

# ECONOMIC IMPACT OF THE CORONAVIRUS PANDEMIC

4<sup>TH</sup> SEPTEMBER 2021

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# What's new?

## The world

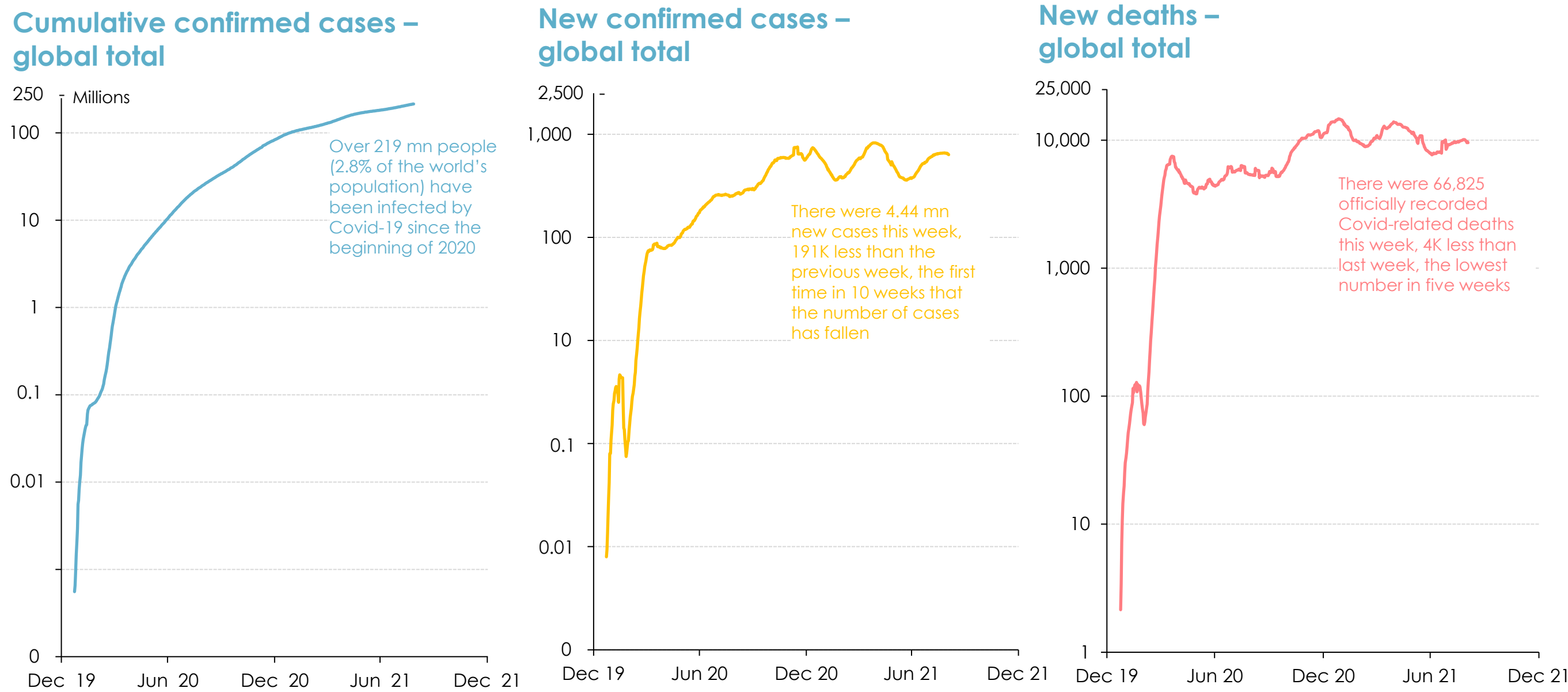
- ❑ 4.44mn new Covid-19 cases were recorded this week, first time in 10 weeks that the global tally of new infections has fallen ([slide 4](#))
- ❑ New infections continued to rise in the US, which accounted for more than 26% of all new cases this week, followed by Europe with 16%, SE Asia 12½%, the Middle East 11½% and India 7% ([slide 5](#))
- ❑ 51 economies have now reported GDP estimates for Q2, with 31 of them showing growth of more than 10% from what for all but China was the recession trough in Q2 last year ([slide 27](#)) – but only in 11 is the level of GDP above its pre-pandemic peak ([slide 29](#))
- ❑ In the US, non-farm payroll employment increased a weaker-than-expected 235K (0.2%), as the spread of the 'delta variant' brought growth in leisure and hospitality jobs (which had accounted for half the increase in total employment over the previous six months) to a complete stop ([slide 73](#))
- ❑ The US goods and services trade deficit narrowed by US\$3bn in July but it was still the third largest on record ([slide 81](#))
- ❑ Japan registered its largest monthly employment gain in 5½ years in July, pushing the unemployment rate down 0.2 pc pts to 2¾%, its lowest since last April ([slide 56](#))
- ❑ India's devastating 'second wave' of covid-19 infections caused its economy to shrink 4½% in Q2 – although by comparison with Q2 last year (when GDP fell 18%) it grew 20.1% ([slide 57](#))
- ❑ In other Q2 GDP results, Canada's contracted by 0.3% due to large falls in exports and construction ([slide 82](#)); Brazil's shrank 0.1% due to fall in investment ([slide 85](#)); and Turkey's grew 0.9% to be 8.4% above its pre-pandemic peak ([slide 86](#))
- ❑ Chile's central bank hiked its policy rate 75 basis points ([slide 87](#))

## Australia and New Zealand

- ❑ Australia recorded almost 9,400 new Covid-19 cases this week, the highest number since the start of the pandemic, with all but 31 of them being 'locally acquired' ([slide 13](#))
- ❑ Over 8,450 of those new cases were in New South Wales, but there were also 800 in Victoria – prompting the Victorian Government to join with NSW in formally abandoning 'Covid zero' as an objective ([slide 14](#))
- ❑ 'Vaccine hesitancy' has fallen in Australia over the past two months but it's still higher than in most other 'advanced' economies ([slide 20](#))
- ❑ Real GDP increased by a slightly better-than-expected 0.7% in Q2, aided by strong growth in domestic demand and despite a slump in export volumes ([slides 90-91](#)) – but there is almost certain to be a large fall in Q3, so whether Australia has avoided a so-called 'technical recession' is rather beside the point ([slides 96-97](#))
- ❑ Recession or not, residential property prices rose another 1.8% in August, only slightly less than the average pace of the five prior months, to be 16% above their pre-pandemic peak ([slides 126-127](#))
- ❑ Lending to property investors rose in July, while lending to first home-buyers fell, as has now happened in 5 of the past 6 months ([slide 128](#))
- ❑ Residential building approvals fell another 8½% in July, the fourth large fall in a row, after the expiry of cash grants to first-time buyers ([slide 129](#))
- ❑ Australia registered another record monthly trade surplus in July, this time thanks to coal and LNG rather than iron ore ([slide 131](#)), while Q2's current account surplus was also the largest on record ([slide 137](#))
- ❑ Iron ore prices resumed their slide this week, but coal prices continued to surge ([slide 130](#)) and the A\$ climbed back above US74½¢ ([slide 138](#))
- ❑ The RBNZ flagged a further tightening of 'macro-prudential' controls on high-LVR mortgage lending ([slide 161](#))

**The virus**

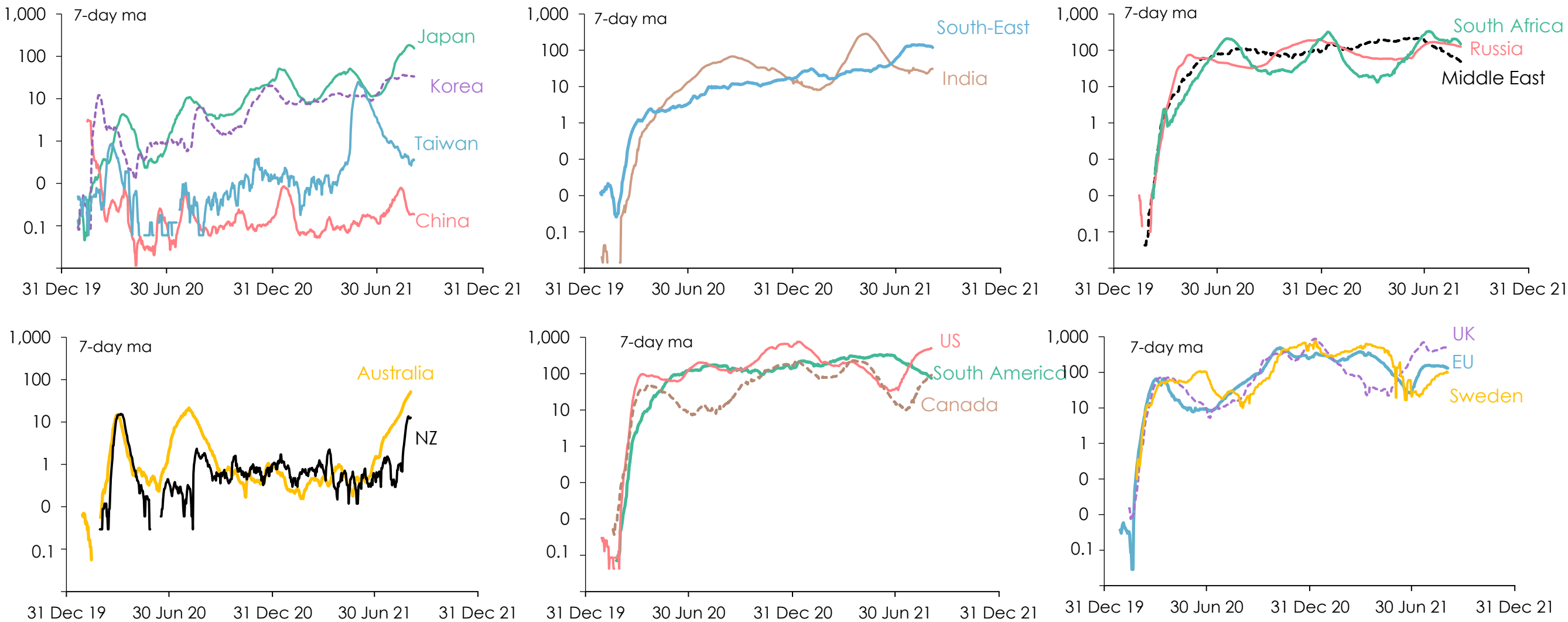
# It's possible that the 'delta wave' may be peaking, globally – the number of new infections and deaths fell this week



Note: All charts are on logarithmic scales. Data up to 2<sup>nd</sup> September. Source: University of Oxford, [Our World in Data](#). [Return to "What's New"](#).

# 26¼% of this week's new cases were in the US, 16¼% in Europe, 12½% in SE Asia, 11½% in the Middle East, 6¾% in India, and 5% in South America

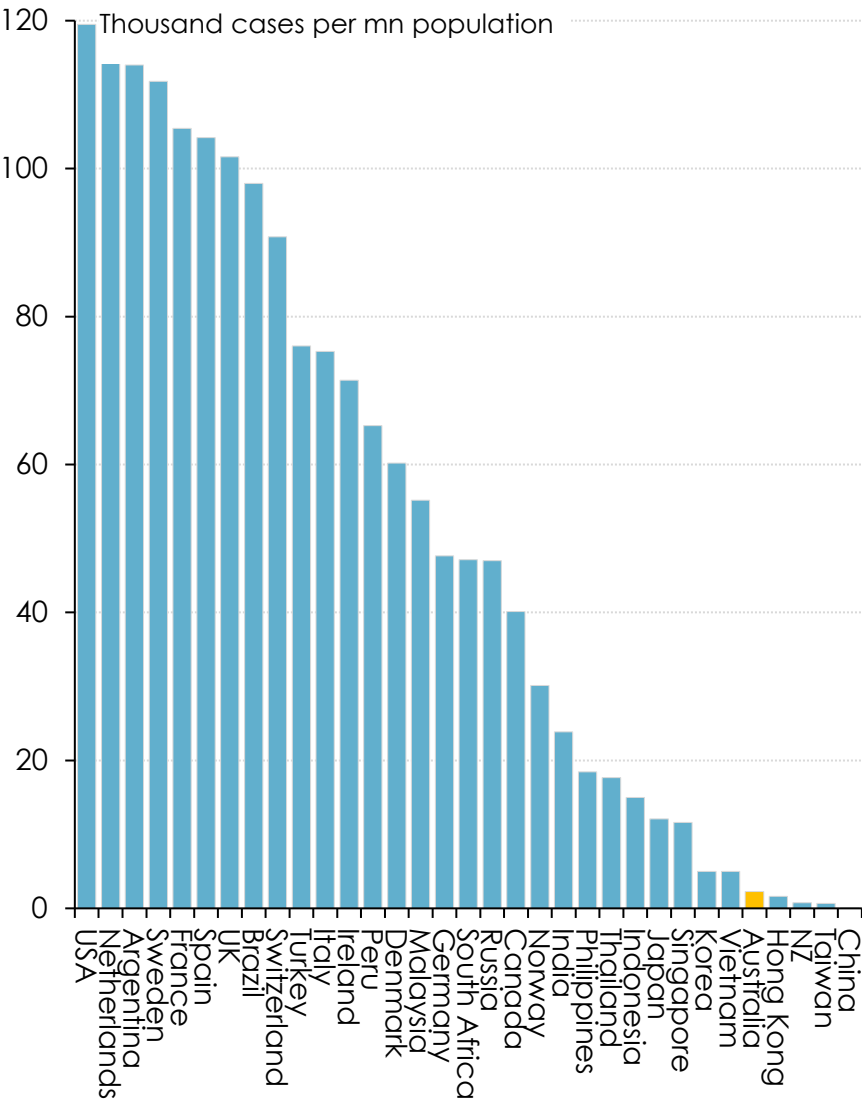
Daily new cases per million population – major countries and regions



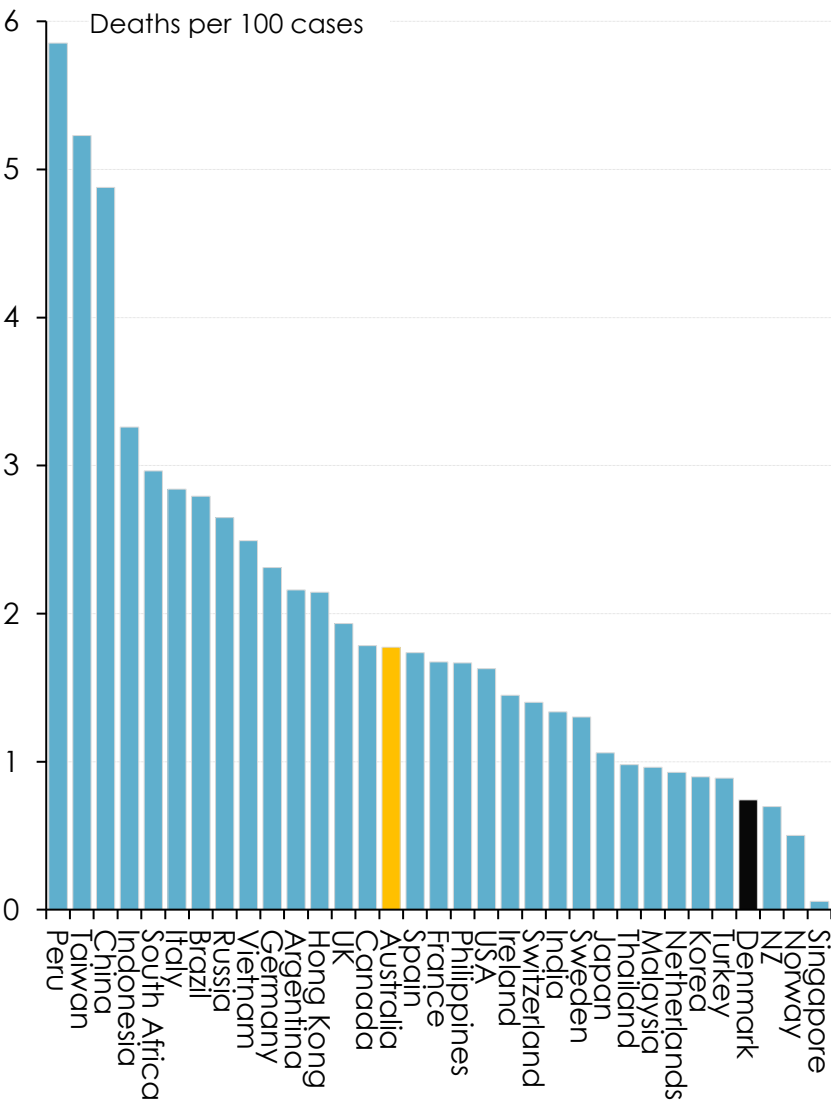
❑ The US and India were the only major regions where the number of infections increased in the past week

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

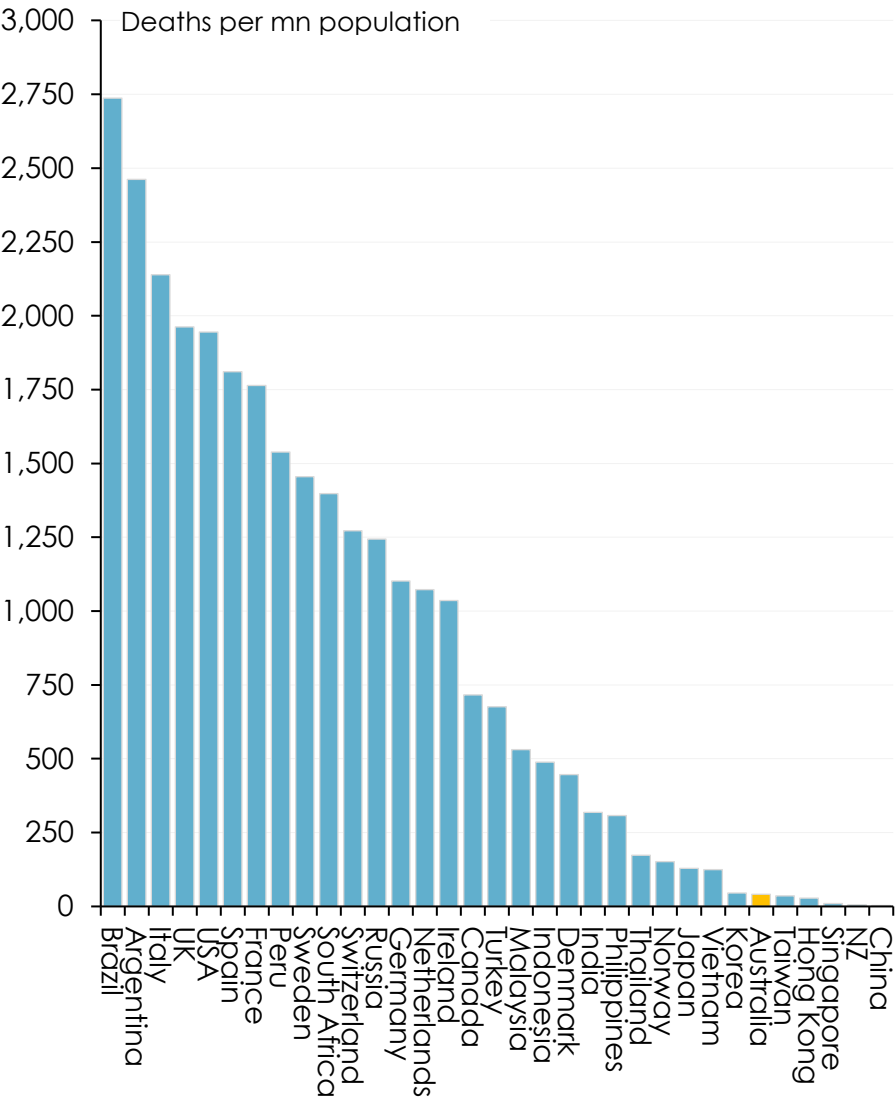
Apparent infection rate



Apparent fatality rate



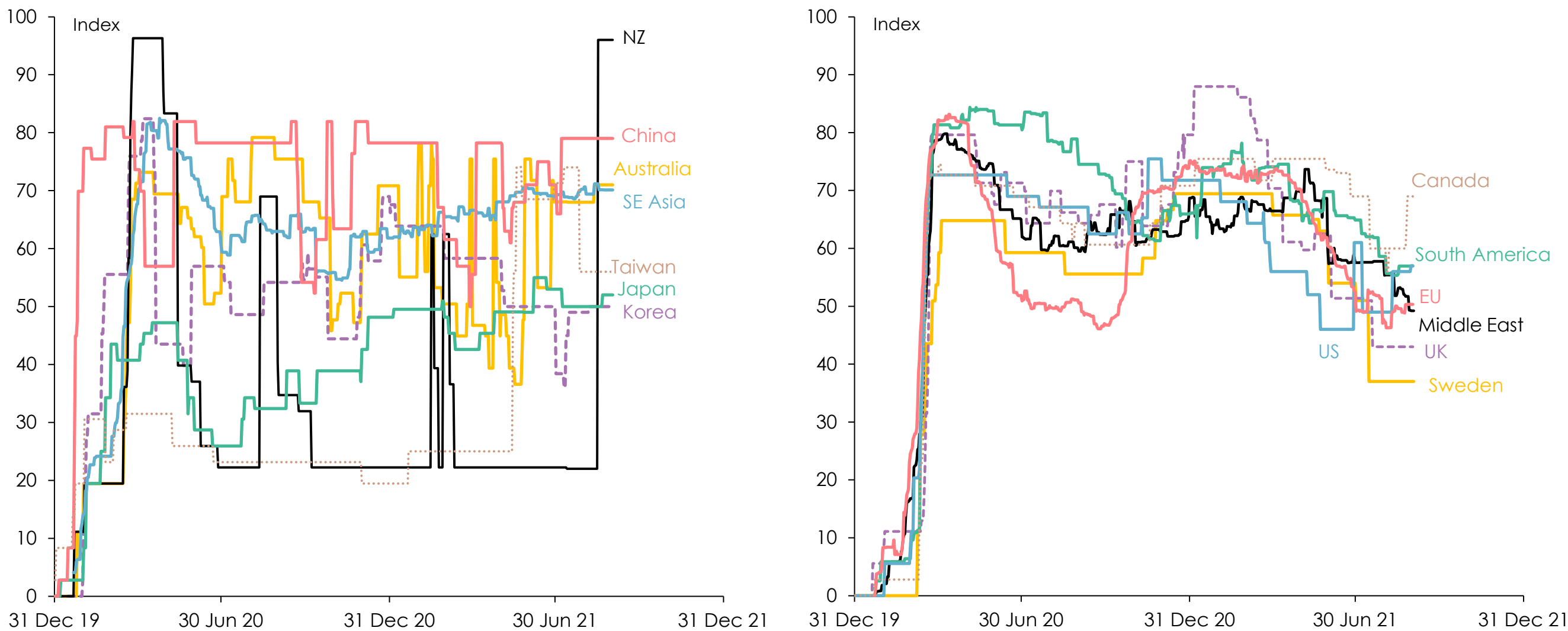
Death rate



Note: Data up to 2<sup>nd</sup> September. Sources: University of Oxford, [Our World in Data](#); Corinna. [Return to "What's New"](#).

# Restrictions have been tightened in NZ (dramatically) and parts of Canada this week, and remain tight in Asia, but continue to ease in Europe

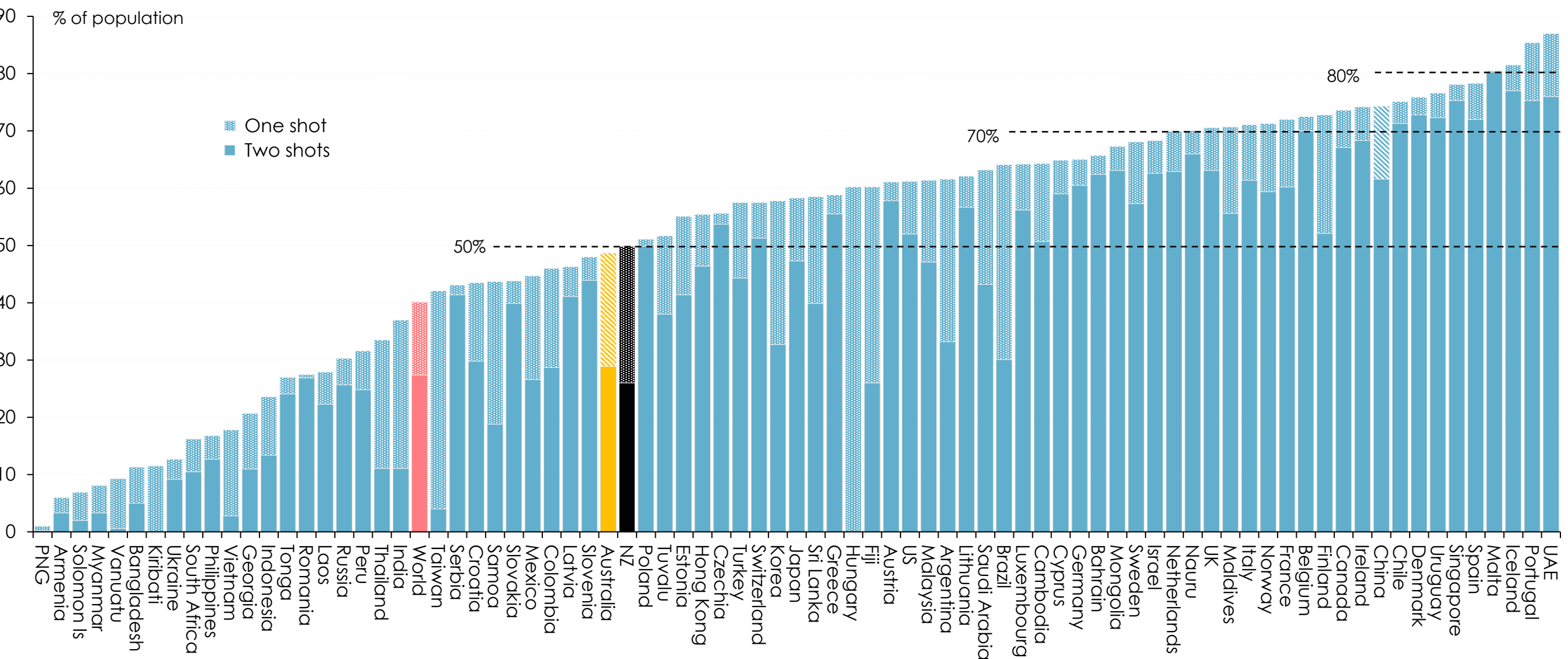
Timing and severity of government restrictions on movement and gathering of people



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 2<sup>nd</sup> September. [Return to "What's New"](#).

# 8 countries have now fully vaccinated more than 70% of their population, another 4 are close to that threshold, and 17 more are over 50%

Percentage of population who have had at least one vaccination shot as at 31<sup>st</sup> August – 2<sup>nd</sup> September

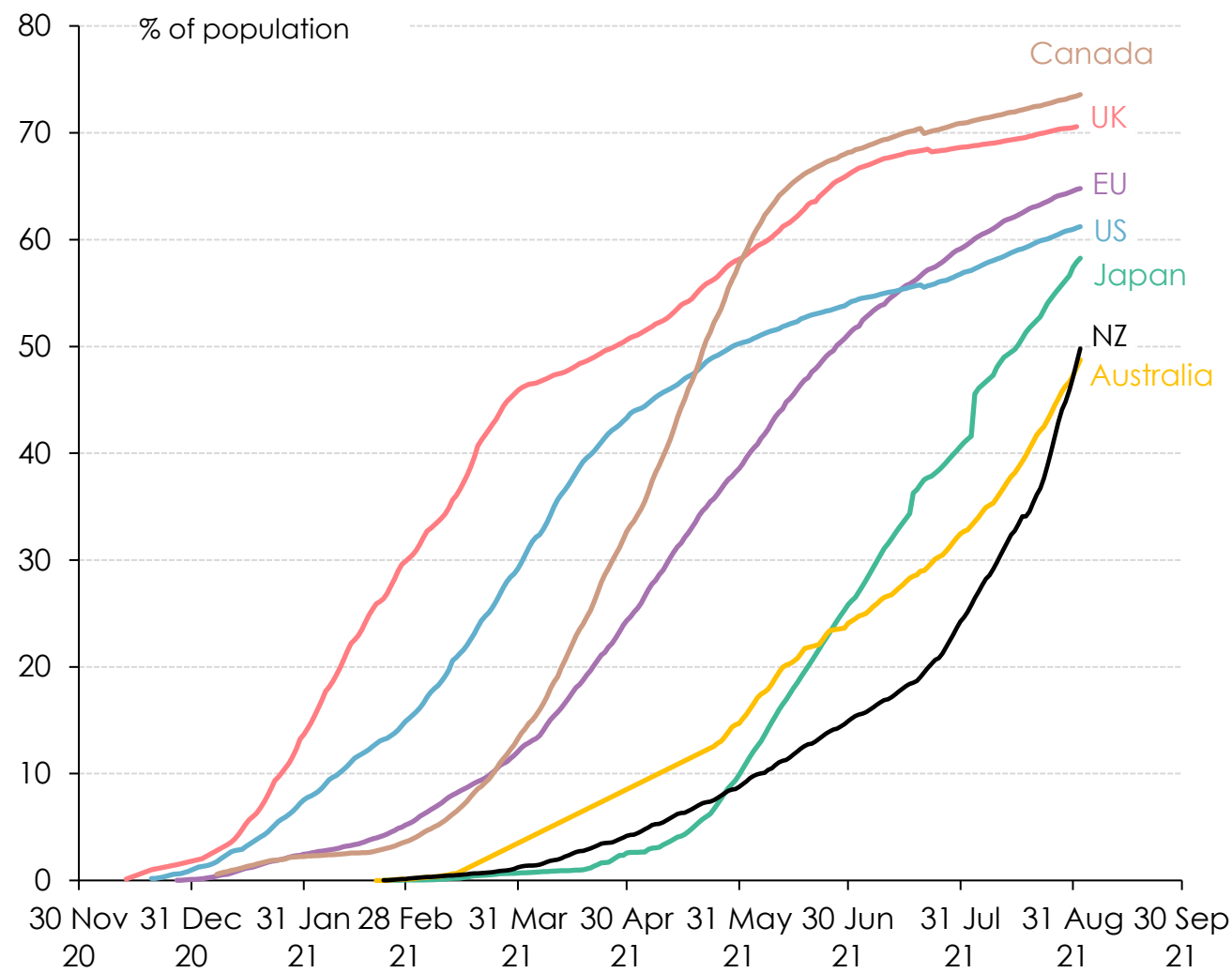


Note: Data Kiribati is as at 9<sup>th</sup> August; for Papua New Guinea, Solomon Islands and Vanuatu, 16<sup>th</sup> August; for Samoa, Tonga and Tuvalu, 23<sup>rd</sup> August; for Armenia, 29<sup>th</sup> August. Data on total vaccinations for Philippines is 15<sup>th</sup> August but for full vaccinations is 1<sup>st</sup> September. Data for full vaccinations for Hungary and Kiribati not available.  
Source: Our World in Data, [Coronavirus \(COVID-19\) Vaccinations](#). [Return to "What's New"](#).

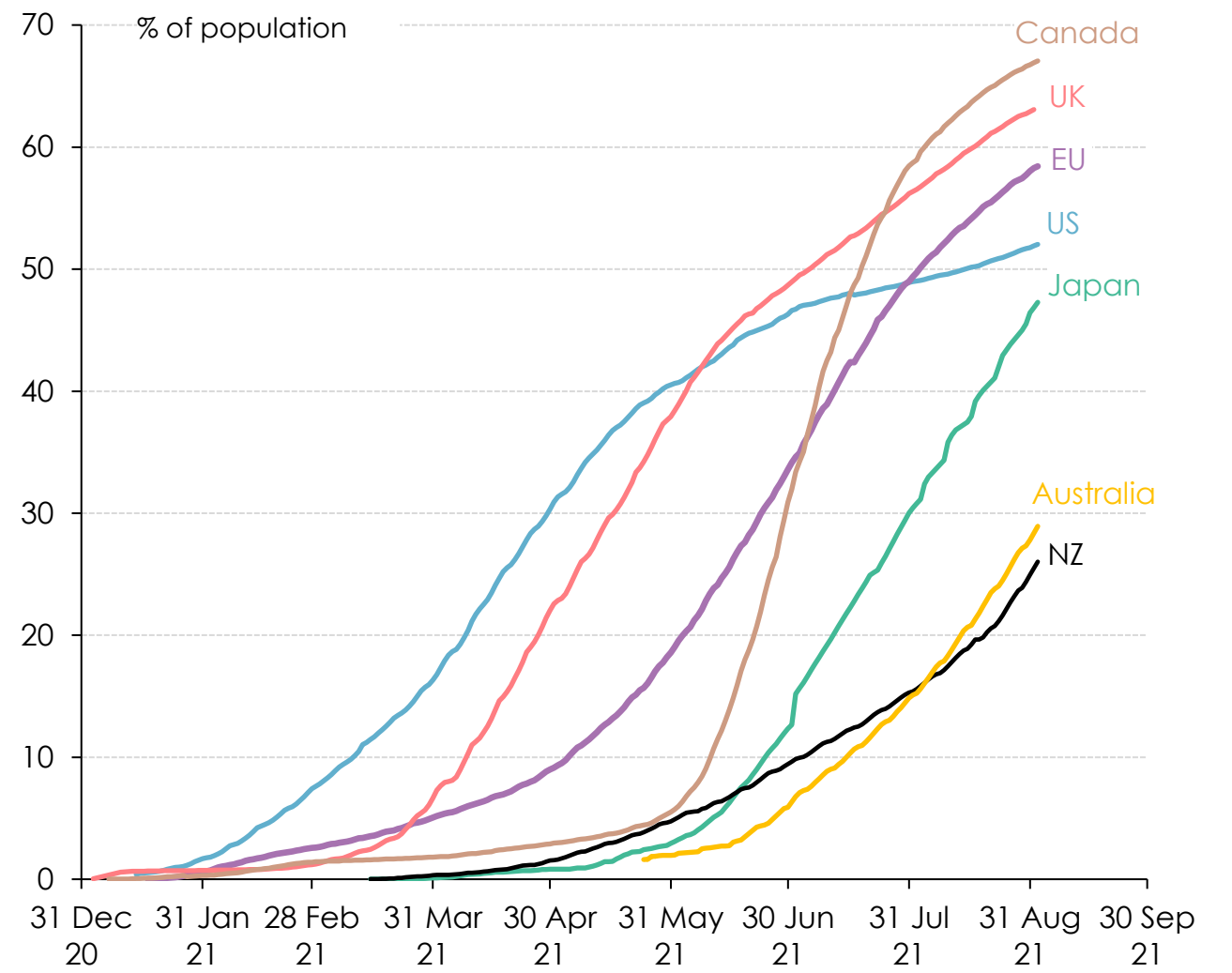


# Canada now has 67% of its population fully vaccinated, the UK 63%, the EU 58%, the US 52%, Japan 47% - and Australia 29%

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



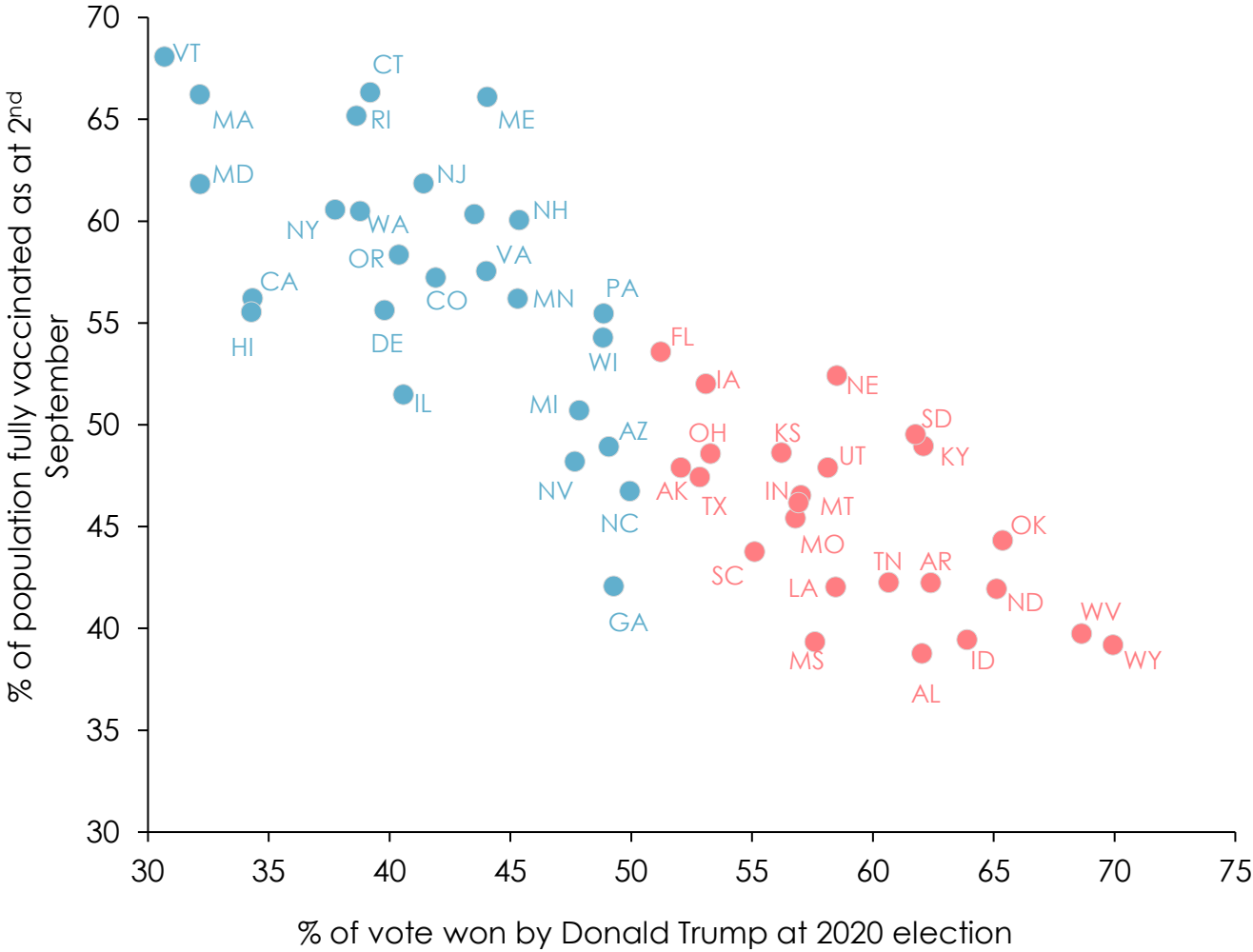
Percentage of major 'advanced' economies' populations who have had two shots



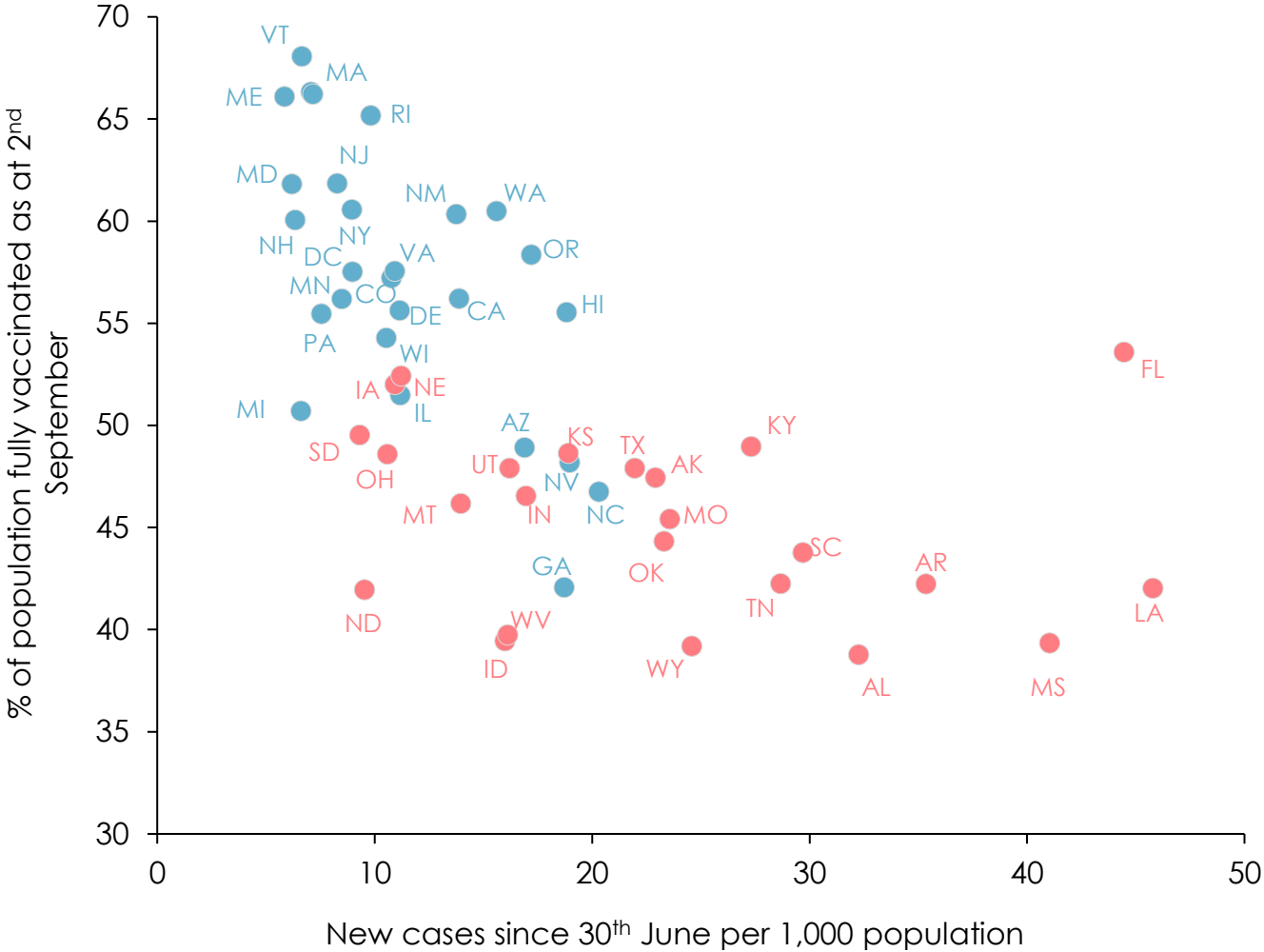
Note: Data up 2<sup>nd</sup> September, except UK, 1<sup>st</sup> September. Source: [Our World in Data](#); [Coronavirus \(COVID-19\) Vaccinations](#). [Return to "What's New"](#).

# 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



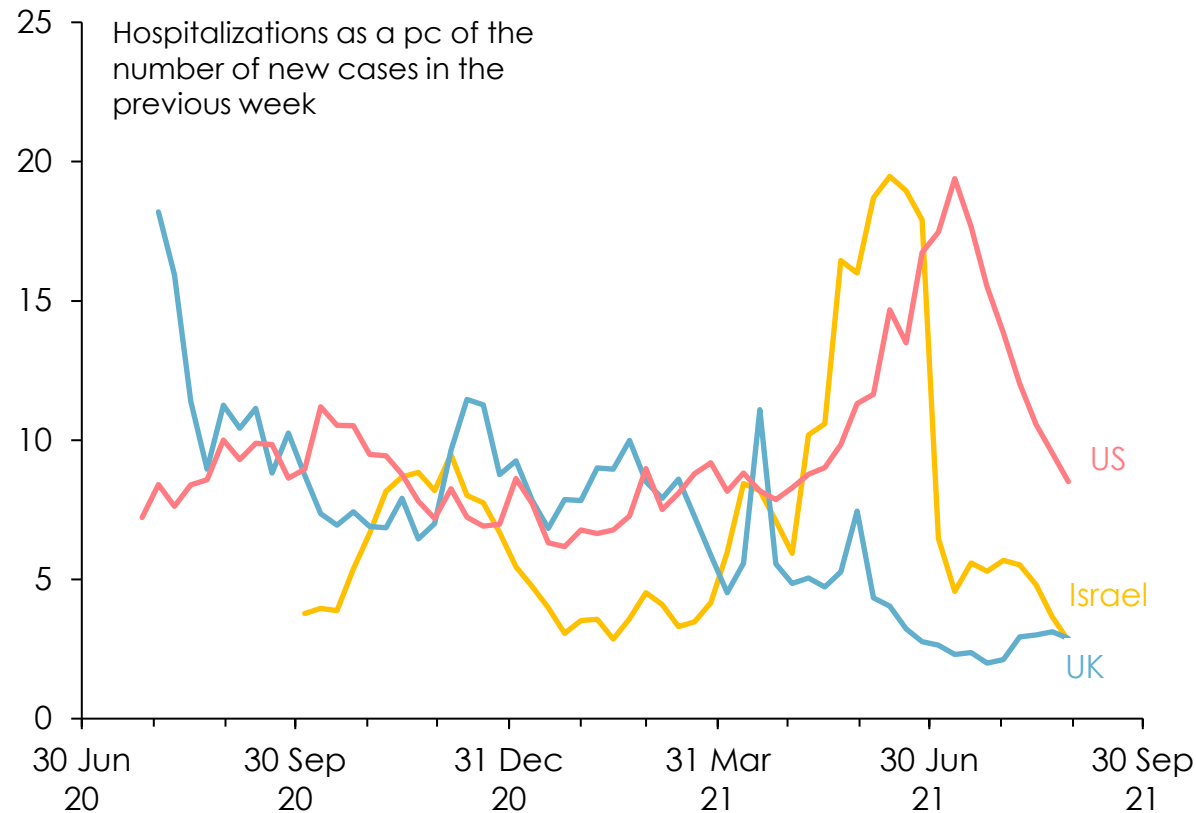
Vaccination rates vs infection rates since 30th June, by state



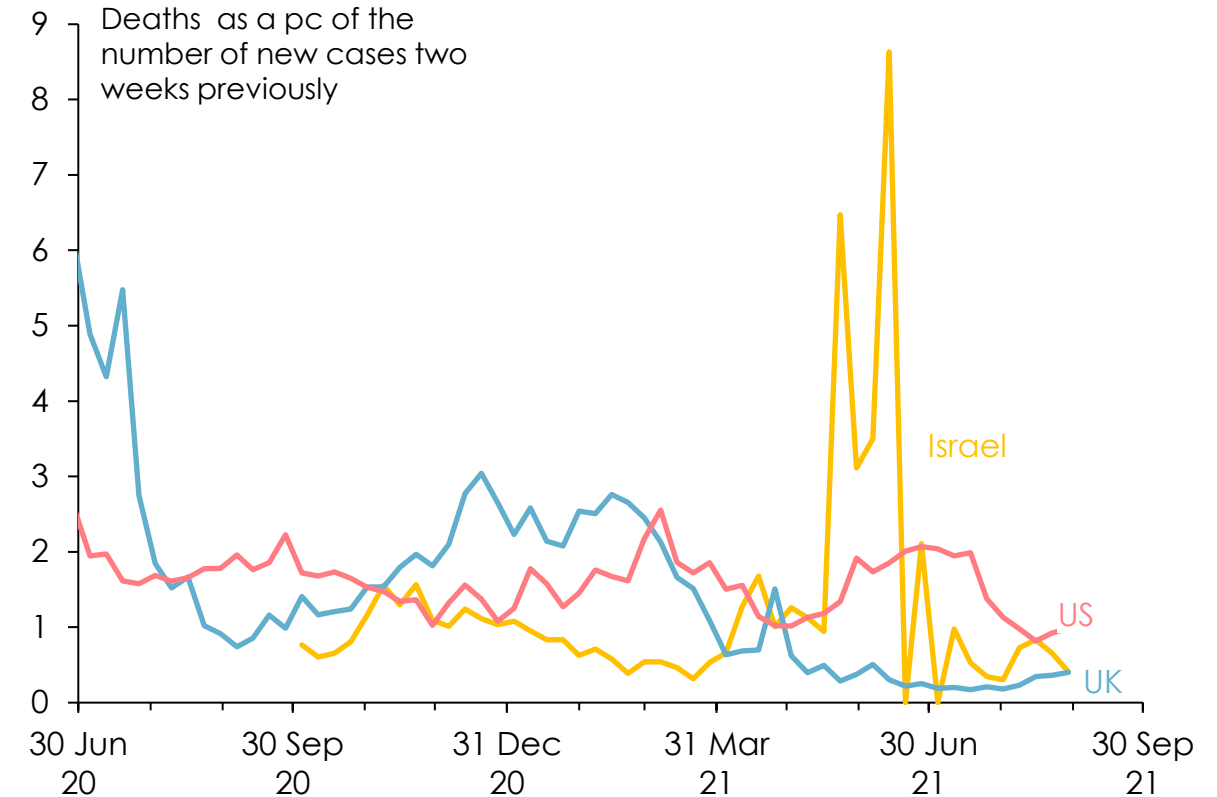
Note: Data as at 2nd September. Sources: [The Cook Political Report](#); [Our World in Data](#); [USA Facts](#); Corinna. [Return to "What's New"](#).

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

## Hospitalization rates



## Fatality rates

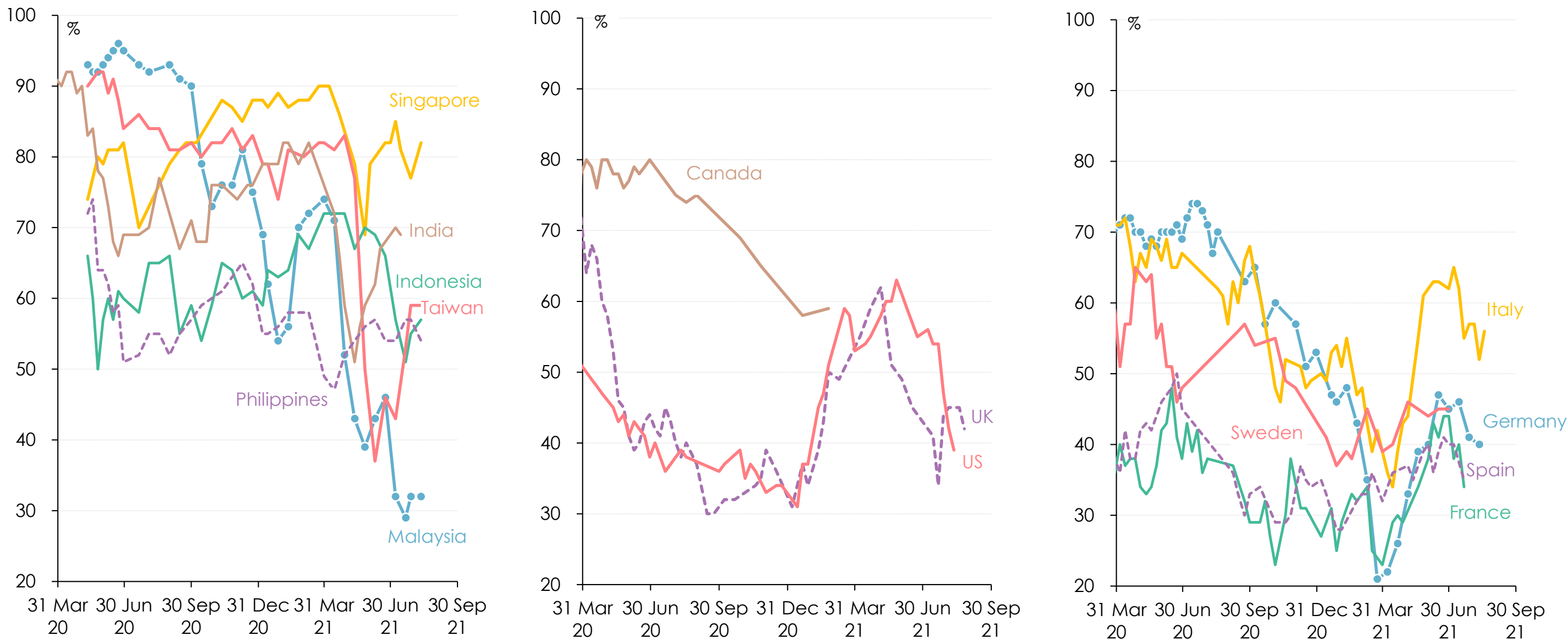


- ❑ Israel, the UK and the US have all experienced a surge in the number of 'delta variant' cases in recent weeks
- ❑ In the US, the increase in cases is concentrated in states and counties where vaccination rates are well below the national average (see next slide)
- ❑ In Israel, the UK and those US 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 2<sup>nd</sup> September. Source: [Our World in Data](#). [Return to "What's New"](#).

# Voter approval of the Biden Administration's handling of Covid-19 has fallen sharply over the past month

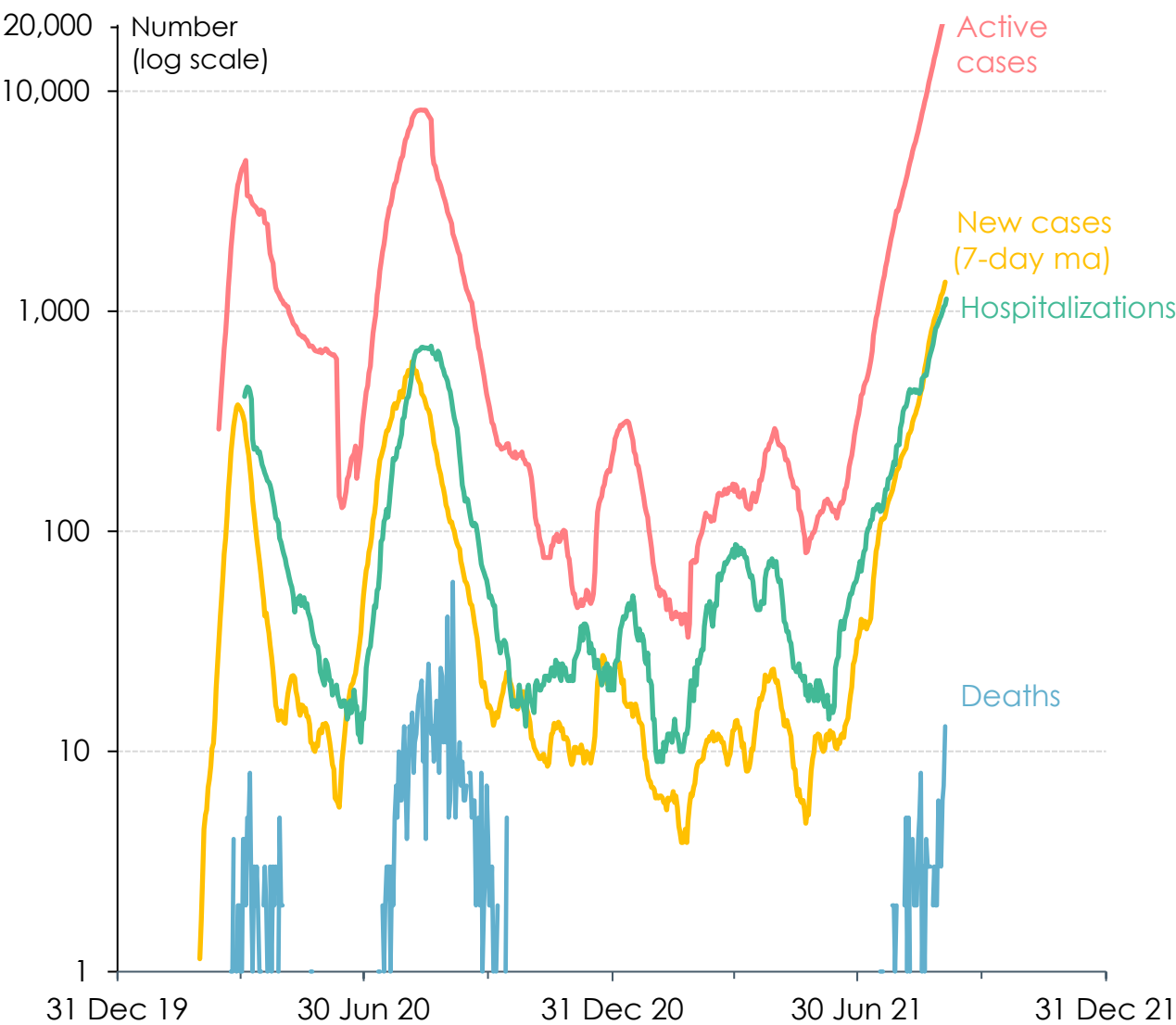
## Voter approval of their government's handling of the coronavirus pandemic



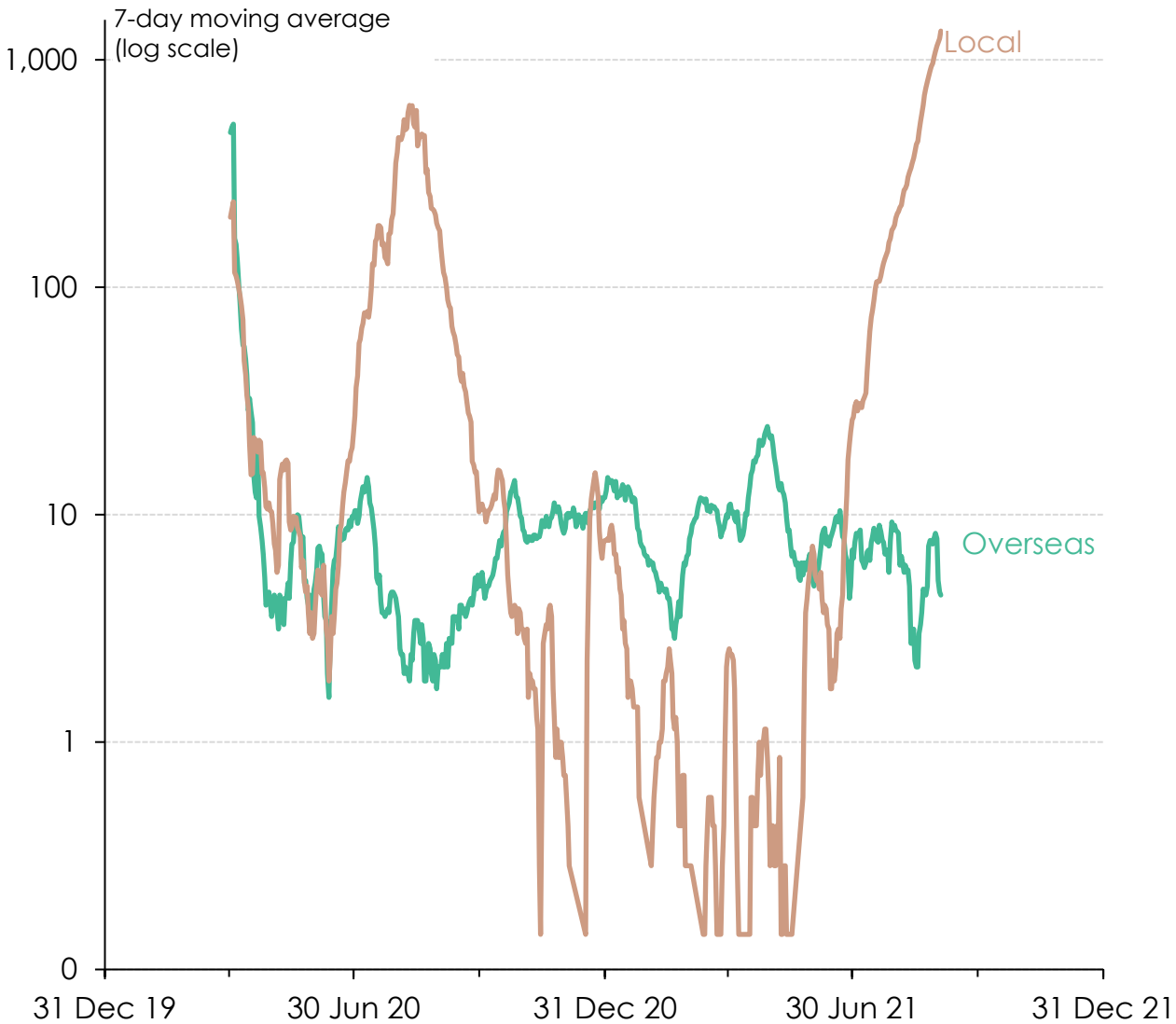
Note: The only polls published in the past four weeks have been in Germany, Italy and the UK.  
Source: YouGov, [Covid-19 tracker: government handling](#). [Return to "What's New"](#).

# Australia recorded 9,395 new cases this week, the largest number since the start of the pandemic – and all but 31 of them were ‘locally acquired’

Cases, recoveries, hospitalizations and deaths



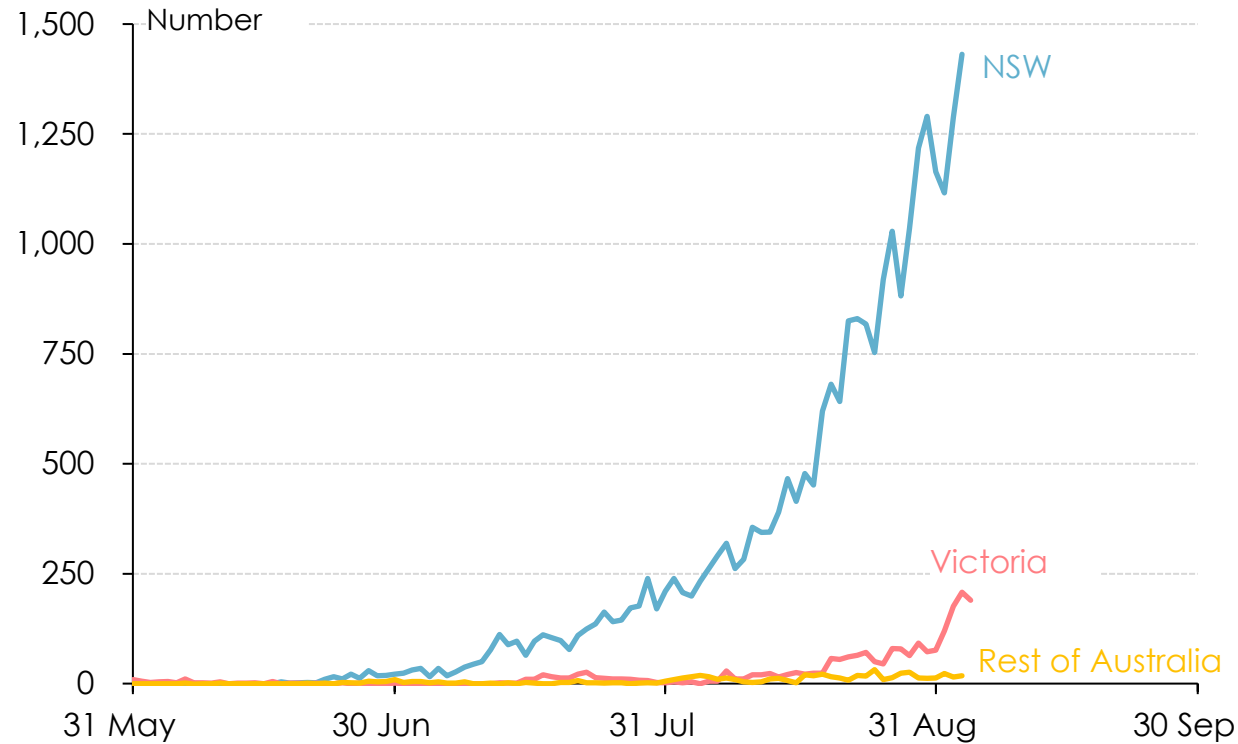
New cases, by source



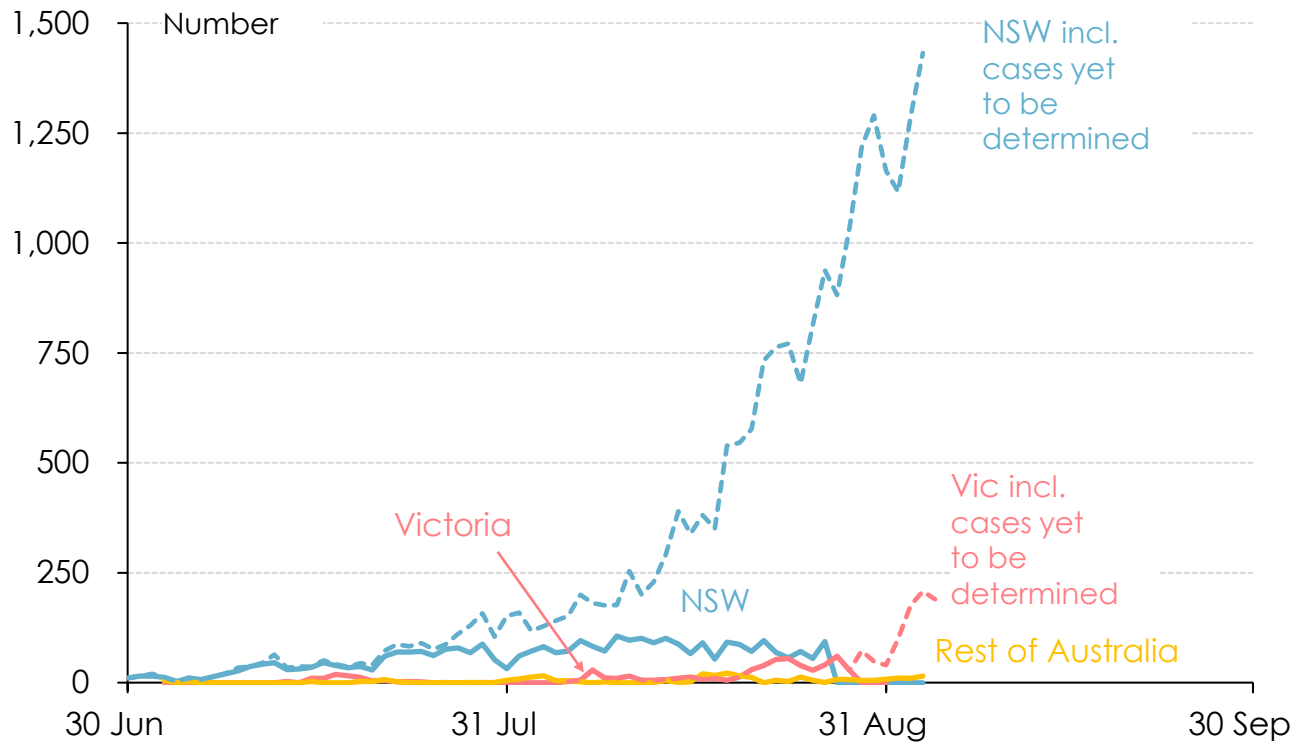
Note: Data up to 3<sup>rd</sup> September. Source: [covid19data.com.au](https://covid19data.com.au). [Return to "What's New"](#).

# NSW has yet to curb the spread of 'locally acquired' infections, and Victoria (which has done much better) is also struggling to contain them

## New locally-acquired cases

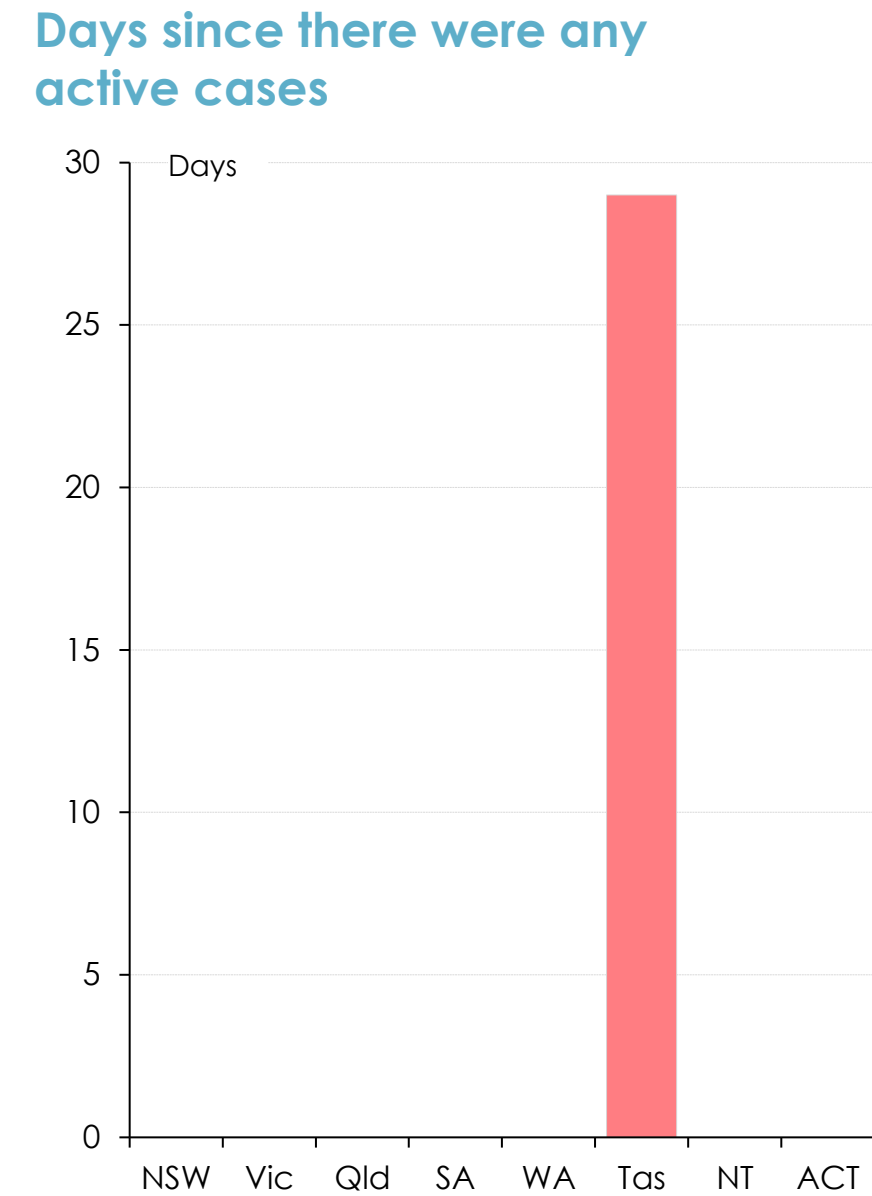
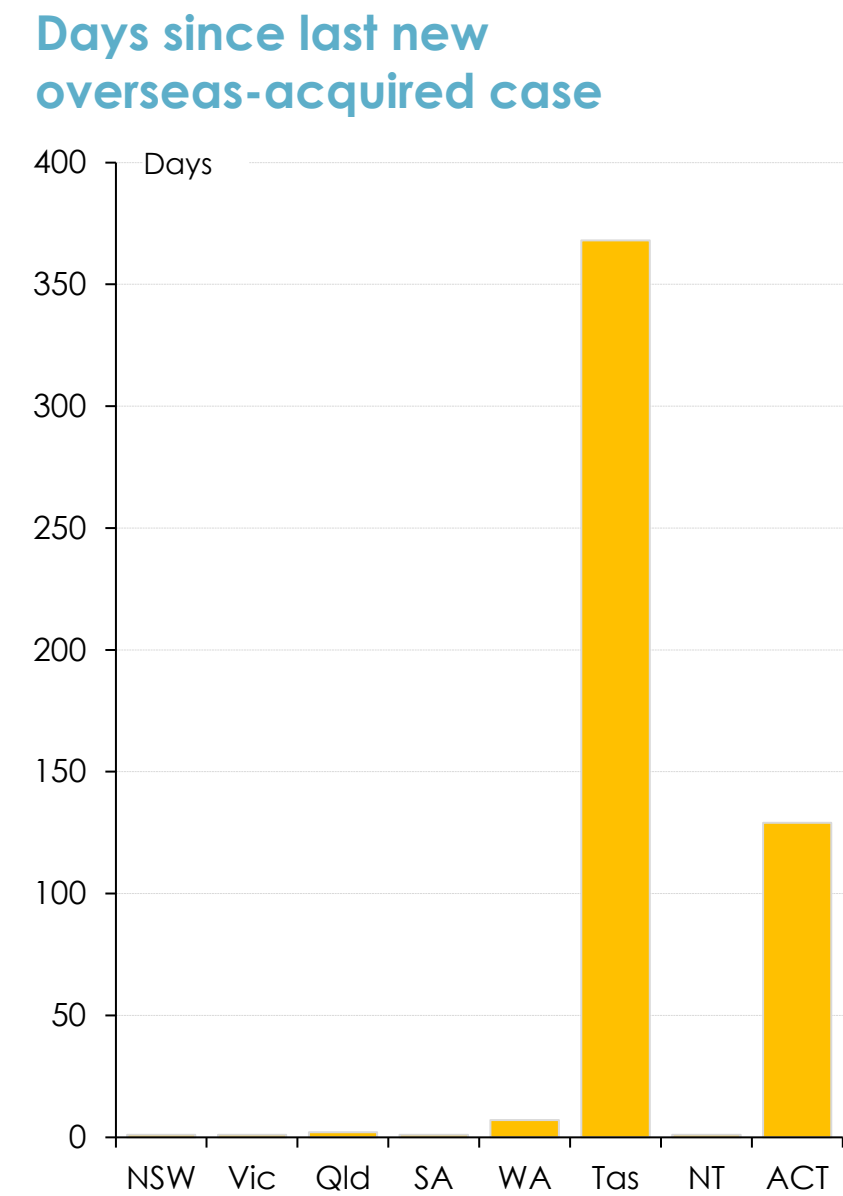
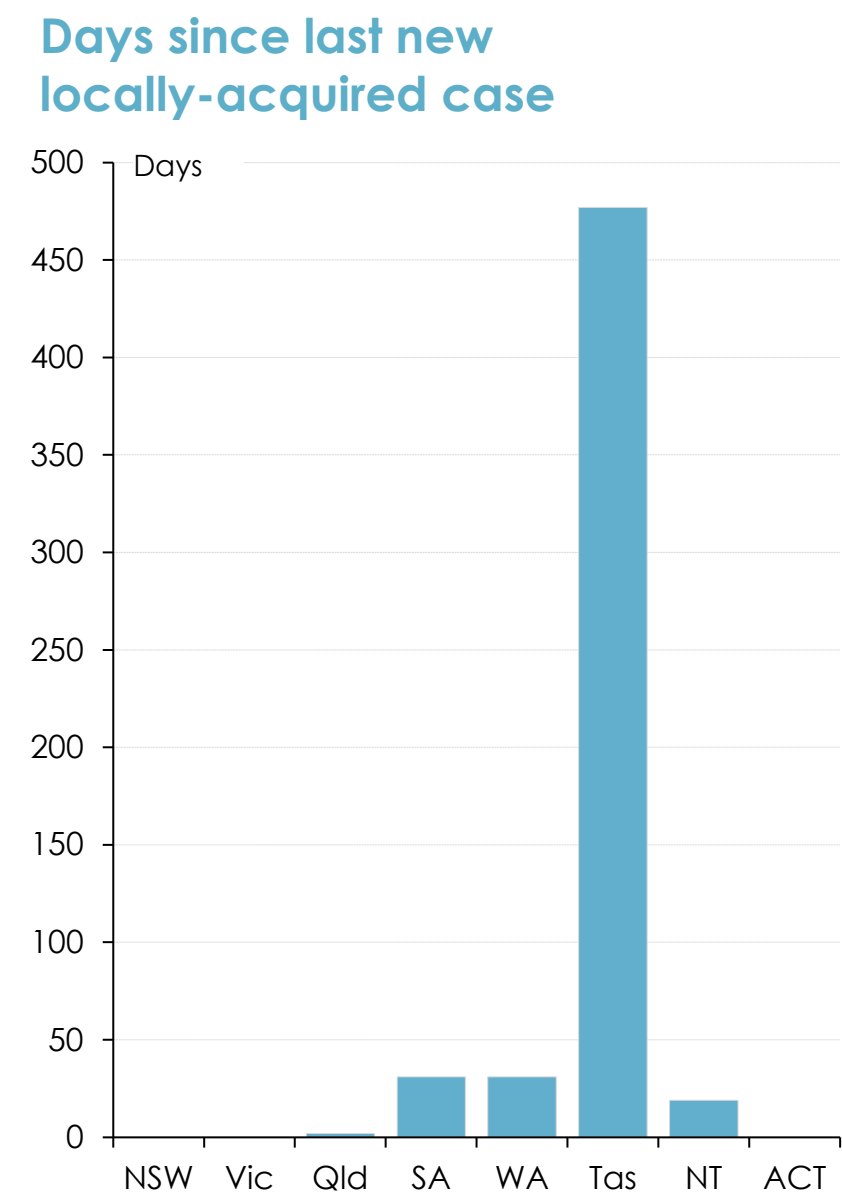


## Number of cases 'infectious while in the community'



- ❑ Of ongoing 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 including cases 'not yet determined' (which typically turn out to have been 'infectious while in the community') averaged over 1,200 a day this week
- ❑ Victoria average almost 100 'infectious while in the community' (including those 'not yet determined') this week – prompting the Victorian Government to join its NSW counterpart in formally abandoning 'Covid zero' as an objective
- ❑ Both state governments have now foreshadowed small easings of restrictions once specified vaccination targets have been reached

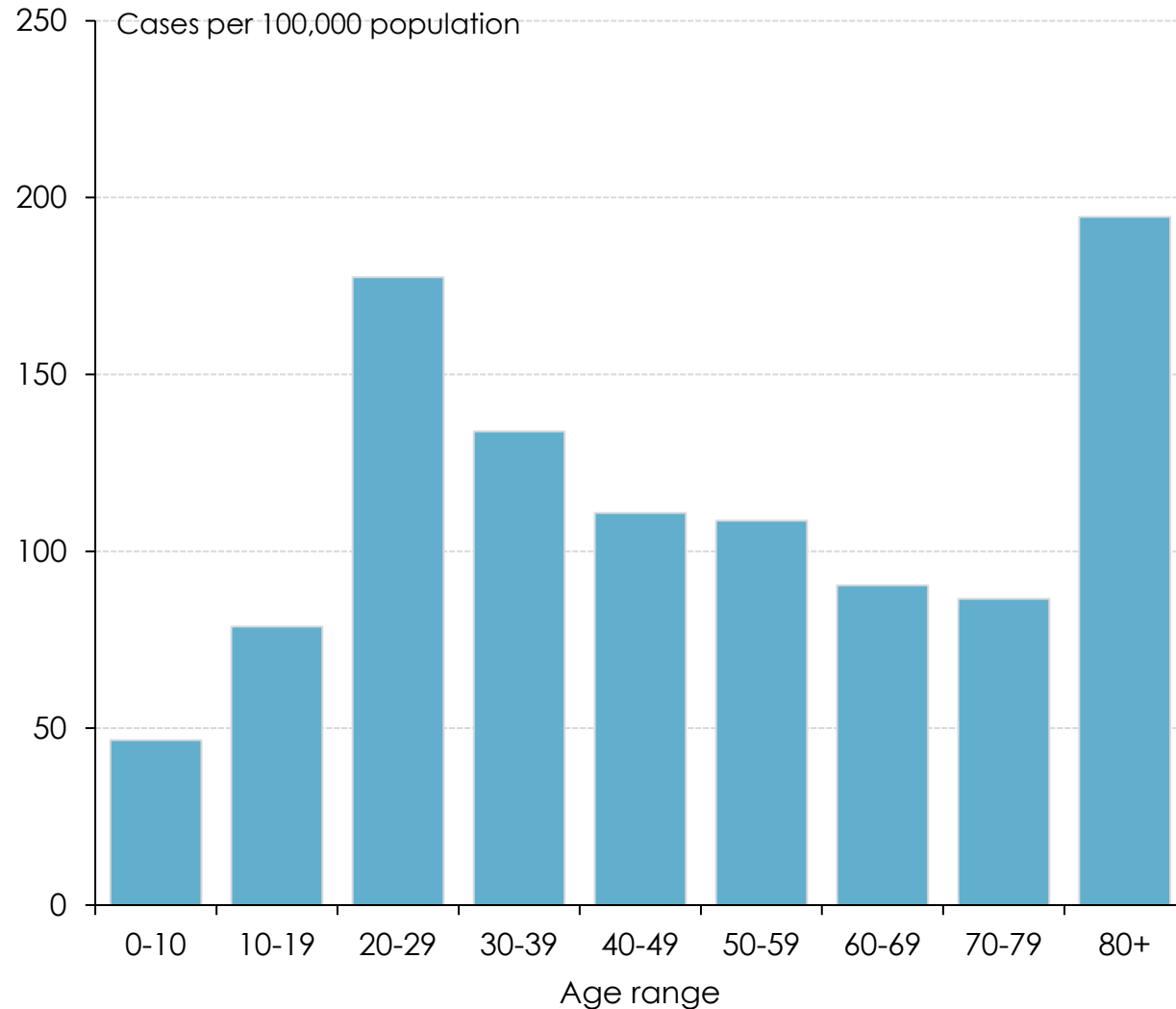
# The smaller states and territories have done better at keeping the virus at bay, partly because they receive fewer overseas arrivals



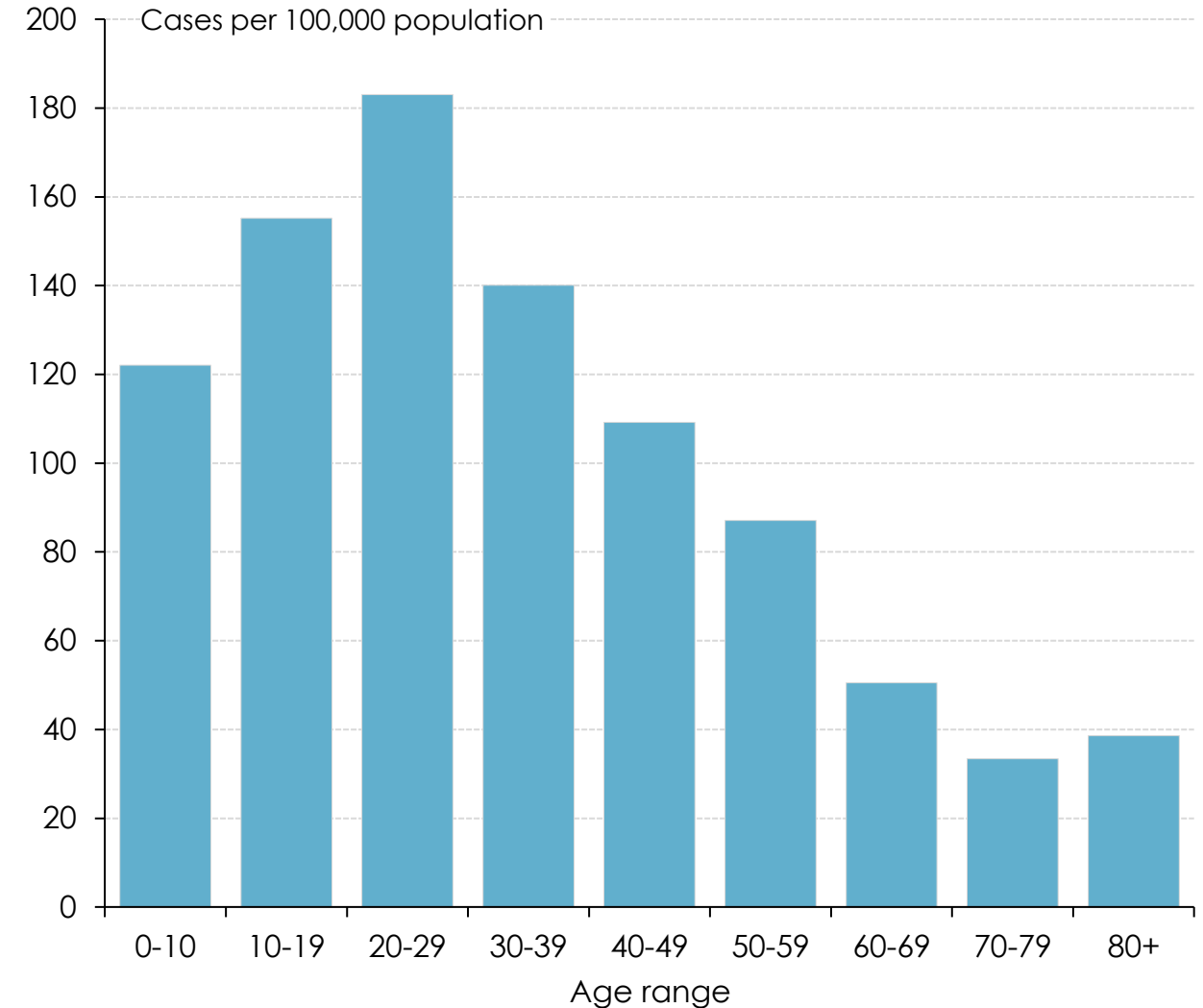
Note: Data are for 3<sup>rd</sup> September. Source: [covid19data.com.au](https://covid19data.com.au). [Return to "What's New"](#).

# 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

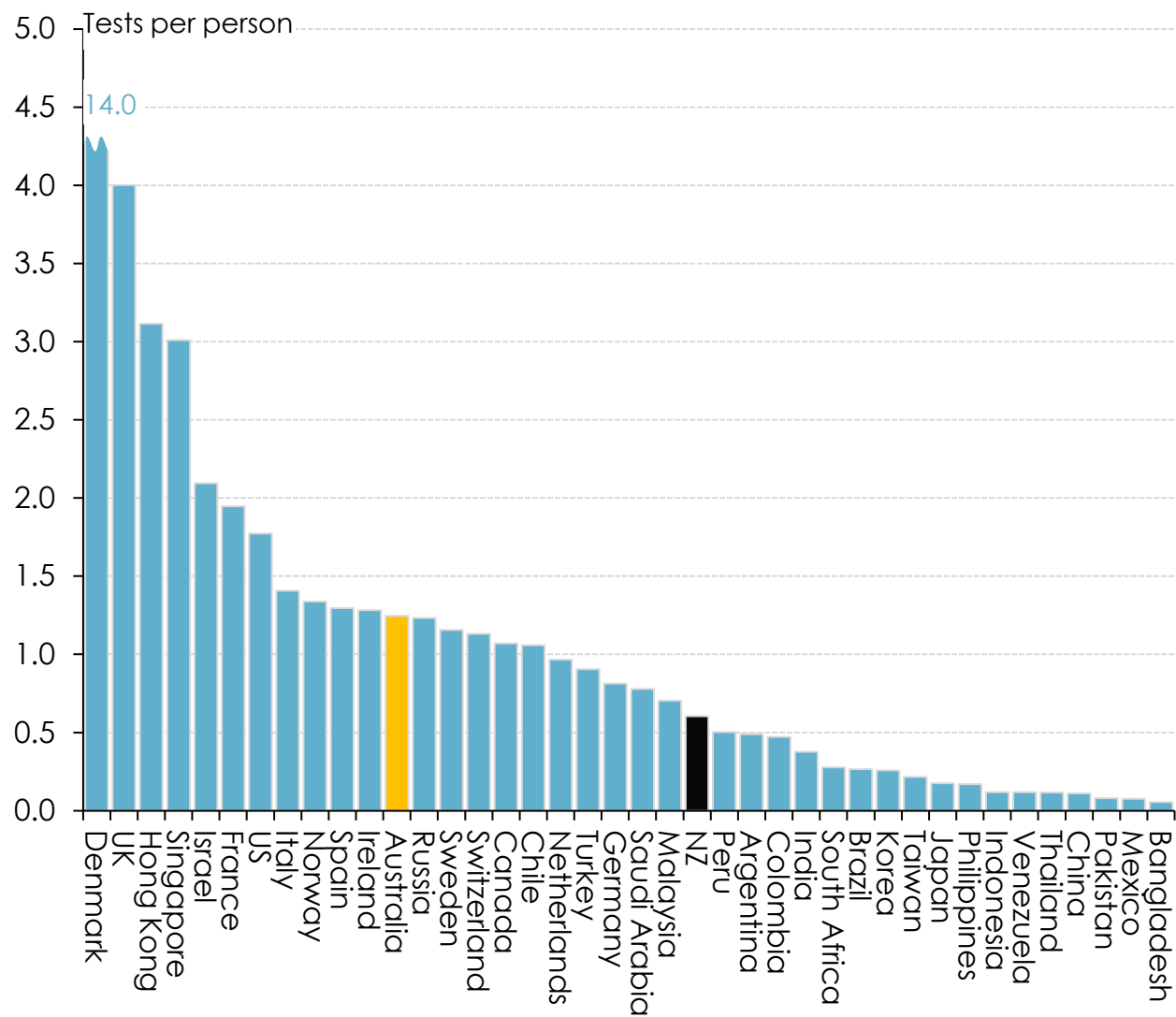


Note: Data up to 3<sup>rd</sup> September. Source: [Australian Government Department of Health](#); ABS; Corinna. [Return to "What's New"](#).

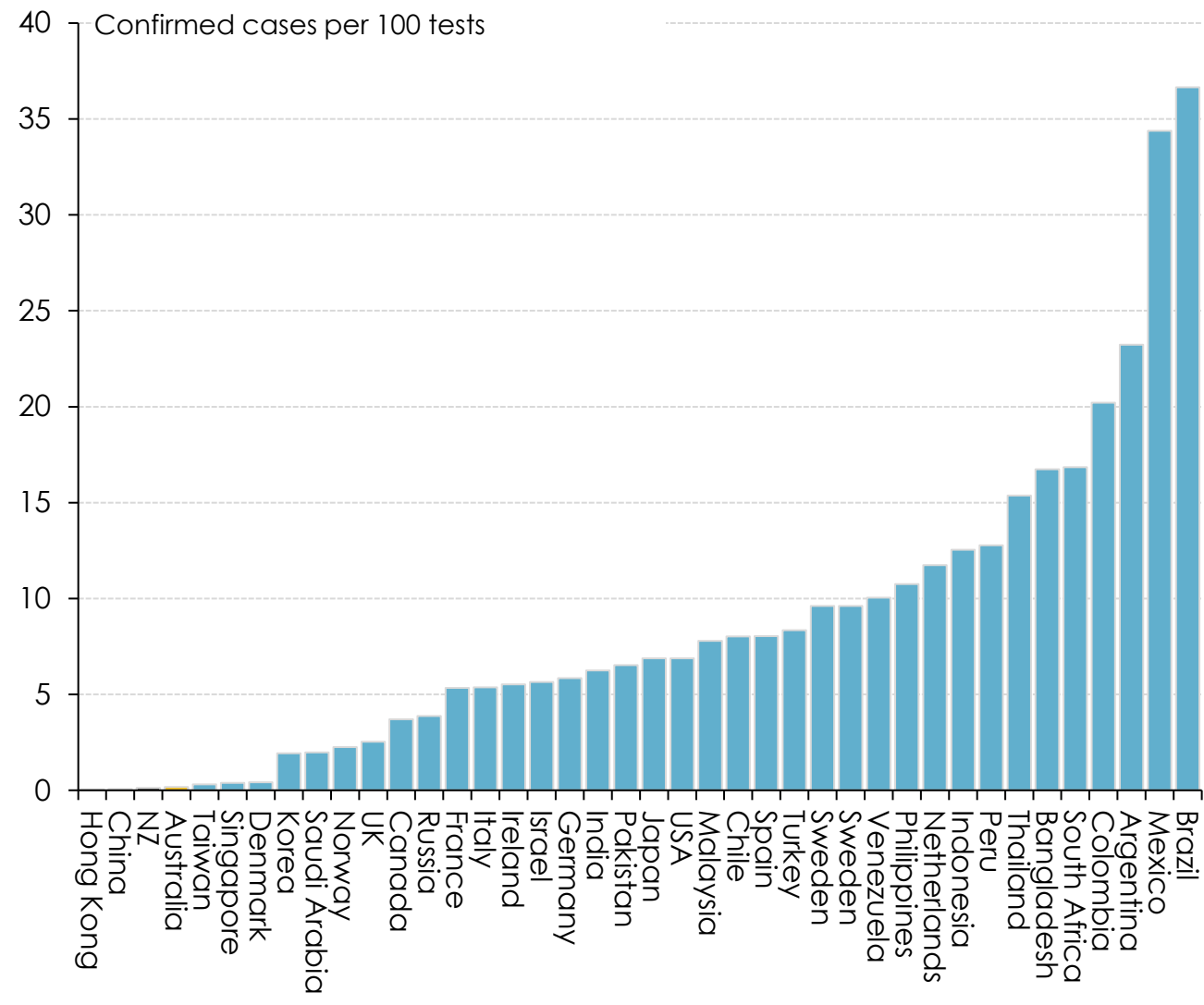


# Australia's testing regime appears sufficiently broad for the low infection and death rates to be seen as 'credible' (ie not due to low testing)

Tests per capita



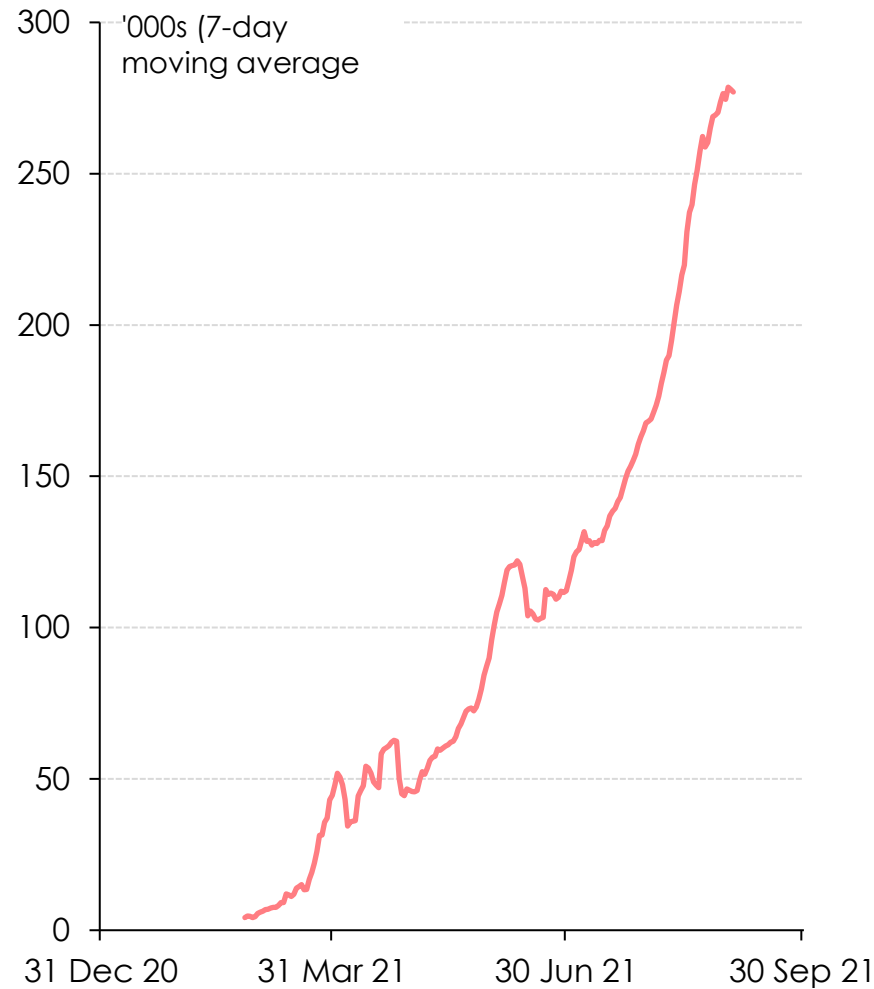
Confirmed cases per 100 tests



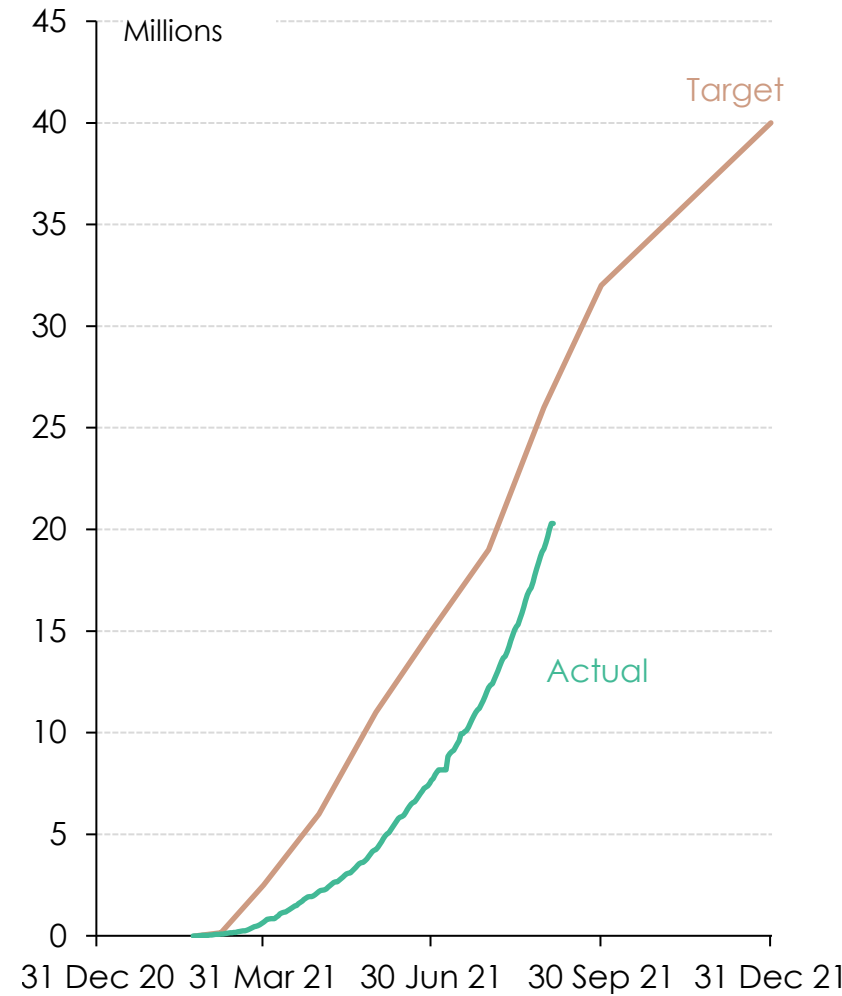
Note: Data up to 2<sup>nd</sup> September (and yes it appears, at face value, that Denmark has tested its entire population more than 14 times, the UK nearly four times, Hong Kong & Singapore three times, etc.). A high number of confirmed cases per 100 tests combined with a low number of tests per 000 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 has accelerated rapidly in recent weeks, but remains well behind other 'advanced' economies

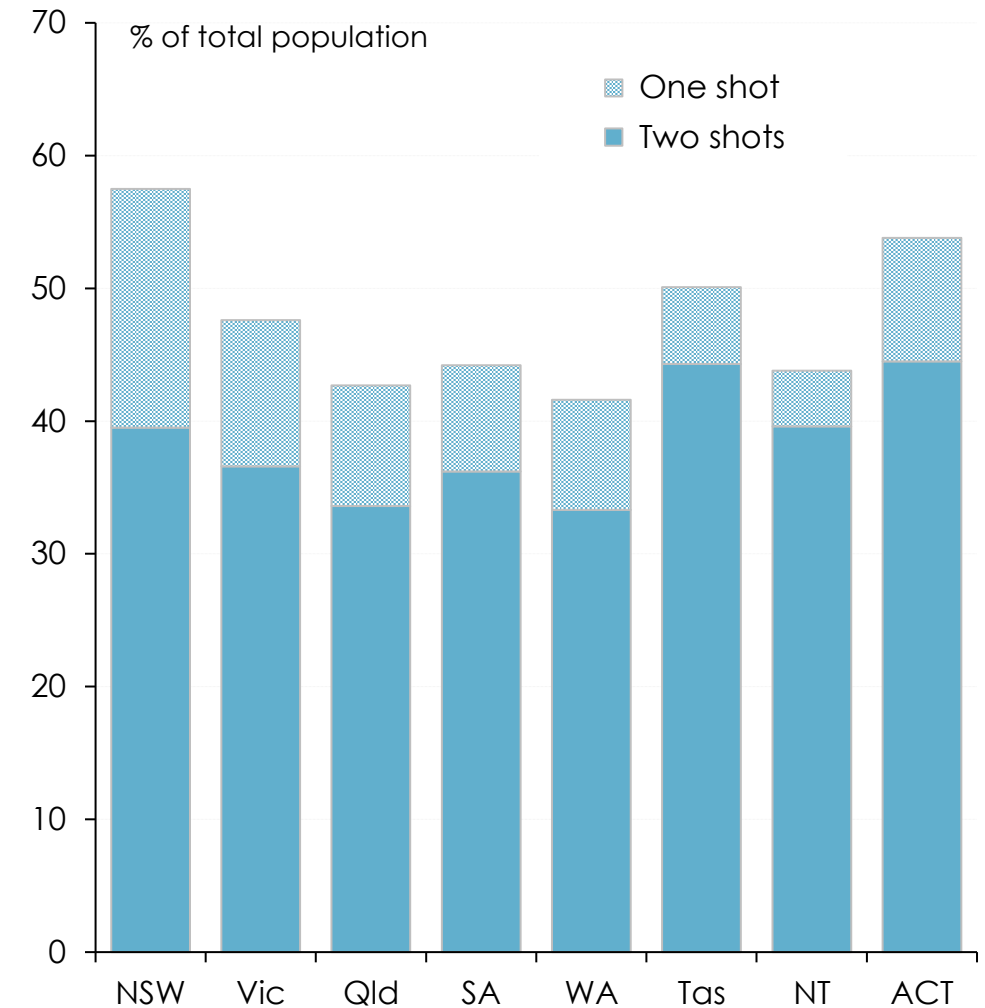
## Daily number of vaccines administered



## Vaccine doses administered vs Government target



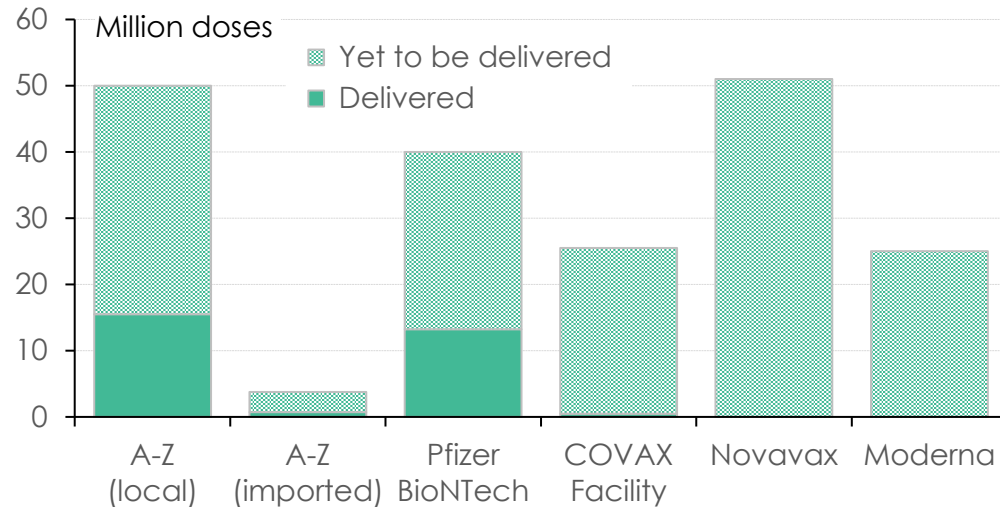
## Percentage of total population vaccinated, states and territories



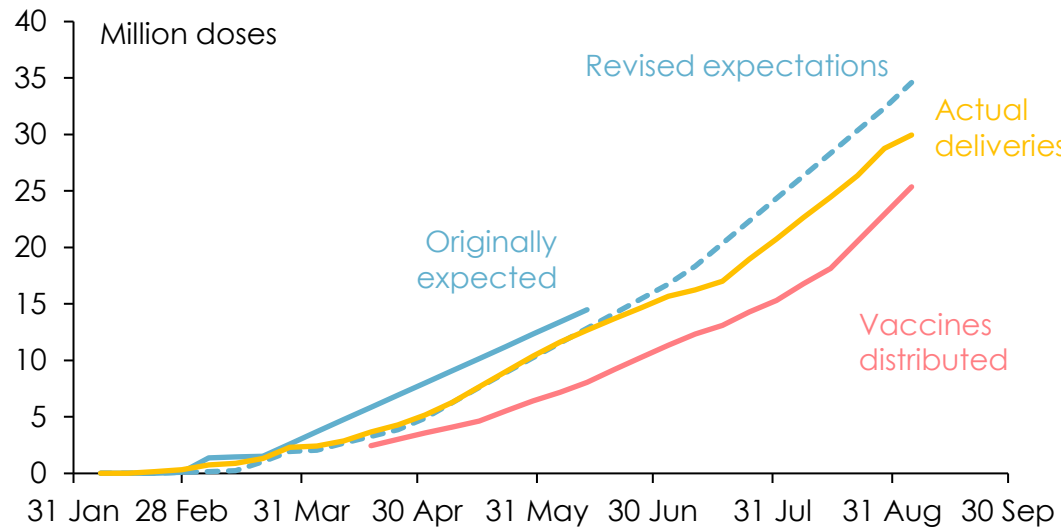
Note: Data up to 3<sup>rd</sup> September. The Federal and State Governments usually cite vaccination rates as percentages of the 'eligible' population – which currently excludes children under the age of 16; the third chart on this page shows vaccination rates as percentages of the total population including children. See also comparisons with other nations on [slides 8 and 9](#). Sources: [covid19data.com.au](https://covid19data.com.au); Australian Department of Health, [Australia's COVID-19 vaccine rollout](#). [Return to "What's New"](#).

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

## Australia's vaccine supplies



## Original & revised expectations vs supplies

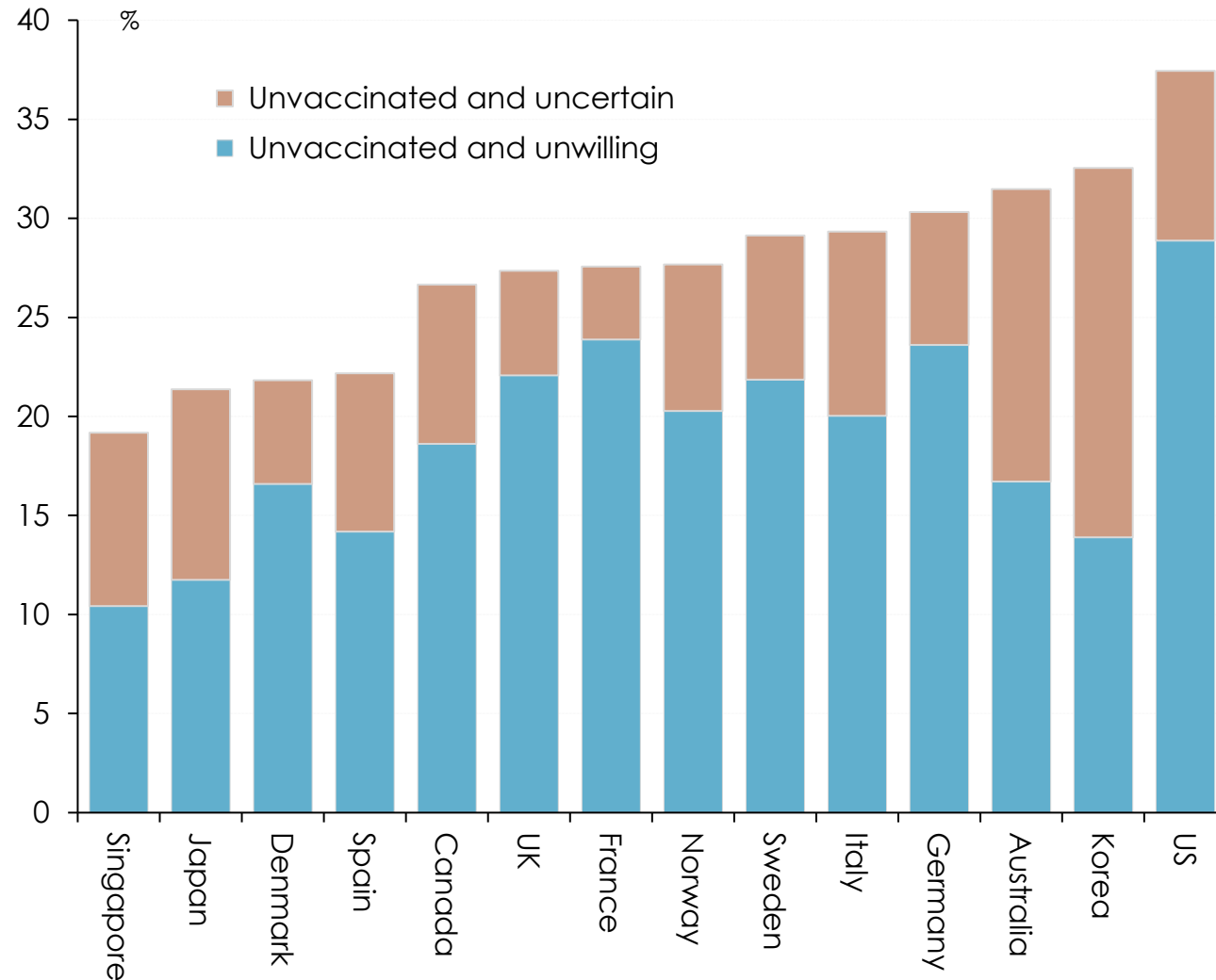


Note: Vaccine supplies are as at 5<sup>th</sup> September.  
Source: <https://www.covid19data.com.au/vaccines>

- ❑ 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 this weekend, the number of locally-produced doses was still 5.4mn (26%) behind the revised schedule
- ❑ Australia's previous success in suppressing the virus probably bred popular complacency 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 among Australians has declined in the past two months but remains relatively high – and not seriously confronted by governments

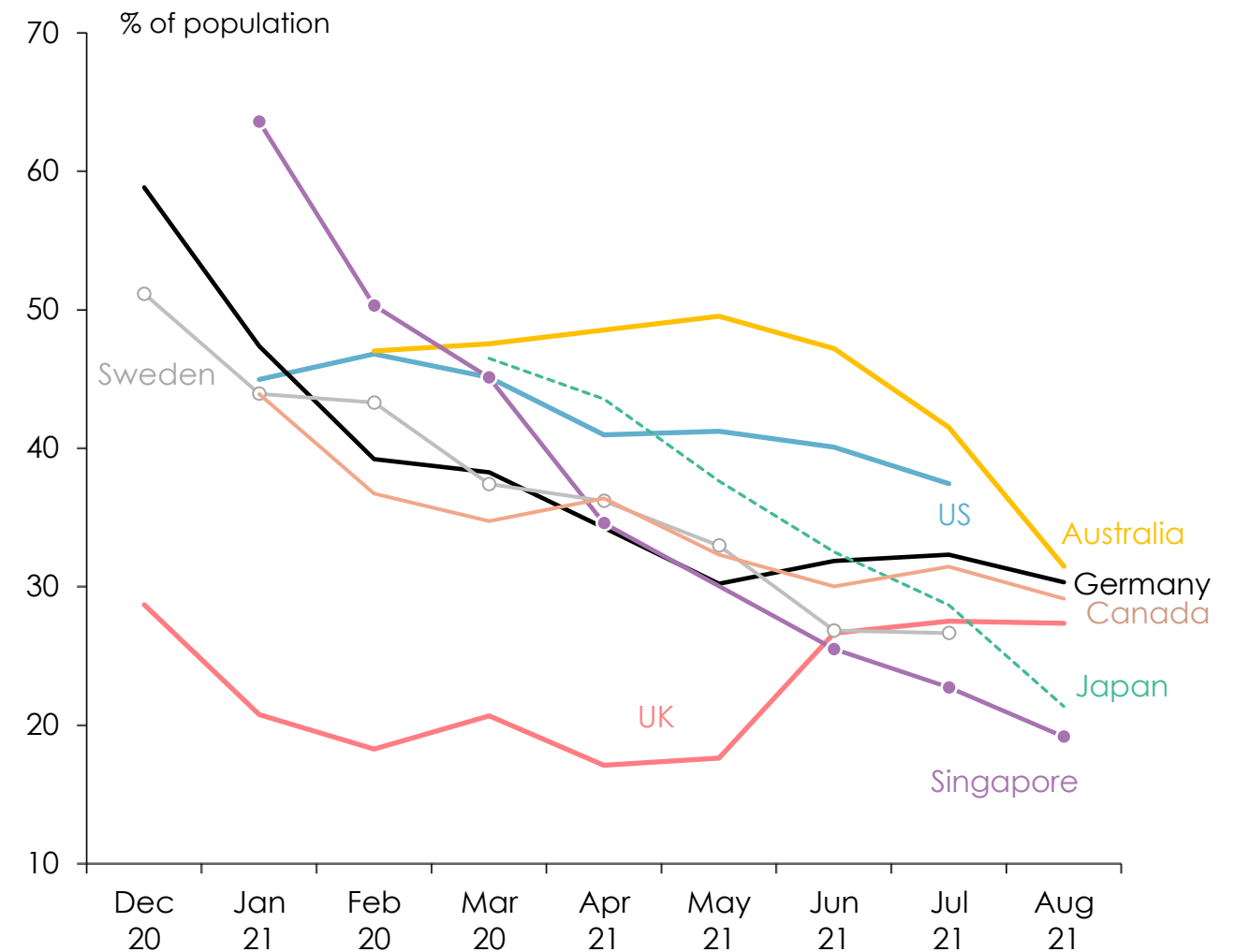
Covid-19 vaccine hesitancy, selected 'advanced' economies, August 2021



Note: Results for Spain, Canada, Norway, Italy, Korea and the US are for July.

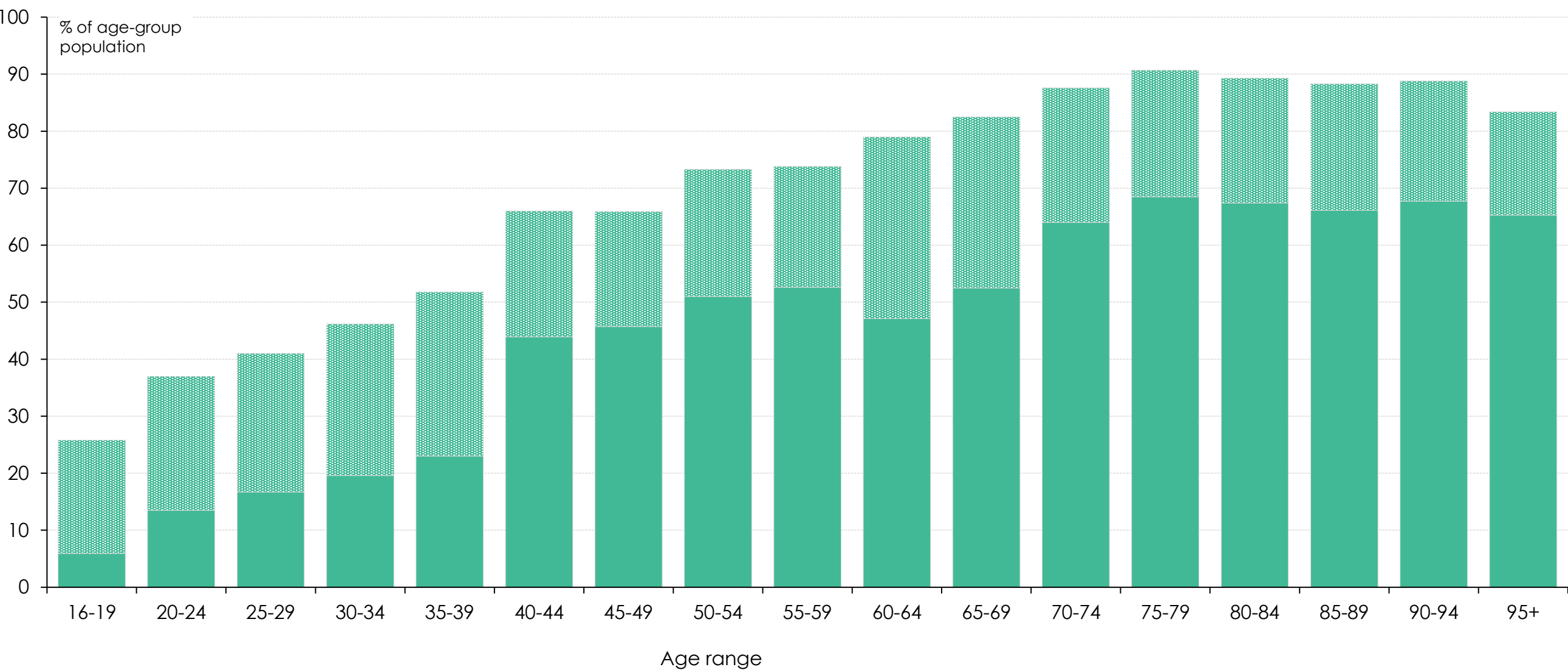
Sources: Imperial College London and YouGov, [Covid 19 Behaviour Tracker Data Hub](#). [Return to "What's New"](#).

Percentage of populations unvaccinated and unwilling or uncertain about getting vaccinated



# Over two-thirds of those aged 75 & over are now fully vaccinated – but less than 20% of 35-39 year-olds (who account for the largest number of cases)

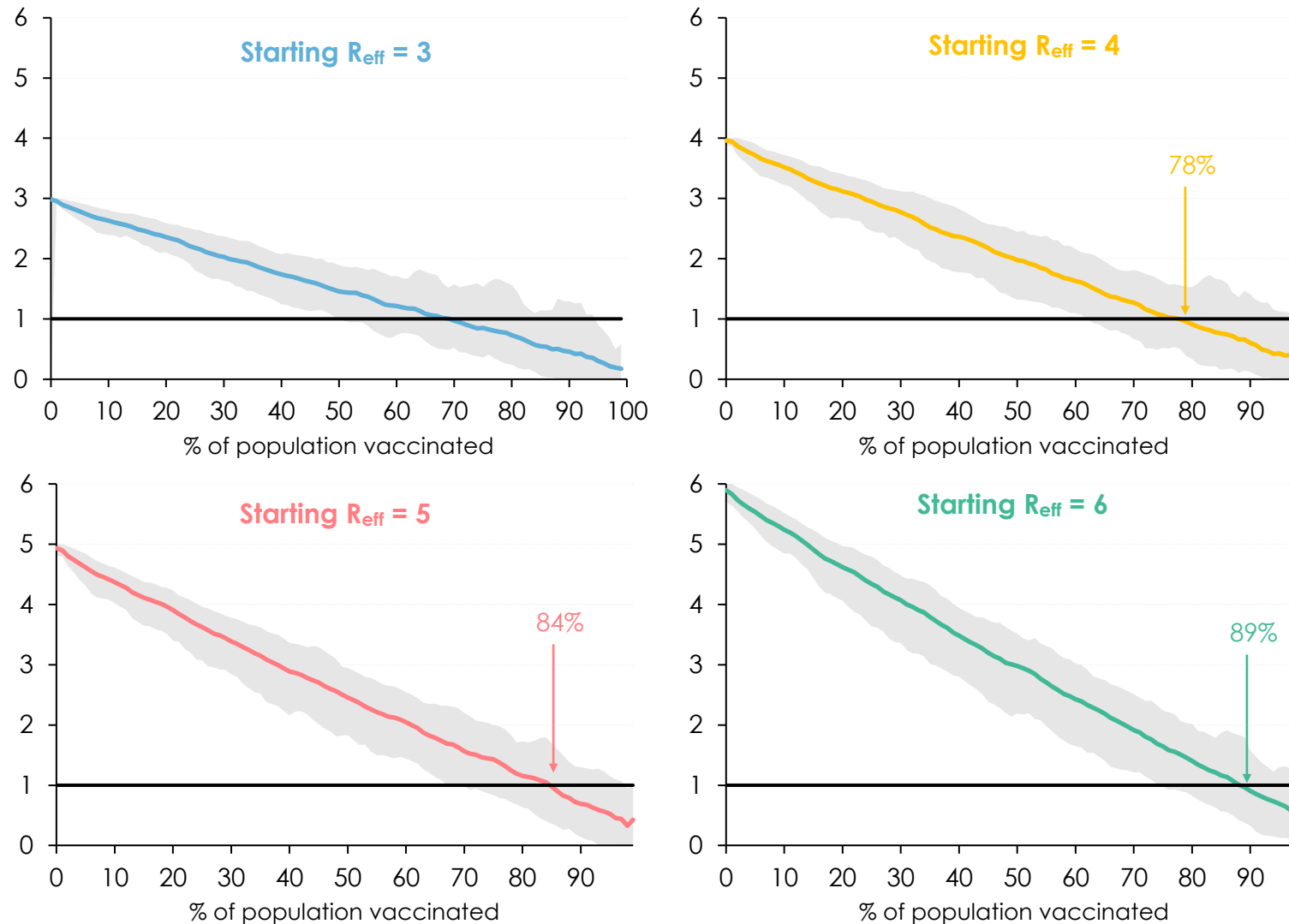
Vaccination rates by age group as at 3<sup>rd</sup> September



Note: For data on infections by age group see [slide 16](#).  
Source: Commonwealth Department of Health, [Covid-19 Vaccine Roll-out update](#), 3<sup>rd</sup> September 2021. [Return to "What's New"](#).

# Modelling suggests that a vaccination rate of at least 80% of the total population (not just those $\geq 16$ ) will be required in order to 'open up' safely

## Alternative scenarios for effective reproduction number ( $R_{\text{eff}}$ ) and vaccination rates



Note: Solid lines show the mean outcomes of the model simulations, while shaded areas show the 10<sup>th</sup> and 90<sup>th</sup> 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, 27<sup>th</sup> July 2021.

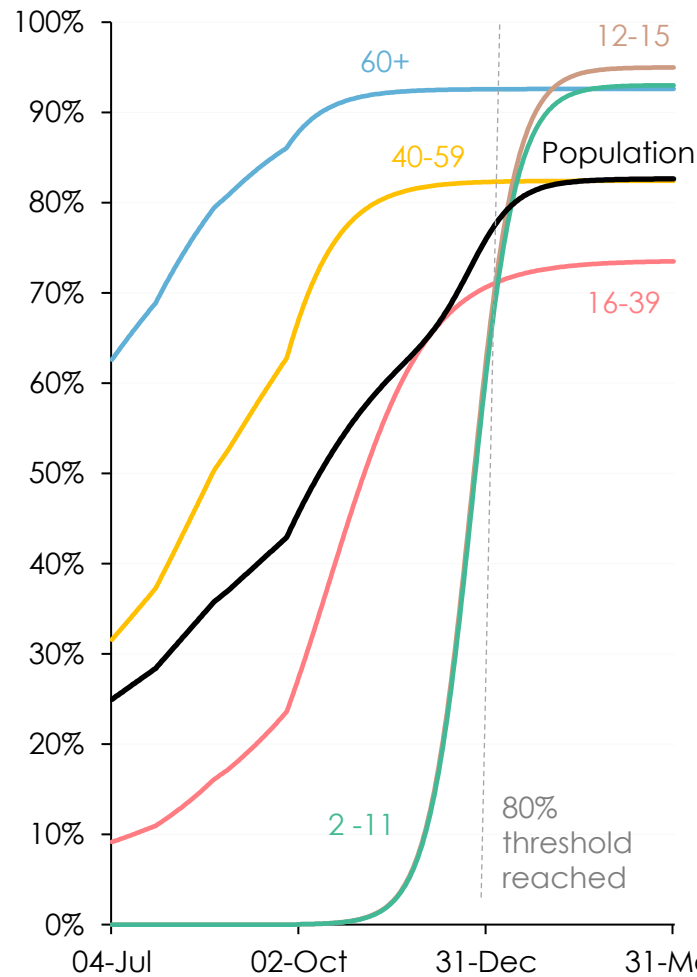
- ❑ Modelling released in July by the Grattan Institute (a Melbourne-based non-aligned policy 'think tank') suggests that, on the assumption that the starting ' $R_{\text{eff}}$ ' (the number of people likely to be infected by each unvaccinated person) for the 'delta variant' of Covid-19 is at least 4, at least 80% of the total population would need to be vaccinated in order to get the ' $R_{\text{eff}}$ ' 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 ' $R_{\text{eff}}$ ' 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
- ❑ The Federal Government's '[National Plan](#)' envisages steps towards 'opening up' starting once 70% of the national 'eligible' population (ie excluding children) have been vaccinated



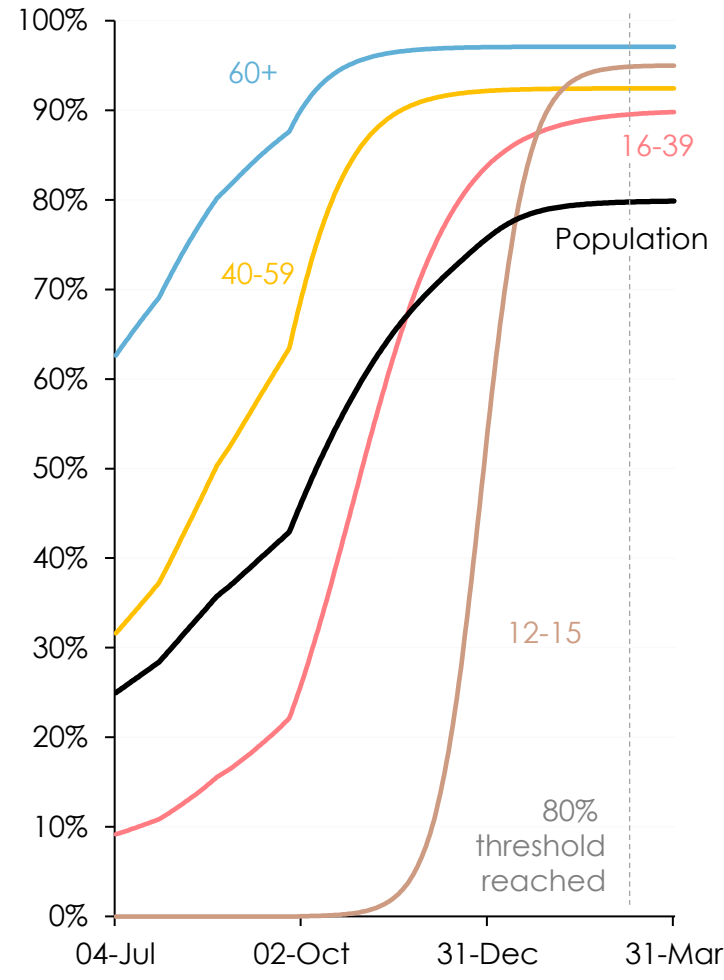
# The 80%-of-the-population threshold could be achieved by the end of this year given sufficient commitment by the Federal Government

## Plausible vaccination rates by age group

Assuming children aged 2-11 can be vaccinated



Assuming children aged 2-11 can't be vaccinated

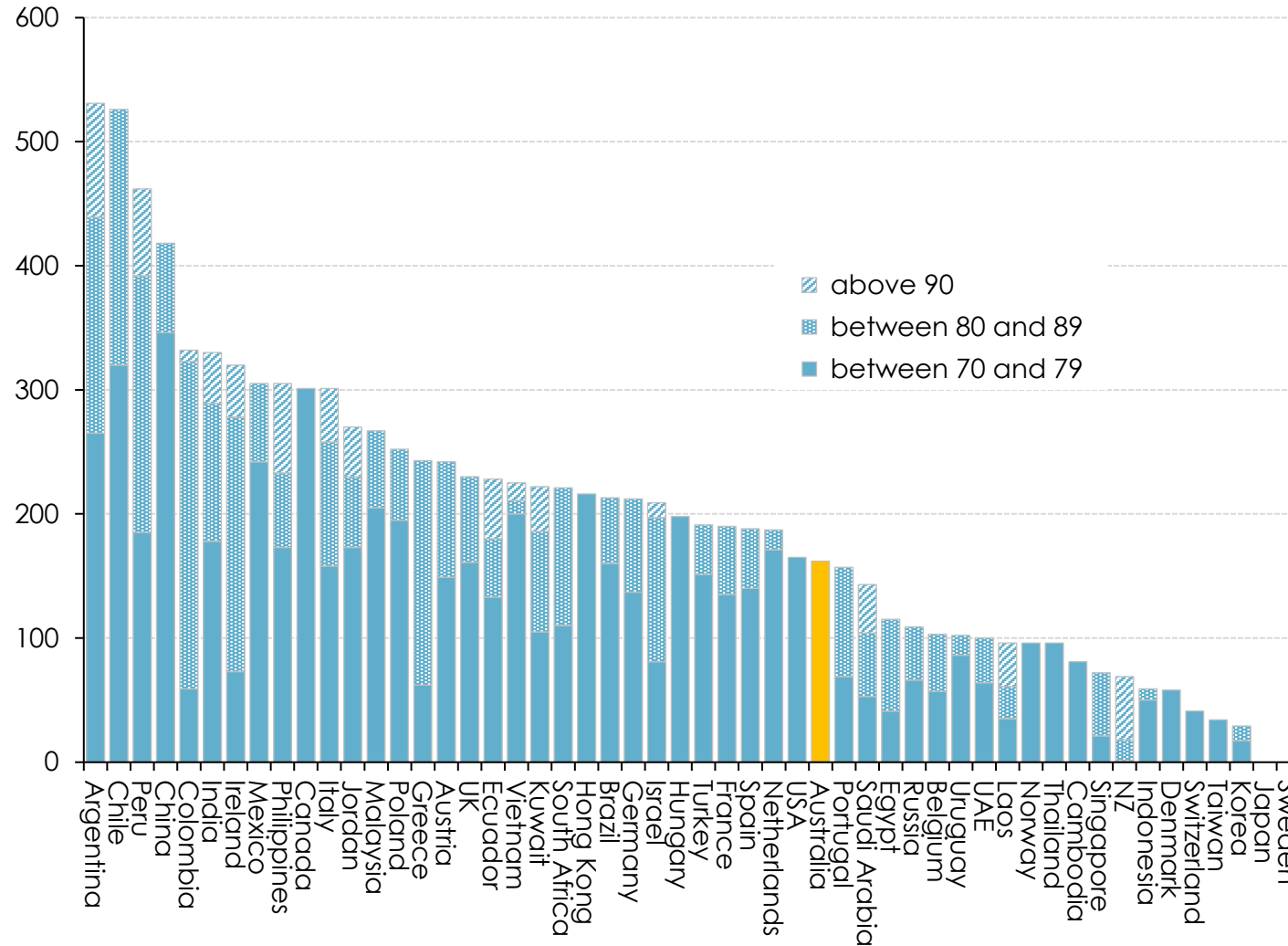


- ❑ Grattan's analysis suggests that, assuming a similar but slightly slower trajectory than in the UK, the '80% of the population' threshold could be attained by the end of the year with currently forecast vaccine supplies – provided that vaccines can be given to children aged 2-11
- ❑ If it's not possible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

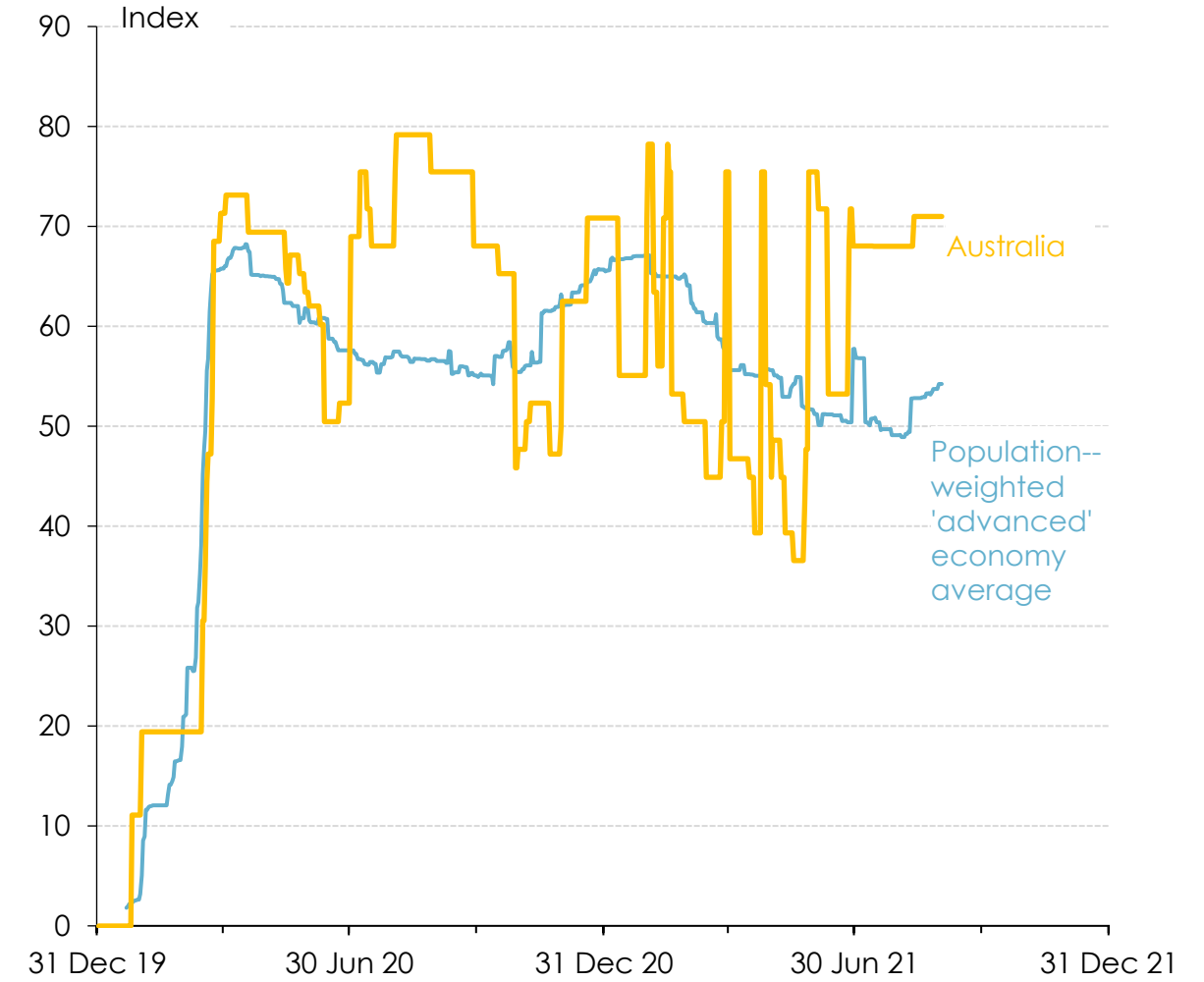
Source: Stephen Duckett, Danielle Wood, Brendan Coates et al, [Race to 80: Our best shot at living with Covid](#), Grattan Institute, 27<sup>th</sup> July 2021.

# 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

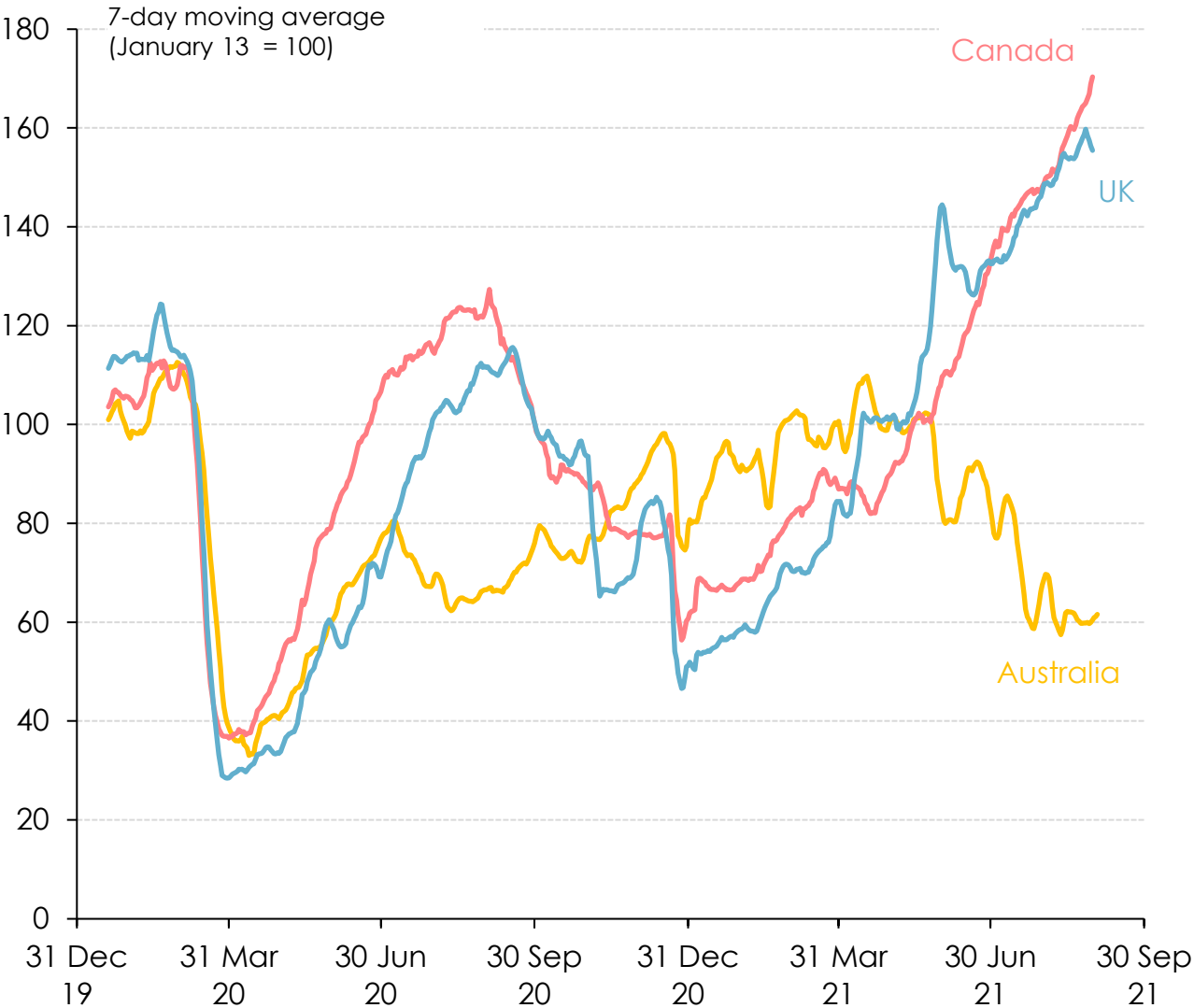


The Oxford COVID-19 Government Response Tracker collects publicly available information on 11 indicators of government response including school and workplace closures, public events cancellations, restrictions on public gatherings, stay at home requirements, public transport closures, domestic and international travel restrictions, public information campaigns, testing and contact tracing. Source: [Blavatnik School of Government, Oxford University](#). Data up to 2<sup>nd</sup> September. [Return to "What's New"](#).

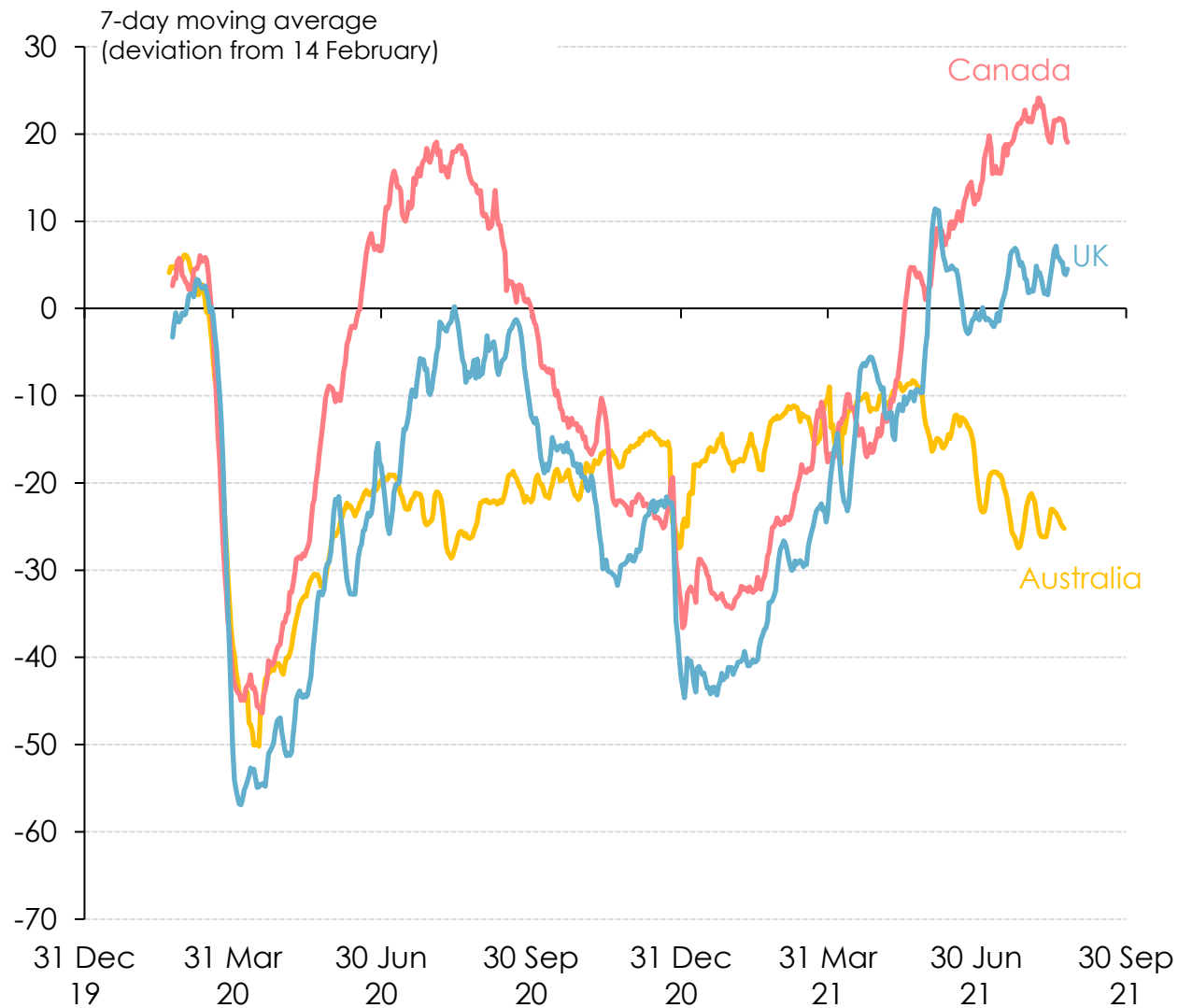


# Mobility indicators give some sense of how more onerous restrictions are now affecting Australia's economy compared with (eg) Canada & the UK

Apple mobility indicators



Google non-residential activity mobility indicators

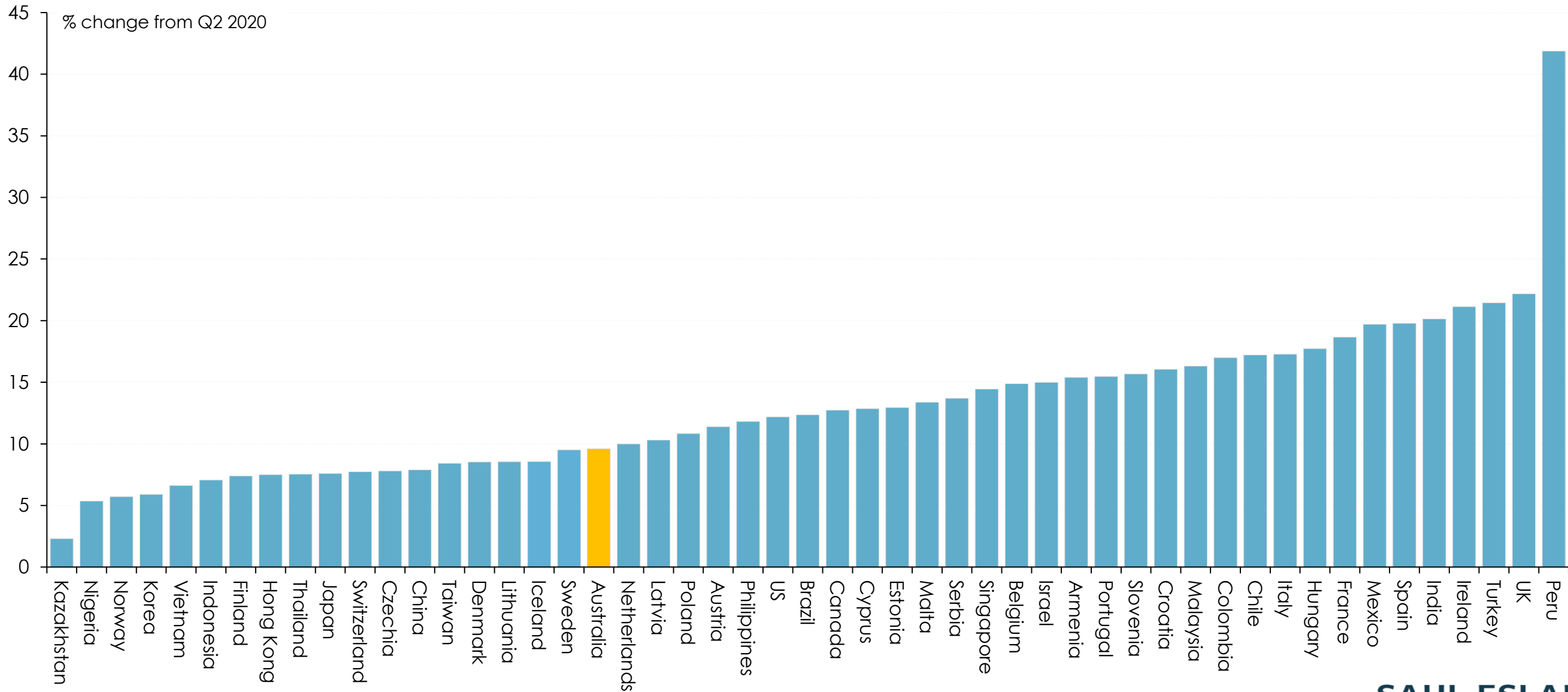


Note: 'Apple mobility indicator' is the average of three separate indicators for driving, use of transit and walking (data up to 2<sup>nd</sup> September). Google 'non-residential activities' indicator is the average of separate indicators for workplaces, retail and recreation, groceries and pharmaceuticals, transit and parks (data up to 23<sup>rd</sup> August).  
Sources: Apple, [Mobility Trends Reports](#); Google, [Covid-19 Community Mobility Reports](#); Corinna Economic Advisory. [Return to "What's New"](#).

**The world**

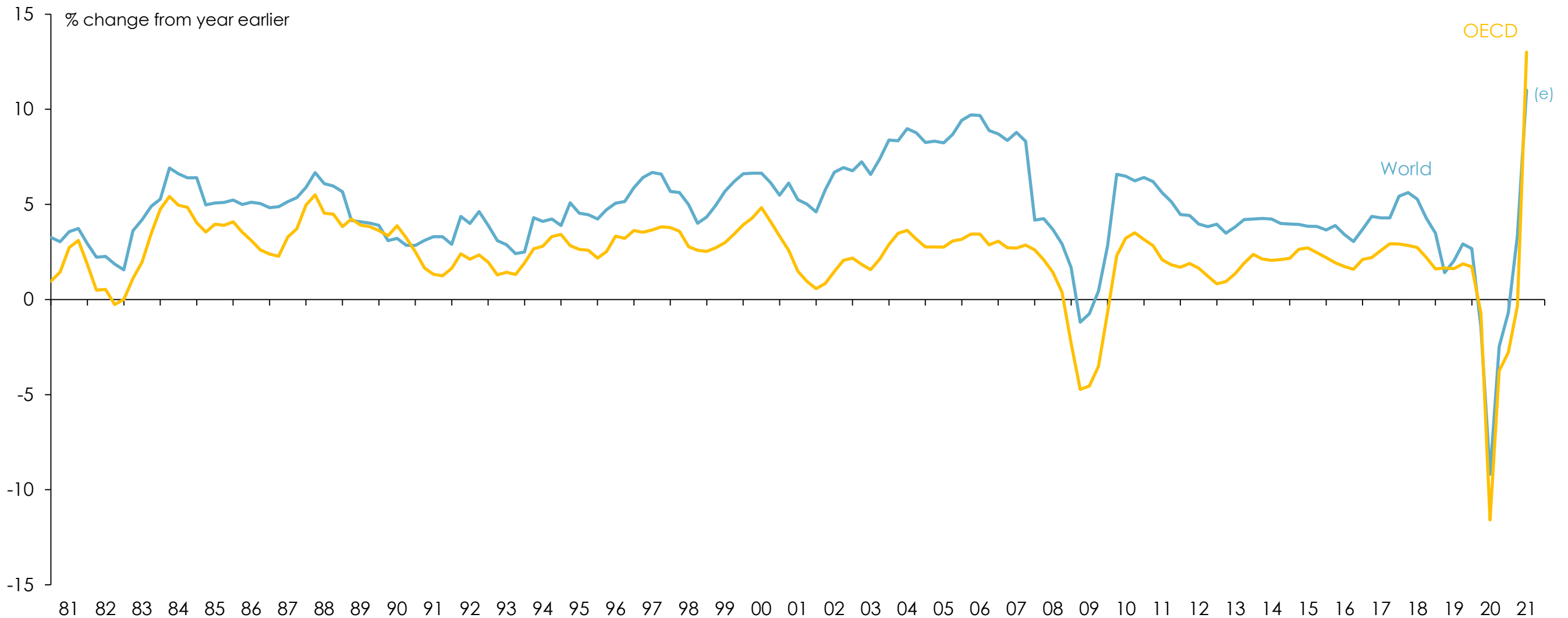
# Of 51 countries which have now reported Q2 GDP estimates, 31 have recorded double-digit growth from last year's pandemic-induced trough

Growth in real GDP over the year to Q2 2021



# The world economy likely grew by about 11% over the year to Q2 – a figure which is vastly flattered by comparison with last year's trough

## World and OECD area real GDP growth

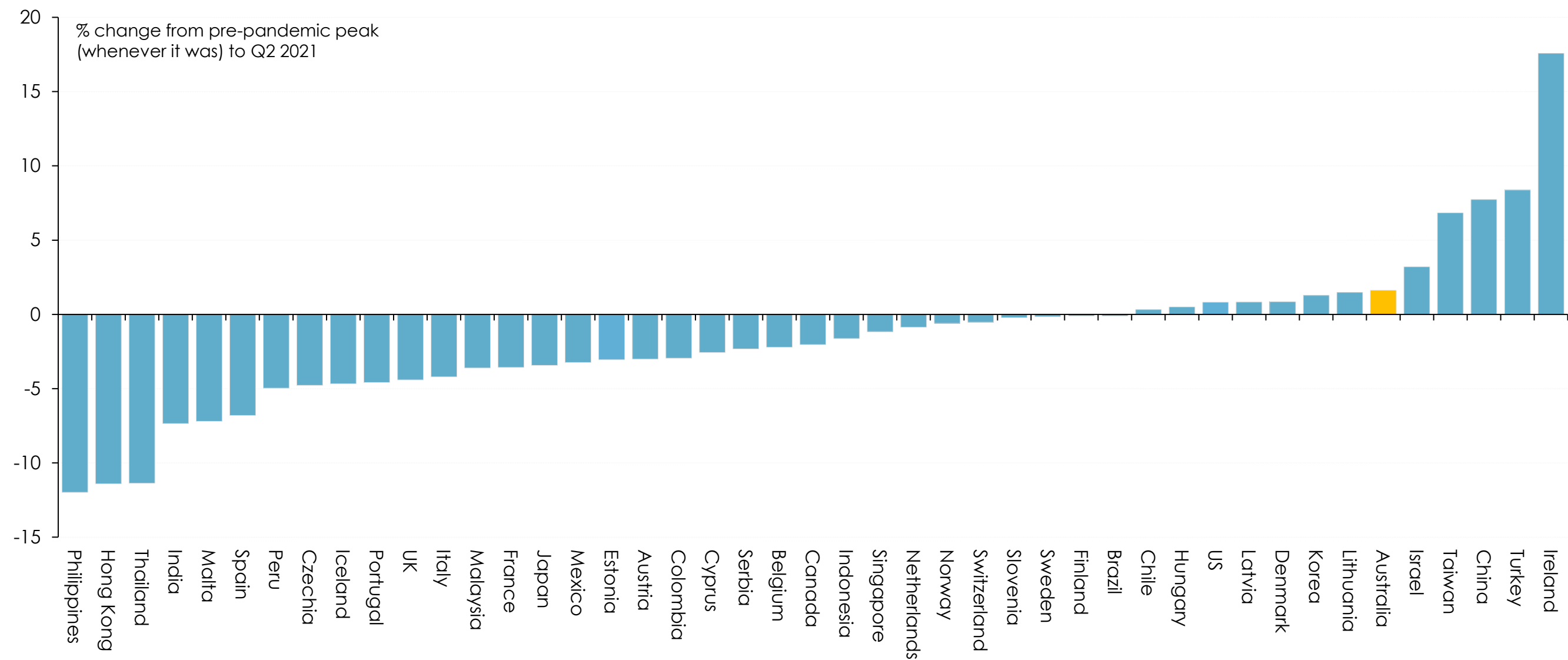


Note: Estimates of global GDP growth compiled by Corinna using data for 100 countries accounting for 94% of 2019 world GDP as measured by the IMF, weighted in accordance with each country's share of global GDP at purchasing power parities in 2019; excludes constituents of the former USSR before 1993, the former Czechoslovakia before 1995, and the former Yugoslavia before 1998. (e) Estimate for Q2 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"](#).

# Only 11 countries (out of 45 for which seasonally-adjusted Q2 GDP estimates are available) have exceeded their pre-pandemic peaks

Q2 2021 real GDP compared with pre-recession peak



Note: Estimate for China derived from quarterly growth rates published by China NBS; estimate for India seasonally adjusted by Corinna using Refintiv Datastream.  
Source: National statistical agencies and central banks. [Return to "What's New"](#).

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

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

	<i>Actual</i>		<i>IMF</i>		<i>World Bank</i>		<i>OECD</i>		<i>Australian Treasury</i>	
	2019	2020	2021	2022	2021	2022	2021	2022	2021	2022
US	2.2	-3.5	7.0	4.9	6.8	4.2	6.9	3.6	6.5	3.5
China	5.8	2.3	8.1	5.7	7.7	5.3	8.5	5.8	8.5	5.5
Euro area	1.3	-6.6	4.6	4.3	4.2	4.4	4.3	4.4	4.5	4.0
India	4.0	-8.0	9.5	8.5	8.3	7.5	9.9	8.2	11.0	5.8
Japan	0.3	-4.8	2.8	3.0	2.9	2.6	2.6	2.0	3.5	1.8
UK	1.4	-9.9	7.0	4.8	na	na	7.2	5.5	na	na
Australia	1.9	-2.4	5.3	3.0	na	na	5.1	3.4	4.3*	2.5*
New Zealand	2.2	-3.0	4.0	3.2	na	na	3.5	3.8	3.2 <sup>†</sup>	4.4 <sup>†</sup>
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 1<sup>st</sup> July (and finishing 30<sup>th</sup> June following year) † Forecasts by New Zealand Treasury for fiscal years beginning 1<sup>st</sup> July  
Sources : International Monetary Fund (IMF), [World Economic Outlook Update](#), 26<sup>th</sup> July 2021; The World Bank, [Global Economic Prospects](#), 8<sup>th</sup> June 2021; Organization for Economic Co-operation & Development (OECD), [Economic Outlook No. 109](#), 31<sup>st</sup> May 2021; Australian Treasury, 2021-22 [Budget Paper No. 1, Statement No. 2](#), 11<sup>th</sup> May 2021; New Zealand Treasury, [Budget Economic and Fiscal Update 2021](#), 20<sup>th</sup> May 2021. [Return to "What's New"](#).

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

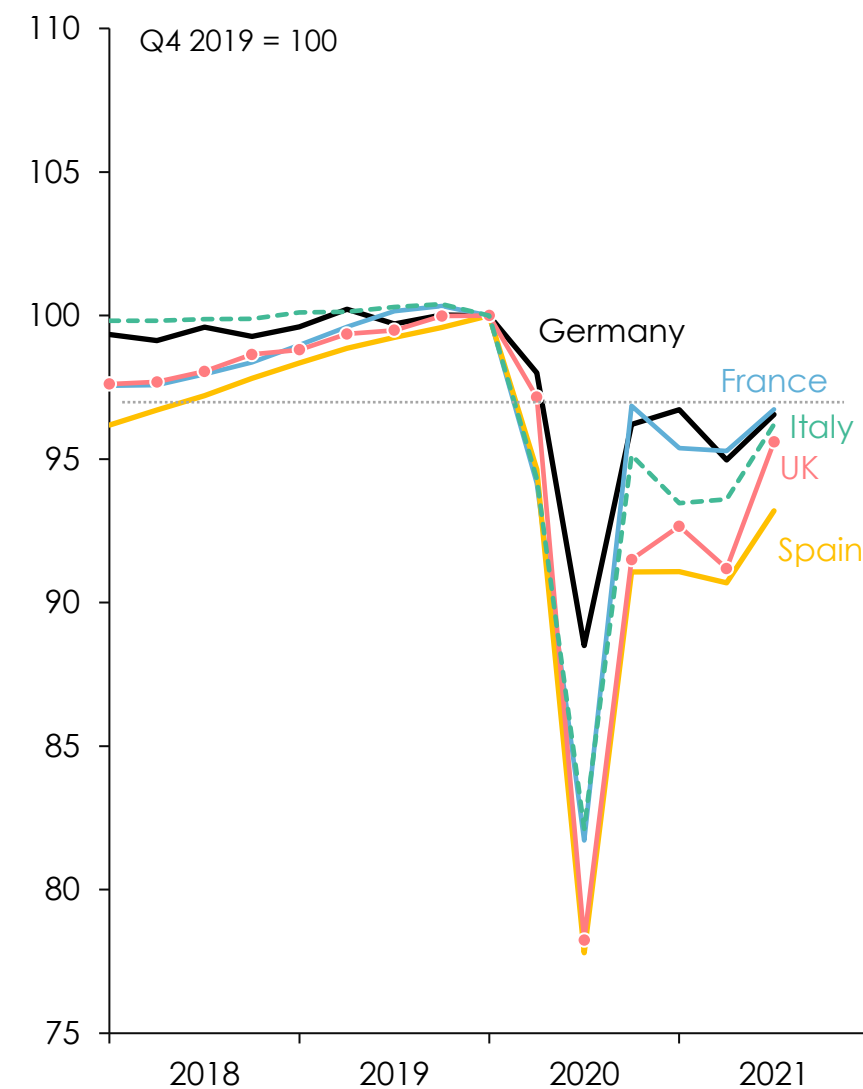
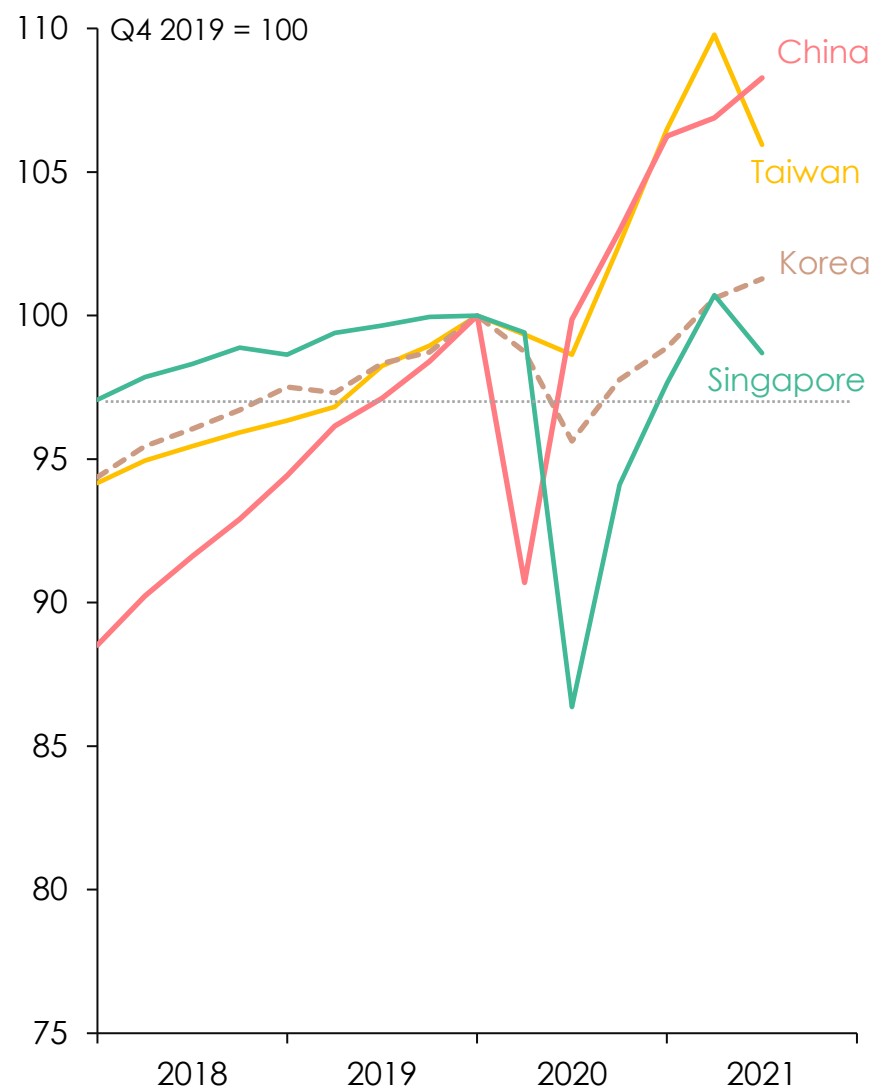
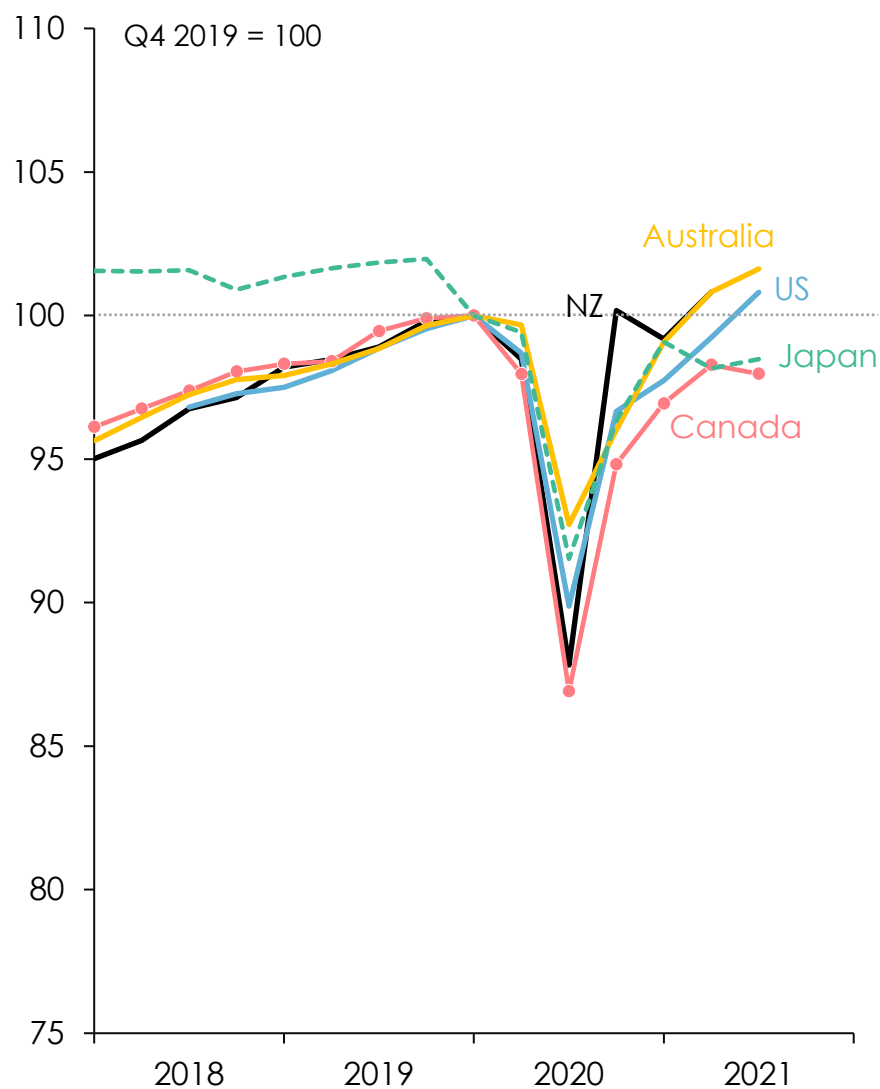
## IMF World Economic Outlook real GDP forecasts

	Pc change from previous year		Pc pt change from April WEO forecast	
	2021	2022	2021	2022
<b>Advanced economies</b>				
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
<b>Total</b>	<b>5.6</b>	<b>4.4</b>	<b>0.5</b>	<b>0.8</b>
<b>Emerging economies</b>				
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
<b>Total</b>	<b>6.3</b>	<b>5.2</b>	<b>-0.4</b>	<b>0.2</b>
<b>World</b>	<b>6.0</b>	<b>4.9</b>	<b>0.0</b>	<b>0.5</b>

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

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

## Levels of real GDP indexed to Q4 2019 = 100

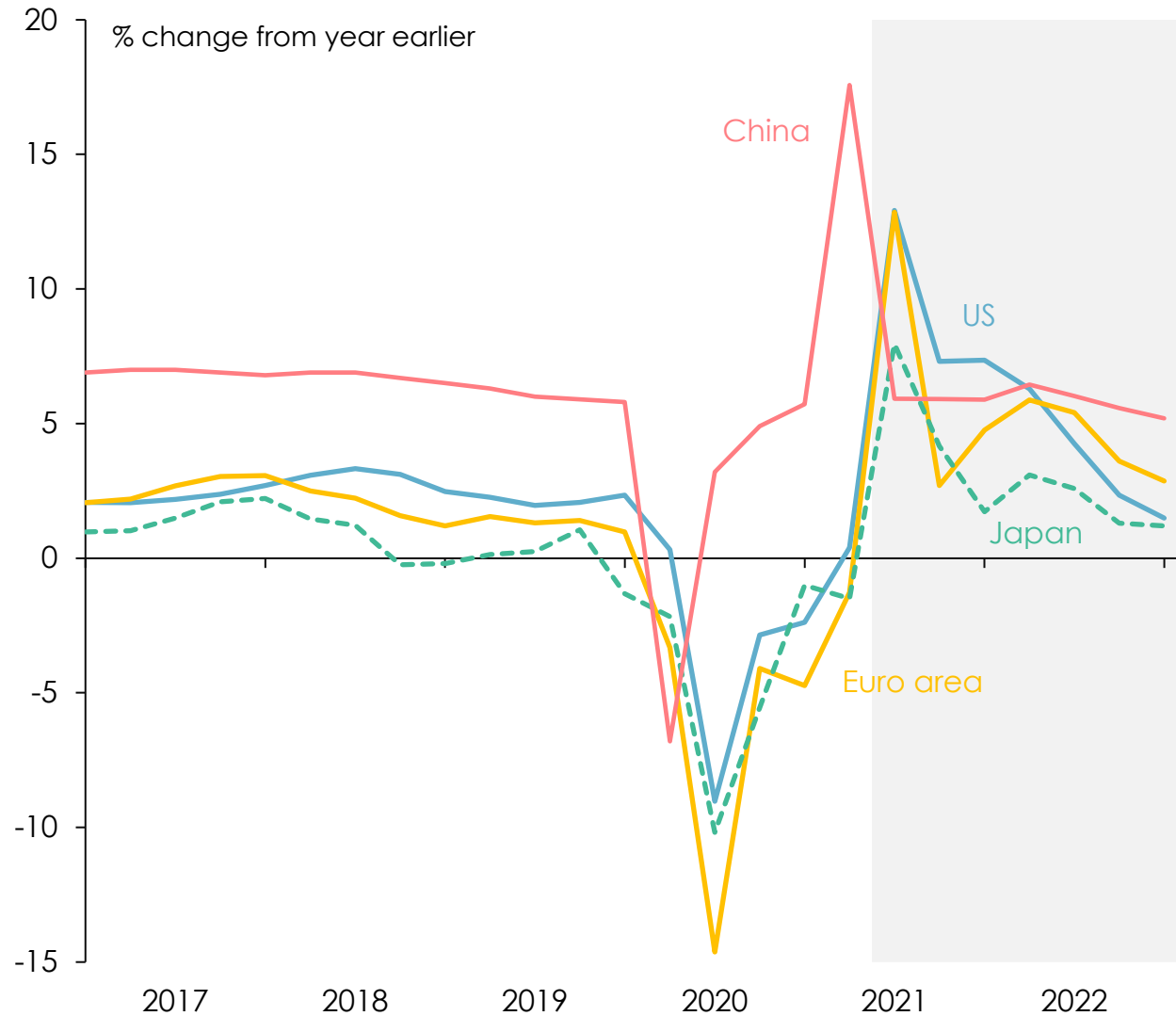


Note: All series shown are seasonally adjusted, except for China's which has been constructed using the estimates of quarterly changes in real GDP published by the China National Bureau of Statistics. Sources: National statistical agencies, Eurostat and Bank of Korea; Corinna.

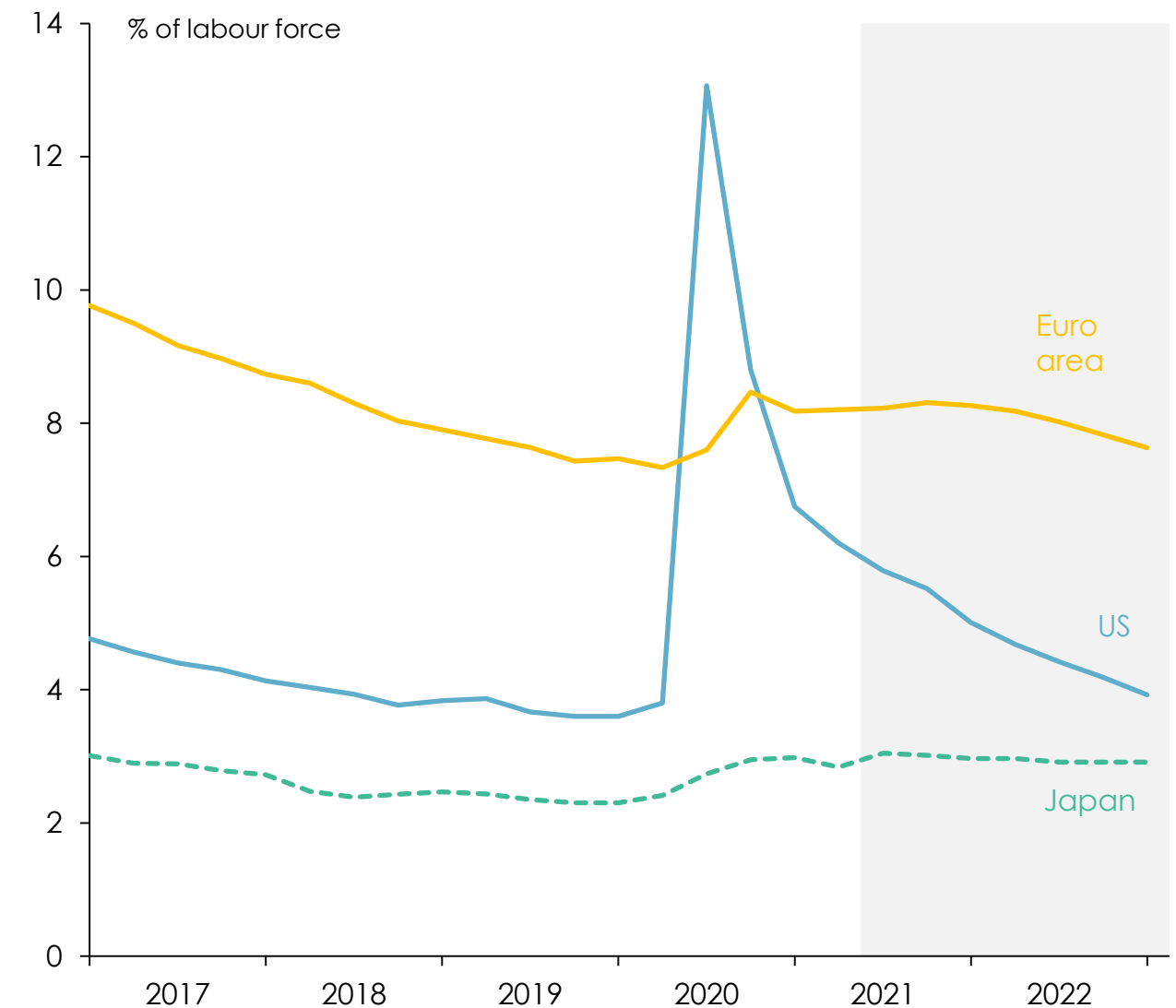


# The OECD expects the US-led spurt of growth this year to be relatively short-lived, with growth slowing noticeably through 2022 ...

## OECD real GDP growth forecasts



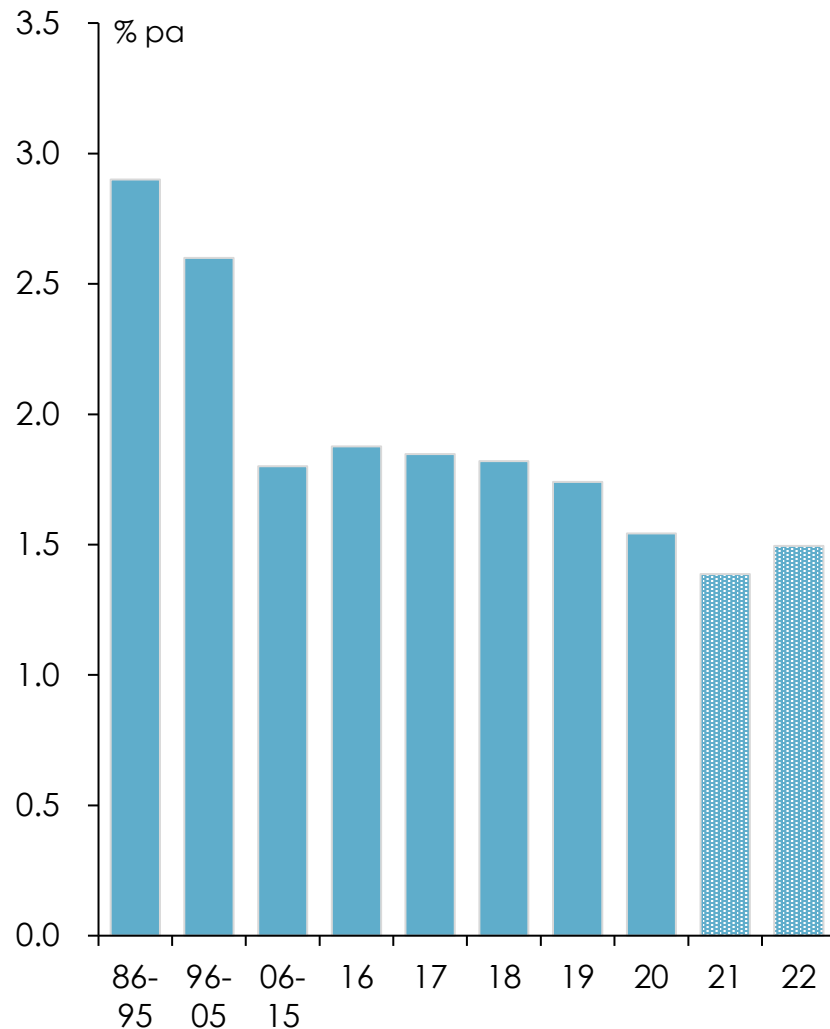
## OECD unemployment rate forecasts



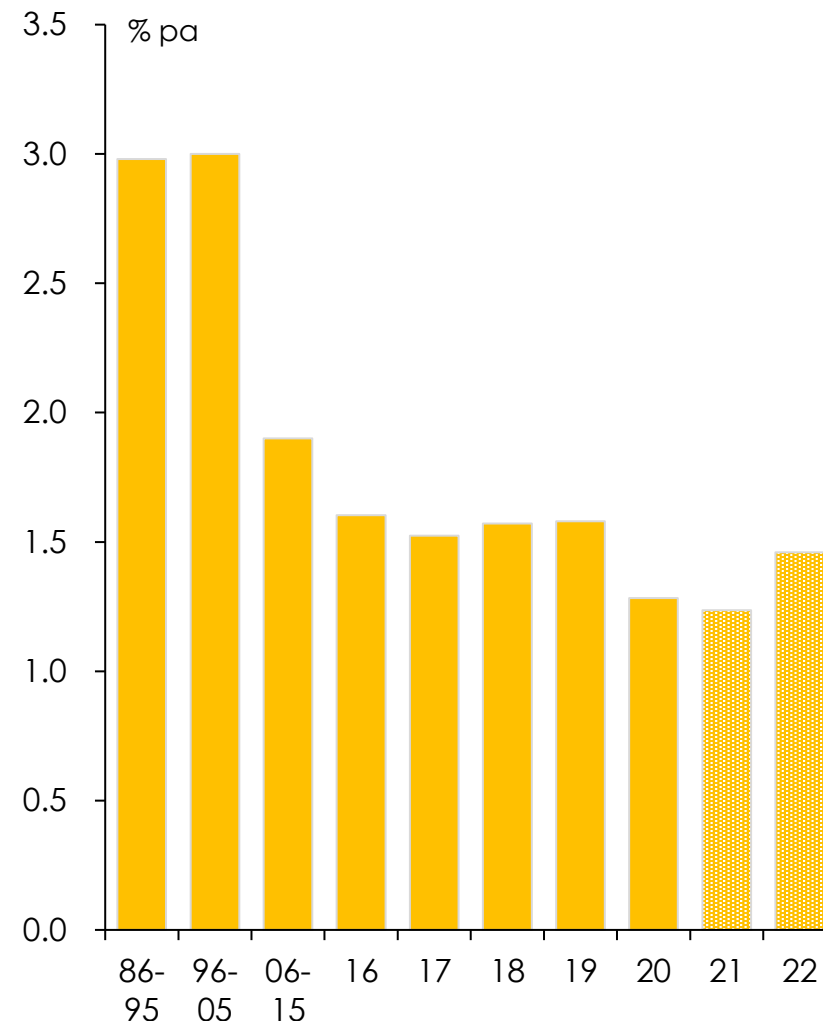
Sources: OECD, [Economic Outlook No. 109 - Statistical Annex](#), Volume 2021, No. 1, 31<sup>st</sup> May 2021; Corinna.

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

OECD area potential GDP growth



Growth in the OECD area productive capital stock

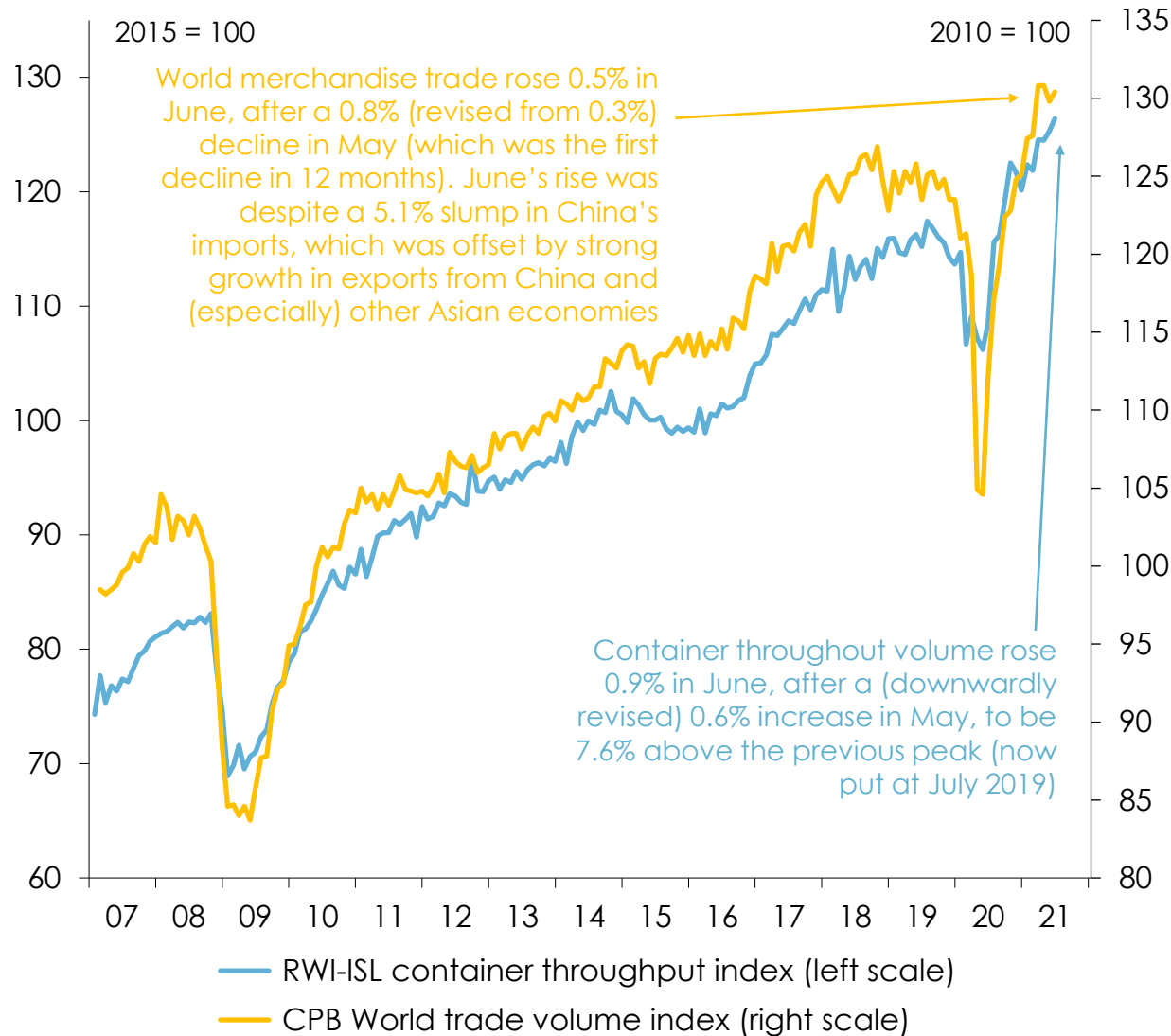


OECD area labour productivity growth

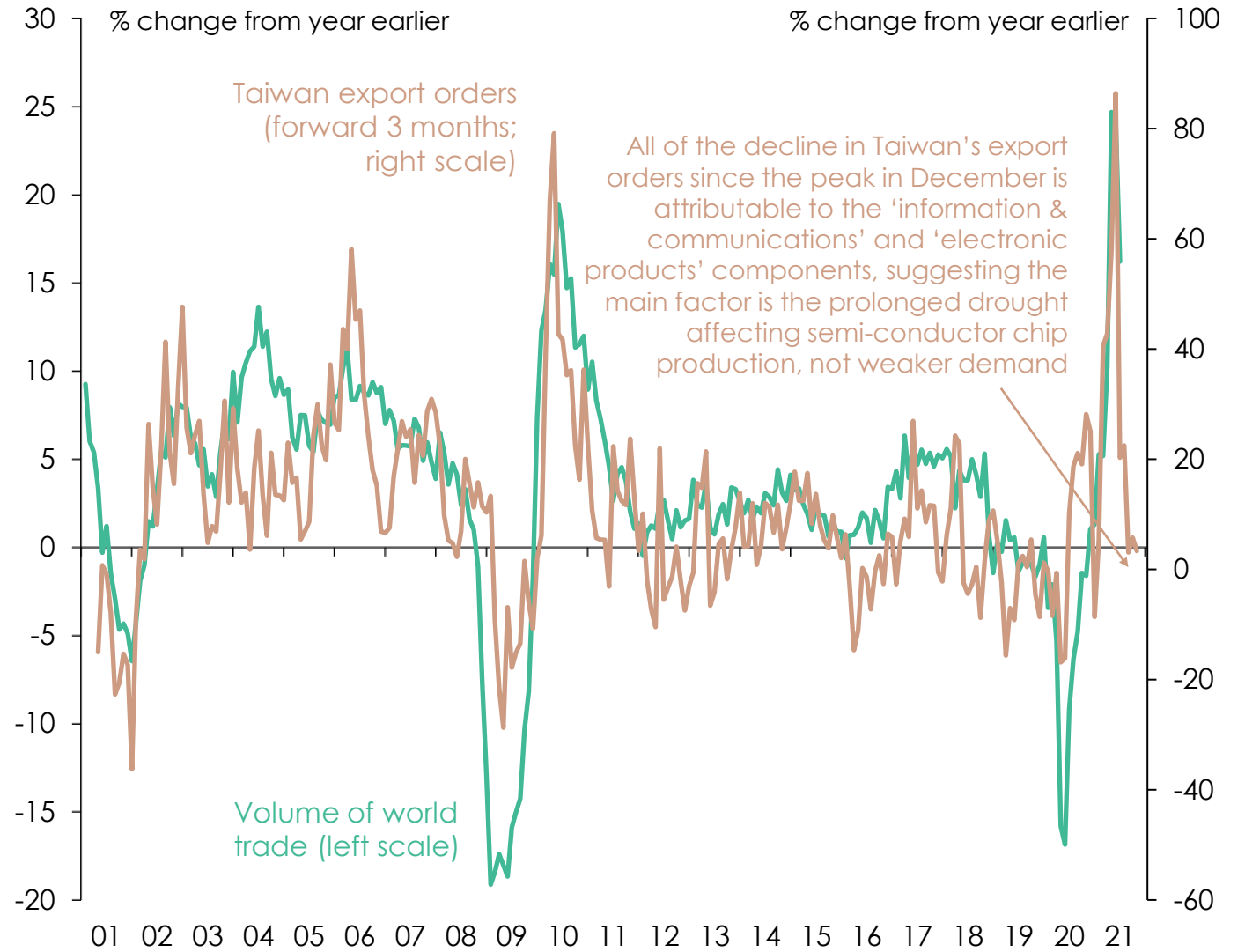


# World trade volumes rose in June, after a setback in May, despite a slump in Chinese imports – but may slow again over the next few months

## World trade volumes and container throughput



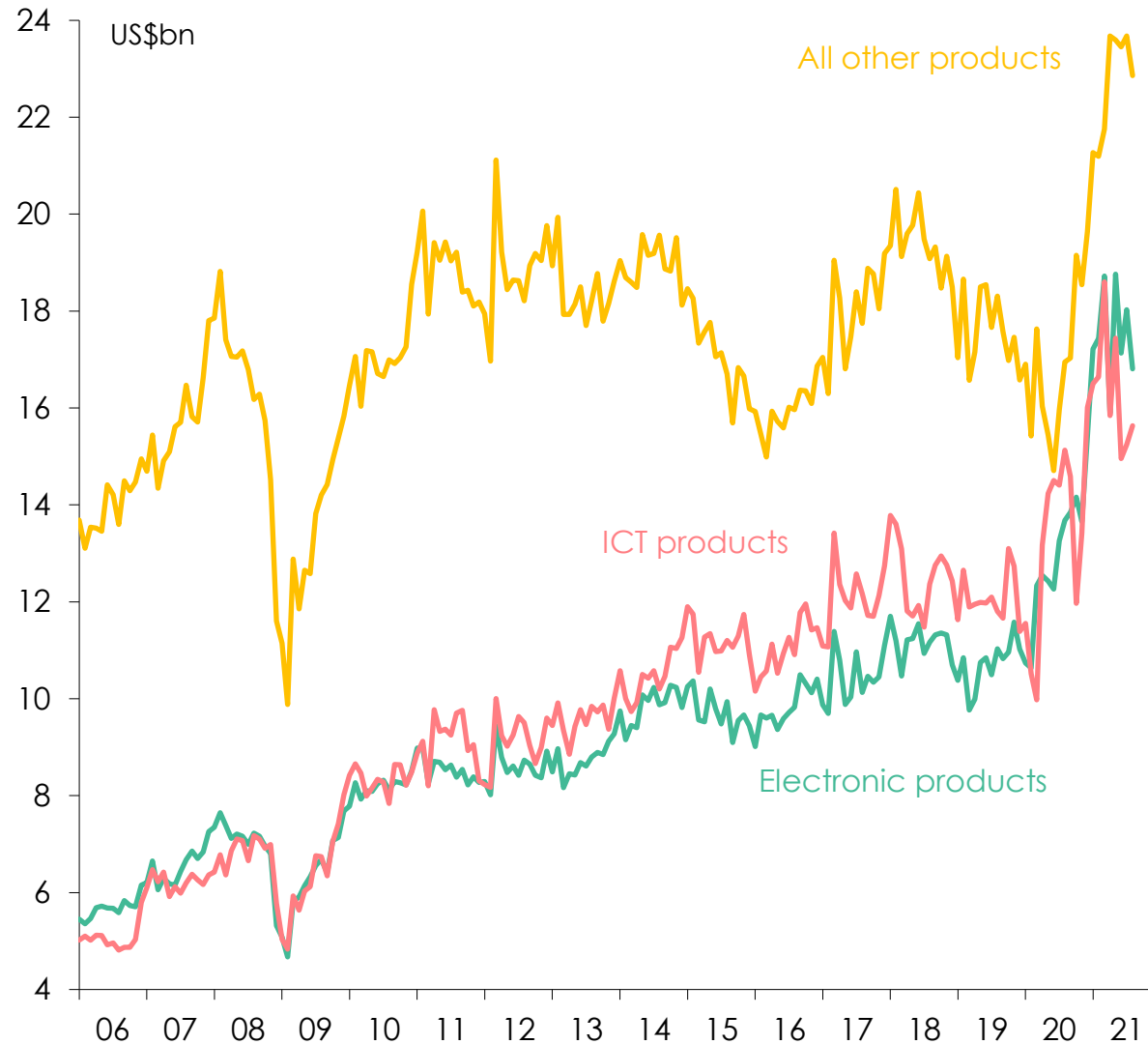
## Taiwan export orders and world trade volumes



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](#) (July data to be released on 24<sup>th</sup> September); Institute of Shipping Economics & Logistics (ISL) and RWI Leibniz-Institut für Wirtschaftsforschung (RWI) [Container Throughput Index](#); Taiwan [Ministry of Economic Affairs](#). [Return to "What's New"](#).

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

Taiwan export orders, by product

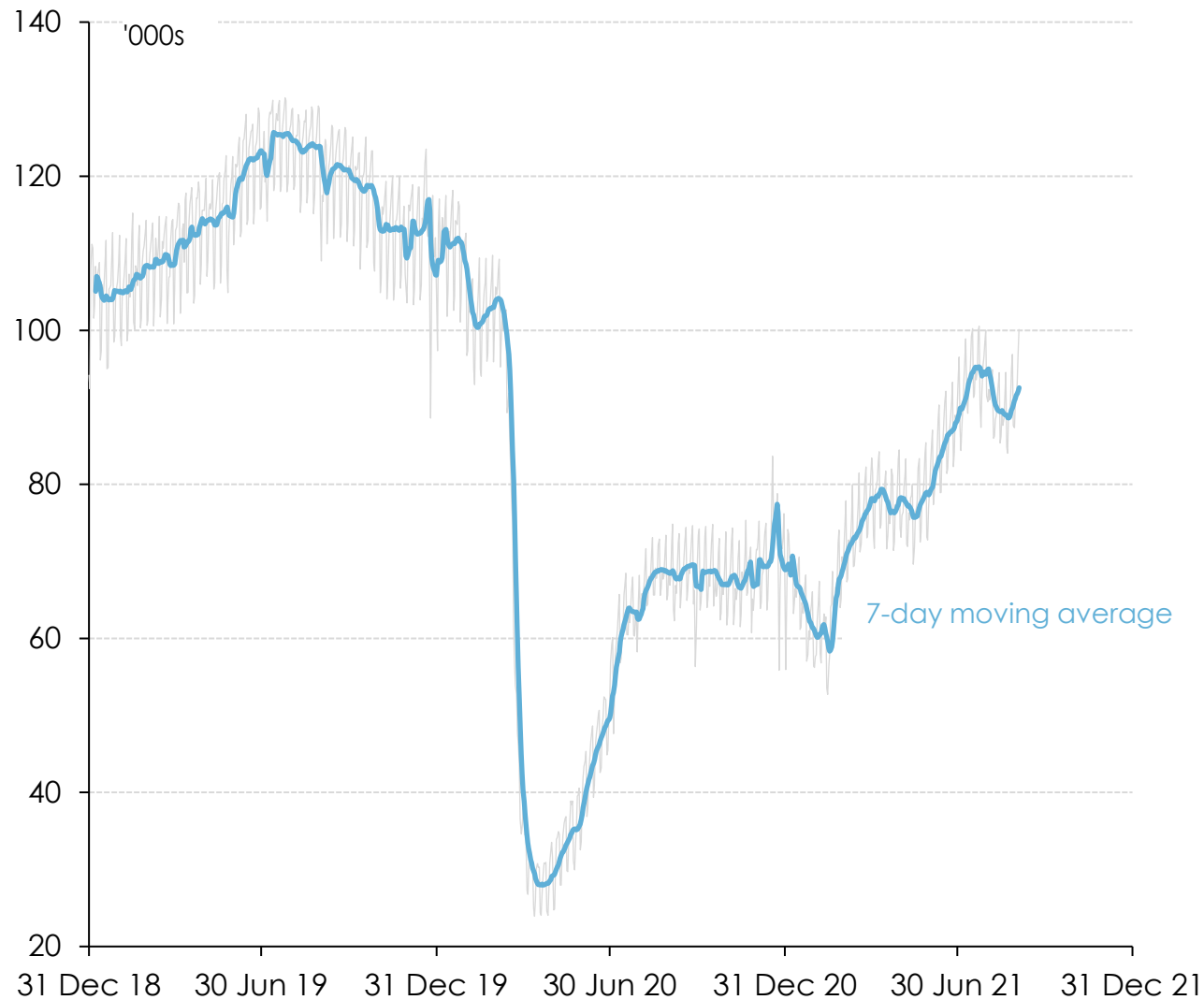


Note: Data have been seasonally adjusted by Corinna using Refinitiv Datastream. Latest data are for July. Source: Taiwan [Ministry of Economic Affairs](#). [Return to "What's New"](#).

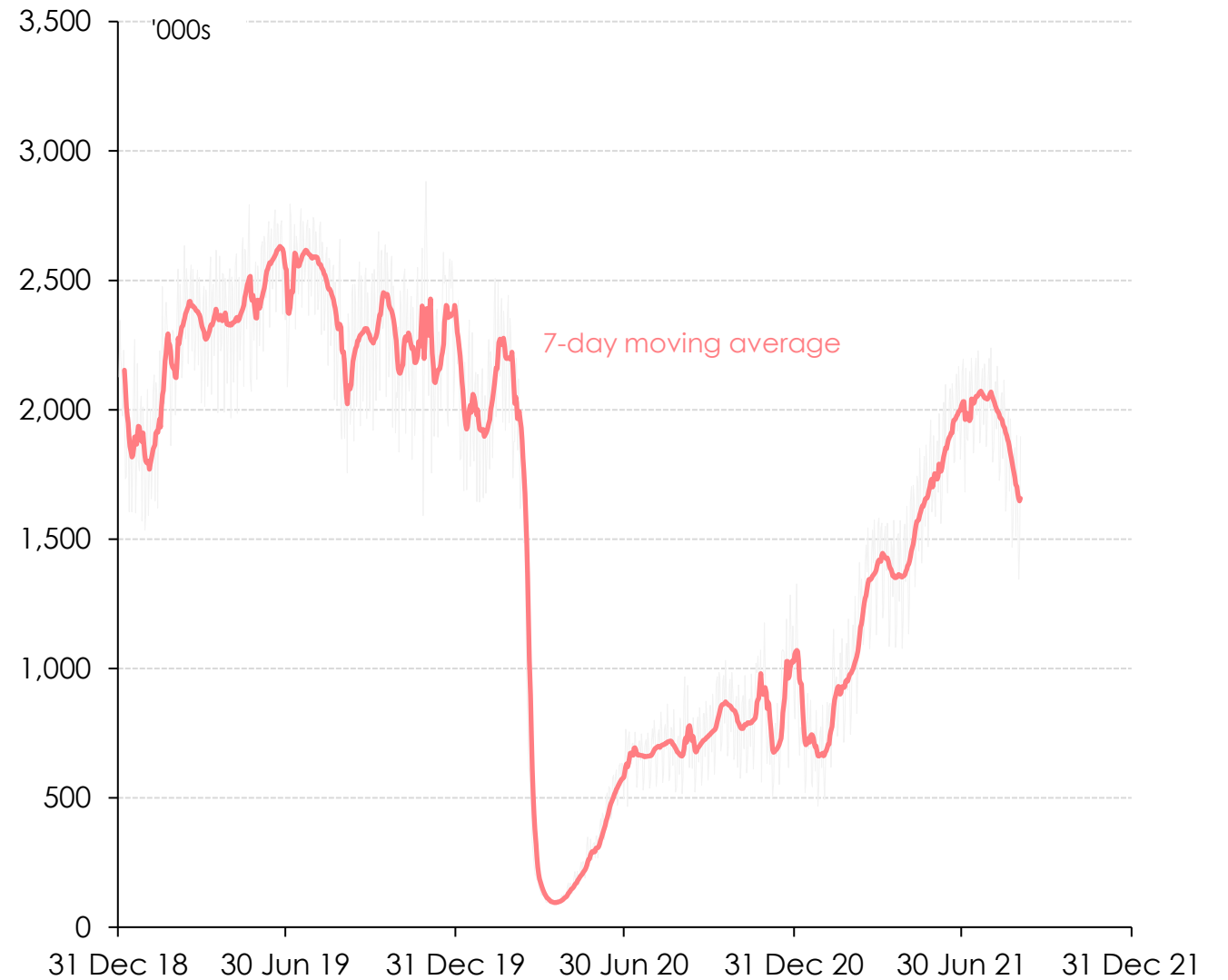
- ❑ Taiwan accounts for 63% of the US\$85bn global semi-conductor chip market (followed by Korea 18% and China 6%)
  - one Taiwanese company, Taiwan Semiconductor Manufacturing Co (TSMC) has 54% of the world market, and United Microelectronics Co (UMC) a further 7% (Samsung accounts for Korea's 18%)
- ❑ Semiconductor fabrication plants ("fabs") use very large amounts of water to rinse chips during their manufacture – a typical fab uses 7½-15 million litres of water daily (and water in Taiwan is very cheap, at less than US40¢/t)
- ❑ Taiwan has been experiencing its worst drought in 56 years, with the failure of monsoons to arrive last year and unusually low spring rains this year
  - reservoirs are down to less than 20% of capacity overall – with the Baoshan Reservoir which supplies TSMC's Hsinchu plant down to 7%
  - Taiwan's government has reduced water supplies to irrigated farmland, and to residents and businesses in three cities
  - 'fabs' have been asked to reduce their water consumption by 13%
  - water shortages are also constraining hydro-electricity production
- ❑ Foreign orders for Taiwanese ICT products rose 2.6% in July, after a 1.9% increase in June, but are still 16% below their February peak
  - orders for other electronics products fell 6.8% in July to be more than 10% below their peak in February
- ❑ Shortages of semi-conductor chips have caused major headaches for the motor vehicle industry (which uses lots of them)
  - Toyota last month announced a 40% cut in production in September (although virus outbreaks in SE Asia were also a contributing factor)

# The upturn in new infections has had a dampening effect on global aviation – although that might now be turning, at least in Europe

## Daily commercial flights worldwide

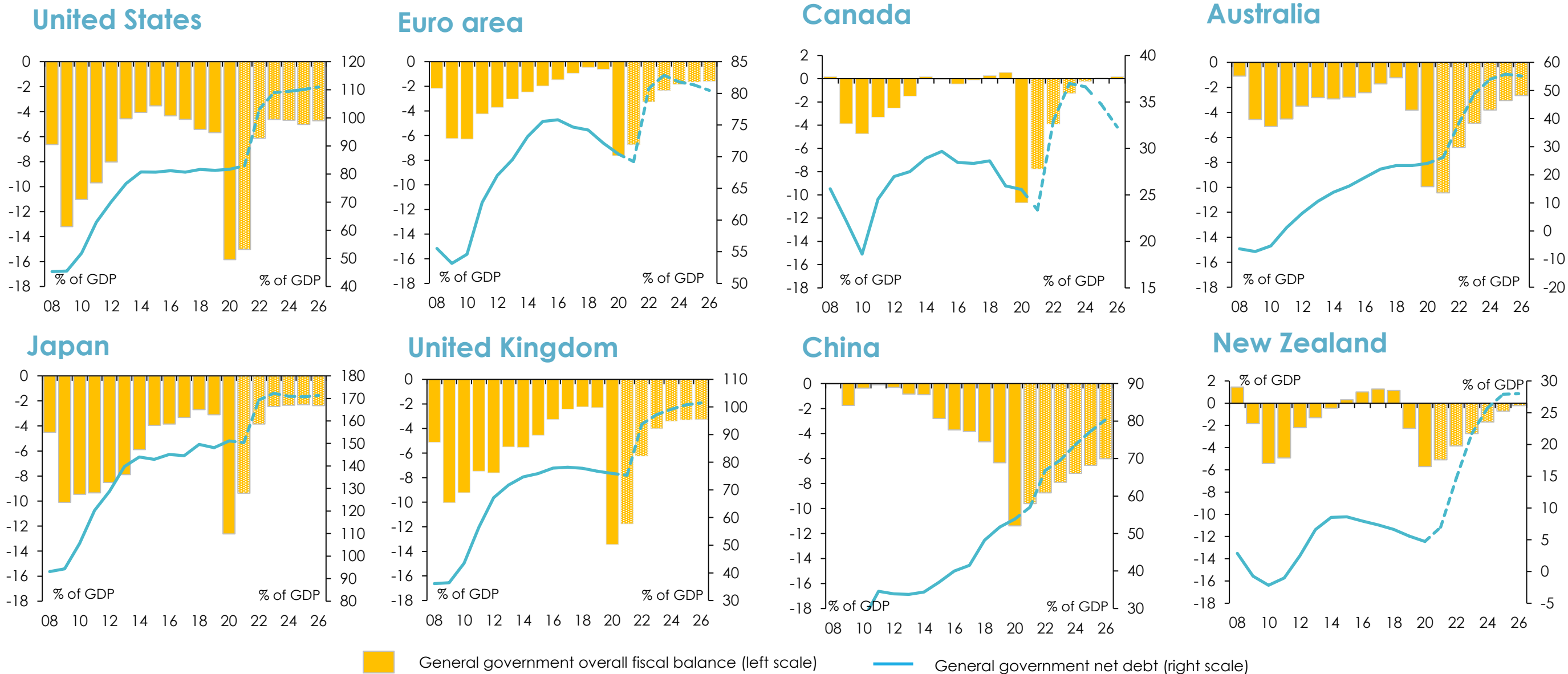


## Daily US TSA 'security' checks



Note: Commercial flights include commercial passenger flights, cargo flights, charter flights, and some business jet flights. Data for commercial flights up to 3<sup>rd</sup> September, for TSA 'security' checks up to 2<sup>nd</sup> September. Thicker coloured lines are 7-day centred moving averages of daily data plotted in thin grey lines. Sources: [Flightradar24.com](https://flightradar24.com); [US Transport Safety Administration](https://www.transportation.gov) (at last, something useful produced by aviation 'security'!!!). [Return to "What's New"](#).

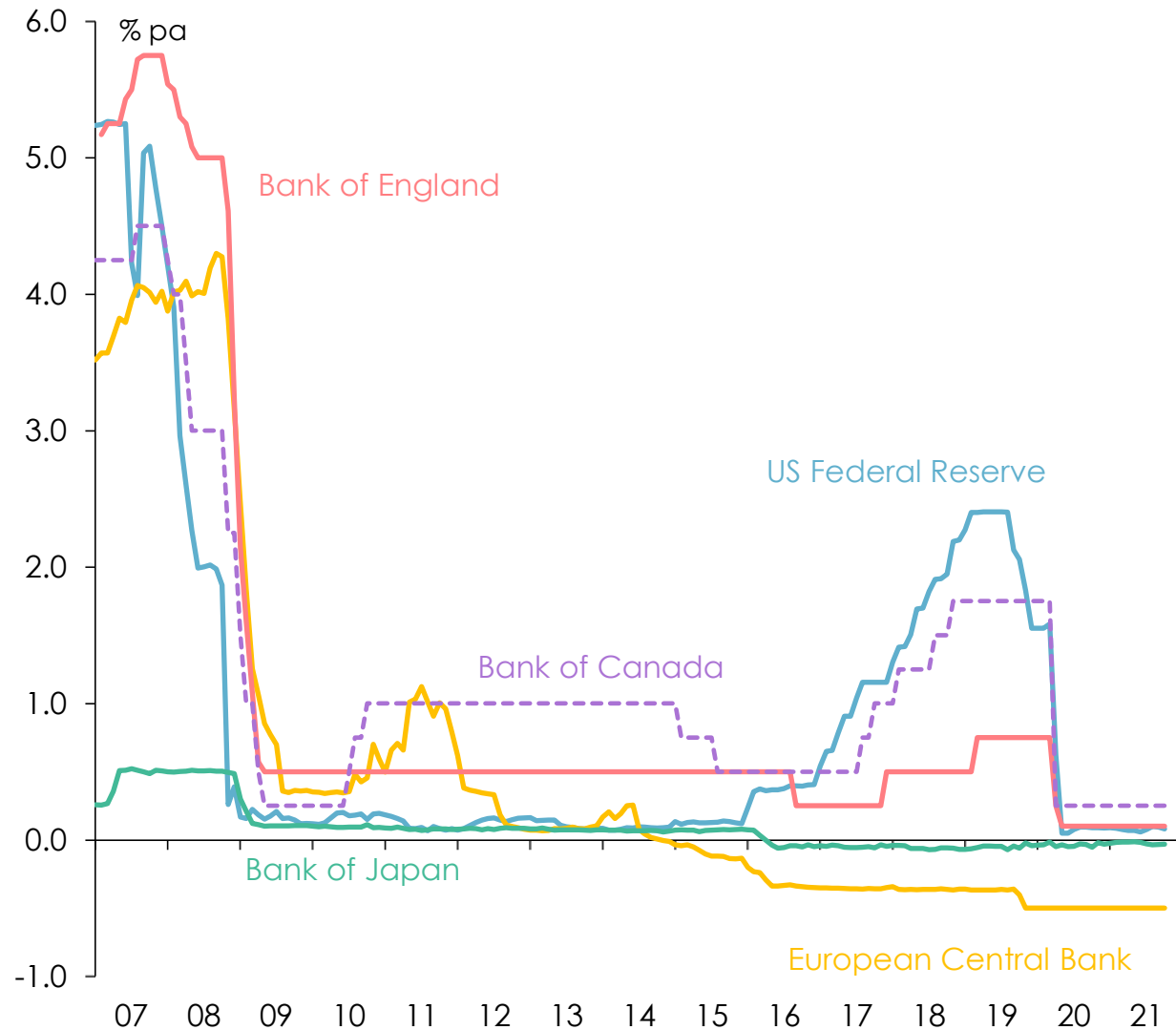
# The US fiscal stimulus dwarfs that of any other major economy – although Japan, the UK, Canada and Australia are also doing a lot



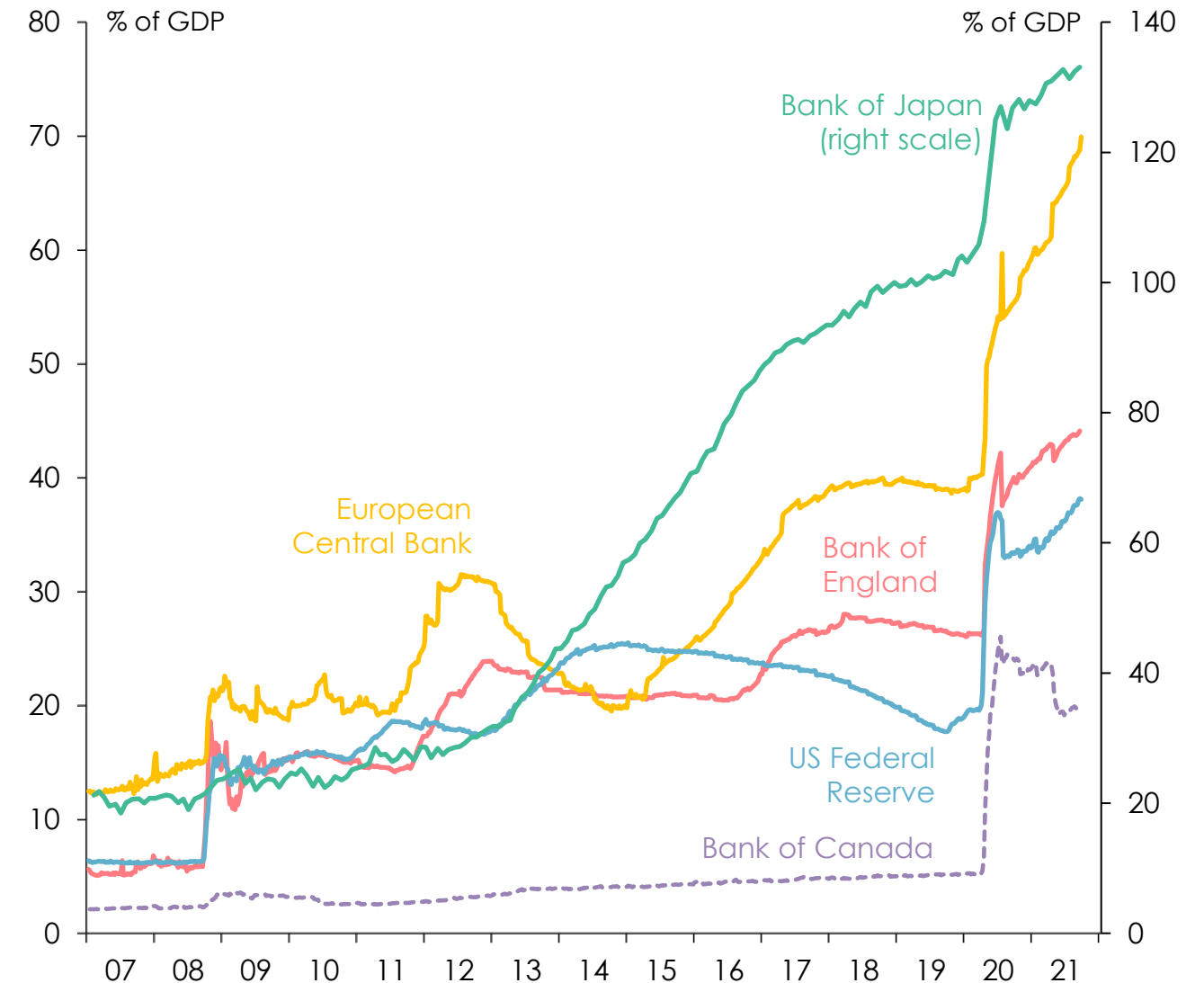
Note: China debt is gross debt, not net. Sources: International Monetary Fund, [Fiscal Monitor](#), and [World Economic Outlook](#), April 2021. [Return to "What's New"](#)

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

## Major central bank policy interest rates



## Major central bank balance sheets

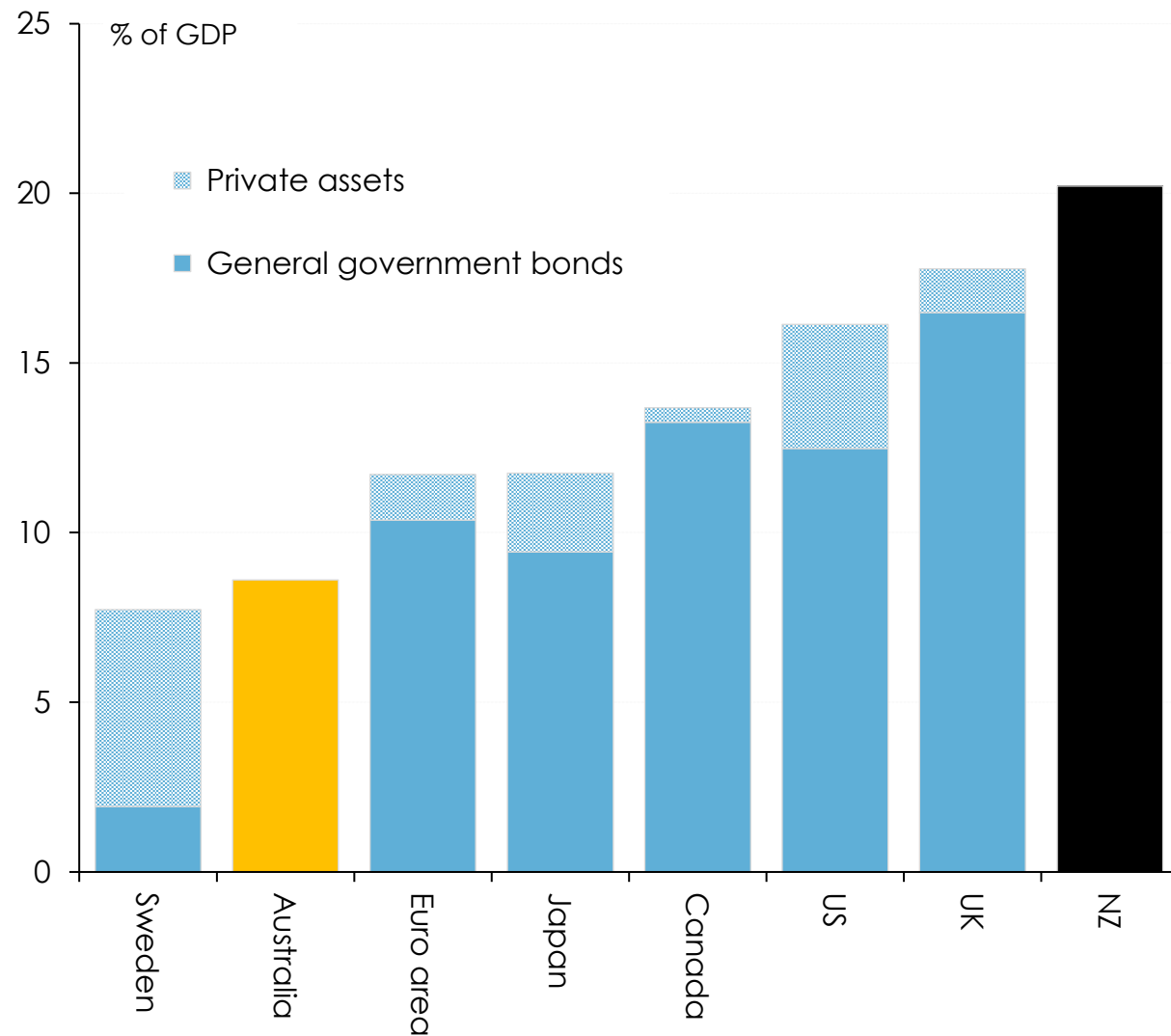


Note: estimates of central bank assets as a pc of GDP in Q2 2020 were inflated by the sharp drop in nominal GDP in that quarter: conversely, declines in estimates of central bank assets as a pc of GDP in Q3 2020 are in large part due to rebounds in nominal GDP. Sources: [US Federal Reserve](#); [European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

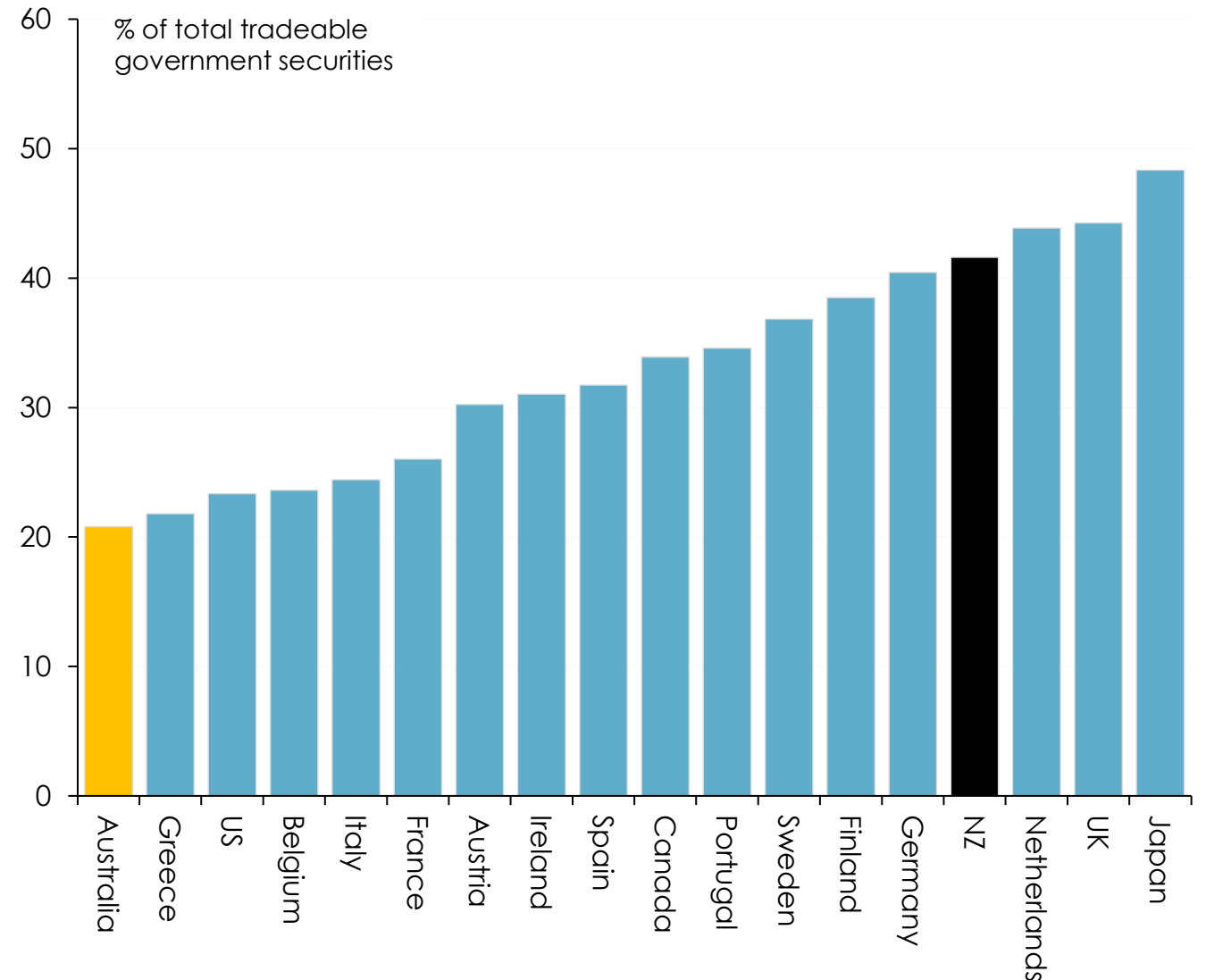


# The RBA's 'QE' program has been at the lower end of 'advanced economy' central banks' programs – the RBNZ's has been at the higher end

## Central bank asset purchases since end-2019



## Central bank holdings of government securities



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

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

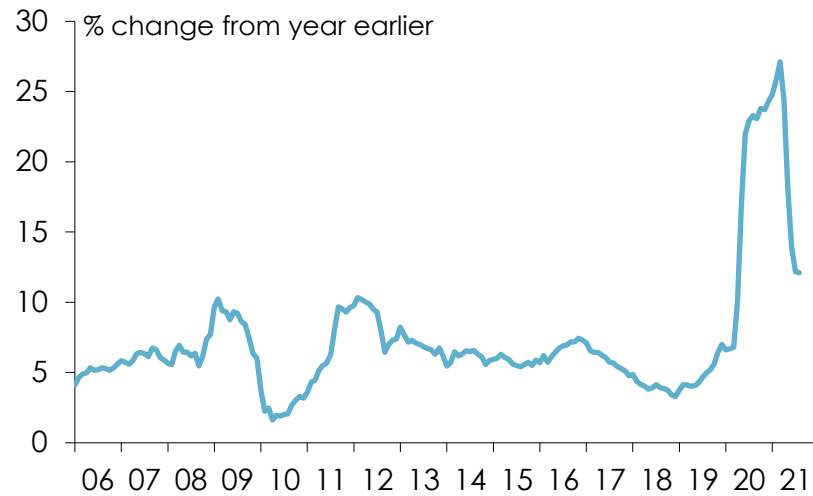


# Fed Chair Jay Powell confirmed that the Fed is likely to begin ‘tapering’ its asset purchases later this year but is a long way from raising interest rates

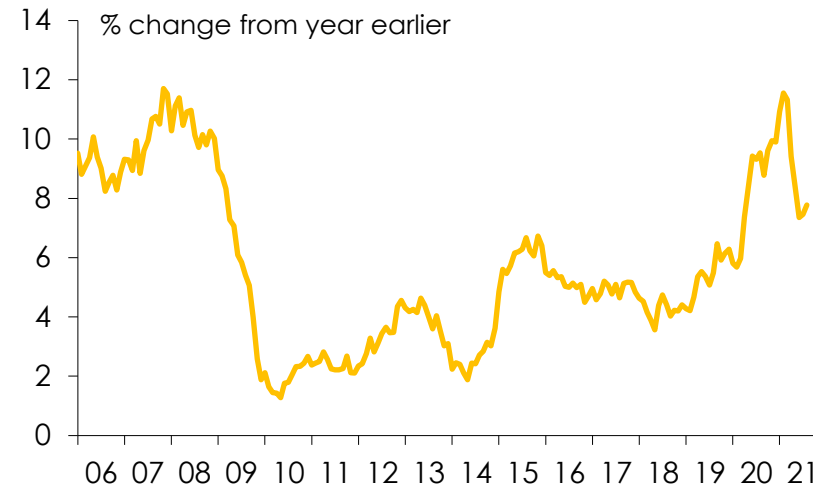
- ❑ Fed Chair Jay Powell’s [virtual address](#) to the annual Kansas City Fed Jackson Hole conference last weekend affirmed that, in his view, “substantial further progress” has been made towards the Fed’s price stability goal (of returning inflation to 2%) and “clear progress” has been made towards its maximum employment goal
  - as a result of which, if the economy continues “to evolve broadly as anticipated”, it “could be appropriate to start reducing the pace of asset purchases this year” (which was simply re-iterating what was recorded in the minutes of July’s FOMC meeting)
- ❑ Powell was however emphatic that “the timing and pace of the coming reduction in asset purchases will not be intended to carry a direct signal regarding the timing of interest rate lift-off”, for which the Fed has “articulated a different and substantially more stringent test”
  - he re-affirmed that the Fed wouldn’t start lifting its target for the fed funds rate “until the economy reaches conditions consistent with maximum employment, and inflation has reached 2% and is on track to moderately exceed 2% for some time”
  - in his view there is “much ground to cover to reach maximum employment”, and “time will tell” whether 2% inflation has been reached “on a sustainable basis”
- ❑ Powell went to some lengths to express confidence that the recent acceleration in inflation would prove transitory
  - emphasizing that the recent “spike” is “so far largely the product of a relatively narrow group of goods and services” – and that the Fed is “beginning to see a moderation” in some of these cases as shortages ease
  - a range of measures “meant to capture whether price increases for particular items are spilling over into broad-based inflation” (such as trimmed means) “generally show inflation at or close to” the Fed’s 2% objective
  - there is “little evidence of wage increases that might threaten excessive inflation”
  - longer-term inflation expectations “are at levels broadly consistent with” the Fed’s 2% objective
  - there is “little reason to think” that “underlying global disinflationary factors” have “suddenly reversed or abated”

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

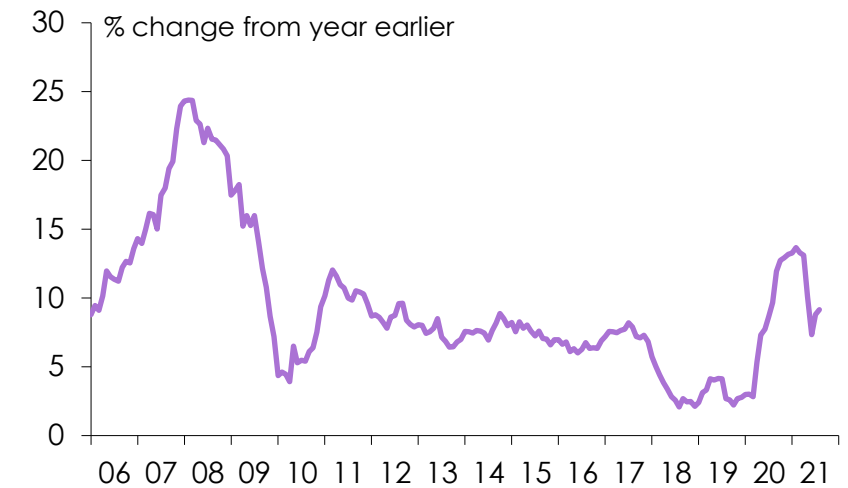
## US M2



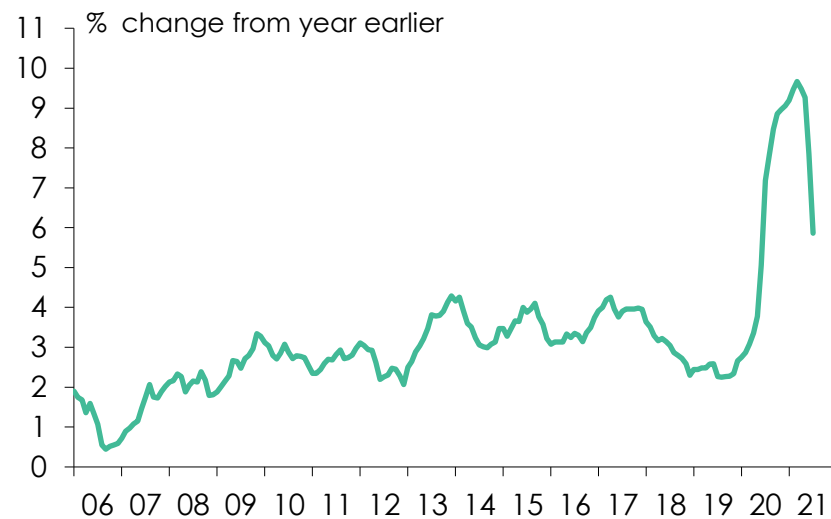
## Euro area M2



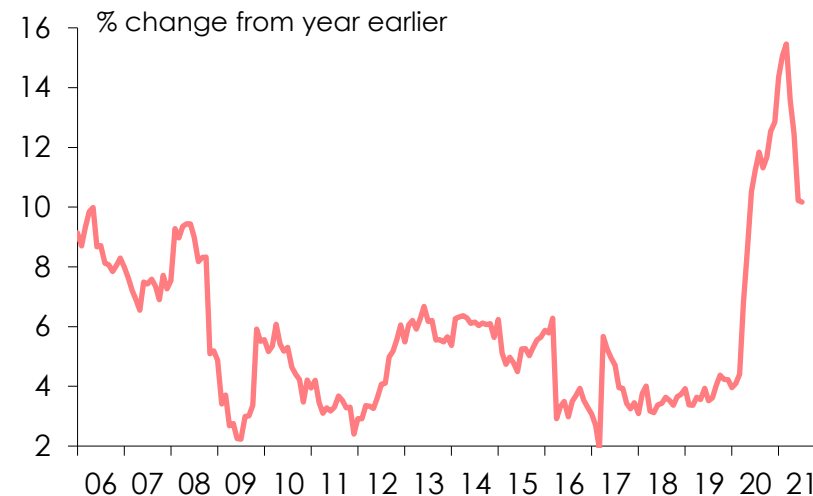
## Australia M3



## Japan M2 + CDs



## UK M2



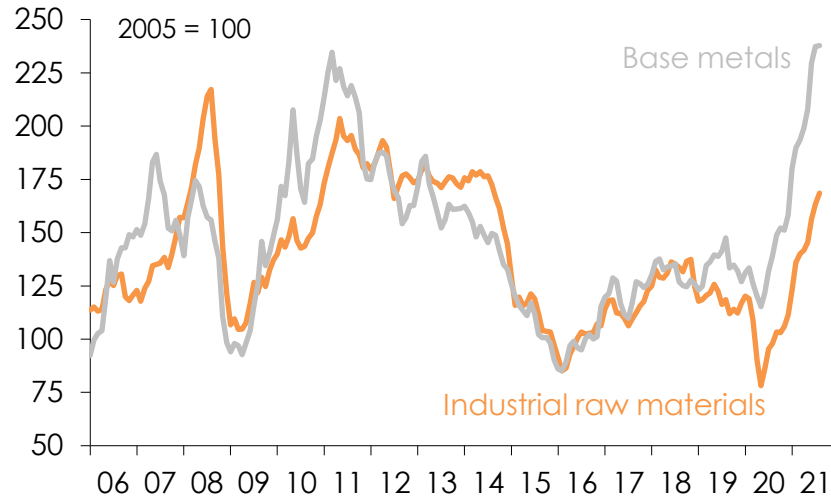
## New Zealand M3



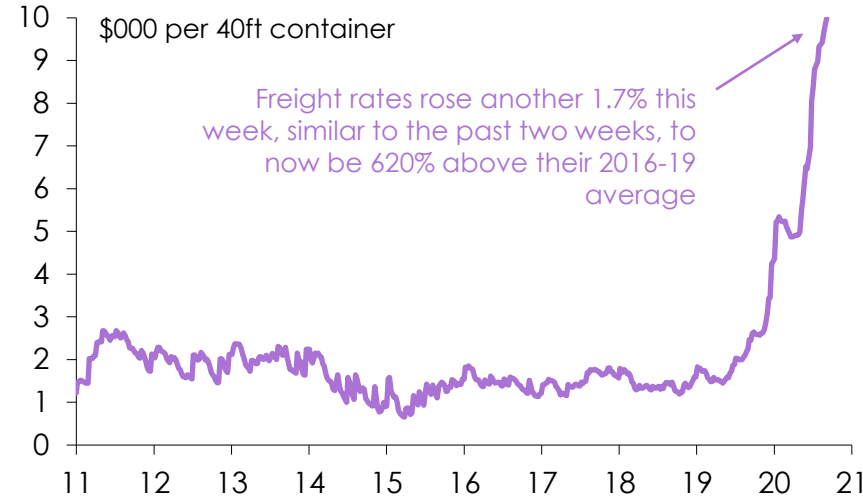
Sources: US Federal Reserve; European Central Bank; Bank of Japan; Bank of England; RBA; RBNZ. [Return to "What's New"](#).

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

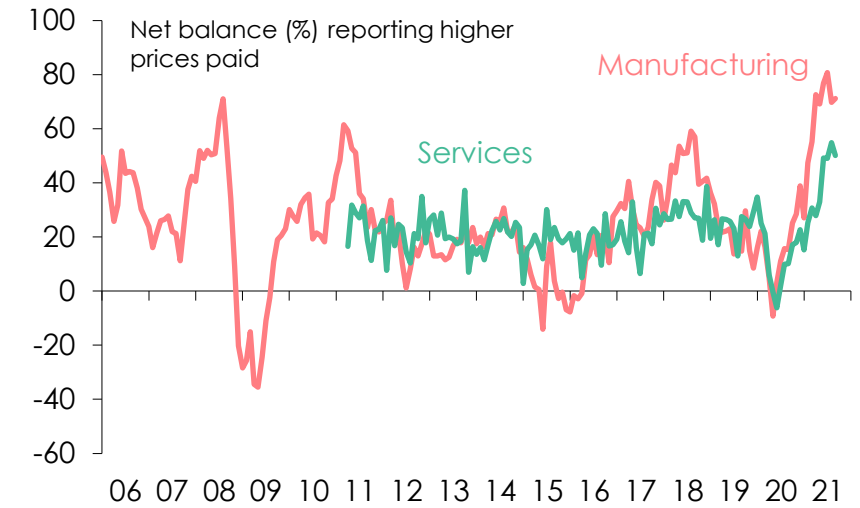
## 'Hard' commodity prices



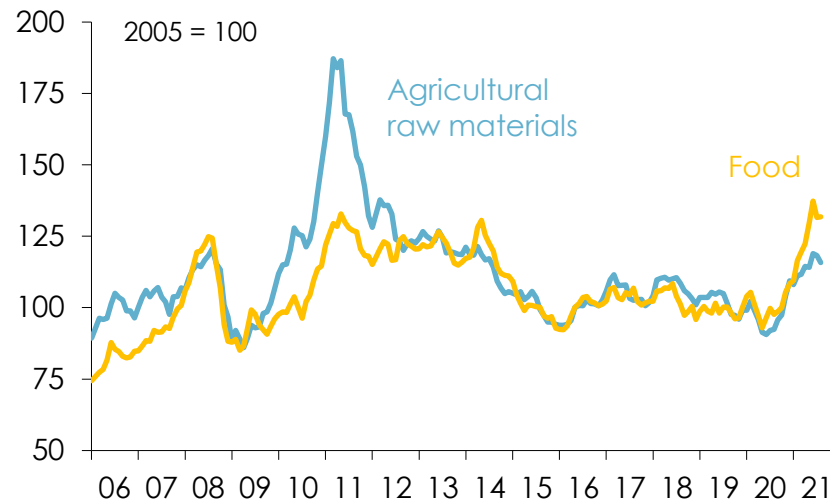
## Container freight costs



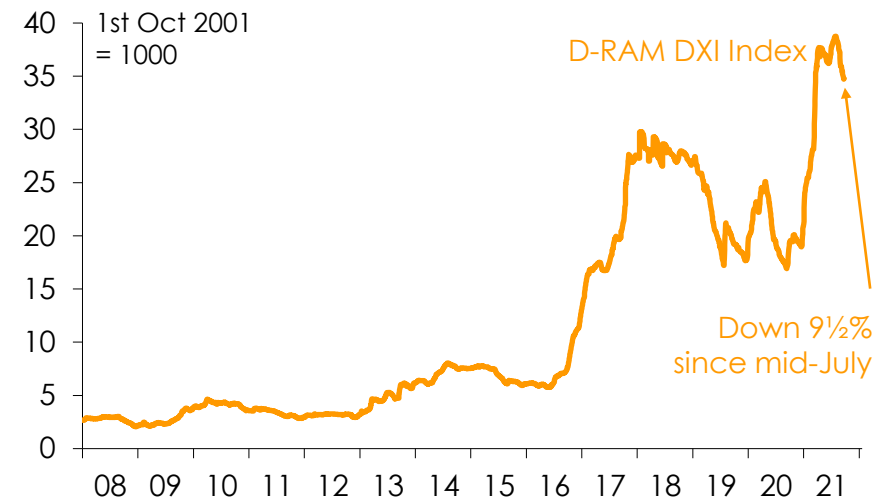
## Philly Fed survey – prices paid



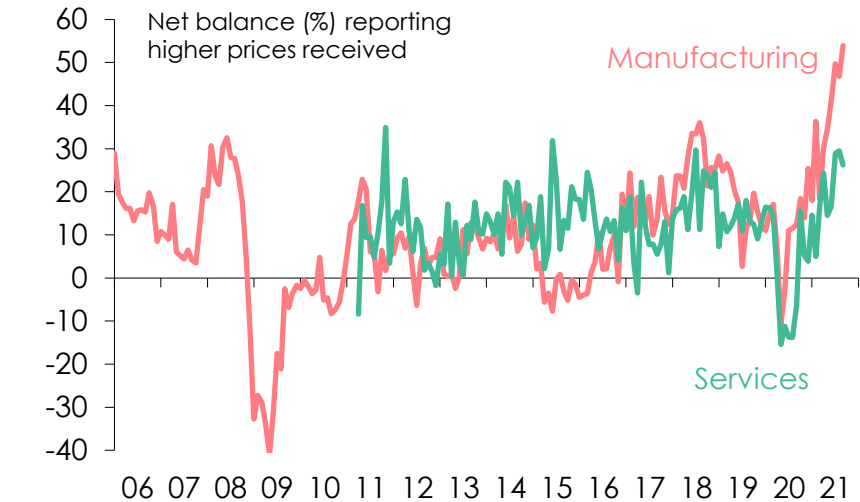
## 'Soft' commodity prices



## Semiconductor prices



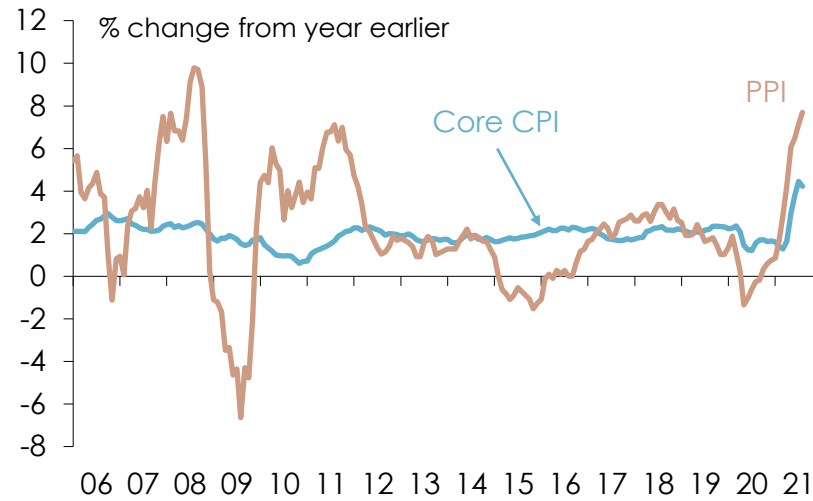
## Philly Fed survey – prices received



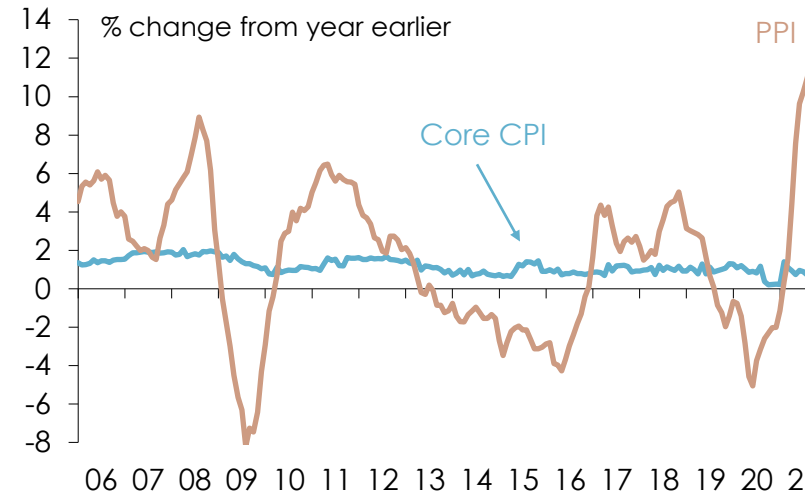
Sources: [International Monetary Fund](#); [Drewry Supply Chain Advisors](#); Refinitiv Datastream; [Federal Reserve Bank of Philadelphia](#); [Return to "What's New"](#).

# 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

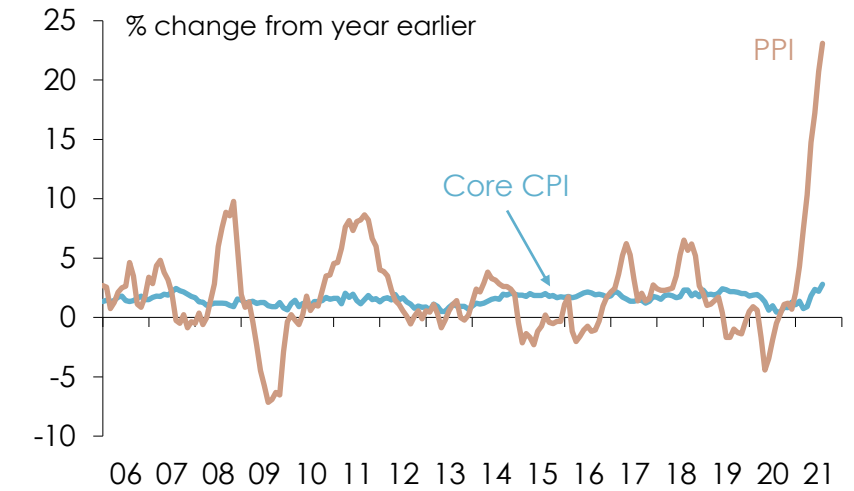
## United States



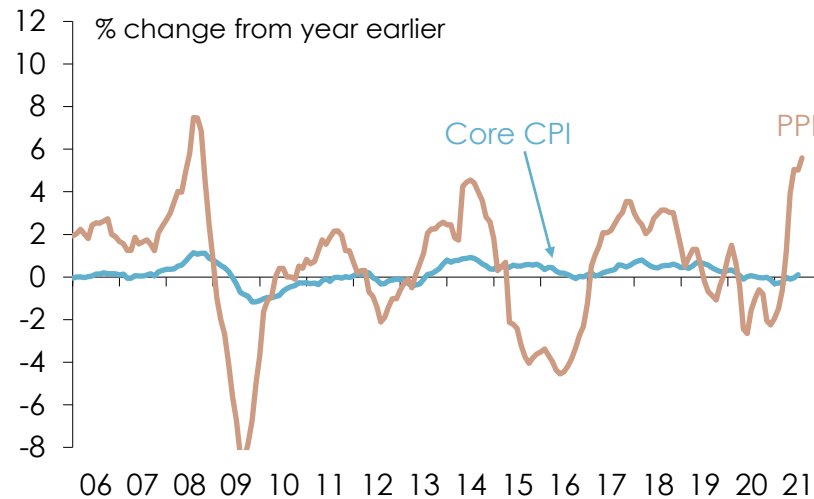
## Euro area



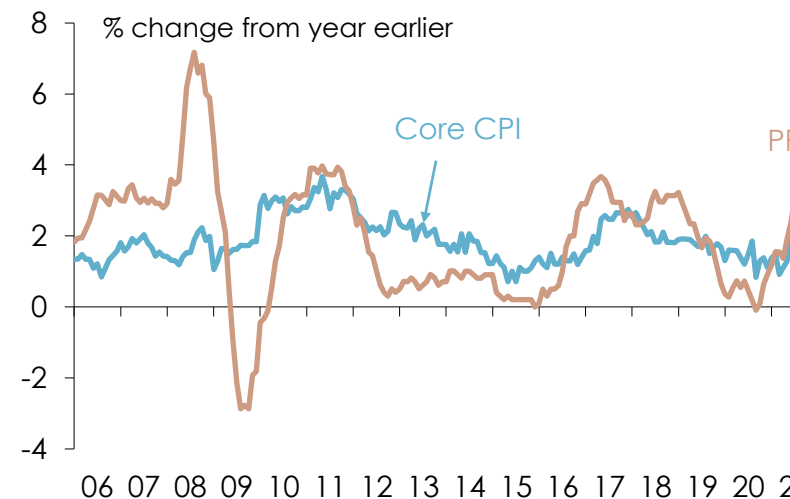
## Canada



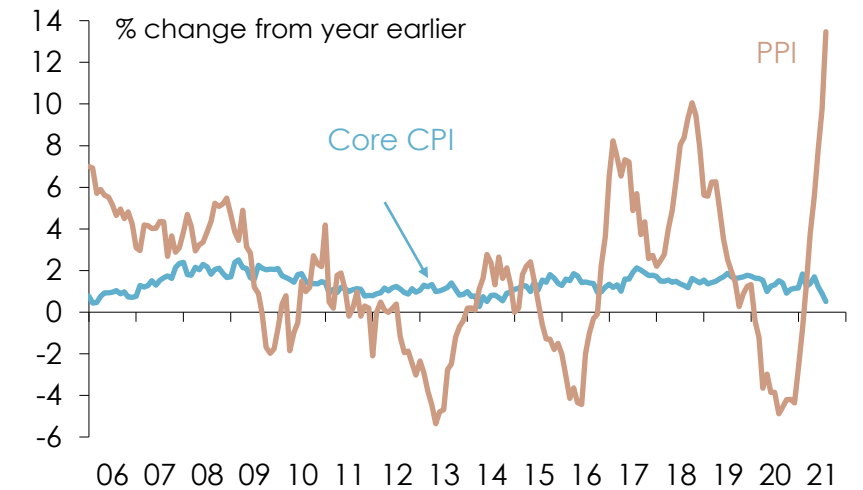
## Japan



## United Kingdom



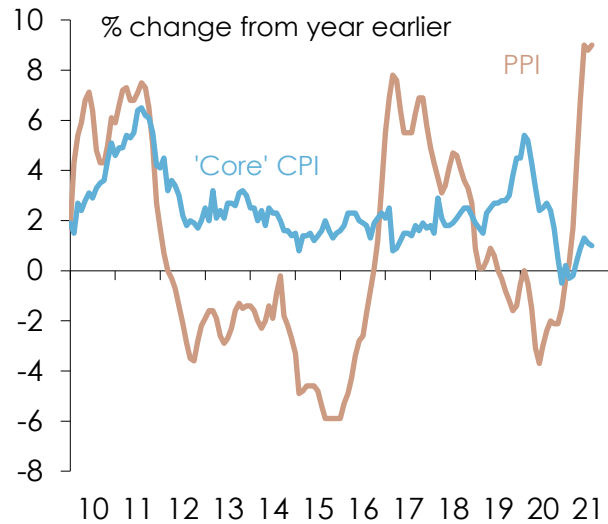
## Sweden



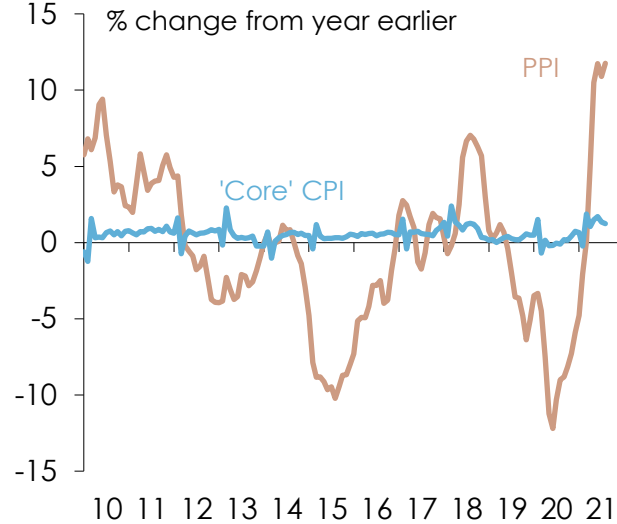
For a more detailed analysis of recent US inflation data see [slides 74-78](#). Sources: [US Bureau of Labor Statistics](#); [Statistics Bureau of Japan](#); [Eurostat](#); [UK Office for National Statistics](#); [Statistics Canada](#); [China National Bureau of Statistics](#); [Statistics Sweden](#). [Return to "What's New"](#).

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

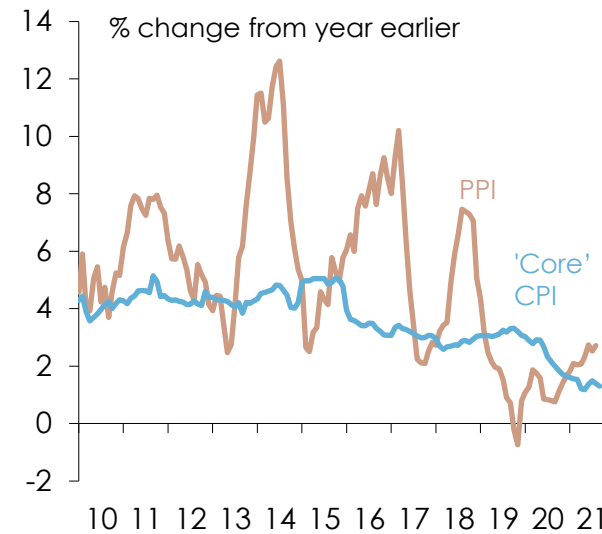
## China



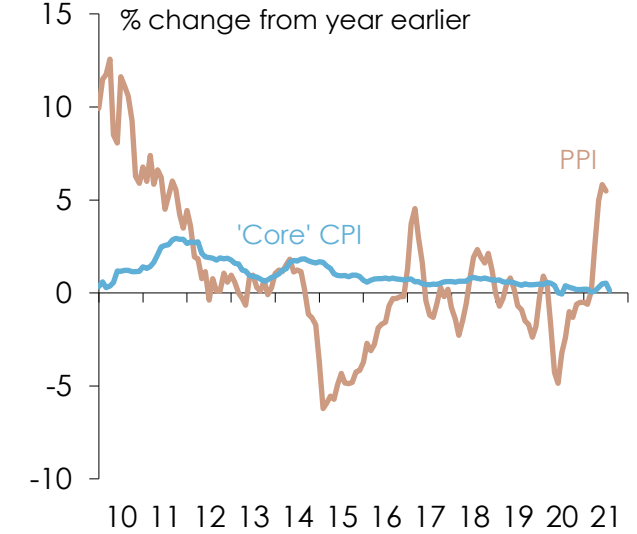
## Taiwan



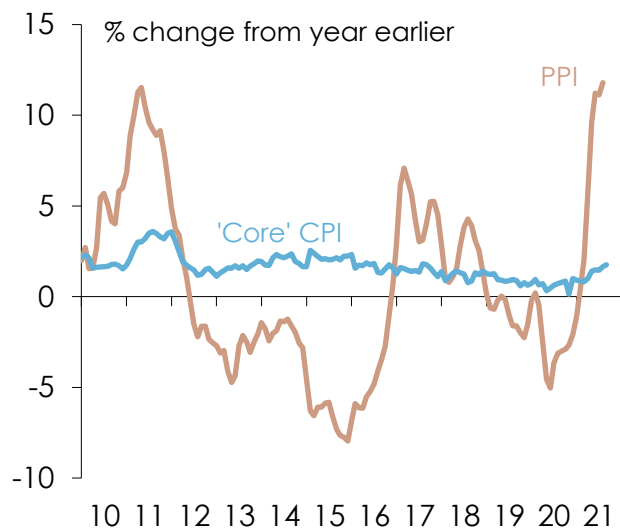
## Indonesia



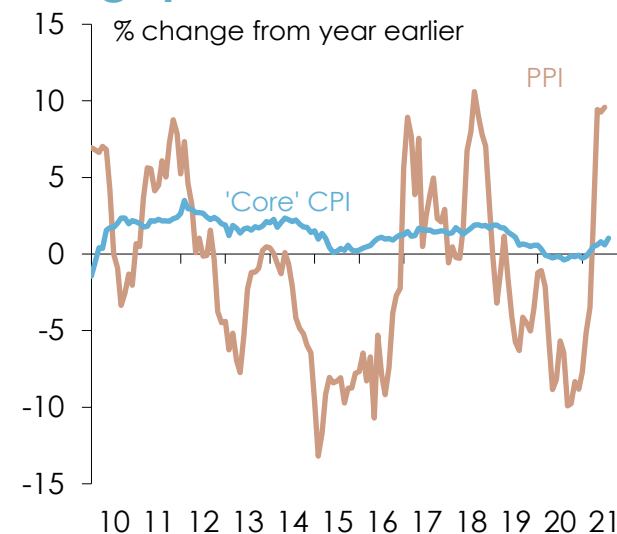
## Thailand



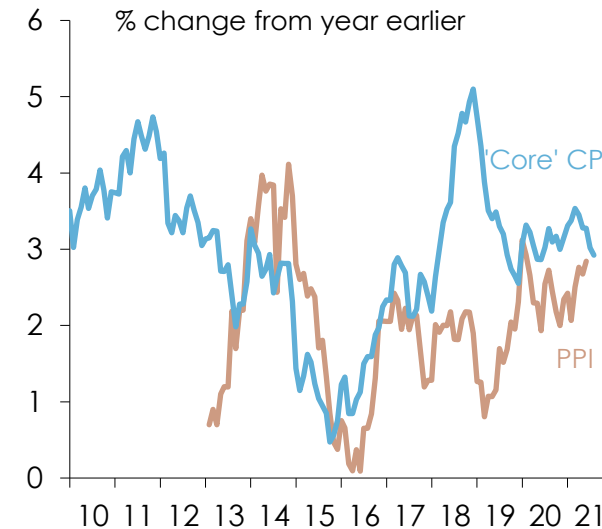
## Korea



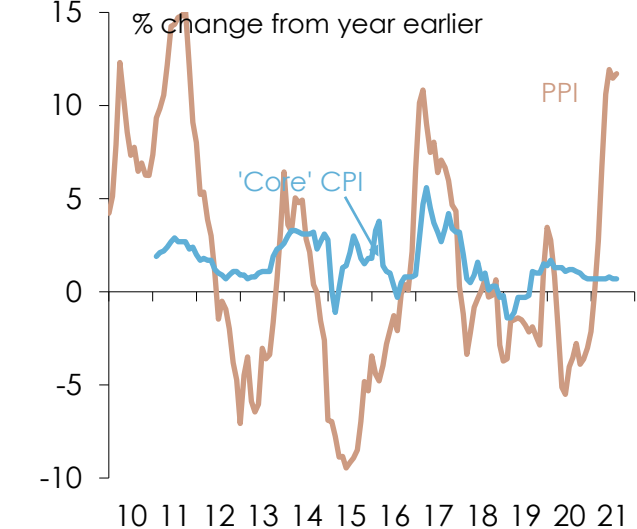
## Singapore



## Philippines



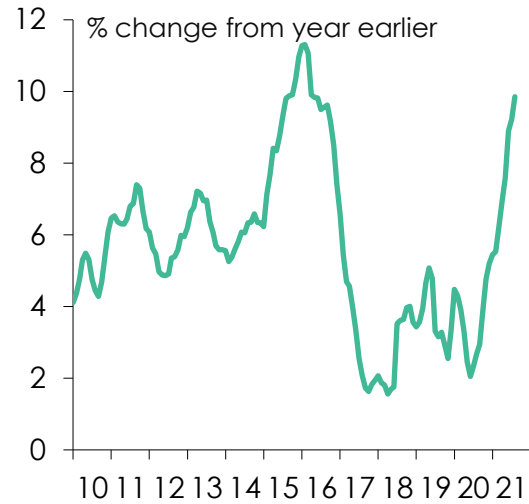
## Malaysia



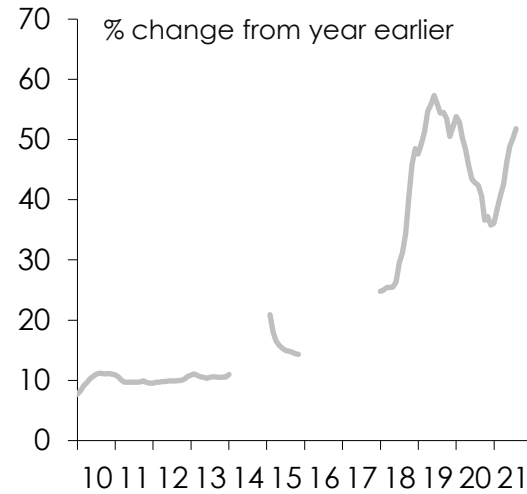
Note: 'Core' CPIs measure different things in different Asian economies – see footnotes to [slide 59](#). Sources: [China National Bureau of Statistics](#); [Statistics Korea](#); [Bank of Korea](#); [Taiwan Statistical Bureau](#); [Singstat](#); [Monetary Authority of Singapore](#); [Statistics Indonesia](#); [Philippine Statistics Authority](#); [Thailand Bureau of Trade and Economic Indices](#); [Department of Statistics Malaysia](#). [Return to "What's New"](#).

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

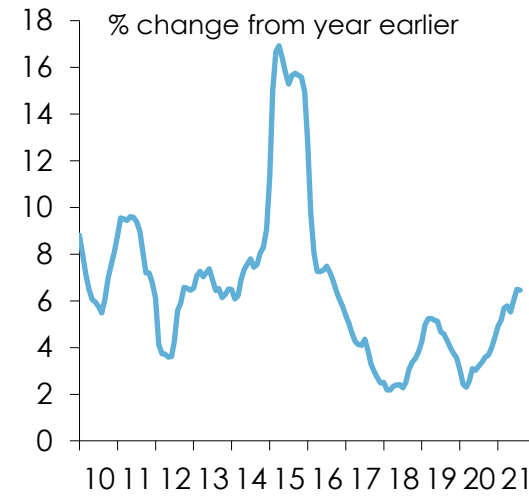
Brazil



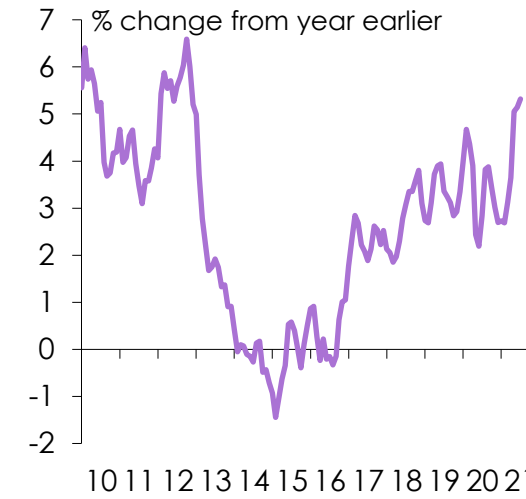
Argentina



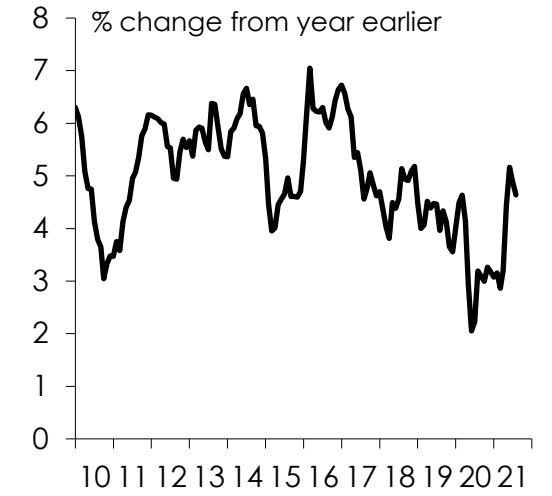
Russia



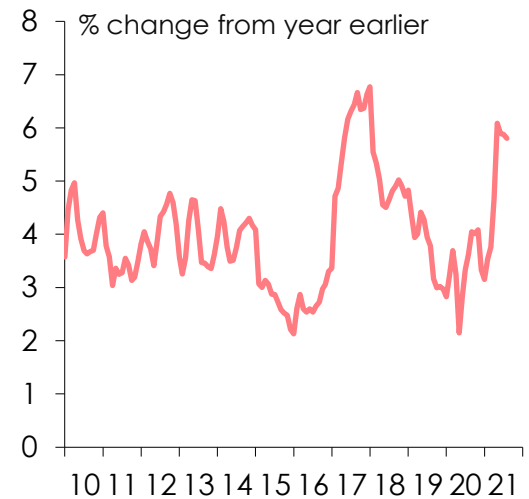
Hungary



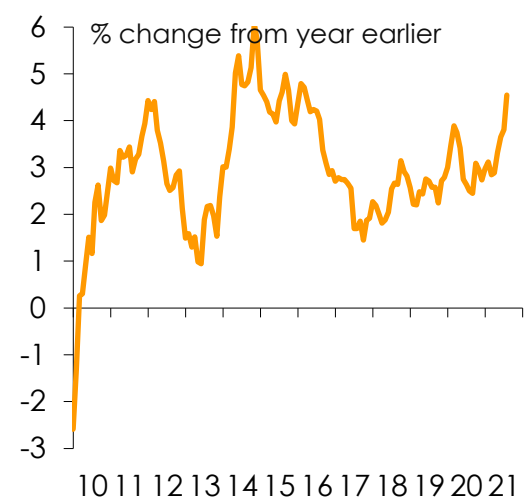
South Africa



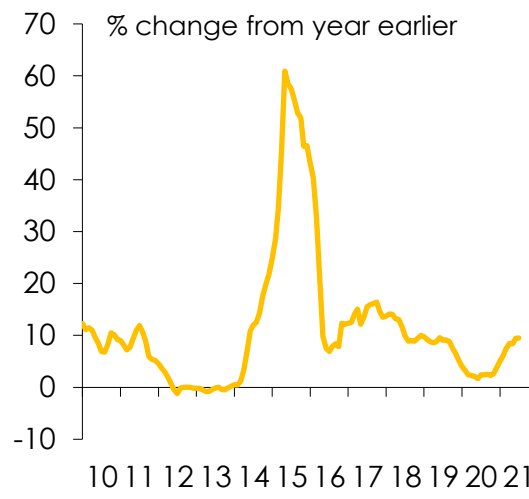
Mexico



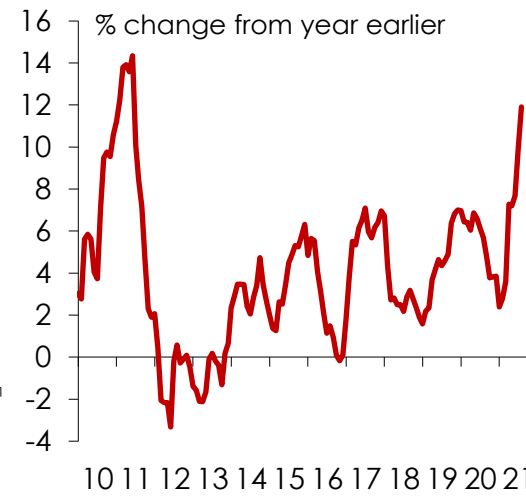
Chile



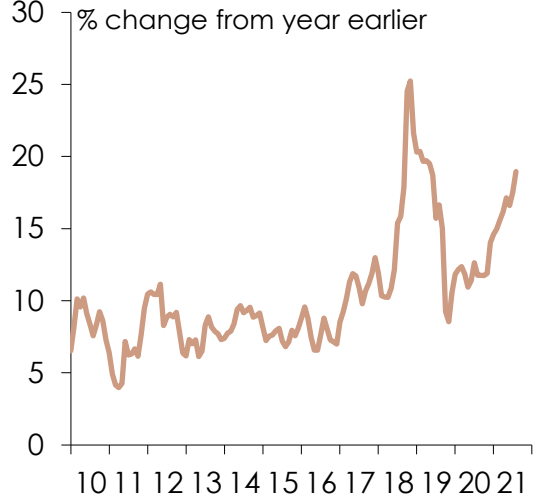
Ukraine



Georgia



Turkey

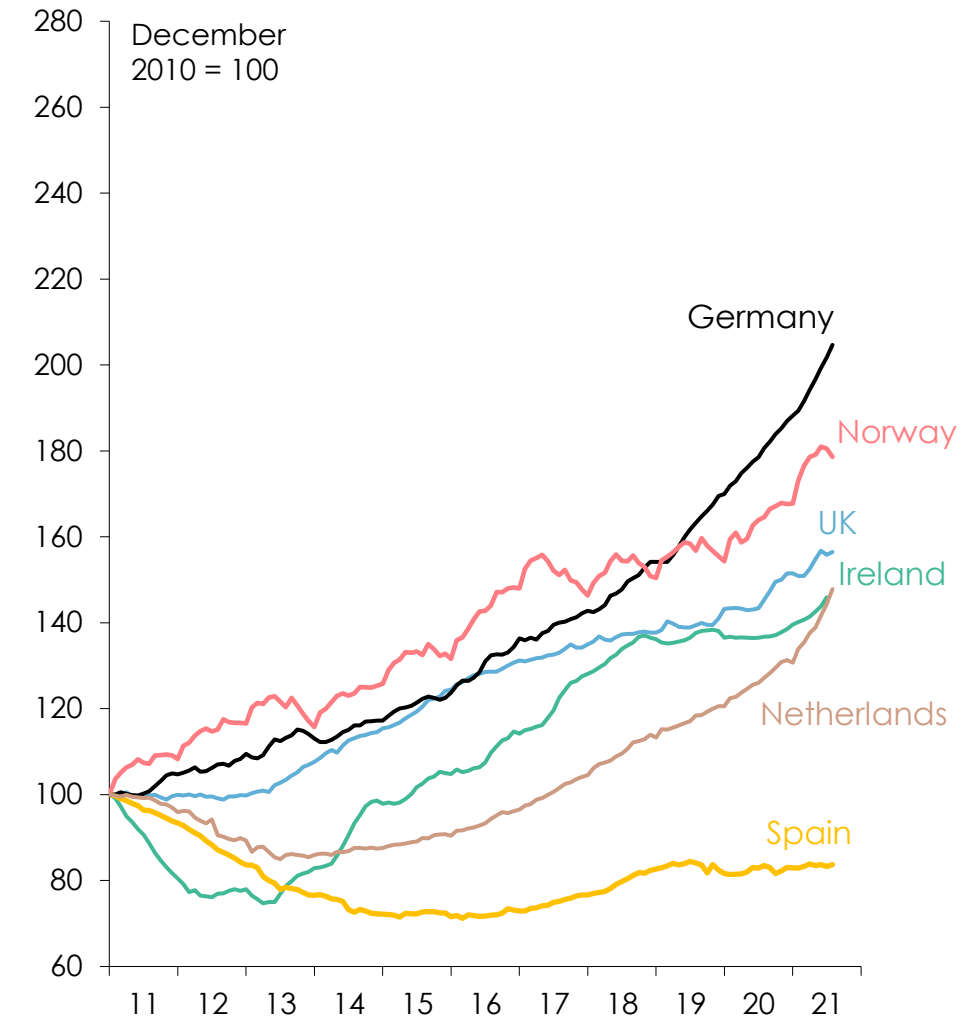
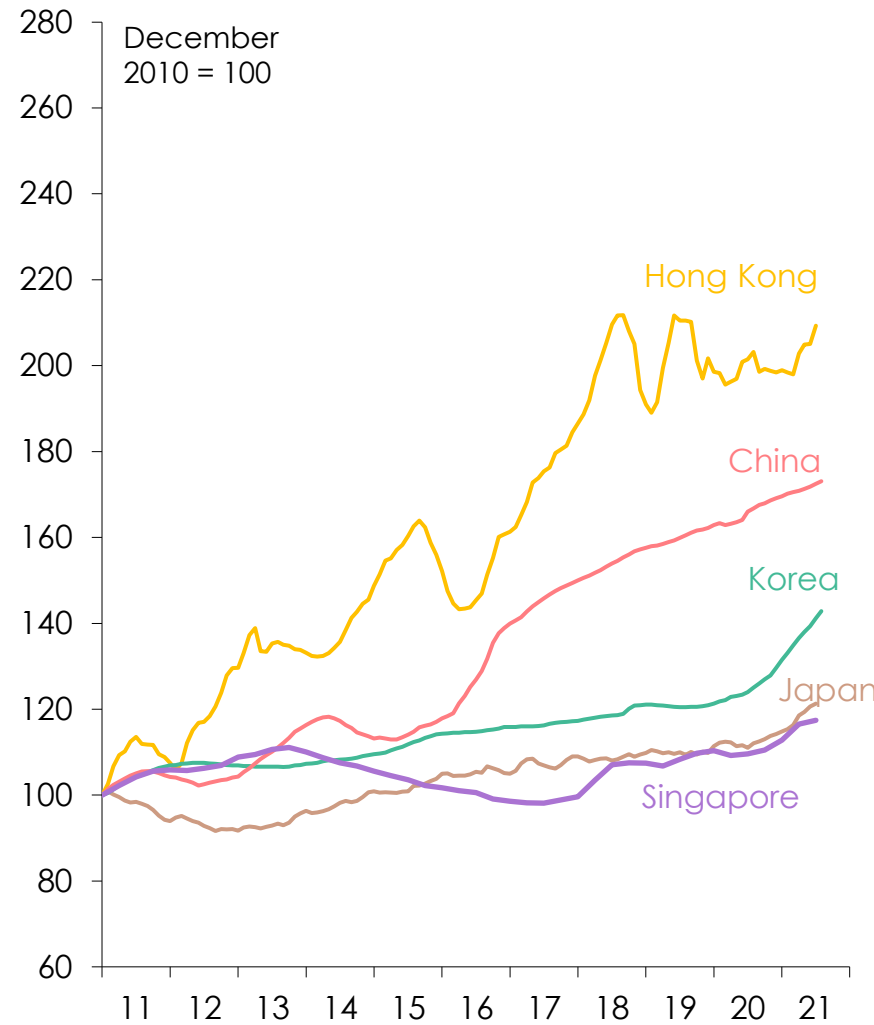
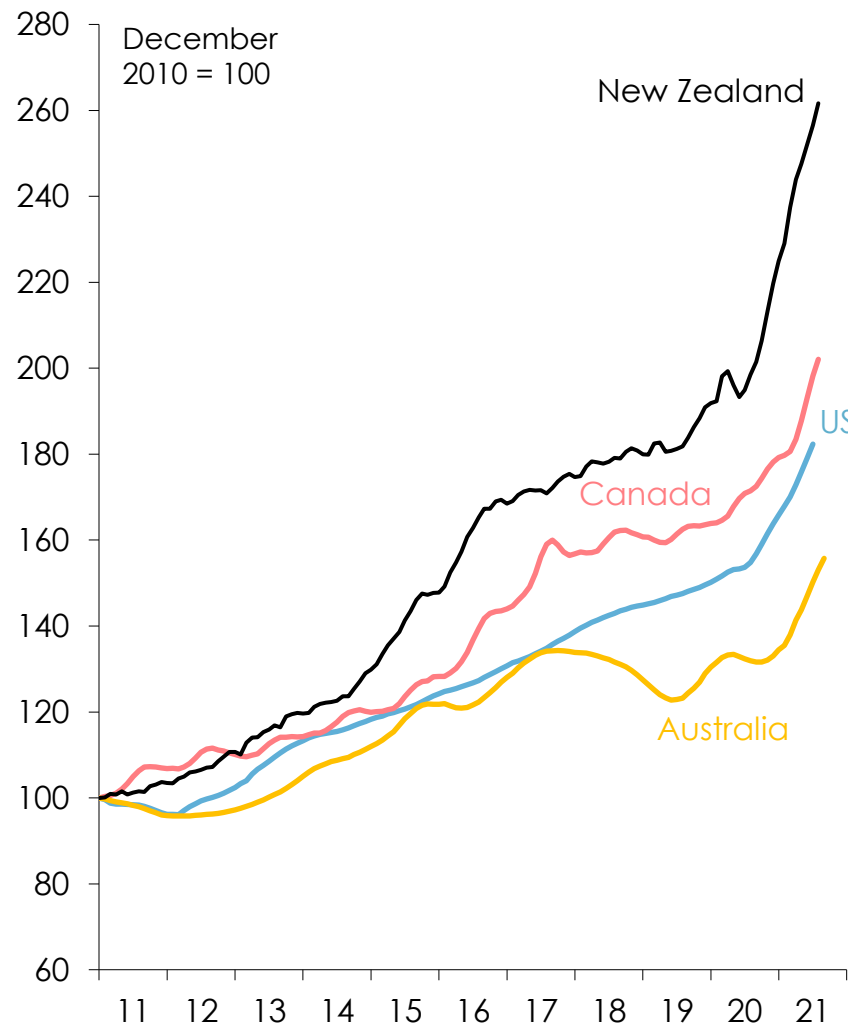


Sources: [Instituto Brasileiro de Geografia e Estatística](#); [Instituto Nacional de Estadística y Geografía](#) (Mexico); [Instituto Nacional de Estadística y Censos](#) (Argentina); [Instituto Nacional de Estadística e Informática](#) (Peru); [Rosstat](#); [Ukrstat](#); [Központi Statisztikai Hivatal](#)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



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

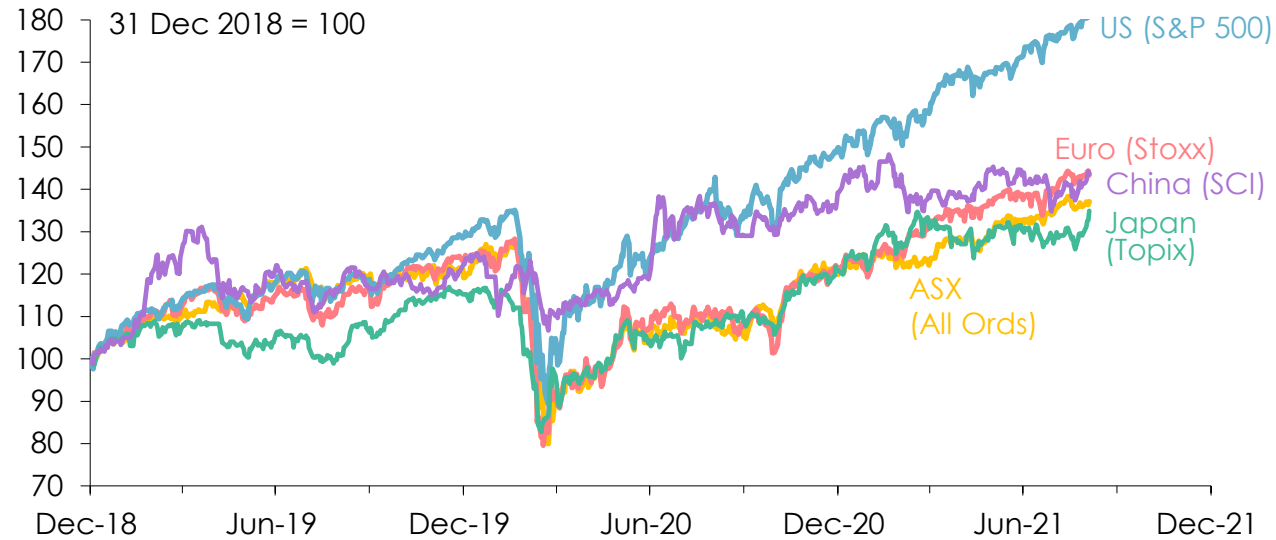
## House price indices



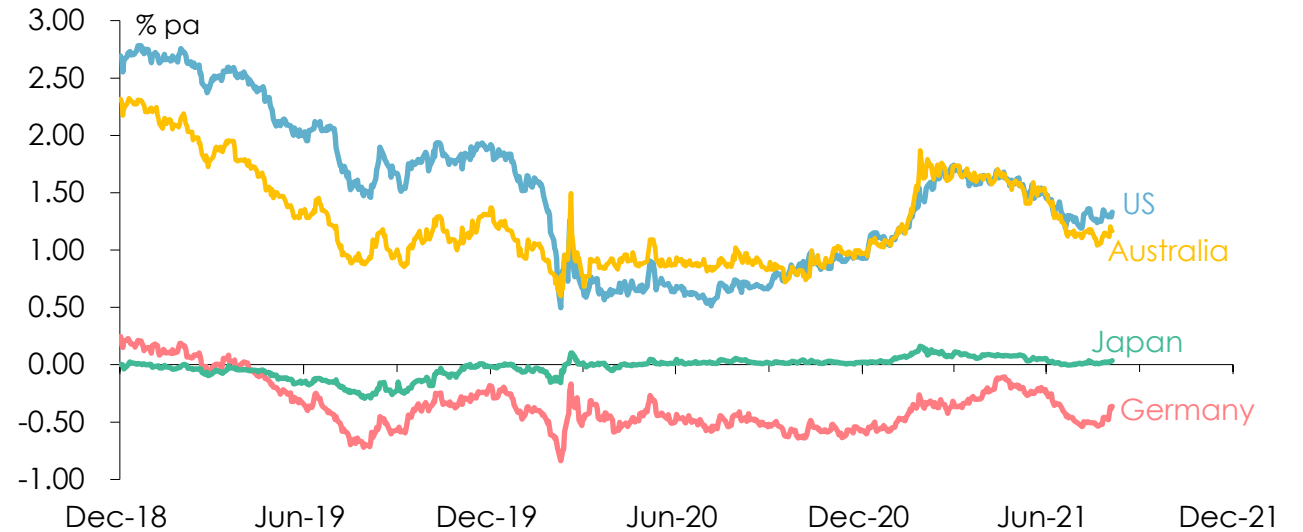
Note: House price indices shown in these charts are those published by [S&P-CoreLogic Case Shiller national](#) (United States); [Teranet-National Bank](#) (Canada); [CoreLogic](#) (Australia); [Real Estate Institute of New Zealand](#); [China Index Academy](#); [Japan Real Estate Institute](#) (Tokyo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

# The US\$ fell after Friday's soft jobs report, but (surprisingly) bond yields rose, as did stocks (especially in Japan after PM Suga said he would stand down)

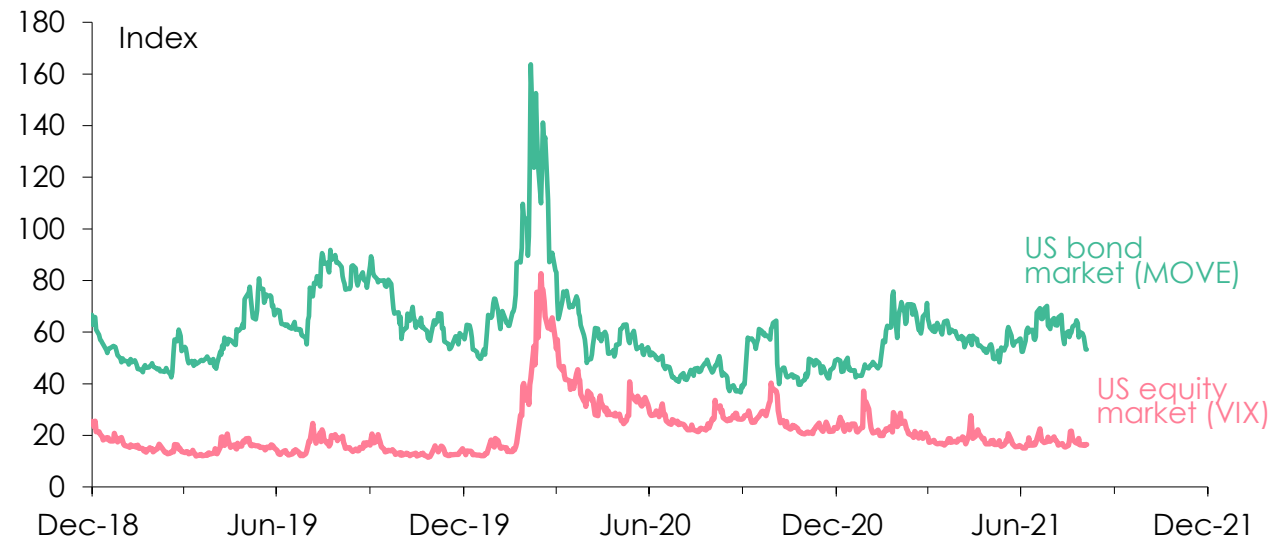
## Stock markets



## 10-year bond yields



## Measures of market volatility



## US dollar vs euro and yen

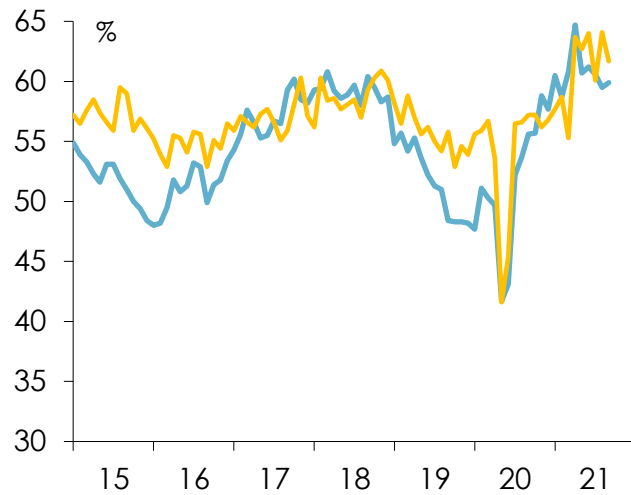


Source: Refinitiv Datastream. Data up to 3<sup>rd</sup> September. [Return to "What's New"](#).

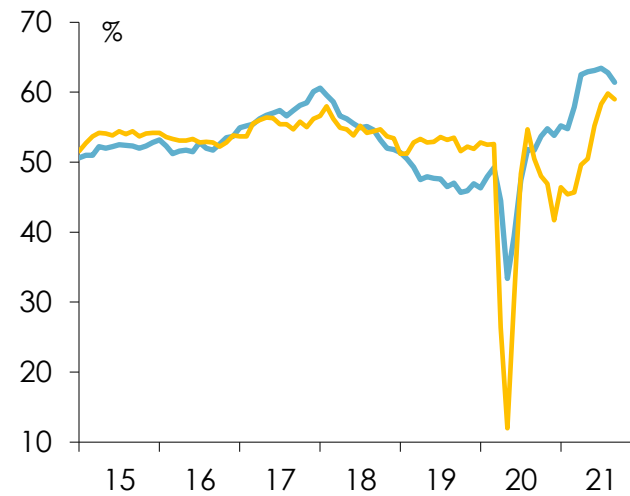


# August PMIs show some softening in manufacturing in most economies but still at above-average levels – and a noticeable slowing in China

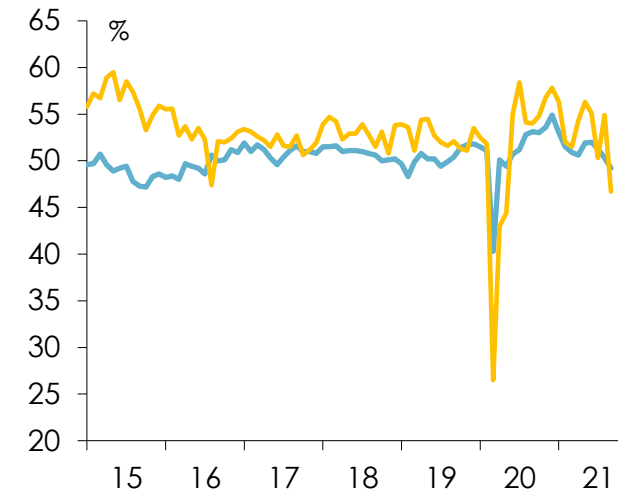
## US



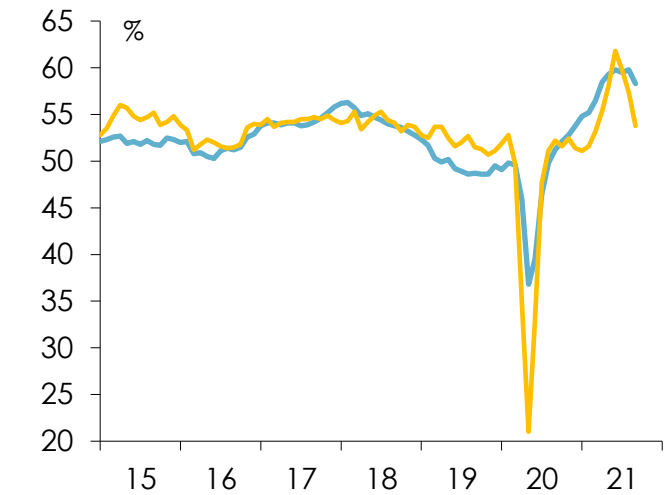
## Euro area



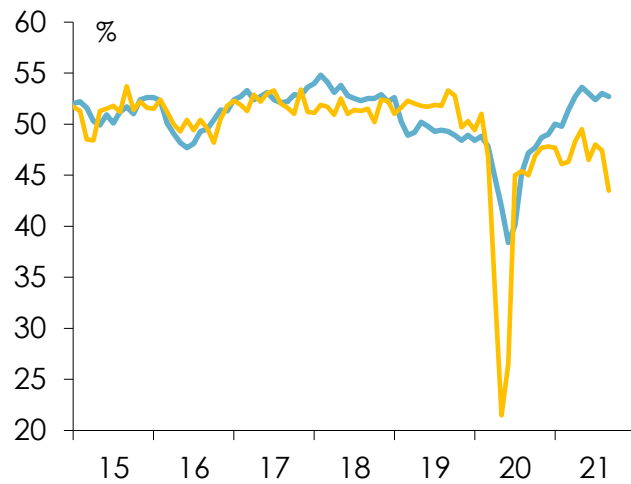
## China



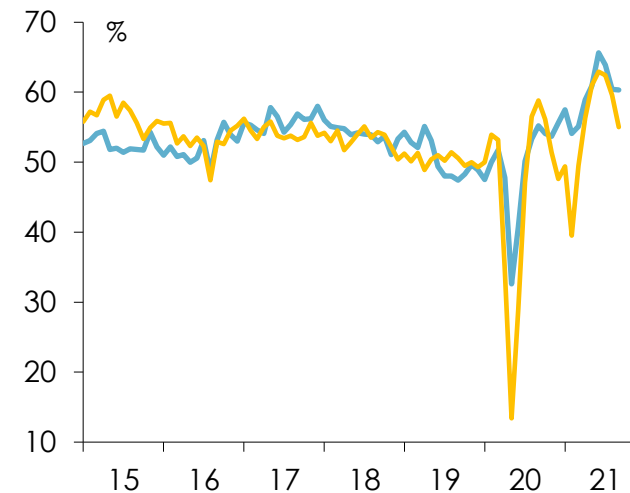
## Developed markets



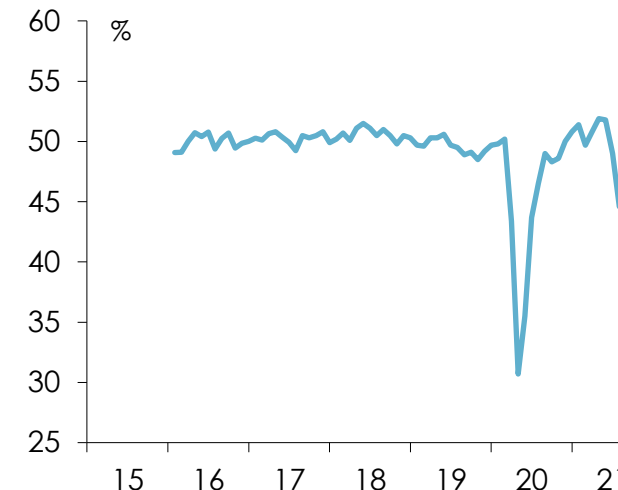
## Japan



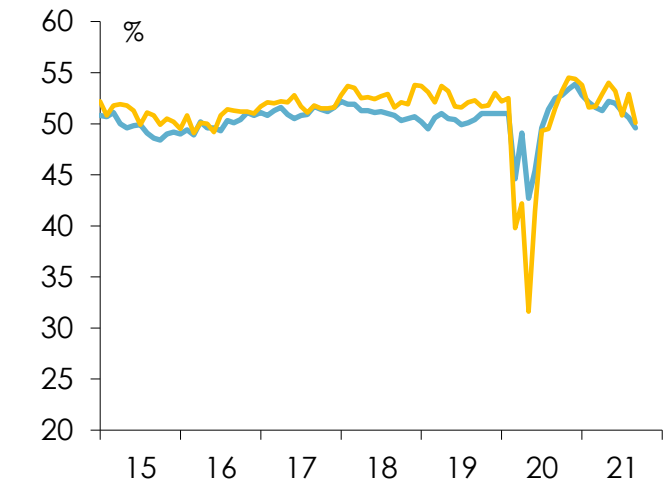
## UK



## ASEAN



## Emerging markets



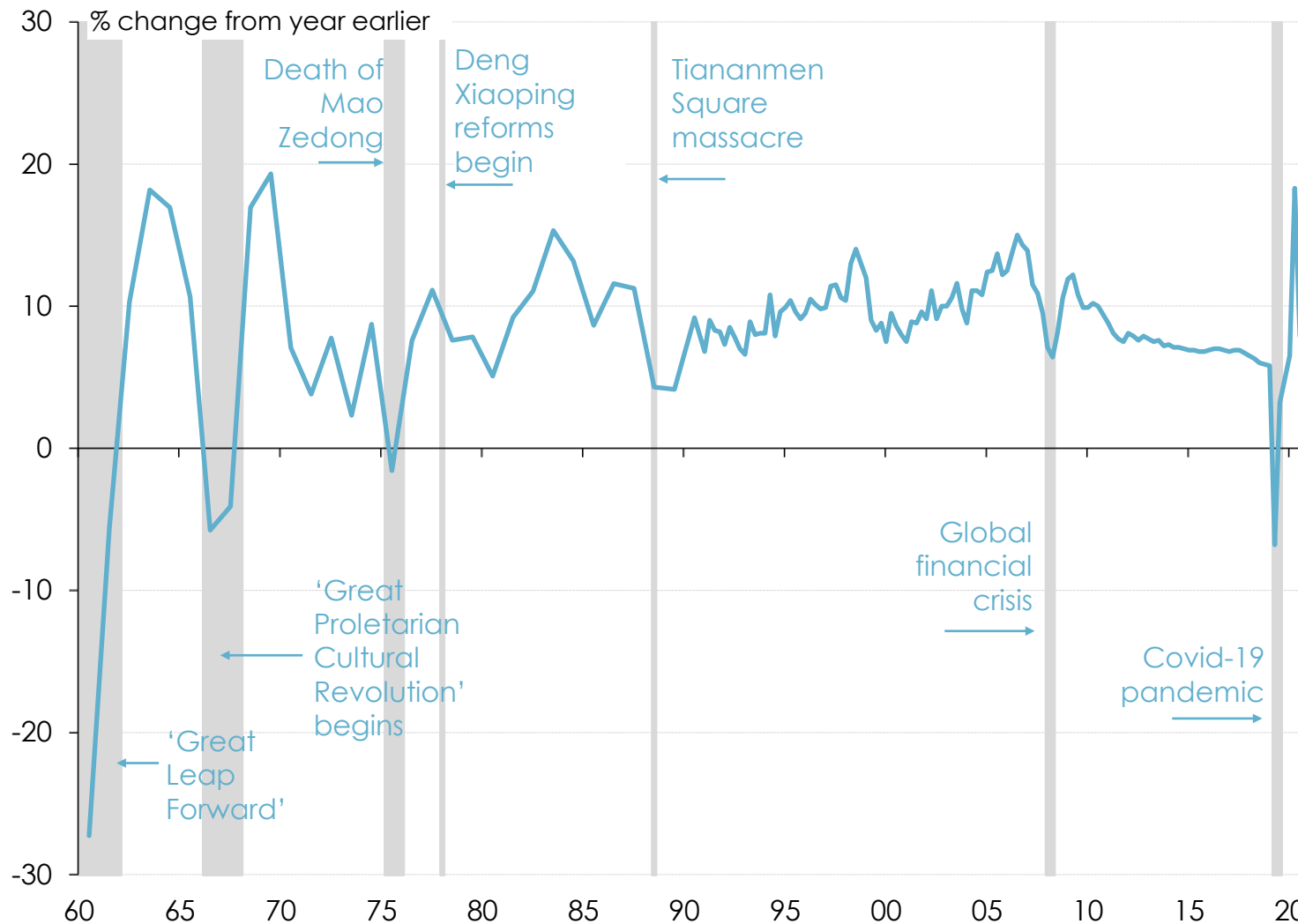
— Manufacturing

— Services

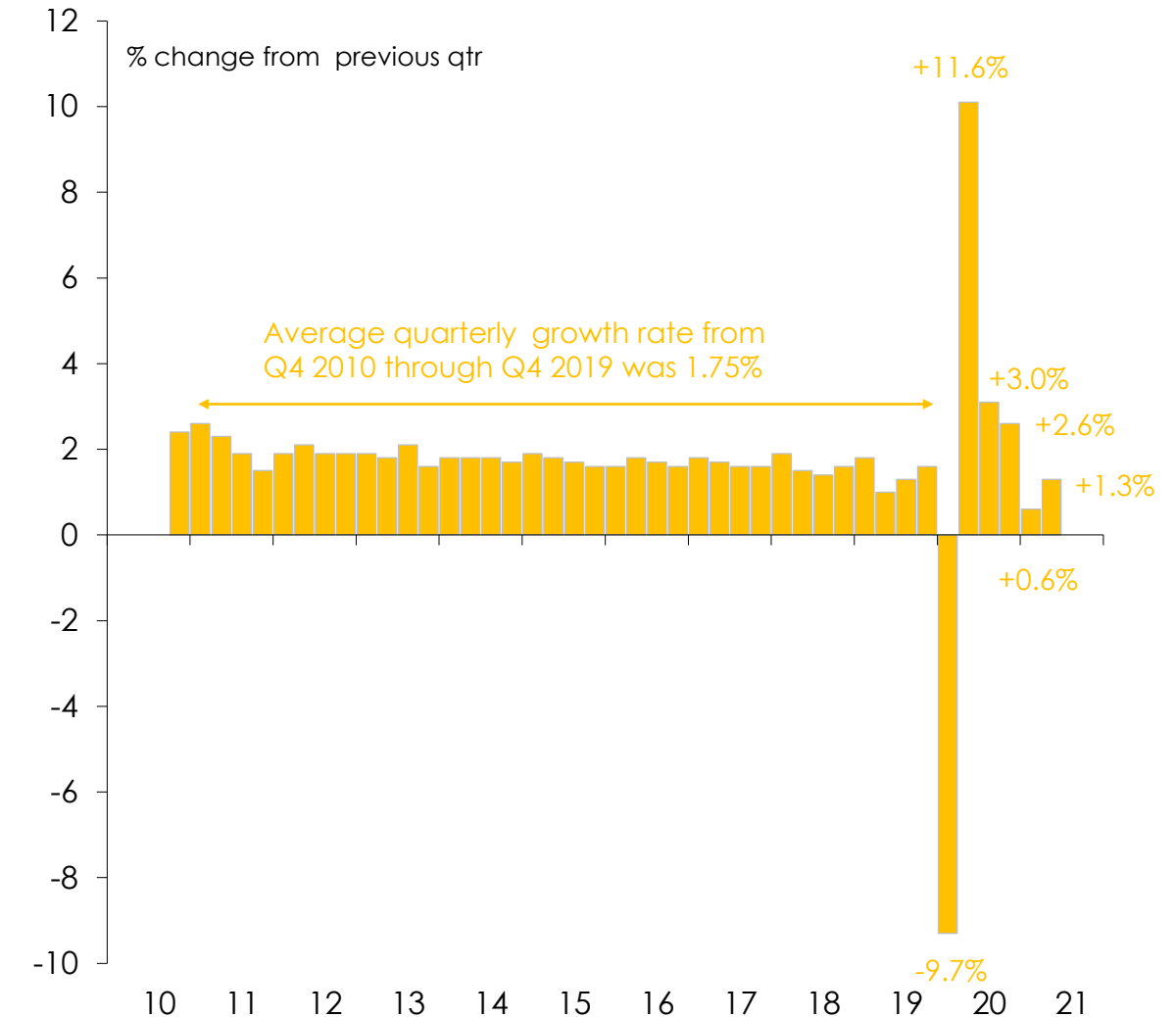
Note: Purchasing Managers' Indexes (PMIs) are derived from surveys of senior executives, who are asked to report whether various dimensions of business activity recorded an increase, decrease or no change compared with the previous month. A reading of 50 indicates an overall increase cf. the previous month, and a reading of less than 50 indicates a decrease. Latest data for Japan, the euro area and UK are 'flash' August; all others are July. See also PMIs for other Asia-Pacific economies on [slide 58](#). Sources: [US Institute for Supply Management](#); [IHS Markit](#); JP Morgan; [Caixin](#); Refinitiv Datastream. [Return to "What's New"](#).

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

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



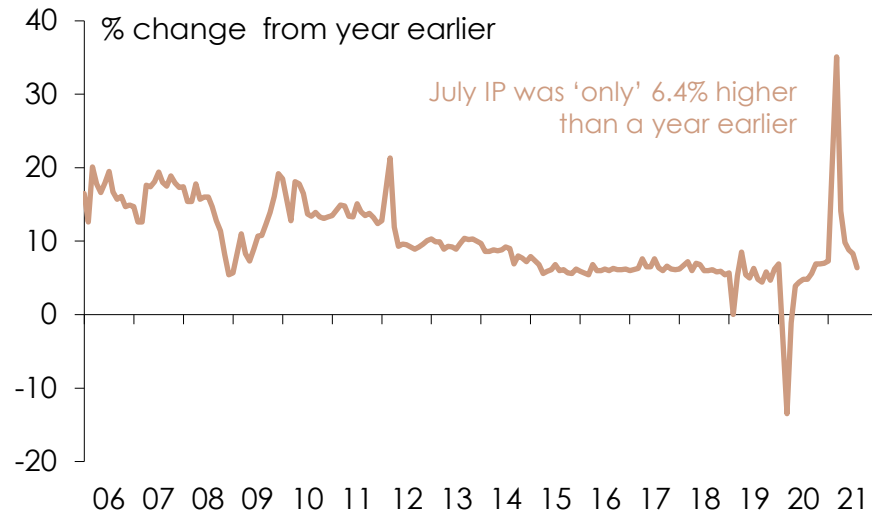
## Quarterly real GDP growth, 2010-2020



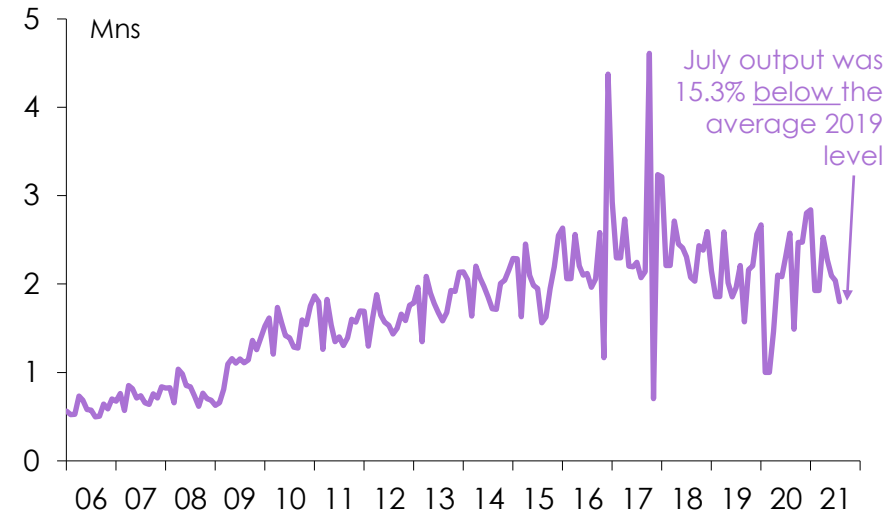
Note: In the left-hand chart, GDP growth rates are annual averages up to the December quarter of 1991, and then quarter-on-corresponding-quarter-of- previous-year thereafter. Source: [China National Bureau of Statistics](#). [Return to "What's New"](#).

# China's growth slowed further in July, partly due to floods in Henan, and the spread of the delta variant – but underlying momentum is also slowing

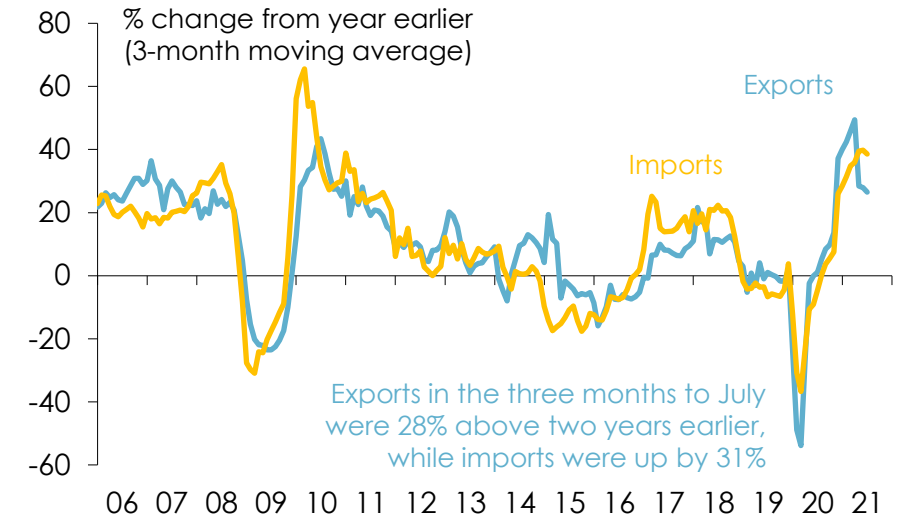
## Industrial production



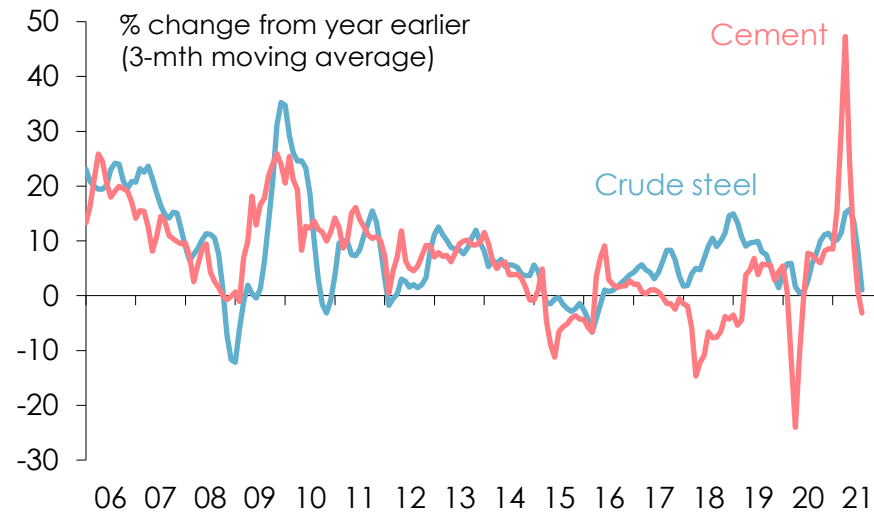
## Motor vehicle production



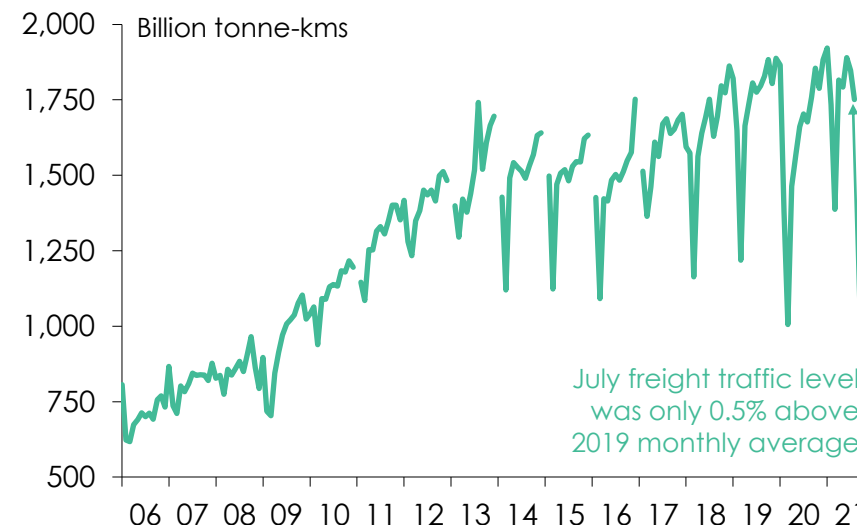
## Merchandise trade



## Steel and cement production



## Freight traffic volumes



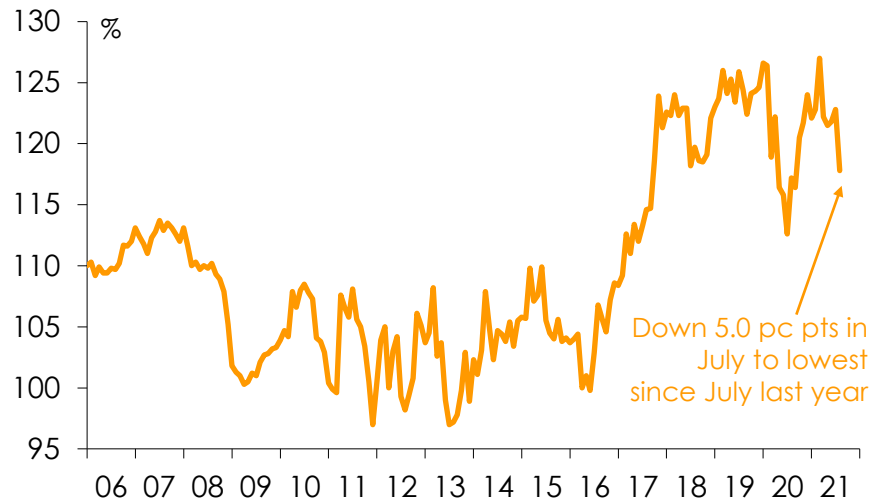
## Merchandise trade balance



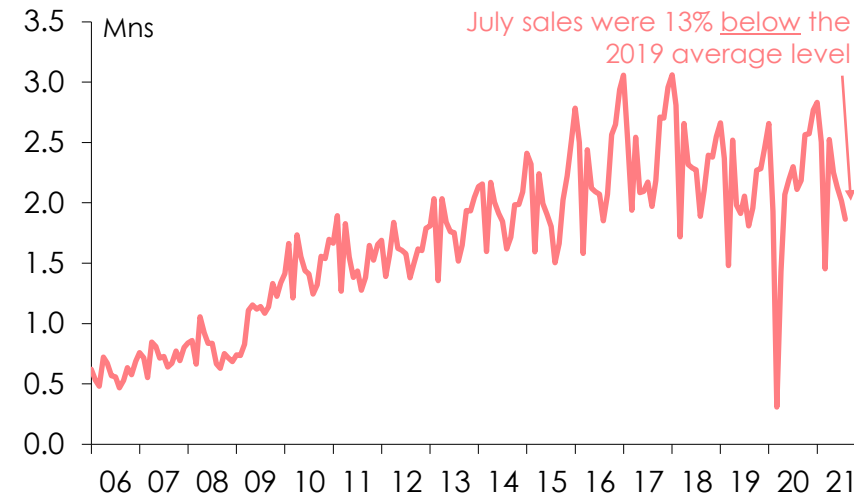
Note: Latest data are for July. Sources: [China National Bureau of Statistics](#); [China Association of Automobile Manufacturers](#); [China General Administration of Customs](#).  
[Return to "What's New"](#).

# Most measures of consumer spending and of property market activity also continued to soften through July

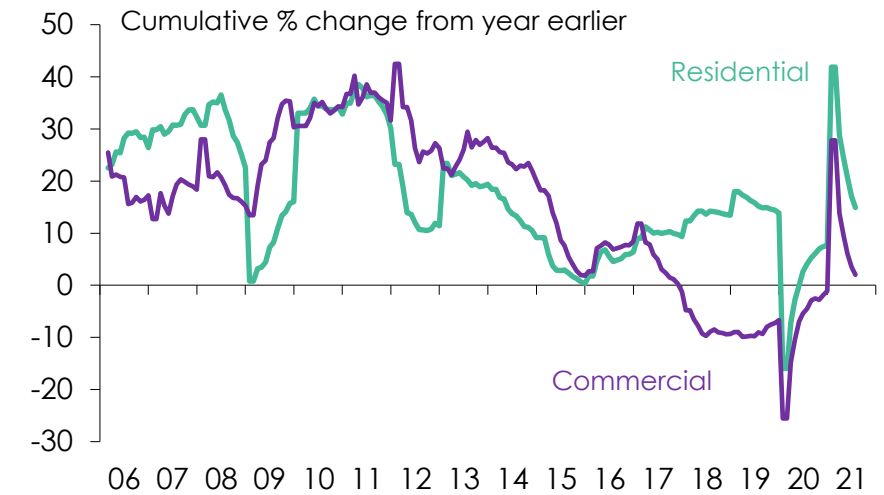
## Consumer sentiment



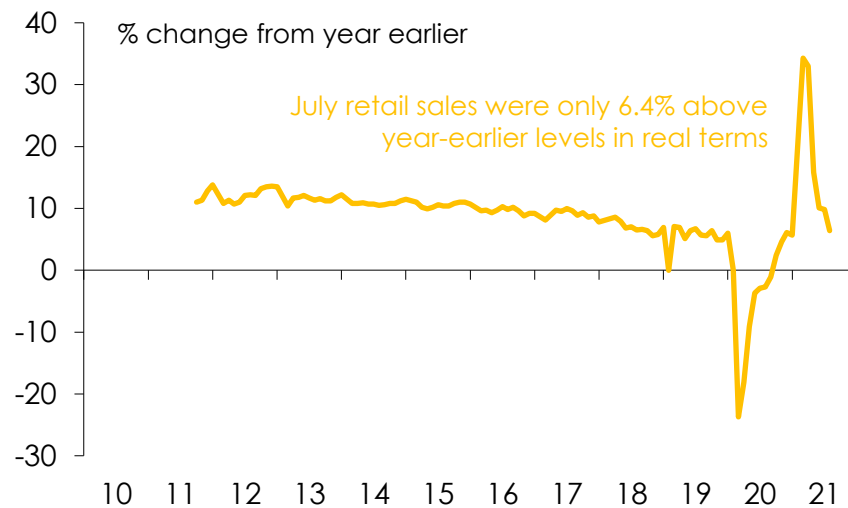
## Motor vehicle sales



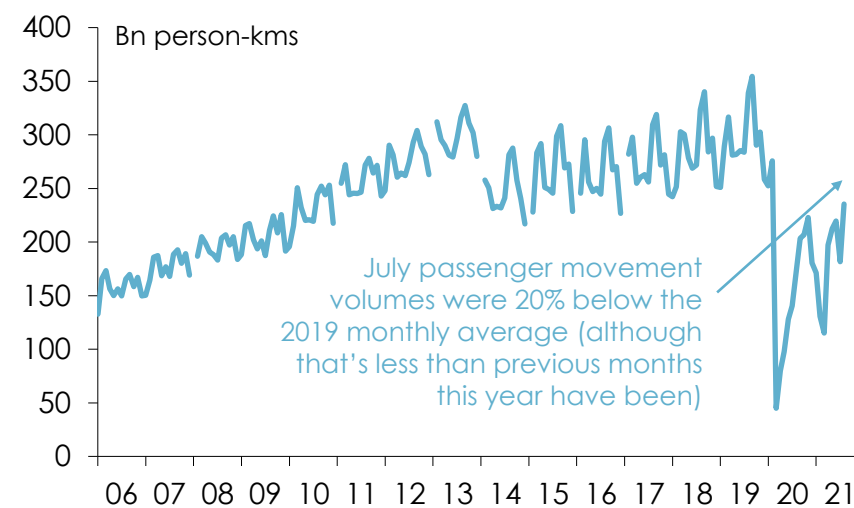
## Real estate investment



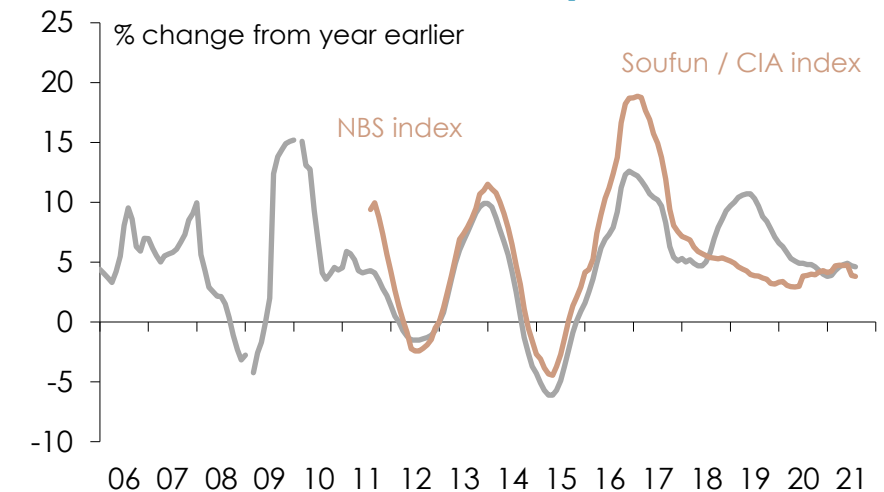
## Volume of retail sales



## Passenger traffic volumes



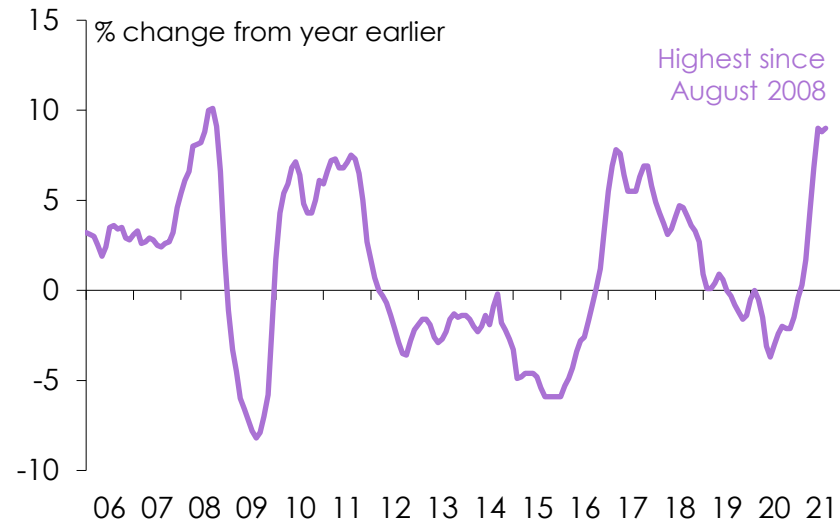
## Residential real estate prices



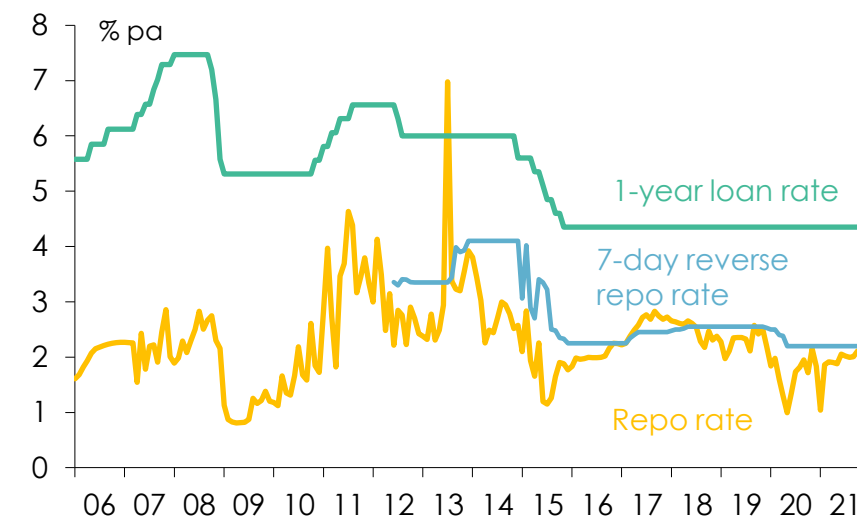
Sources: [China National Bureau of Statistics](#); [China Association of Automobile Manufacturers](#); [China Index Academy](#) (CIA). Latest data are for July.  
[Return to "What's New"](#).

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

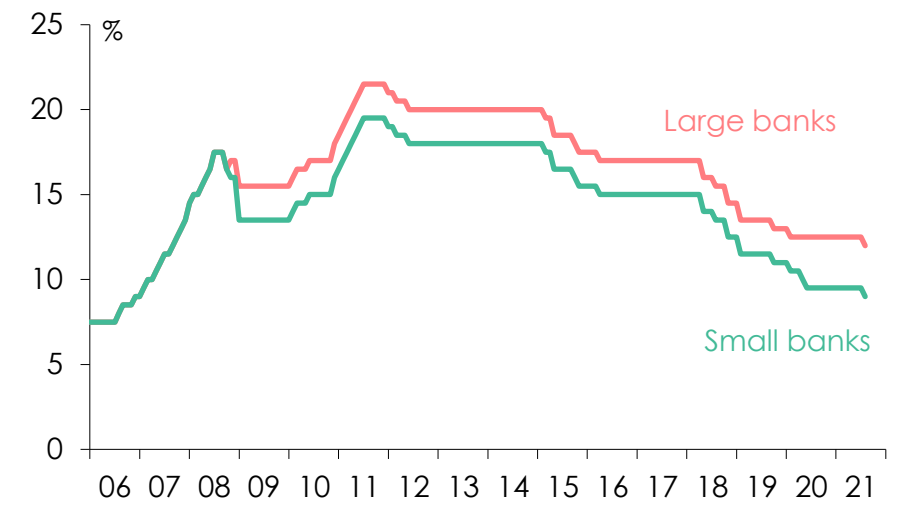
## Producer prices



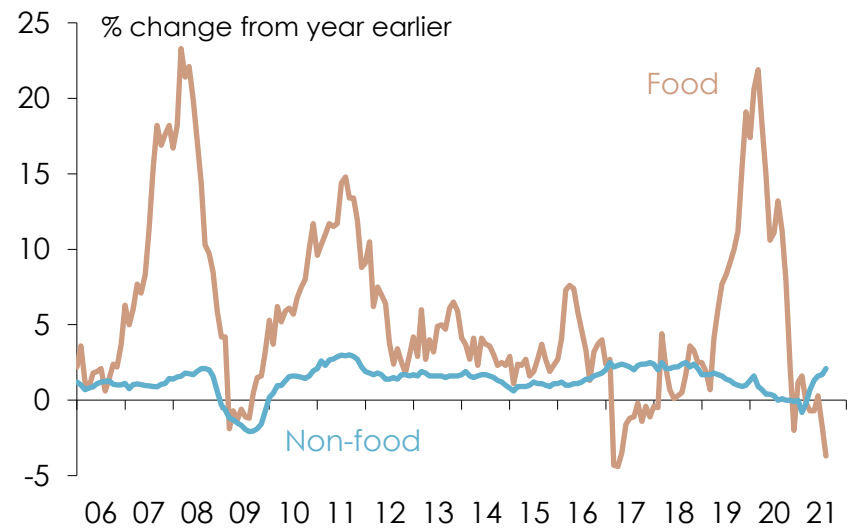
## PBoC policy interest rates



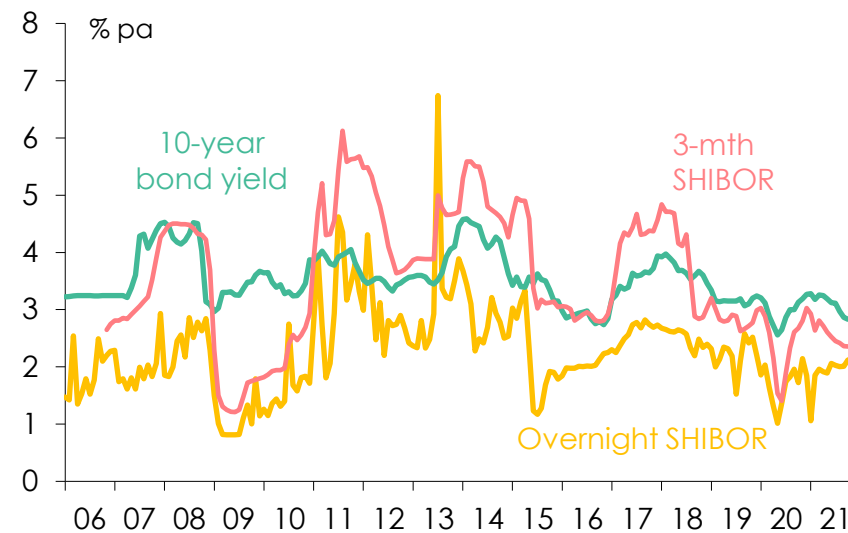
## Bank reserve requirement ratios



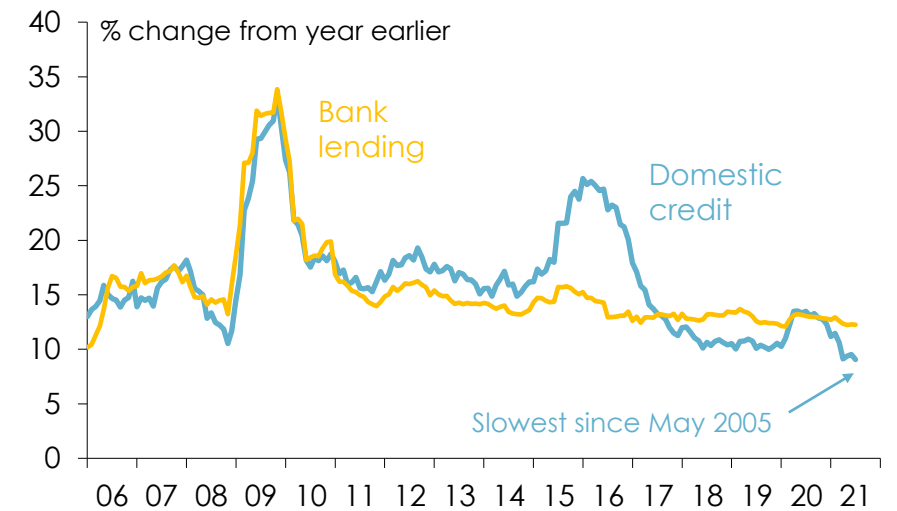
## Consumer prices



## Market interest rates



## Credit growth

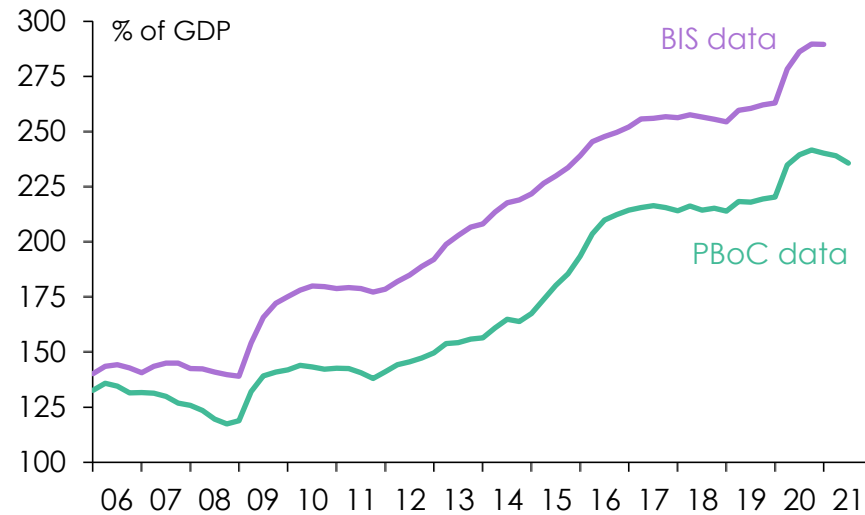


Note: 'SHIBOR' is the Shanghai Inter-Bank Offered Rate. Latest inflation and credit data are for July.

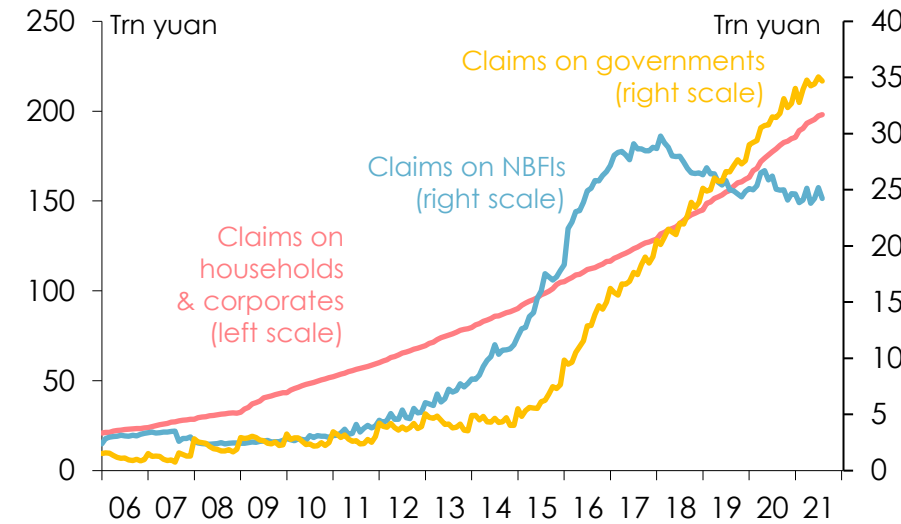
Sources: [China National Bureau of Statistics](#); Refinitiv Datastream; [People's Bank of China](#). [Return to "What's New"](#).

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

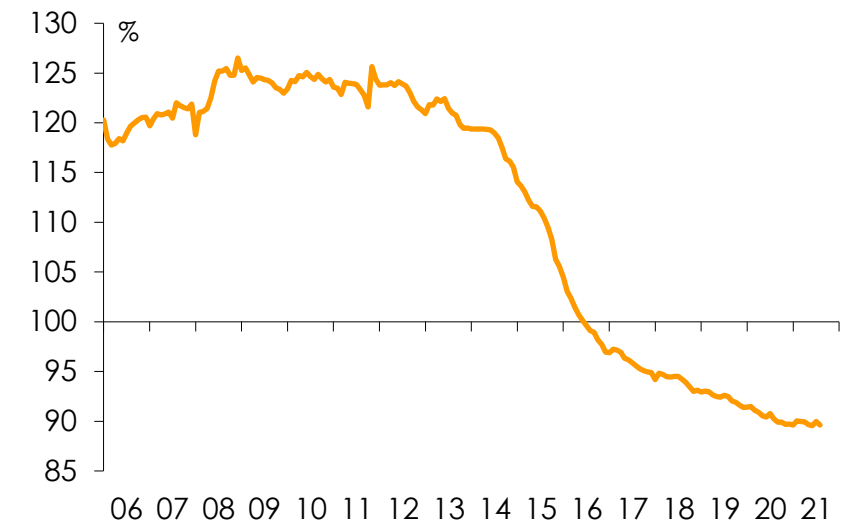
## Credit outstanding as a pc of GDP



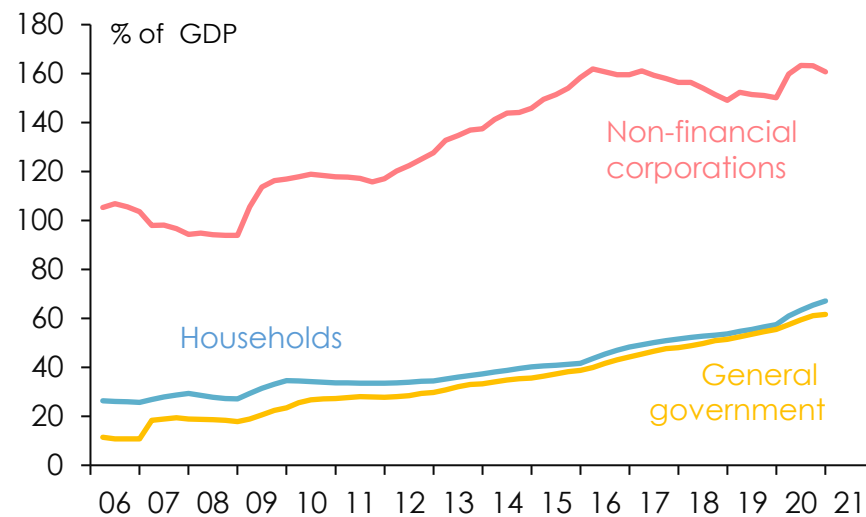
## Banks' assets



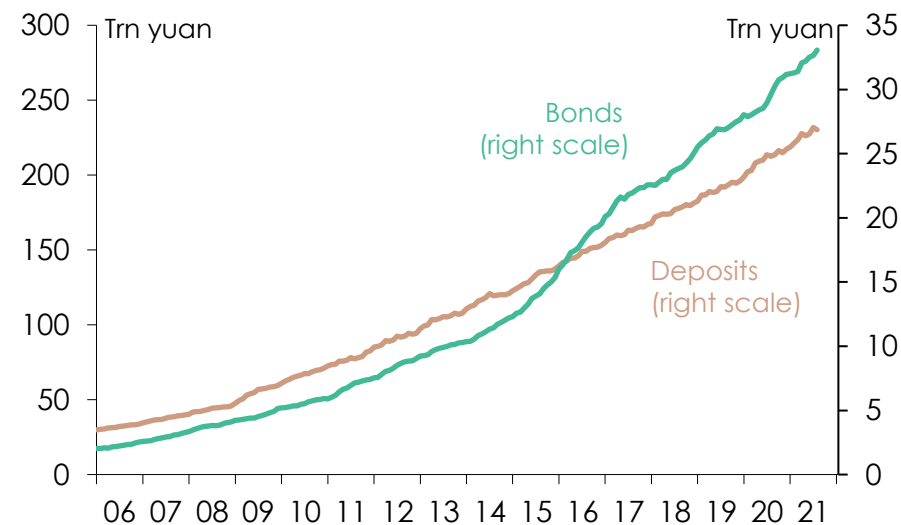
## Banks' deposits-to-loans ratio



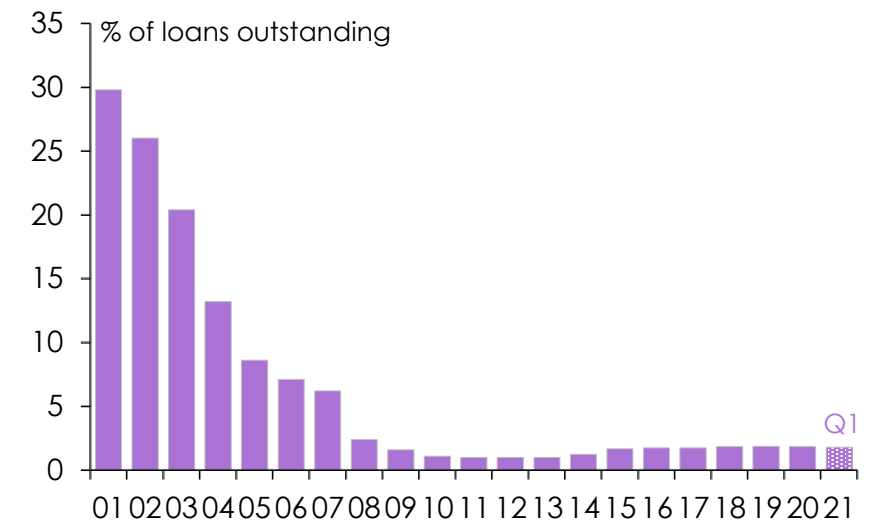
## Credit outstanding by sector



## Banks' liabilities

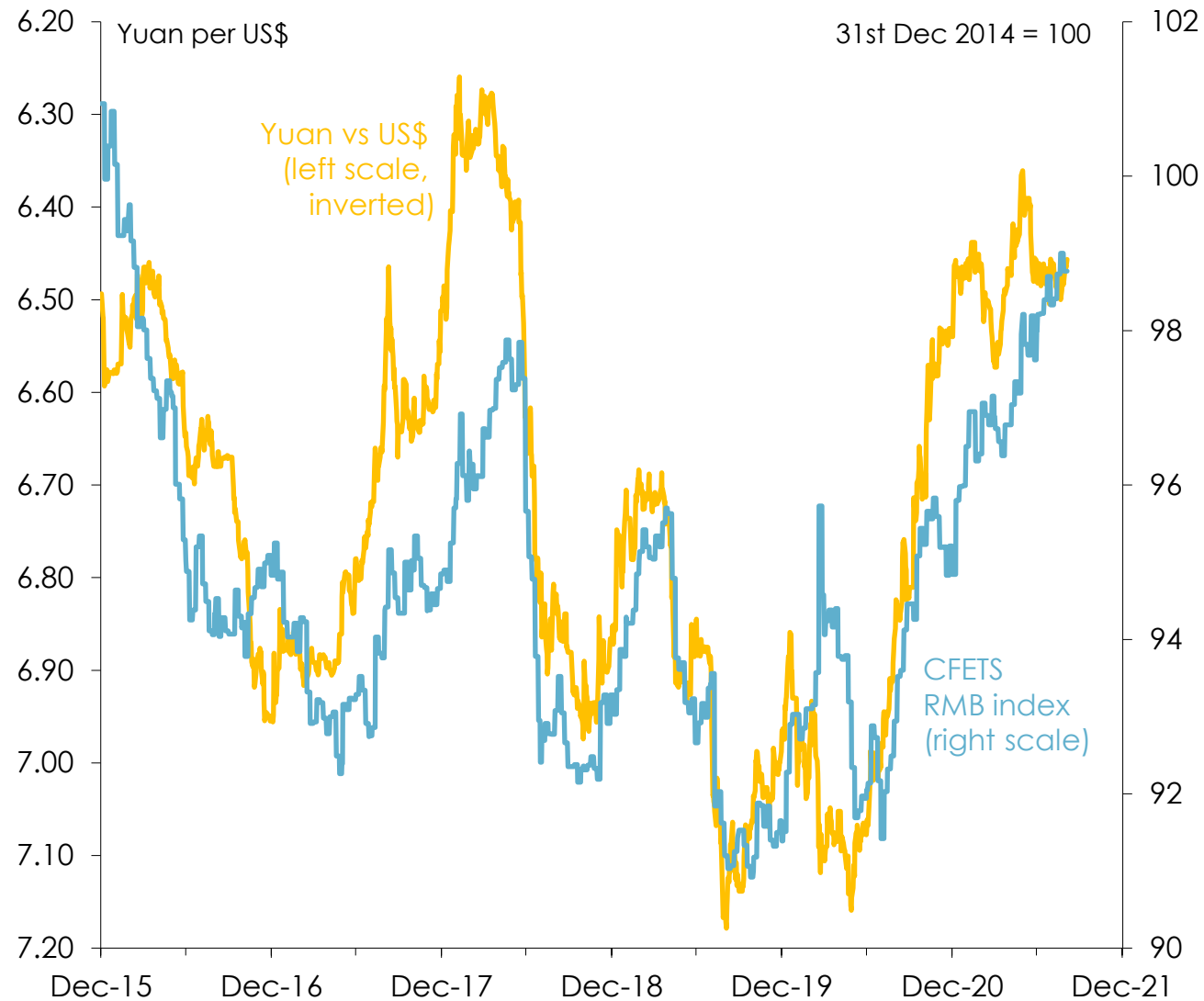


## Banks NPLs – official estimates

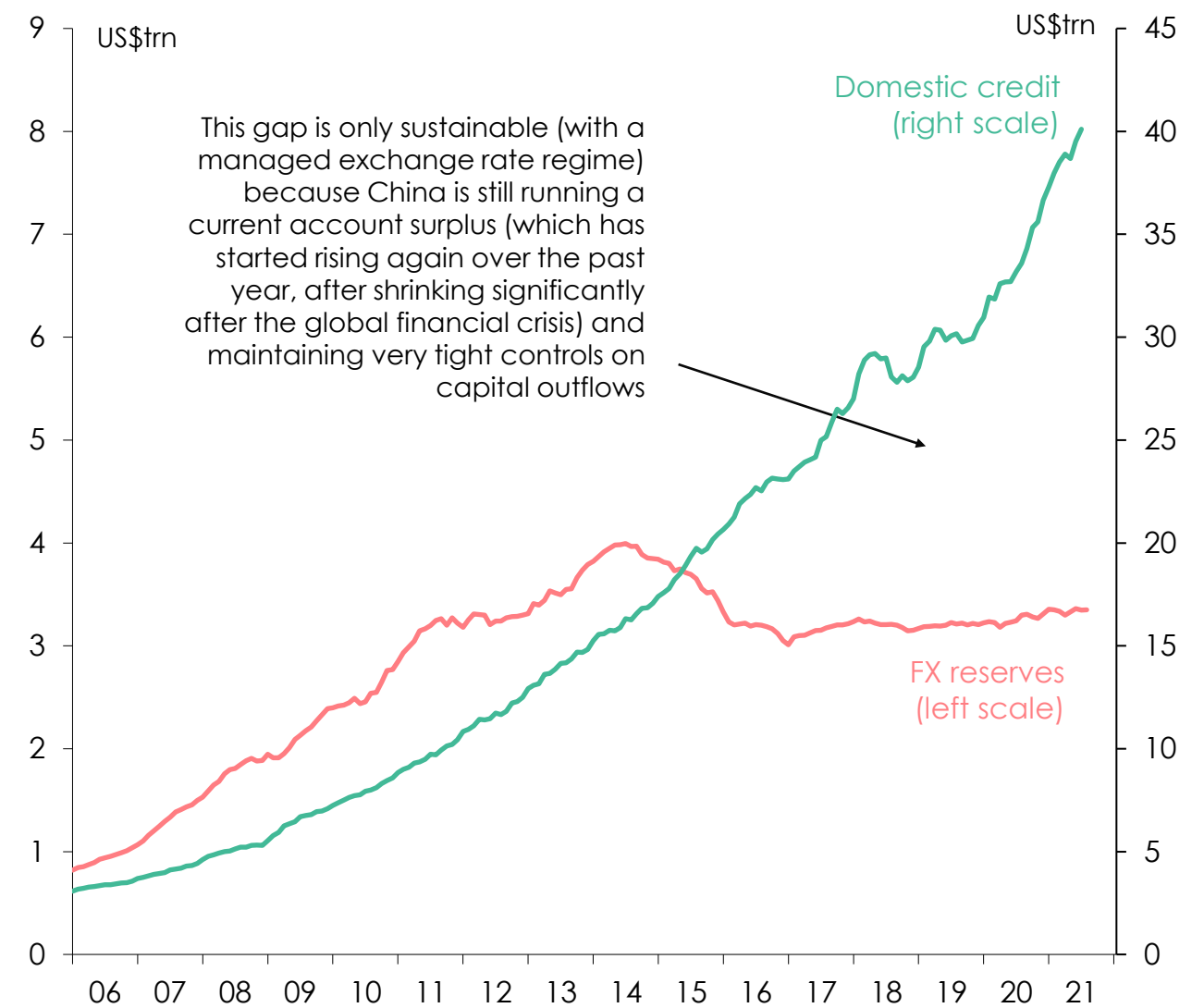


# The yuan rose almost 0.4% against a weaker US\$ this week but slipped 1/4% in trade-weighted terms

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



## FX reserves and domestic credit

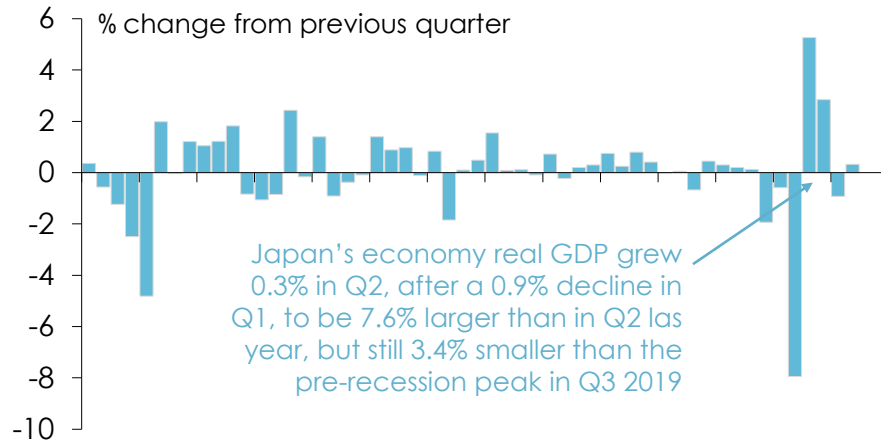


Sources: Refinitiv Datastream; China Foreign Exchange Trading System; People's Bank of China. Exchange rates up to 3<sup>rd</sup> September; FX reserves and credit are up to July. [Return to "What's New"](#).

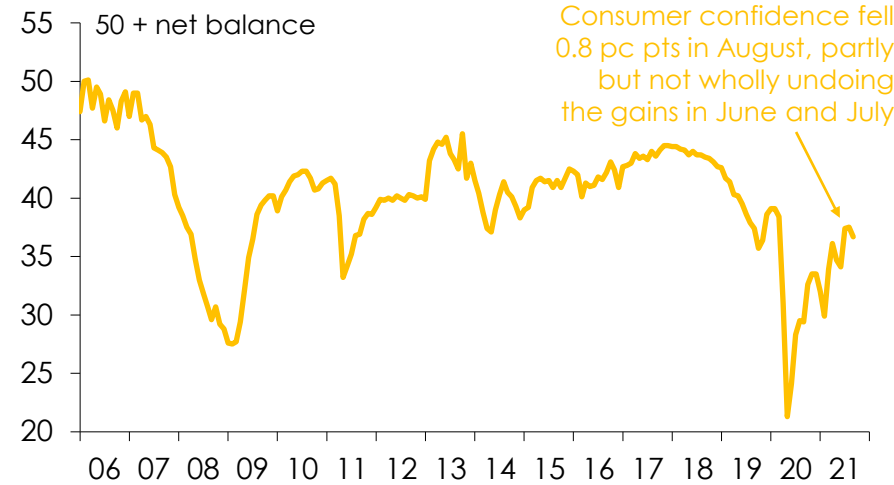


# In Japan, employment registered its largest monthly gain in July since January 2016, and unemployment dropped to its lowest since last April

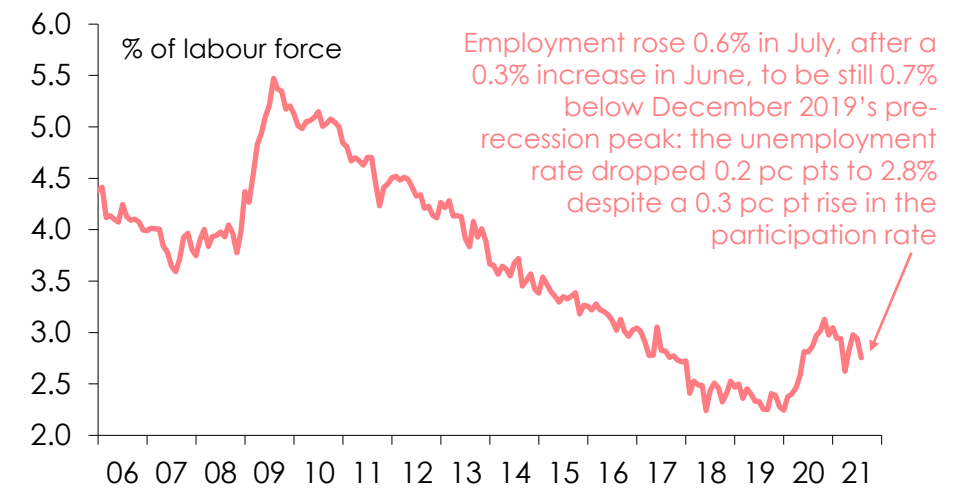
## Real GDP



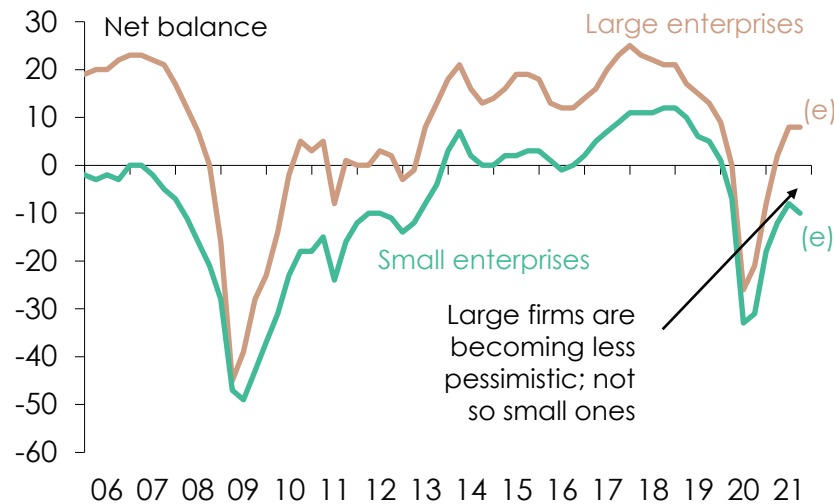
## Consumer confidence



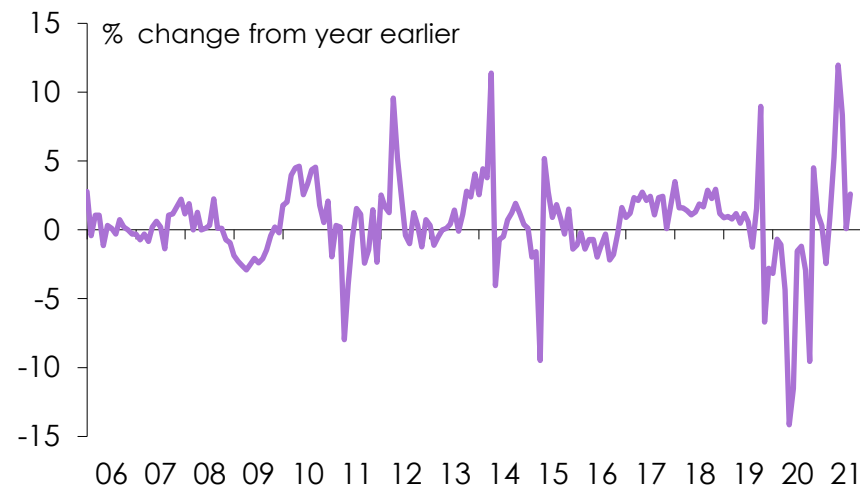
## Unemployment



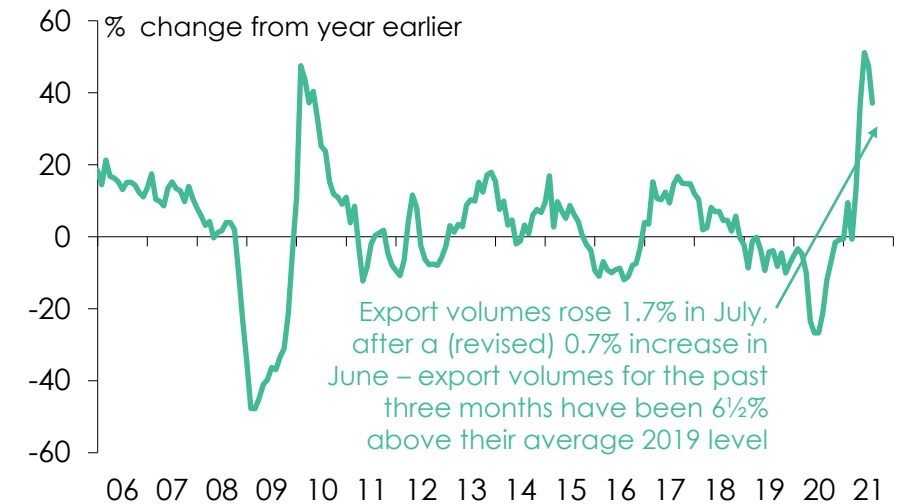
## BoJ Tankan business conditions



## Value of retail sales



## Merchandise export volumes

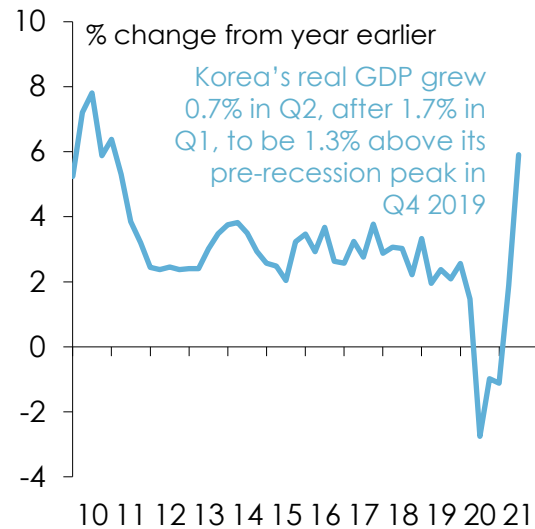


Sources: Japan Cabinet Office [Economic and Social Research Institute](#); [Bank of Japan](#); [Statistics Bureau of Japan](#); Japan [Ministry of Finance](#). [Return to "What's New"](#).

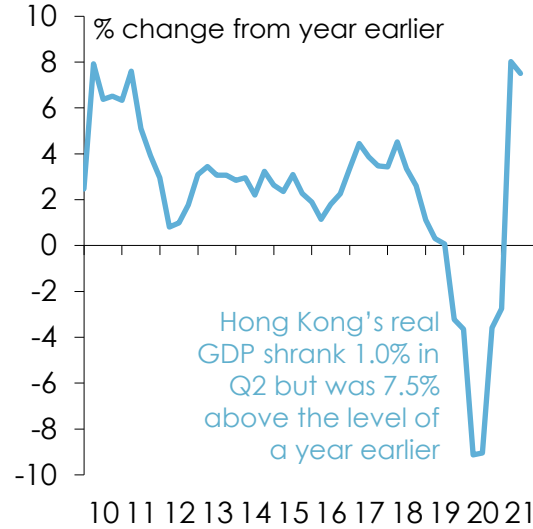


# All Asian economies have recorded strong rebounds from their pandemic-induced troughs in Q2 2020, but not all have regained previous peaks

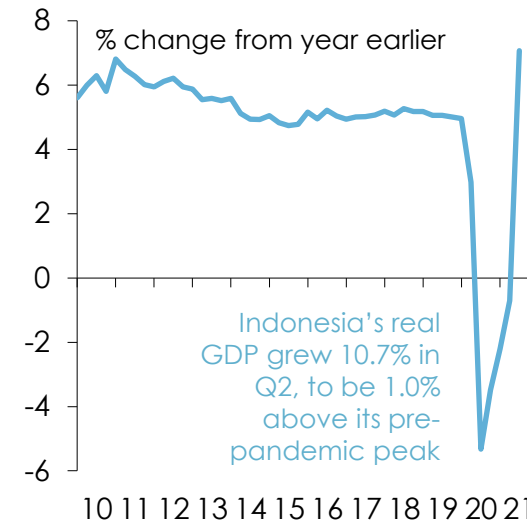
## Korea



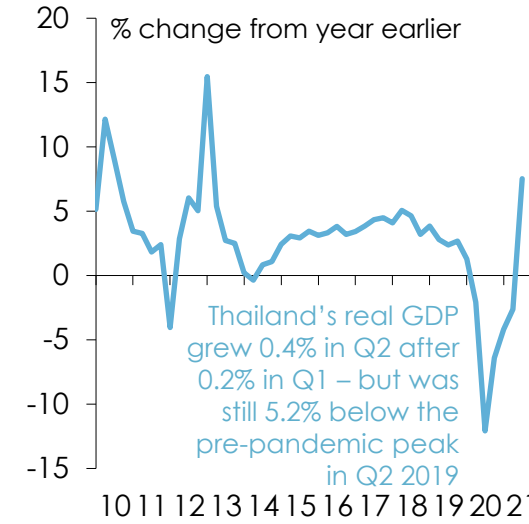
## Hong Kong



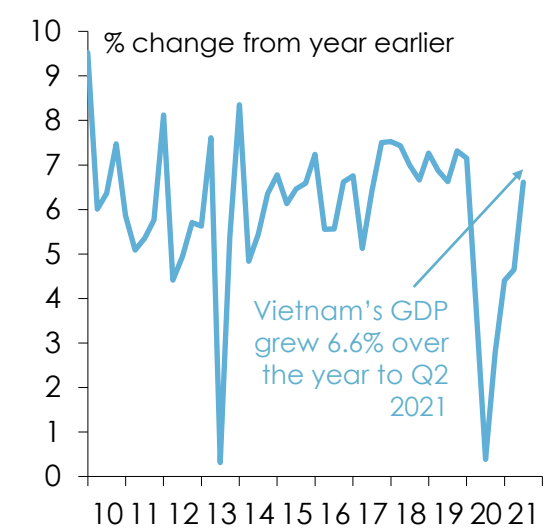
## Indonesia



## Thailand



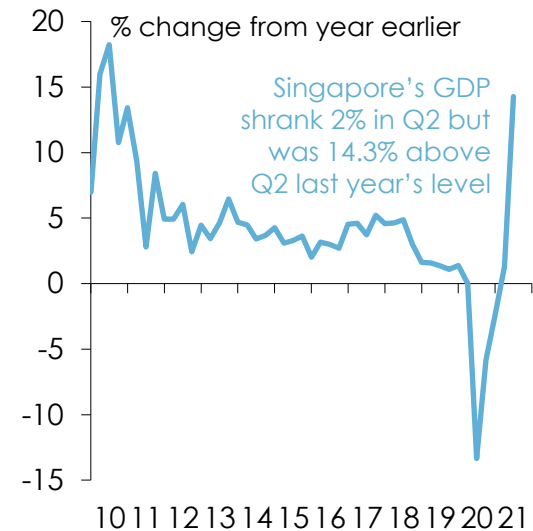
## Vietnam



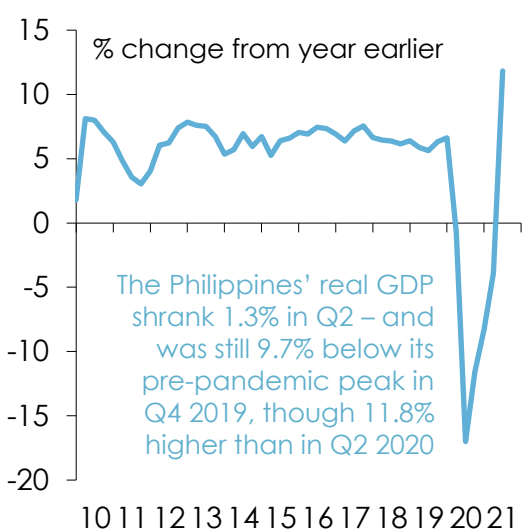
## Taiwan



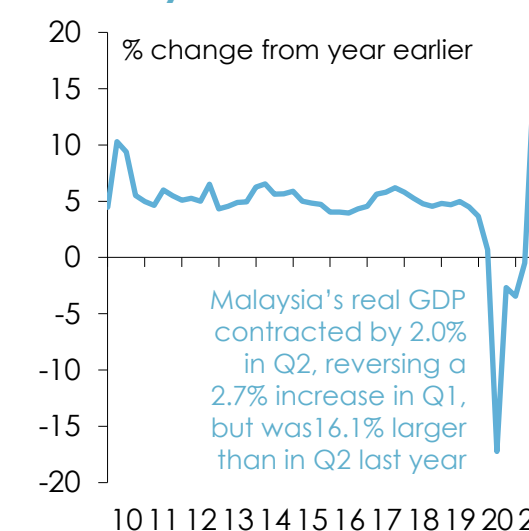
## Singapore



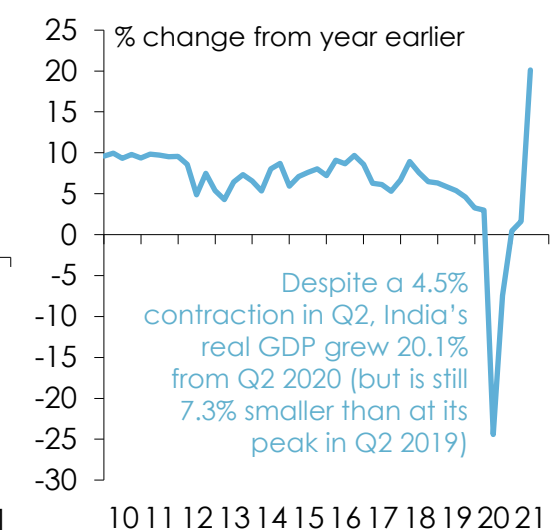
## Philippines



## Malaysia

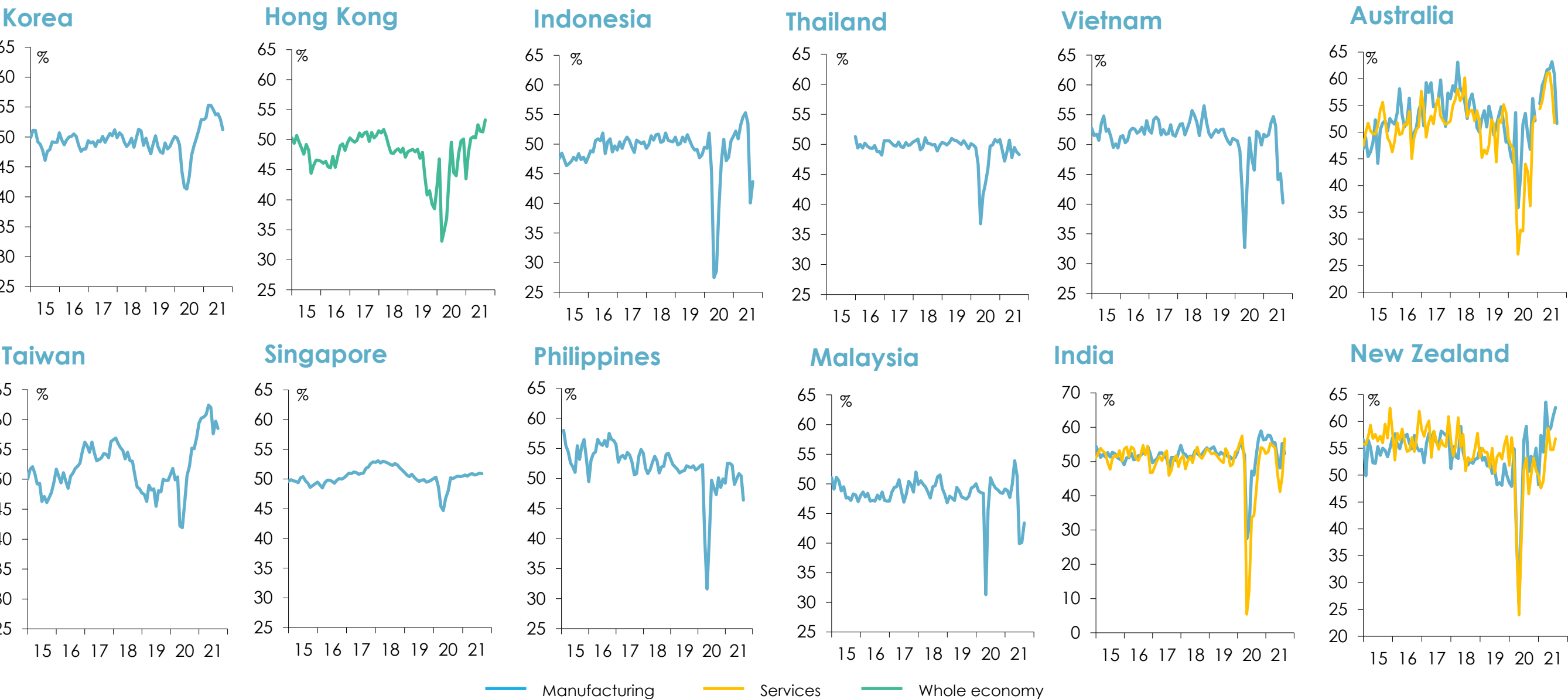


## India



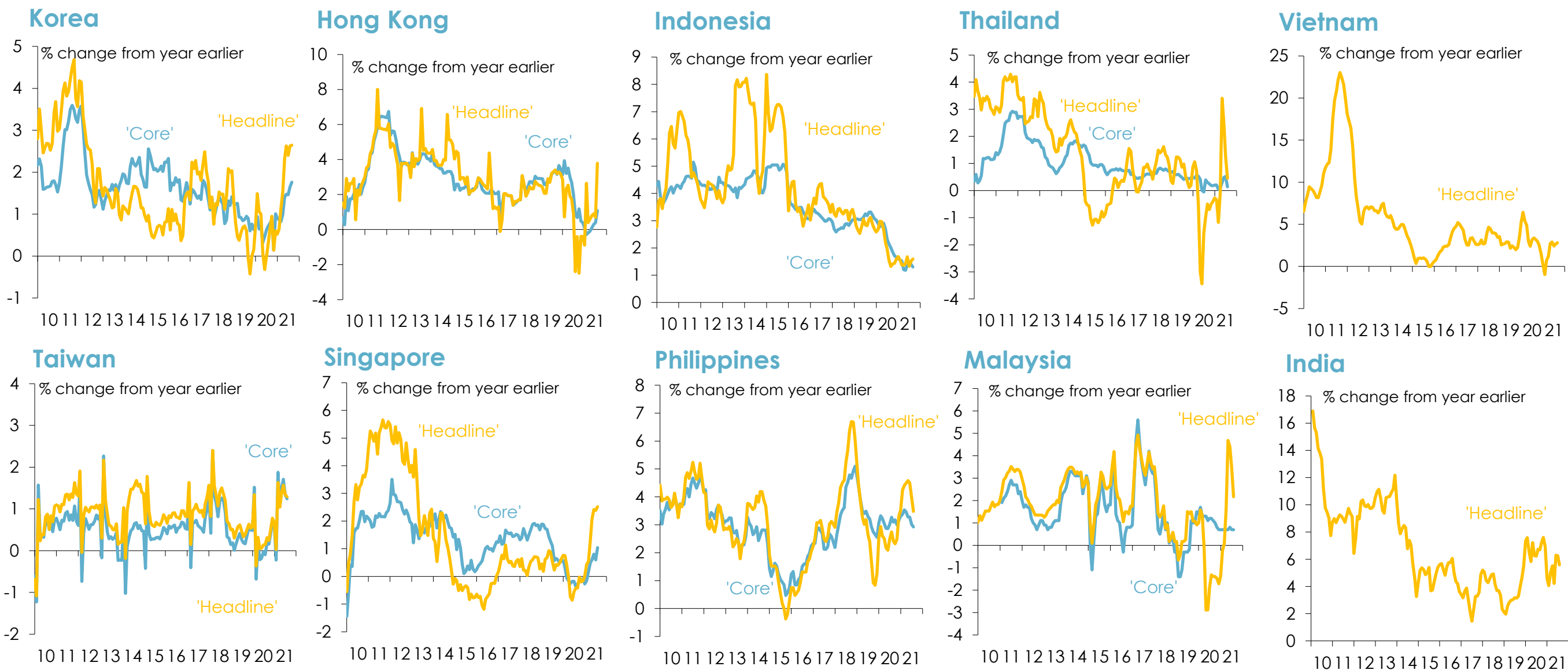
Note: Latest data are Q2 for Korea, Singapore and Vietnam, and Q1 for other countries. Sources: Bank of Korea; Taiwan Directorate-General of Budget, Accounting & Statistics; Hong Kong Census & Statistics Department; Singapore Ministry of Trade and Industry; Department of Statistics Malaysia; Office of 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 August show continuing adverse effects of the wave of infections across south-east Asia, but a pick-up in India as the 'delta wave' eases



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 August, except for New Zealand. Australian data for January are 'missing'. Sources: [IHS Markit](#); [Singapore Institute of Purchasing and Materials Management](#); [Australian Industry Group](#); [Business NZ](#); Refinitiv Datastream. [Return to "What's New"](#).

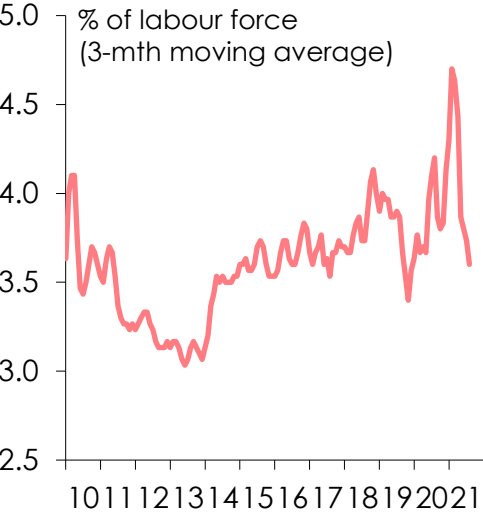
# Some (though not all) Asian economies are experiencing temporary upward pressure on inflation as in North America and Europe



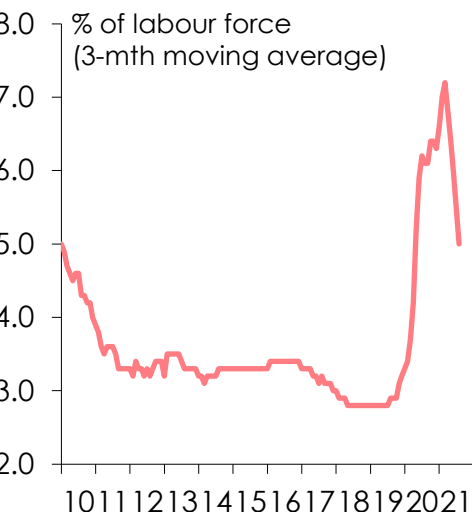
Note: 'Core' inflation in Korea excludes agricultural products and oil; in Taiwan it excludes fresh fruit, vegetables and energy; in Singapore it excludes accommodation and private transport; and in Hong Kong it excludes the effect of 'one-off government relief measures'. 'Core' inflation in Indonesia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

# Unemployment rose sharply in most Asian economies last but is now falling in most of them

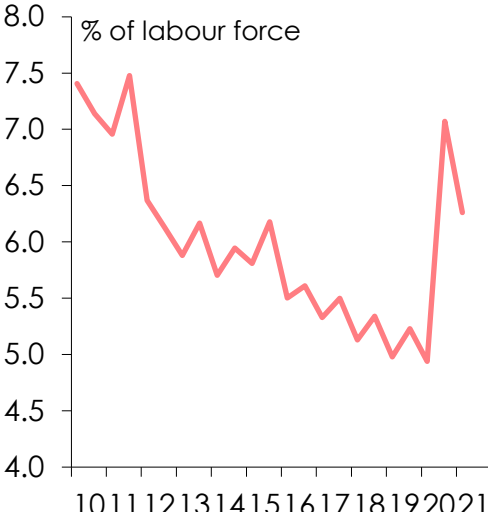
## Korea



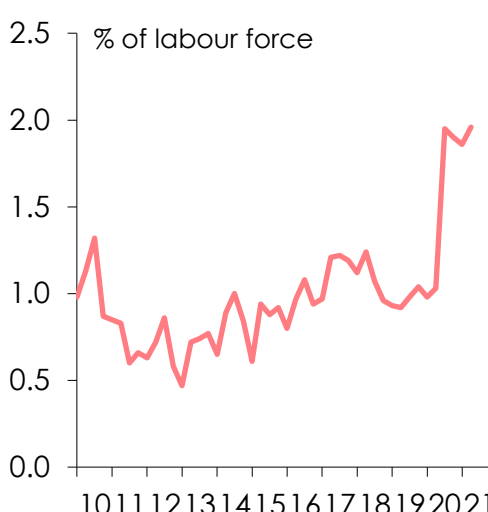
## Hong Kong



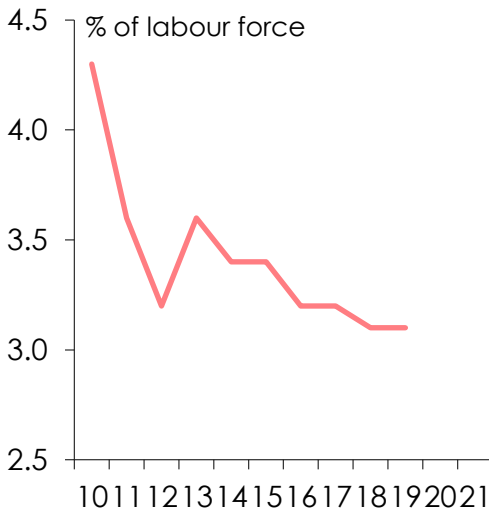
## Indonesia



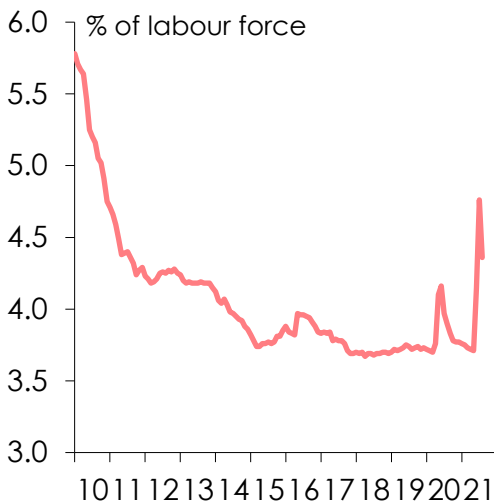
## Thailand



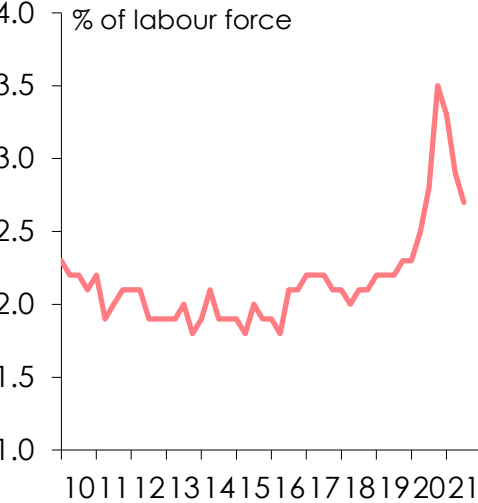
## Vietnam



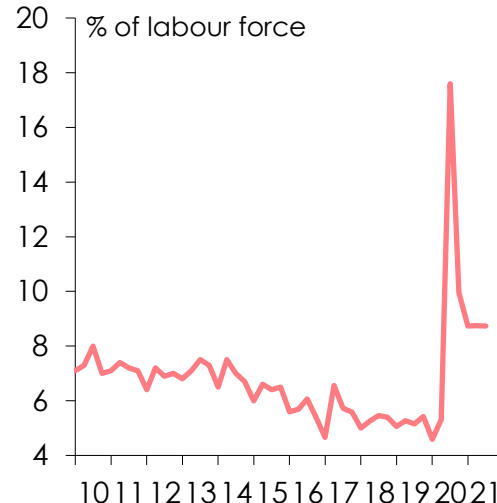
## Taiwan



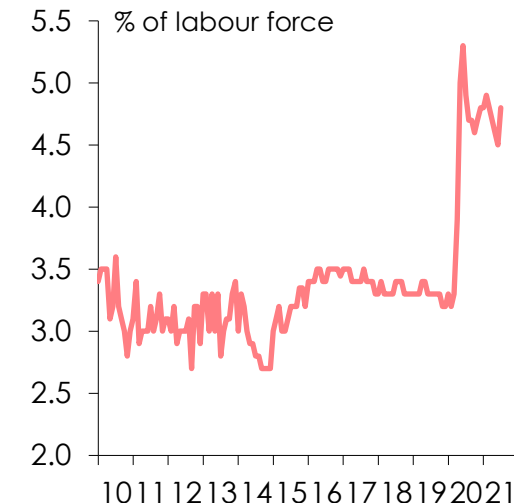
## Singapore



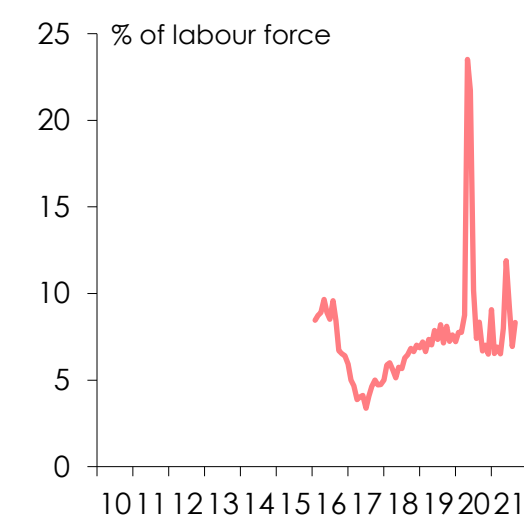
## Philippines



## Malaysia

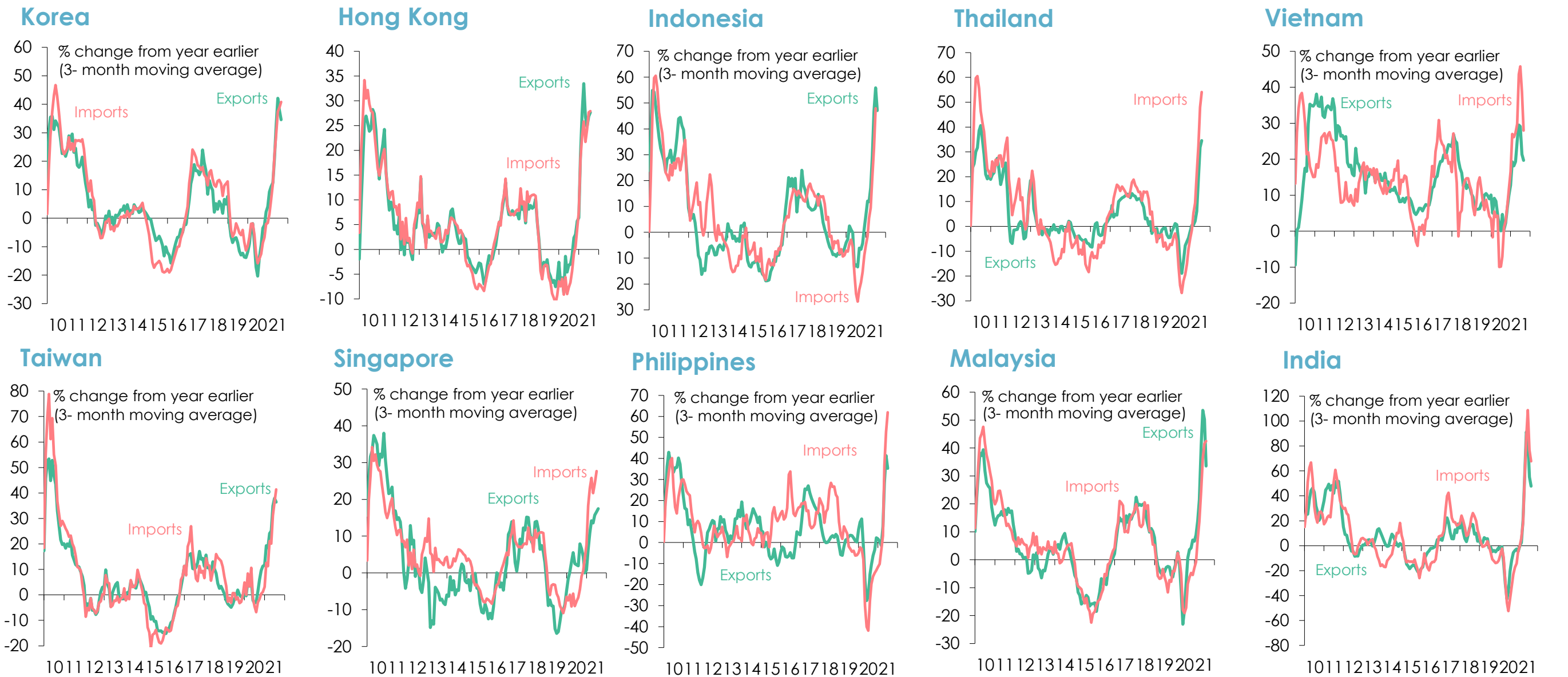


## India



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"](#).

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

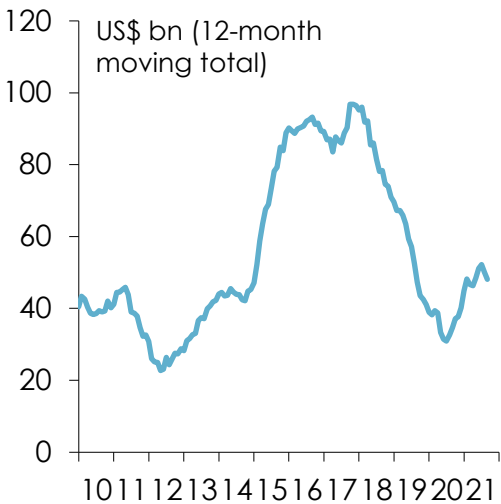


Note: Data for Hong Kong, Singapore and Malaysia are published in national currencies and converted to US dollars by Corinna using month-average exchange rates.  
Sources: national statistical agencies and central banks. [Return to "What's New"](#).

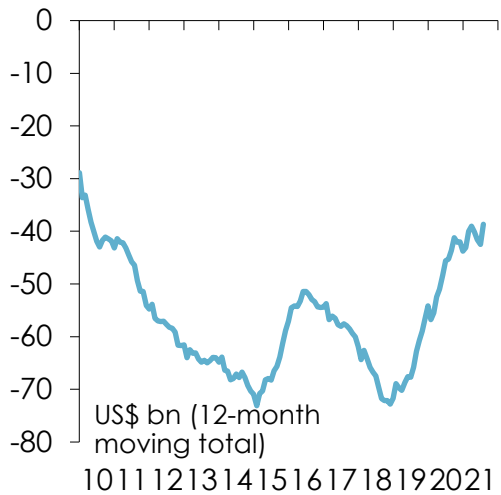


# All Asian economies have experienced improvements in their trade balances since the onset of Covid, although some are now turning around

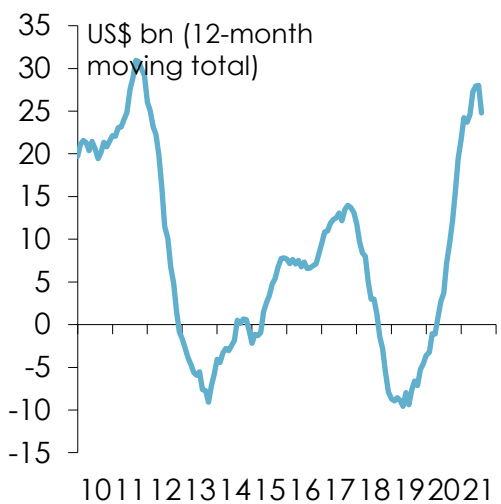
Korea



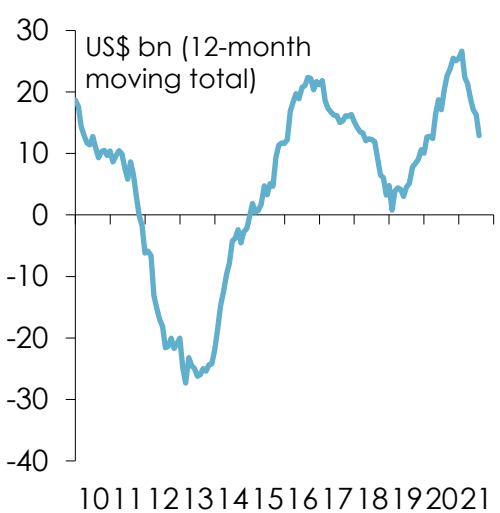
Hong Kong



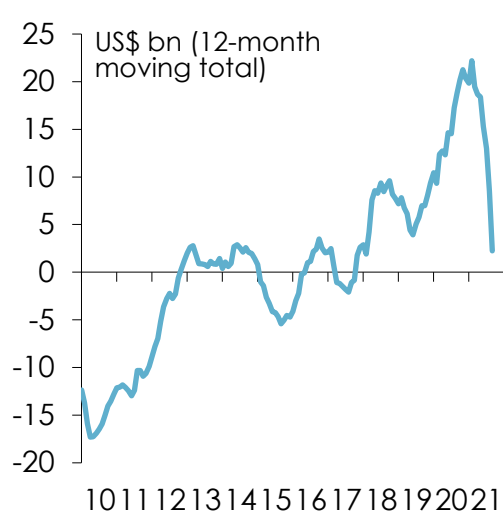
Indonesia



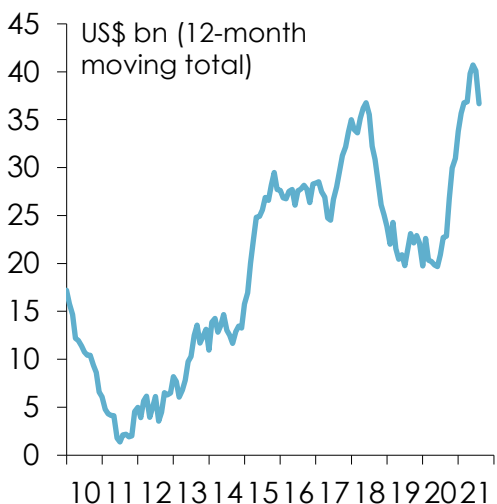
Thailand



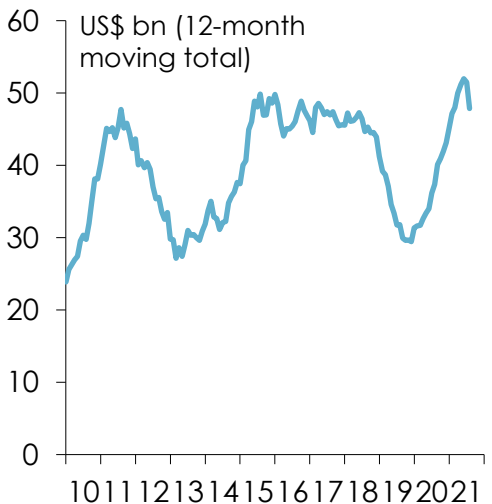
Vietnam



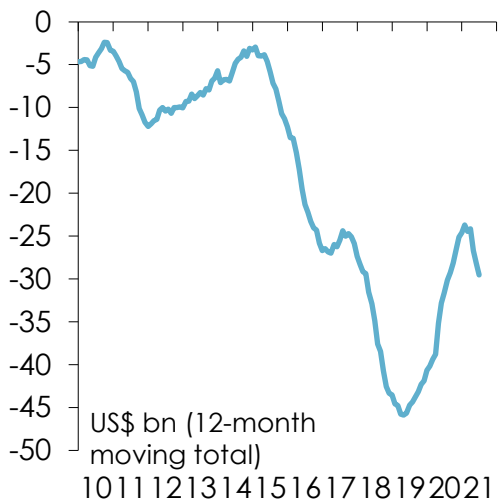
Taiwan



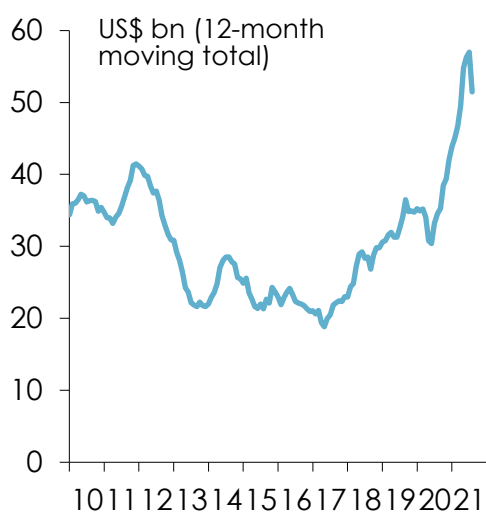
Singapore



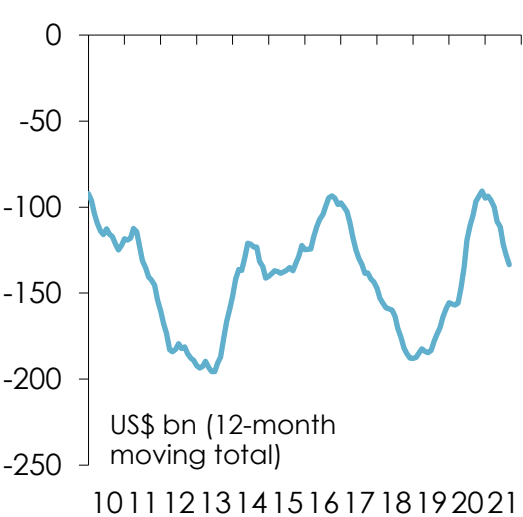
Philippines



Malaysia



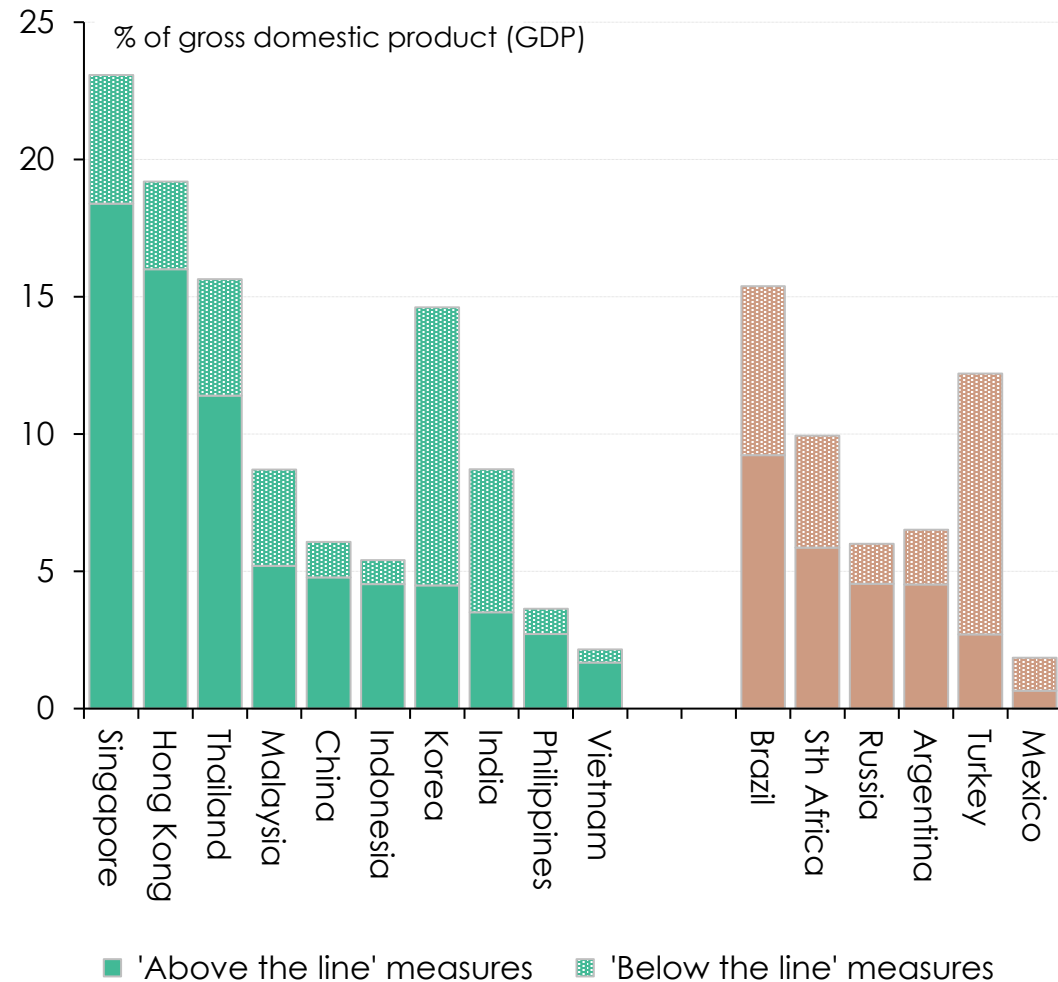
India



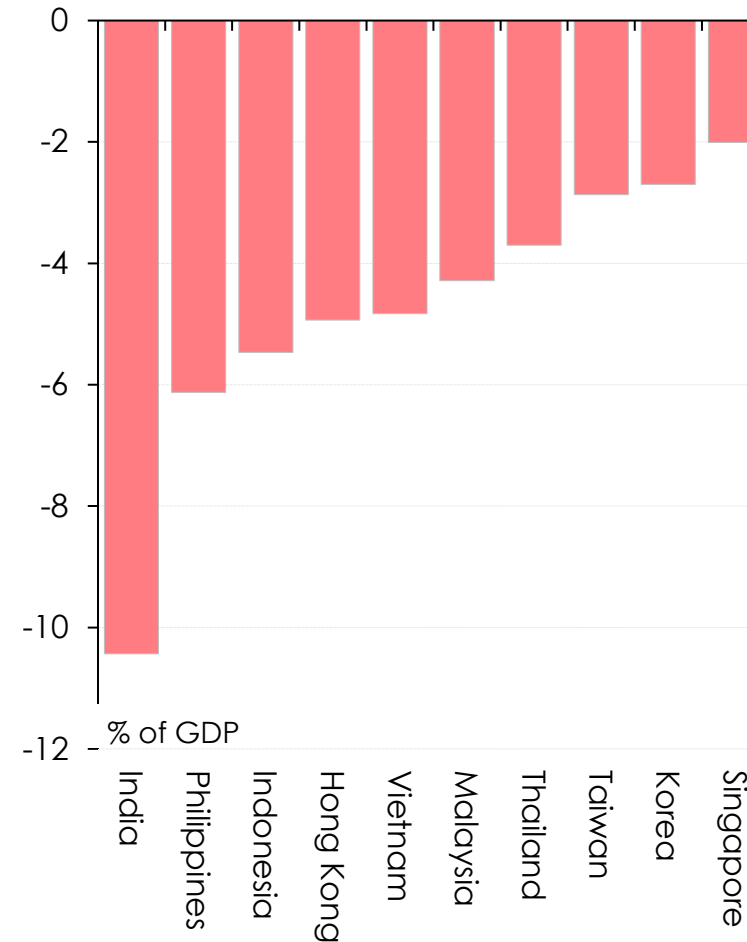
Note: Data for Hong Kong, Singapore and Malaysia are published in national currencies and converted to US dollars by Corinna using month-average exchange rates.  
Sources: national statistical agencies and central banks. [Return to "What's New"](#).

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

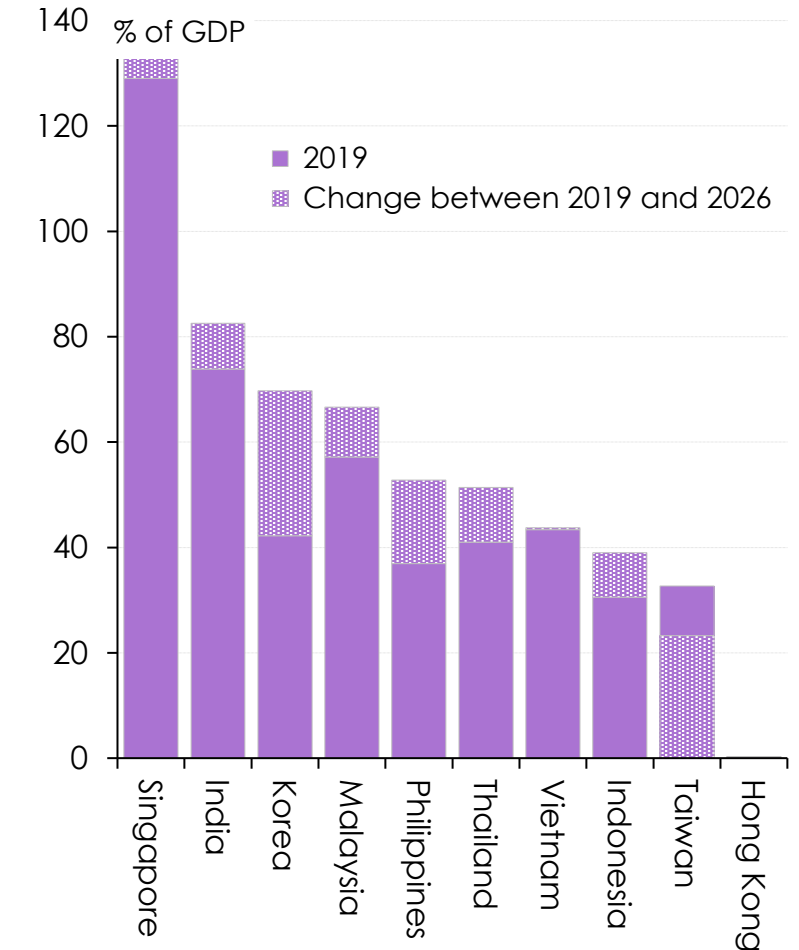
## Fiscal policy responses to Covid-19 – Asian & other selected emerging market economies



## Budget balances – Asian economies 2020-2022

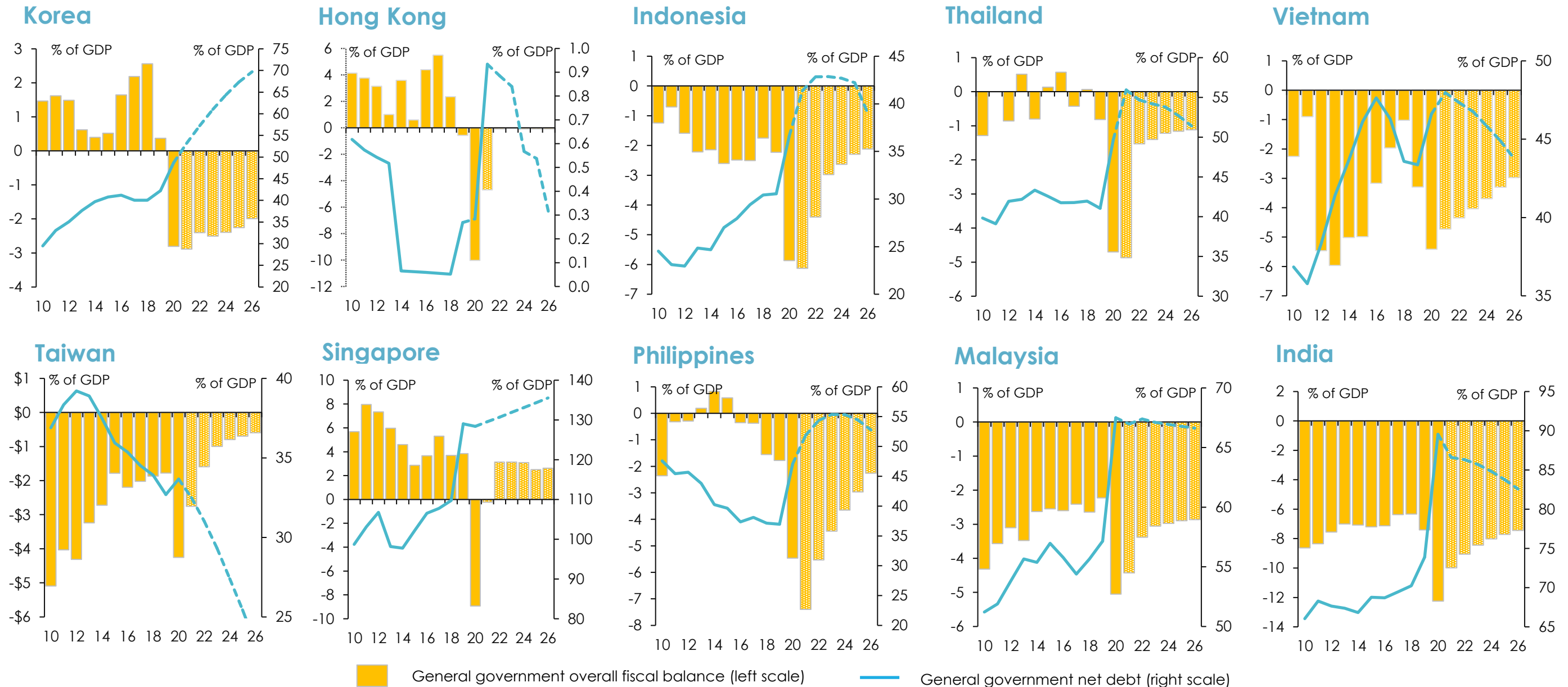


## Gross government debt – Asian economies 2019-26



Note: 'Above the line' measures comprise additional or accelerated spending and deferred or foregone revenue. 'Below the line' measures comprise equity injections, loans, asset purchases and debt assumptions, but do not include loan guarantees or other contingent liabilities. 'DMs' means 'developed markets' (or 'advanced economies'). Data includes measures announced up until 5<sup>th</sup> June 2021. Singapore's apparently very large gross debt is offset by substantial financial asset holdings. Taiwan's gross debt is projected to decline as a percentage of GDP between 2019 and 2026. Sources: IMF, [Fiscal Monitor Database of Country Fiscal Measures in Response to the COVID-19 Pandemic](#), July 2021; and [Fiscal Monitor](#), April 2021. [Return to "What's New"](#).

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



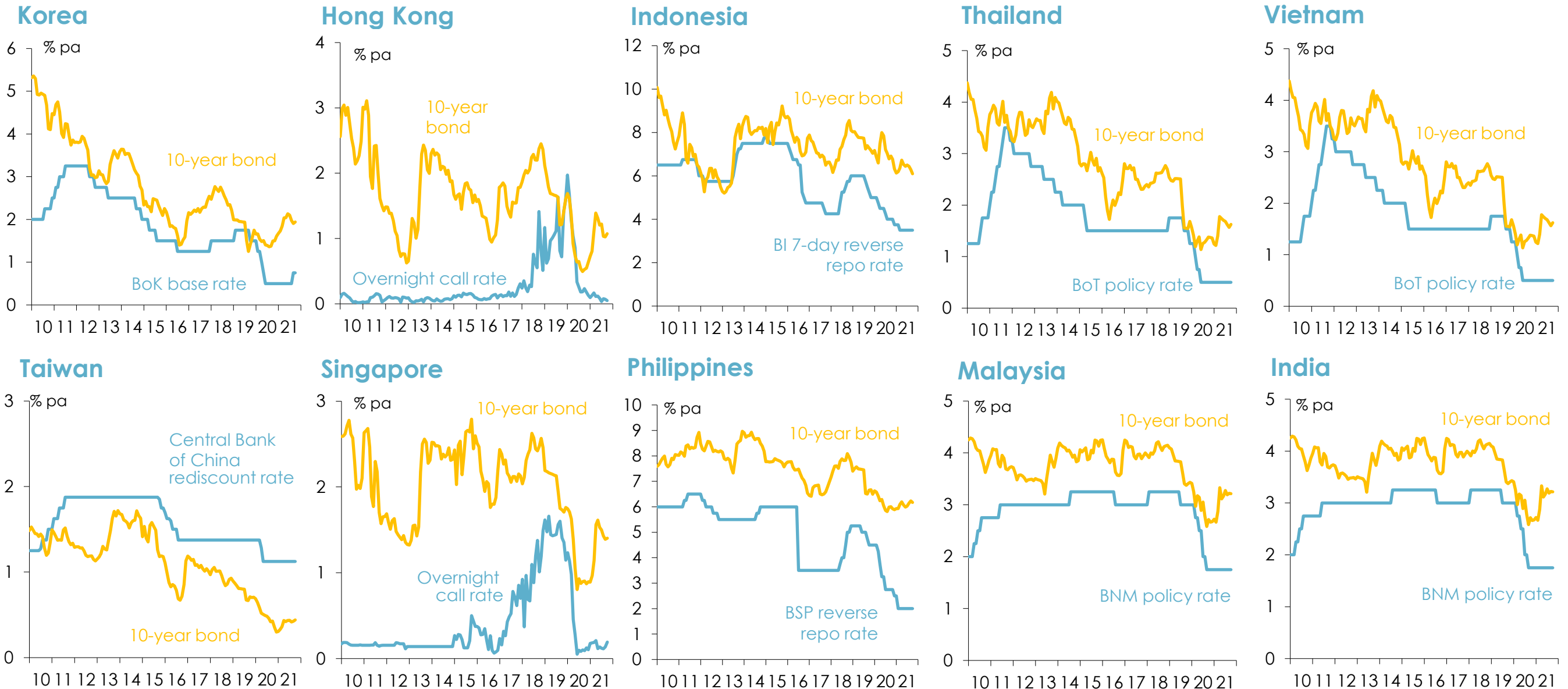
Source: International Monetary Fund, [Fiscal Monitor](#), and [World Economic Outlook](#), April 2021. [Return to "What's New"](#)



# The Bank of Korea last week raised its base rate by 25bp, the first Asian central bank to tighten policy – partly based on financial stability concerns

- ❑ The **Bank of Korea** became the first Asian central bank to raise interest rates at its Monetary Policy Board meeting last Thursday, raising its base rate by 25 basis points to 0.75%
  - the BoK noted that the Korean economy had “continued its sound recovery” with GDP growth expected to be “around 4%” this year, and consumer price inflation expected to increase to the “lower 2% level”, although with ‘core’ inflation forecast to “run at the lower 1% level”
  - it also noted that “household loan growth has accelerated and housing prices have continued to increase rapidly”
  - the MPB foreshadowed that it would “gradually adjust the degree of monetary policy accommodation as the Korean economy is expected to continue its sound growth and inflation to run above 2% for some time”, with decisions as to when to “adjust the degree of accommodation” depending on “the risk of a build-up of financial imbalances” as well as changes in the pace of growth and inflation
- ❑ **Bank Indonesia** left its reverse repo, deposit and lending rates unchanged at 3.5%, 2.75% and 4.25%, respectively, at last month’s Board of Governors (RDG) meeting
  - in line with “the need to maintain exchange rate and financial system stability, amid low inflation forecasts and efforts to support economic growth”
  - BI asserts that “economic activity is starting to improve” with the recovery being only “slightly restrained” by “mobility restriction policy that must be taken ... to cope with the increase in cases of the Covid-19 delta variant”
  - BI is continuing to pursue what it calls ‘synergistic monetary expansion’ (and what looks like a variant of ‘modern monetary theory’) under which it agrees to fund about 25% of the Government’s budget deficit in the primary market ([slide 68](#))
- ❑ The next Asian central bank meeting is Bank Negara Malaysia, on 9<sup>th</sup> September, but it has given no indication of any inclination to tighten monetary policy – nor have Taiwan’s or the Philippines’ central banks, which meet next on 23<sup>rd</sup> September

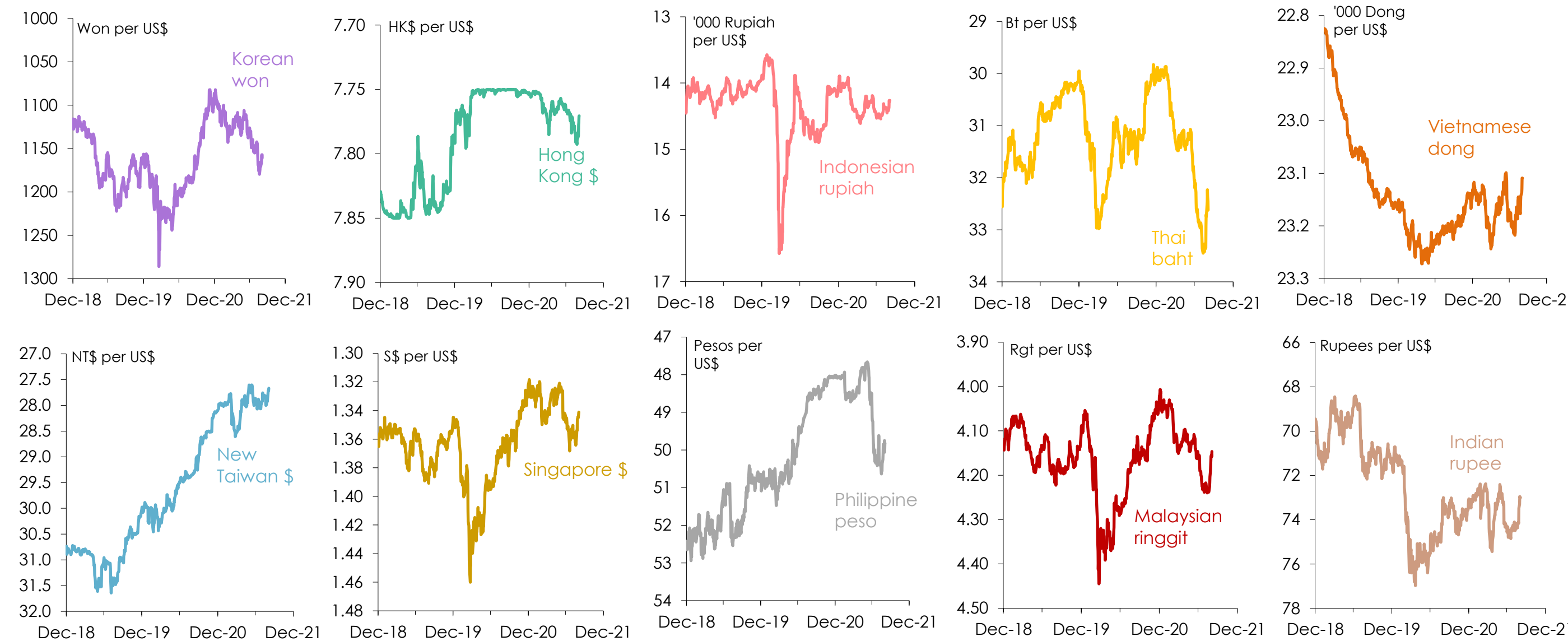
# Apart from the Bank of Korea, no Asian central bank has yet begun tightening monetary policy (or hinted that it might do any time soon)



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

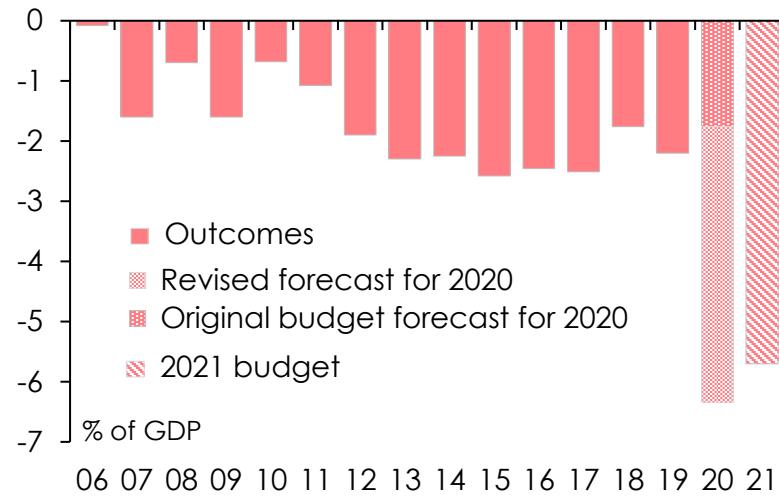
# Asian currencies rose against the US\$ for the second week in a row, with the rupee up nearly 3%, rupiah, ringgit and won all up more than 1%

Asian currency exchange rates vs US dollar

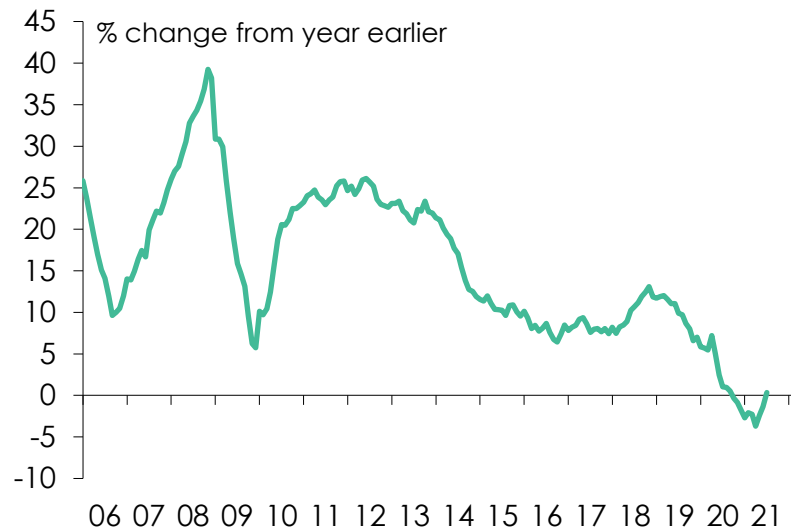


# Bank Indonesia's monetary policy settings have been on hold since January although it has continued with its 'synergistic monetary expansion'

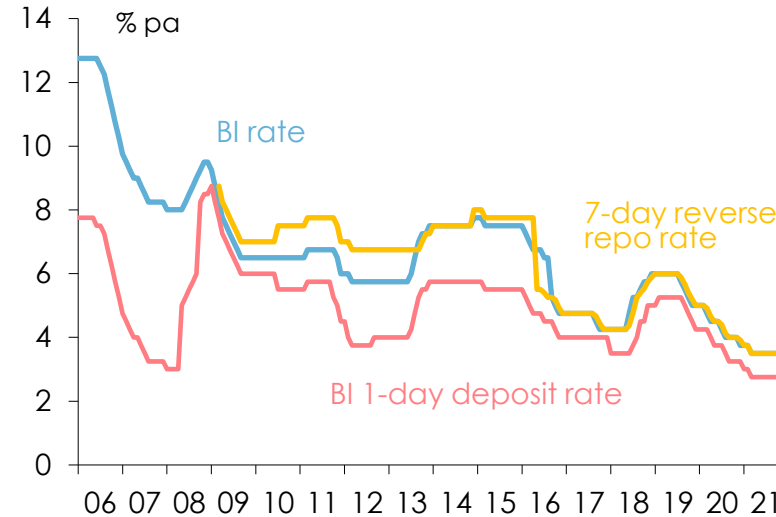
## Indonesia budget deficit



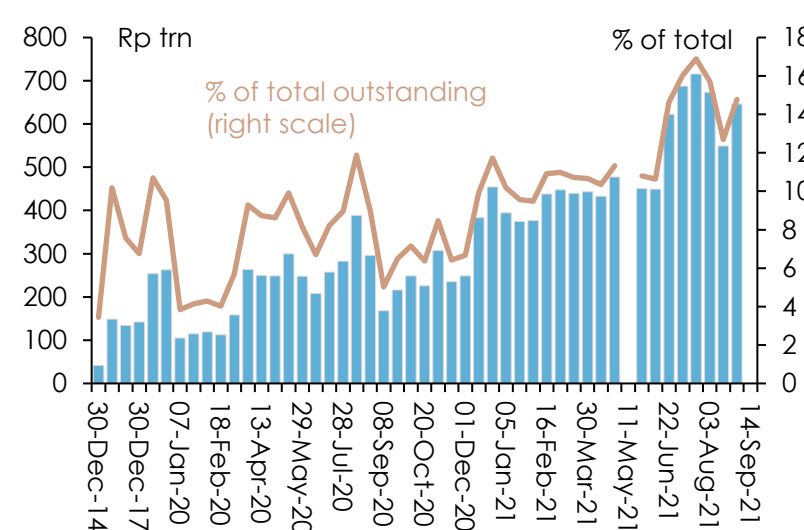
## Bank lending



## BI monetary policy rates



## BI holdings of tradeable SBNs

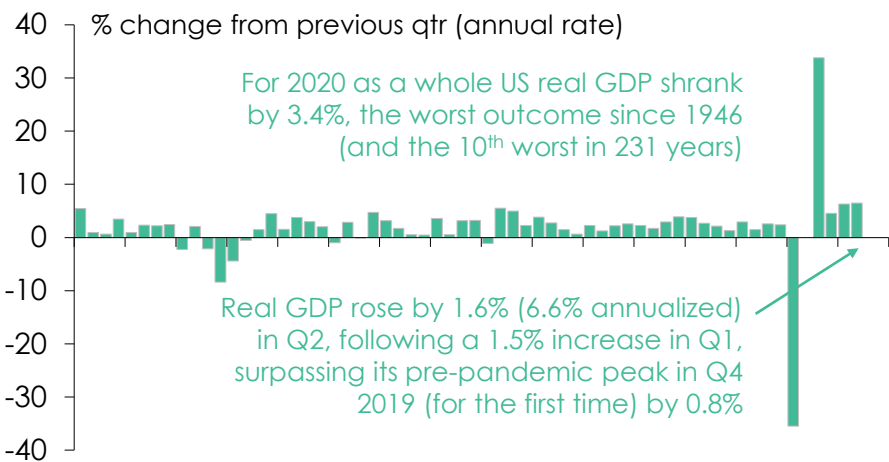


- In April 2020, the Indonesian Government and Bank Indonesia (BI) agreed to a 'burden-sharing' scheme under which BI will directly purchase bonds equivalent to 25% of this year's budget financing requirement (and return the interest received to the Government), as well as subsidizing interest payments on other bonds
  - BI calls this 'synergistic monetary expansion'
  - up to 16<sup>th</sup> August BI has purchased Rp 132trn 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 Rp166bn over the past four weeks having risen by Rp266bn over the preceding six weeks
  - BI has absorbed 21% 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 59) and BI expects it to remain within target in 2021 and 2022
- BI again left its policy settings unchanged at Thursday's Governing Council meeting
  - BI left its GDP growth forecast for 2021 at 3½-4¼%

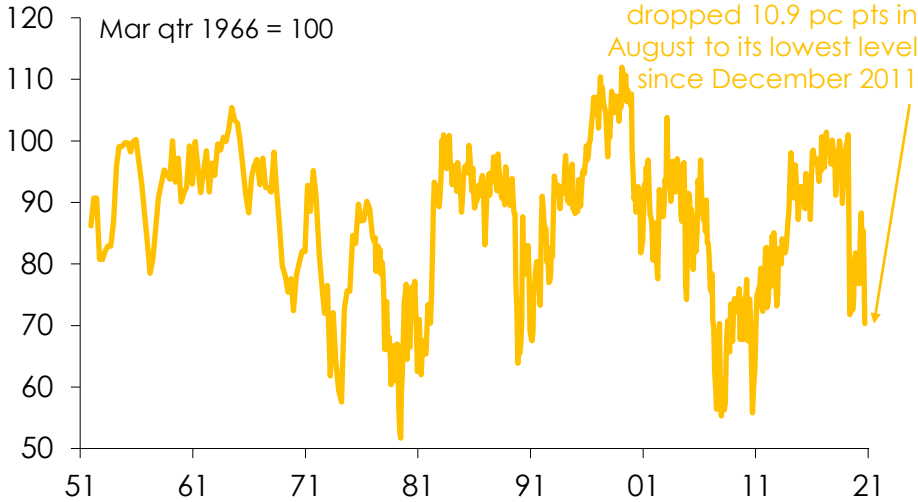
Sources: [Indonesia Ministry of Finance \(Kementerian Keuangan\)](#); [Directorate of Government Debt Securities](#); Bank Indonesia. [Return to "What's New"](#).

# US retail sales fell more than expected in July, and consumer sentiment fell sharply in the first half August

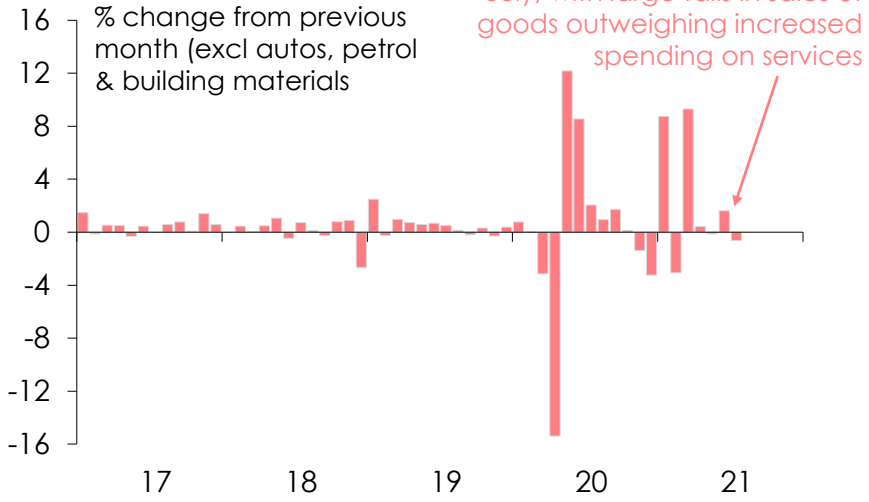
## Real GDP



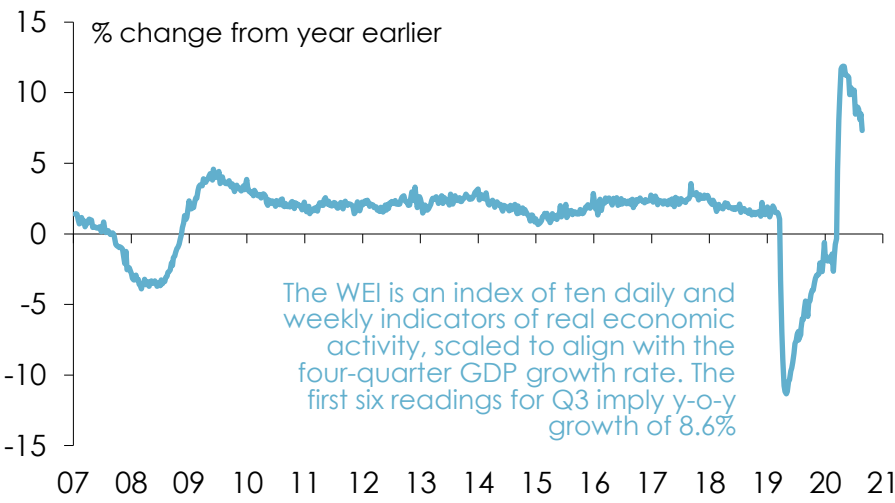
## Consumer sentiment



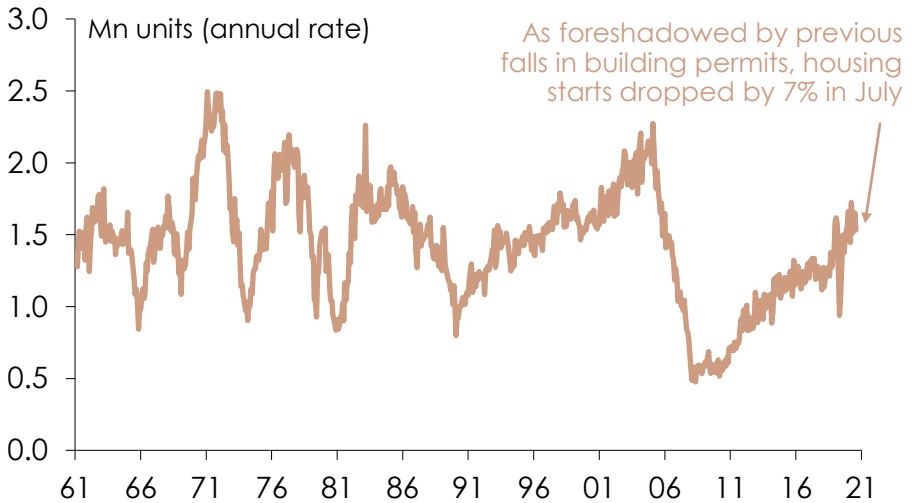
## 'Core' retail sales



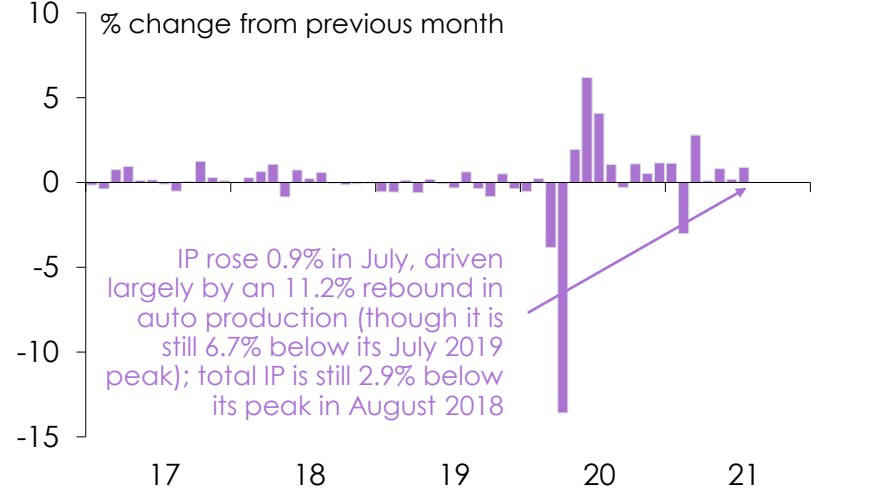
## NY Fed weekly economic index



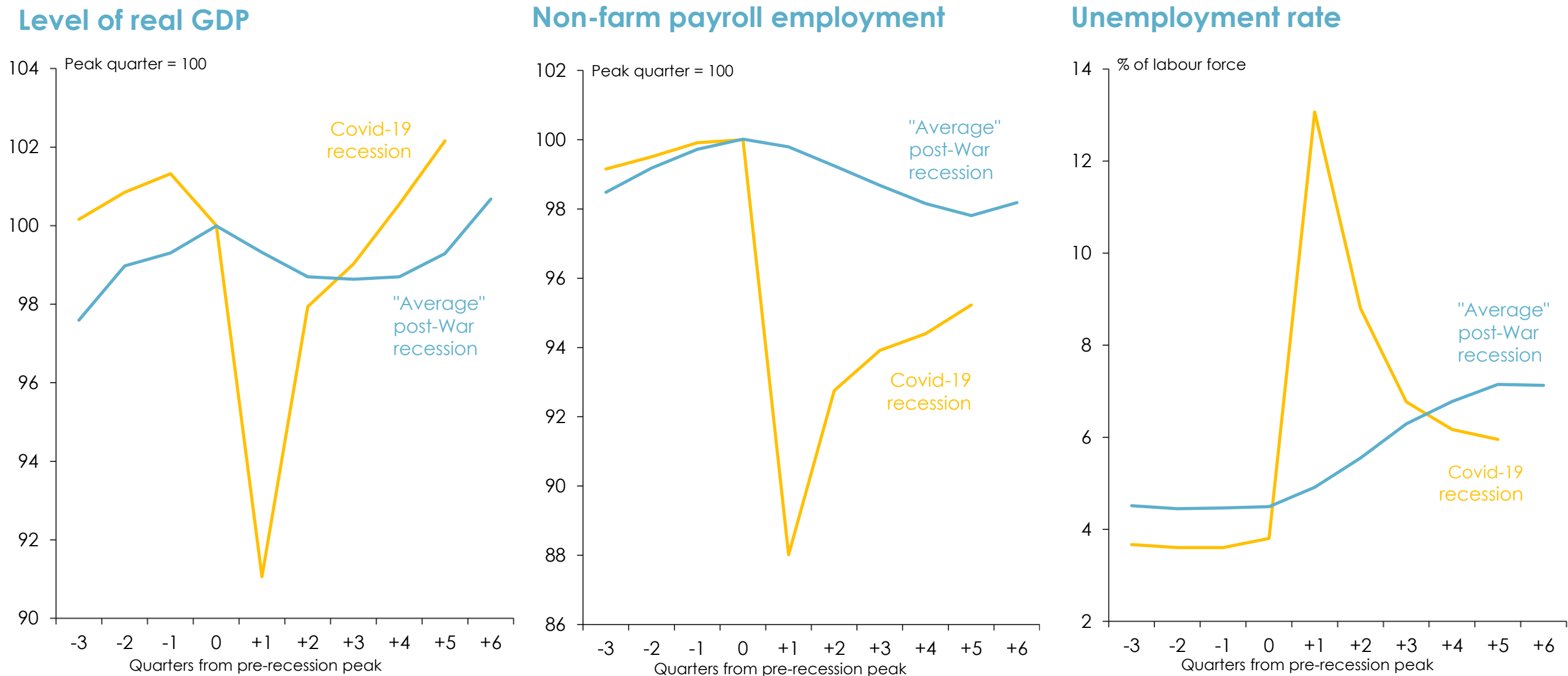
## Housing starts



## Industrial production



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

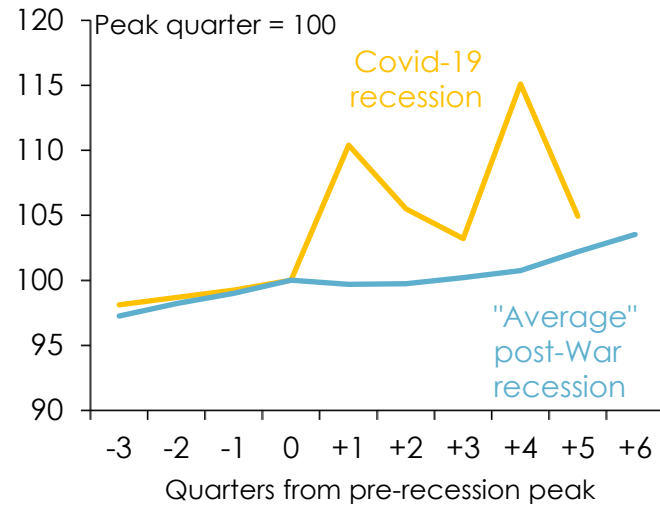


Note: 'average post-war recession' is the average of figures for each of the eleven post-war US recessions as designated by the [National Bureau of Economic Research Business Cycle Dating Committee](#), with the exception of the recession of January-July 1980 (which was too short, and too close to the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

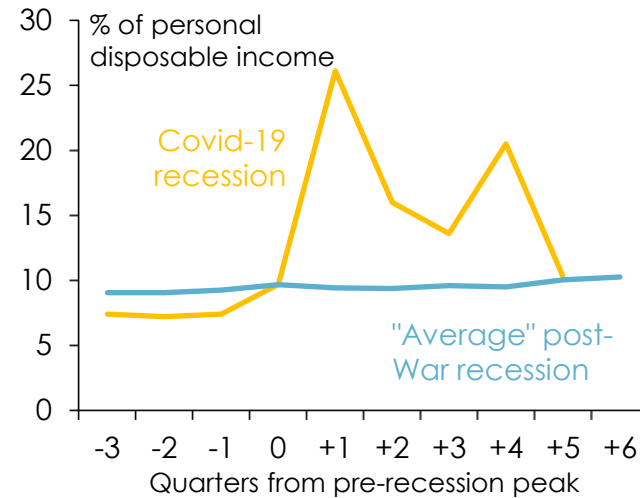


# The differences between this recession and previous ones are even more apparent from some of the details in the national accounts

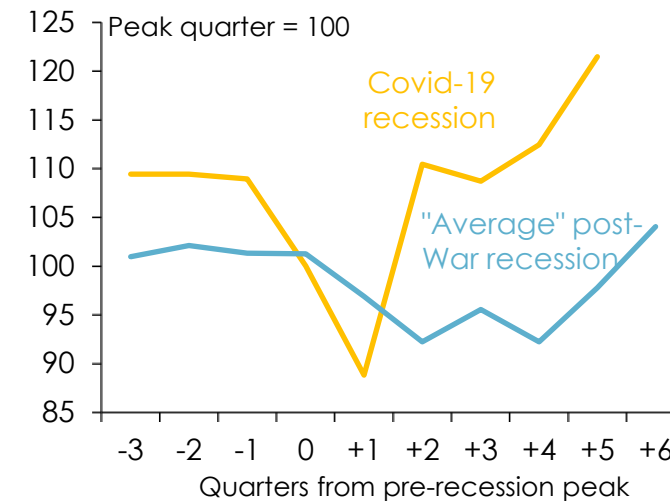
## Personal disposable income



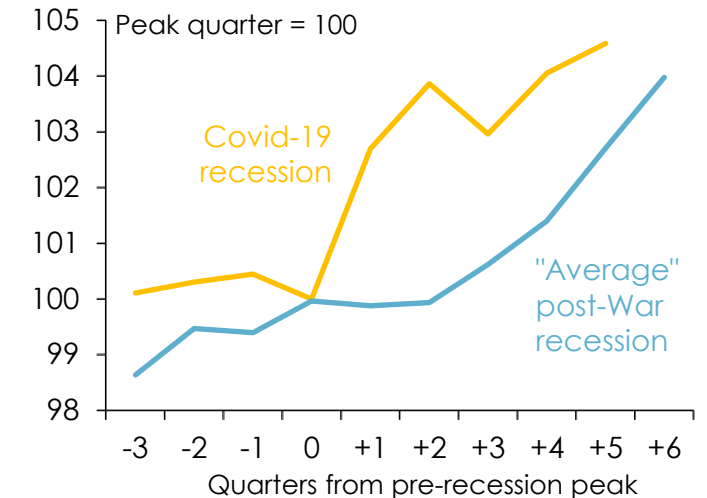
## Personal saving rate



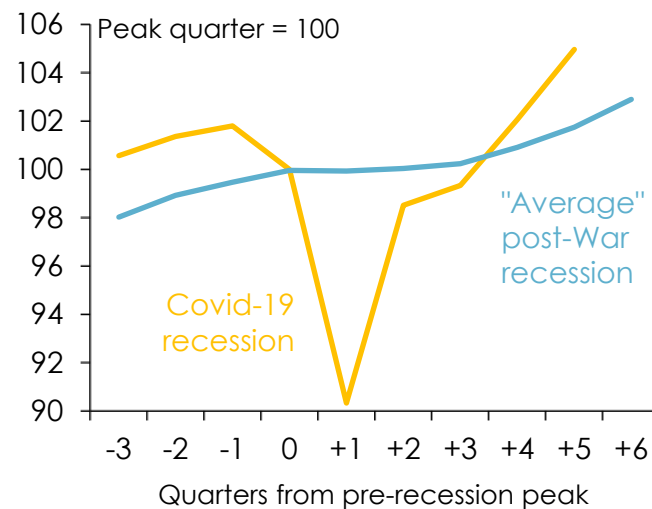
## After-tax corporate profits



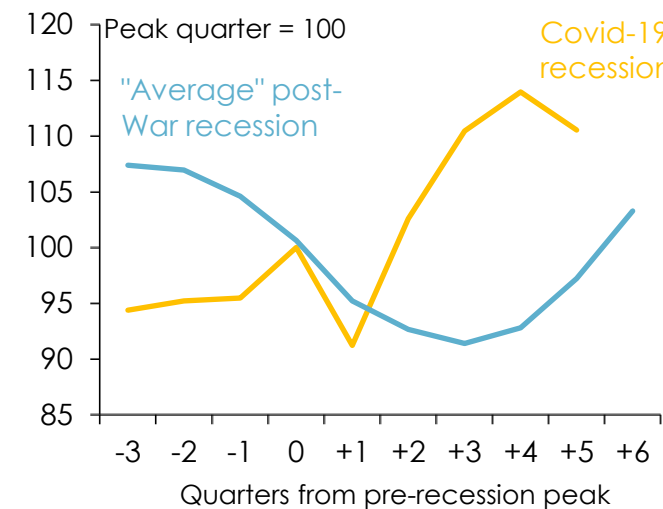
## Labour productivity



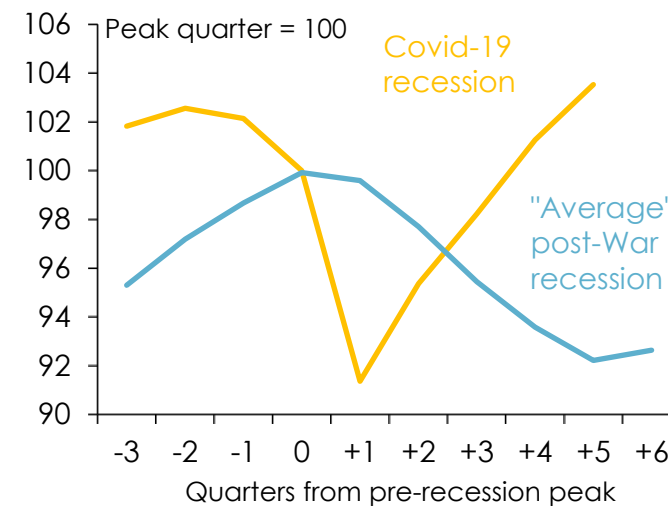
## Personal consumption



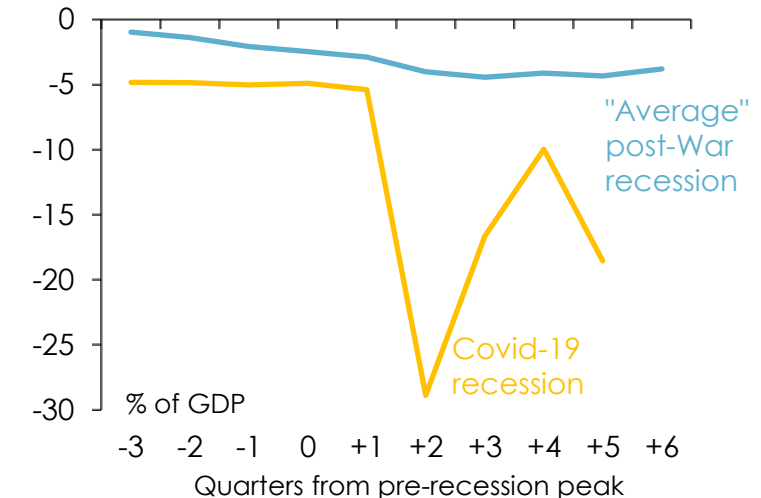
## Residential investment



## Business investment



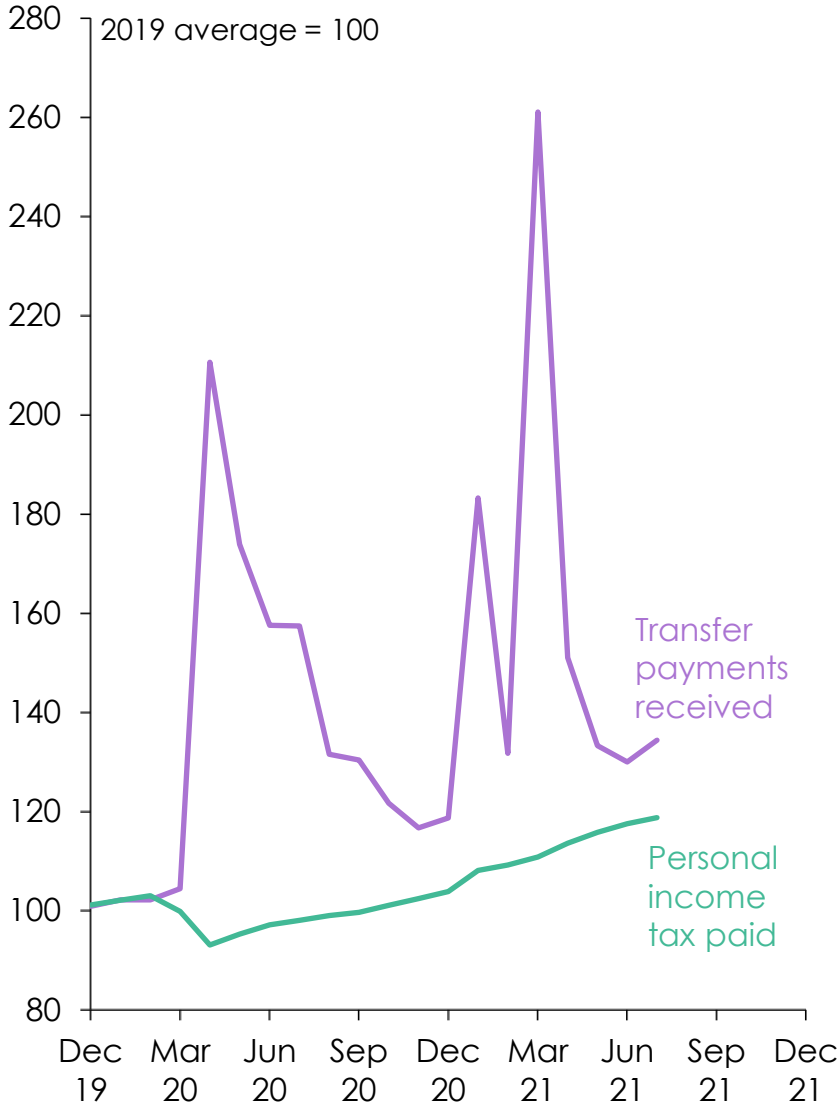
## Federal budget balance



Note: 'average post-war recession' is the average of figures for each of the eleven post-war US recessions as designated by the [National Bureau of Economic Research Business Cycle Dating Committee](#), with the exception of the recession of January-July 1980; 'peak quarter' is the quarter in which real GDP attained its highest level before the onset of the recession. All variables in the charts above are in 2012 chain volumes except for the personal saving ratio and budget deficit; after-tax profits are 'economic' rather than 'book' profits; labour productivity is for the non-farm business sector. Sources: US [Bureau of Economic Analysis](#); [Bureau of Labor Statistics](#). [Return to "What's New"](#).

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

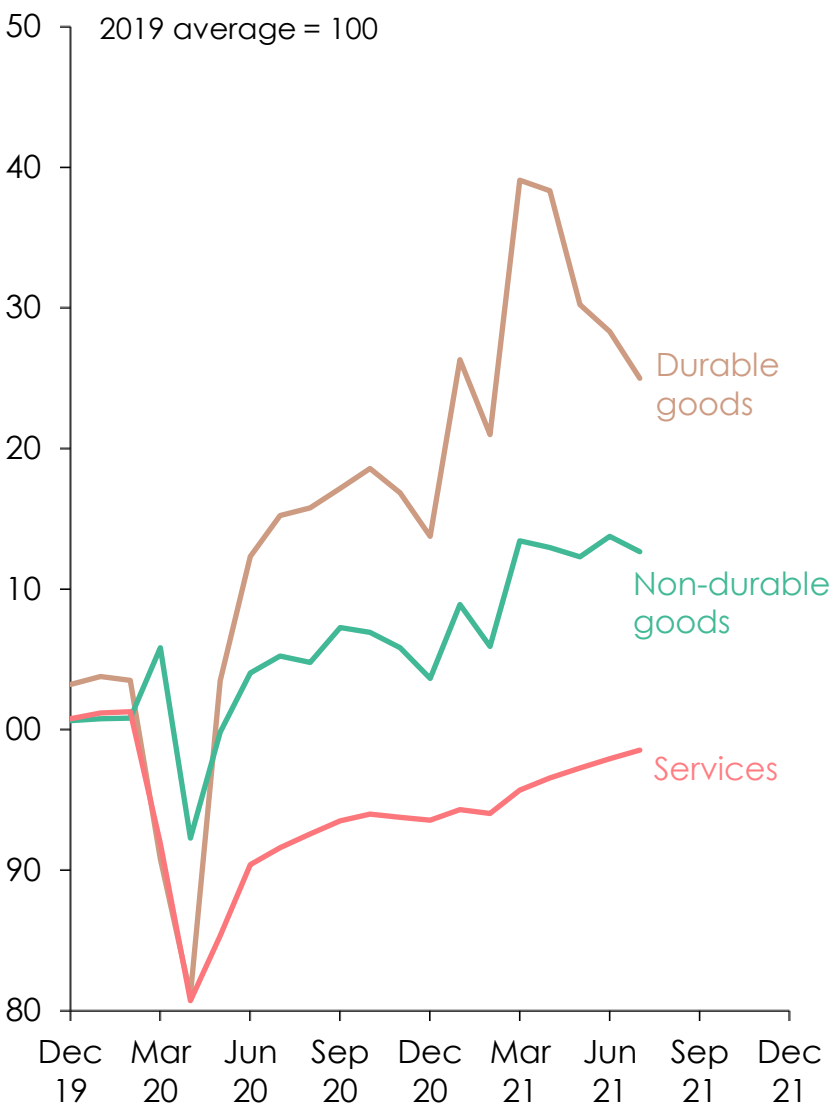
Tax and transfer payments



Real personal income



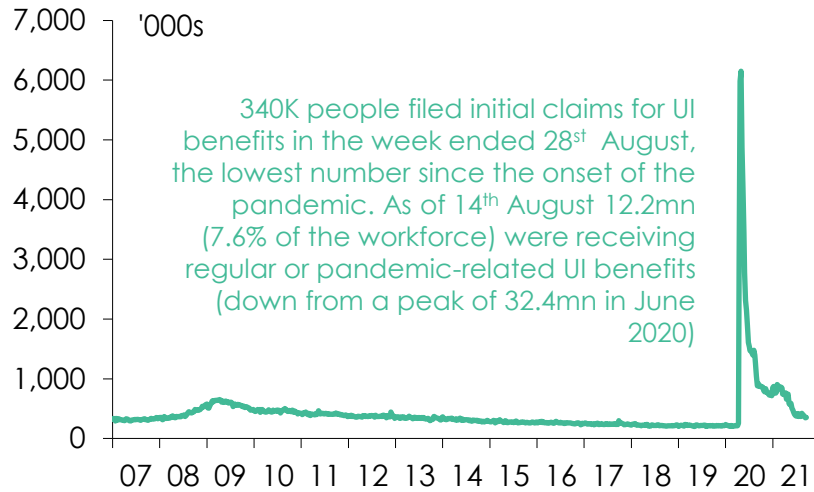
Real consumption expenditure



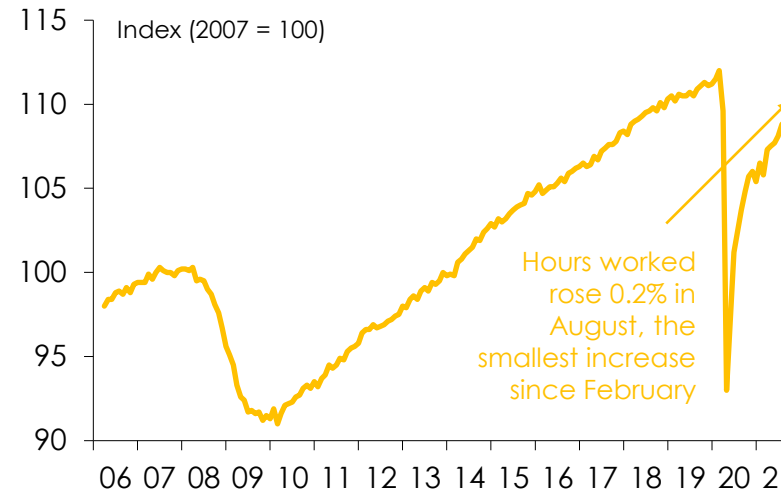


# US non-farm payrolls rose 235K (0.2%) in August, to be still 5.3mn (3.5%) below their pre-pandemic peak, while unemployment dropped 0.2 pc pt

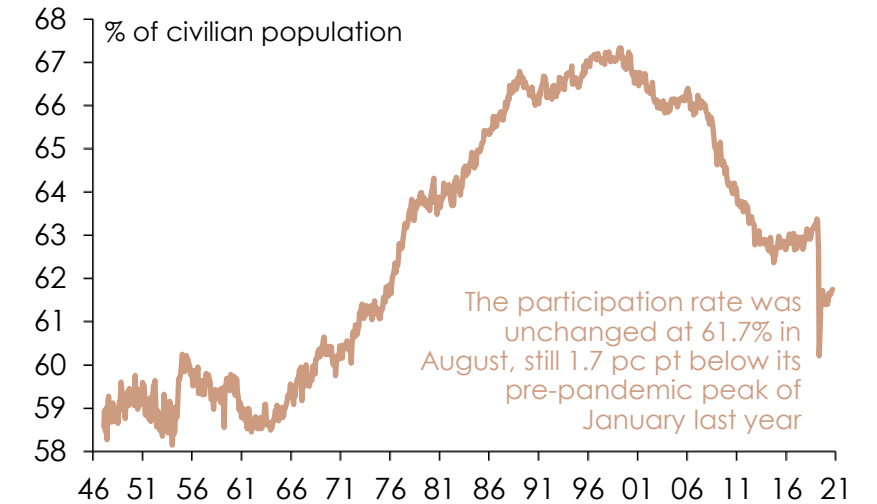
## Unemployment benefit claims



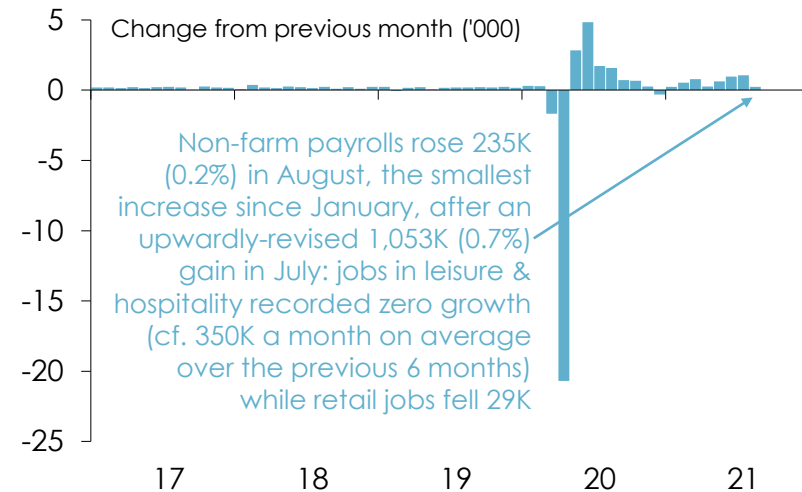
## Hours worked (private sector)



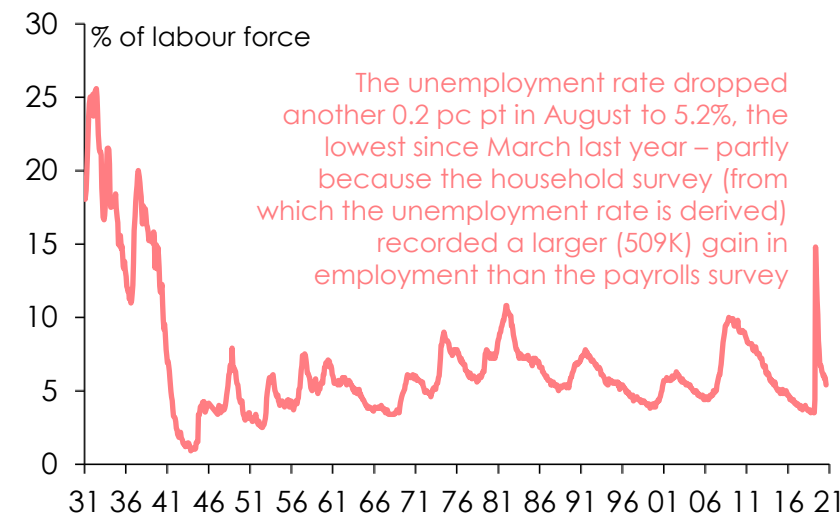
## Labour force participation rate



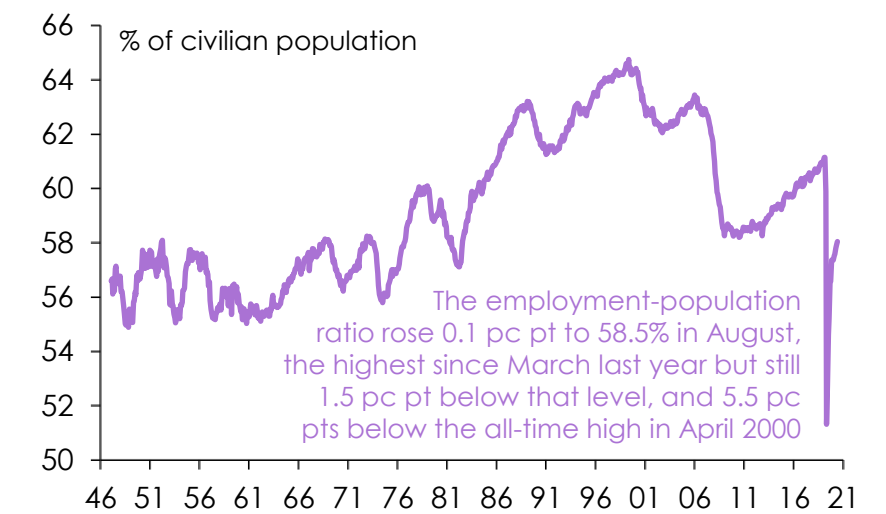
## Non-farm payroll employment



## Unemployment rate

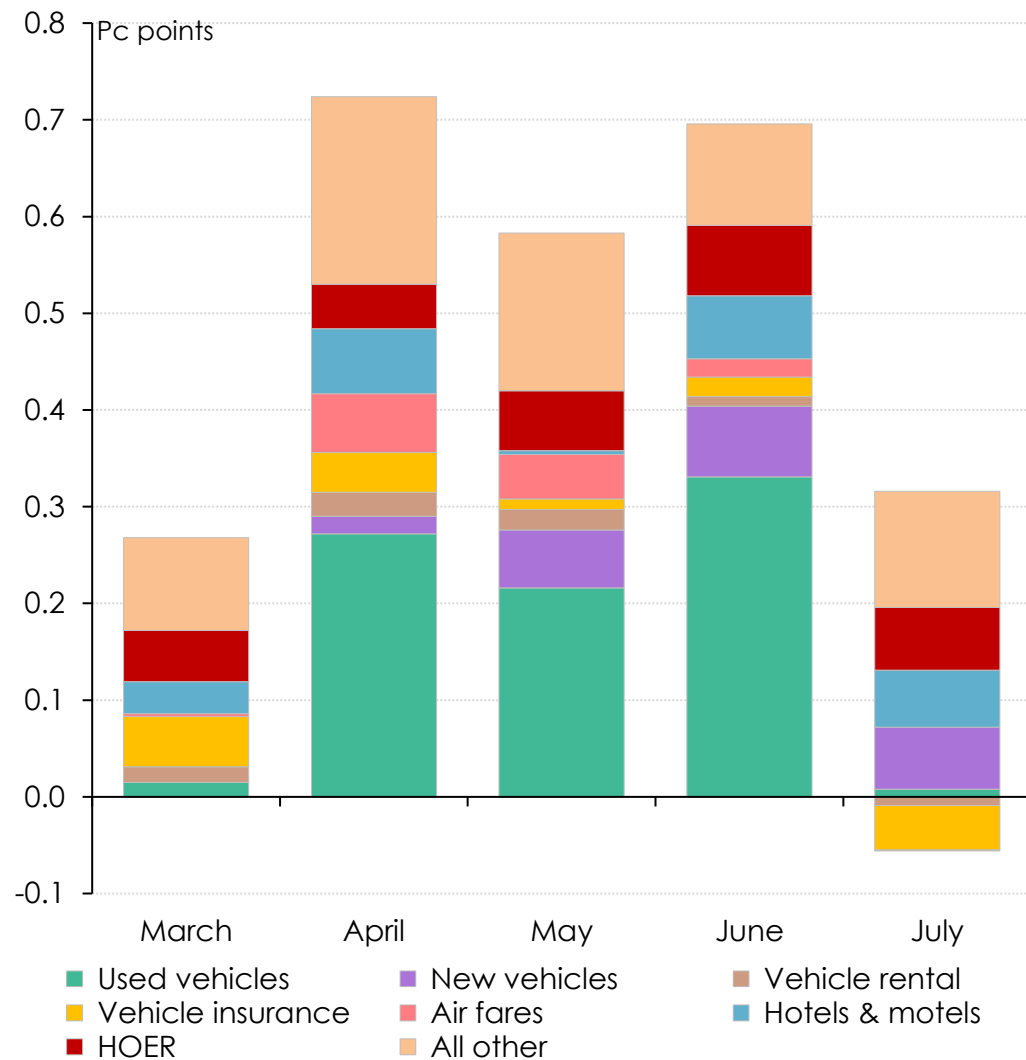


## Employment to population ratio



# 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



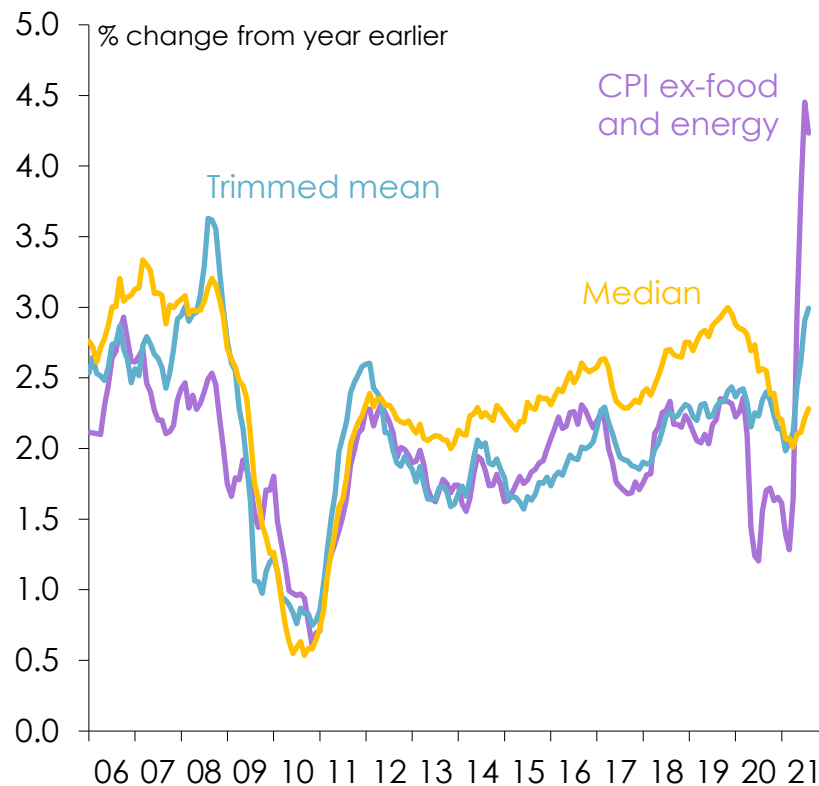
Price indices for items which have contributed most to recent monthly changes in the 'core' US CPI (rebased to December 2019 = 100)



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"](#).

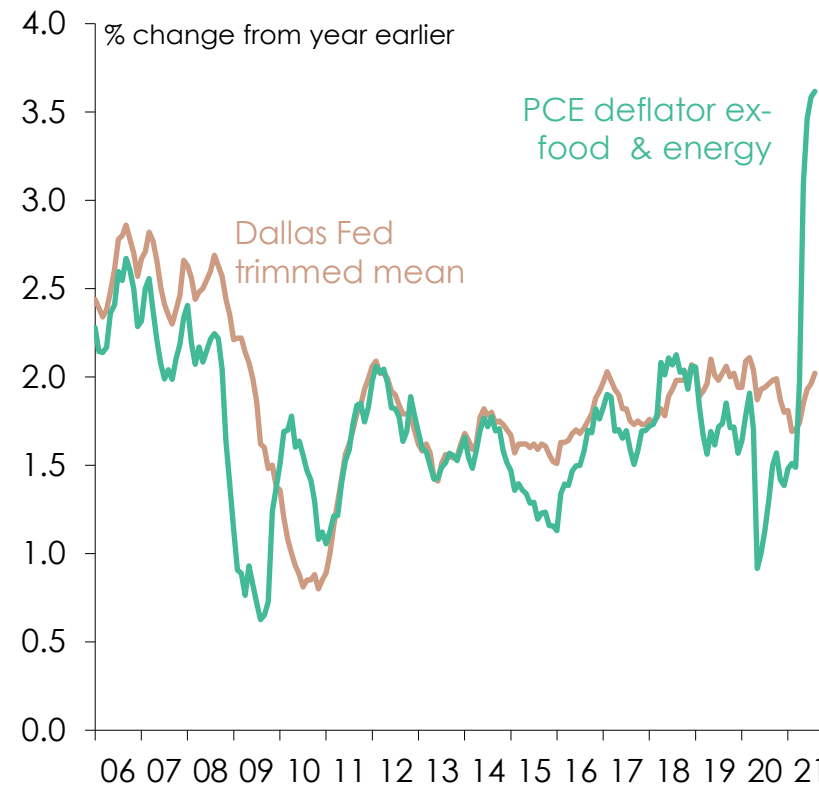
# Statistical measures of 'core' inflation haven't increased very much – but longer-term inflation expectations are starting to edge upwards

## Alternative measures of US 'core' CPI inflation



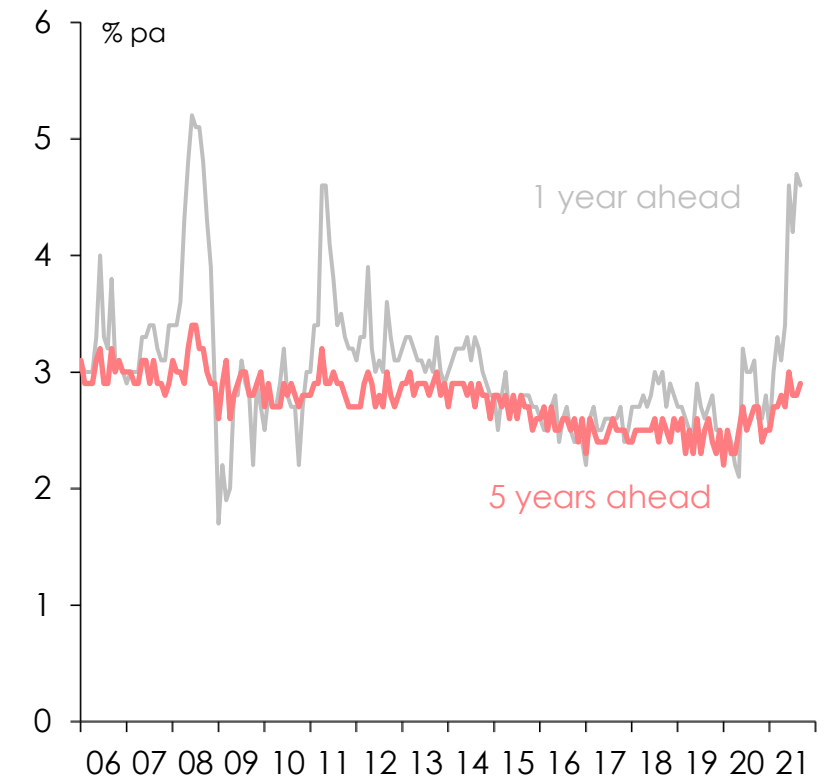
- ❑ Statistical measures (similar to those used by the RBA) confirm that the rise in 'core' CPI inflation is almost entirely due to 'outliers' (see previous slide)

## 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

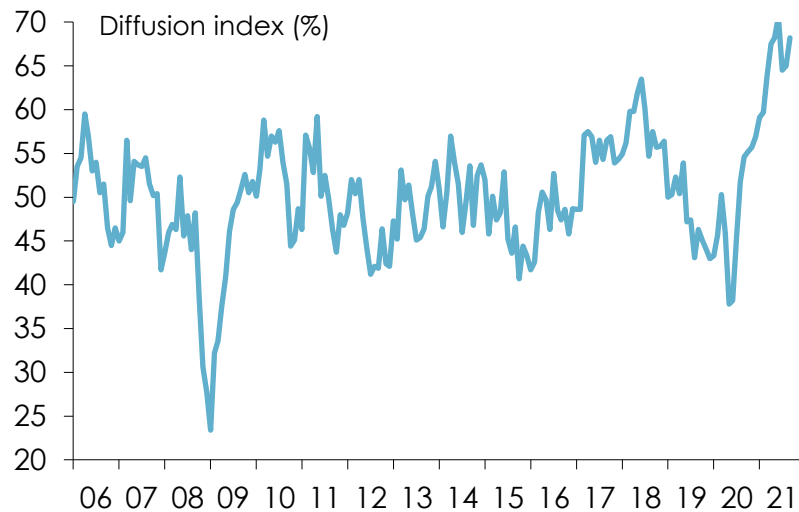


- ❑ Short-term household inflation expectations have risen sharply, but longer-term expectations are also creeping up

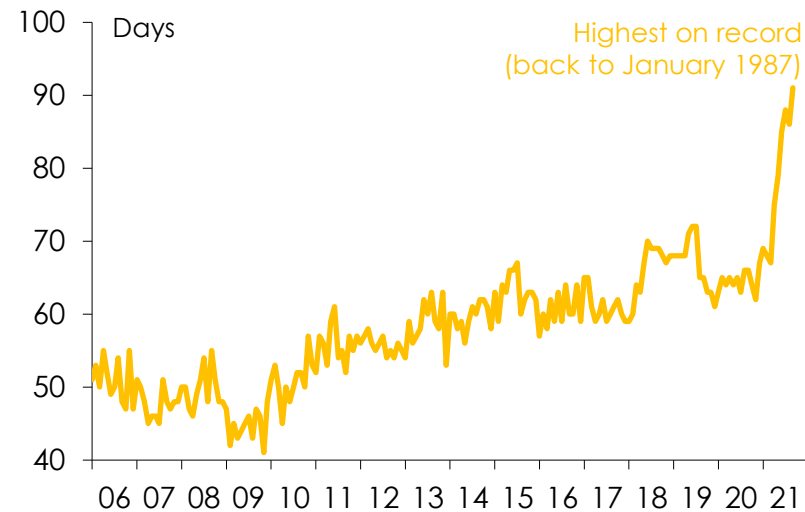
Note: The 'trimmed mean' CPI inflation rate excludes the components of the CPI whose weights fall in the top and bottom 8% of the distribution of price changes; the median is the component whose price change is in the middle of the distribution of price changes. The 'trimmed mean' of the PCE deflator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

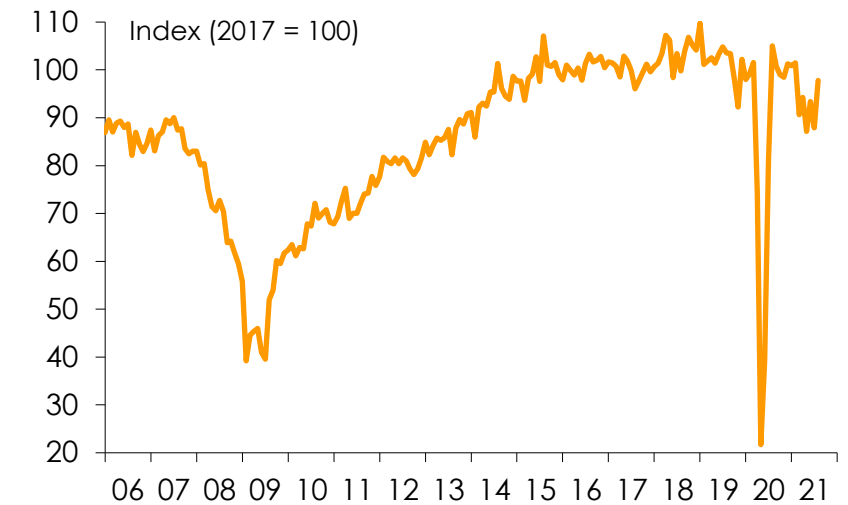
## Manufacturers' order backlogs



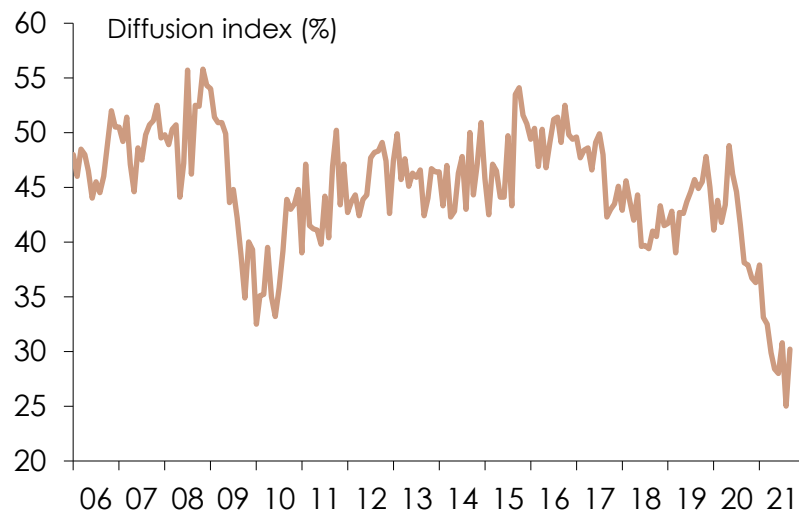
## Lead-time for production materials



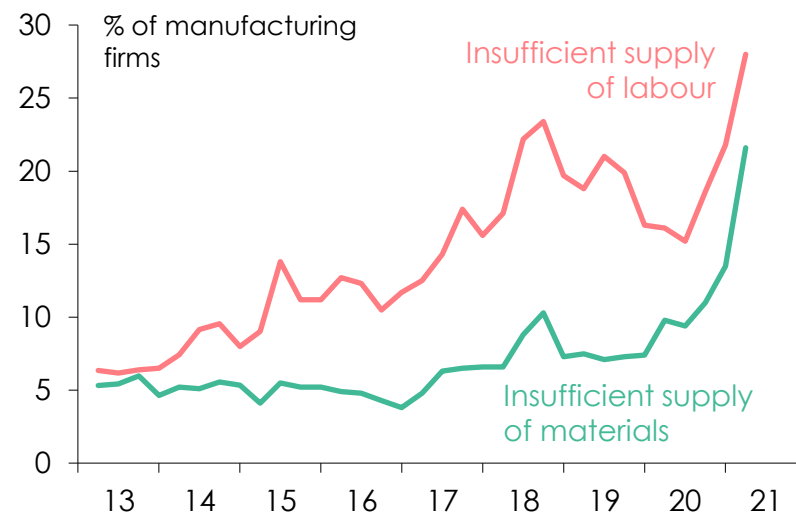
## Motor vehicles & parts production



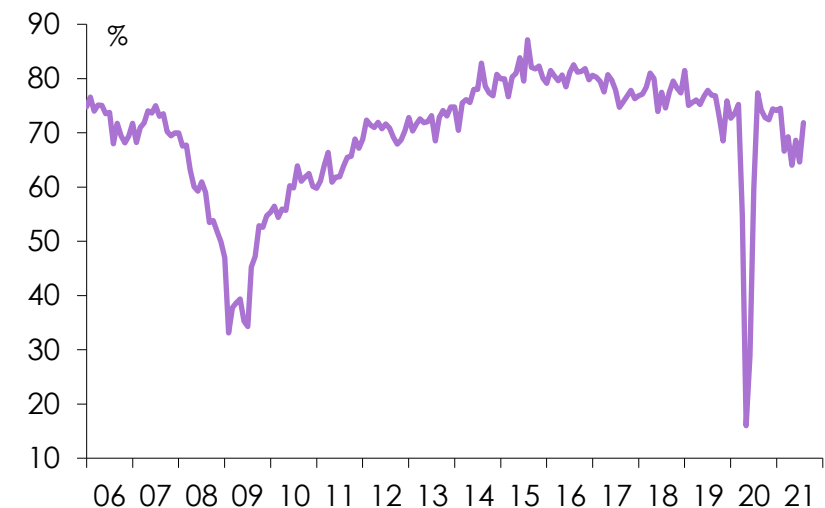
## Manufacturers' customer inventories



## Reasons for < full capacity



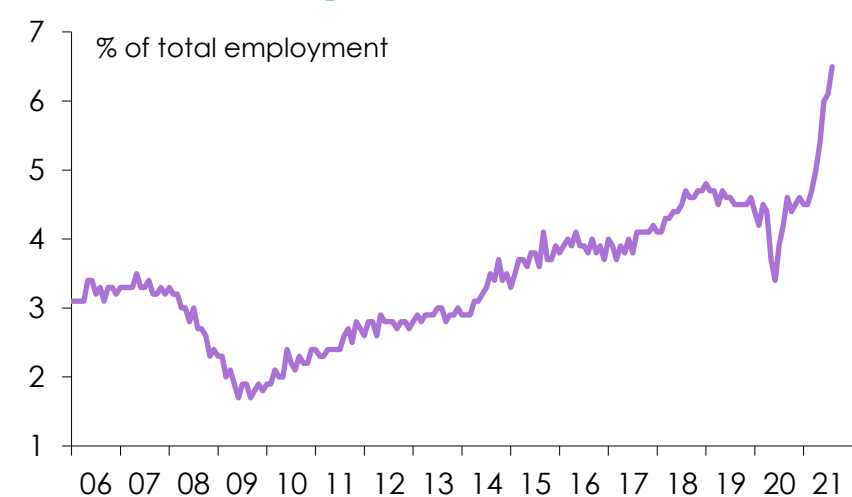
## Auto industry capacity utilization



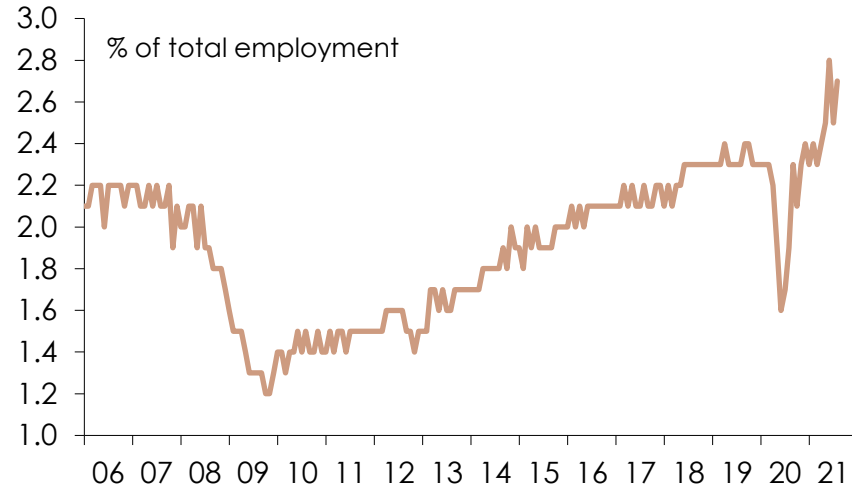
Note: The diffusion index of order backlogs is 50 plus the percentage of respondents reporting longer backlogs minus the percentage reporting shorter backlogs (and similarly for customer inventories). 'Reasons for < full capacity' means reasons for operating at less than full capacity. Sources: Institute 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"](#).

# 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

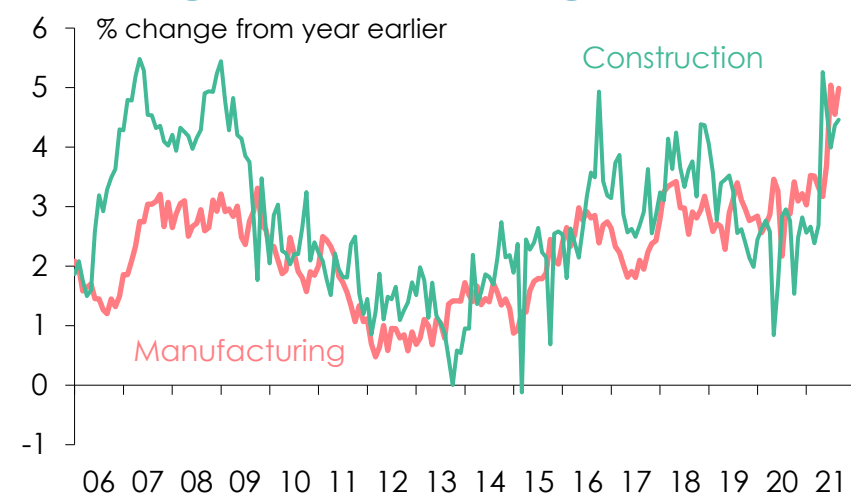


Quit rate

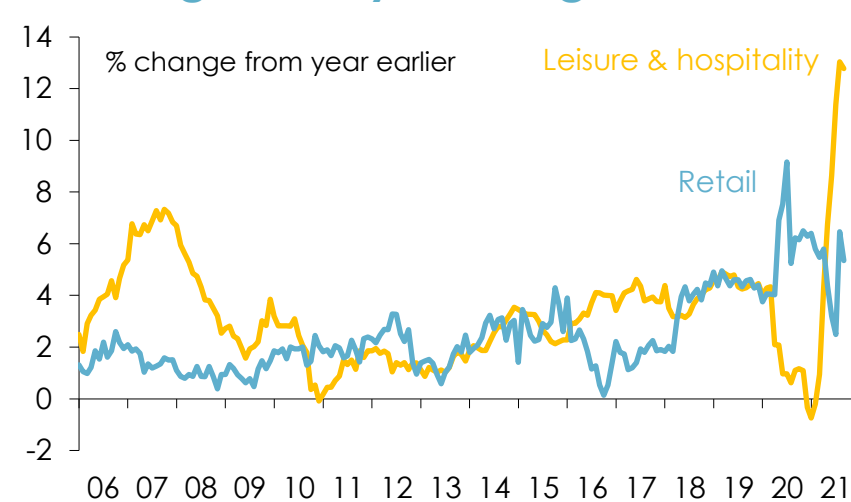


Note: Measures of average hourly earnings (especially the all-industries measures) and of average compensation per hour are affected by changes in the composition of employment (so for example they rose sharply in Q2 2020 when large numbers of low-paid workers were laid off and fell markedly when they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

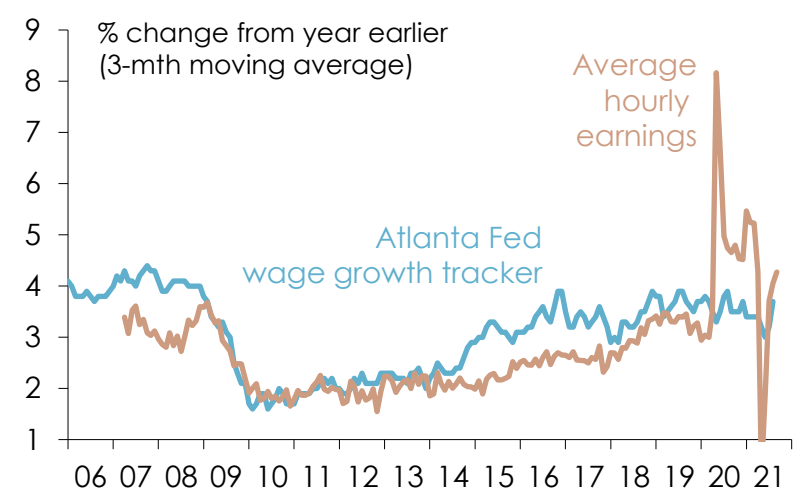
Average hourly earnings



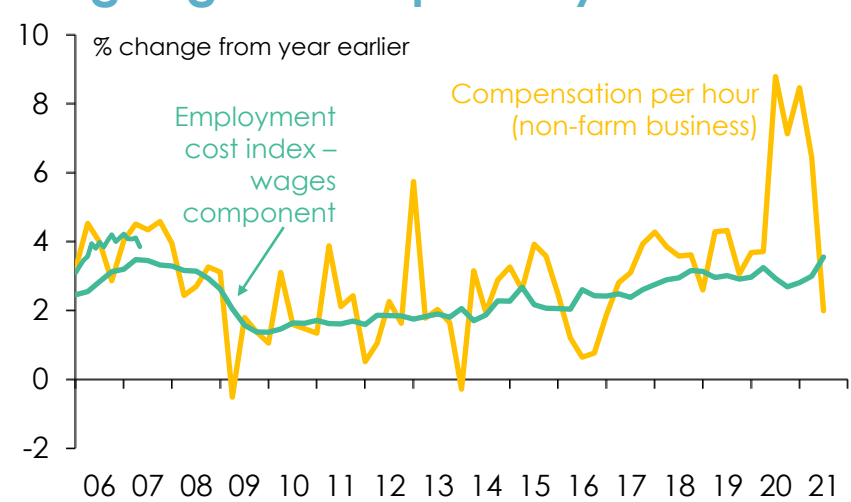
Average hourly earnings



Overall wages growth - monthly

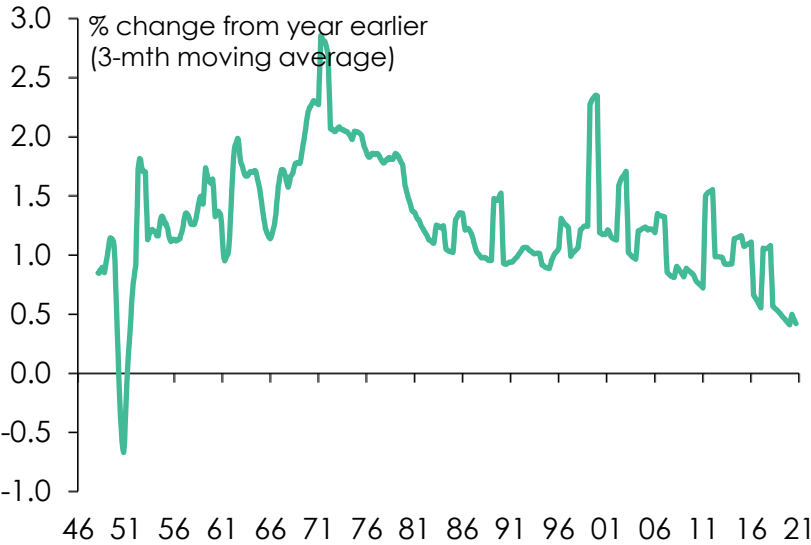


Wages growth - quarterly

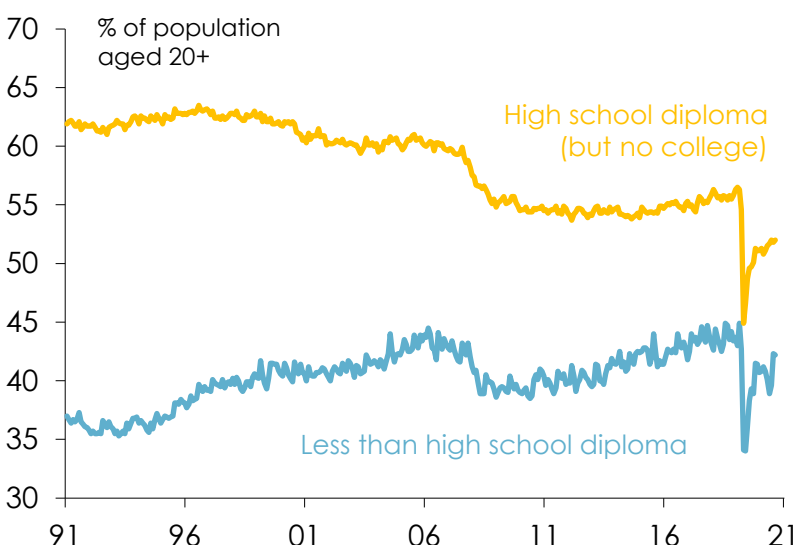


# US labour market tightness owes a lot to restrictions on immigration, and to barriers to the return to the labour market of specific groups

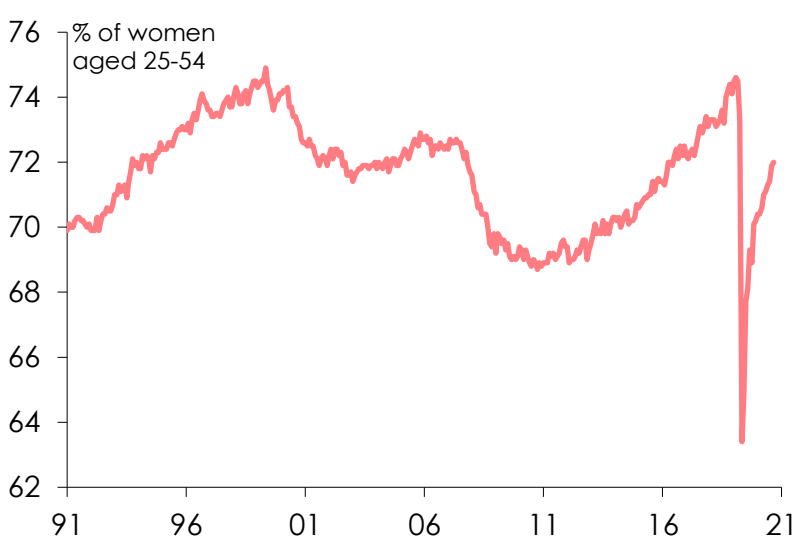
Civilian working age population



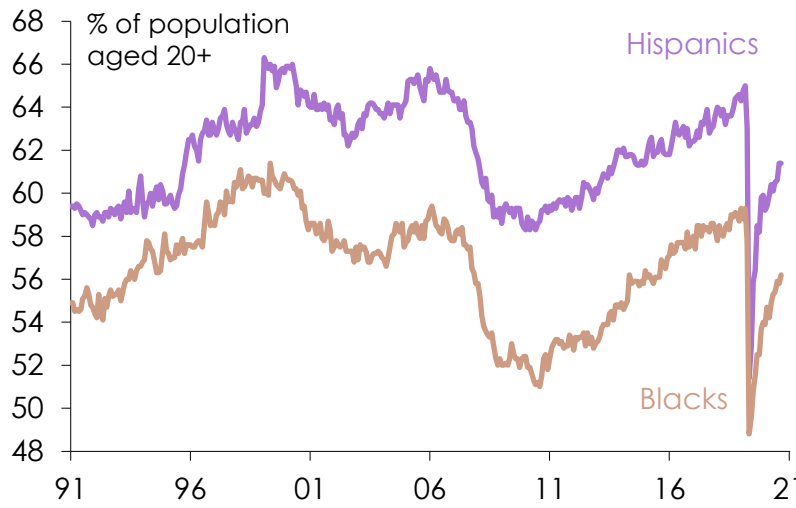
'E-pop' ratio – by education



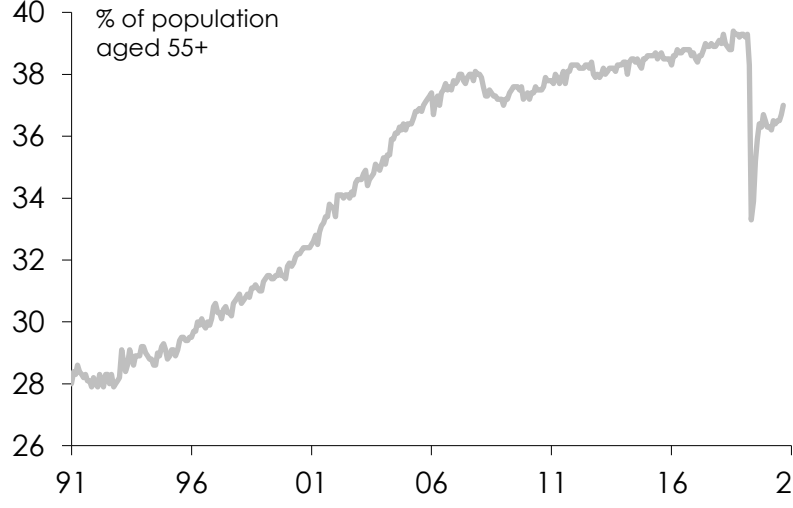
'E-pop' ratio – women 25-54



'E-Pop' ratio – Blacks & Hispanics



'E-pop' ratio – people 55 & over



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

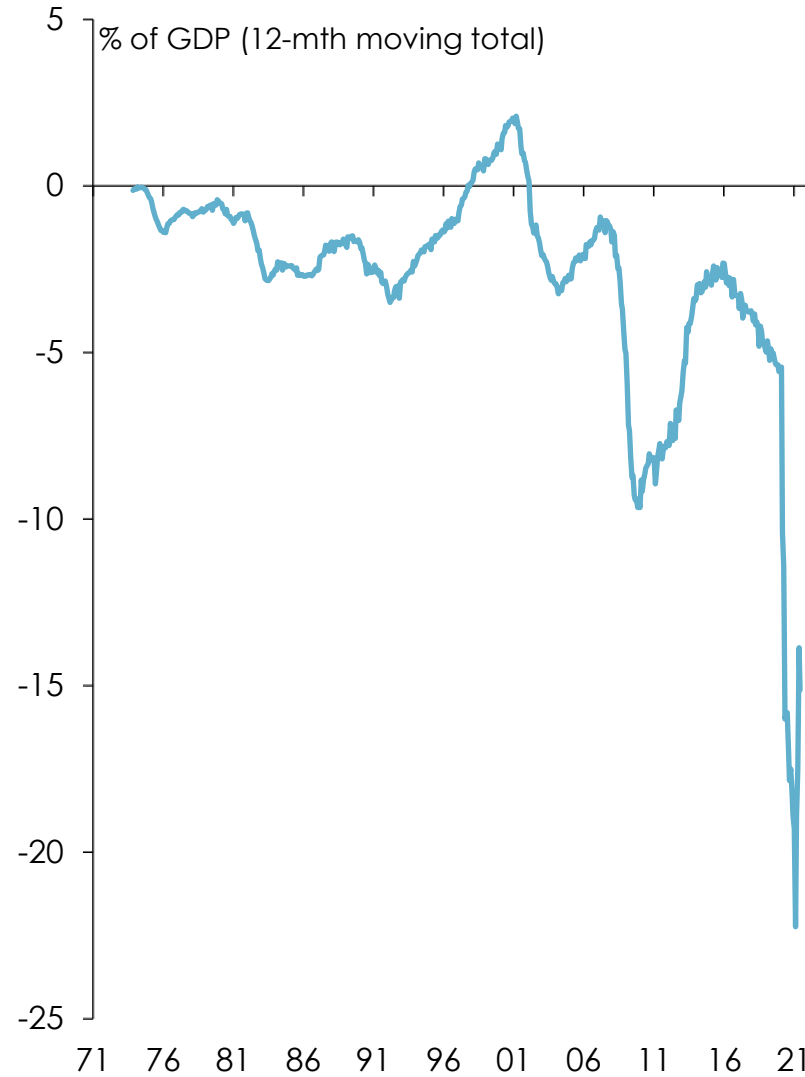
Group	Not in the labor force	Not in the labor force and caregiving
All individuals aged 16 and older	1.7	.7
Women aged 25 to 54 without children	1.8	1.0
Mothers aged 25 to 54 with only children aged 5 and younger	1.4	1.4
Mothers aged 25 to 54 with children aged 6 to 17	2.6	2.6
White	2.7	2.5
Black or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

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

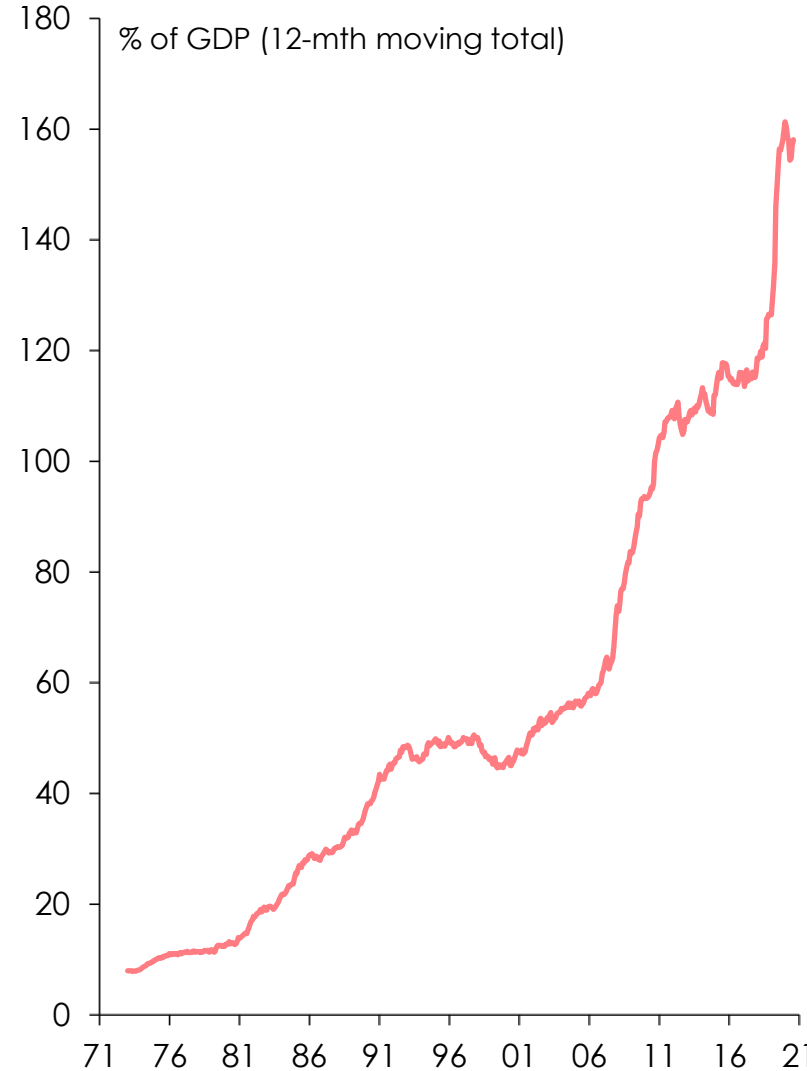


# The US budget deficit has probably passed its peak, but new stimulus measures will ensure it stays large for some years yet to come

## US Federal budget deficit



## US gross Federal debt



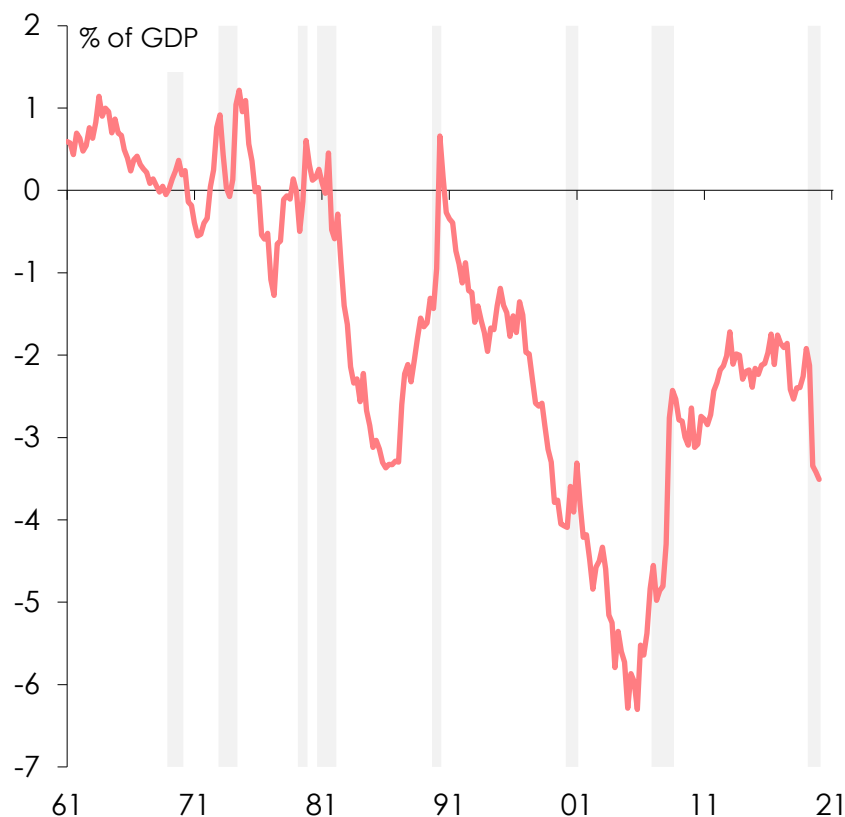
- ❑ The US Federal Government budget deficit widened by US\$128bn to \$302.1bn in July – largely reflecting a bigger-than-usual decline in personal income tax collections
- ❑ The deficit for the 12 months ended July was US\$2.9 trn, down from a peak of \$4.1 trn in the 12 months ended March, but almost 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 last month 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 funded 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"](#).



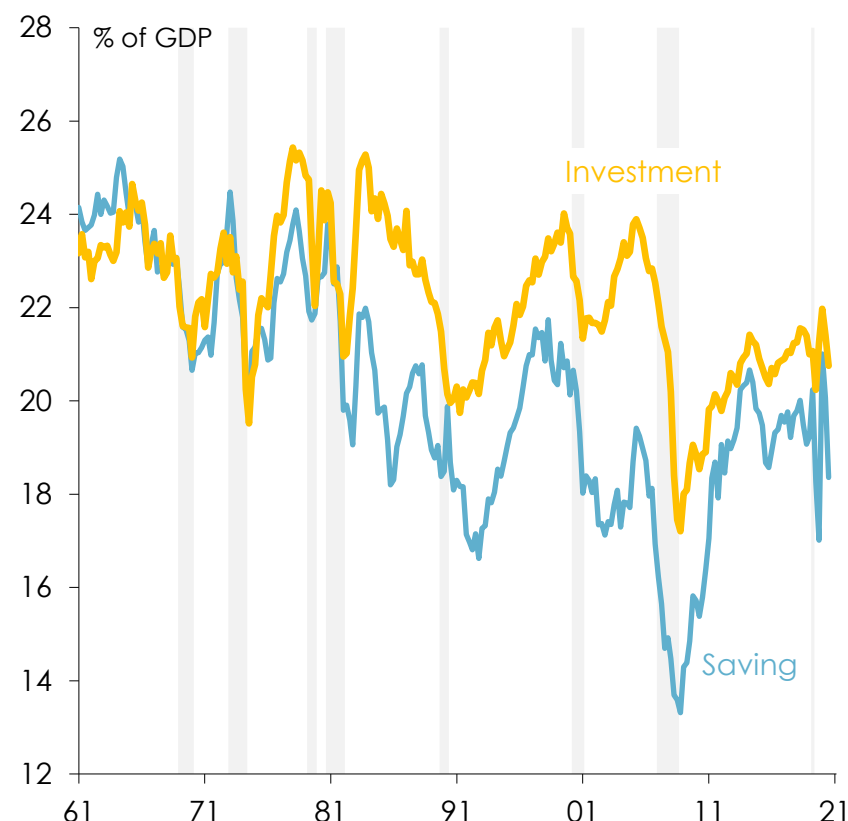
# Unusually, the US current account deficit has widened so far during this recession, largely because investment hasn't fallen much

## US current account balance



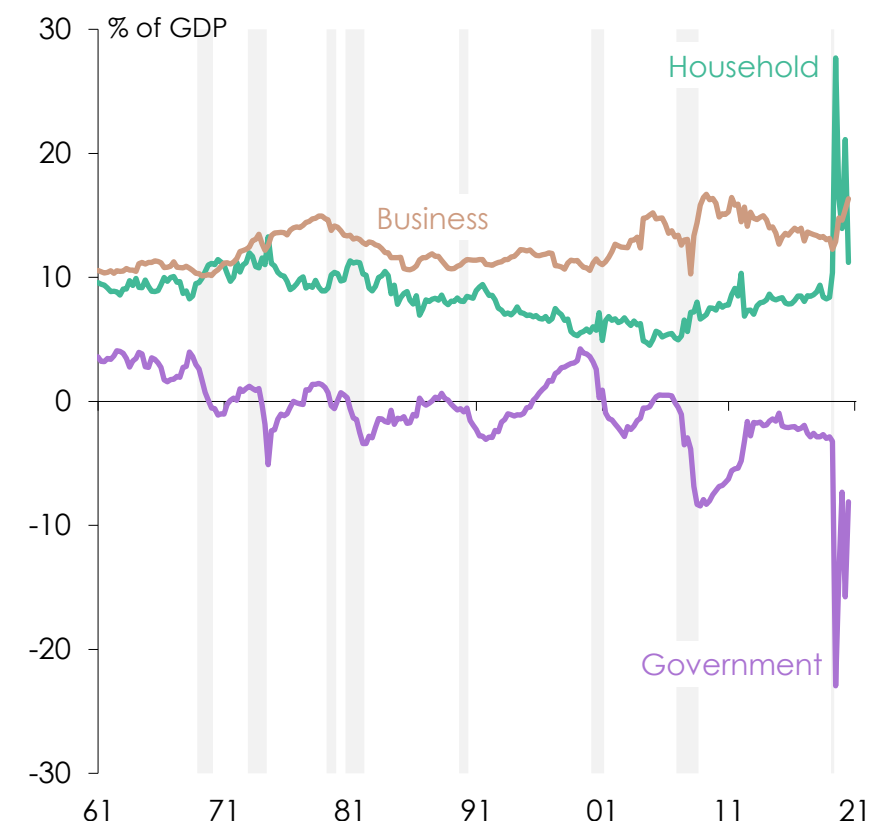
The US current account has *widened* during the recession that began last year – and in Q1 was the largest (as a pc of GDP) since Q4 2008

## 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



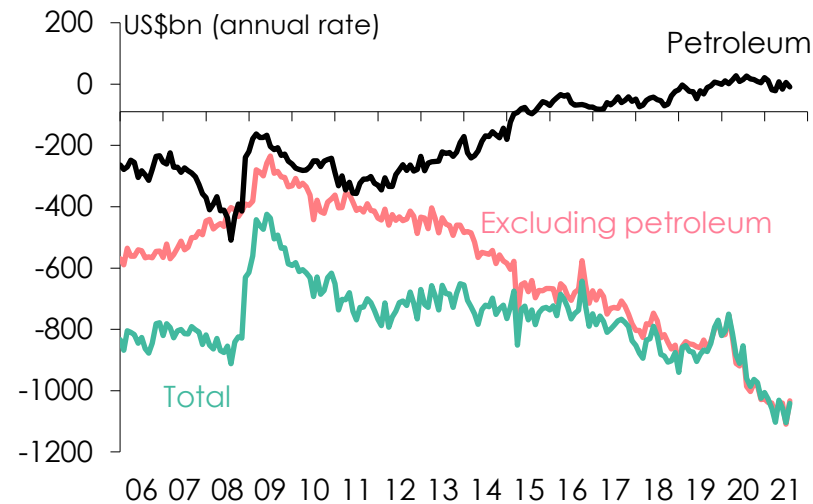
The dramatic increase in the budget deficit has been largely (but not totally) offset by an increase in household saving

Note: shaded areas denote recessions as designated by the US [National Bureau of Economic Research](#). Data up to Q2 2021.

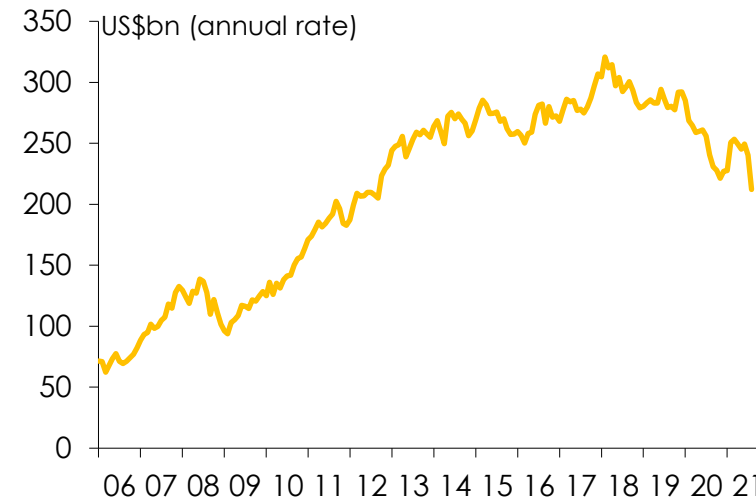
Source: US [Bureau of Economic Analysis](#). [Return to "What's New"](#).

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

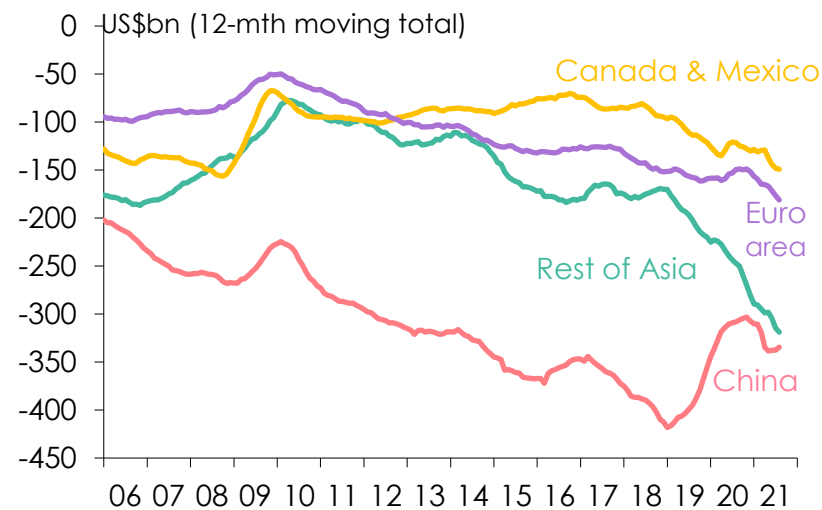
## US goods trade balance



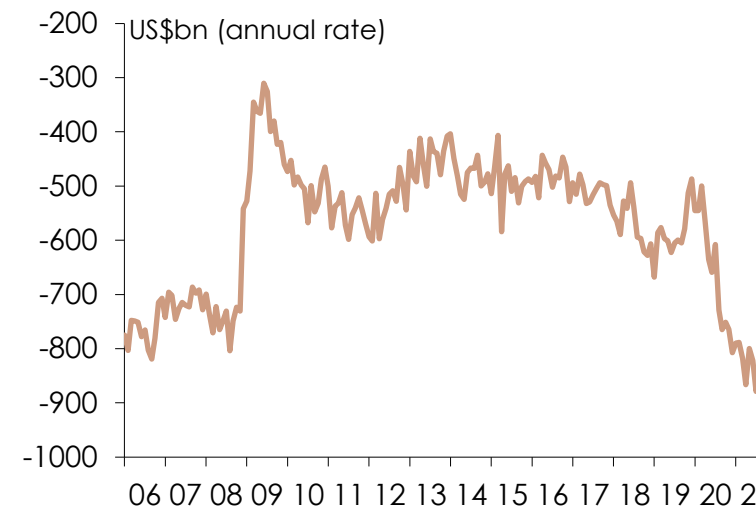
## US services trade balance



## US bilateral goods trade balances



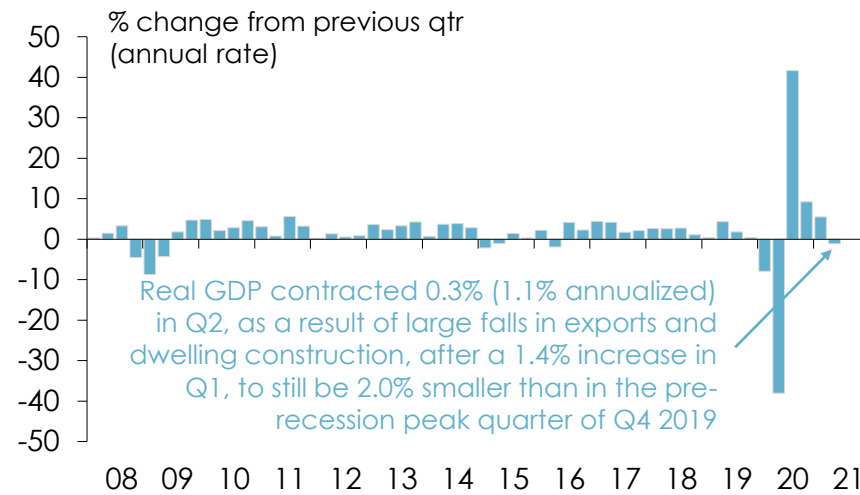
## US goods & services trade balance



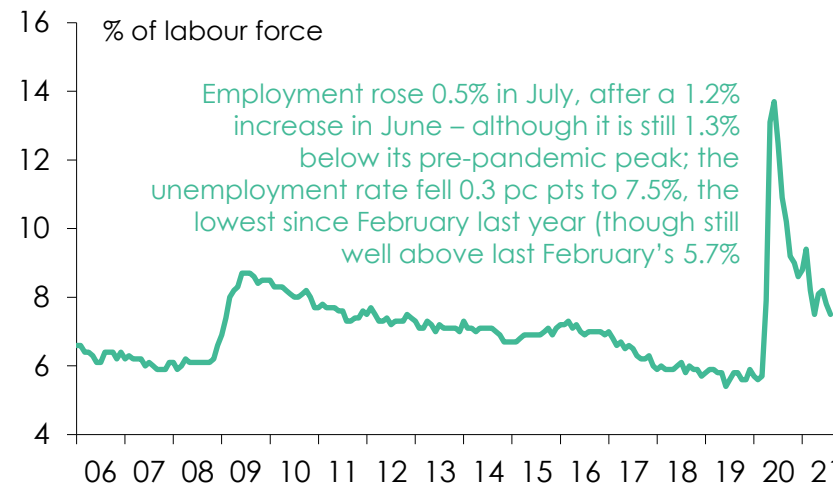
- ❑ The US goods trade deficit narrowed by US\$5.5bn in July to \$87.7bn
  - exports rose 1.8% and imports fell 1.2%
  - this was however still the fifth largest monthly trade deficit on record (after June's largest ever)
  - the US' bilateral deficits with China, ASEAN and the euro area have each widened by about \$25bn between the first seven months of 2020 and the first seven months of 2021
- ❑ The services surplus narrowed by \$2.3bn to \$17.7bn in June, the smallest since August 2012
  - exports rose 0.1% and imports 5.5%
- ❑ The combined goods and services deficit in July was \$70.1bn, the third-largest ever
  - for the first seven months of 2021 the goods and services deficit was \$485bn, compared with \$354bn in the first seven months 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

# Canada's economy shrank by 0.3% in Q2 due to large falls in exports and residential construction, to be 2% smaller than at the pre-pandemic peak

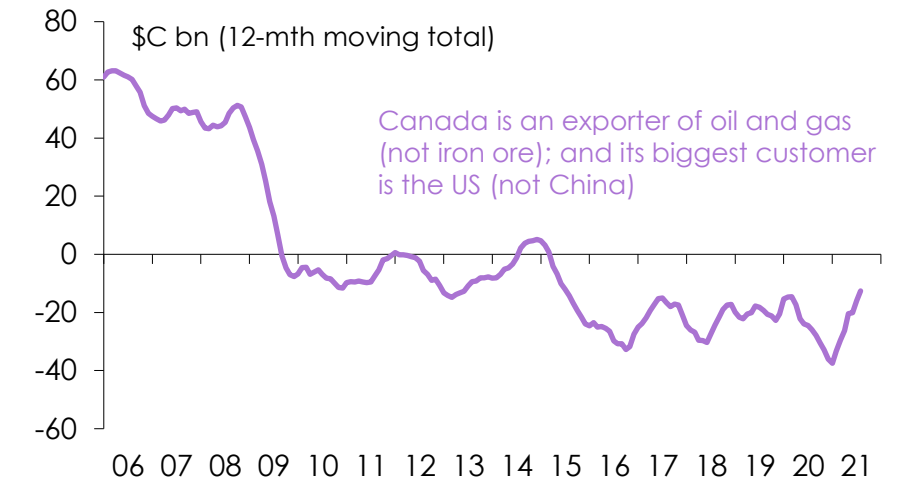
## Real GDP



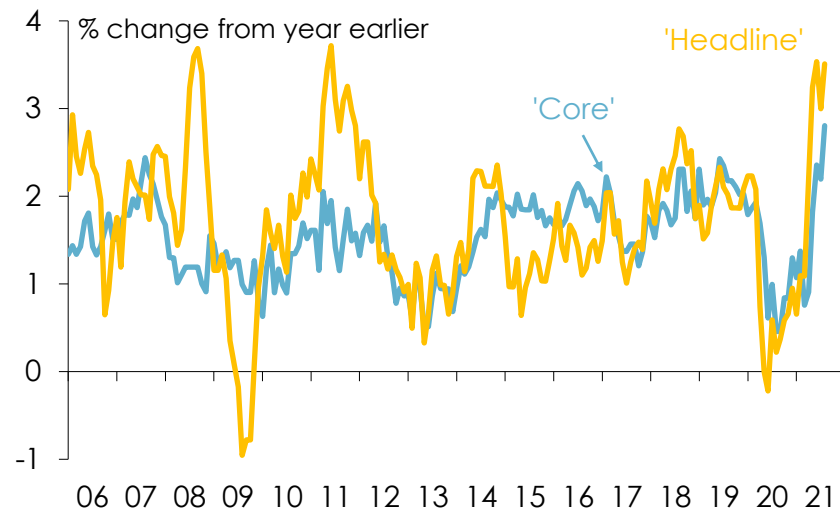
## Unemployment rate



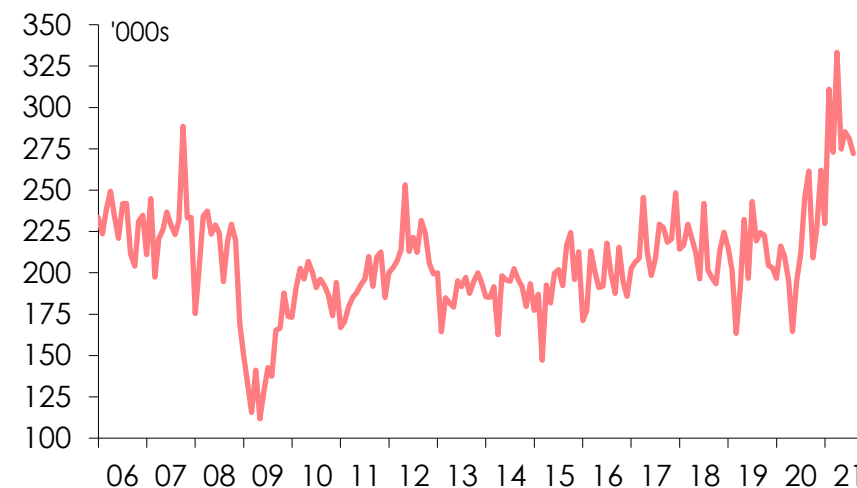
## Merchandise trade balance



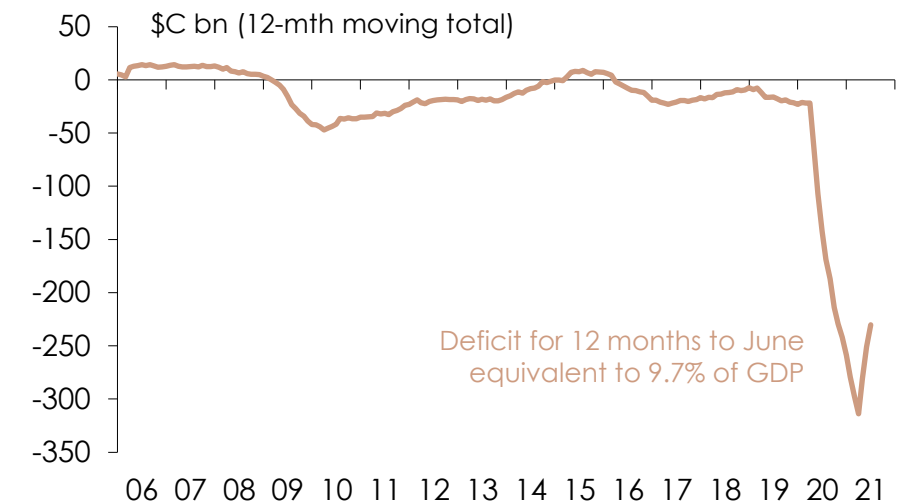
## Consumer prices



## Housing permits



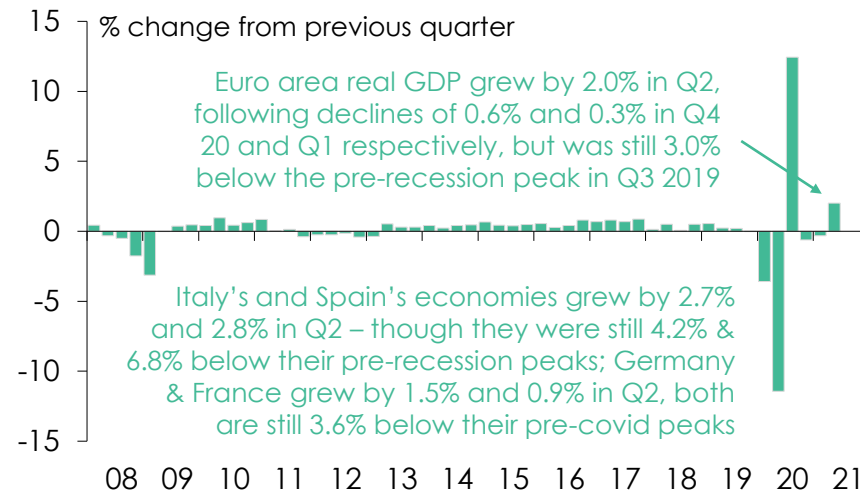
## Federal budget balance



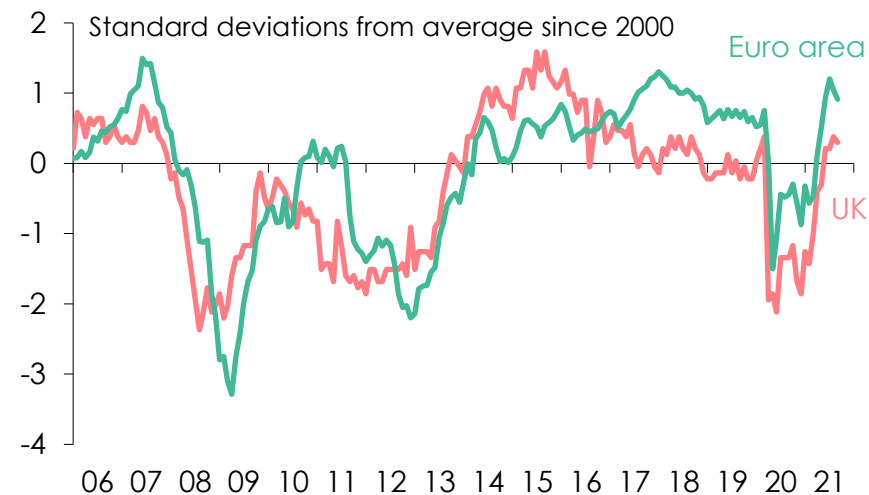
Sources: [Statistics Canada](#); [Teranet-National Bank of Canada](#); [Department of Finance Canada](#). [Return to "What's New"](#).

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

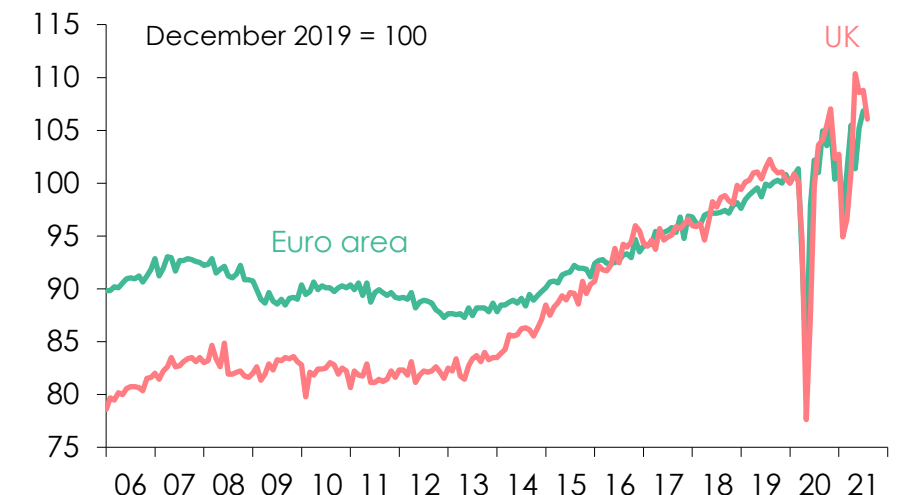
## Euro area real GDP



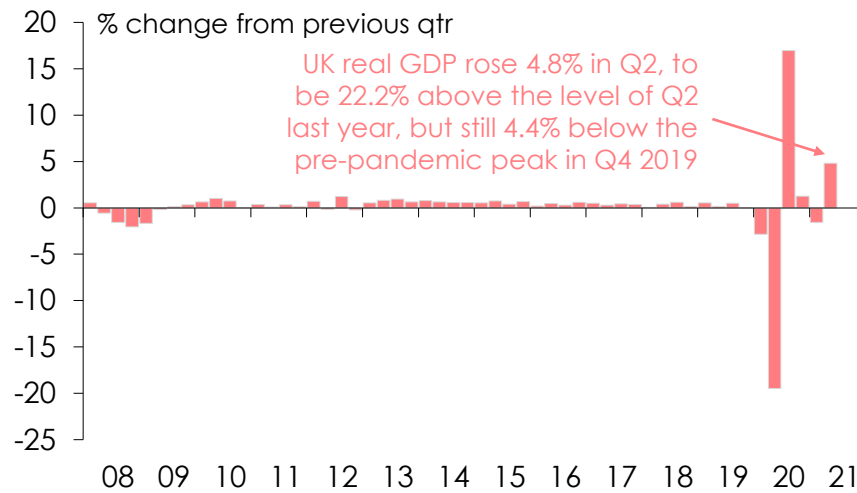
## Consumer confidence



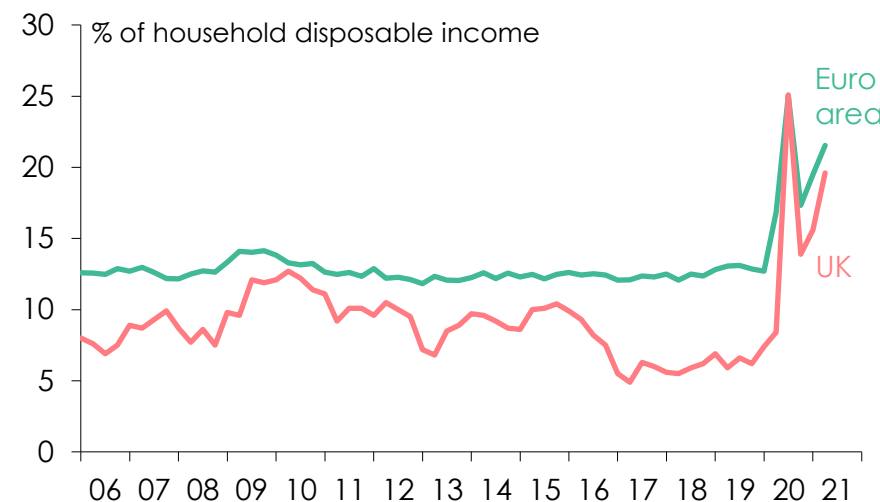
## Retail sales volume



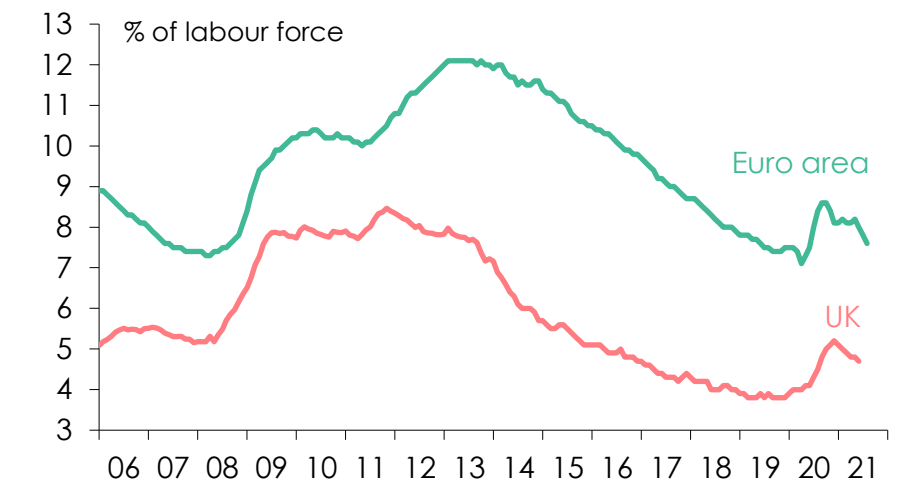
## UK real GDP



## Household saving ratio



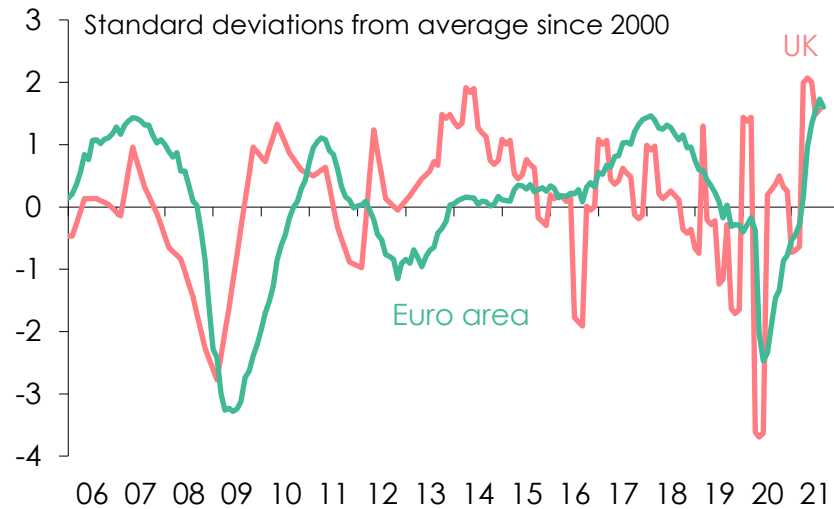
## Unemployment



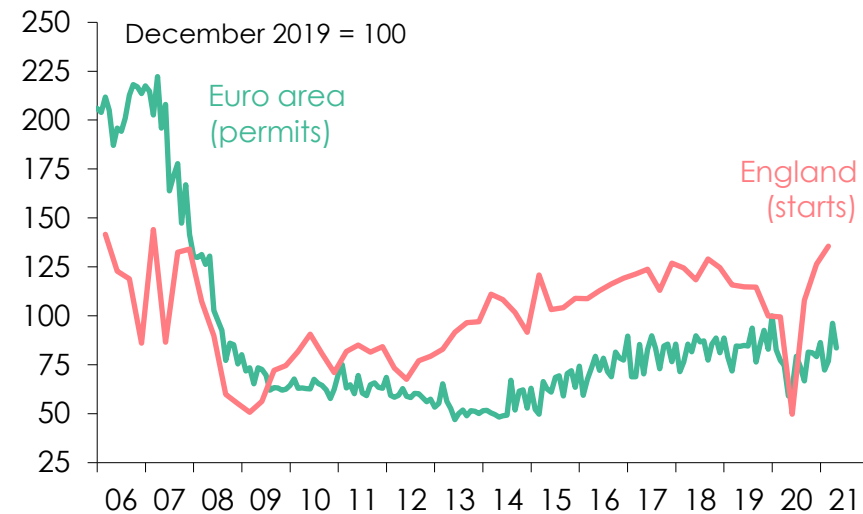
Sources: Eurostat; UK Office for National Statistics; GfK. The UK unemployment rate is published as a 3-month moving average.  
[Return to "What's New".](#)

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

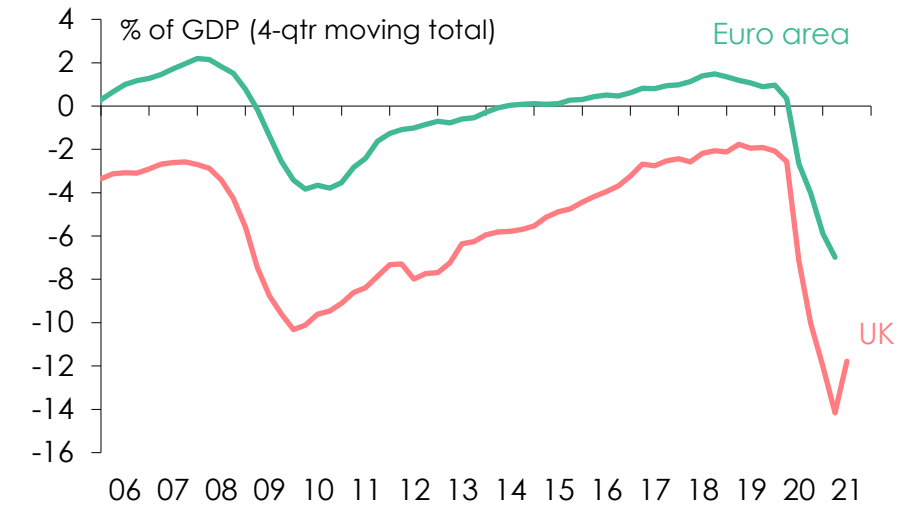
## Business confidence



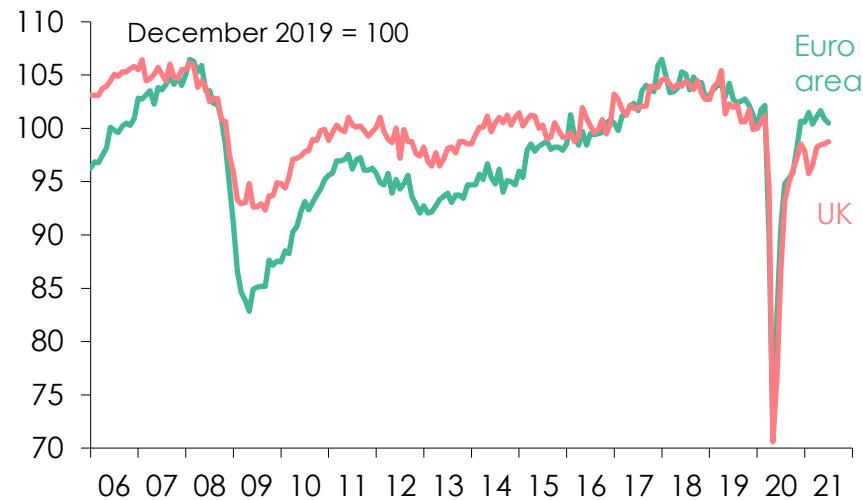
## Housing activity



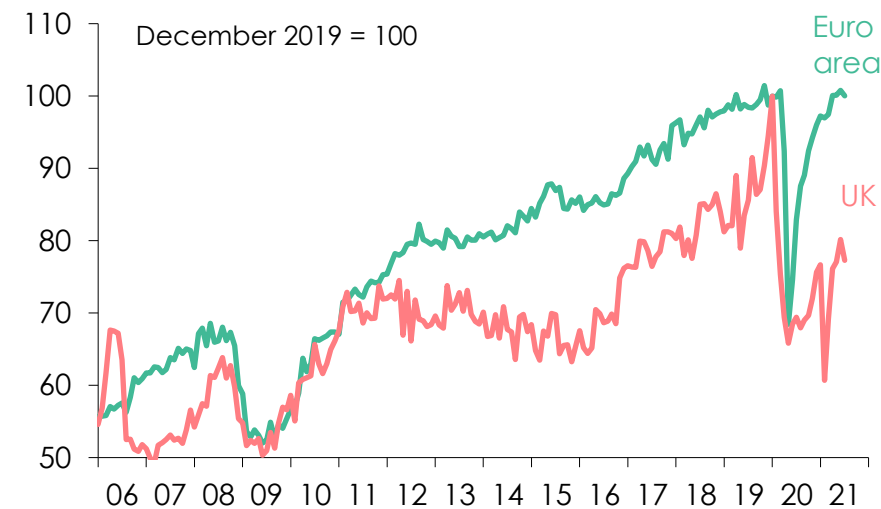
## Government fiscal balance



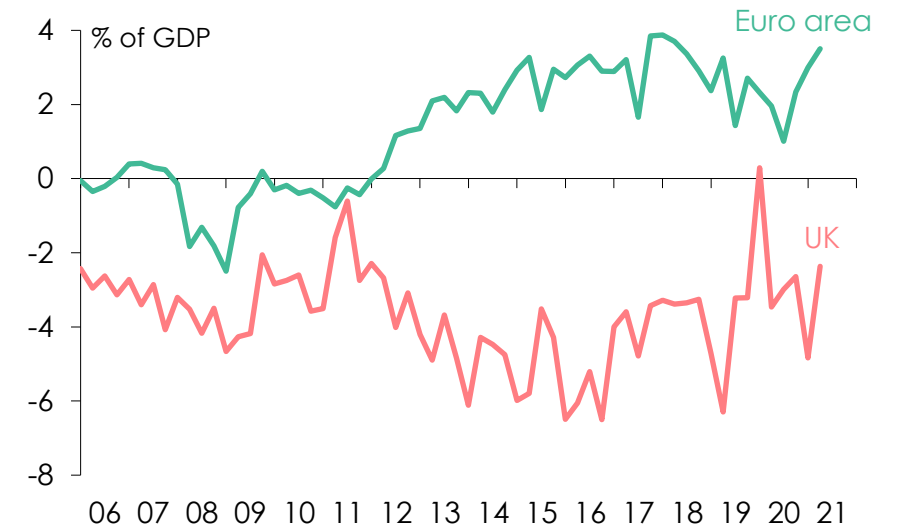
## Manufacturing production



## Merchandise exports



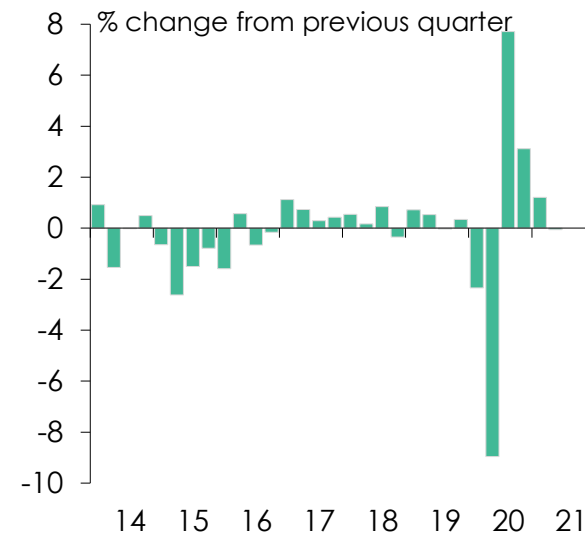
## Current account balance



# Brazil's economy shrank marginally in Q2, inflation is at almost 10% and unemployment at 14%

- ❑ Brazil's real GDP declined by 0.1% in Q2, after a 1.2% increase in Q1
  - GDP was 12.4% larger than in last year's (depressed) Q2
  - but was still 2.2% below its previous peak in Q4 2014
- ❑ The small contraction in Q2 was largely attributable to a 3.6% fall in fixed capital spending
  - which more than offset a 9.4% increase in exports (which pushed Brazil's current account into surplus in Q2 for the first time in 14 years)
  - household consumption was flat, after rising just 0.1% in Q1, to be still 3.0% below the most recent peak in Q4 2019
- ❑ Inflation has risen from 2.1% to 9.9% over the past 12 months, prompting Brazil's central bank to raise its policy rate (SELIC) 325 bp so far this year
- ❑ Unemployment remains elevated at 14.0%, down only 0.7 pc pts from January's peak

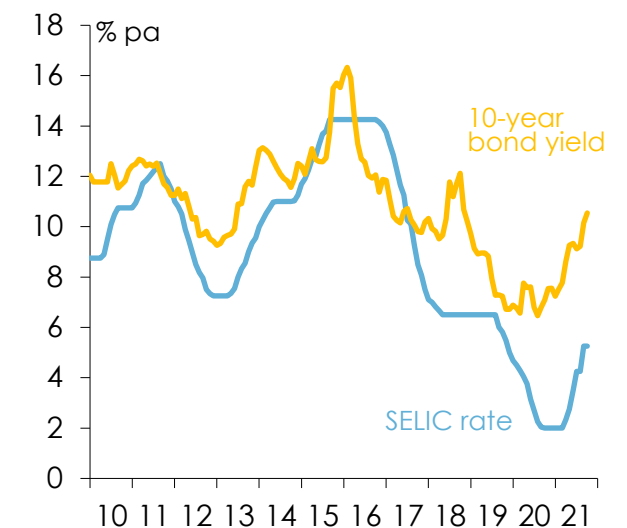
## Real GDP growth



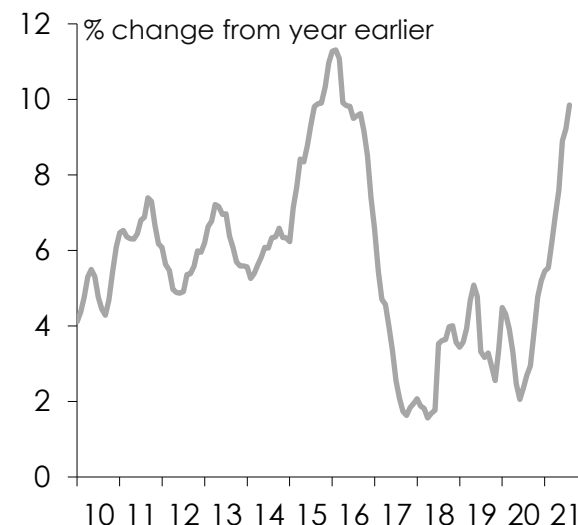
## Unemployment



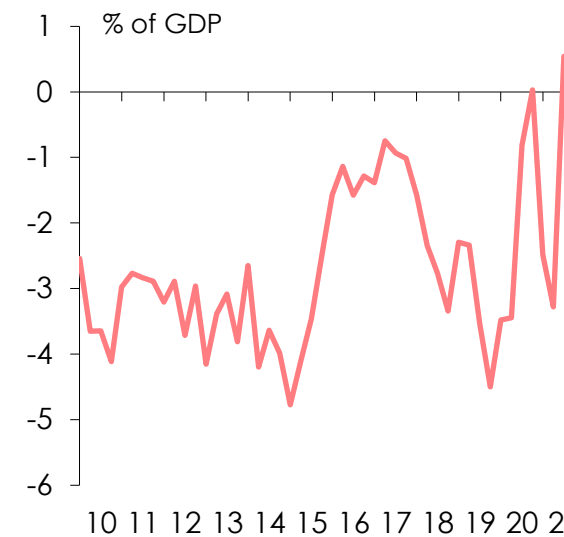
## Interest rates



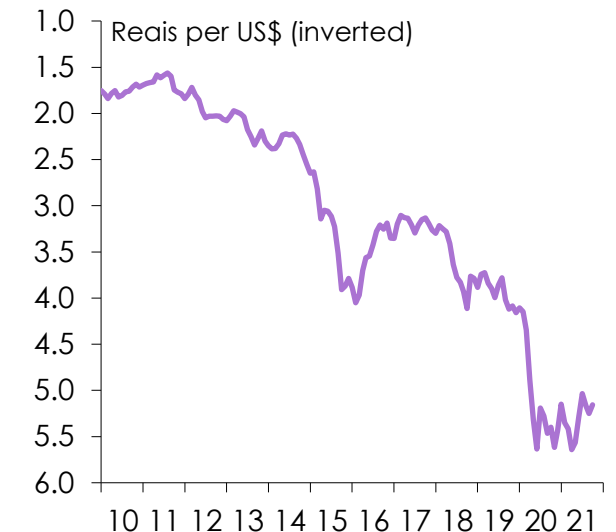
## Inflation



## Current account balance



## Brazilian real vs US\$

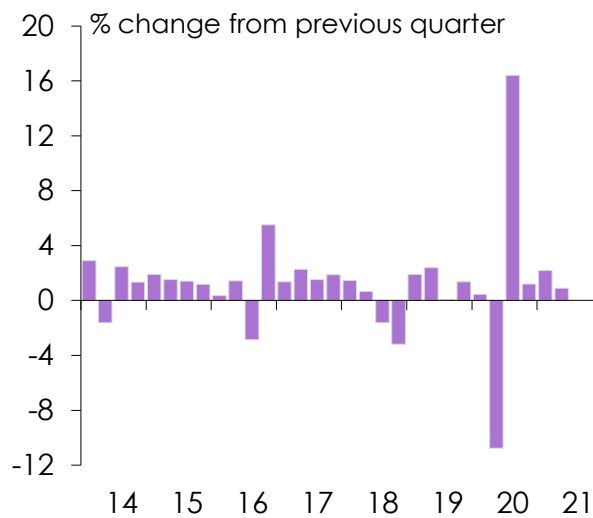




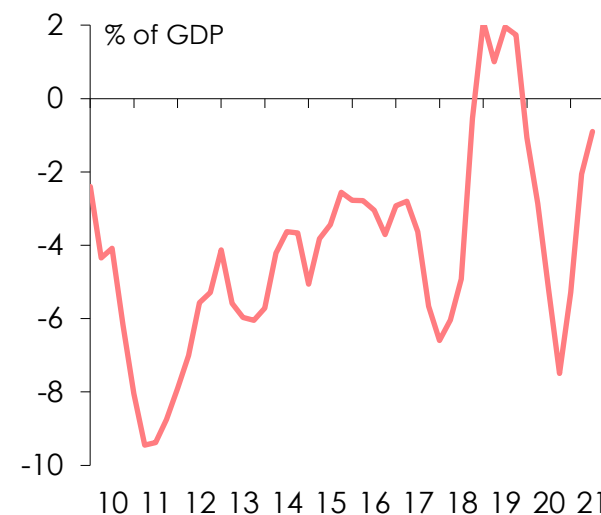
# Turkey's economy has had a strong, credit-fuelled rebound from last year's slump, prompting a dramatic tightening in monetary policy

- ❑ Turkey's real GDP grew 0.9% in Q2, after 2.2% growth in Q1, to be 8.4% above its pre-pandemic peak in Q1 2019
- ❑ Turkey's strong rebound from the trough in Q2 2020 was fuelled by a credit boom which saw annual growth in bank lending peak at over 40% in Q4 last year ...
- ❑ ... which in turn saw the current account turn around from a surplus of 1% of GDP in 2019 to a deficit of 7½% of GDP in Q3 last year ...
- ❑ ... which fuelled a slump in the Turkish lira and a surge in inflation to 19.3% over the 12 months to August ([slide 46](#))
- ❑ In response Turkey's central bank raised its policy interest rate by 10¾ pc points between August last year and February this year
  - and has pledged to maintain its tight monetary policy stance until “strong indicators point to a permanent fall in inflation”

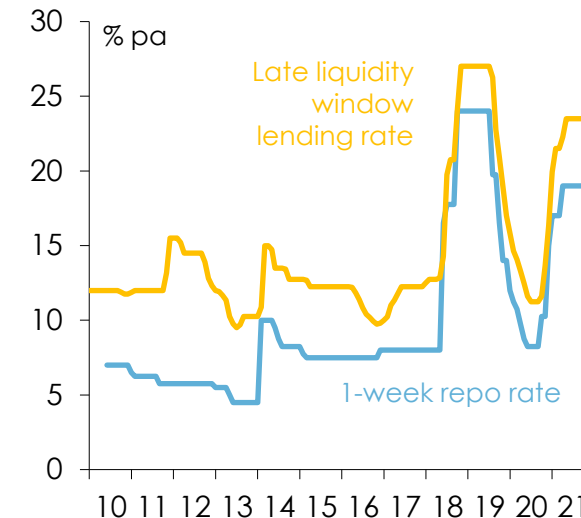
## Real GDP growth



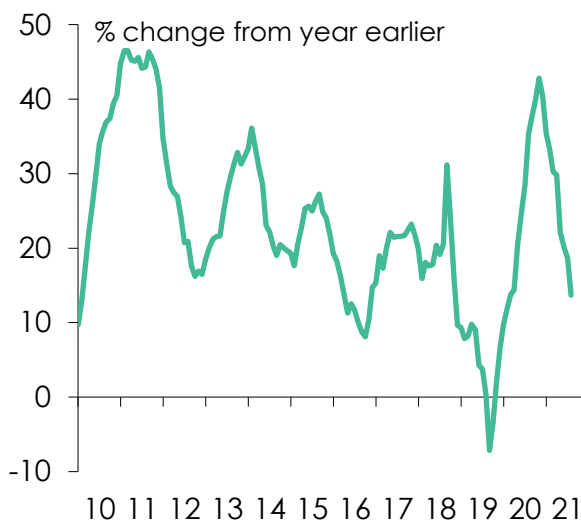
## Current account balance



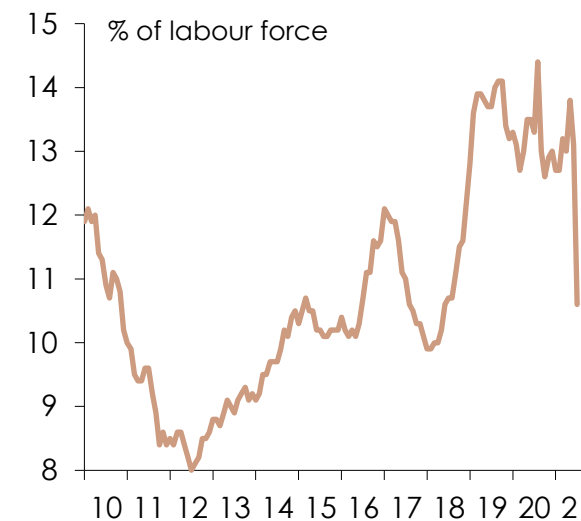
## Interest rates



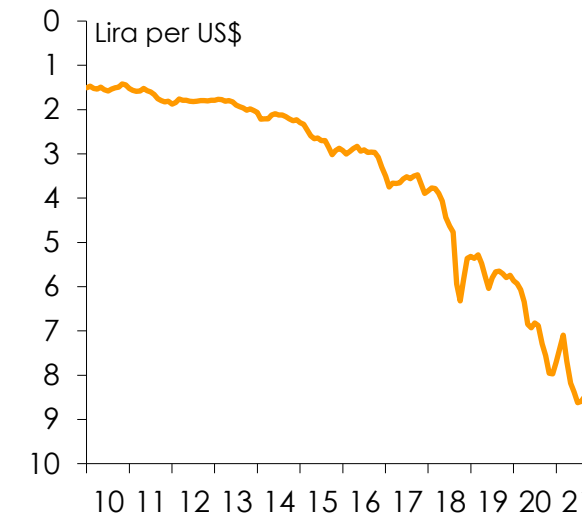
## Bank lending



## Unemployment



## Turkish lira vs US\$



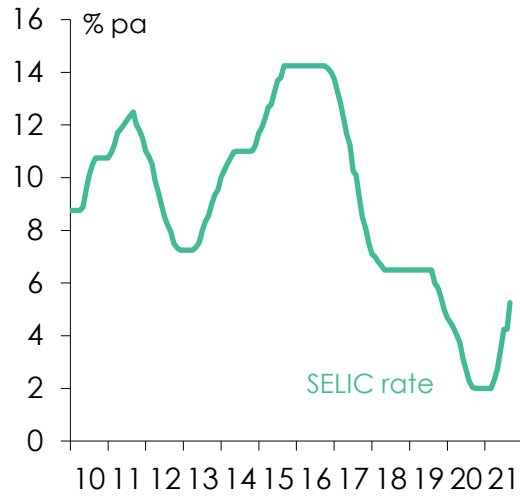


# Chile's central bank this week raised its policy rate by 75 bp (three times as much as had been expected)

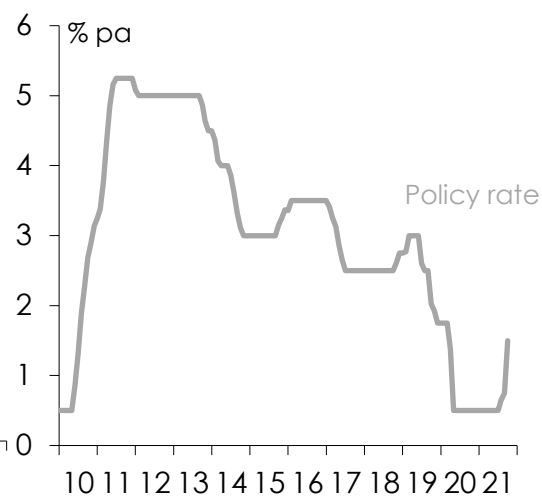
- ❑ **Banco Central de Chile** raised its policy rate by 75 basis points to 1.50% this week – having raised previously raised it by 25 basis points at its last Monetary Policy meeting (RPM) in July
  - the Board's couched its decision as being “to intensify the withdrawal of monetary stimulus” in order to “avoid the accumulation of macroeconomic imbalances that, among other consequences, could trigger a more persistent increase in inflation that would deviate it from the 3% target in a two-year horizon”
  - in presenting the central bank's Annual Report to Chile's Senate, BCC President Mario Marcel stressed the potential for “massive” withdrawals from pension funds (which he estimated had amounted to 19% of GDP) and large fiscal transfers to households to “generate significant imbalances between consumption and investment”, warning that the resulting “loss of synchrony between demand and supply is already affecting inflation” (see slide 46)
- ❑ **Banco Central del Paraguay** last week became the sixth Latin American central bank to raise interest rates this year, lifting its policy rate by 25 basis points to 1.0% (the first increase since January 2016)
  - With the annual inflation rate having risen from less than 1% in May and June last year to 5.2% in July (the highest since January 2016), BCP's Monetary Policy Committee determined that it was “timely to initiate a gradual process of normalization of its monetary policy, in order to assure the achievement of the medium-term inflation target” [of 4%]
- ❑ Other Latin American central banks to have raised rates so far this year are Brazil's (four times, by 325 basis points), Mexico's (twice, by 50 basis points), Peru's (once, by 50 basis points), and Uruguay's (once, by 50 basis points)
- ❑ Central or Eastern European central banks to have raised rates this year are Russia's (four times, by 225 basis points in total), Ukraine's (three times, by 200 basis points), Hungary's (three times, by 90 basis points)Czechia's (twice, by 50 basis points), Georgia's (three times, by 200 basis points), Armenia's (three times, by 175 basis points), and Turkey's (once, by 200 basis points, after three totalling 875 basis points in the second half of last year) (see next slide)

# A growing number of 'emerging' market central banks have begun tightening monetary policy

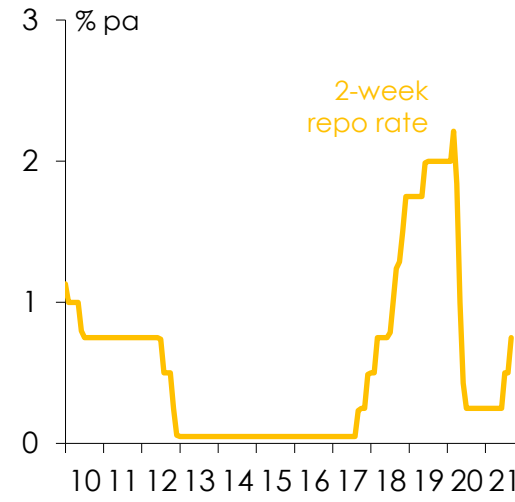
Brazil



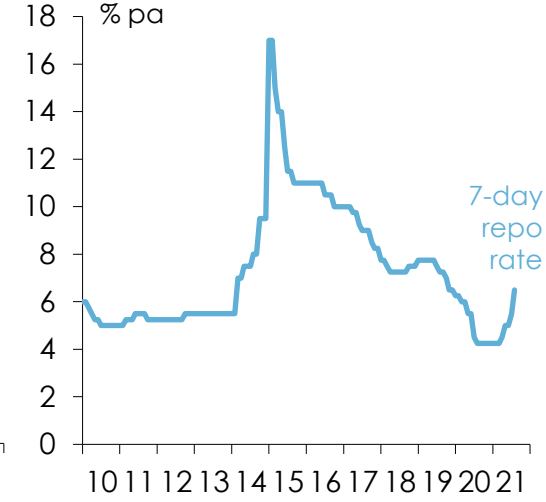
Chile



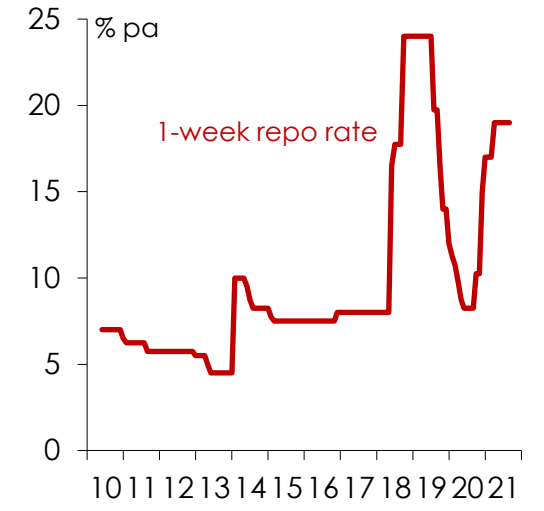
Czechia



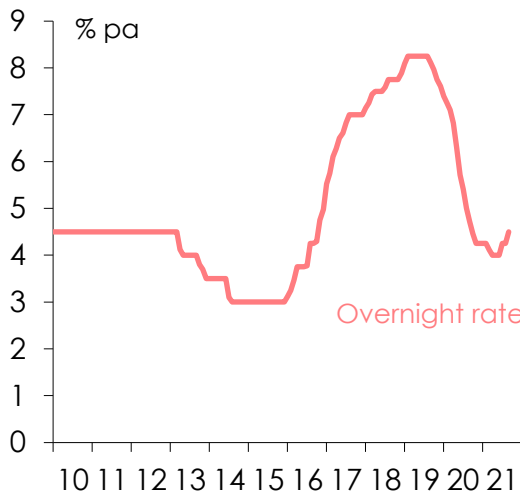
Russia



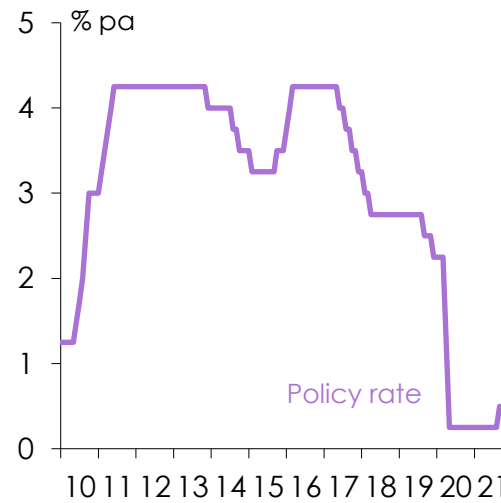
Turkey



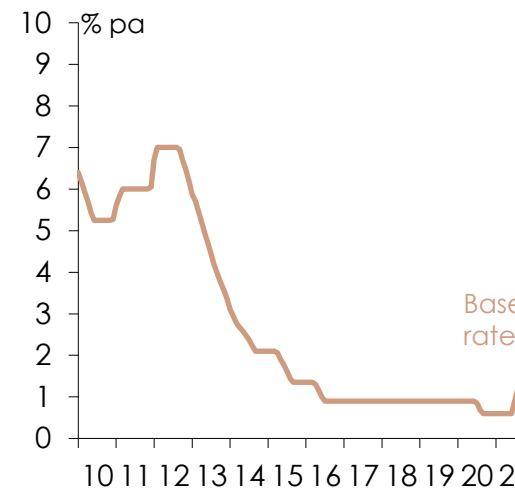
Mexico



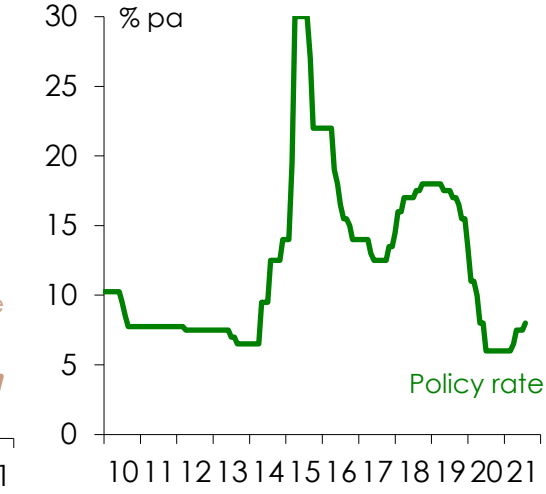
Peru



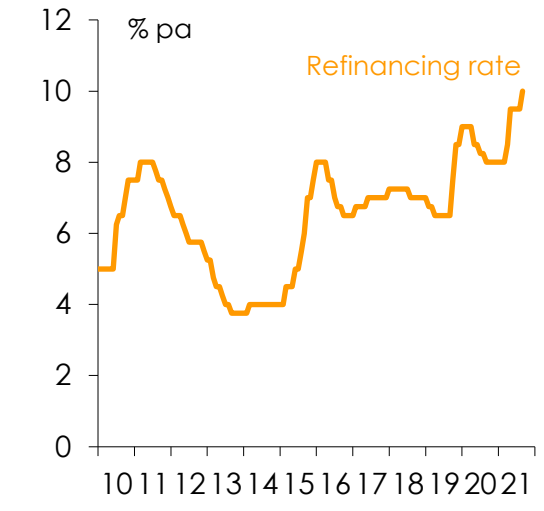
Hungary



Ukraine



Georgia

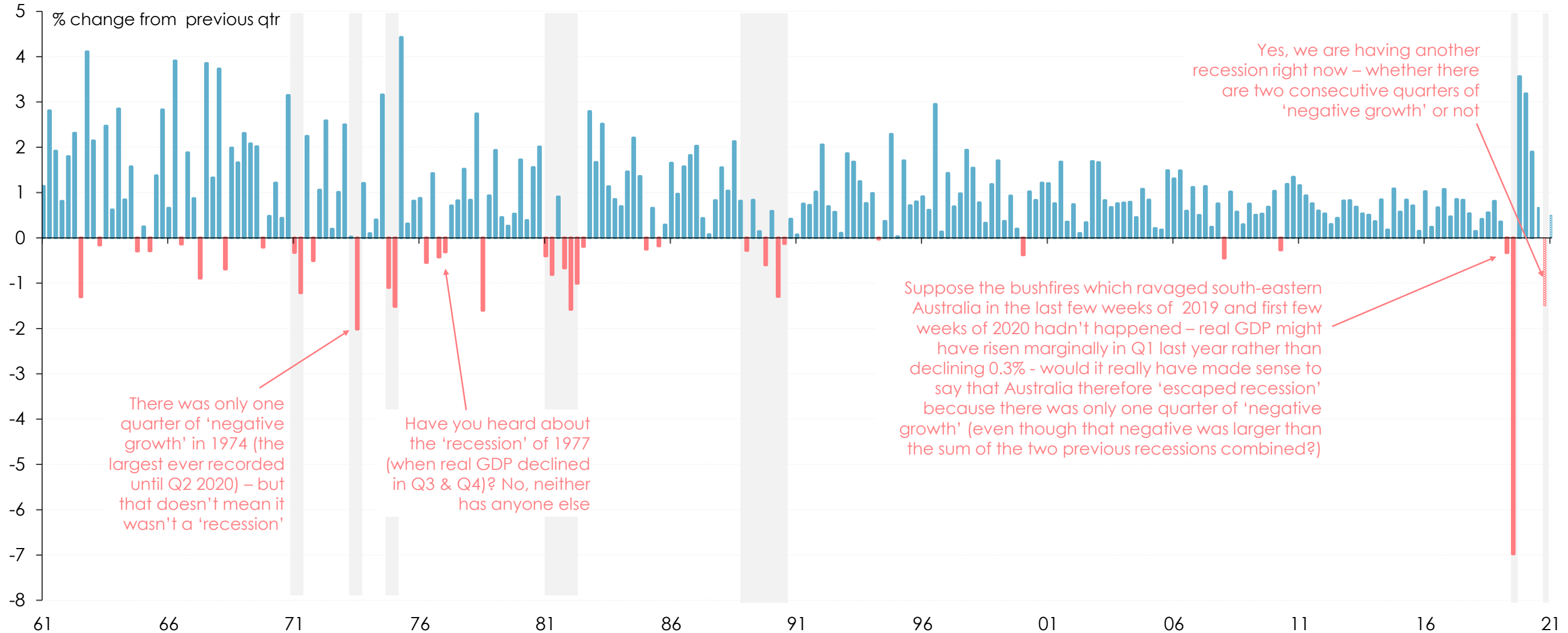


Sources: [Banco Central do Brasil](#); [Banco de México](#); [Banco Central de Chile](#); [Banco Central de Reserva del Perú](#); [Magyar Nemzeti Bank](#); [Česká národní banka](#); [Bank Rosii](#); [National Bank of Ukraine](#); [Türkiye Cumhuriyet Merkez Bankası](#); [Sakartvelos Erovnuli Bank'i](#).

**Australia**

# Australia's real GDP grew by 0.7% in the June quarter, thus (for now) allaying fears of a second 'technical recession' – but this misses the point

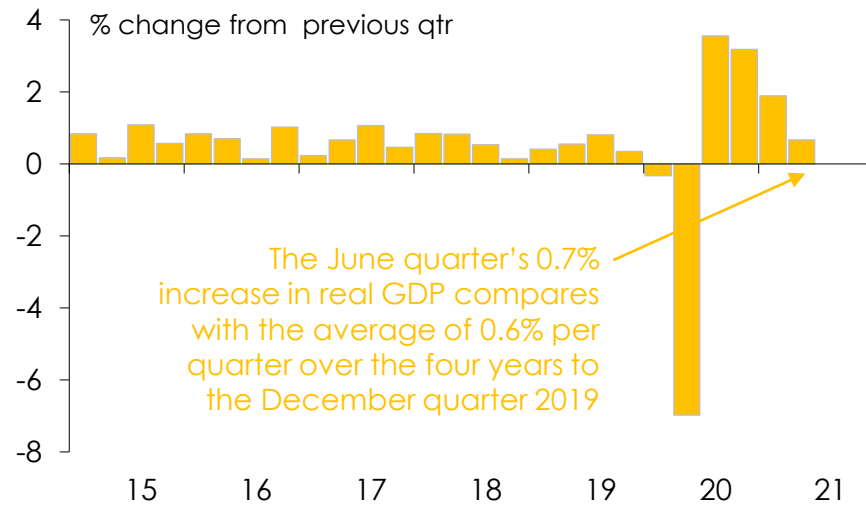
## Quarterly growth in Australian real GDP, 1961-2021



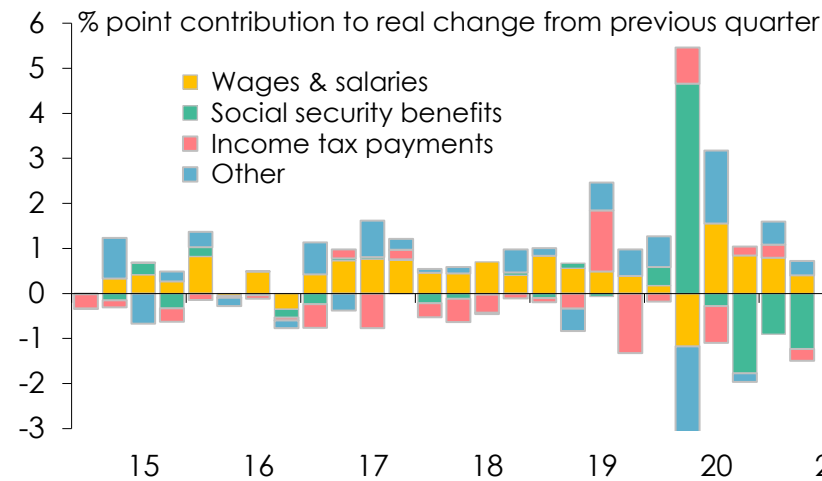
Note: Shaded areas denote recessions. Source: ABS, [Australian National Accounts: National Income, Expenditure and Product](#), March quarter 2021. September quarter GDP will be released on 1<sup>st</sup> December; and December quarter GDP on 2<sup>nd</sup> March 2022. [Return to "What's New"](#).

# All the major components of domestic demand contributed to the June quarter's 0.7% GDP growth, but stocks and net exports detracted

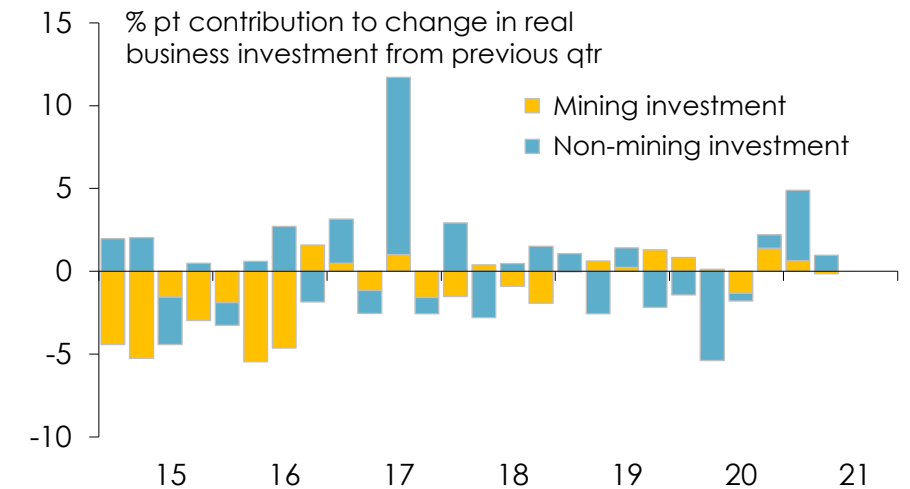
## Quarterly change in real GDP



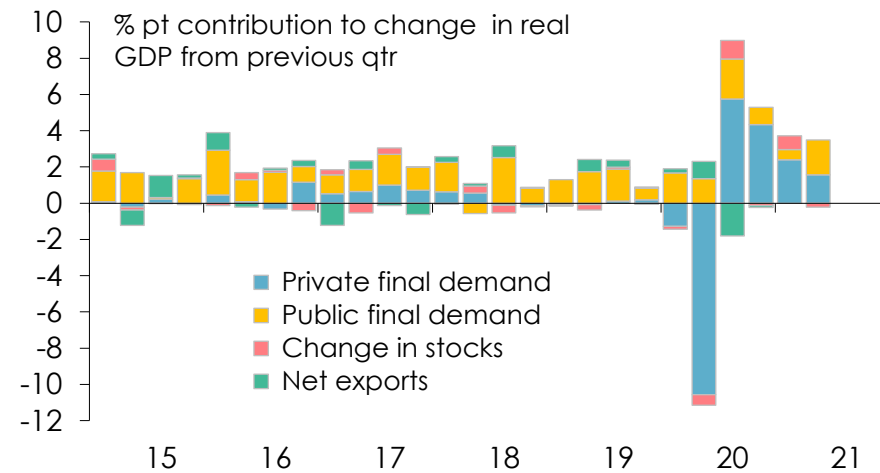
## Household disposable income



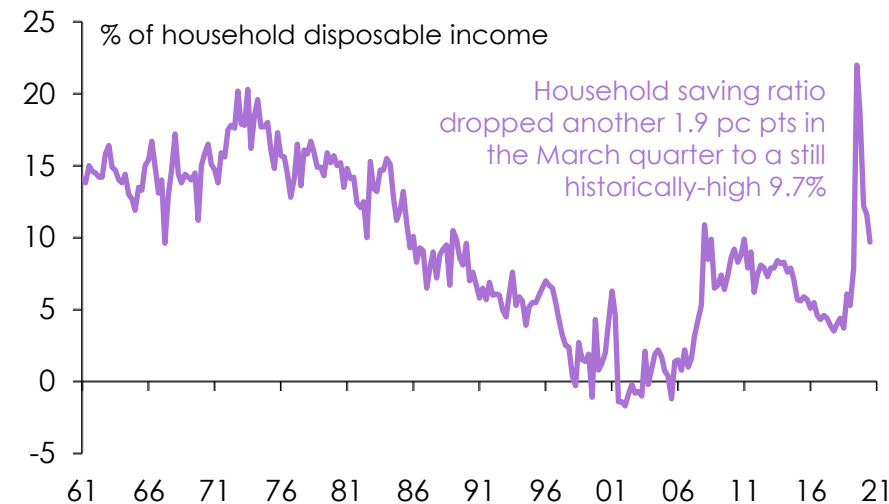
## Business investment expenditure



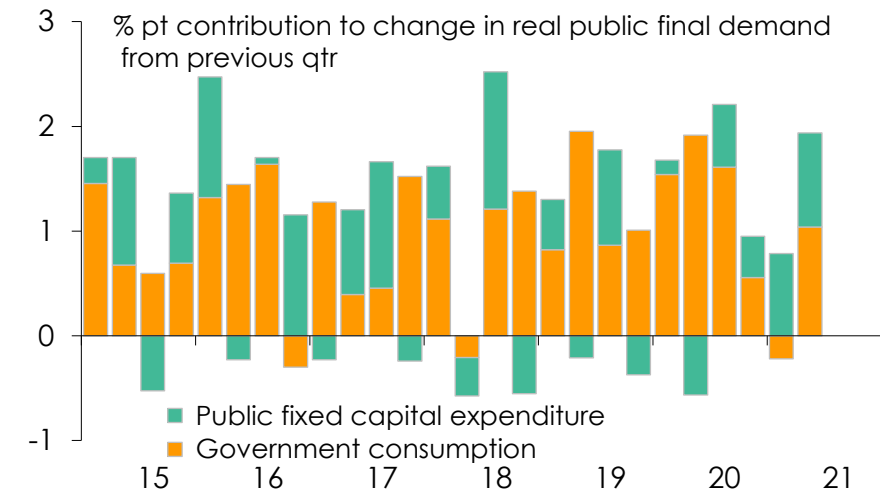
## Contributions to quarterly GDP growth



## Household saving rate



## Public expenditure



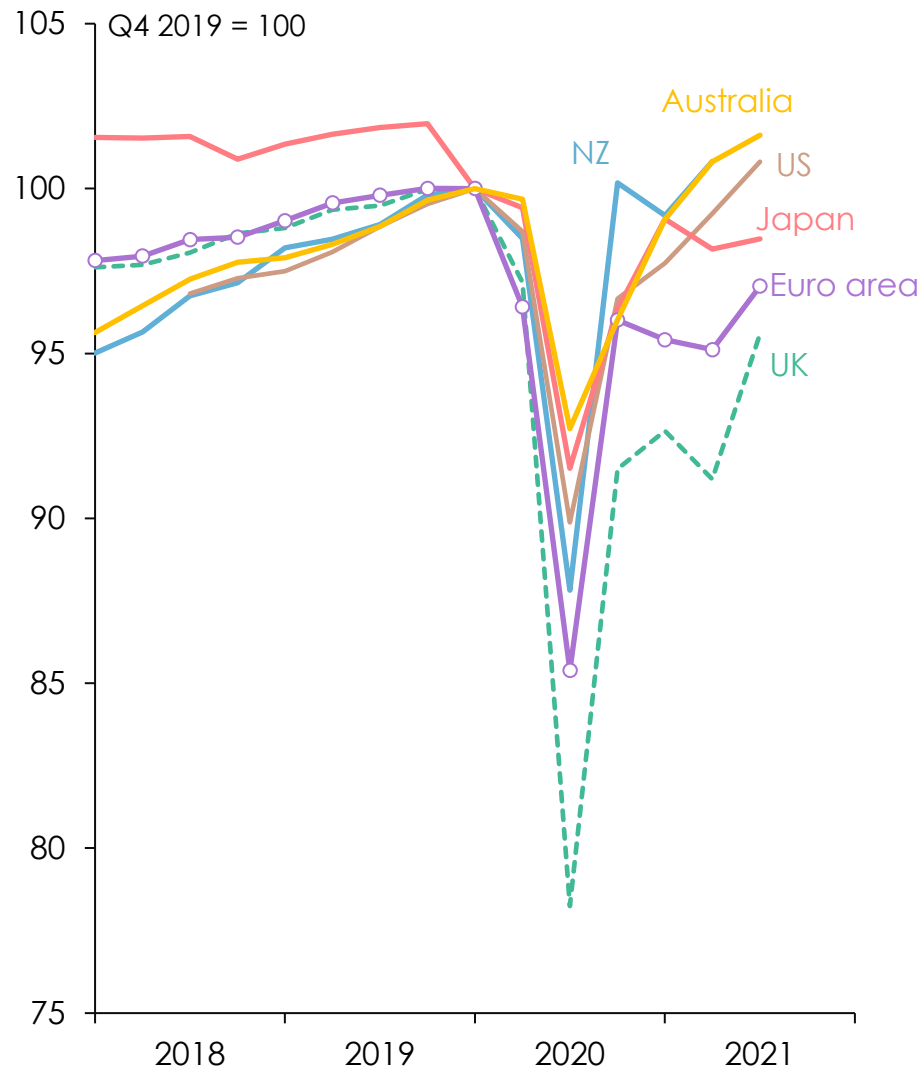
Note: Components of household disposable income are deflated by the implicit price deflator of household final consumption expenditure.

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

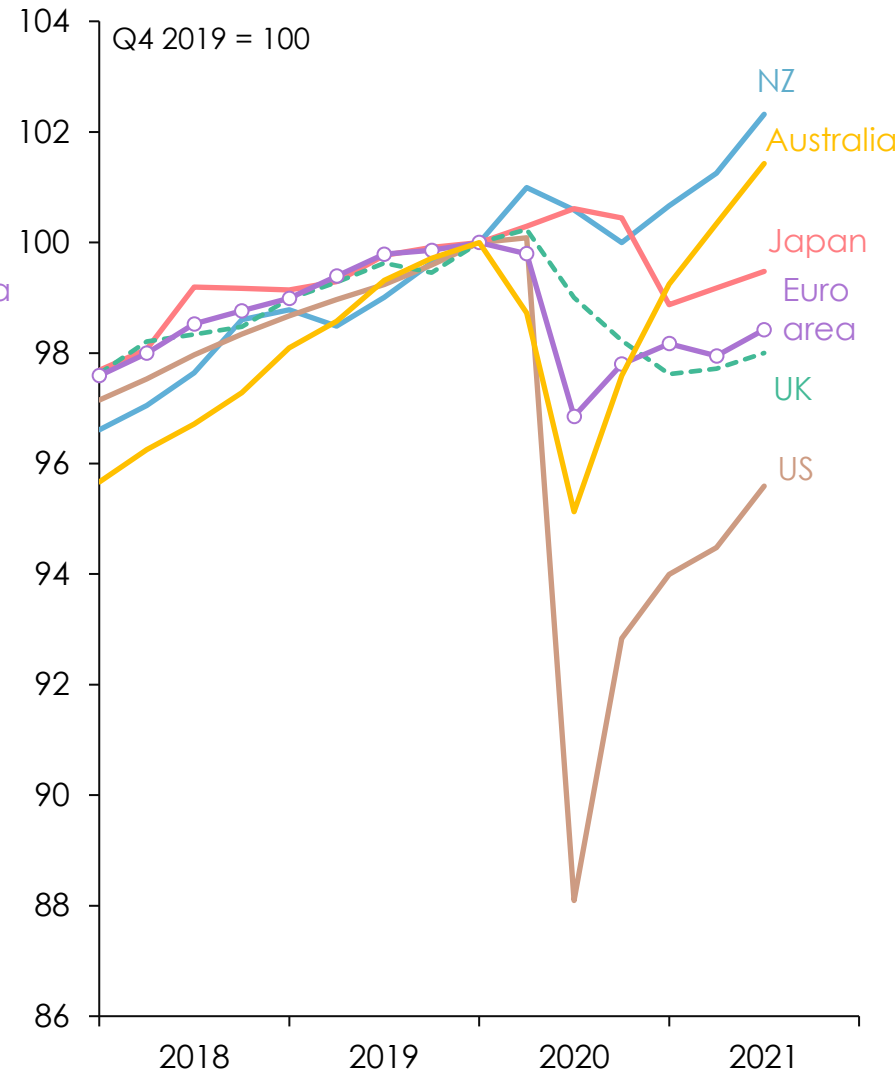
December. [Return to "What's New"](#).

# Australia's recession wasn't as severe as, and its recovery has been stronger than, most other 'advanced' economies – but will that continue?

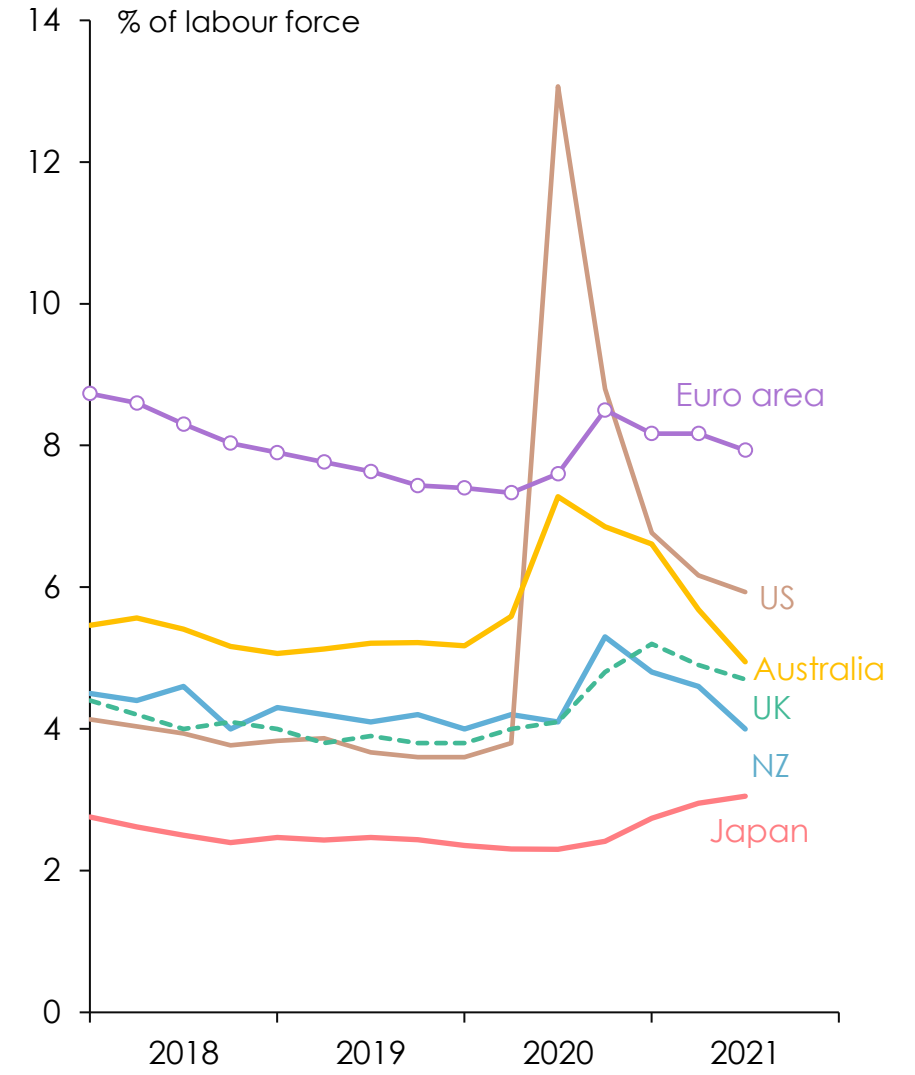
## Level of real GDP



## Employment



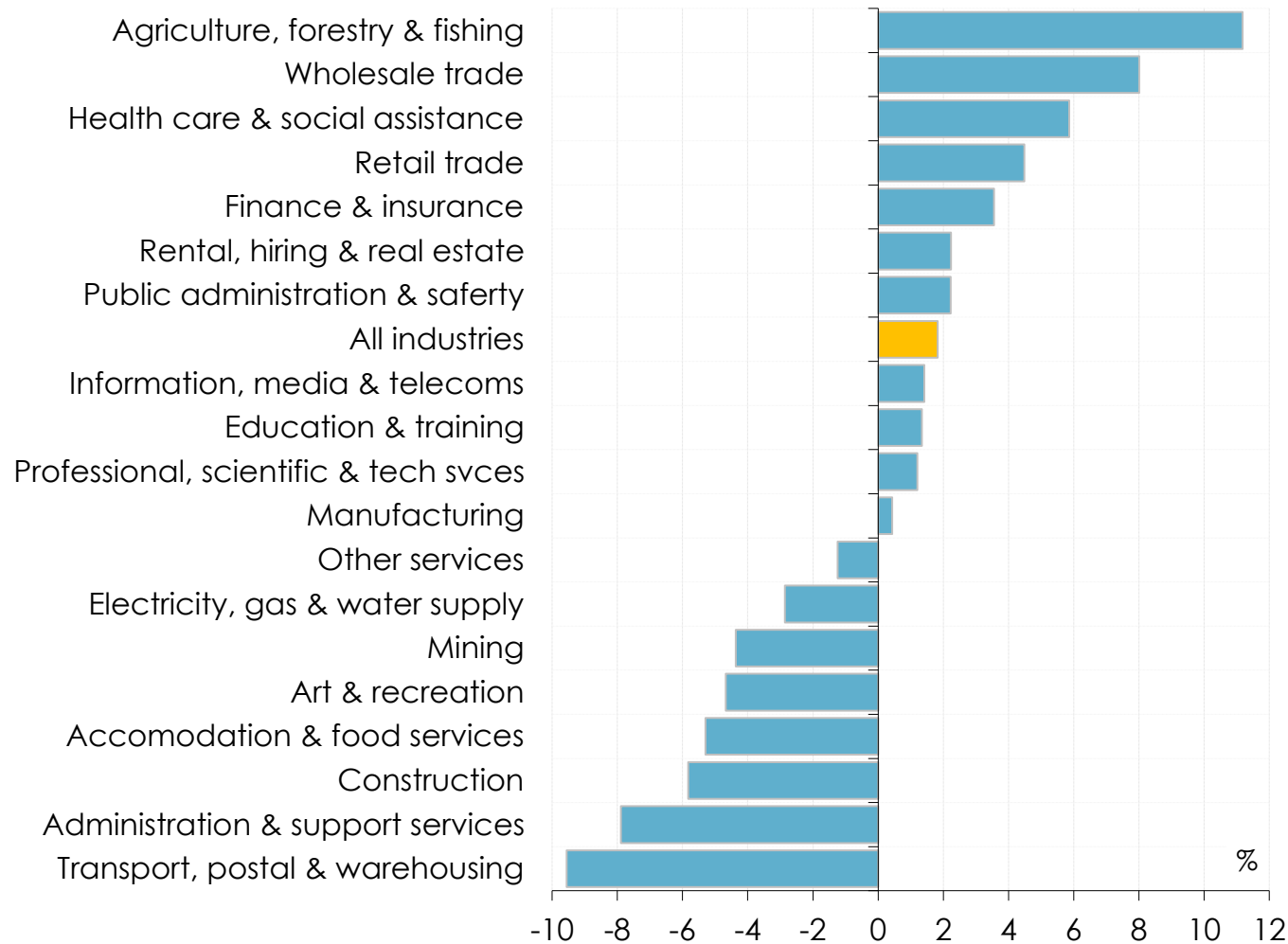
## Unemployment



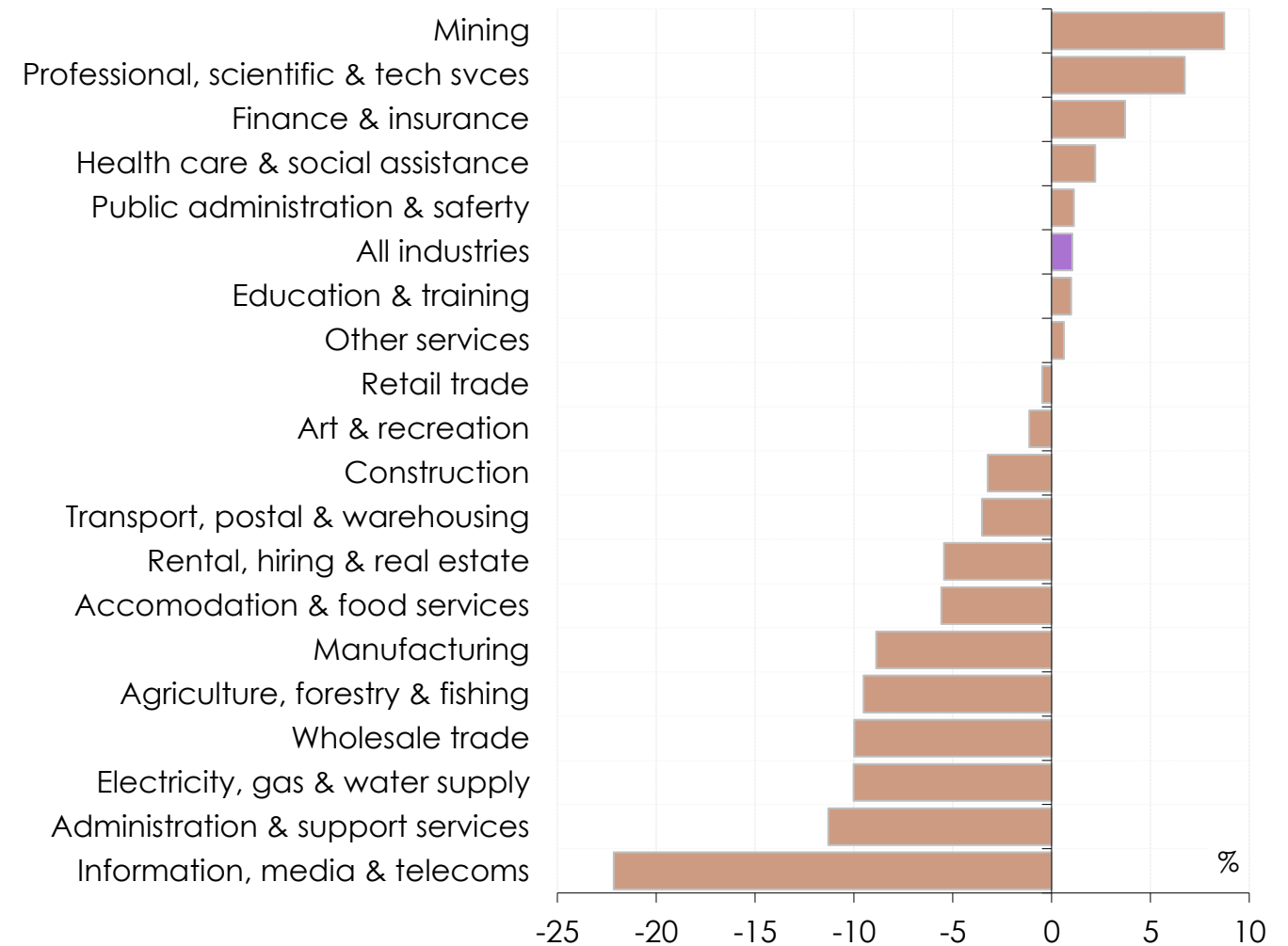
Sources: [ABS](#) ; [Statistics NZ](#) ; US [Bureau of Economic Analysis](#) and [Bureau of Labor Statistics](#); Japan [Cabinet Office](#) and [Statistics Bureau of Japan](#); [Eurostat](#); and UK [Office for National Statistics](#); Corinna.

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

Q2 2021 real gross value added by industry – change from pre-pandemic peak



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

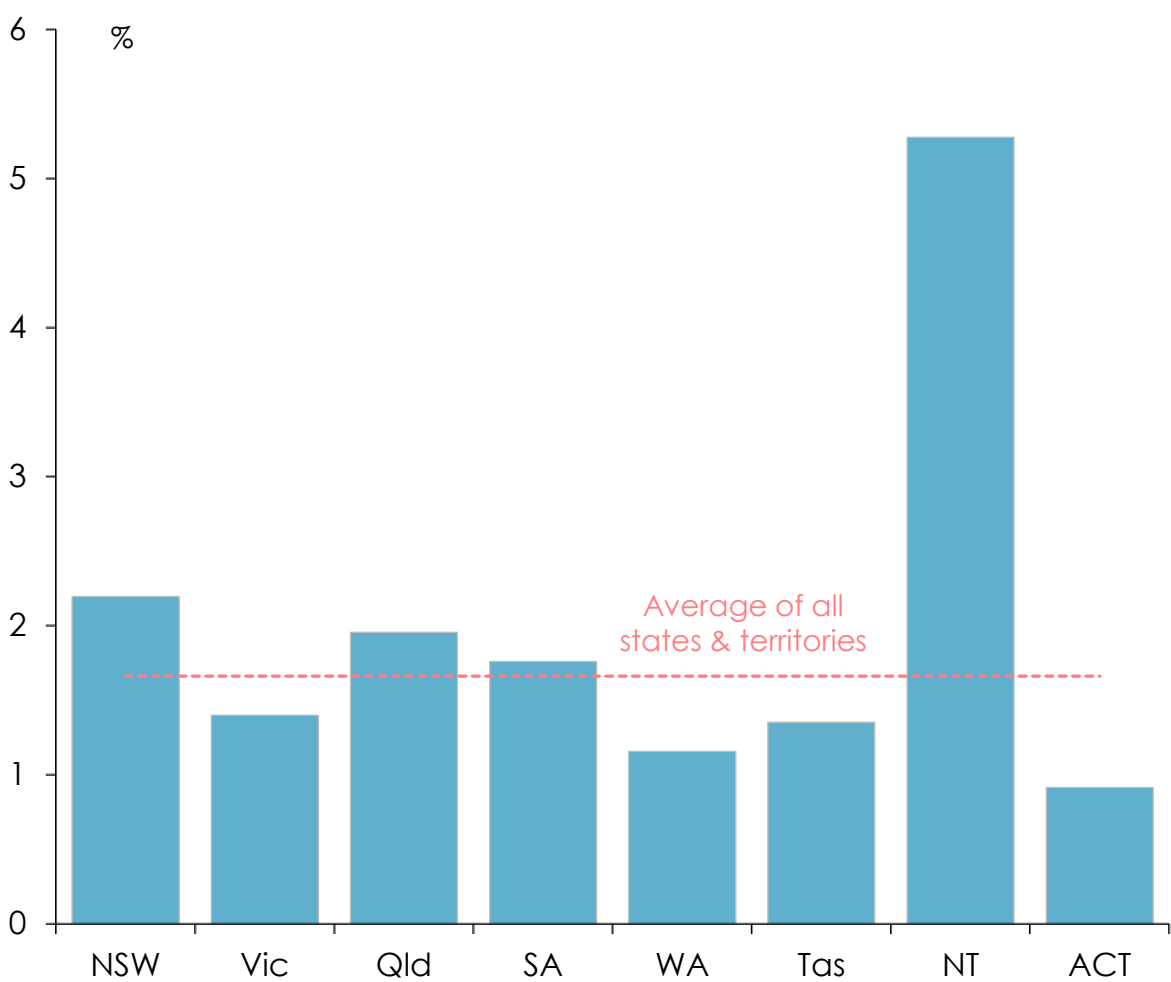


Sources: ABS, [Australian National Accounts: National Income, Expenditure and Product](#), June quarter 2021; and [Labour Force, Australia, Detailed](#), May 2021.

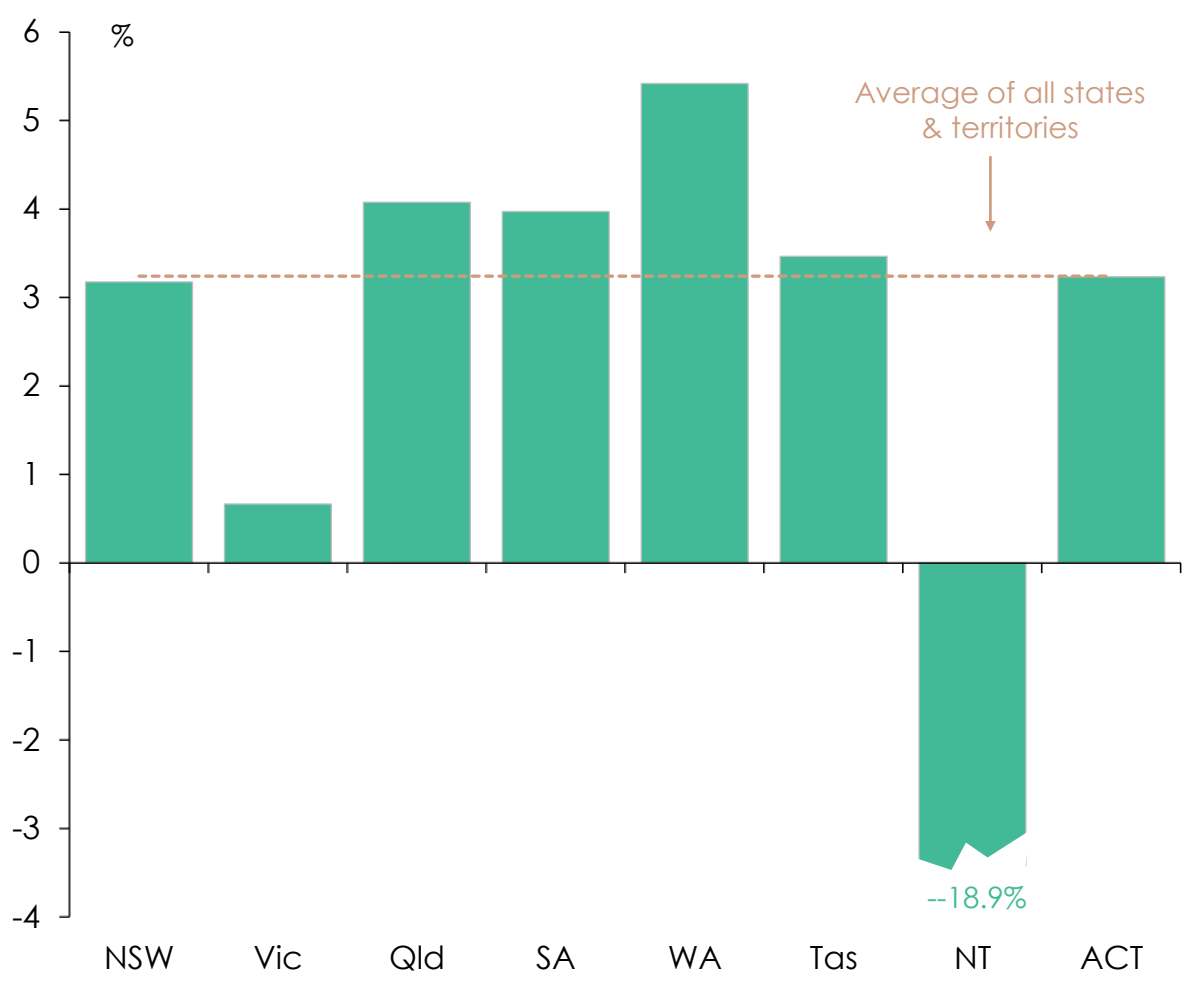


# Up to Q2, Western Australia has had the strongest recovery in 'final demand', while Victoria and (especially) the Northern Territory

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



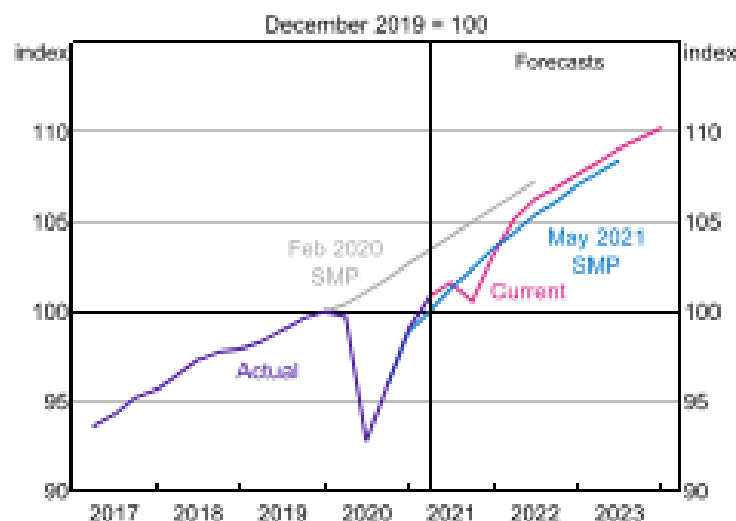
Shortfall between June quarter 2020 state final demand and pre-recession peak



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](#), June quarter 2021. September quarter national accounts will be released on, 1<sup>st</sup> December. [Return to "What's New"](#).

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

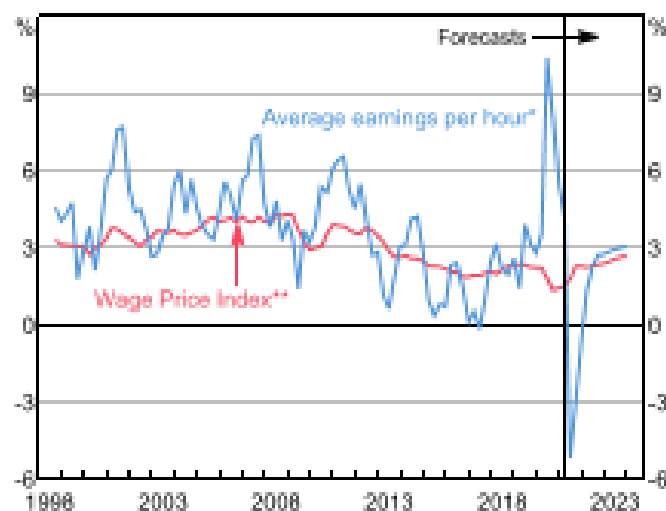
## GDP



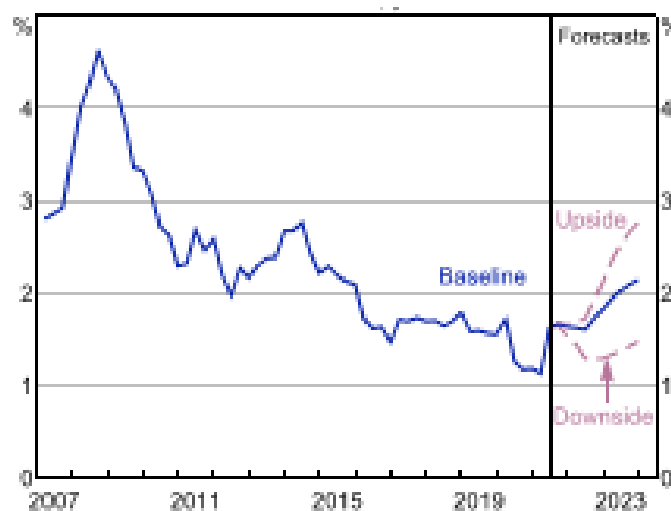
## Unemployment



## Wages



## 'Underlying' inflation

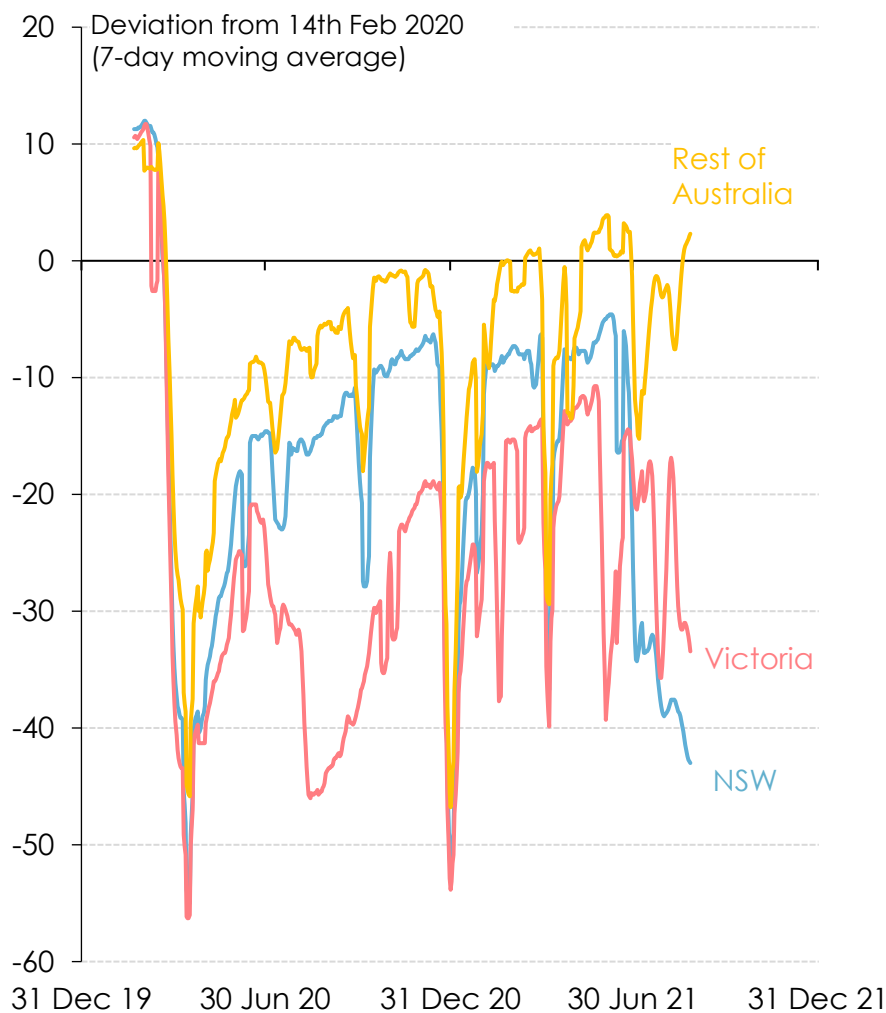


- ❑ Economic growth and in particular employment growth have continued to outpace the RBA's forecasts – but wage and price inflation haven't
- ❑ In its latest [Statement on Monetary Policy](#) published four weeks ago, the RBA acknowledged that current lockdowns would temporarily derail the recovery, 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

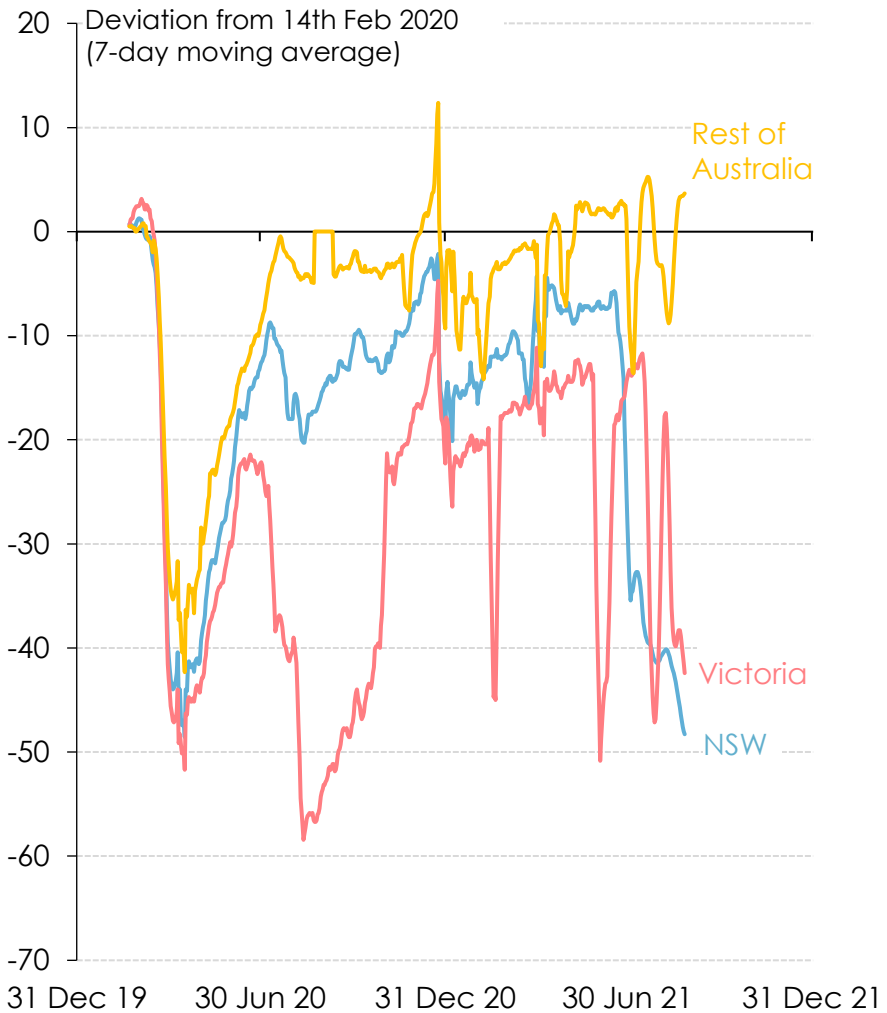
# 'Mobility indicators' provide a clear indication that the lockdowns in New South Wales and Victoria are affecting those states

## Google mobility indicators

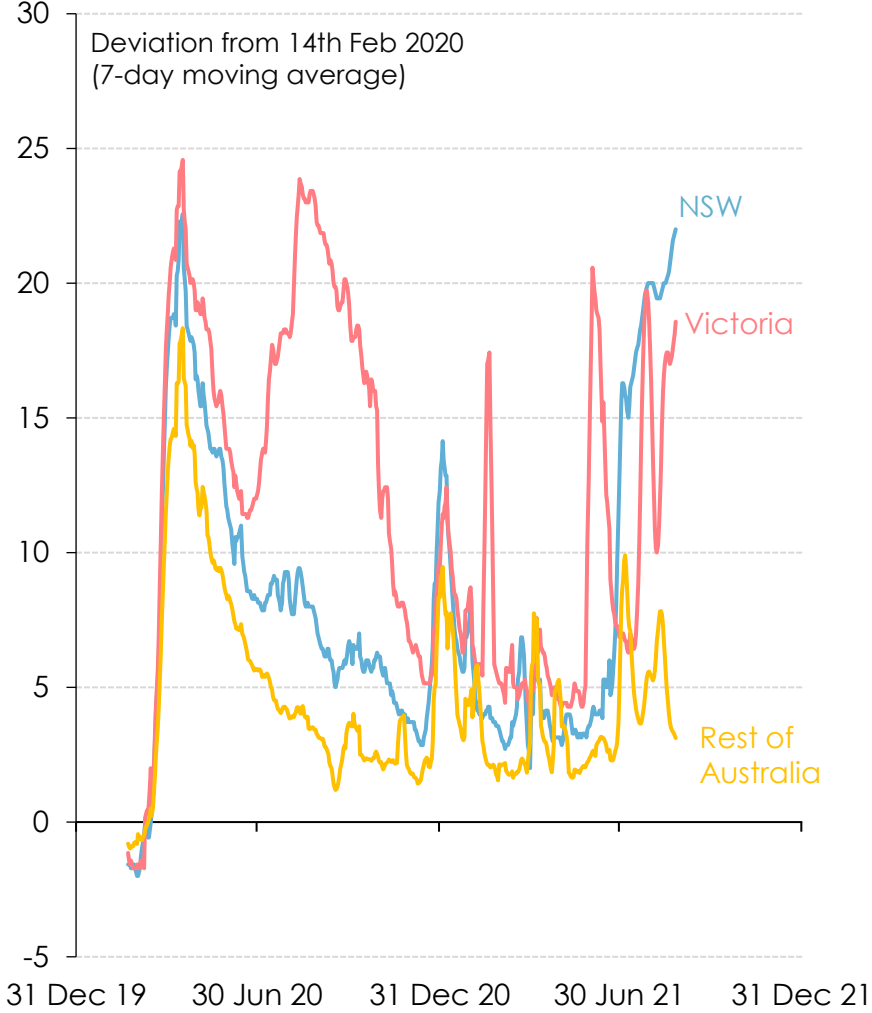
### Workplaces



### Retail and recreation



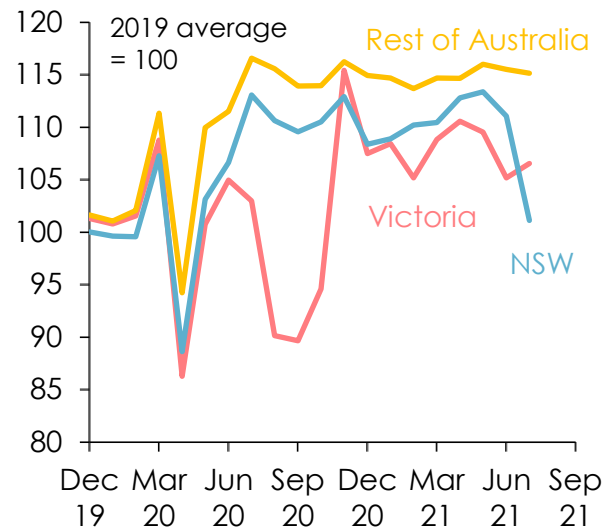
### Residences



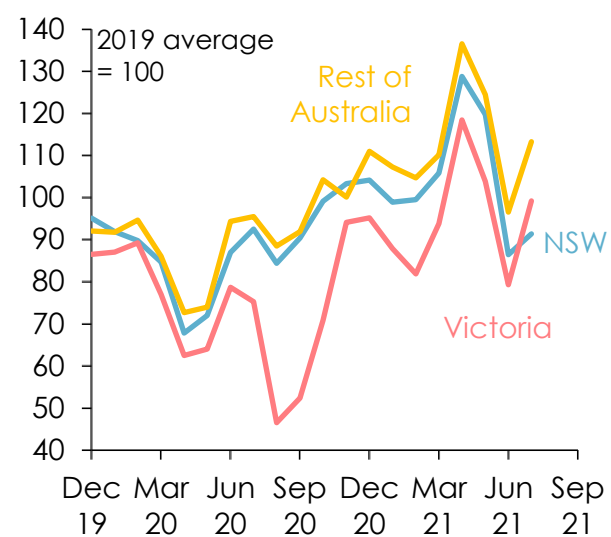
Note: data up to 26<sup>th</sup> August. Sources: [Google Community Mobility Reports](#); Corinna. [Return to "What's New"](#).

# The extended lockdowns in Sydney, Melbourne and Canberra are increasing the risk of a second recession in two years

## Retail sales



## Motor vehicle sales



- ❑ 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 the end of September (14 weeks) that would imply a 'cost' of \$14bn
- there will also now be some additional costs arising from lockdowns in the rest of NSW

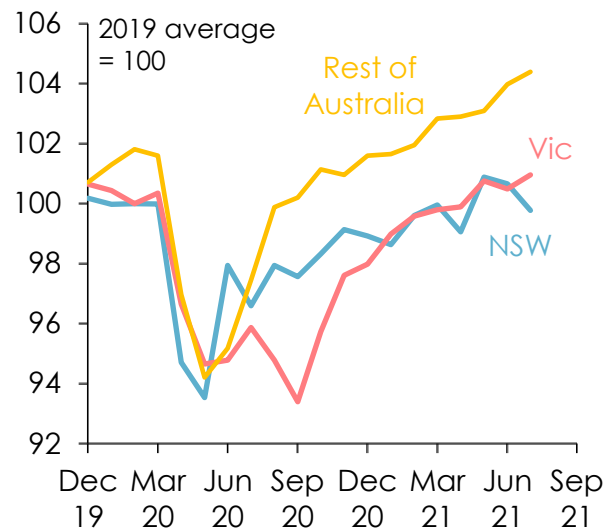
- ❑ Victoria's recurring lockdowns are likely to have a similar weekly cost to that in 'Greater Sydney'

- although it seems reasonable to assume they won't last as long, in total, as New South Wales

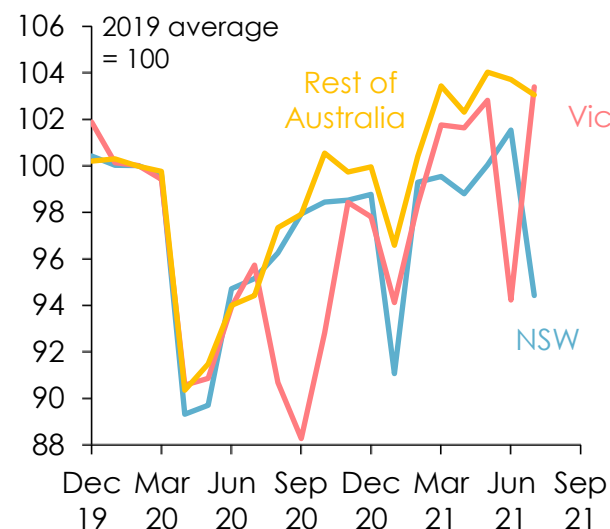
- ❑ Australia's GDP is about \$2,100 billion a year (\$525bn a quarter, \$40 billion a week)

- real GDP might have grown by (say) 1¼% in the September quarter without lockdowns under the above assumptions, but it now seems probable that real GDP will instead contract by 1½-2% in the September quarter (see [slide 90](#))
- with real GDP having grown 0.7% in the June quarter Australia will probably avoid consecutive quarters of 'negative growth' if restrictions can be eased in October
- but that's a lazy and silly definition of a recession – a more meaningful one is when unemployment rises by 1½% or more in 12 months or less and that has 'effectively' happened already (see [slide 107](#))

## Employment



## Hours worked

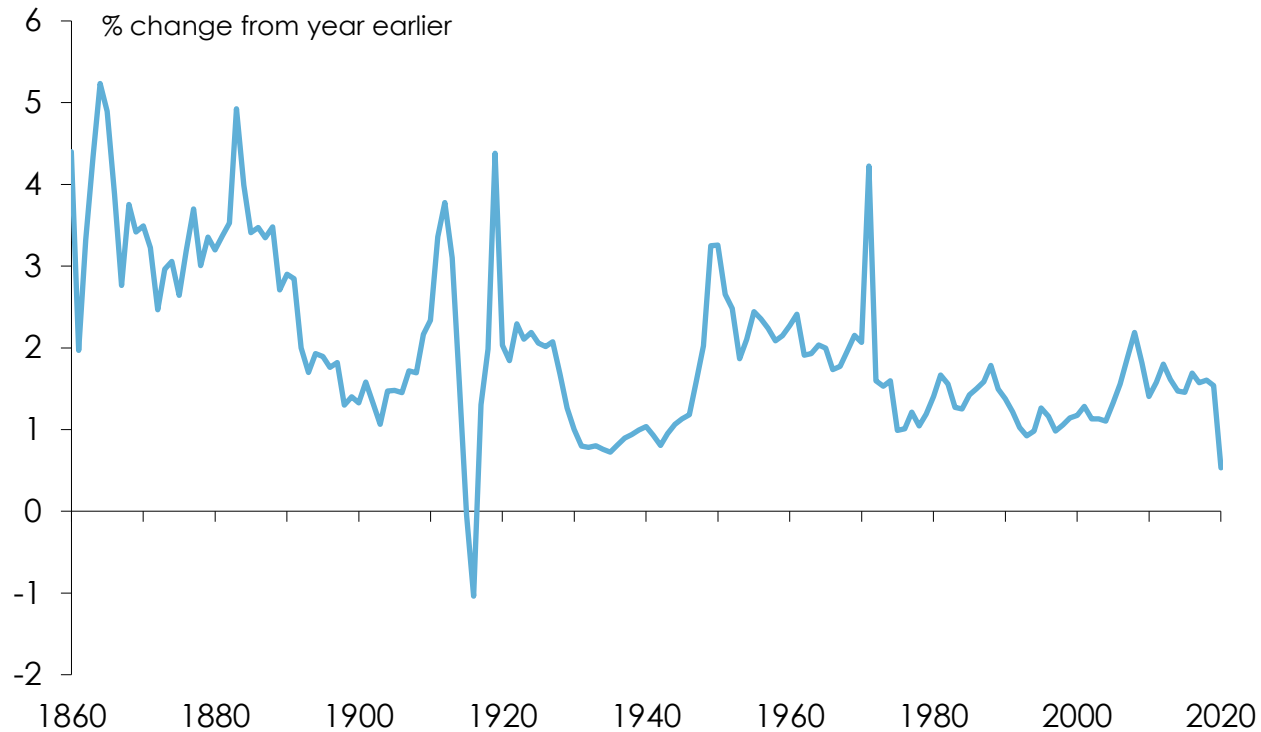


# Australia's border measures have been stricter than almost any other country (and certainly any democracy)

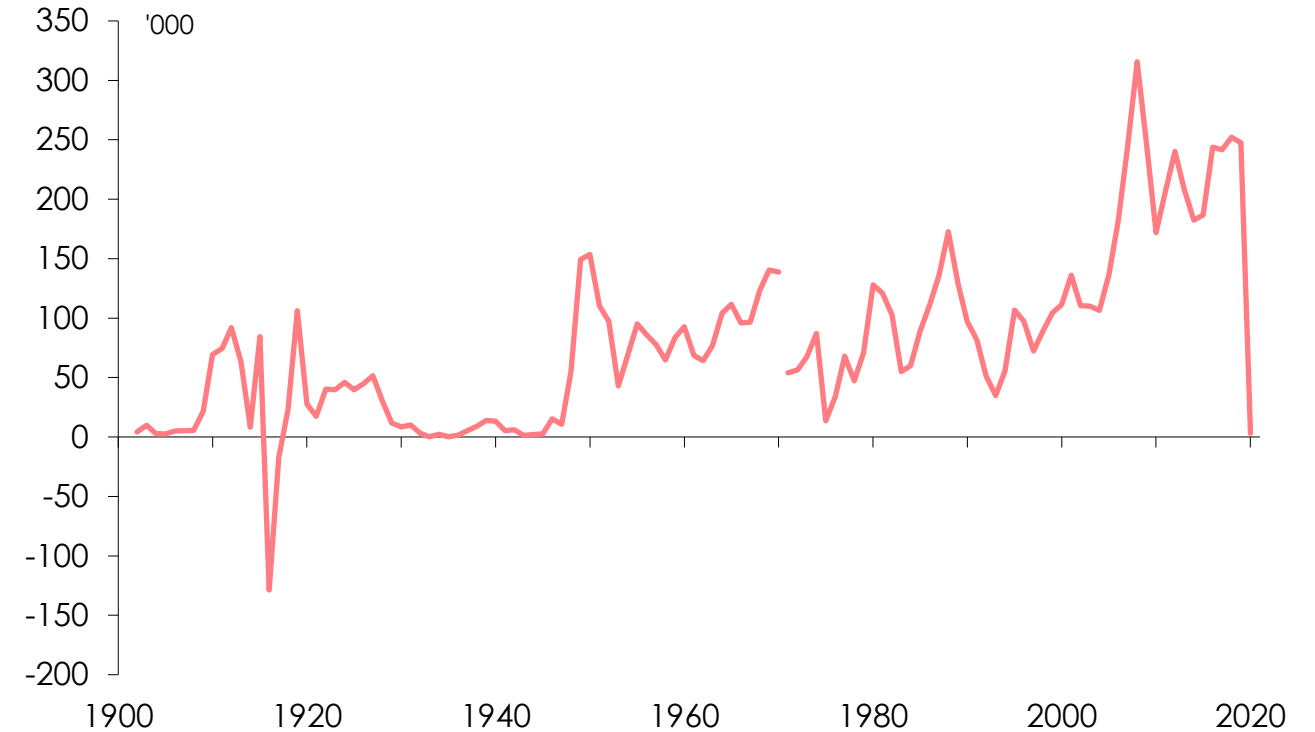
- ❑ Article 12 of the United Nations [International Covenant on Civil and Political Rights](#) (which Australia signed in 1972, and which it ratified in 1980) says
  - “everyone shall be free to leave any country, including his [sic] own” and “no-one shall be arbitrarily deprived of the right to enter 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 month
- ❑ 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”
- ❑ The Australian Government’s uniquely ‘hard line’ on border crossings is in marked contrast with its reluctance to directly confront Australia’s surprisingly high ‘vaccine hesitancy’
  - probably because it suspects that ‘vaccine hesitancy’ is highest among groups whose votes it needs at the next election

# 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



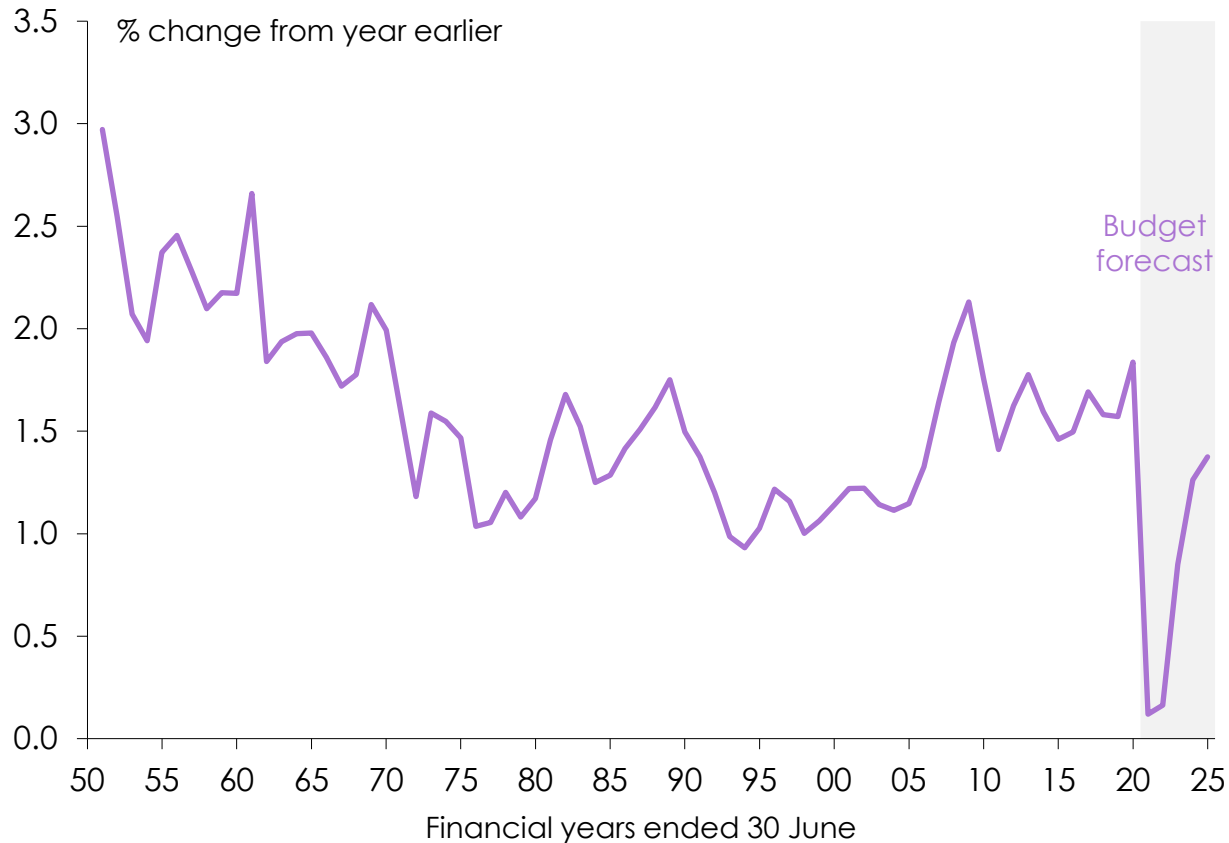
- ❑ Only 76K immigrants came to Australia in the last nine months of 2020, while 151K people departed permanently – implying a net outflow of almost 68,000 people
- ❑ As a result, Australia's population growth rate fell to just 0.5% over the year to Q4 2020, the slowest since 1916
- ❑ Last month's halving 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 111

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

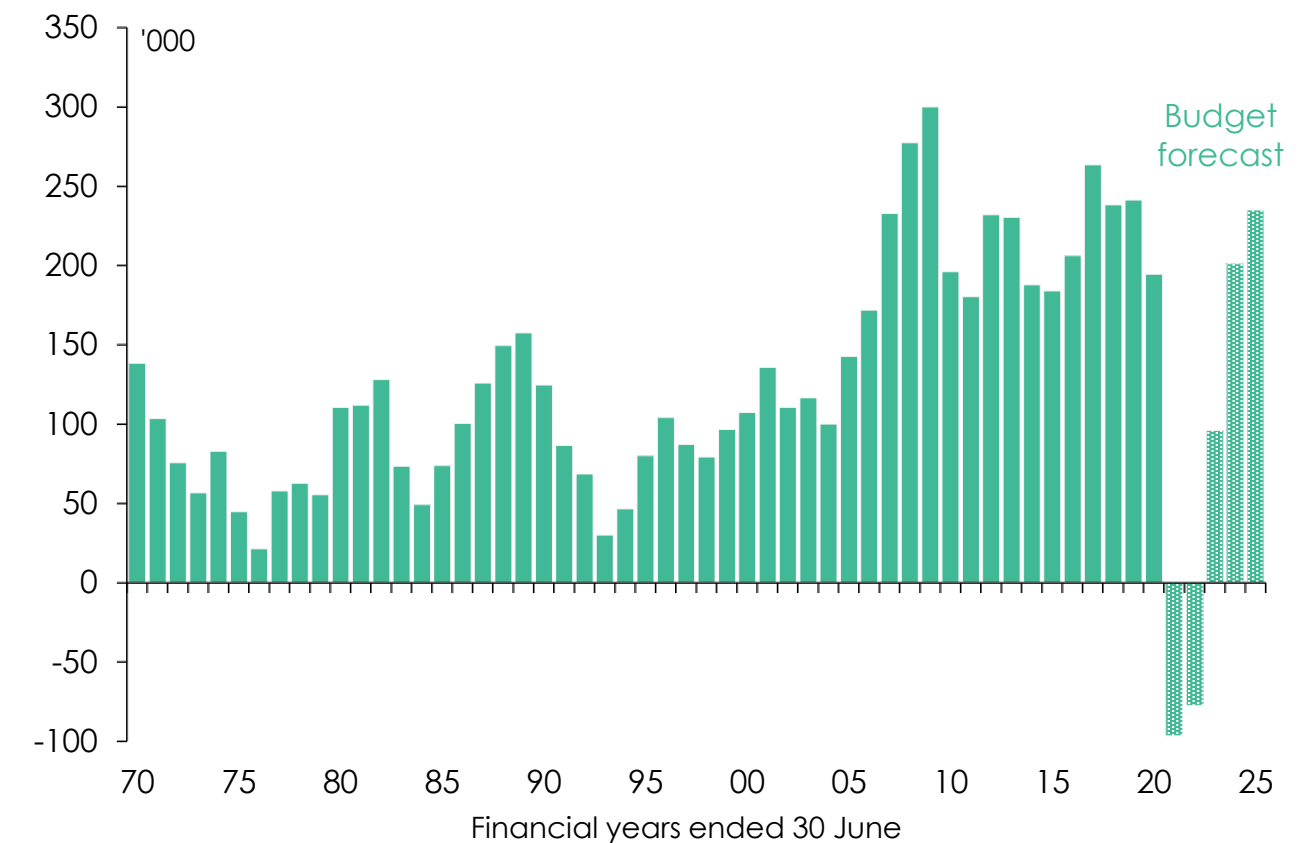


# The Budget assumes that Australia's borders remain closed until after the next election – after which migration returns to pre-covid levels by 2024-25

## Population growth



## Net overseas migration



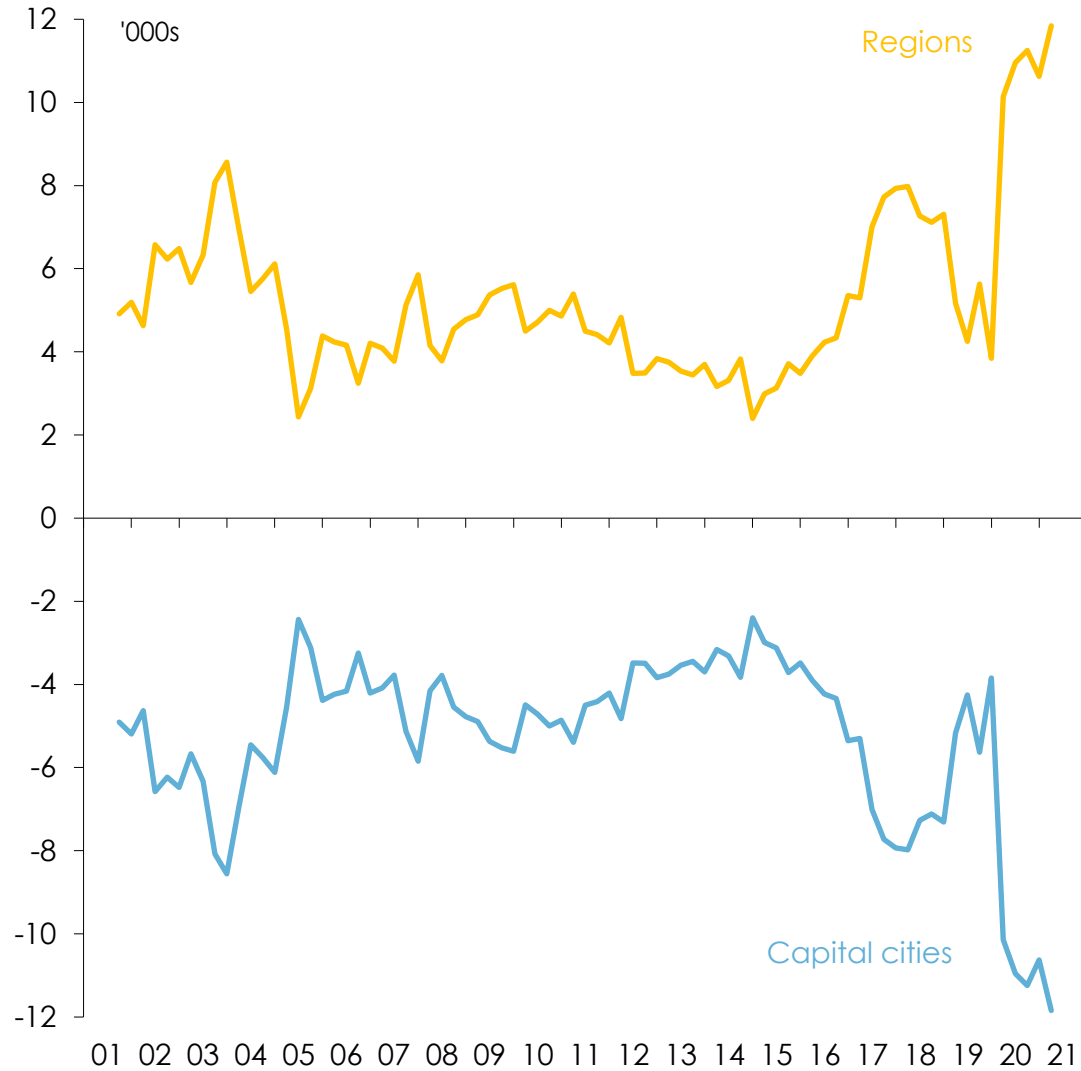
**Opinion polls** have consistently indicated very high levels of popular support for keeping Australia's international borders closed – which (more than anything else) likely explains why the Government's position has changed from last year's "we can't keep Australia under the doona" to this year's "our borders will remain shut as long as it's in Australia's interest to protect the health of Australians but also to protect Australia's economy" – and why the assumed date for re-opening the borders is after the latest possible date for the next election (21<sup>st</sup> 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, Return to "What's New"](#).

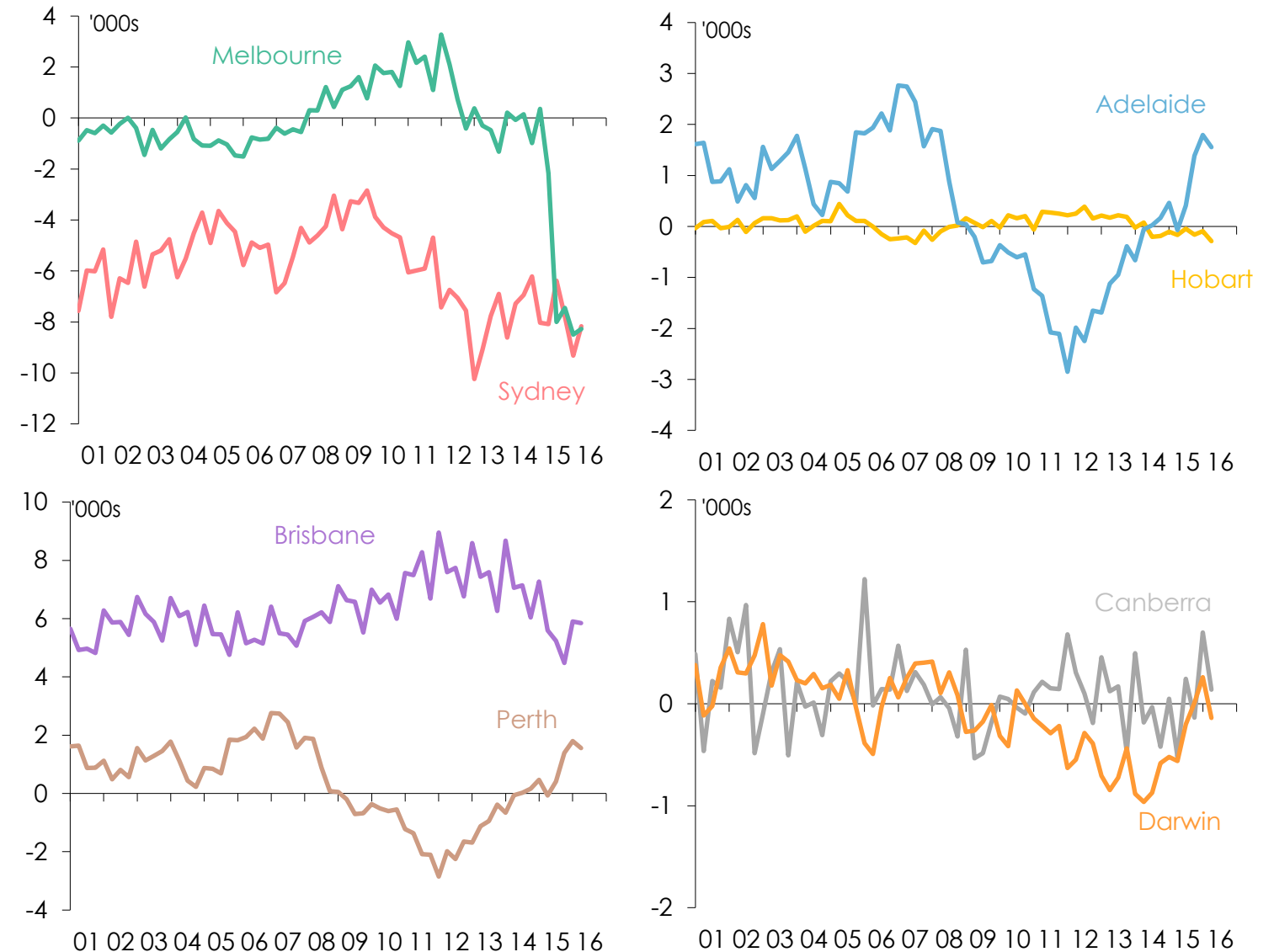


# Another important demographic change wrought by Covid-19 has been the shift of people out of capitals (especially Melbourne) to regions

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

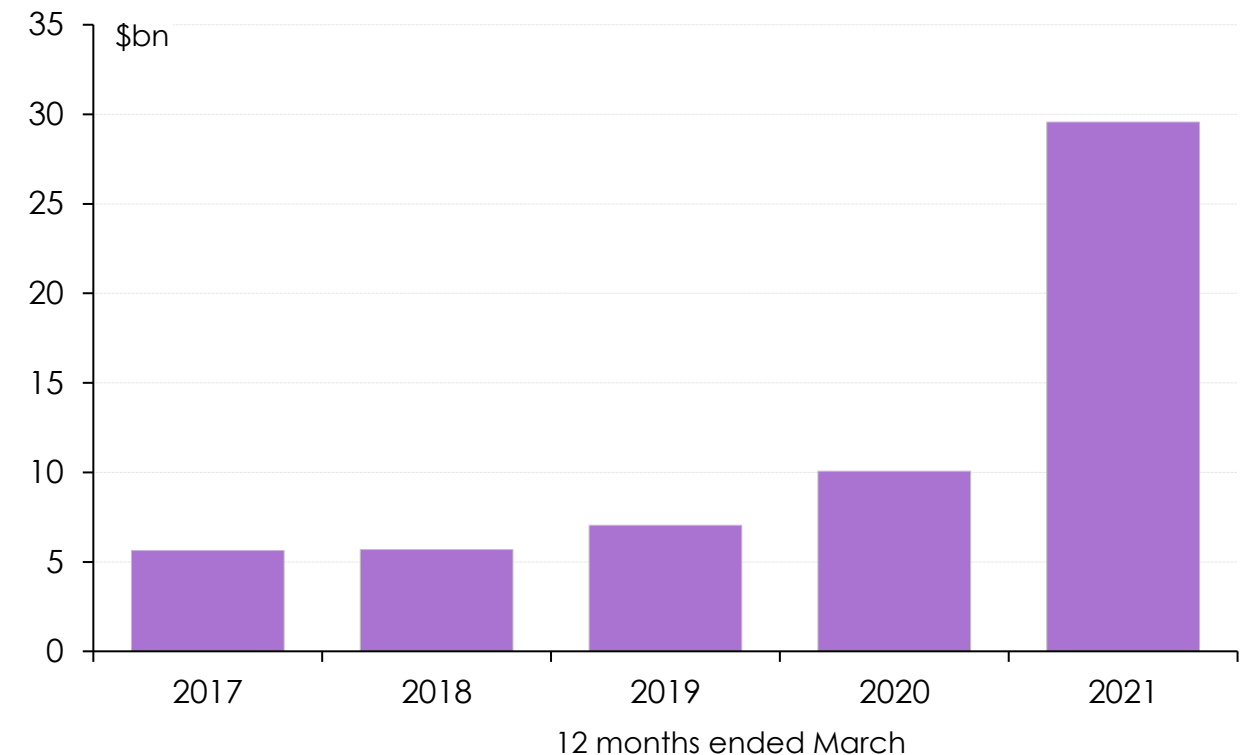
# The *taboo* on Australians leaving the country more than offsets the loss of spending by foreign tourists and students

## Travel credits and debits



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

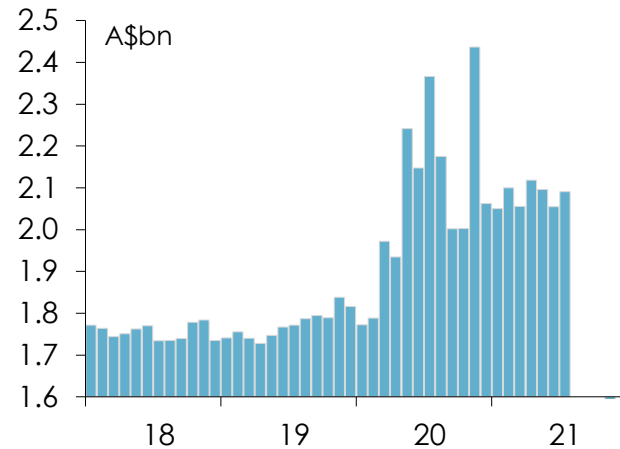
## Net travel transactions



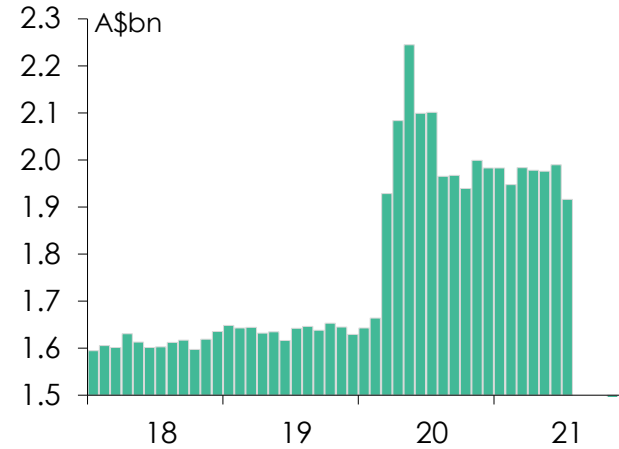
- ❑ Despite restrictions, foreigners still spent \$31bn in Australia in the 12 months to March 2021 (cf. an average of \$61bn per annum over the previous four years) implying a *net gain* to Australia during 12 months to March this year of almost \$22½bn by comparison with the 2016-19 average – equivalent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

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

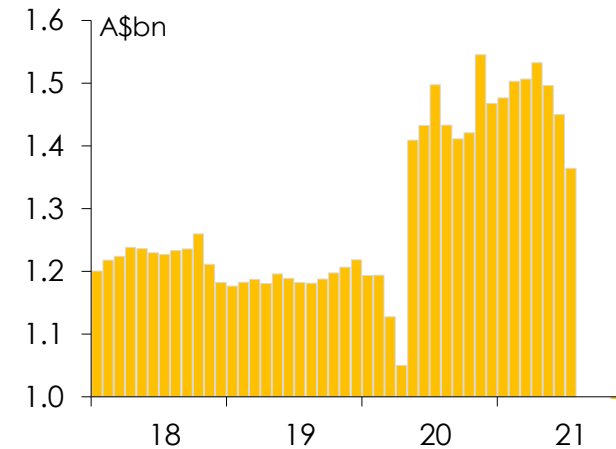
Electronic & electrical goods



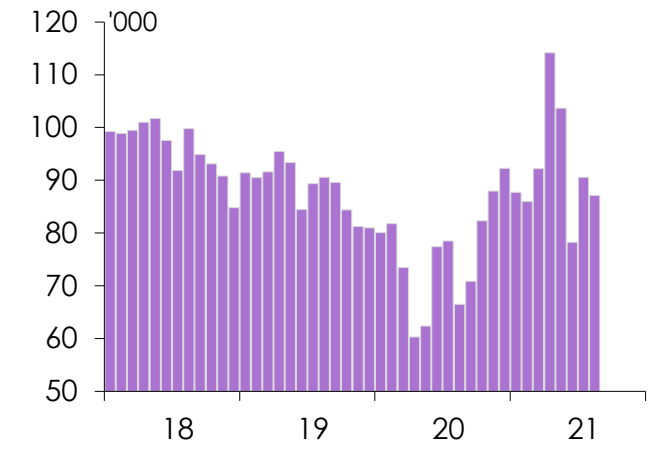
Hardware, building & garden supplies



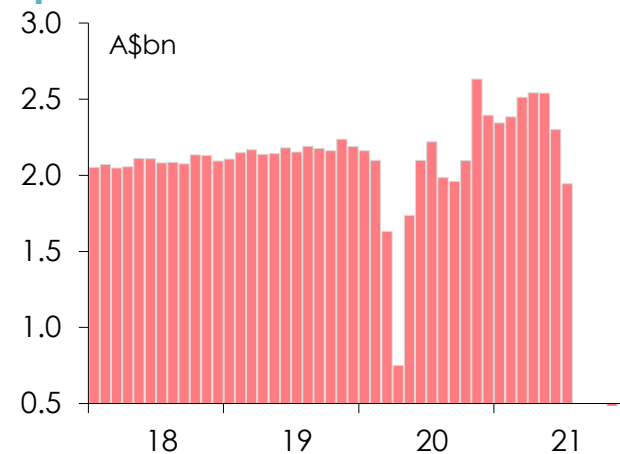
Floor coverings, furniture, housewares etc



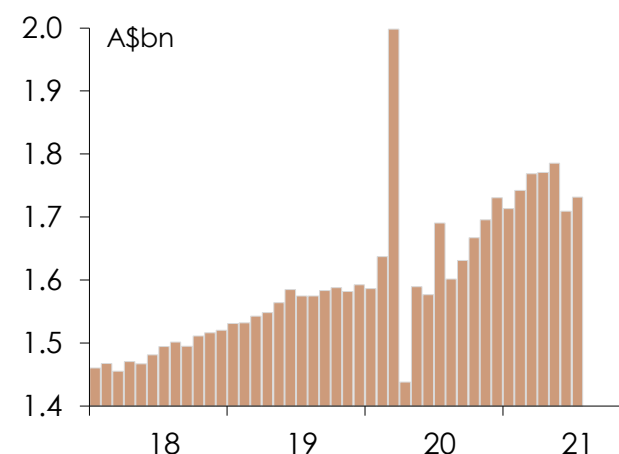
New motor vehicles



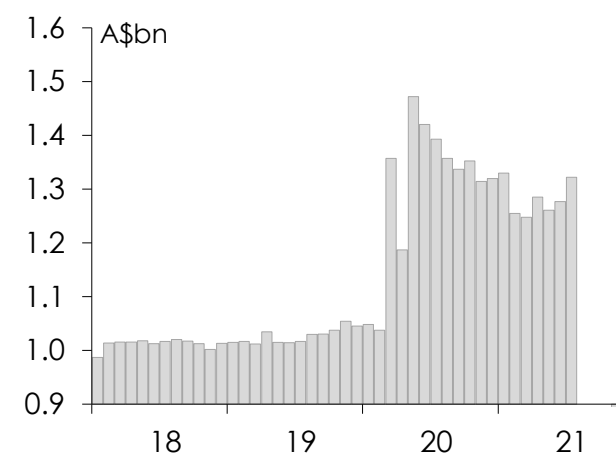
Clothing, footwear & personal accessories



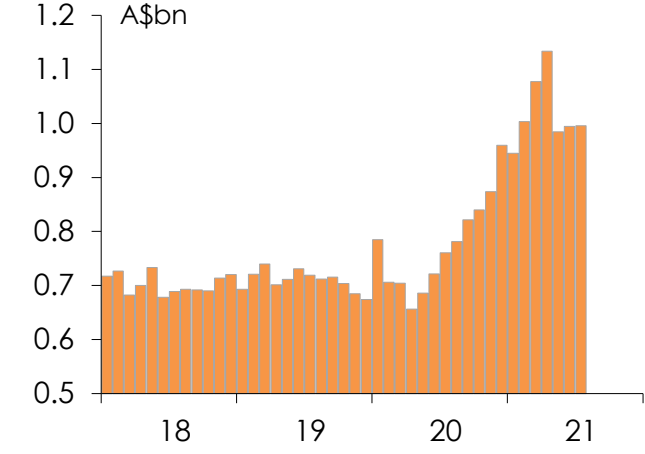
Pharmaceuticals, cosmetics & toiletries



Alcoholic beverages



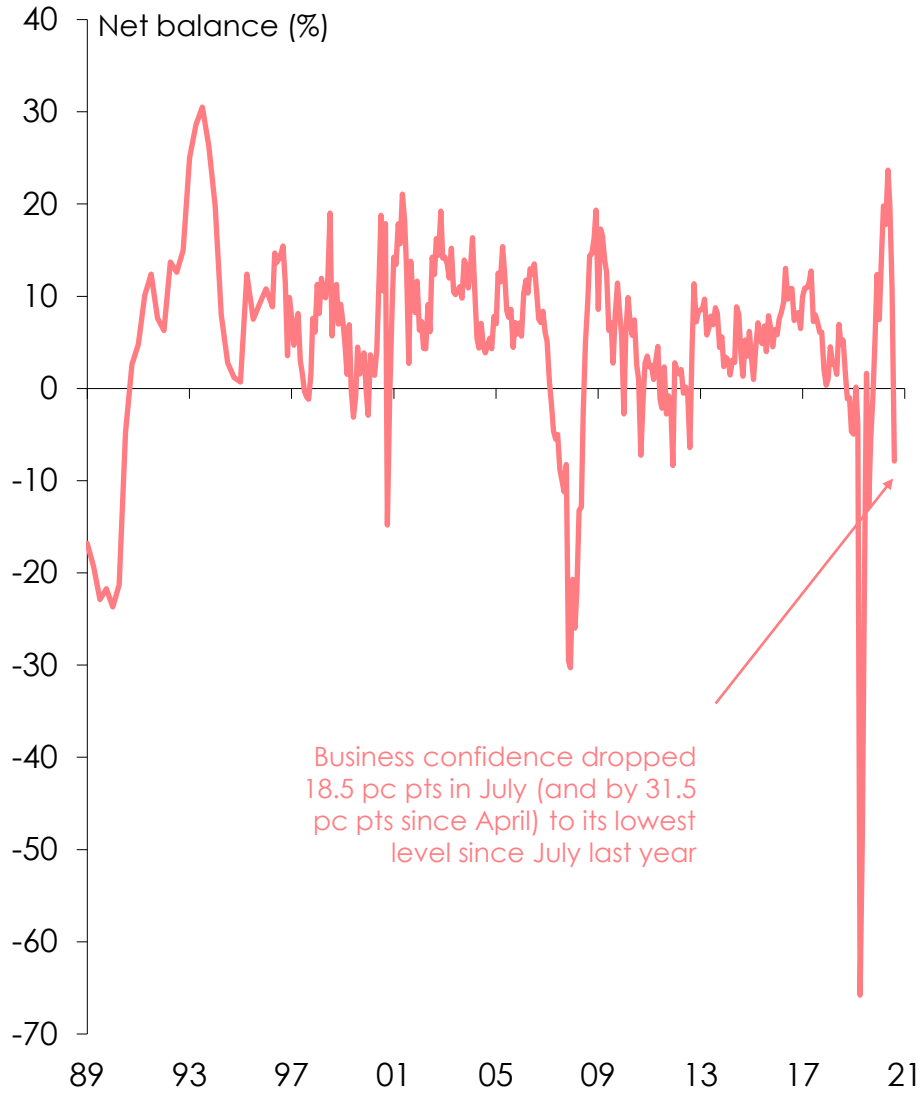
Renovations



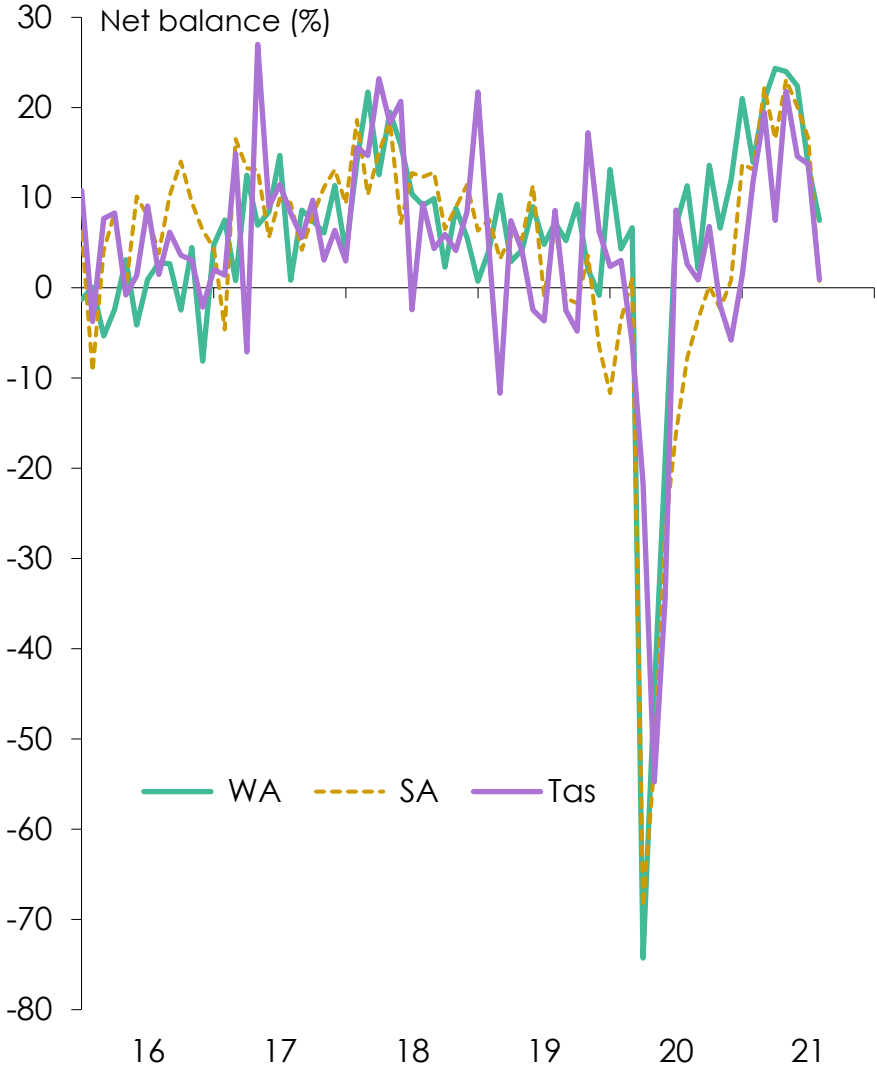
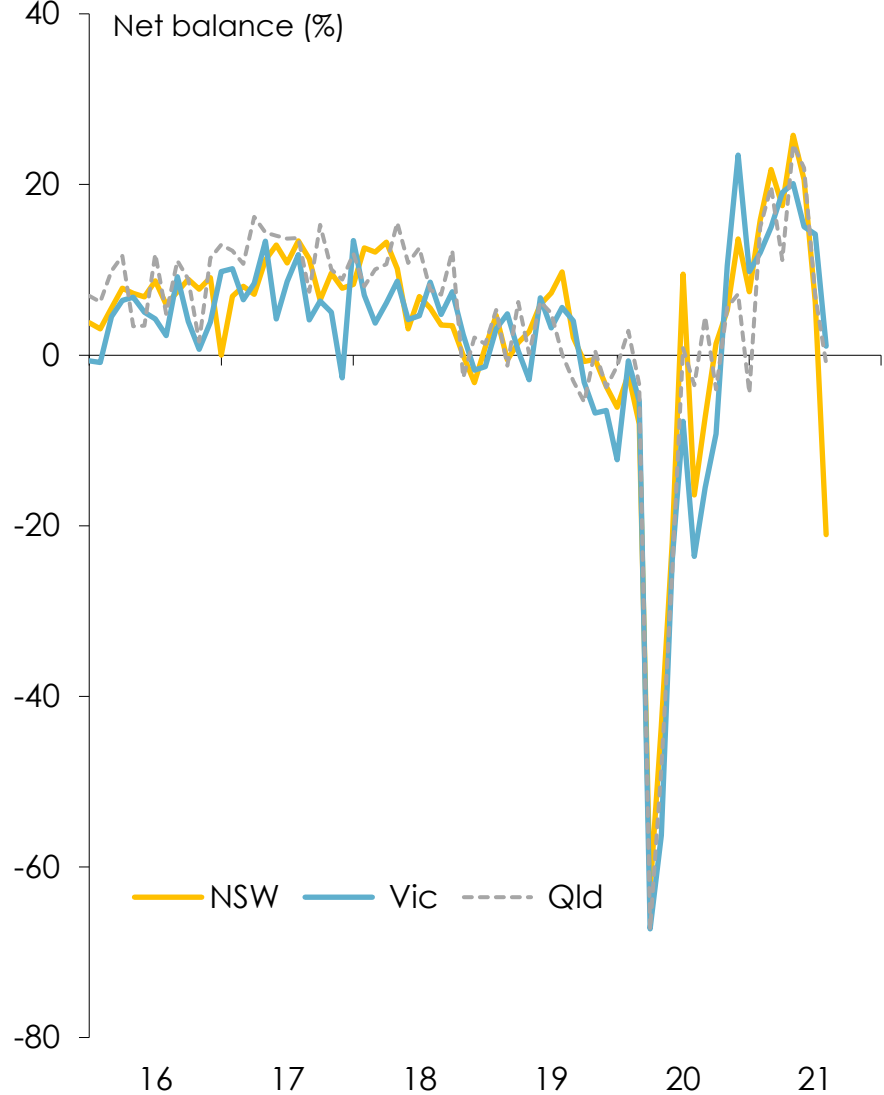
Note: First six charts (from left) are retail sales; new motor vehicles are numbers of vehicles sold; renovations are the value of alterations and additions to residential dwellings approved by local governments. Sources: ABS, [Retail Trade, Australia](#), July 2021 (August data will be released on 5<sup>th</sup> October); [Building Approvals, Australia](#), July 2021; Federal Chamber of Automotive Industries [VFACTS](#) (seasonal adjustment of Vfacts data by Corinna). [Return to "What's New"](#).

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

Business confidence

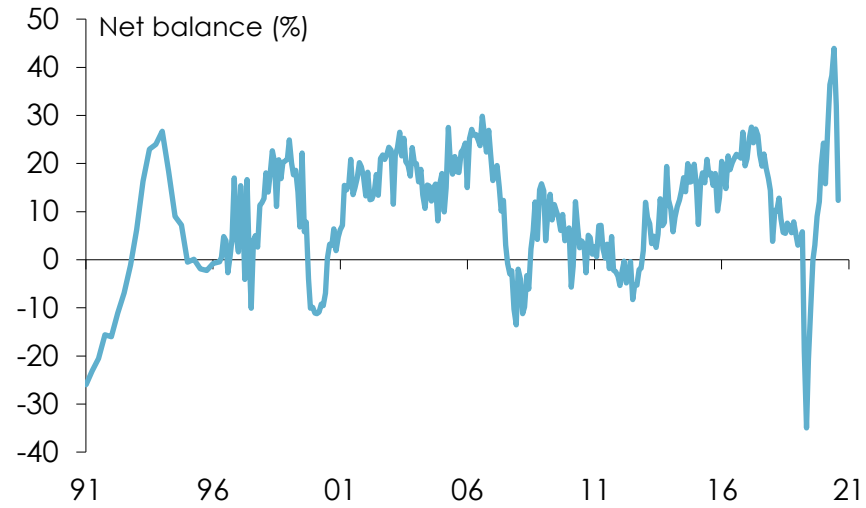


Business confidence, states and territories

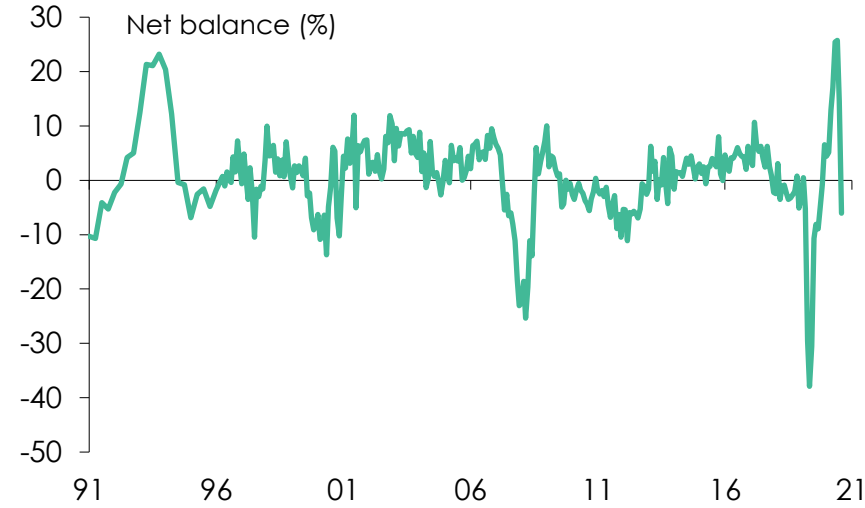


# All of the components of 'business conditions' declined sharply in July

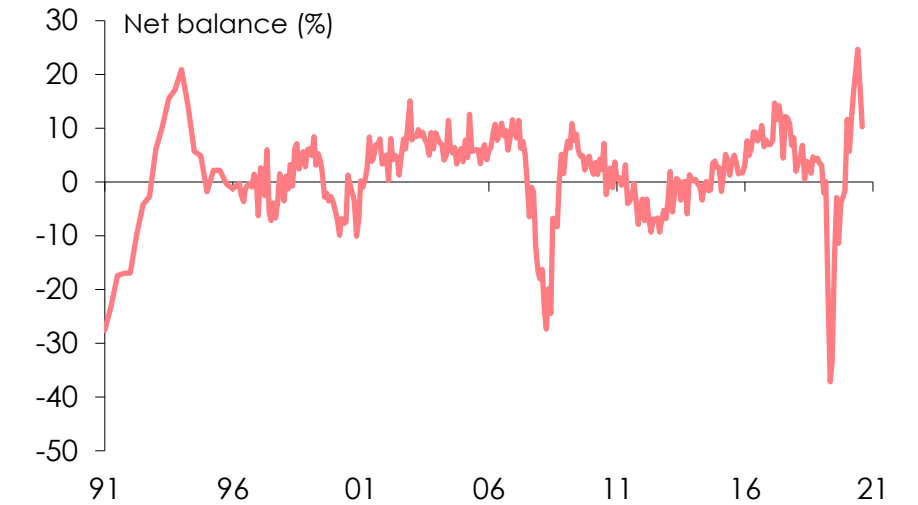
## Trading conditions



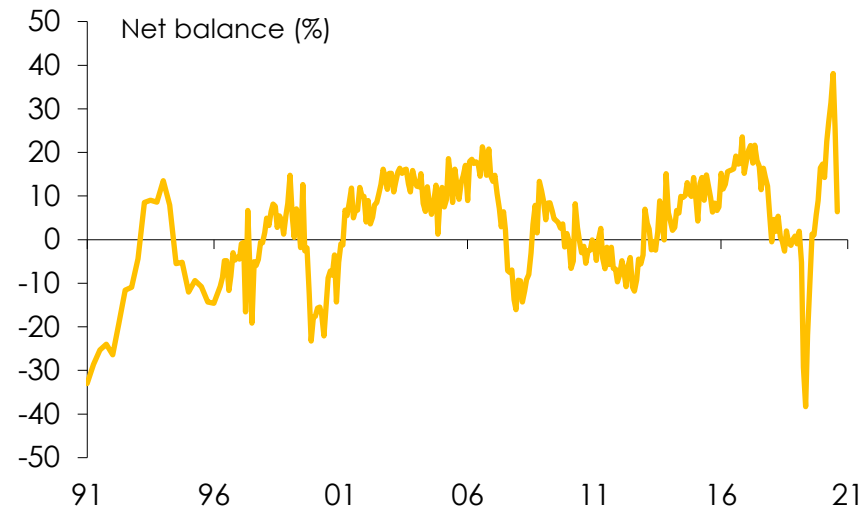
## Forward orders



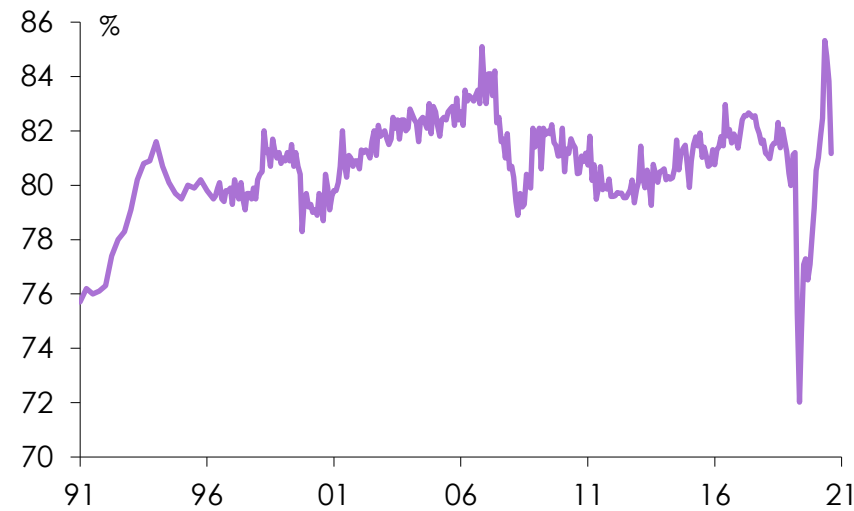
## Employee hiring intentions



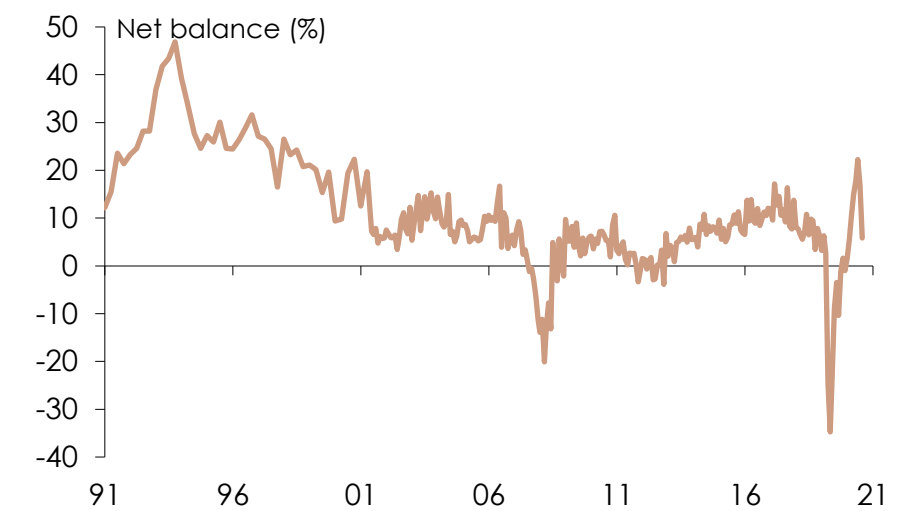
## Profitability



## Capacity utilization



## Capital expenditure intentions

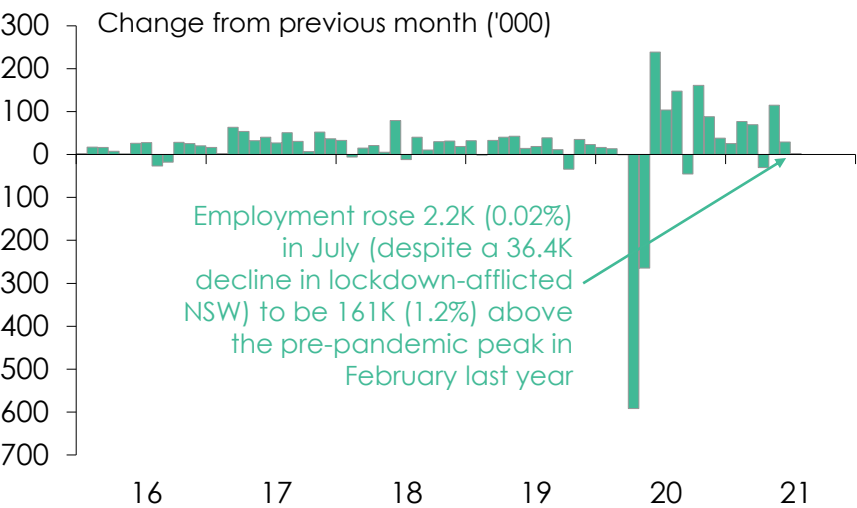


Note: Quarterly data up to March 1997 (May 2002 for capex intentions), monthly thereafter.

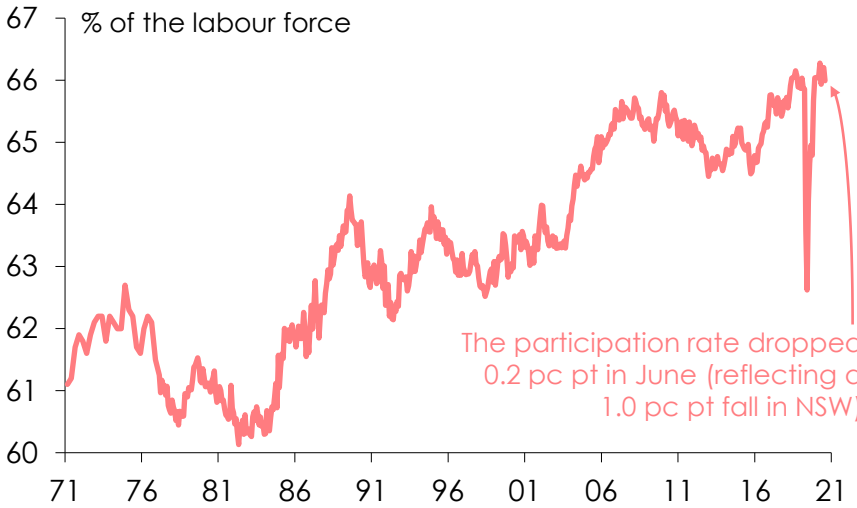
Source: National Australia Bank [Monthly Business Survey](#), July 2021; August survey results will be released on 14<sup>th</sup> September. [Return to "What's New"](#).

# Employment rose fractionally (and unemployment fell) in July, with lockdowns reflected in lower hours worked and lower participation rates

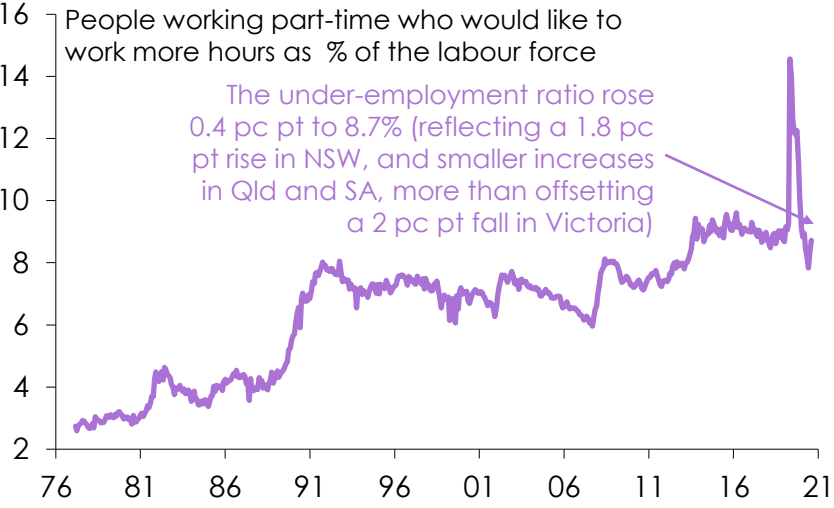
## Employment



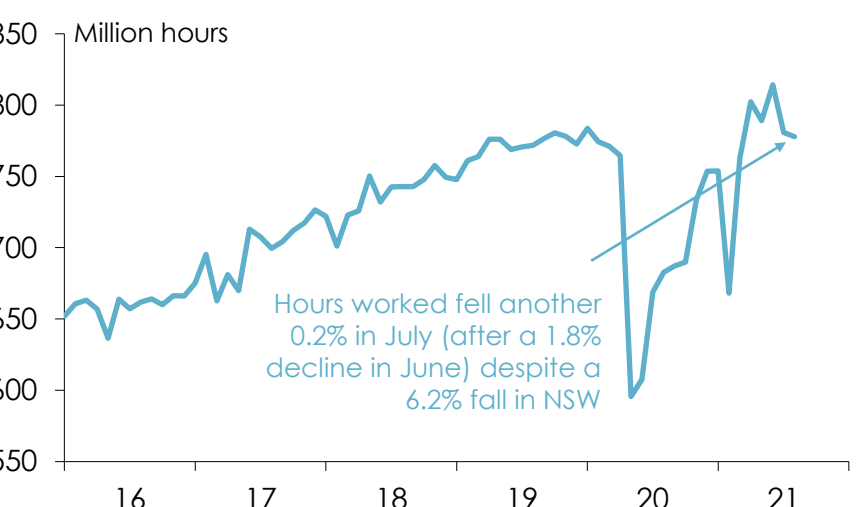
## Labour force participation rate



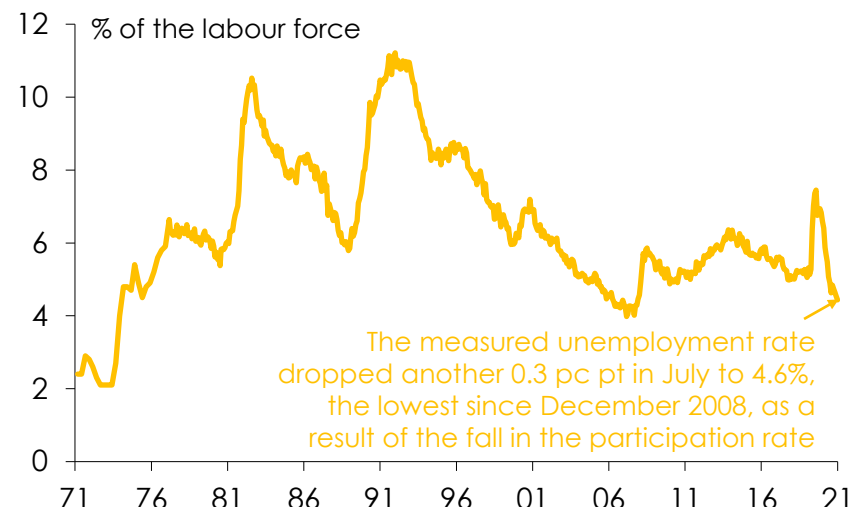
## Under-employment ratio



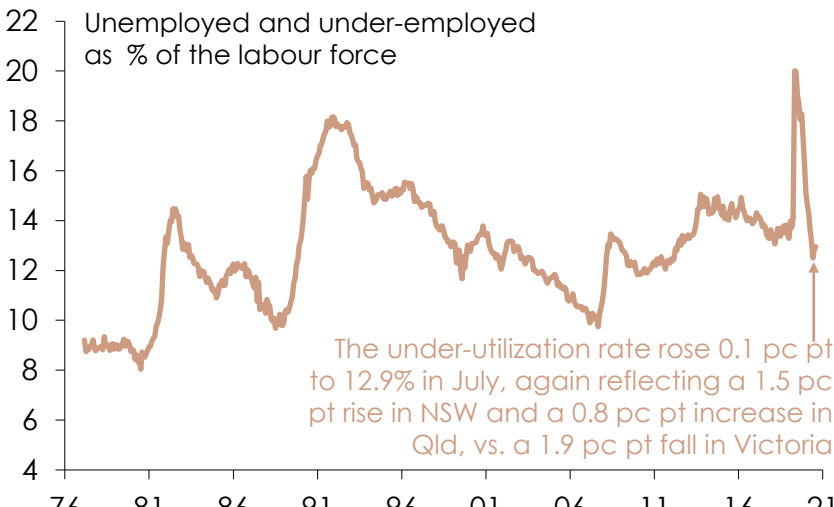
## Total hours worked



## Unemployment rate

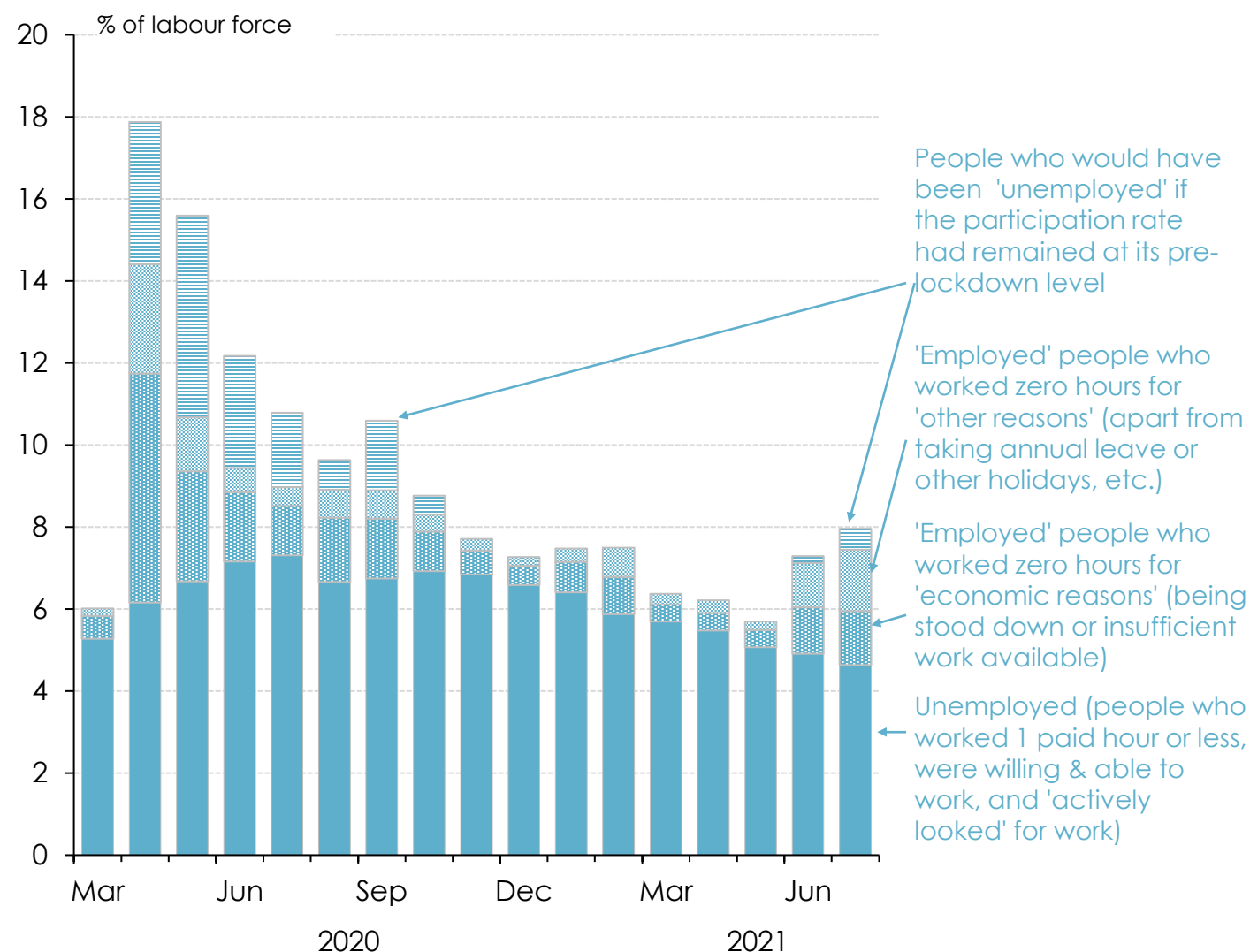


## 'Under-utilization' rate



# The 'effective' unemployment rate has risen from 5.7% in May to 8.0% in July, due to more 'working' zero hours or 'dropping out' of the labour force

## Alternative measures of unemployment

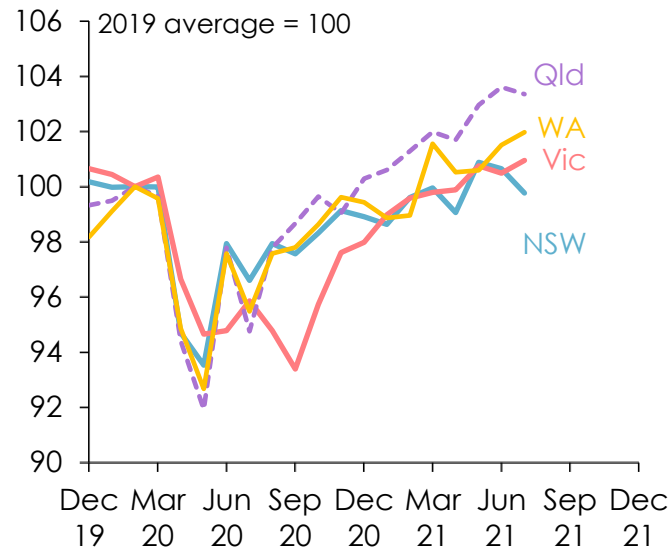


- ❑ The number of people counted as 'employed' but who worked zero hours for 'economic reasons' (no or insufficient work, or 'stood down') rose another 25K in July – reflecting a 103K increase in NSW, offset by a 78K fall in Victoria (after a 104K increase in June)
- ❑ There was also a 57K increase in the number of people counted as 'employed' but working zero hours for 'other reasons' (excluding being on annual or other kinds of leave), after a 121K rise in this category in June
- ❑ Finally, there were 68K people in NSW who would have been classified as 'unemployed' if the participation rate had remained at its June level, and another 2K in Victoria (down from 23K in June) had the participation rate remained at its May level
- ❑ If all of these people are instead regarded as having been 'unemployed', then the unemployment rate would have risen to 8.0% in July, from 5.7% in May and 7.3% in June
  - although that's still well down from a peak of 17.8% in April last year

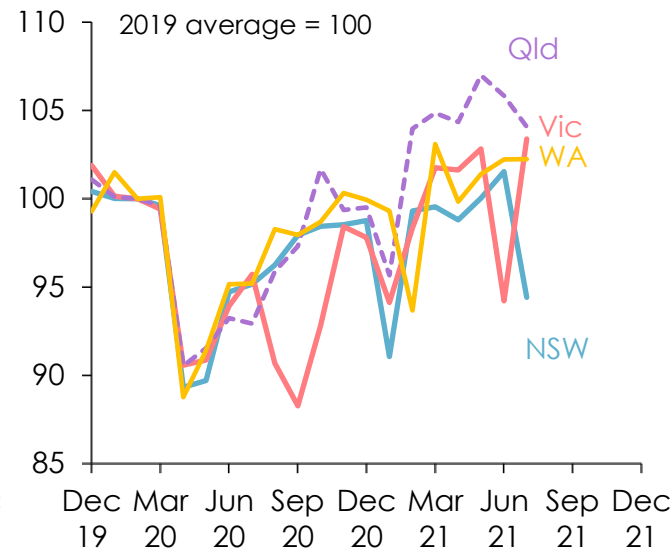


# Lockdowns show up in falls in hours worked and participation rates – in Victoria in June, in NSW in July – rather than in employment

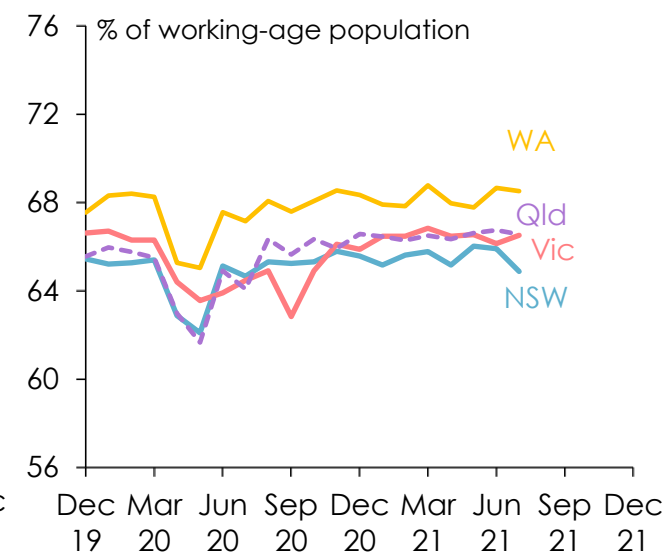
## Employment



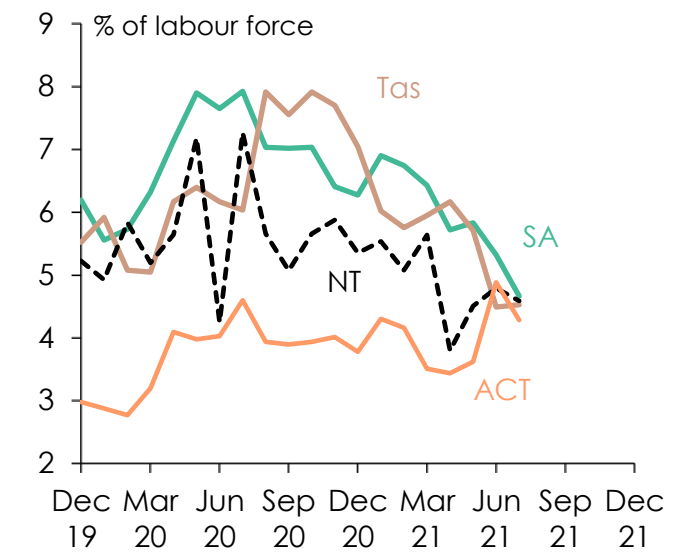
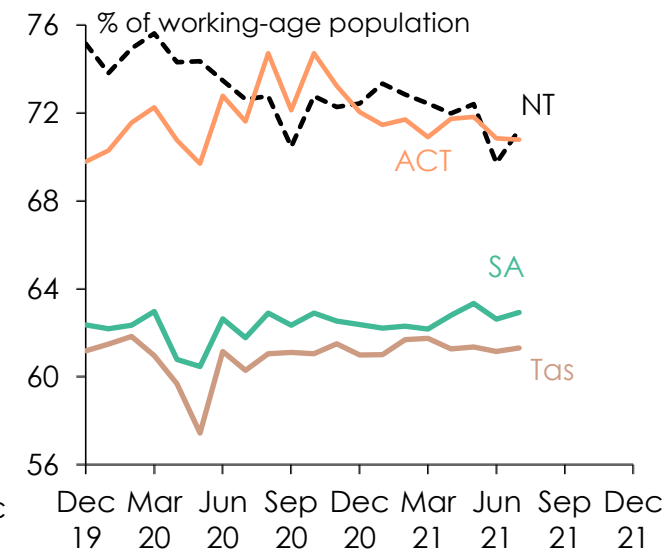
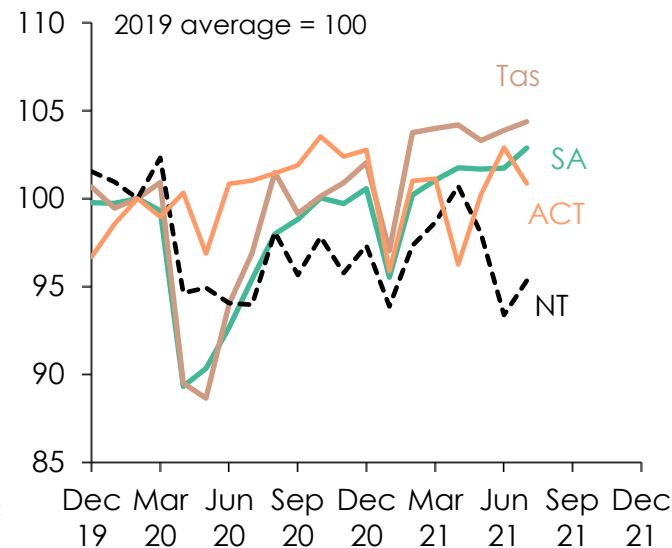
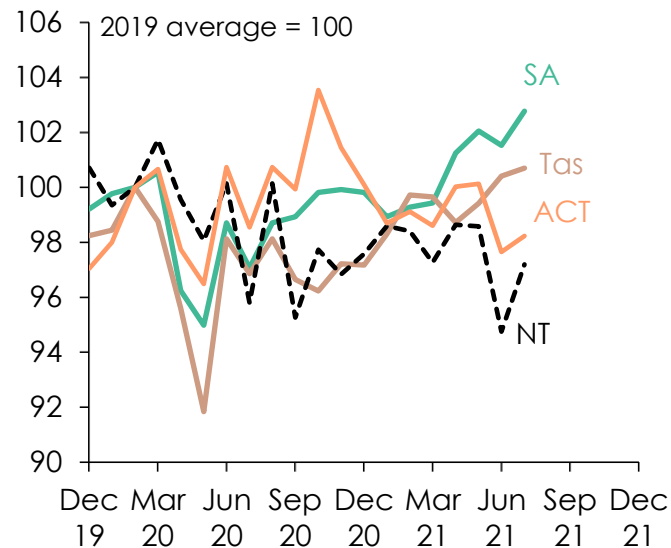
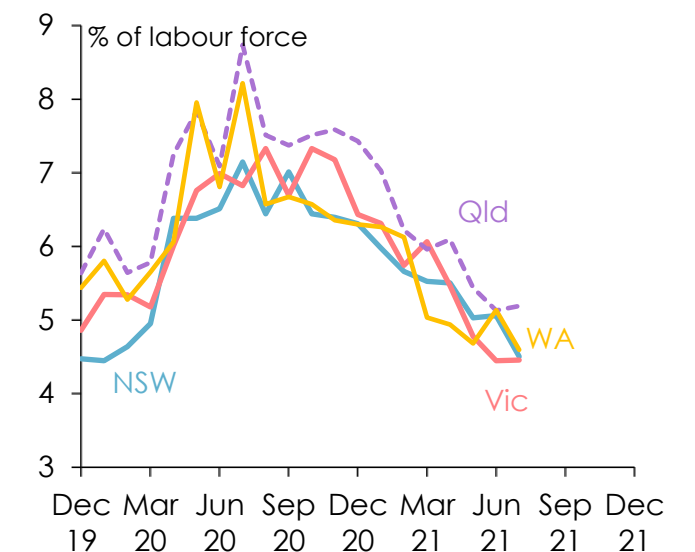
## Hours worked



## Participation rates



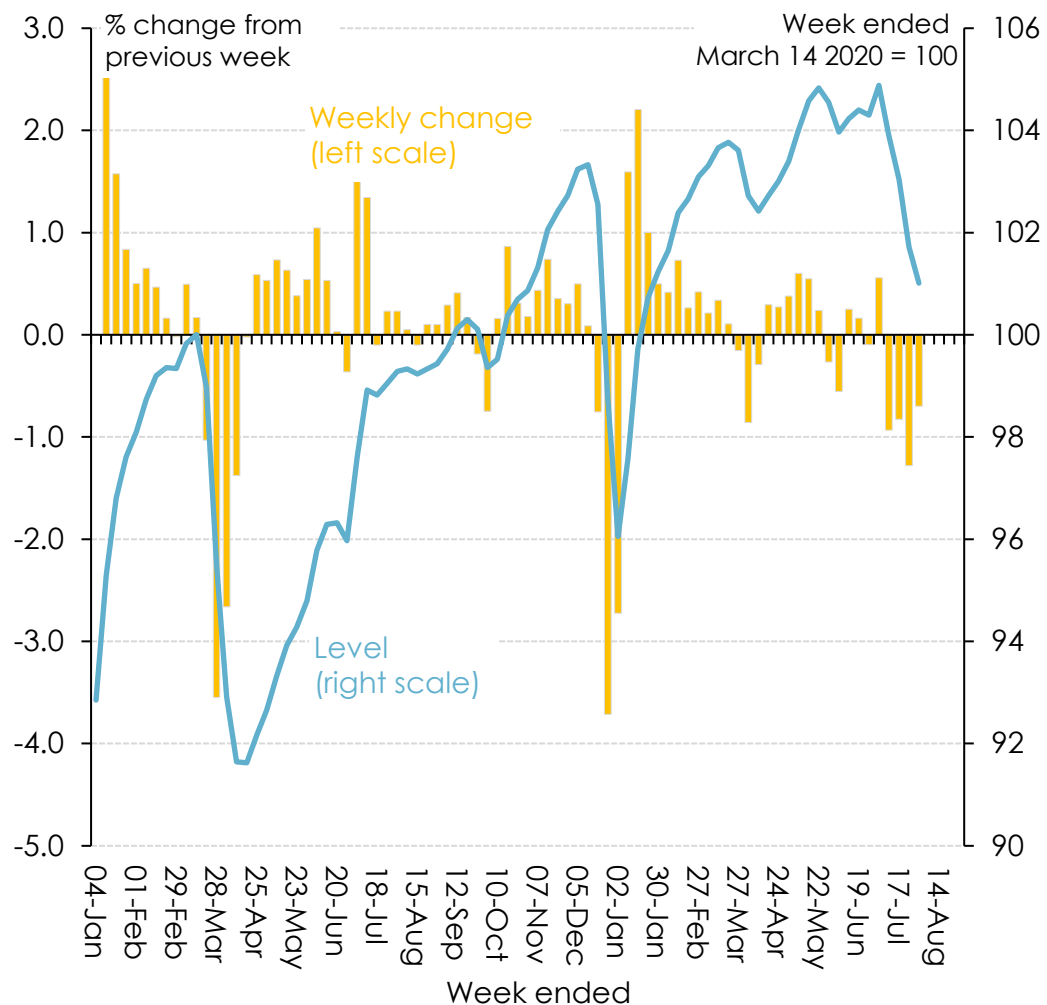
## Unemployment rates



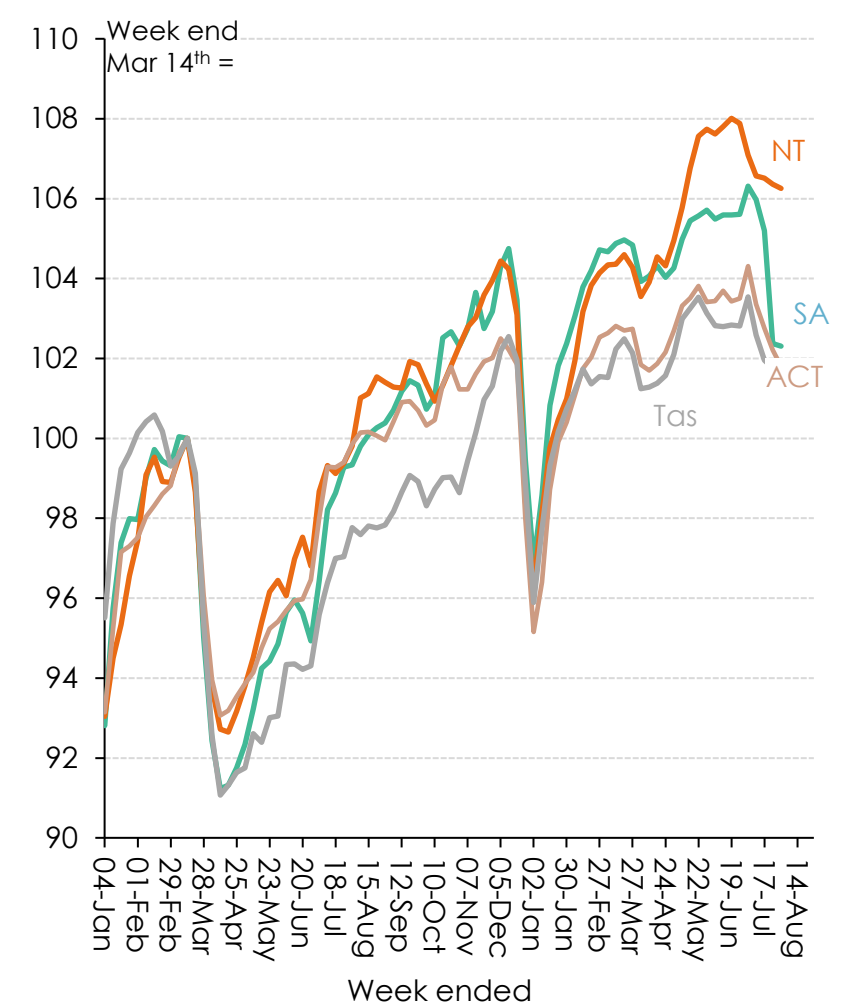
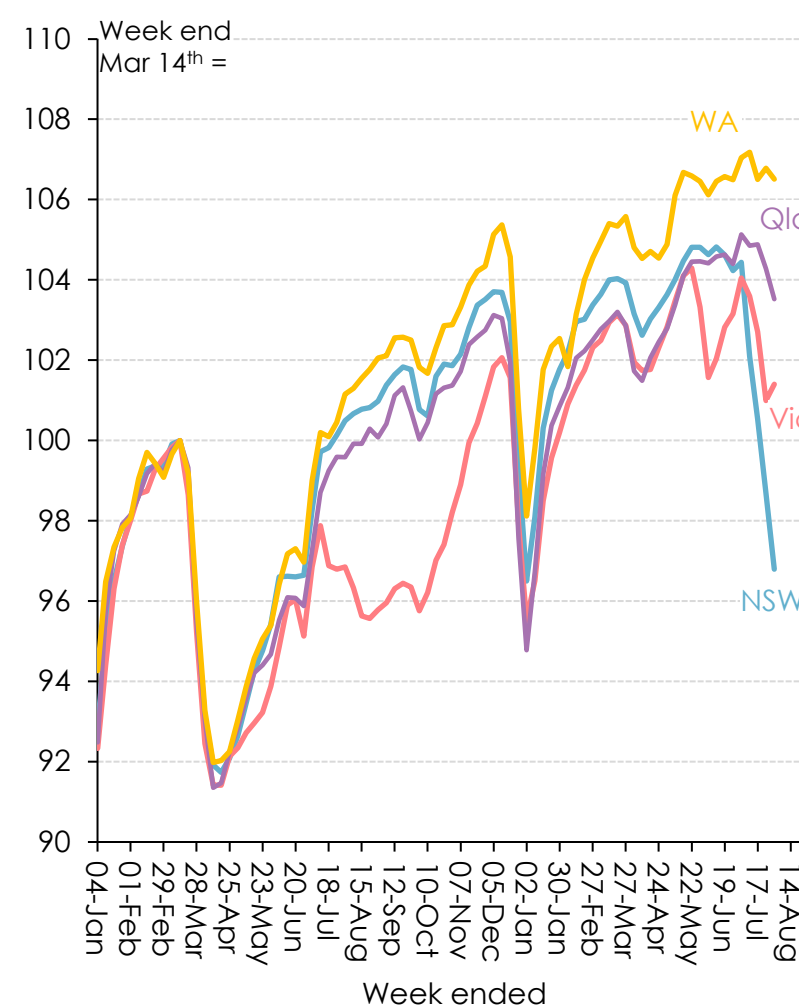
Source: ABS, [Labour Force, Australia](#), July 2021; Corinna. August data will be released on 16<sup>th</sup> September. [Return to "What's New"](#).

# Payroll jobs have fallen by 3.2% since the NSW lockdown began, with NSW down 7.5% but every other state and territory also down

Level and weekly change in the number of payroll jobs



Payroll jobs by State & Territory

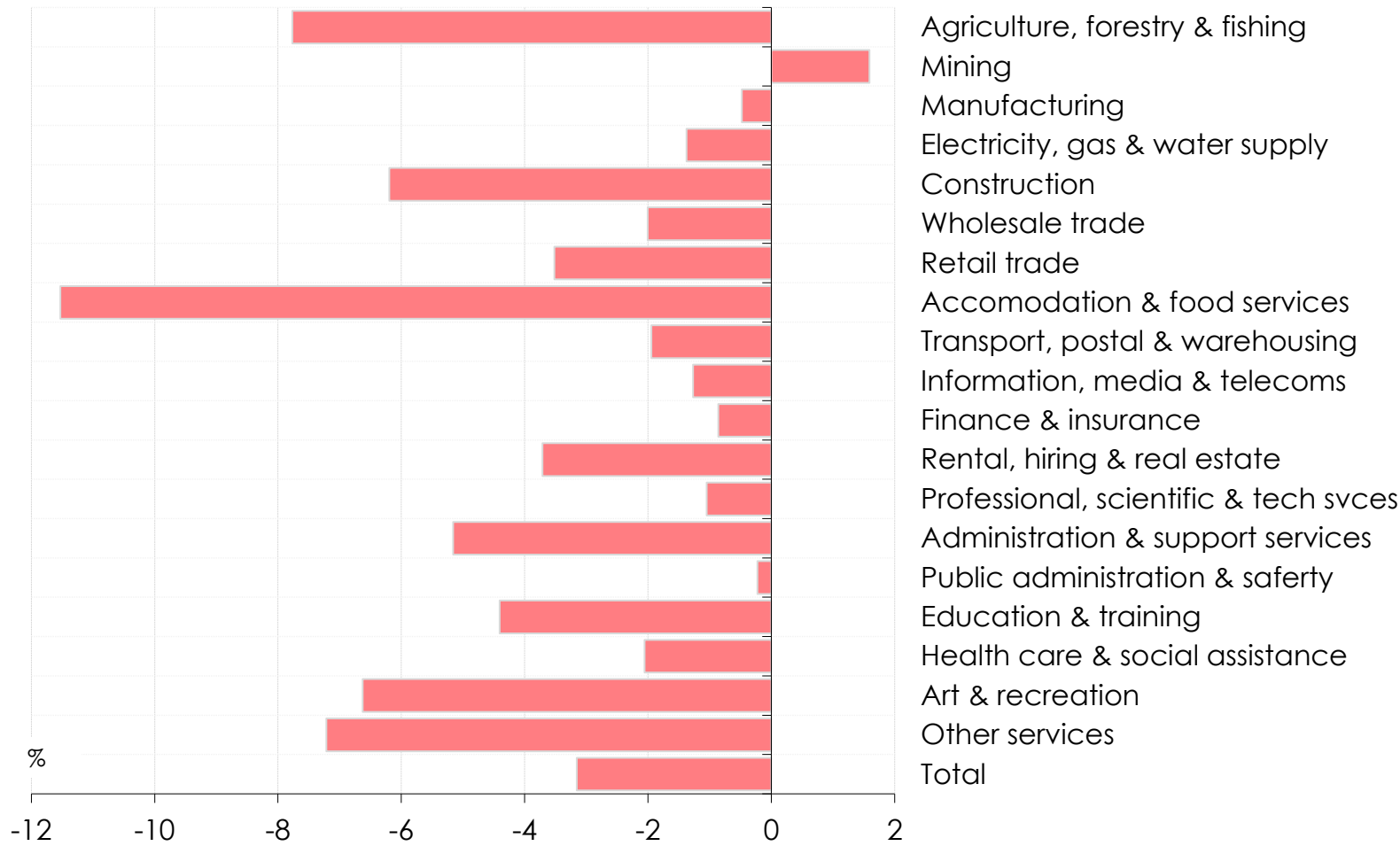


Source: ABS, [Weekly Payroll Jobs and Wages in Australia](#). Data refers to the number of payroll jobs at businesses participating in the Australian Taxation Office's Single Touch Payroll system, which covers 99% of employers with 20 or more employees and about 71% of smaller employees. People with 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 14<sup>th</sup> August will be released on 9<sup>th</sup> September. [Return to "What's New"](#).

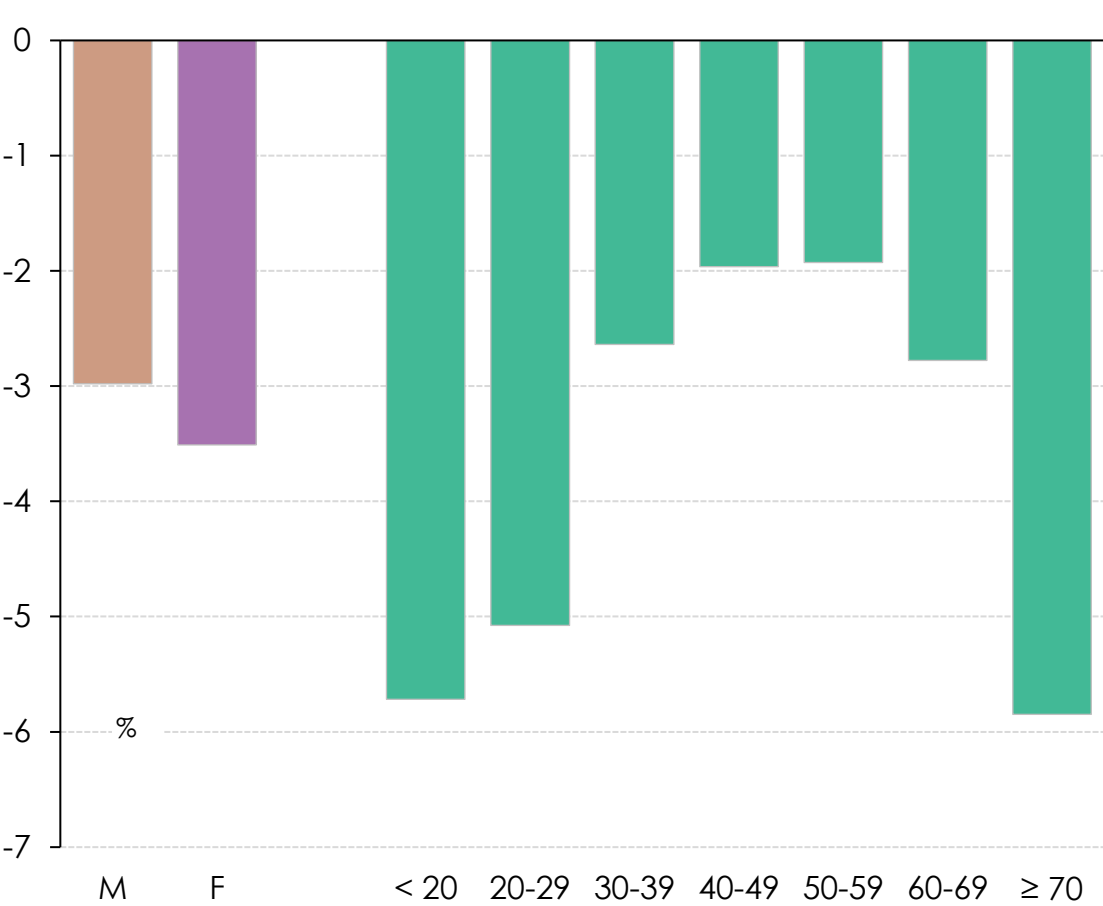
# The same sectors, and the same groups, that were hardest hit in last year's lockdowns have been hardest hit in the latest one (plus agriculture)

Change in payroll jobs between week ended 26<sup>th</sup> June and week ended 31<sup>st</sup> July

By industry



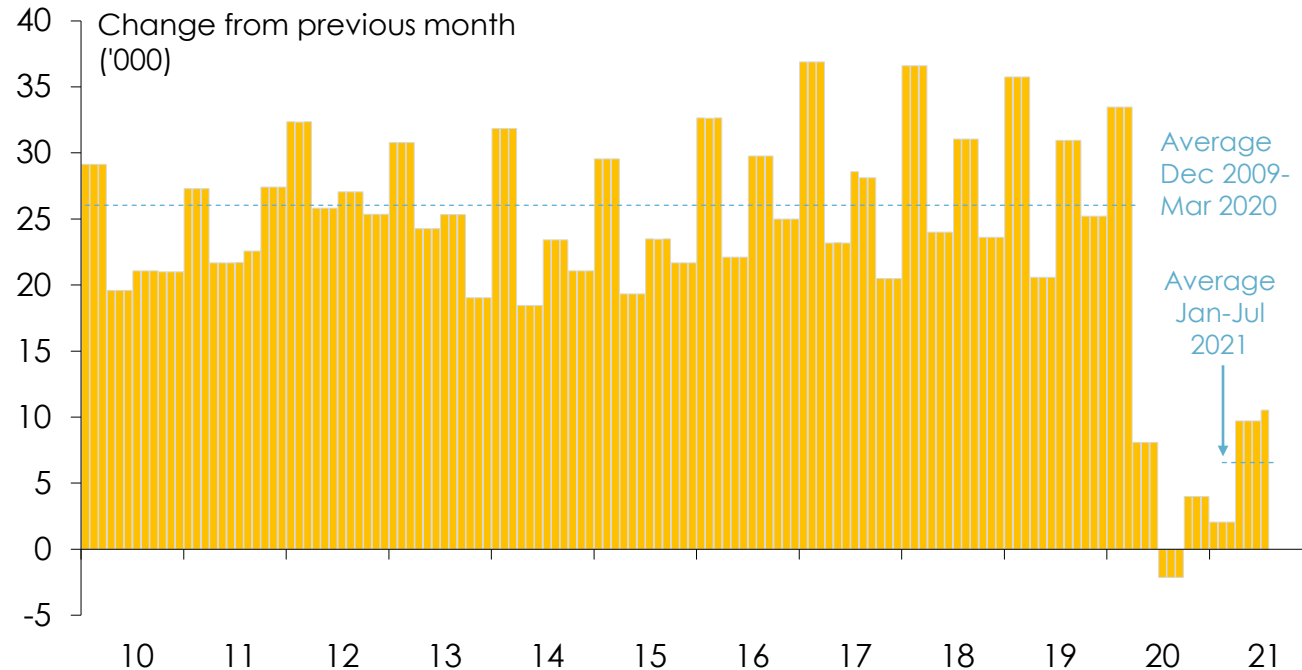
By gender and age



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 31<sup>st</sup> July will be released on 9<sup>th</sup> September. [Return to "What's New"](#).

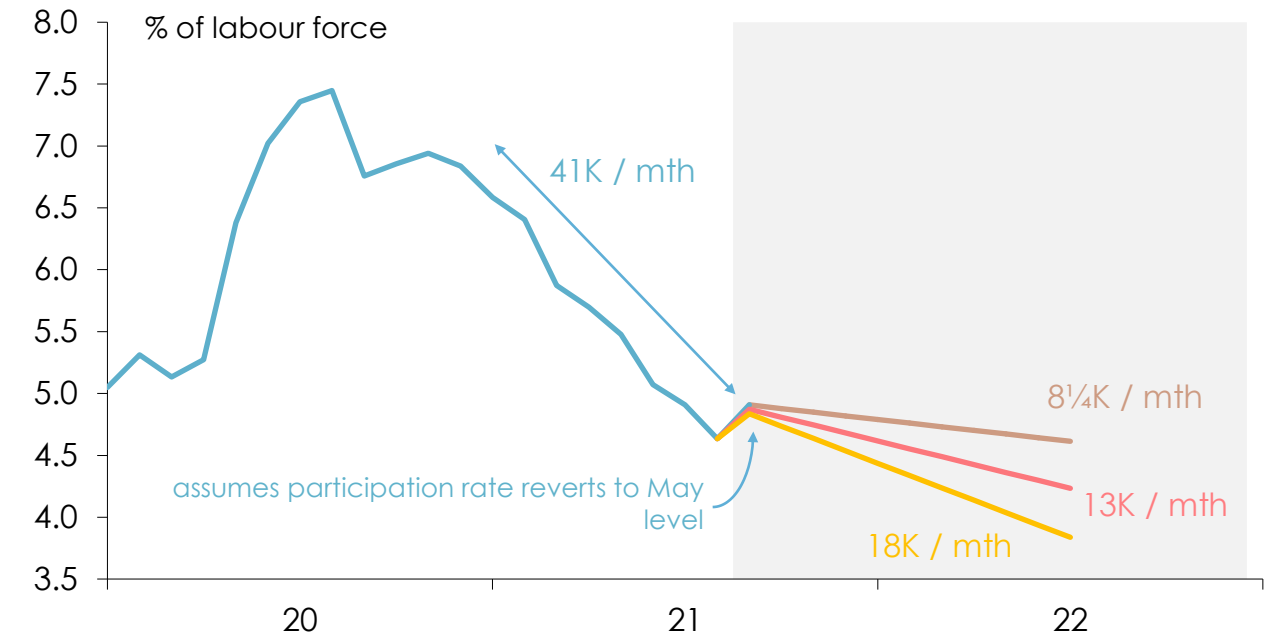
# The closure of Australia's borders means that it's much easier to reduce unemployment for any given rate of jobs growth

## Monthly growth in civilian working-age population



- ❑ Over the decade prior to the onset of Covid-19, the civilian working-age population (people aged 15 and over) grew by an average of 26K a month – meaning that 16½K new jobs a month, on average, were required to keep the unemployment rate constant (assuming an unchanged participation rate)
- ❑ But so far this year, the working-age population has risen by an average of 6½K a month – which means that anything more than 4K new jobs a month will result in a fall in the unemployment rate, all else being equal

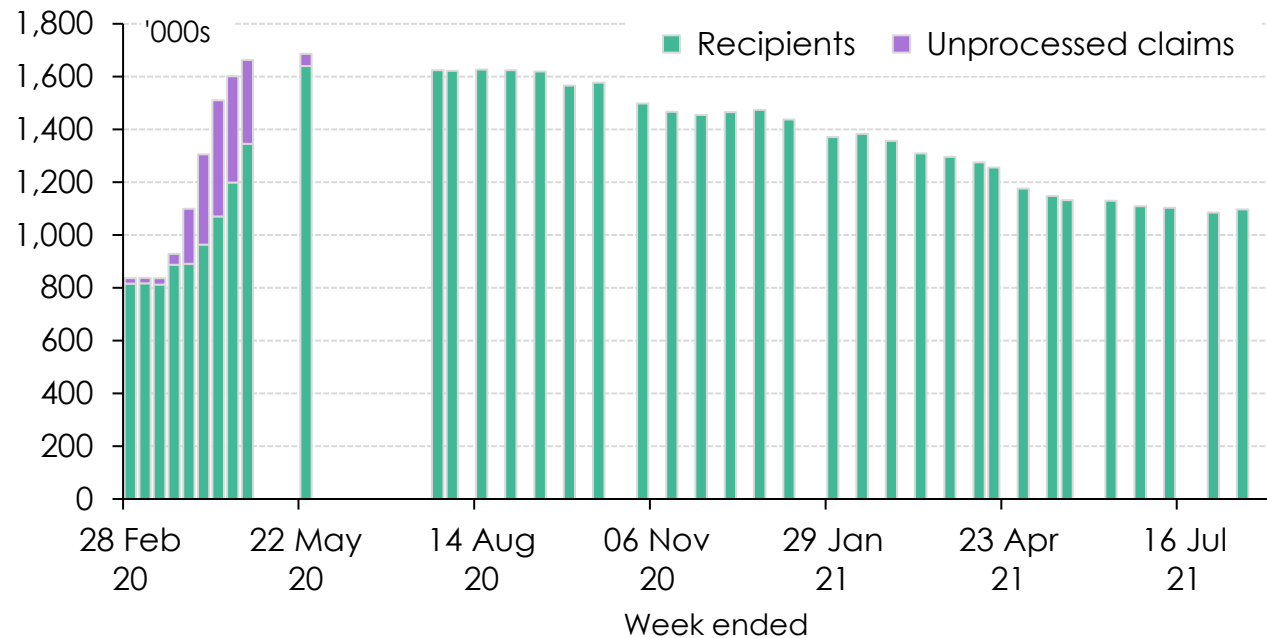
## Unemployment rates for alternative rate of jobs growth



- ❑ Assuming the working-age population grows at the same rate as it has over the first seven months of 2021, and that the participation rate reverts to its May (pre-lockdown) level, employment growth of 8¼K a month will be needed to return the unemployment rate to 4.6% by June 2022
- ❑ If employment grows by an average of 13K a month the unemployment rate will be down to 4¼% by June next year – if it grows by 18K a month it will be down to 3¾% by June (all else being equal)

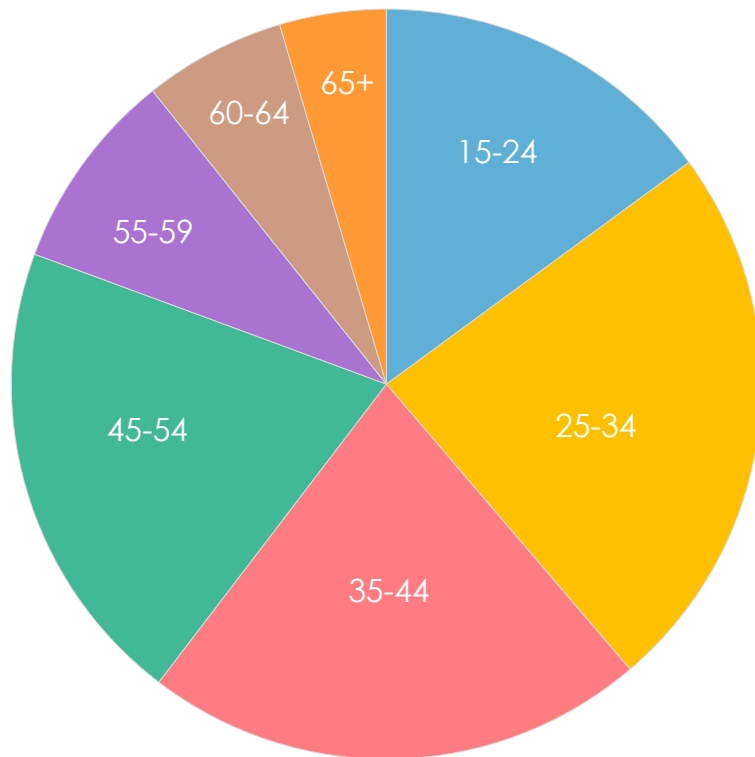
# The number of people receiving 'unemployment benefits' rose by 12,400 over the first two weeks of August – but mostly in Queensland, not NSW

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

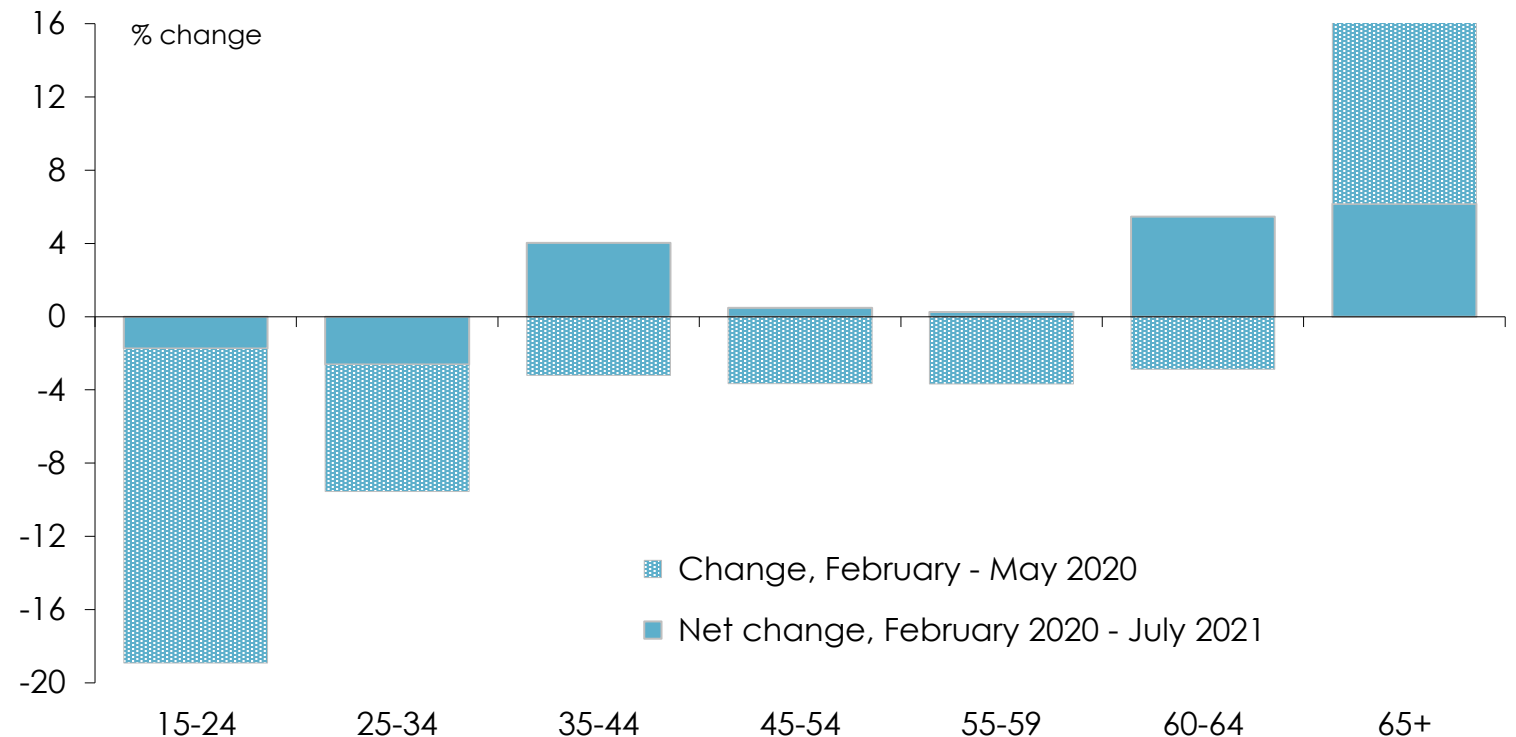


# Younger workers bore the brunt of job losses during the early stages of the pandemic and have had a more difficult time regaining jobs

Composition of employment by age group, February 2020



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



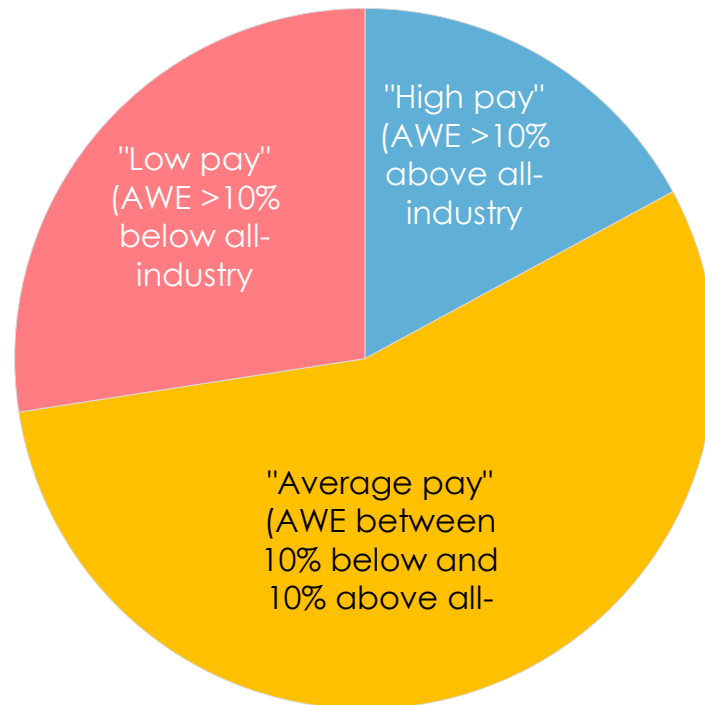
- ❑ People aged 15-24 accounted for 15% of pre-covid employment but experienced 39% of all job losses between February and May last year – and as of July this year their employment was still down 1¾% from where it had been in February 2020, while that of 25-34 year-olds was down by 2½%
- ❑ By contrast older age groups have fared much better, with employment of 60-64 year-olds and those aged 65 & over 5½% and 6¼%, respectively above where it was in February last year, and that of 35-44 year-olds up by 4%

Note: data on employment by age group is not seasonally adjusted. Source: ABS, [Labour Force, Australia, Detailed](#), July 2021: August data will be released on 23<sup>rd</sup> September. [Return to "What's New"](#).

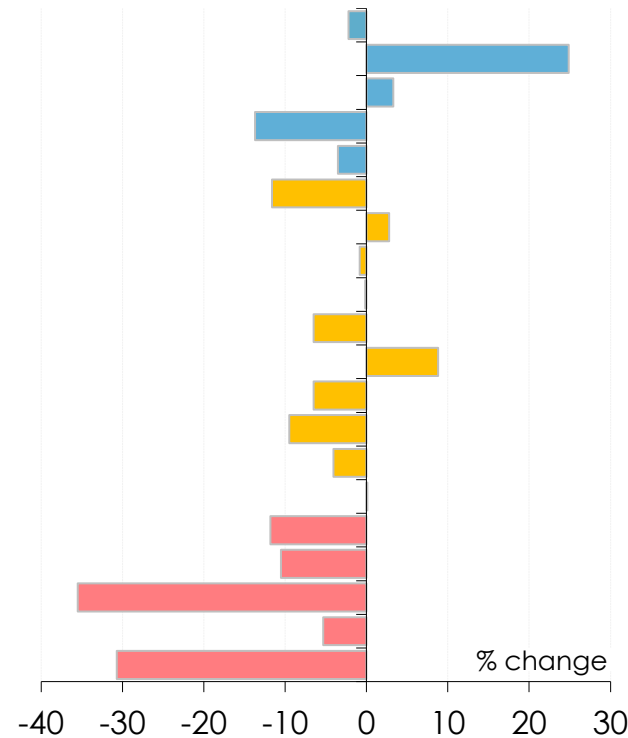


# Workers in low-pay industries experienced the bulk of job losses during the downturn and the greatest difficulty regaining them since then

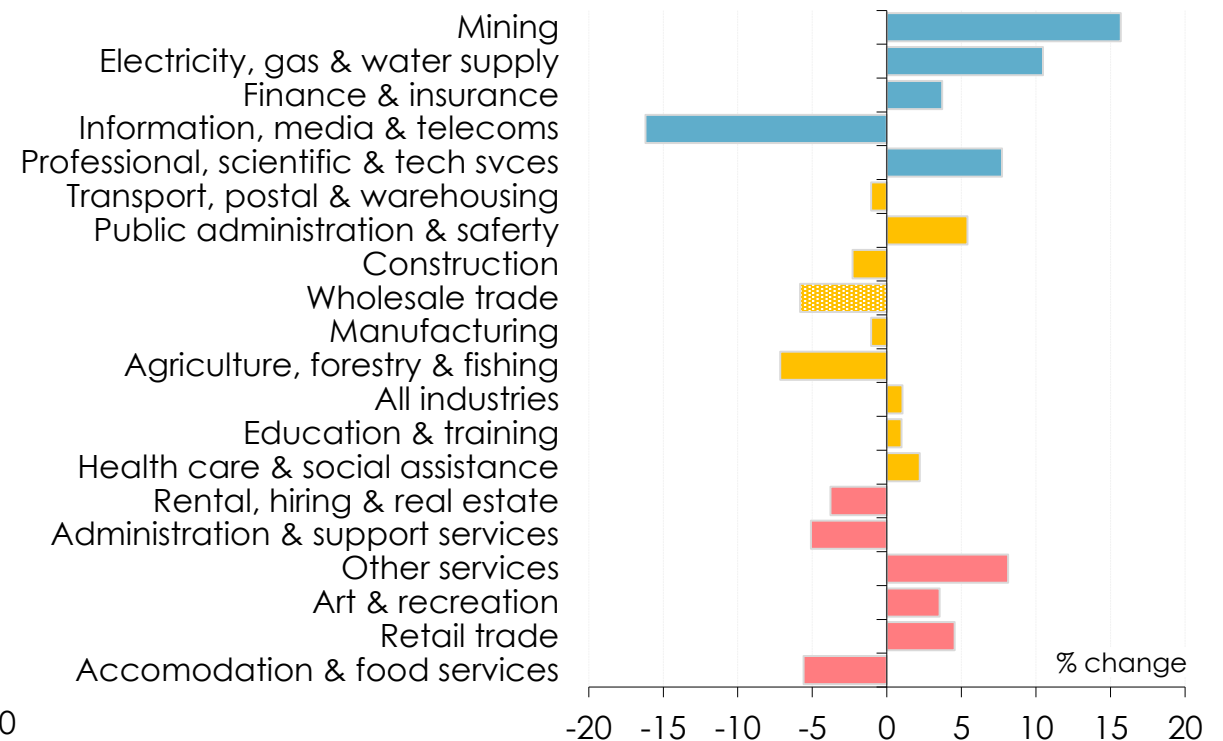
Composition of employment by industry ranked by average weekly earnings, February 2020



Change in employment by industry  
February-May 2020



February 2020 – May 2021



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

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

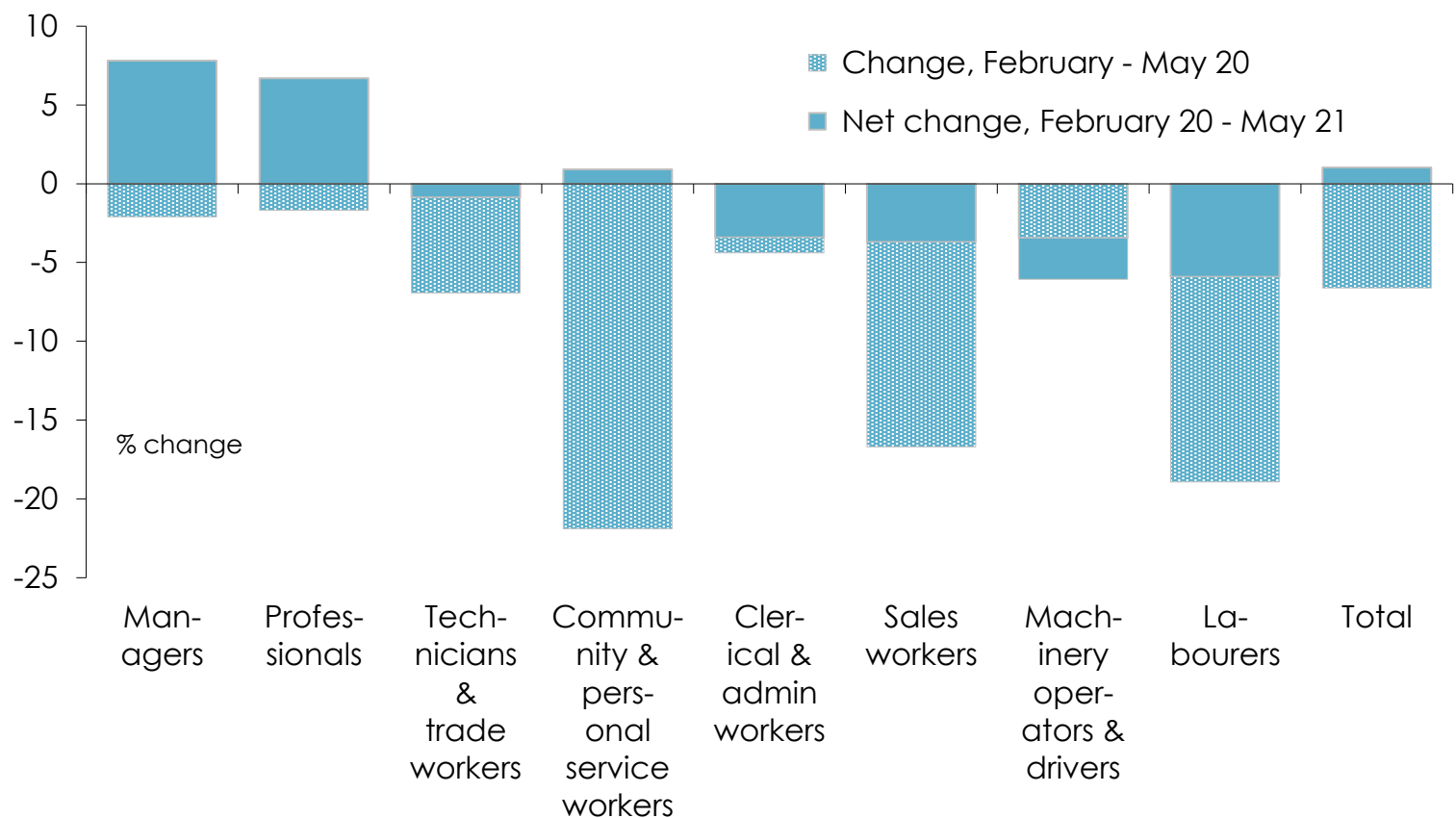


# Community & personal service workers, sales workers and labourers have borne the brunt of job losses since the onset of the pandemic

Employment by major occupation category, February 2020



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

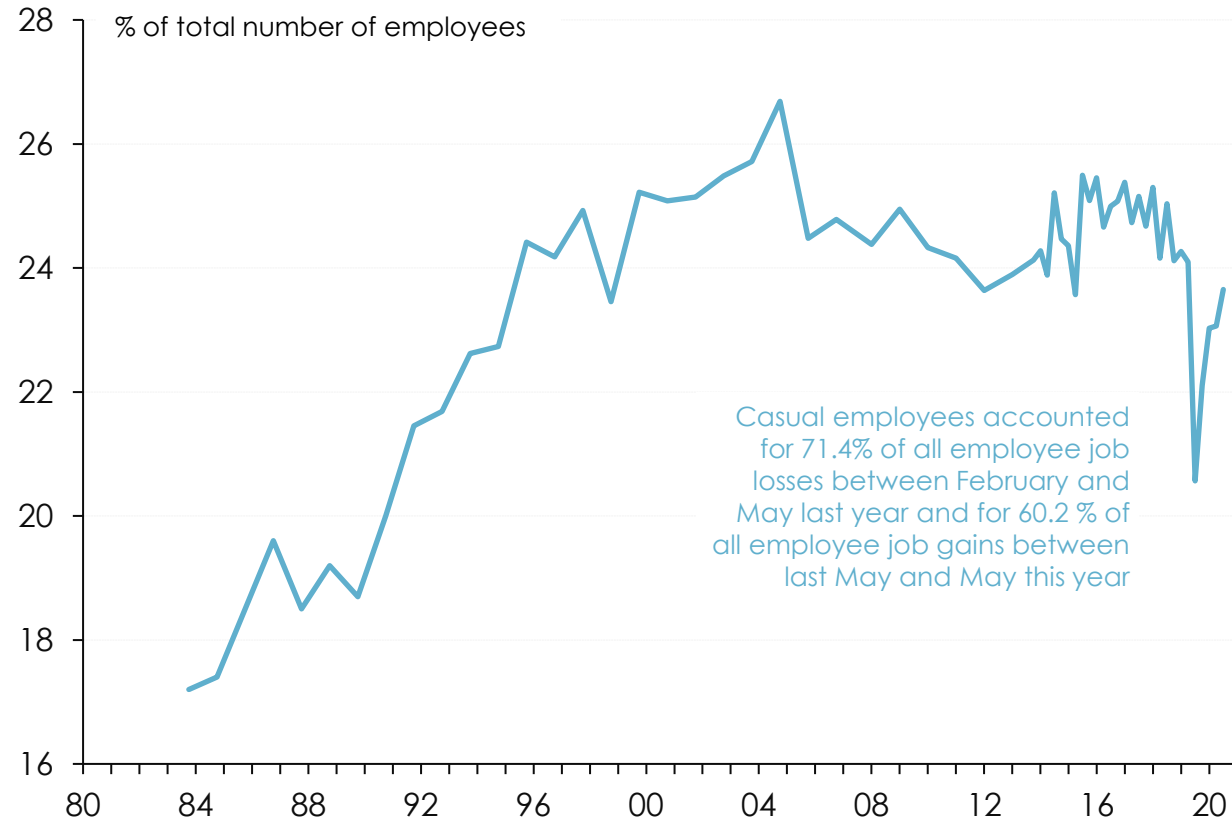


- ❑ Community & personal services workers, sales workers and labourers accounted for 29% of the pre-covid work force, but experienced 73% of the job losses during the recession – and 17% of them still haven't regained their jobs (or found others) ...
- ❑ ... whereas there are 7% more employed managers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

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 23<sup>rd</sup> September. [Return to "What's New"](#).

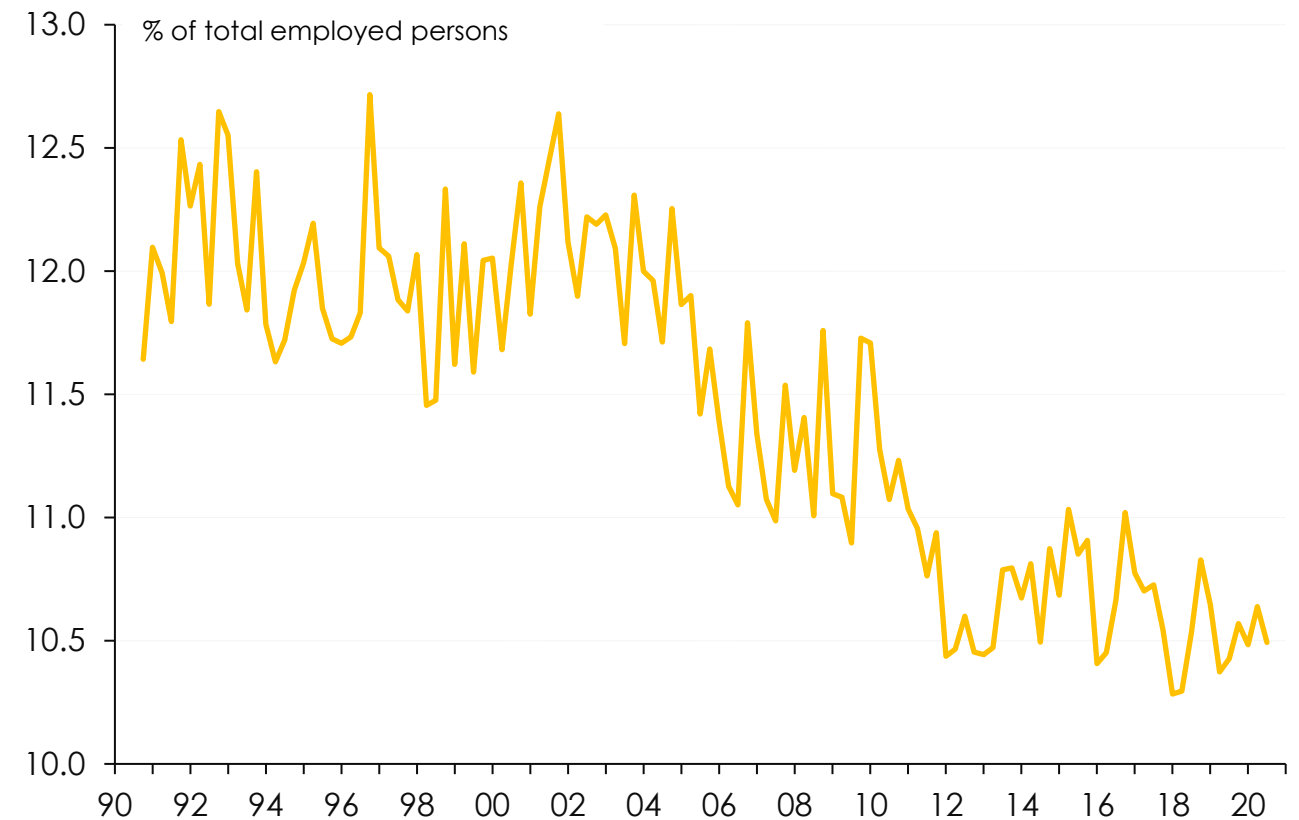
# Contrary to popular belief neither casual jobs nor 'gig economy' jobs have become more commonplace during the past two decades

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



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

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

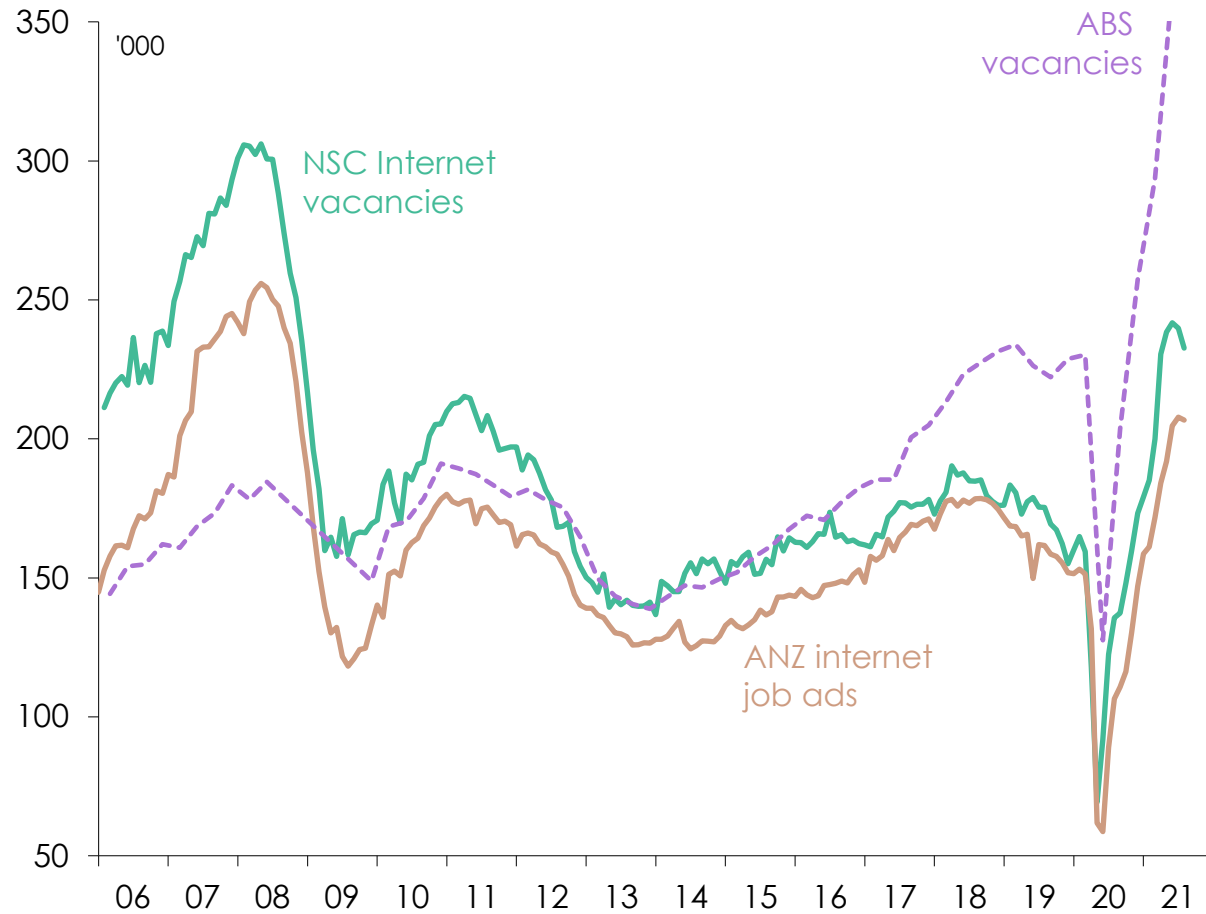


- ❑ 'Independent contractors' have actually declined as a share of the workforce since the early 2000s – had haven't increased during the current recession

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



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

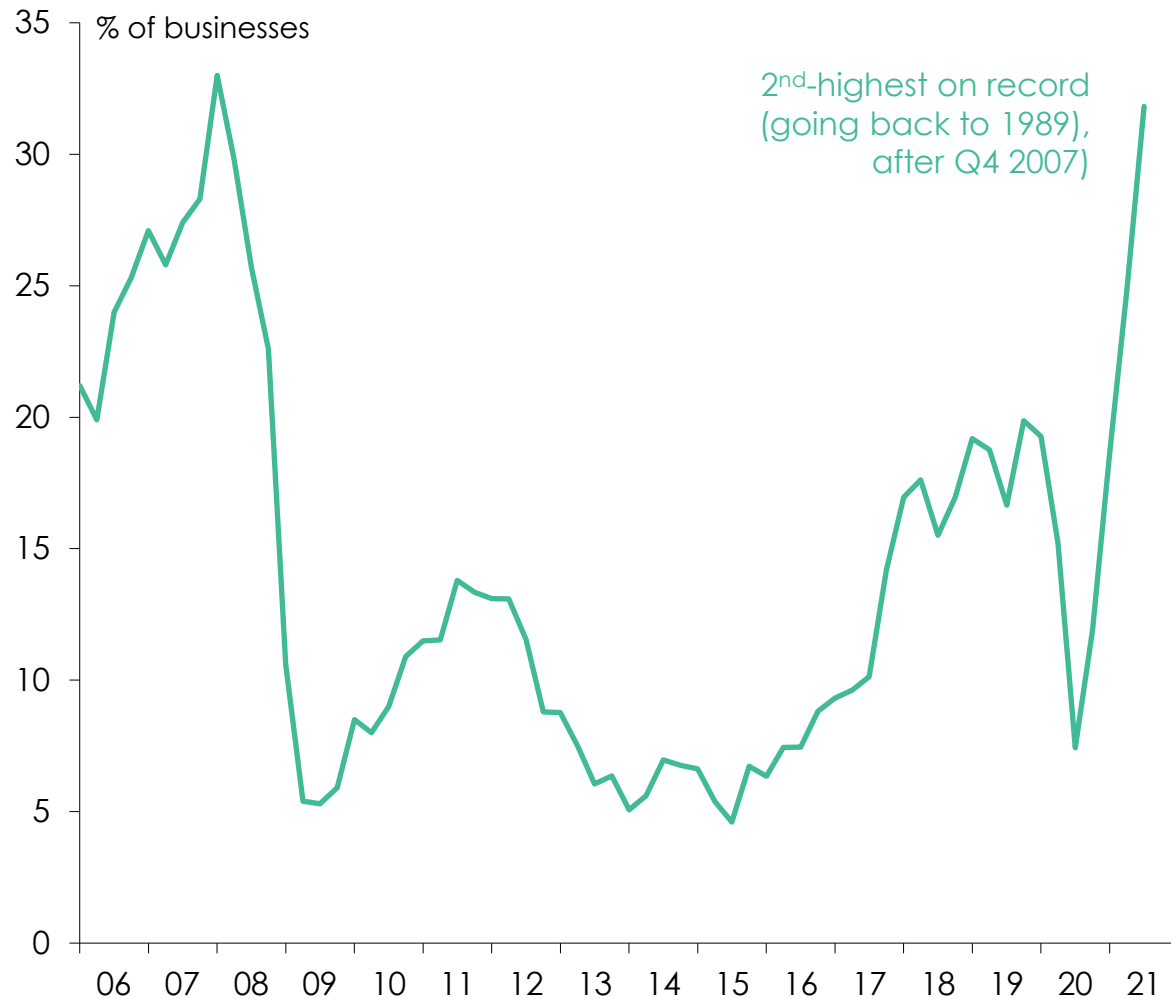
## Ratio of unemployed people to job vacancies



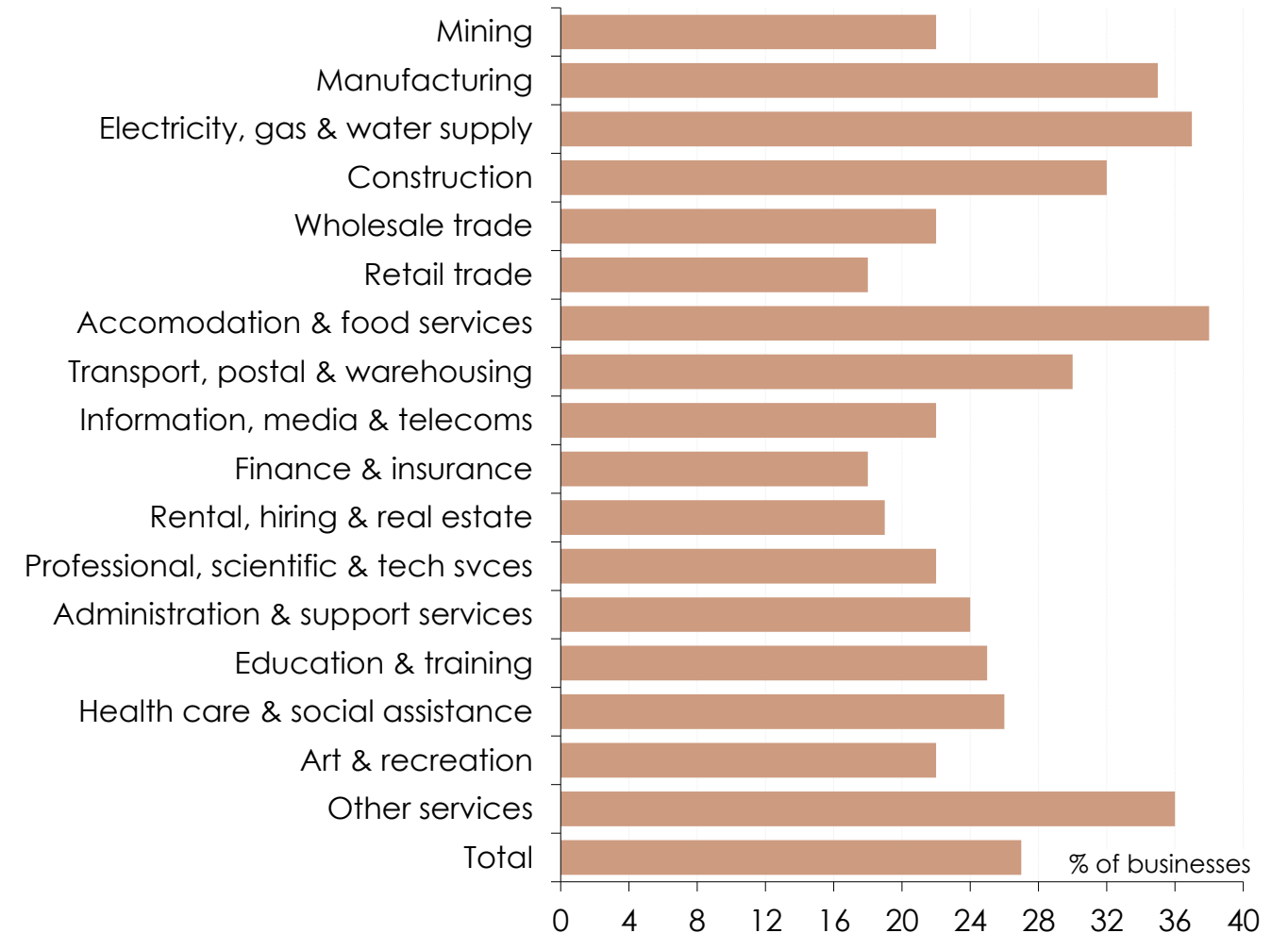
- ❑ In May there were just over 1 $\frac{3}{4}$  unemployed people for every vacancy reported to ABS – a record low – and the halving of 'caps' on arrivals to Australia may push that ratio down even more

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

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

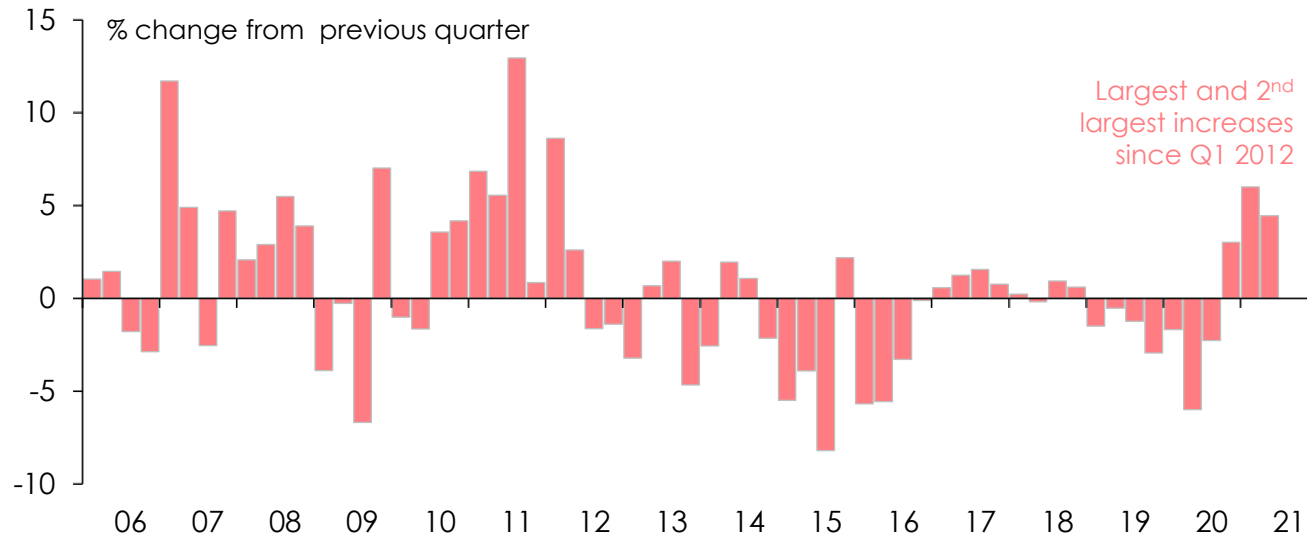


Businesses reporting difficulty finding suitable staff, by industry

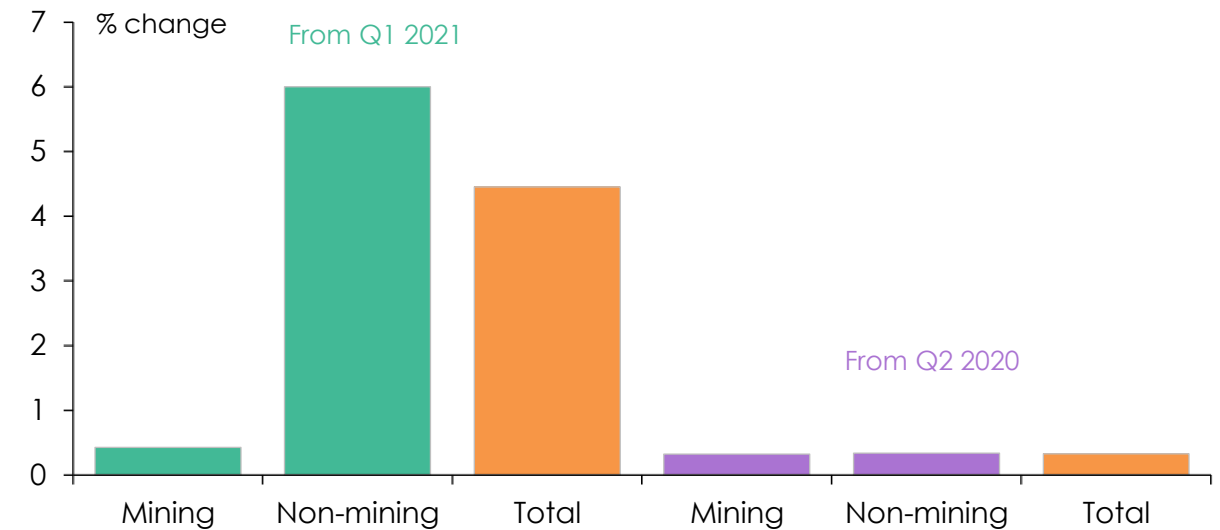


# Business capex increased by 4.4% in Q2, the third consecutive rise, this time led by utilities and services sectors

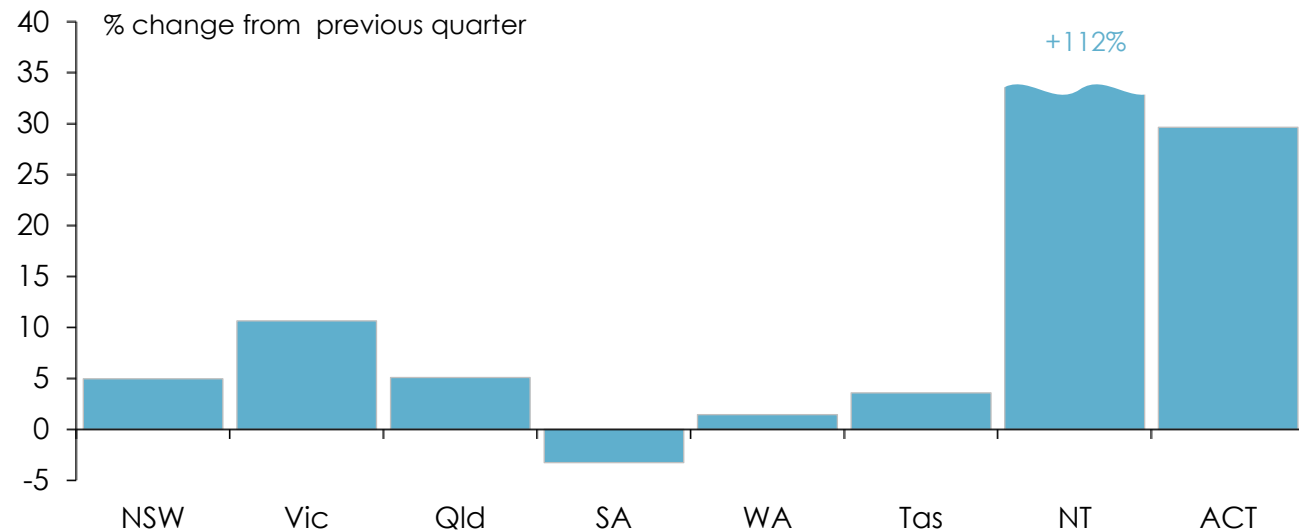
## Real business new fixed capital expenditure



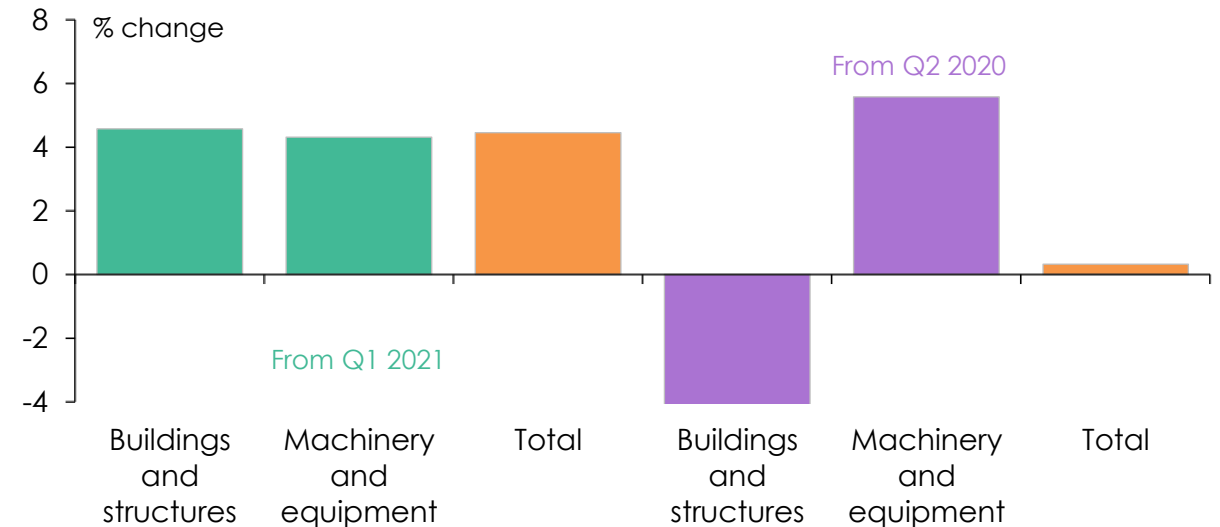
## Real business new fixed capex, by industry, Q1



## Real business new fixed capex, by state, Q2 2021



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

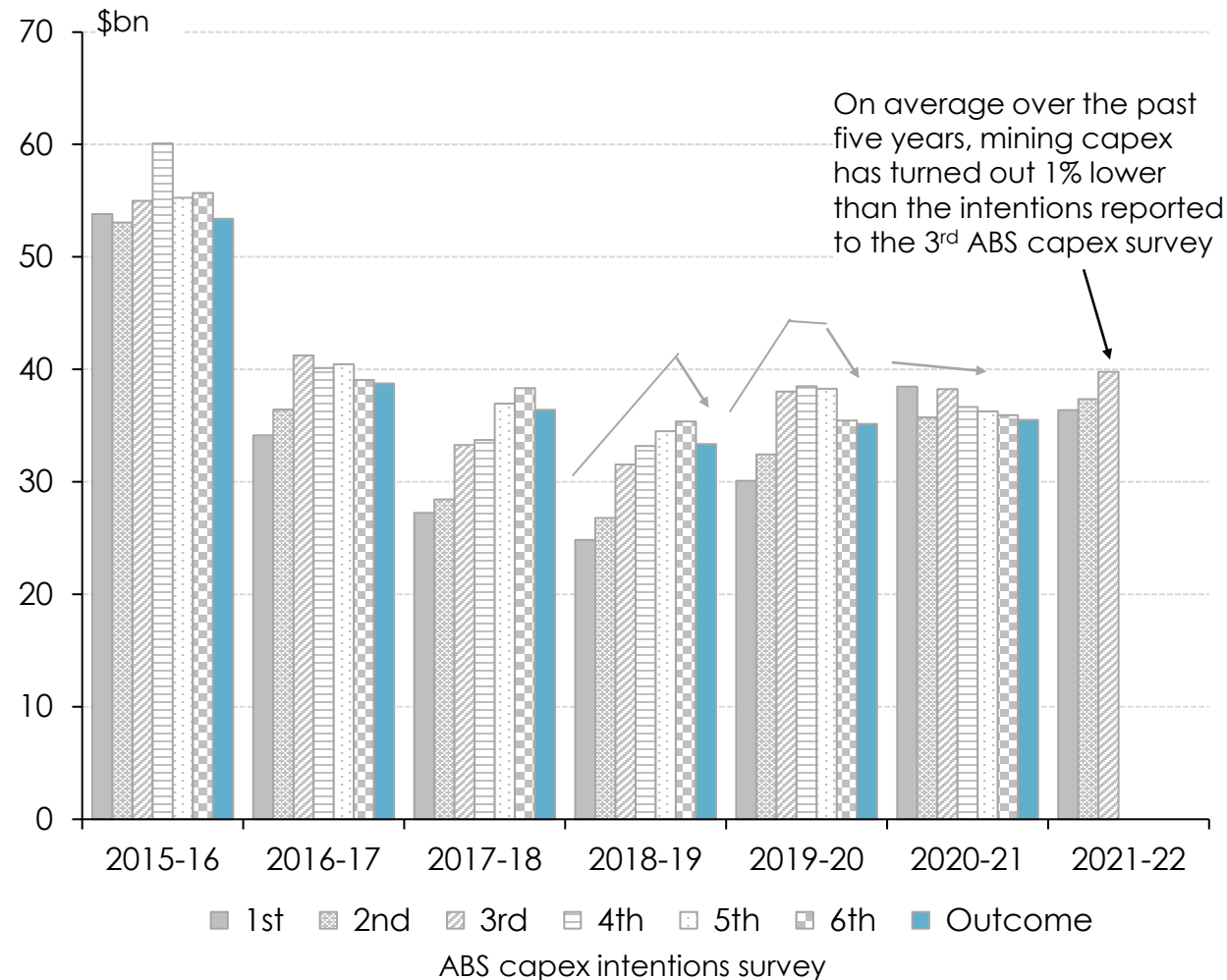


Note: the ABS Survey of New Capital Expenditure excludes the agriculture, forestry & fishing, and public administration & defence sectors, and superannuation funds.

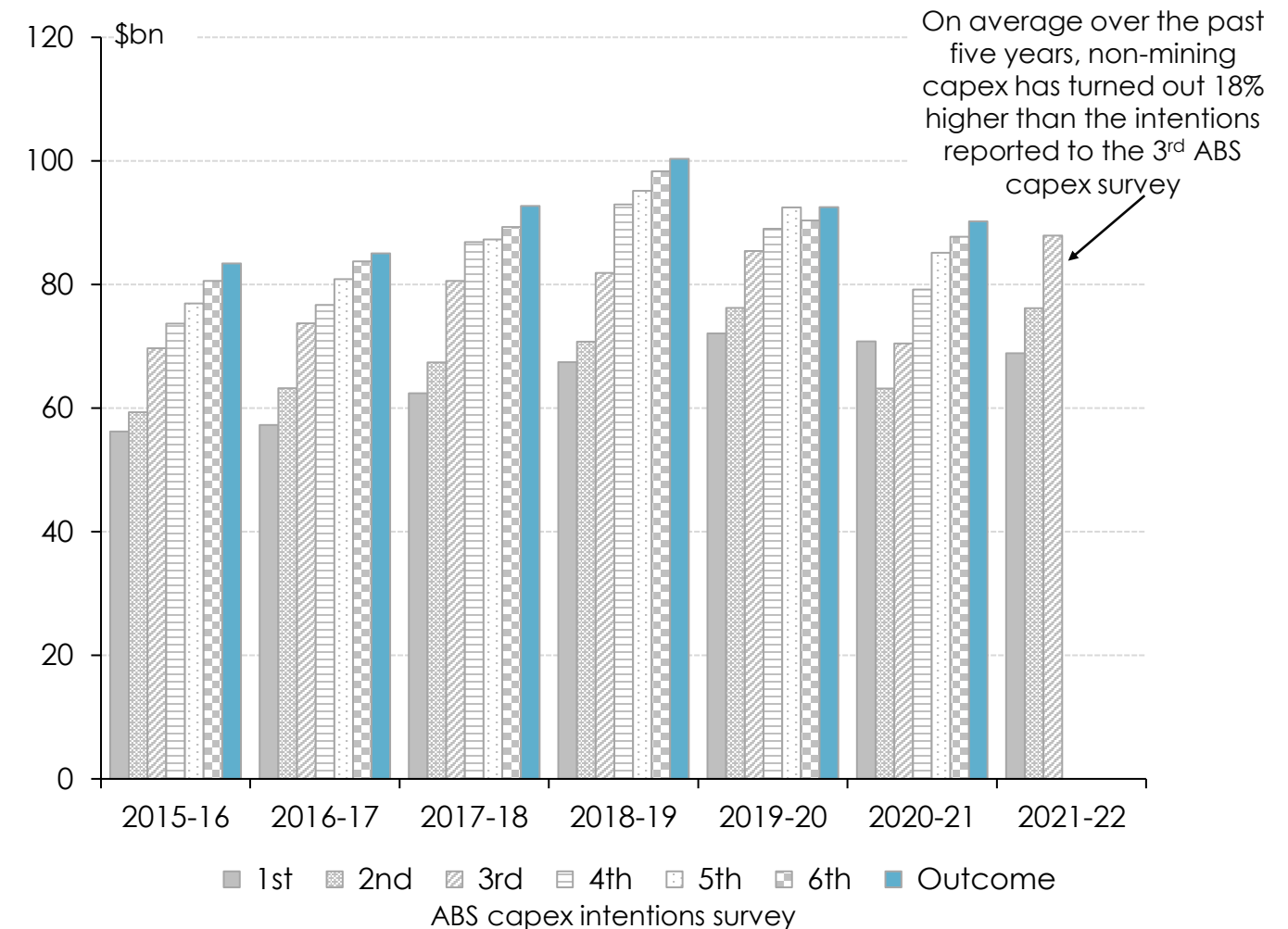
Source: ABS, [Private New Capital Expenditure and Expected Expenditure, Australia](#); March quarter data will be released on 25<sup>th</sup> November. [Return to "What's New"](#).

# Business capex fell by 1.5% in 2021-22 and is expected to increase by 13½% in 2021-22 according to the latest capex intentions survey

## Capital expenditure intentions - mining



## Capital expenditure intentions – non-mining

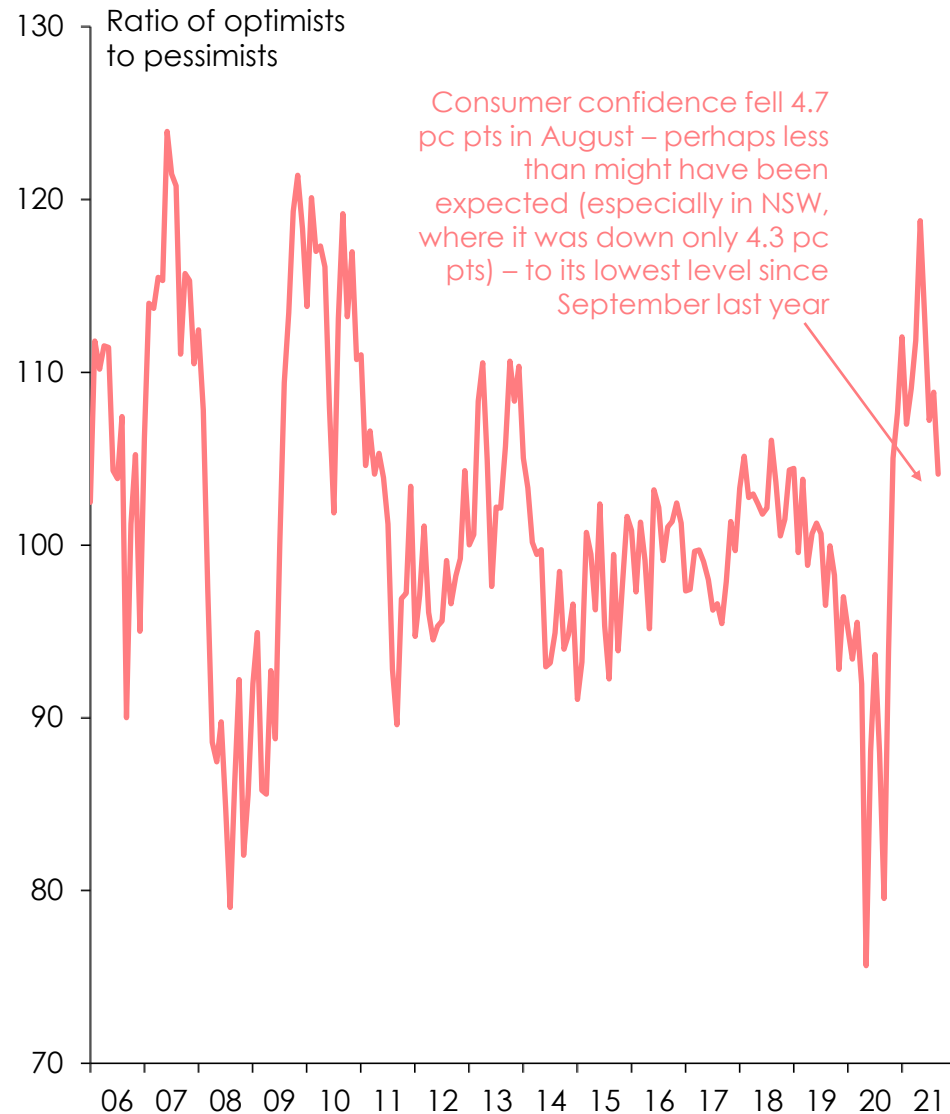


Note: The ABS conducts six surveys of business' capital expenditure intentions in respect of each financial year. The first is conducted in January & February prior to the commencement of the financial year, the second in May & June, the third in July & August of the financial year, the fourth in October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

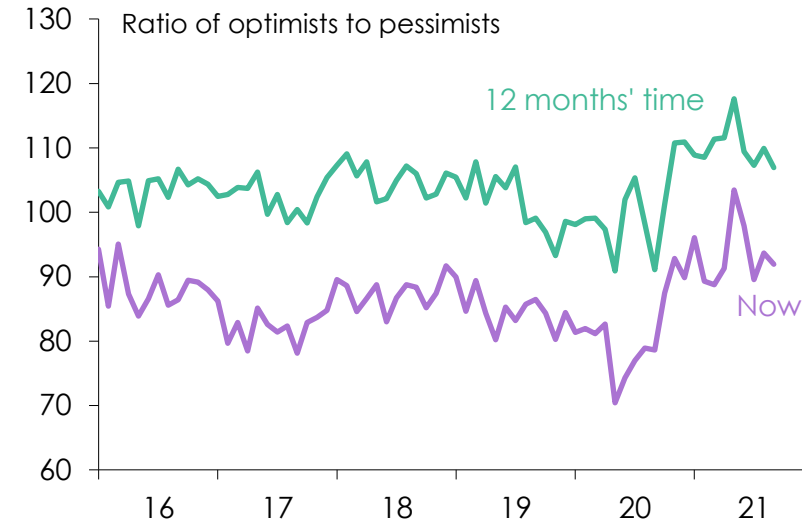
Source: ABS, [Private New Capital Expenditure and Expected Expenditure, Australia](#) (next update is released on 25<sup>th</sup> November). [Return to "What's New"](#).

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

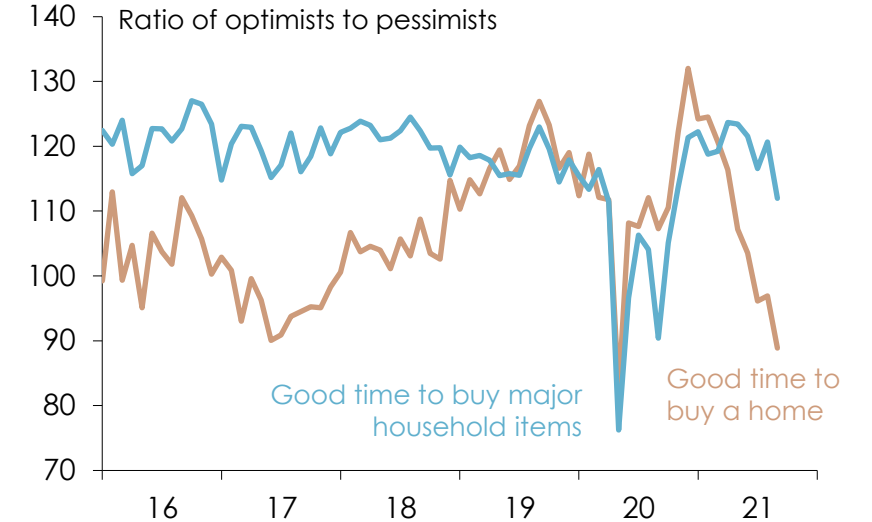
## Consumer confidence index



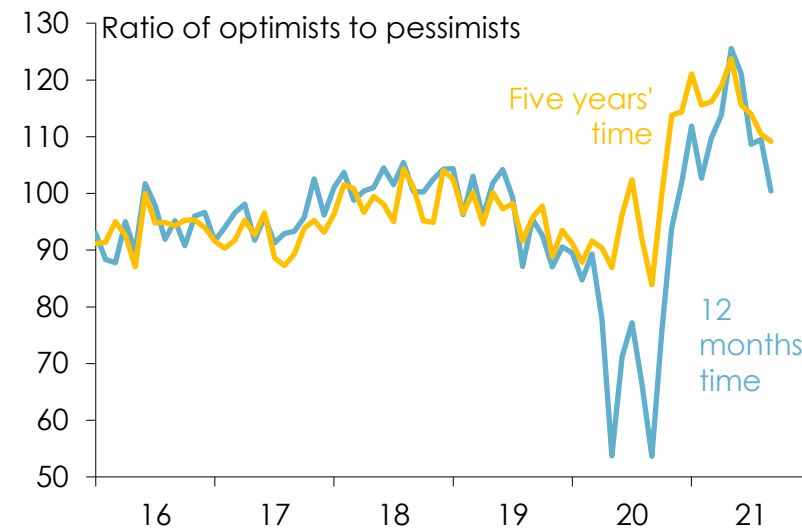
## Household finances assessment



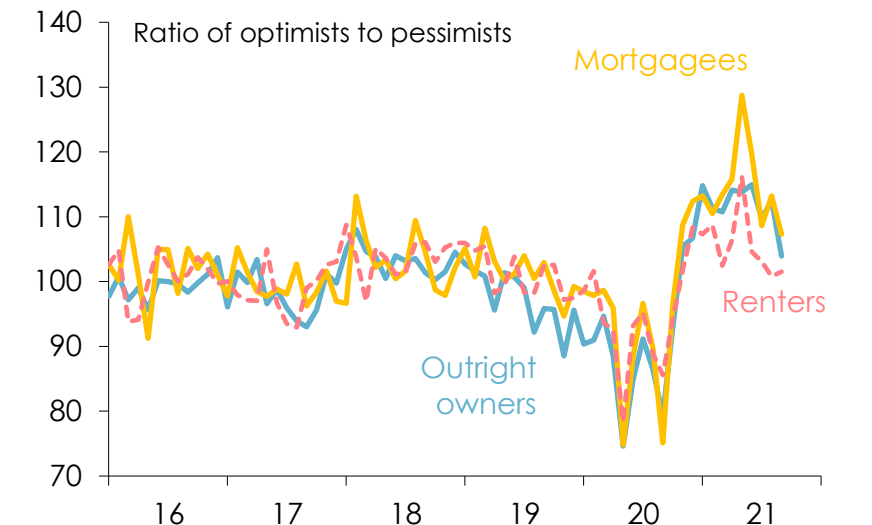
## Buying conditions assessment



## Economic conditions assessment



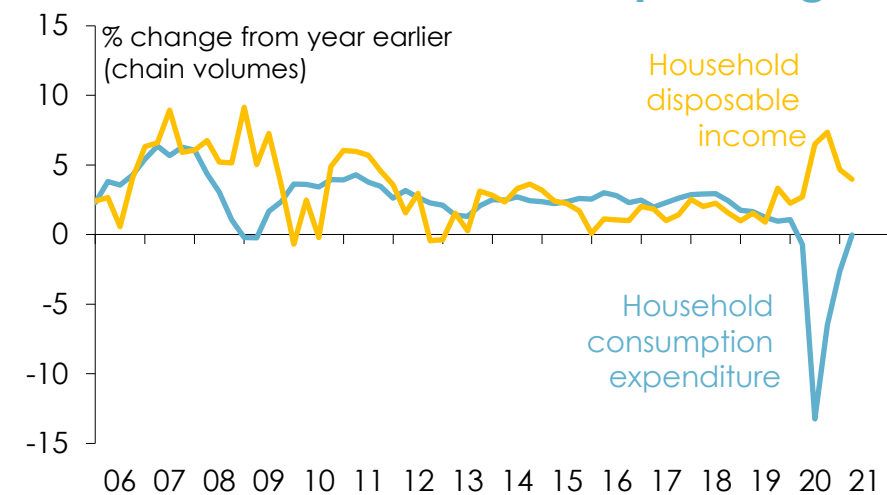
## Confidence by housing tenure



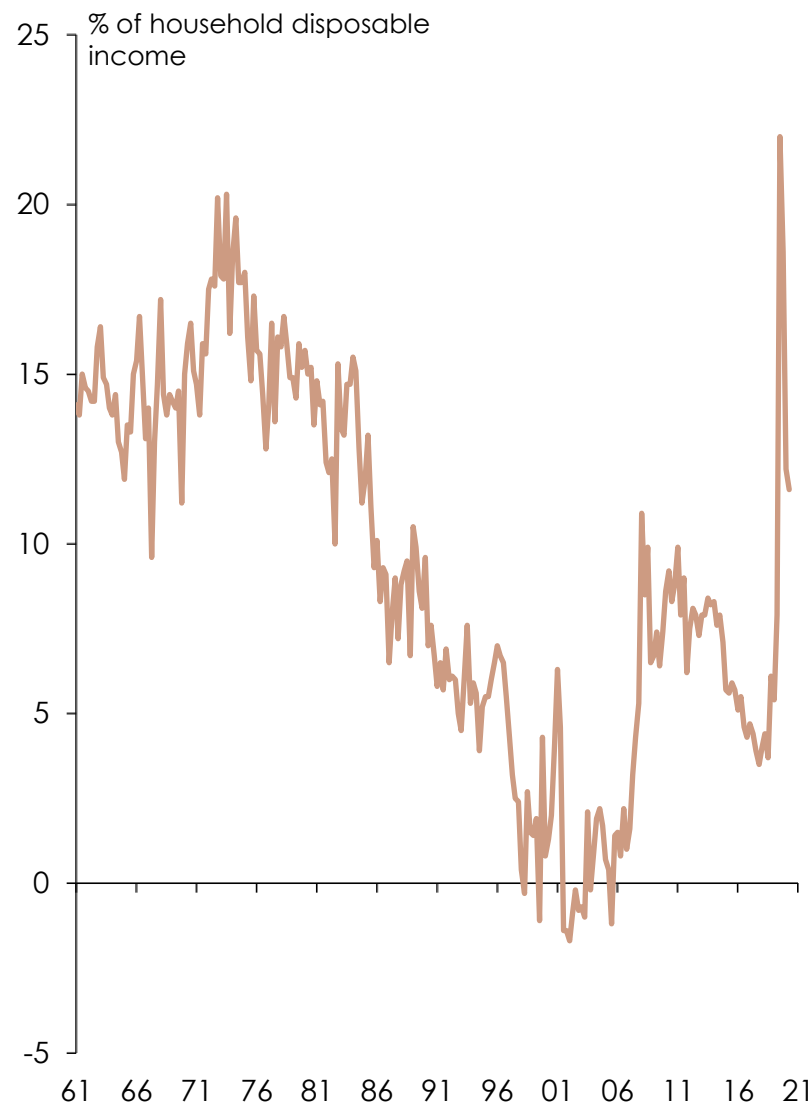


# Household incomes have been supported by government payments, but spending has been curtailed, so households have lots of savings to spend

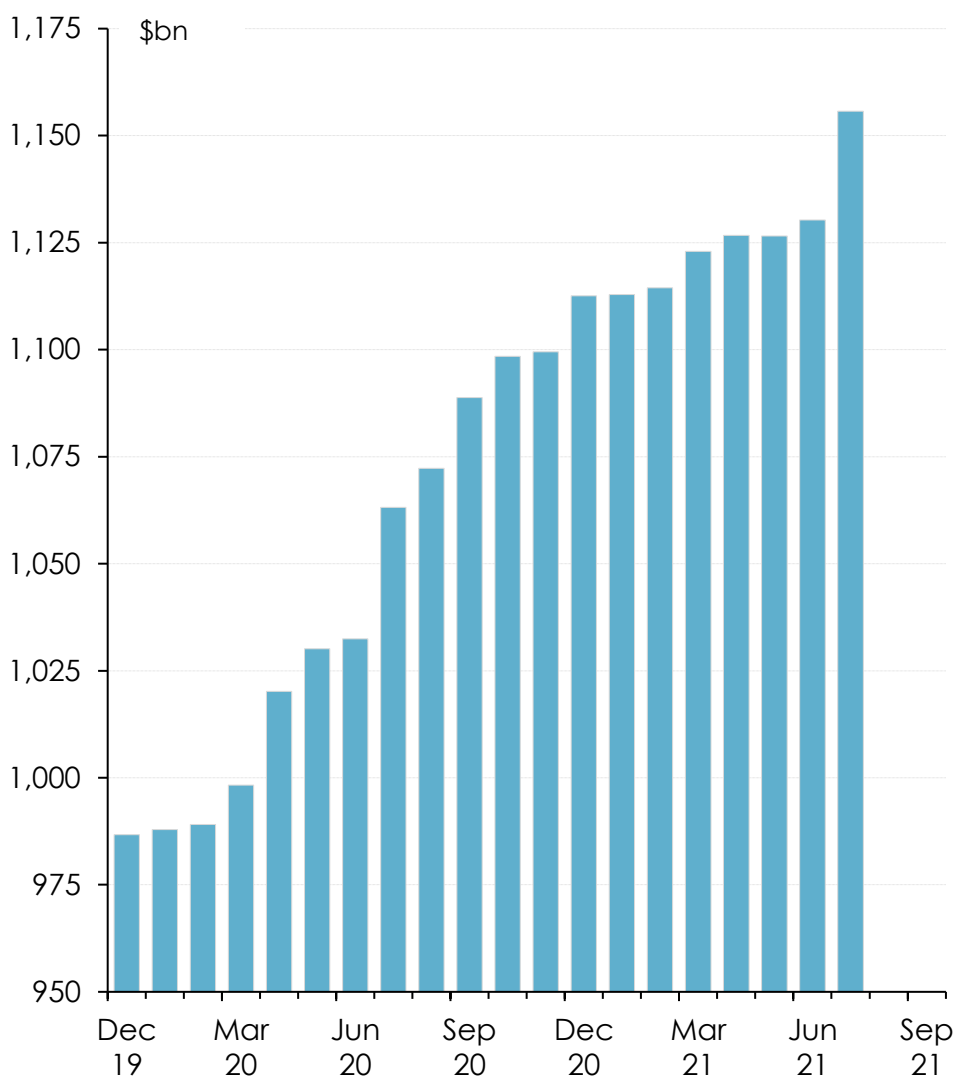
### Household income and spending



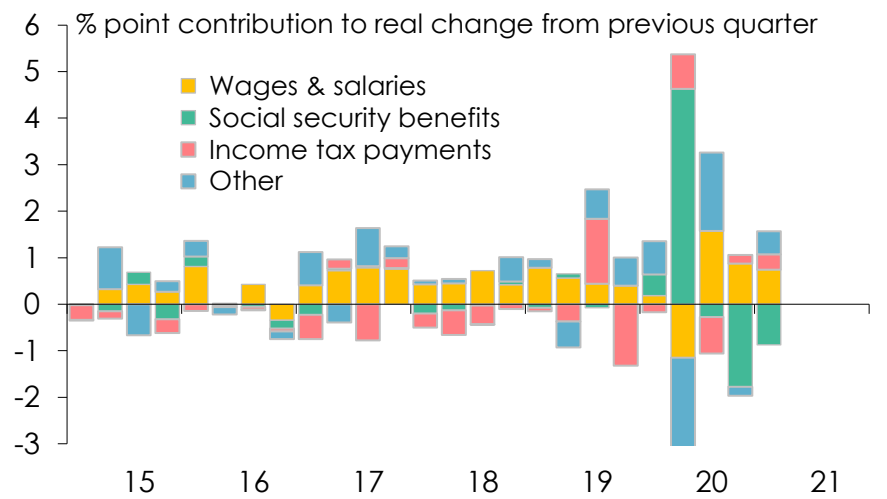
### Household saving ratio



### Household bank deposits



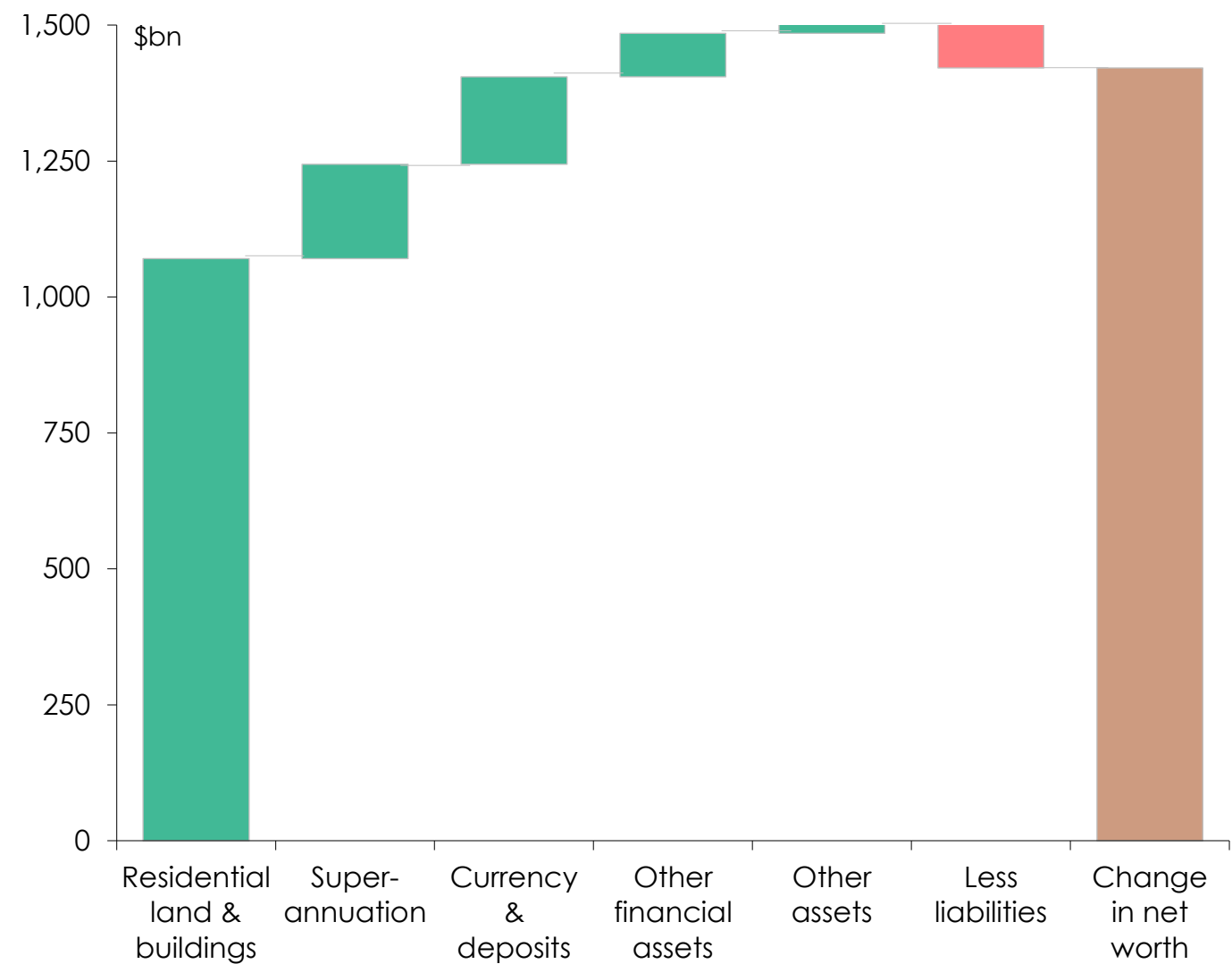
### Sources of household income



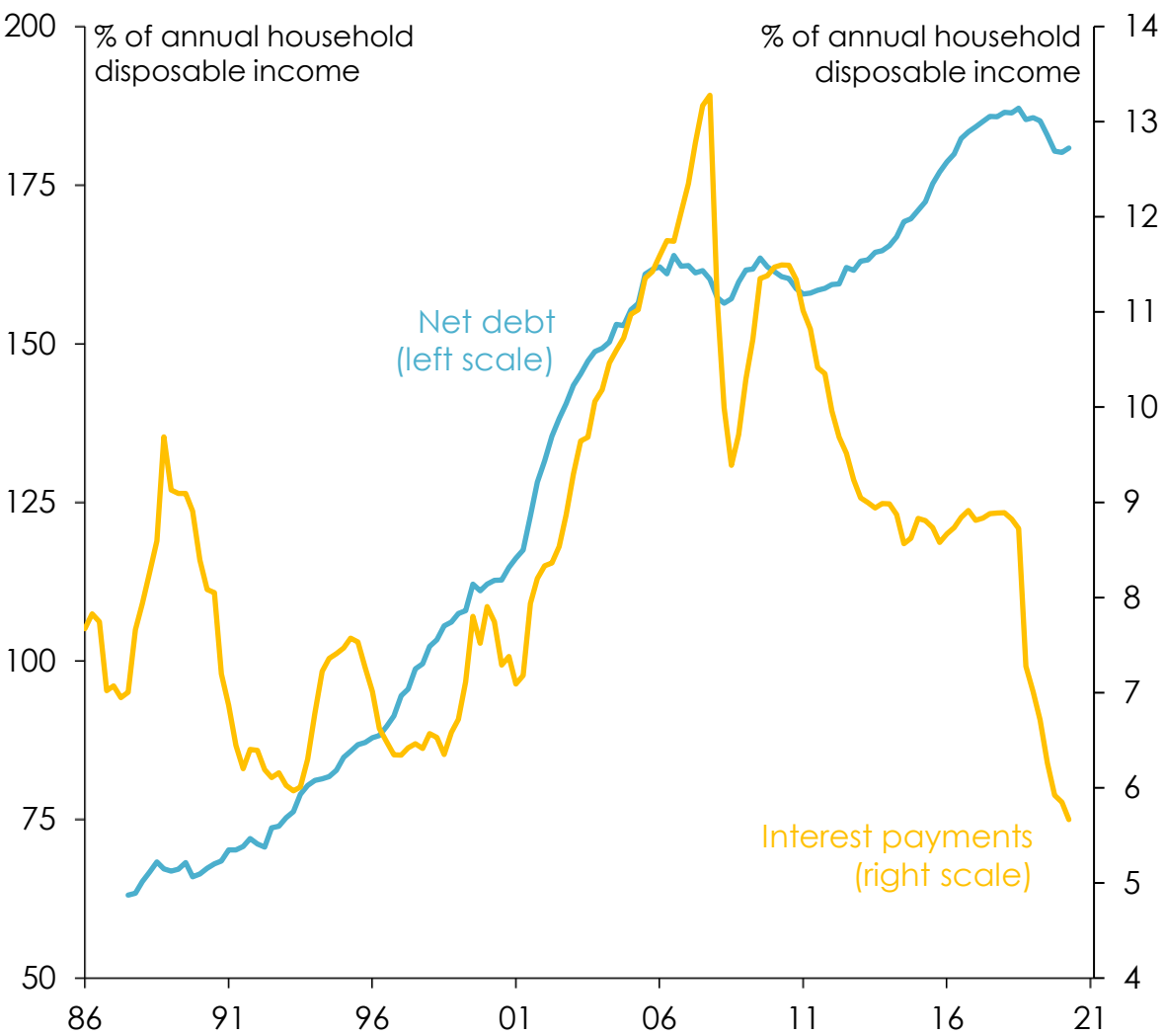
Sources: ABS, [Australian National Accounts: National Income, Expenditure and Product](#), March quarter 2021; Australian Prudential Regulation Authority, [Monthly Authorised Deposit-taking Institution Statistics](#). [Return to "What's New"](#).

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

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



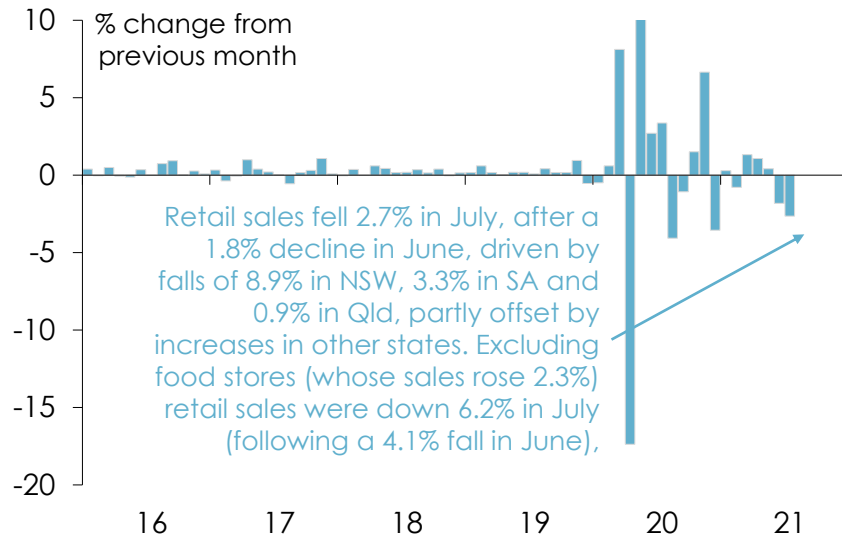
Household net debt and interest payments as a percentage of disposable income



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

# Retail sales fell another 2.7% in July (after a 1.8% fall in June), with sales in locked-down NSW falling 8.9%, while car sales fell 3.8% in August

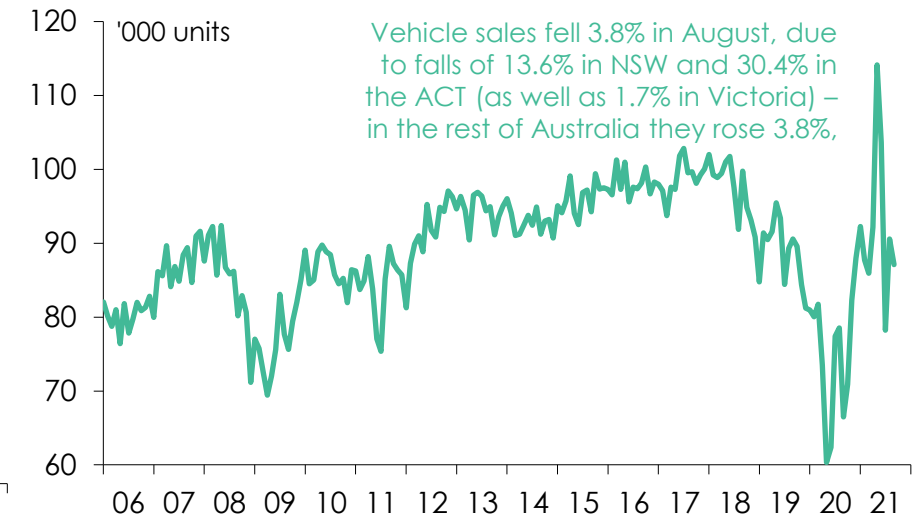
## Monthly retail sales



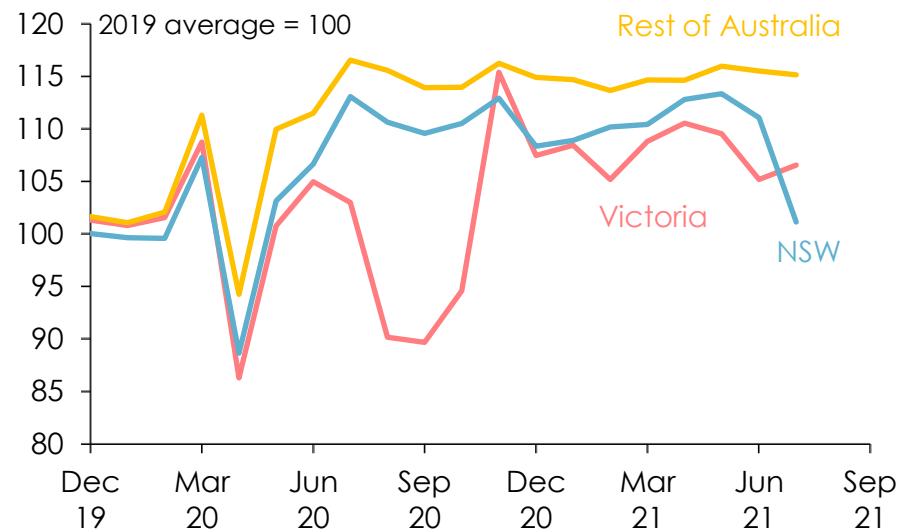
## Level of retail sales



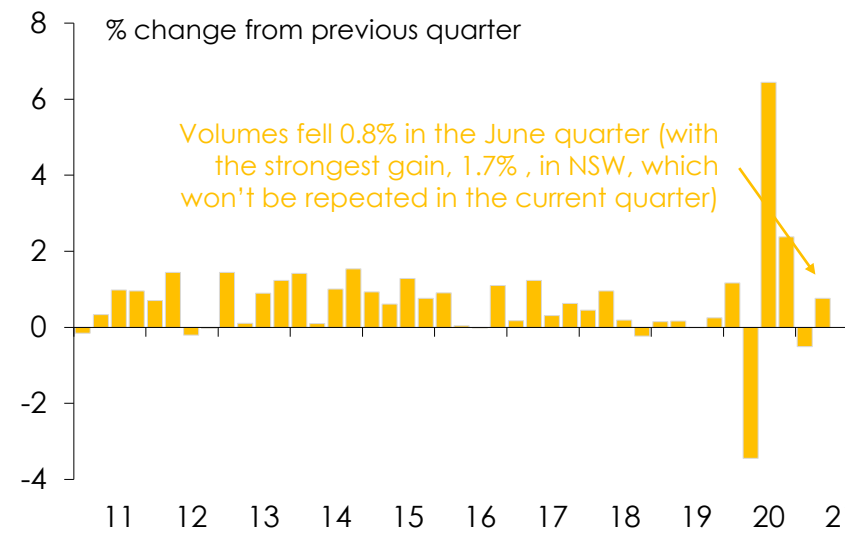
## New motor vehicle sales



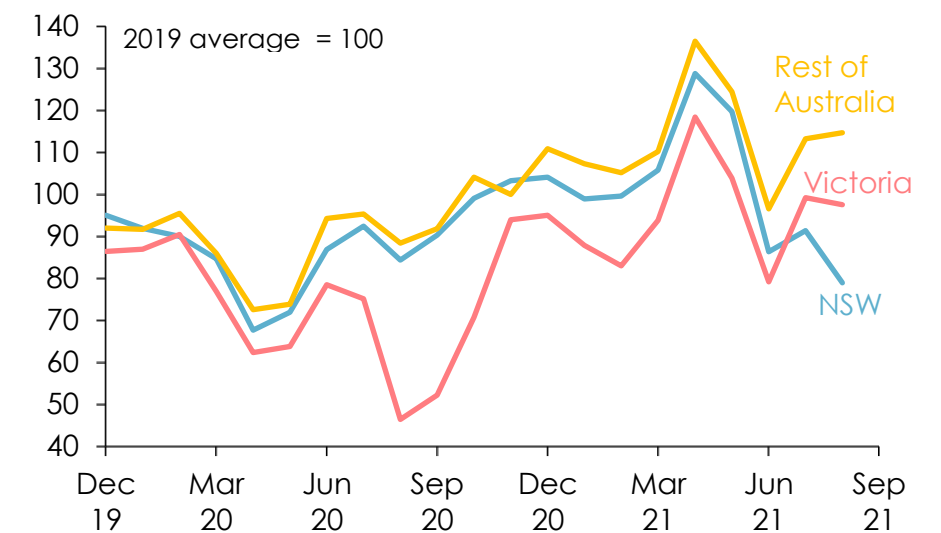
## Retail sales – NSW, Vic & the rest



## Quarterly retail sales volumes



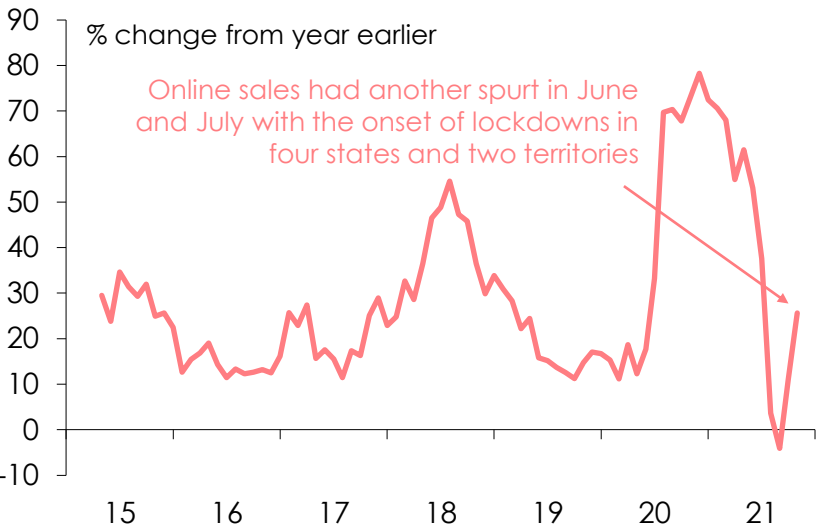
## Vehicle sales – NSW, Vic & the rest



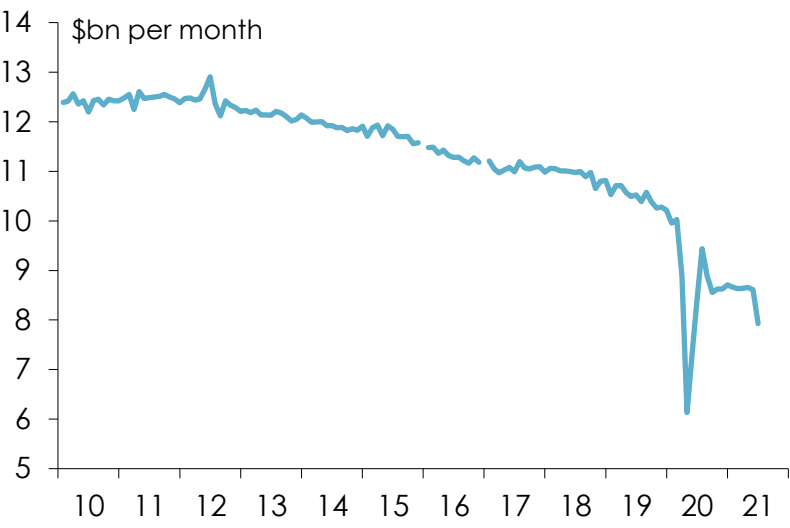
Note: see also [slide 103](#) for more detail on the composition of retail sales since the onset of the pandemic. Sources: ABS, [Retail Trade, Australia](#); Federal Chamber of Automotive Industries [VFACTS](#) (seasonal adjustment of FCAI data by Corinna). August retail sales data will be released on 28<sup>th</sup> September; August motor vehicle sales data will be released in the second week of September. [Return to "What's New"](#).

# The most recent lockdowns have prompted a renewed surge in online spending and accelerated trends away from the use of cash

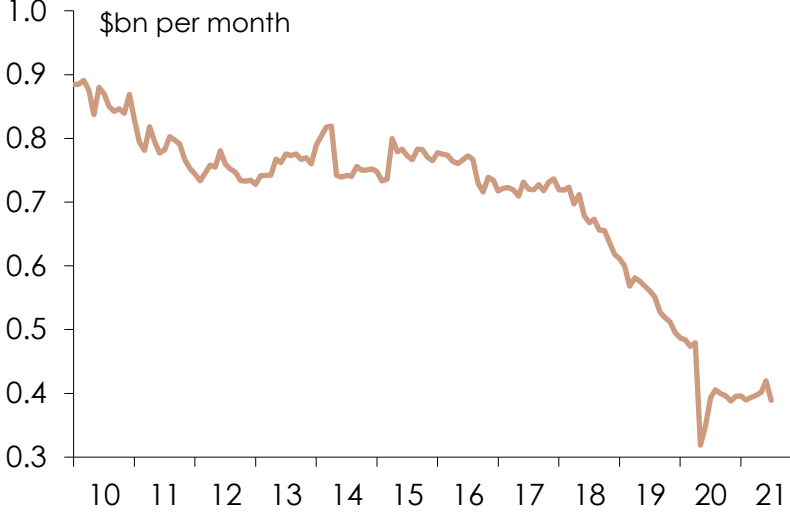
Growth in online retail sales



ATM cash withdrawals



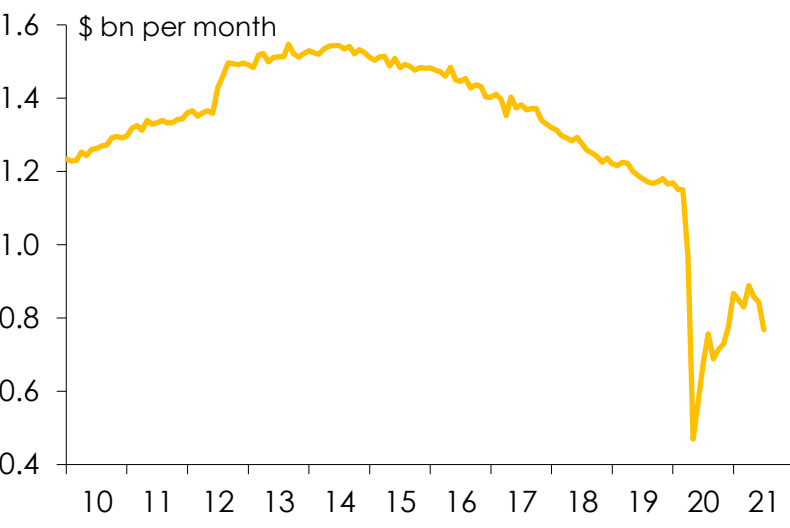
Credit card cash advances



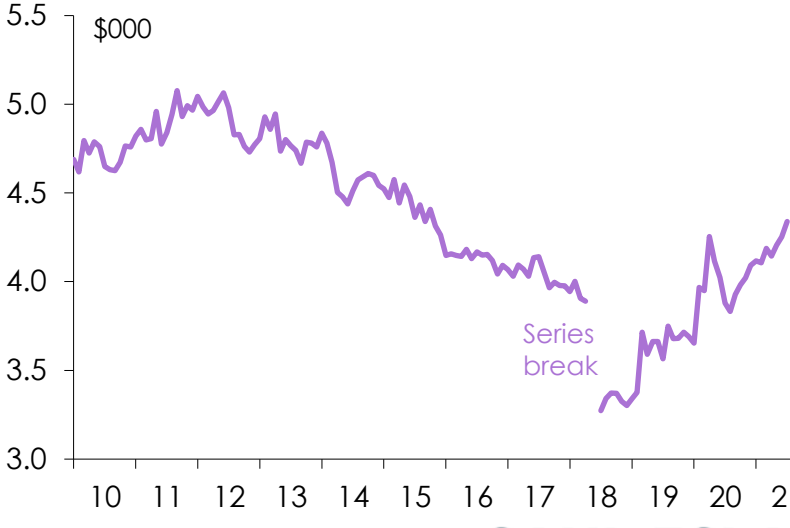
Online retail 'market share'



Debit card cash-outs



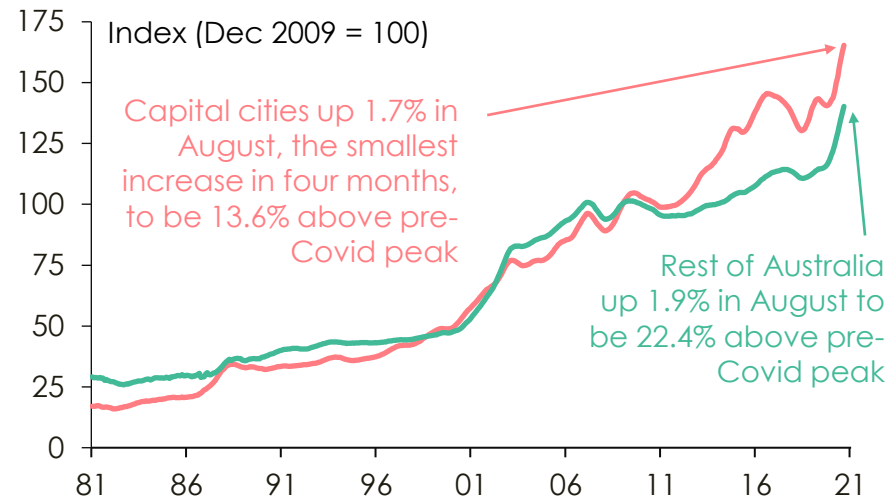
Direct entry payments



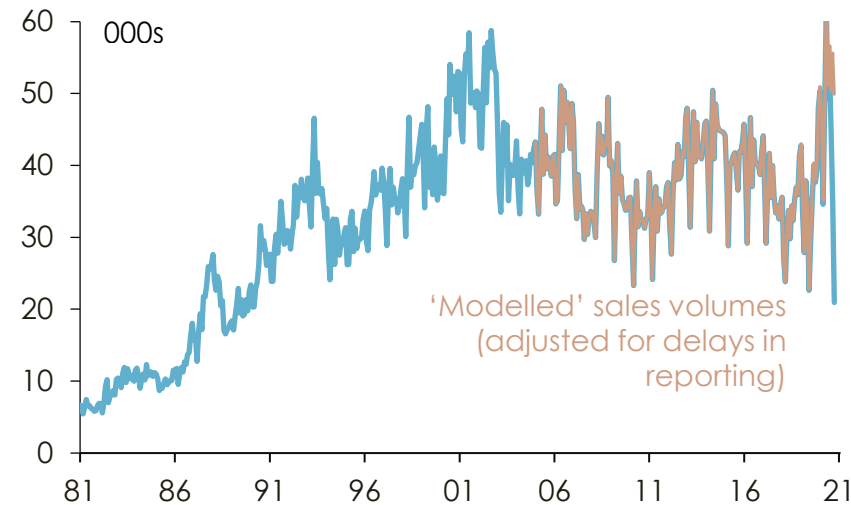
Sources: ABS, [Retail Trade, Australia](#); RBA, [Statistical Tables](#), C1, C2, C4 and C6. Latest data for online retail sales are for July: August data will be published on 5<sup>th</sup> October; latest data for the payments system are June, with July data to be released on 8<sup>th</sup> September. [Return to "What's New"](#).

# Property prices rose another 1.8% in August, slightly less than in each of May through July, to 16% above their pre-pandemic peak

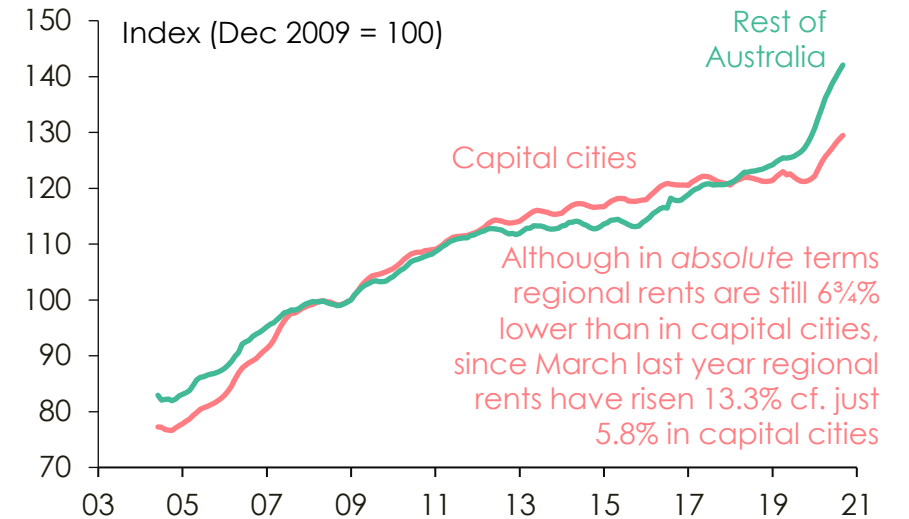
## Residential property prices



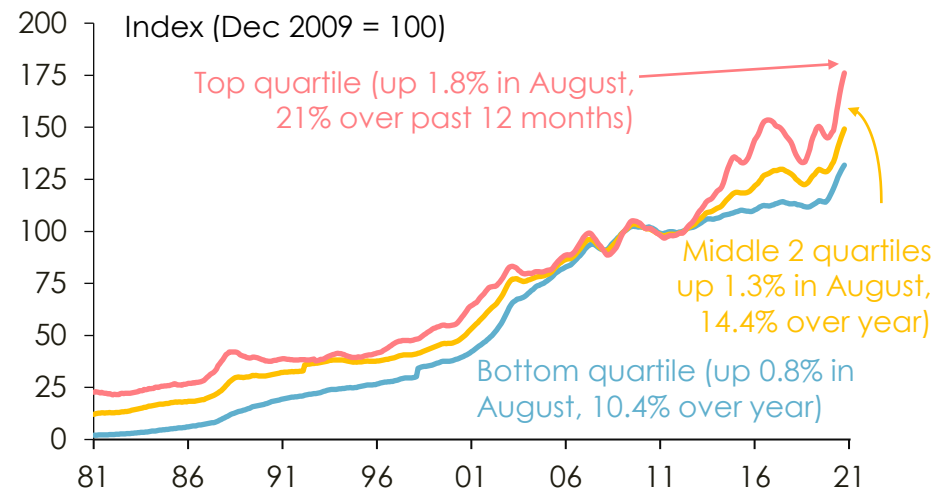
## Residential property sales volumes



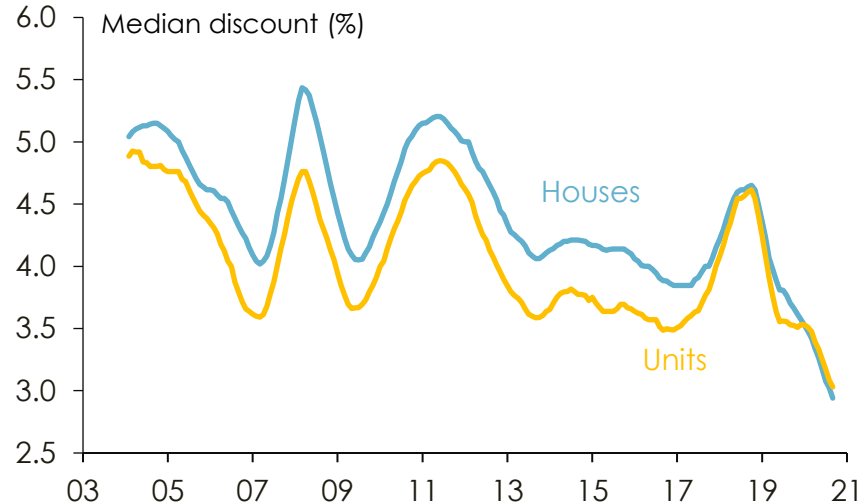
## Residential rents



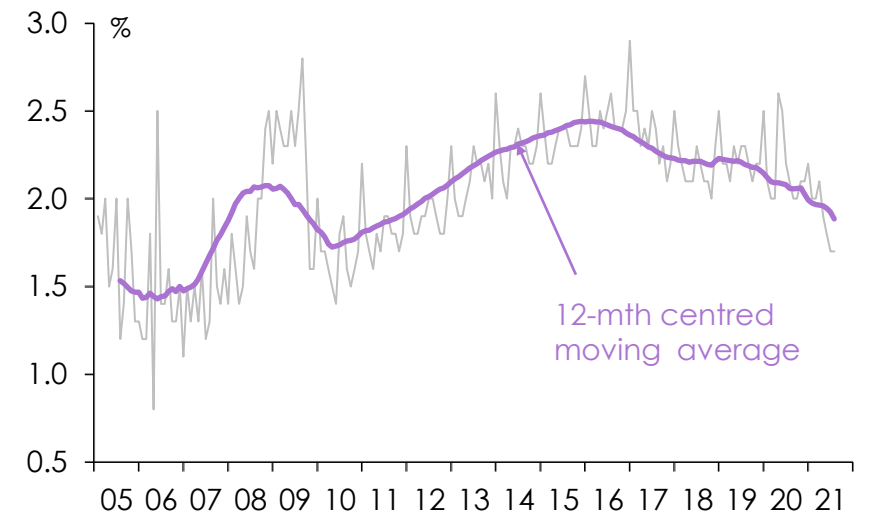
## Property prices by tier



## Vendor discounting

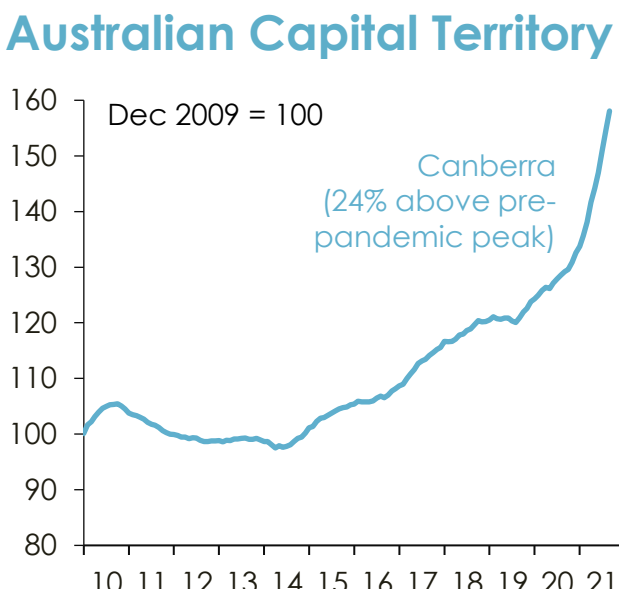
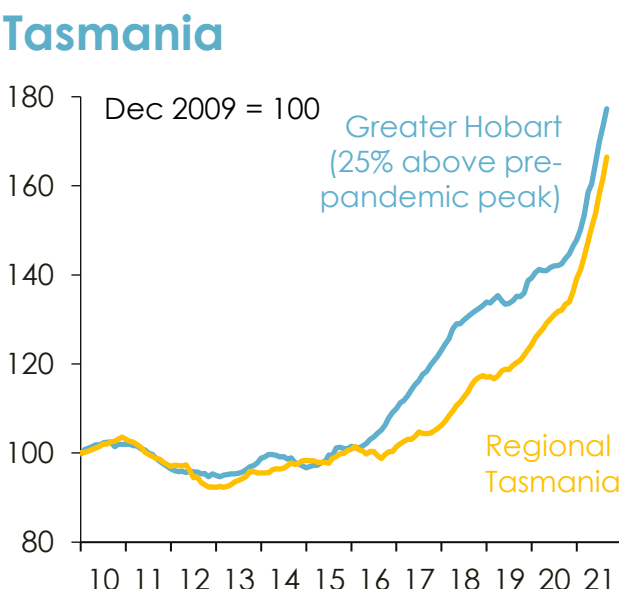
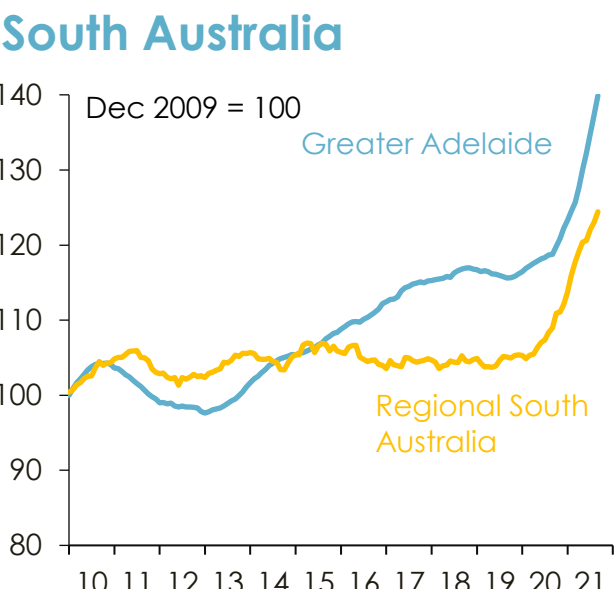
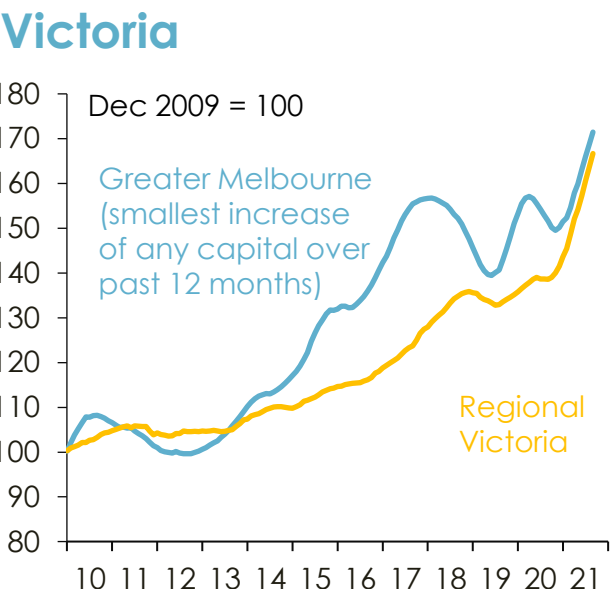
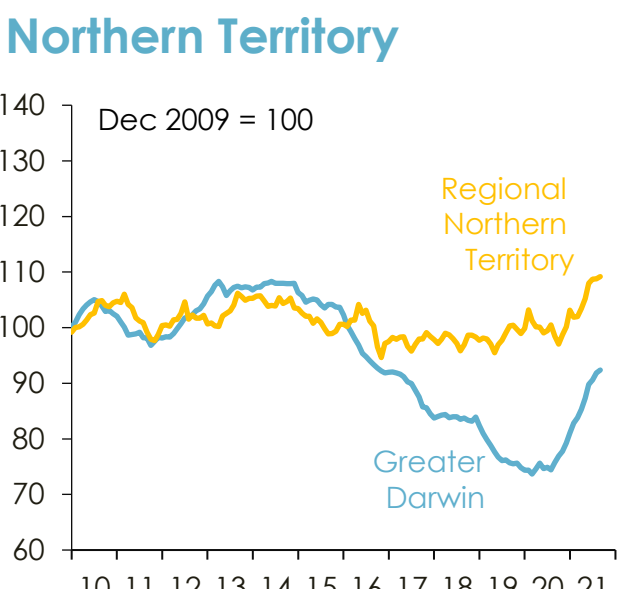
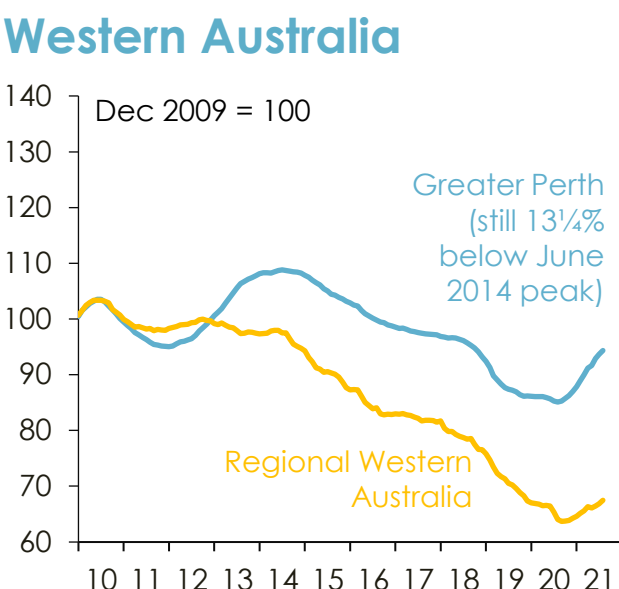
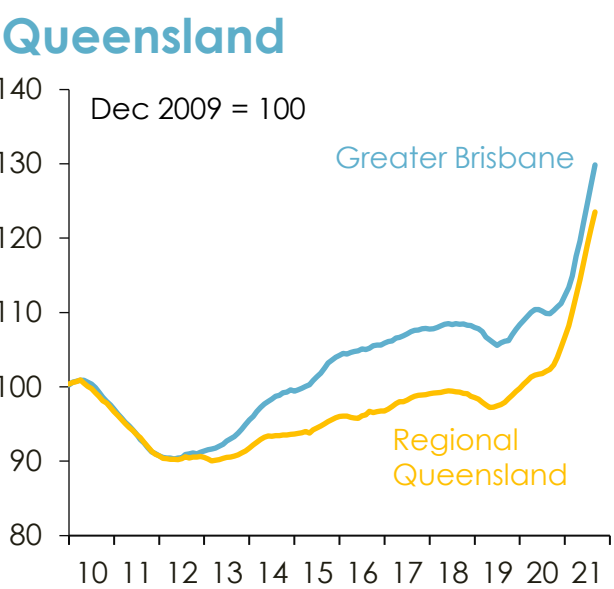
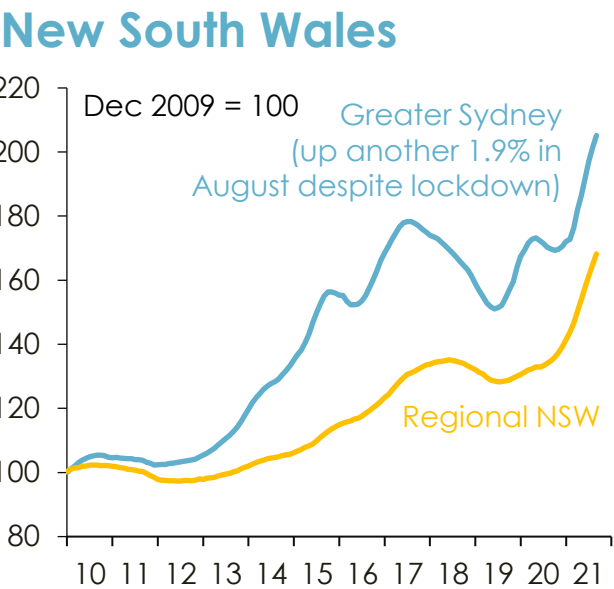


## Capital city rental vacancy rates



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 August (except for vacancy rates which is July). September prices, sales volumes and rents data will be released on 1<sup>st</sup> October. Sources: [CoreLogic](#); [SQM Research](#). [Return to "What's New"](#).

# Prices in Hobart, Canberra, and regional New South Wales, Queensland and Tasmania are all more than 20% above their pre-pandemic peaks

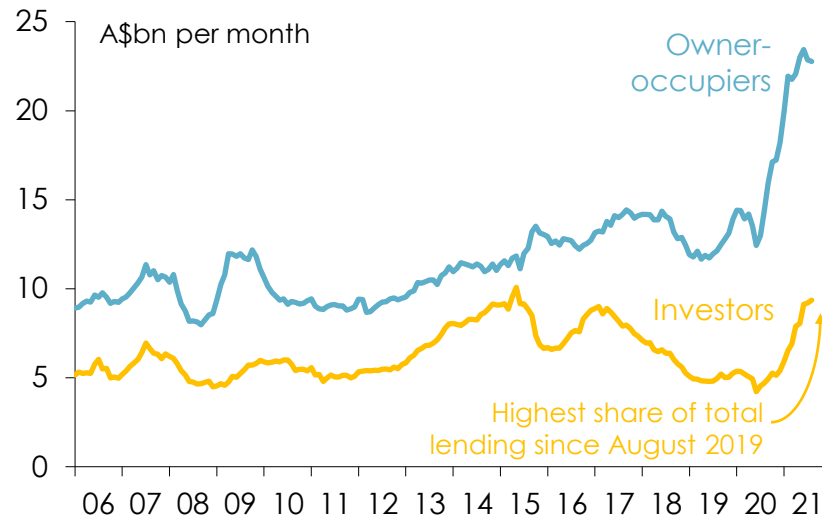


Note: The index of property prices measures the 'organic' change in underlying sales values by using a hedonic regression methodology that takes account of changes in the characteristics of properties being sold from month to month. Property price data are seasonally adjusted. Latest data are for August,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

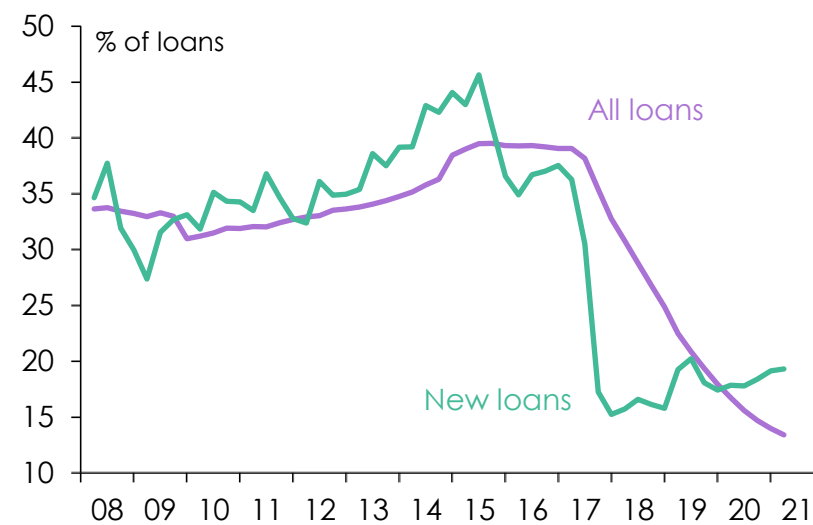


# Lending to property investors and to existing home-owners 'trading up' has risen sharply in recent months while FHBs are again being 'squeezed out'

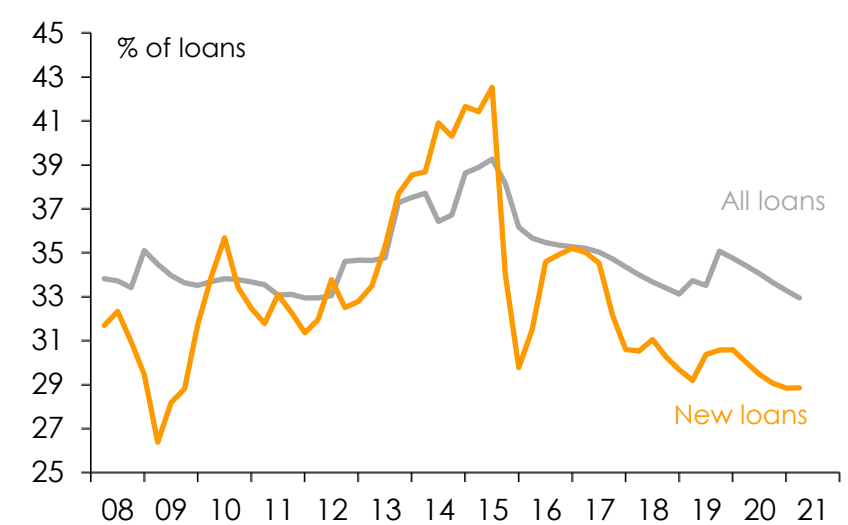
## Housing finance commitments



## Interest-only loans as pc of total



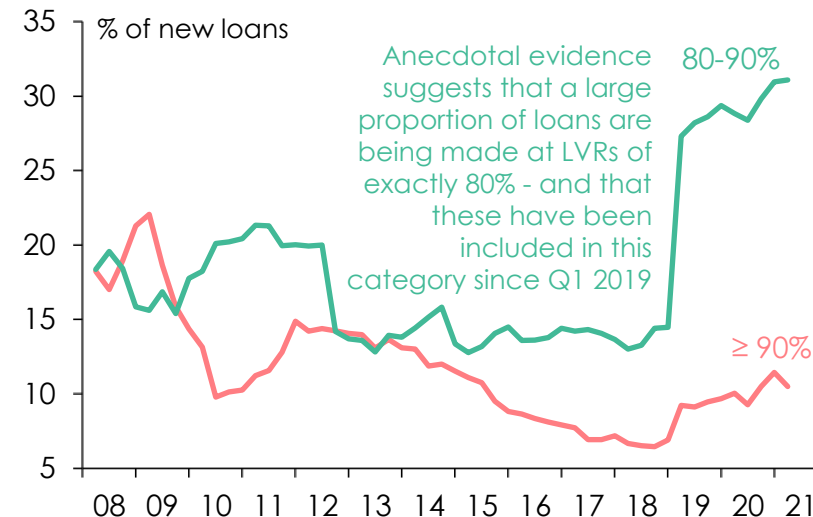
## Loans to investors as a pc of total



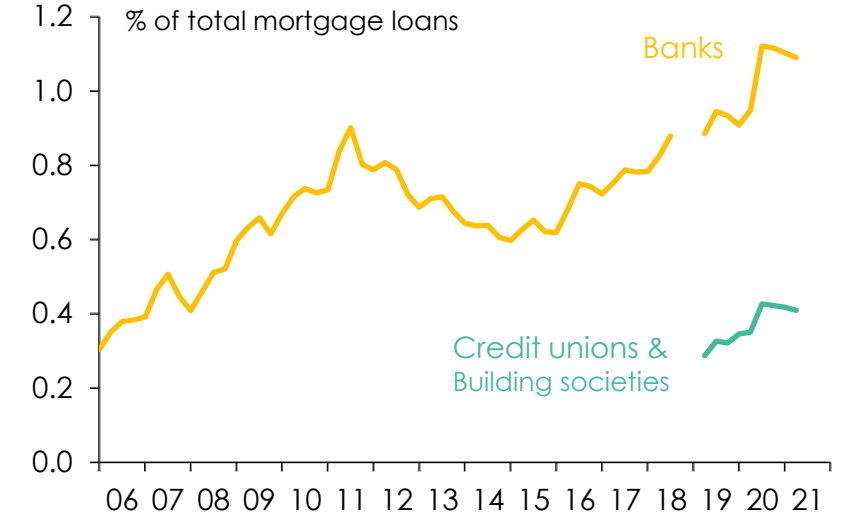
## Lending to first home buyers



## High LVR loans as a pc of total



## Non-performing mortgage loans

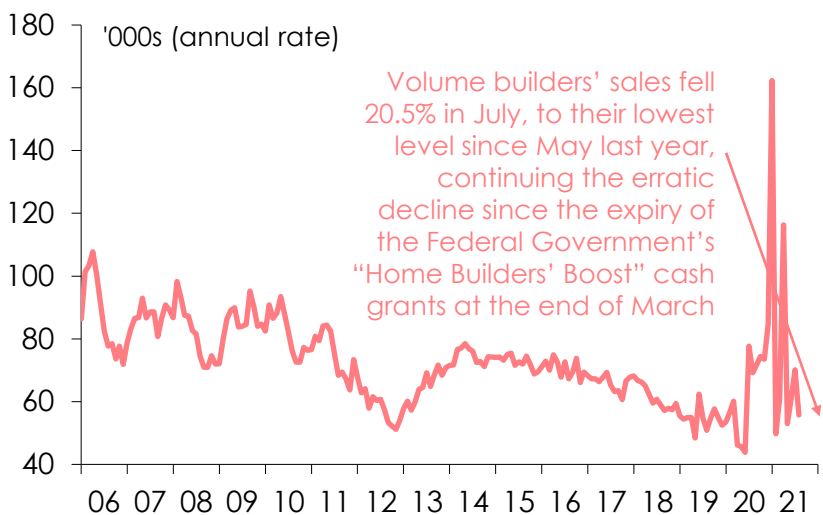


Sources: ABS, [Lending Indicators](#); Australian Prudential Regulation Authority (APRA), [Quarterly authorised deposit-taking institution statistics](#). August housing finance data will be released on 1<sup>st</sup> October; APRA data on ADI property exposures for the June quarter will be released on 7<sup>th</sup> September. [Return to "What's New"](#).

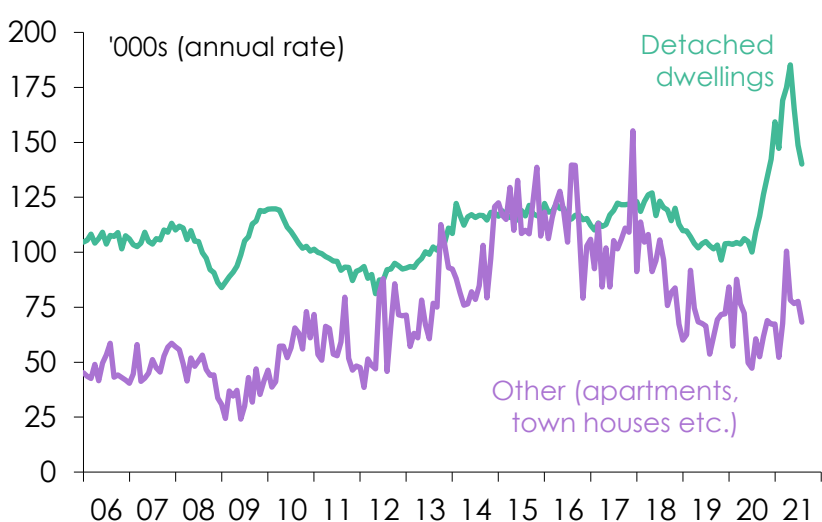


# July housing approvals were down 25% from a government grant-induced record peak in March, but remain high by historical standards

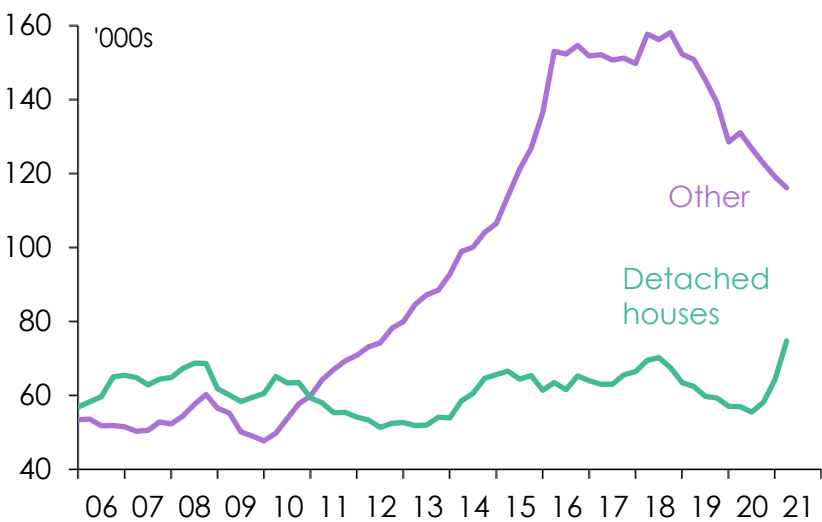
Large builders' new home sales



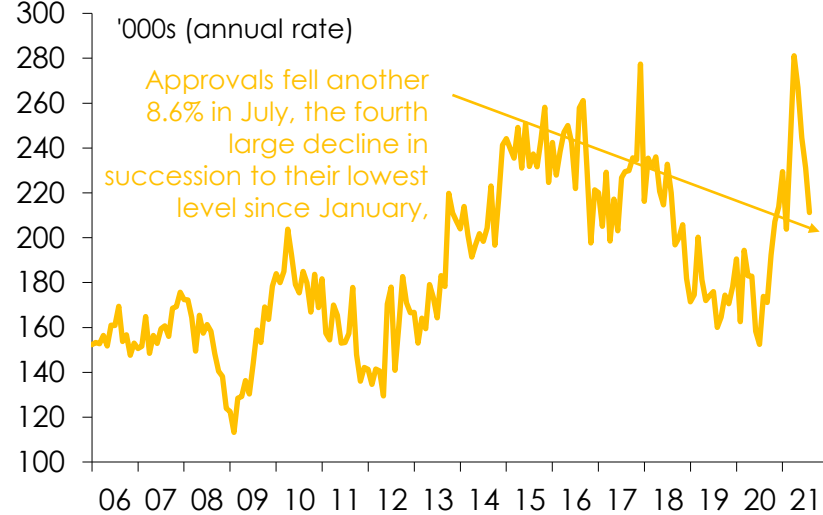
Building approvals, by type



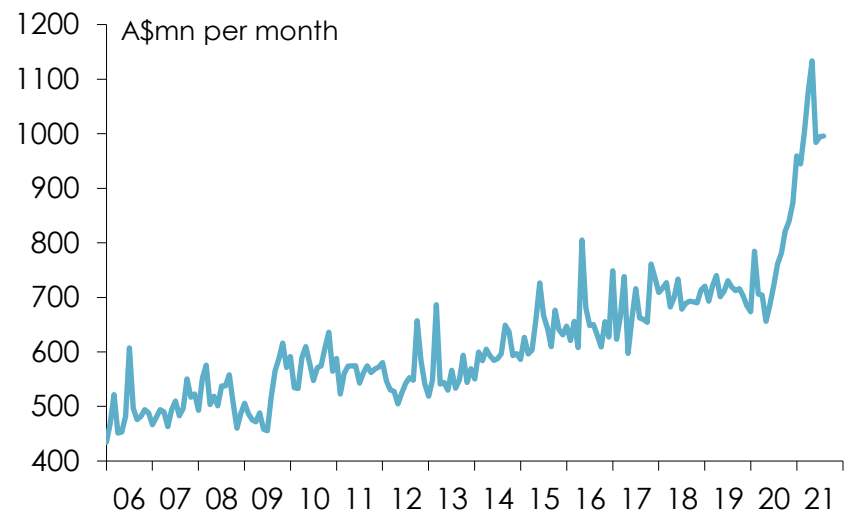
Dwellings under construction



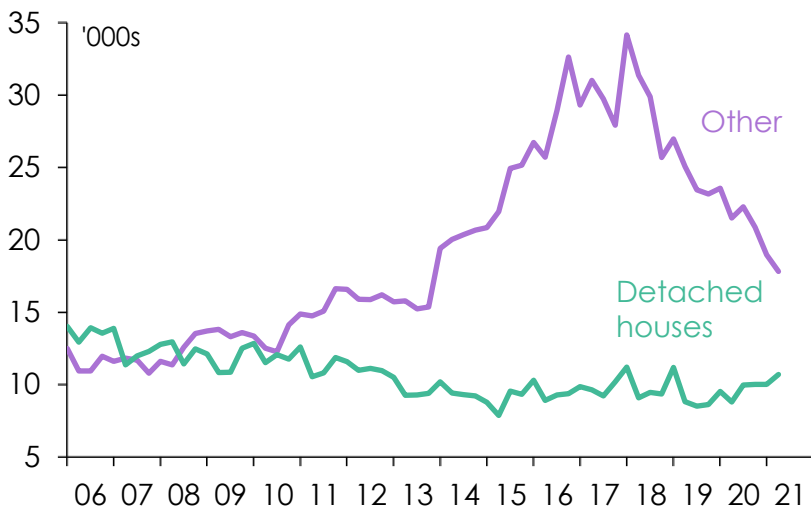
Residential building approvals



Alterations & additions approved



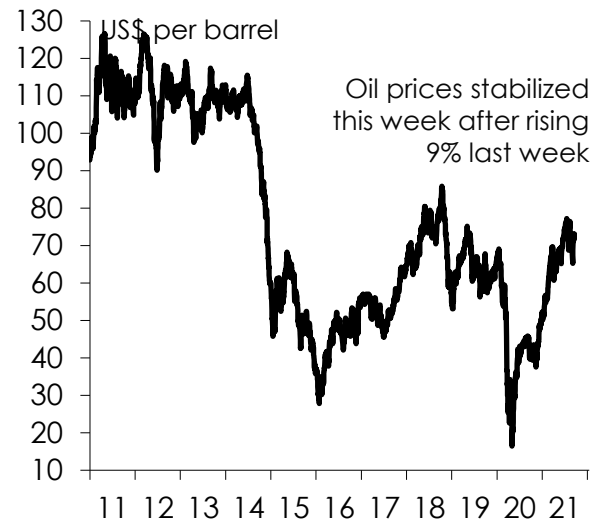
'Pipeline' of work yet to be started



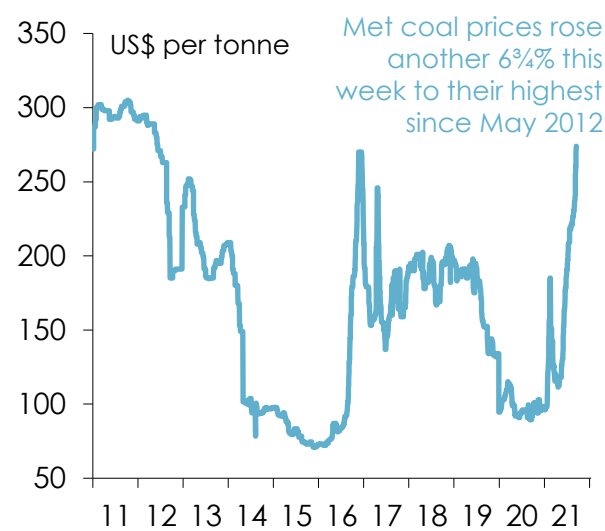
Note: 'New home sales' are of detached dwellings only and exclude small-scale builders. Sources: ABS, [Building Approvals](#); Housing Industry Association. August building approvals data will be released on 30<sup>th</sup> September; June quarter dwellings under construction and 'pipeline' data on 13<sup>th</sup> October. [Return to "What's New"](#).

# Iron ore prices this week gave up half of last week's rebound, but thermal and metallurgical coal prices continued their stellar rise

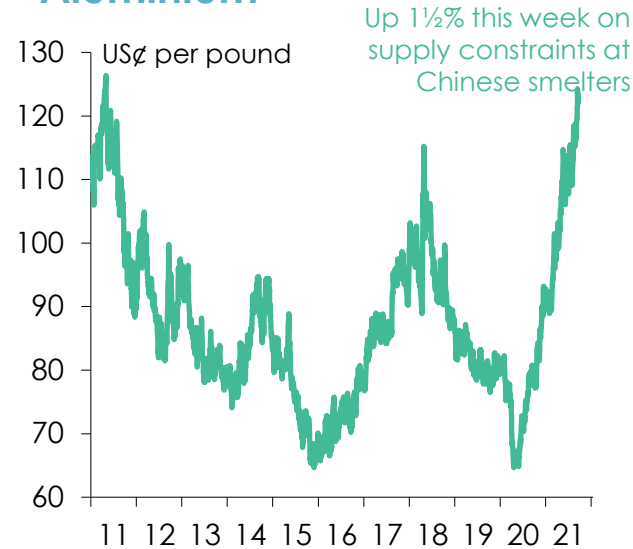
## Brent crude oil



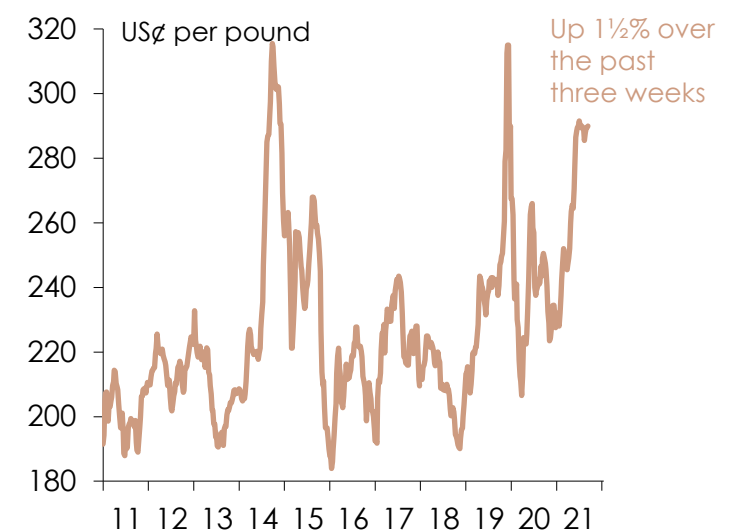
## Metallurgical coal



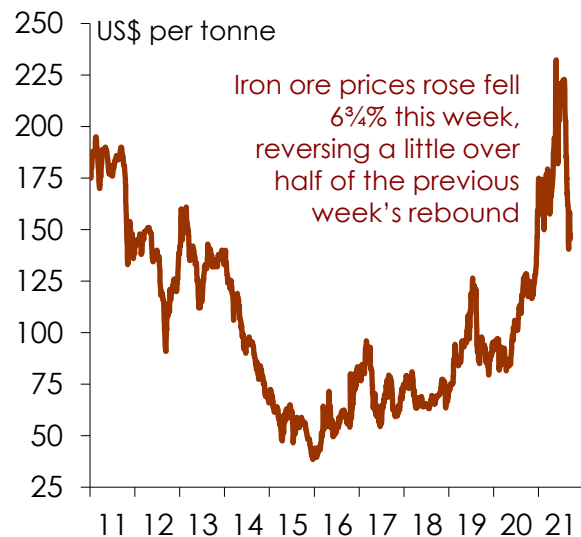
## Aluminium



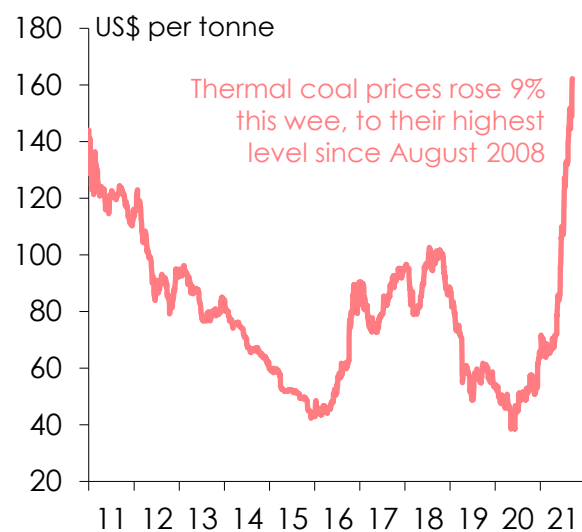
## Beef



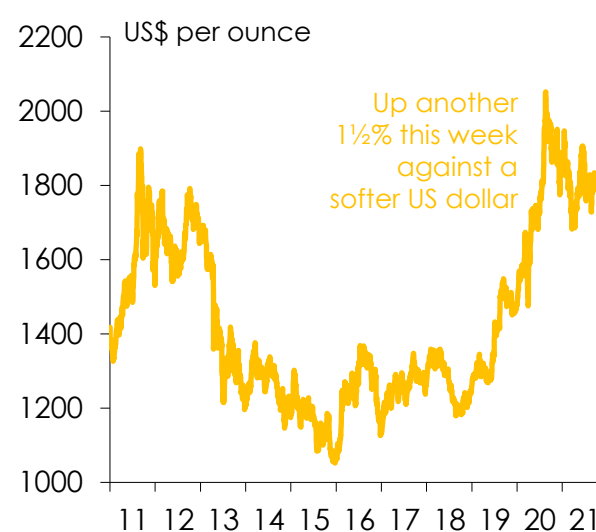
## Iron ore



## Thermal coal



## Gold

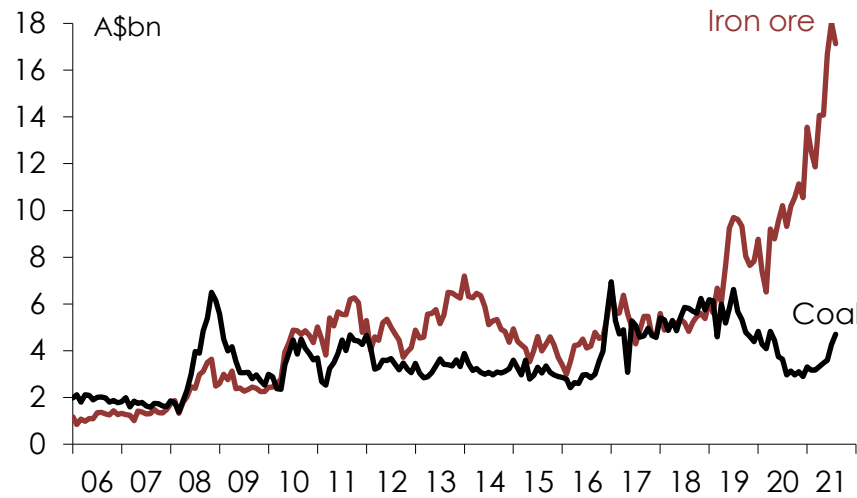


## Wool

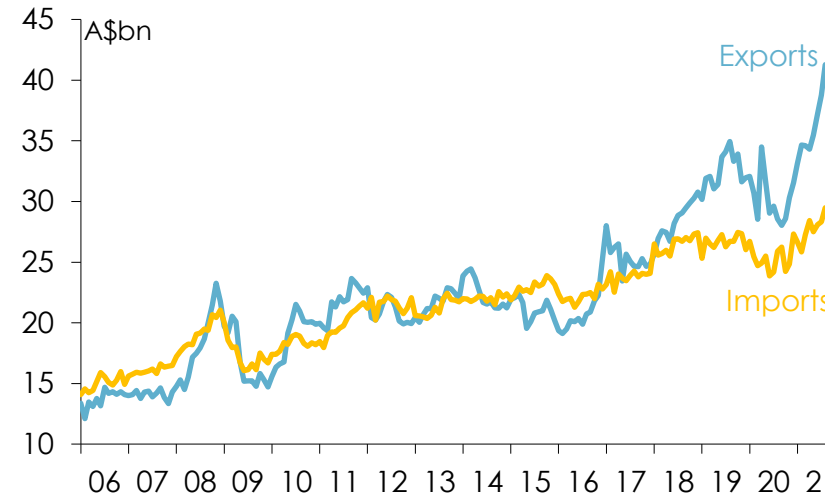


# Australia registered another record monthly trade surplus of \$12bn in July, this time thanks to strong growth in LNG and thermal coal exports

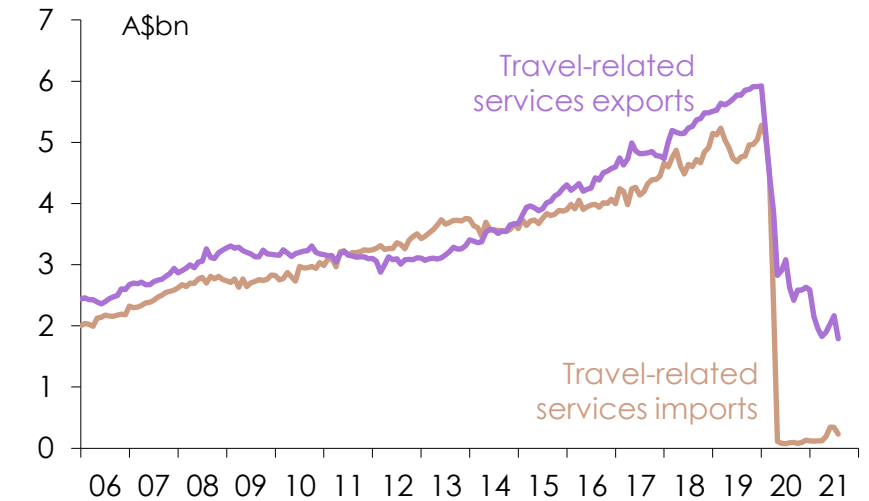
## Iron ore and coal exports



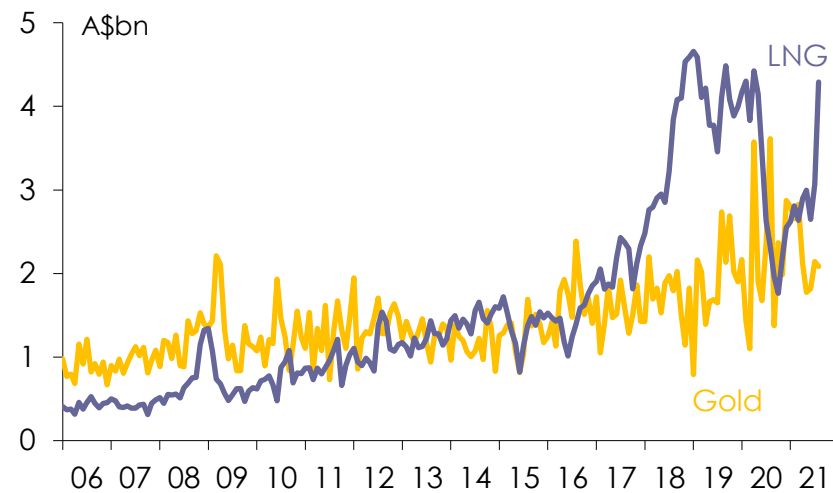
## Merchandise exports and imports



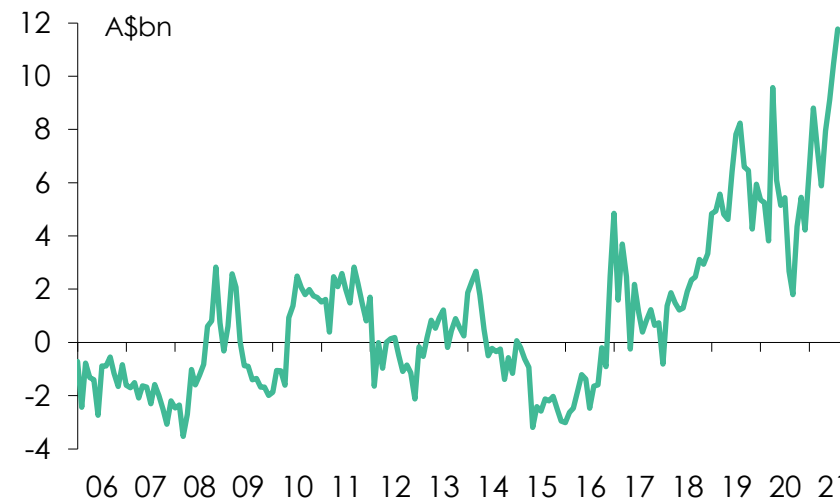
## Tourism-related services trade



## LNG and gold exports



## Merchandise trade balance



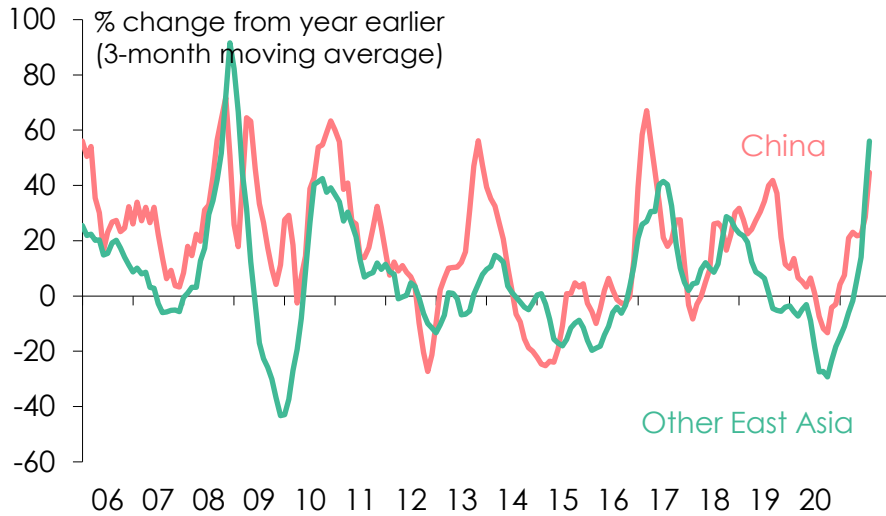
## Tourism services trade balance



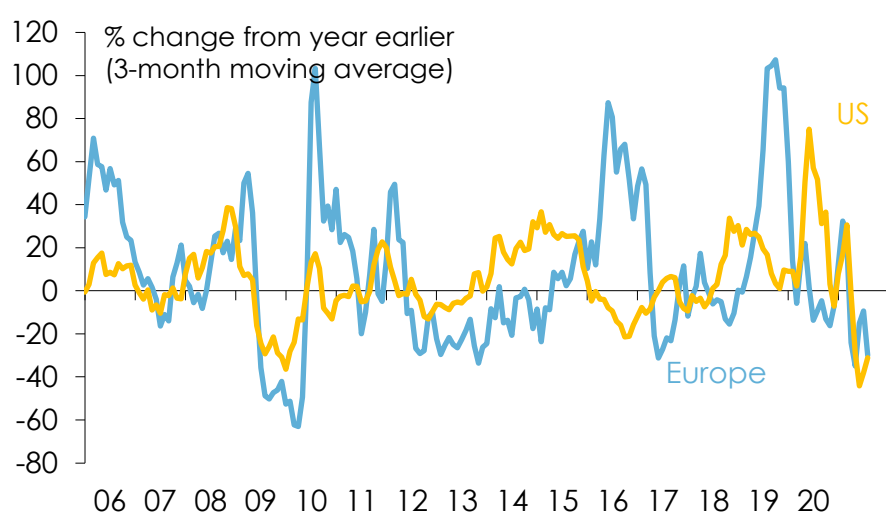
Source: ABS, [International Trade in Goods and Services, Australia](#), July 2021. August data will be released on 5<sup>th</sup> October. [Return to "What's New"](#).

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

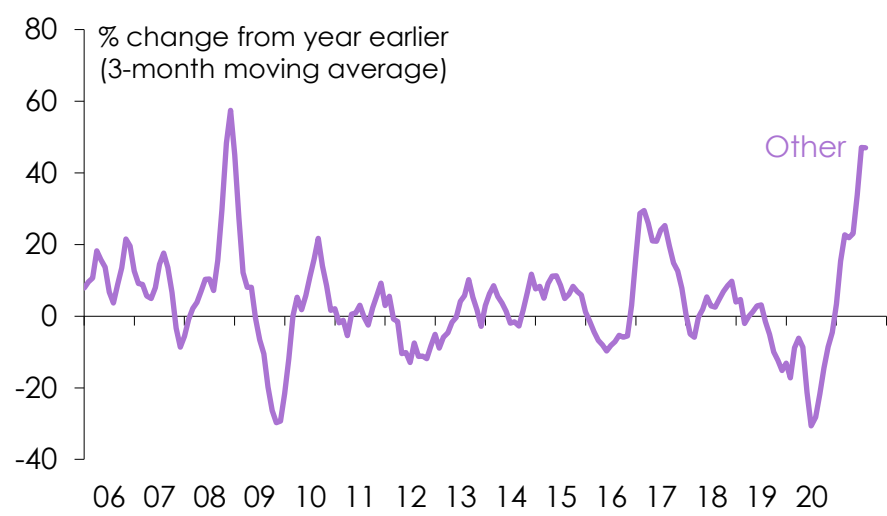
Merchandise exports – East Asia



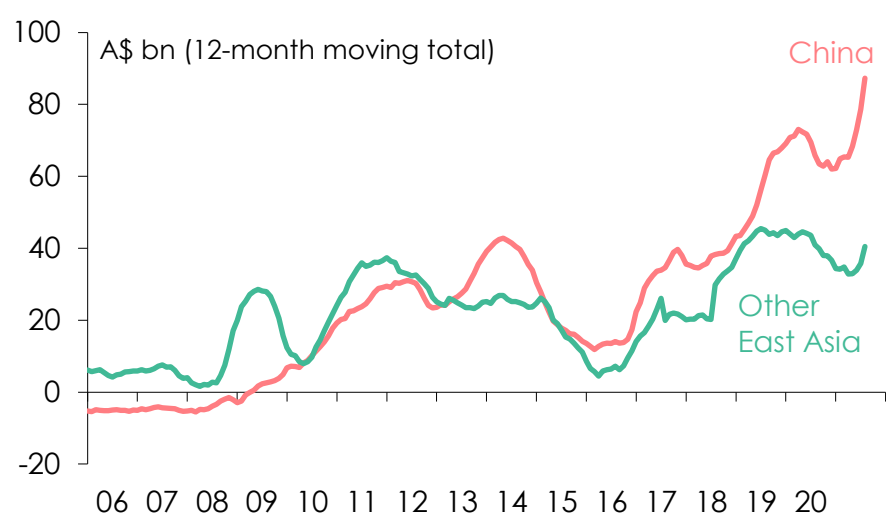
Merchandise exports – US & Europe



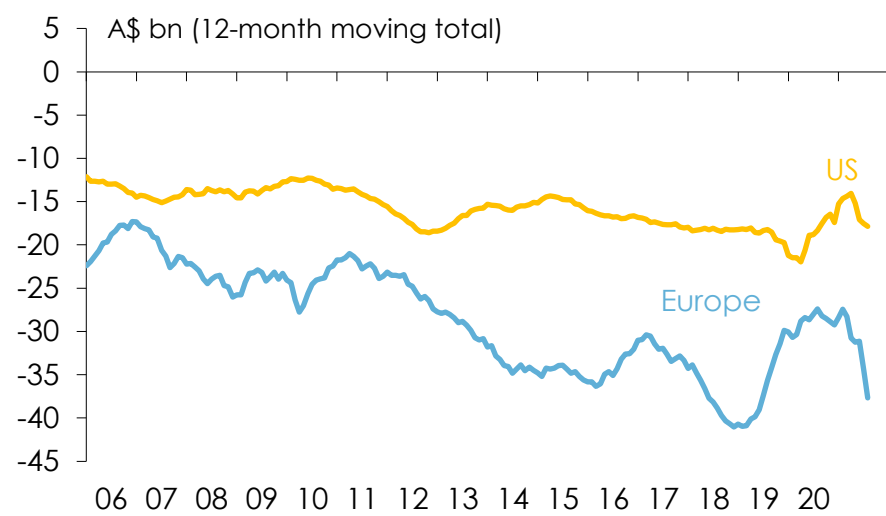
Merchandise exports – other



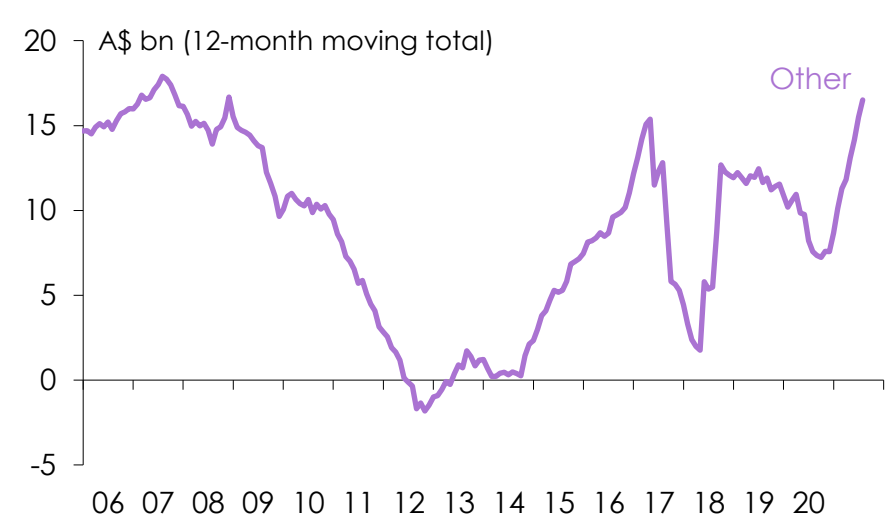
Goods trade balance – East Asia



Goods trade balance – US & Europe



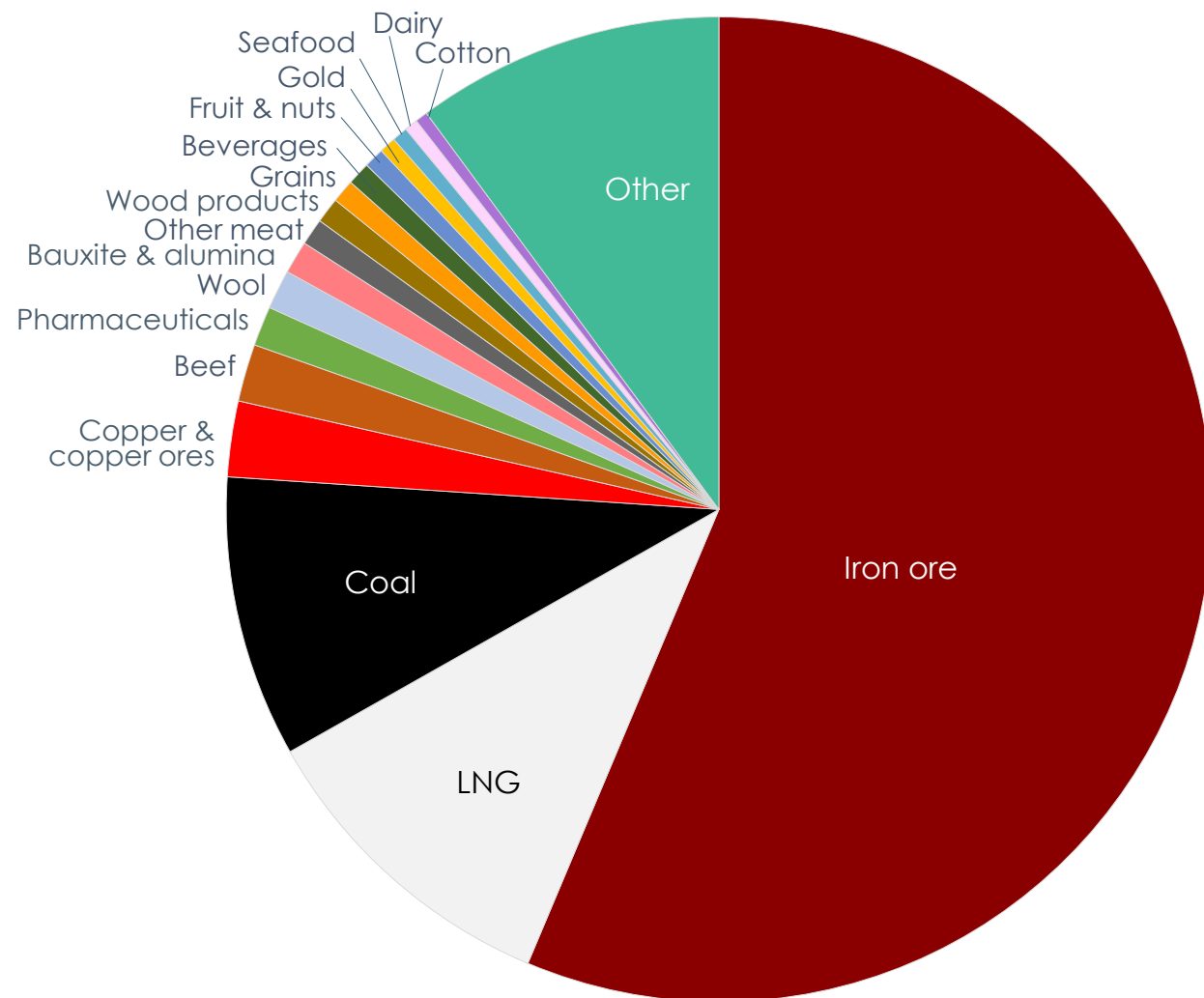
Goods trade balance – other



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

# China has now openly acknowledged that its 'trade war' on Australia is politically motivated

## Australia's merchandise exports to China, 2019-20



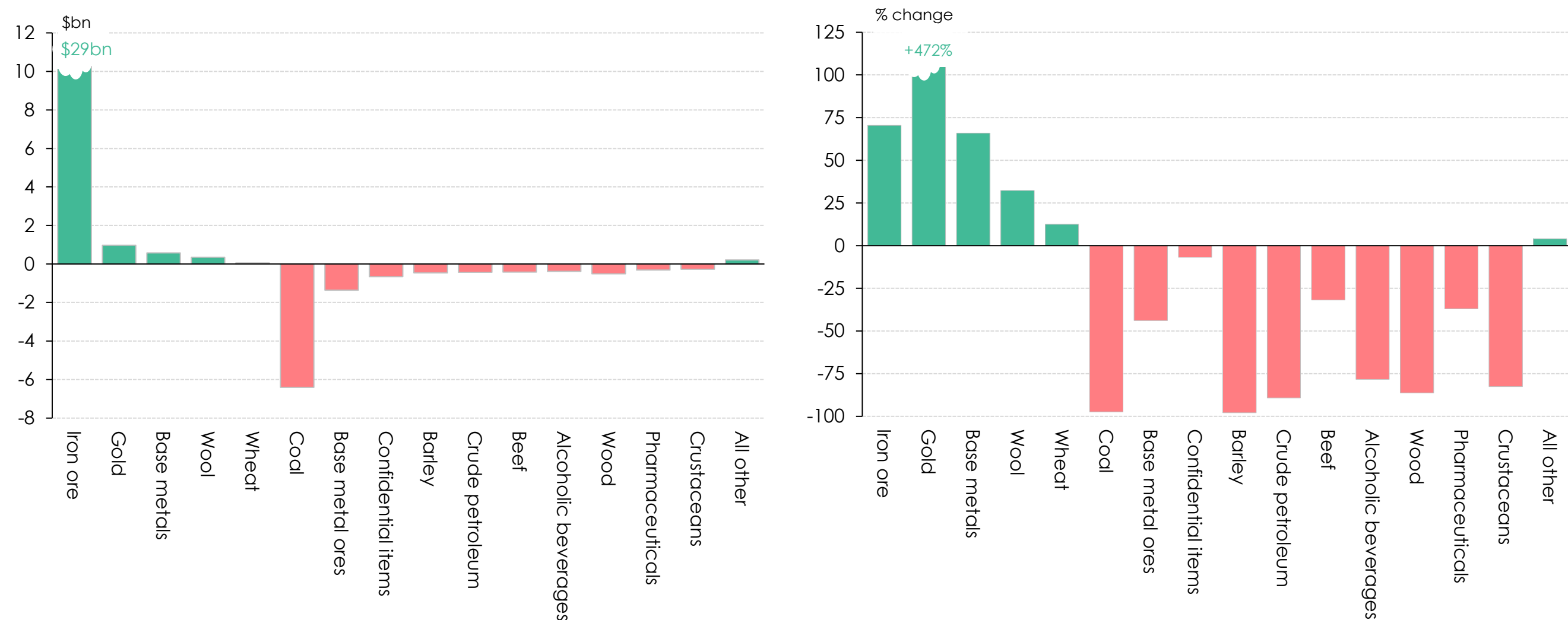
- ❑ China accounted for 39½% of Australia's merchandise exports in FY 2019-20 (the largest proportion any country has since the mid-1950s when 36% of Australia's exports went to the UK)
  - of which iron ore & concentrates accounts for 56%
- ❑ China also accounted for 19% of Australia's services exports in CY 2019 of which tourism & education accounted for over 90%)
- ❑ China has no real alternatives to Australian iron ore in the near term – but it has been progressively expanding the range of other Australian products subject to discriminatory tariffs, “customs inspections”, quarantine issues or outright bans – including wheat, wool, copper ores, sugar, lobsters, timber, wine and coal
  - Australia's exports of these products to China have dropped from about \$25bn in 2019 to an annualized rate of about \$5½bn since the sanctions were imposed – although in many cases Australian exporters have been able to find alternative markets (see next slide)
  - the recent Queensland Budget Papers show China's imports of coal from Queensland dropped from 28.6Mt in the six months to April 2020 to just 2.8Mt in the six months to April 2021 – but about two-thirds of this was offset by increased exports to India, Japan and Korea
- ❑ In July China's Foreign Ministry openly acknowledged that it was seeking to 'punish' Australia for “groundlessly accusing and smearing China and undermining China's core interests based on ideology” and “acting as a cat's paw” for the United States

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

Sources: Australian Department of Foreign Affairs & Trade, [Trade Statistical Pivot Tables](#); Corinna. [Return to "What's New"](#).

# 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

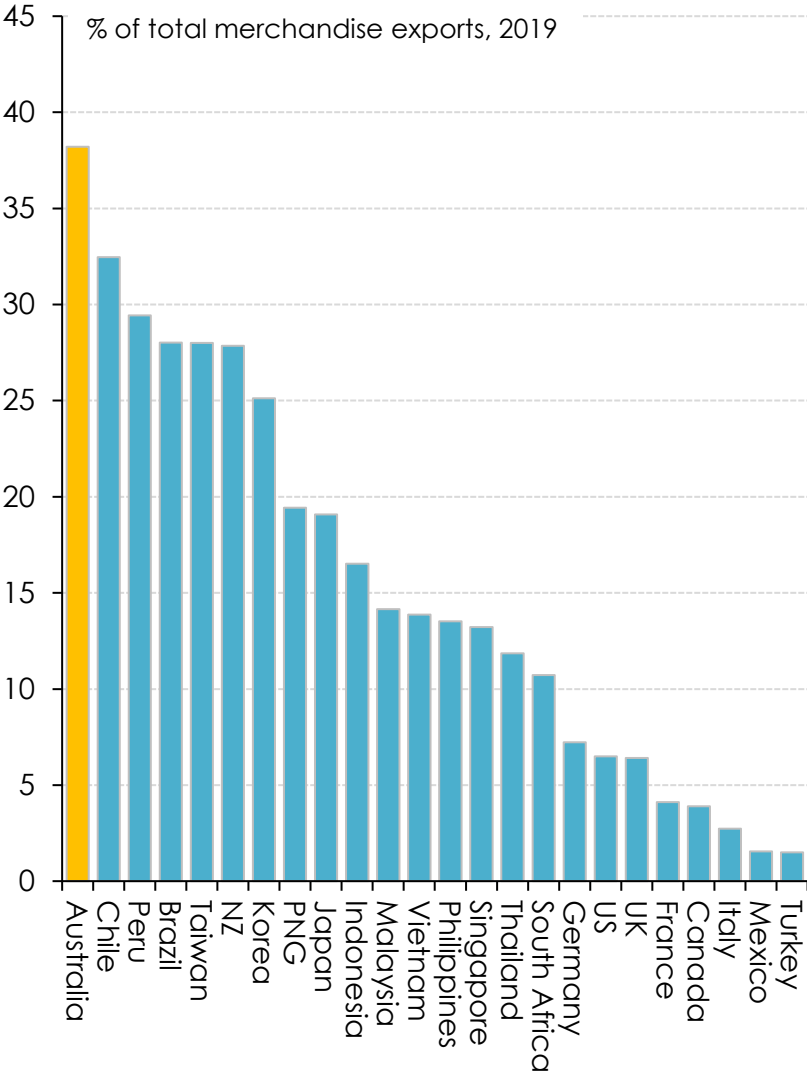
Change in Australian exports to China, seven months to May 2021 compared with seven months to May 2020



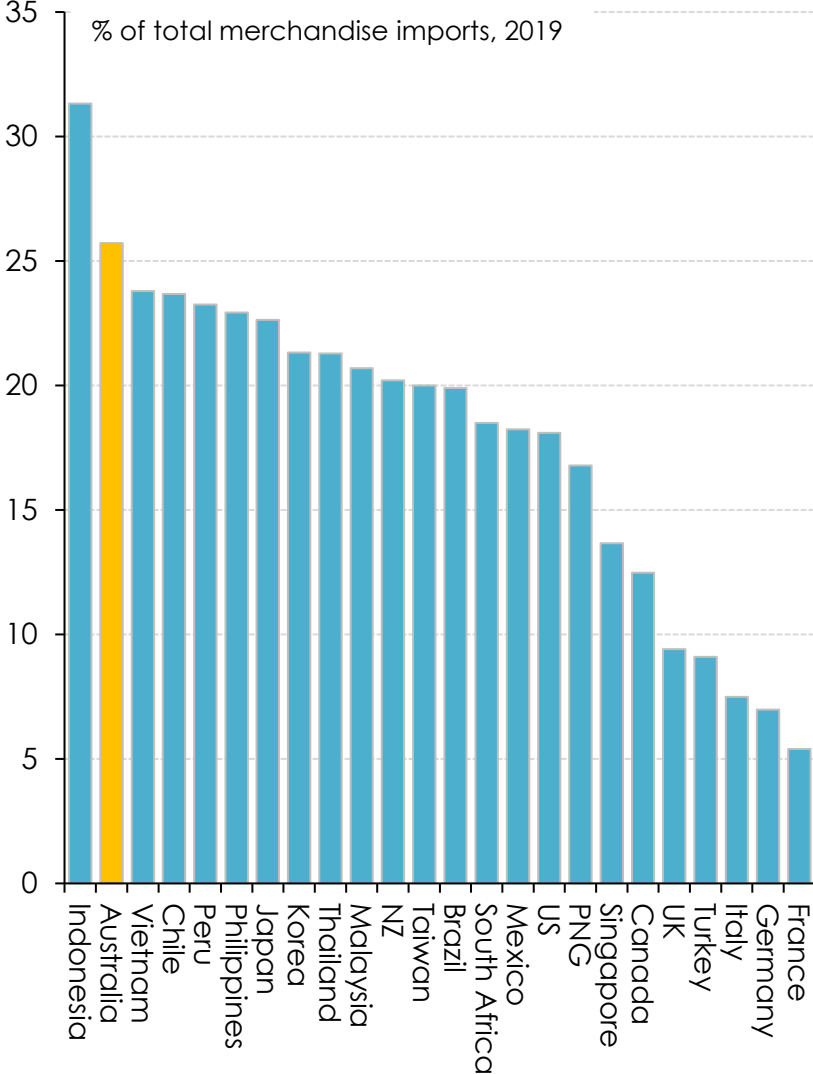


# China can cause Australia economic pain because we're very dependent on it, and are one of the few countries with whom China runs a deficit

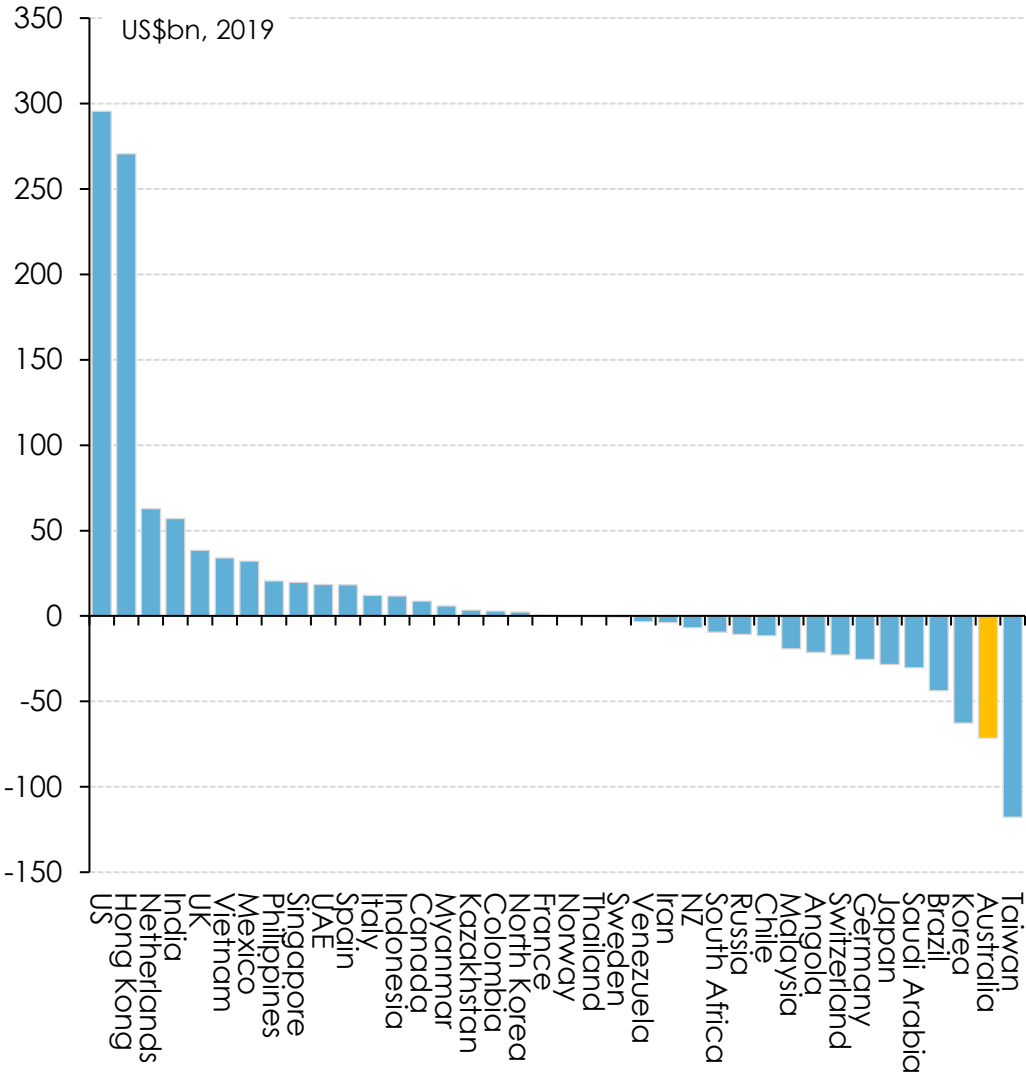
Merchandise exports to China as a pc of total



Merchandise imports from China as a pc of total



China's bilateral merchandise trade balances

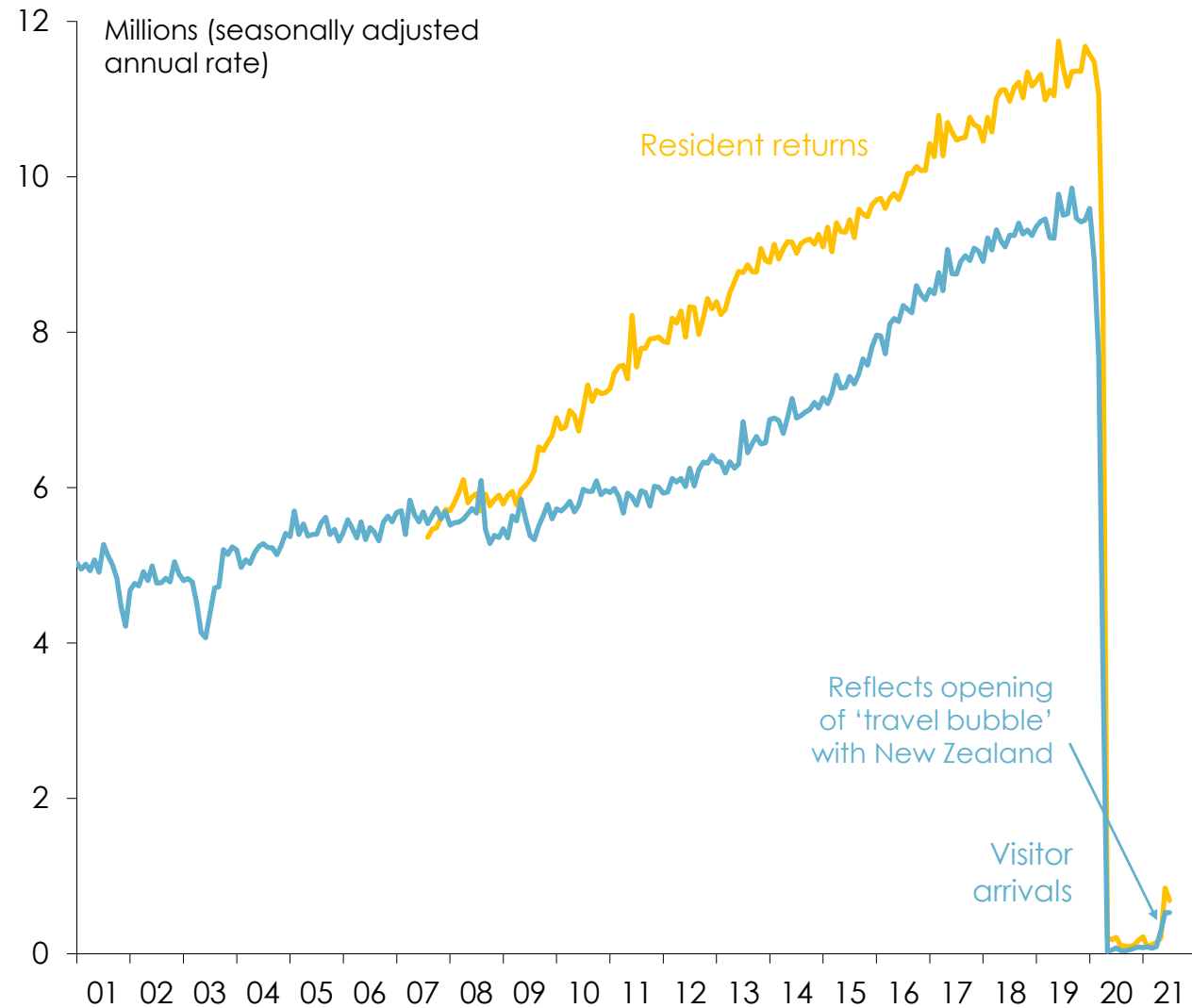


Sources: IMF, Direction of Trade Statistics; Taiwan Ministry of Economic Affairs, Bureau of Foreign Trade. [Return to "What's New"](#).

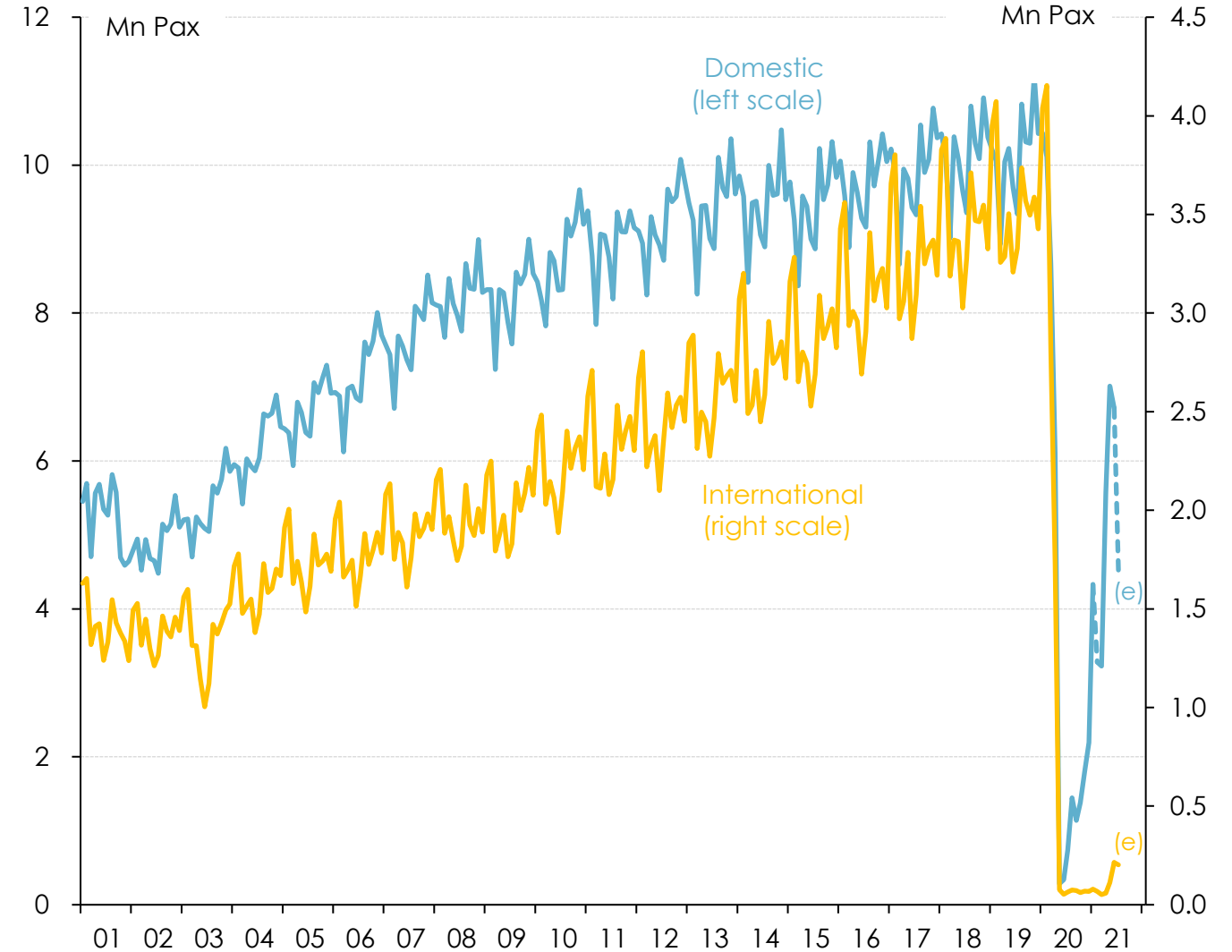


# Domestic aviation picked up strongly between last November and May – but slumped in June with renewed lockdowns and interstate border closures

## Short-term visitor arrivals and resident returns



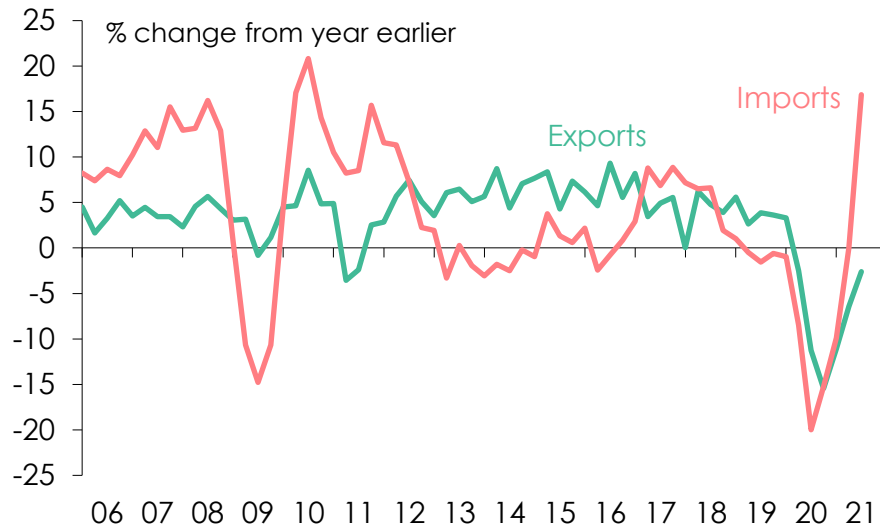
## Airport passenger movements



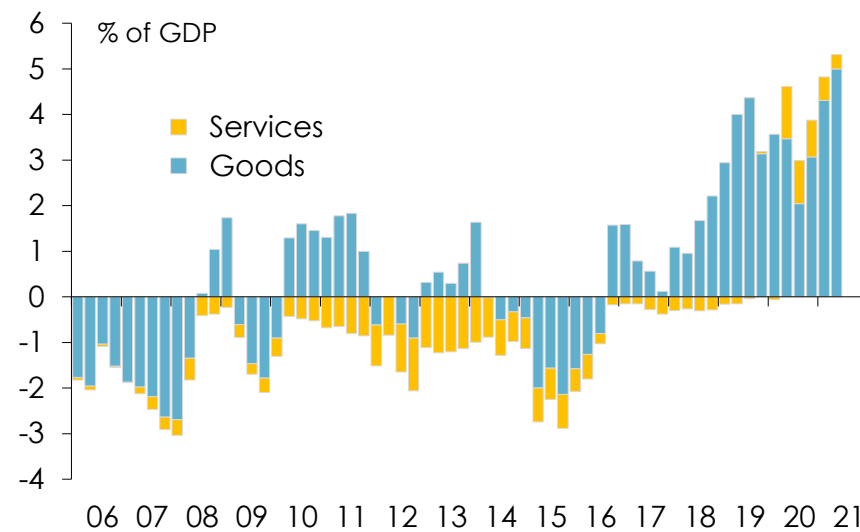
Note: The ABS has suspended publication of seasonally adjusted estimates of short-term visitor arrivals and resident returns, so published original estimates for April 2020 (and beyond) have been seasonally adjusted by Corinna using the same seasonal factors as for the corresponding month of 2019. Latest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

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

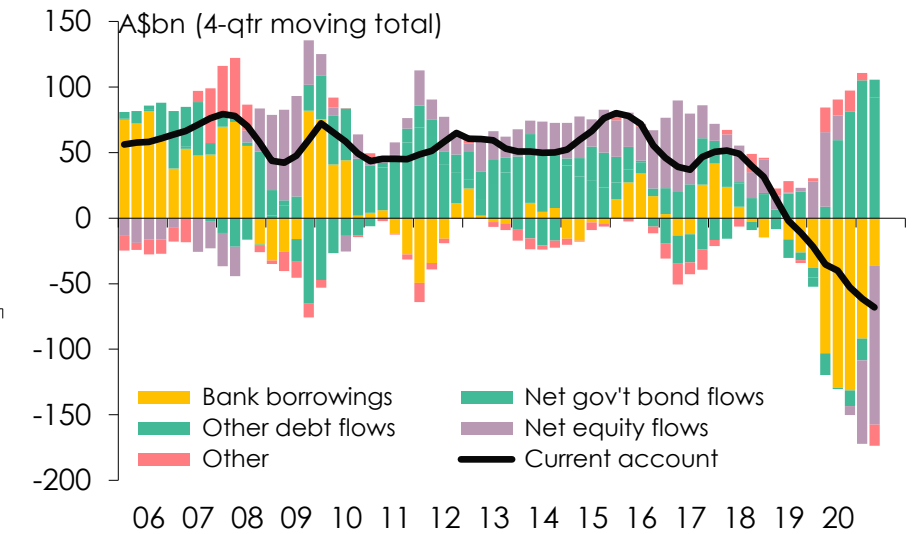
## Export and import volumes



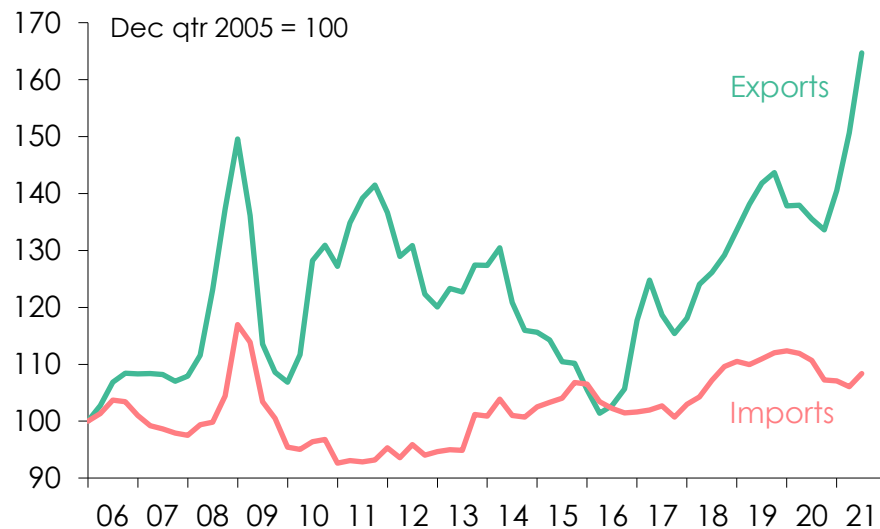
## Goods & services trade balances



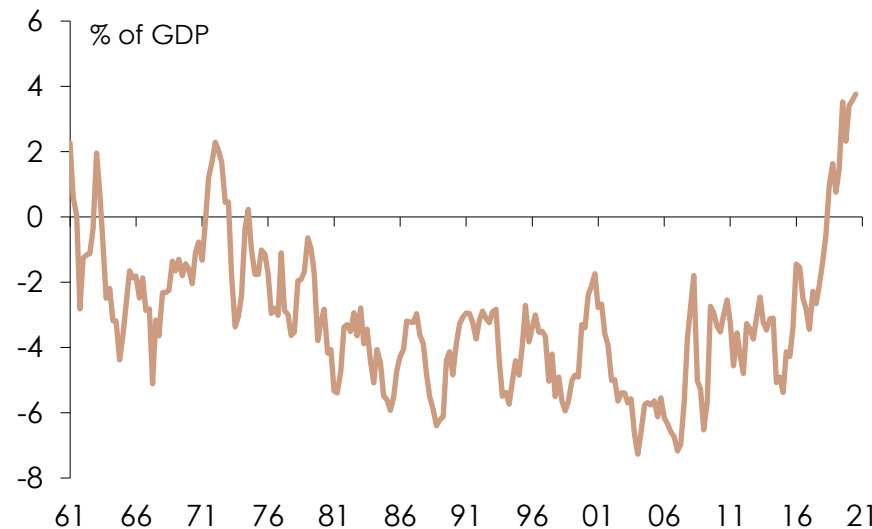
## Capital flows



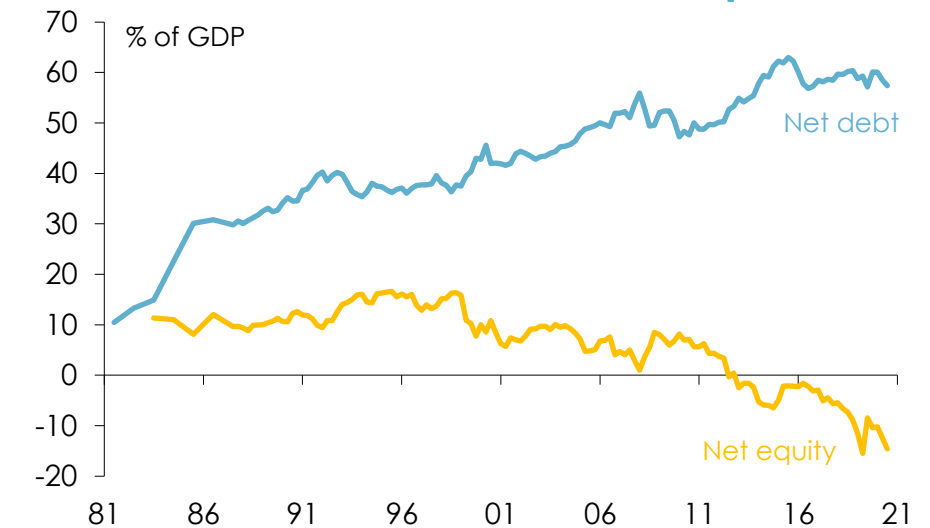
## Export and import prices



## Current account balance



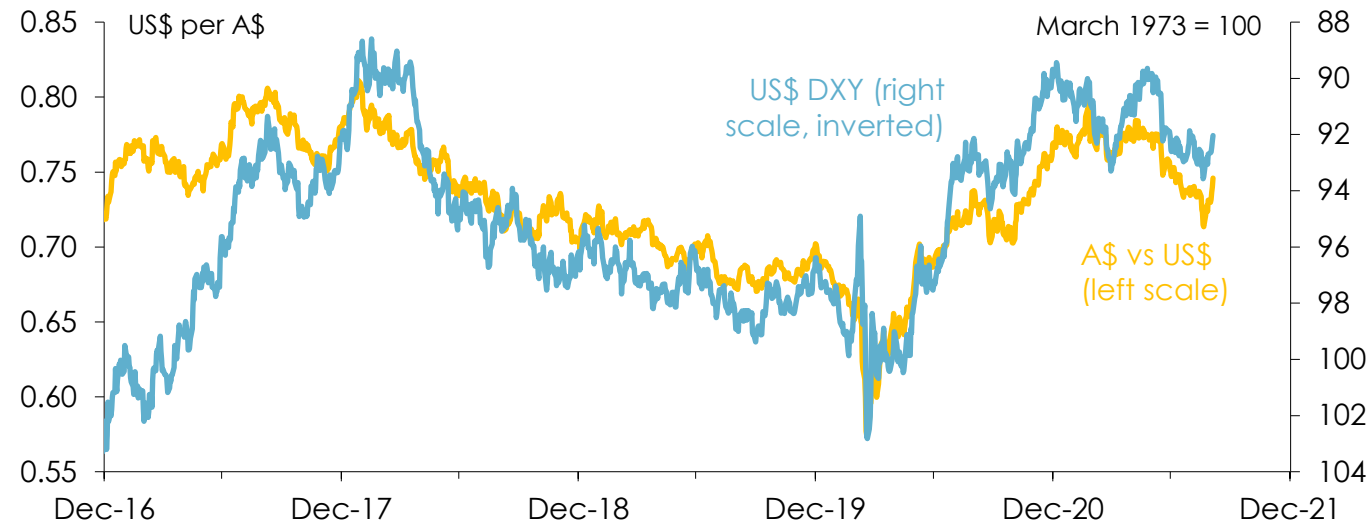
## Net international investment position



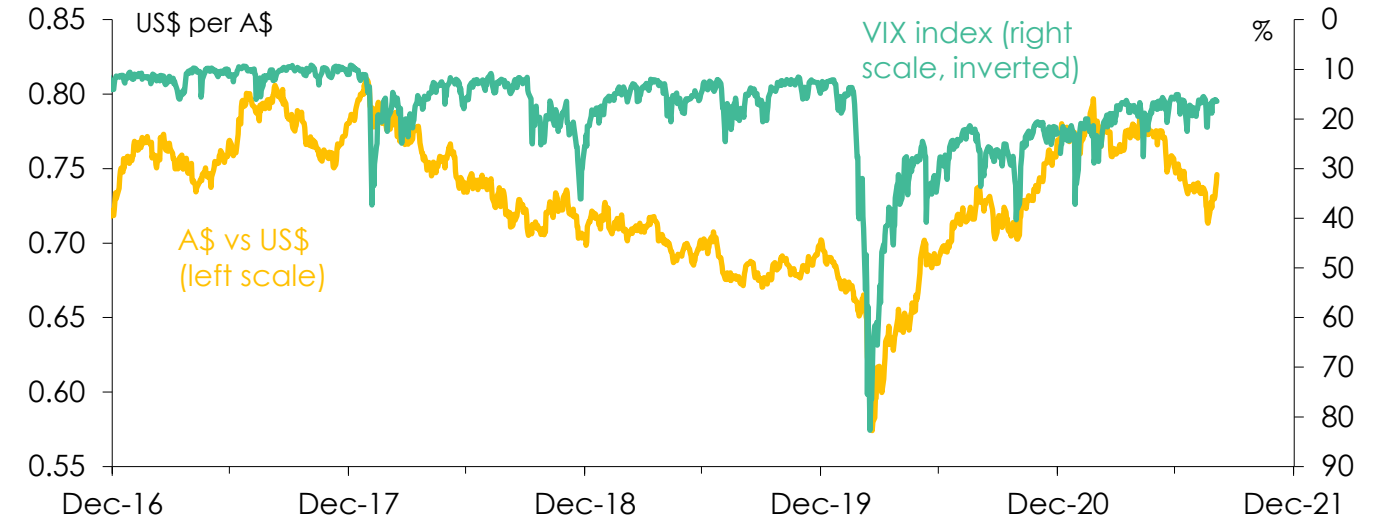
Note: The chart of Australia's international capital flows shows inflows (eg borrowings from abroad) as a positive and outflows (eg repayments of debt, or purchases of foreign equity assets) as a negative. Likewise the chart of Australia's international investment position shows net foreign debt as a positive and net equity assets as a negative. Latest data are for the June quarter 2021; September quarter data will be released on 30<sup>th</sup> November. Source: ABS, [Balance of Payments and International Investment Position, Australia](#). [Return to "What's New"](#).

# The A\$ rose 2% vs the US\$ this week, finishing above US74½¢ despite a renewed fall in the iron ore price, largely reflecting US dollar weakness

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



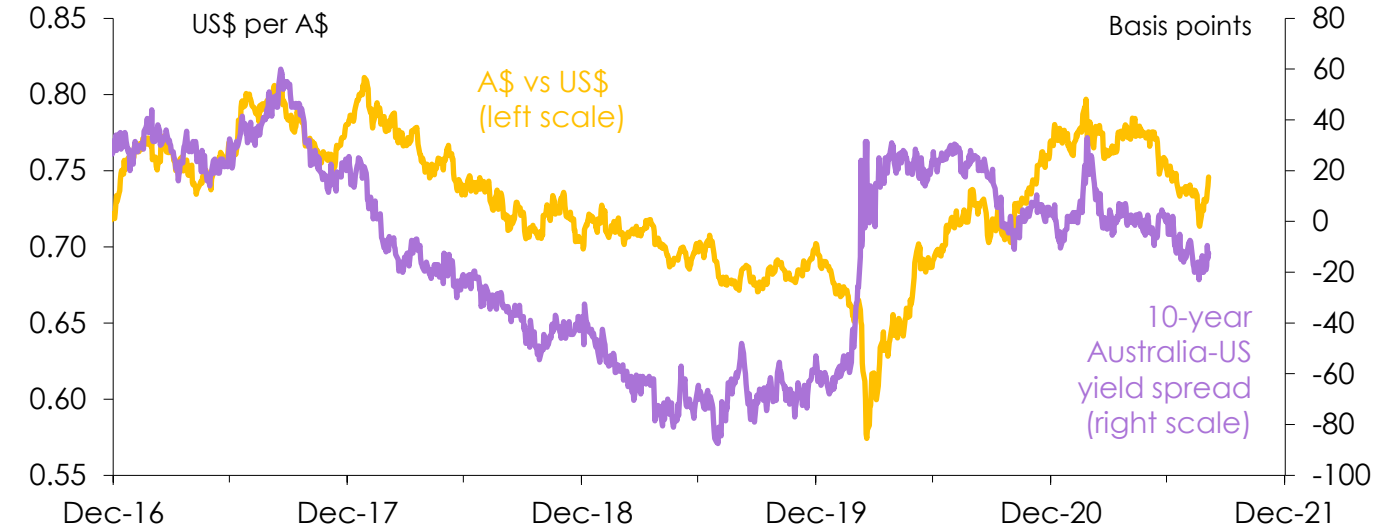
## A\$-US\$ and US equity market volatility



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

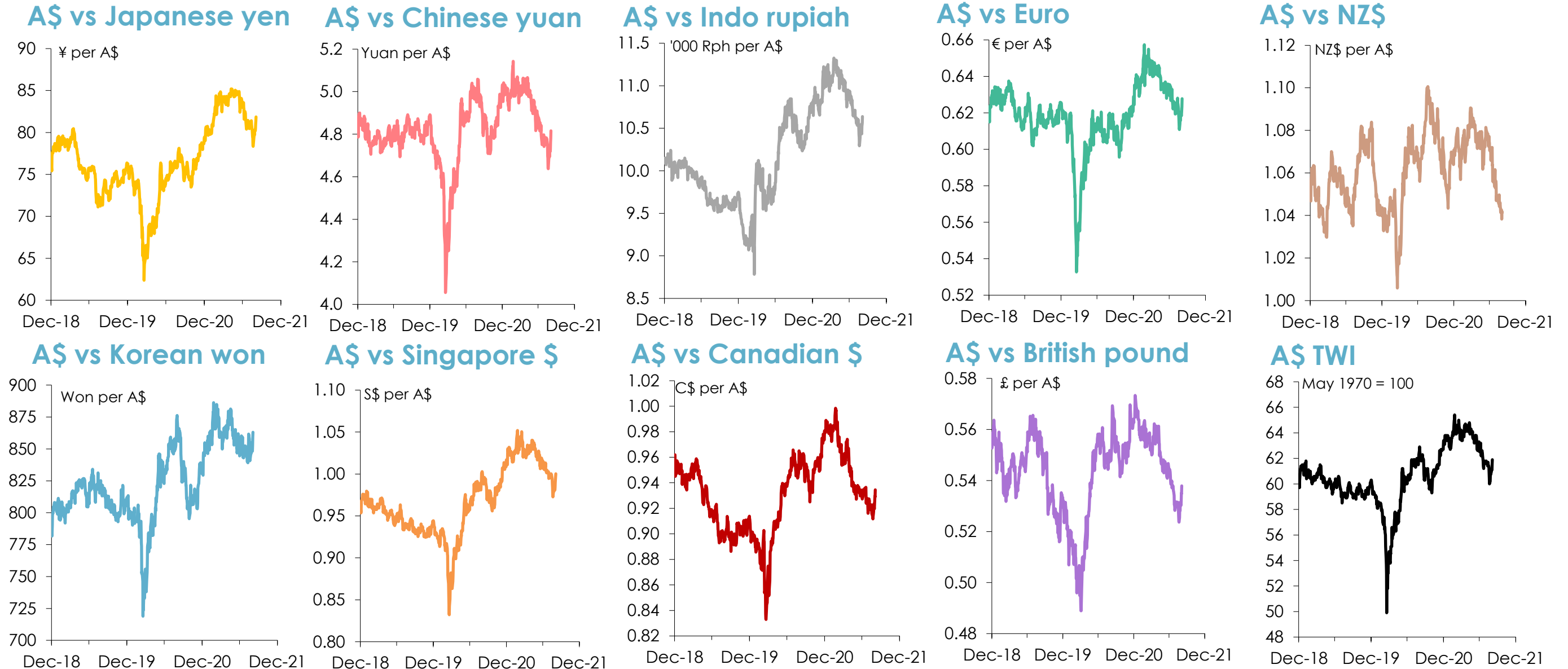


## A\$-US\$ and Australia-US 10-year bond yield spread



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. Source: Refinitiv Datastream. Data up to 3<sup>rd</sup> September. [Return to "What's New"](#).

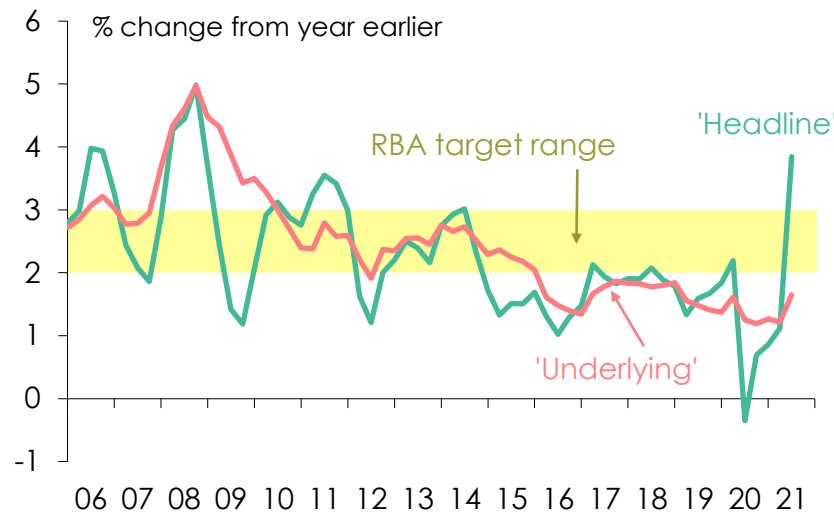
# The A\$ also rose another 1-2% against most third currencies, with the exception of the Kiwi, against which it fell to a 16-month low



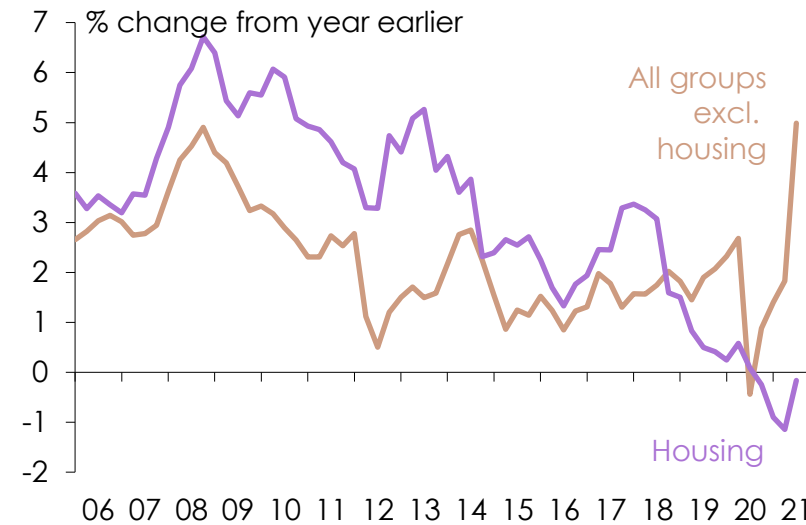
Note: The 'TWI' is the RBA's [trade-weighted index](#) of the A\$. Source: Refinitiv Datastream. Data up to 3<sup>rd</sup> September. [Return to "What's New".](#)

# 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

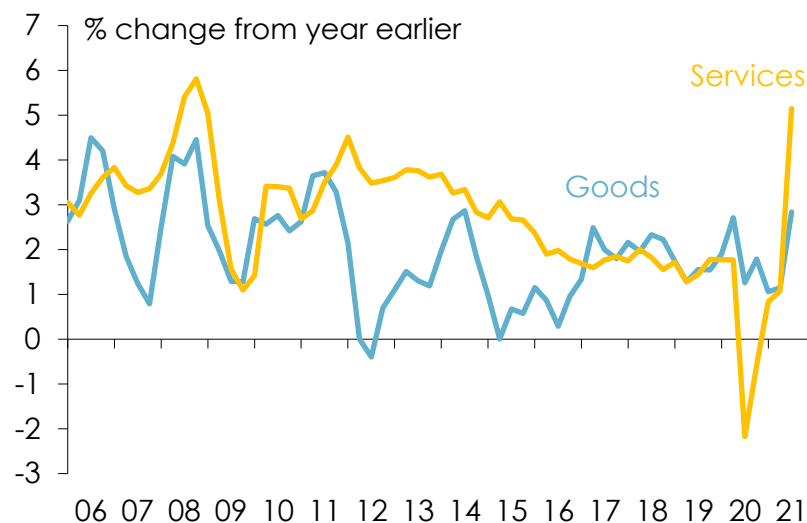
## Consumer prices



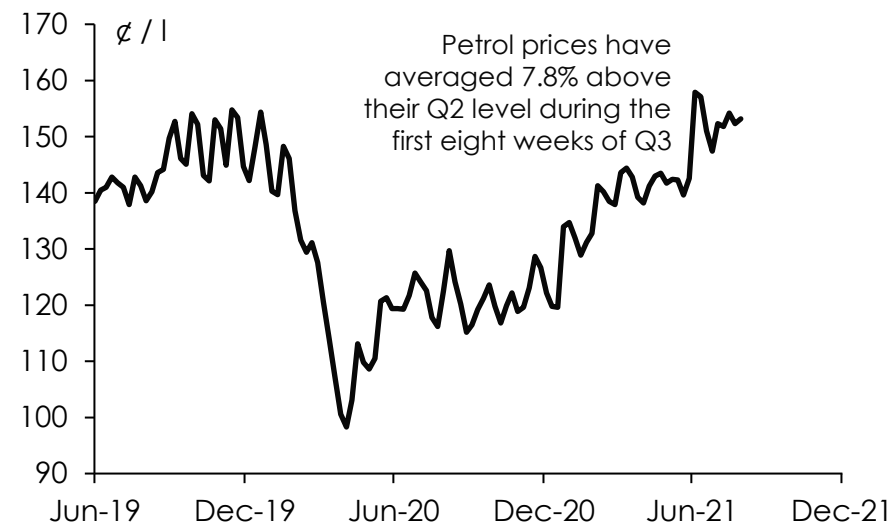
## Housing costs



## Goods vs services prices



## Retail petrol prices



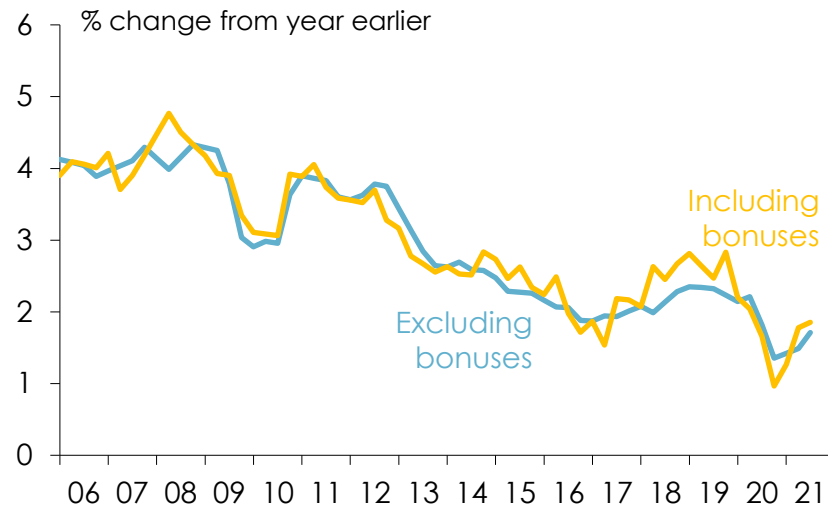
- ❑ The CPI rose a slightly higher-than-expected 0.8% in Q2 – but because the 1.9% fall in Q2 last year (the result of child care being free for most of it, and a sharp fall in petrol prices), the annual 'headline' inflation rate jumped to 3.8%, its highest since Q3 2008
- ❑ 70% of the increase in the 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 22<sup>nd</sup> 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 27<sup>th</sup> October. [Return to "What's New"](#).

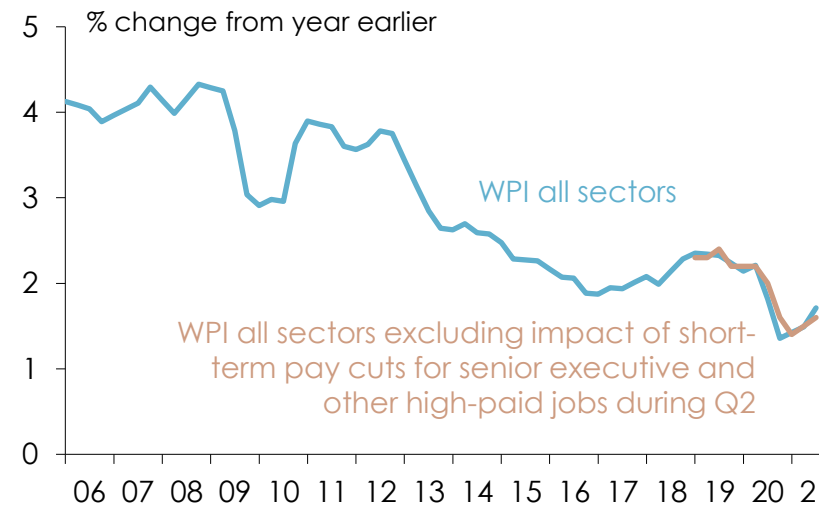


# Wages rose by only 0.4% in Q2, down from 0.6% in Q1 and Q4 last year, though 'base effects' from Q2 last year pushed the annual rate up to 1.7%

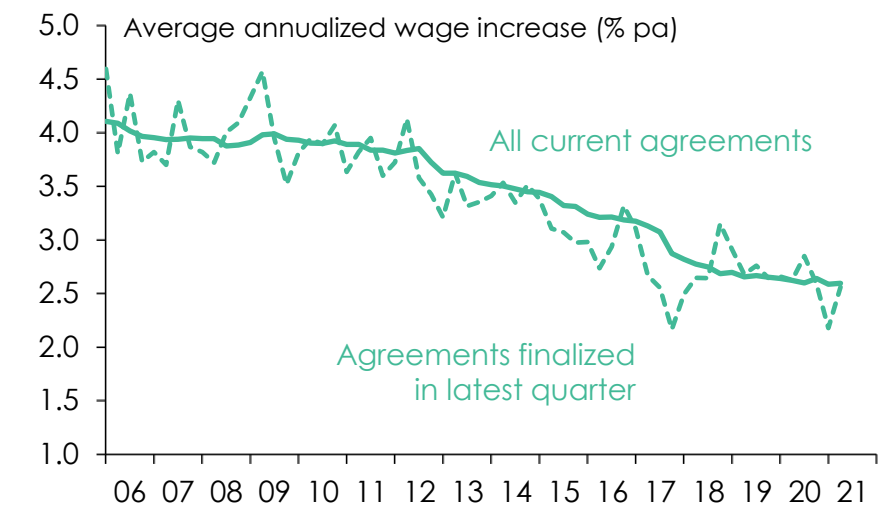
## Wage price index – all sectors



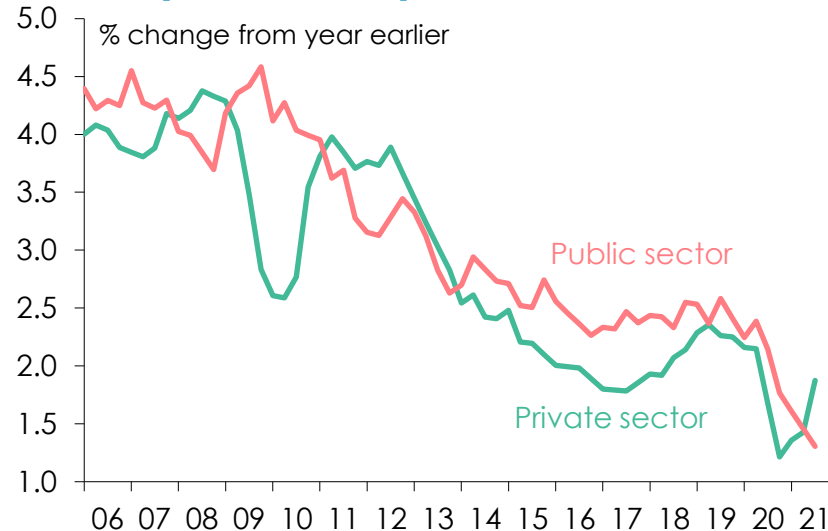
## WPI excl. temporary wage cuts



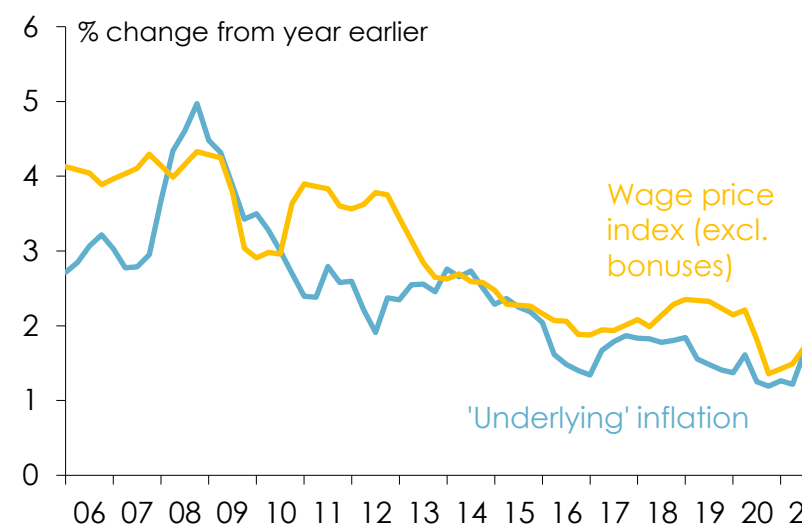
## Enterprise bargaining agreements



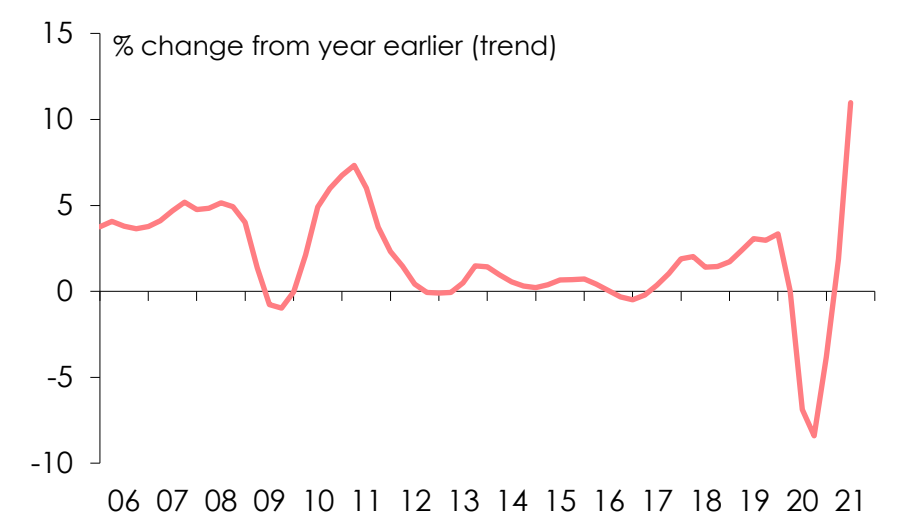
## WPI – private vs public sectors



## WPI and 'underlying' CPI inflation



## Unit labour costs



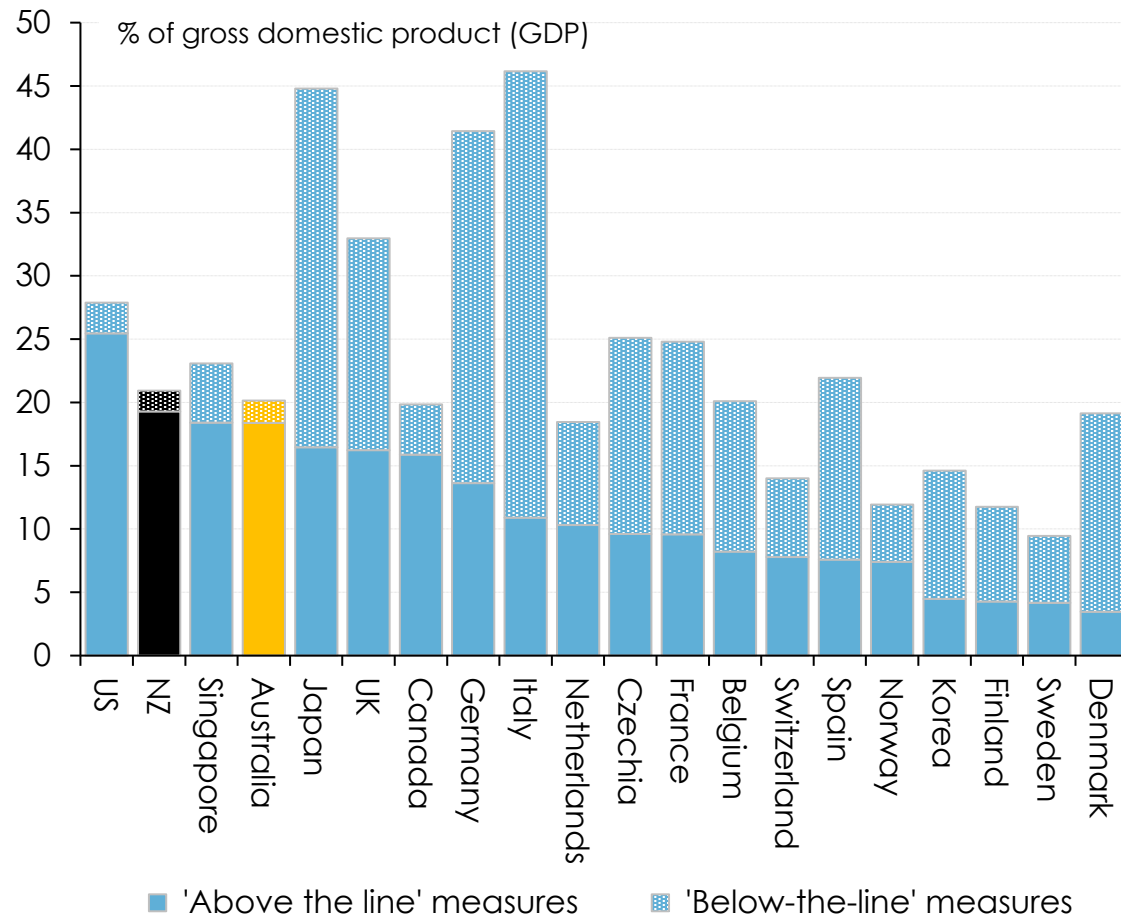
Note: Unit labour costs is compensation of employees (including fringe benefits and social insurance contributions) per hour worked divided by (real) gross value added per hour worked (ie, labour productivity) for the non-farm sector. Sources: ABS, [Wage Price Index, Australia](#) and [Australian National Accounts: National Income, Expenditure and Product](#); Attorney-General's Department, [Trends in Federal Enterprise Bargaining](#); September quarter WPI data will be released on 17<sup>th</sup> November. [Return to "What's New"](#).

# Australia's fiscal and monetary policy settings



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

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

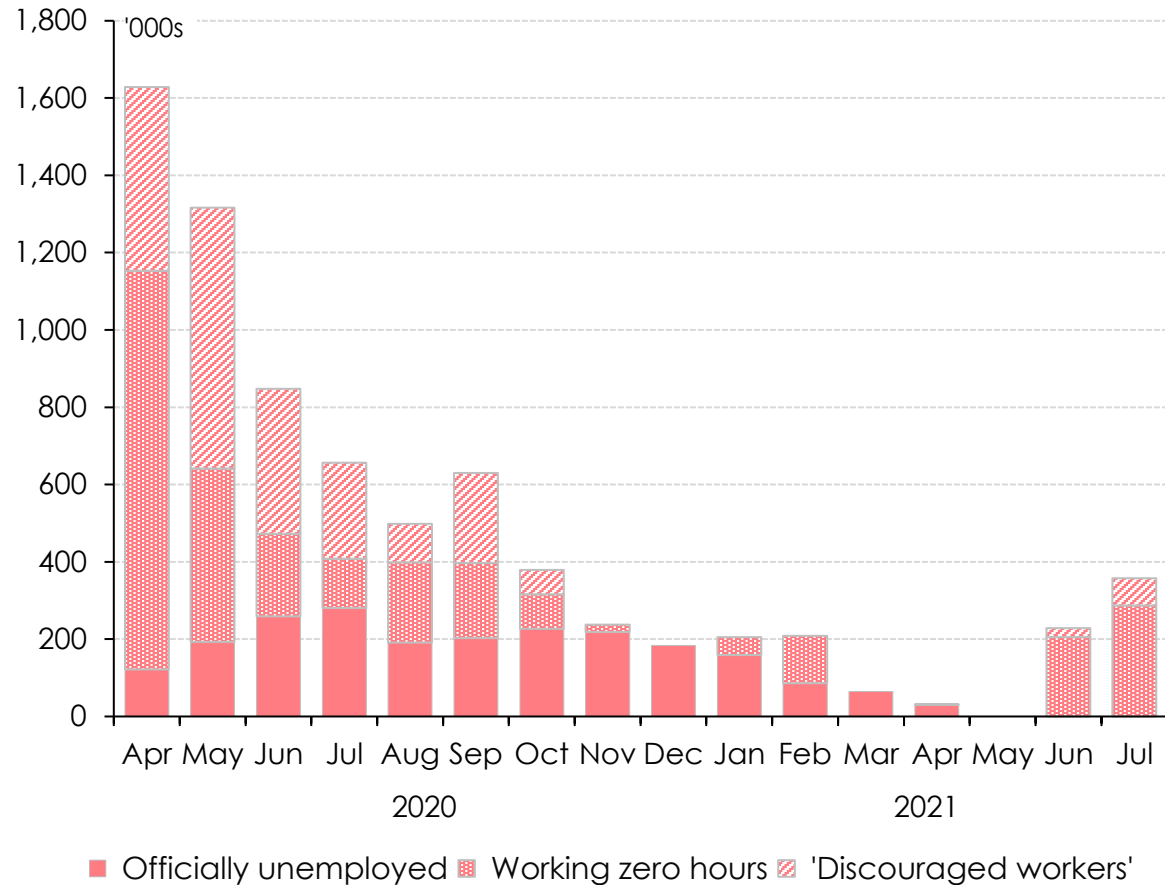


Note: 'Above the line' measures comprise additional or accelerated spending and deferred or foregone revenue. 'Below the line' measures comprise equity injections, loans, asset purchases and debt assumptions, but do not include loan guarantees or other contingent liabilities. 'DMs' means 'developed markets' (or 'advanced economies'). Data includes measures announced up until 5<sup>th</sup> 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

# Government support payments in recent lockdowns are less than during last year's because far fewer workers have (so far) been affected

## Number of people displaced by lockdowns (by comparison with March 2020)

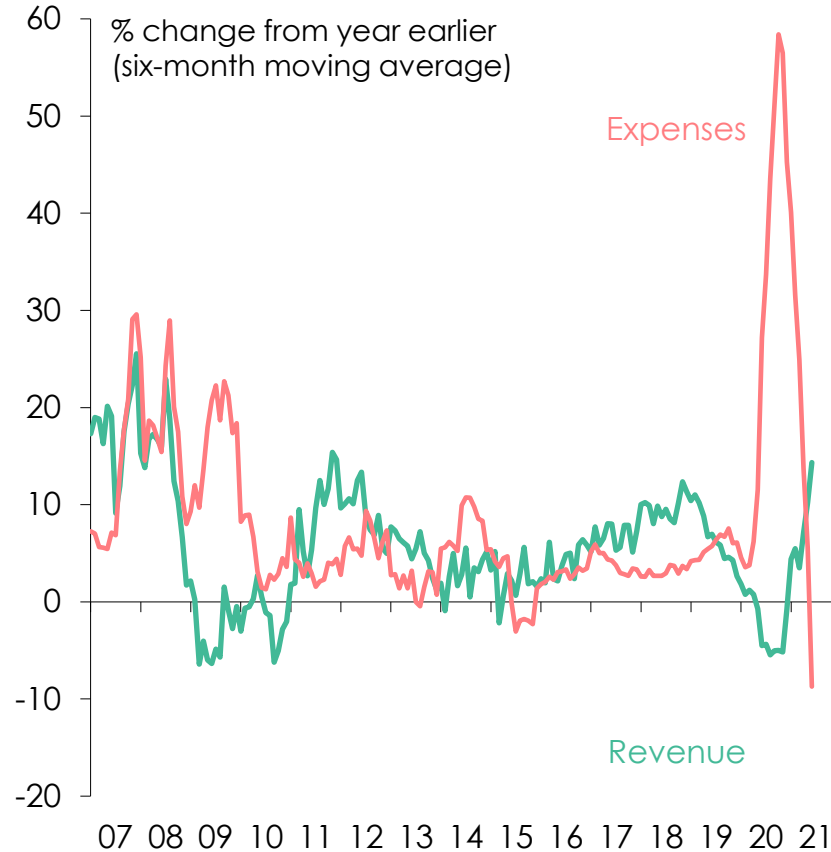


Note: Numbers depicted in the above chart are derived as the difference between the number of people in each category in the months shown and the number in those categories in March 2020. People 'working zero hours' excludes those doing so because they are on annual or other types of leave. 'Discouraged workers' are those who have dropped out of the labour force as indicated by the difference in the labour force participation rate between the month shown and March 2020, during 2020, or the month prior to lockdowns in June and July 2021. Source: ABS, [Labour Force, Australia](#), July 2021; Corinna. [Return to "What's New"](#).

- Since the beginning of June the Federal Government has paid out around \$5bn in [Covid-19 disaster payments](#) to 1.7 mn workers unable to earn income due to public health orders or other Covid-related restrictions
  - of this amount, \$3.6bn has been to people in NSW, \$1bn to people in Victoria, \$249mn to people in Qld, and \$48mn to people in SA
- The Federal Government has also paid out some \$54mn in [pandemic leave disaster payments](#) to over 36,000 people who have been required to self-isolate or quarantine, or who are caring for someone with Covid-19
  - almost 22K of these people have been in Victoria, and just over 9K in Victoria
- The [NSW State Government](#) has up to 19<sup>th</sup> August paid out \$1.7bn to over 218K businesses and \$443mn in 'JobSaver' payments to almost 101K businesses affected by lockdowns
  - the [Victorian](#) and [Queensland](#) governments have similar programs although details of amounts spent aren't available
- The amounts being paid in assistance are substantially less than those paid last year (under 'JobKeeper' and other schemes) in large part because the numbers of people displaced from employment by lockdowns has been much smaller

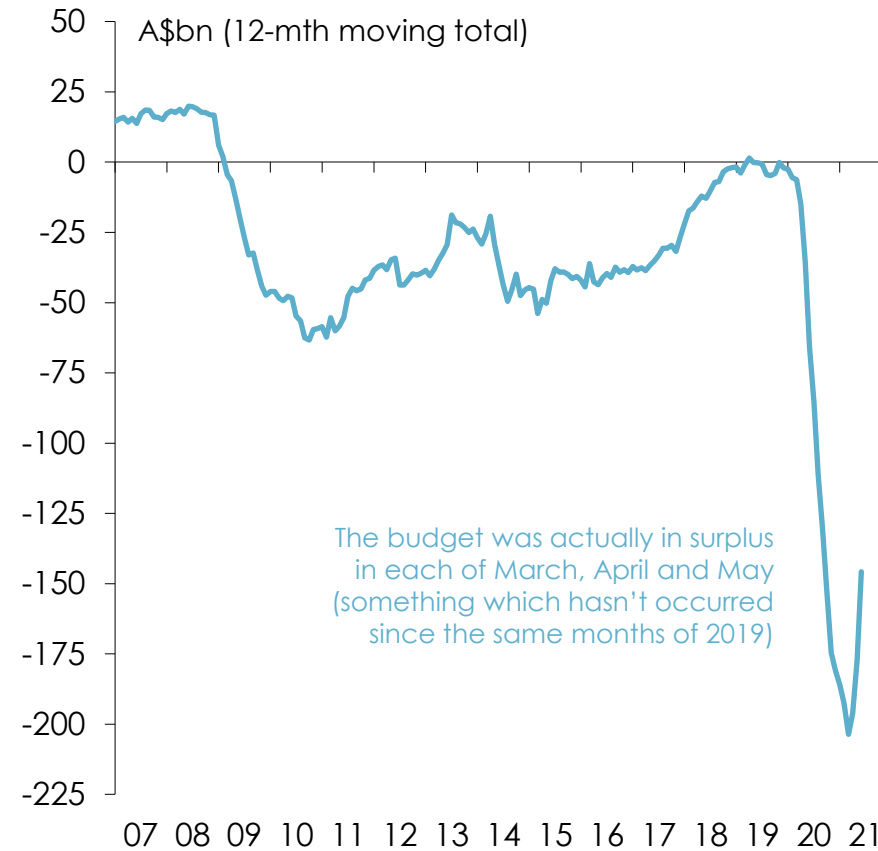
# The budget was in surplus for three months in a row between March and May, and for the first 11 months of 2020-21 was \$14bn less than forecast

## Australian Government revenue and expenses



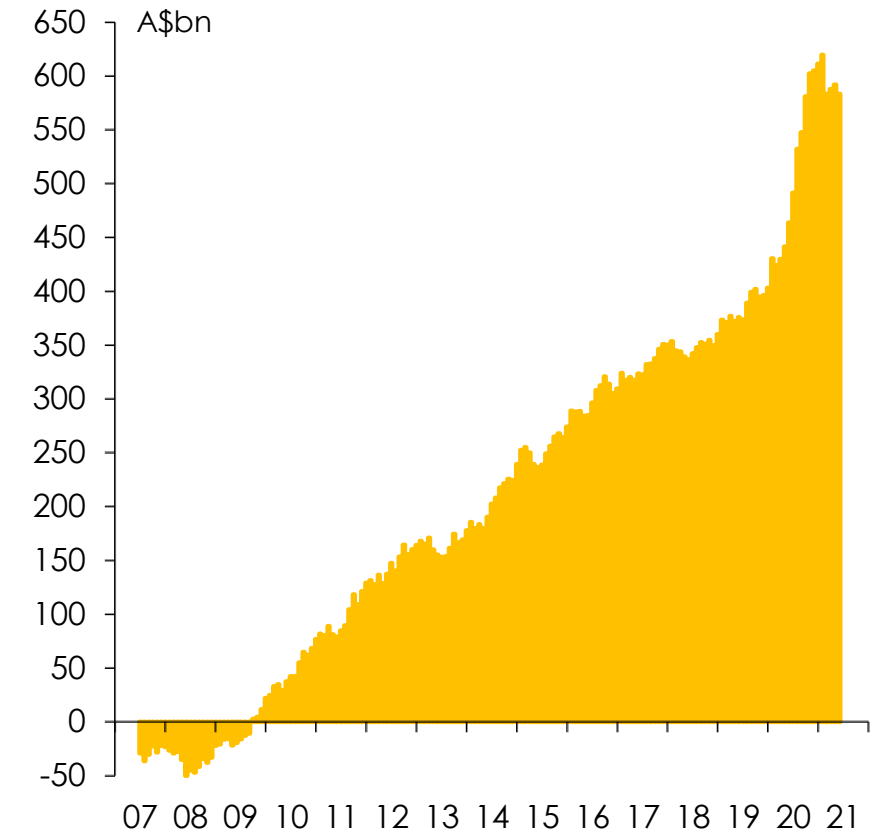
- ❑ Expenses have now peaked, while revenue is beginning to turn around as the economy picks up

## Australian Government 'underlying' cash balance



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

## Australian Government net debt

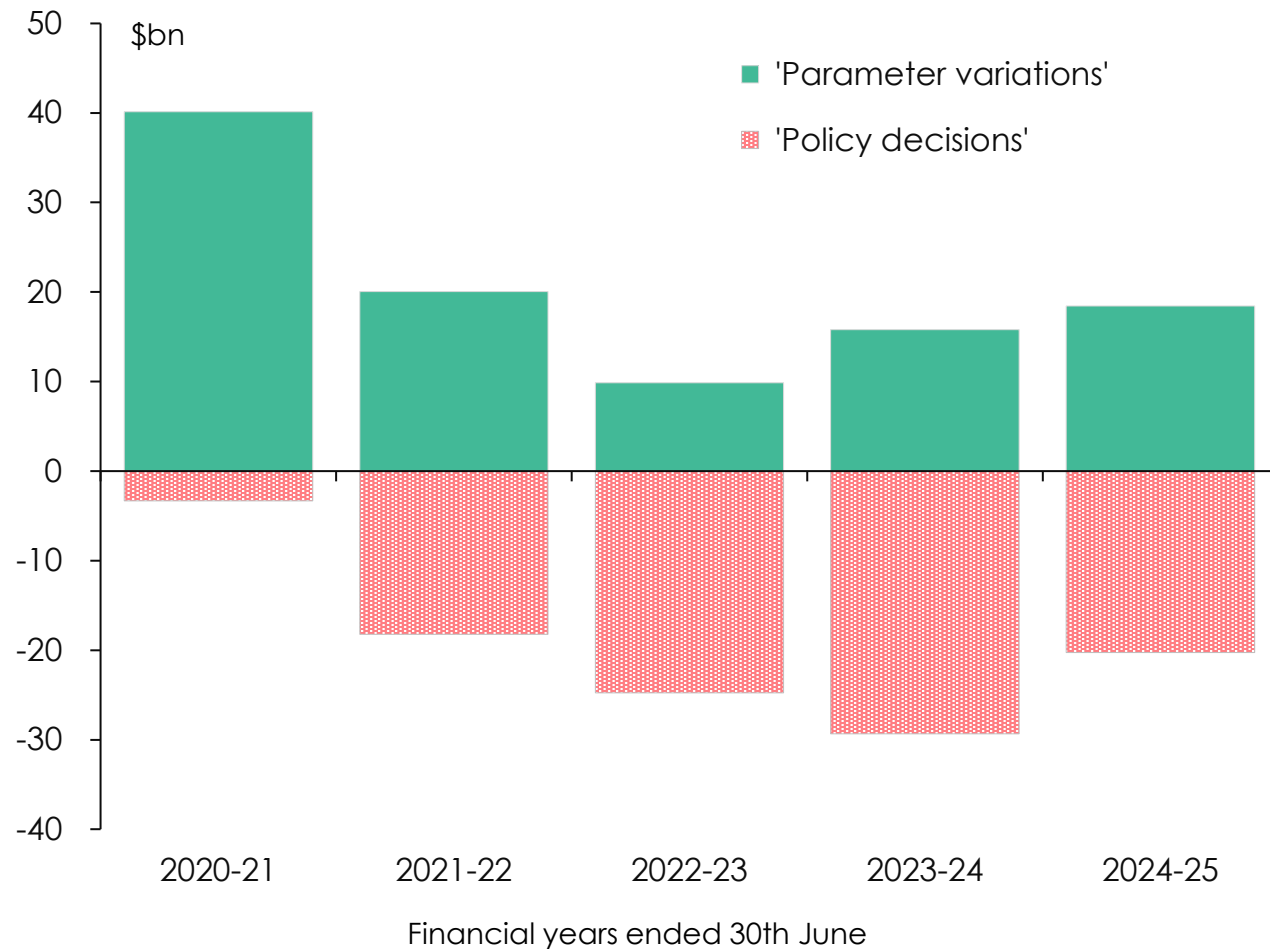


- ❑ Net debt as at end-May was \$583bn (about 25½% of GDP), down from a peak of \$619bn at end-January

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

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

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



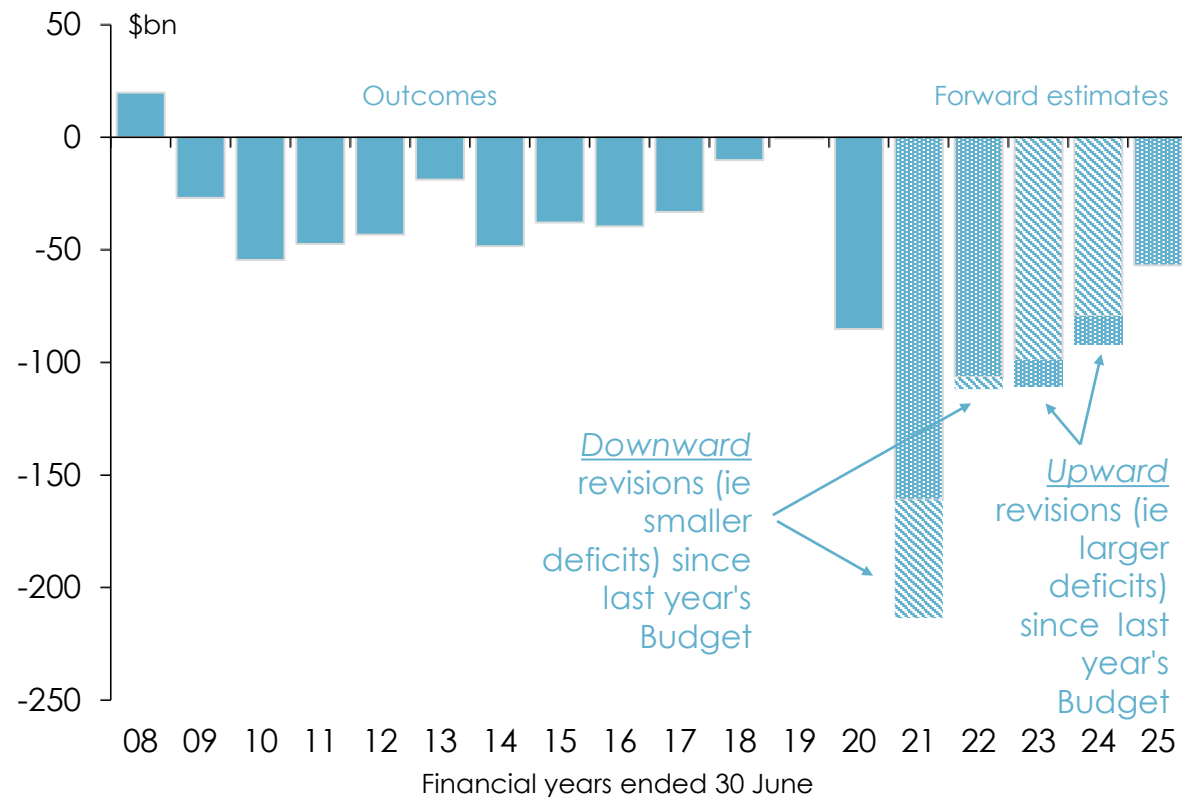
Source: Australian Government, 2021-22 [Budget Paper No. 1, Statement 3: Fiscal Strategy and Outlook](#).  
[Return to "What's New"](#).

- ❑ 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

# 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

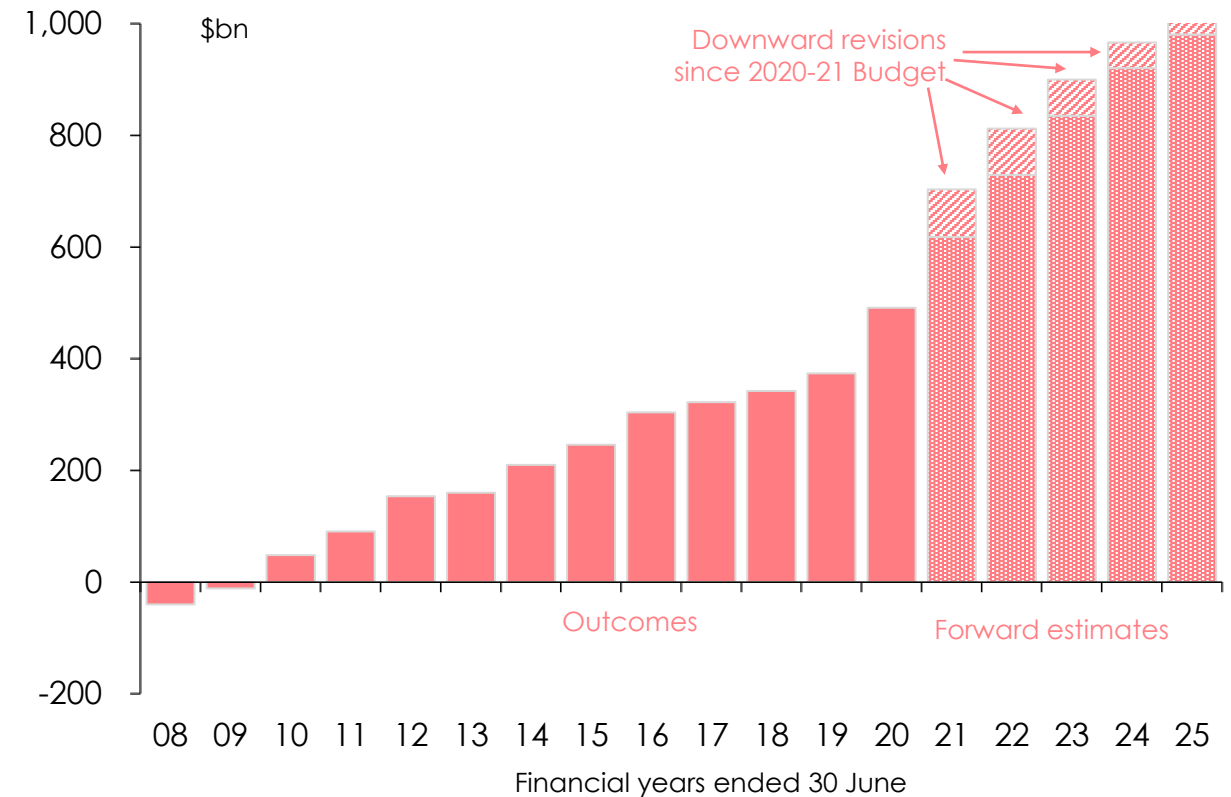
## 2021-22 Budget forward estimates compared with those from last year's (2020-21) Budget

### 'Underlying' cash balance



- ❑ The deficits for 2020-21 and 2021-22 have been 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

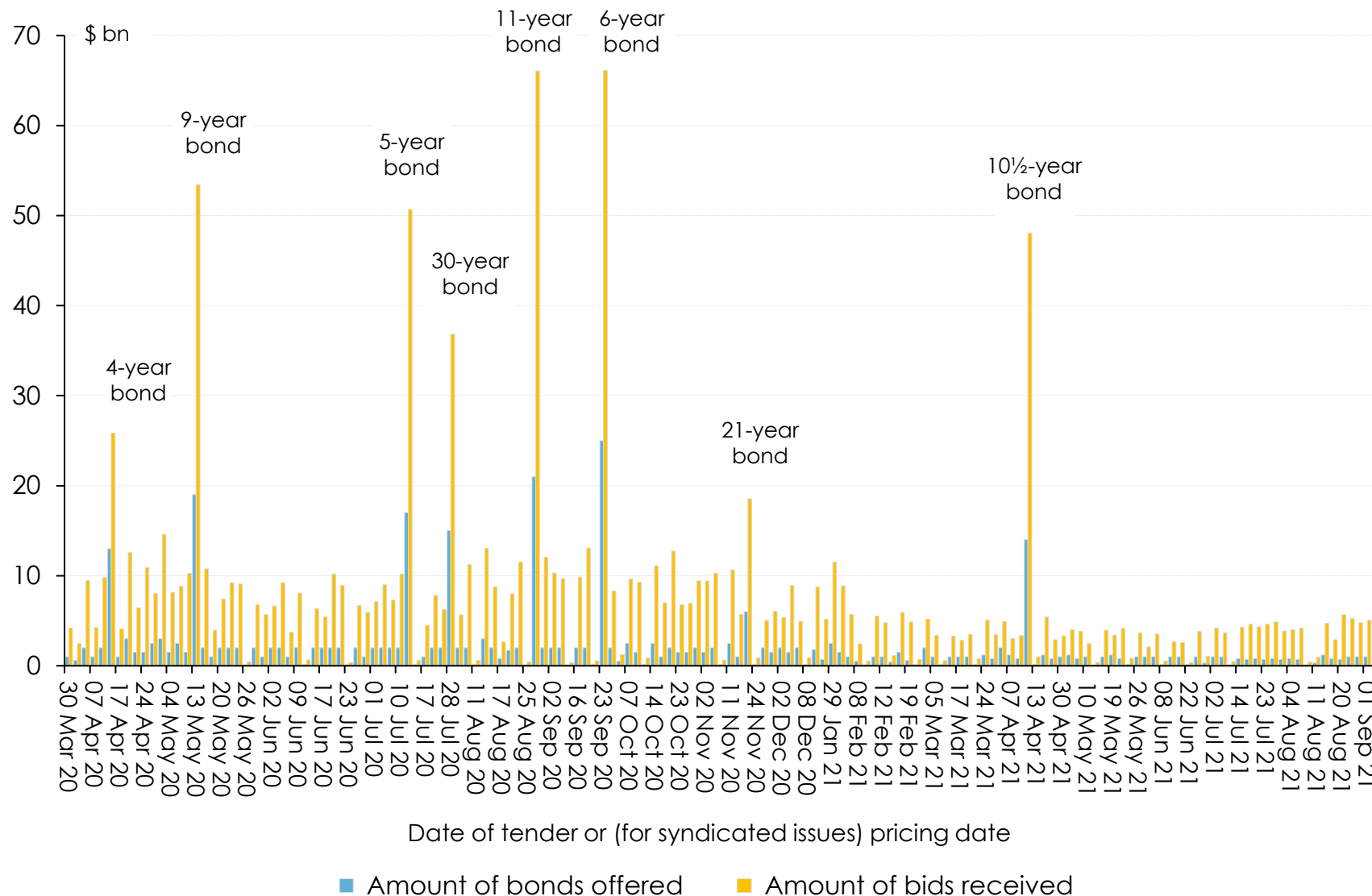


- ❑ In last year's Budget, net debt was forecast to \$966bn by 30<sup>th</sup> June 2024 – that forecast was revised down by \$46bn in the May Budget, but will probably be revised up a bit again in the December MYEFO



# The Government continues to find a ready appetite for its bond issuance – so far this fiscal year it's received \$78½bn of bids for \$15¼bn of bonds

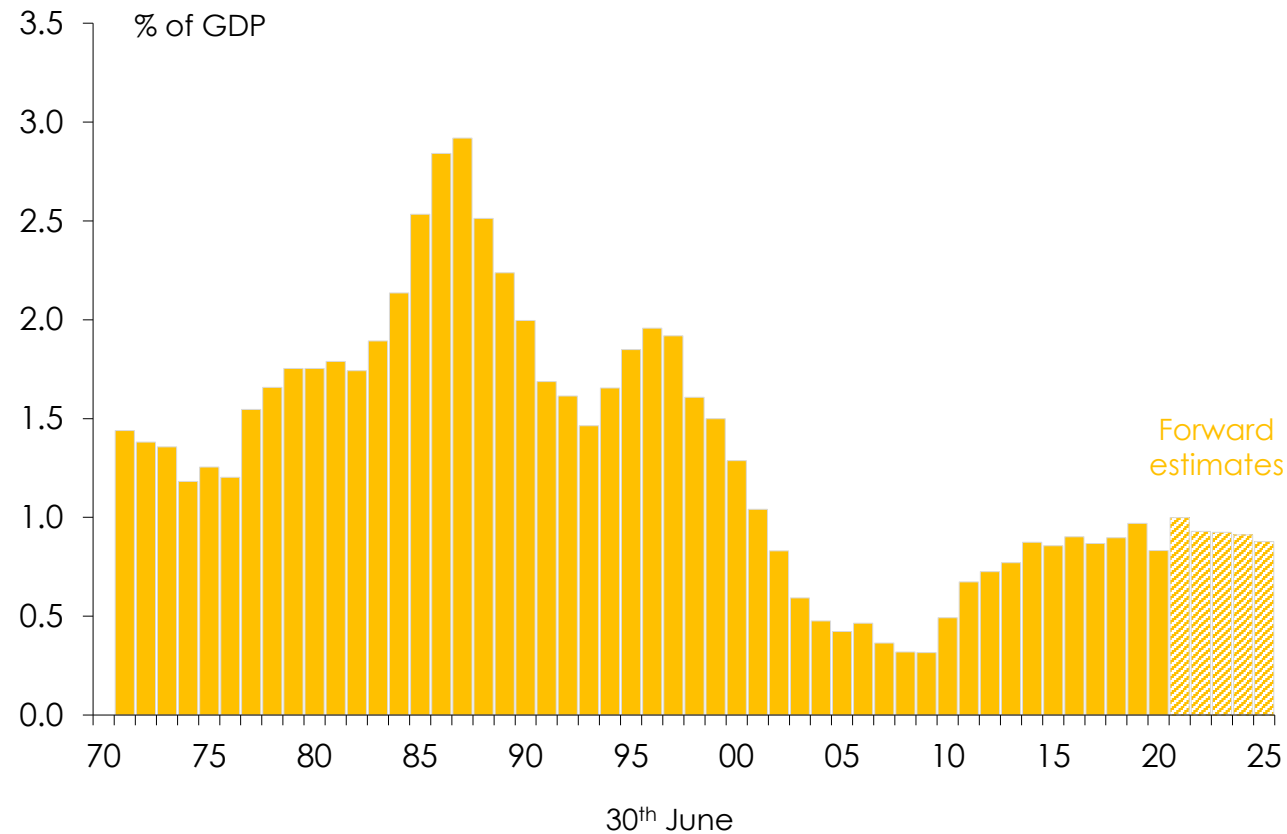
## Australian government bond issuance since March 2020



- Since 30<sup>th</sup> March 2020, the Australian Office of Financial Management has issued \$312bn of Treasury bonds – based on the volume of bids received it could have borrowed more than \$1.16 trn with yields at most 4 basis points (0.04 of a pc point) above the highest yields actually accepted
- The AOFM issued another \$2bn of bonds, this week, \$1bn of 10-year bonds at an average yield of 1.23%, and \$1bn of 6-year bonds at an average yield of 0.79%
- The AOFM received \$10¾bn of bids for these bonds
- So far this financial year, the AOFM has received bids totalling more than \$78bn for the \$15¼bn of bonds it has offered for sale – a 'coverage ratio' of over 5 times, cf. 3¾ times during the 2020-21 financial year

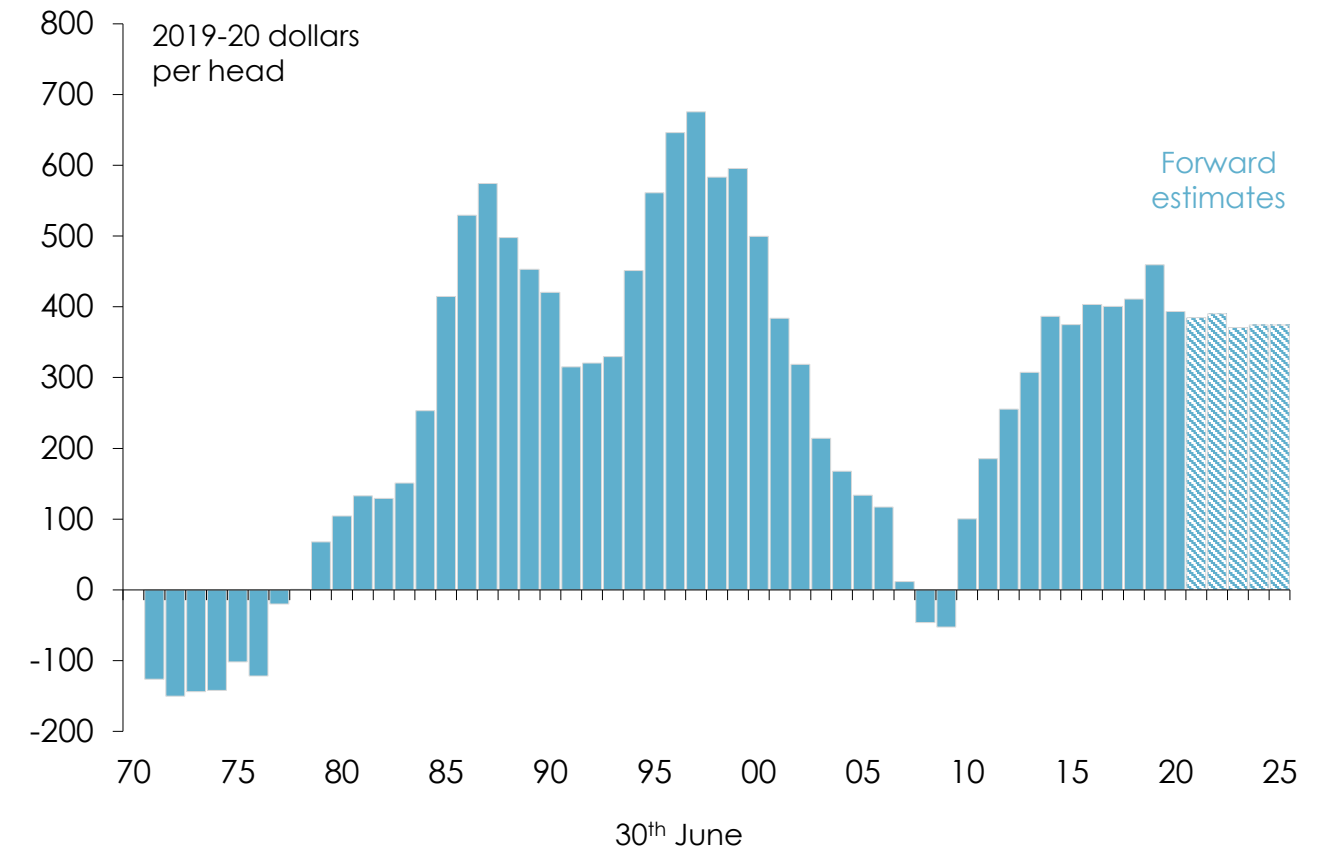
# Because interest rates are so low, the cost of servicing the debt which the Government is racking up will be low by historical standards

## Australian Government interest payments as a percentage of GDP



- ❑ As a percentage of GDP, the Government's gross interest payments will be less than they were in the 1970s, 1980s and 1990s, and less than they were in 2017-18 or 2018-19

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

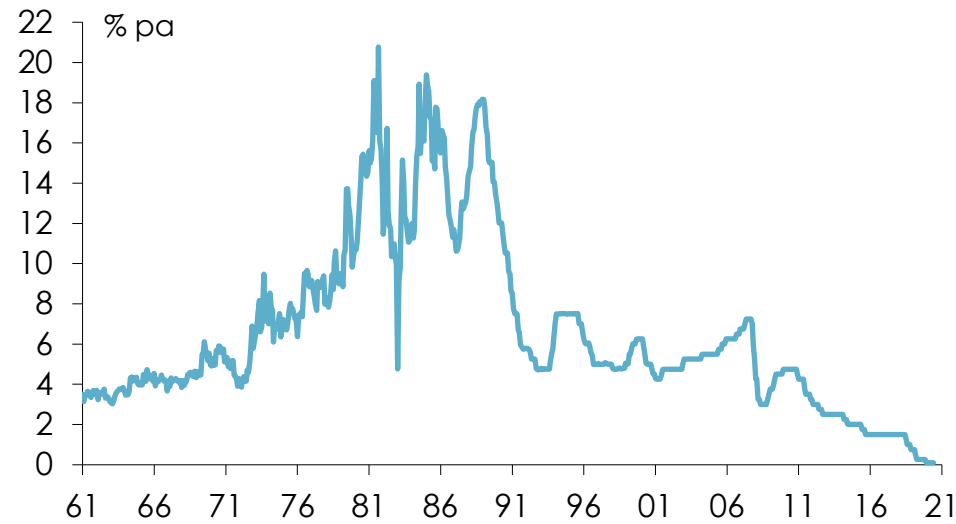


- ❑ Net interest payments per head of population will be less than they were in the second half of the 1980s, between 1993-94 and 1999-2000, or between 2015-16 and 2019-20

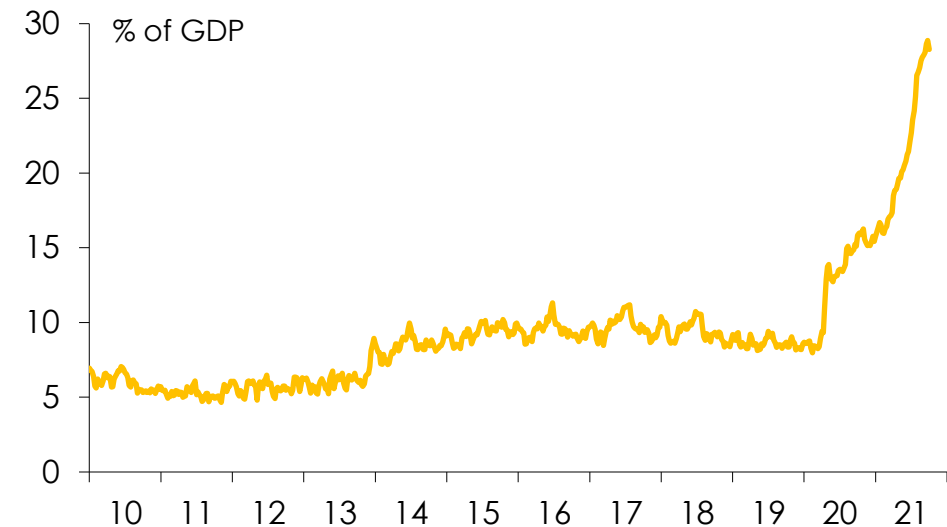


# The minutes of last month's Board meeting revived market hopes that the RBA might step up its bond purchases after all

## Reserve Bank cash rate



## Reserve Bank assets as a pc of GDP

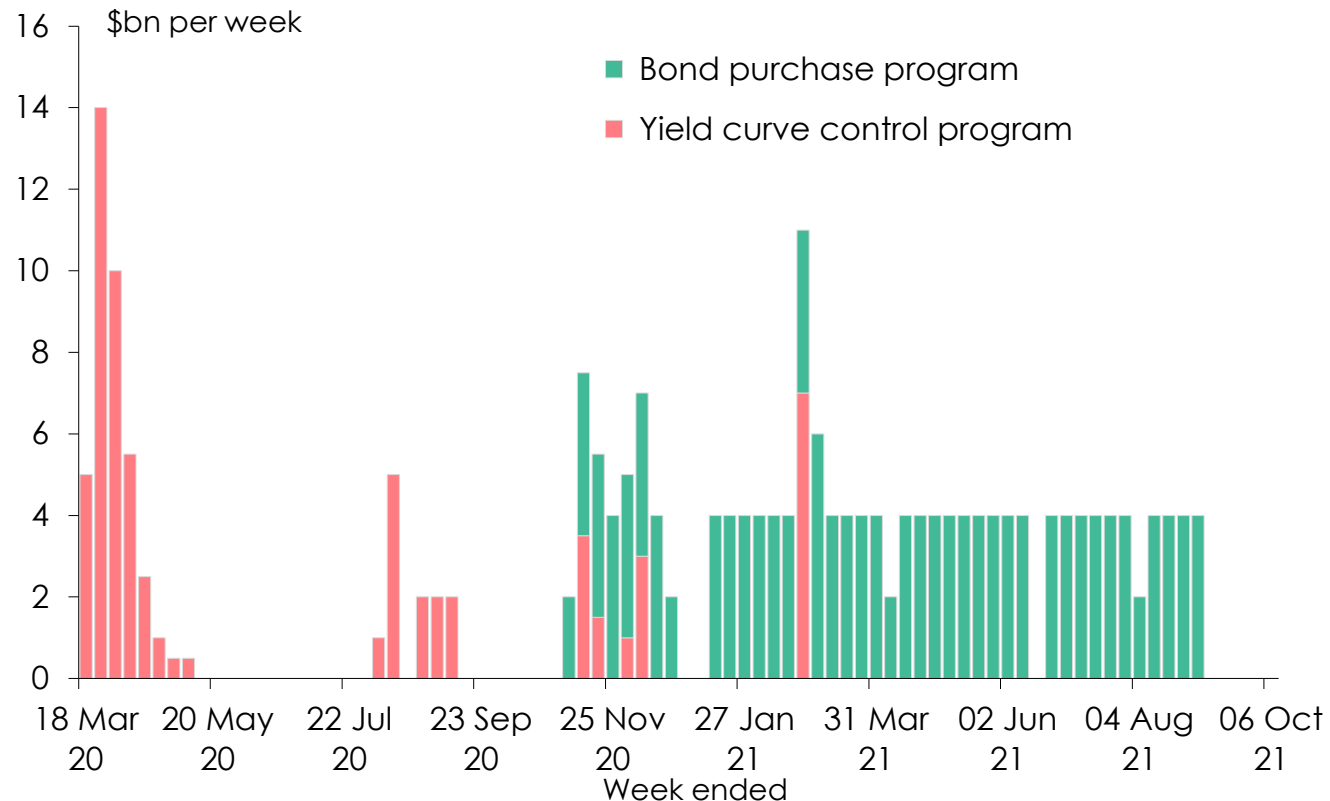


Source: Reserve Bank of Australia, [Statistical Tables](#) A3 and F1.1. See [slide 95](#) for more detail on the RBA's forecasts. [Return to "What's New"](#).

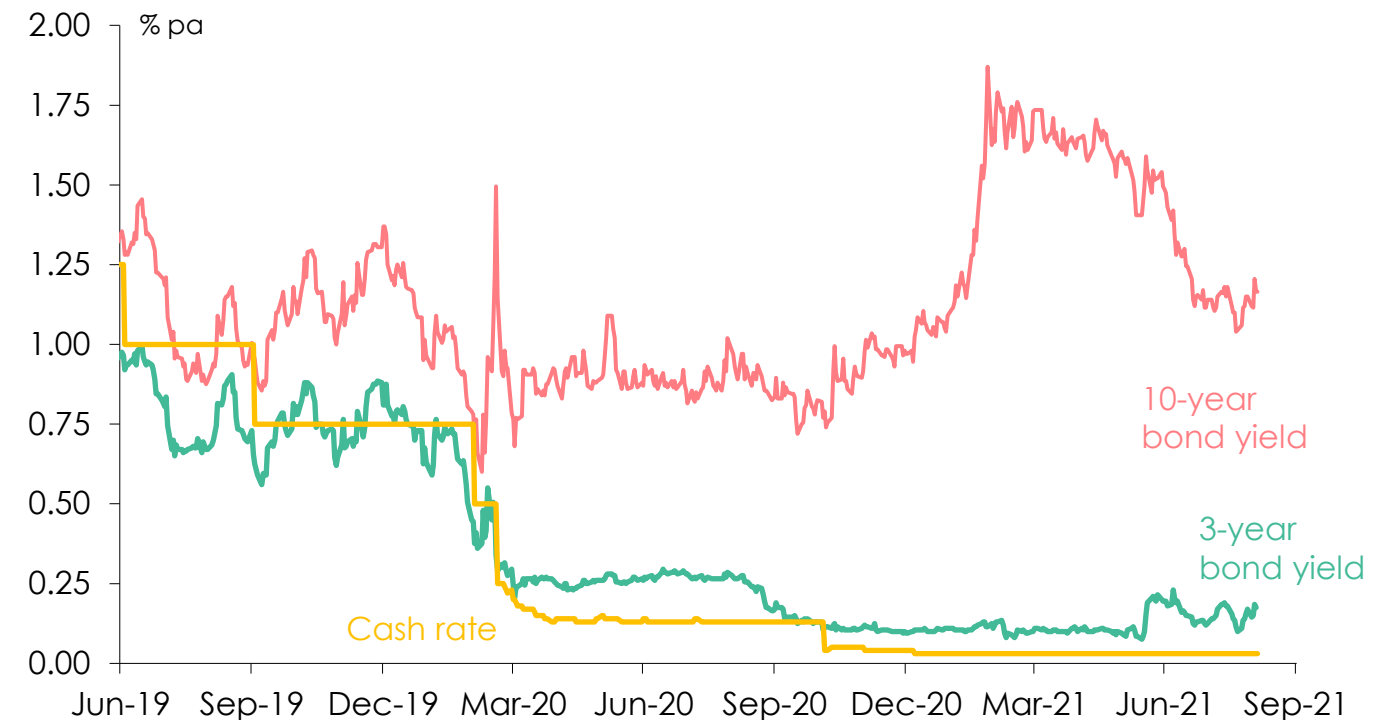
- ❑ At its August meeting, the RBA Board left all of its monetary policy settings unchanged
  - in particular, the RBA [re-stated](#) its intention to 'taper' its bond purchase program from \$5bn a week to \$4bn a week from "early September" until "at least mid November"
  - some had expected that the 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 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"
- ❑ However the [minutes](#) of that meeting indicated a readiness to "act in response to further bad news on the health front", and bond markets priced in that readiness

# Australian bond yields resumed their upward drift after the release of the June quarter GDP data, narrowing the spread vs US yields

## RBA open market bond purchases



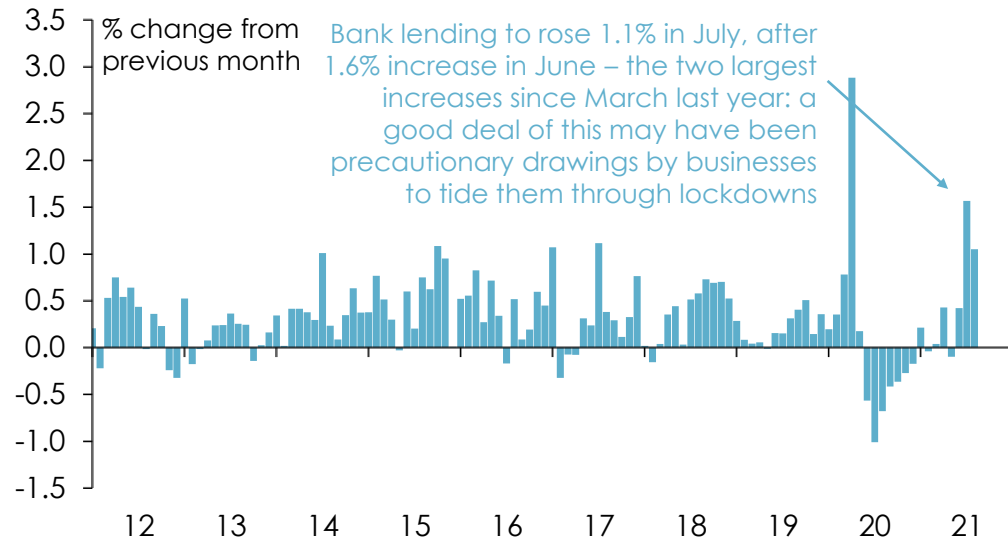
## Interest rates



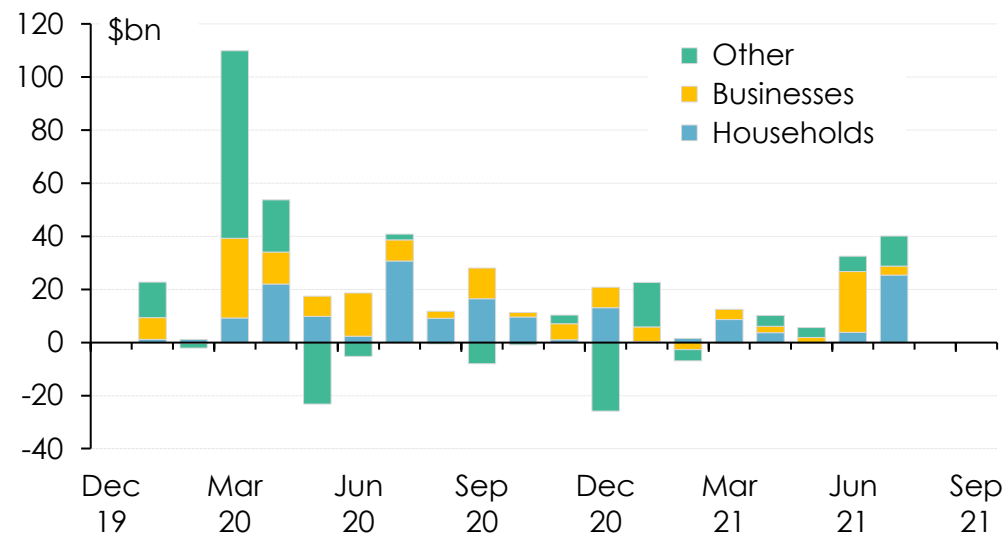
- ❑ After falling in the first half of the week, bond yields resumed their upward drift following the release of the stronger-than-expected Q2 GDP figures on Wednesday – 3- and 10-year yields both finishing 2bp higher at 0.18% and 1.17% respectively
- ❑ Unlike last week, however, US yields declined, so (negative) spreads between Australian and US yields narrowed further, by 6 bp in the case of 10-year yields
- ❑ Meanwhile the RBA bought another \$4bn of Commonwealth and \$1bn of state and territory bonds, taking its total purchases to \$275bn

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

## Business credit outstanding



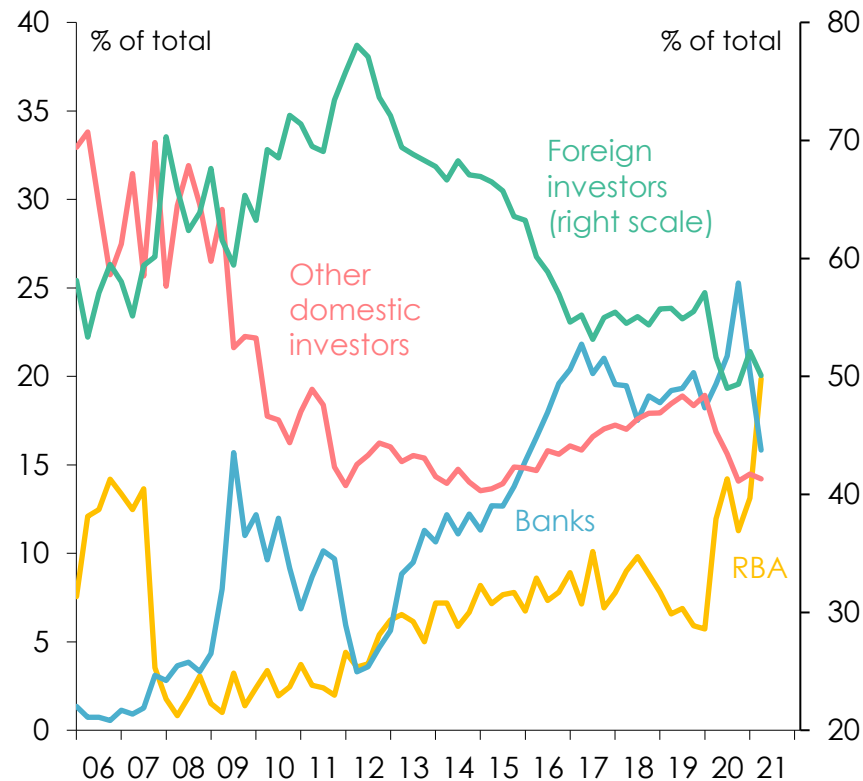
## Monthly change in bank deposits



- ❑ Banks have cut interest rates on small business loans by more than the official cash rate since June 2019 (when the RBA started cutting rates again)
- ❑ Banks have made credit readily available when needed – in the early stages of the pandemic and during the most recent lockdowns
- ❑ Banks extended ‘repayment holidays’ to business and home mortgage borrowers who requested it
  - in May last year, 11% of mortgage borrowers and 18% of SME borrowers were deferring debt service payments
- ❑ Bank deposits have swelled by \$376bn (17¾%) 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 \$167bn (16¾%) since last February – of which \$36bn has been sourced from early release of superannuation savings – while business deposits have risen by \$141bn (23¾%)

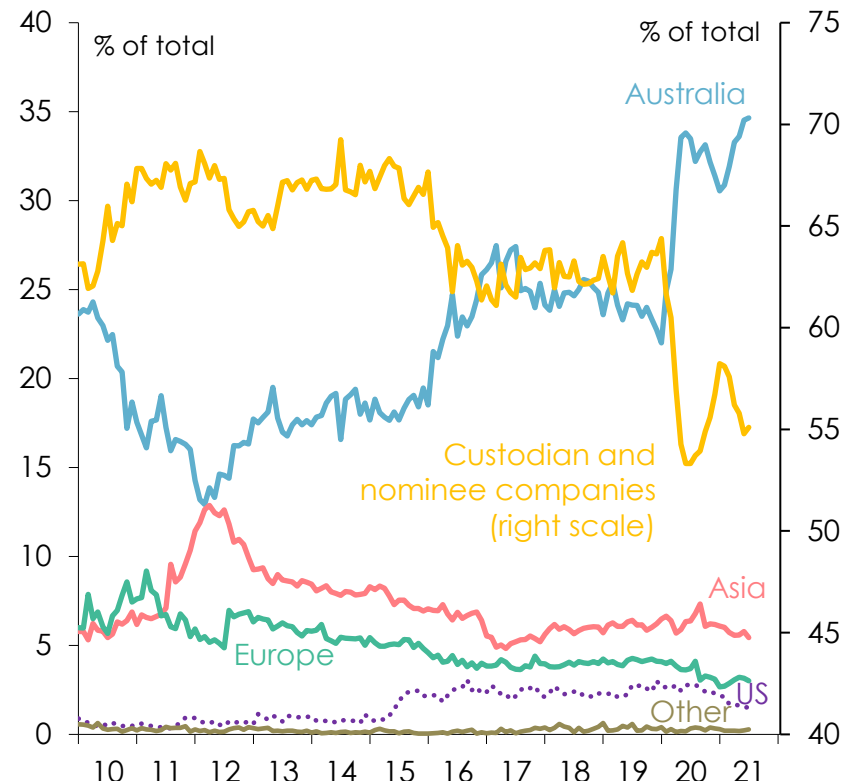
# The RBA has (indirectly) absorbed almost half the increase in government debt since the end of 2019, banks 23% and foreign investors 28%

## Holder of Australian Government bonds



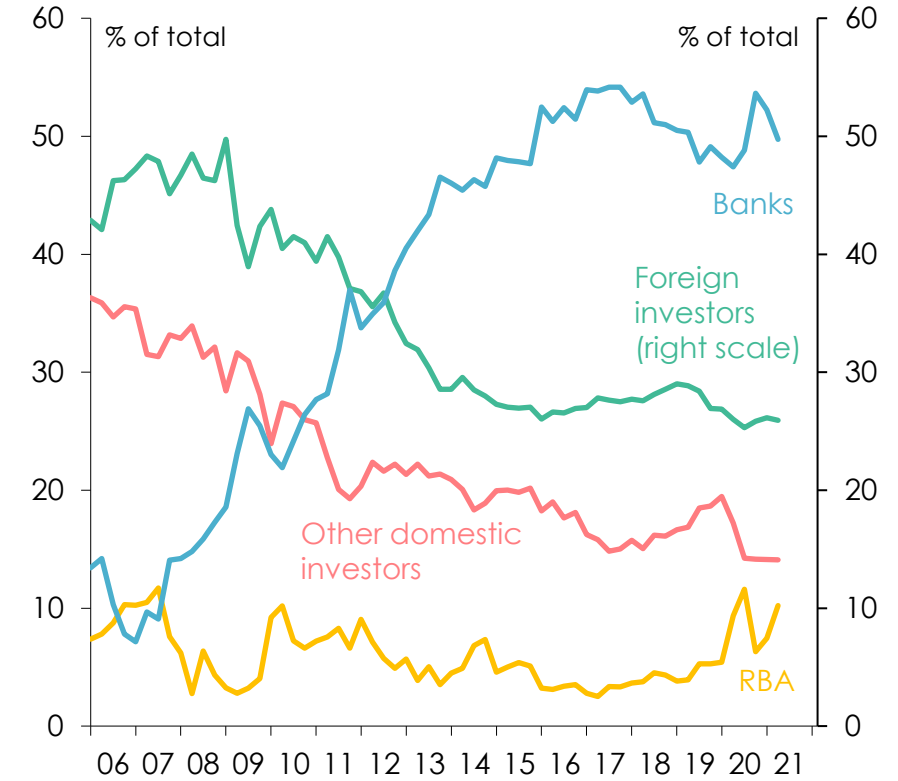
Australian Gov't bonds on issue have increased by \$219bn since the end of 2019 – of which \$133bn (61%) have been absorbed by the RBA, \$65bn by foreigners and \$20bn by banks

## Nationality of Australian Government bond holders



Domestic holdings of Australian Gov't bonds (including RBA) rose by \$57bn over the 12 months to June while identified foreign holdings fell \$7bn – although unidentified holdings (which include many foreigners) rose by \$85bn

## Holder of State and Territory Government bonds

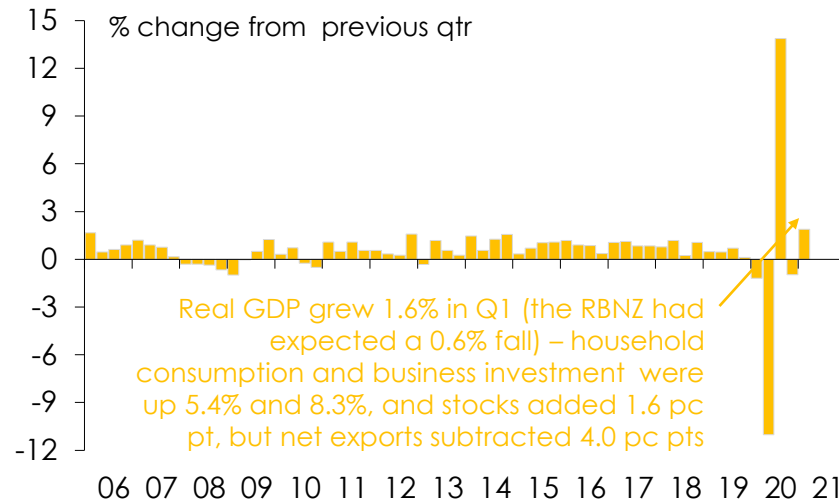


State & Territory Gov't bonds on issue increased have increased by \$101bn since the end of 2019, of which \$54bn have been absorbed by banks, \$24bn by the RBA and \$23bn by foreigners

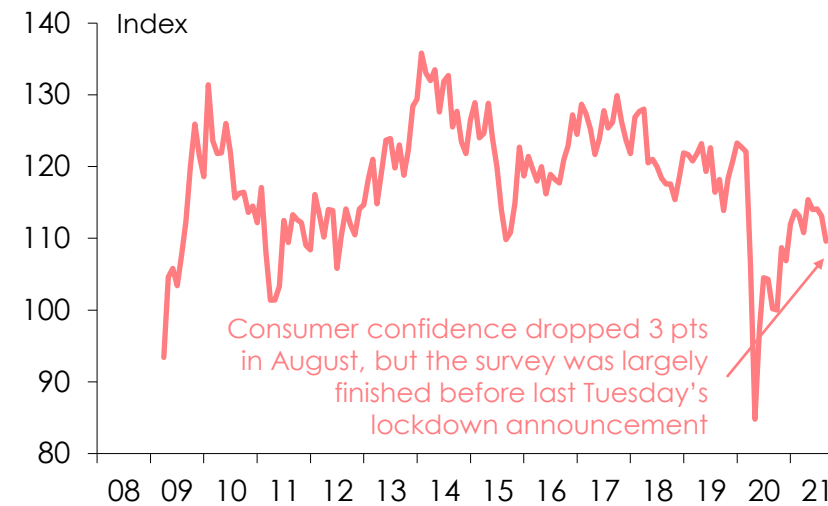
**New Zealand**

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

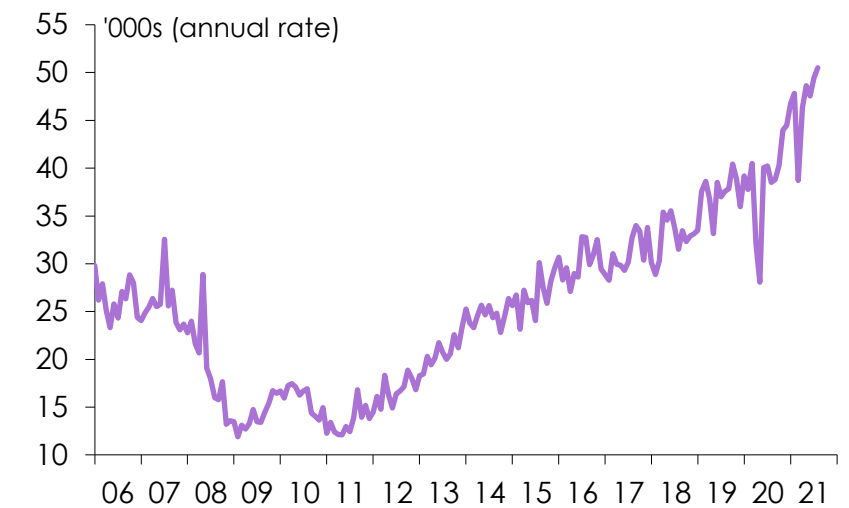
## Real GDP



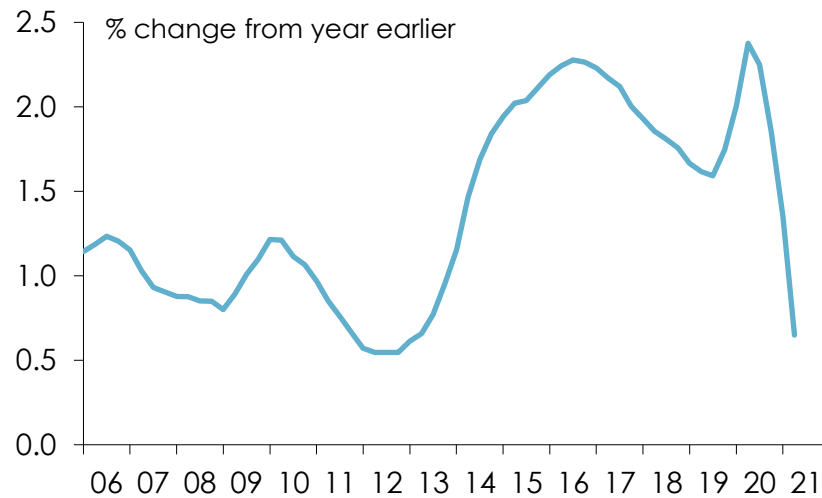
## Consumer confidence



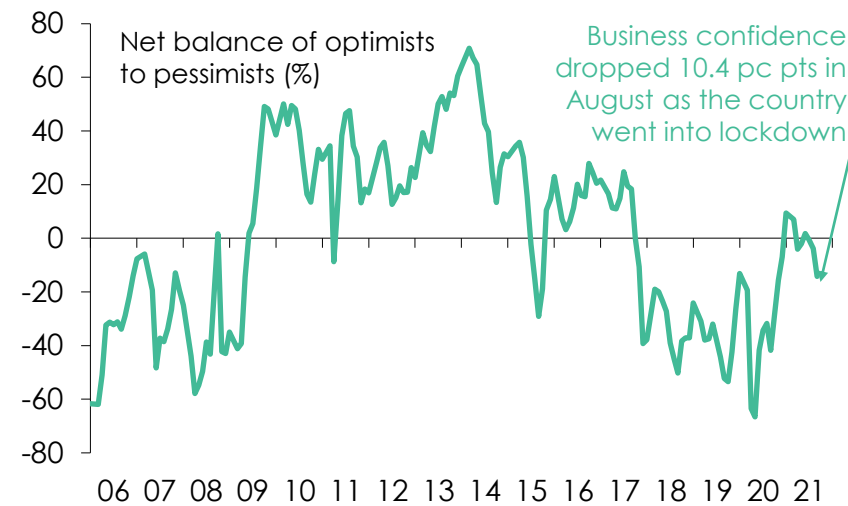
## Dwelling 'consents' (permits)



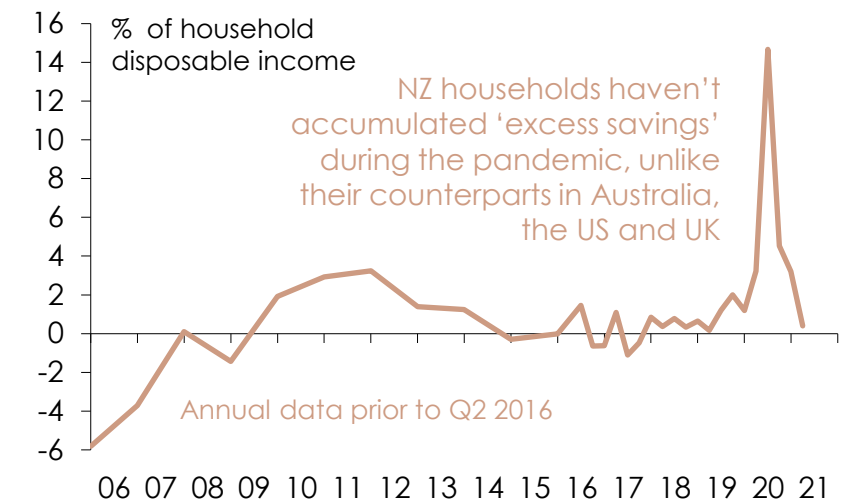
## Population growth



## Business confidence



## Household saving ratio

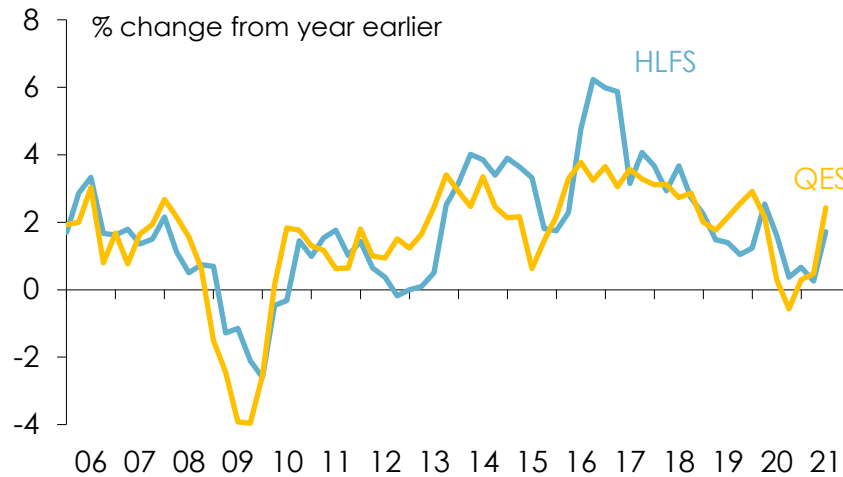


Note: New Zealand uses GDP(P) as its preferred measure of GDP. June quarter GDP data will be released on 16<sup>th</sup> September.  
Sources: [Statistics NZ](#); NZ Treasury, [Budget Economic and Fiscal Update 2021](#); ANZ-Roy Morgan; [ANZ Bank NZ](#). [Return to "What's New"](#).

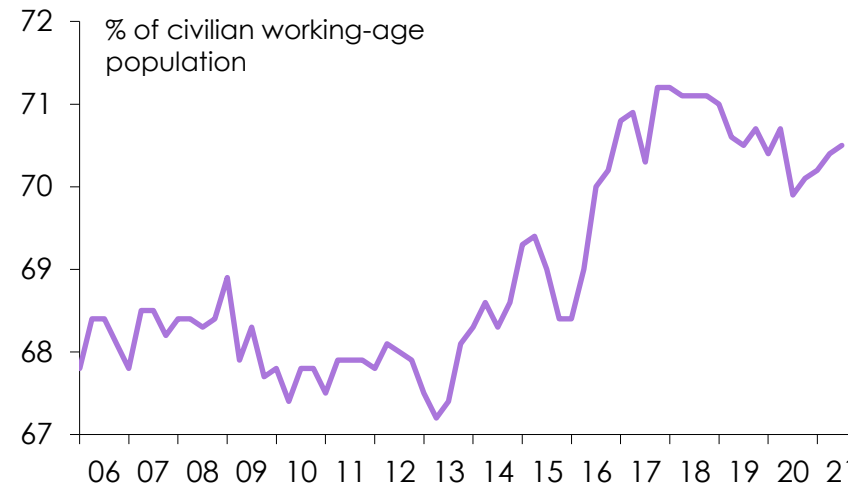


# Employment rose 1.1% in Q2 (to 1.3% above pre-pandemic peak) and unemployment dropped to 4%

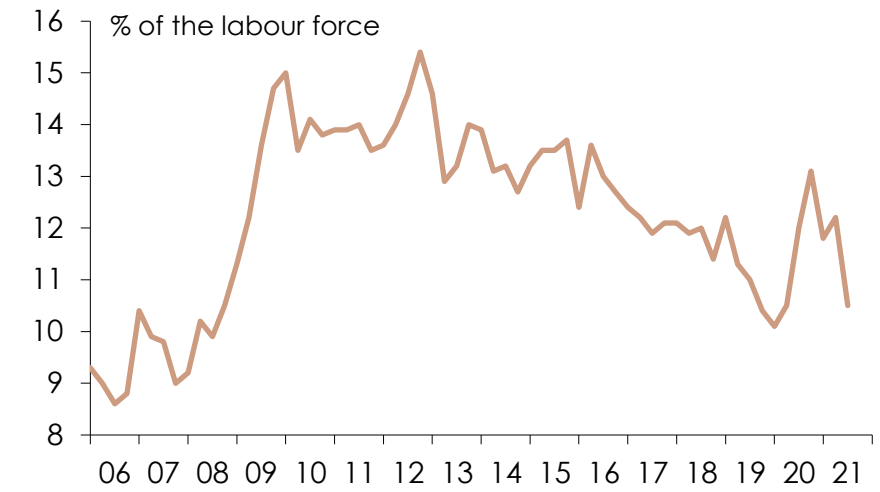
## Employment



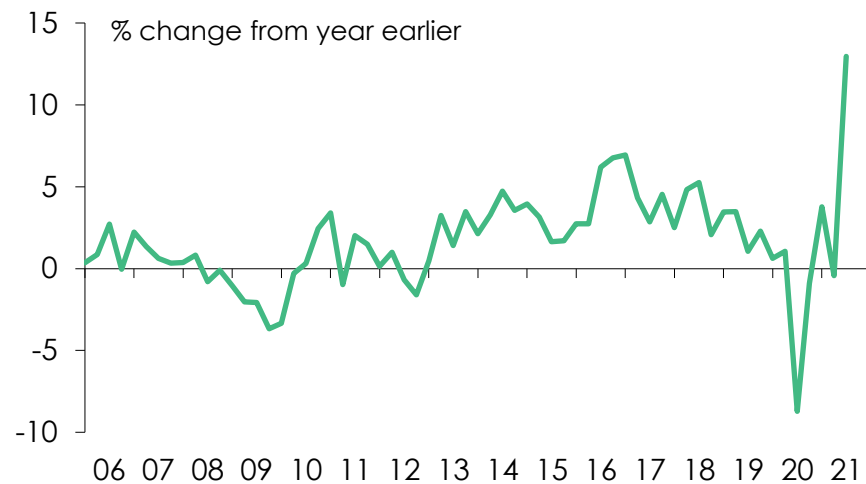
## Labour force participation rate



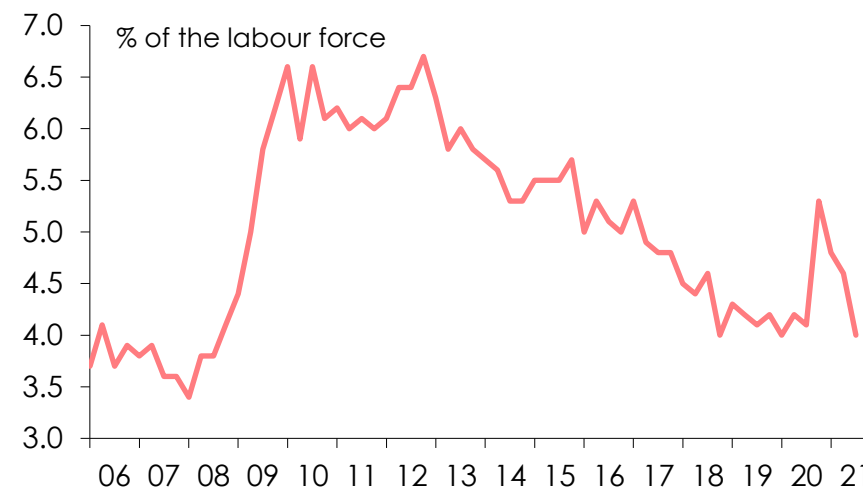
## Labour force under-utilization rate



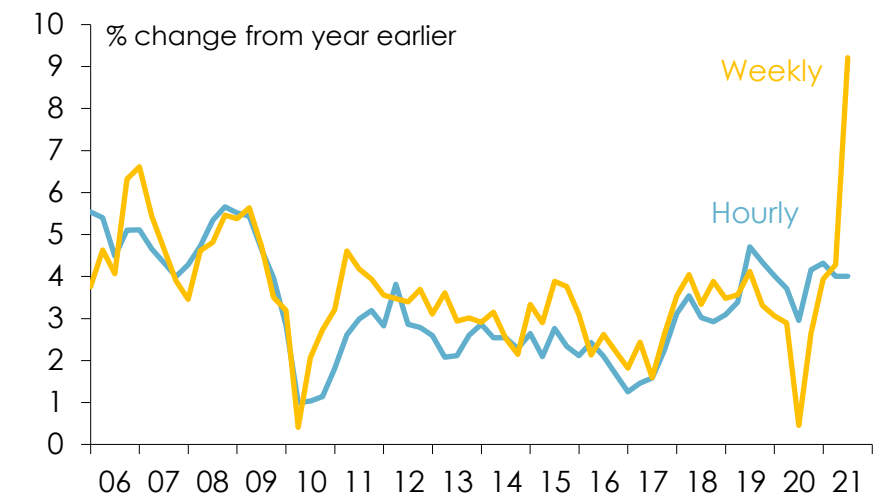
## Hours worked



## Unemployment rate



## Average weekly earnings

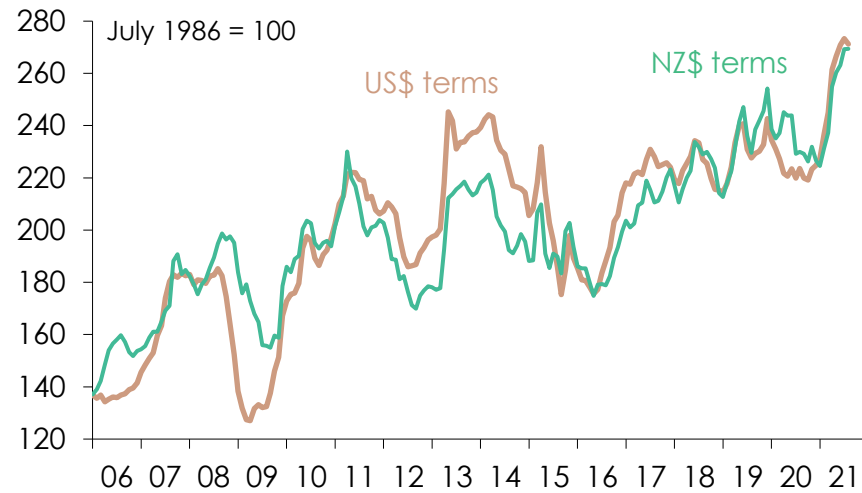


Note: New Zealand labour force data are only published quarterly. There are two 'headline' series on employment – the household labour force survey (HLFS) which counts the number of people in employment during the quarter; and the quarterly employment survey (QES), which counts the number of 'filled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

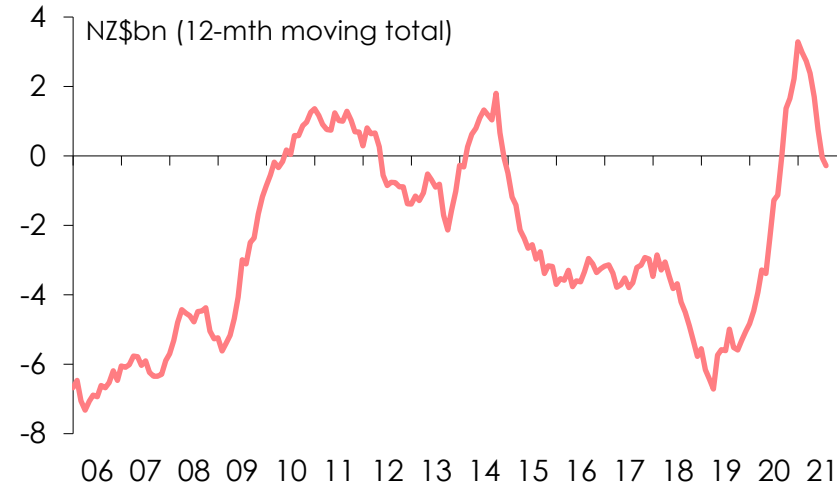
Source: [Statistics NZ](https://www.stats.govt.nz/). September quarter data will be released on 3<sup>rd</sup> November. [Return to "What's New"](#).

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

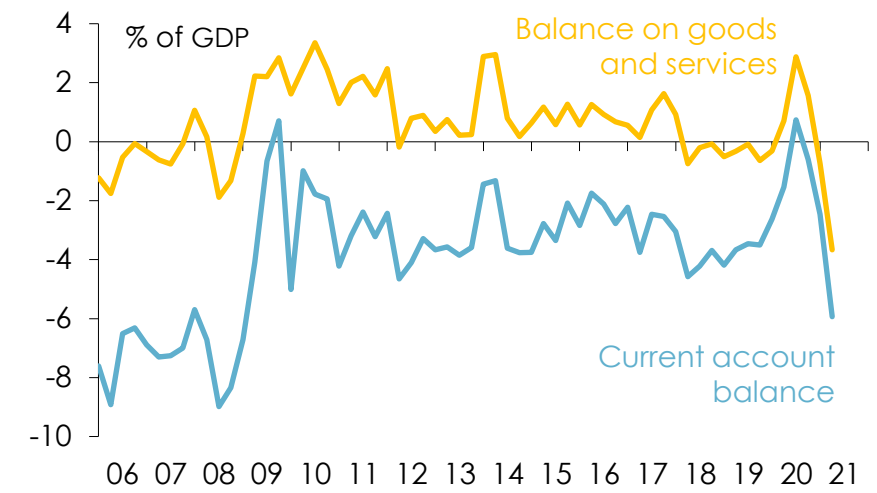
## Export commodity prices



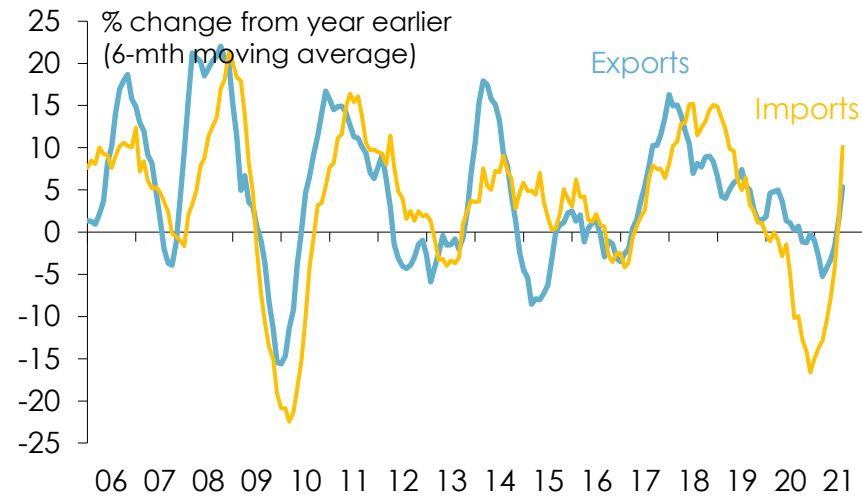
## Merchandise trade balance



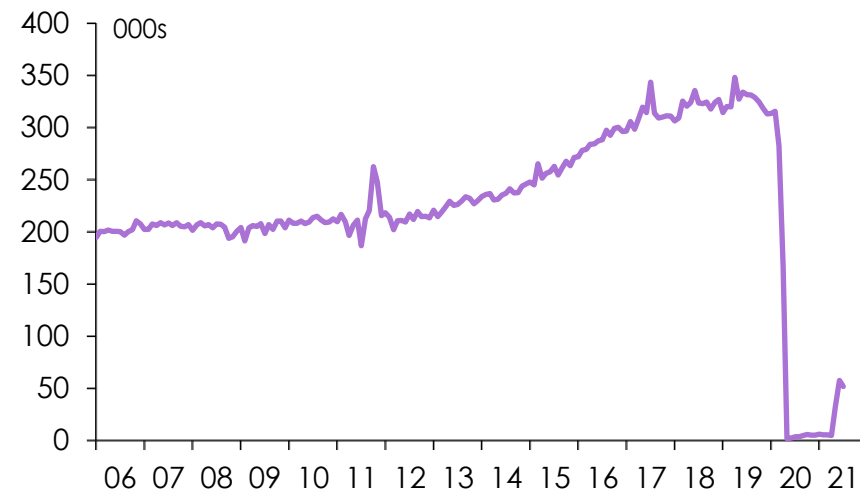
## Balance of payments



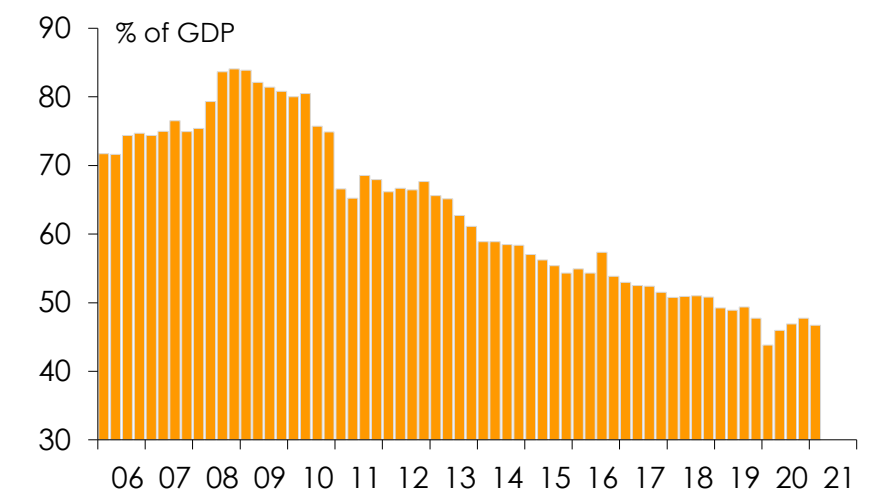
## Merchandise exports and imports



## Overseas visitor arrivals



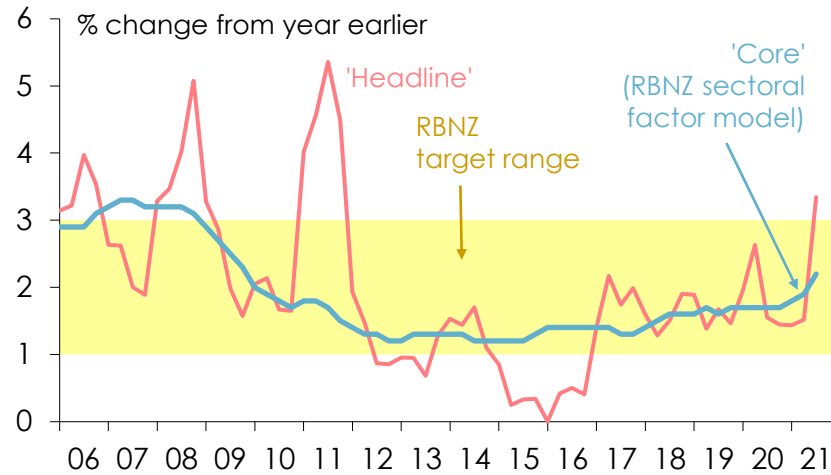
## Net foreign debt



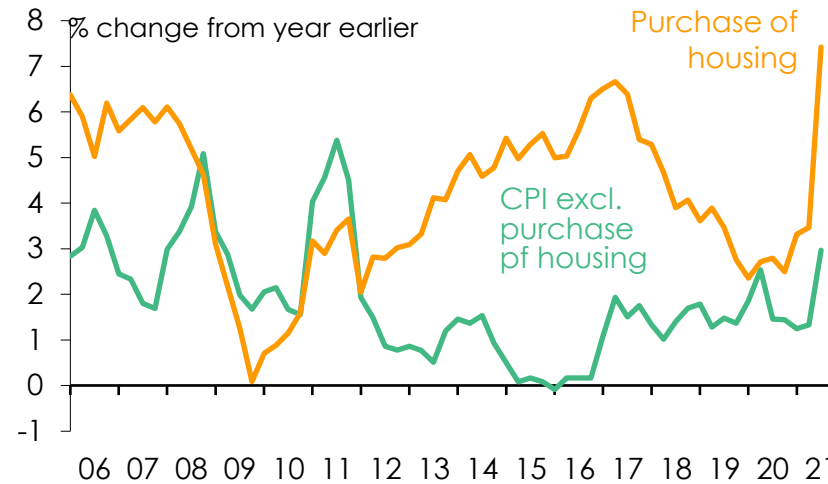
Note: latest merchandise trade data is for July: August data will be released on 24<sup>th</sup> September; latest balance of payments and net foreign debt data is for the March quarter; June quarter data will be released on 15<sup>th</sup> September. Sources: [ANZ Bank](#); [Statistics New Zealand](#). [Return to "What's New"](#).

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

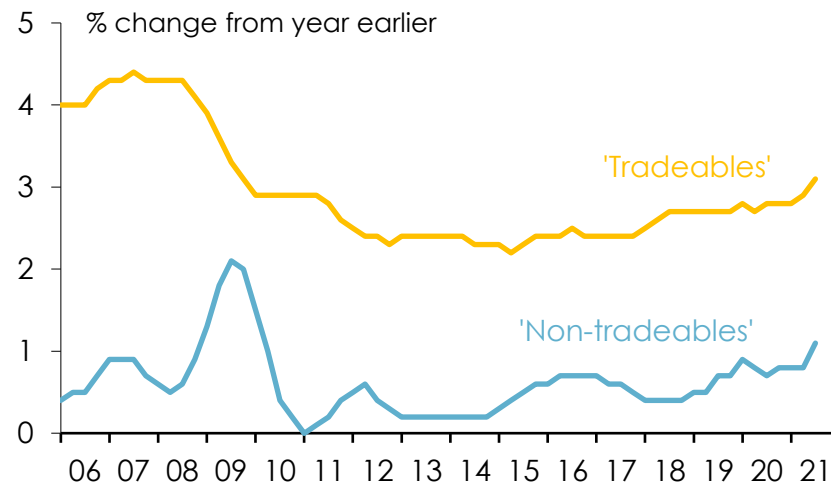
## Consumer prices



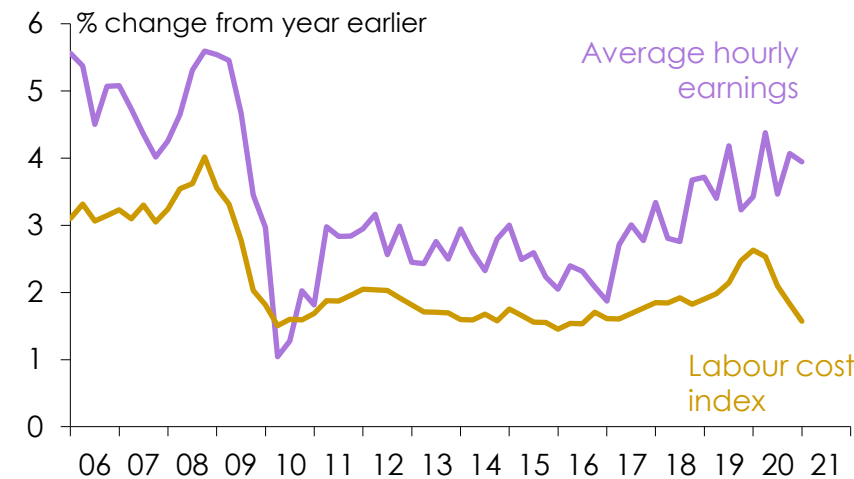
## Housing costs in the CPI



## Components of 'core' inflation



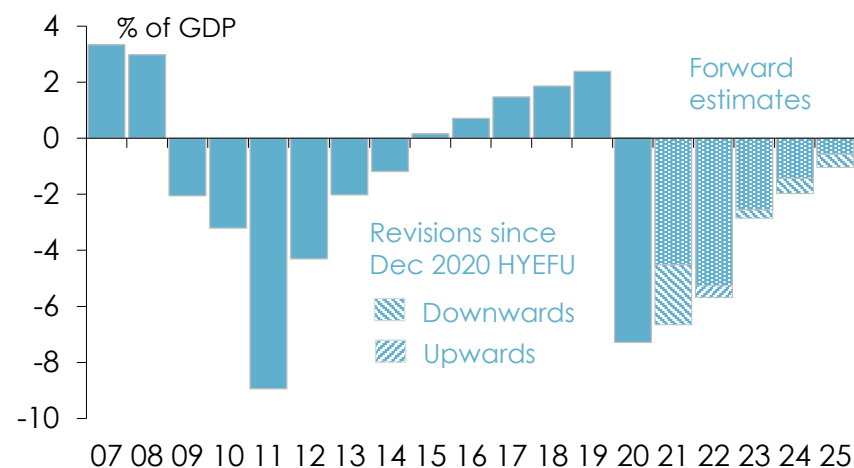
## Labour costs



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

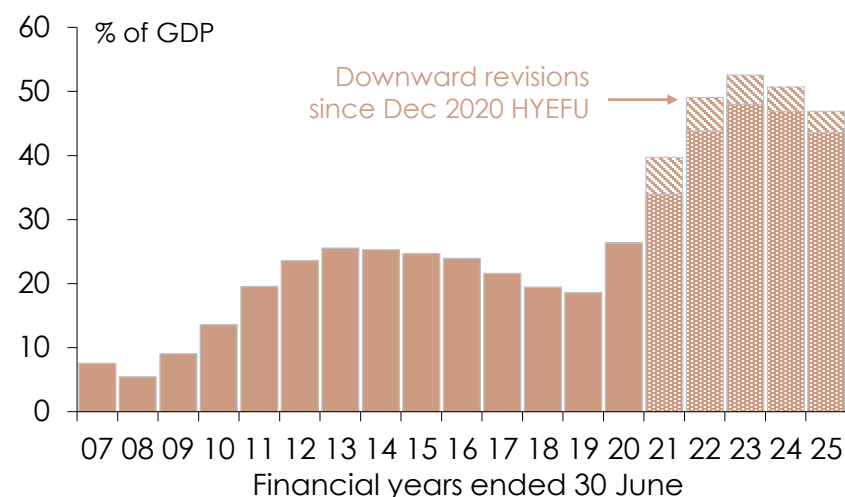
# The 2021 NZ Budget uses gains from an improved economic outlook to fund additional spending as well as a slightly improved 'bottom line'

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



- 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 HYEPU) and by 3.7% pa over the following two years (cf. 3.1% in HYEPU)
  - 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 HYEPU) and then decline to 43.6% of GDP by June 2025, and longer term to drop below 20% of GDP in 2034

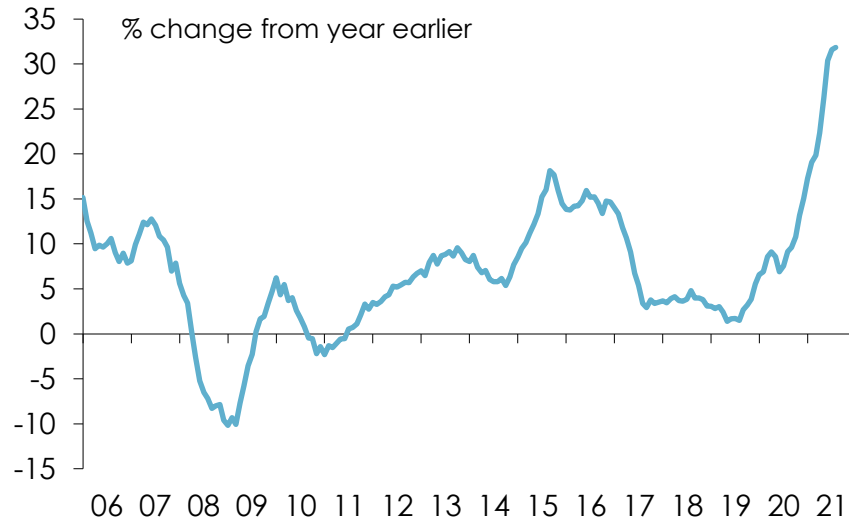
## NZ 'core Crown debt'



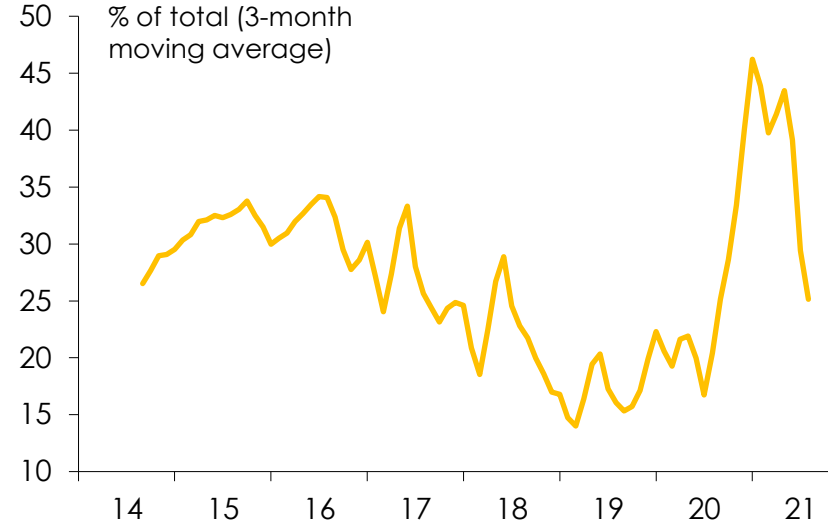
Note: The measure of the NZ Government budget balance is 'OBEGAL', which stands for 'operating balance excluding gains and losses' (an accrual accounting measure). Net 'core Crown debt' excludes assets of the NZ Super Fund, student loans and other advances, and financial assets held for public policy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

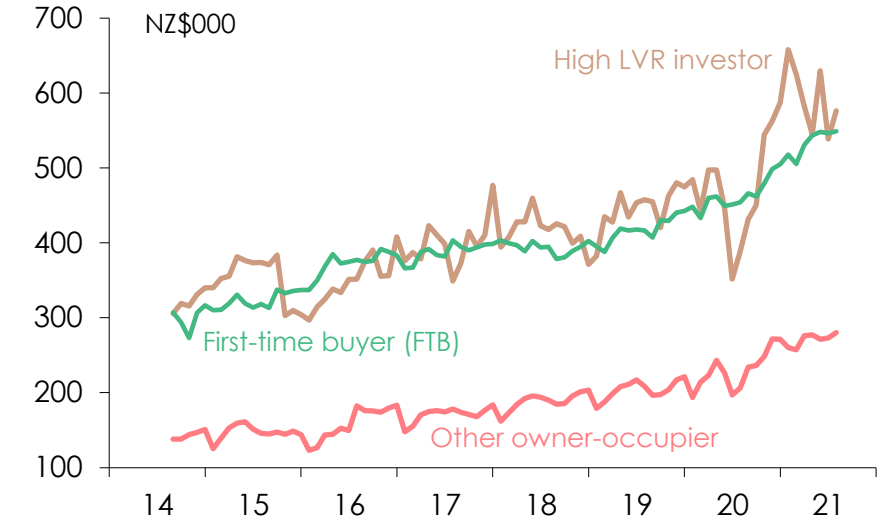
## House price inflation



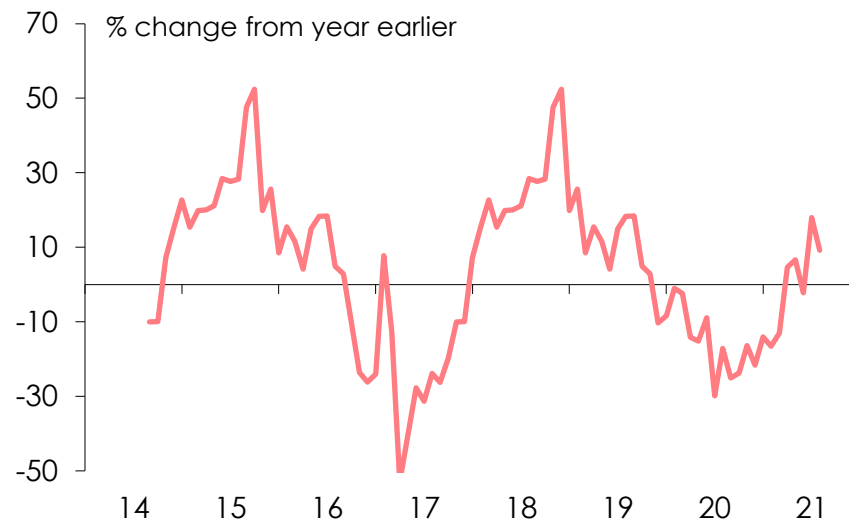
## Lending to investors as pc of total



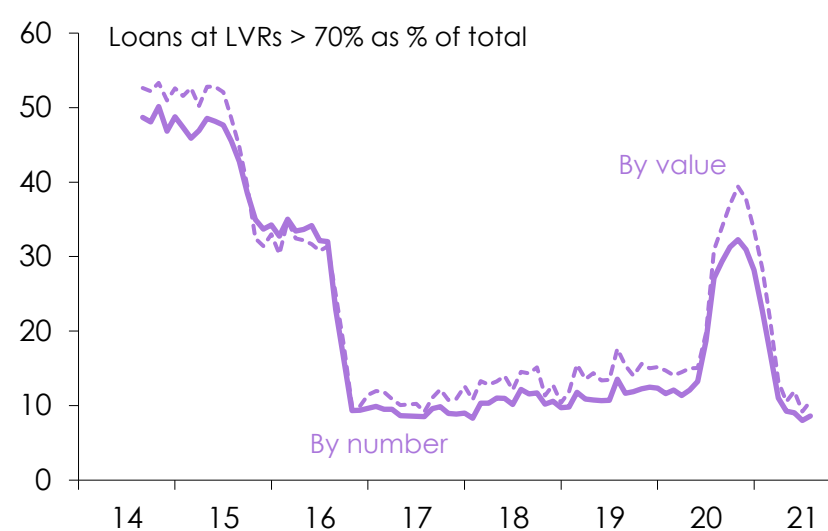
## Average new mortgage



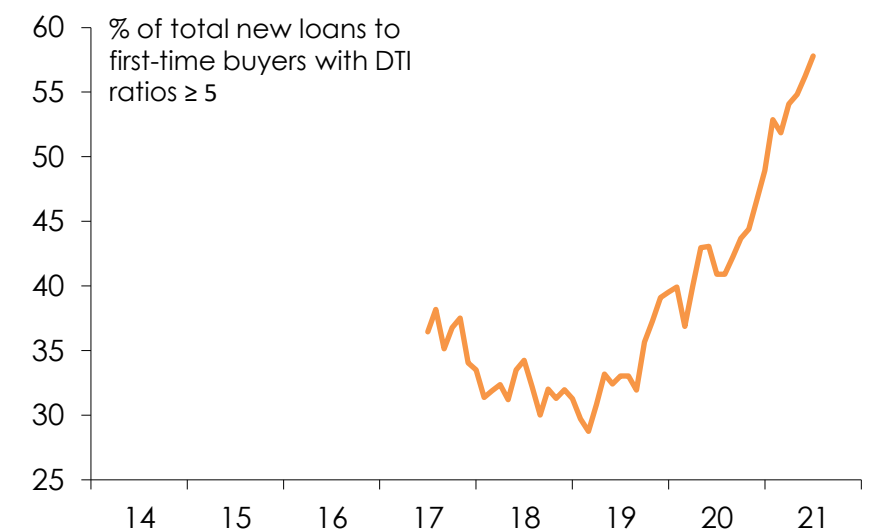
## Mortgage lending growth



## 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"](#).



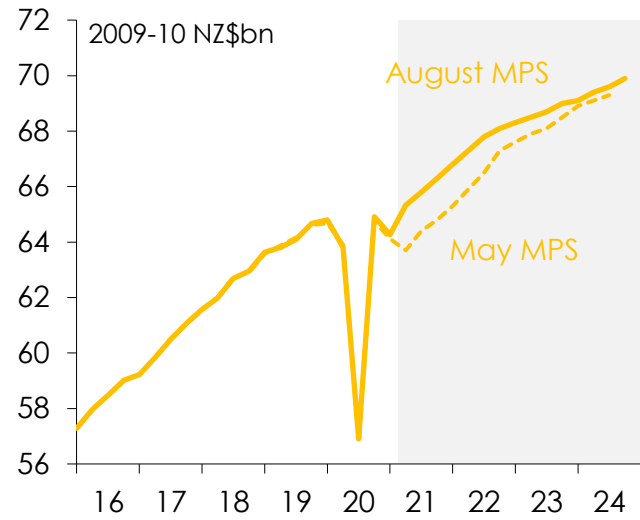
# The NZ Government and the RBNZ continue to seek to dampen speculative demand for property, including this week foreshadowing tighter LVR limits

- ❑ This week the RBNZ [announced](#) that it was considering further lowering the limit on the proportion of mortgages that can be written at LVRs of over 80% from 20% to 10%, with effect from 1<sup>st</sup> October
- ❑ This latest announcement comes after the RBNZ and the Minister of Finance last month 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
- ❑ These steps in turn follow 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, removing the tax-deductibility of interest on property investment loans, and including capital gains on investment properties (other than 'new builds') held for less than 10 years in income for tax purposes

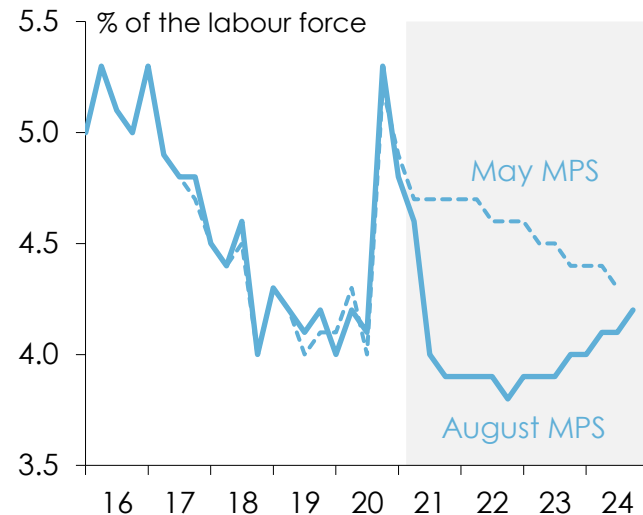


# The RBNZ's Monetary Policy Committee kept the cash rate on hold last month, but only because of the latest Covid outbreak and lockdown

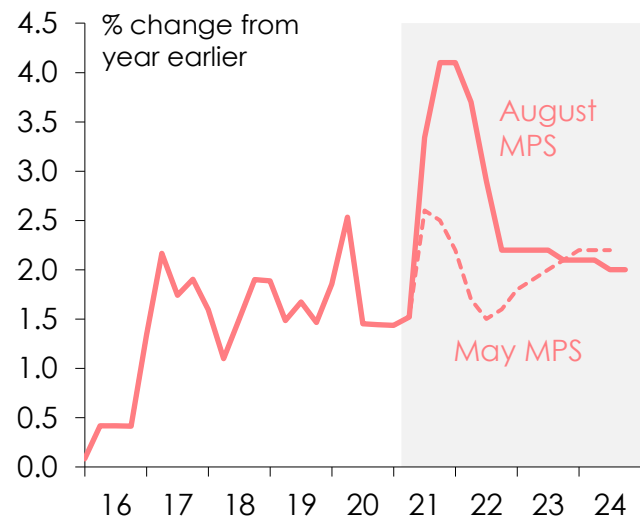
## GDP



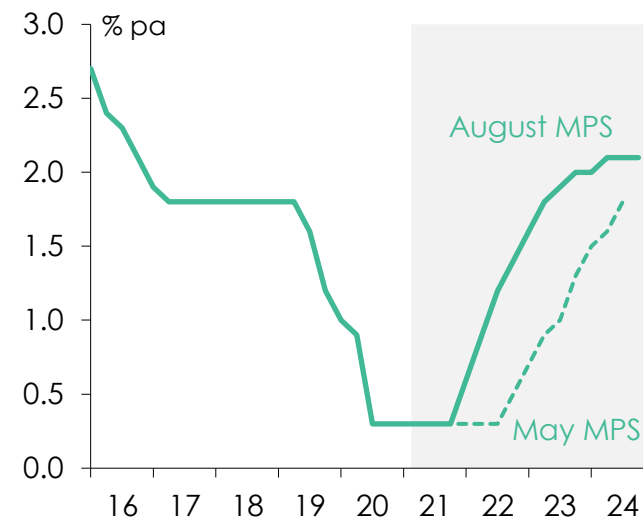
## Unemployment



## Inflation



## Official cash rate

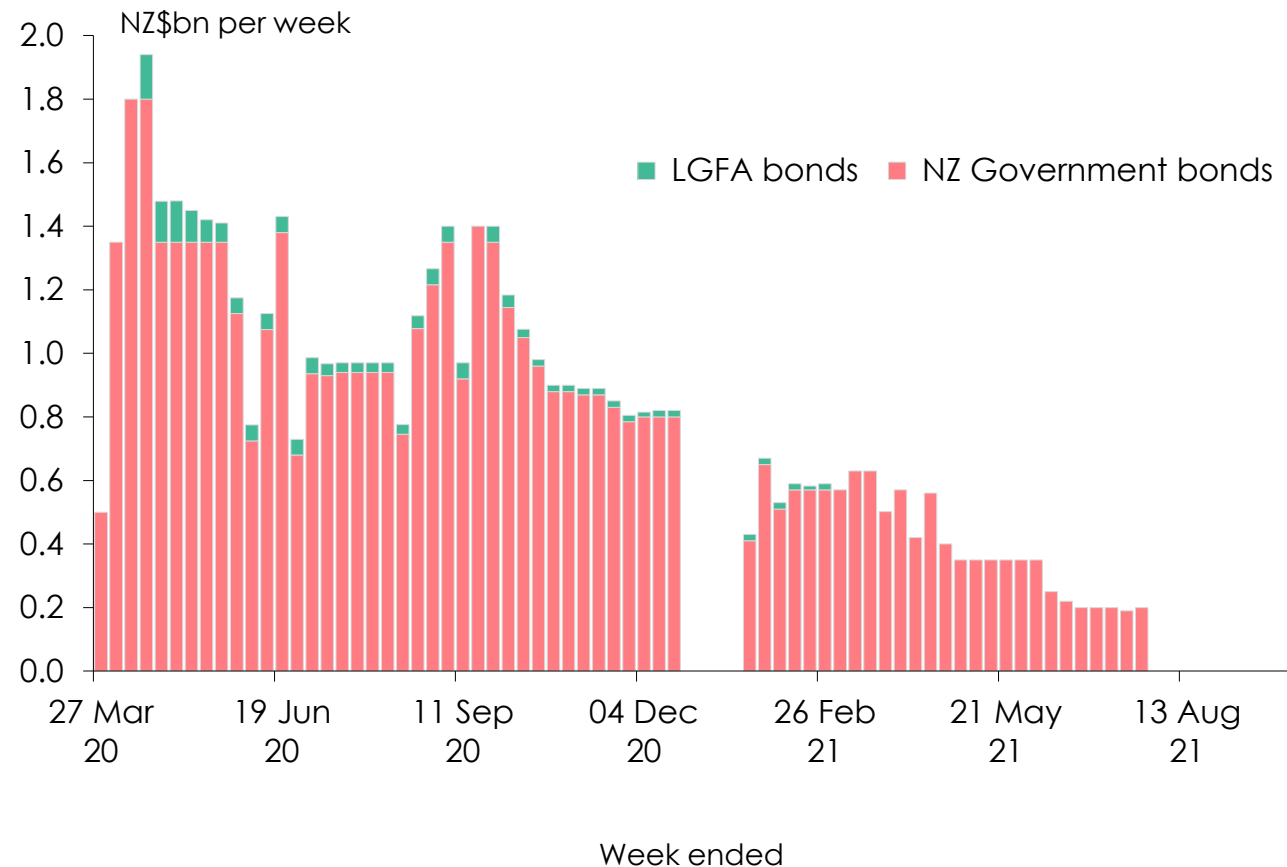


- ❑ The RBNZ had been widely expected to raise its OCR at last month's MPC meeting, but it instead **decided** to keep it at 0.25% "for now", given the "heightened uncertainty with the country in a lockdown" imposed the day before
- ❑ This was notwithstanding the MPC's view that "their least regrets policy" was to have raised the OCR "so as to anchor inflation expectations and to contribute to maximum sustainable employment"
- ❑ The MPC assessed that employment was "at or above its maximum sustainable level", having regard to the inability of employers to "source labour from abroad" and to the fact that the "additional labour capacity" within NZ was largely among people who had previously worked in tourism and who "may not always have the skills needed" ...
- ❑ ... which in turn meant "increased wage pressures at any given unemployment rate", of which "the latest labour market data provided early evidence"
- ❑ The MPC also judged that NZ house prices were "above their sustainable level"
- ❑ The RBNZ assessed that the nominal neutral interest rate is about 2% - and its latest projections suggest that the OCR (which it identified as the "preferred tool" for adjusting monetary policy") will reach that level by Q3 2023

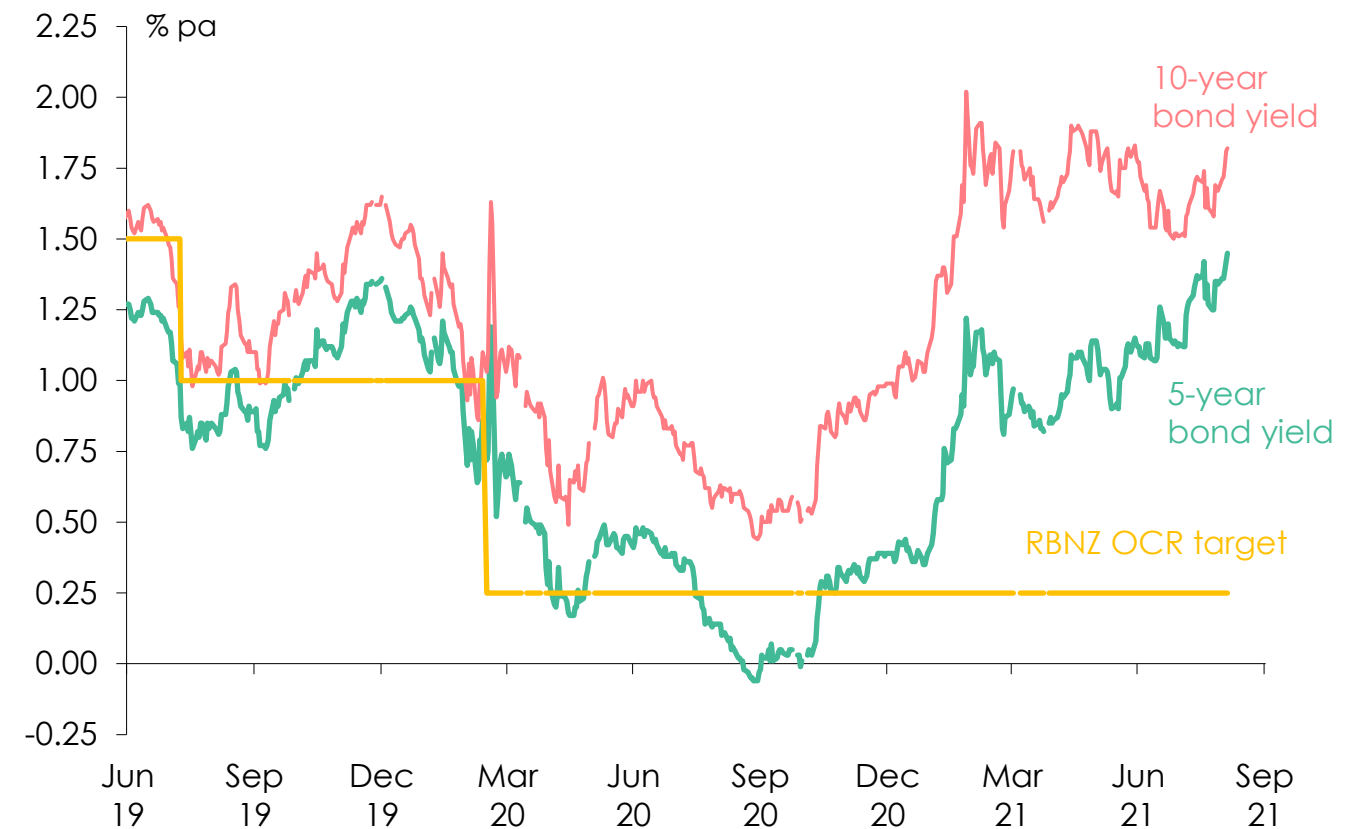
Source: Reserve Bank of New Zealand, [Monetary Policy Statement August 2021](#). The next MPS will be released on 24<sup>th</sup> November. [Return to "What's New"](#).

# NZ bond yields rose further this week to be above where they were ahead of last month's RBNZ meeting at which the OCR wasn't lifted

## RBNZ open market bond purchases



## New Zealand interest rates



- ❑ NZ bond yields continued rising this week – the 2-year yield rose 4 bp to 0.95% and the 10-year yield 15 basis points to 1.82% - to be higher than they were ahead of the RBNZ meeting last month at which, contrary to market expectations, it *didn't* raise its cash rate target (following the announcement of a lockdown the day before)
- ❑ The RBNZ this week also proposed a further tightening of 'macro-prudential' controls on mortgage lending, cutting the limit on >80% LVR loans from 20% to 10%, with effect from 1<sup>st</sup> October

## Important information

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

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

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