ECONOMIC IMPACT OF THE CORONAVIRUS PANDEMIC

14TH AUGUST 2021

SAUL ESLAKE
CORINNA ECONOMIC ADVISORY
INDEPENDENT ECONOMICS

What's new?

The world

- Almost 4½ mn new Covid-19 cases were recorded this week, the highest number for 13 weeks (slide 4)
- The US and Europe are once again the Covid-19 epicentres, with19% and 16% of all cases this week, followed by south-east Asia with 14½% and the Middle East with just under 13% (slide 5)
- In the US, infections have been concentrated in states with below-average vaccination rates, and they are in turn overwhelmingly states which voted for Donald Trump last year (slide 11)
- US consumer confidence recorded its third-largest ever fall in August, in reaction to the recent surges in both infections and inflation (slide 68)
- US inflation ebbed in July, supporting the Fed's view that the recent acceleration was largely due to 'transitory factors' (slides 73-74)
- Inflation also receded in China in July, largely due to further falls in food prices (which rose sharply last year), while credit growth also remained slow (by Chinese standards) (slide 52)
- All Asian economies except Thailand and India have now reported their Q2 GDPs – and all show very strong growth from the recession troughs in Q2 last year, though some are yet to regain pre-pandemic levels (slide 56)
- The UK economy grew by 4.8% in Q2, but is still 4.4% smaller than at its pre-pandemic peak in Q4 2019 (slide 82)
- Central banks in Mexico, Peru and Uruguay raised rates this week – but Turkey's didn't (slides 84-85)
- The IPCC issued a grim warning about the global climate outlook this week – and Australia risks becoming an international pariah if it fails to adopt more ambitious targets (slides 86-92)

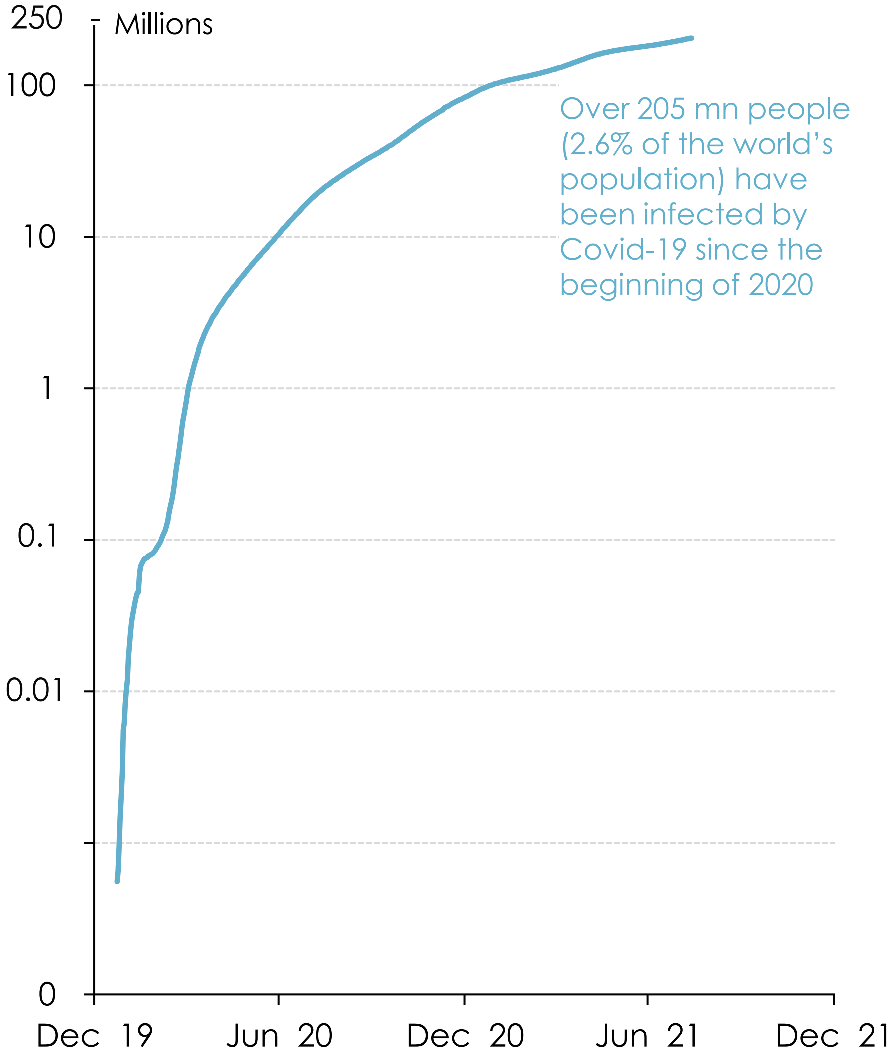
Australia and New Zealand

- Australia recorded 2,478 new Covid-19 cases this week, the highest number since the first week of August last year, with all but 21 of them being 'locally acquired' (slide 13)
- The number of locally-acquired cases in the 'Greater Sydney' area continued to rise – with possibly more than 1,500 'infectious while in the community' cases this week – while Melbourne's lockdown was extended for at least another week and a lockdown imposed on Canberra for the first time since June last year (slide 14)
- The slow pace of Australia's vaccine roll-out (slides 8-9 and 18-21) means that Australia is now subject to notably more onerous restrictions than other 'advanced' economies, on average (slide 24) which are in turn now restricting economic activity to a much greater extent than in other countries where a much higher proportion of the population has been vaccinated (slide 25)
- It's virtually certain that Australia's economy will have contracted in the current quarter (slides 100-101) – but if the Sydney lockdown continues into the December quarter then Australia could have a second recession in less than two years, after 28 years without one (slide 94)
- Business confidence dropped 18½ pc points in July to its lowest level in 12 months as a result of lockdowns (slide 108)
- By contrast consumer confidence fell by 'only' 4¾ pc points in August, less than might have been expected, and remains well above its long-run average level (slide 128)
- The iron ore price dropped another 7½% this week, taking the cumulative slide since China ordered cuts in steel production to 30% (slide 137)
- Markets are anticipating the RBNZ will lift the OCR next week (slide 169)

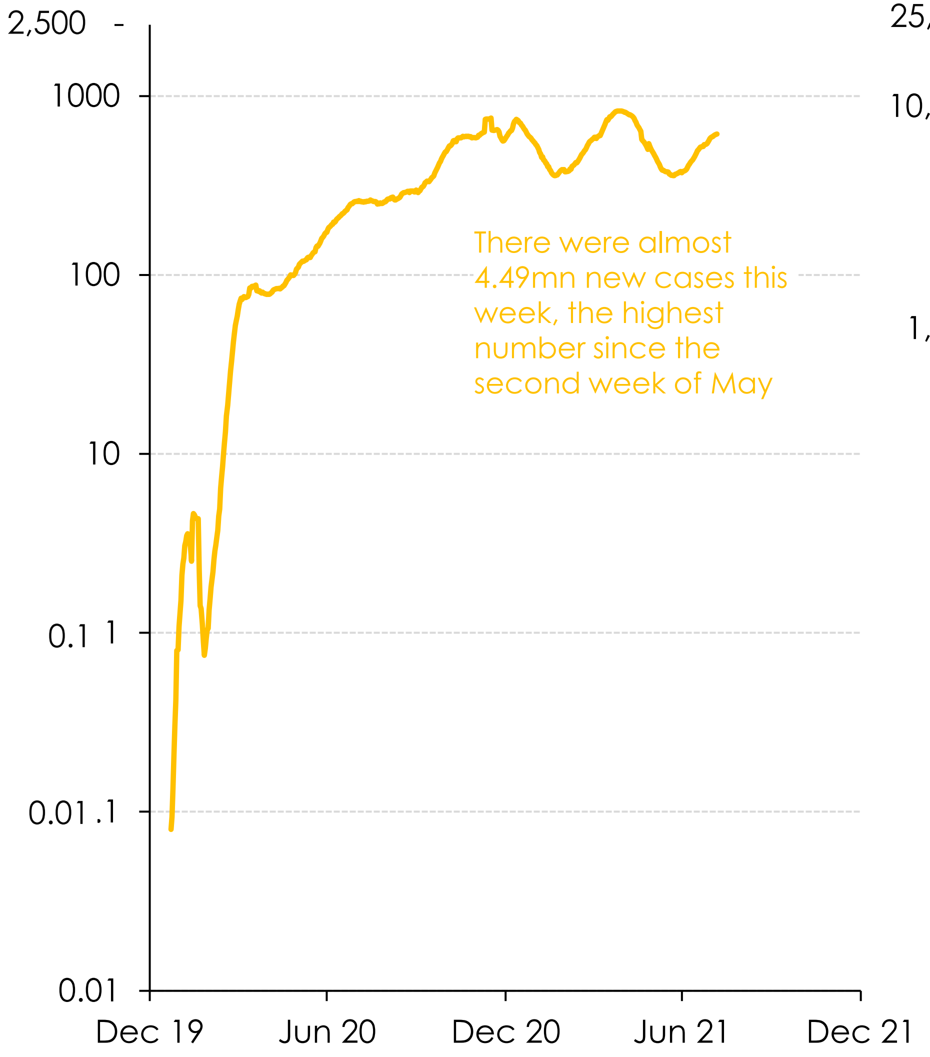
The virus

This week's global total of new infections was the highest in 13 weeks, and deaths are rising too, although by less than infections

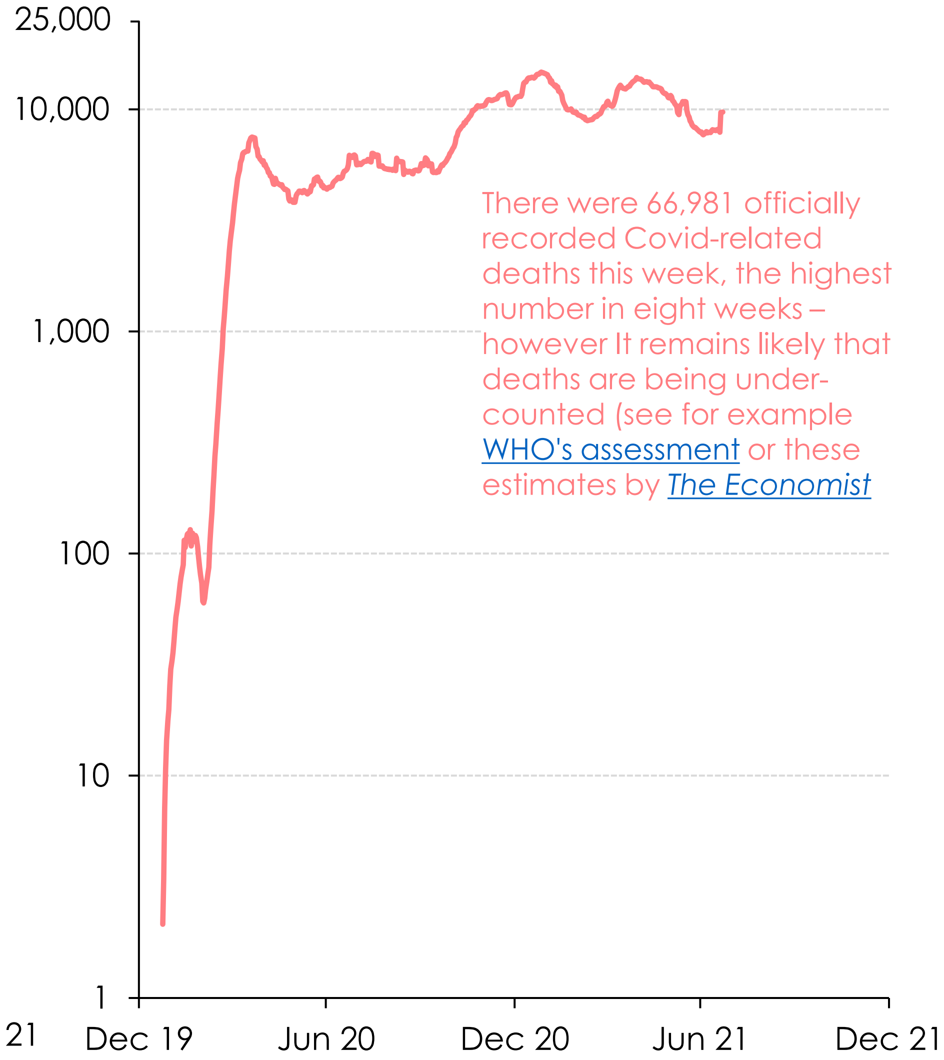
Cumulative confirmed cases – global total



New confirmed cases – global total



New deaths – global total



Note: All charts are on logarithmic scales. Data up to 12th August. Data on deaths excludes the reclassification by Peru in the first week of June of 111,400 deaths as 'covid-related' *Source:* University of Oxford, *Our World in Data*. Return to "What's New".

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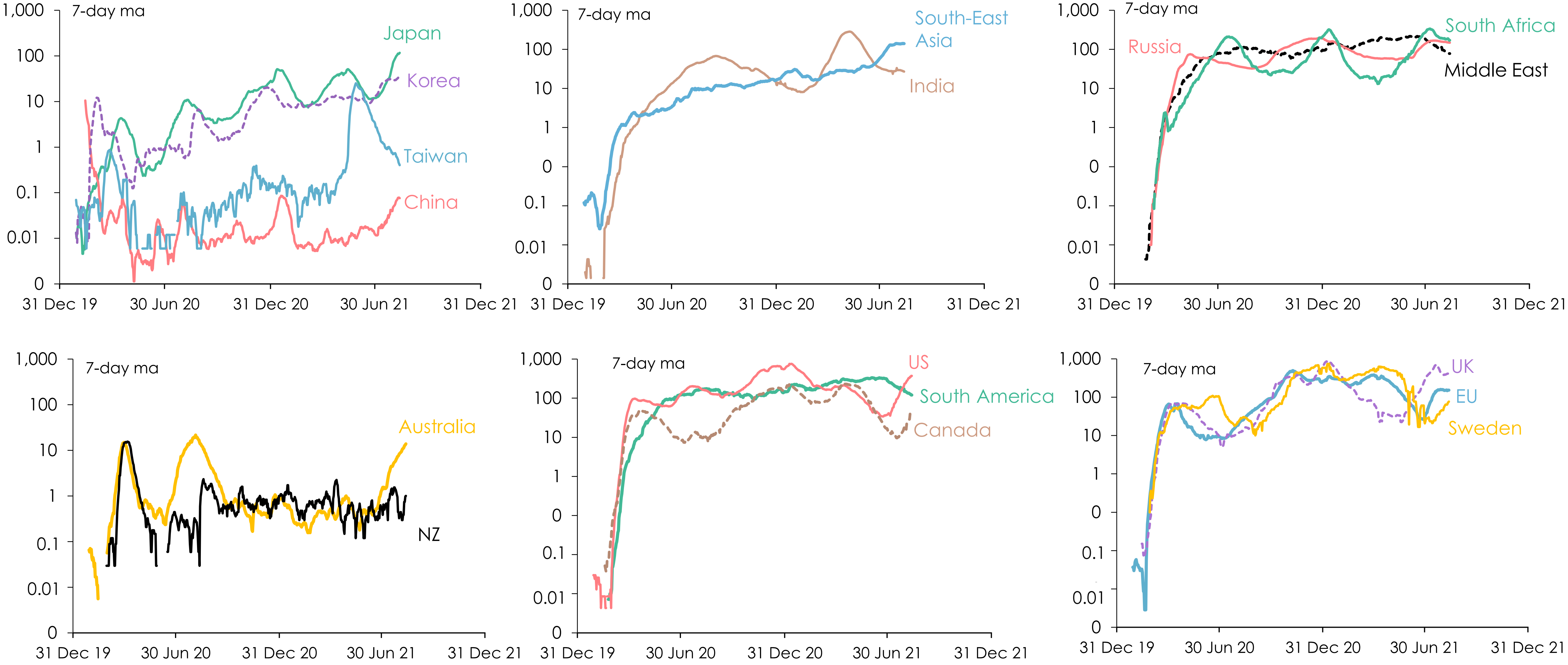
19¼% of this week's new cases were in the US, 15¾% in Europe, 14½% in SE Asia, 12¾% in the Middle East, 8% in South America and 5¾% in India

Daily new cases per million population – major countries and regions



Note: All charts are on logarithmic scales. Data up to 12th August. *Source:* University of Oxford, Our World in Data; Corinna. Return to "What's New".

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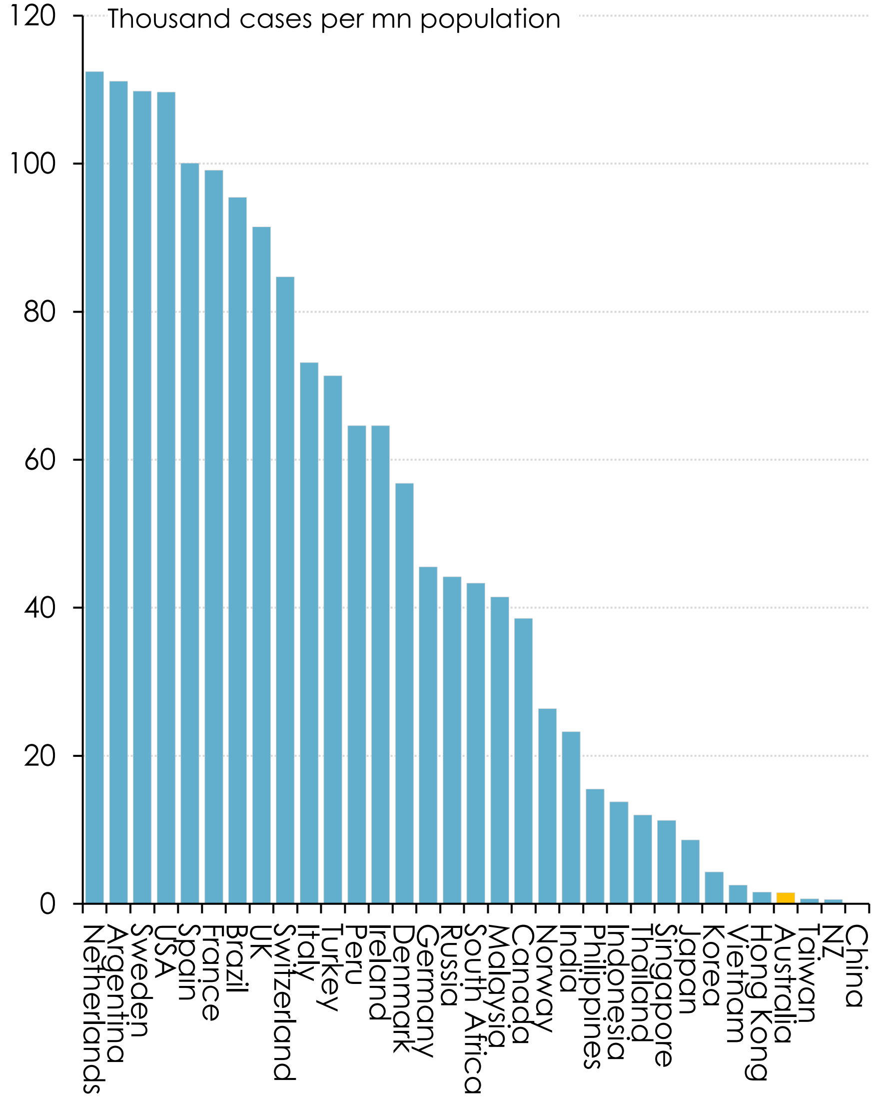
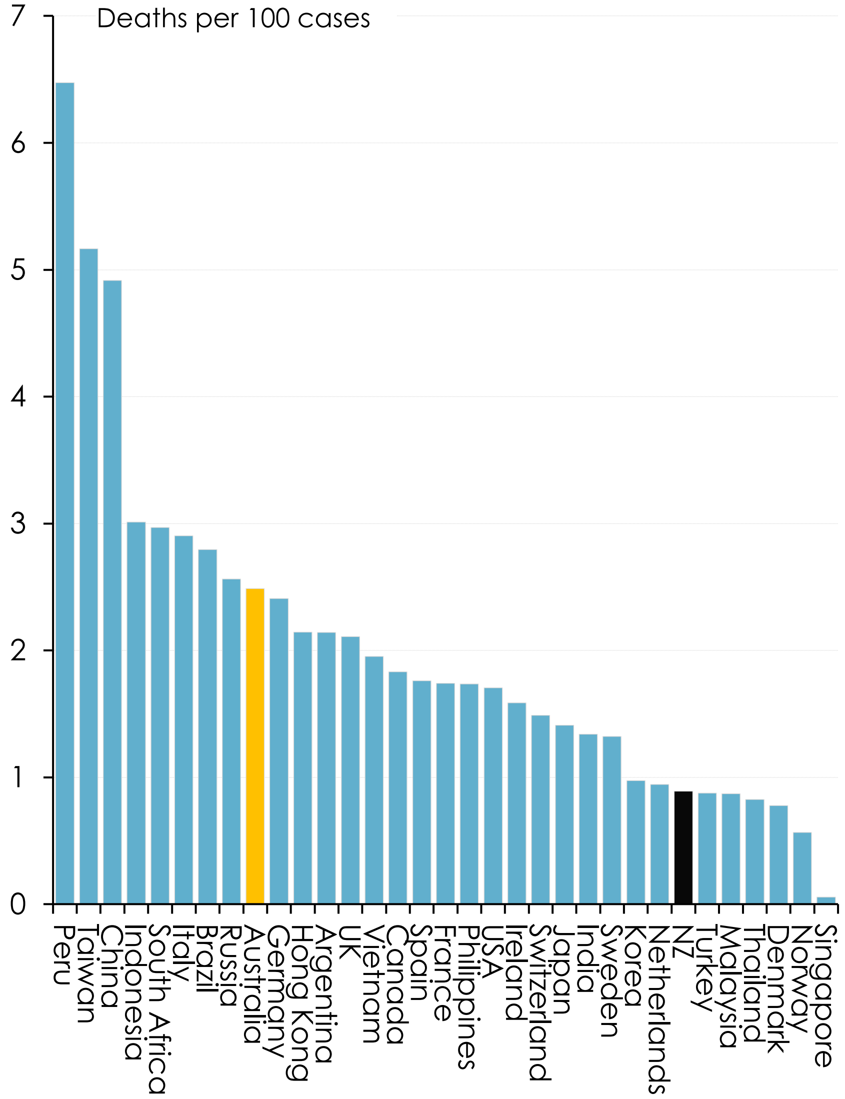
The highest cumulative infection and death rates (since the onset of the pandemic) have been in Europe, South and North America

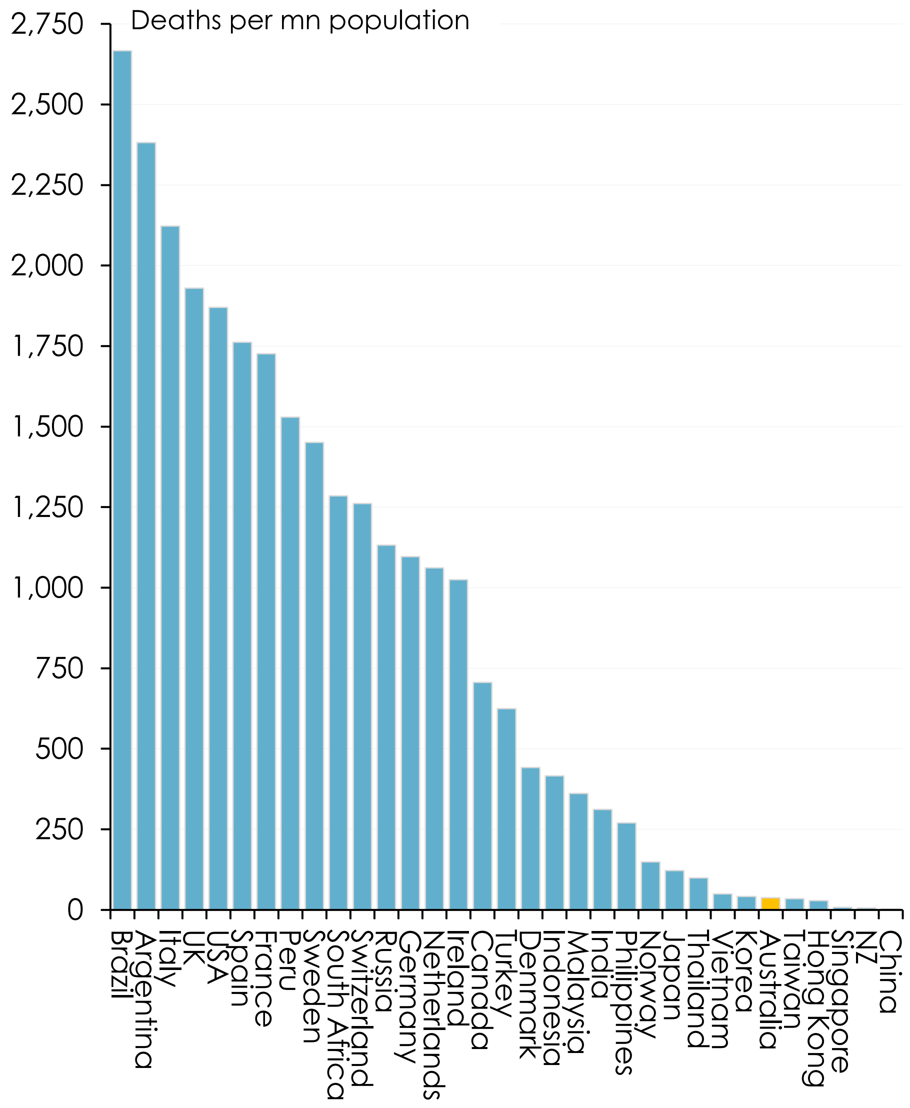
Apparent infection rate



Apparent fatality rate



Death rate



Note: Data up to 12th August. *Sources:* University of Oxford, Our World in Data; Corinna. Return to "What's New".

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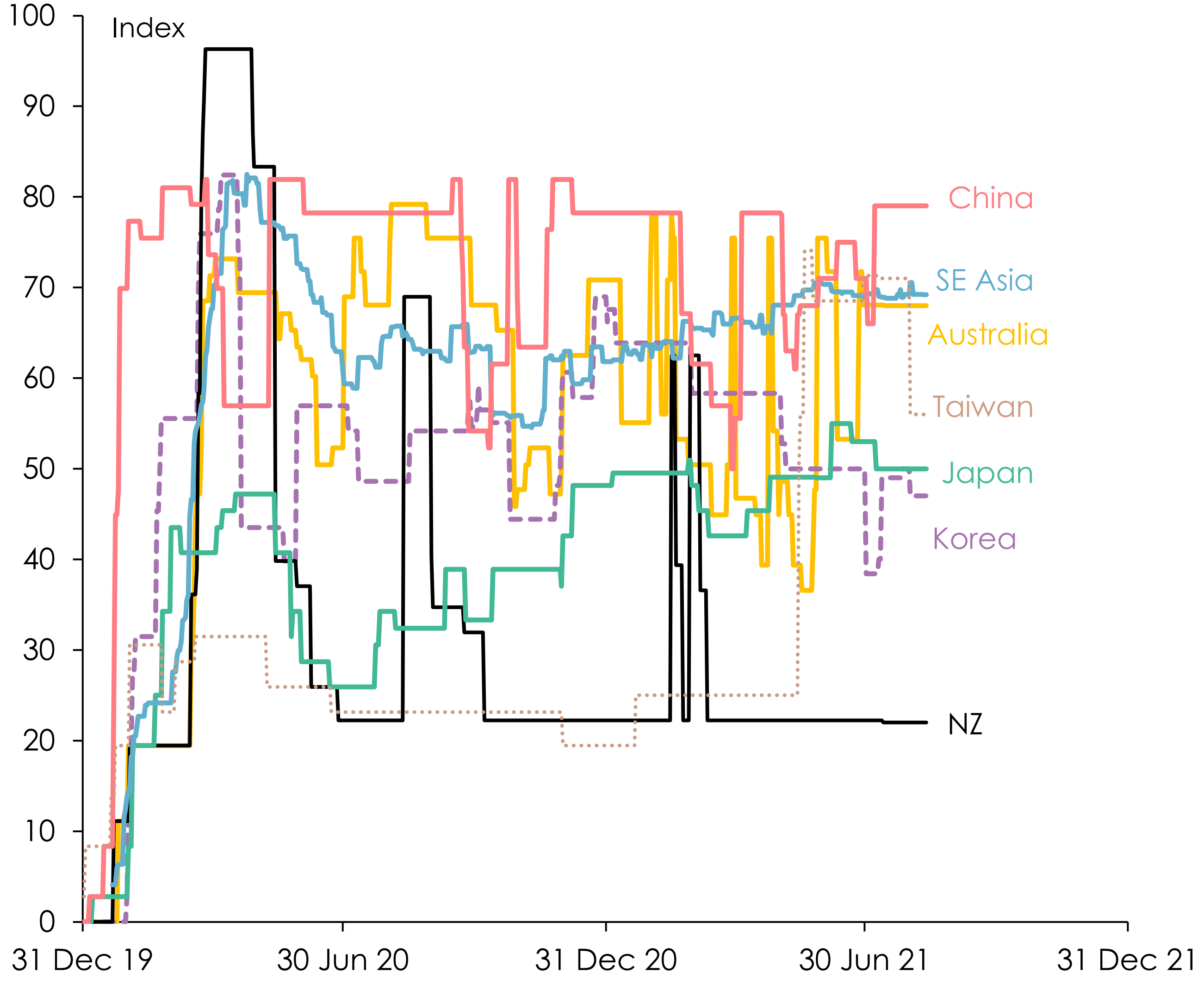
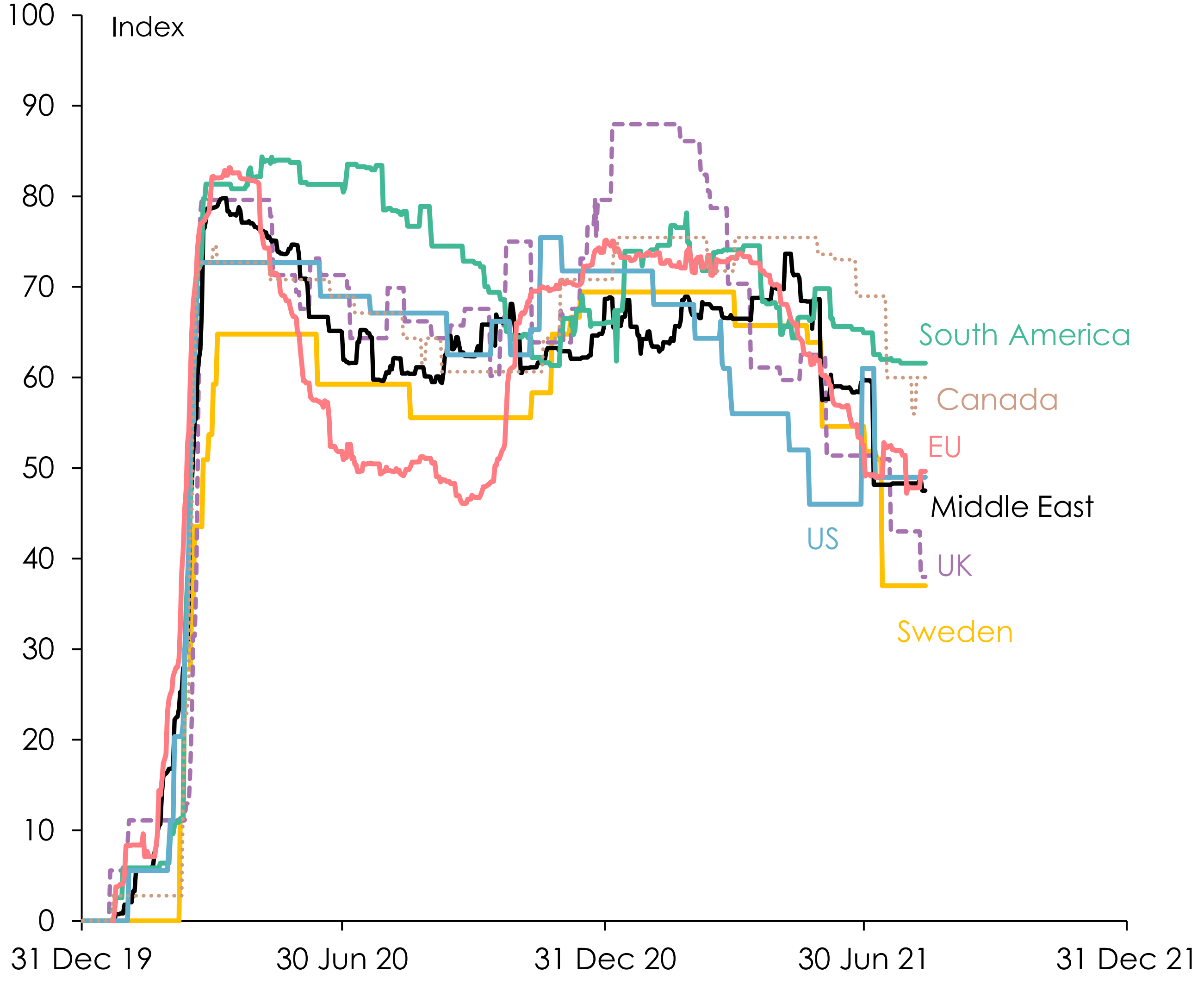
Restrictions have been easing in Europe and North America (but may need to be tightened again) but tightening in much of Asia

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 12th August. Return to "What's New".

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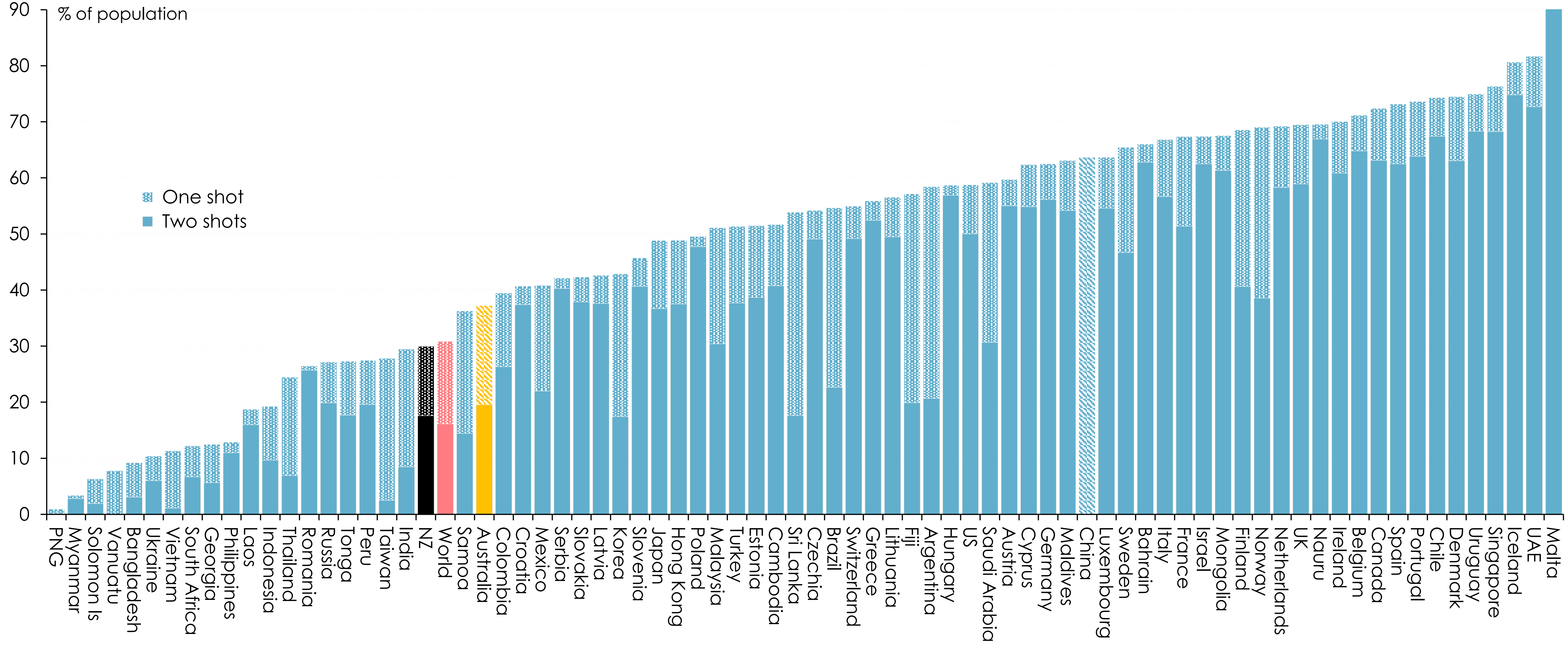
Canada, the US, most European countries, Israel, China and Singapore have now given at least 50% of their populations at least one vaccine dose

Percentage of population who have had at least one vaccination shot as at 10th – 12th August



Note: Data for Myanmar is 5th June; Vanuatu is 27th July; PNG and Tonga are 2nd August; Iceland is 6th August; Laos and the Netherlands are 8th August; Fiji, Samoa and Solomon Islands are 9th August. The number for China is the number of doses administered per 100 population, divided by 2.
Source: Our World in Data, Coronavirus (COVID-19) Vaccinations. Return to "What's New".

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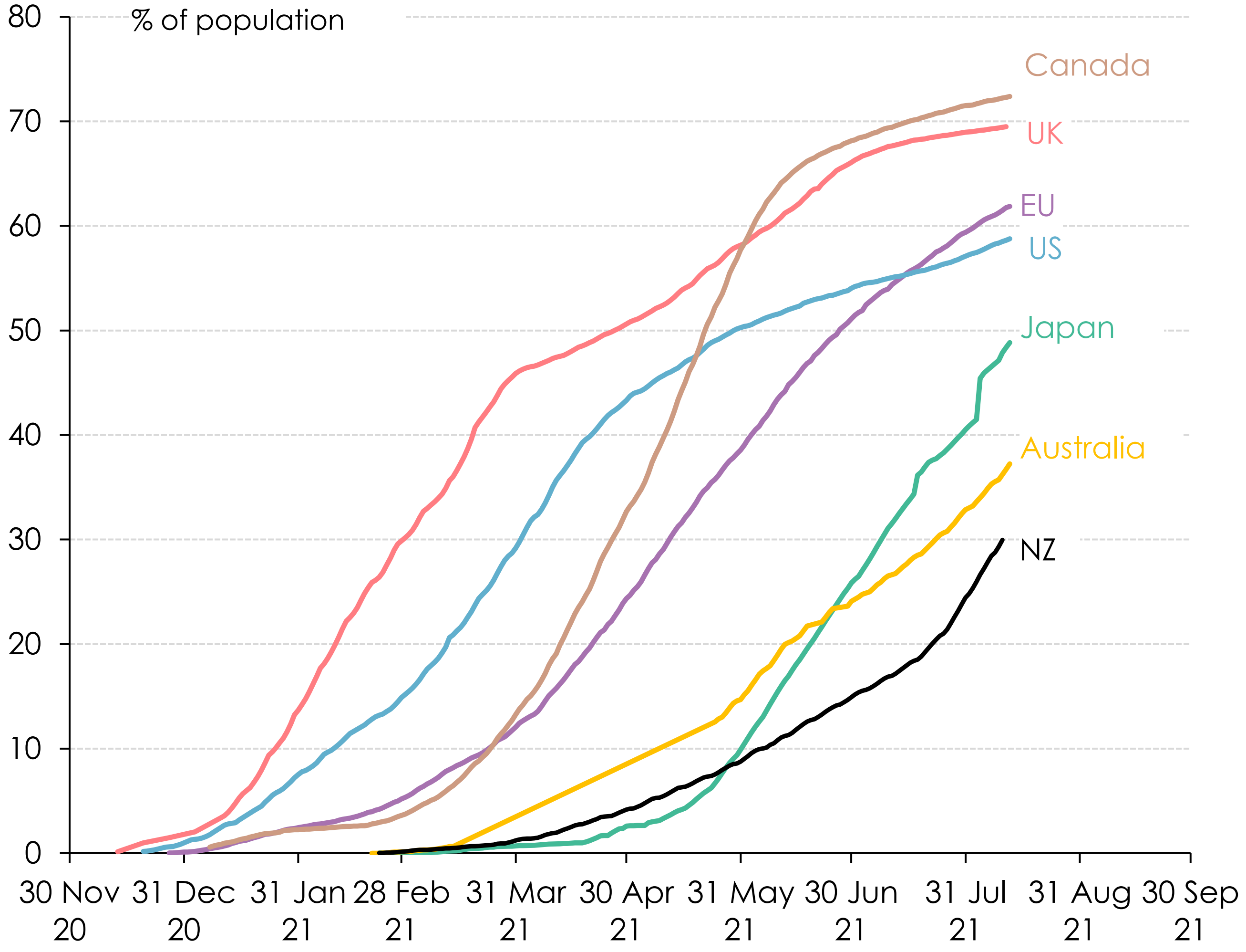
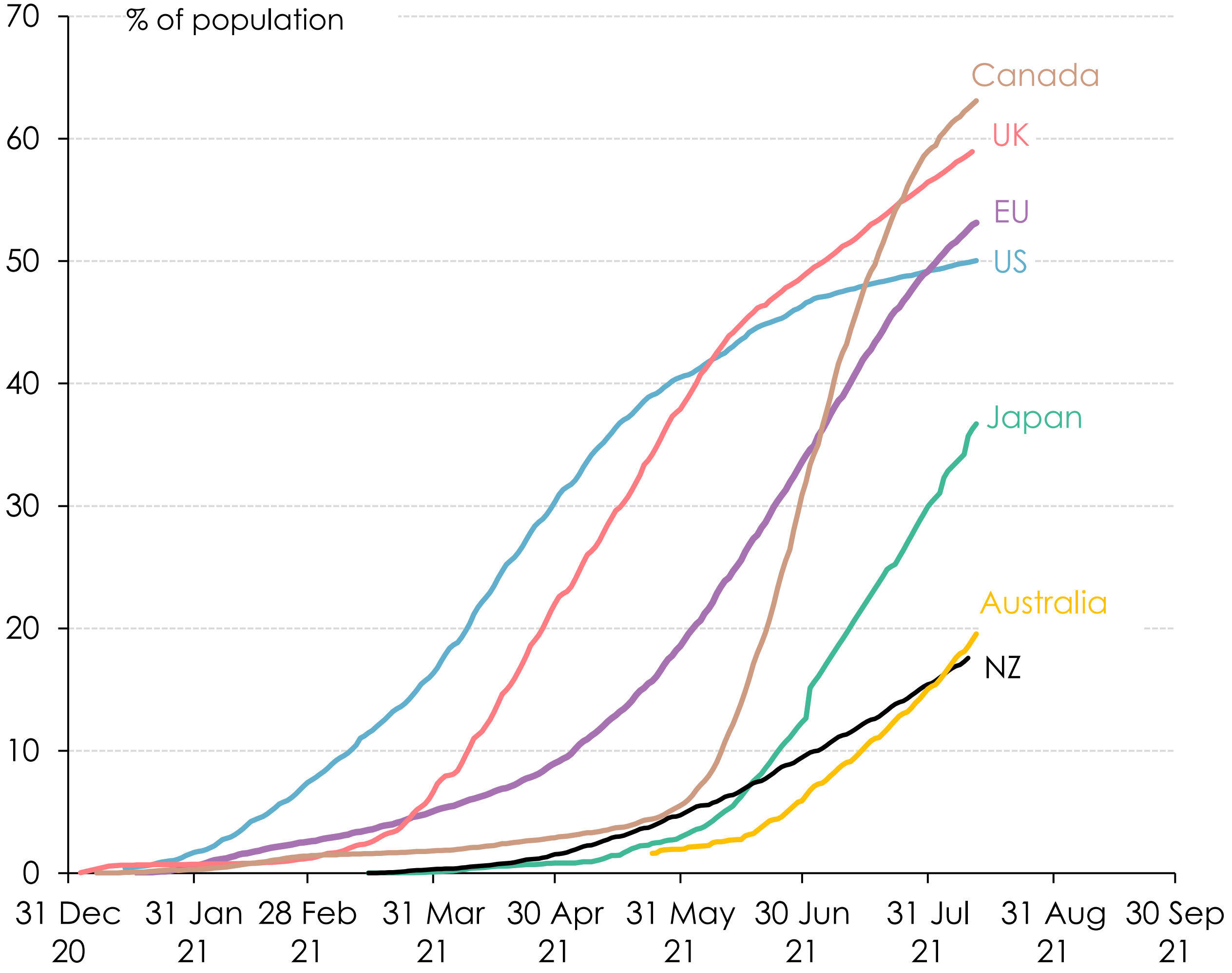
Canada now has 63% of its population fully vaccinated, the UK 59%, the EU 53%, the US 50% - and Australia only 19½%

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 12h August, except New Zealand, 10th August and UK, 11th August. *Source:* Our World in Data; Coronavirus (COVID-19) Vaccinations. Return to "What's New".

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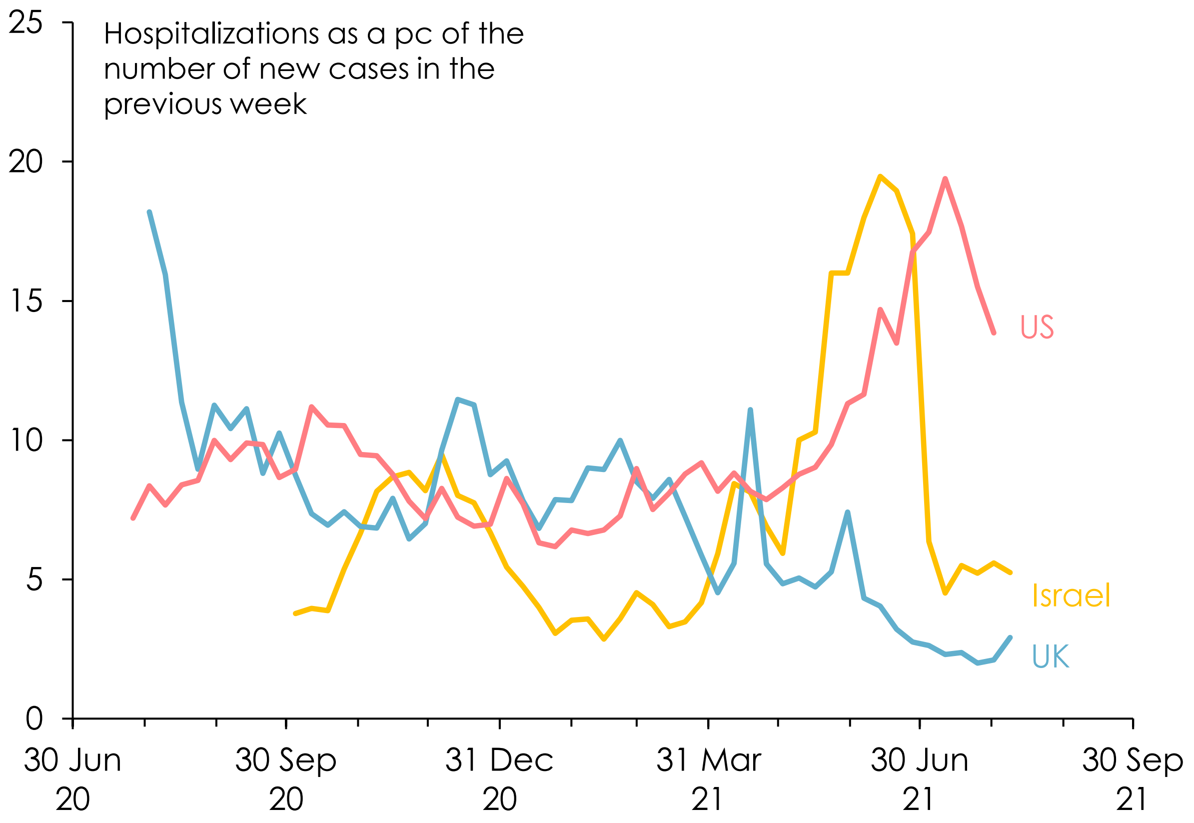
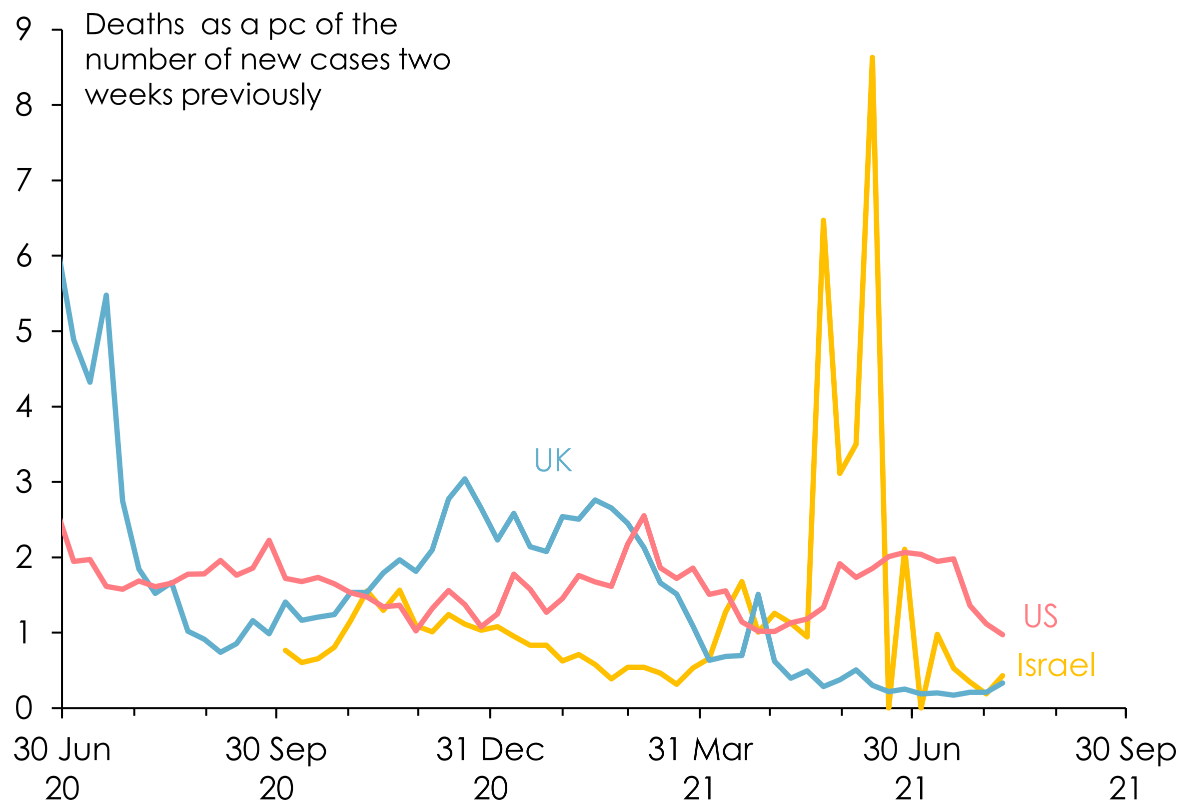
Although vaccination appears not to prevent the ‘delta variant’ from spreading, it does appear to reduce hospitalization and death rates

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 (see next slide)**
- **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 5th August. *Source:* Our World in Data. Return to "What's New".

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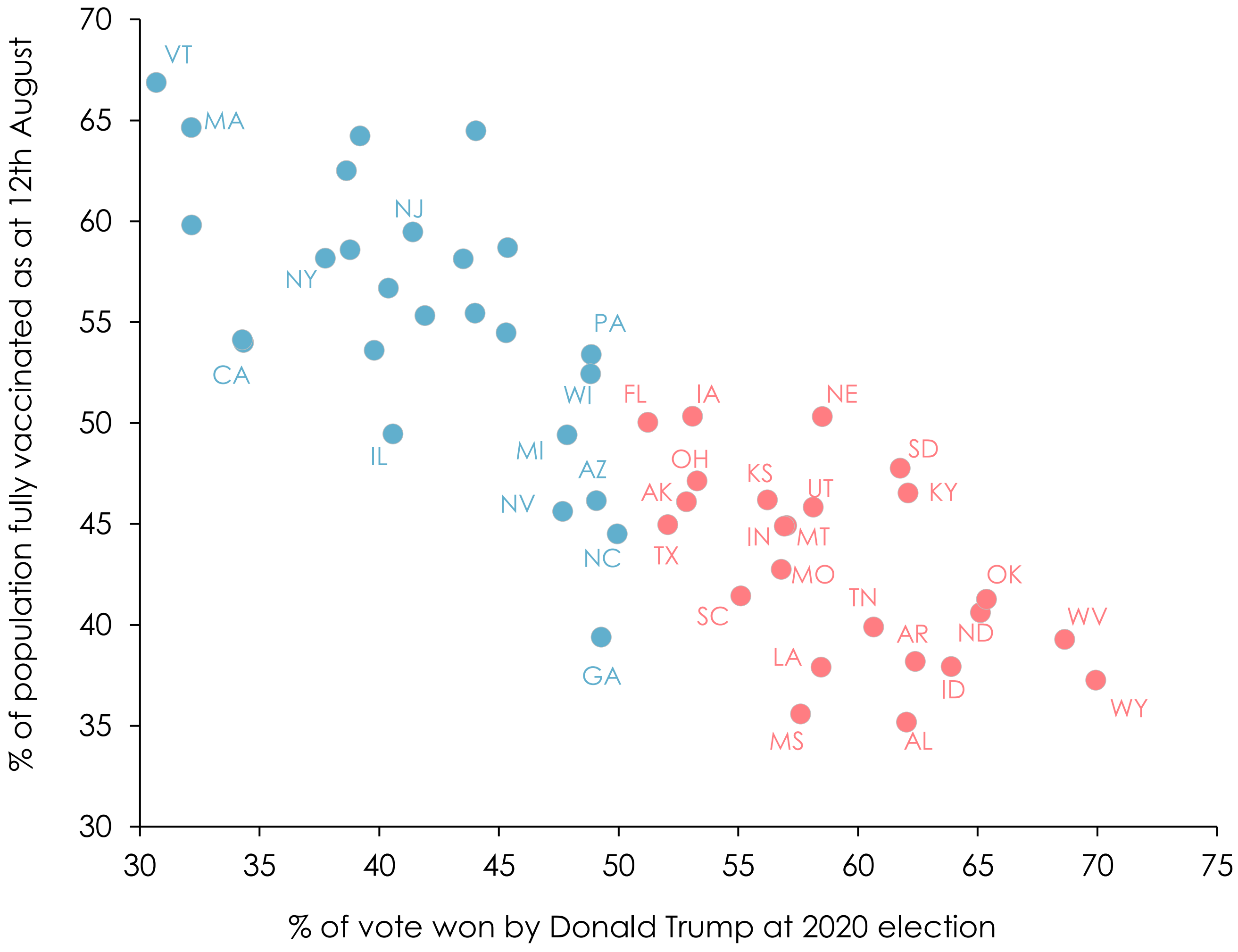
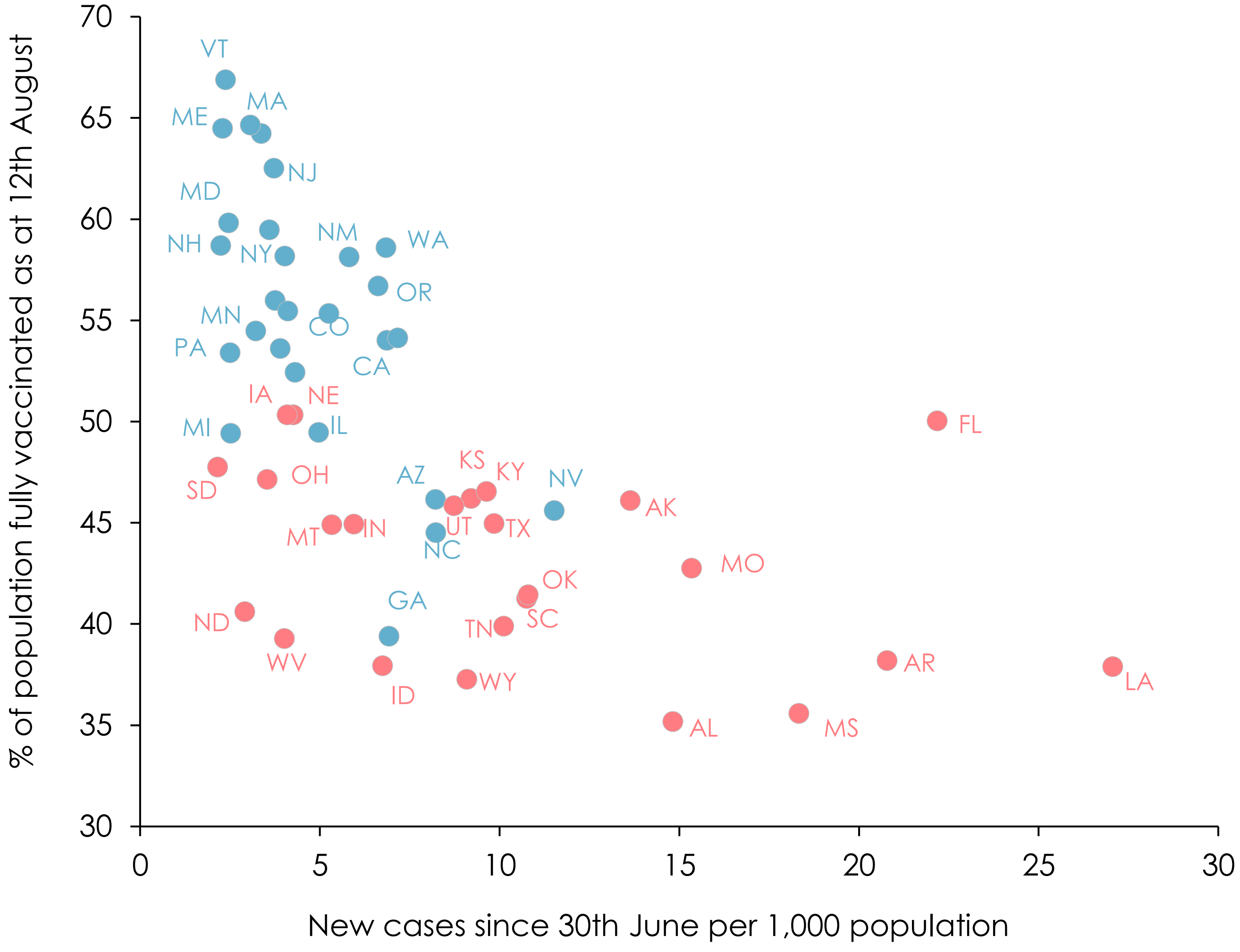
In the US there's a strong correlation between voting patterns and vaccine hesitancy, and between vaccination rates and infection rates

Vaccination rates vs Trump vote at 2020 elections, by state



Vaccination rates vs infection rates since 30th June, by state



Sources: The Cook Political Report; Our World in Data; USA Facts; Corinna. Return to "What's New".

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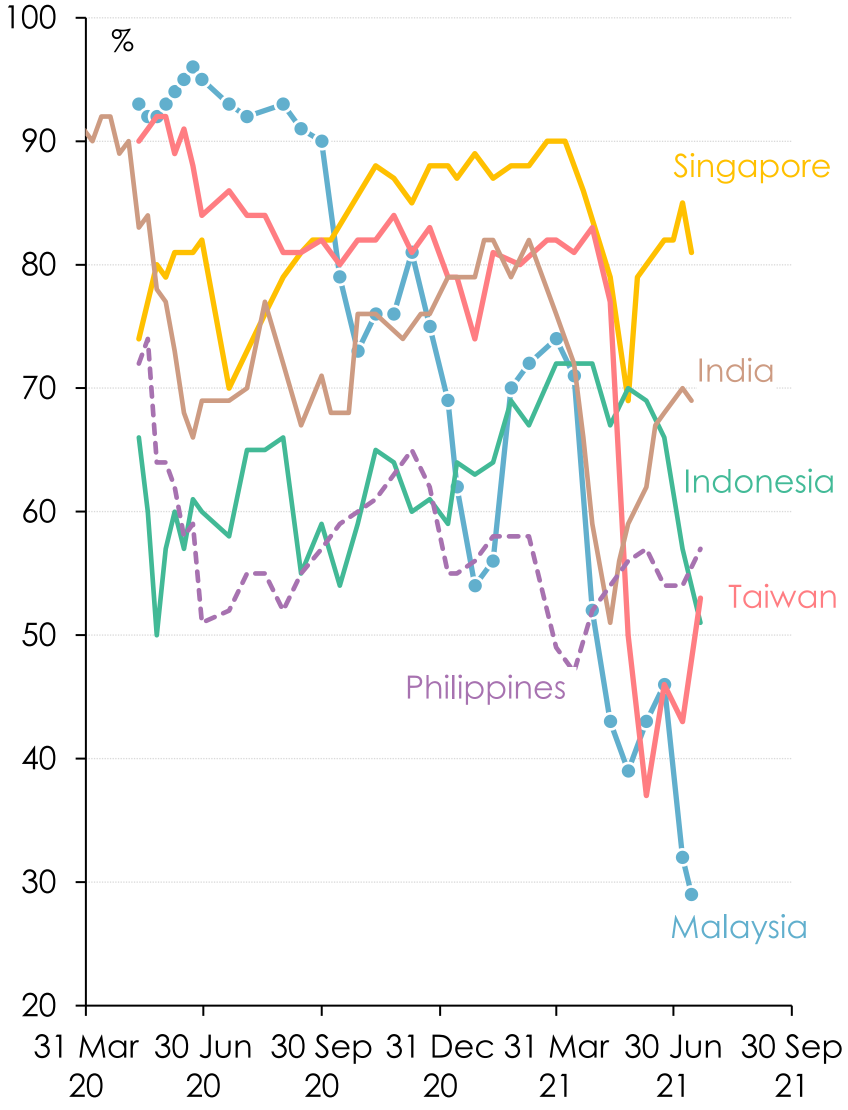
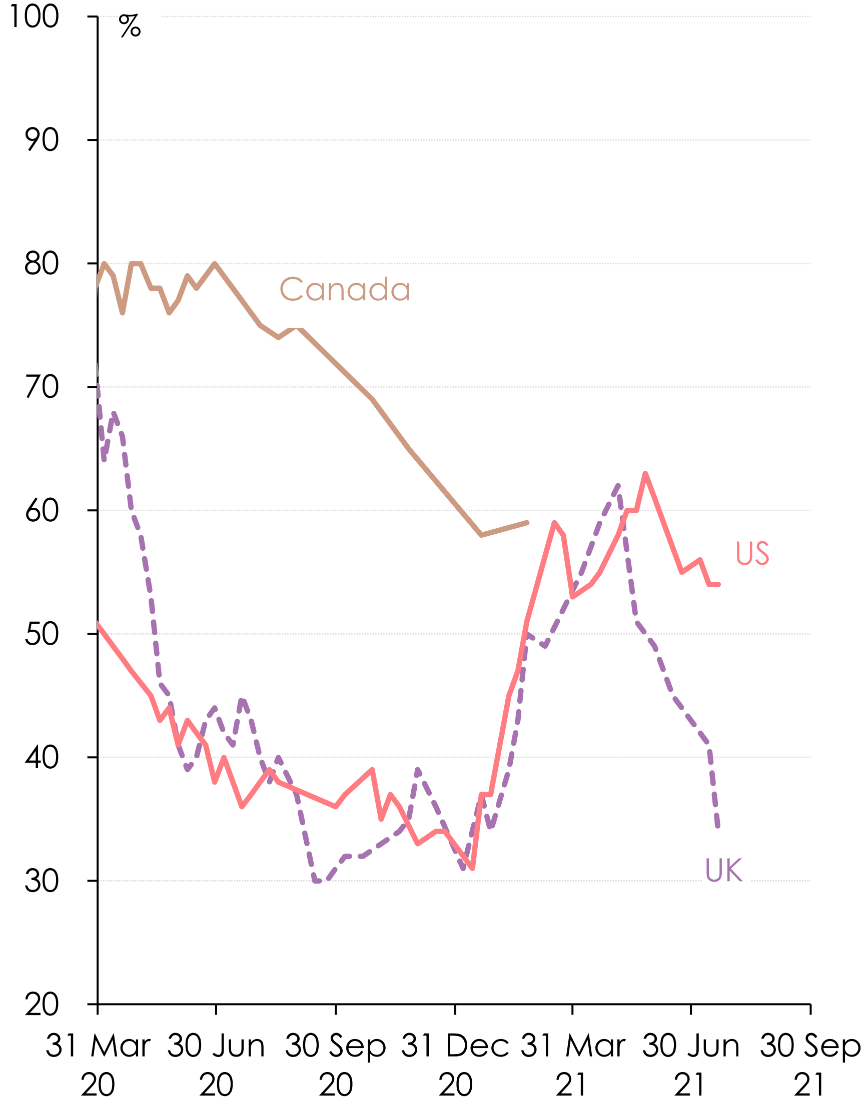
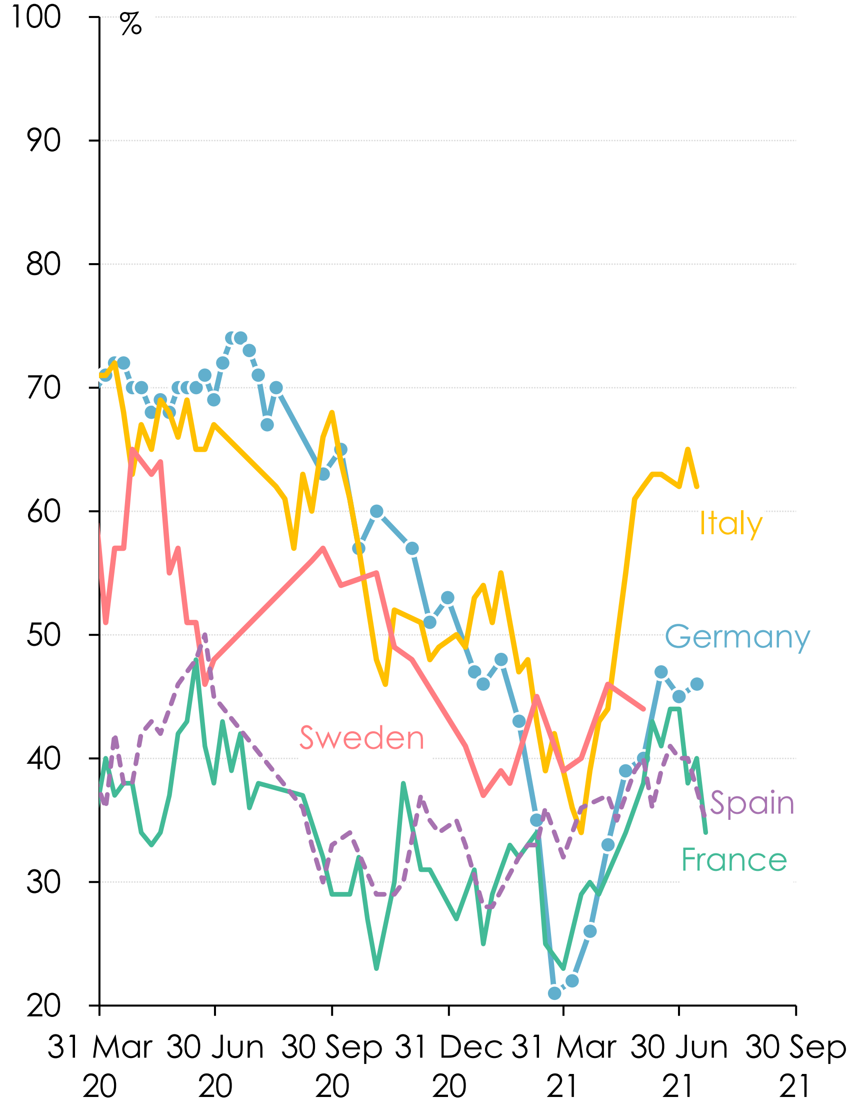
Voter approval of some Asian governments' handling of Covid has declined with the recent rise in infections – as it also has in the UK

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



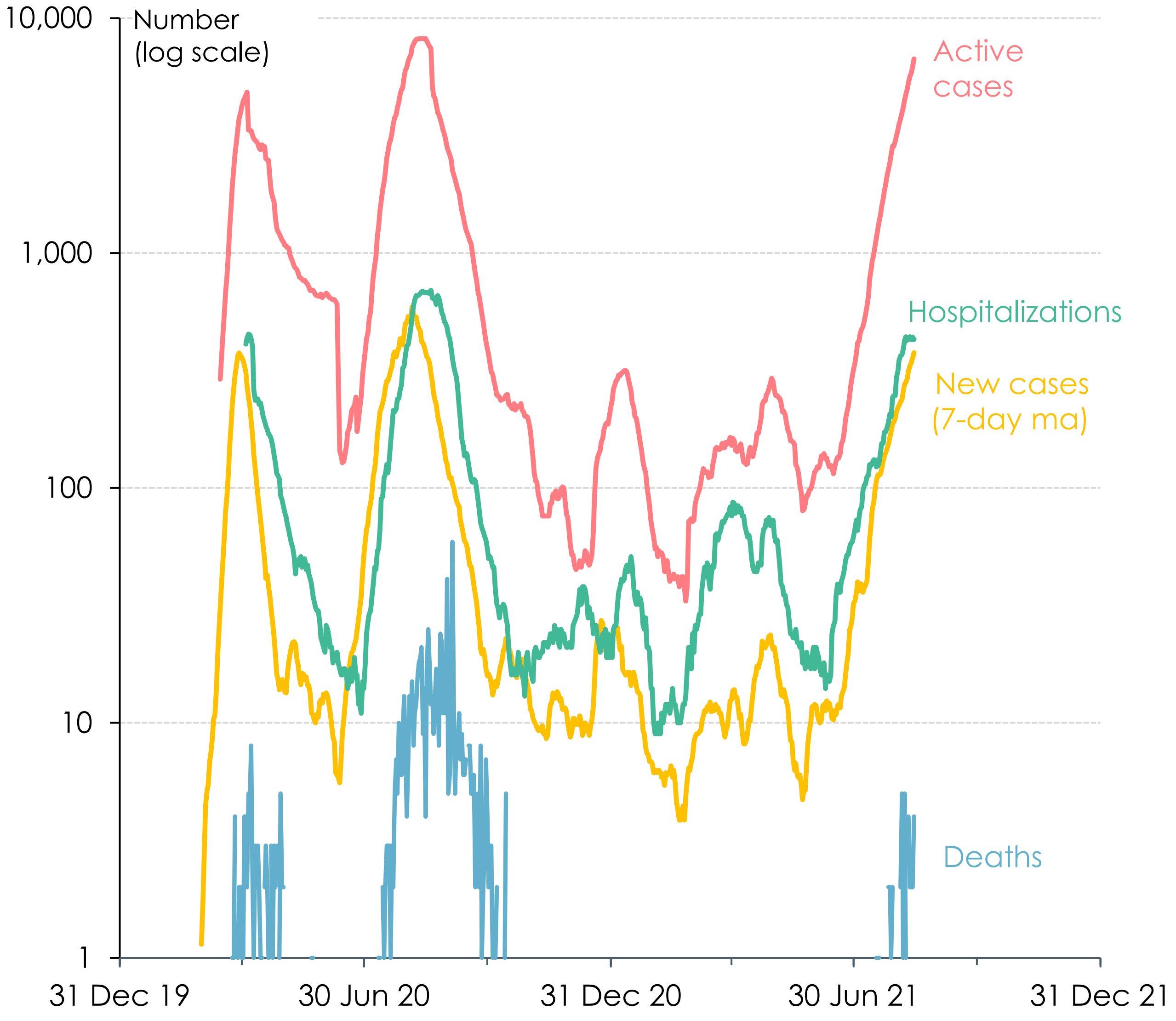




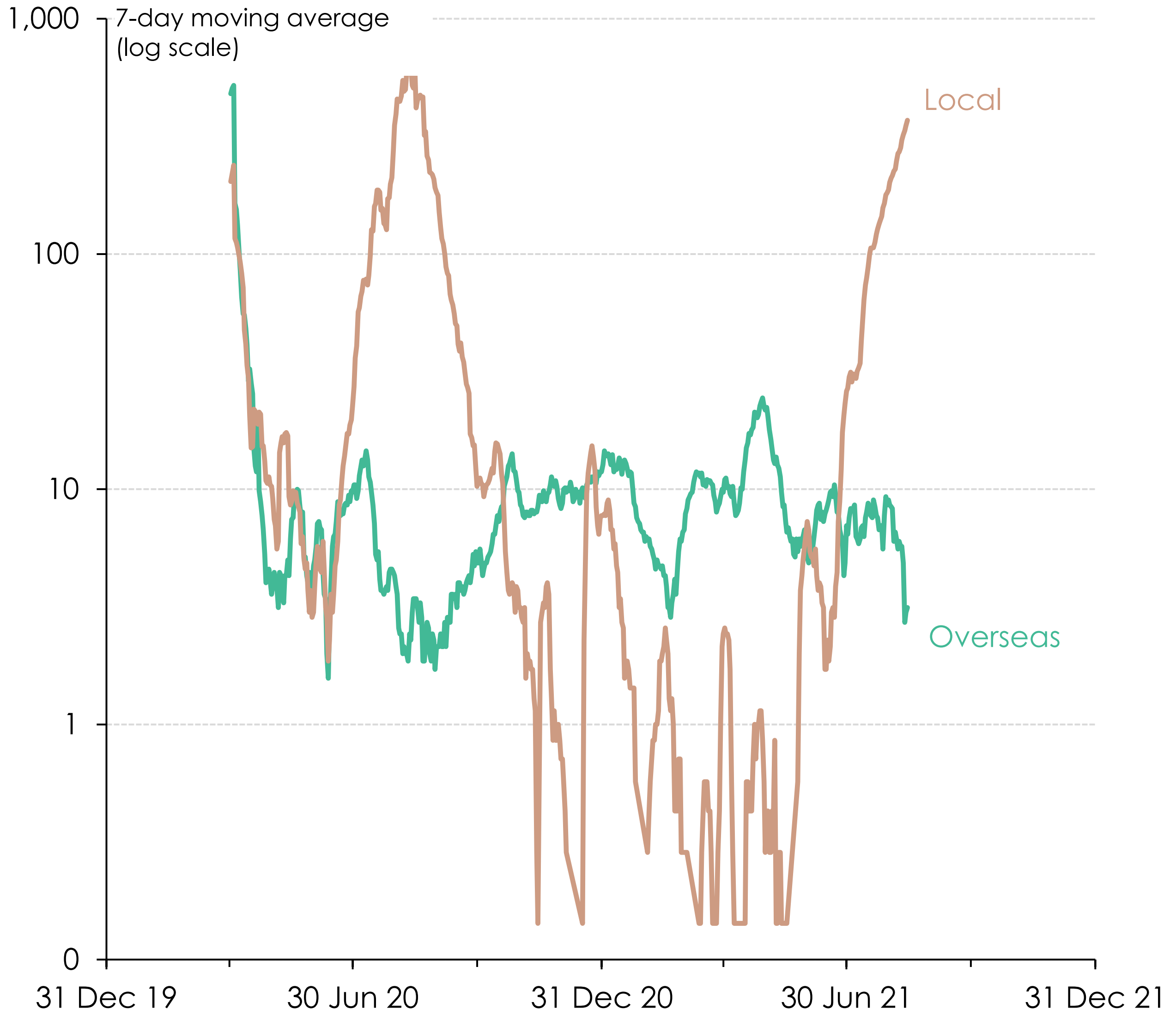
Note: There have been no new polls published in the past two weeks. *Source:* YouGov, Covid-19 tracker: government handling. Return to "What's New".

Australia recorded 2,478 new cases this week, the most since the first week of August last year – and all but 21 of them were 'locally acquired'

Cases, recoveries, hospitalizations and deaths



New cases, by source



Note: Data up to 13th August. *Source:* covid19data.com.au. Return to "What's New".

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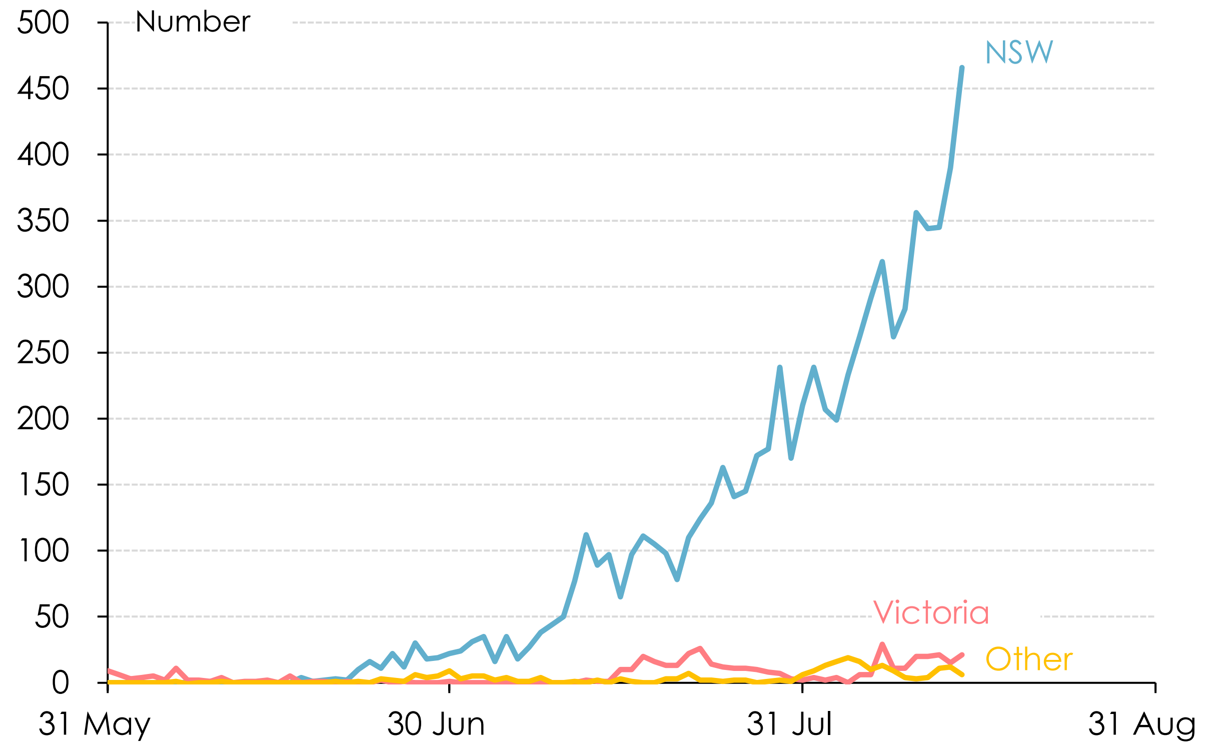
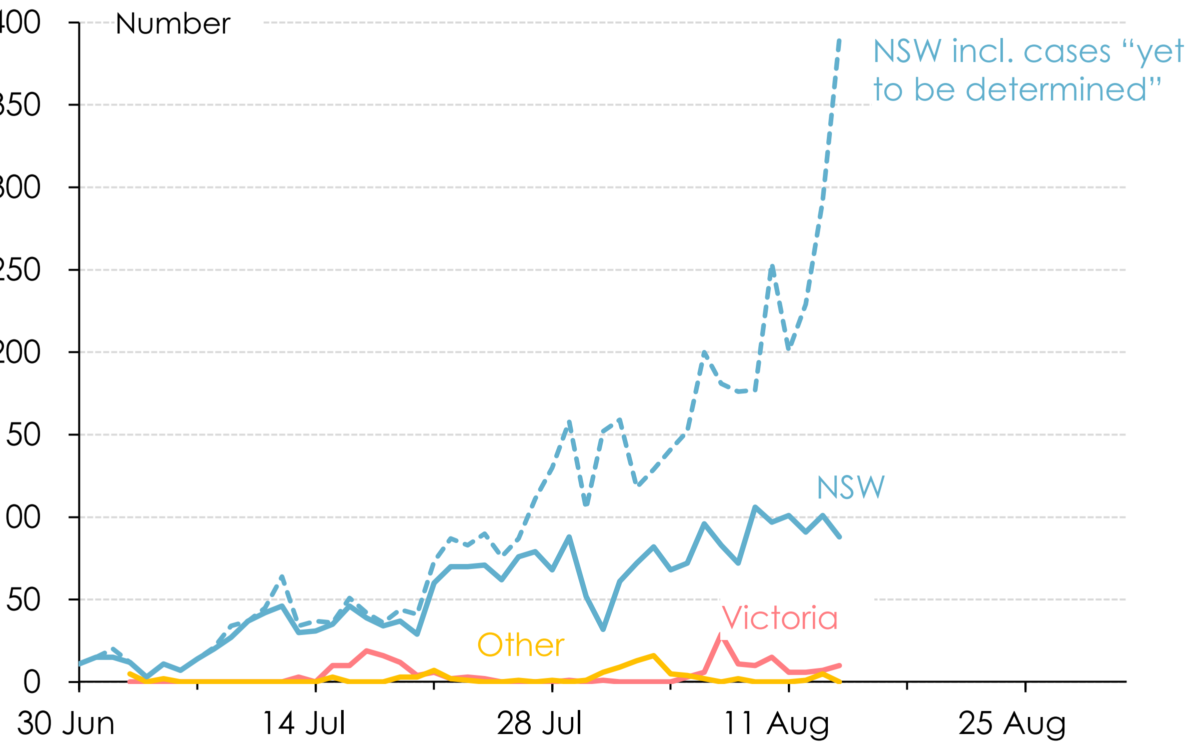
NSW has yet to curb the spread of 'locally acquired' infections, with 2,316 new cases this week including up to 1,510 'infectious while in the community'

New locally-acquired cases



Number of cases 'infectious while in the community'

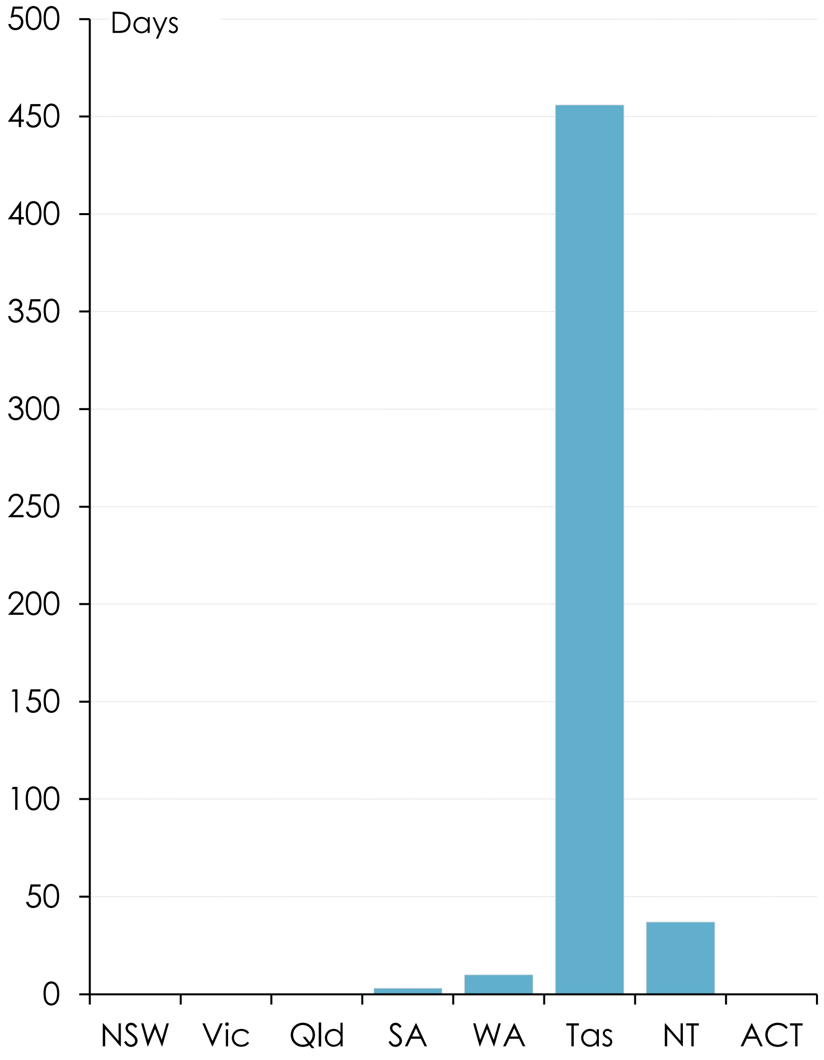


- **Of particular concern to NSW public health authorities is the ongoing high number of new cases of people 'infectious while in the community' (ie not in quarantine or isolation), which averaged 93 a day this week (or 216 a day if yet-to-be-determined cases are included) – even after seven weeks of lockdown, this number still hasn't peaked**
- **The lockdown in Sydney was extended last week to Newcastle and the Hunter Valley, and this week to some parts of northern and western NSW**
- **Restrictions were eased in non-metropolitan Victoria this week, but the lockdown in Melbourne has been extended for at least another week, while a seven-day lockdown was imposed in Canberra beginning this past Thursday**

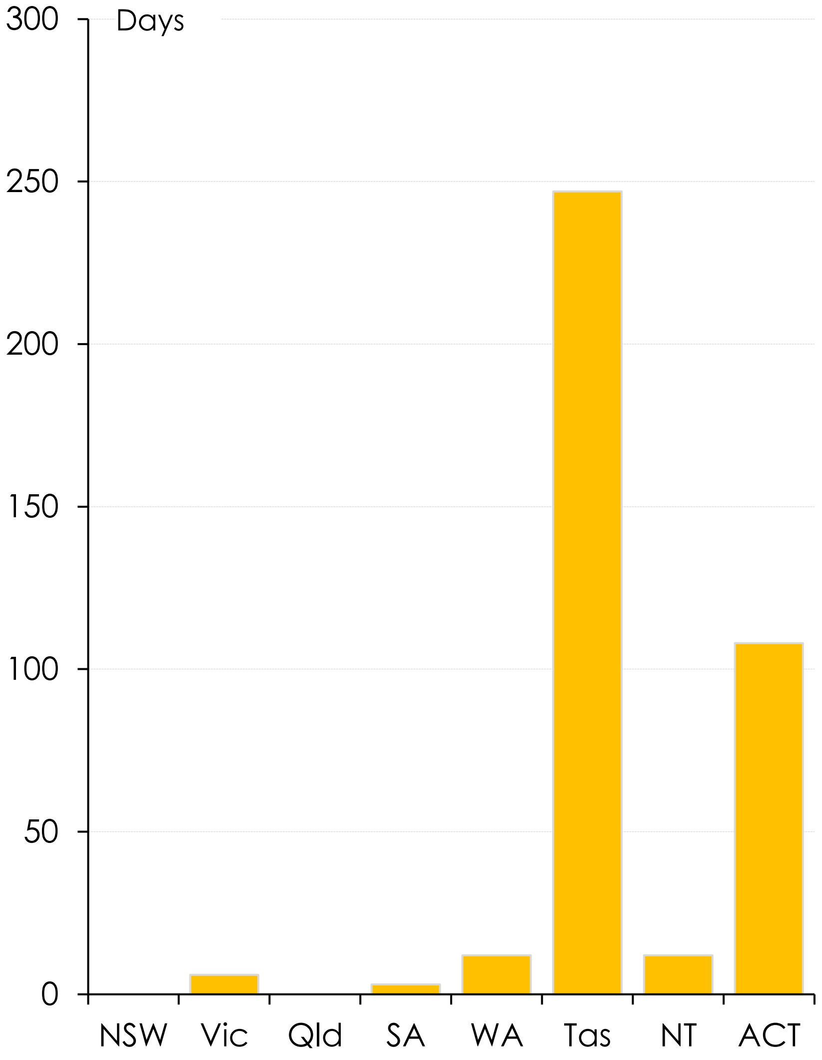
Note: Data up to 13th August. *Source:* covid19data.com.au. Return to "What's New".

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

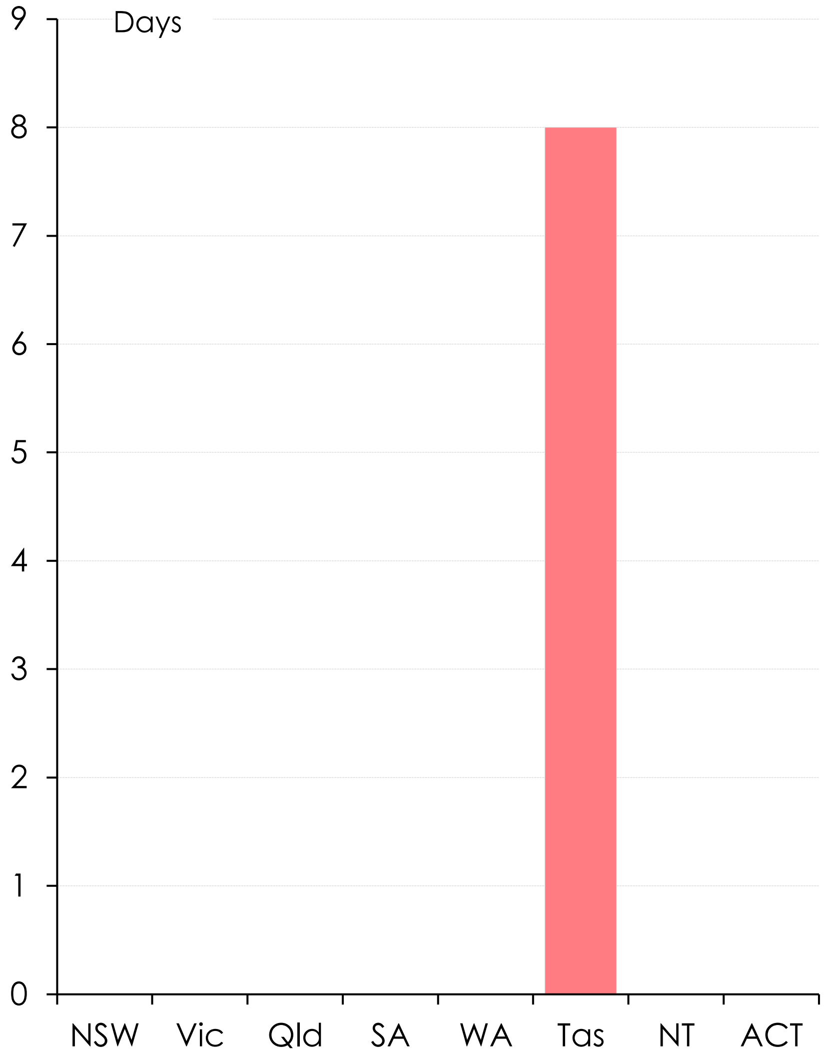
Days since last new locally-acquired case



Days since last new overseas-acquired case



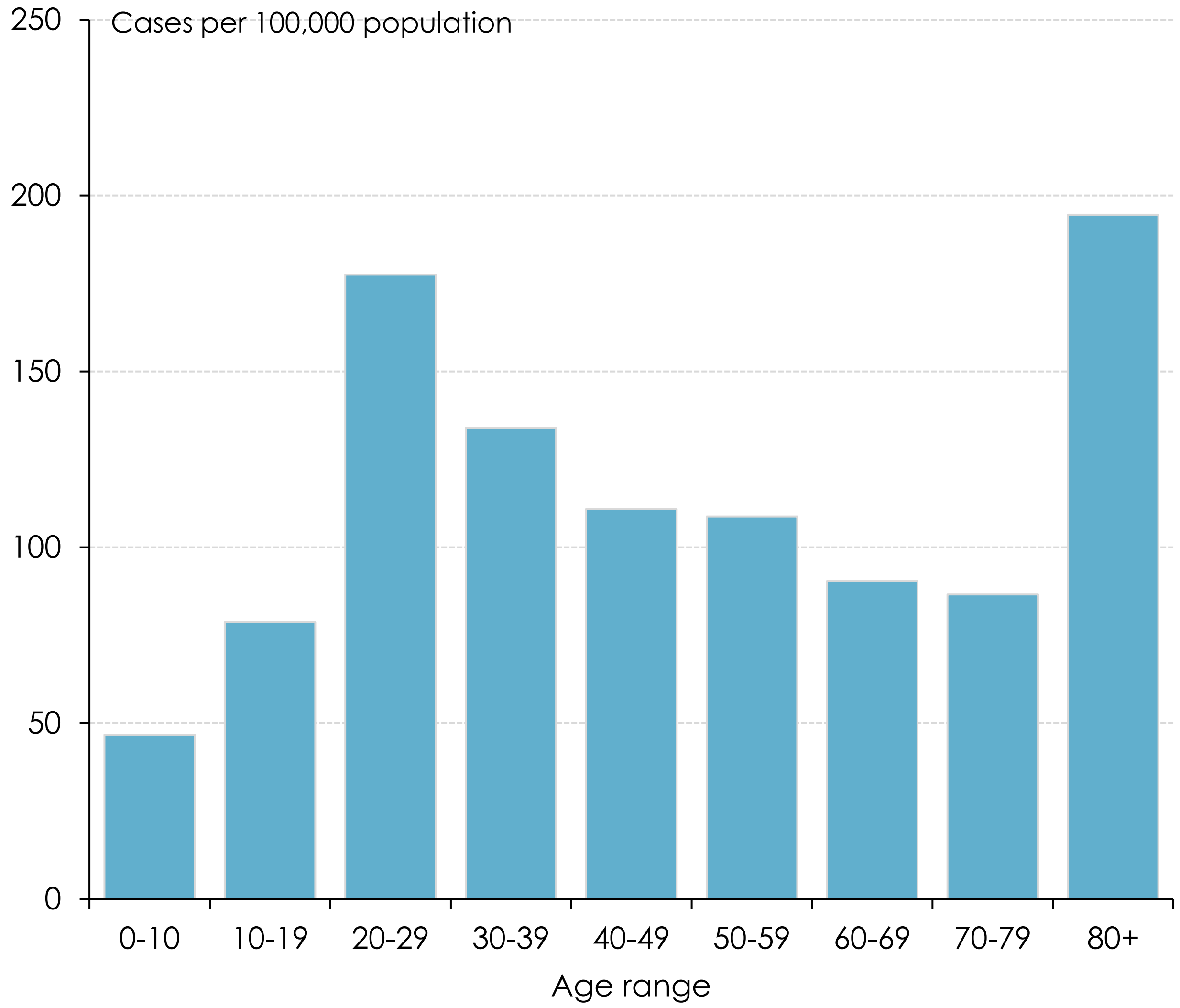
Days since there were any active cases



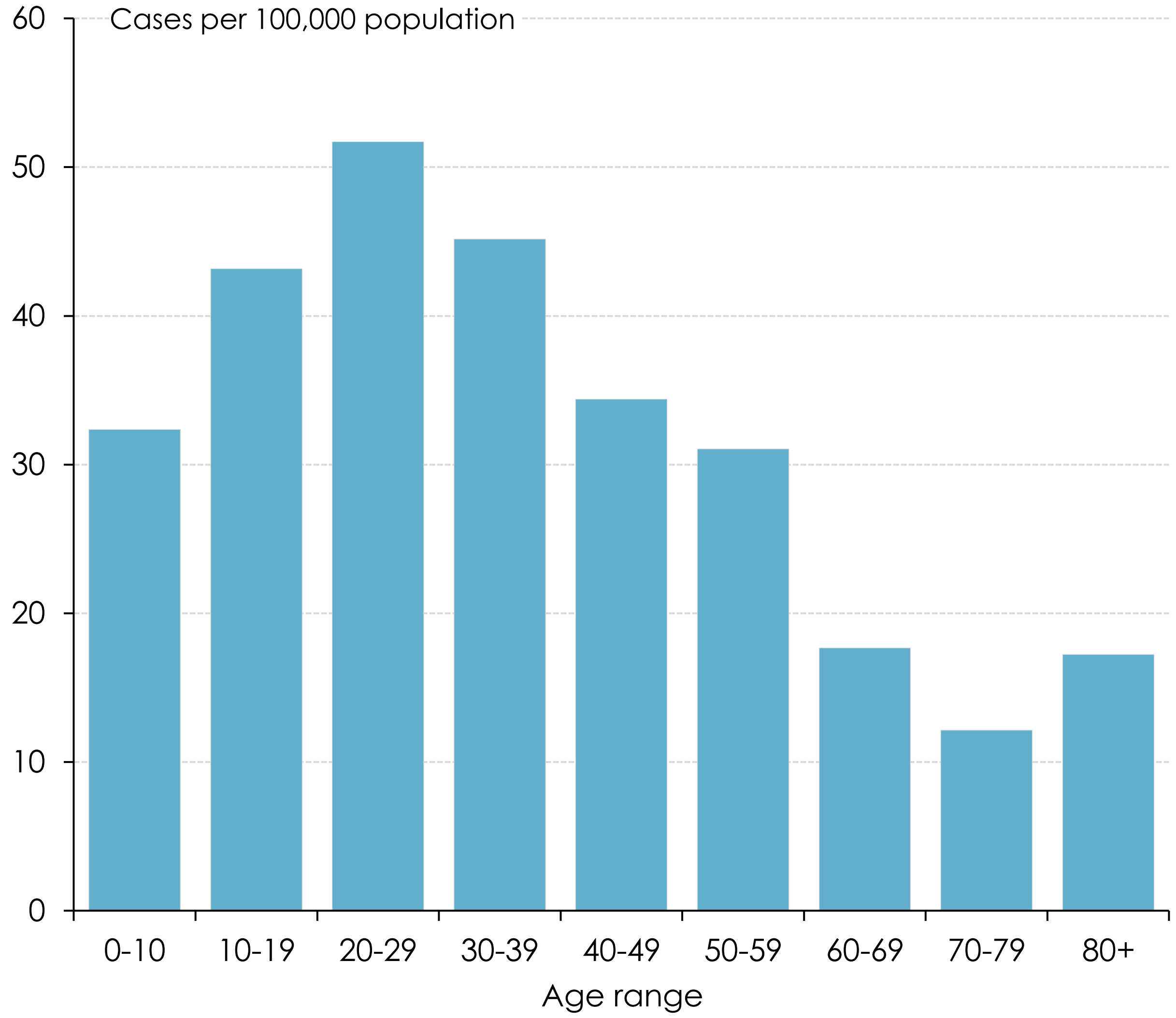
Note: Data are for 13th August. *Source:* covid19data.com.au. Return to "What's New".

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 13th August. *Source:* Australian Government Department of Health; ABS; Corinna. Return to "What's New".

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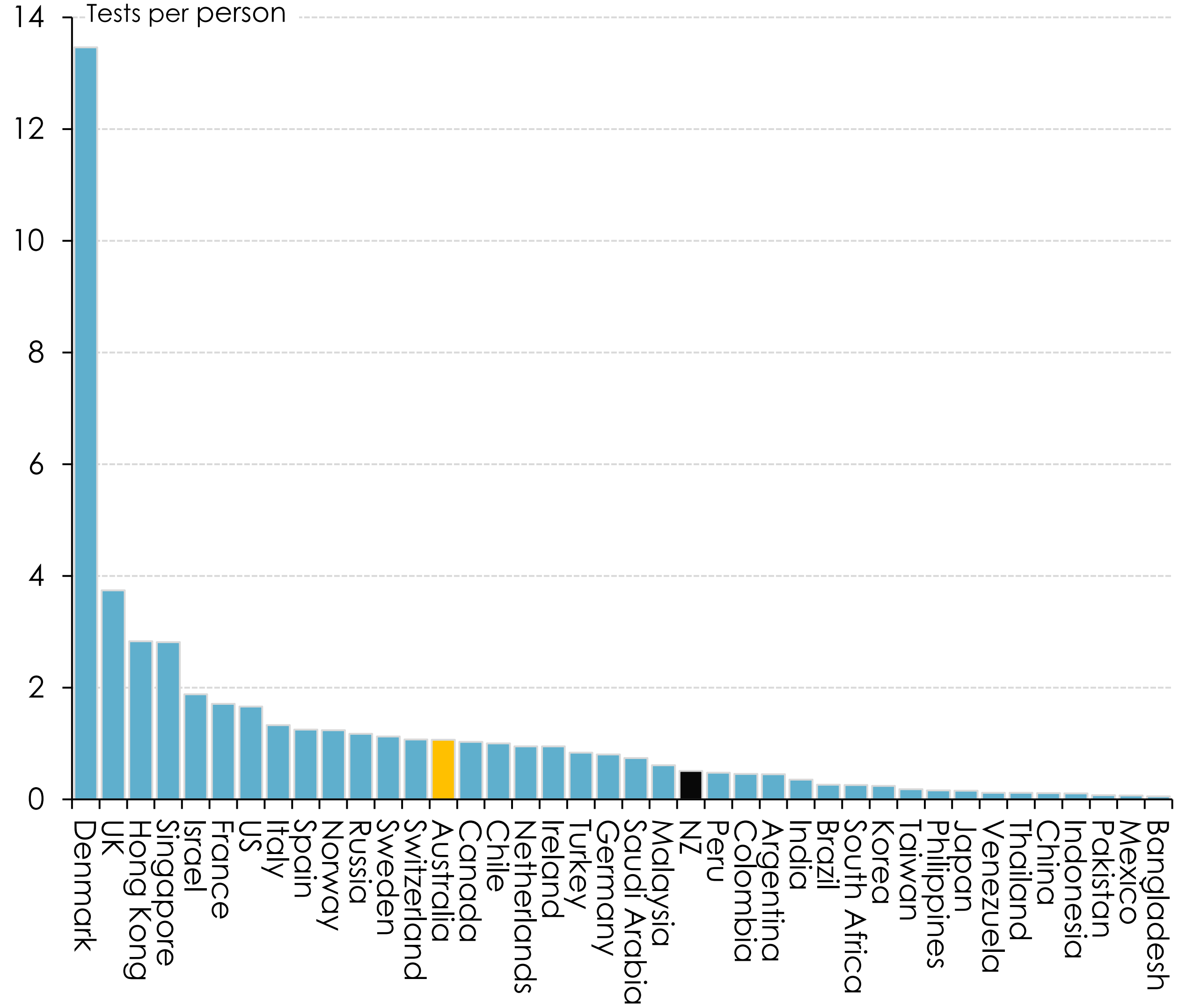
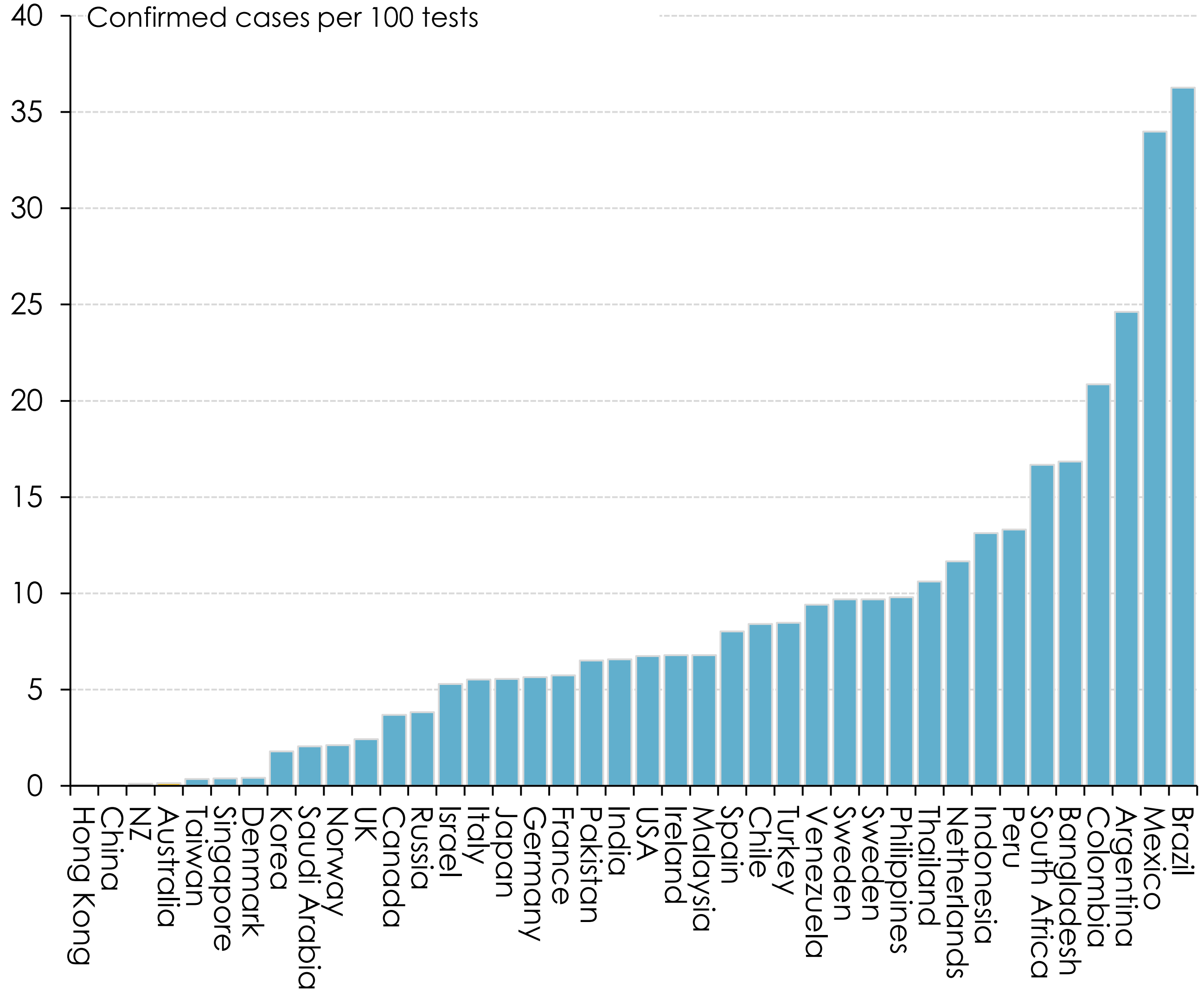
Australia's testing regime appears sufficiently broad for the low infection and death rates to be seen as 'credible' (ie not due to low testing)

Tests per capita



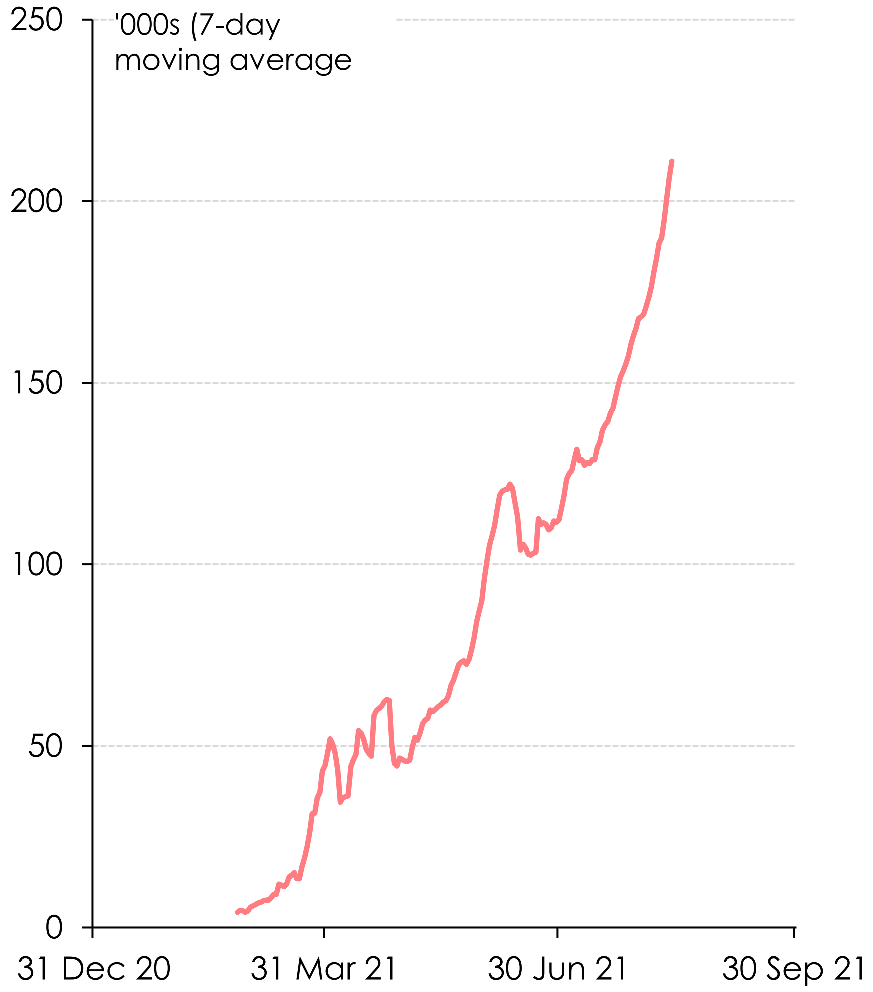
Confirmed cases per 100 tests



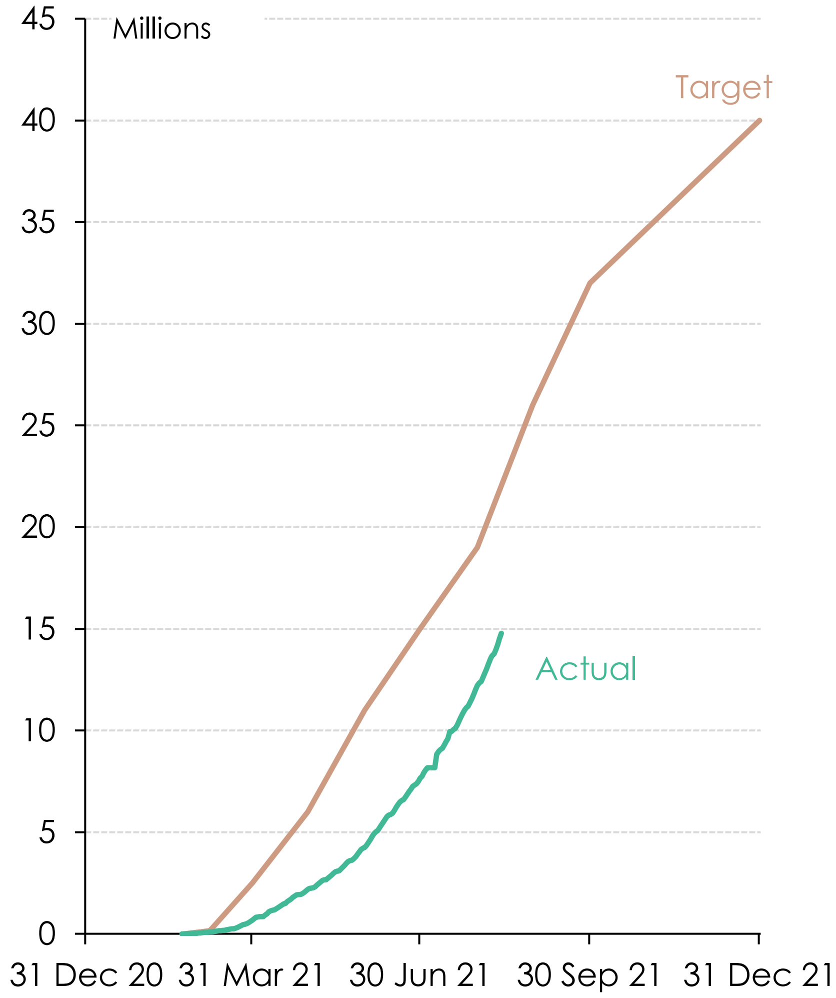
Note: Data up to 13th August (and yes it appears, at face value, that Denmark has tested its entire population more than a dozen times, the UK more than three times, and Singapore, Israel, Hong Kong, the US, France, Italy and Spain at least once). A high number of confirmed cases per 100 tests combined 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".

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

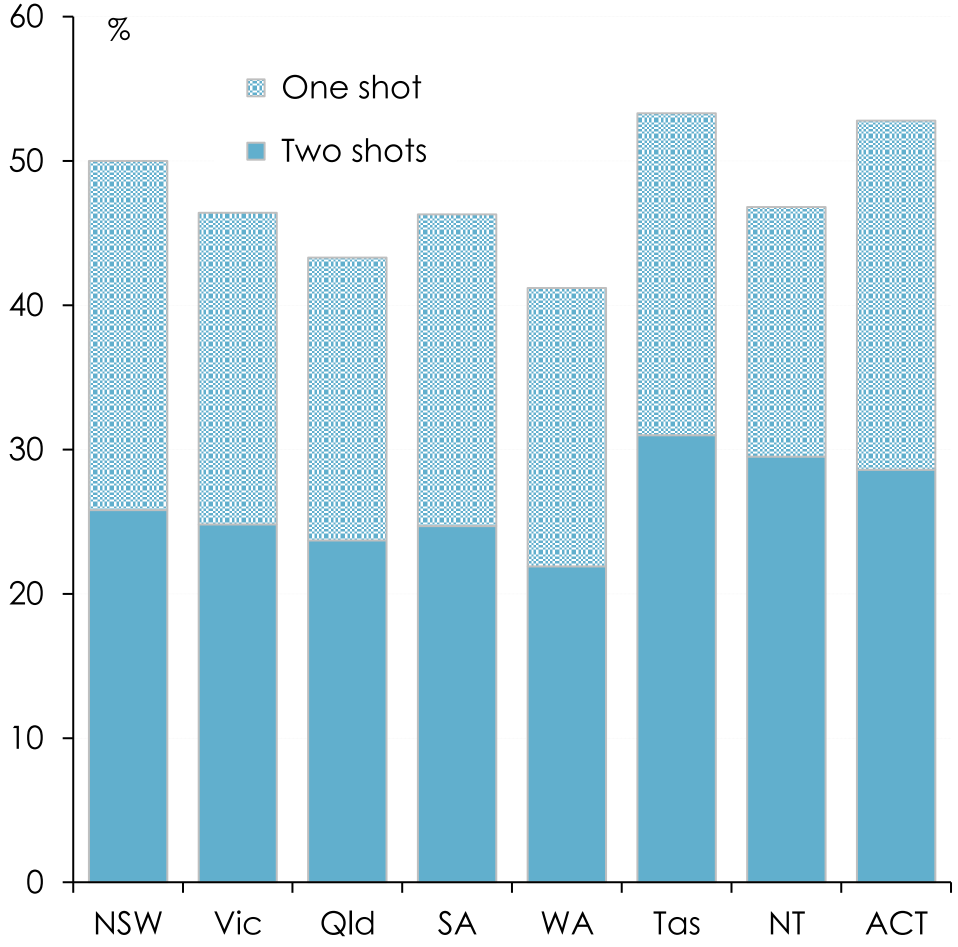
Daily number of vaccines administered



Vaccine doses administered vs Government target



Percentage of adult population vaccinated, states and territories



Note: Data up to 13th August. *Sources:* covid19data.com.au; Australian Department of Health, COVID-19 vaccine rollout update on 14 March 2021.
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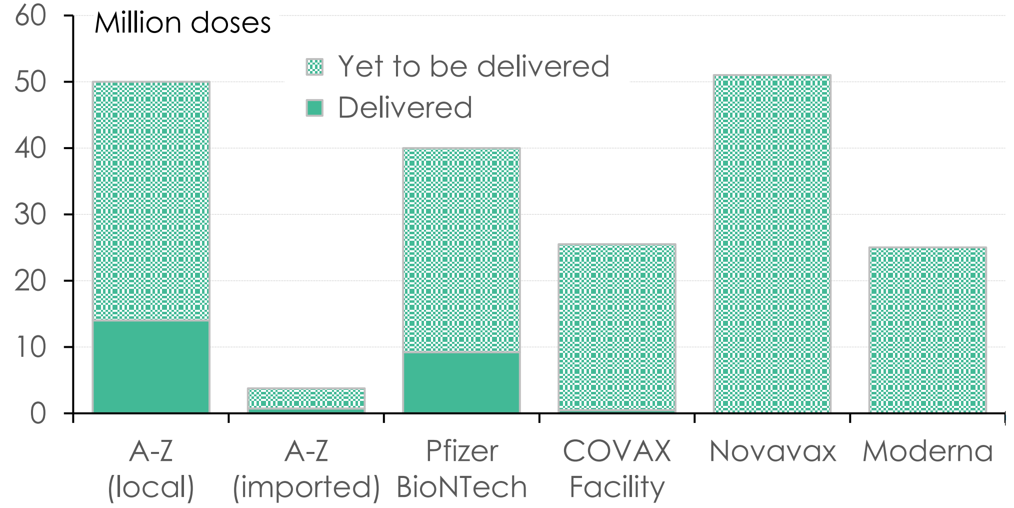
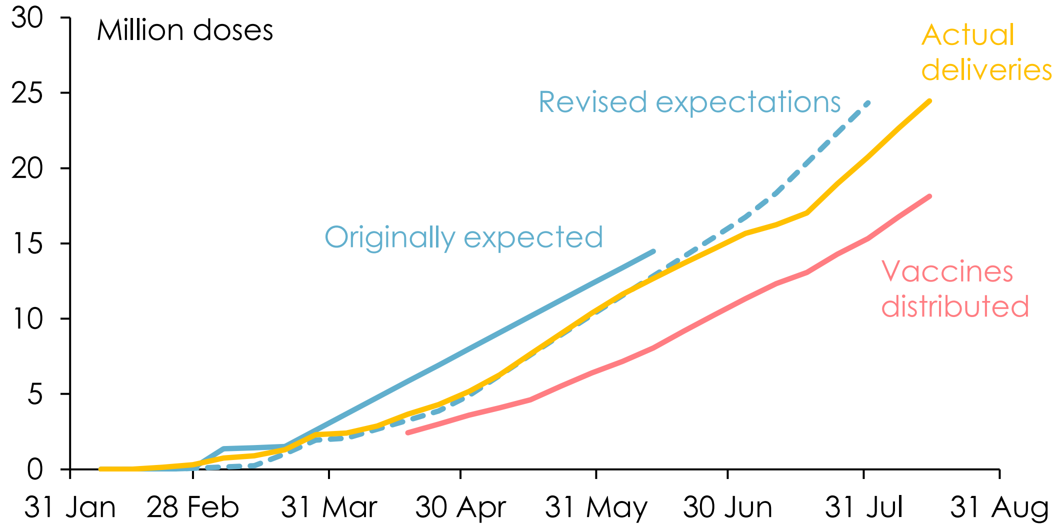
What's gone wrong with Australia's vaccine roll-out?

Australia's vaccine supplies



Original & revised expectations vs supplies

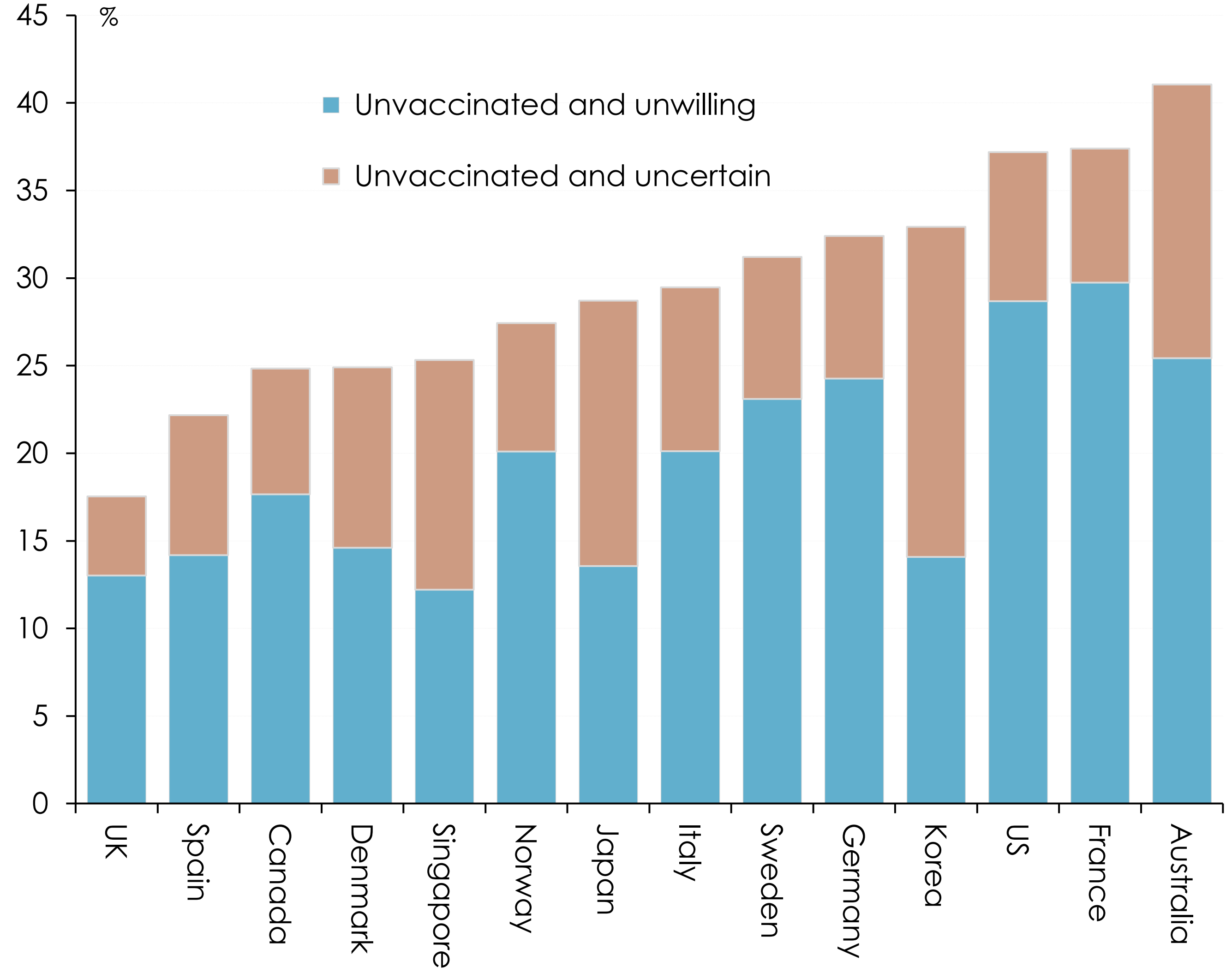


Note: Vaccine supplies are as at 13th August.
Source: https://www.covid19data.com.au/vaccines

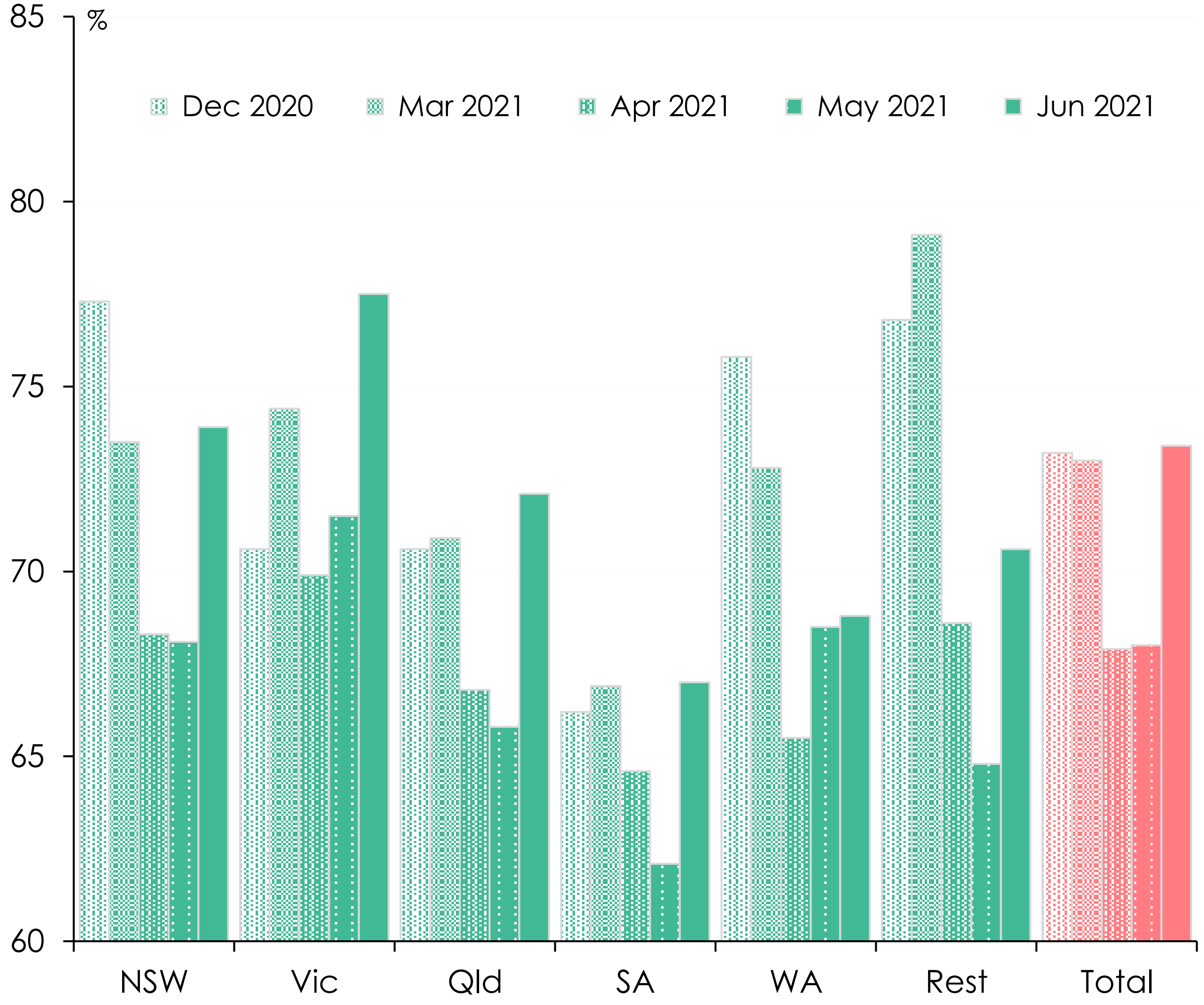
- **Australia originally put too many of its vaccine 'eggs' in the Astra-Zeneca 'basket' – in marked contrast to (in particular) Canada**
  - partly because the Astra-Zeneca vaccine was easier to store, and considerably cheaper, than the Pfizer vaccine
  - and partly out of a fixation on what the Government likes to call 'sovereignty' (because 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 1st August, the number of locally-produced doses was still 3.6mn (23%) behind the revised schedule
- **Australia's success in suppressing the virus probably bred compla-cency 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**
  - but the Government and its advisors failed to put those risks into any kind of perspective (cf. other risks which people bear willingly
- **Australia has a very high rate of 'vaccine hesitancy' (see next slide) which concerns about A-Z side effects 'played into'**
  - and which the Government has been conspicuously unwilling to address

‘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, July 2021



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



Note: Results for UK are for May; for Canada, Denmark and Singapore are for June.
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".

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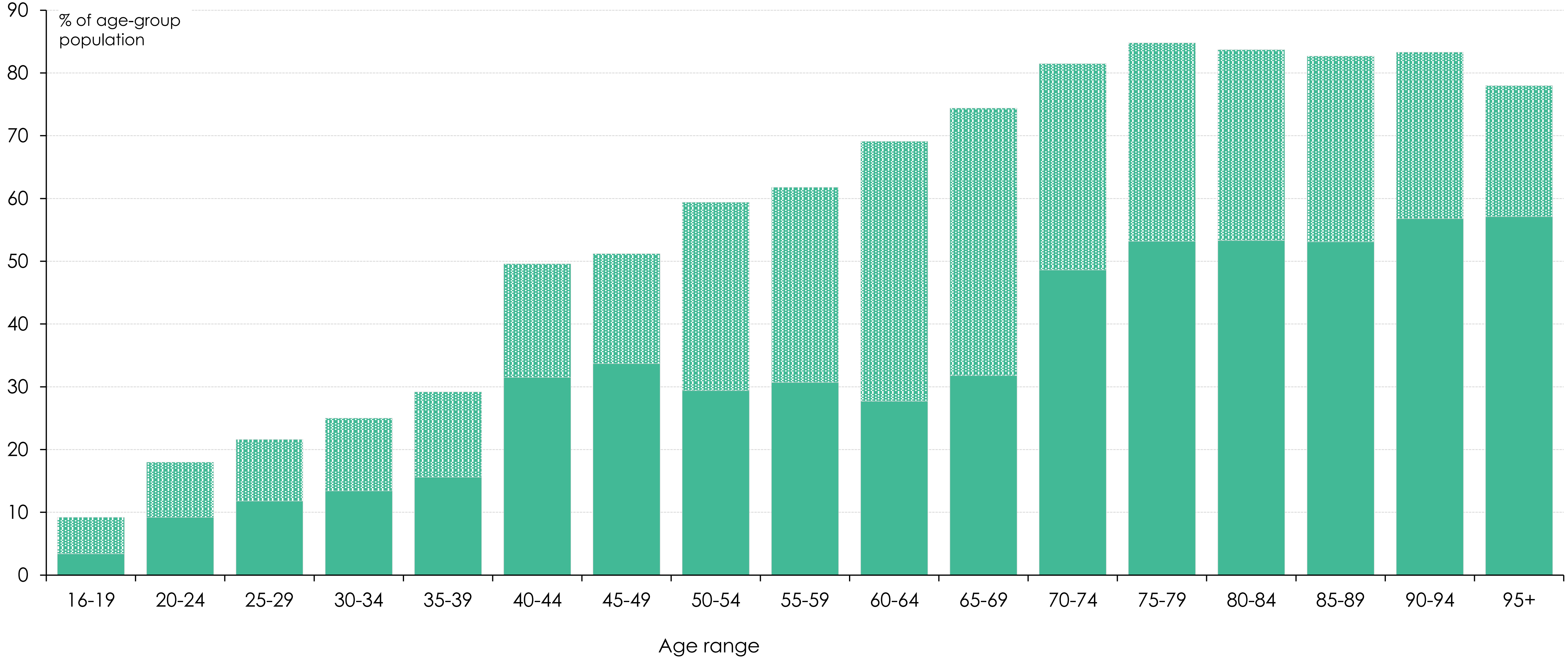
About 80% of Australians aged 70 and over have had at least one jab – but rates are much lower in the age groups now recording the most cases

Vaccination rates by age group as at 13th August



Source: Commonwealth Department of Health, Covid-19 Vaccine Roll-out update, 14th August 2021. Return to "What's New".

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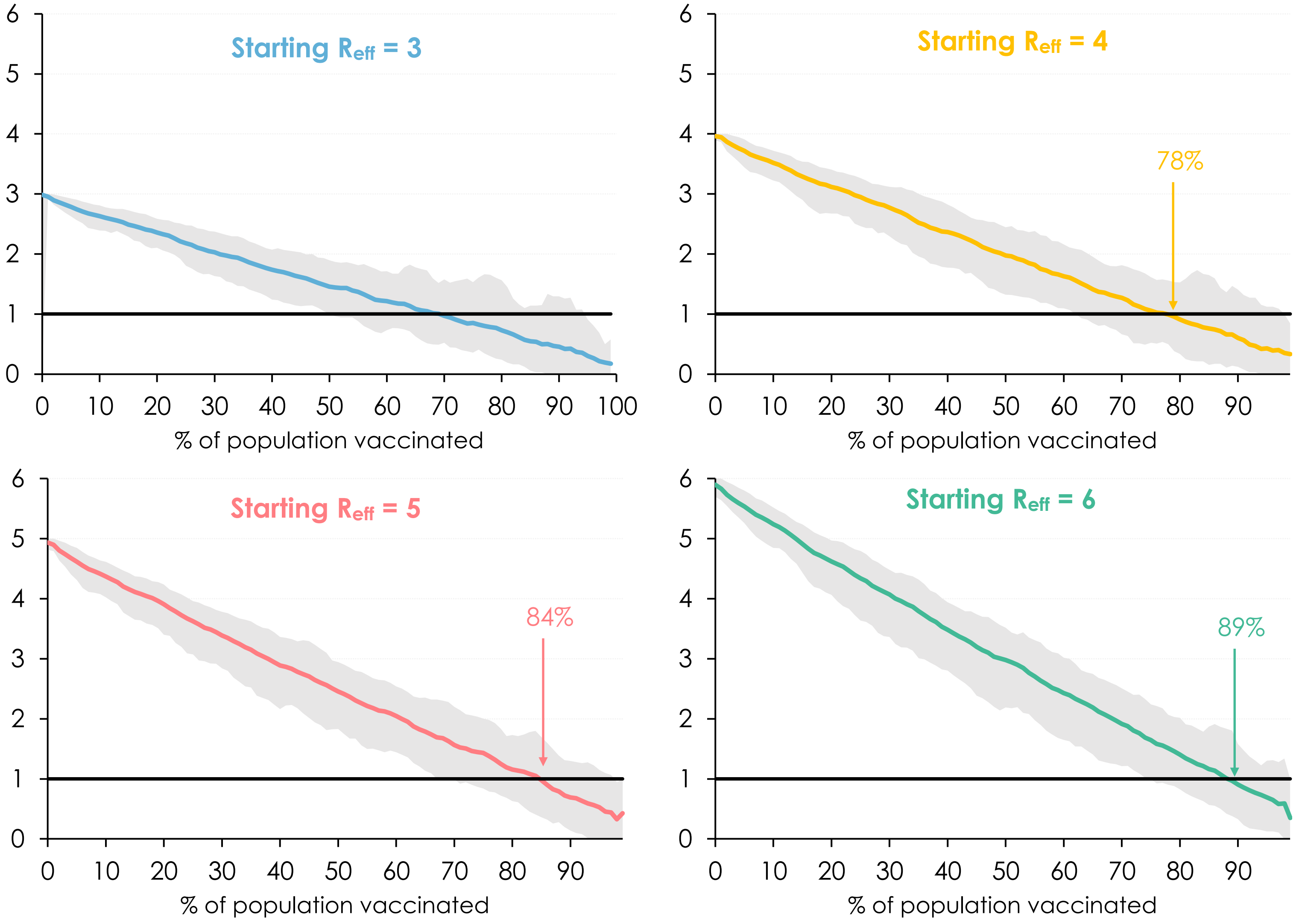
Modelling released by the Grattan Institute suggests that a vaccination rate of at least 80% will be required in order to 'open up' safely

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 last month 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

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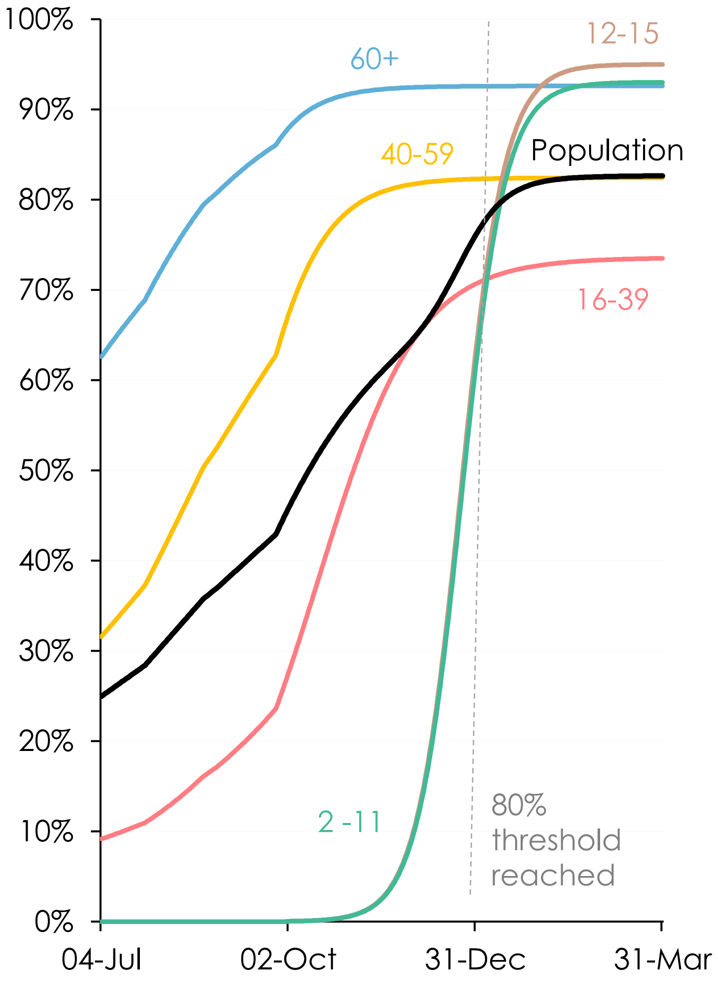
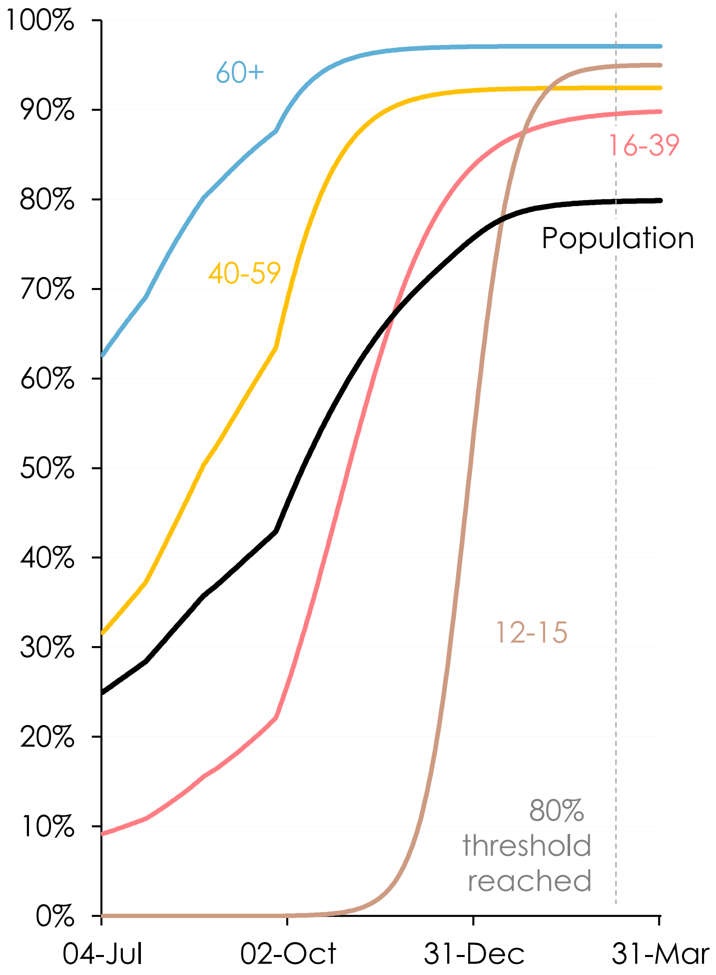
The 80%-of-the-population threshold could be achieved by the end of this year given sufficient commitment by the Federal Government

Plausible vaccination rates by age group

Assuming children aged 2-11 can be vaccinated



Assuming children aged 2-11 can't be vaccinated

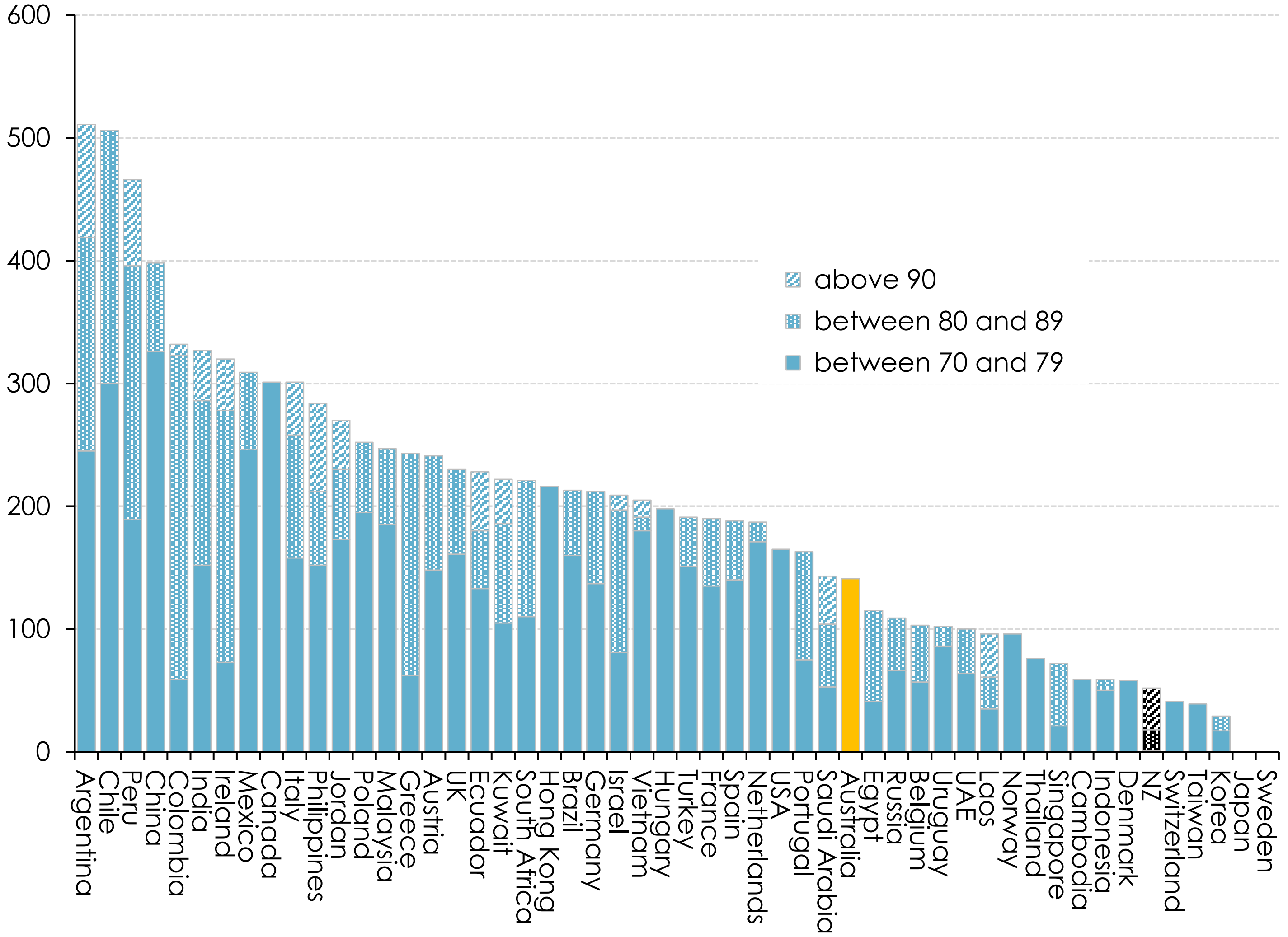


- Grattan's analysis suggests that, assuming a similar but slightly slower trajectory than in the UK, the '80% of the population' threshold could be attained by the end of the year with currently forecast vaccine supplies – provided that vaccines can be given to children aged 2-11
- If it's not possible 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

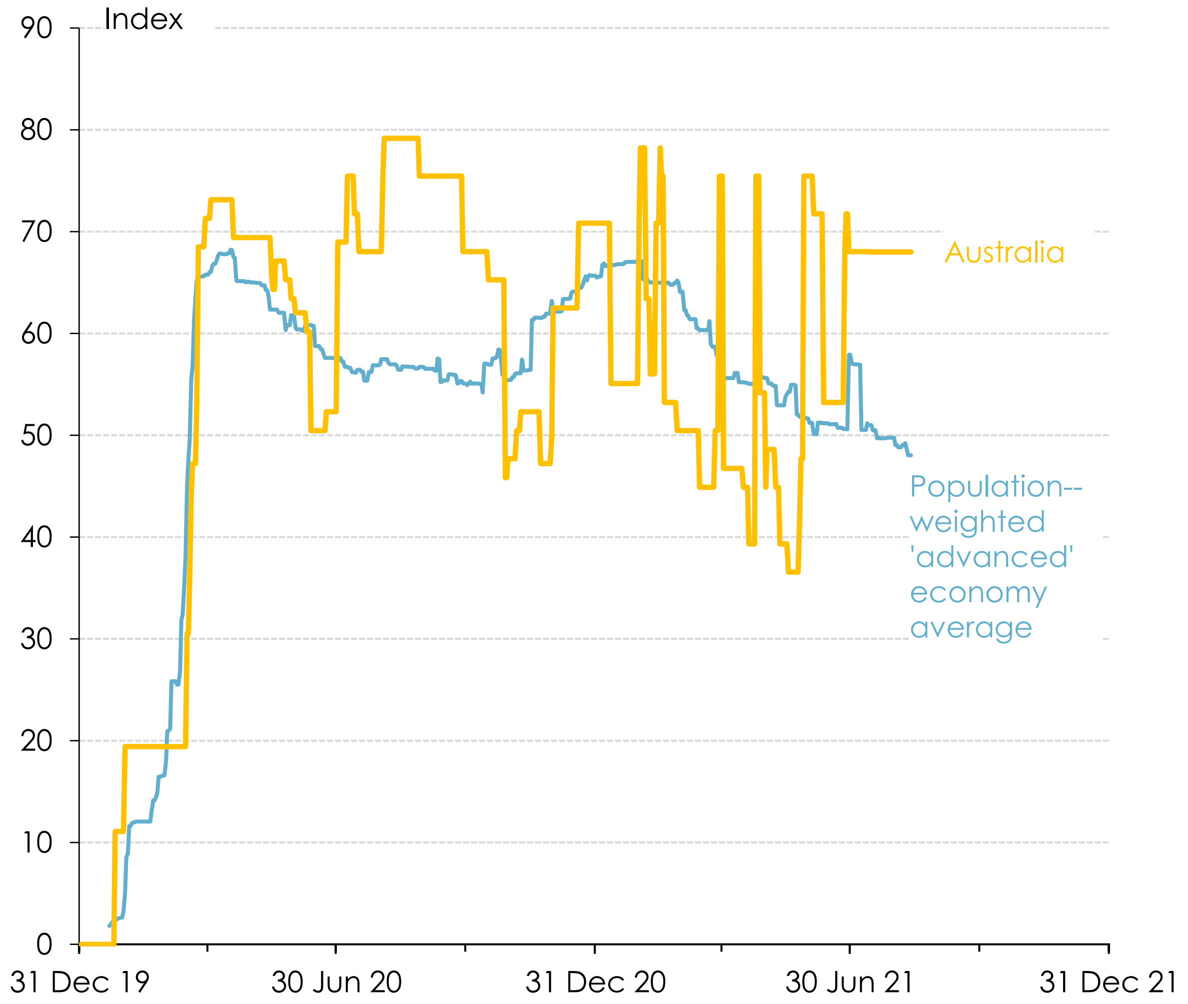
Source: Stephen Duckett, Danielle Wood, Brendan Coates et al, *Race to 80: Our best shot at living with Covid*, Grattan Institute, 27th July 2021.

Australia's 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 12th August. Return to "What's New".

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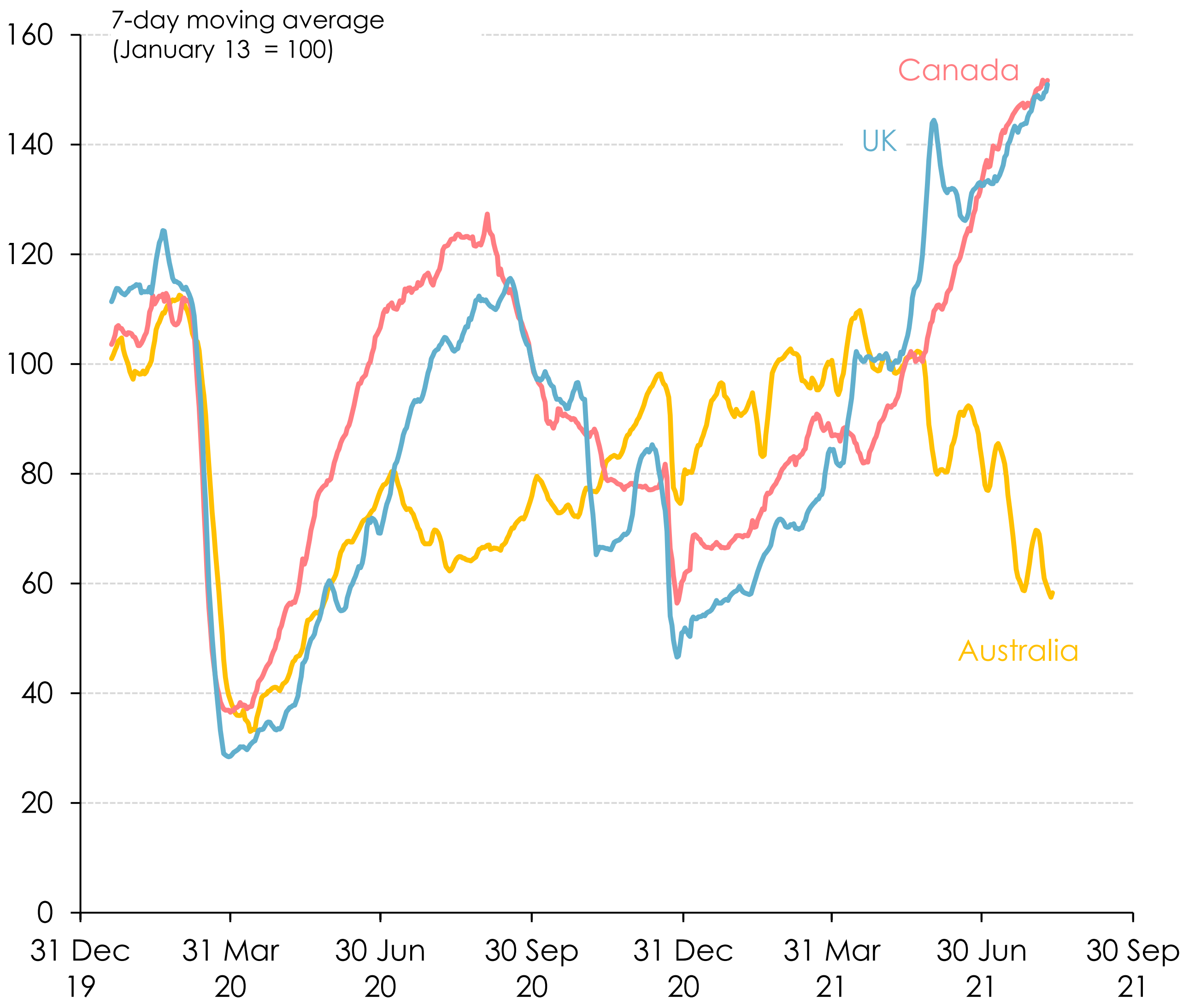
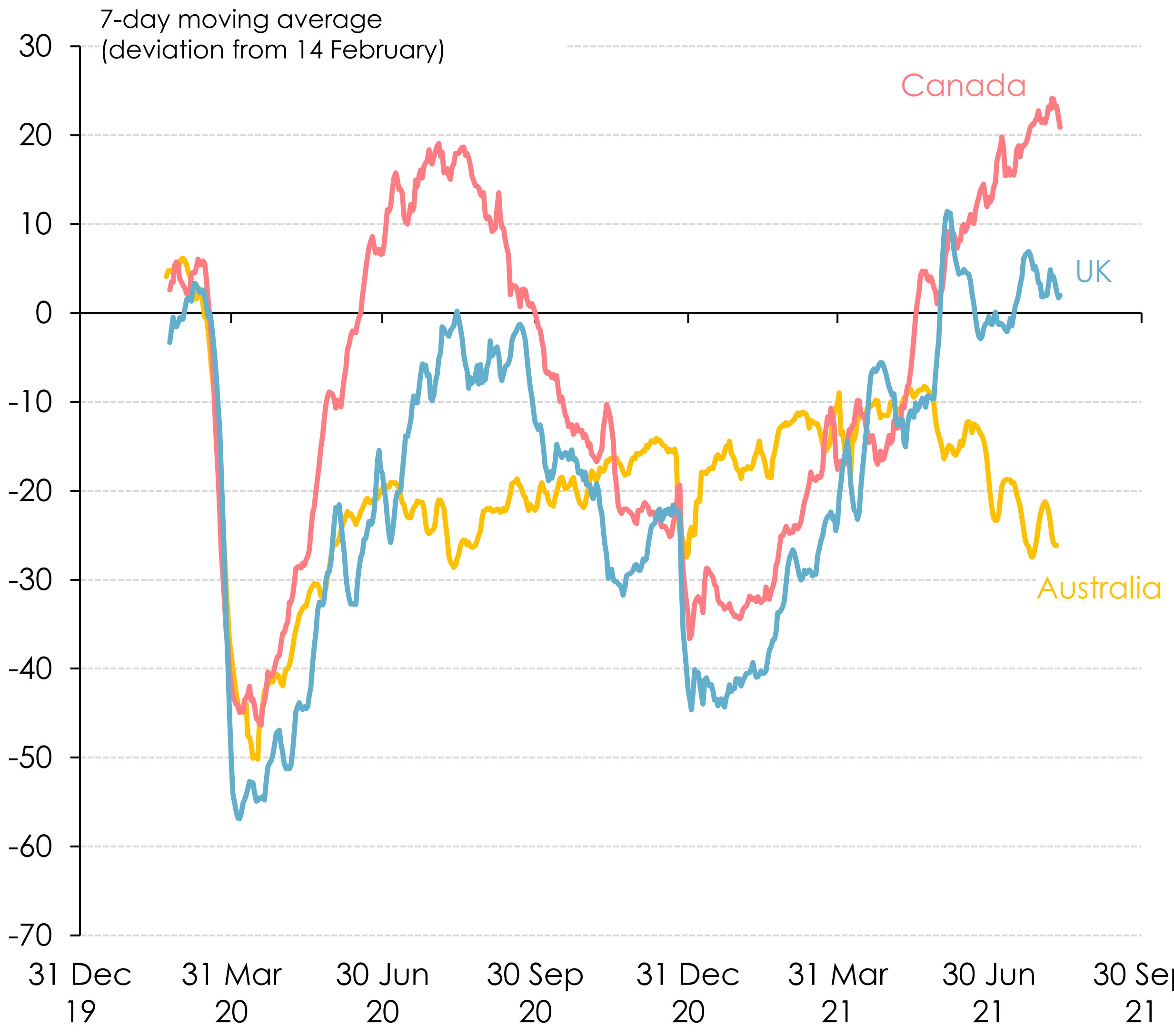
Mobility indicators give some sense of how more onerous restrictions will affect Australia's economy compared with (eg) Canada and the UK

Apple mobility indicators



Google non-residential activity mobility indicators



Note: 'Apple mobility indicator' is the average of three separate indicators for driving, use of transit and walking (data up to 12th August). Google 'non-residential activities' indicator is the average of separate indicators for workplaces, retail and recreation, groceries and pharmaceuticals, transit and parks (data up to 10th August.
Sources: Apple, Mobility Trends Reports; Google, Covid-19 Community Mobility Reports; Corinna Economic Advisory. Return to "What's New".

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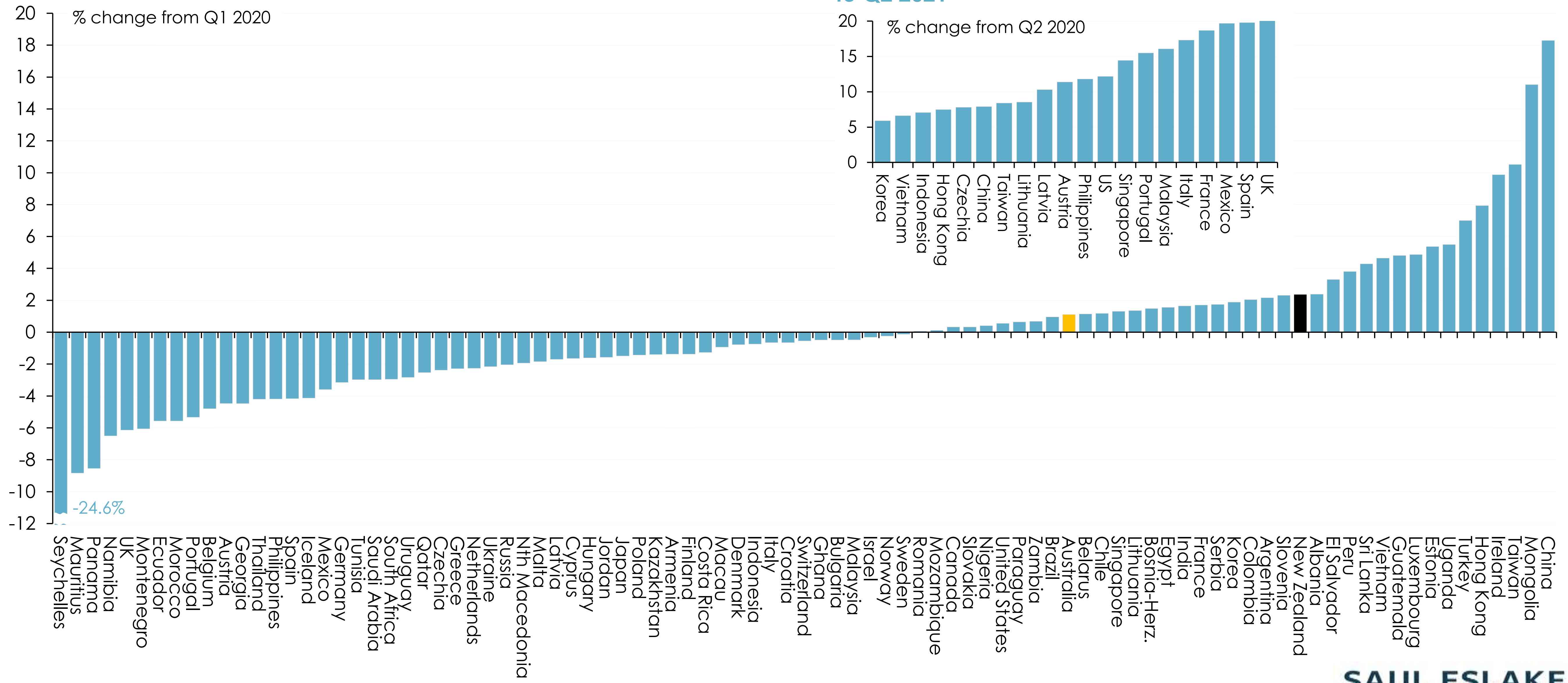
The world

Of 91 countries to have reported Q1 GDP estimates, 39 recorded positive growth from Q1 last year, while 20 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



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

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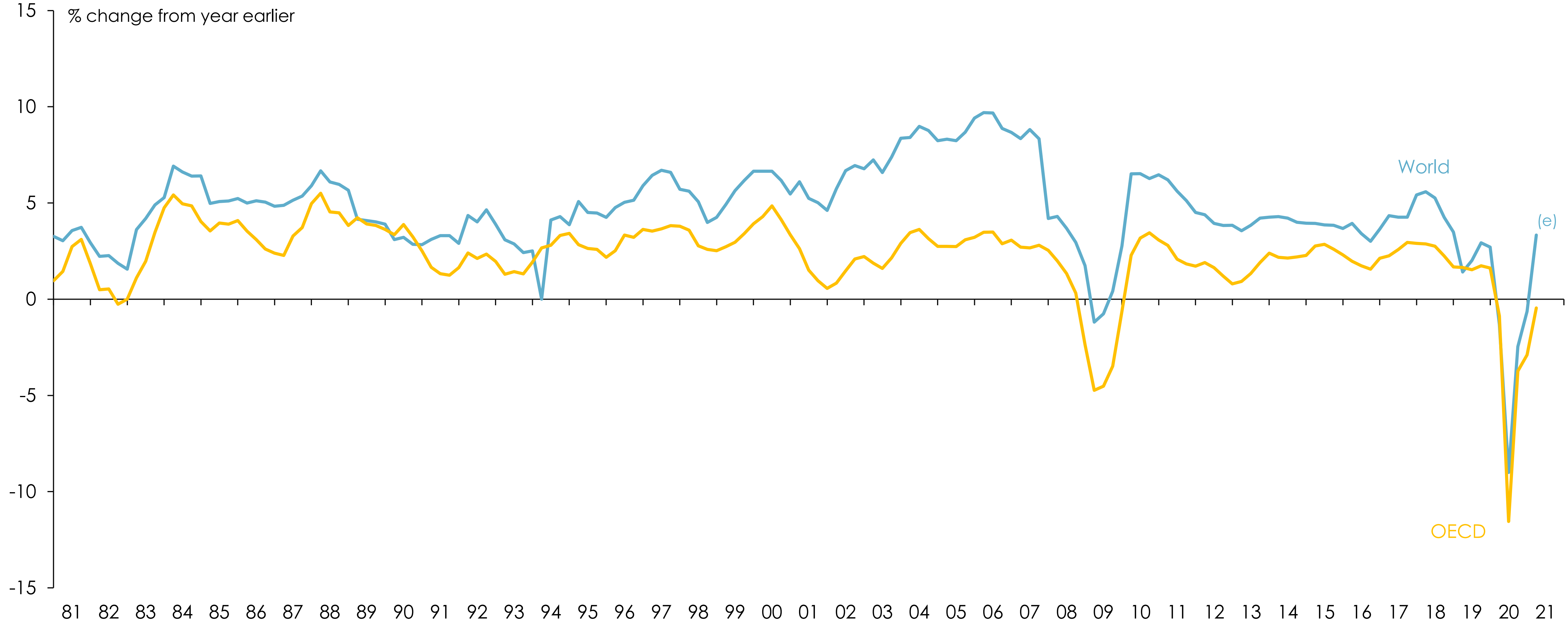
The world economy grew by 3.2% over the year to Q1, largely as a result of the flattering comparison with Q1 last year for China

World and OECD area real GDP growth



Note: Estimates of global GDP growth compiled by Corinna using data for 100 countries accounting for 94% of 2019 world GDP as measured by the IMF, weighted in accordance with each country's share of global GDP at purchasing power parities in 2019; excludes constituents of the former USSR before 1993, the former Czechoslovakia before 1995, and the former Yugoslavia before 1998. (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

	Actual		*IMF*		*World Bank*		*OECD*		*Australian Treasury*	
	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".

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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

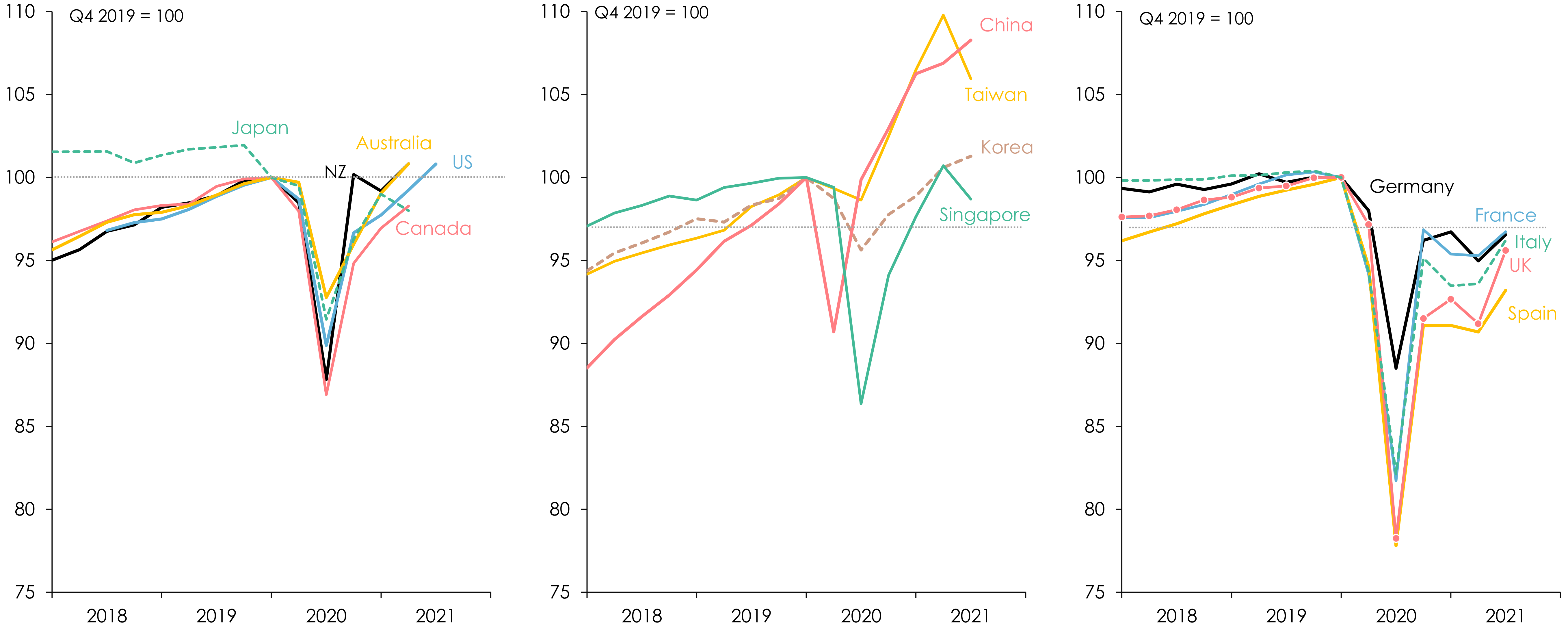
	Pc change from previous year		Pc pt change from April WEO forecast	
	2021	2022	2021	2022
Advanced economies				
US	7.0	4.9	0.6	1.4
Euro area	4.6	4.3	0.2	0.5
Japan	2.8	3.0	-0.5	0.5
Australia	5.3	3.0	0.8	0.2
Total	*5.6*	*4.4*	*0.5*	*0.8*
Emerging economies				
China	8.1	5.7	-0.3	0.1
India	9.5	8.5	-3.0	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**

Source: International Monetary Fund (IMF), *World Economic Outlook Update*, 26th July 2021 Return to "What's New".

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, Eurostat and Bank of Korea; Corinna.

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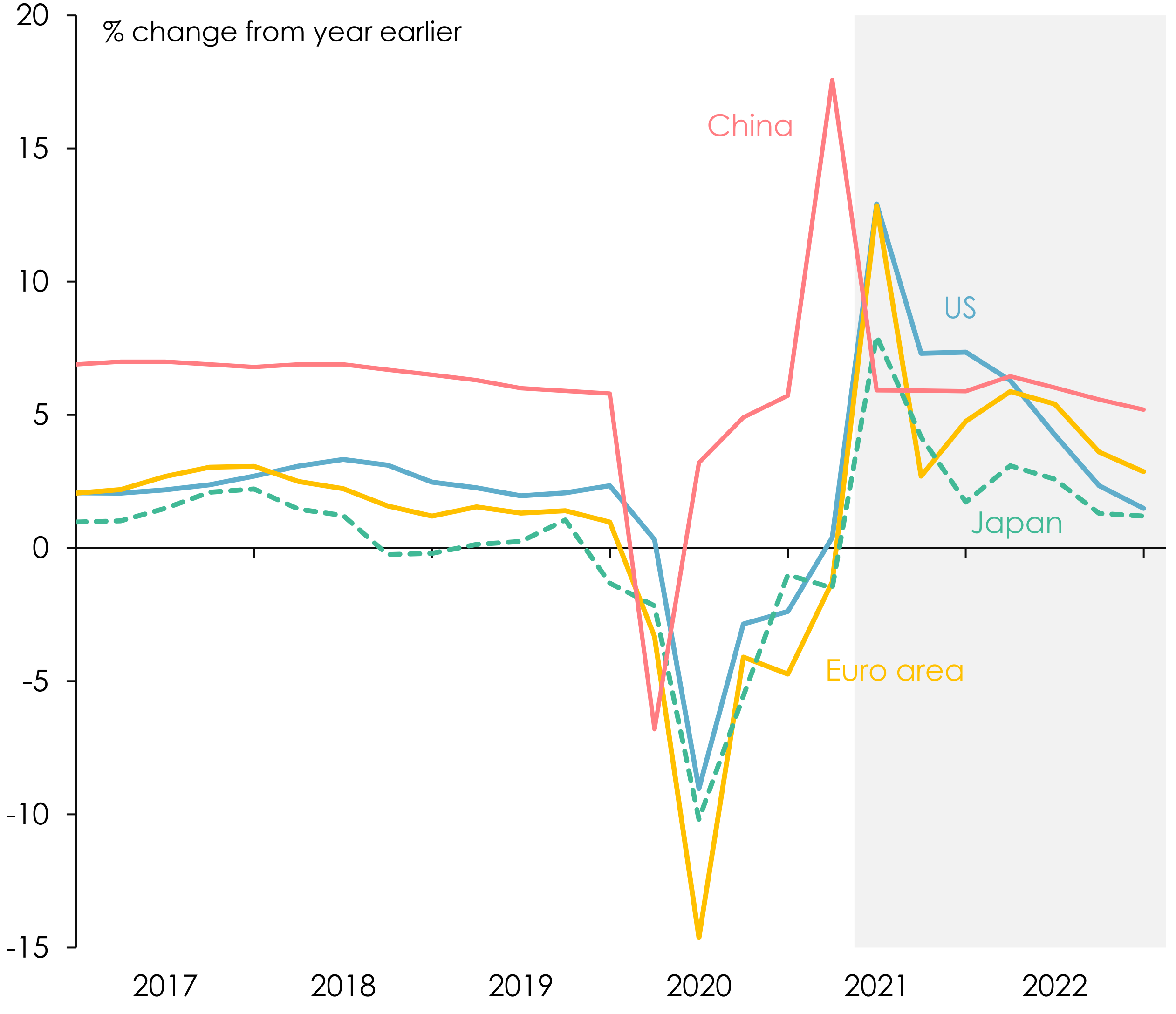
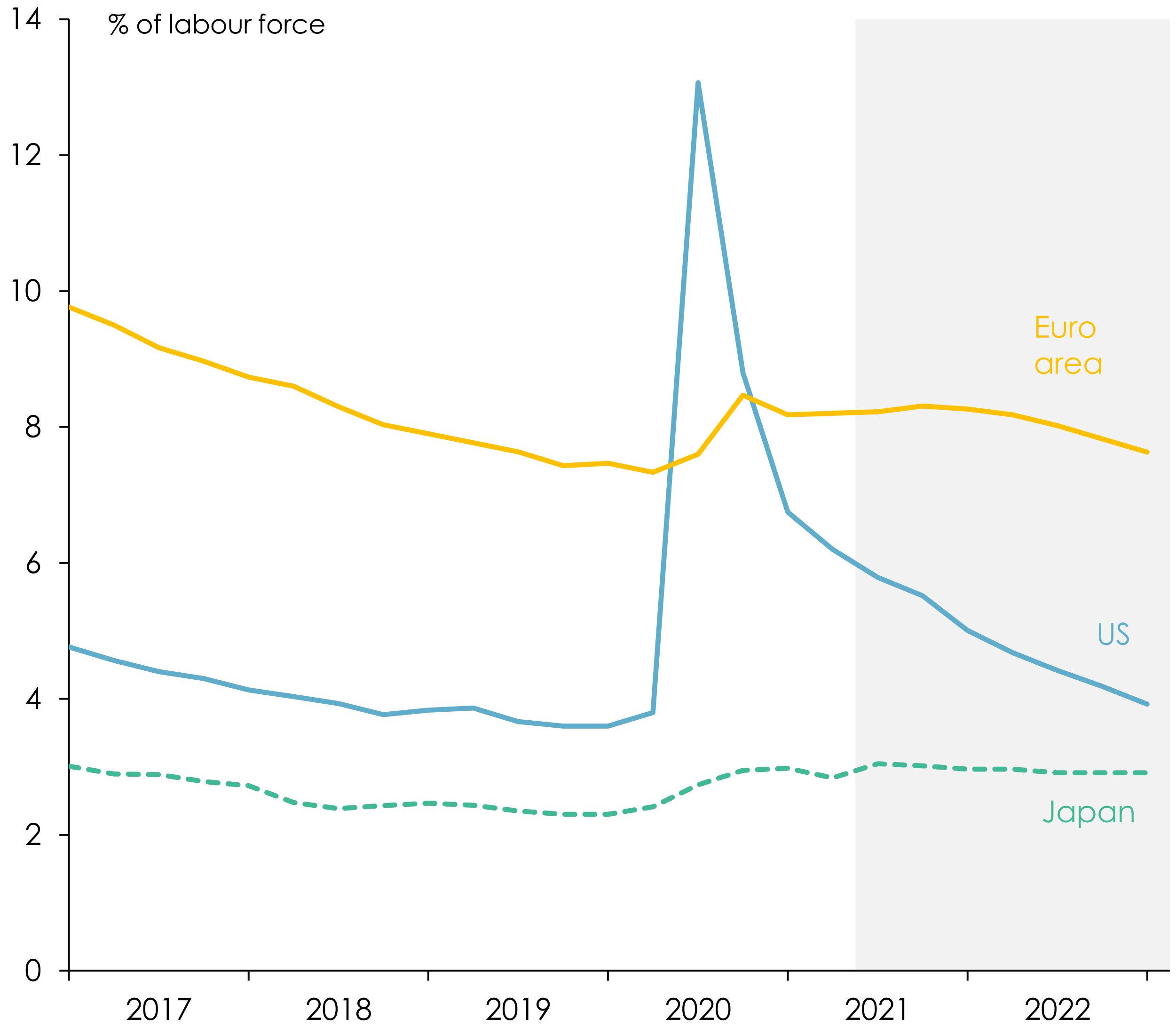
The OECD expects the US-led spurt of growth this year to be relatively short-lived, with growth slowing noticeably through 2022 …

OECD real GDP growth forecasts



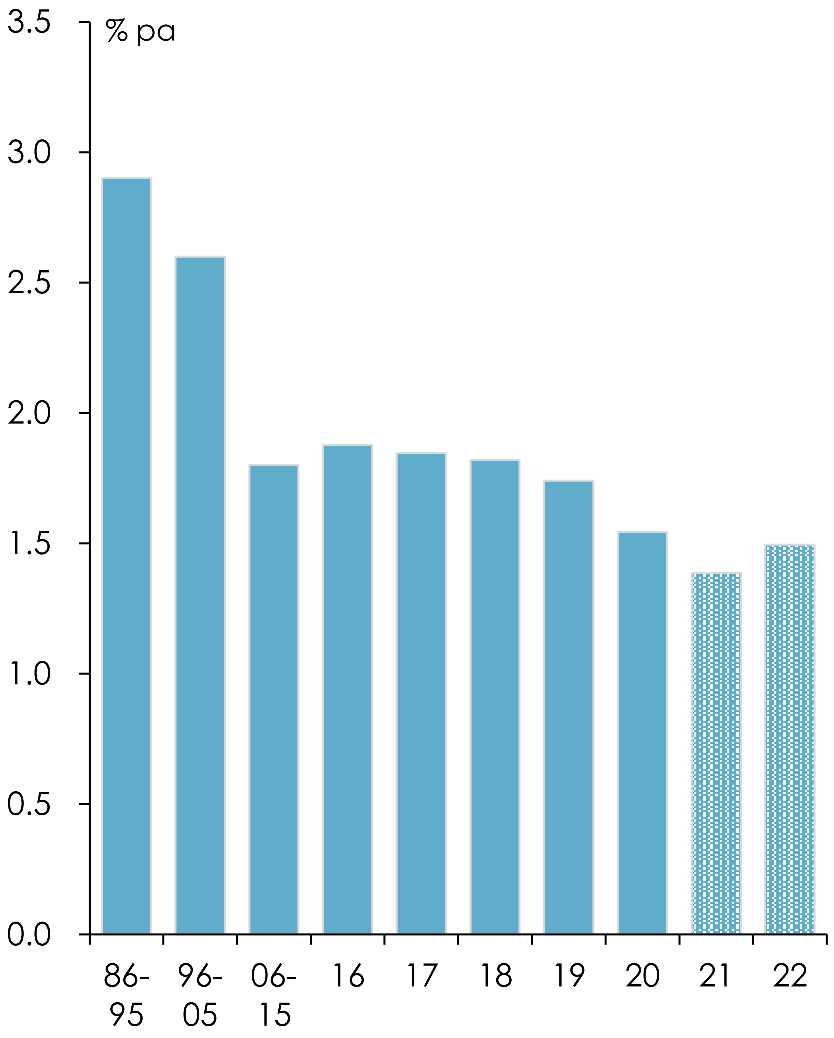
OECD unemployment rate forecasts



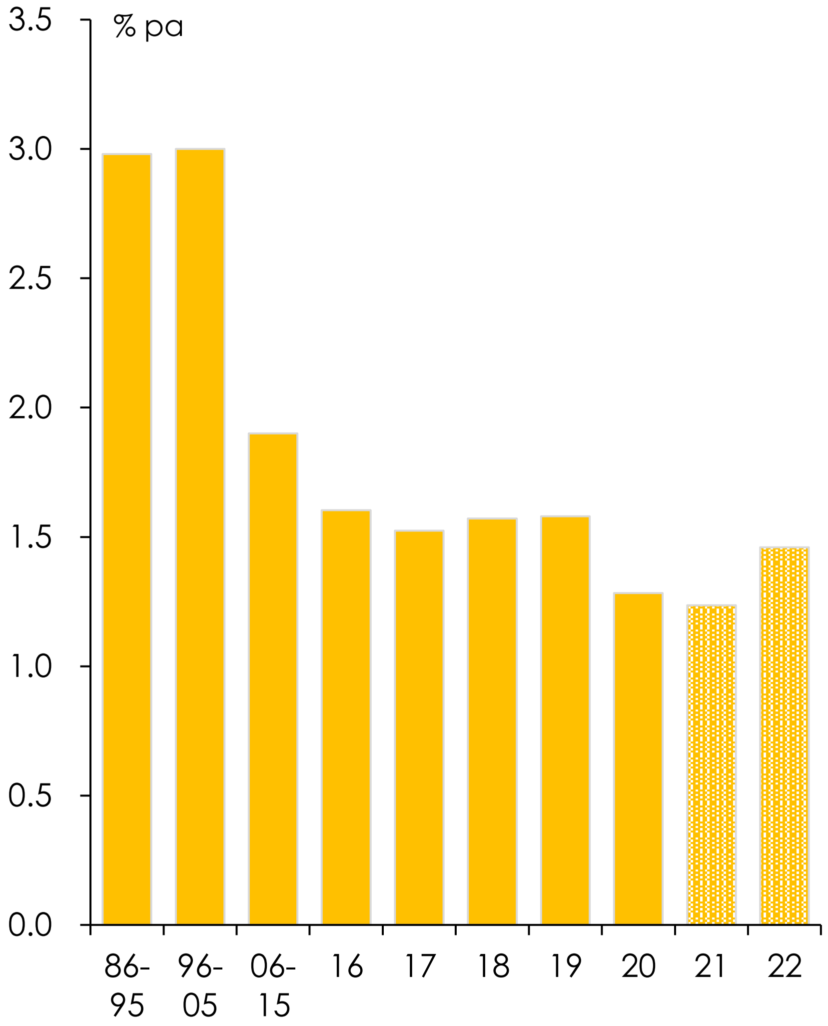
Sources: OECD, Economic Outlook No. 109 - Statistical Annex, Volume 2021, No. 1, 31st May 2021; Corinna.

… 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.

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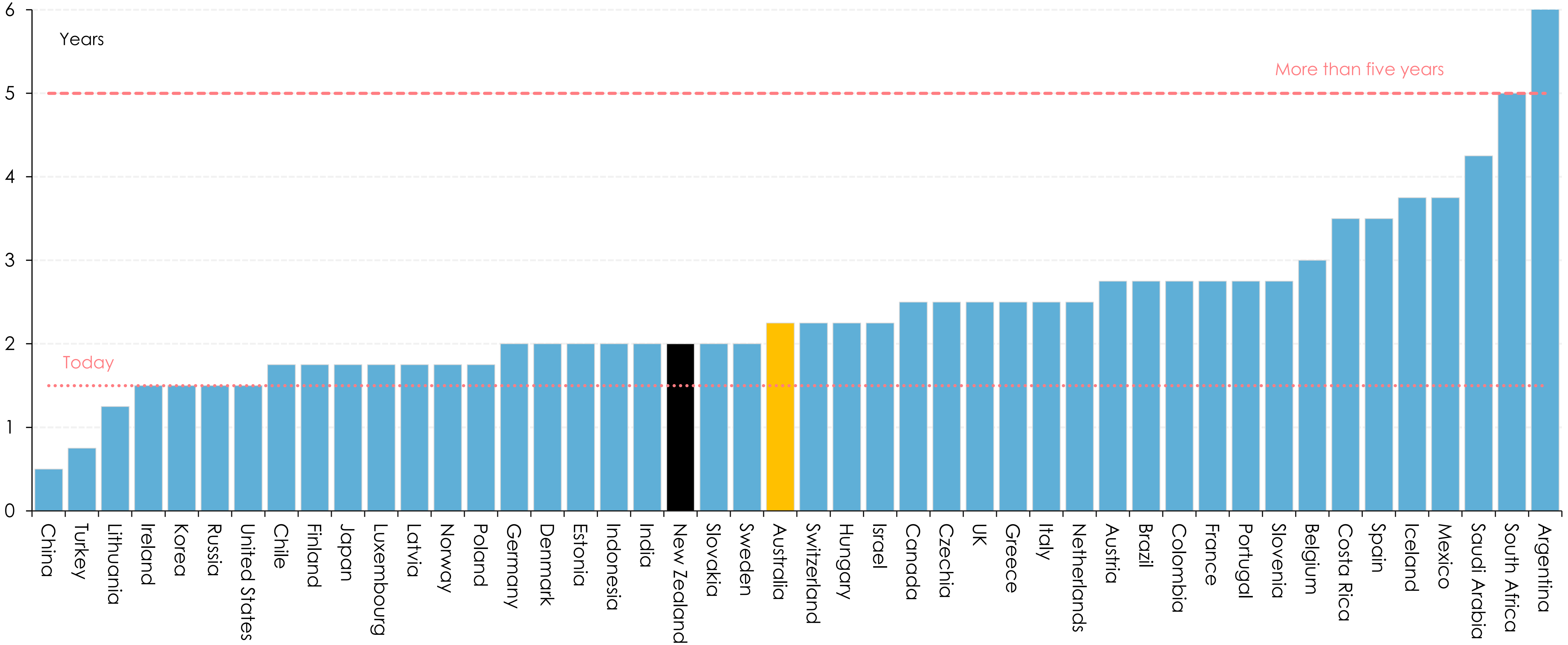
The OECD reckons it will take some countries more than three years to recoup the loss of real per capita GDP

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



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

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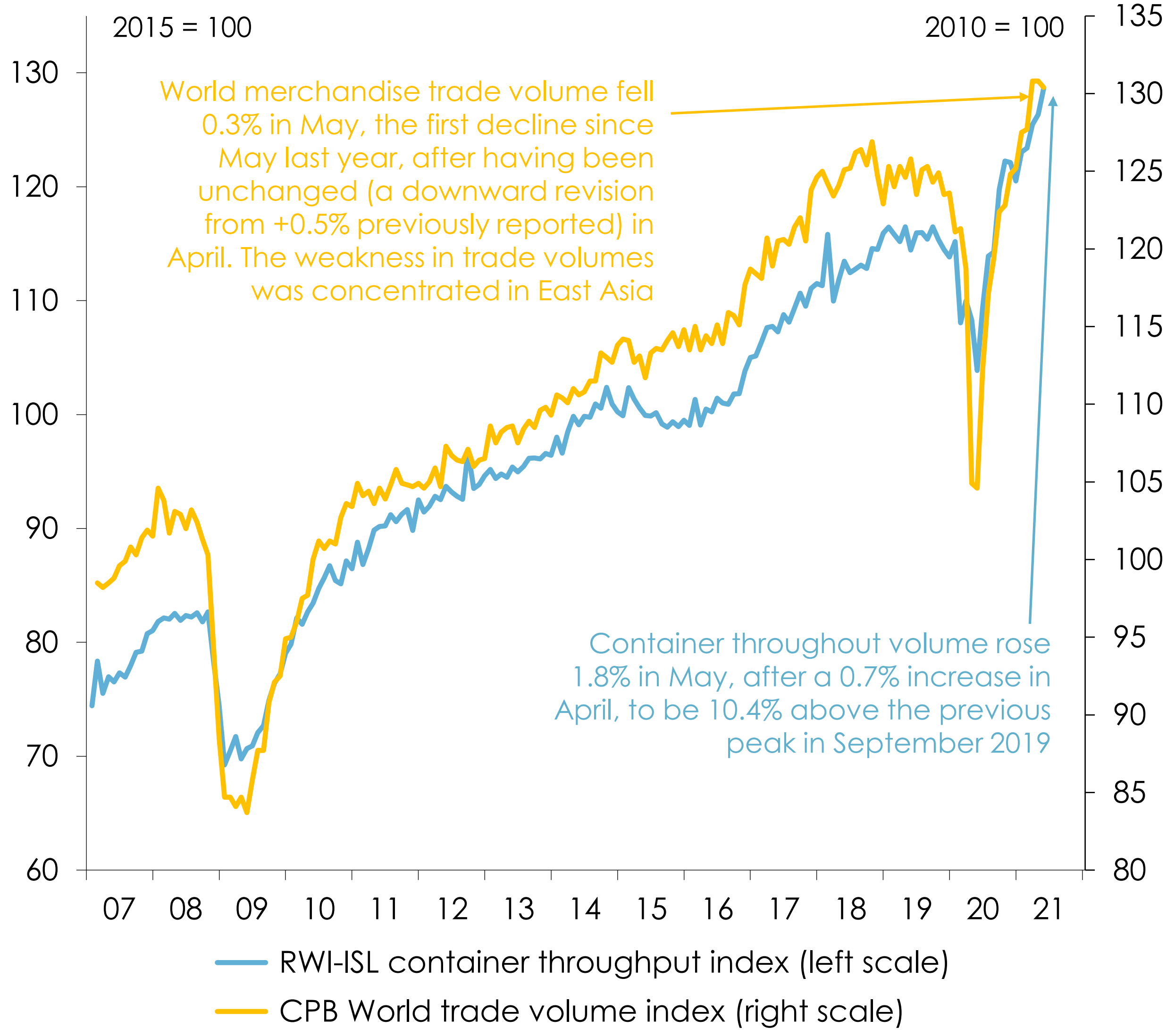
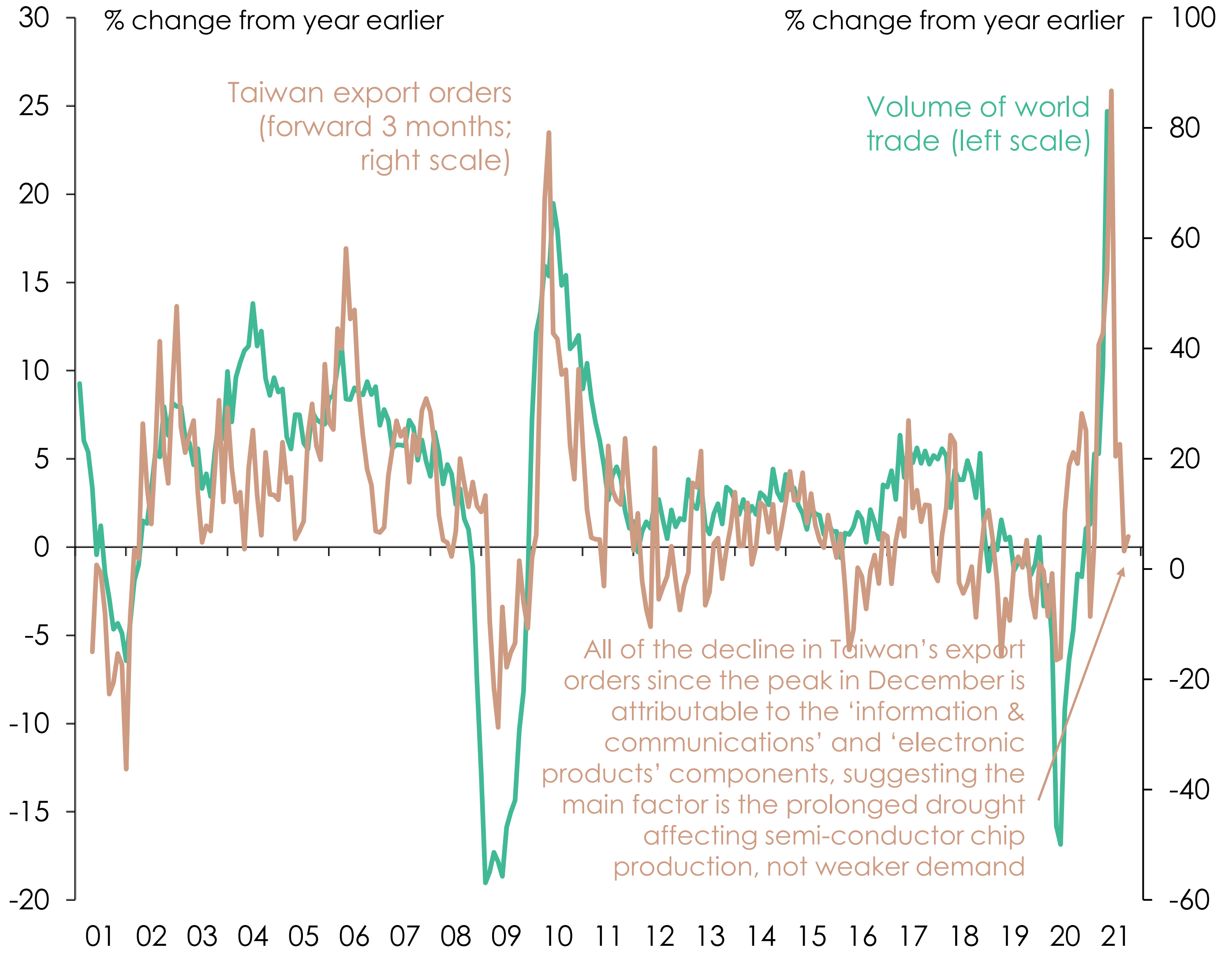
World trade volumes fell in May for the first time in a year, with the weakness concentrated in East Asia – and there may be more ahead

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".

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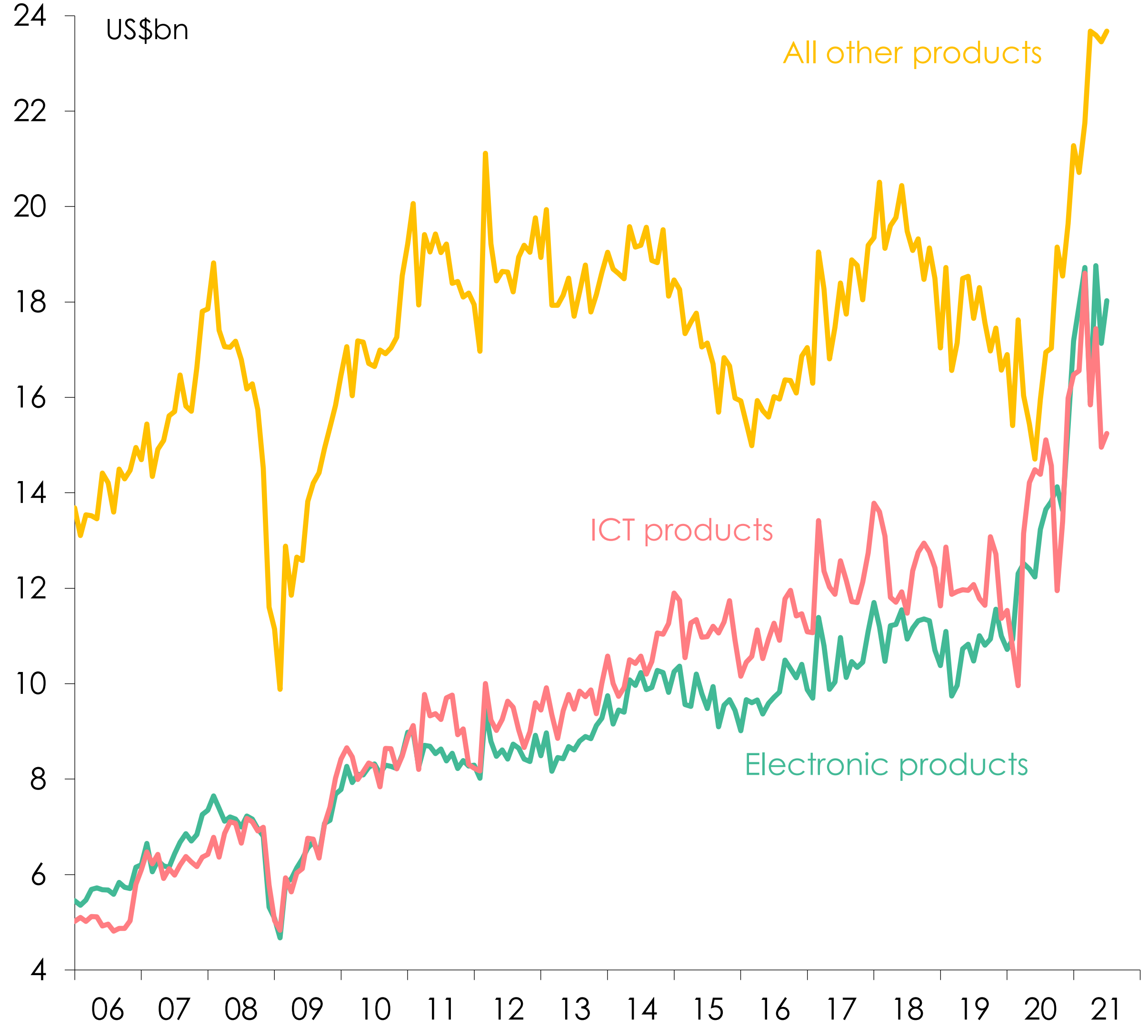
Taiwan's worst drought in over fifty years is a major factor in the surge in prices of semi-conductor chips (and things which use them)

Taiwan export orders, by product

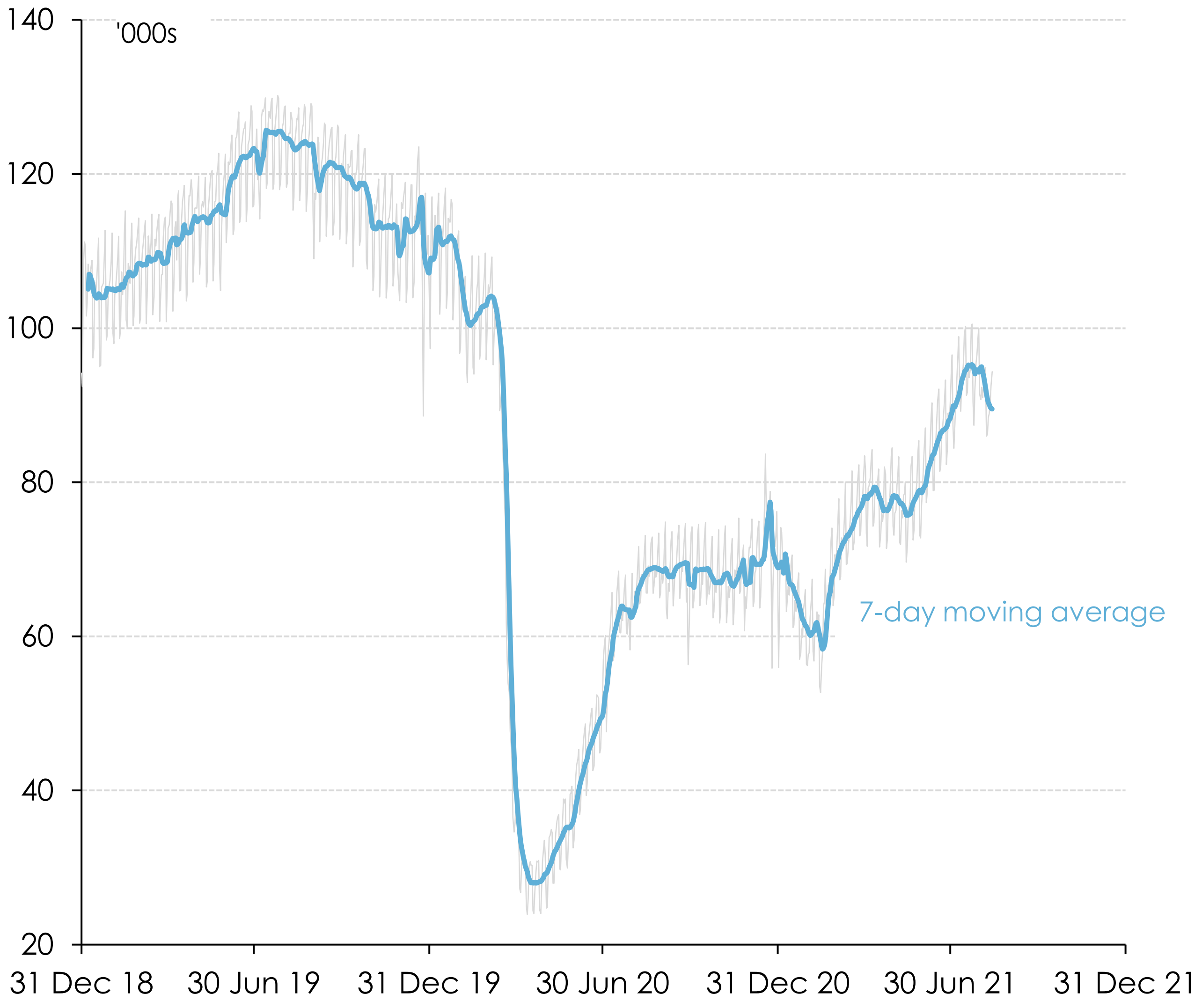


Note: Data have been seasonally adjusted by Corinna using Refinitiv Datastream. Latest data are for June. *Source:* Taiwan Ministry of Economic Affairs. Return to "What's New".

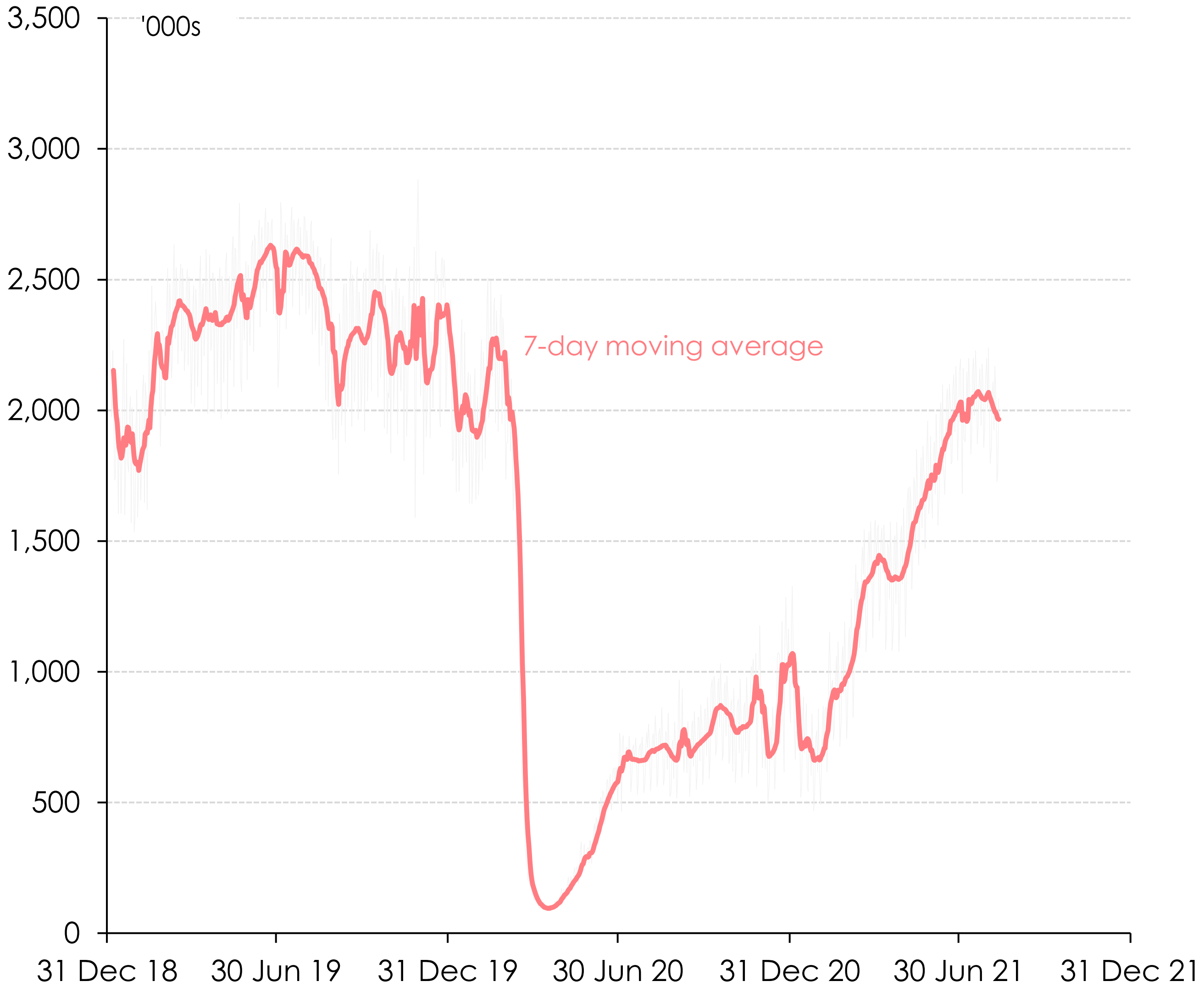
- **Taiwan accounts for 63% of the US$85bn global semi-conductor chip market**
  - Korea accounts for 18%, and China 6%
  - one Taiwanese company, Taiwan Semiconductor Manufacturing Co (TSMC) has 54% of the world market, and United Microelectronics Co (UMC) a further 7% (Samsung accounts for Korea's 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 TMSC's Hsinchu plant down to 7%
  - Taiwan's government has reduced water supplies to irrigated farmland, and to residents and businesses in three cities
  - 'fabs' have been asked to reduce their water consumption by 13%
  - water shortages are also constraining hydro-electricity production
- **Taiwan's export orders 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**

The upturn in new infections – especially in the US and Europe – appears to be having a dampening impact on civil aviation traffic

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 13th August, for TSA 'security' checks up to 12th August. Thicker coloured lines are 7-day centred moving averages of daily data plotted in thin grey lines. *Sources:* Flightradar24.com; US Transport Safety Administration (at last, something useful produced by aviation 'security'!!!). Return to "What's New".

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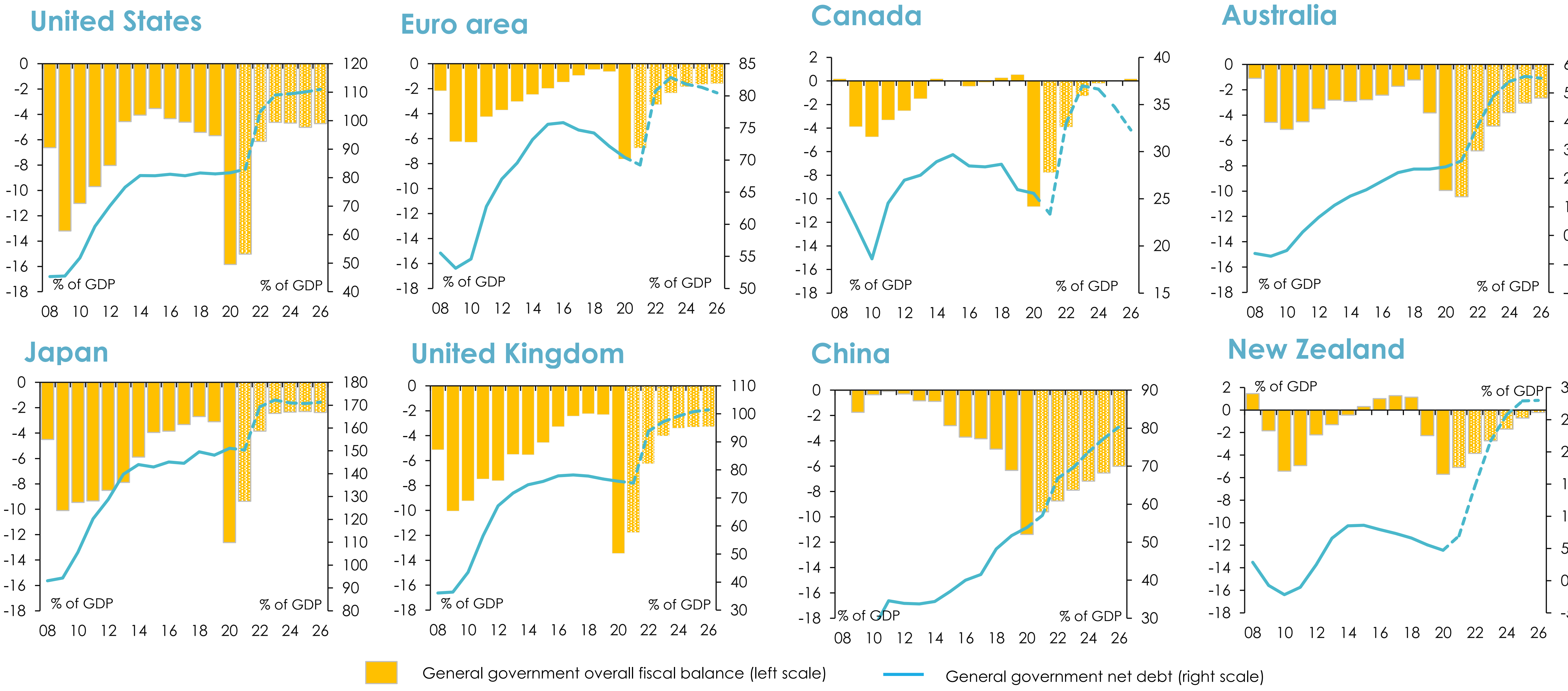
The US fiscal stimulus dwarfs that of any other major economy – although Japan, the UK, Canada and Australia are also doing a lot



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

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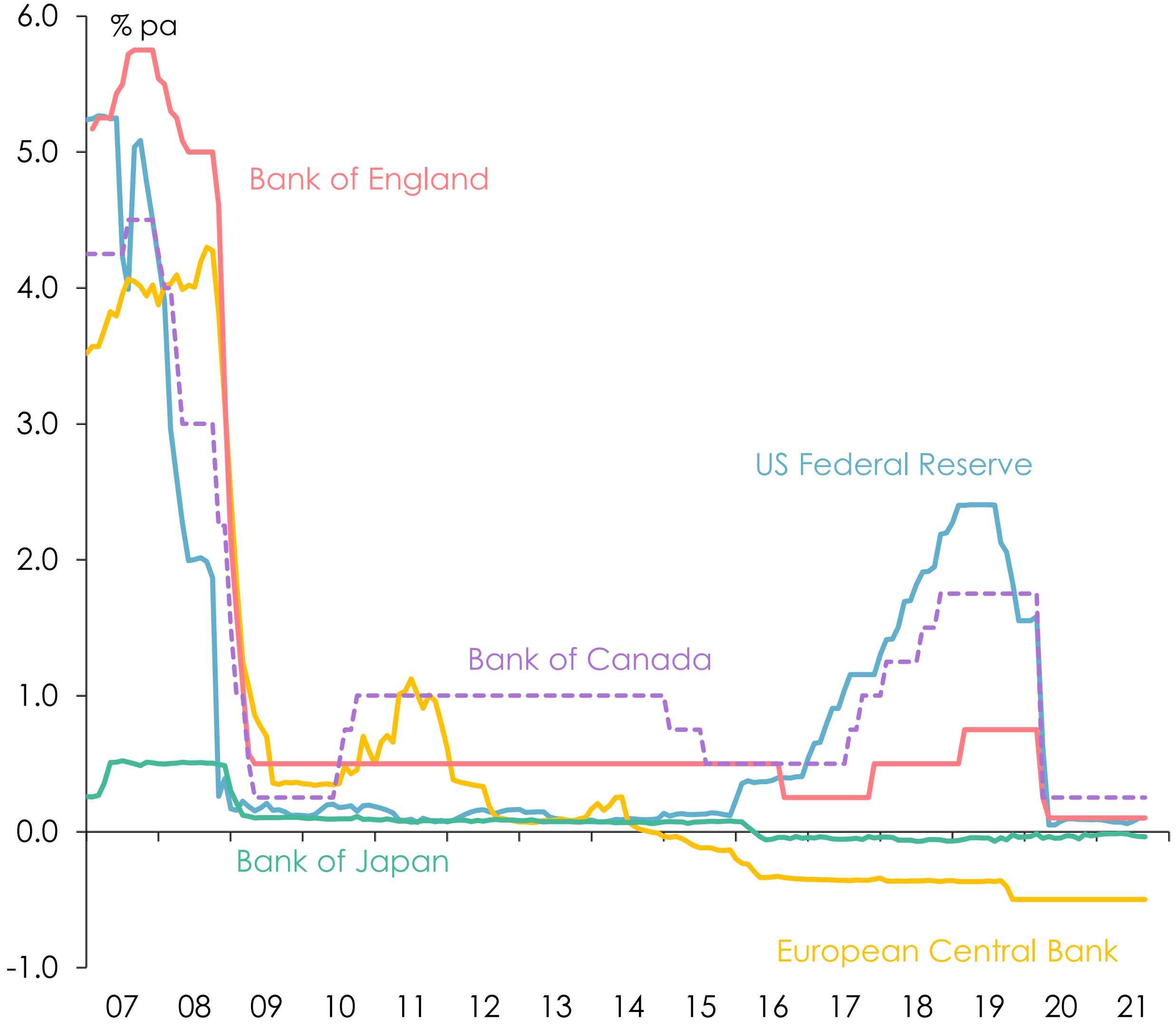
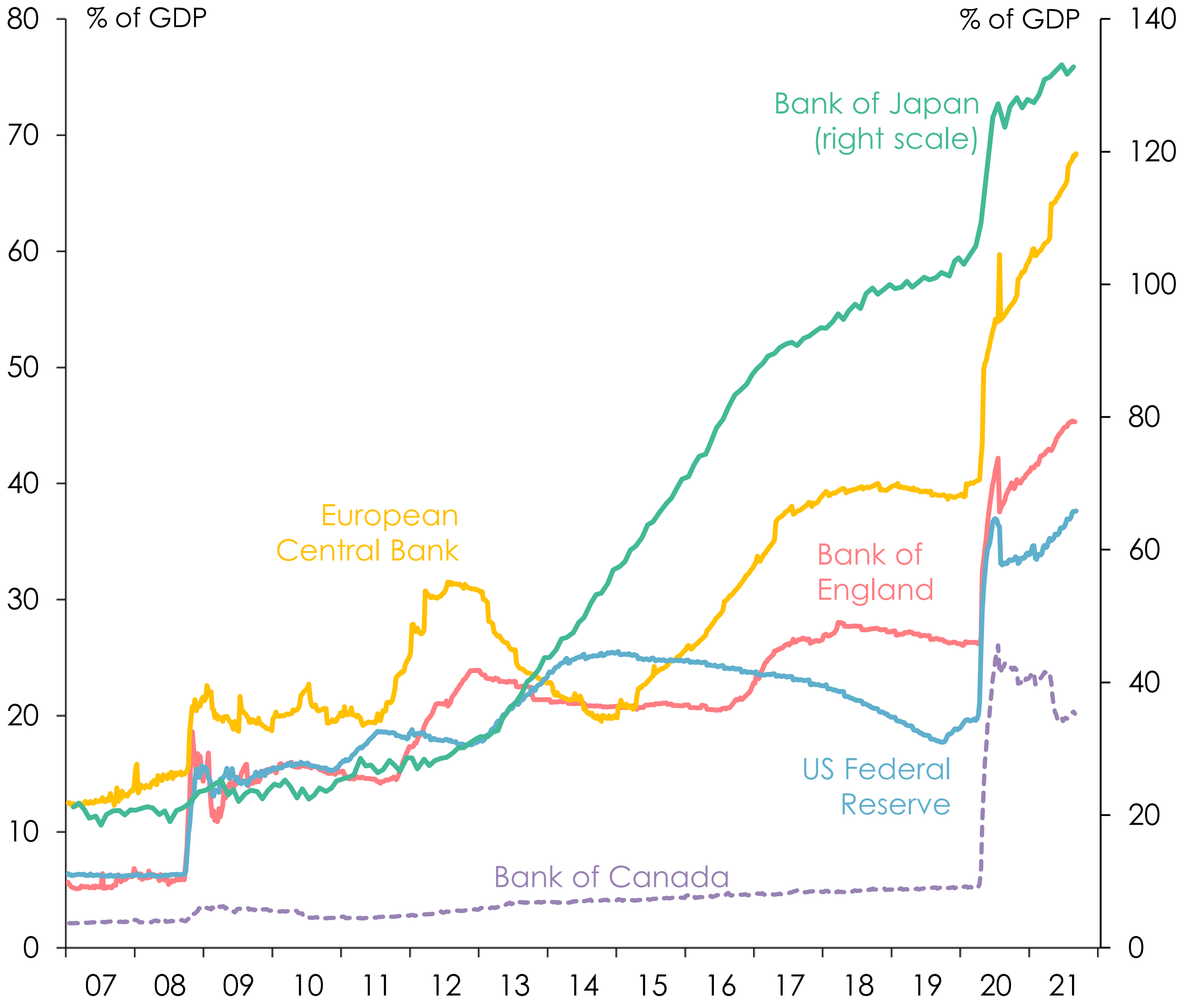
Major central banks have cut interest rates to record lows, and done more ‘quantitative easing’ than during the global financial crisis

Major central bank policy interest rates



Major central bank balance sheets



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

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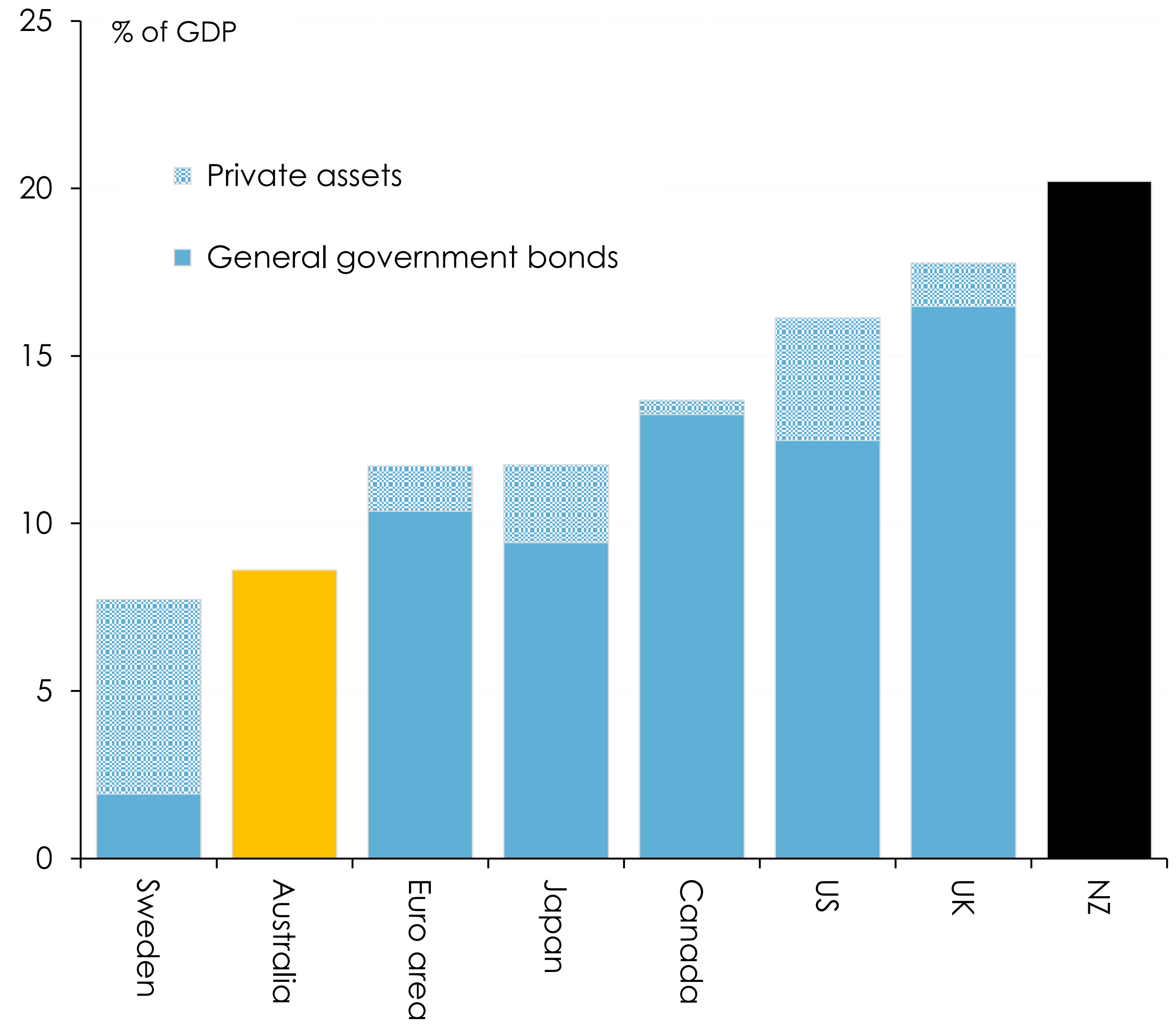
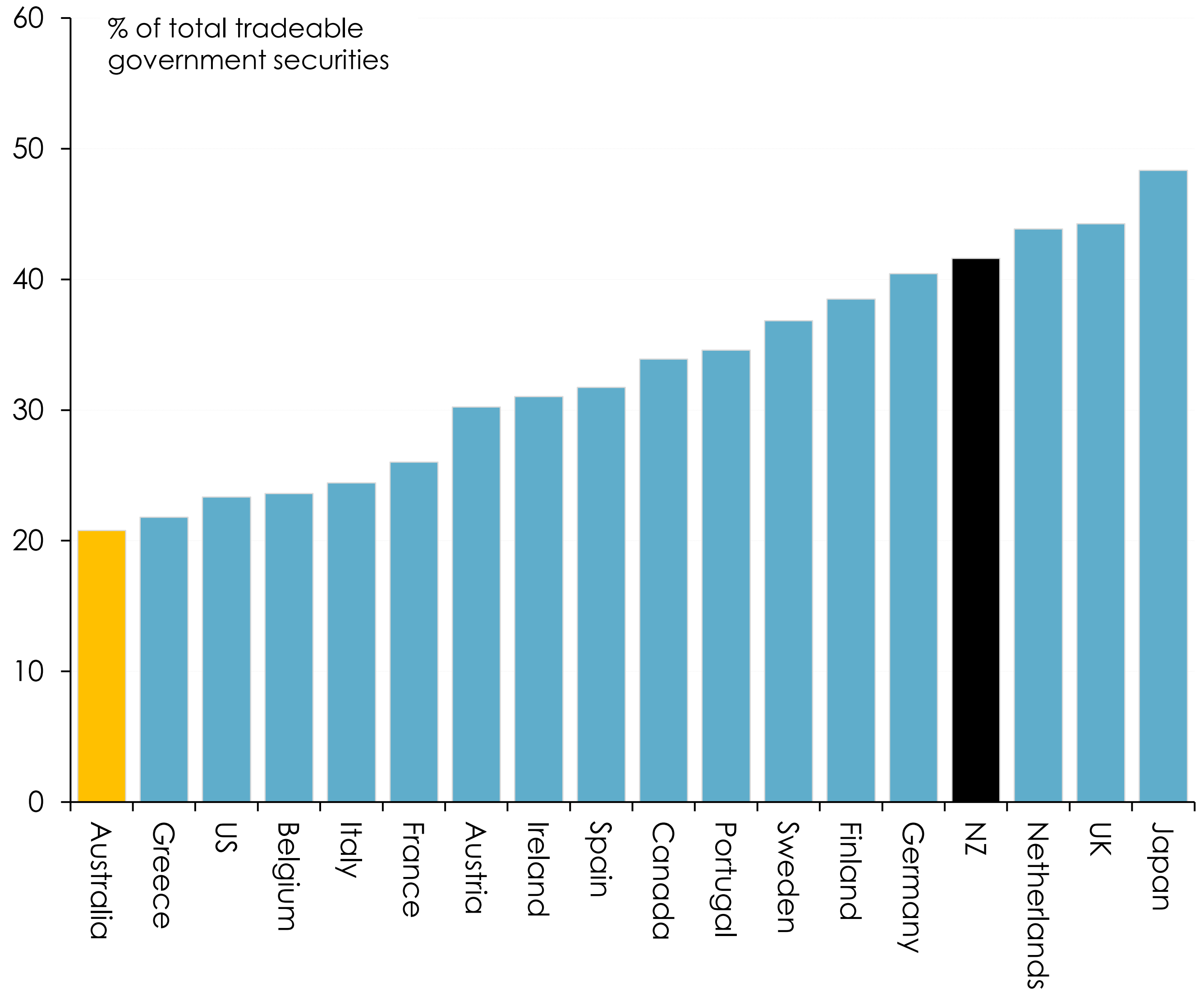
The RBA's 'QE' program has been at the lower end of 'advanced economy' central banks' programs – the RBNZ's has been at the higher end

Central bank asset purchases since end-2019



Central bank holdings of government securities



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

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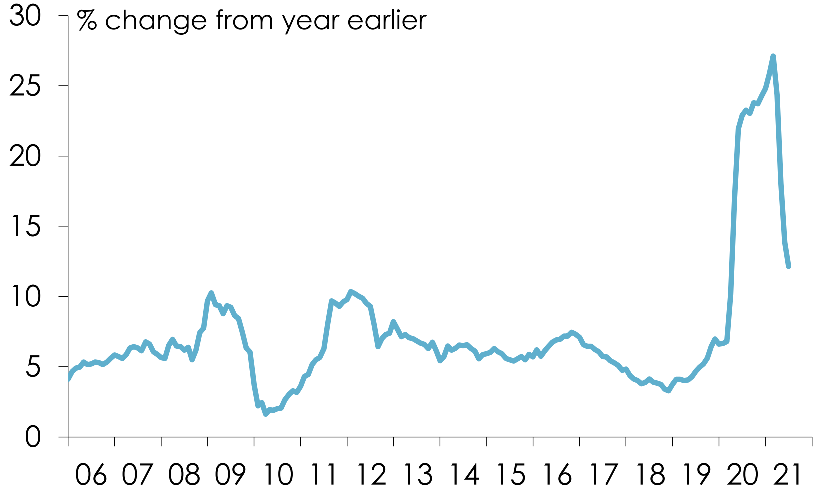
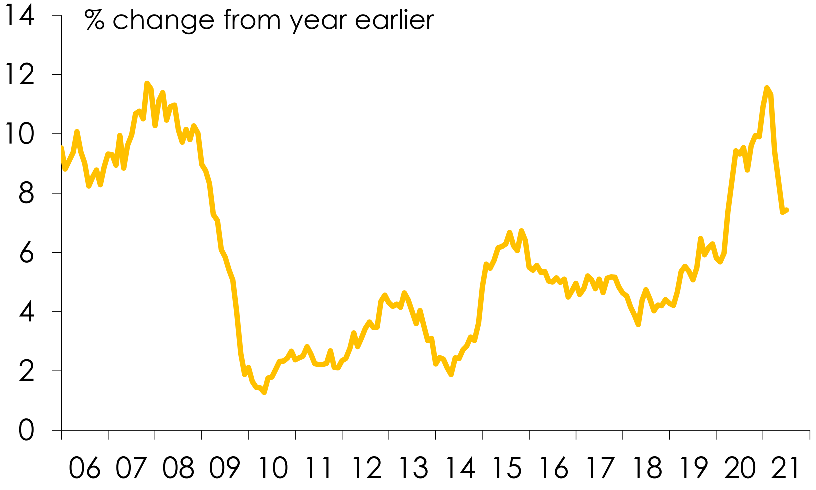
Money supply growth has slowed sharply from the peaks recorded earlier this year as large monthly increases a year ago 'wash out'

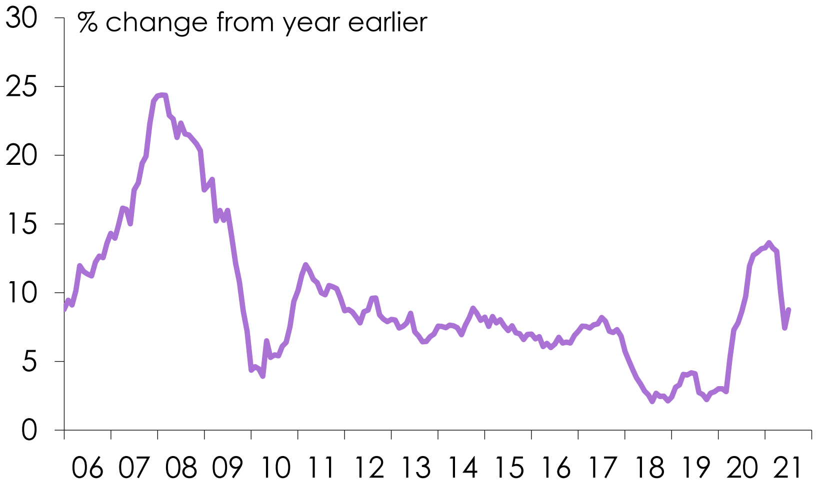
US M2



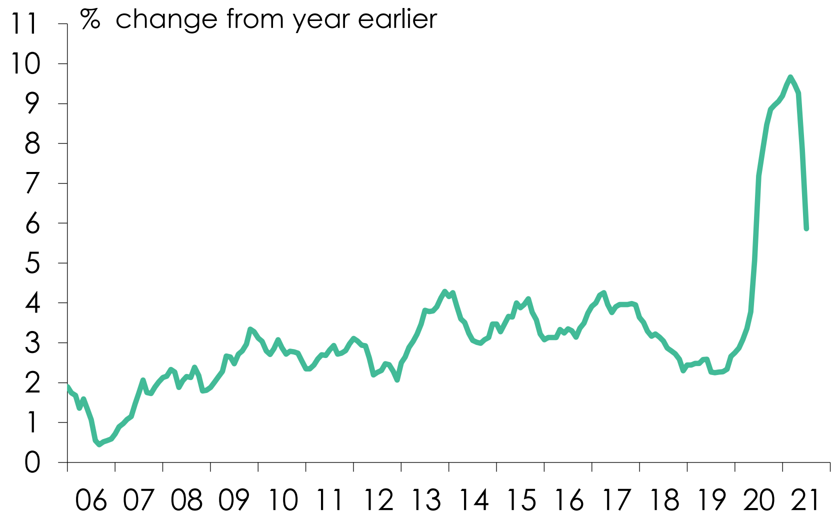
Euro area M2



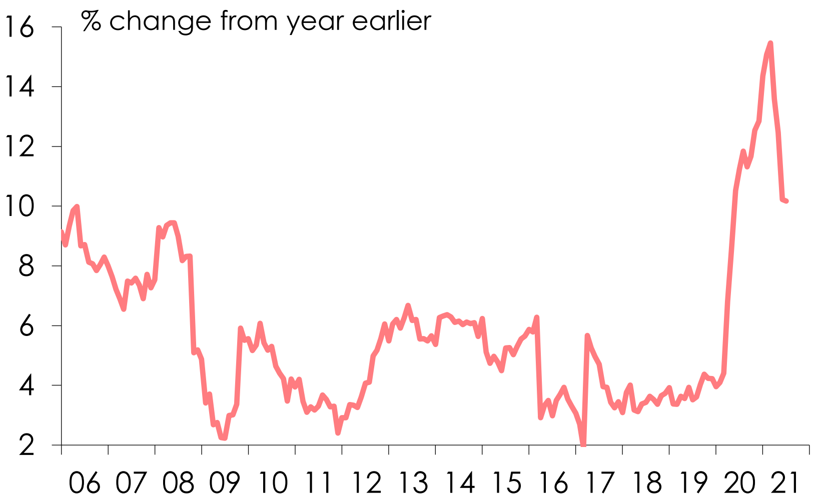
Australia M3



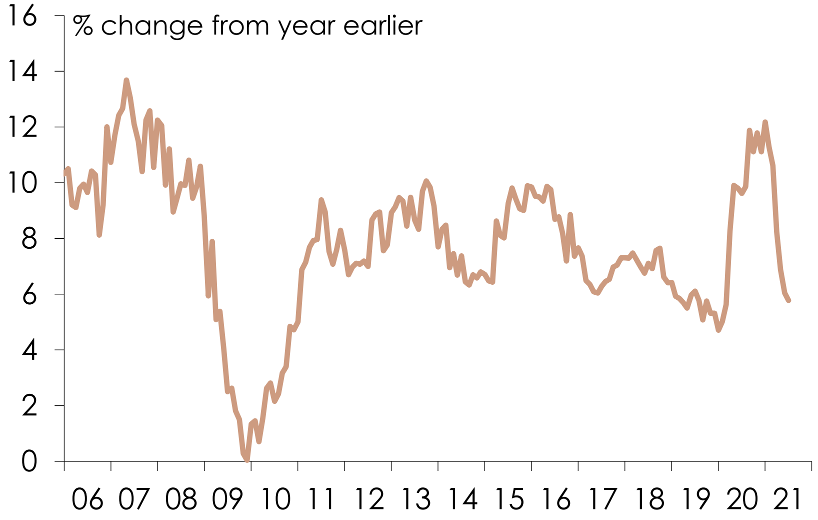
Japan M2 + CDs



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".

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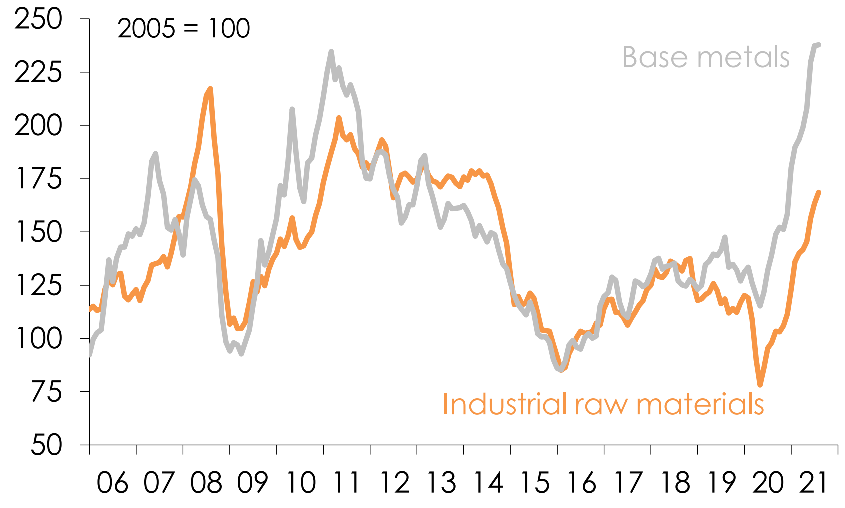
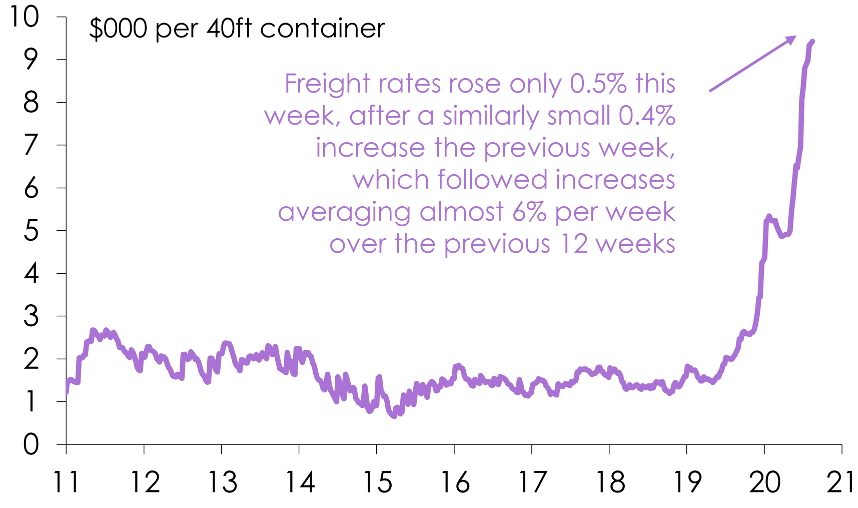
'Upstream' price pressures remain intense – although shipping freight rates have risen more gently in the past two weeks and D-RAM prices have fallen

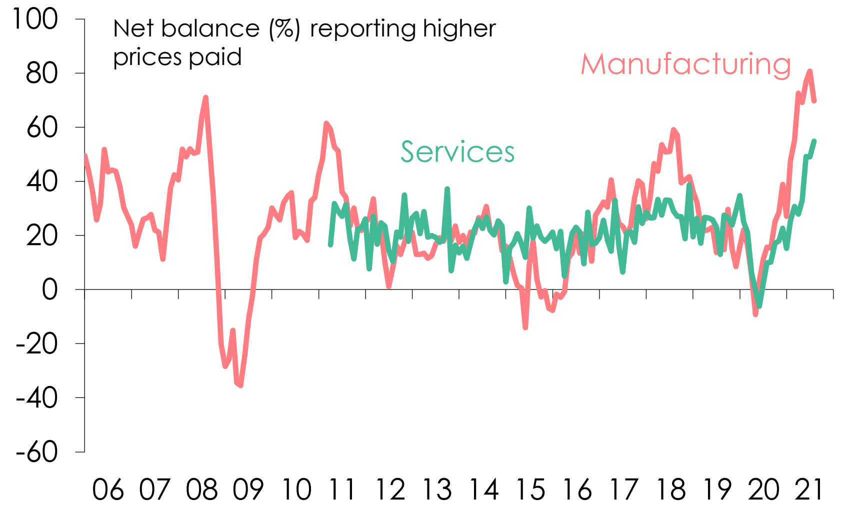
'Hard' commodity prices



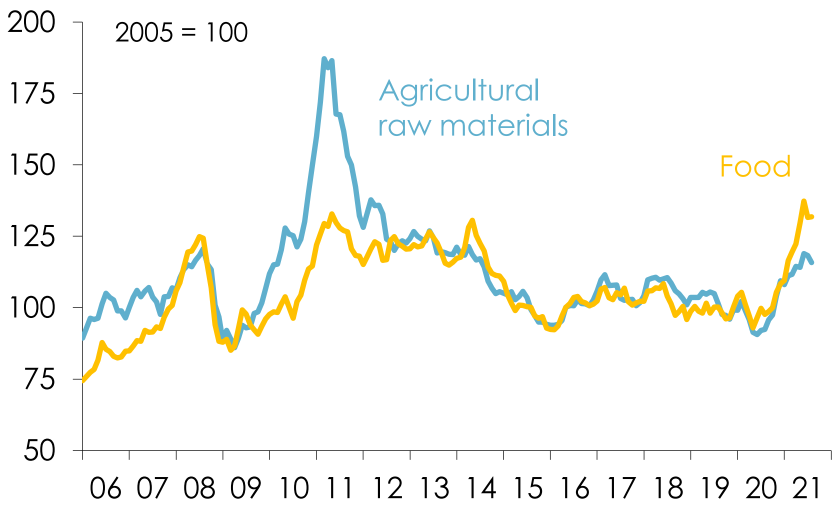
Container freight costs



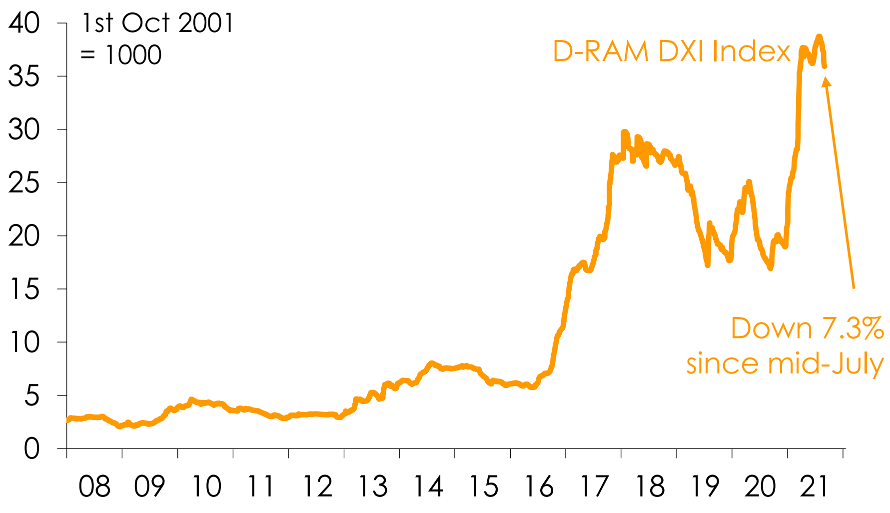
Philly Fed survey – prices paid



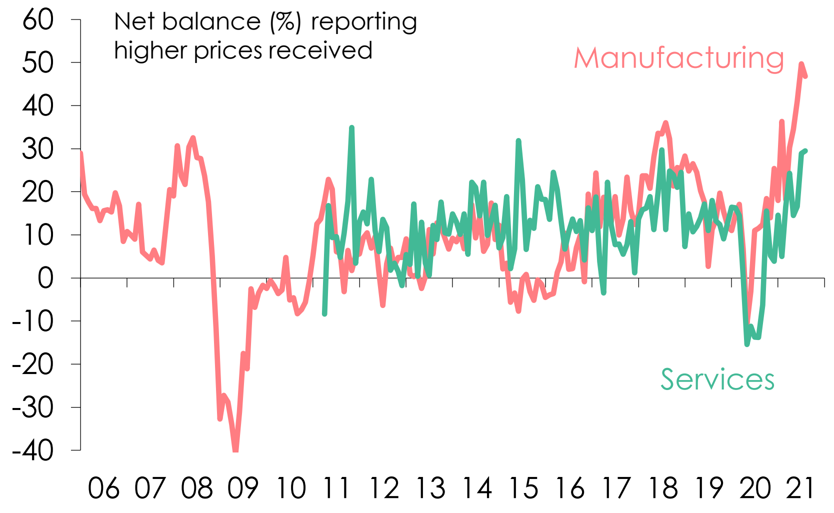
'Soft' commodity prices



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".

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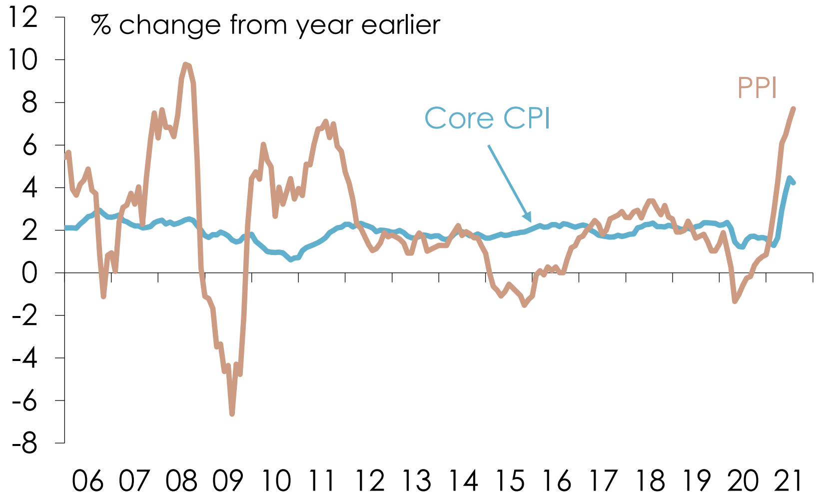
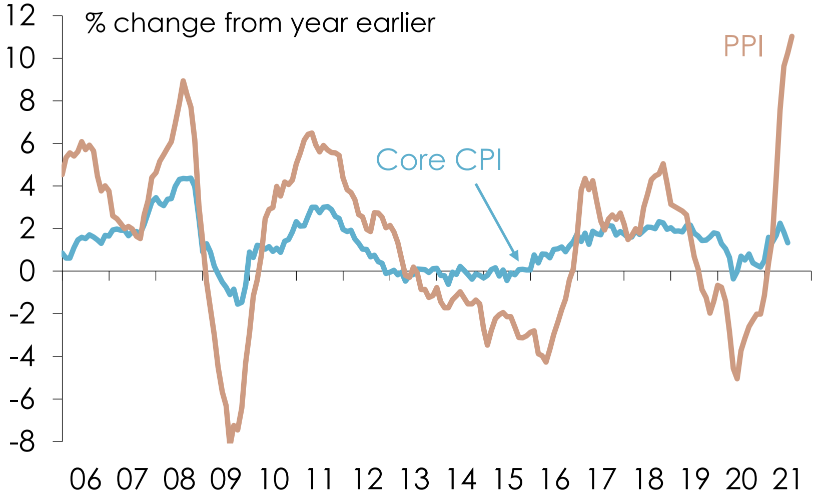
Producer prices are surging in all major economies: but only in the US and (to a lesser extent) the UK is this feeding into core CPI inflation

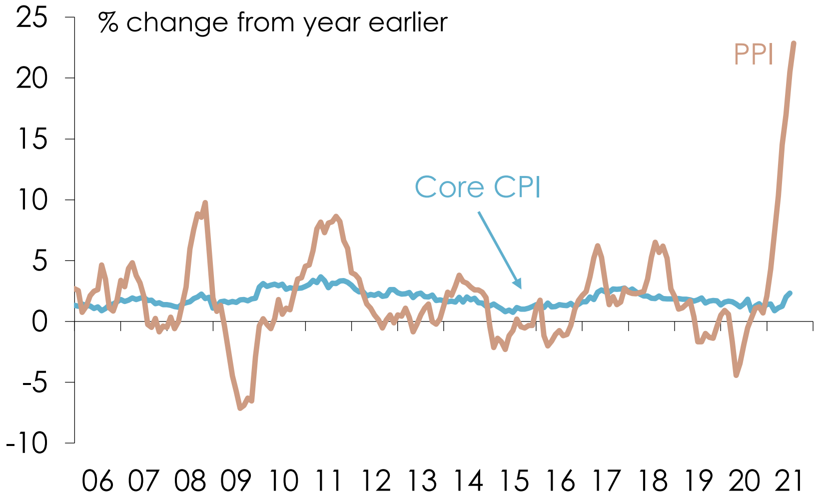
United States



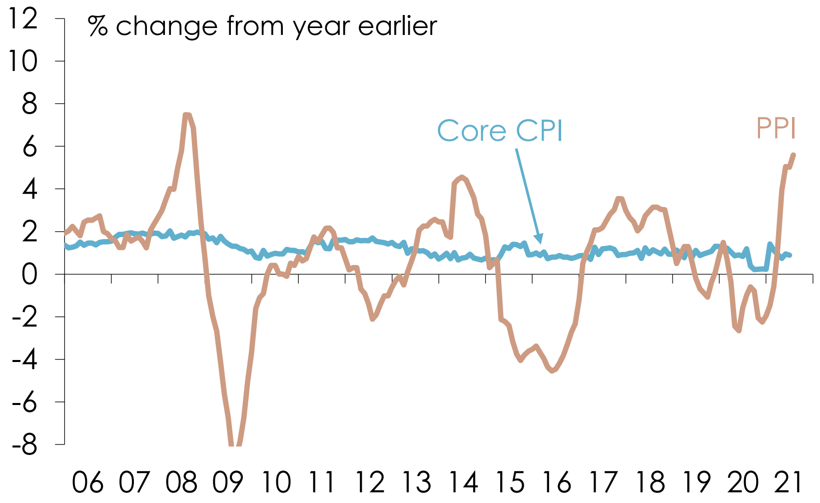
Euro area



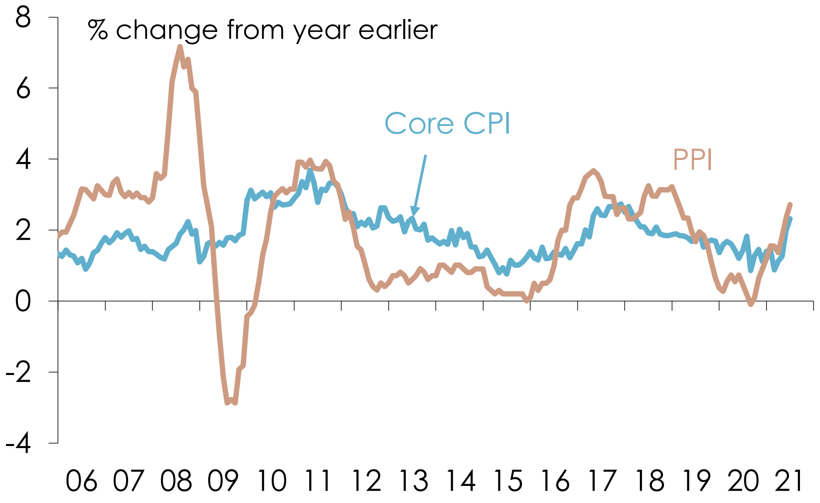
Canada



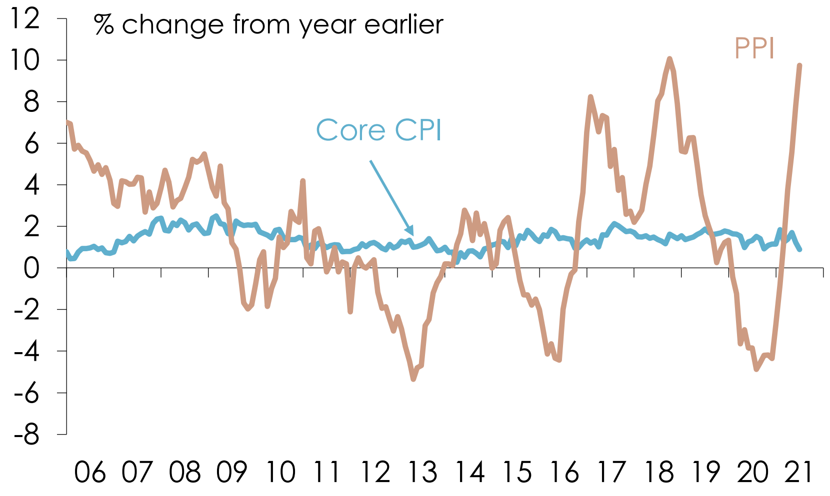
Japan



United Kingdom



Sweden



For a more detailed analysis of recent US inflation data see slides 73-77. *Sources:* US Bureau of Labor Statistics; Statistics Bureau of Japan; Eurostat; UK Office for National Statistics; Statistics Canada; China National Bureau of Statistics; Statistics Sweden. Return to "What's New".

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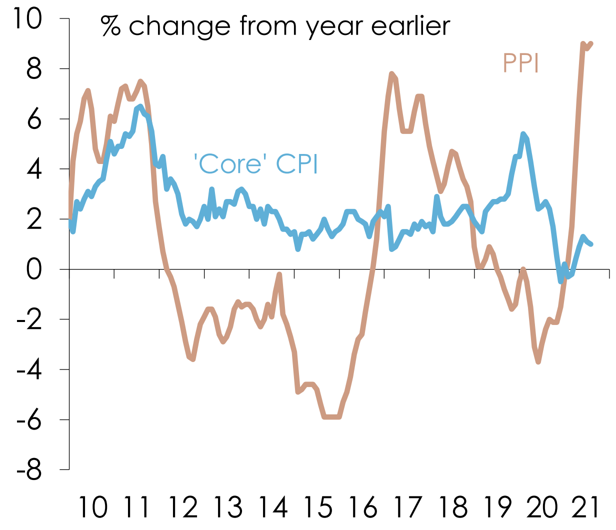
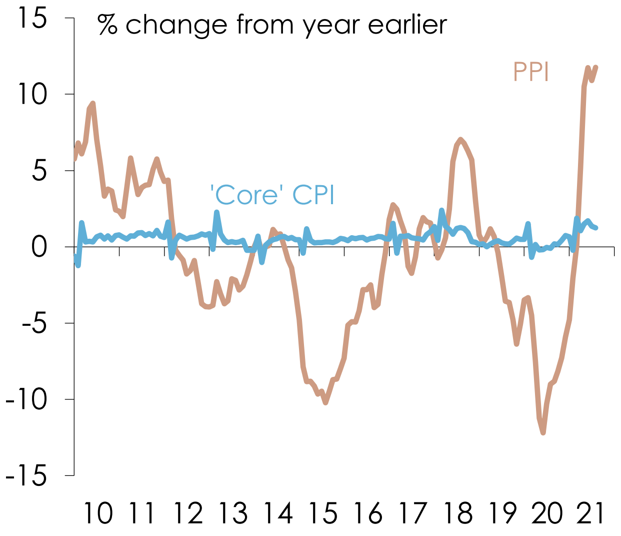
There's been very little pass-through of higher producer prices into 'core' consumer price inflation in Asia

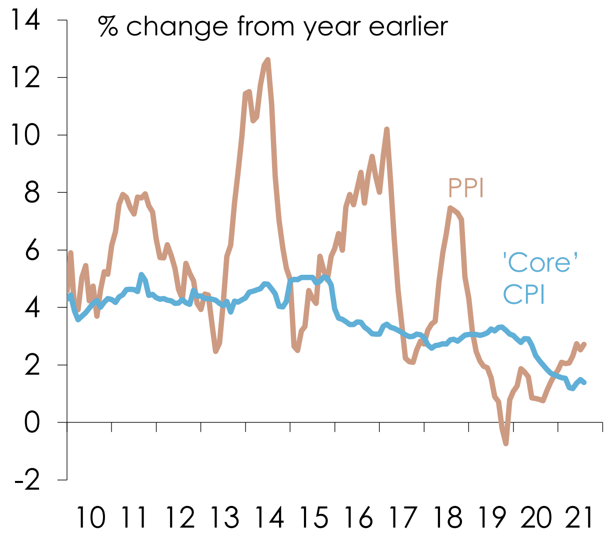
China



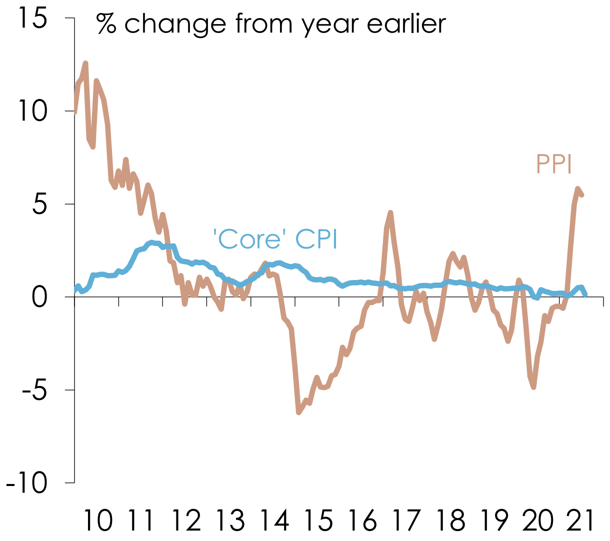
Taiwan



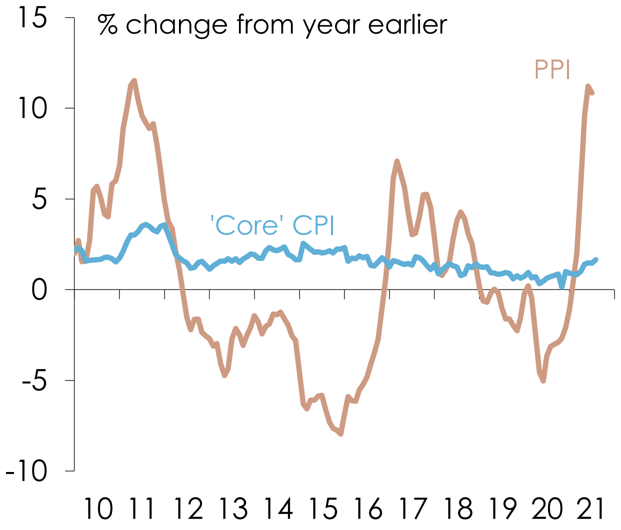
Indonesia



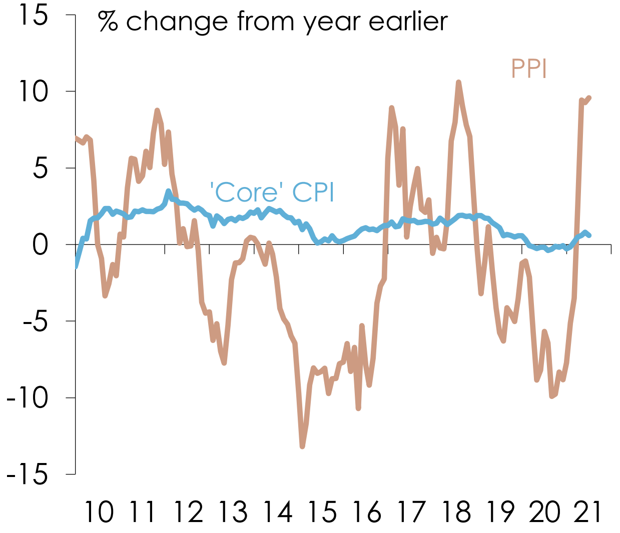
Thailand



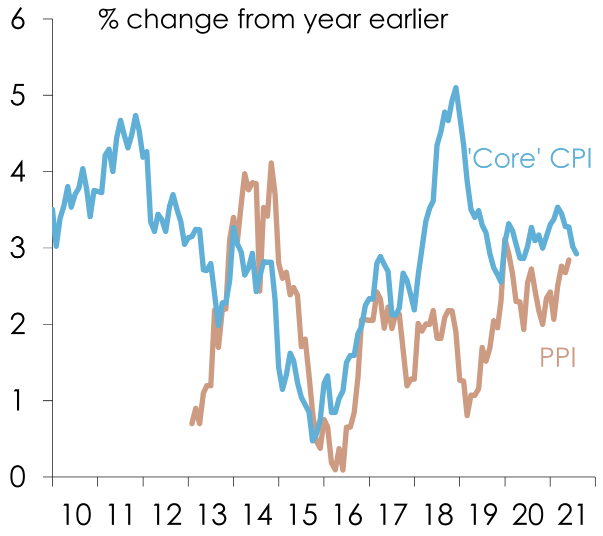
Korea



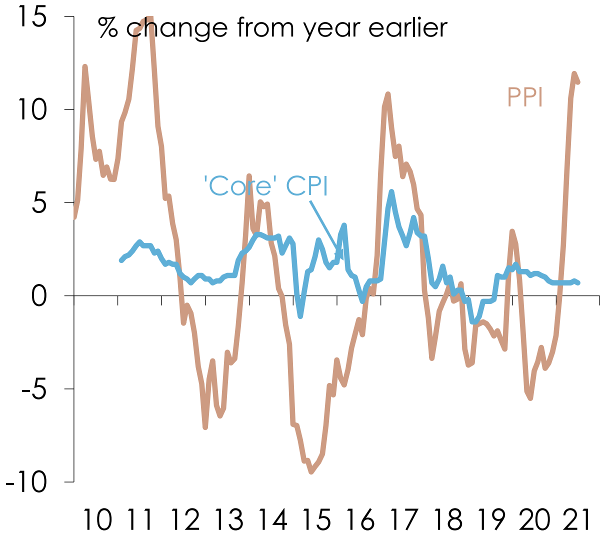
Singapore



Philippines



Malaysia



Note: 'Core' CPIs measure different things in different Asian economies – see footnotes to slide 58. *Sources:* China National Bureau of Statistics; Statistics Korea; Bank of Korea; Taiwan Statistical Bureau; Singstat; Monetary Authority of Singapore; Statistics Indonesia; Philippine Statistics Authority; Thailand Bureau of Trade and Economic Indices; Department of Statistics Malaysia. Return to "What's New".

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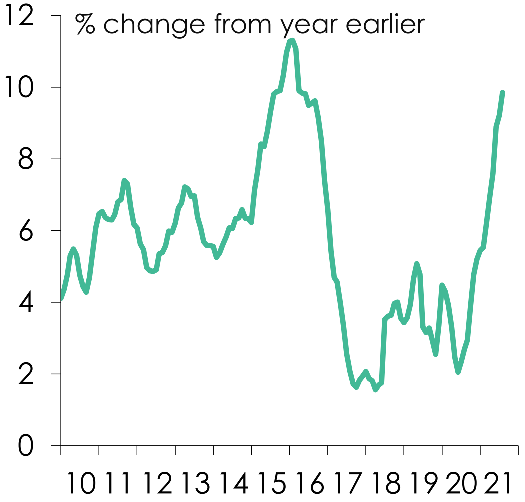
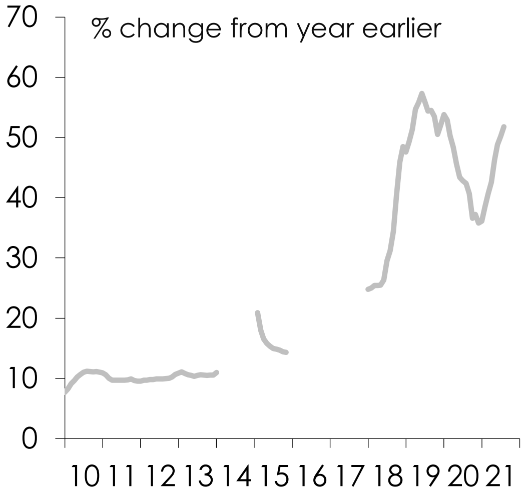
Consumer price inflation is rising in many other 'emerging' markets

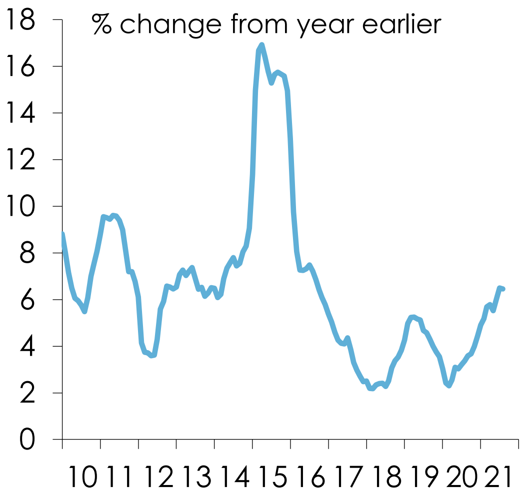
Brazil



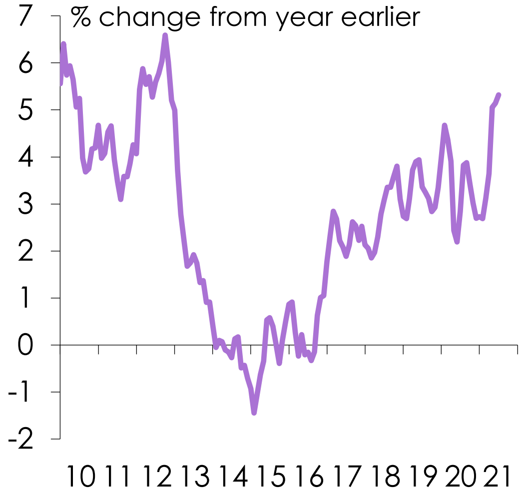
Argentina



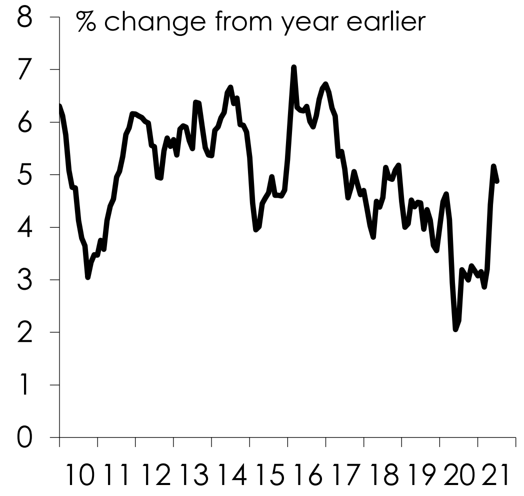
Russia



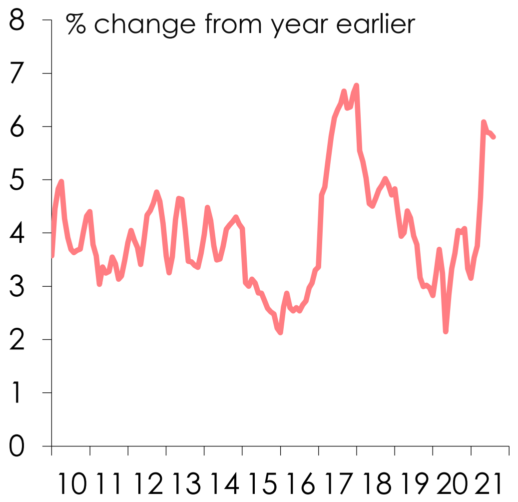
Hungary



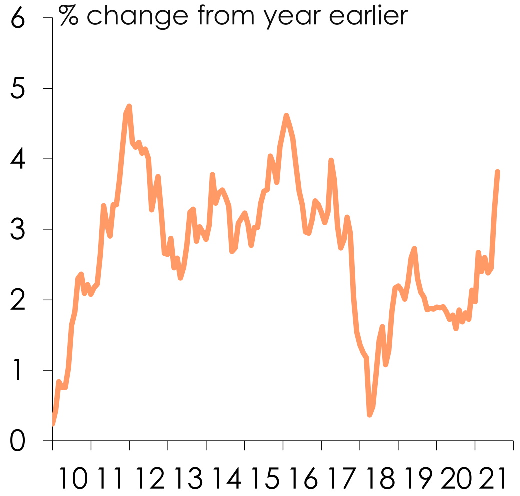
South Africa



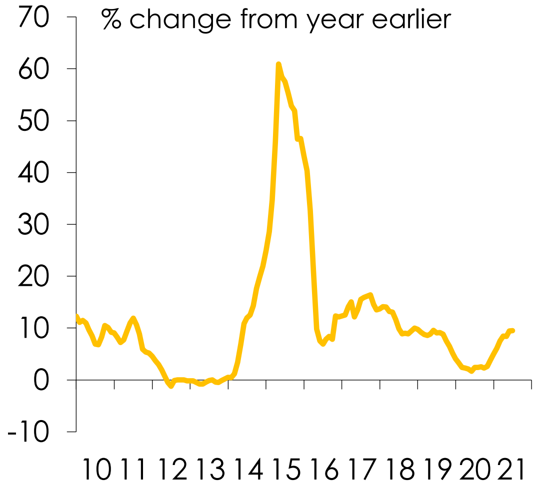
Mexico



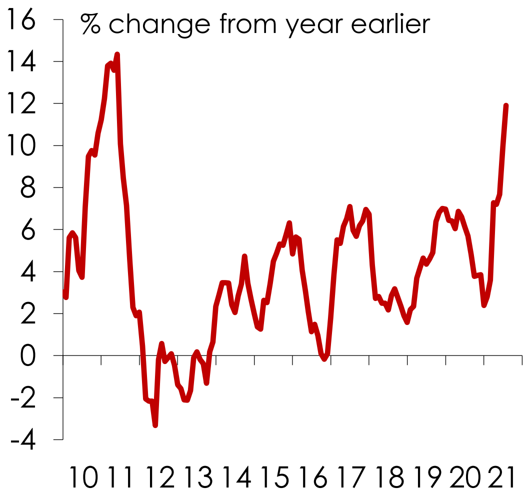
Peru



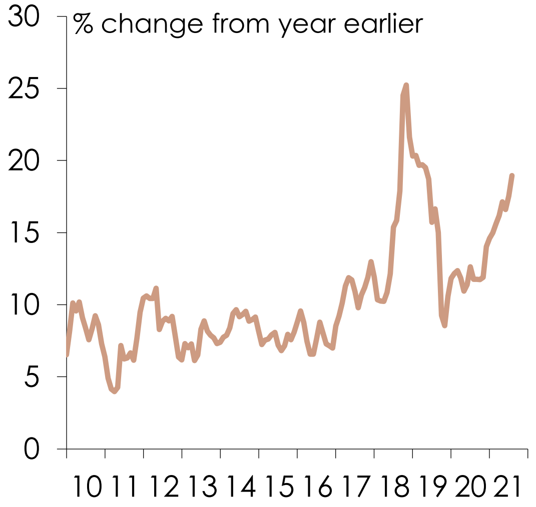
Ukraine



Georgia



Turkey



Sources: Instituto Brasileiro de Geografia e Estatística; Instituto Nacional de Estadística y Geografía (Mexico); Instituto Nacional de Estadística y Censos (Argentina); Instituto Nacional de Estadística e Informática (Peru); Rosstat; Ukrstat; Központi Statisztikai Hivatal (Hungary); Sak'art'velos Statistikis Erovnuli Samsakhuri (Georgia); Statistics South Africa; Turkstat. Return to "What's New".

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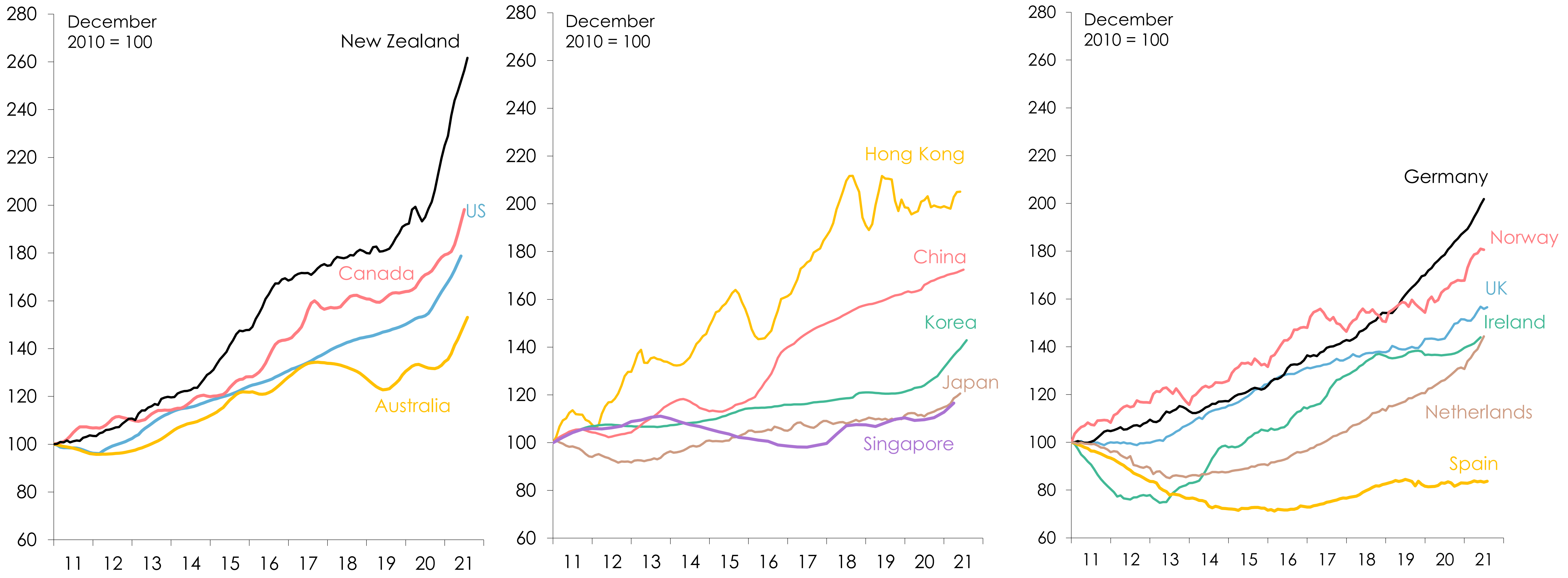
Residential property prices have been remarkably resilient in most countries thanks to record-low interest rates and ample supply of credit

House price indices



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

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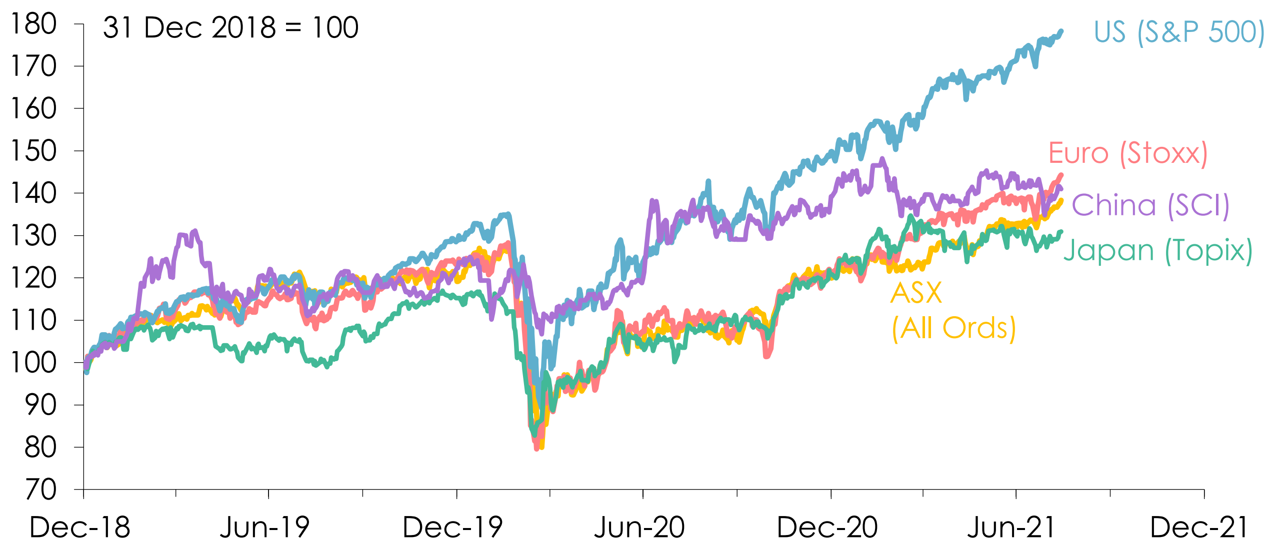
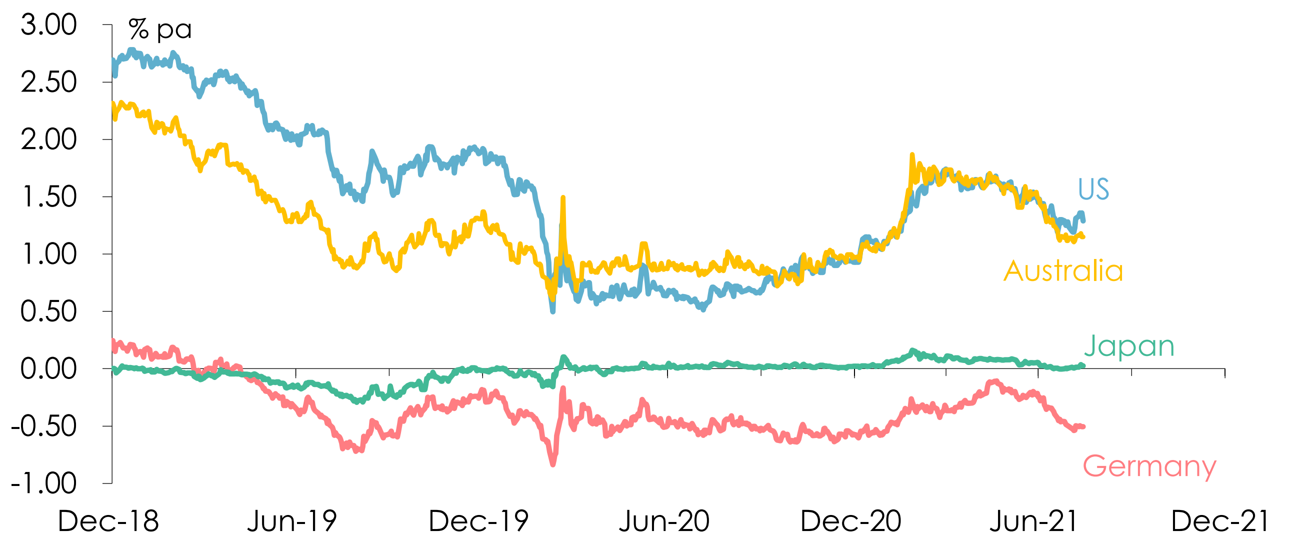
Equities were mostly higher this week (the US market reaching new record highs), bond yields rose a little more, and the US dollar weakened

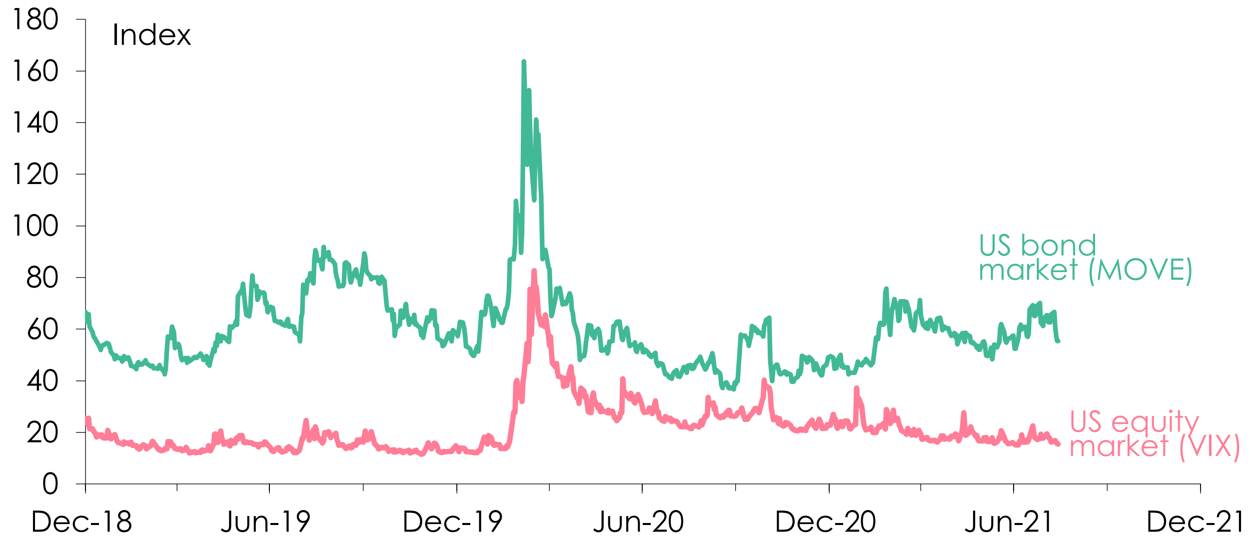
Stock markets



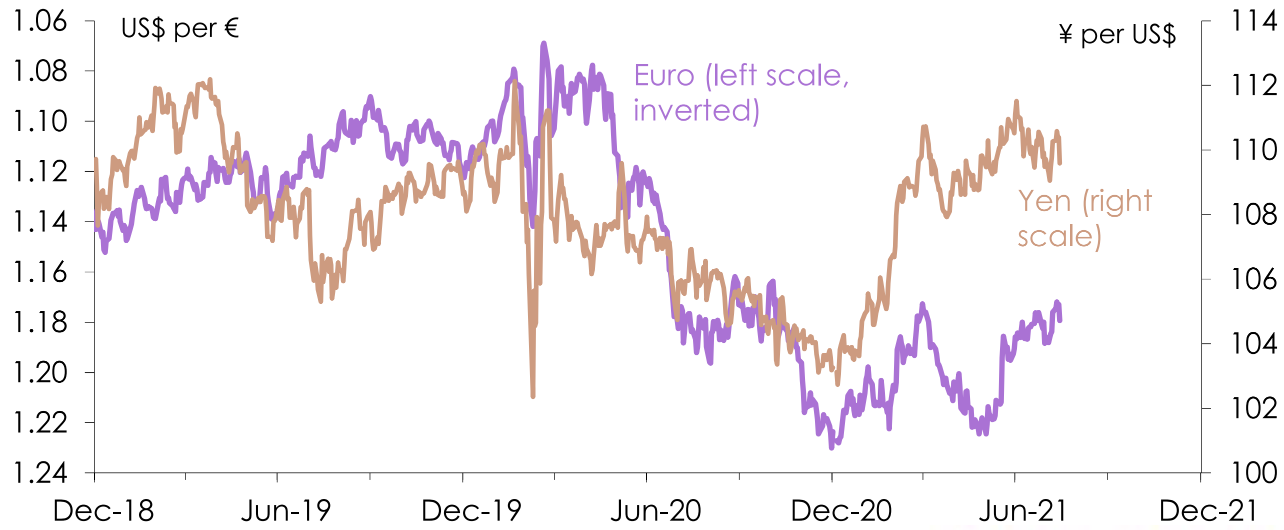
10-year bond yields



Measures of market volatility



US dollar vs euro and yen



Source: Refinitiv Datastream. Data up to 13th August. [Return to "What's New"].

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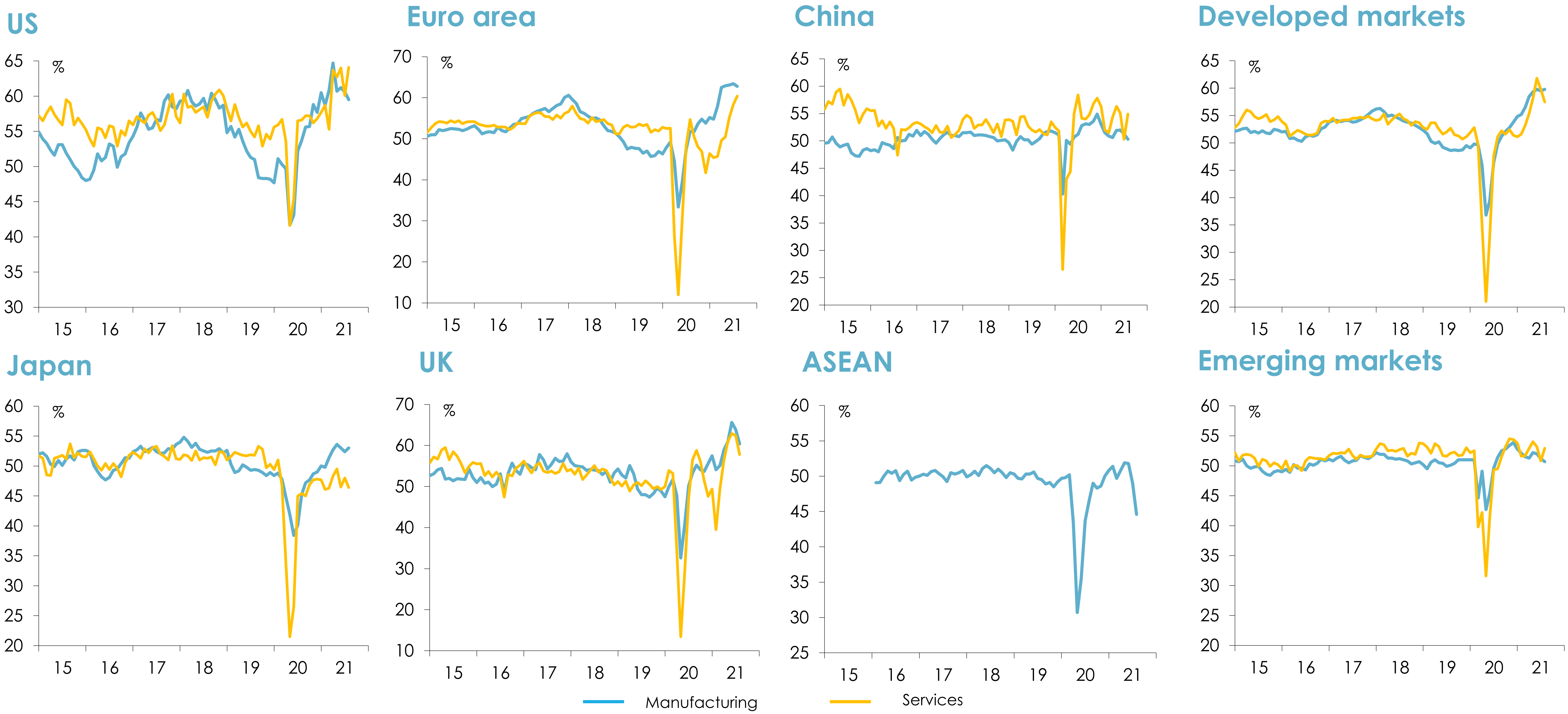
July PMIs show manufacturing still strong in 'advanced' economies but weakening in Asia, services picking up in US and euro area



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 July. See also PMIs for other Asia-Pacific economies on slide 57. Sources: US Institute for Supply Management; IHS Markit; JP Morgan; Caixin; Refinitiv Datastream. Return to "What's New".

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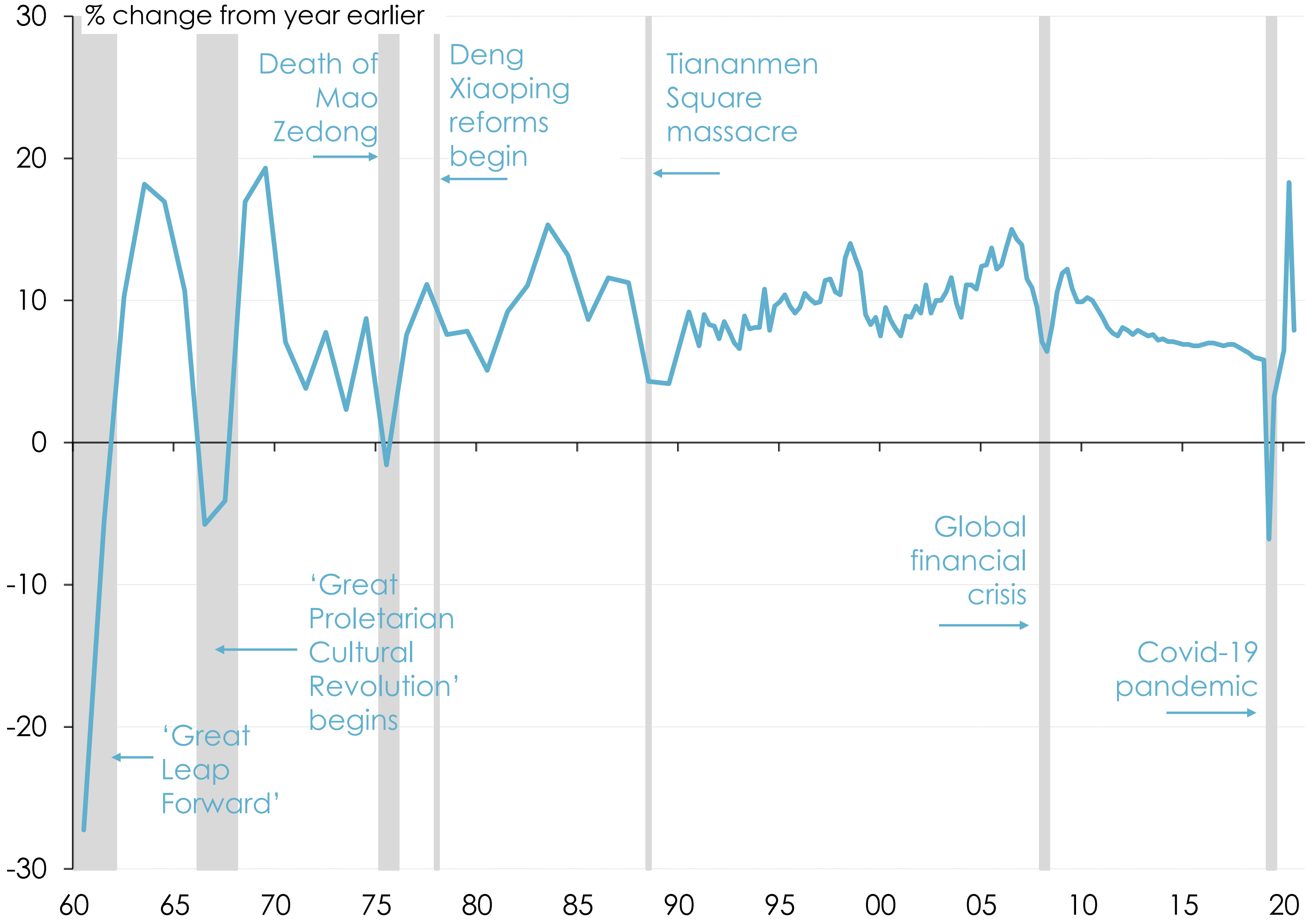
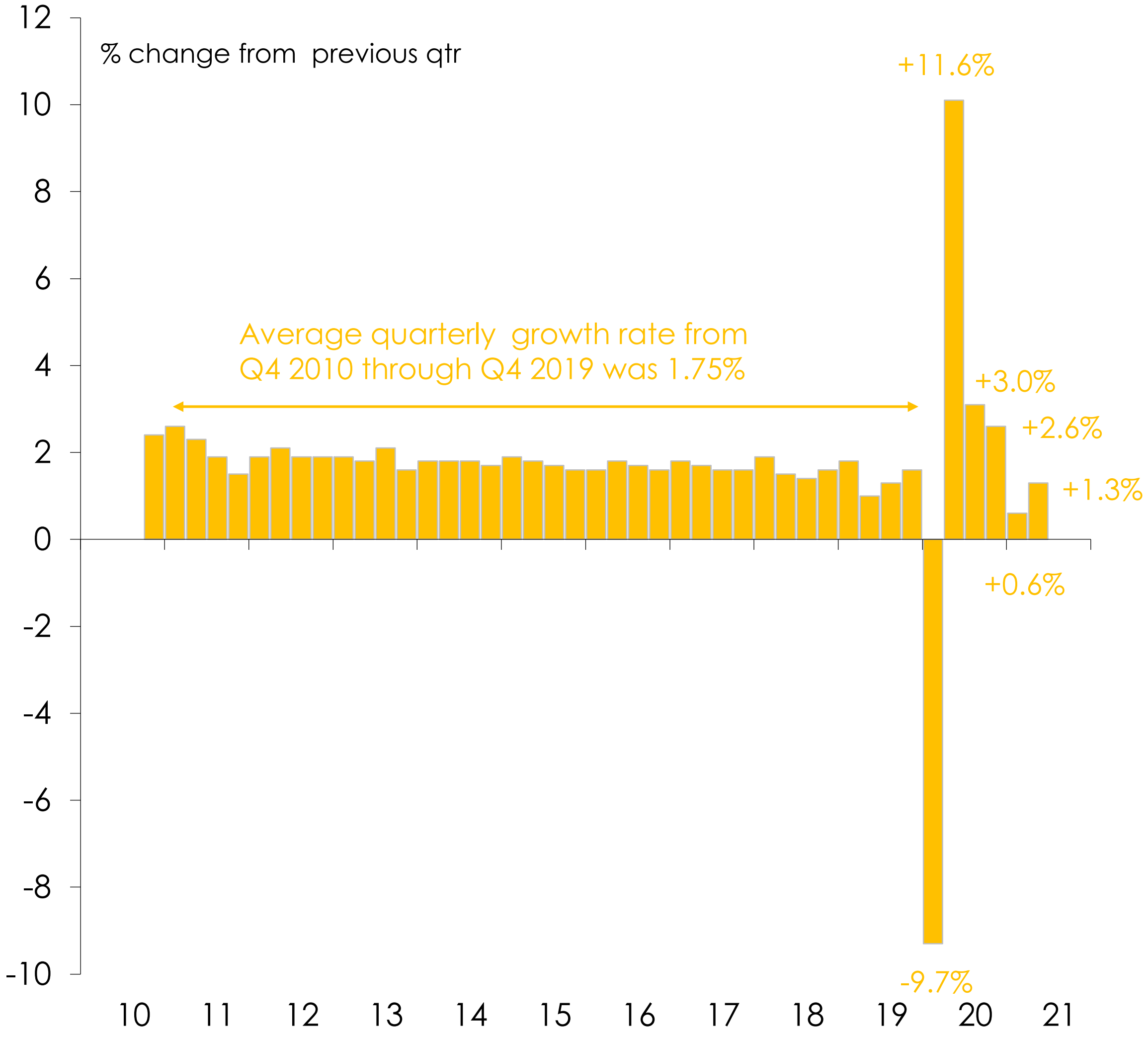
China's real GDP grew by 1.3% in Q2, double the Q1 growth rate but below the pre-pandemic pace

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".

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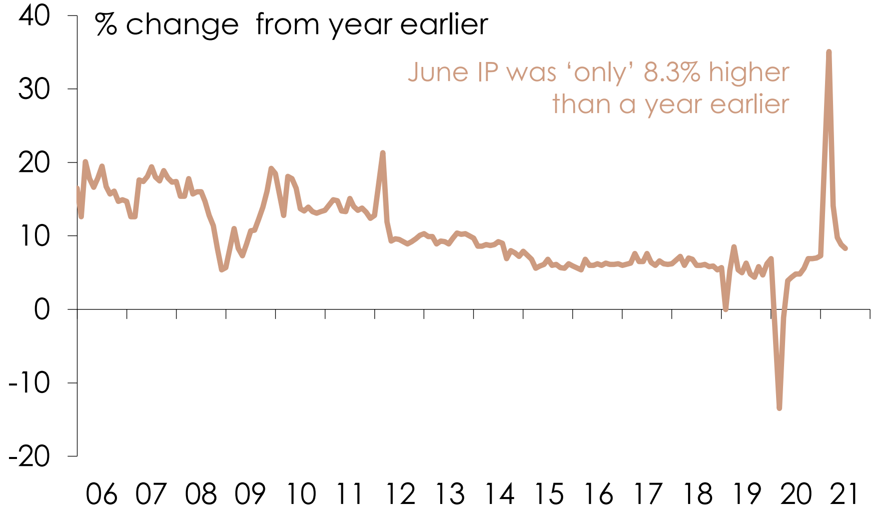
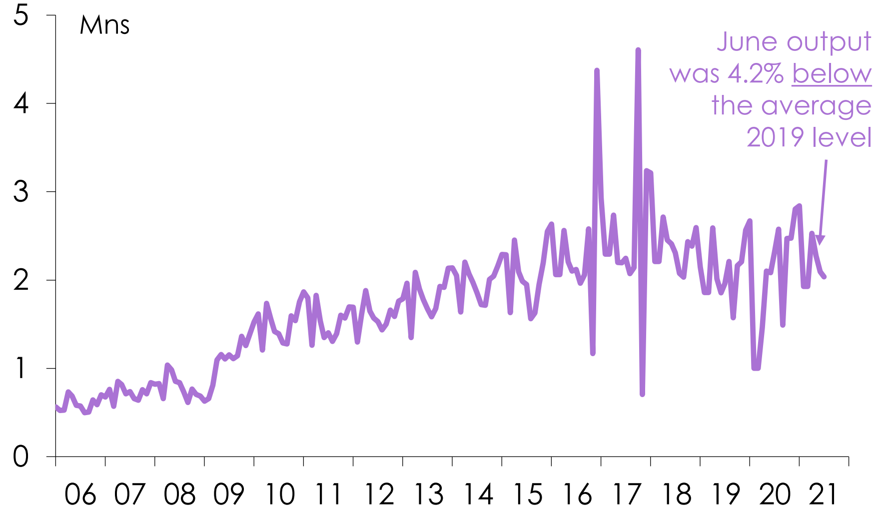
China's growth momentum is slowing – and this was also evident in the July merchandise trade data released today (Saturday)

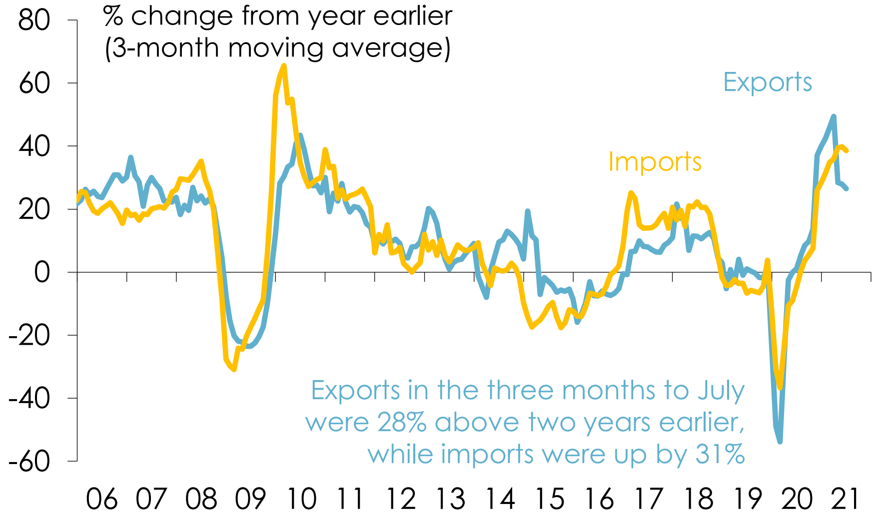
Industrial production



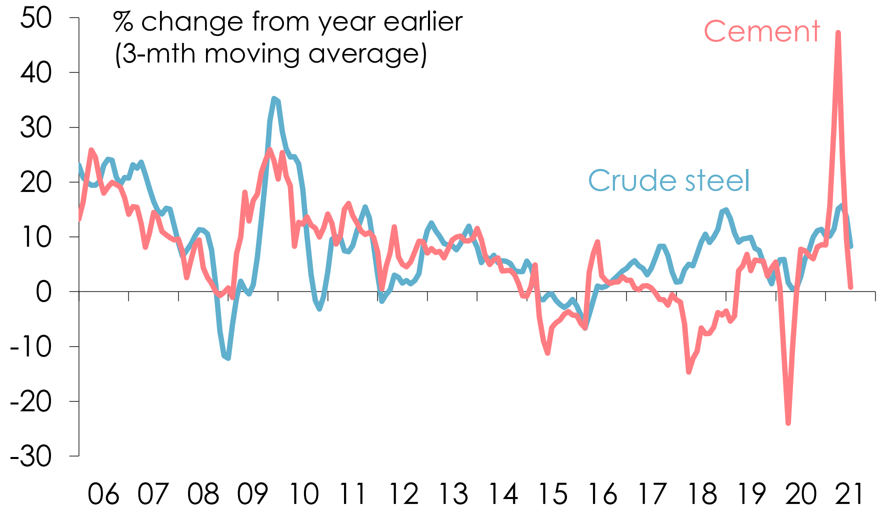
Motor vehicle production



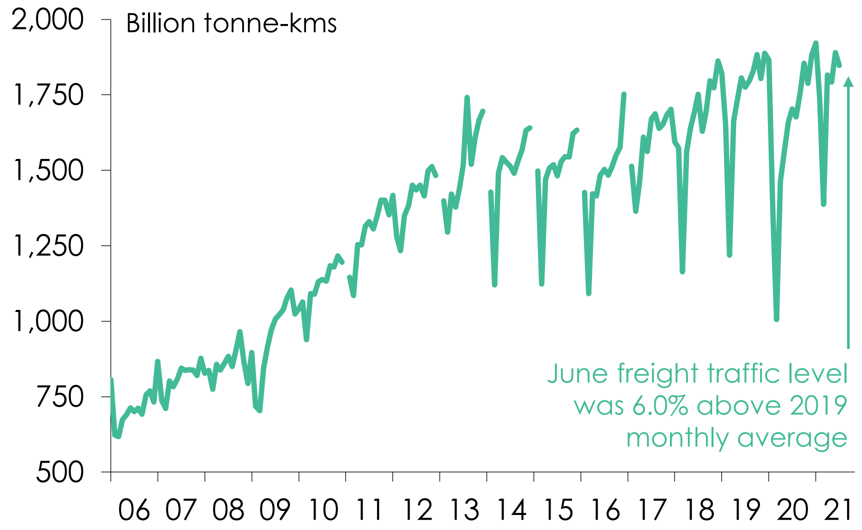
Merchandise trade



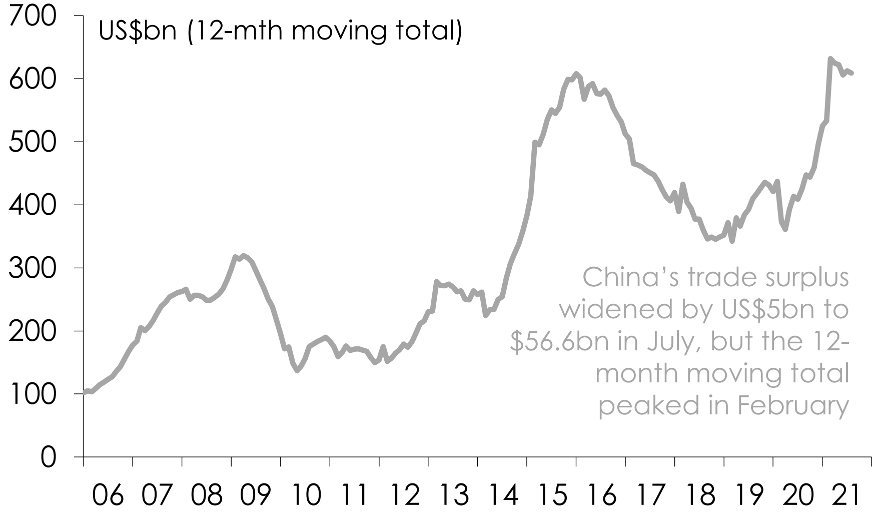
Steel and cement production



Freight traffic volumes



Merchandise trade balance



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

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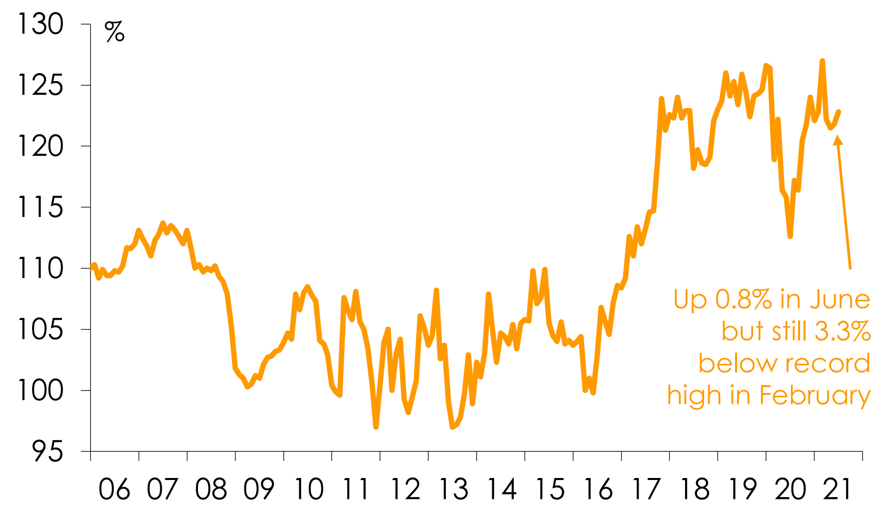
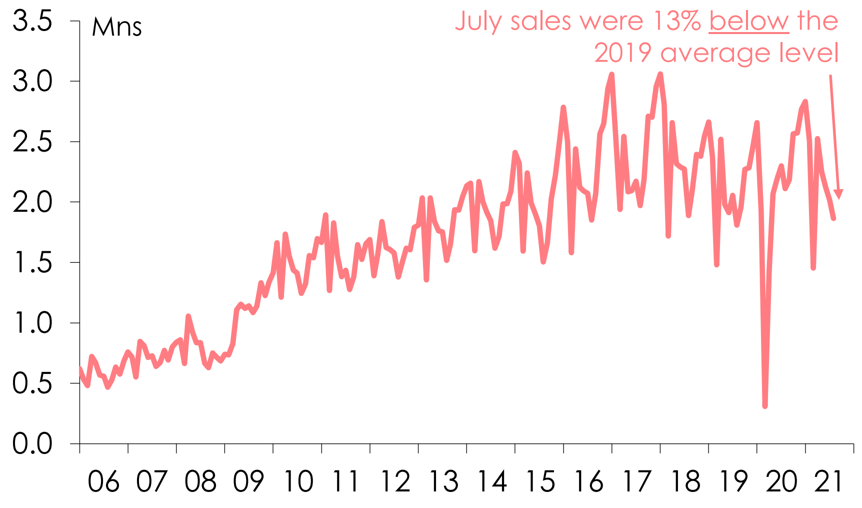
Most measures of consumer spending and of property market activity are also softening

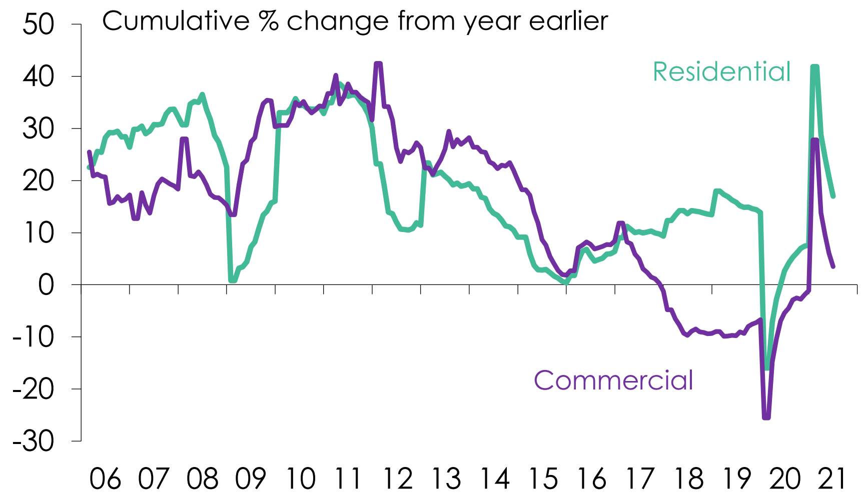
Consumer sentiment



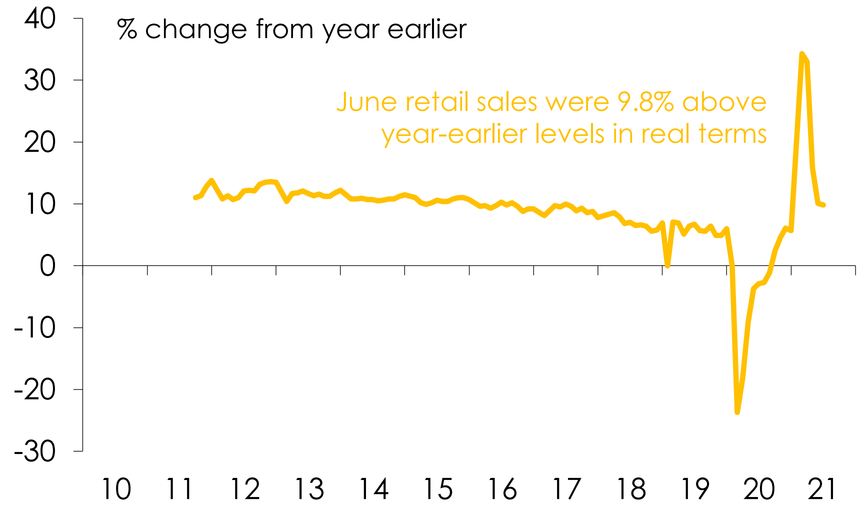
Motor vehicle sales



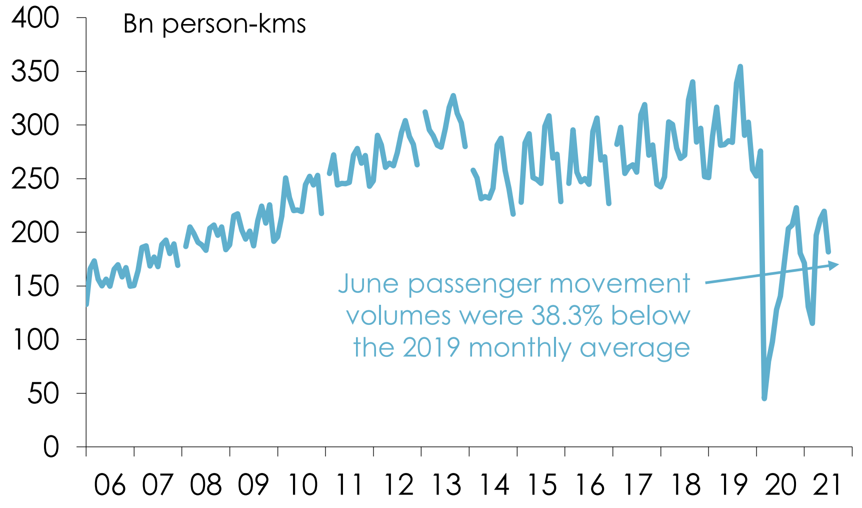
Real estate investment



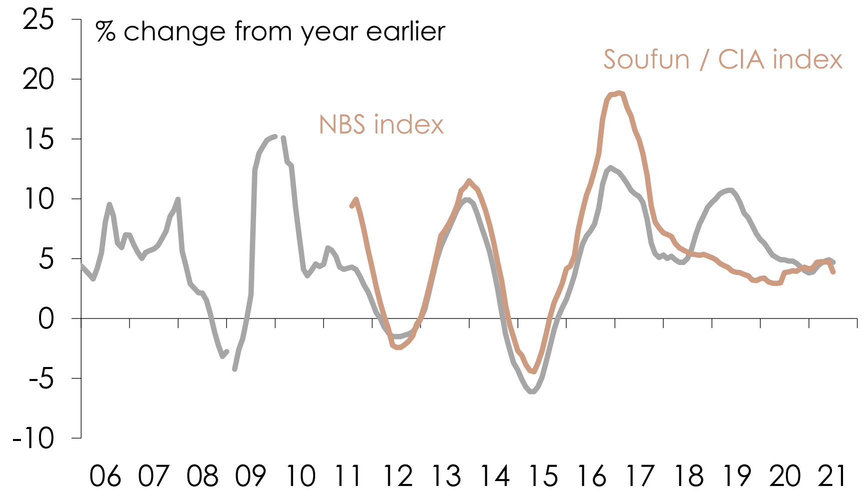
Volume of retail sales



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 motor vehicle sales which are July. Return to "What's New".

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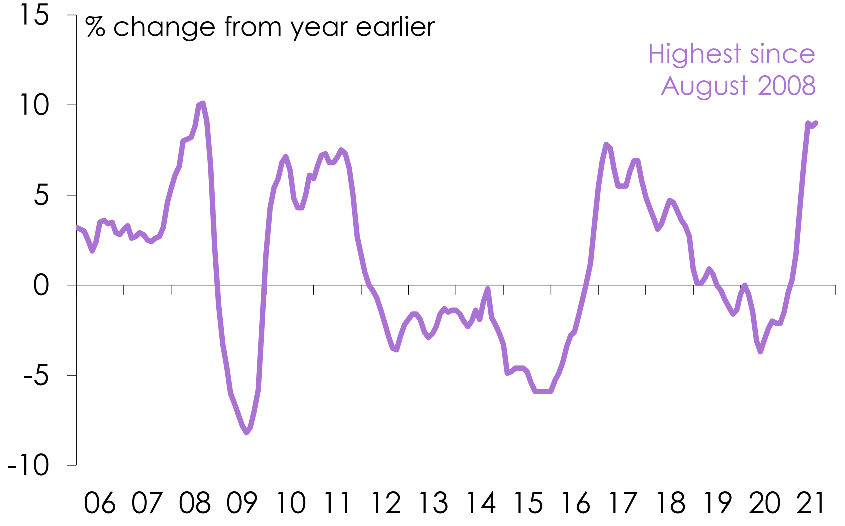
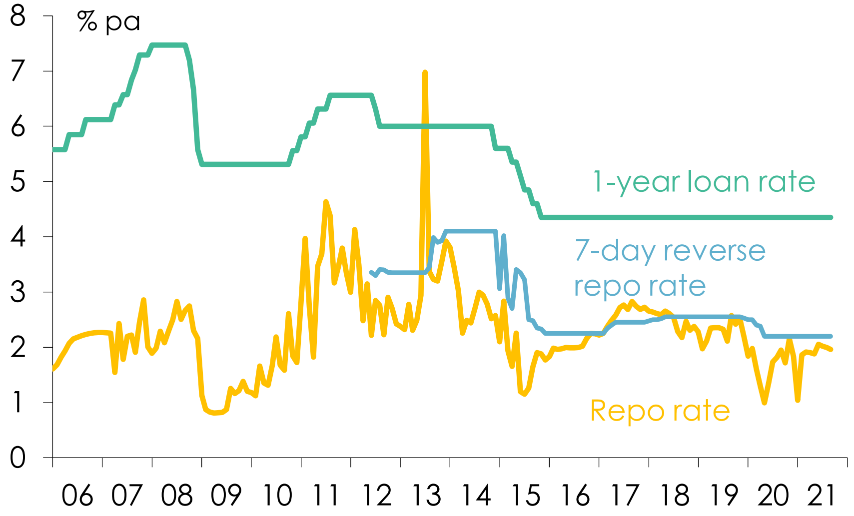
China's producer price inflation remained high in July, but consumer price inflation ebbed due to falling food prices – credit growth remains slow

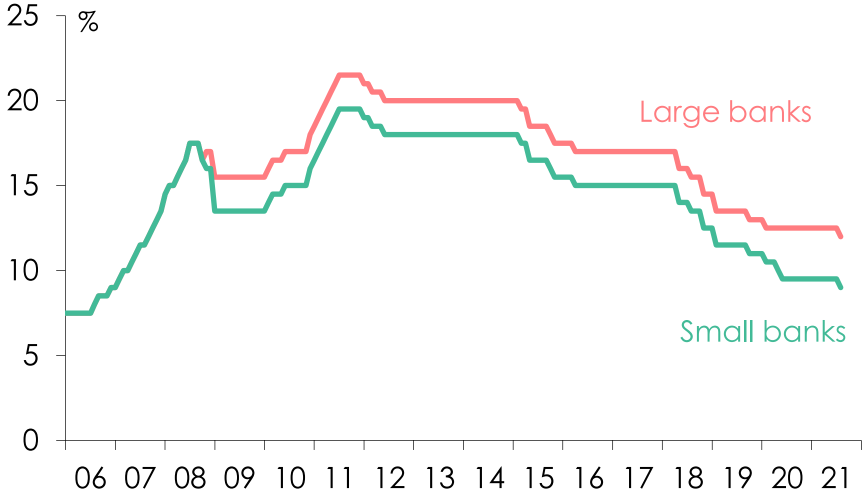
Producer prices



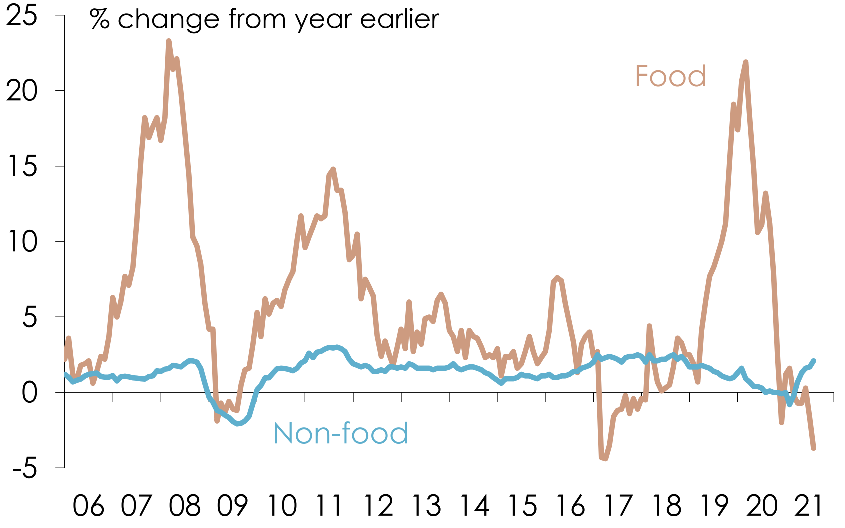
PBoC policy interest rates



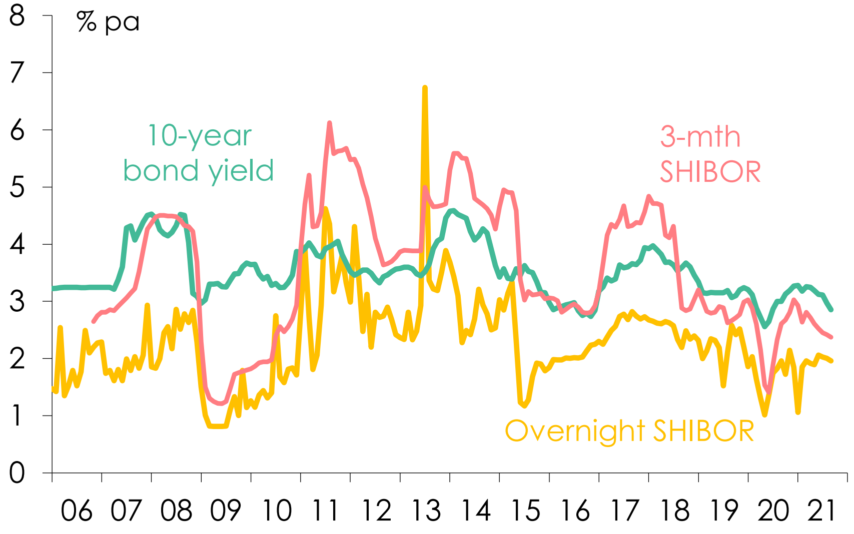
Bank reserve requirement ratios



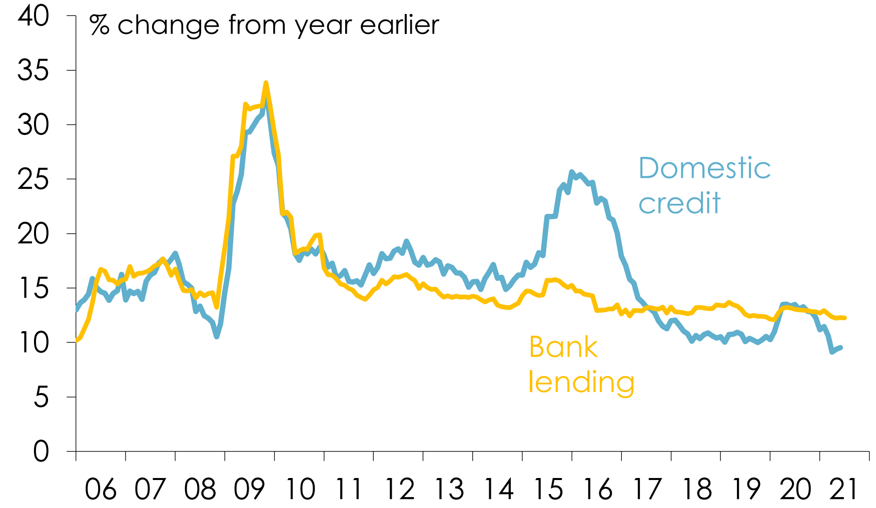
Consumer prices



Market interest rates



Credit growth



Note: 'SHIBOR' is the Shanghai Inter-Bank Offered Rate. Latest inflation and credit data are for July.
Sources: China National Bureau of Statistics; Refinitiv Datastream; People's Bank of China. Return to "What's New".

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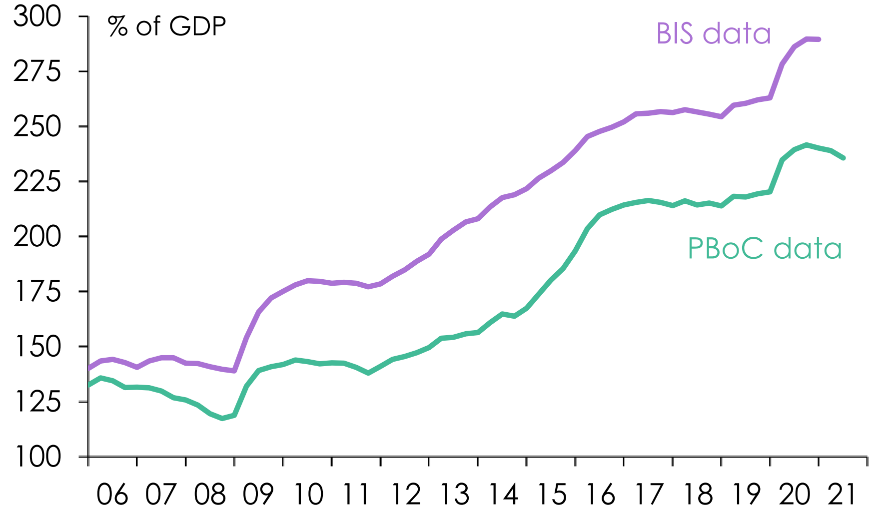
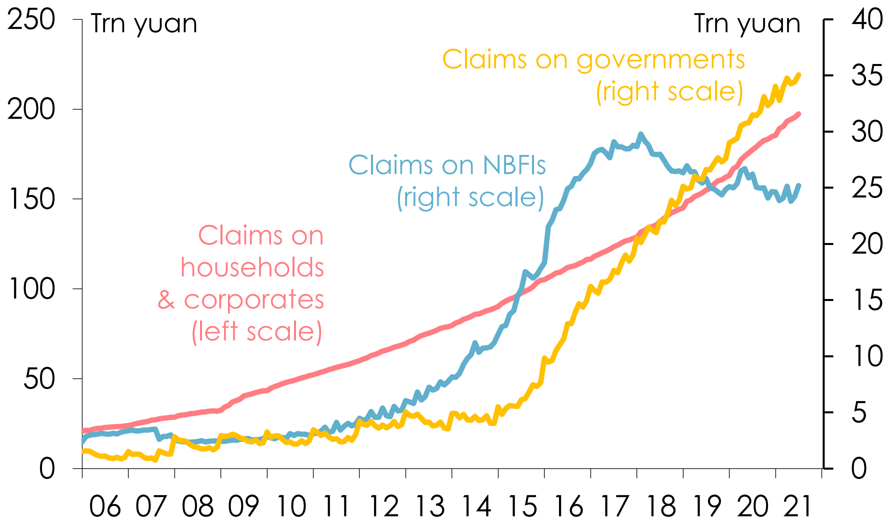
The Chinese banking system's risk profile has increased significantly over the past decade – particularly on the liabilities side of its balance sheet

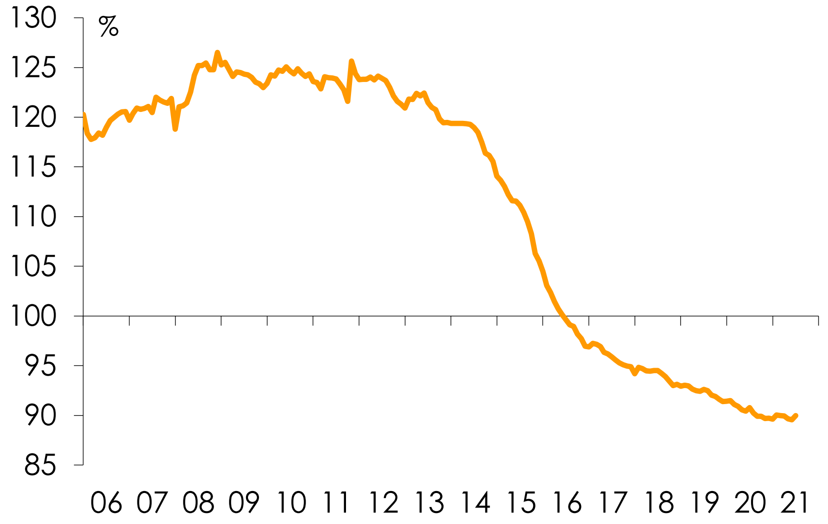
Credit outstanding as a pc of GDP



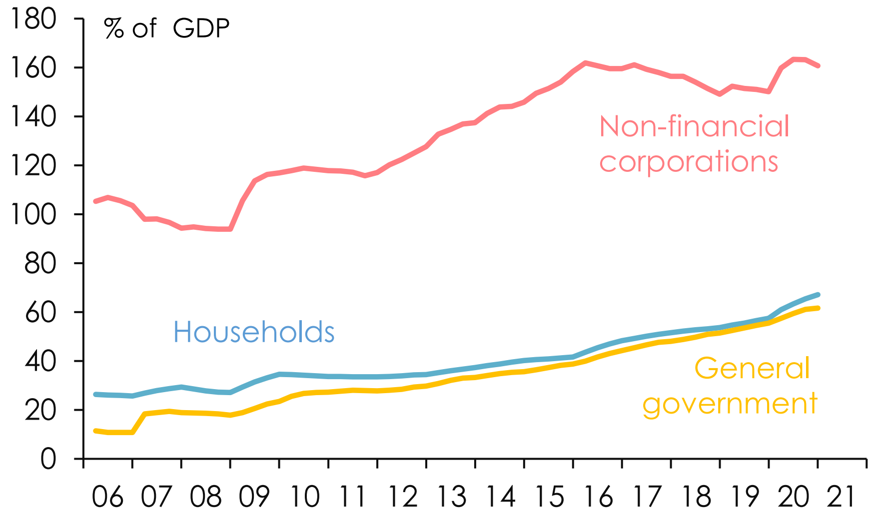
Banks' assets



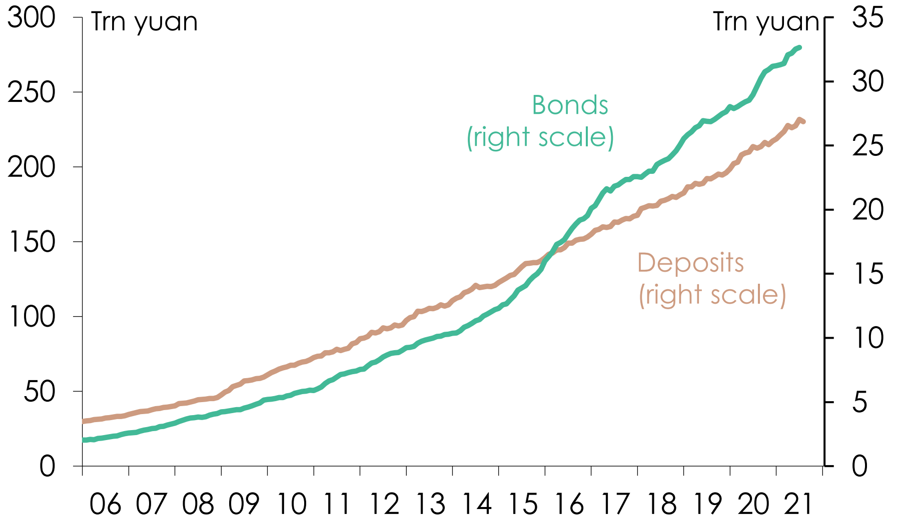
Banks' deposits-to-loans ratio



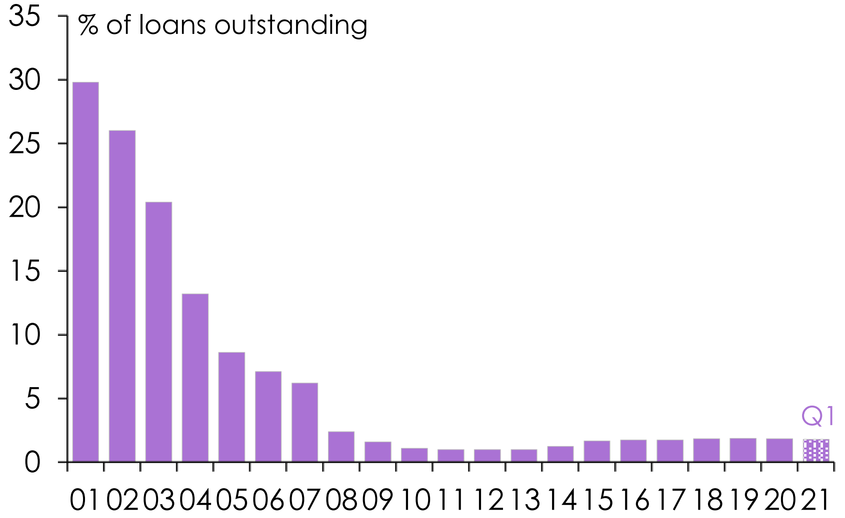
Credit outstanding by sector



Banks' liabilities



Banks NPLs – official estimates



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

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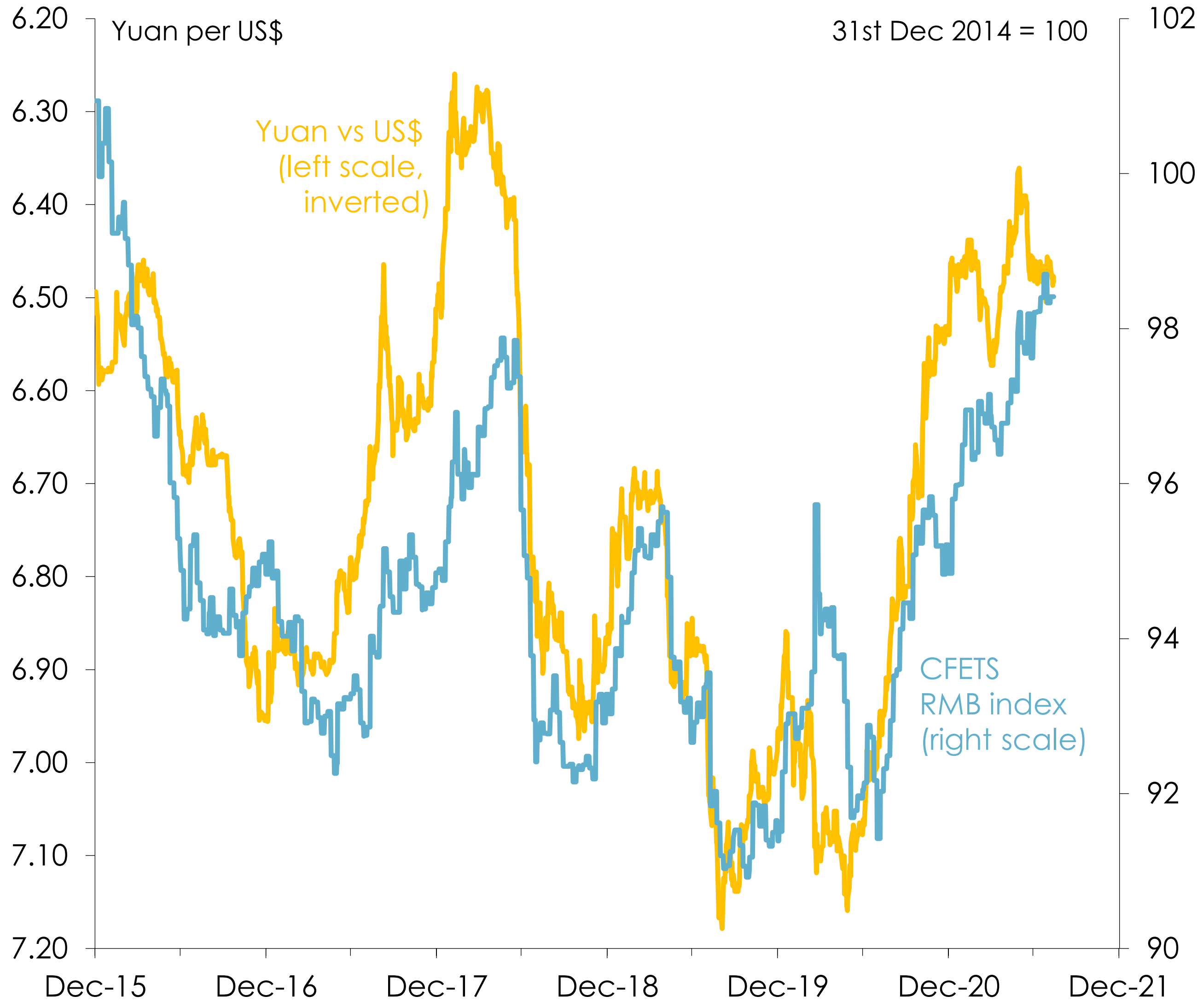
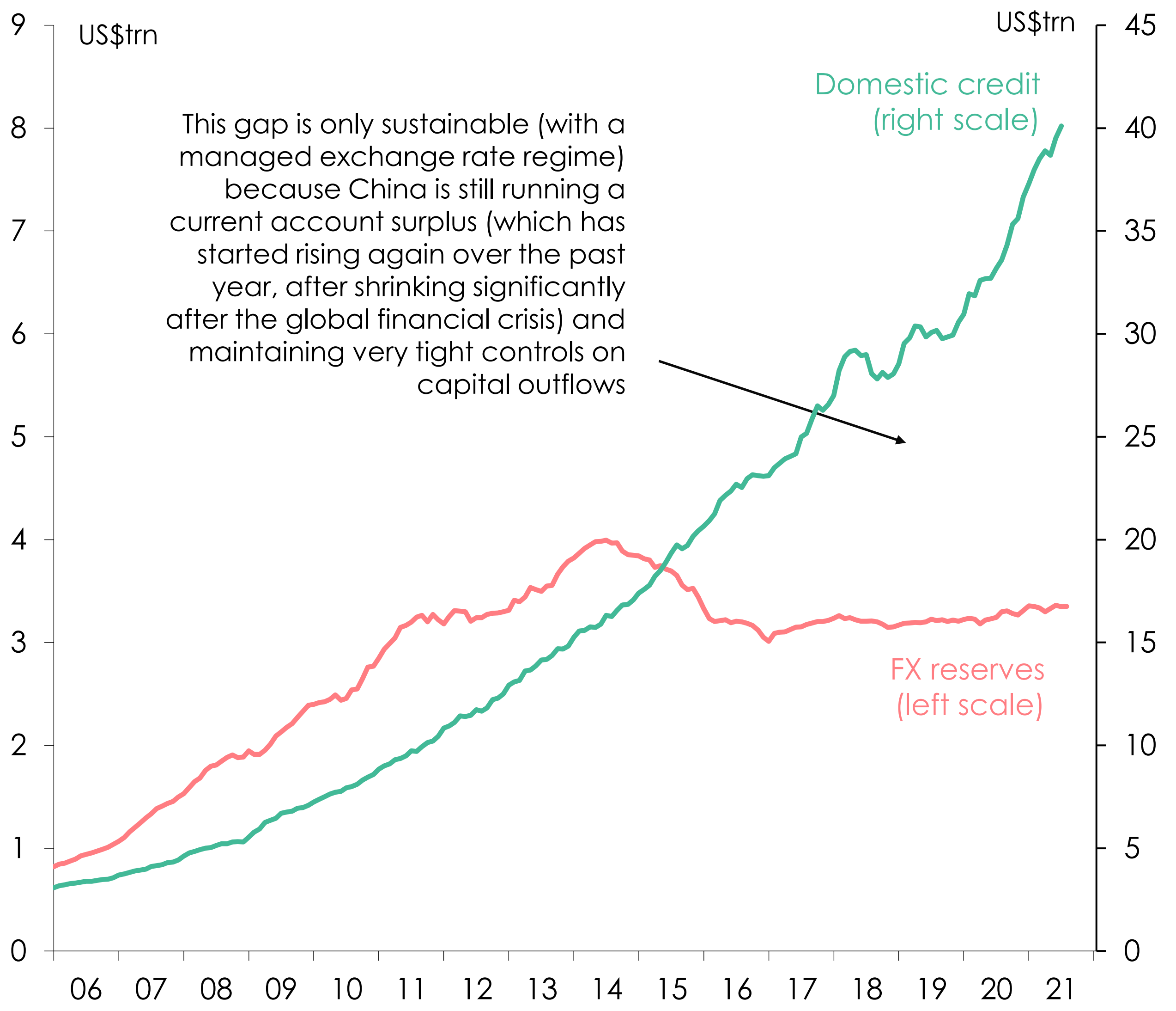
The yuan edged down another ¼% against the US dollar this week, to be 1.9% below its most recent high at the end of May

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 13th August; FX reserves are up to July, and domestic credit data up to June. Return to "What's New".

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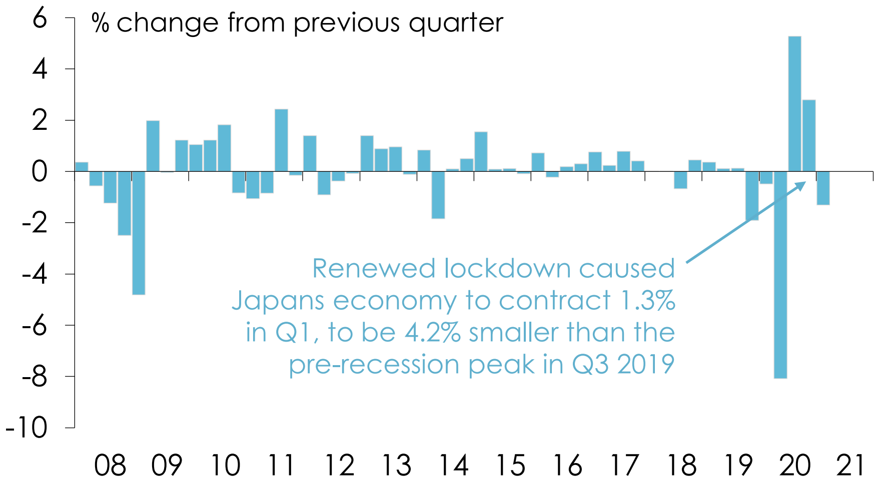
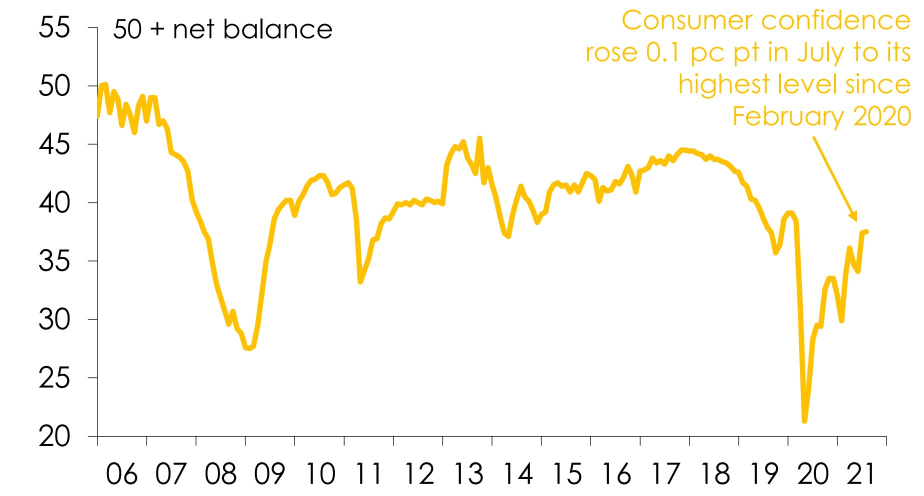
Japan's unemployment rate dropped marginally in June as employment rose for the first time in four months

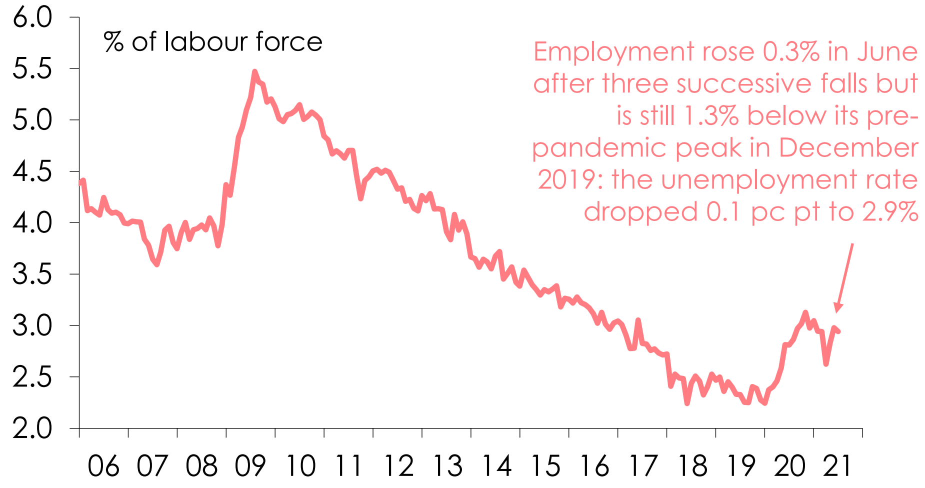
Real GDP



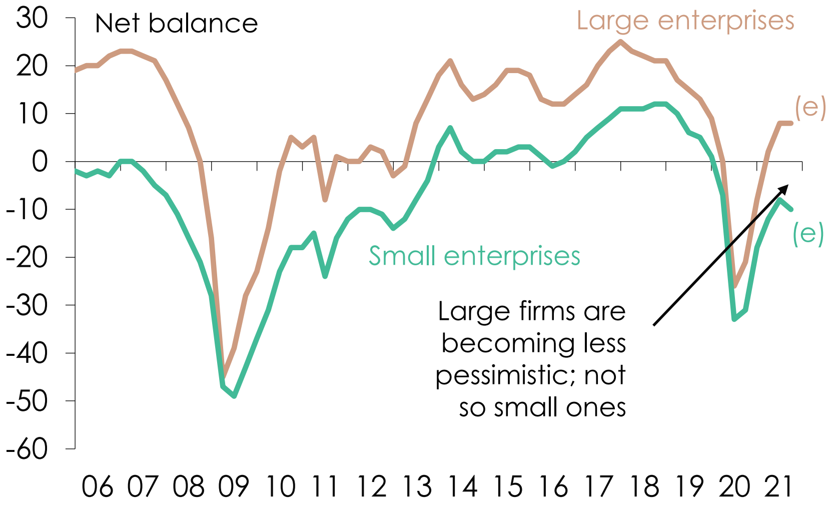
Consumer confidence



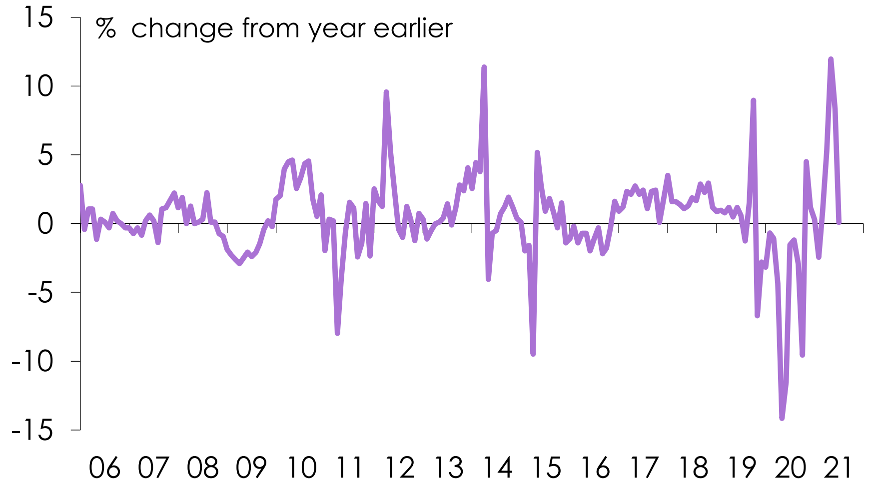
Unemployment



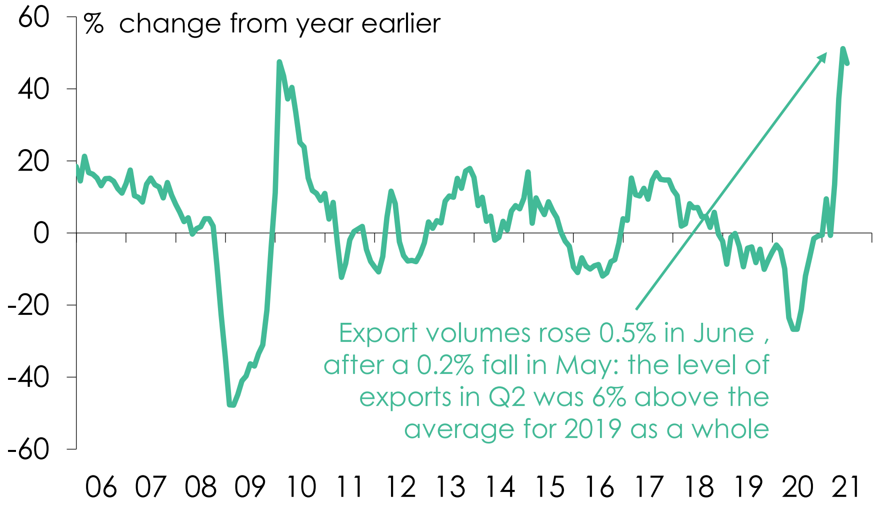
BoJ *Tankan* business conditions



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".

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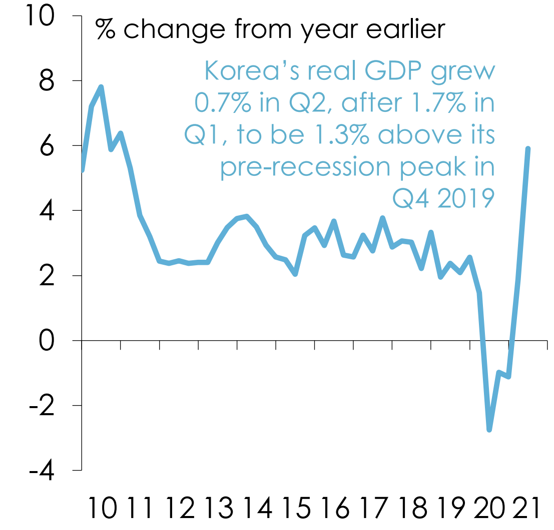
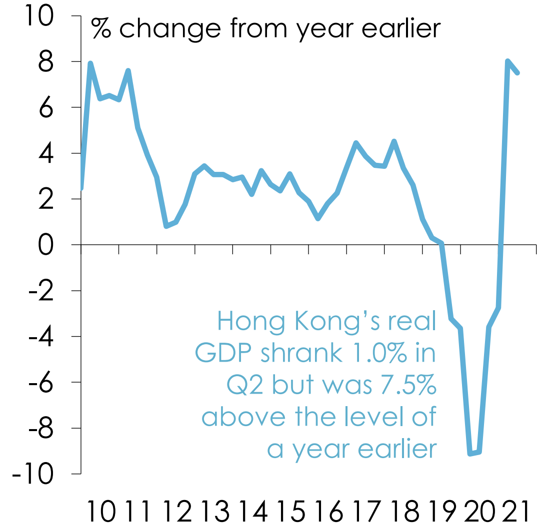
CORINNA ECONOMIC ADVISORY
INDEPENDENT ECONOMICS

The more ‘advanced’ Asian economies have now surpassed their pre-pandemic peaks, as have Indonesia (just), Vietnam and India

Korea

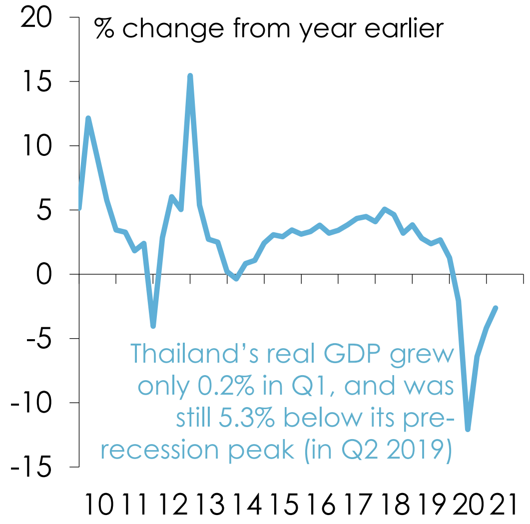


Hong Kong



Indonesia

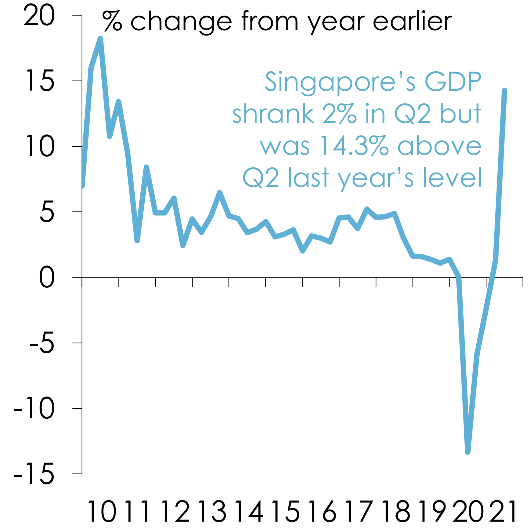
Thailand



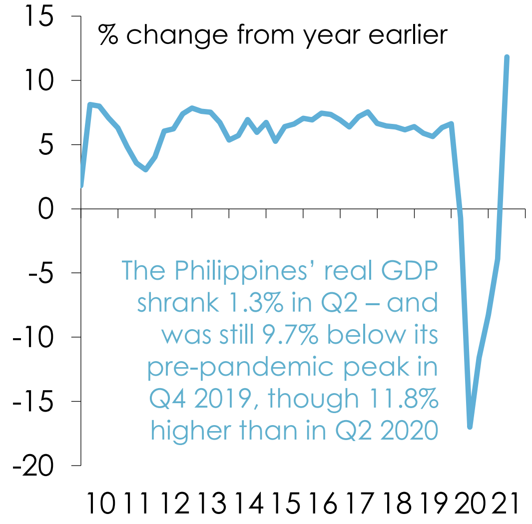
Vietnam

Taiwan

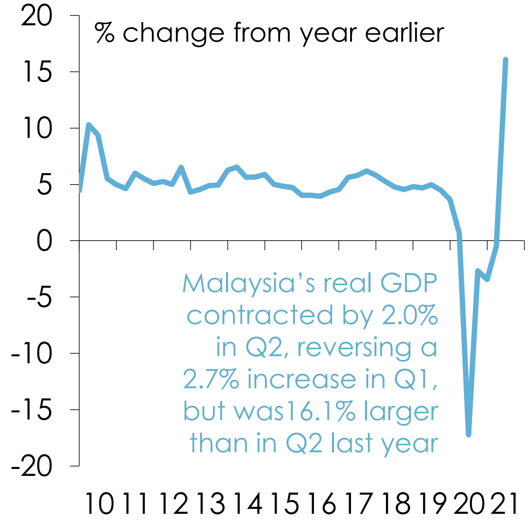
Singapore



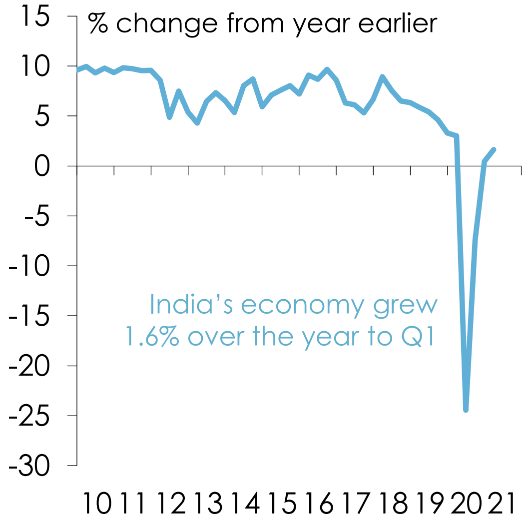
Philippines



Malaysia

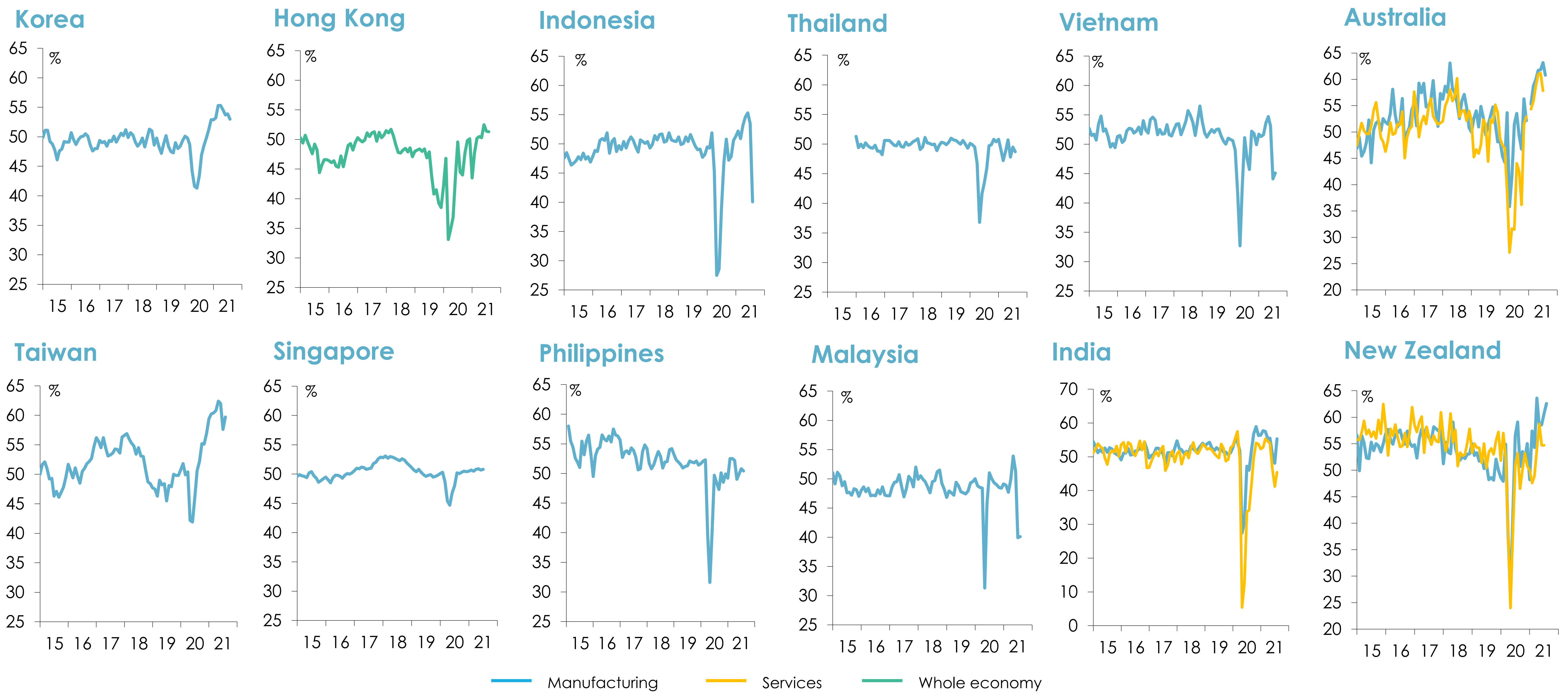


India



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 July show a marked adverse impact from the spread of the virus in much (though not all) of 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 July, except for New Zealand services. Australian data for January are 'missing'.
Sources: IHS Markit; Singapore Institute of Purchasing and Materials Management; Australian Industry Group; Business NZ; Refinitiv Datastream. Return to "What's New".

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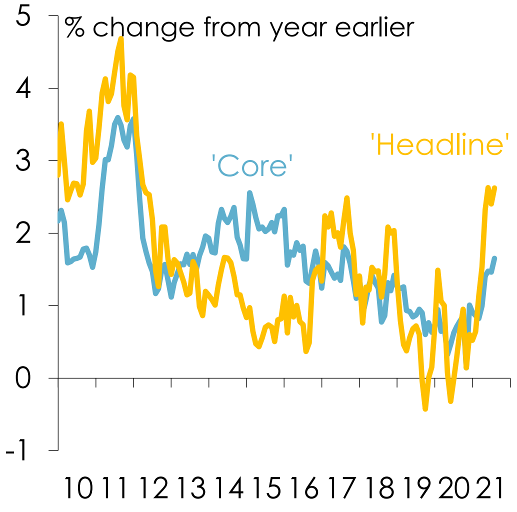
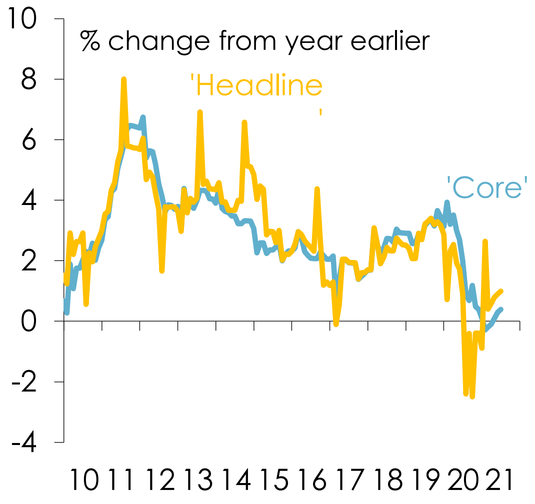
INDEPENDENT ECONOMICS

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

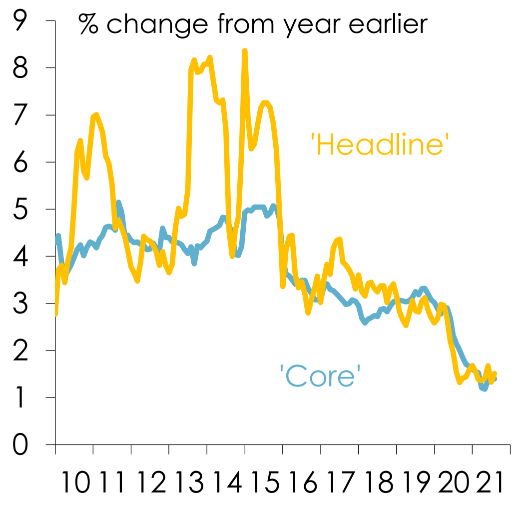
Korea



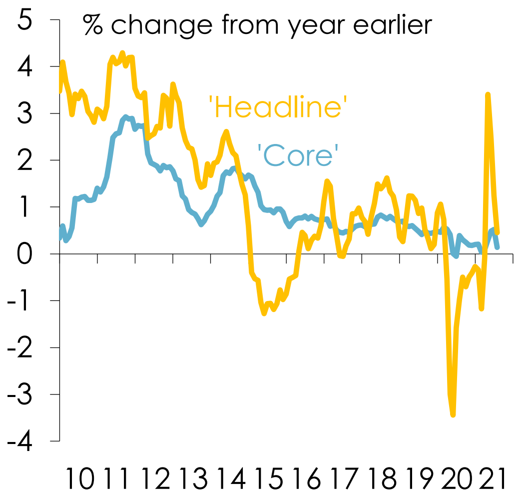
Hong Kong



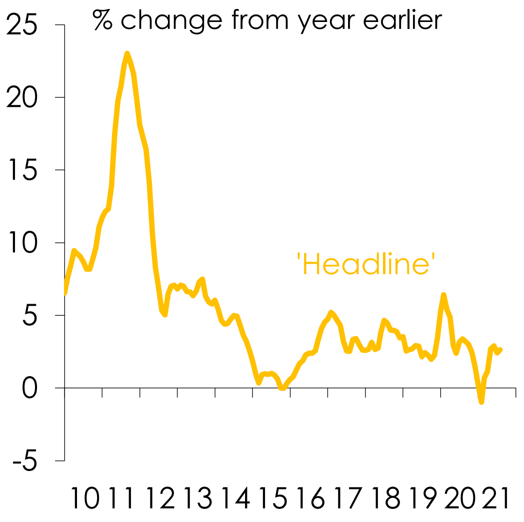
Indonesia



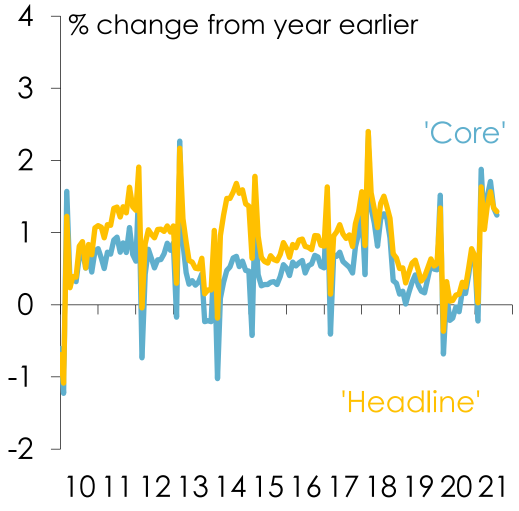
Thailand



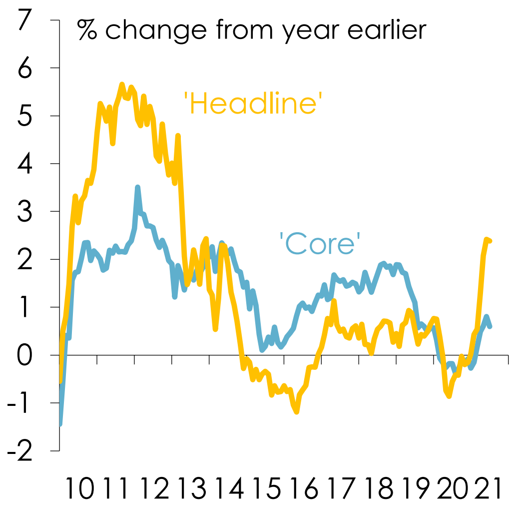
Vietnam



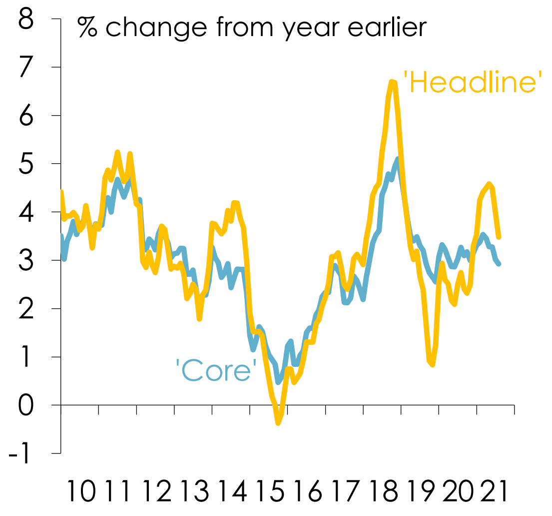
Taiwan



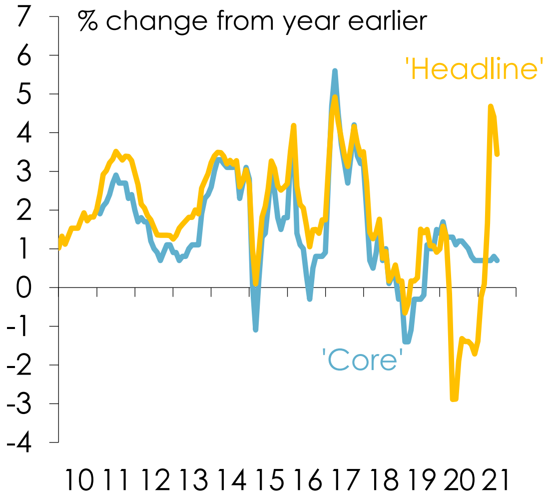
Singapore



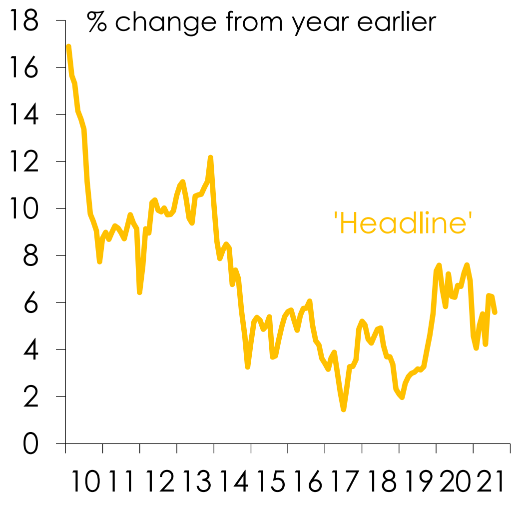
Philippines



Malaysia



India



Note: 'Core' inflation in Korea excludes agricultural products and oil; in Taiwan it excludes fresh fruit, vegetables and energy; in Singapore it excludes accommodation and private transport; and in Hong Kong it excludes the effect of 'one-off government relief measures. 'Core' inflation in Indonesia excludes 'volatile foods' and changes in 'administered prices' (such as fuel subsidies, transport fares and electricity prices); in the Philippines it excludes rice, corn, meat, fish, cultivated vegetables and fuels; in Thailand it excludes fresh or raw food and energy; and in Malaysia it excludes fresh food and 'administered' prices. Vietnam and India do not publish measures of 'core' inflation. Sources: national statistical agencies and central banks. Return to "What's New".

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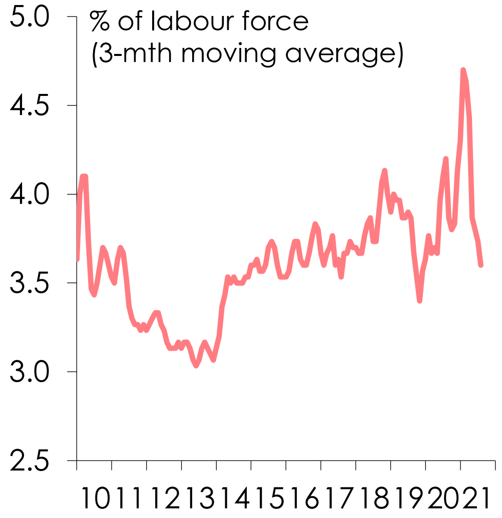
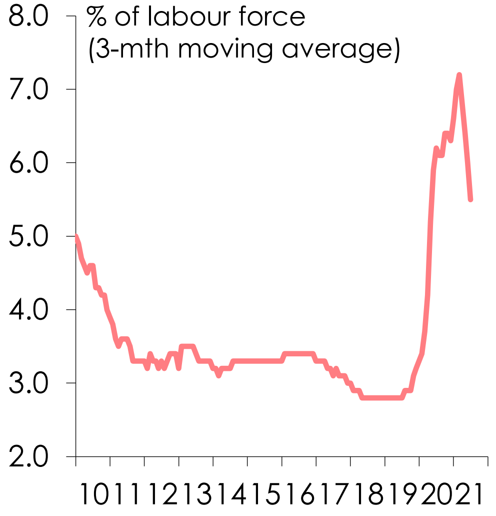
INDEPENDENT ECONOMICS

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

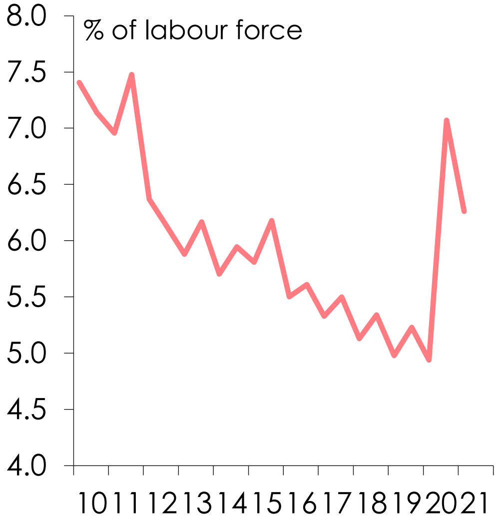
Korea



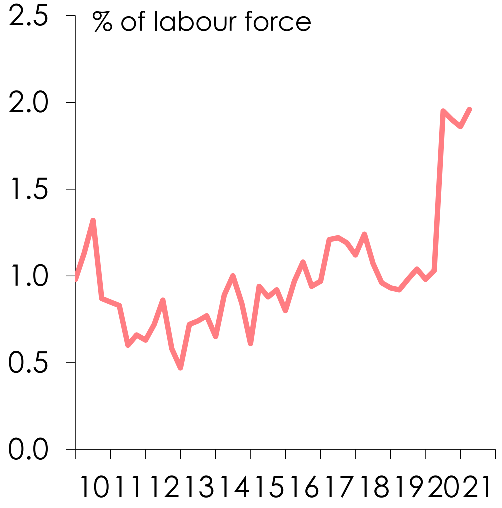
Hong Kong



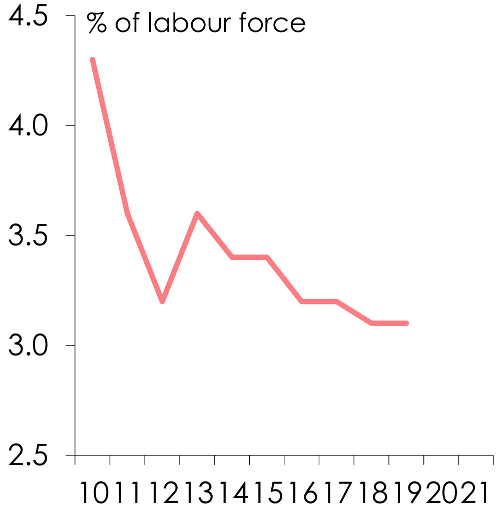
Indonesia



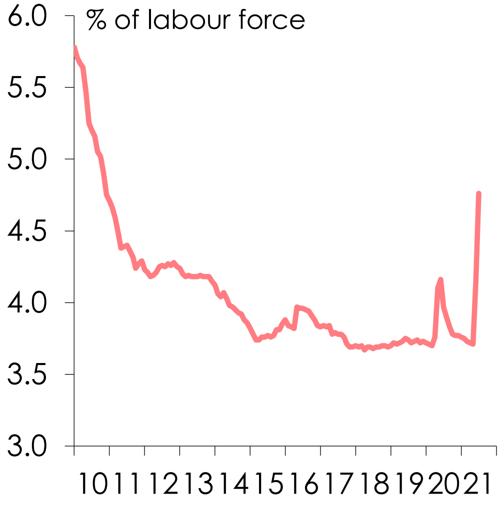
Thailand



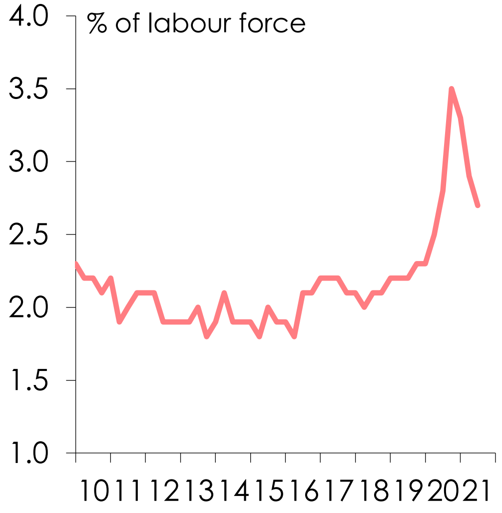
Vietnam



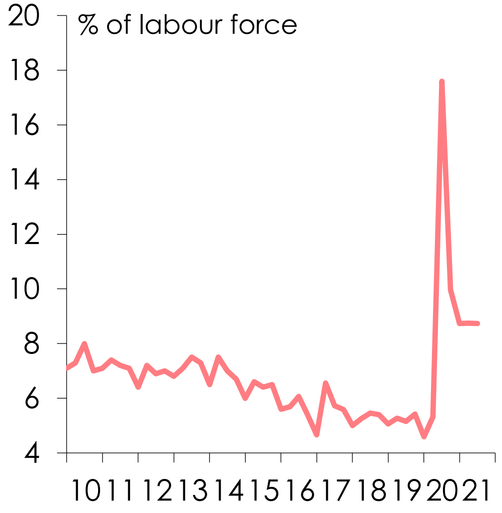
Taiwan



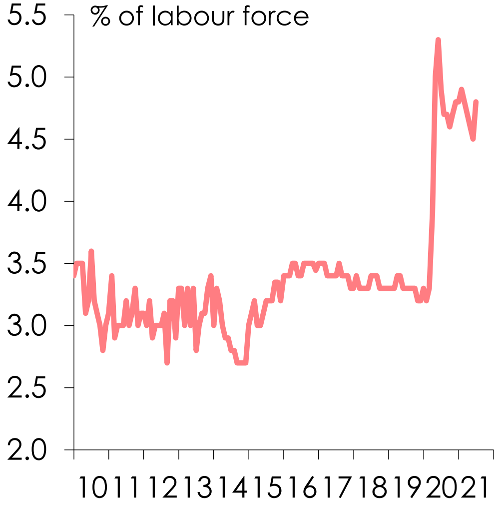
Singapore



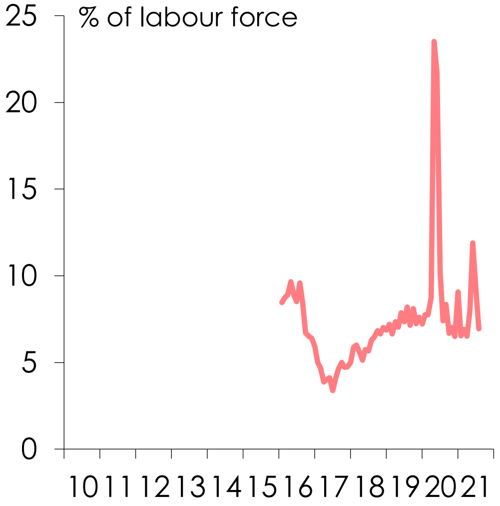
Philippines



Malaysia



India



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

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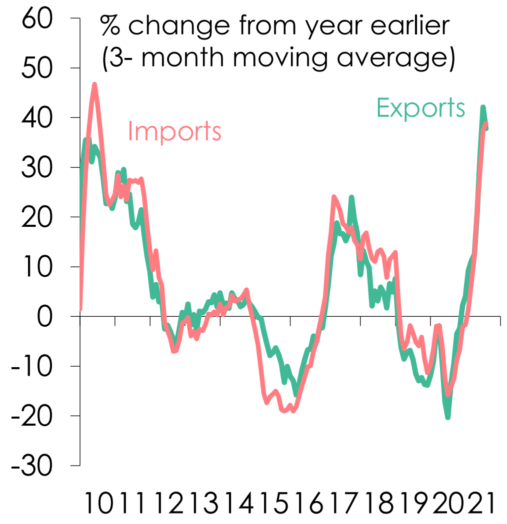
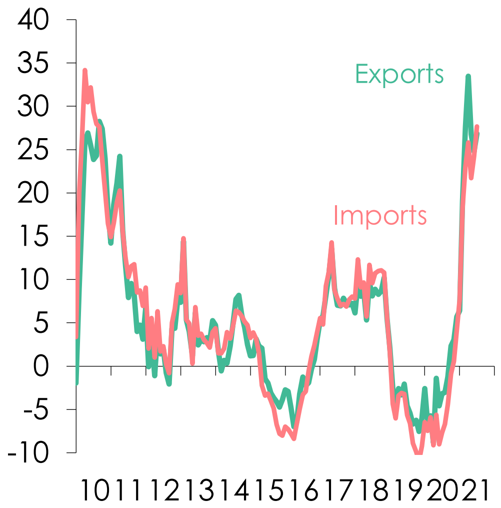
Asian exports are recovering from the Covid-induced slump – although 'base effects' from this time last year are inflating the growth

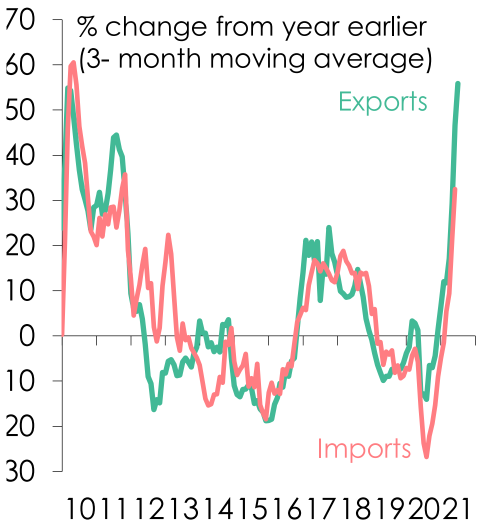
Korea



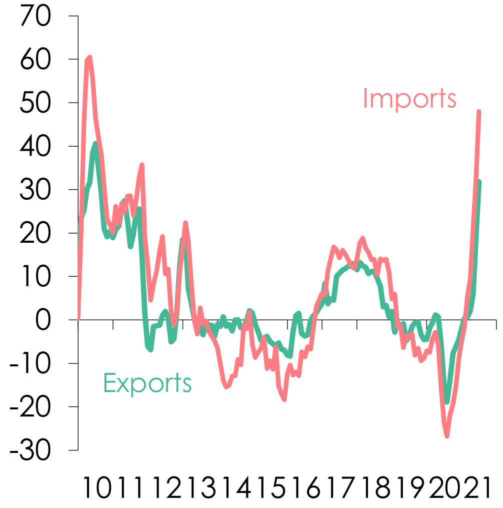
Hong Kong



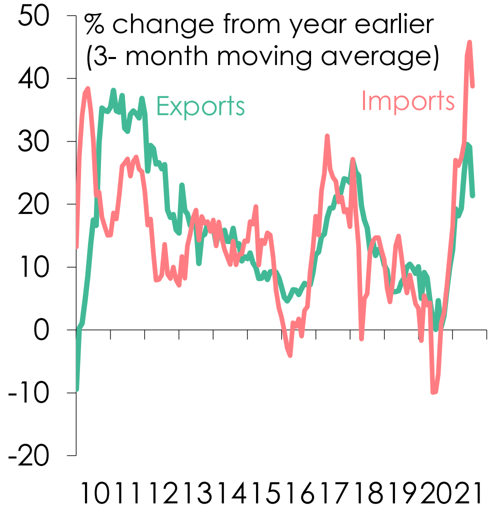
Indonesia



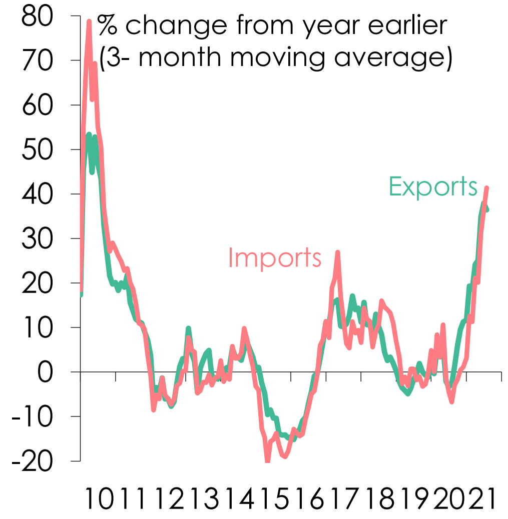
Thailand



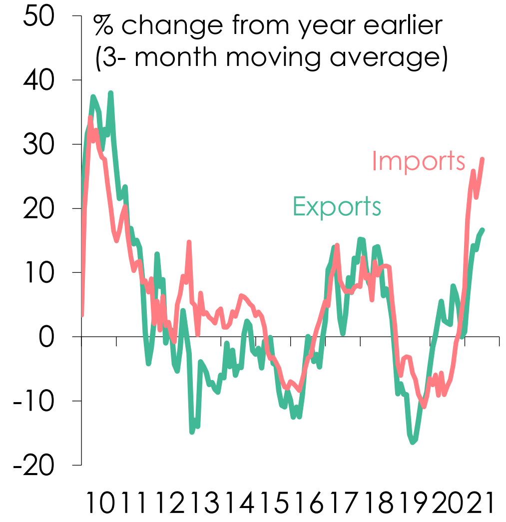
Vietnam



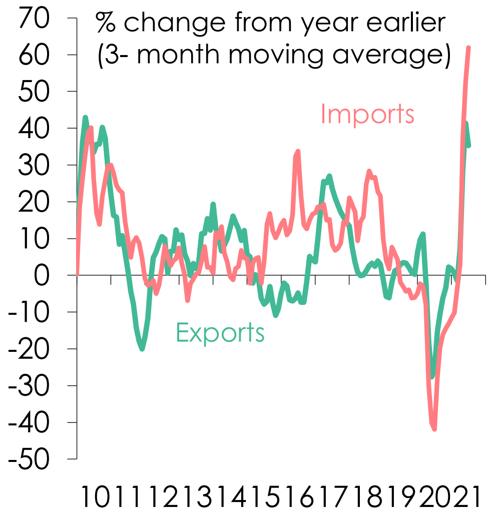
Taiwan



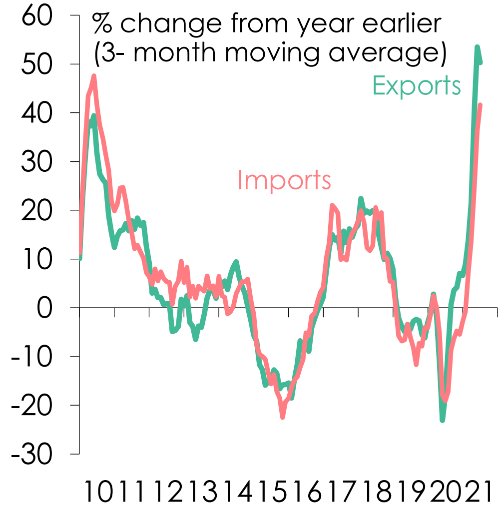
Singapore



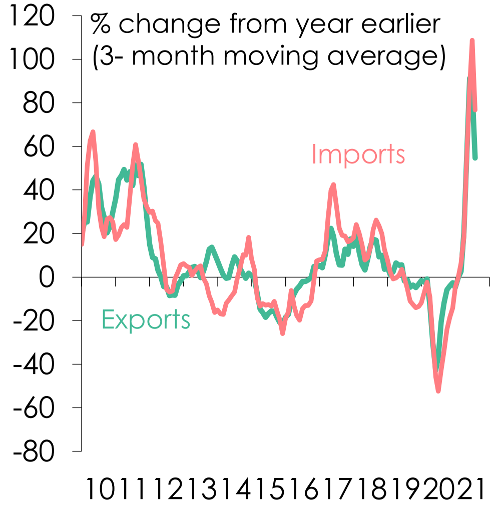
Philippines



Malaysia



India



Note: Data for Hong Kong, 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".

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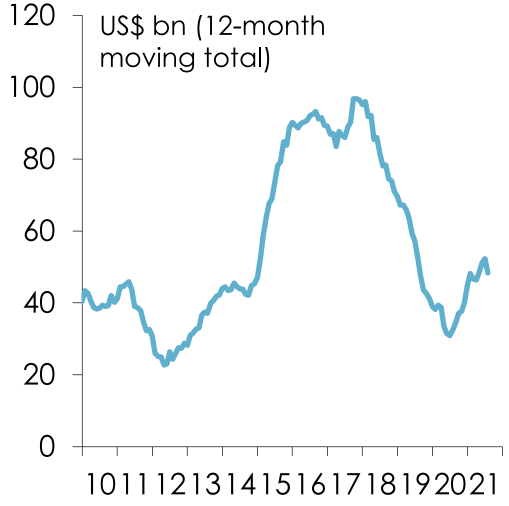
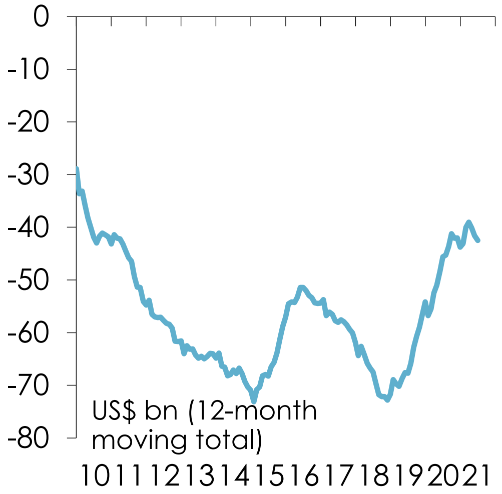
All Asian economies have experienced improvements in their trade balances since the onset of Covid, although some are now turning around

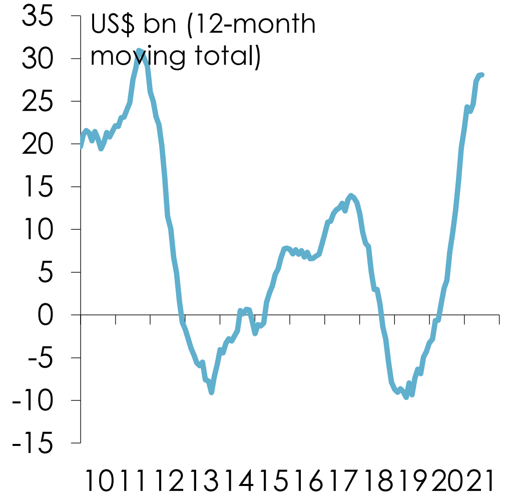
Korea



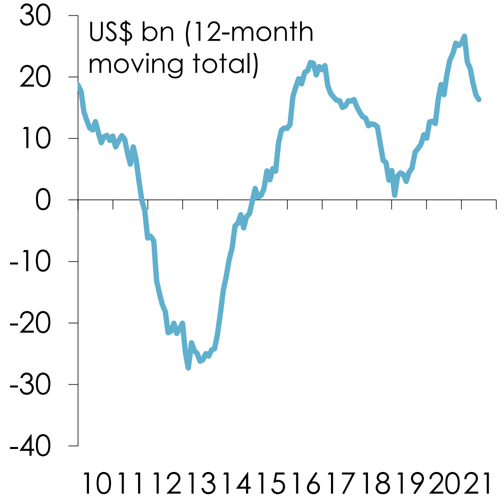
Hong Kong



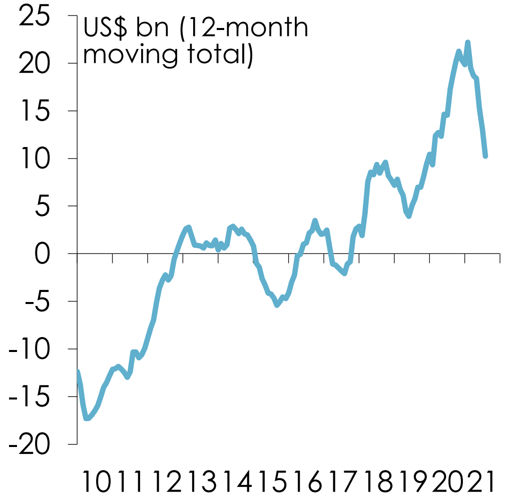
Indonesia



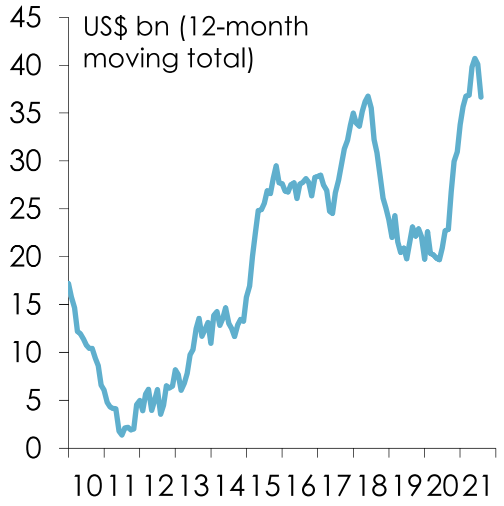
Thailand



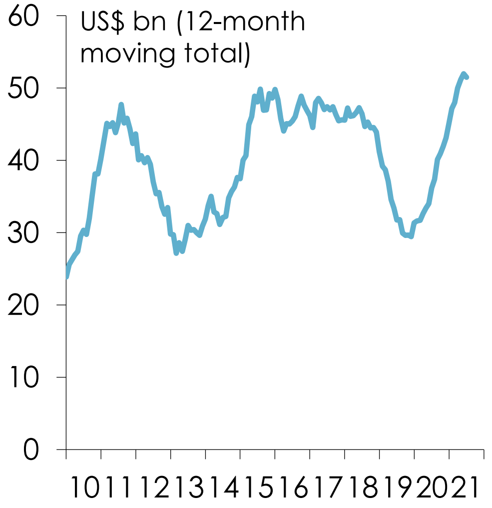
Vietnam



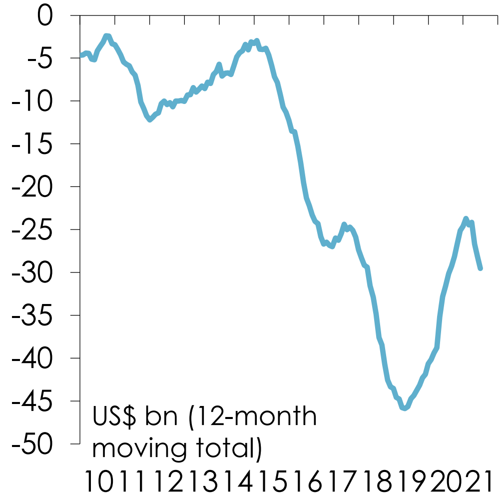
Taiwan



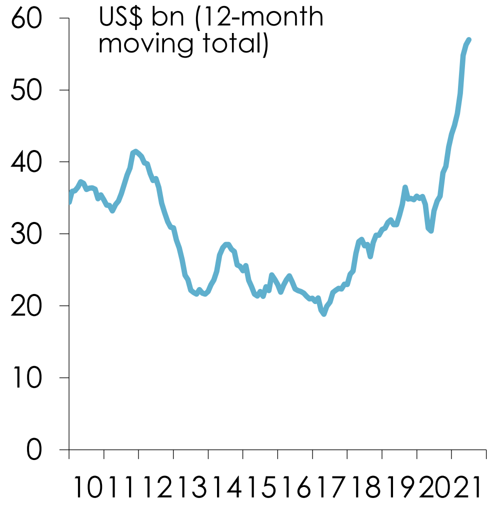
Singapore



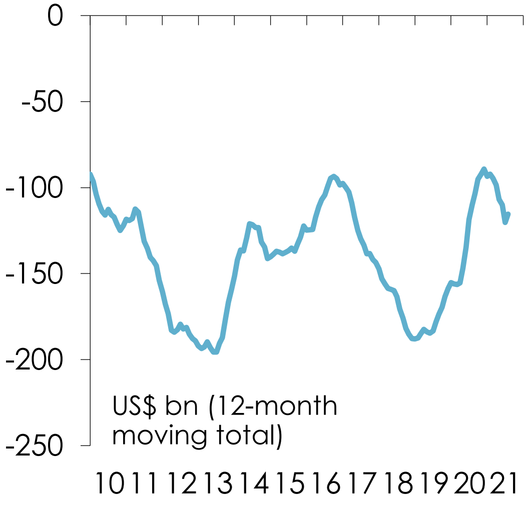
Philippines



Malaysia



India



Note: Data for Hong Kong, 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".

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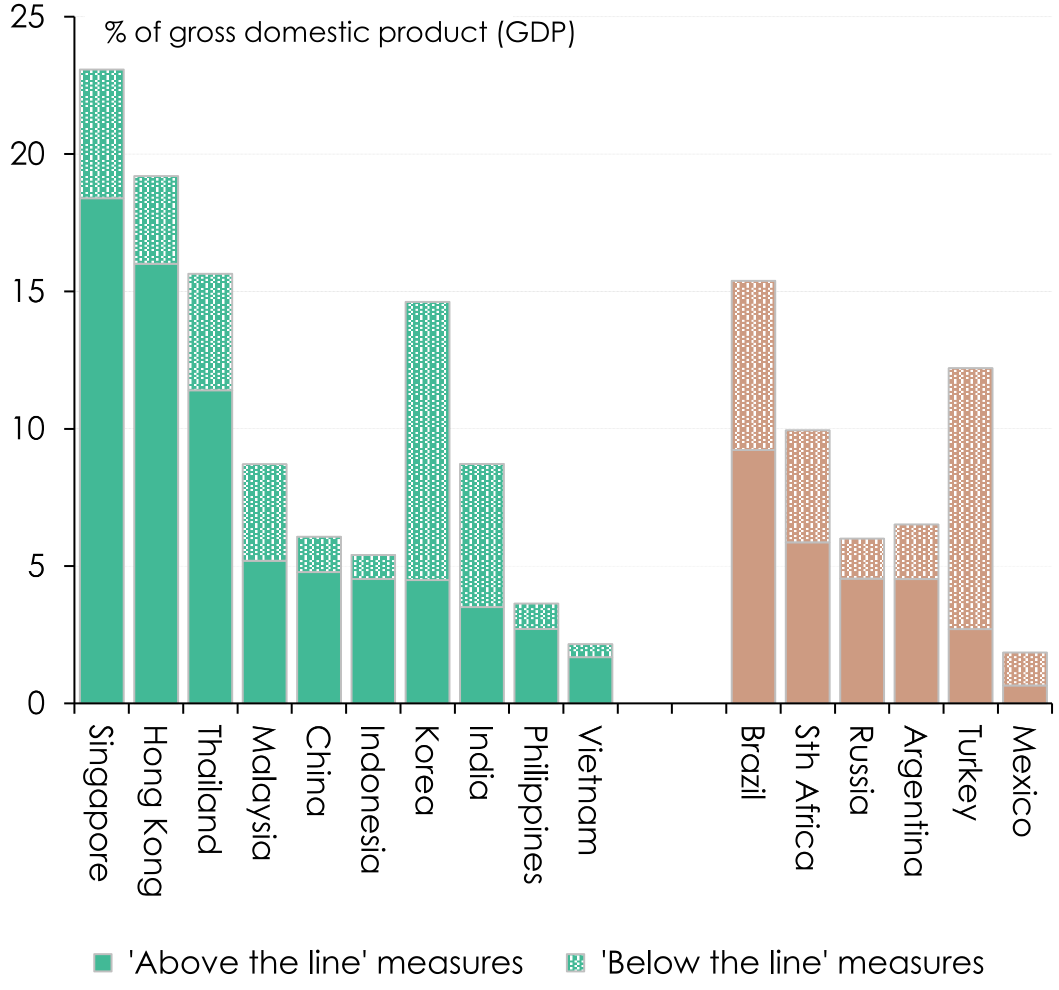
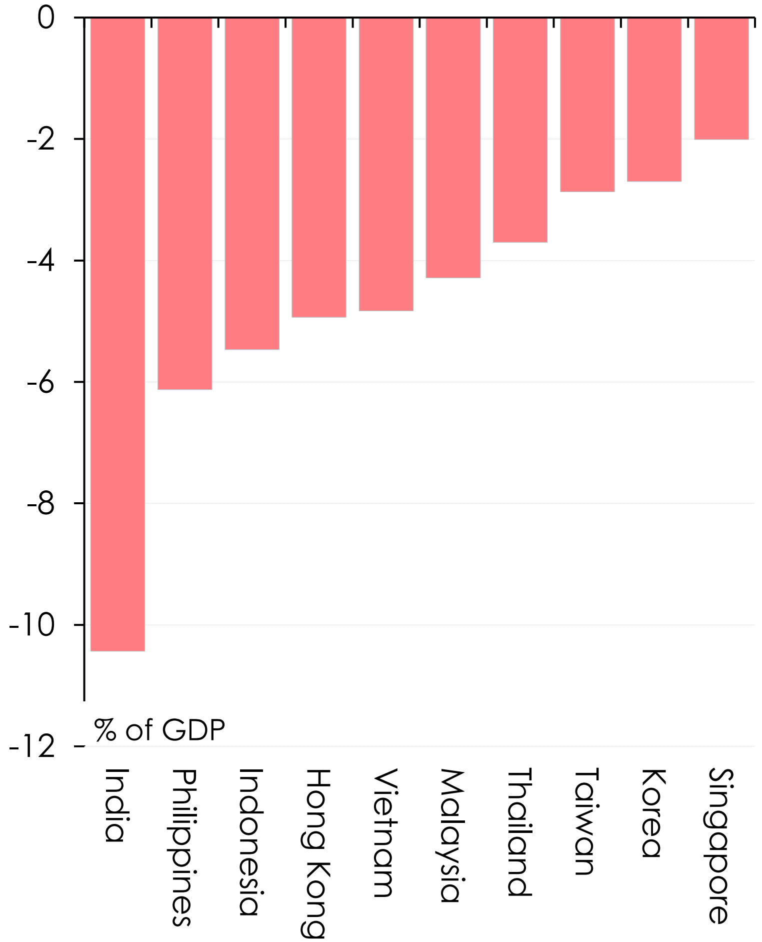
Apart from Singapore, Hong Kong and Thailand, Asian governments' discretionary fiscal responses to Covid-19 have been relatively modest

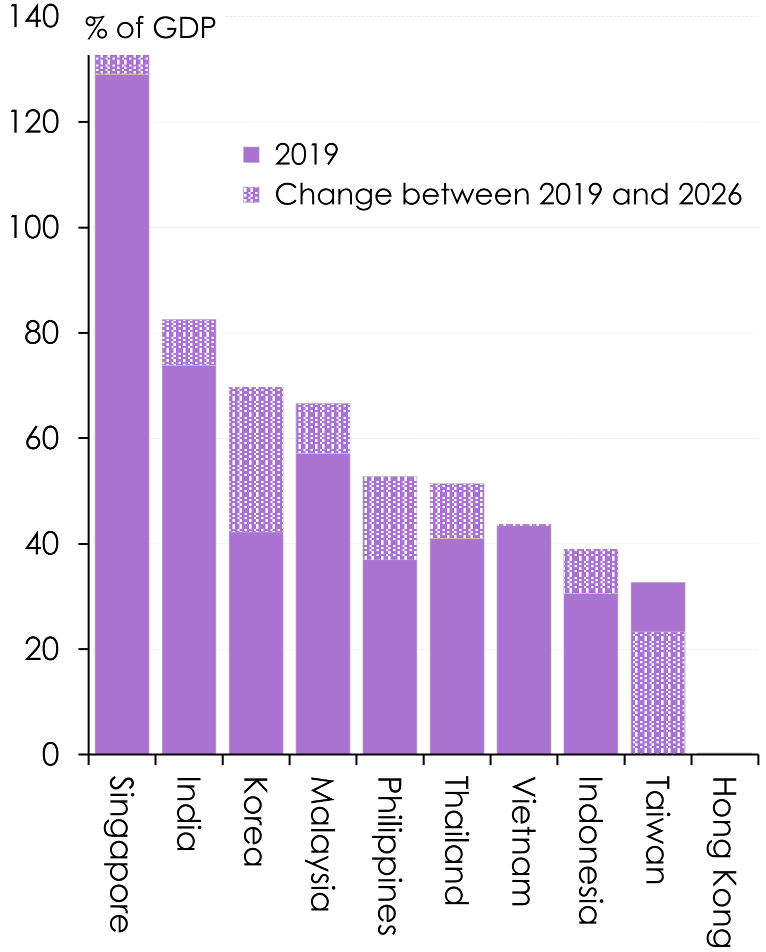
Fiscal policy responses to Covid-19 – Asian & other selected emerging market economies



Budget balances – Asian economies 2020-2022



Gross government debt – Asian economies 2019-26



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

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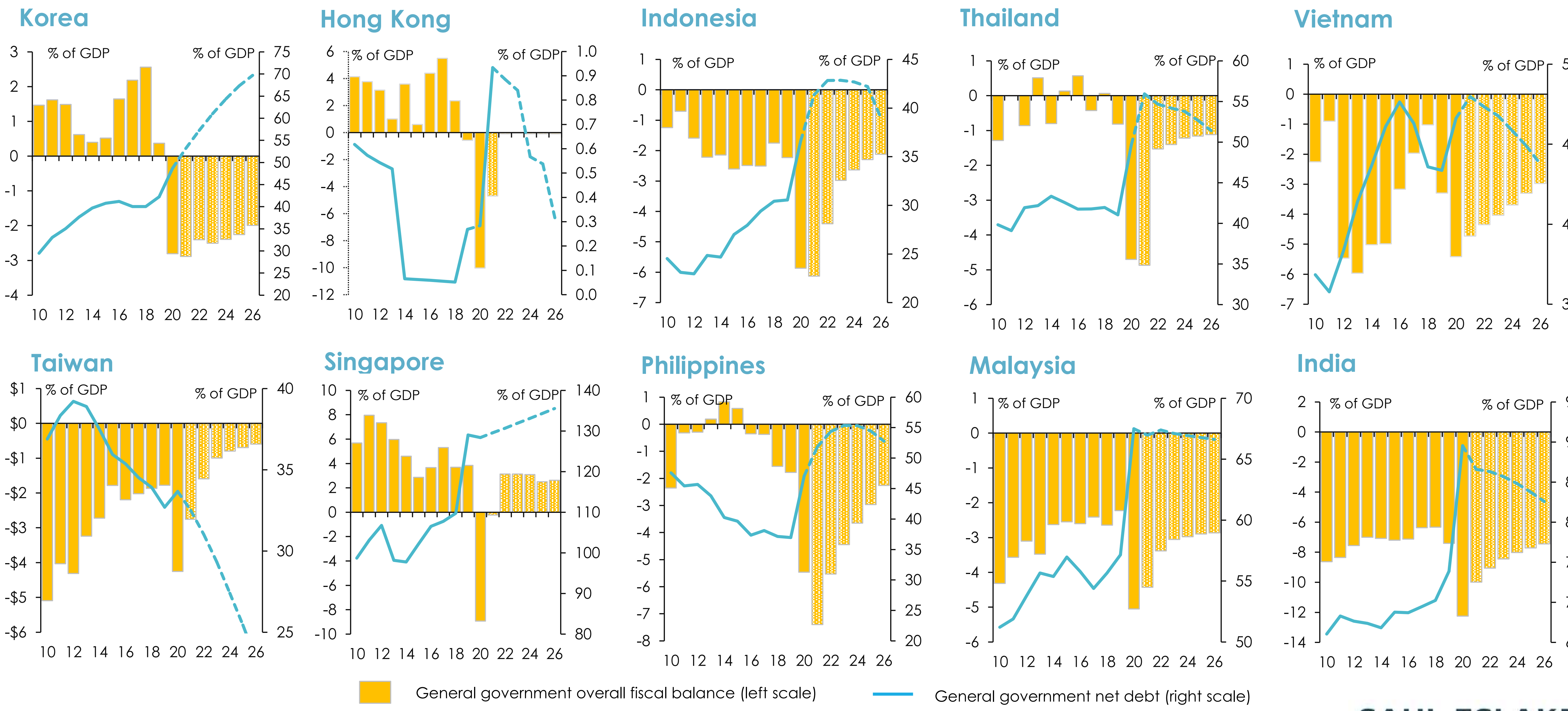
Asian governments, except for Singapore and Hong Kong, will be running large budget deficits for the next five years



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

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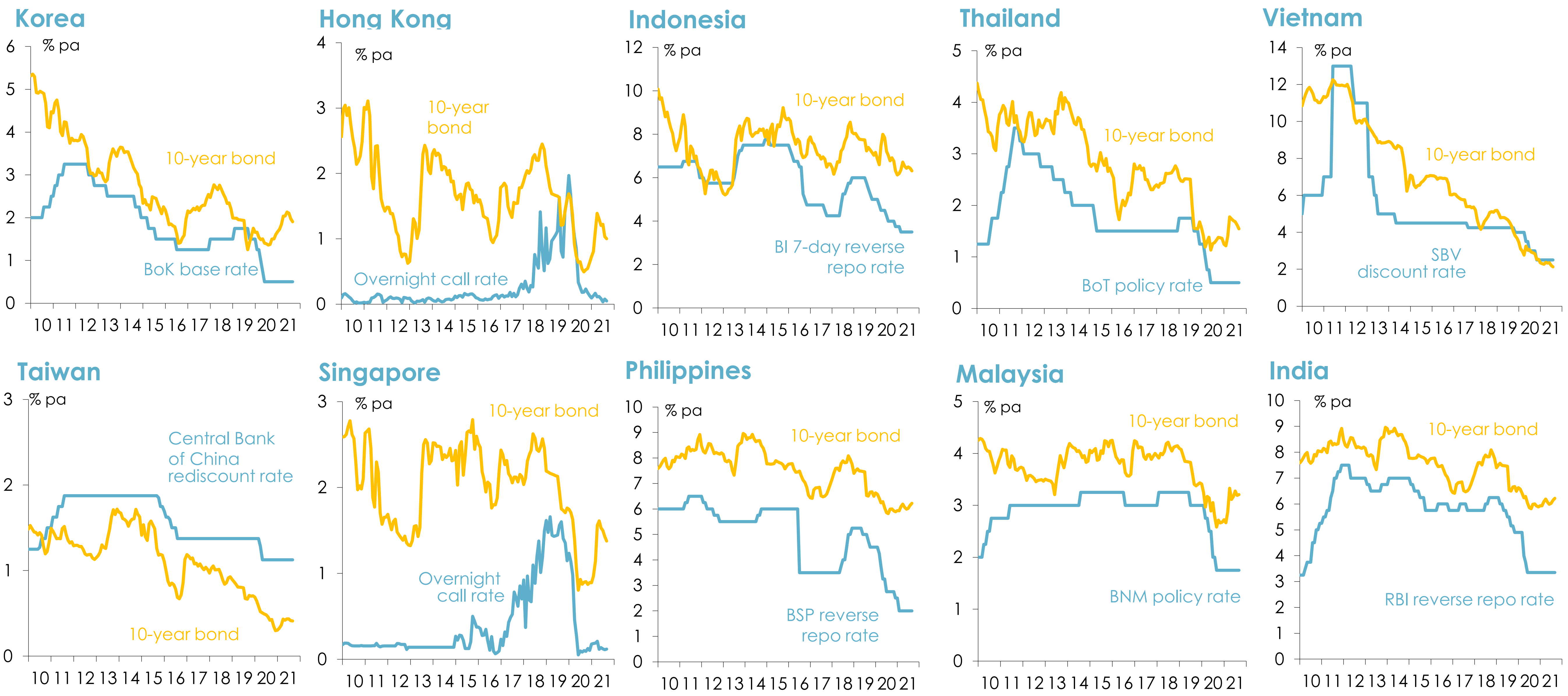
The Philippines' central bank kept its monetary policy settings on hold this week, as did the Reserve Bank of India and the Bank of Thailand last week

- Bangko Sentral ng Pilipinas (the Philippines' central bank) kept its overnight repo rate unchanged at 2% at this Thursday's Monetary Board meeting
  - although the Board raised its inflation forecast for 2021 to "slightly above the upper end of the target band of 2-4%", it expected inflation to ease towards the target band midpoint in 2022 and 2023
  - which together with "downside risks to domestic economic growth" arising from the "reimposition of quarantine measures to arrest the recent wave of Covid-19 infections" warranted "keeping monetary policy settings unchanged"
- The Reserve Bank of India kept its monetary policy settings unchanged (repo rate at 4%, reverse repo rate at 3.35%, and bank rate at 4.25%) at last week's (3-day) Monetary Policy Committee meeting
  - RBI Governor Shaktikanta Das may be the only central bank official to have quoted Martin Luther King in an announcement about monetary policy ("I know, somehow, that only when it is dark enough can you see the stars. Keep moving. Let nothing slow you up. Move on …..") as well as (perhaps more predictably) Mahatma Gandhi ("I always base my optimism on facts")
- 'Headline' inflation of 6.3% in May and June was "above the upper tolerance band of the inflation target" (of 2-6%), the RBI assessed that current inflationary pressures are "largely driven by adverse supply shocks which are expected to be transitory", and forecast that CPI inflation would fall to 5.1% by the first quarter of FY 2022-23 (ie, Q2 2022)
  - and some support for this view was provided by this week's news that the annual inflation rate fell to 5.6% in July
- In the meantime, according to Governor Das, the RBI remains in "whatever it takes" mode (although Mario Draghi wasn't mentioned specifically)
- The Bank of Thailand last week left its policy rate unchanged at 0.5% – despite revising down its economic growth projections for 2021 and 2022 by 0.2 pc pts to 0.7% and 3.7% respectively – concluding that "financial [ie, fiscal] measures would be more effective [in responding to the downside risks to the economy] than a further reduction in the policy rate which was already low"
  - although two of the seven MPC members did vote in favour of cutting the policy rate by 25 bp

Return to "What's New".

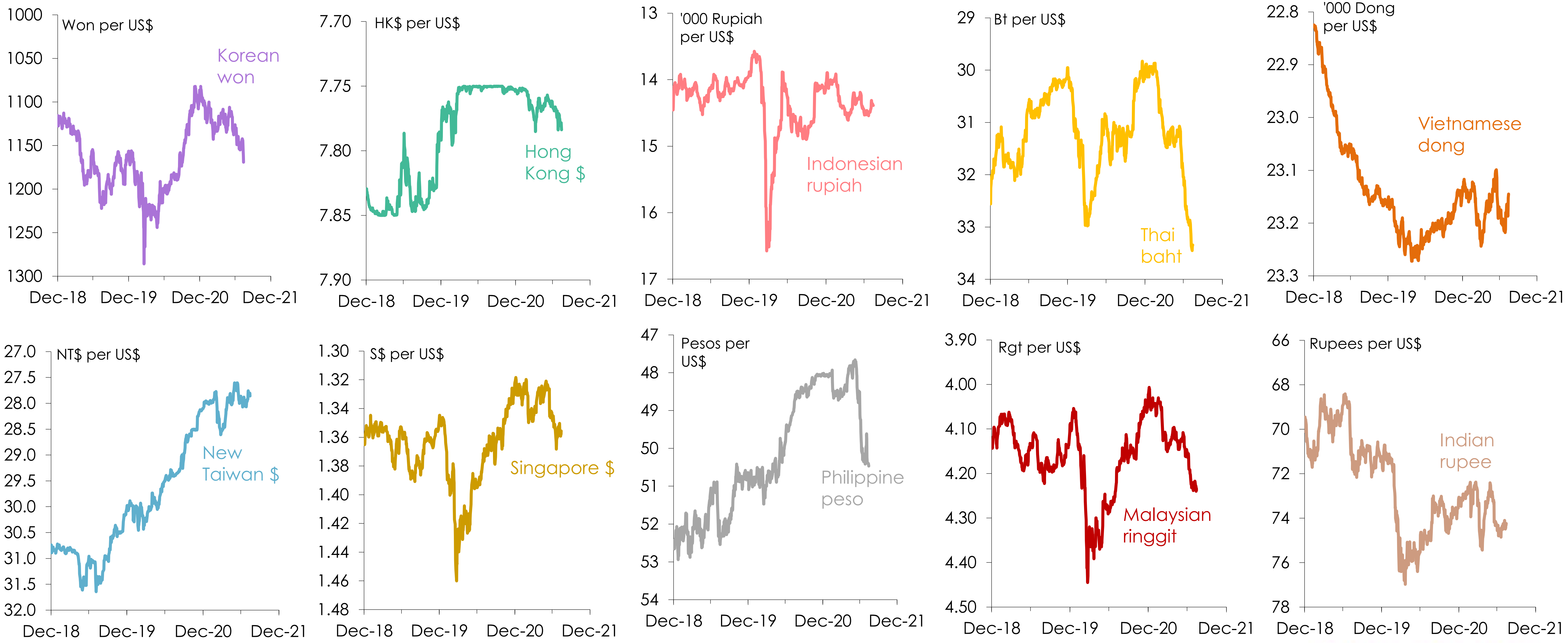
No Asian central bank has given any hint of any near- or medium-term tightening of monetary policy (in contrast to other EM regions)



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 August 2021.
Sources: national central banks; Refinitiv Datastream. Return to "What's New".

Asian currencies fell further vs the US$ this week with the won losing 2¼%, with only the baht holding steady (after dropping 10% so far this year)

Asian currency exchange rates vs US dollar



Note: Data up to 13th August. Source: Refinitiv Datastream. Return to "What's New".

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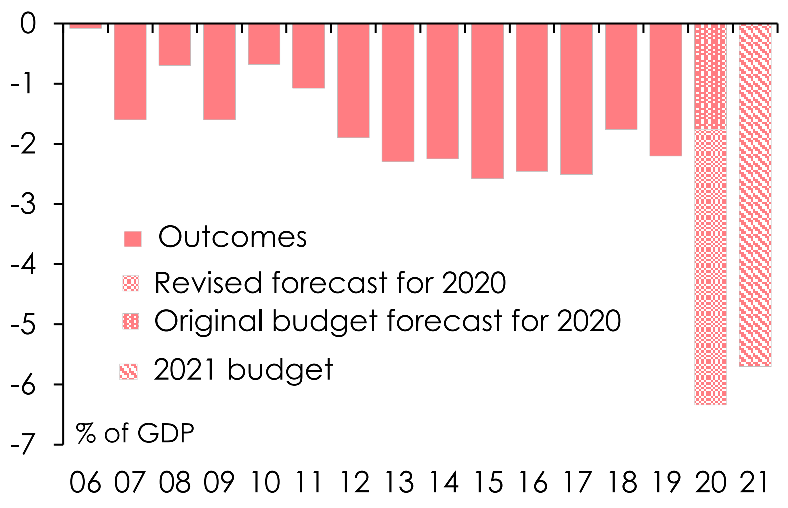
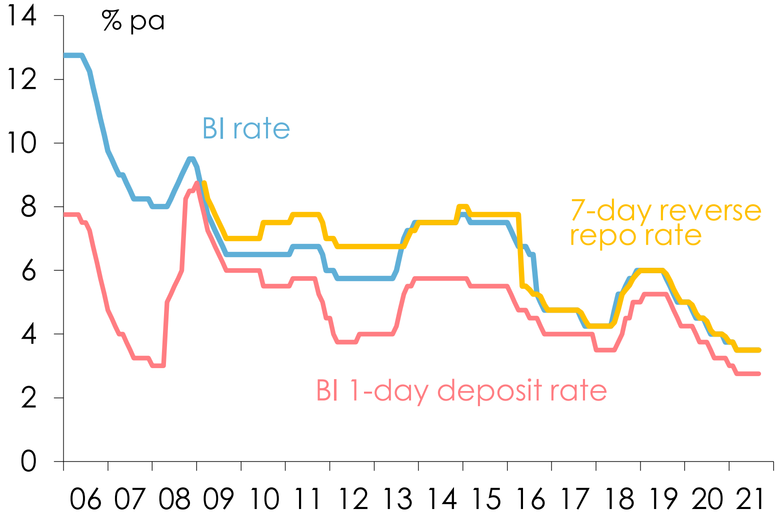
Bank Indonesia's monetary policy settings have been on hold since January although it has continued with its 'synergistic monetary expansion'

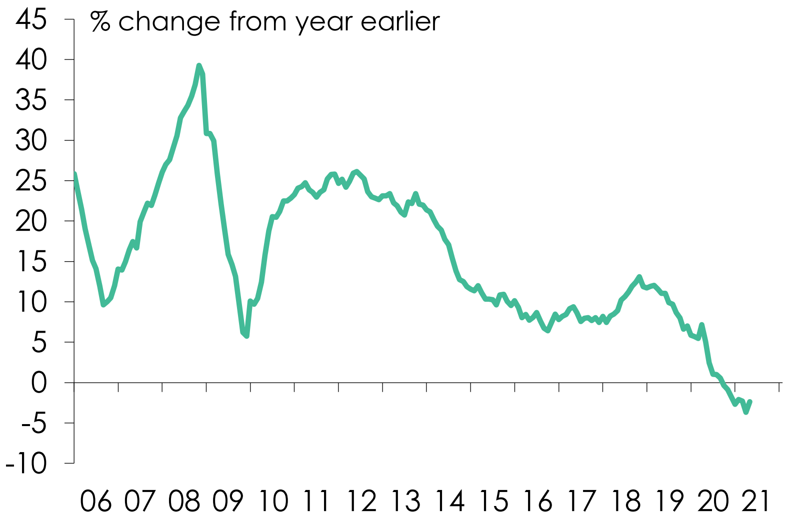
Indonesia budget deficit



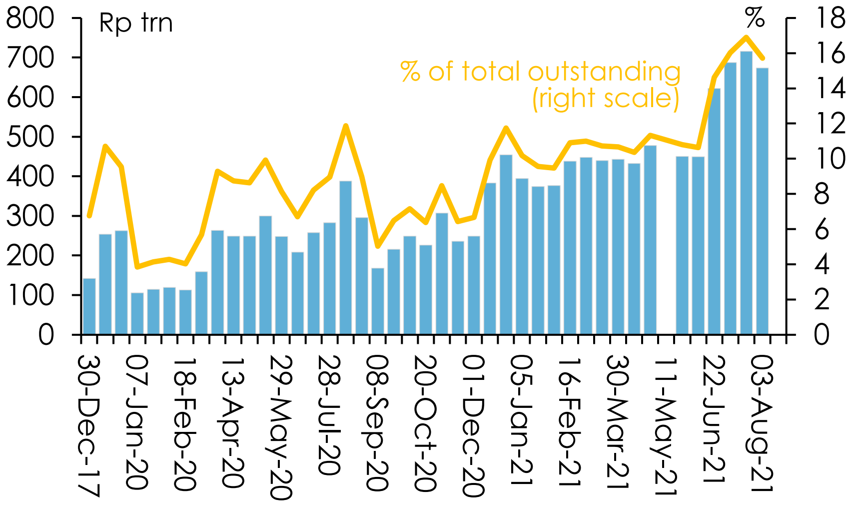
BI monetary policy rates



Bank lending



BI holdings of tradeable SBNs

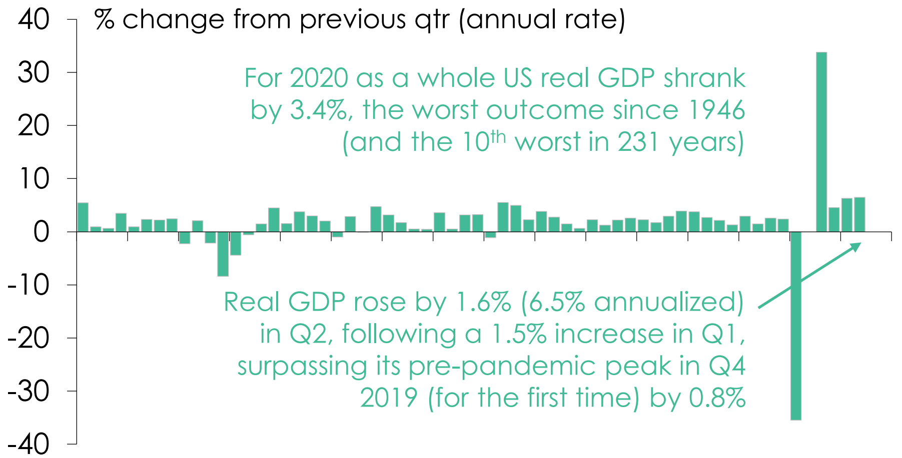


- In April 2020, the Indonesian Government and Bank Indonesia (BI) agreed to a 'burden-sharing' scheme under which BI will directly purchase bonds equivalent to 25% of this year's budget financing requirement (and return the interest received to the Government), as well as subsidizing interest payments 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 dropped by Rp42bn over the past fortnight having risen by Rp266bn over the preceding six weeks
  - BI has absorbed 53% 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 1.4% in July is well below BI's target of 2-4% (slide 58)
- BI again left its policy settings unchanged at last month's Governing Council meeting
  - BI lowered its growth forecast for 2021 to 3½-4¼% (from 4.1-5.1% previously)

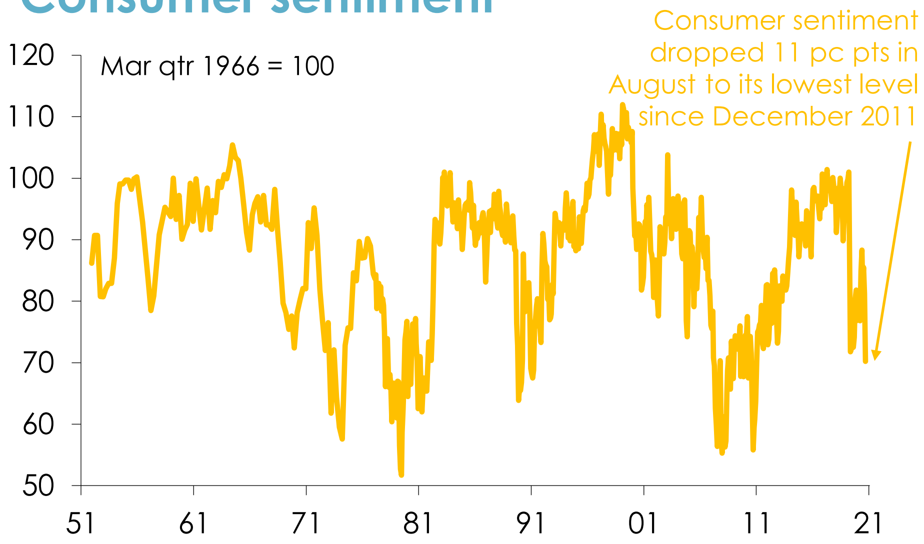
Sources: Indonesia Ministry of Finance (Kementarian Keuangan); Directorate of Government Debt Securities; Bank Indonesia.
Return to "What's New".

US consumer sentiment recorded its third-largest ever monthly decline in August, to below last year's lowest levels, on virus and inflation worries

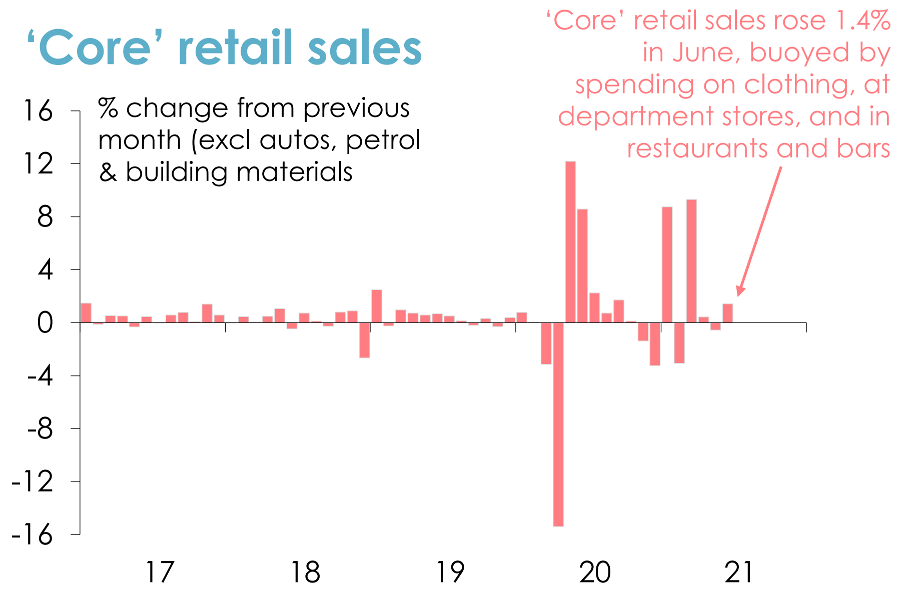
Real GDP



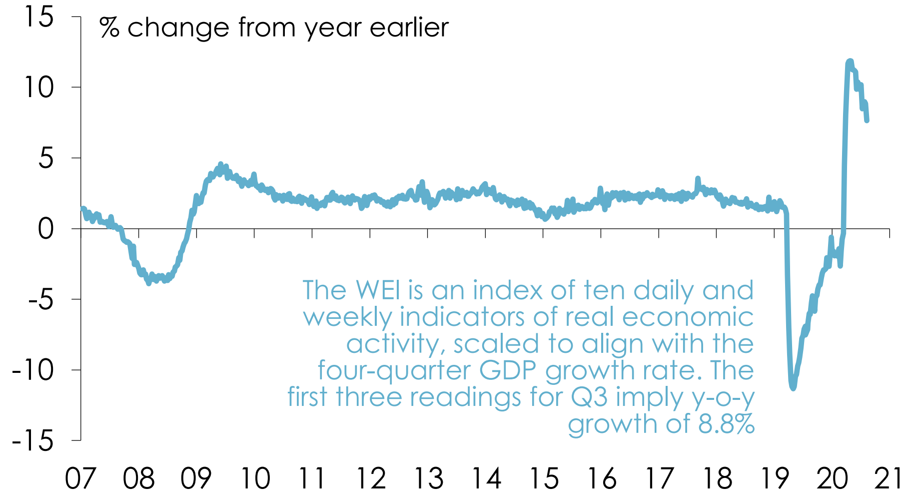
Consumer sentiment



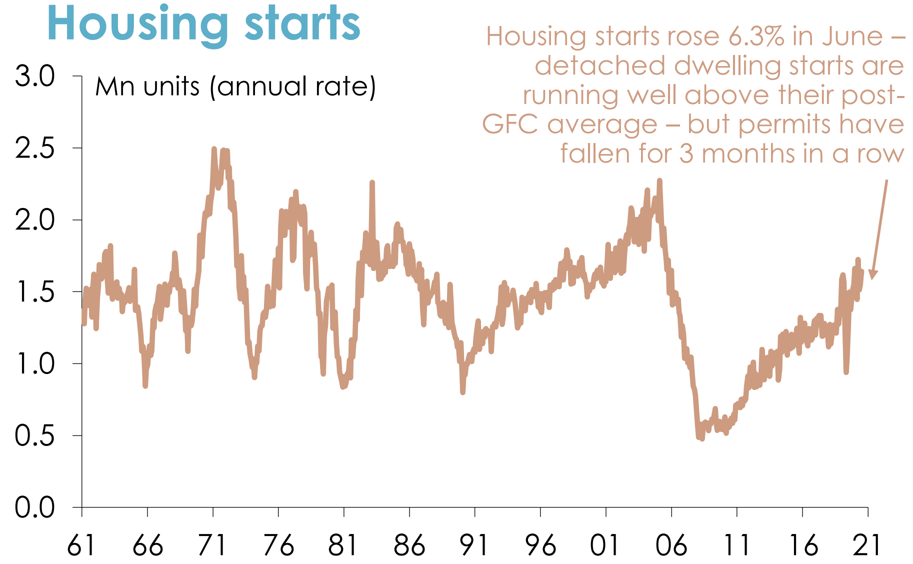
'Core' retail sales



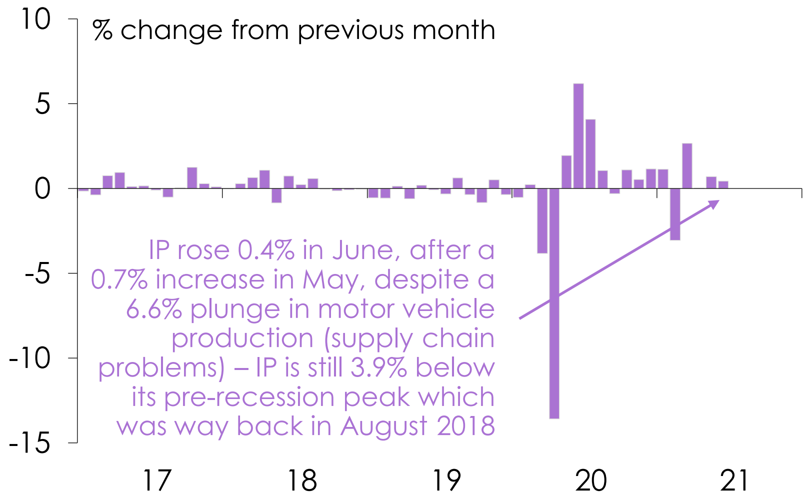
NY Fed weekly economic index



Housing starts



Industrial production

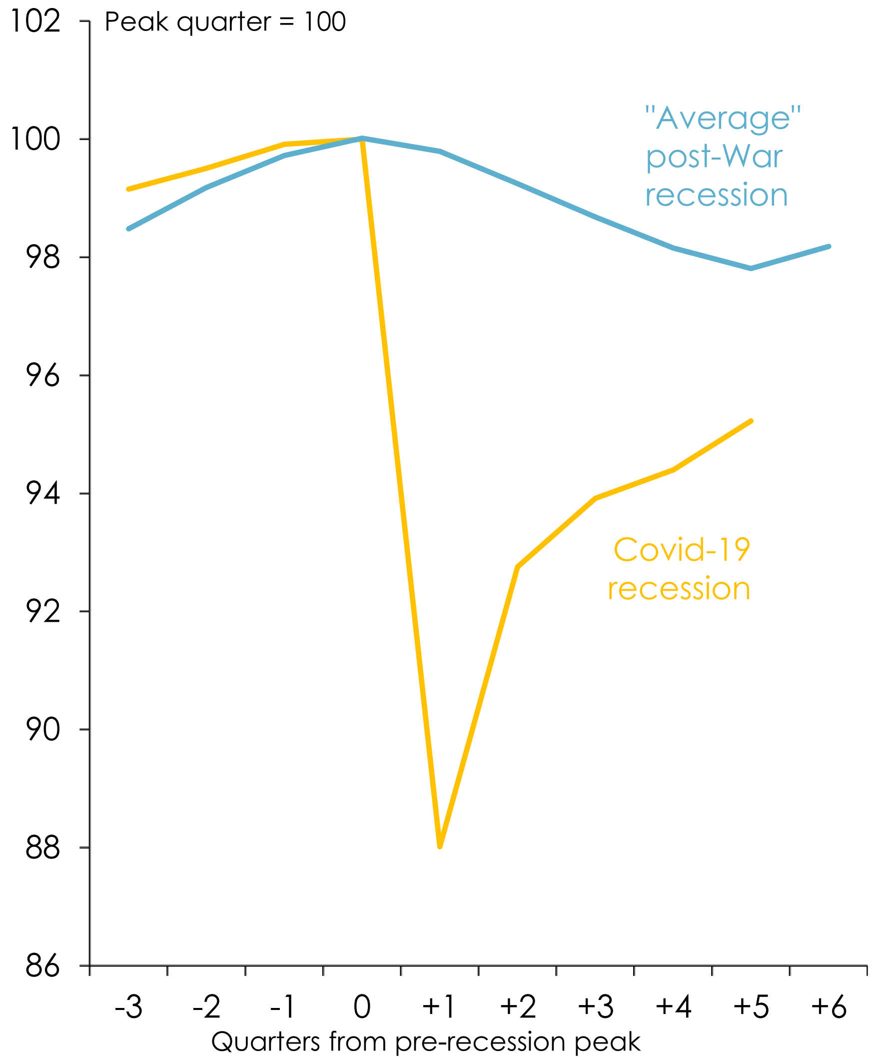


Sources: US Bureau of Economic Analysis; Federal Reserve Bank of New York; Michigan University Survey Research Center; US Commerce Department; Board of Governors of the Federal Reserve System. Return to "What's New".

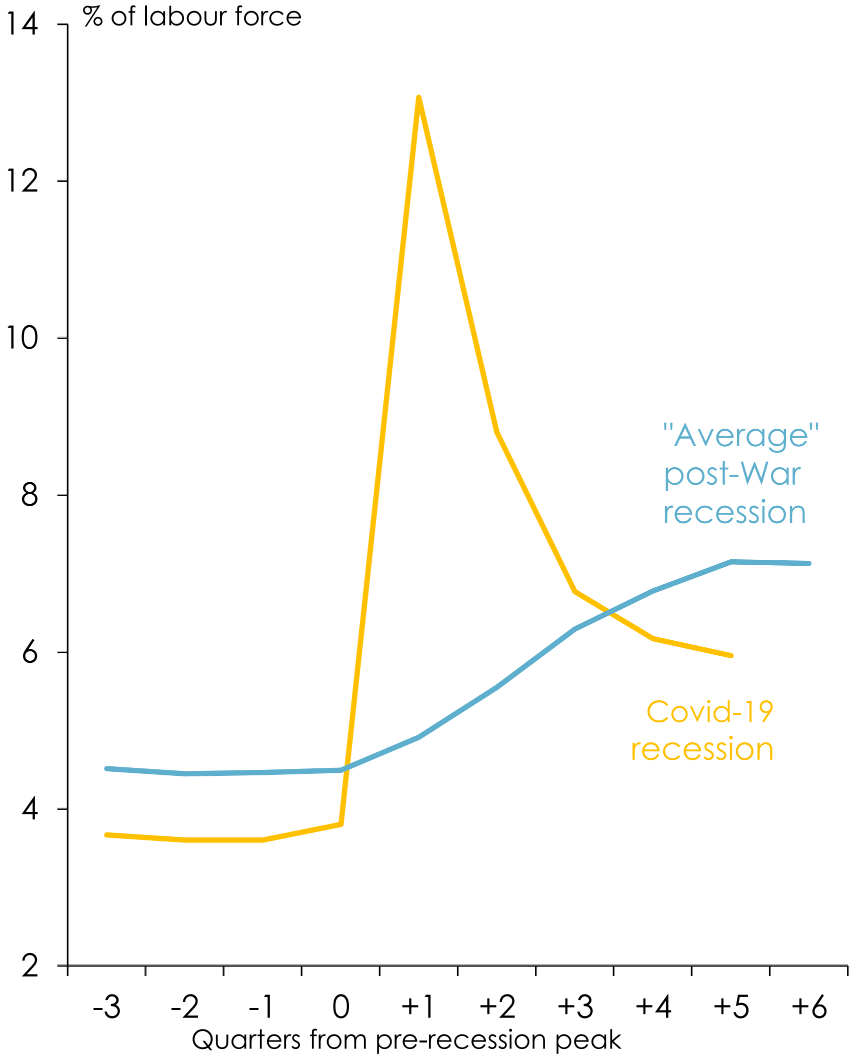
The Covid-19 recession has been quite unlike any other of the recessions the US has experienced since the end of World War II

Level of real GDP

Non-farm payroll employment



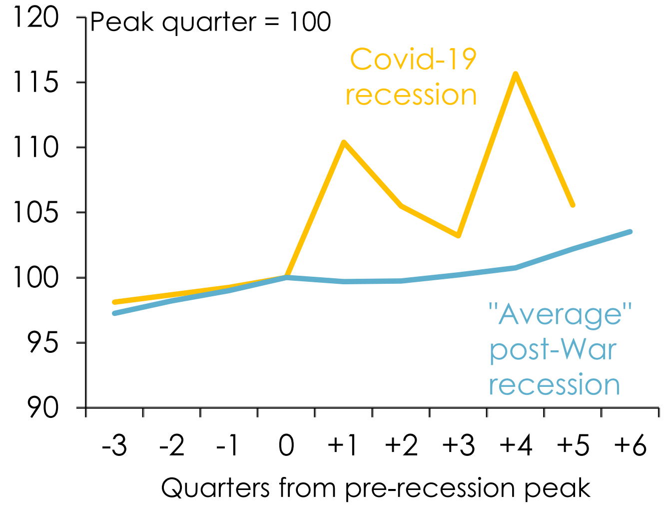
Unemployment rate



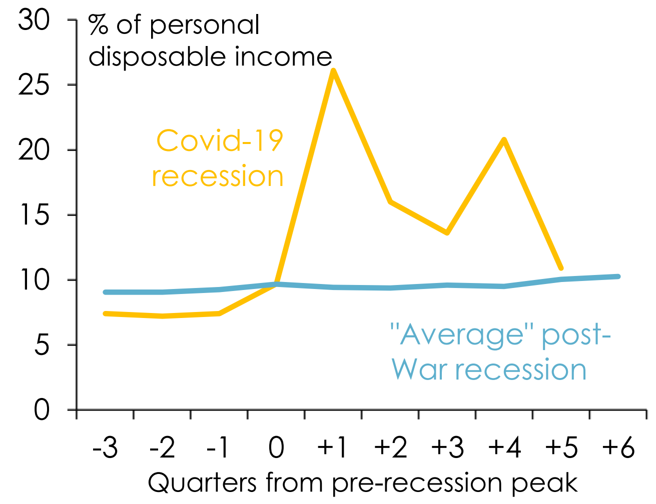
Note: 'average post-war recession' is the average of figures for each of the eleven post-war US recessions as designated by the National Bureau of Economic Research Business Cycle Dating Committee, with the exception of the recession of January-July 1980 (which was too short, and too close to the July 1981-November 1982 recession to be fully reflected in the averages shown here); 'Peak quarter' is the quarter in which real GDP attained its highest level before the onset of the recession. No recession was ever as 'smooth' as implied by the averages shown here. *Sources:* US Bureau of Economic Analysis; Bureau of Labor Statistics. Return to "What's New".

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

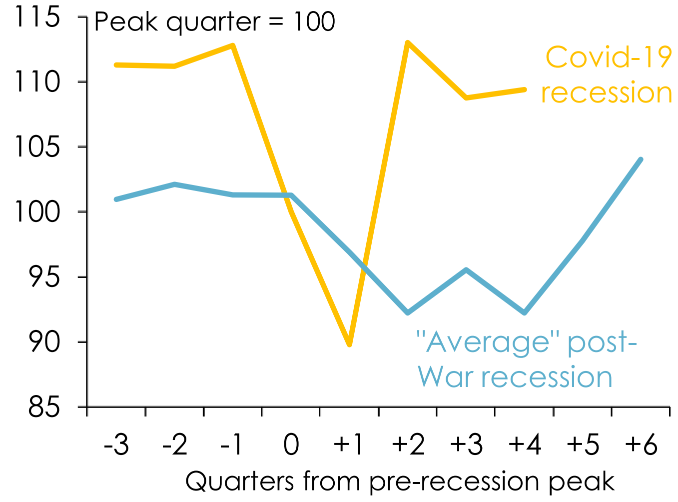
Personal disposable income



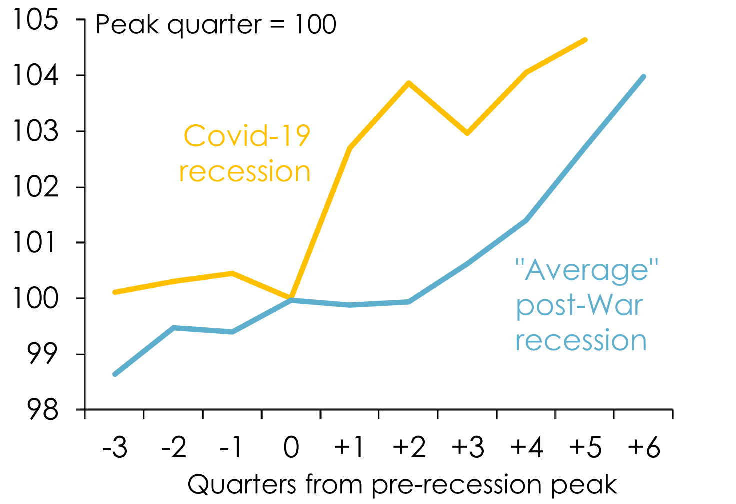
Personal saving rate



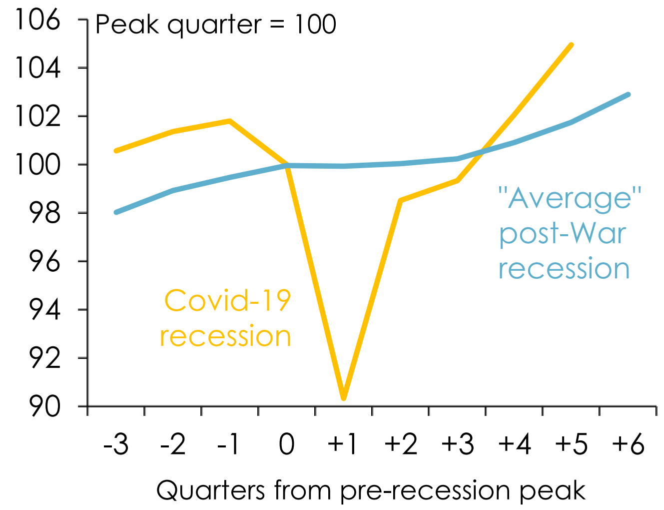
After-tax corporate profits



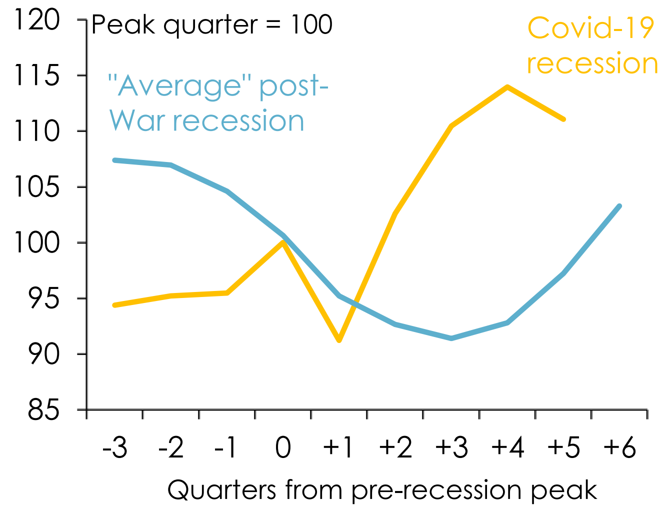
Labour productivity



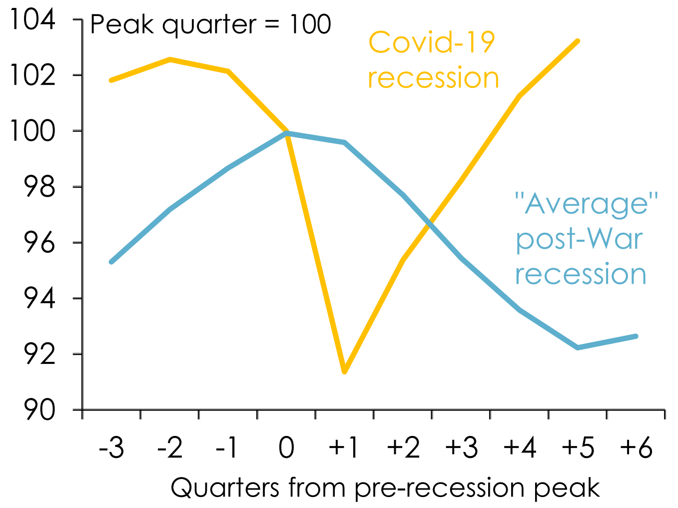
Personal consumption



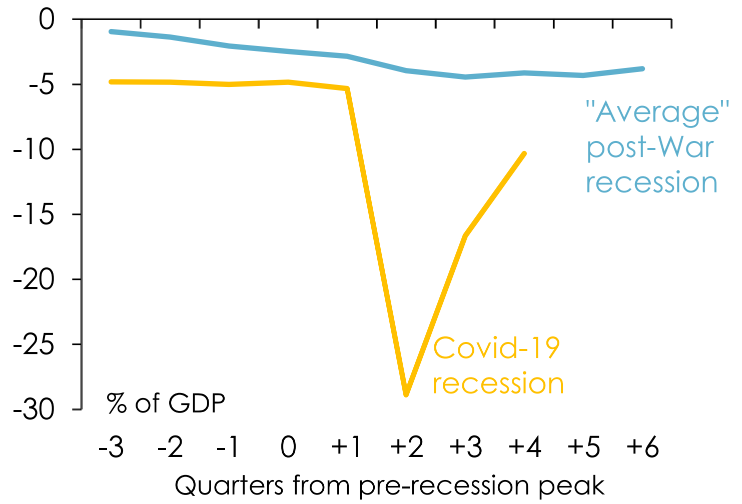
Residential investment



Business investment



Federal budget balance

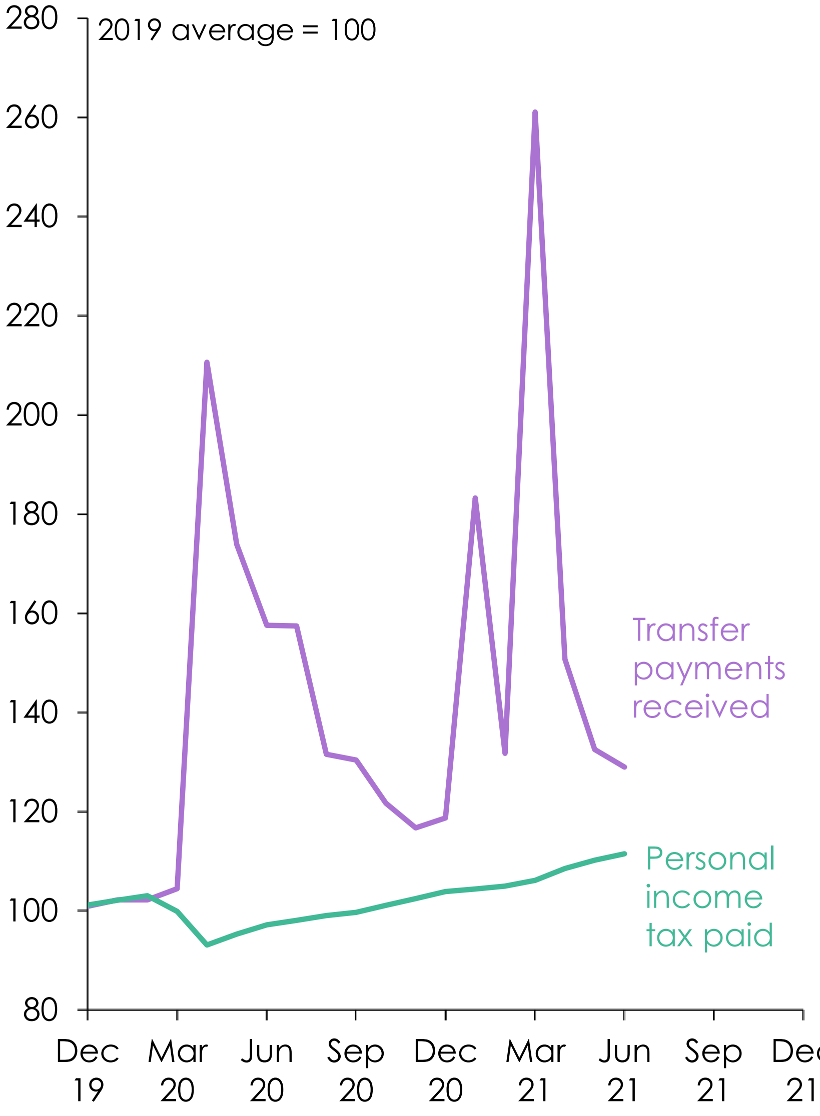


Note: 'average post-war recession' is the average of figures for each of the eleven post-war US recessions as designated by the National Bureau of Economic Research Business Cycle Dating Committee, with the exception of the recession of January-July 1980; 'peak quarter' is the quarter in which real GDP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

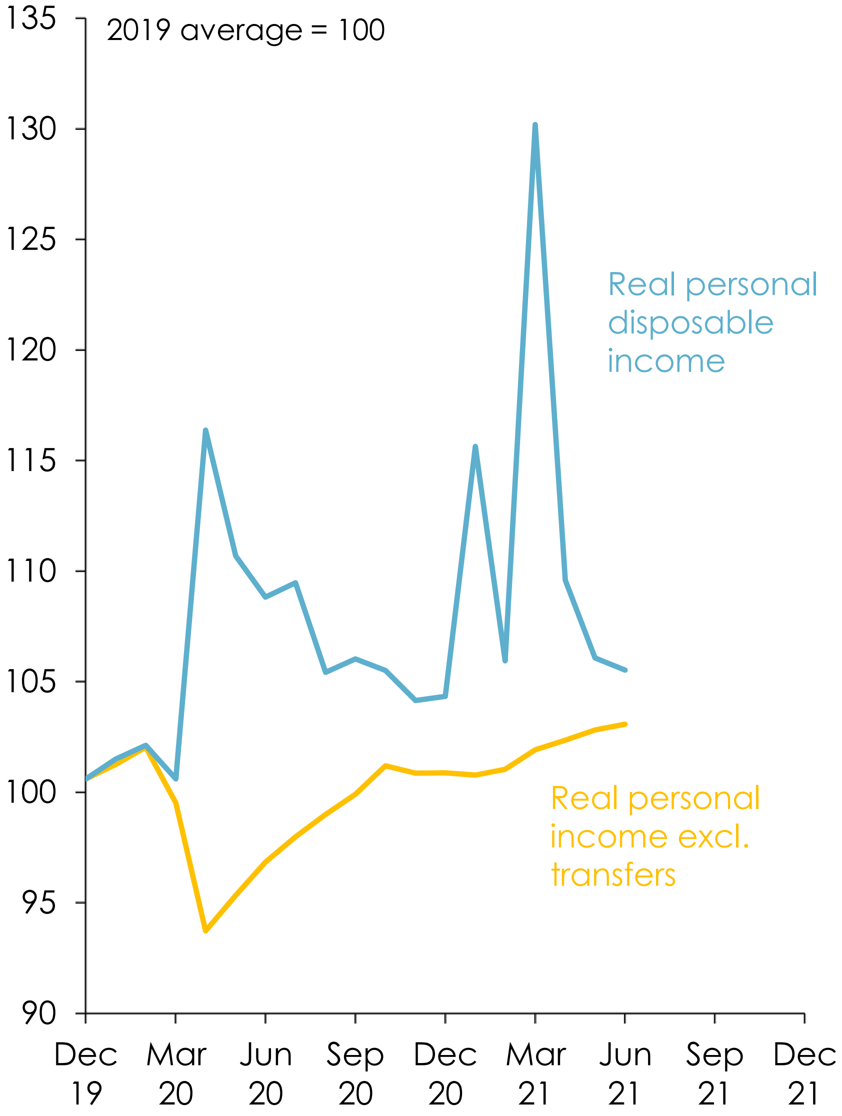
Return to "What's New".

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

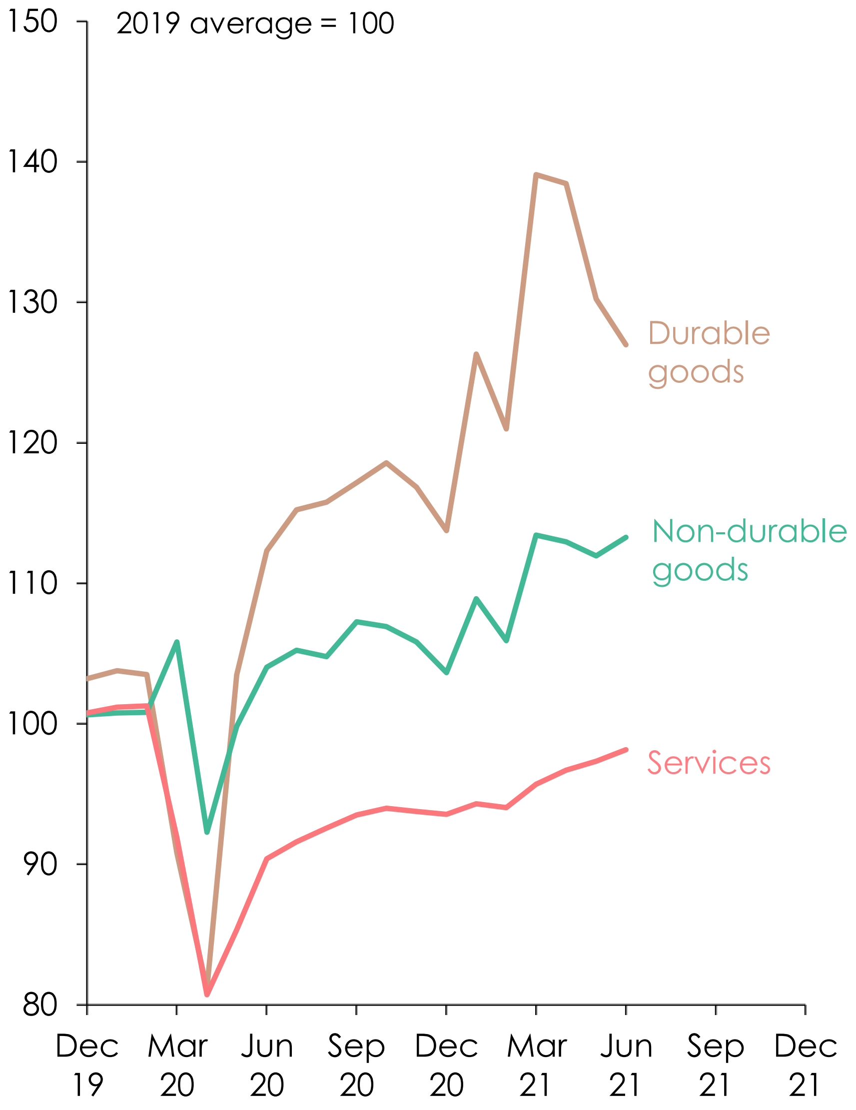
Tax and transfer payments



Real personal income



Real consumption expenditure



Source: US Bureau of Economic Analysis.

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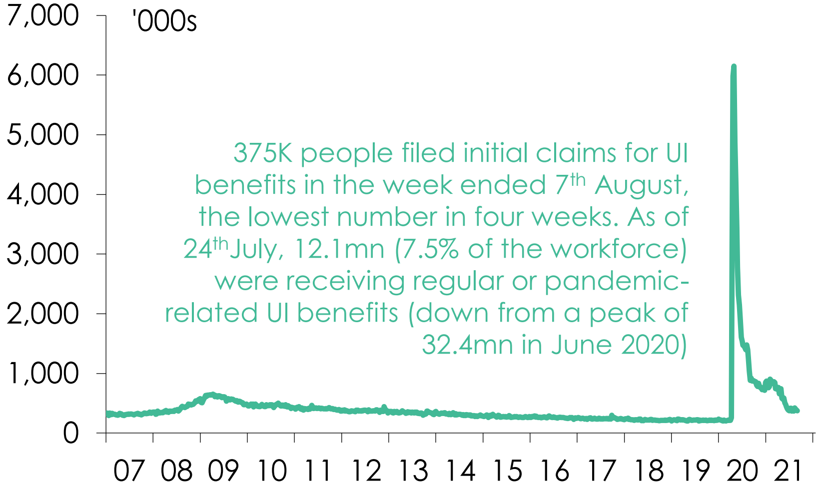
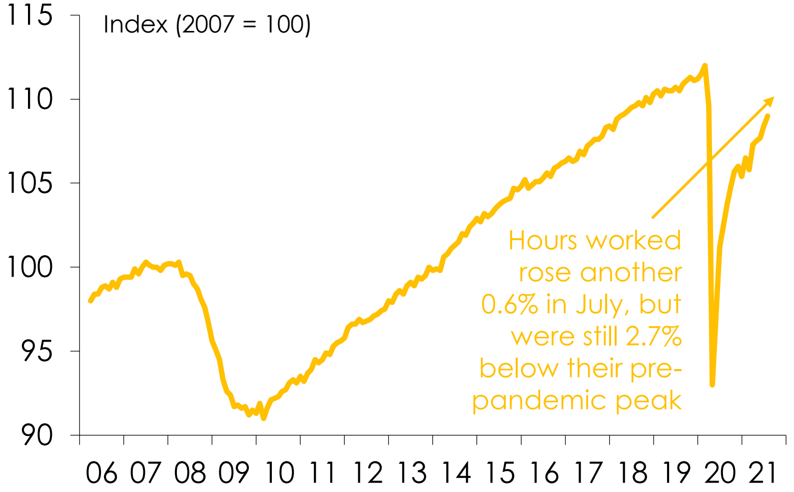
US non-farm payrolls rose 943K (0.6%) in July, but were still 3.7% below the pre-pandemic peak – unemployment fell 0.5 pc pt to 5.4%

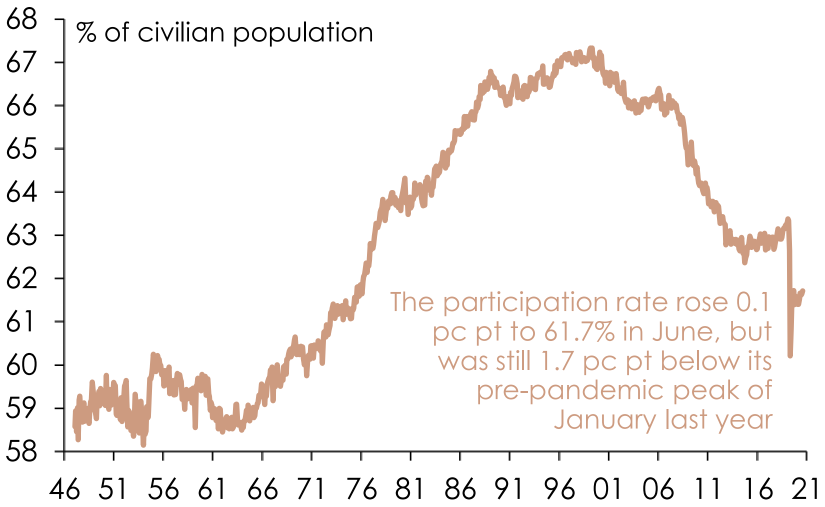
Unemployment benefit claims



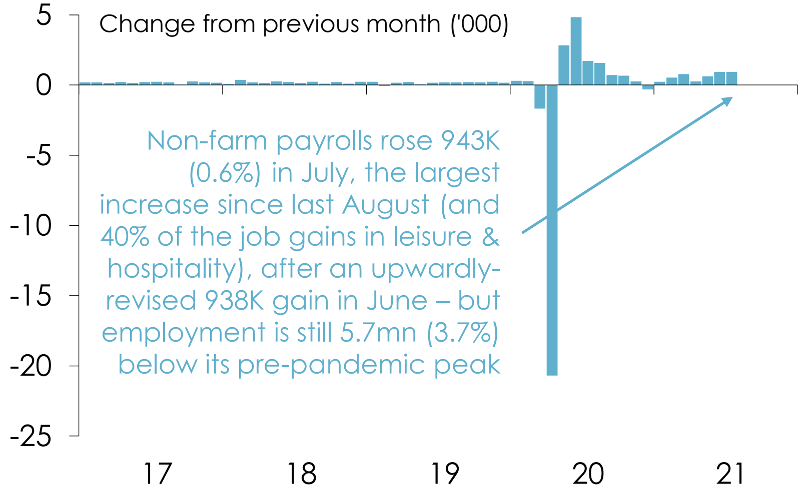
Hours worked (private sector)



Labour force participation rate

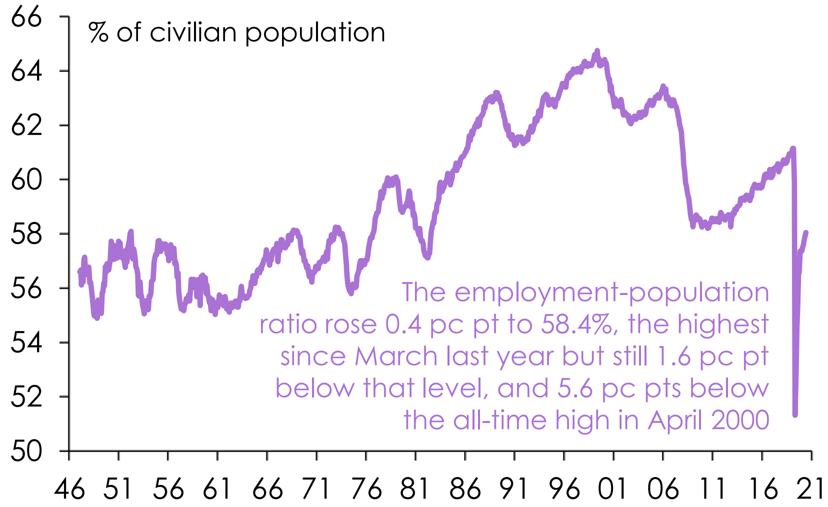


Non-farm payroll employment



Unemployment rate

Employment to population ratio



Sources: US Department of Labor; US Bureau of Labor Statistics; National Bureau of Economic Research Macro History database. August employment and other labour force data will be released on 3rd September. Return to "What's New".

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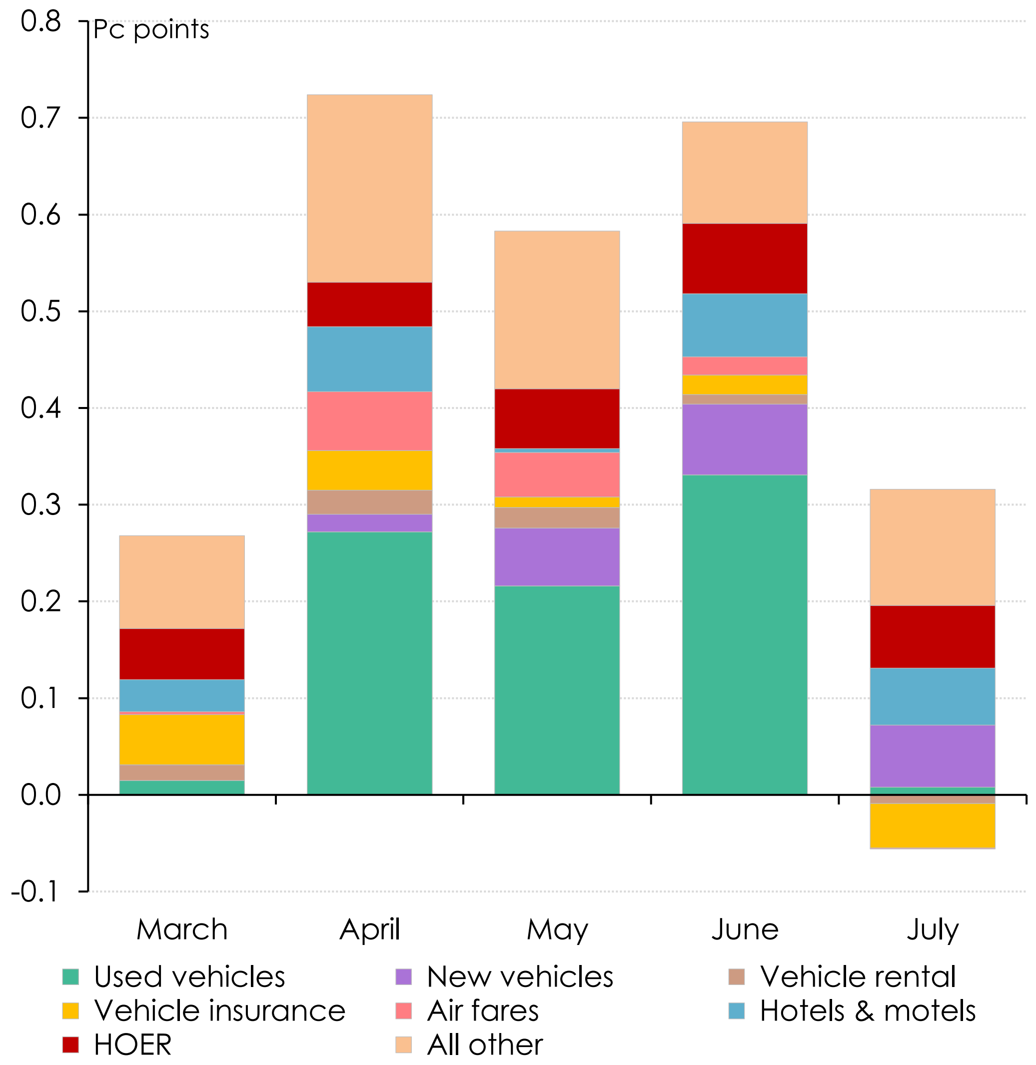
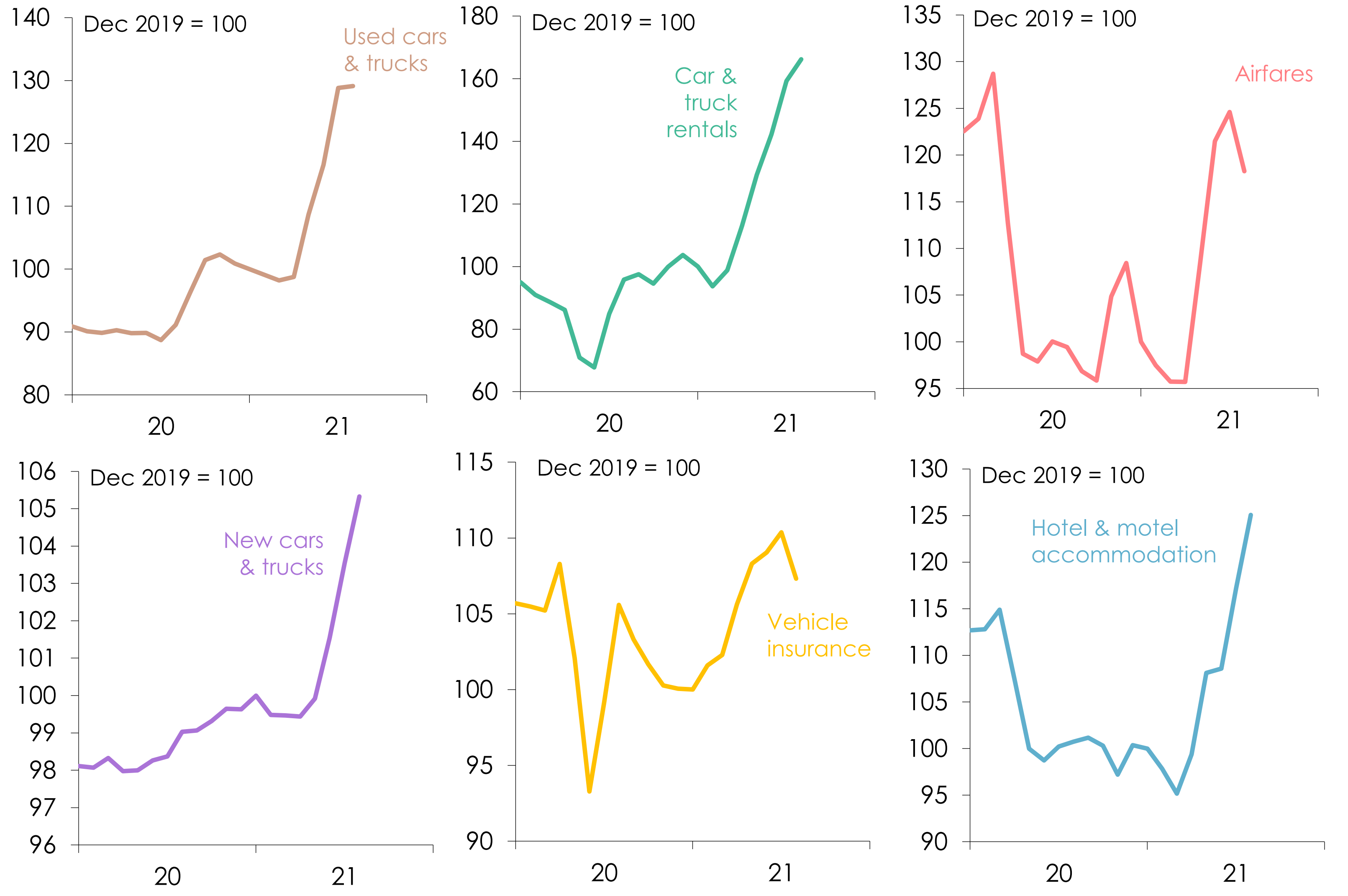
The US 'inflation scare' abated in July – it remains the case that most of the rise in 'core' CPI is attributable to a handful of items

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".

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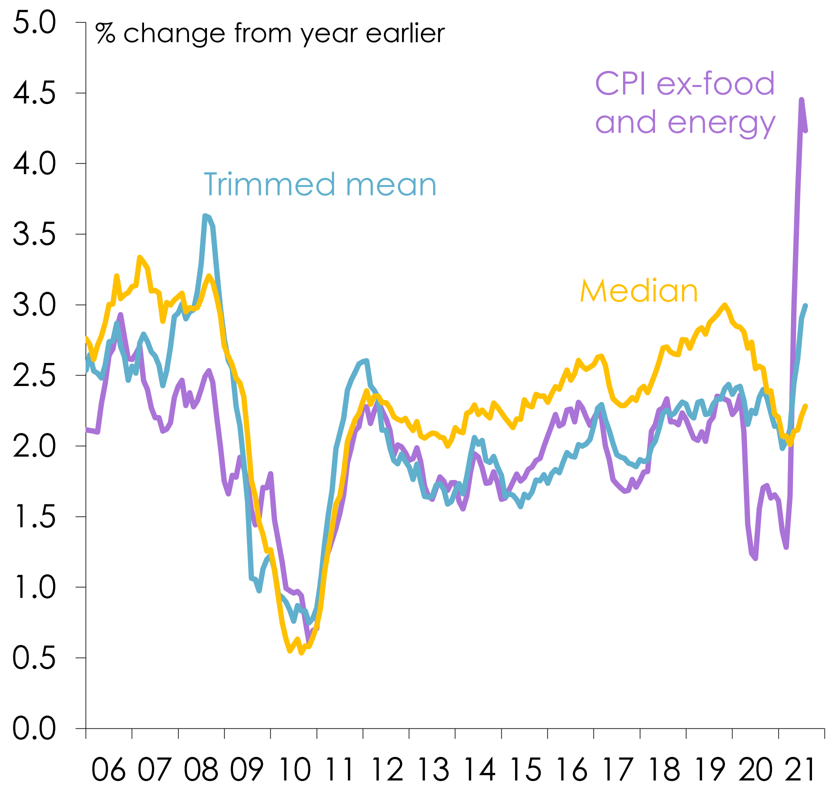
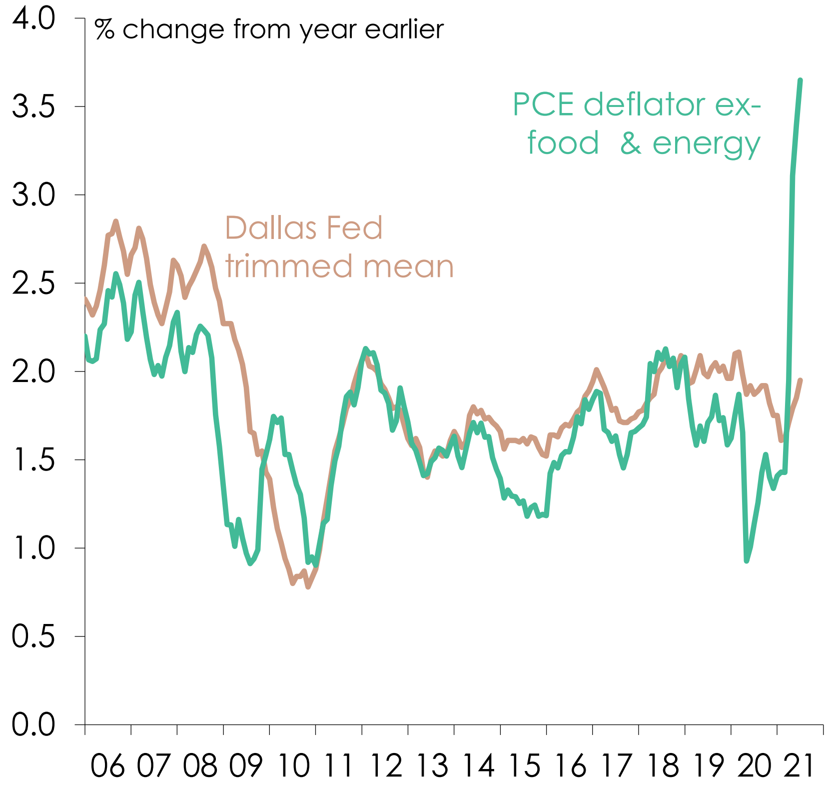
Statistical measures of 'core' inflation haven't increased very much – but longer-term inflation expectations are starting to edge upwards

Alternative measures of US 'core' CPI inflation



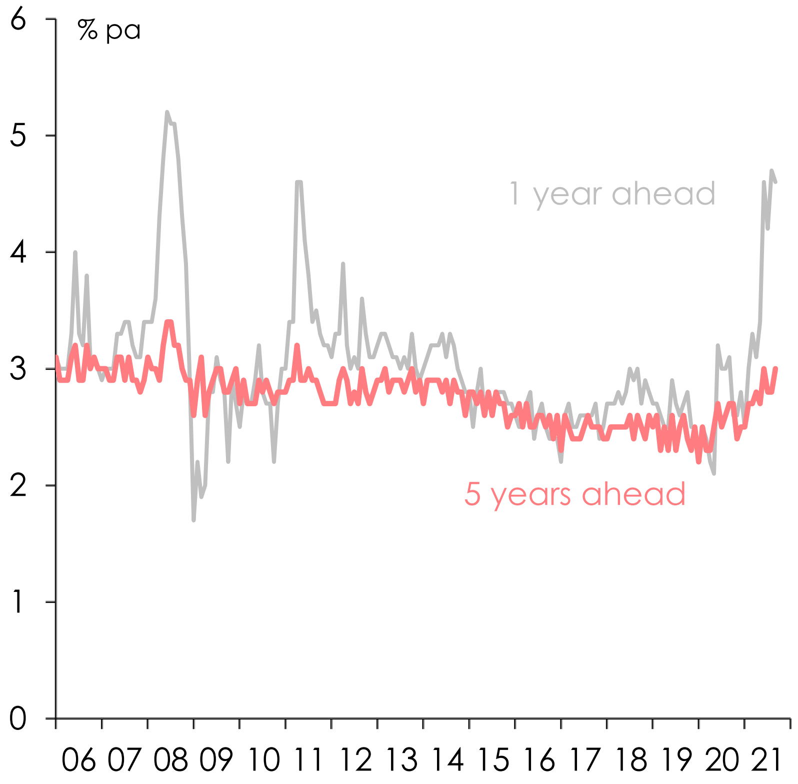
- Statistical measures (similar to those used by the RBA) confirm that the rise in 'core' CPI inflation is almost entirely due to 'outliers' (see previous slide)

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

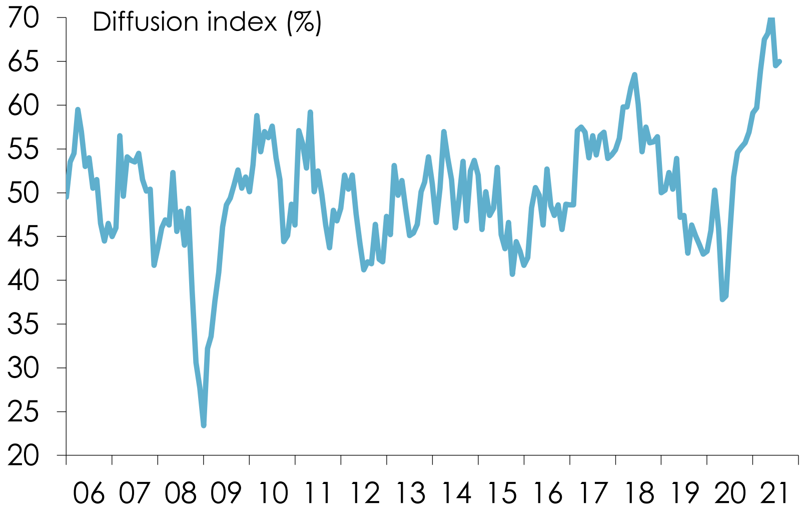


- Short-term household inflation expectations have risen sharply, but longer-term expectations are also creeping up

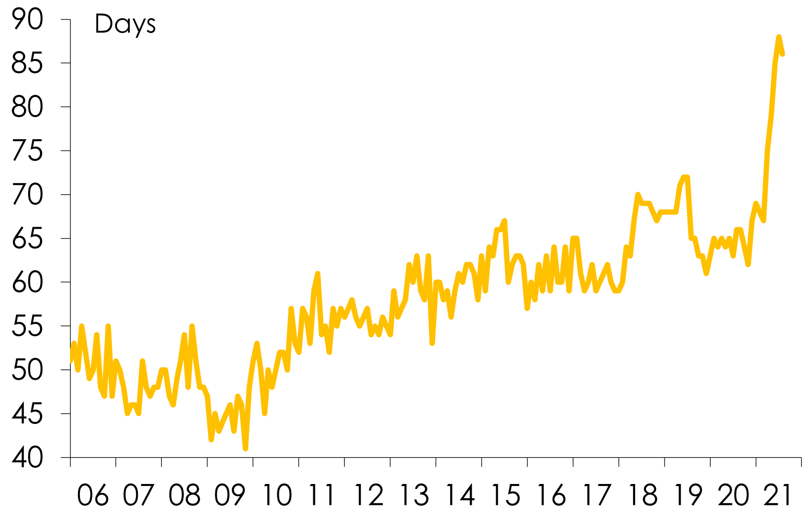
Note: The 'trimmed mean' CPI inflation rate excludes the components of the CPI whose weights fall in the top and bottom 8% of the distribution of price changes; the median is the component whose price change is in the middle of the distribution of price changes. The 'trimmed mean' of the PCE deflator 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

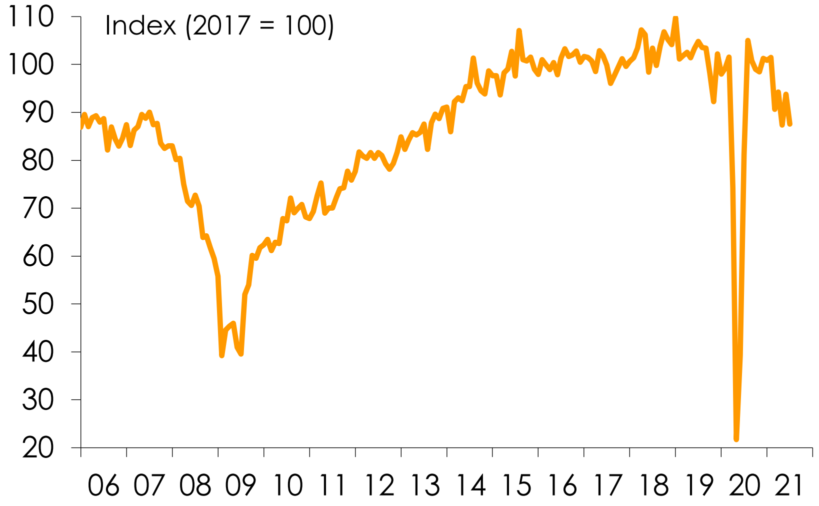
Manufacturers' order backlogs



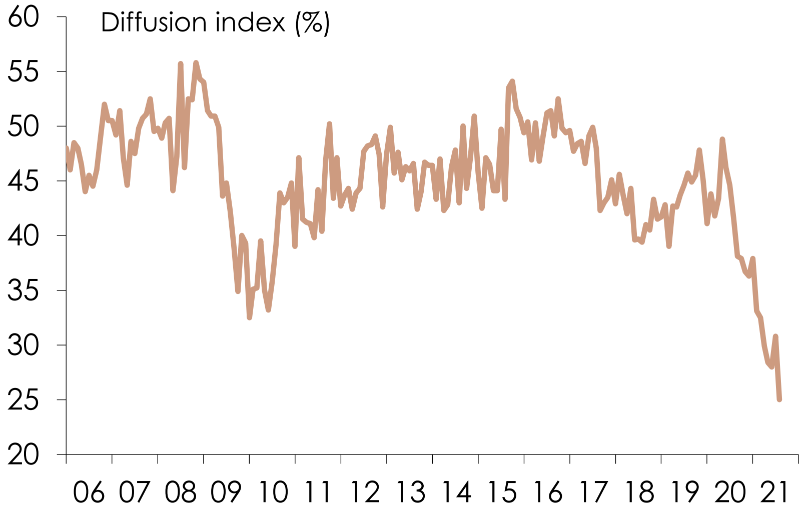
Lead-time for production materials



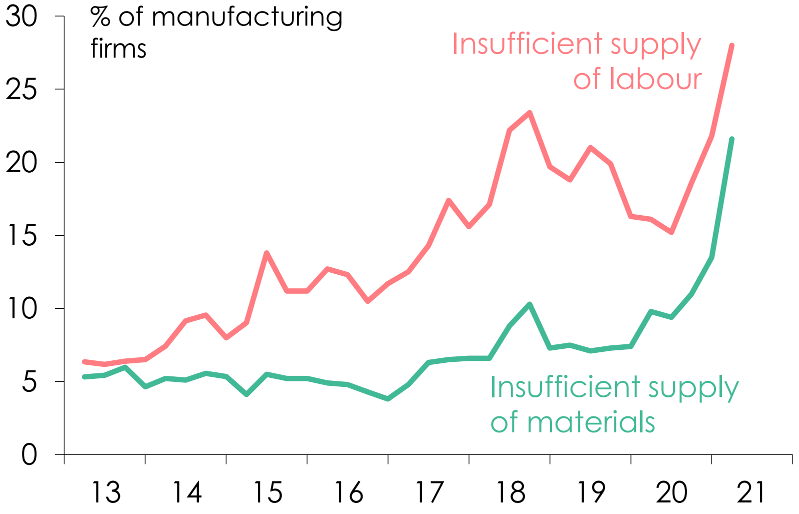
Motor vehicles & parts production



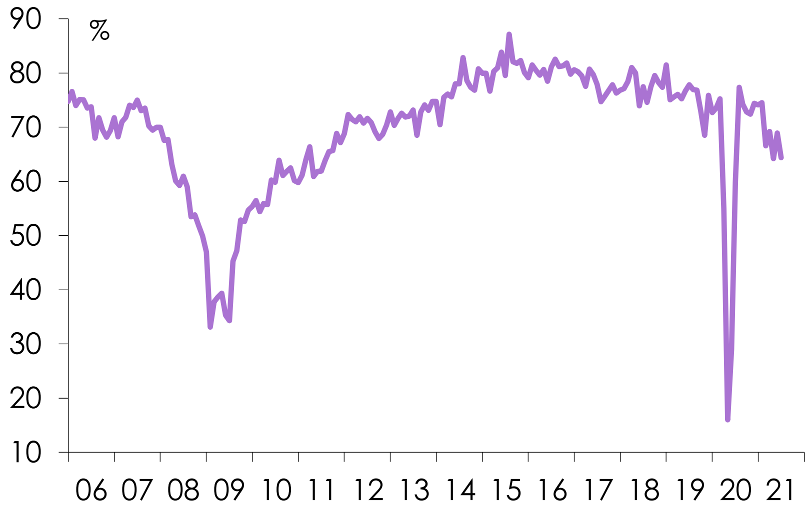
Manufacturers' customer inventories



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"'.

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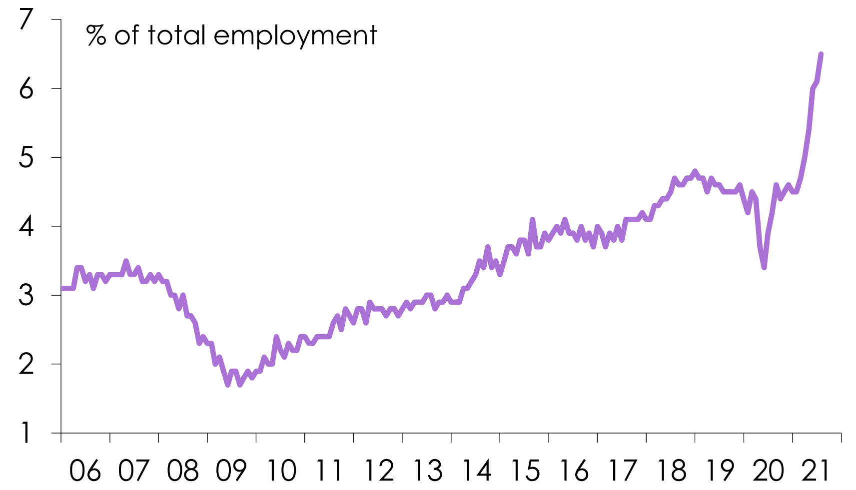
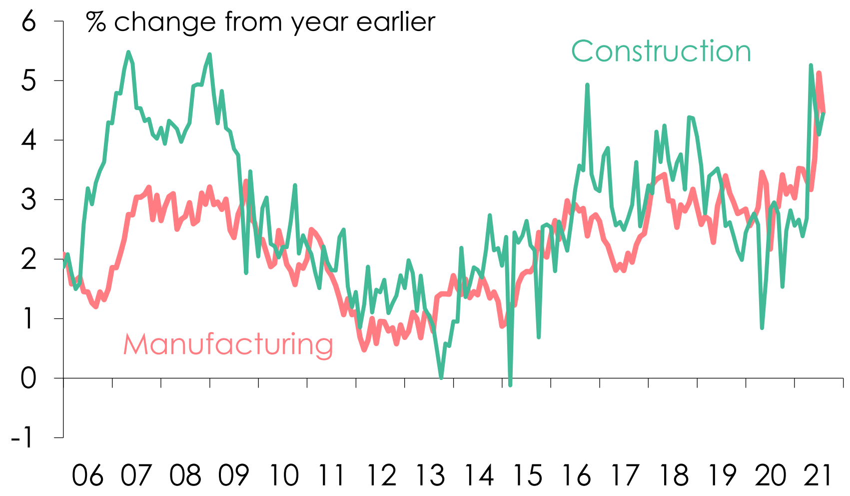
The US labour market appears to be tightening, and wages *are* rising in some sectors – but it's not clear how broadly-based this will become

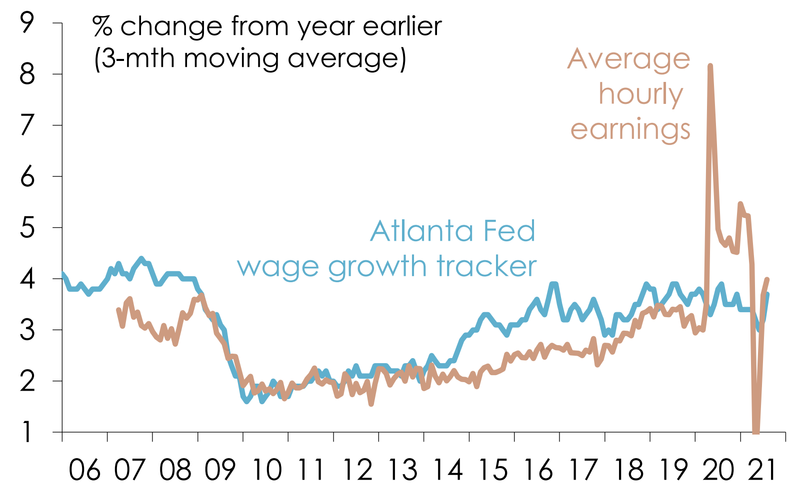
Job openings



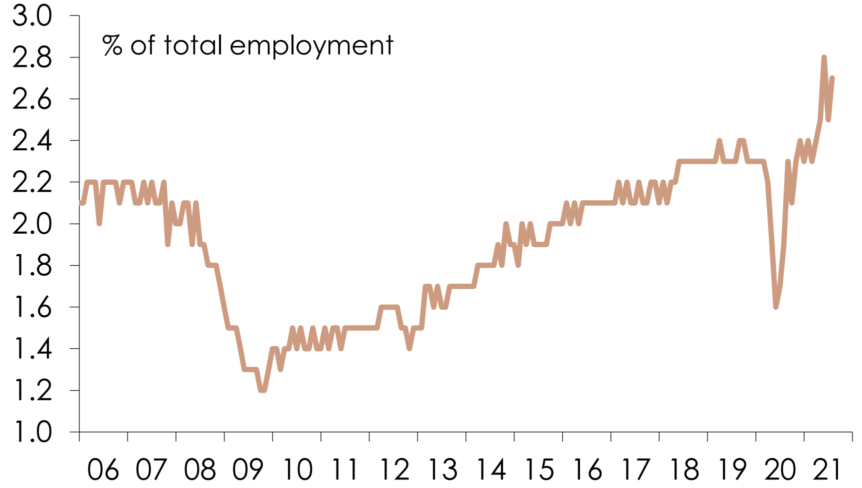
Average hourly earnings



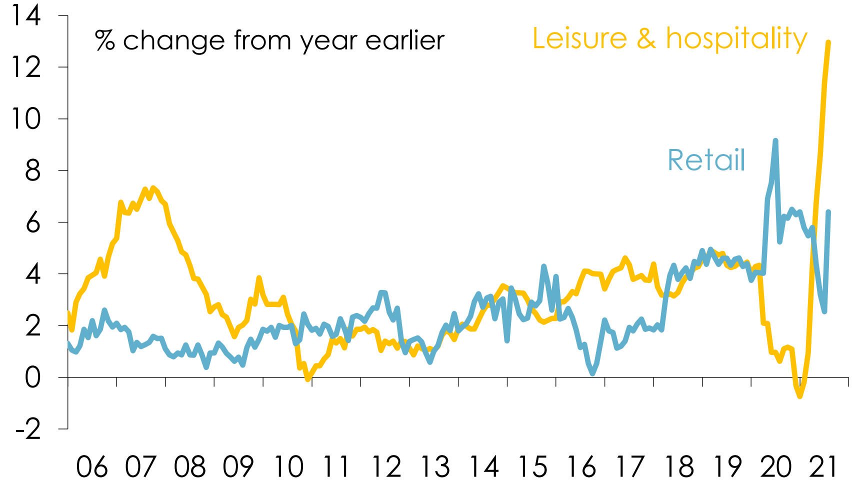
Overall wages growth - monthly



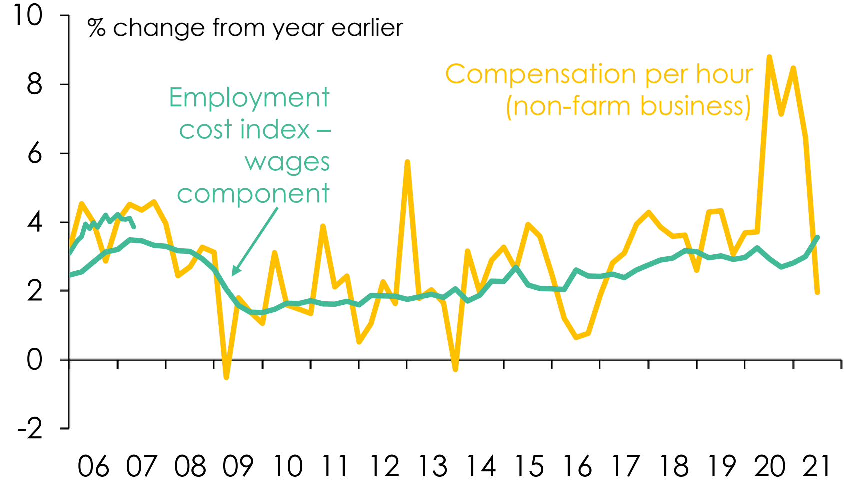
Quit rate



Average hourly earnings



Wages growth - quarterly



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

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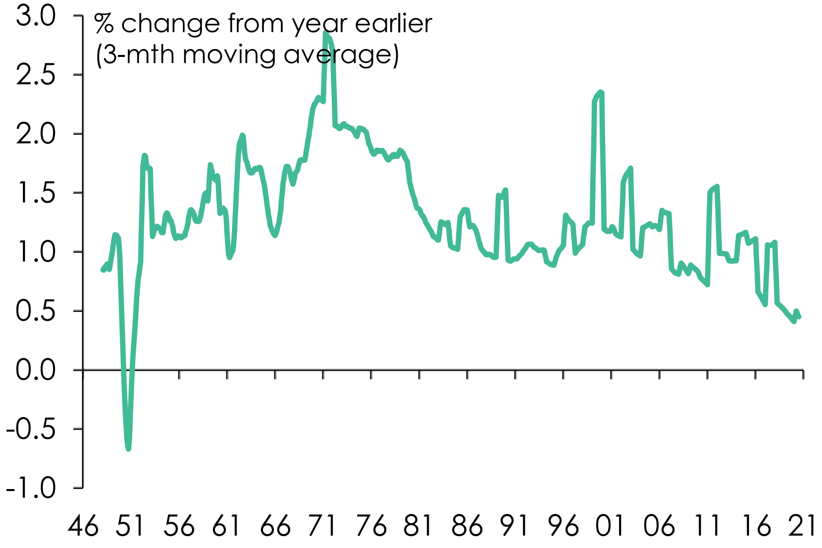
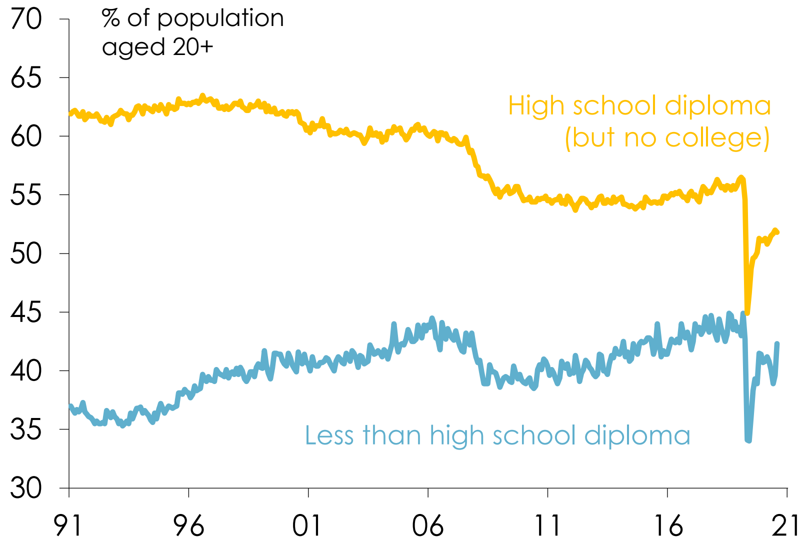
US labour market tightness owes a lot to restrictions on immigration, and to barriers to the return to the labour market of specific groups

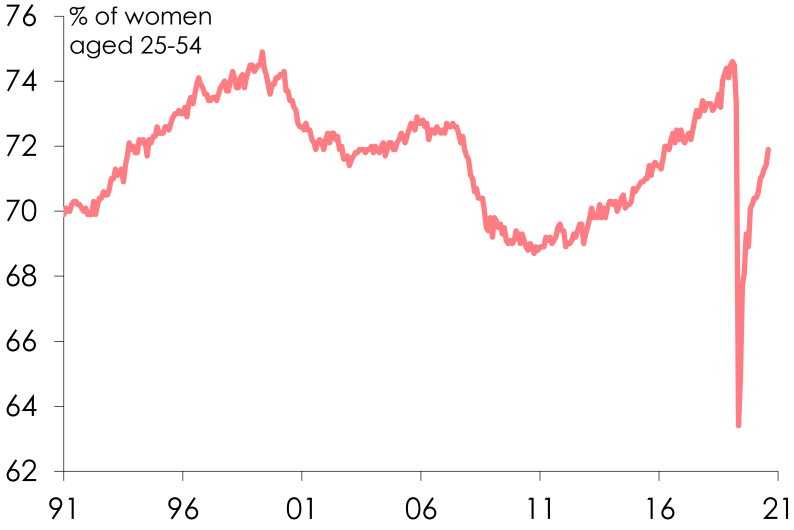
Civilian working age population



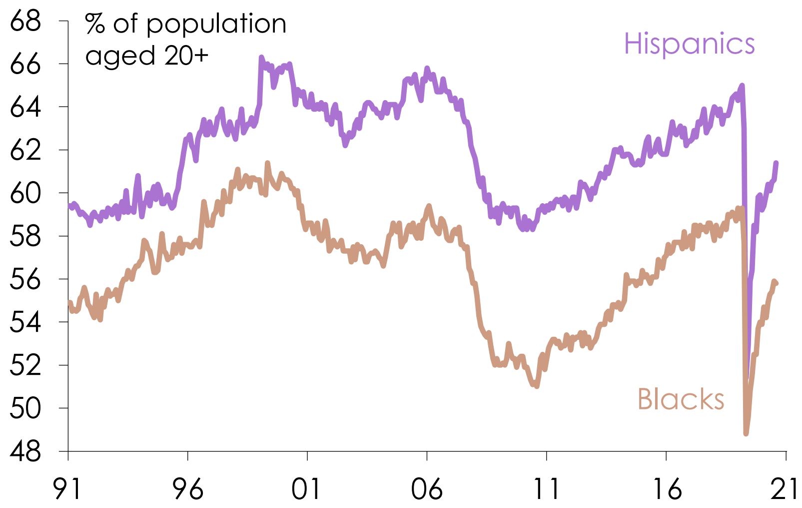
'E-pop' ratio – by education



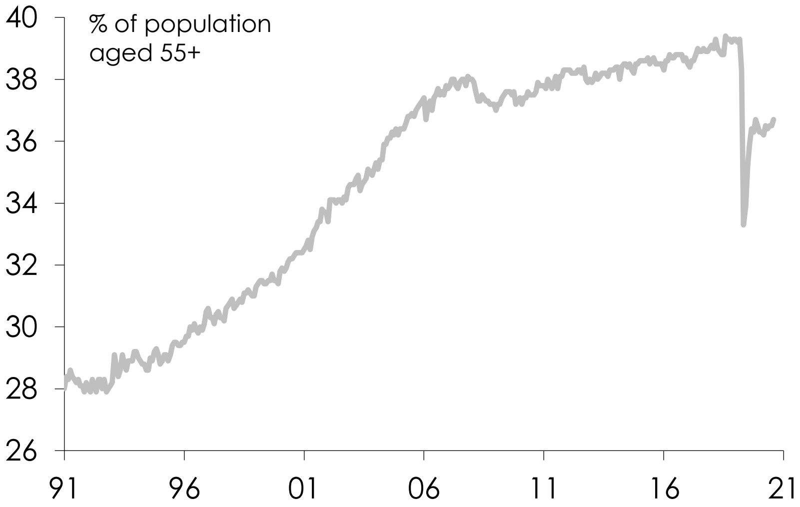
'E-pop' ratio – women 25-54



'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 (July 2021); Board of Governors of the Federal Reserve System, Monetary Policy Report - July 2021. 'Return to "What's New"'.

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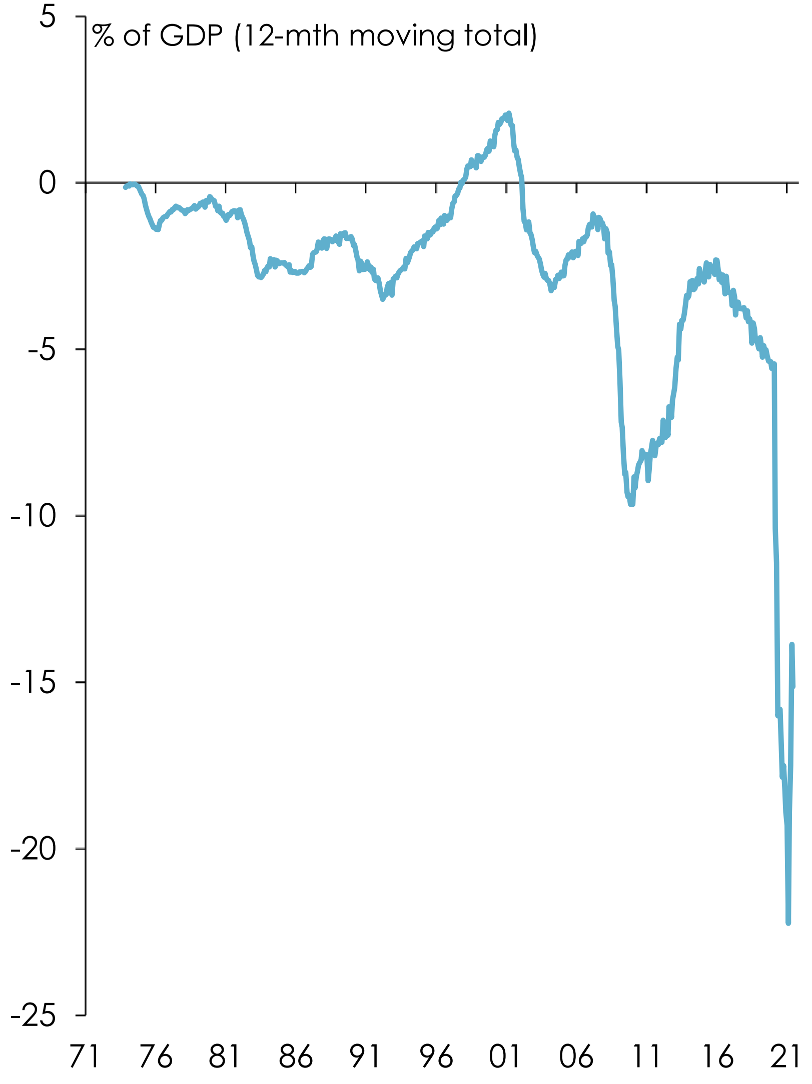
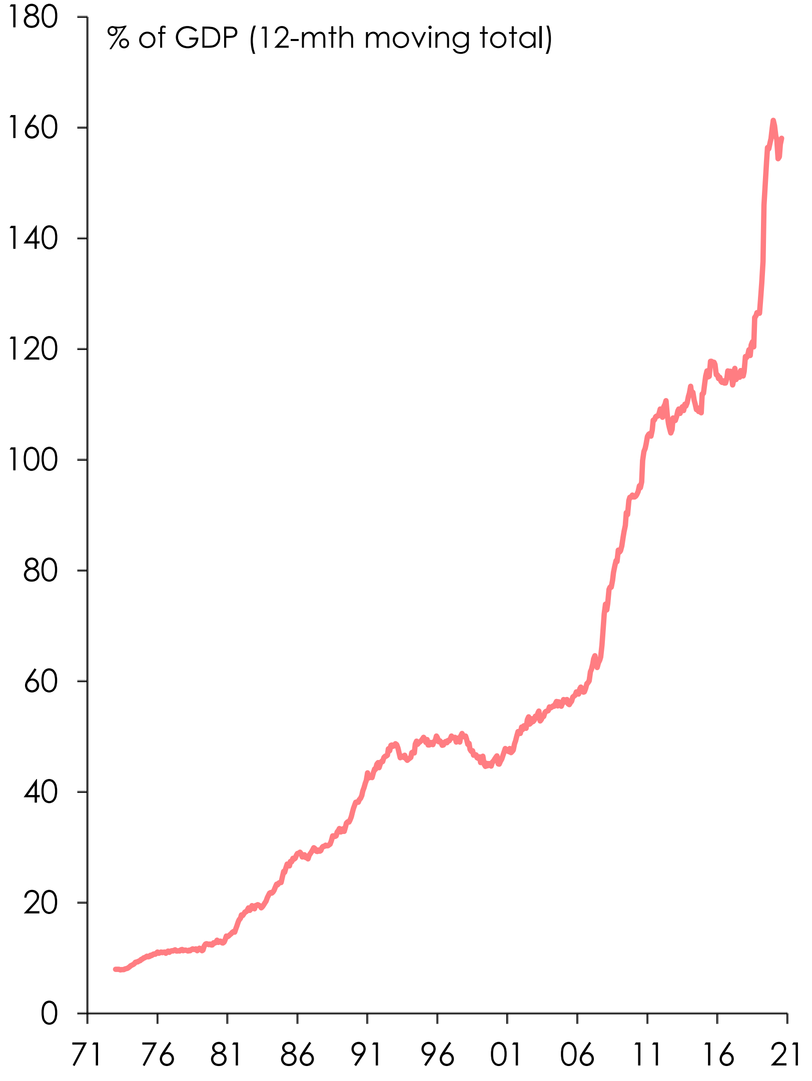
The US budget deficit has probably passed its peak, but new stimulus measures will ensure it stays large for some years yet to come

US Federal budget deficit



US gross Federal debt

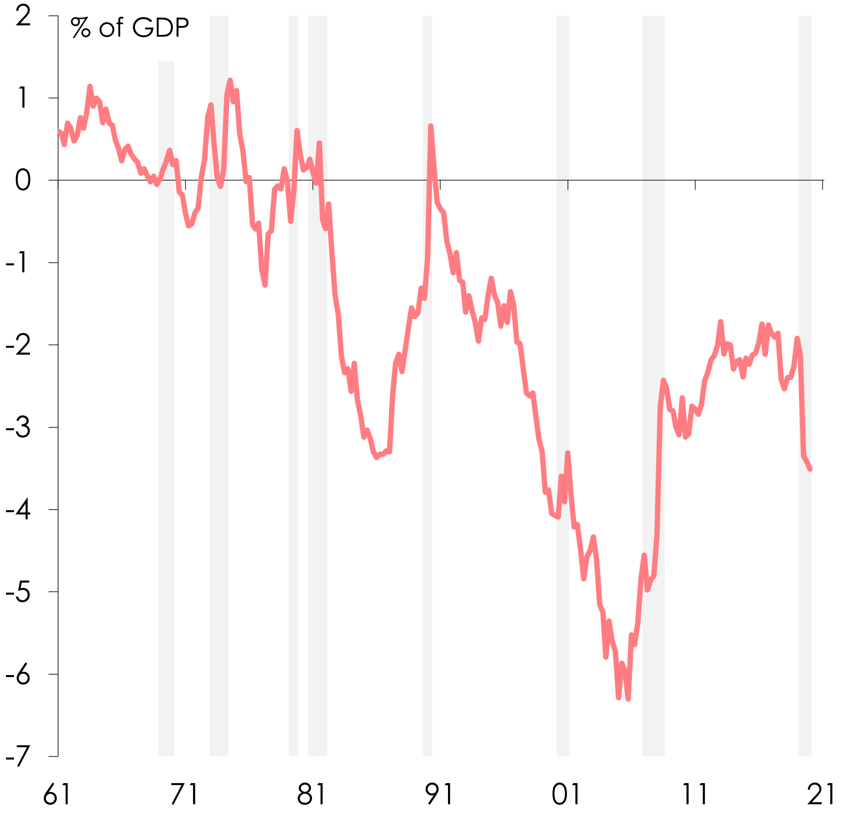


- The US Federal Government budget deficit widened by US$128bn to $302.1bn in July – largely reflecting a bigger-than-usual decline in personal income tax collections
- The deficit for the 12 months ended July was US$2.9 trn, down from a peak of $4.1 trn in the 12 months ended March, but almost exactly the same as in the 12 months to July last year
- The market value of gross debt outstanding rose by $210bn to $29.9 trn (158% of GDP), boosted by falling bond yields
- The Senate this week passed legislation authorizing US$1 trn in infrastructure spending over the 10 years to 2031 – which the Congressional Budget Office reckons will add about $256bn to the deficit over this period (cf. Democrat claims that it will be fully funder by revenue and other spending measures)
- The Senate also passed a bill authorizing $3.5 trn of spending on health & child care, family leave, public education and climate change – however unlike the infrastructure bill this didn't attract any Republican votes and will need to pass via 'reconciliation'

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".

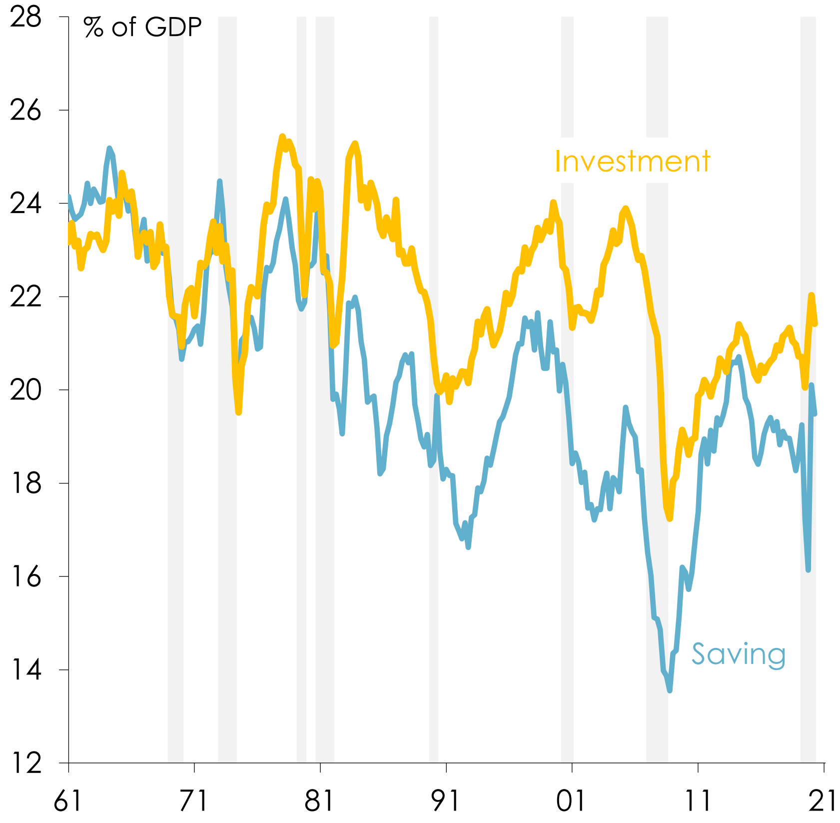
Unusually, the US current account deficit has widened so far during this recession, largely because investment hasn't fallen much

US current account balance



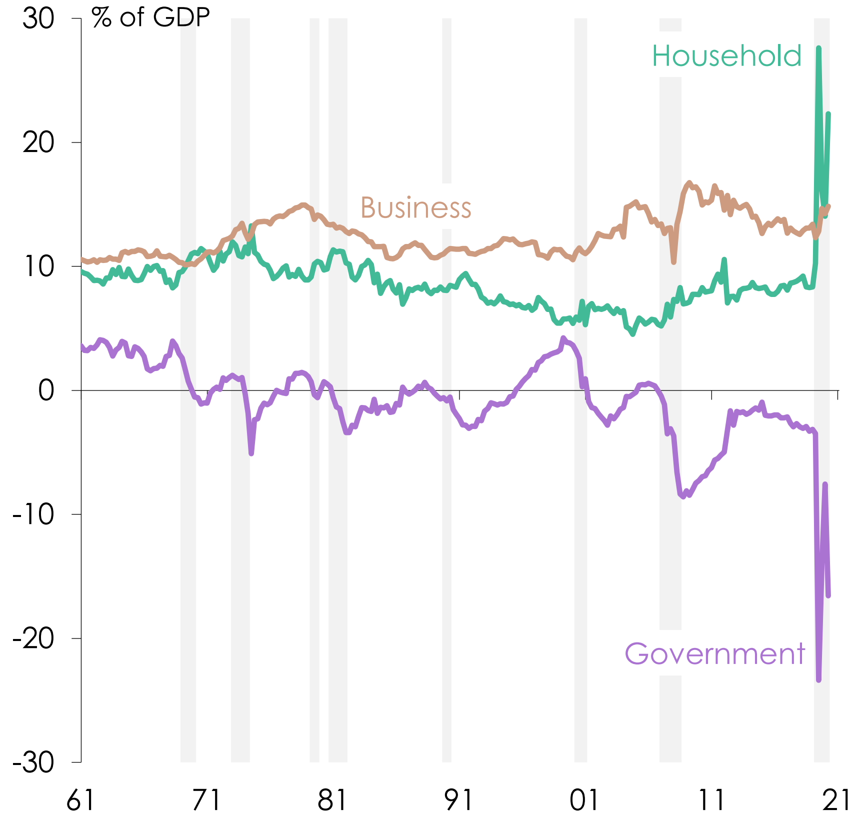
The US current account has *widened* during the recession that began last year – and in Q1 was the largest (as a pc of GDP) since Q4 2008

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 house-hold saving

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

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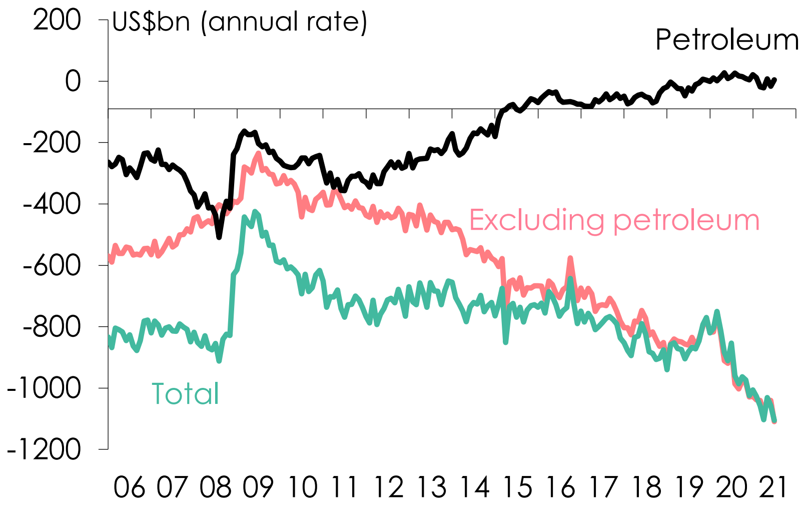
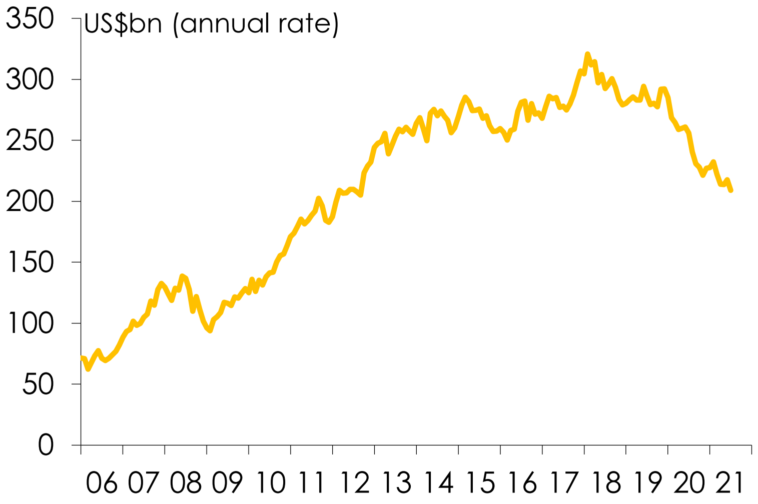
The US recorded its second-largest ever goods and services trade deficit in June, continuing a deterioration evident since the onset of Covid-19

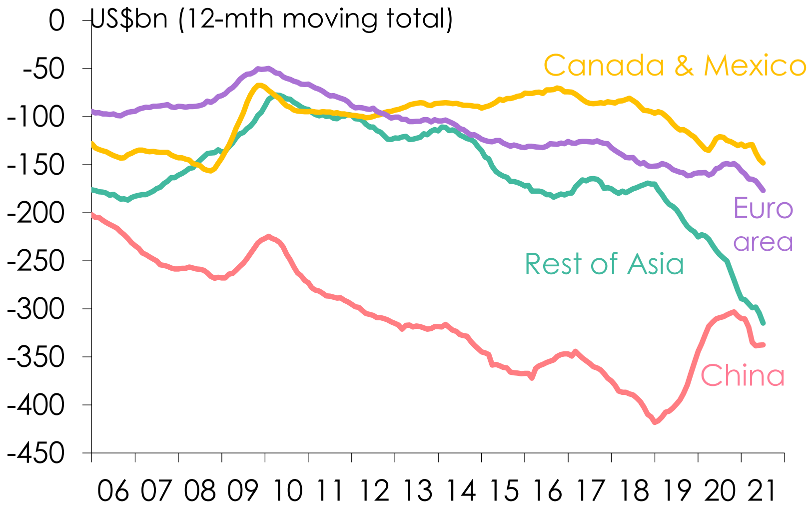
US goods trade balance



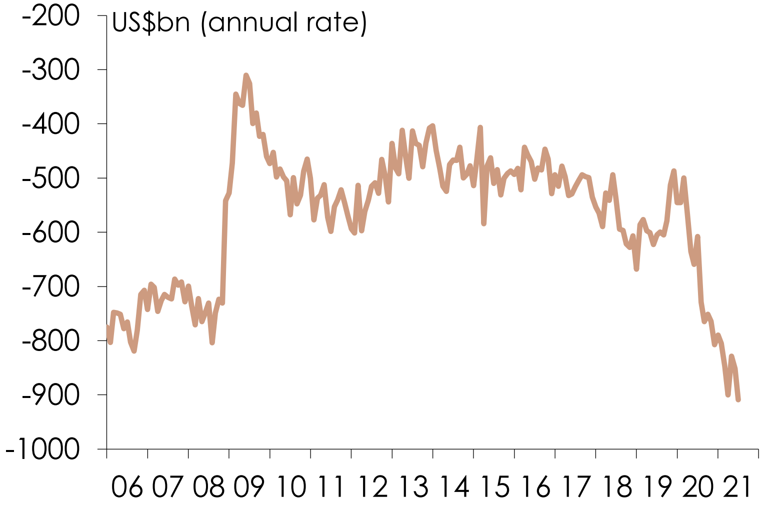
US services trade balance



US bilateral goods trade balances



US goods & services trade balance



- **The US goods trade deficit widened by US$4bn to a record US$93.2bn in June**
  - exports rose 0.2% and imports 1.8%
  - in the first half of 2021, the volume of goods exports 83% higher than in the first half of last year while the volume of imports was up by 107%
- **The services surplus narrowed by $0.7bn to $17.4bn, the smallest since August 2012**
  - exports rose 1.5% and imports 3.8%
  - the value of services exports in the first half of 2021 was 3.2% lower than a year earlier while the value of services imports was up by 58%
- **The combined goods and services deficit in June was a record $75.7bn**
  - for the first half of 2021 the goods & services trade deficit totalled $429bn, cf. $293bn in the first half and $384bn in the second half of 2020
- **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".

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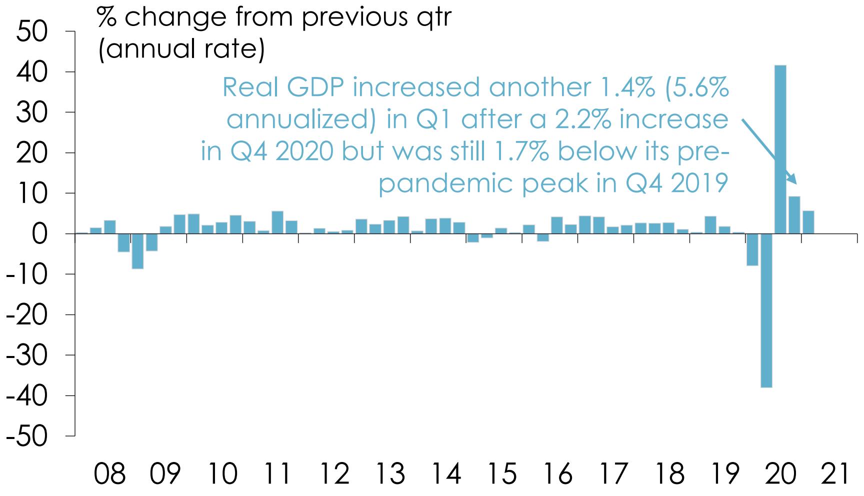
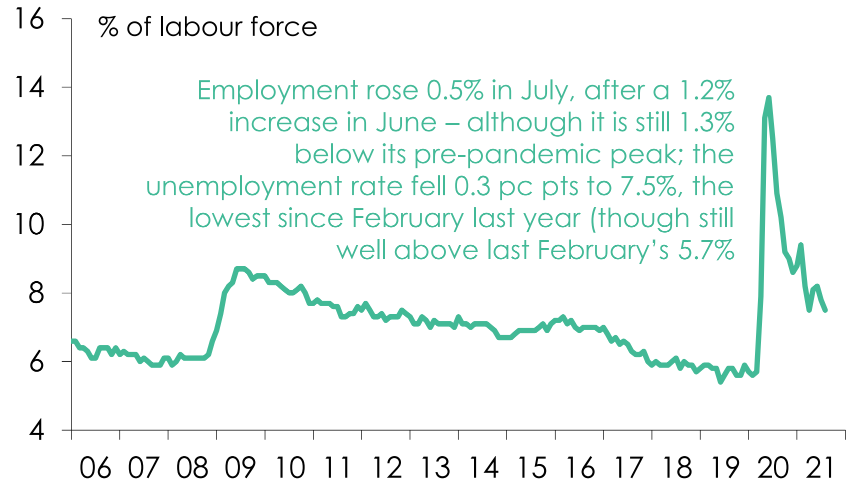
Canada's economy grew another 1.4% in Q1 but is still 1.7% smaller than in the pre-recession peak of Q4 2019, while employment is still down 1.3%

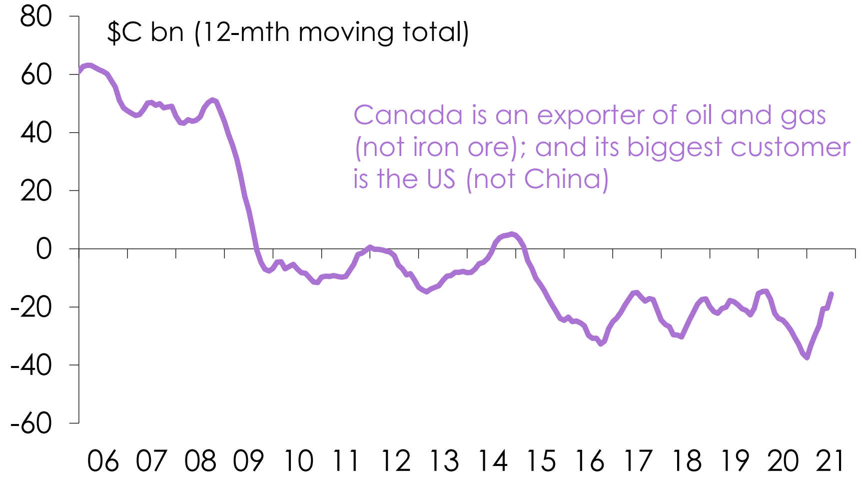
Real GDP



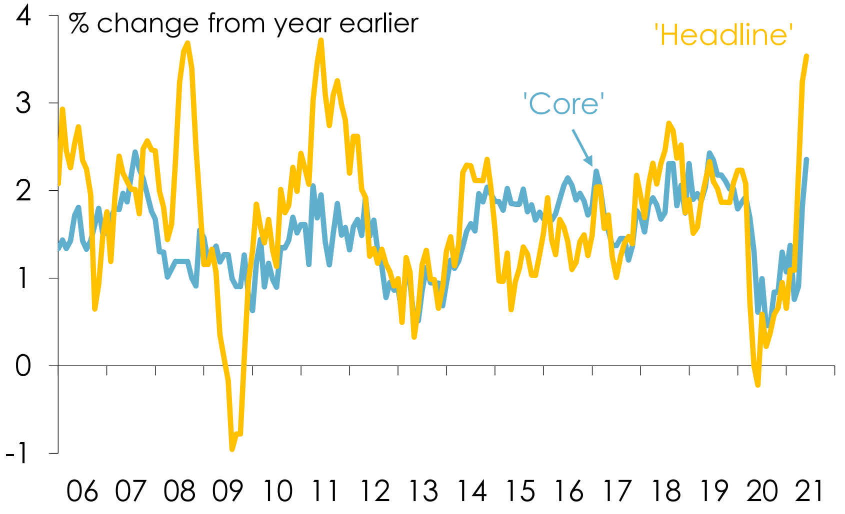
Unemployment rate



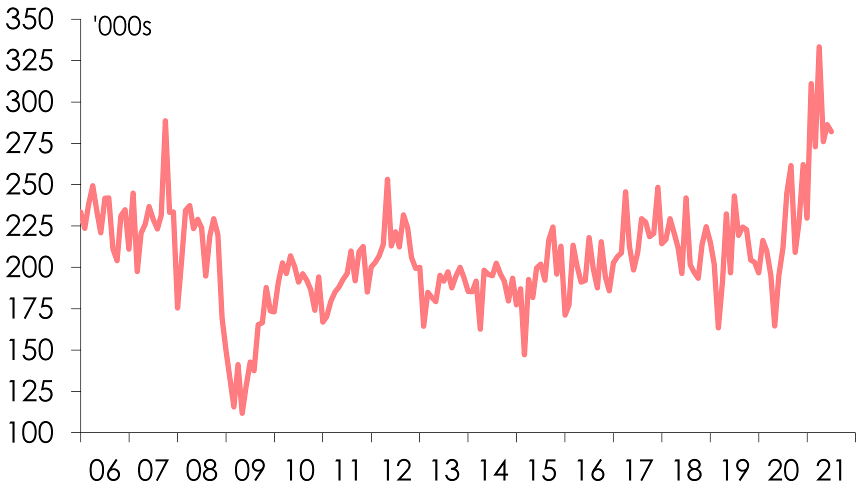
Merchandise trade balance



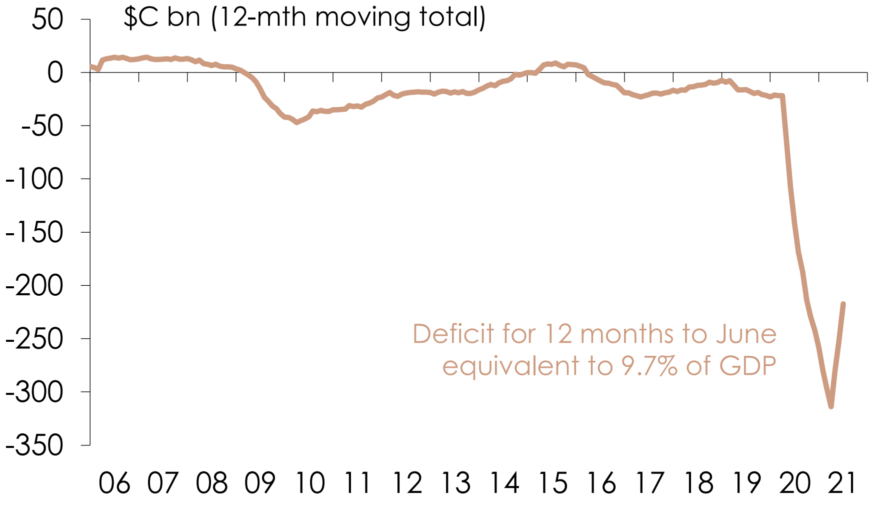
Consumer prices



Housing permits



Federal budget balance



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

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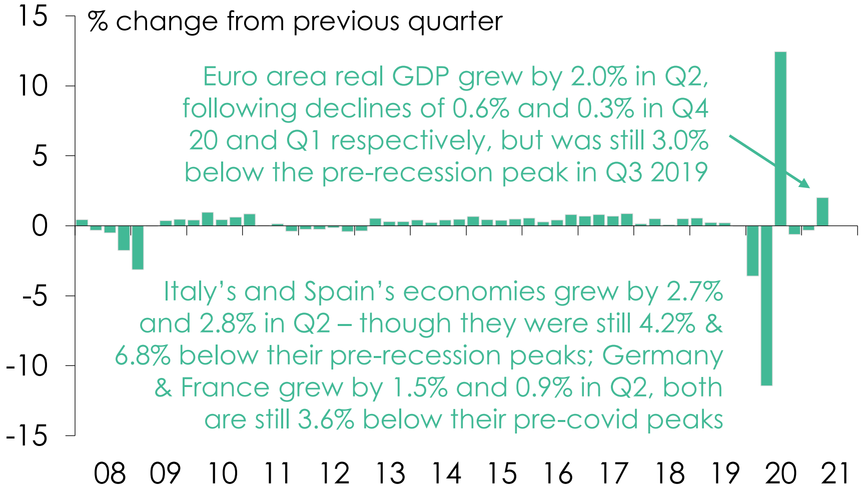
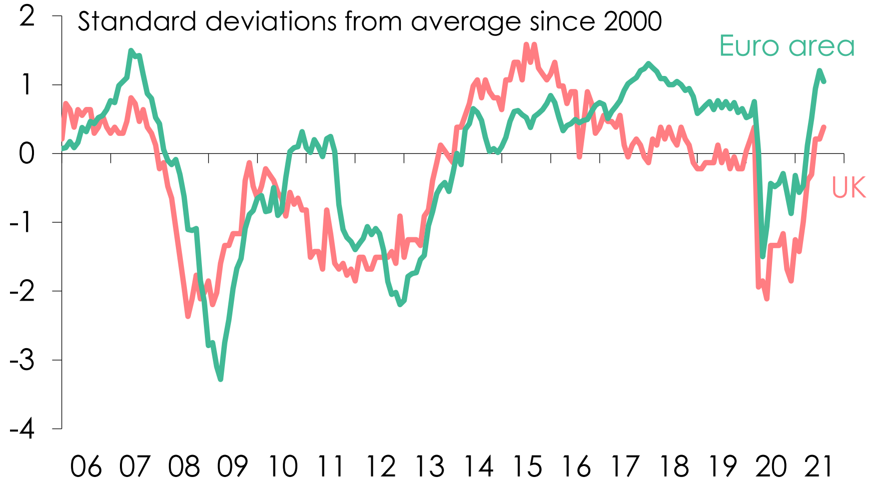
The euro area economy grew by 2% in Q2, though it's still 3% smaller than at its pre-recession peak in Q3 2019: UK GDP rose 4.8% in Q2

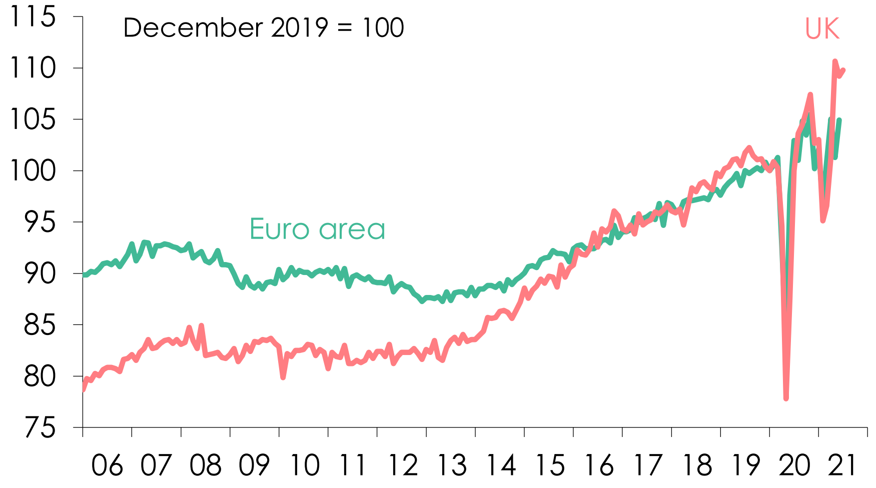
Euro area real GDP



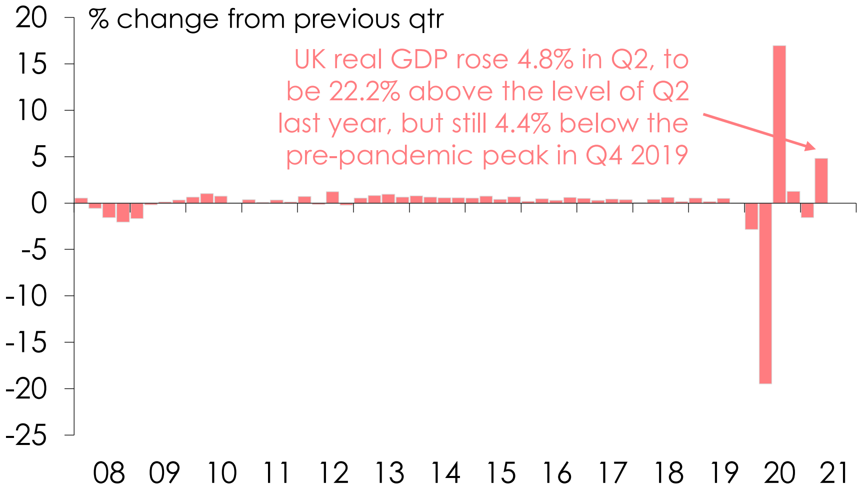
Consumer confidence



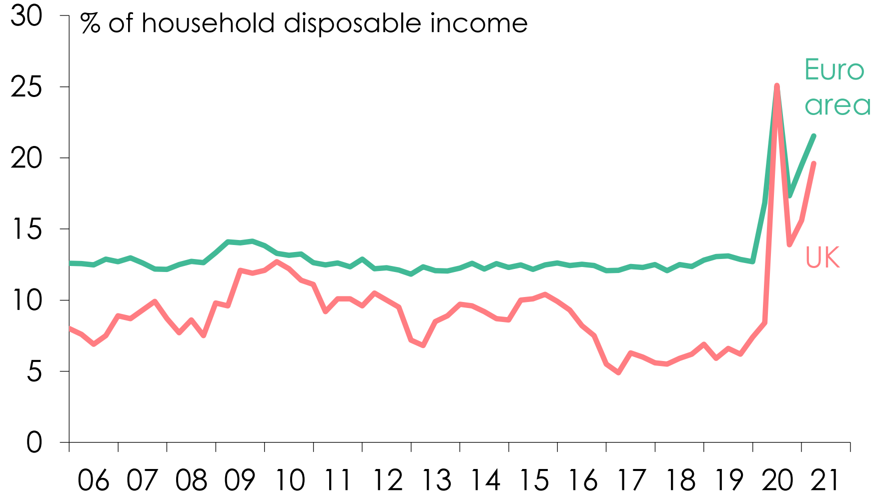
Retail sales volume



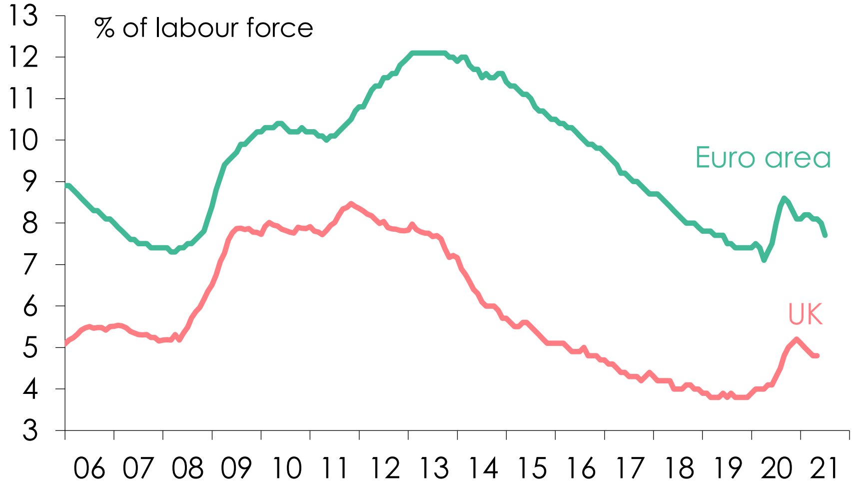
UK real GDP



Household saving ratio



Unemployment



Sources: Eurostat; UK Office for National Statistics; GfK. The UK unemployment rate is published as a 3-month moving average.
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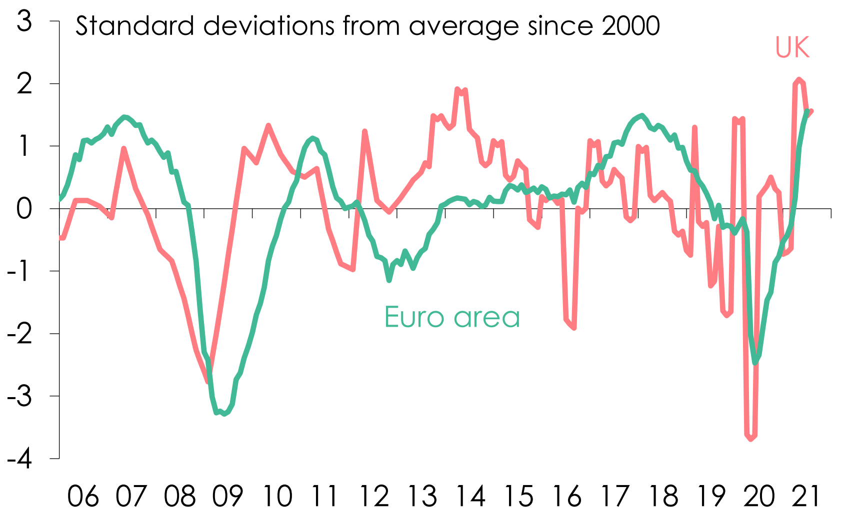
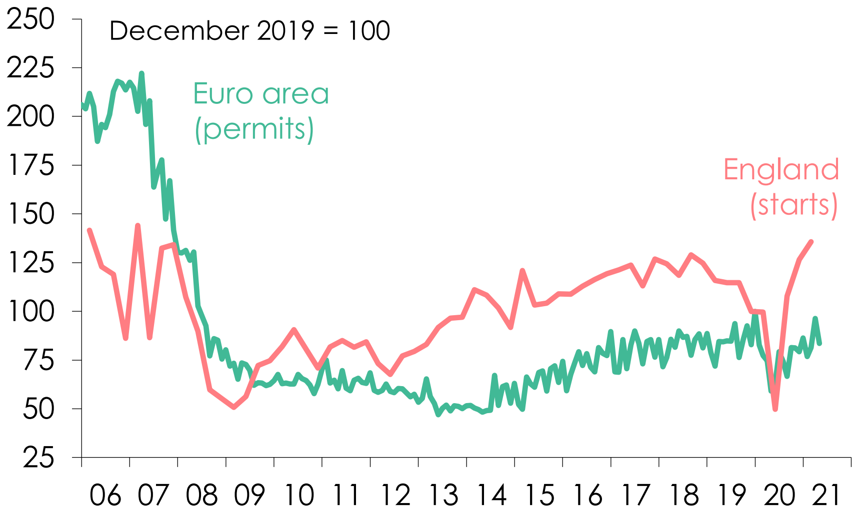
The euro area's recovery is stronger than the UK's (except for housing) even though the UK has provided more fiscal stimulus

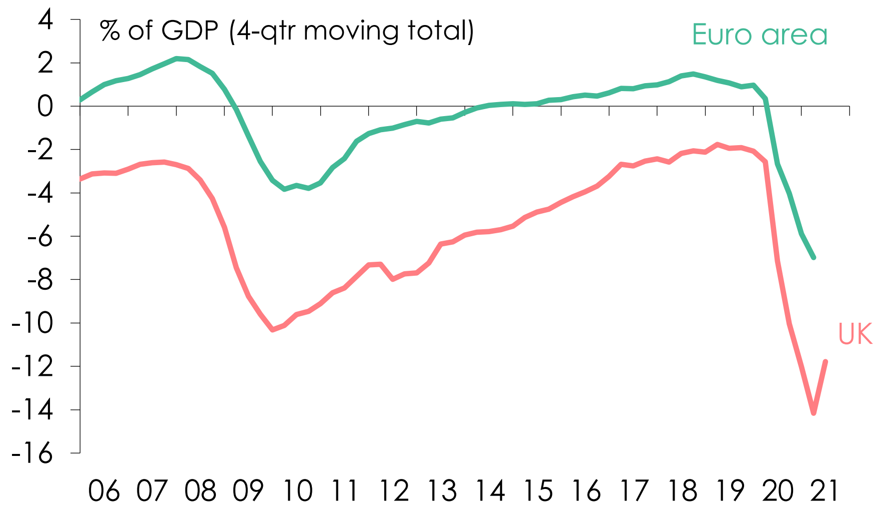
Business confidence



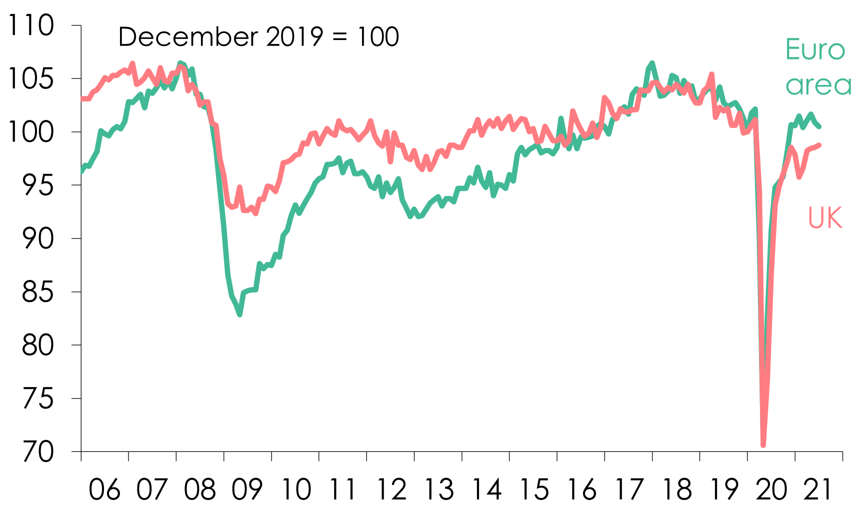
Housing activity



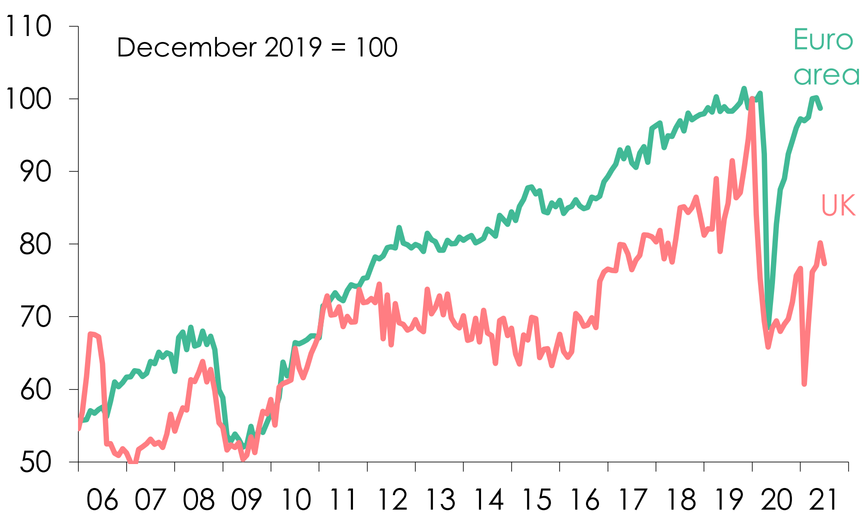
Government fiscal balance



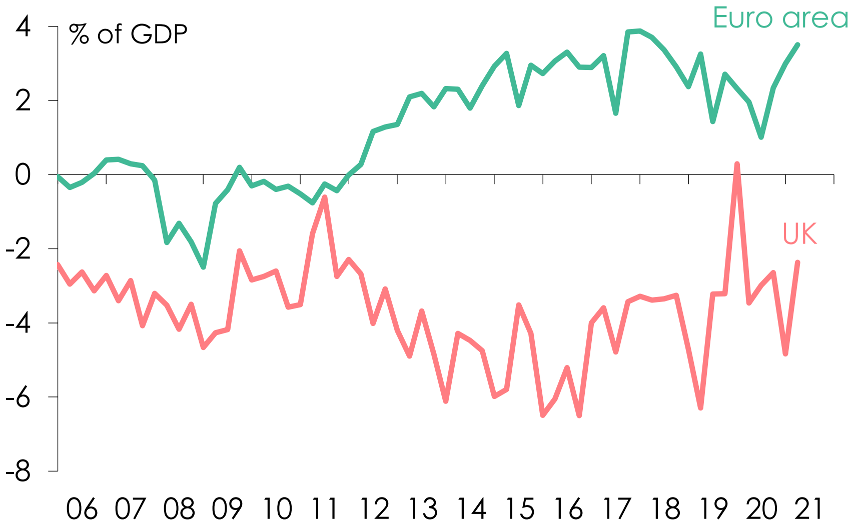
Manufacturing production



Merchandise exports



Current account balance



Sources: Confederation of British Industry; Eurostat; UK Office for National Statistics. Return to "What's New".

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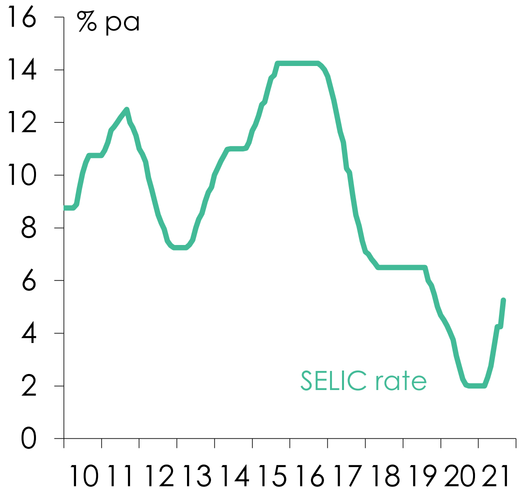
Three Latin American central banks raised rates this week – but Turkey's didn't

- Banco de México raised its overnight interbank rate by 25 bp to 4.50% at its Governing Board meeting on Thursday, following a similar move at its previous meeting in June
  - despite acknowledging that "the shocks that have increased inflation [to 5.8% in July] are expected to be transitory", the Board nonetheless judged that "the balance of risks for the trajectory of inflation … is biased to the upside" and that it was "necessary to strengthen the monetary policy stance" in order to "avoid adverse effects on inflationary expectations and enable an orderly … convergence of inflation to the 3% target"
  - notably, the decision to raise rates again was supported by only three of the Governing Board's five members
- Banco Central de Reserva del Perú raised its reference rate by 25 bp to 0.50% at its Board of Directors meeting on Thursday – the first increase since February 2016
  - this follows the removal, at its previous meeting in June, of a pledge to "maintain a strong expansionary monetary stance for as long as the negative effects of the pandemic … persist"
  - but it nonetheless expects inflation (3.8% over the year to July) to "return to the target range in the next twelve months" (perhaps suggesting that, unlike other central banks in Latin America, it isn't planning further rate increases any time soon)
- Banco Central del Uruguay increased its monetary policy rate by 50 bp to 5% at its Monetary Policy Committee (COPOM) meeting on Wednesday
  - with inflation over the year to July at 7.3% (above the 3-6% target range) COPOM considered it "necessary for monetary policy to begin to leave its most expansionary phase"
  - this is the first increase in BCU's policy rate since it abandoned monetary targeting in September last year
- By contrast, Turkey's central bank (Türkiye Cumhuriyet Merkez Bankası) again left its policy rate unchanged at 19% (having raised it to that level by 1075 bp between September last year and February this year)
  - in line with its previous (and re-stated) commitment that "the current tight monetary policy stance will be maintained decisively" with the policy rate being kept above the inflation rate "until strong indicators point to a permanent fall in inflation and the medium-term 5 percent target is reached"

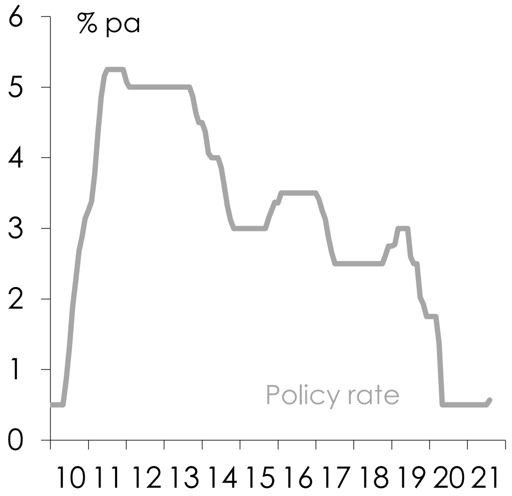
Return to "What's New".

A growing number of ‘emerging’ market central banks have begun tightening monetary policy

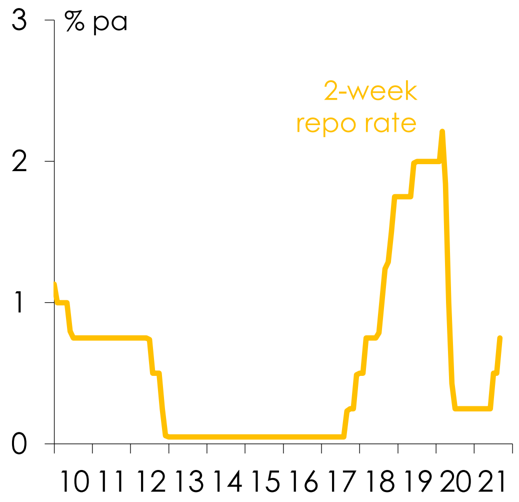
Brazil



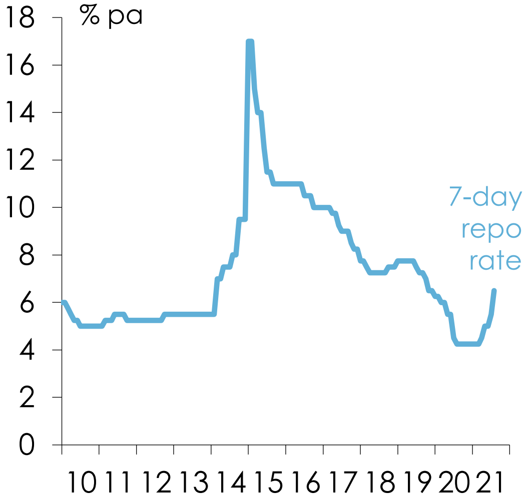
Chile



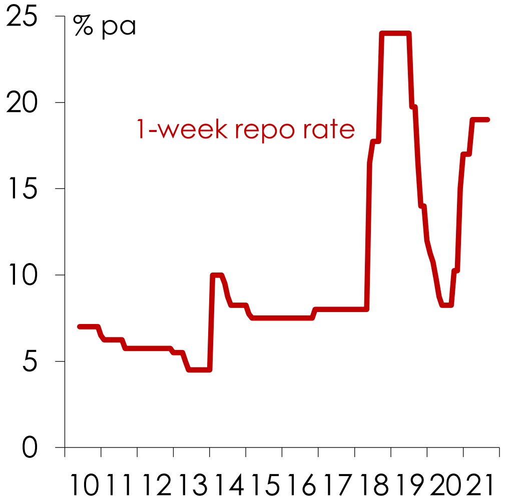
Czechia



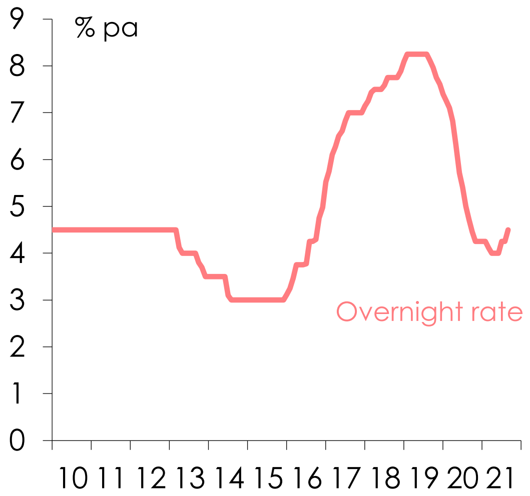
Russia



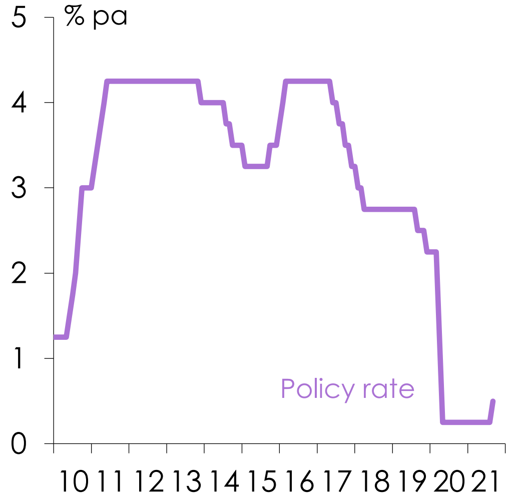
Turkey



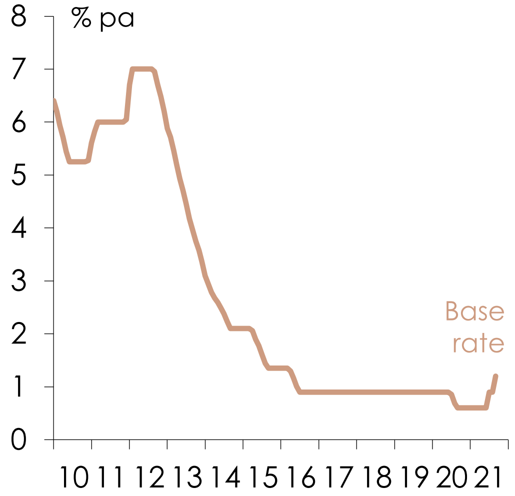
Mexico



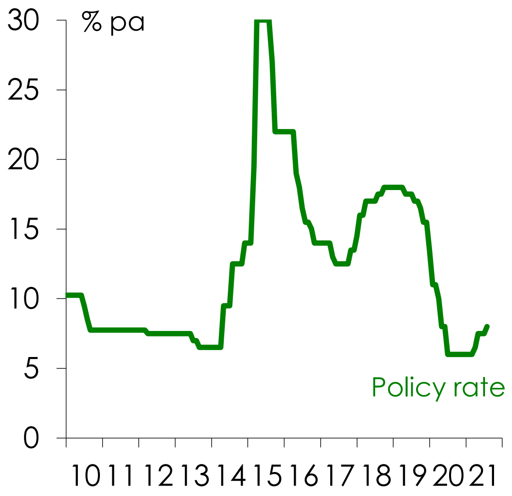
Peru



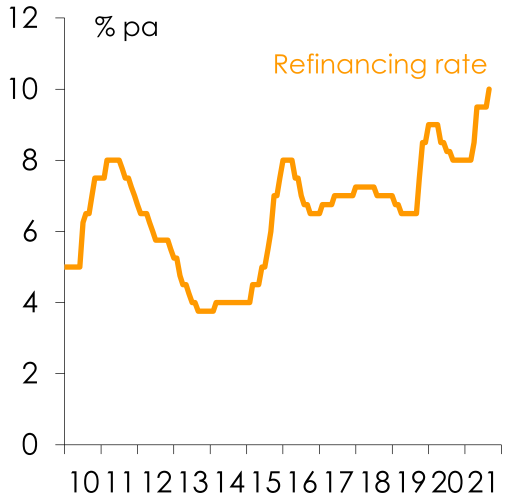
Hungary



Ukraine



Georgia



Sources: Banco Central do Brasil; Banco de México; Banco Central de Chile; Banco Central de Reserva del Perú; Magyar Nemzeti Bank; Česká národní banka; Bank Rossii; National Bank of Ukraine; Türkiye Cumhuriyet Merkez Bankasi; Sakartvelos Erovnuli Bank'I.

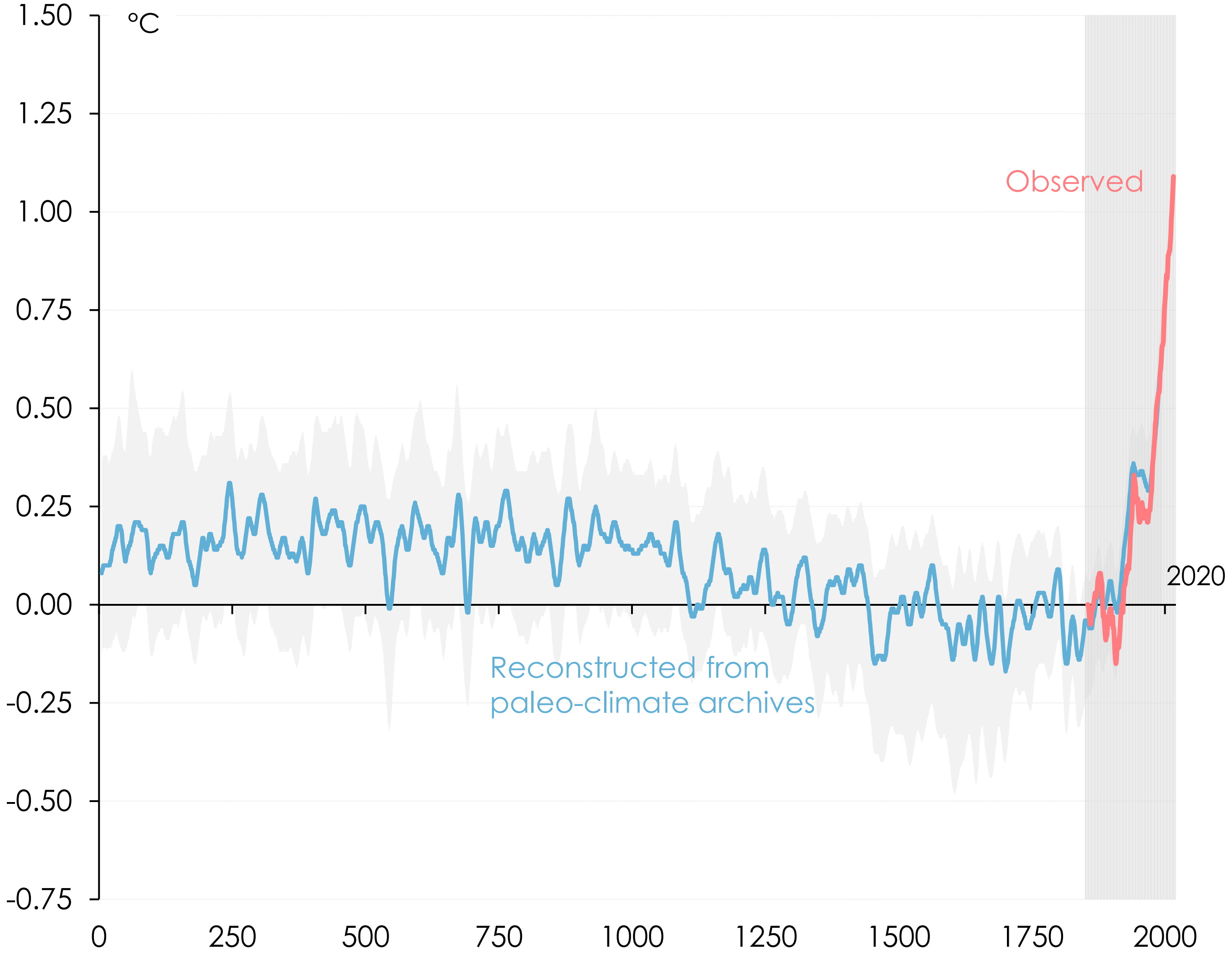
The Sixth IPCC Climate Change Assessment

The Intergovernmental Panel on Climate Change issued a grim warning about the climate outlook this week

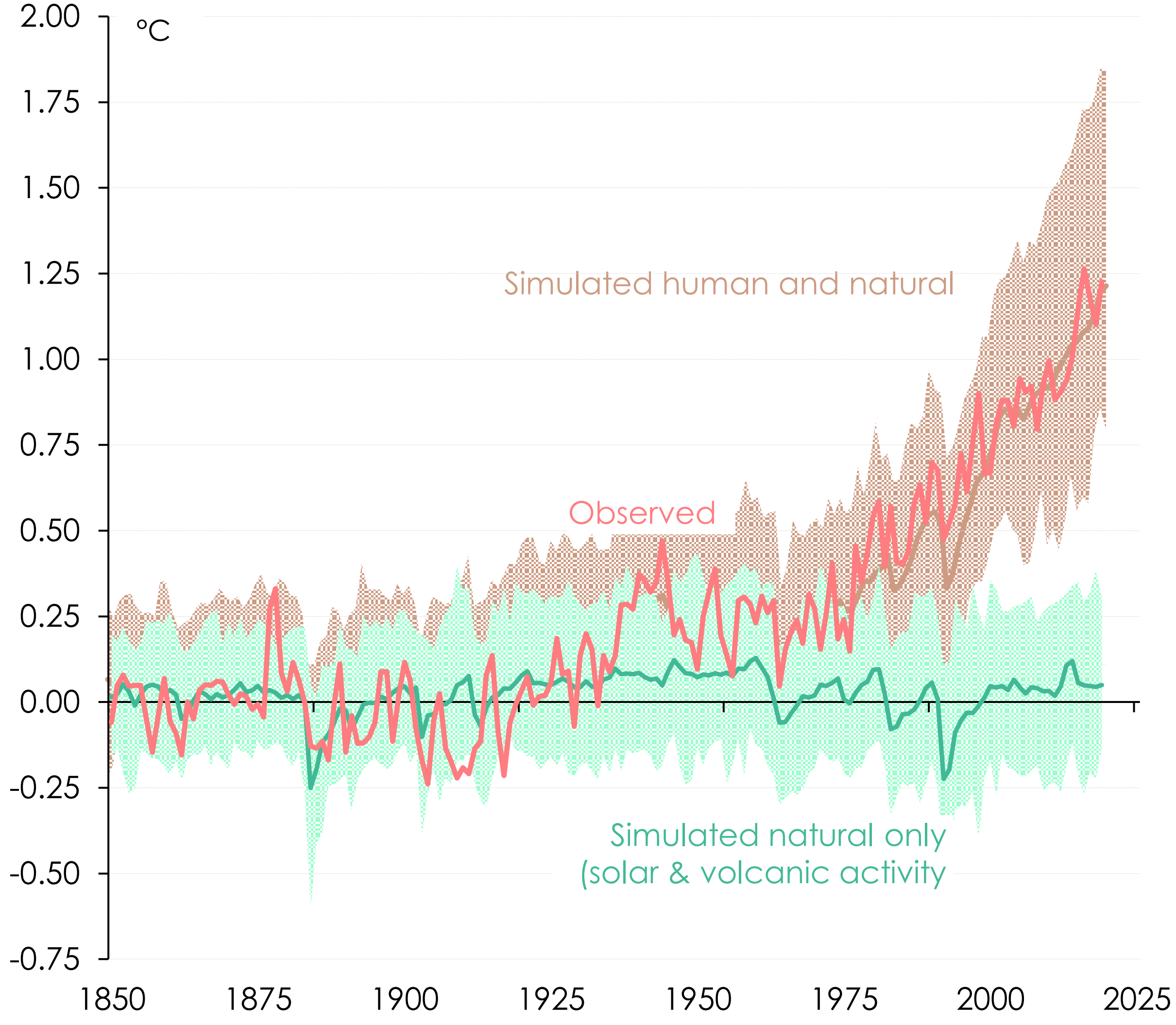
- **The IPCC's Sixth Assessment Report, *Climate Change 2021: The Physical Science Basis*, issued this week, paints a picture of the outlook for the world's climate future**
  - "in 2019, atmospheric CO_2 concentrations were higher than at any time in at least 2 million years"
  - "there is a near-linear relationship between cumulative anthropogenic CO_2 emissions and the global warming they cause"
  - "global surface temperatures have increased faster since 1970 than in any other 50-year period over at least the last 2000 years"
  - "global mean sea level has risen faster since 1900 than over any preceding century in at least the last 3000 years"
- **The Report warns that temperatures will continue to increase until at least 2050 under all scenarios**
  - "warming of 1.5-2 degrees will be exceeded during the 21st century unless deep reductions in CO_2 and other greenhouse gas emissions occur in coming decades
  - "every additional 0.5° of global warming causes clearly discernible increases in the intensity and frequency of hot extremes, including heatwaves, and heavy precipitation, as well as … droughts in some regions" (including Australasia)
  - "it is very likely that heavy precipitation events will intensify and become more frequent in most regions with additional global warming"
- **The Report concludes that "reaching net zero anthropogenic CO_2 emissions is a requirement to stabilize human-induced global temperature increase at any level"**
- **Australia is at risk of being seen as an international pariah on responses to climate change**
  - Australia has the highest per capita CO_2 emissions, and one of the highest levels of CO_2 emissions per unit of GDP, of any advanced economy
  - and although Australia has reduced its emissions over the past two decades, it will inevitably be under considerable international pressure to increase the pace of its emissions reductions given its high starting point
- **Australian exports could be targeted by 'carbon tariffs' imposed by other 'advanced' economies if it fails to adopt and achieve more ambitious emissions reduction targets**

The IPCC's Sixth Assessment Report released this week documents the extent of global warming over the past five decades or so

Change in decadal average global surface temperatures relative to 1850-1900 average



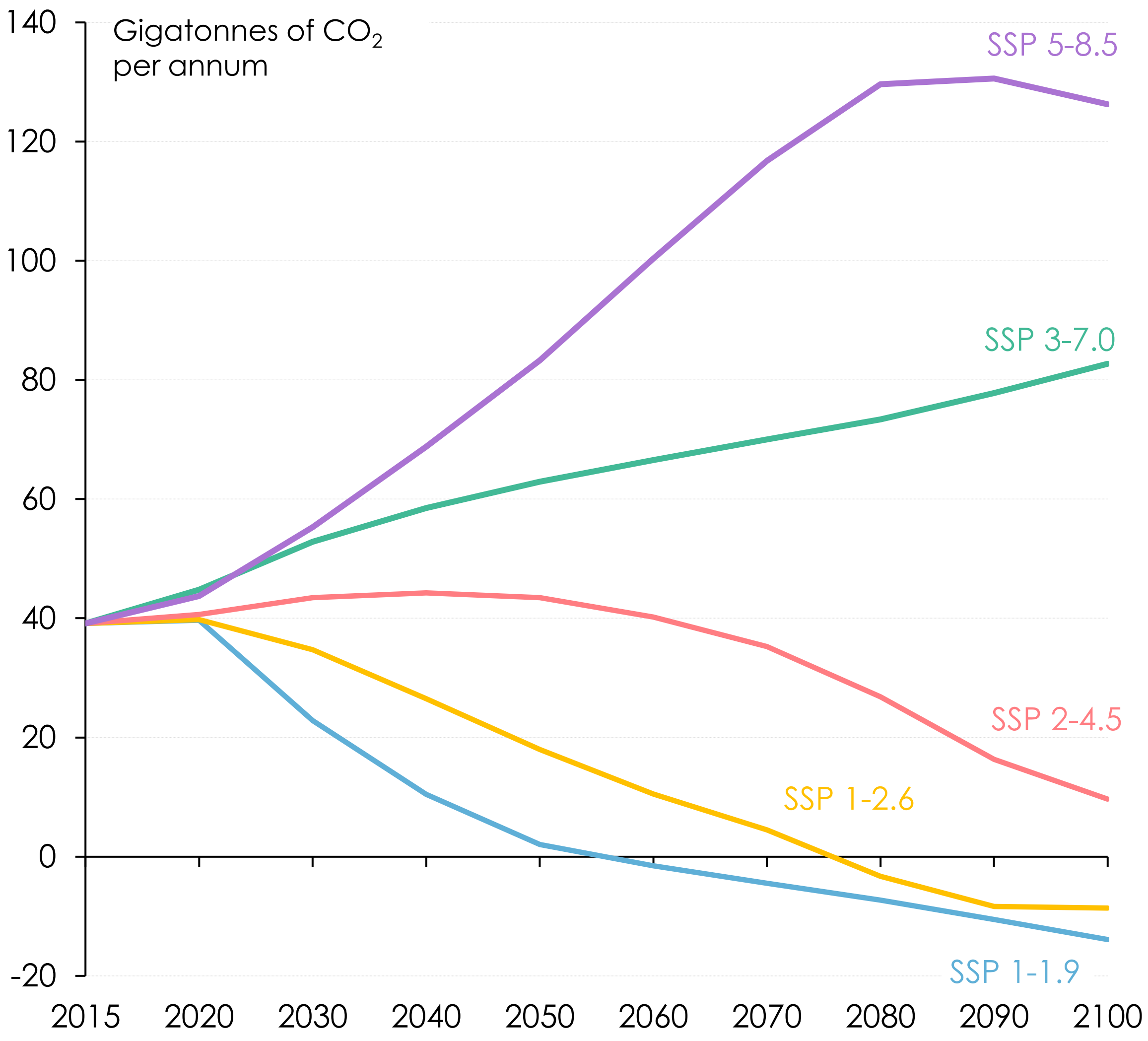
Impact of human and natural factors on changes in global surface temperatures between 1850 and 2020



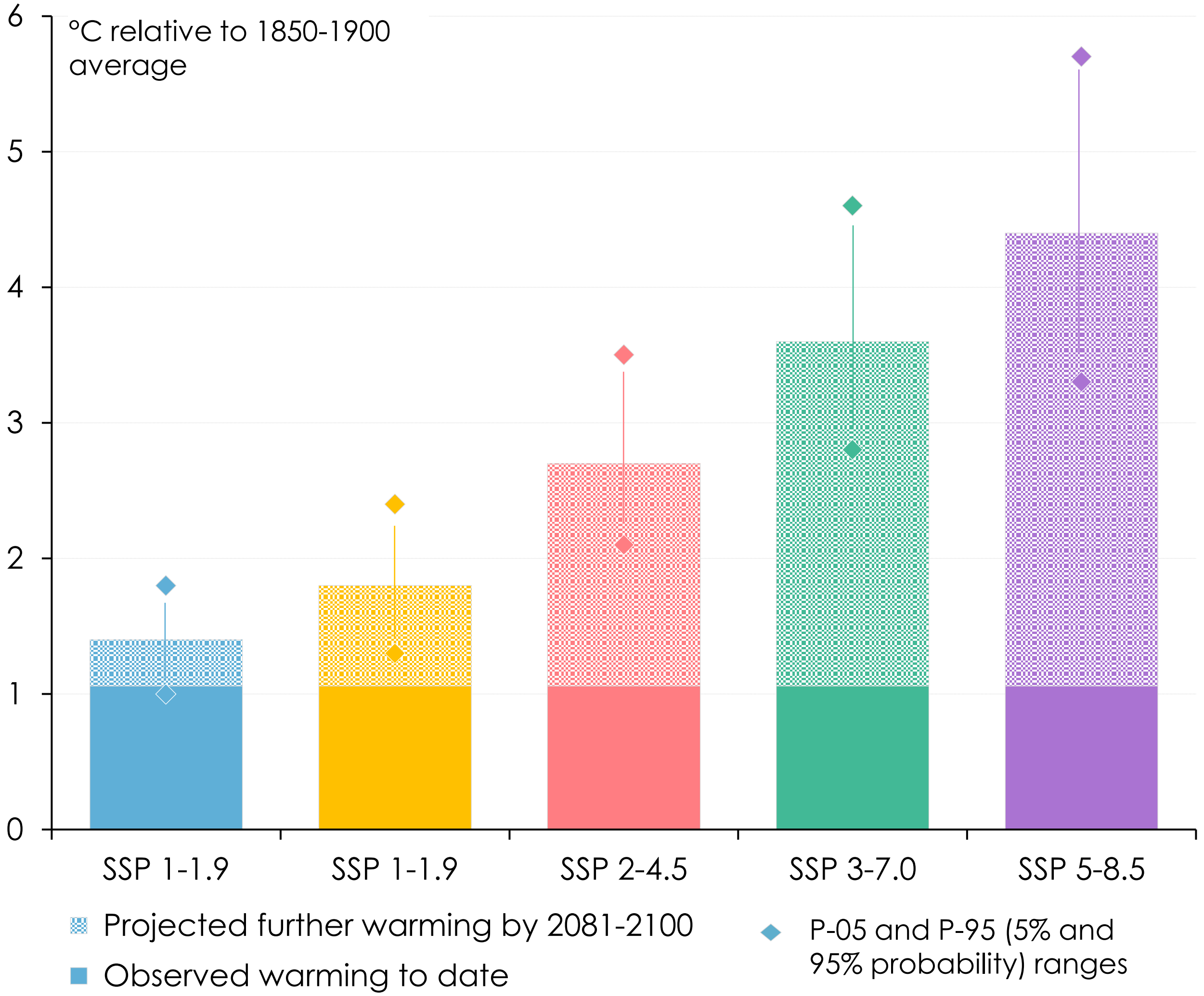
Source: Intergovernmental Panel on Climate Change, Sixth Assessment Report, *Climate Change 2021: The Physical Science Basis*, August 2021. Return to "What's New".

The IPCC's Sixth Assessment Report incorporates projections of further global warming depending on the trajectory of CO_2 emissions

Alternative scenarios for global CO_2 emissions



Projected increase in global surface temperatures from 1850-1900 averages under different emissions scenarios



Note: 'SSPx-y' refers to 'Shared Socio-economic Pathway' with x representing a particular scenario and y is the approximate level of radiative forcing (in watts per m^2).
Source: Intergovernmental Panel on Climate Change, Sixth Assessment Report, *Climate Change 2021: The Physical Science Basis*, August 2021. Return to "What's New".

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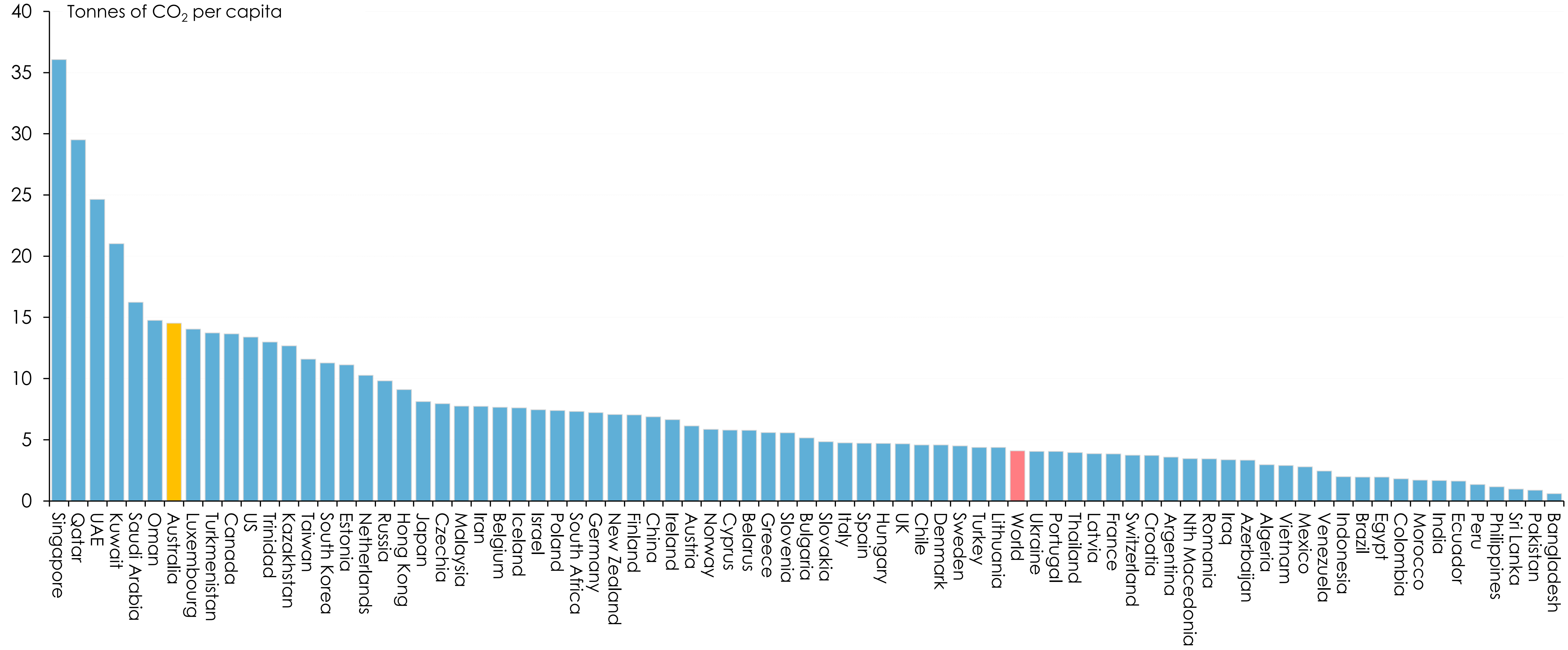
Australia's per capita CO_2 emissions are the highest of any OECD economy, and higher than all but a handful of oil-producing or refining nations

CO_2 emissions per capita, 2020



Sources: BP, *Statistical Review of World Energy 2021*; Corinna Economic Advisory. Return to "What's New".

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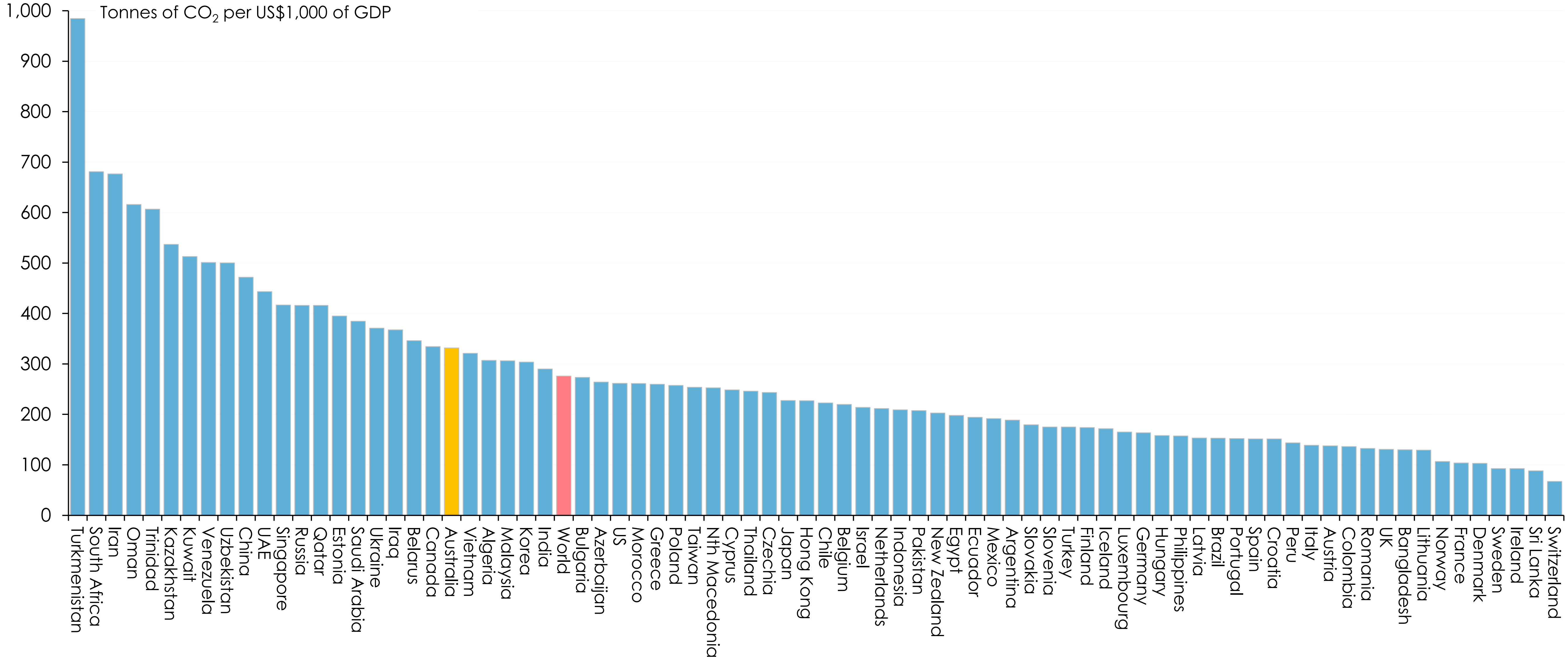
Australia's CO_2 emissions per dollar of GDP are also among the highest of any 'advanced' economy

CO_2 emissions per US$1,000 of GDP, 2019



Sources: BP, *Statistical Review of World Energy 2021*; IMF, *World Economic Outlook database*, April 2021; Corinna Economic Advisory. Return to "What's New".

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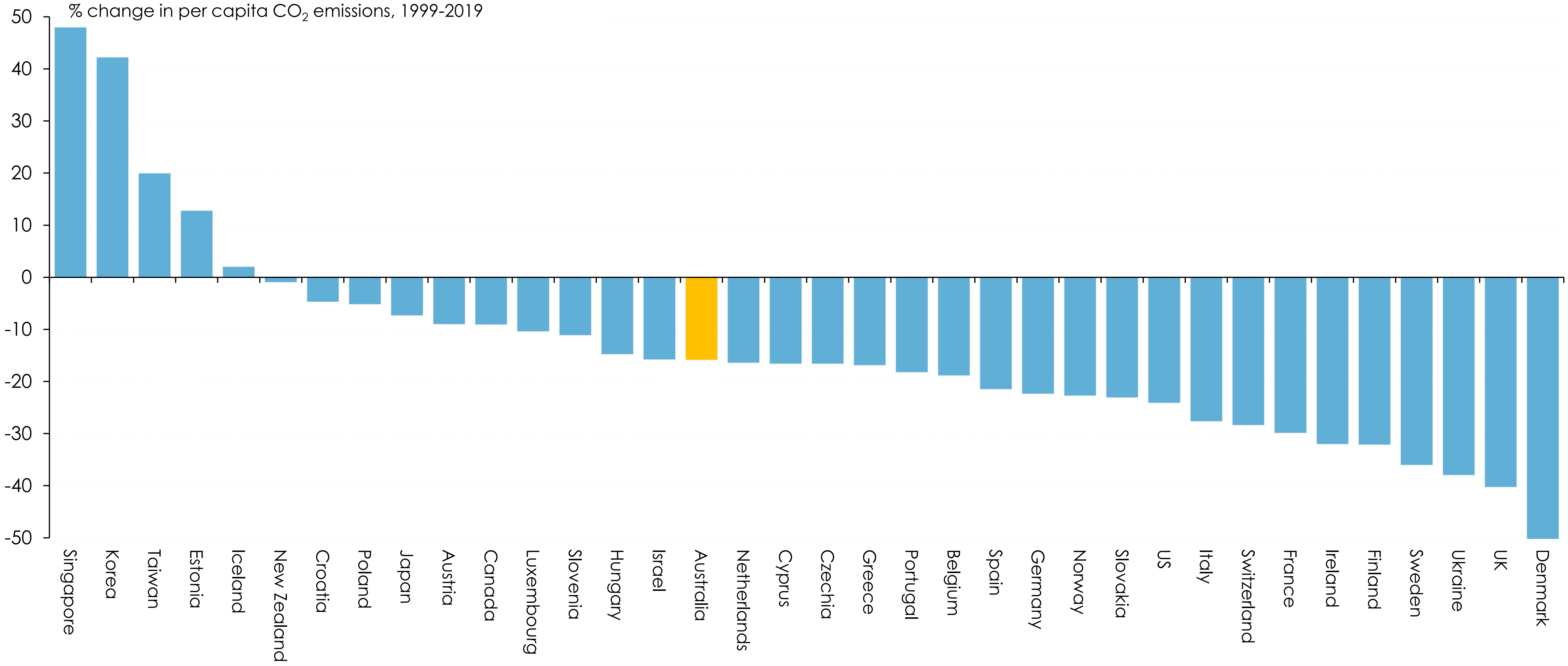
While Australia has reduced its CO_2 emissions over the past two decades, most other 'advanced' economies have done relatively more

Change in CO_2 emissions per capita, 1999-2019



Sources: BP, *Statistical Review of World Energy 2021*; Corinna Economic Advisory. Return to "What's New".

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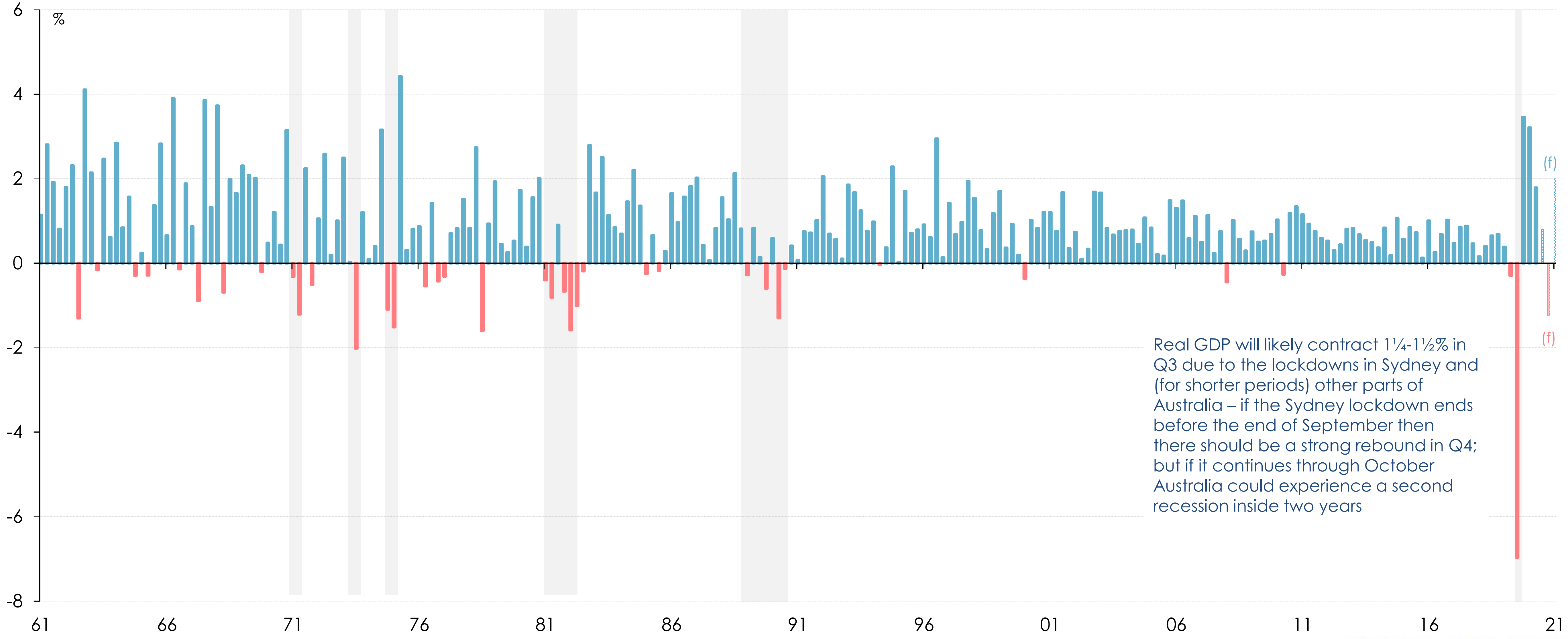
Australia

Australia had its first recession in almost 30 years last year – and after a strong rebound seems likely to have another negative quarter in Q3

Quarterly growth in Australian real GDP, 1961-2021



Note: Shaded areas denote recessions. *Source:* ABS, *Australian National Accounts: National Income, Expenditure and Product*, March quarter 2021. June quarter GDP will be released on 1st September; September quarter GDP on 1st December; and December quarter GDP on 2nd March 2022. Return to "What's New".

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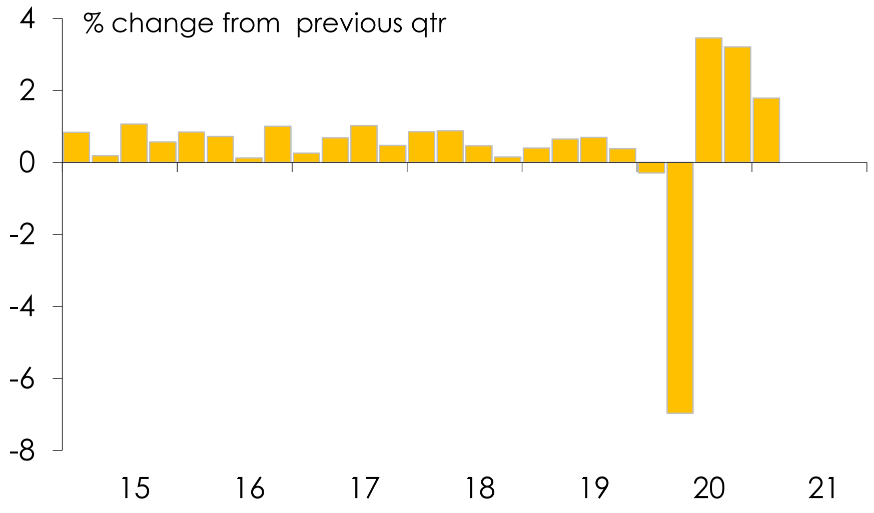
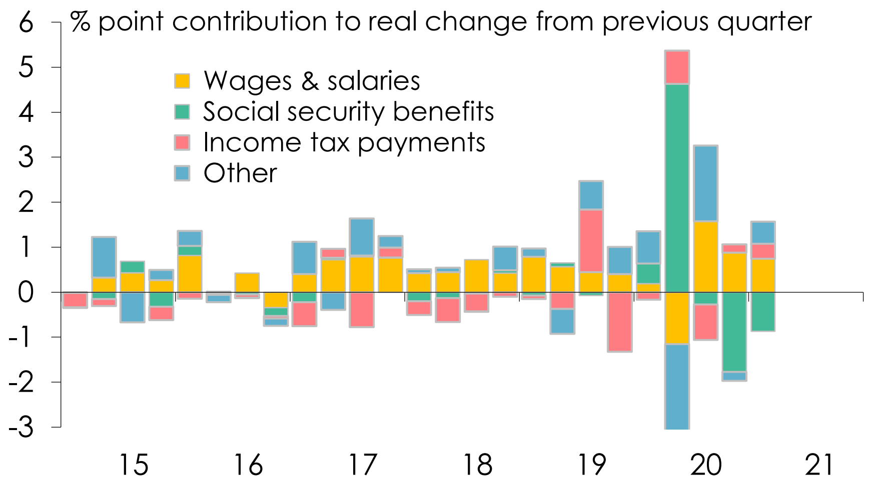
Household consumption accounted for 0.7 pc pts of Q1's 1.8% increase in real GDP, with business and housing investment providing 0.4 & 0.3 pc pts

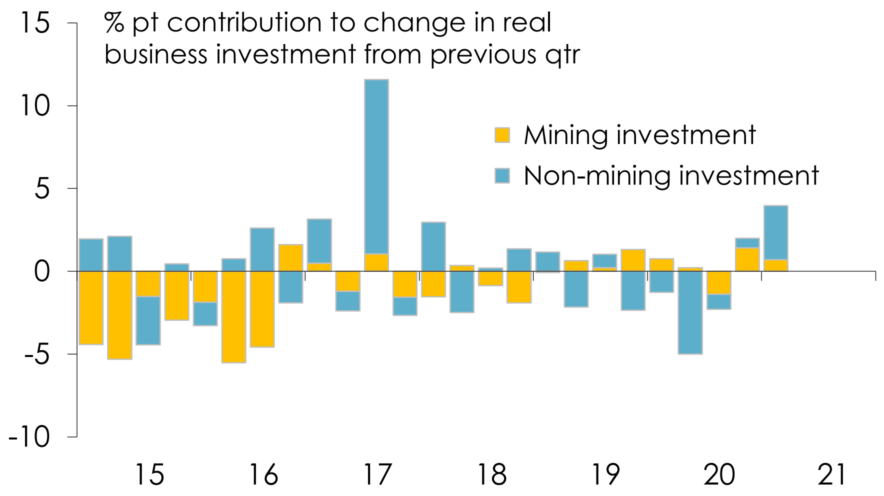
Quarterly change in real GDP



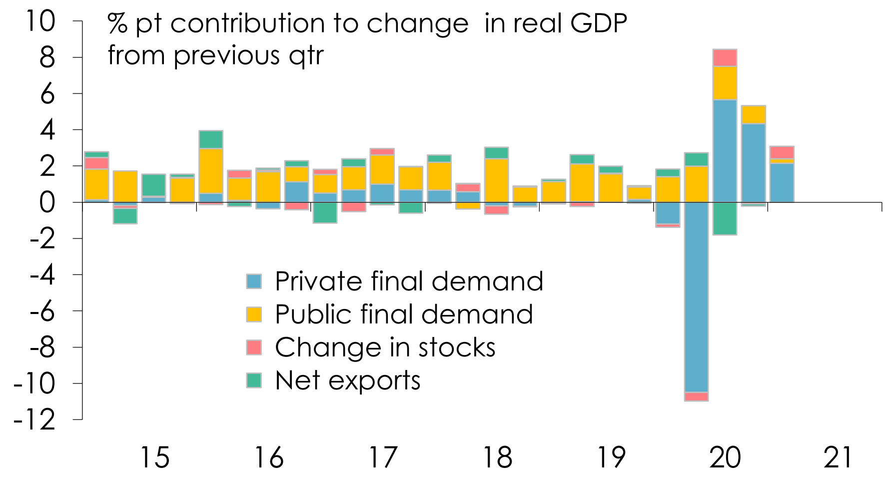
Household disposable income



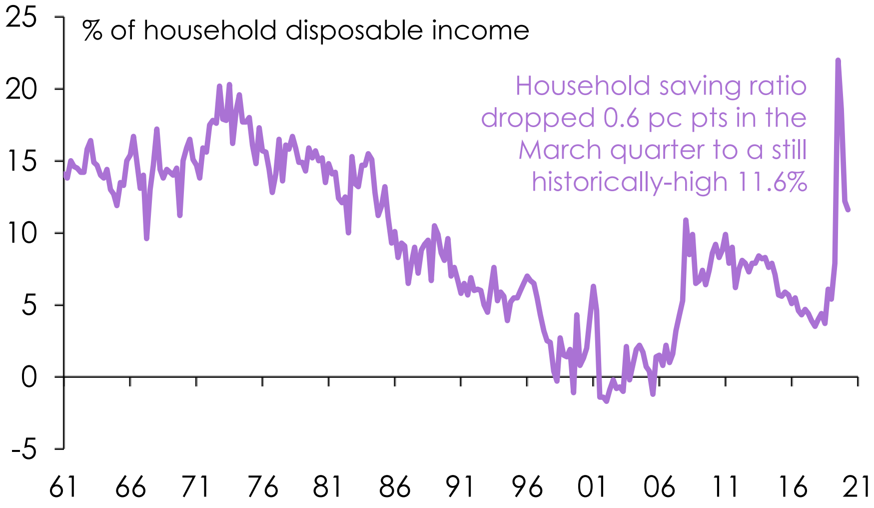
Business investment expenditure



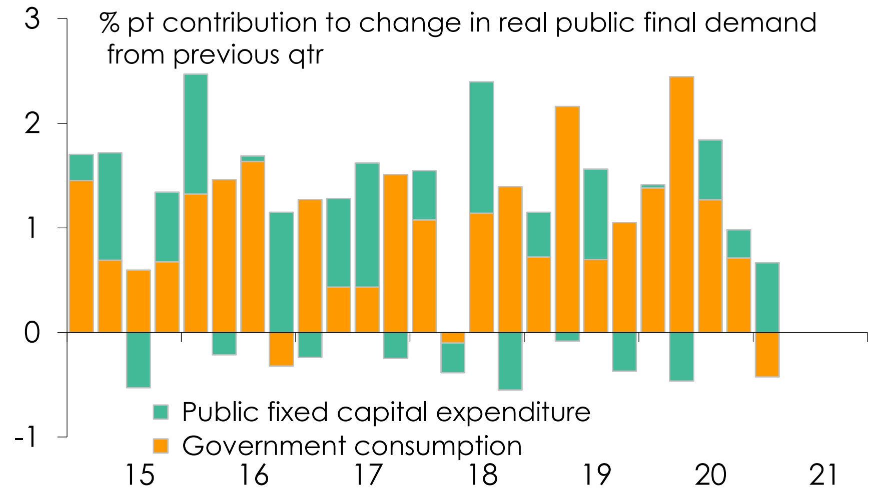
Contributions to quarterly GDP growth



Household saving rate



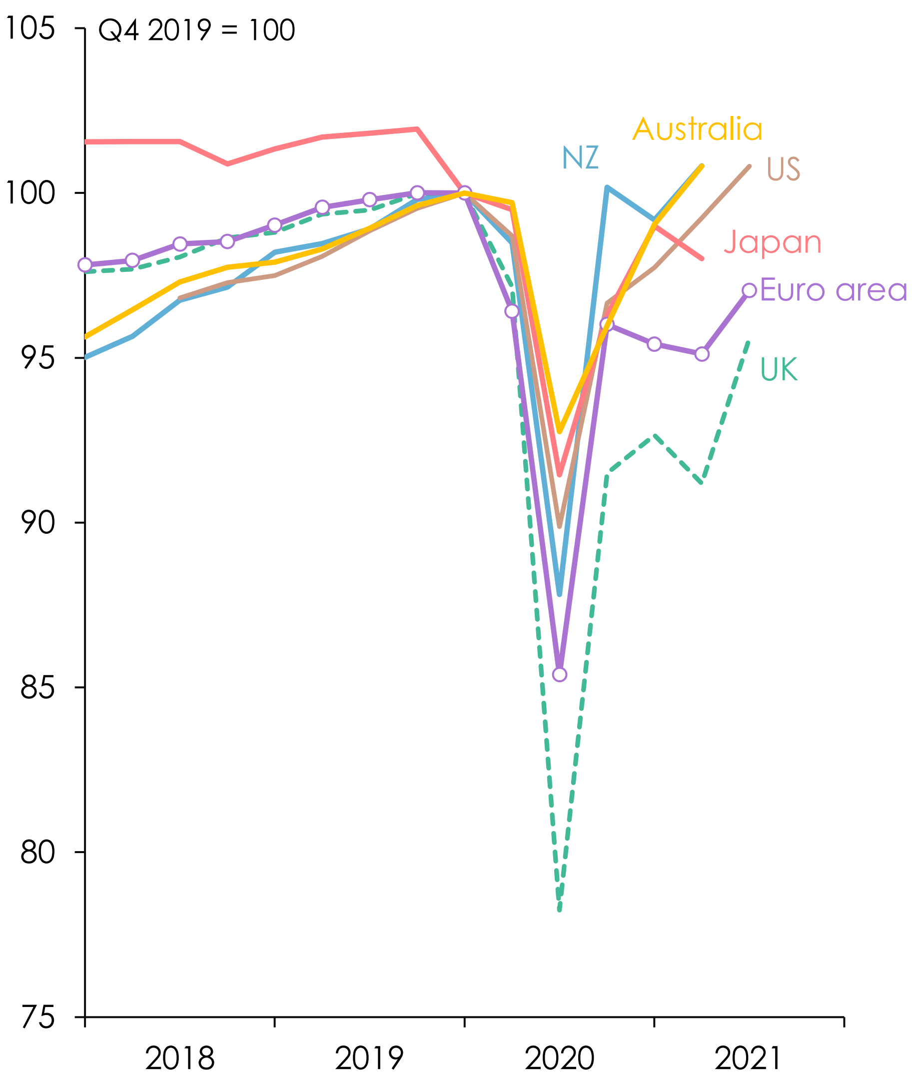
Public expenditure



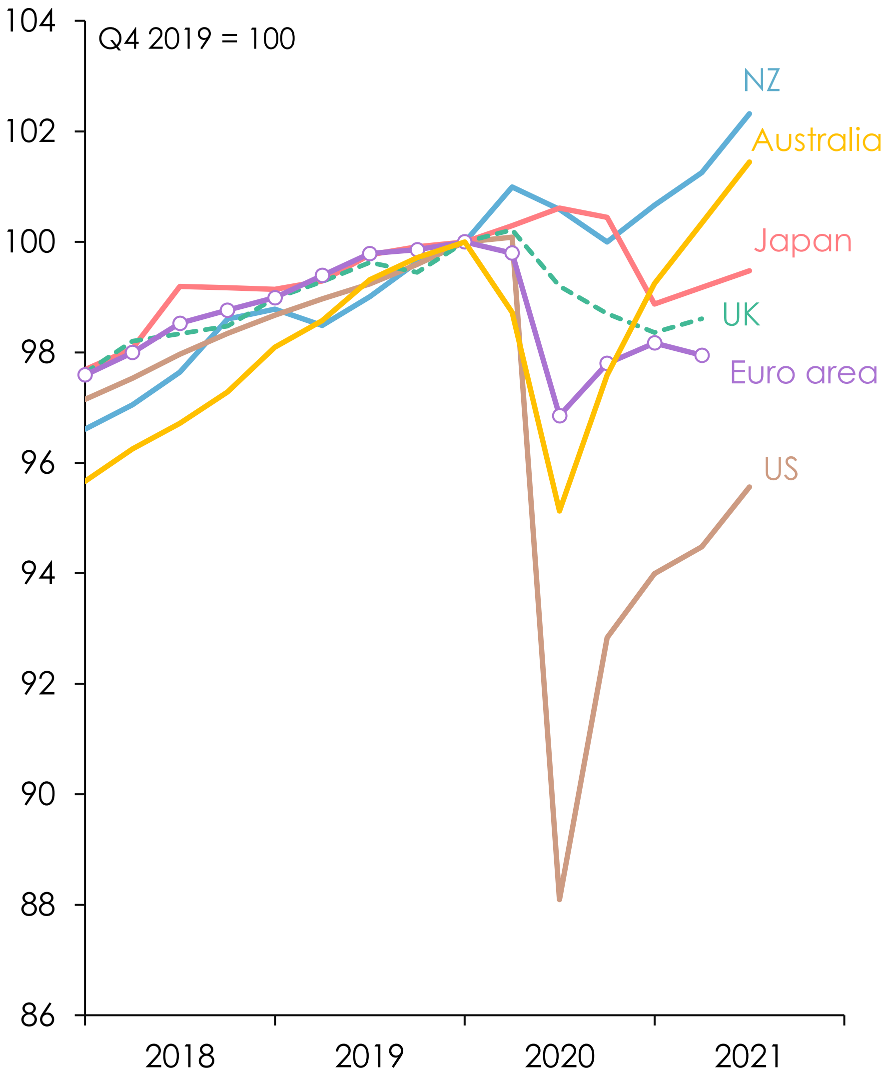
Note: Components of household disposable income are deflated by the implicit price deflator of household final consumption expenditure.
Source: ABS, *Australian National Accounts: National Income, Expenditure and Product*, March quarter 2021. June quarter national accounts will be released on 1st September.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

Australia's recession wasn't as severe as, and its recovery has so far been stronger than, most other 'advanced' economies

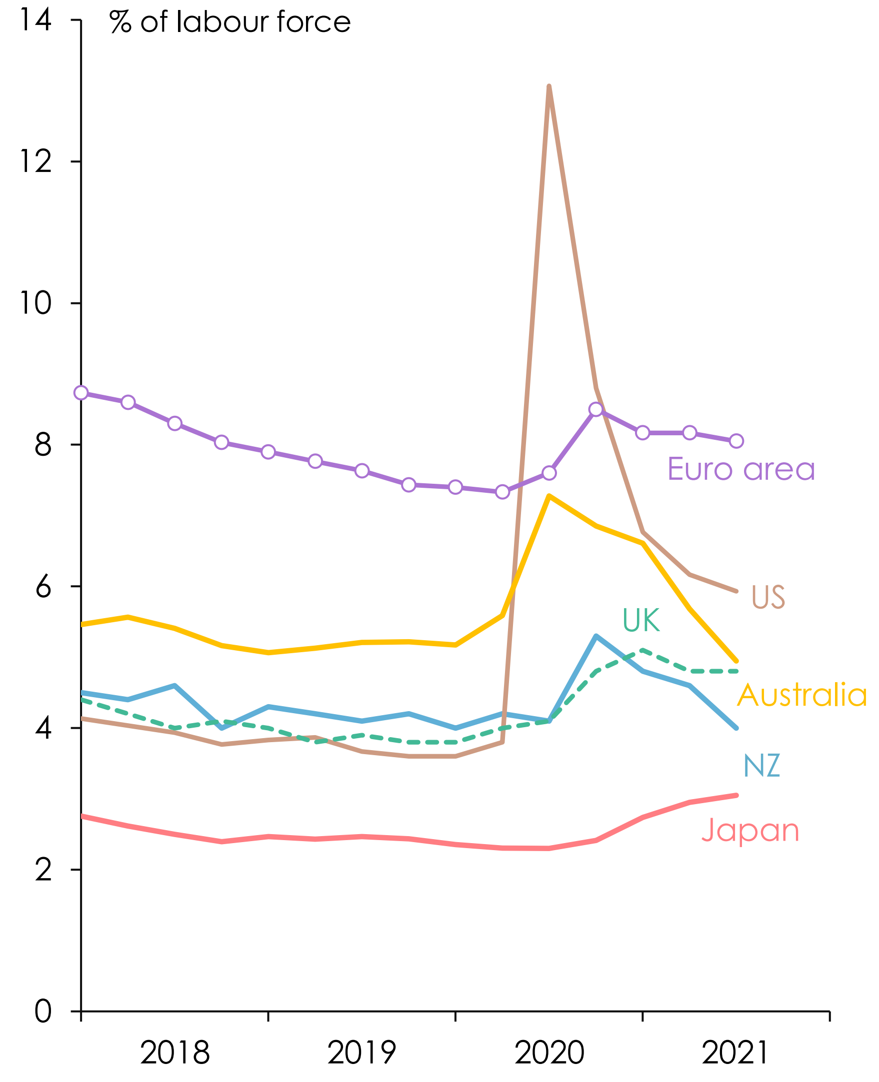
Level of real GDP



Employment



Unemployment



Sources: ABS ; Statistics NZ ; US Bureau of Economic Analysis and Bureau of Labor Statistics; Japan Cabinet Office and Statistics Bureau of Japan; Eurostat; and UK Office for National Statistics; Corinna.

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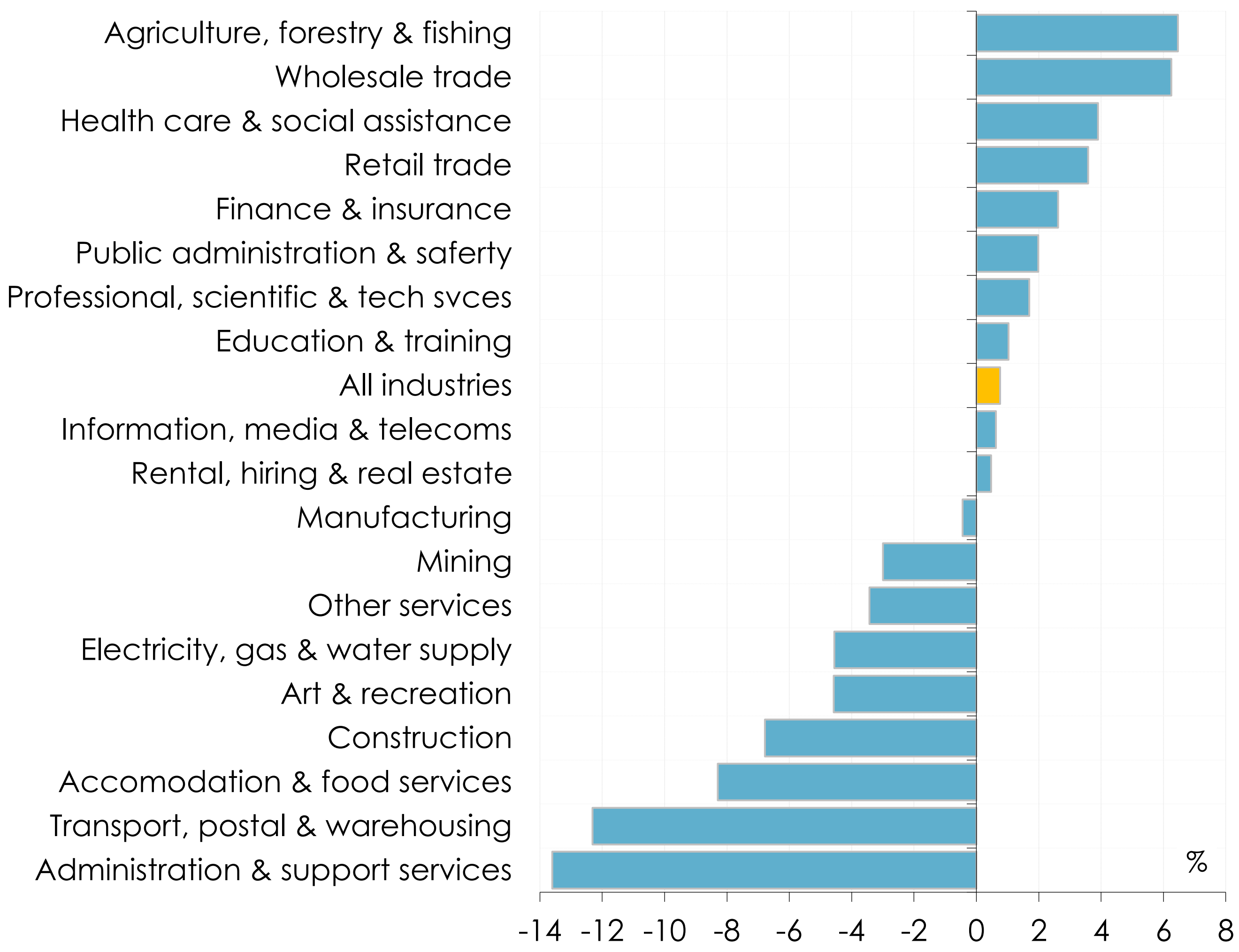
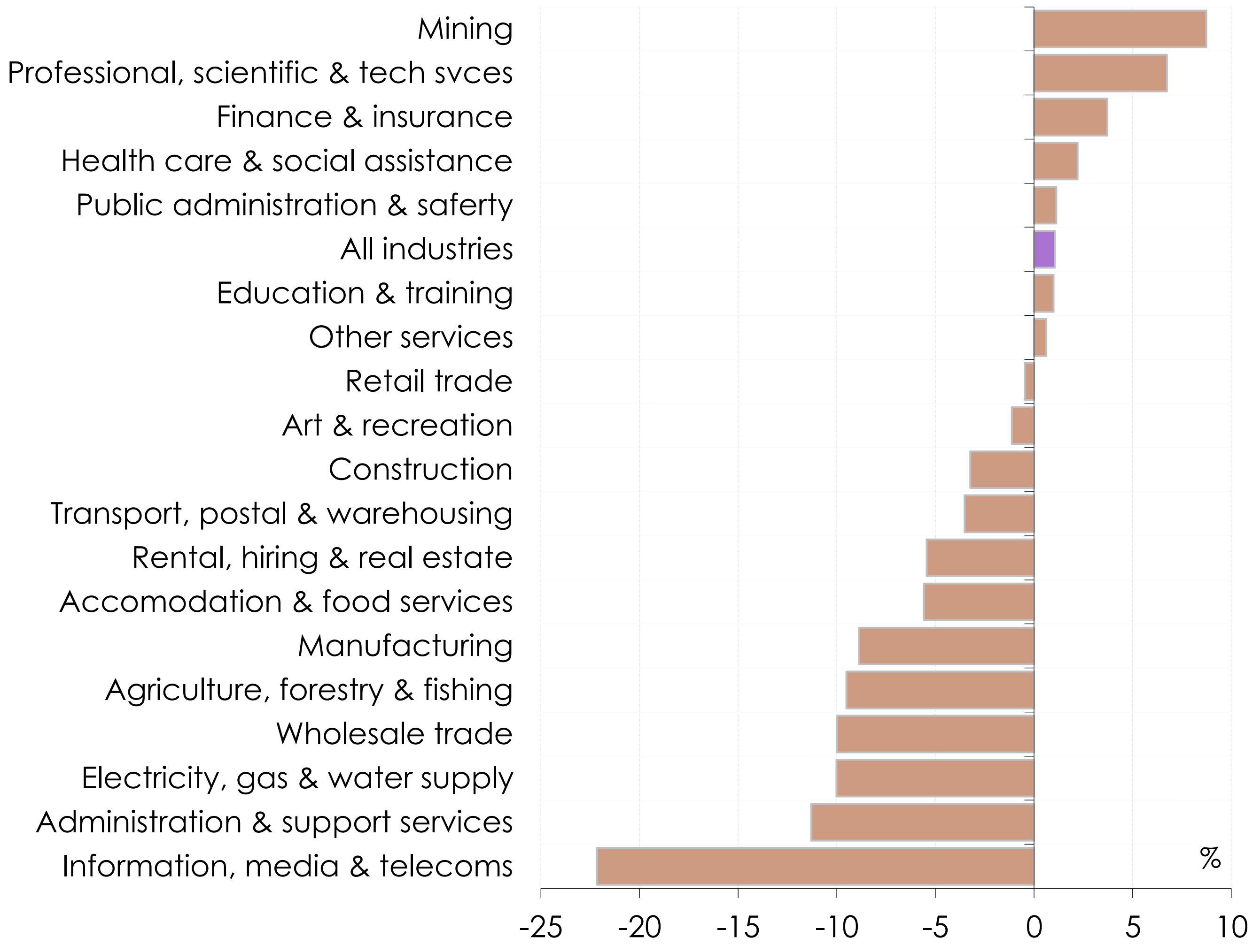
Though stronger-than-expected overall, the recovery in economic activity and employment has been very uneven across sectors

Q1 2021 real gross value added by industry – change from pre-pandemic peak



Q2 2021 employment by industry – change from pre-pandemic peak



Sources: ABS, Australian National Accounts: National Income, Expenditure and Product, March quarter 2021; and Labour Force, Australia, Detailed, May 2021.

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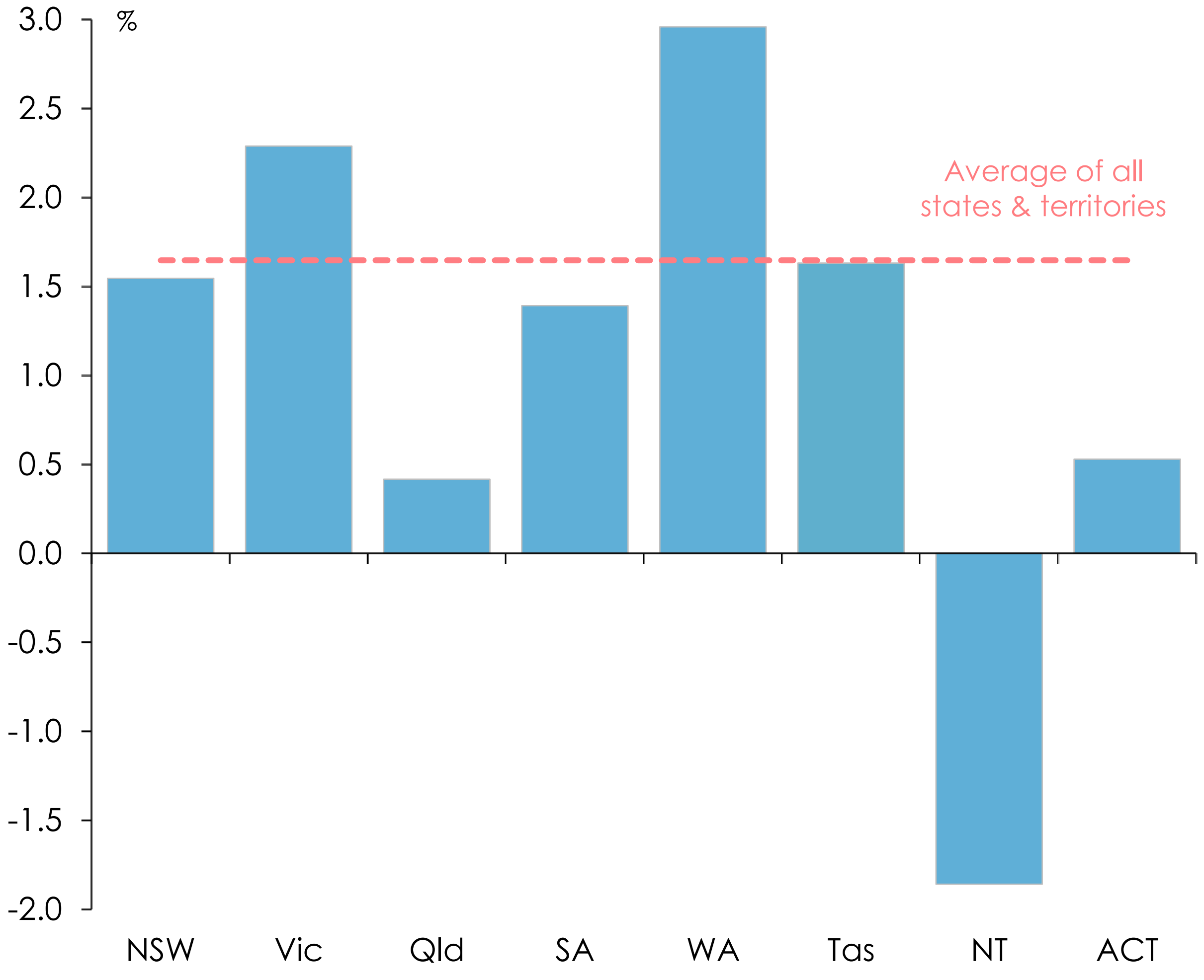
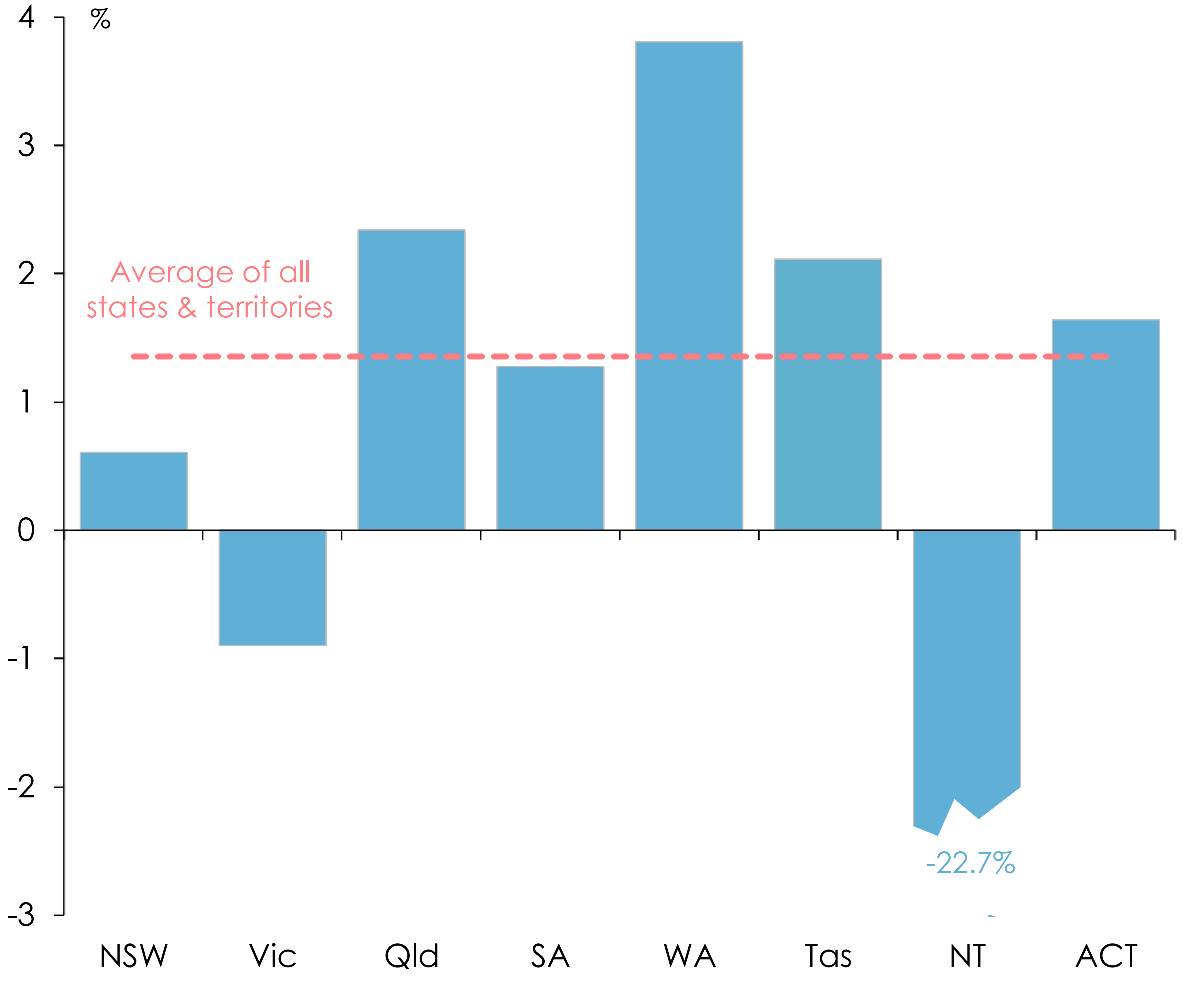
WA has had the strongest recovery in 'final demand', while Victoria and (especially) the NT are yet to return to pre-pandemic levels

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



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



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

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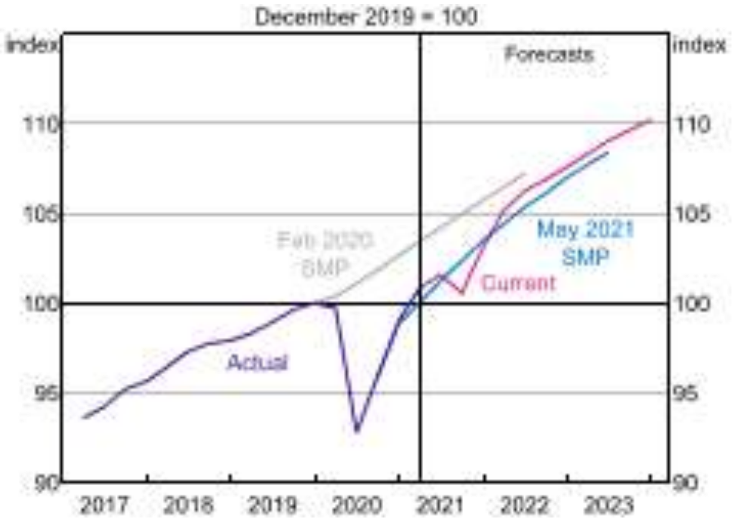
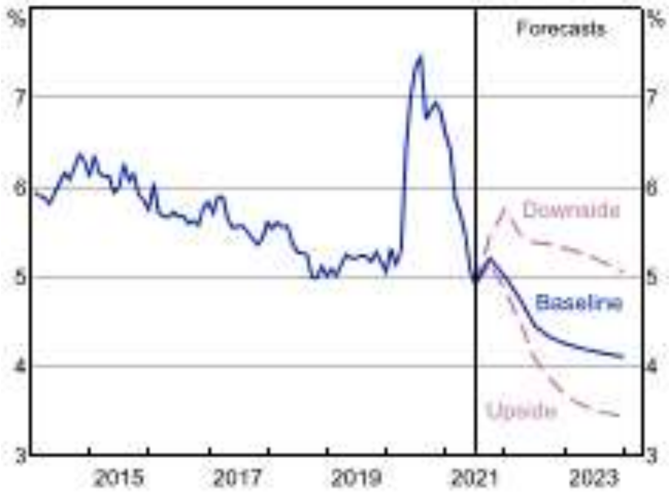
The RBA has raised its growth forecasts and lowered its forecast for unemployment next year but its inflation forecast is little changed

GDP

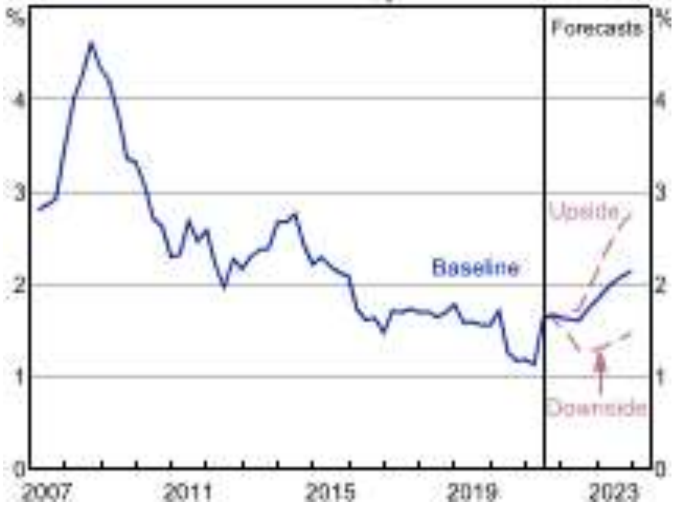


Unemployment



Wages

'Underlying' inflation



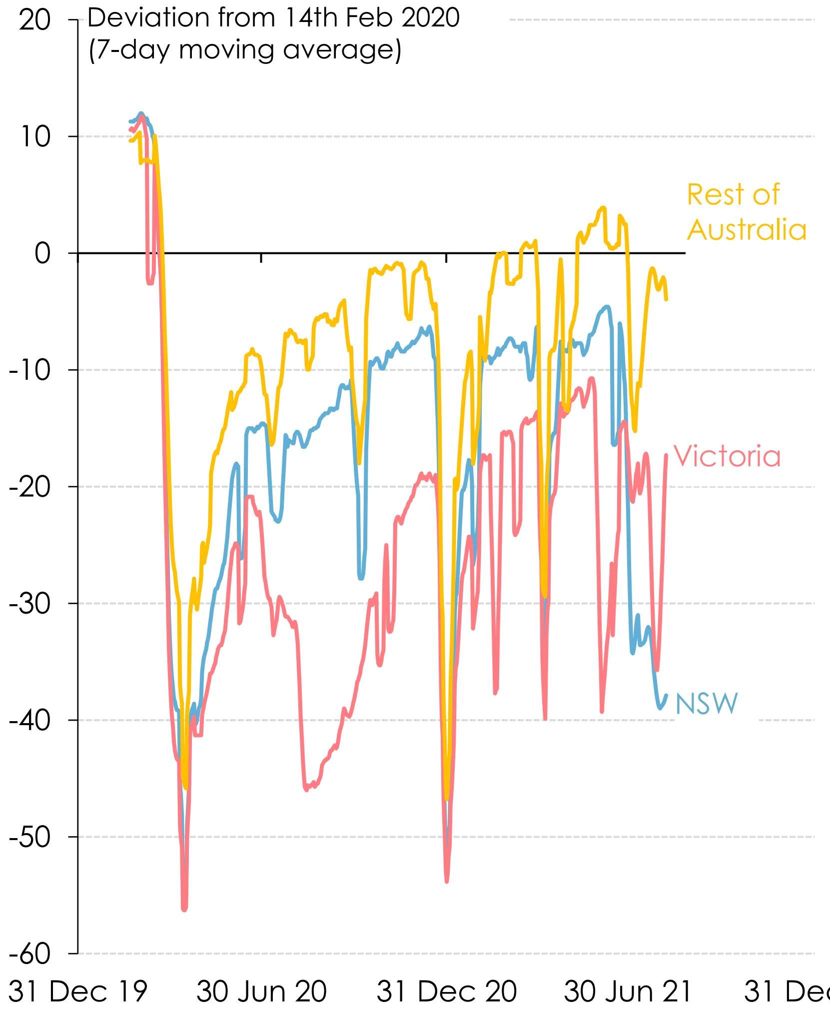
- Economic growth and in particular employment growth have continued to outpace the RBA's forecasts – but wage and price inflation haven't
- In its latest *Statement on Monetary Policy* published last Friday, the RBA acknowledged that current lockdowns would temporarily derail the recovery, with GDP expected to contract by "at least 1%" in Q3, and the unemployment rate to increase
- Nonetheless, assuming "recent outbreaks can be brought under control soon and further lockdowns are limited", the RBA has revised up its forecasts for GDP growth over the year to Q4 2022 (from 3½% to 4¼%) after 4% (down from 4¾%) over the year to Q4 2021, and lowered its forecast for Q4 2022 unemployment (from 4½% to 4¼%) with a further fall to 4% expected by Q4 2023
- The RBA has revised its forecast for wages (WPI) growth marginally higher to 2¾% by end-2023
- Its forecasts for 'underlying' inflation are unchanged through to Q4 2022 (at 1¾%) but thereafter "to pick up a little more quickly than previously anticipated" (as a result of the "faster reduction in spare capacity" to 2¼% in Q4 23
- The RBA contemplates other scenarios (based on more outbreaks & lockdowns or faster vaccination rates) but its central scenario remains no rate hikes until 2024

Source: Reserve Bank of Australia, *Statement on Monetary Policy*, 6th August 2021. The RBA's next set of forecasts will be published on Friday 5th November.

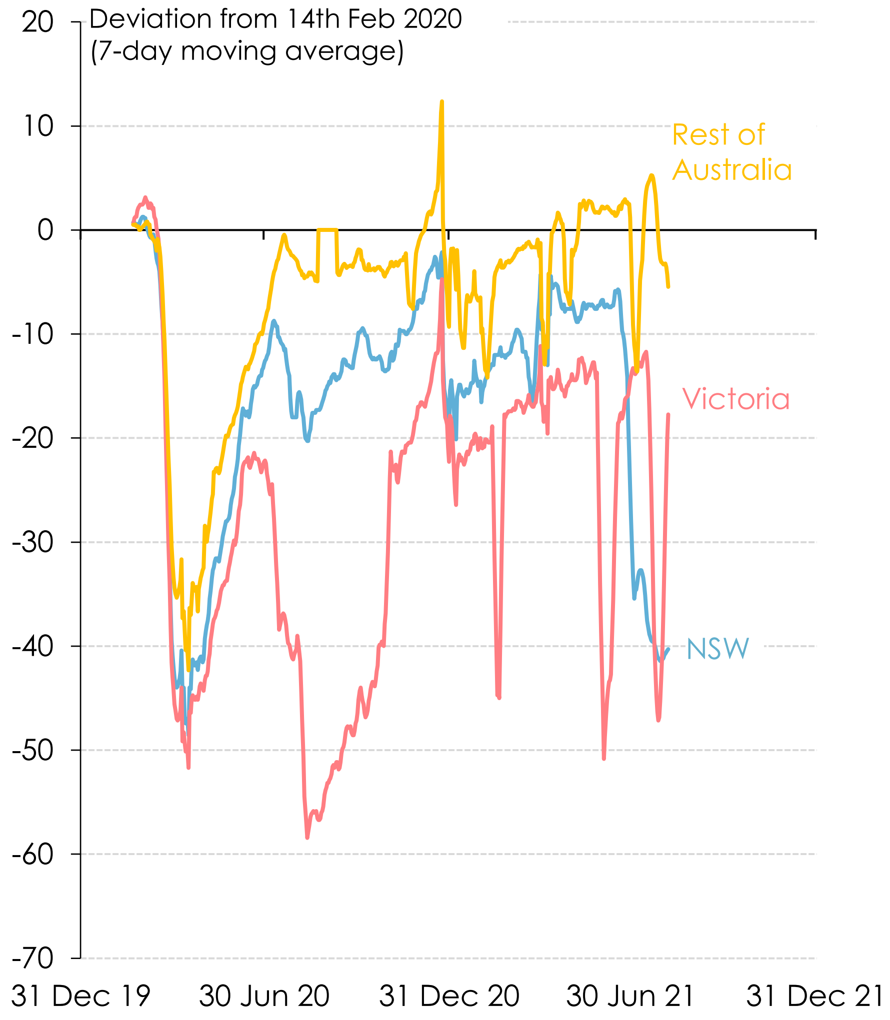
‘Mobility indicators’ provide a clear indication that the lockdowns in NSW, Victoria, SA and SE Queensland will have an economic impact

Google mobility indicators

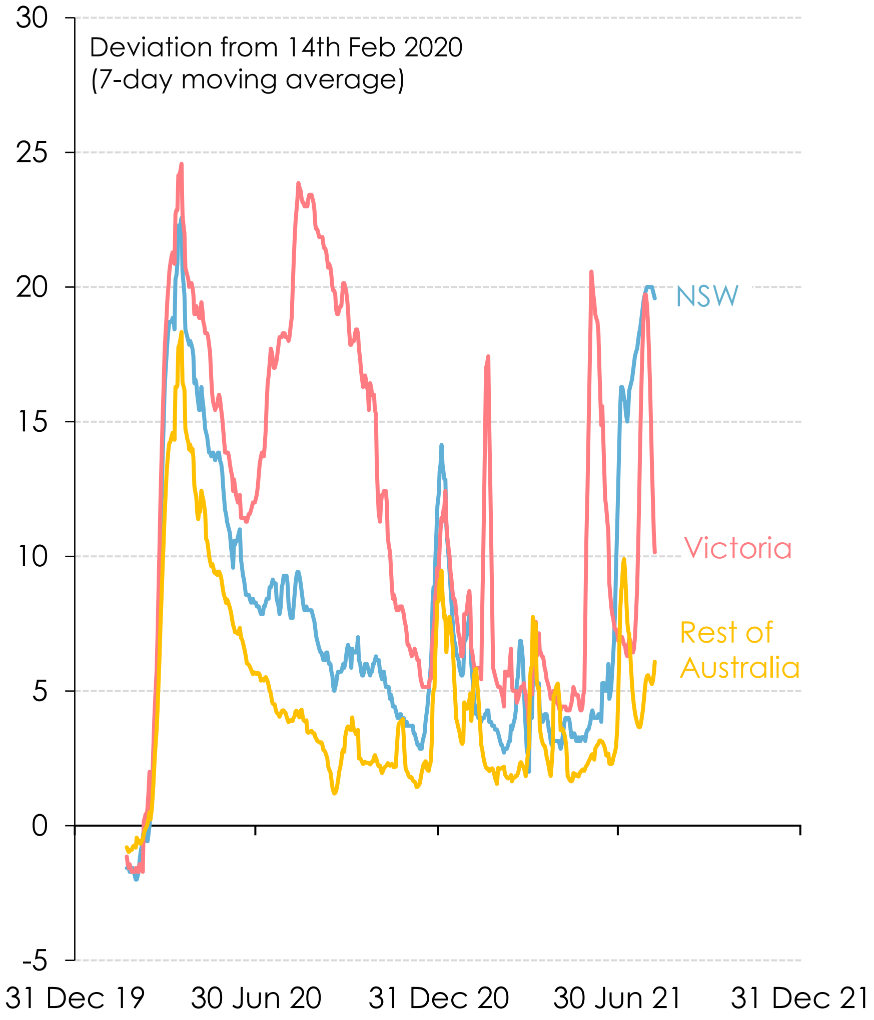
Workplaces



Retail and recreation



Residences



Note: data up to 10th August. *Sources:* Google Community Mobility Reports; Corinna.

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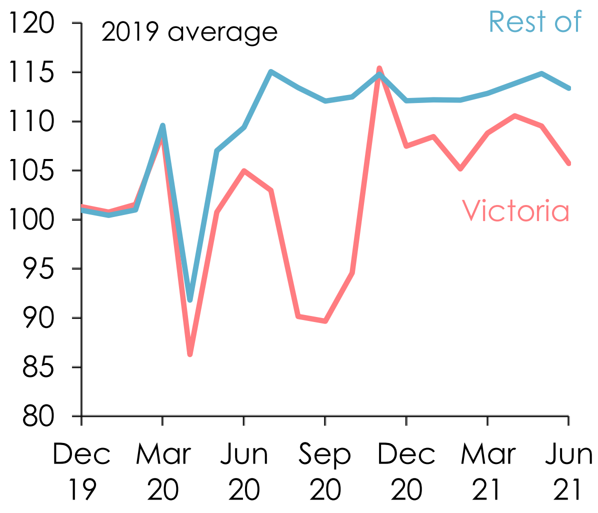
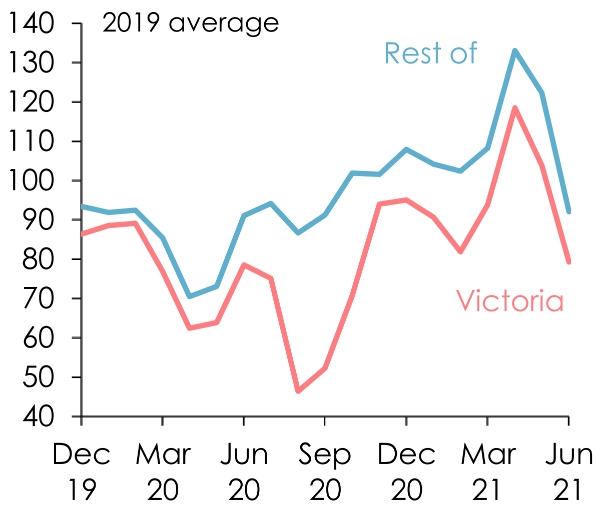
The lockdowns in Sydney, Victoria, SA and now SE Qld will probably turn Q3 GDP growth negative, but there should be a strong rebound in Q4

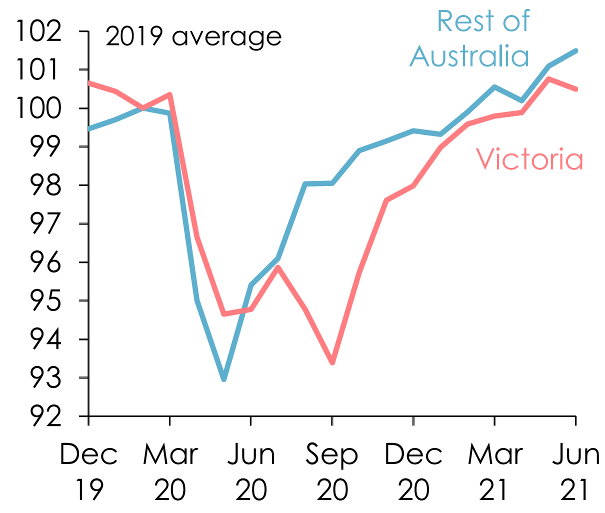
Retail sales



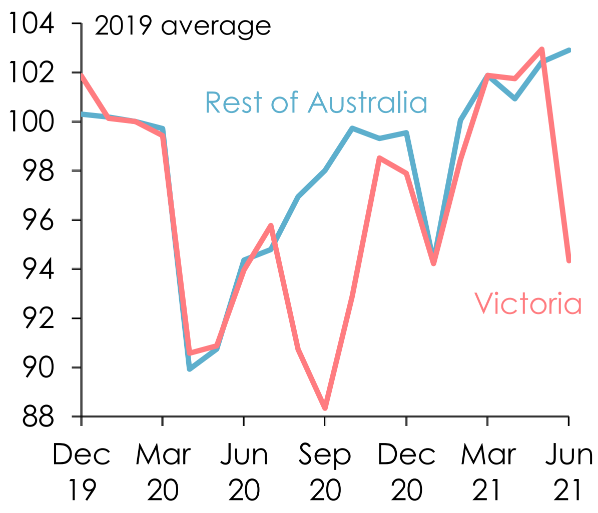
Motor vehicle sales



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(see slide 94)
  - but (provided the Sydney lockdown ends before the end of September) previous experience also suggests that December quarter growth will be stronger than it would otherwise have been

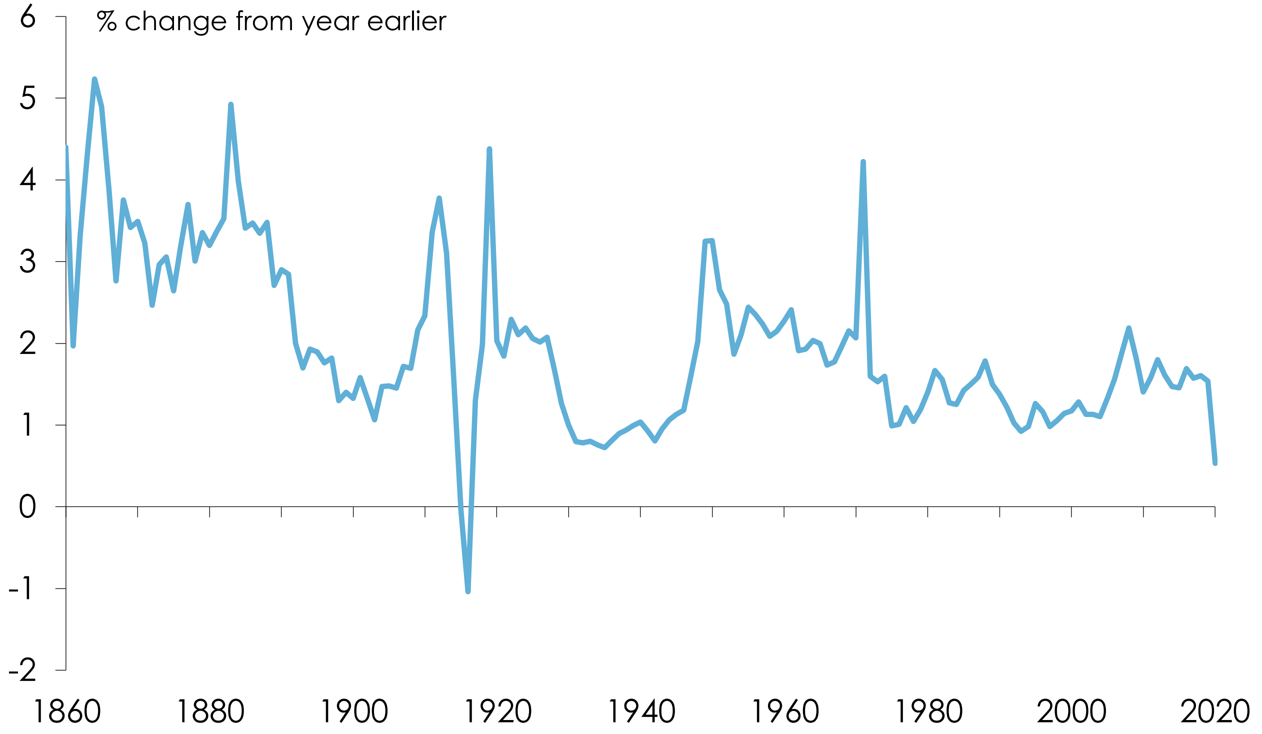
Sources: ABS, Retail Trade, Australia and Labour Force, Australia; FCAI, VFACTS. Corinna.

Australia's border measures have been stricter than almost any other country (and certainly any democracy)

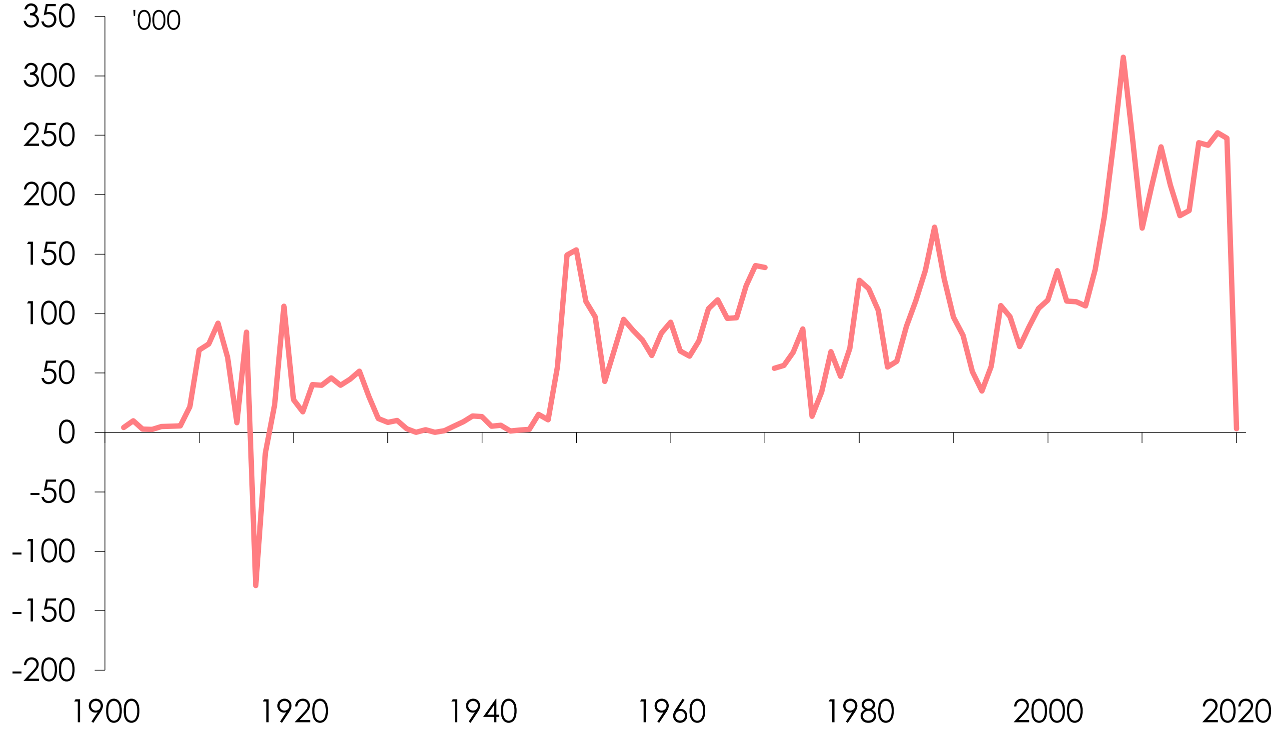
- Article 12 of the United Nations International Covenant on Civil and Political Rights (which Australia signed in 1972, and which it ratified in 1980) says
  - "everyone shall be free to leave any country, including his [sic] own" and "no-one shall be arbitrarily deprived of the right to enter his [sic] own country"
- Australia is the only democracy in the world *not* to have enacted this Convention into domestic law
- The ICCPR does include a couple of 'get out' clauses
  - Article 4 provides that "In time of public emergency which threatens the life of the nation and the existence of which is officially proclaimed [parties to this Convention] may take measures derogating from their obligations under [it] to the extent strictly required by the exigencies of the situation", and
  - Article 12 provides that the rights to leave a country (or to move within it) "shall not be subject to any restrictions except those which are provided by law, are necessary to protect national security, public order, public health or morals or the rights and freedoms of others" – although this exclusion doesn't apply to the above-mentioned right to enter one's own country
- No other democracy appears to have availed itself of these 'get-out' clauses to the extent that Australia has
  - The Federal Court decided in May this year that the Federal *BioSecurity Act* over-rode any "rights of entry" into Australia that the 'common law' may otherwise confer on Australian citizens
  - and the already-draconian restrictions on Australians leaving were surreptitiously further tightened last week
- The widely-cited Oxford University index of the stringency of government Covid-related restrictions does not include outward travel bans or restrictions on citizens returning
  - according to Toby Phillips, the Executive Director of the Oxford Government Response Tracker project, "we assumed countries would always let their own citizens return" and "we even wrote this into our training for data collectors, telling them to only focus on restrictions for non-citizens"
- As The Economist (hardly a radical publication) writes this week, these rules are "ineffective, illiberal and often useless" – and that "the right to move around" (which it describes as "one of the most precious of all freedoms") "should be restored as soon as it is safe" which "in most cases … means now"

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 117**

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

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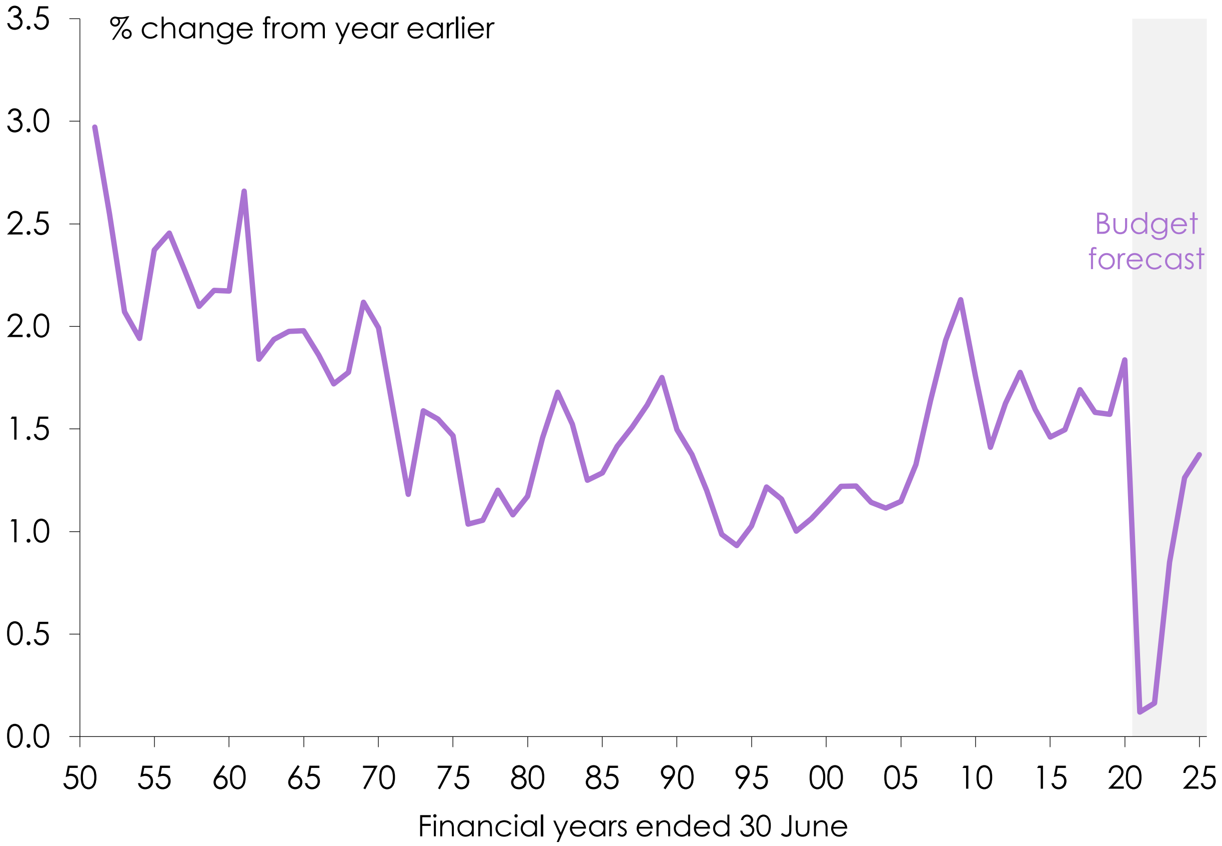
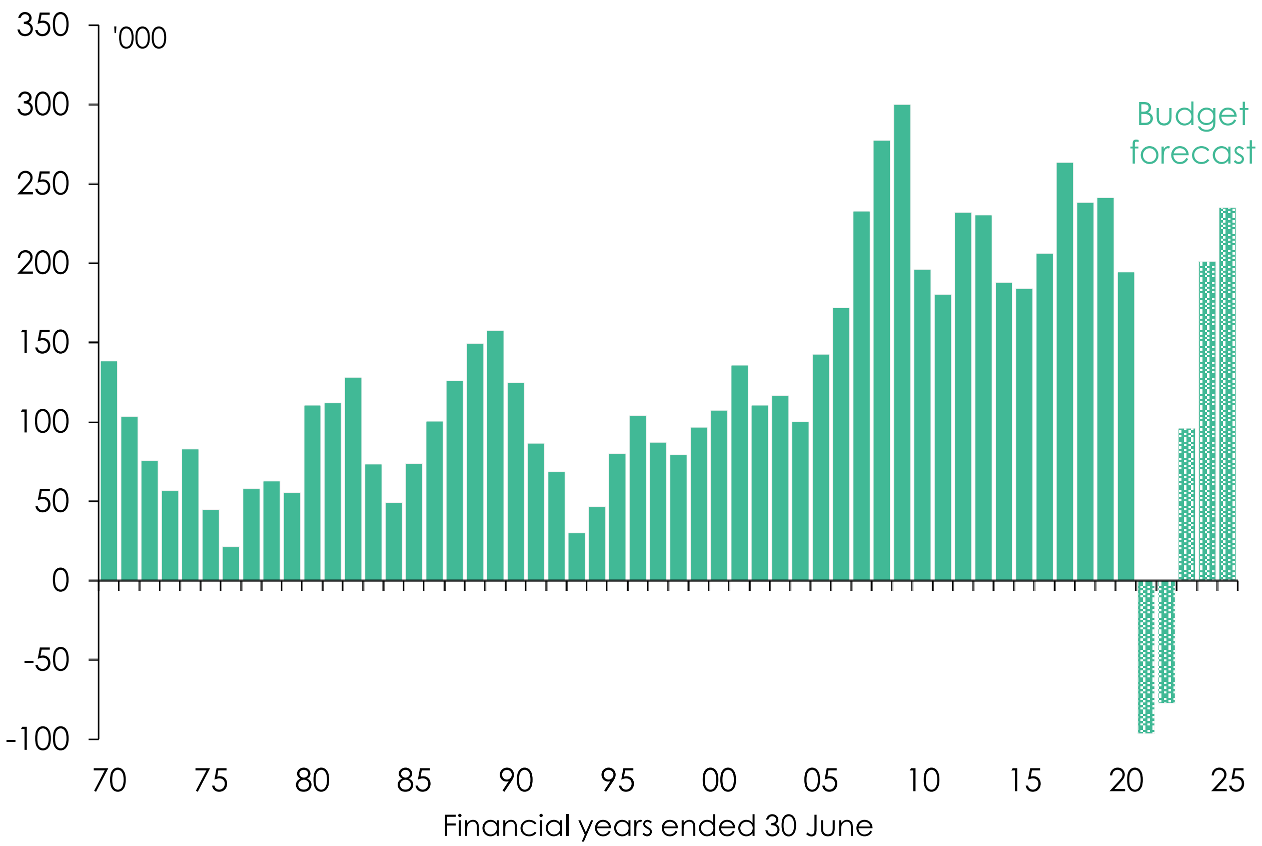
The Budget assumes that Australia's borders remain closed until after the next election – after which migration returns to pre-covid levels by 2024-25

Population growth



Net overseas migration



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

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

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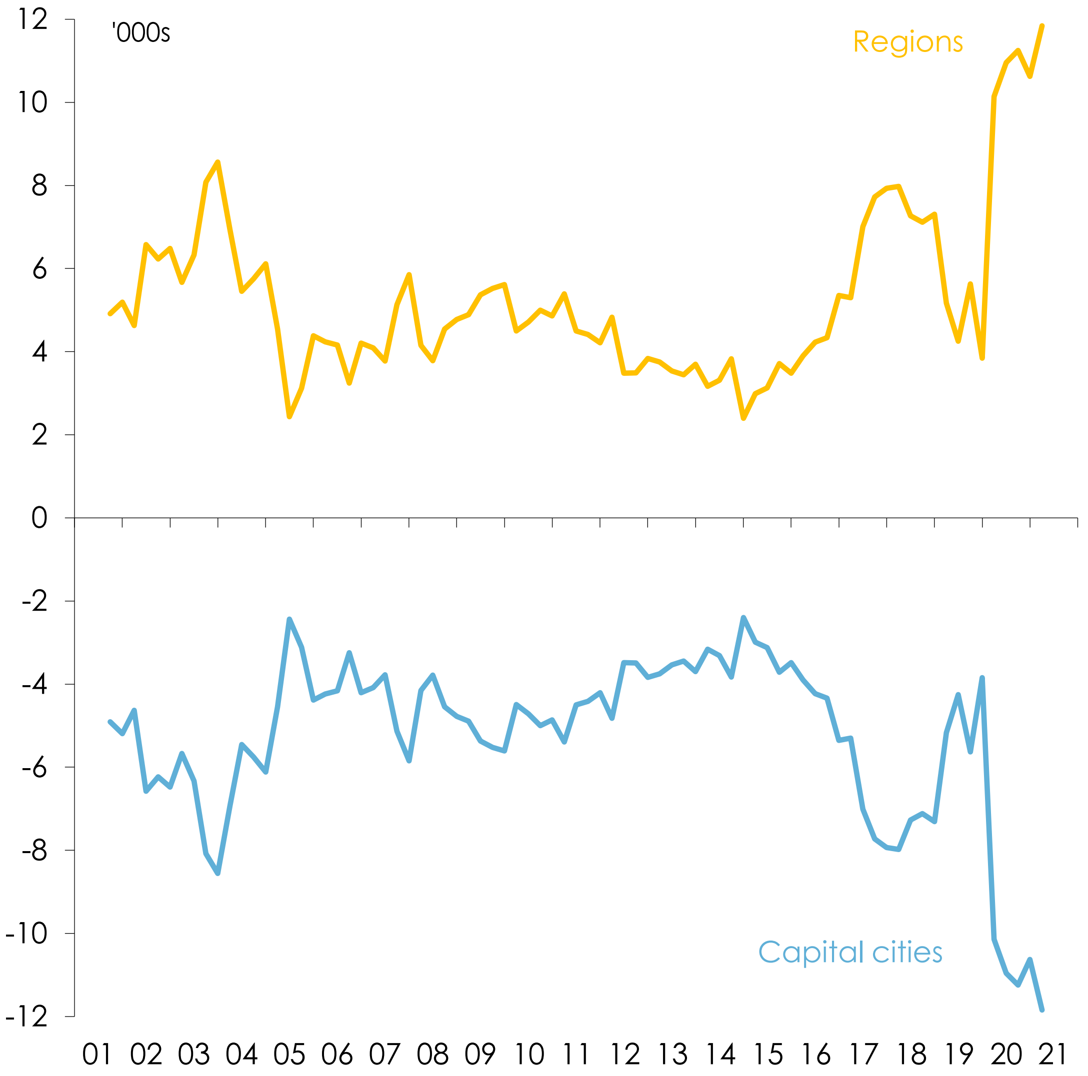
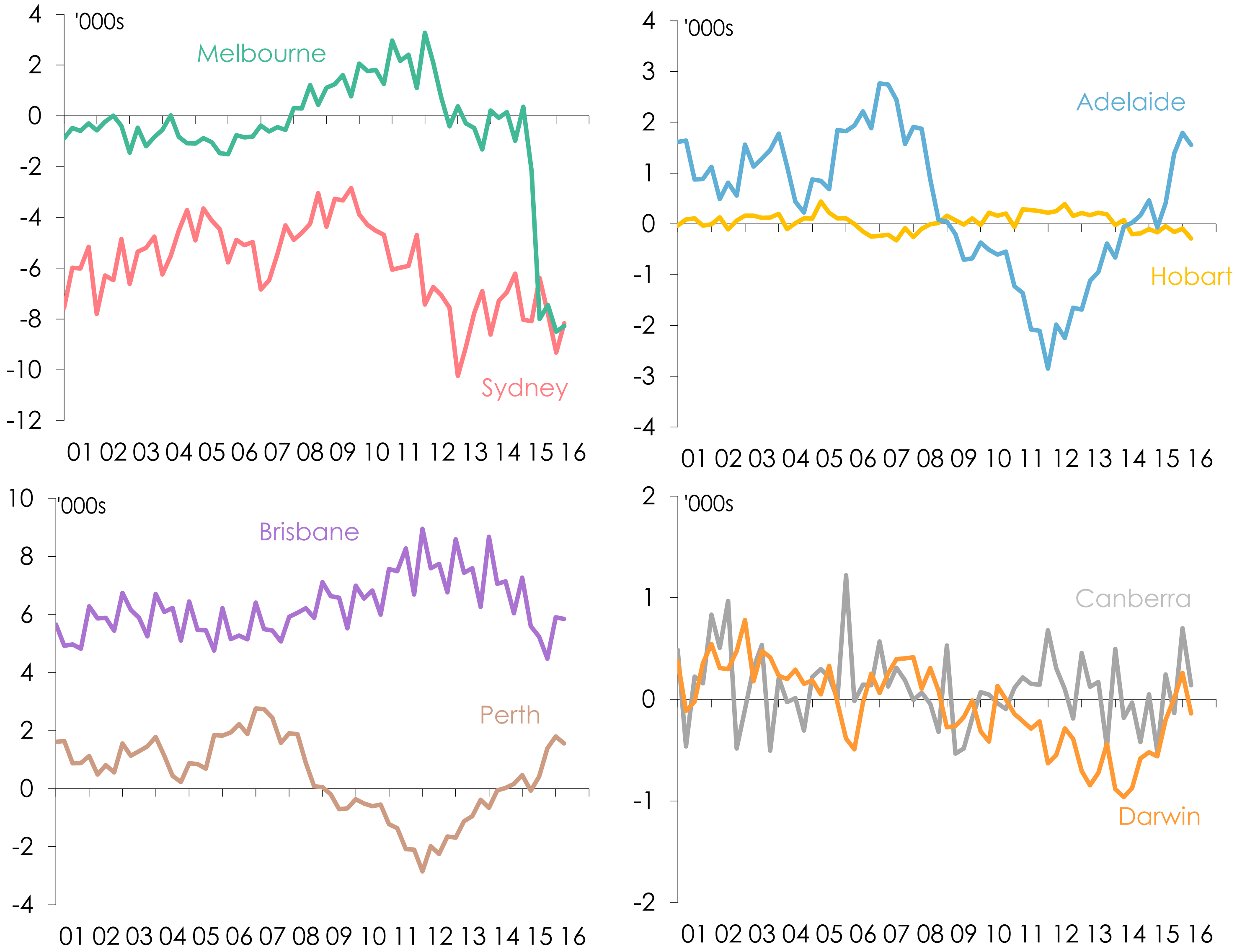
Another important demographic change wrought by Covid-19 has been the shift of people out of capitals (especially Melbourne) to regions

Internal migration flows



Net internal migration to or from Australia's capital cities



Note: 'internal migration' refers to the movement of people already resident in Australia across specified boundaries (in this case, between 'greater capital city' areas and 'rest of state'), estimated using data from Medicare and (for military personnel) the Department of Defence. It does not include movements of overseas immigrants (or Australian residents departing for overseas). *Source:* ABS, Regional internal migration estimates, provisional, March 2021.

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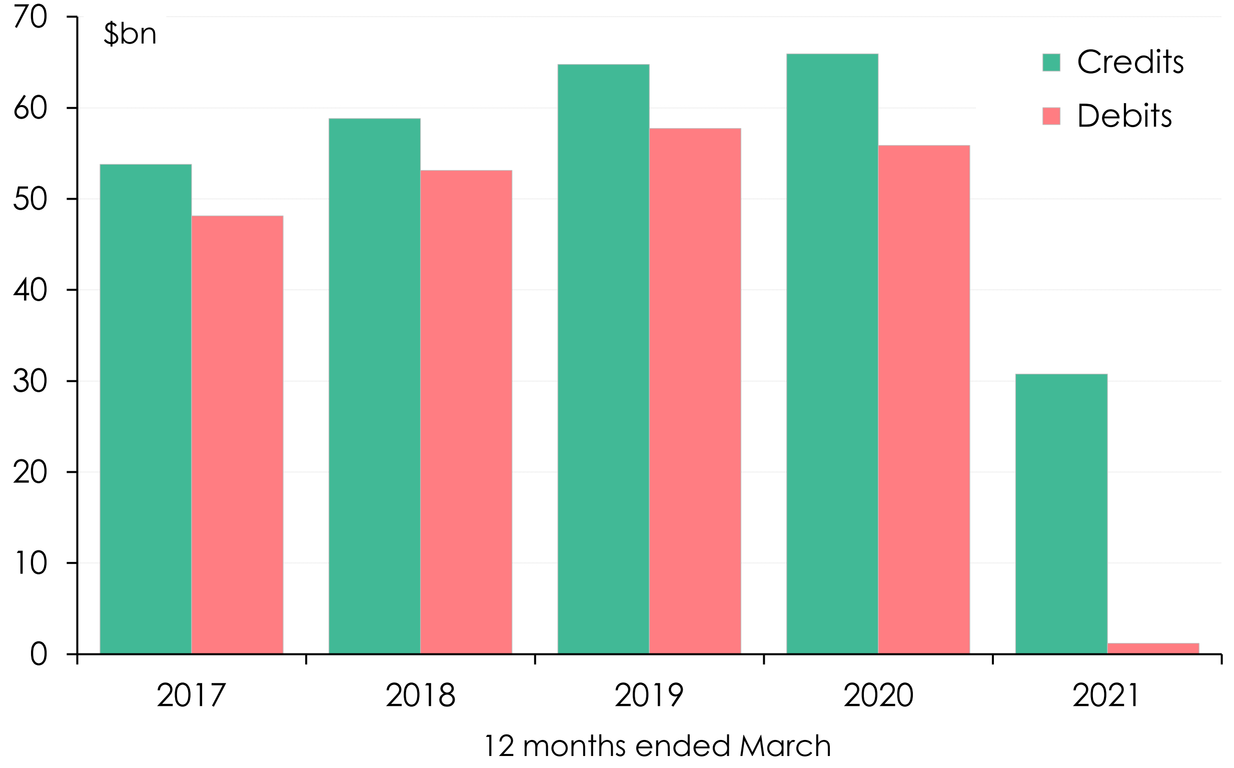
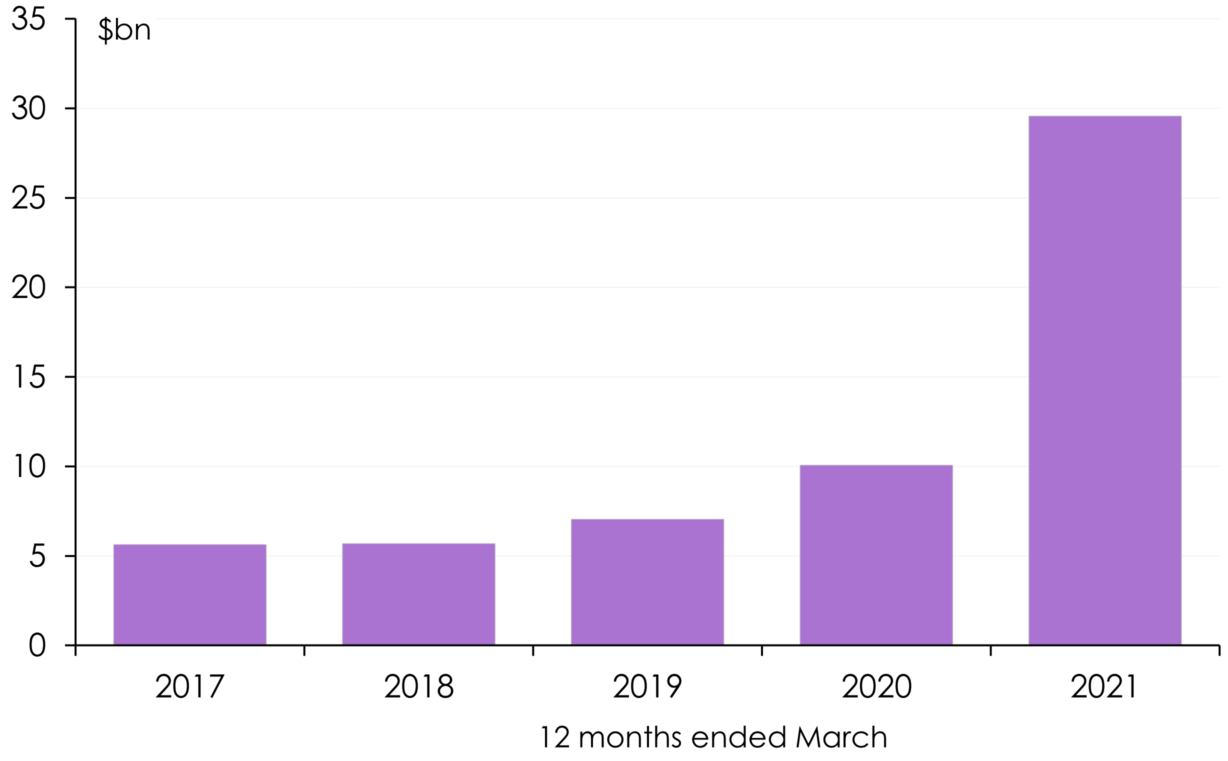
The *taboo* on Australians leaving the country more than offsets the loss of spending by foreign tourists and students

Travel credits and debits



Net travel transactions



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

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

Source: ABS, *International Trade in Goods and Services, Australia*, March 2021. Return to "What's New".

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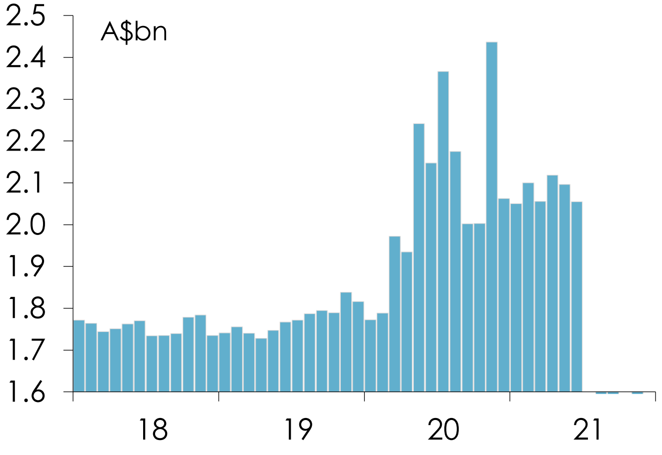
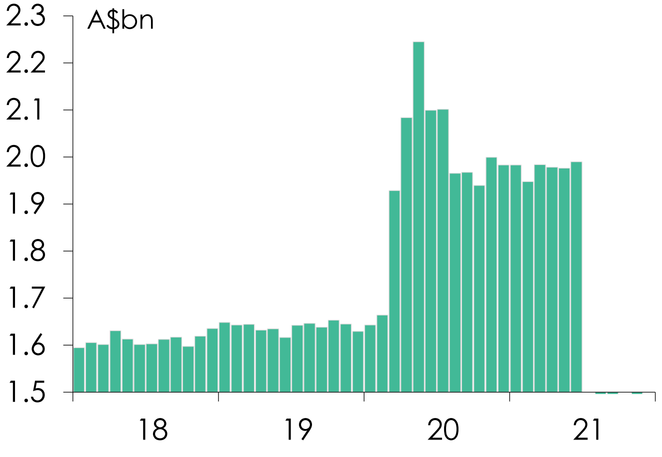
The >$50bn per annum that Australians would have spent overseas if they'd been allowed to has instead been spent at home

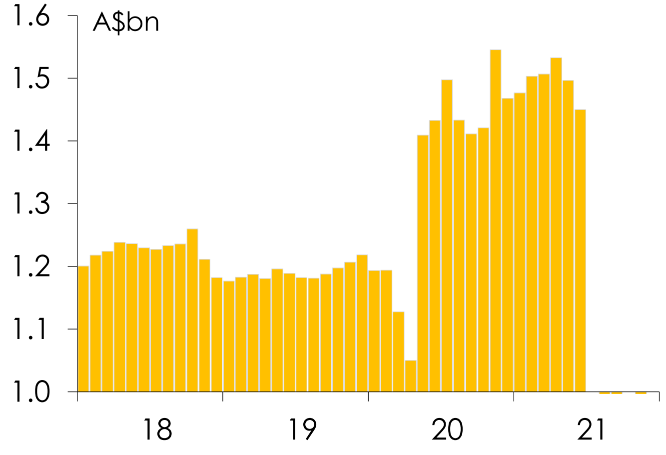
Electronic & electrical goods



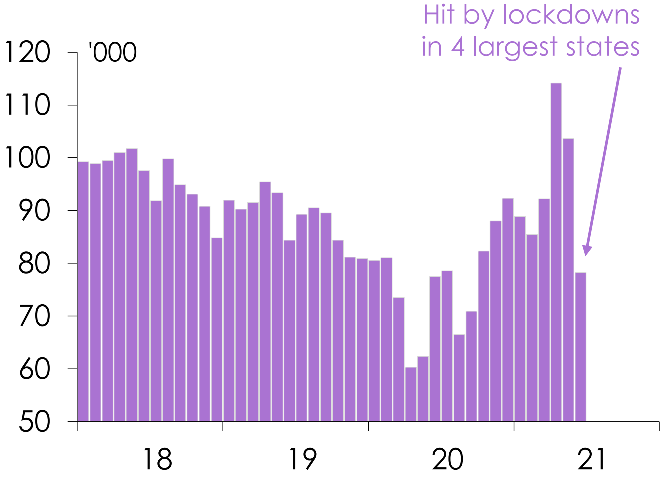
Hardware, building & garden supplies



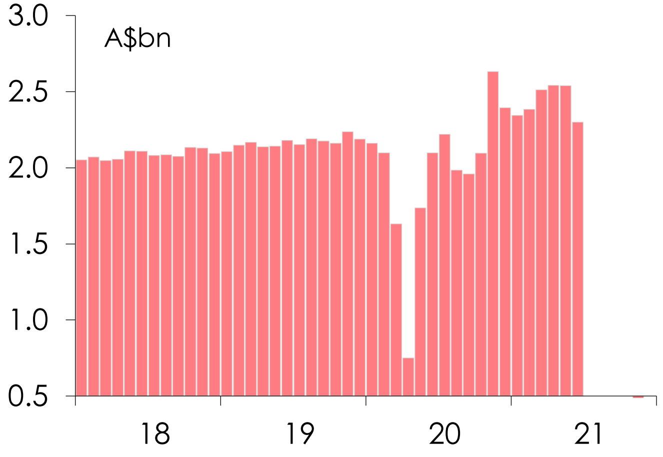
Floor coverings, furniture, housewares etc



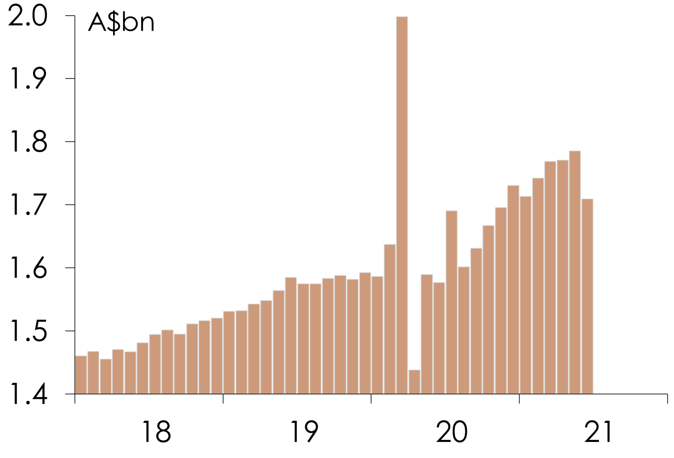
New motor vehicles



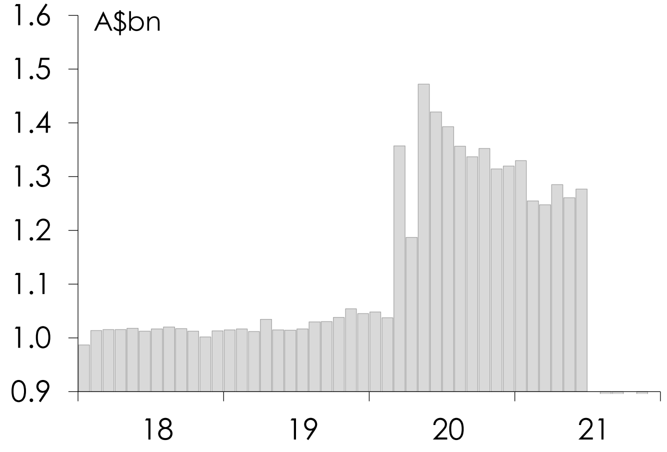
Clothing, footwear & personal accessories



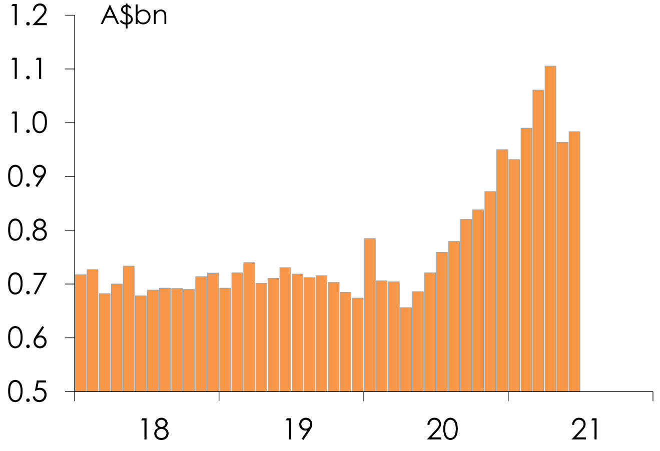
Pharmaceuticals, cosmetics & toiletries



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*, June 2021; *Building Approvals, Australia*, June 2021; Federal Chamber of Automotive Industries *VFACTS* (seasonal adjustment of Vfacts data by Corinna). Return to "What's New".

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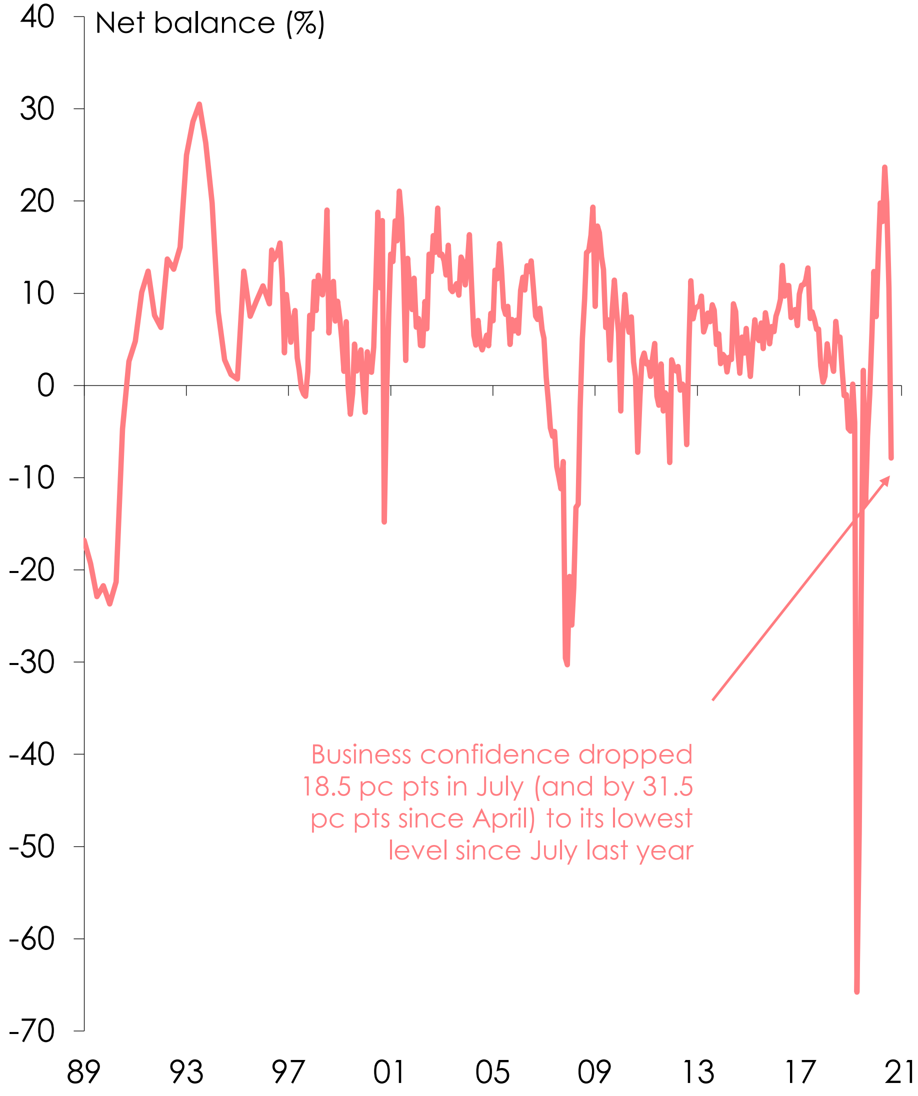
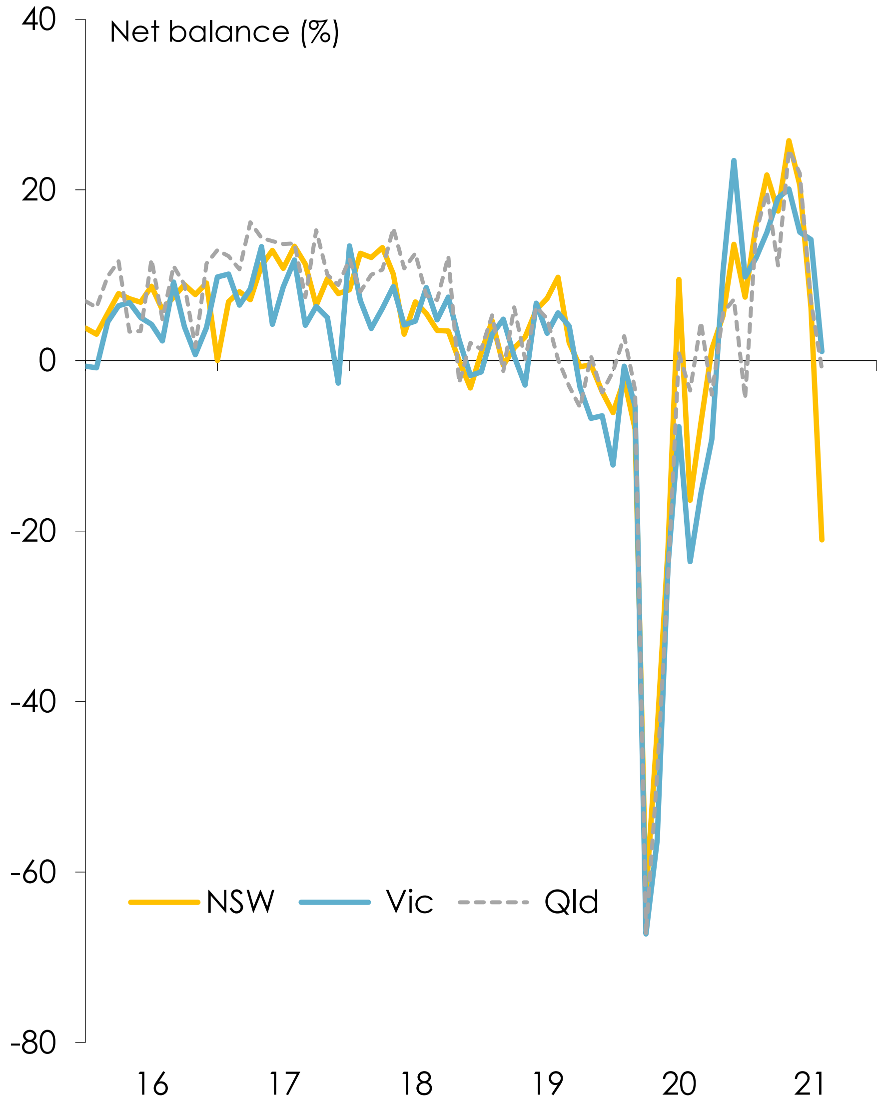
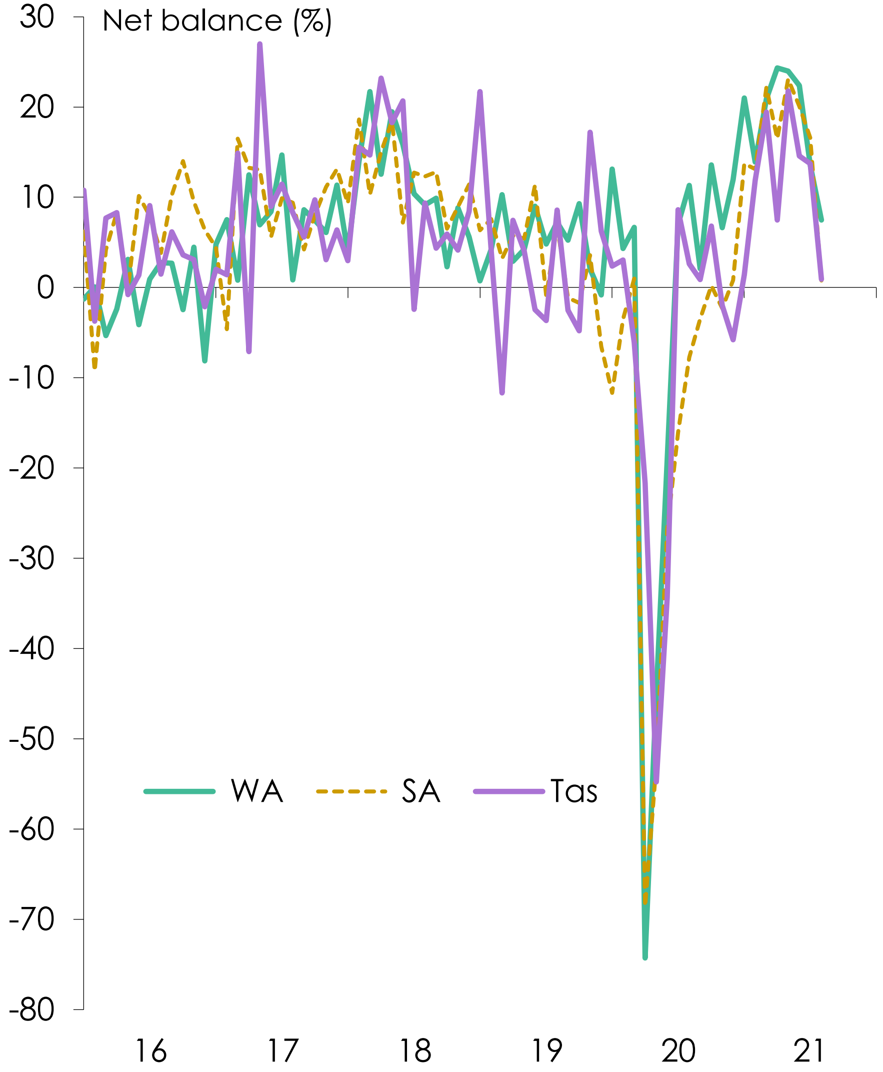
Business confidence plunged in July as a result of the ongoing lockdown in Sydney and renewed lockdowns in Victoria and Queensland

Business confidence



Business confidence, states and territories





Sources: National Australia Bank *Monthly Business Survey*, July 2021; August survey results will be released on 14th September. Return to "What's New".

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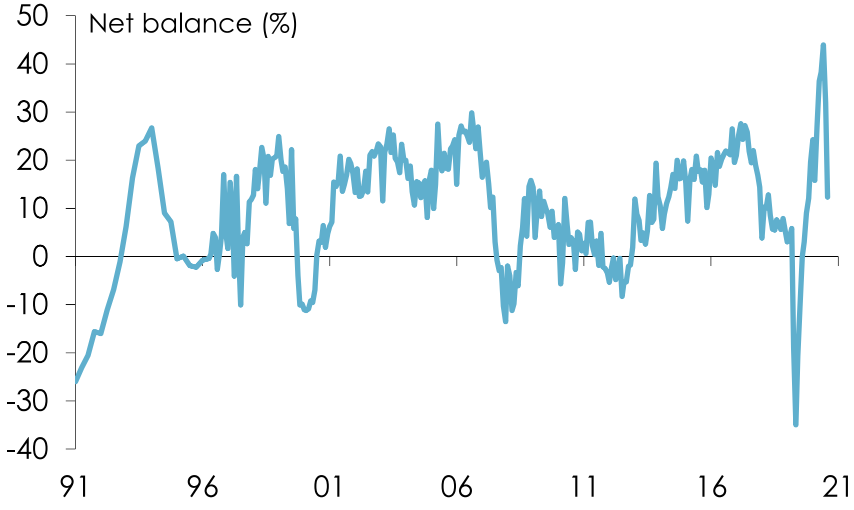
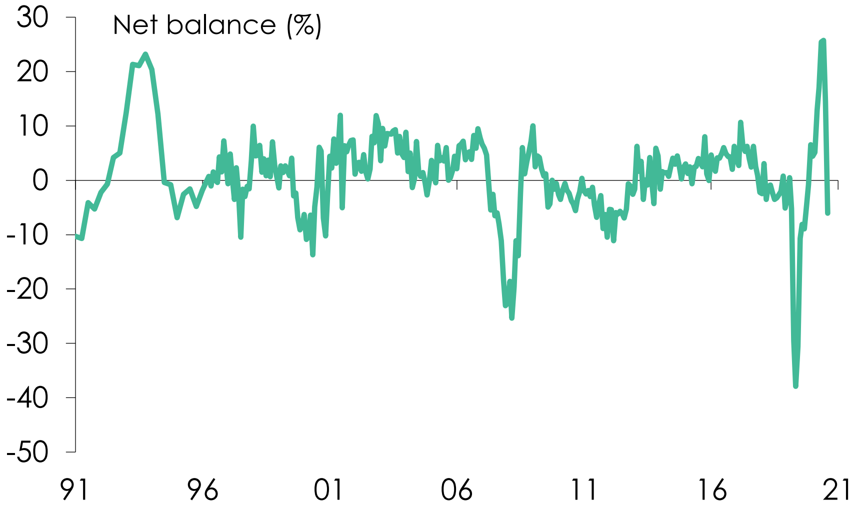
All of the components of ‘business conditions’ declined sharply in July

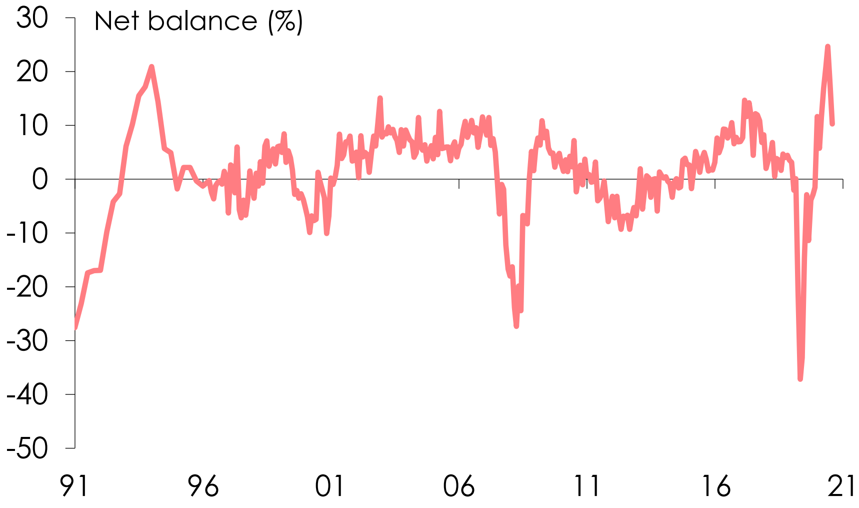
Trading conditions



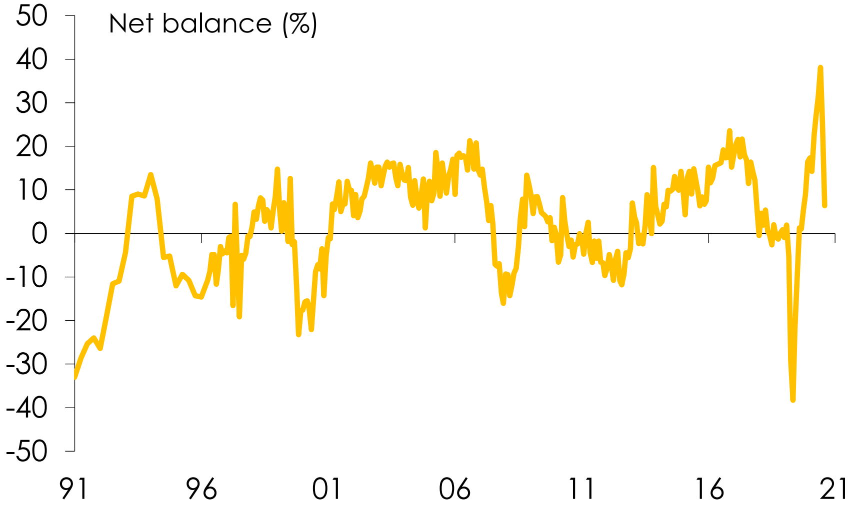
Forward orders



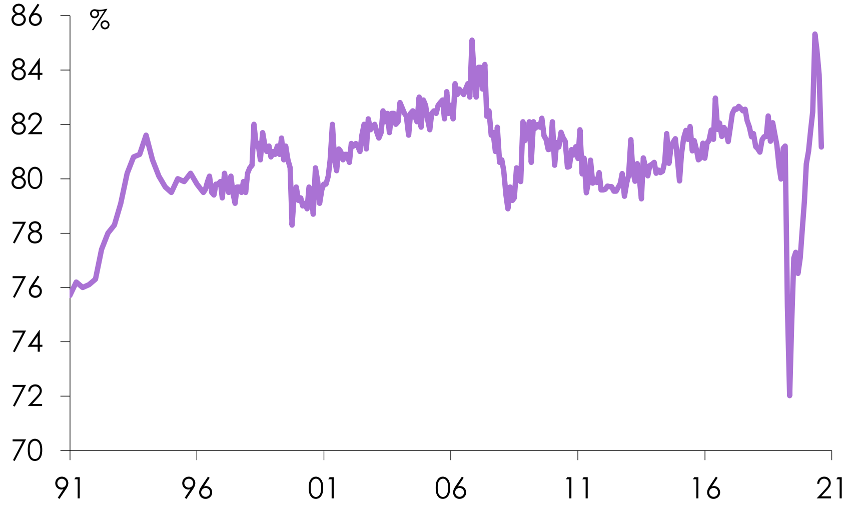
Employee hiring intentions



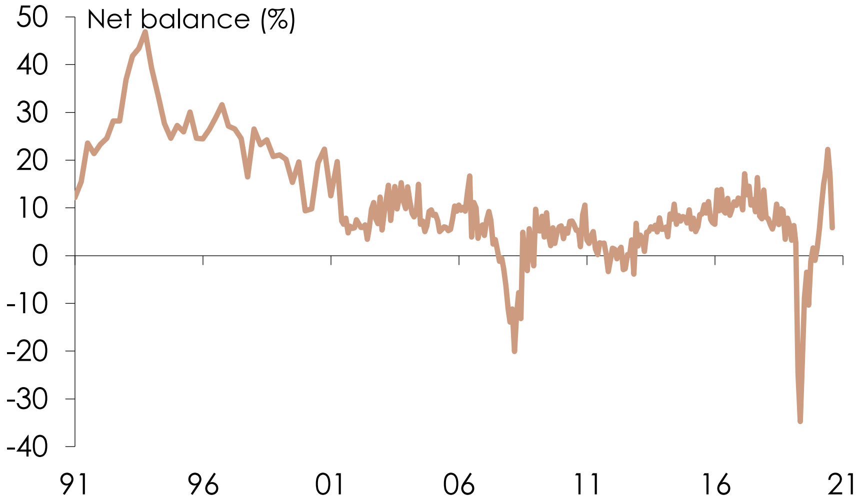
Profitability



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*, July 2021; August survey results will be released on 14th September. Return to "What's New".

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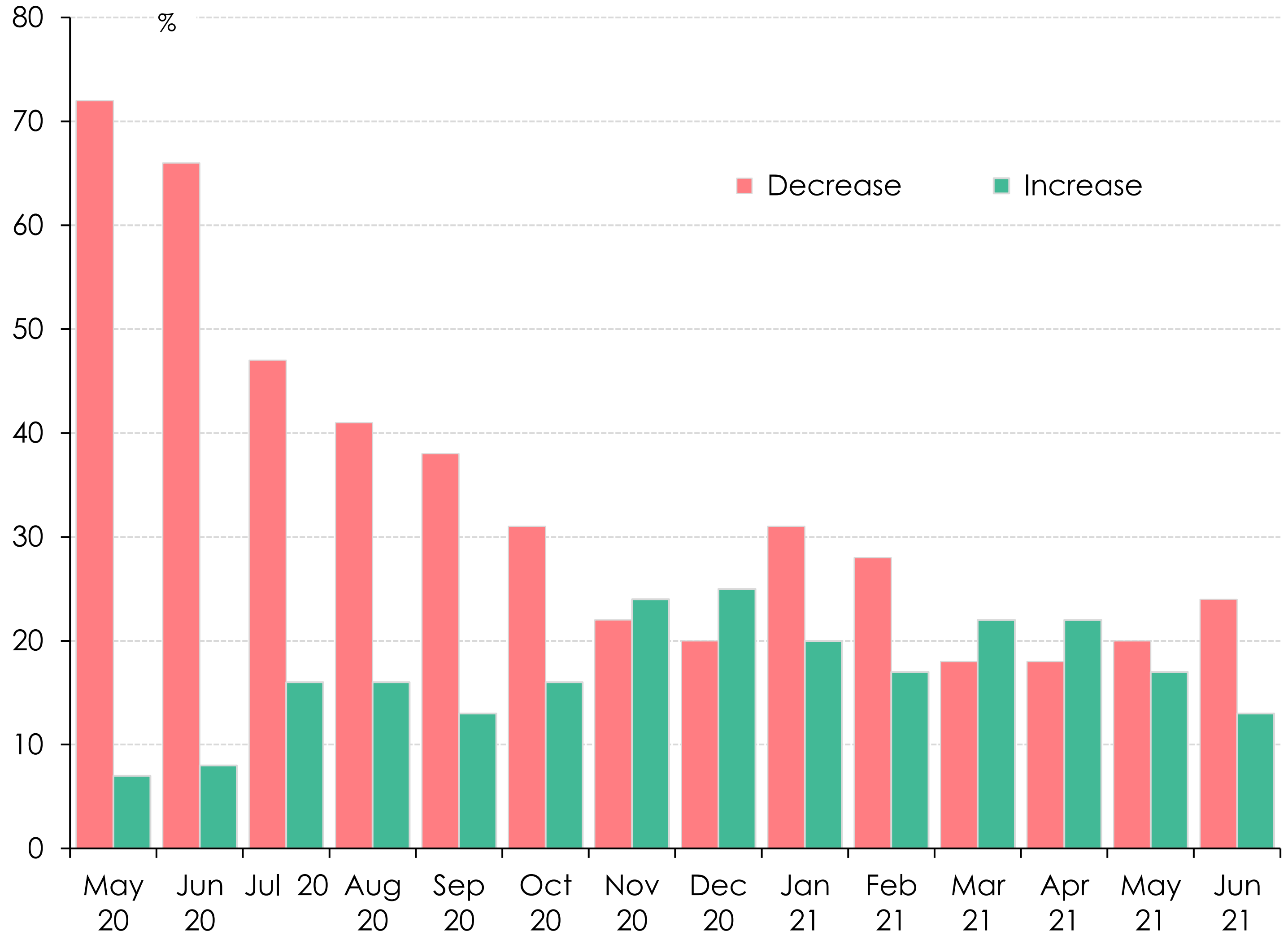
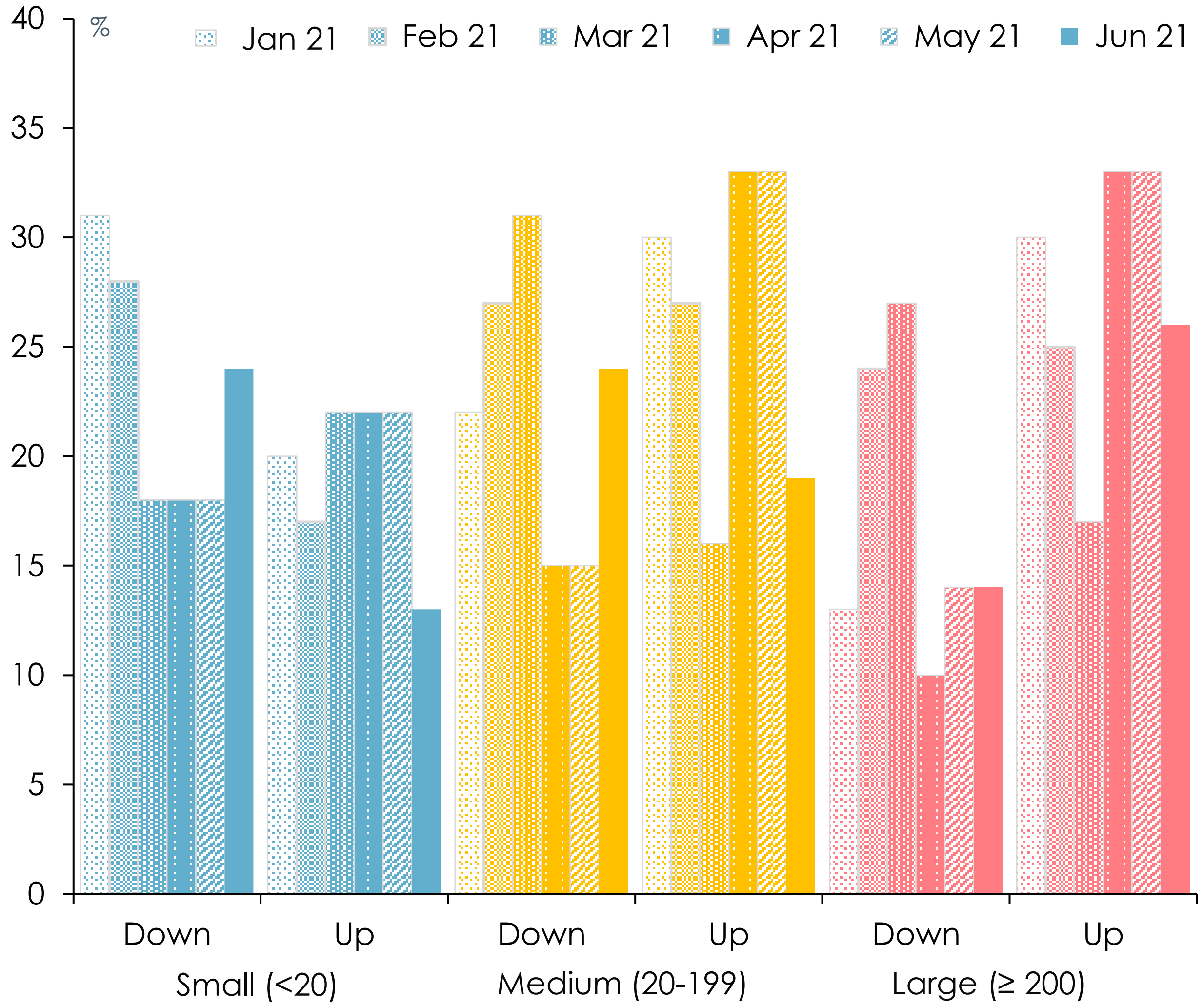
More businesses reported revenue declines in June than increases, especially among SMEs, at least partly due to the Victorian lockdown

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



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



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

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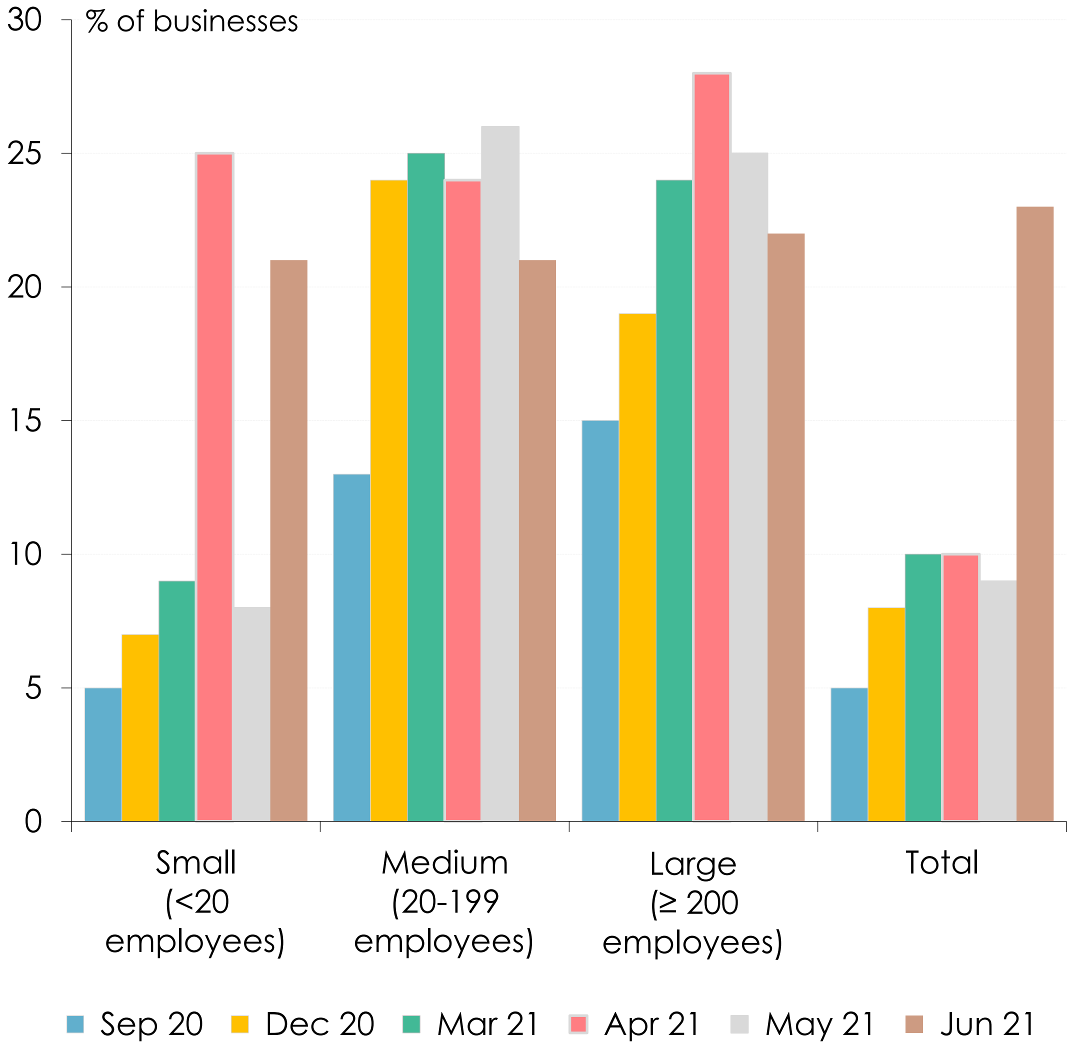
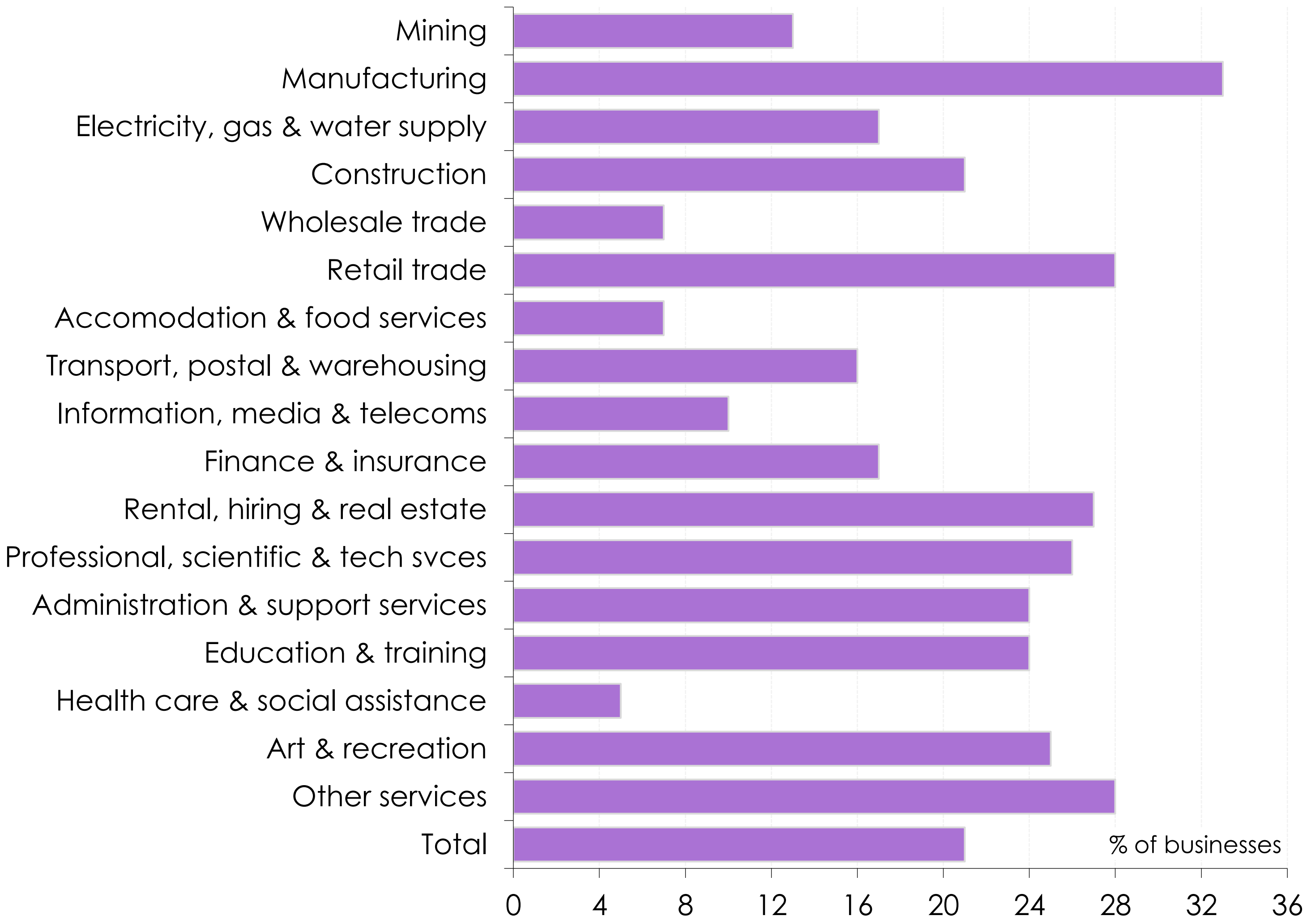
Smaller businesses appear to have (at last) become more willing to contemplate hiring more staff

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 127 for data on capex intentions by business size. Return to "What's New".

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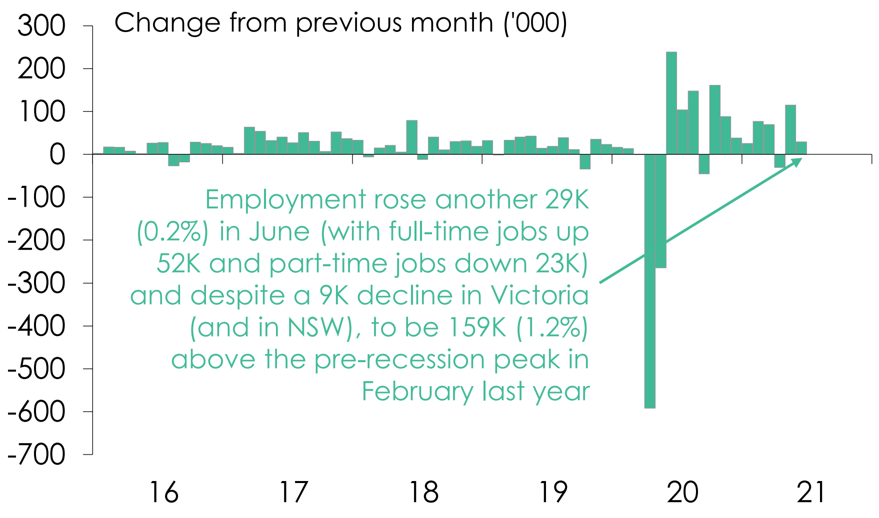
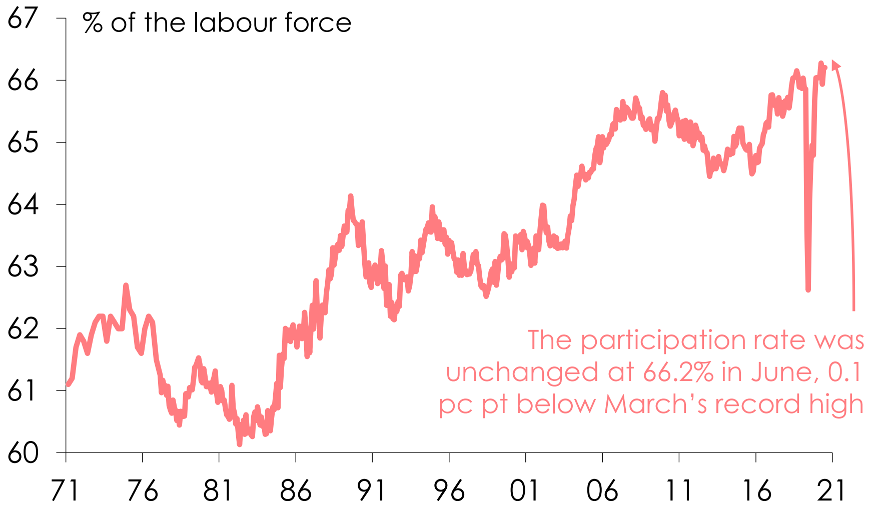
Employment rose another 29K (0.2%) in June to be 1.2% above its pre-pandemic peak while the unemployment rate fell 0.2 pc pts to 4.9%

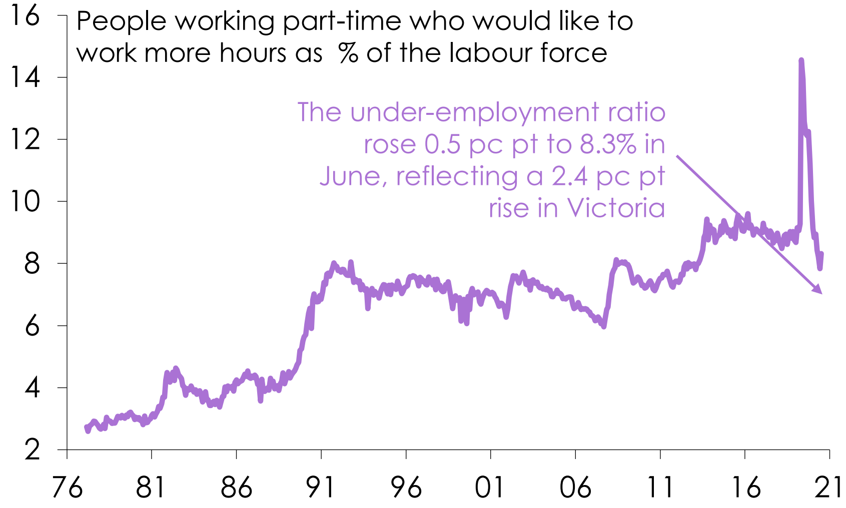
Employment



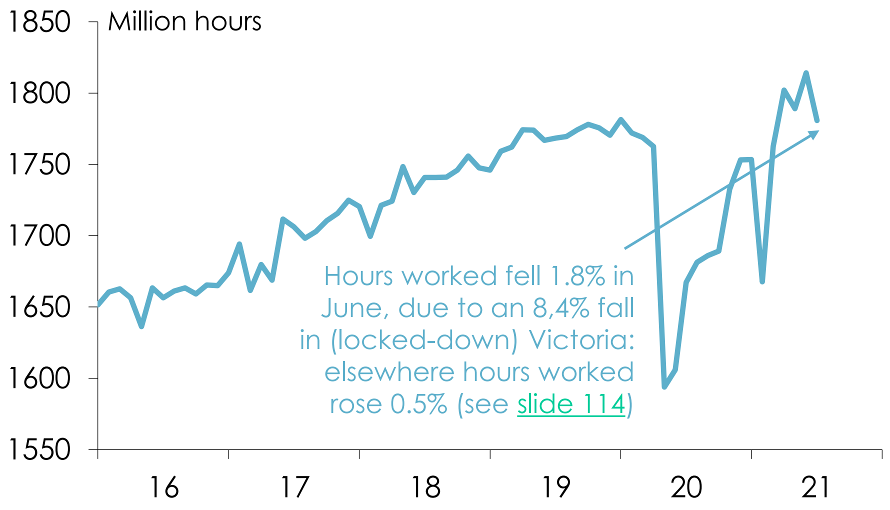
Labour force participation rate



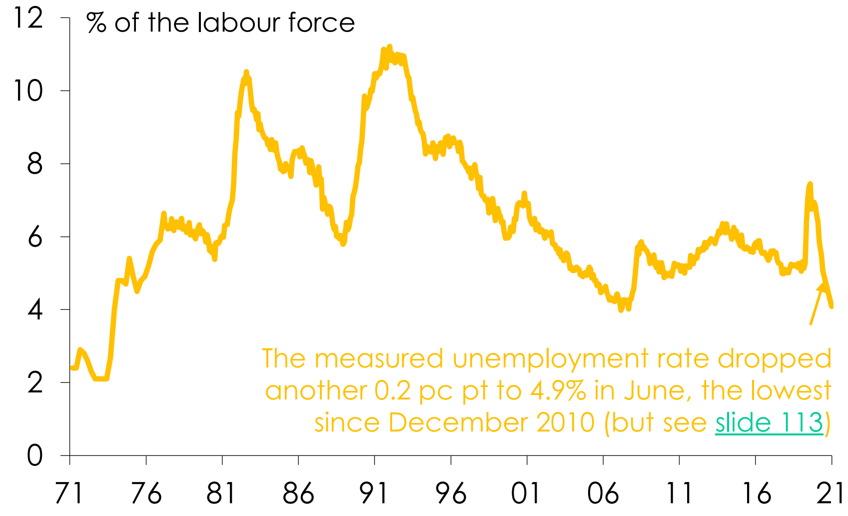
Under-employment ratio



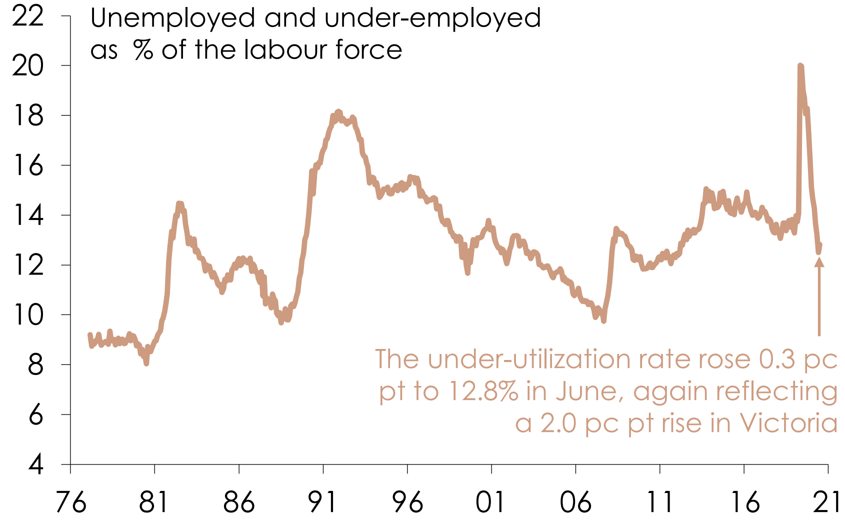
Total hours worked



Unemployment rate



'Under-utilization' rate



Source: ABS, *Labour Force, Australia*. July data will be released on 19th August. Return to "What's New".

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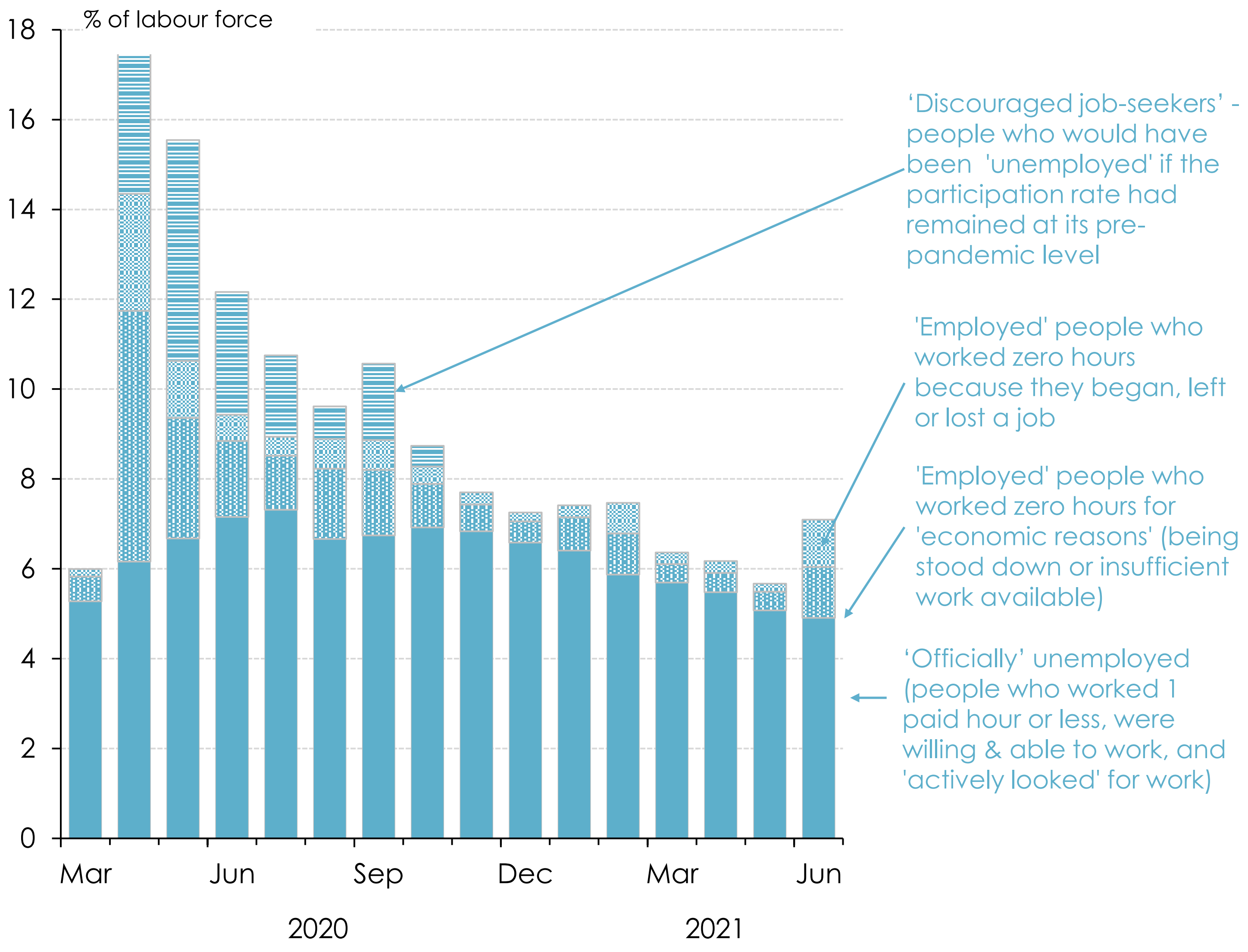
The ‘effective’ unemployment rate rose from 5.7% in May to 7.1% in June, due to a 235K increase in people ‘working zero hours’ in Victoria

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 possible 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“.

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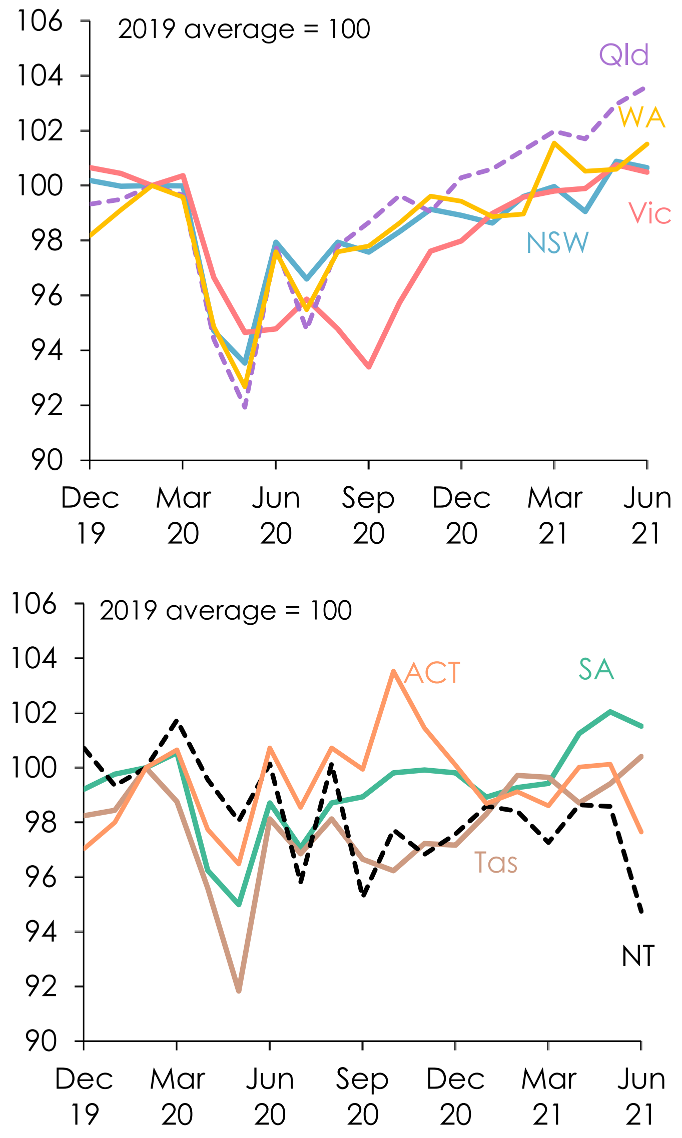
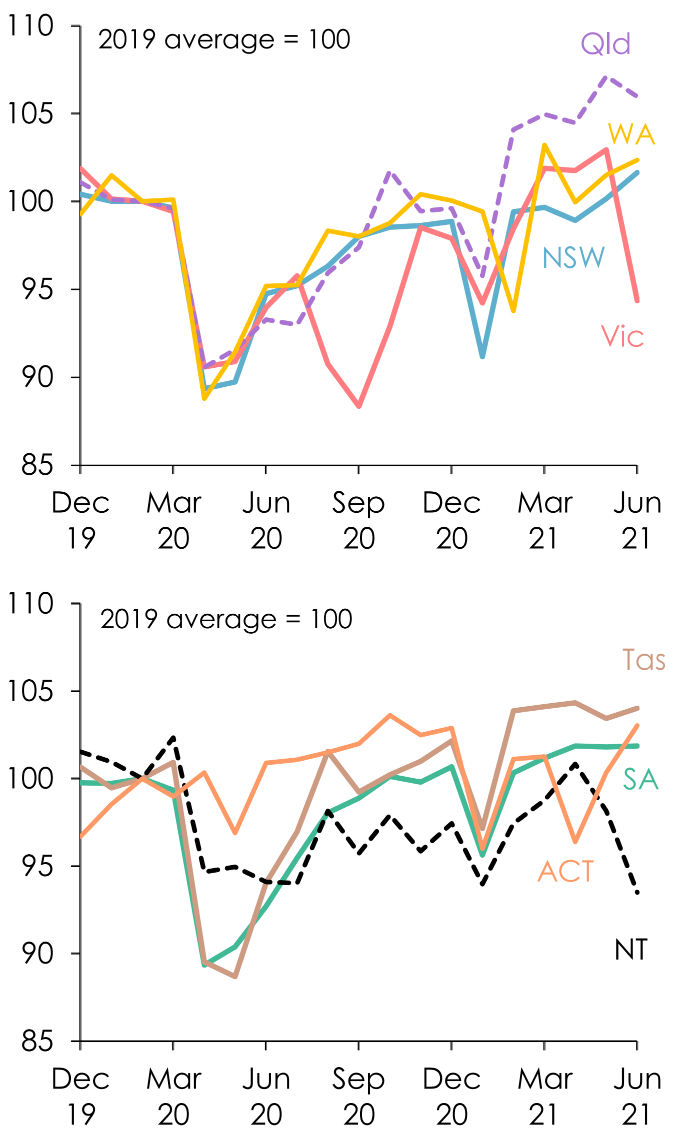
Qld and WA continue to have the strongest employment recoveries: the June lockdown in Victoria showed up in an 8½% fall in hours worked

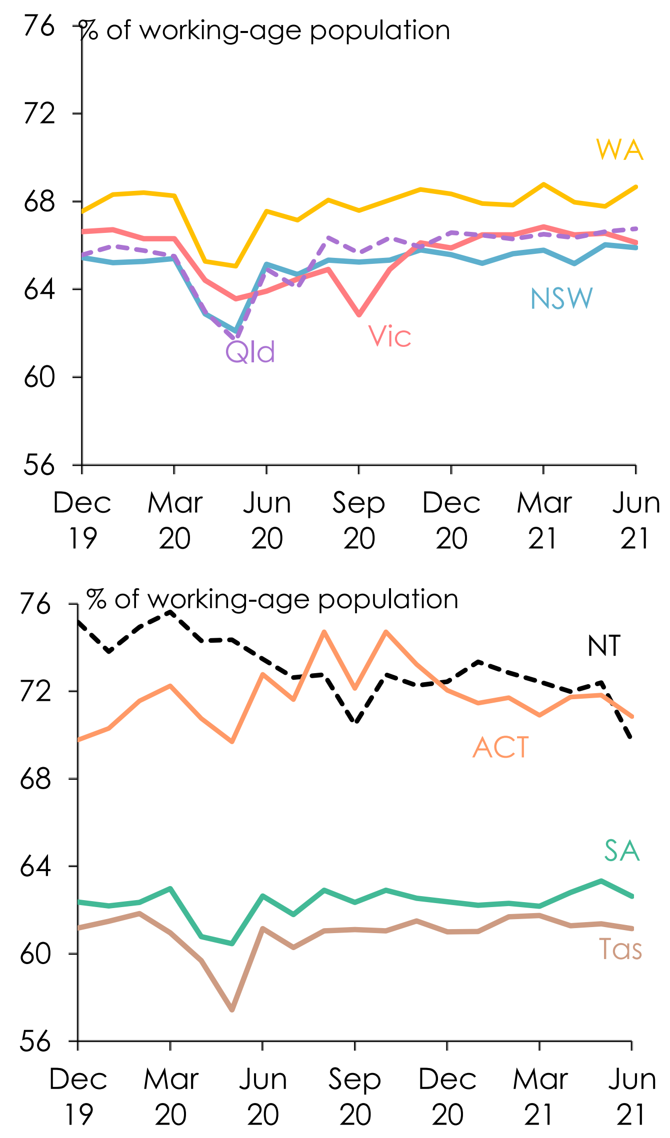
Employment



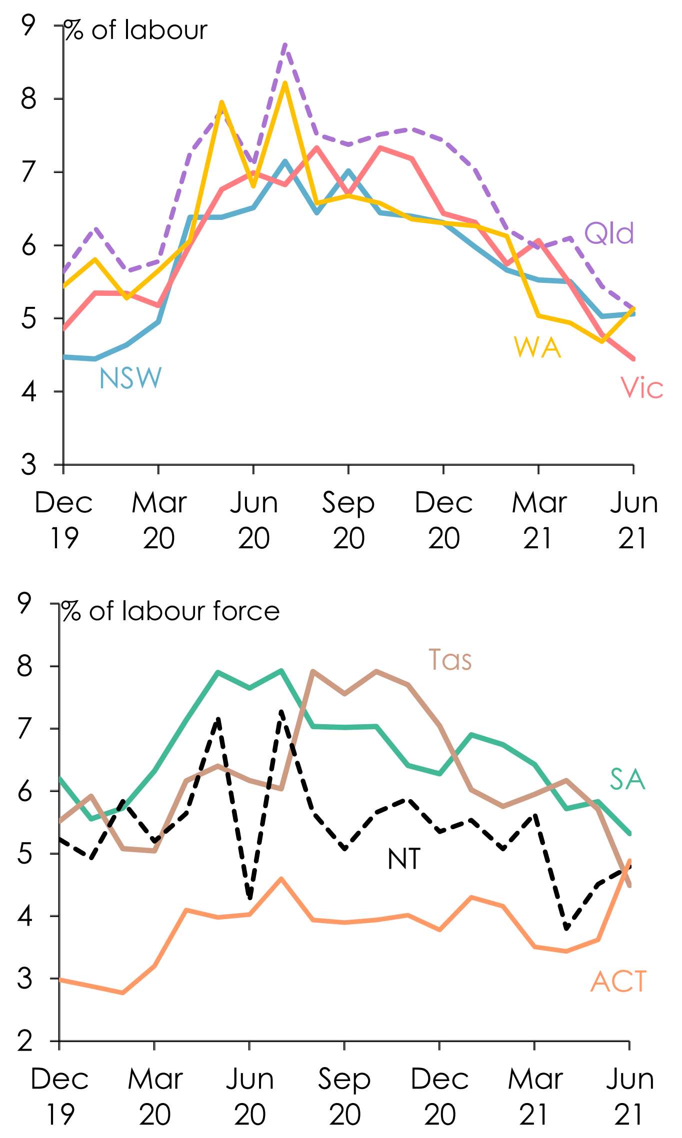
Hours worked



Participation rates



Unemployment rates



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

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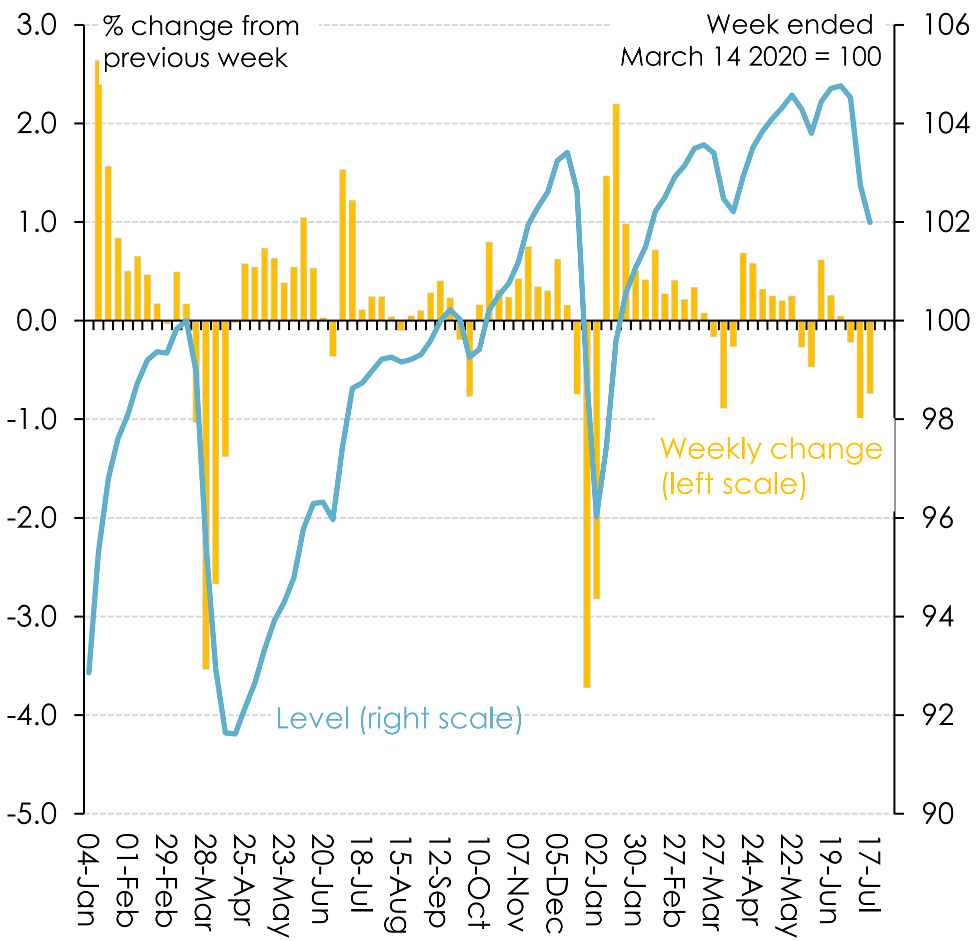
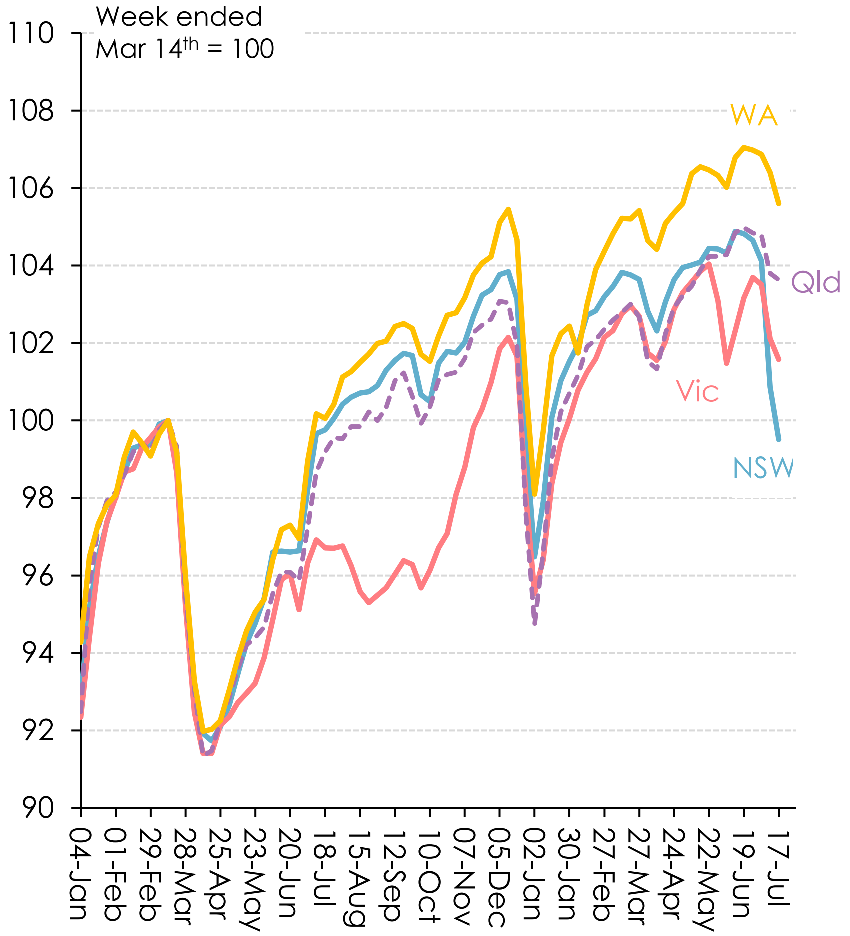
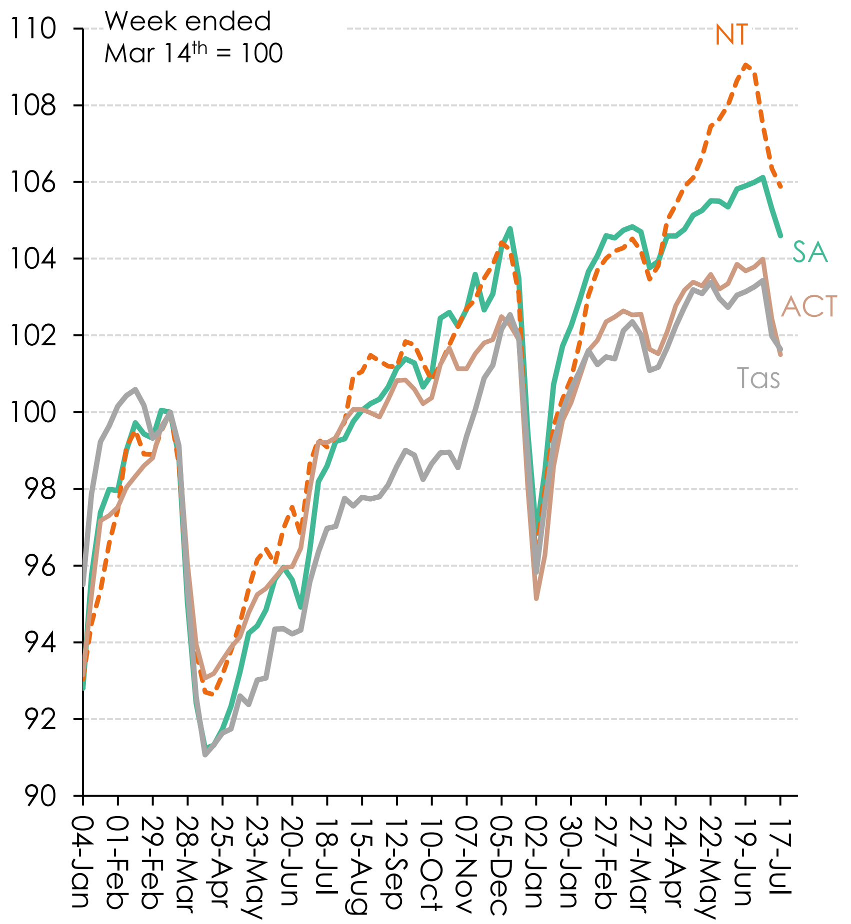
Payroll jobs have fallen by 2.6% since the last week of June, with NSW down 4.9% but all other states also down between 1.2% and 2.8%

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 31st July will be released on 26th August.

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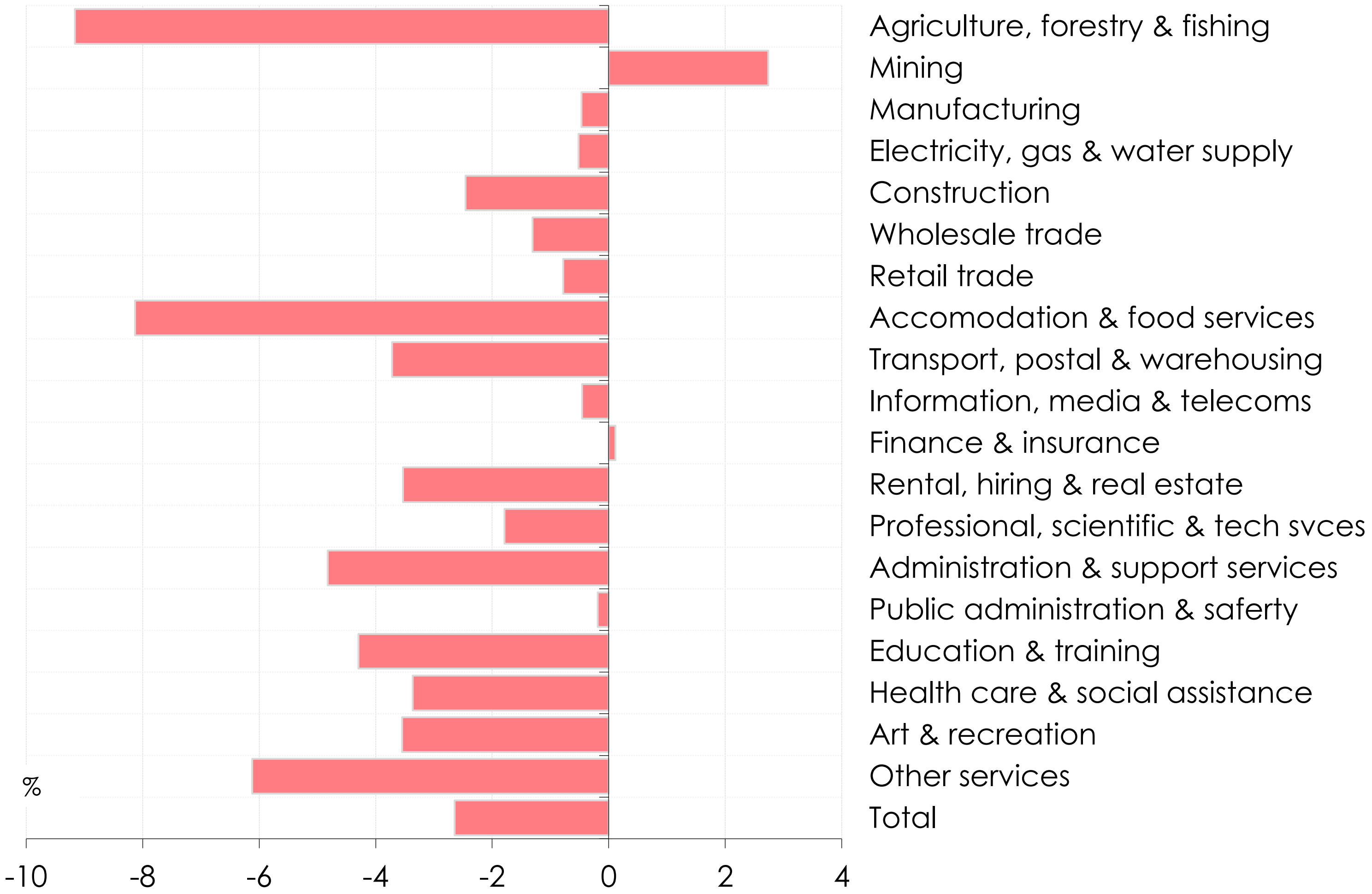
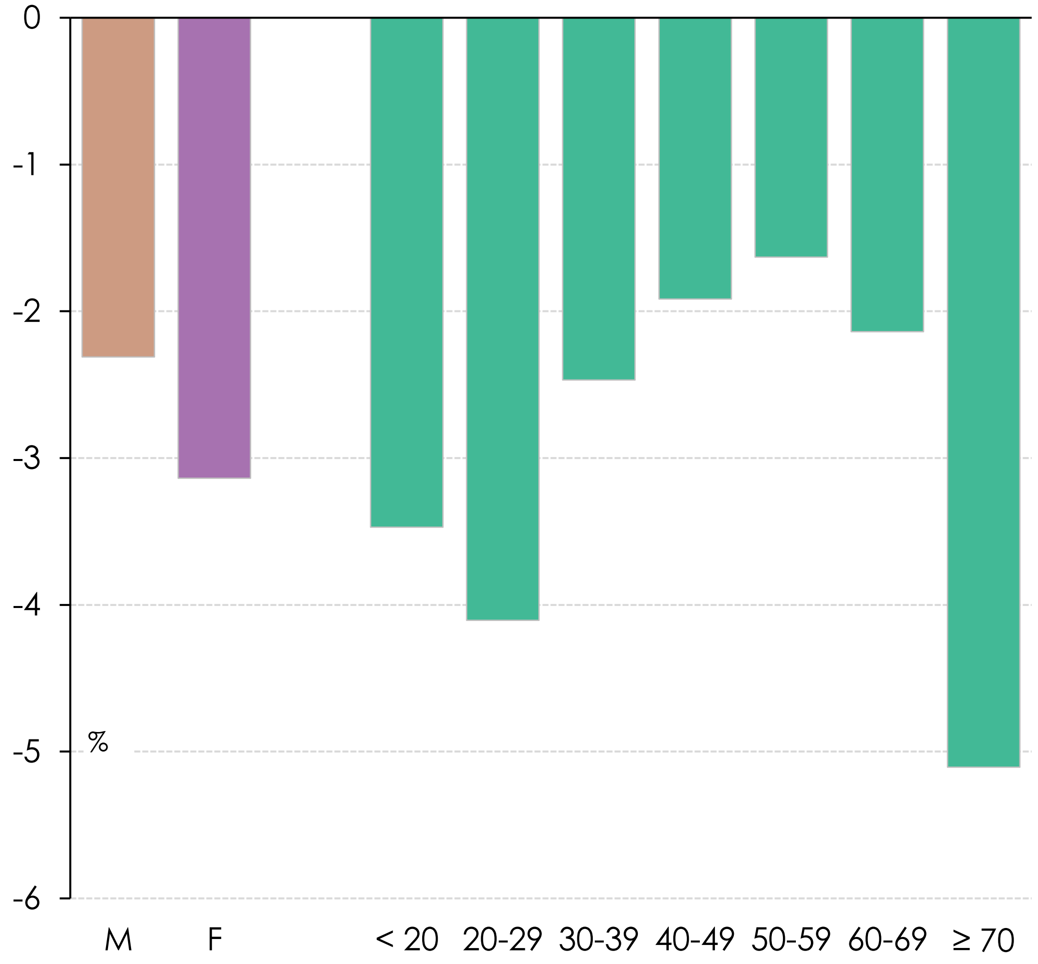
The same sectors, and the same groups, that were hardest hit in last year's lockdowns have been hardest hit in the latest one (plus agriculture)

Change in payroll jobs between week ended 26th June and week ended 17th July

By industry



By gender and age



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 31st July will be released on 26th August.

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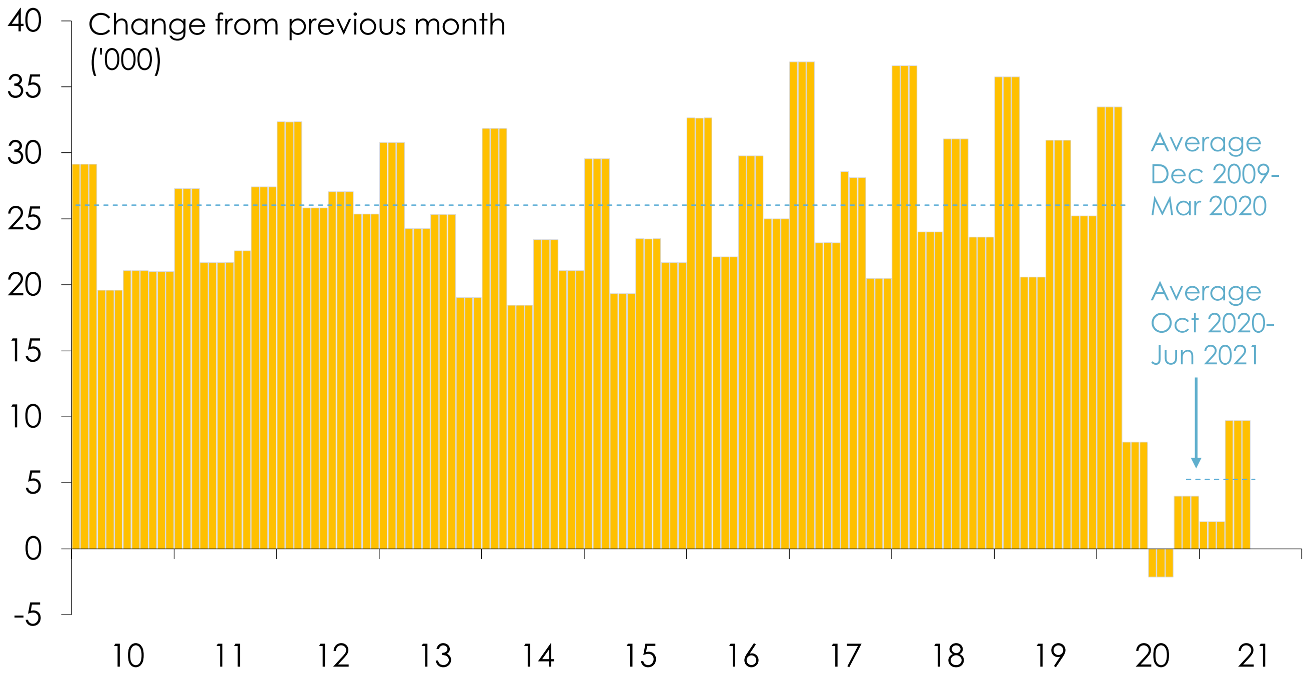
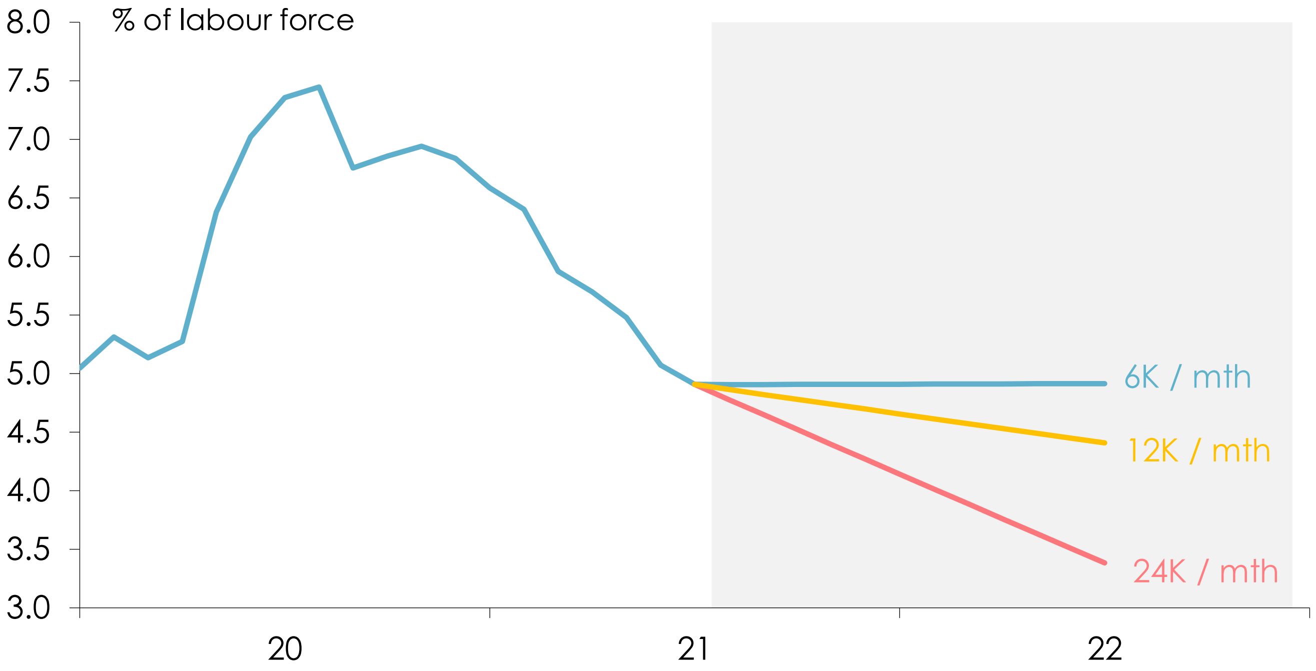
The closure of Australia's borders means that it's much easier to reduce unemployment for any given rate of jobs growth

Monthly growth in civilian working-age population



Unemployment rates for alternative rate of jobs growth



- 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
- 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
- Employment growth over the next 12 months will almost certainly fall short of the 48K average over the past 6 (especially given current lockdowns) – but even if it was one-quarter of that pace, the unemployment rate would be below 4½% by June next year

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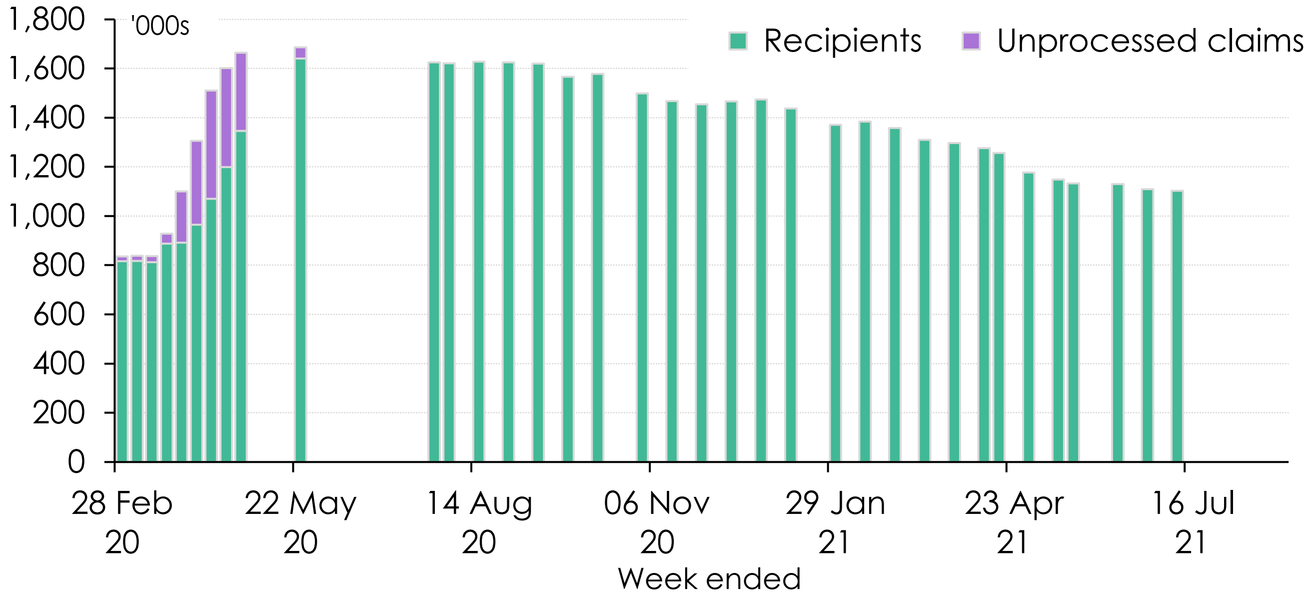
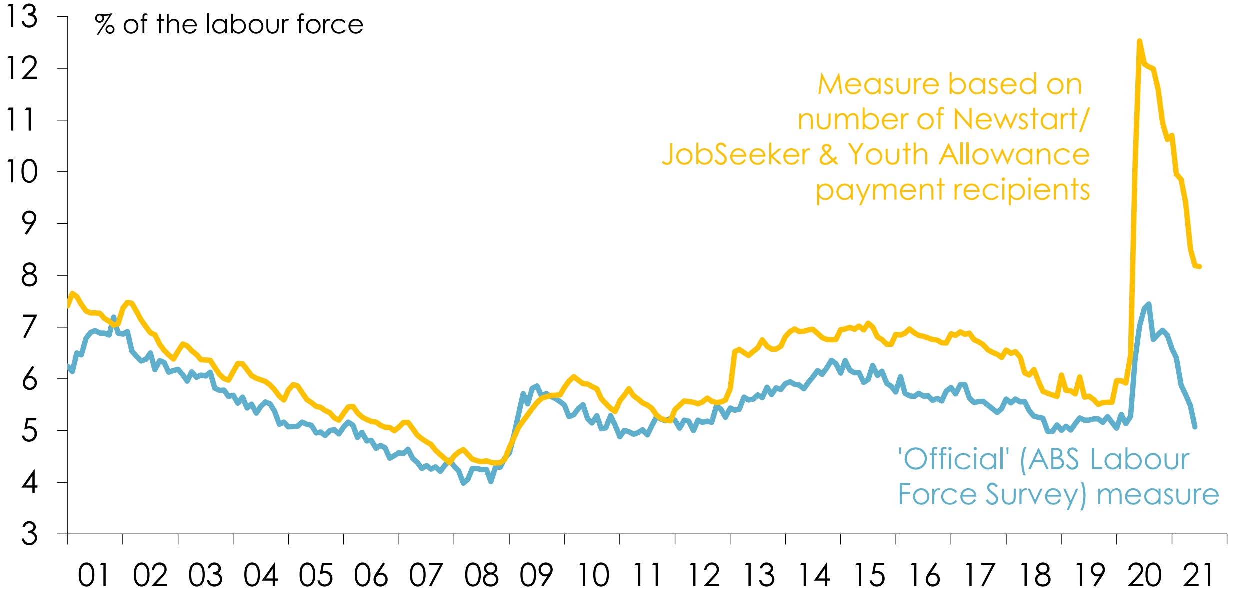
Source: ABS, *Labour Force, Australia*, June 2021; Corinna. Return to "What's New".

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 – data for the week ended 23rd July should have been received two weeks ago, but it hasn't been**
- **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**

Sources: Department of Social Services, JobSeeker Payment and Youth Allowance Recipients - monthly profile, ABS; Senate Select Committee on Covid-19, Additional documents. Return to "What's New".

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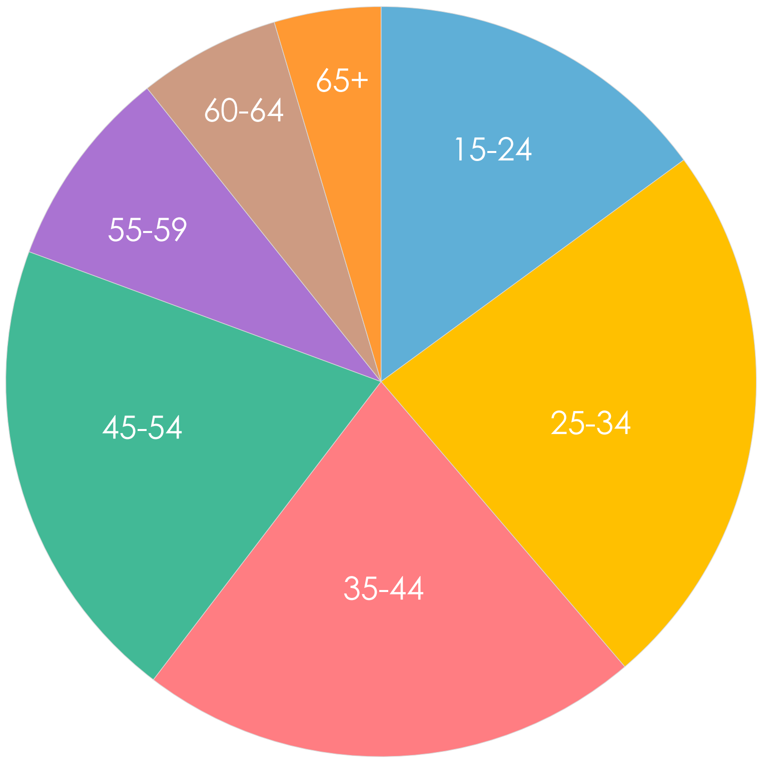
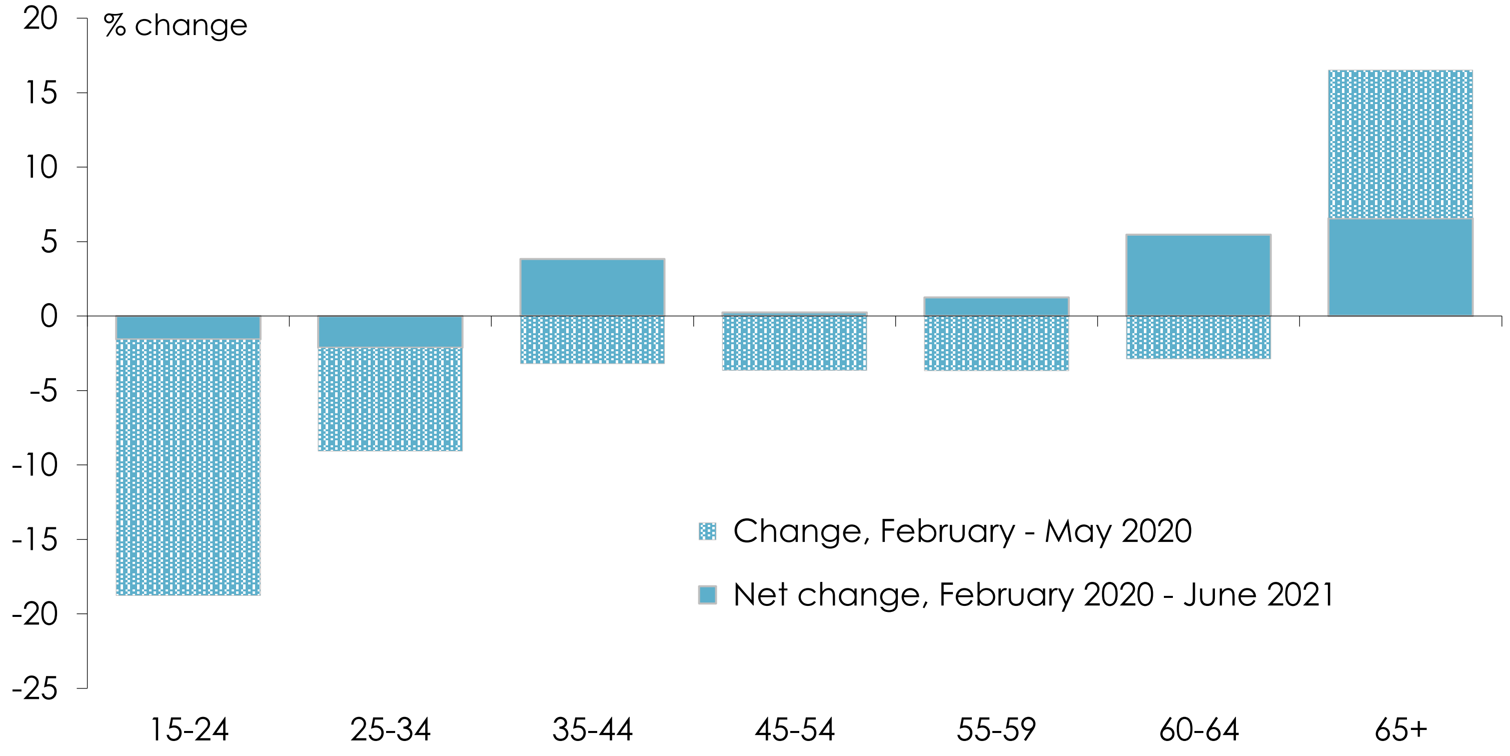
Younger workers bore the brunt of job losses during the early stages of the pandemic and have had a more difficult time regaining jobs

Composition of employment by age group, February 2020



Change in employment between February 2020 and 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.
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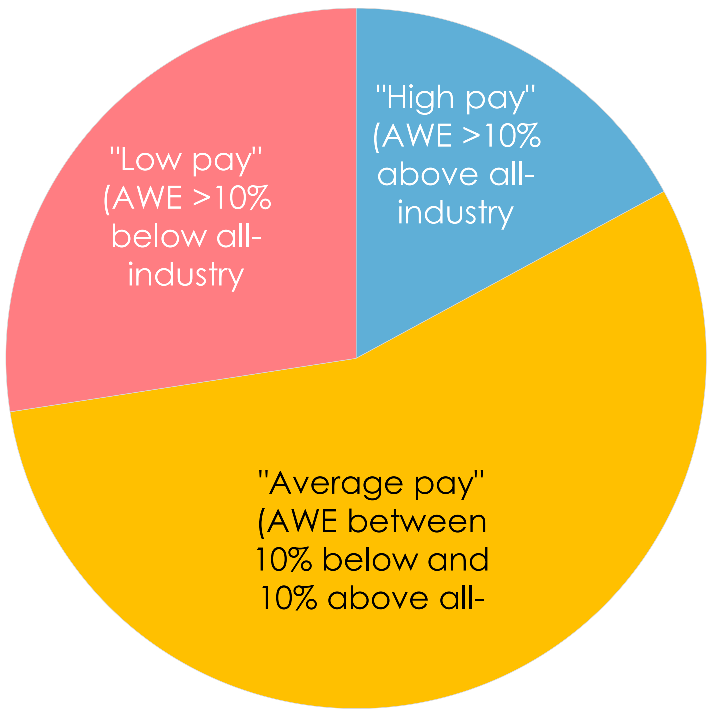
Workers in low-pay industries experienced the bulk of job losses during the downturn and the greatest difficulty regaining them since then

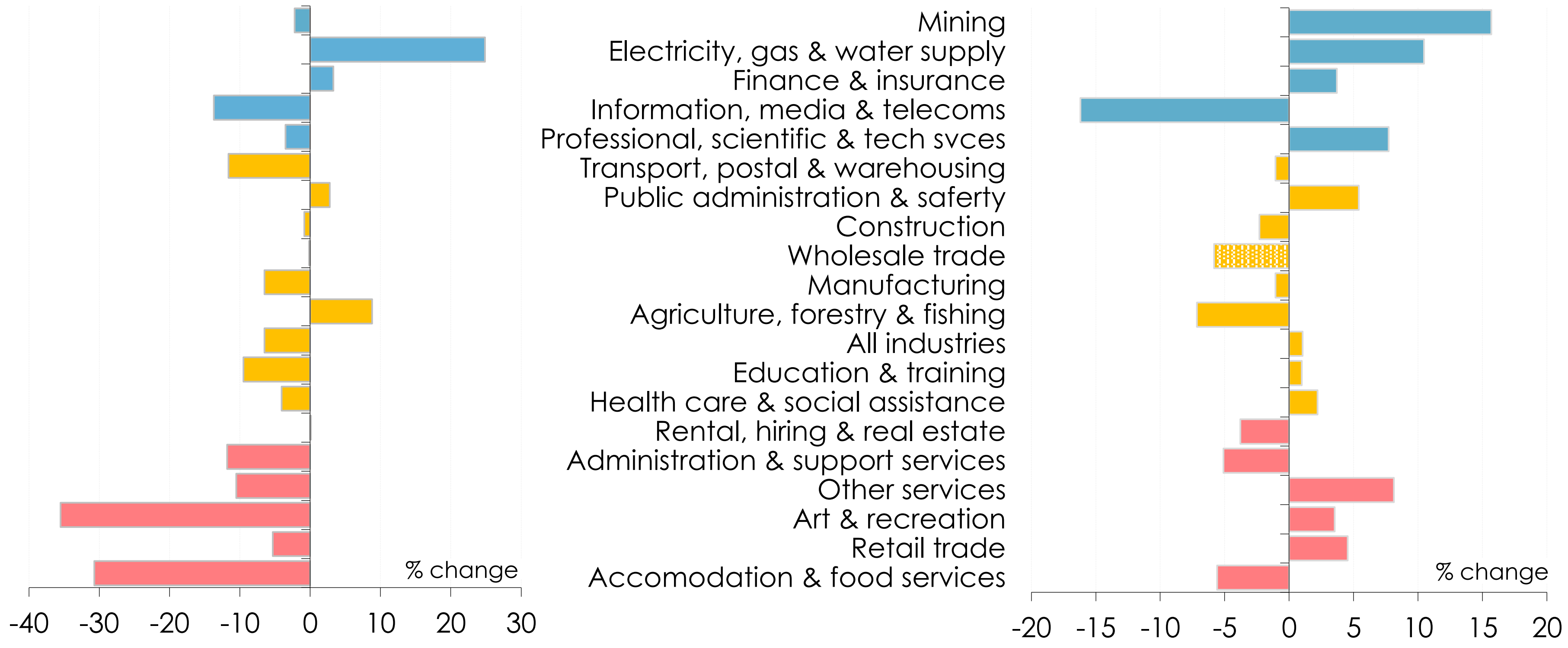
Composition of employment by industry ranked by average weekly earnings, February 2020



Change in employment by industry

February-May 2020

February 2020 – May 2021



- ❑ **Industries with average earnings which are 10% or more below average accounted for 27½% of the pre-pandemic workforce, but experienced 64% of the job losses between February and May last year – and employment in those industries was only 0.6% higher in May this year than it had been in February last year**
- ❑ **By contrast employment in "high pay" industries (17% of the pre-pandemic workforce) was 5.6% higher than it had been in February last year**

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

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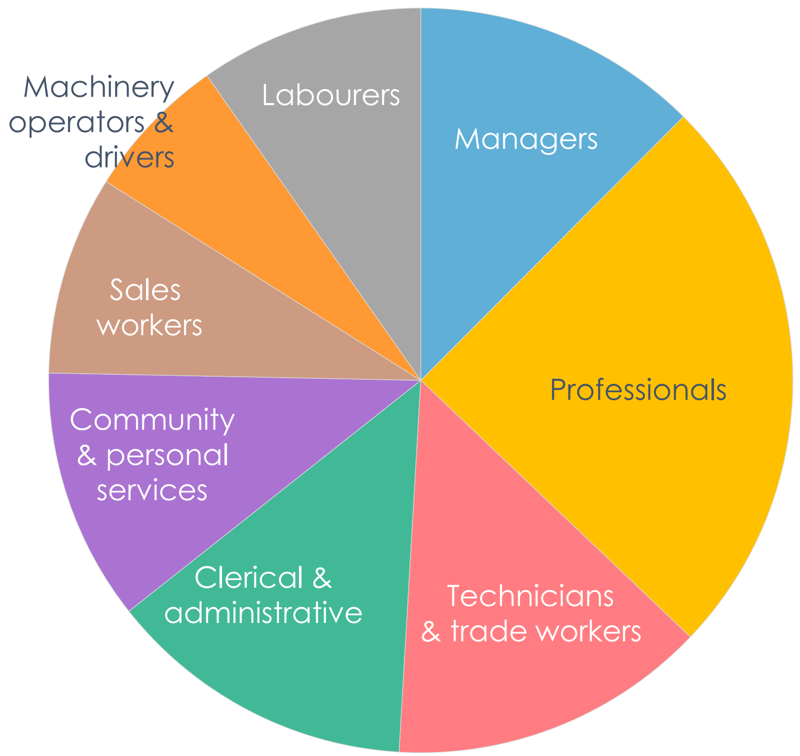
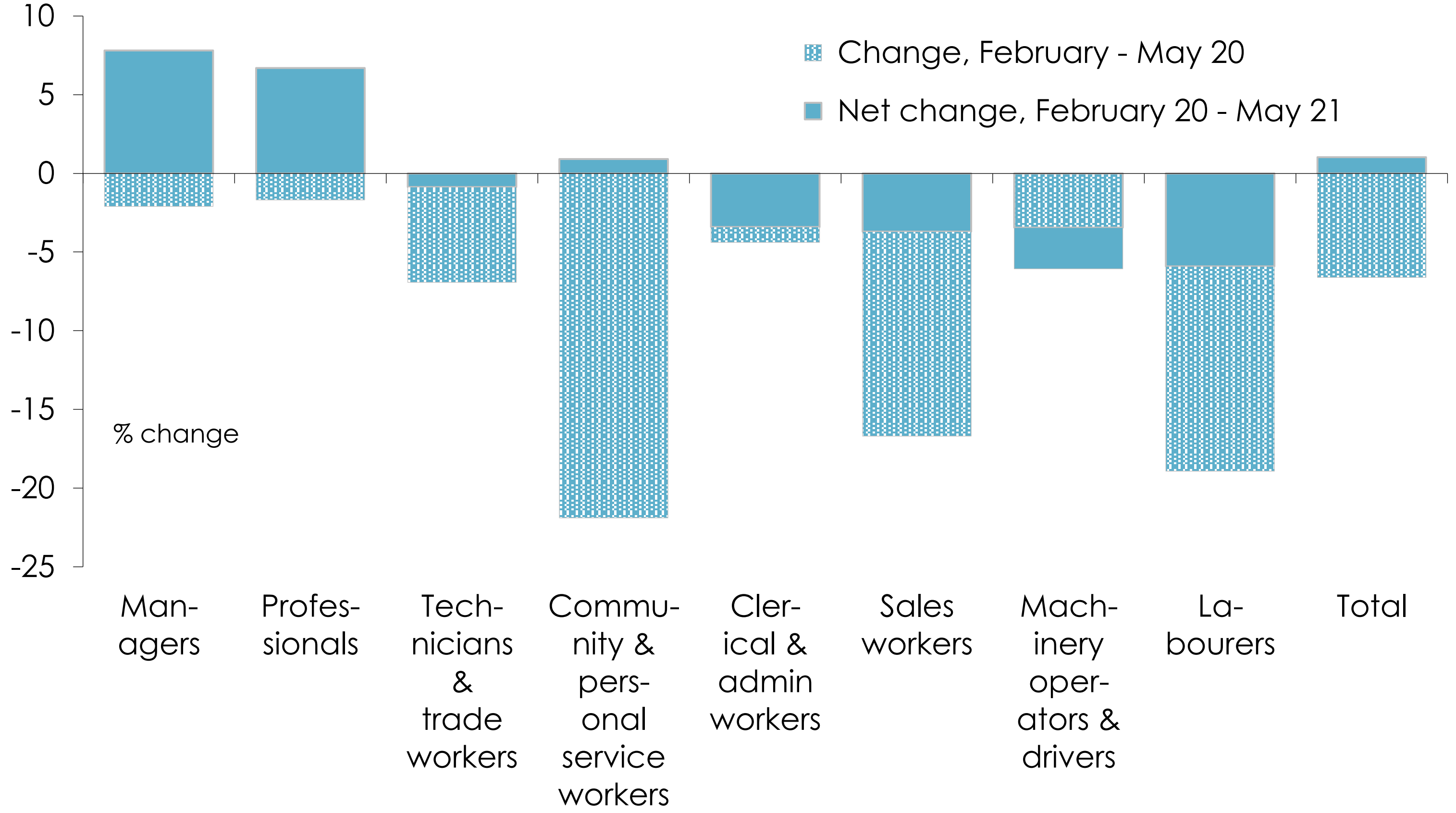
Community & personal service workers, sales workers and labourers have borne the brunt of job losses since the onset of the pandemic

Employment by major occupation category, February 2020



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



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

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

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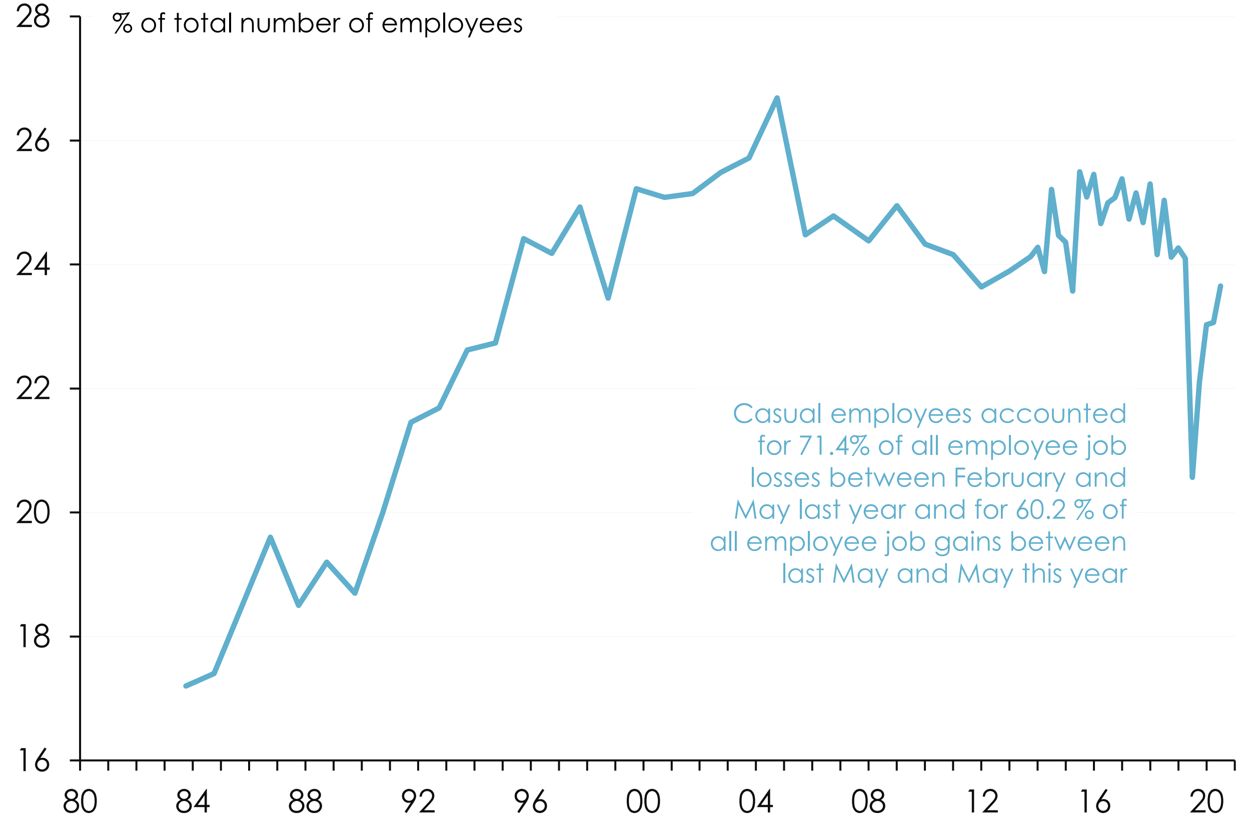
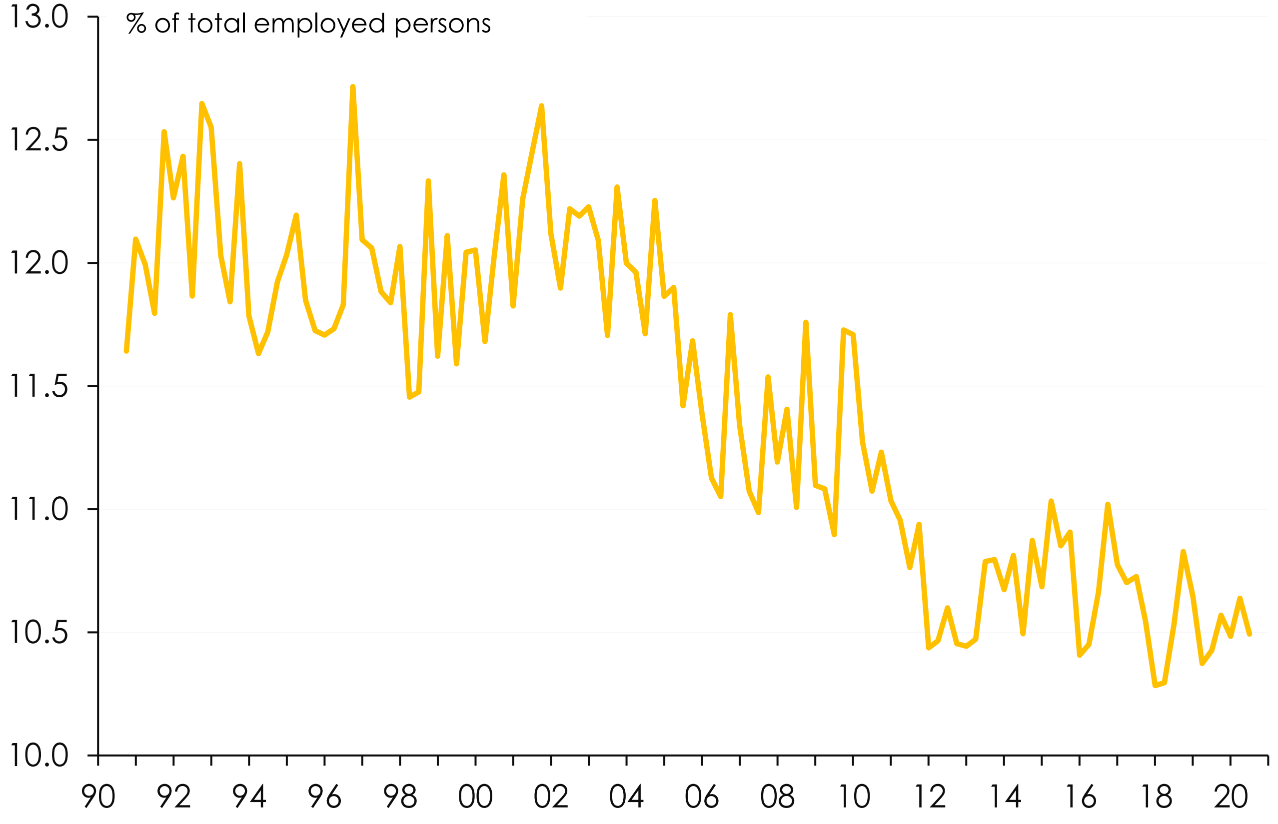
Contrary to popular belief neither casual jobs nor 'gig economy' jobs have become more commonplace during the past two decades

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



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



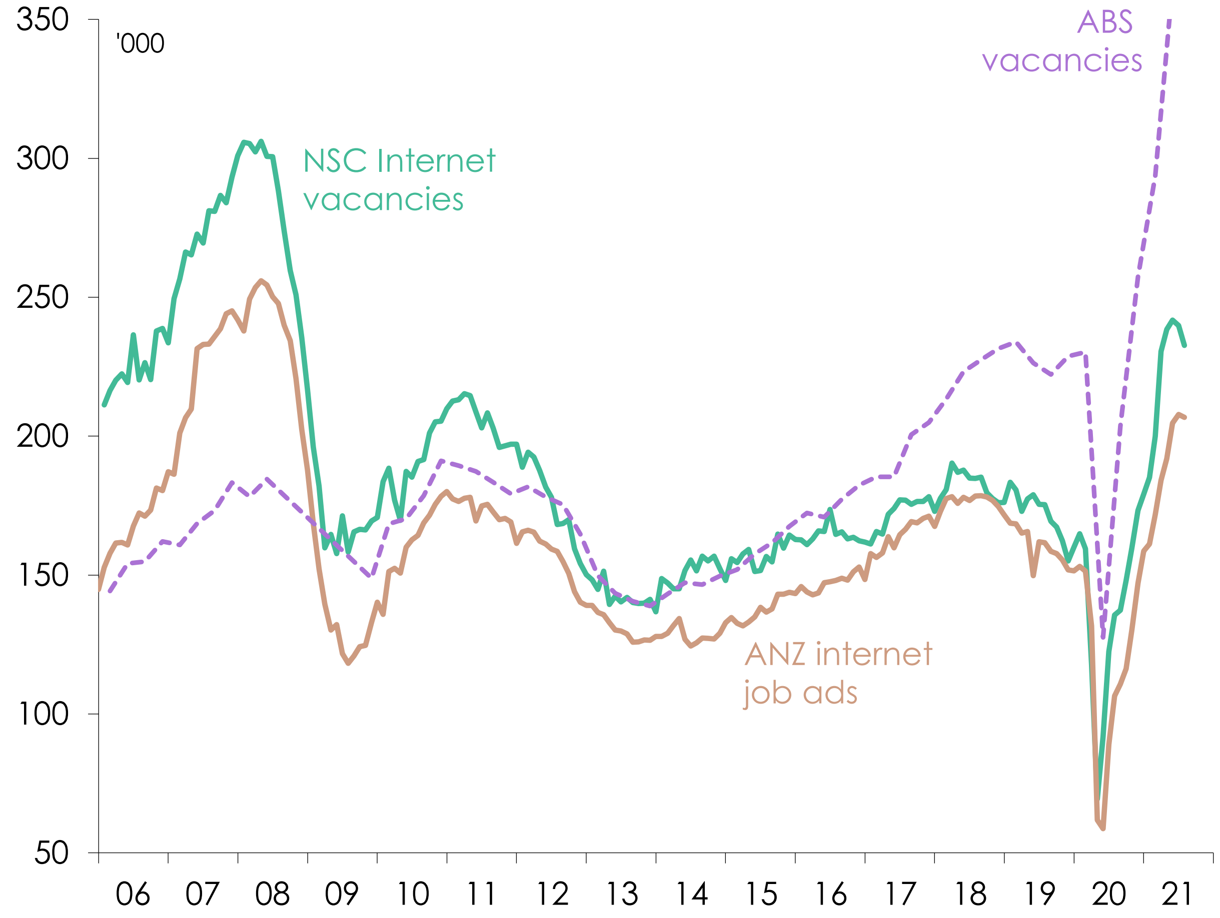
- Casual employment increased significantly as a share of the total during the 1980s, 1990s and early 2000s but has not changed significantly since then – except for a sharp drop during the current recession

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

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

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



Ratio of unemployed people to job vacancies

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

Sources: Australian Government, Labour Market Information Portal; ANZ Research; ABS, *Job Vacancies, Australia*. Return to "What's New".

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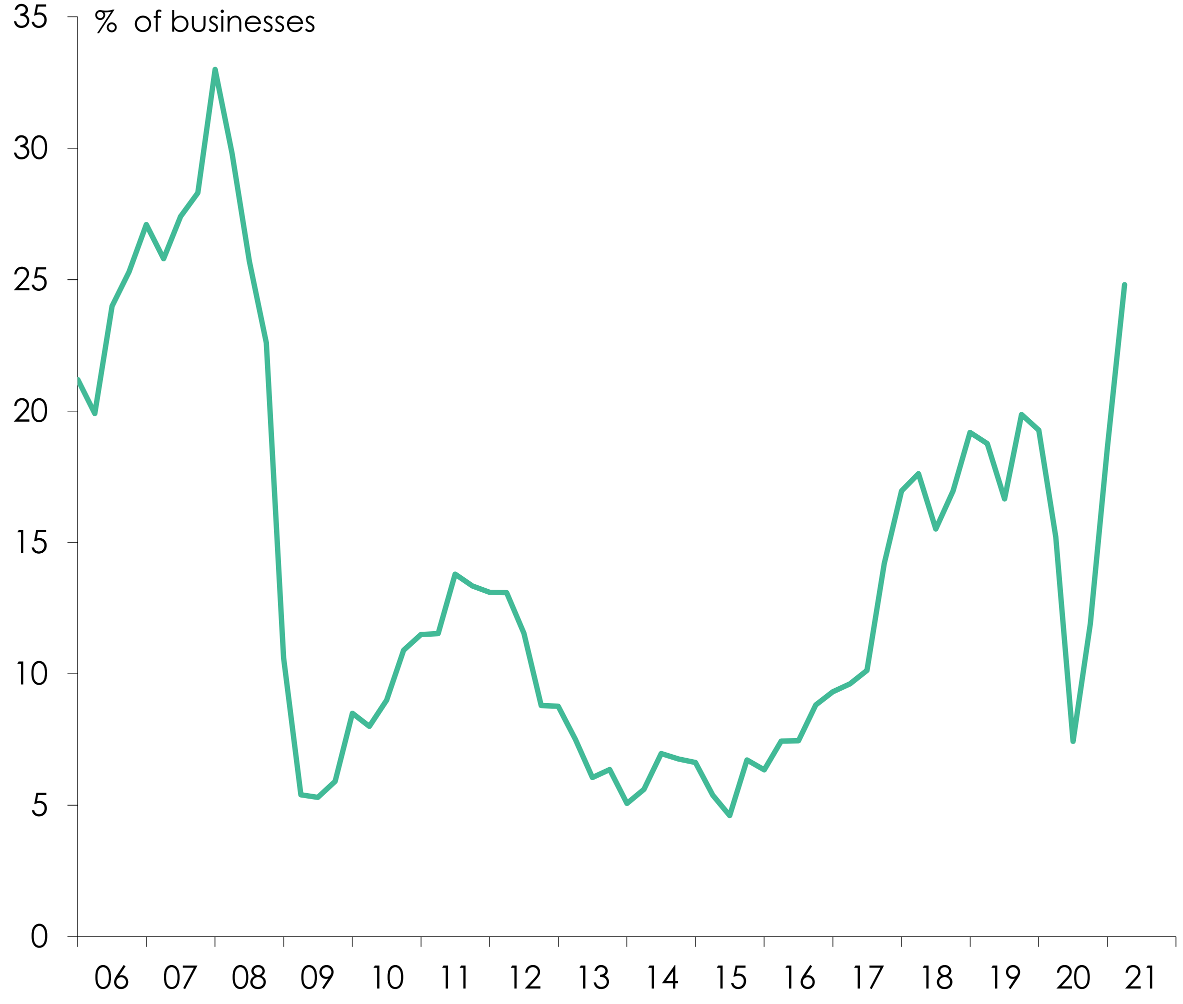
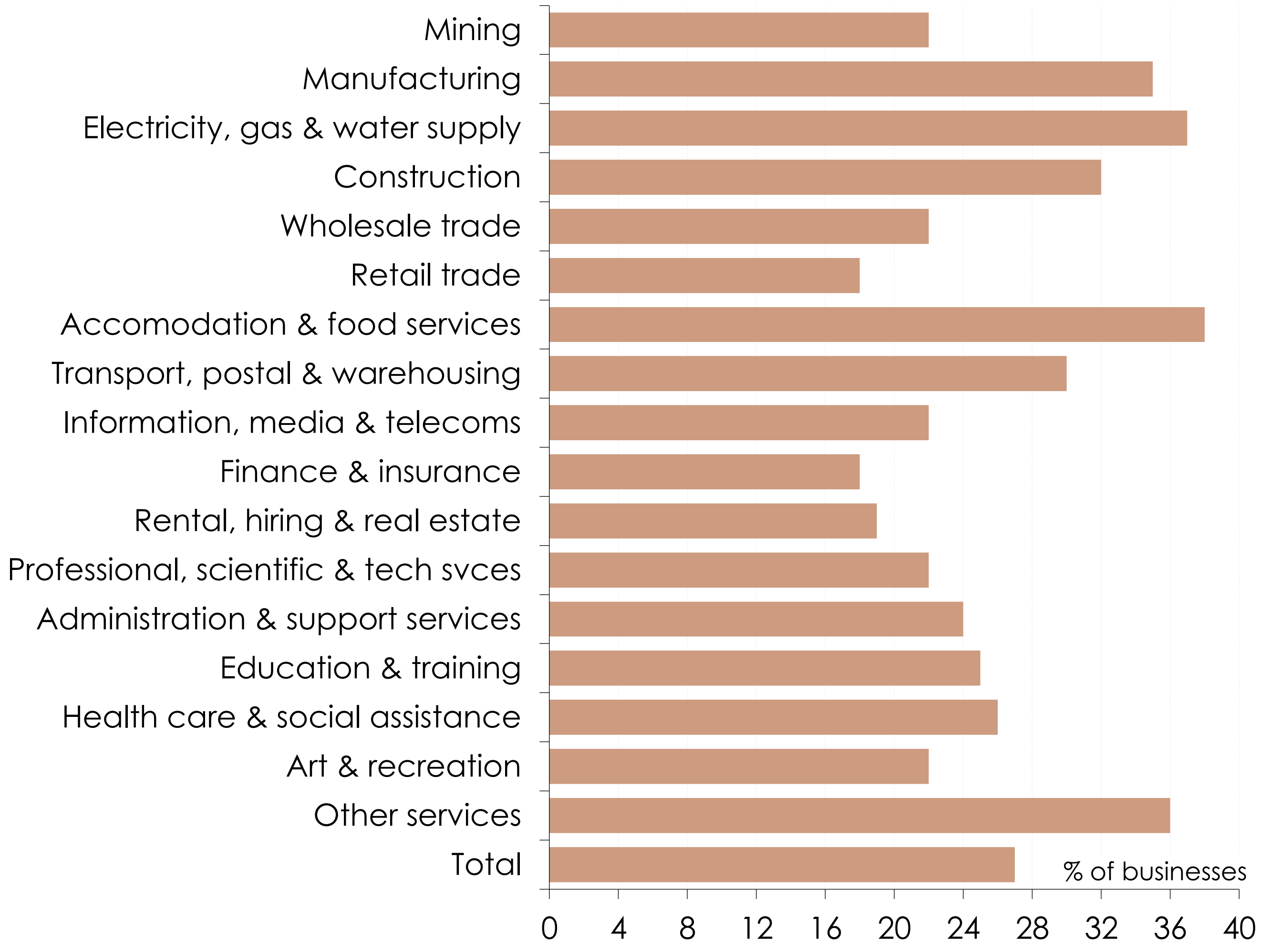
… but employers are encountering increasing difficulty filling those vacancies (at least partly because of the border closure)

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



Businesses reporting difficulty finding suitable staff, by industry



Sources: National Australia Bank, Quarterly Business Survey, March quarter 2021; ABS, Business Conditions and Sentiments, June 2021. Return to "What's New".

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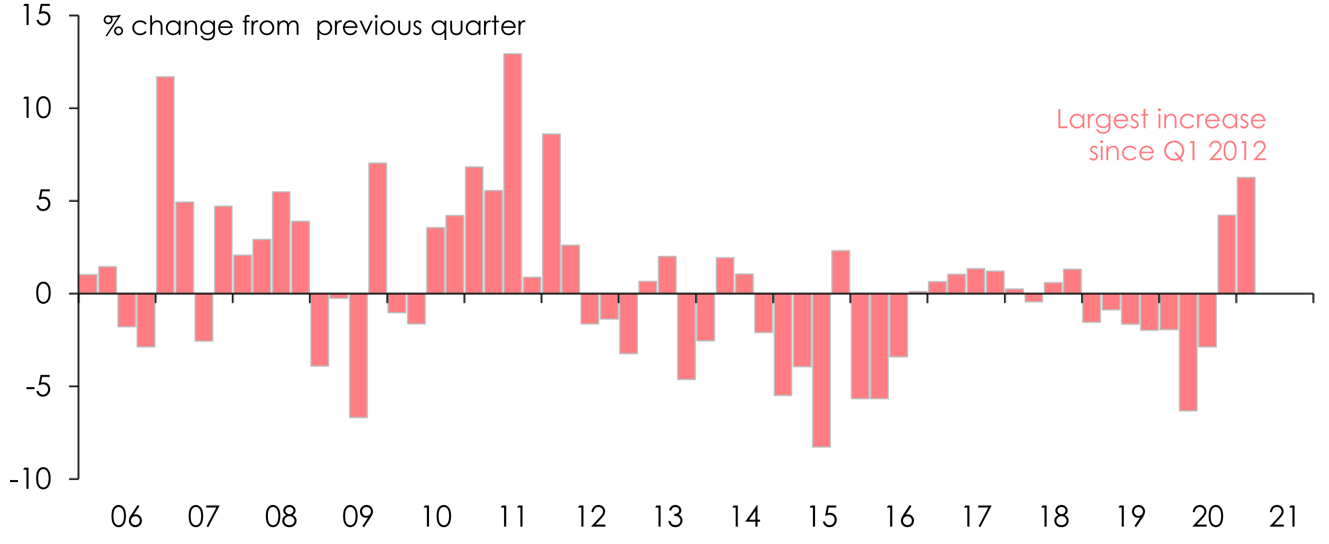
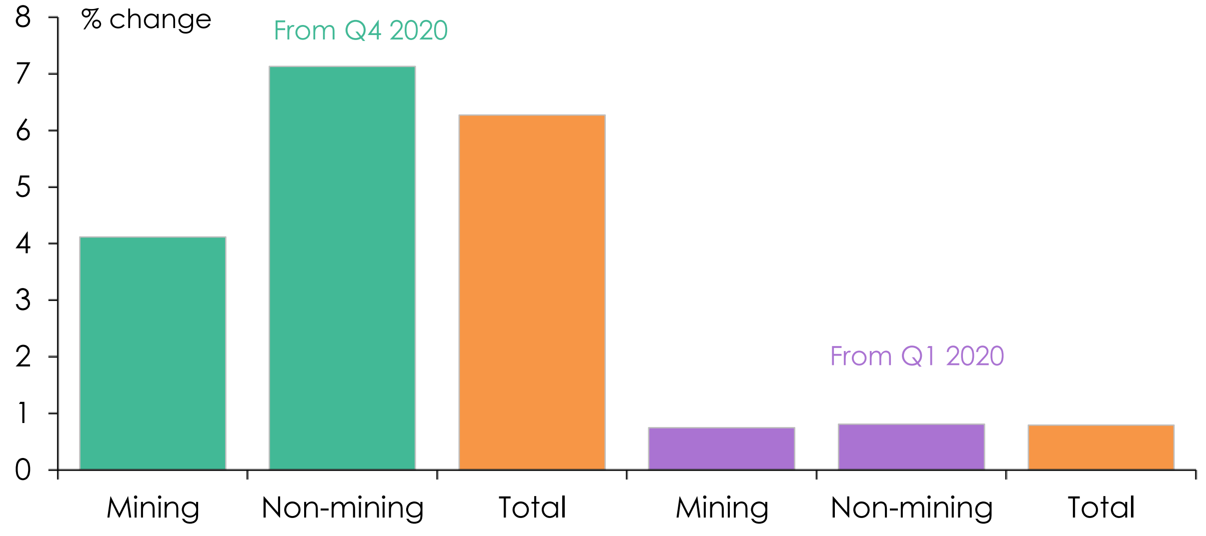
Business capex rose Q1 for the second quarter in a row, and by the largest amount in nine years, led by manufacturing, mining and construction

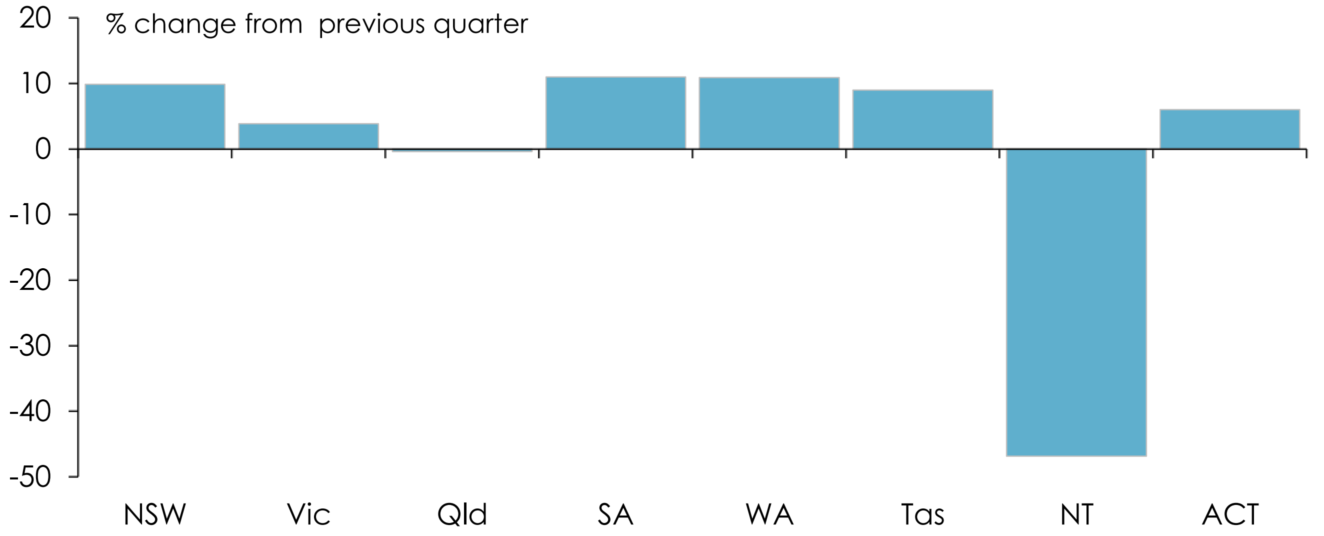
Real business new fixed capital expenditure



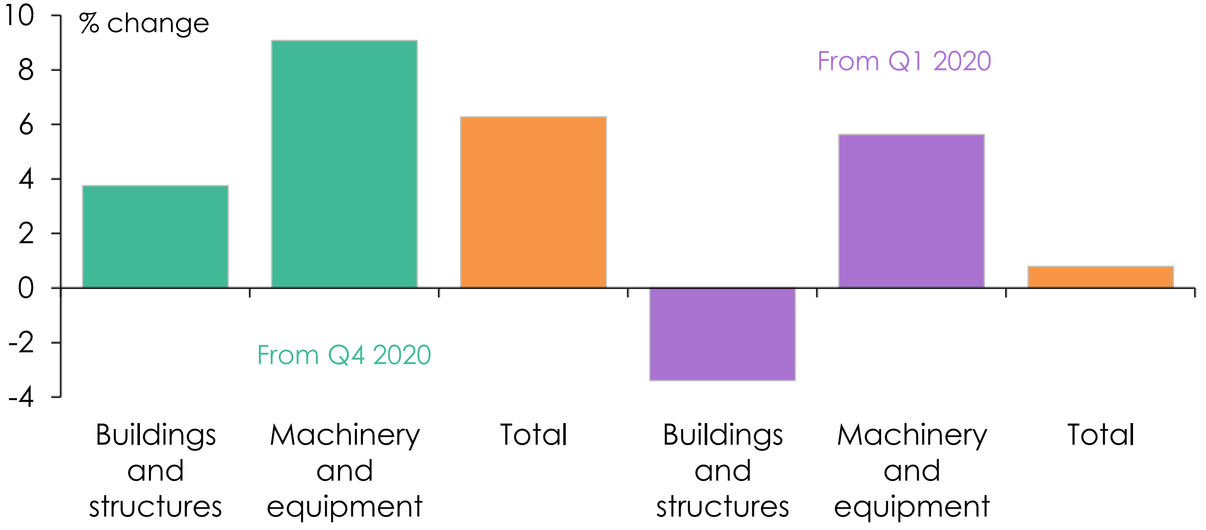
Real business new fixed capex, by industry, Q1



Real business new fixed capex, by state, Q1 2021



Real business new fixed capex, by asset, Q1



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

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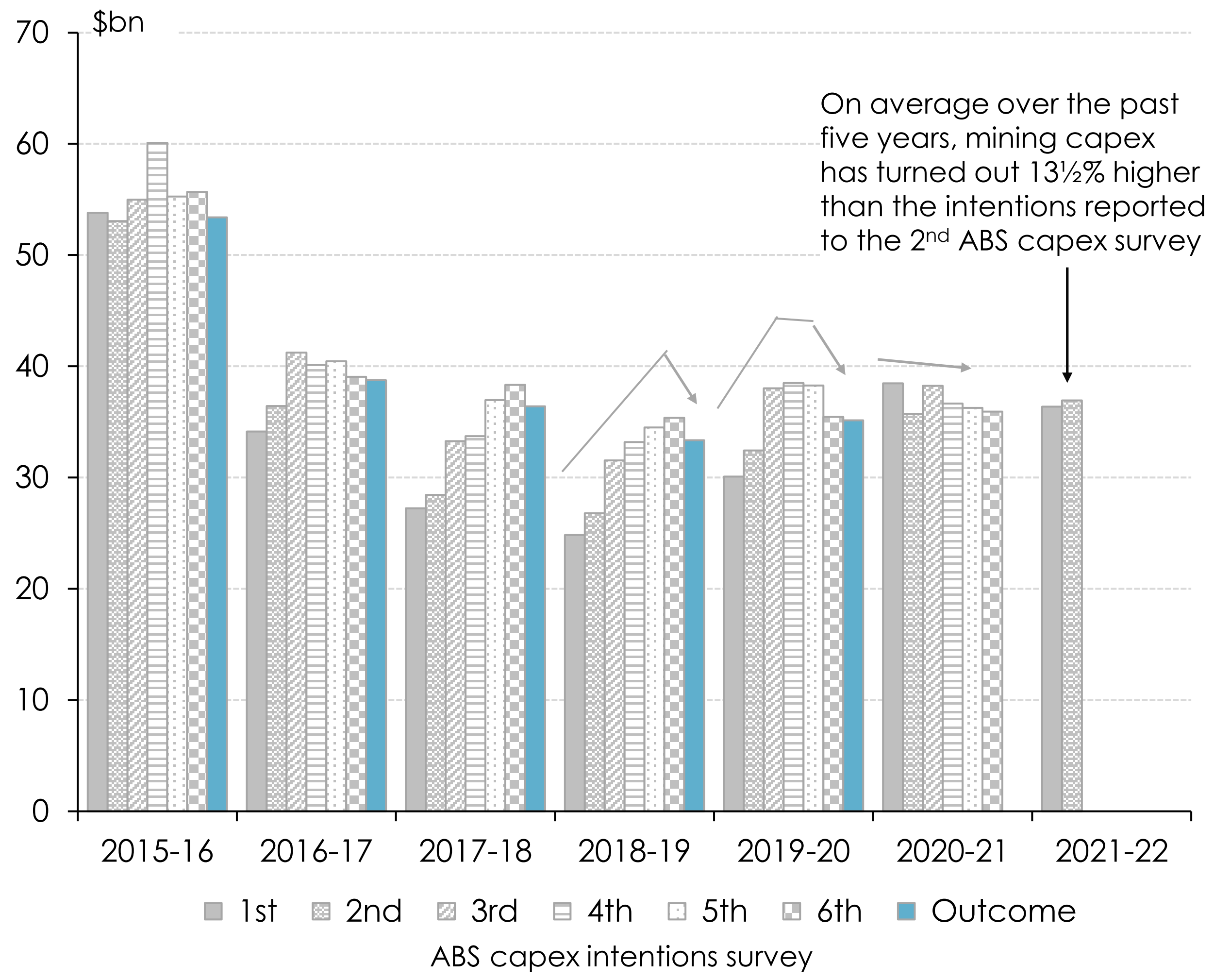
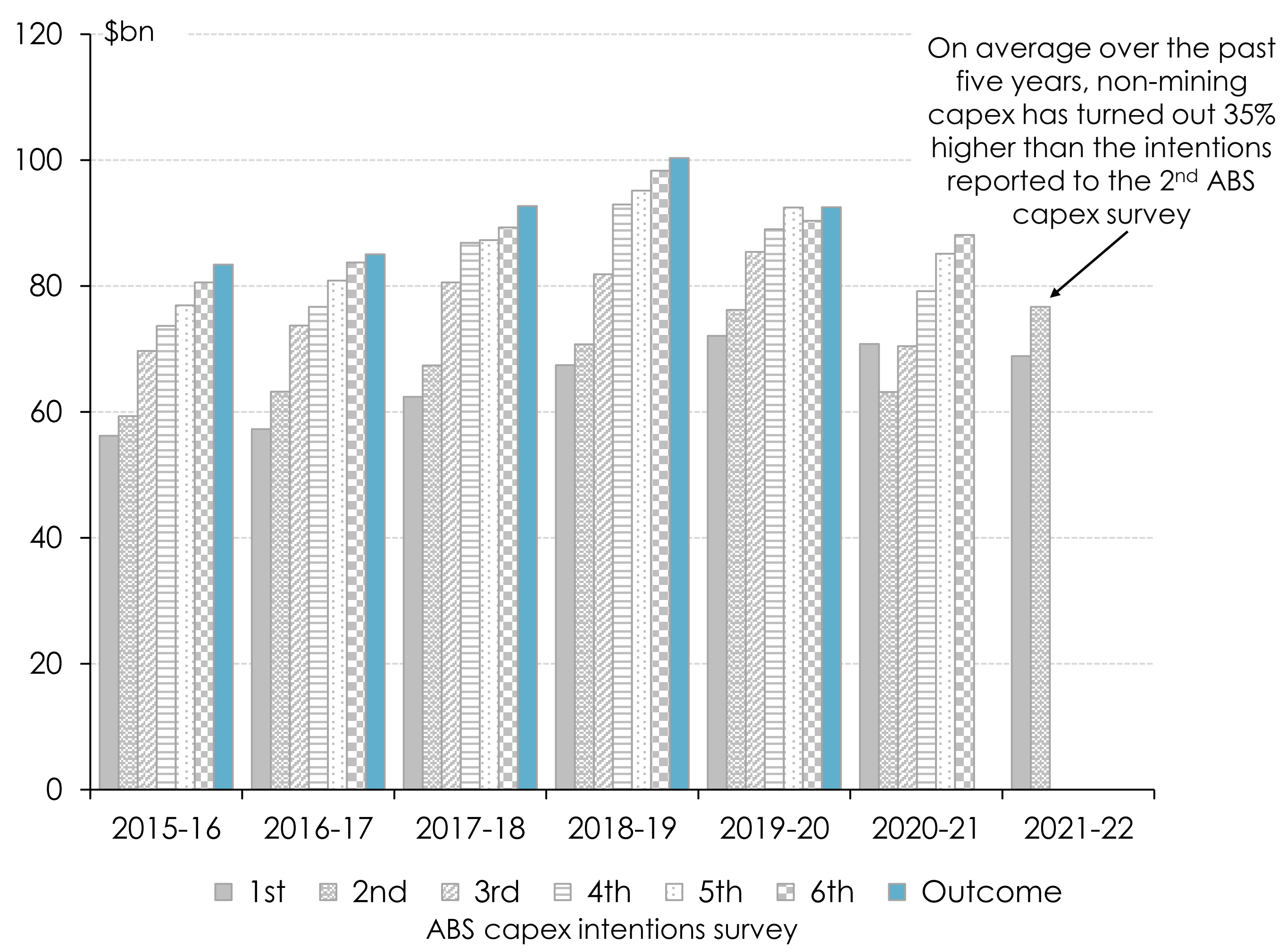
Business capex now looks likely to have fallen by only about 2% in 2020-21, while the 2nd estimate for 2021-22 points to a rise of more than 15%

Capital expenditure intentions - mining



Capital expenditure intentions – non-mining



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

Source: ABS, *Private New Capital Expenditure and Expected Expenditure, Australia* (next update is released on 28th August). Return to "What's New".

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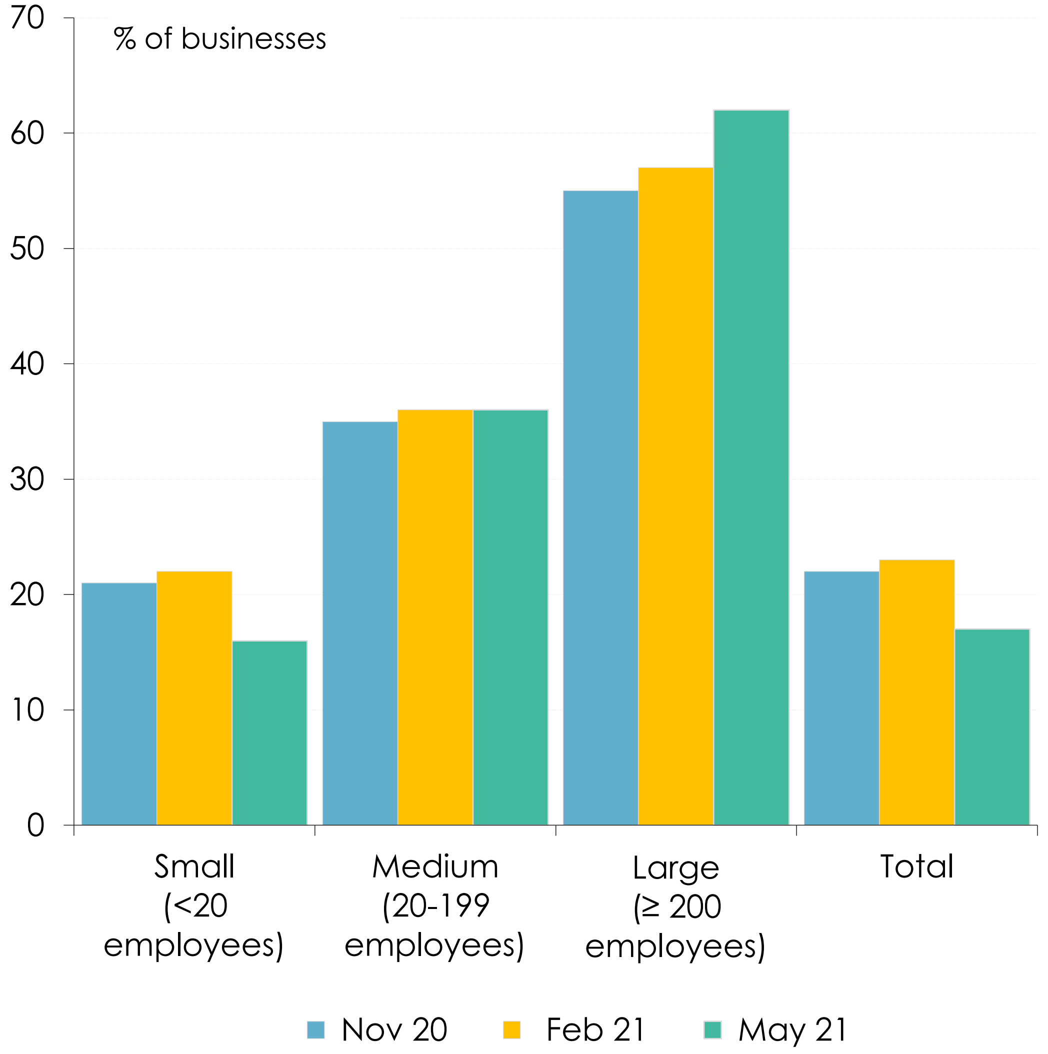
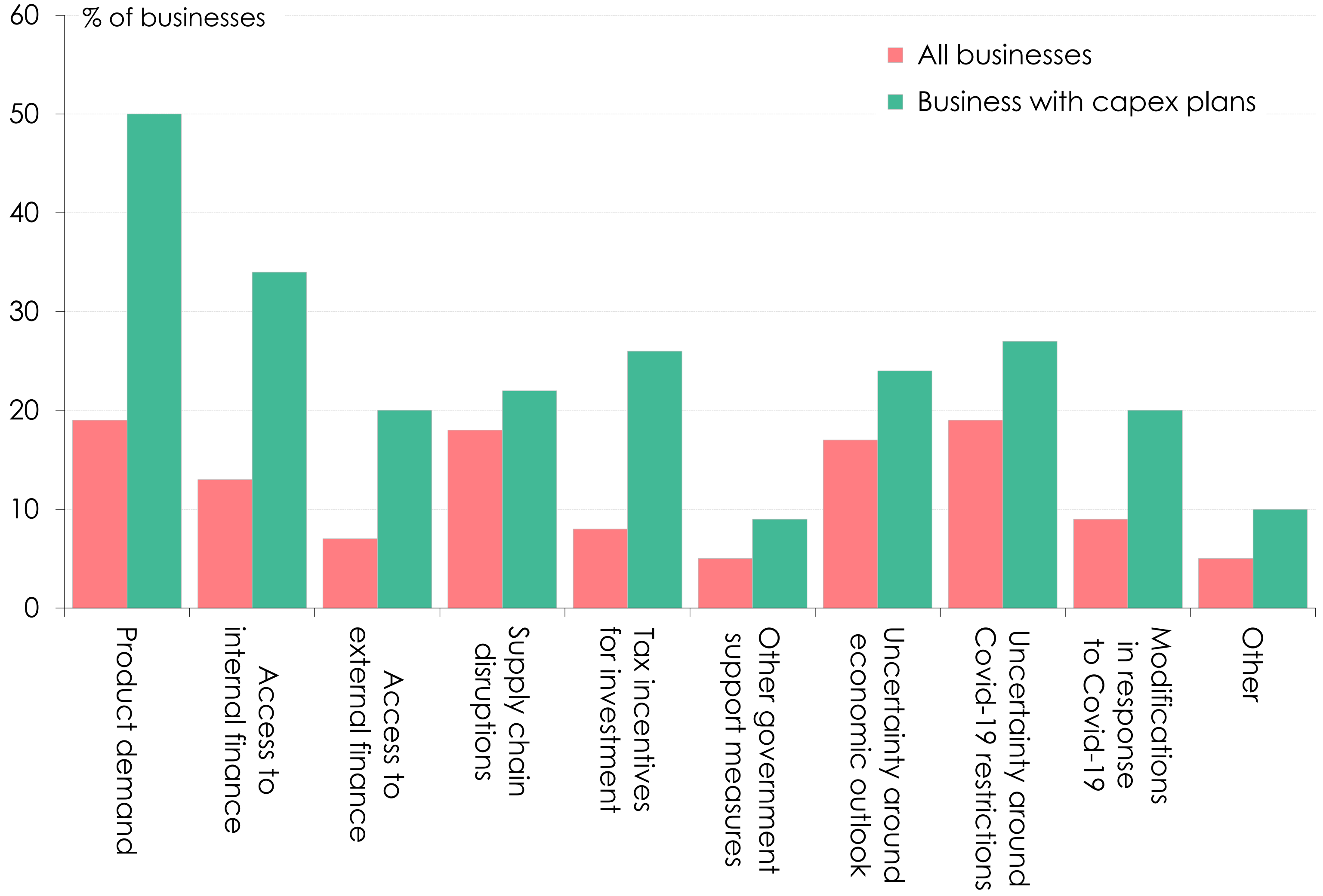
Medium-sized and large businesses will be the 'engine rooms' for capex (as well as job creation), not small ones

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

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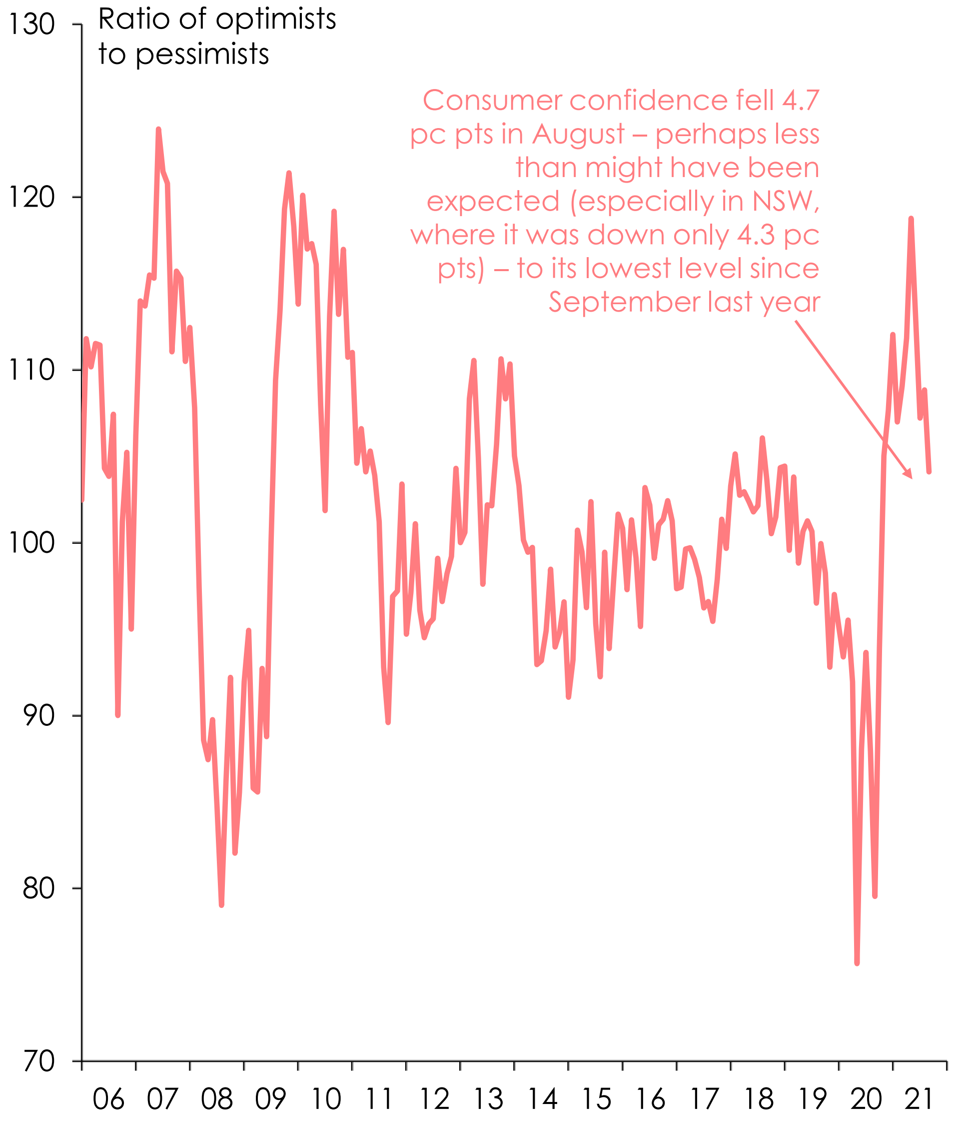
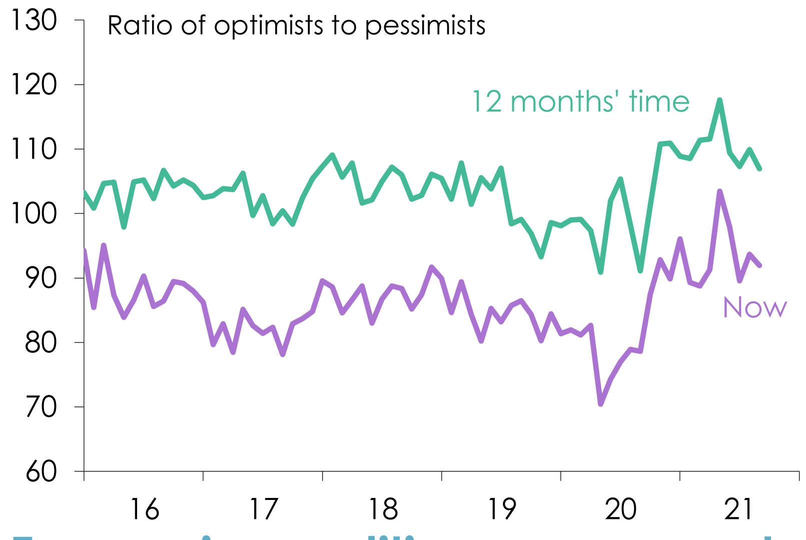
Consumer confidence fell 4¾ pc pt in September, less than might have been expected – consumers seem ok about their finances

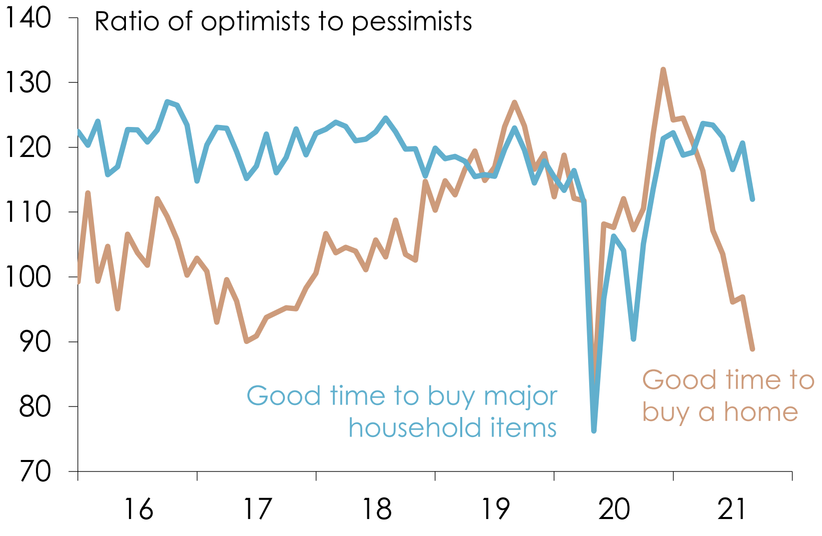
Consumer confidence index



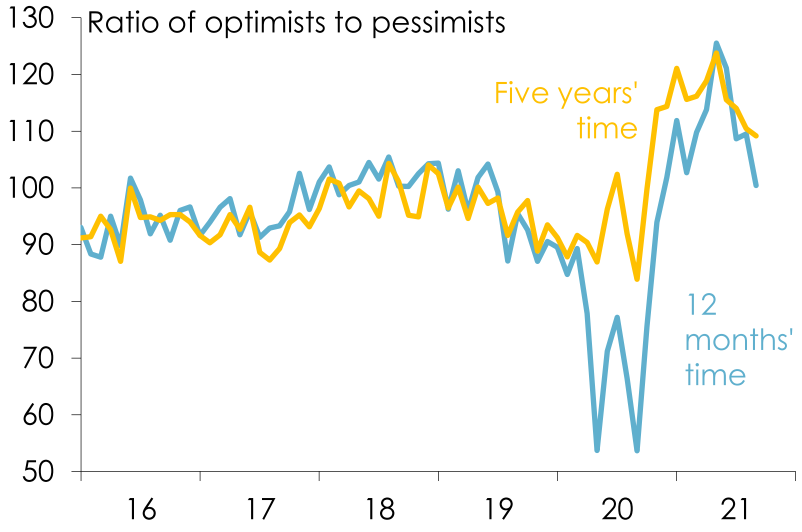
Household finances assessment



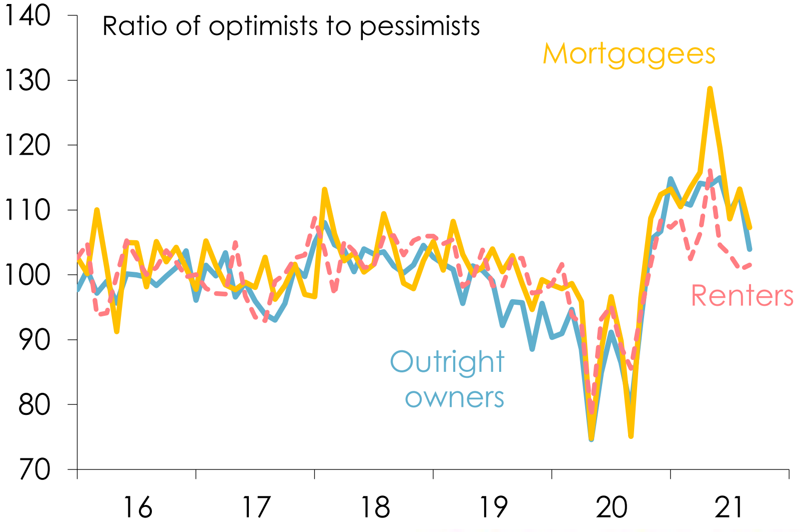
Buying conditions assessment



Economic conditions assessment



Confidence by housing tenure



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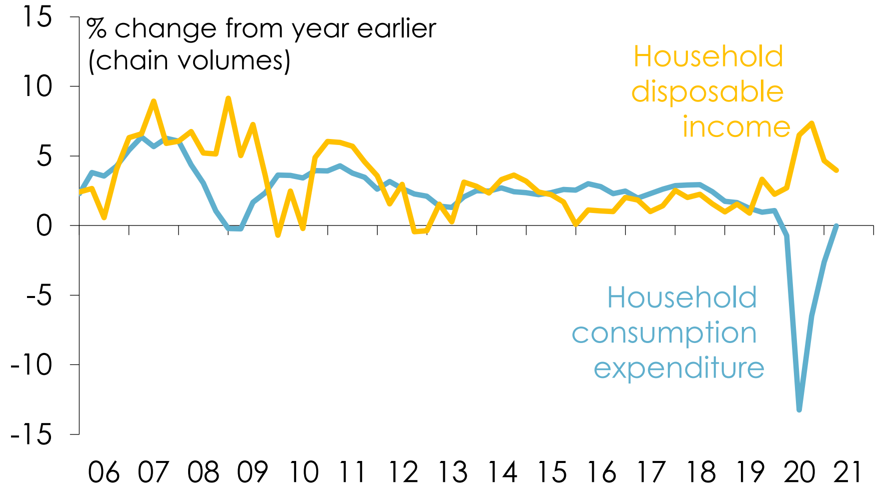
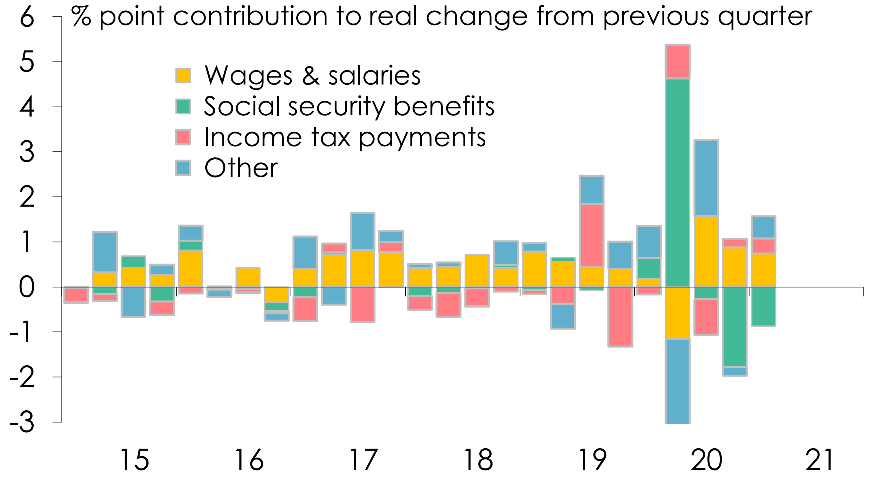
Household incomes have been supported by government payments, but spending has been curtailed, so households have lots of savings to spend

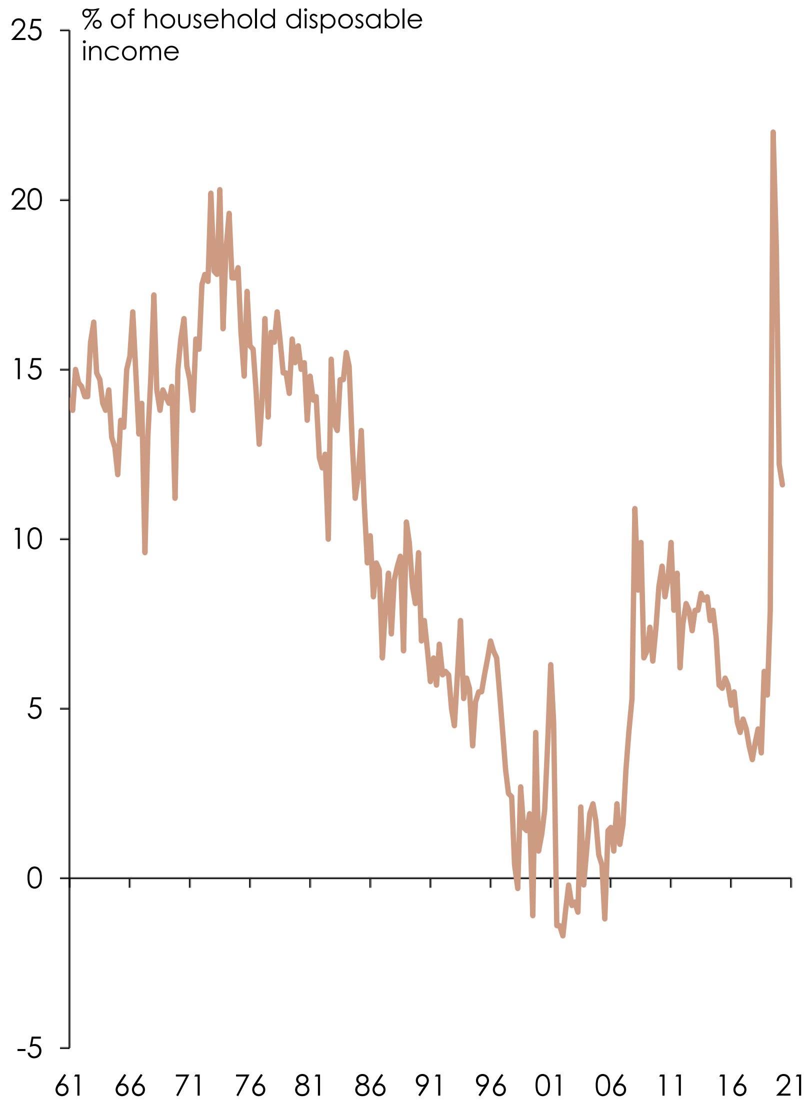
Household income and spending



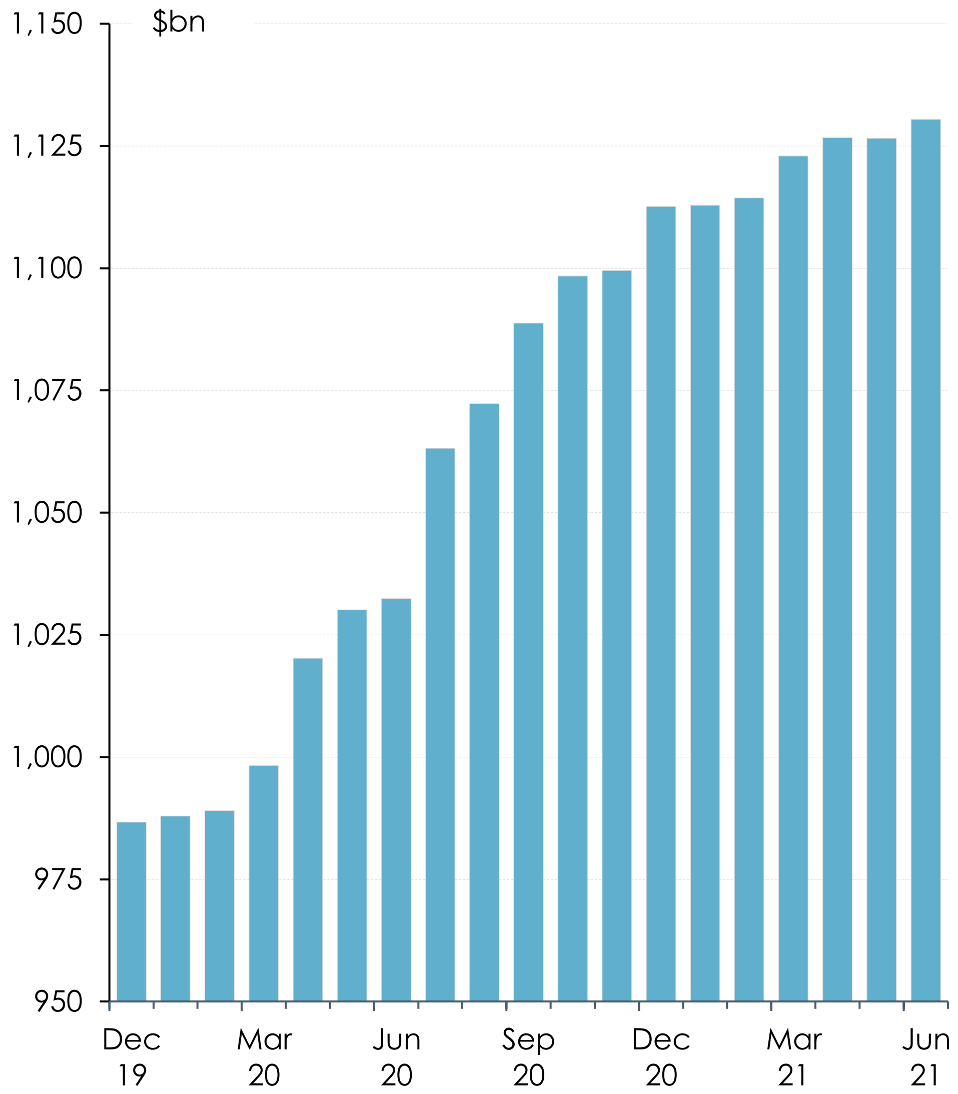
Sources of household income



Household saving ratio



Household bank deposits



Sources: ABS; APRA. Return to "What's New".

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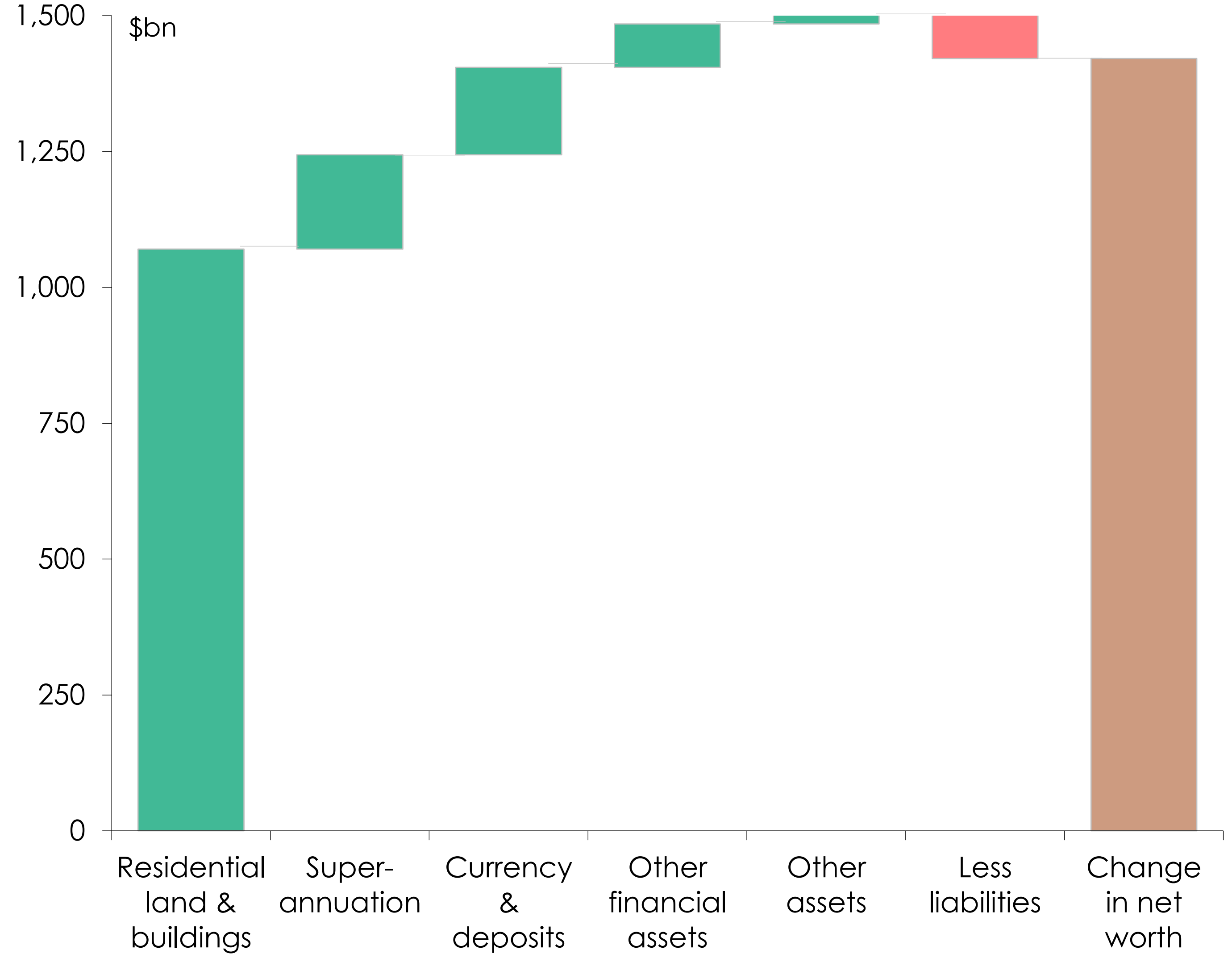
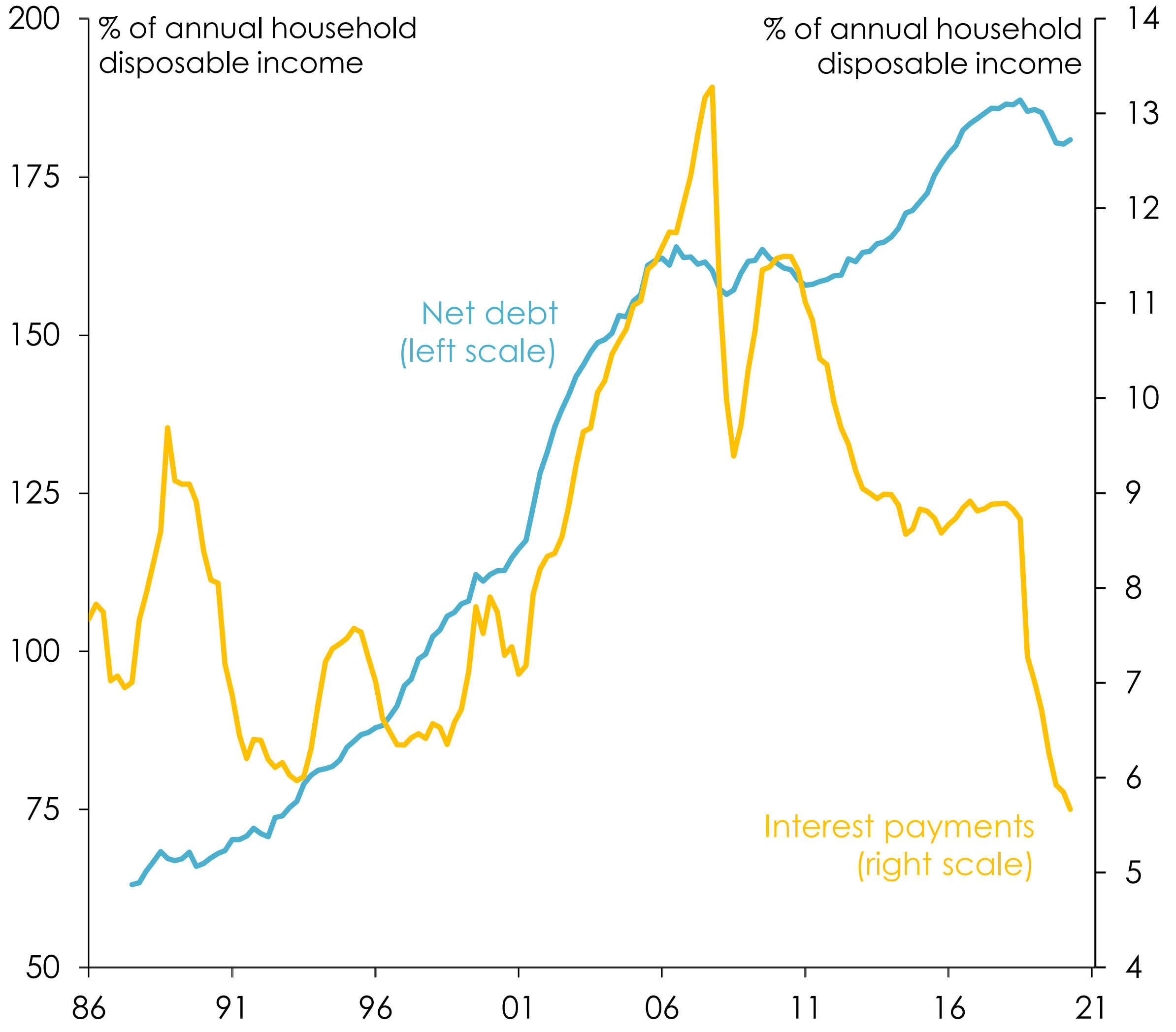
Household net worth has risen by $1.4trn (12½%) since the end of 2019, while debt and interest payments have fallen as a pc of income

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".

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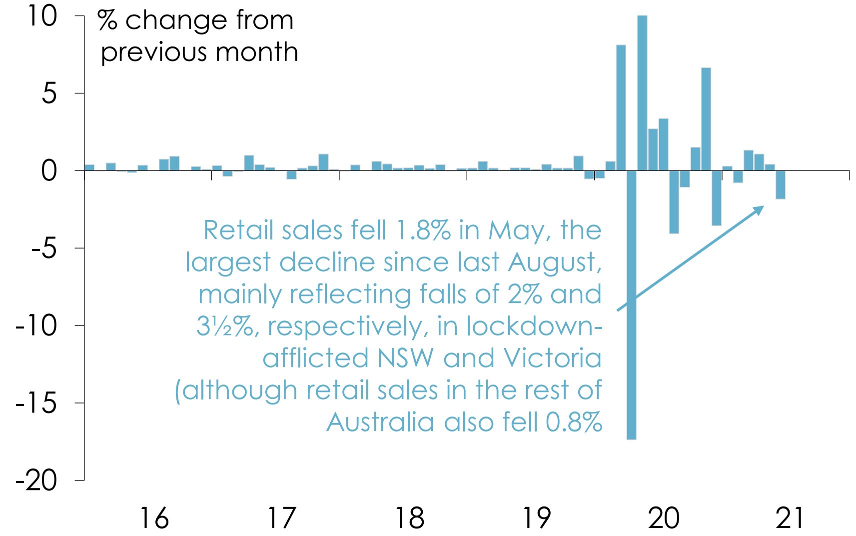
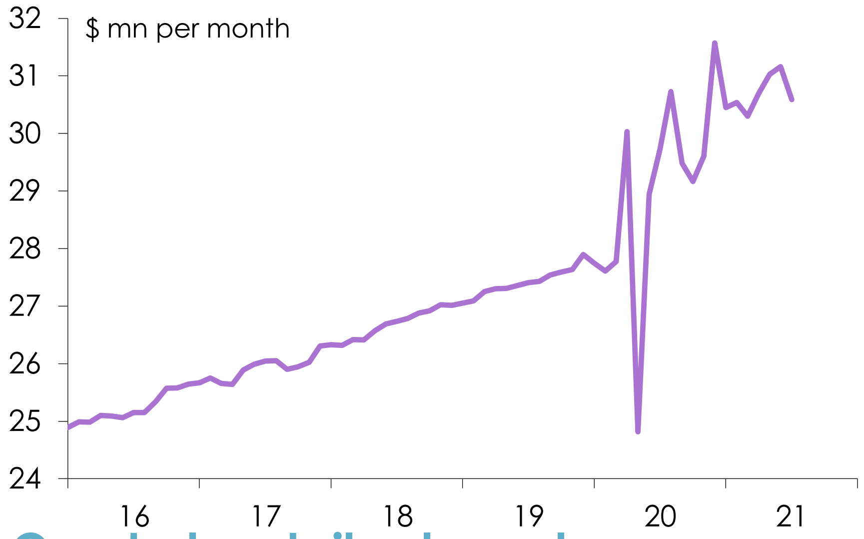
Retail sales fell 1.8% in June, weighed down by lockdowns in NSW and Victoria, but motor vehicle sales rose (surprisingly) in July

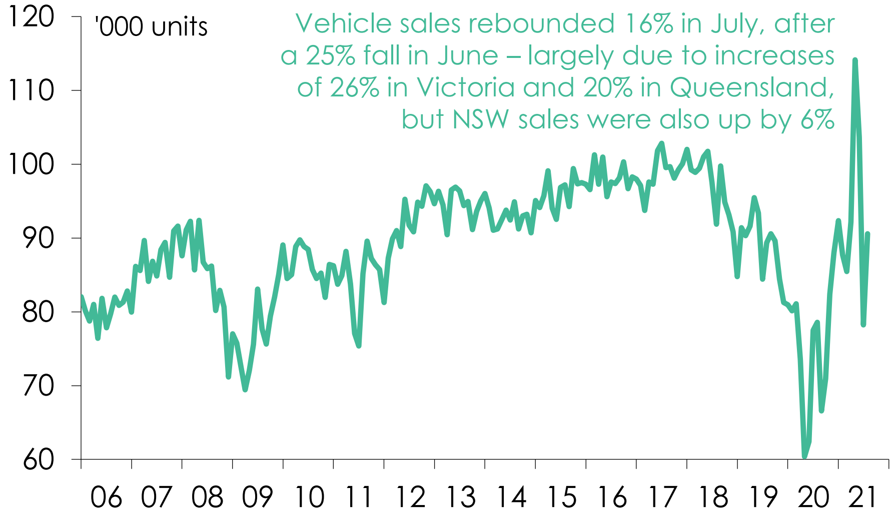
Monthly retail sales



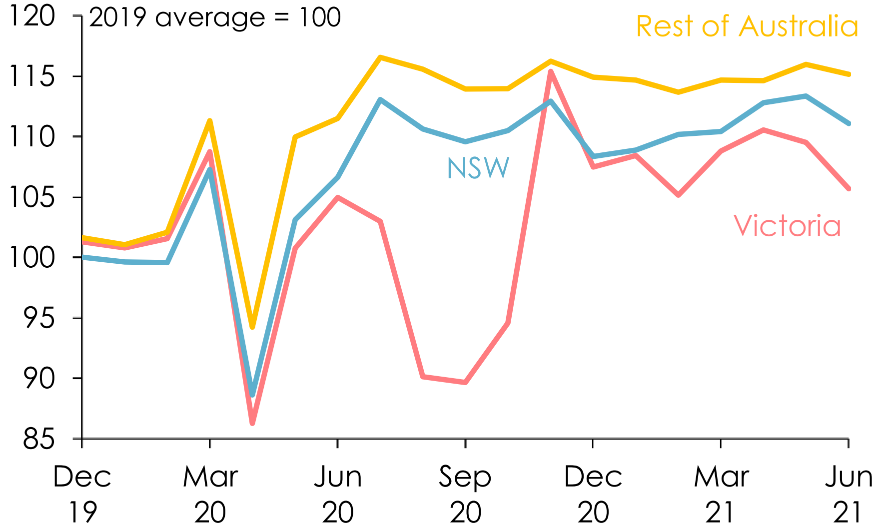
Level of retail sales



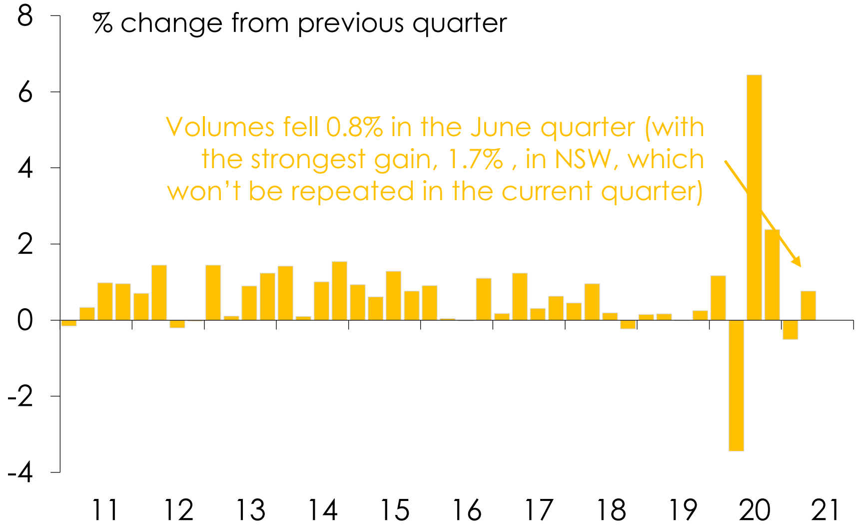
New motor vehicle sales



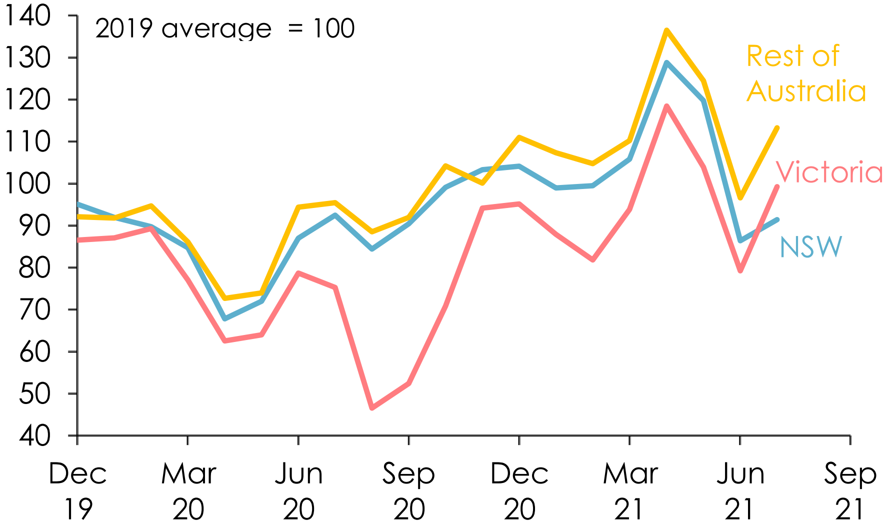
Retail sales – NSW, Vic & the rest



Quarterly retail sales volumes



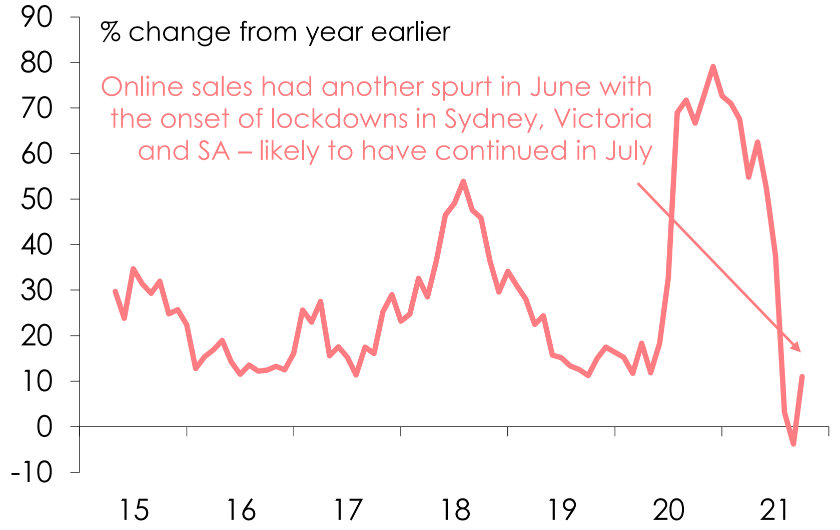
Vehicle sales – NSW, Vic & the rest



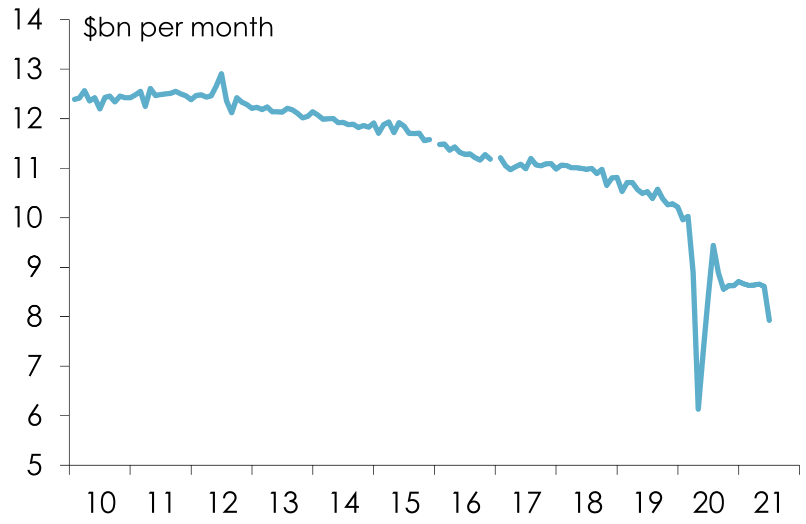
Note: see also slide 107 for more detail on the composition of retail sales since the onset of the pandemic. *Sources:* ABS, Retail Trade, Australia, Preliminary; Federal Chamber of Automotive Industries VFACTS (seasonal adjustment of FCAI data by Corinna). July retail sales data will be released on 28th August; August motor vehicle sales data will be released in the second week of September. Return to "What's New".

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

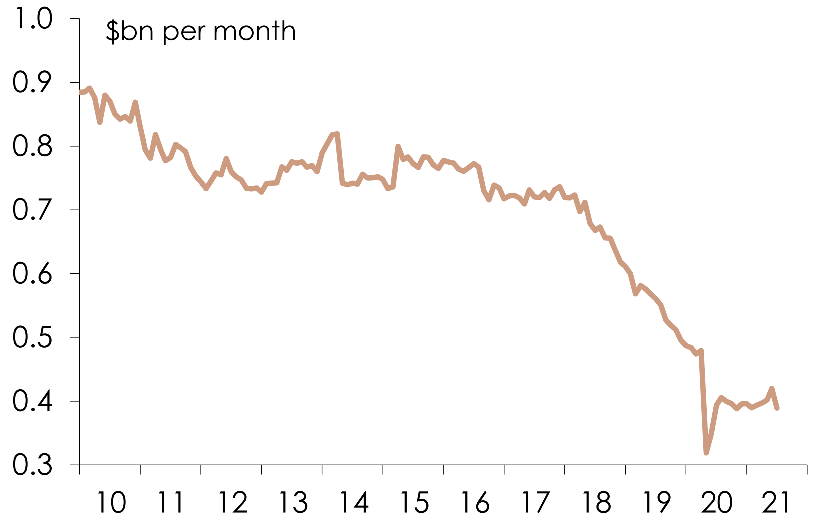
Growth in online retail sales



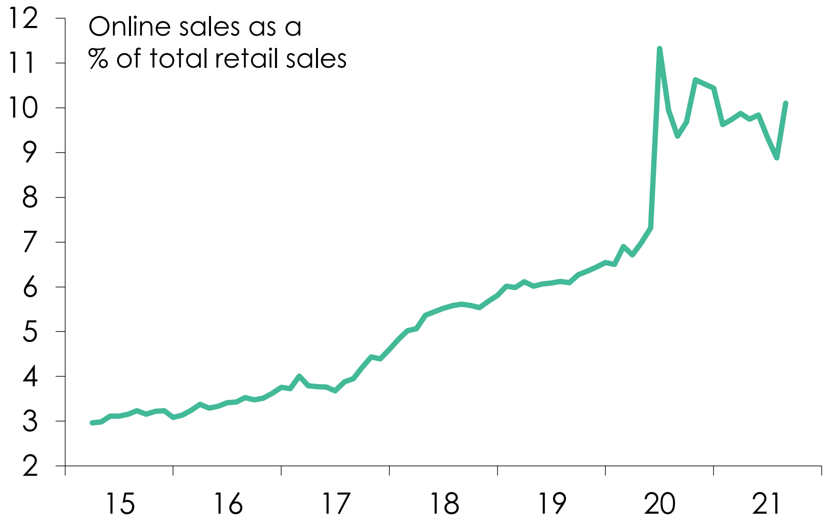
ATM cash withdrawals



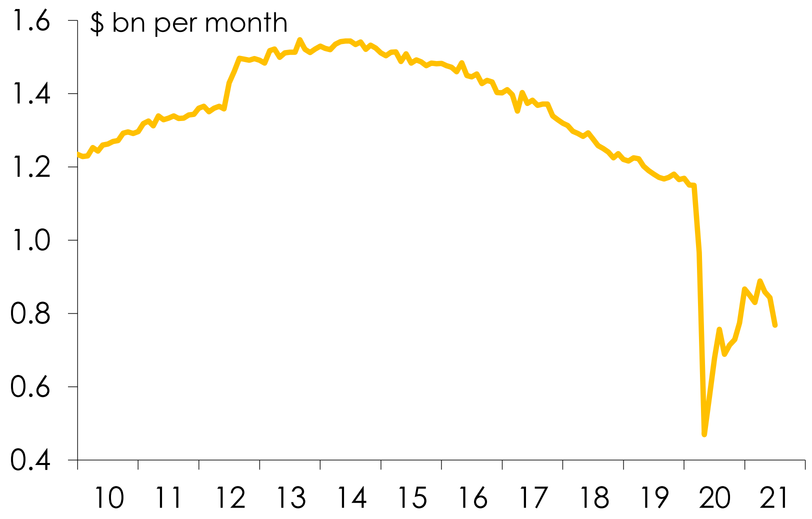
Credit card cash advances



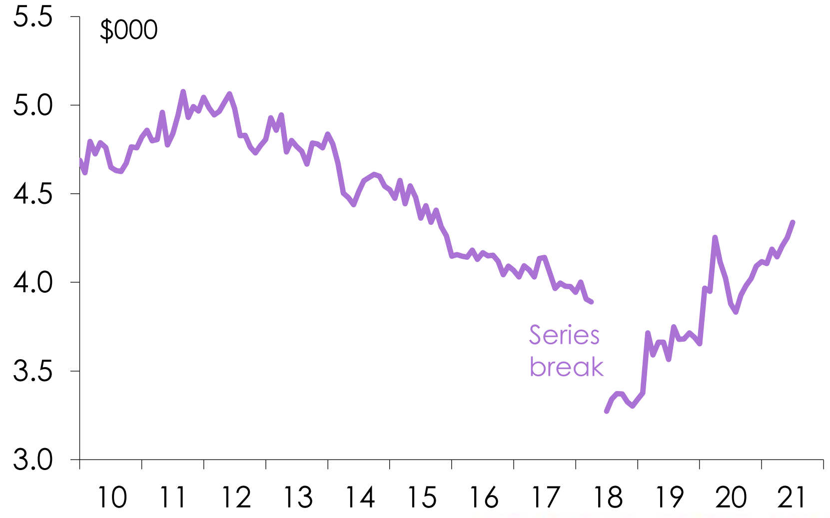
Online retail 'market share'



Debit card cash-outs



Direct entry payments



Sources: ABS, *Retail Trade, Australia*; RBA, *Statistical Tables*, C1, C2, C4 and C6. Latest data are for July: July online retail sales will be published on 28th August; and July data for the payments system will be released on 8th September. Return to "What's New".

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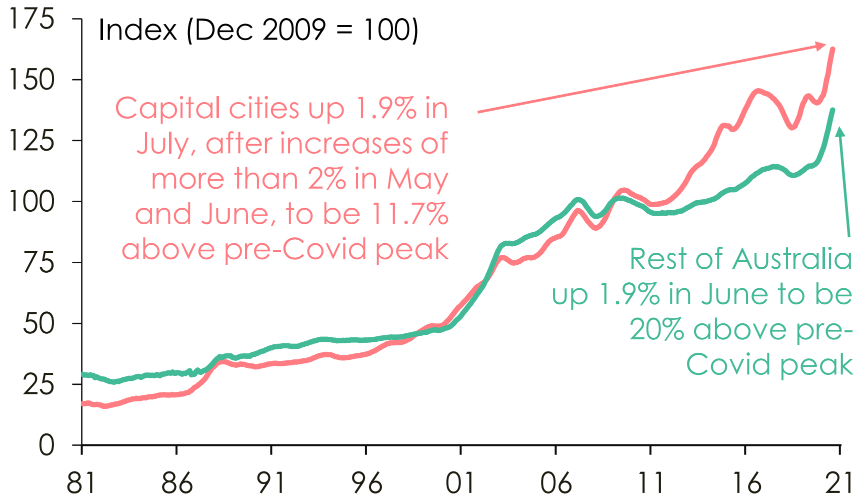
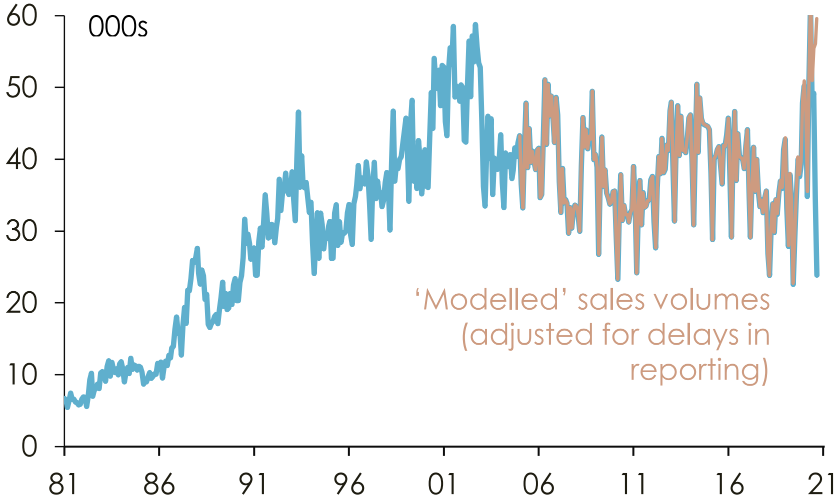
Property prices rose another 1.9% in July, a little less than the 2.2% in each of May and June, to be 14% higher than their pre-pandemic peak

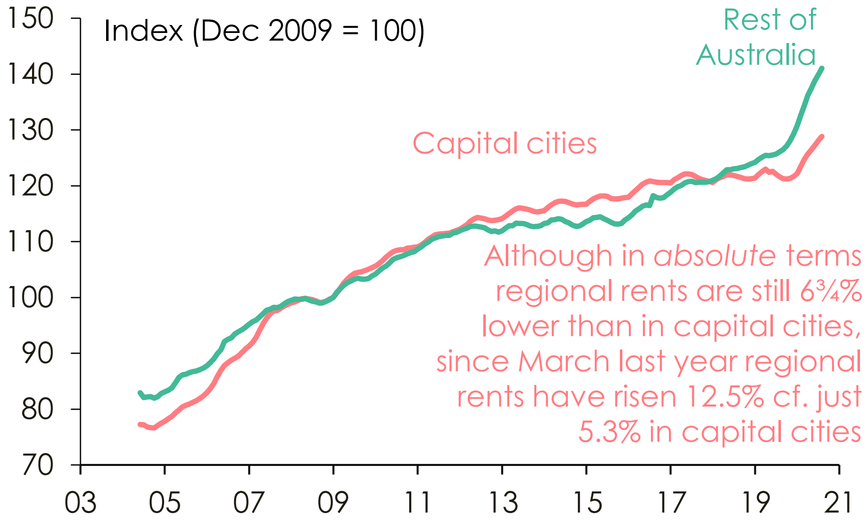
Residential property prices



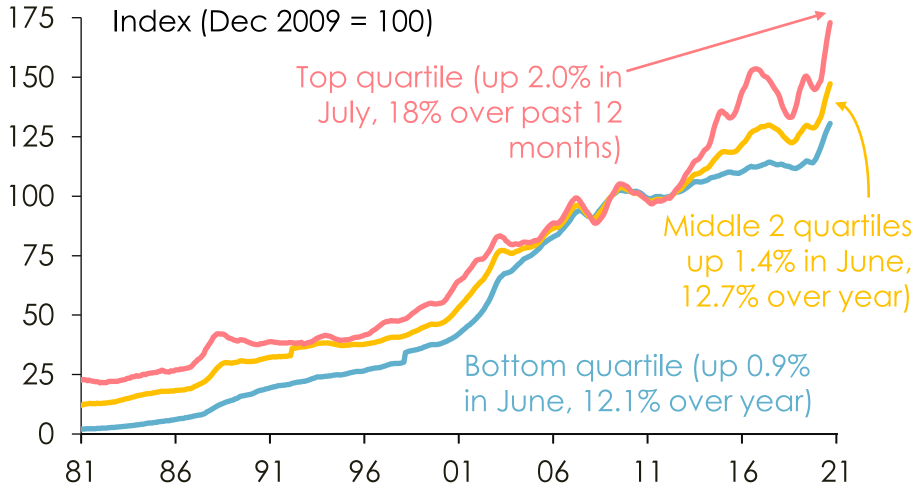
Residential property sales volumes



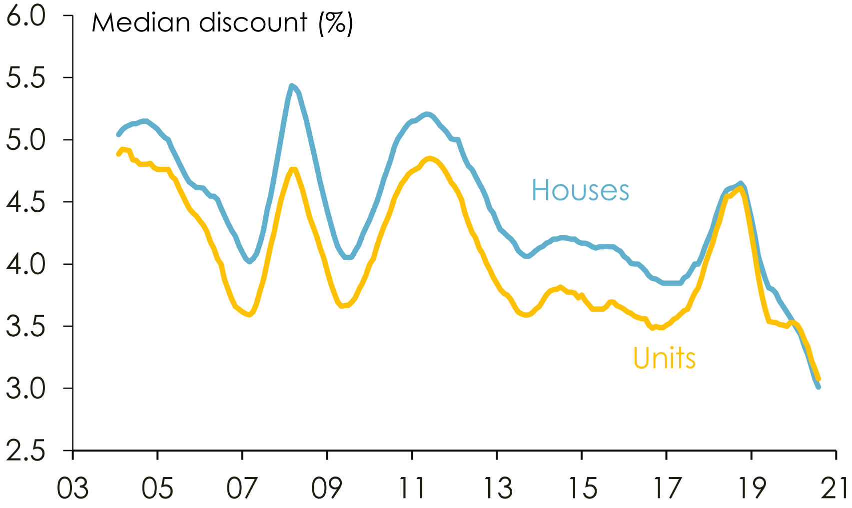
Residential rents



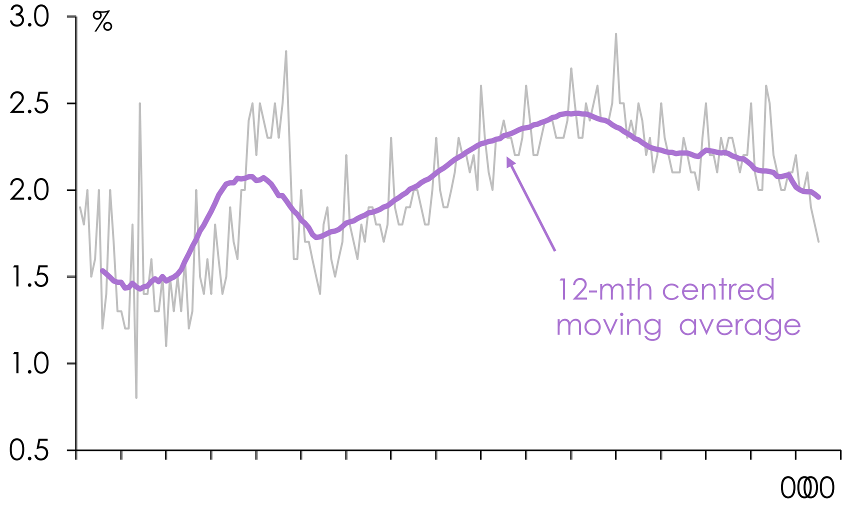
Property prices by tier



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 shown here are 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 July (except for vacancy rates which is June). August prices, sales volumes and rents data will be released on 1st September. *Sources:* CoreLogic; SQM Research. Return to "What's New".

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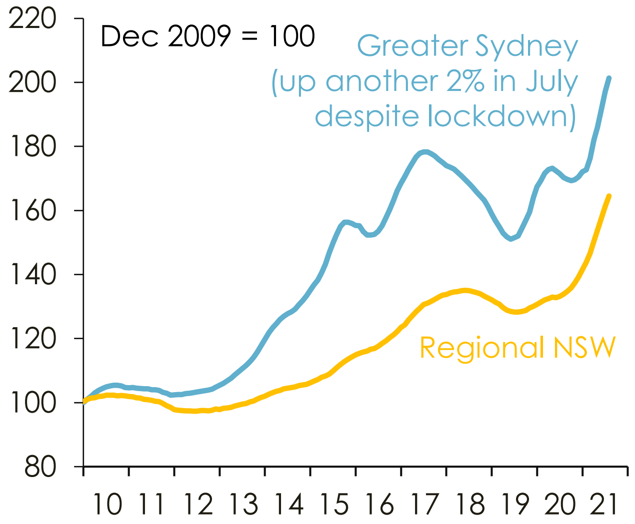
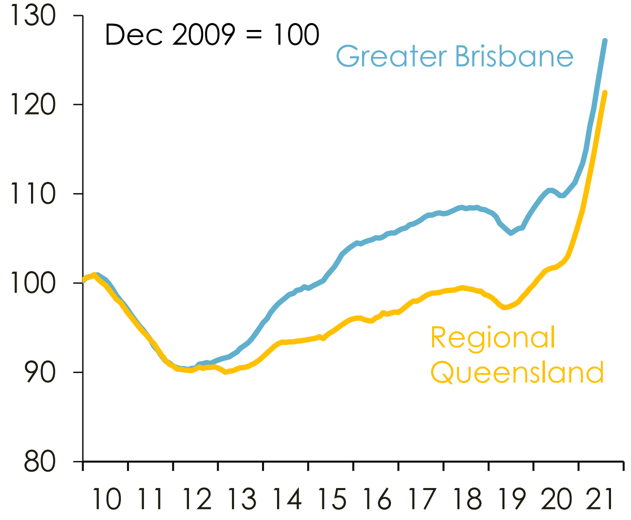
Perth and Darwin are now the only capital cities where property prices are still below their pre-pandemic (or mining boom) peaks

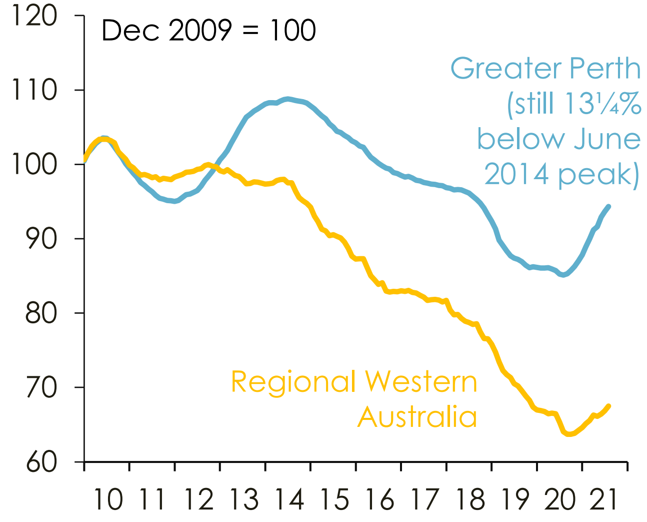
New South Wales



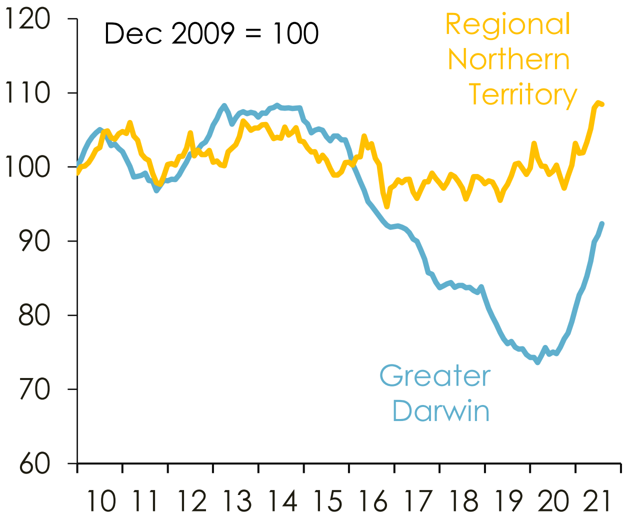
Queensland



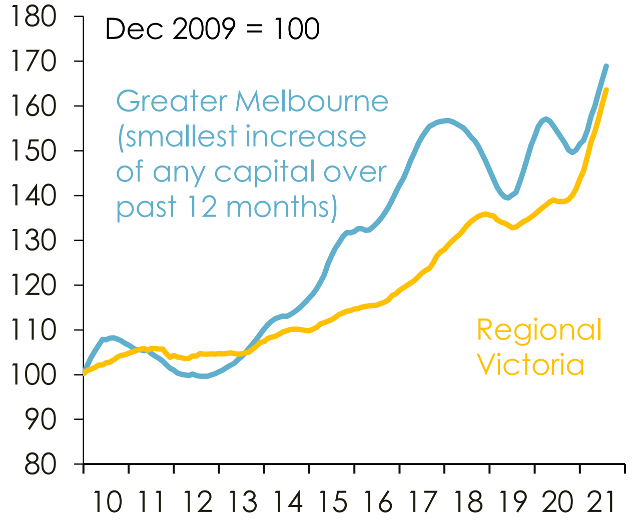
Western Australia



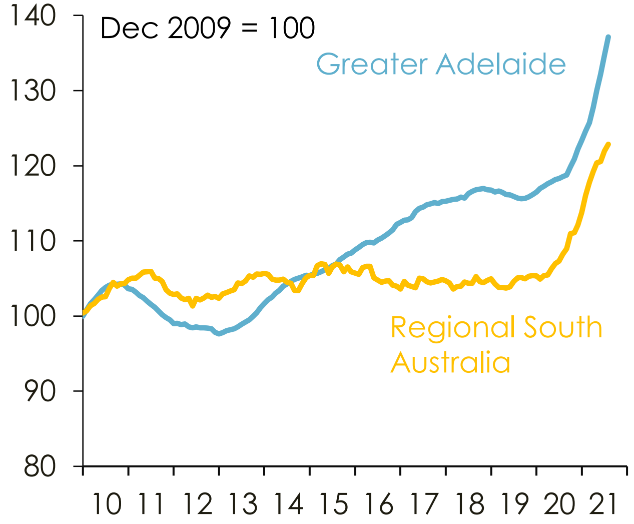
Northern Territory



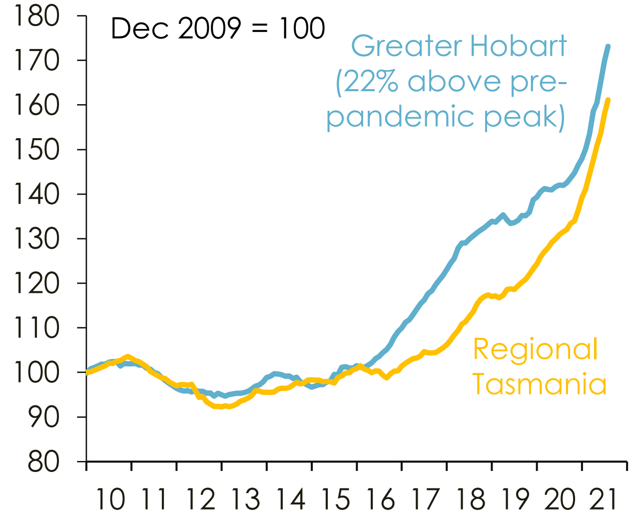
Victoria



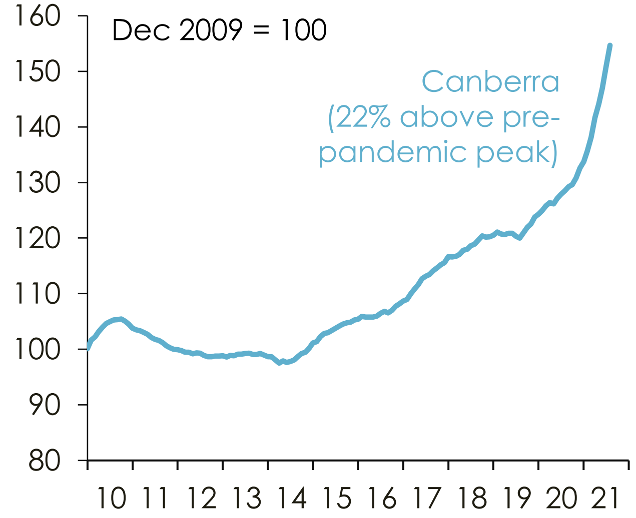
South Australia



Tasmania



Australian Capital Territory



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

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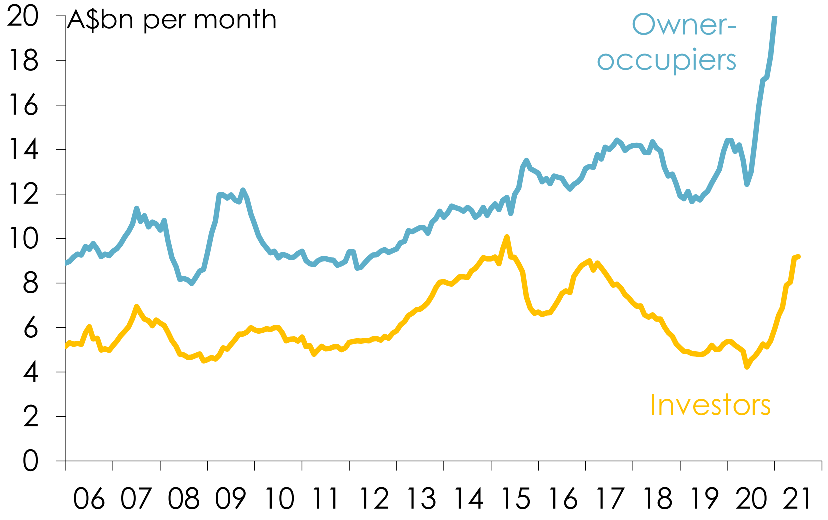
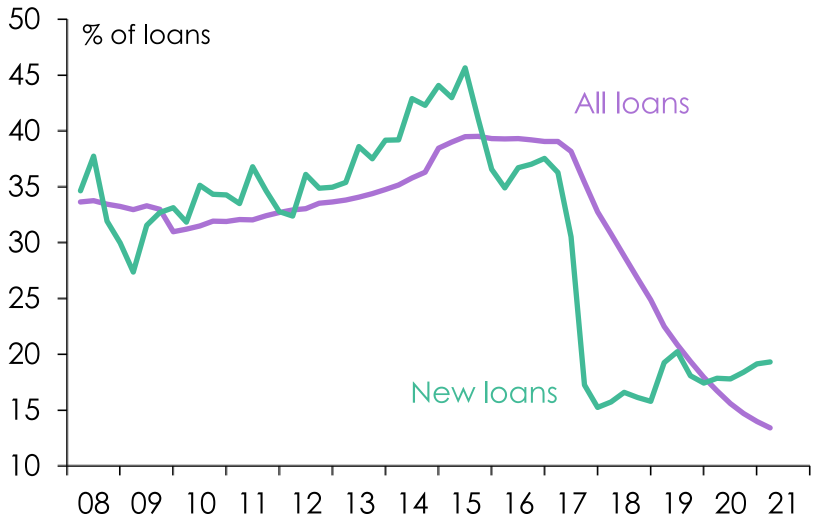
Lending to property investors and to existing home-owners 'trading up' has risen sharply in recent months while FHBs are again being 'squeezed out'

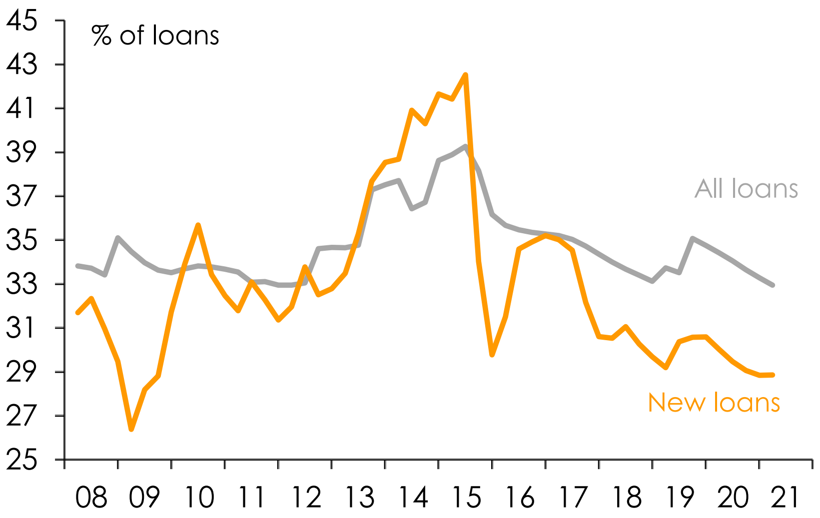
Housing finance commitments



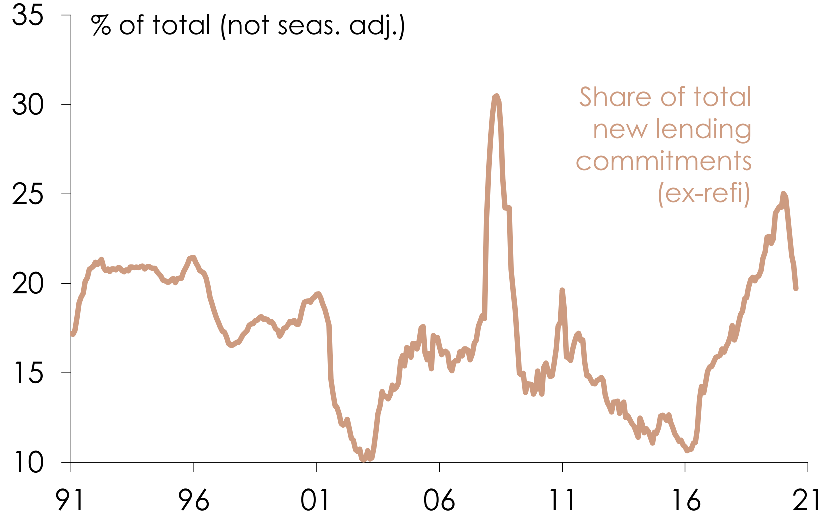
Interest-only loans as pc of total



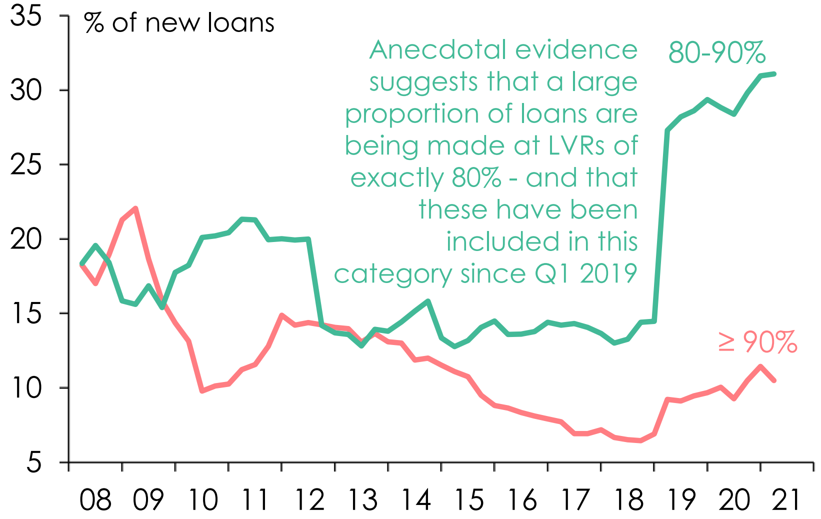
Loans to investors as a pc of total



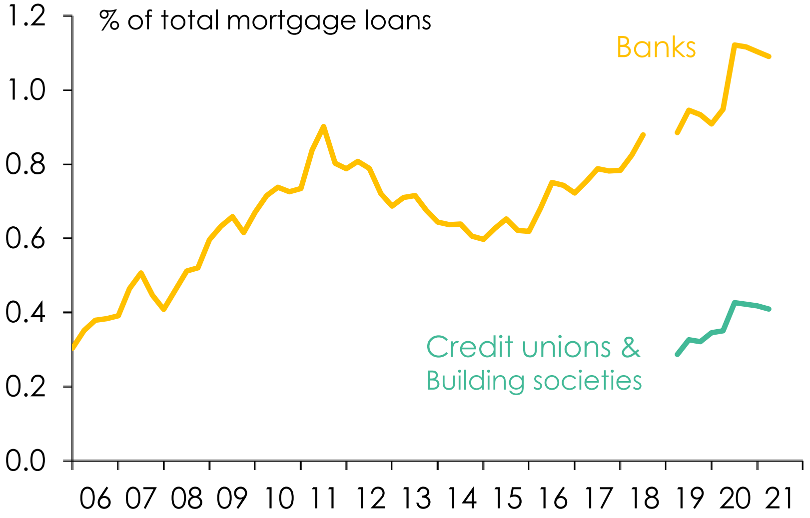
Lending to first home buyers



High LVR loans as a pc of total



Non-performing mortgage loans



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

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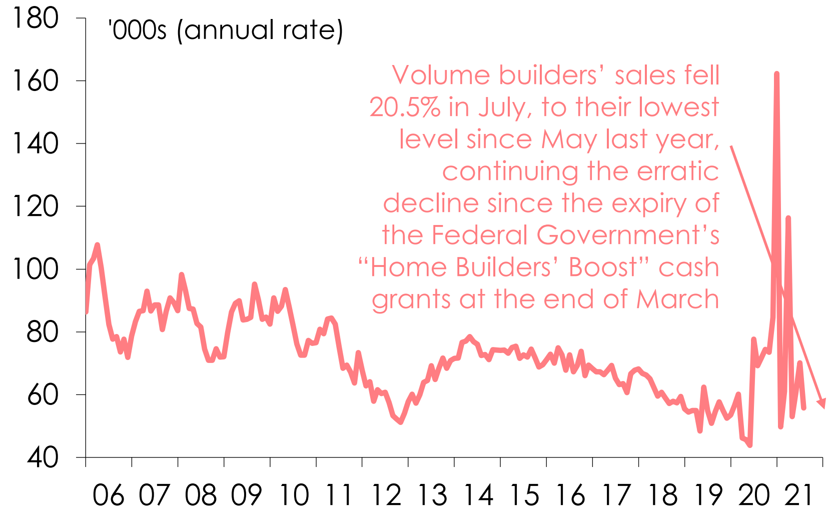
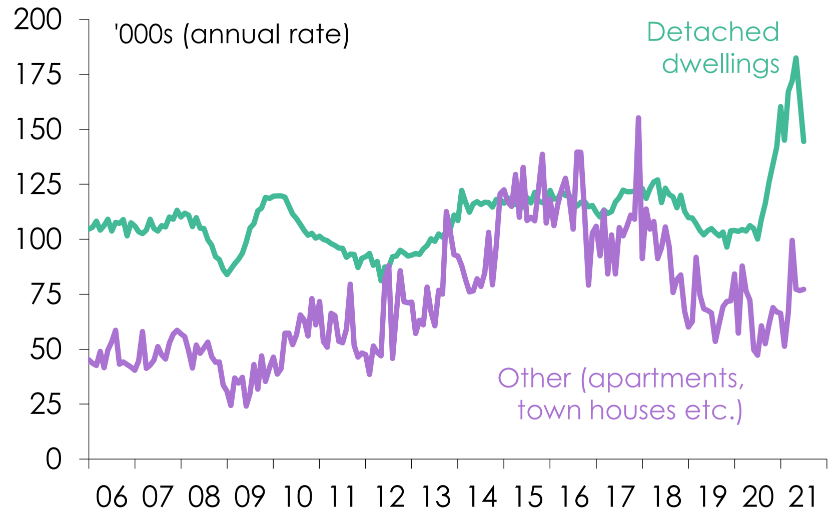
June housing approvals were down 18% from a government grant-induced record peak in March, but are still high by historical standards

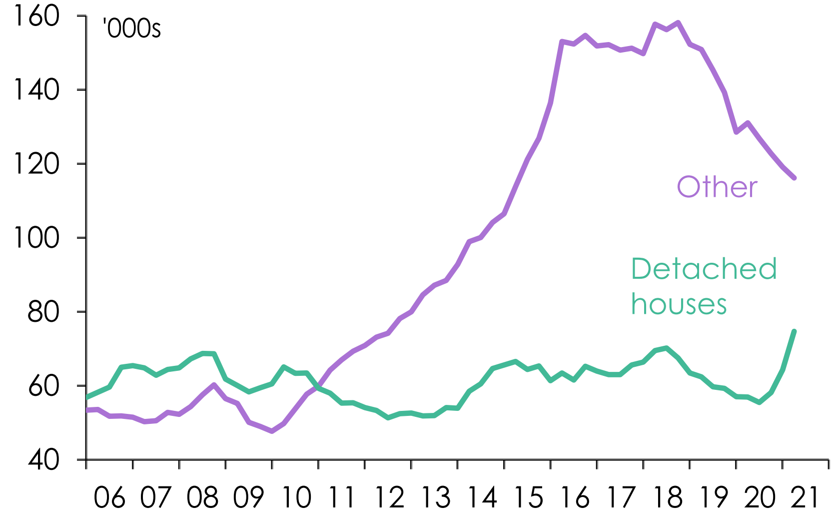
Large builders' new home sales



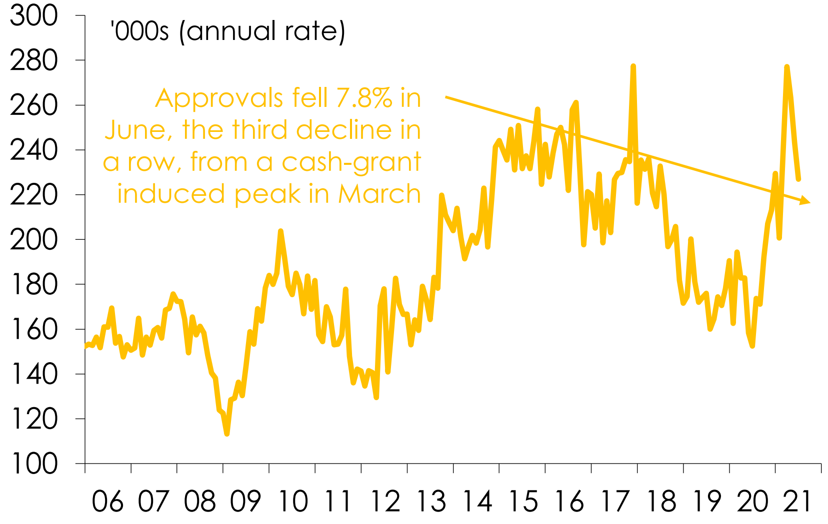
Building approvals, by type



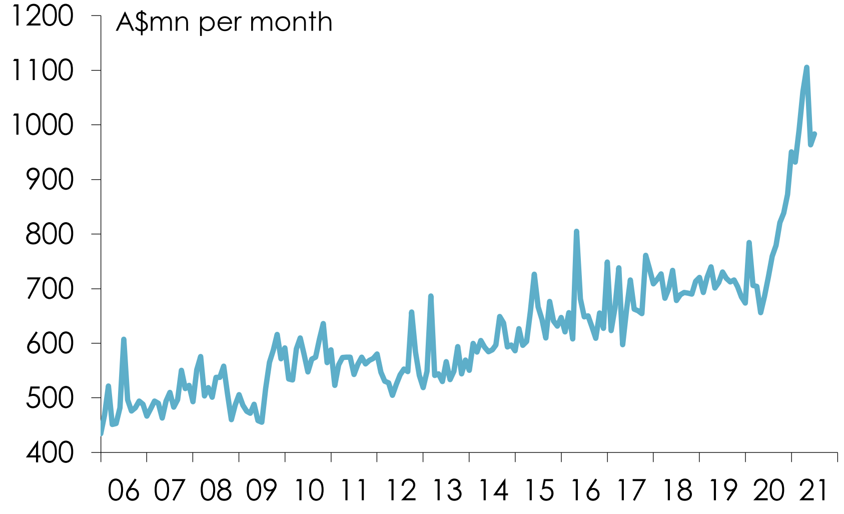
Dwellings under construction



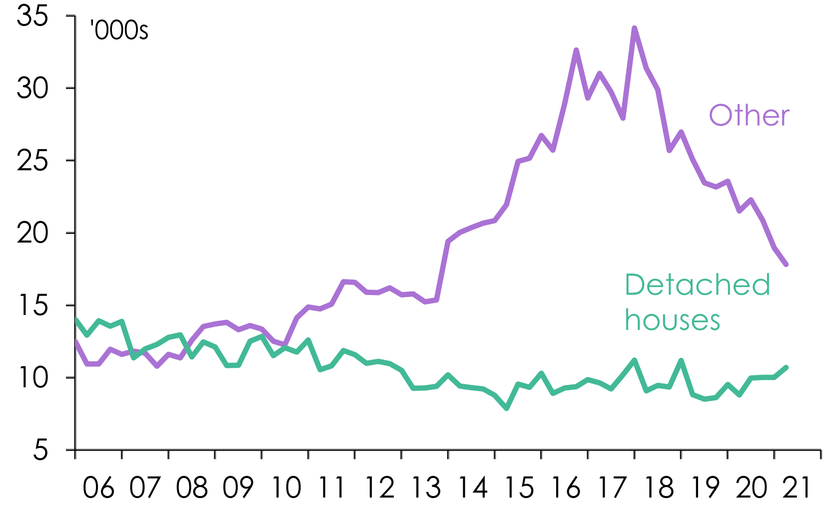
Residential building approvals



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, Building Approvals; Housing Industry Association. July building approvals data will be released on 31st August; June quarter dwellings under construction and 'pipeline' data on 13th October. Return to "What's New".

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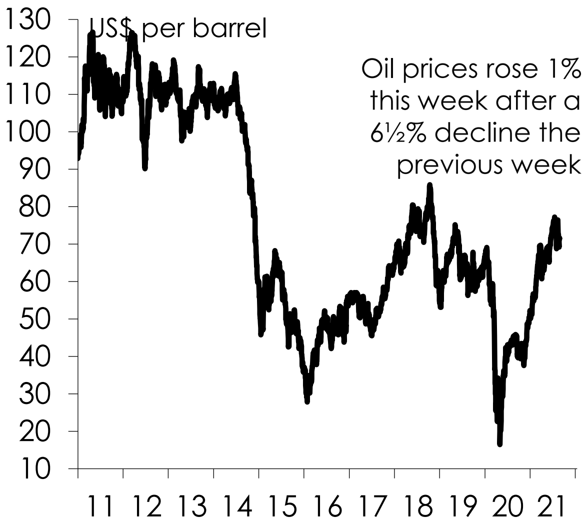
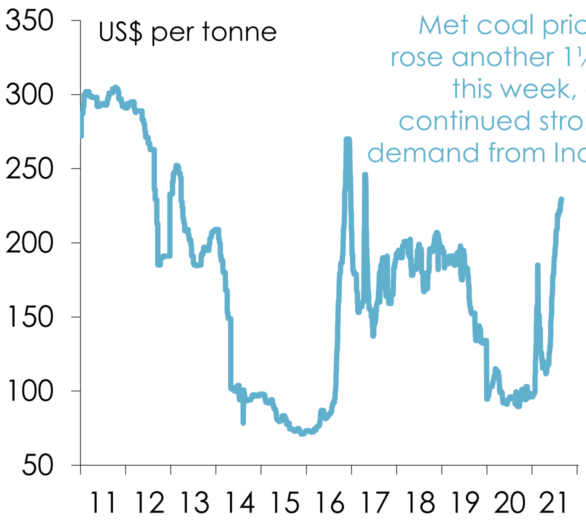
Iron ore prices fell another 7½% this week, bringing the cumulative decline since China ordered steel mills to cut production to 30%

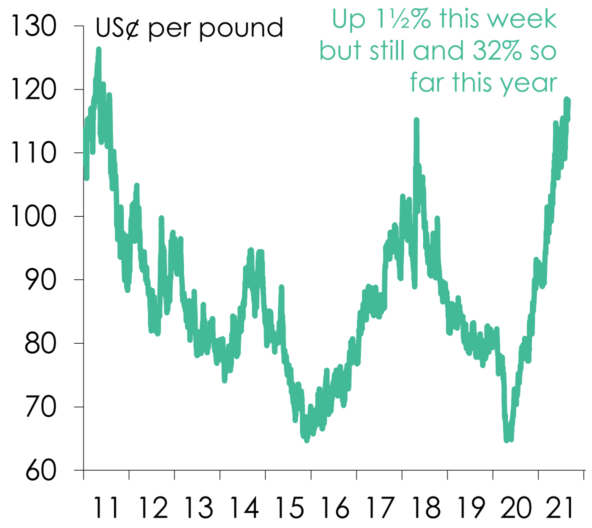
Brent crude oil



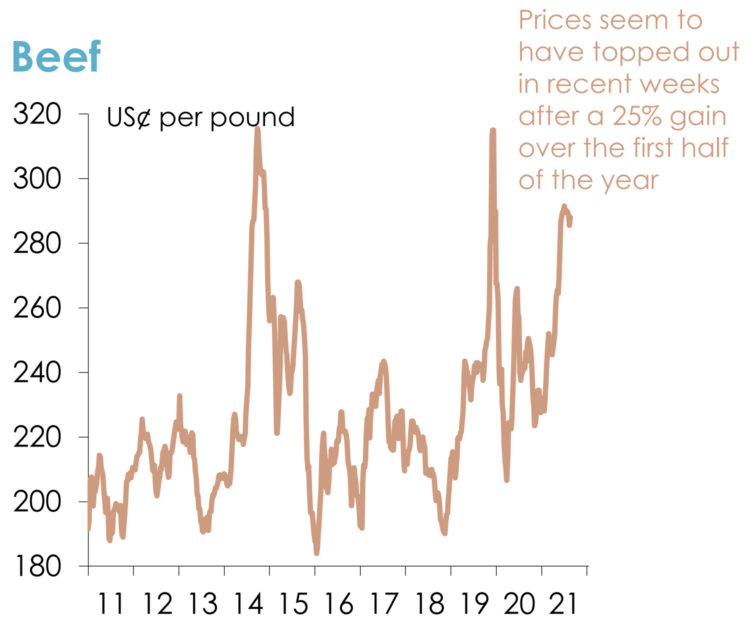
Metallurgical coal



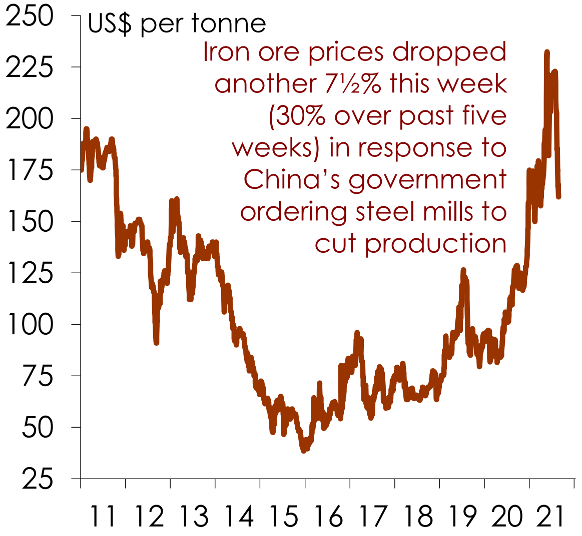
Aluminium



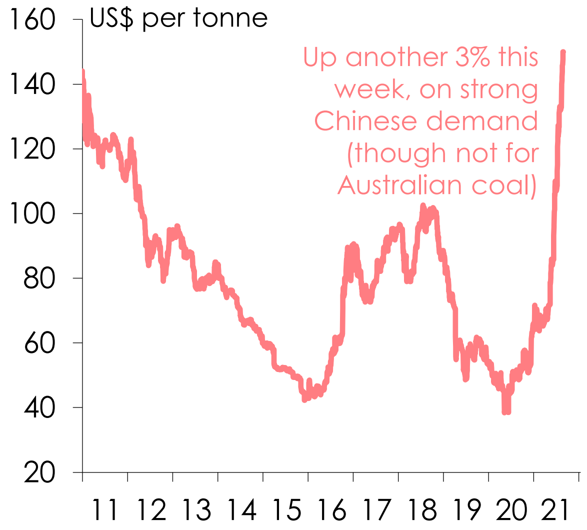
Beef



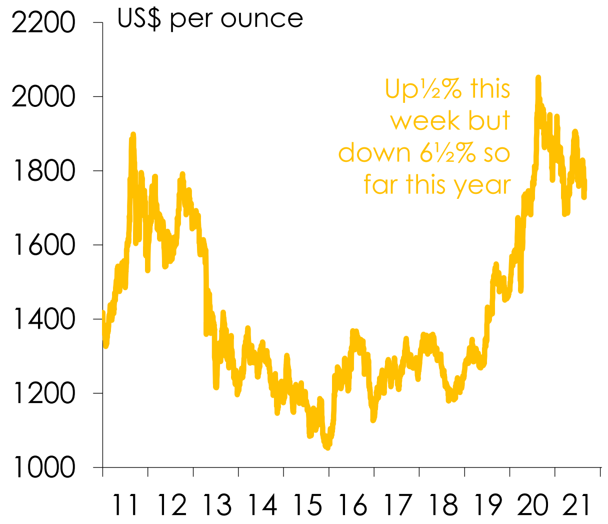
Iron ore



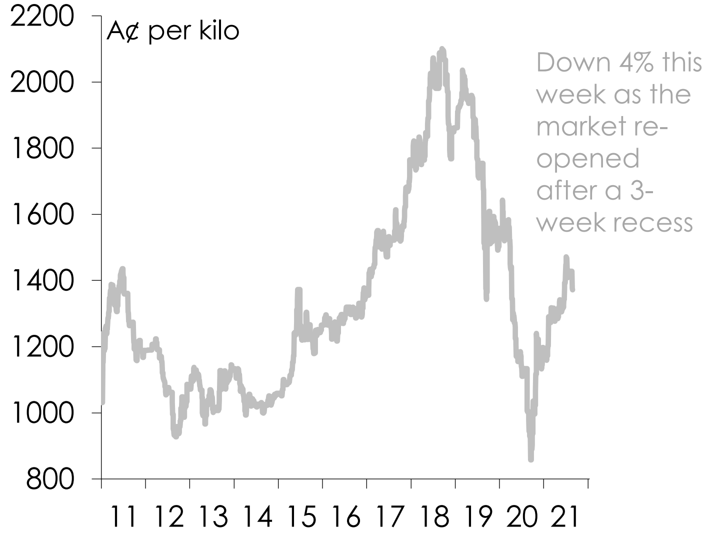
Thermal coal



Gold



Wool



Sources: Refintiv Datastream; Meat & Livestock Australia; Australian Wool Innovation. See next slide for more on iron ore prices. Data up to 13th August.

Return to "What's New".

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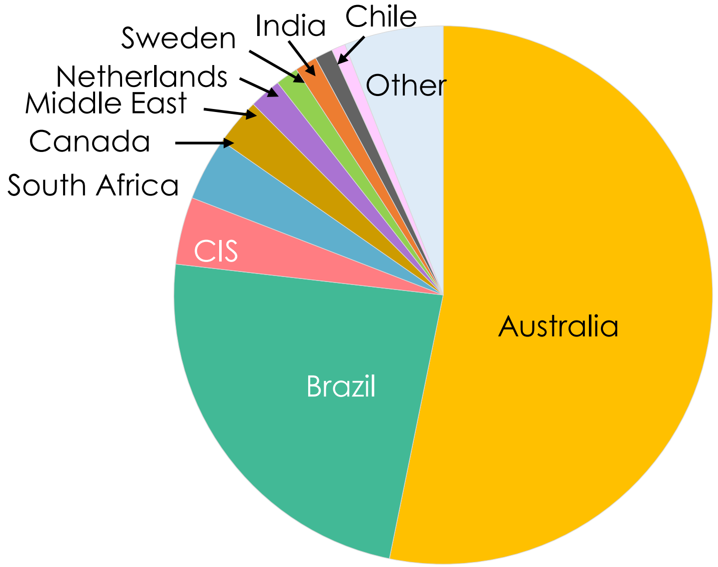
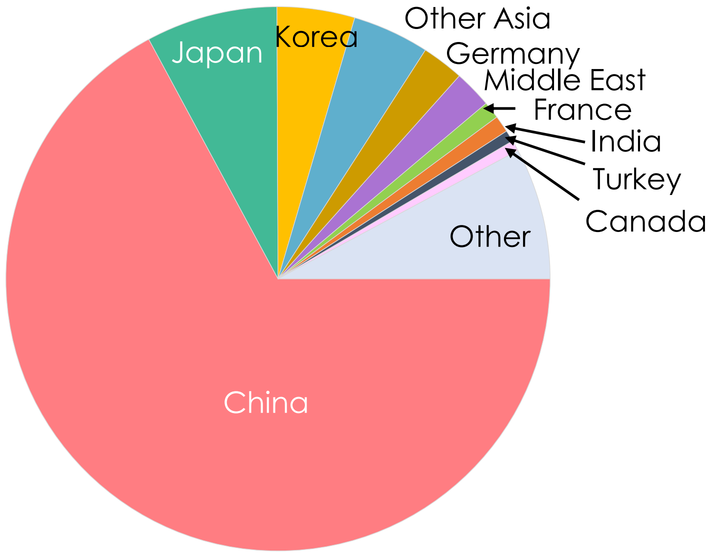
Until the past few weeks, iron ore prices had been bolstered by strong demand from China's steel mills, and supply constraints in Brazil

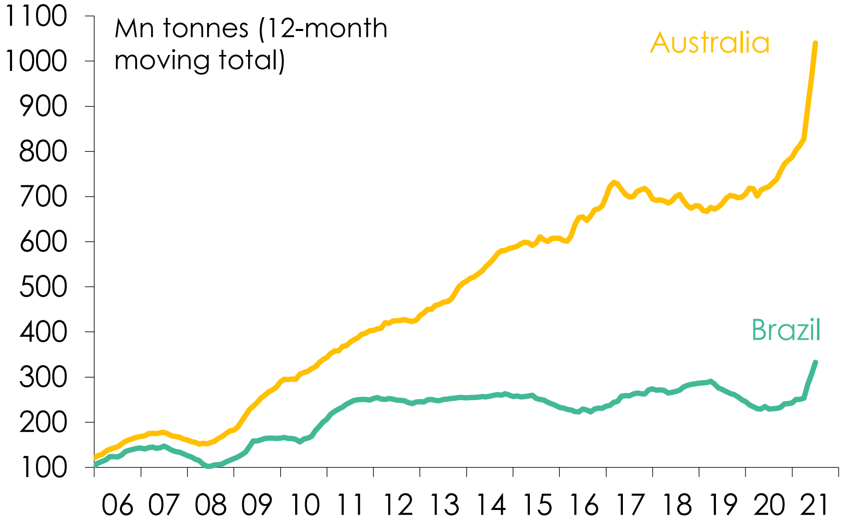
Iron ore exports, 2018



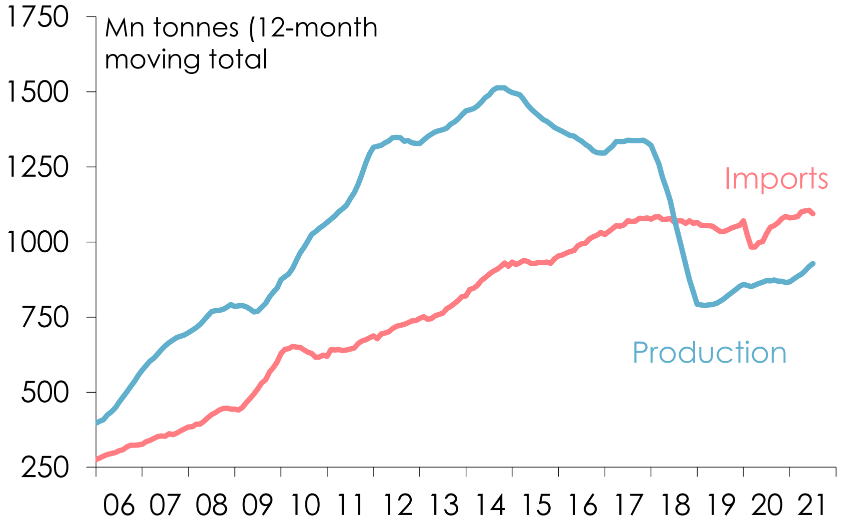
Iron ore imports, 2018



Australia & Brazil iron ore exports



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.

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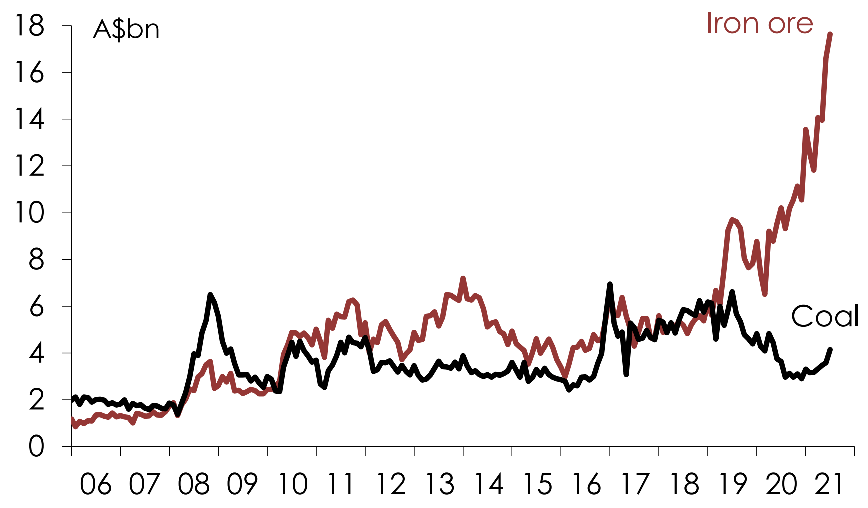
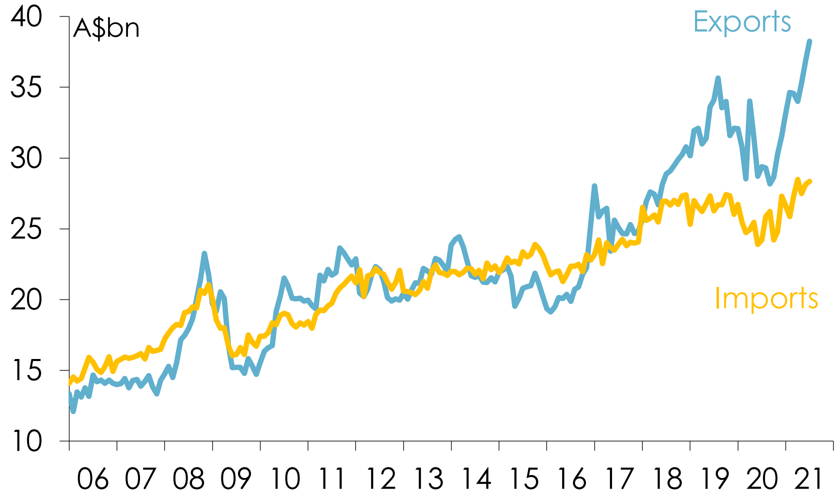
Australia registered a record trade surplus of $10½ bn in June (and $106bn in FY 2020-21), with exports up 3.6% and imports up 0.8%

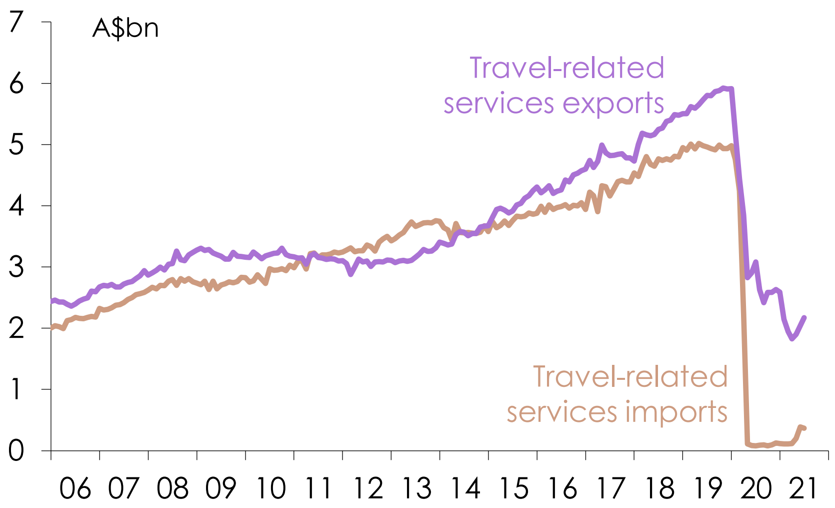
Iron ore and coal exports



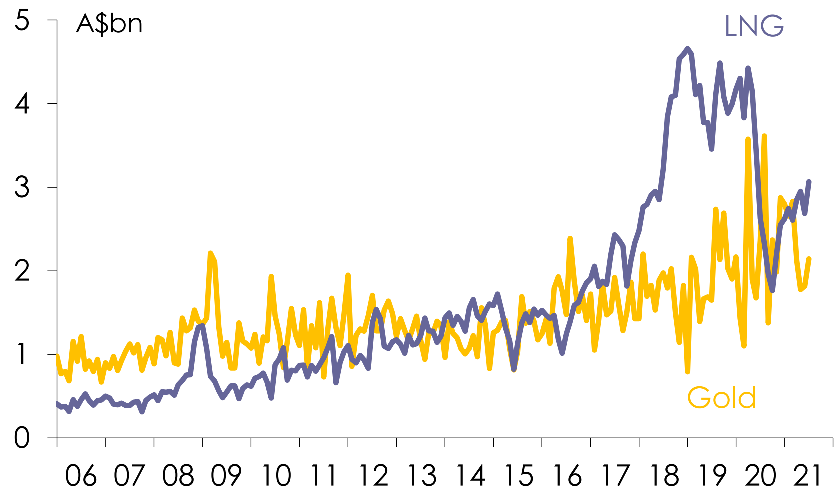
Merchandise exports and imports



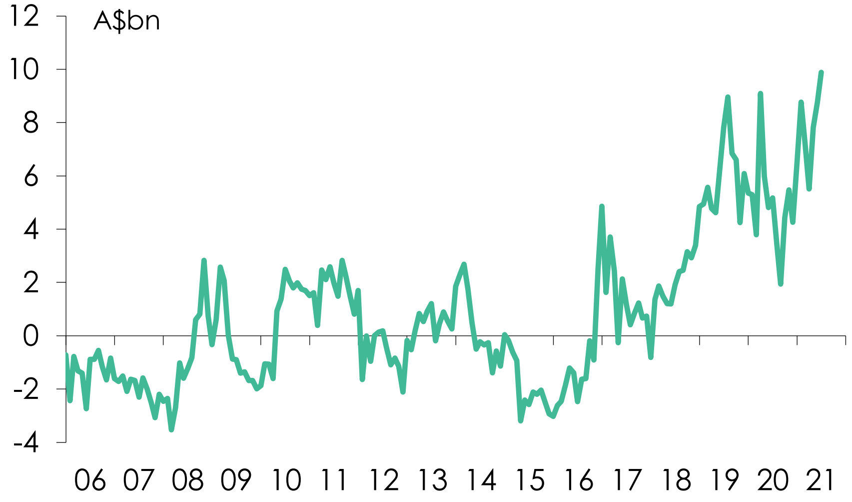
Tourism-related services trade



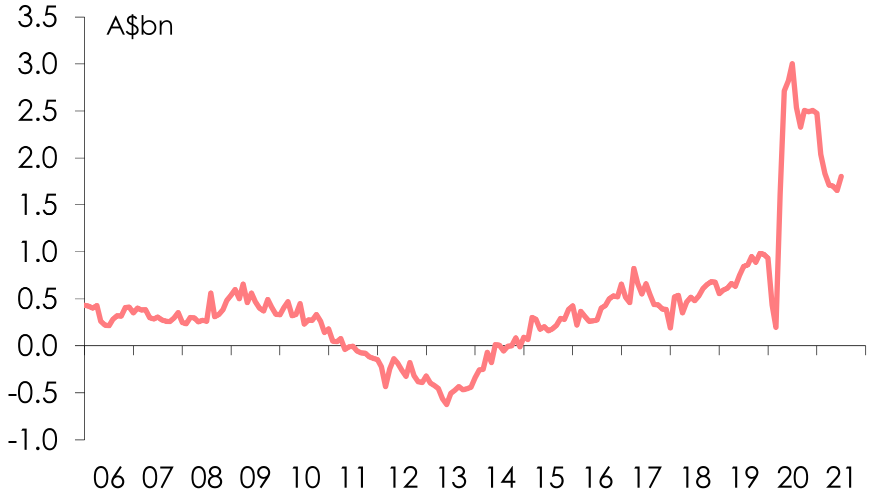
LNG and gold exports



Merchandise trade balance



Tourism services trade balance



Source: ABS, *International Trade in Goods and Services, Australia*, June 2021. July data will be released on 2nd September. Return to "What's New".

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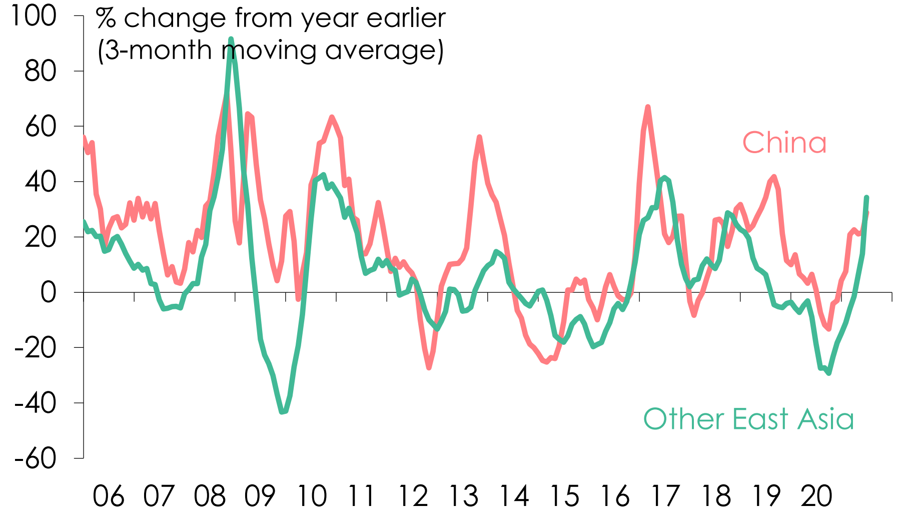
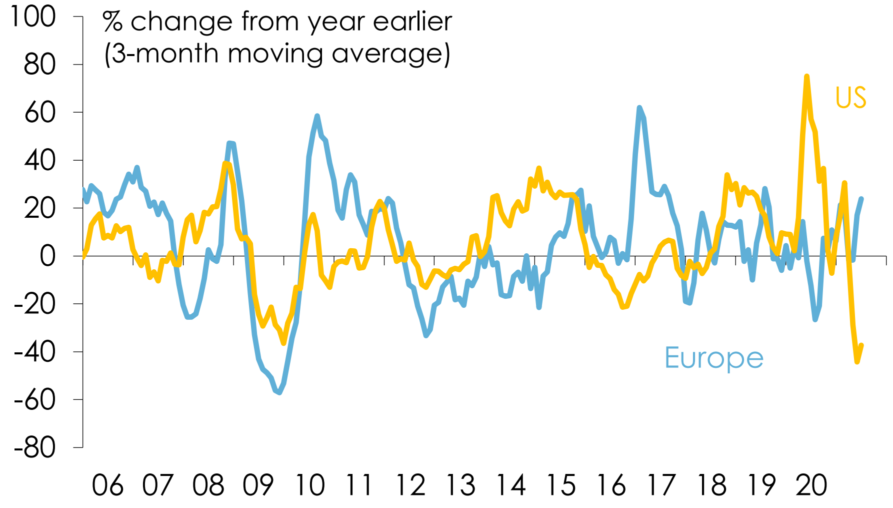
Australia continues to run a large trade surplus with China despite China's sanctions against a range of Australian exports, thanks to iron ore

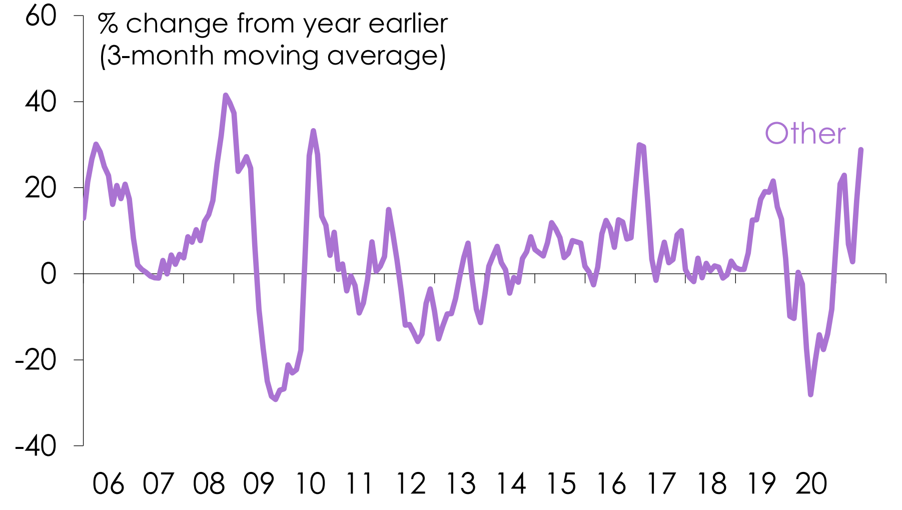
Merchandise exports – East Asia



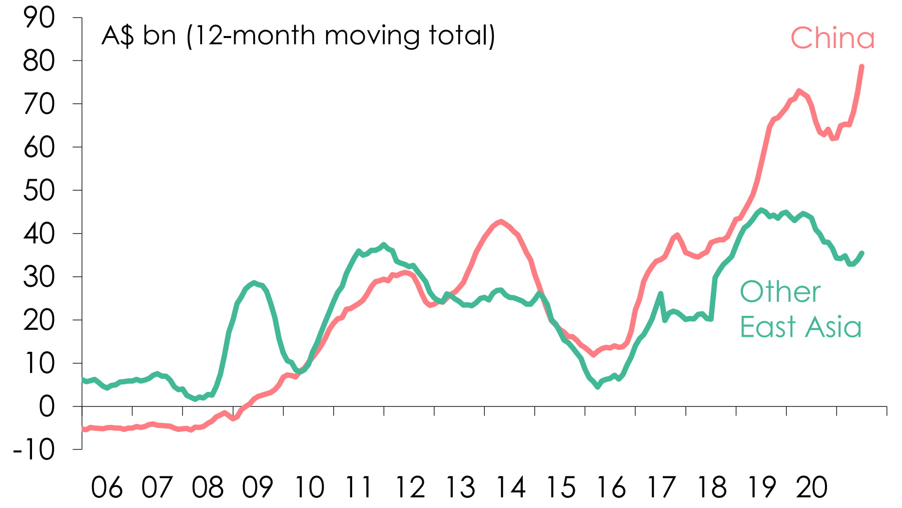
Merchandise exports – US & Europe



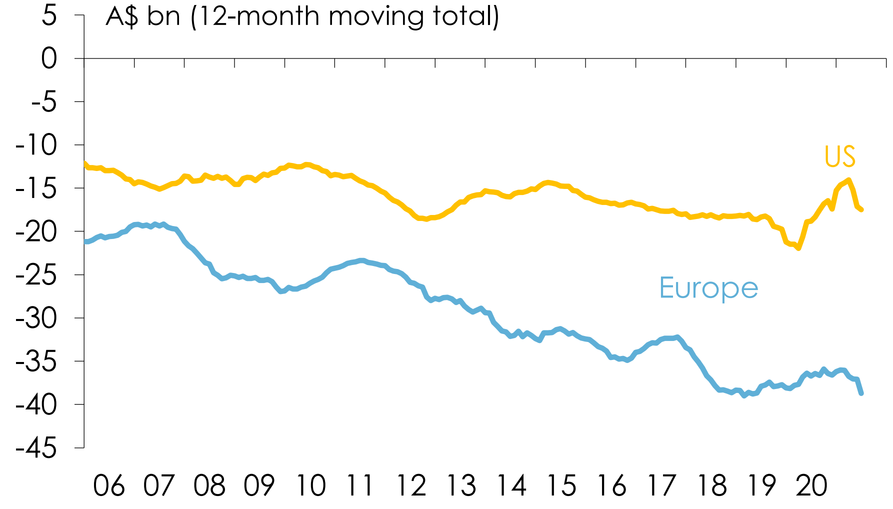
Merchandise exports – other



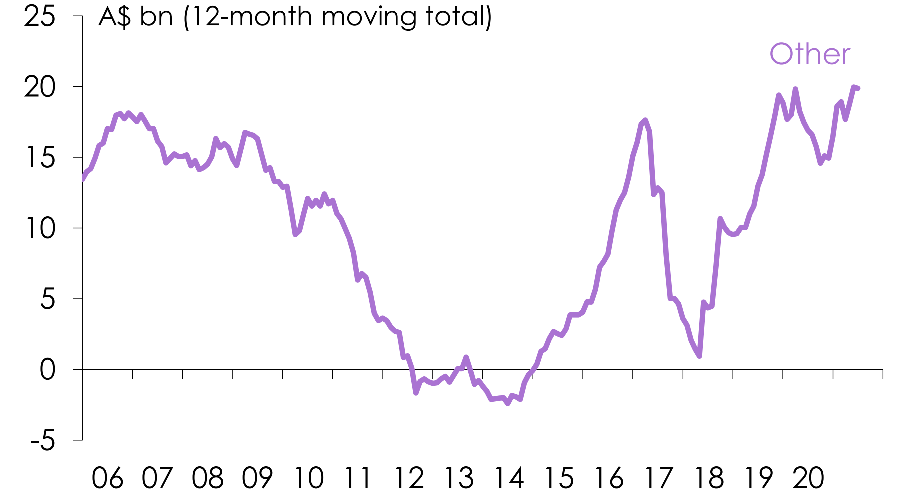
Goods trade balance – East Asia



Goods trade balance – US & Europe



Goods trade balance – other



Note: 'Other East Asia' includes Japan, Korea, Taiwan, Hong Kong and ASEAN. 'Europe' includes the EU, UK and Switzerland. 'Other' includes India, New Zealand and the Pacific, Canada, Latin America, Africa, the Middle East and others not included in the foregoing. Latest data are for June. *Source:* ABS, International Trade in Goods and Services, Australia, June 2021. July data will be released on 2nd September. Return to "What's New".

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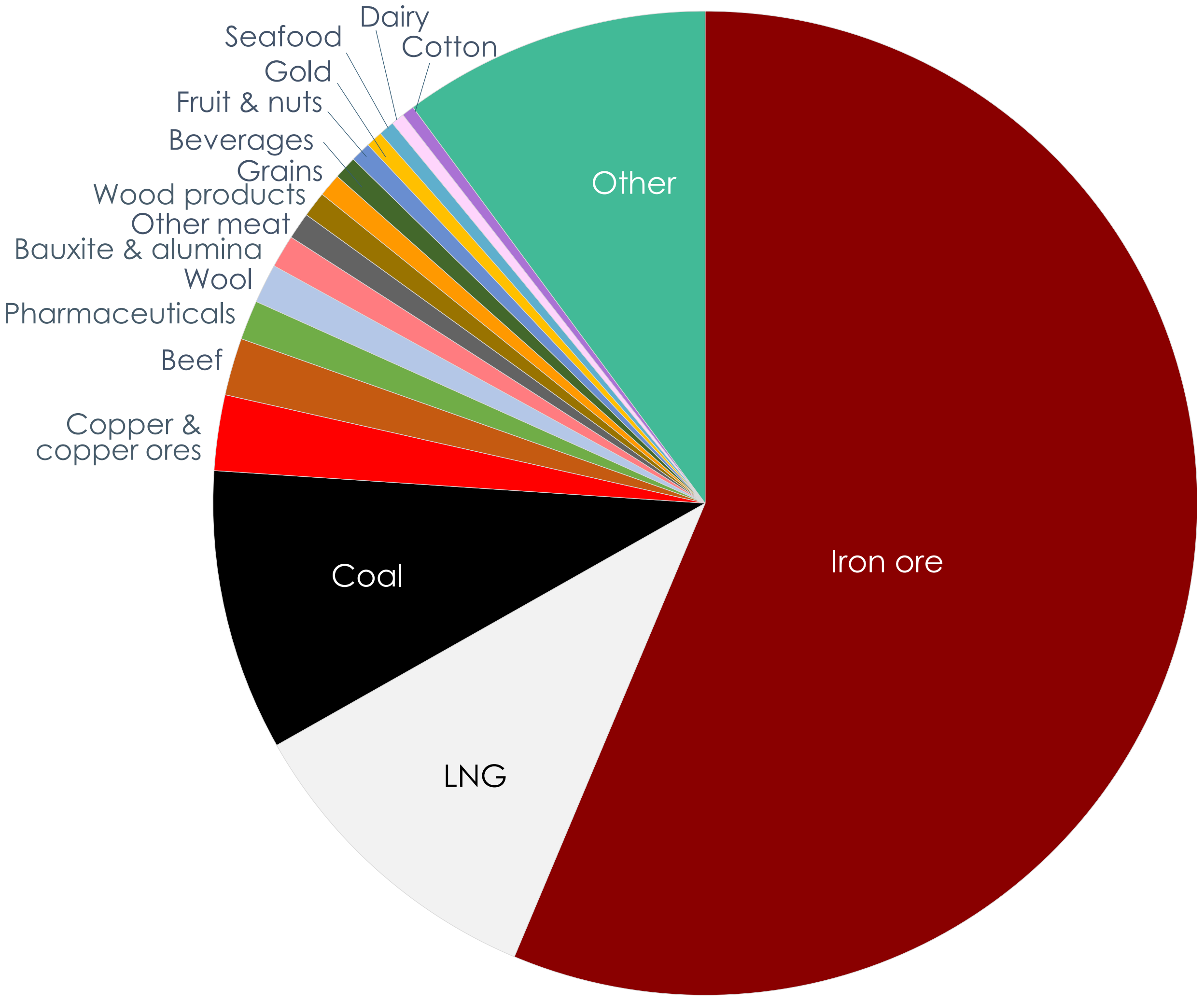
China has now openly acknowledged that its ‘trade war’ on Australia is politically motivated

Australia’s merchandise exports to China, 2019-20



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

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

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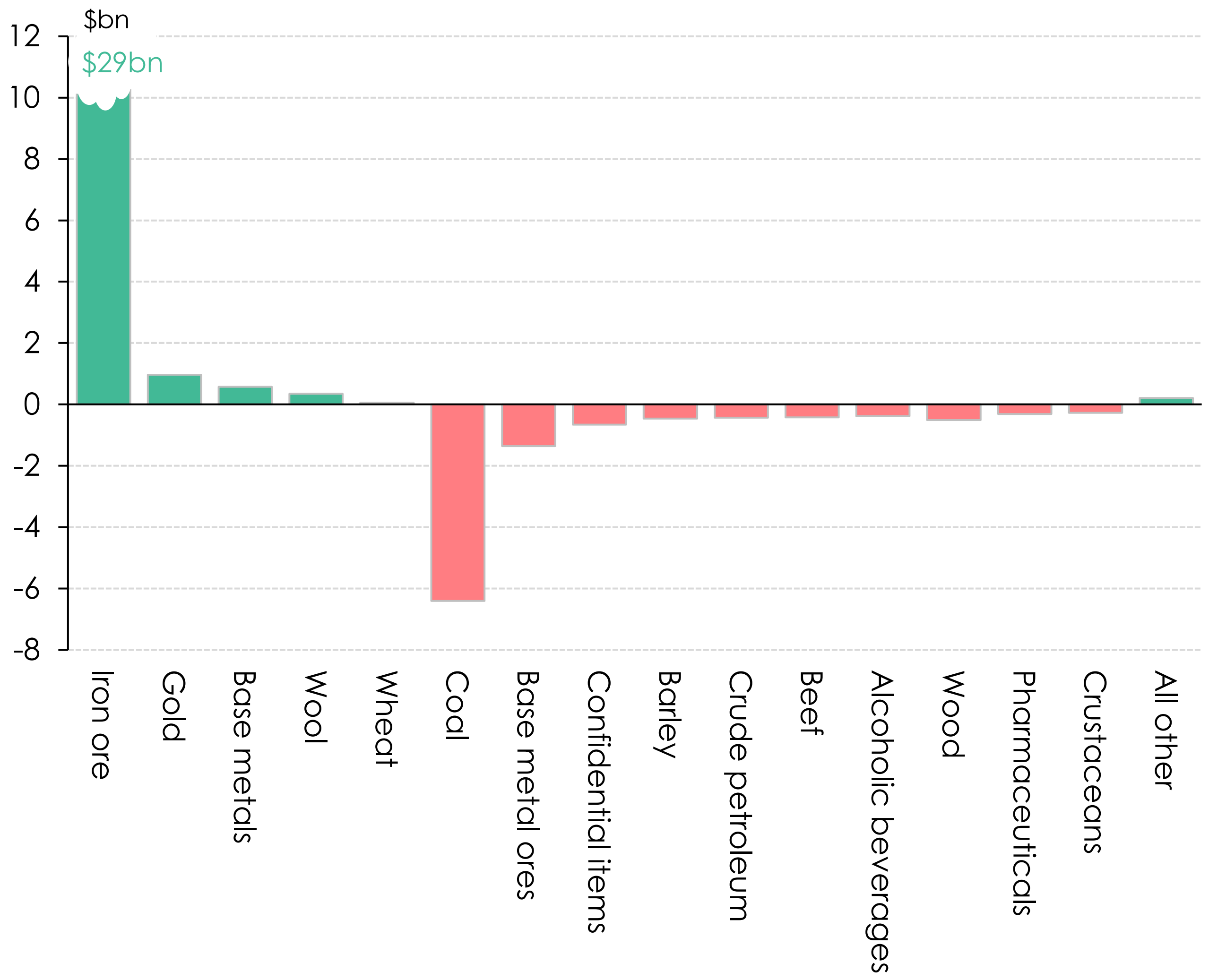
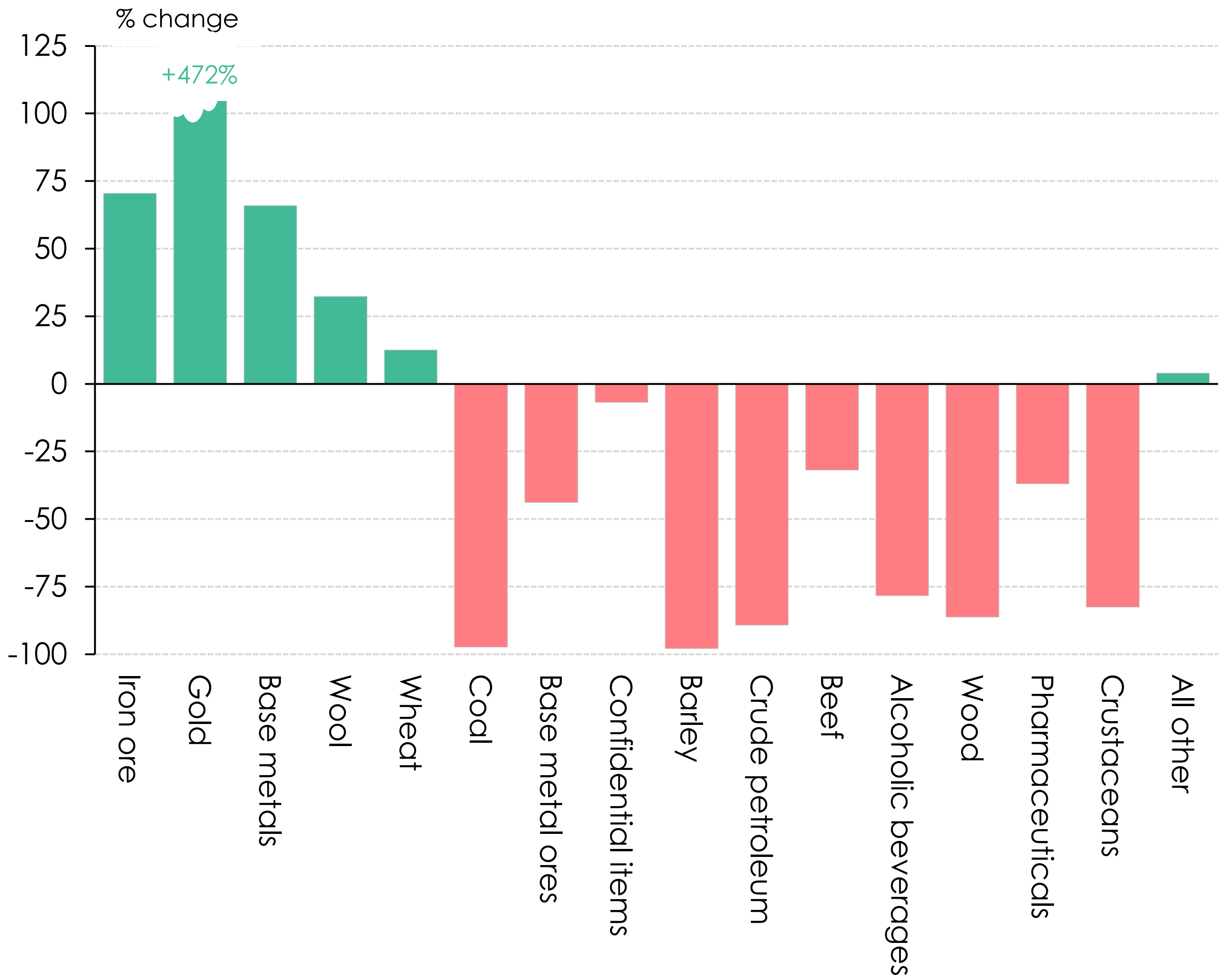
Iron ore, and to a much lesser extent gold, base metals, wool and wheat are the only things Australia is selling more of to China than a year ago

Change in Australian exports to China, seven months to May 2021 compared with seven months to May 2020





Source: Australian Department of Foreign Affairs and Trade, Trade Statistical Pivot Tables - Country and commodity pivot table monthly; Corinna. Return to "What's New".

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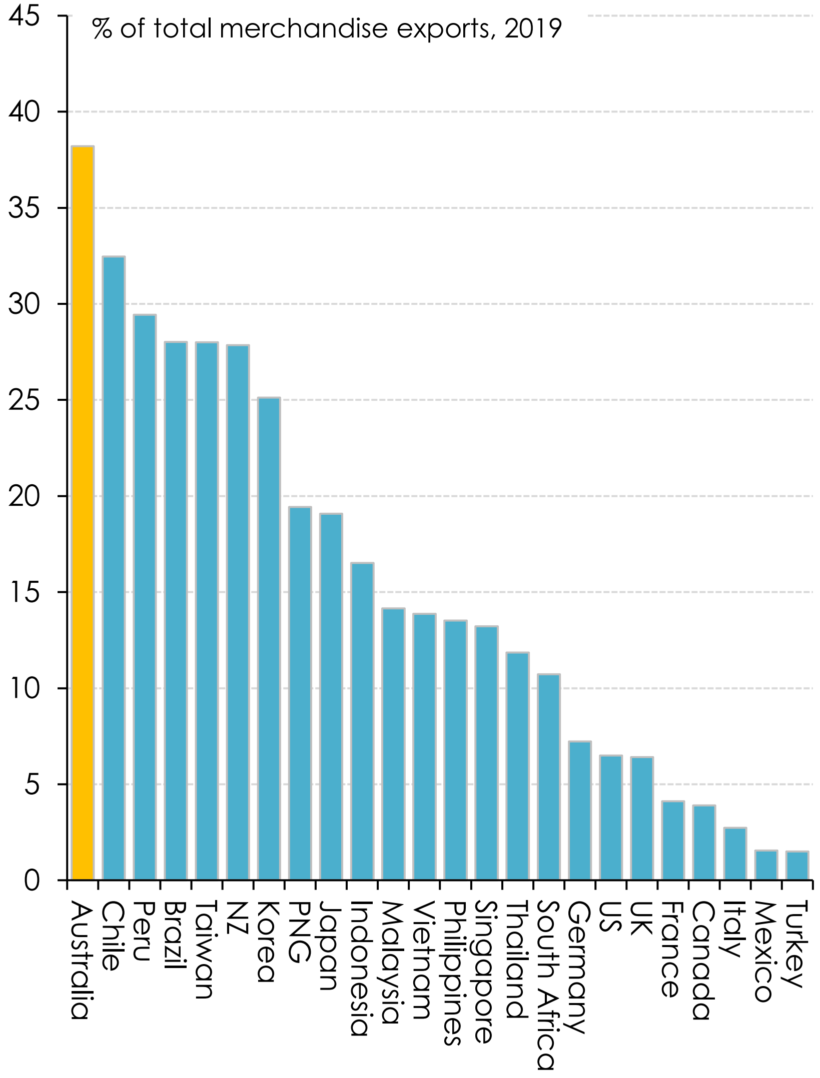
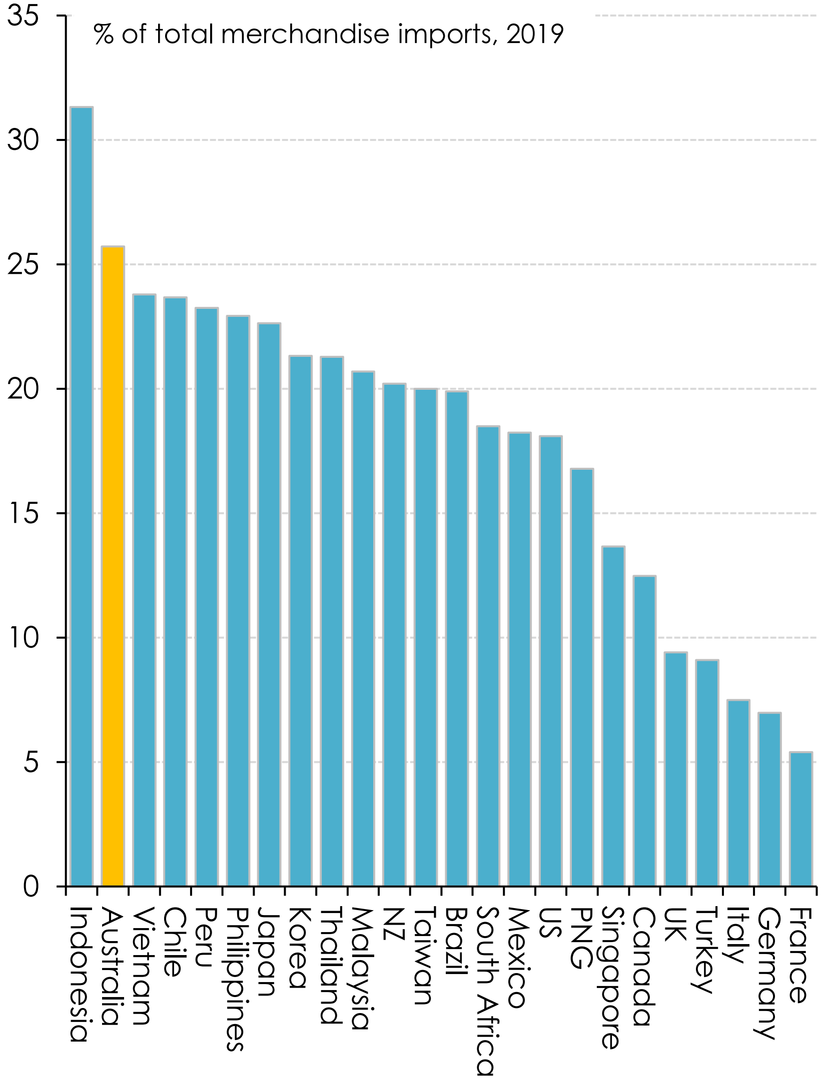
China can cause Australia economic pain because we're very dependent on it, and are one of the few countries with whom China runs a deficit

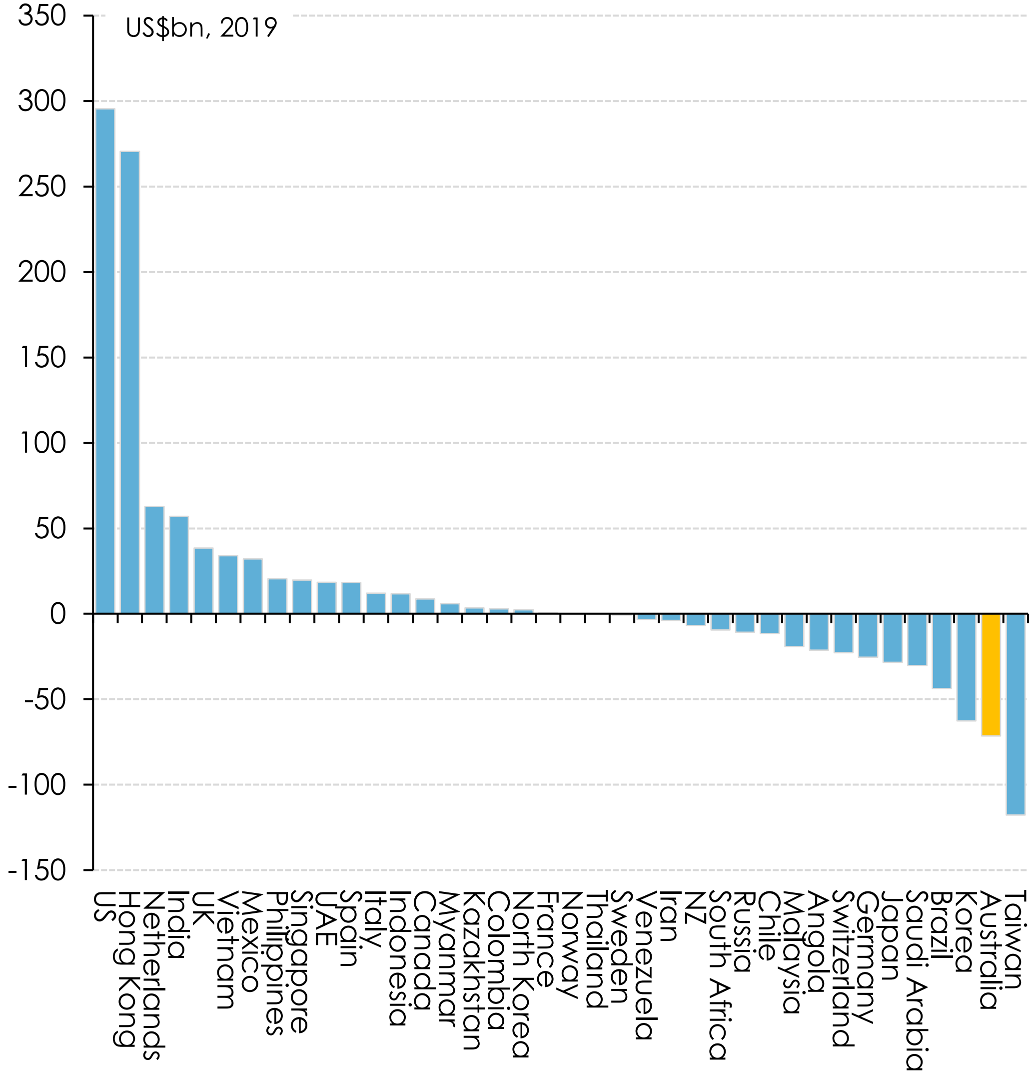
Merchandise exports to China as a pc of total



Merchandise imports from China as a pc of total



China's bilateral merchandise trade balances



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

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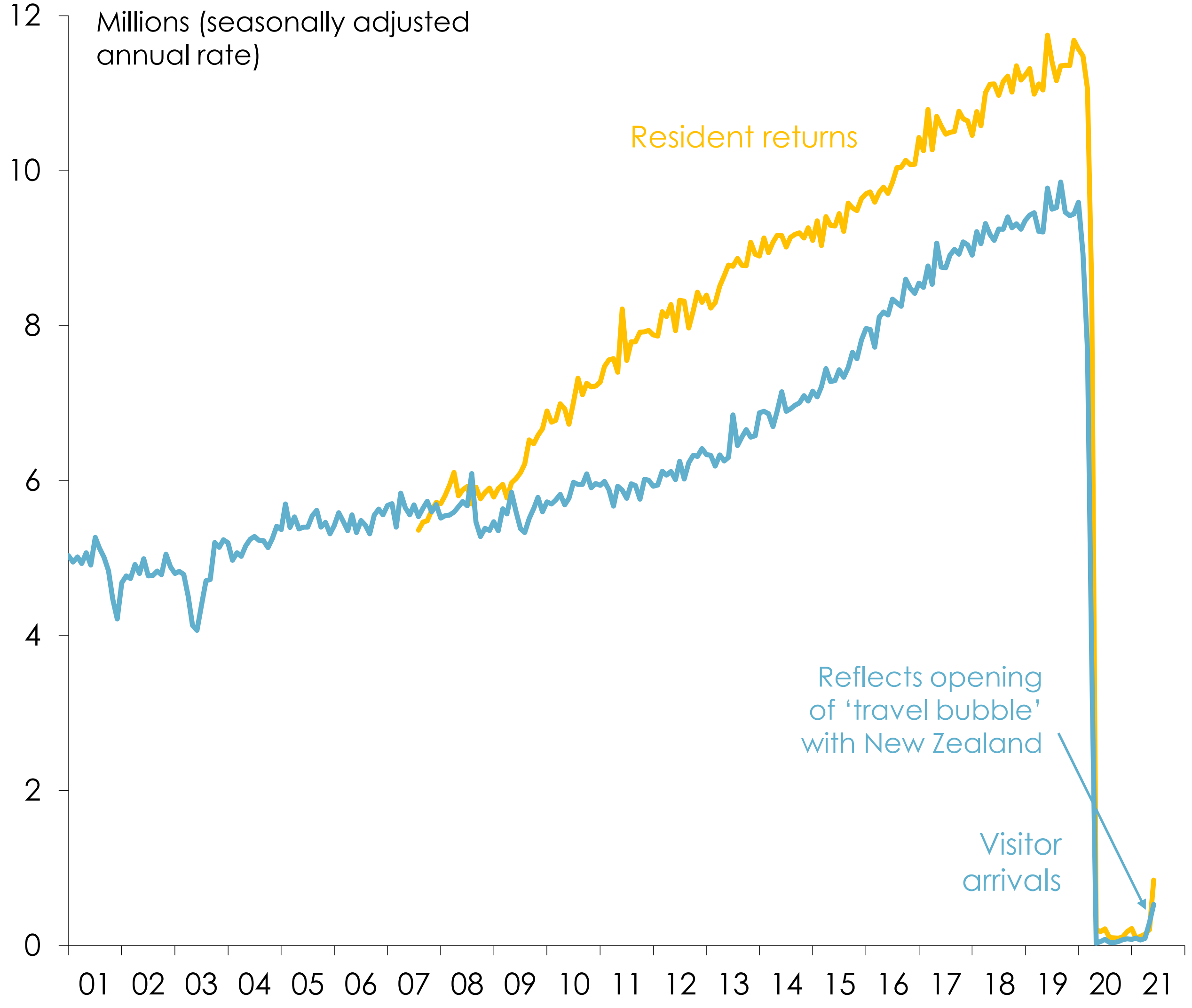
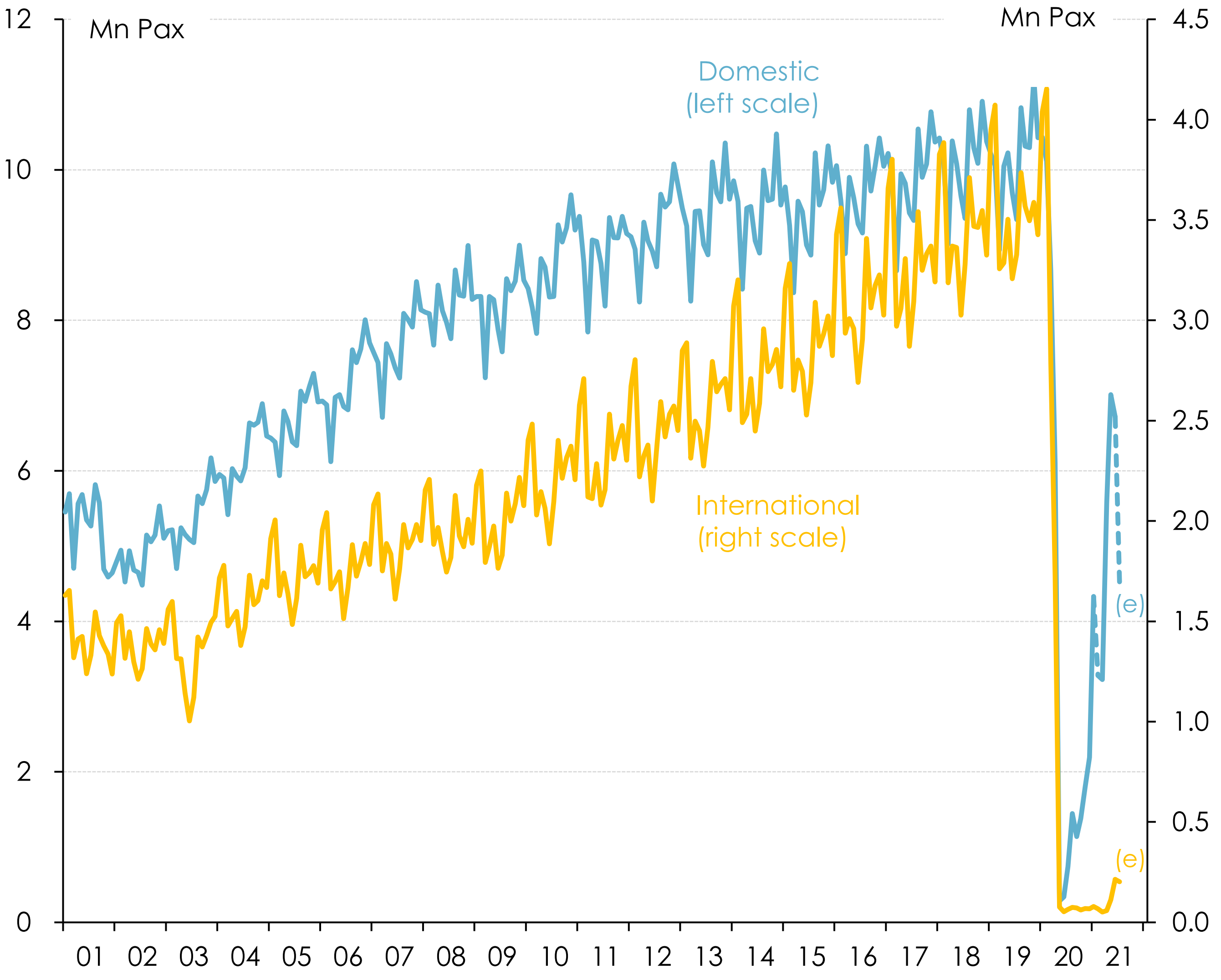
Domestic aviation picked up strongly between last November and May – but slumped in June with renewed lockdowns and interstate border closures

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".

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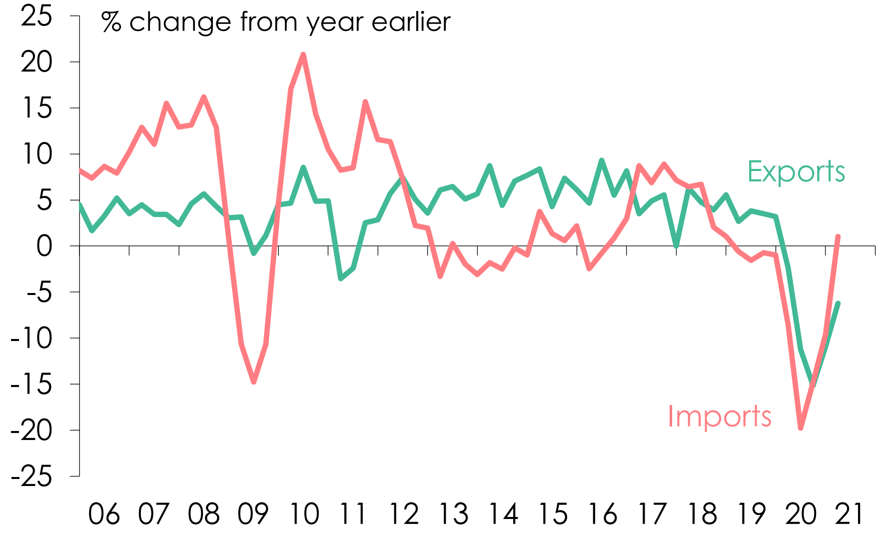
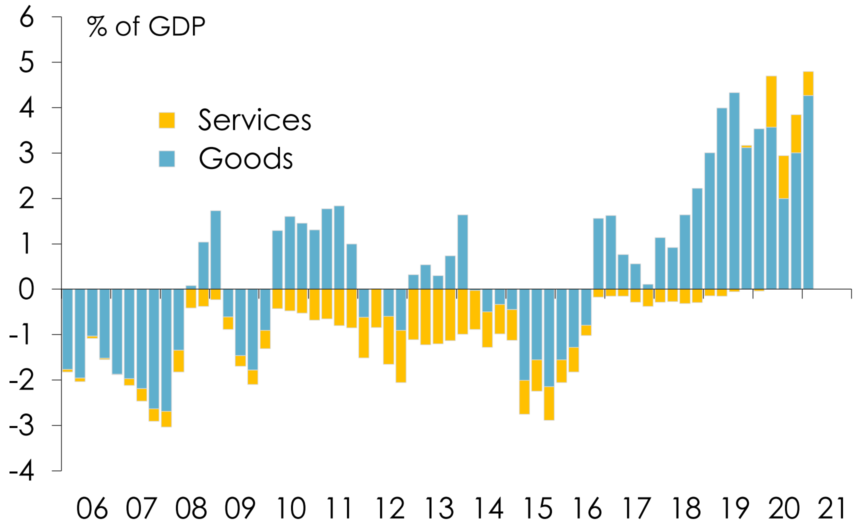
Australia recorded a record current account surplus in the March quarter, thanks to another large gain in export prices

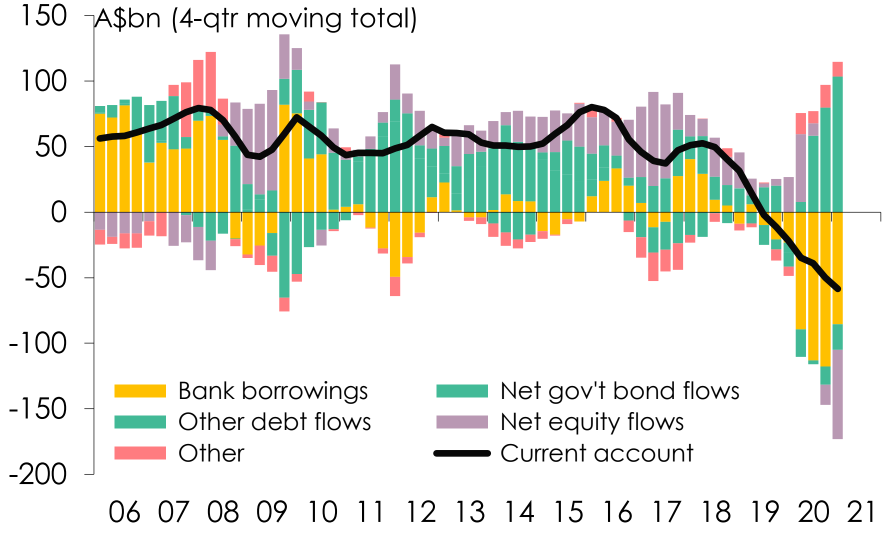
Export and import volumes



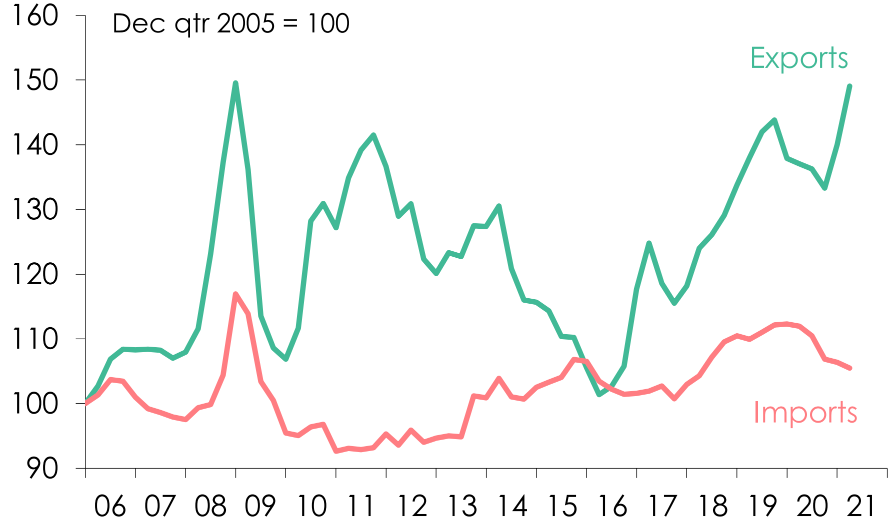
Goods & services trade balances



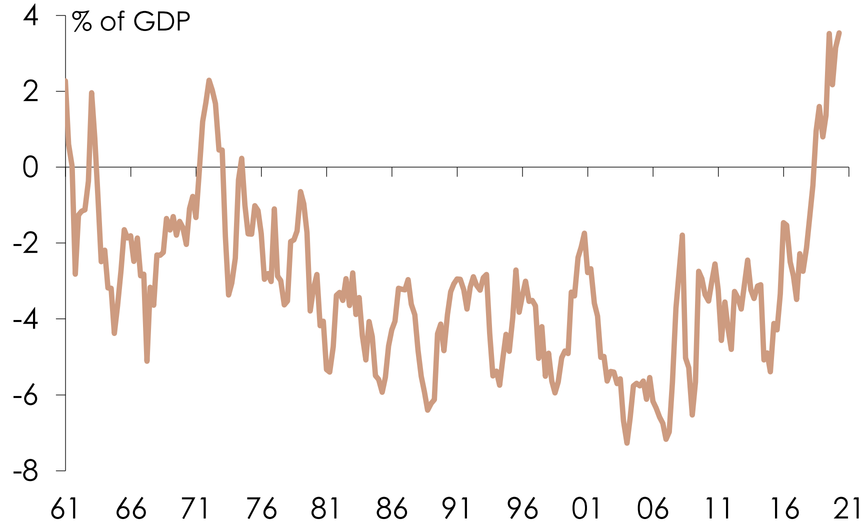
Capital flows



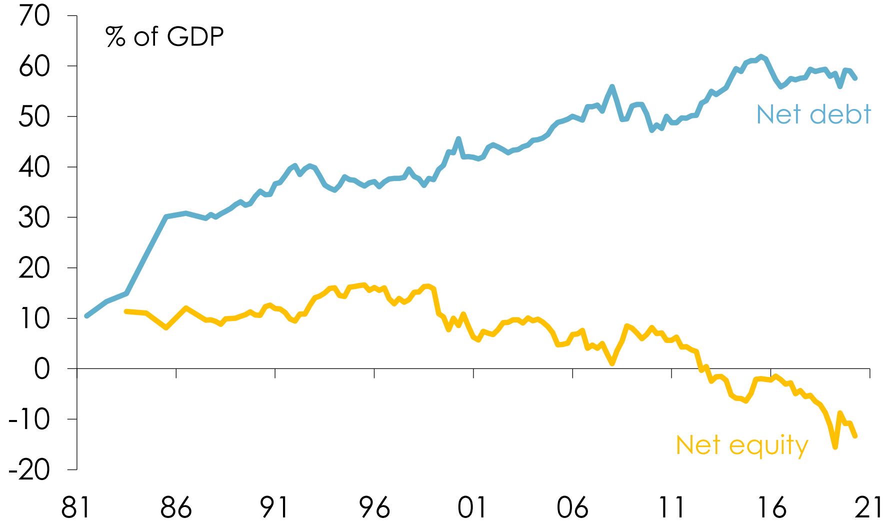
Export and import prices



Current account balance



Net international investment position



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

Return to "What's New".

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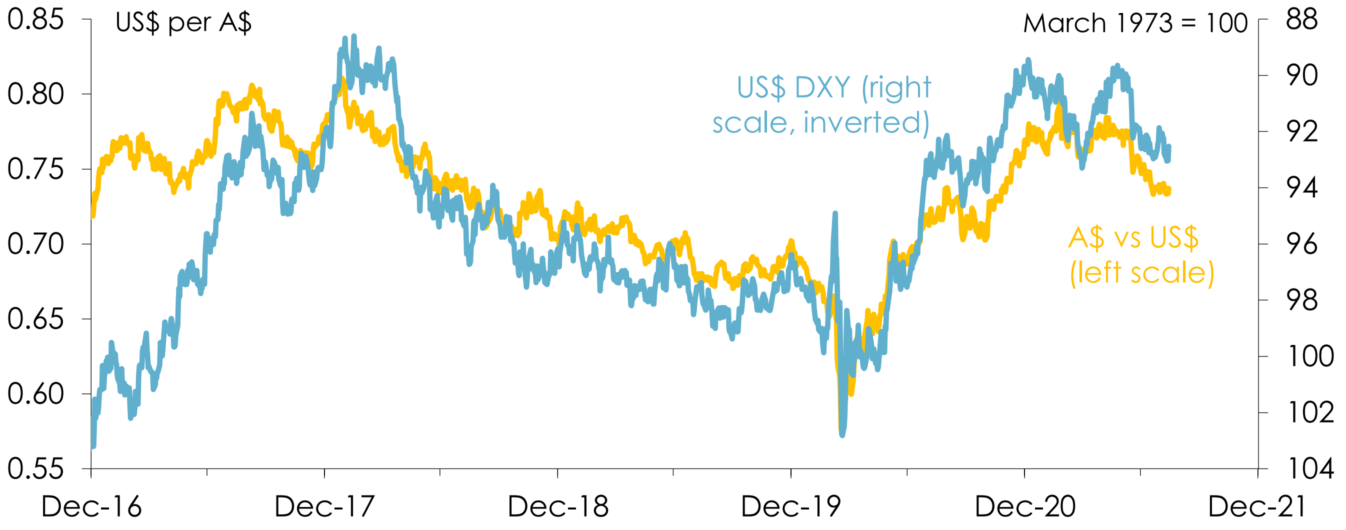
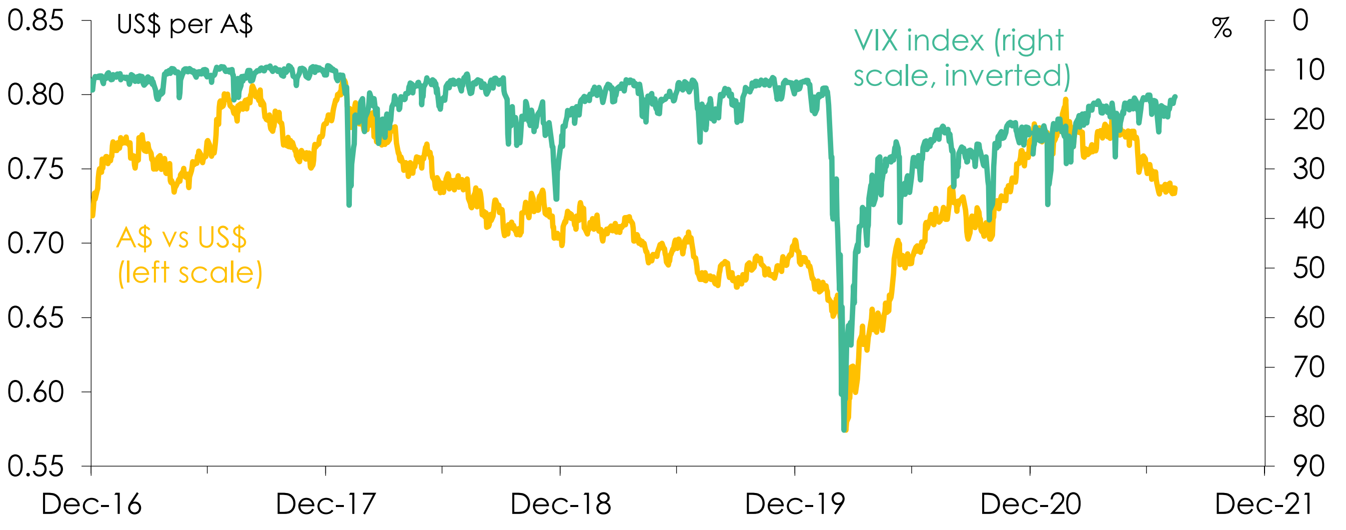
The A$ spent the entire week under US74¢, under pressure from falling iron ore prices and (to a lesser extent) declining bond yields

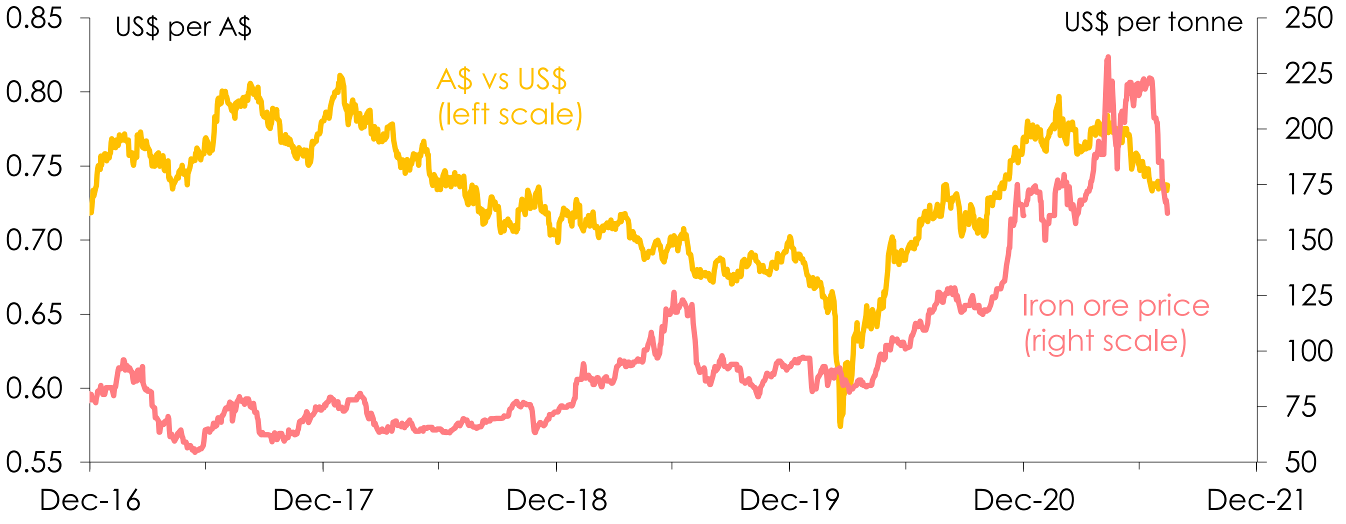
A$-US$ and US$ trade-weighted index



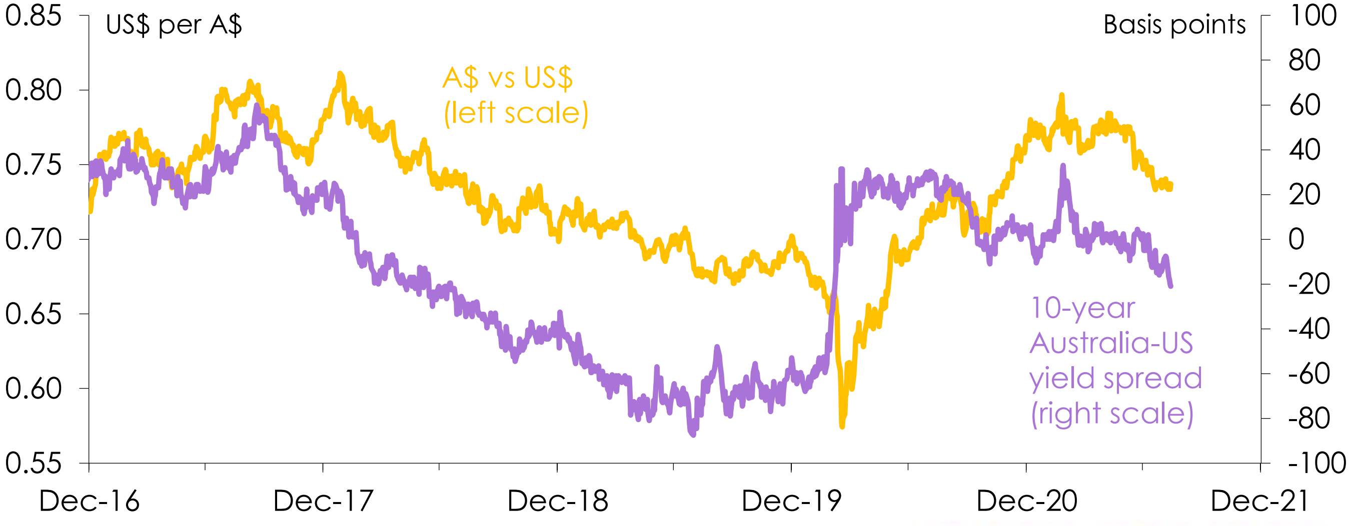
A$-US$ and US equity market volatility



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 138. *Source:* Refinitiv Datastream. Data up to 13th August. Return to "What's New".

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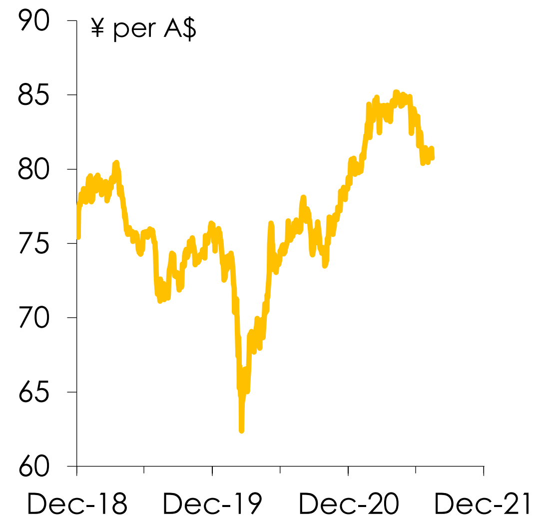
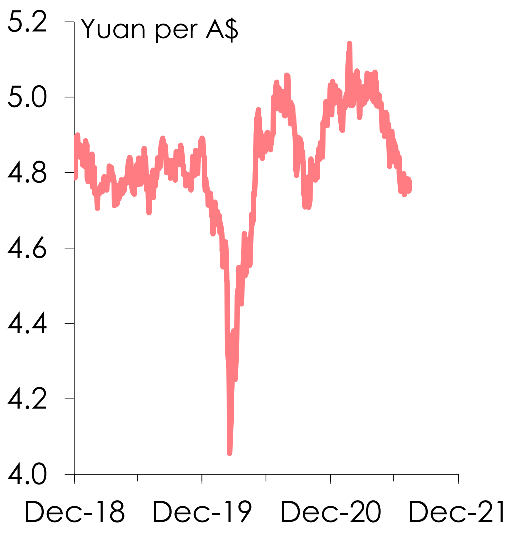
The A$ was also weaker against most third currencies, except for the won, rupiah and pound

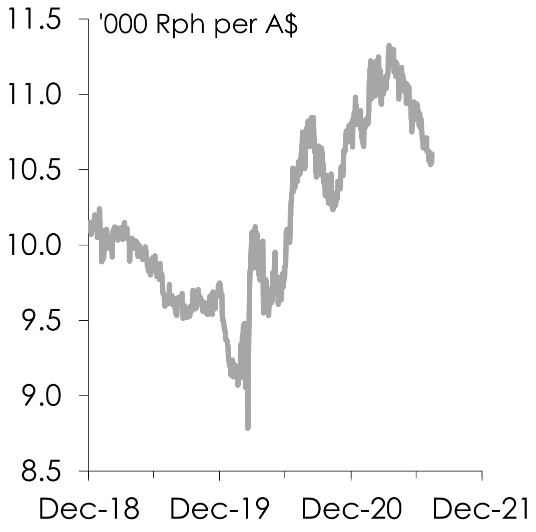
A$ vs Japanese yen



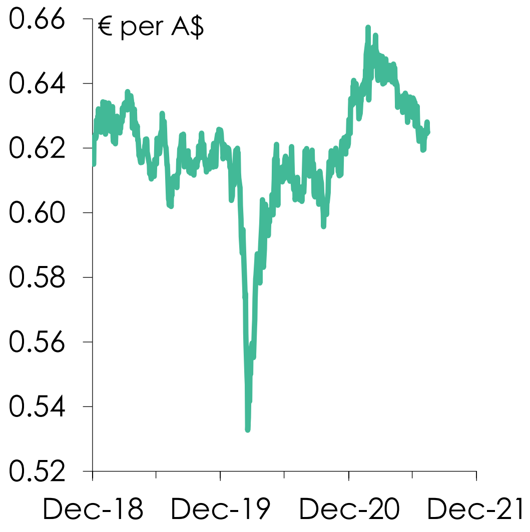
A$ vs Chinese yuan



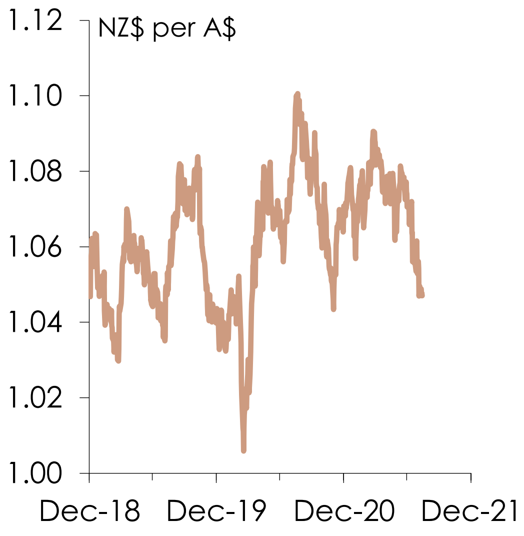
A$ vs Indo rupiah



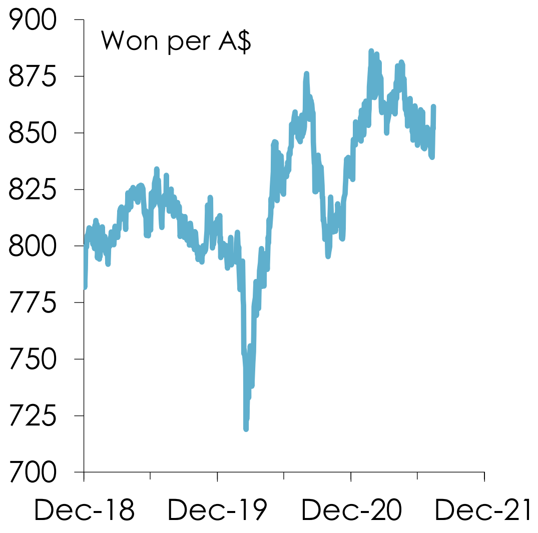
A$ vs Euro



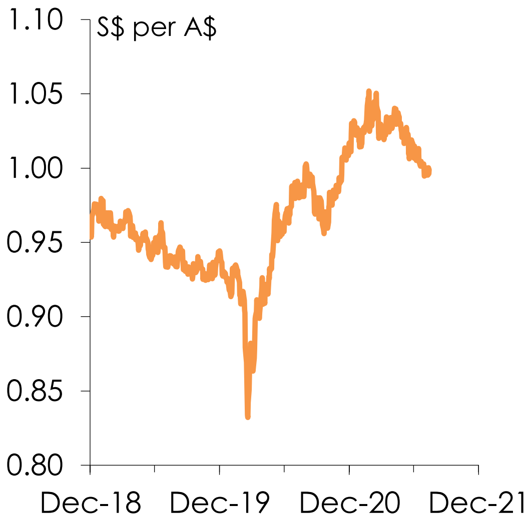
A$ vs NZ$



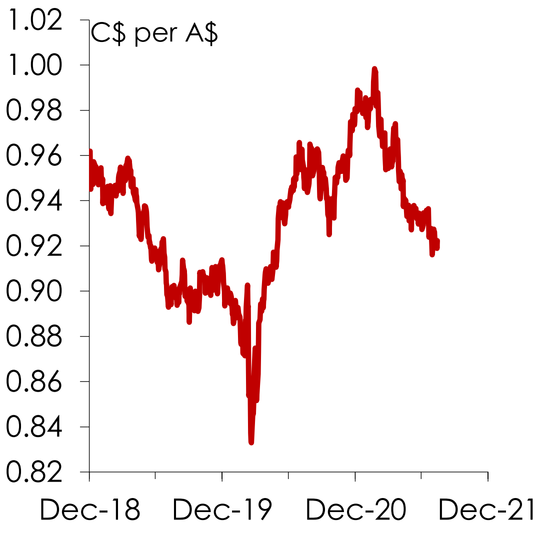
A$ vs Korean won



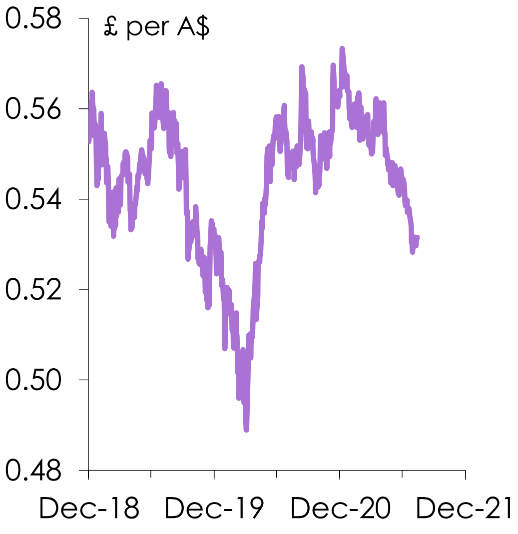
A$ vs Singapore $



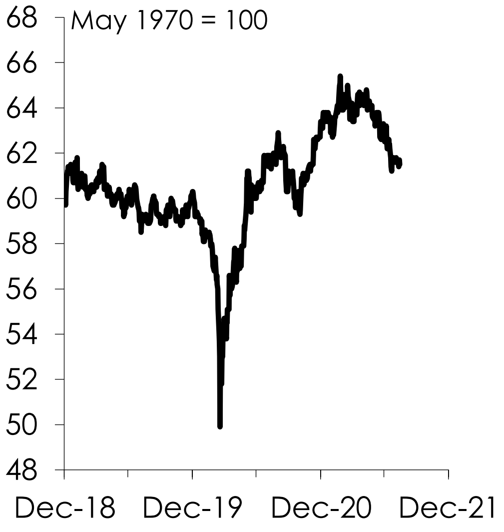
A$ vs Canadian $



A$ vs British pound



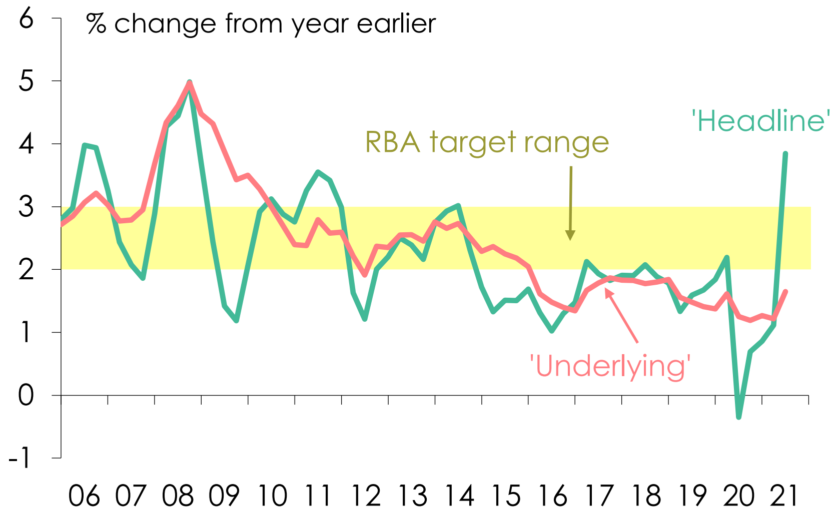
A$ TWI



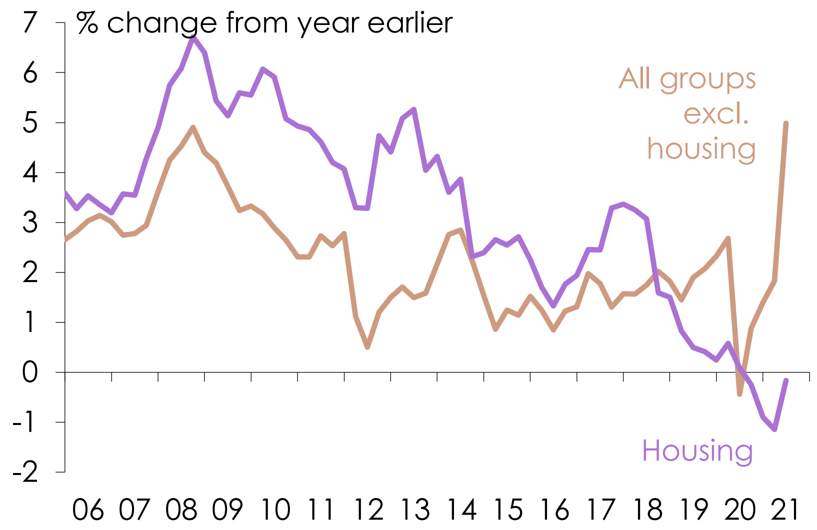
Note: The 'TWI' is the RBA's trade-weighted index of the A$. *Source:* Refinitiv Datastream. Data up to 13th August. Return to "What's New".'

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

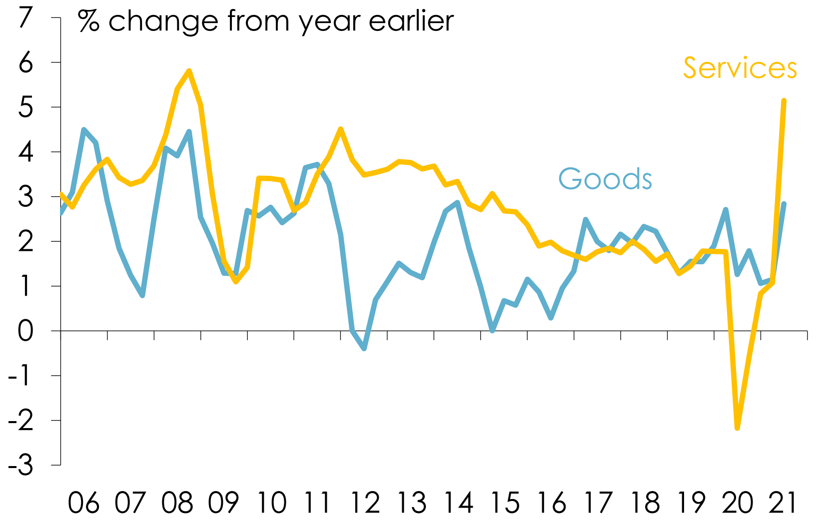
Consumer prices



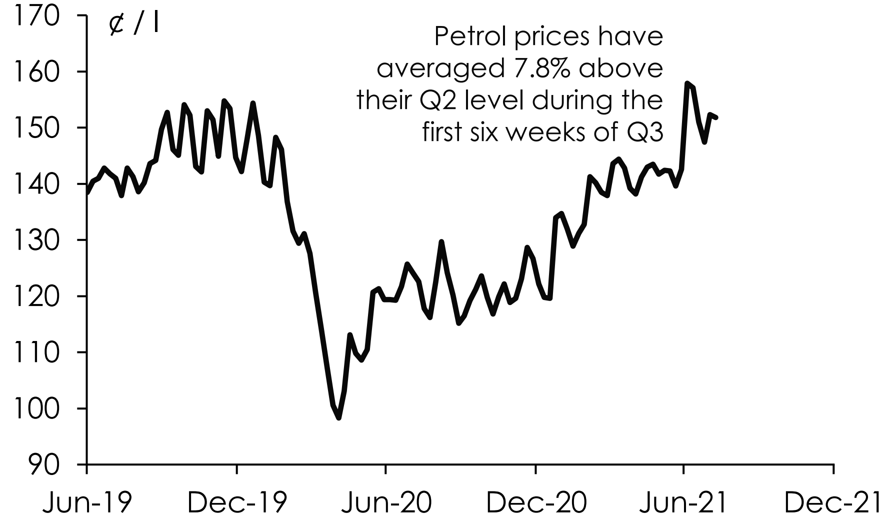
Housing costs



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".

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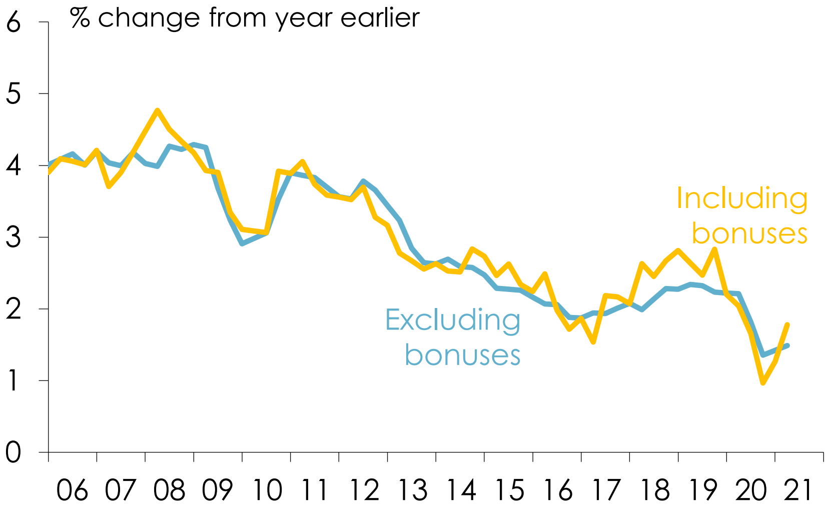
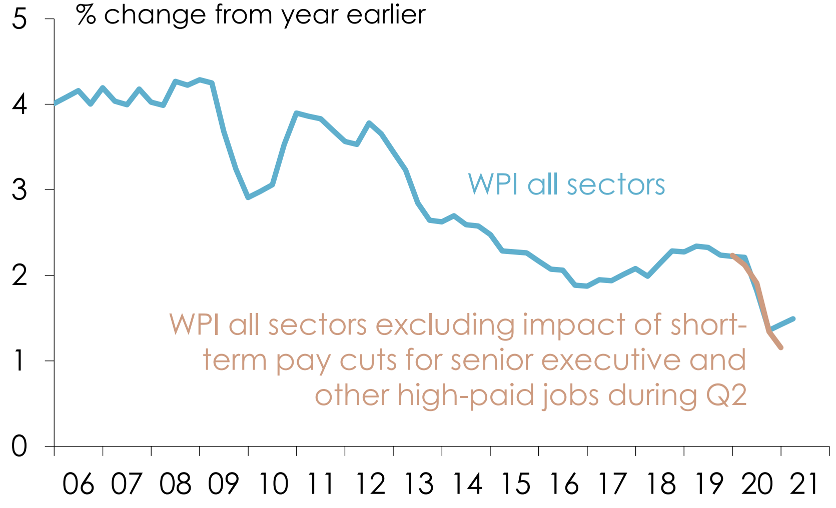
Wages rose by 1.5% over the year to Q1, only 0.1 pc pt higher than the record low of 1.4% over the year to Q3 and Q4 2020

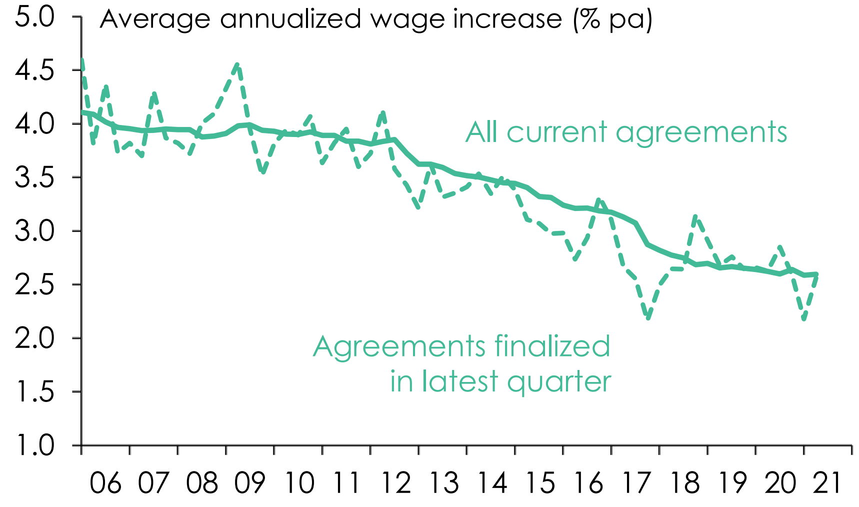
Wage price index – all sectors



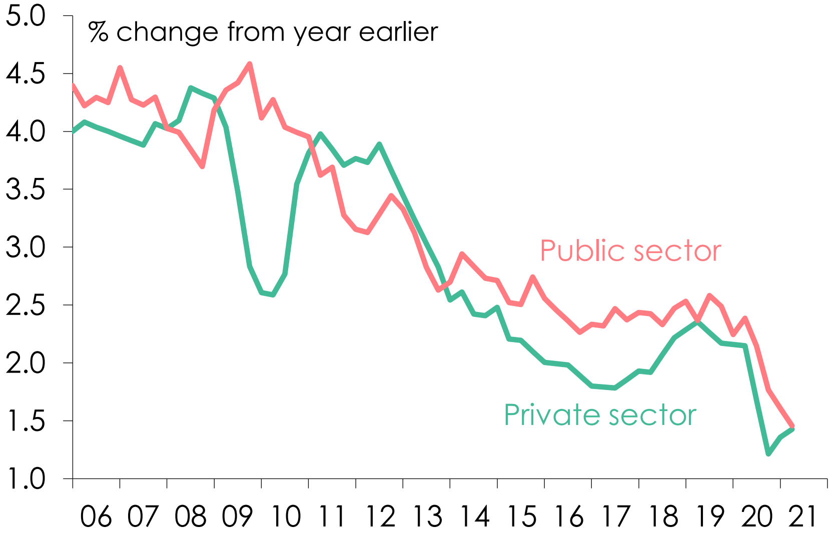
WPI excl. temporary wage cuts



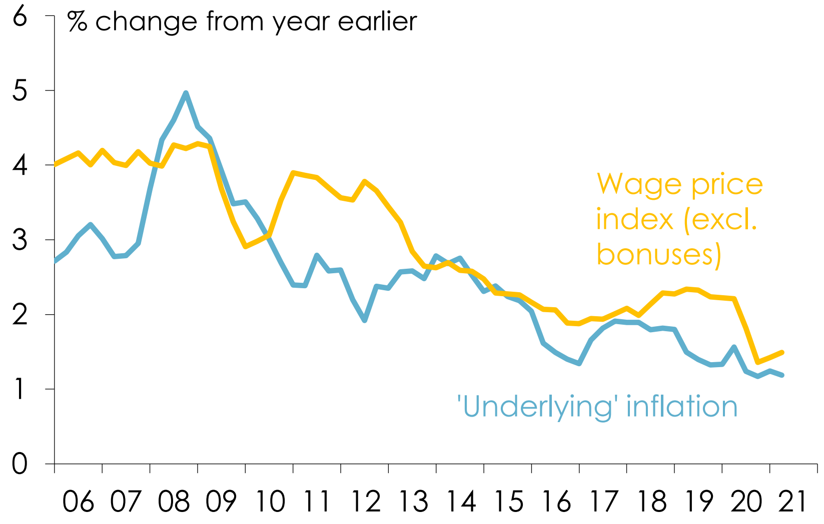
Enterprise bargaining agreements



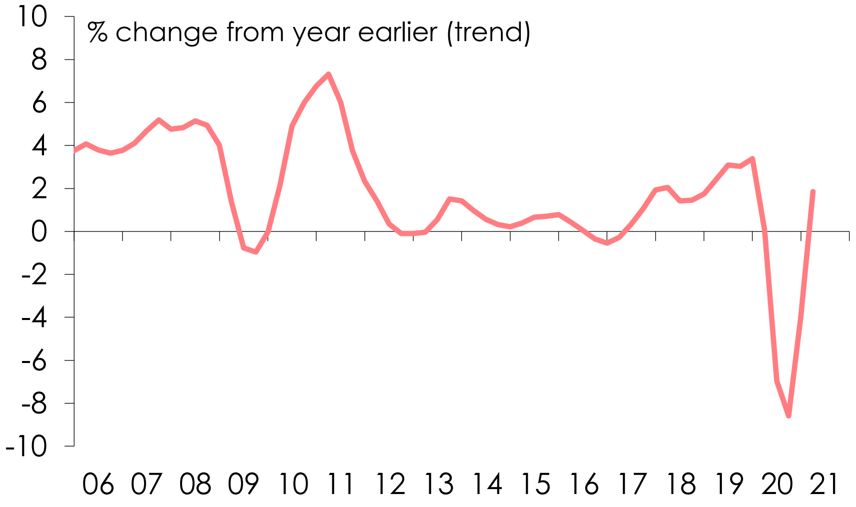
WPI – private vs public sectors



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 released on 18th August. Return to "What's New".

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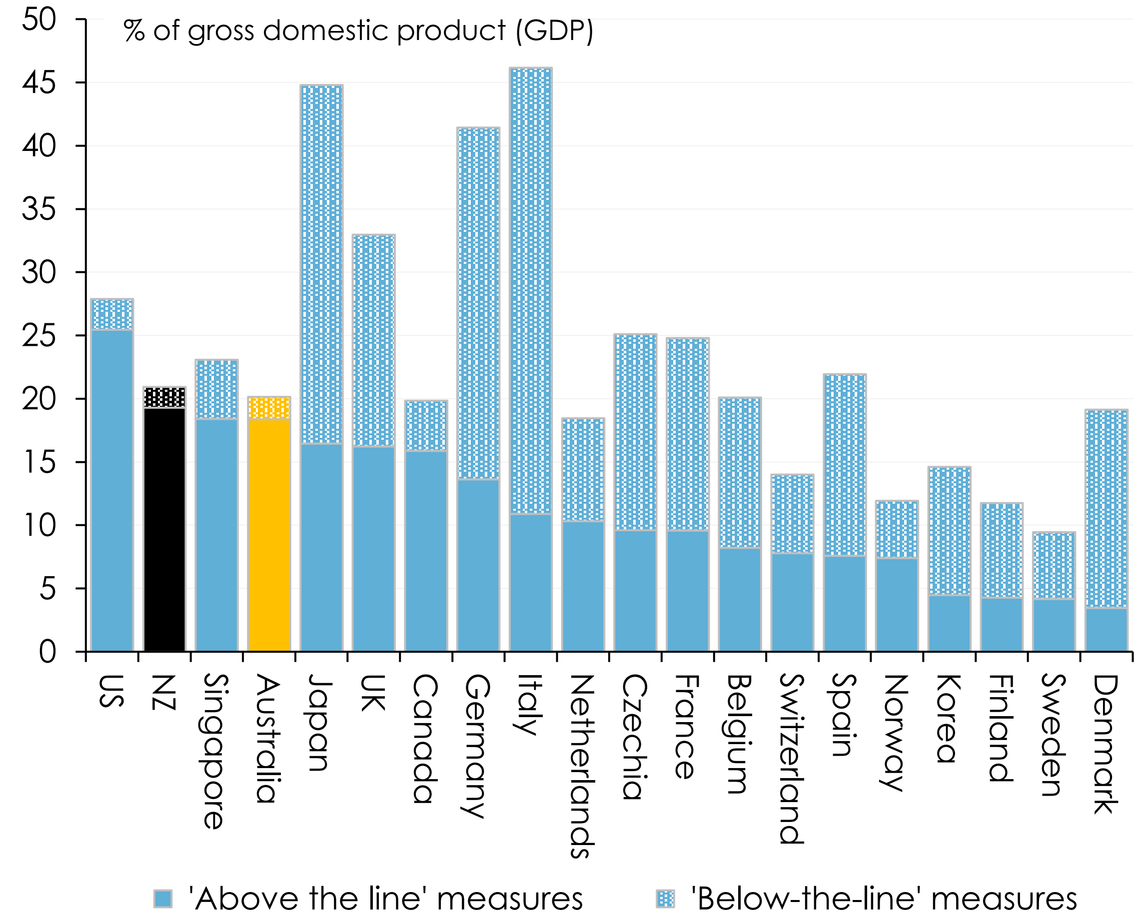
Australia’s fiscal and monetary policy settings

The Government's fiscal policy response to Covid-19 now exceeds 18% of GDP – and more support has been announced in recent weeks

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 last month**
- **The Federal Government has '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**

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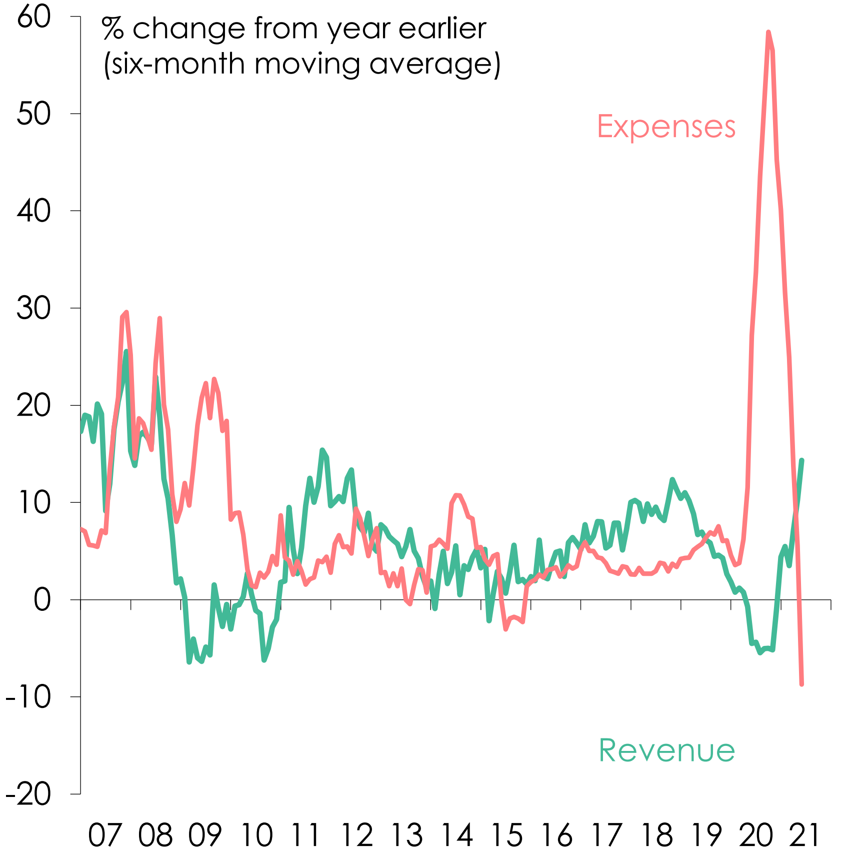
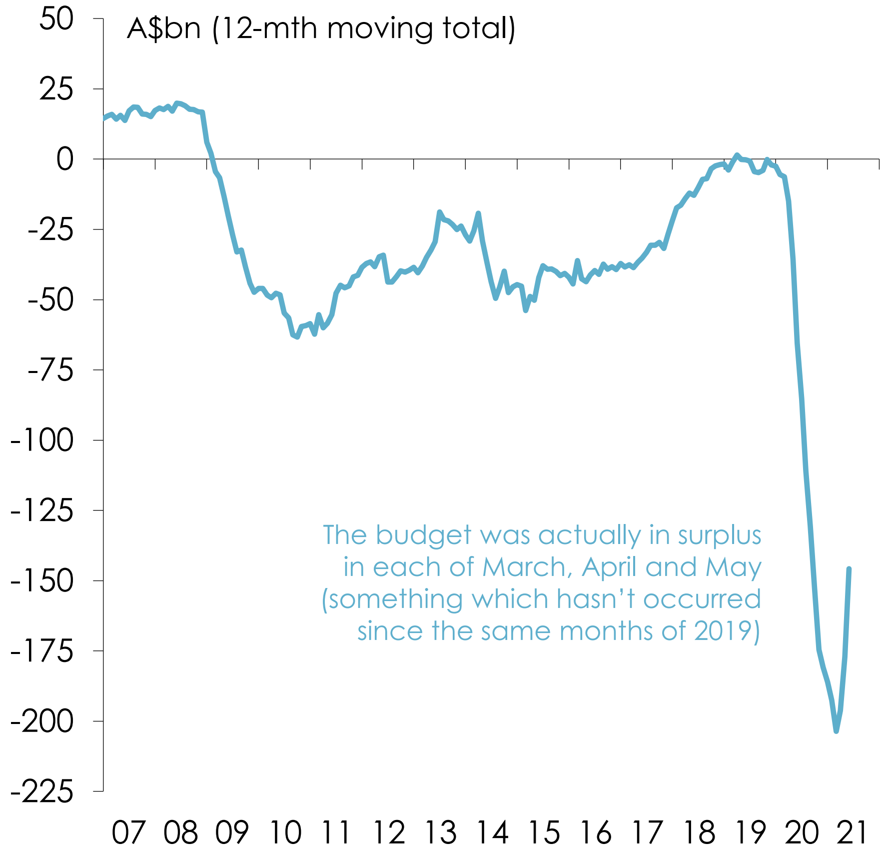
The budget was in surplus for three months in a row between March and May, and for the first 11 months of 2020-21 was $14bn less than forecast

Australian Government revenue and expenses



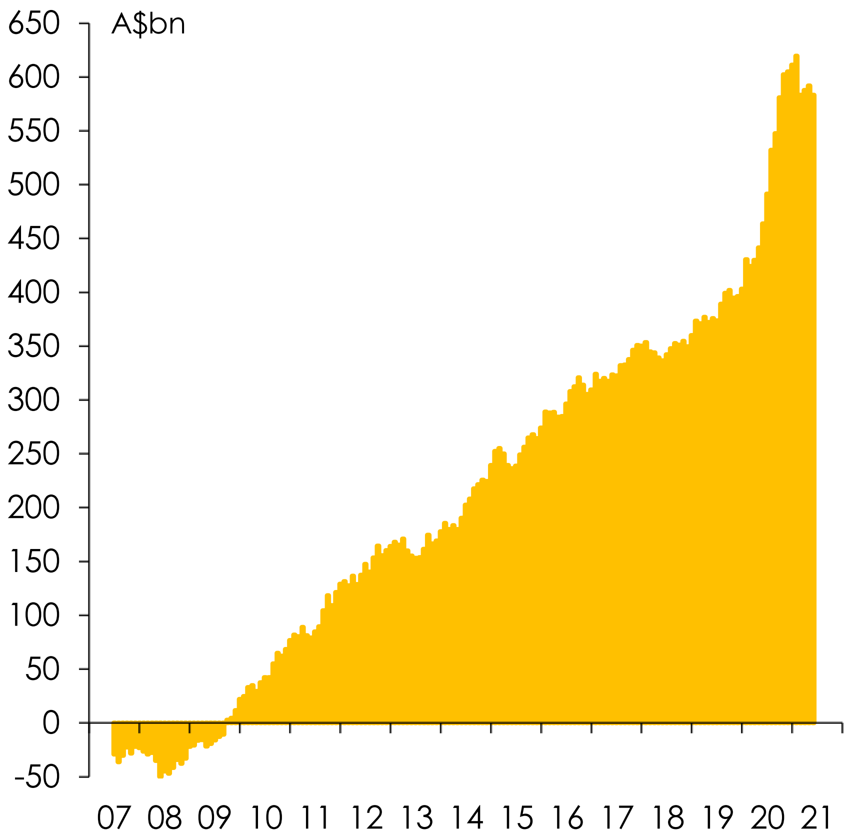
- Expenses have now peaked, while revenue is beginning to turn around as the economy picks up

Australian Government 'underlying' cash balance



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

Australian Government net debt



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

Note: Revenue and expenses are accrual accounting items. The 'underlying' cash balance is (cash) receipts minus payments, excluding transactions in financial assets for policy purposes and net earnings of the Future Fund. Net debt is total interest-bearing liabilities (government securities, deposits, loans and other borrowing) minus cash and deposits, advances paid, and (interest-bearing) loans, placements and investments. *Source:* Department of Finance. Return to "What's New".

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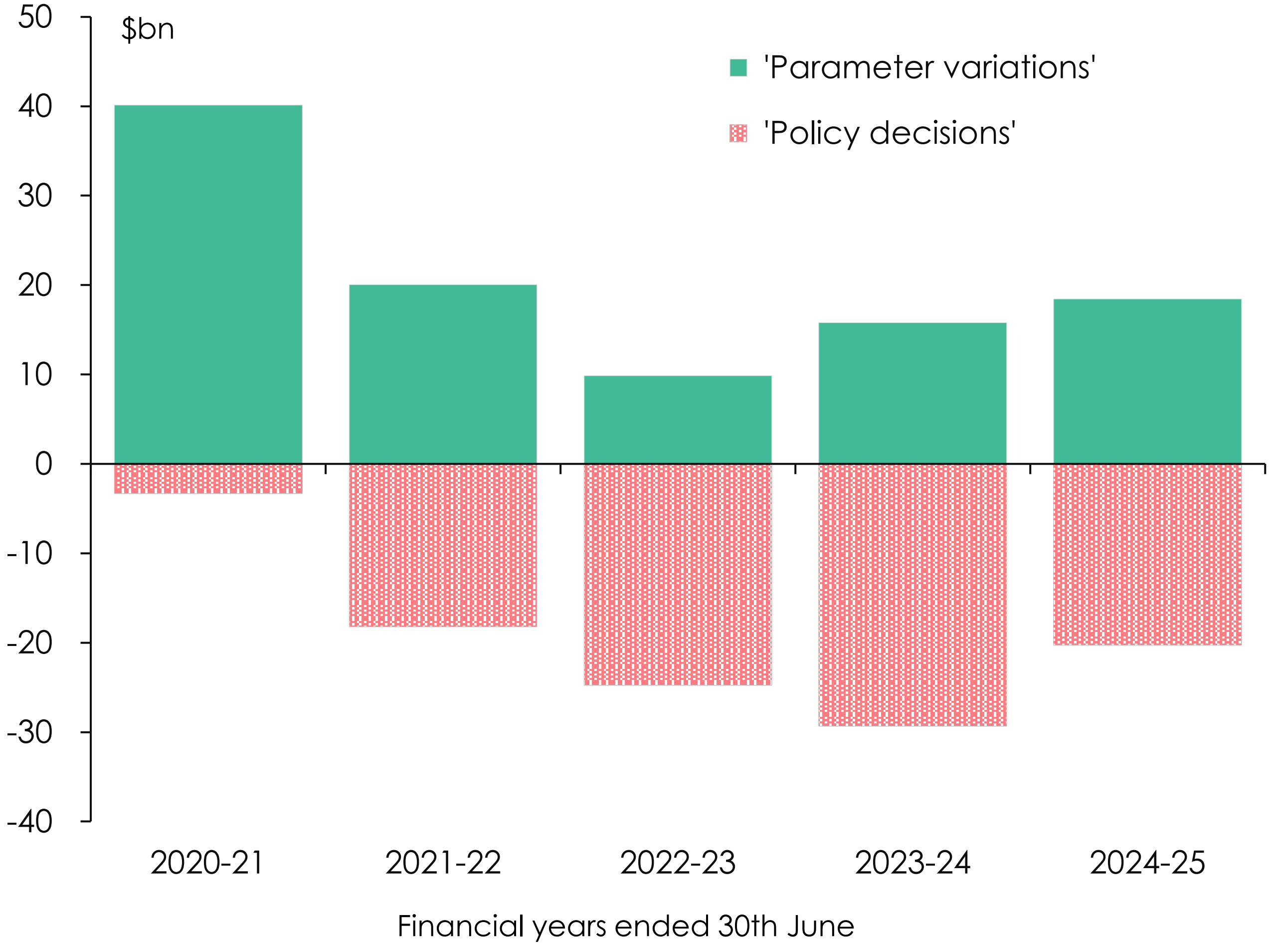
The increase in the deficits forecast for 2022-23 and 2023-24 is the result of conscious policy decisions to increase spending and cut taxes

Sources of the changes in forward estimates of the 'underlying cash balance' between the 2020-21 MYEFO and the 2021-22 Budget



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

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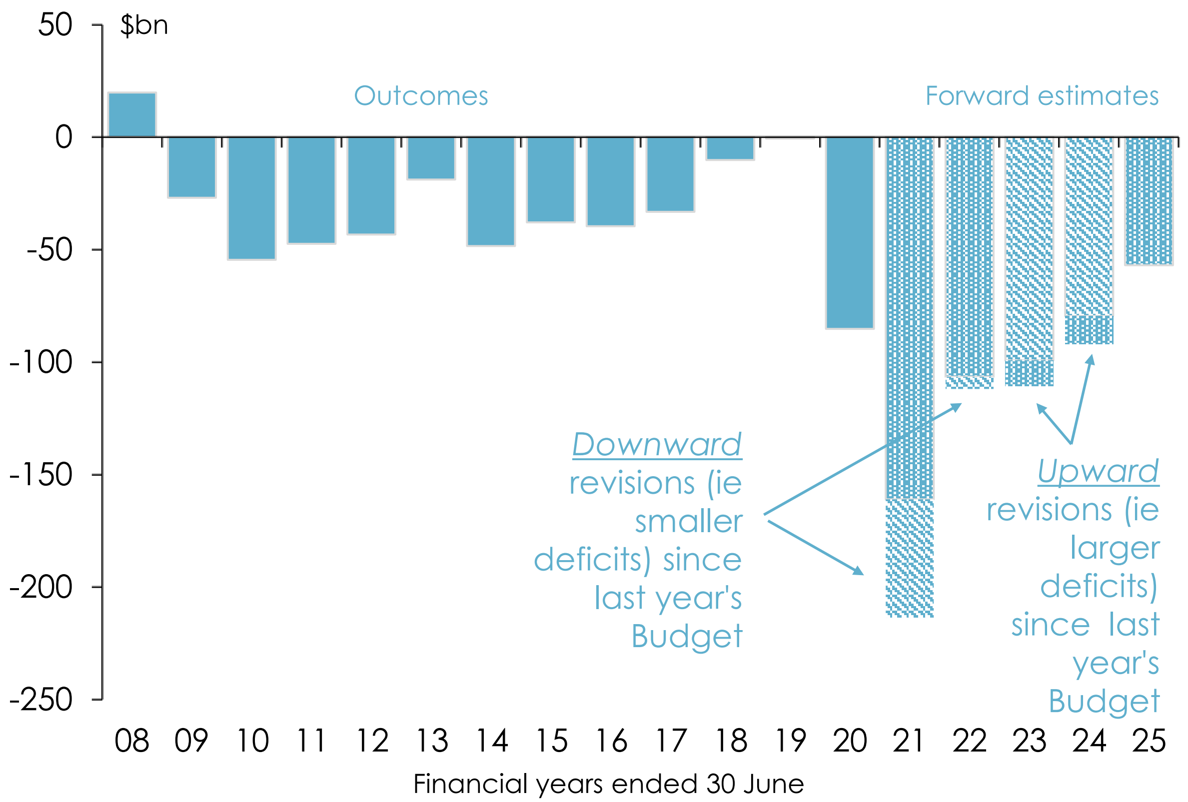
The May Budget revised down previous forecasts for the budget deficit and net debt in 2021-22 – but they will likely be revised up in December

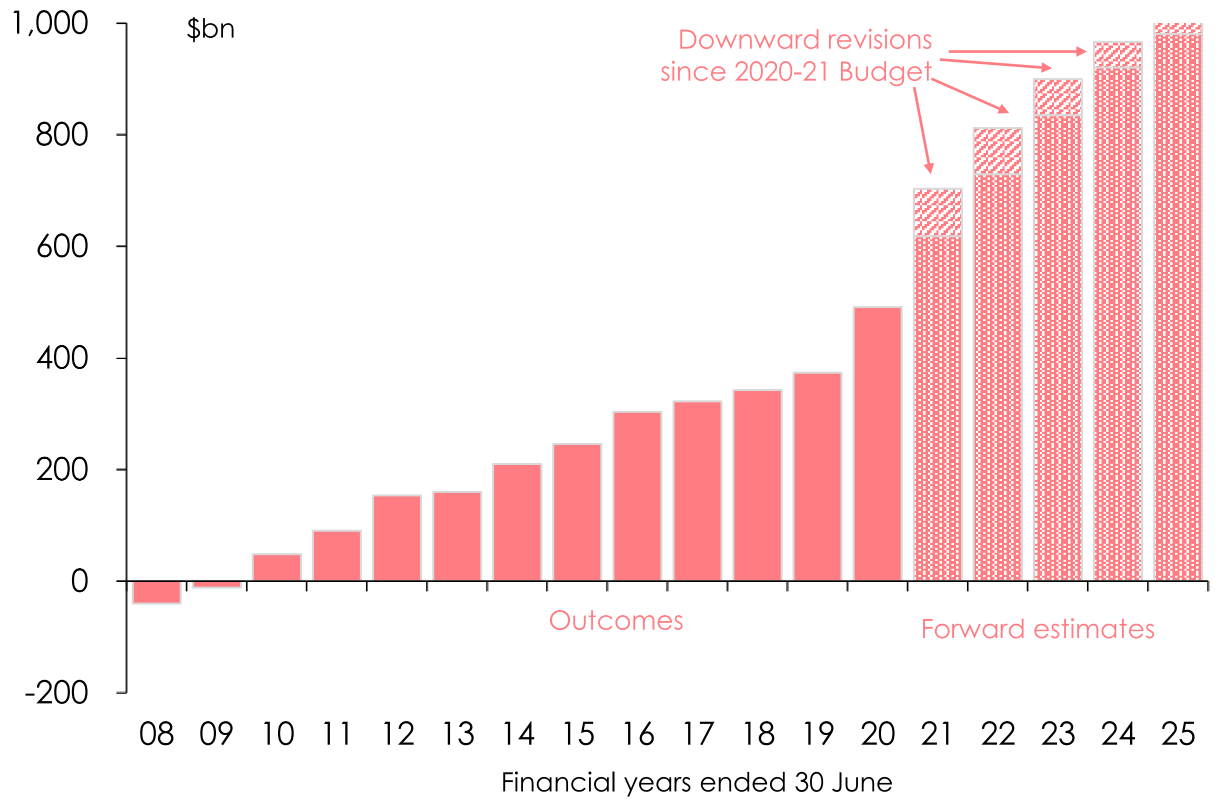
2021-22 Budget forward estimates compared with those from last year's (2020-21) Budget

'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

Source: Australian Government, 2021-22 Budget Paper No. 1, Statement 3: Fiscal Strategy and Outlook. Return to "What's New".

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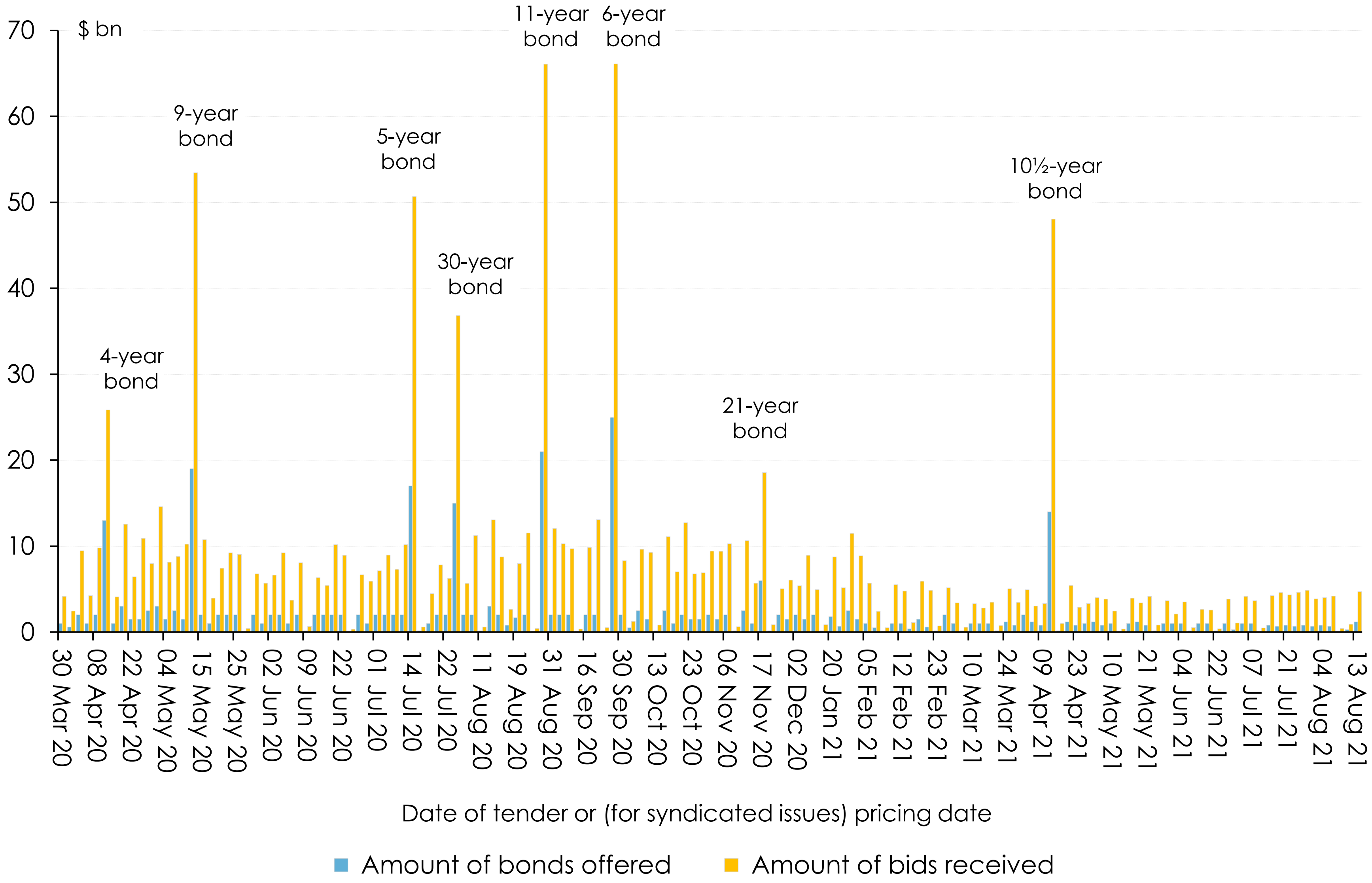
The Government continues to find a ready appetite for its bond issuance – so far this fiscal year it's received $42½bn of bids for $8bn of bonds

Australian government bond issuance since March 2020



- Since 30th March 2020, the Australian Office of Financial Management has issued $306½bn of Treasury bonds – based on the volume of bids received it could have borrowed more than $1.14 trn with yields at most 4 basis points (0.04 of a pc point) above the highest yields actually accepted
- The AOFM issued another $1.6bn of bonds, this week, $300mn of 18-year bonds at an average yield of 1.77%, $1.2bn of 5¾-year bonds at 0.70%, and $100mn of 9-year indexed bonds at -0.9% - the AOFM received more than $6bn of bids 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)

Source: Australian Office of Financial Management data hub; Corinna. Return to "What's New".

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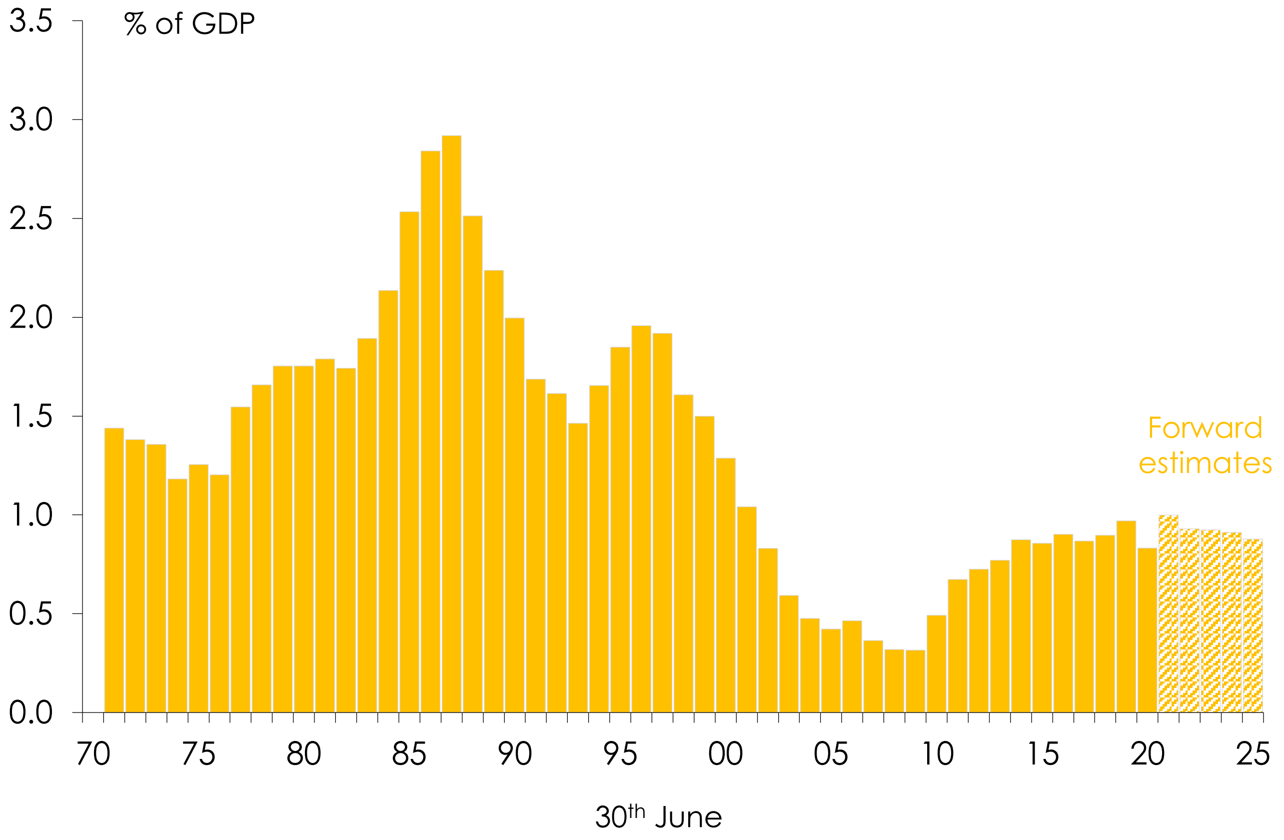
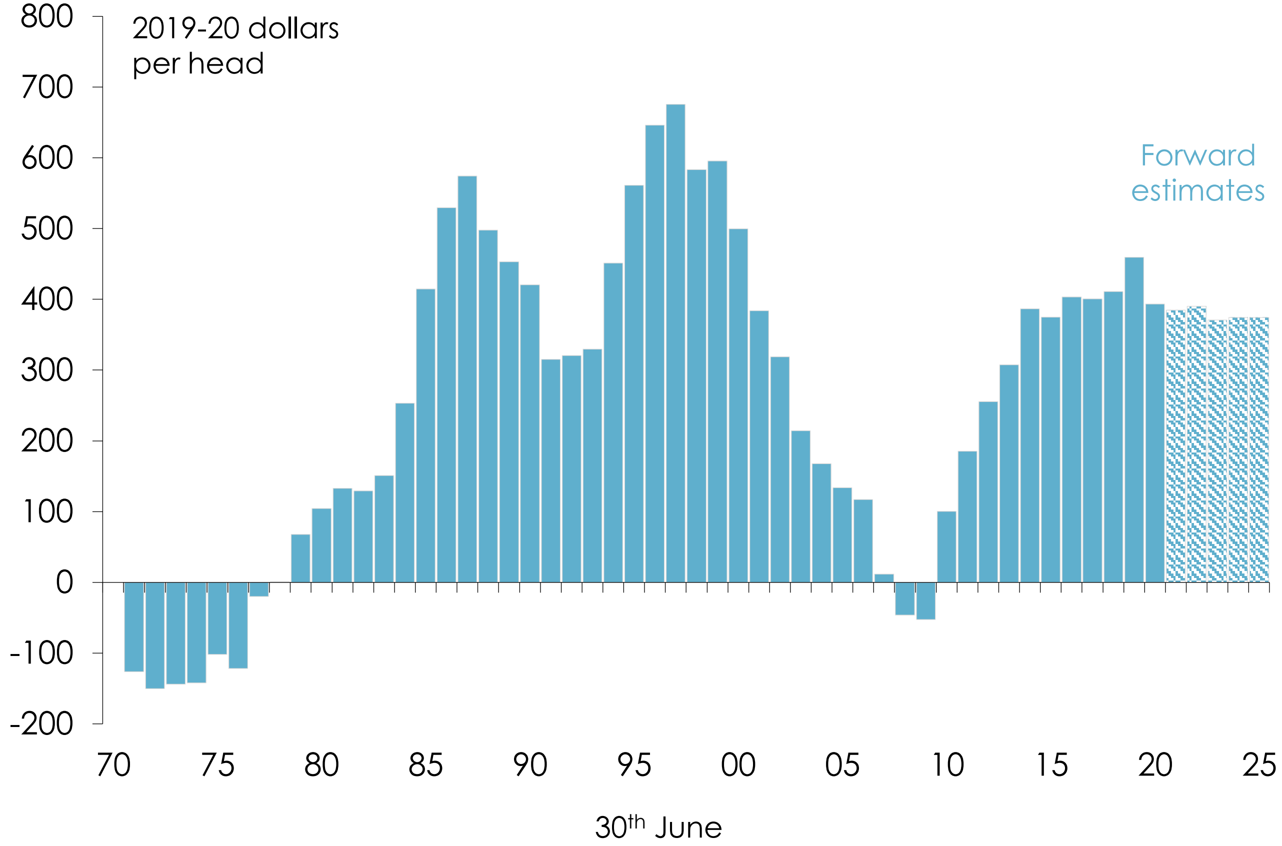
Because interest rates are so low, the cost of servicing the debt which the Government is racking up will be low by historical standards

Australian Government interest payments as a percentage of GDP



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



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

Source: Australian Government, 2021-22 Budget Paper No. 1, Statement 7: Debt Statement and Statement 11: Historical Australian Government data. Return to "What's New".

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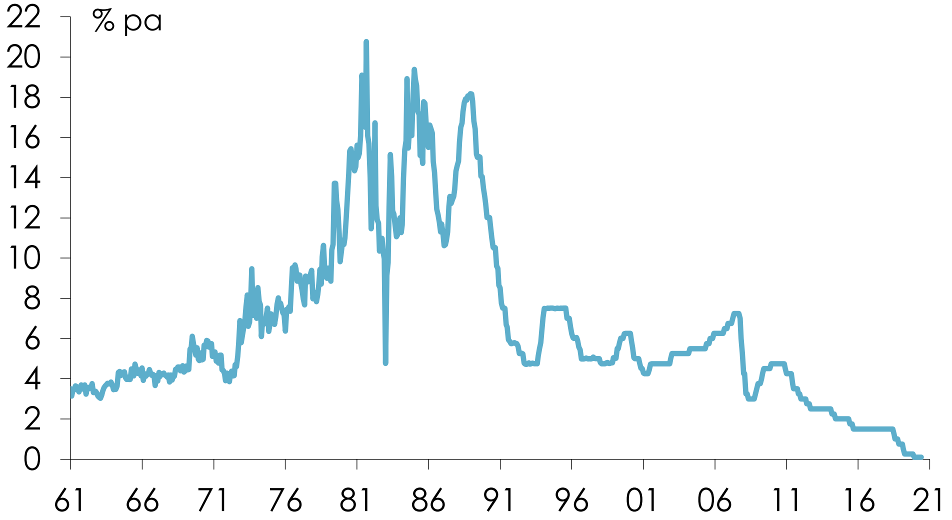
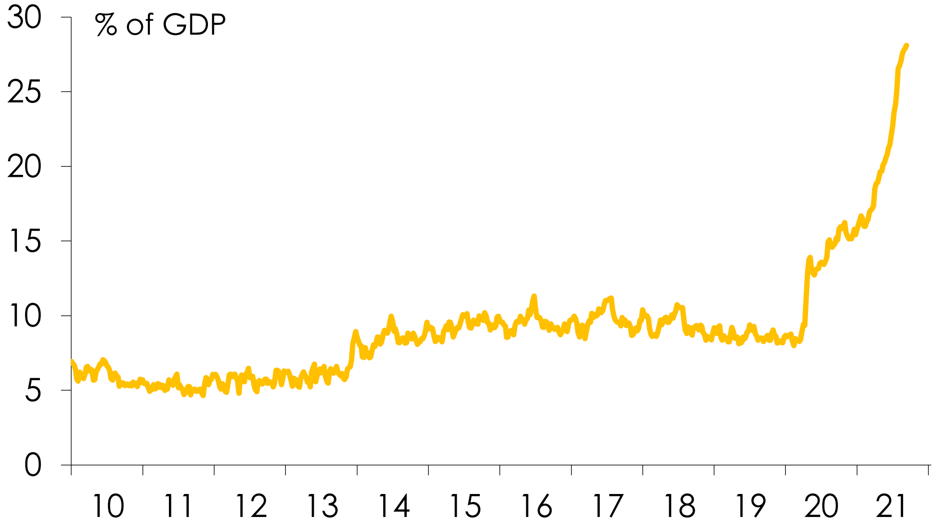
The RBA Board left all its monetary policy settings unchanged this month, and didn't lift its bond purchases as a response to the current lockdowns

Reserve Bank cash rate



Reserve Bank assets as a pc of GDP

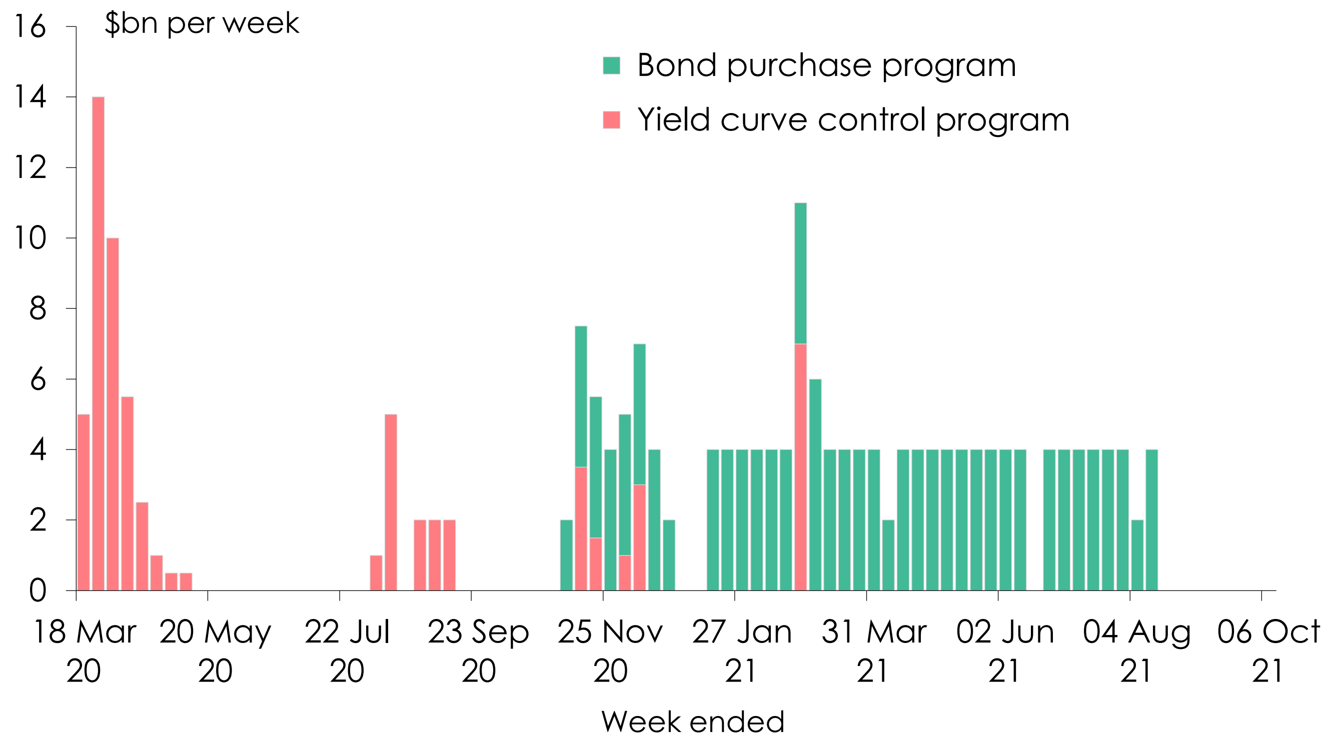


Source: Reserve Bank of Australia, *Statistical Tables* A3 and F1.1. See slide 99 for more detail on the RBA's forecasts. Return to "What's New".

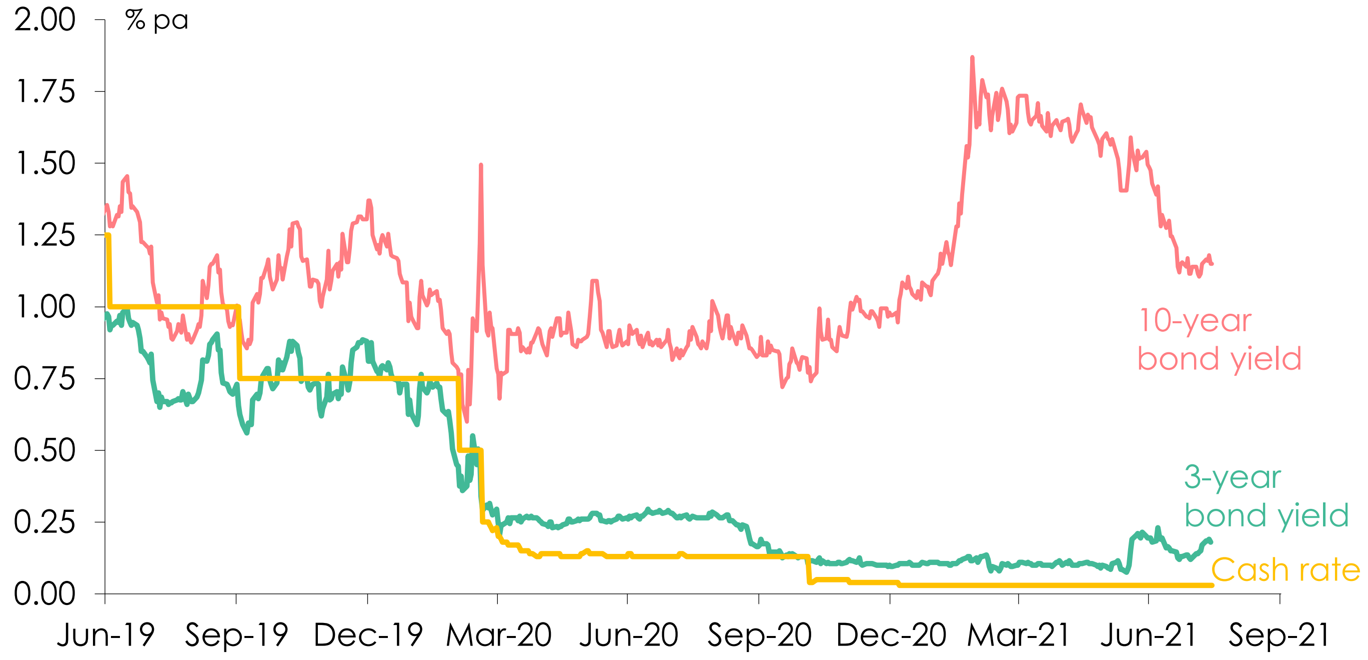
- **At its August meeting last week, the RBA Board left all of its monetary policy settings unchanged**
  - in particular, the RBA re-stated its intention to 'taper' its bond purchase program from $5bn a week to $4bn a week from "early September" until "at least mid November"
  - some had expected that the RBA might actually increase its bond purchases near-term, or defer its tapering, in response to the current lockdowns
- **The RBA noted that "GDP is expected to decline in the September quarter" (due to current lockdowns) but that "the experience to date has been that … the economy bounces back quickly" once the virus has been contained**
  - despite the lockdowns the RBA has actually revised *upwards* its forecast for GDP growth during 2022 from 3½% to "a little over 4%" and revised its forecast for the unemployment rate at the end of 2022 *downwards* from 4½% to 4¼%
  - while it has left its forecast for the underlying inflation rate through 2022 unchanged at 1¾%
- **In the quarterly Statement on Monetary Policy released last Friday (after the Board meeting) the RBA explained that the decision to go ahead with the 'tapering' foreshadowed at the July meeting reflected the "better-than expected progress" that had been made towards its goals**
  - combined with an assessment that "fiscal policy is the more appropriate response in the current circumstance of a temporary, localized reduction in incomes"
- **Both the post-Board meeting statement and the SoMP reiterated that the RBA's 'central scenario' remains that its conditions for raising the cash rate won't be met until 2024**

Australian bond yields were little changed this week

RBA open market bond purchases



Interest rates



- **Bond yields were marginally higher over the course of this week, with the 10-year rising 3bp over the first half of the week and then falling back to 1.15% by week's end, the 3-year yield rising a net 1 bp to 0.18%**
- **The RBA bought the usual $5bn of longer-term bonds this week as part of its Bond Purchase Program (the previous week was $2bn less than normal because of the Monday holiday in Sydney), bringing its purchases under this program to $184bn (and including purchases under its 3-year yield target program, $262bn)**
- **The RBA Board last week re-affirmed its decision to taper its bond purchases by $1bn a week from mid-September (slide 157)**
- **The RBA now holds about 28% of the stock of Commonwealth Government bonds outstanding, and 14% of outstanding state and territory government bonds**

Source: Reserve Bank of Australia, *Statistical Tables* A3 and F2. Data up 13th August. Return to "What's New".`

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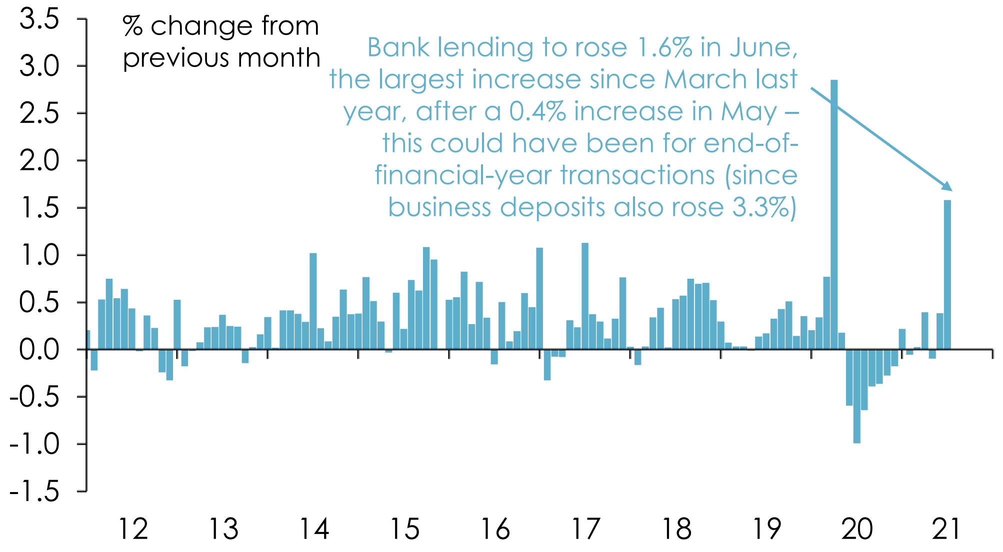
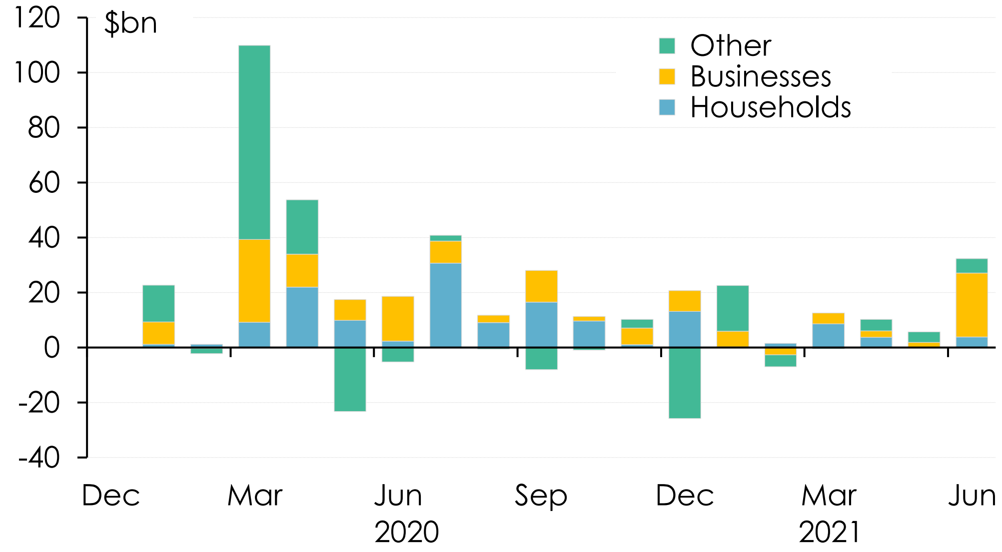
Banks have played an important role in assisting borrowers cope with shutdowns, and have been swamped with deposits

Business credit outstanding



Monthly change in bank deposits



Sources: Reserve Bank of Australia; APRA. [Return to "What's New"](#).

- **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%)**

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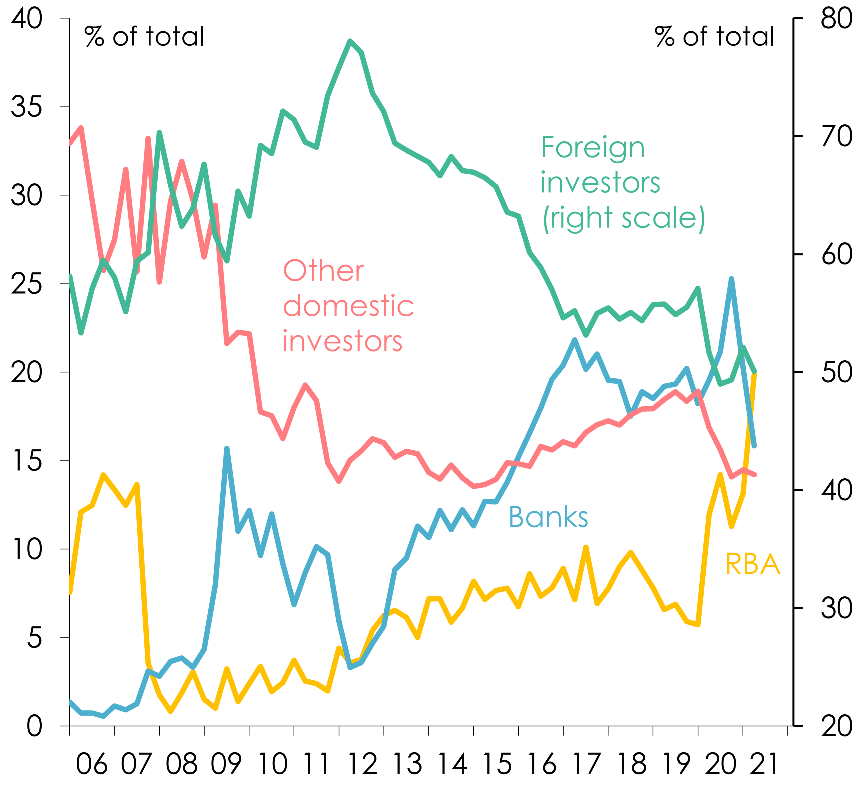
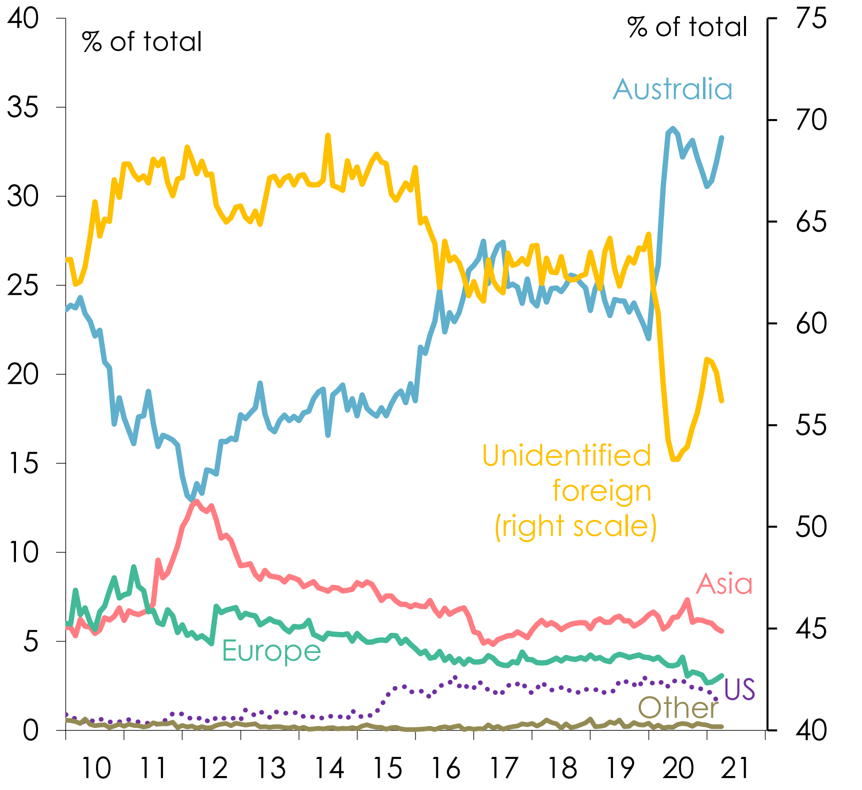
The RBA has (indirectly) absorbed almost half the increase in government debt since the end of 2019, banks 23% and foreign investors 28%

Holders of Australian Government bonds



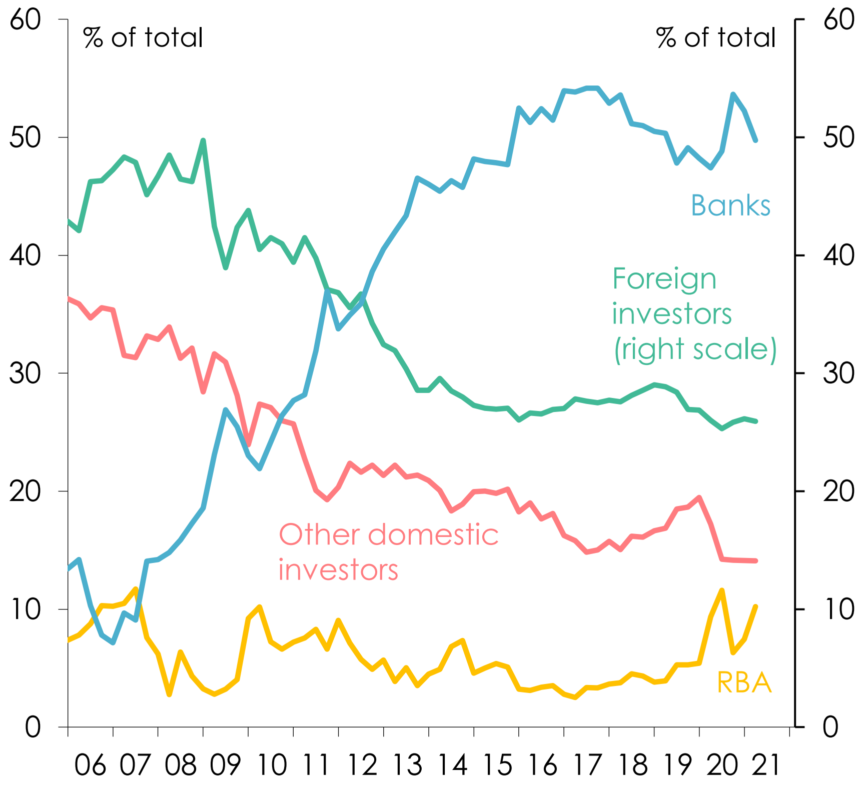
Australian Gov't bonds on issue have increased by $219bn since the end of 2019 – of which $133bn (61%) have been absorbed by the RBA, $65bn by foreigners and $20bn by banks

Nationality of Australian Government bond holders



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

Holders of State and Territory Government bonds



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

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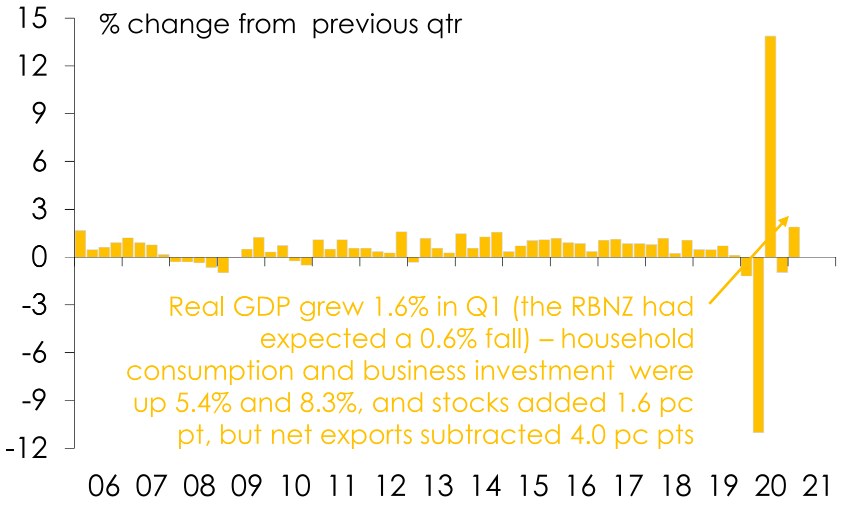
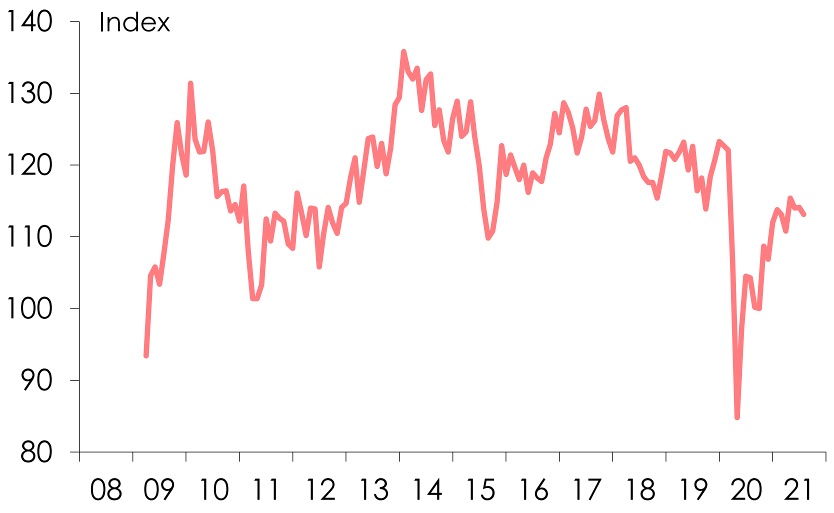
New Zealand

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

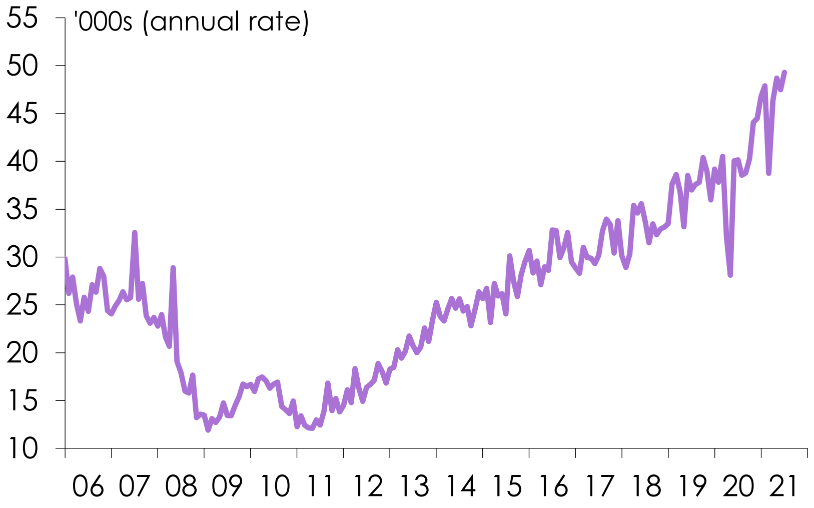
Real GDP



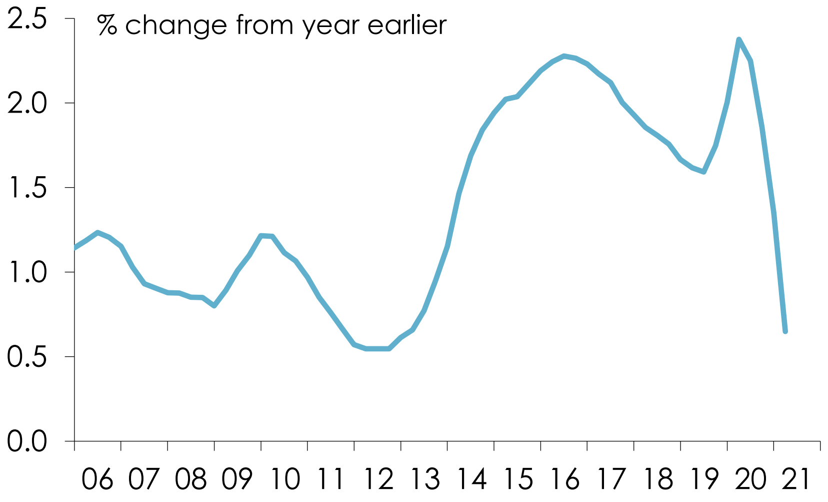
Consumer confidence



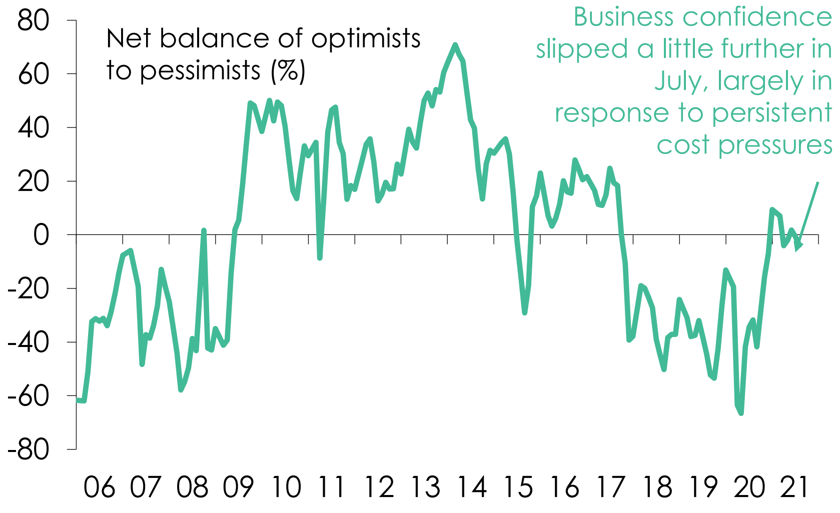
Dwelling 'consents' (permits)



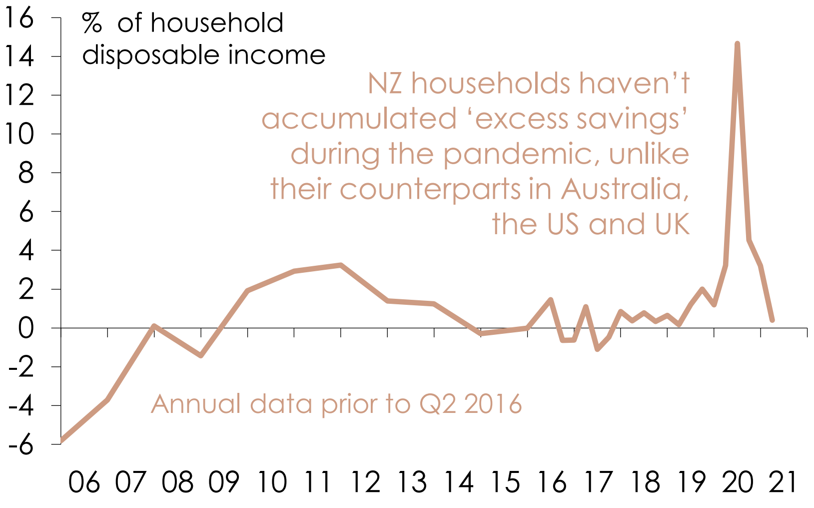
Population growth



Business confidence



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".

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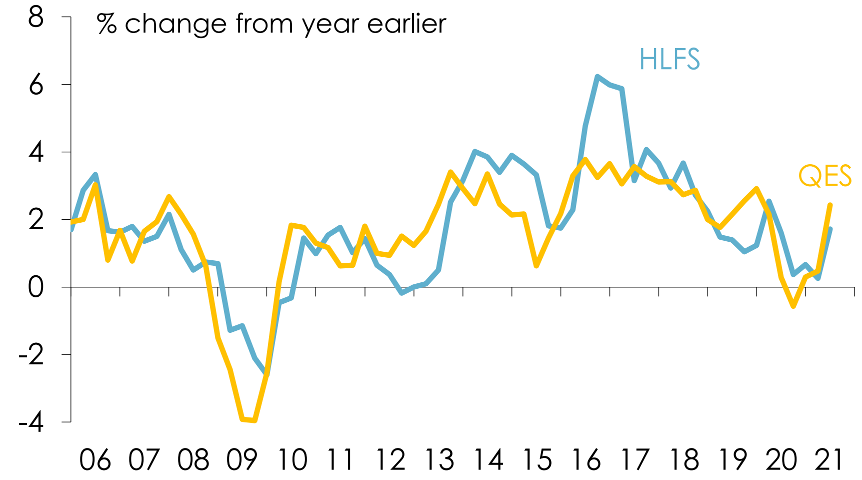
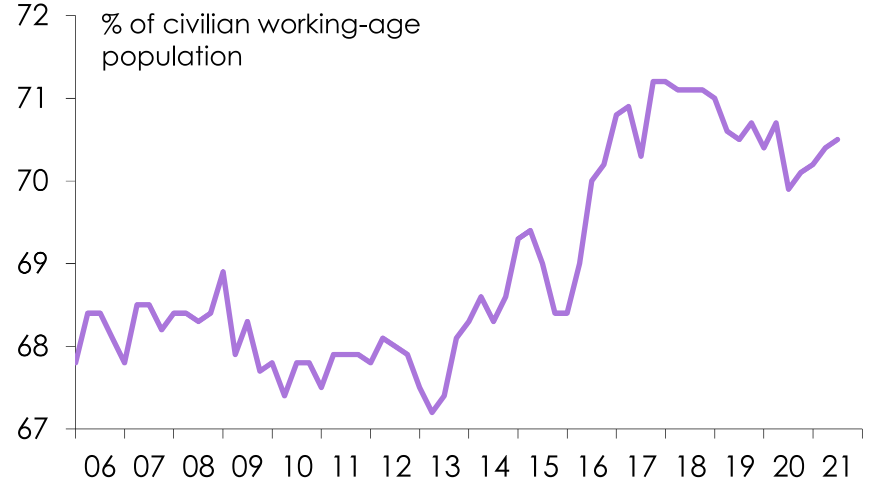
Employment rose 1.1% in Q2 (to 1.3% above pre-pandemic peak) and unemployment dropped to 4%

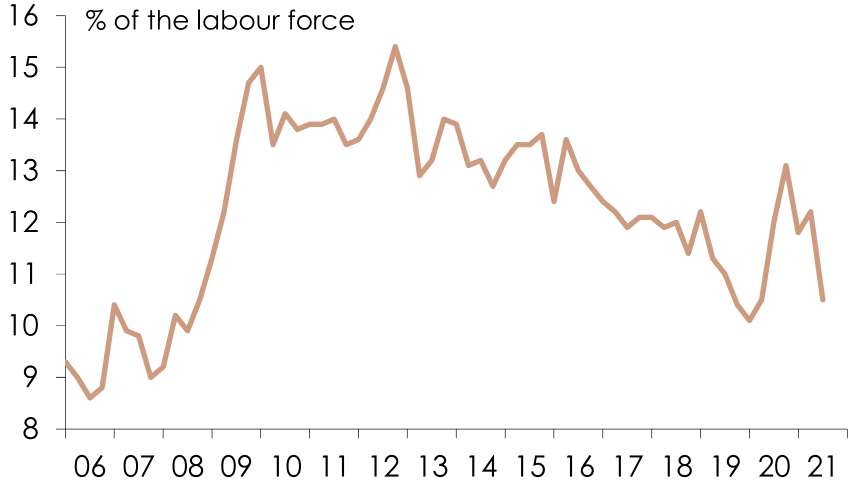
Employment



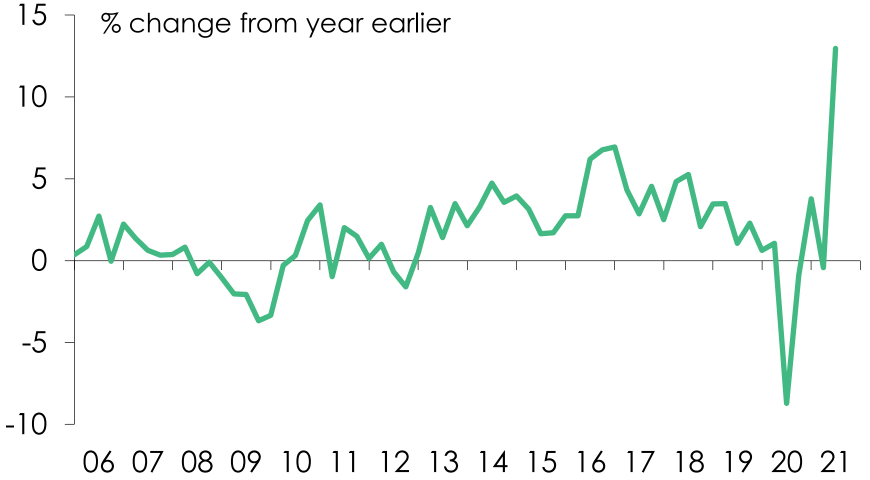
Labour force participation rate



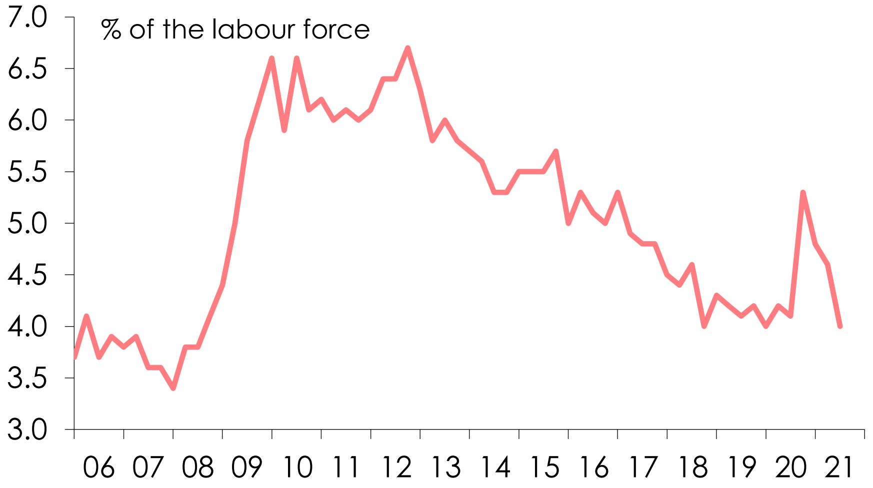
Labour force under-utilization rate



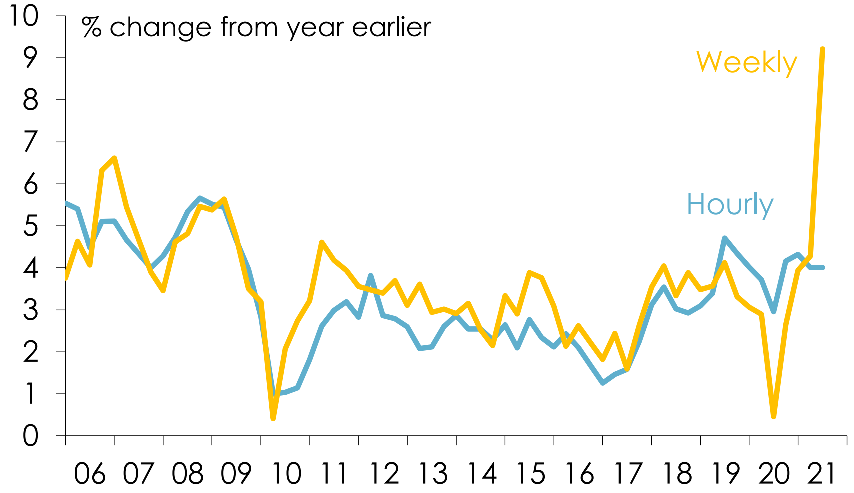
Hours worked



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. September quarter data will be released on 3rd November. Return to "What's New".

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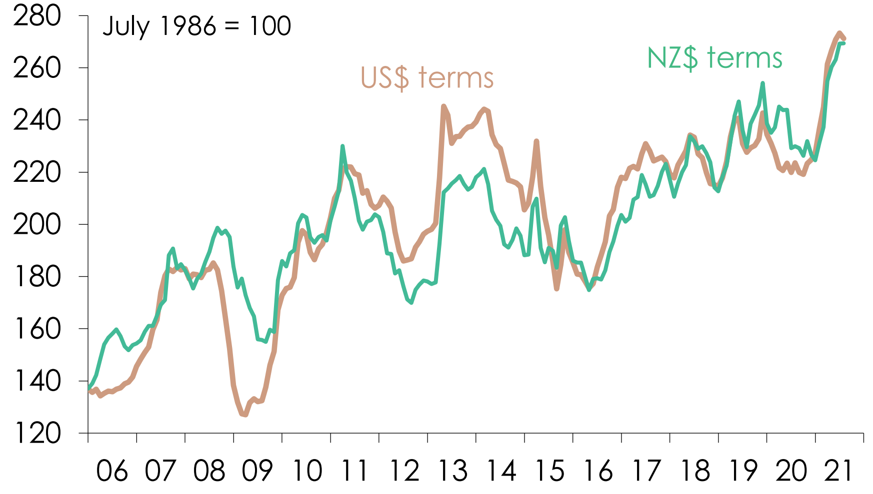
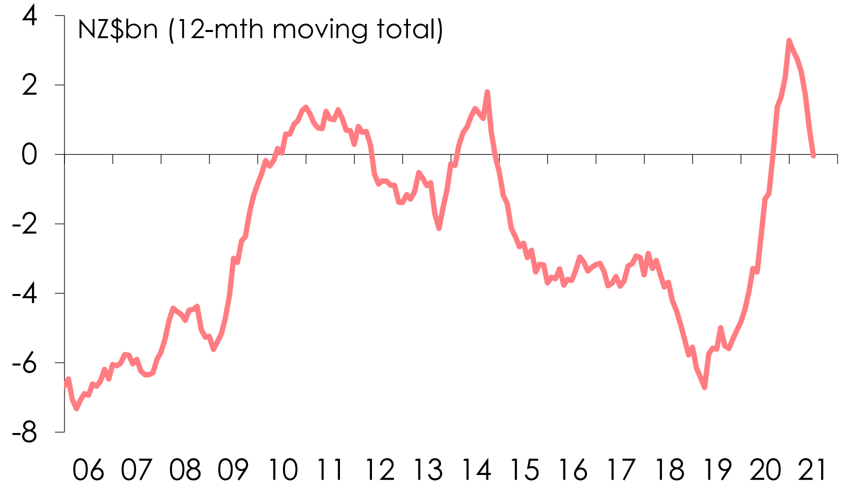
Although New Zealand's export commodity prices are at a record high, unlike Australia its current account has remained in deficit

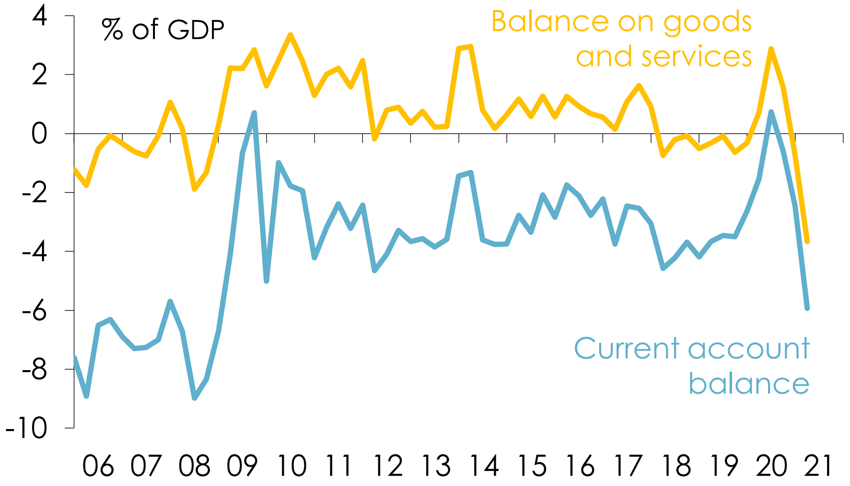
Export commodity prices



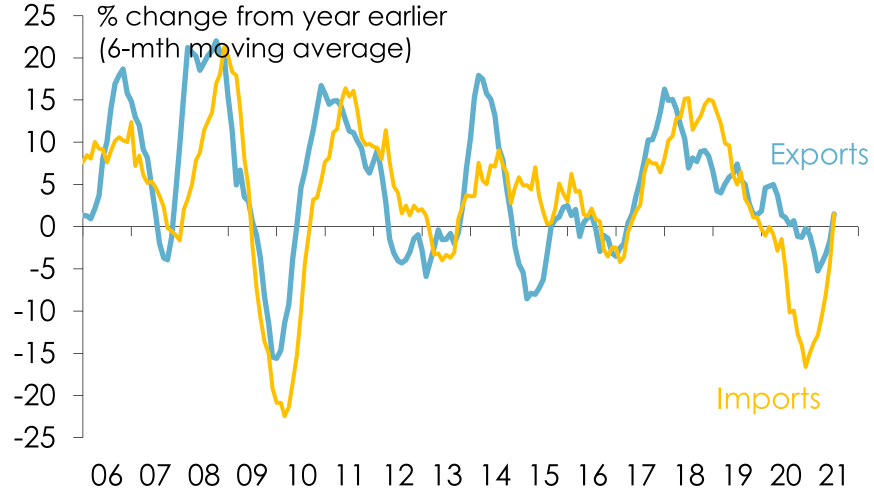
Merchandise trade balance



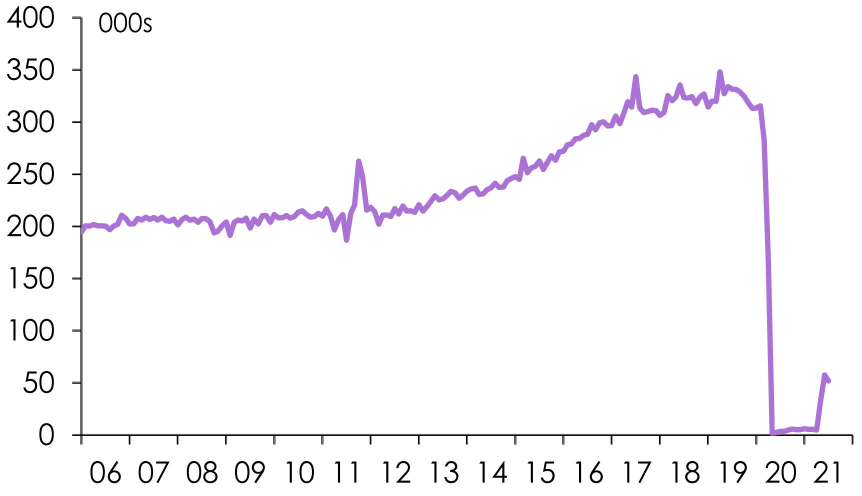
Balance of payments



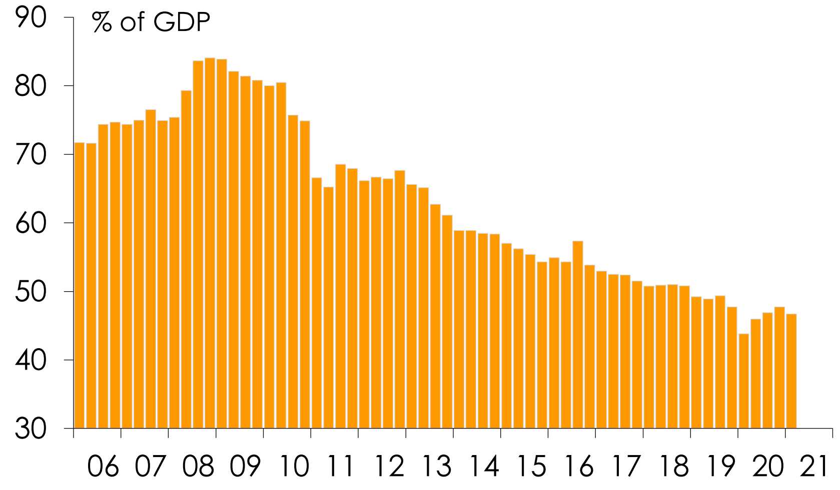
Merchandise exports and imports



Overseas visitor arrivals



Net foreign debt



Note: latest merchandise trade data is for 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. Return to "What's New".

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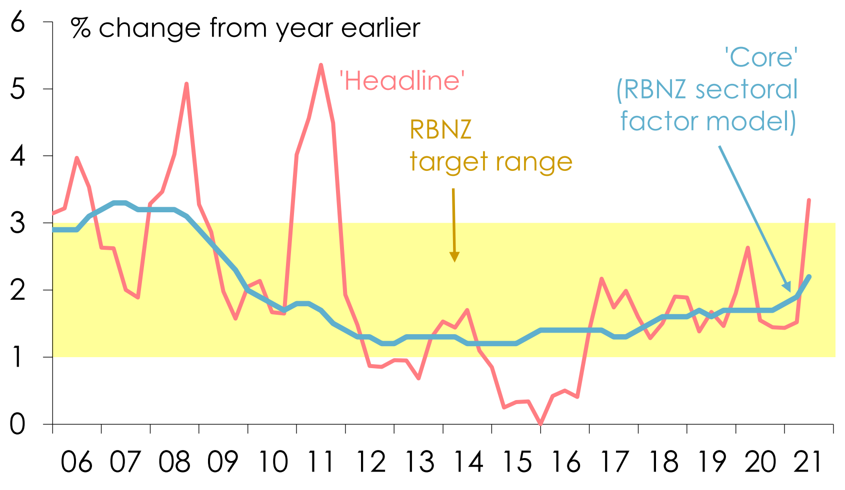
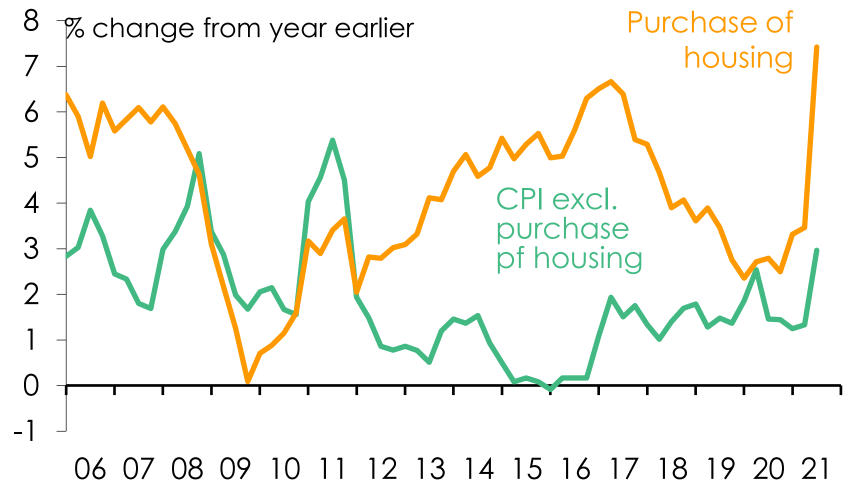
The Q2 CPI was a 'shocker', rising 1.3%, half a percentage point above market expectations, driven largely by housing costs

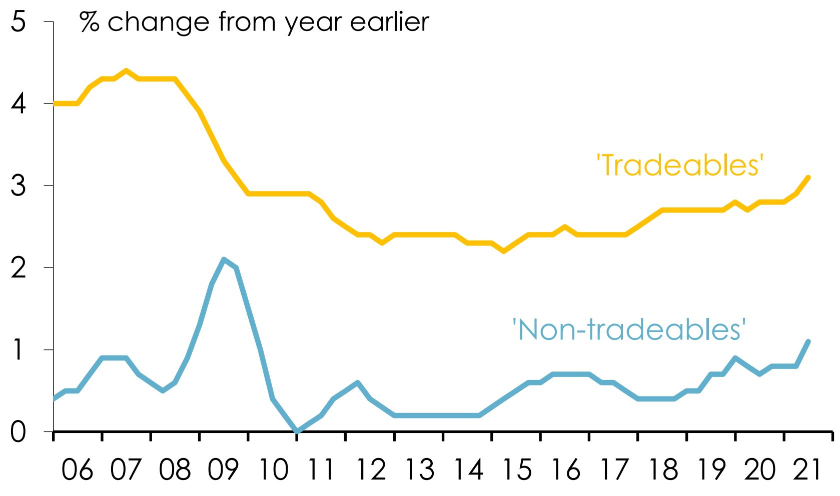
Consumer prices



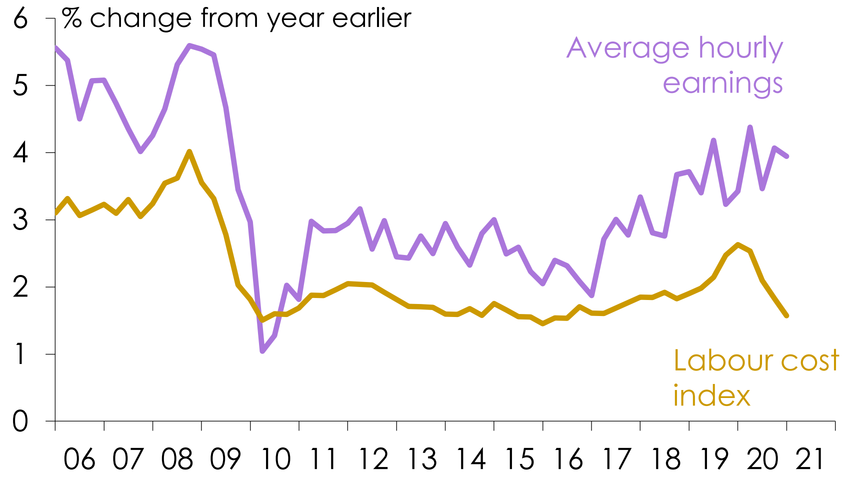
Housing costs in the CPI



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

Sources: Statistics NZ ; Reserve Bank of New Zealand. September quarter CPI will be released on 18th October. Return to "What's New".

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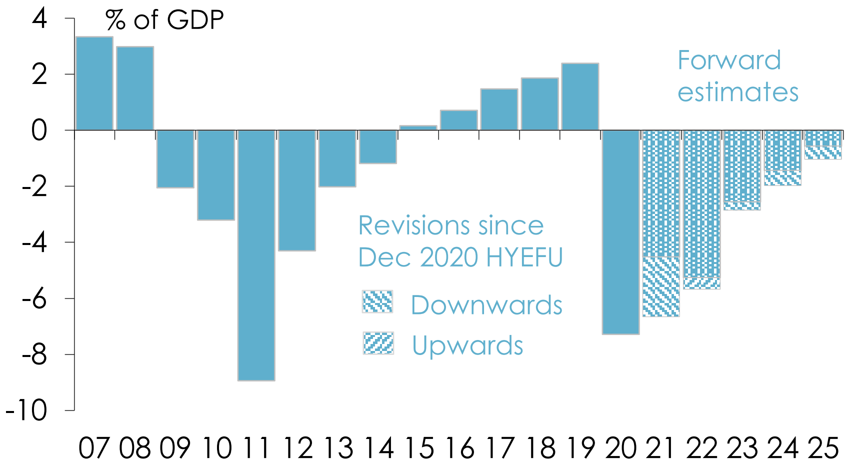
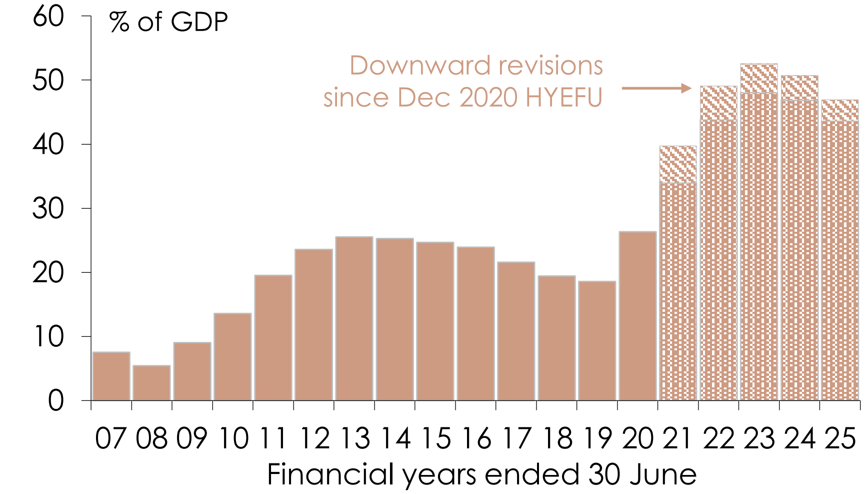
The 2021 NZ Budget uses gains from an improved economic outlook to fund additional spending as well as a slightly improved 'bottom line'

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



NZ 'core Crown debt'

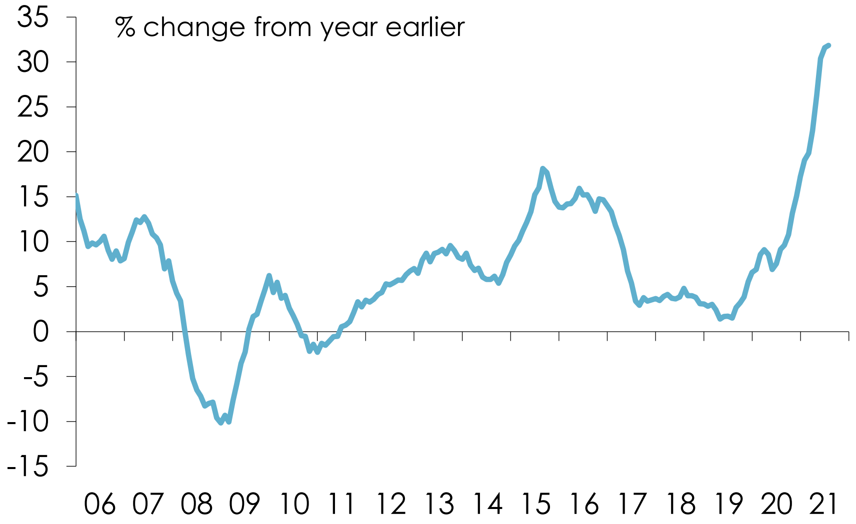


- **As was also the case in Australia, the 2021-22 New Zealand Budget presented by Finance Minister Grant Robertson in May benefited from a much stronger economic performance than had been anticipated in last year's Budget, or in last December's Half-Year Economic & Fiscal Update (HYEFU)**
  - Treasury now expects the NZ economy to have grown 2.9% in 2020-21 (cf. 1.5% in HYEFU) and by 3.7% pa over the following two years (cf. 3.1% in HYEFU)
  - unemployment is expected to fall to 5% in June 2022 and 4.2% by June 2024, instead of increasing to 6.8% in June 2022 and then falling to 4.7% by June 2024
- **The Budget applies most of the revenue windfall from this improved economic outlook (and transfers from unspent allocations to the $50bn Covid Response and Recovery Fund established last year) to fund new spending initiatives totalling almost NZ$20bn over the five years to 2024-25**
  - of which the most significant are increases in benefit payments of up to $55/week (consciously reversing cuts made in the 1990 Budget) and increased spending on health and housing
- **Nonetheless the Budget also reduced the 'OBEGAL' and 'residual cash' deficits for the five years to 2024-25 by $9bn**
  - the 'OBEGAL' deficit is forecast to decline from 2019-20's peak of 7.3% of GDP to 4.5% of GDP in 2020-21, increase slightly to 5.3% of GDP in 2021-22, then decline to 0.6% of GDP in 2024-25 – and to return to surplus by 2026-27
- **As a result 'core Crown net debt' is expected to peak at 48% of GDP in June 2023 (down from 52.6% at HYEFU) and then decline to 43.6% of GDP by June 2025, and longer term to drop below 20% of GDP in 2034**

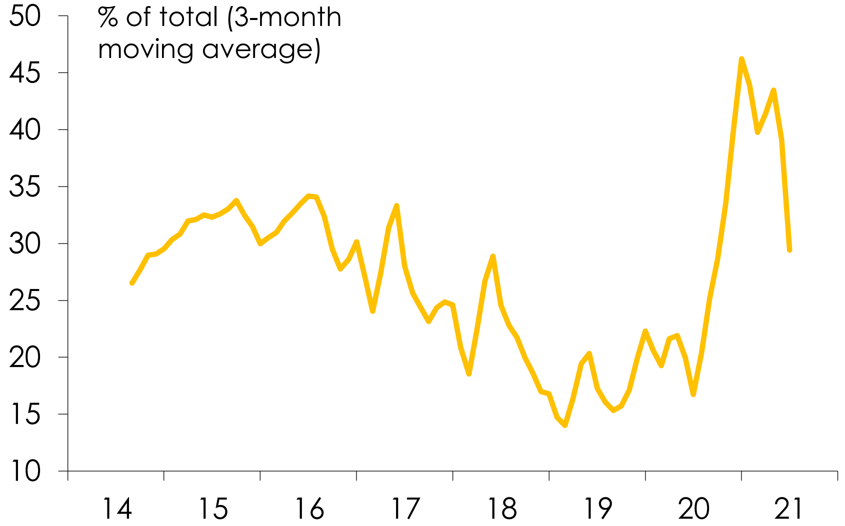
Note: The measure of the NZ Government budget balance is 'OBEGAL', which stands for 'operating balance excluding gains and losses' (an accrual accounting measure). Net 'core Crown debt' excludes assets of the NZ Super Fund, student loans and other advances, and financial assets held for public policy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

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

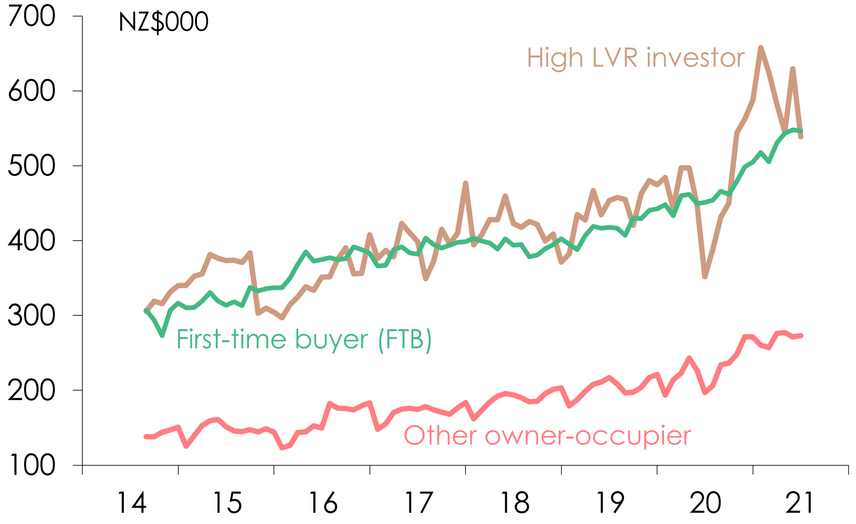
House price inflation



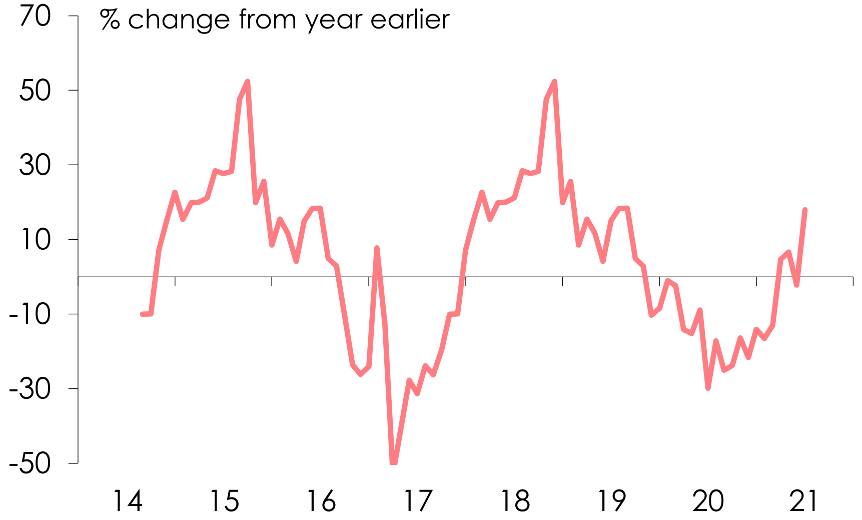
Lending to investors as pc of total



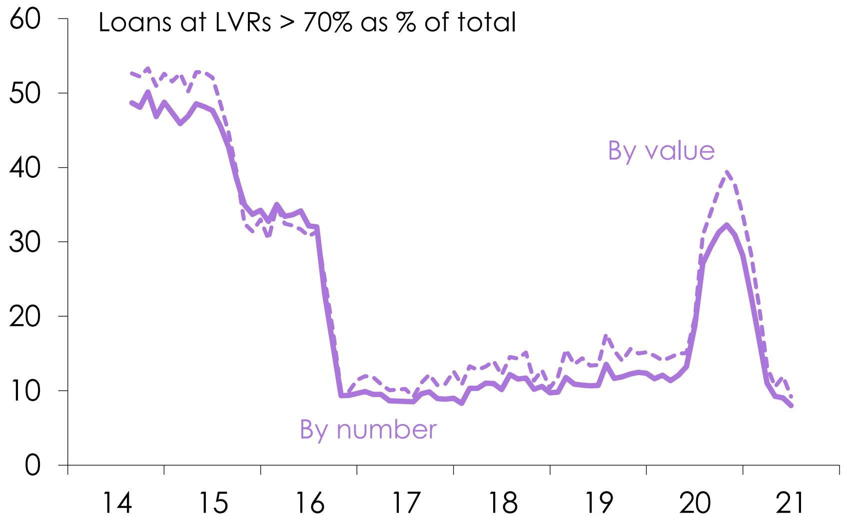
Average new mortgage



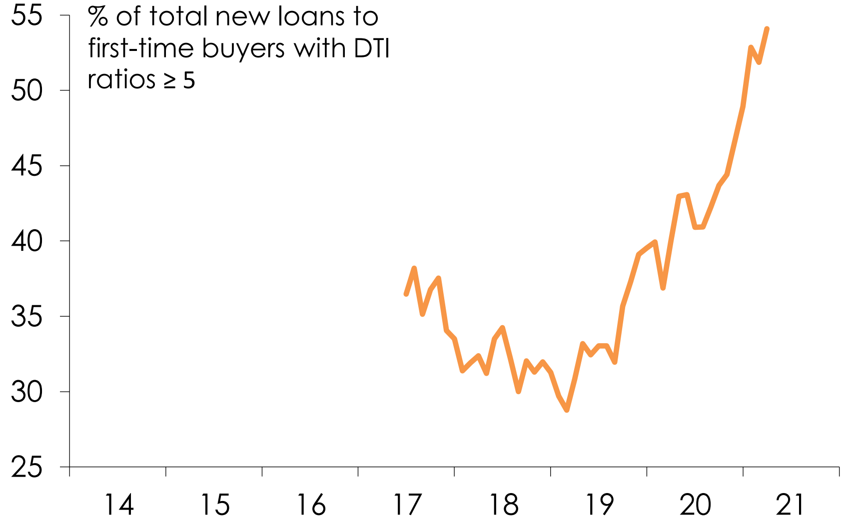
Mortgage lending growth



High-LVR loans to investors



Loans to FTBs at over 5 times income



Sources: Real Estate Institute of NZ; Reserve Bank of New Zealand (Tables C30, C31 and C40). Return to "What's New".

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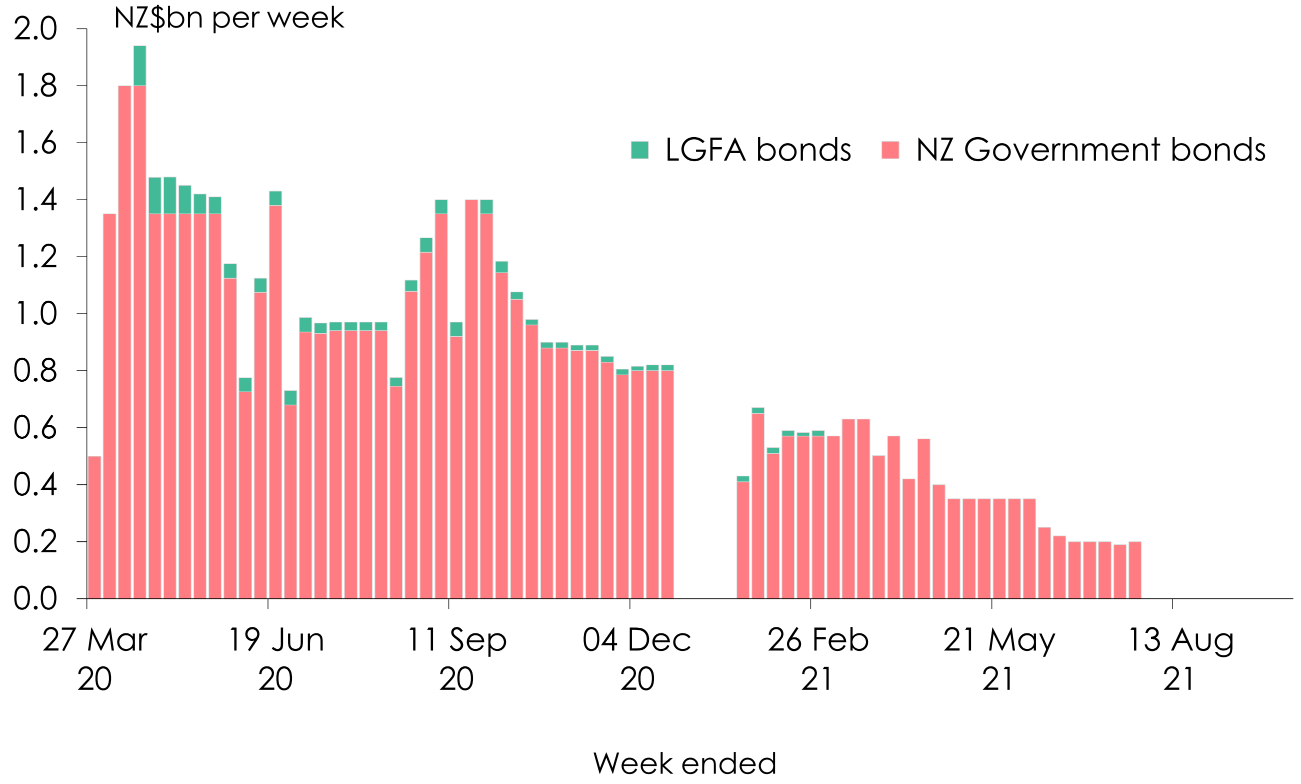
The NZ Government and the RBNZ last week signed an MoU on macro-prudential policy including the possibility of debt-to-income ratio limits

- The RBNZ and the Minister of Finance last week signed a Memorandum of Understanding on Macro-Prudential Policy which defines what macro-prudential policy is, and sets out the 'guidelines' under which the RBNZ will operate when using it
  - the MoU defines the objectives of macro-prudential policy as being "to increase the resilience of the domestic financial system" and to counter instability in that system arising from "credit, asset price or liquidity shocks"
  - and it lists the instruments which the RBNZ may use in order to "address the systemic risks of financial instability" – including adjustments to banks' Core Funding Ratio, a Countercyclical Capital Buffer requirement, adjustments to sectoral capital requirements, and 'quantitative restrictions' on loans to the residential property sector
- The new development in the MoU is the specification of 'debt serviceability restrictions' on loans for purchase of residential property
  - specifically, caps on the ratio of mortgage or total debt to income for individual borrowers, or on the percentage of a borrowers' income that can be used for debt service payments, and floors on the interest rates that banks use in their loan serviceability assessments
  - these would be in addition to restrictions on the share of new high loan-to-valuation ratio lending that banks may undertake (which have already been imposed this year) and outright limits on the proportion of the value of a property that can be borrowed
- 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, including
  - 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

Return to "What's New".

NZ bond yields rose further this week in anticipation of an increase in the official cash rate at this coming Wednesday's RBNZ MPC meeting

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 rose further this week, the 5-year yield up 8 bp to 1.36% (the highest since the end of December 2019) and the 10-year up 9bpp to 1.71% (the highest since 9th June) – ahead of this coming Wednesday's RBNZ MPC meeting this coming Wednesday, at which many market participants expect an OCR hike**

Note: LGFA = Local Government Financing Authority. *Source:* Reserve Bank of New Zealand, *Statistics* Tables B2 and D3. Data up to 13th August. Return to "What's New".

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Important information

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