

ECONOMIC IMPACT OF THE CORONAVIRUS PANDEMIC

31ST JULY 2021

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What's new?

The world

- ❑ 4.05 mn new Covid-19 cases were recorded this week, the highest number for 11 weeks, as the 'delta variant' spreads ([slide 4](#))
- ❑ Europe and south-east Asia continue to record the largest number of new cases, but the number of infections has also risen sharply in the US ([slide 5](#))
- ❑ The IMF this week updated its forecasts for the world economy, revising upwards its growth forecasts for 'advanced' economies, especially the US, in both 2021 and 2022, but lowering them for 'emerging' economies, especially India and south-east Asia, in 2021 ([slides 24-25](#))
- ❑ That's consistent with this week's slew of Q2 GDP releases which show the US and the more 'advanced' east Asian economies recovering faster from last year's recessions than Europe ([slide 26](#))
- ❑ The Fed left its monetary policy settings on hold at this week's FOMC meeting (as expected), re-affirmed that it wouldn't be tightening in response to the current sharp rise in US inflation, but would consider 'tapering' its asset purchases when 'warranted', depending on incoming data ([slide 36](#))
- ❑ The US economy grew at a 6½% annual rate in Q2 – a result that disappointed markets which had expected 8½% ([slides 63-66](#))
- ❑ The US recorded its 2nd-highest ever trade deficit in June ([slide 75](#))
- ❑ Japan's unemployment rate dropped 0.1 pc pt in June, as employment rose for the first time in four months ([slide 51](#))
- ❑ The euro area economy grew by 2.0% (8¼% annualized) in Q2 but is still 3% short of its pre-recession peak ([slides 77-78](#))
- ❑ Emerging market central banks continue to raise rates ([slides 79-80](#))

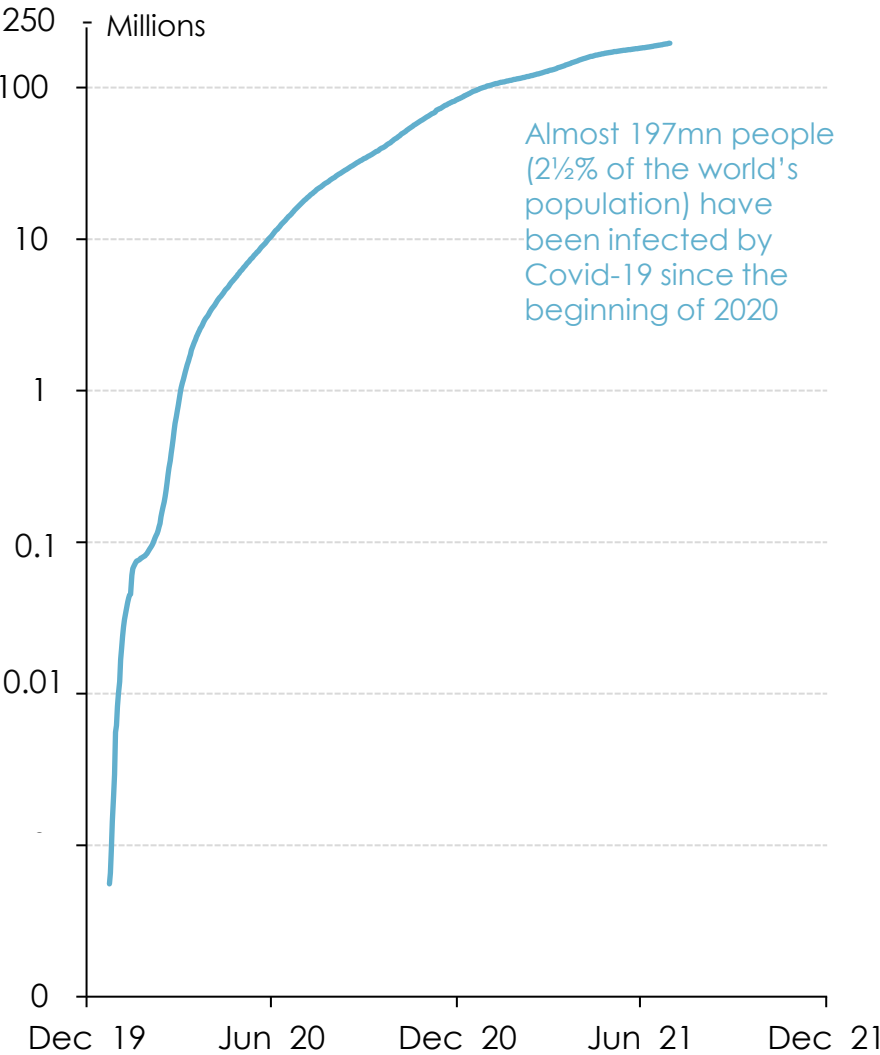
Australia and New Zealand

- ❑ Australia recorded 1,327 new Covid-19 cases this week, the highest number since the third week of August last year, with 1,278 of them being 'locally acquired' ([slide 12](#))
- ❑ The number of locally-acquired cases in the 'Greater Sydney' area continued to rise – with almost 500 'infectious in the community' cases reported this week, resulting in a further four-week extension to the lockdown there – while a lockdown of at least three days has also been imposed in Brisbane and south-east Queensland ([slide 13](#))
- ❑ Australia's vaccination program has picked up but continues to lag badly behind other 'advanced' economies ([slides 8-9](#) and [18-20](#))
- ❑ Modelling by the non-aligned Grattan Institute suggests that Australia needs to vaccinate at least 80% of its population before it can safely 'open up' – but that even assuming a greater effort on the part of the Federal Government to accelerate the roll-out of vaccines this target would not be achieved until near year-end (or until March next year if it's not possible to vaccinate children under 12 ([slides 91-92](#)))
- ❑ The Federal Government this announced increased and expanded support to states affected by lockdowns ([slide 142](#)) – and its possible that the RBA could temporarily increase the size of its bond purchases at this Tuesday's Board meeting ([slide 148](#))
- ❑ Australia's annual 'headline' inflation rate jumped to 3.8% in Q2, the highest since Q3 2008 – almost entirely as a result of the large drop in Q2 last year 'washing out'; the RBA's preferred measure of 'underlying' inflation rose 1.7% over the year to Q2, marking 22 quarters in a row of 'under-shooting the 2-3% target' ([slide 139](#))
- ❑ The iron ore price dropped another 8% this week ([slide 128](#)) prompting a further slide in the A\$ ([slides 137-138](#))

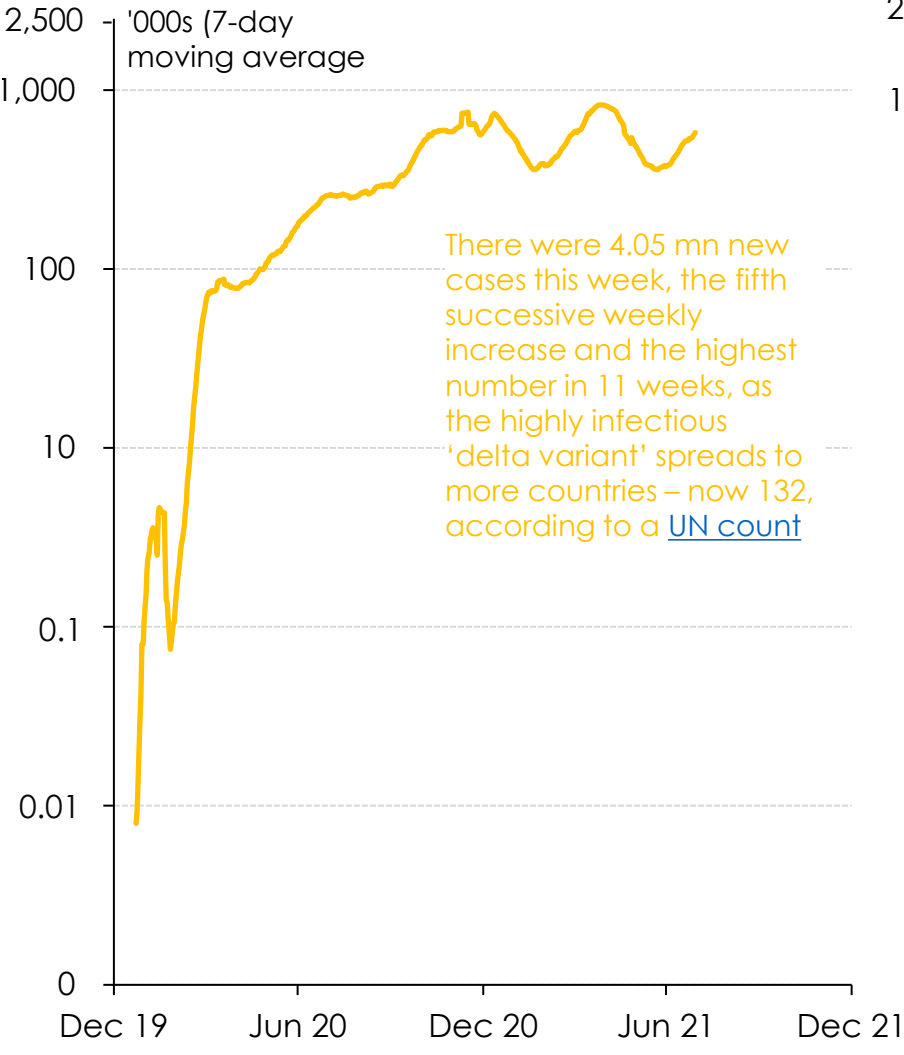
The virus

This week's global total of new infections was the highest in 11 weeks, although the 'official' death toll hasn't risen commensurately

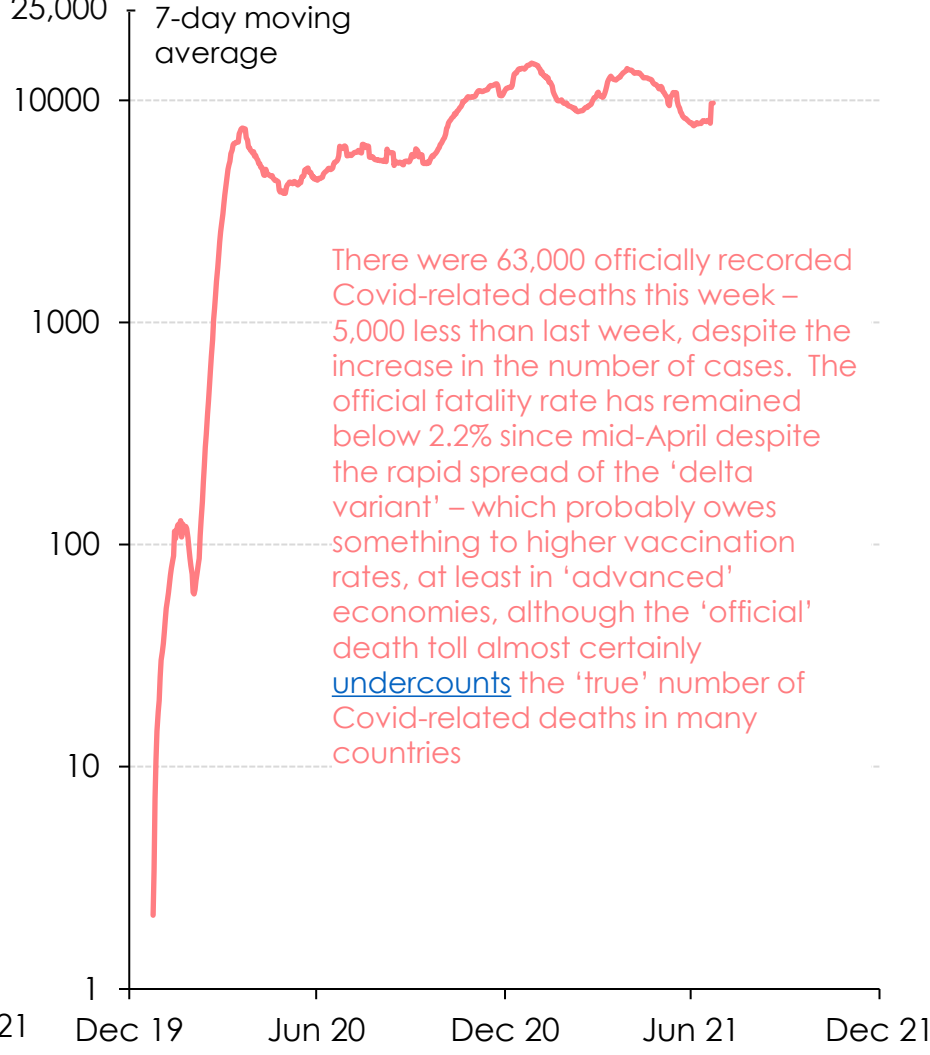
Cumulative confirmed cases – global total



New confirmed cases – global total



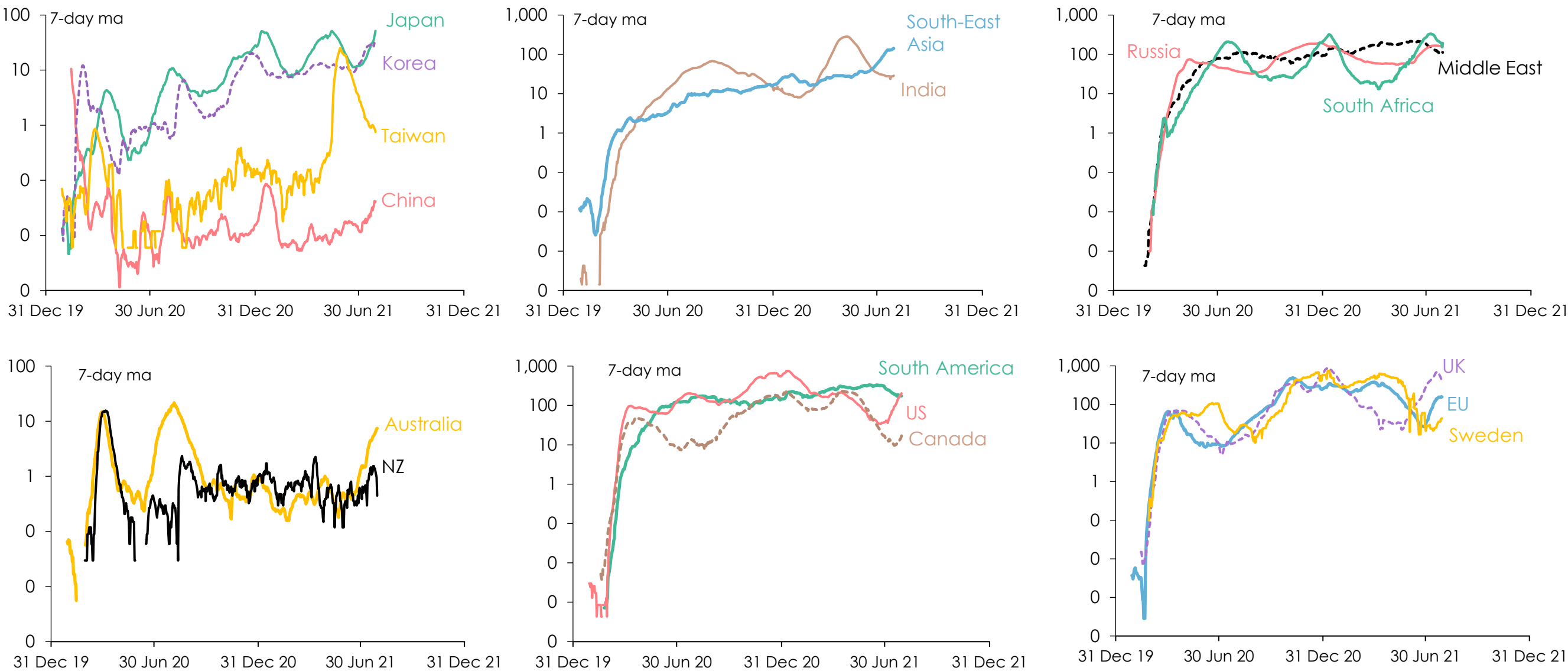
New deaths – global total



Note: All charts are on logarithmic scales. Data up to 29th 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"](#).

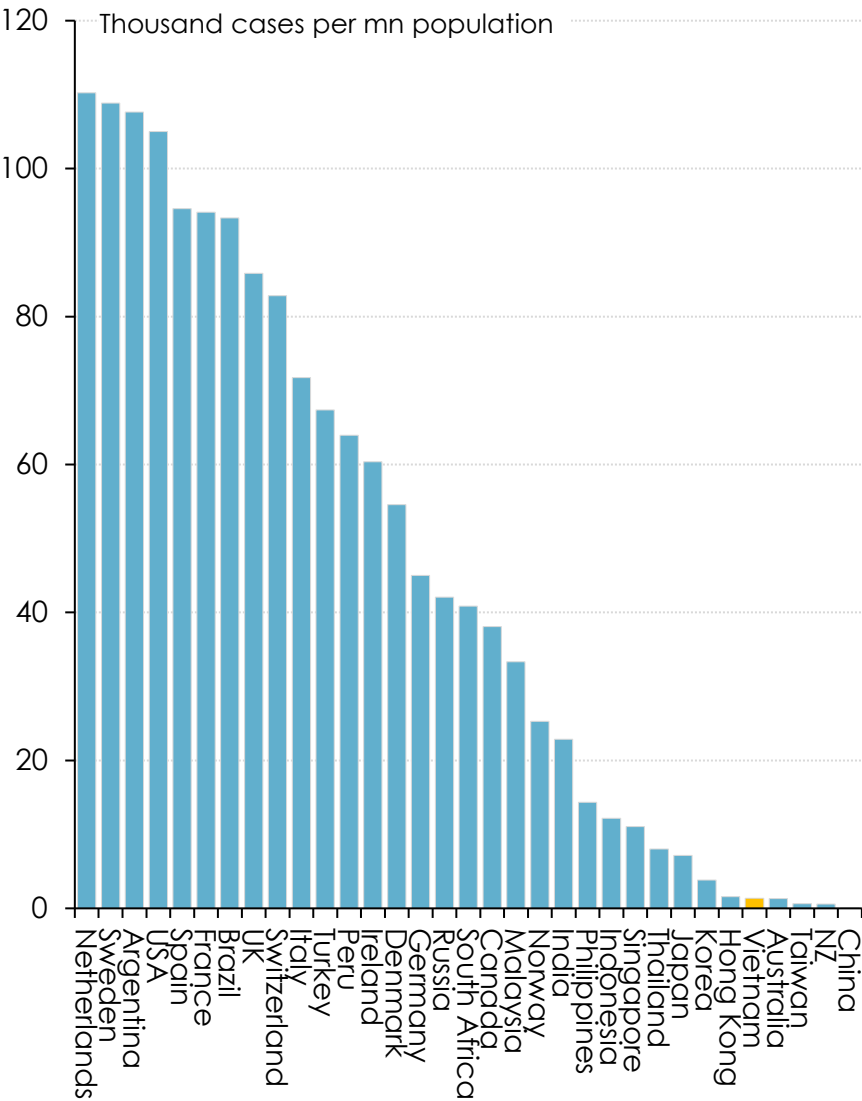
18½% of this week's cases were recorded in Europe, 16¼% in SE Asia, 13% in South America, 11½% in the US, 11% in the Middle East, and 7% in India

Daily new cases per million population – major countries and regions

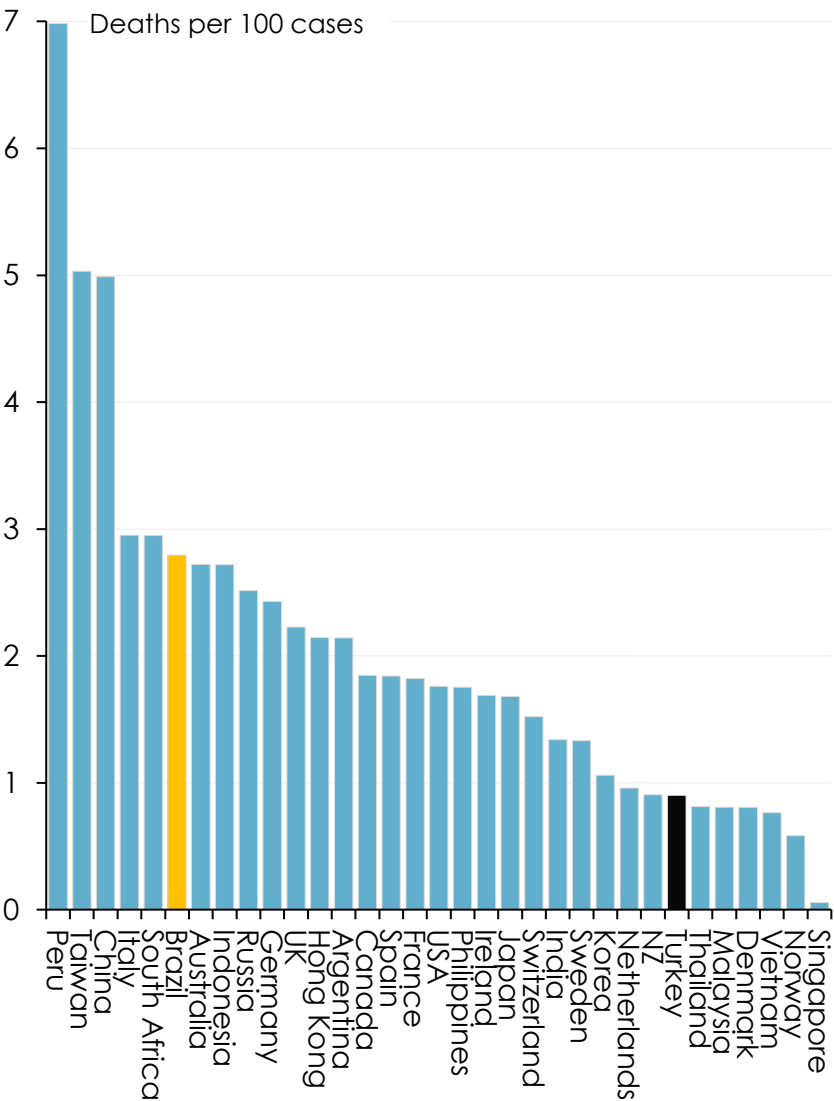


The highest infection and death rates have been in Europe, South and North America

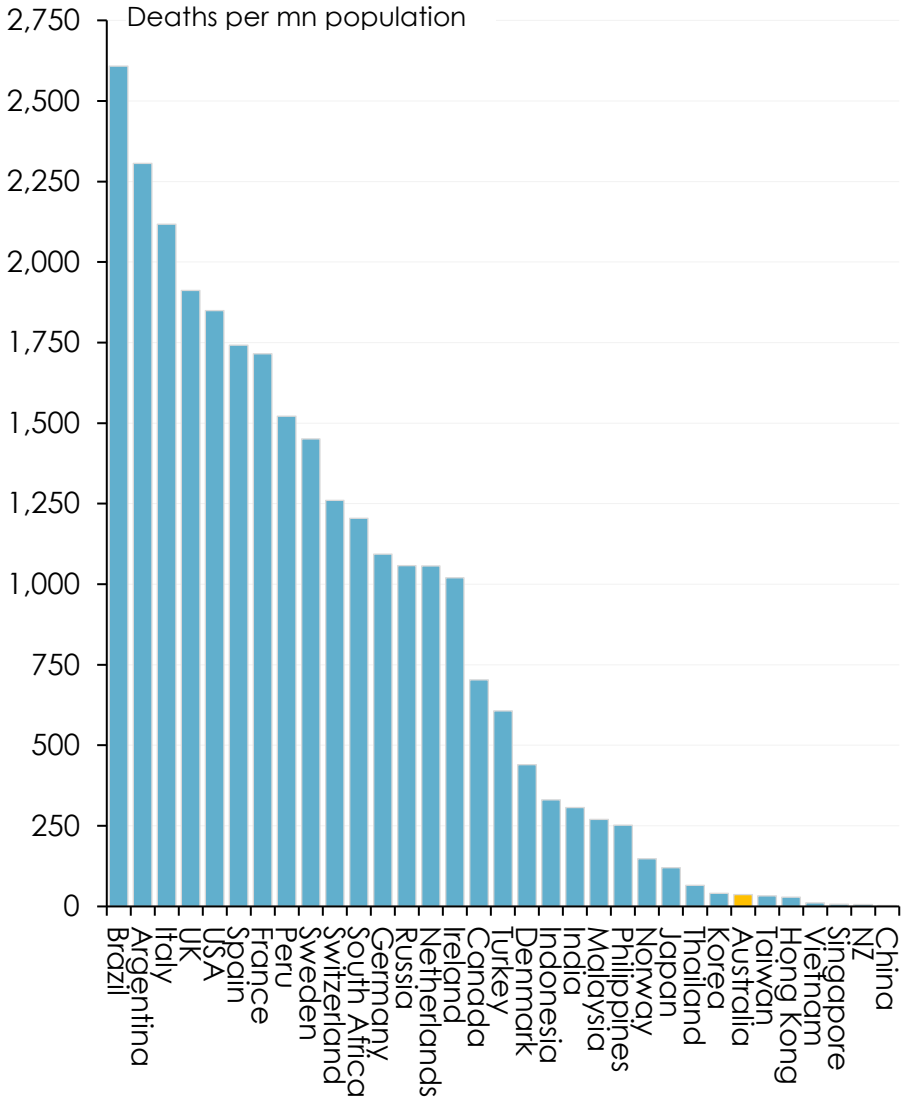
Apparent infection rate



Apparent fatality rate



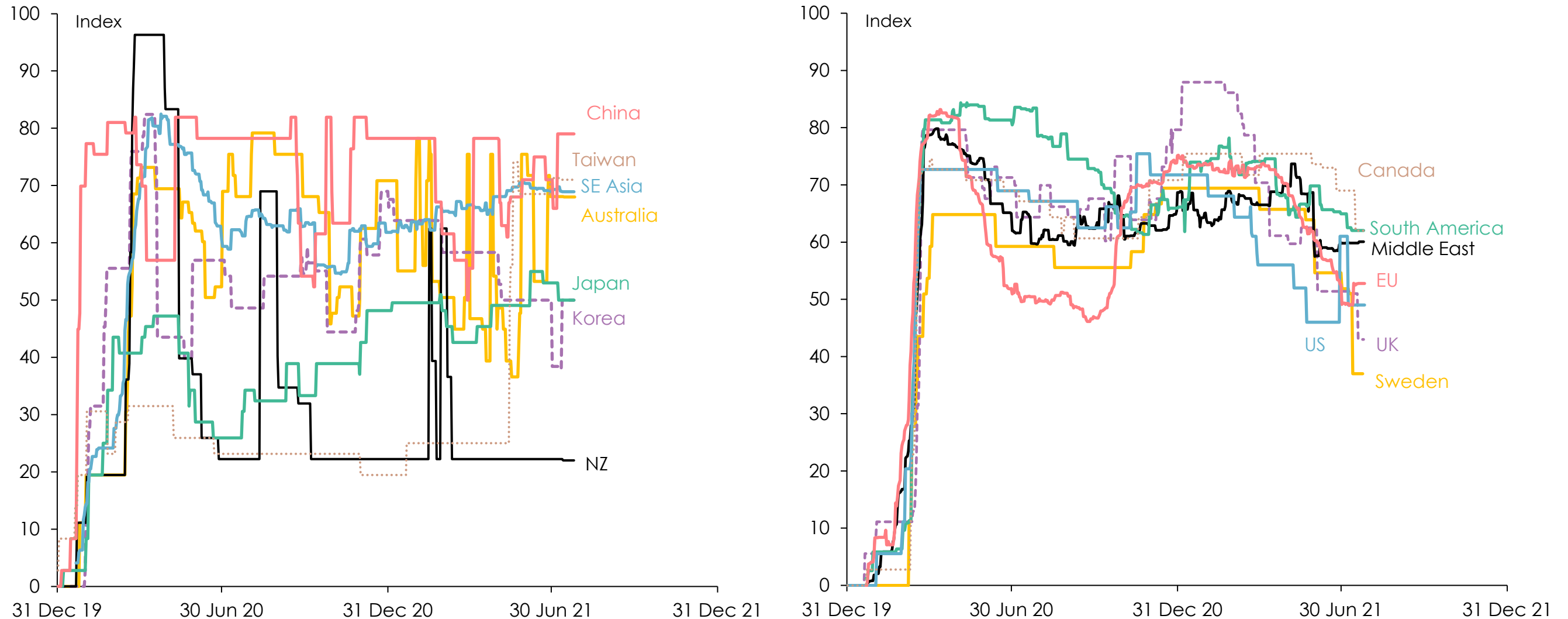
Death rate



Note: Data up to 29th 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

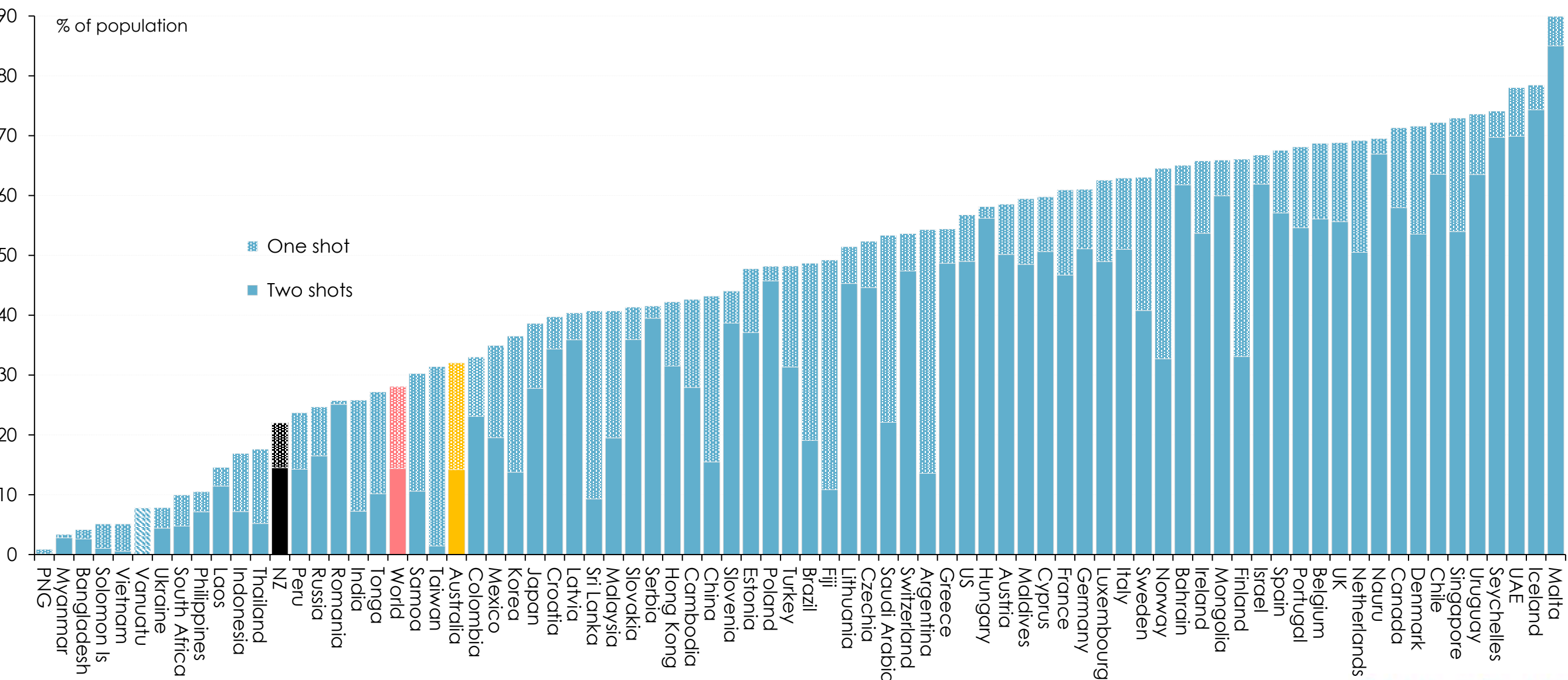
Timing and severity of government restrictions on movement and gathering of people



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 25th July. [Return to "What's New"](#).

Canada & the UK are the vaccination rate leaders among large countries; many European countries have passed the US; Asia, Australia & NZ lag

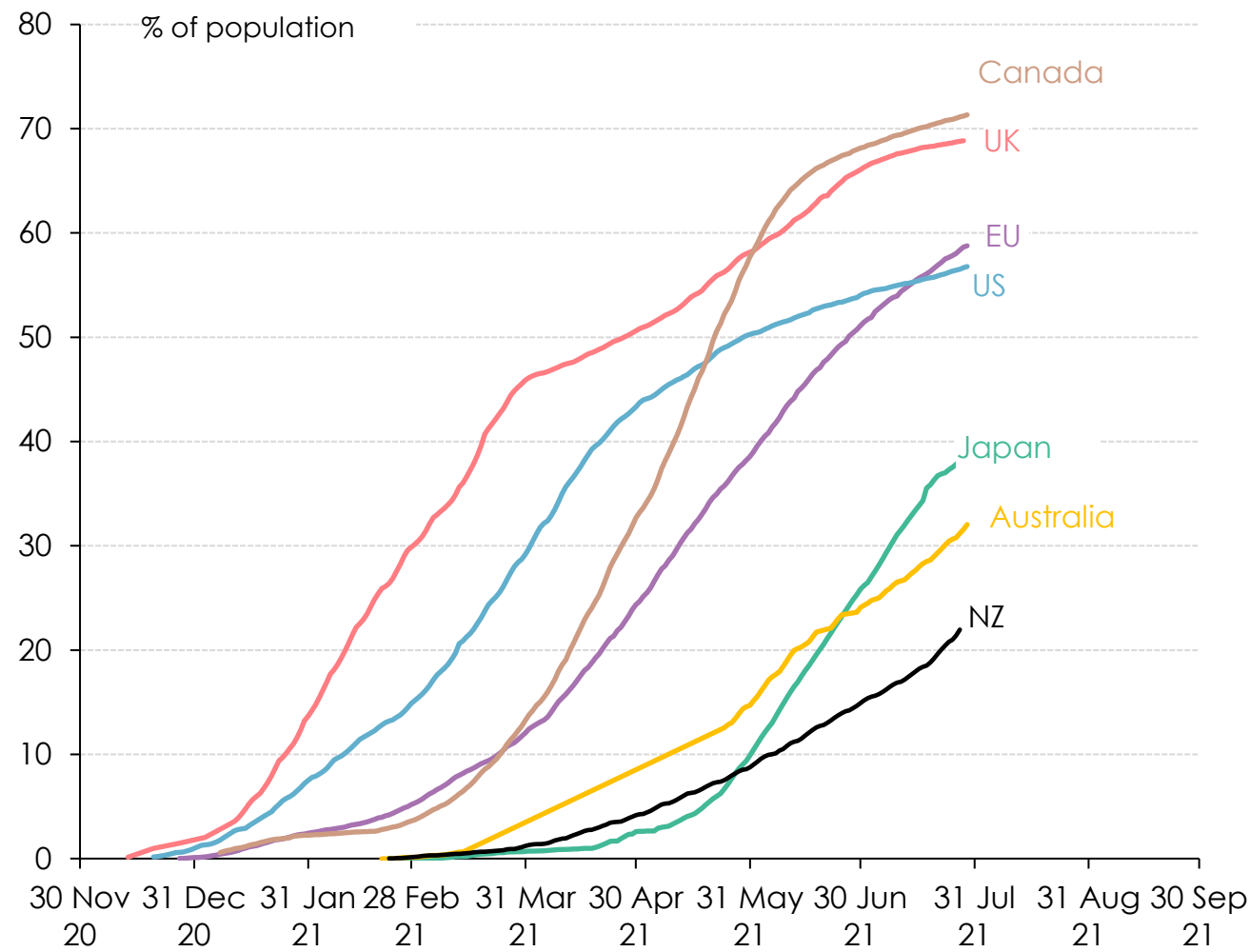
Percentage of population who have had at least one vaccination shot as at 27th - 29th July



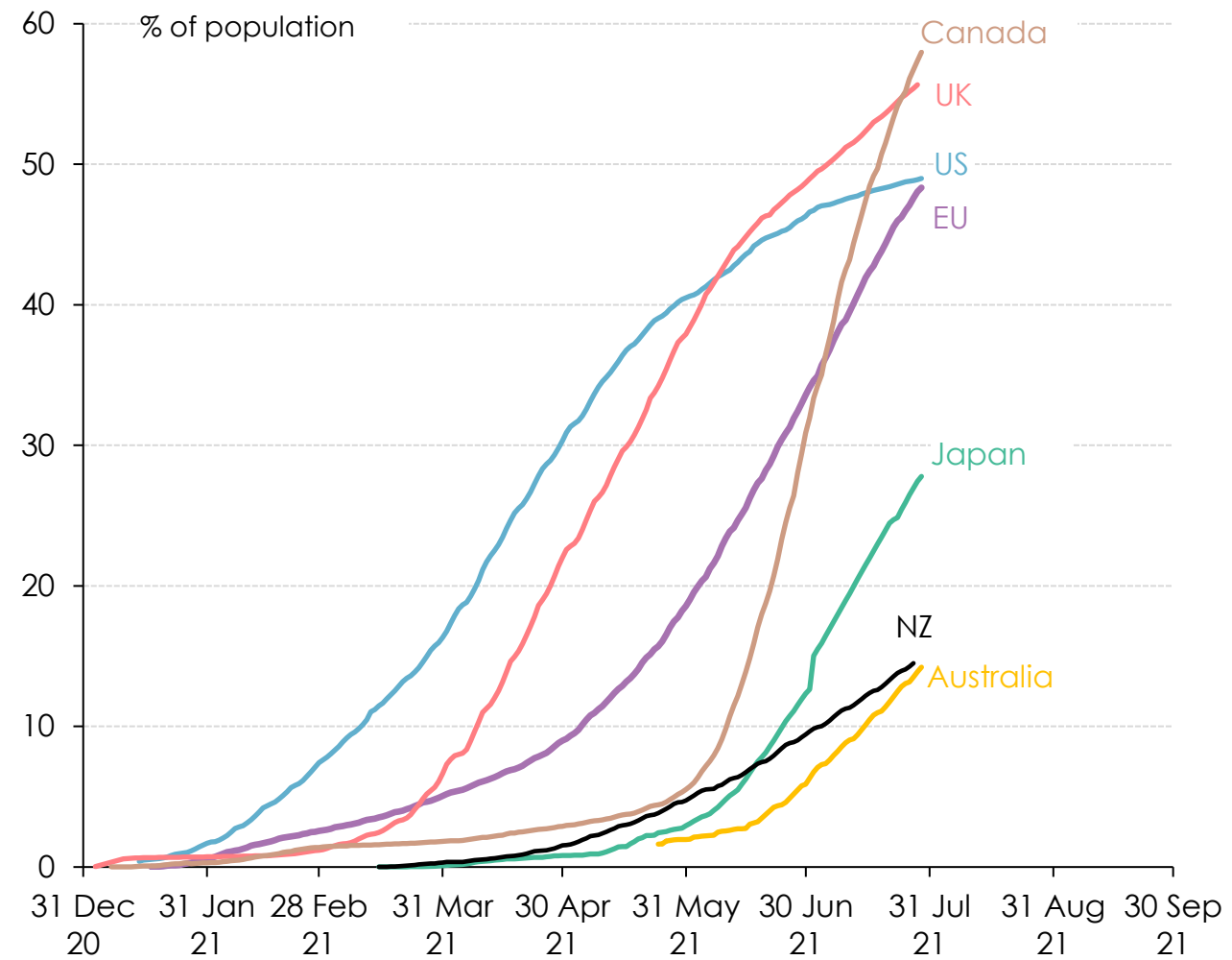
Note: Data for Myanmar is 5th June; China 10th June; Iceland 23rd July; Seychelles 24th July; PNG, Laos, Thailand and the Netherlands 25th July.
Source: Our World in Data, [Coronavirus \(COVID-19\) Vaccinations](#). [Return to "What's New"](#).

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



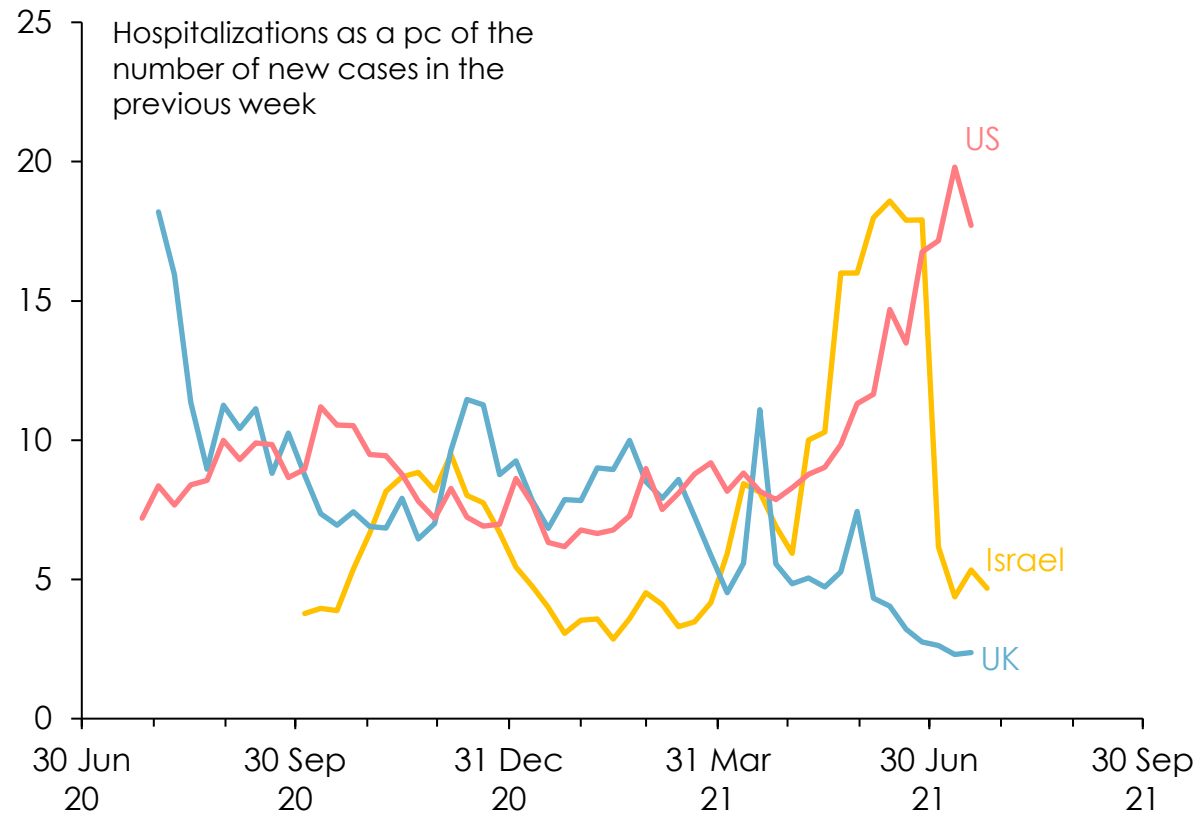
Percentage of major 'advanced' economies' populations who have had two shots



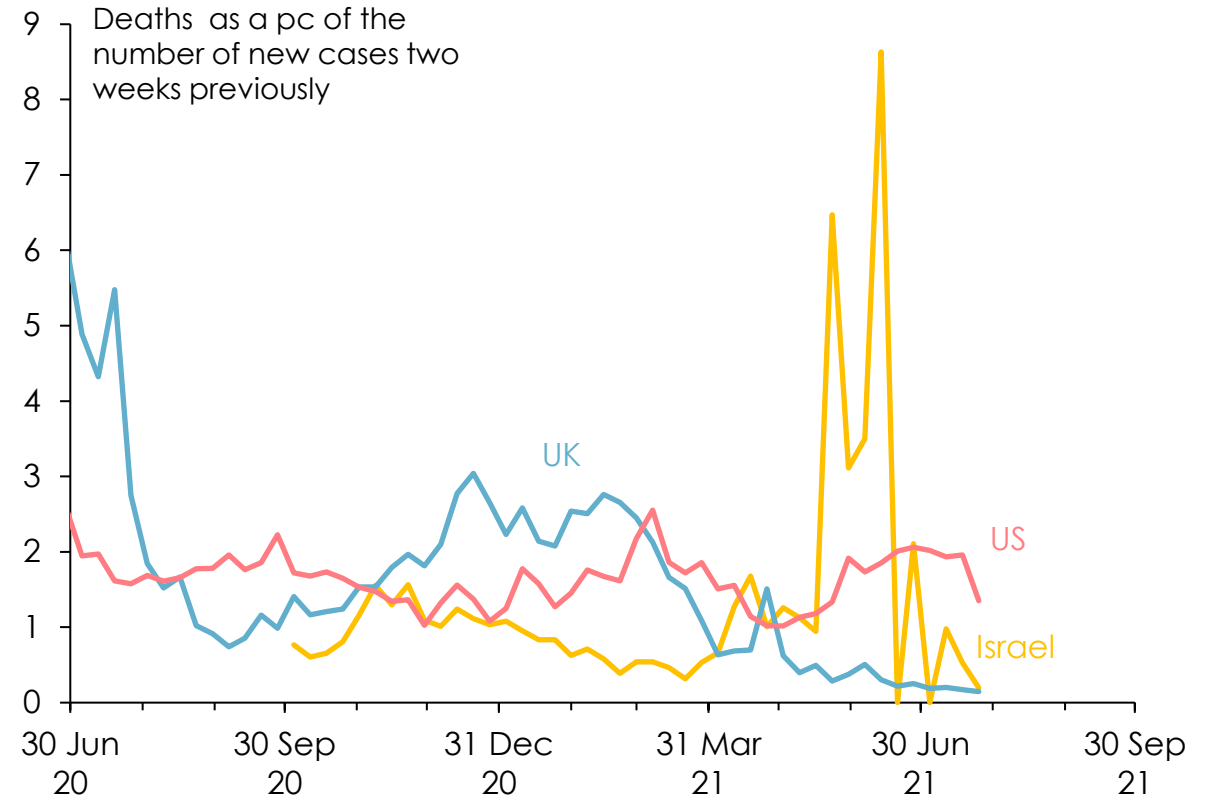
Note: Data up to 27th – 29th July. Source: [Our World in Data](#); [Coronavirus \(COVID-19\) Vaccinations](#). [Return to "What's New"](#).

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

Hospitalization rates



Fatality rates

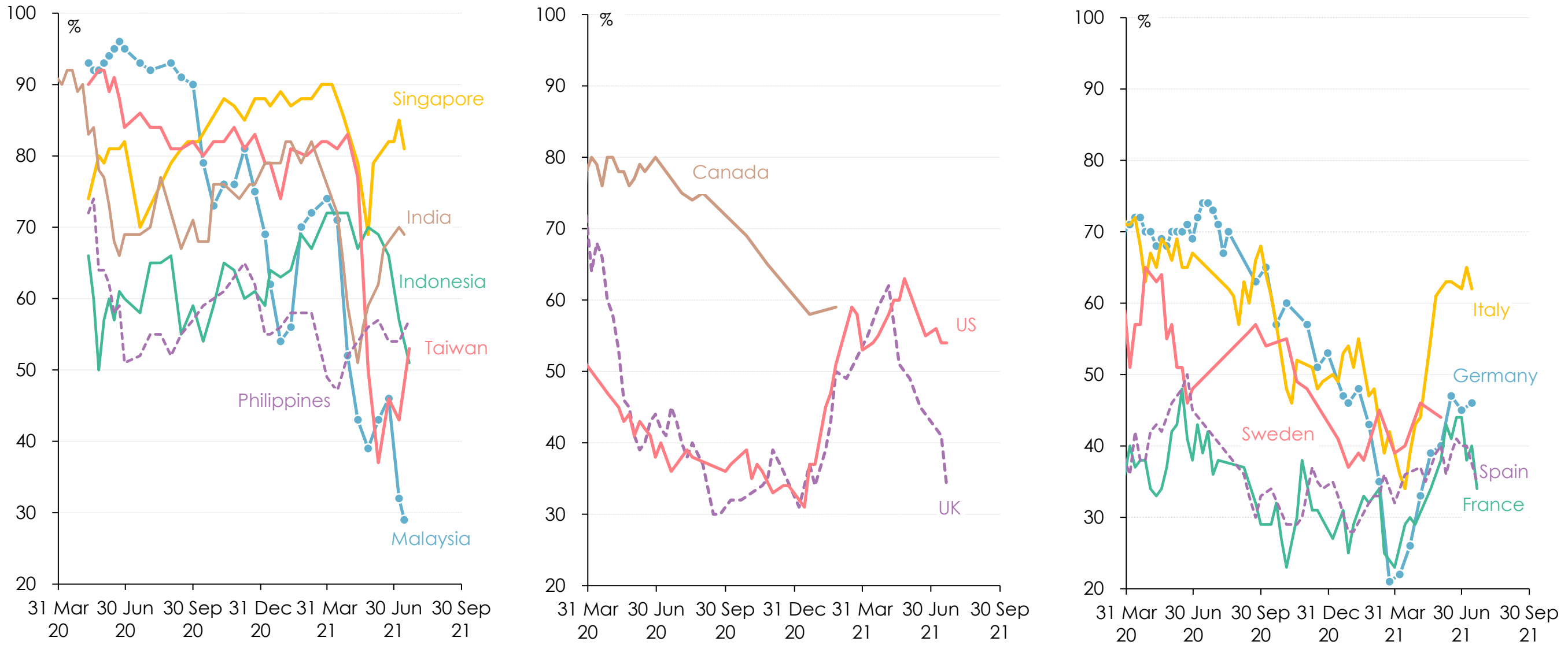


- ❑ Israel, the UK and the US have all experienced a surge in the number of 'delta variant' cases in recent weeks
- ❑ In the US, the increase in cases is concentrated in states and counties where vaccination rates are well below the national average
- ❑ In Israel, the UK and those US states with above-average 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 27th July. Source: [Our World in Data](#). [Return to "What's New"](#).

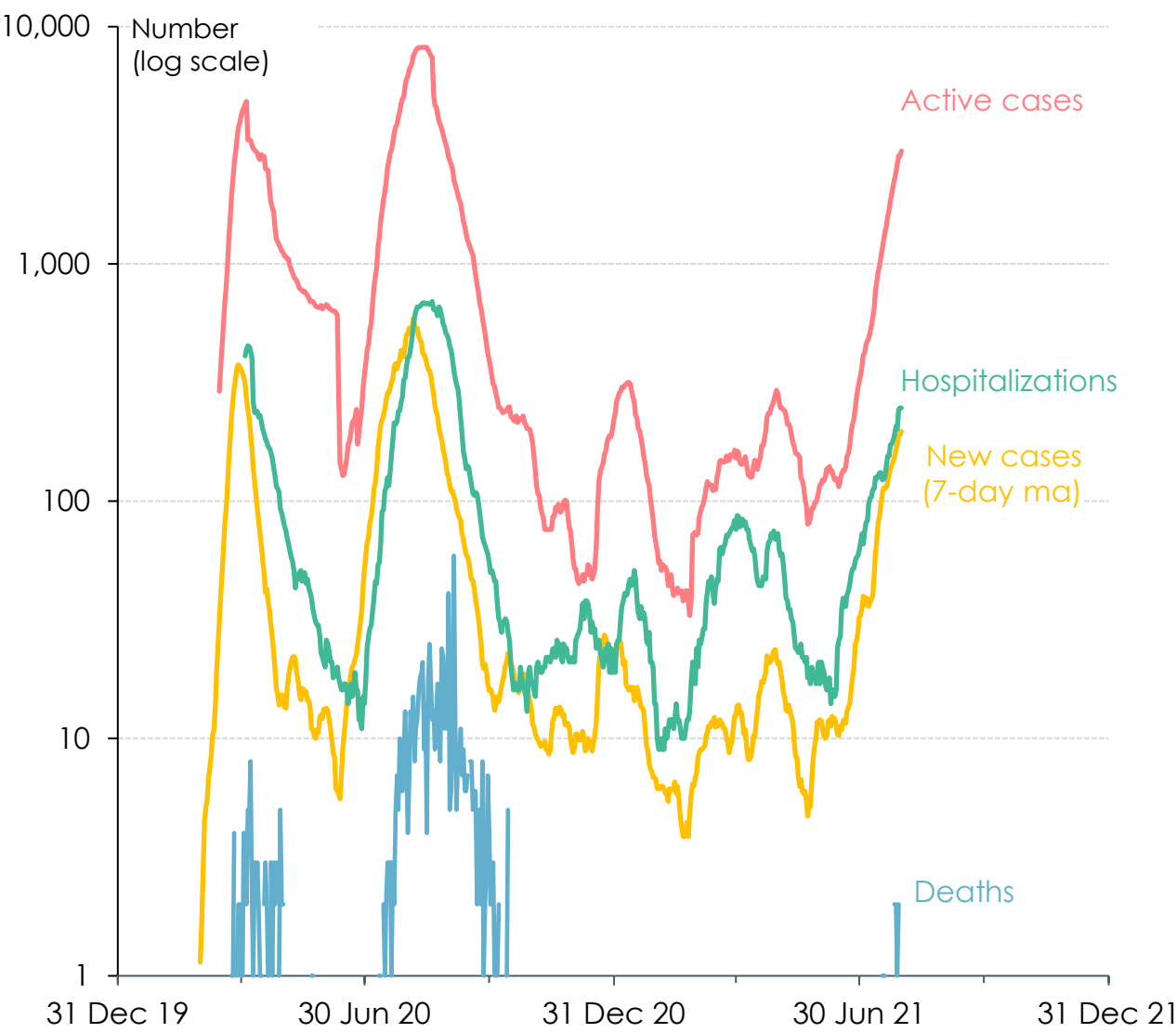
Voter approval of some Asian governments' handling of Covid has declined with the recent rise in infections – as it also has in the UK

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

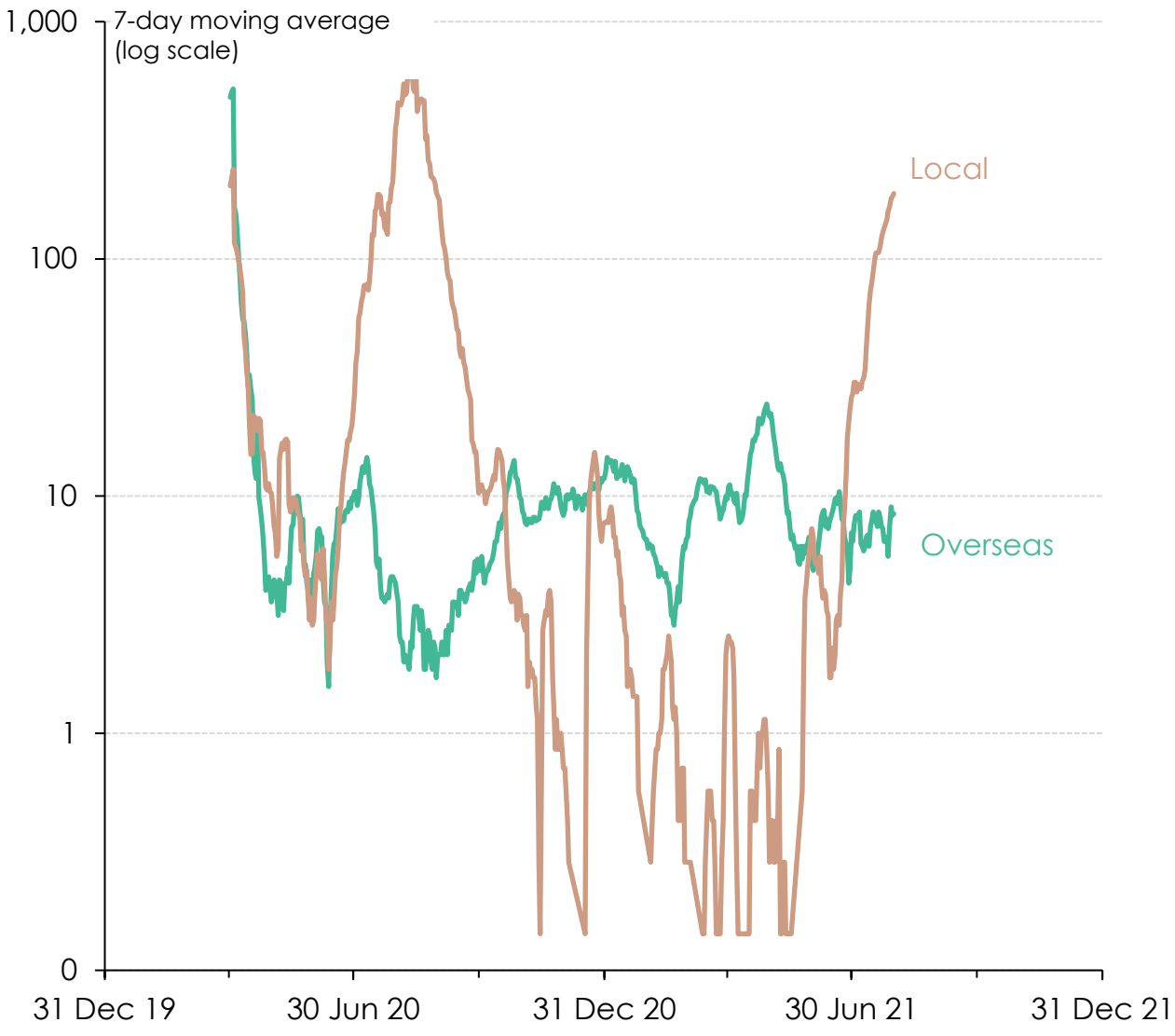


Australia recorded 1,327 new cases this week, the most since the third week of August last year – and 1,278 of them were ‘locally acquired’

Cases, recoveries, hospitalizations and deaths



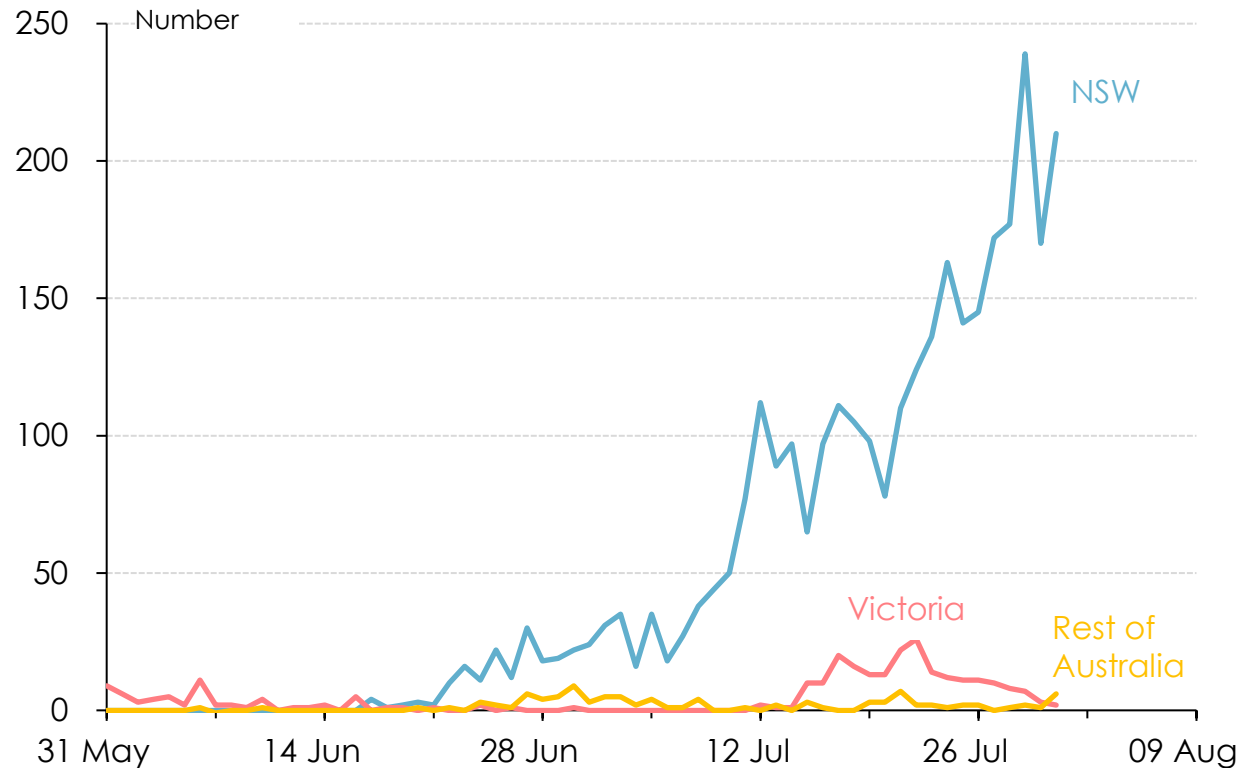
New cases, by source



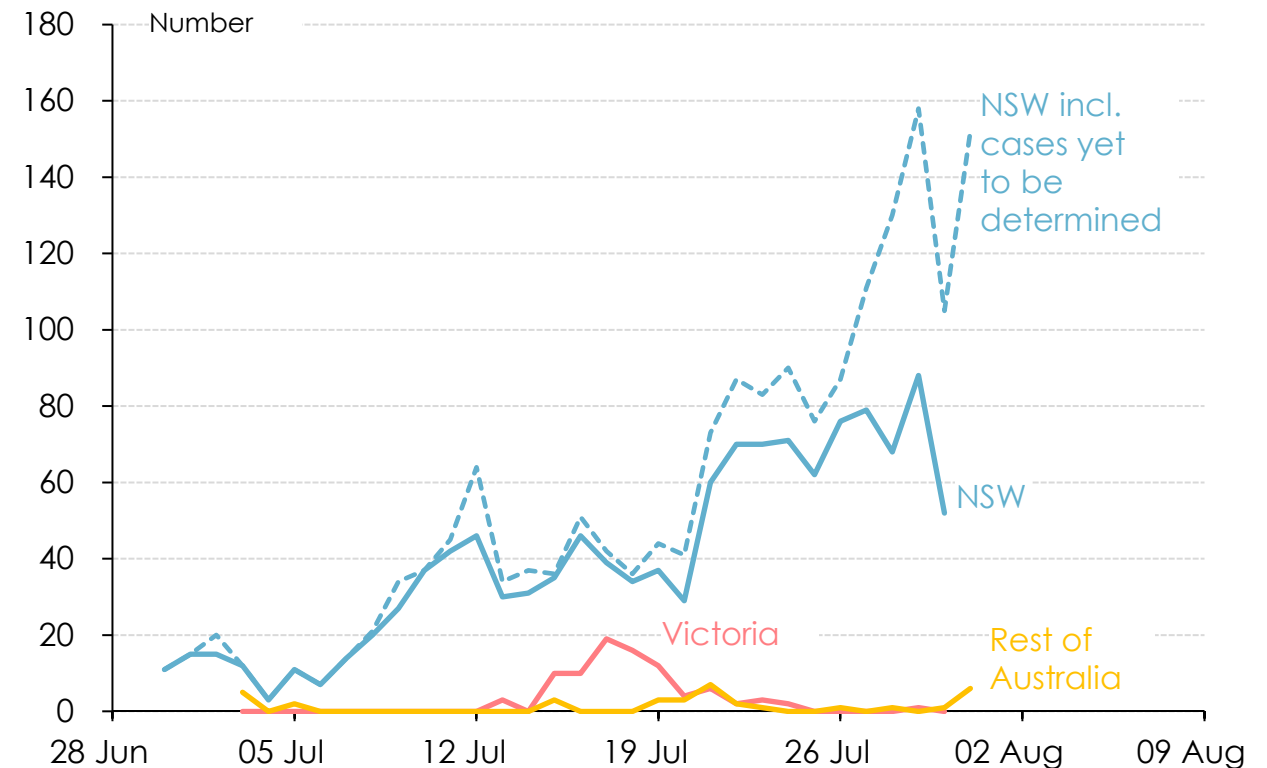
Note: Data up to 31st July. Source: covid19data.com.au. [Return to "What's New"](#).

NSW has yet to curb the spread of 'locally acquired' infections, with 1,207 new cases this week including 500 'infectious while in the community'

New locally-acquired cases

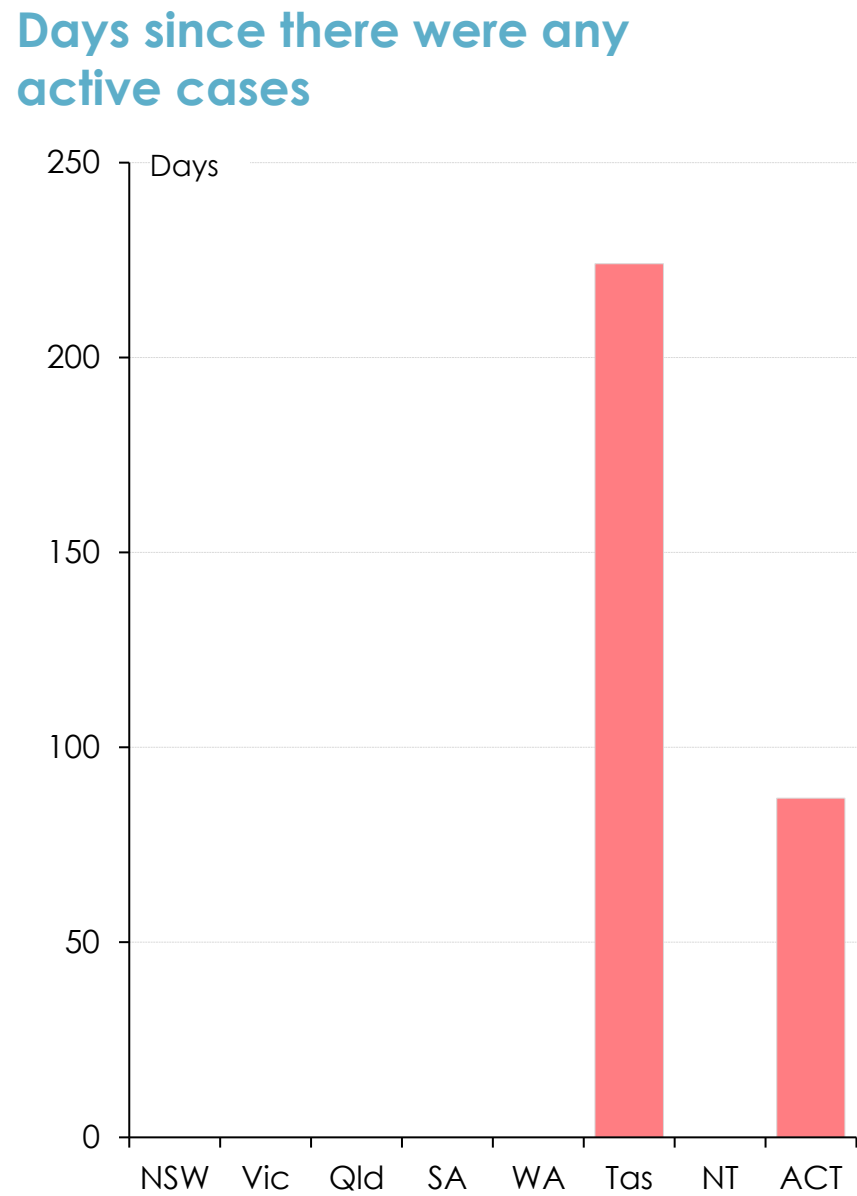
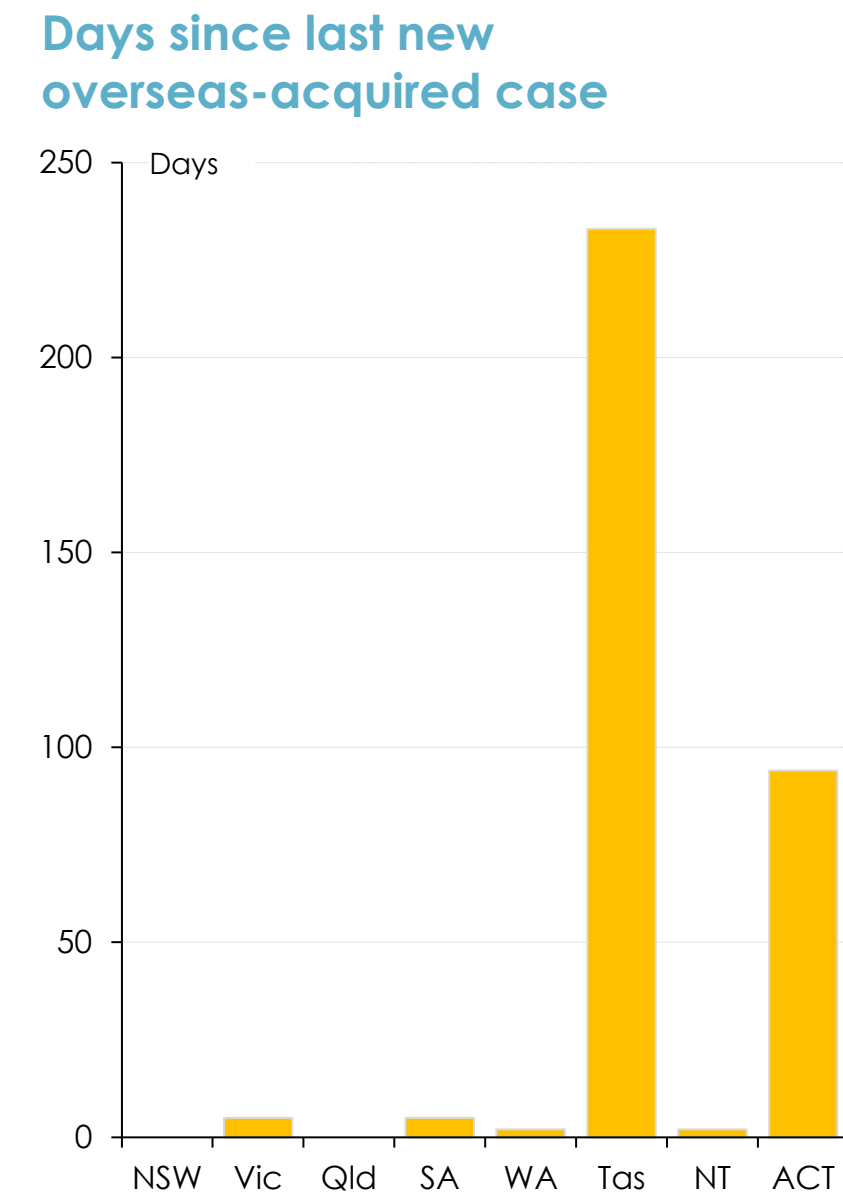
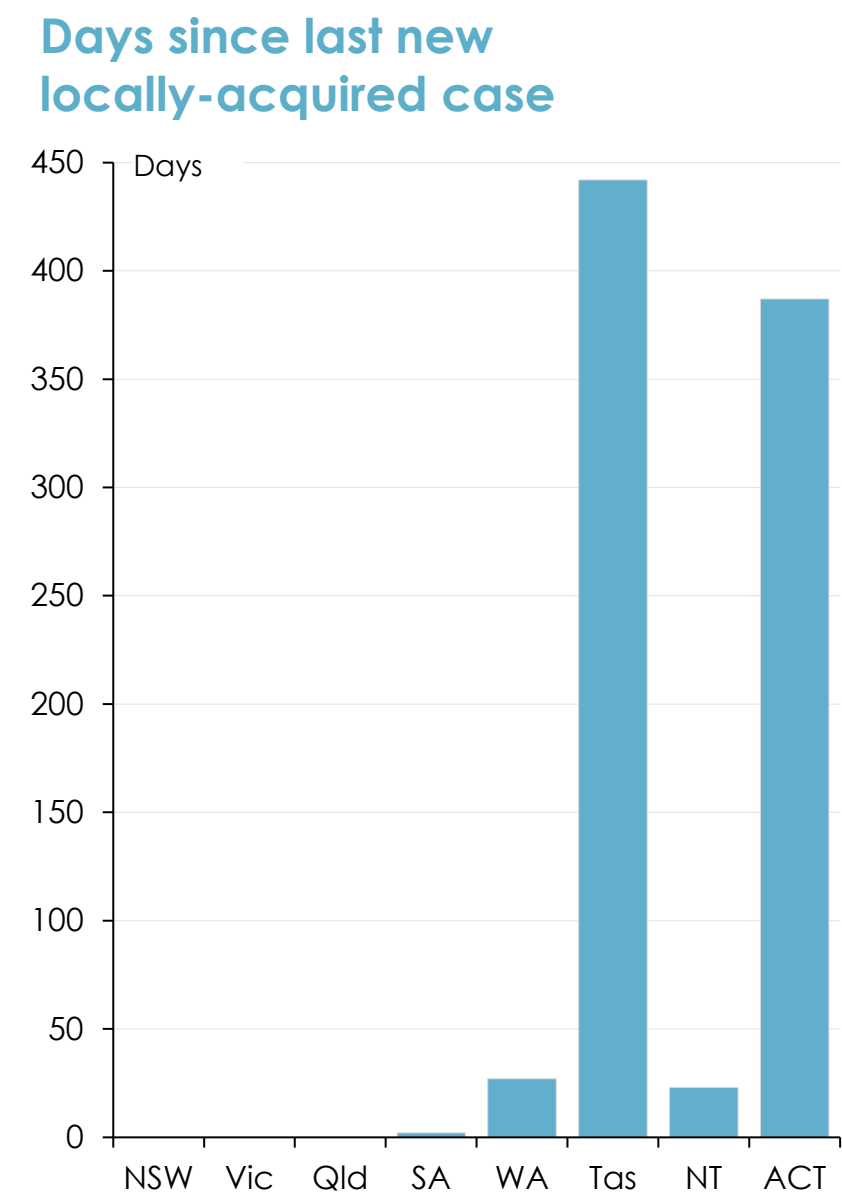


Number of cases 'infectious while in the community'



- ❑ 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 averaged 70 a day this week (or over 100 if yet-to-be-determined cases are included) – the lockdown won't end until this number is reduced to zero
- ❑ Lockdowns in Victoria and South Australia were eased this week following the elimination of 'community transmission'
- ❑ A lockdown of at least three days has been imposed on Brisbane and South-east Queensland following the identification of six new local cases

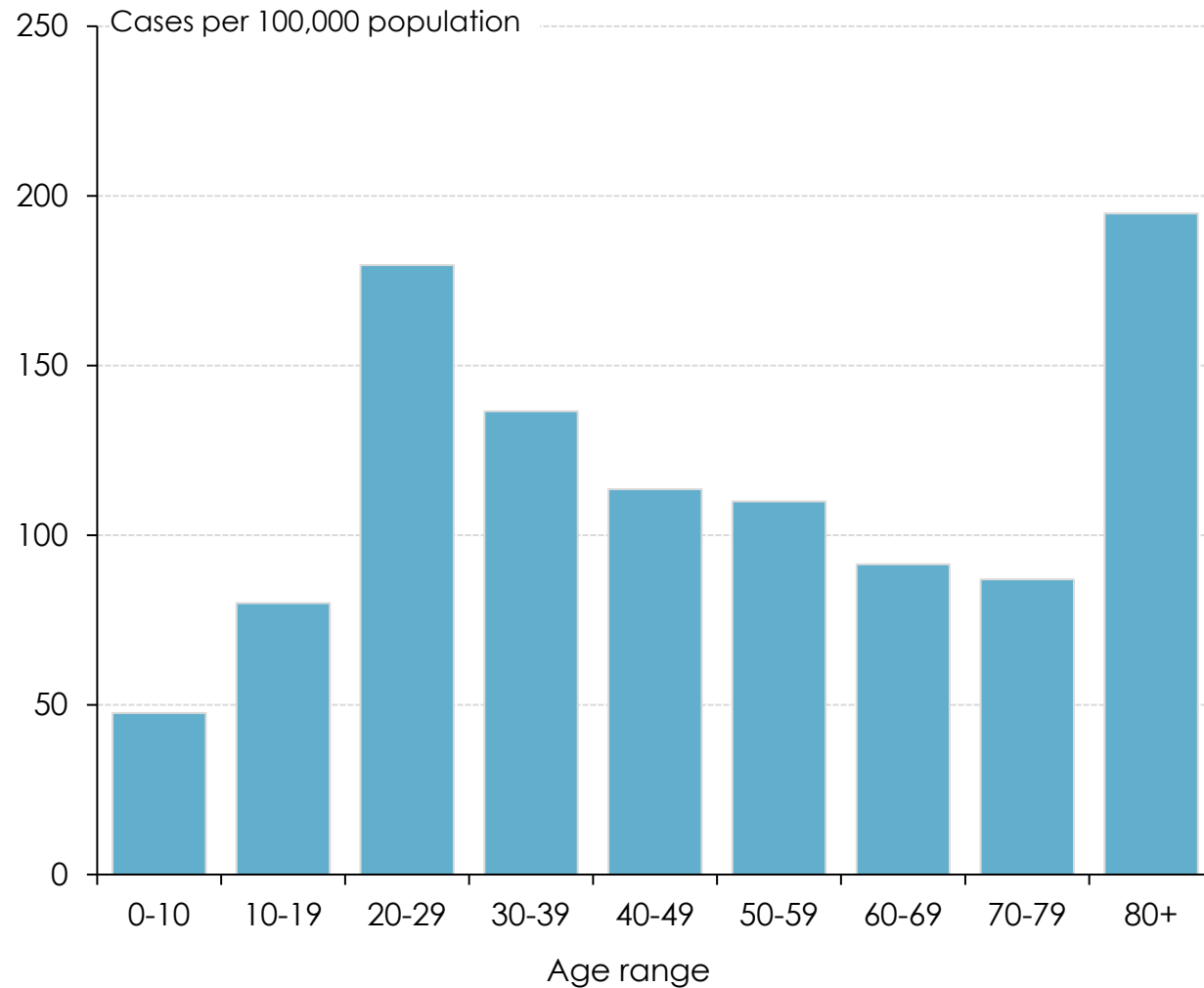
The smaller states and territories have done better at keeping the virus at bay, partly because they receive fewer overseas arrivals



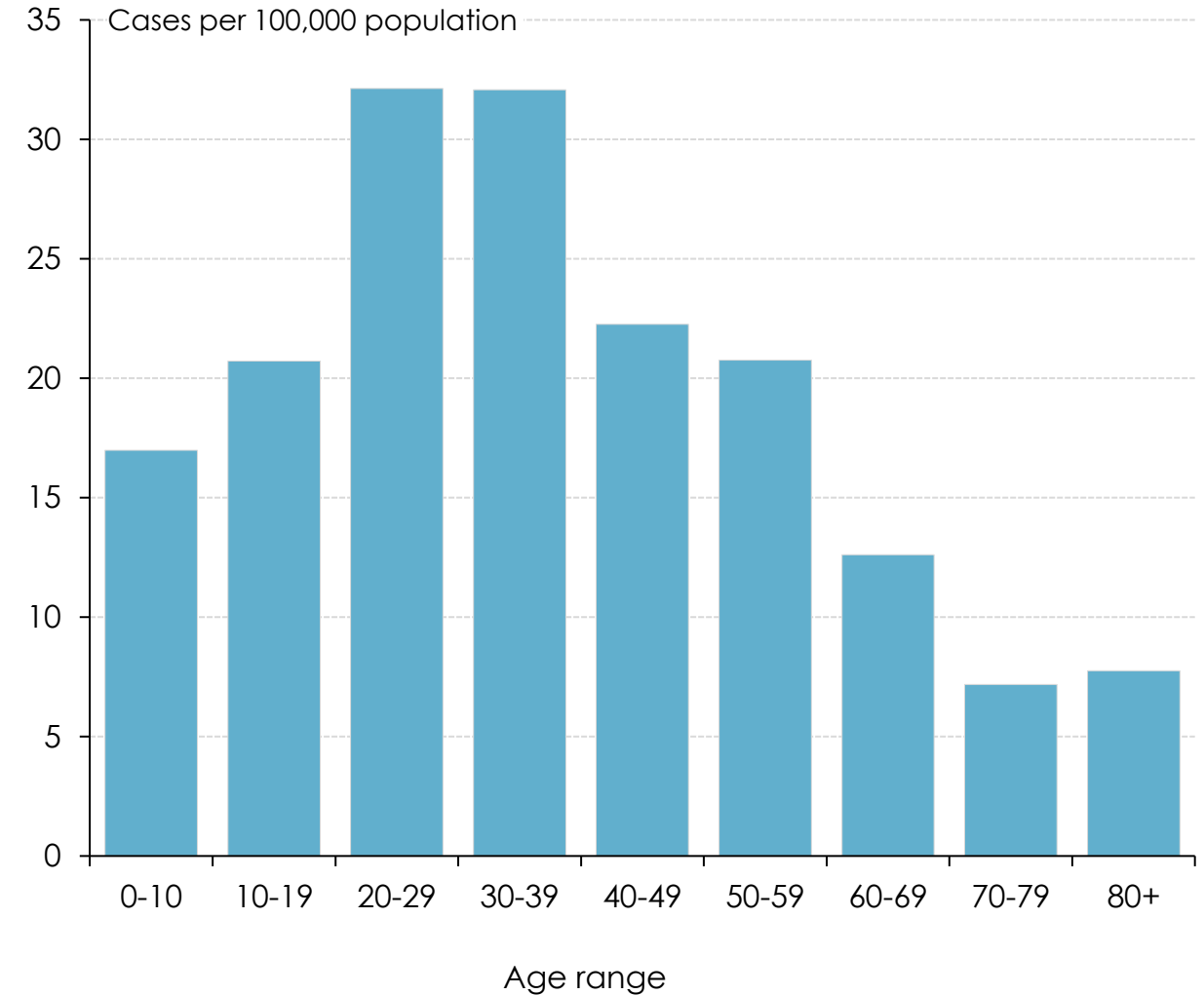
Note: Data are for 30th July. Source: covid19data.com.au. [Return to "What's New"](#).

People in their 20s & 30s have been more likely to become infected than other age groups this year – partly because fewer have been vaccinated

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



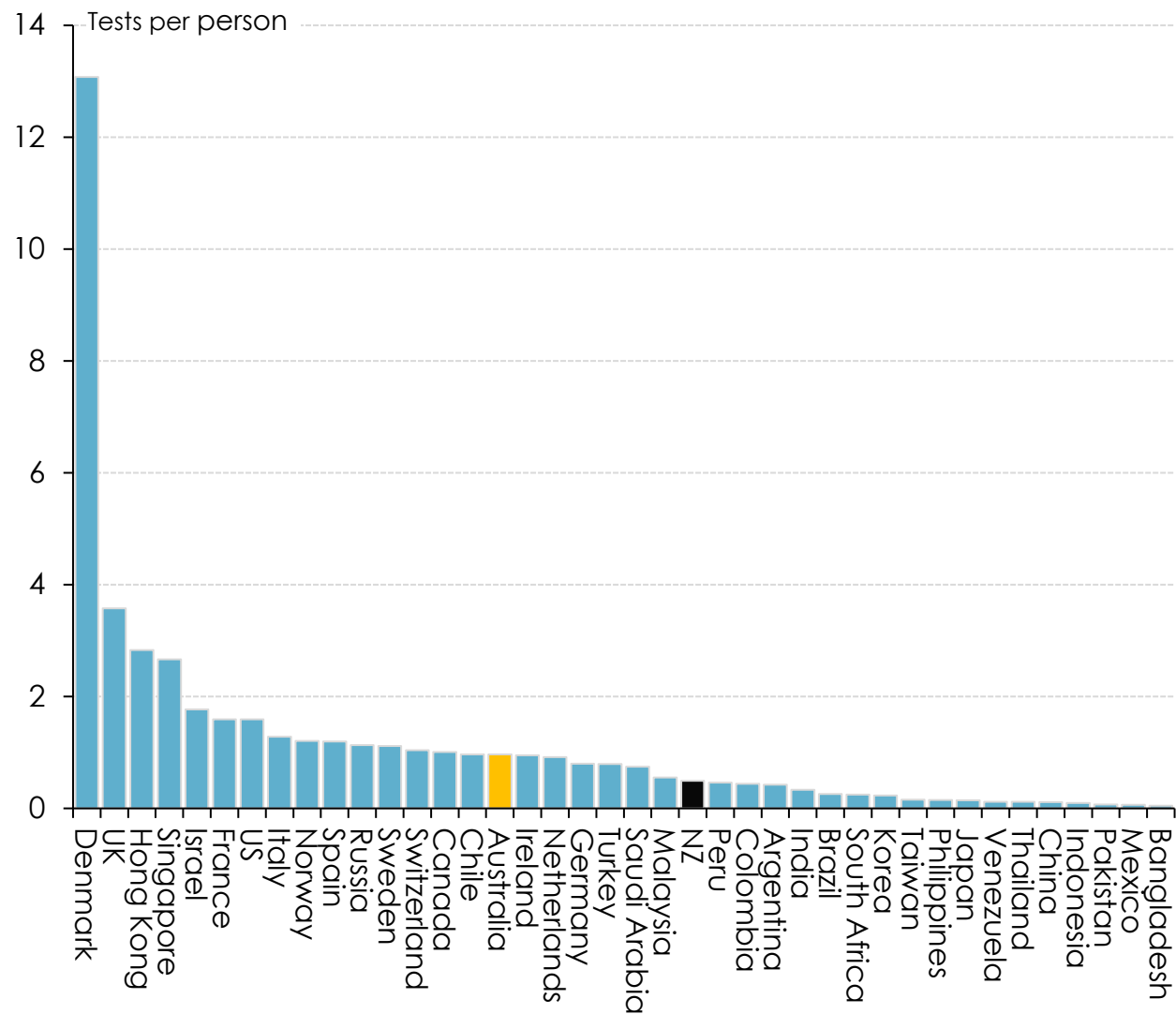
Cumulative confirmed cases per 100,000 population, by age group – 2021 to date



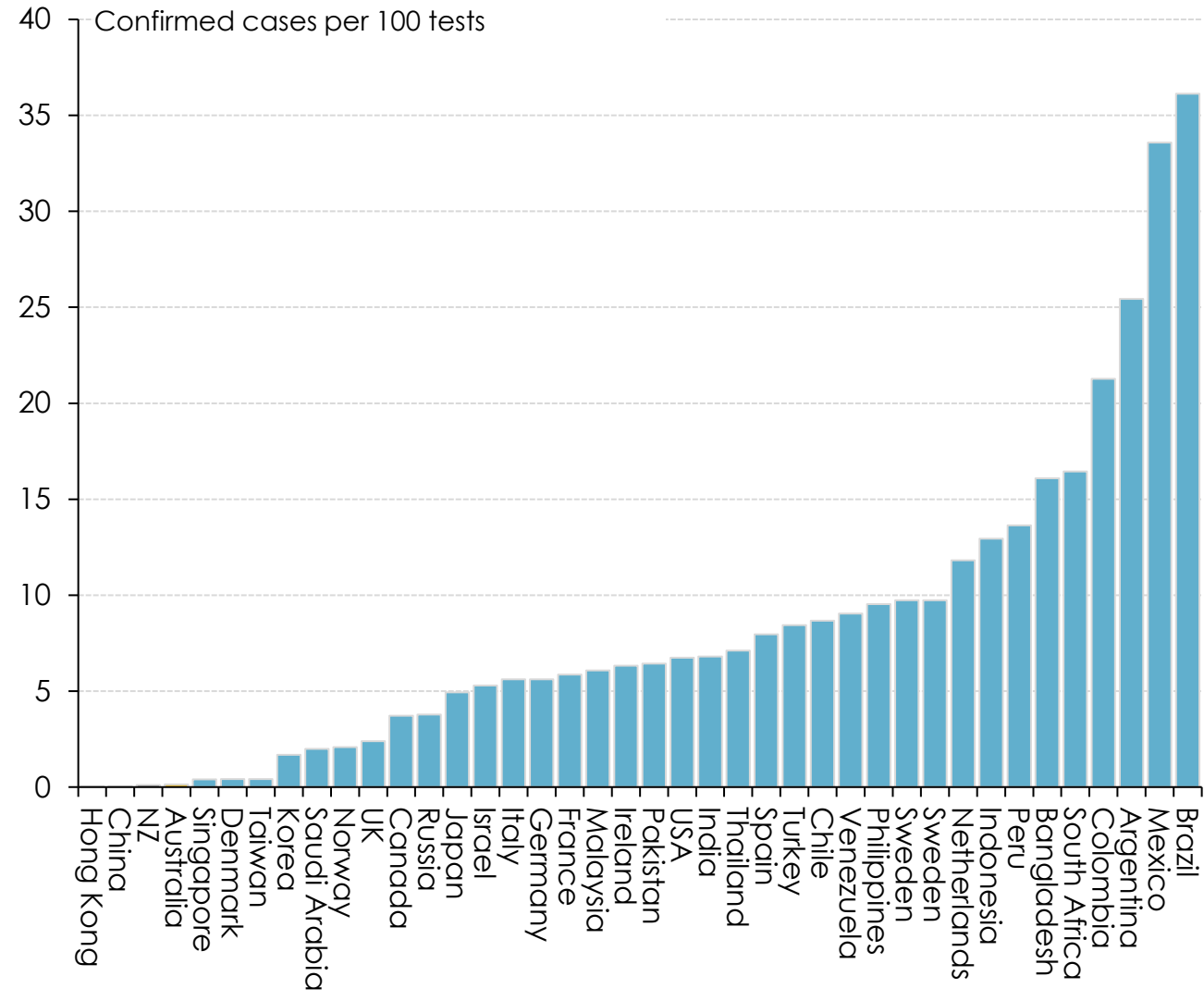
Note: Data up to 30th July. Source: Australian Government Department of Health, [National Notifiable Diseases Surveillance System](#); ABS; Corinna.
[Return to "What's New"](#).

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



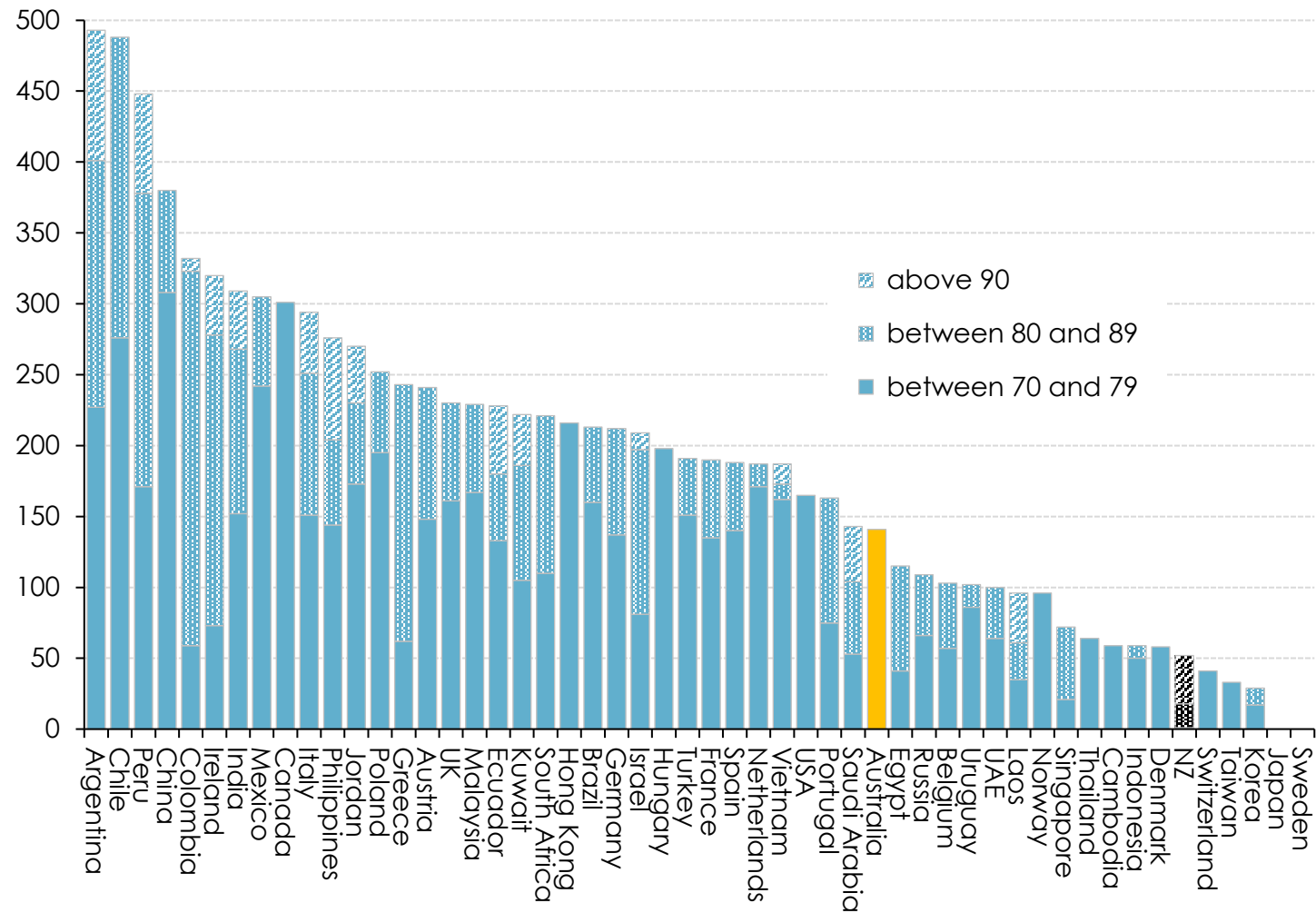
Confirmed cases per 100 tests



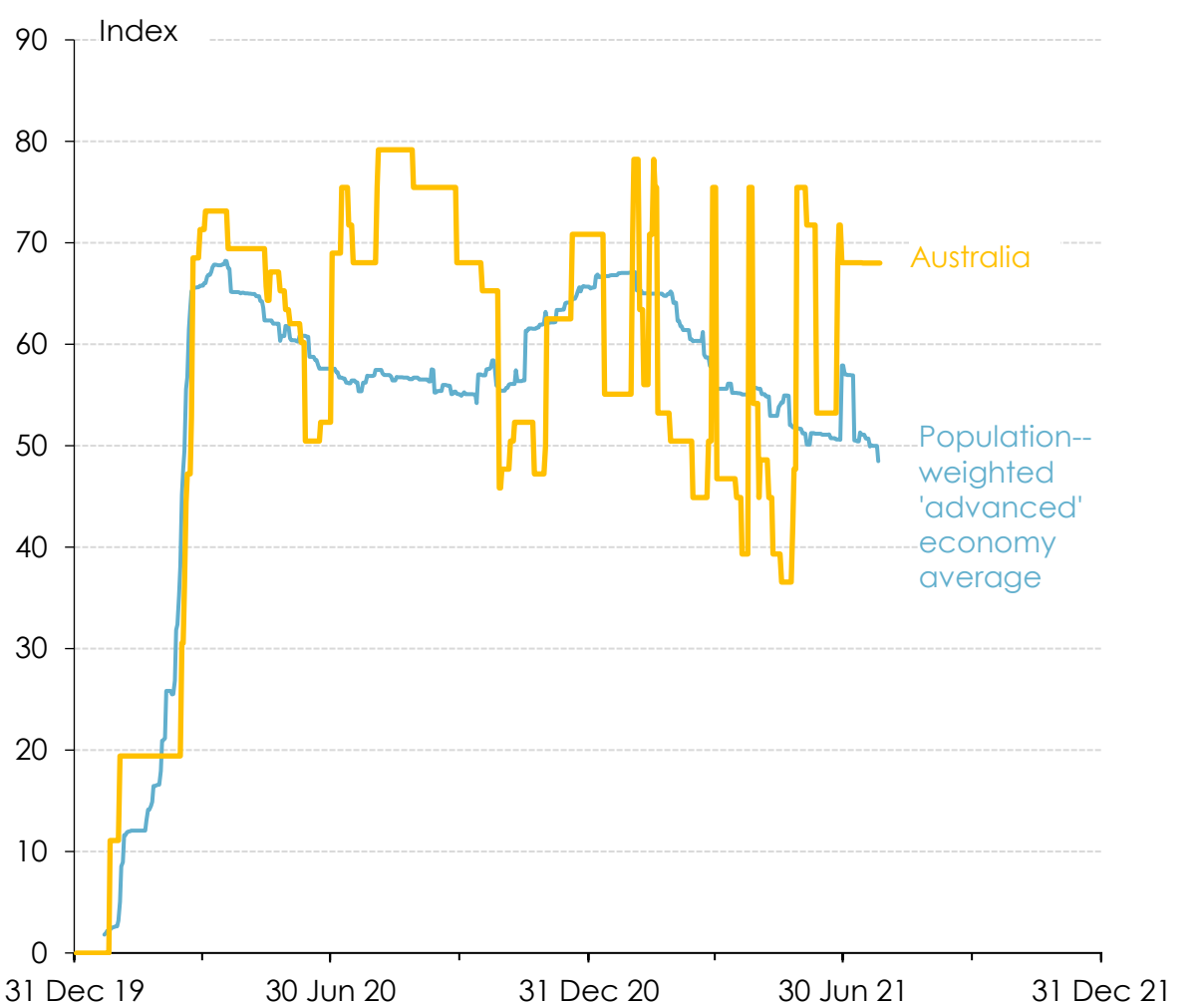
Note: Data up to 29th July (and yes it appears, at face value, that Denmark has tested its entire population more than a dozen times, the UK more than three times, and Singapore, Israel, Hong Kong, the US, France, Italy and Spain at least once). A high number of confirmed cases per 100 tests combined 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



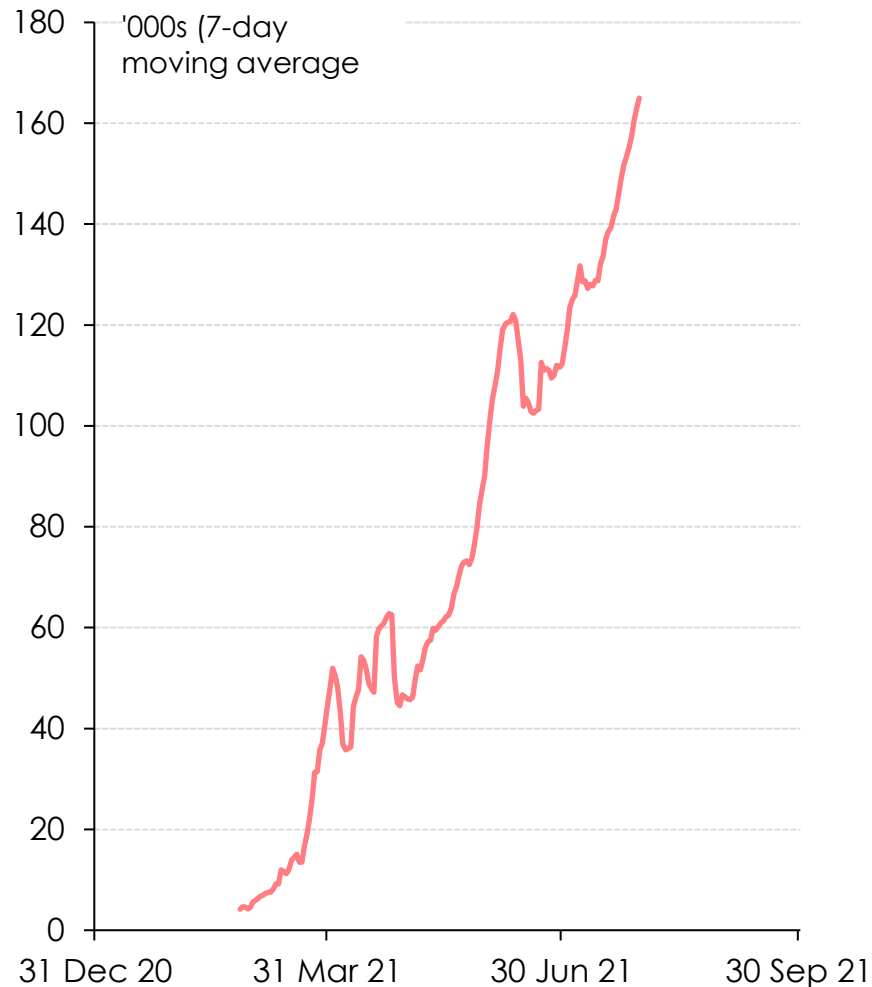
Stringency of Australia's restrictions compared with an average of other 'advanced' economies



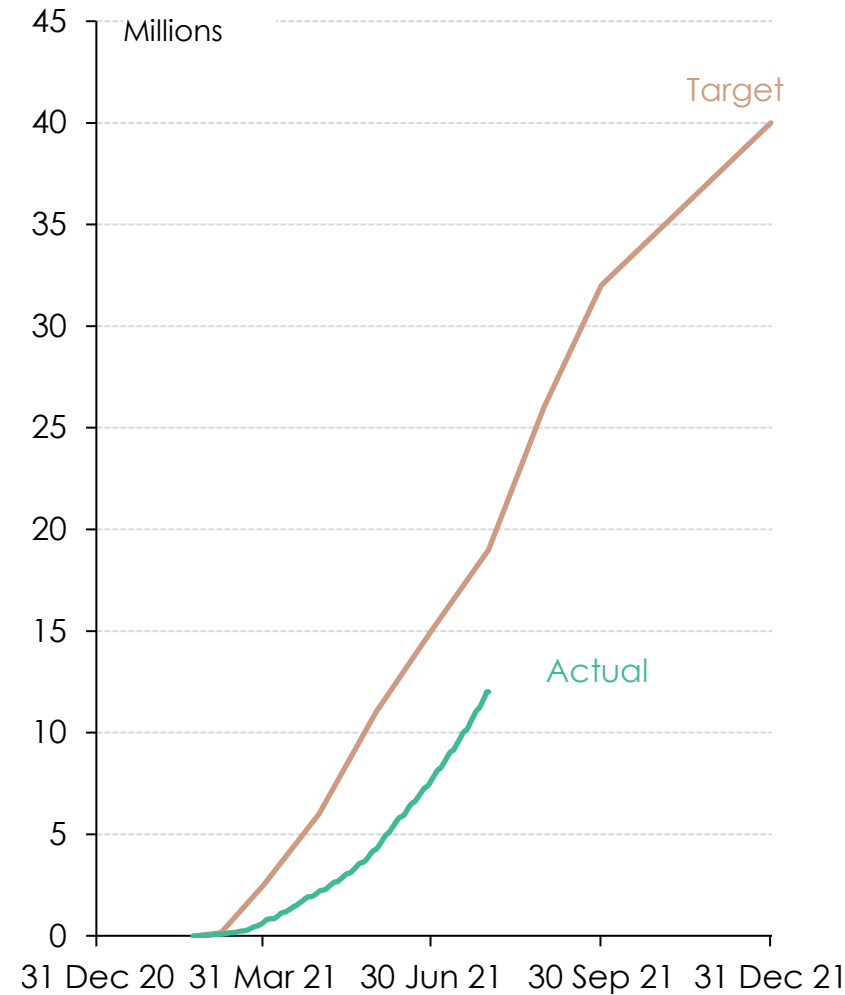
The Oxford COVID-19 Government Response Tracker collects publicly available information on 11 indicators of government response including school and workplace closures, public events cancellations, restrictions on public gatherings, stay at home requirements, public transport closures, domestic and international travel restrictions, public information campaigns, testing and contact tracing. Source: [Blavatnik School of Government, Oxford University](#). Data up to 25th 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



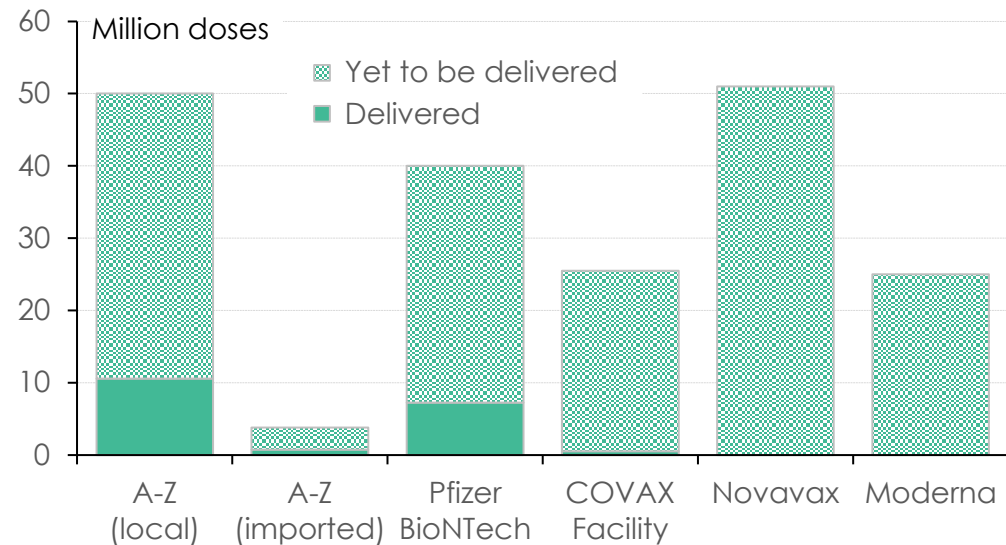
Percentage of population vaccinated, states and territories



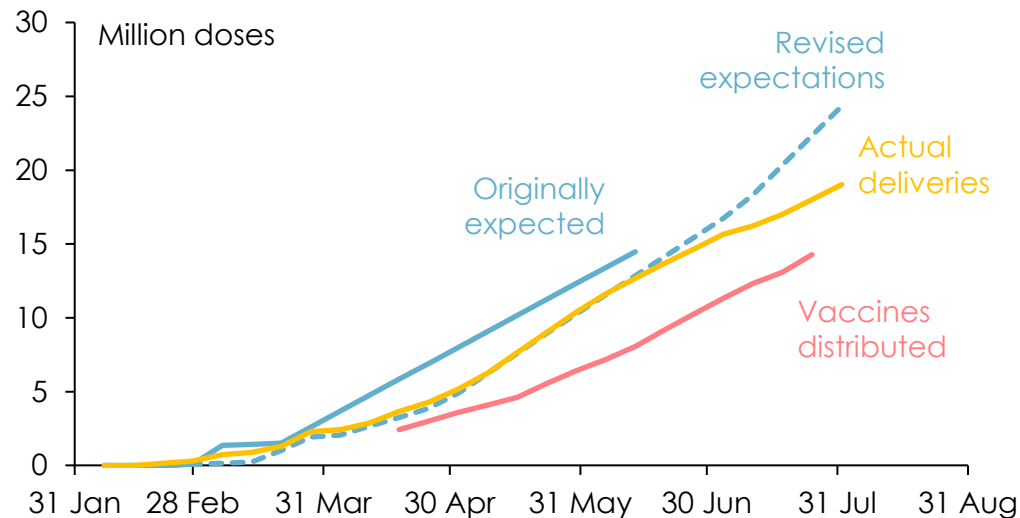
Note: Data up to 30th July. Sources: covid19data.com.au; Australian Department of Health, [COVID-19 vaccine rollout update on 14 March 2021](#).
[Return to "What's New"](#).

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

Australia's vaccine supplies



Original & revised expectations vs supplies



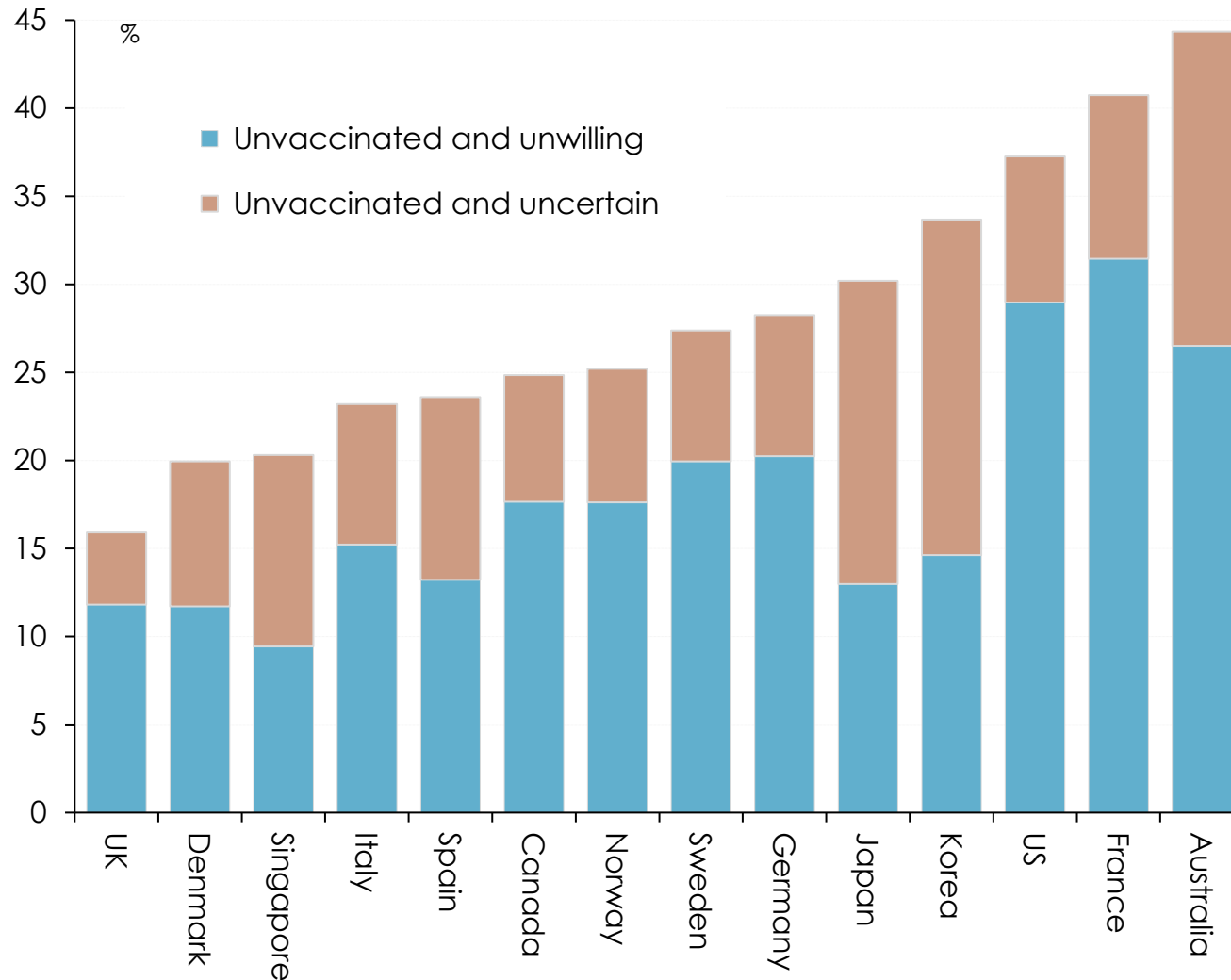
Note: Vaccine supplies are as at 30th July.

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

- ❑ Australia originally put too many of its vaccine 'eggs' in the Astra-Zeneca 'basket' – in marked contrast to (in particular) Canada
 - 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 end-May, only 2/3 of the originally expected number of doses had been produced; as of this weekend, the number of locally-produced A-Z doses is more than 5mn behind the revised expectations
- ❑ 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



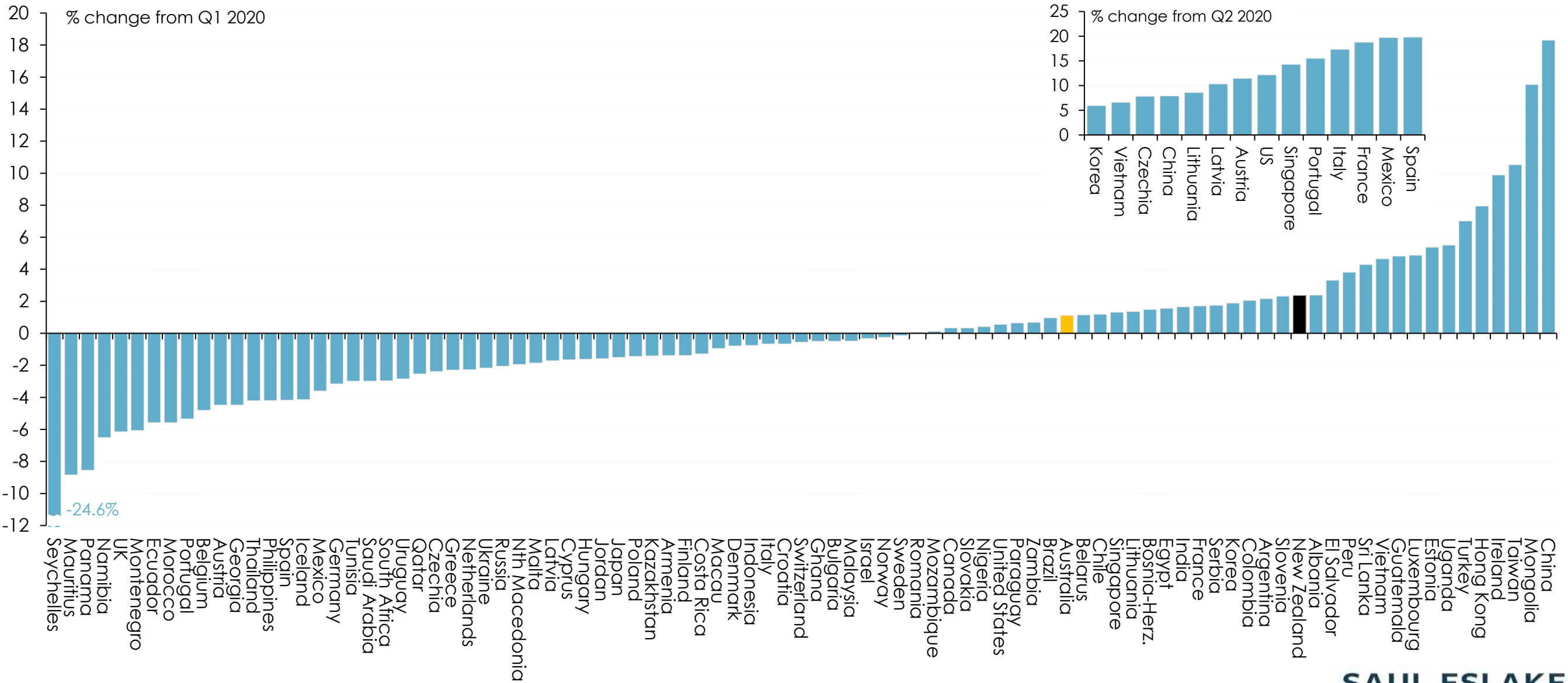
Note: Results for UK and Canada are for May.

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"](#).

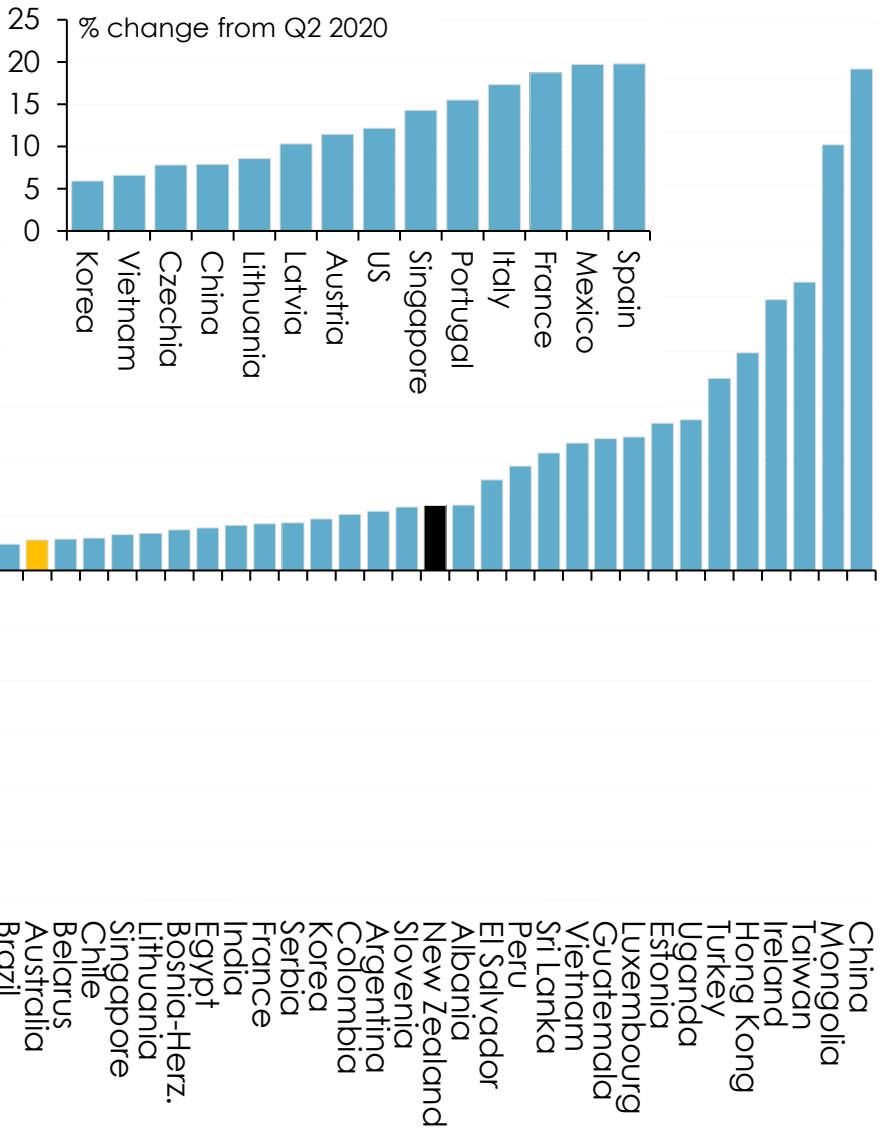
The world

Of 91 countries to have reported Q1 GDP estimates, 39 recorded positive growth from Q1 last year, while 14 have reported strong growth to Q2

Growth in real GDP over the year to Q1 2021

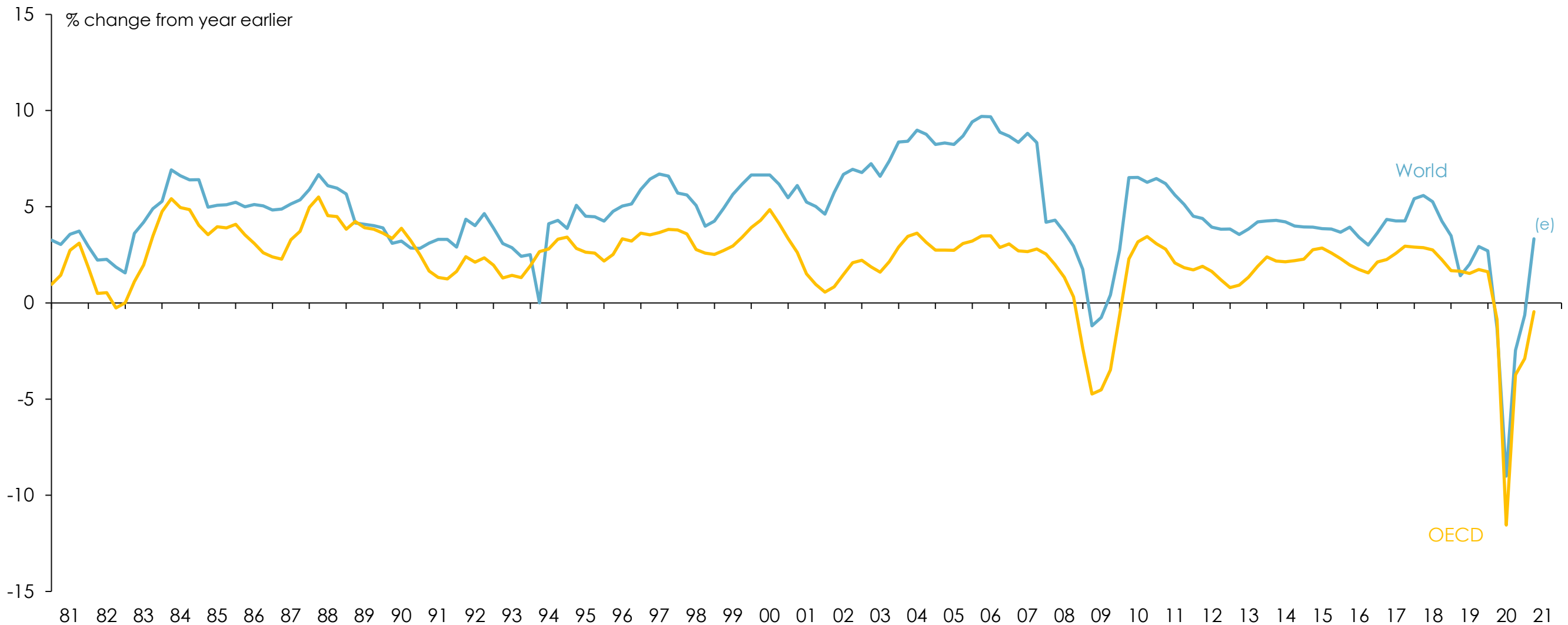


Growth in real GDP over the year to Q2 2021



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"](#).

The IMF's latest WEO update leaves 2021 growth forecast unchanged at 6% but revises 2022 up 0.5 pc pts to 4.9%

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	7.0	4.9	6.8	4.2	6.9	3.6	6.5	3.5
China	5.8	2.3	8.1	5.7	7.7	5.3	8.5	5.8	8.5	5.5
Euro area	1.3	-6.6	4.6	4.3	4.2	4.4	4.3	4.4	4.5	4.0
India	4.0	-8.0	9.5	8.5	8.3	7.5	9.9	8.2	11.0	5.8
Japan	0.3	-4.8	2.8	3.0	2.9	2.6	2.6	2.0	3.5	1.8
UK	1.4	-9.9	7.0	4.8	na	na	7.2	5.5	na	na
Australia	1.9	-2.4	5.3	3.0	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	4.9	5.6	4.3	5.8	4.4	6.0	4.5
World trade	0.9	-8.5	9.7	7.0	8.3	6.3	na	na	na	na

Note: * Forecasts for fiscal years beginning 1st July (and finishing 30th June following year) † Forecasts by New Zealand Treasury for fiscal years beginning 1st July
Sources : International Monetary Fund (IMF), [World Economic Outlook Update](#), 26th July 2021; The World Bank, [Global Economic Prospects](#), 8th June 2021; Organization for Economic Co-operation & Development (OECD), [Economic Outlook No. 109](#), 31st May 2021; Australian Treasury, 2021-22 [Budget Paper No. 1, Statement No. 2](#), 11th May 2021; New Zealand Treasury, [Budget Economic and Fiscal Update 2021](#), 20th May 2021. [Return to "What's New"](#).

Revisions to IMF growth forecasts reflect upward revisions for ‘advanced’ economies (esp the US) and downward for most ‘emerging’ economies

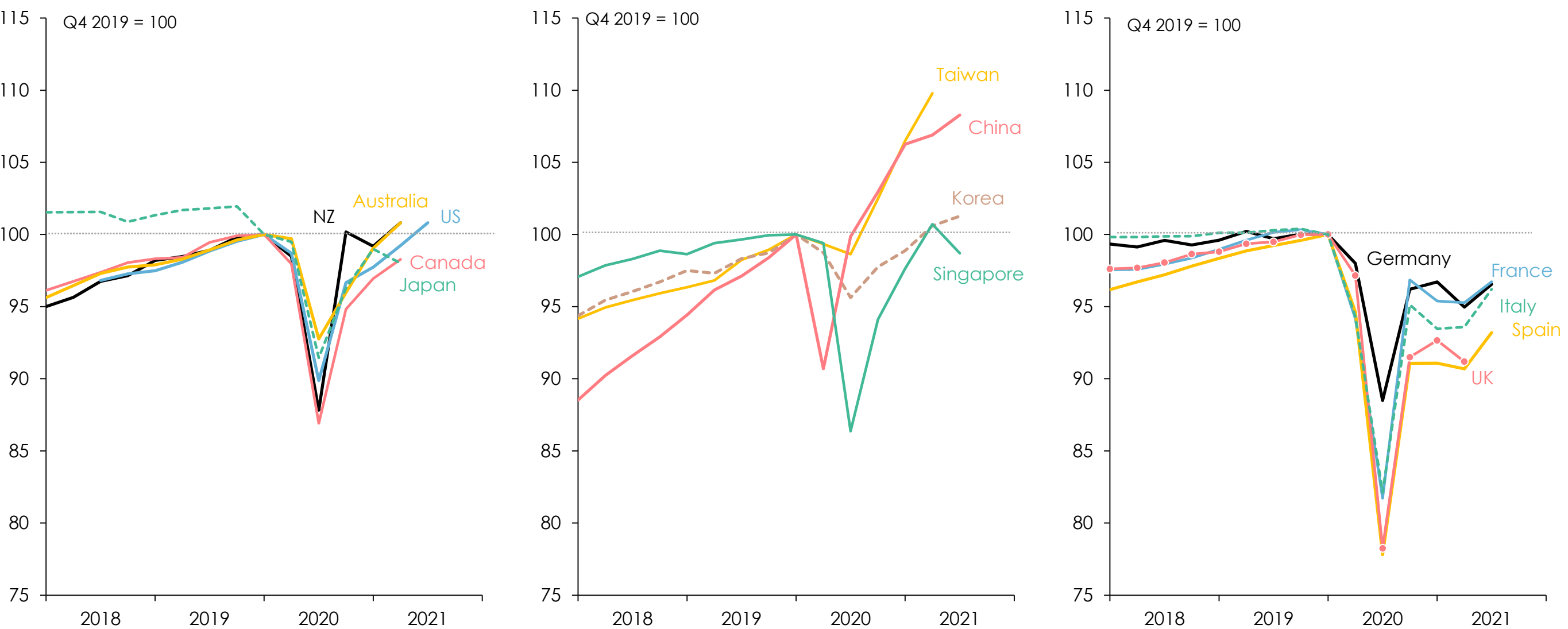
IMF World Economic Outlook real GDP forecasts

	Pc change from previous year		Pc pt change from April WEO forecast	
	2021	2022	2021	2022
Advanced economies				
US	7.0	4.9	0.6	1.4
Euro area	4.6	4.3	0.2	0.5
Japan	2.8	3.0	-0.5	0.5
Australia	5.3	3.0	0.8	0.2
Total	5.6	4.4	0.5	0.8
Emerging economies				
China	8.1	5.7	-0.3	0.1
India	9.5	8.5	-3.0	1.6
Indonesia	3.9	5.9	-0.4	0.1
Philippines	5.4	7.0	-1.5	0.5
Thailand	2.1	6.1	-0.5	0.5
Malaysia	4.7	6.0	-1.8	0.0
Brazil	5.3	1.9	1.6	-0.7
Russia	4.4	3.1	0.6	-0.7
South Africa	4.0	2.2	0.9	0.2
Turkey	5.8	3.3	-0.2	-0.2
Total	6.3	5.2	-0.4	0.2
World	6.0	4.9	0.0	0.5

- ❑ The IMF’s forecast for growth in the world economy in 2021 hasn’t changed since April, but that reflects offsetting revisions to forecasts for ‘advanced’ economies (upwards) and ‘emerging’ economies downwards
 - the IMF’s forecast for the US has been revised upwards by 0.6 pc pt this year (and by 1.4 pc pt for 2022) – largely as a result of the Biden Administration’s proposed fiscal measures which it expects will add 0.3 pc pt to US growth this year and 1.1 pc pt in 2022
 - the forecast for Japan has been revised down by 0.5 pc pt this year because of ongoing health restrictions, but that’s expected to be made good next year
- ❑ By contrast forecasts for most emerging economies – and especially for Asian economies – have been revised down
 - for India, and for South-East Asia, these revisions reflect the effects of the recent (or current) surges in infections
 - for China, the downward revision is attributed to a “scaling back of public investment and fiscal support”
 - upgrades to forecasts for Brazil, Russia and South Africa are largely the result of favourable commodity export market trends
- ❑ The IMF endorses the view that the recent uptick in inflation in ‘advanced’ economies is largely transitory – but stresses the importance of keeping inflation expectations ‘anchored’ near central bank inflation targets

The more 'advanced' Asian economies, Australia's & NZ's and the US's, have recovered more rapidly from last year's recessions than Europe's

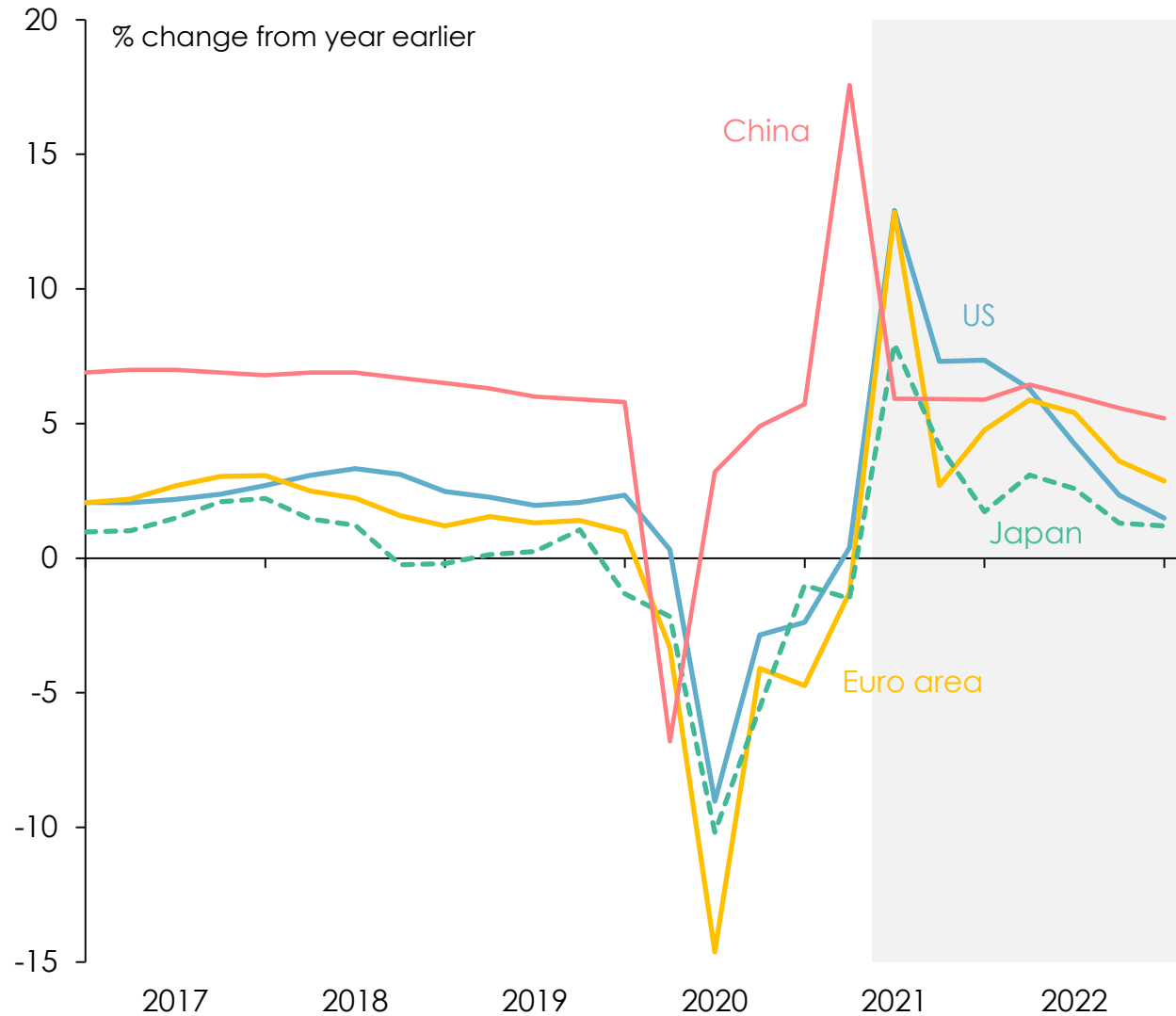
Levels of real GDP indexed to Q4 2019 = 100



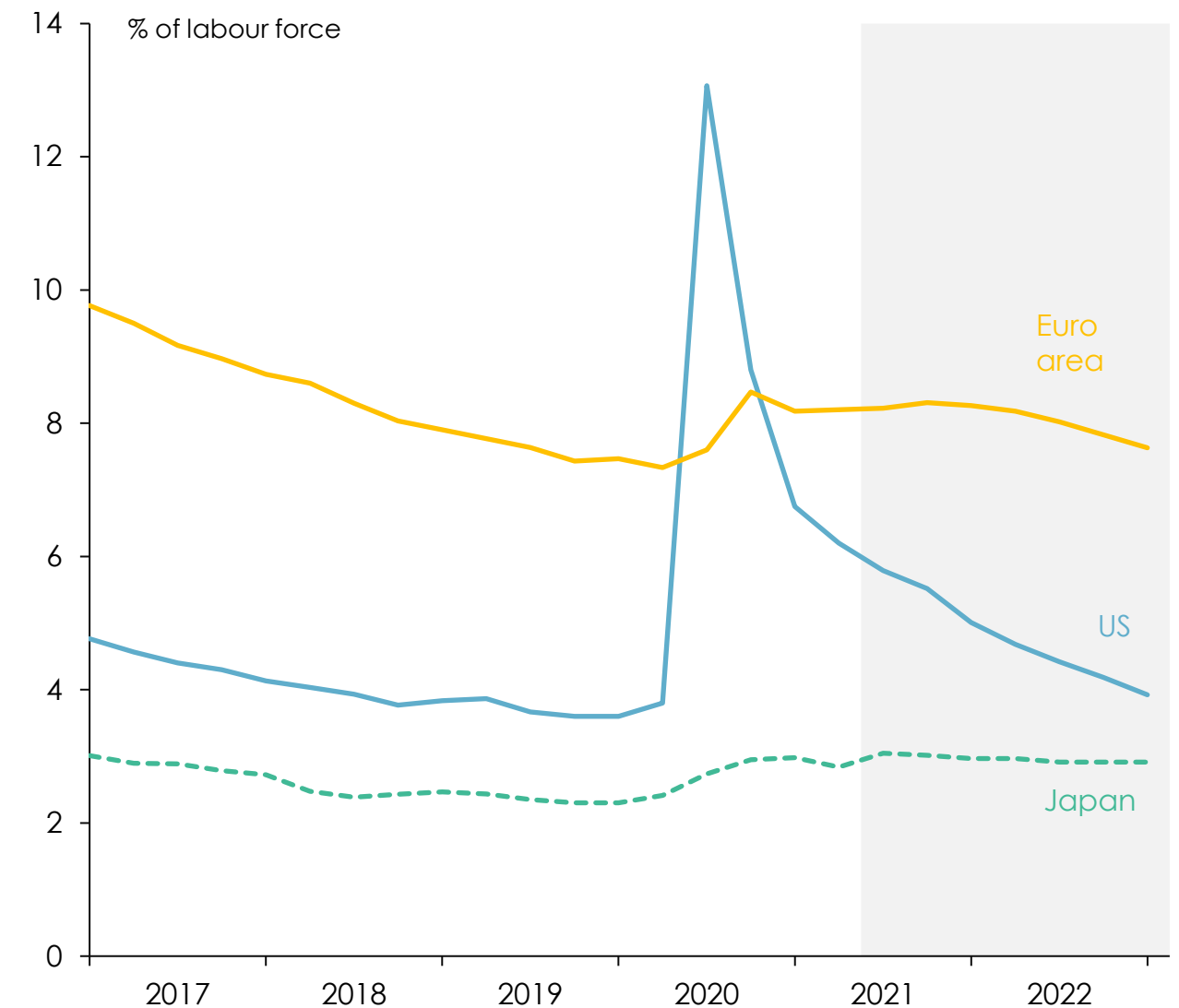
Note: All series shown are seasonally adjusted, except for China's which has been constructed using the estimates of quarterly changes in real GDP published by the China National Bureau of Statistics. Sources: National statistical agencies and Bank of Korea; Corinna.

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

OECD real GDP growth forecasts



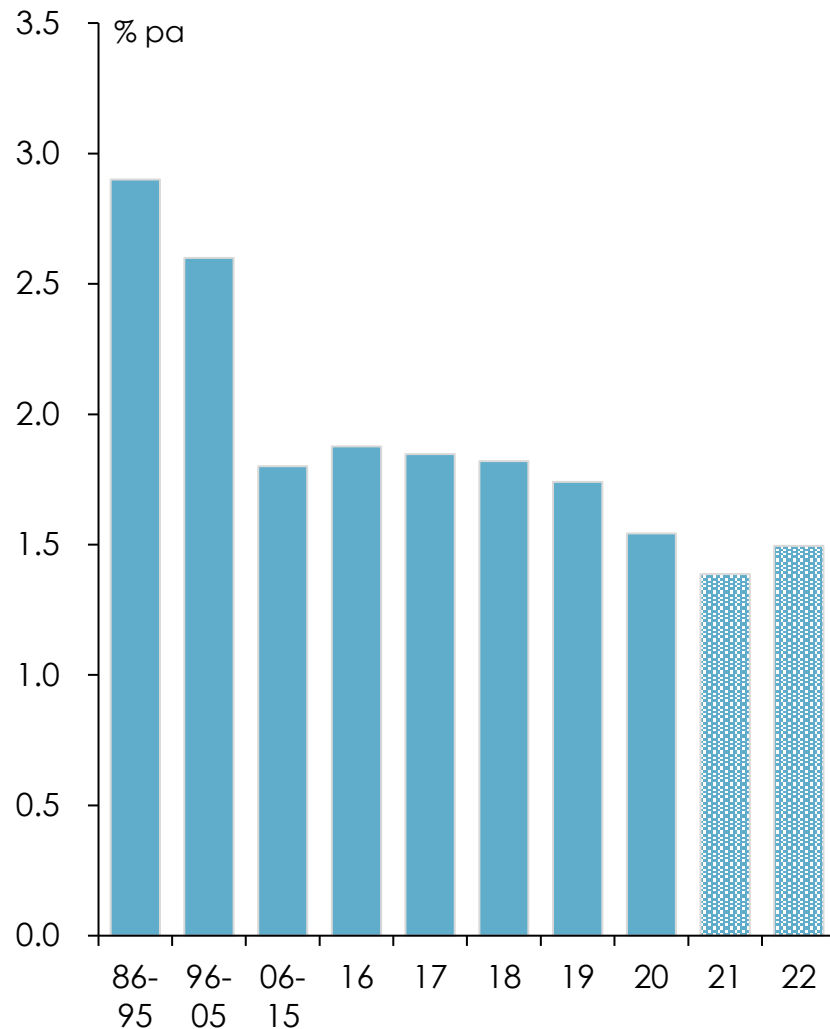
OECD unemployment rate forecasts



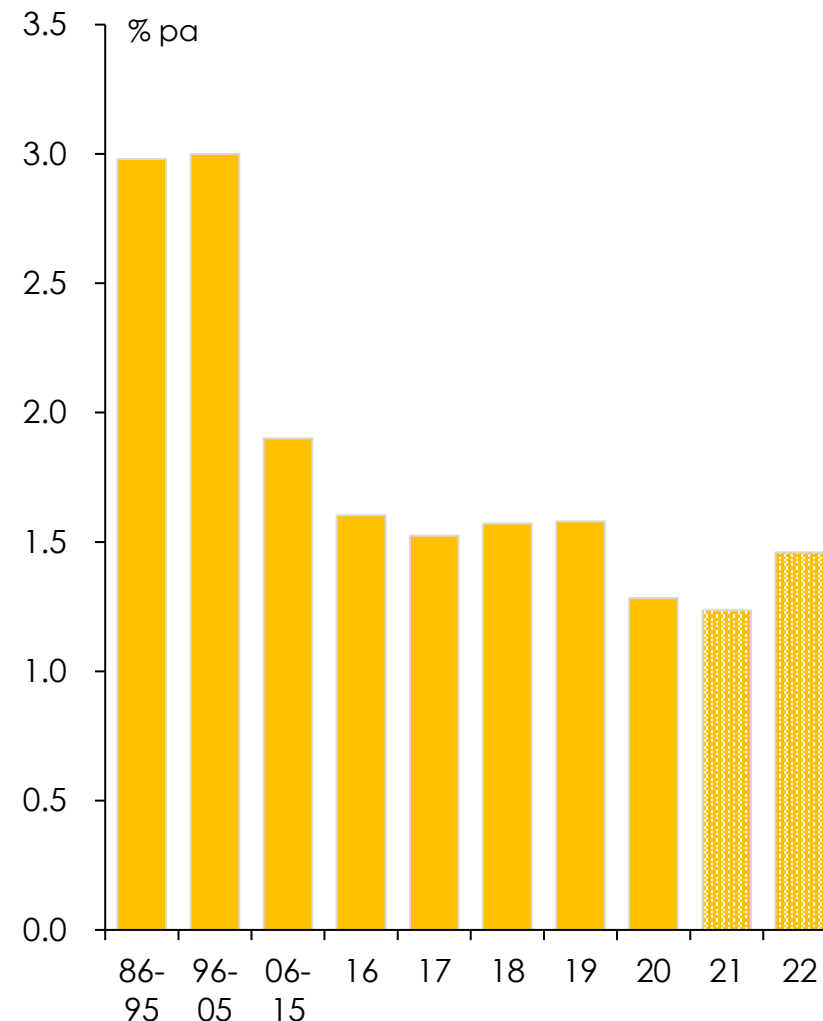
Sources: OECD, [Economic Outlook No. 109 - Statistical Annex](#), Volume 2021, No. 1, 31st May 2021; Corinna.

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

OECD area potential GDP growth



Growth in the OECD area productive capital stock



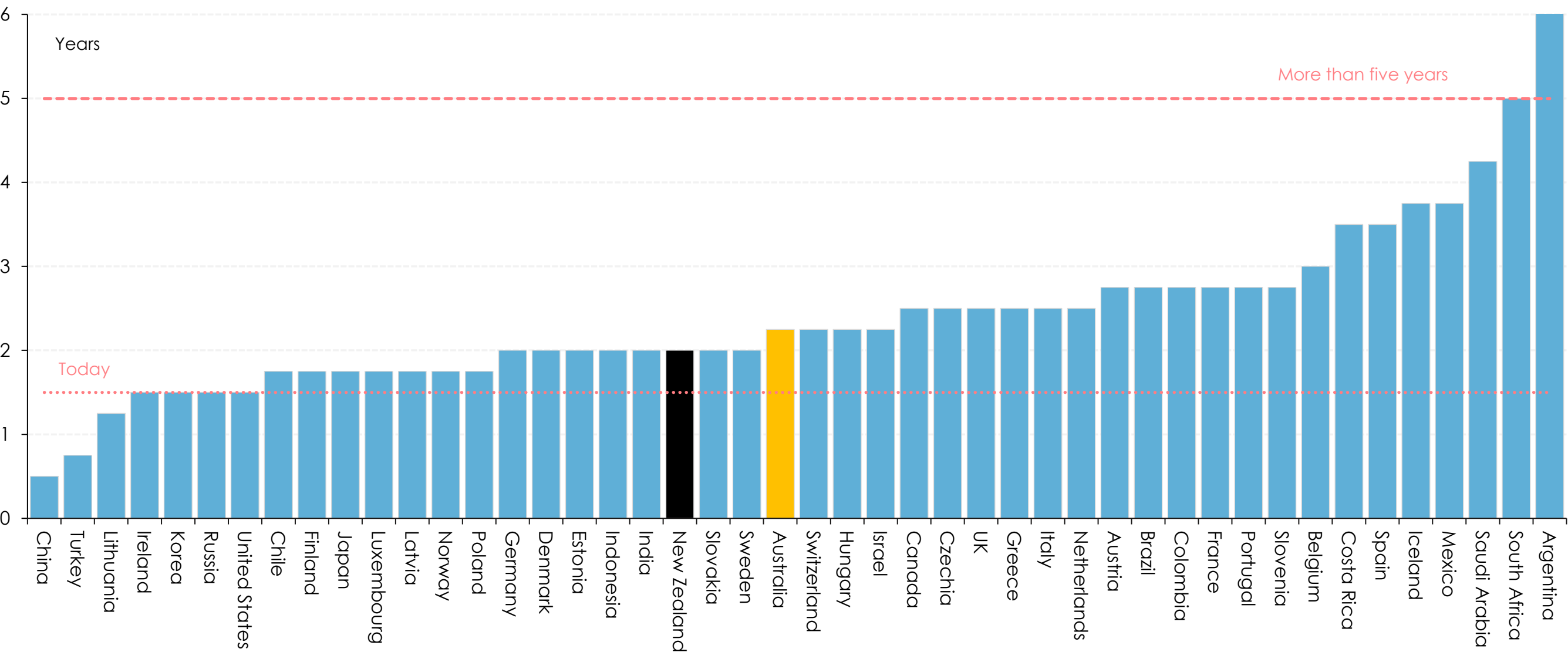
OECD area labour productivity growth



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

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

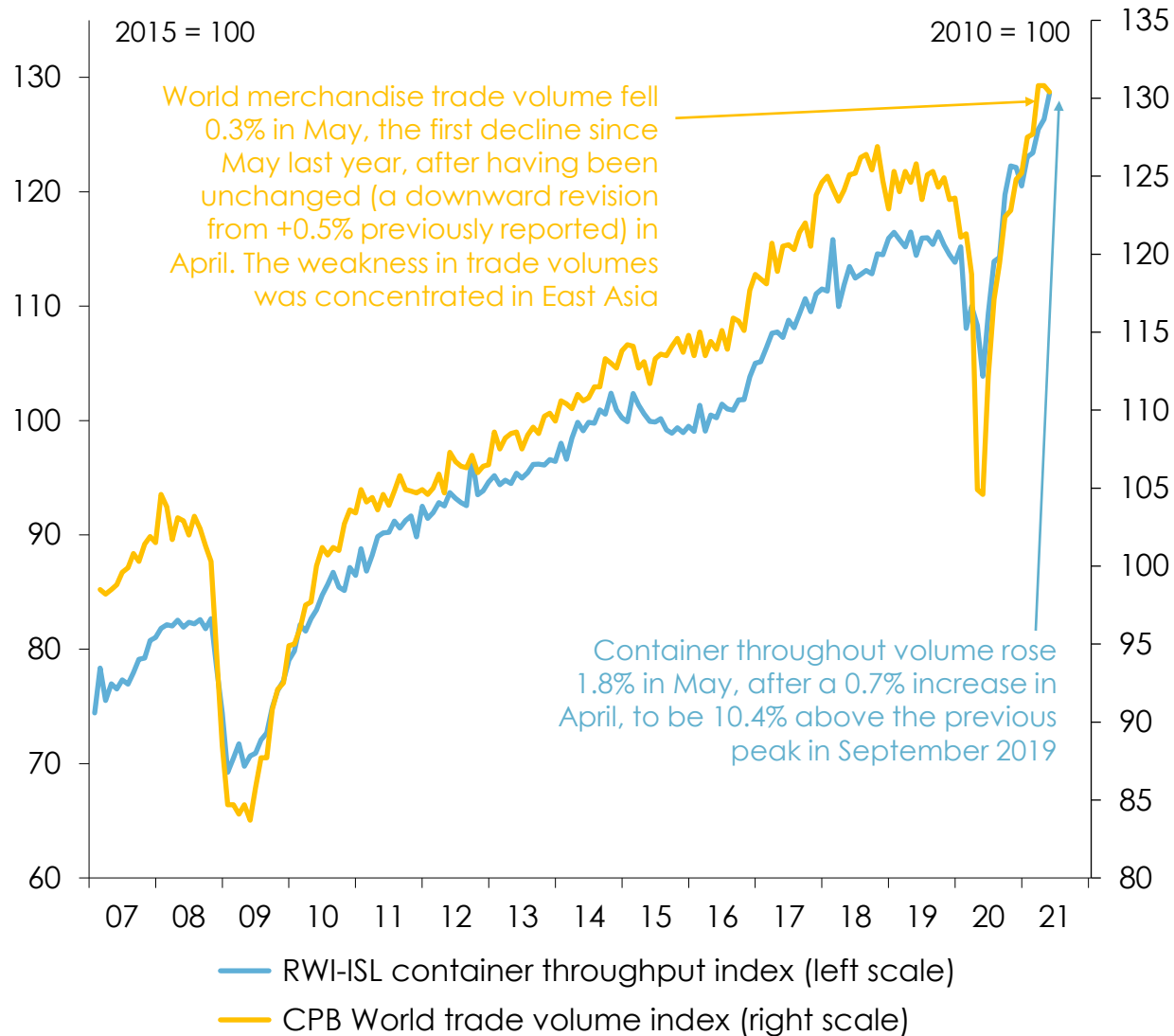
OECD estimate of number of years since Q4 2019 to return to pre-pandemic real per capita GDP



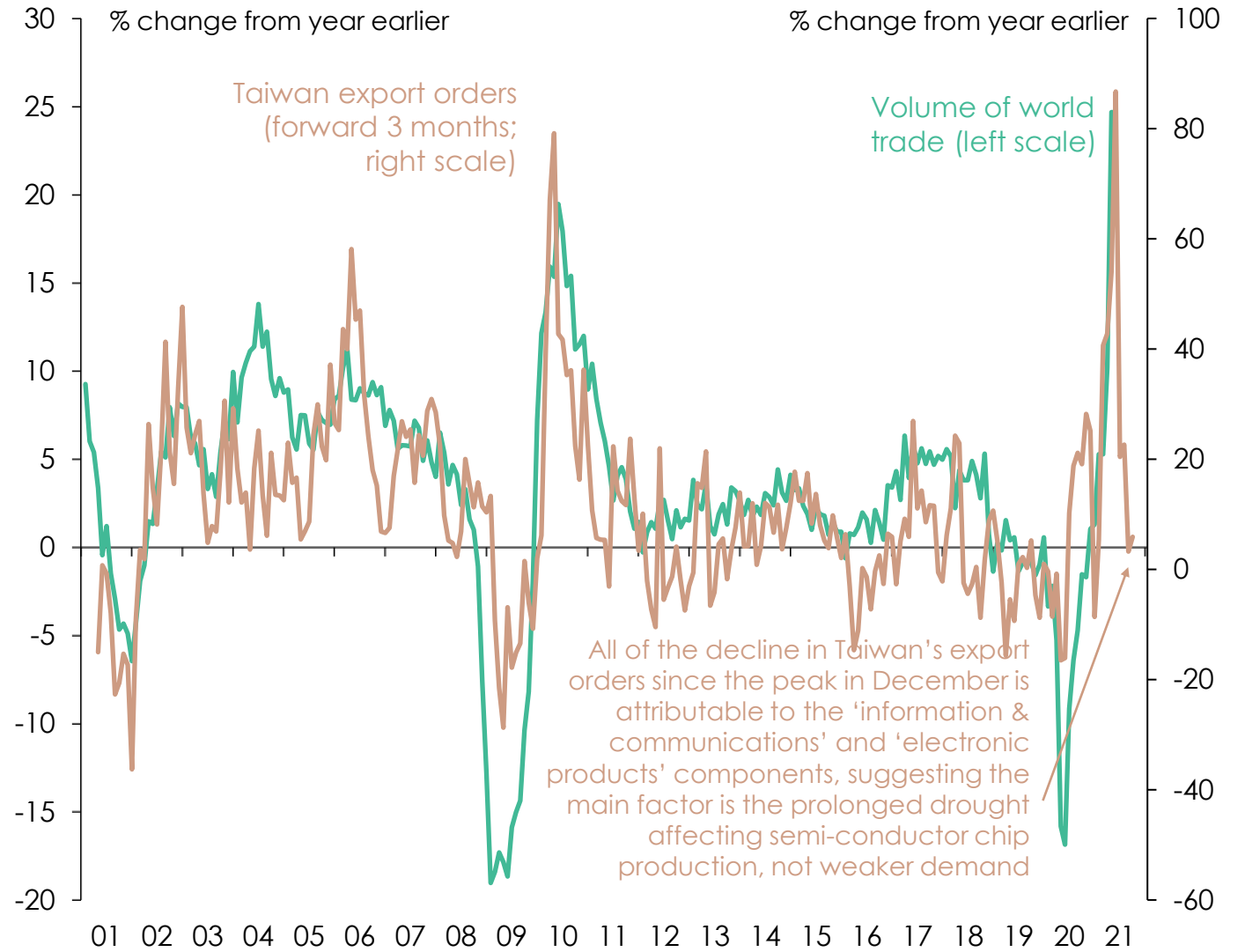
Source: Organization for Economic Co-operation & Development (OECD), [Economic Outlook No. 109](#), 31st May 2021. [Return to "What's New"](#).

World trade volumes 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



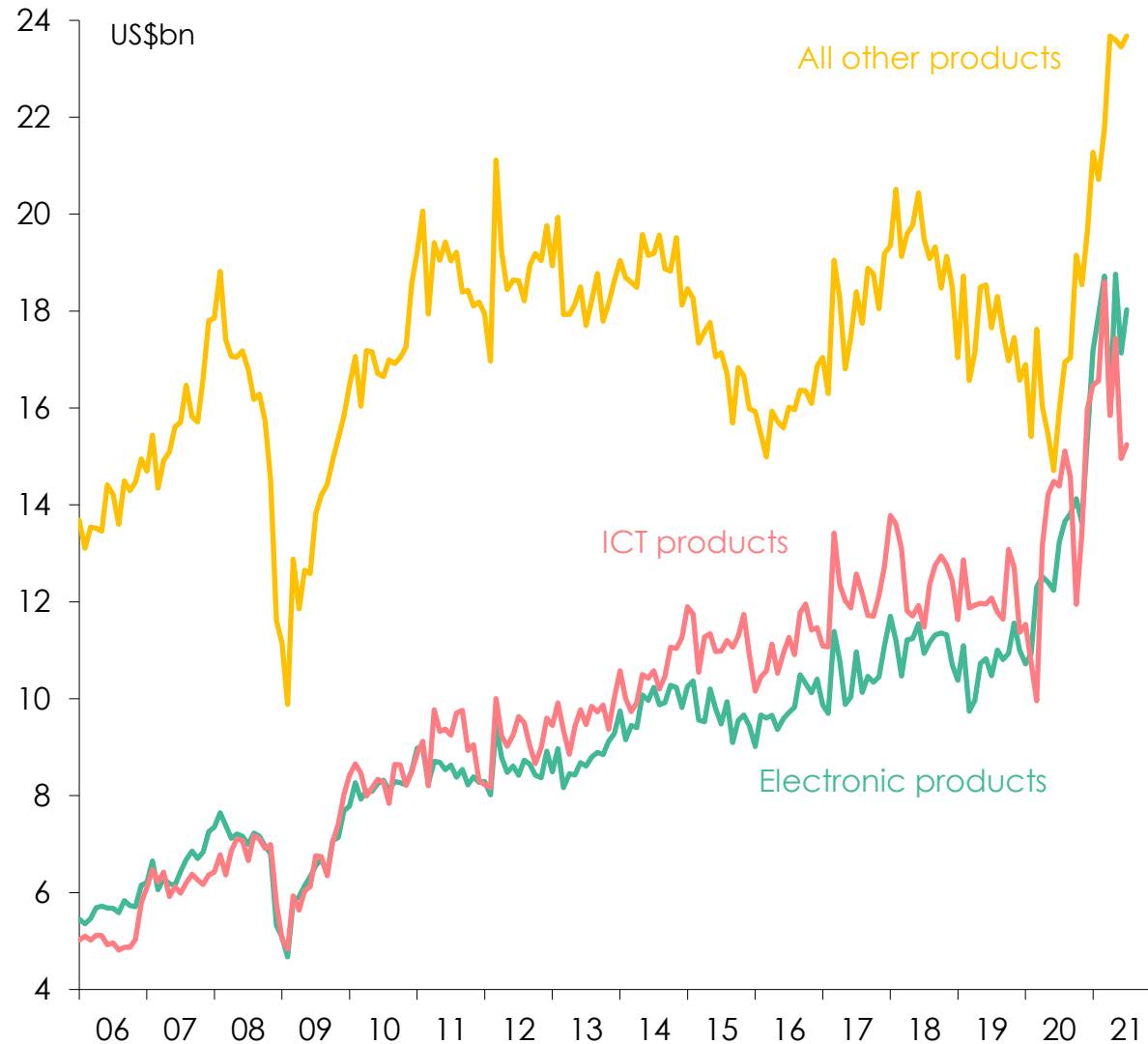
Taiwan export orders and world trade volumes



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 25th 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

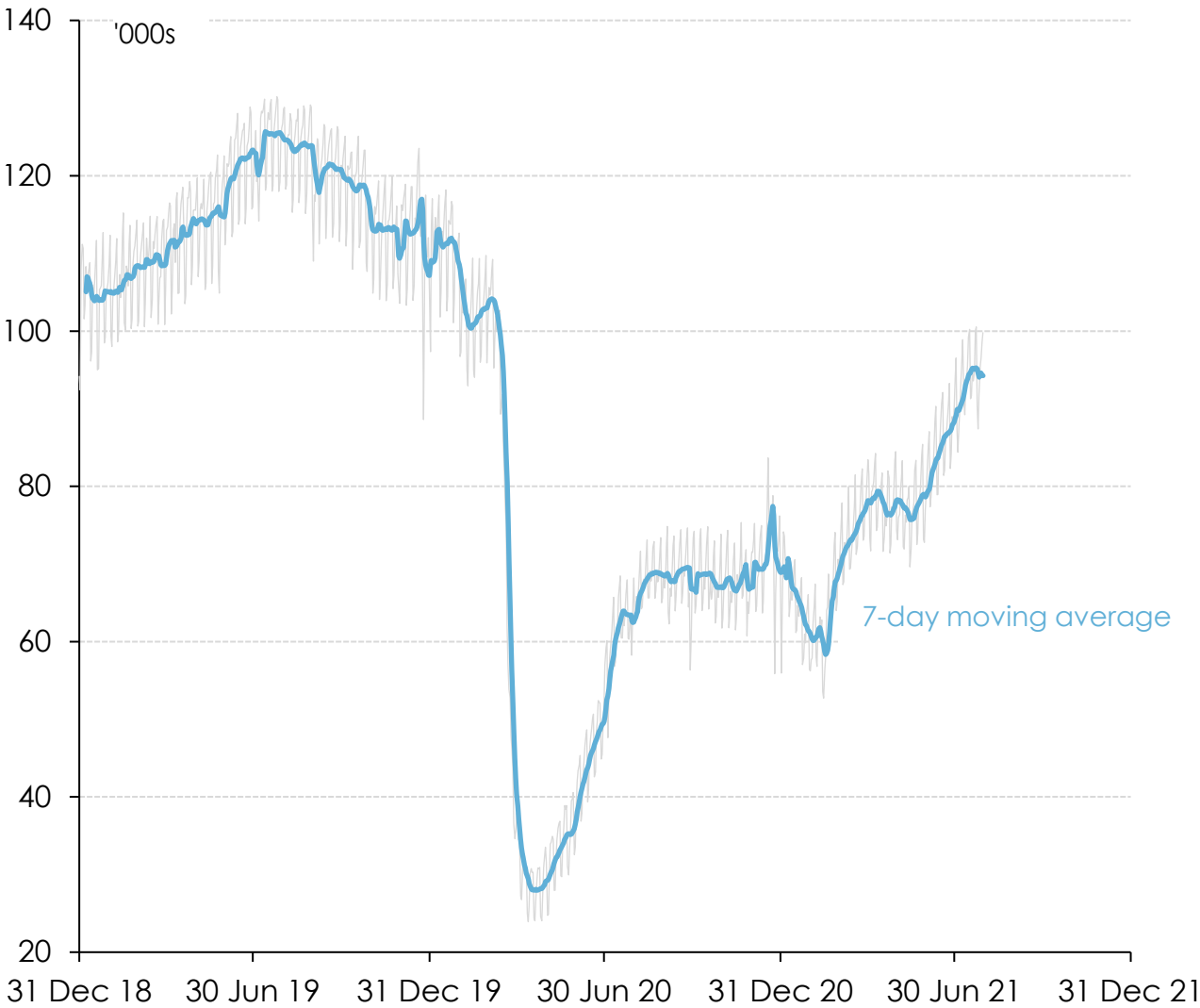


Note: Data have been seasonally adjusted by Corinna using Refinitiv Datastream. Latest data are for June. Source: Taiwan [Ministry of Economic Affairs](#). [Return to "What's New"](#).

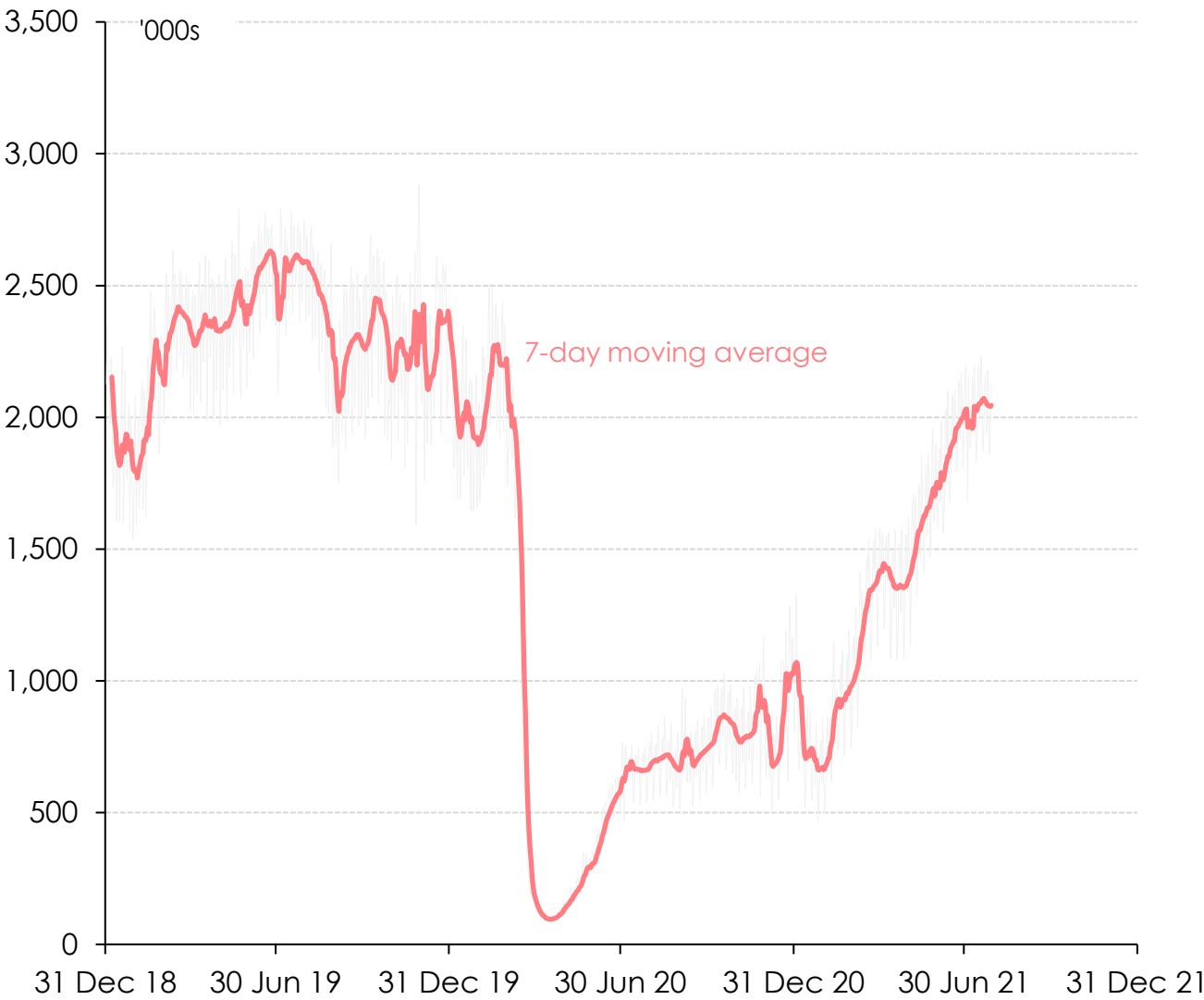
- ❑ Taiwan accounts for 63% of the US\$85bn global semi-conductor chip market
 - Korea accounts for 18%, and China 6%
 - one Taiwanese company, Taiwan Semiconductor Manufacturing Co (TSMC) has 54% of the world market, and United Microelectronics Co (UMC) a further 7% (Samsung accounts for Korea's 18%)
- ❑ 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

There's a hint of a levelling out in commercial aviation over the past couple of weeks

Daily commercial flights worldwide



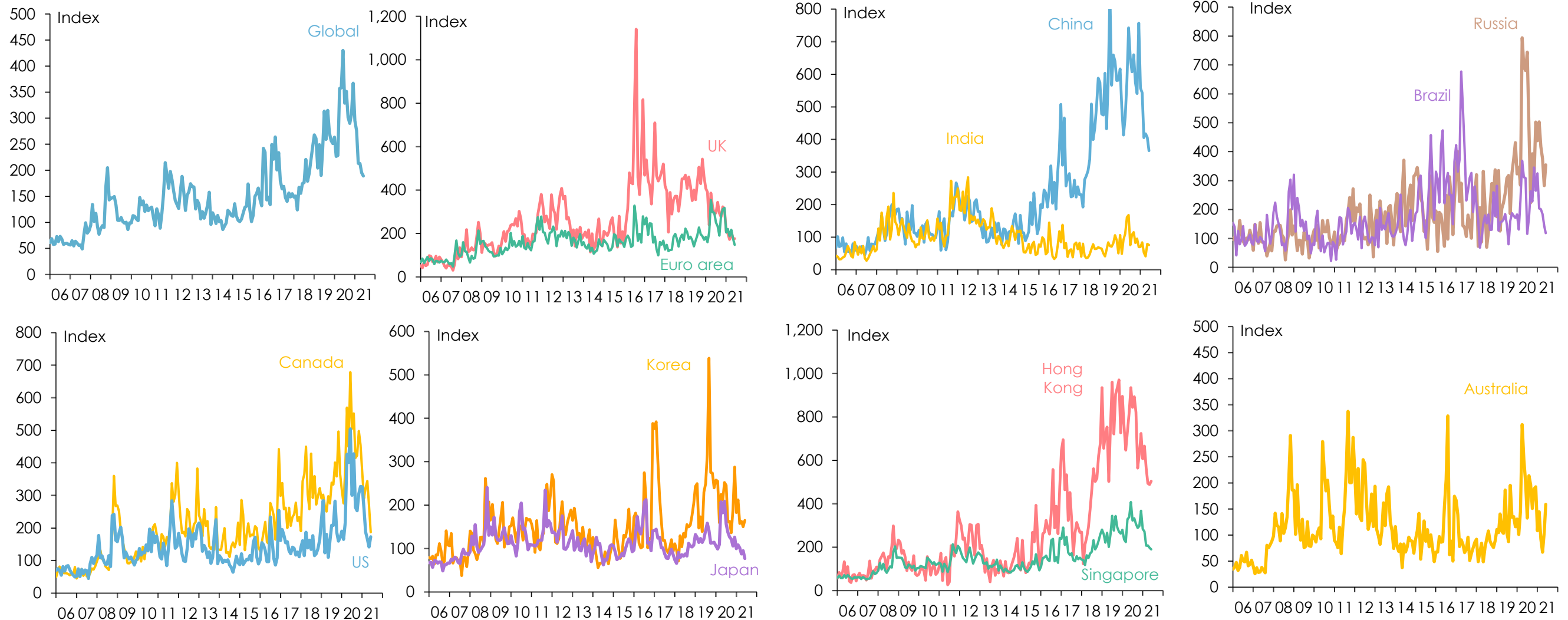
Daily US TSA 'security' checks



Note: Commercial flights include commercial passenger flights, cargo flights, charter flights, and some business jet flights. Data for commercial flights up to 30th July, for TSA 'security' checks up to 29th July. Thicker coloured lines are 7-day centred moving averages of daily data plotted in thin grey lines. Sources: [Flightradar24.com](https://flightradar24.com); [US Transport Safety Administration](https://www.transportation.gov) (at last, something useful produced by aviation 'security'!!!). [Return to "What's New"](#).

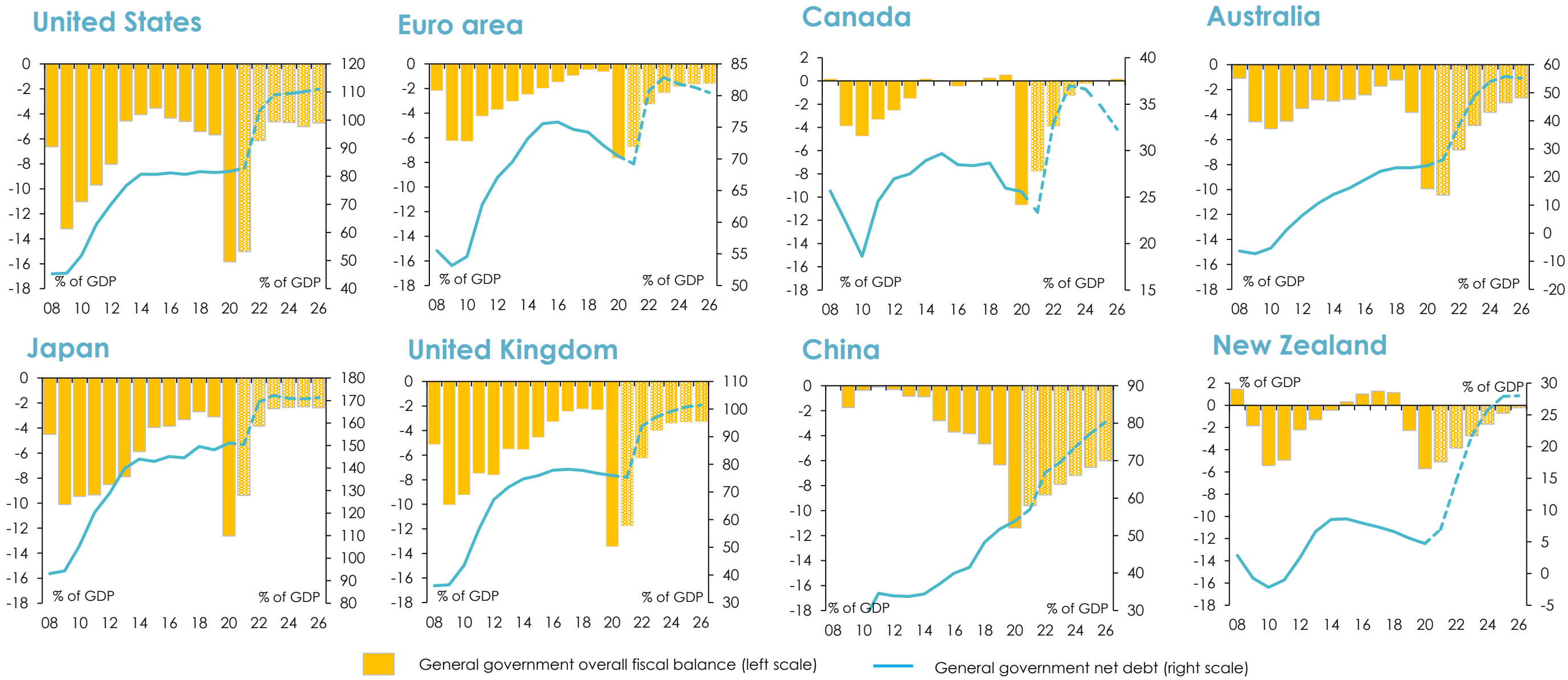
Uncertainty about economic policy is at its lowest in two years, falling in May almost everywhere except Australia (and to a lesser extent the US)

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 (yep, still hasn't been updated since then. 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"](#)).

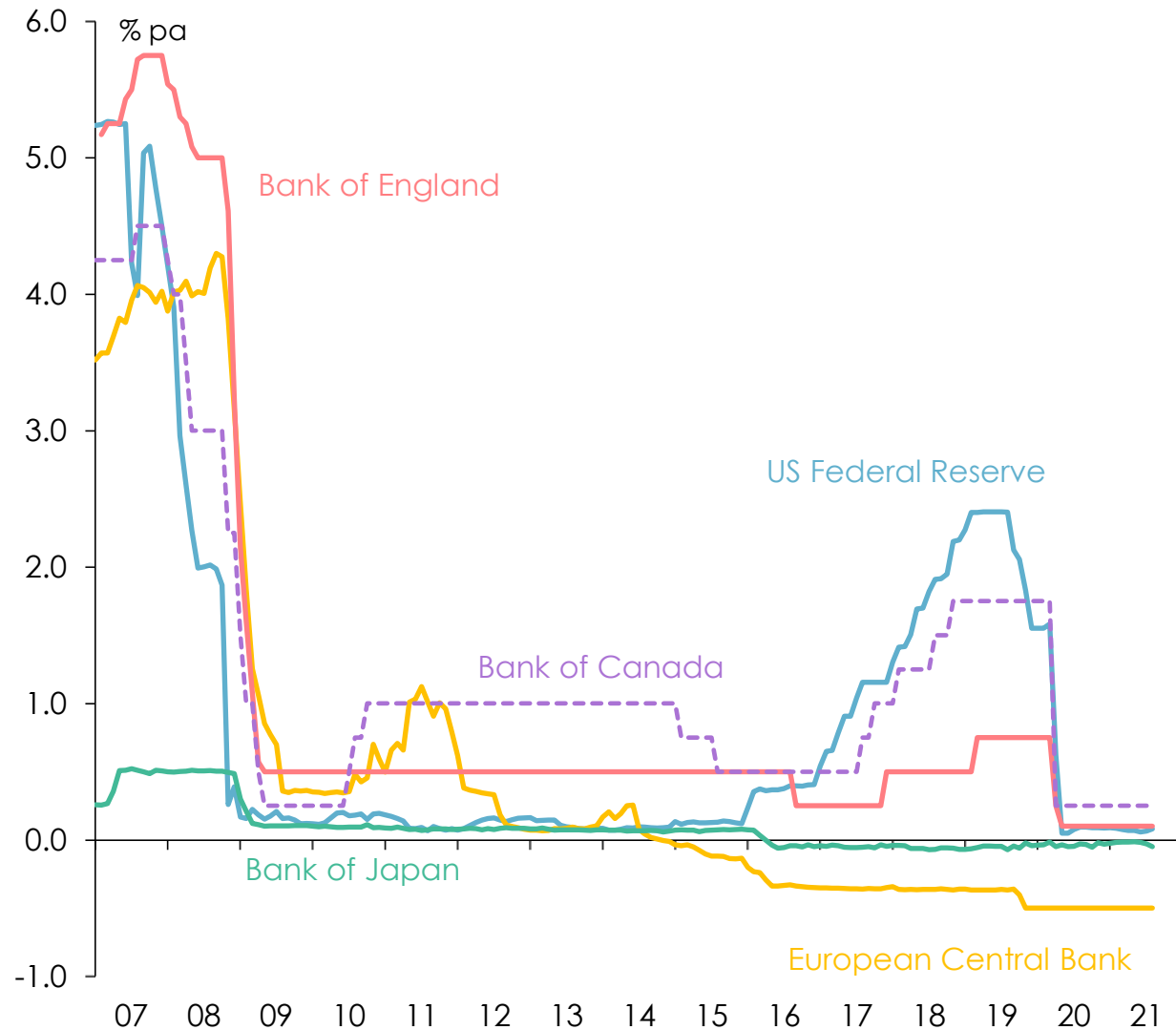
The US fiscal stimulus dwarfs that of any other major economy – although Japan, the UK, Canada and Australia are also doing a lot



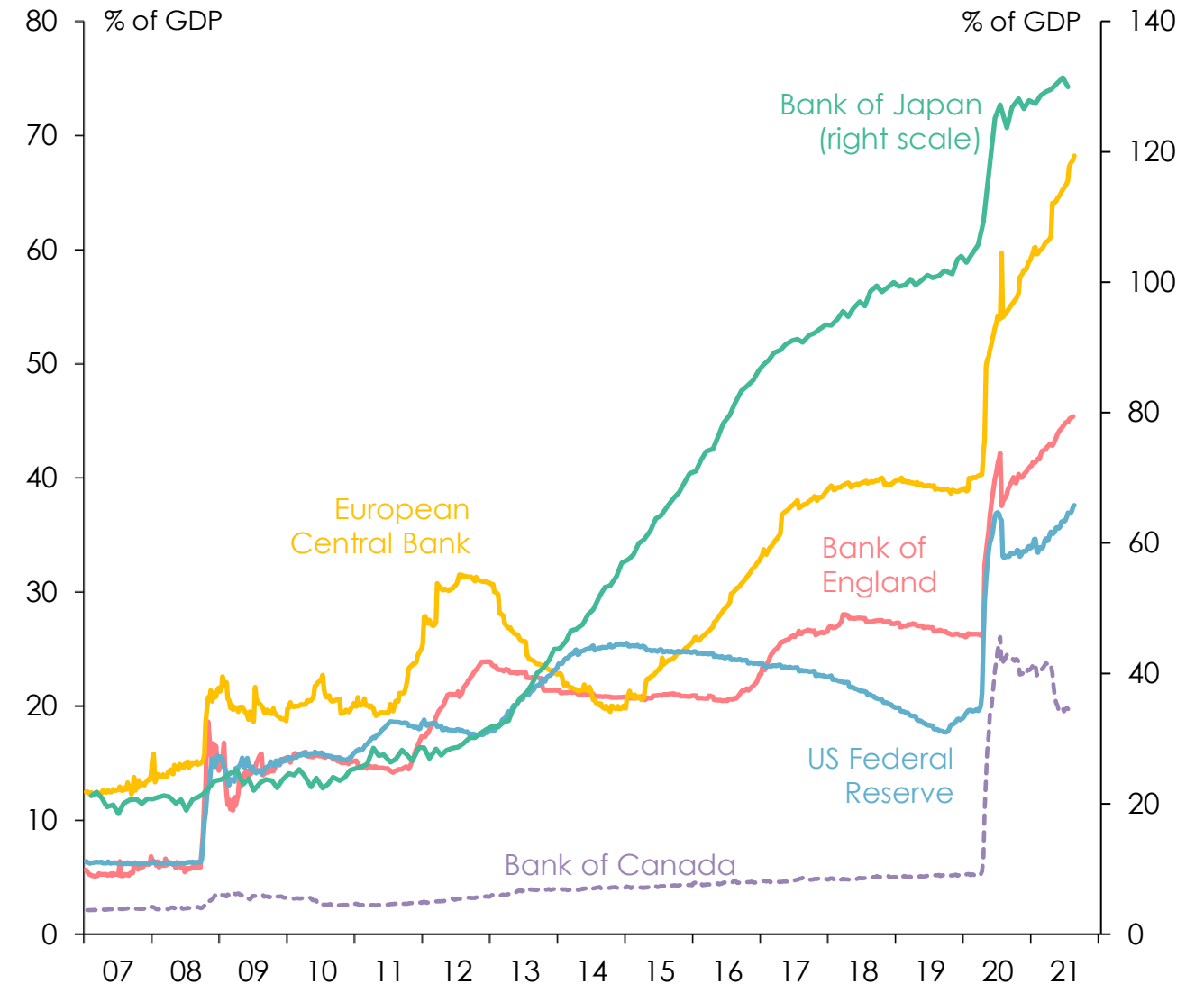
Note: China debt is gross debt, not net. Sources: International Monetary Fund, [Fiscal Monitor](#), and [World Economic Outlook](#), April 2021. [Return to "What's New"](#)

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 Fed again left monetary policy settings unchanged at this week's FOMC meeting – it 'talked about tapering', but isn't going to do it yet

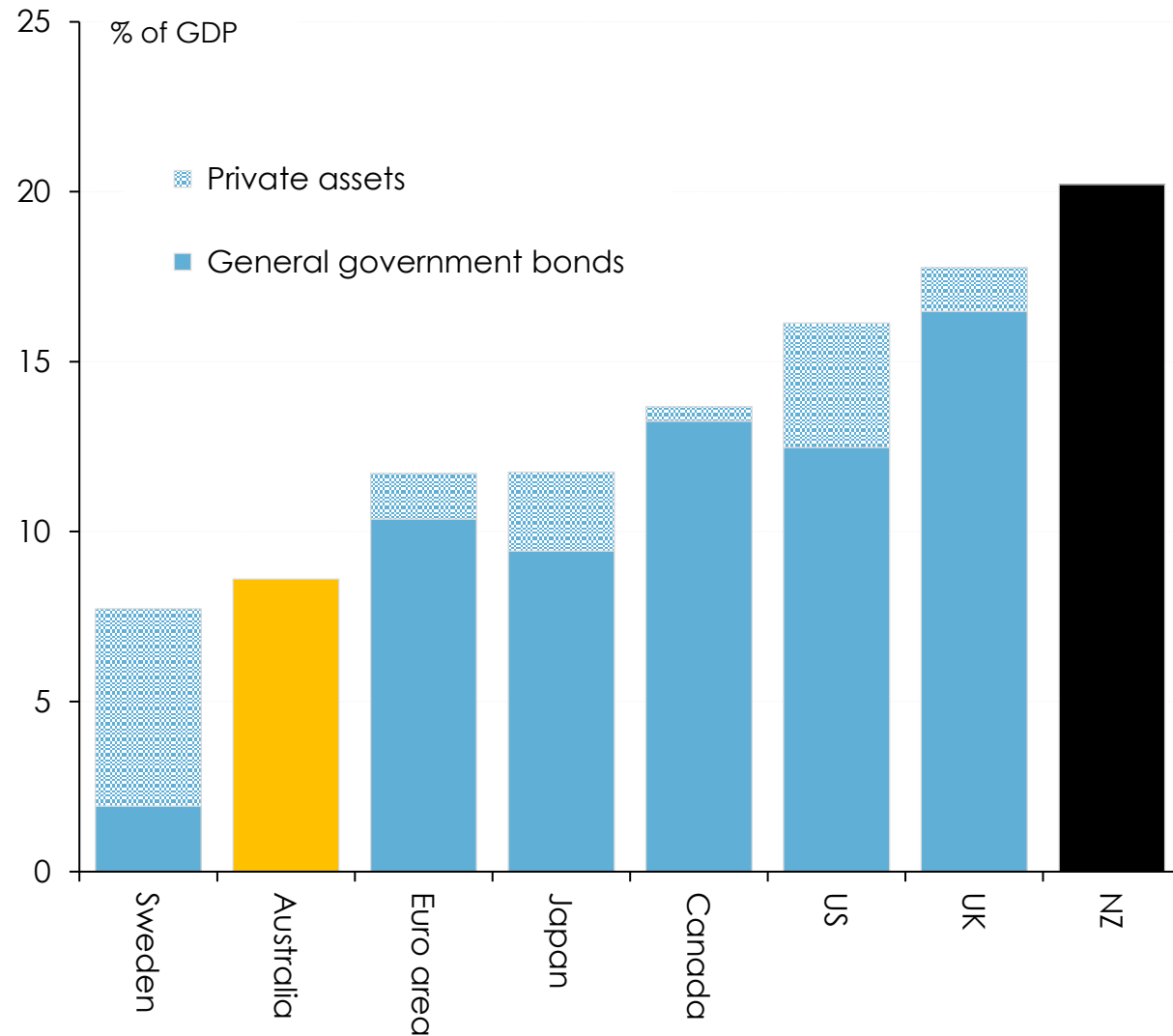
- ❑ As expected, the US Federal Reserve kept its Fed funds rate target at 0- $\frac{1}{4}$ % and its asset purchases at US\$120bn a month at this week's [Federal Open Market Committee \(FOMC\) meeting](#)
 - the FOMC re-committed to keeping the funds rate at its current level until (a) labour market conditions have reached levels consistent with “maximum employment”, (b) inflation has risen to 2% and (c) inflation is on track to “moderately exceed 2% for some time”
 - and that it would continue the current pace of asset purchases until “further substantial progress” has been made towards its “maximum employment” and price stability goals
- ❑ The FOMC acknowledged that the economy had “made progress” towards these goals – but also indicated that this progress has not yet been ‘substantial’ enough to warrant ‘tapering’ the asset purchase program
 - at his post-meeting press conference, Chairman Jay Powell [noted](#) that the FOMC discussed how the “pace and composition” of asset purchases “might be adjusted ... once economic conditions warrant a change”, that the timing of any such change would “depend on the incoming data”, and that the Fed would “provide advance notice before making any changes”
- ❑ Powell again emphasized that “the labour market has a ways to go” before the goal of “maximum employment” is attained, noting that the unemployment rate of 5.9% “understates the shortfall in employment” because labour force participation “has not moved up from the low rates that have prevailed for most of the past year”
- ❑ He also acknowledged that inflation was likely to “remain elevated in coming months before moderating”
 - he remained confident that inflation would drop back towards the Fed’s longer-run goal “as transitory supply effects abate”
 - he acknowledged that “bottlenecks, hiring difficulties and other constraints could continue ... raising the possibility that inflation could turn out to be higher and more persistent” than the Fed expected
 - but re-iterated that the Fed’s “new framework for monetary policy emphasizes the importance of well-anchored inflation expectations”, and that longer-term inflation expectations “appear broadly consistent” with the longer-run goal of 2%
 - and indicated that if they saw signs that inflation or inflation expectations were moving “materially and persistently beyond levels consistent with that goal” the Fed would “adjust the stance of policy”

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

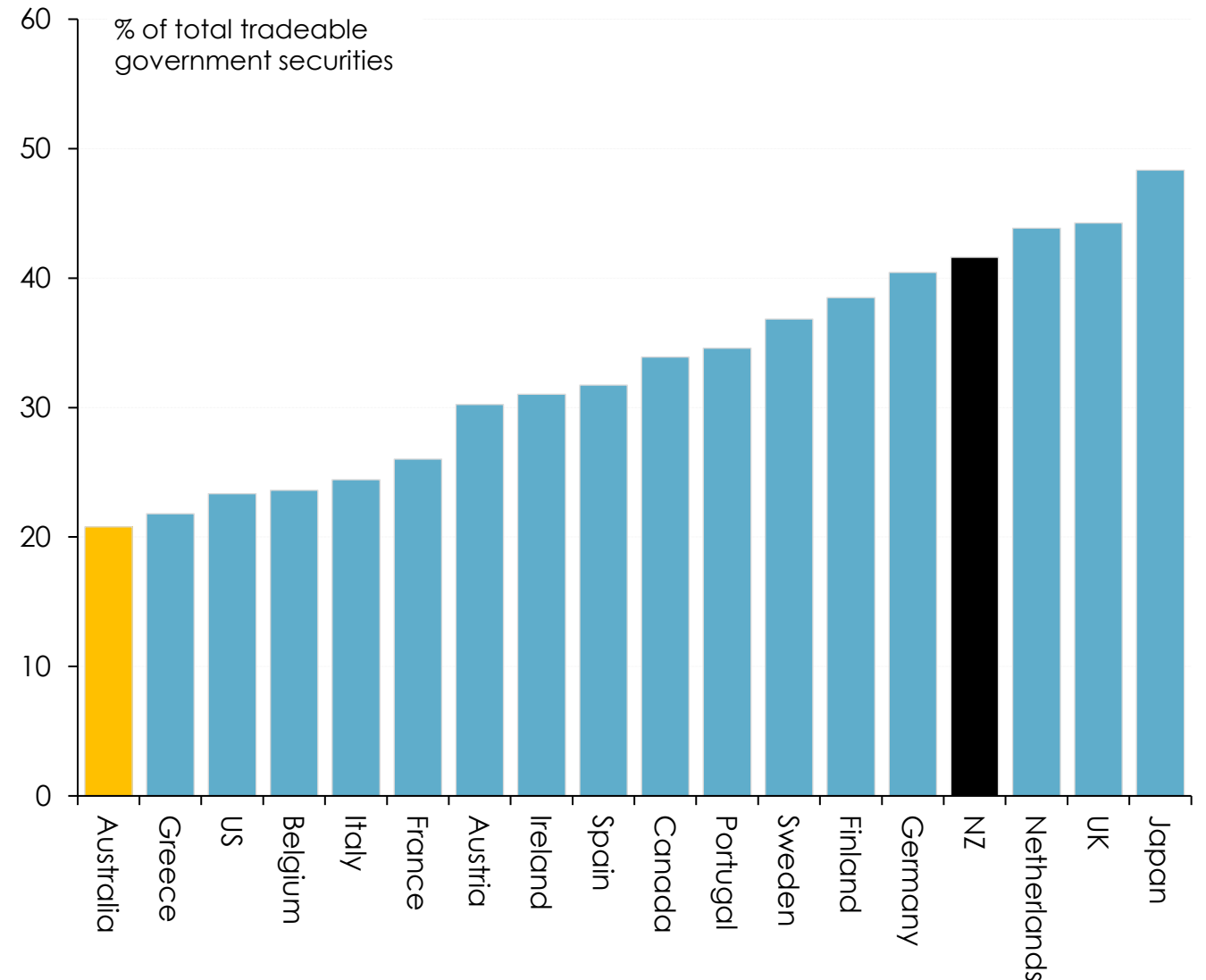
- ❑ The European Central Bank left its policy settings unchanged at last Thursday's [Governing Council meeting](#), the first since the announcement earlier in July of its new [Monetary Policy Strategy Statement](#)
 - which included a commitment to continued bond purchases under its Pandemic Emergency 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

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

Central bank asset purchases since end-2019



Central bank holdings of government securities

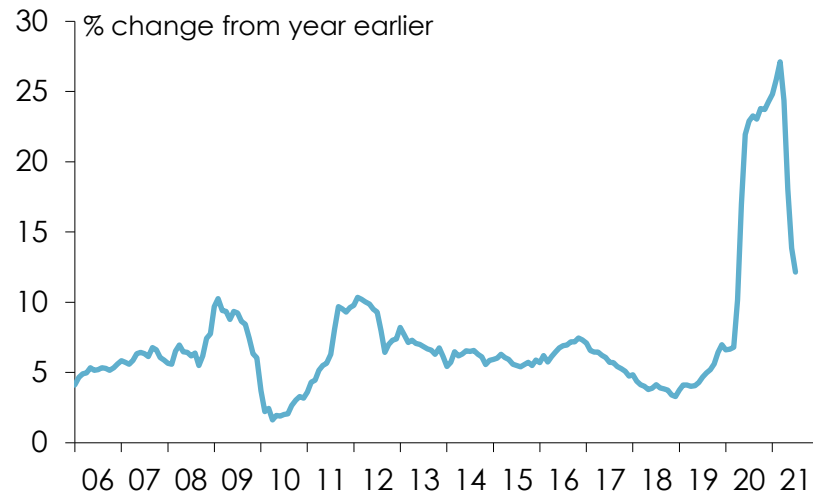


Note: 'Private assets' include corporate bonds, commercial paper, asset-backed securities and exchange-traded funds.

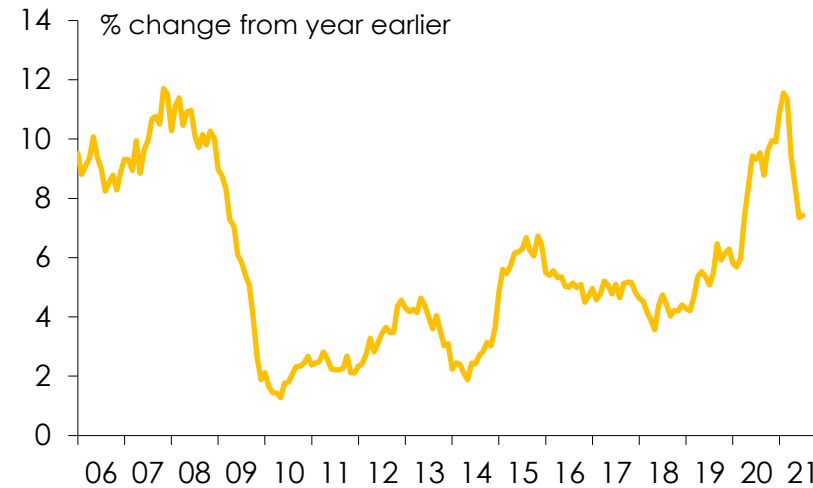
Source: OECD, [Economic Outlook No. 109](#), 31st May 2021. [Return to "What's New"](#).

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

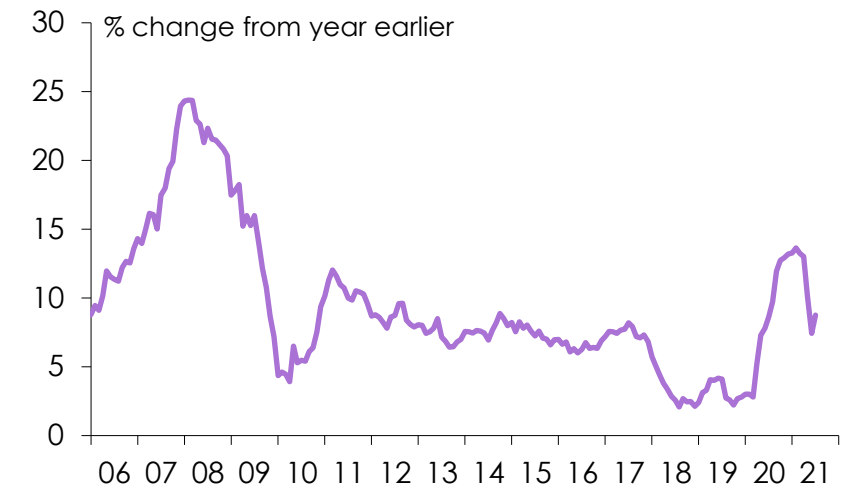
US M2



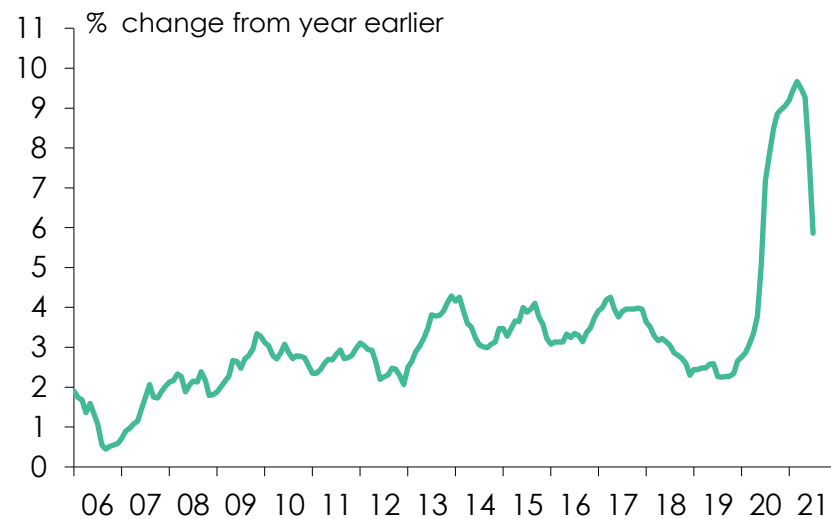
Euro area M2



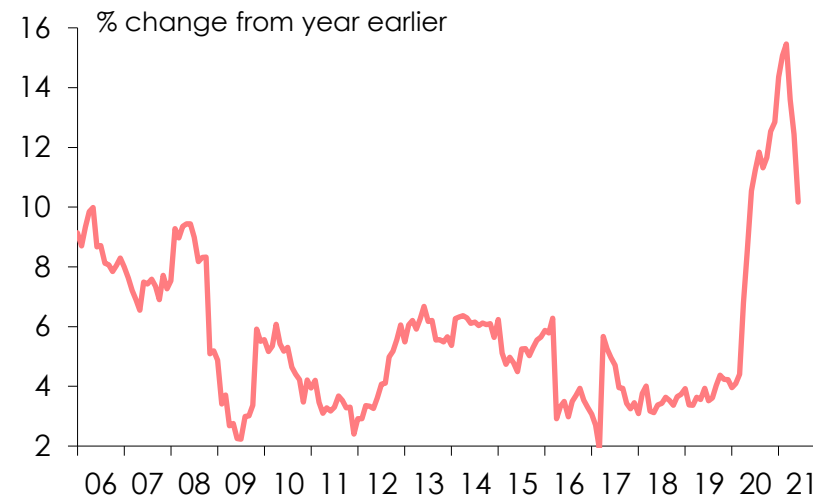
Australia M3



Japan M2 + CDs



UK M2



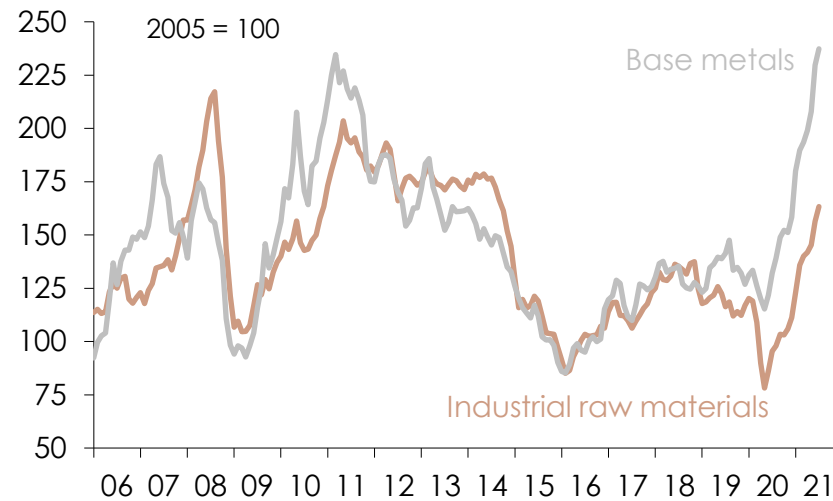
New Zealand M3



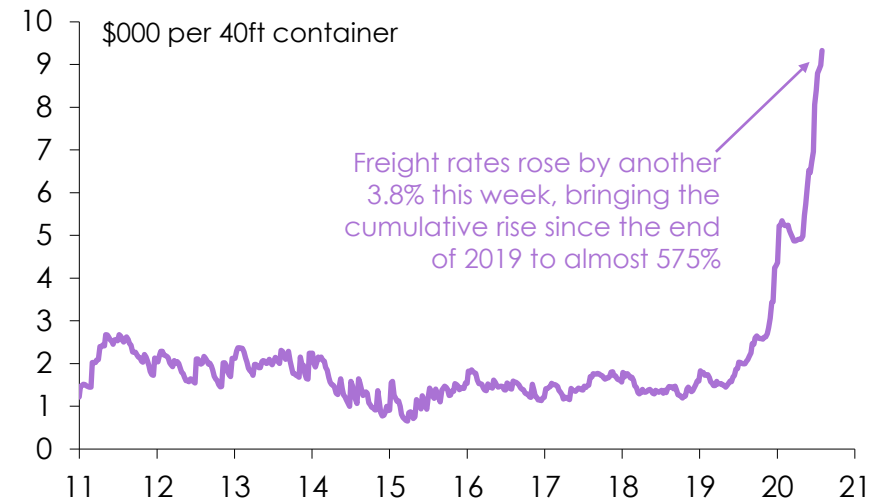
Sources: US Federal Reserve; European Central Bank; Bank of Japan; Bank of England; RBA; RBNZ; [Longtermtrends](#). [Return to "What's New"](#).

'Upstream' price pressures globally show little sign of abating

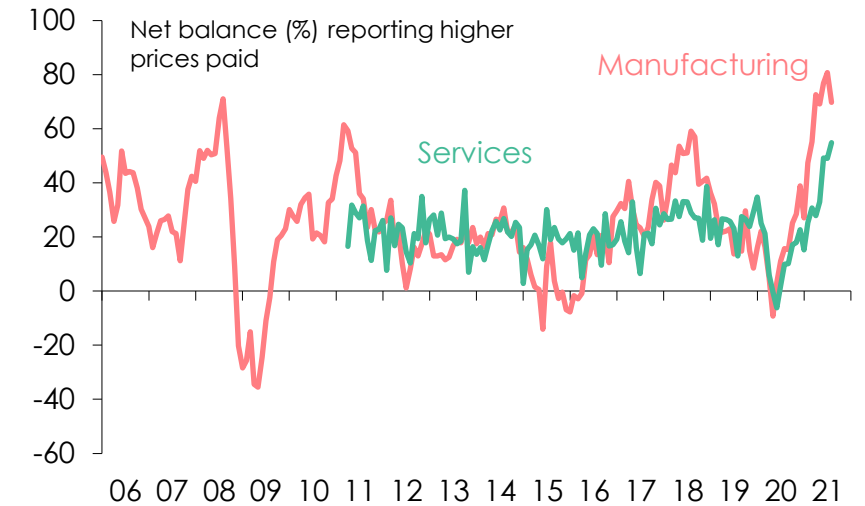
'Hard' commodity prices



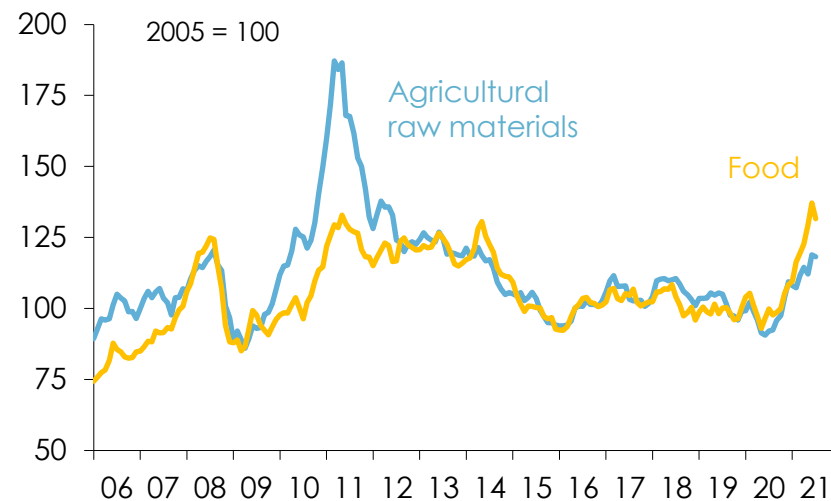
Container freight costs



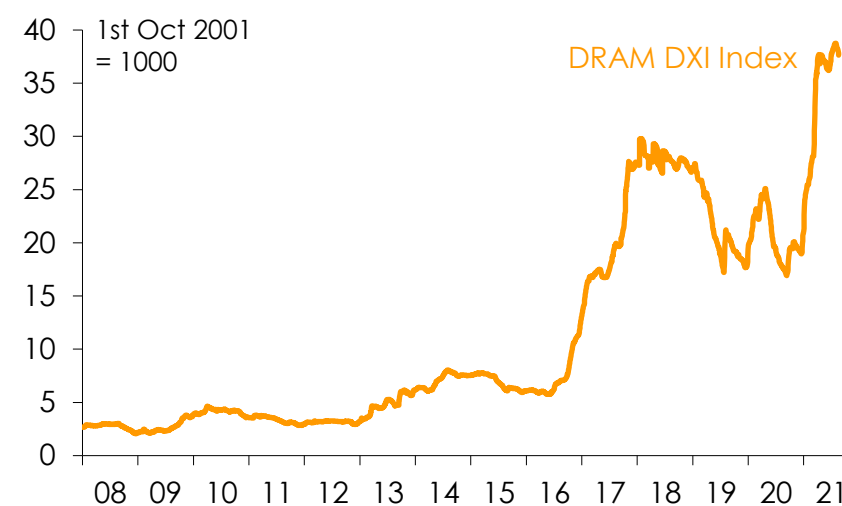
Philly Fed survey – prices paid



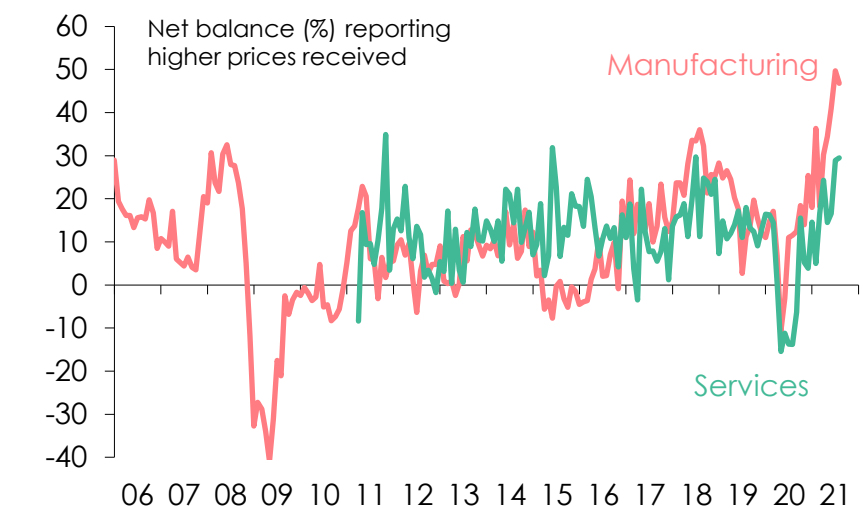
'Soft' commodity prices



Semiconductor prices



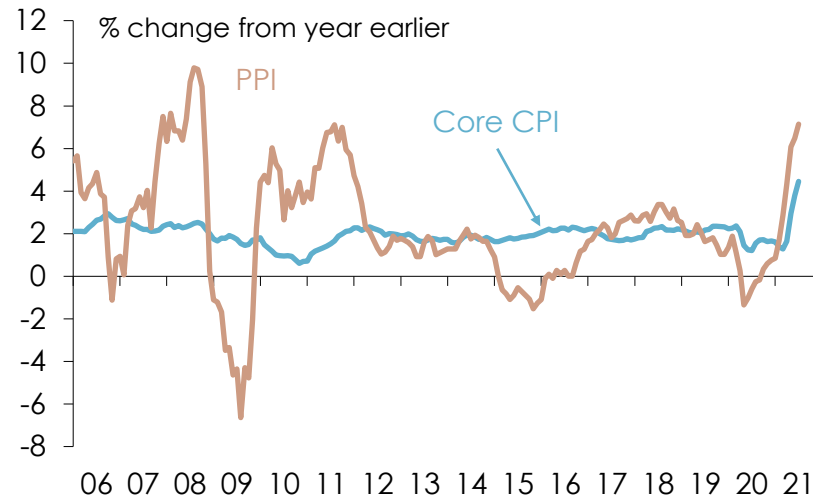
Philly Fed survey – prices received



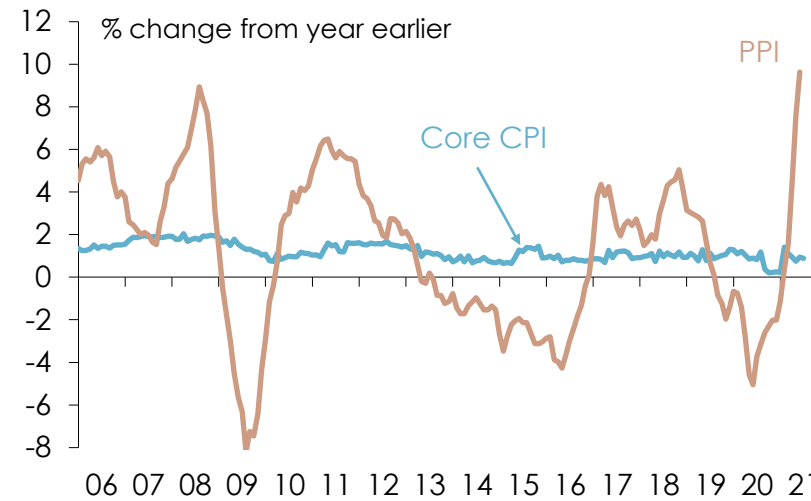
Sources: [International Monetary Fund](#); [Drewry Supply Chain Advisors](#); Refinitiv Datastream; [Federal Reserve Bank of Philadelphia](#); [Return to "What's New"](#).

Producer prices are surging in all major economies: but only in the US and (to a lesser extent) the UK is this feeding into core CPI inflation

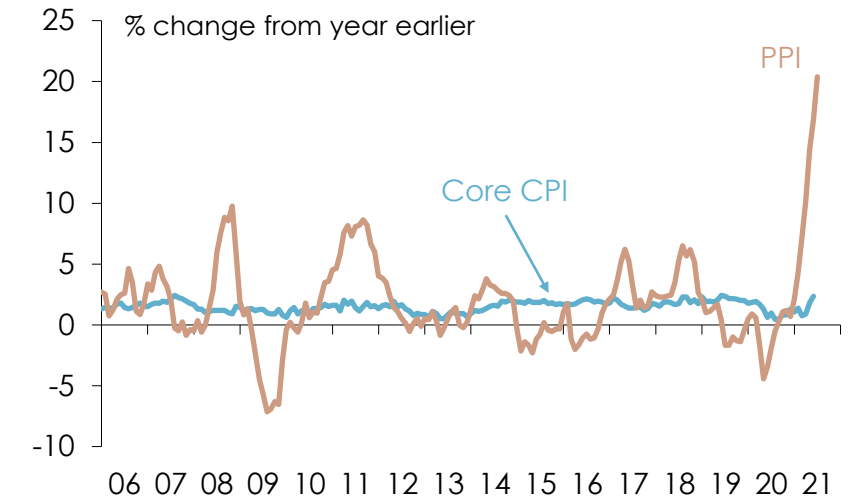
United States



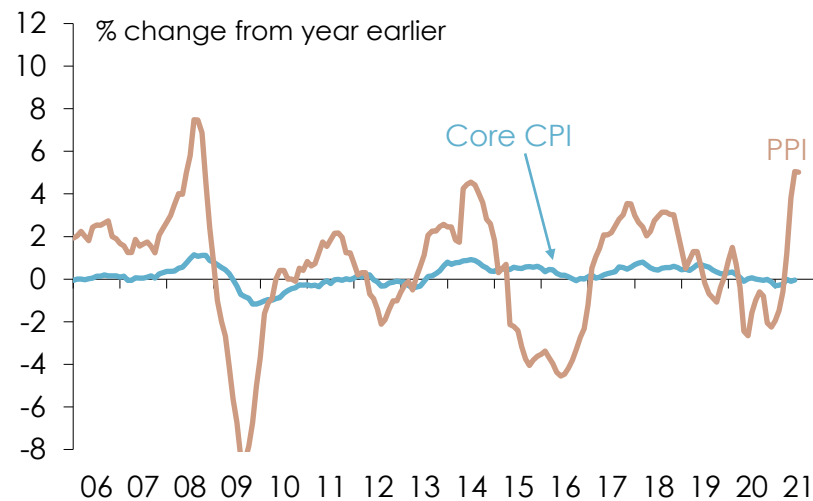
Euro area



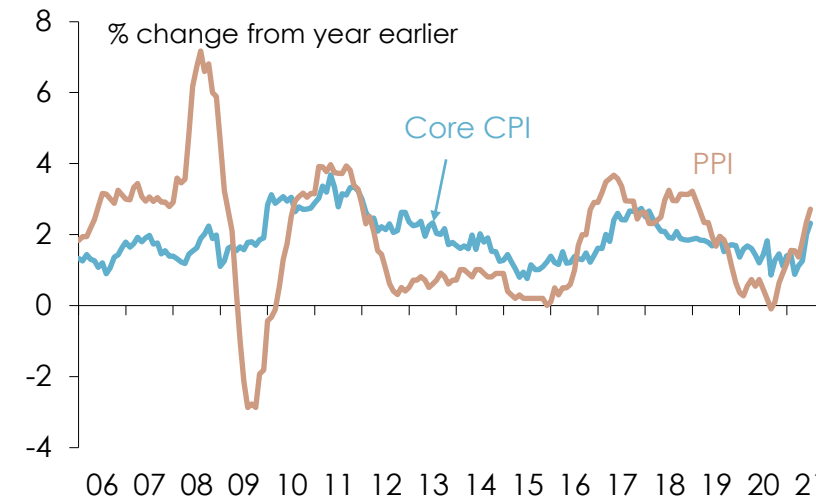
Canada



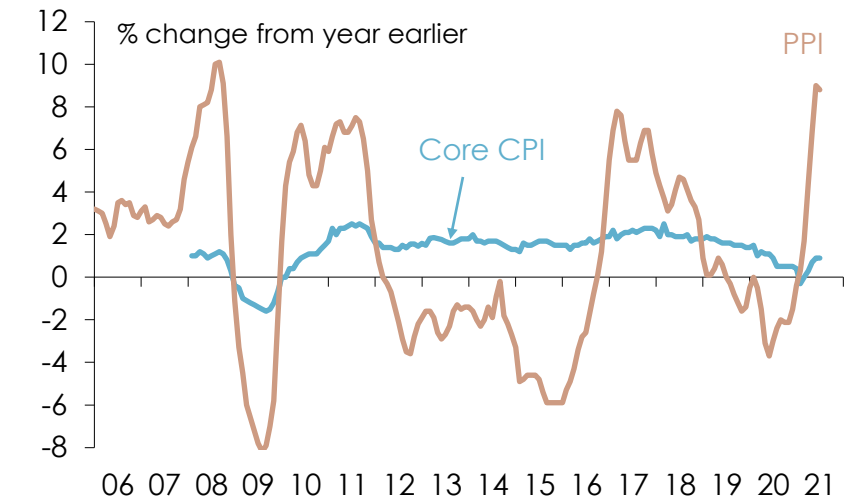
Japan



United Kingdom



China

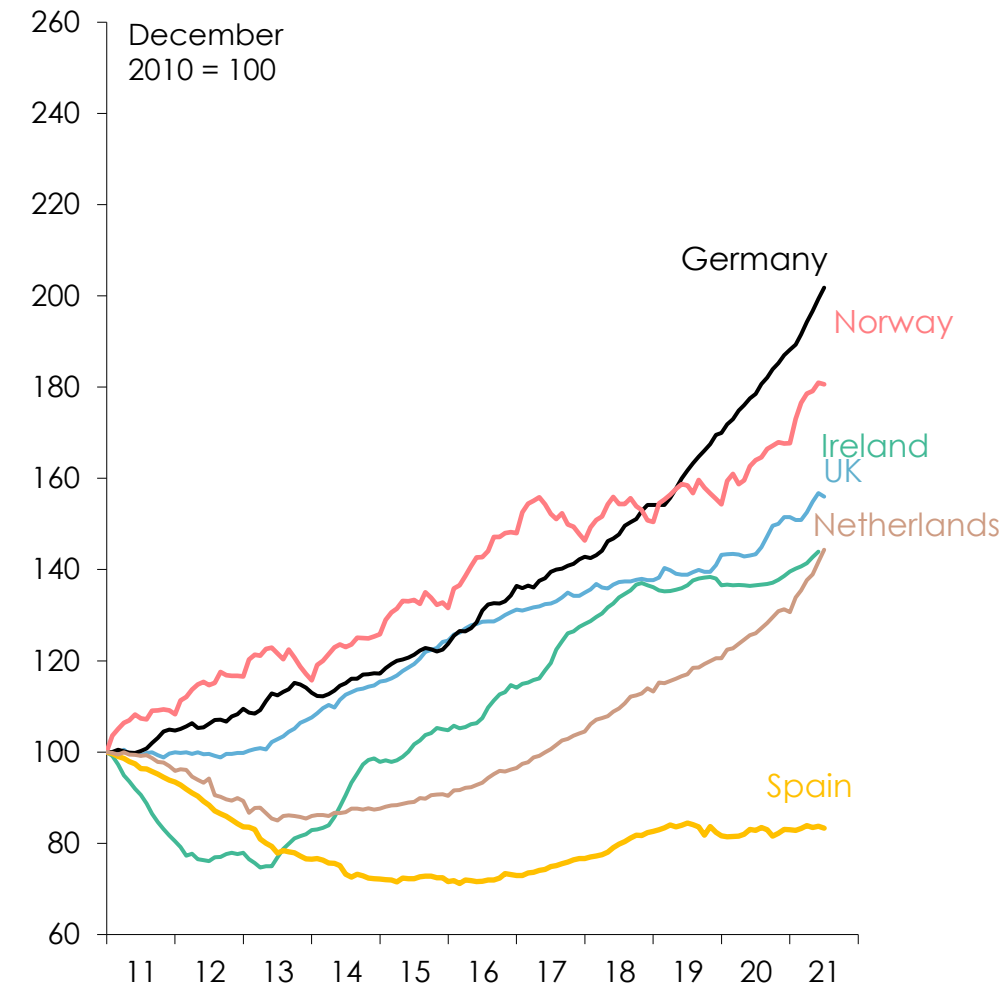
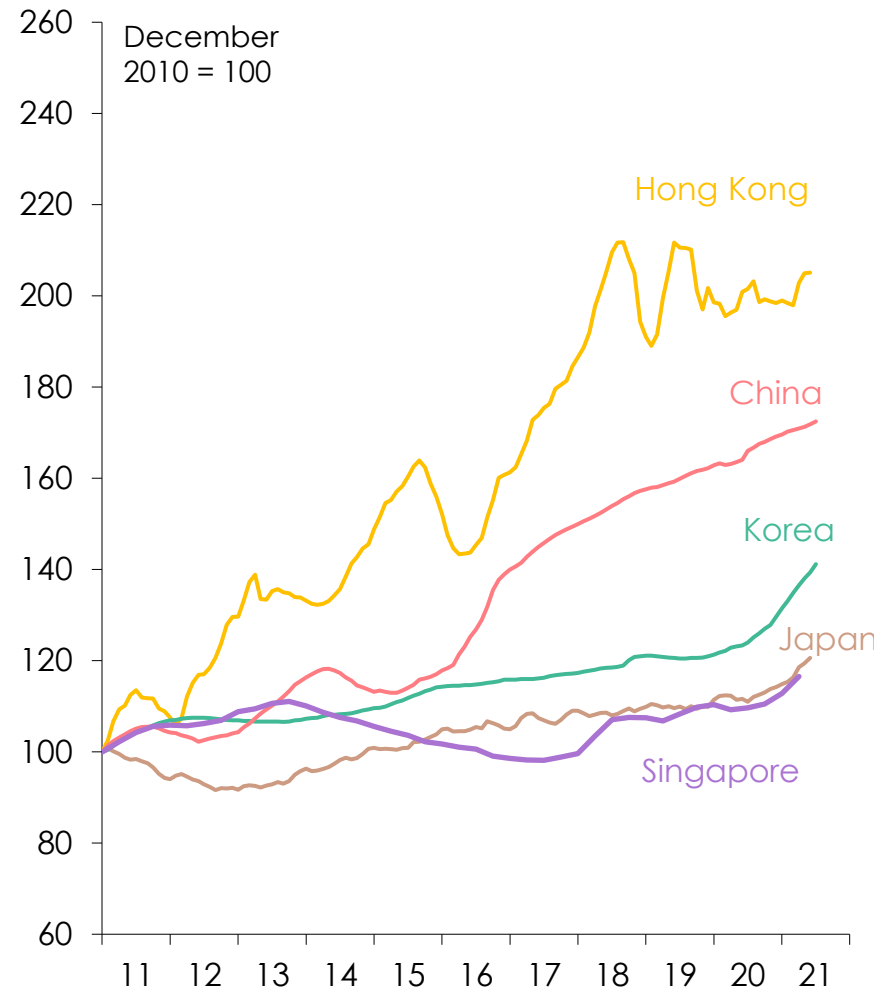
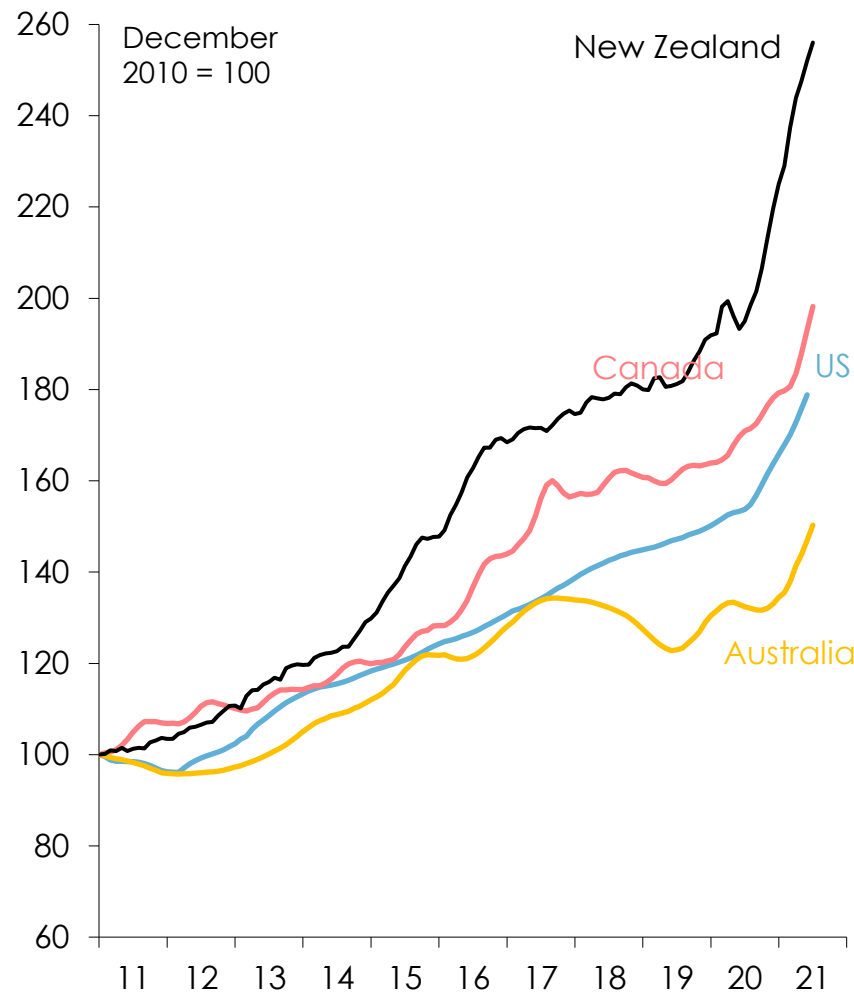


For a more detailed analysis of recent US inflation data see [slides 68-72](#).

Sources: [US Bureau of Labor Statistics](#); [Statistics Bureau of Japan](#); [Eurostat](#); [UK Office for National Statistics](#); [Statistics Canada](#); [China National Bureau of Statistics](#).

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

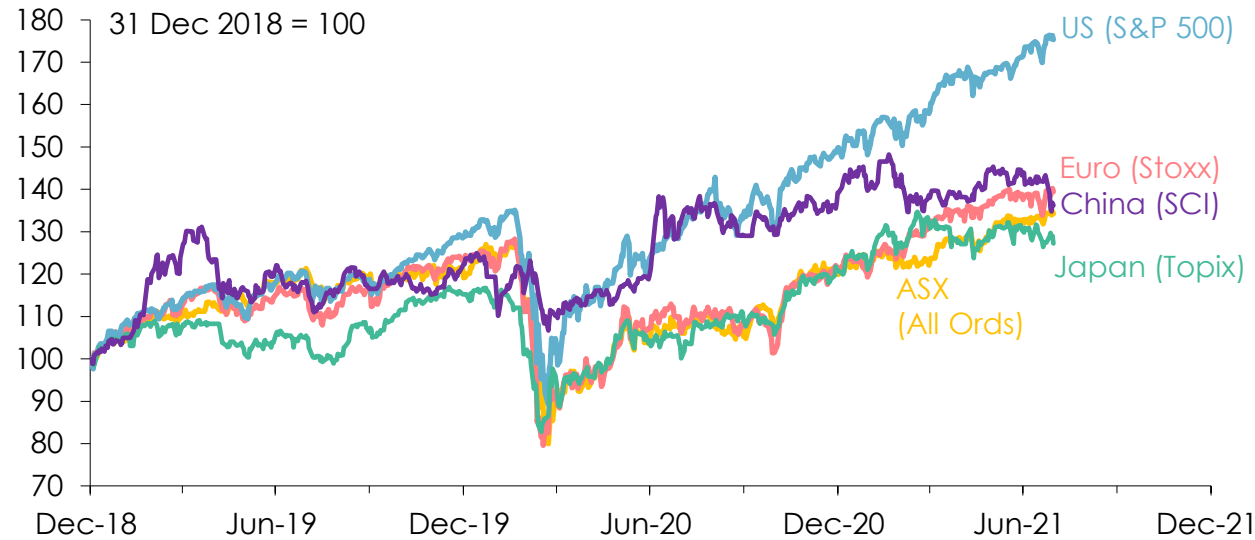
House price indices



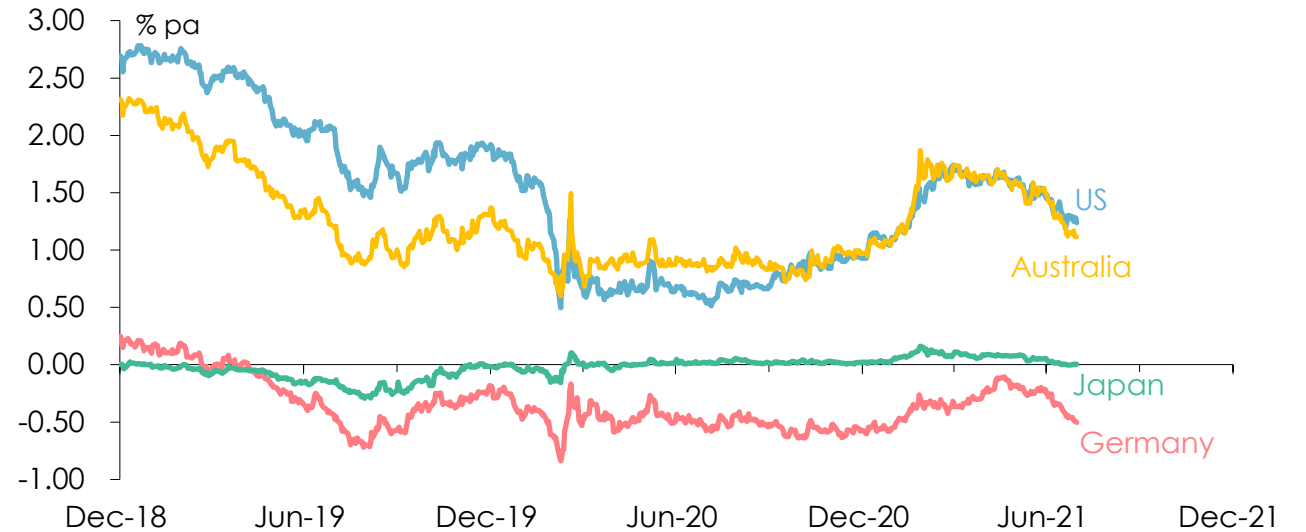
Note: House price indices shown in these charts are those published by [S&P-CoreLogic Case Shiller national](#) (United States); [Teranet-National Bank](#) (Canada); [CoreLogic](#) (Australia); [Real Estate Institute of New Zealand](#); [China Index Academy](#); [Japan Real Estate Institute](#) (Tokyo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

The US\$ weakened and bond yields fell on softer-than-expected US data this week, while Chinese shares fell heavily after stern regulatory actions

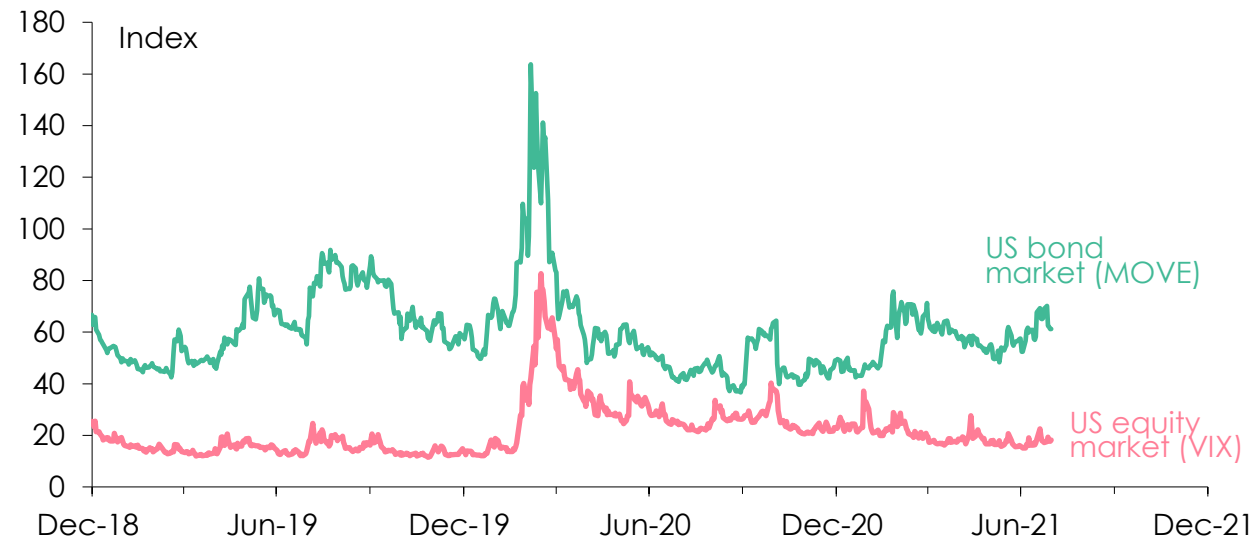
Stock markets



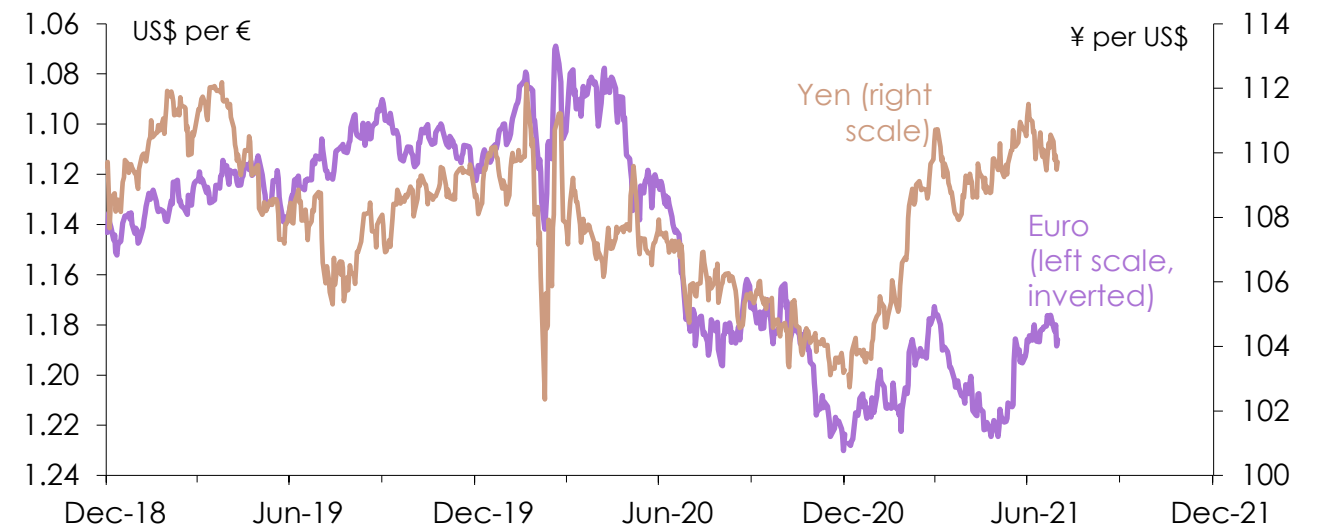
10-year bond yields



Measures of market volatility



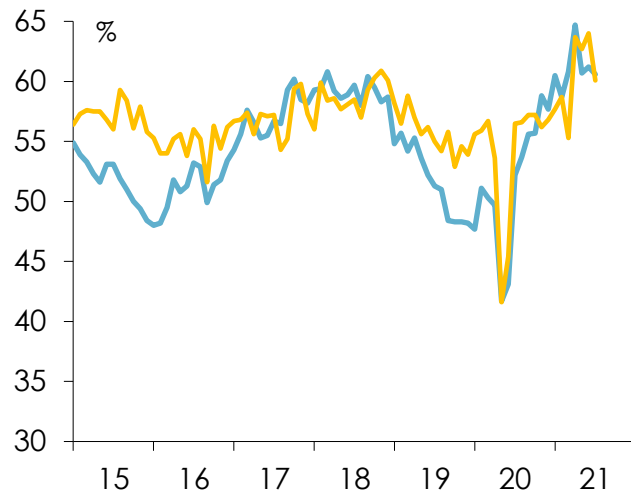
US dollar vs euro and yen



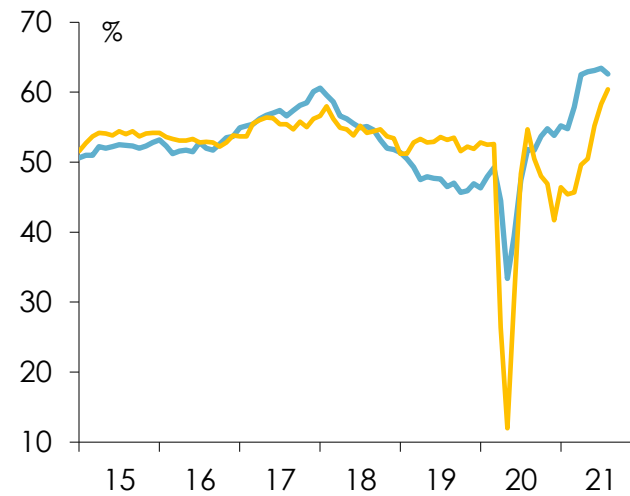
Source: Refinitiv Datastream. Data up to 30th July. [Return to "What's New"](#).

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

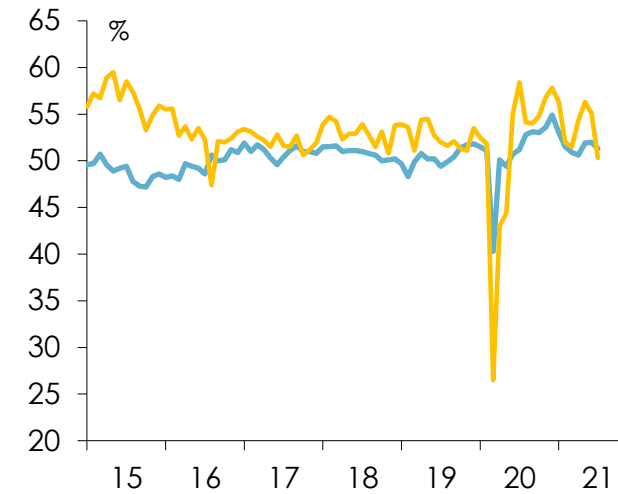
US



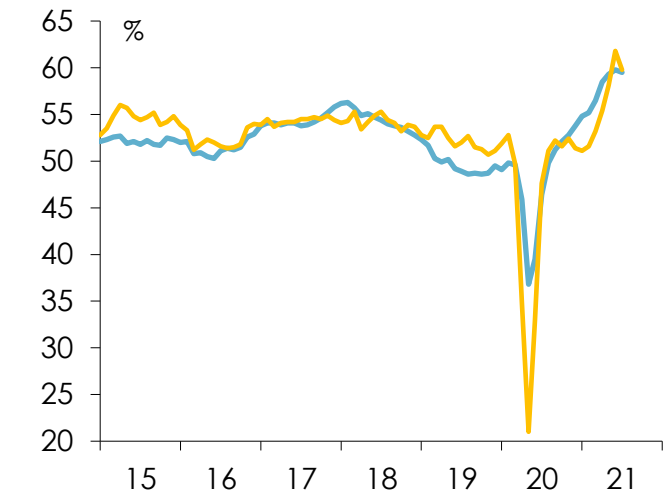
Euro area



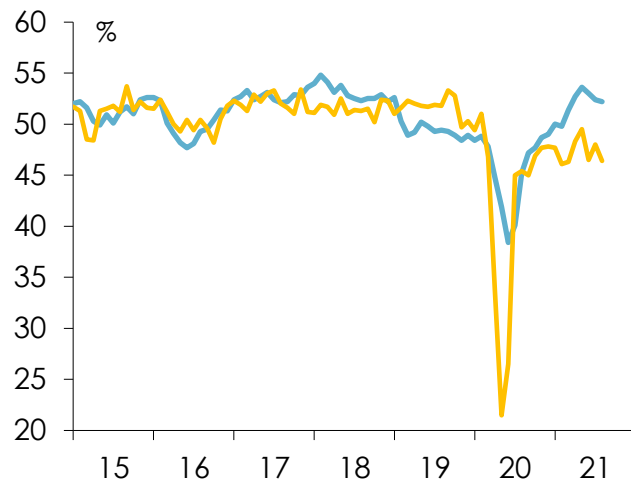
China



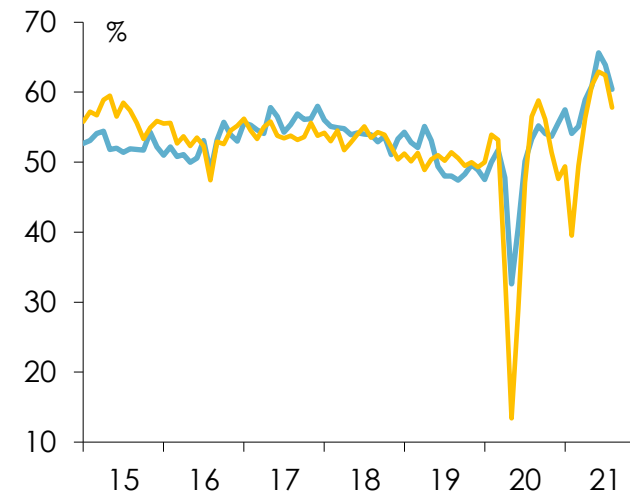
Developed markets



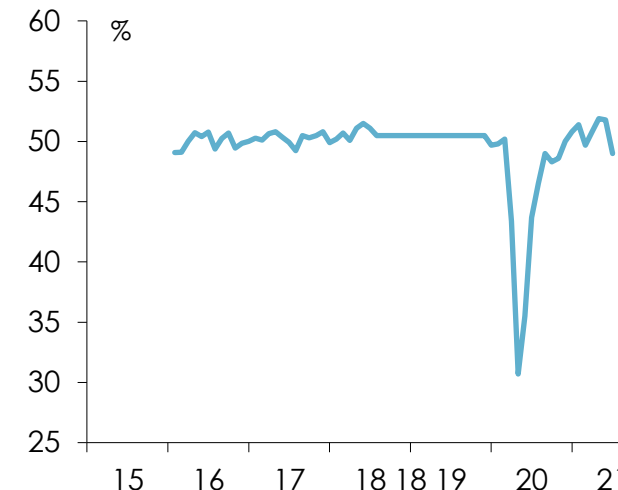
Japan



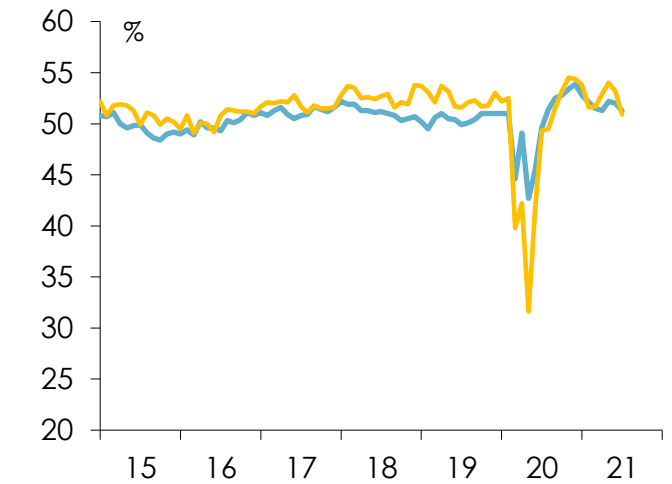
UK



ASEAN



Emerging markets



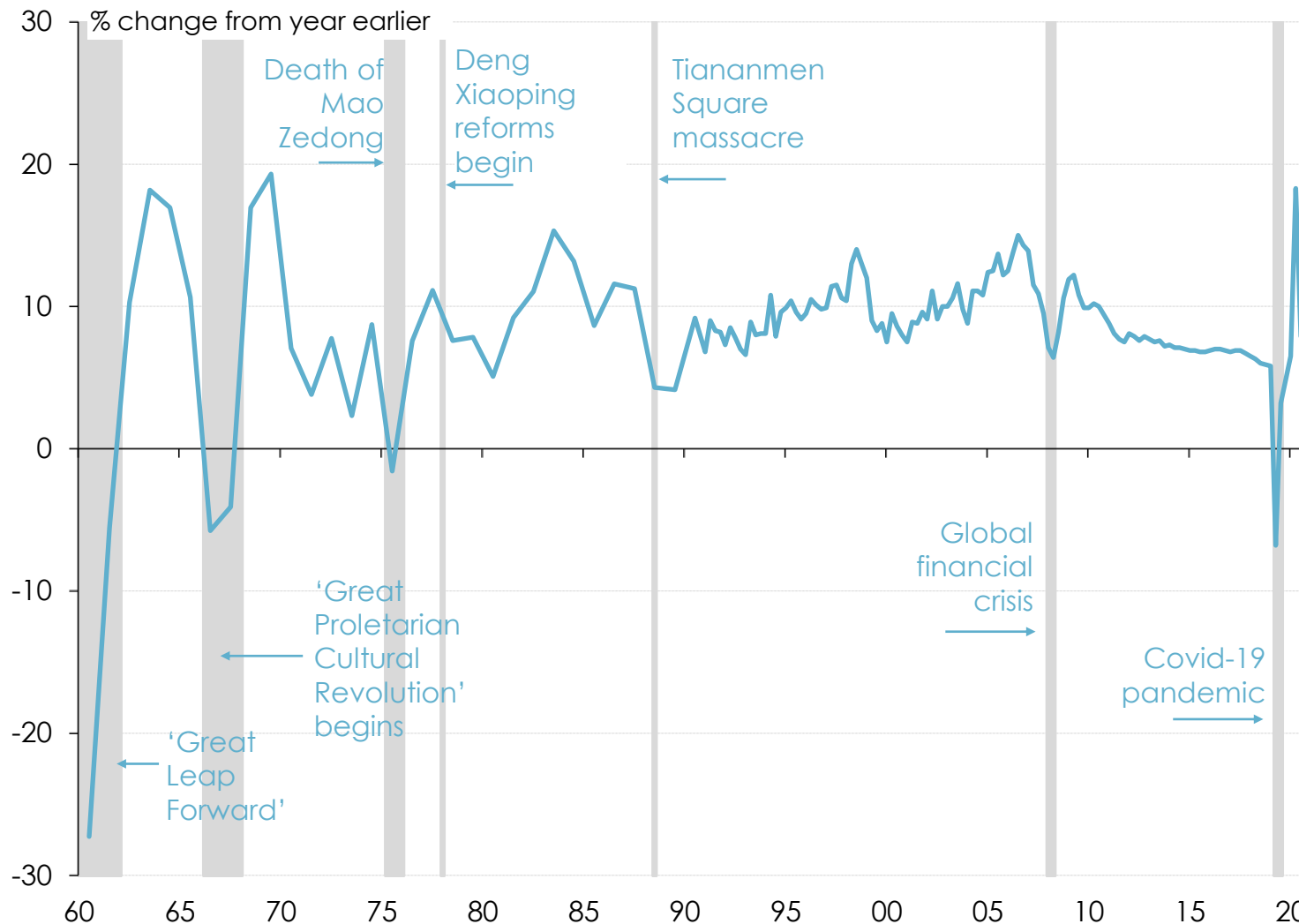
— Manufacturing

— Services

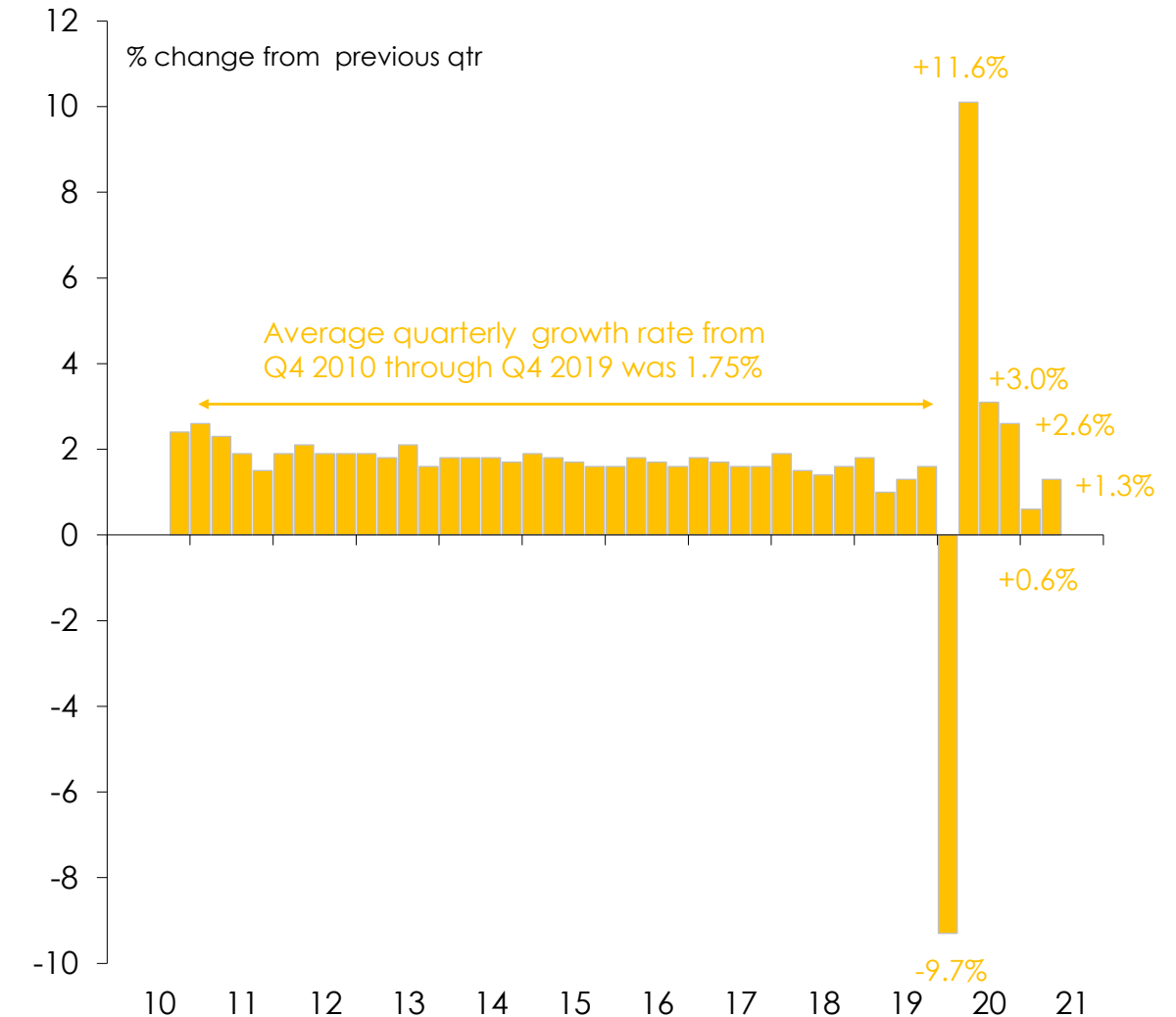
Note: Purchasing Managers' Indexes (PMIs) are derived from surveys of senior executives, who are asked to report whether various dimensions of business activity recorded an increase, decrease or no change compared with the previous month. A reading of 50 indicates an overall increase cf. the previous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



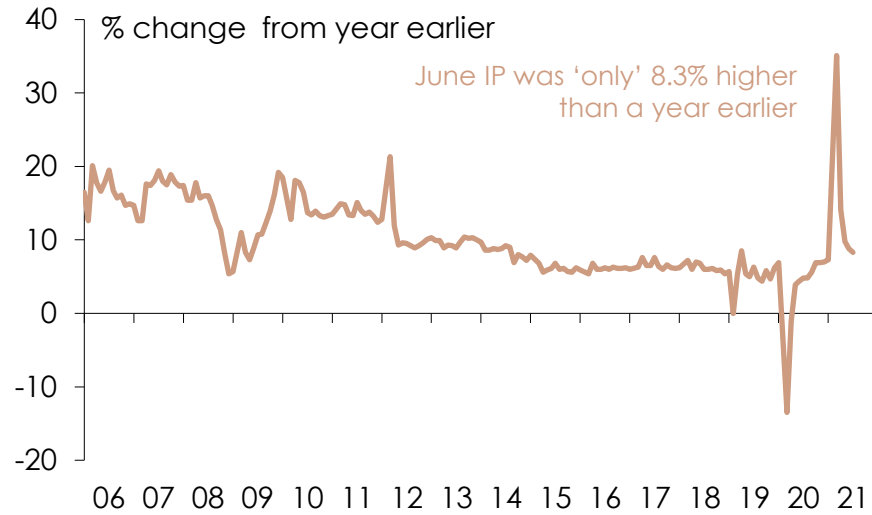
Quarterly real GDP growth, 2010-2020



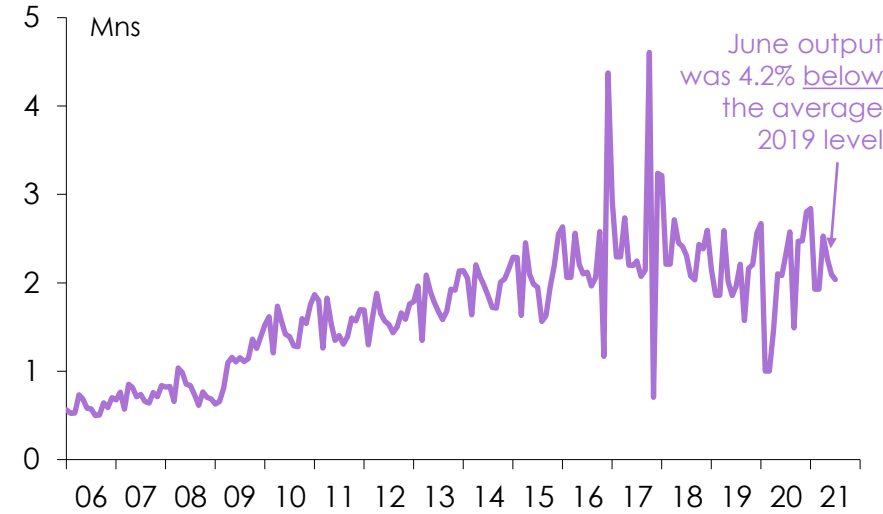
Note: In the left-hand chart, GDP growth rates are annual averages up to the December quarter of 1991, and then quarter-on-corresponding-quarter-of- previous-year thereafter. Source: China National Bureau of Statistics. [Return to "What's New"](#).

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

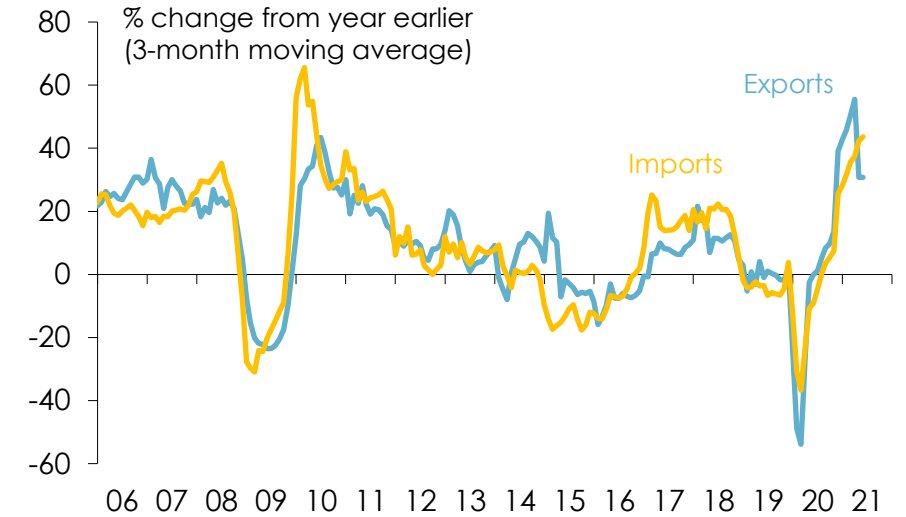
Industrial production



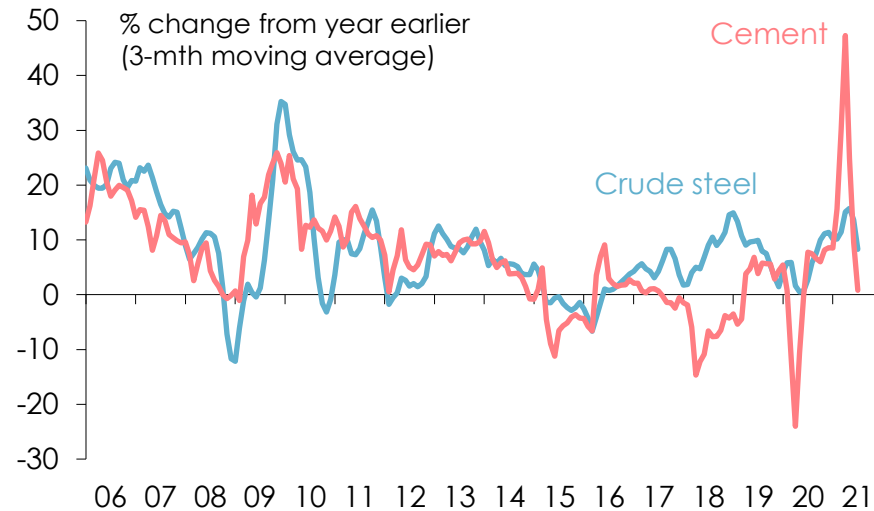
Motor vehicle production



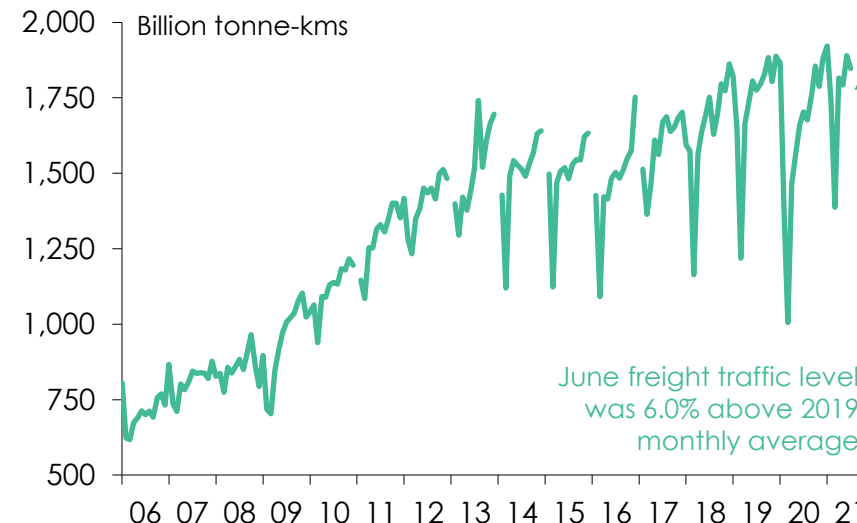
Merchandise trade



Steel and cement production



Freight traffic volumes



Merchandise trade balance

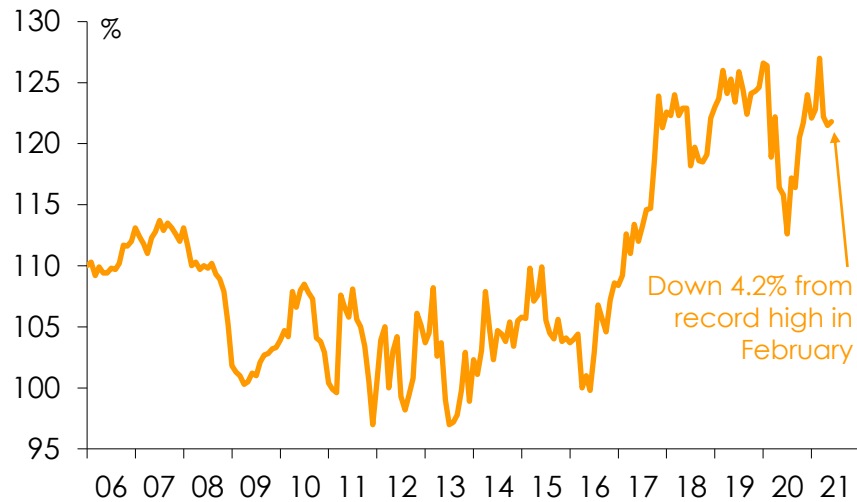


Note: Latest data are for June. Sources: China National Bureau of Statistics; China Association of Automobile Manufacturers; China General Administration of Customs.

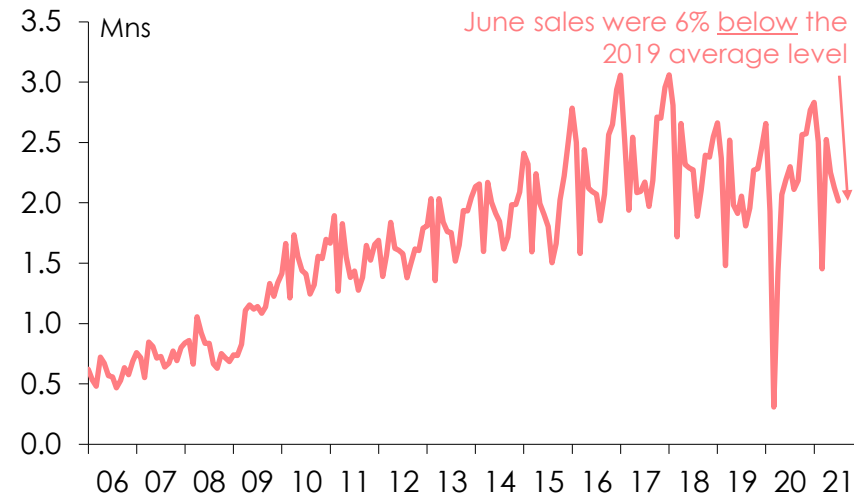
[Return to "What's New".](#)

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

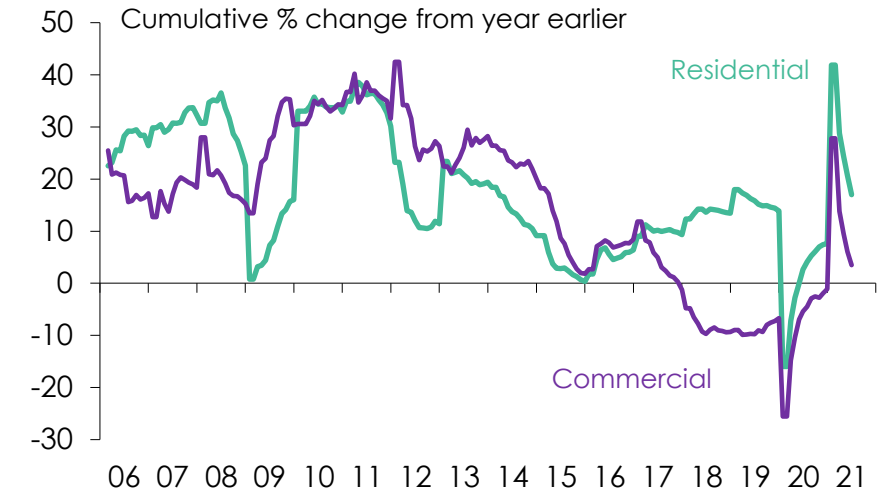
Consumer sentiment



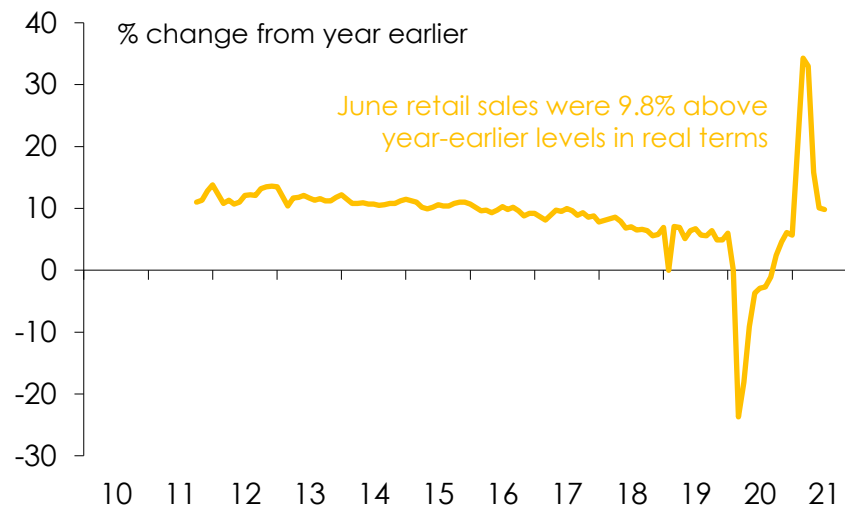
Motor vehicle sales



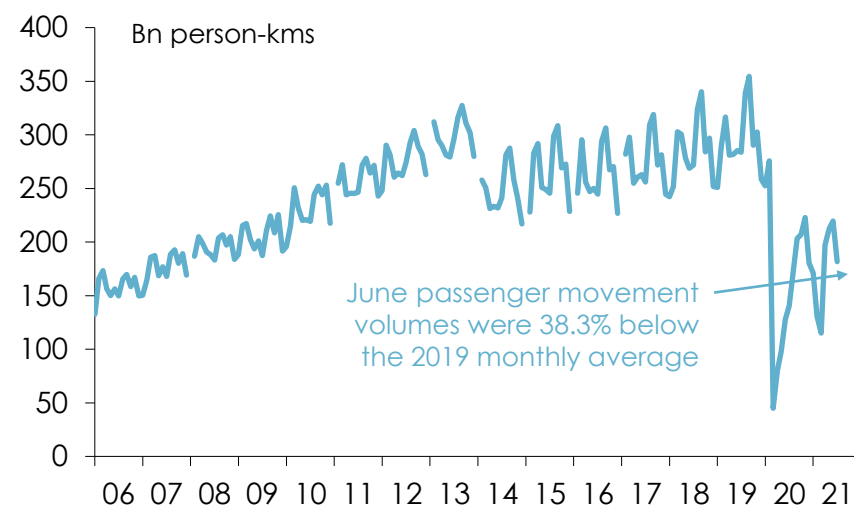
Real estate investment



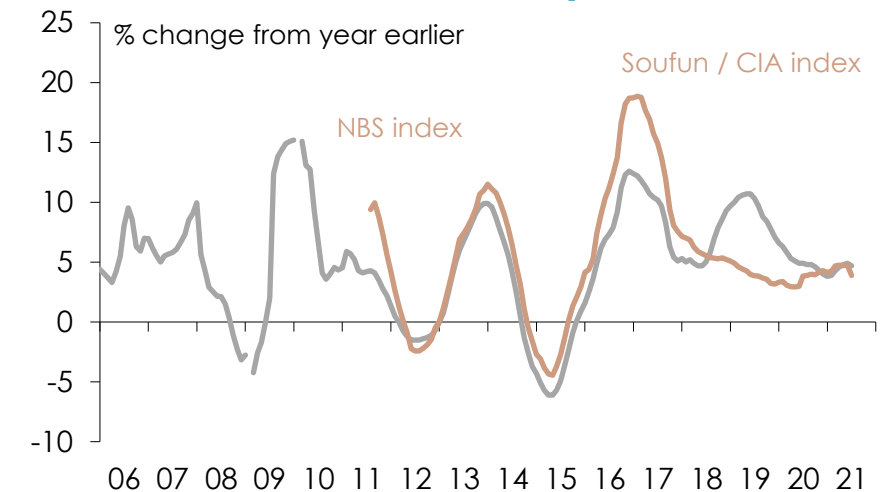
Volume of retail sales



Passenger traffic volumes



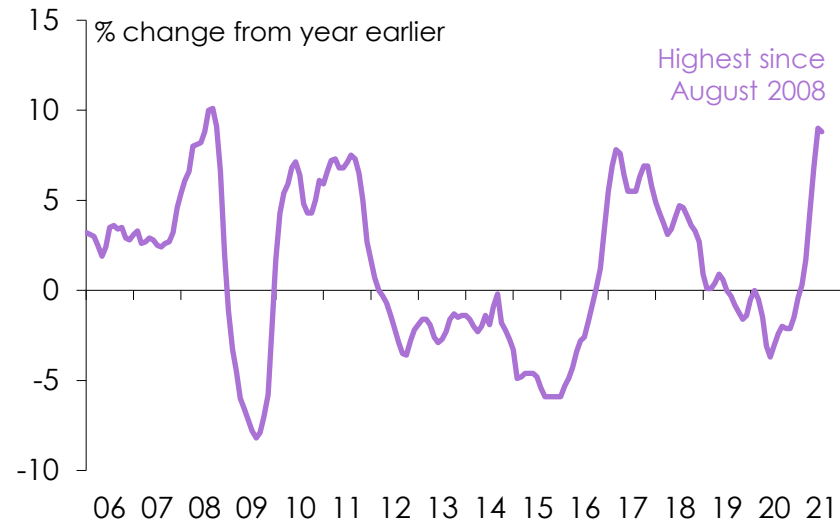
Residential real estate prices



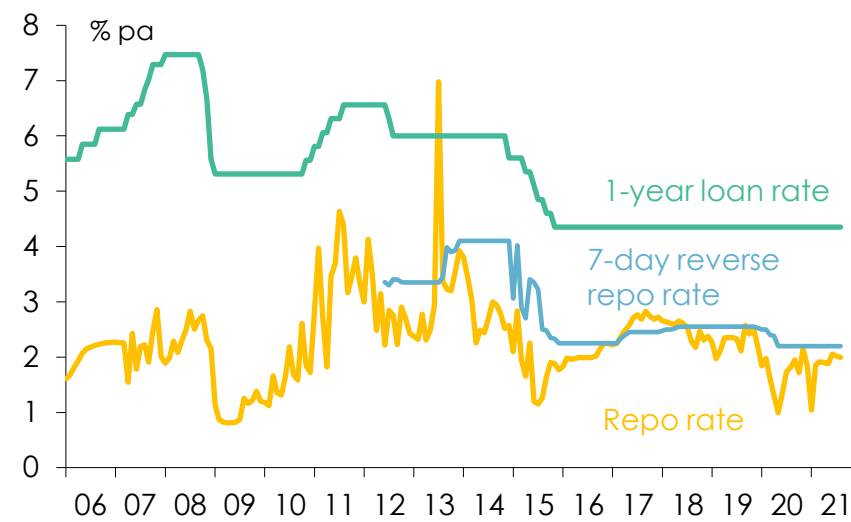
Sources: China National Bureau of Statistics (NBS); China Association of Automobile Manufacturers; China Index Academy (CIA). Latest data are for June, except for consumer sentiment which is May. [Return to "What's New"](#).

The PBoC hasn't lowered interest rates since the onset of Covid-19, but it did cut banks' reserve requirement ratios in July

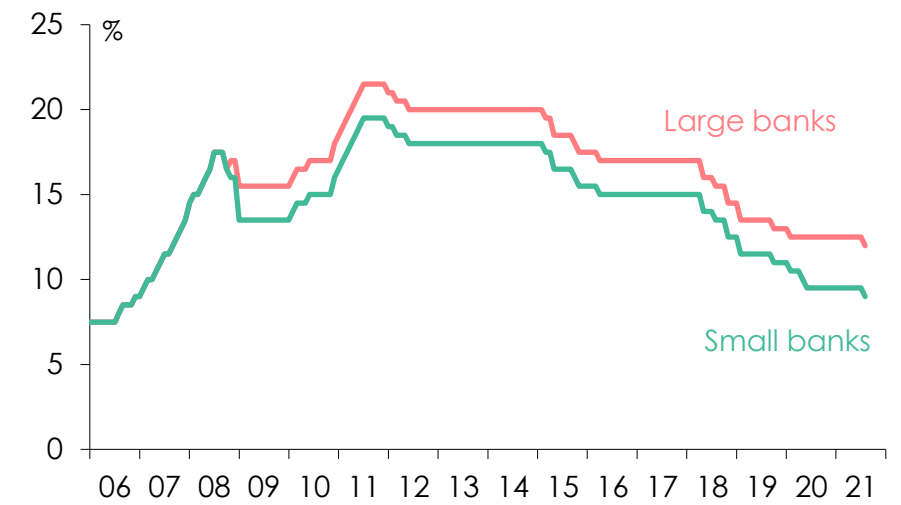
Producer prices



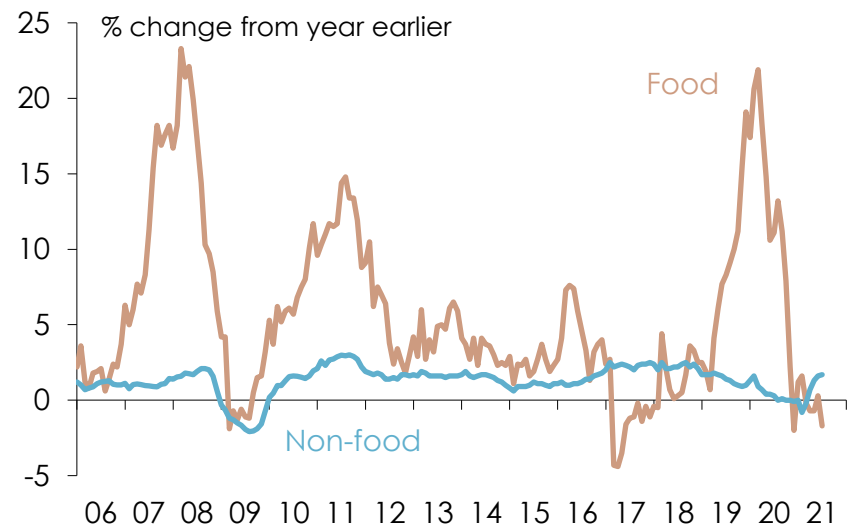
PBoC policy interest rates



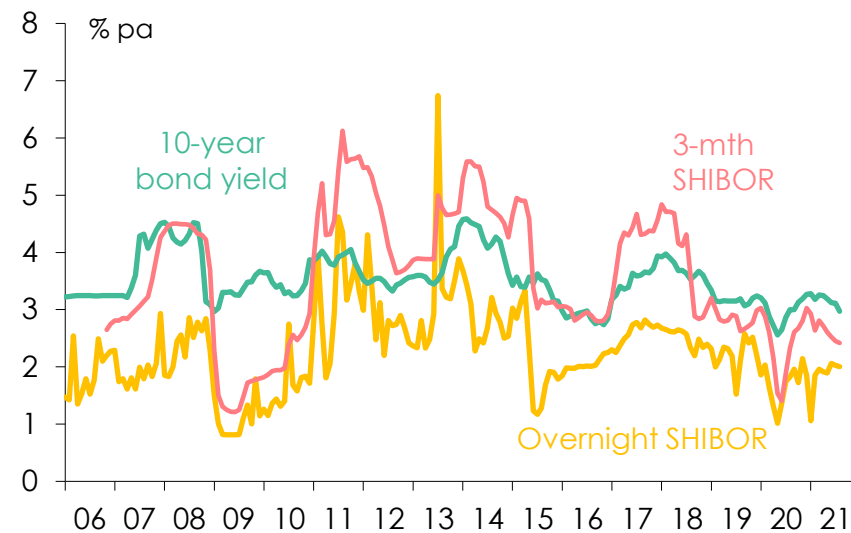
Bank reserve requirement ratios



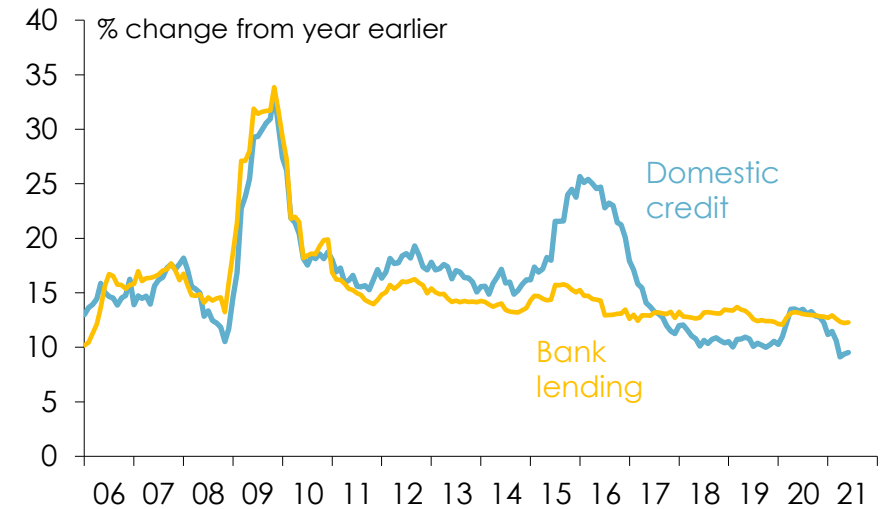
Consumer prices



Market interest rates



Credit growth

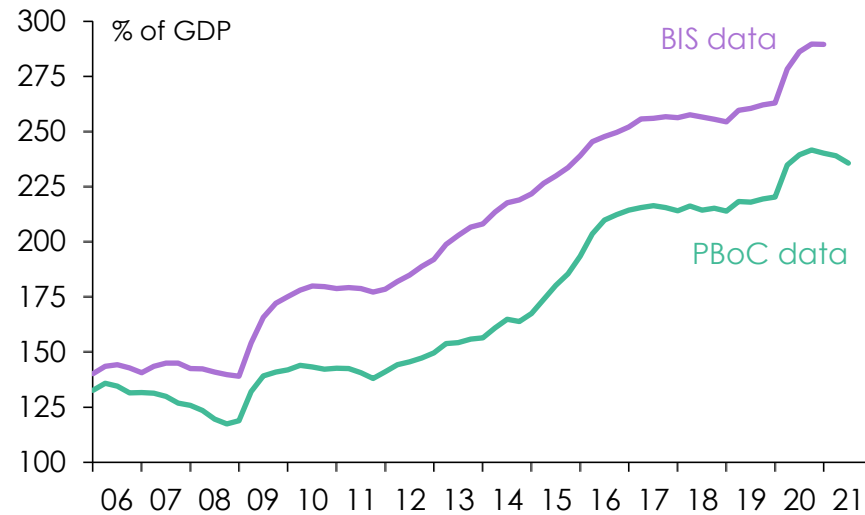


Note: 'SHIBOR' is the Shanghai Inter-Bank Offered Rate. Latest inflation data are for June.

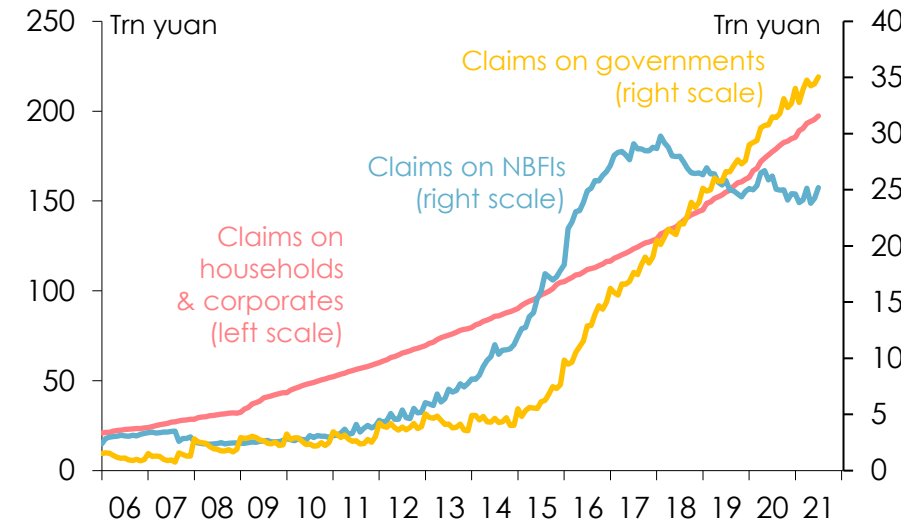
Sources: China National Bureau of Statistics; Refinitiv Datastream; [People's Bank of China](#). [Return to "What's New"](#).

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

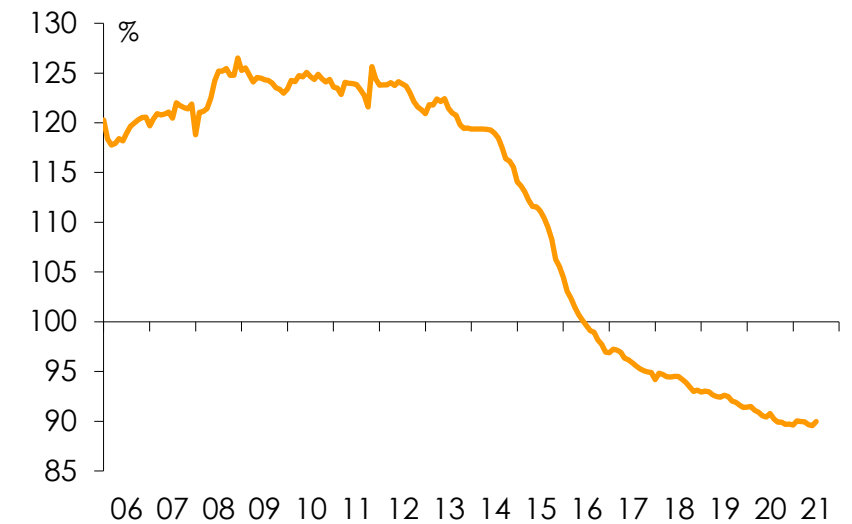
Credit outstanding as a pc of GDP



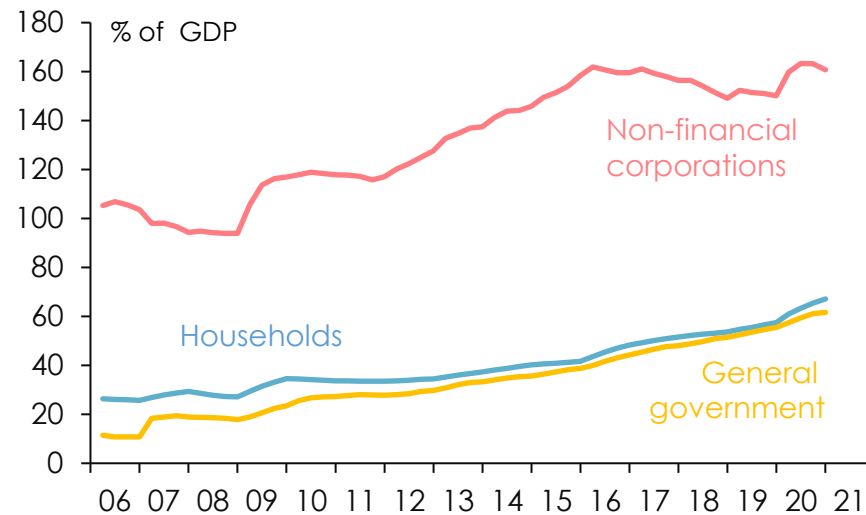
Banks' assets



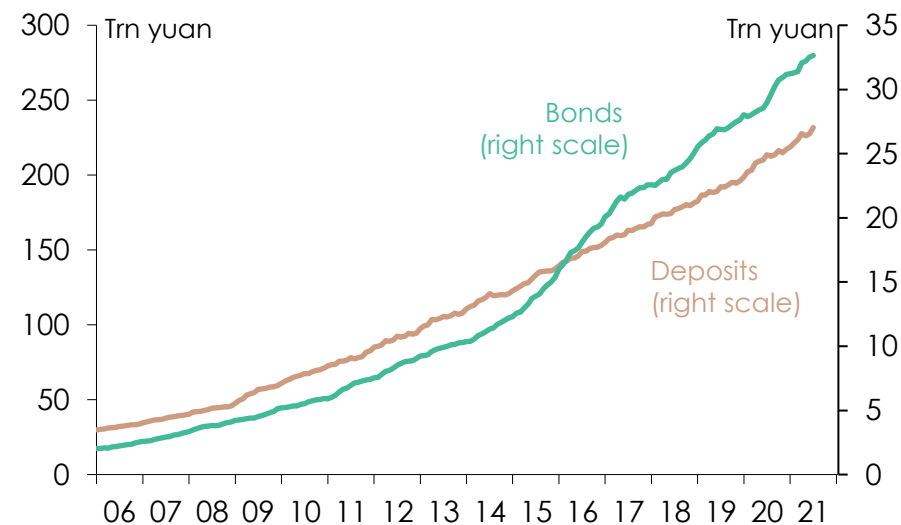
Banks' deposits-to-loans ratio



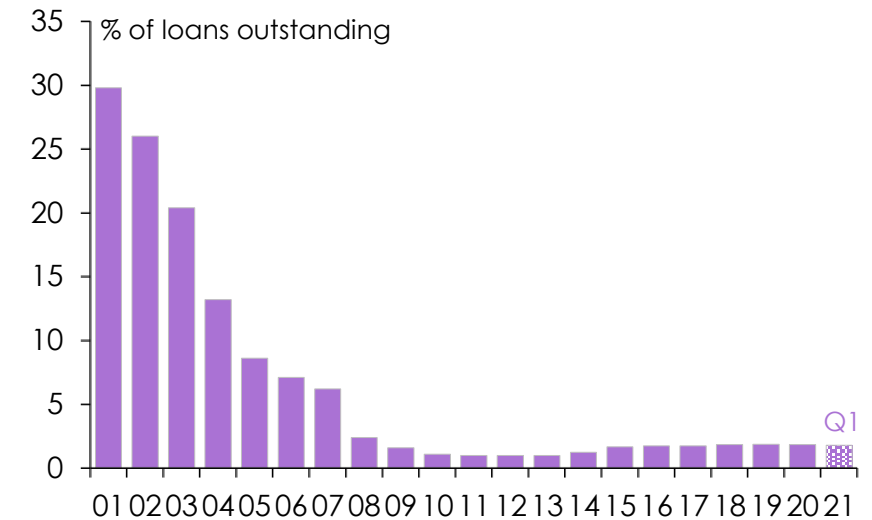
Credit outstanding by sector



Banks' liabilities

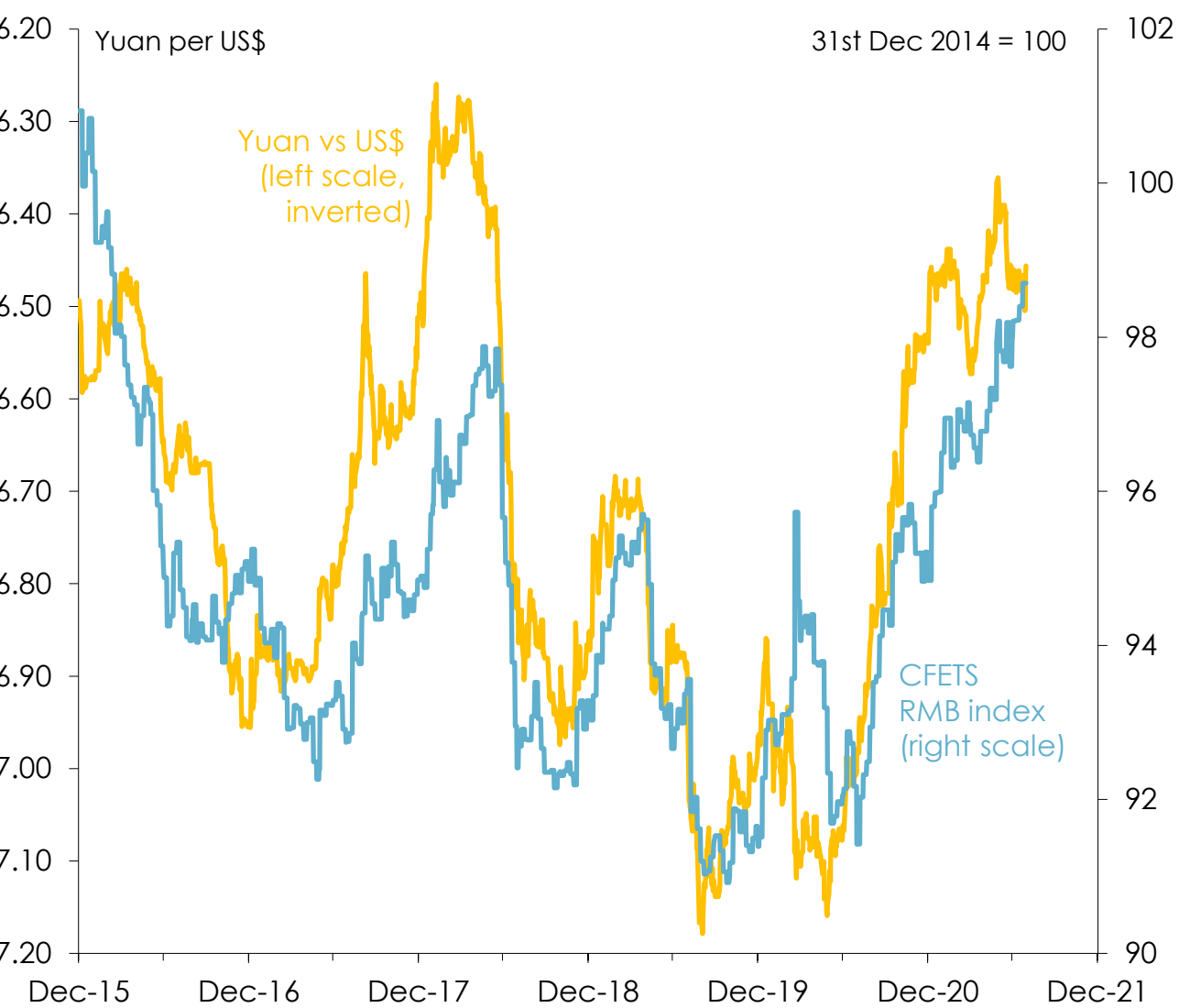


Banks NPLs – official estimates

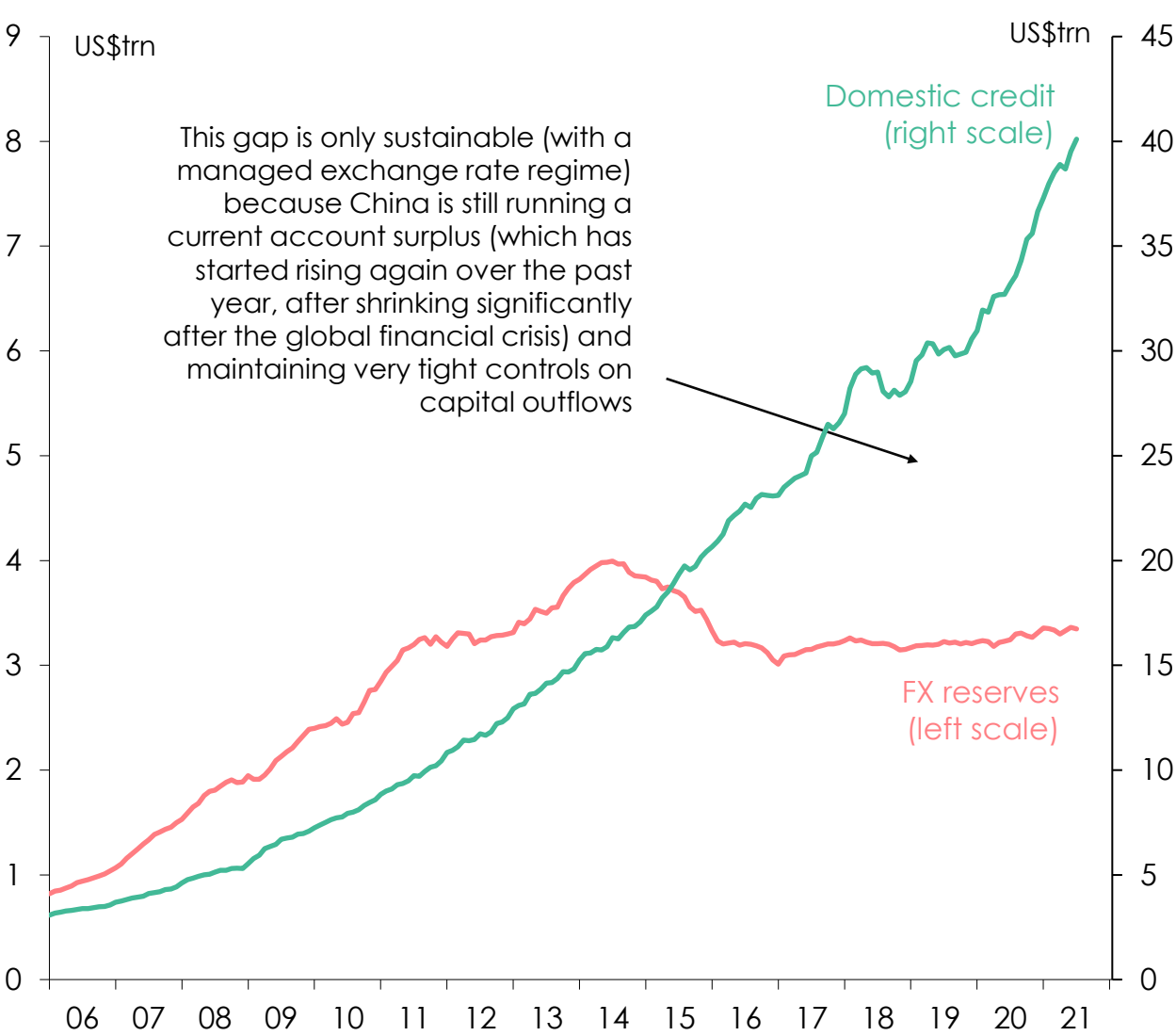


The yuan gained 0.3% both against the US dollar and in trade-weighted terms this week

Chinese renminbi vs US\$ and trade-weighted index



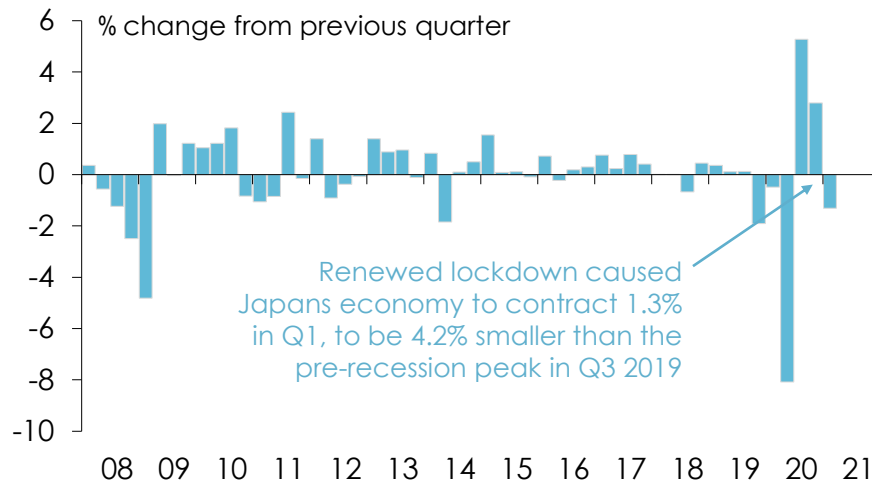
FX reserves and domestic credit



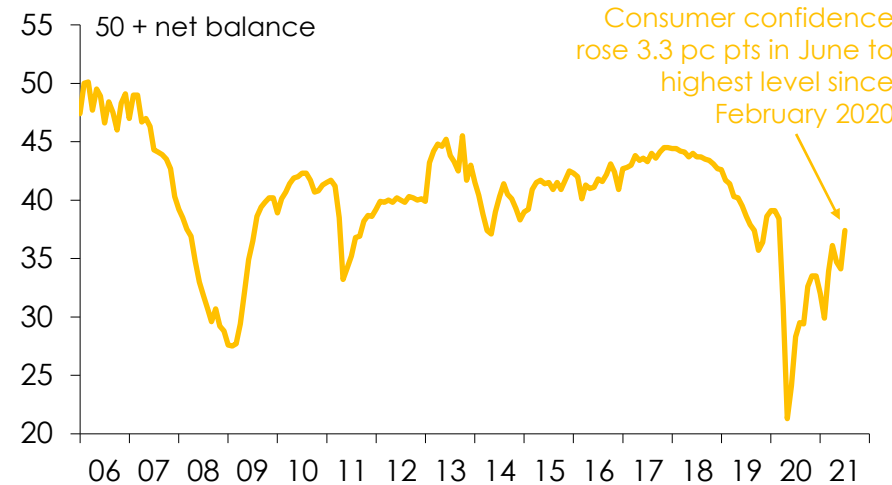
Sources: Refinitiv Datastream; China Foreign Exchange Trading System; People's Bank of China. Exchange rates up to 30th July; FX reserves and domestic credit data up to June. [Return to "What's New"](#).

Japan's unemployment rate dropped marginally in June as employment rose for the first time in four months

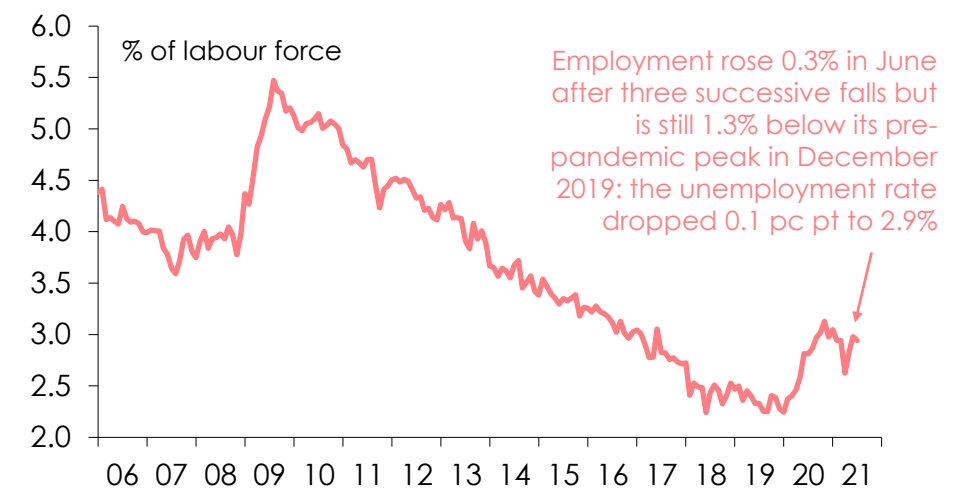
Real GDP



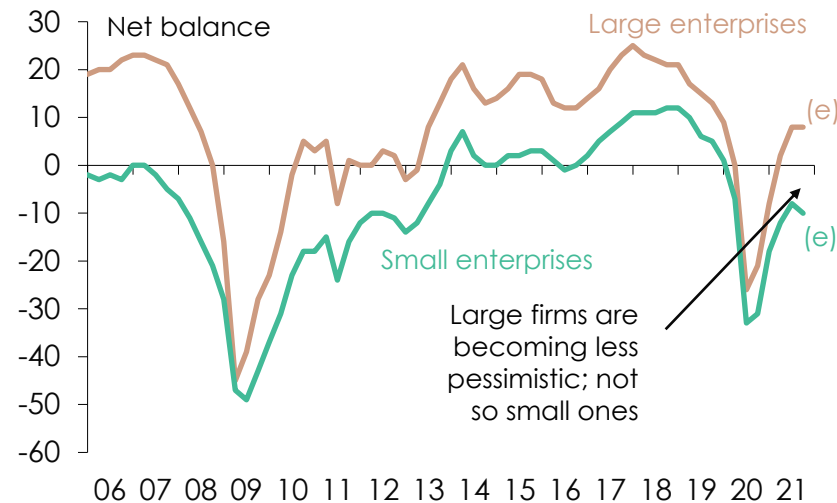
Consumer confidence



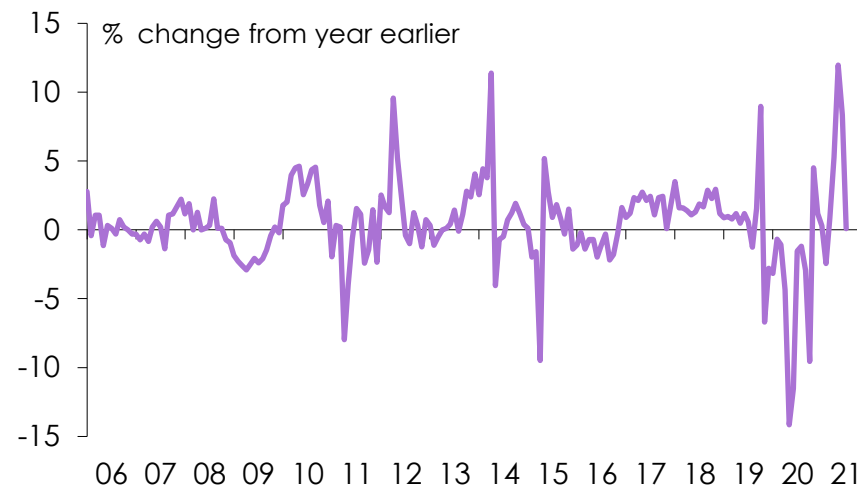
Unemployment



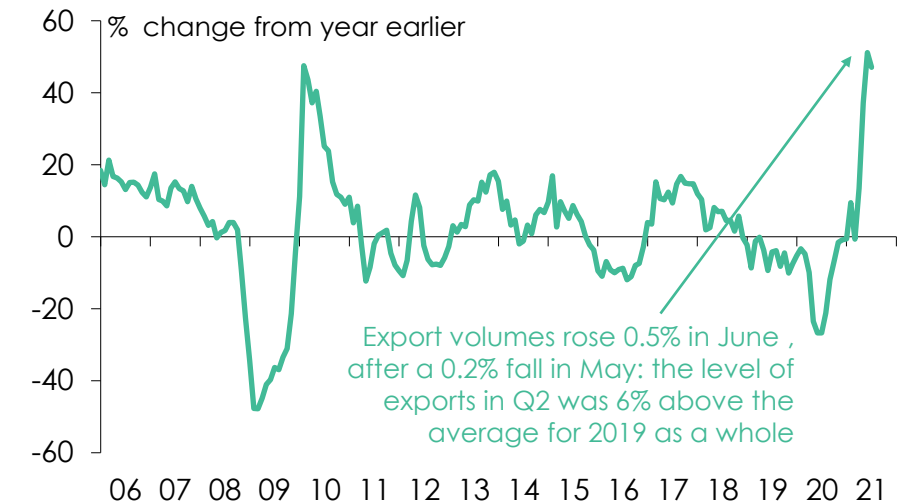
BoJ Tankan business conditions



Value of retail sales



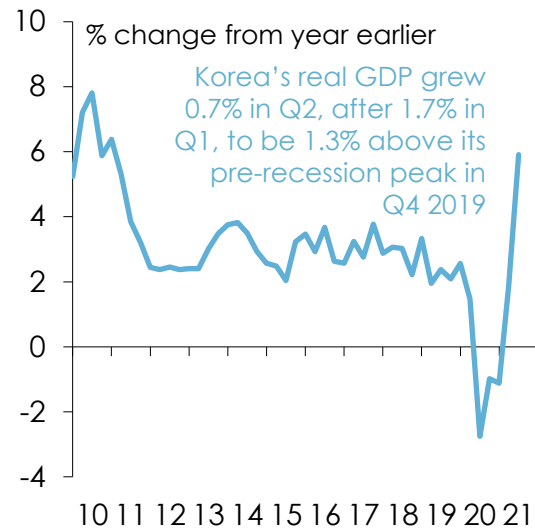
Merchandise export volumes



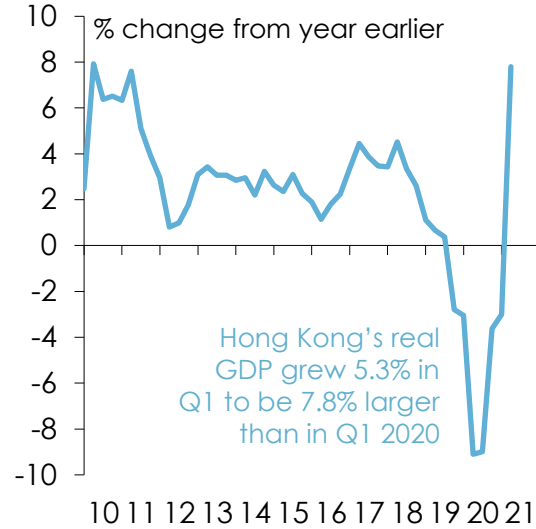
Sources: Japan Cabinet Office [Economic and Social Research Institute](#); [Bank of Japan](#); [Statistics Bureau of Japan](#); Japan [Ministry of Finance](#). [Return to "What's New"](#).

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

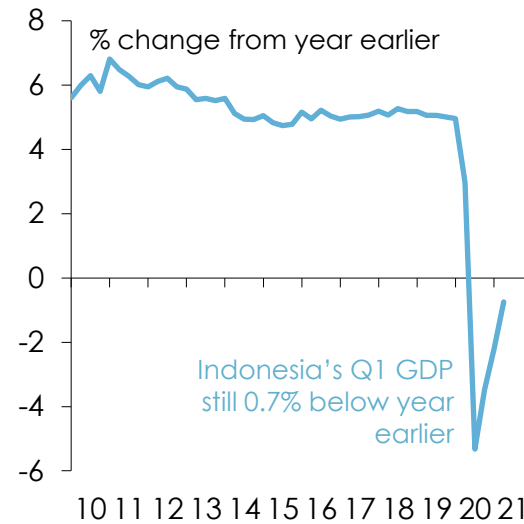
Korea



Hong Kong



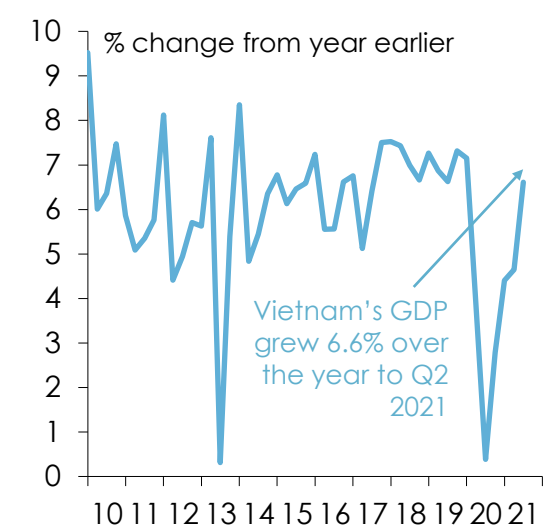
Indonesia



Thailand



Vietnam



Taiwan



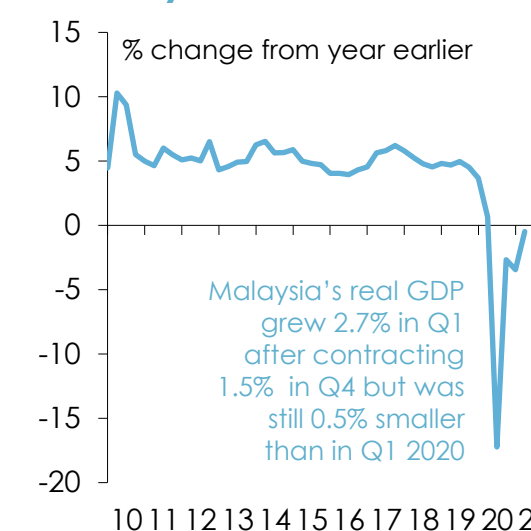
Singapore



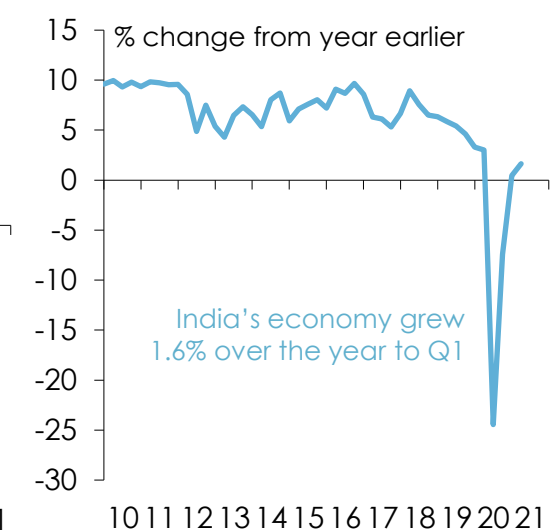
Philippines



Malaysia

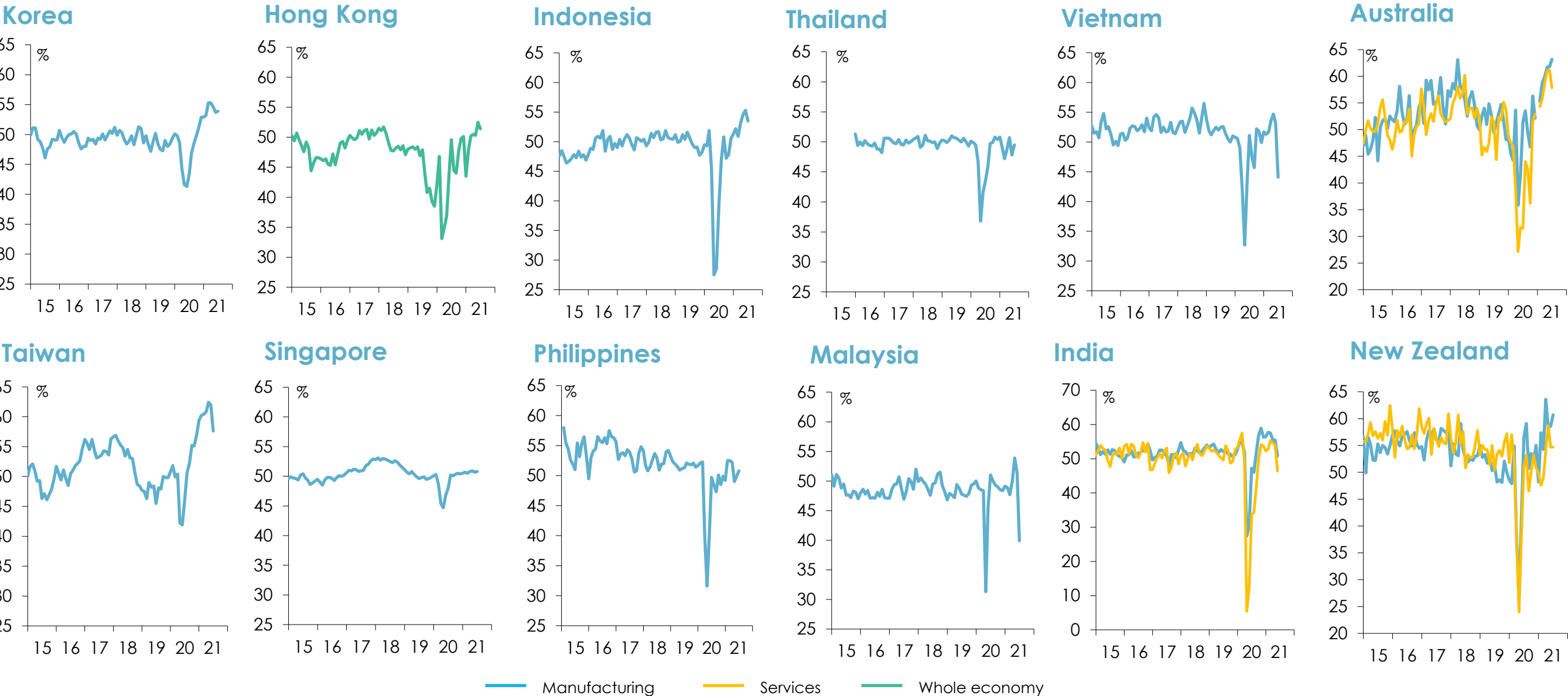


India



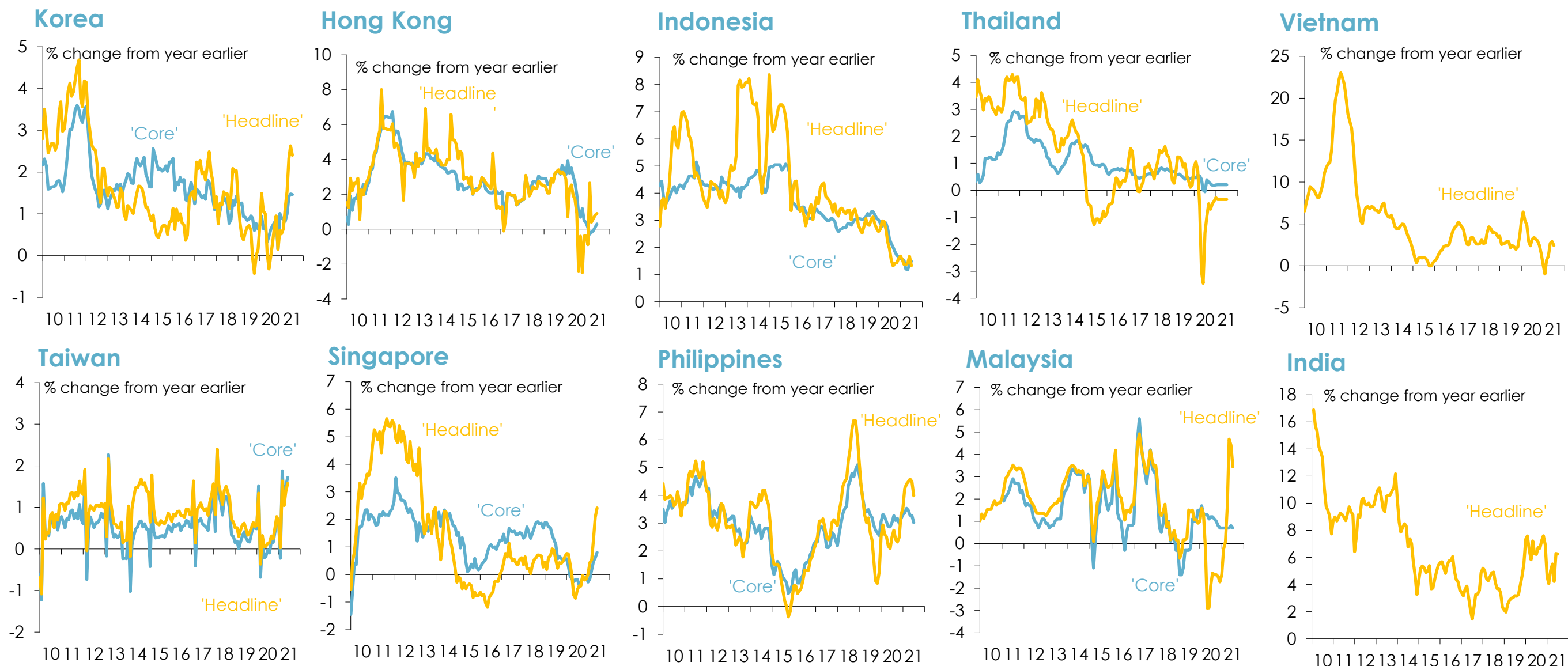
Note: Latest data are Q2 for Korea, Singapore and Vietnam, and Q1 for other countries. Sources: Bank of Korea; Taiwan Directorate-General of Budget, Accounting & Statistics; Hong Kong Census & Statistics Department; Singapore Ministry of Trade and Industry; Department of Statistics Malaysia; Office of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



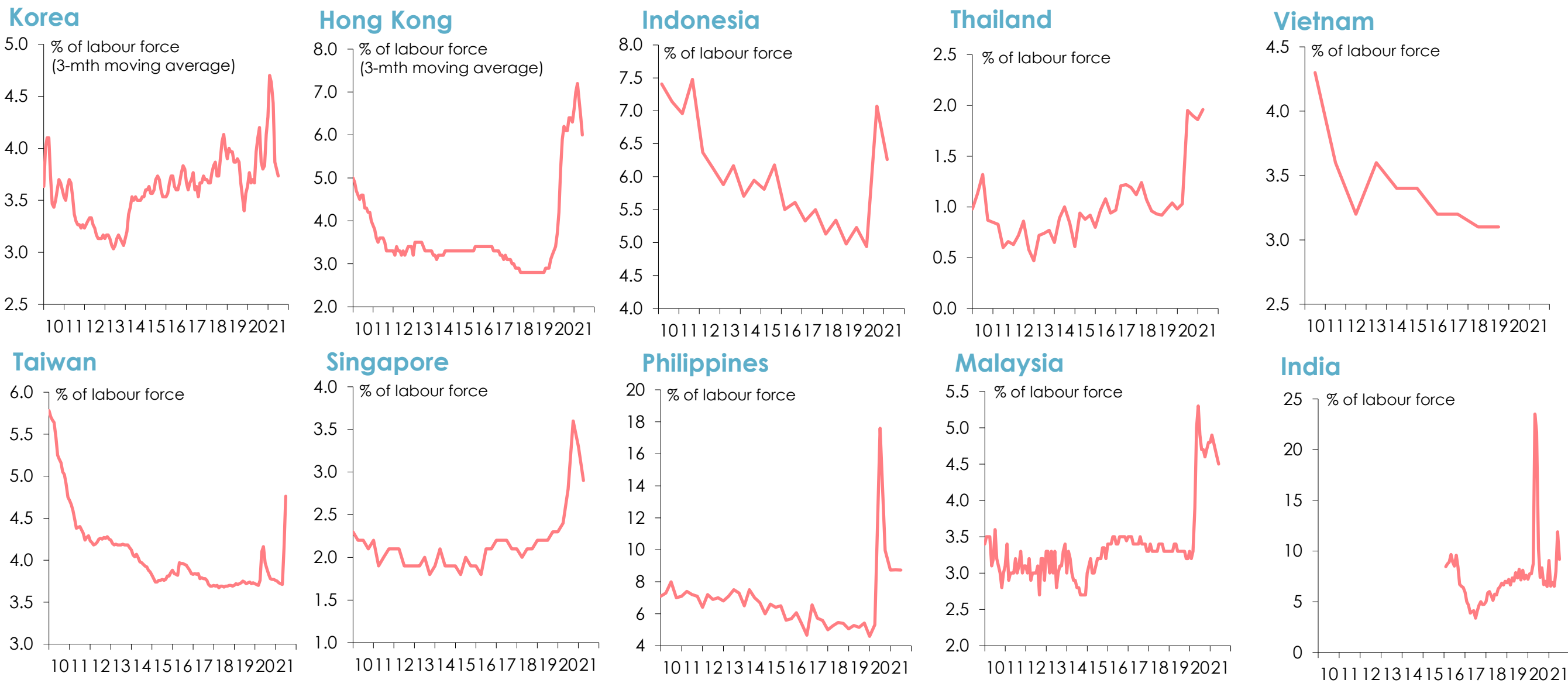
Note: Purchasing Managers' Indexes (PMIs) are derived from surveys of senior executives, who are asked to report whether various dimensions of business activity recorded an increase, decrease or no change compared with the previous month. A reading of 50 indicates an overall increase cf. the previous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



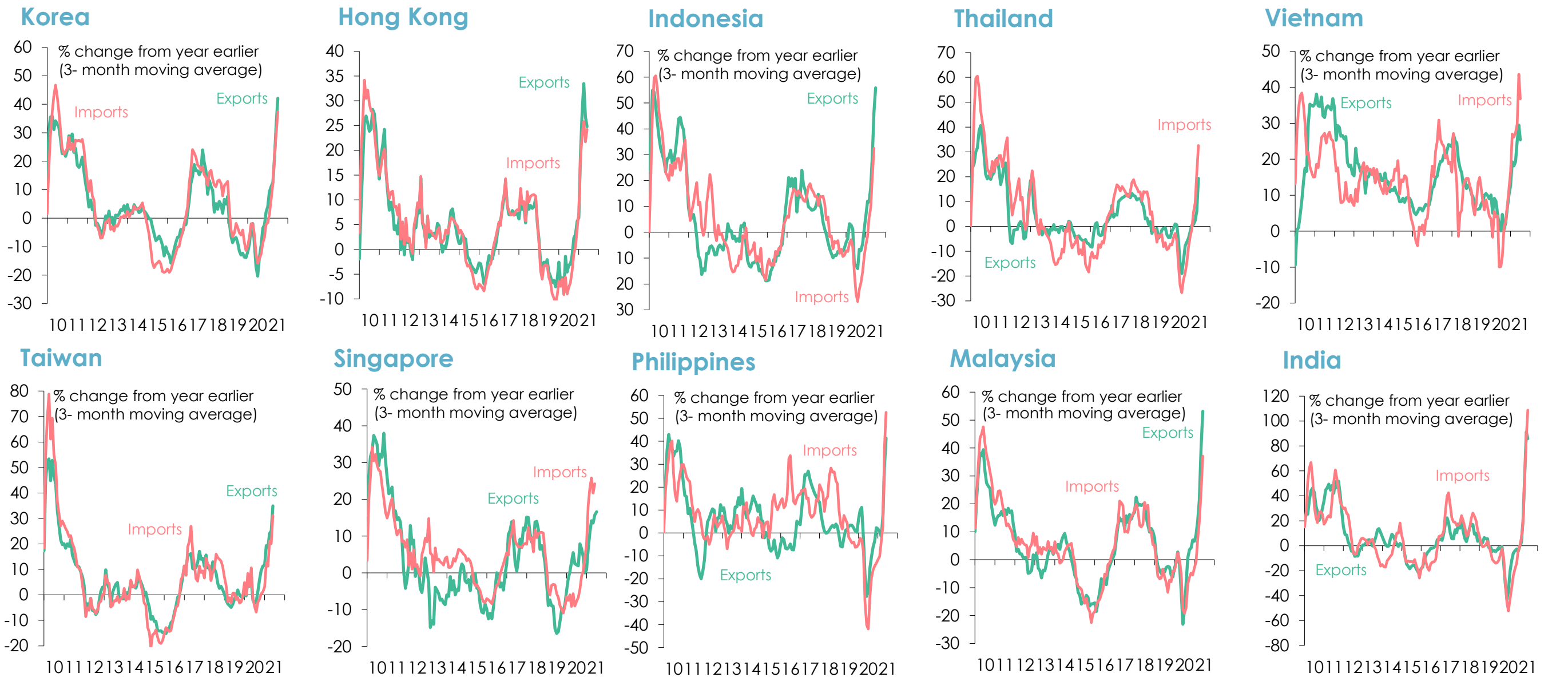
Note: 'Core' inflation in Korea excludes agricultural products and oil; in Taiwan it excludes fresh fruit, vegetables and energy; in Singapore it excludes accommodation and private transport; and in Hong Kong it excludes the effect of 'one-off government relief measures'. 'Core' inflation in Indonesia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

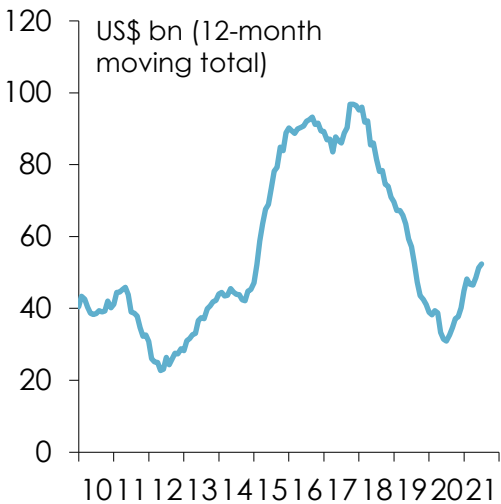
Asian exports are recovering from the Covid-induced slump – although ‘base effects’ from this time last year are inflating the growth



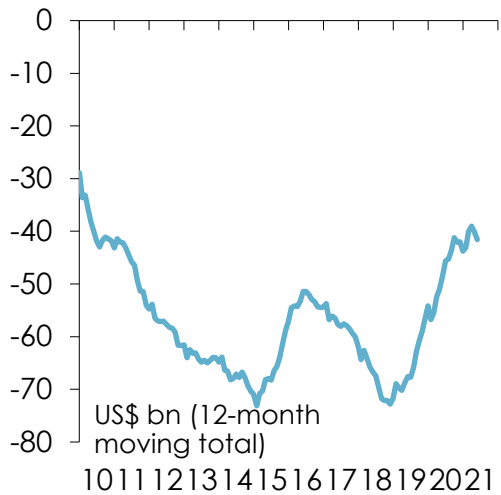
Note: Data for Hong Kong, Singapore and Malaysia are published in national currencies and converted to US dollars by Corinna using month-average exchange rates.
Sources: national statistical agencies and central banks. [Return to "What's New"](#).

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

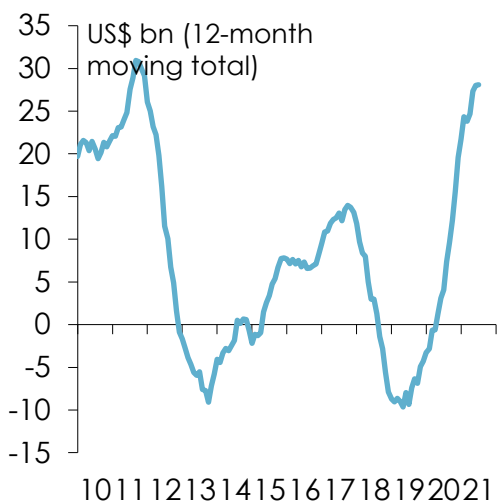
Korea



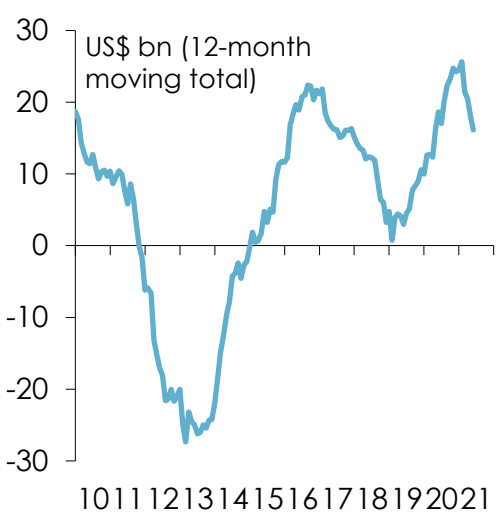
Hong Kong



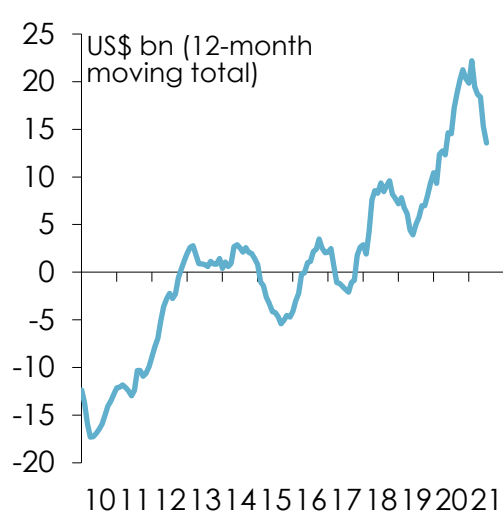
Indonesia



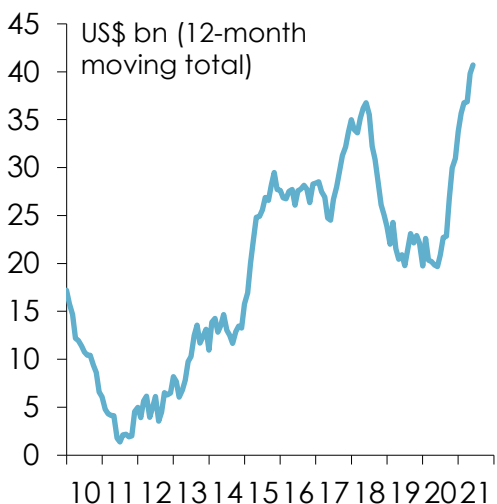
Thailand



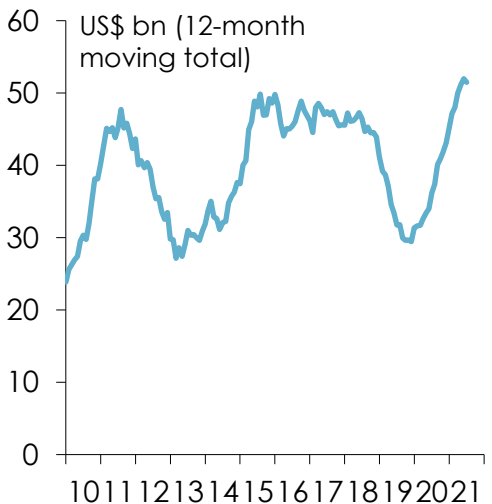
Vietnam



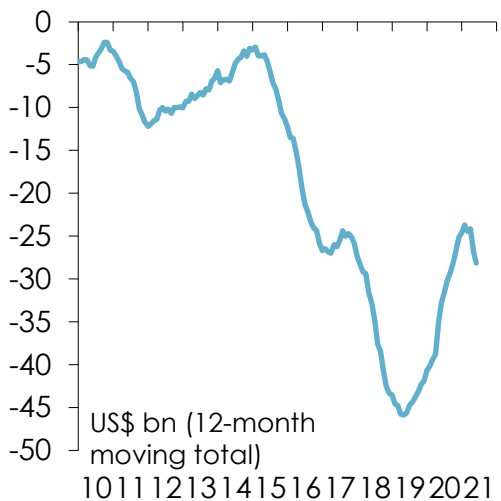
Taiwan



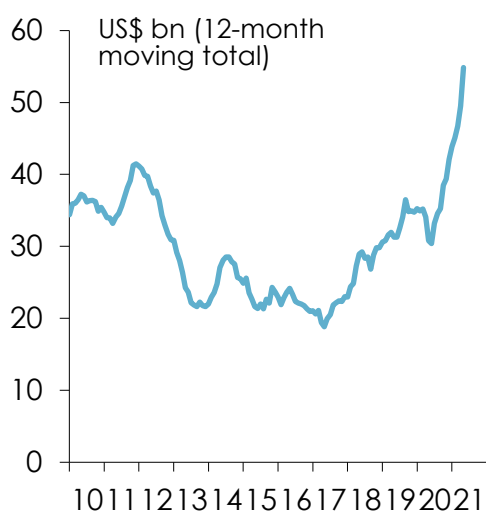
Singapore



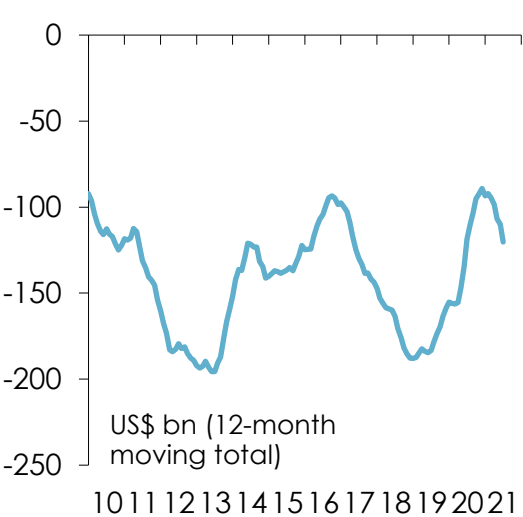
Philippines



Malaysia



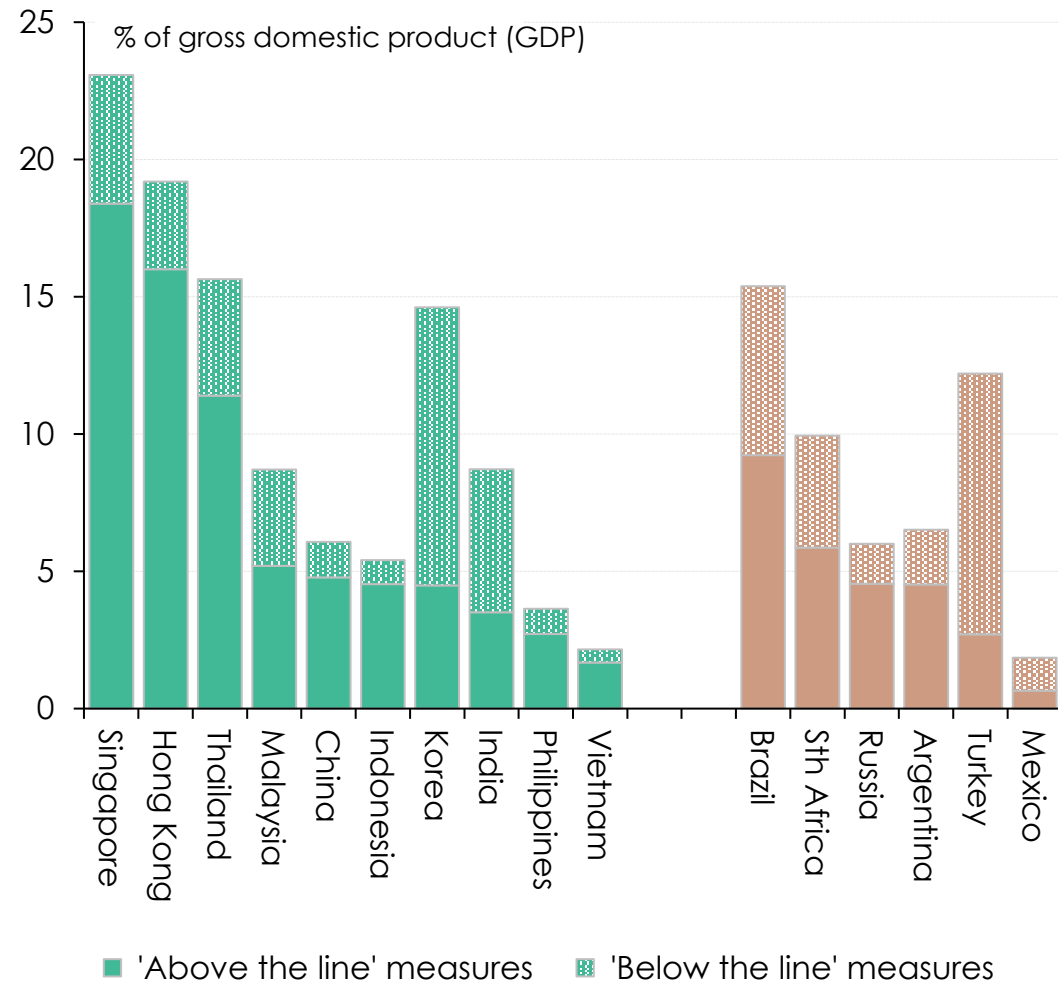
India



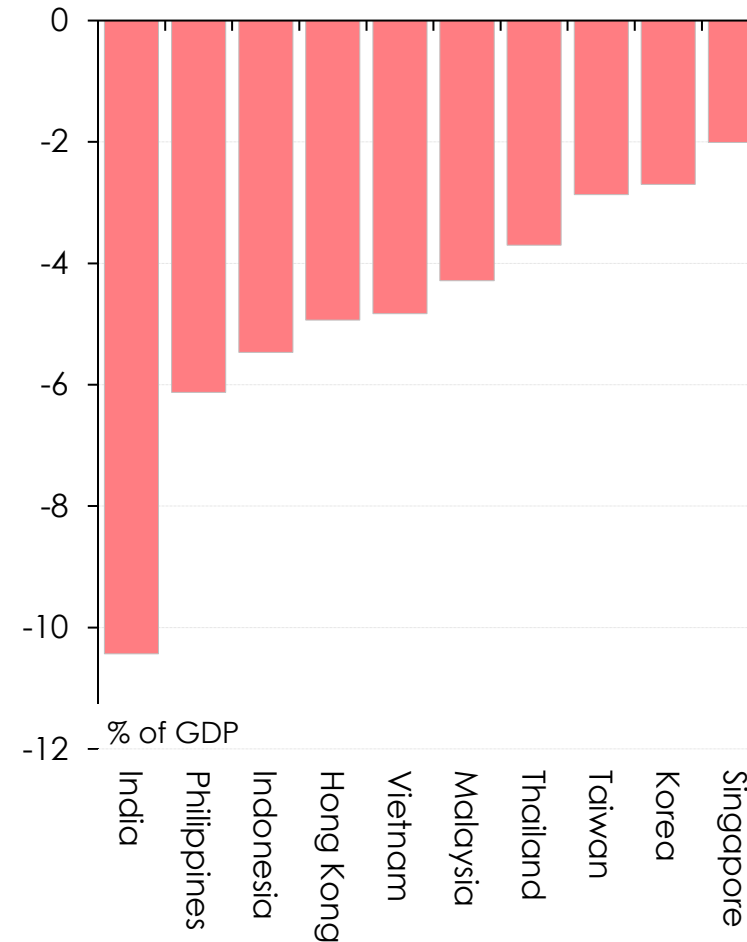
Note: Data for Hong Kong, Singapore and Malaysia are published in national currencies and converted to US dollars by Corinna using month-average exchange rates.
Sources: national statistical agencies and central banks. [Return to "What's New"](#).

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

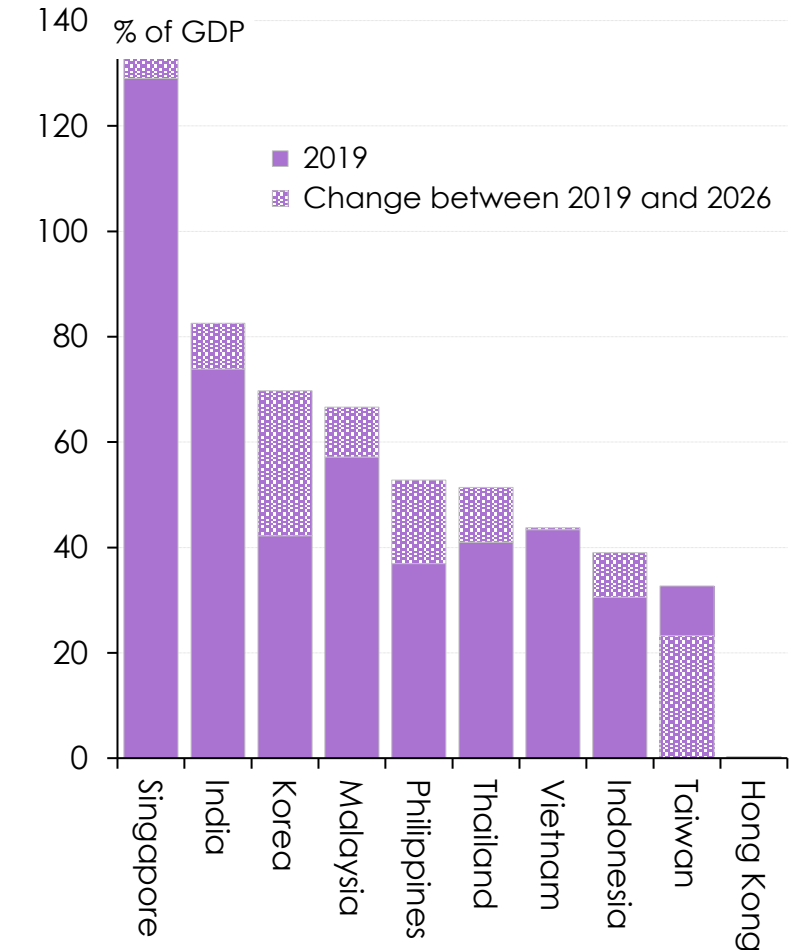
Fiscal policy responses to Covid-19 – Asian & other selected emerging market economies



Budget balances – Asian economies 2020-2022

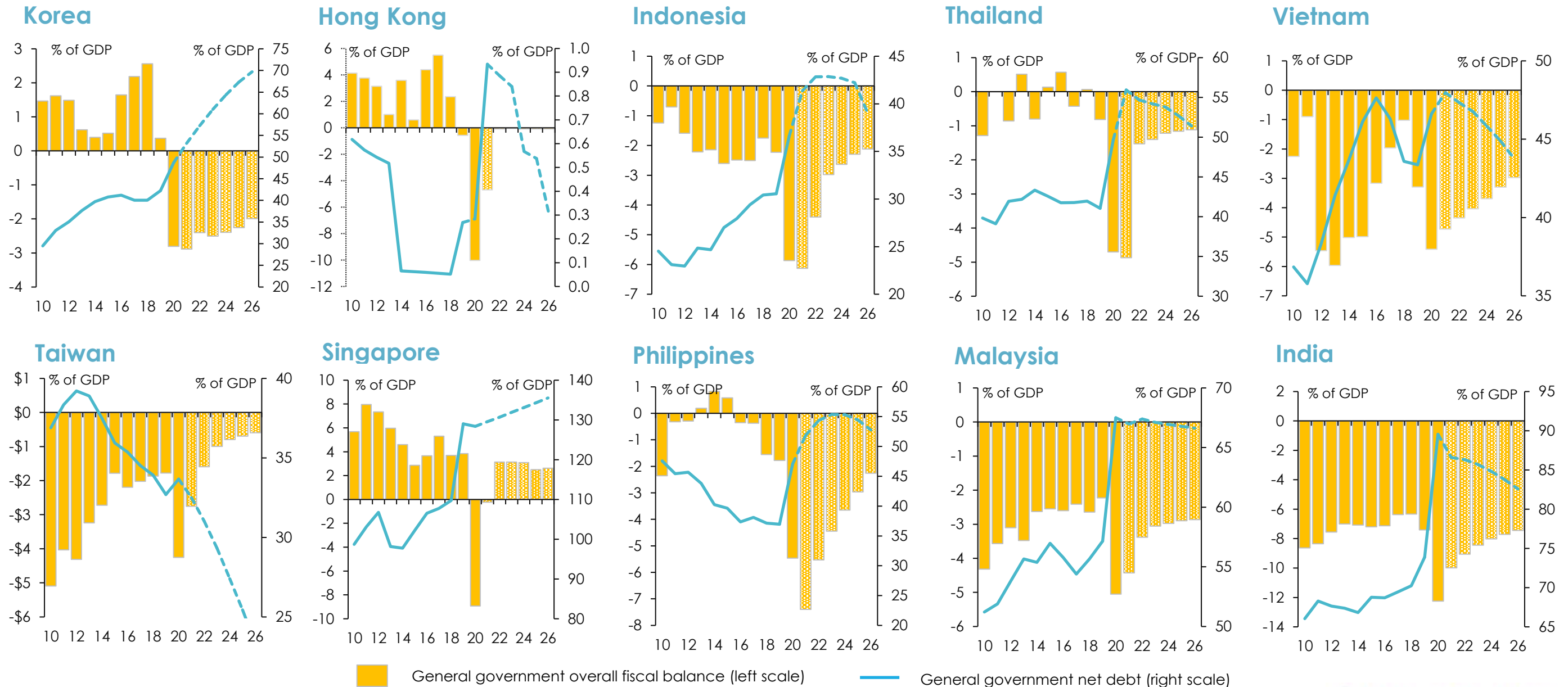


Gross government debt – Asian economies 2019-26



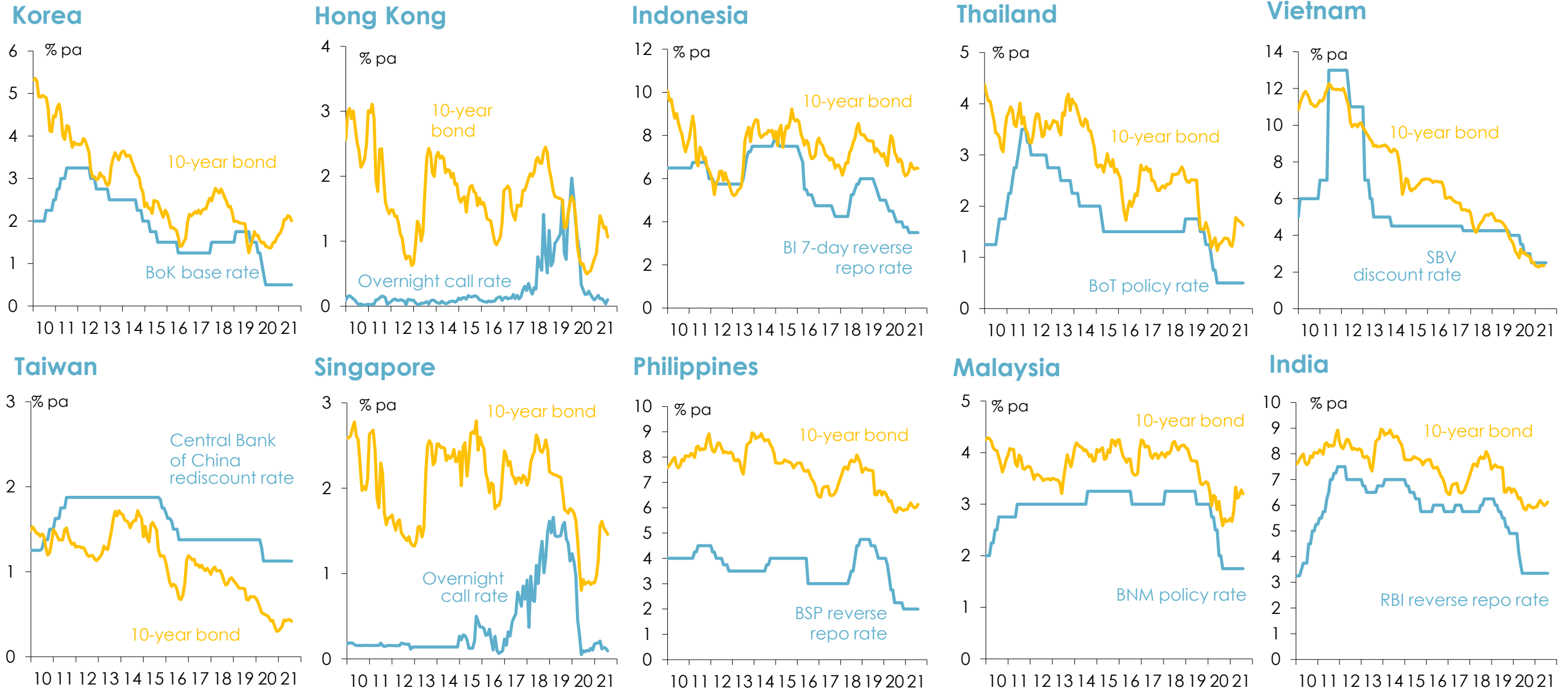
Note: 'Above the line' measures comprise additional or accelerated spending and deferred or foregone revenue. 'Below the line' measures comprise equity injections, loans, asset purchases and debt assumptions, but do not include loan guarantees or other contingent liabilities. 'DMs' means 'developed markets' (or 'advanced economies'). Data includes measures announced up until 5th June 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](#), July 2021; and [Fiscal Monitor](#), April 2021. [Return to "What's New"](#).

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



Source: International Monetary Fund, [Fiscal Monitor](#), and [World Economic Outlook](#), April 2021. [Return to "What's New"](#)

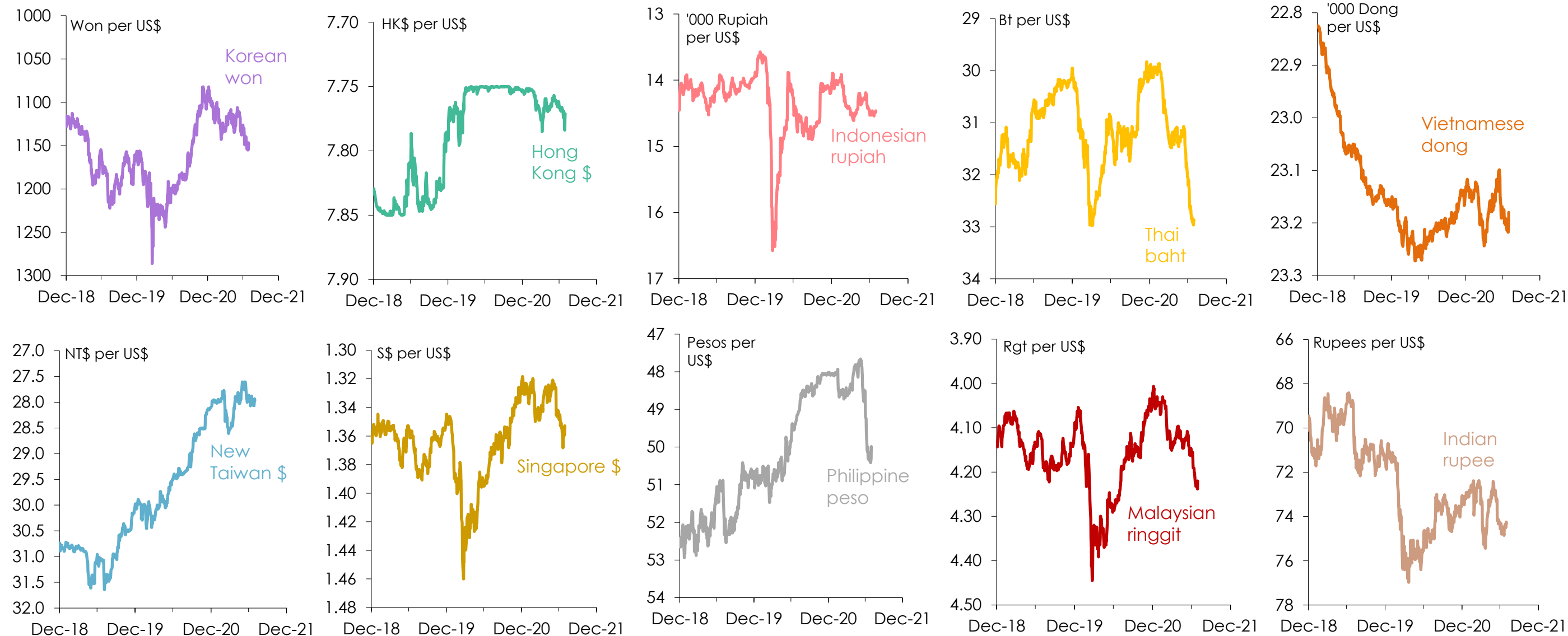
No Asian central bank has given any hint of any near- or medium-term tightening of monetary policy (in contrast to other EM regions)



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"](#).

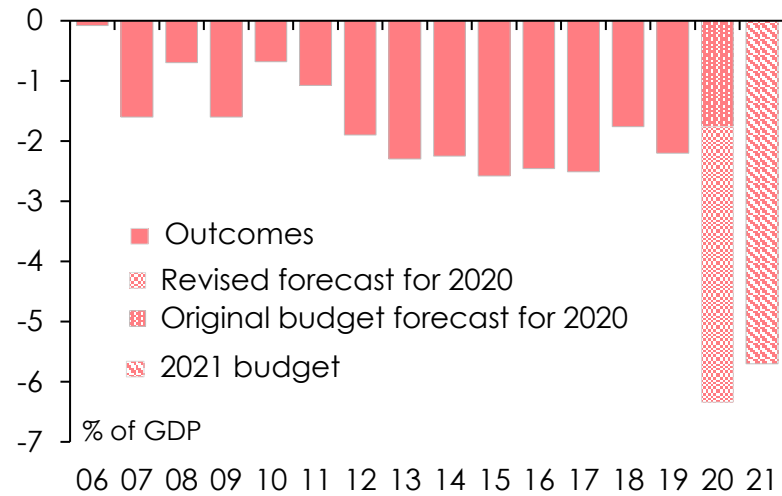
Asian currencies were mostly a little stronger this week, against a softer US\$, with the Philippines peso and Sing \$ showing the largest gains

Asian currency exchange rates vs US dollar

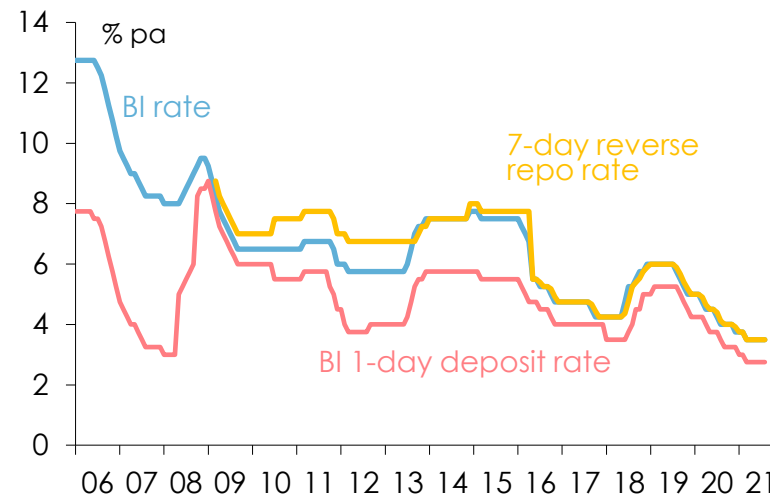


Bank Indonesia left monetary policy settings on hold this month, but its holdings of government debt have risen very sharply in recent weeks

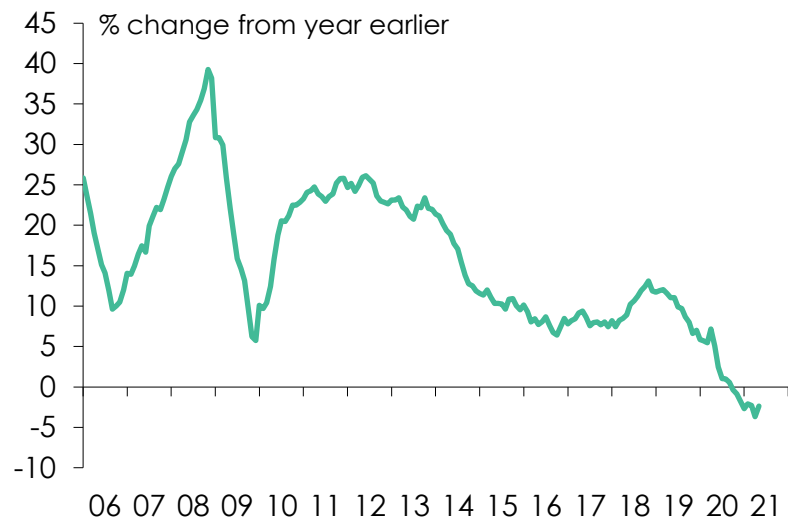
Indonesia budget deficit



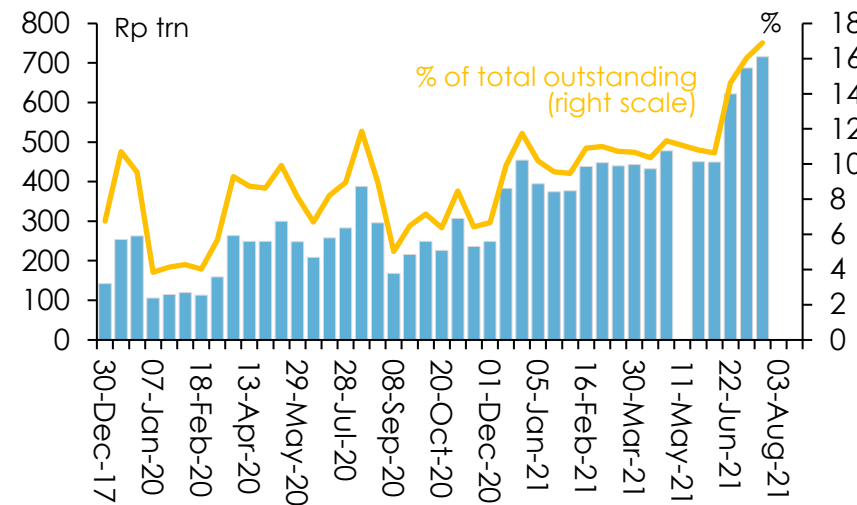
BI monetary policy rates



Bank lending



BI holdings of tradeable SBNs

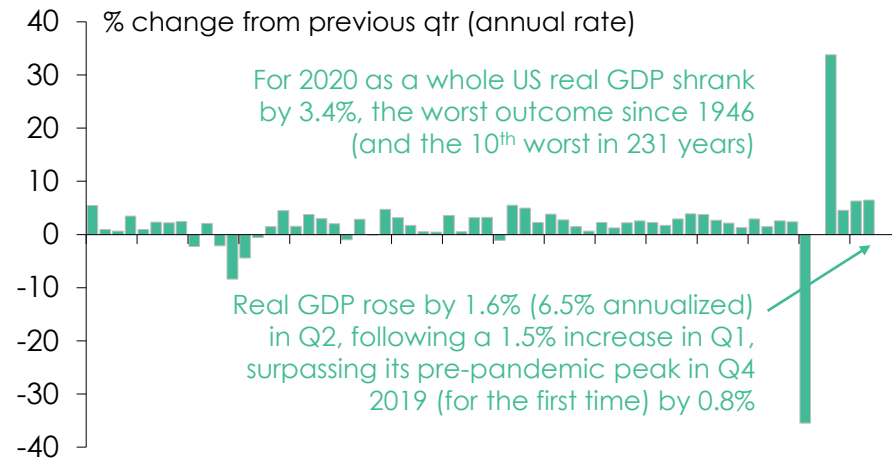


- In April 2020, the Indonesian Government and Bank Indonesia (BI) agreed to a 'burden-sharing' scheme under which BI will directly purchase bonds equivalent to 25% of this year's budget financing requirement (and return the interest received to the Government), as well as subsidizing interest payments on other bonds
 - BI calls this 'synergistic monetary expansion'
 - up to 19th 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 at last week's Governing Council meeting
 - BI lowered its growth forecast for 2021 to 3½-4¼% (from 4.1-5.1% previously)

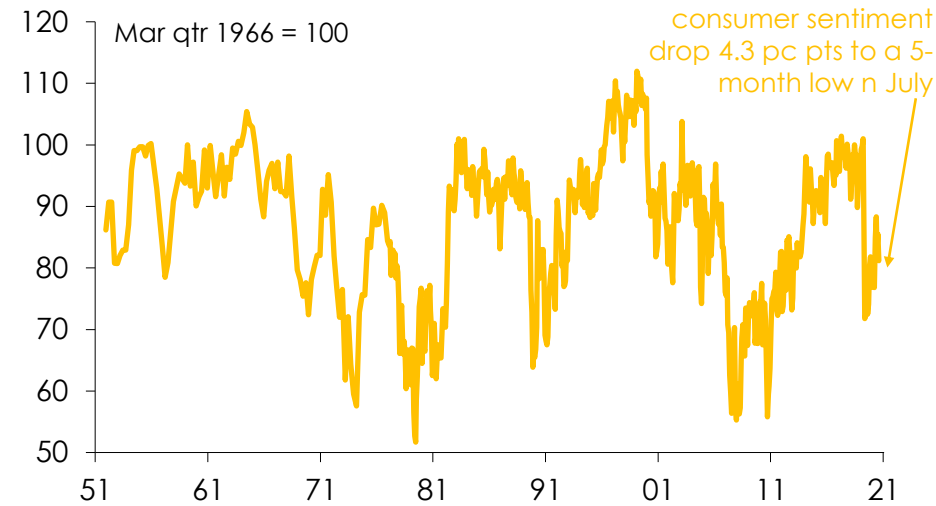
Sources: [Indonesia Ministry of Finance \(Kementerian Keuangan\)](#); [Directorate of Government Debt Securities](#); Bank Indonesia. [Return to "What's New"](#).

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

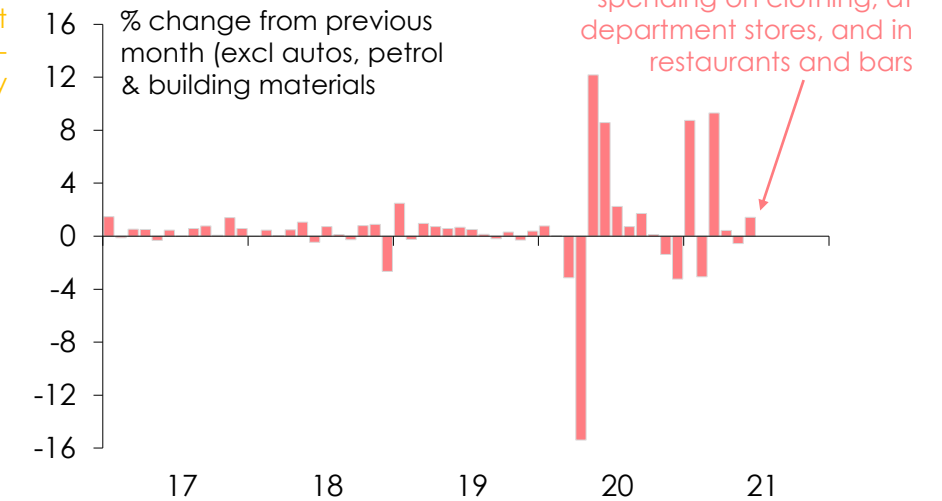
Real GDP



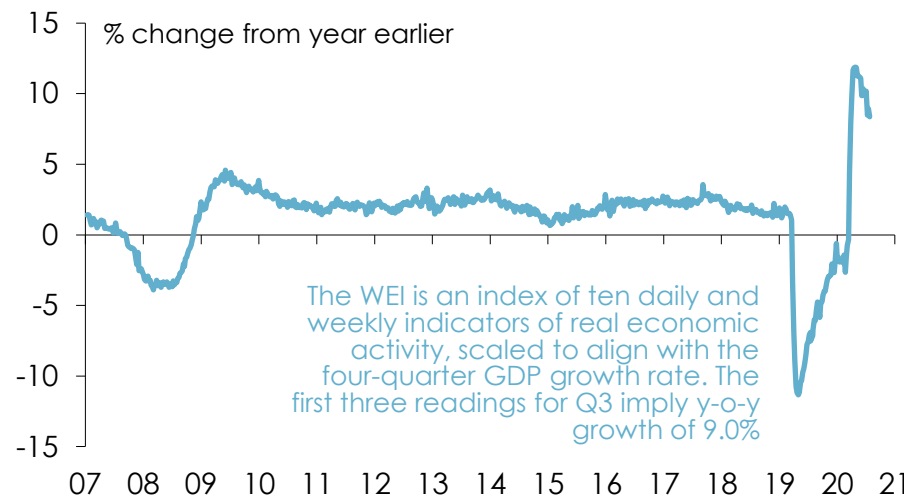
Consumer sentiment



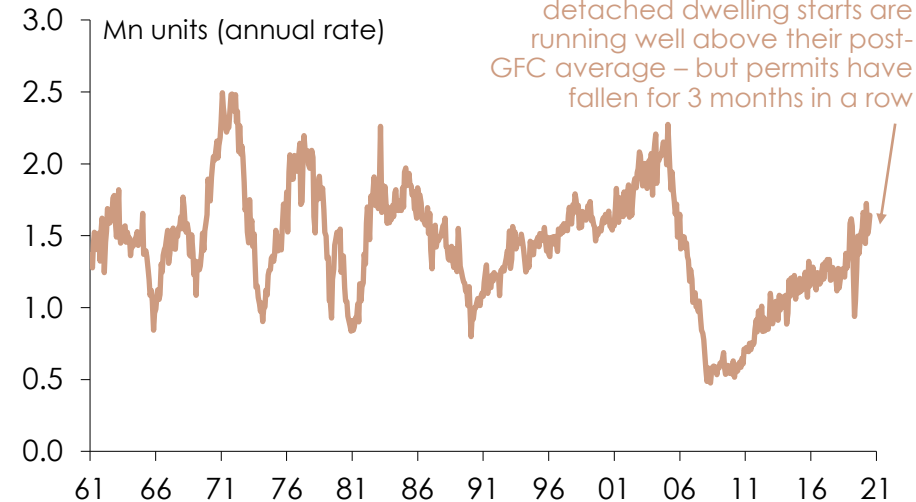
'Core' retail sales



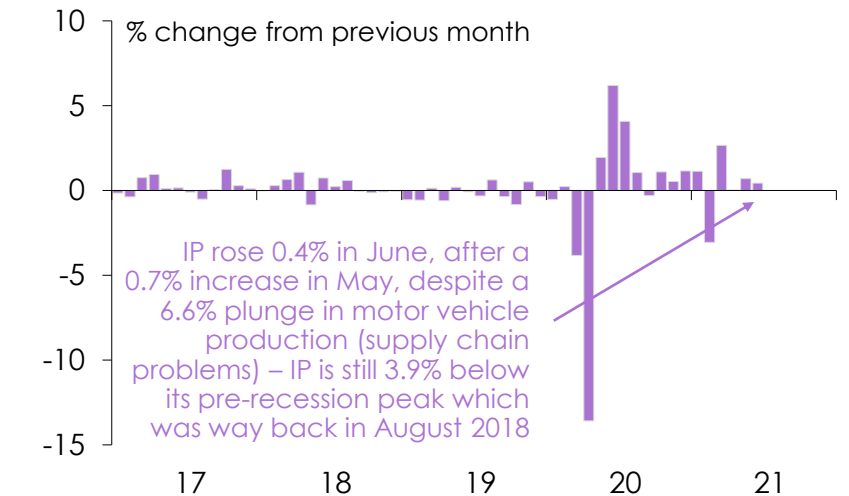
NY Fed weekly economic index



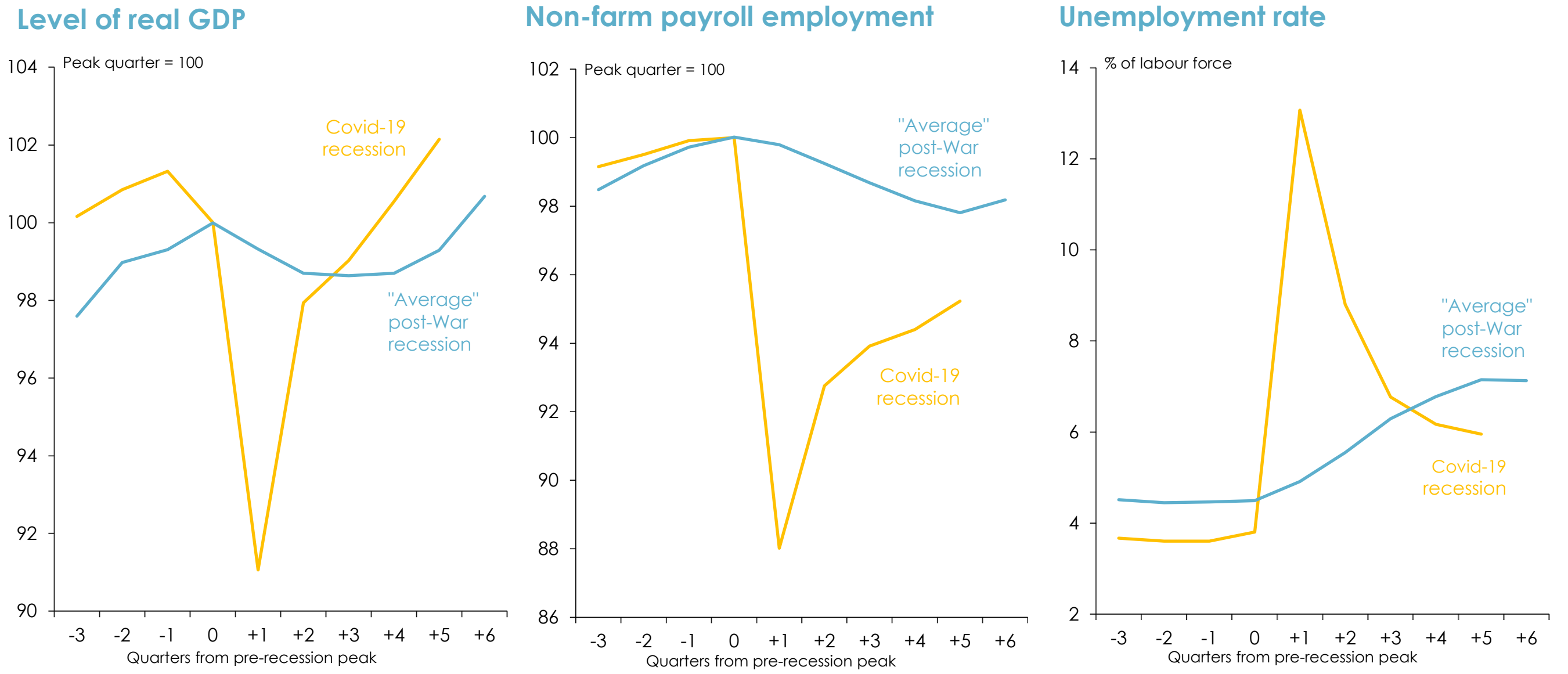
Housing starts



Industrial production



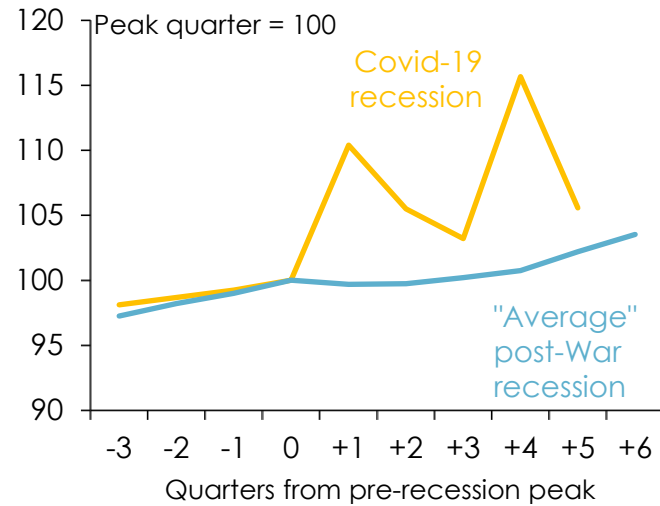
The Covid-19 recession has been quite unlike any other of the recessions the US has experienced since the end of World War II



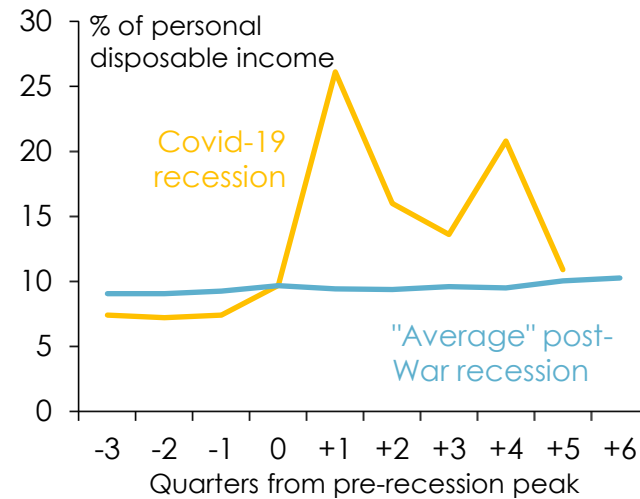
Note: 'average post-war recession' is the average of figures for each of the eleven post-war US recessions as designated by the [National Bureau of Economic Research Business Cycle Dating Committee](#), with the exception of the recession of January-July 1980 (which was too short, and too close to the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

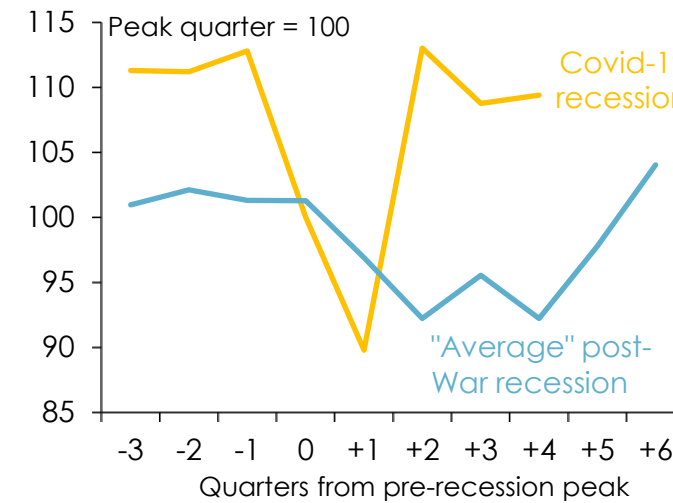
Personal disposable income



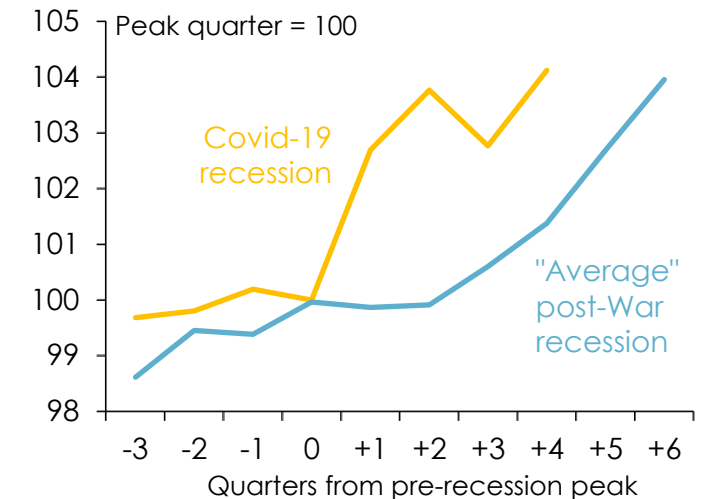
Personal saving rate



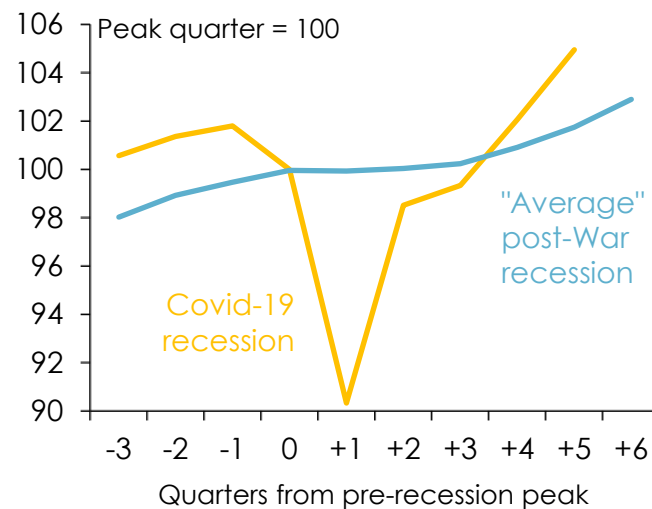
After-tax corporate profits



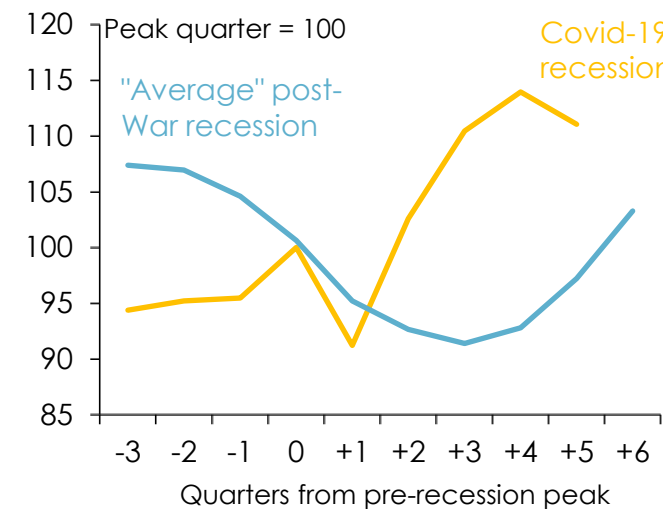
Labour productivity



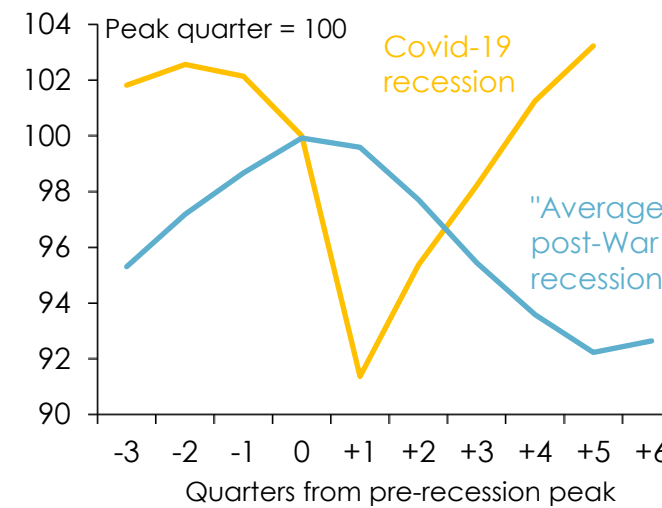
Personal consumption



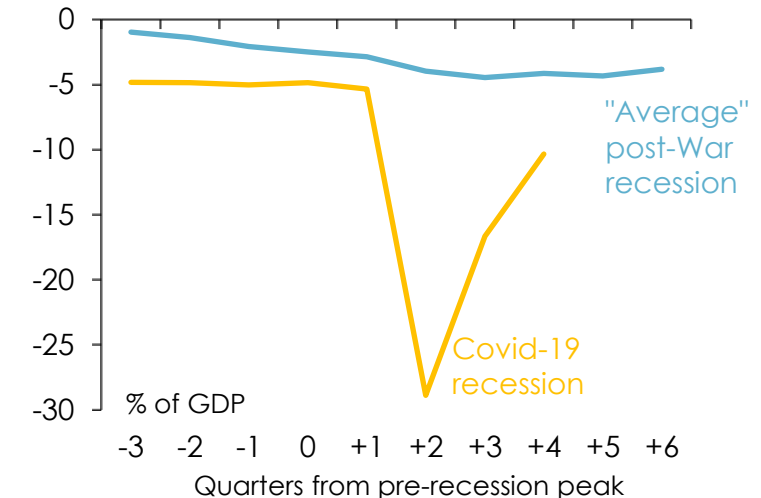
Residential investment



Business investment



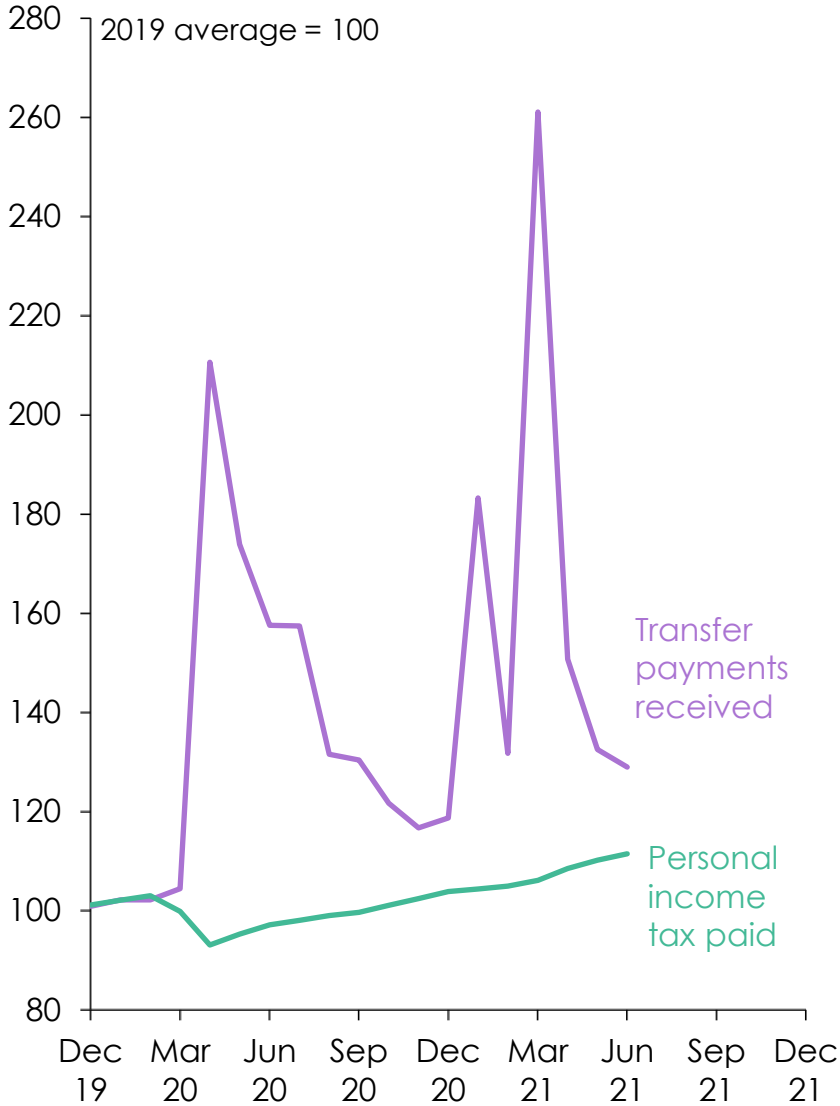
Federal budget balance



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

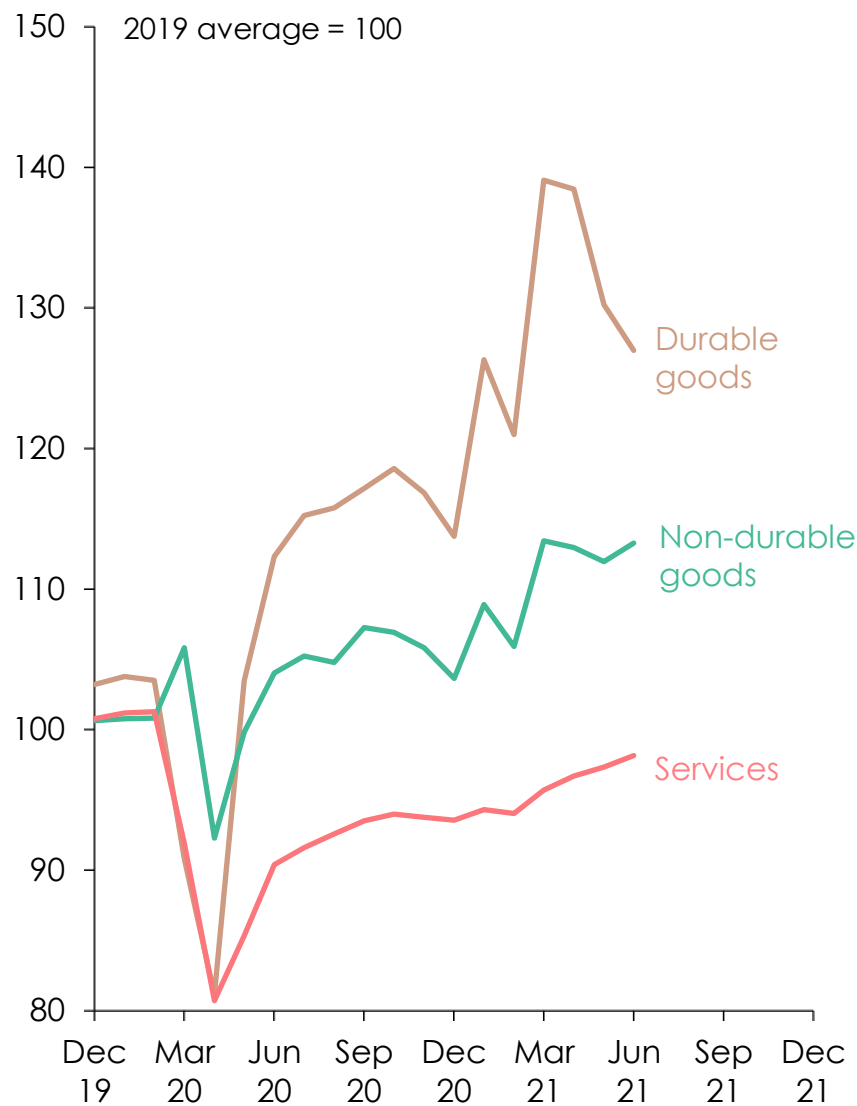
Tax and transfer payments



Real personal income

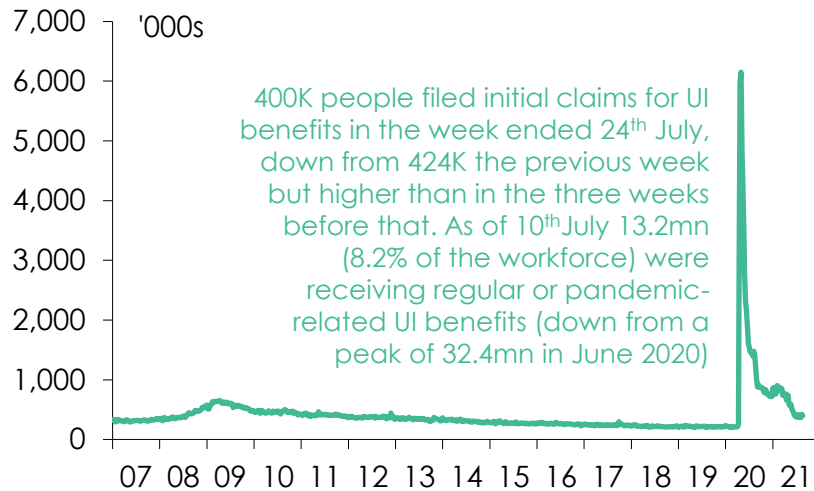


Real consumption expenditure

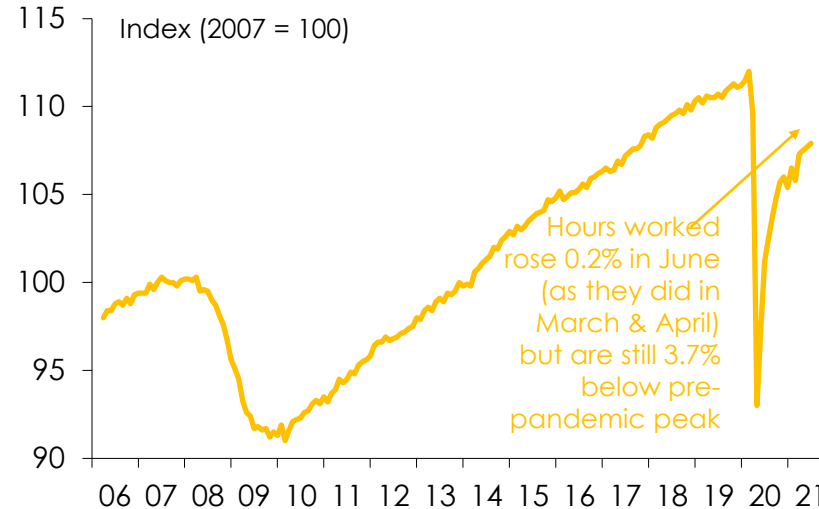


US non-farm payrolls rose 850K (0.6%) in June but are still 6.8mn (4.4%) below their pre-pandemic peak, and unemployment rose 0.1 pc pt to 5.9%

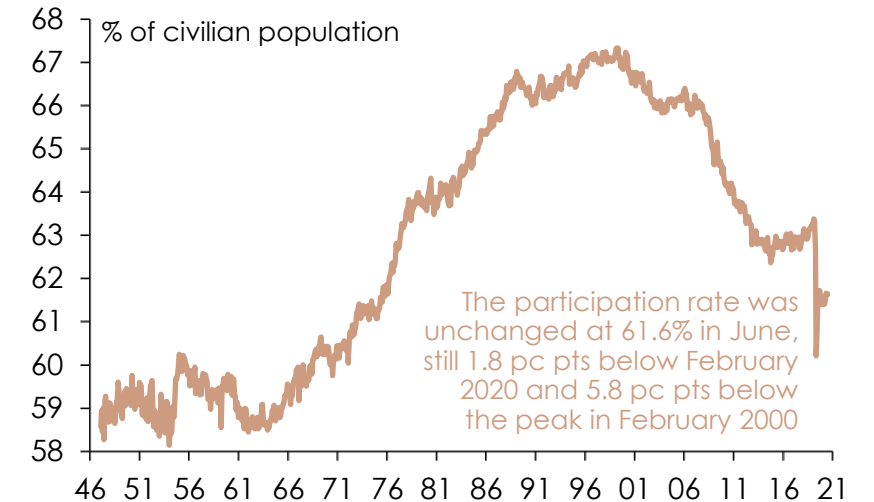
Unemployment benefit claims



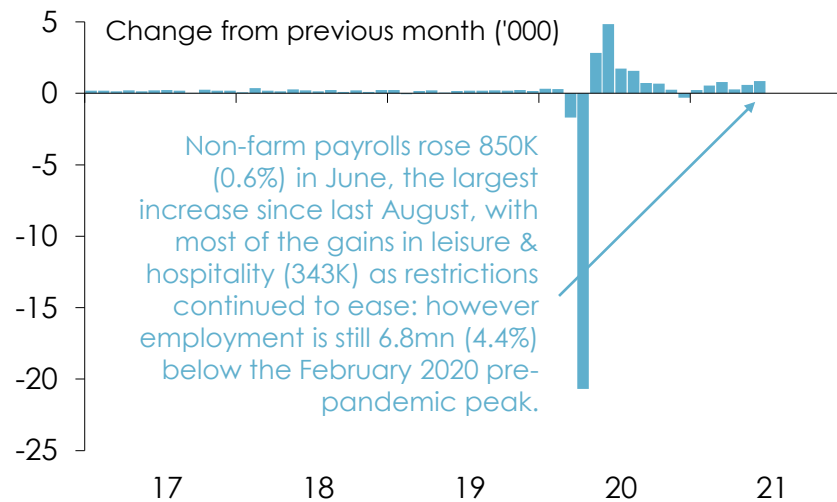
Hours worked (private sector)



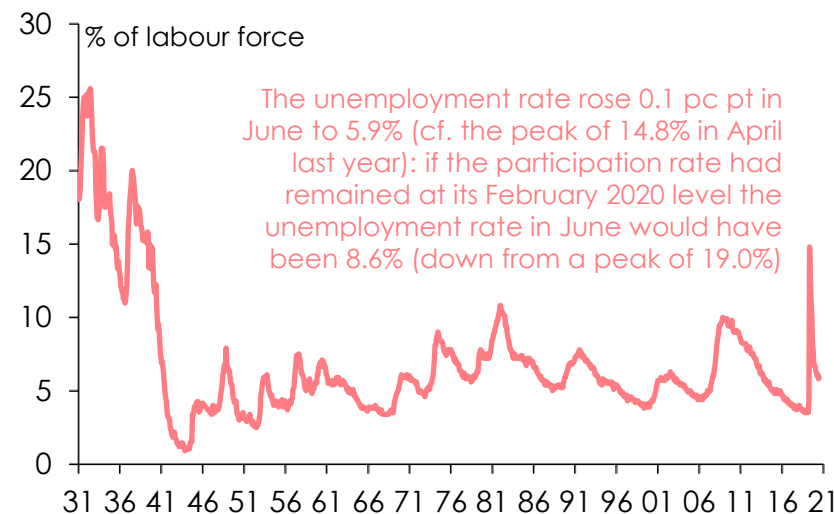
Labour force participation rate



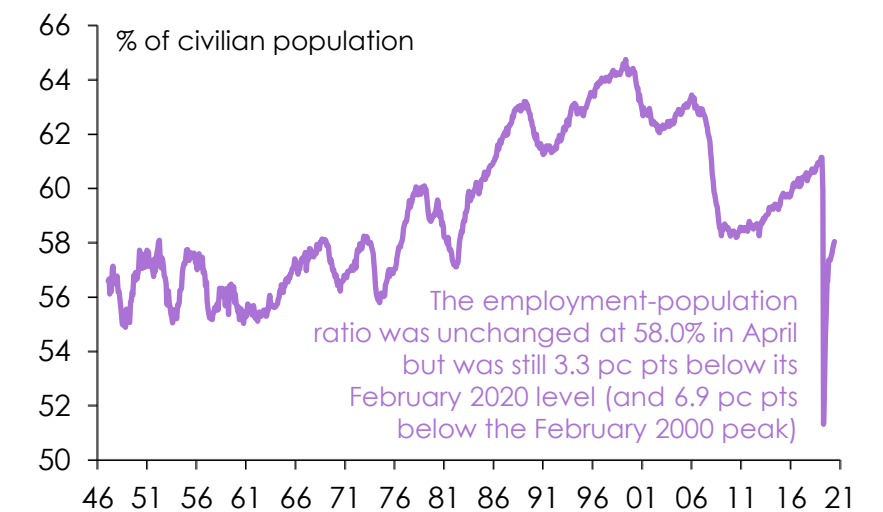
Non-farm payroll employment



Unemployment rate

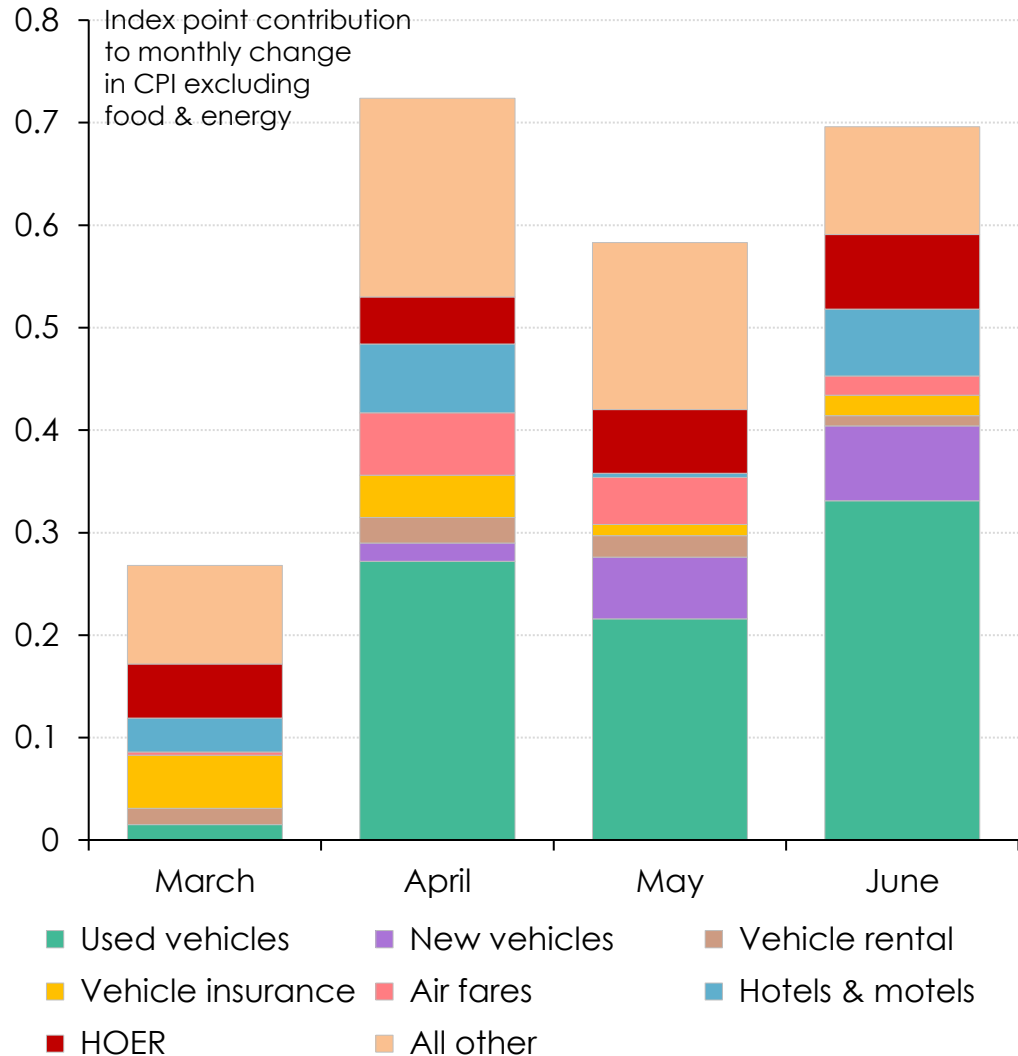


Employment to population ratio



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



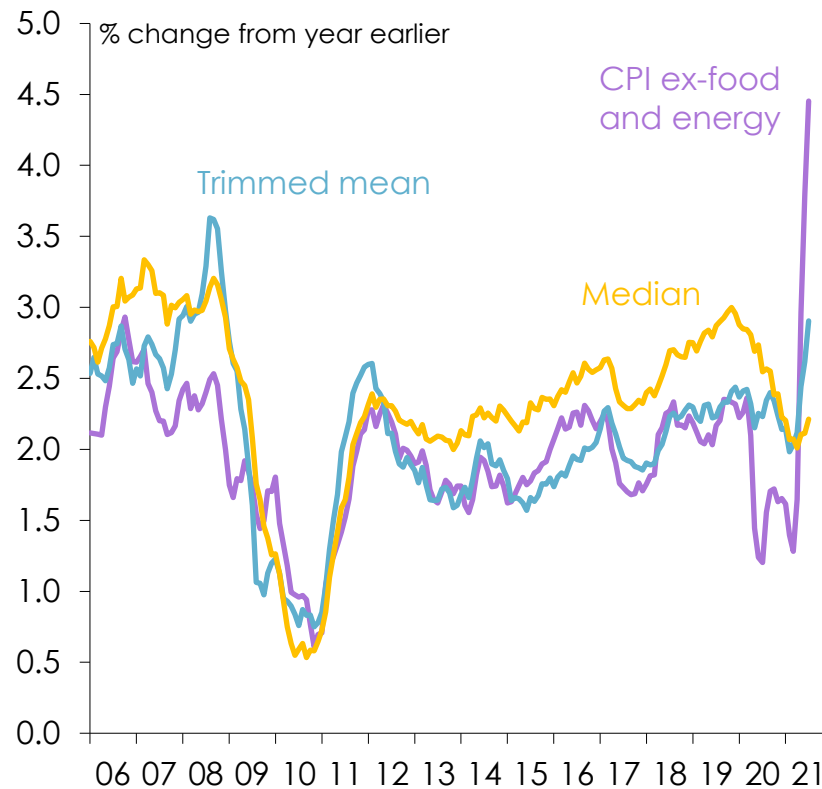
Price indices for items which have contributed most to recent monthly changes in the 'core' US CPI (rebased to December 2019 = 100)



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"](#).

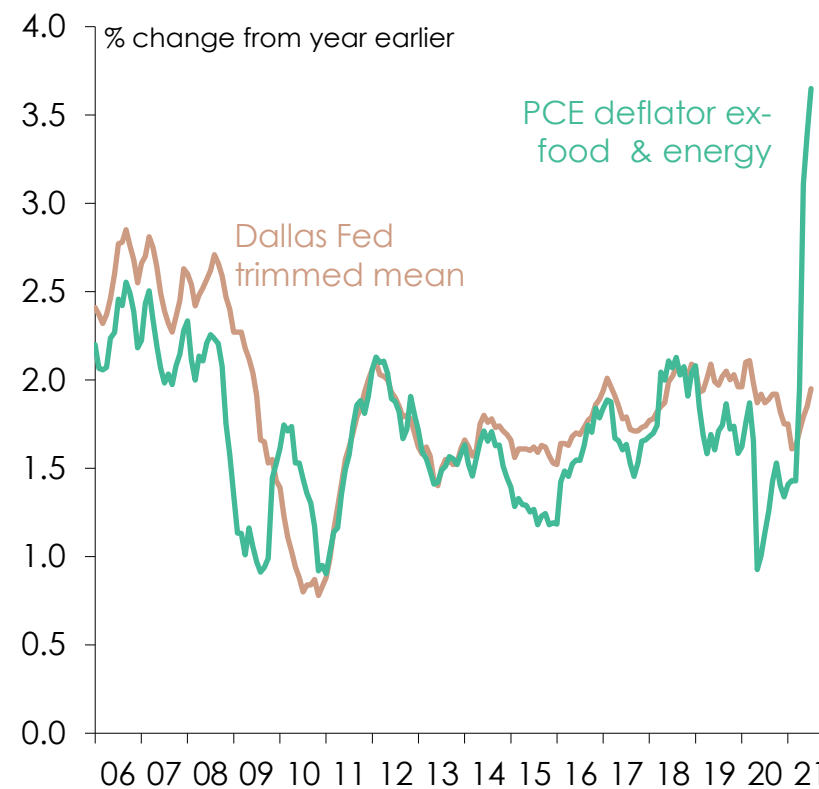
Statistical measures of 'core' inflation haven't increased very much – and longer-term inflation expectations remain 'well anchored'

Alternative measures of US 'core' CPI inflation



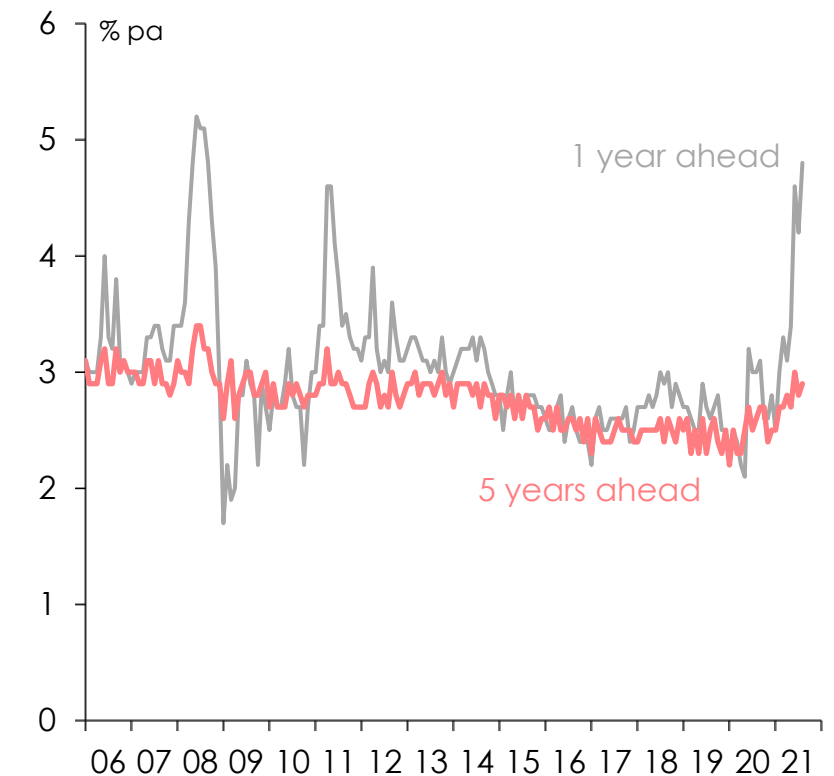
- ❑ Statistical measures (similar to those used by the RBA) confirm that the rise in 'core' CPI inflation is almost entirely due to 'outliers' (see previous slide)

Alternative measures of US 'core' PCE deflator inflation



- ❑ Likewise the trimmed mean of the PCE price deflator (the Fed's targeted inflation measure) has not increased dramatically

Household inflationary expectations

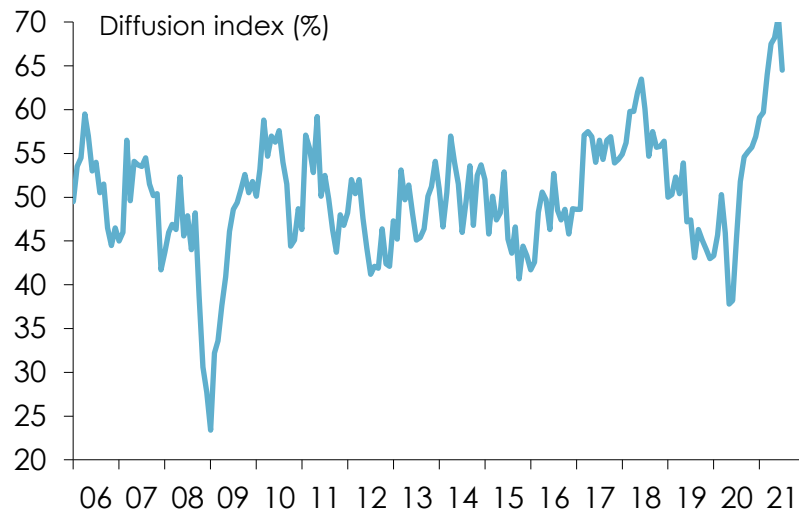


- ❑ Short-term household inflation expectations have risen sharply but longer-term expectations remain 'well anchored' (which is important for the Fed)

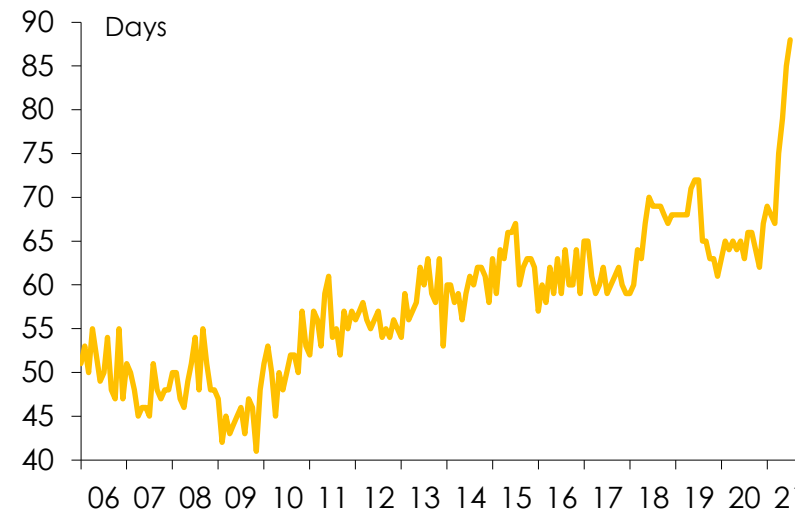
Note: The 'trimmed mean' CPI inflation rate excludes the components of the CPI whose weights fall in the top and bottom 8% of the distribution of price changes; the median is the component whose price change is in the middle of the distribution of price changes. The 'trimmed mean' of the PCE deflator excludes 24% by weight from the lower tail and 31% by weight from the upper tail of the ranked distribution of price changes. Sources: [US Bureau of Economic Analysis](#); [Federal Reserve Bank of Cleveland](#); [Federal Reserve Bank of Dallas](#); and [Michigan University Survey Research Center](#). [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

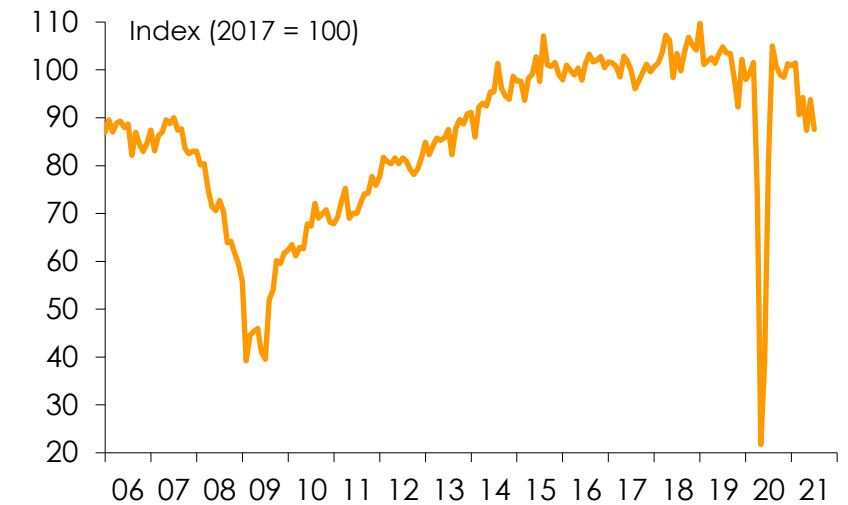
Manufacturers' order backlogs



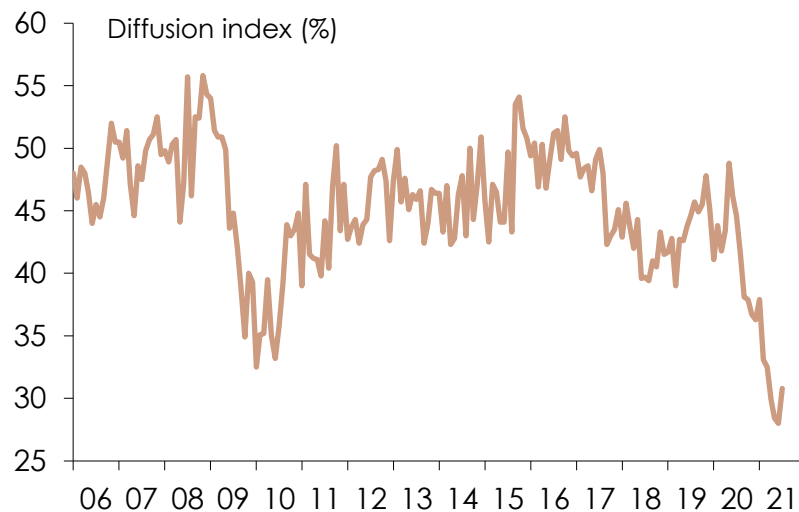
Lead-time for production materials



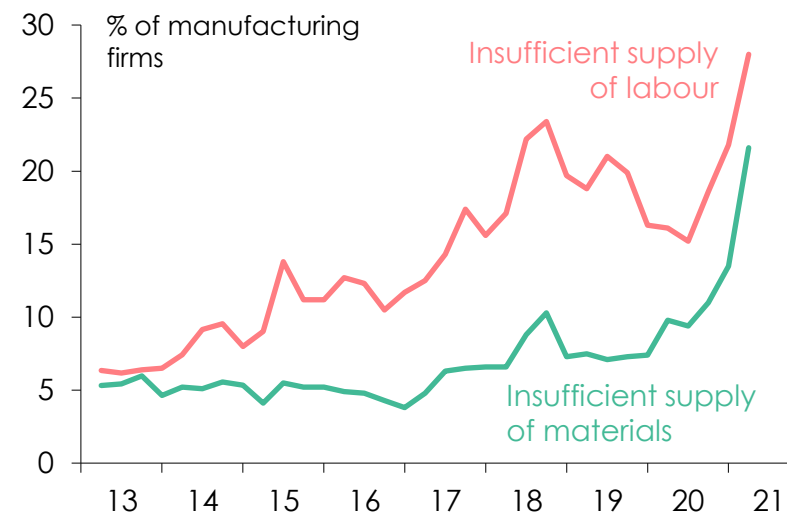
Motor vehicles & parts production



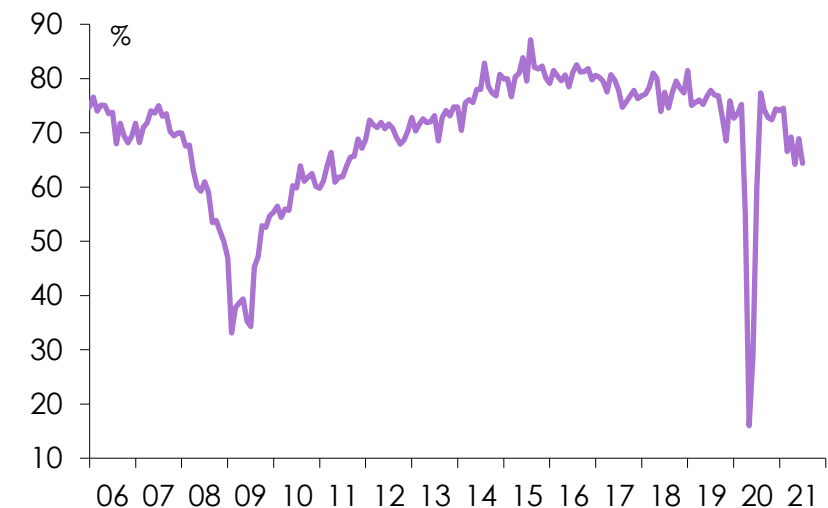
Manufacturers' customer inventories



Reasons for < full capacity



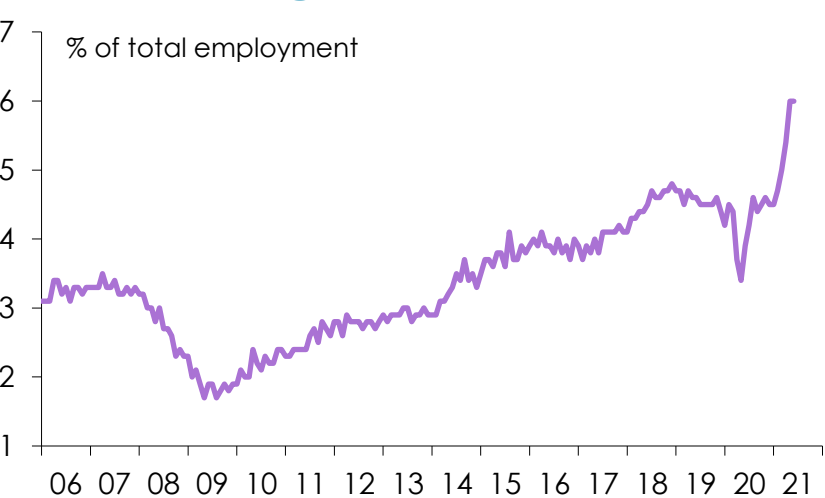
Auto industry capacity utilization



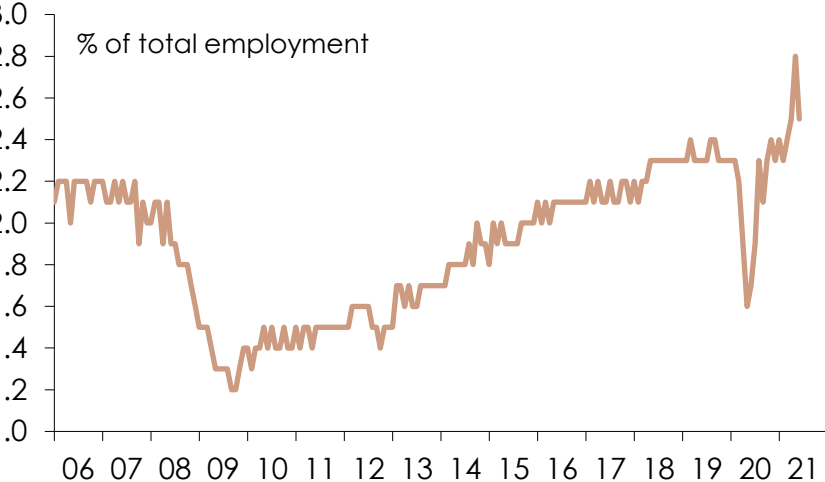
Note: The diffusion index of order backlogs is 50 plus the percentage of respondents reporting longer backlogs minus the percentage reporting shorter backlogs (and similarly for customer inventories). 'Reasons for < full capacity' means reasons for operating at less than full capacity. Sources: Institute 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’s little evidence of economy-wide wage pressure

Job openings

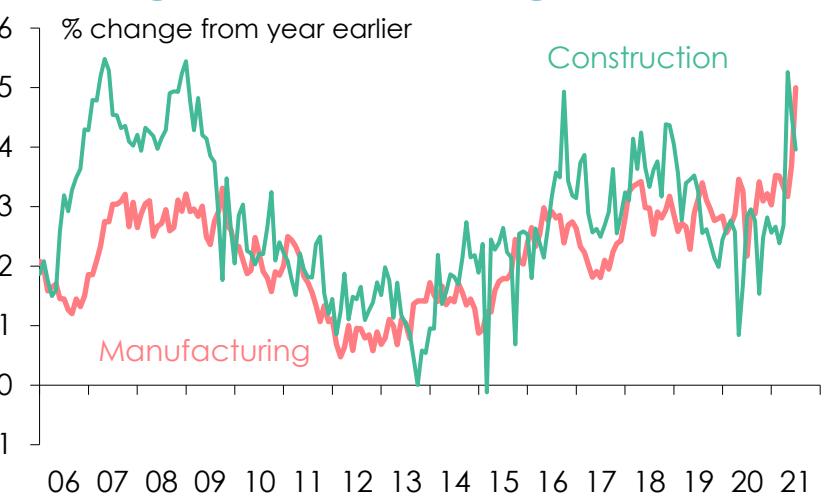


Quit rate

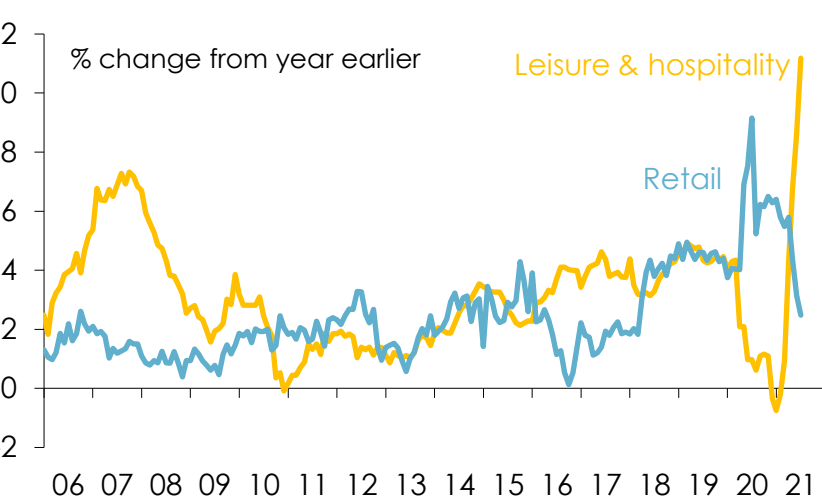


Note: Measures of average hourly earnings (especially the all-industries measures) and of average compensation per hour are affected by changes in the composition of employment (so for example they rose sharply in Q2 2020 when large numbers of low-paid workers were laid off and fell markedly when they 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"](#).

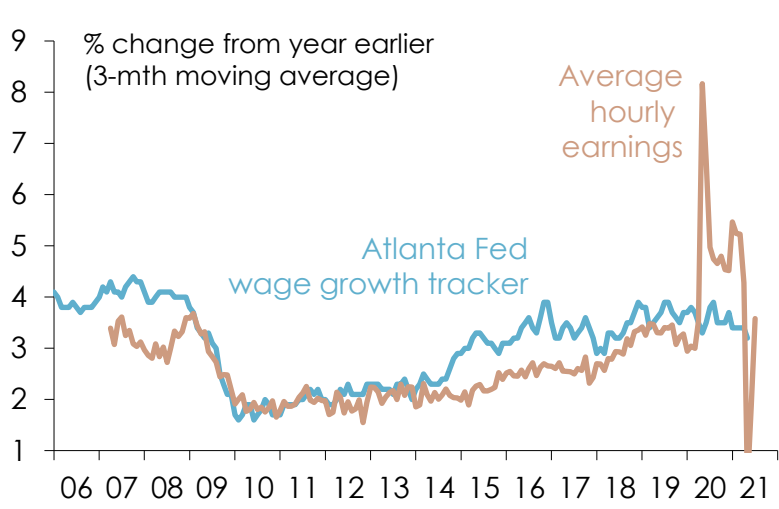
Average hourly earnings



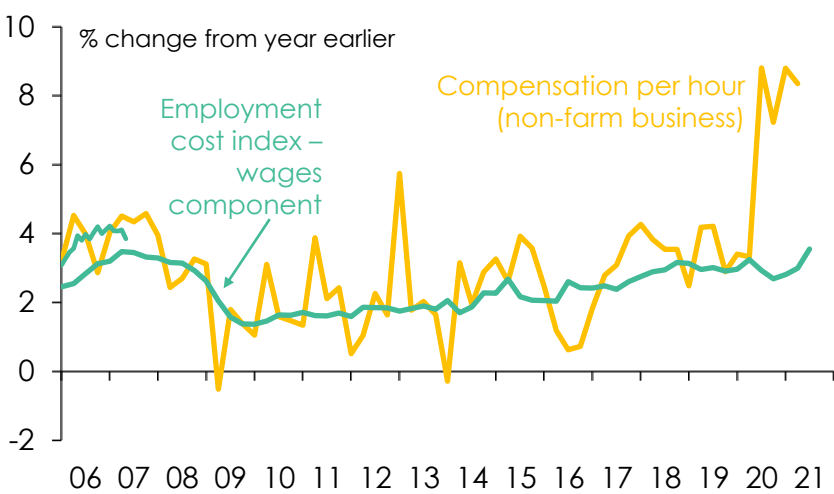
Average hourly earnings



Overall wages growth - monthly

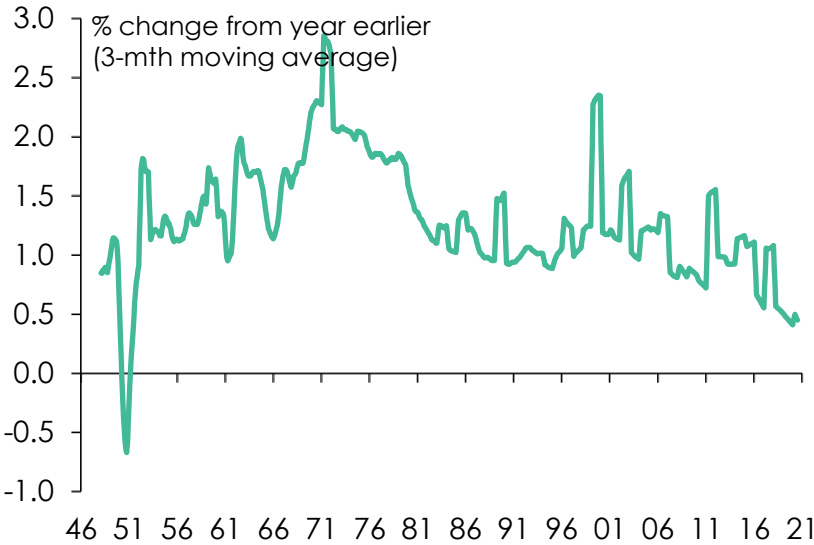


Wages growth - quarterly

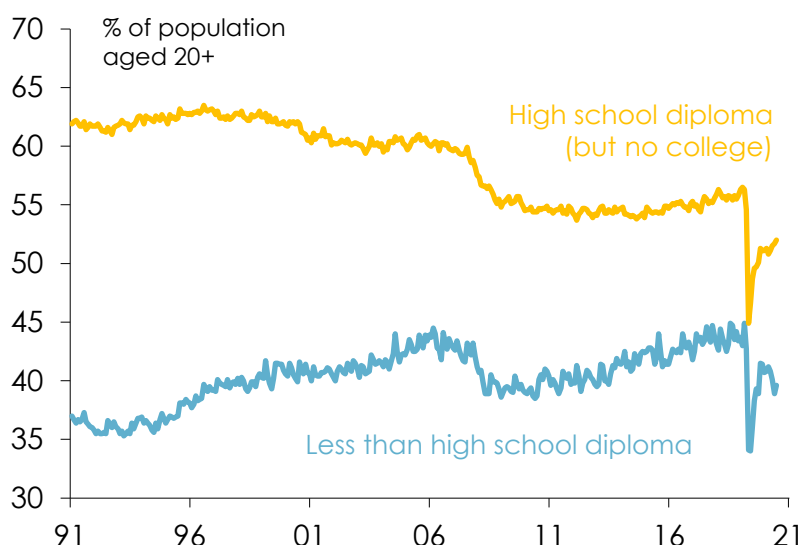


US labour market tightness owes a lot to restrictions on immigration, and to barriers to the return to the labour market of specific groups

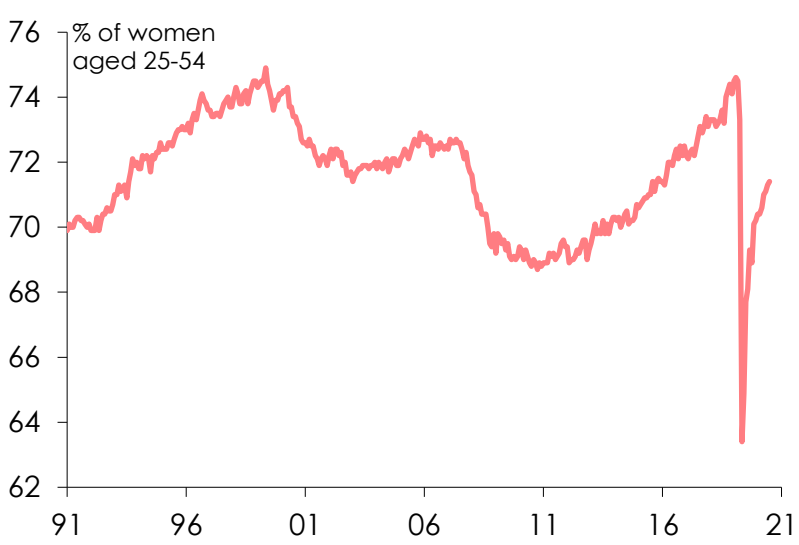
Civilian working age population



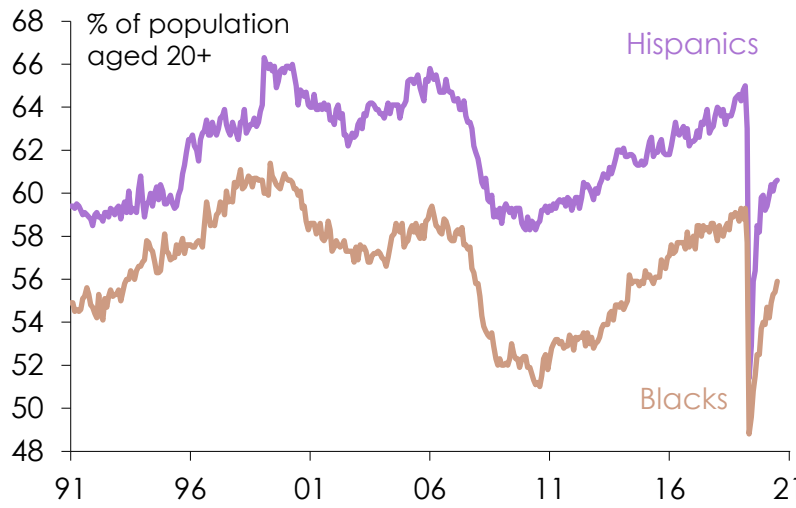
'E-pop' ratio – by education



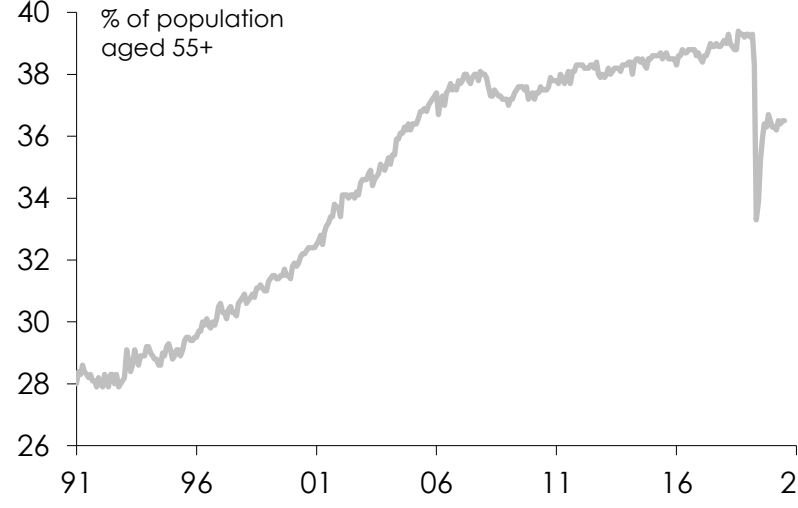
'E-pop' ratio – women 25-54



'E-Pop' ratio – Blacks & Hispanics



'E-pop' ratio – people 55 & over



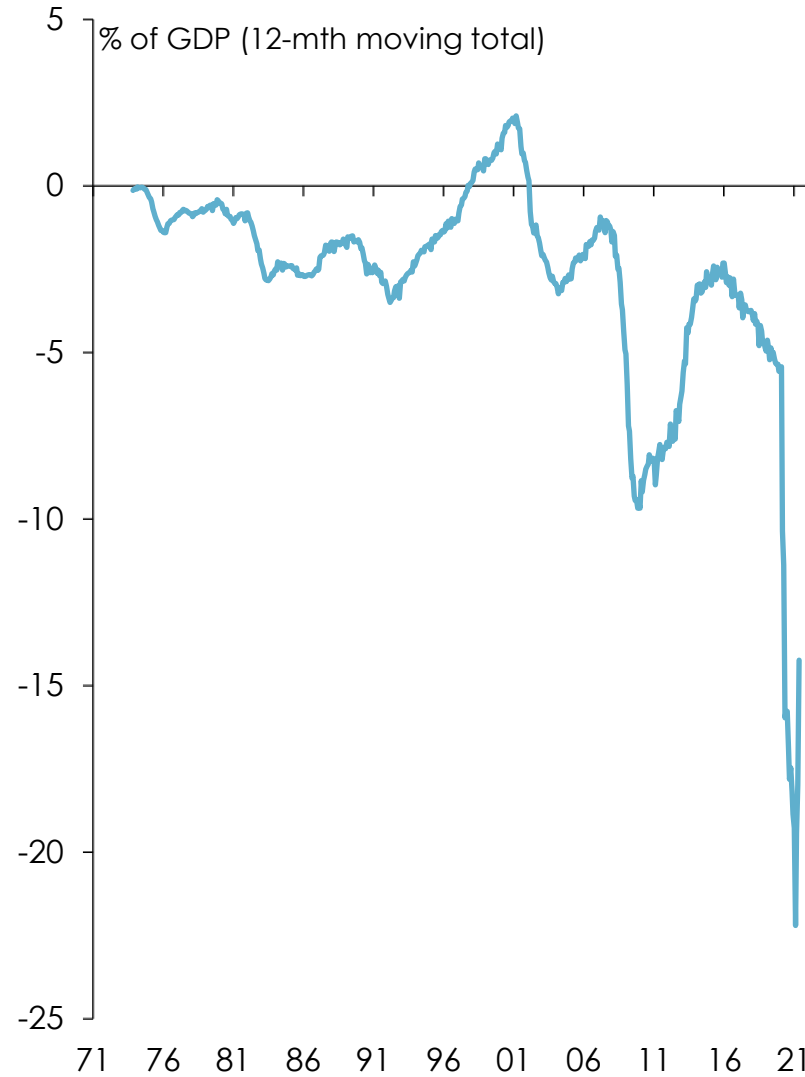
Change from Jan-Feb 2020 to Apr-May 2021(pc of population)

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

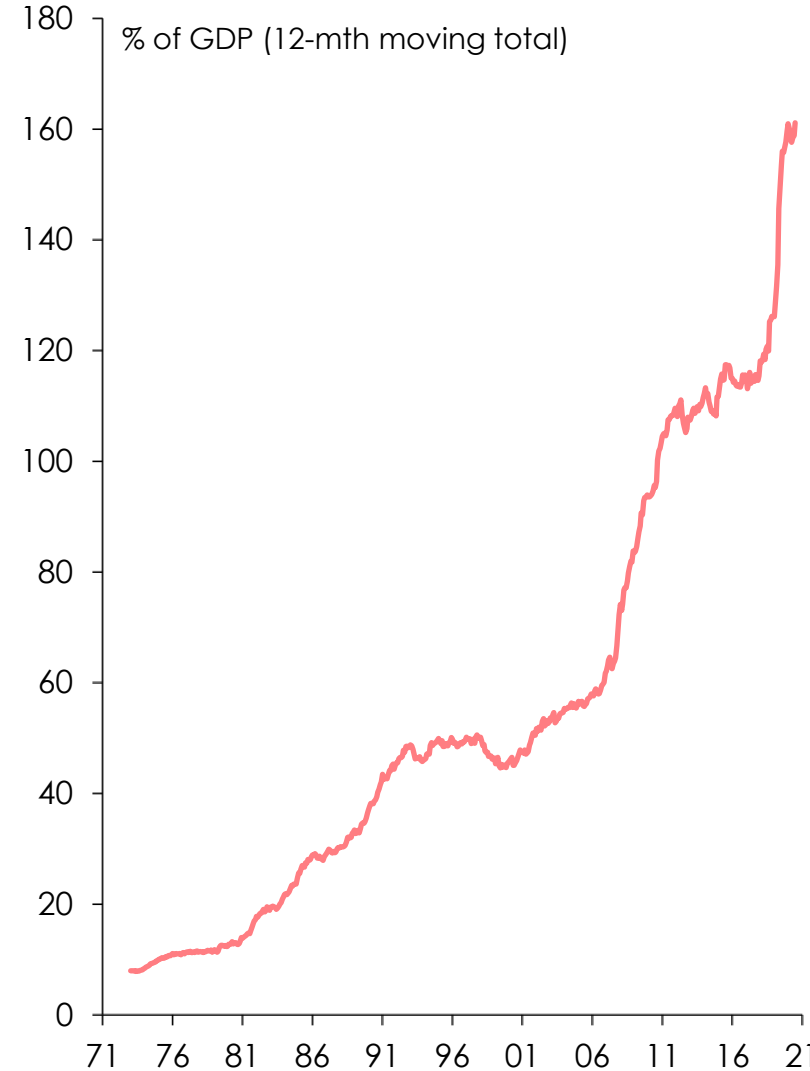
Note: 'E-pop' ratio means employment as a percentage of the civilian (non-institutionalized) population. Sources: US Bureau of Labor Statistics, [Current Employment Statistics](#); Board of Governors of the Federal Reserve System, [Monetary Policy Report - July 2021](#). [Return to "What's New"](#).

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

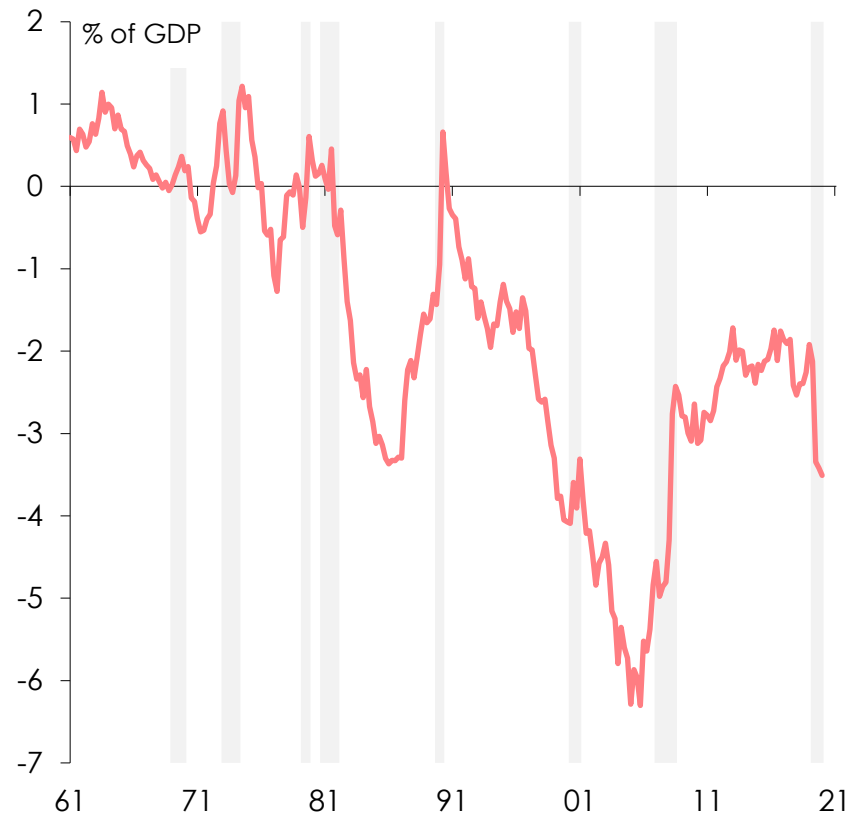


- ❑ The US Federal Government budget deficit widened by US\$42bn to \$174.2bn in June – although that was a lot less than last June's \$864bn
- ❑ The deficit for the 12 months ended June was US\$2.6 trn, down from a peak of \$4.1 trn in the 12 months ended March, and from \$3.0 trn in the 12 months to 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"](#).

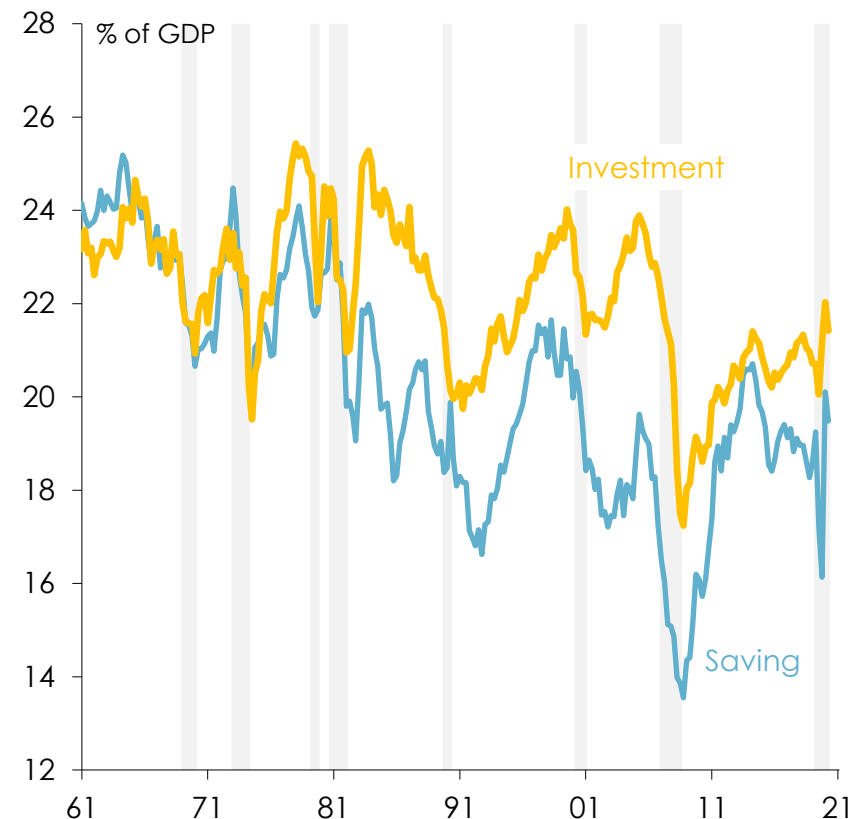
Unusually, the US current account deficit has widened so far during this recession, largely because investment hasn't fallen much

US current account balance



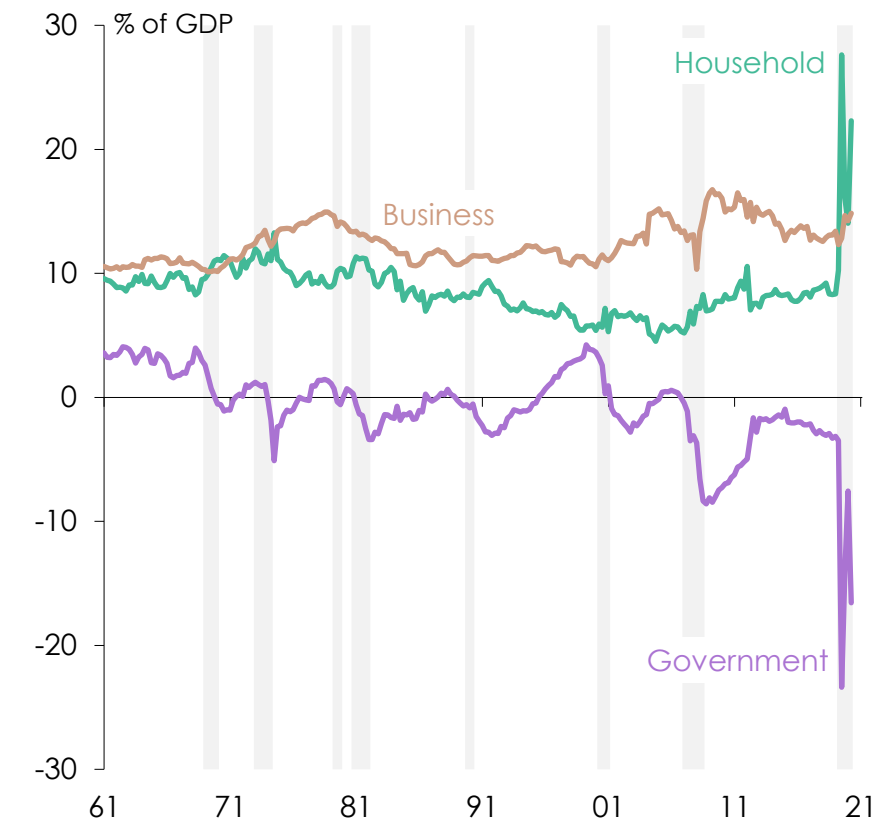
The US current account has *widened* during the recession that began last year – and in Q1 was the largest (as a pc of GDP) since Q4 2008

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

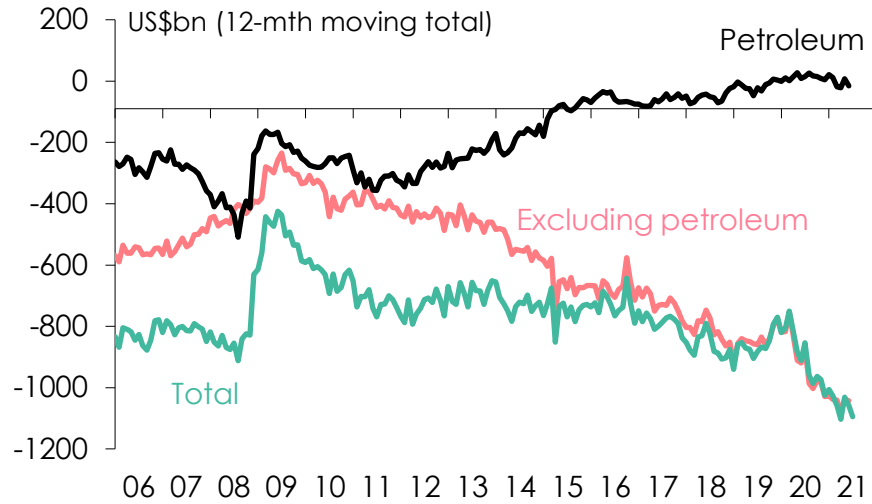


The dramatic increase in the budget deficit has been largely (but not totally) offset by an increase in household saving

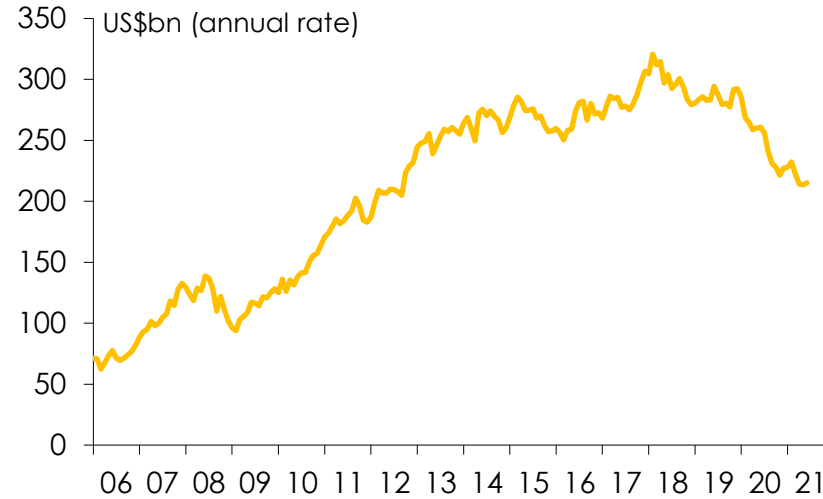
Note: shaded areas denote recessions as designated by the US [National Bureau of Economic Research](#).
Source: US [Bureau of Economic Analysis](#). [Return to "What's New"](#).

The US recorded its second-largest ever merchandise trade deficit in June, only \$0.7bn less than the record in February this year

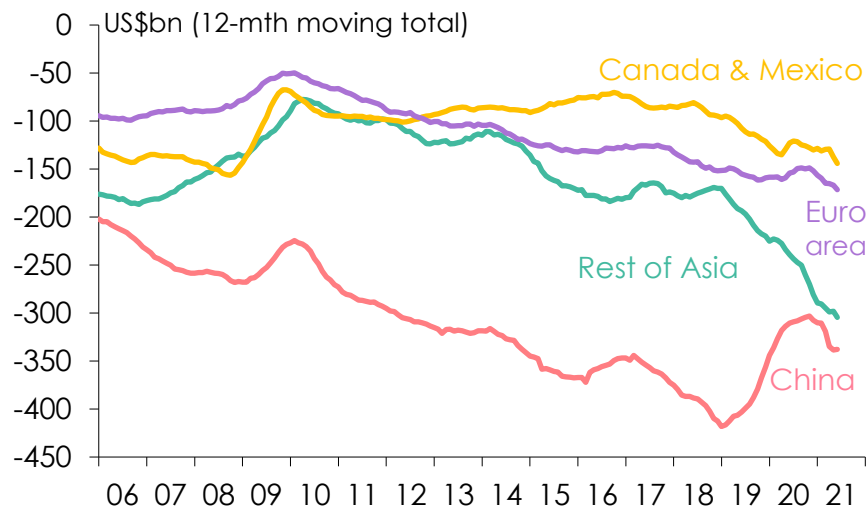
US goods trade balance



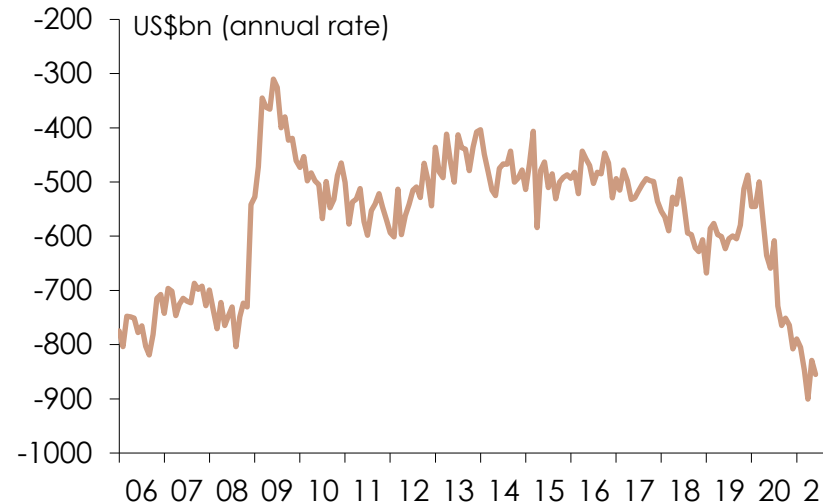
US services trade balance



US bilateral goods trade balances



US goods & services trade balance

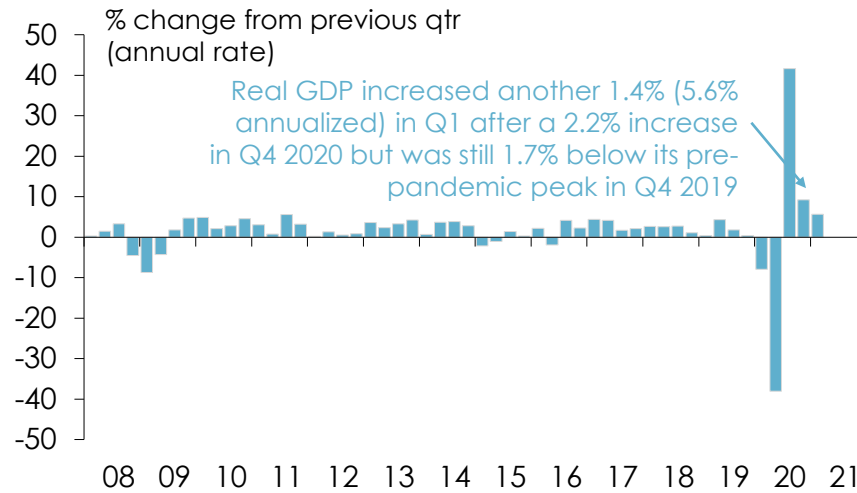


- ❑ The US merchandise trade deficit widened by U\$3bn to \$91.2bn in June, according to 'advance' data
 - this is the second-largest deficit on record, after February's \$91.9bn
 - exports rose 0.3% in June while imports rose 1.5%
 - for the first half of 2021 the deficit was US\$531bn, cf. \$418bn in the first half of 2020
- ❑ 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

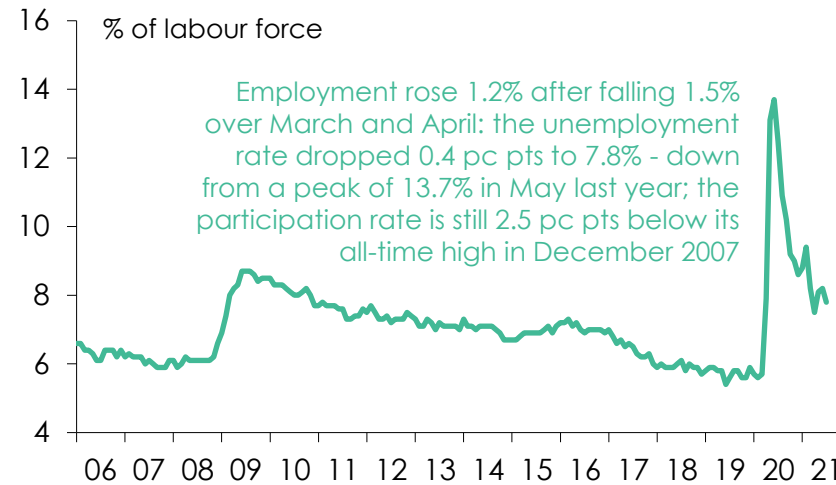
Note: June merchandise trade data are 'advance'. Source: US [Census Bureau](#). [Return to "What's New"](#).

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%

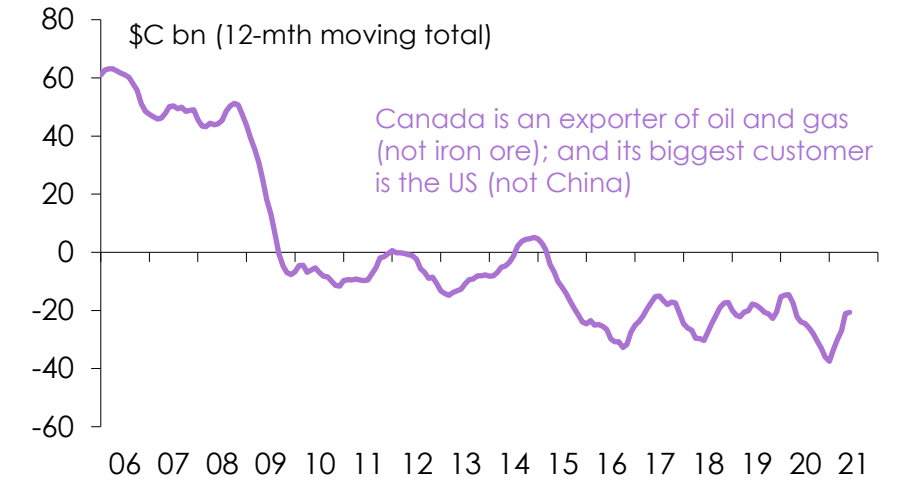
Real GDP



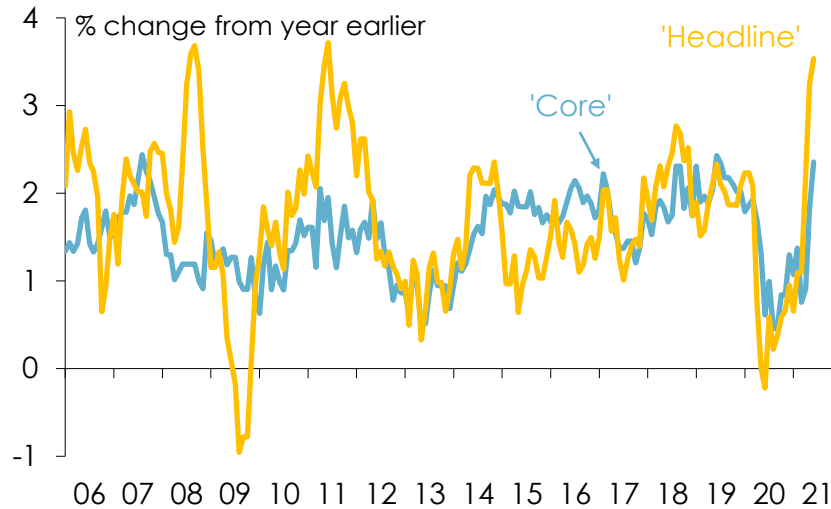
Unemployment rate



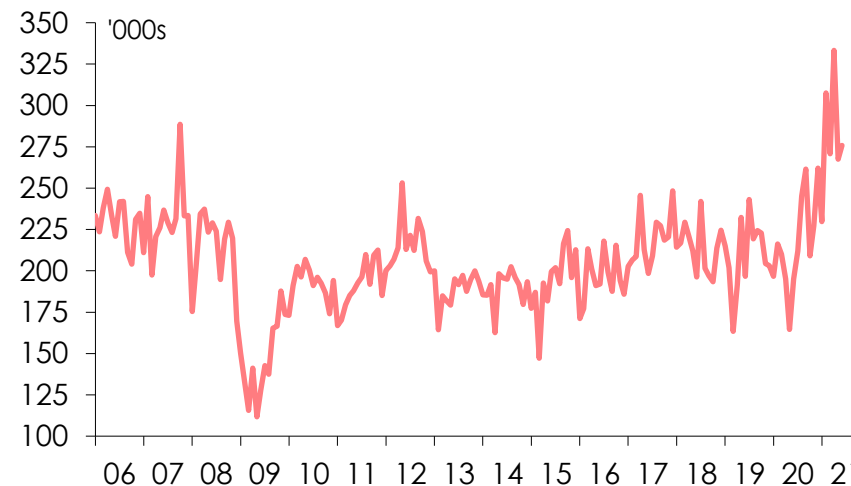
Merchandise trade balance



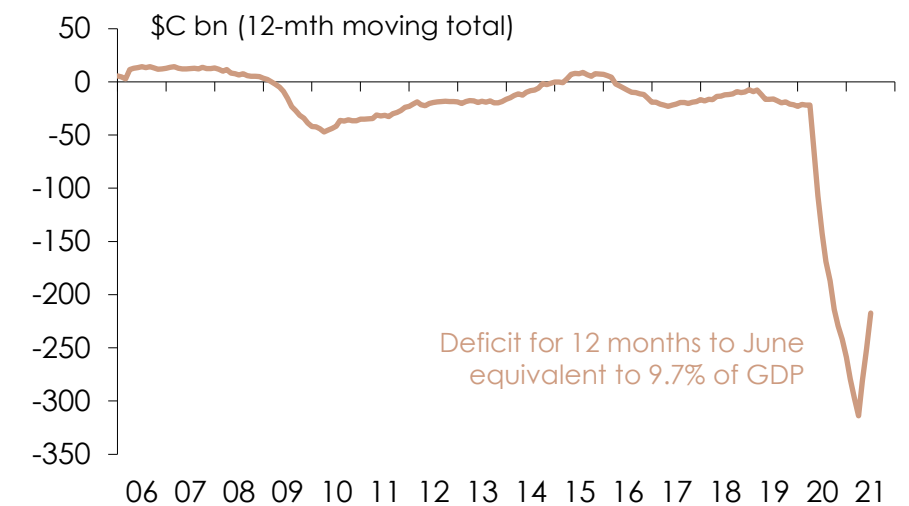
Consumer prices



Housing permits



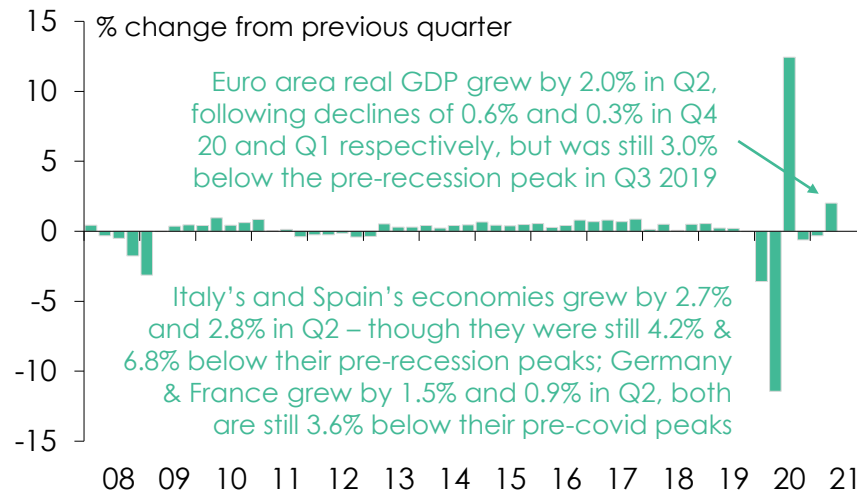
Federal budget balance



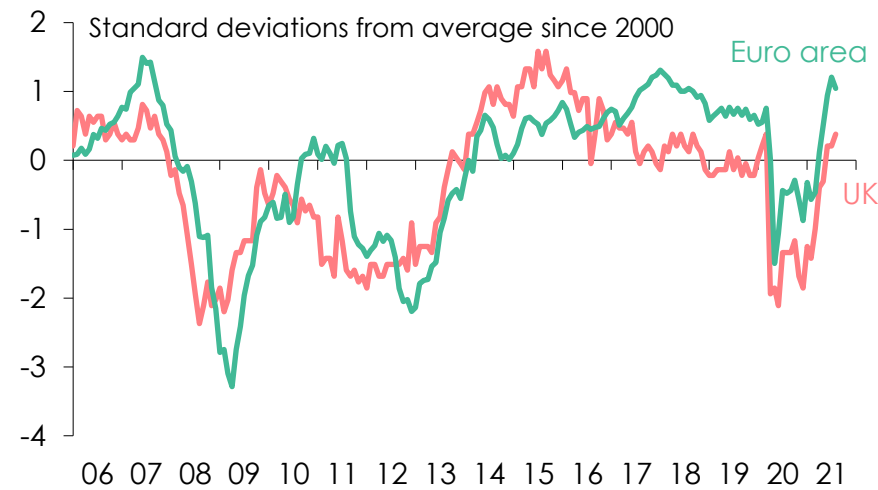
Sources: [Statistics Canada](#); [Teranet-National Bank of Canada](#); [Department of Finance Canada](#). [Return to "What's New"](#).

The euro area economy grew by 2% in Q2, though it's still 3% smaller than at its pre-recession peak in Q3 2019: UK GDP may have risen 4¼% in Q2

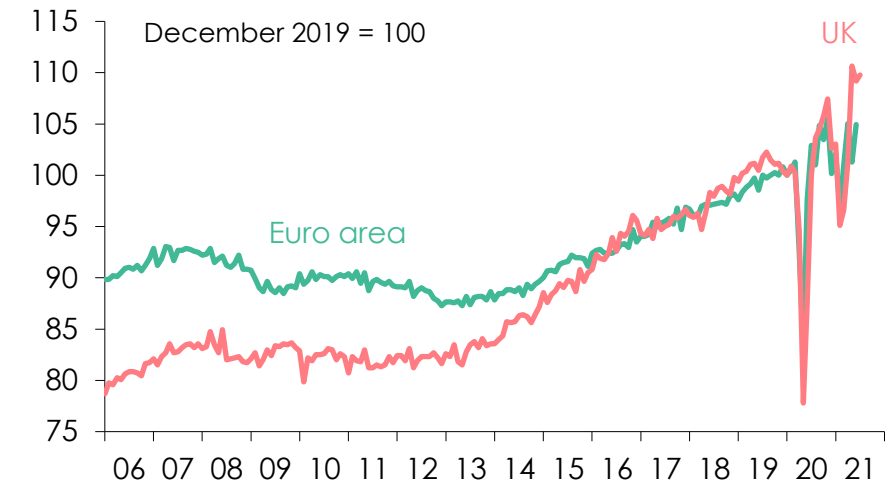
Euro area real GDP



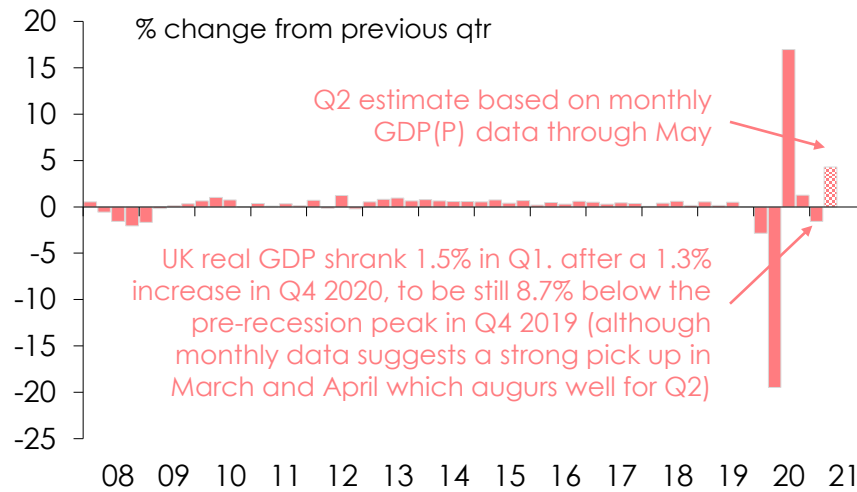
Consumer confidence



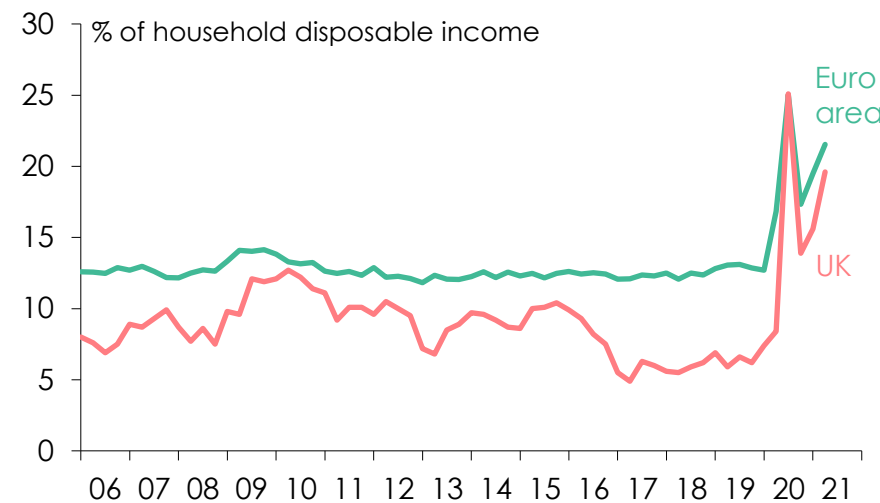
Retail sales volume



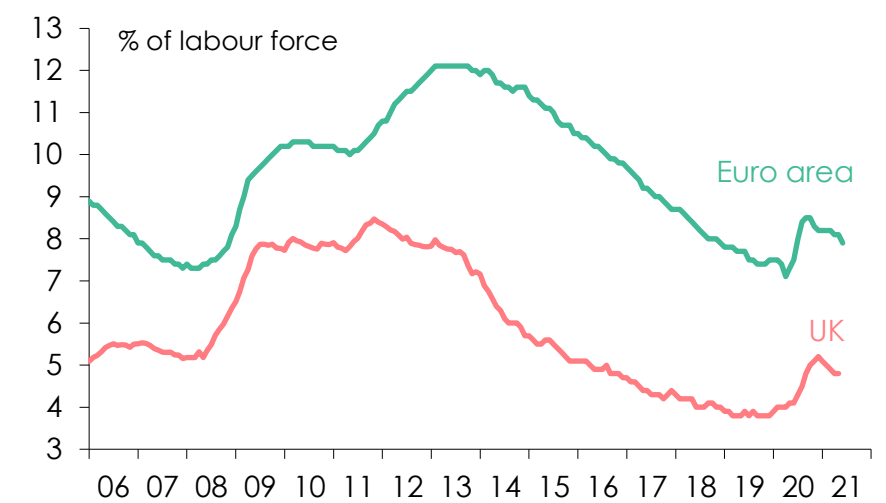
UK real GDP



Household saving ratio



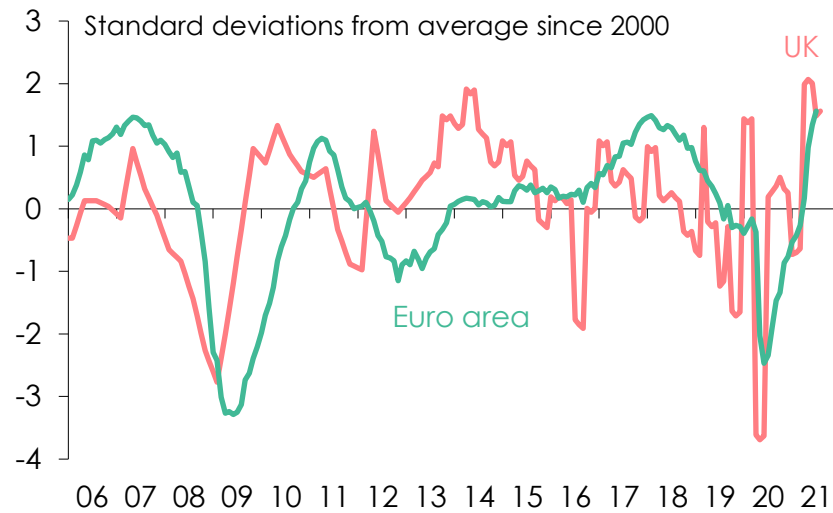
Unemployment



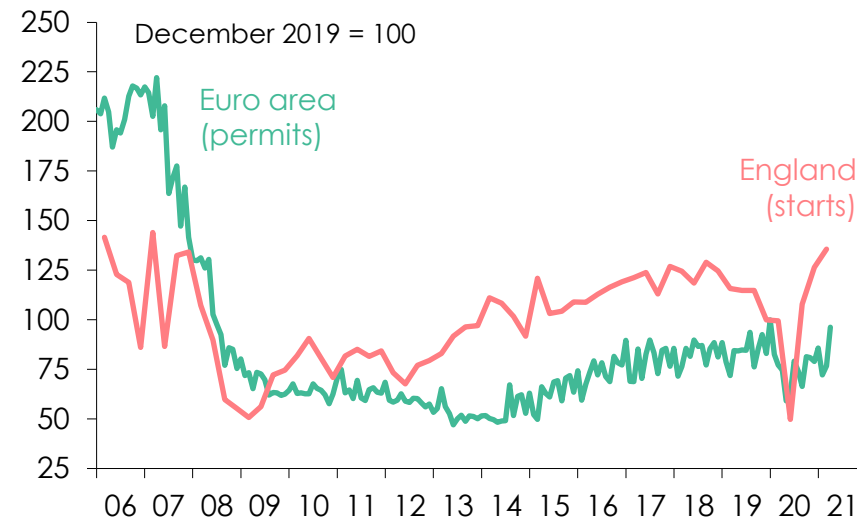
Sources: Eurostat; UK Office for National Statistics; GfK. The UK unemployment rate is published as a 3-month moving average.
[Return to "What's New".](#)

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

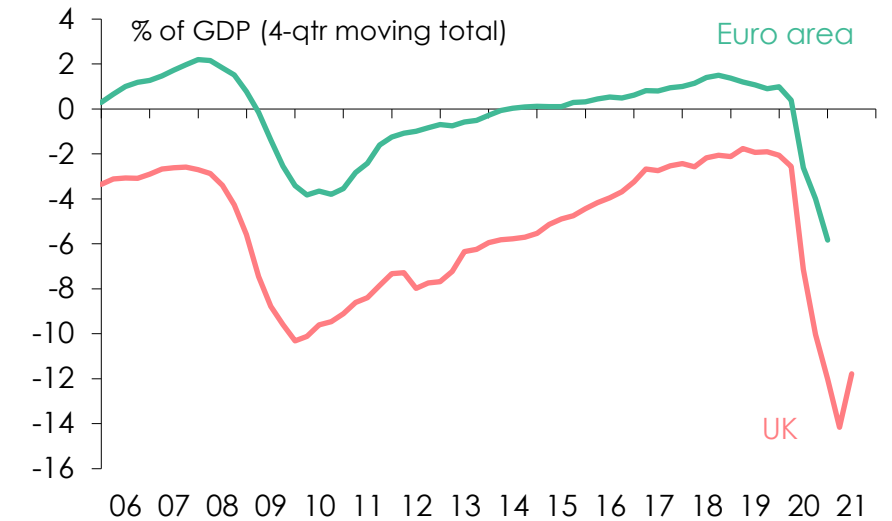
Business confidence



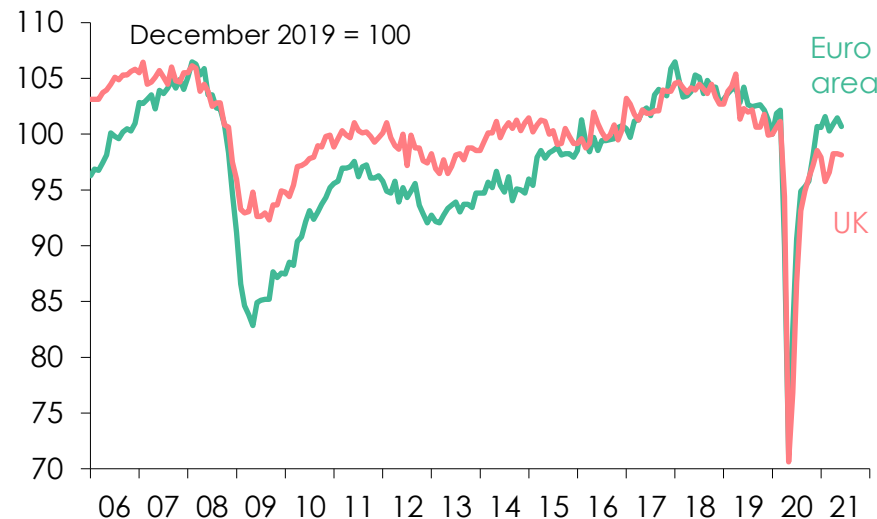
Housing activity



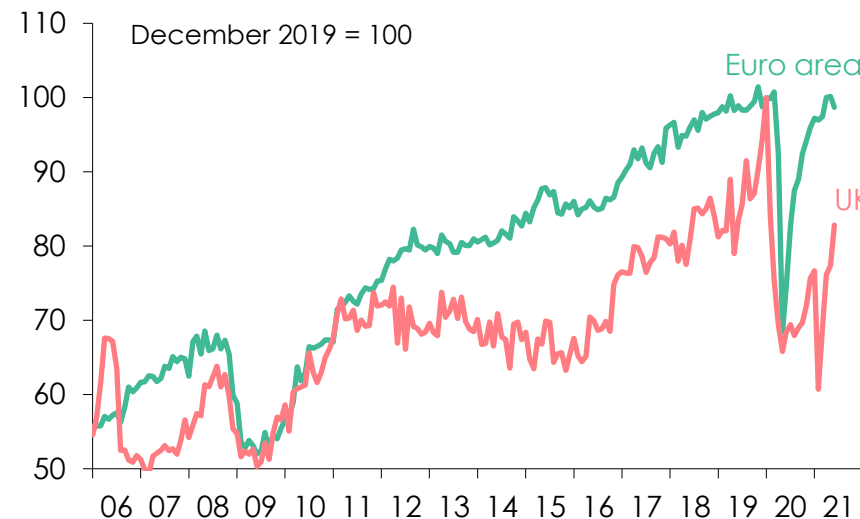
Government fiscal balance



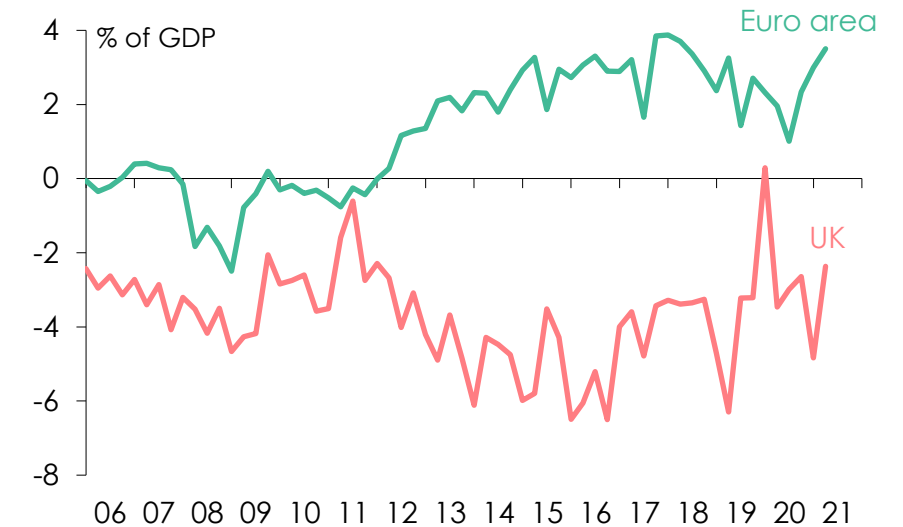
Manufacturing production



Merchandise exports



Current account balance

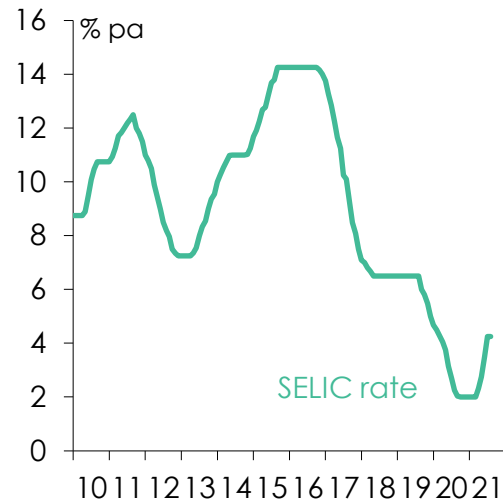


Hungary's central bank increased its policy rate this week for the second month in a row, as did three Central Asian central banks

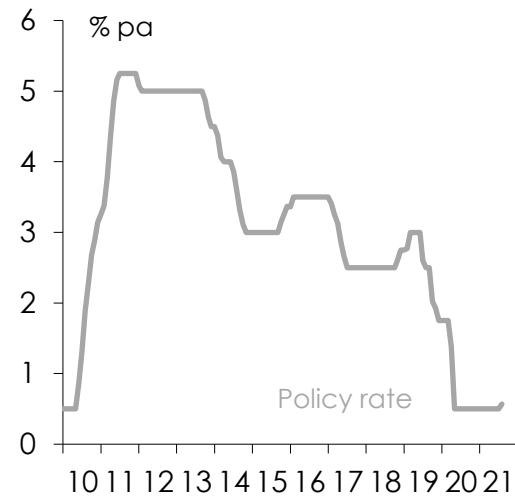
- ❑ [Hungary's central bank](#) this week raised its base rate by 30 bp to 1.20%, the second such increase in as many months, in response to a strong economic recovery (“one of the fastest compared with other European economies”), higher-than-expected inflation and “increased inflation risks”, and “in order to ensure price stability, prevent second-round inflationary effects, and anchor inflation expectations”
 - the Monetary Council stated that it “will continue the cycle of interest rate hikes until the outlook for inflation stabilizes around the central bank target” (of 3% ± 1%)
- ❑ The central banks of [Kazakhstan](#), [Kyrgyzstan](#) and [Tajikistan](#) this week raised their policy rates by 25bp (to 9.25%), 100bp (to 7.5%), and 100bp (to 13%), respectively, in each case in response to higher inflation
 - this is the second time that the National Bank of Kazakhstan has raised rates this year, and the third time that the National Banks of the other two central Asian republics have raised theirs
- ❑ The [Bank of Russia](#) last week raised its 7-day repo rate 100bp to 6.5% - the 4th 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](#) last week 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%
- ❑ The [South African Reserve Bank](#) last week 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

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

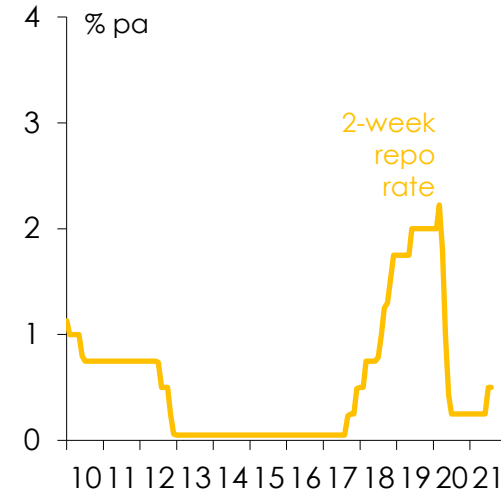
Brazil



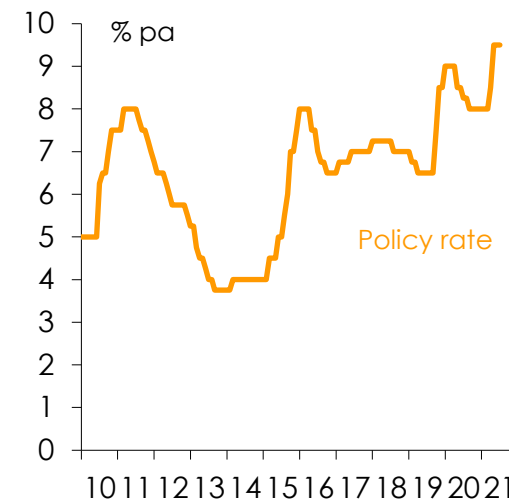
Chile



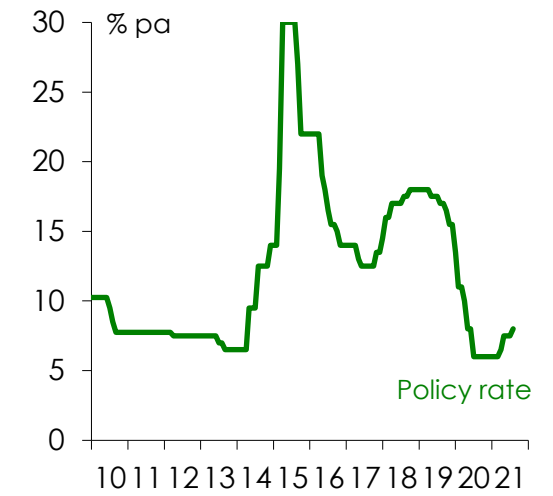
Czechia



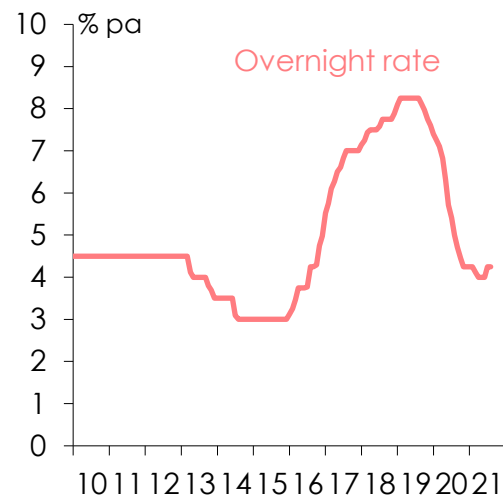
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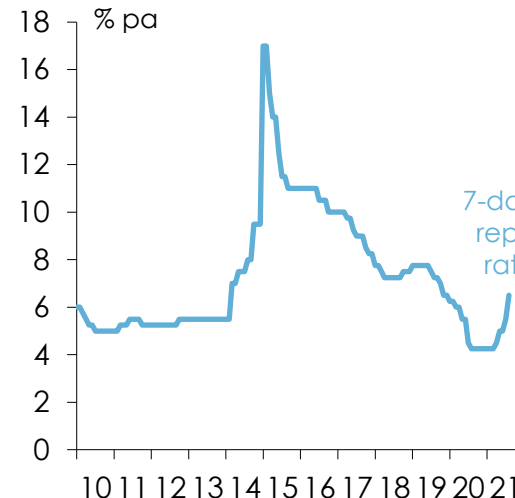
Ukraine



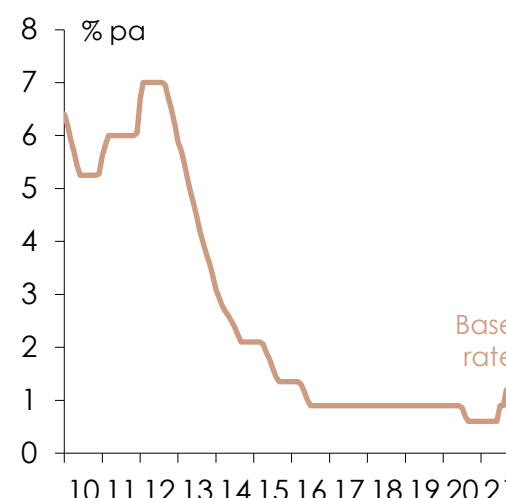
Mexico



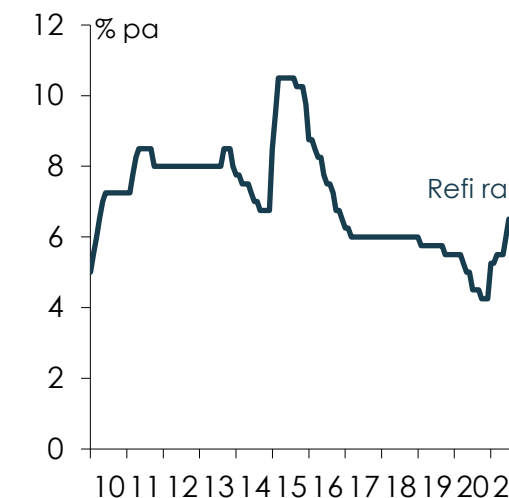
Russia



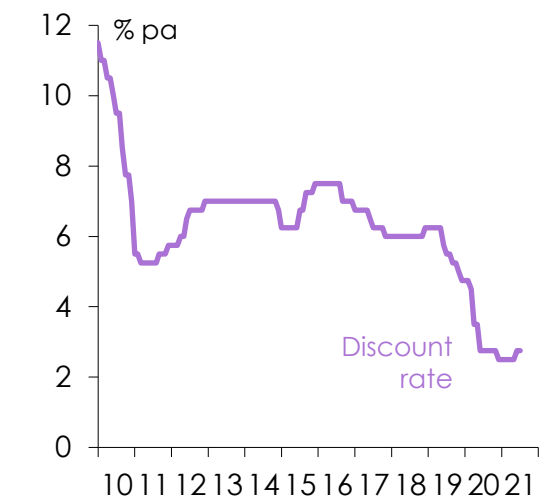
Hungary



Armenia

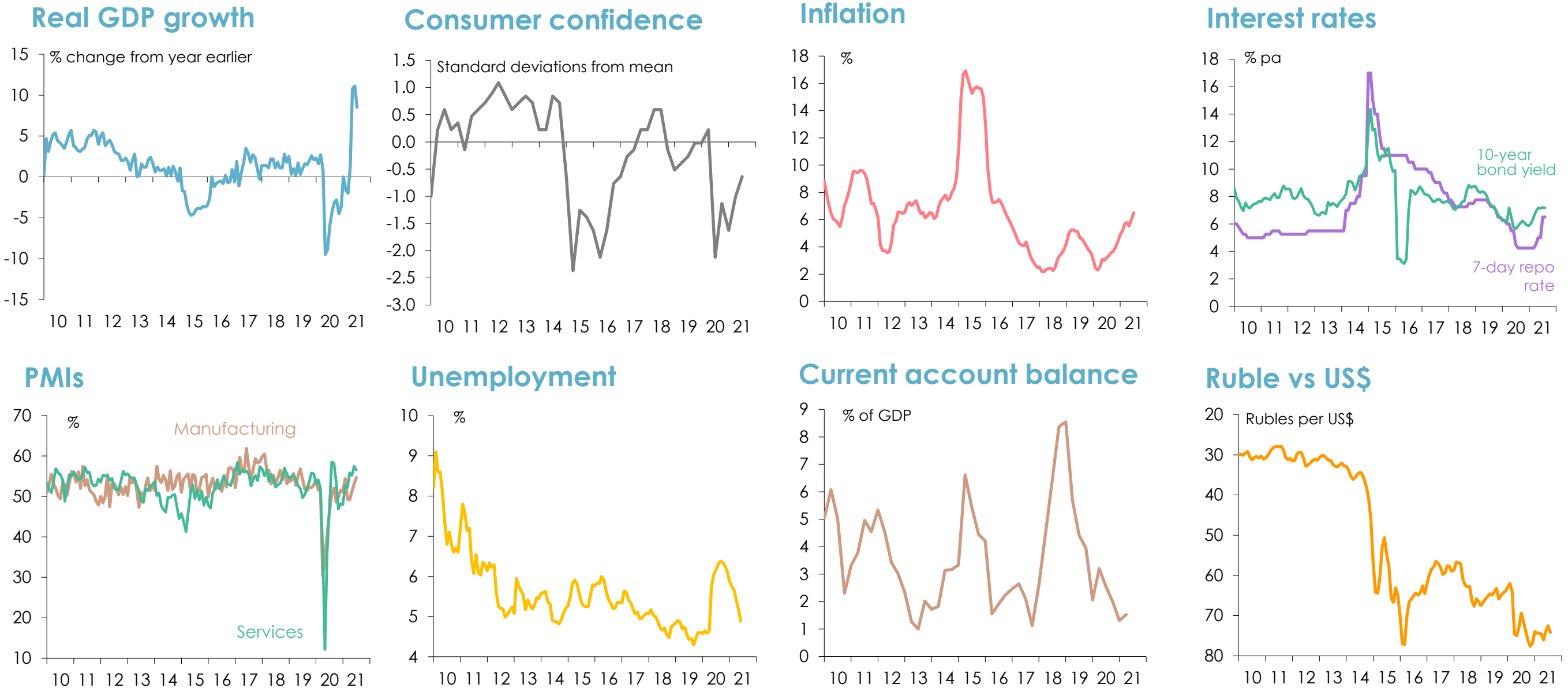


Iceland

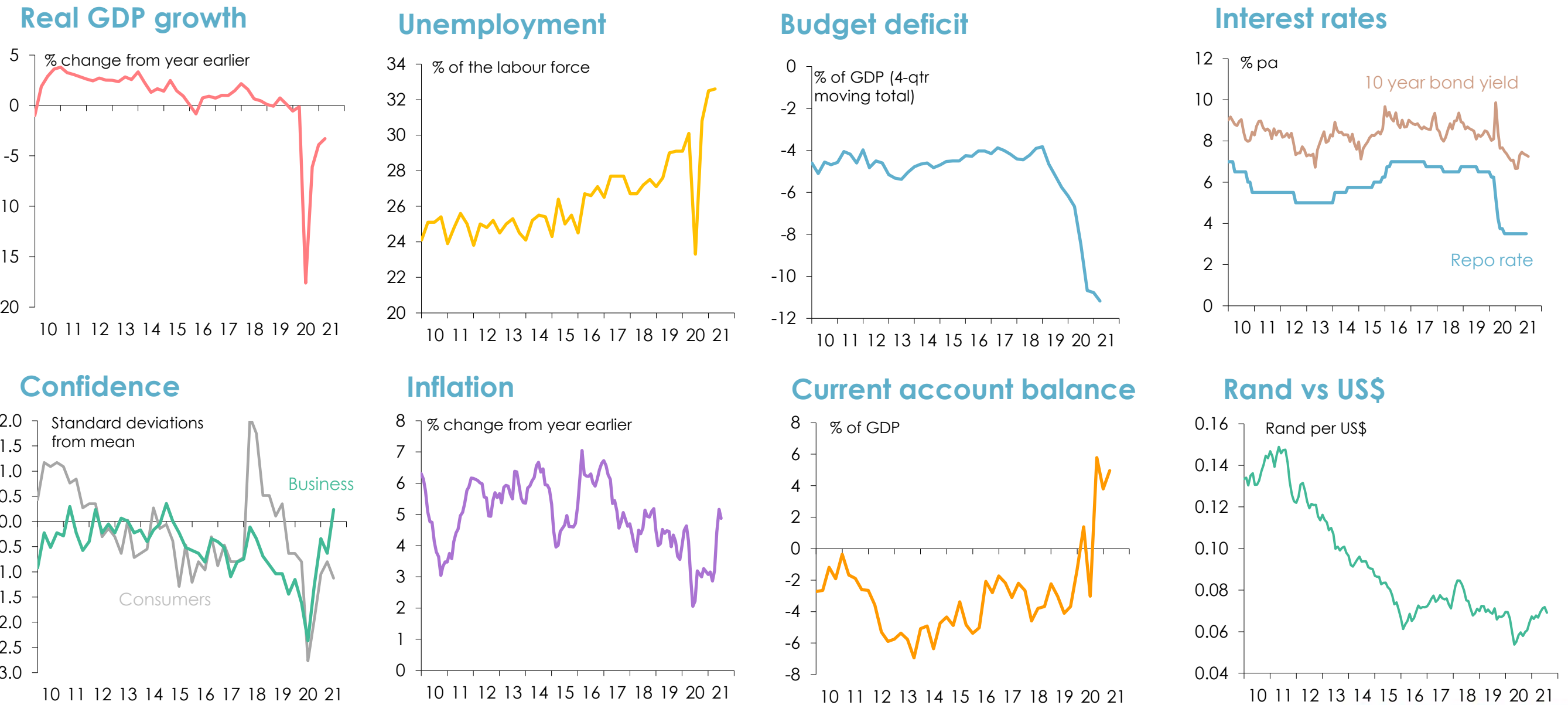


Sources: [Banco Central do Brasil](#); [Banco de México](#); [Banco Central de Chile](#); [Bank Rossii](#); [Magyar Nemzeti Bank](#); [Česká národní banka](#); [Sakartvelos Erovnuli Bank'i](#); [Hayastani Kentronakan Bank](#); [National Bank of Ukraine](#); [Seðlabanki Íslands](#). [Return to "What's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

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



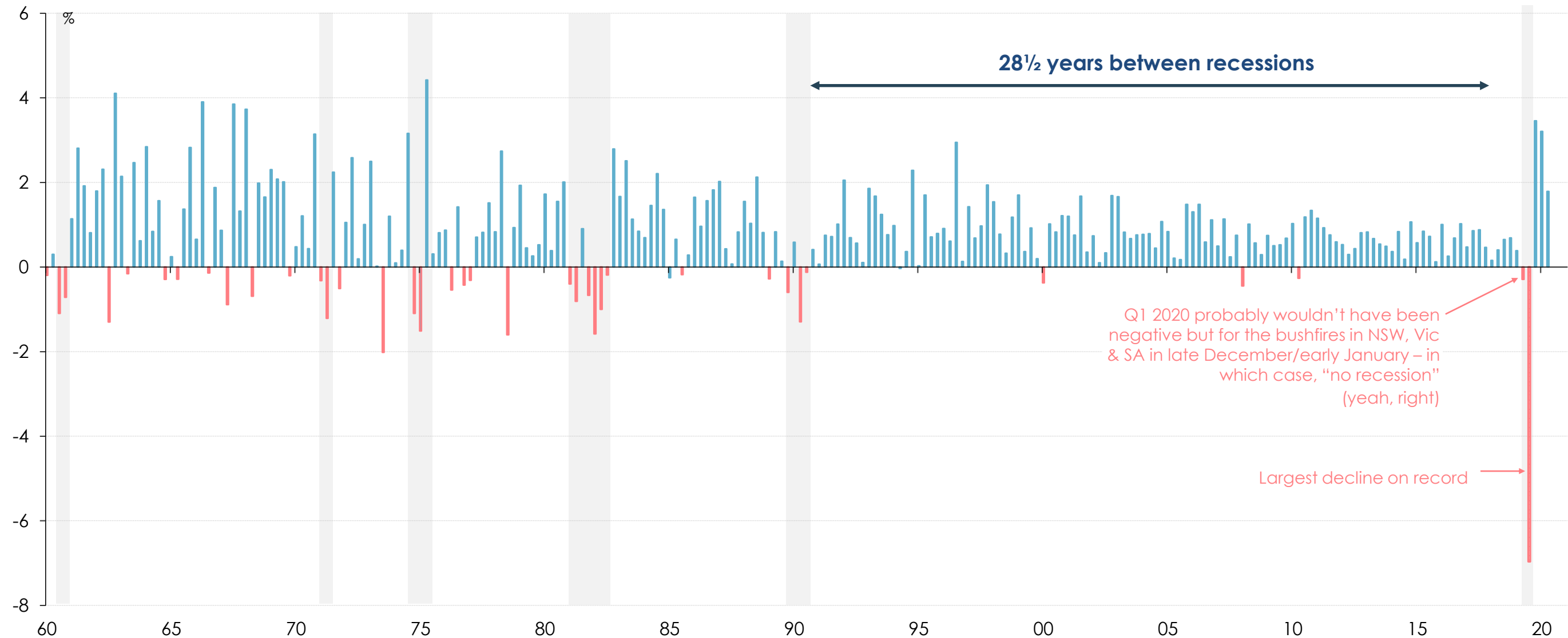
South Africa is yet to emerge completely from a protracted recession despite favourable movements in commodity prices



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

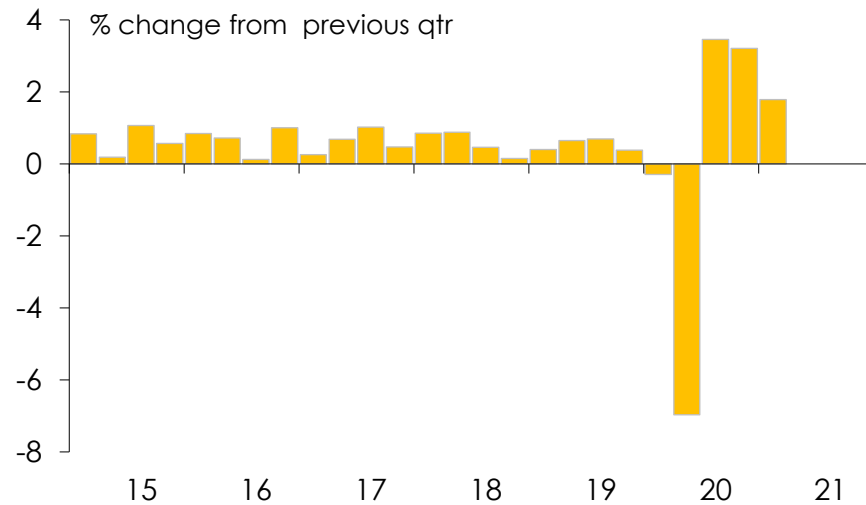
Quarterly growth in Australian real GDP, 1960-2020



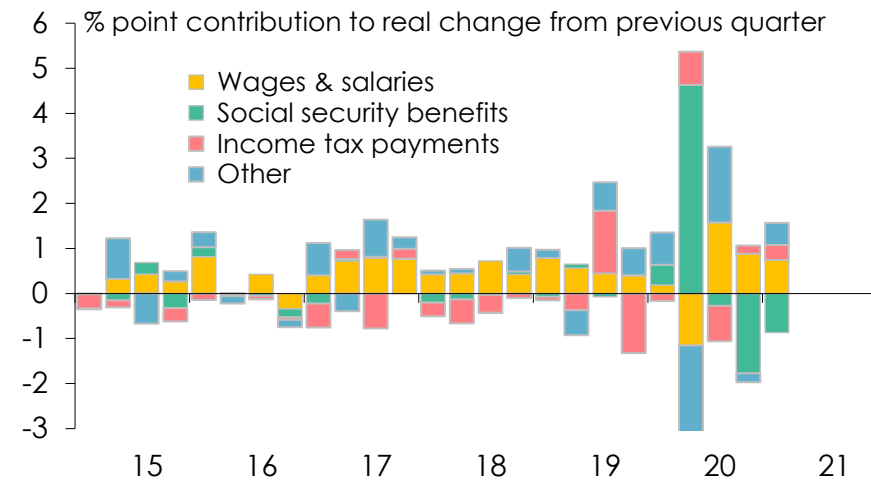
Note: Shaded areas denote recessions. Source: ABS, [Australian National Accounts: National Income, Expenditure and Product](#), March quarter 2021. [Return to "What's New"](#).

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

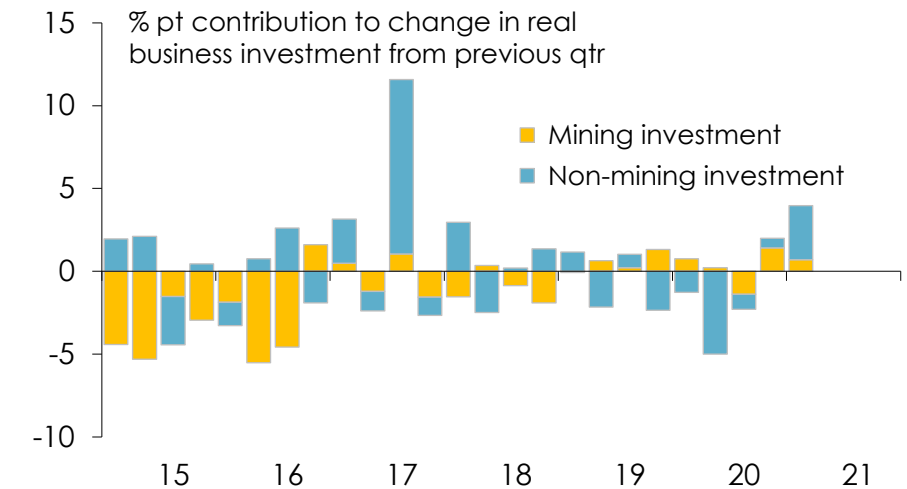
Quarterly change in real GDP



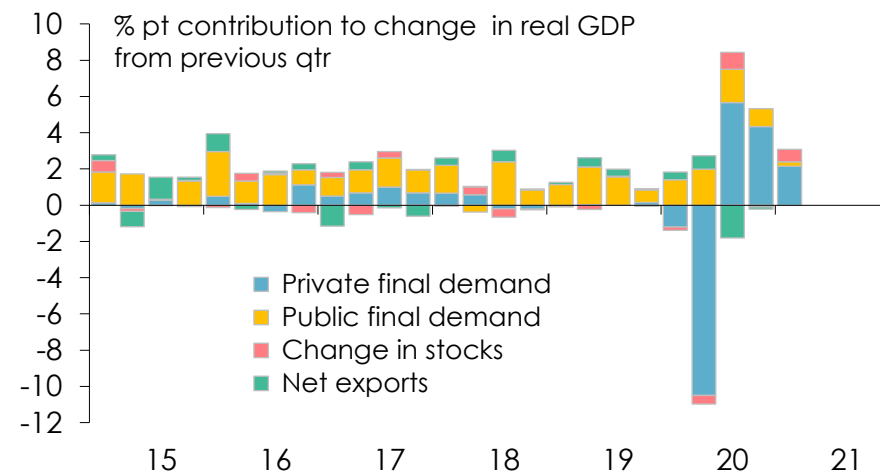
Household disposable income



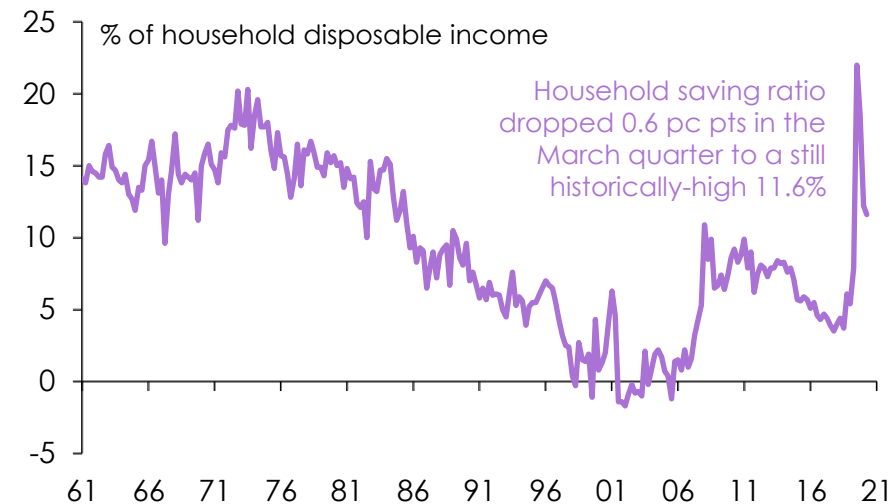
Business investment expenditure



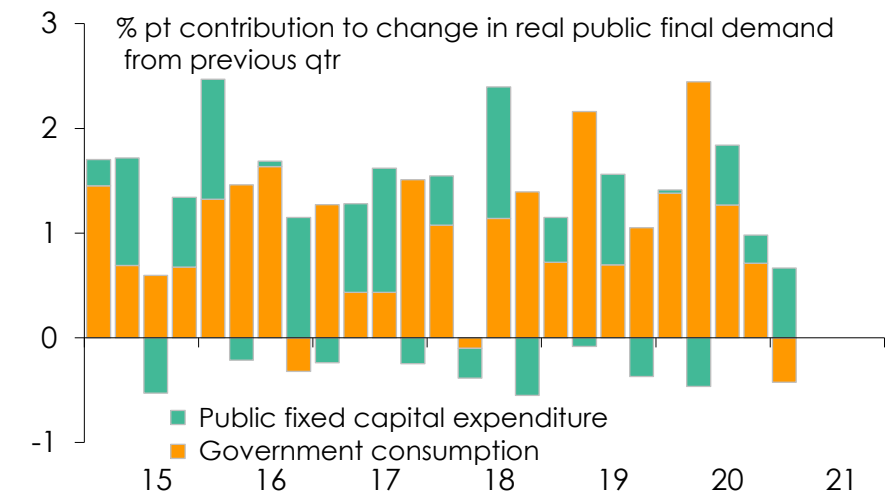
Contributions to quarterly GDP growth



Household saving rate



Public expenditure



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

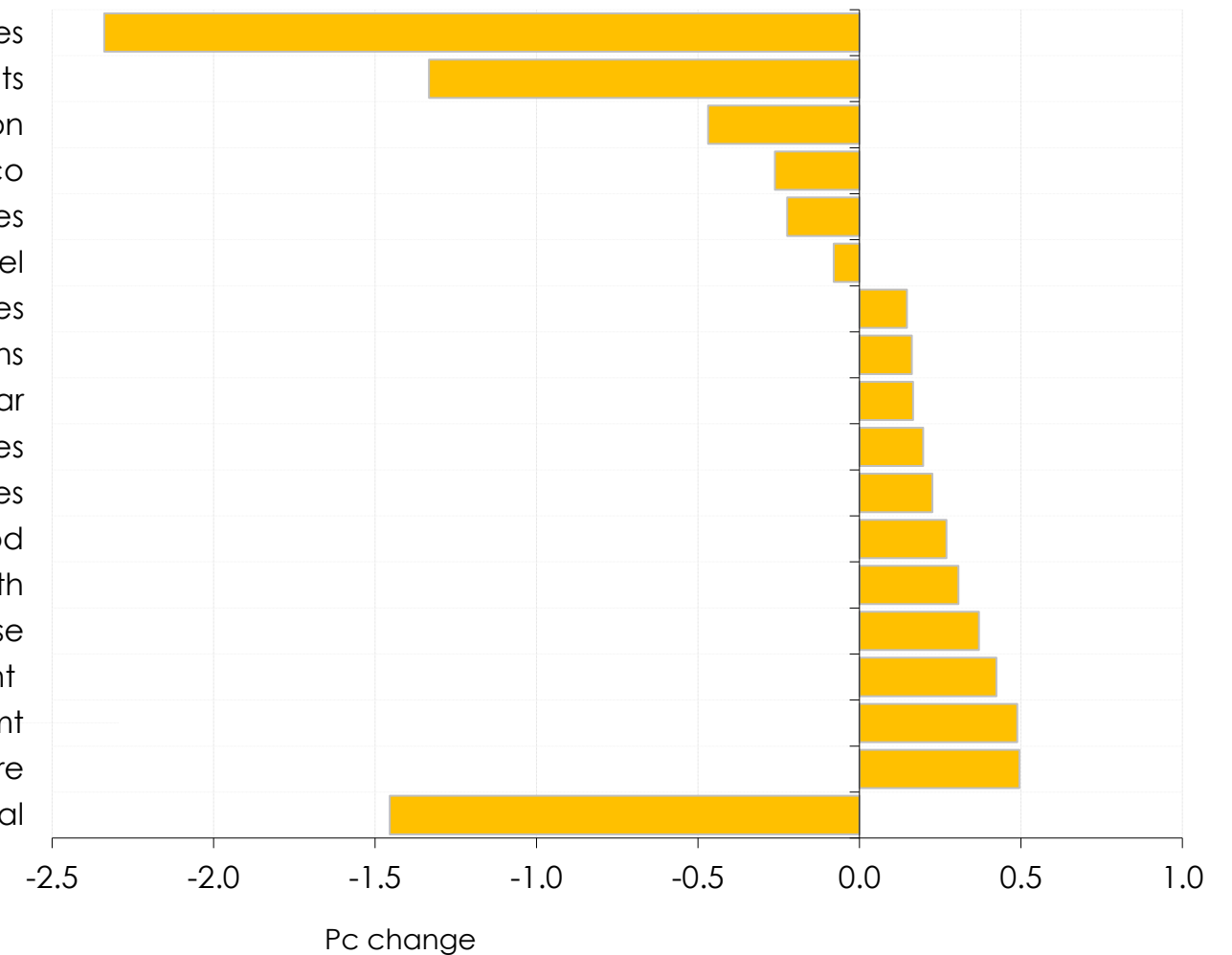
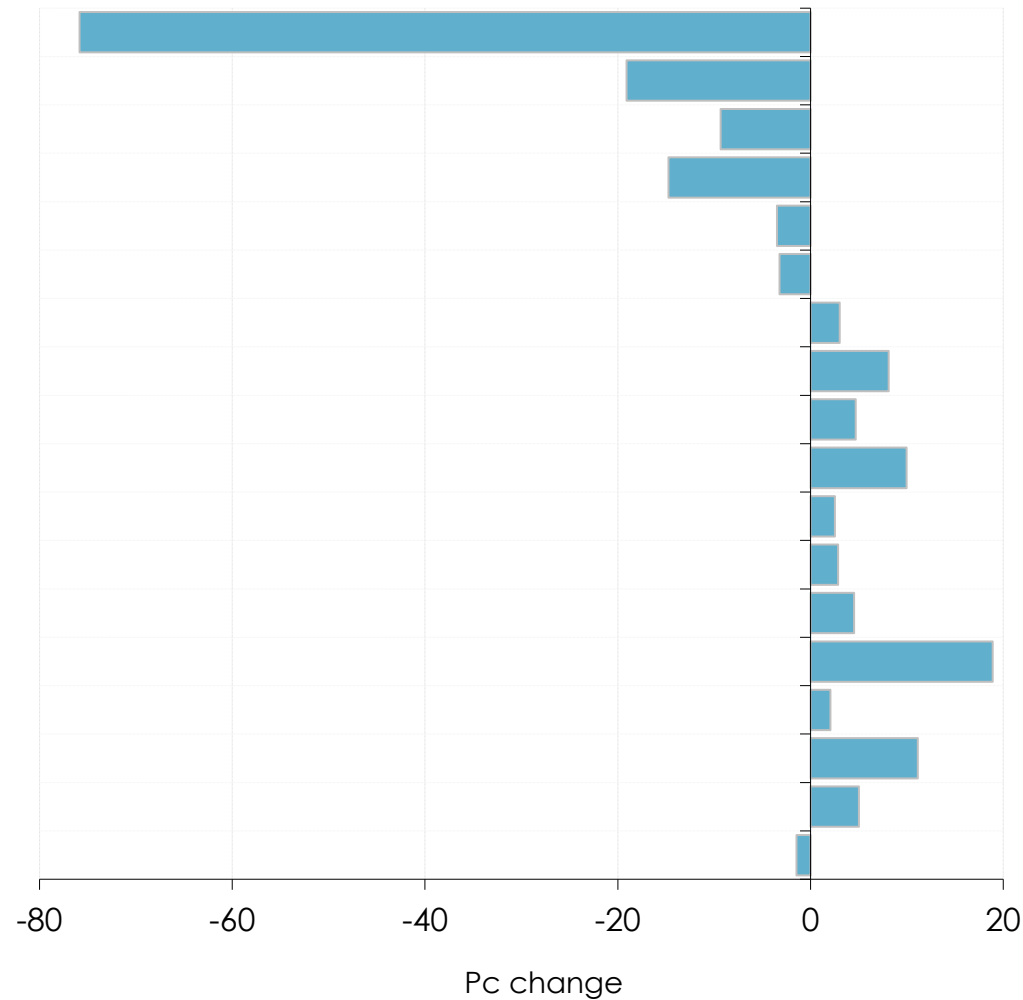
Source: ABS, [Australian National Accounts: National Income, Expenditure and Product](#), March quarter 2021. June quarter national accounts will be released on 1st

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

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

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

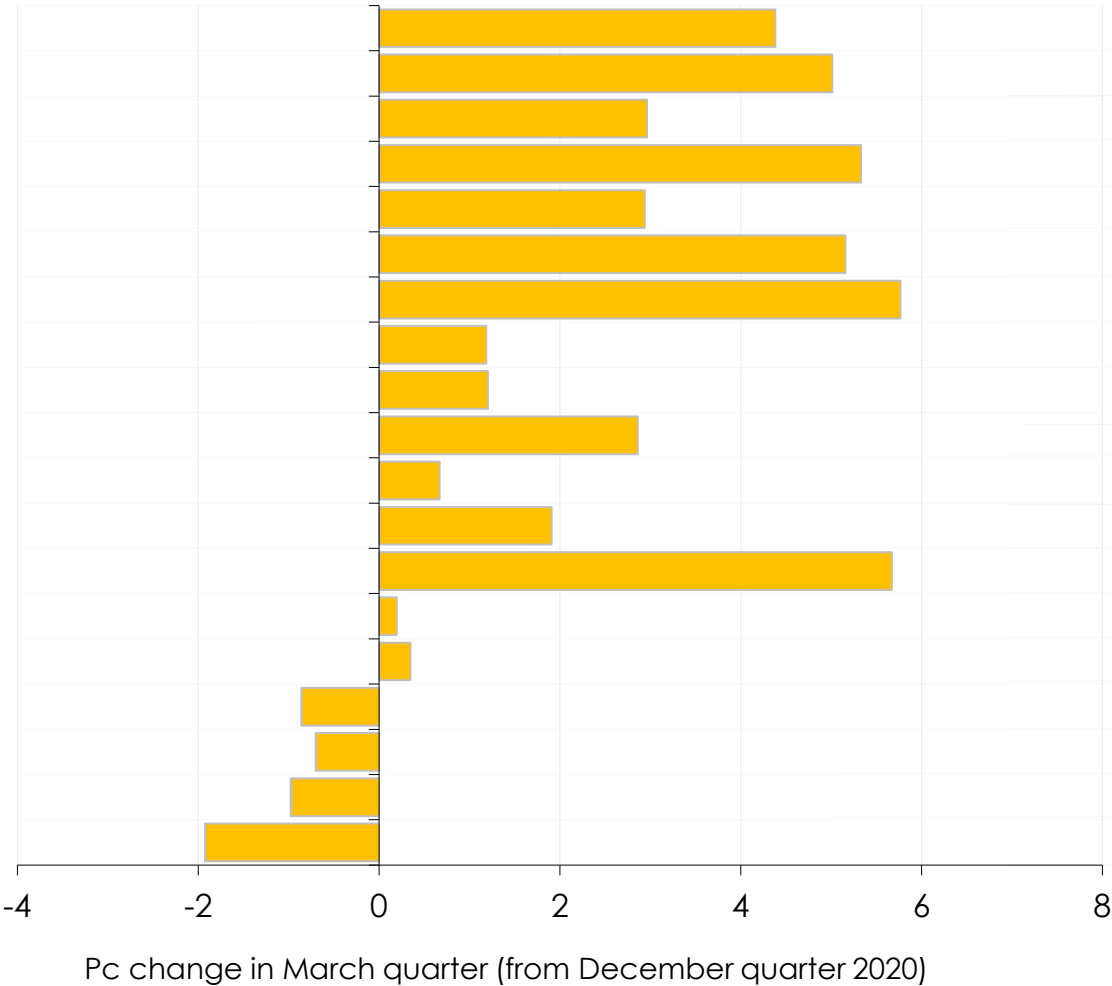
Contribution to change in household consumption spending, by category, December qtr 2019 to March qtr 2021



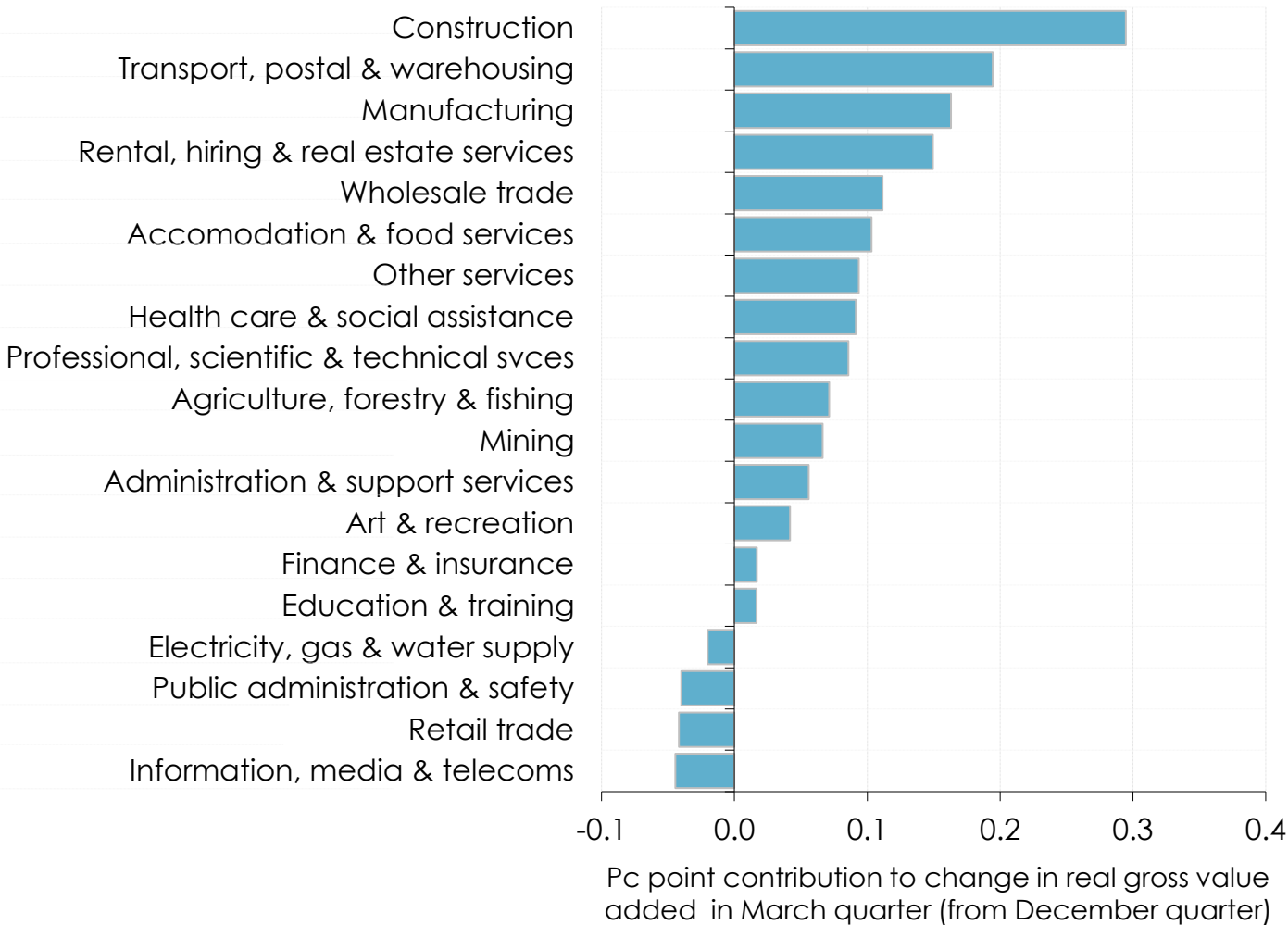
Note: 'Rent and dwelling services' includes the imputed rent which home-owners pay to (and receive from) themselves in the national accounts (so that changes in the home-ownership rate over time don't distort measured household consumption or GDP). Source: ABS, [Australian National Accounts: National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

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

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



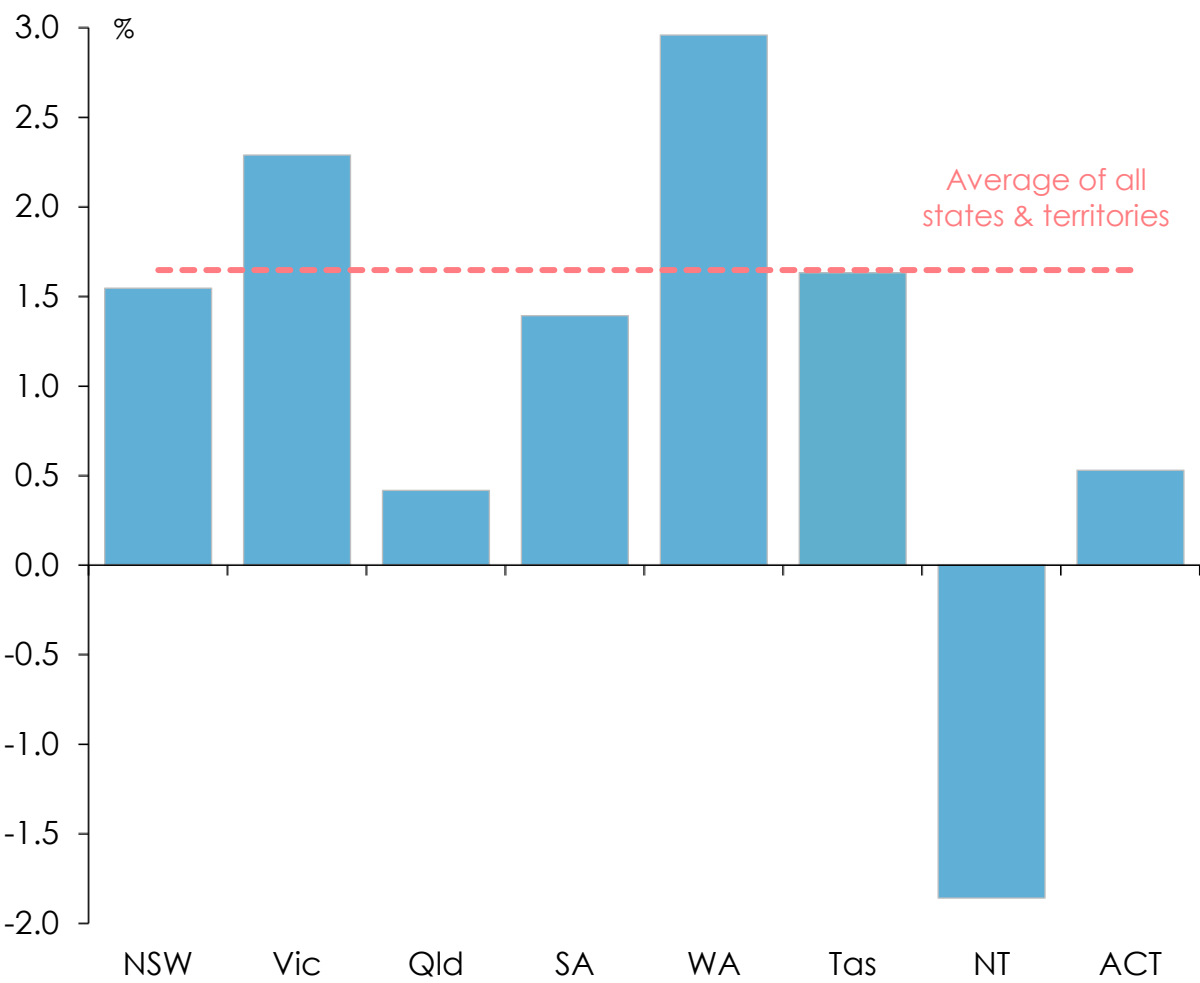
Contribution to change in real GDP, by industry, March quarter 2020



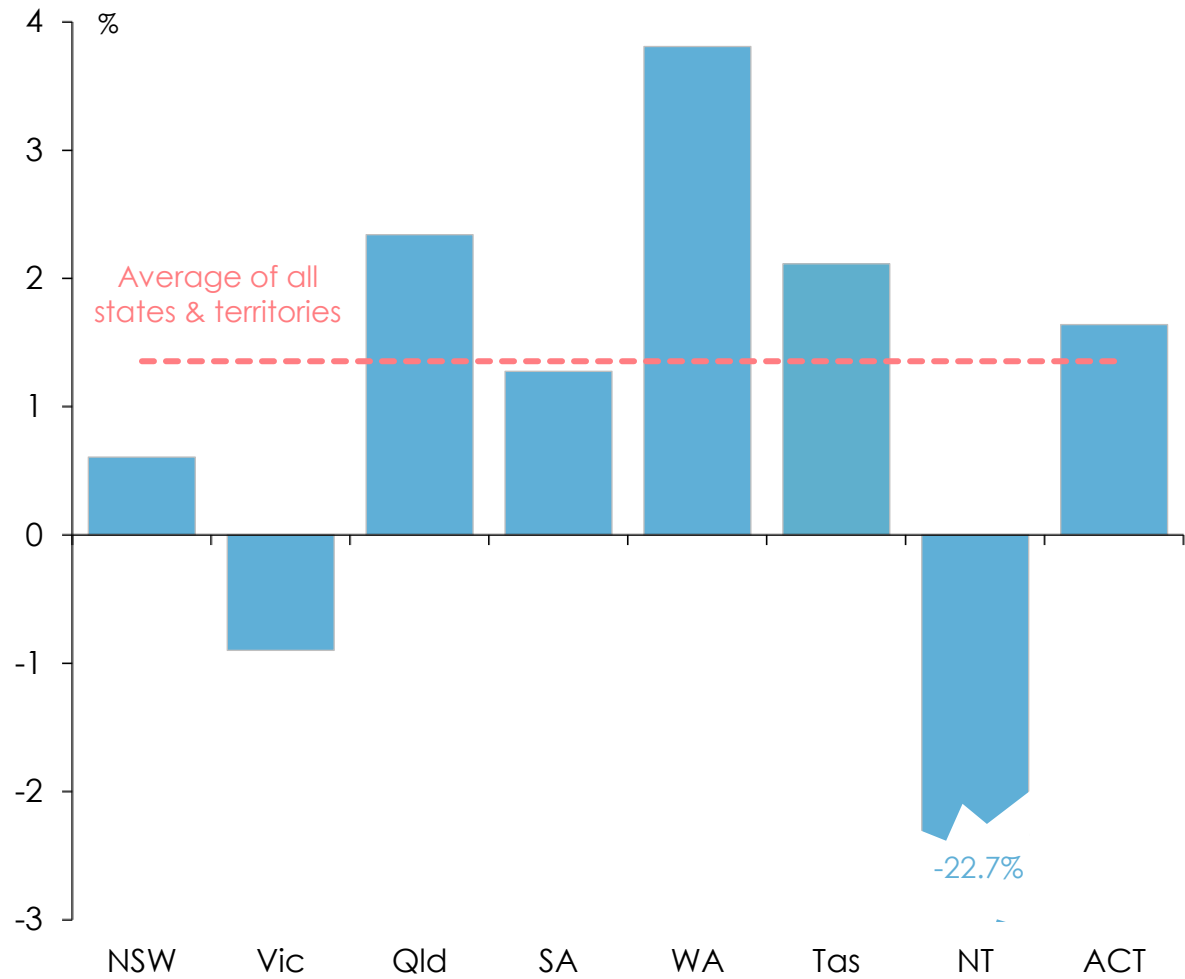
Note: Changes in, and contributions to the change in real GDP from, ownership of dwellings and net indirect taxes are not shown in the above charts.
Source: Source: ABS, [Australian National Accounts: National Income, Expenditure and Product](#), March quarter 2021. June quarter national accounts will be released on 1st September. [Return to "What's New"](#).

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

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



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

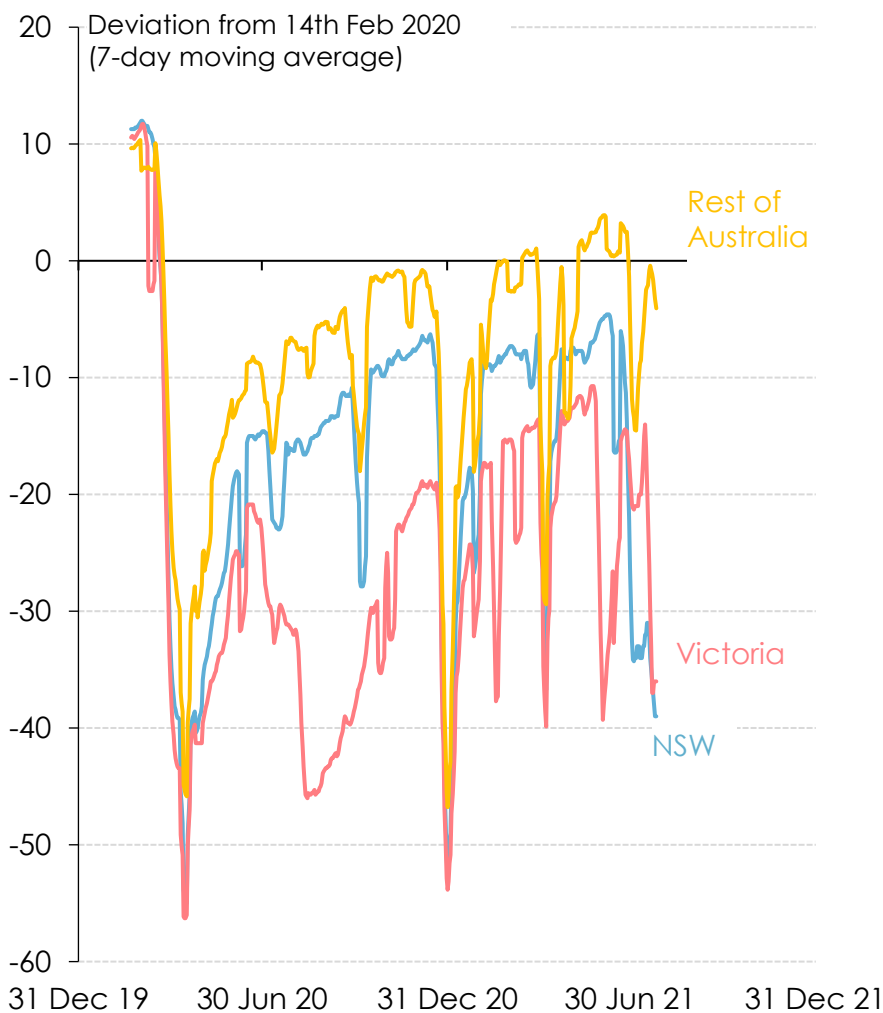


Note: 'State final demand' is the sum of spending by households, businesses and governments within a state or territory's borders: it differs (conceptually) from gross state product (GSP), which is only available on a financial year basis, by the sum of net international and interstate trade, and changes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

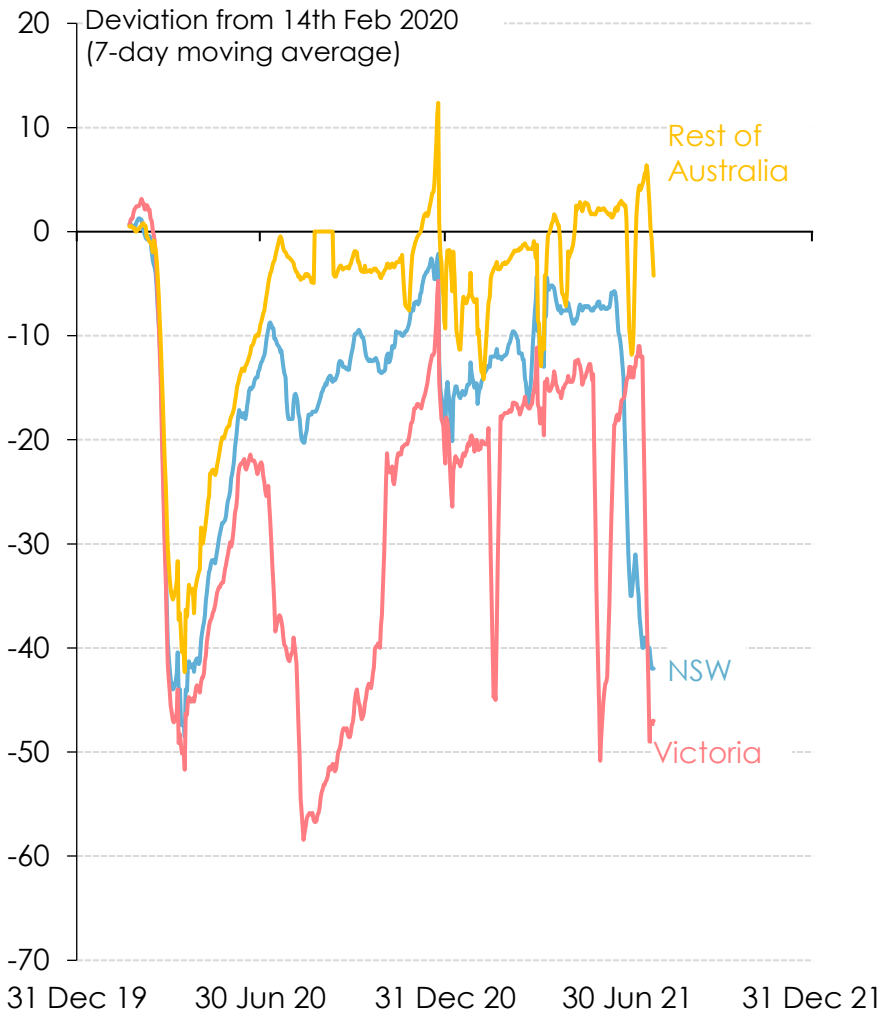
'Mobility indicators' provide a clear indication that the lockdowns in NSW, Victoria, SA and now SE Queensland will have an economic impact

Google mobility indicators

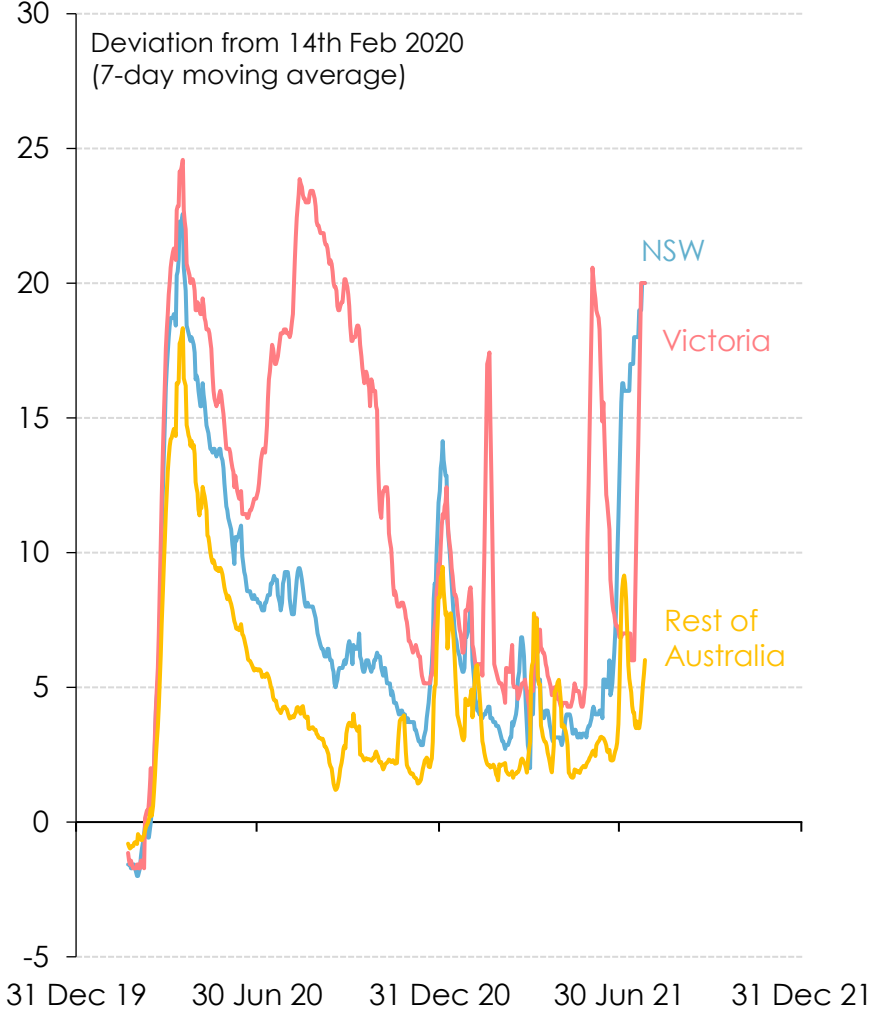
Workplaces



Retail and recreation



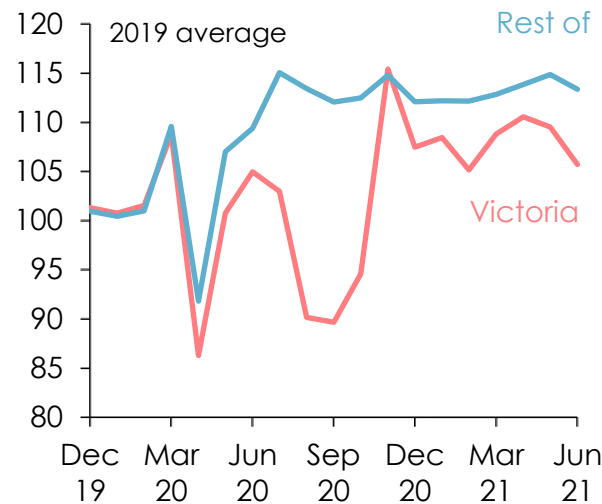
Residences



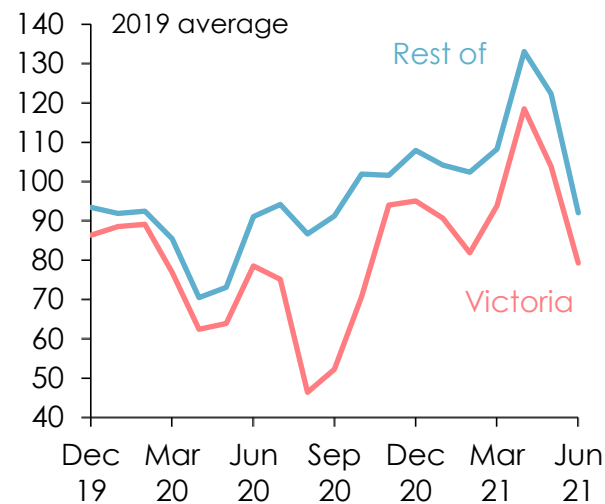
Note: data up to 26th July. Sources: [Google Community Mobility Reports](#); Corinna.

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

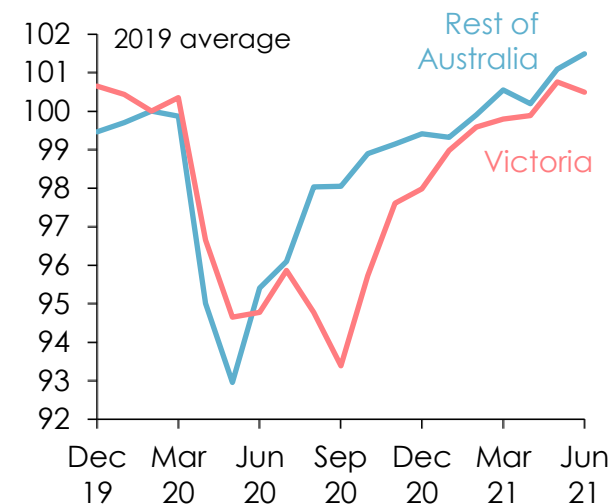
Retail sales



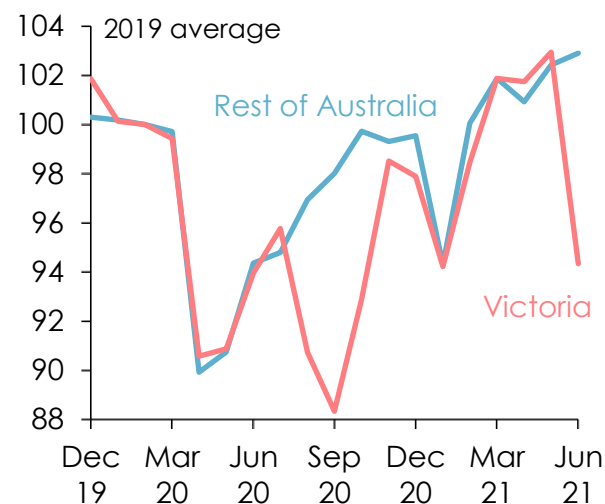
Motor vehicle sales



Employment



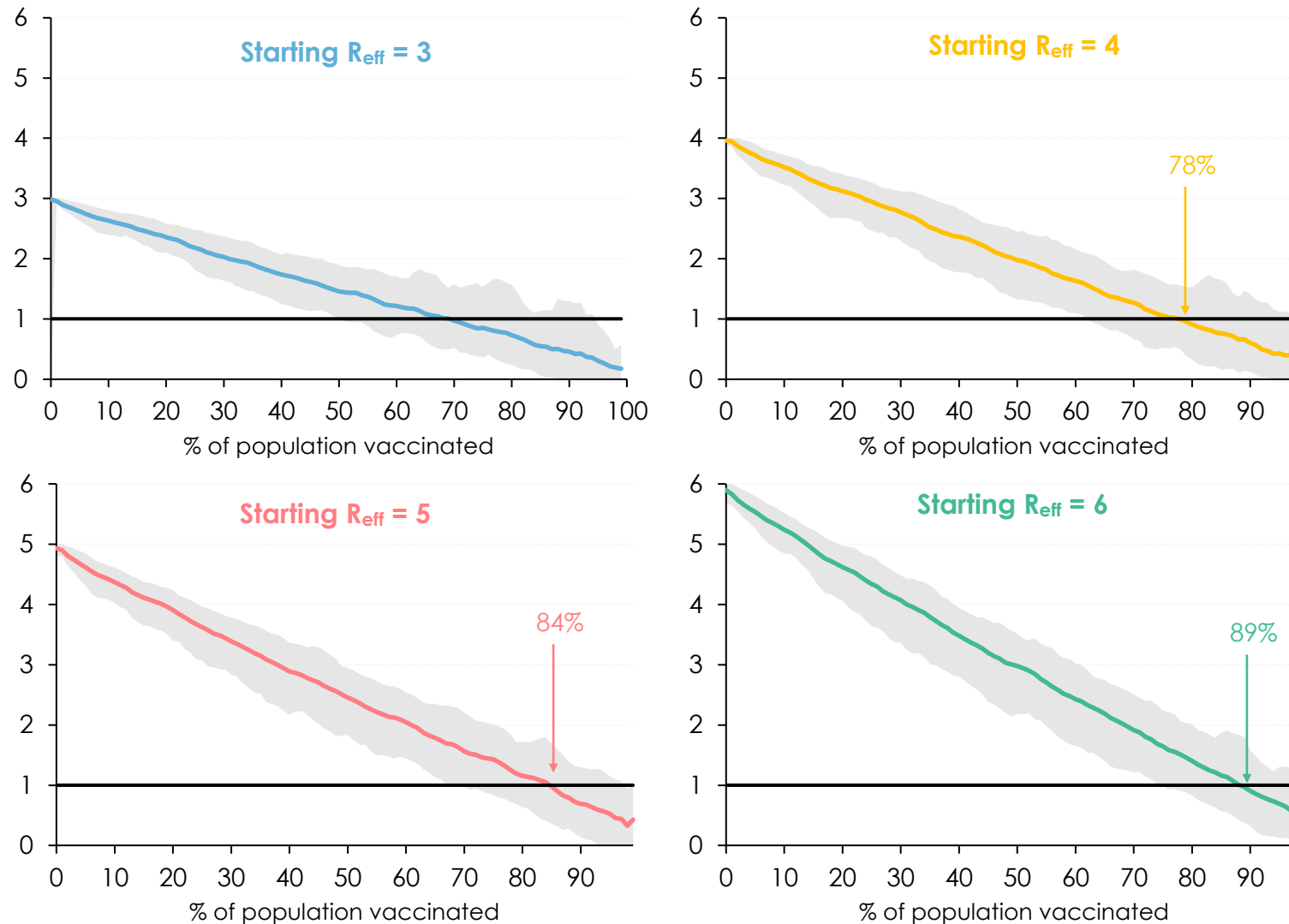
Hours worked



- ❑ 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) 3rd September (10 weeks) that would imply a 'cost' of \$10bn
- ❑ The state-wide lockdown in Victoria is likely to have had a similar weekly cost to that in 'Greater Sydney'
 - Victoria's lockdown will likely have 'cost' around \$2½bn
- ❑ The South Australian lockdown likely cost \$½bn – and if the Sth-East Queensland lockdown does only last three days it will probably have a similar impact
- ❑ Hence the total cost of the lockdowns in (now) four states could be of the order of \$13½bn
- ❑ Australia's GDP is about \$2,100 billion a year (\$525bn a quarter, \$40 billion a week)
 - real GDP might have grown by (say) 1¼% in the September quarter without lockdowns
 - under the above assumptions, real GDP would instead contract by about 1¼% in the September quarter
 - but previous experience also suggests that December quarter growth will be stronger than it would otherwise have been

Modelling released by the Grattan Institute suggests that a vaccination rate of at least 80% will be required in order to 'open up' safely

Alternative scenarios for effective reproduction number (R_{eff}) and vaccination rates



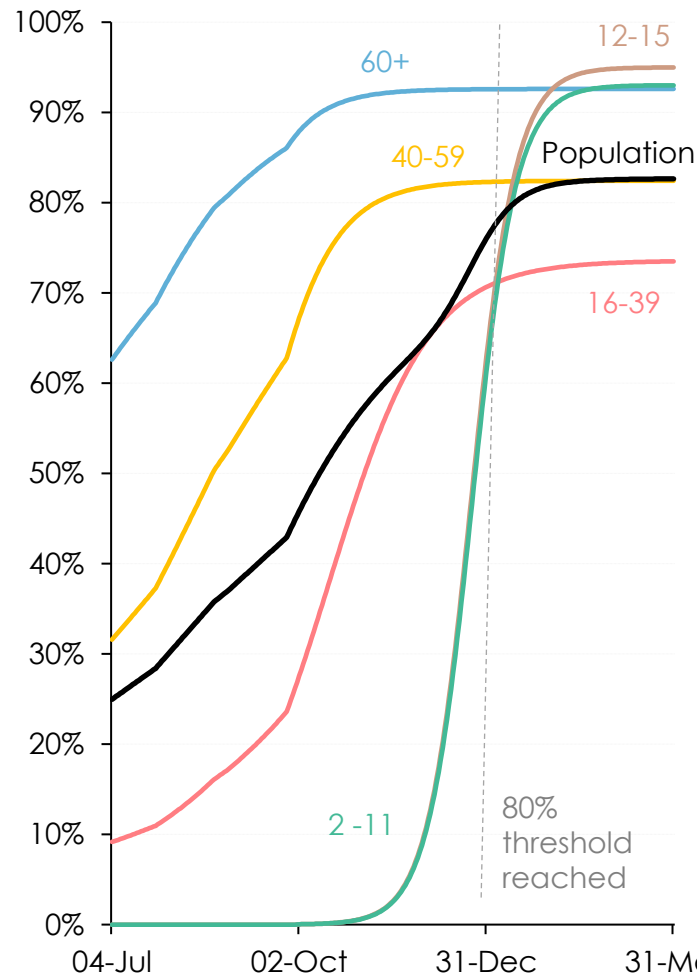
Note: Solid lines show the mean outcomes of the model simulations, while shaded areas show the 10th and 90th percentiles of the simulations. Source: Stephen Duckett, Danielle Wood, Brendan Coates et al, [Race to 80: Our best shot at living with Covid](#), Grattan Institute, 27th July 2021.

- ❑ Modelling released this week by the Grattan Institute (a Melbourne-based non-aligned policy 'think tank') suggests that, on the assumption that the starting ' R_{eff} ' (the number of people likely to be infected by each unvaccinated person) for the 'delta variant' of Covid-19 is at least 4, at least 80% of the population would need to be vaccinated in order to get the ' R_{eff} ' down to less than 1 (at which point the virus doesn't spread)
- ❑ The modelling suggests that 'opening up' (removing international border restrictions) with vaccination rates of less than 70% and assuming an initial ' R_{eff} ' of 4 or more would likely result in daily infections peaking at more than 70,000, ICU cases peaking at over 8,000 (more than the hospital system's capacity) and between 8,000 and 120,000 deaths
- ❑ Grattan thinks it is possible to reach the 80% target by the end of this year – if sufficient Australians are willing to be vaccinated, and if vaccines for children under 12 are approved

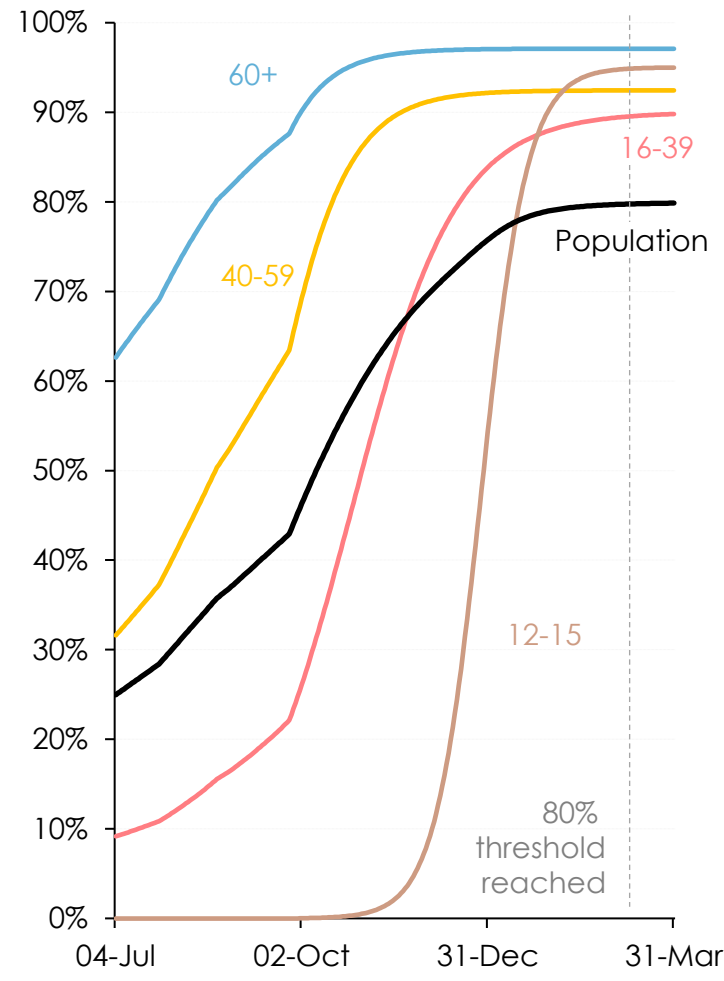
The 80%-of-the-population threshold could be achieved by the end of this year given sufficient commitment by the Federal Government

Plausible vaccination rates by age group

Assuming children aged 2-11 can be vaccinated



Assuming children aged 2-11 can't be vaccinated

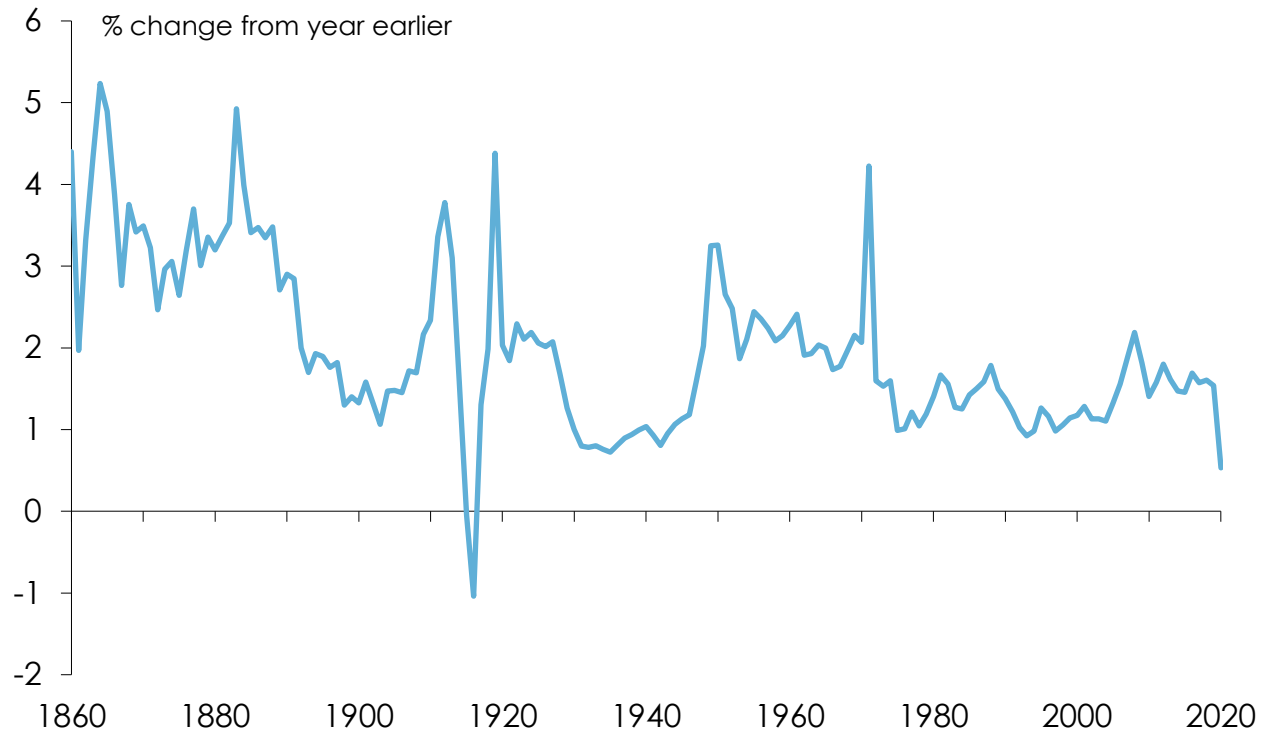


- ❑ Grattan's analysis suggests that, assuming a similar but slightly slower trajectory than in the UK, the '80% of the population' threshold could be attained by the end of the year with currently forecast vaccine supplies – provided that vaccines can be given to children aged 2-11
- ❑ If it's not possible to vaccinate children aged under 12, then the 80% threshold wouldn't be reached until mid-March next year
- ❑ Reaching either of these targets would require a significant acceleration from the current pace of vaccinations – Grattan suggests a variety of 'carrot and (if necessary) stick' strategies for achieving that, all of which would require a greater commitment on the part of the Federal Government
- ❑ In practice, it seems likely that vaccinations alone won't be sufficient to allow 'safe' opening up – other actions, including mask mandates, contact tracing etc. will probably still be required for some time

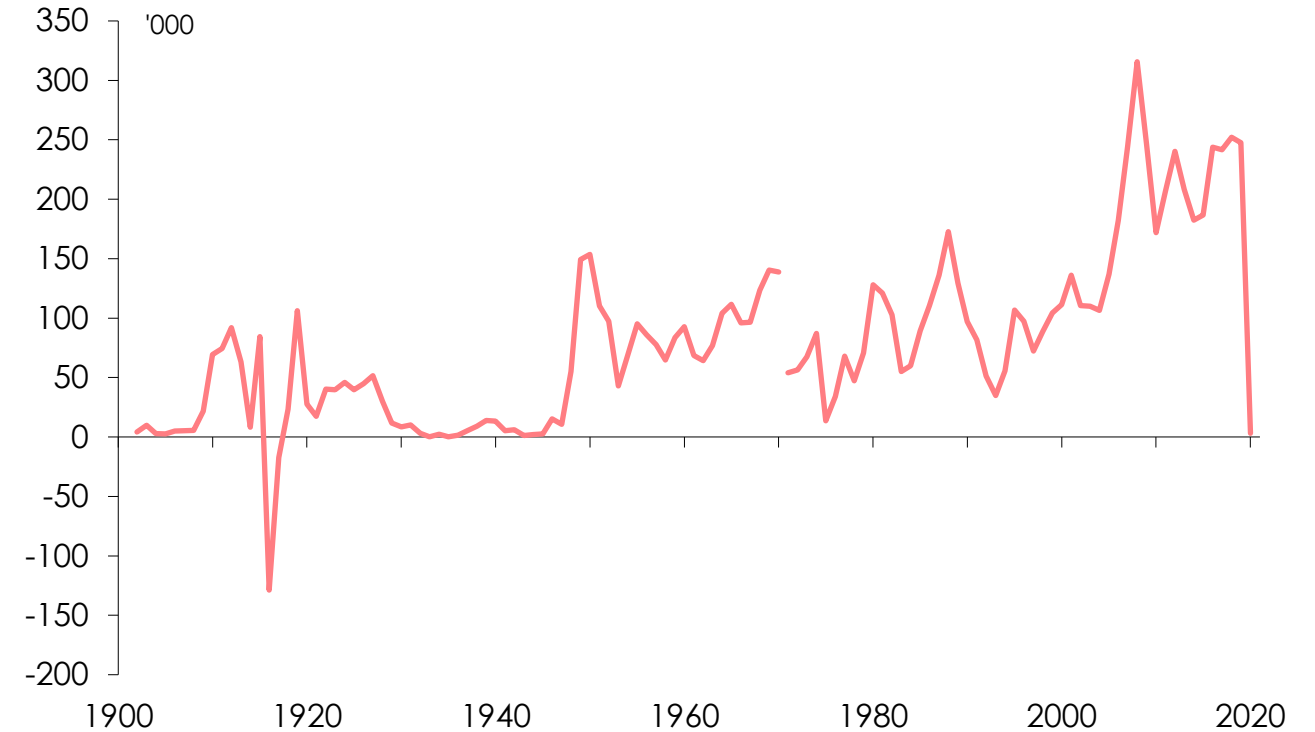
Source: Stephen Duckett, Danielle Wood, Brendan Coates et al, [Race to 80: Our best shot at living with Covid](#), Grattan Institute, 27th July 2021.

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

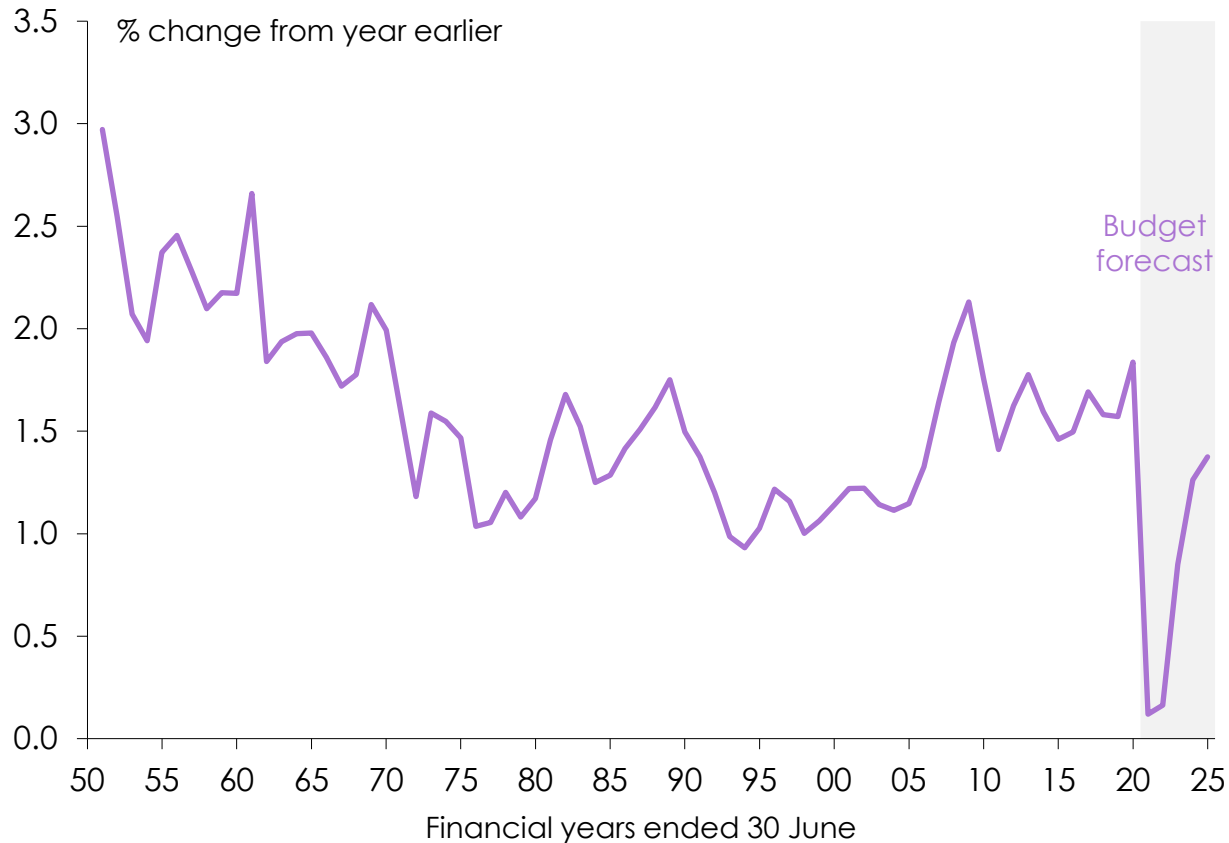


- ❑ Only 76K immigrants came to Australia in the last nine months of 2020, while 151K people departed permanently – implying a net outflow of almost 68,000 people
- ❑ As a result, Australia's population growth rate fell to just 0.5% over the year to Q4 2020, the slowest since 1916
- ❑ Last month's halving 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 107

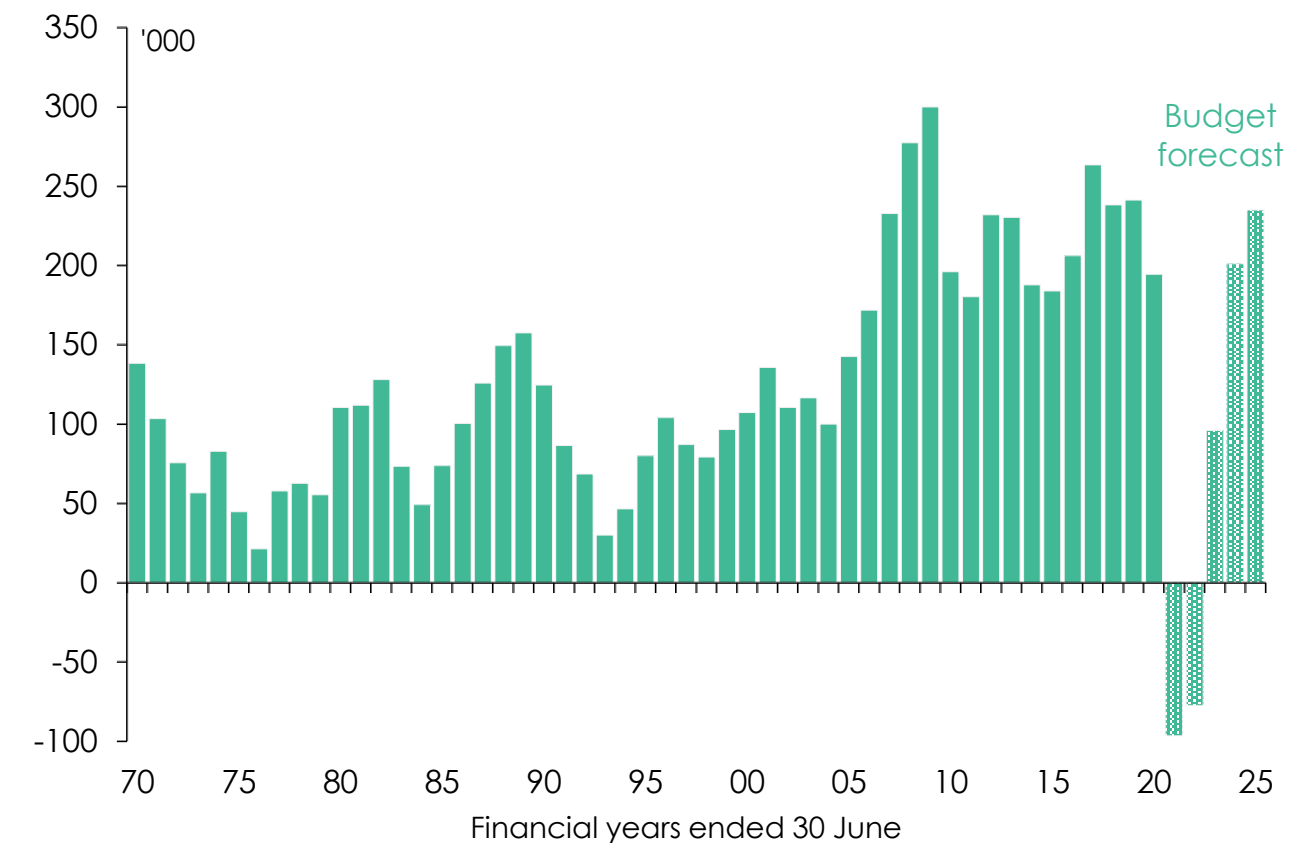
Note: The net migration data has a series break at 1971 due to definitional changes. Sources: ABS, [National, state and territory population](#), December 2020; [Historical Population](#), 2016; [Migration, Australia](#), 2019-20; [Demography Bulletin](#), 1923, 1940, 1950, 1960 and 1971; [Population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

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

Population growth



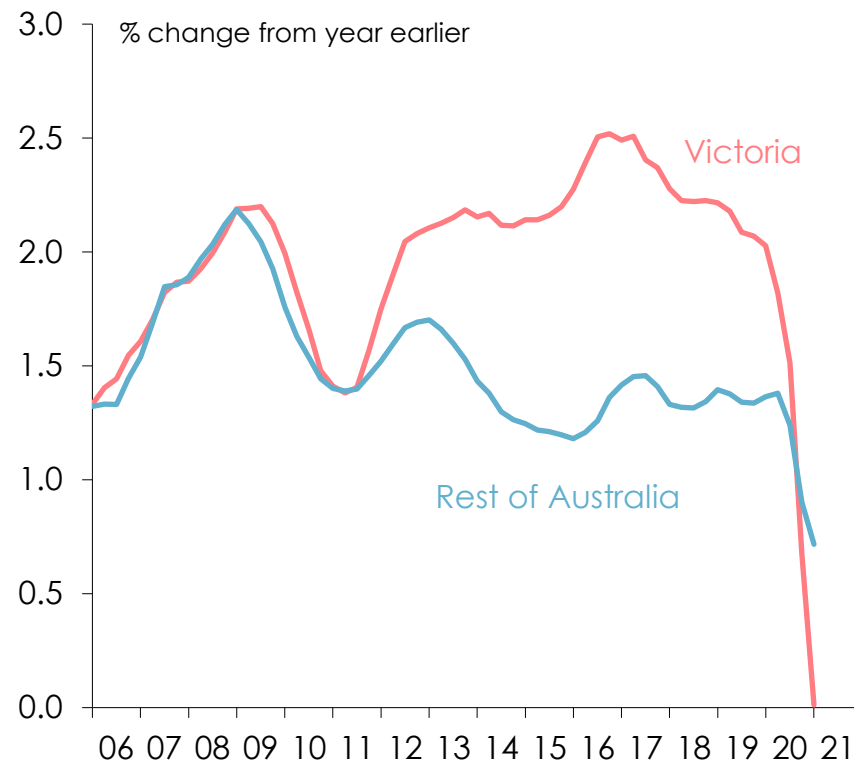
Net overseas migration



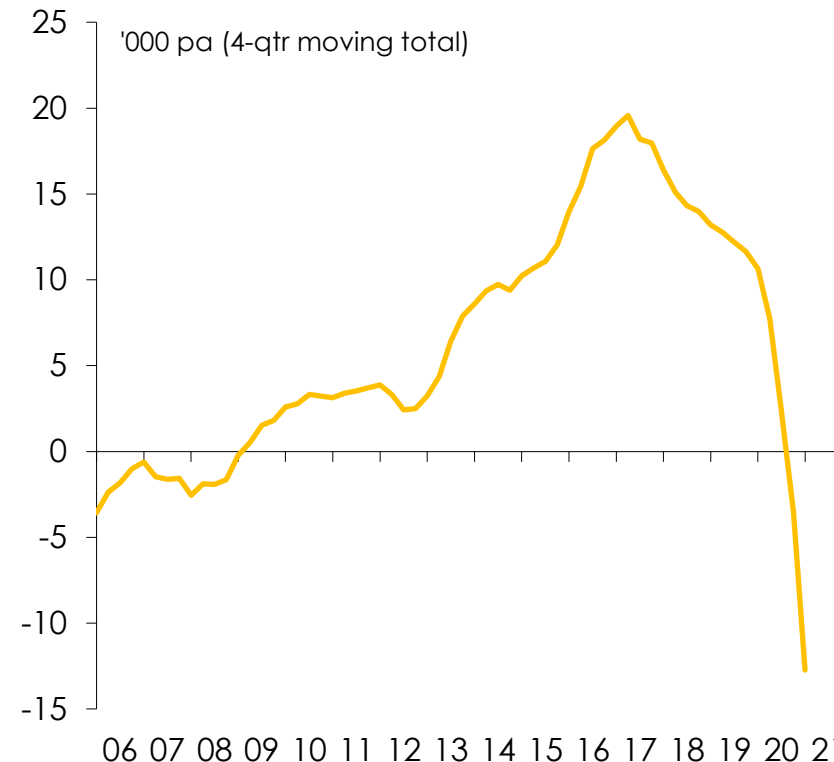
Opinion polls have consistently indicated very high levels of popular support for keeping Australia's international borders closed – which (more than anything else) likely explains why the Government's position has changed from last year's "we can't keep Australia under the doona" to this year's "our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

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

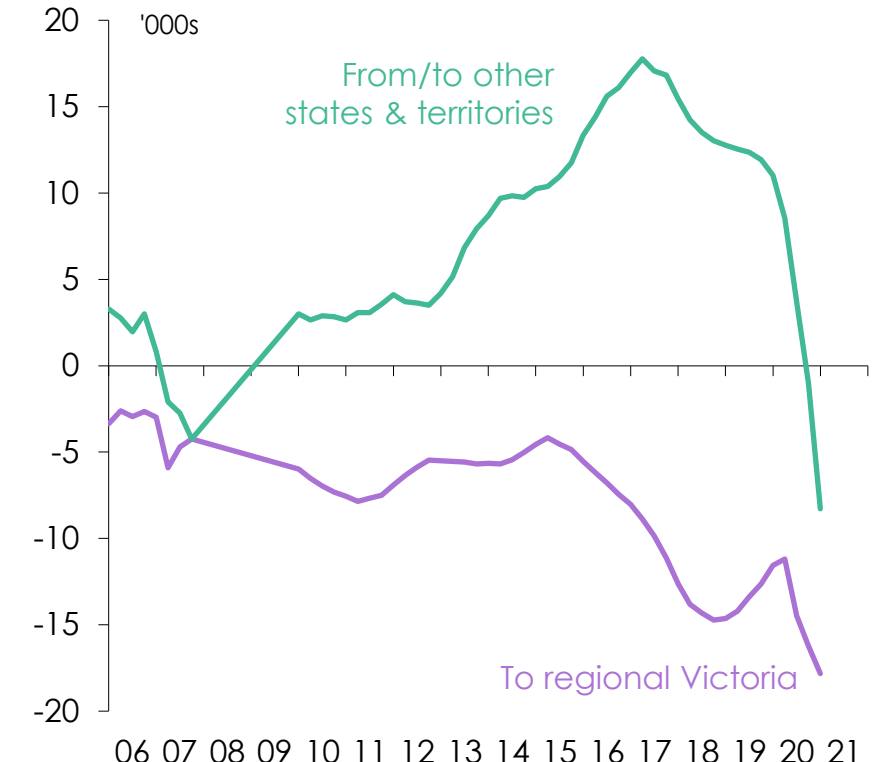
Population growth, states & territories, year to September 2020



Net migration to Victoria from other states & territories



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



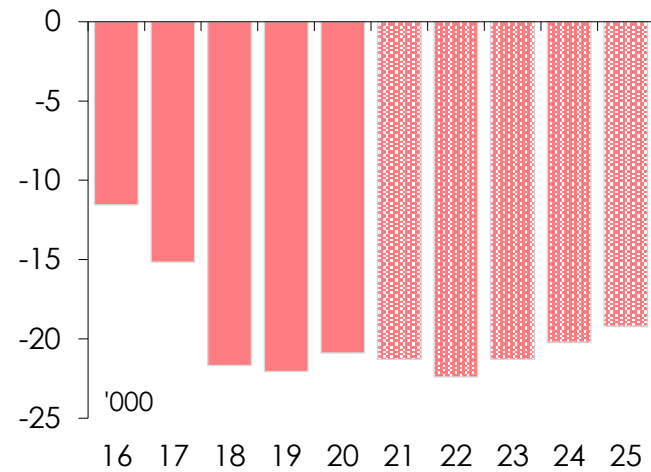
- ❑ Victoria – whose economy has become more dependent on immigration both from overseas and interstate over the past decade than any other state or territory – has experienced the sharpest population slowdown since the onset of Covid-19, dropping from the fastest growth to the slowest
- ❑ There's been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

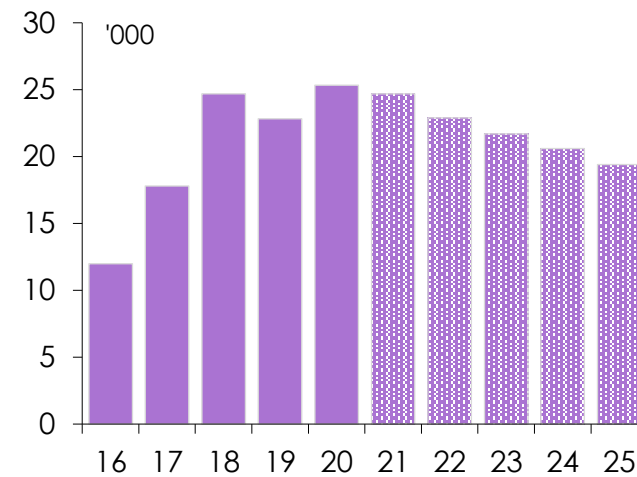
The 2021-22 Budget projects much lower interstate migration to Victoria – and that may be too optimistic (also too pessimistic for SA and WA)

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

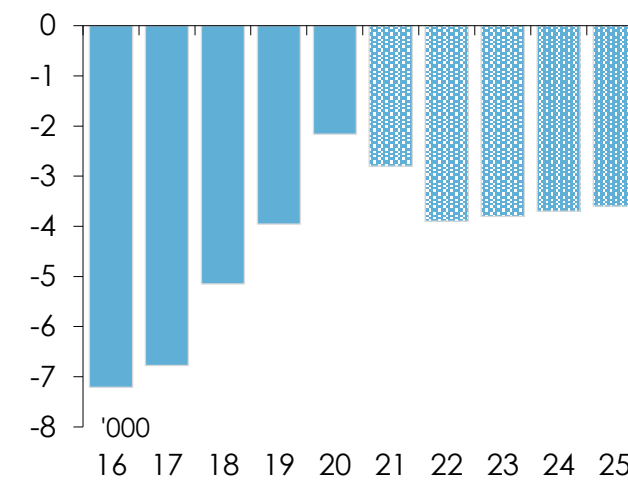
New South Wales



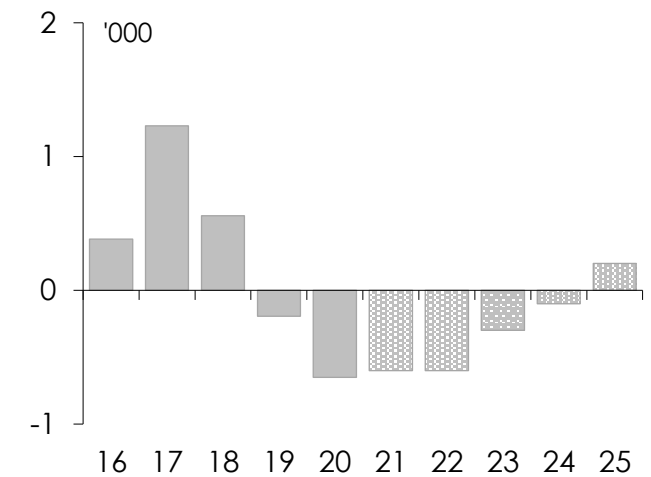
Queensland



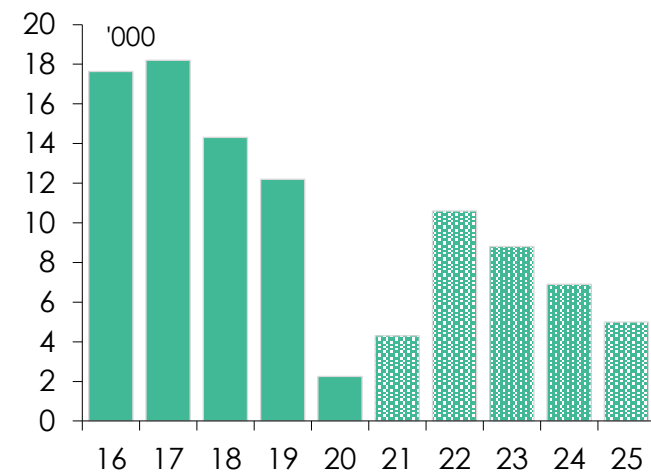
South Australia



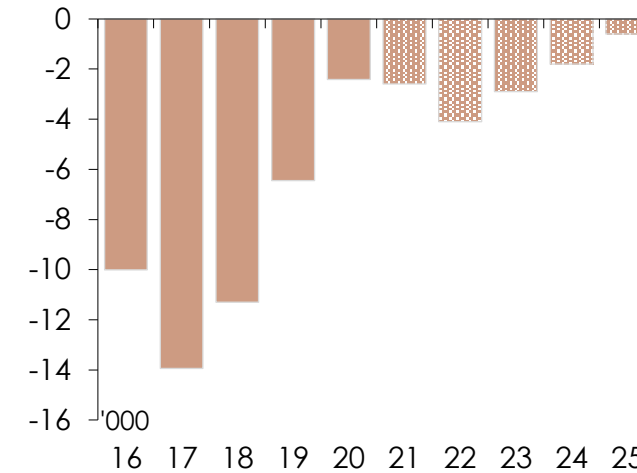
ACT



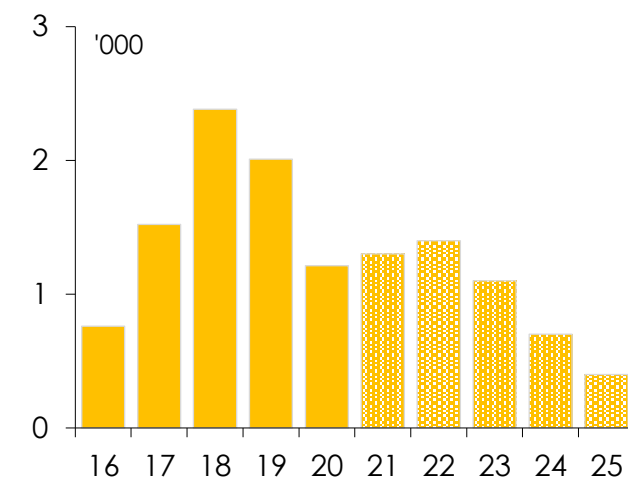
Victoria



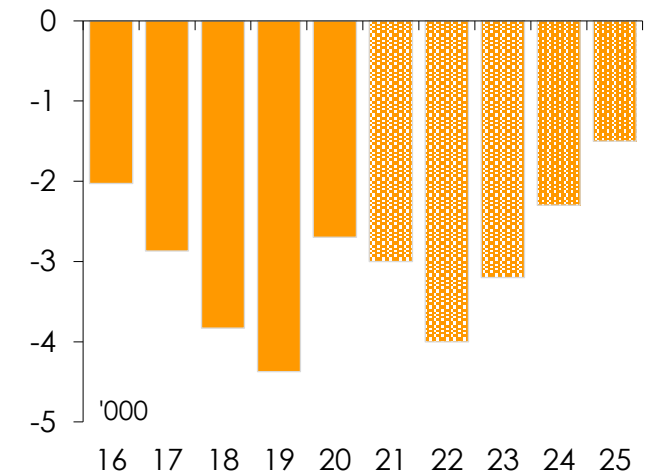
Western Australia



Tasmania



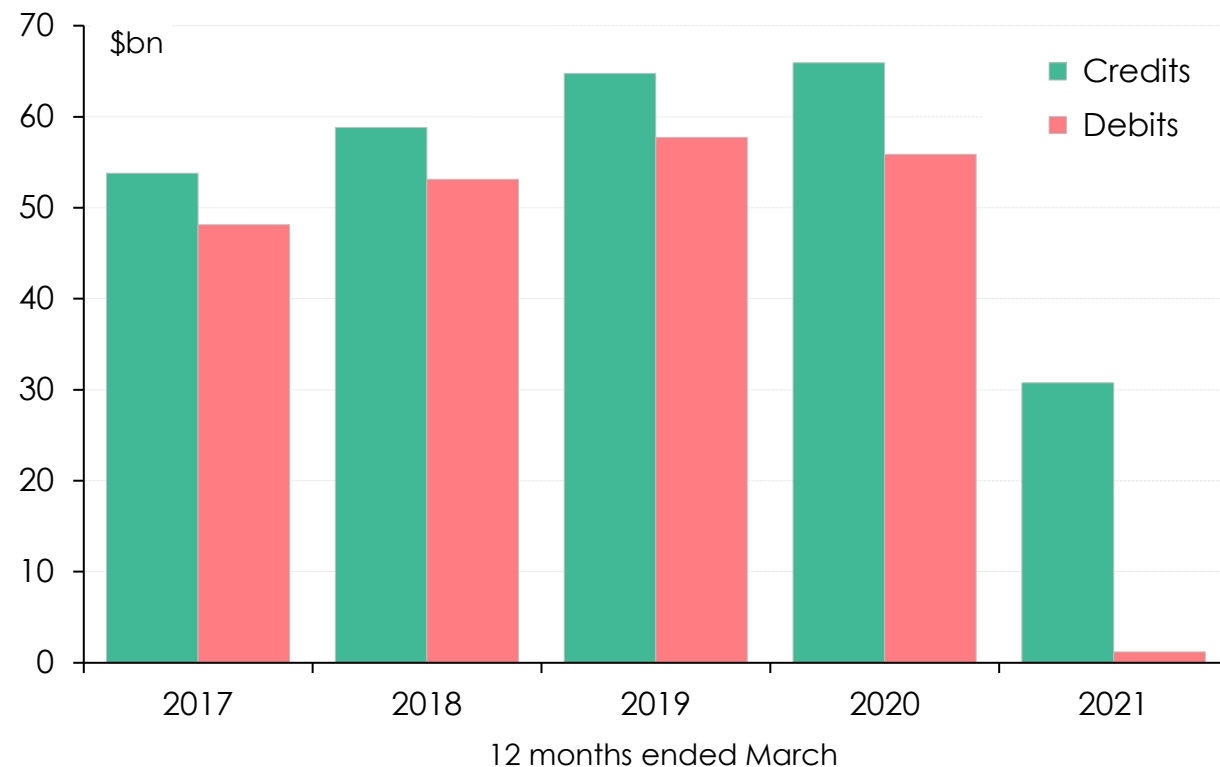
Northern Territory



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.

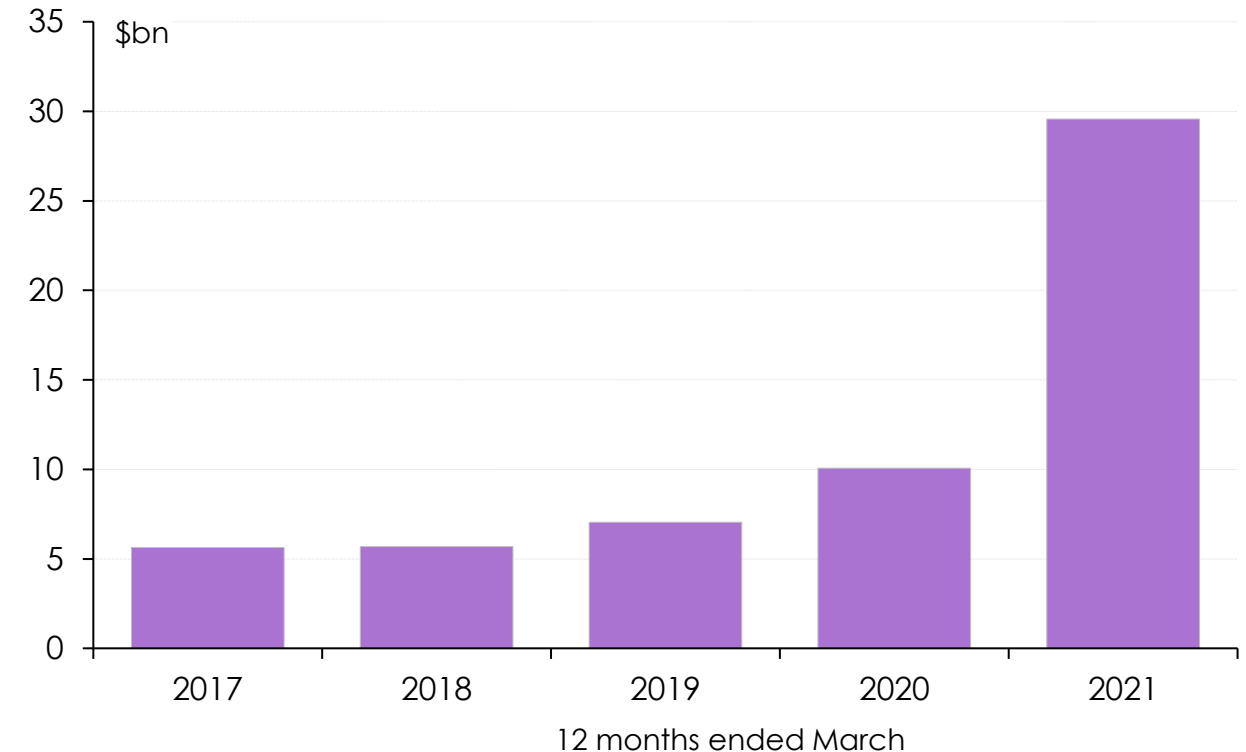
The *taboo* on Australians leaving the country more than offsets the loss of spending by foreign tourists and students

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.)

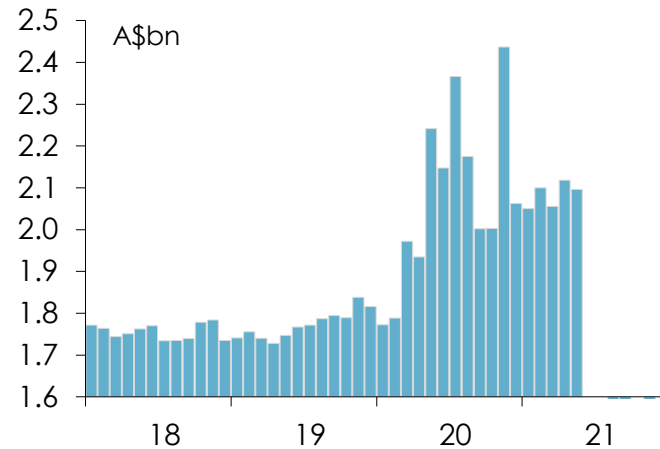
Net travel transactions



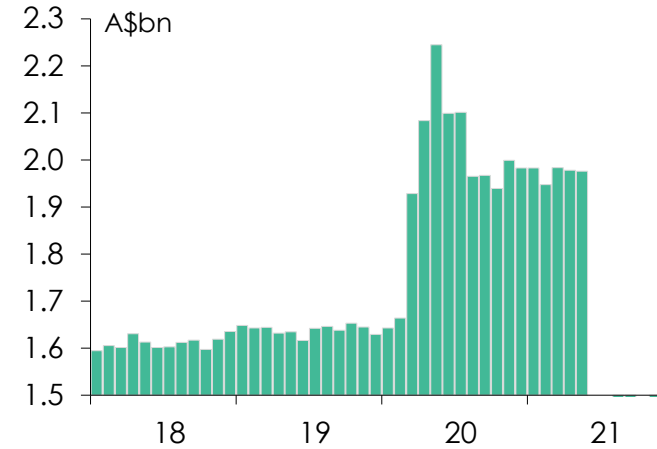
- ❑ Despite restrictions, foreigners still spent \$31bn in Australia in the 12 months to March 2021 (cf. an average of \$61bn per annum over the previous four years) implying a *net gain* to Australia during 12 months to March this year of almost \$22½bn by comparison with the 2016-19 average – equivalent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

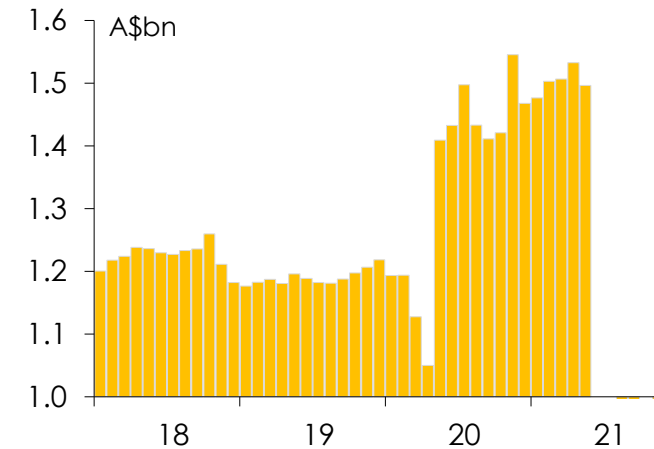
Electronic & electrical goods



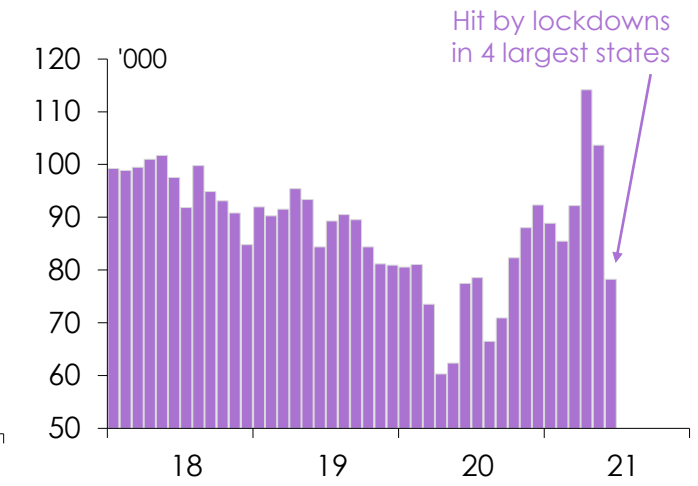
Hardware, building & garden supplies



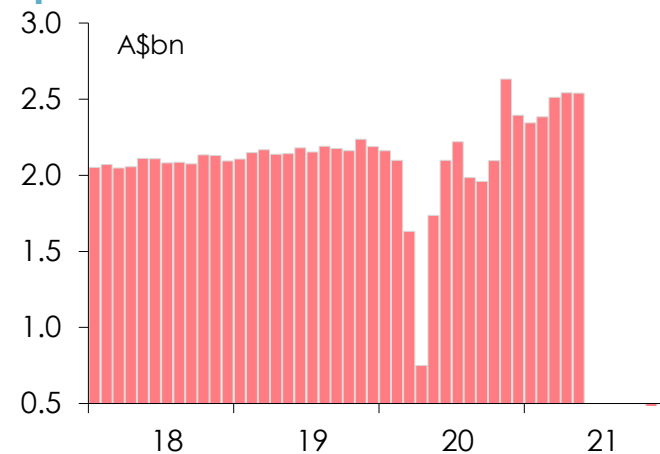
Floor coverings, furniture, housewares etc



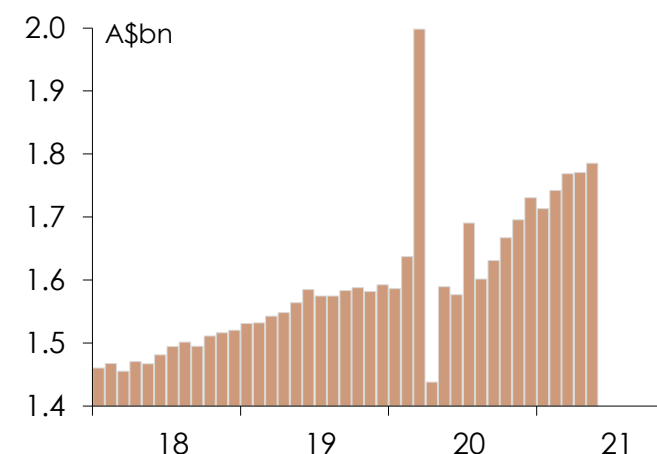
New motor vehicles



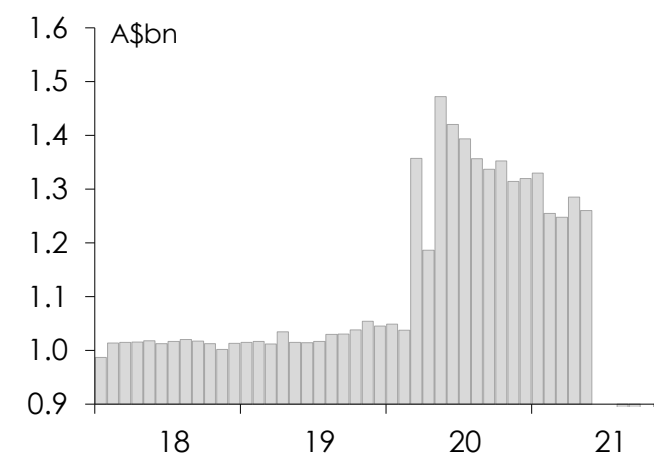
Clothing, footwear & personal accessories



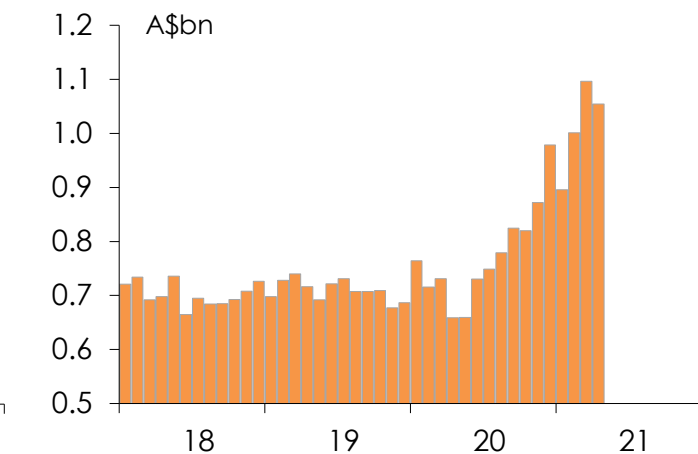
Pharmaceuticals, cosmetics & toiletries



Alcoholic beverages



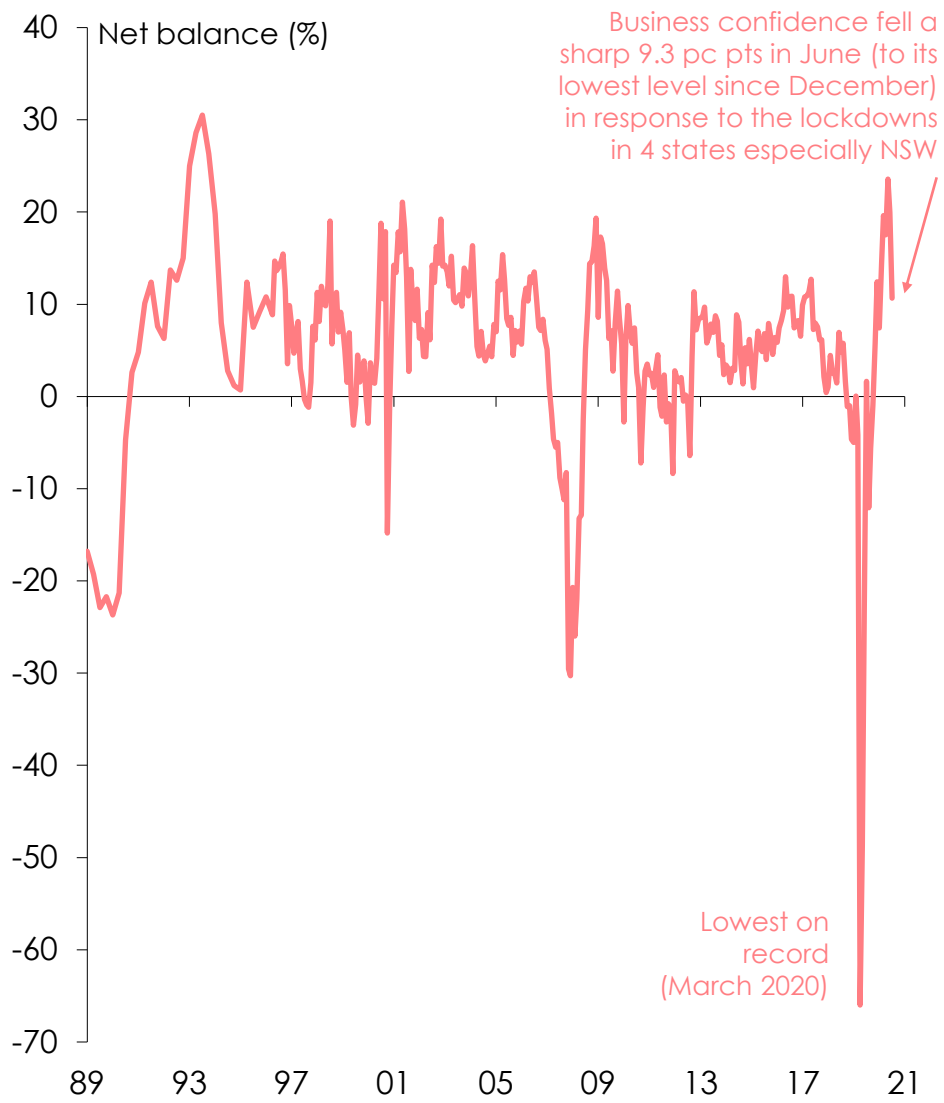
Renovations



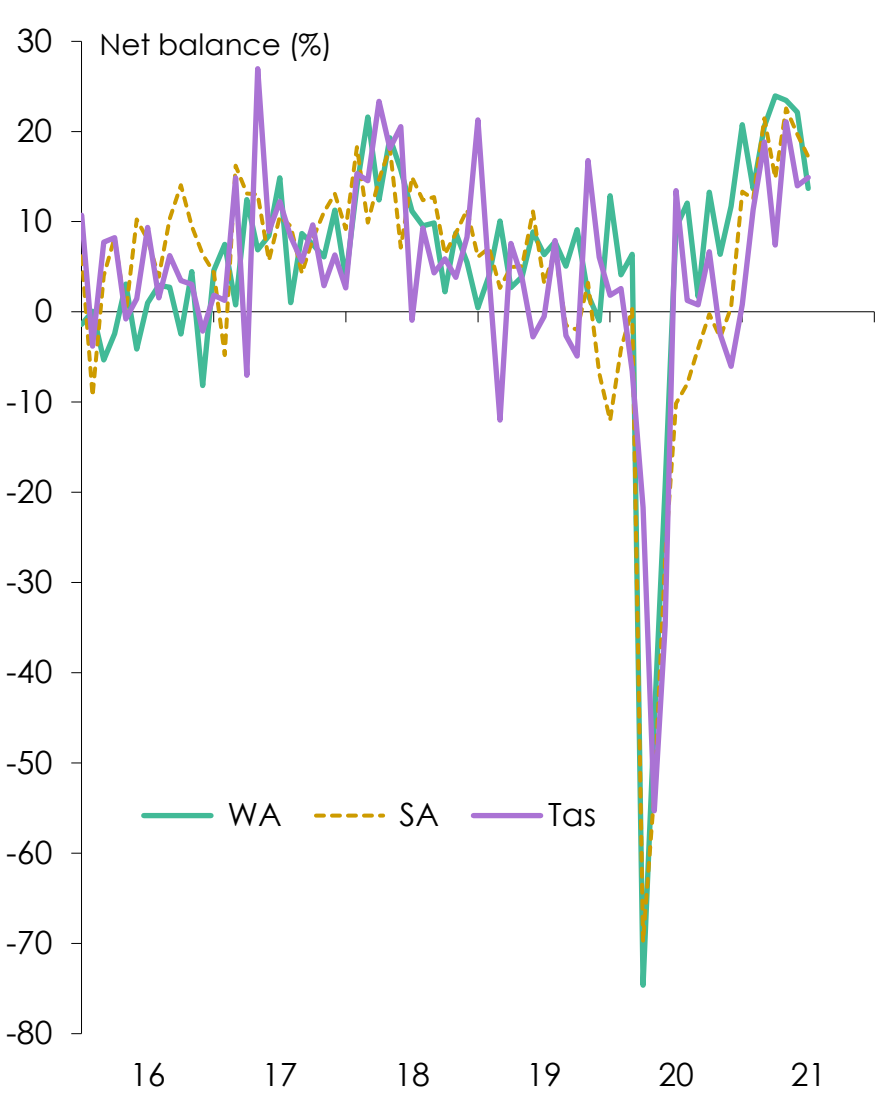
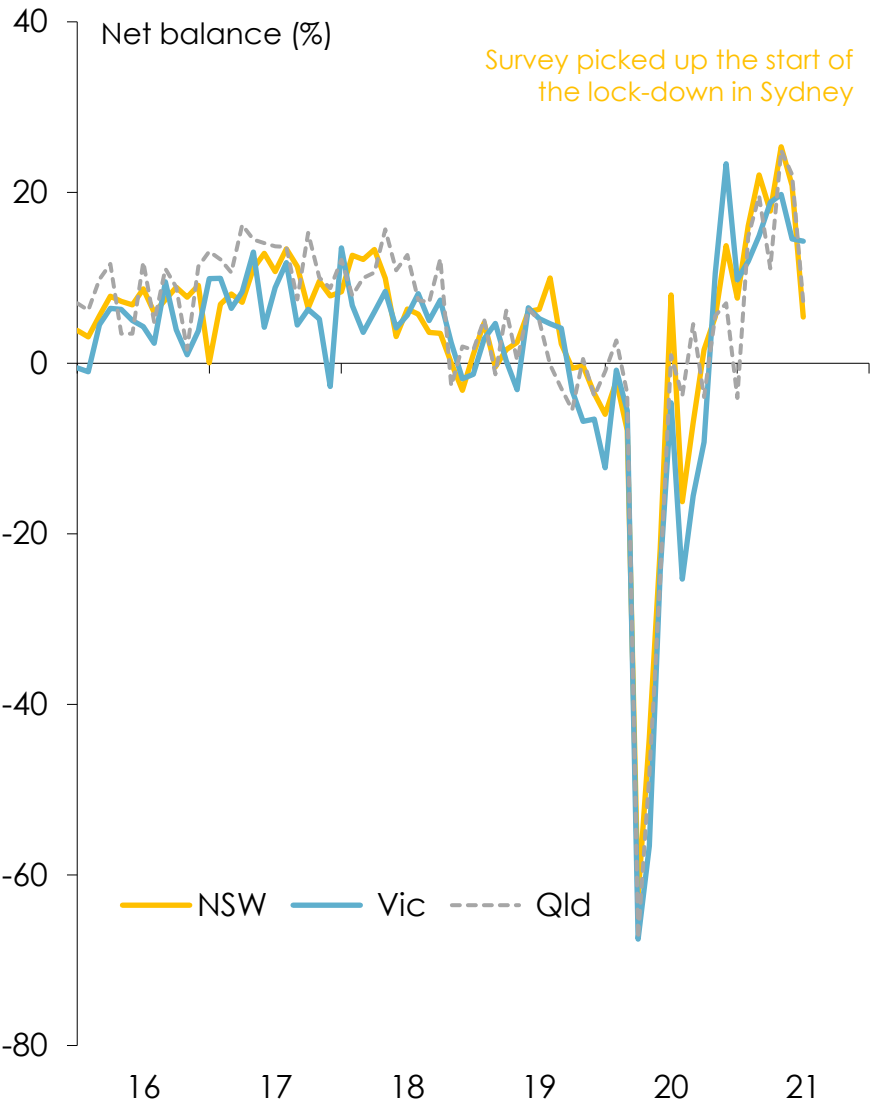
Note: First six charts (from left) are retail sales; new motor vehicles are numbers of vehicles sold; renovations are the value of alterations and additions to residential dwellings approved by local governments. Sources: ABS, [Retail Trade, Australia](#), May 2021; [Building Approvals, Australia](#),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

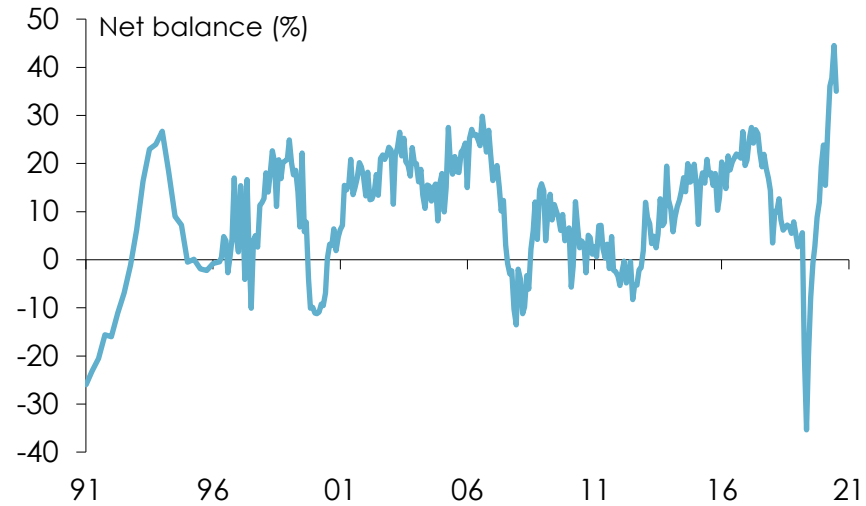


Business confidence, states and territories

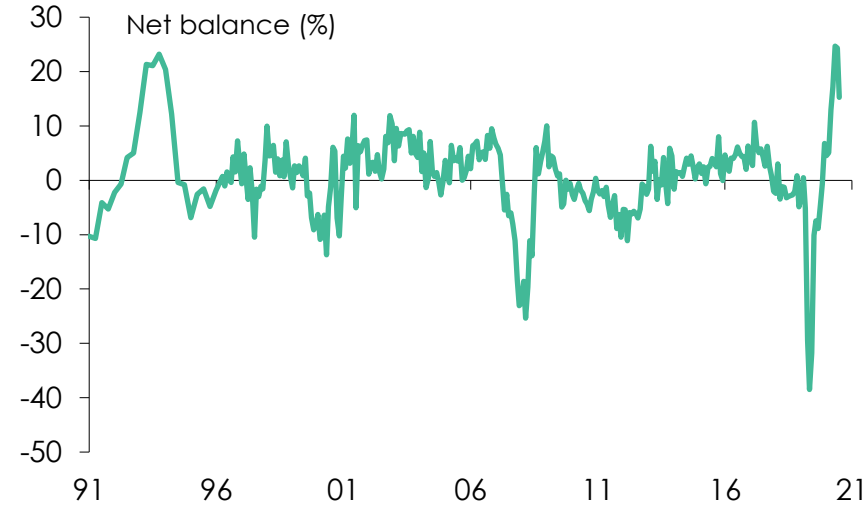


All of the components of 'business conditions' fell back in June although except for capex intentions they are all still close to historical highs

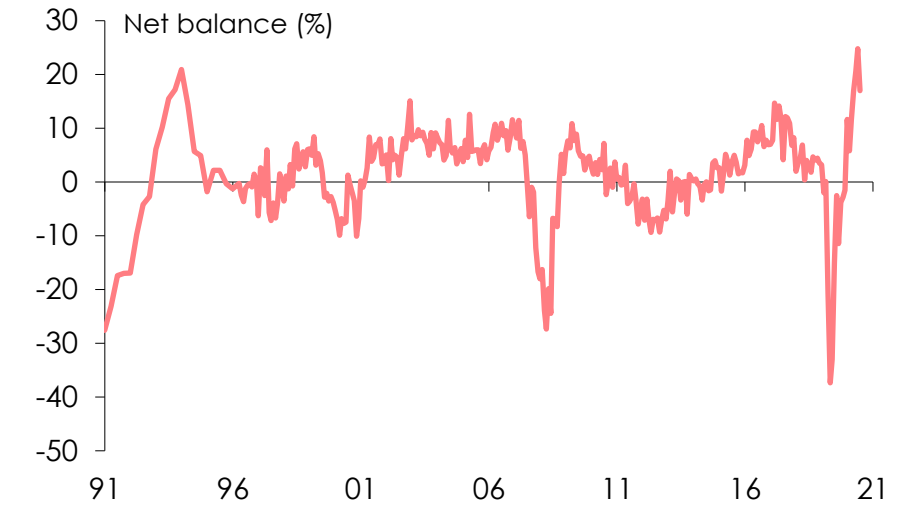
Trading conditions



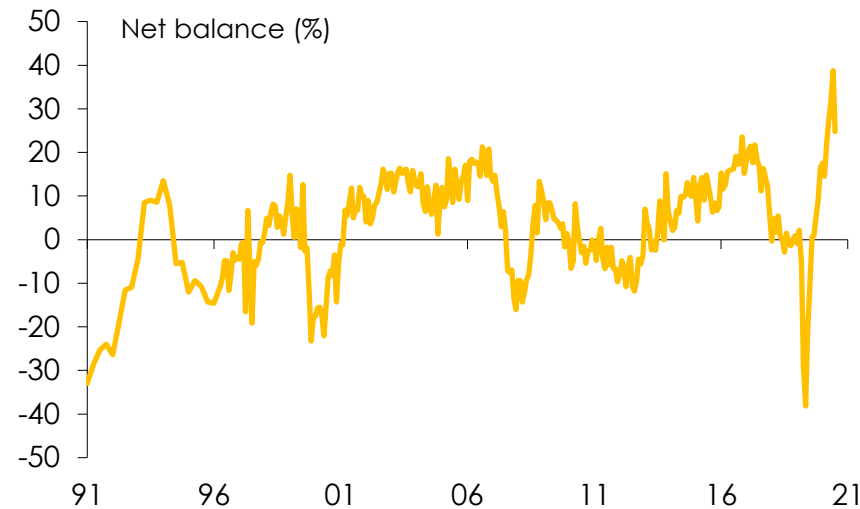
Forward orders



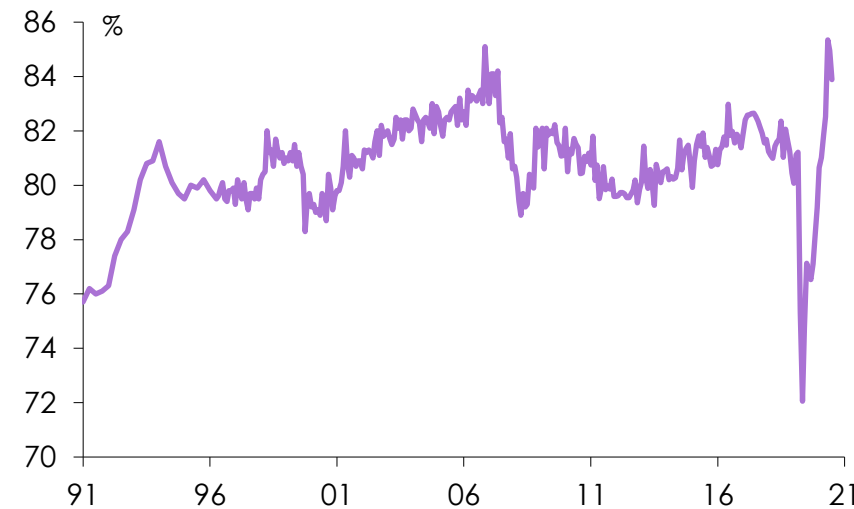
Employee hiring intentions



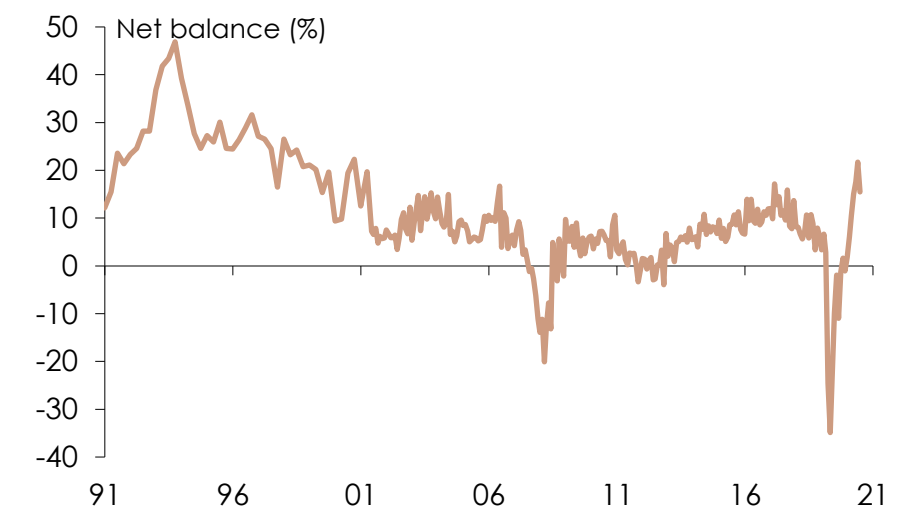
Profitability



Capacity utilization



Capital expenditure intentions

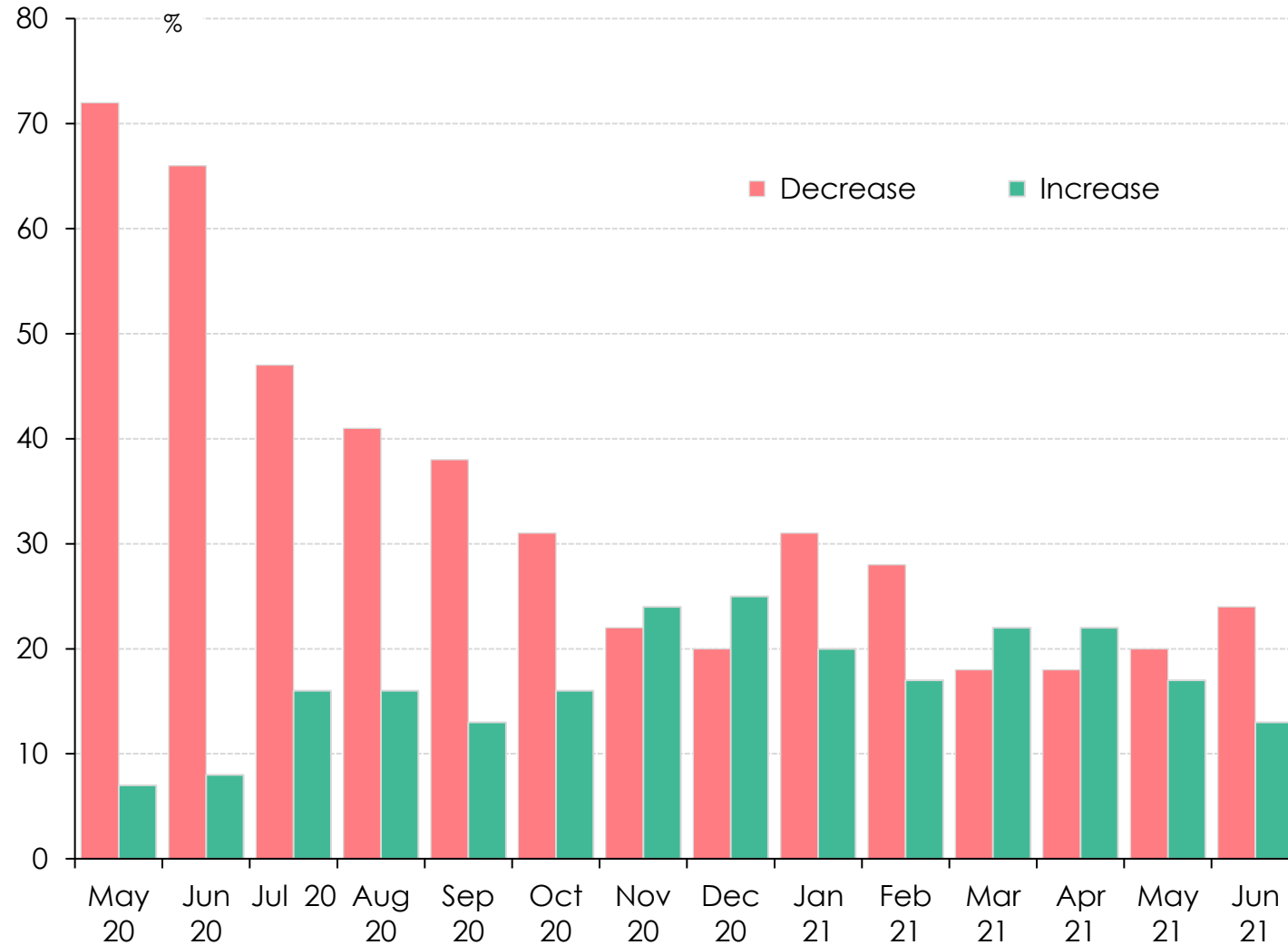


Note: Quarterly data up to March 1997 (May 2002 for capex intentions), monthly thereafter.

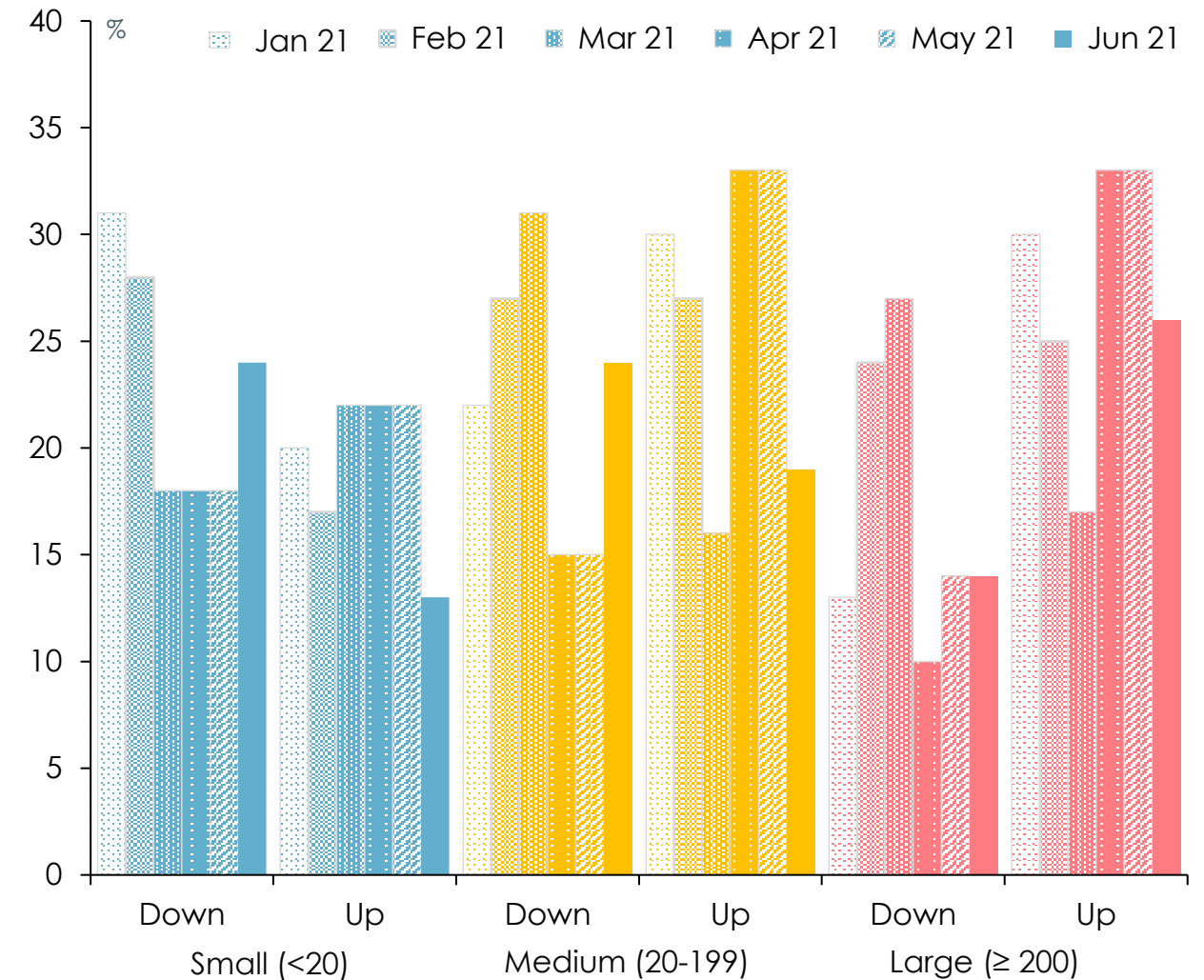
Source: National Australia Bank [Monthly Business Survey](#), June 2021; July survey results will be released on 10th August. [Return to "What's New"](#).

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



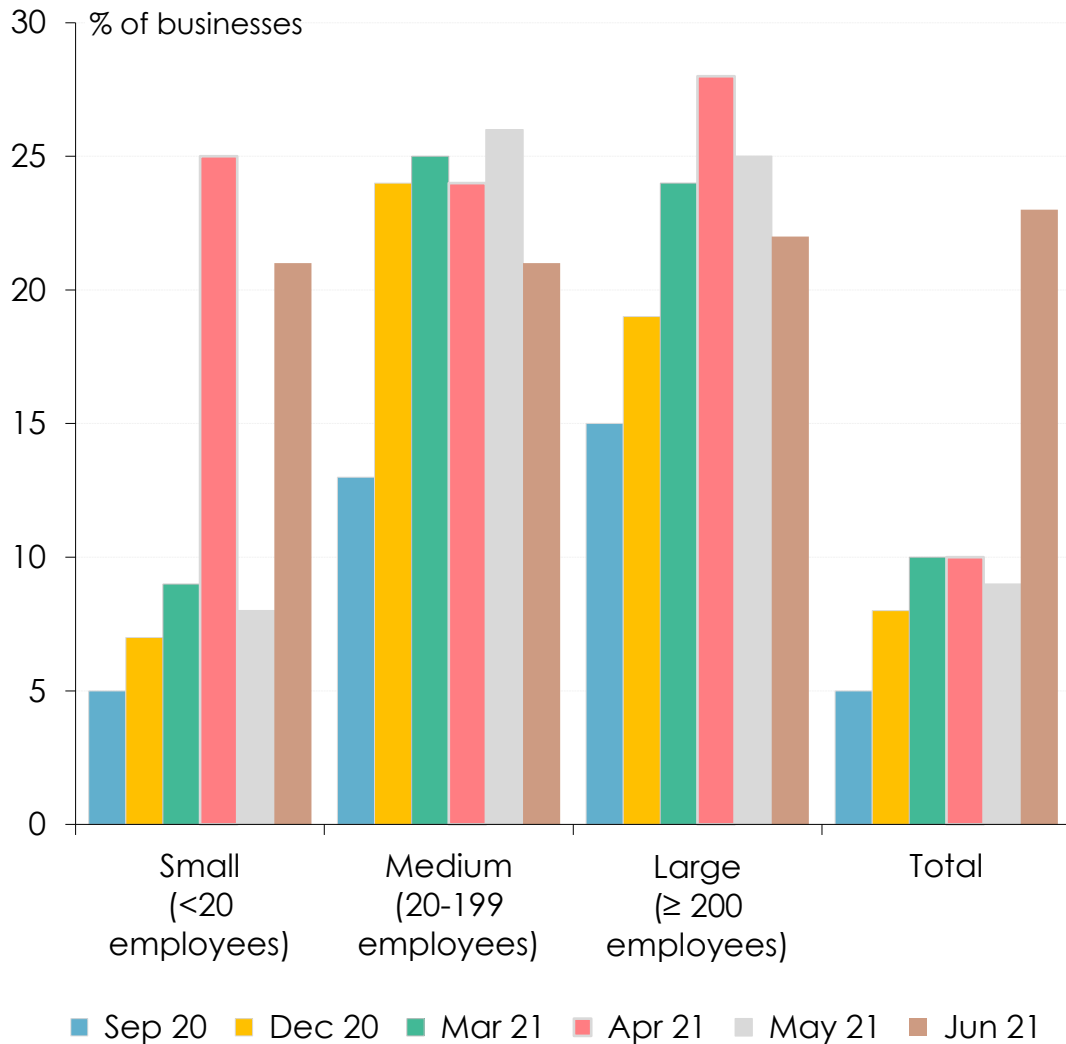
Proportion of businesses reporting decreases or increases in revenue over past month by size



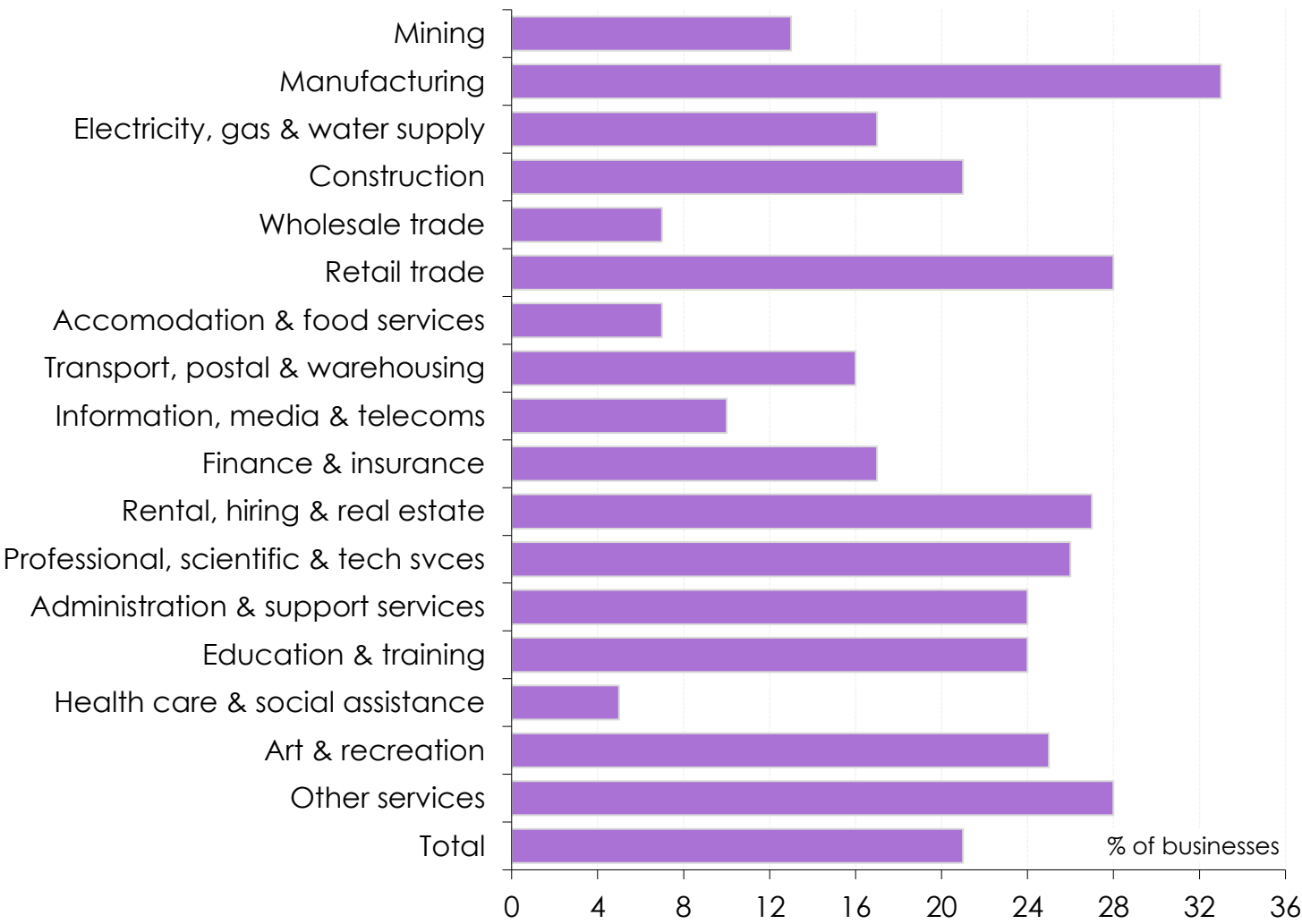
Note: 'size' in the right-hand chart refers to the number of employees. Source: ABS, [Business Conditions and Sentiments](#), June 2021. [Return to "What's New"](#).

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



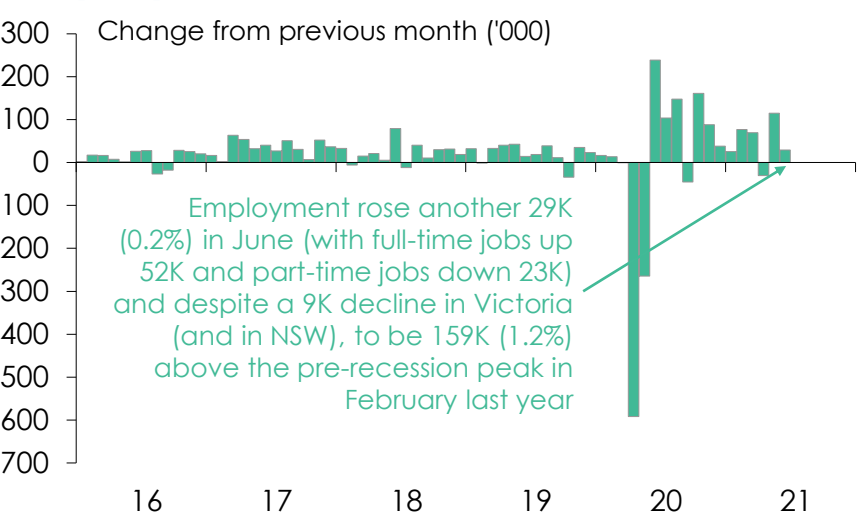
Proportion of businesses planning to increase employment, by industry, June 2021



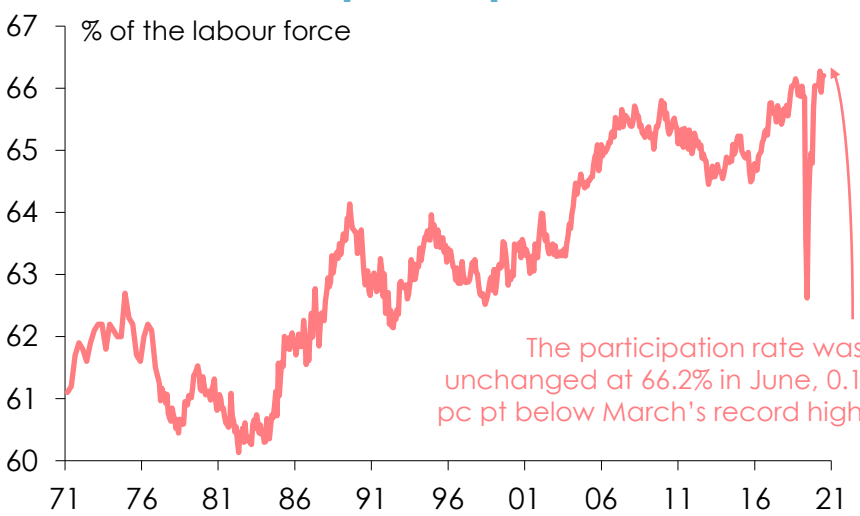
Source: ABS, [Business Conditions and Sentiments](#), June 2021. See also [slide 118](#) for data on capex intentions by business size. [Return to "What's New"](#).

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



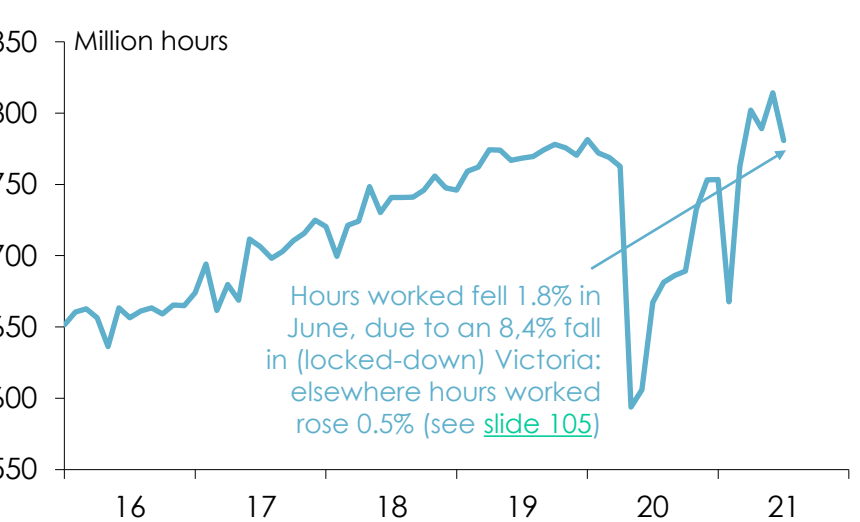
Labour force participation rate



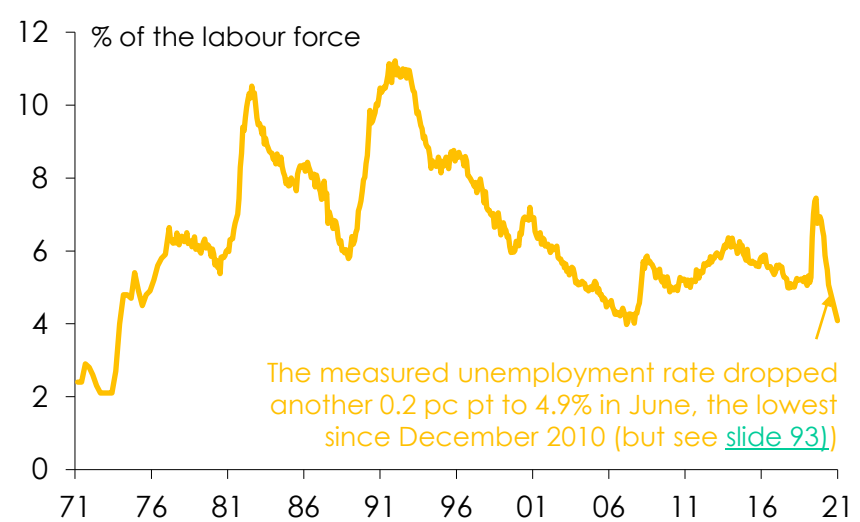
Under-employment ratio



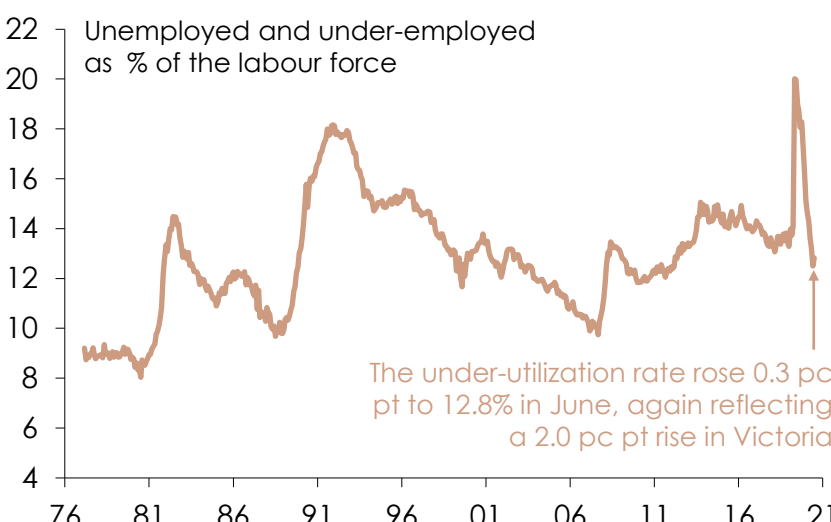
Total hours worked



Unemployment rate

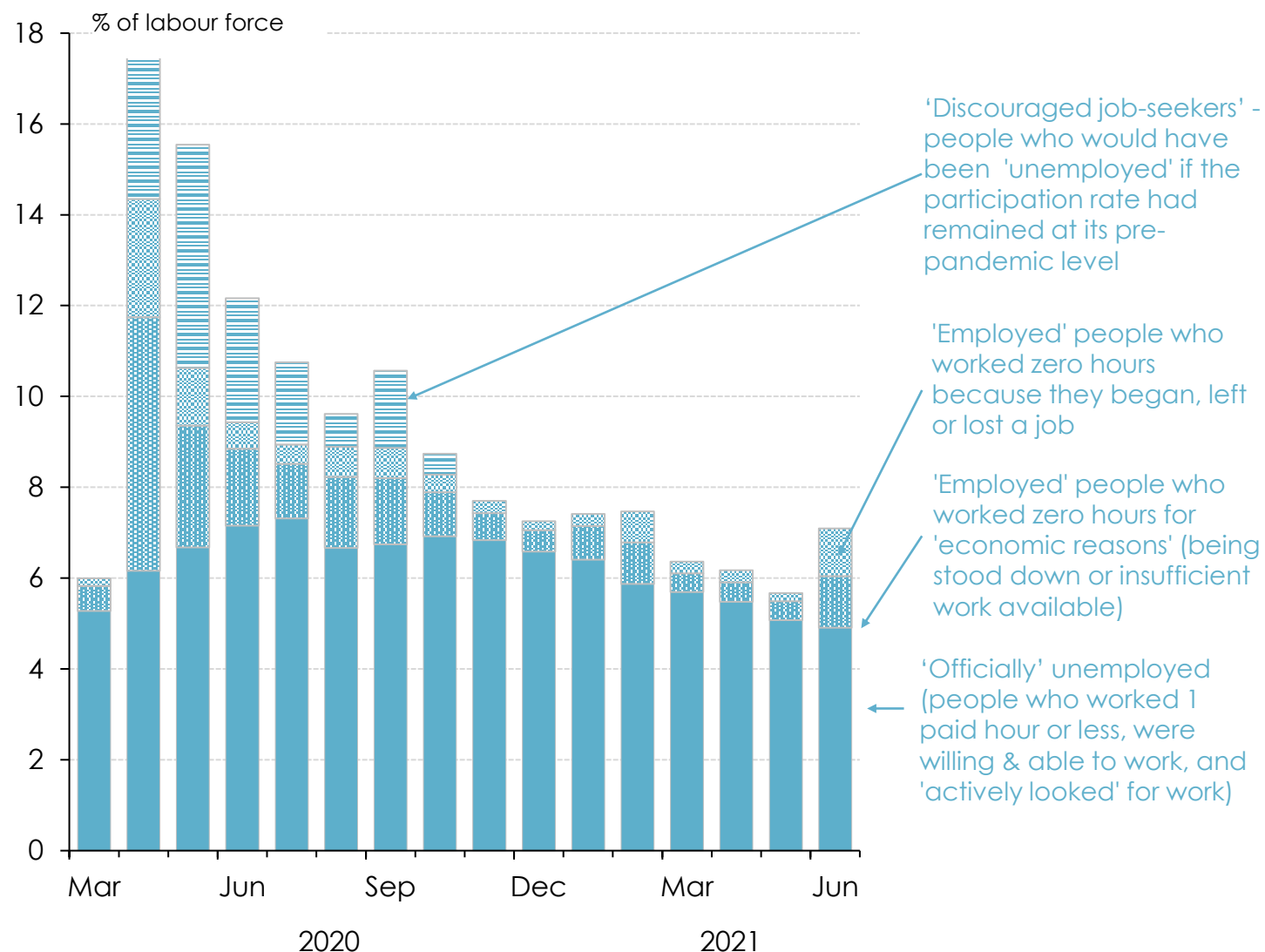


'Under-utilization' rate



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

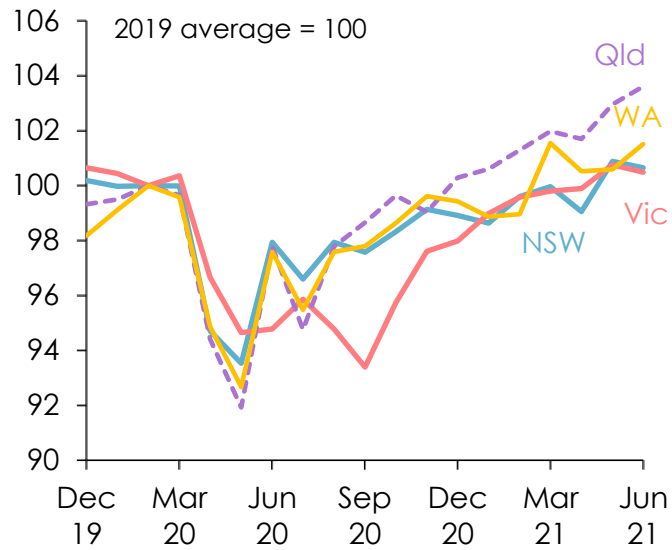


- ❑ The number of people counted as 'employed' but who worked zero hours for 'economic reasons' (no or insufficient work, or 'stood down') jumped by 98K in June, reflecting a 114K rise in Victoria (due to the lockdown) partly offset by declines in other states
- ❑ There was also a 124K increase in the 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

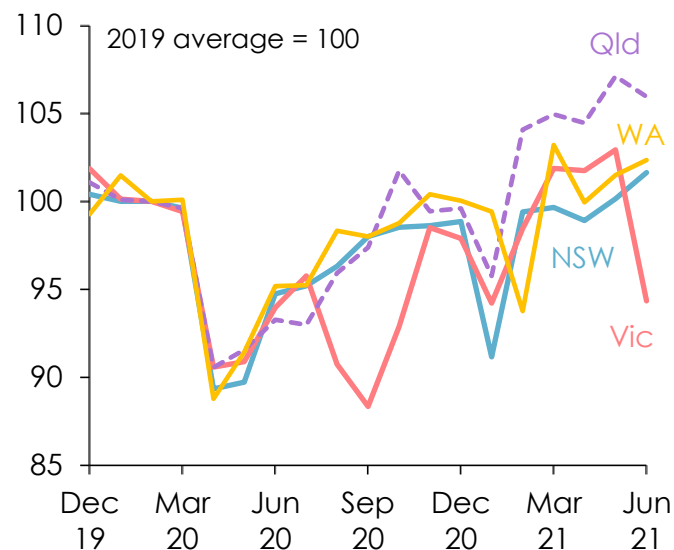
Source: ABS, [Labour Force, Australia](#); Corinna. July data will be released on 19th August. [Return to "What's New"](#).

Qld and WA continue to have the strongest employment recoveries: the June lockdown in Victoria showed up in an 8½% fall in hours worked

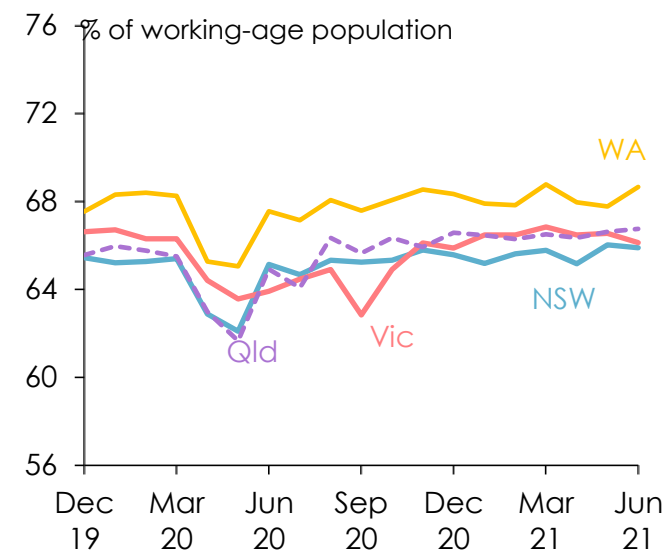
Employment



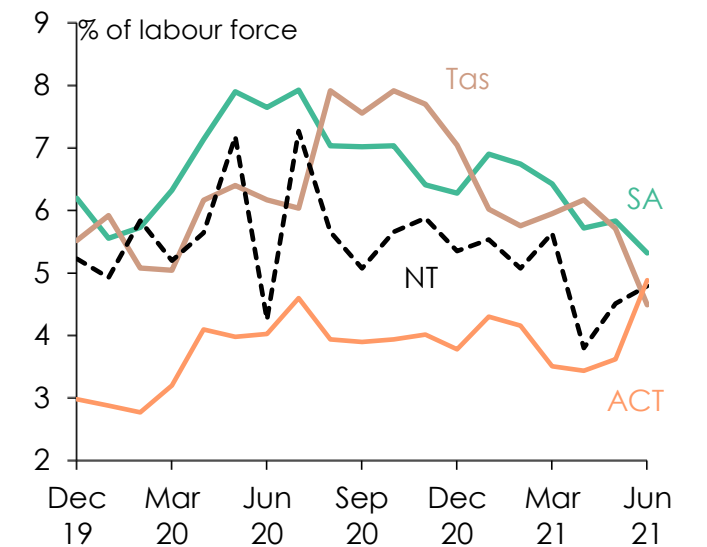
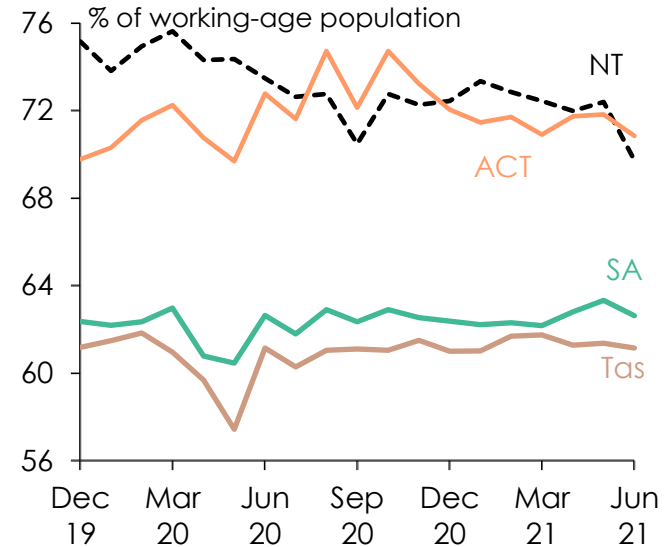
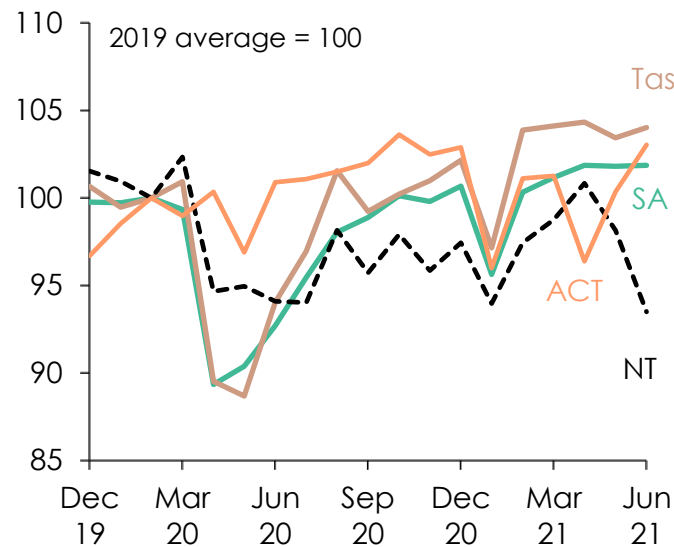
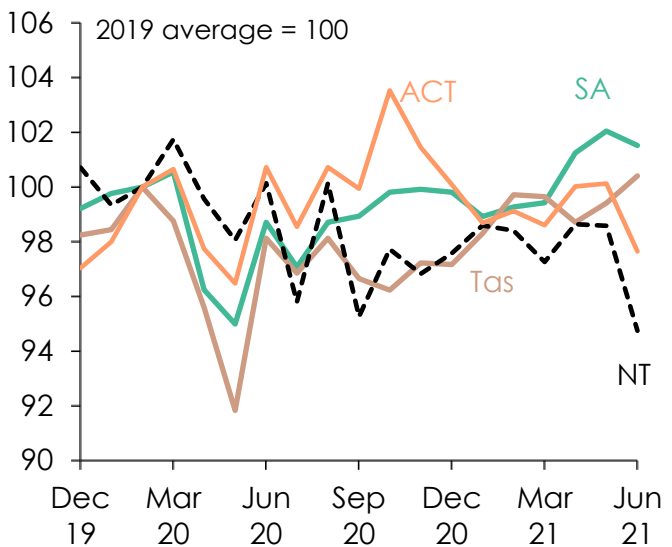
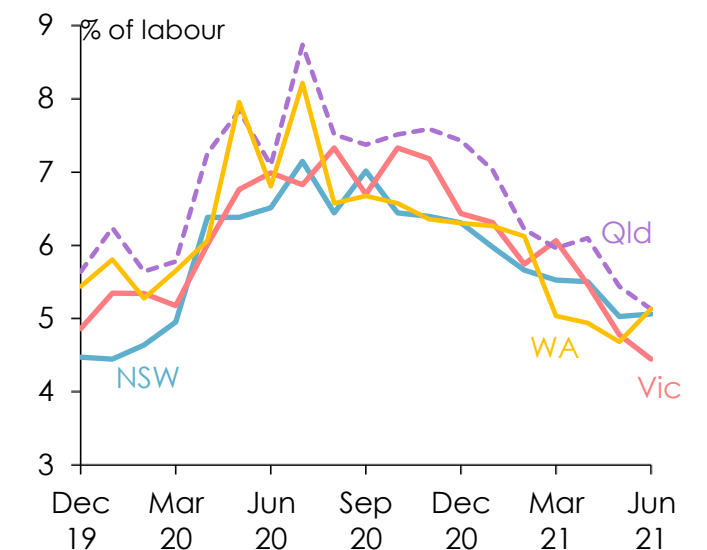
Hours worked



Participation rates



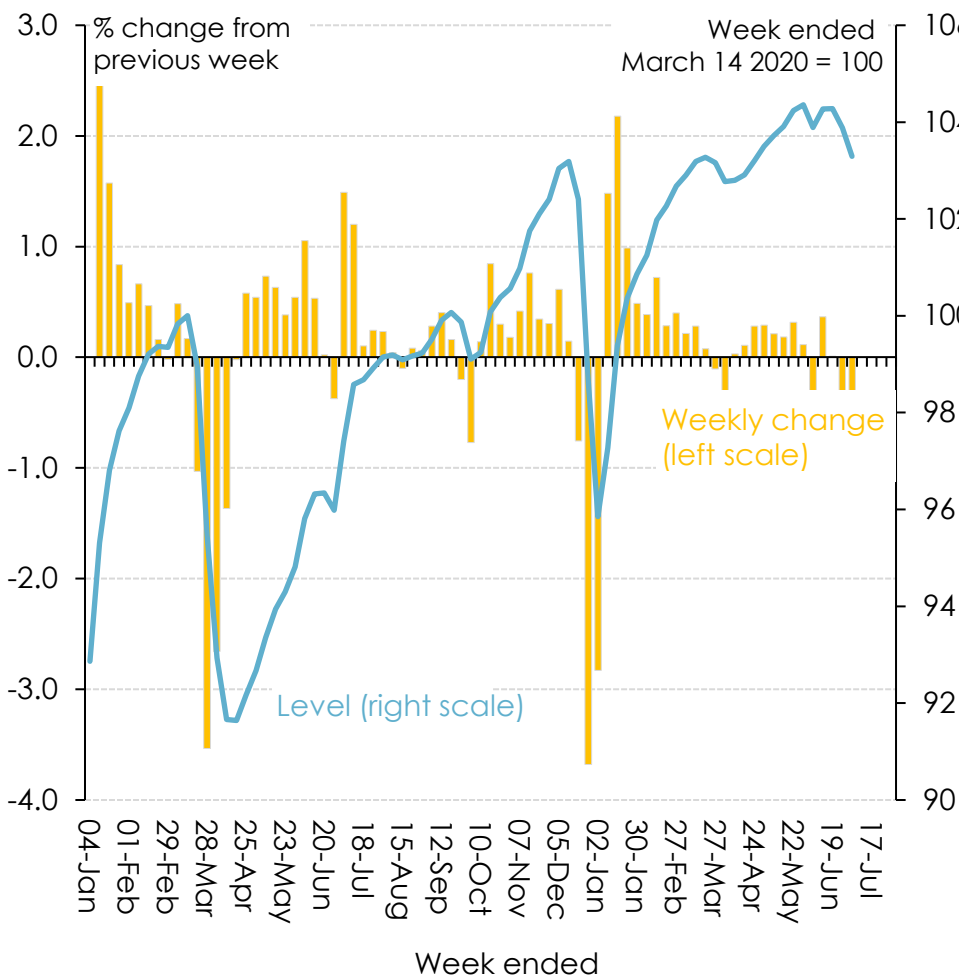
Unemployment rates



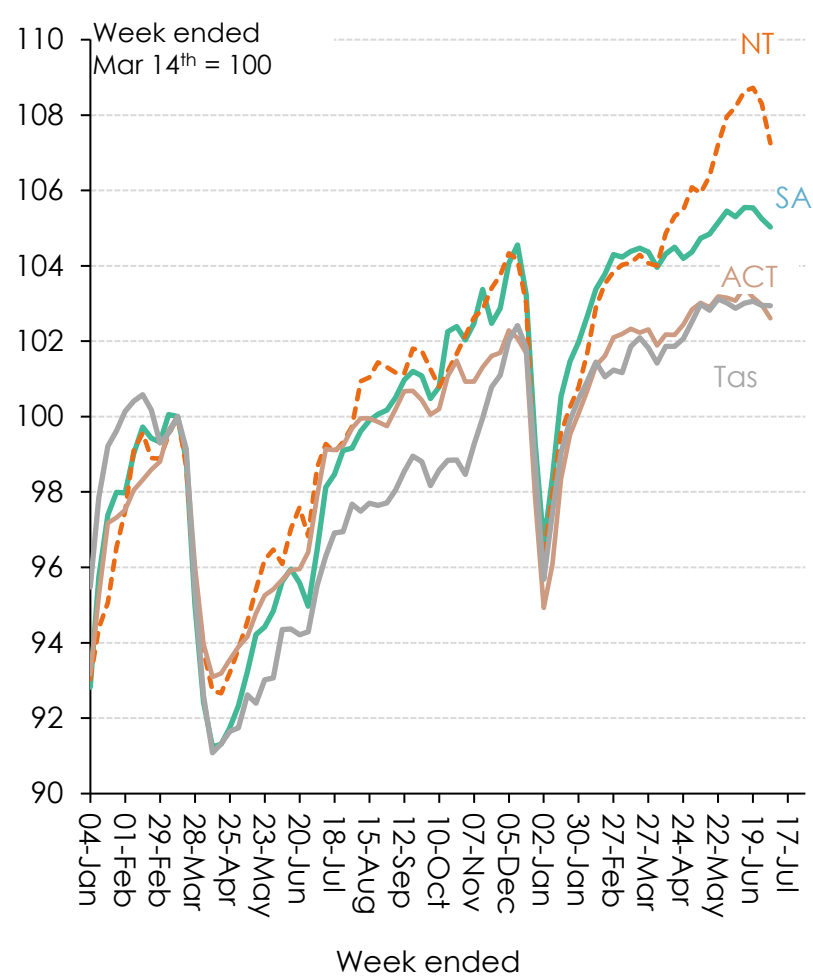
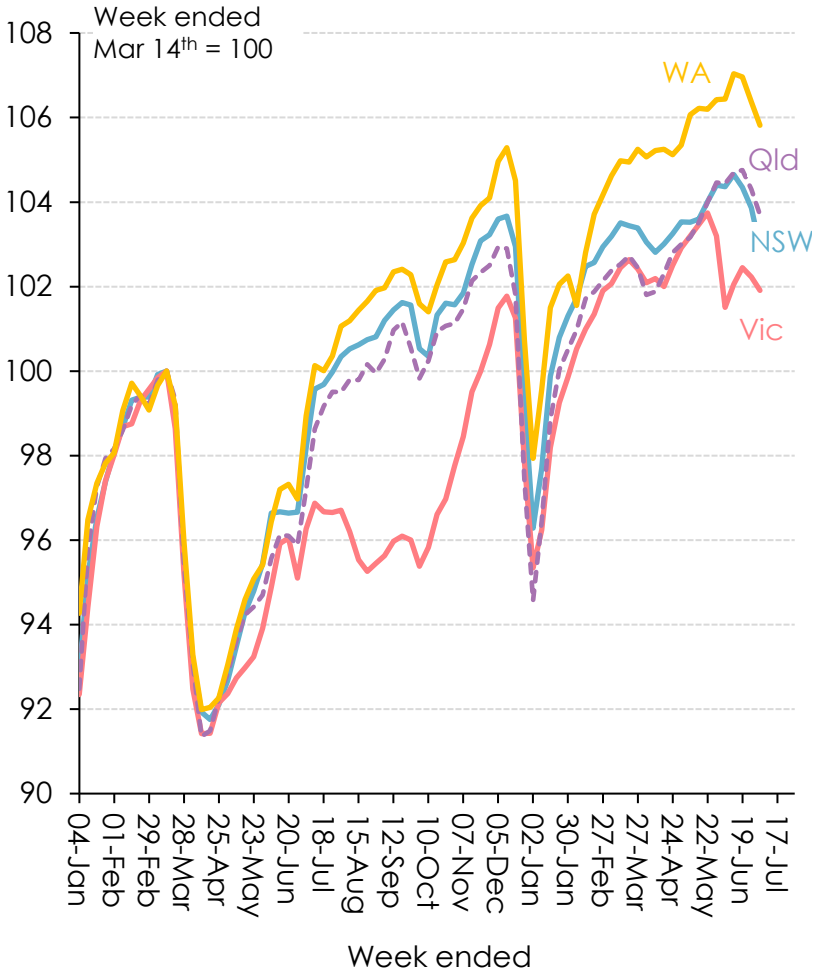
Source: ABS, [Labour Force, Australia](#); Corinna. July data will be released on 19th August. [Return to "What's New"](#).

Payroll jobs fell 0.9% over the two weeks to 3rd 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



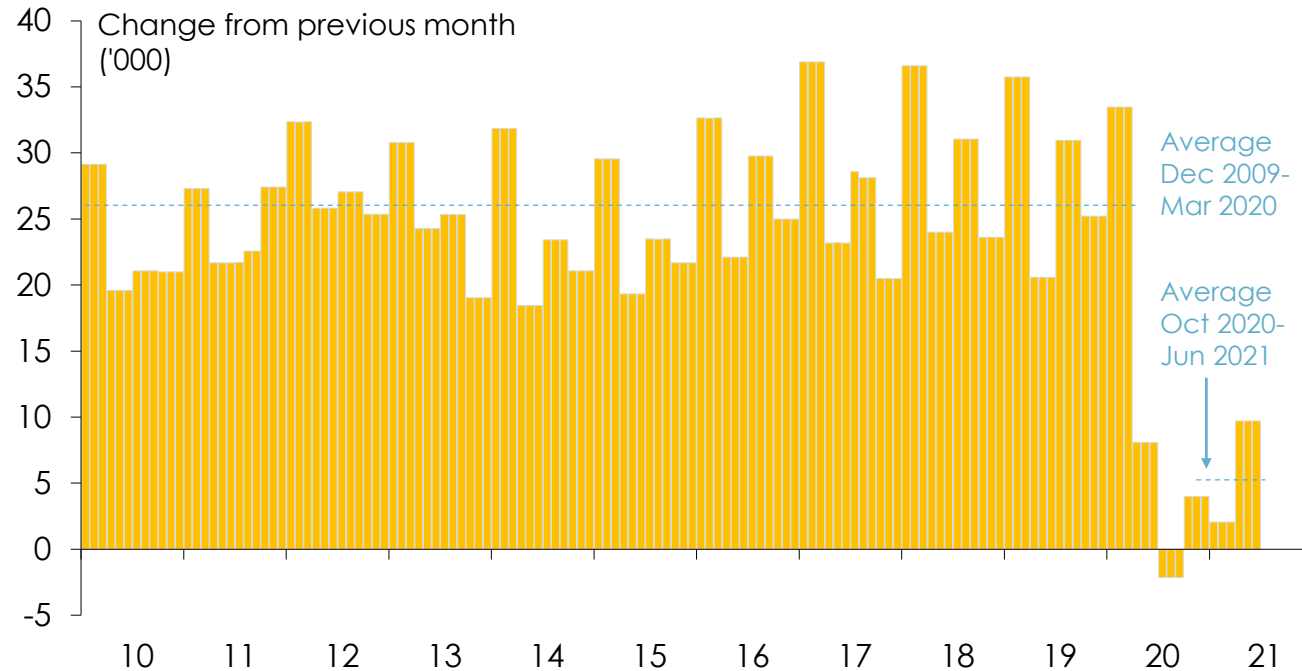
Payroll jobs by State & Territory



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

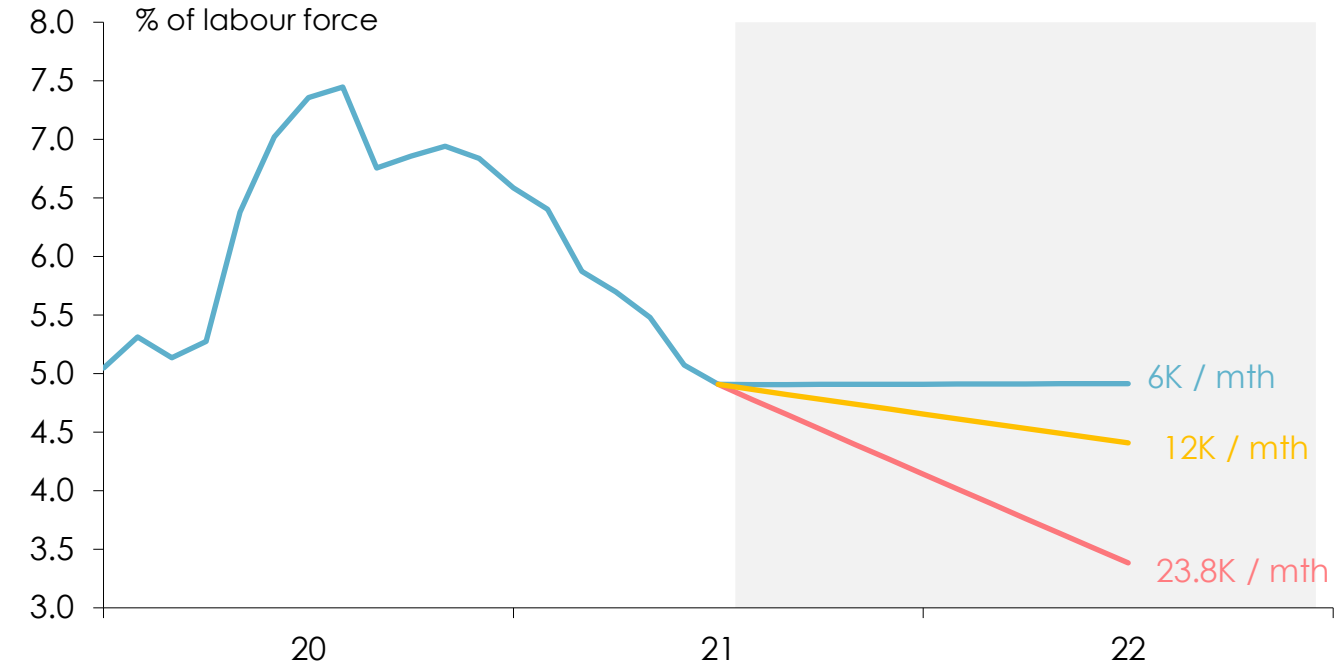
The closure of Australia's borders means that it's much easier to reduce unemployment for any given rate of jobs growth

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

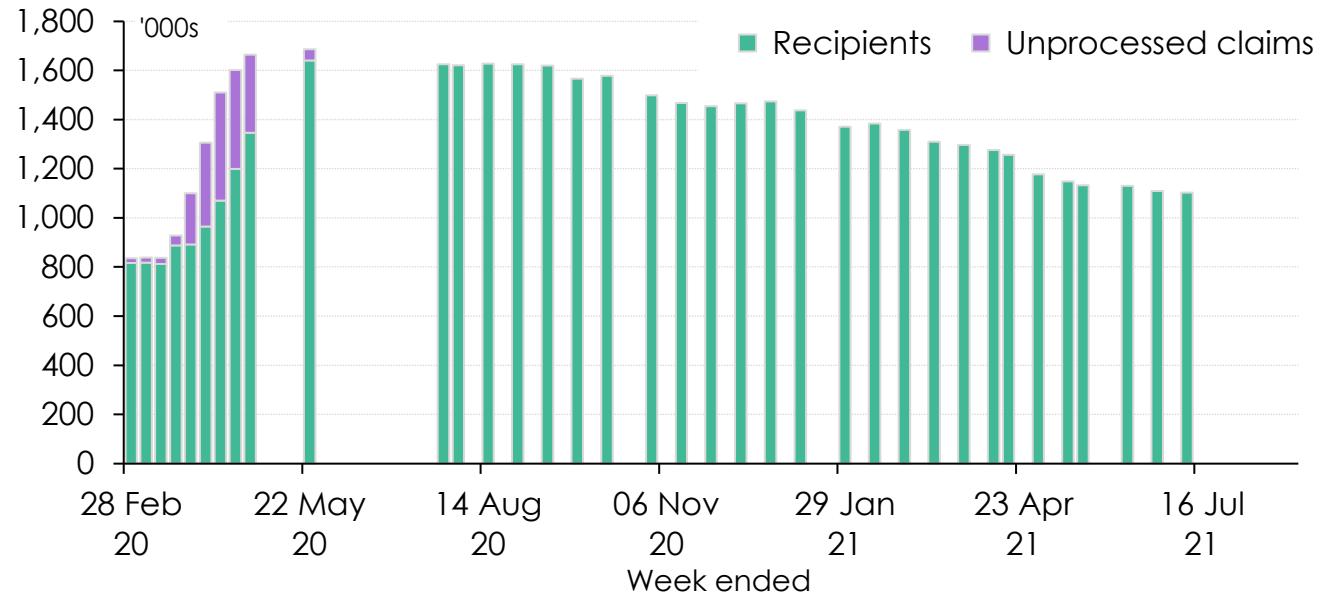
Unemployment rates for alternative rate of jobs growth



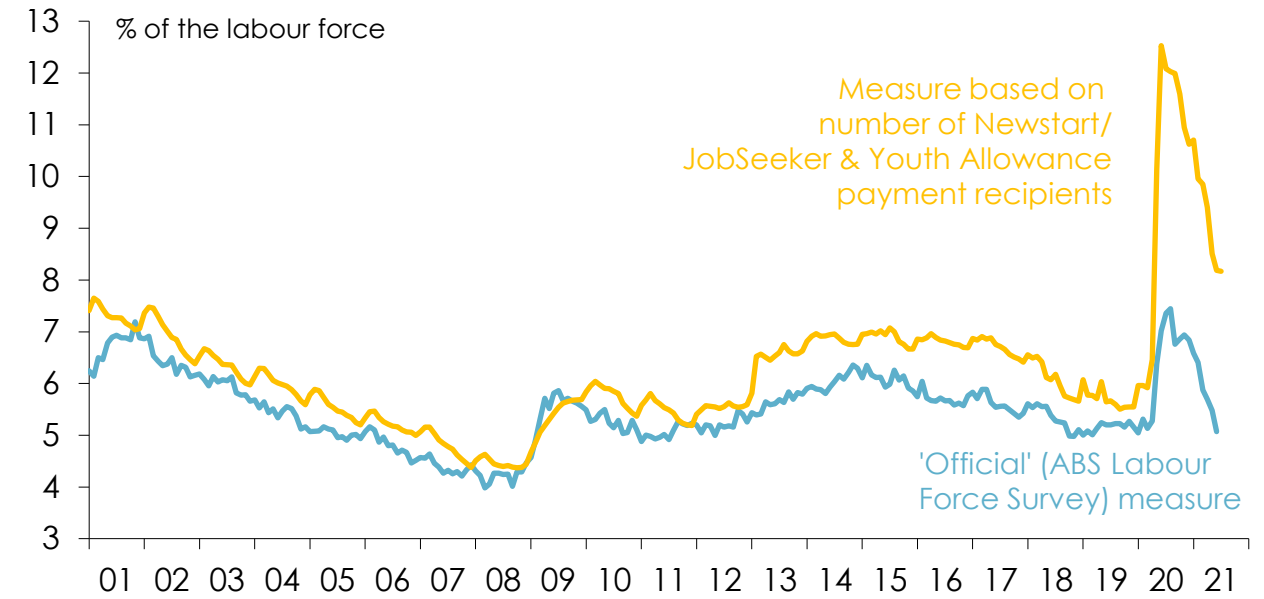
- ❑ Assuming the working-age population grows at the same rate as during the current quarter (ie 9.7K a month) and no change in the participation rate, employment growth of more than just 6K a month is sufficient to ensure further falls in the unemployment rate
- ❑ If employment continued to grow at 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



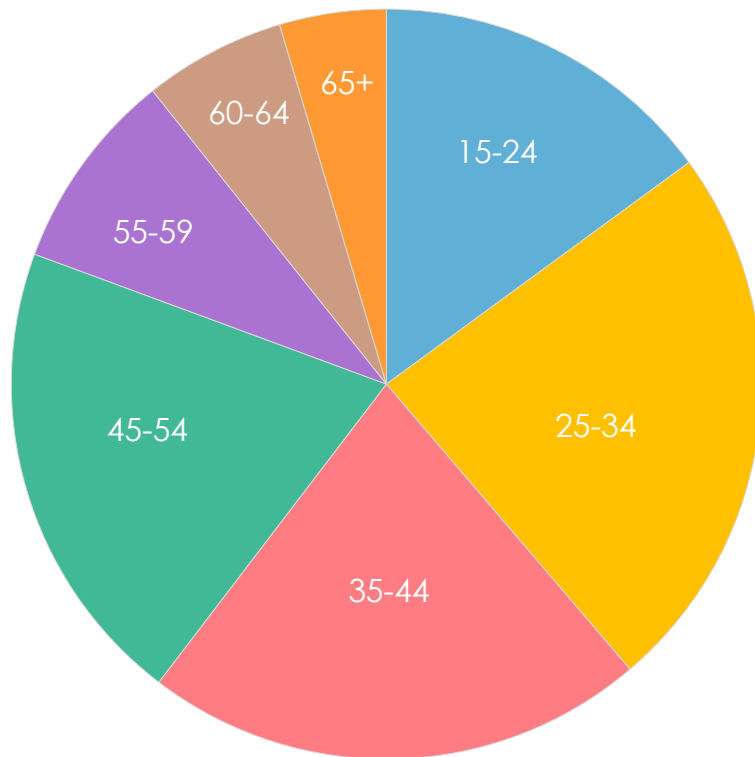
Jobless income support beneficiaries and labour force survey unemployed as a pc of the labour force



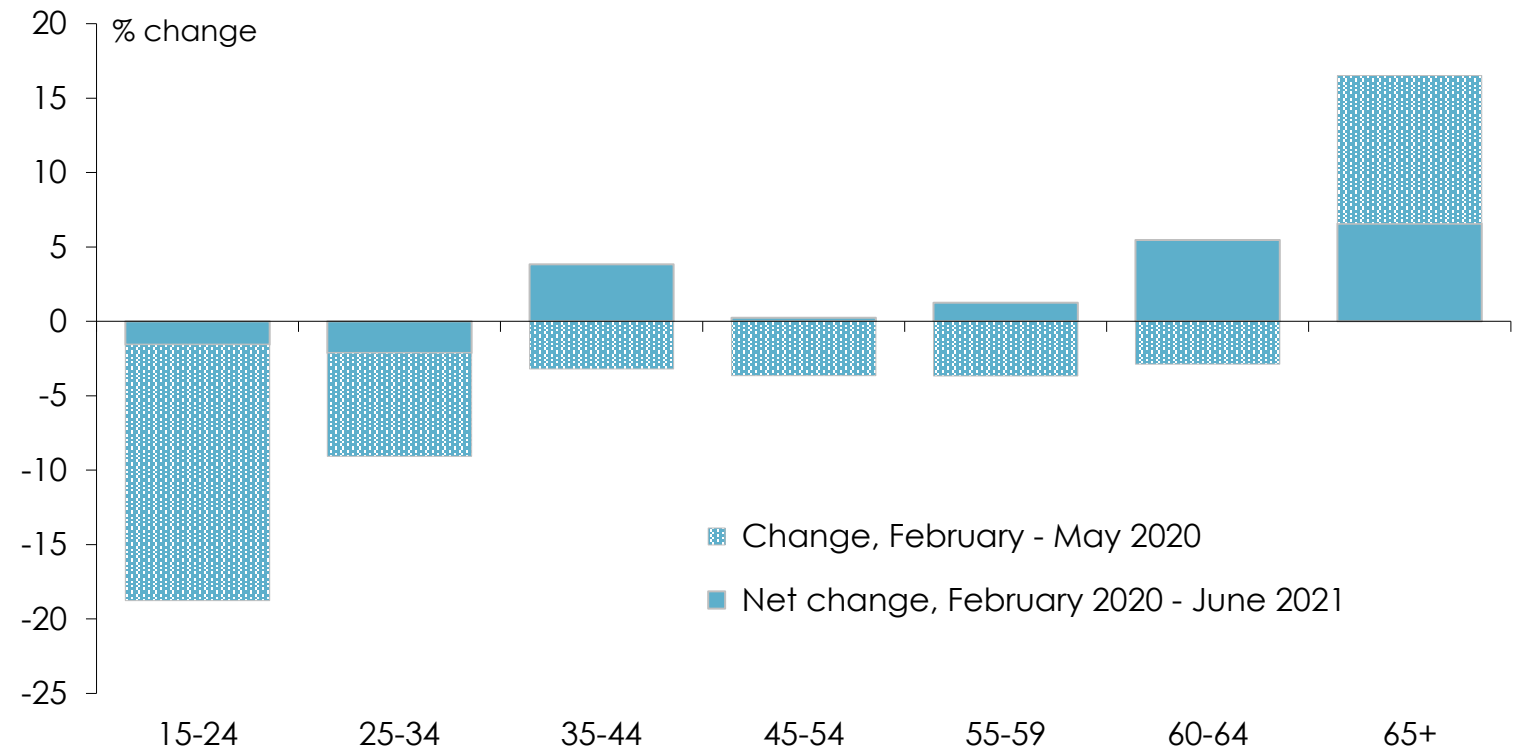
- ❑ Ministers receive weekly data on the number of people on JobSeeker and Youth Allowance (Other) benefits – which since late July last year the Department of Social Services has made this available every second week to the Senate Select Committee examining the Government's responses to Covid-19
- ❑ Data for the week ended 9th July show a decline of 193,374 (15%) in the number of people receiving these two benefits since 26th March
- ❑ These numbers aren't seasonally adjusted but at face value they suggest that unemployment has continued to decline despite the cessation of 'JobKeeper' at the end of March – these numbers will bear watching to assess the impact of the current 'lockdown' in Sydney

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

Composition of employment by age group, February 2020



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

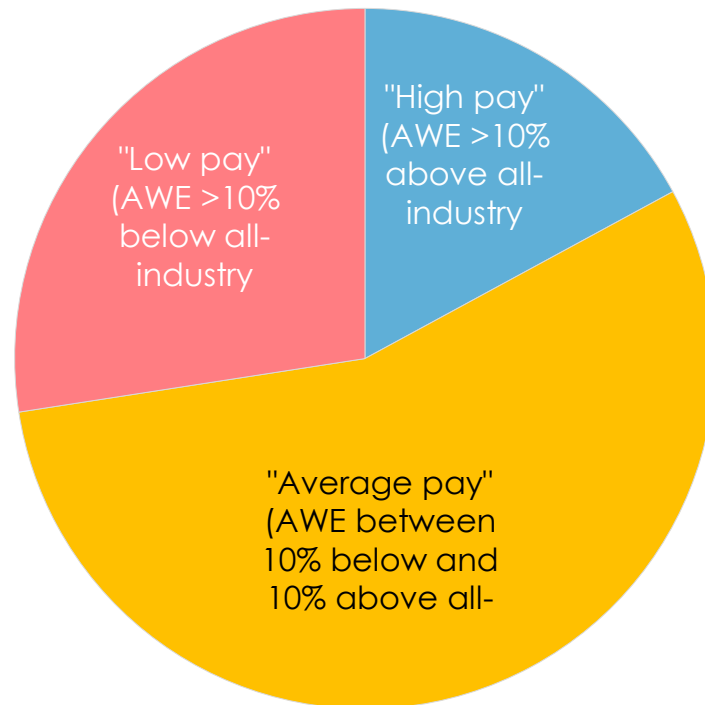


- ❑ People aged 15-24 accounted for 15% of pre-covid employment but experienced 39% of all job losses between February and May last year – and as of June this year their employment was still down 16% from where it had been in February 2020, while that of 25-34 year-olds was down by 2.1%
- ❑ By contrast 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%

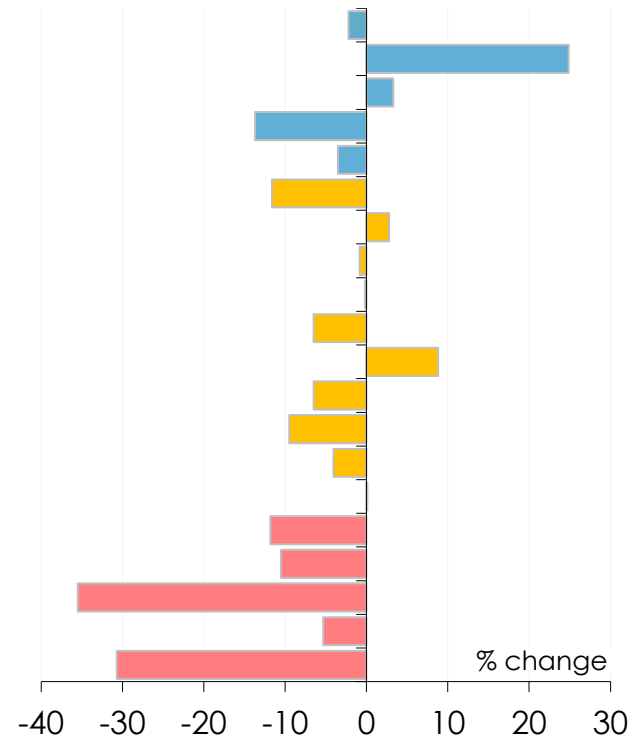
Note: data on employment by age group is not seasonally adjusted. Source: ABS, [Labour Force, Australia, Detailed](#), June 2021: July data will be released on 26th August.
[Return to "What's New"](#).

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

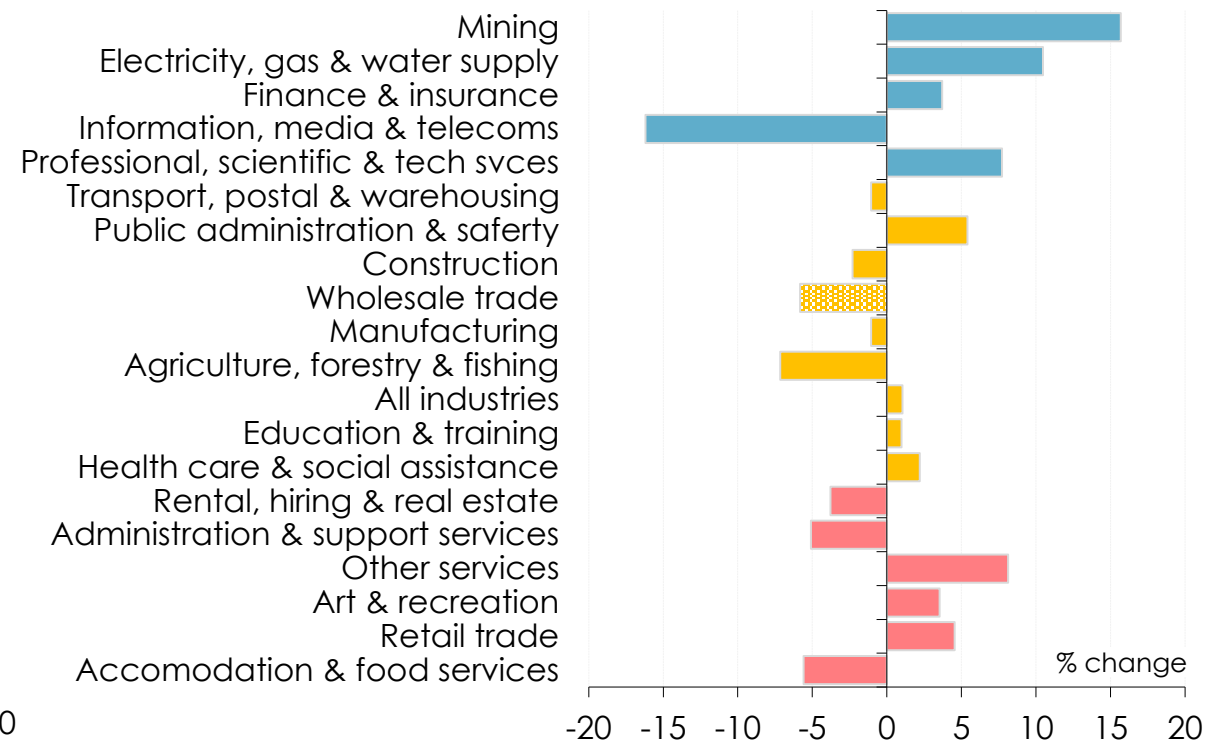
Composition of employment by industry ranked by average weekly earnings, February 2020



Change in employment by industry
February-May 2020



February 2020 – May 2021

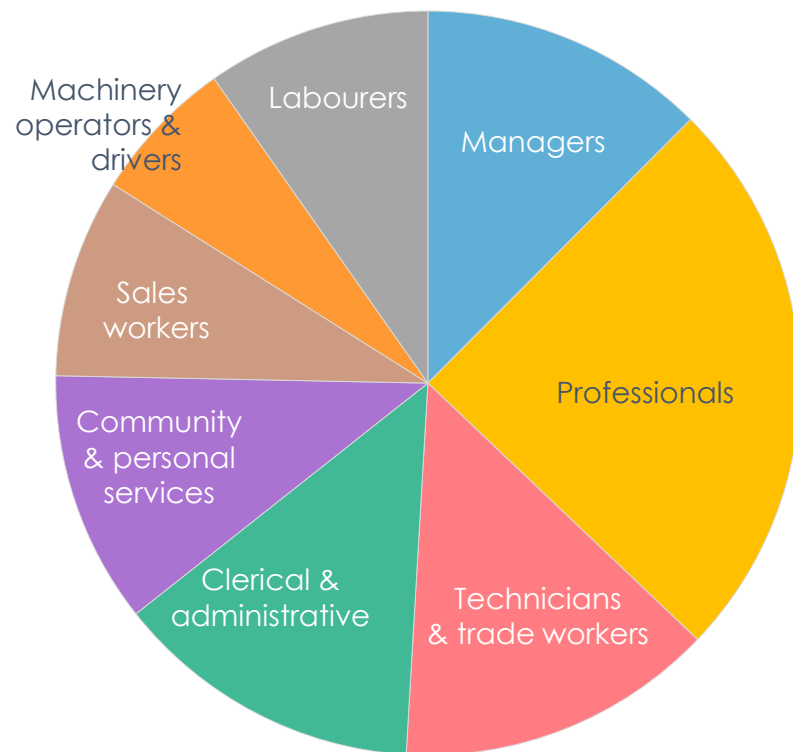


- ❑ Industries with average earnings which are 10% or more below average accounted for 27½% of the pre-pandemic workforce, but experienced 64% of the job losses between February and May last year – and employment in those industries was only 0.6% higher in May this year than it had been in February last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

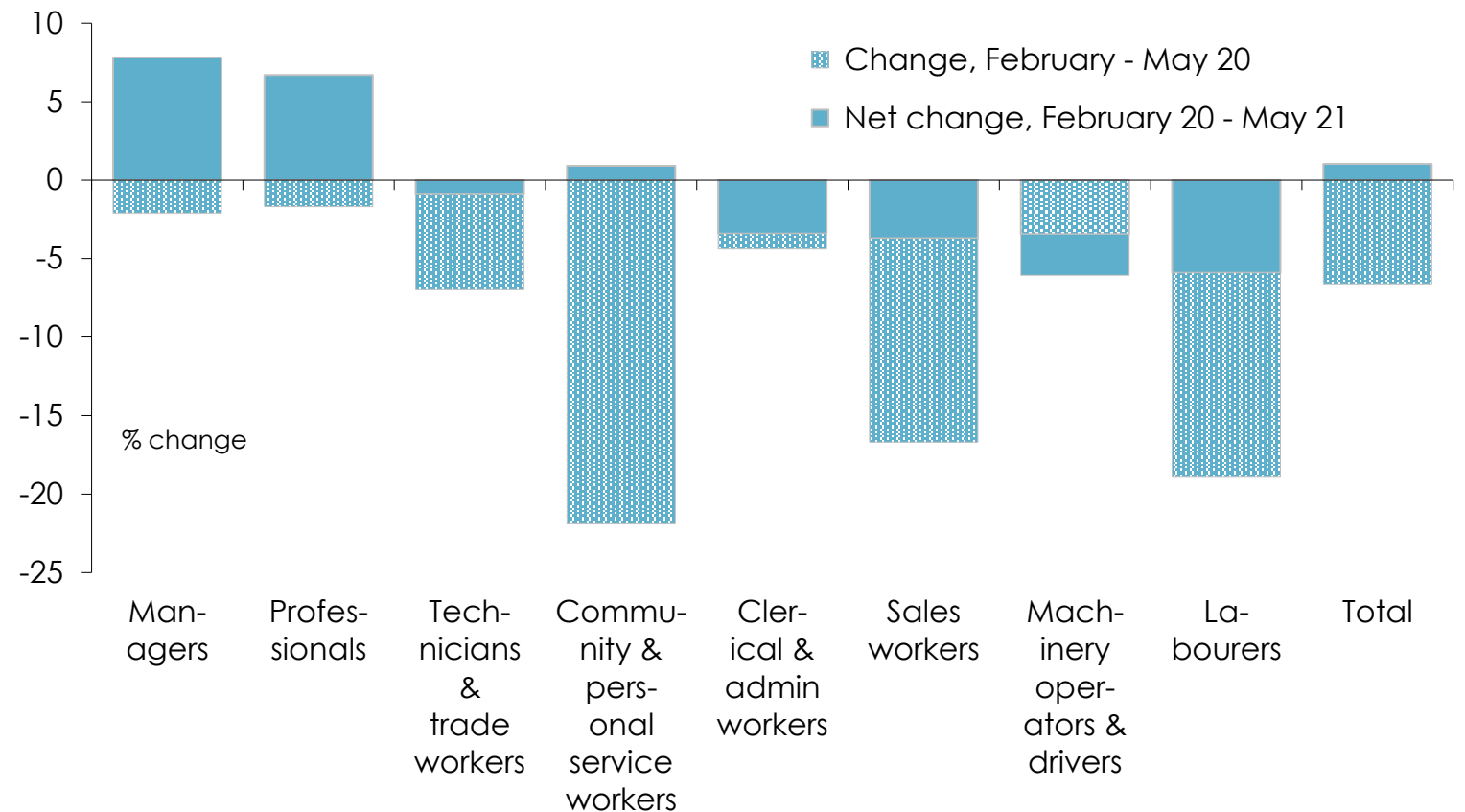
Source: ABS, [Labour Force, Australia, Detailed](#), May 2021 and [Average Weekly Earnings, Australia](#), November 2019. Labour force survey data on employment by occupation are available only for the middle month of each quarter: August data will be released on 23rd September. [Return to "What's New"](#).

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

Employment by major occupation category, February 2020



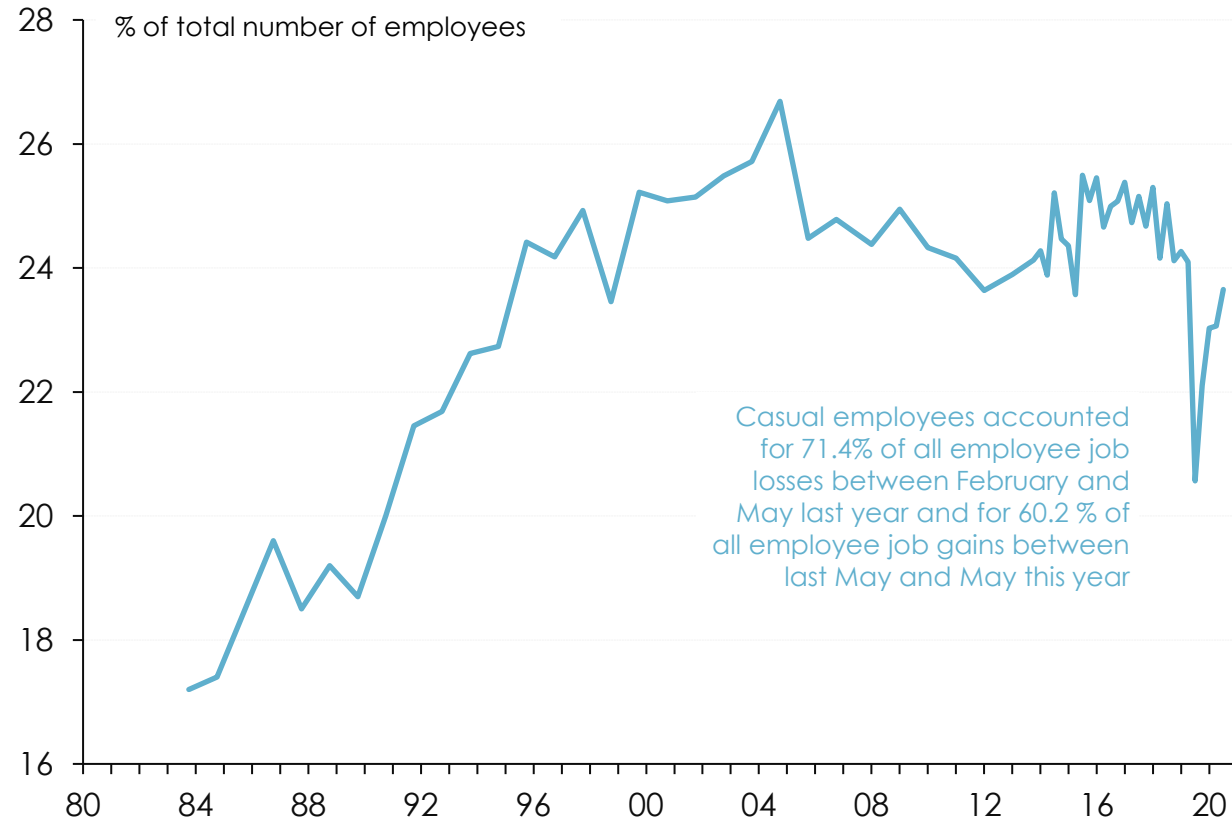
Change in employment between February 2020 and May 2021, by occupation



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

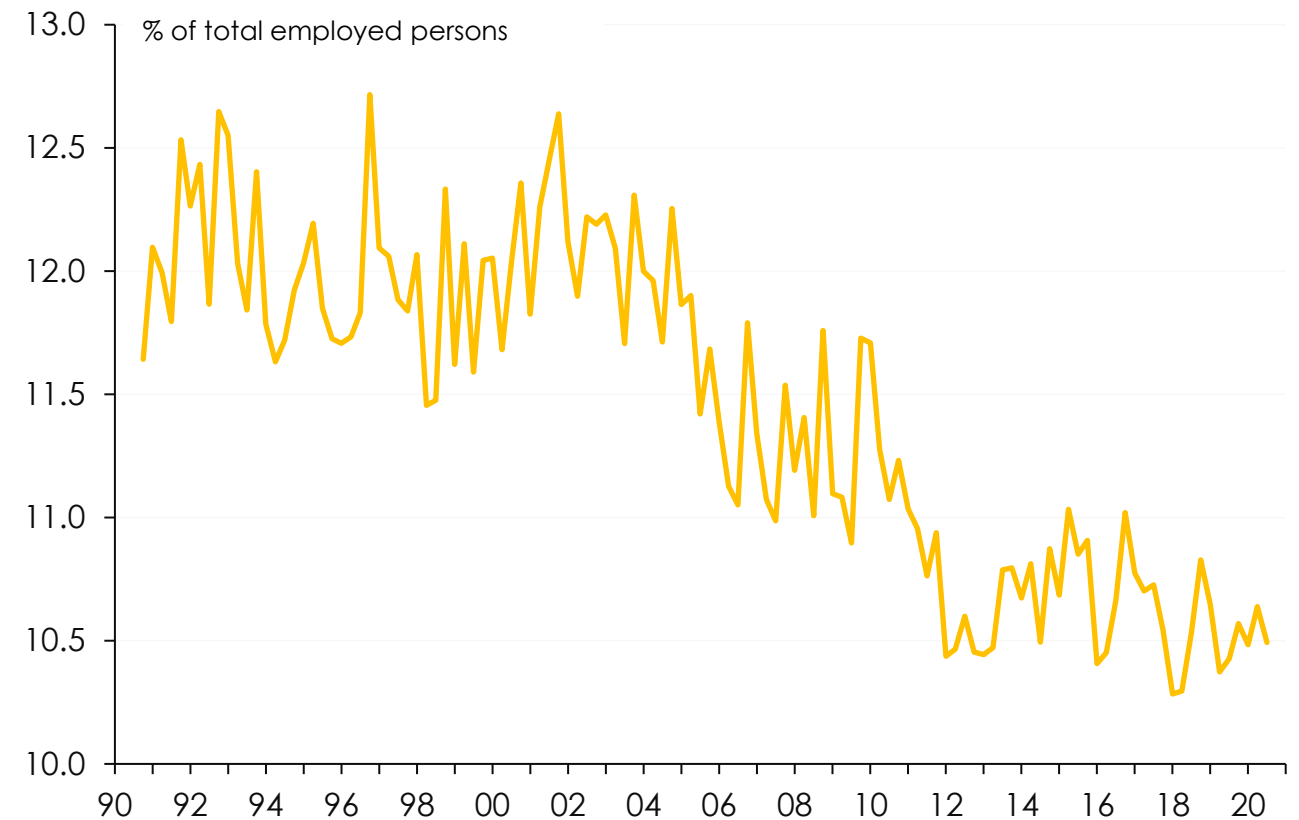
Contrary to popular belief neither casual jobs nor 'gig economy' jobs have become more commonplace during the past two decades

'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

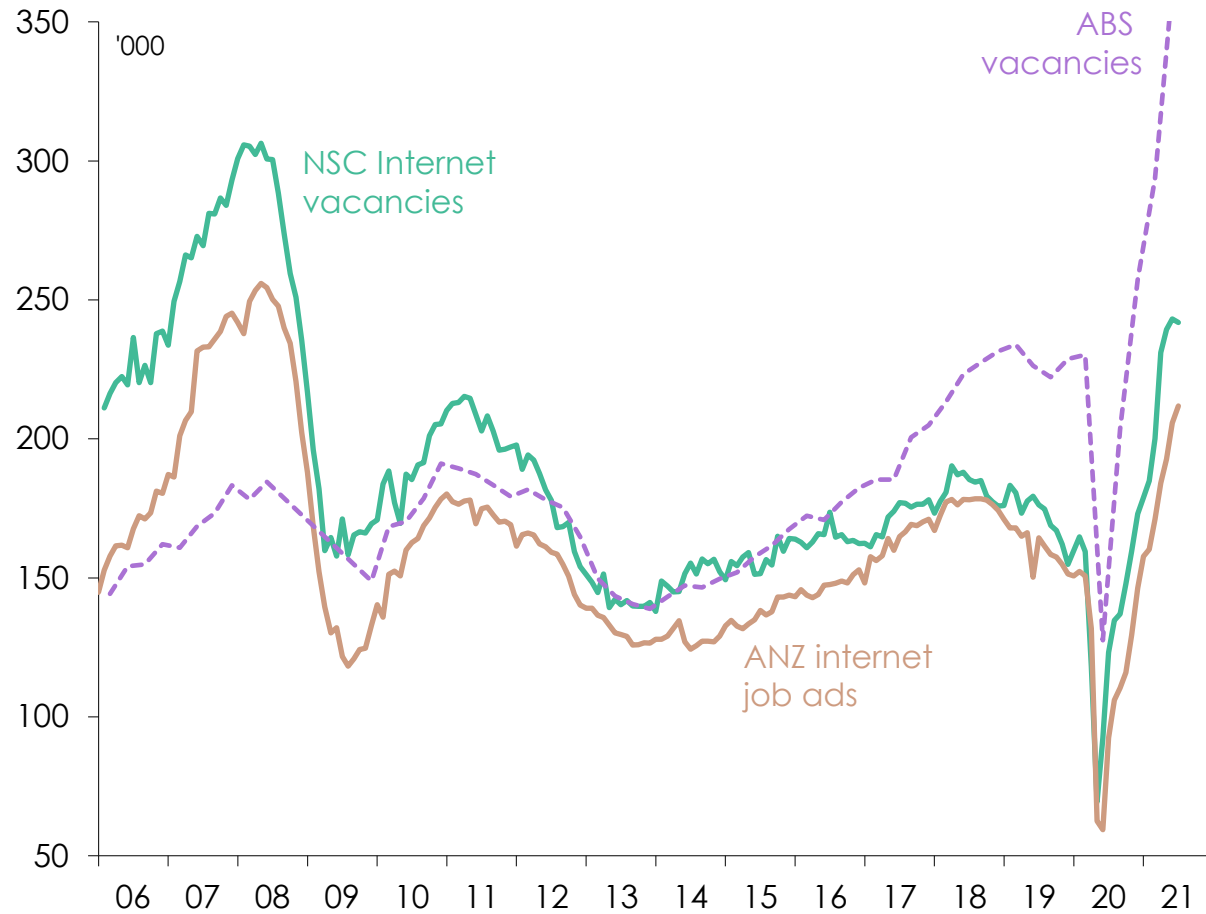


- ❑ 'Independent contractors' have actually declined as a share of the workforce since the early 2000s – had haven't increased during the current recession

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

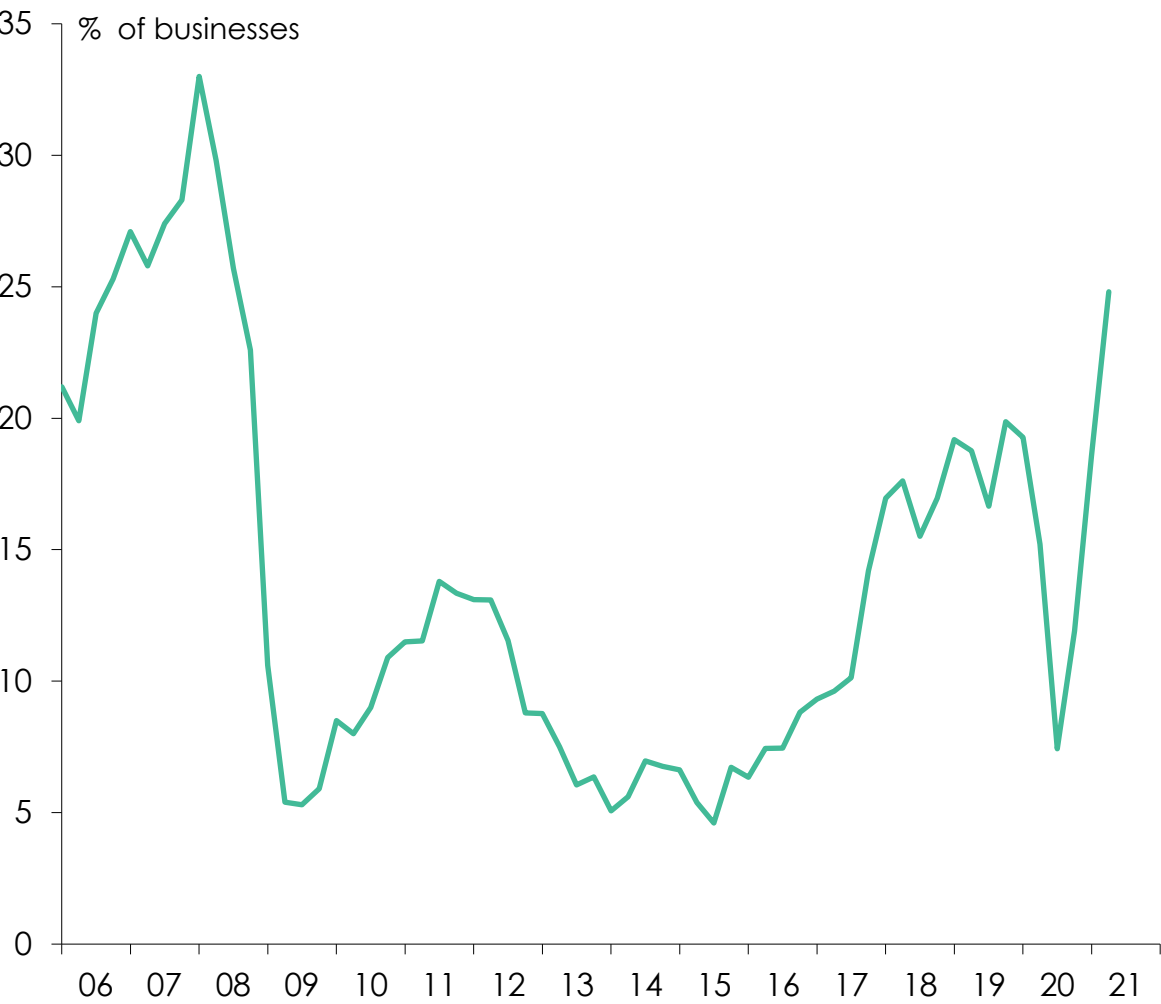
Ratio of unemployed people to job vacancies



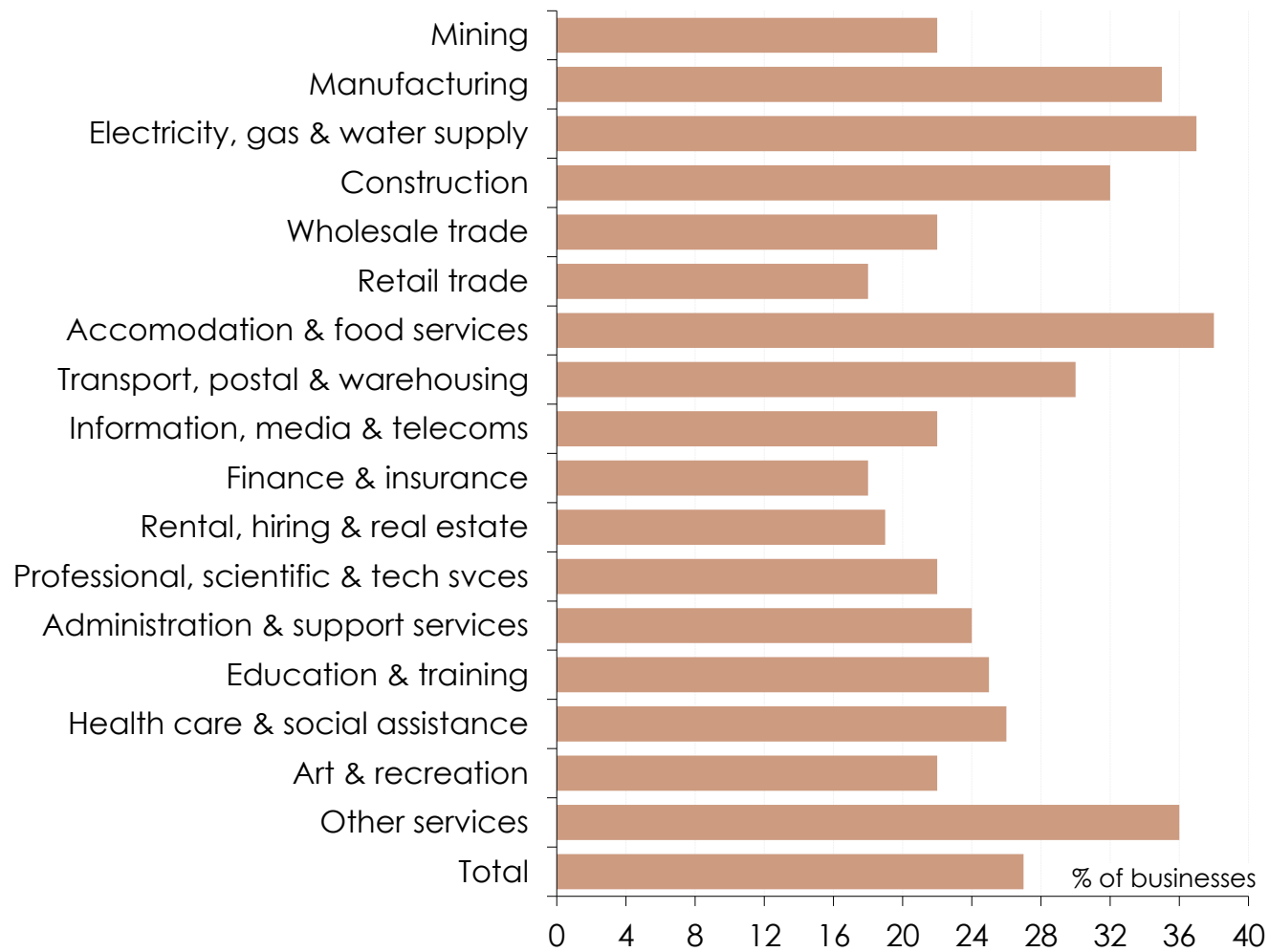
- In May there were just over 1¾ unemployed people for every vacancy reported to ABS – a record low – and the halving of ‘caps’ on arrivals to Australia may push that ratio down even more

... 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



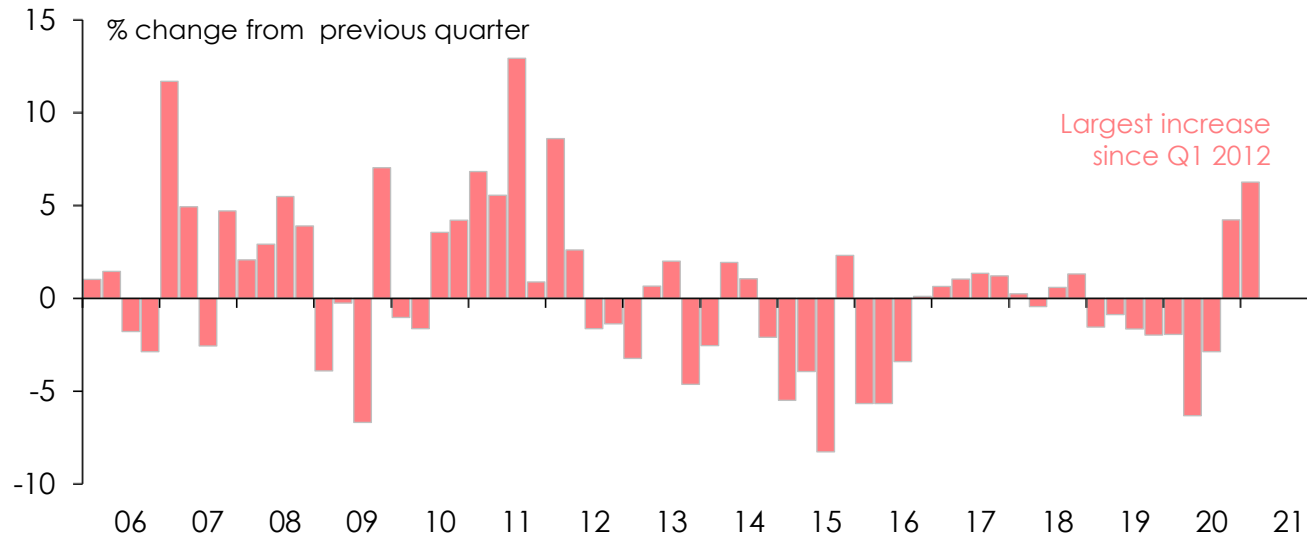
Sources: National Australia Bank, [Quarterly Business Survey](#), March quarter 2021; ABS, [Business Conditions and Sentiments](#), June 2021.

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

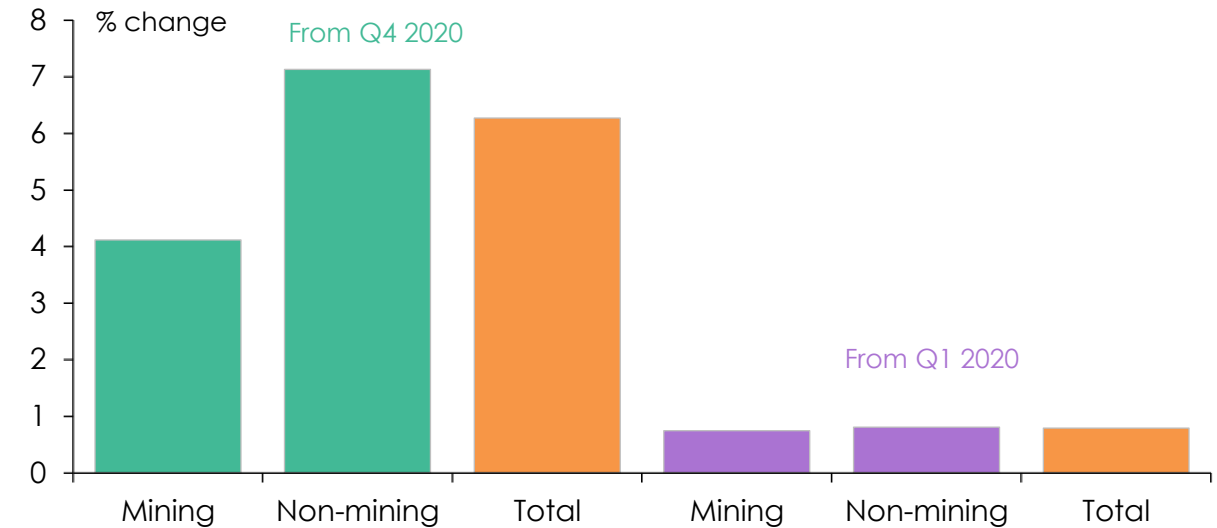
- ❑ In a [speech](#) on 8th July, Governor Phillip Lowe highlighted the role of three important 'supply side' developments in altering the relationship between the state of the labour market and the rate of wages growth
- ❑ First, the significant increase in labour force participation since around 2005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

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

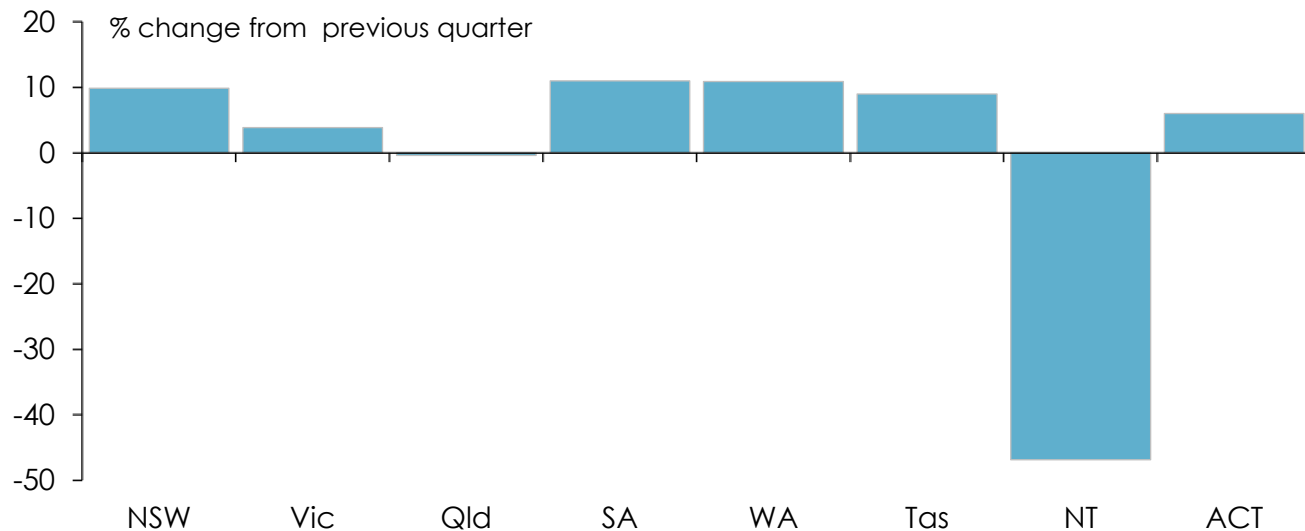
Real business new fixed capital expenditure



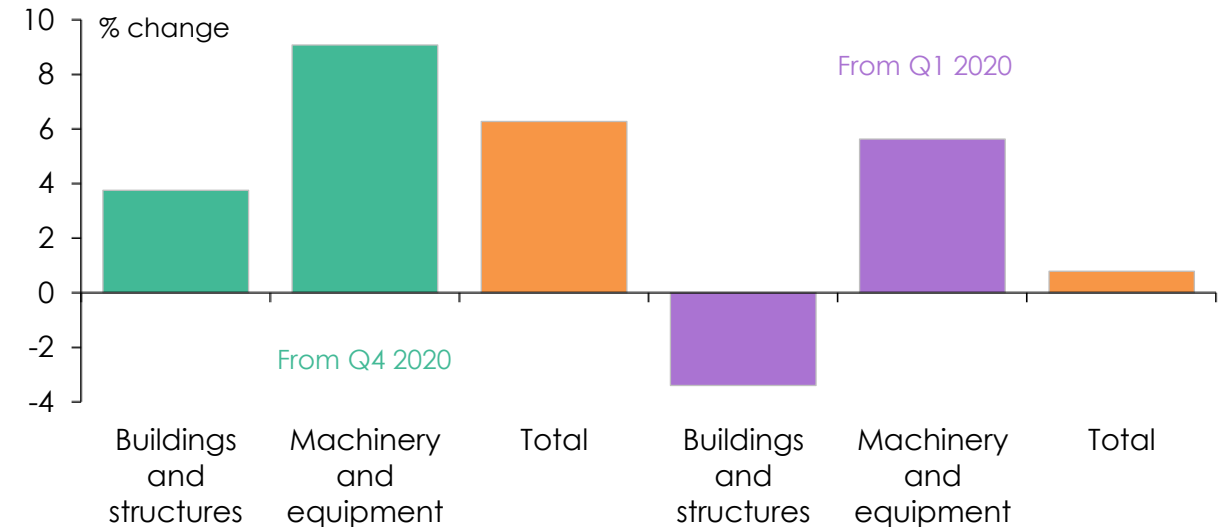
Real business new fixed capex, by industry, Q1



Real business new fixed capex, by state, Q1 2021



Real business new fixed capex, by asset, Q1

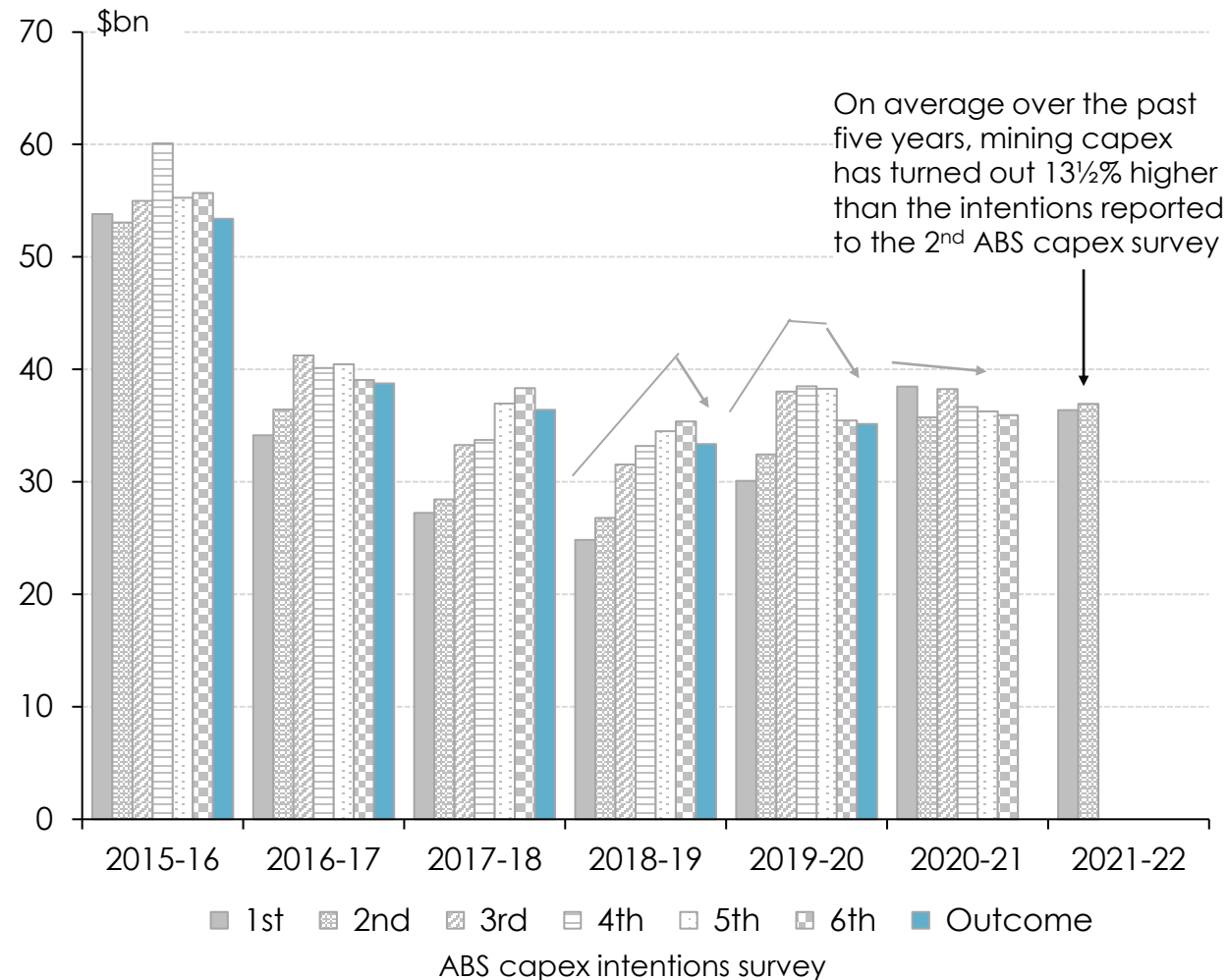


Note: the ABS Survey of New Capital Expenditure excludes the agriculture, forestry & fishing, and public administration & defence sectors, and superannuation funds.

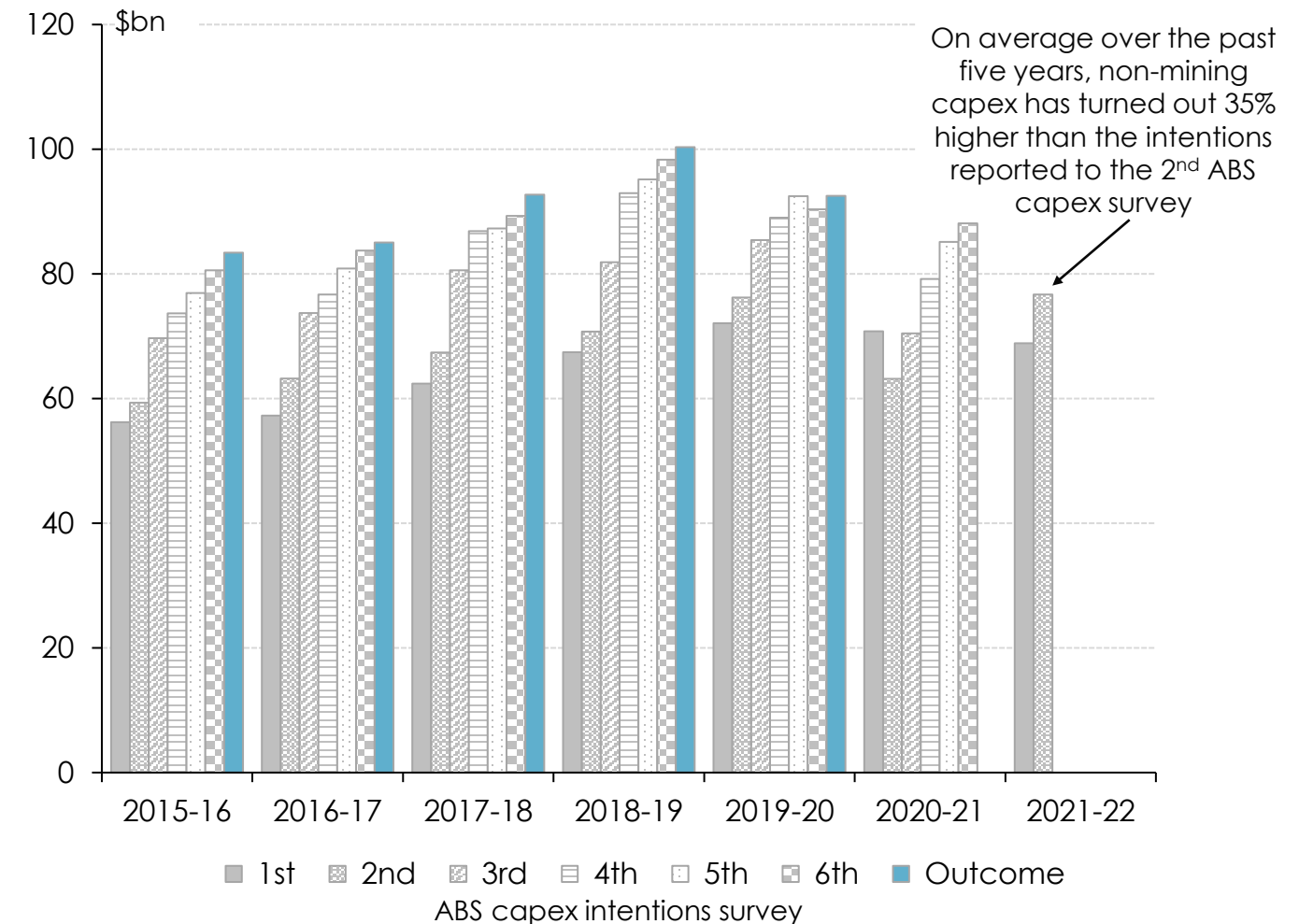
Source: ABS, [Private New Capital Expenditure and Expected Expenditure, Australia](#); March quarter data will be released on 26th August. [Return to "What's New"](#).

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

Capital expenditure intentions - mining



Capital expenditure intentions – non-mining

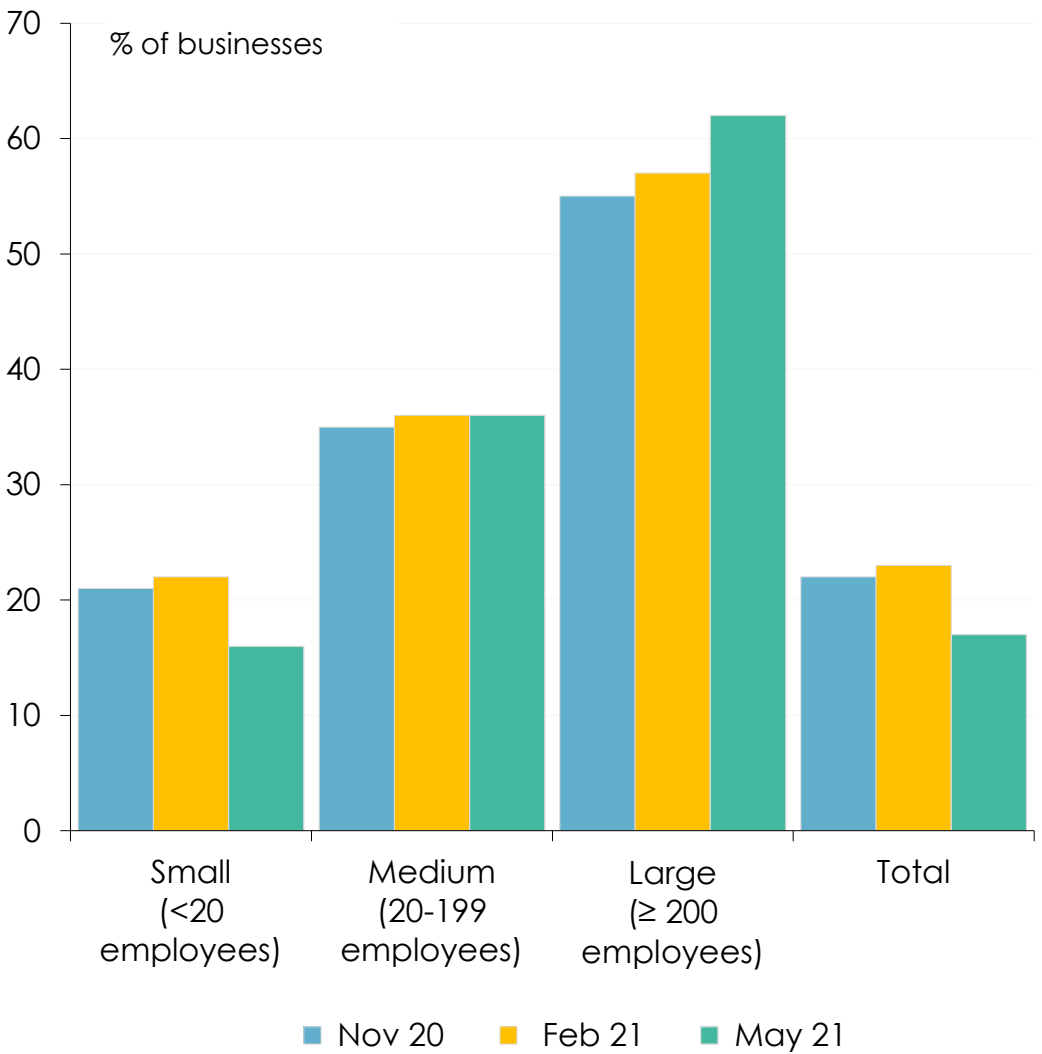


Note: The ABS conducts six surveys of business' capital expenditure intentions in respect of each financial year. The first is conducted in January & February prior to the commencement of the financial year, the second in May & June, the third in July & August of the financial year, the fourth in October & November, the fifth in January & February of the financial year, and the sixth in May & June. The outcome (actual capital expenditure in the financial year) is determined from the survey taken in July & August after the end of the financial year. From the December quarter 2020 the survey includes the education & training, and health care & social assistance sectors. The estimates shown above are in nominal terms.

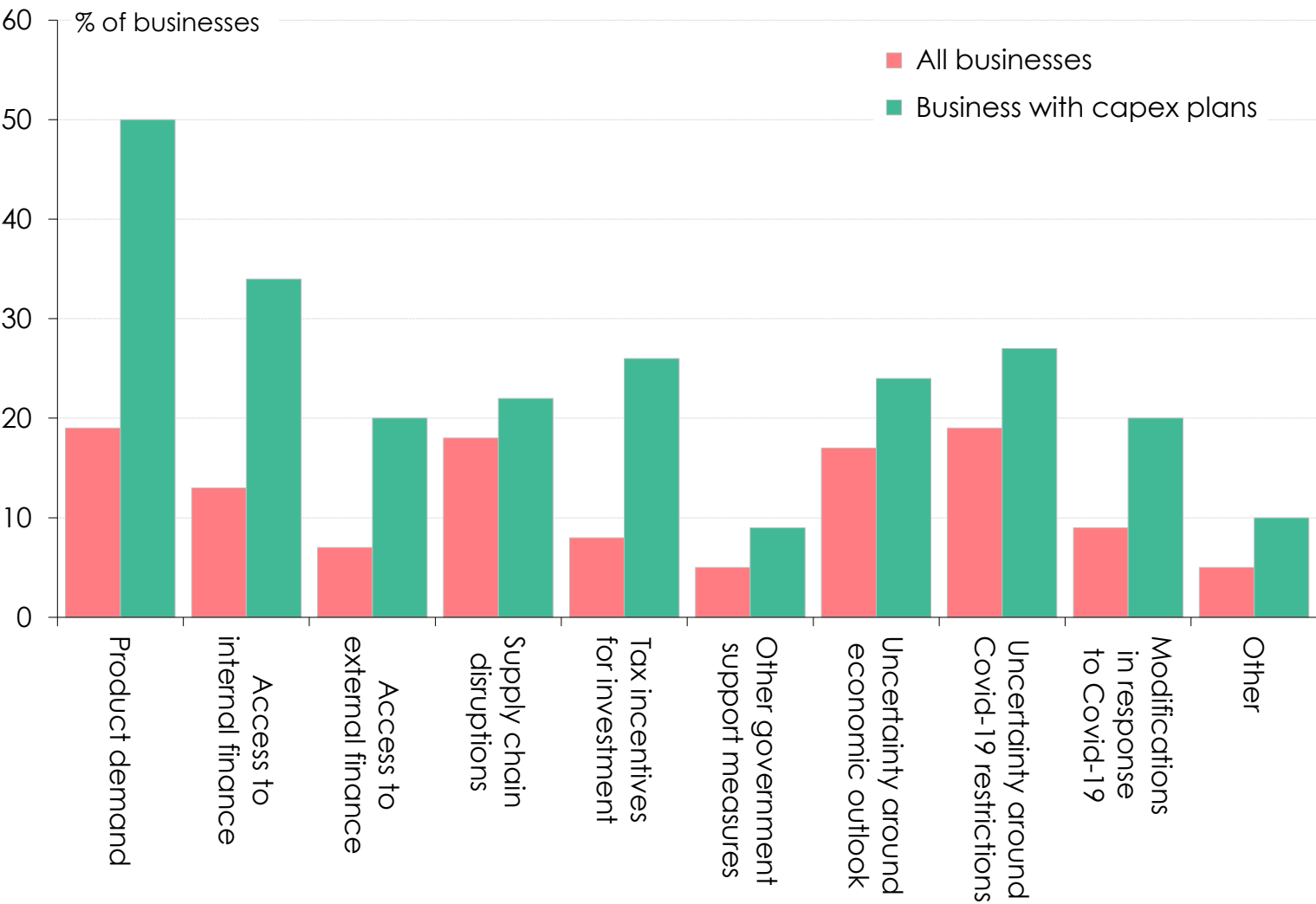
Source: ABS, [Private New Capital Expenditure and Expected Expenditure, Australia](#) (next update is released on 28th August).

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

Proportion of businesses planning to increase capital expenditures, by business size



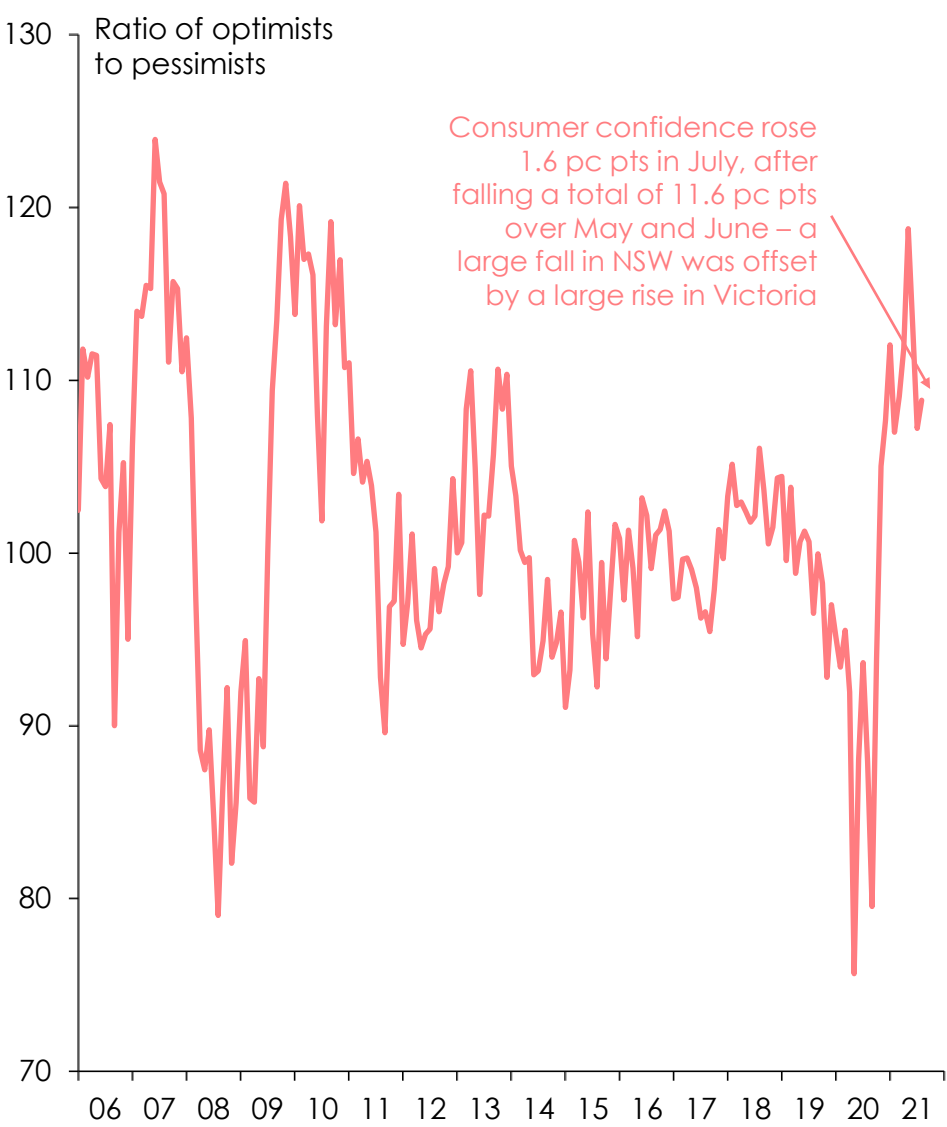
Factors affecting business capital expenditure decisions, May 2021



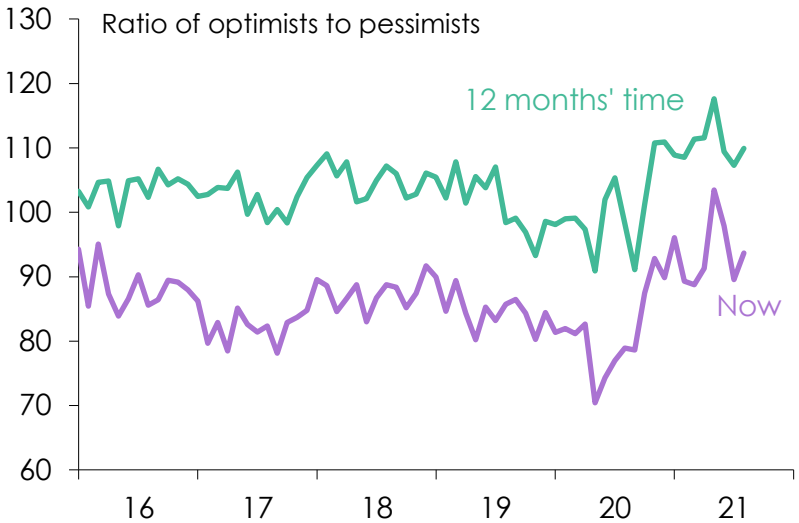
Source: ABS, [Business Conditions and Sentiments](#), May 2021. See [slide 102](#) for data on employee hiring intentions by business size. [Return to "What's New"](#).

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

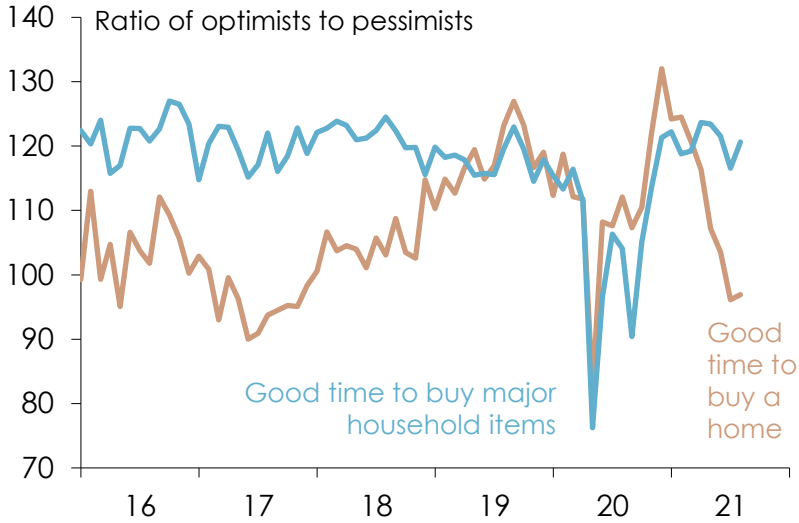
Consumer confidence index



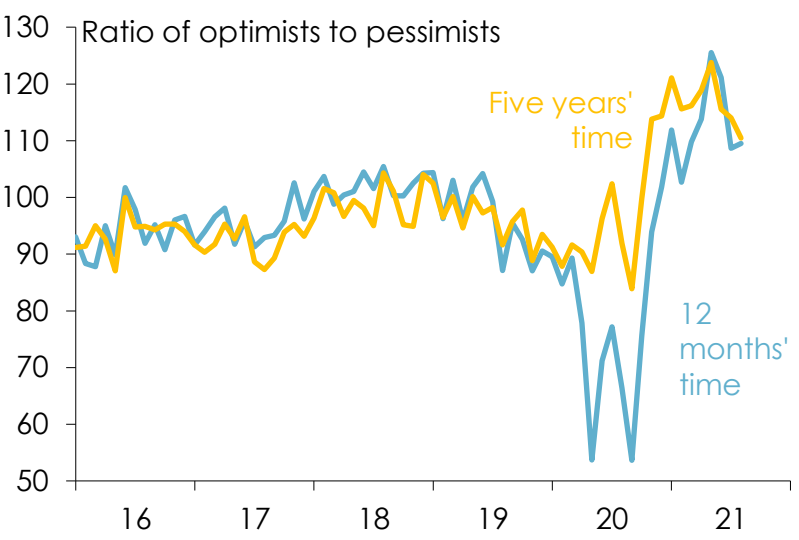
Household finances assessment



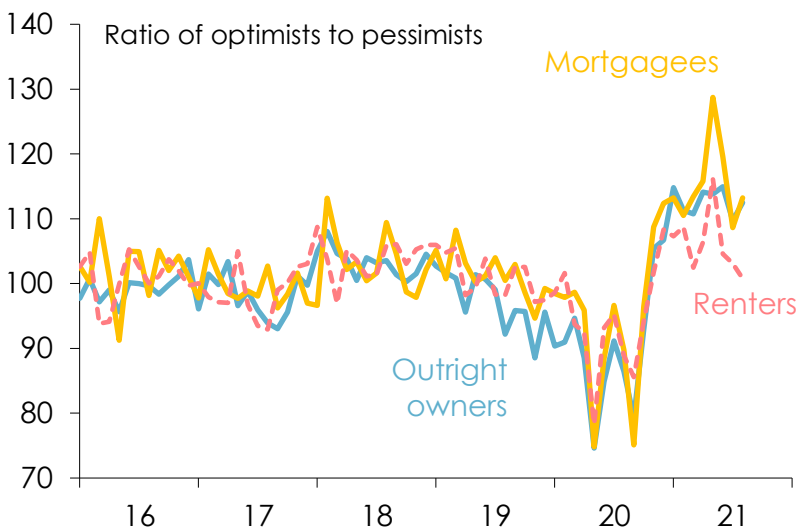
Buying conditions assessment



Economic conditions assessment

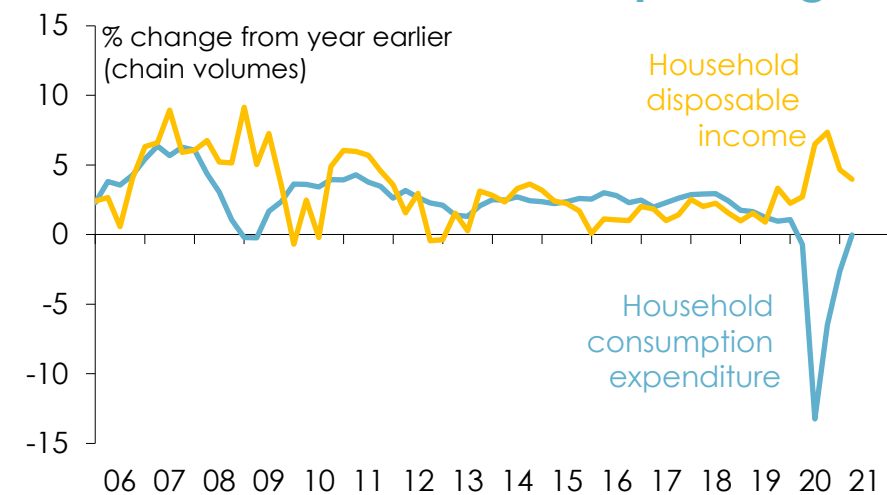


Confidence by housing tenure

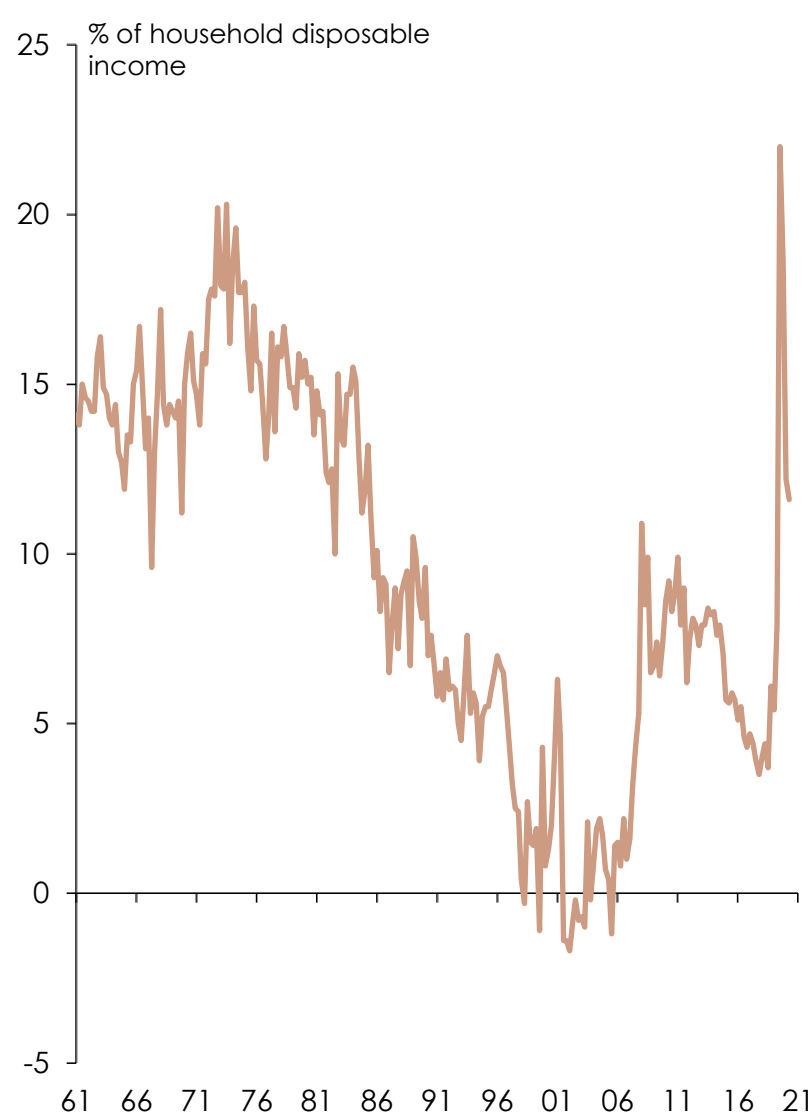


Household incomes have been supported by government payments, but spending has been curtailed, so households have lots of savings to spend

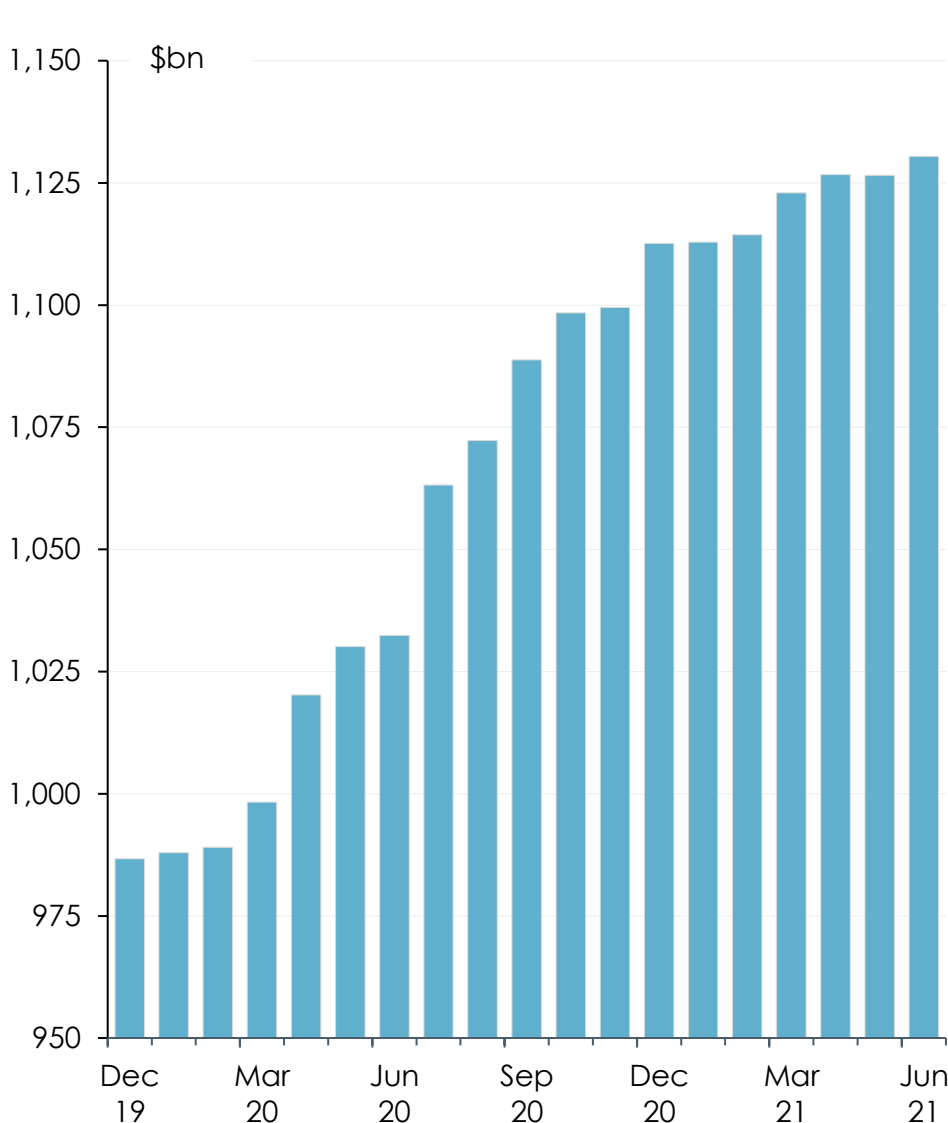
Household income and spending



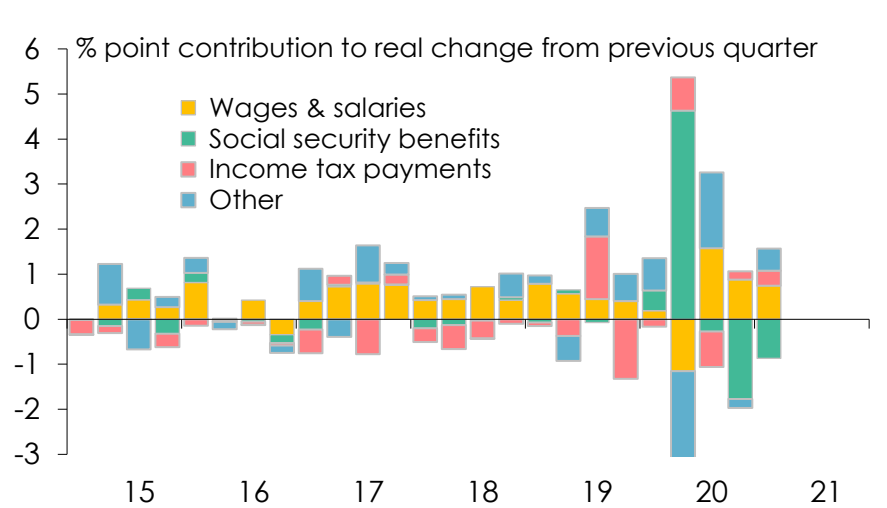
Household saving ratio



Household bank deposits

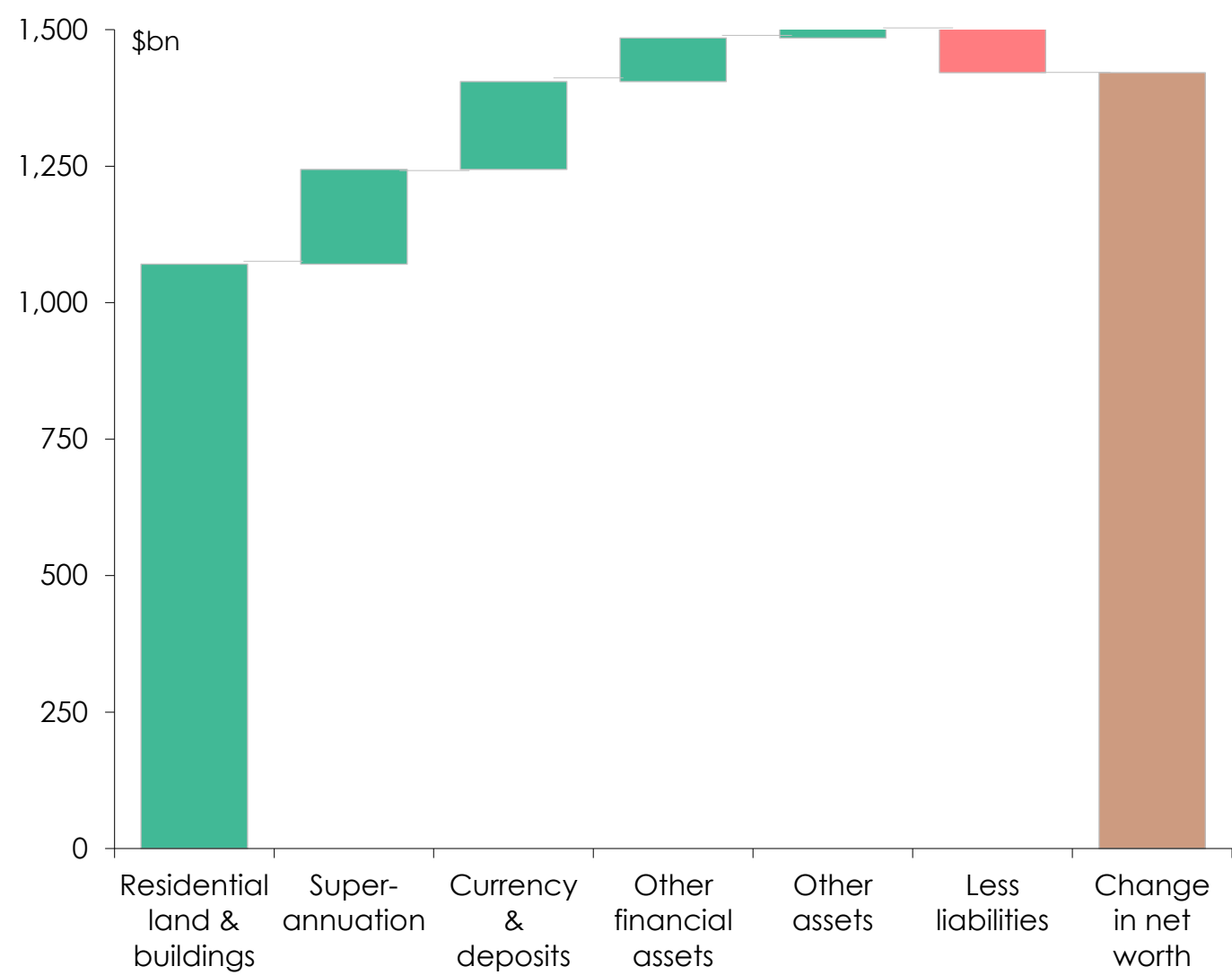


Sources of household income

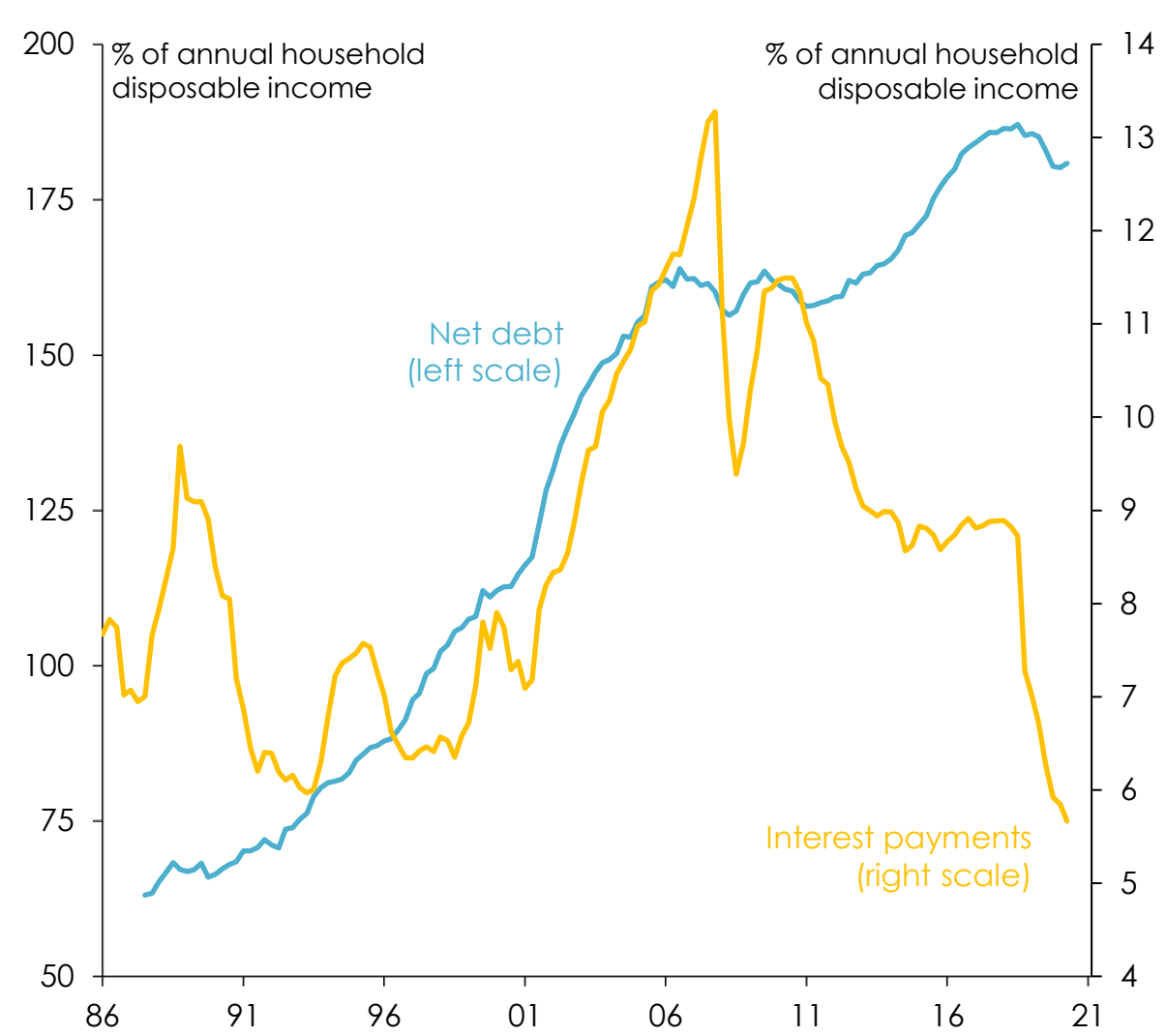


Household net worth has risen by \$1.4trn (12½%) since the end of 2019, while debt and interest payments have fallen as a pc of income

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



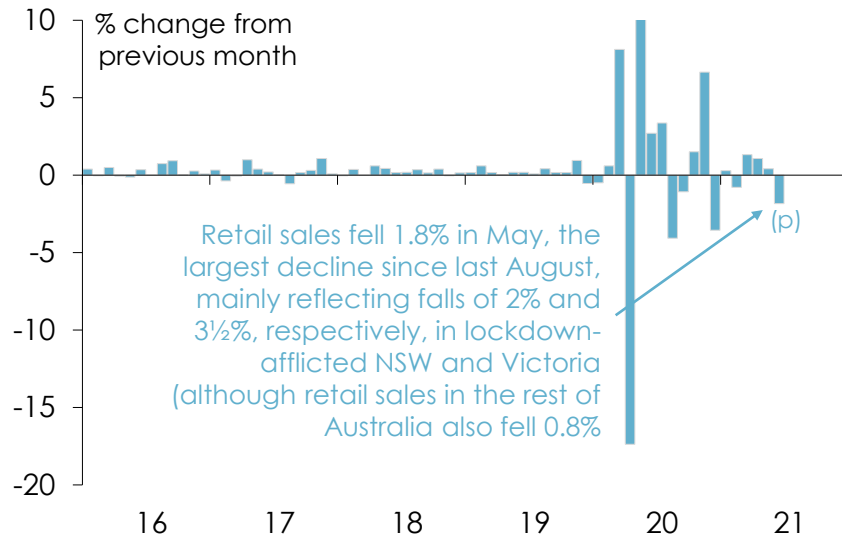
Household net debt and interest payments as a percentage of disposable income



Sources: ABS, [Finance and Wealth Accounts](#), March quarter 2021; RBA, [Statistical Tables](#) E1 & E2. June quarter data will be released on 23rd 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

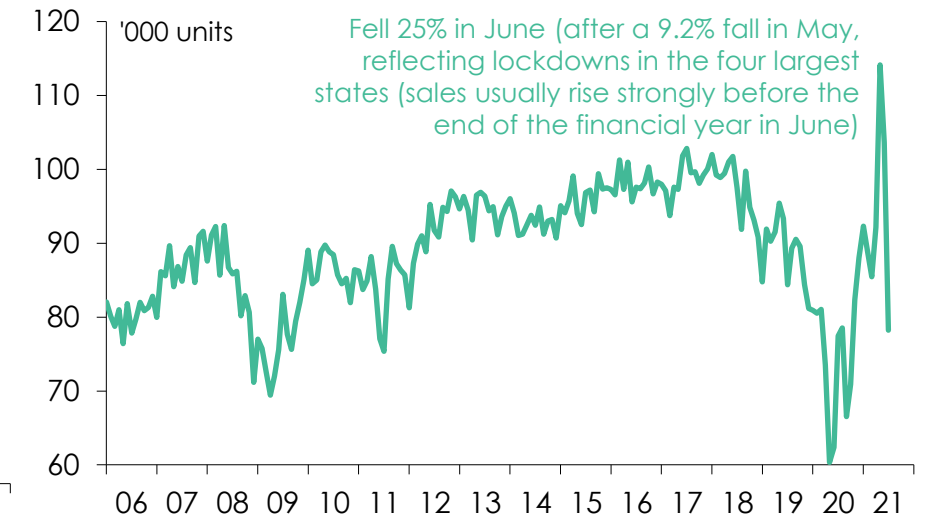
Monthly retail sales



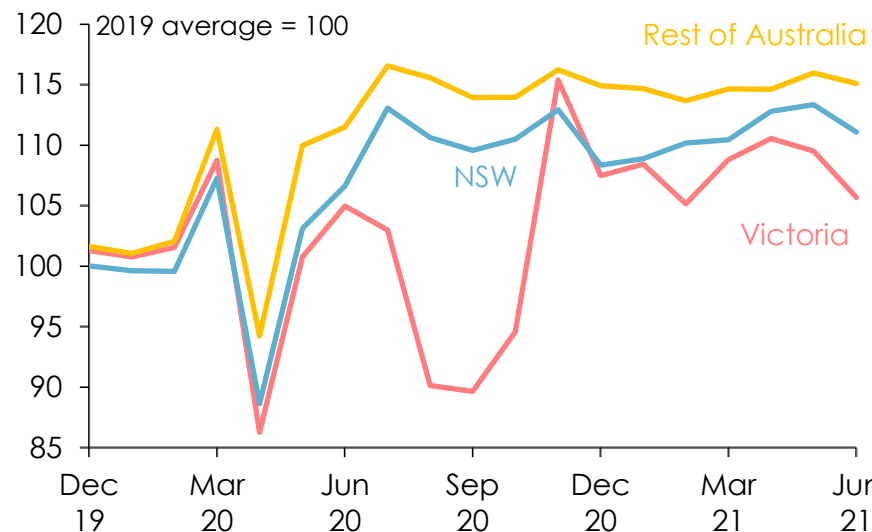
Level of retail sales



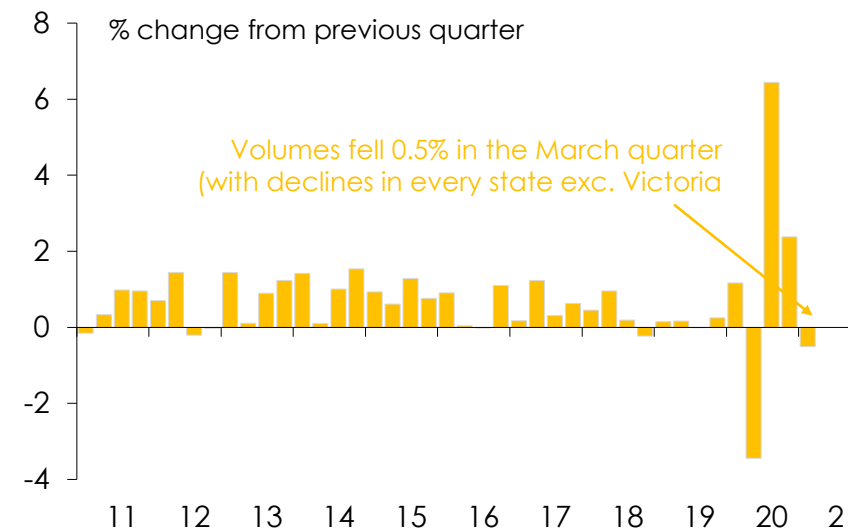
New motor vehicle sales



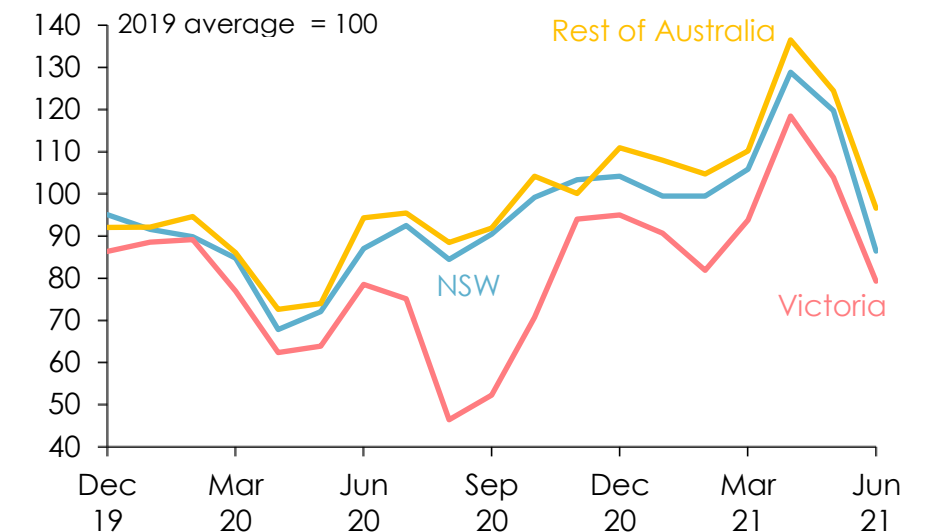
Retail sales – NSW, Vic & the rest



Quarterly retail sales volumes



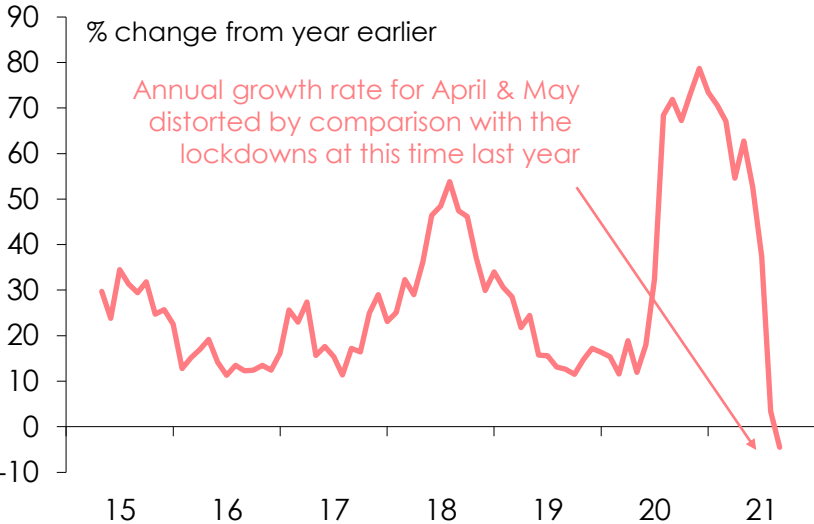
Vehicle sales – NSW, Vic & the rest



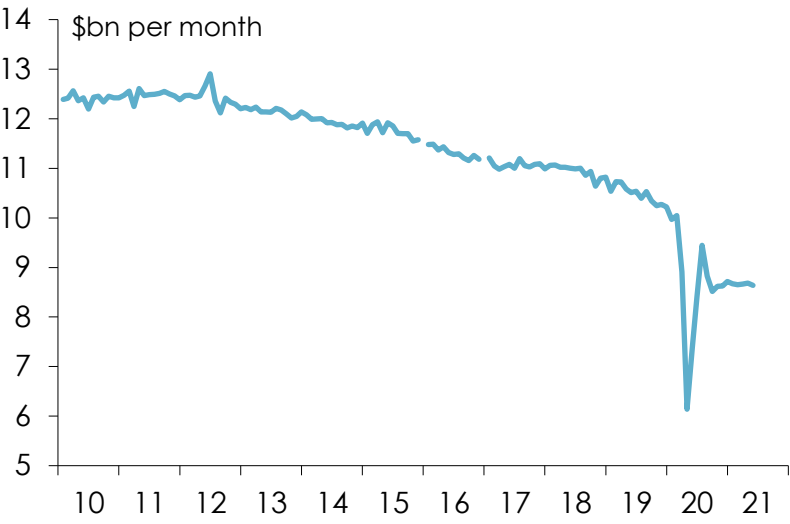
Note: see also [slide 98](#) for more detail on the composition of retail sales since the onset of the pandemic. Sources: ABS, [Retail Trade, Australia, Preliminary](#); Federal Chamber of Automotive Industries [VFACTS](#) (seasonal adjustment of FCAI data by Corinna). Final June retail sales data will be released on 4th August; July motor vehicle sales data will be released in the second week of August. [Return to "What's New"](#).

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

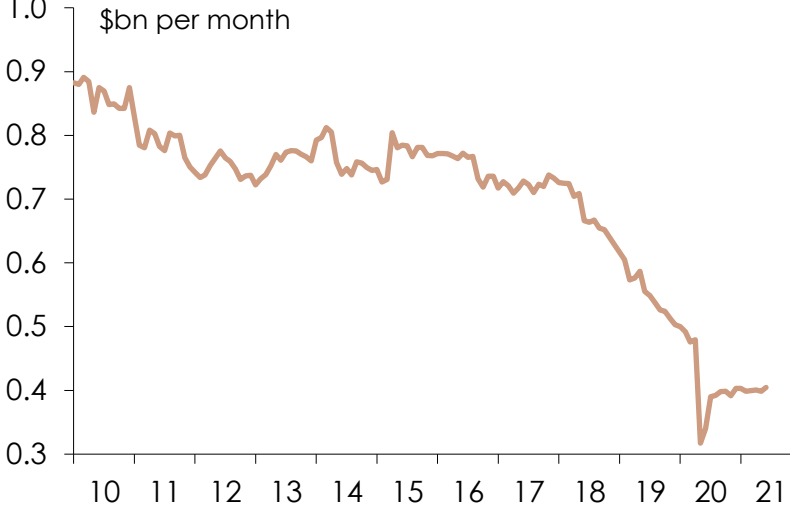
Growth in online retail sales



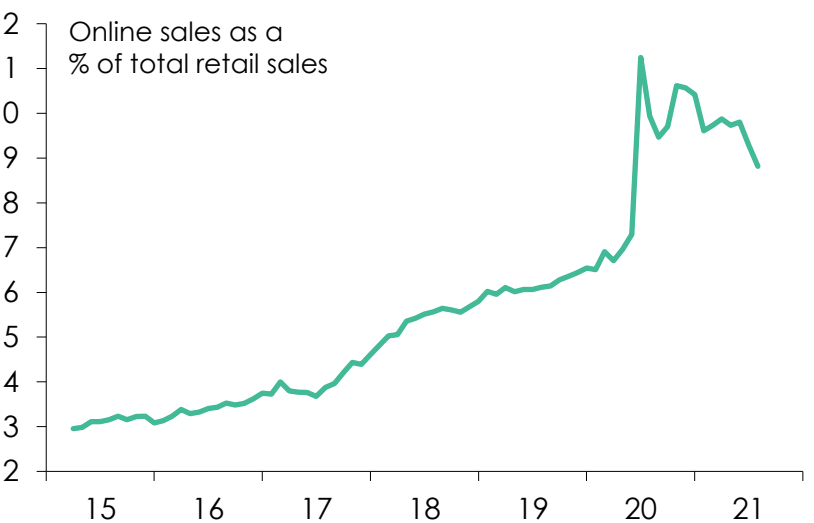
ATM cash withdrawals



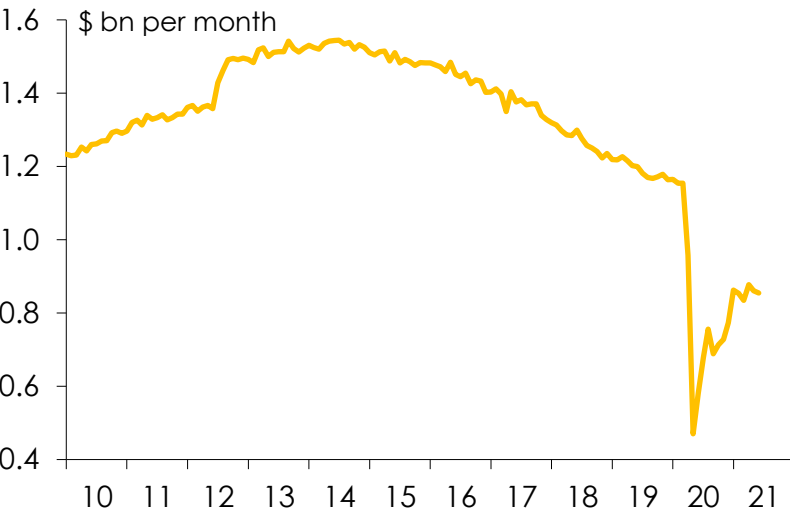
Credit card cash advances



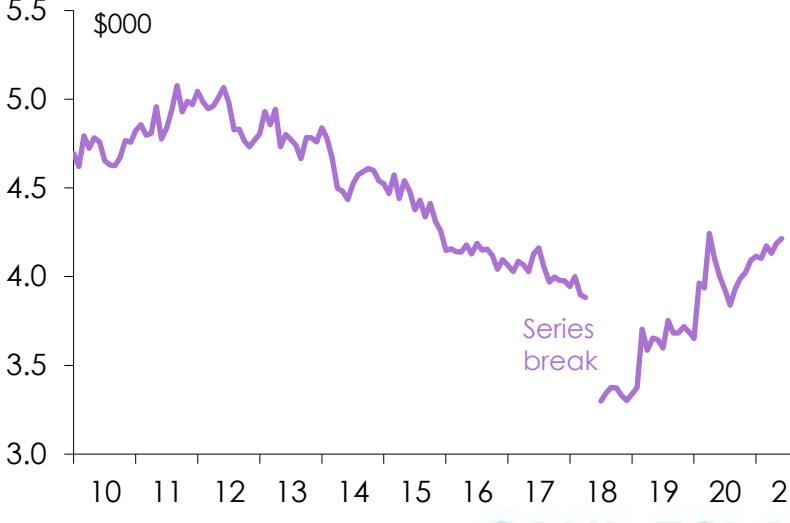
Online retail 'market share'



Debit card cash-outs



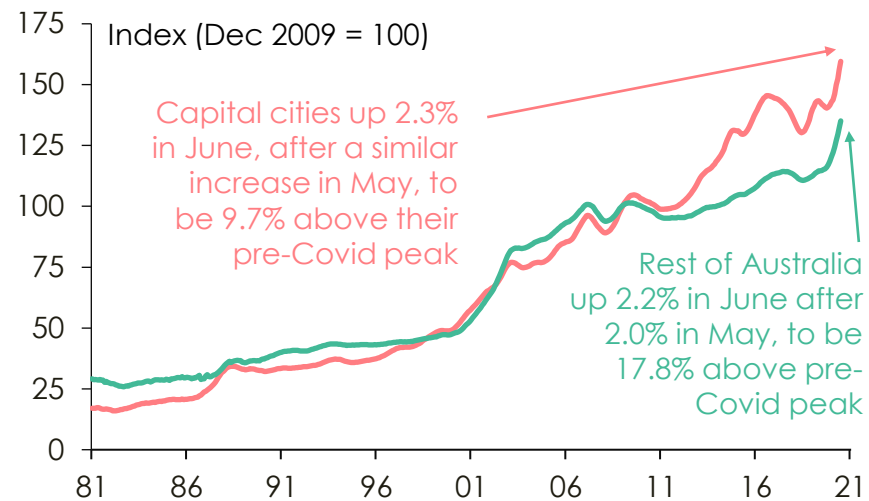
Direct entry payments



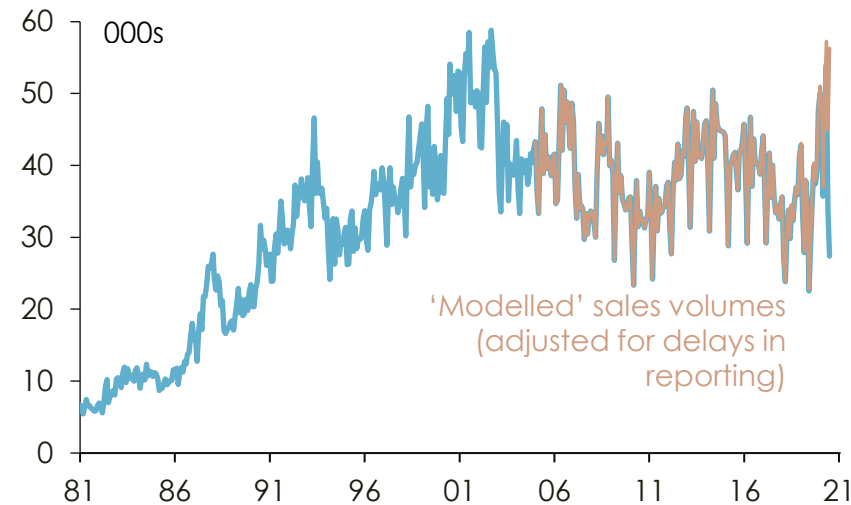
Sources: ABS, [Retail Trade, Australia](#); RBA, [Statistical Tables](#), C1, C2, C4 and C6. Latest data are for May : June online retail sales will be published on 4th August and for the payments system on 7th August.

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

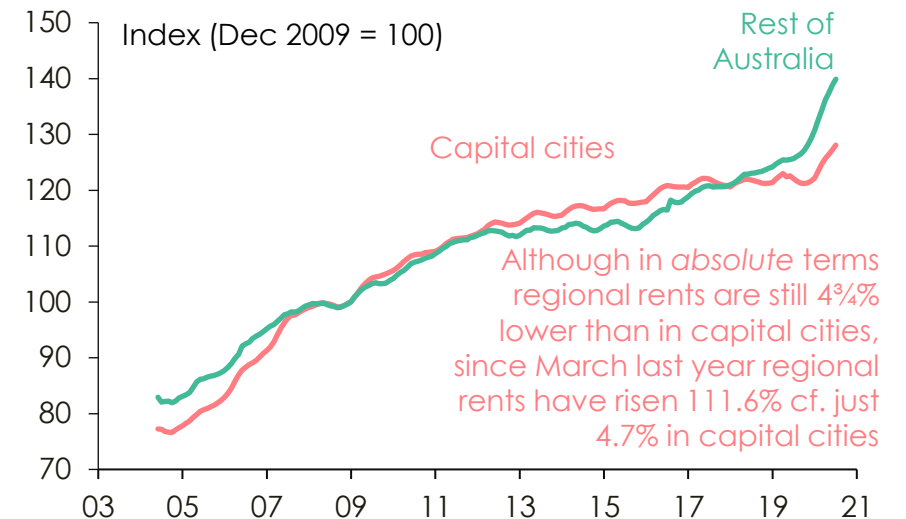
Residential property prices



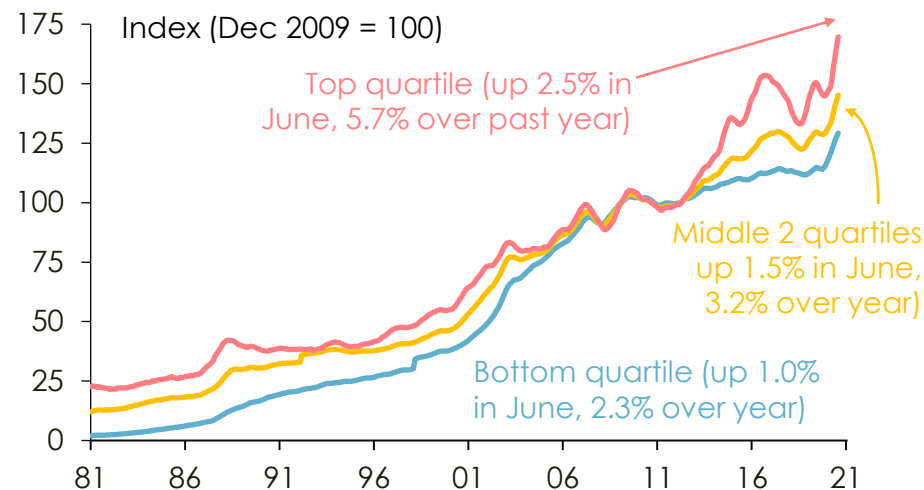
Residential property sales volumes



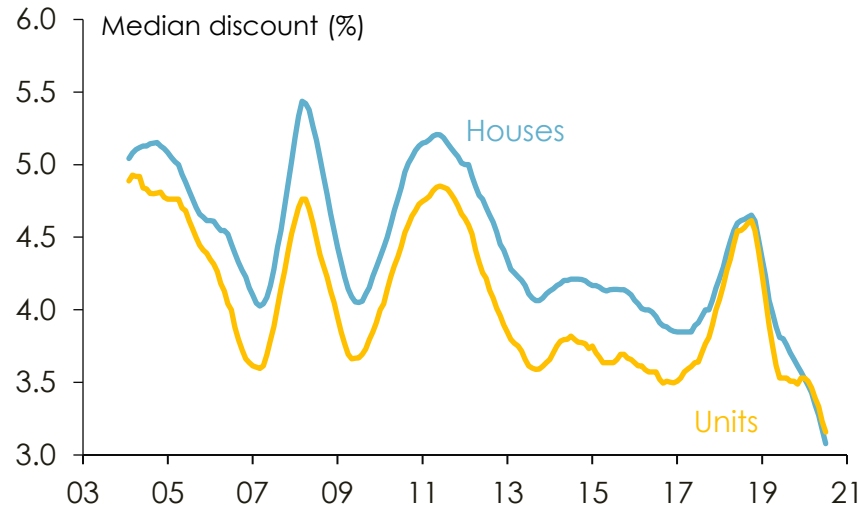
Residential rents



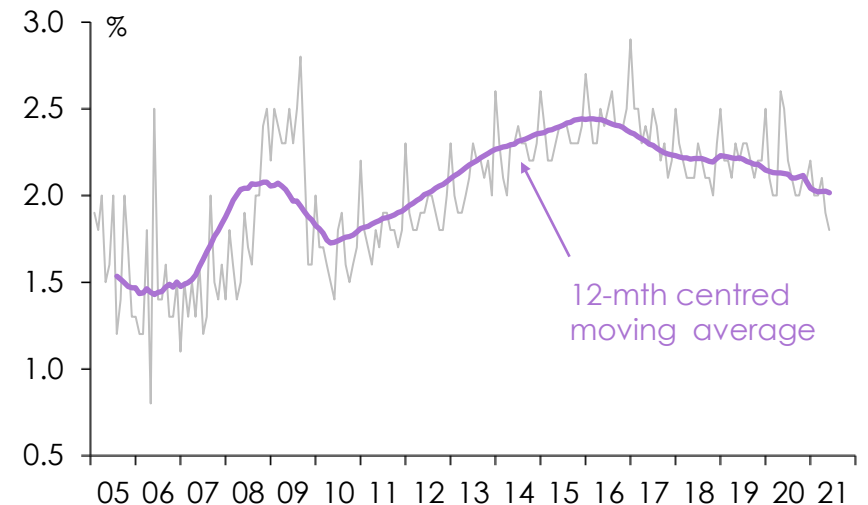
Property prices by tier



Vendor discounting



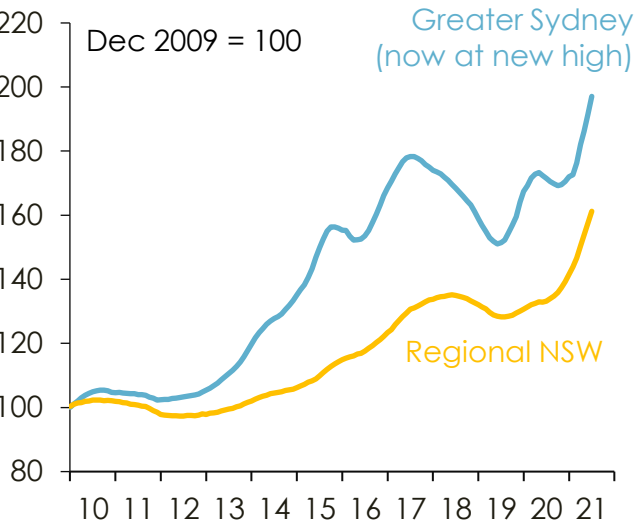
Capital city rental vacancy rates



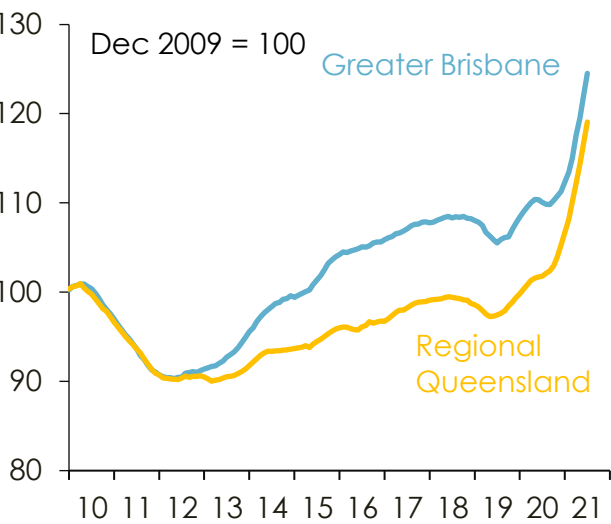
Note: The index of property prices measures the 'organic' change in underlying sales values by using a hedonic regression methodology that takes account of changes in the characteristics of properties being sold from month to month. Property price data are now seasonally adjusted. The index of residential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

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

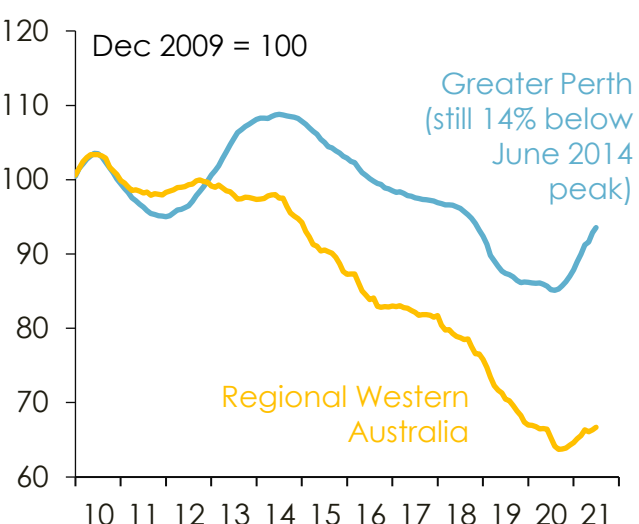
New South Wales



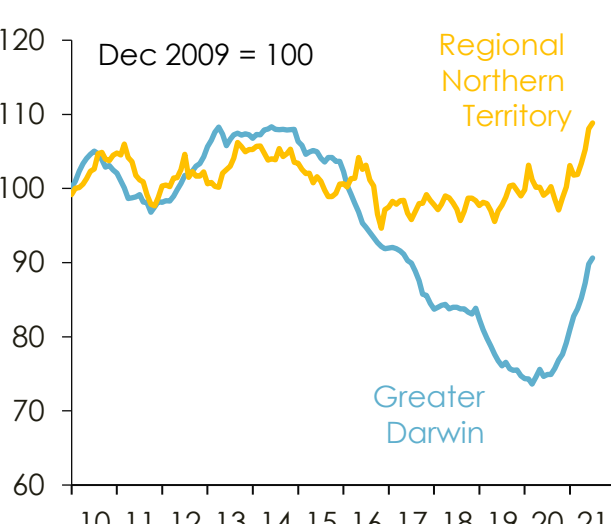
Queensland



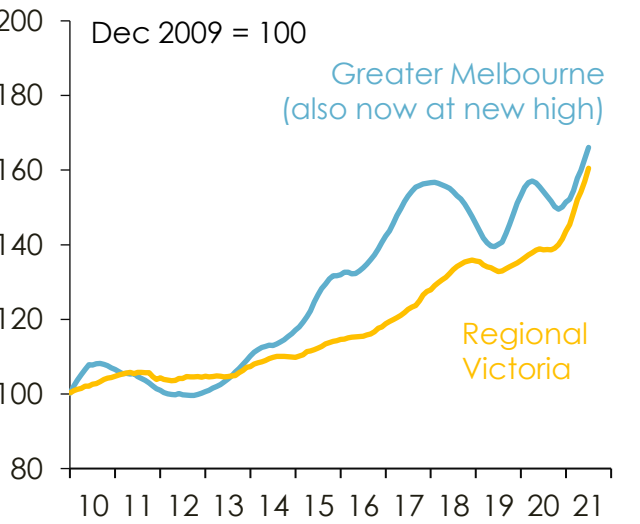
Western Australia



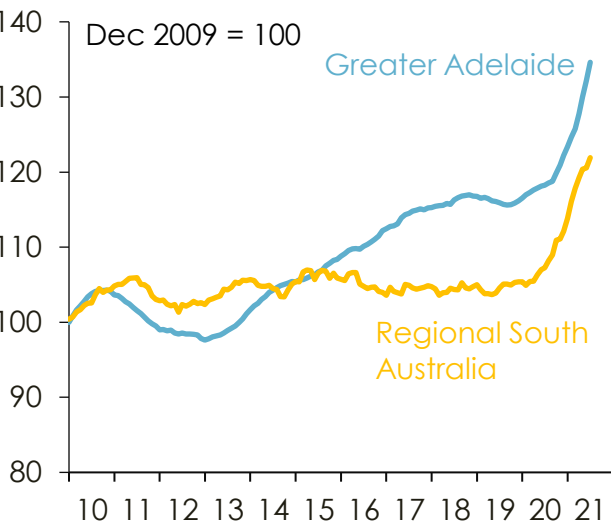
Northern Territory



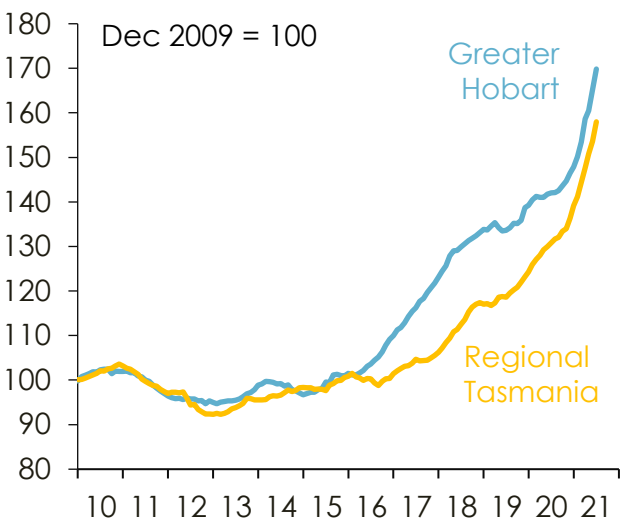
Victoria



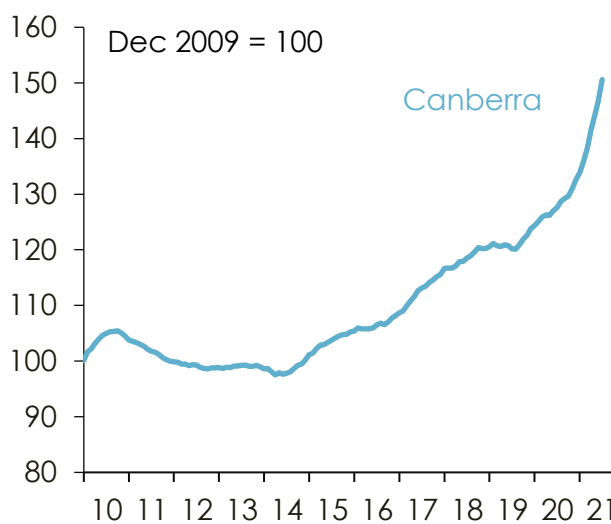
South Australia



Tasmania



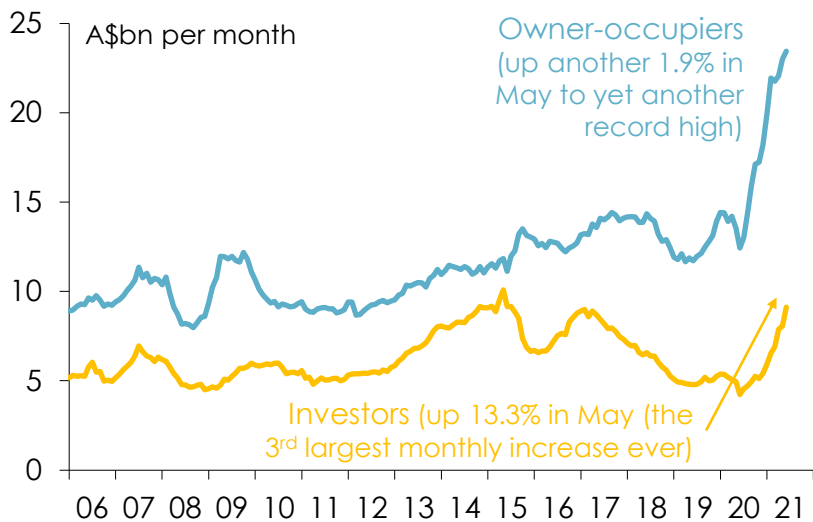
Australian Capital Territory



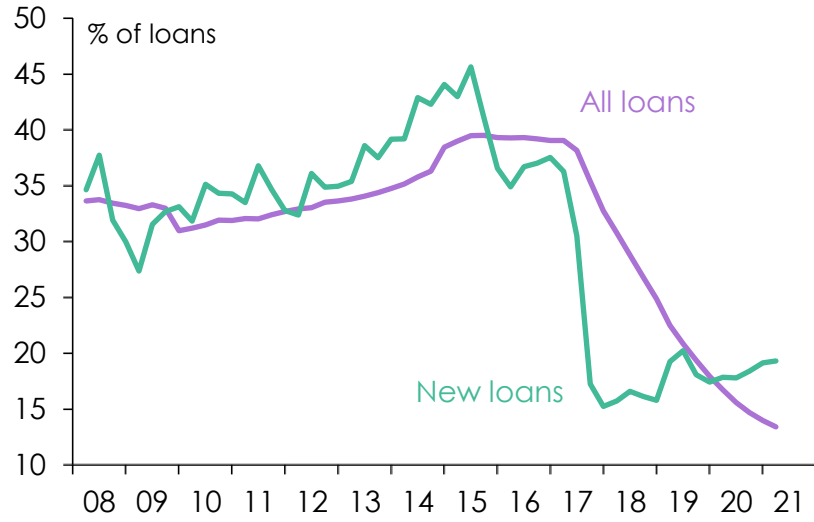
Note: The index of property prices measures the 'organic' change in underlying sales values by using a hedonic regression methodology that takes account of changes in the characteristics of properties being sold from month to month. Property price data are now seasonally adjusted. Latest data are for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

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

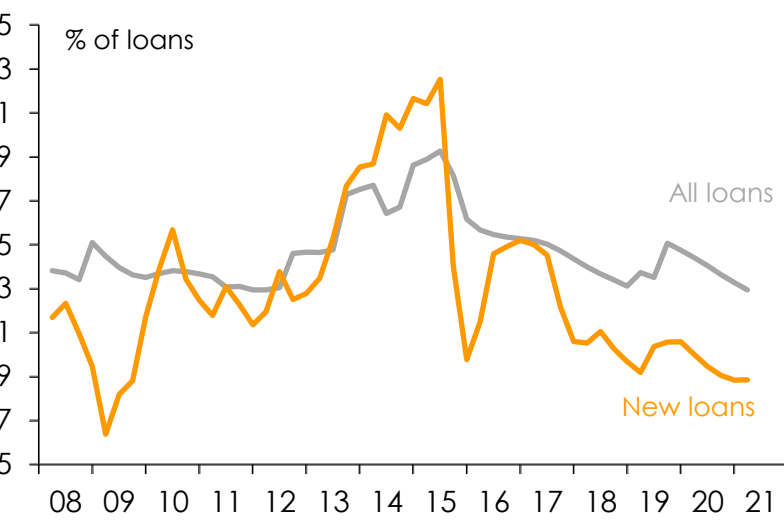
Housing finance commitments



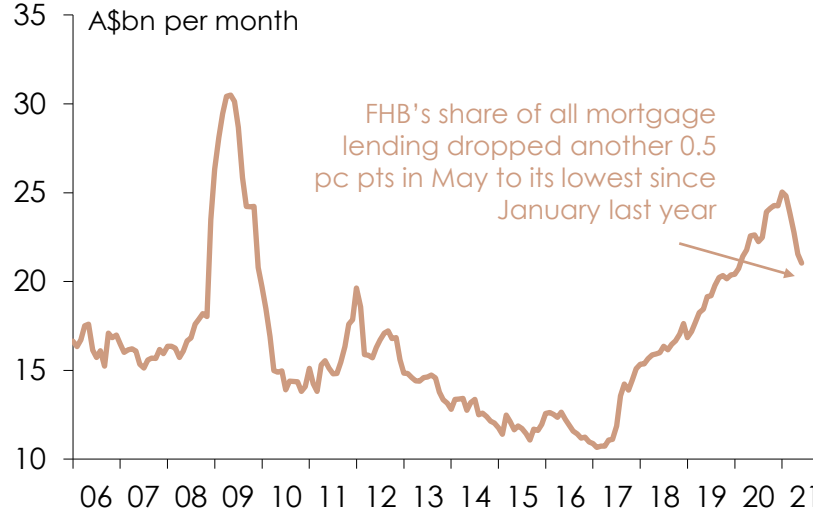
Interest-only loans as pc of total



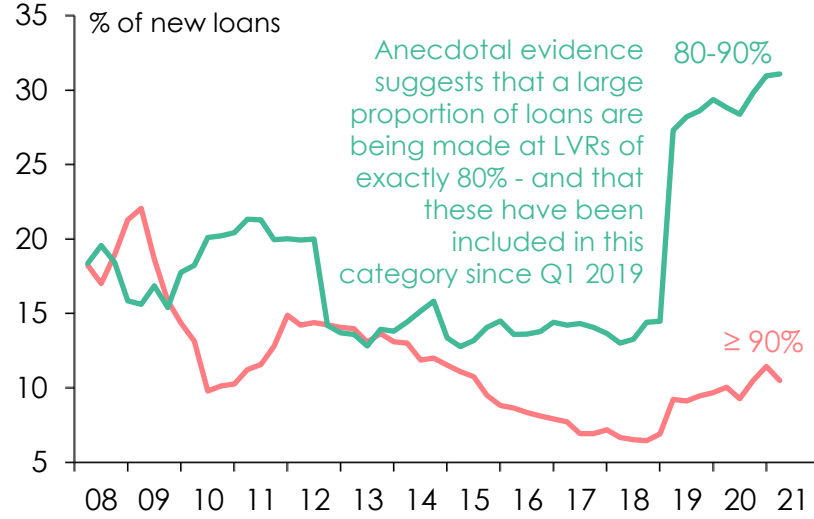
Loans to investors as a pc of total



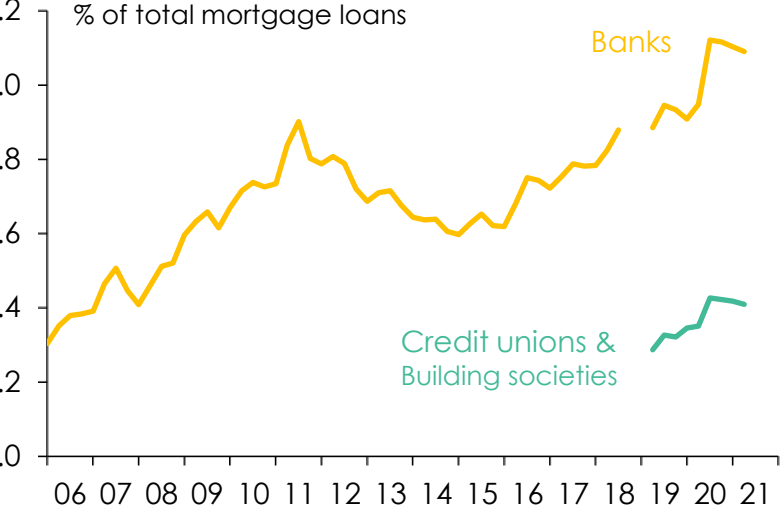
Lending to first home buyers



High LVR loans as a pc of total



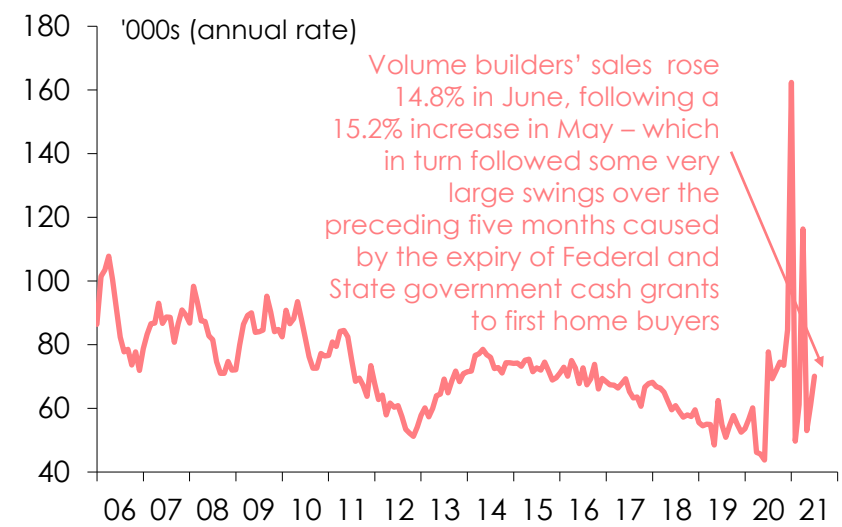
Non-performing mortgage loans



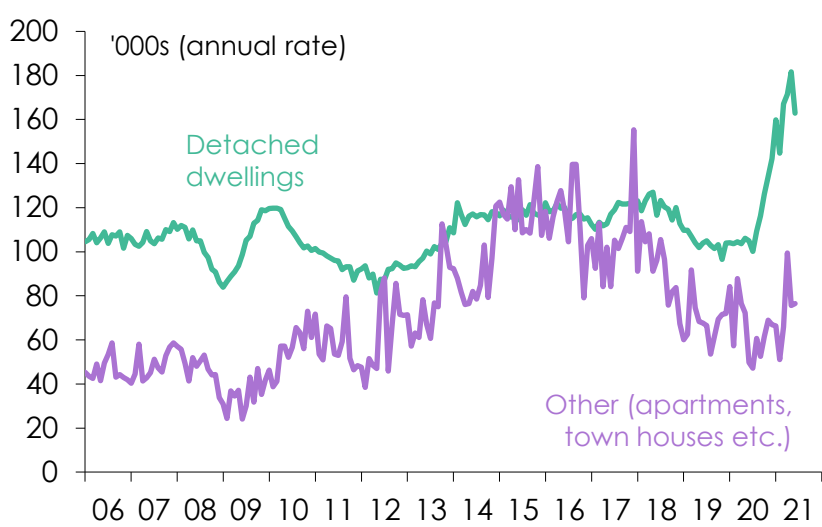
Sources: ABS; Australian Prudential Regulation Authority (APRA), [Quarterly authorised deposit-taking institution statistics](#). June housing finance data will be released on 3rd August; APRA data on ADI property exposures for the June quarter will be released in early September. [Return to "What's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

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

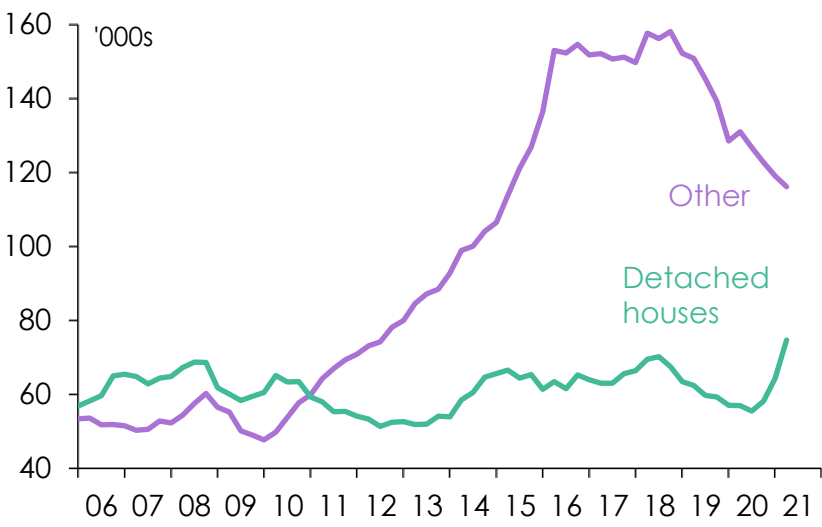
Large builders' new home sales



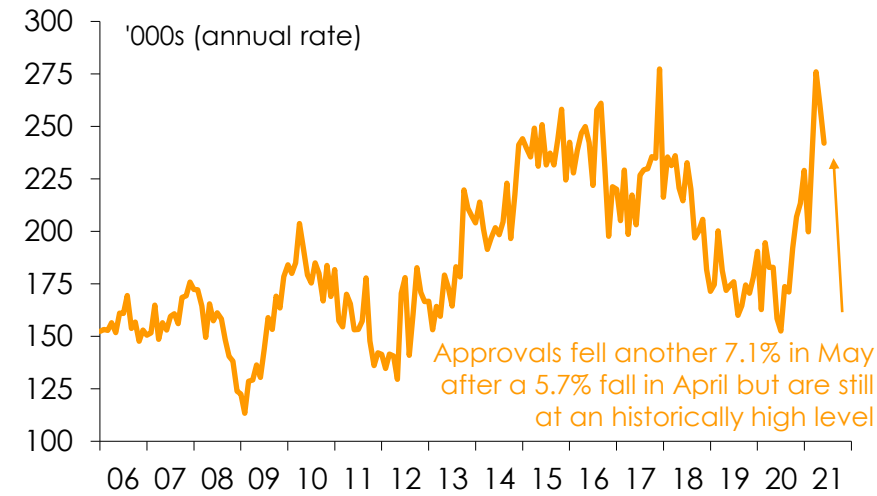
Building approvals, by type



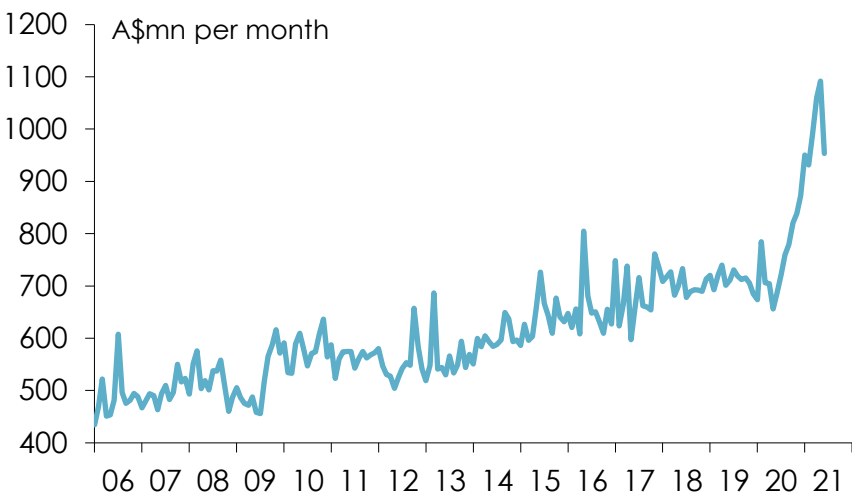
Dwellings under construction



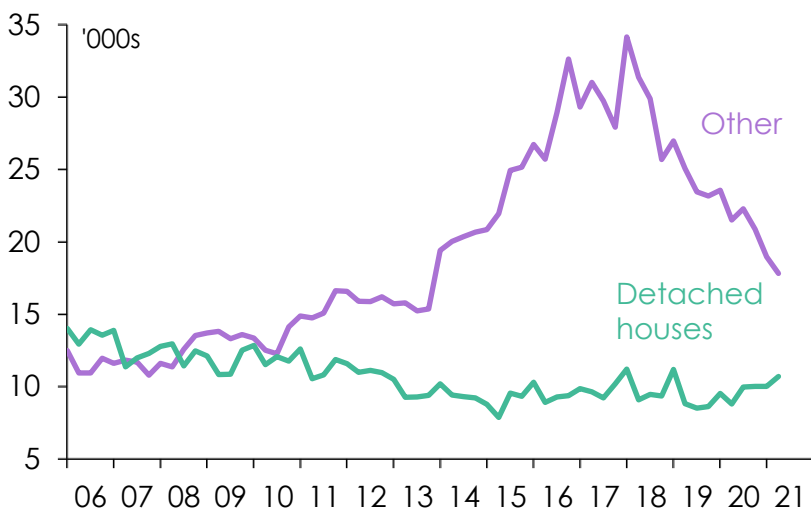
Residential building approvals



Alterations & additions approved



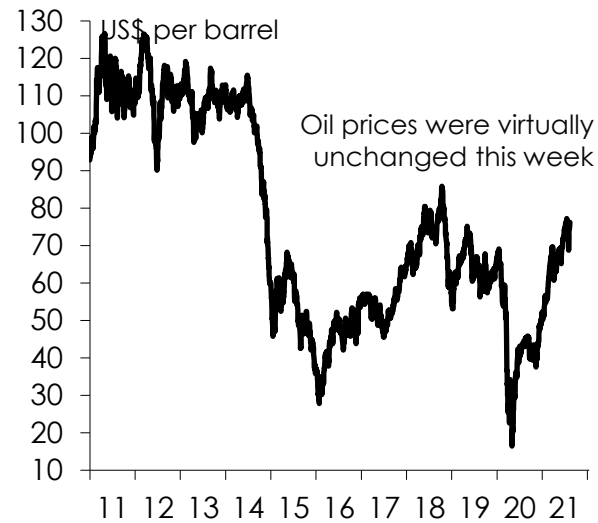
'Pipeline' of work yet to be started



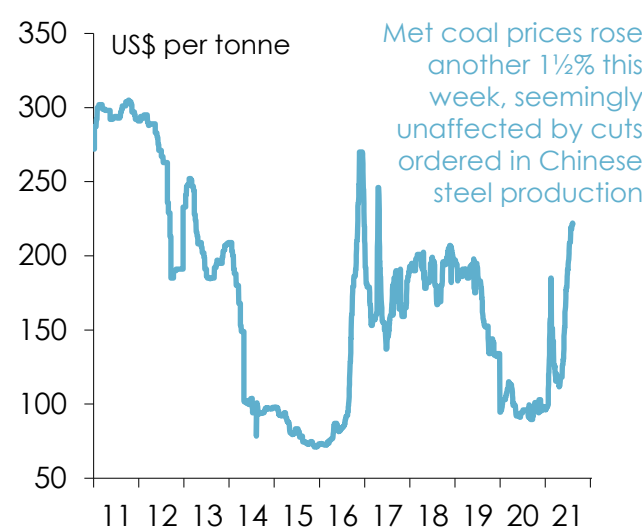
Note: 'New home sales' are of detached dwellings only and exclude small-scale builders. Sources: ABS; Housing Industry Association. June building approvals data will be released on 3rd August; June quarter dwellings under construction and 'pipeline' data on 13th October. [Return to "What's New"](#).

The iron ore price fell another 8% this week to its lowest in ten weeks after China ordered steel mills to cut production in order to reduce emissions

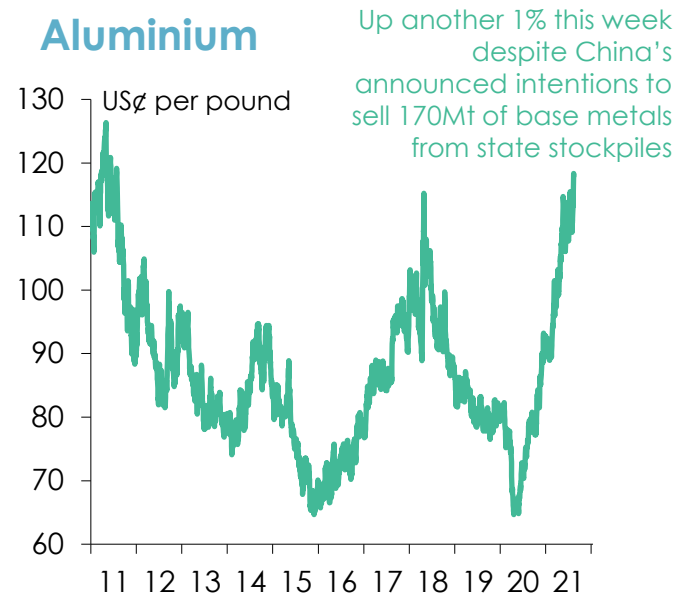
Brent crude oil



Metallurgical coal



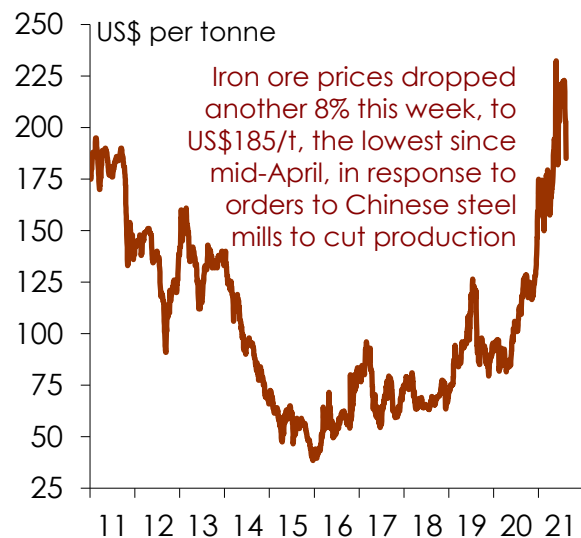
Aluminium



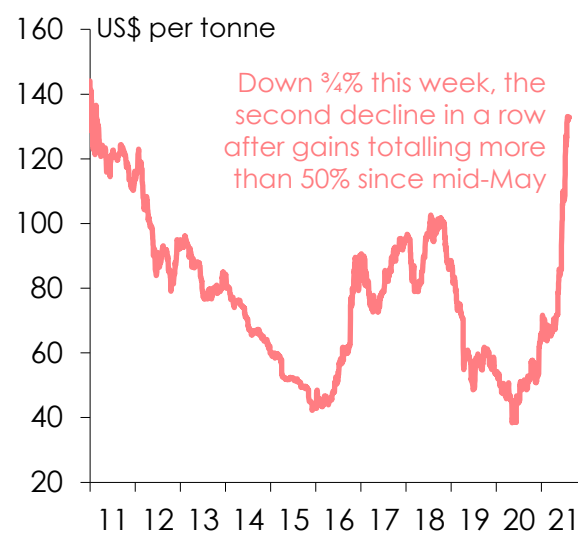
Beef



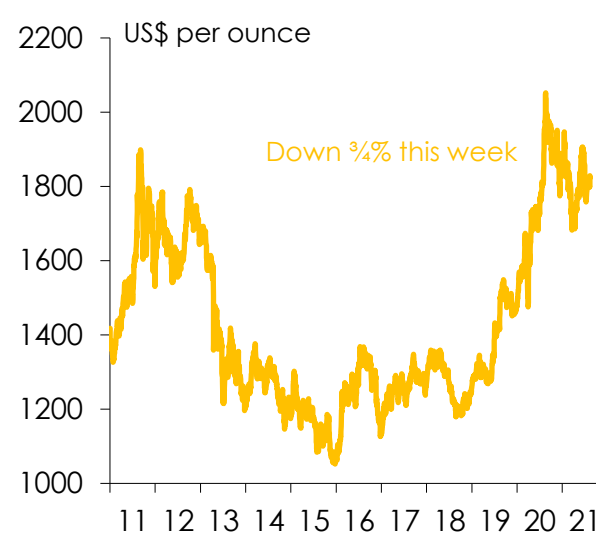
Iron ore



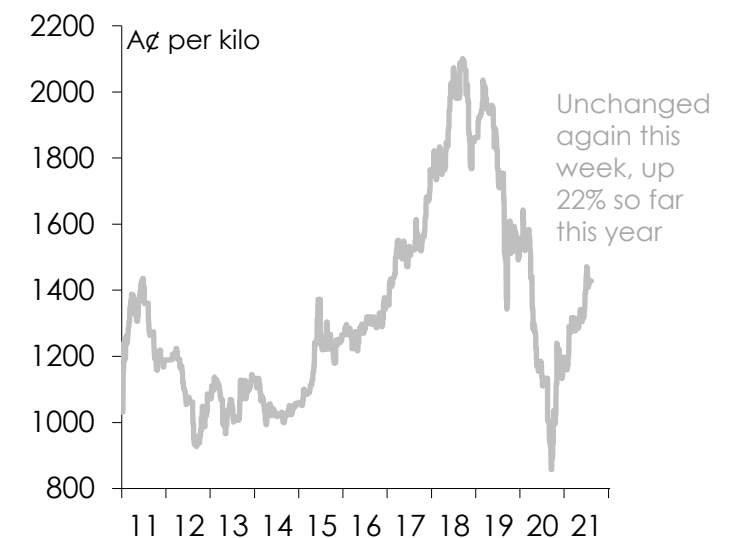
Thermal coal



Gold



Wool

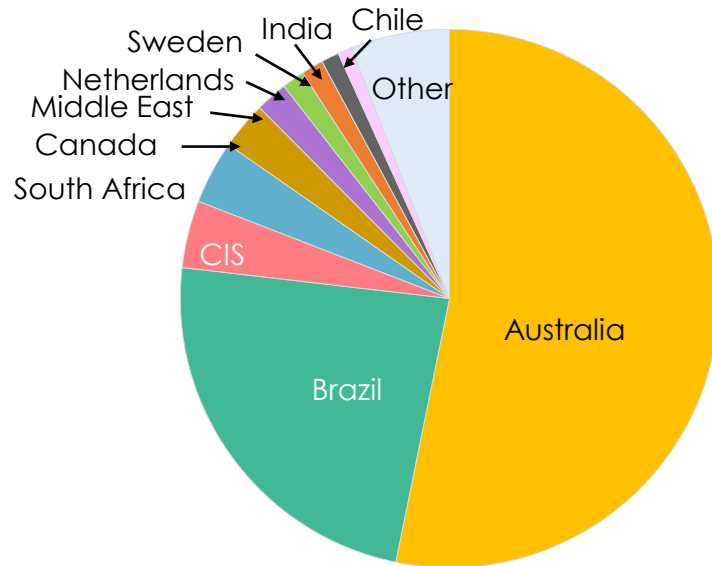


Sources: Refinitiv Datastream; Meat & Livestock Australia; Australian Wool Innovation. See [next slide](#) for more on iron ore prices. Data up to 30th July.

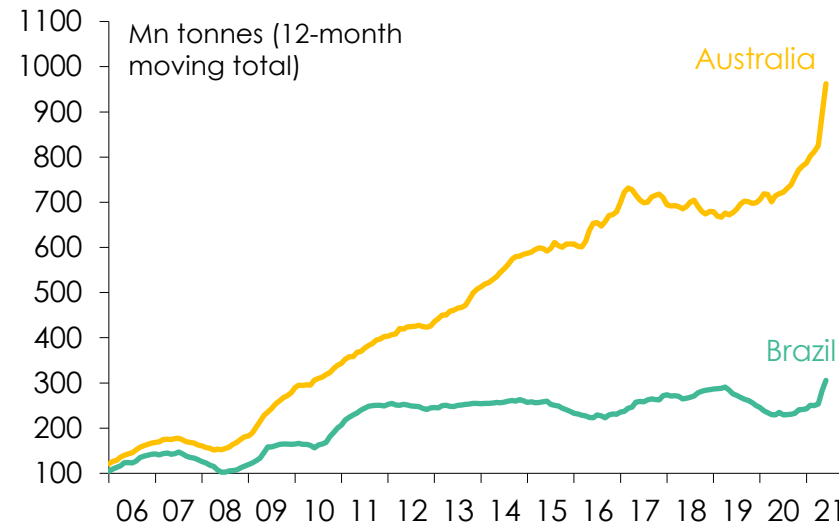
[Return to "What's New".](#)

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

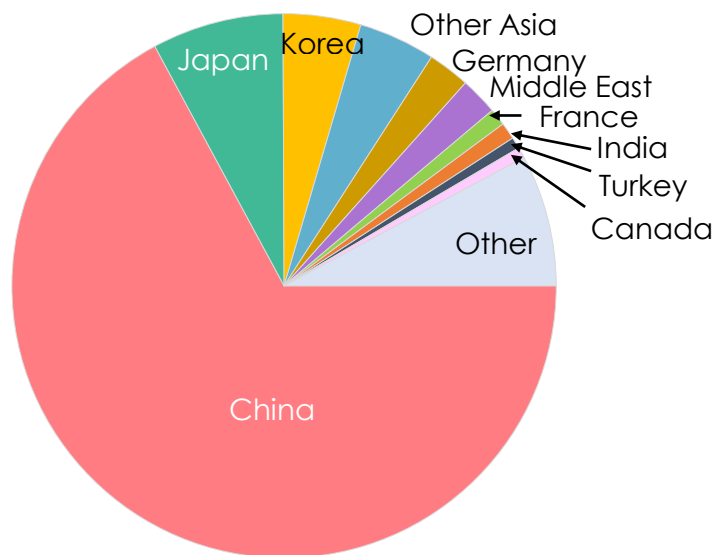
Iron ore exports, 2018



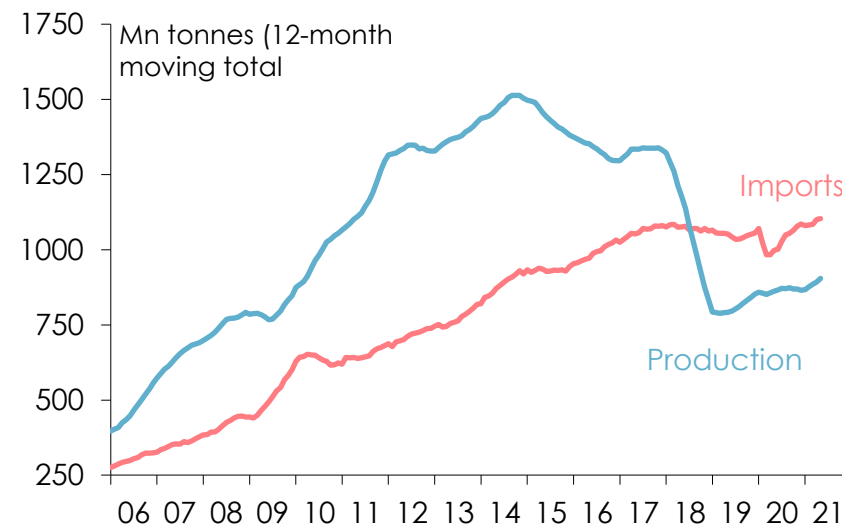
Australia & Brazil iron ore exports



Iron ore imports, 2018



China iron ore production & imports



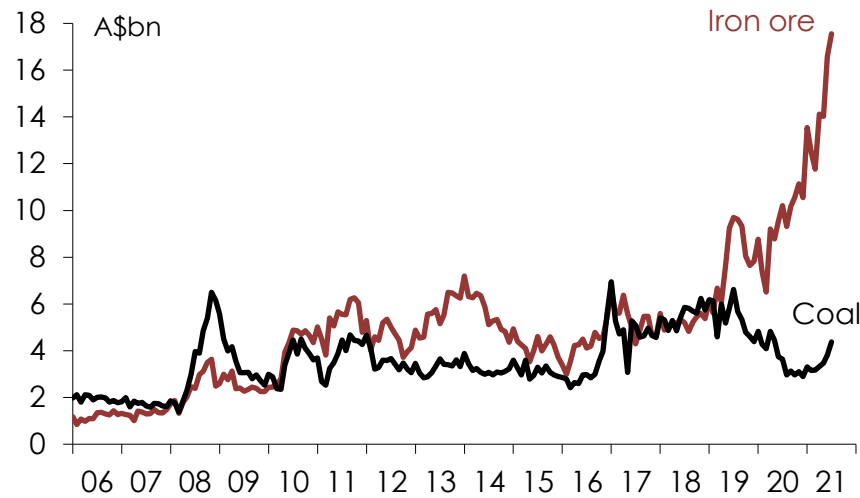
- ❑ The global iron ore trade is dominated by shipments from Australia & Brazil to China (which accounts for 53% of global steel production and 51% of steel use) – no other exporter has more than 4% of the global seaborne trade
- ❑ Chinese iron ore production has fallen by more than 34% since 2017, largely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

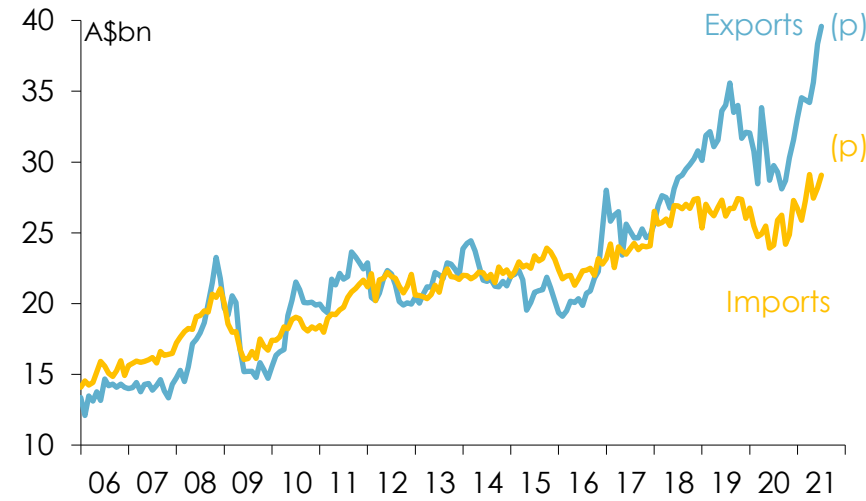
Sources: World Steel Association; China National Bureau of Statistics; China General Administration of Customs; Refinitiv Datastream; ABS; IGBE; BHP; Corinna.

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

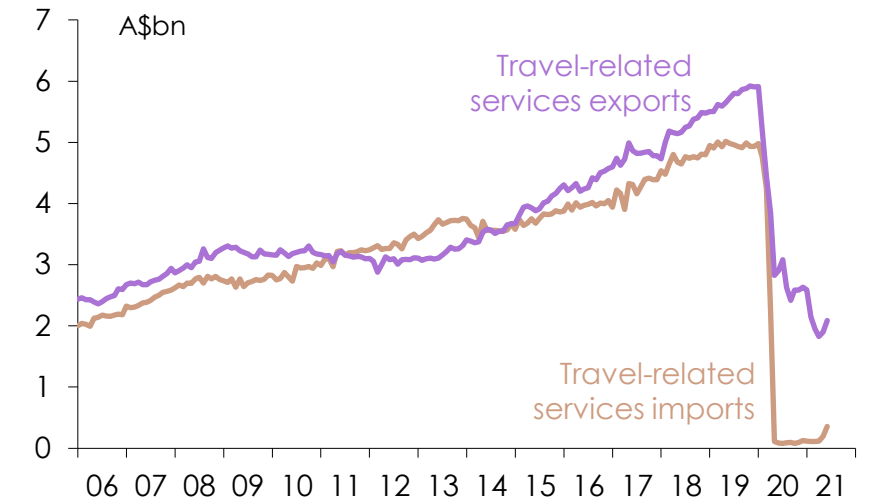
Iron ore and coal exports



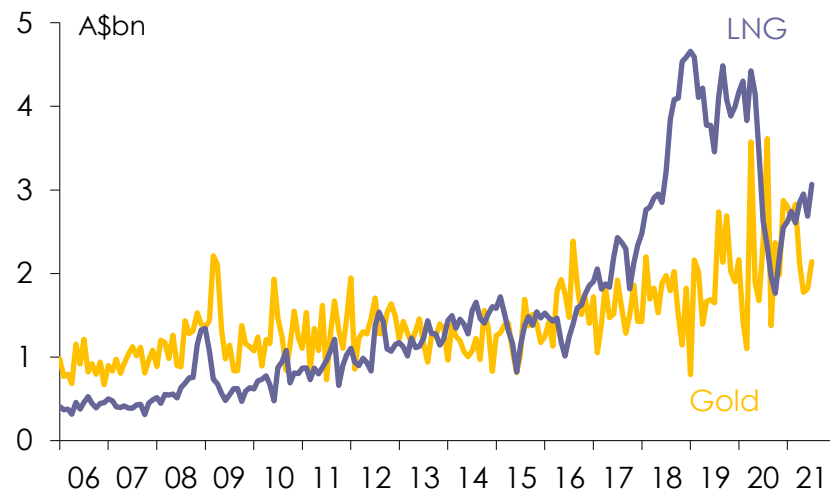
Merchandise exports and imports



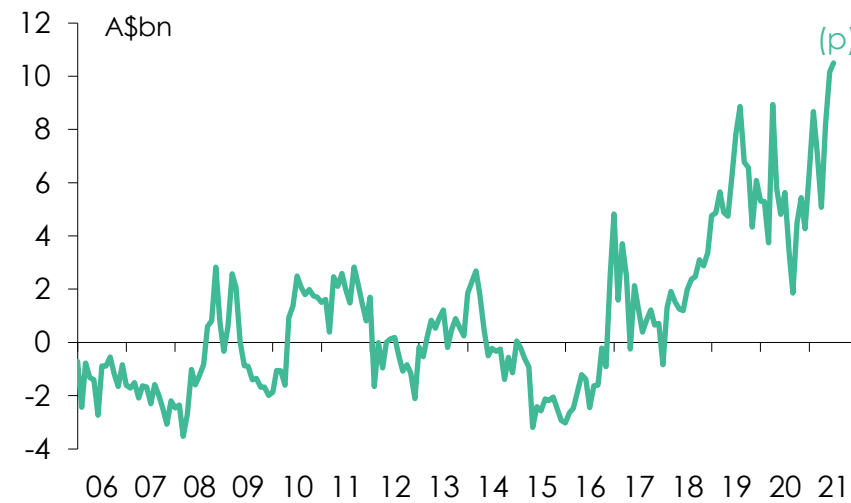
Tourism-related services trade



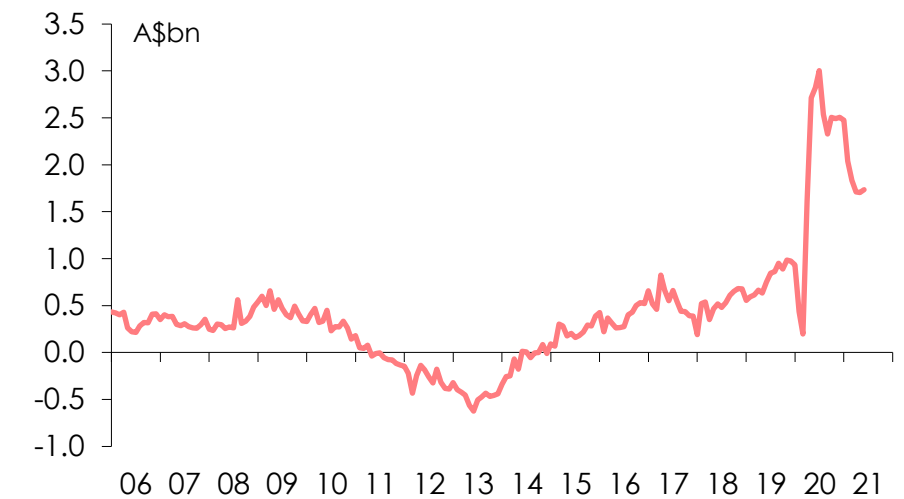
LNG and gold exports



Merchandise trade balance



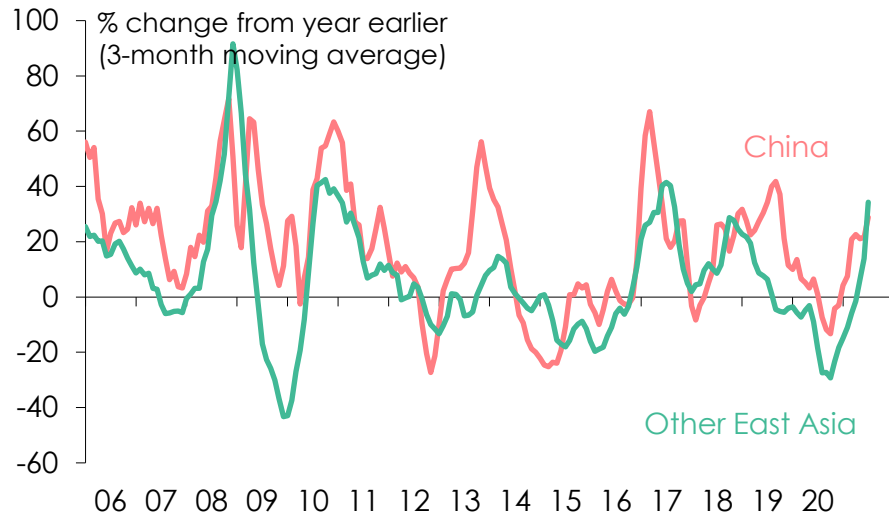
Tourism services trade balance



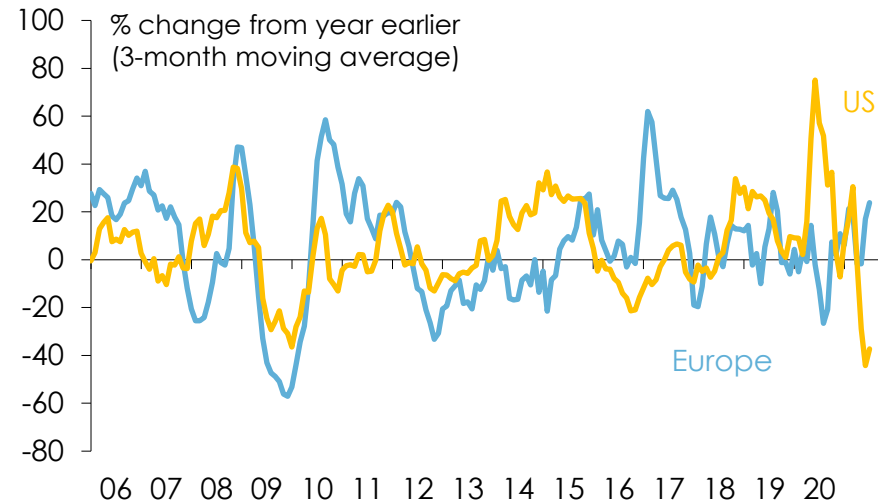
Source: ABS, [International Trade in Goods and Services, Preliminary, Australia](#), June 2021. Final June data will be released on 5th August. [Return to "What's New"](#).

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

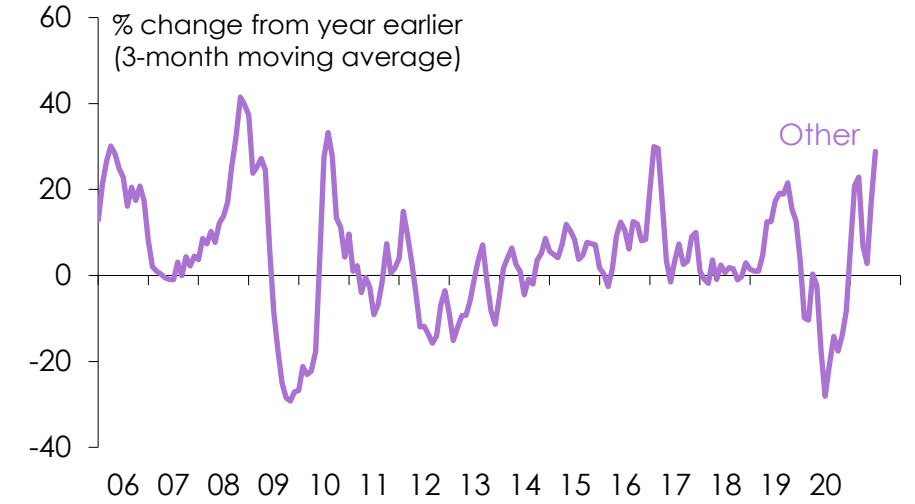
Merchandise exports – East Asia



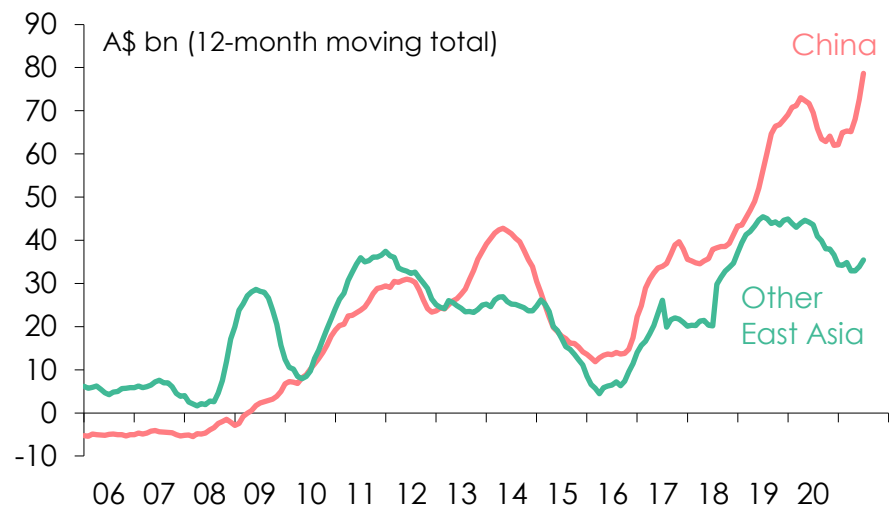
Merchandise exports – US & Europe



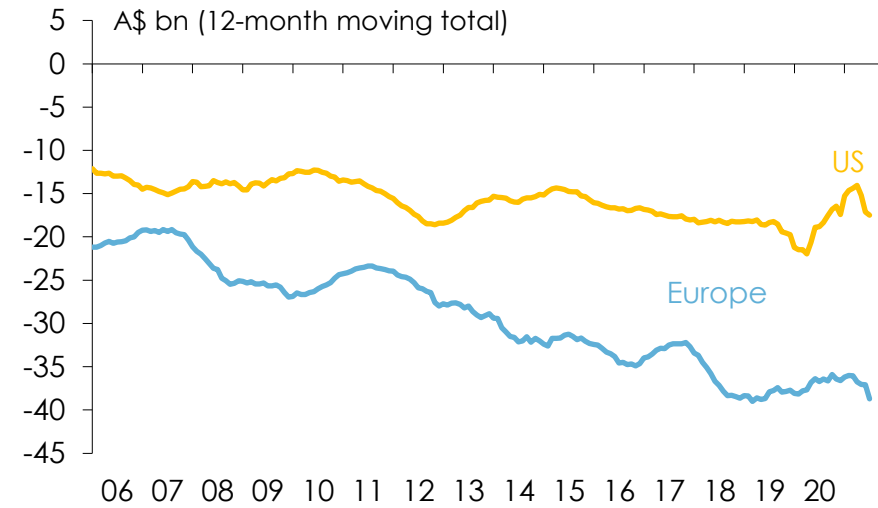
Merchandise exports – other



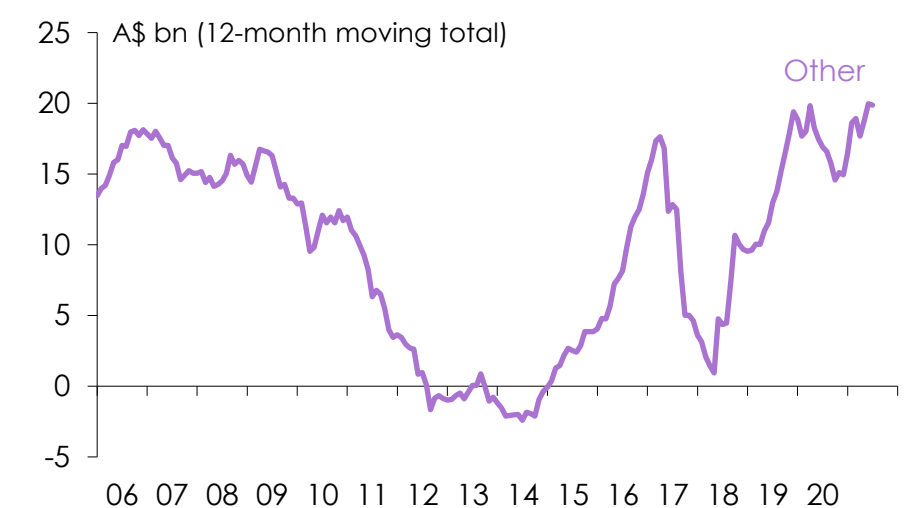
Goods trade balance – East Asia



Goods trade balance – US & Europe



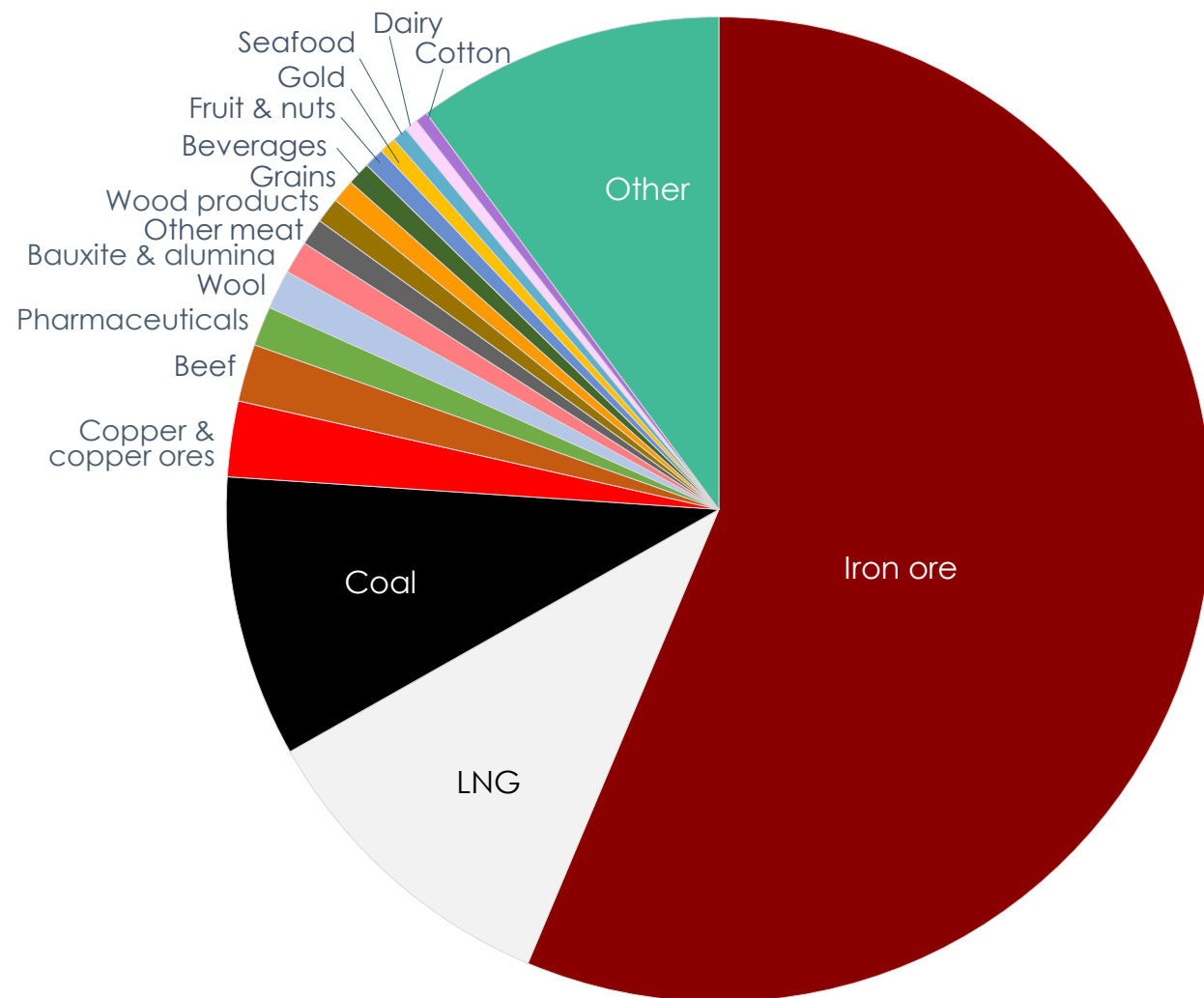
Goods trade balance – other



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



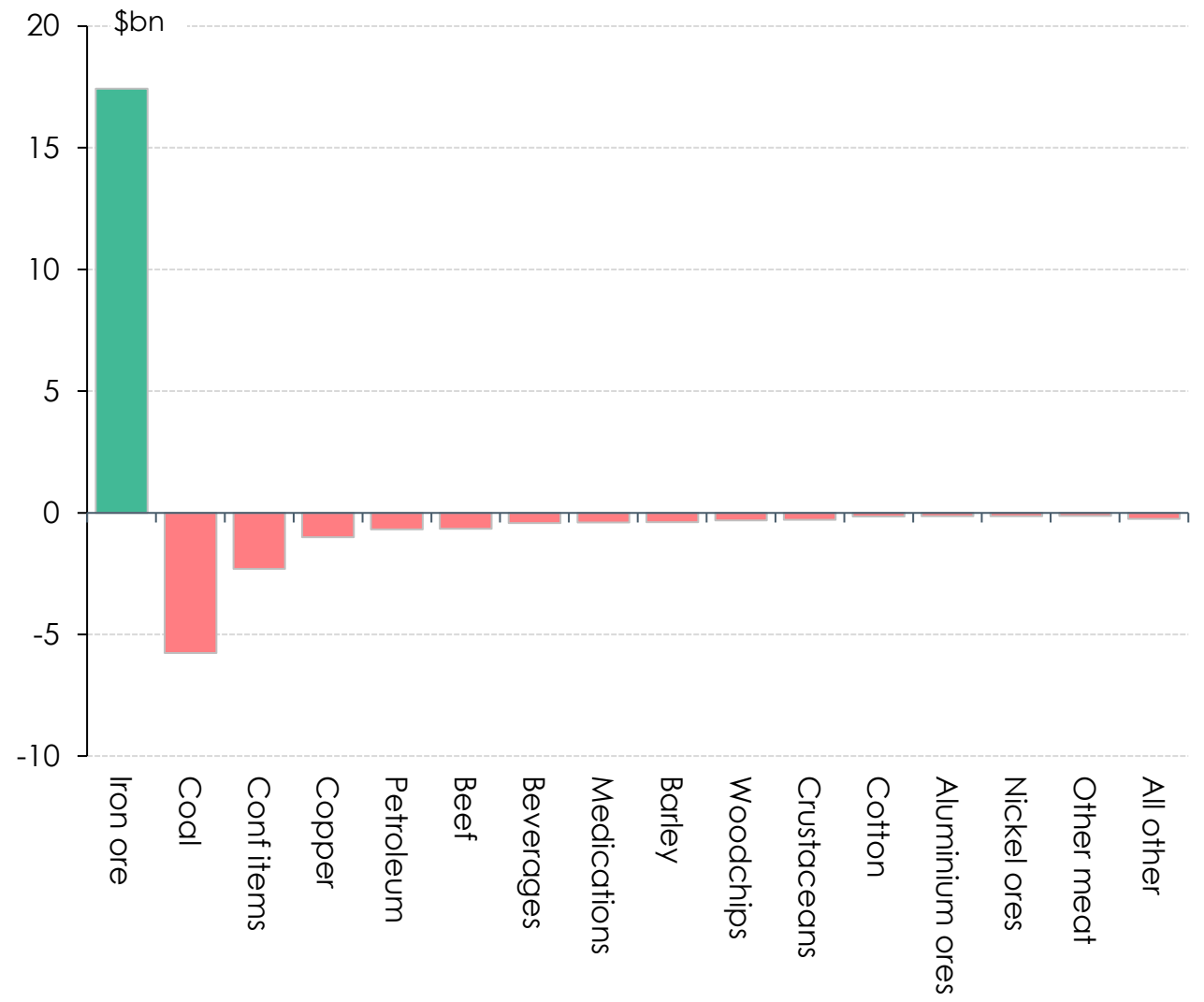
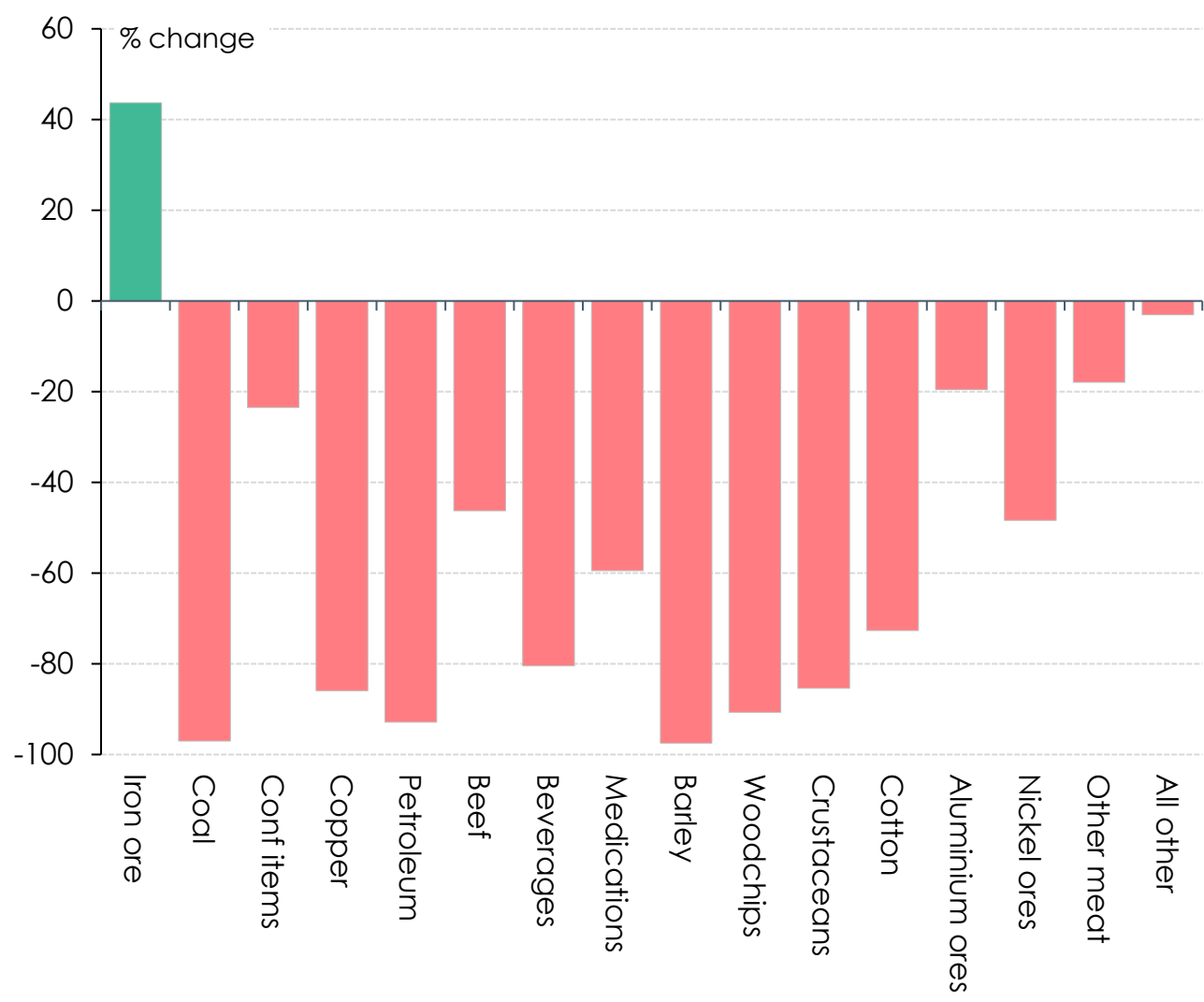
- ❑ China accounted for 39½% of Australia's merchandise exports in FY 2019-20 (the largest proportion any country has since the mid-1950s when 36% of Australia's exports went to the UK)
 - of which iron ore & concentrates accounts for 56%
- ❑ China also accounted for 19% of Australia's services exports 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)
 - the recent 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
- ❑ In July 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%

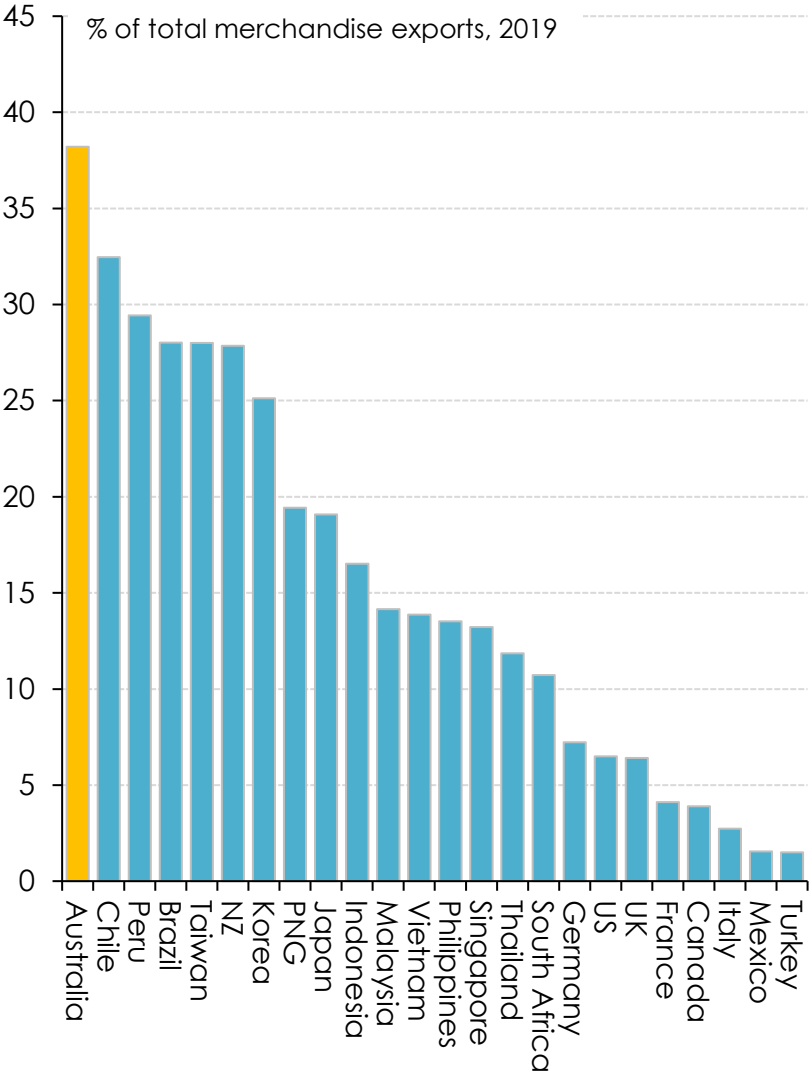
Change in Australian exports to China, six months to April 2021 compared with six months to April 2020



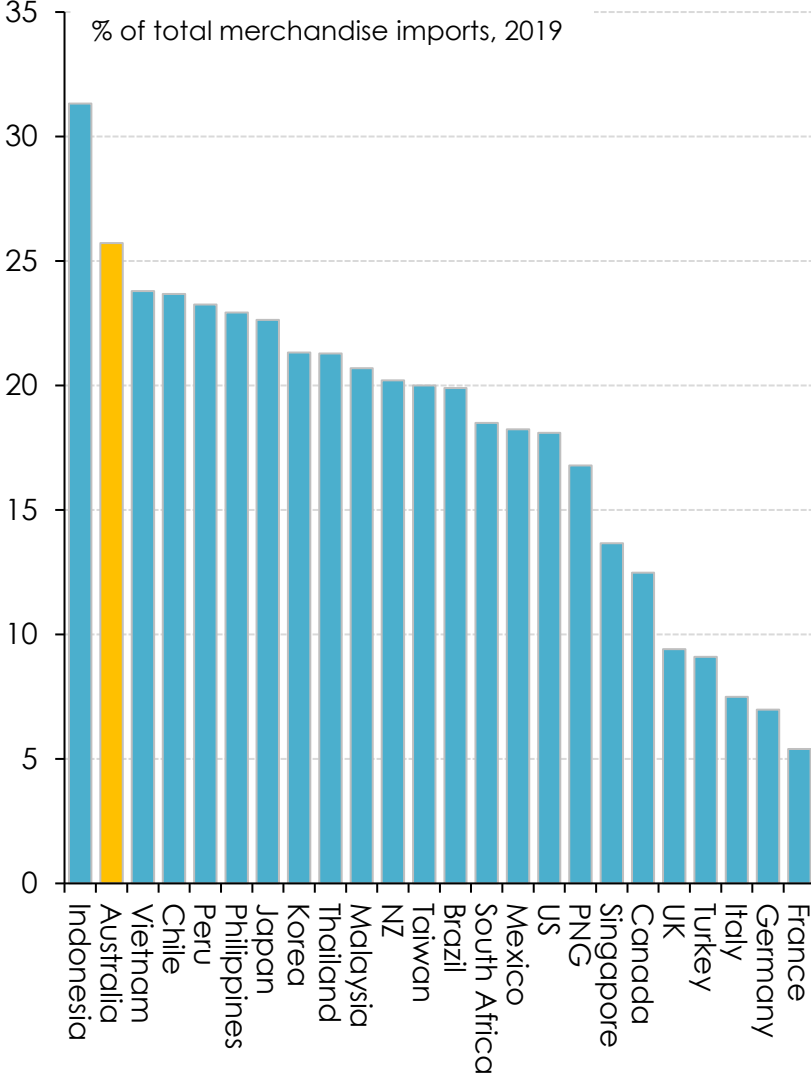
Source: Australian Department of Foreign Affairs and Trade, [Trade Statistical Pivot Tables - Country and commodity pivot table monthly](#); Corinna.

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

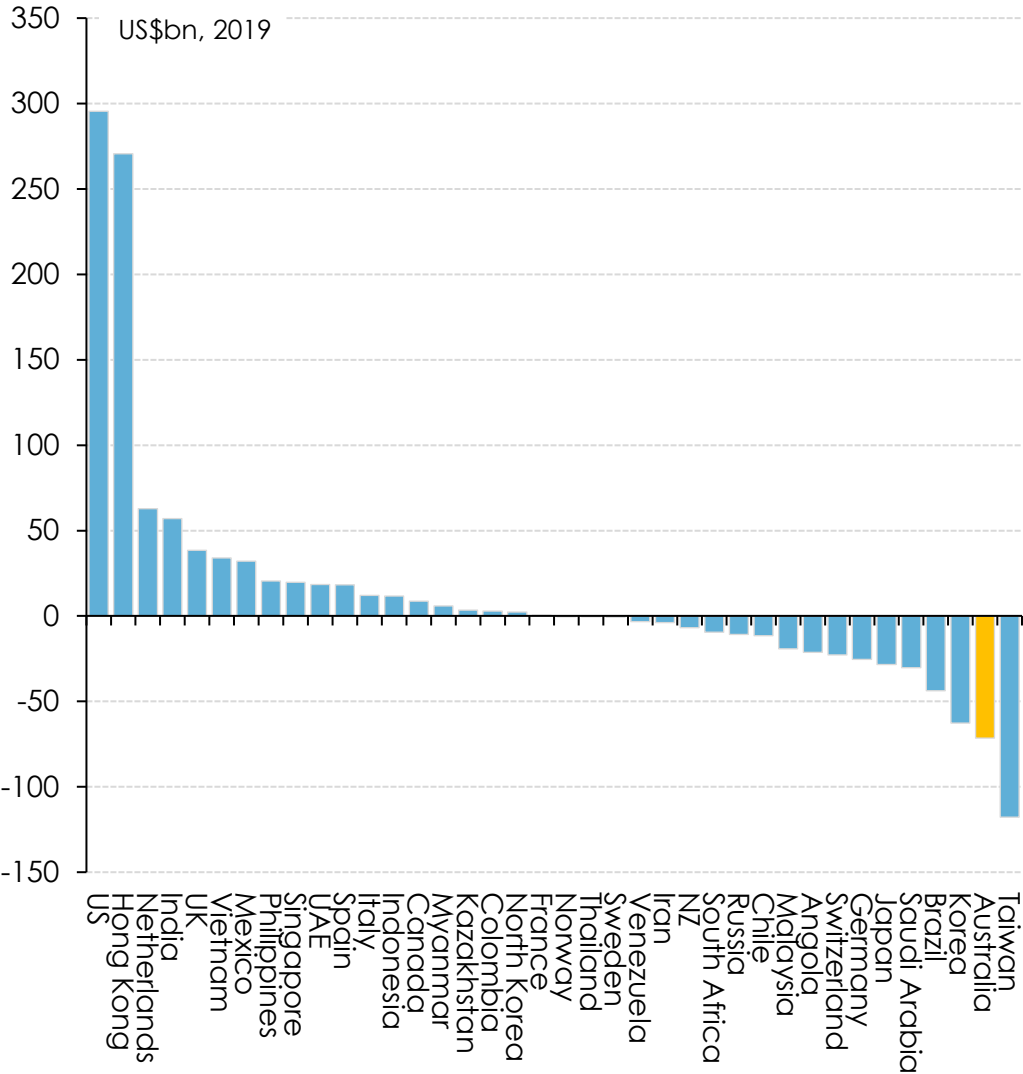
Merchandise exports to China as a pc of total



Merchandise imports from China as a pc of total



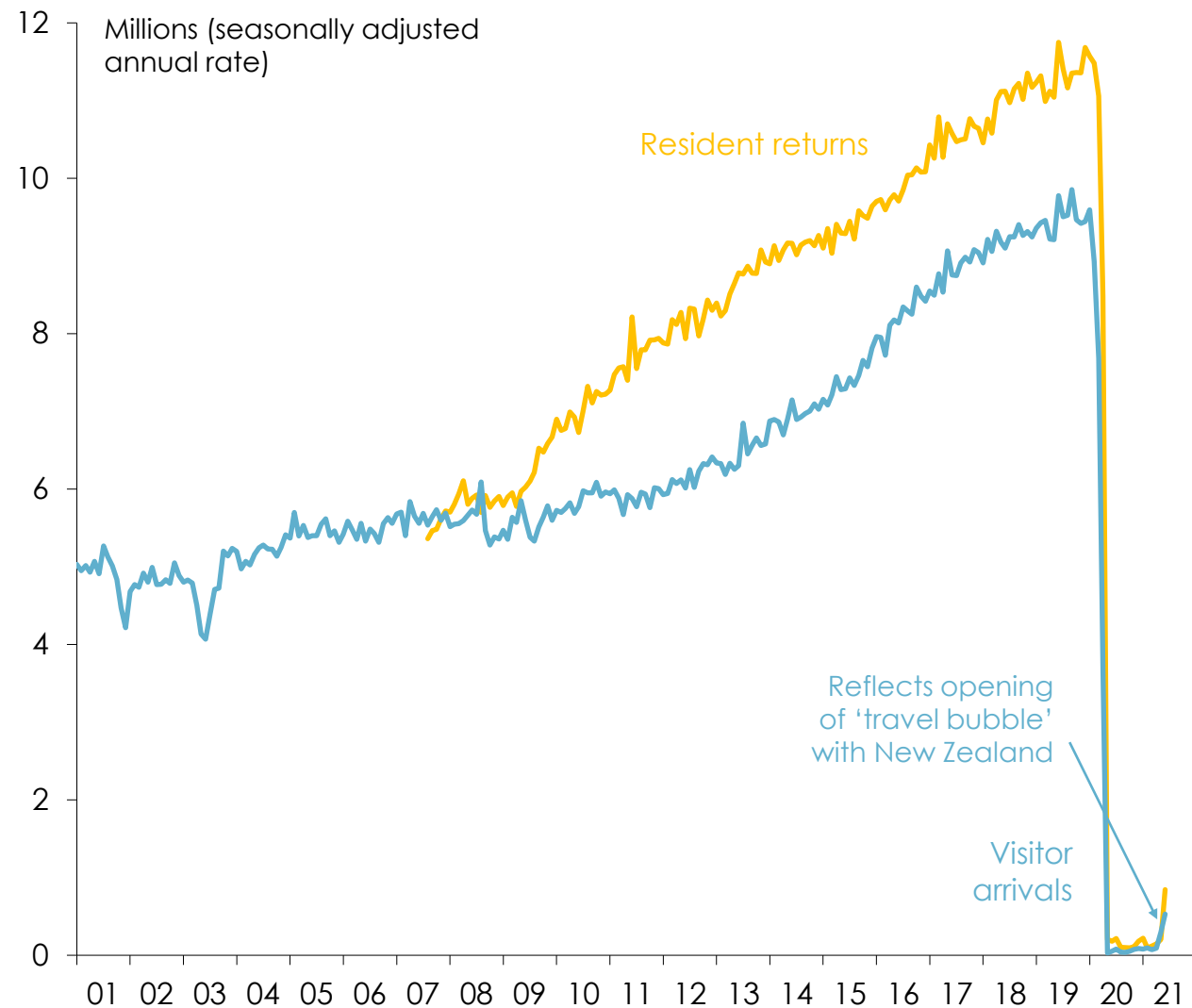
China's bilateral merchandise trade balances



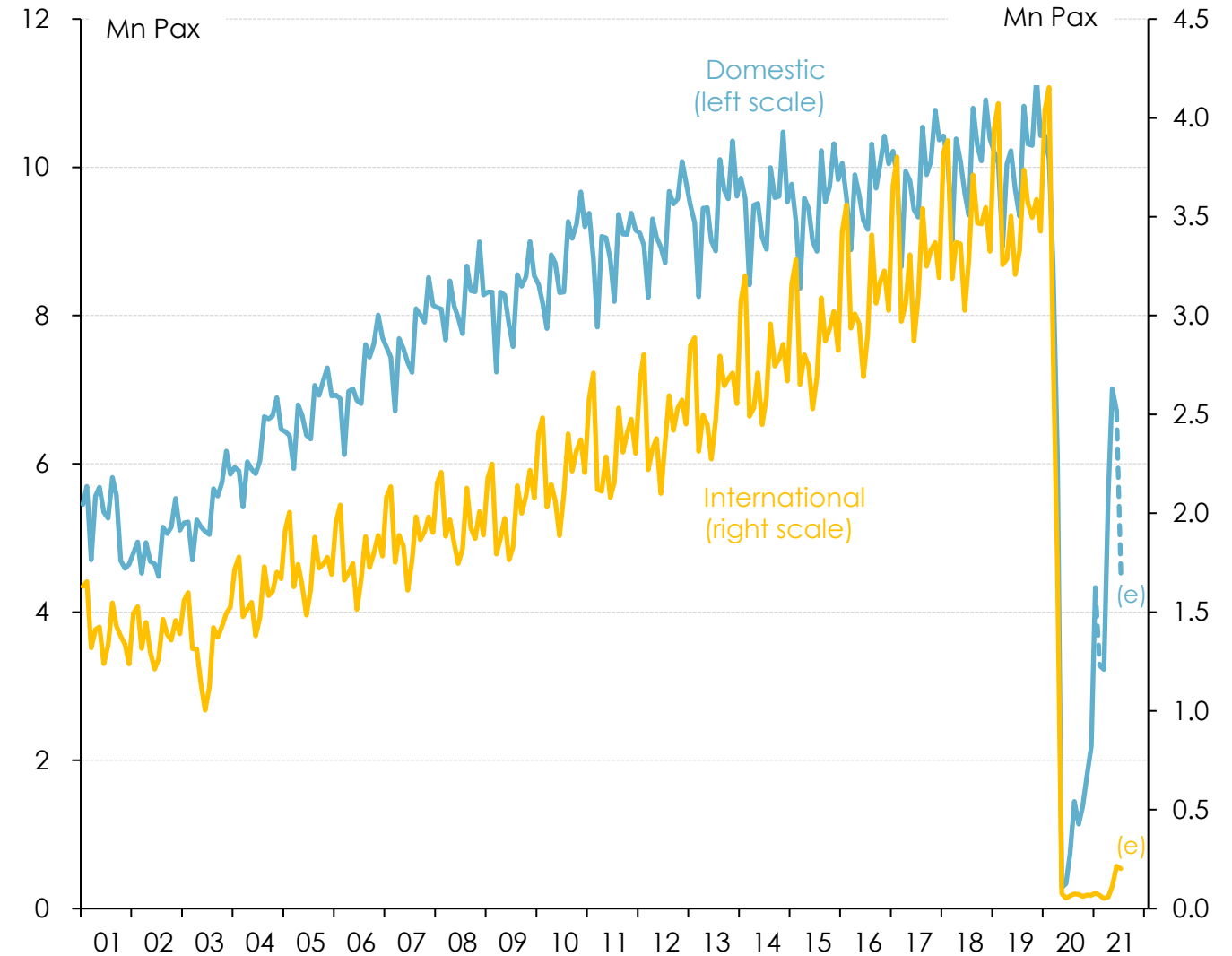
Sources: IMF, Direction of Trade Statistics; Taiwan Ministry of Economic Affairs, Bureau of Foreign Trade. [Return to "What's New"](#).

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



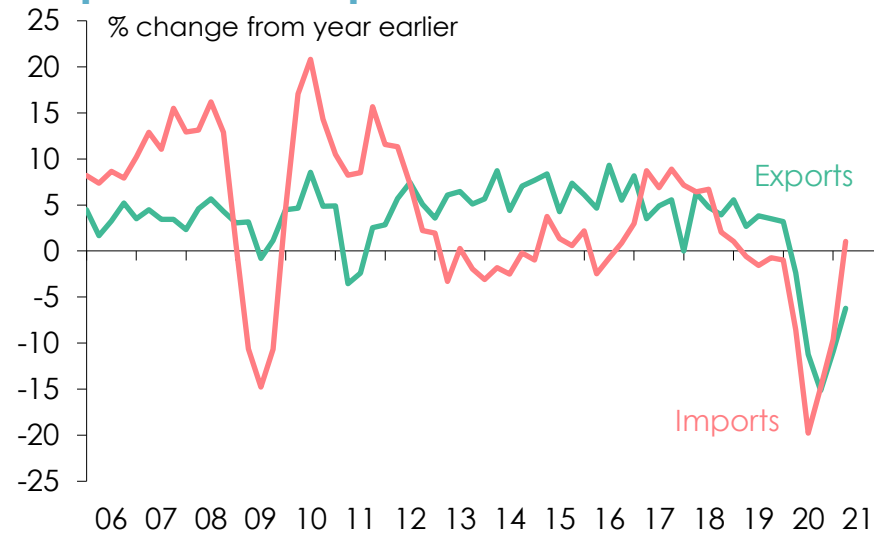
Airport passenger movements



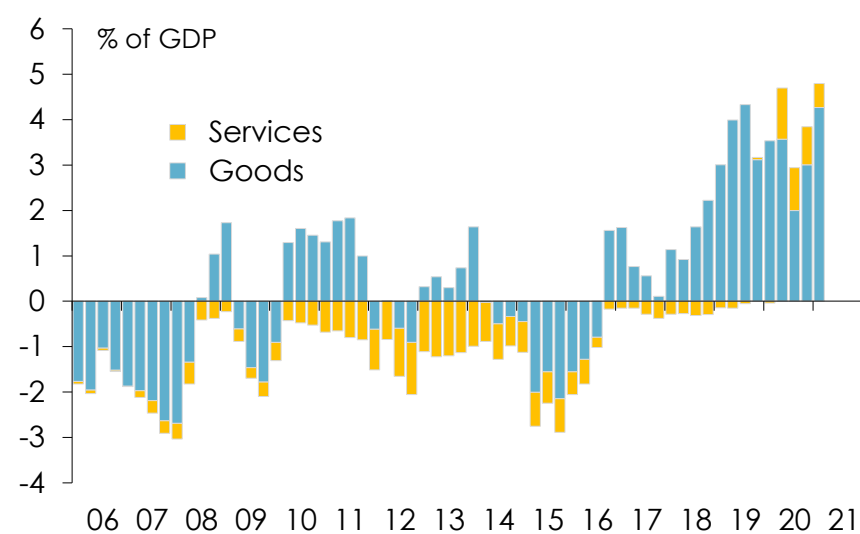
Note: The ABS has suspended publication of seasonally adjusted estimates of short-term visitor arrivals and resident returns, so published original estimates for April 2020 (and beyond) have been seasonally adjusted by Corinna using the same seasonal factors as for the corresponding month of 2019. Latest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

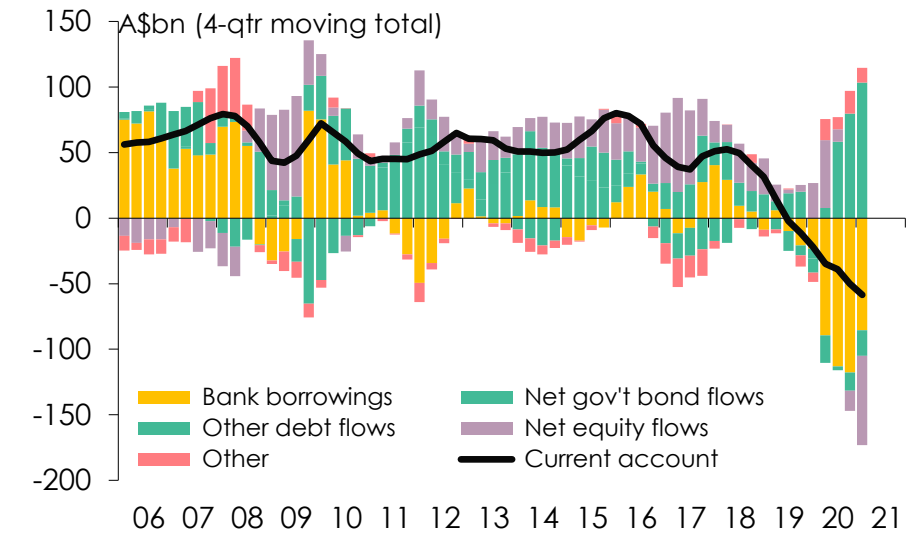
Export and import volumes



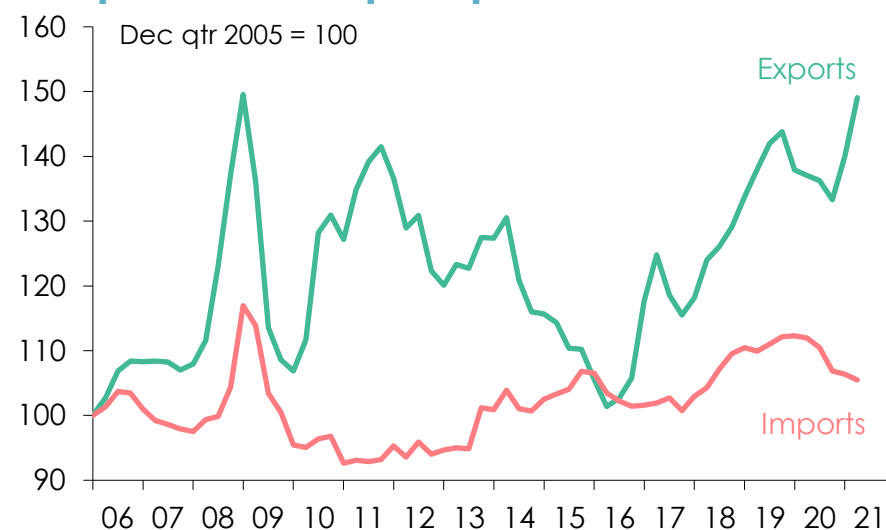
Goods & services trade balances



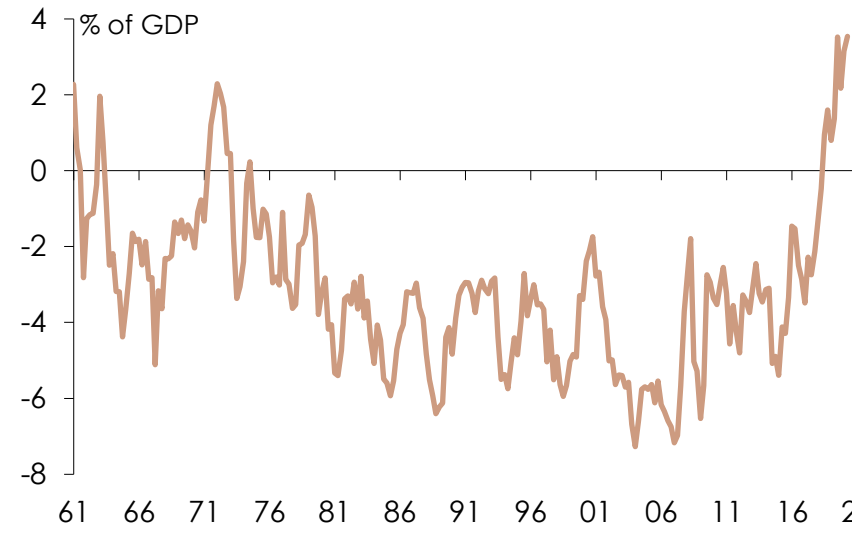
Capital flows



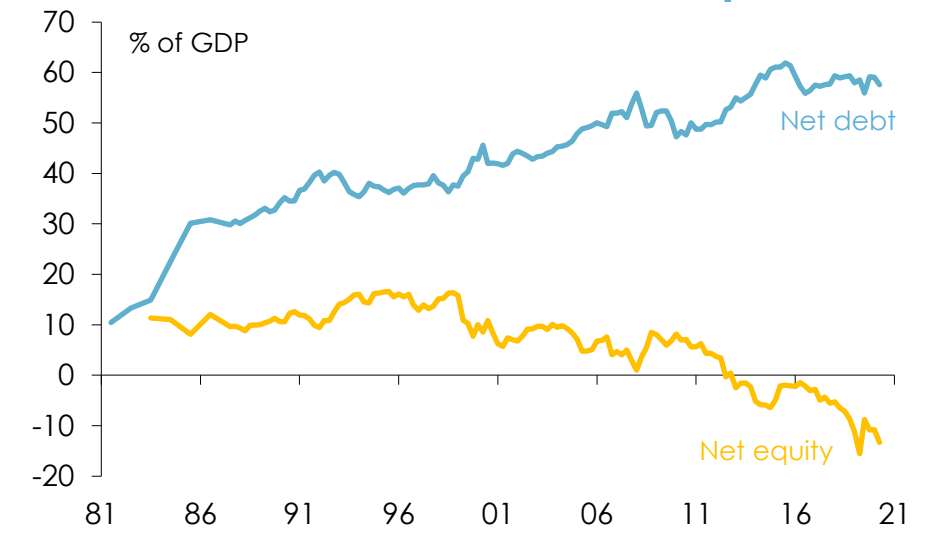
Export and import prices



Current account balance



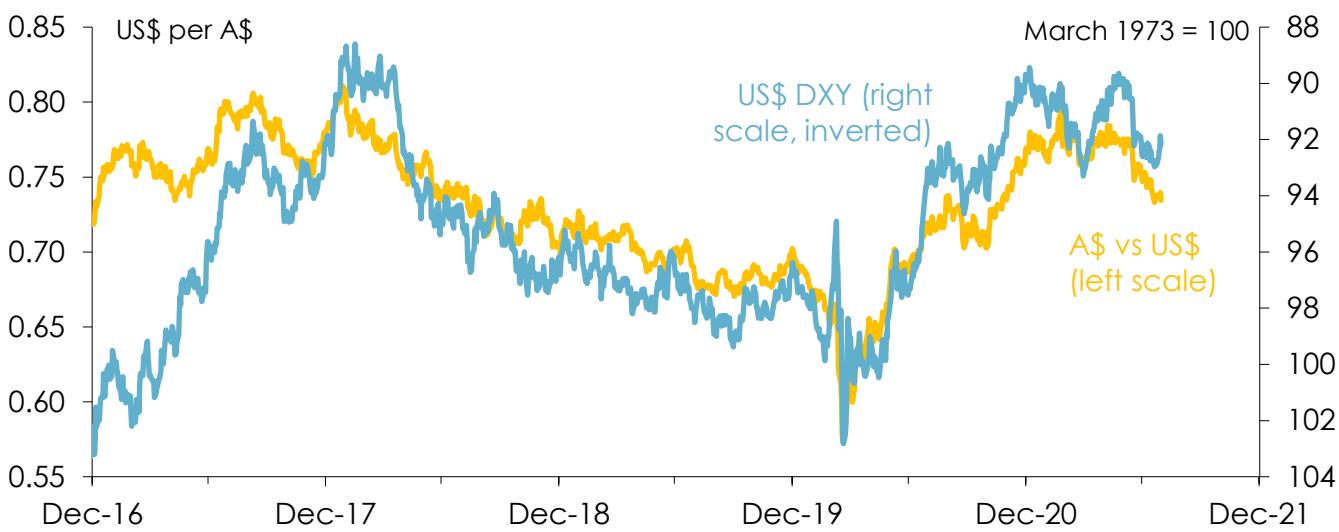
Net international investment position



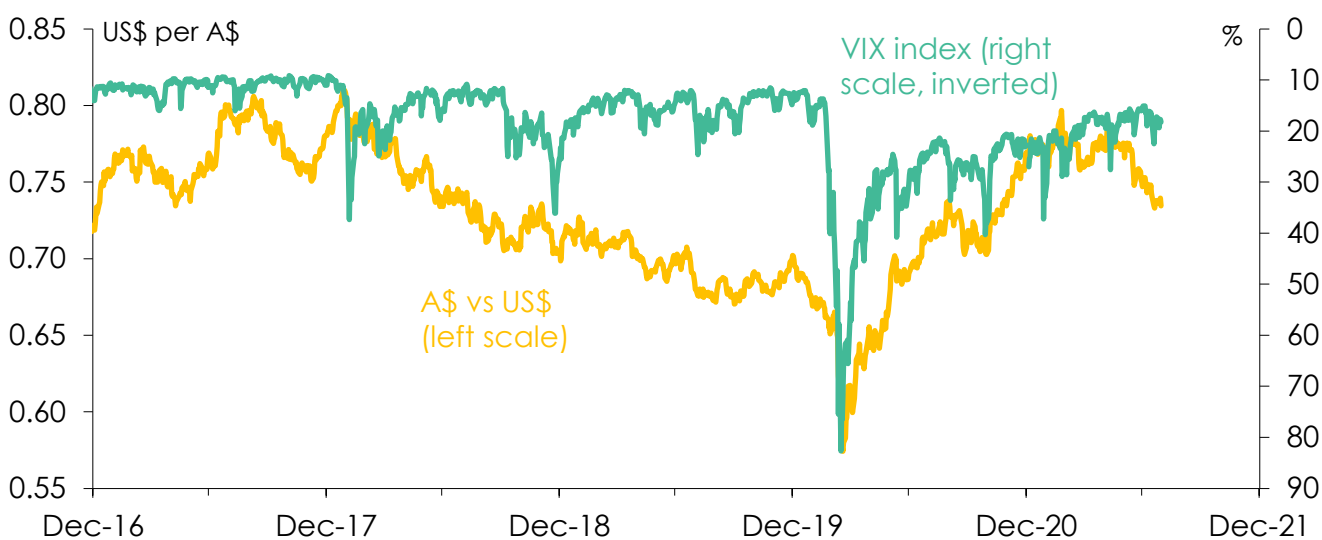
Note: The chart of Australia's international capital flows shows inflows (eg borrowings from abroad) as a positive and outflows (eg repayments of debt, or purchases of foreign equity assets) as a negative. Likewise the chart of Australia's international investment position shows net foreign debt as a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

Although the US\$ was weaker this week, the A\$ dropped another ¼% against it, in line with the slide in iron ore prices

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



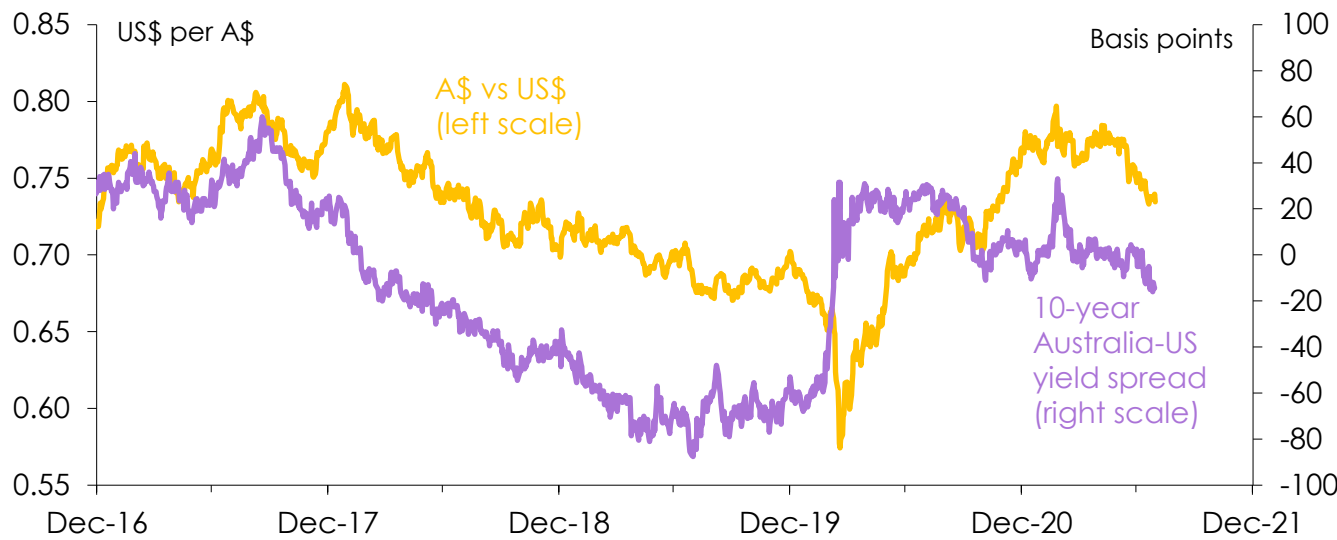
A\$-US\$ and US equity market volatility



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

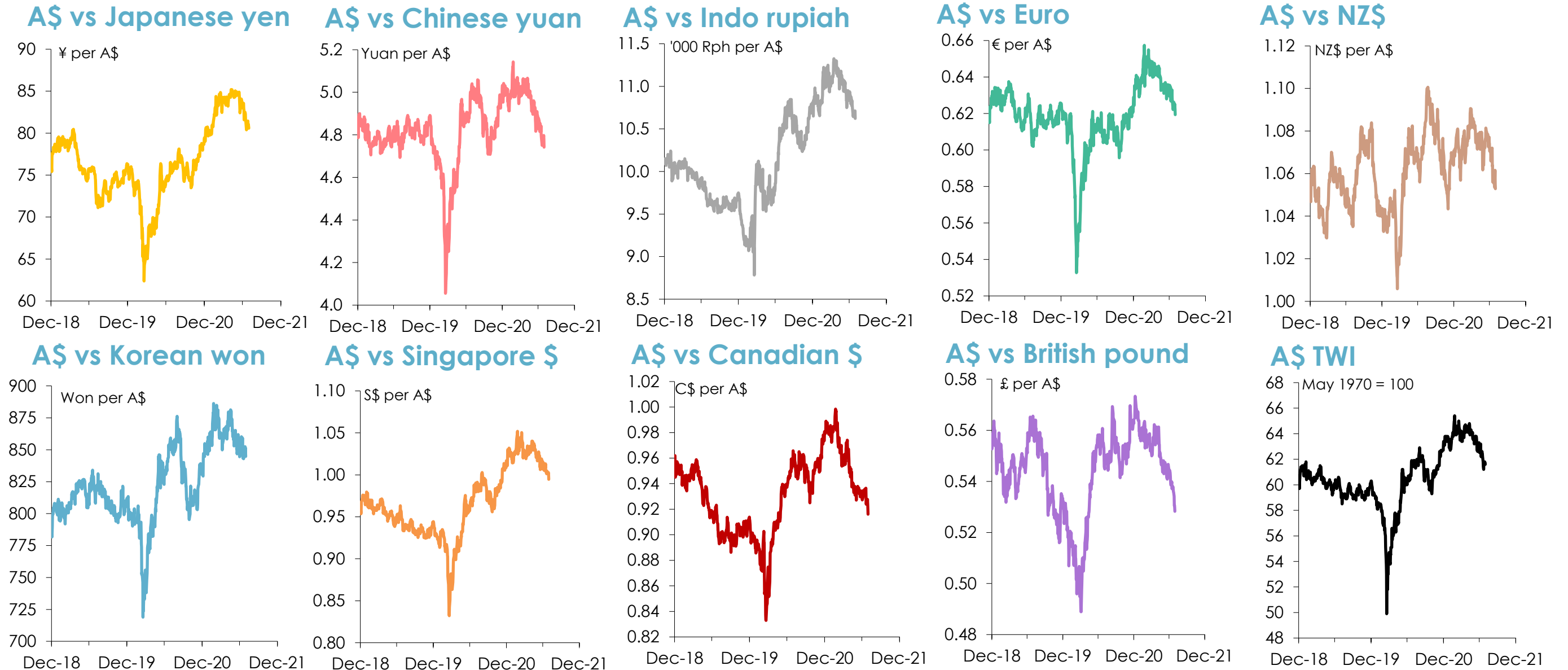


A\$-US\$ and Australia-US 10-year bond yield spread



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 prices up until recently see [slide 129](#). Source: Refinitiv Datastream. Data up to 30th July. [Return to "What's New"](#).

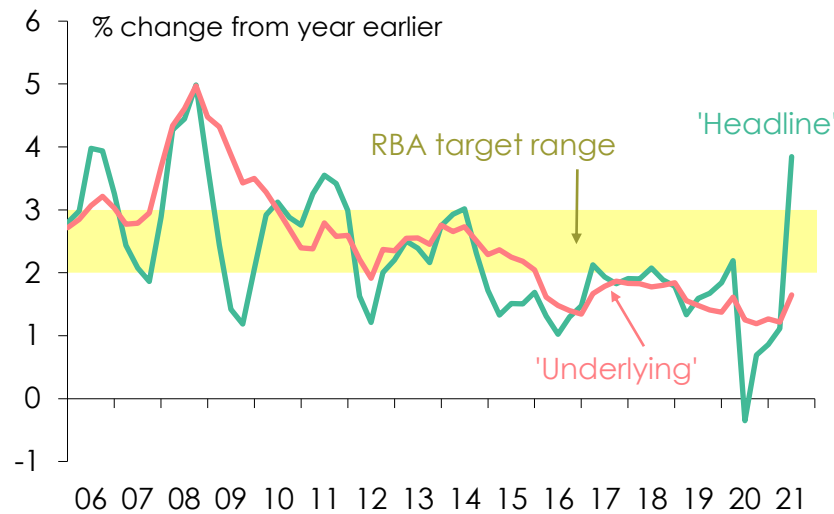
As a result the A\$ fell more heavily against third currencies, losing 1% vs the yen, euro and C\$, and almost 1½% against sterling



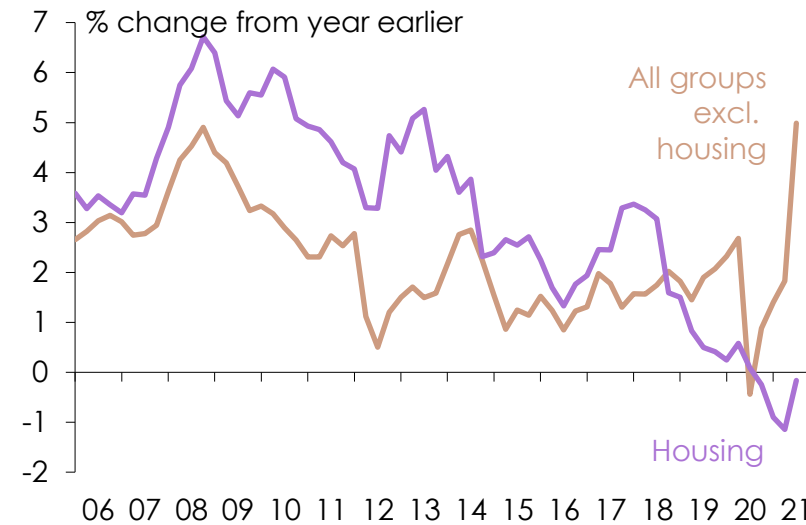
Note: The 'TWI' is the RBA's [trade-weighted index](#) of the A\$. Source: Refinitiv Datastream. Data up to 30th July. [Return to "What's New"](#).

The 'headline' inflation rate shot up to 3.8% in Q2, but that was all due to 'base' effects – the underlying rate remains well below the RBA's target

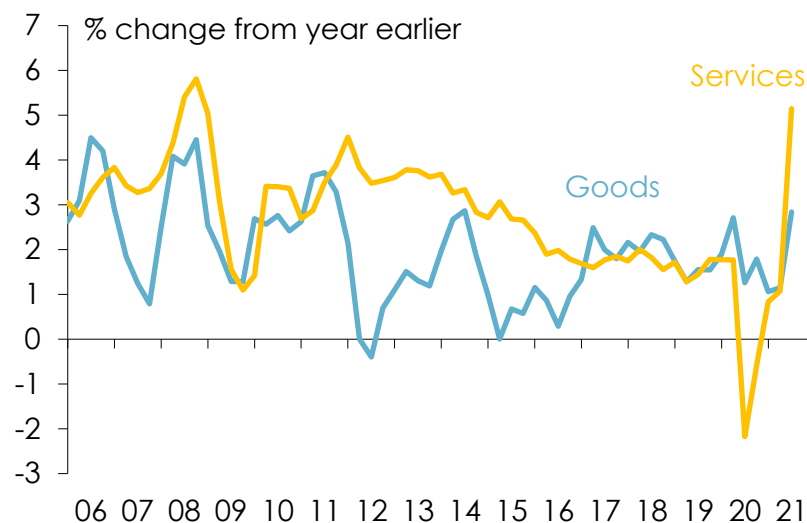
Consumer prices



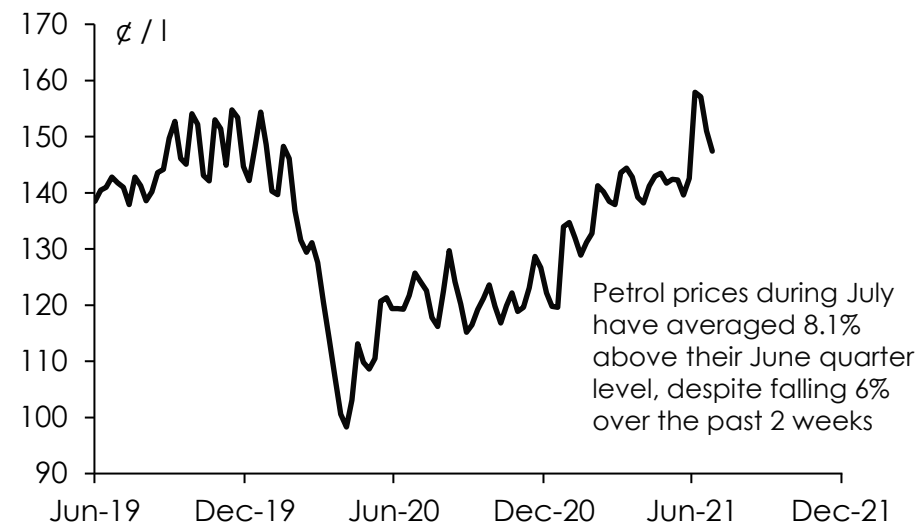
Housing costs



Goods vs services prices



Retail petrol prices

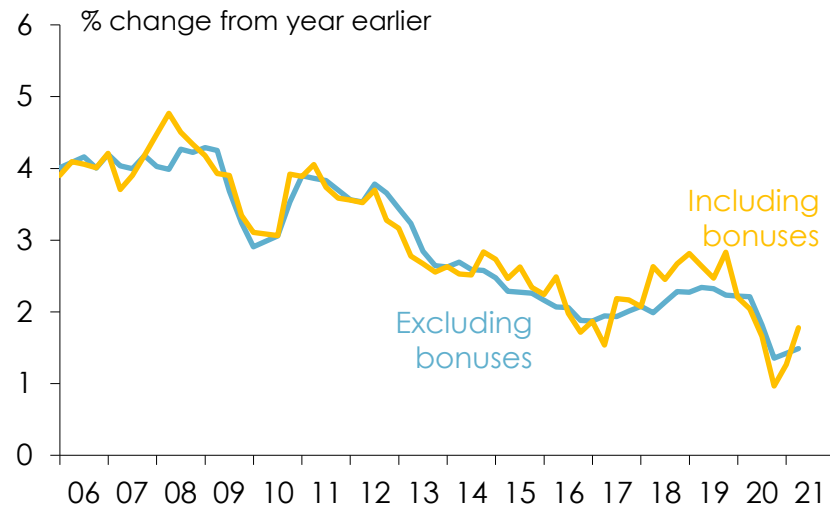


- ❑ The CPI rose a slightly higher-than-expected 0.8% in Q2 – but because the 1.9% fall in Q2 last year (the result of child care being free for most of it, and a sharp fall in petrol prices), the annual 'headline' inflation rate jumped to 3.8%, its highest since Q3 2008
- ❑ 70% of the increase in the CPI in Q2 came from four components which together represent 13% of the CPI 'basket' – petrol (up 6.6%, accounting for 29% of the rise), fruit & vegetables (up 5.2%), hospital and medical services (up 2.4%) and electricity charges (up 3.3%, reflecting the unwinding of temporary discounts in WA)
- ❑ Cash grants to first home buyers again turned what would have otherwise been a 1.9% increase in new dwelling purchase prices into a 0.1% decline
- ❑ The RBA's preferred measure of 'underlying' inflation (the trimmed mean) rose 0.5% in Q2 (cf. 0.4% in Q1), and by 1.6% from a year earlier – the highest annual rate since ! Last year, but still below the RBA's target for the 22nd quarter in a row

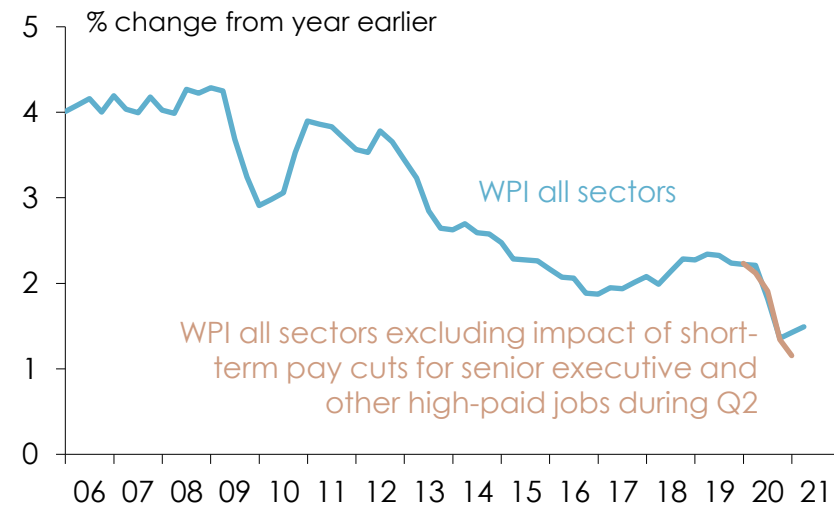
Note: 'Underlying' inflation is the average of the weighted median and trimmed mean CPIs. Wage price indices exclude bonuses.
Sources: ABS, [Consumer Price Index, Australia](#); [Australian Institute of Petroleum](#). The September quarter (Q3) CPI will be released on 27th October. [Return to "What's 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

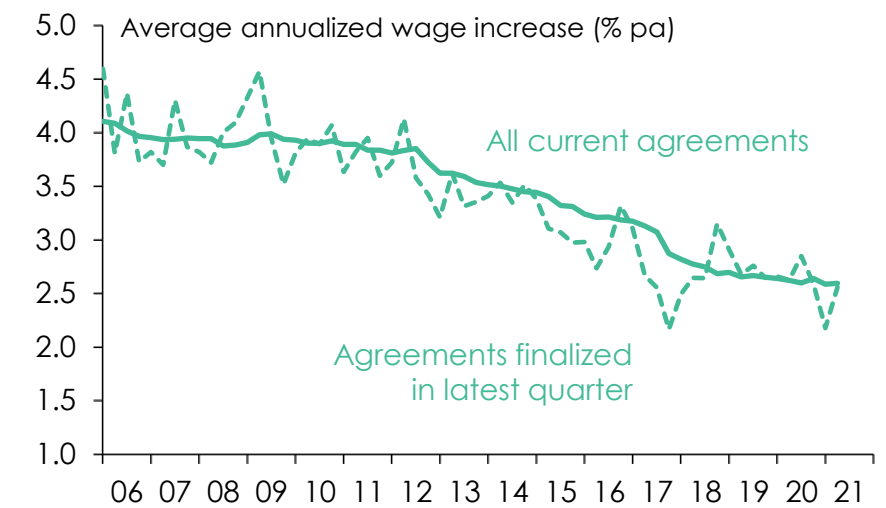
Wage price index – all sectors



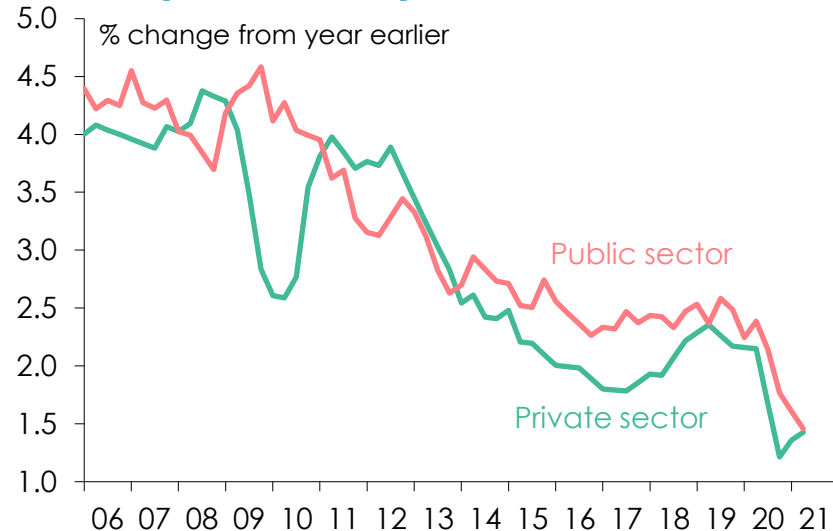
WPI excl. temporary wage cuts



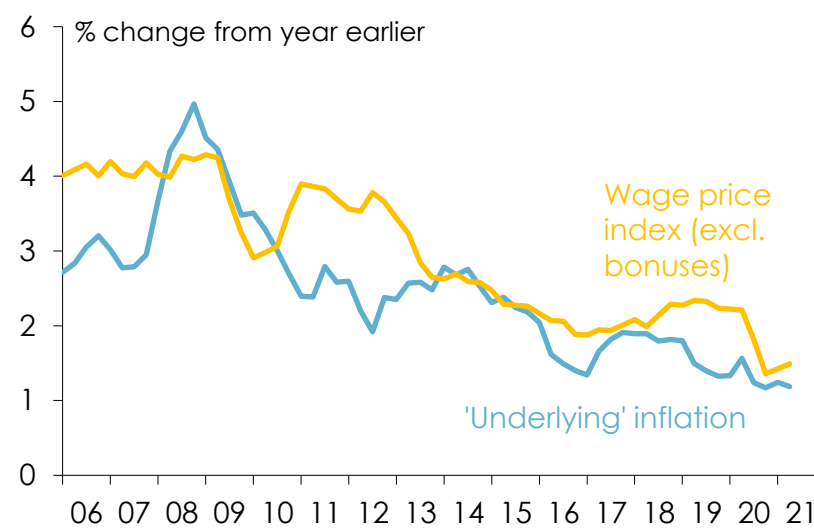
Enterprise bargaining agreements



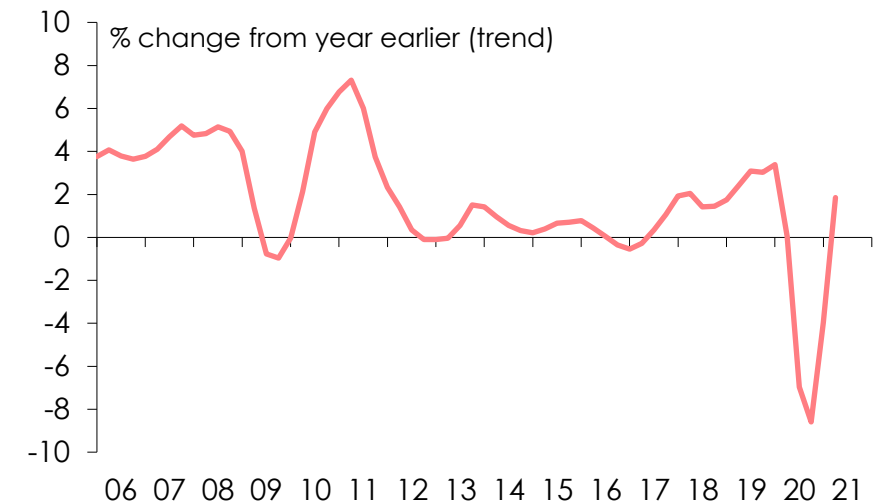
WPI – private vs public sectors



WPI and 'underlying' CPI inflation



Unit labour costs

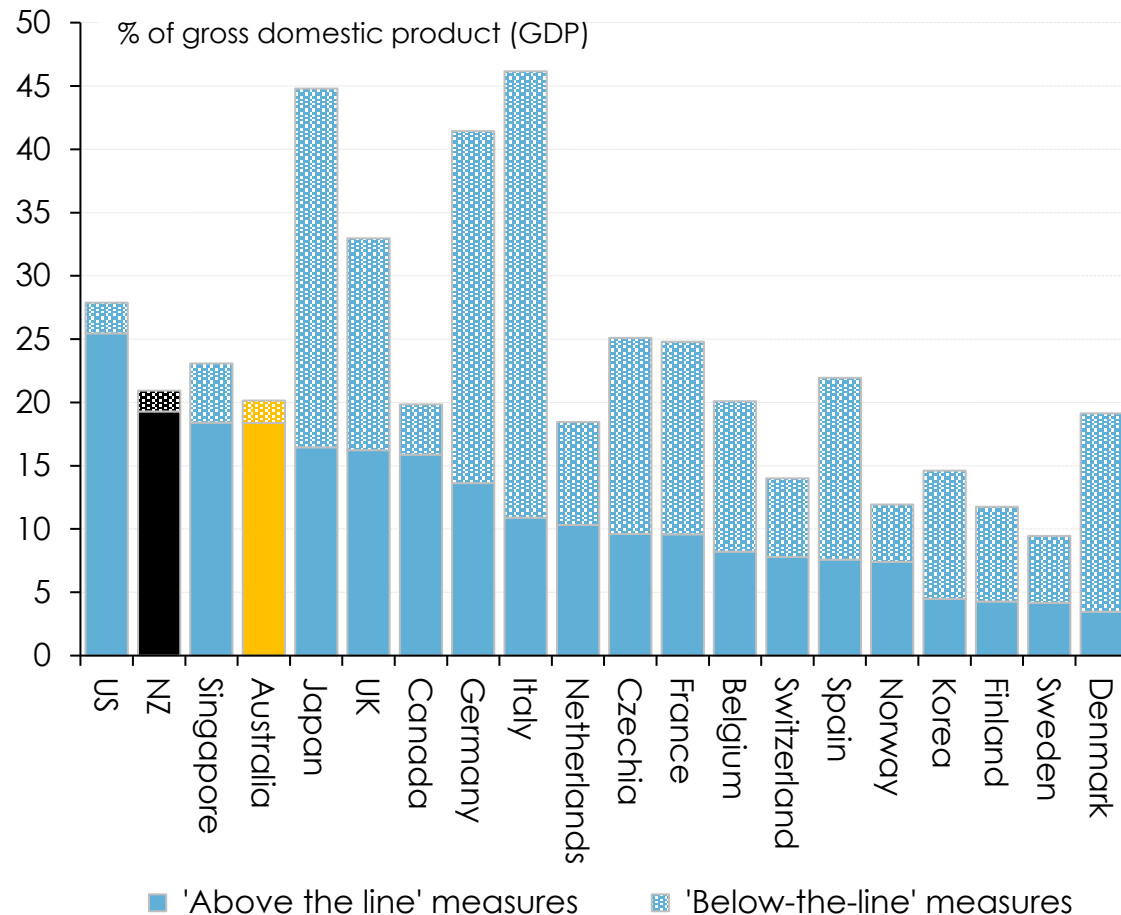


Note: Unit labour costs is compensation of employees (including fringe benefits and social insurance contributions) per hour worked divided by (real) gross value added per hour worked (ie, labour productivity) for the non-farm sector. Sources: ABS, [Wage Price Index, Australia](#) and [Australian National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

Australia's fiscal and monetary policy settings

The Government's fiscal policy response to Covid-19 now exceeds 18% of GDP – and more support was announced this week

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

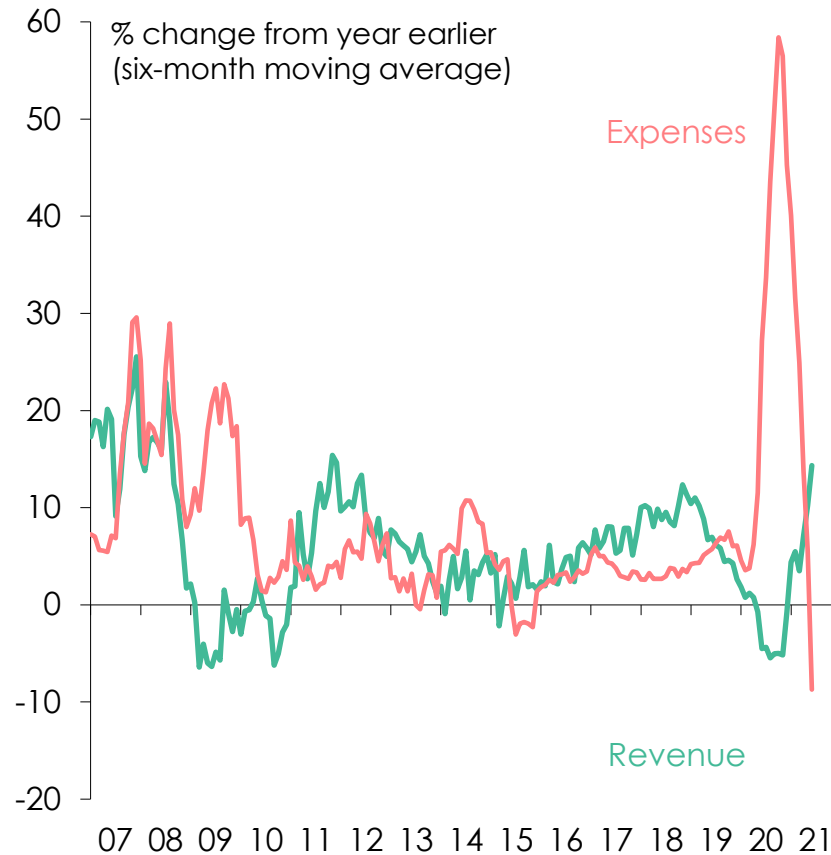


Note: 'Above the line' measures comprise additional or accelerated spending and deferred or foregone revenue. 'Below the line' measures comprise equity injections, loans, asset purchases and debt assumptions, but do not include loan guarantees or other contingent liabilities. 'DMS' means 'developed markets' (or 'advanced economies'). Data includes measures announced up until 5th June 2021. Source: IMF, [Fiscal Monitor Database of Country Fiscal Measures in Response to the COVID-19 Pandemic](#), July 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 more than 18% of GDP – the fourth highest of any 'advanced' economy, according to new IMF estimates released this week
- The Federal Government this week 'beefed up' its support for households and businesses adversely affected by lockdowns
 - in NSW, businesses with an annual turnover of less than \$200mn and whose revenue has dropped by more than 30% will receive 40% of their payroll, up to a maximum of \$100,000 a week – provided they don't sack any employees (or \$1000 a week for businesses with no employees)
 - income support for workers who've lose more than 20 hours a week will rise from \$600 to \$750 per week (or from \$375 to \$450 for those who've lost between eight and 20 hours)
 - a \$200 per week payment will be made to those receiving income support payments who lose more than 8 hours per week
- These payments will cost the Federal and NSW Governments \$750mn and \$325mn a week respectively, while the Federal and Victorian Governments will also provide \$400mn of support for businesses in that state

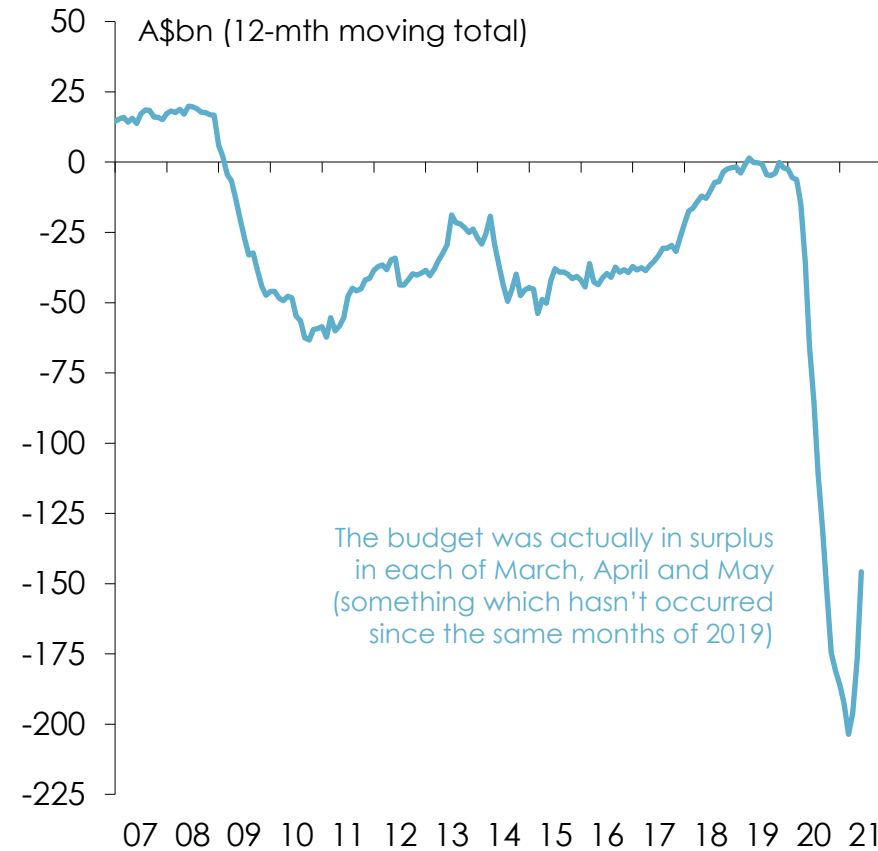
The budget was in surplus for three months in a row between March and May, and for the first 11 months of 2020-21 was \$14bn less than forecast

Australian Government revenue and expenses



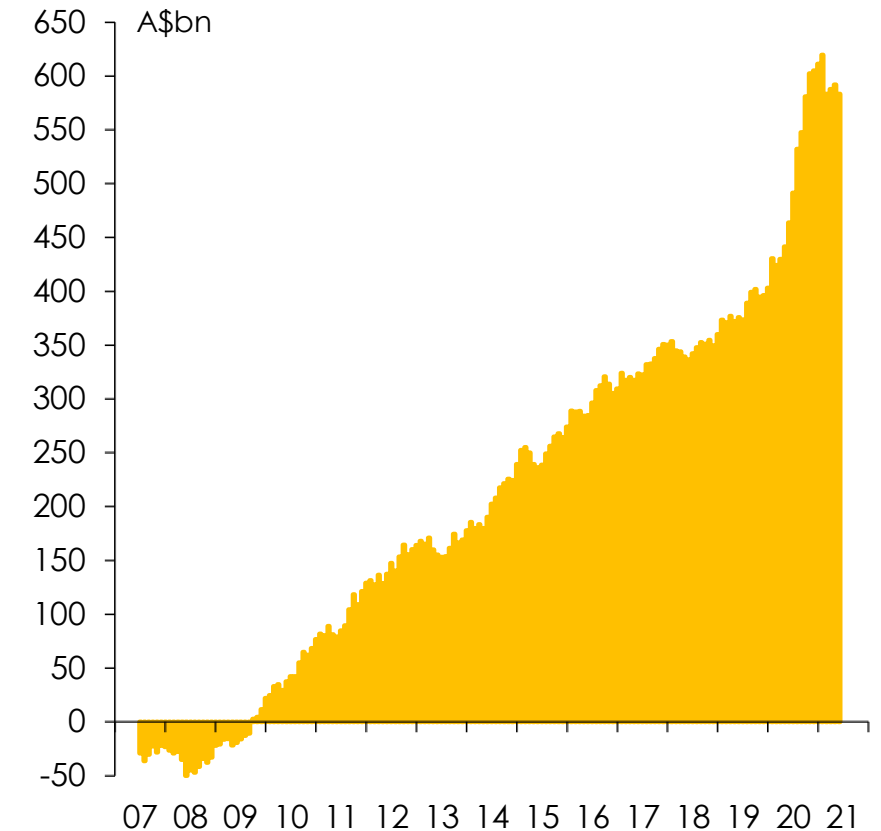
- ❑ Expenses have now peaked, while revenue is beginning to turn around as the economy picks up

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

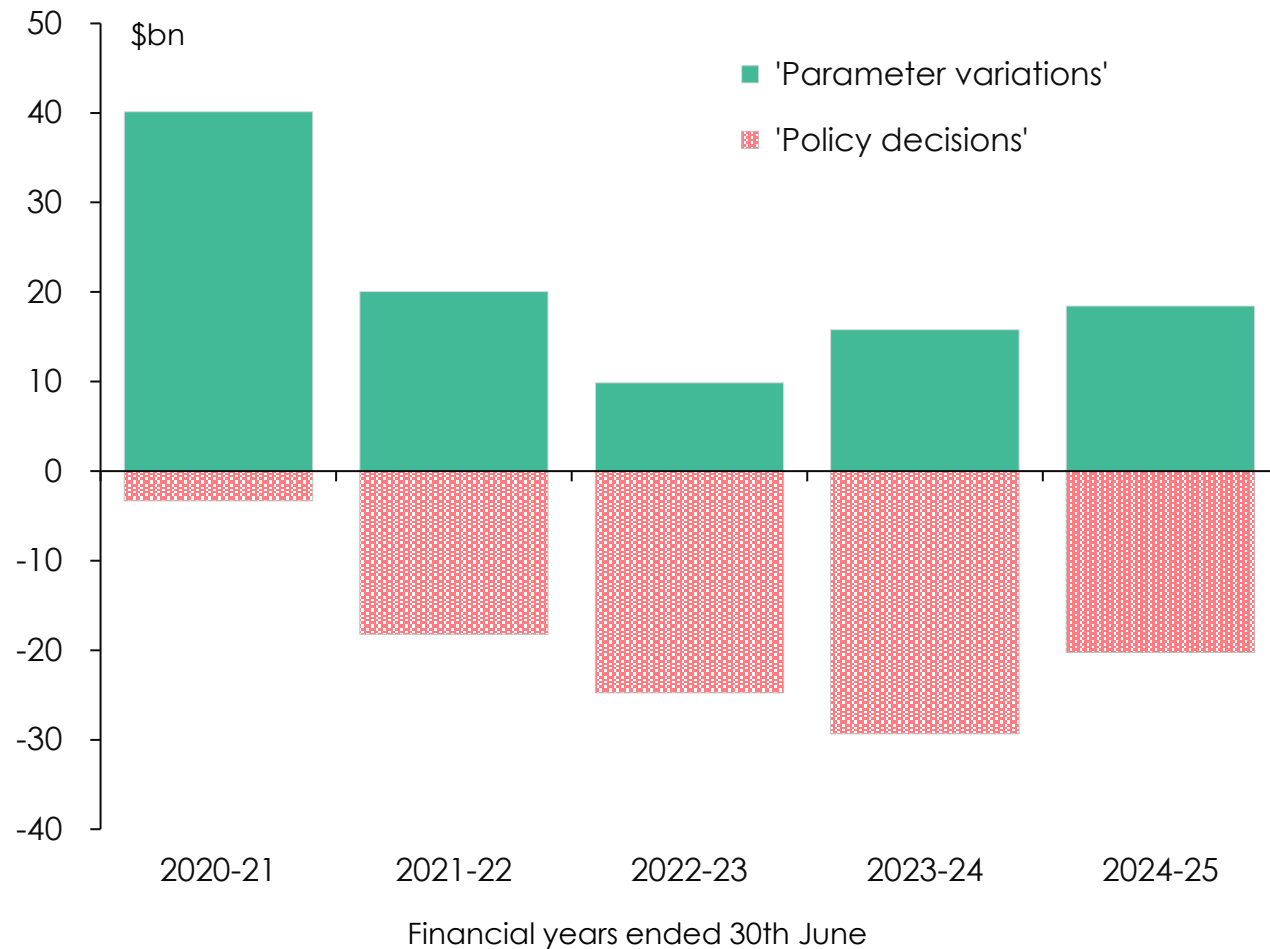


- ❑ Net debt as at end-May was \$583bn (about 25½% of GDP), down from a peak of \$619bn at end-January

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



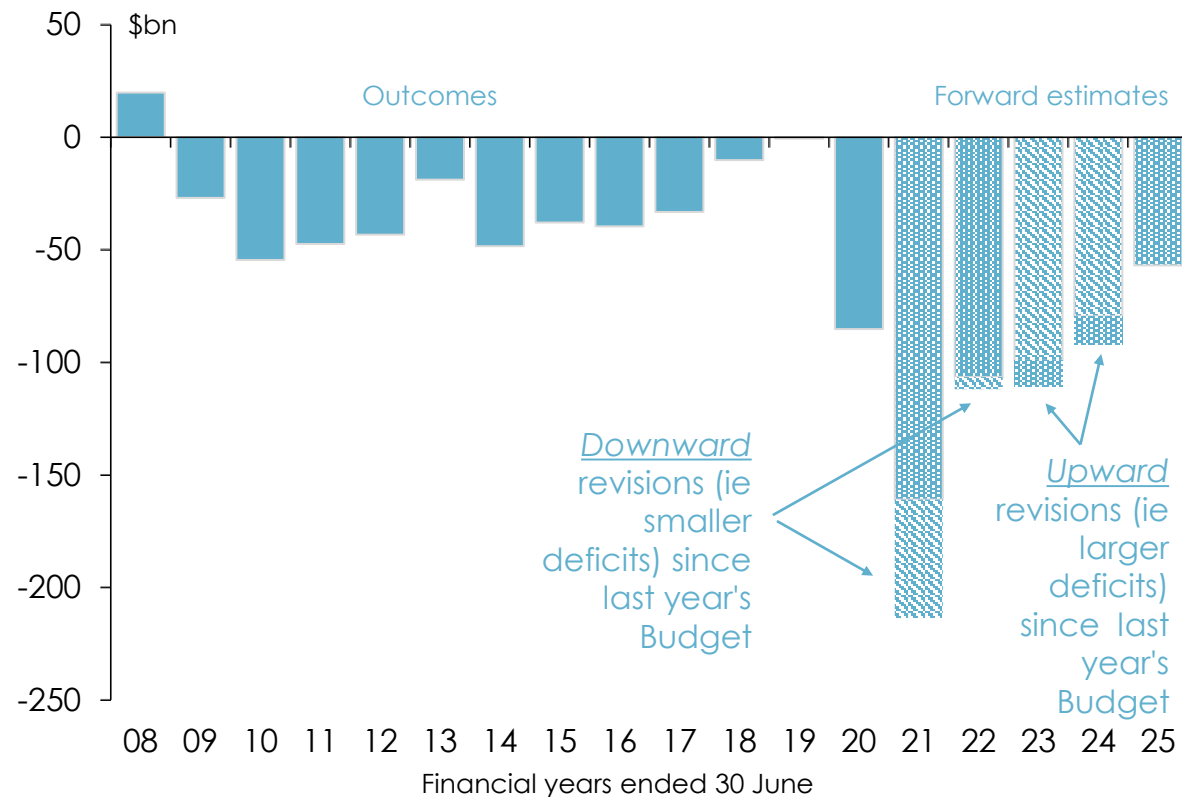
- ❑ The budget affects the economy (through the 'policy decisions' which the Government makes as it puts the Budget together) – but the economy also affects the Budget (via what the Budget Papers call 'parameter variations' in receipts and payments)
- ❑ 'Parameter variations' between last December's 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
 - although the latest responses to state lockdowns will add to spending and cut revenues for the current fiscal year

Source: Australian Government, 2021-22 [Budget Paper No. 1, Statement 3: Fiscal Strategy and Outlook](#).

The May Budget revised down previous forecasts for the budget deficit and net debt in 2021-22 – but they will likely be revised up in December

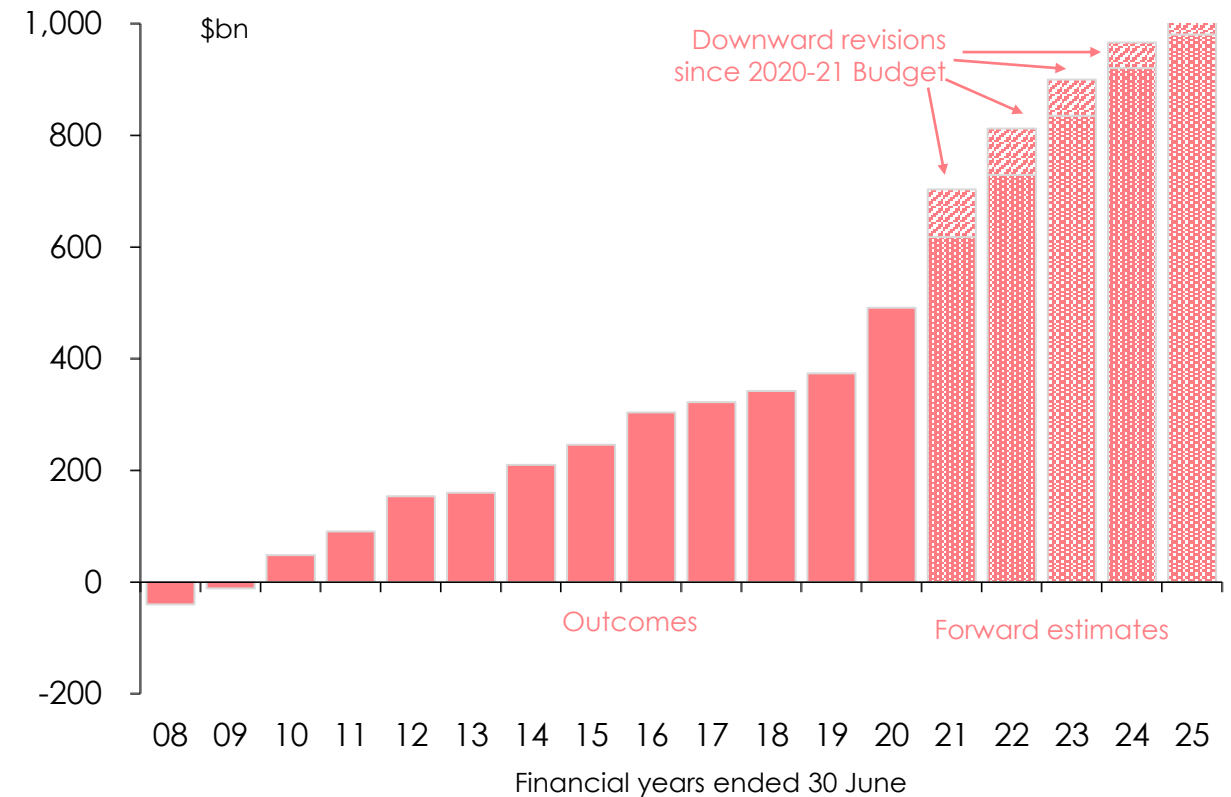
2021-22 Budget forward estimates compared with those from last year's (2020-21) Budget

'Underlying' cash balance



- ❑ The deficits for 2020-21 and 2021-22 were revised down by \$53bn and \$5bn respectively since last year's Budget (although the deficits for 2022-23 and 2023-24 were revised upwards) – but the 2021-22 deficit will likely be revised higher in December's Mid-Year EFO

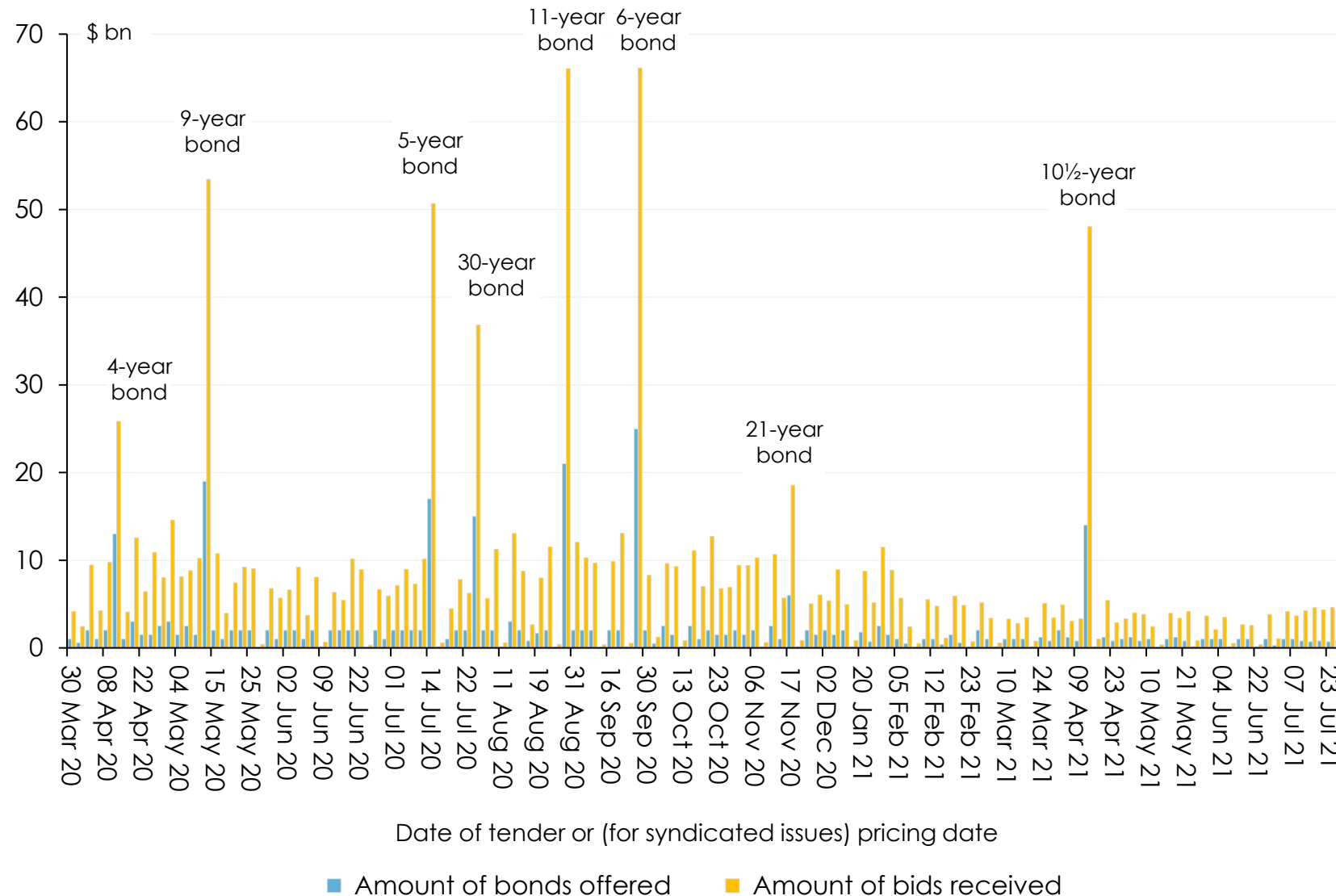
Net debt



- ❑ In last year's Budget, net debt was forecast to \$966bn by 30th June 2024 – that forecast was revised down by \$46bn in the May Budget, but will probably be revised up a bit again in the December MYEFO

The Government continues to find a ready appetite for its bond issuance – during July it received bids of more than \$34bn for \$6½bn of bonds

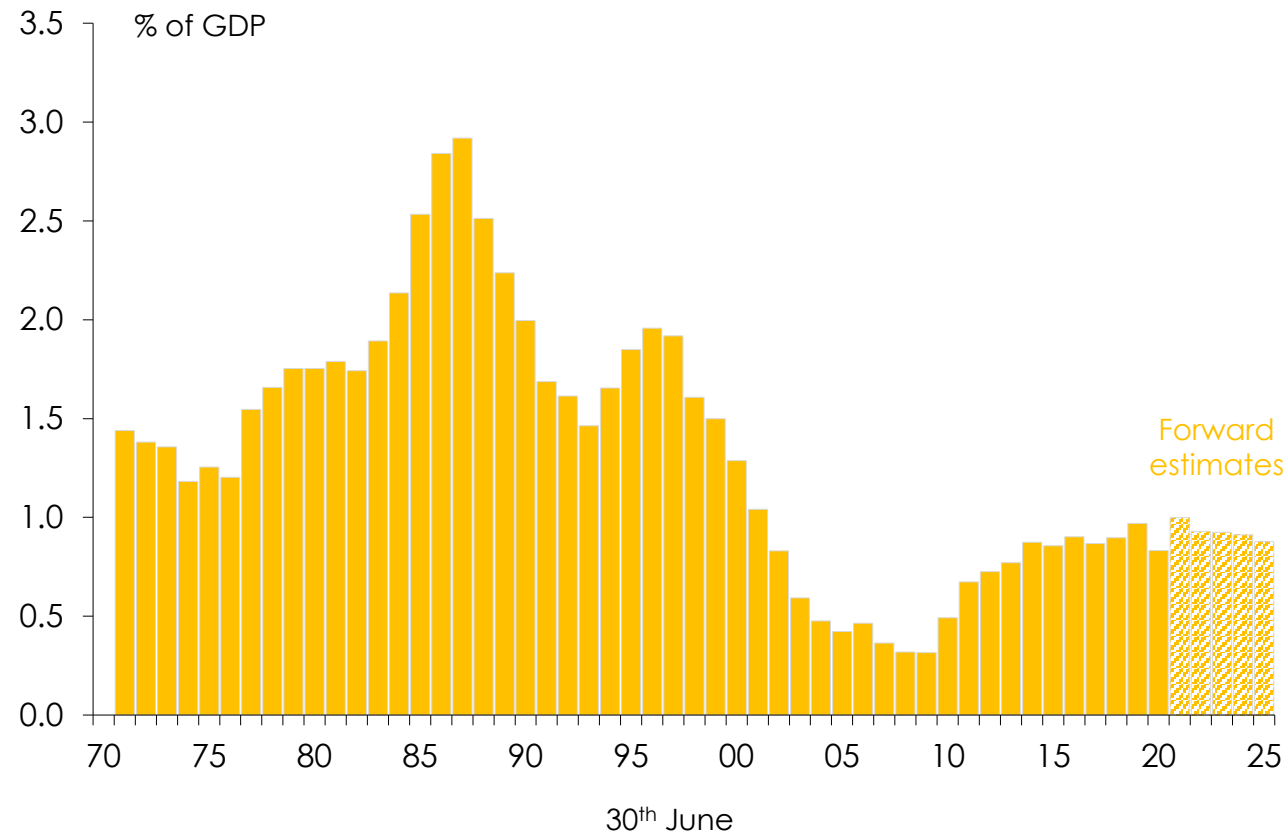
Australian government bond issuance since March 2020



- Since 30th March 2020, the Australian Office of Financial Management has issued \$303¼bn of Treasury bonds – based on the volume of bids received it could have borrowed more than \$1.13 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 in each of the previous two weeks, \$800mn of Nov 2031s at an average yield of 1.19% and \$700mn of Nov 2027s at 0.73% - it received bids totalling \$8.7bn 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)

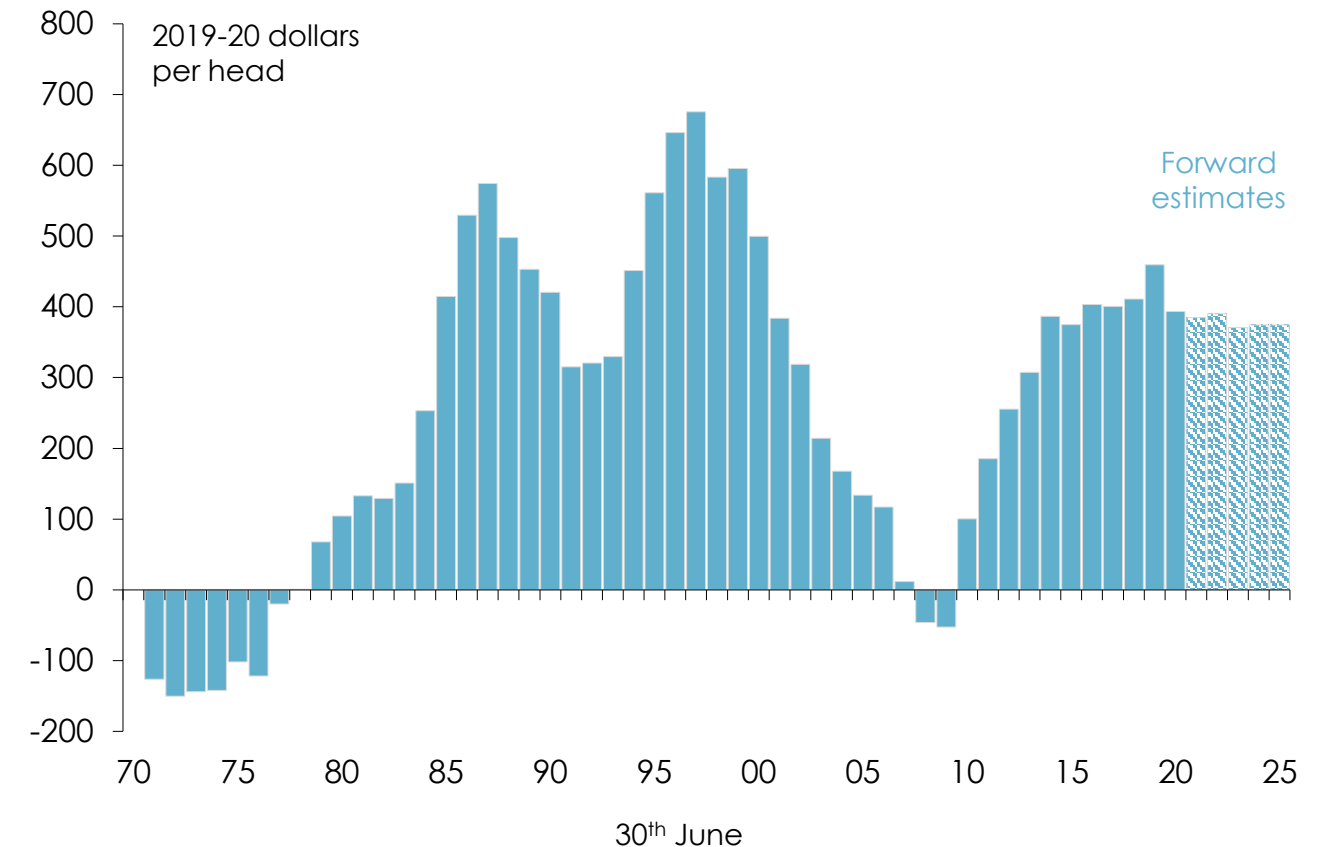
Because interest rates are so low, the cost of servicing the debt which the Government is racking up will be low by historical standards

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

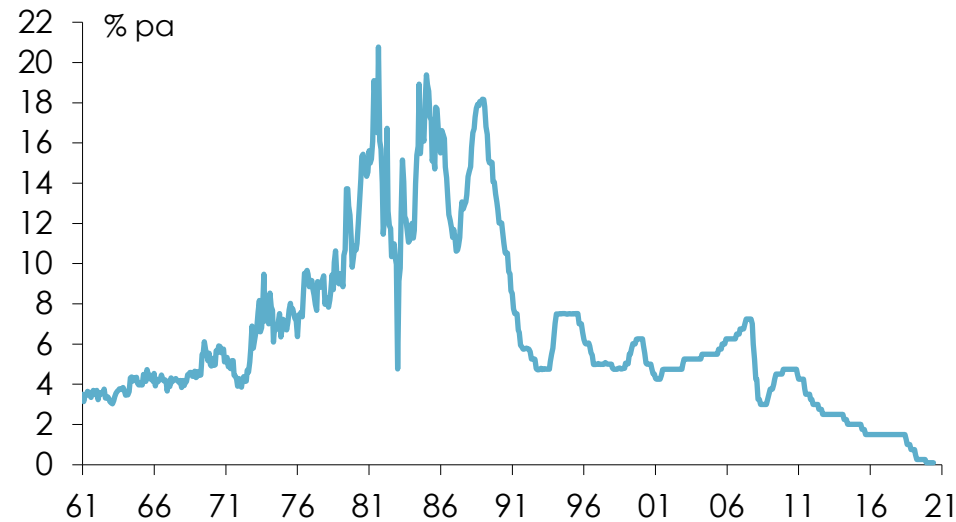
Australian Government net interest payments per head of population in 2019-20 dollars



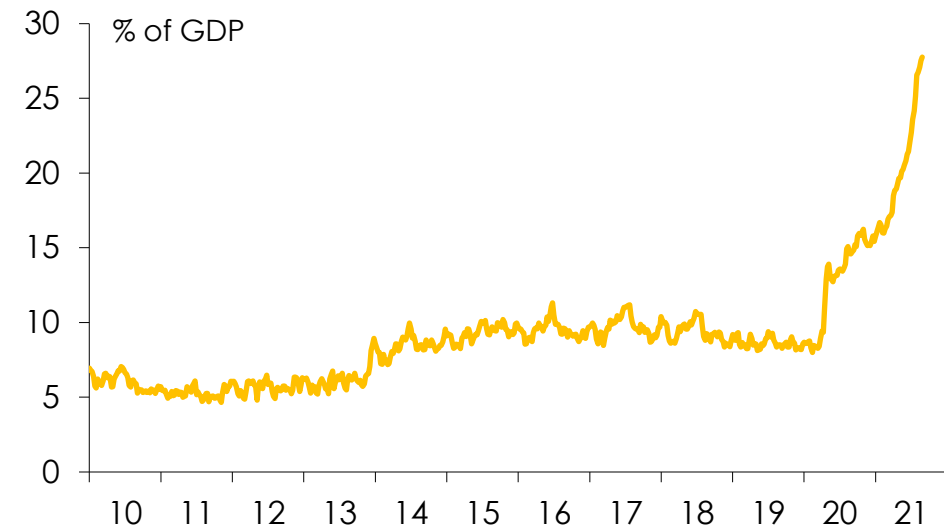
- ❑ Net interest payments per head of population will be less than they were in the second half of the 1980s, between 1993-94 and 1999-2000, or between 2015-16 and 2019-20

Having foreshadowed a more flexible approach to its bond purchases at its last Board meeting, the RBA could act on that at Tuesday's meeting

Reserve Bank cash rate



Reserve Bank assets as a pc of GDP

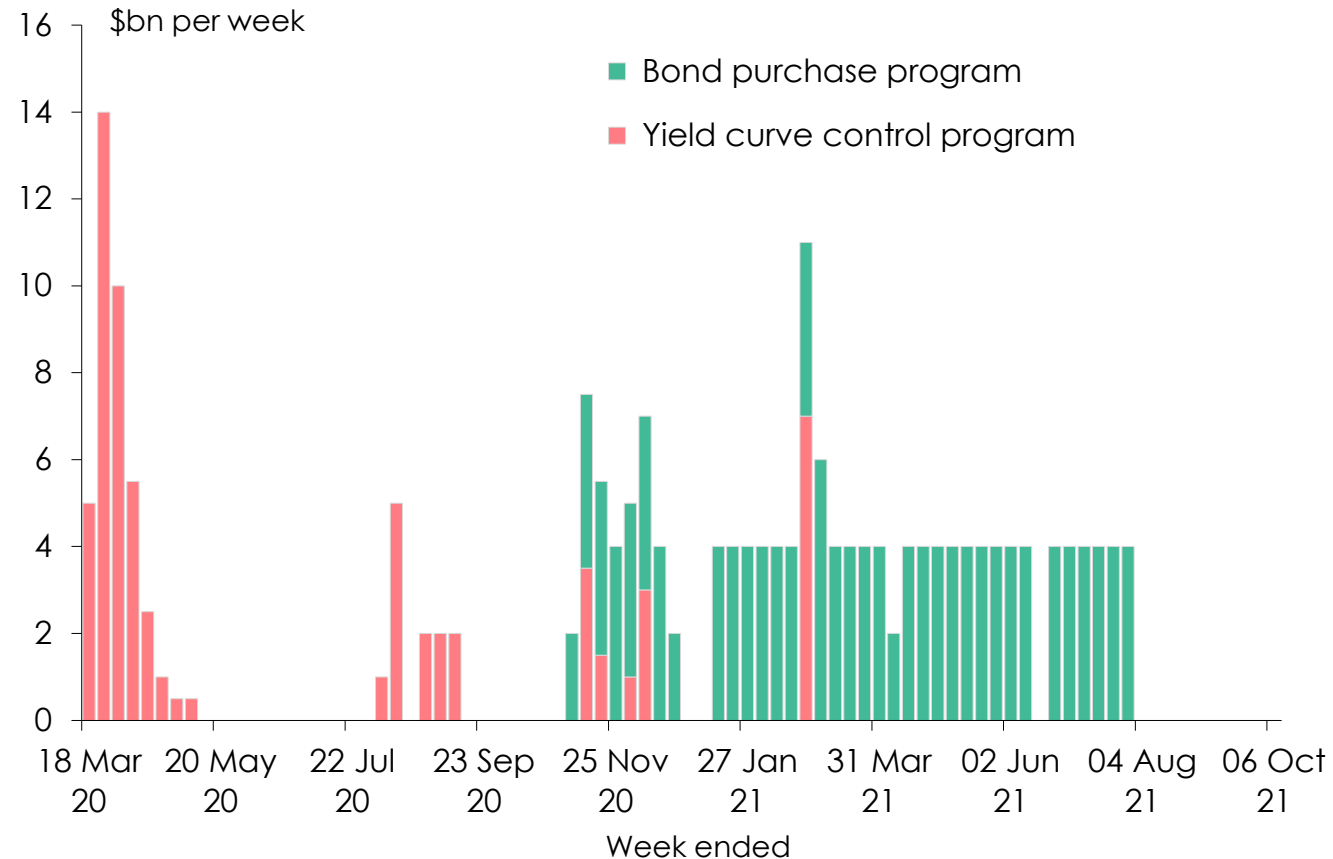


Source: Reserve Bank of Australia, [Statistical Tables](#) A3 and F1.1.
[Return to "What's New"](#).

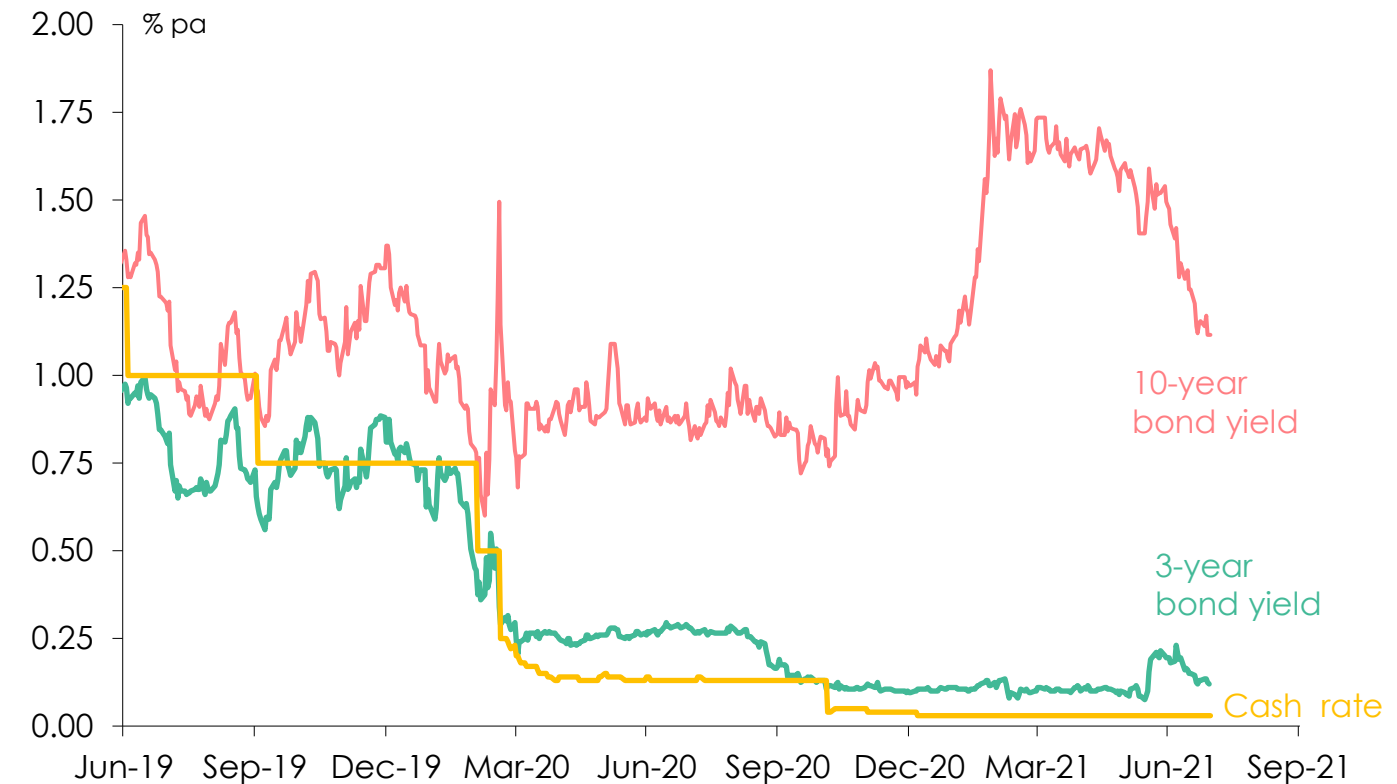
- ❑ At its July meeting, the RBA Board decided to
 - maintain the cash rate target at 0.10% (where it has been since November 2020)
 - retain the April 2024 bond as the target for its 'yield curve control' program (rather than the alternative of shifting the target to the November 2024 bond), and keep the target for the yield on that bond at 0.10%
 - 'taper' the volume of purchases under its longer-term Bond Purchase Program (after the current program ends on 30th September) from \$5bn a week to \$4bn a week, with a further review in mid-November
- ❑ As expected, the RBA Board subtly shifted its 'guidance' regarding the timing of any future first tightening of monetary policy
 - Governor Lowe's [post-meeting statement](#) re-iterated that monetary policy wouldn't be tightened until "actual inflation is sustainably within the 2-3% range" (emphasis added)
 - and that meeting this will "require the labour market to be tight enough to generate wages growth that is materially higher than it is currently",
 - instead of (as previously) saying this wouldn't be "until 2024 at the earliest", Governor Lowe characterized the RBA's "central scenario" as being that "this condition will not be met before 2024"
 - which appears to be an acknowledgement that the conditions for a first tightening *could* be met before 2024 (although the RBA doesn't presently expect that)
- ❑ It's possible that the RBA could announce a temporary increase in the volume of its weekly bond purchases, as a response to the adverse impact on the economy of the ongoing lockdown in Sydney, at this coming Tuesday's Board meeting

Australian bond yields fell a bit further this week, in line with global trends

RBA open market bond purchases



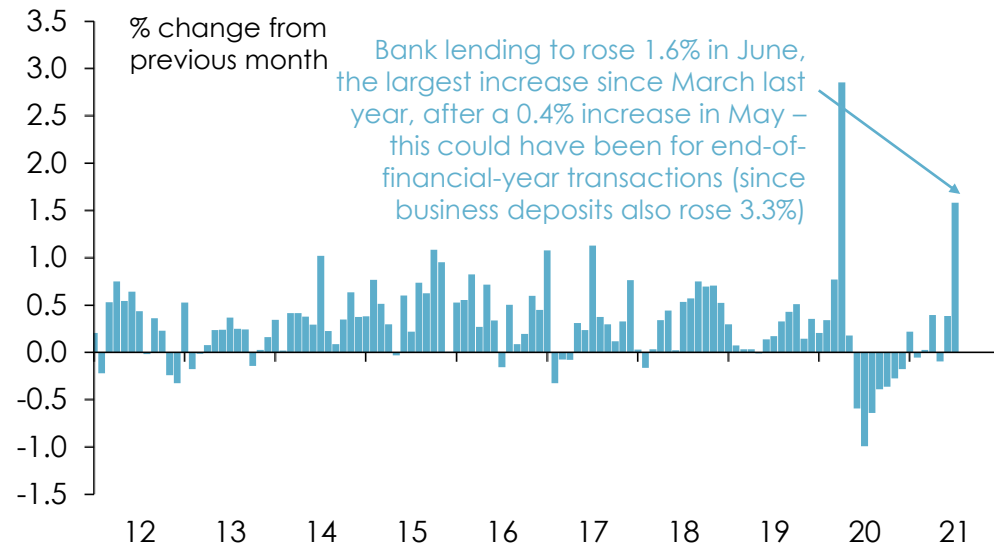
Interest rates



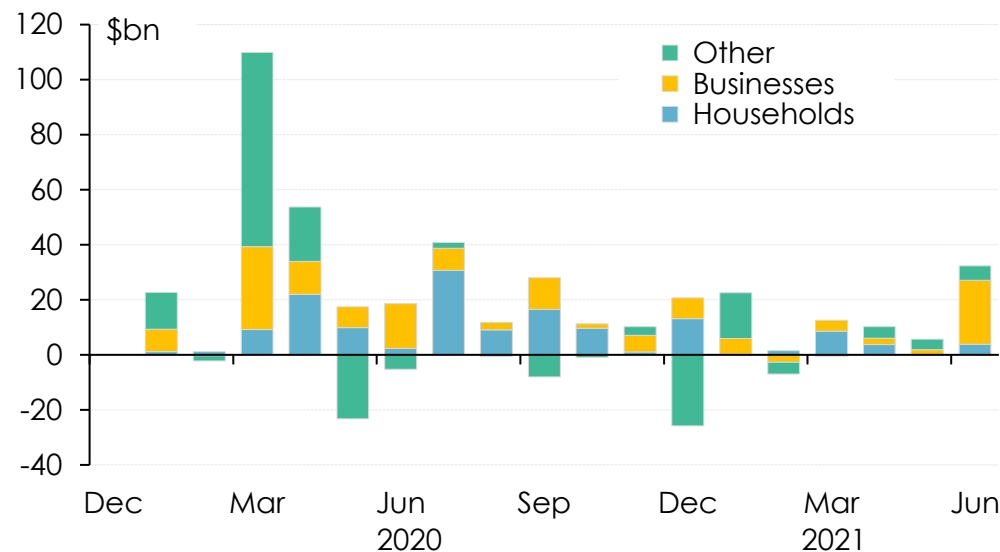
- ❑ The 10-year bond yield dropped another 4bp this week to 1.12%, its lowest level since the beginning of February, in line with global trends – the 3-year yield edged down 1bp to 0.11%
- ❑ The RBA bought another \$5bn of longer-term bonds this week as part of its Bond Purchase Program, bringing its total purchases under this program to \$175bn, which together with the \$79bn of purchases under its 3-year yield target program (up until February) brings the total to \$253bn (equivalent to 12¾% of GDP)

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

Business credit outstanding



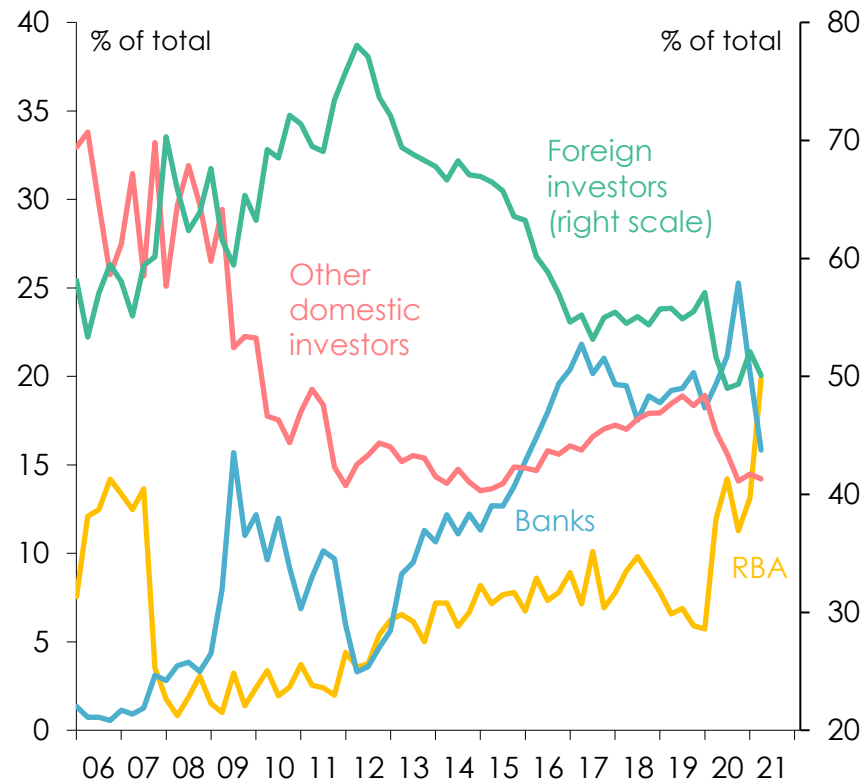
Monthly change in bank deposits



- ❑ 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 \$336bn (16%) 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 \$141bn (14½%) since last February – of which \$36bn has been sourced from early release of superannuation savings – while business deposits have risen by \$137¾bn (23%)

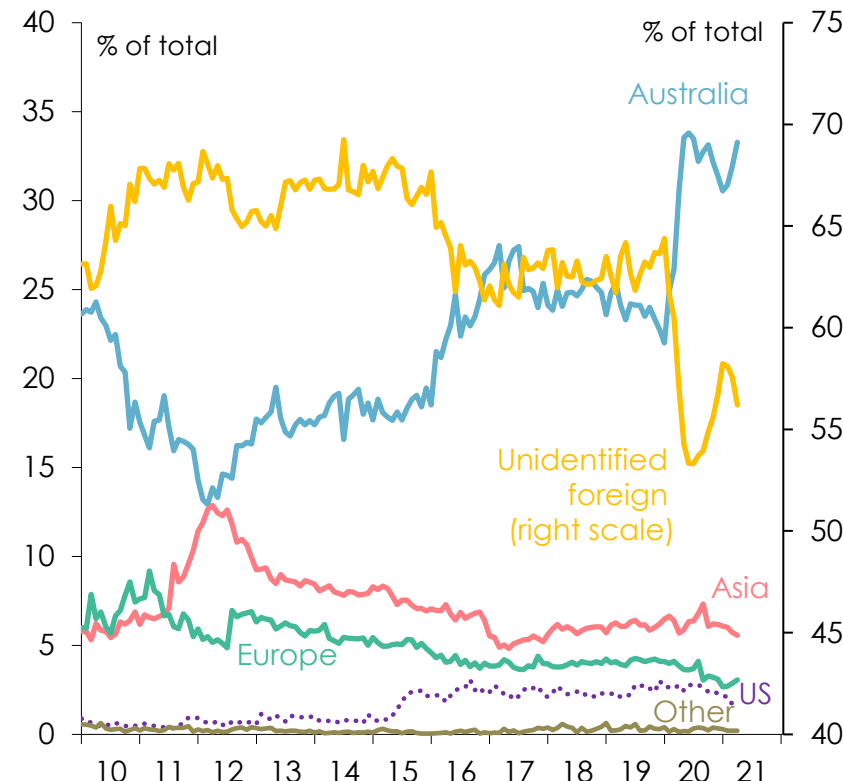
The RBA has (indirectly) absorbed almost half the increase in government debt since the end of 2019, banks 23% and foreign investors 28%

Holder of Australian Government bonds



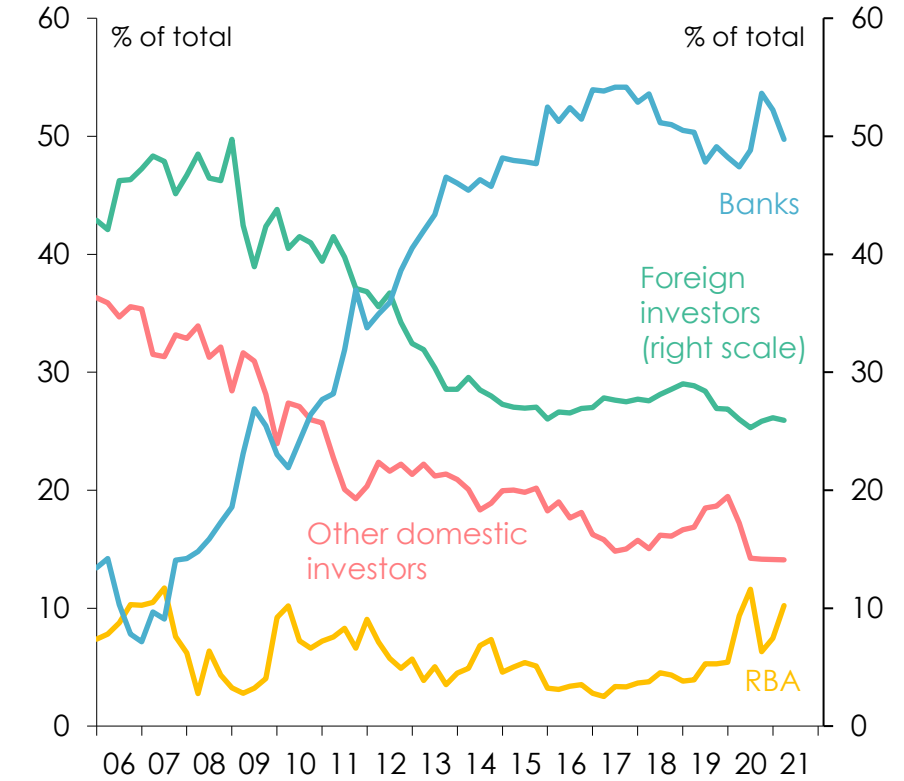
Australian Gov't bonds on issue have increased by \$219bn since the end of 2019 – of which \$133bn (61%) have been absorbed by the RBA, \$65bn by foreigners and \$20bn by banks

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

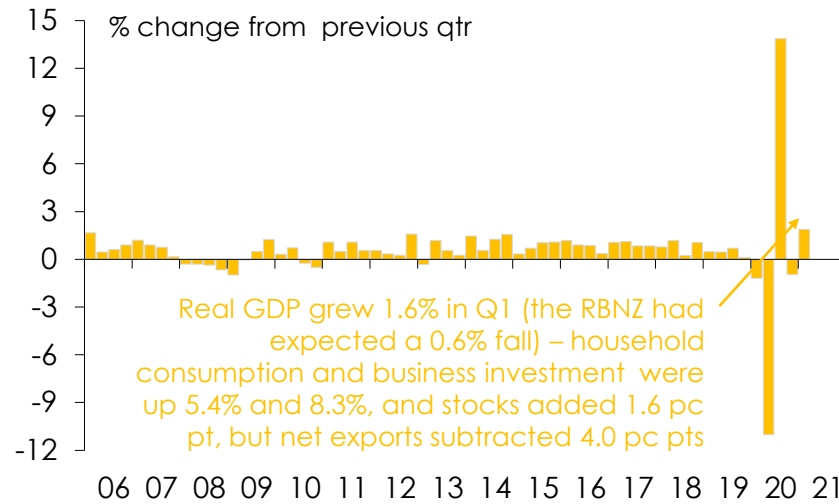


State & Territory Gov't bonds on issue increased have increased by \$101bn since the end of 2019, of which \$54bn have been absorbed by banks, \$24bn by the RBA and \$23bn by foreigners

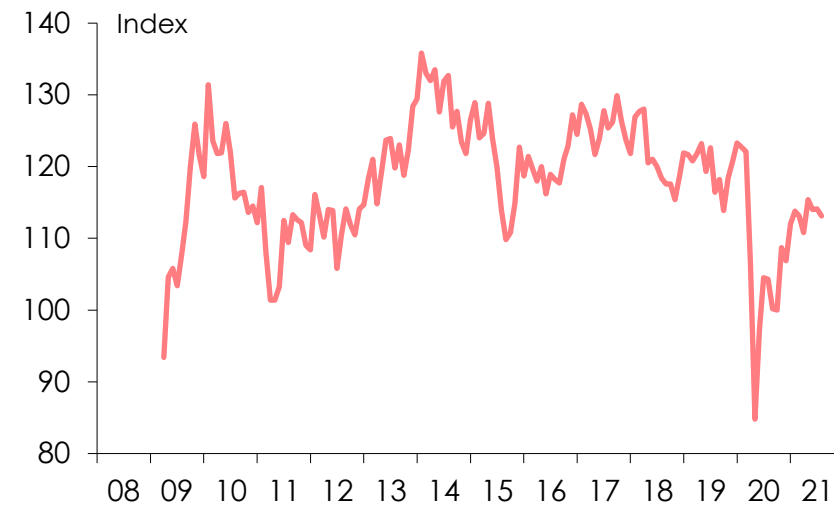
New Zealand

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)

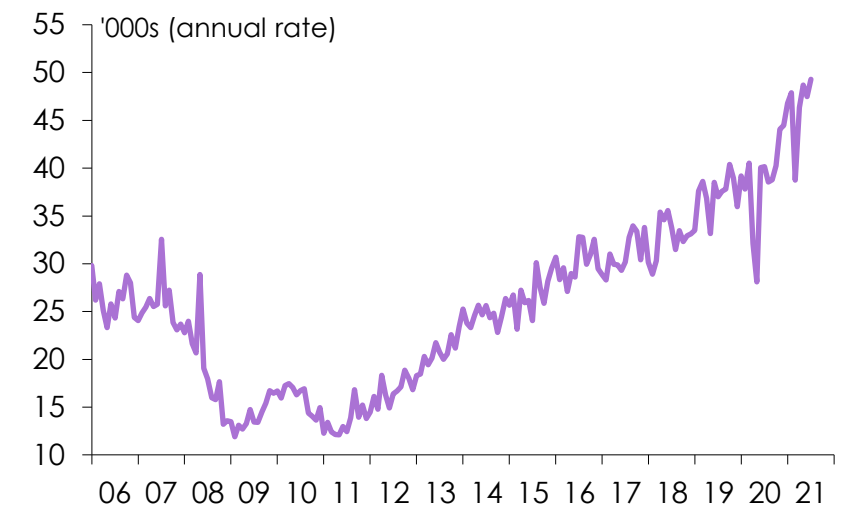
Real GDP



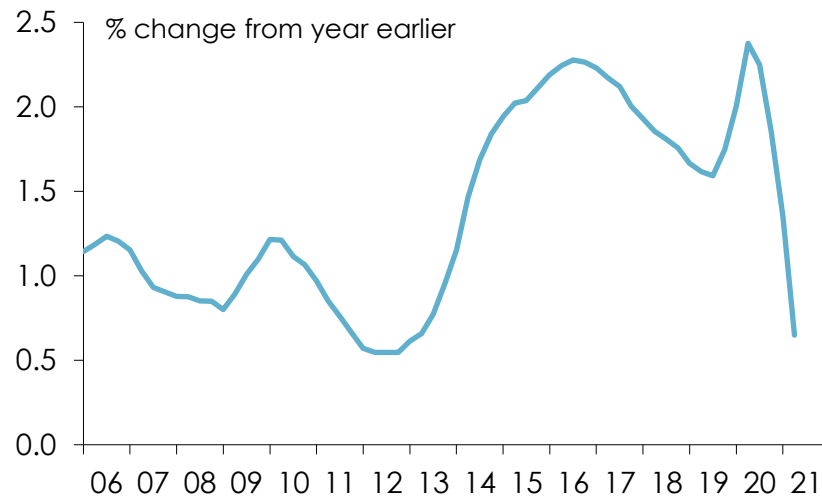
Consumer confidence



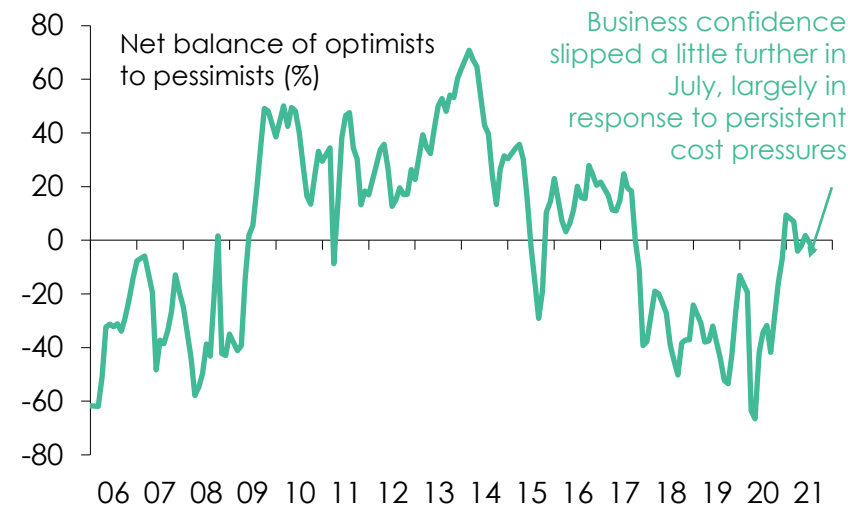
Dwelling 'consents' (permits)



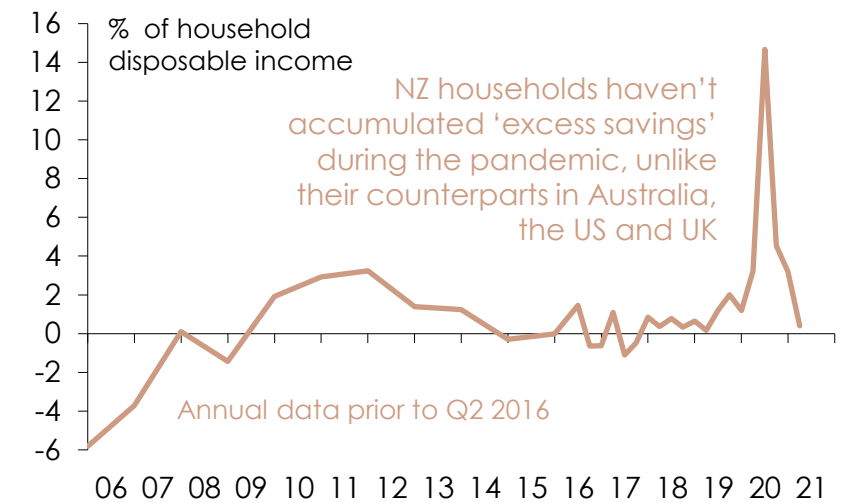
Population growth



Business confidence



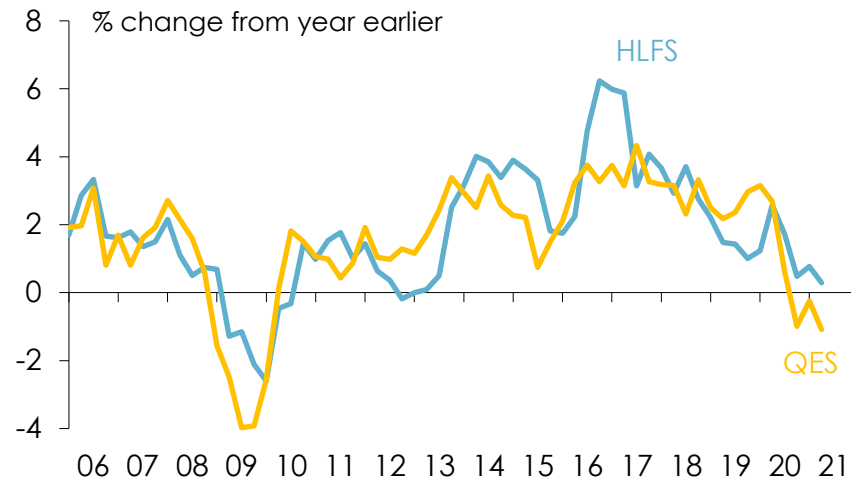
Household saving ratio



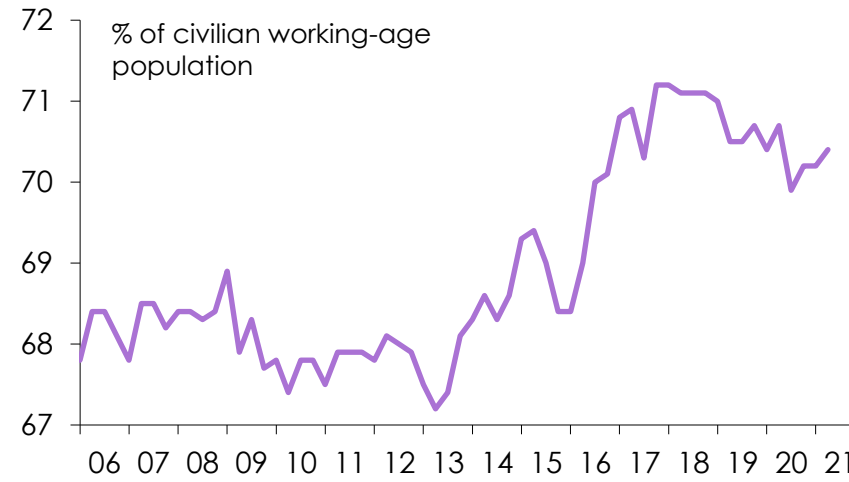
Note: New Zealand uses GDP(P) as its preferred measure of GDP. Unemployment rates are quarterly.
Sources: [Statistics NZ](#); NZ Treasury, [Budget Economic and Fiscal Update 2021](#); ANZ-Roy Morgan; [ANZ Bank NZ](#). [Return to "What's New"](#).

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%

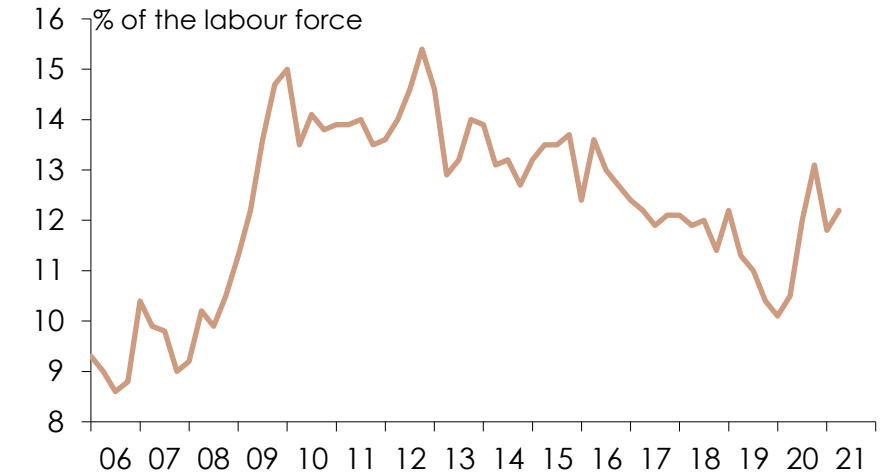
Employment



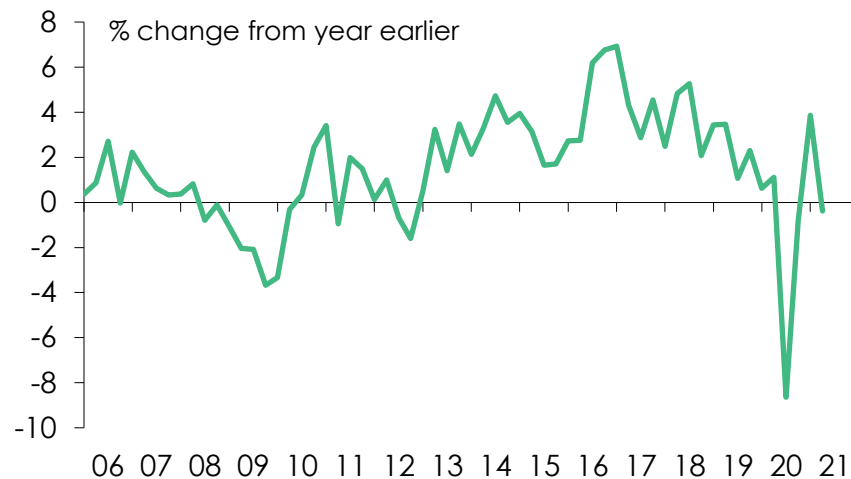
Labour force participation rate



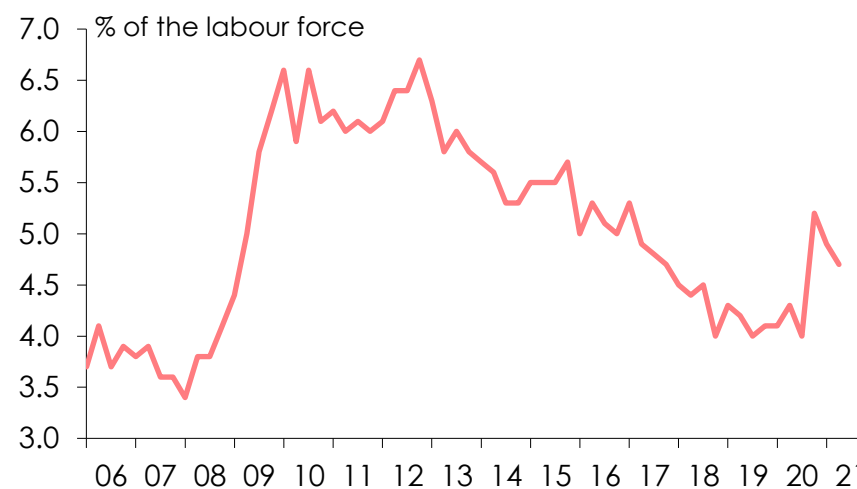
Labour force under-utilization rate



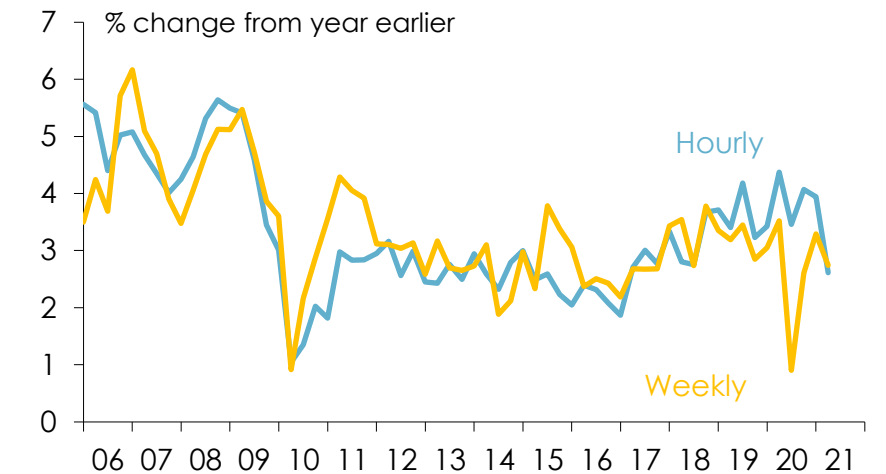
Hours worked



Unemployment rate



Average weekly earnings

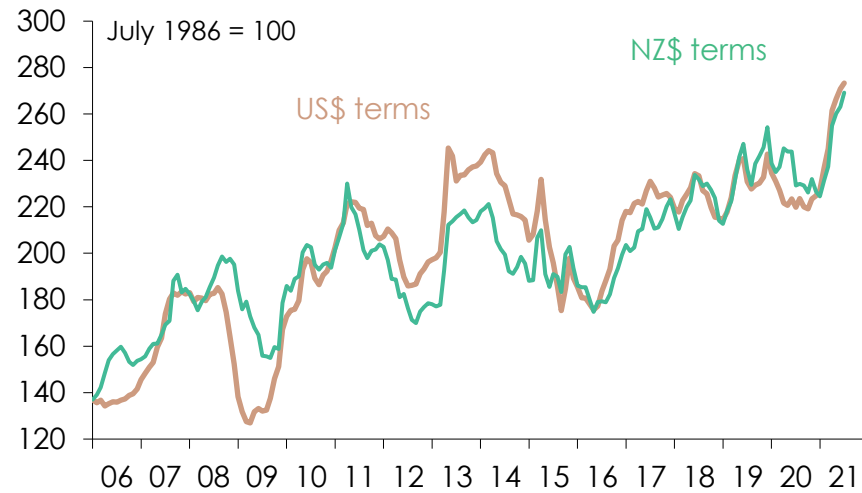


Note: New Zealand labour force data are only published quarterly. There are two 'headline' series on employment – the household labour force survey (HLFS) which counts the number of people in employment during the quarter; and the quarterly employment survey (QES), which counts the number of 'filled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

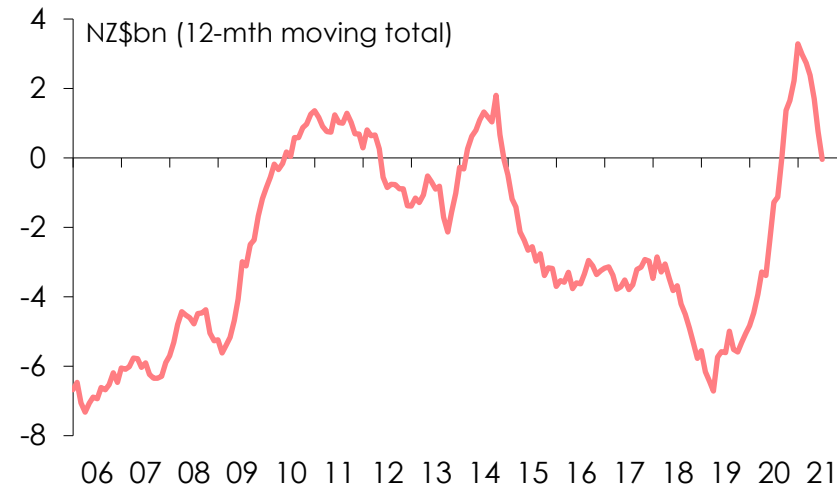
Source: [Statistics NZ](#). June quarter data will be released on 4th August. [Return to "What's New"](#).

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

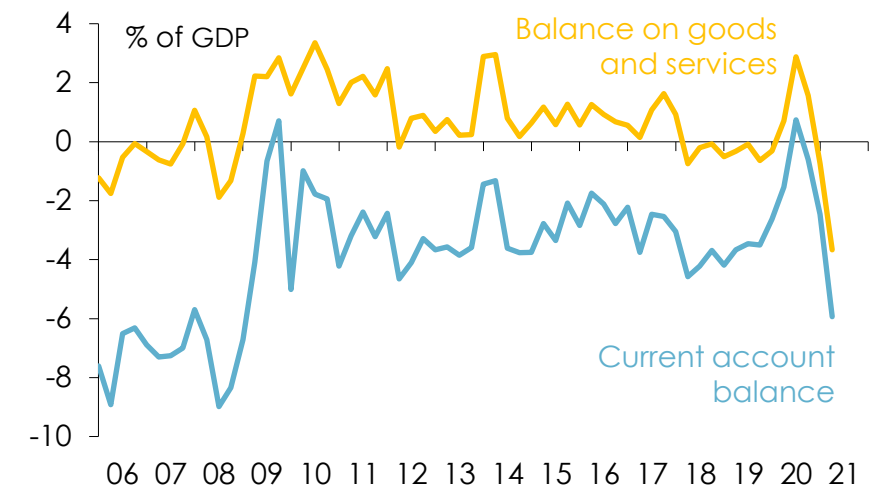
Export commodity prices



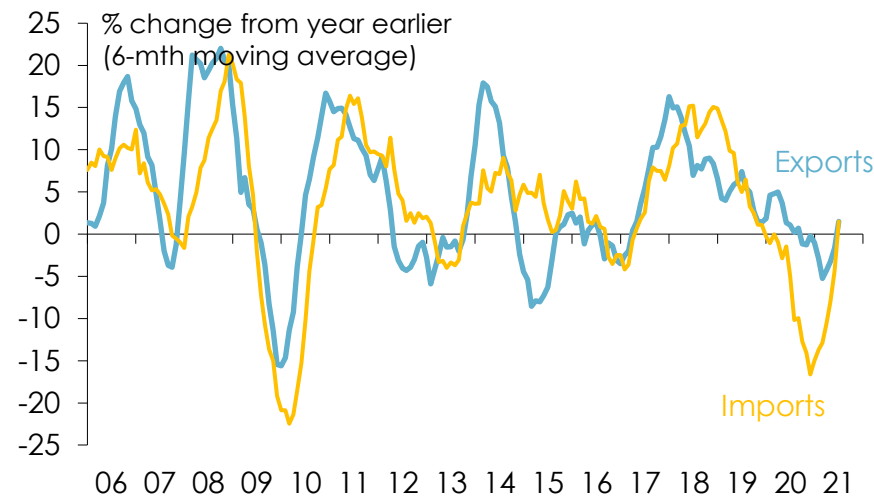
Merchandise trade balance



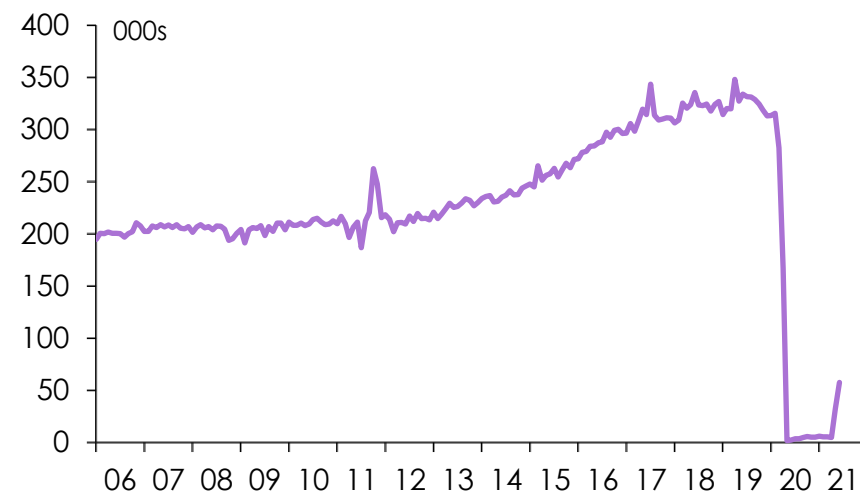
Balance of payments



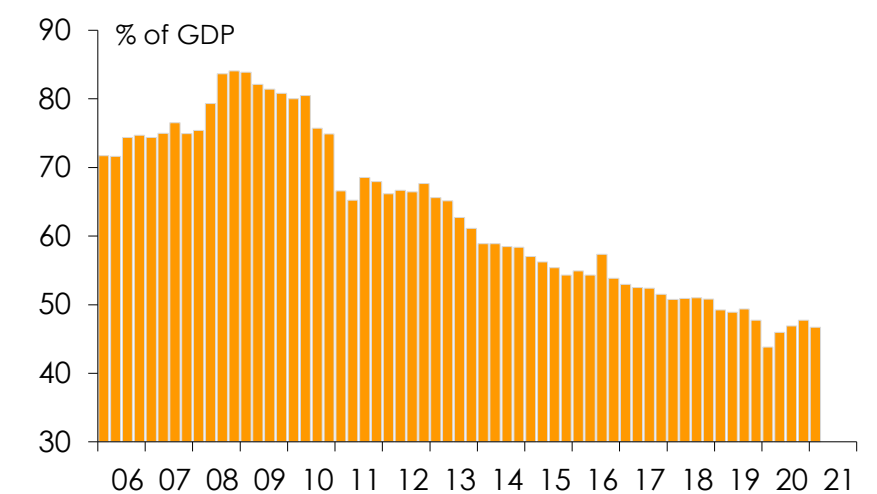
Merchandise exports and imports



Overseas visitor arrivals



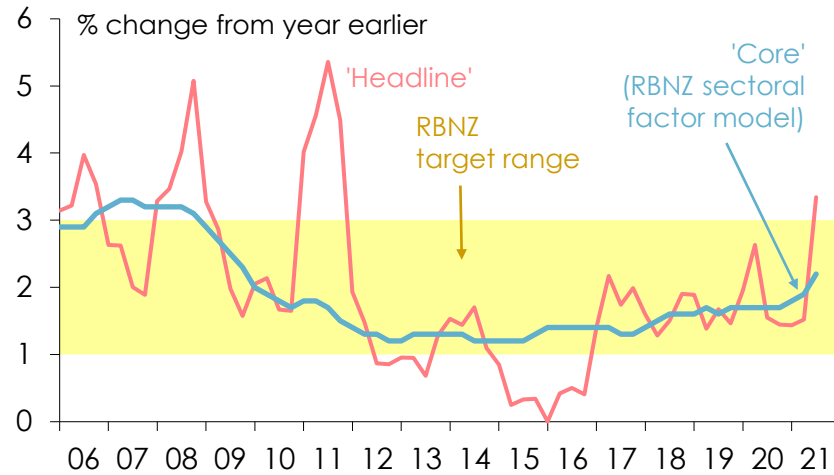
Net foreign debt



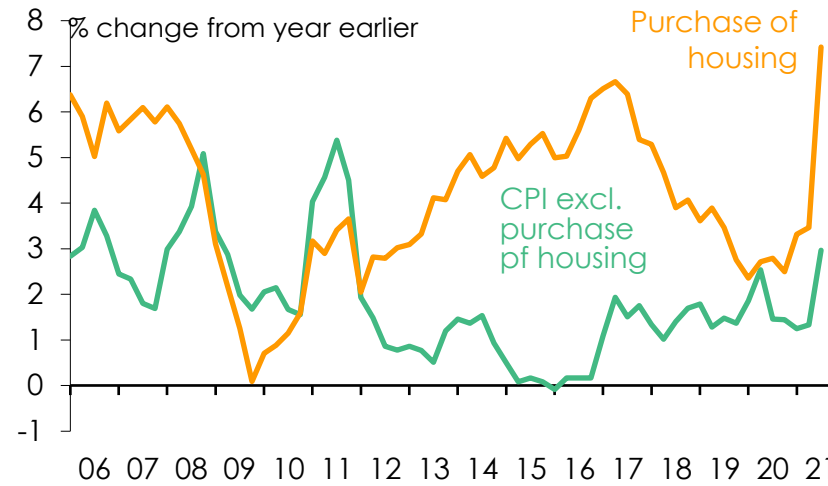
Note: latest merchandise trade data is for June: June data will be released on 25th August; latest balance of payments and net foreign debt data is for the March quarter; June quarter data will be released on 15th September. Sources: [ANZ Bank](#); [Statistics New Zealand](#).

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

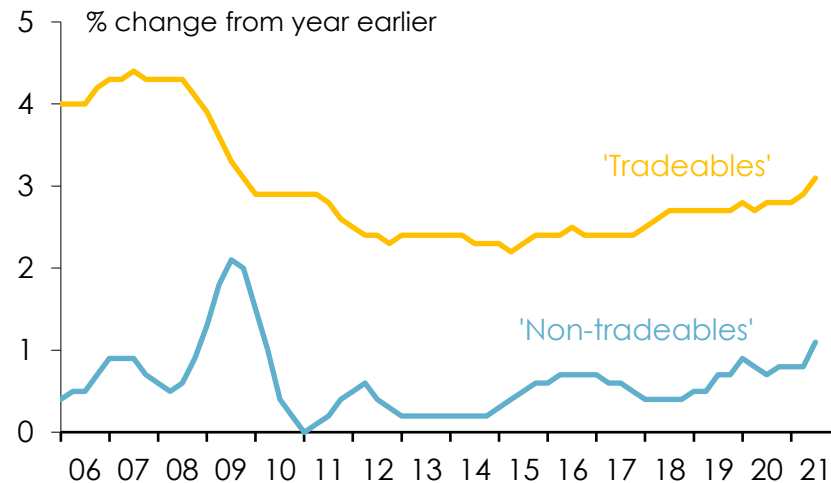
Consumer prices



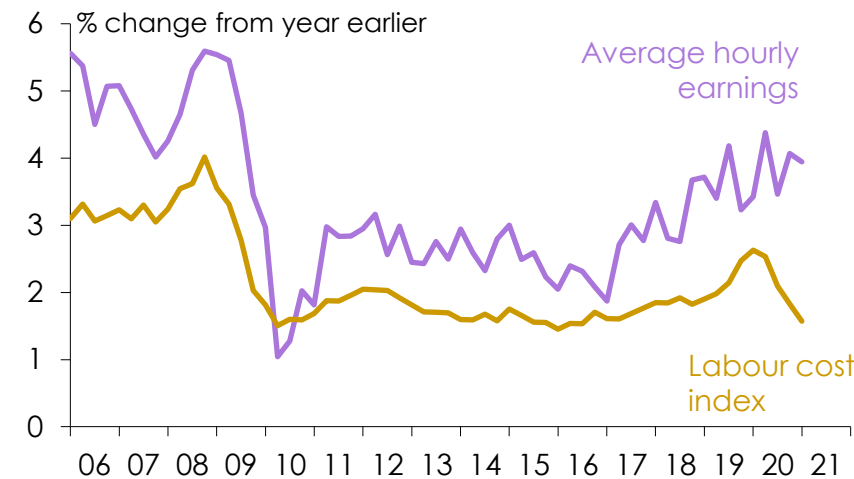
Housing costs in the CPI



Components of 'core' inflation



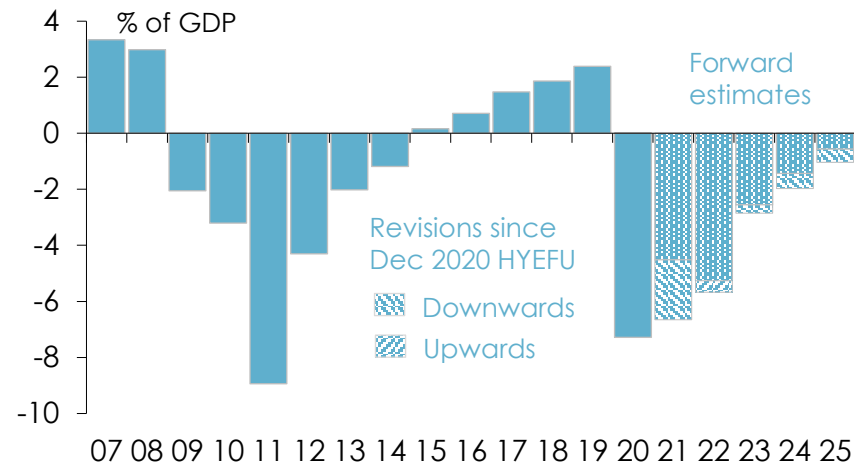
Labour costs



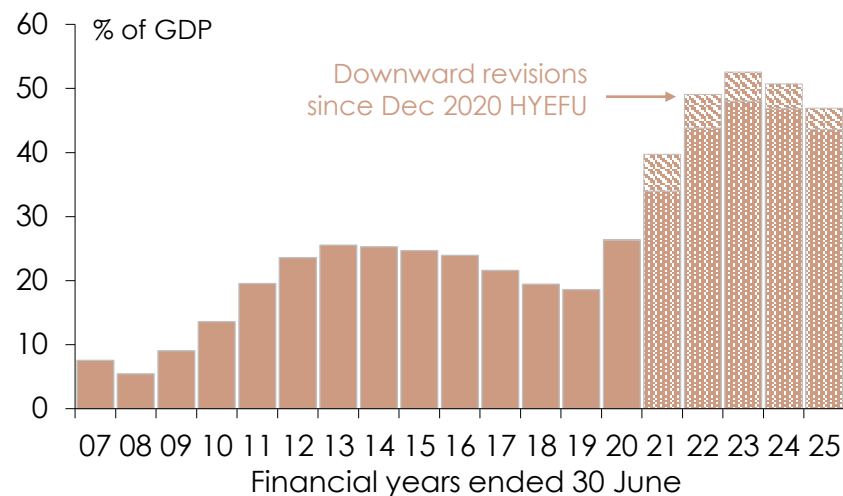
- ❑ The CPI rose 1.3% in Q2, the largest q-o-q increase since Q3 2008, pushing the annual 'headline' inflation rate up to 3.3%, the highest since Q3 2011
- ❑ 89% of the Q2 increase in the CPI came from 7 components representing 31% of the CPI basket – housing purchase (30% of the Q2 increase), petrol (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'

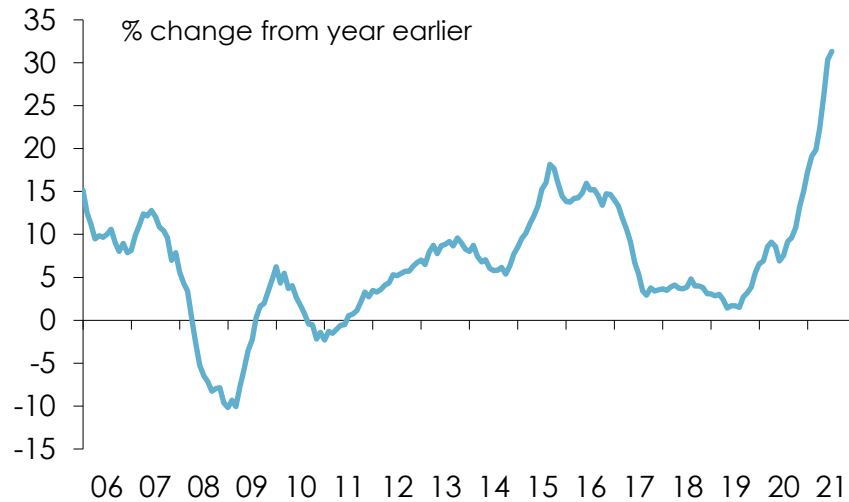


- As was also the case in Australia, the 2021-22 New Zealand Budget presented by Finance Minister Grant Robertson in May benefited from a much stronger economic performance than had been anticipated in last year's Budget, or in last December's Half-Year Economic & Fiscal Update (HYEFU)
 - Treasury now expects the NZ economy to have grown 2.9% in 2020-21 (cf. 1.5% in HYEUFU) and by 3.7% pa over the following two years (cf. 3.1% in HYEUFU)
 - 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 HYEUFU) and then decline to 43.6% of GDP by June 2025, and longer term to drop below 20% of GDP in 2034

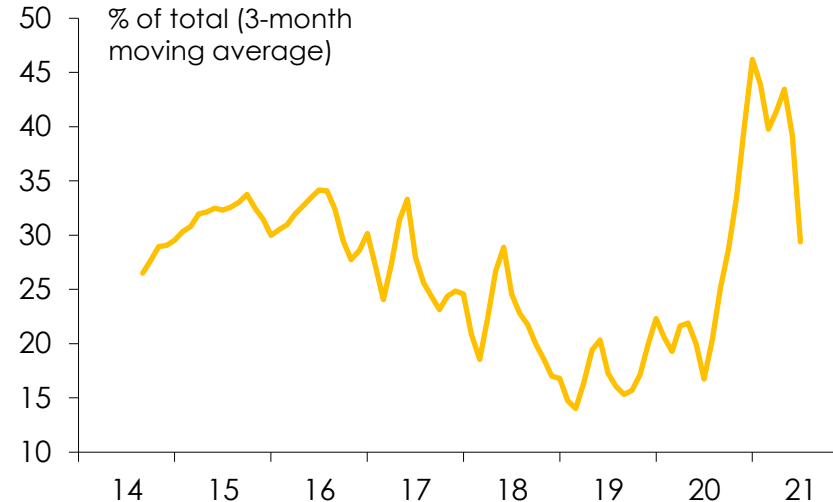
Note: The measure of the NZ Government budget balance is 'OBEGAL', which stands for 'operating balance excluding gains and losses' (an accrual accounting measure). Net 'core Crown debt' excludes assets of the NZ Super Fund, student loans and other advances, and financial assets held for public policy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

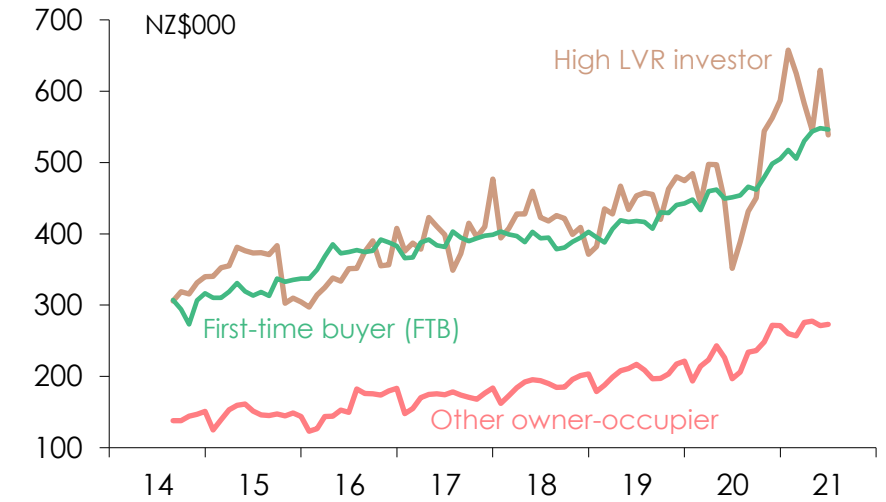
House price inflation



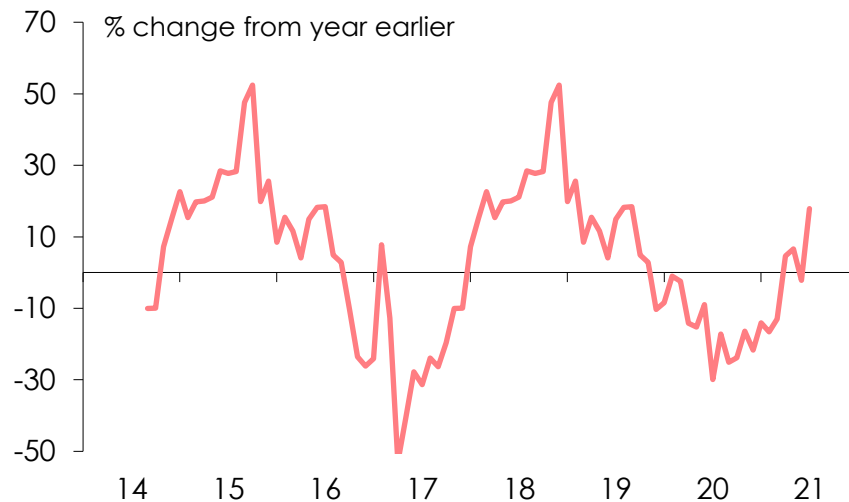
Lending to investors as pc of total



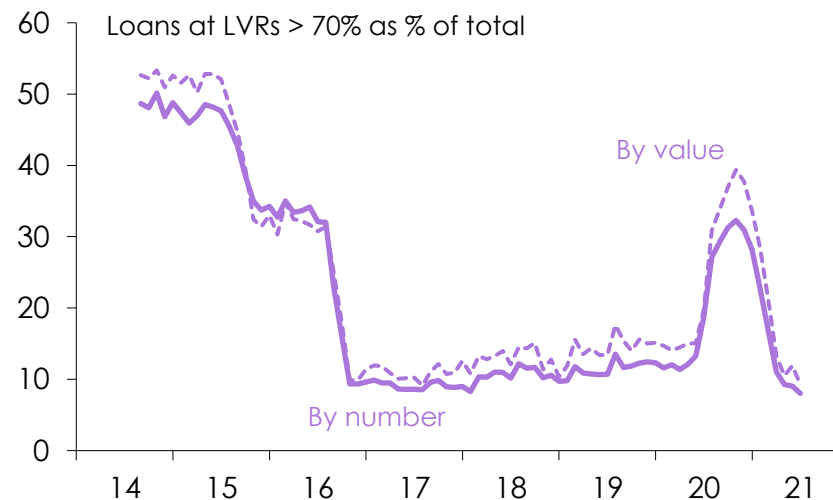
Average new mortgage



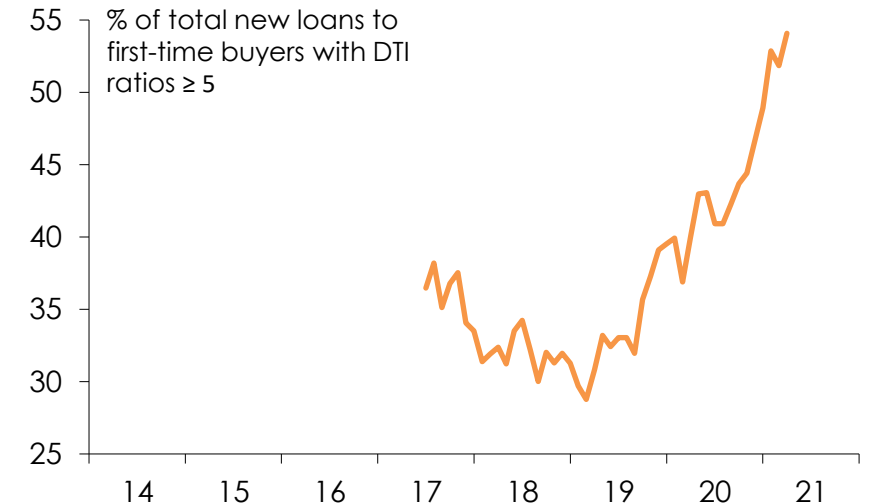
Mortgage lending growth



High-LVR loans to investors



Loans to FTBs at over 5 times income



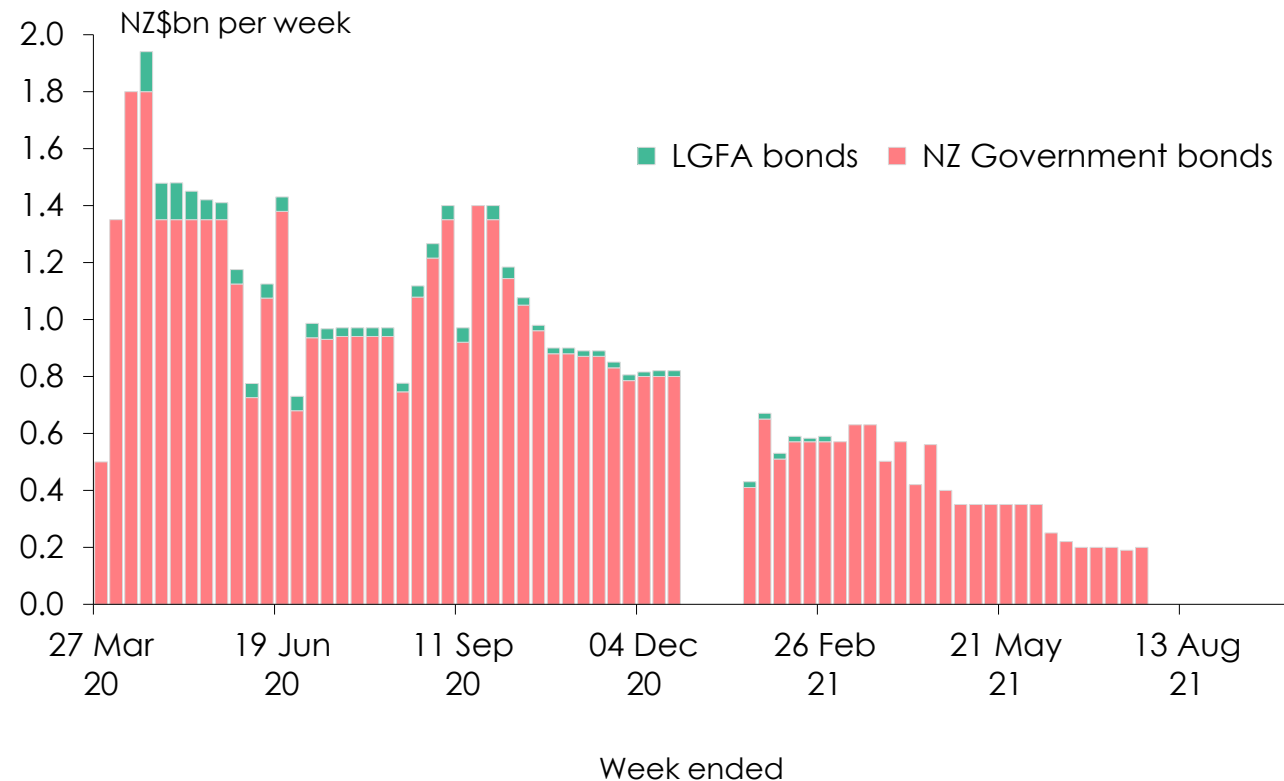
Note: New Zealand's tax system allows 'negative gearing' (ie, investors can offset the excess of interest costs over net rental income against their other income for tax purposes) but does not impose any tax on capital gains, making borrowing for property investment more attractive in after-tax terms 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 have added a debt-to-income limit to the RBNZ's 'macro-prudential policy tool kit'

- ❑ In June, the Finance Minister and the RBNZ formally added debt serviceability restrictions (such as a debt-to-income limit on the size of new mortgages) to its 'macro-prudential tool kit' (following the extension of the RBNZ's 'remit' to include house price sustainability in February)
 - the RBNZ's analysis of options suggests that s DTI limit would “primarily impact investors and higher-income owner-occupiers, who borrower at higher DTI ratios than average”, and that such a limit “could be calibrated to exempt the large majority of first-home buyers” – whereas “restricting interest-only lending would be challenging to implement and enforce”
 - the Bank indicated that it will now discuss with lenders the feasibility of implementing such a tool, although that “does not indicate that [it has] any immediate plans to implement [it]”
- ❑ This step comes after a series of tax policy and other measures announced by the Government in March designed to dampen investor demand for housing and encourage stronger growth in new dwelling construction ...
 - the period for which investment properties must be held before any profits upon sale become exempt from income tax (the so-called 'bright line test') will be extended from five years to ten years
 - interest on loans taken out to finance the purchase of investment properties will no longer be deductible for tax purposes against rental income, with effect from 1st October for properties purchased after 27th March, and after a four-year phase-in period for properties purchased before that date
 - 'new builds' will be exempted from these changes (ie investors who build new dwellings will still be able to claim interest costs as a deduction against rental income and will be able to sell them tax free after five years)
 - the income caps on eligibility for First Home Loans (which only require a 5% deposit) and First Home Grants (of NZ\$10,000) will be lifted (from NZ\$85,000 to NZ\$95,000 for single buyers, and from NZ\$130,000 to NZ\$150,000 for couples), as will the price caps on eligible homes in some markets (such as Auckland and Queenstown)
 - the Government will provide NZ\$3.8bn to accelerate the provision of residential infrastructure in new housing estates
- ❑ ... and the tightening of restrictions on high-LVR lending announced by the RBNZ in March
 - from 1st March, no more than 20% of mortgage loans to owner-occupiers can be at LVRs > 80%, and no more than 5% of loans to investors can be at LVRs > 70% (reducing to 60% from 1st May)

NZ bond yields fell a bit more this week, but by less than in most other markets, as local investors continue to anticipate an RBNZ rate hike

RBNZ open market bond purchases



New Zealand interest rates



- ❑ At its last Board meeting on 14th July, the RBNZ decided to terminate its Large Scale Asset Purchase Program under which it had acquired NZ\$52bn of New Zealand Government bonds, and almost \$2bn of Local Government Finance Authority bonds – the last purchases were on 21st July
- ❑ NZ bond yields fell a little further this week (3bp for 2-year bonds and 1bp 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

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

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