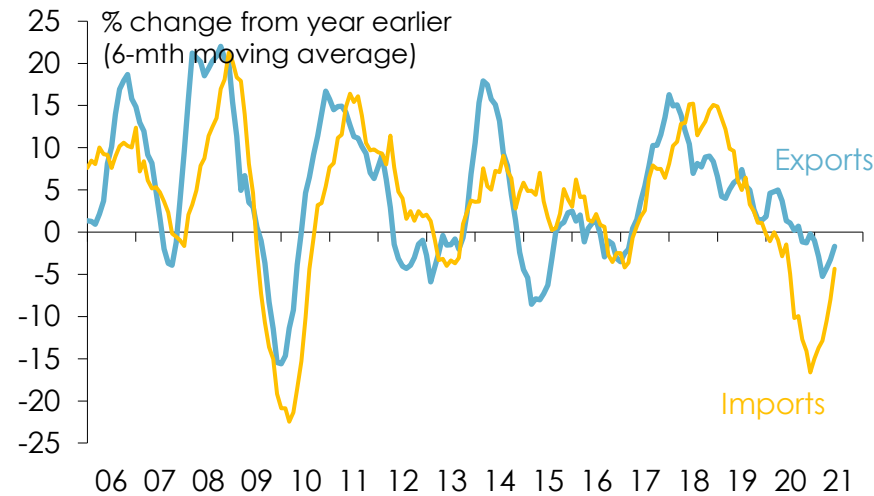
## Merchandise trade balance



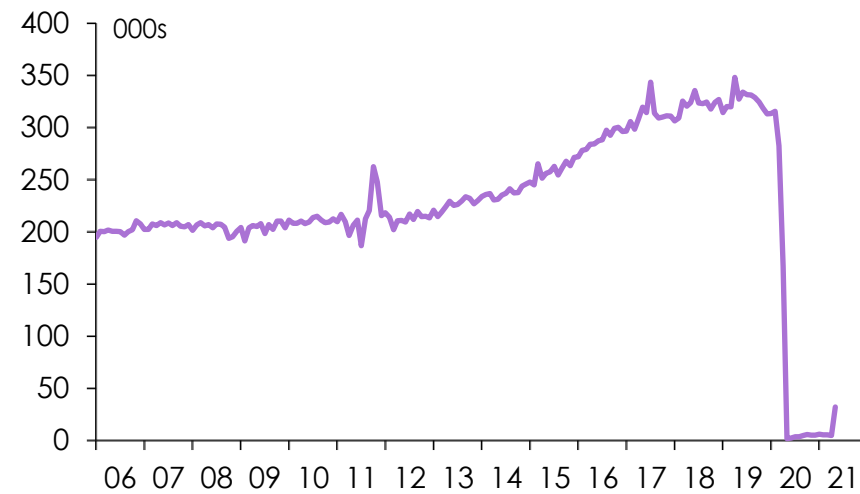
## Balance of payments



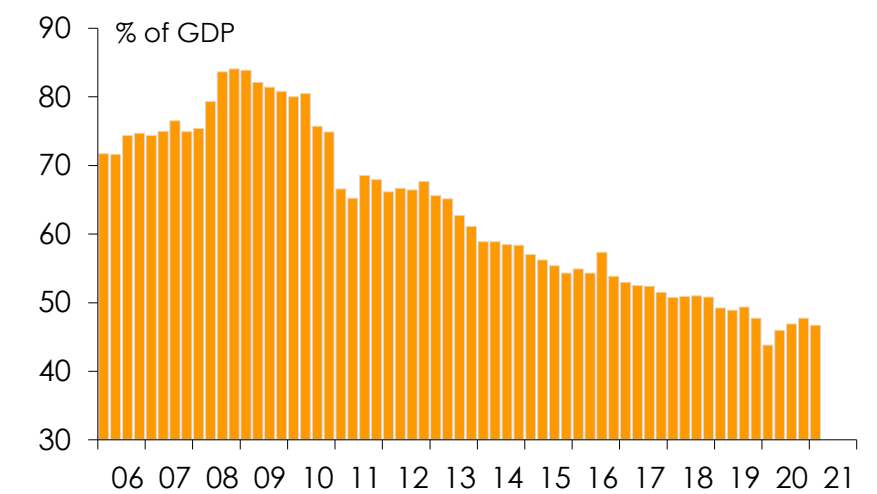
## Merchandise exports and imports



## Overseas visitor arrivals



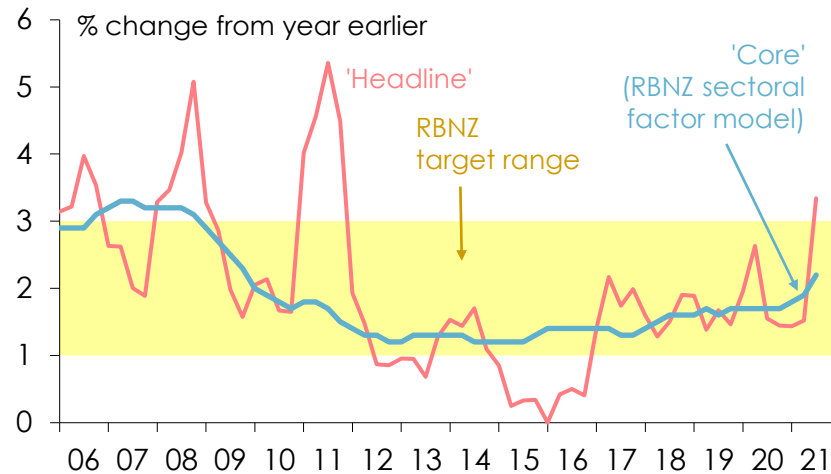
## Net foreign debt



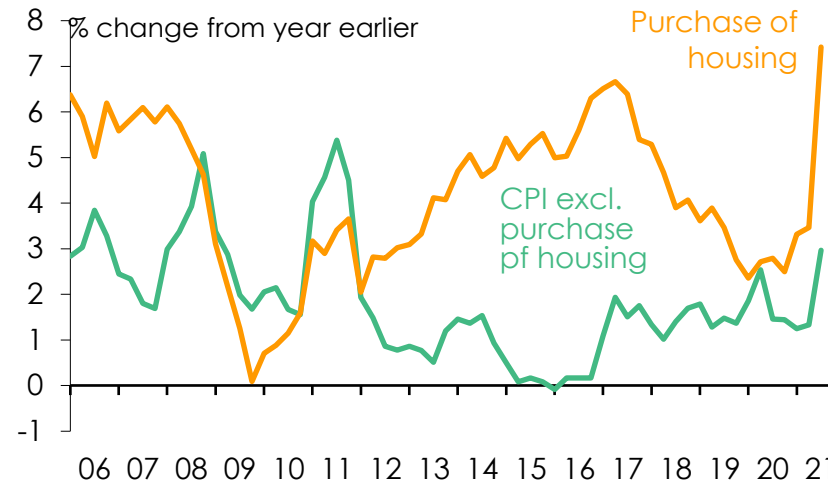
Note: latest merchandise trade data is for May: June data will be released on 26<sup>th</sup> July; latest balance of payments and net foreign debt data is for the March quarter; June quarter data will be released on 15<sup>th</sup> September. Sources: [ANZ Bank](#); [Statistics New Zealand](#).

# Last week's Q2 CPI was a 'shocker', rising 1.3%, half a percentage point above market expectations, driven largely by housing costs

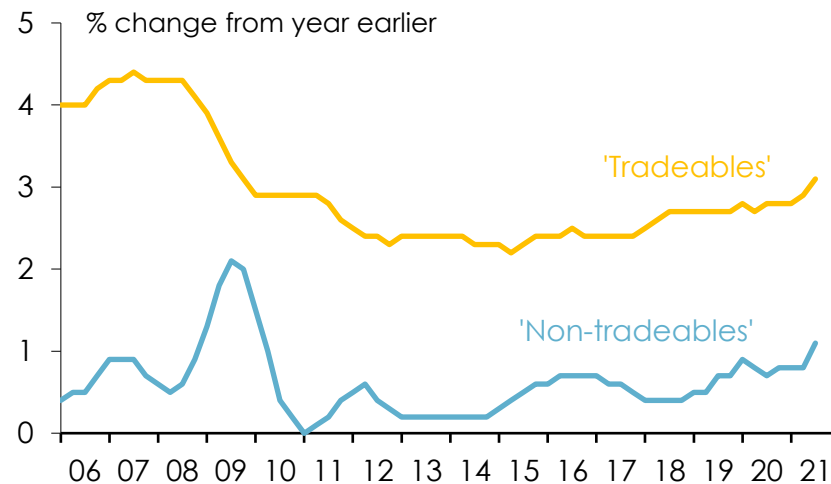
## Consumer prices



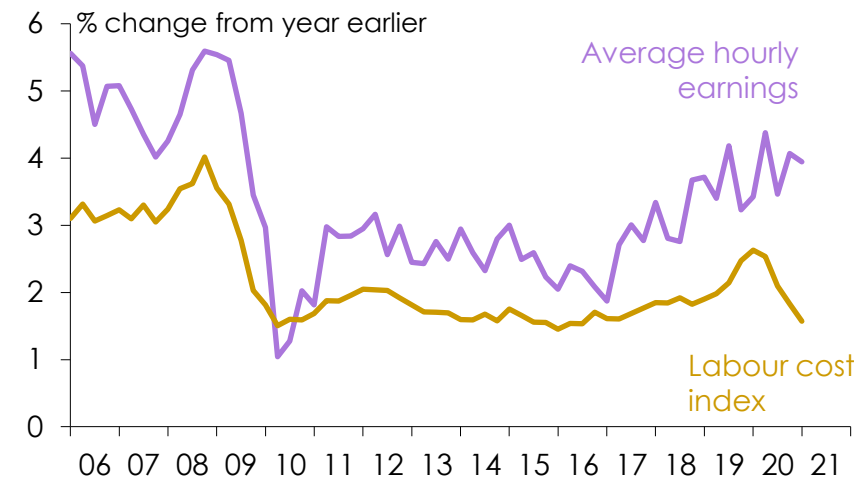
## Housing costs in the CPI



## Components of 'core' inflation



## Labour costs

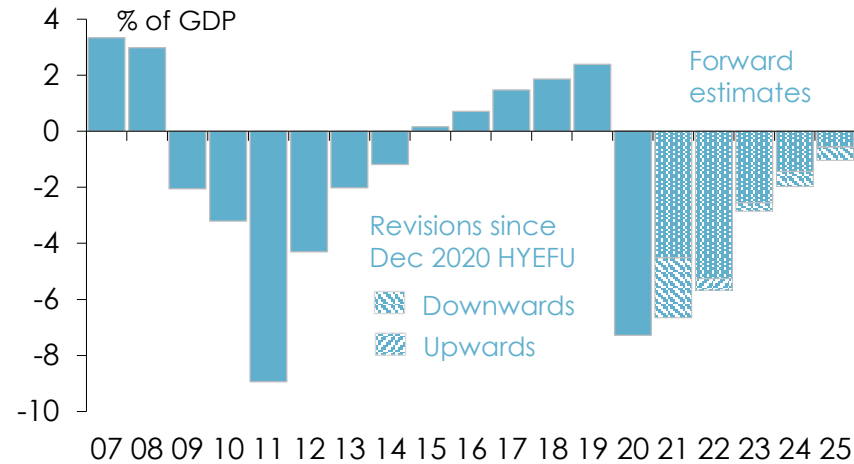


- ❑ The CPI rose 1.3% in Q2, the largest q-o-q increase since Q3 2008, pushing the annual 'headline' inflation rate up to 3.3%, the highest since Q3 2011
- ❑ 89% of the Q2 increase in the CPI came from 7 components representing 31% of the CPI basket – housing purchase (30% of the Q2 increase), petrol (17%), vegetables (16%), games, toys & hobbies (7½%), clothing (7%), rents (7%) and take-away food (5%)
  - these six components also accounted for 57% of the increase in the CPI from Q2 last year
- ❑ The annual rate of 'core' inflation as measured by the RBNZ's 'sectoral factor model', rose to 2.2% in Q2, the highest since Q3 2009, from 1.9% in Q1
- ❑ The RBNZ had expected some pick-up in headline inflation in Q2 – but the outcome was 0.7 pc pt above its most recent forecast

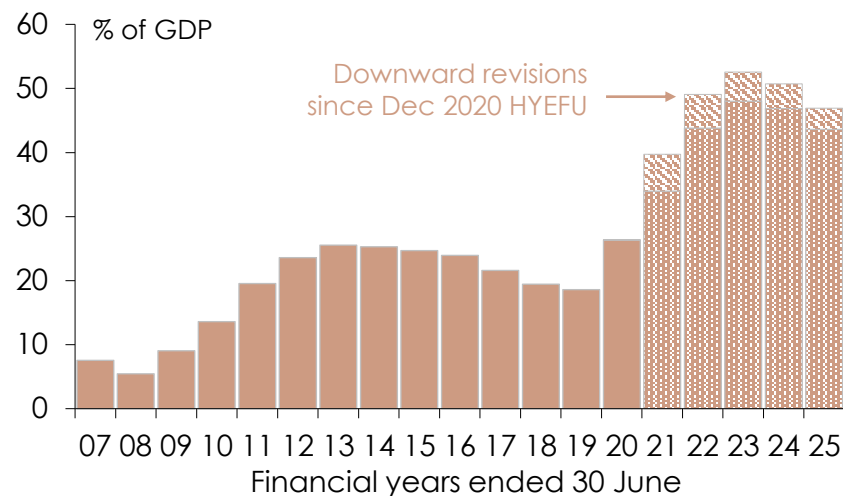


# The 2021 NZ Budget uses gains from an improved economic outlook to fund additional spending as well as a slightly improved 'bottom line'

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



## NZ 'core Crown debt'

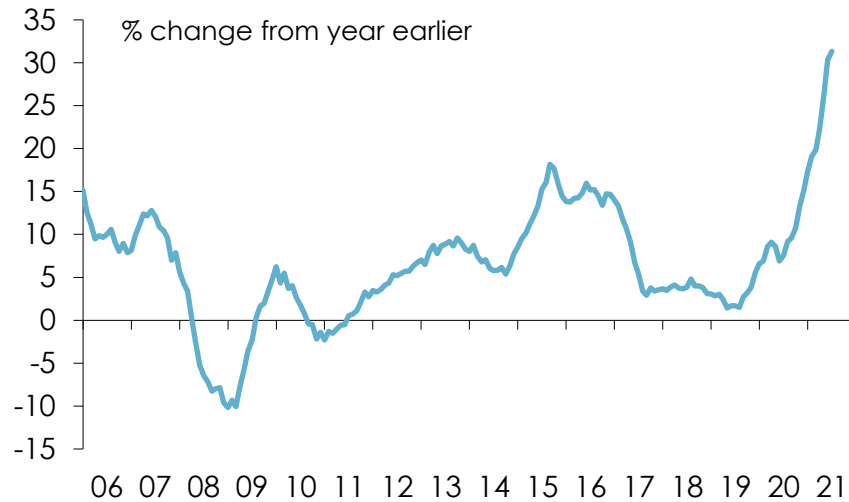


- ❑ As was also the case in Australia, the 2021-22 New Zealand Budget presented by Finance Minister Grant Robertson in May benefited from a much stronger economic performance than had been anticipated in last year's Budget, or in last December's Half-Year Economic & Fiscal Update (HYEFU)
  - Treasury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

# 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

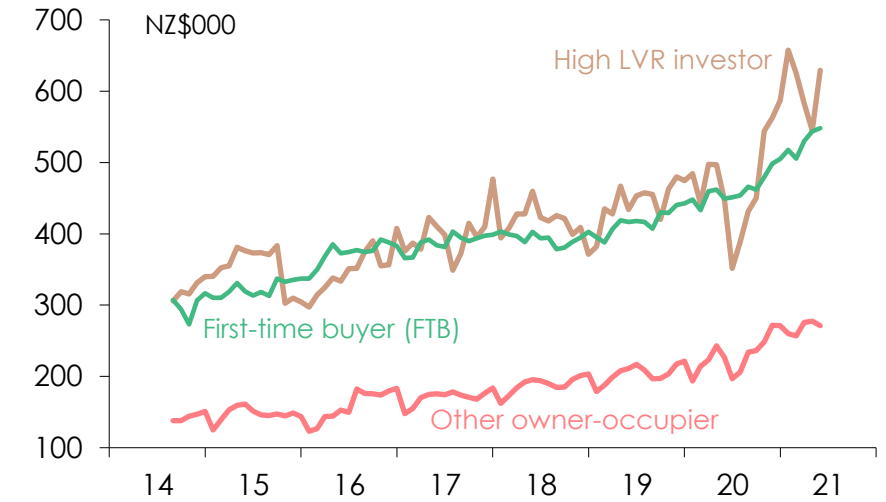
## House price inflation



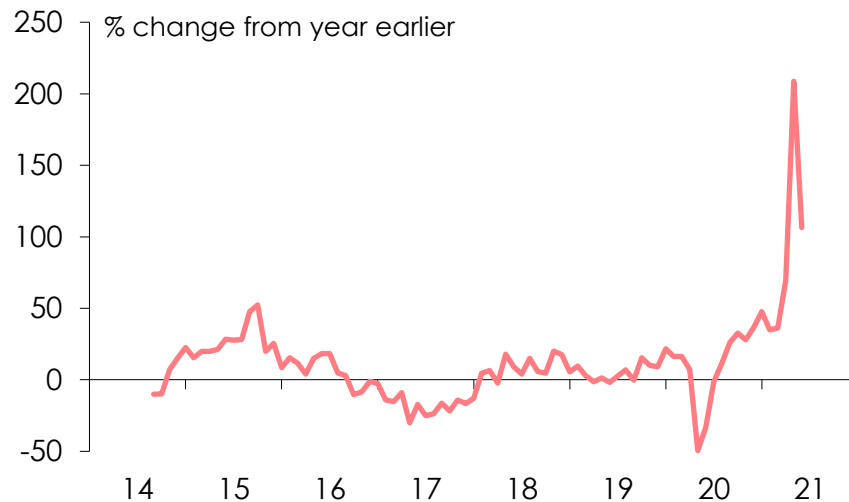
## Lending to investors as pc of total



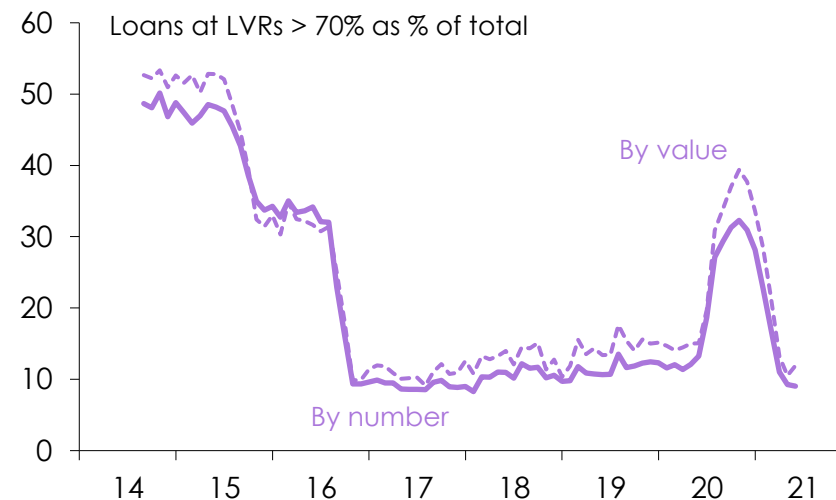
## Average new mortgage



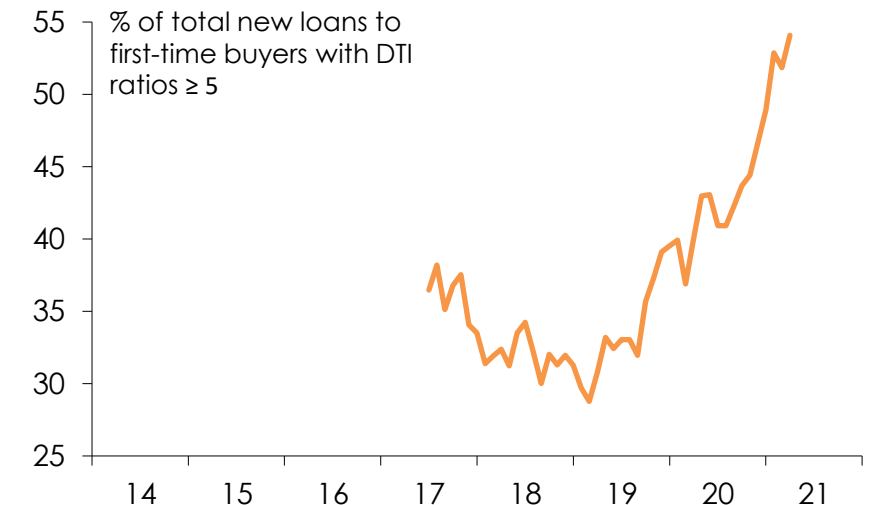
## Mortgage lending growth



## High-LVR loans to investors



## Loans to FTBs at over 5 times income



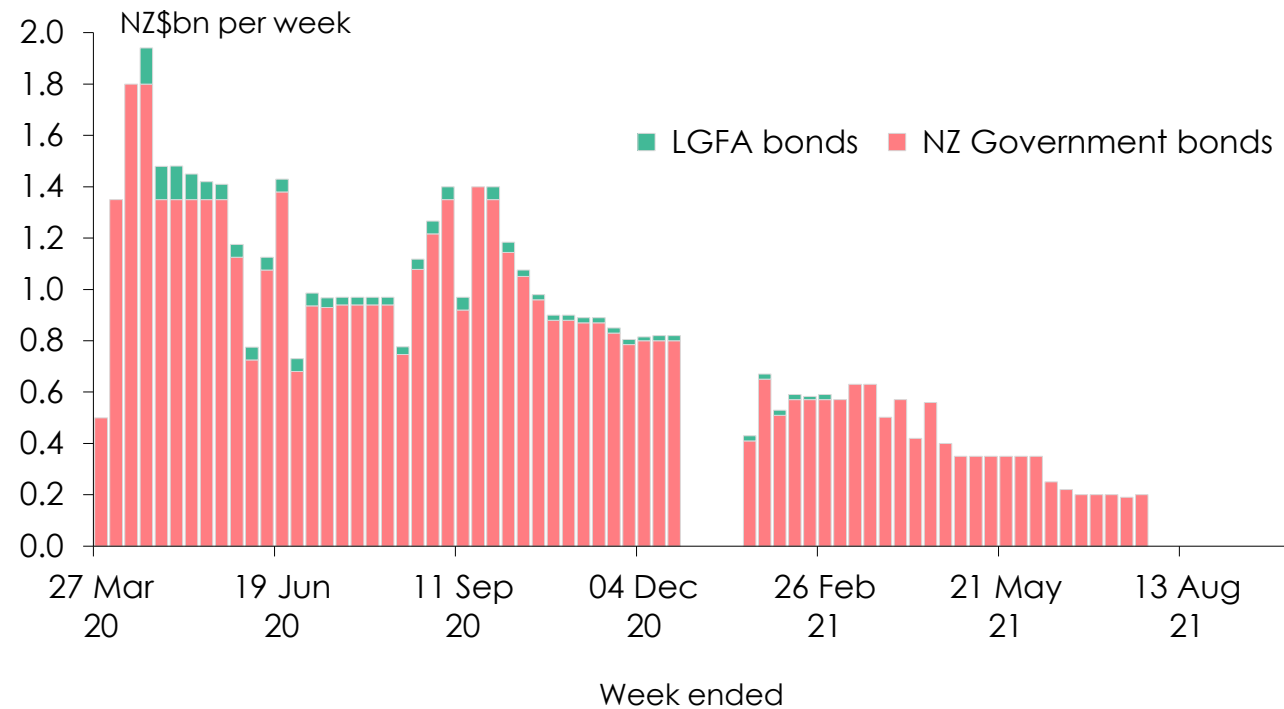
Note: New Zealand's tax system allows 'negative gearing' (ie, investors can offset the excess of interest costs over net rental income against their other income for tax purposes) but does not impose any tax on capital gains, making borrowing for property investment more attractive in after-tax terms 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 a DTI limit would “primarily impact investors and higher-income owner-occupiers, who borrow 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 1<sup>st</sup> October for properties purchased after 27<sup>th</sup> 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 1<sup>st</sup> 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 1<sup>st</sup> May)

# NZ bond yields declined this week, but by less than in most other markets, as local investors continue to anticipate a near-term RBNZ rate hike

## RBNZ open market bond purchases



## New Zealand interest rates



- ❑ RBNZ last year 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 purchased its final NZ\$200mn of bonds under this program this week, following last week's [decision](#) to halt terminate it with effect from 23<sup>rd</sup> July
- ❑ NZ bond yields fell this week (7bp for 2-year bonds and 15bp for 10-year bonds) – but by less than in Australia or the US, reflecting market expectations that the RBNZ will raise its official cash rate before the end of this year – and possibly (though we doubt it) next month

## Important information

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

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