ECONOMIC IMPACT OF THE CORONAVIRUS PANDEMIC

25TH SEPTEMBER 2021

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INDEPENDENT ECONOMICS

What's new?

The world

- 3.6mn new Covid-19 cases were recorded this week, the fourth consecutive decline and the lowest number in 8 weeks (slide 4)
- The OECD updated its economic forecasts, lowering its sights on US, UK and Australian economic growth in 2021 by 0.9, 0.5 and 1.1 pc pt, respectively while raising its forecast for the euro area by 1 pc pt (and making no changes to its outlook for China), leaving its forecasts for global growth in 2021 and 2022 little changed at 5.7% and 4.5%, respectively (slides 30-31)
- The OECD also calculated that higher commodity prices and shipping costs accounted for three-quarters of the rise in inflation in G20 countries so far this year (slide 39) – but it is just possible that these 'upstream' price pressures may be peaking (slide 40)
- The US Federal Reserve dropped even stronger hints that it is likely to begin 'tapering' its bond purchases later this year, with half its members anticipating at least one rate increase next year (slide 36), while the Bank of England indicated that it could raise interest rates later this year (slide 37)
- Meanwhile Norway's central bank became the third among 'advanced' economies to actually raise rates rather than just talk about it (slide 86)
- Elsewhere Brazil's central bank raised its policy rate for the 5th time this year, Hungary's for the third time and Paraguay's for the second (slides 87-88) Indonesia's, the Philippines' and Taiwan's central banks kept theirs unchanged (slide 64); and Turkey's unexpectedly cut its (slide 89)
- Canadian PM Trudeau failed to regain a Parliamentary majority (slide 82) and Germany may not have one after Sunday (slide 85)

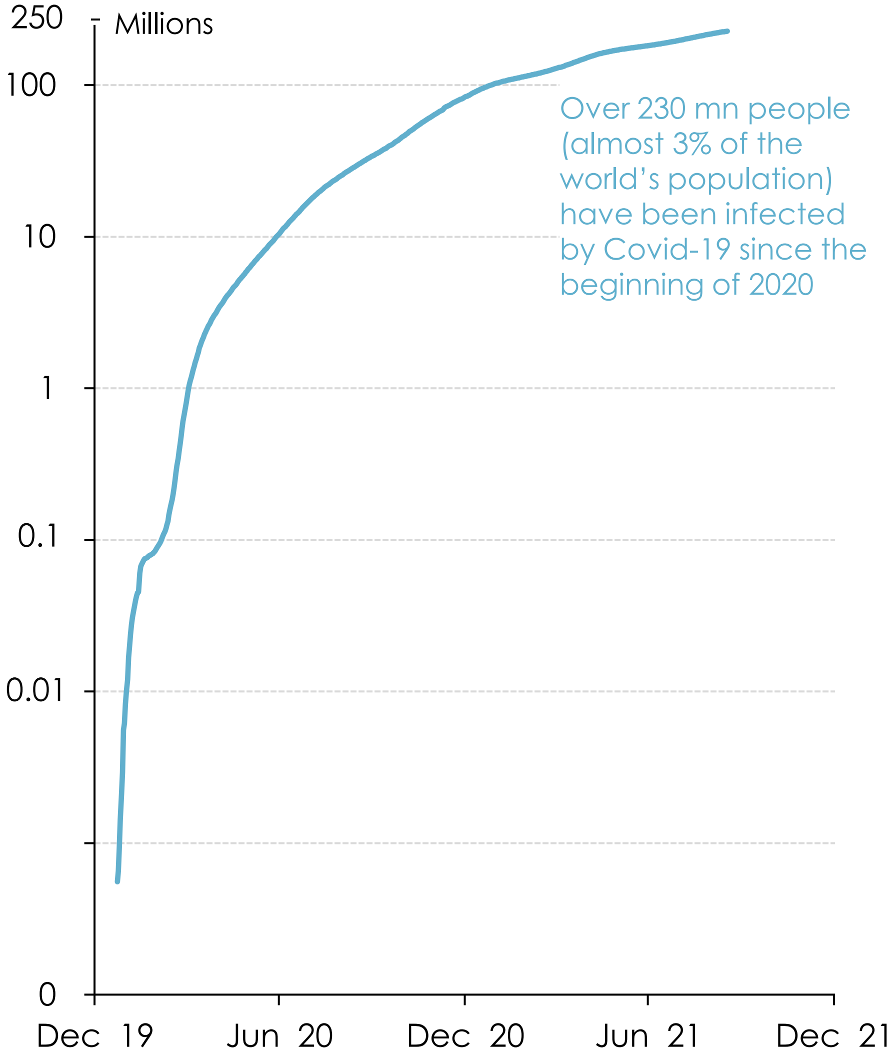
Australia and New Zealand

- Australia's 'delta wave' may finally be peaking, with the number of new cases falling this week for the first time in 18 weeks (slide 13)
- New infections appear clearly to have peaked in NSW, and may have in the ACT, but are yet to peak in Victoria (slide 14)
- Both states are foreshadowing further easing of restrictions (including on interstate travel) once 70% of their 'eligible' populations are fully vaccinated (slide 19)
- However other states with far less 'lockdown experience' and lower tolerance for covid cases seem likely to keep their borders closed, preferring to wait for higher vaccination rates (slides 21-22) – perhaps presaging a period where there may be (in effect) "two Australias"
- The number of payroll jobs has now fallen by 4.2% (including a 9.8% decline in NSW) since the latest lockdowns began (slide 110) – while more detailed results from the August labour force survey again show that job losses have been greatest for younger and low-paid workers (slides 113-115)
- Meanwhile household net worth rose by $735bn (5¾%) in Q2, bringing the cumulative gain since the end of 2019 to $2.2 trn (almost 20%) – most of it due to rising property prices (slide 123)
- The IMF's annual 'Article IV' report on the Australian economy recommended tighter macro-prudential controls on risky mortgage lending, and a winding-back in tax preferences for property investors, as well as a range of other tax and structural reforms (slide 145)
- The Parliamentary Budget Office assessed the Government's fiscal position as being 'sustainable', partly thanks to 'bracket creep' which mainly hits lower-income taxpayers (slide 149)
- The RBNZ tightened restrictions on high LVR mortgage lending (slide 163)

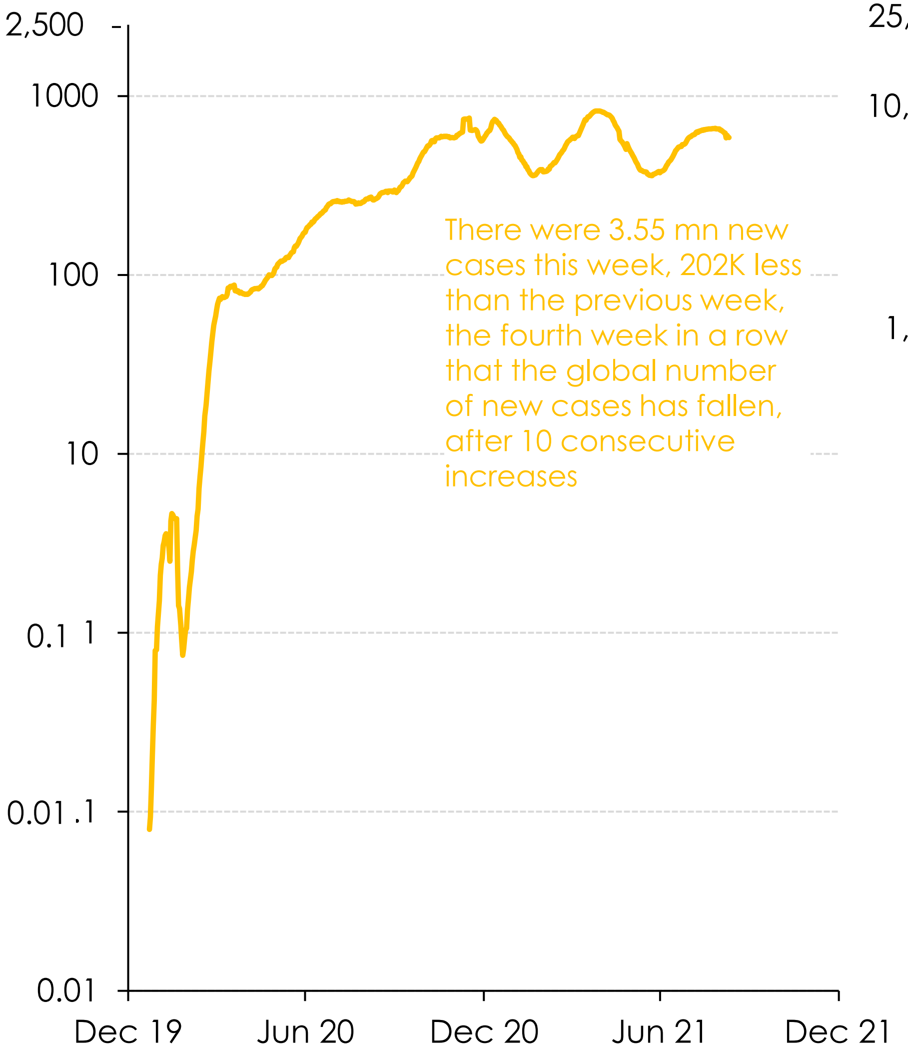
The virus

The global 'delta wave' does appear to have peaked, with both cases and deaths now declining for several weeks

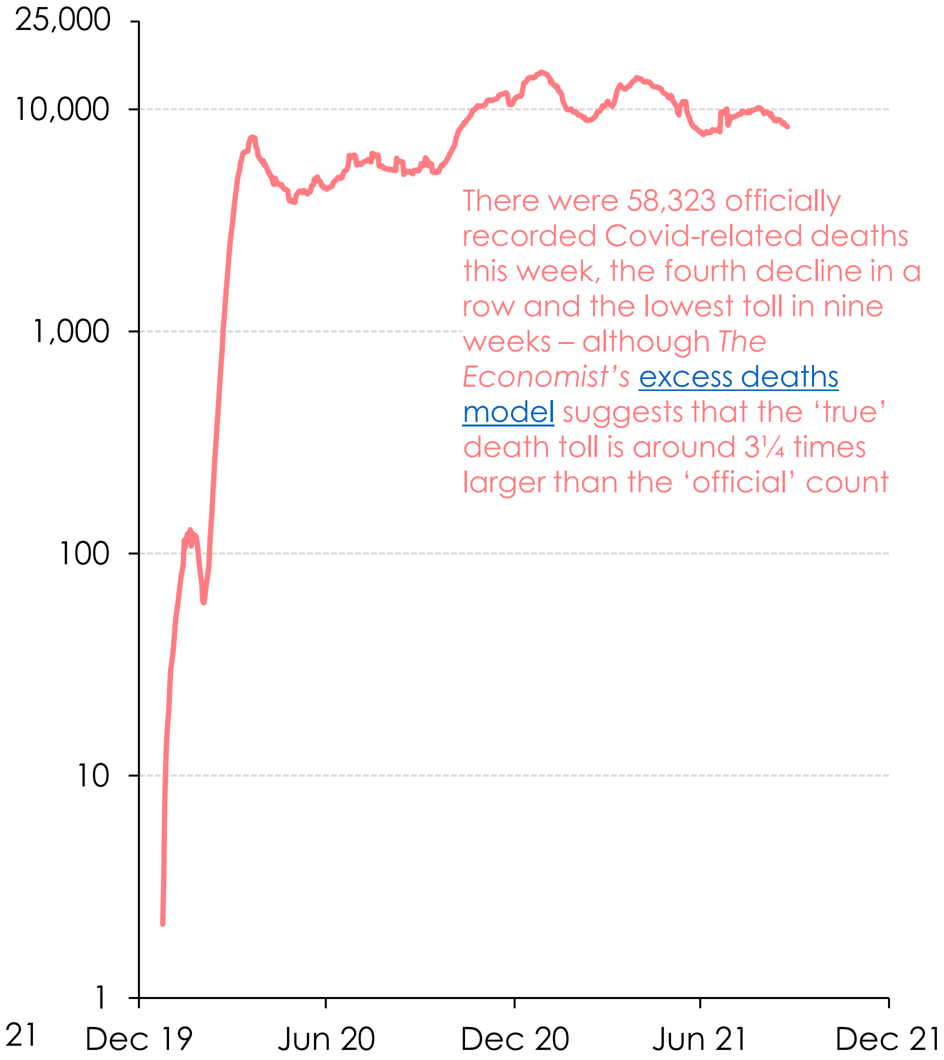
Cumulative confirmed cases – global total



New confirmed cases – global total



New deaths – global total



Note: All charts are on logarithmic scales. Data up to 23rd September. *Source:* University of Oxford, *Our World in Data*. Return to "What's New".

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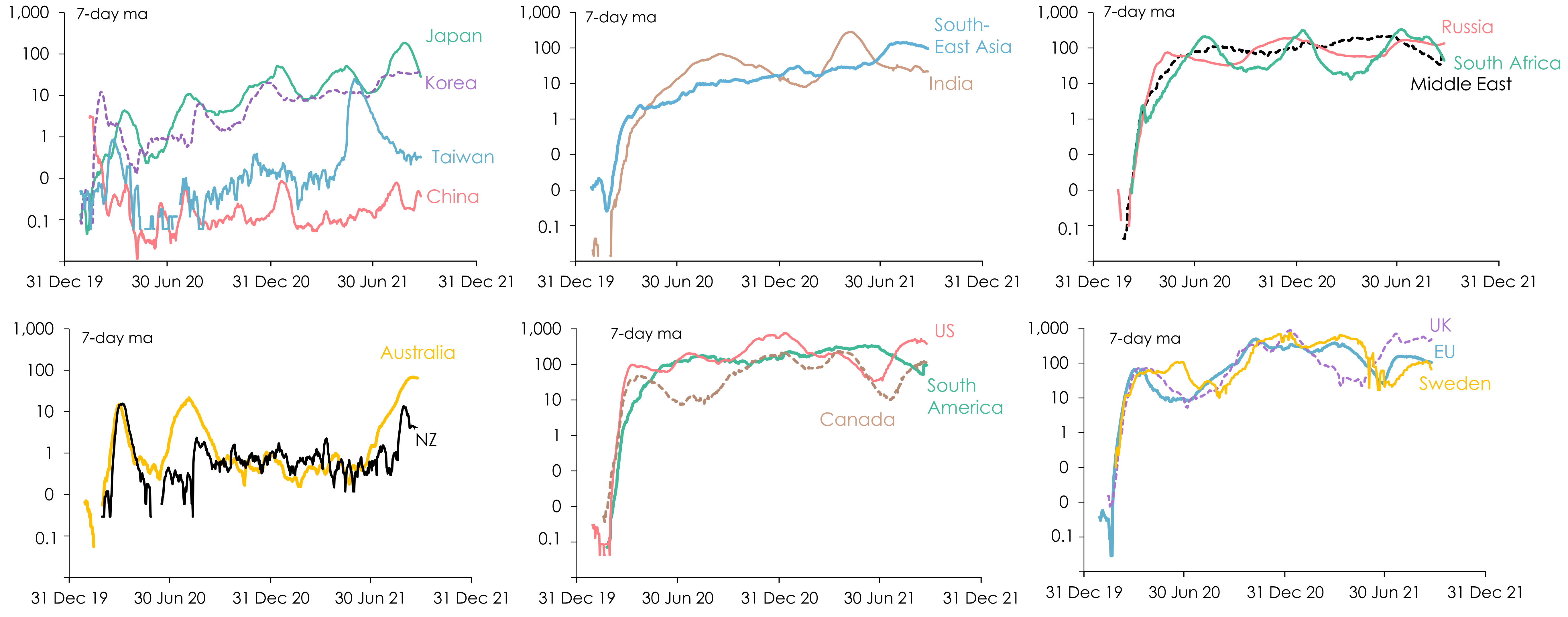
The US accounted for 25% of all new cases this week, Europe 18%, SE Asia 12½%, and the Middle East 11½% - but South America's share rose to 8%

Daily new cases per million population – major countries and regions



- ❑ **The US also accounted for 24% of all officially-recorded covid-related deaths this week, ahead of South-East Asia 14%, Europe 10%, Russia 9½%, South America 9¼%, the Middle East 8¼%, and Africa 4¾%**

Note: All charts are on logarithmic scales. Data up to 23rd September. *Source:* University of Oxford, Our World in Data; Corinna. Return to "What's New".

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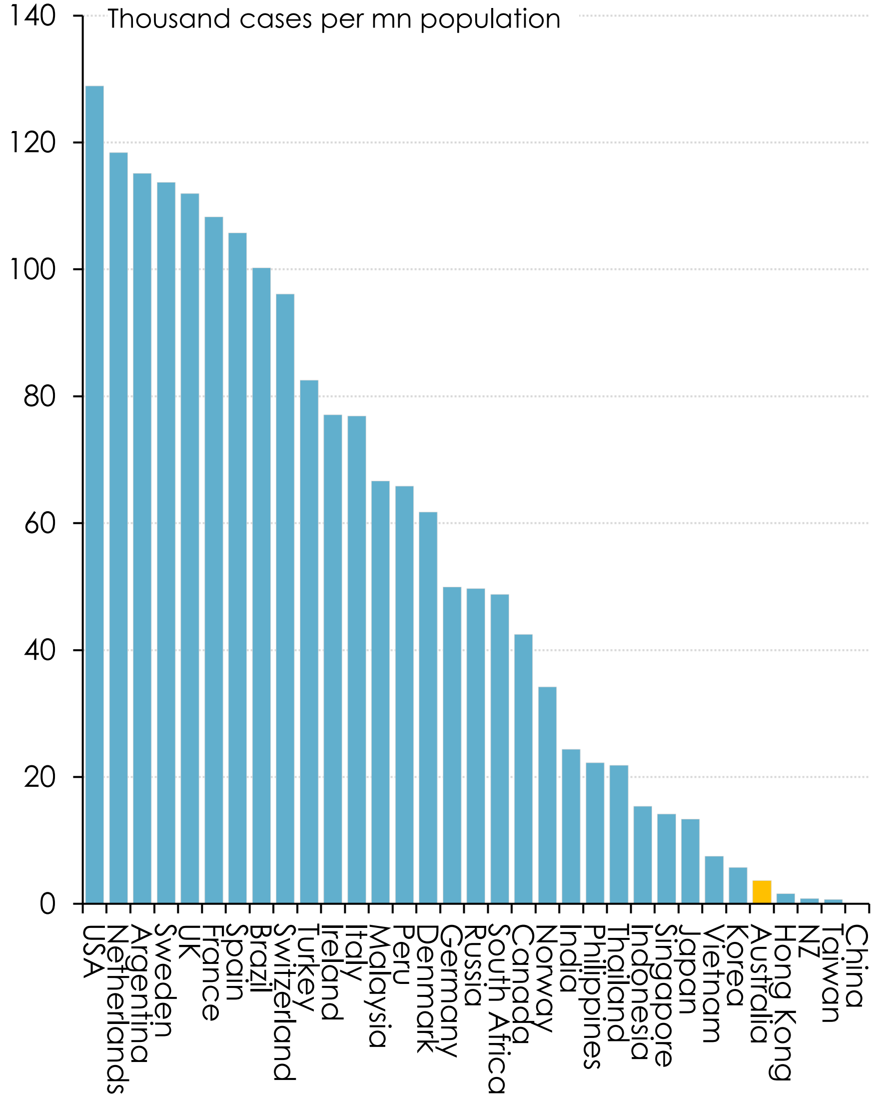
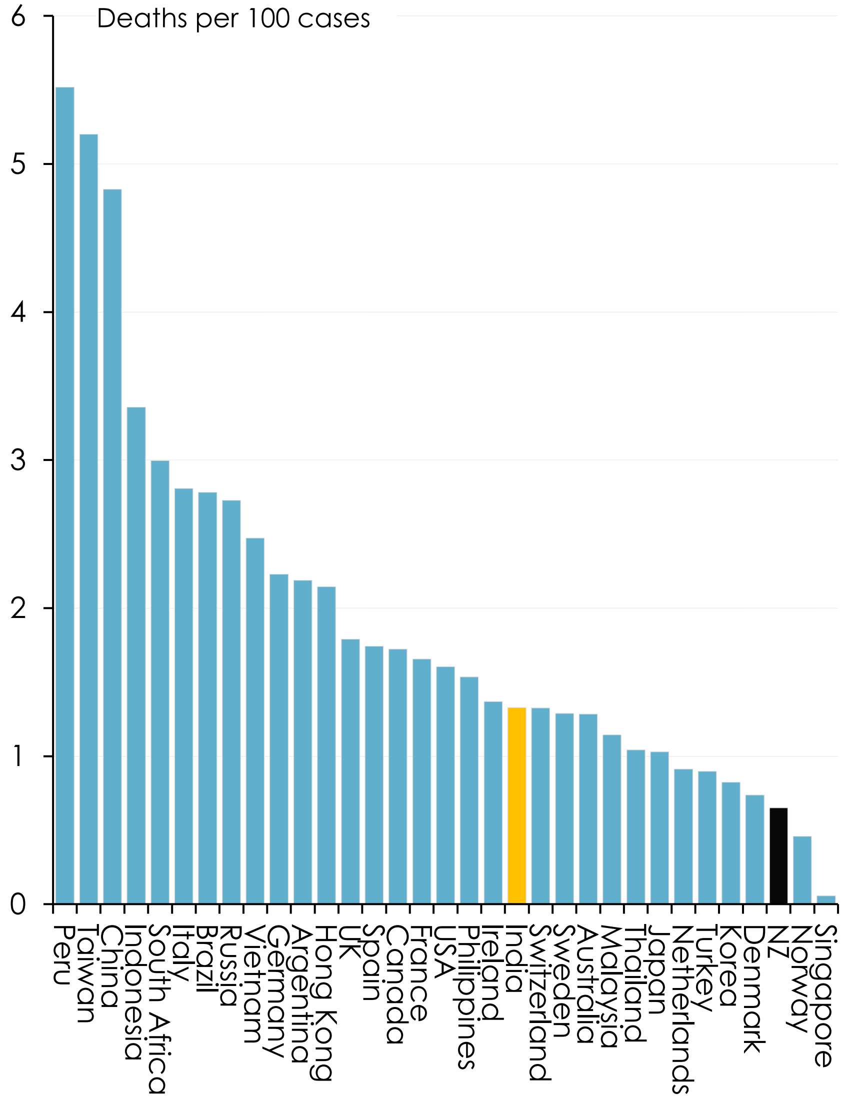
The highest cumulative infection and death rates (since the onset of the pandemic) have been in Europe, South and North America

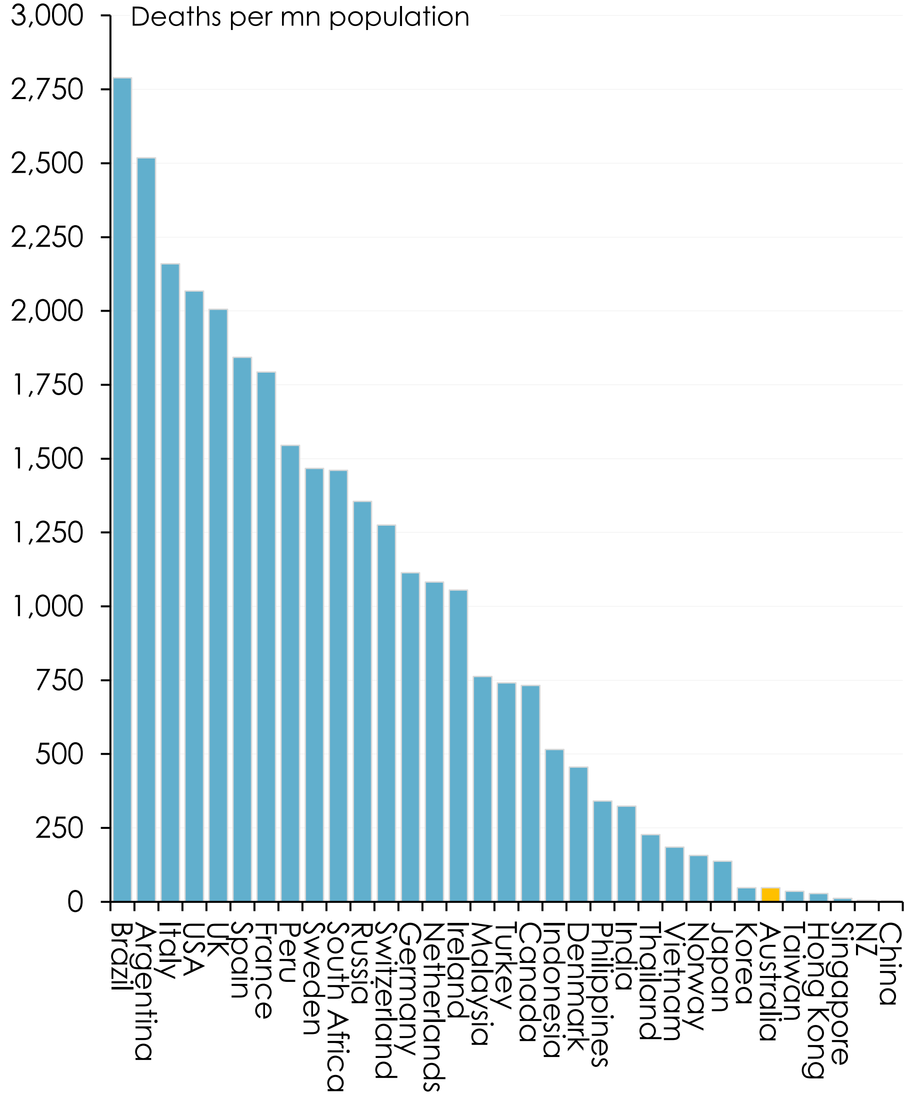
Apparent infection rate



Apparent fatality rate



Death rate



Note: Data up to 23rd September. *Sources:* University of Oxford, Our World in Data; Corinna. Return to "What's New".

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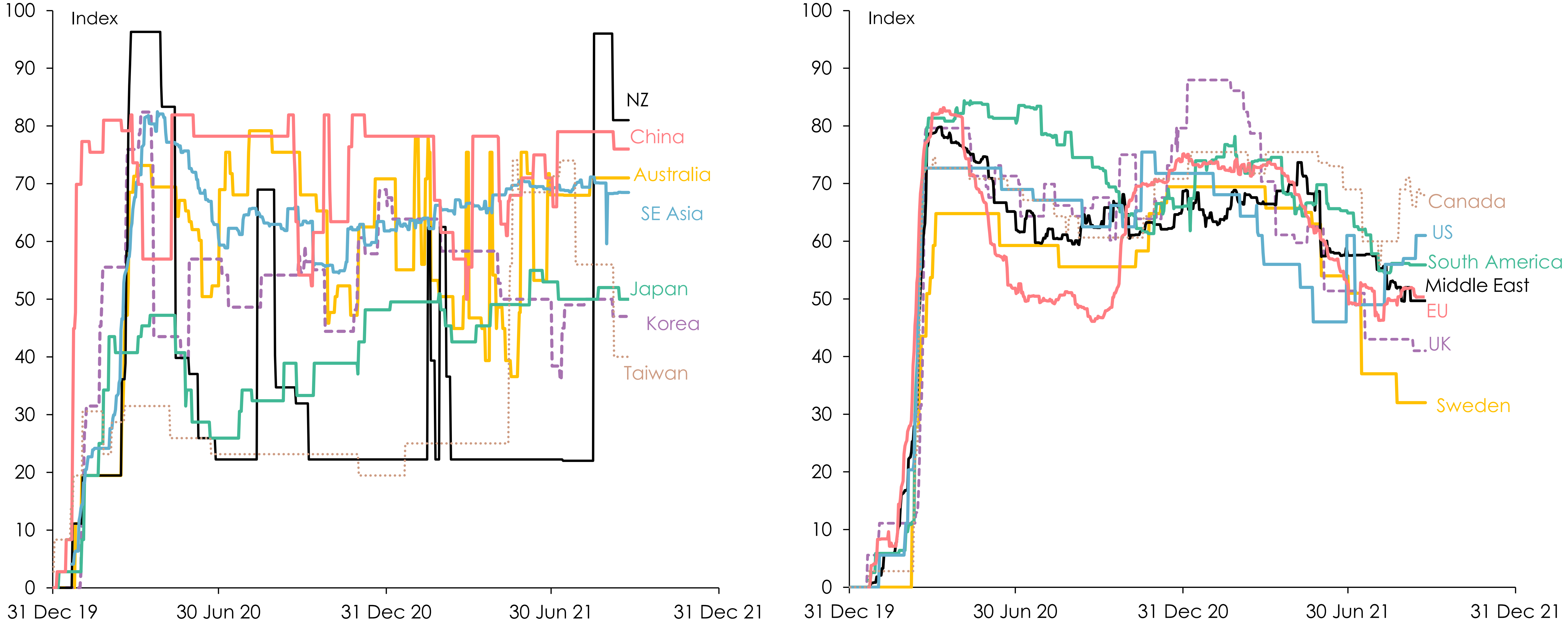
Restrictions have been eased in some Asian and European countries in the past two weeks, but tightened in parts of the US

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 23rd September. Return to "What's New".

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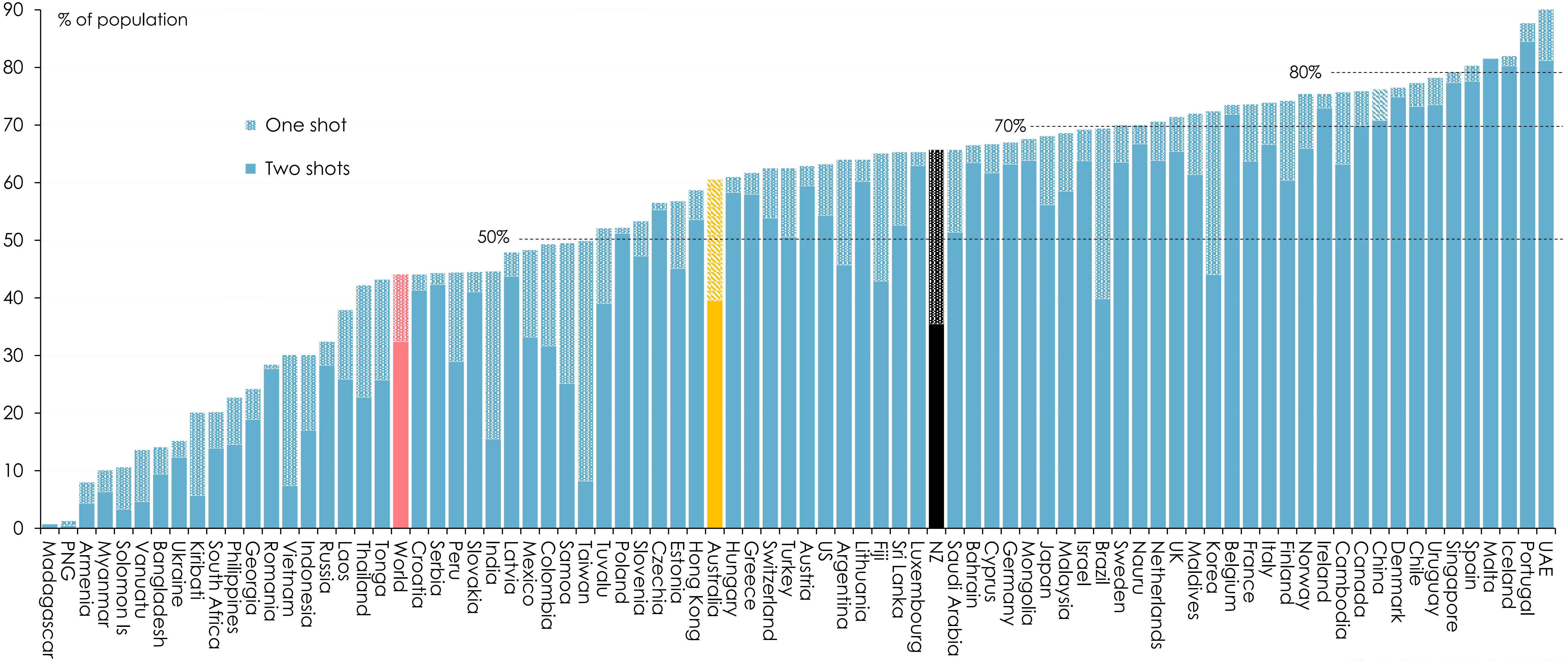
11 countries have now fully vaccinated more than 70% of their population, another 5 are close to that threshold, and 14 more are over 50%

Percentage of population who have had at least one vaccination shot as at 14th – 16th September



Note: Data for Nauru is 31st August; for Armenia is 12th September; for Kiribati, Papua New Guinea, Solomon Islands and Vanuatu is 14th September; and for Madagascar and Myanmar is 20th September. *Source:* Our World in Data, Coronavirus (COVID-19) Vaccinations. Return to "What's New".

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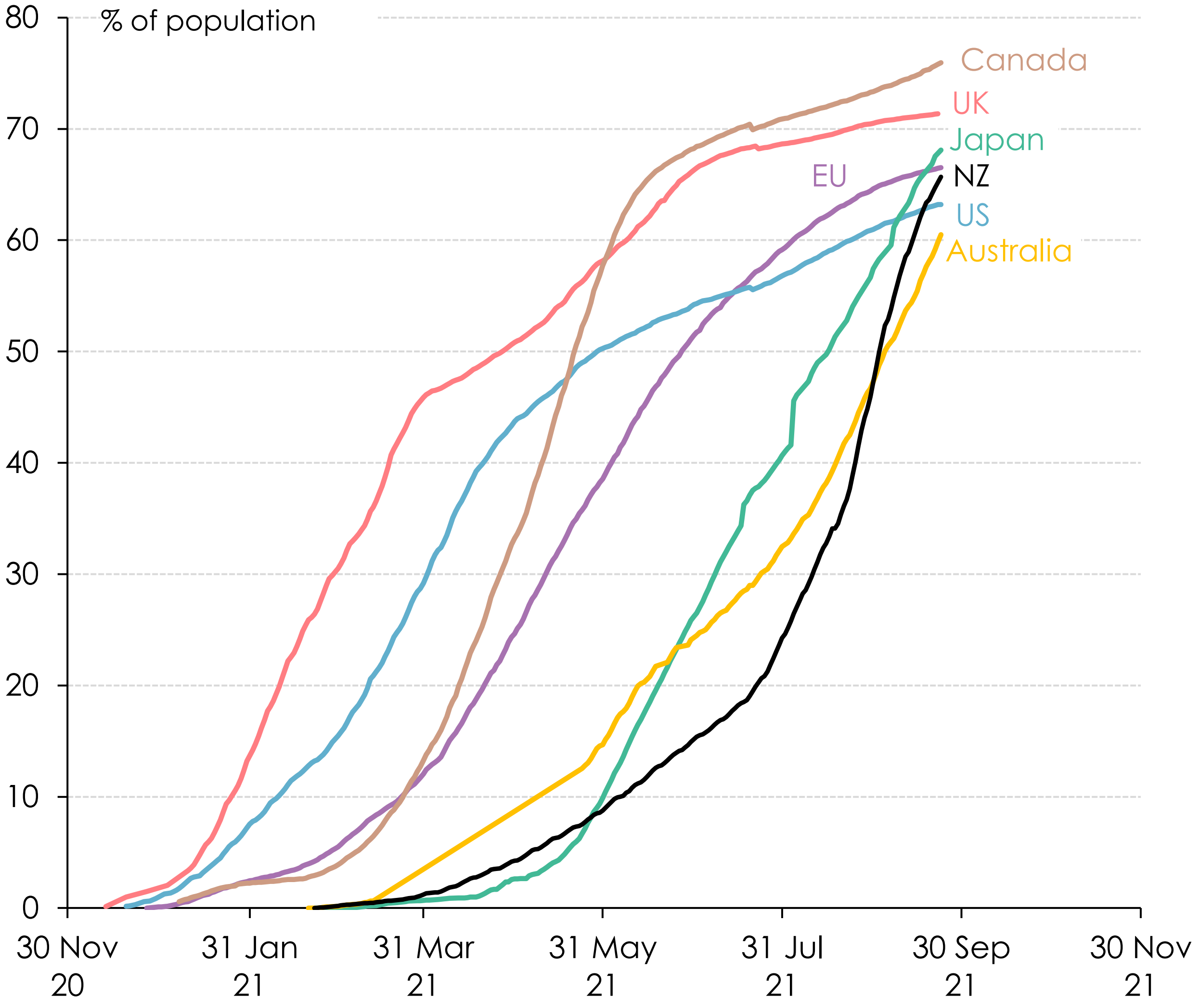
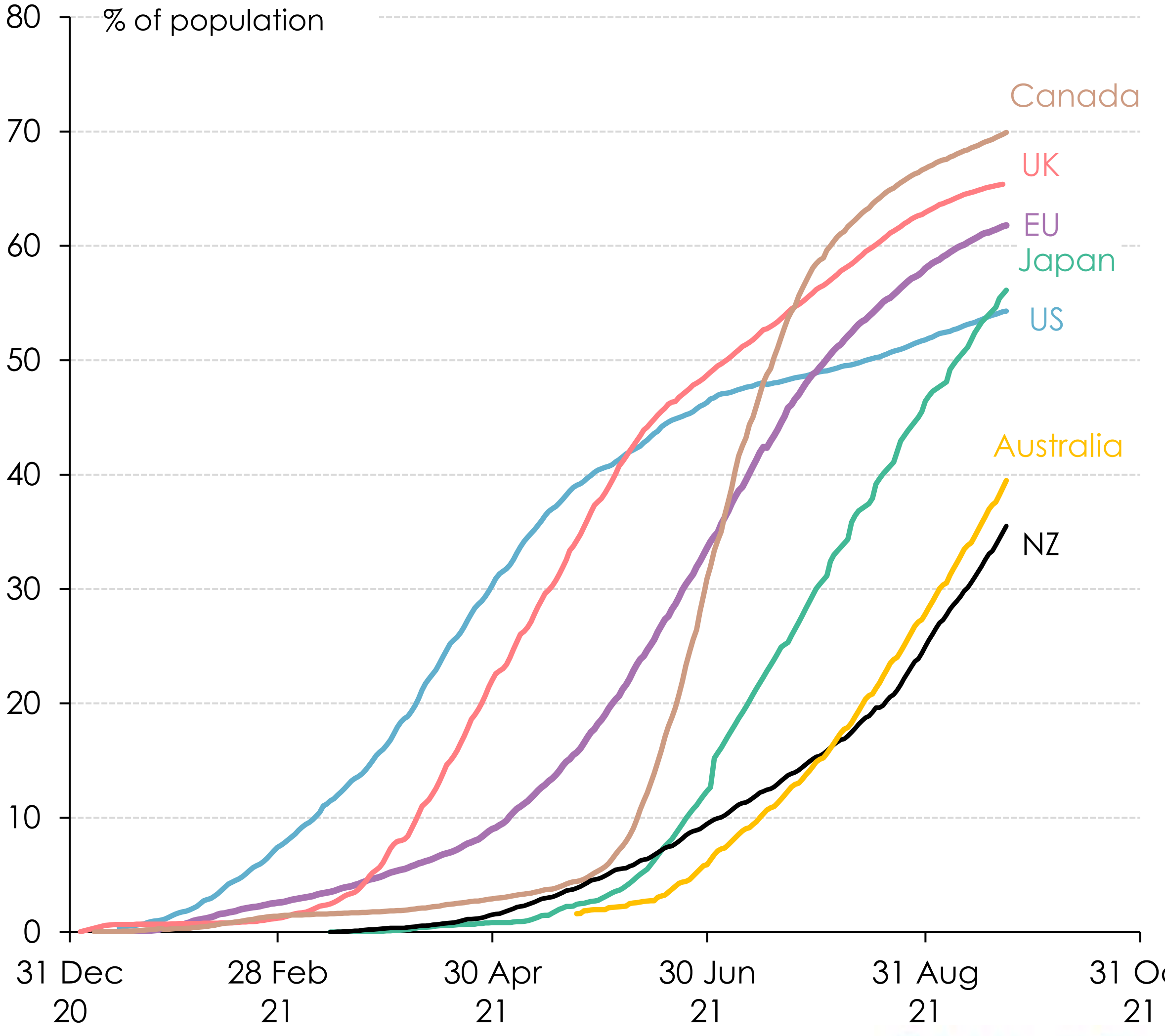
Progress of vaccinations has slowed in Canada, the US, UK and Europe in recent weeks but has picked up in Japan, Australia and New Zealand

Percentage of major ‘advanced’ economies’ populations who have had one shot



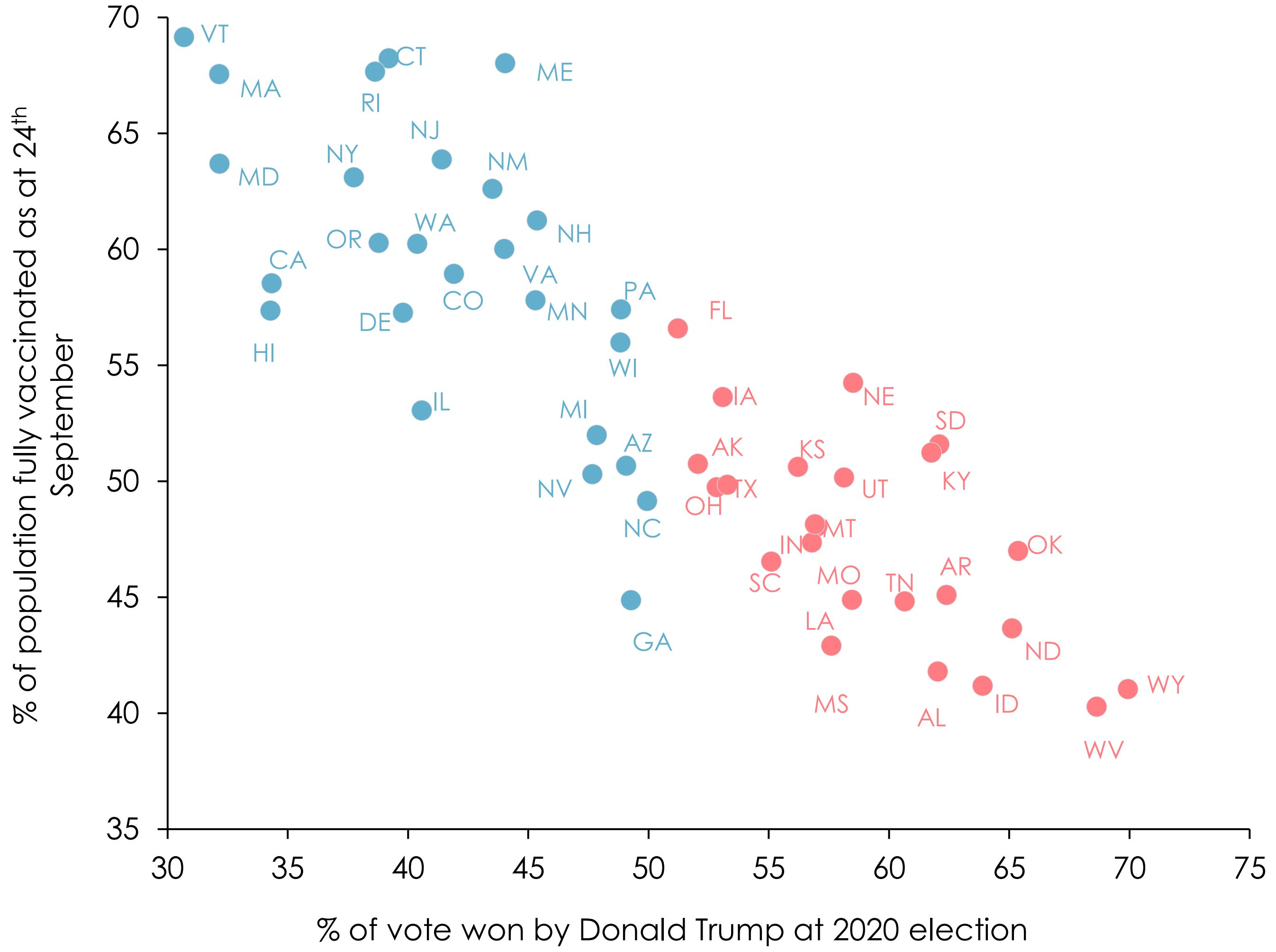
Percentage of major ‘advanced’ economies’ populations who have had two shots



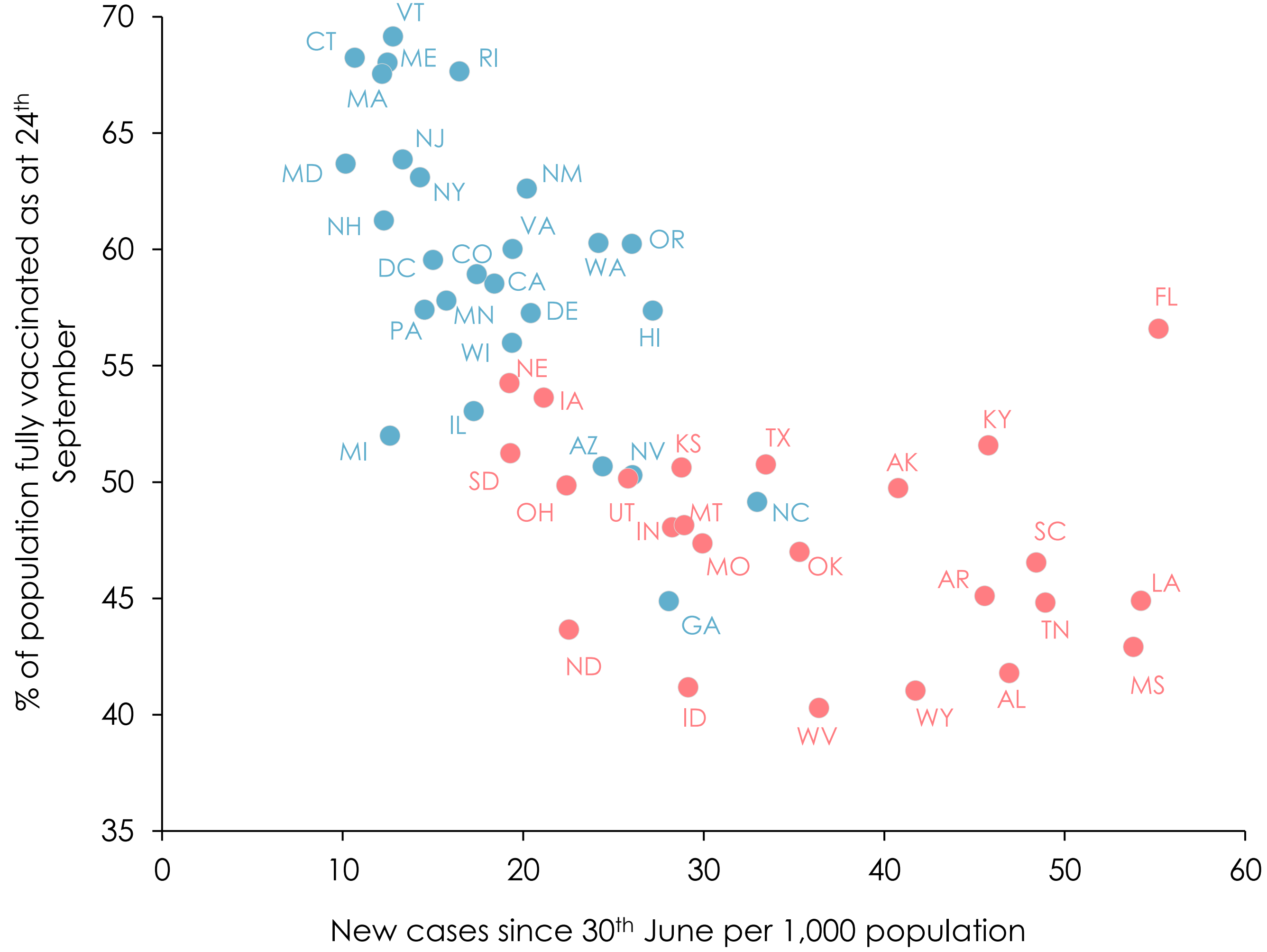
Note: Data up to 23rd September, except UK, 22nd September. *Source:* Our World in Data; Coronavirus (COVID-19) Vaccinations. Return to "What's New".

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 23rd September. *Sources:* The Cook Political Report; Our World in Data; USA Facts; Corinna. Return to "What's New".

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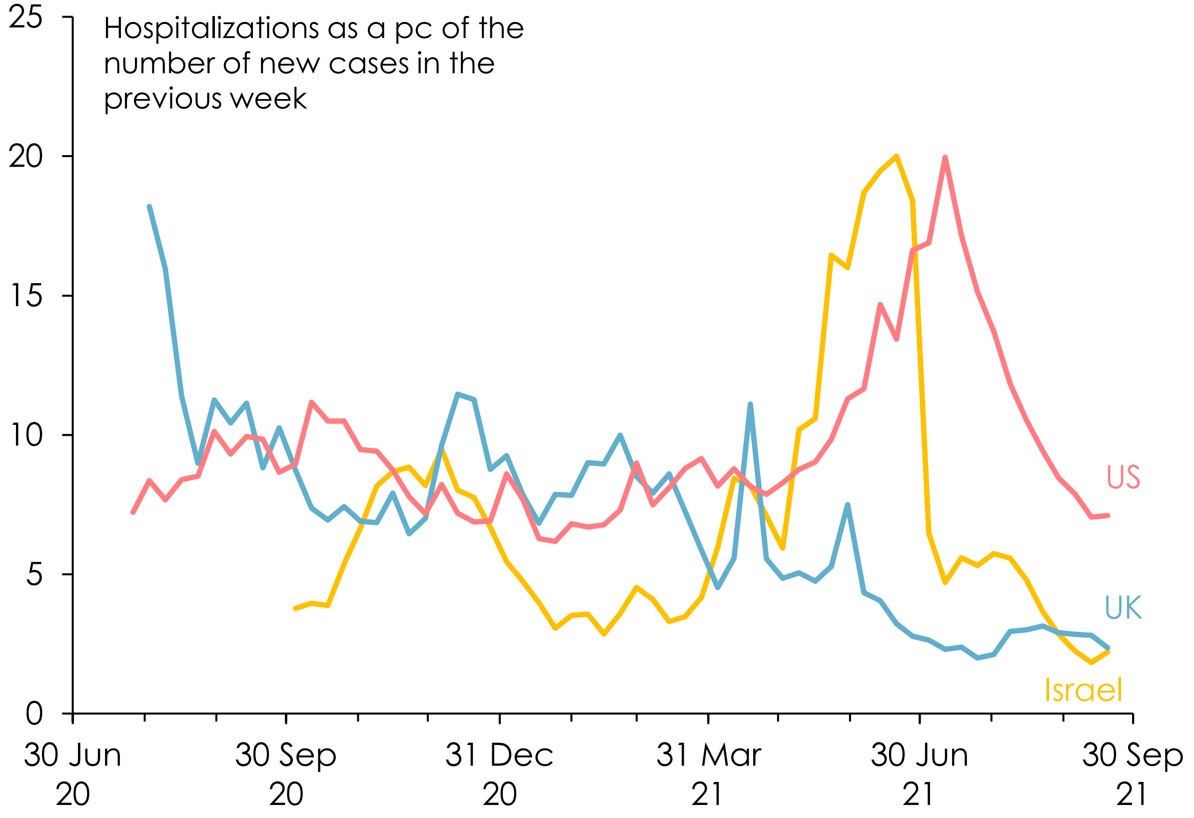
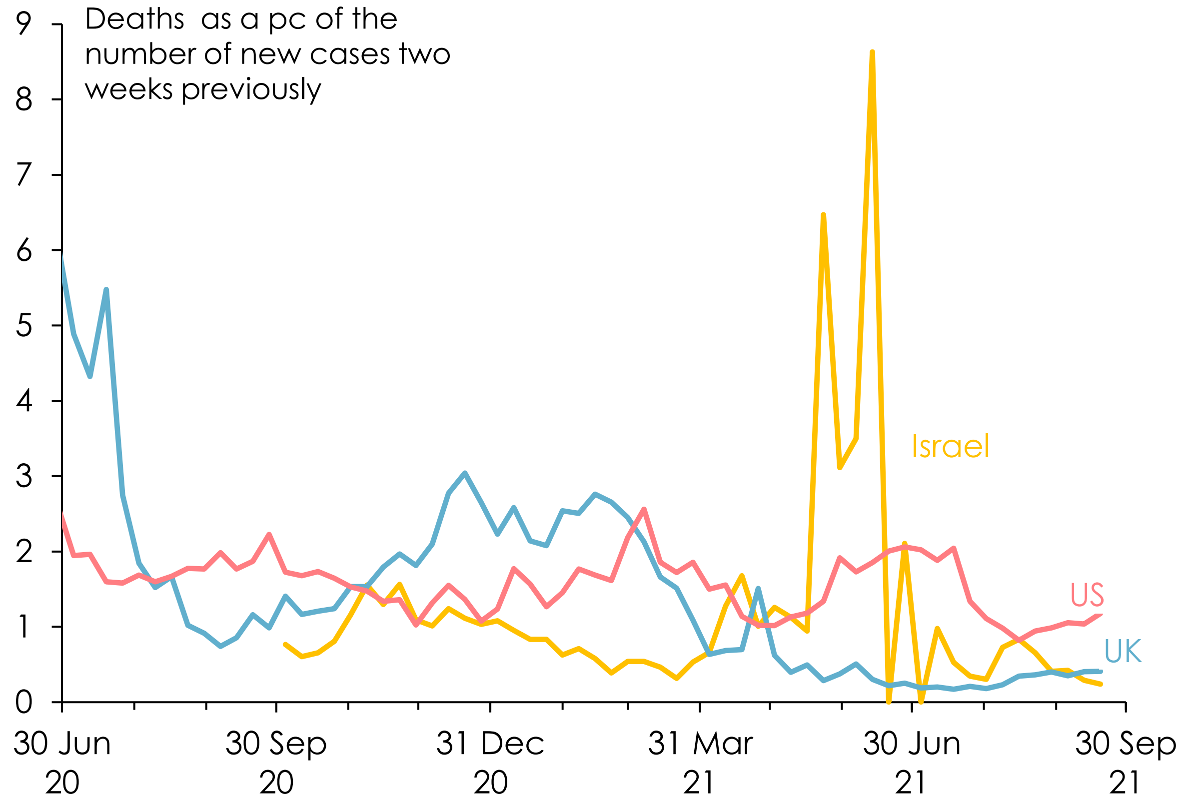
Although vaccination appears not to prevent the 'delta variant' from spreading, it does appear to reduce hospitalization and death rates

Hospitalization rates



Fatality rates



- **Israel, the UK and the US have all experienced a surge in the number of 'delta variant' cases in recent weeks**
- **In the US, the increase in cases is concentrated in states and counties where vaccination rates are well below the national average (see previous 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 16th September. *Source:* Our World in Data. Return to "What's New".

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Voter approval of Asian governments' handling of Covid-19 has improved substantially in recent weeks despite the 'delta spread'

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

Source: YouGov, Covid-19 tracker: government handling. Return to "What's New".

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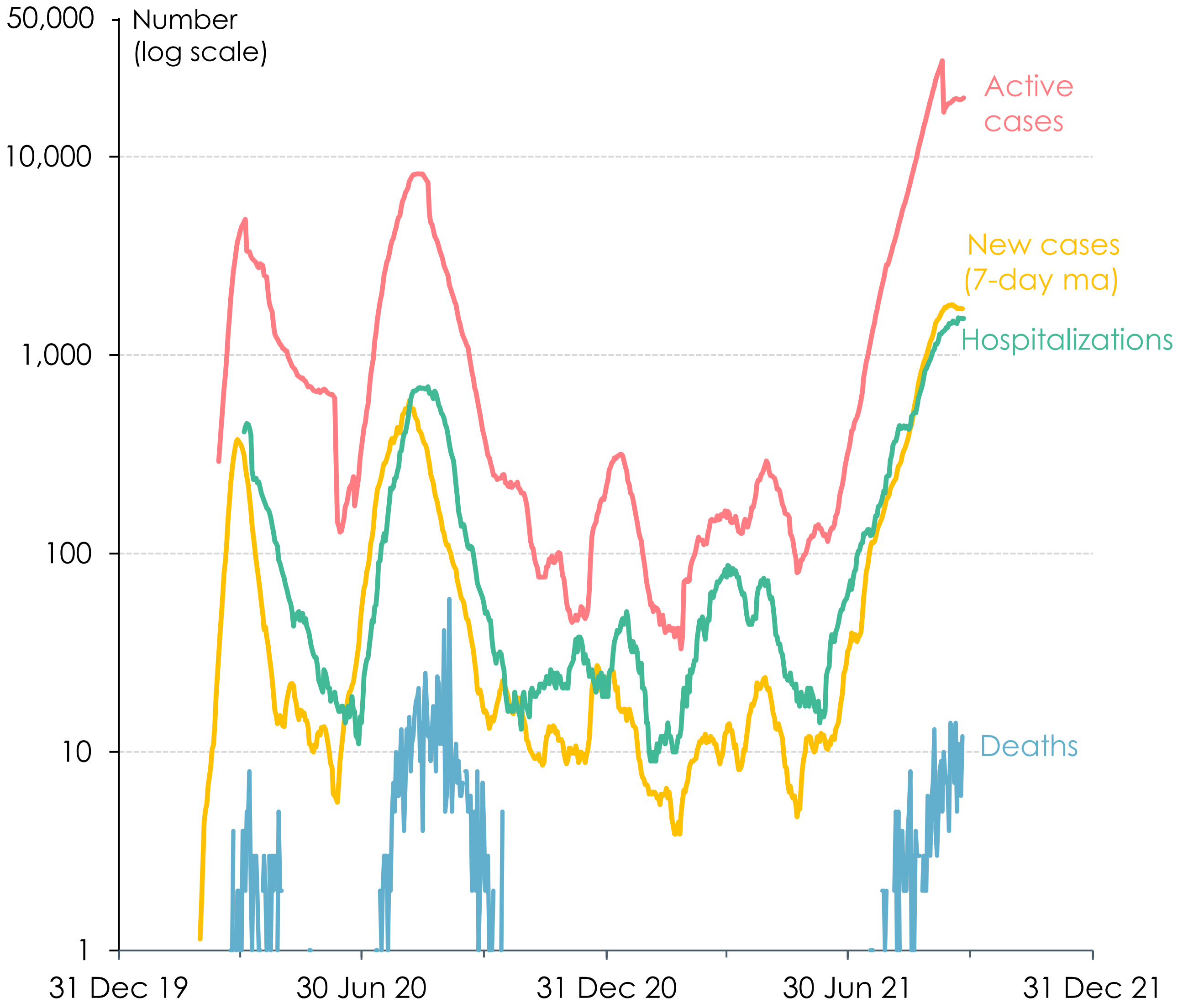
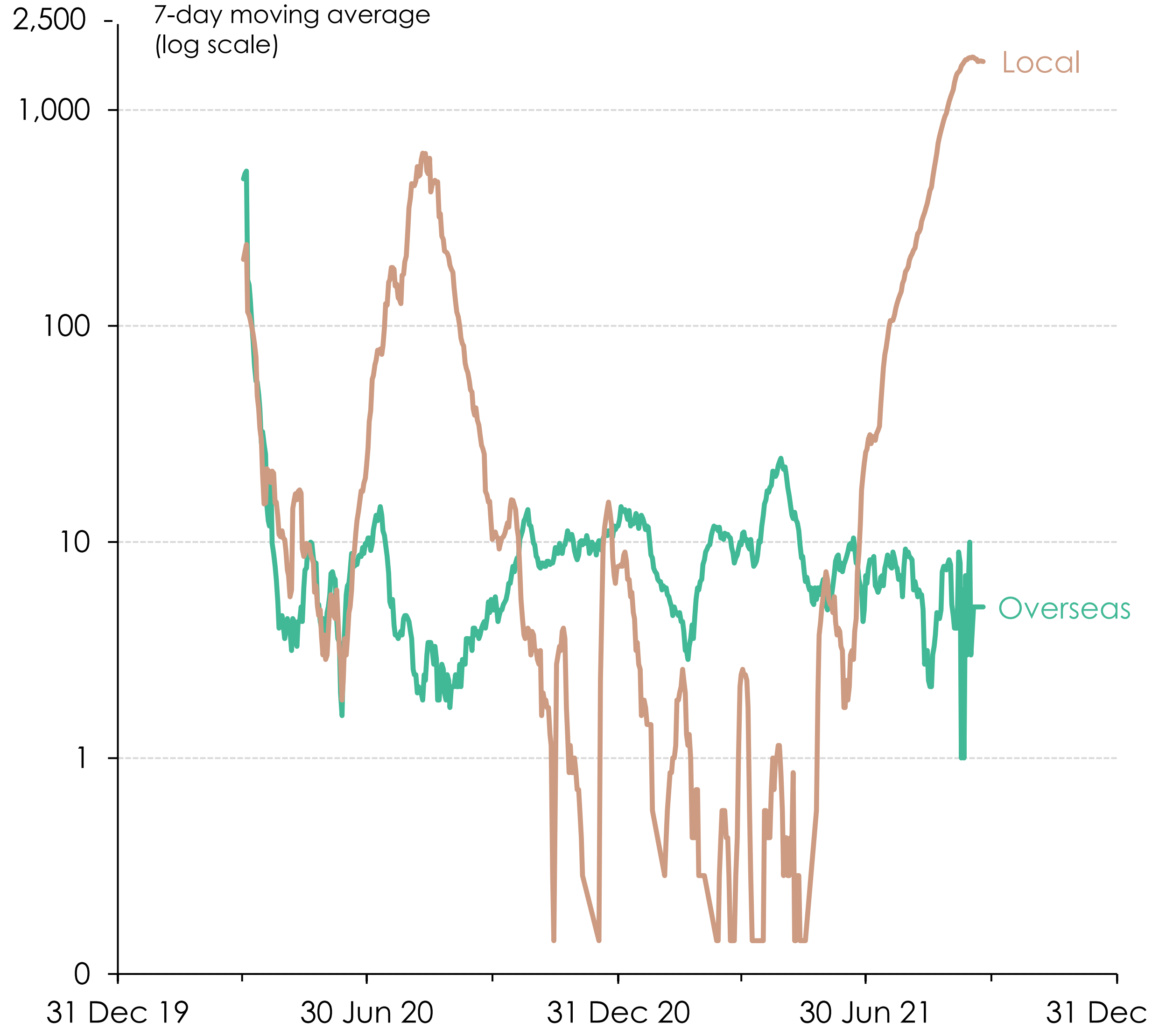
Australia recorded 11,741 new cases this week – the first time in 18 weeks that the number of new cases *hasn't* increased

Cases, recoveries, hospitalizations and deaths



New cases, by source



Note: Data up to 24th September The sharp decline in 'active cases' on 10th September is entirely attributable to a 13,949 drop in the number of active cases reported in NSW (the reasons for which are not clear). *Source:* covid19data.com.au. Return to "What's New".

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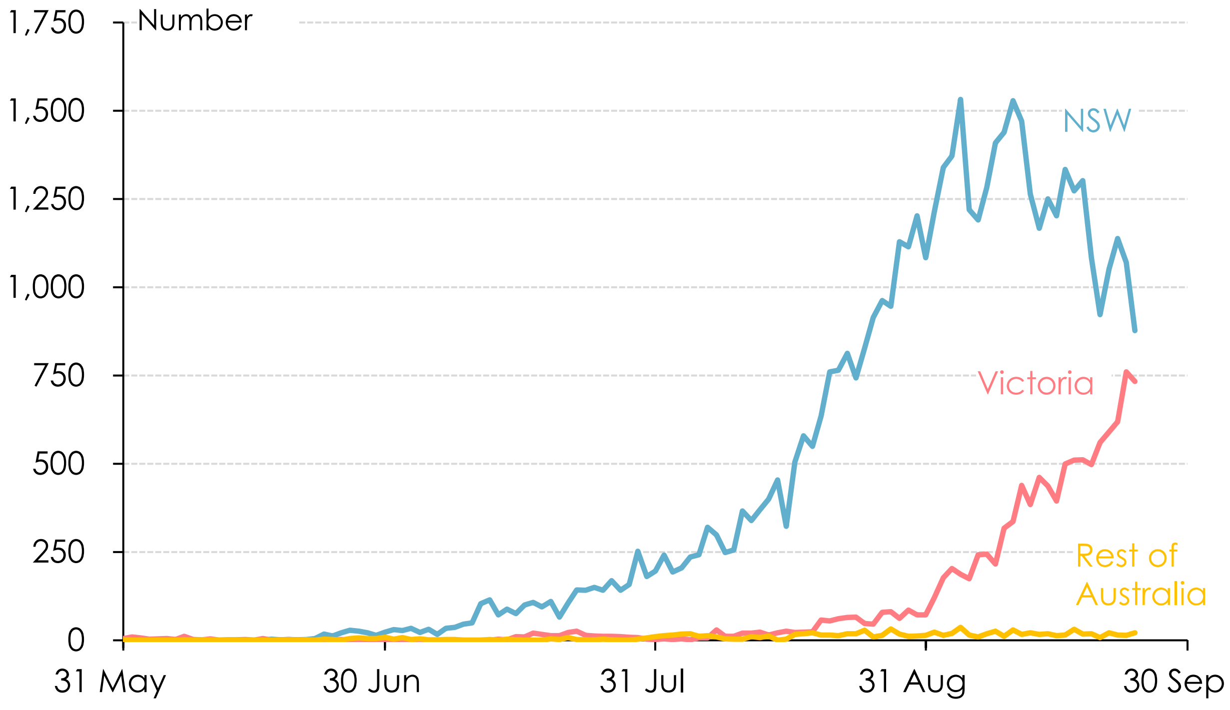
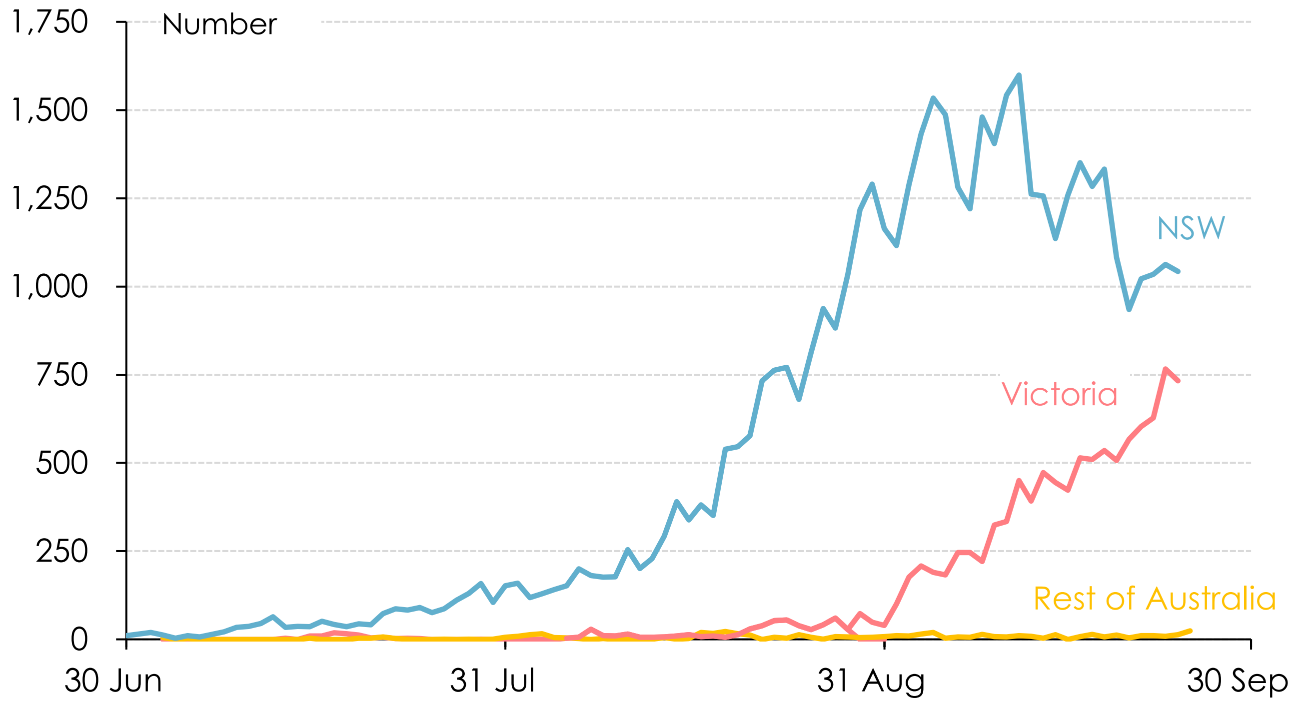
The number of new infections has peaked in NSW, and appears to have peaked in the ACT, but hasn't in Victoria yet

New locally-acquired cases



Number of cases 'infectious while in the community'



- **The seven-day moving average of new locally-acquired cases in NSW has declined by 22½% since its apparent peak on 10th September – prompting the NSW Premier to foreshadow a further gradual easing of restrictions once the fully-vaccinated proportion of the (over 16) population exceeds 70% (it was 57.8% on 24th September, see slide 19)**
- **The number of new infections in Victoria *hasn't* peaked yet – although a small number of restrictions were eased this week, with further easing foreshadowed once 70% of 'eligible' Victorians have been fully vaccinated (it was 46.6% on Friday)**
- **The number of new infections in the ACT appears to have peaked in the past week**
- **A clear difference in 'risk tolerance' is emerging between NSW, Victoria and the ACT – who are now willing to 'live with' some Covid – and the other states and the NT, which are maintaining a 'zero tolerance' approach**

Note: Data up to 24th September. *Source:* covid19data.com.au. Return to "What's New".

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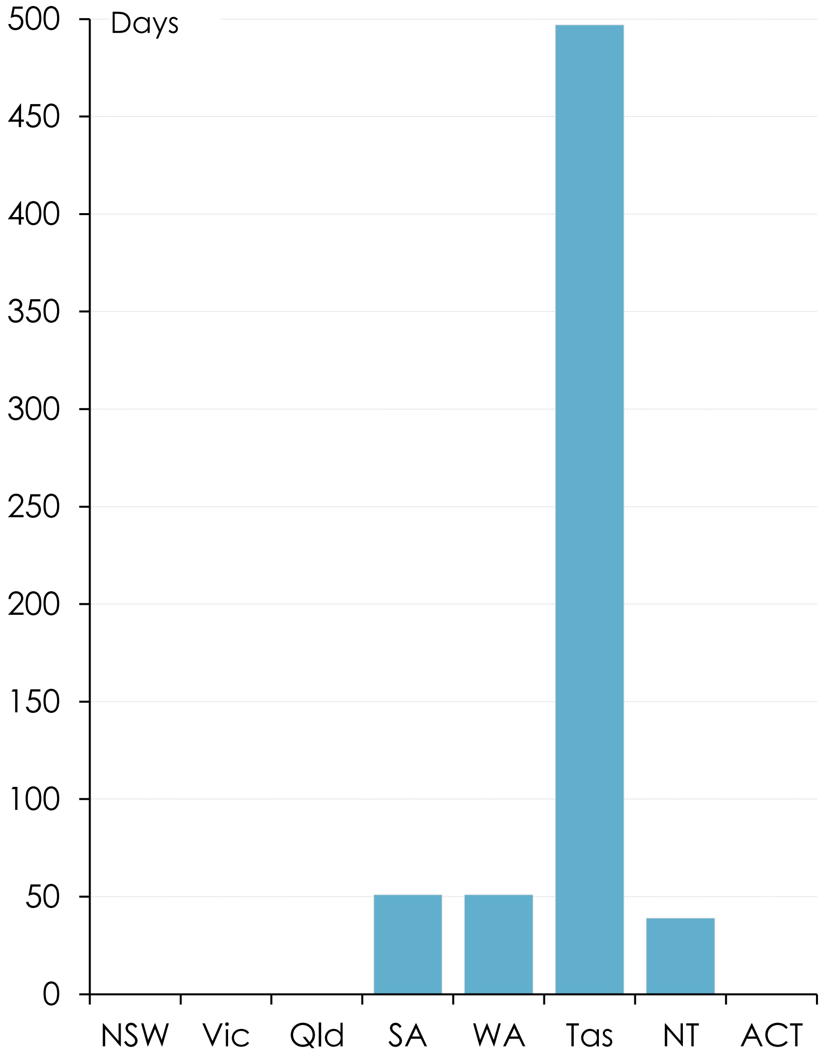
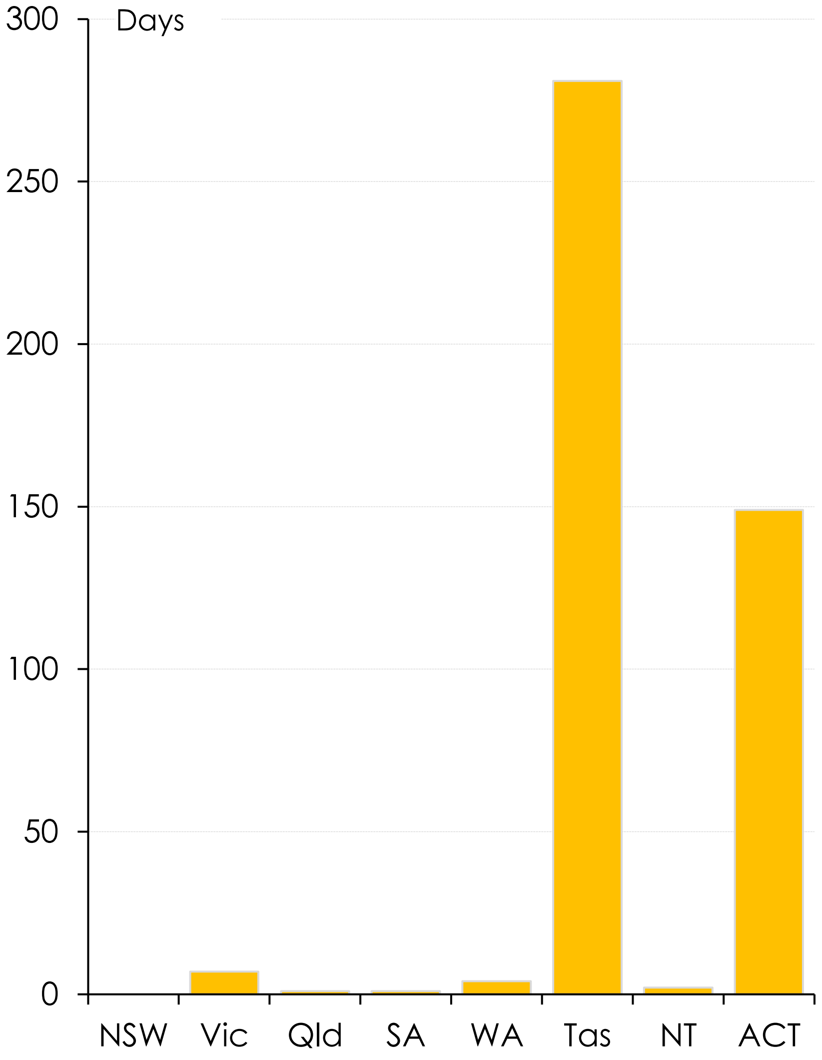
The smaller states and territories have done better at keeping the virus at bay, partly because they receive fewer overseas arrivals

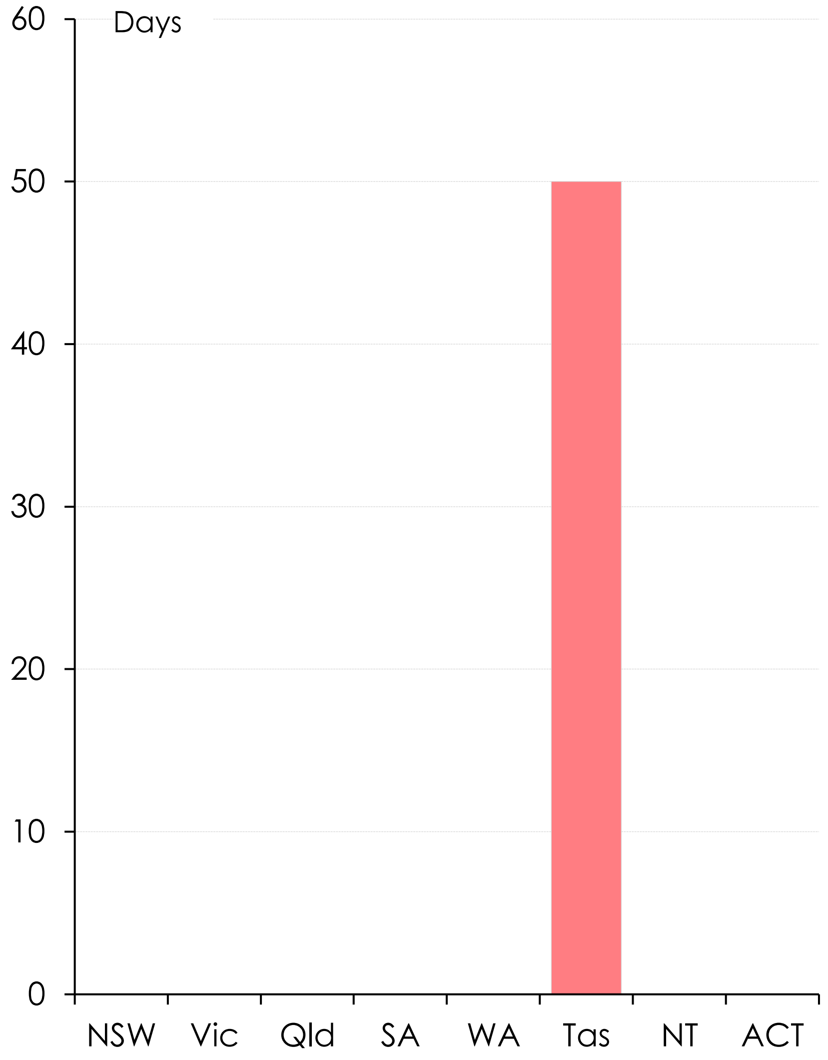
Days since last new locally-acquired case



Days since last new overseas-acquired case



Days since there were any active cases



Note: Data are for 24th September. *Source:* covid19data.com.au. Return to "What's New".

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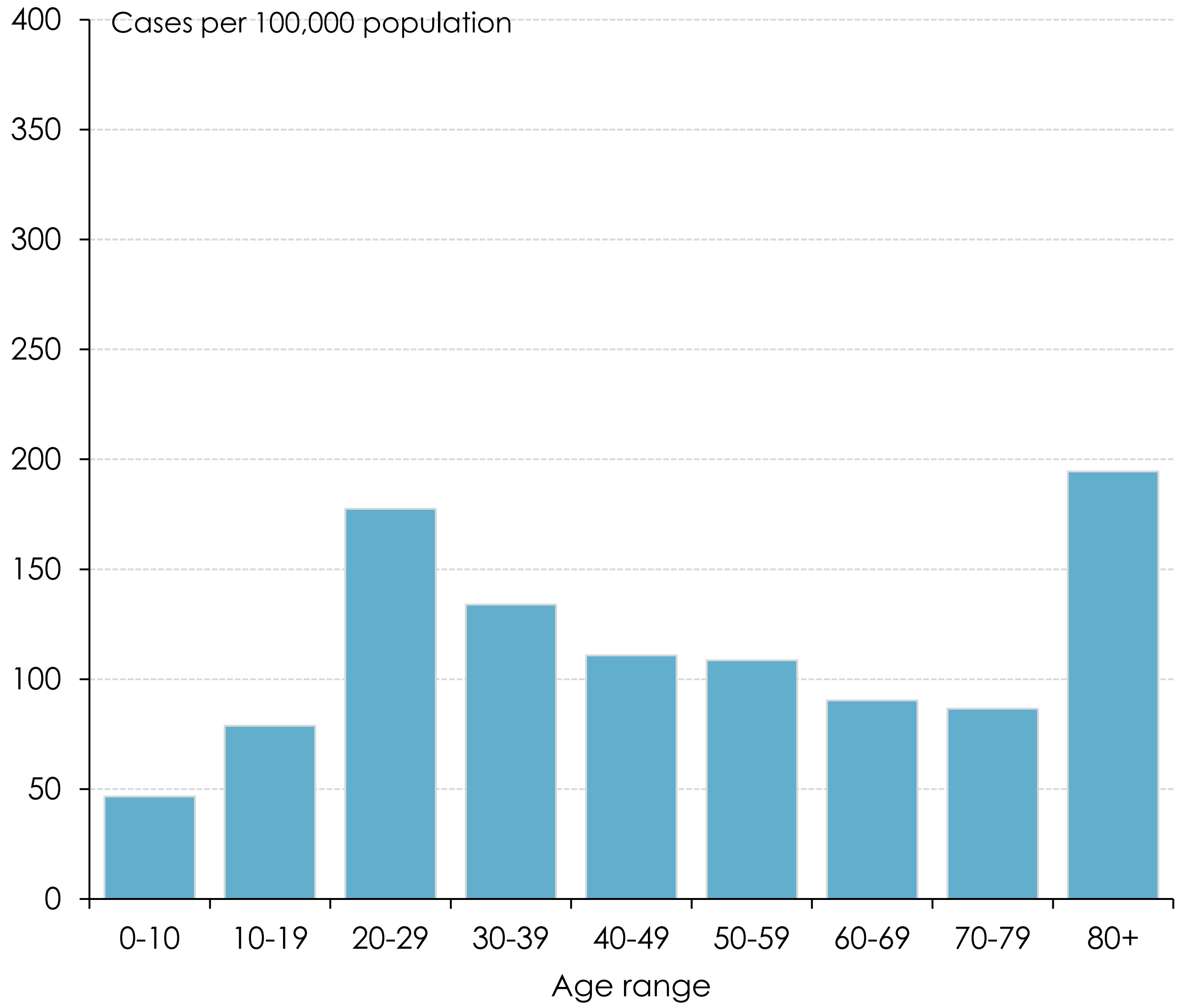
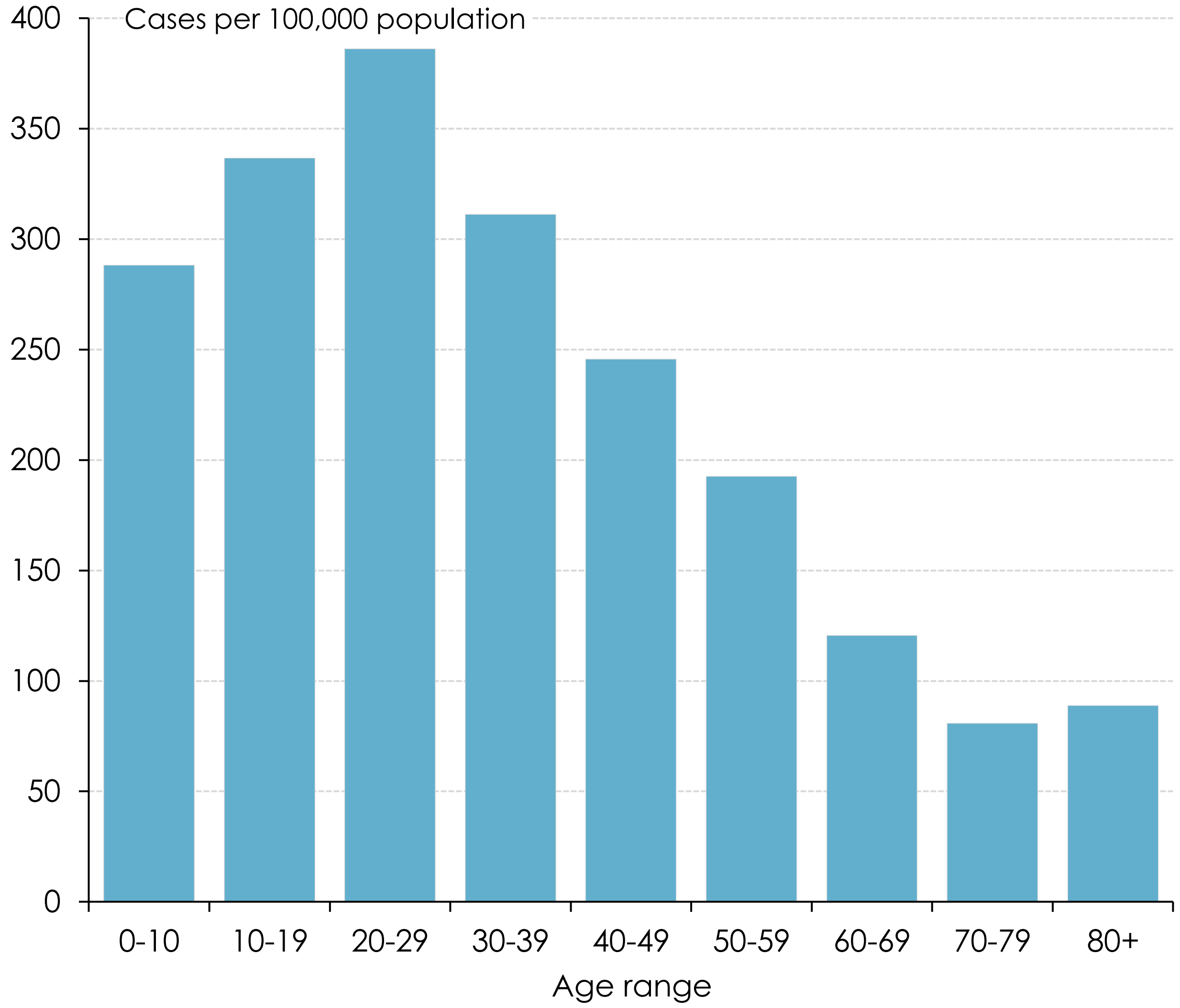
People in their 20s & 30s have been more likely to become infected than other age groups this year – partly because fewer have been vaccinated

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 24th September. *Source:* Australian Government Department of Health; ABS; Corinna. Return to "What's New".

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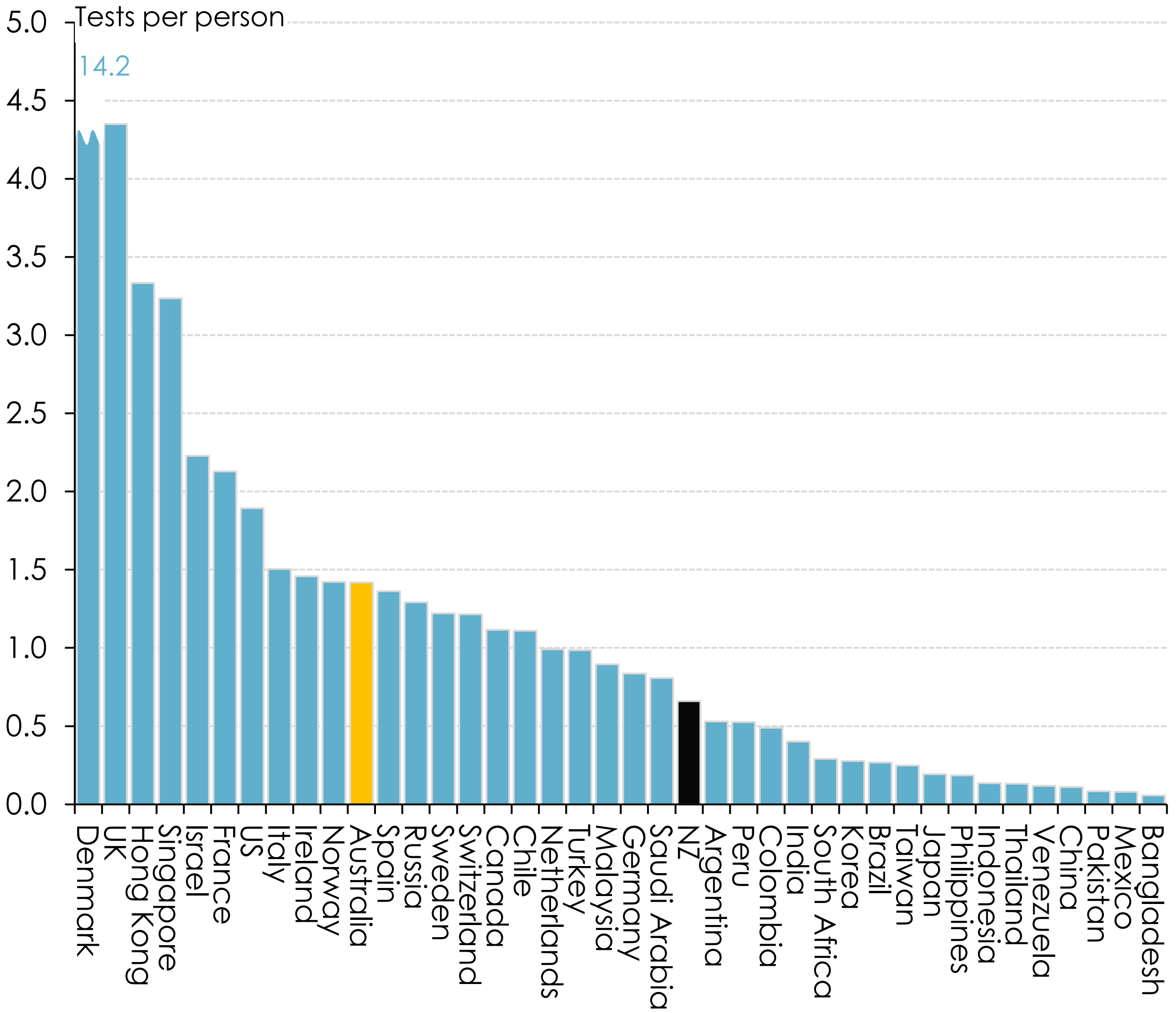
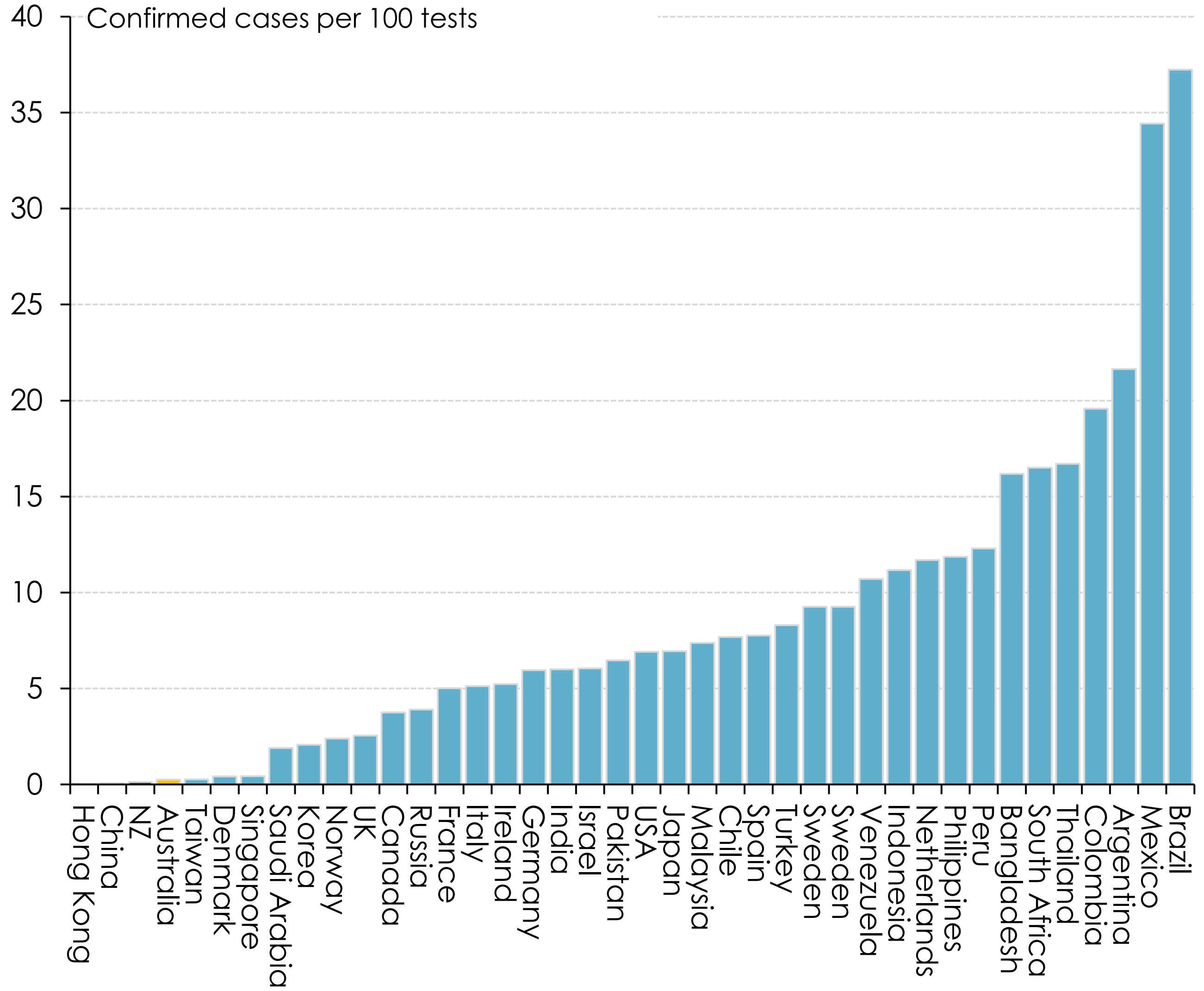
Australia's testing regime appears sufficiently broad for the low infection and death rates to be seen as 'credible' (ie not due to low testing)

Tests per capita



Confirmed cases per 100 tests



Note: Data up to 23rd September (and yes it appears, at face value, that Denmark has tested its entire population more than 14 times, the UK more than 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".

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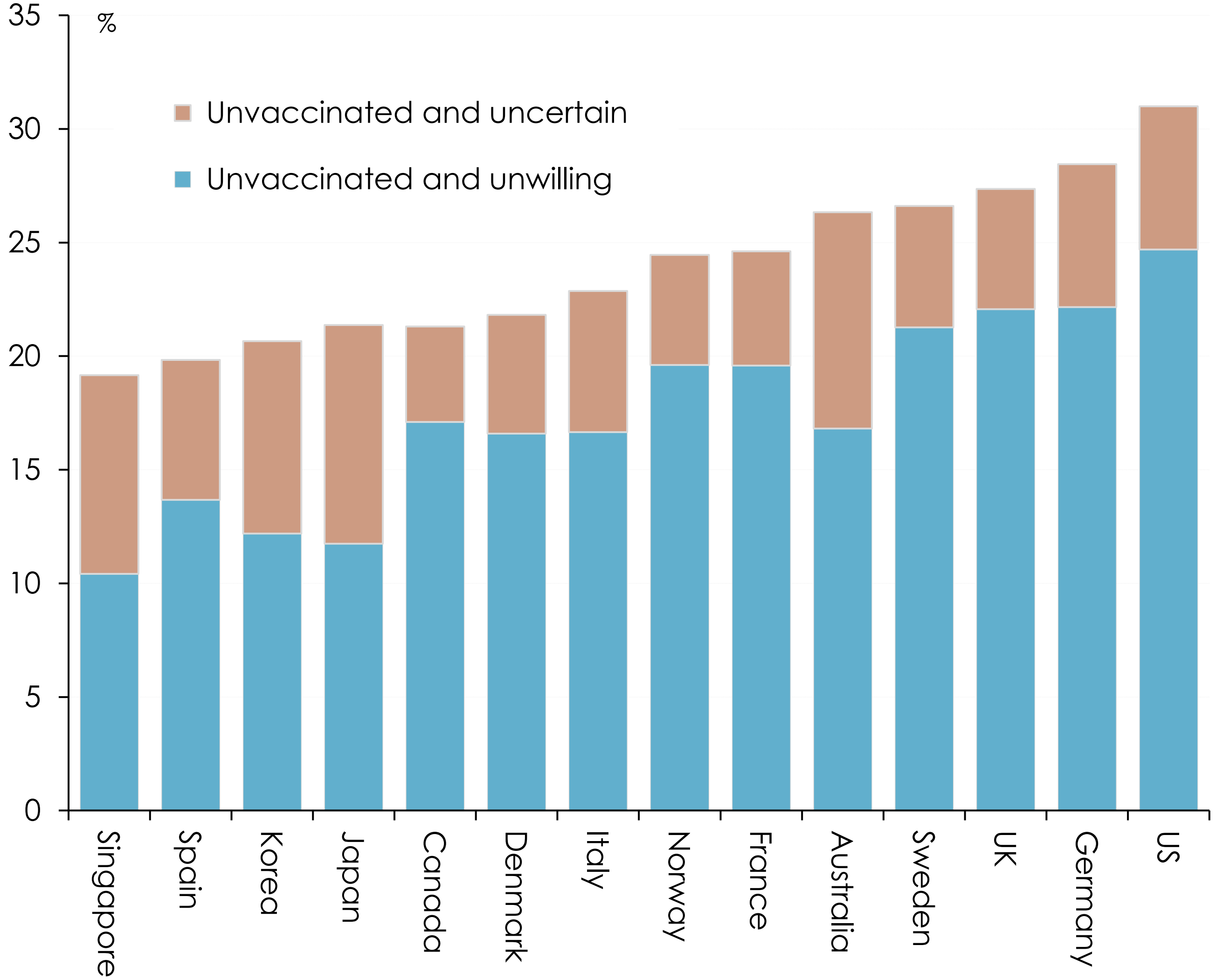
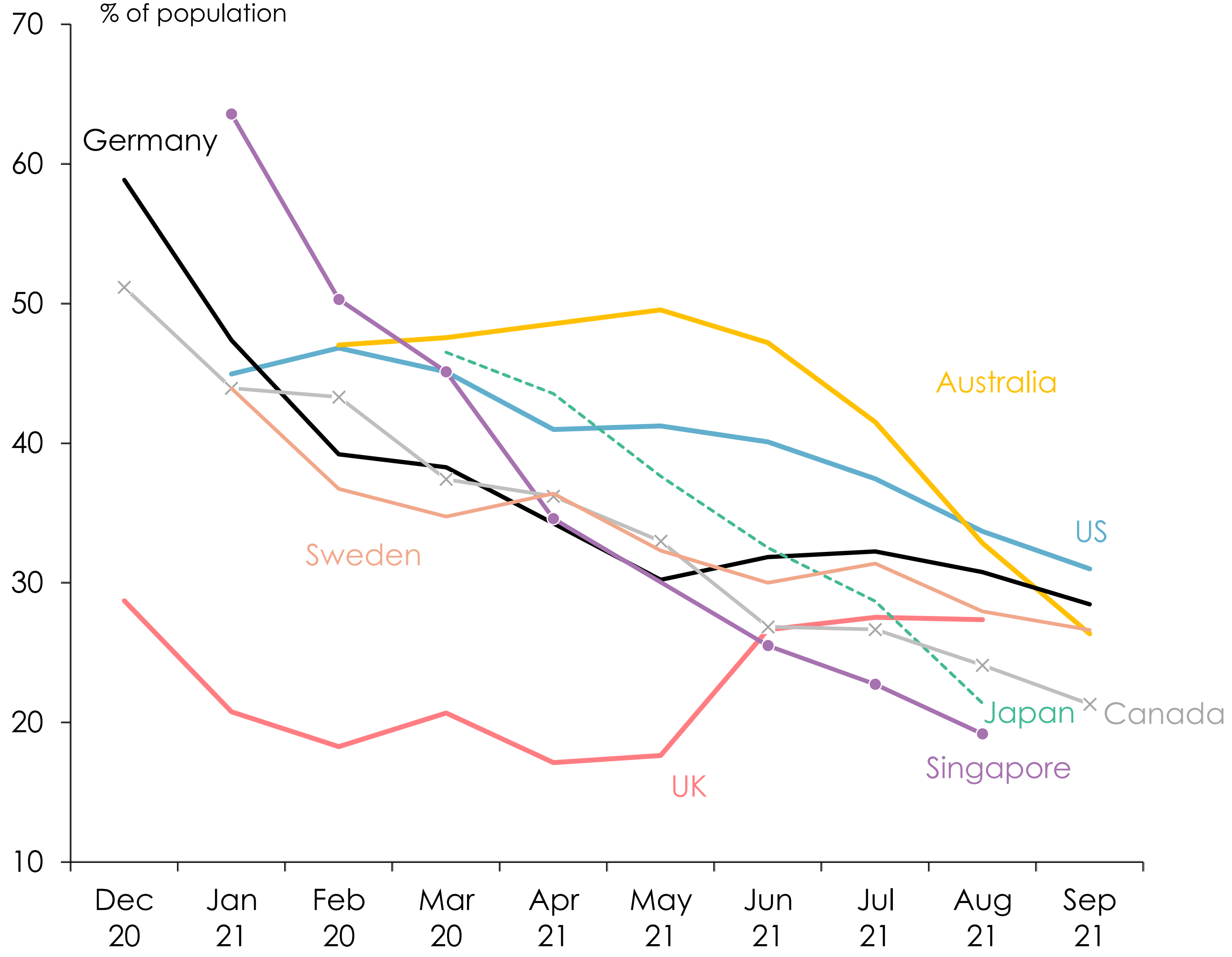
Vaccine hesitancy among Australians was the highest in the 'developed' world, but has fallen sharply in the past three months

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



Percentage of populations unvaccinated and unwilling or uncertain about getting vaccinated



Note: Data for Singapore, Spain, Japan, Denmark, Norway and the UK are for August.
Source: Imperial College London and YouGov, Covid 19 Behaviour Tracker Data Hub. Return to "What's New".

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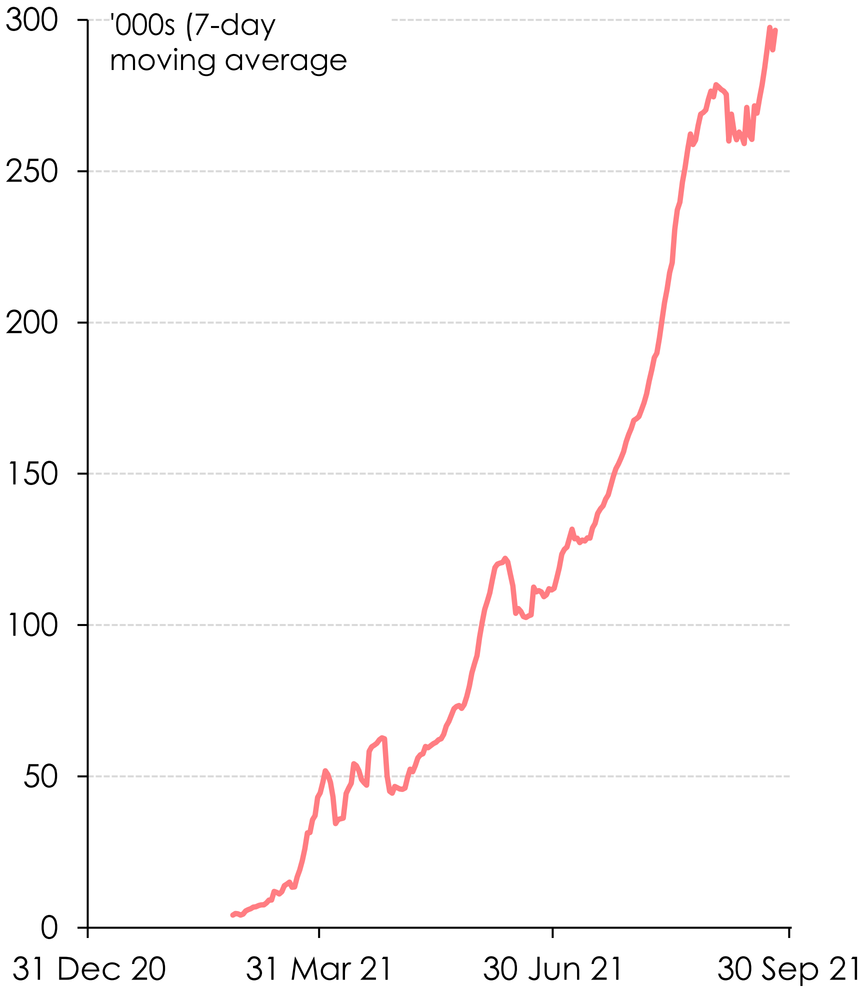
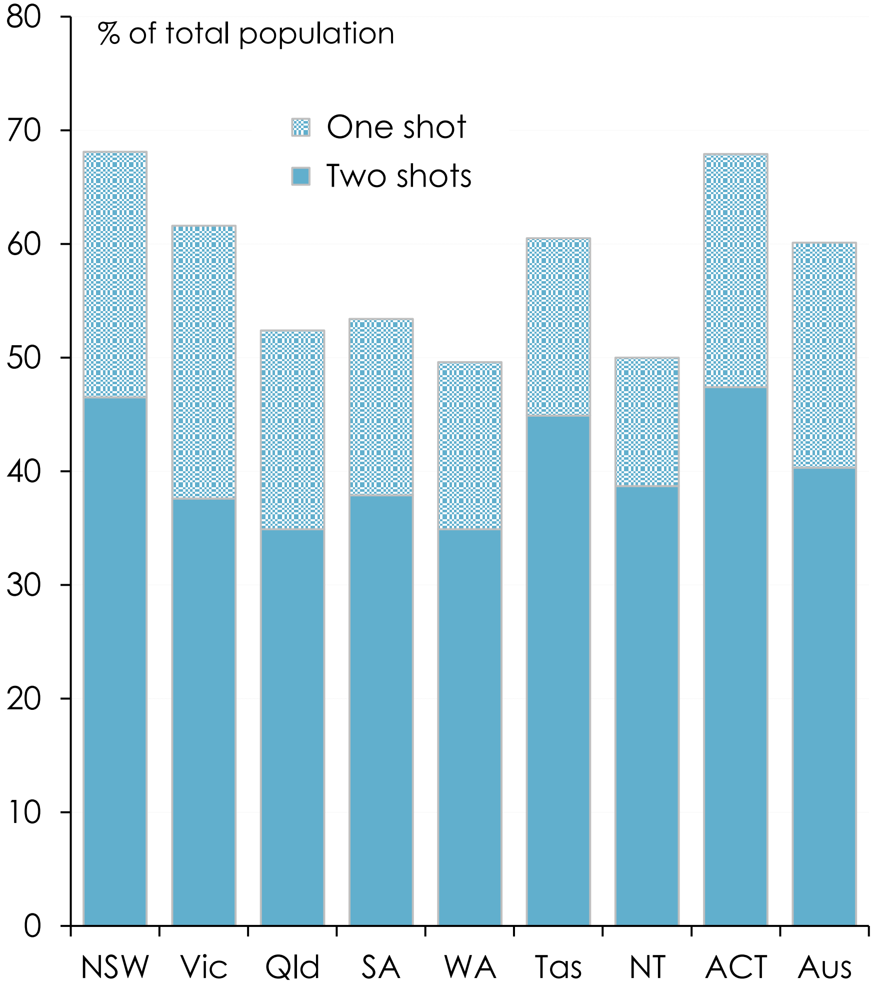
Vaccination rates have risen sharply over the past two months, particularly in NSW – but there's a fair bit of 'fudging' with the denominators of these 'rates'

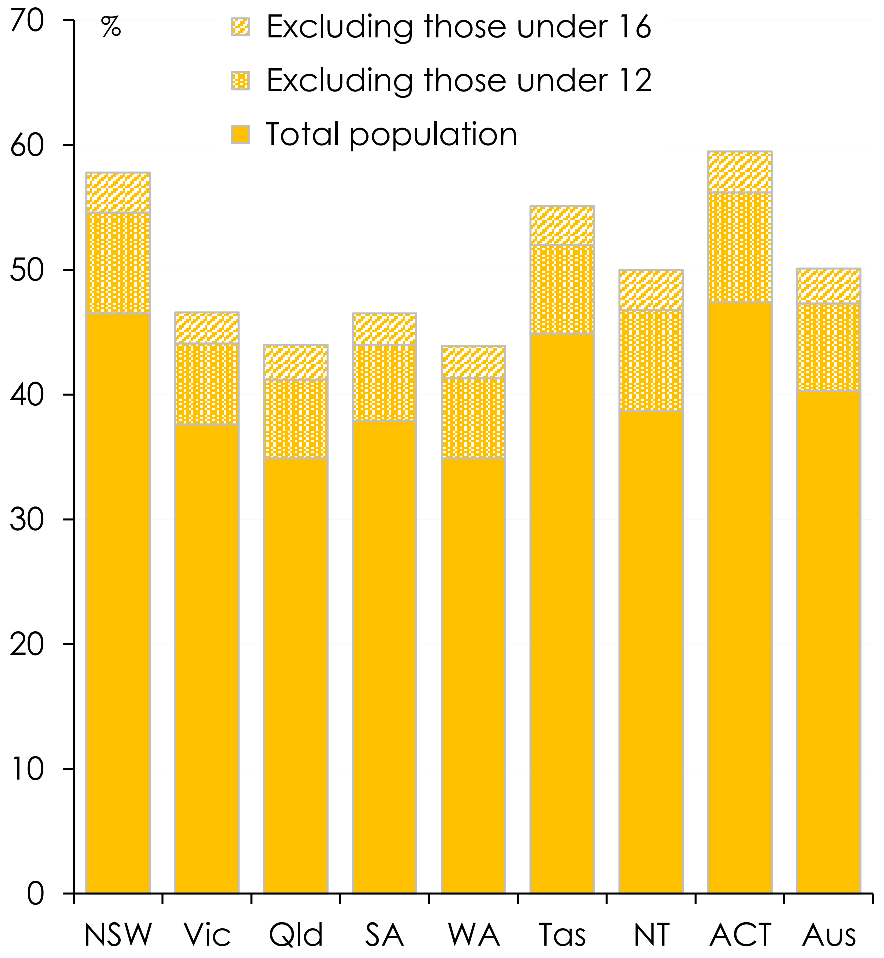
Daily number of vaccines administered



Percentage of total population vaccinated, states and territories



Percentage of populations double-vaccinated, states and territories



Note: Data up to 24th 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; Australian Department of Health, Australia's COVID-19 vaccine rollout. Return to "What's New".

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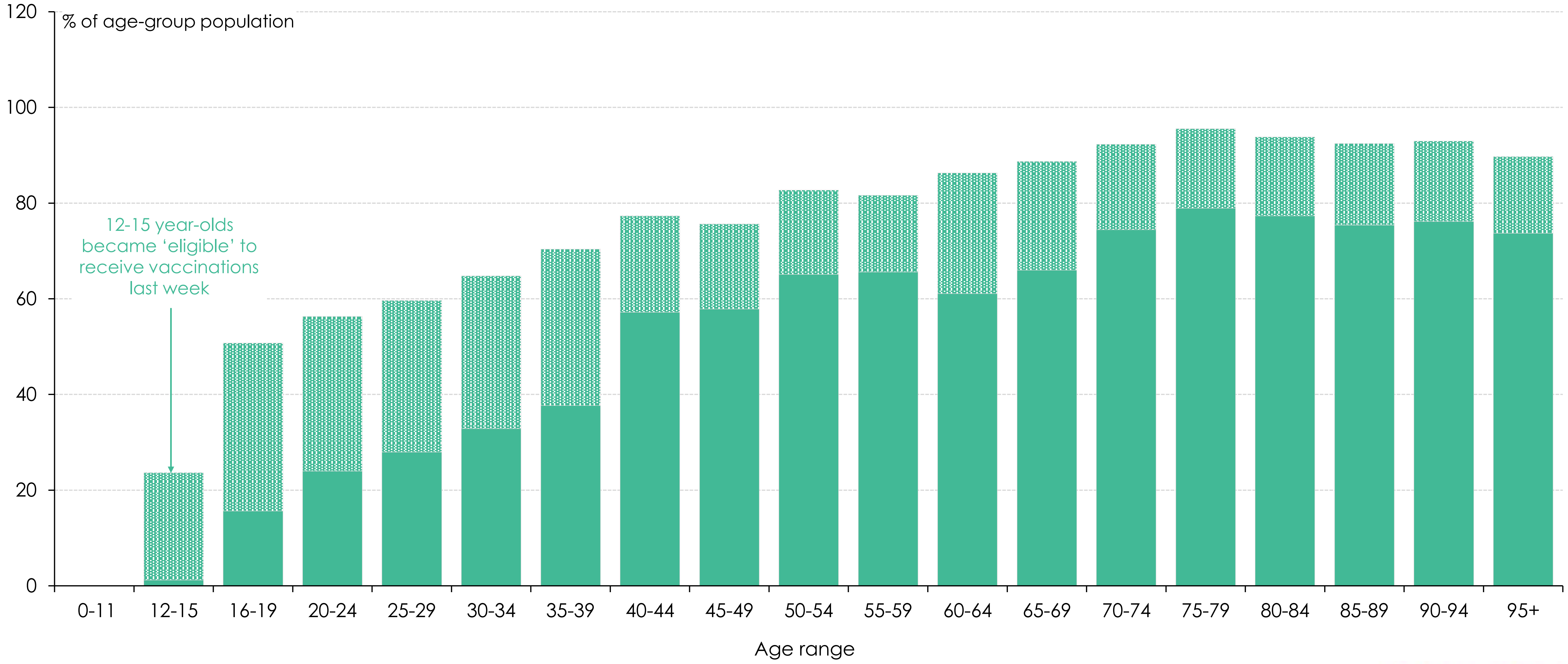
Over 75% of those aged 70 & over are now fully vaccinated – but only 31% of 20-39 year-olds (who account for the largest number of cases) have been

Vaccination rates by age group as at 24th September



Note: For data on infections by age group see slide 16.
Source: Commonwealth Department of Health, *Covid-19 Vaccine Roll-out update*, 24th September 2021. Return to "What's New".

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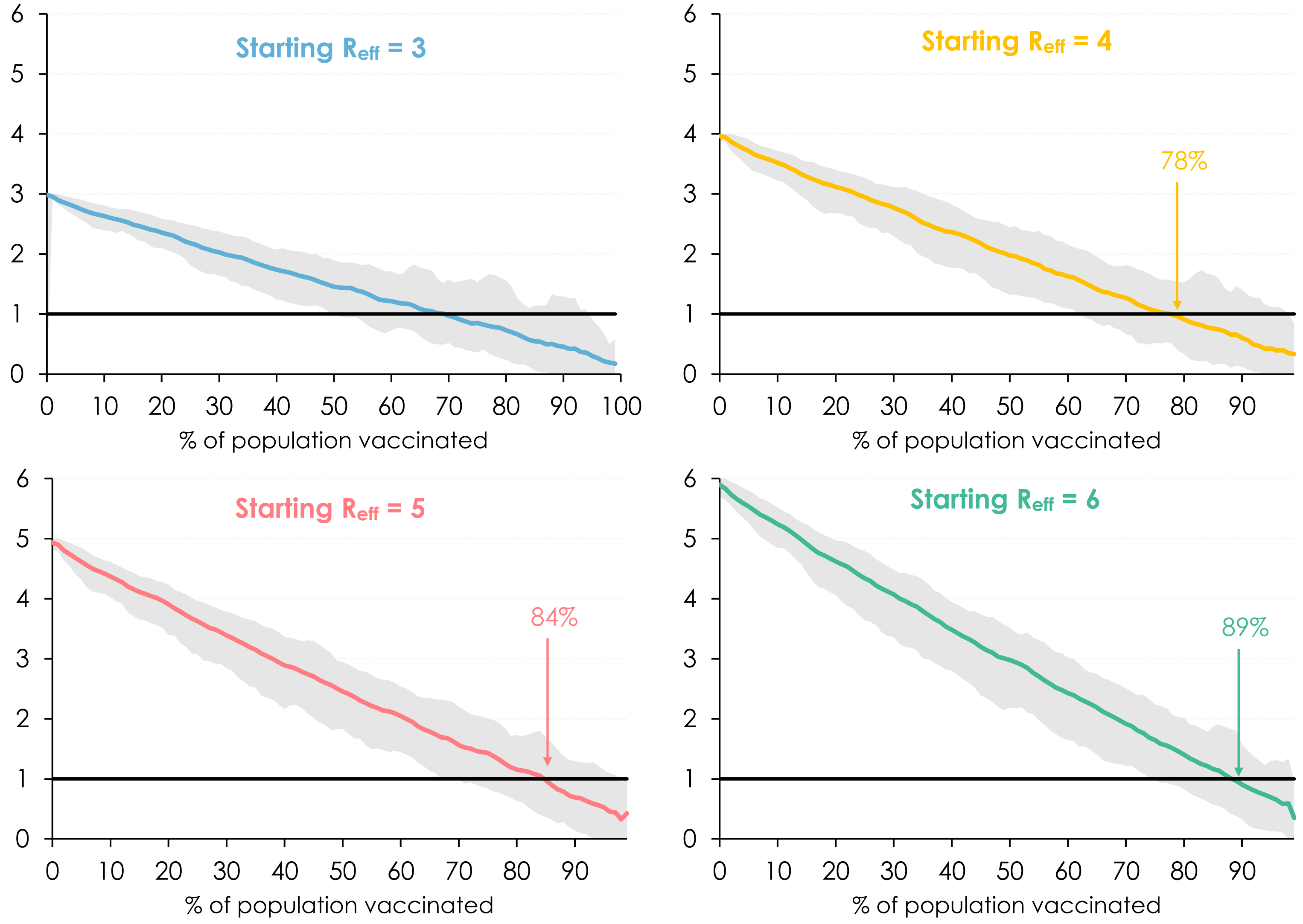
Modelling suggests that a vaccination rate of at least 80% of the total population (not just those ≥16) will be required in order to 'open up' safely

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



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

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

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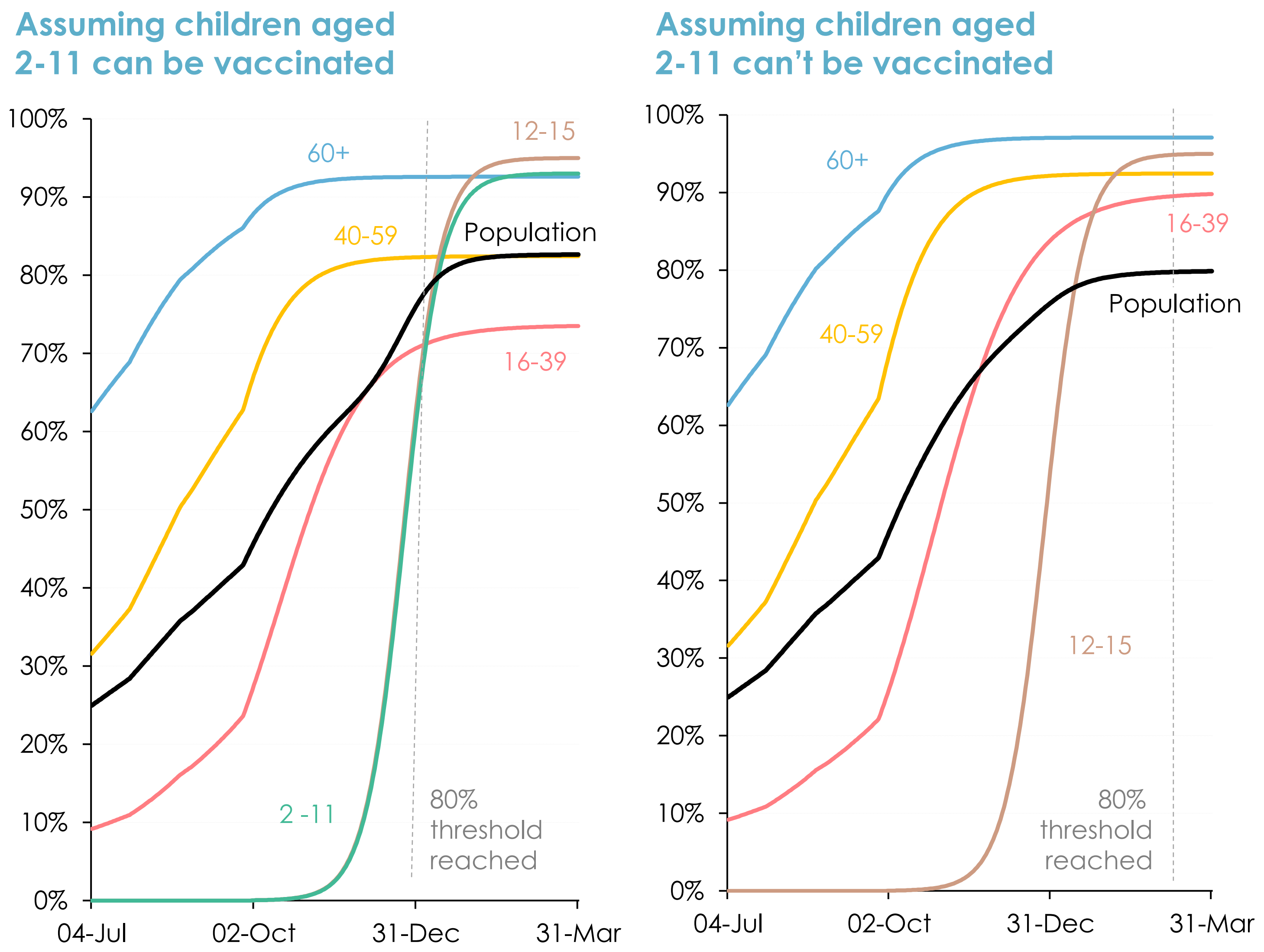
Because the Government's vaccination targets are expressed in terms of the 'eligible' population there may be some risk of opening up 'too early'

Plausible vaccination rates by age group



Source: Stephen Duckett, Danielle Wood, Brendan Coates et al, *Race to 80: Our best shot at living with Covid*, Grattan Institute, 27th July 2021; Department of Prime Minister and Cabinet, *Doherty Institute COVID-19 modelling - Key findings and implications*, 3rd August 2021.

- **the Federal Government's 'National Plan to transition Australia's National COVID-19 Response' (based on Doherty Institute modelling) specifies 70% and 80% 'full vaccination rates' as thresholds for the progressive easing of restrictions**
- **These thresholds are expressed as percentages of the 'eligible population'- ie people aged 16 and over**
  - however 19¾% of Australia's population is aged under 16
  - so 70% (or 80%) of the 'eligible' population represents only 56% (and 64%) of the total population
  - alternatively, if children under the age of 16 can't be vaccinated, for 70% of the total population to have been fully vaccinated requires 87% of the 'eligible' population to have been fully vaccinated
- **The Doherty Institute modelling used to underpin these targets also assumes an 'optimal' TTIQ (test, trace, isolate and quarantine) capability**
  - which recent experience in NSW and Victoria suggests is dubious in the presence of high case numbers
- **There would thus appear to be a non-trivial risk that Australia could ease restrictions 'too early' (as Israel and the UK did) – possibly resulting in another surge in infections when restrictions are eased**

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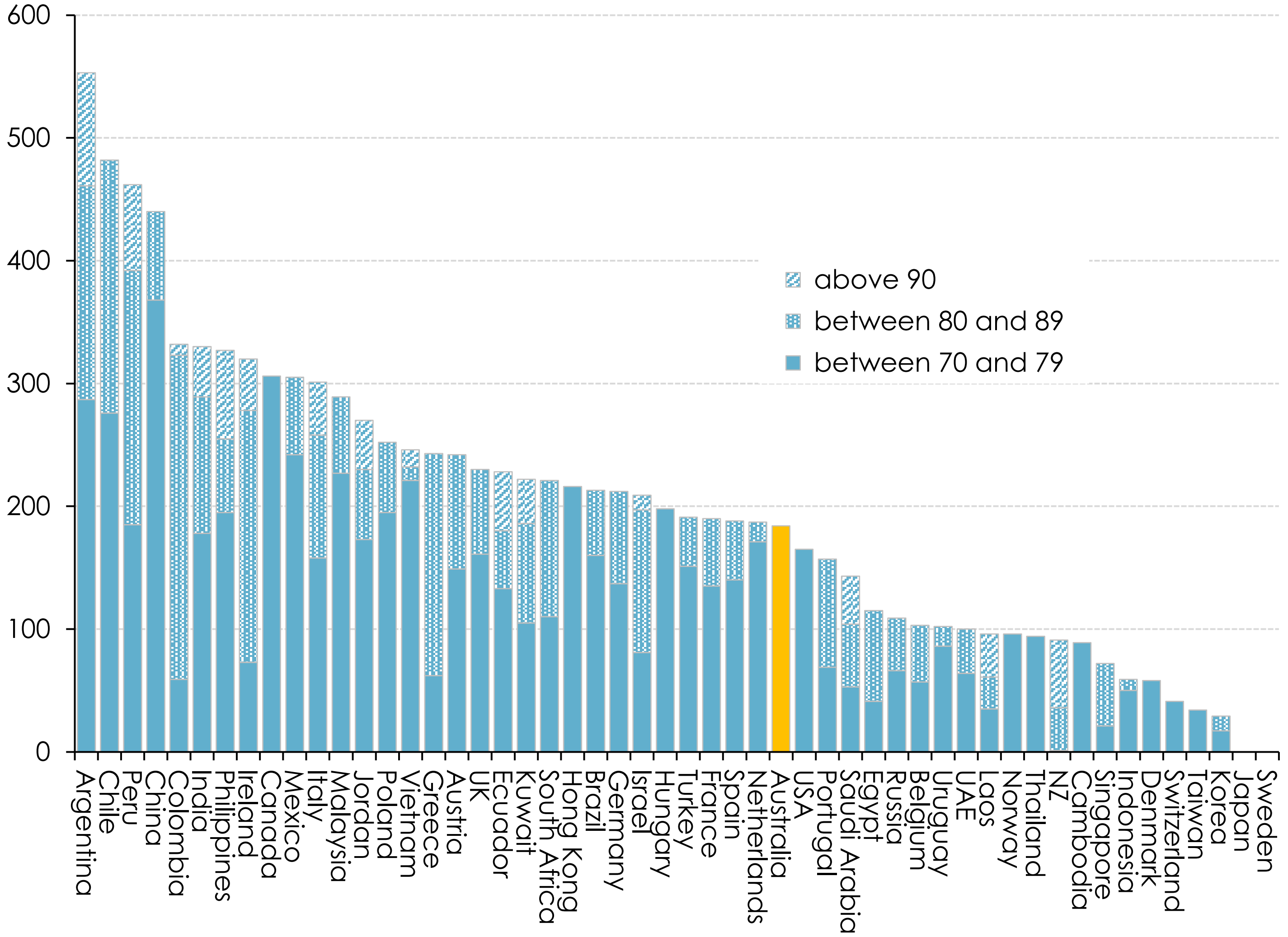
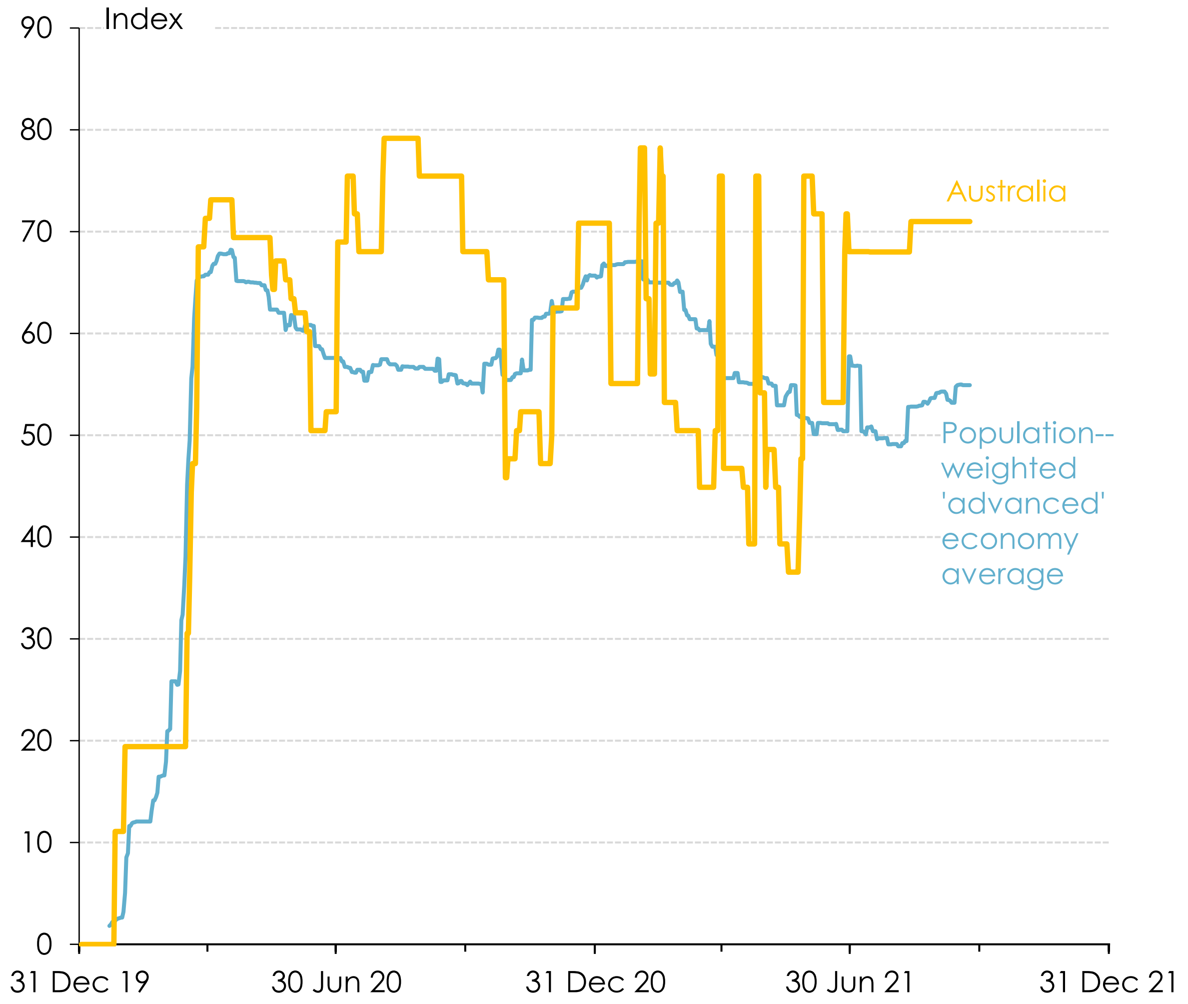
Australia's health restrictions are now significantly more onerous than in other 'advanced' economies, on average

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 23rd September. Return to "What's New".

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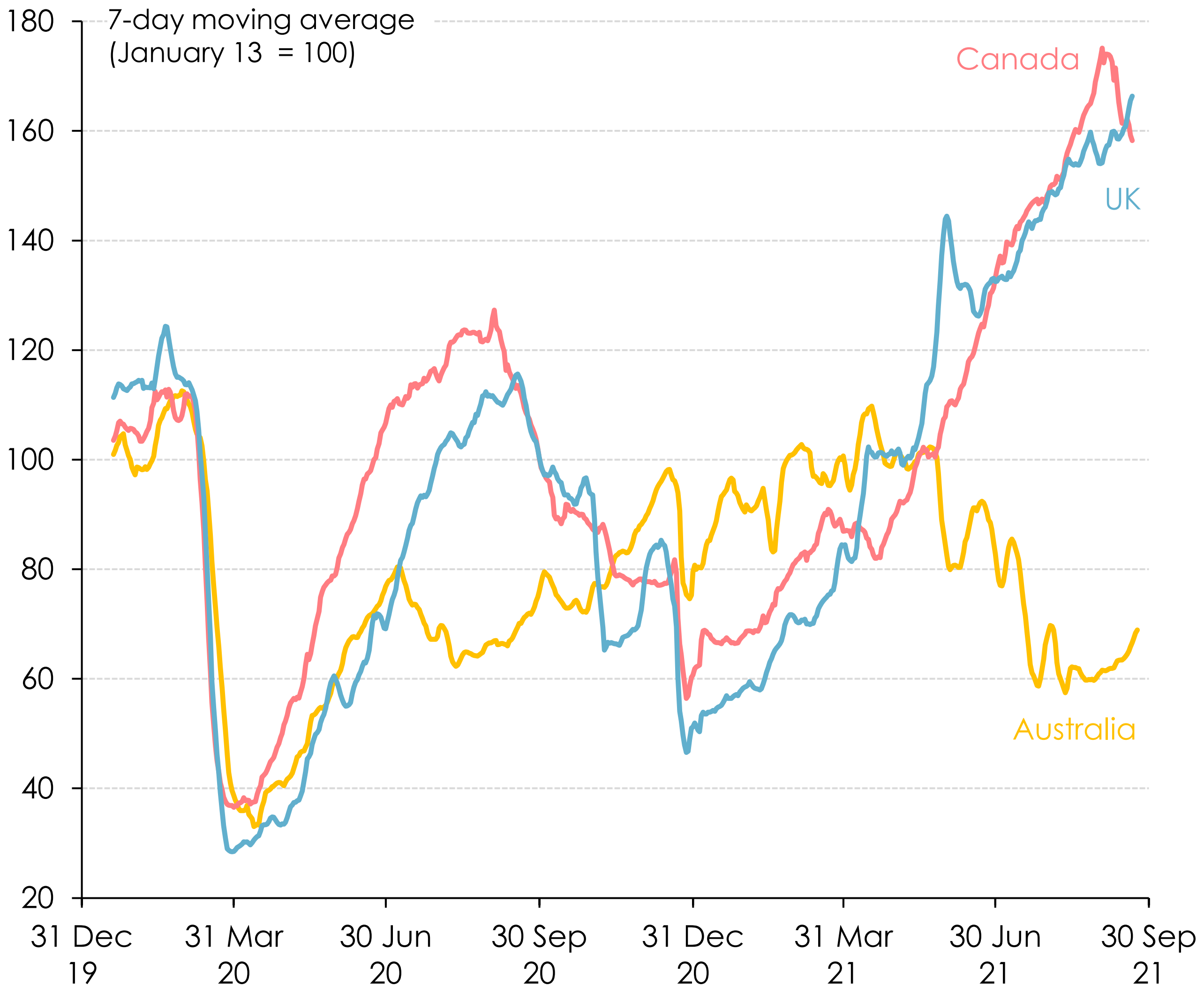
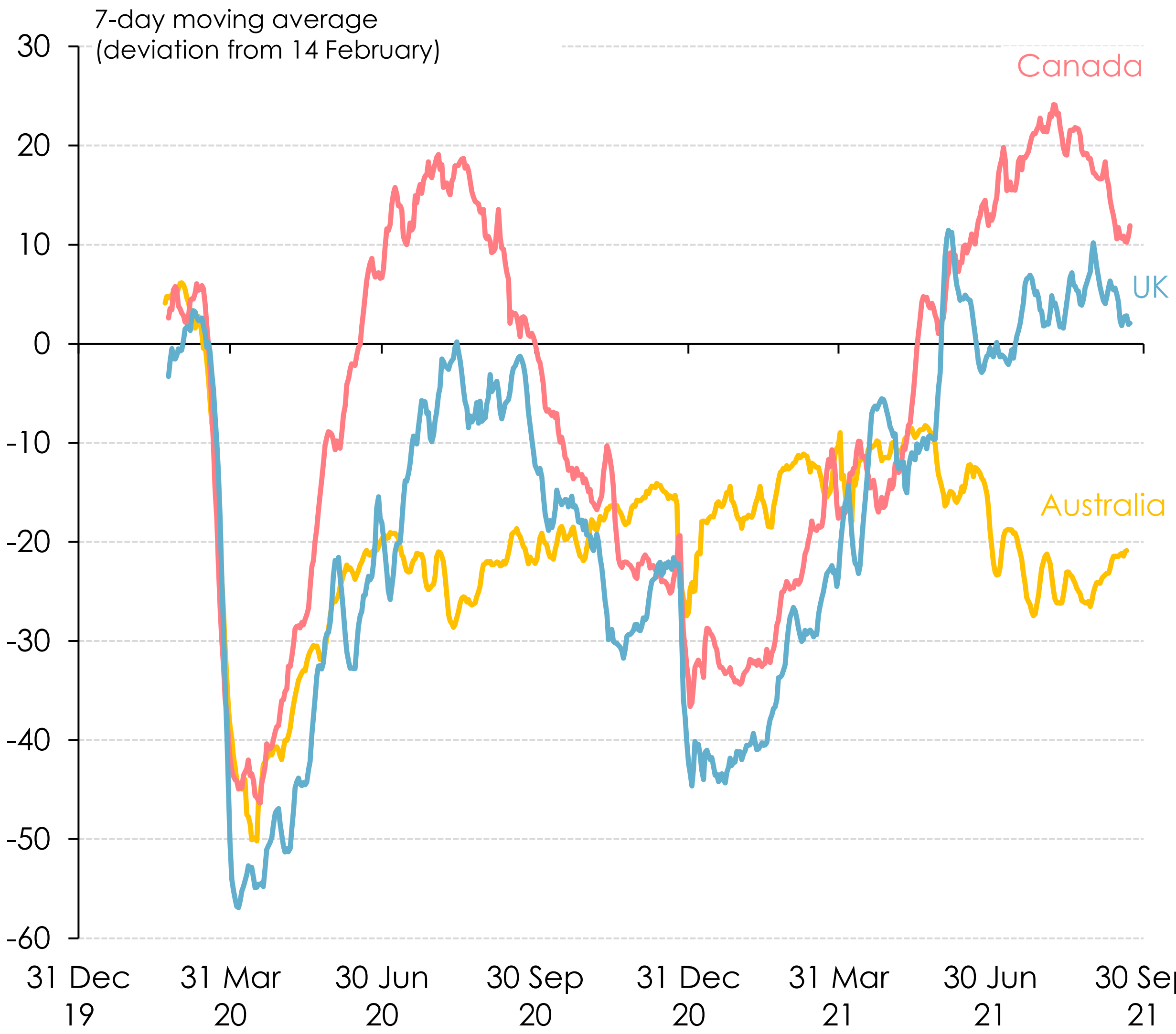
Mobility indicators give some sense of how more onerous restrictions are now affecting Australia's economy compared with (eg) Canada & the UK

Apple mobility indicators



Google non-residential activity mobility indicators

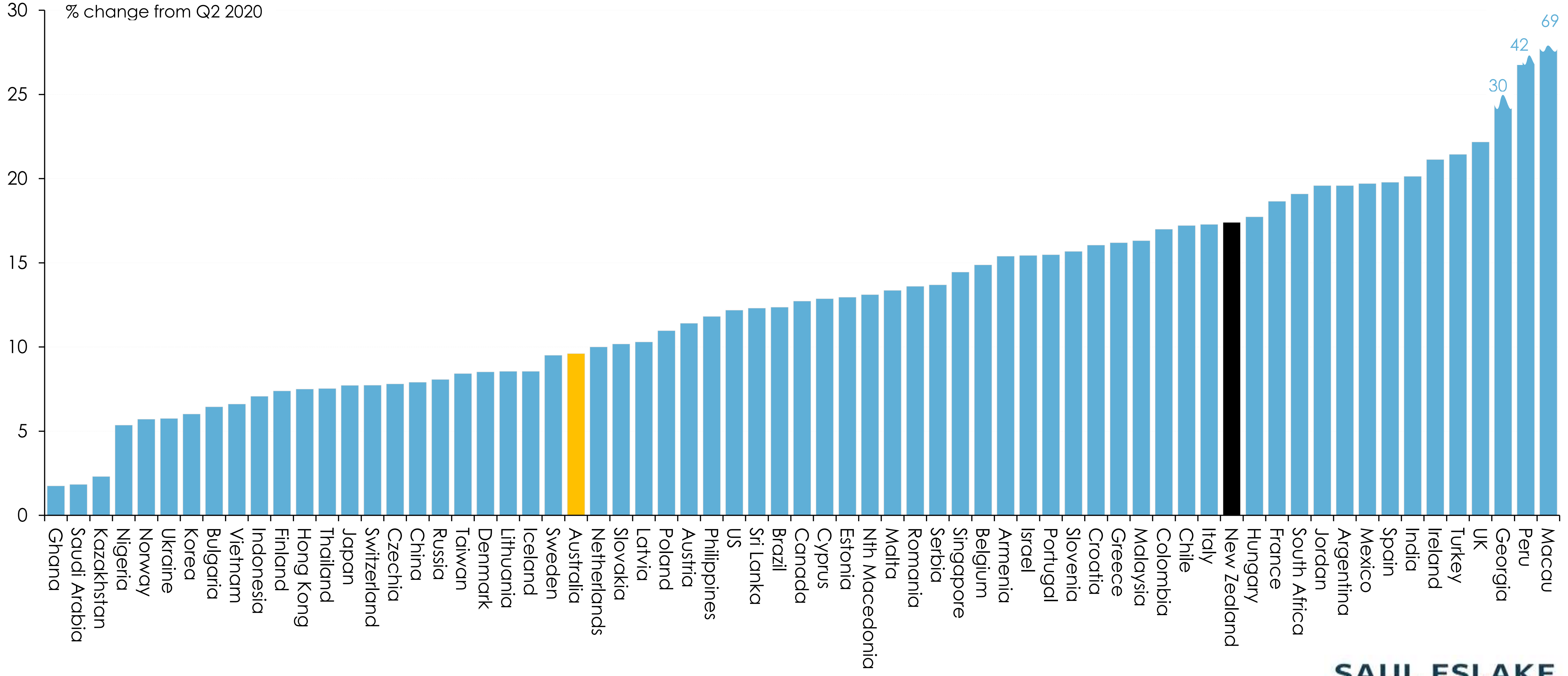


Note: 'Apple mobility indicator' is the average of three separate indicators for driving, use of transit and walking (data up to 23rd September). Google 'non-residential activities' indicator is the average of separate indicators for workplaces, retail and recreation, groceries and pharmaceuticals, transit and parks (data up to 20th September). *Sources:* Apple, Mobility Trends Reports; Google, Covid-19 Community Mobility Reports; Corinna Economic Advisory. Return to "What's New".

The world

Of 67 countries which have now reported Q2 GDP estimates, 42 have recorded double-digit growth from last year's pandemic-induced trough

Growth in real GDP over the year to Q2 2021



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

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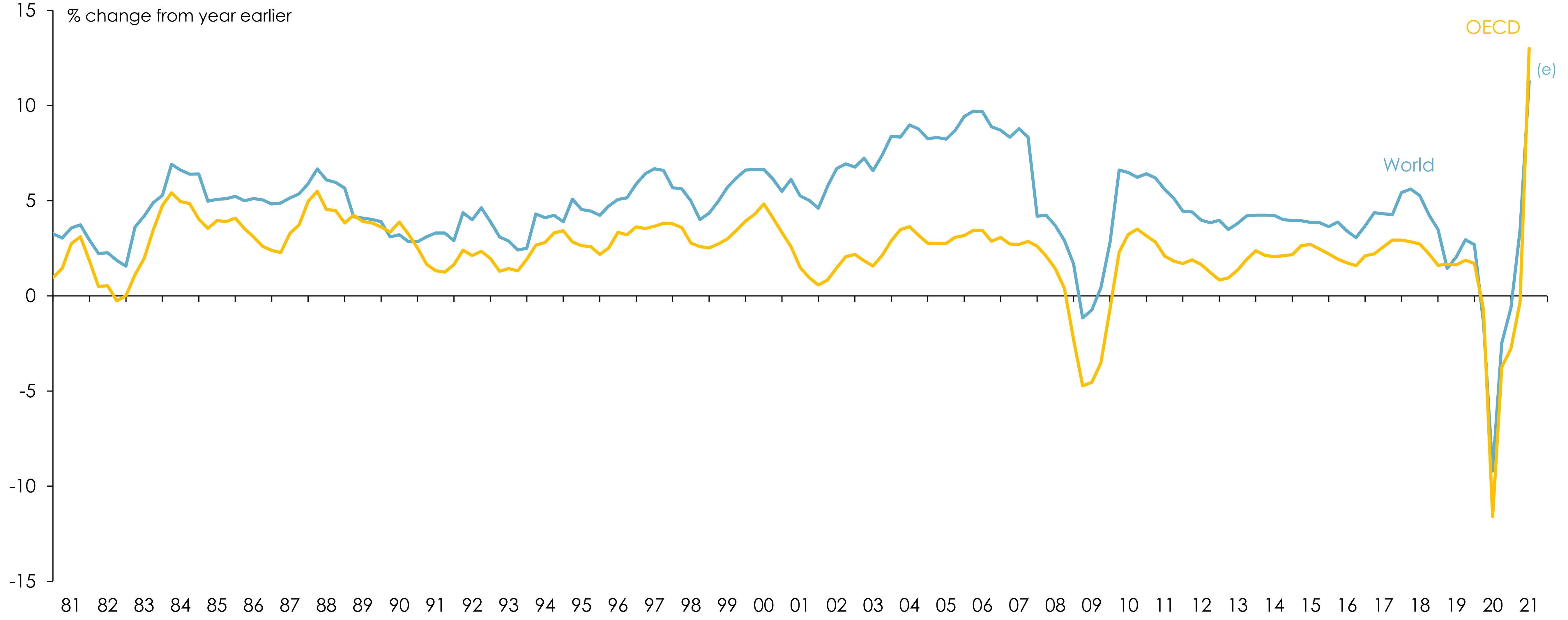
The world economy likely grew by about 11% over the year to Q2 – a figure which is vastly flattered by comparison with last year's trough

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".

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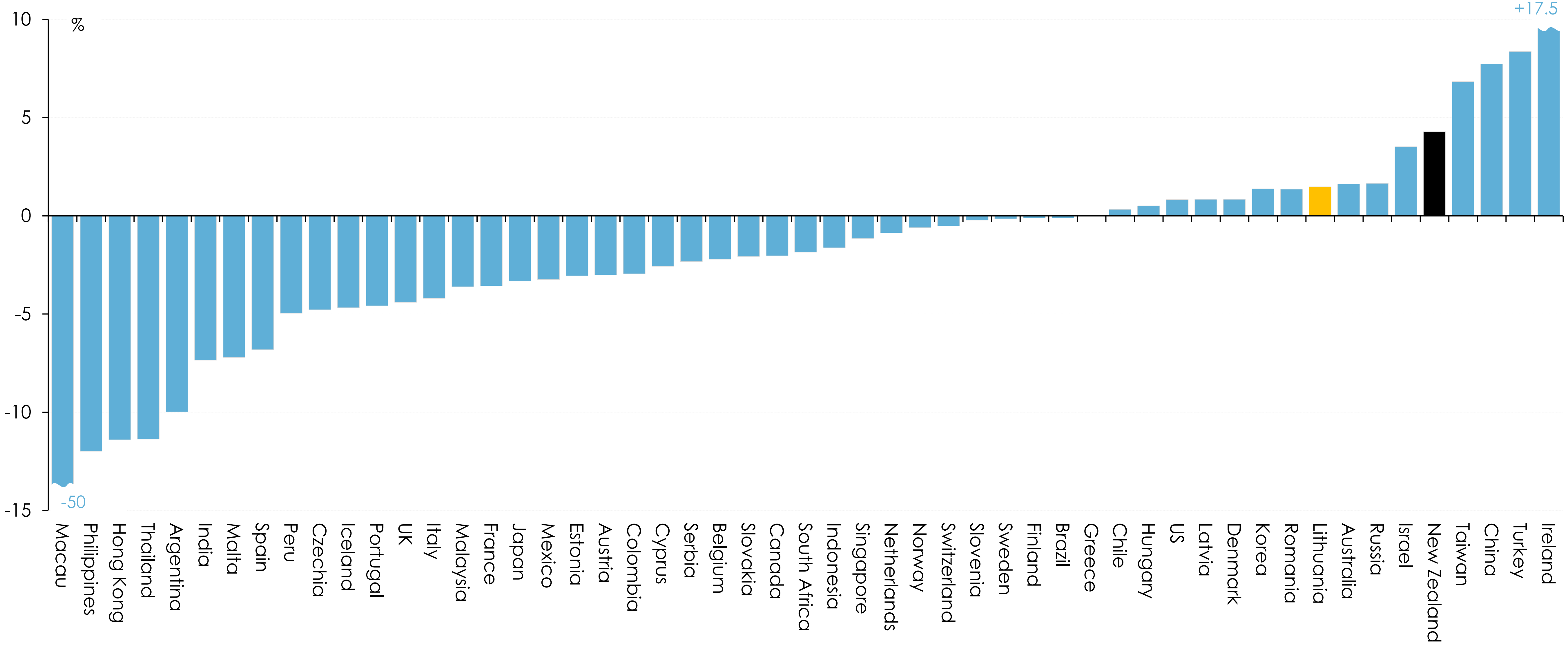
Only 16 countries (out of 51 for which seasonally-adjusted Q2 GDP estimates are available) have exceeded their pre-pandemic peaks

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".

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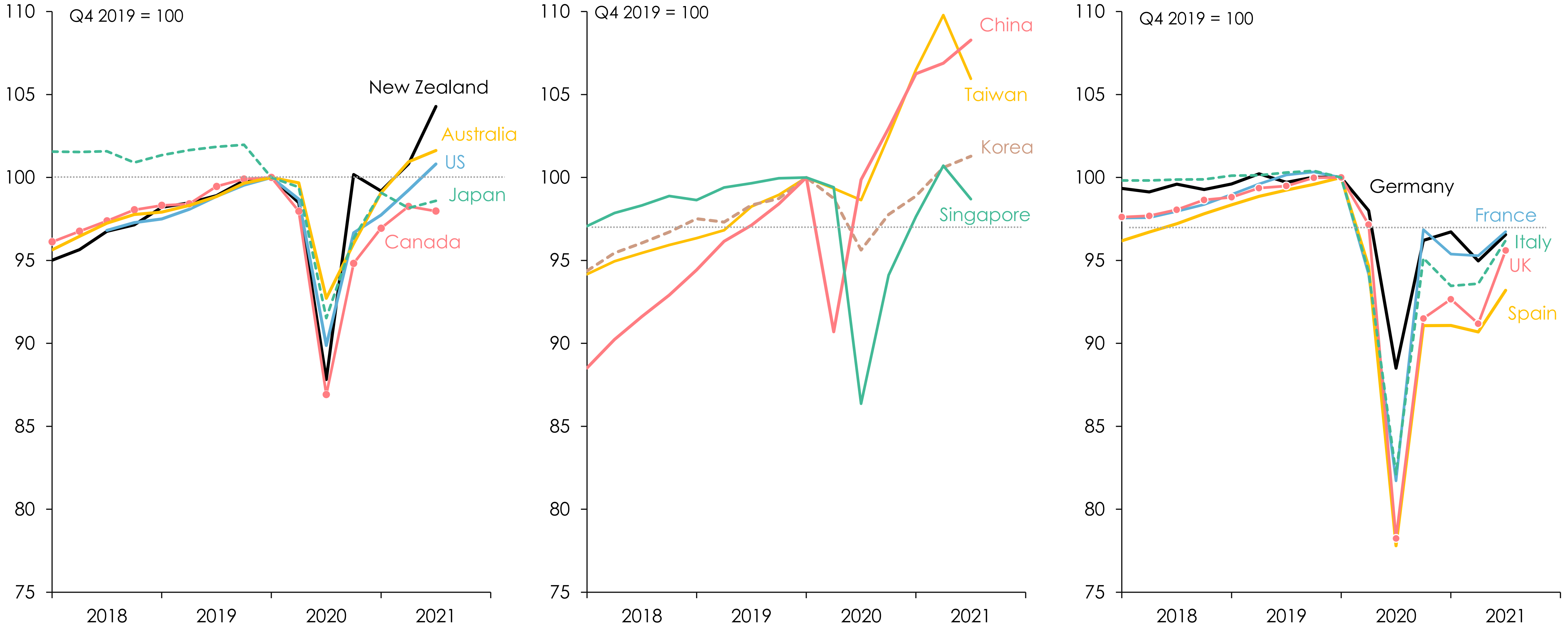
The more 'advanced' Asian economies, Australia's & NZ's and the US's, have recovered more rapidly from last year's recessions than Europe's

Levels of real GDP indexed to Q4 2019 = 100



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

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The OECD this week made minor changes to its global growth outlook but with the US forecast for 2021 down 0.9 pc pt and the euro zone up 1 pc pt

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

	Actual		*IMF*		*World Bank*		*OECD*		*Australian Treasury*	
	2019	2020	2021	2022	2021	2022	2021	2022	2021	2022
US	2.2	-3.5	7.0	4.9	6.8	4.2	6.0	3.9	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	4.6	4.5	4.0
India	4.0	-8.0	9.5	8.5	8.3	7.5	6.7	9.9	11.0	5.8
Japan	0.3	-4.8	2.8	3.0	2.9	2.6	2.5	2.1	3.5	1.8
UK	1.4	-9.9	7.0	4.8	na	na	6.7	5.2	na	na
Australia	1.9	-2.4	5.3	3.0	na	na	4.0	3.3	4.3*	2.5*
New Zealand	2.2	-3.0	4.0	3.2	na	na	3.5	3.8	3.2†	4.4†
World	2.8	-3.3	6.0	4.9	5.6	4.3	5.7	4.5	6.0	4.5
World trade	0.9	-8.5	9.7	7.0	8.3	6.3	na	na	na	na

Note: * Forecasts for fiscal years beginning 1st July (and finishing 30th June following year) † Forecasts by New Zealand Treasury for fiscal years beginning 1st July
Sources : International Monetary Fund (IMF), *World Economic Outlook Update*, 26th July 2021; The World Bank, *Global Economic Prospects*, 8th June 2021; Organization for Economic Co-operation & Development (OECD), *Economic Outlook, Interim Report*, 21st September 2021; Australian Treasury, 2021-22 *Budget Paper No. 1, Statement No. 2*, 11th May 2021; New Zealand Treasury, *Budget Economic and Fiscal Update 2021*, 20th May 2021. Return to "What's New".

The OECD's latest forecast includes more substantial downward revisions to forecasts for the US, Indonesia and Australia this year

OECD real GDP growth forecasts

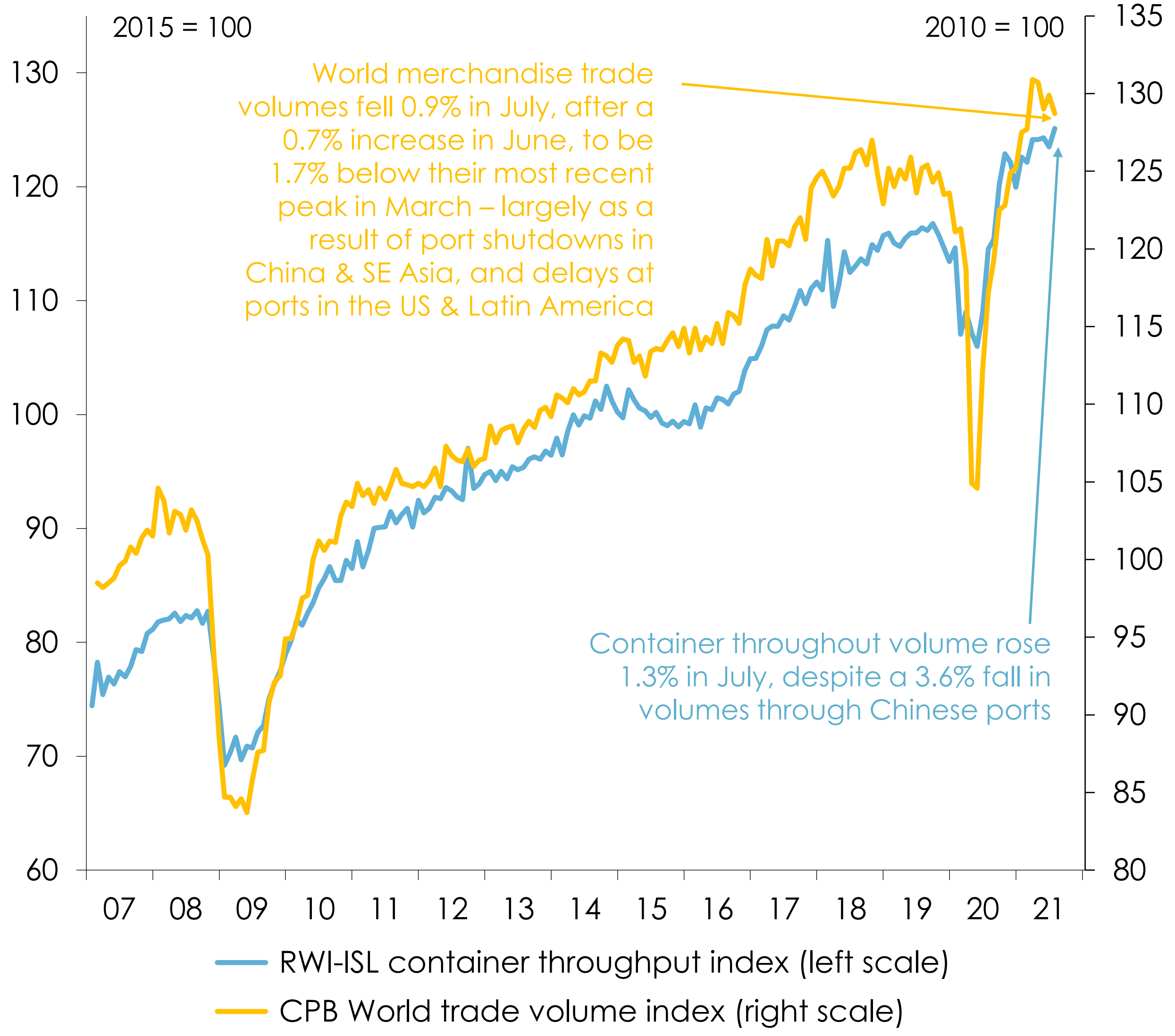
	September forecast (%)		Revision from May (pc pts)	
	2021	2022	2021	2022
Advanced economies				
US	6.0	3.9	-0.9	+0.1
Euro zone	5.3	4.6	+1.0	+0.2
Japan	2.5	2.1	-0.1	+0.1
UK	6.7	5.2	-0.5	-0.3
Australia	4.0	3.3	-1.1	-0.1
Emerging economies				
China	8.5	5.8	0.0	0.0
India	9.7	7.9	-0.2	-0.2
Brazil	5.2	2.3	+1.5	-0.2
Indonesia	3.7	4.9	-1.0	-0.2
Russia	2.7	3.4	-0.8	+0.6
World	*5.7*	*4.5*	*-0.1*	*+0.1*

Source: OECD, Economic Outlook, Interim Report, 21st September 2021.
Return to "What's New".

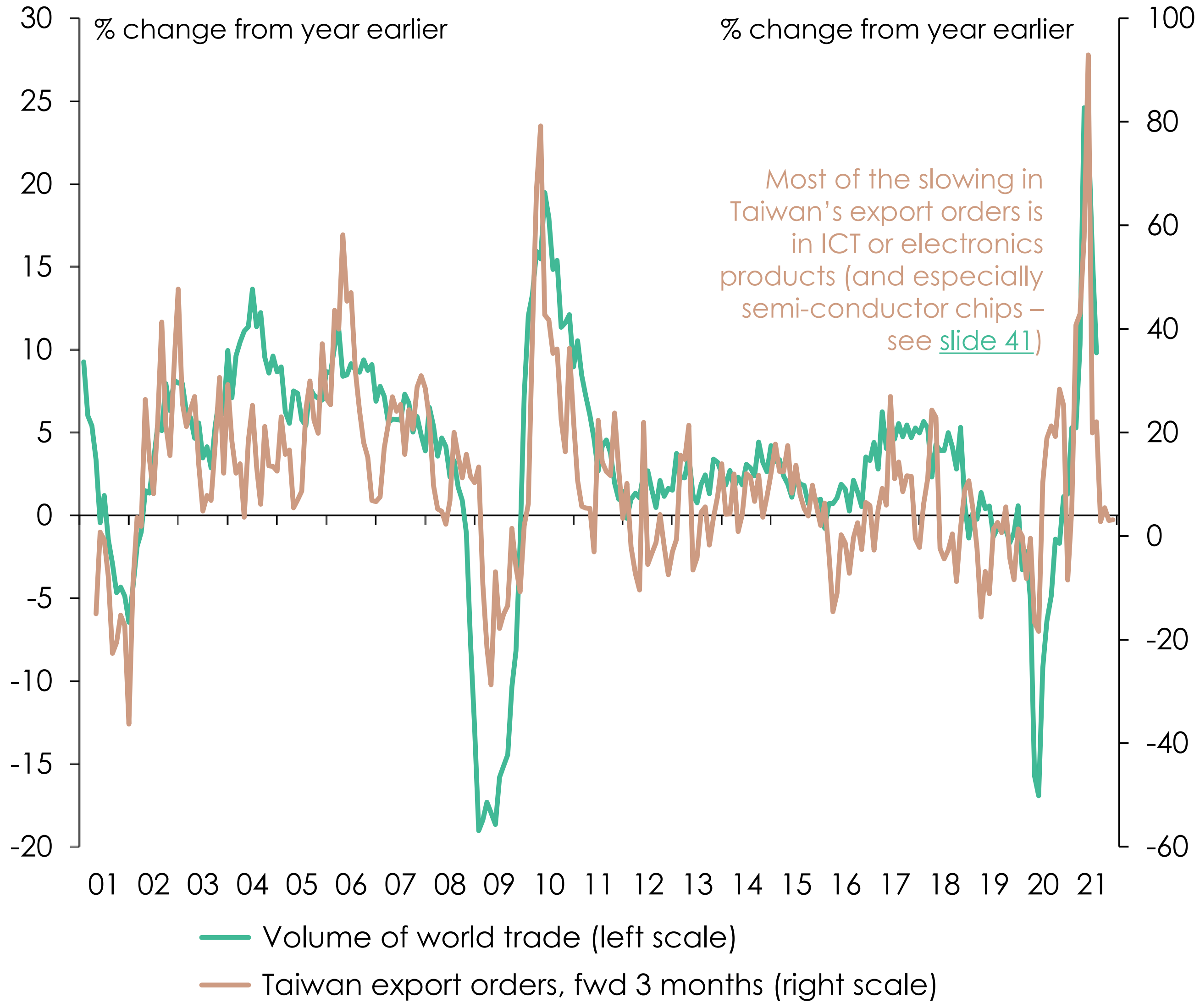
- **The OECD's latest forecast for global economic growth this year and next is little changed from the one published in May**
  - however, the forecast for US growth in 2021 has been revised down by almost 1 pc pt, as it has also been for Indonesia and Australia, "due to the impact of the Delta variant and temporary supply constraints", while that for the euro area has been revised up by 1 pc pt "due to higher investment spending, helped by the Next Generation EU funds"
  - the forecast continues to assume an "additional boost to infrastructure spending in the US" (which may not happen)
  - and the forecast for China hasn't changed despite clear evidence that its economy is slowing
- **The OECD also emphasizes the need for ongoing "macro-economic policy support" accompanied by "effective and well-targeted structural reforms"**
  - monetary policy should "tolerate" temporary overshooting of headline inflation from "transient capacity pressures" provided underlying inflation pressures are contained and "inflation expectations remain well-anchored"
  - a "premature and abrupt withdrawal of fiscal policy support should be avoided" – instead ensuring that "support continues to go to the poorest households" and that resources be "redirected to digital and low-carbon transformations"
  - governments need to "seize the opportunity at a time when macro-economic policies are supportive and demand is rising quickly to accelerate reforms" (see slide 144 for what that means in the Australian context)

World trade volumes fell in July, as a result of port closures in Asia and delays at ports in the US

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 (August data to be released on 25th October); Institute of Shipping Economics & Logistics (ISL) and RWI Leibniz-Institut für Wirtschaftsforschung (RWI) Container Throughput Index; Taiwan Ministry of Economic Affairs. Return to "What's New".

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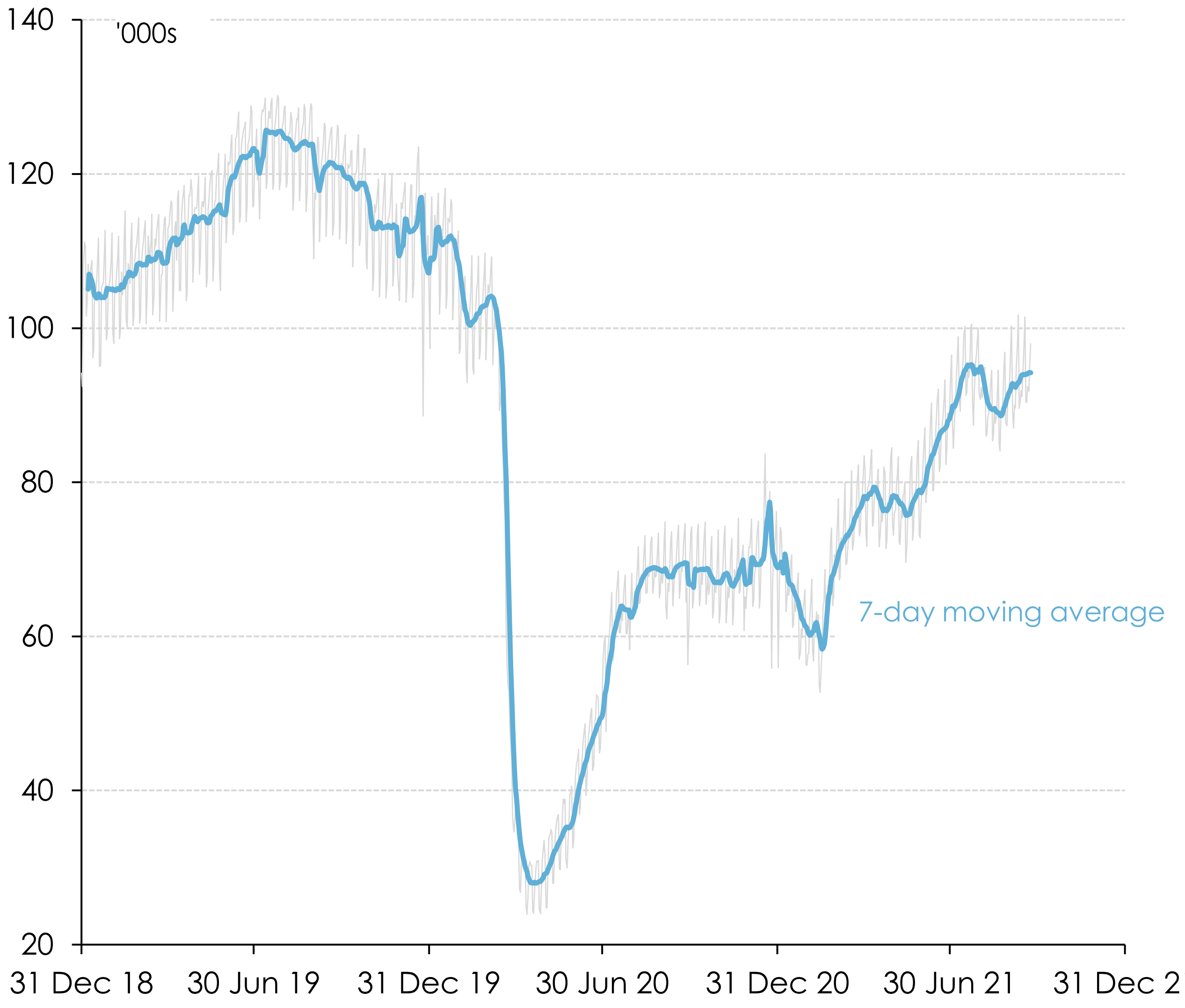
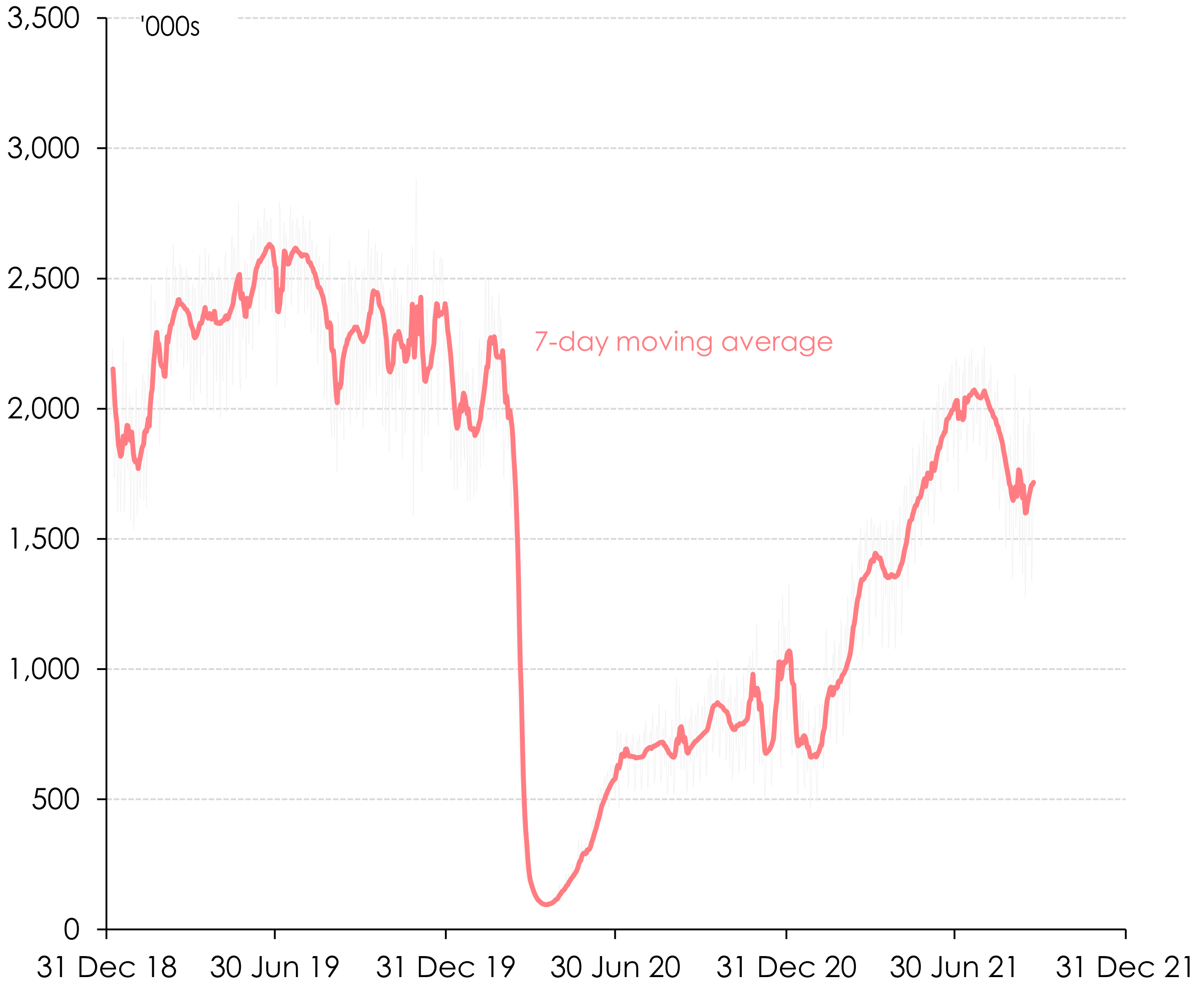
The upturn in new infections has had a dampening effect on global aviation – although that might now be starting to turn around

Daily commercial flights worldwide



Daily US TSA 'security' checks



Note: Commercial flights include commercial passenger flights, cargo flights, charter flights, and some business jet flights. Data up to 23rd September. Thicker coloured lines are 7-day centred moving averages of daily data plotted in thin grey lines. *Sources:* Flightradar24.com; US Transport Safety Administration (at last, something useful produced by aviation 'security'!!!). Return to "What's New".

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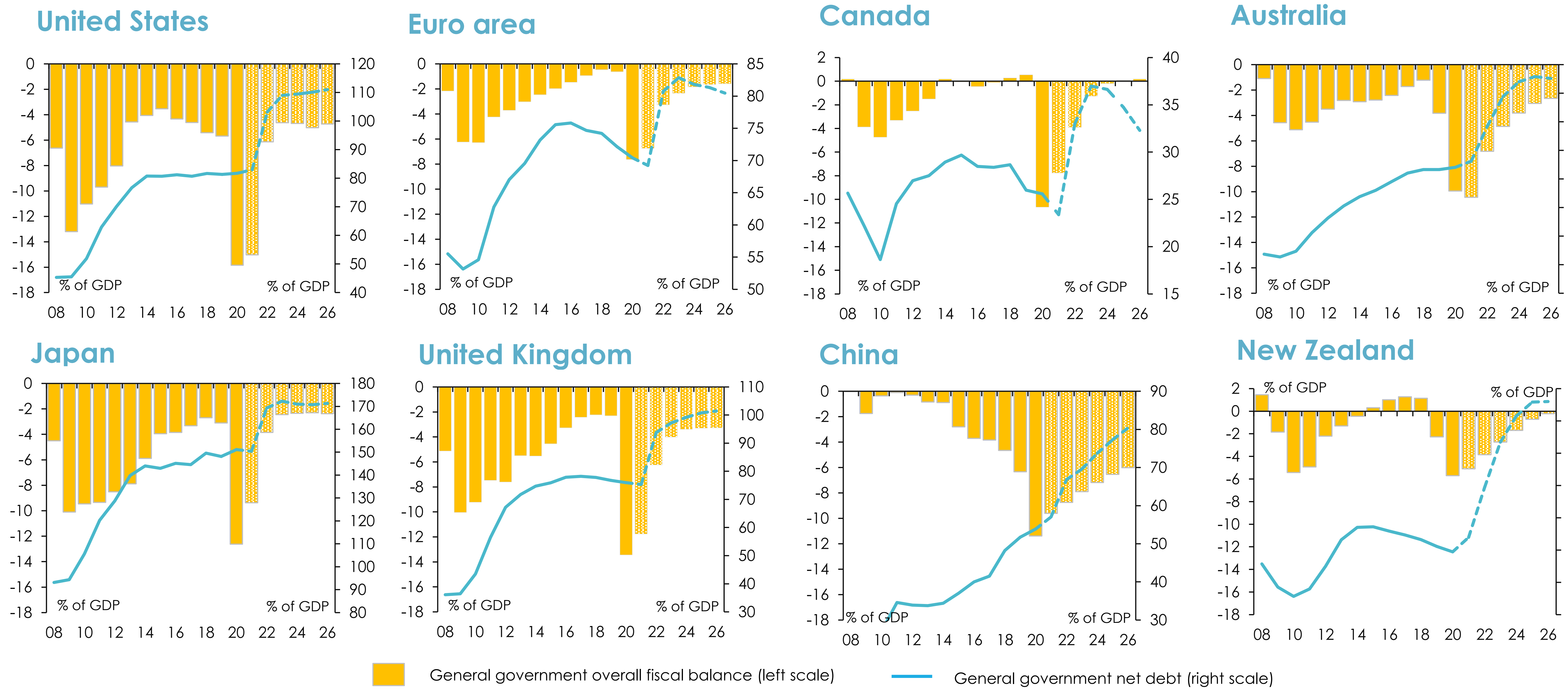
The US fiscal stimulus dwarfs that of any other major economy – although Japan, the UK, Canada and Australia are also doing a lot



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

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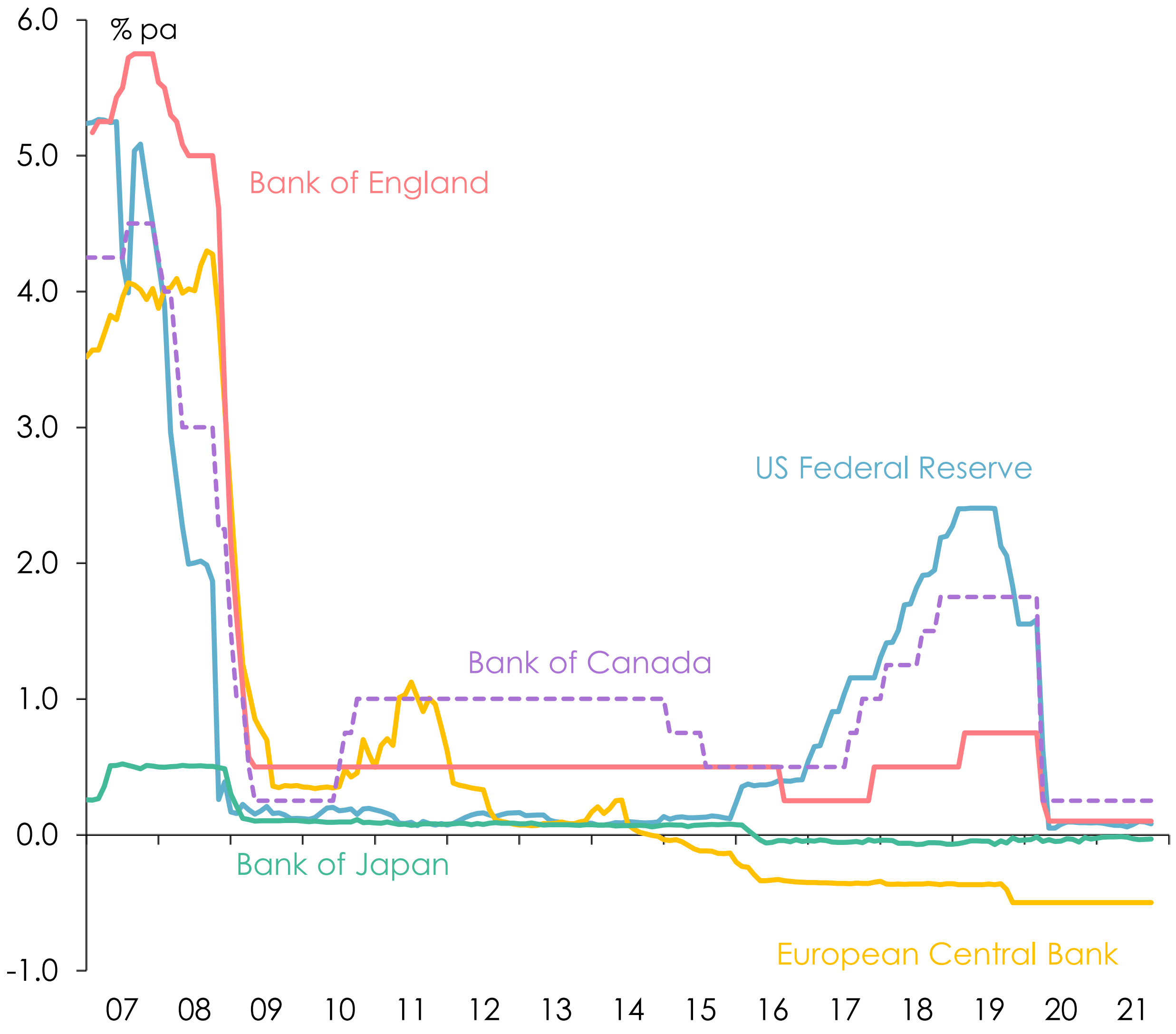
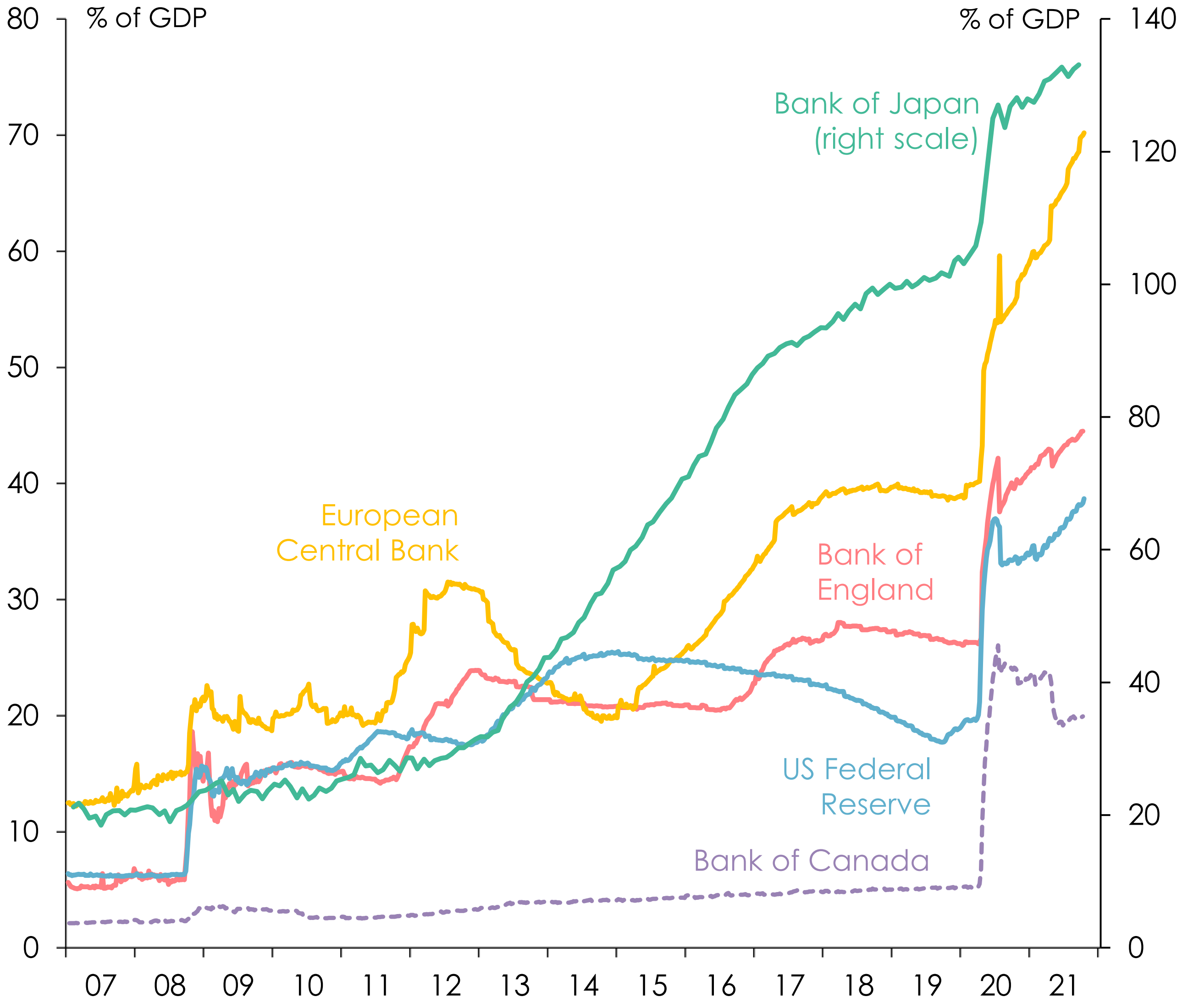
Major central banks have cut interest rates to record lows, and done more 'quantitative easing' than during the global financial crisis

Major central bank policy interest rates



Major central bank balance sheets



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

The Federal Reserve this week confirmed that it was likely to start 'tapering' its bond purchases later this year – and hinted that rates could rise in 2022

- **The US Federal Reserve's Open Market Committee left its target for the Federal funds rate unchanged at 0-0.25% at this week's two-day meeting, as expected**
  - but it noted that if the US economy continues to "progress … broadly as expected" towards its "maximum employment and price stability goals", a "moderation in the pace of asset purchases" (ie, 'tapering') "may soon be appropriate"
  - at his post-meeting press conference Fed Chair Jerome Powell clarified that this meant "a gradual tapering process that concludes around the middle of next year" – but sought to emphasize that this prospective 'tapering' "will not be intended to carry a direct signal regarding the timing of interest rate liftoff"
- **Fed Governors and regional Fed Presidents lowered their median forecast for GDP growth through 2021 to 5.9% (from 7.0%) but raised it for 2022 to 3.8% (from 3.3%), and raised their median 'core' inflation forecast for 2021 to 3.7% (from 3.0%) and for 2022 to 2.3% (from 2.1%)**
  - they also raised their median forecast for the Fed funds rate in June next year to 0.3% (from 0.1%), and for June 2022 to 1.0% (from 0.6%), while their first median forecast for the funds rate in June 2024 was 1.8%
  - half of the Governors and Presidents of now expect at least one rate increase next year (and three expect two increases)
  - Powell put a 'dovish' spin on these forecasts saying that "more important than any forecast is the fact that policy will remain accommodative until we have achieved our maximum employment and price stability goals"
- **The Bank of Japan left all of its monetary policy settings on hold, as expected, at Tuesday's monetary policy meeting**
  - there was only one dissent (out of 9 members) from the decision to keep interest rates unchanged, and he wanted even lower rates
  - the BoJ also provided more detail of its program (foreshadowed at its previous meeting) of interest-free loans to banks which "disclose information concerning their efforts to address climate change" for on-lending to customers which "contribute to Japan's actions to address climate change"

Return to "What's New".

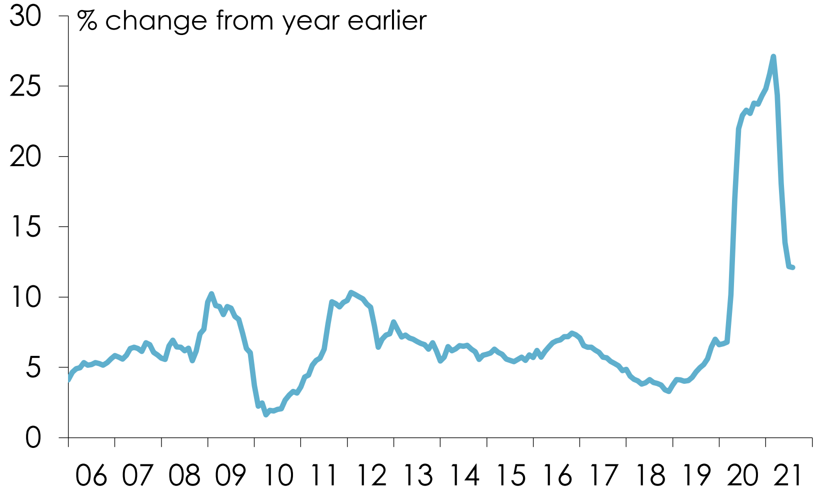
The Bank of England this week foreshadowed that it could raise rates before year-end – and would pursue a different 'policy mix' from the Fed

- **The Bank of England's Monetary Policy Committee agreed unanimously on Wednesday to keep its Bank Rate at 0.10%, and agreed by a 7-2 majority to continue with its existing program of bond purchases towards the previously-stipulated target of £875mn (at the previous meeting this had been by an 8-1 vote)**
  - the Minutes of Wednesday's meeting (released the following day) note that "some developments" since the previous meeting had "strengthened the case" that "some modest tightening of monetary policy over the forecast period was likely to be necessary to be consistent with meeting the inflation target sustainably in the medium term"
  - in particular, the MPC noted the impact of "supply constraints on output" which "appeared likely [to] prove more persistent" and which had prompted BoE staff to revised down their forecast for the level of Q3 GDP by around 1% and to raise their forecast for CPI inflation to "slightly above 4% in 2021 Q4"
  - also contributing to the upwards revision to the inflation forecast were the prospect of higher electricity and gas prices and, more importantly, evidence that "the labour market appears to have tightened further", prompting BoE staff to raise their estimate of underlying pay growth "to above its pre-pandemic rate"
  - the MPC also noted household inflation expectations had "increased in recent months", with one medium-term measure reaching "its highest level since 2013", as had financial markets' inflation expectations
  - although the MPC judged that there was "high option value" in waiting for additional information on the labour market (and in particular the effects of the expiry of the Government's furlough scheme at the end of this month) before deciding "if and when a tightening in monetary policy might be warranted"
- **The MPC unanimously agreed that "any future initial tightening of monetary policy should be implemented by an increase in [the] Bank Rate even if that became appropriate before the end of the existing … asset purchase program"**
  - this is the diametric opposite of the Fed's (and the ECB's) approach which is to begin 'tapering' well before any increase in policy interest rates

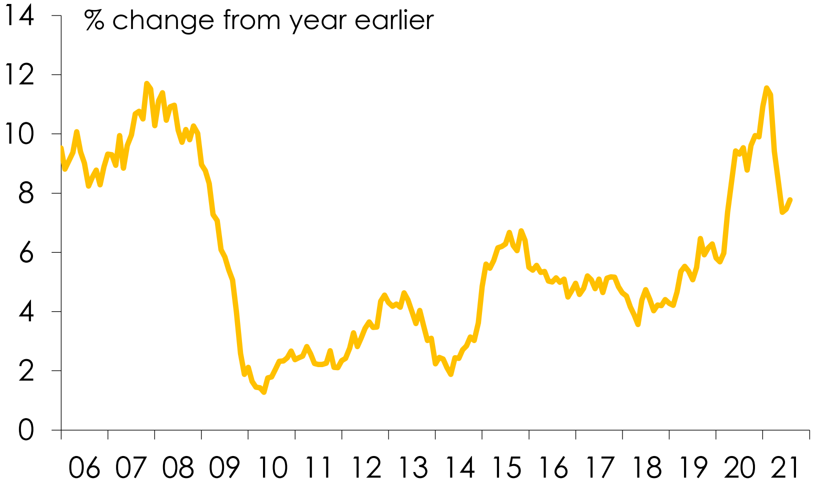
Return to "What's New".

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

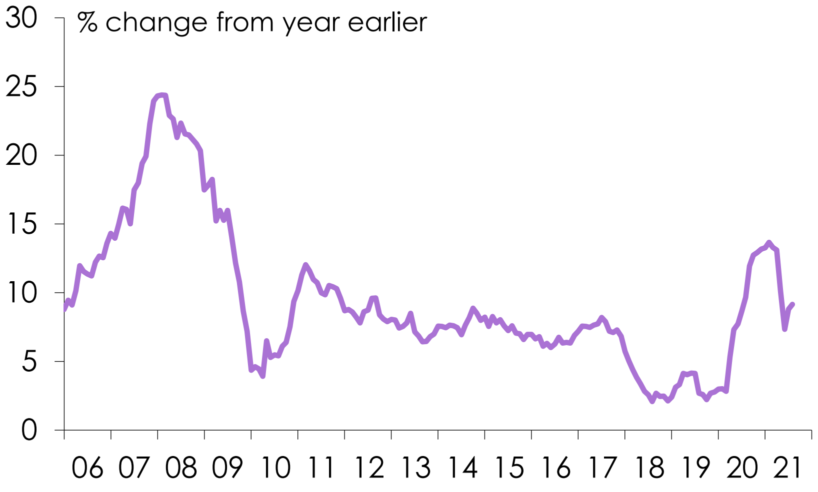
US M2



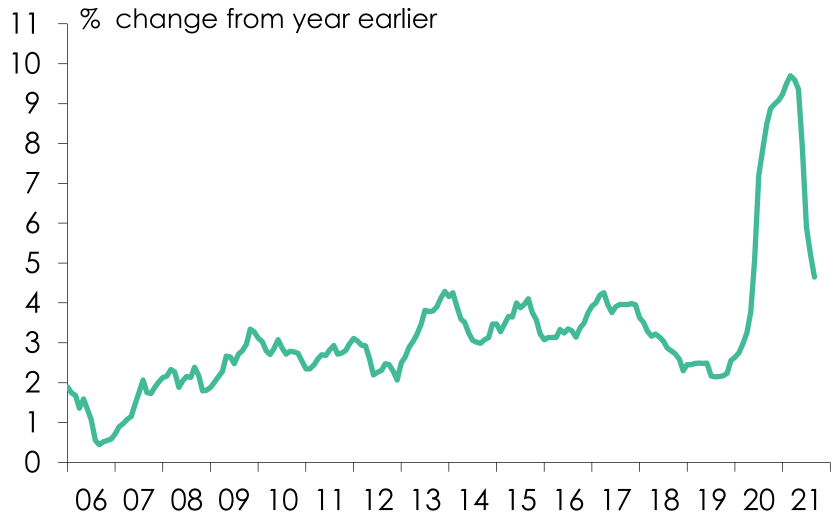
Euro area M2



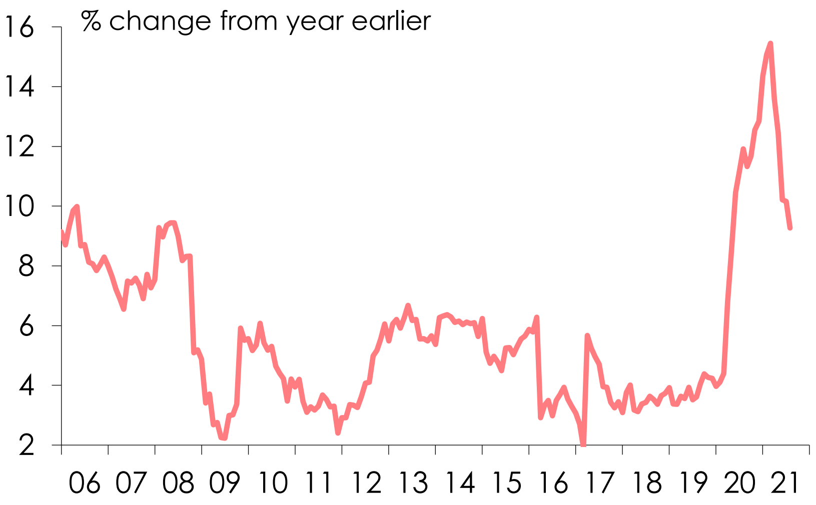
Australia M3



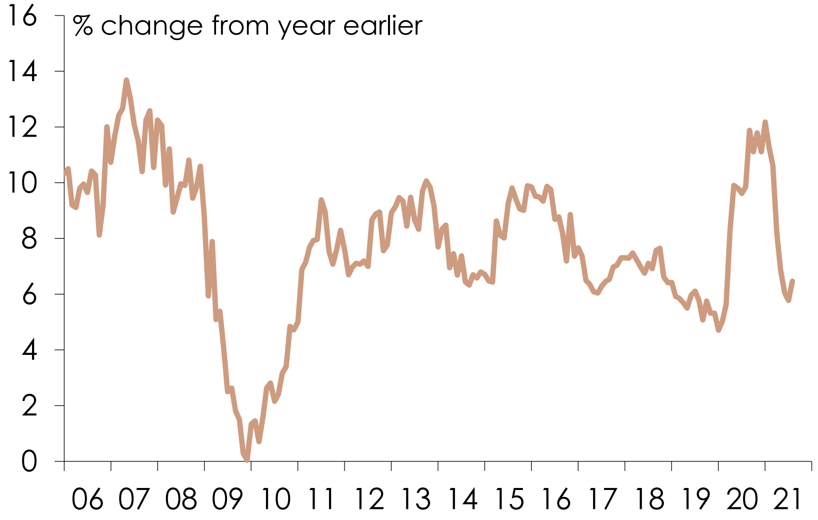
Japan M2 + CDs



UK M2



New Zealand M3



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

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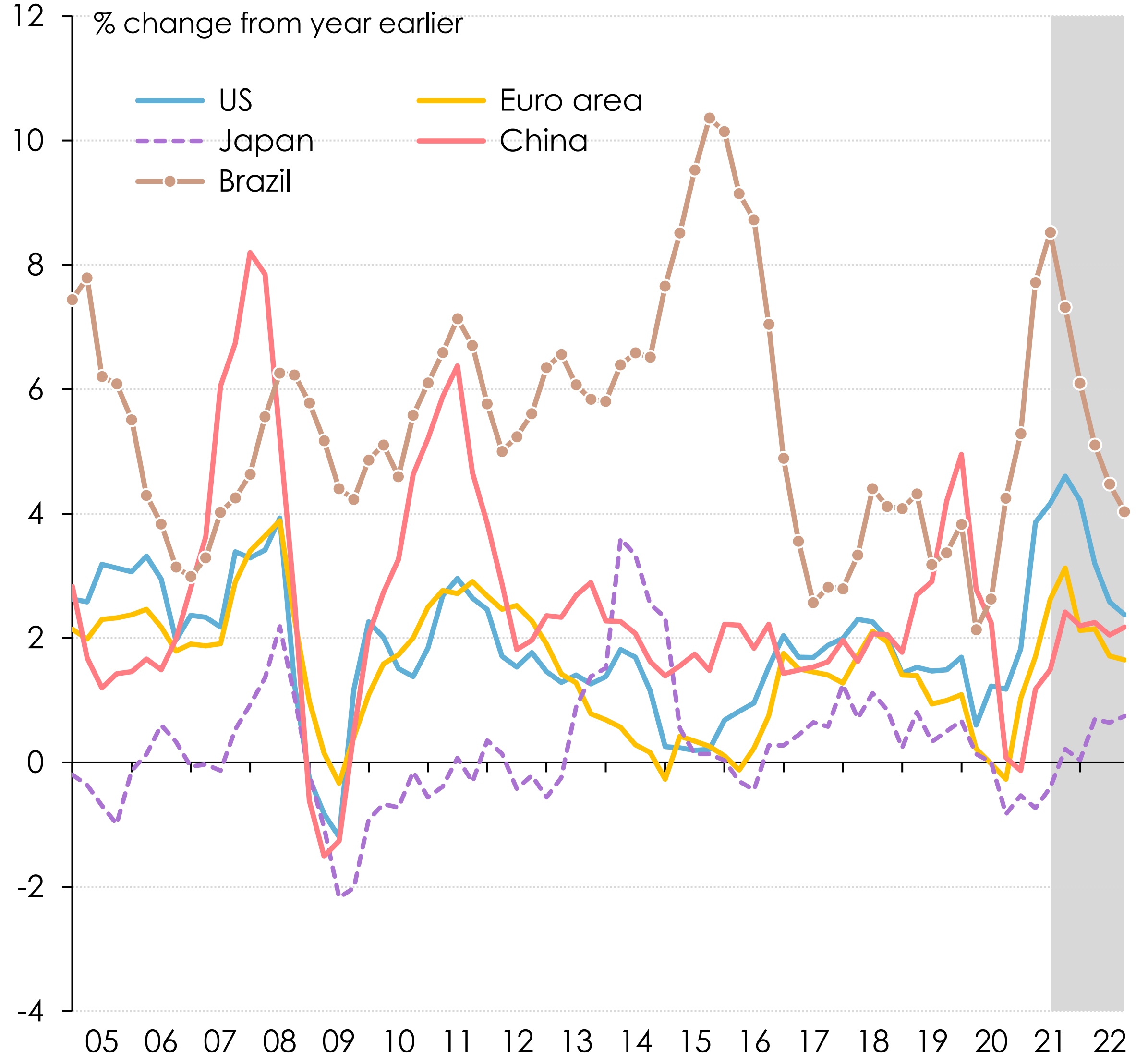
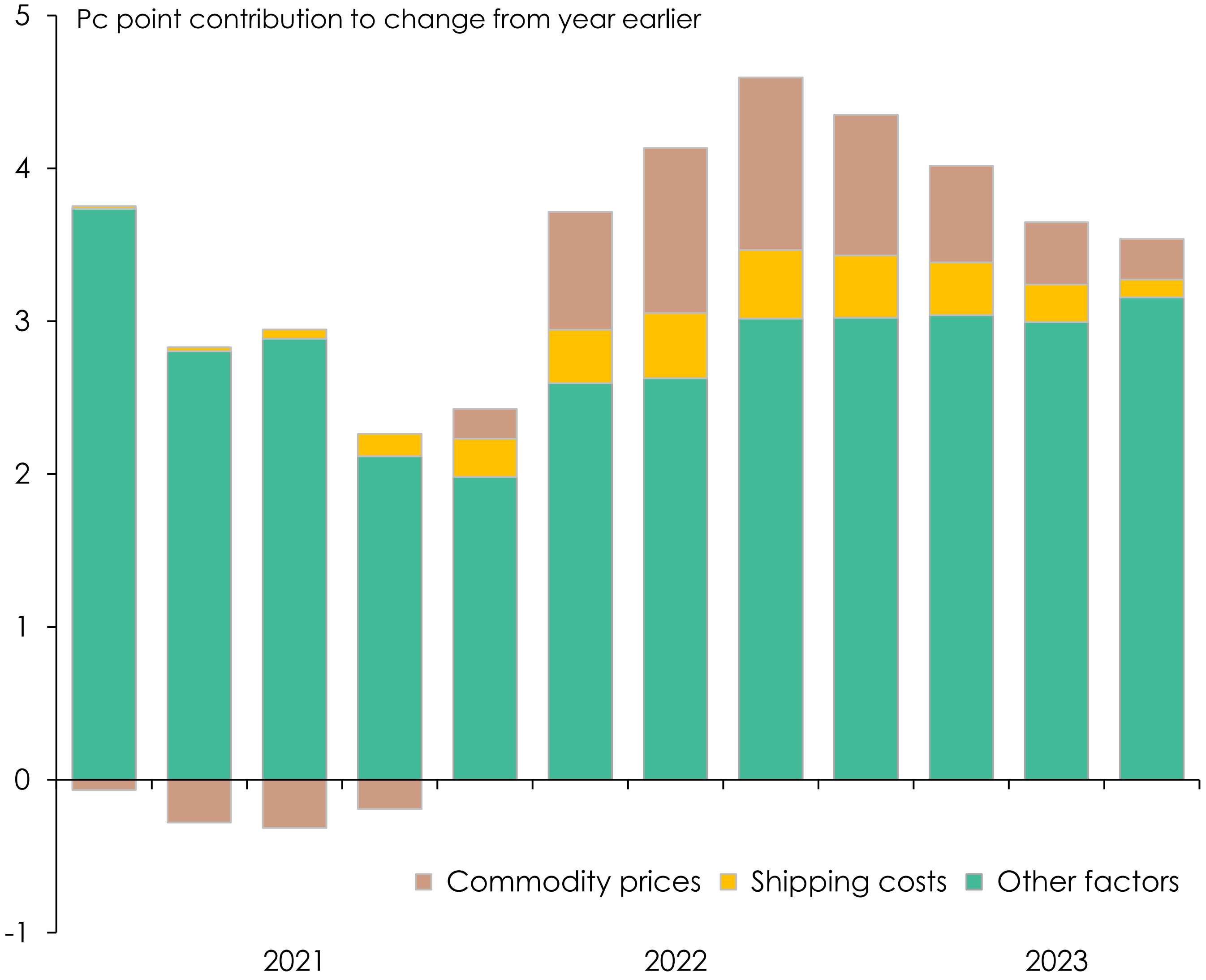
The OECD estimates that higher commodity prices and shipping costs account for three-quarters of the increase in G20 inflation so far this year

Inflation in major advanced economies



Contribution to annual G20 inflation



Source: OECD, *Economic Outlook, Interim Report*, 21st September 2021.

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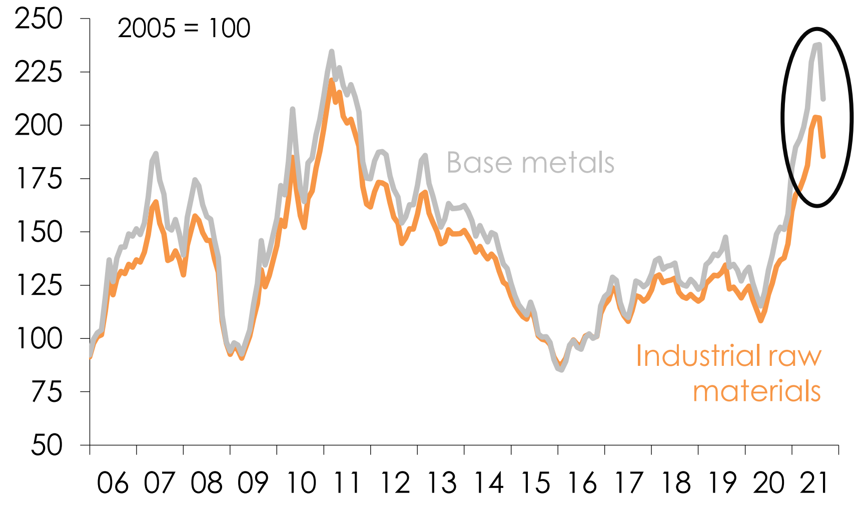
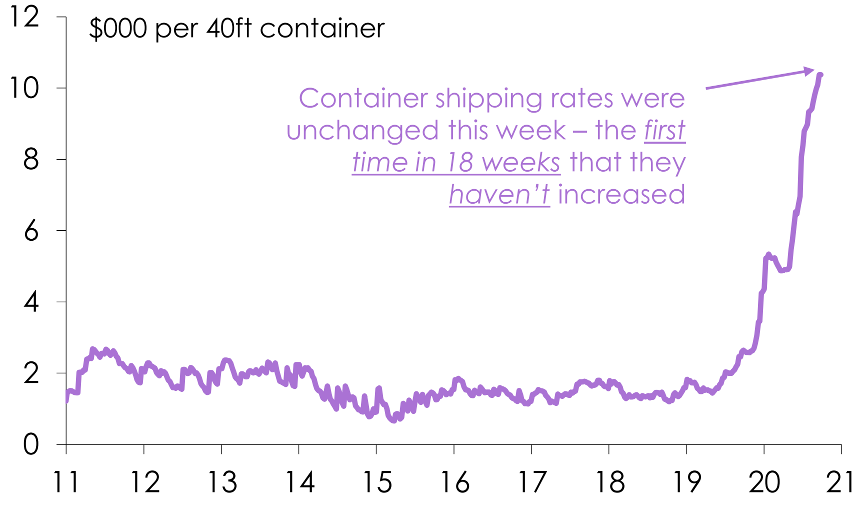
‘Upstream’ price pressures might, perhaps, be starting to level out – with commodity prices having peaked and shipping costs (maybe) plateauing

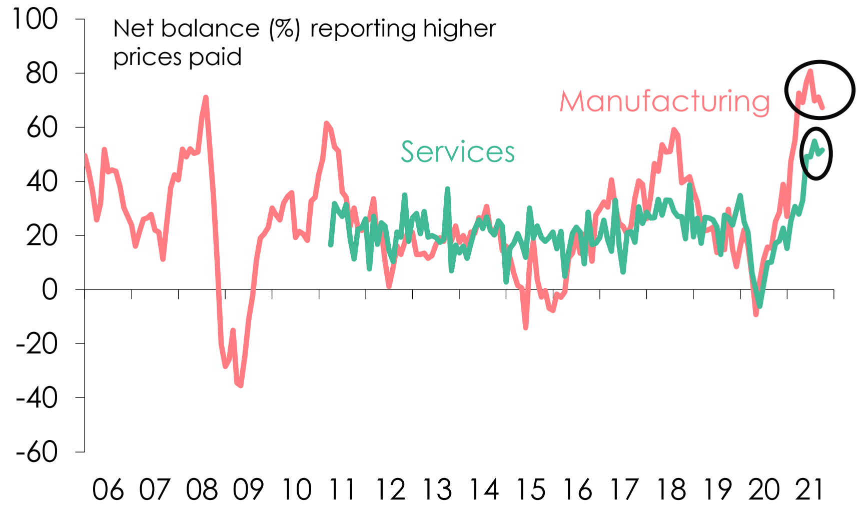
‘Hard’ commodity prices



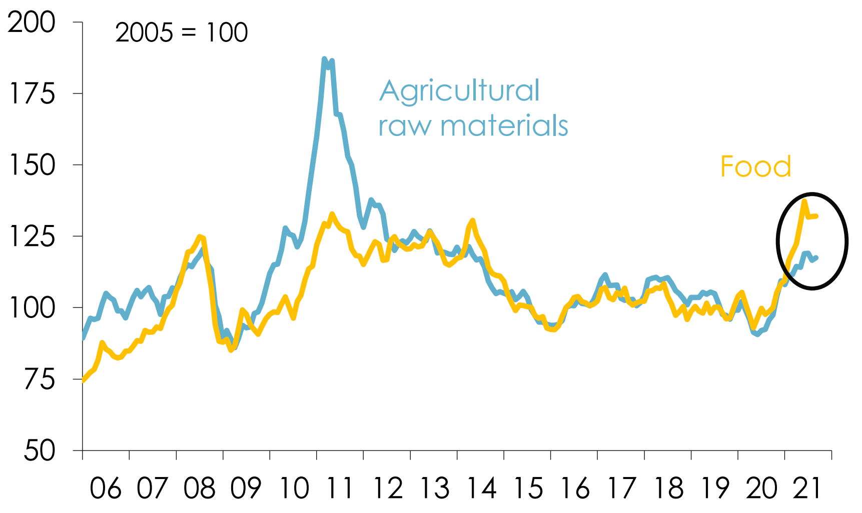
Container freight costs



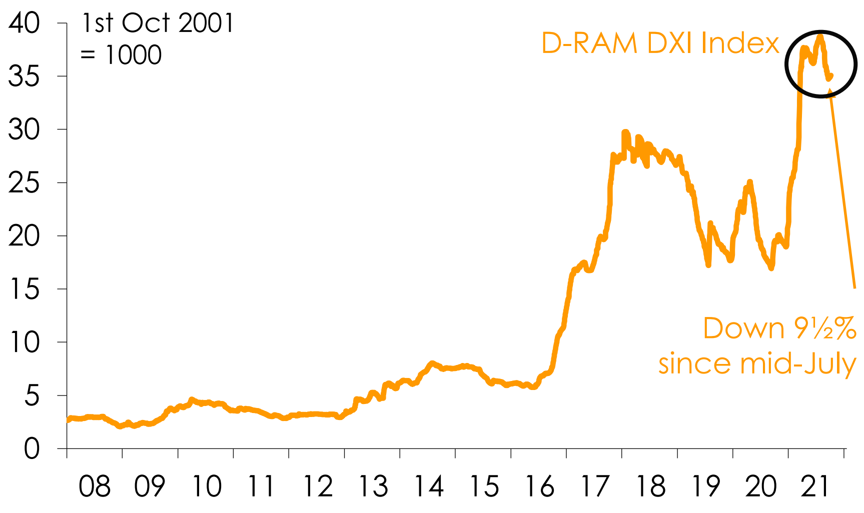
Philly Fed survey – prices paid



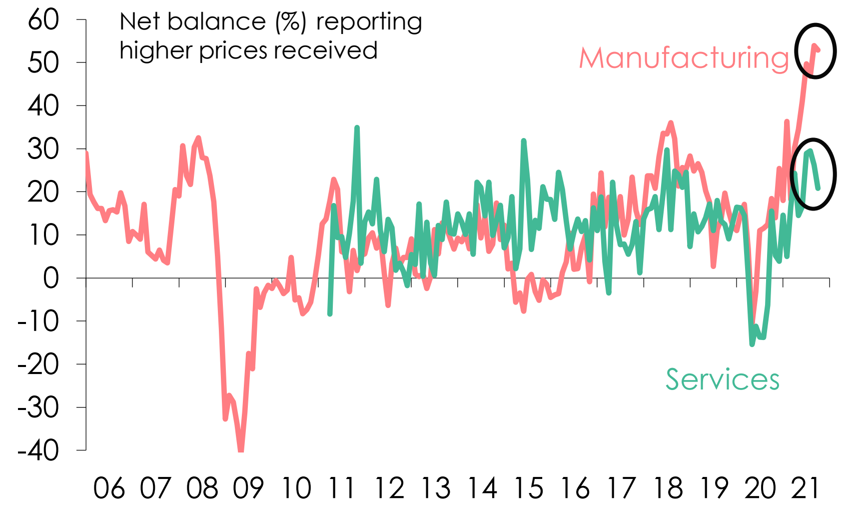
‘Soft’ commodity prices



Semiconductor prices



Philly Fed survey – prices received



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

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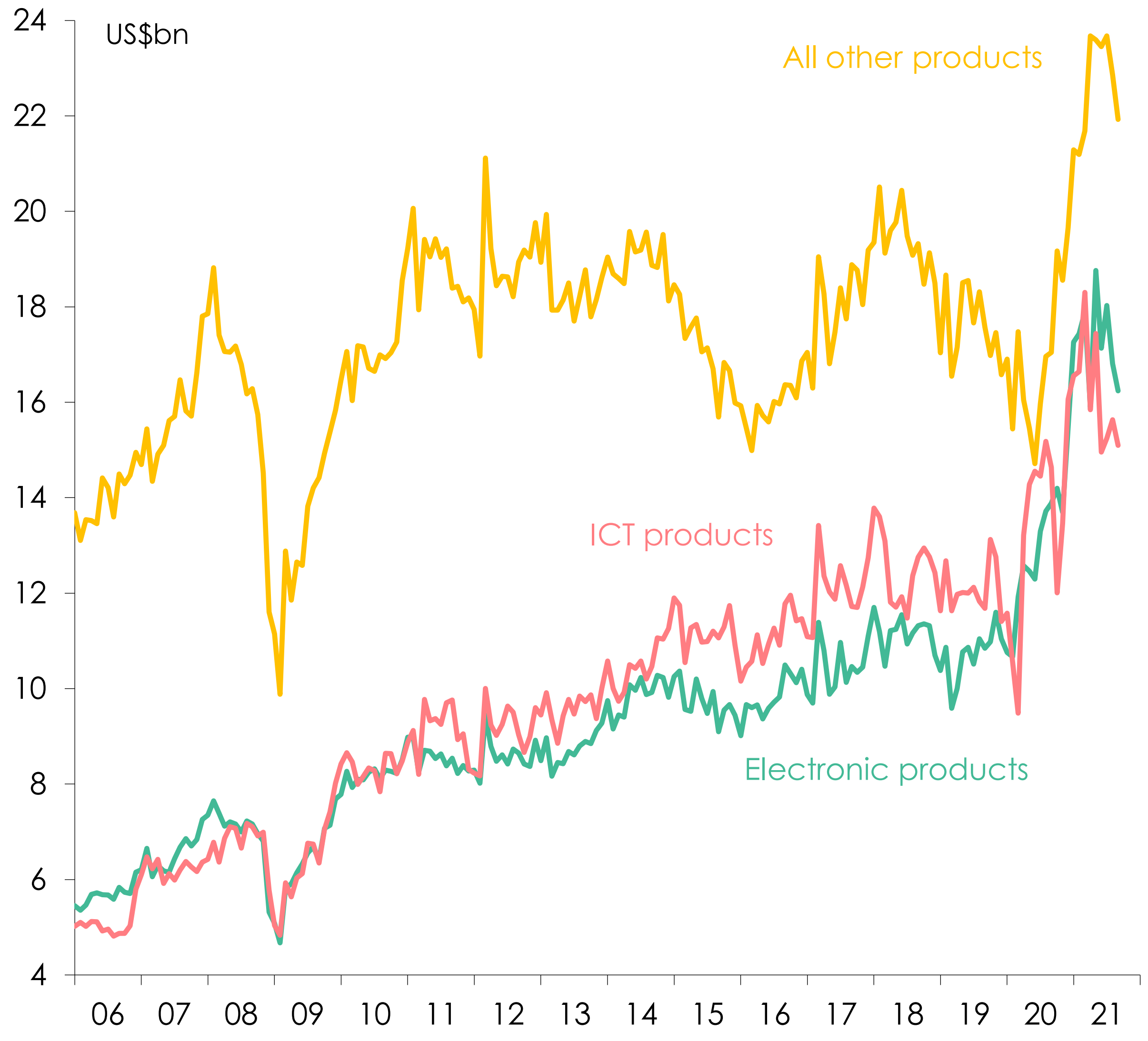
Global semi-conductor production has been curtailed by Taiwan's drought, covid outbreaks in Sth East Asia, and damage to chip plants elsewhere

Taiwan export orders, by product

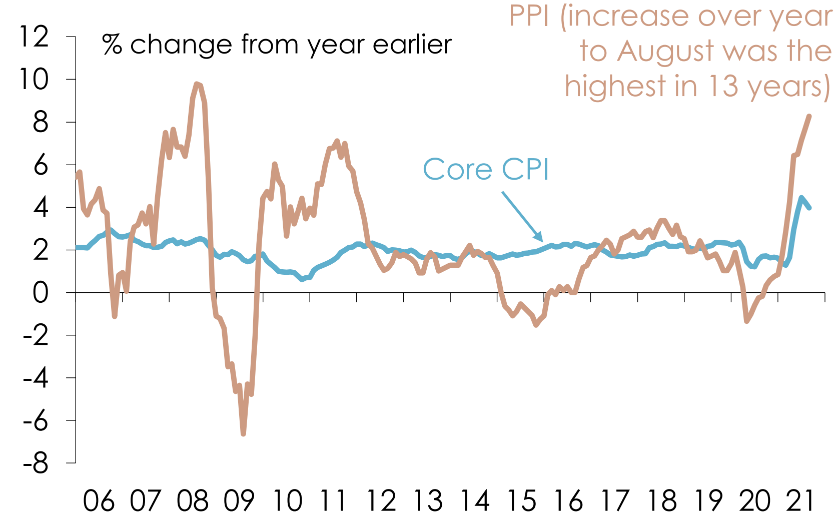


Note: Data have been seasonally adjusted by Corinna using Refinitiv Datastream. Latest data are for August. *Source:* Taiwan Ministry of Economic Affairs. Return to "What's New".

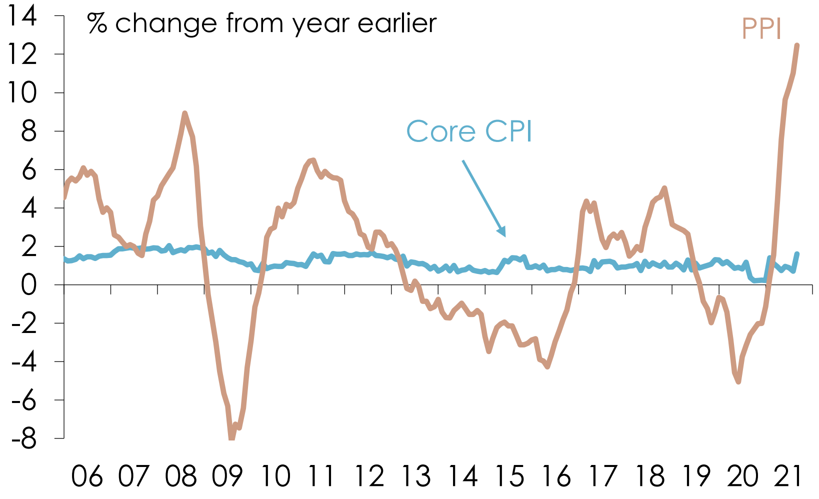
- **Taiwan accounts for 63% of the US$85bn global semi-conductor chip market (followed by Korea 18% and China 6%)**
  - one Taiwanese company, Taiwan Semiconductor Manufacturing Co (TSMC) has 54% of the world market, and United Microelectronics Co (UMC) a further 7% (Samsung accounts for Korea's 18%)
- **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 had been experiencing its worst drought in 56 years, resulting in rationing of water supplies including to semi-conductor manufacturers**
  - although recent heavy rainfalls appear to have broken the drought
- **World-wide semi-conductor production has also been crimped by plant shutdowns in Vietnam, Malaysia and the Philippines due to covid-19 outbreaks, and by damage caused by a fire at a Japanese fab earlier this year and a storm at a Texas plant**
- **Foreign orders for Taiwanese ICT products fell by 3.5% in August, after increases of 1.9% in June and 2.6% in July, to be still 17.5% below February's peak**
  - orders for other electronics products fell 3.4% in August to be more than 13% below their peak in April
- **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)

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

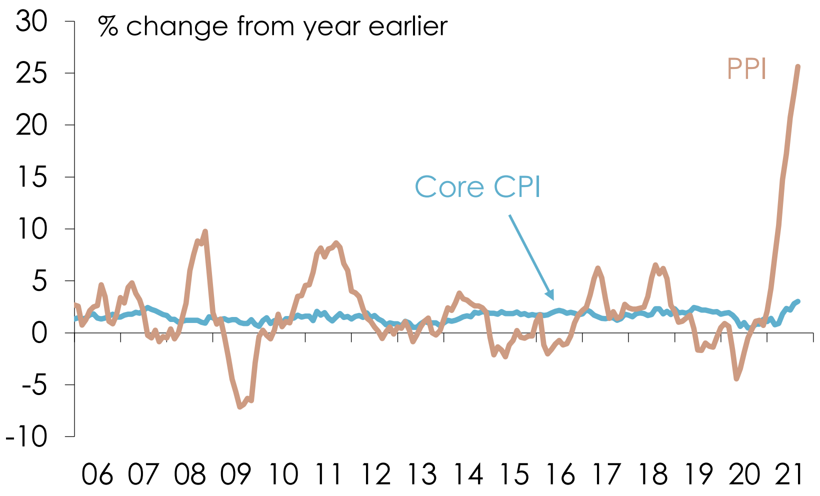
United States



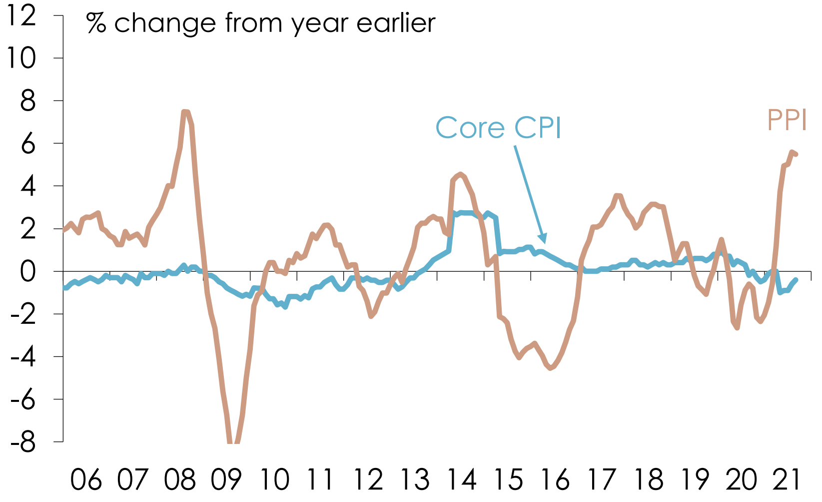
Euro area



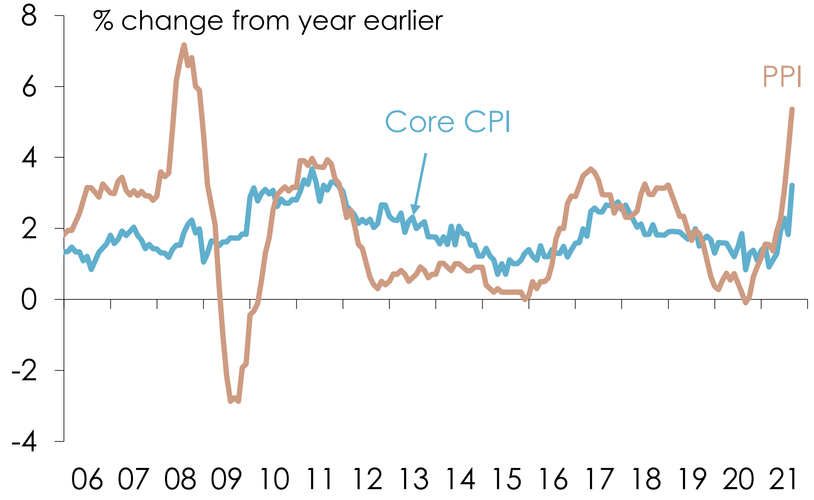
Canada



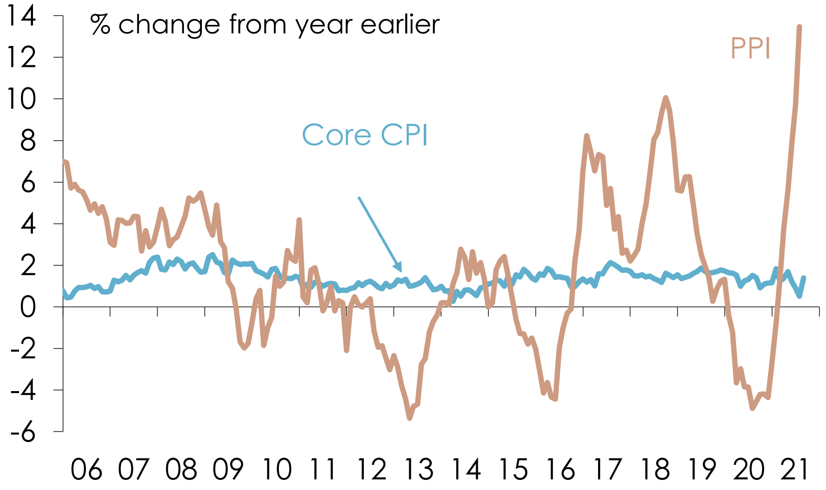
Japan



United Kingdom



Sweden



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

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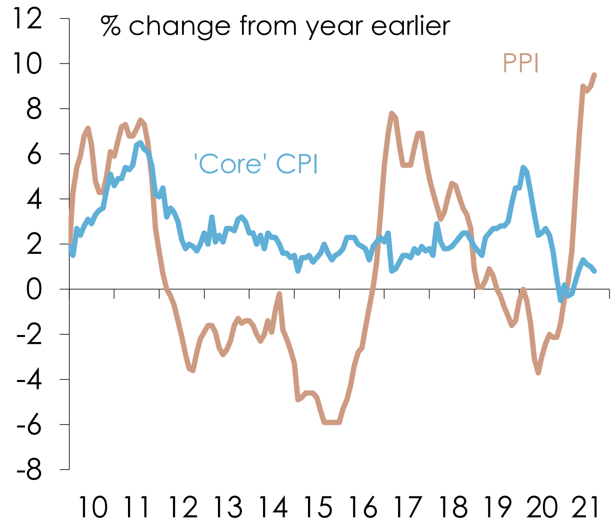
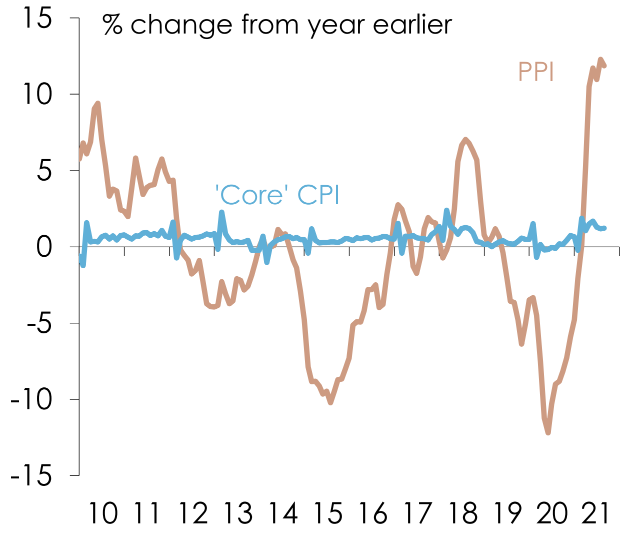
There's been very little pass-through of higher producer prices into 'core' consumer price inflation in Asia

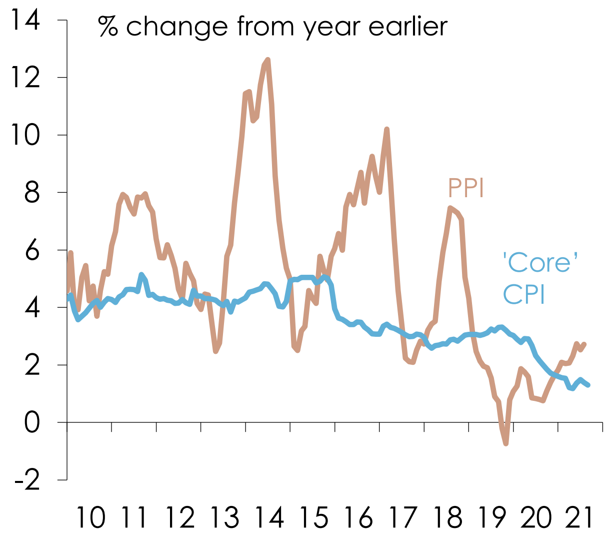
China



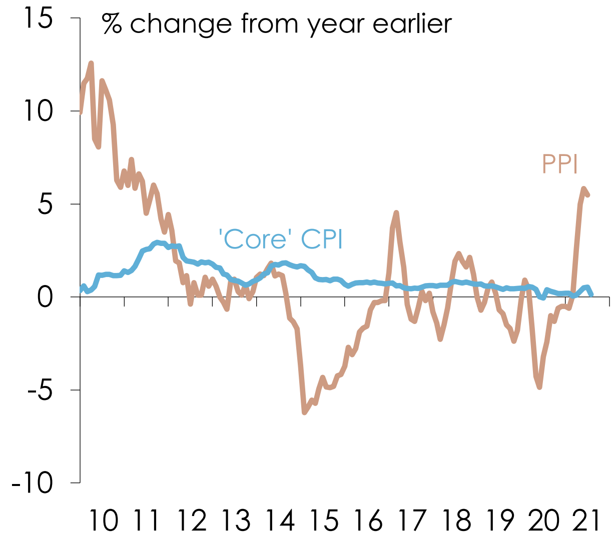
Taiwan



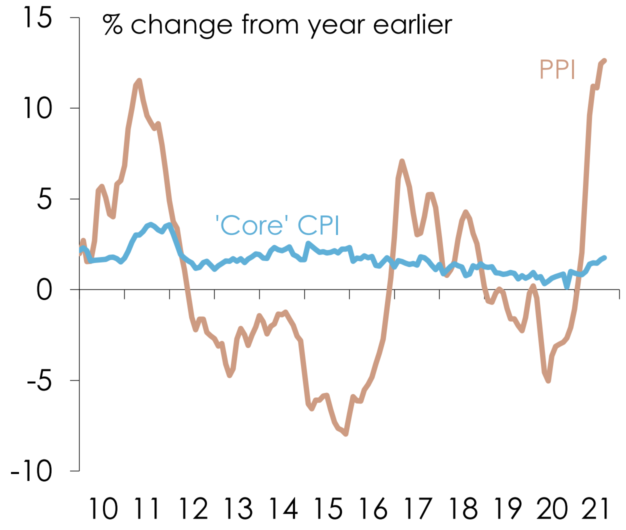
Indonesia



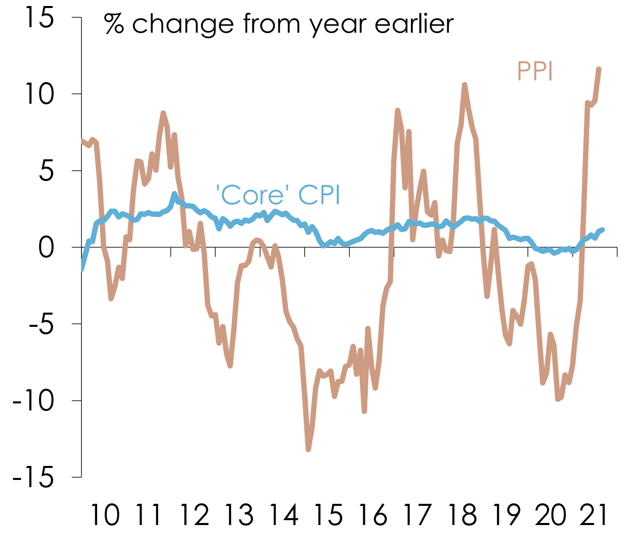
Thailand



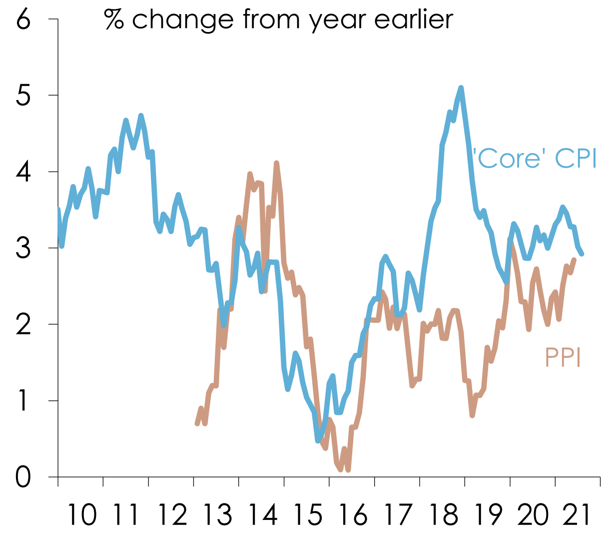
Korea



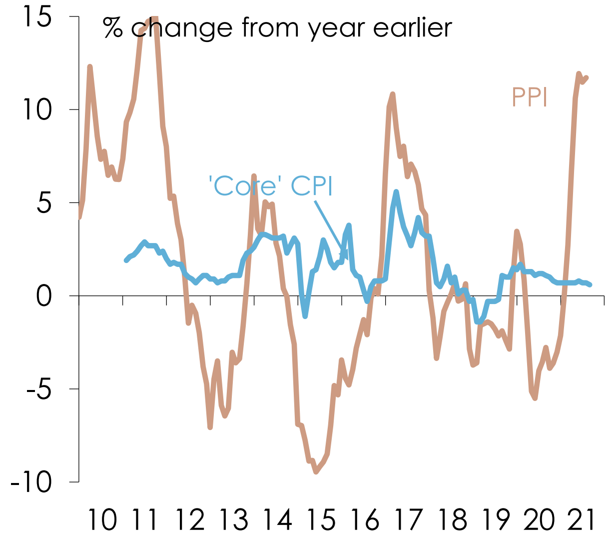
Singapore



Philippines



Malaysia



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

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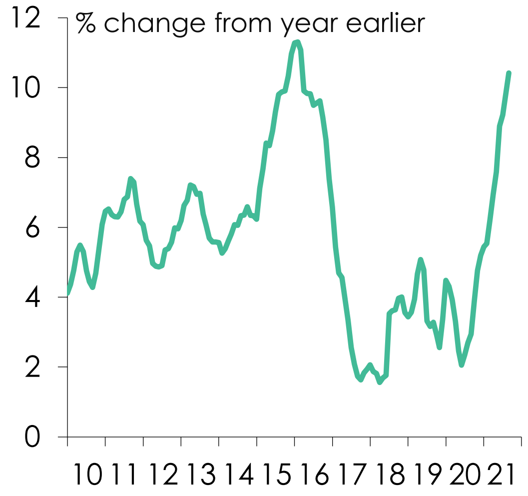
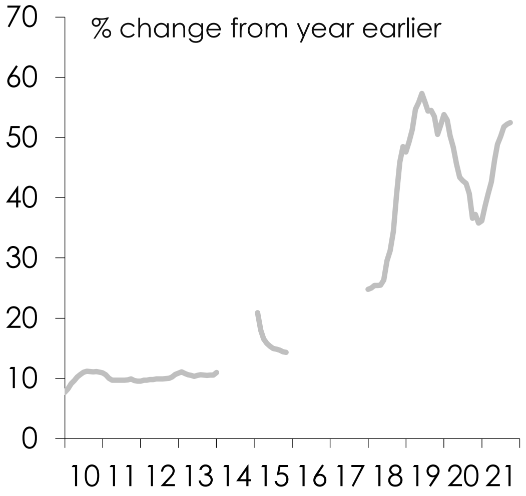
Consumer price inflation is rising in many other 'emerging' markets

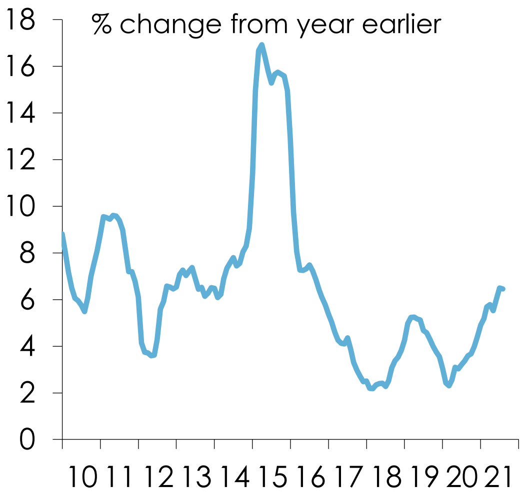
Brazil



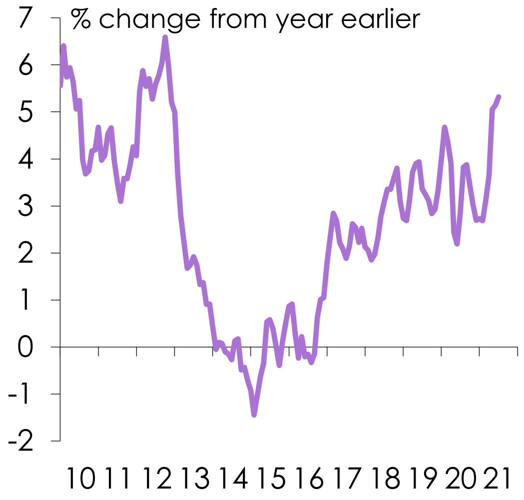
Argentina



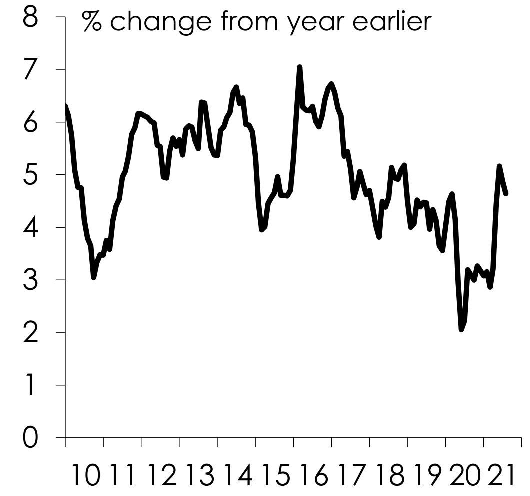
Russia



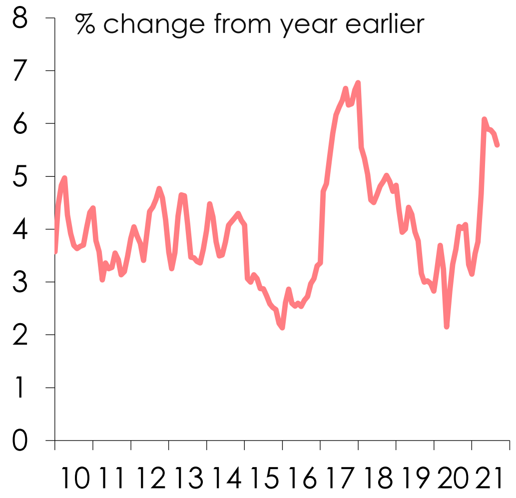
Hungary



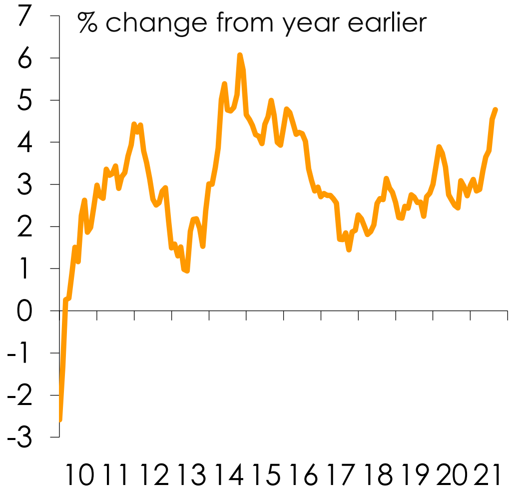
South Africa



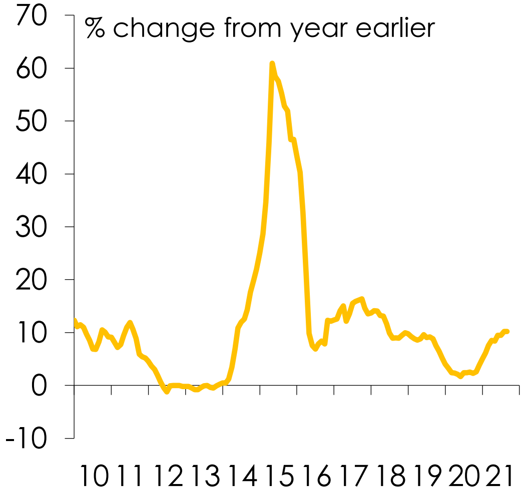
Mexico



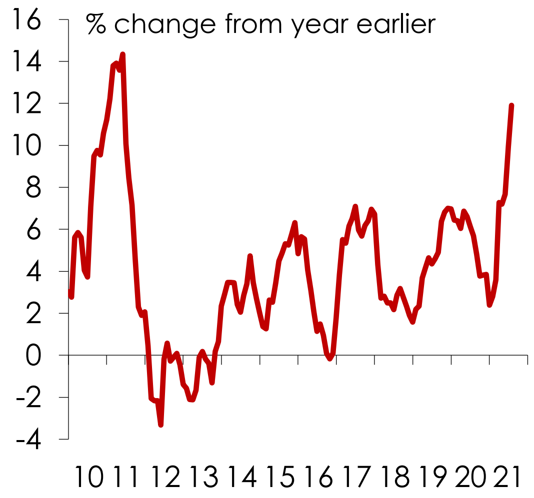
Chile



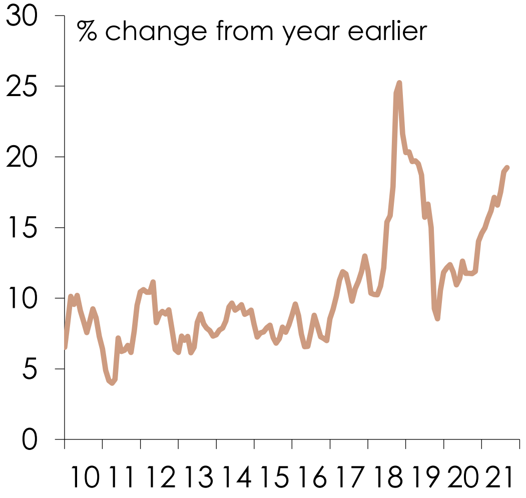
Ukraine



Georgia



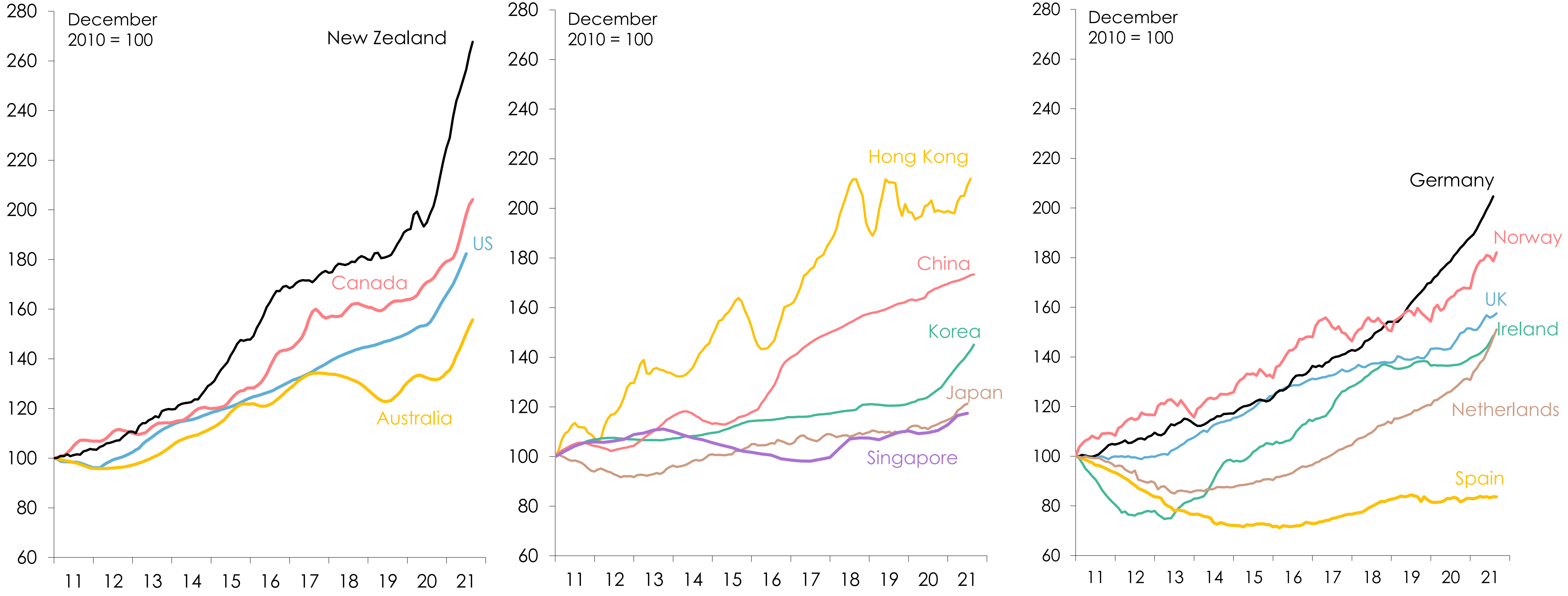
Turkey



Sources: Instituto Brasileiro de Geografia e Estatística; Instituto Nacional de Estadística y Geografía (Mexico); Instituto Nacional de Estadística y Censos (Argentina); Instituto Nacional de Estadisticas (Chile); Rosstat; Ukrstat; Központi Statisztikai Hivatal (Hungary); Sak'art'velos Statistikis 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".

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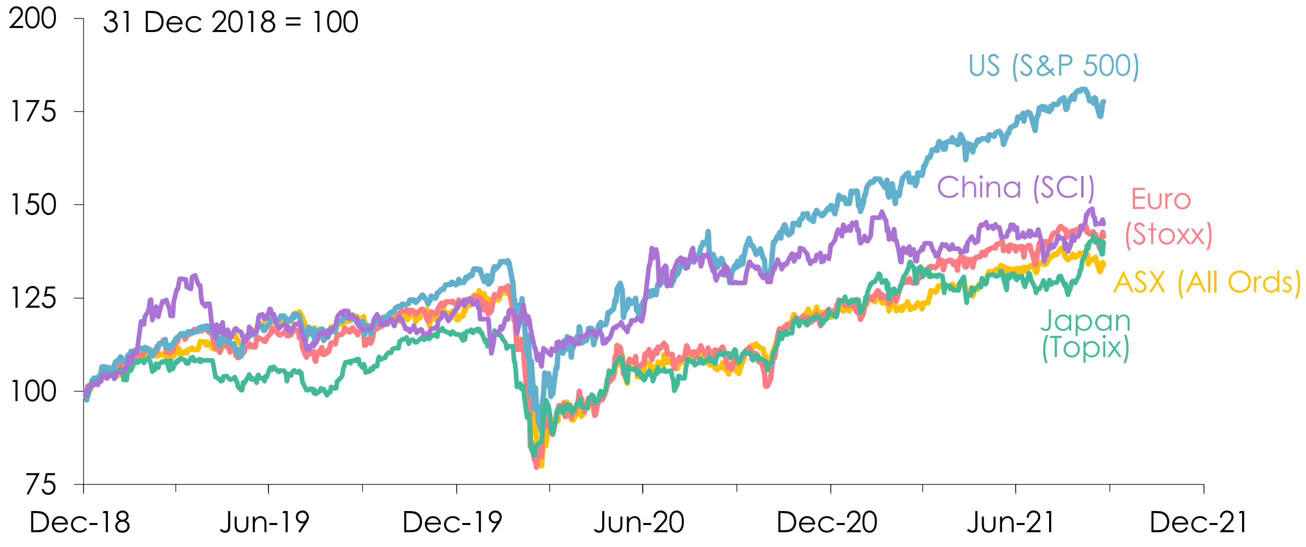
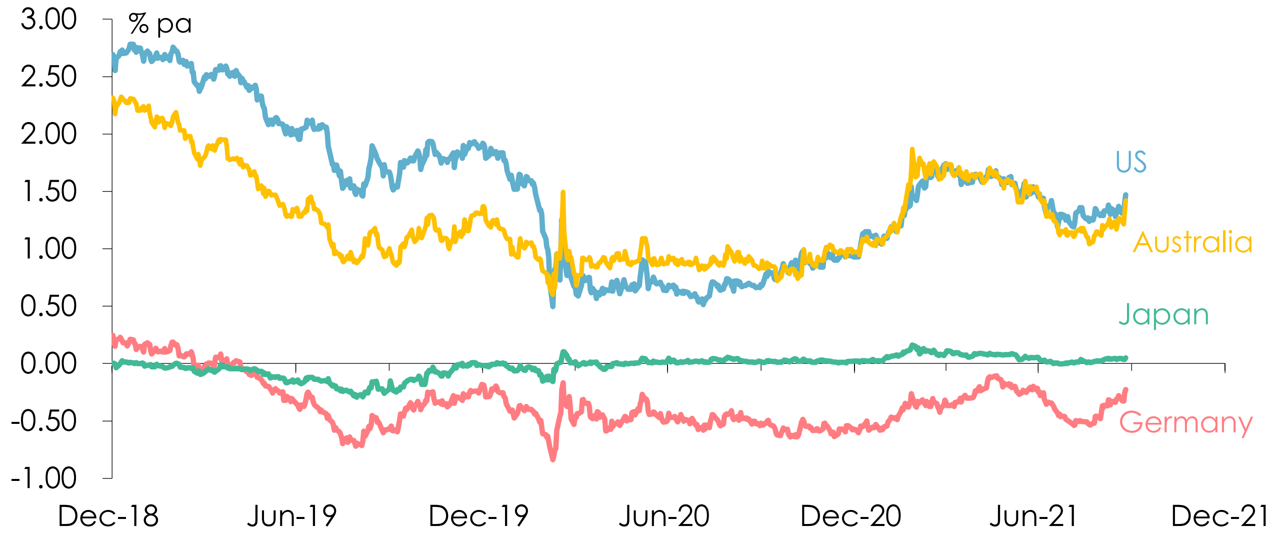
Bond yields (except in Japan) rose, as did the US$, on this week's hints from the Fed and the BoE of first steps towards 'normalizing' policy later this year

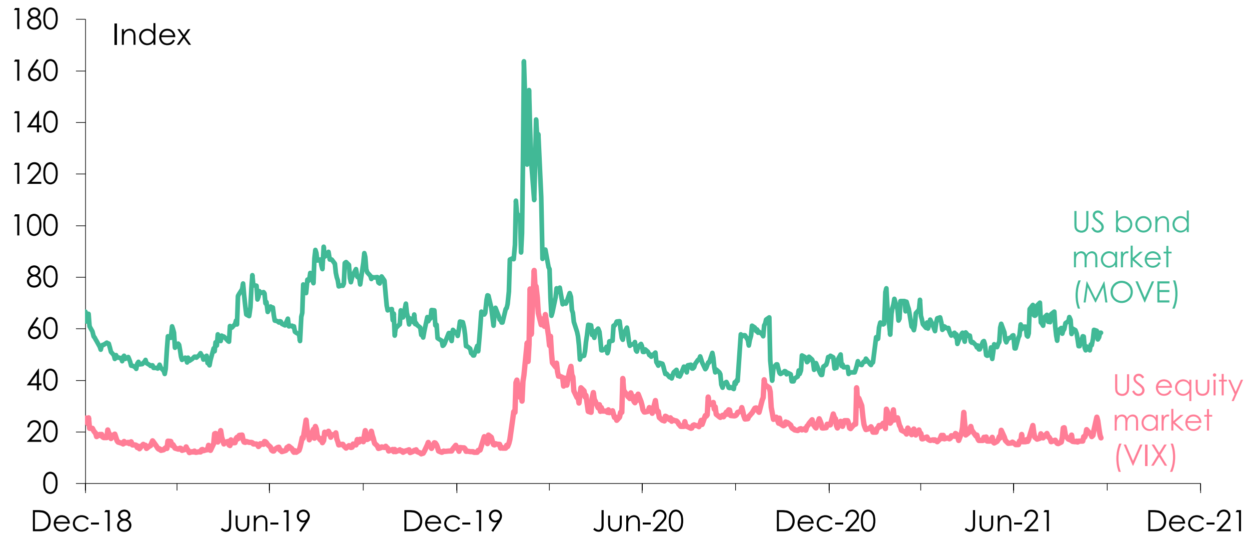
Stock markets



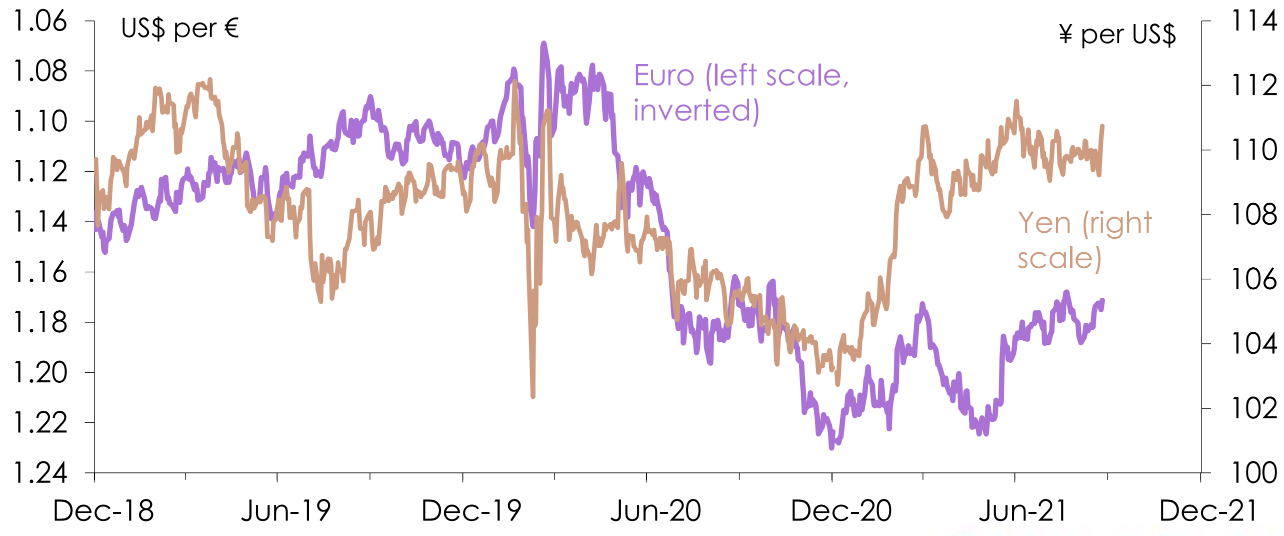
10-year bond yields



Measures of market volatility



US dollar vs euro and yen



Source: Refintiv Datastream. Data up to 24th September. Return to "What's New".

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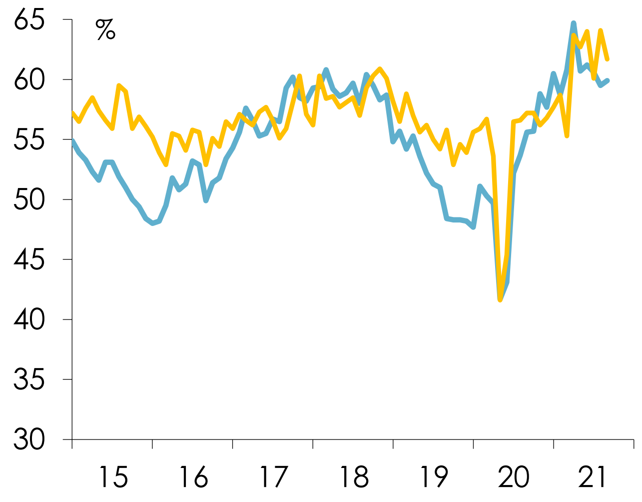
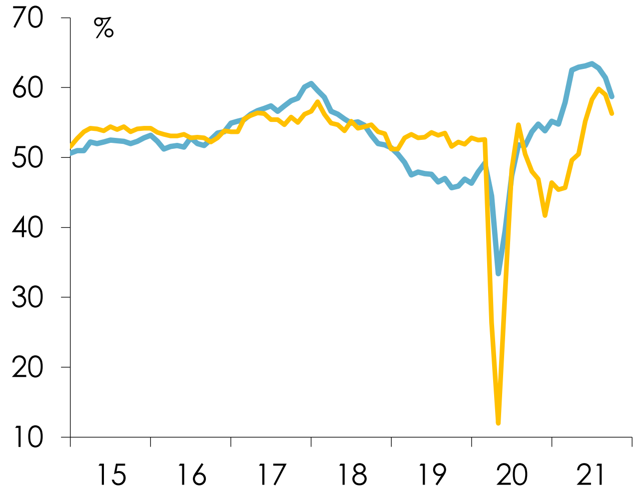
Preliminary September PMIs show a softening in both manufacturing and services activity in Europe, but an improvement in services in Japan

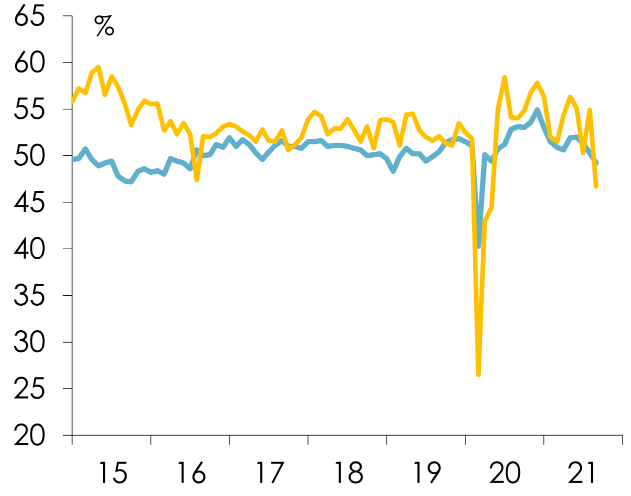
US



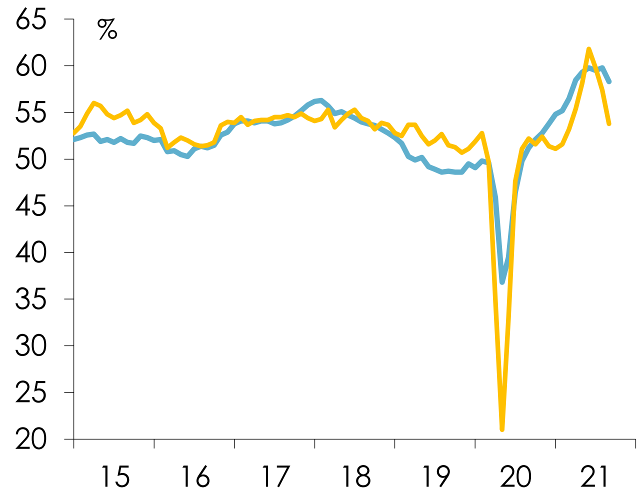
Euro area



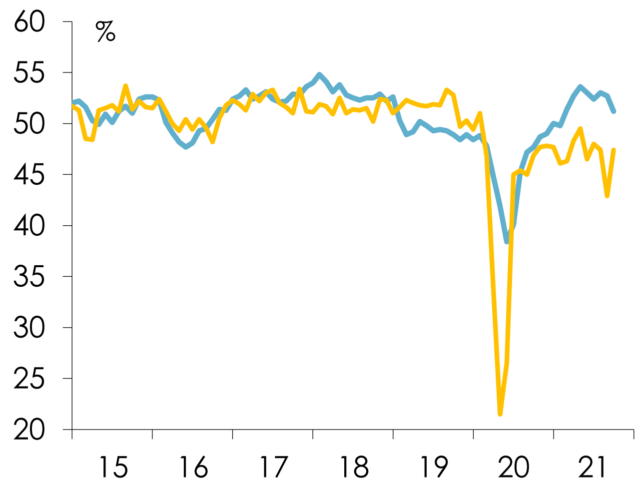
China



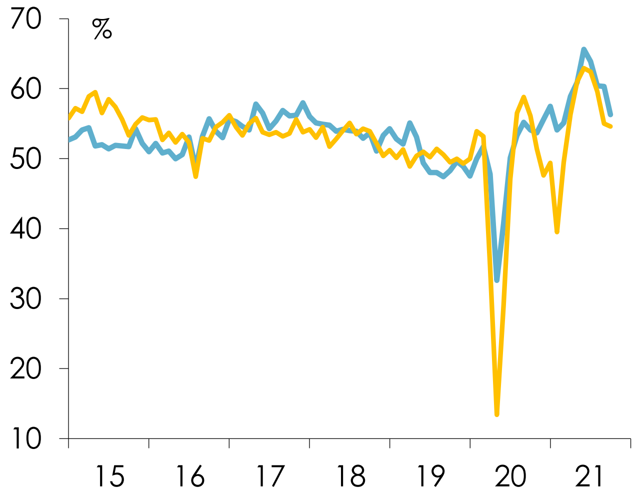
Developed markets



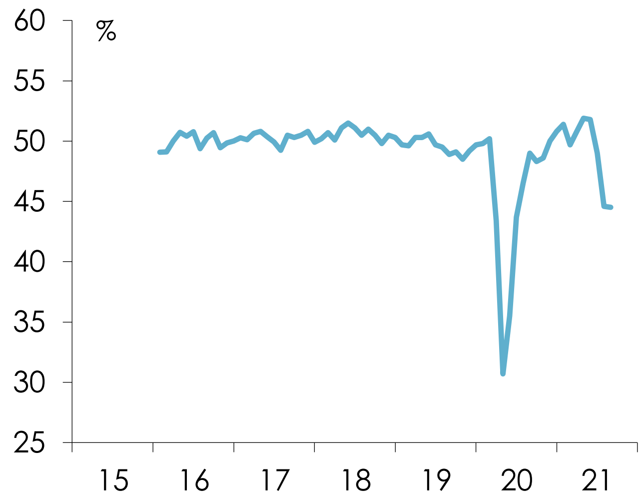
Japan



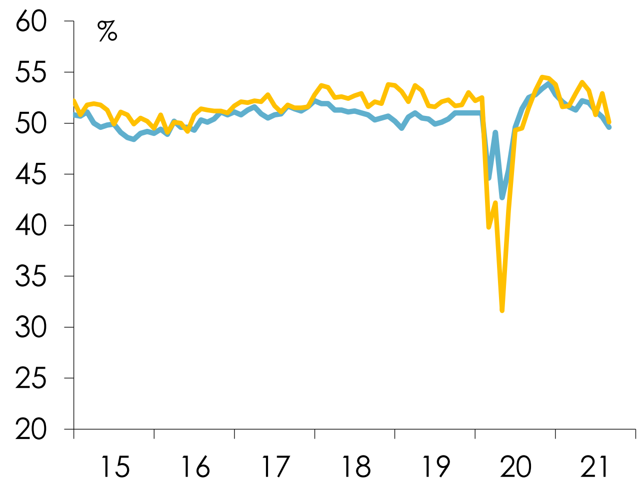
UK



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

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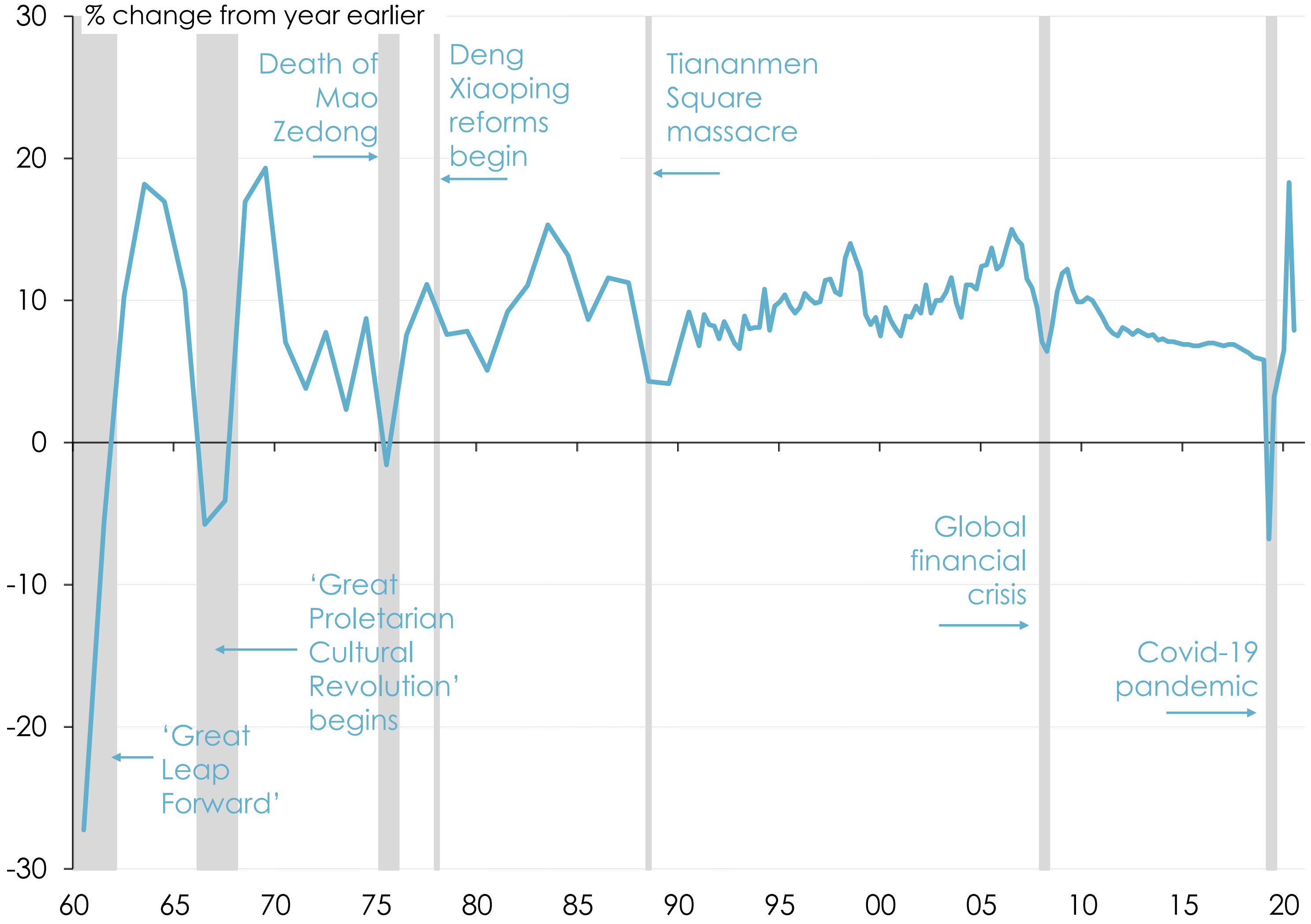
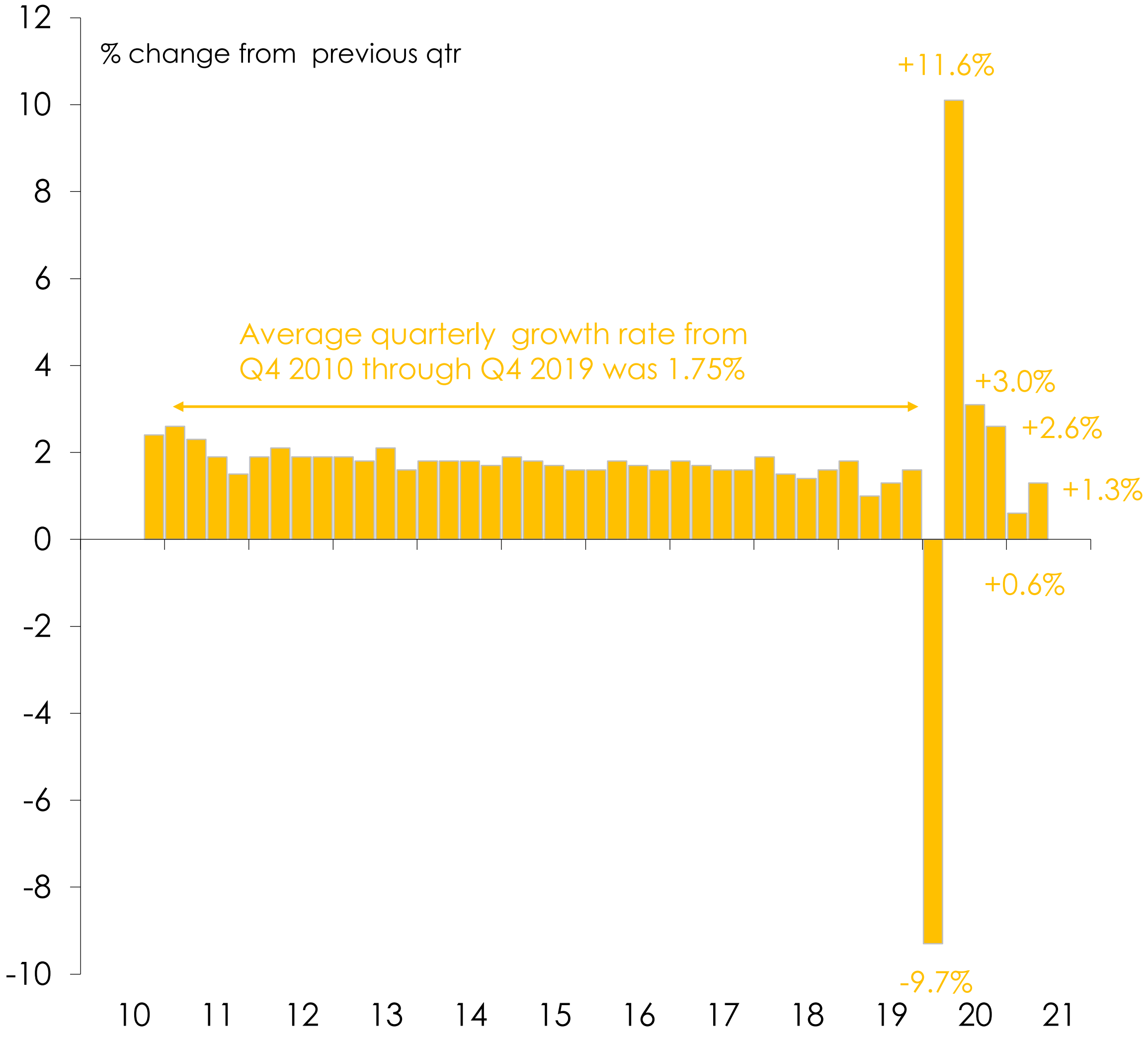
China's real GDP grew by 1.3% in Q2, double the Q1 growth rate but below the pre-pandemic pace

Real GDP growth, from year earlier, 1961-2020



Quarterly real GDP growth, 2010-2020



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

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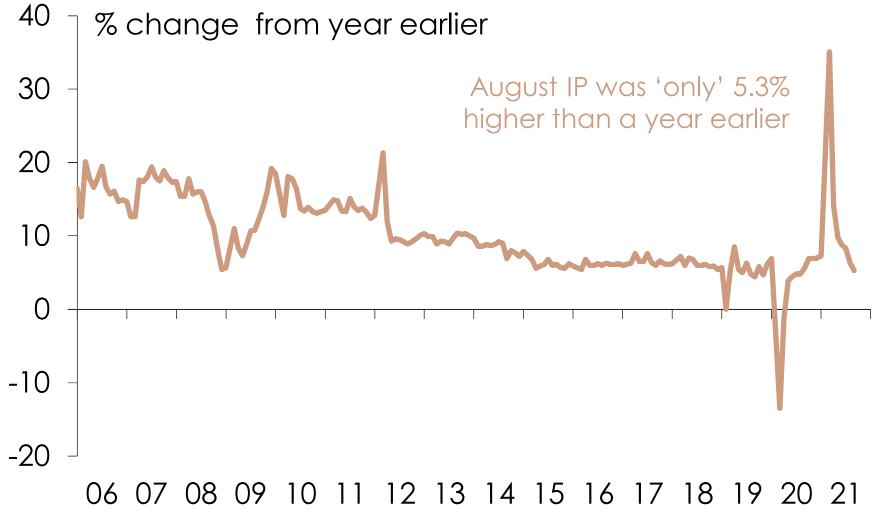
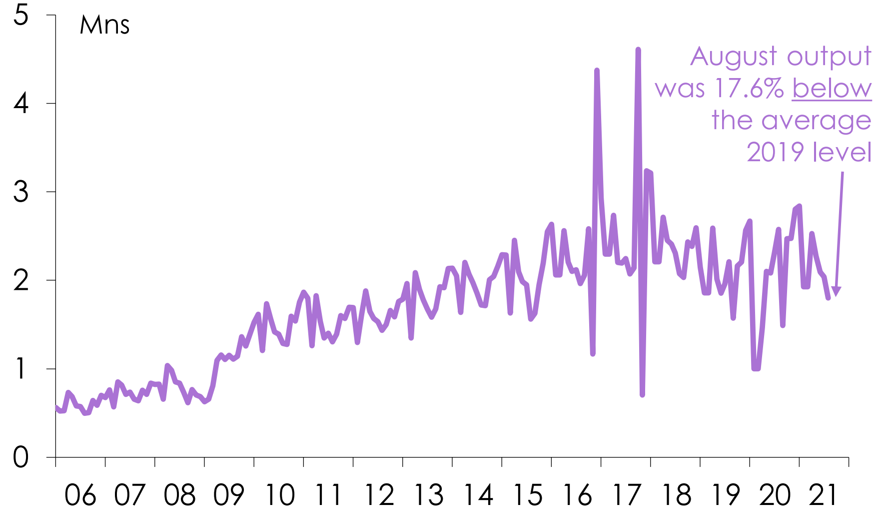
China's economy continued to slow in August, partly (but not solely) due to virus outbreaks, and notwithstanding strength in exports

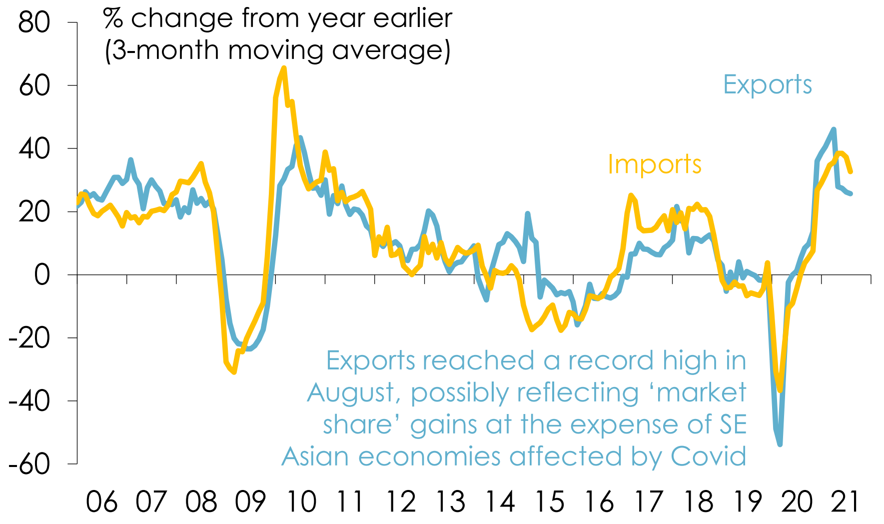
Industrial production



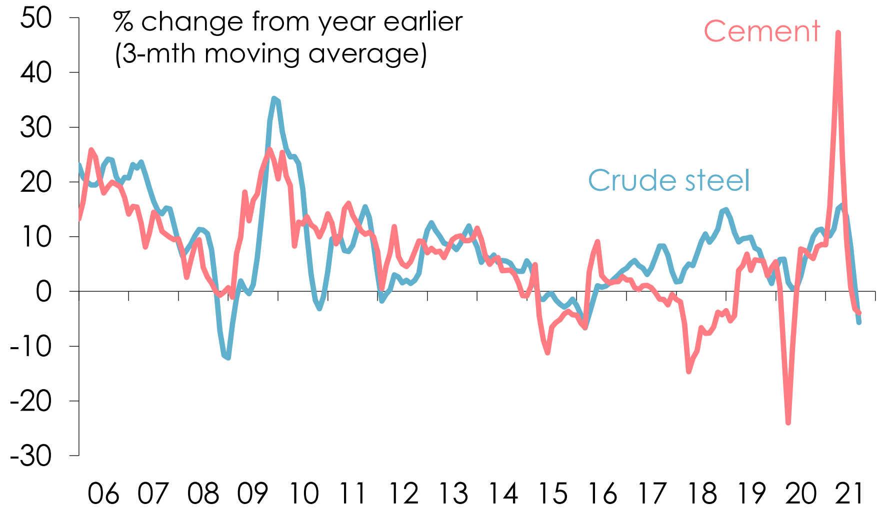
Motor vehicle production



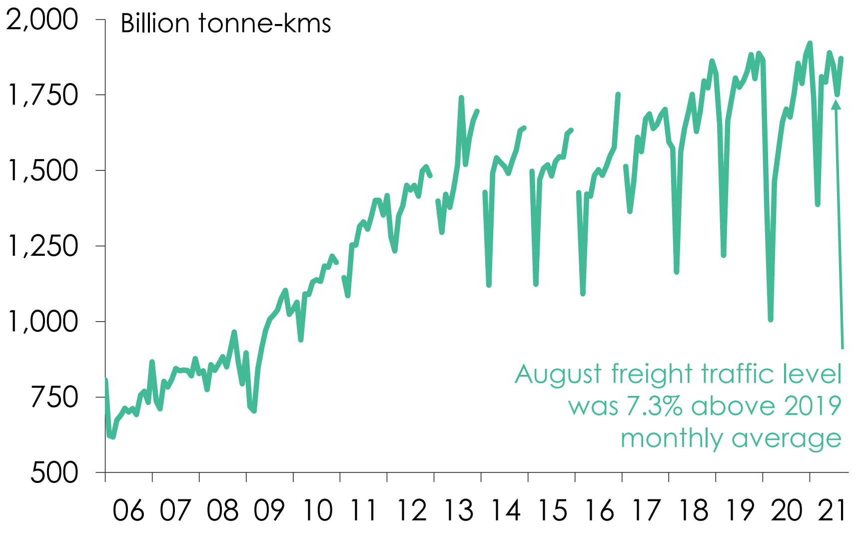
Merchandise trade



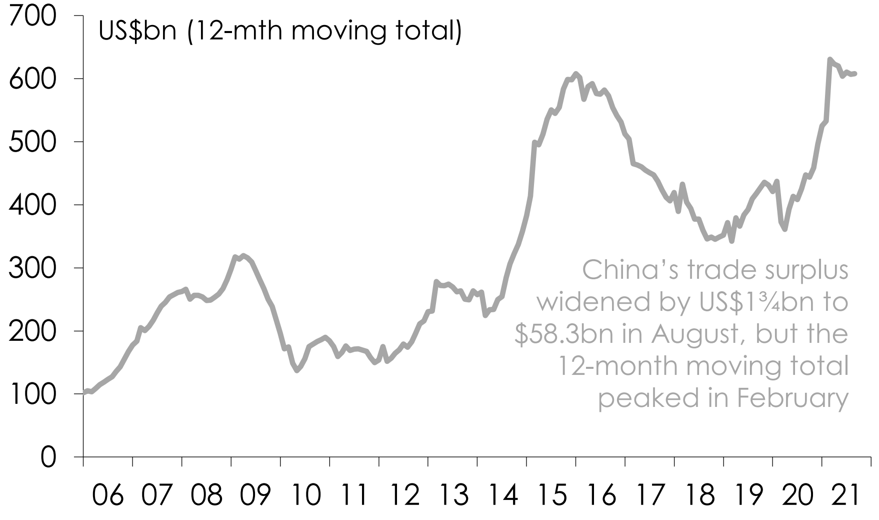
Steel and cement production



Freight traffic volumes



Merchandise trade balance



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

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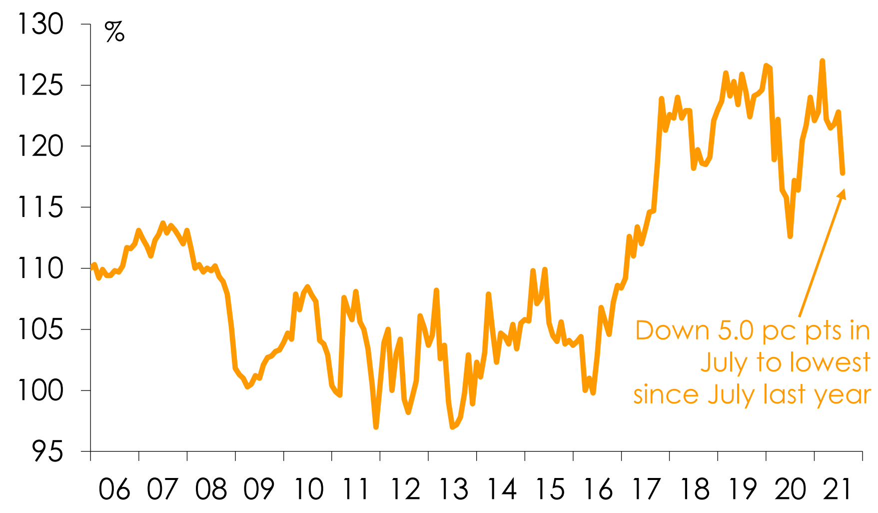
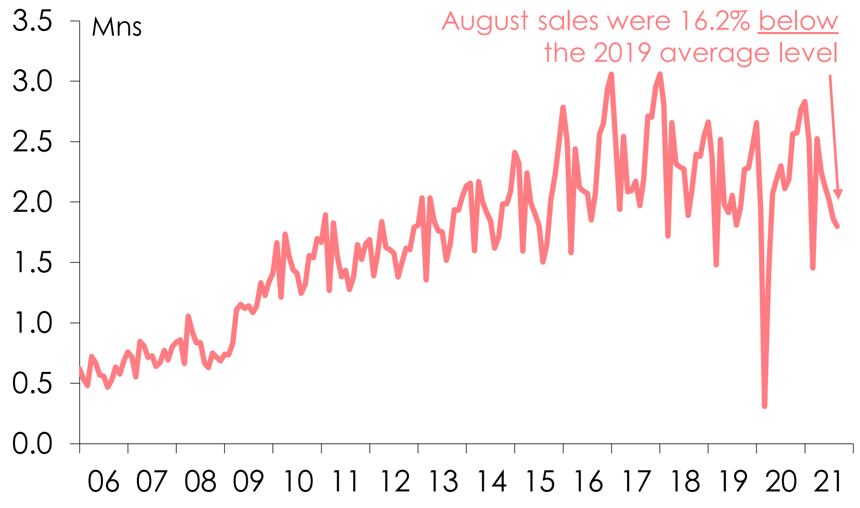
Most measures of consumer spending and of property market activity also continued to soften through August, partly but not solely due to ‘delta’

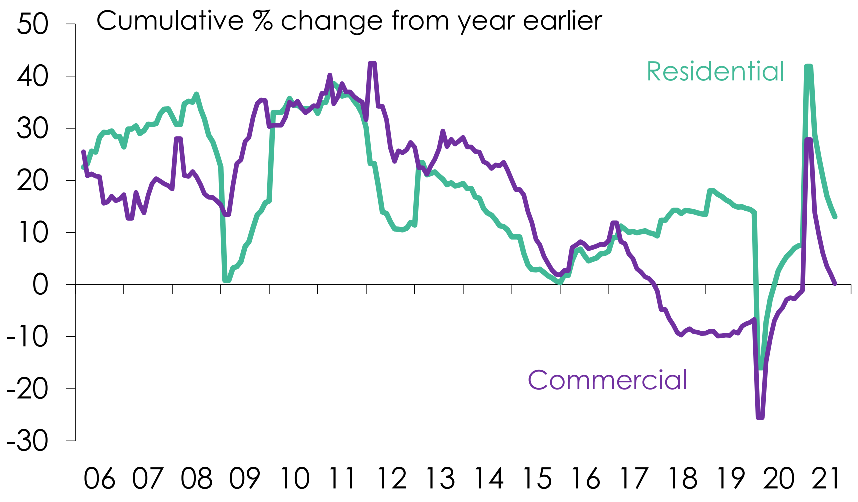
Consumer sentiment



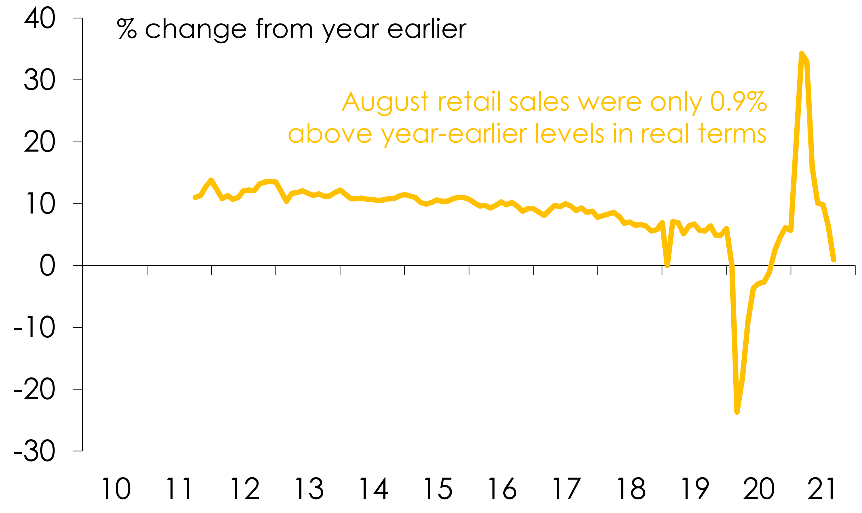
Motor vehicle sales



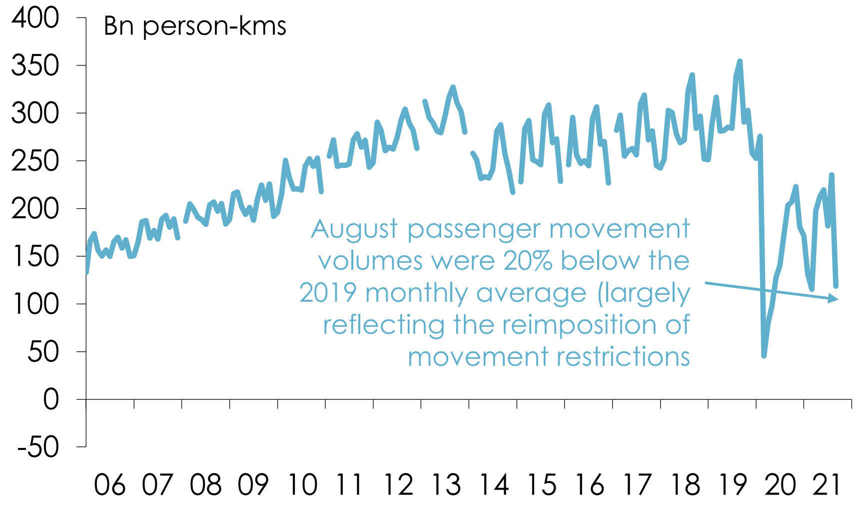
Real estate investment



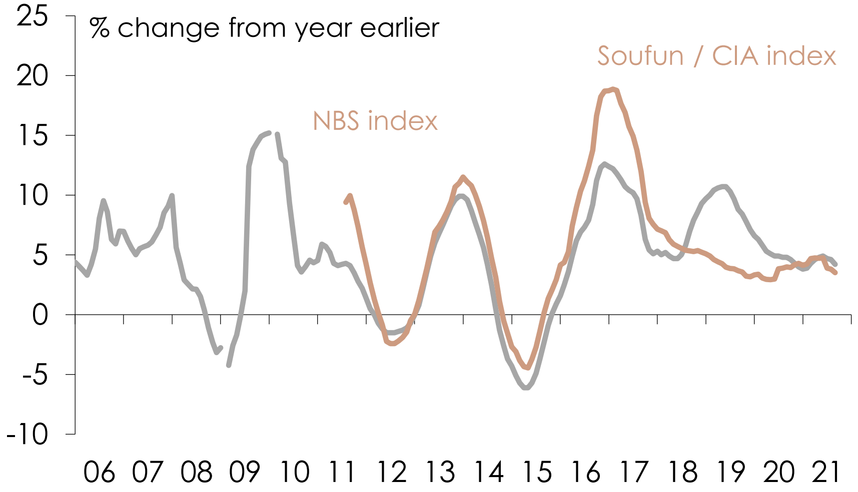
Volume of retail sales



Passenger traffic volumes



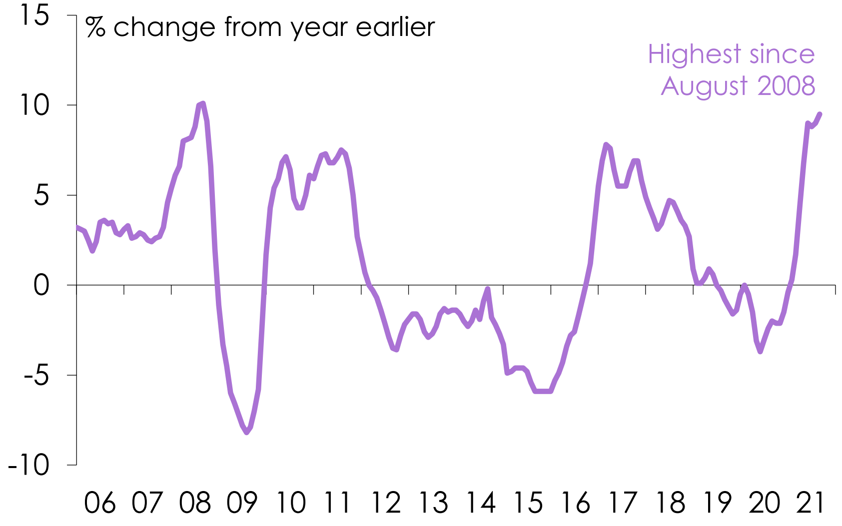
Residential real estate prices



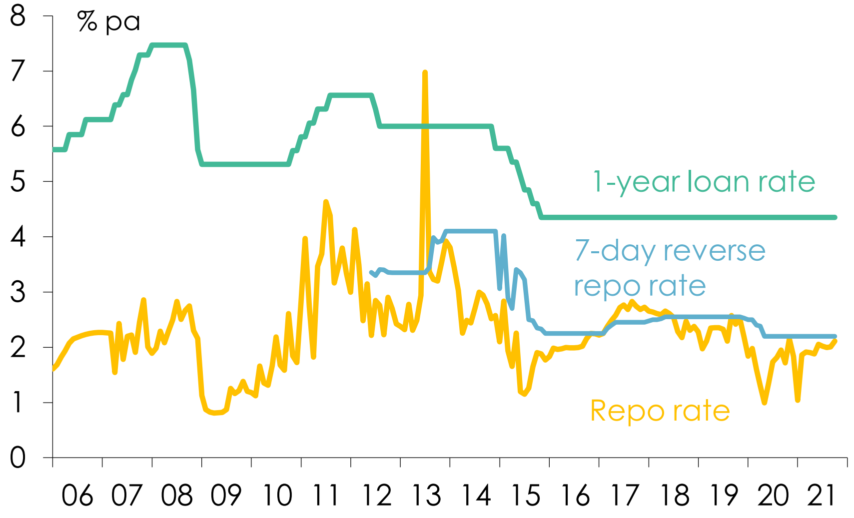
Sources: China National Bureau of Statistics; China Association of Automobile Manufacturers; China Index Academy (CIA). Latest data are for August, except for consumer confidence. Return to "What's New".

China's producer price inflation remained high in August, but consumer price inflation ebbed due to falling food prices – and credit slowed more

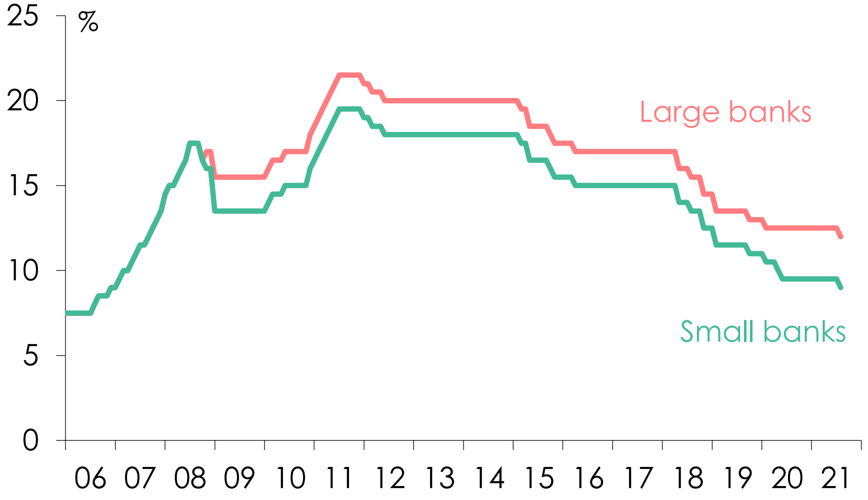
Producer prices



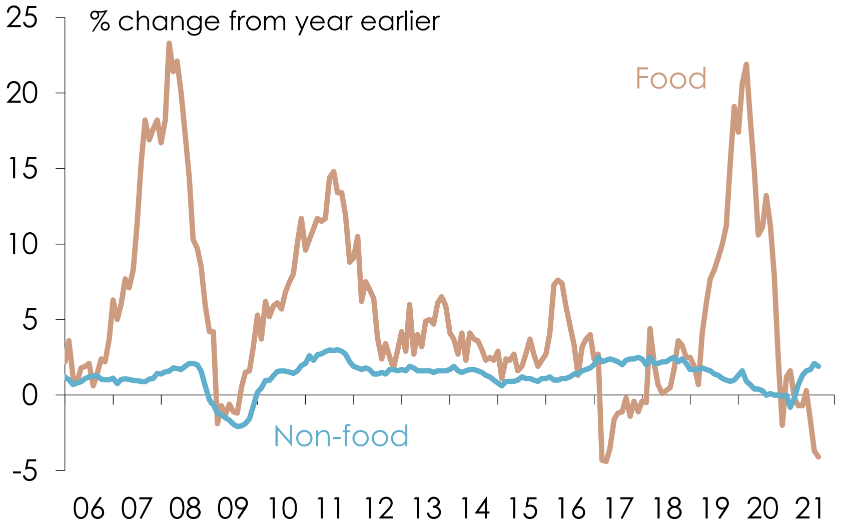
PBoC policy interest rates



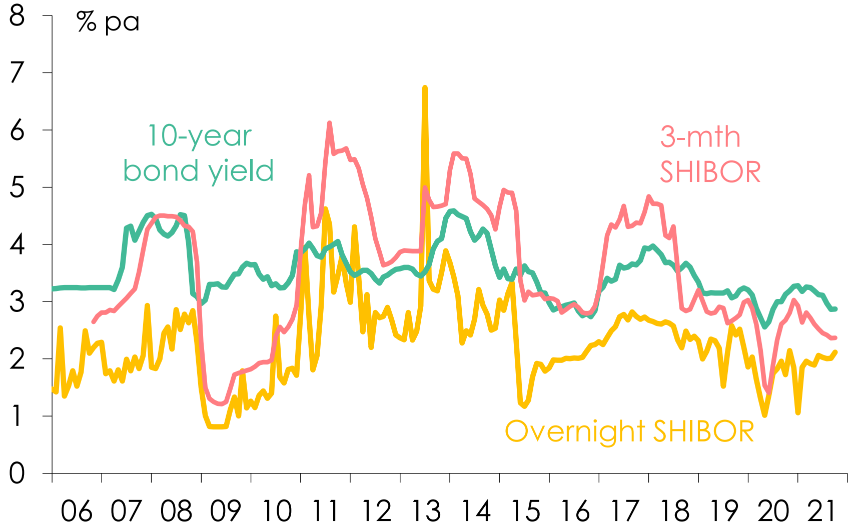
Bank reserve requirement ratios



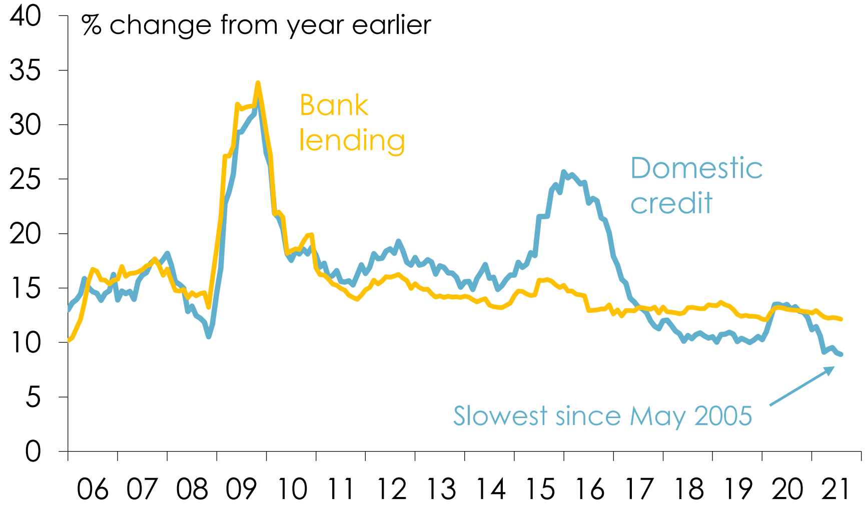
Consumer prices



Market interest rates



Credit growth



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

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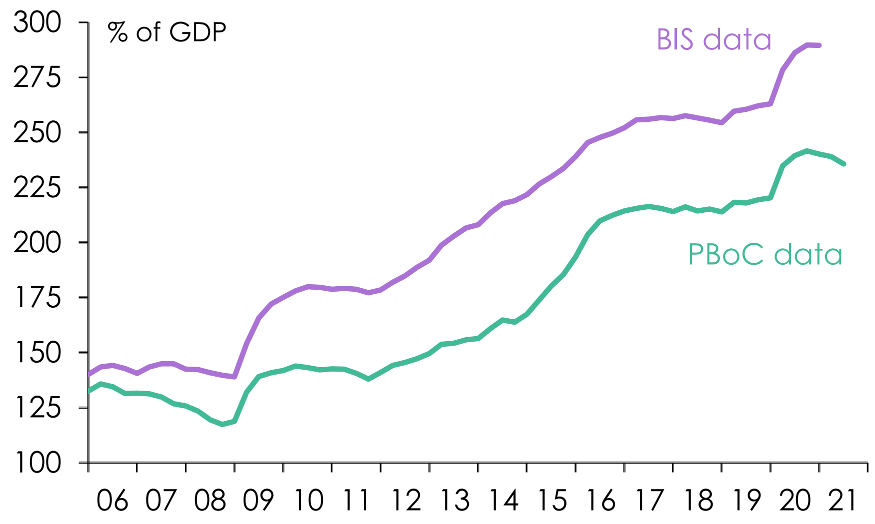
Concerns about the systemic consequences of a possible default by China's largest property developer eased a bit this week

- **Concerns have been mounting for some weeks about the possibility of a default by China Evergrande Group, a property development company with debts totalling US$300 billion (of which US$37bn falls due within a year)**
  - Evergrande is China's second-largest property developer, founded by billionaire Hui Ka Yan (who four years ago was ranked by Forbes magazine as "Asia's richest man"),
  - it has around 200,000 employees, and owns more than 1,300 different projects in some 280 cities (and indirect management interests in 2,800 others) across China, as well as having interests in electric vehicle manufacturing
  - Evergrande is listed on the HK Stock Exchange – its share price has fallen 86% since January (from HK$17.26 on 19th January to HK$2.37 on Friday), and its 8¼% notes due March next year have traded at less than 30% of their face value
- **A collapse of Evergrande could likely have significant consequences for the broader Chinese financial system**
  - but it's not clear whether a government-sponsored 'rescue' would be consistent with the recent government emphasis on steering lending away from real estate development or with regulatory crack-downs on prominent entrepreneurs
  - however Hui is well-connected, having been a guest at the CCP centenary celebrations in Beijing on 1st July this year
  - and the Chinese authorities may be concerned about possible consequences for China's property market as well as for the financial system
- **Immediate concerns eased somewhat this week when Evergrande indicated it had "resolved" interest payments due this week on an Rmb-denominated bond "via negotiations"**
  - Chinese regulators reportedly instructed Evergrande to focus on completing unfinished properties and repaying individual investors while avoiding a near-term default on dollar bonds" - although it's not clear whether authorities offered any assistance to the company
- **Additionally, the PBoC has been injecting at least Rmb 100 billion a day through reverse repo operations to ensure sufficient liquidity in domestic financial markets and stability in short-term interest rates**

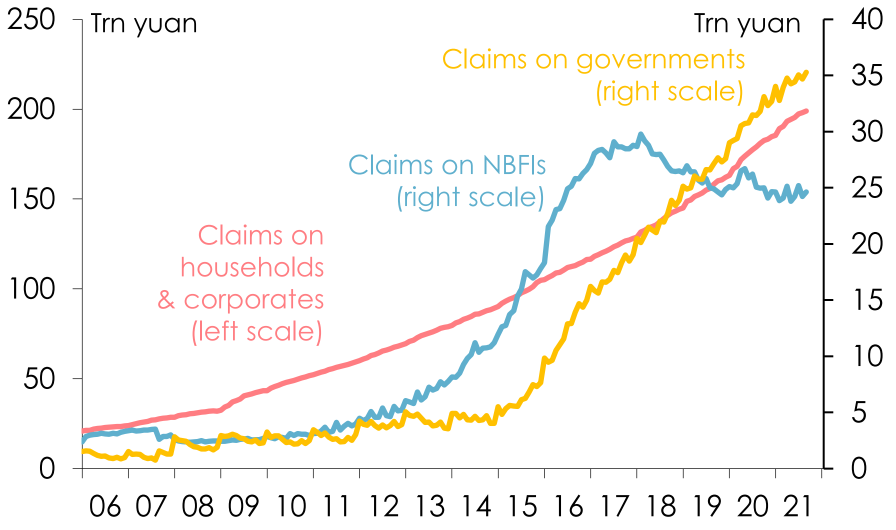
Return to "What's New".

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

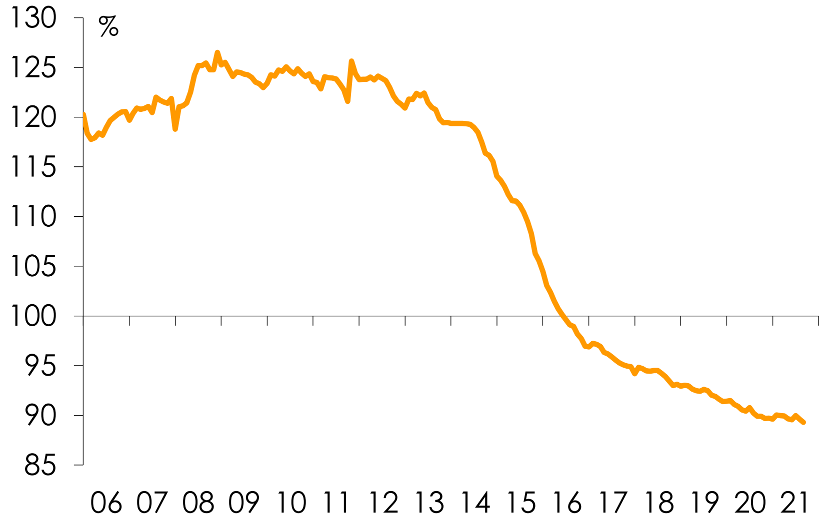
Credit outstanding as a pc of GDP



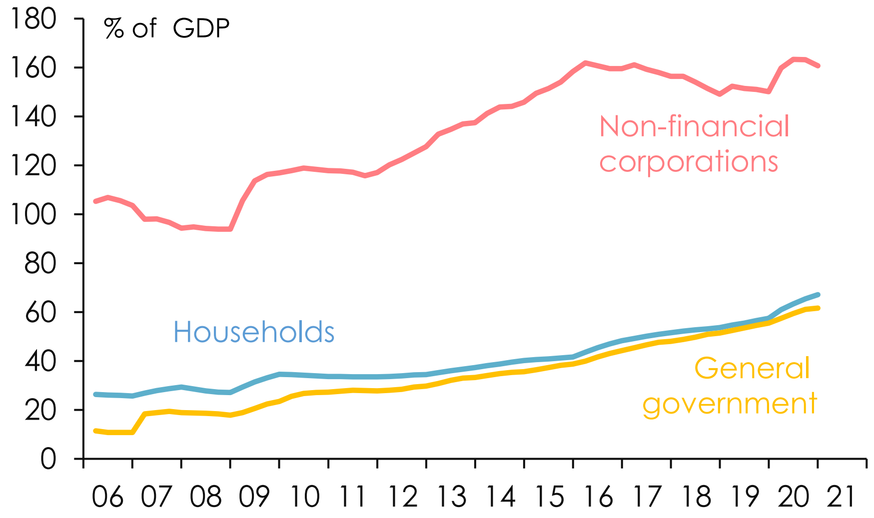
Banks' assets



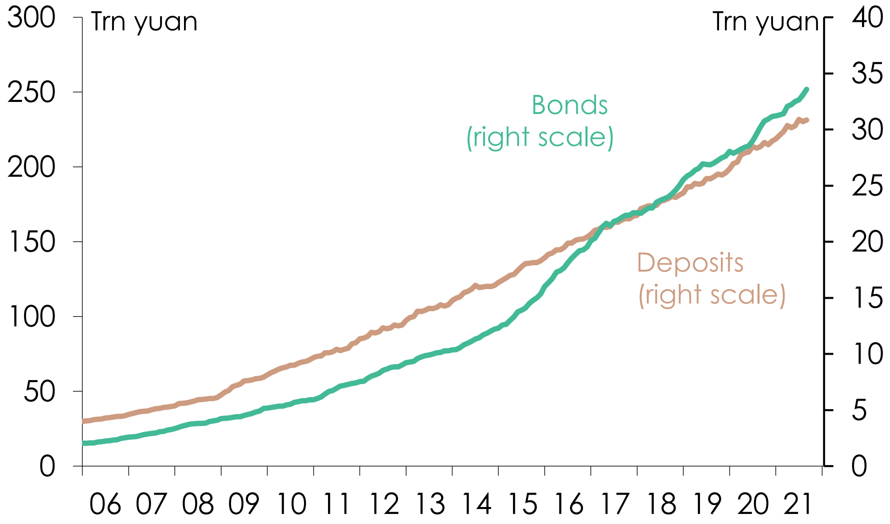
Banks' deposits-to-loans ratio



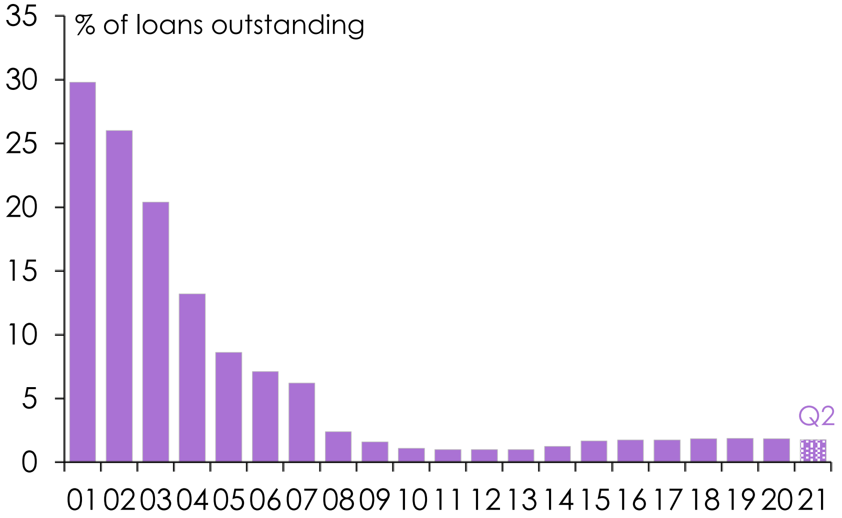
Credit outstanding by sector



Banks' liabilities



Banks NPLs – official estimates



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

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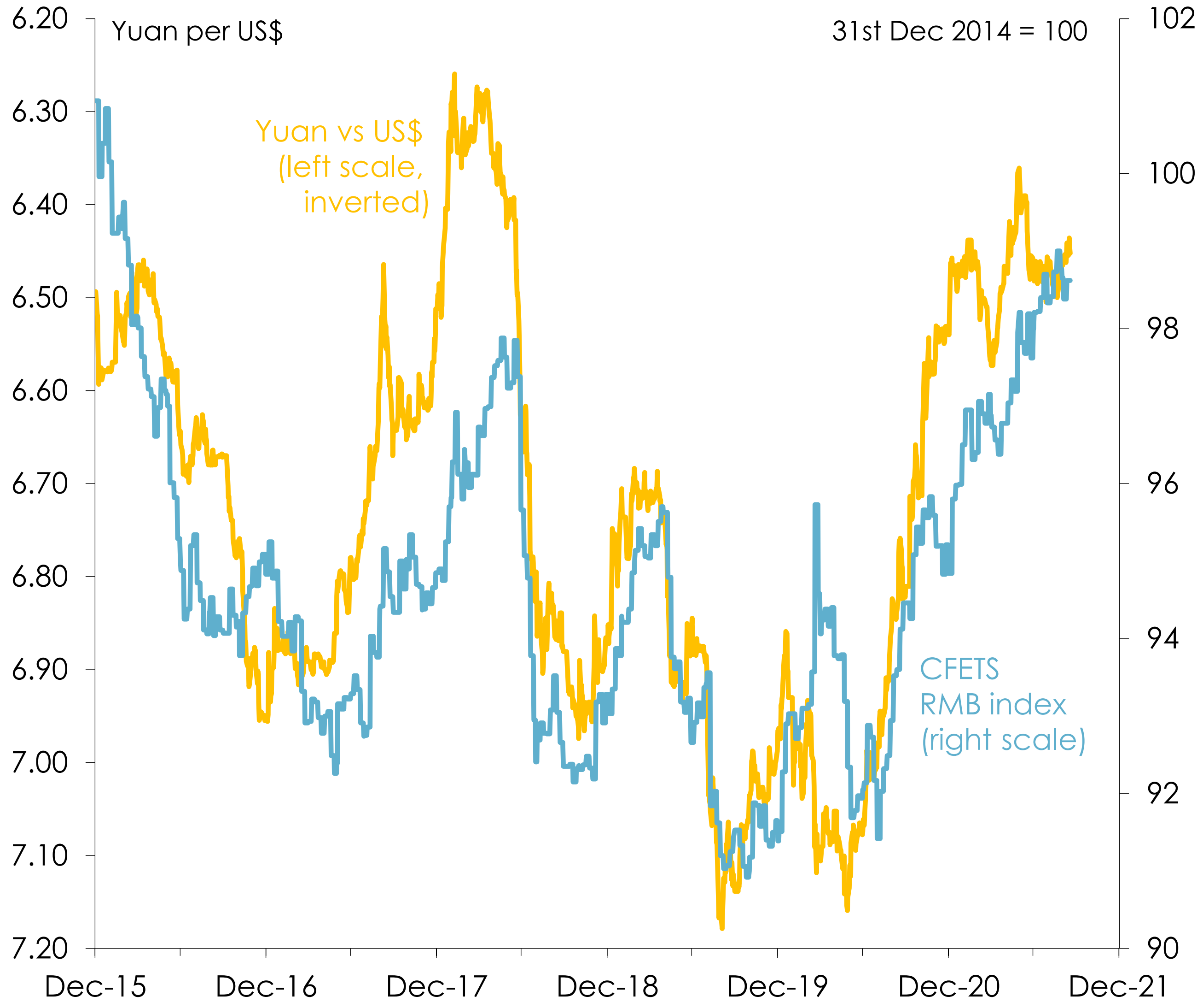
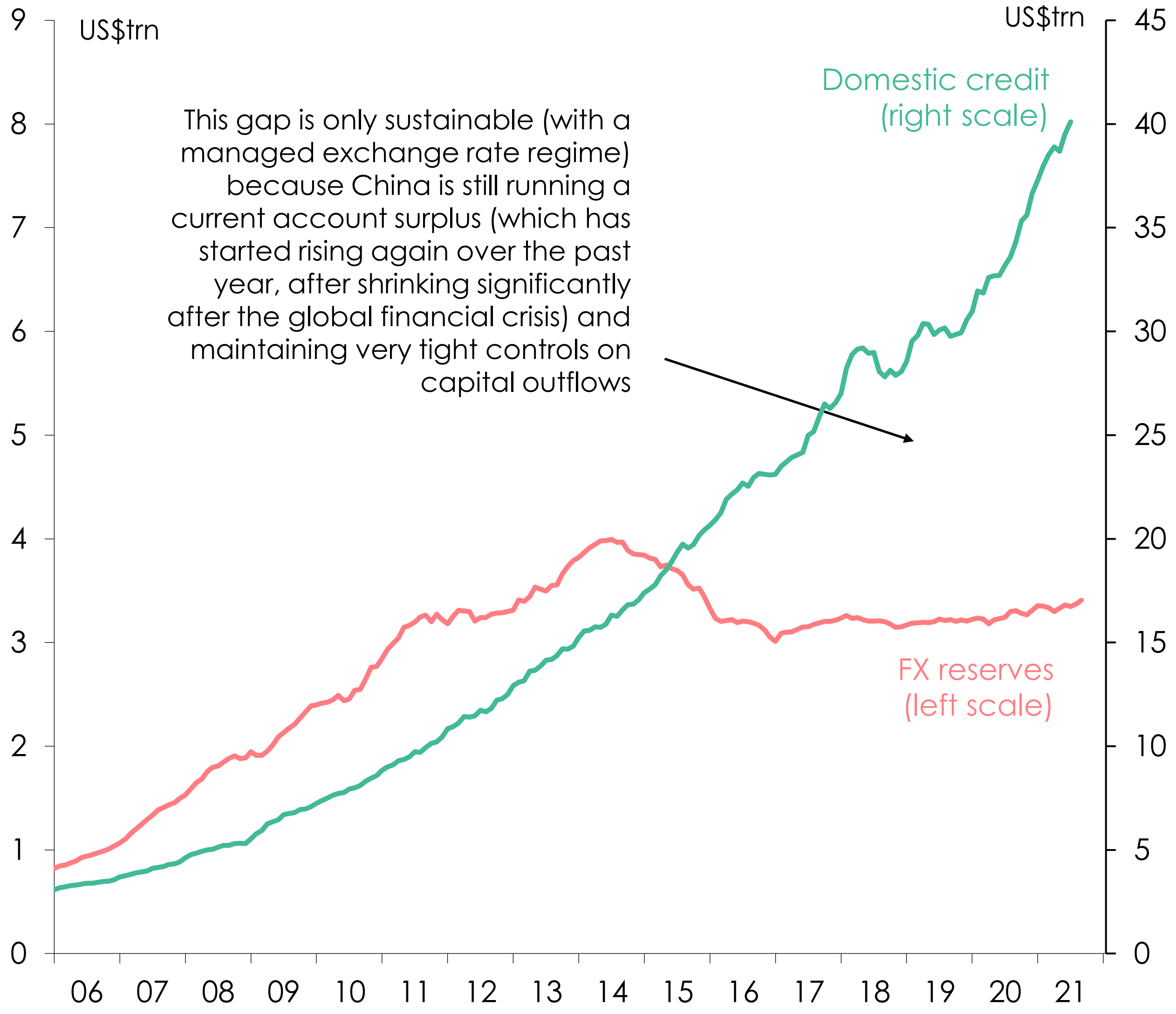
The yuan strengthened 0.4% in trade-weighted terms this week despite slipping 0.2% against the US dollar

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 17th September; FX reserves and credit are up to August. Return to "What's New".

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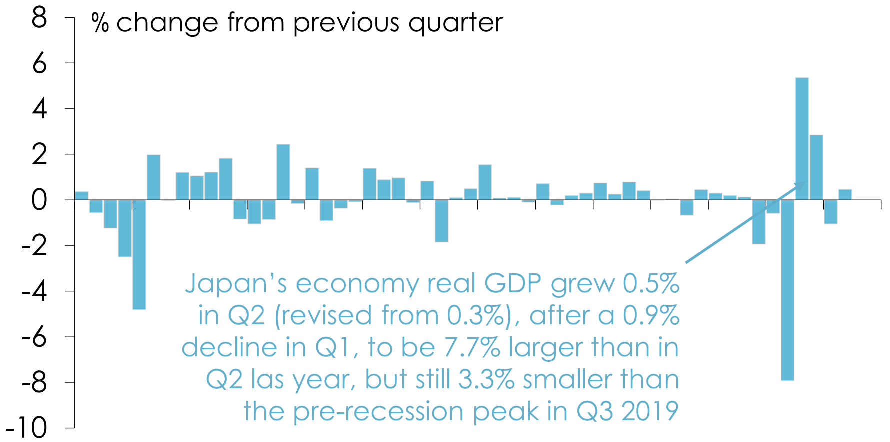
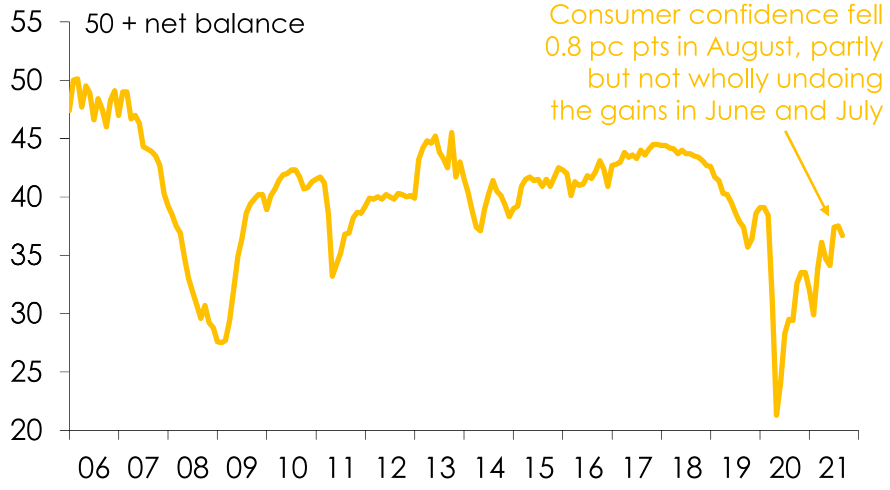
In Japan, employment registered its largest monthly gain in July since January 2016, and unemployment dropped to its lowest since last April

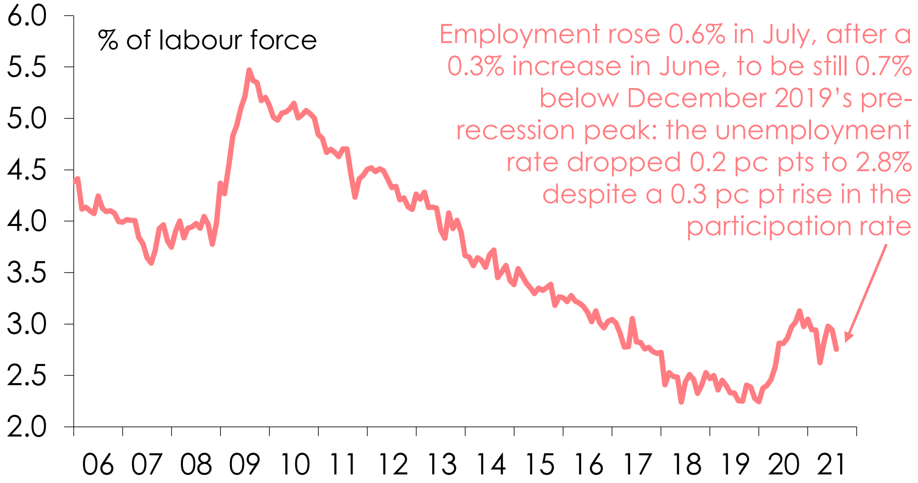
Real GDP



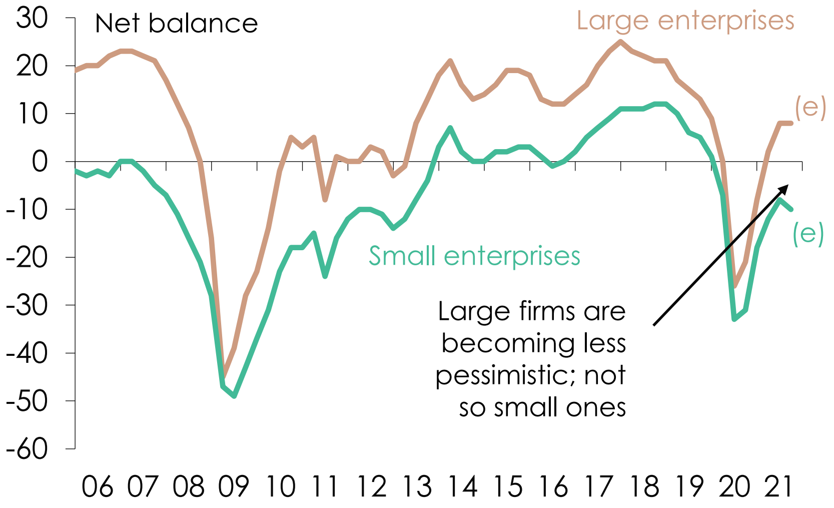
Consumer confidence



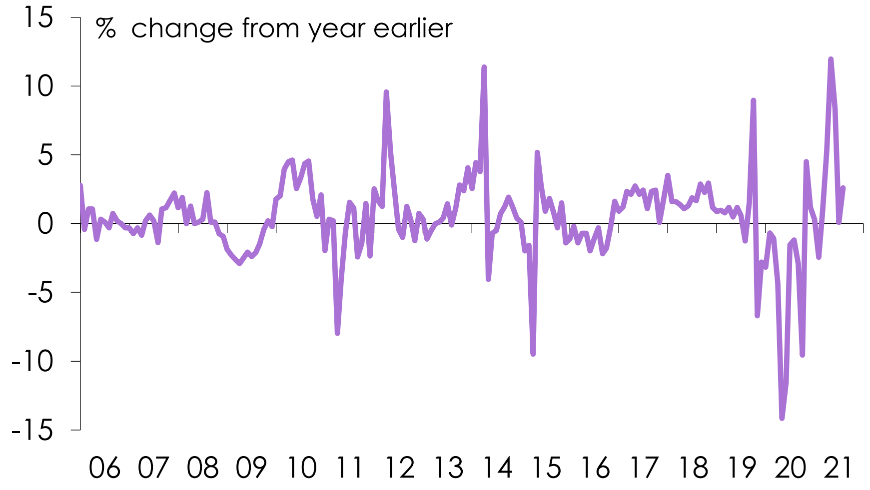
Unemployment



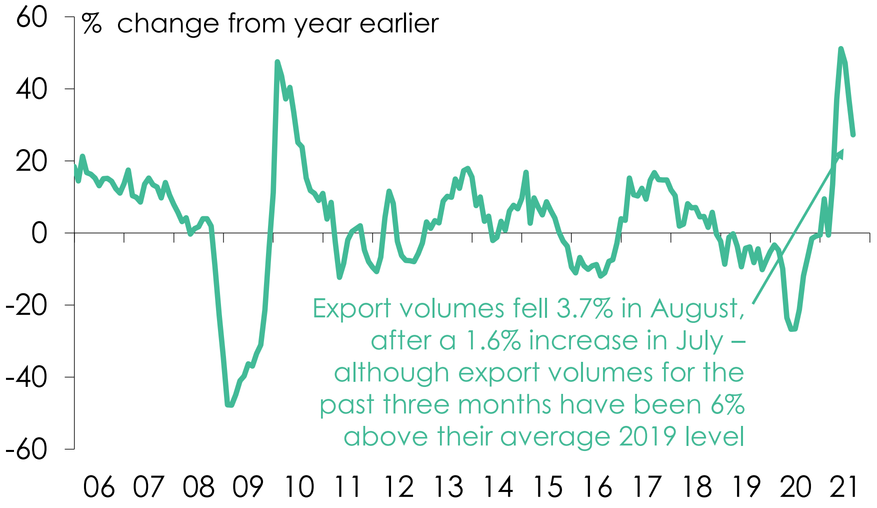
BoJ *Tankan* business conditions



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".

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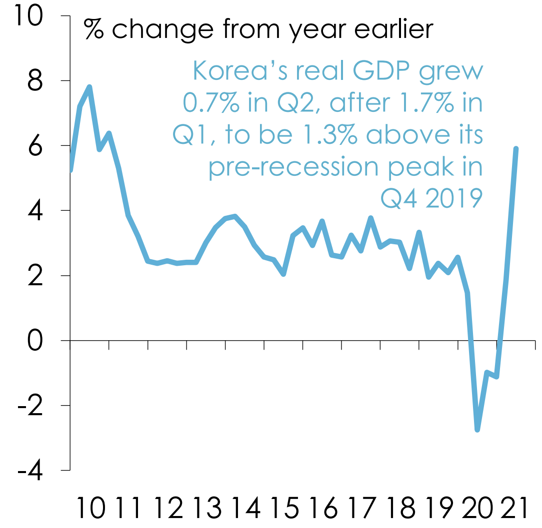
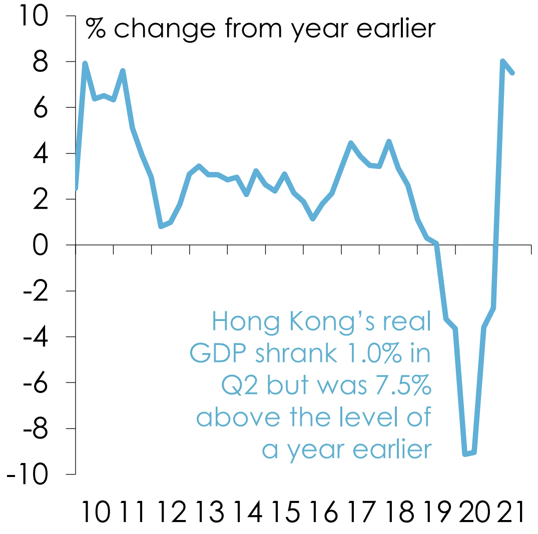
All Asian economies have recorded strong rebounds from their pandemic-induced troughs in Q2 2020, but not all have regained previous peaks

Korea

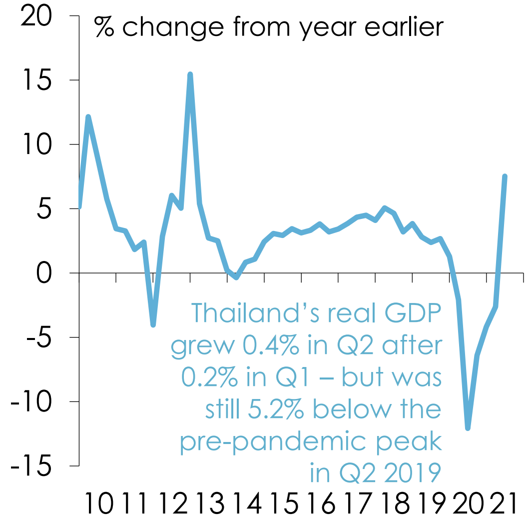


Hong Kong

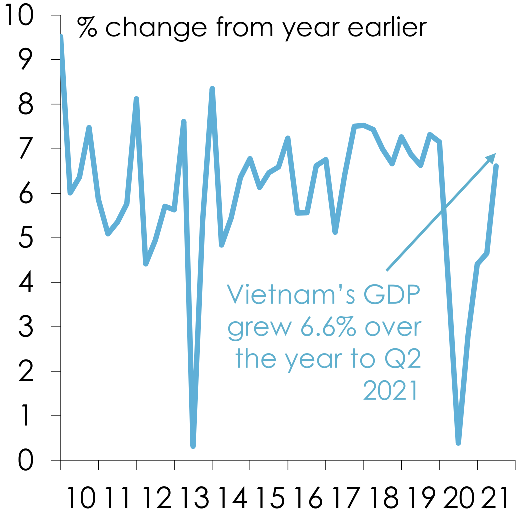


Indonesia

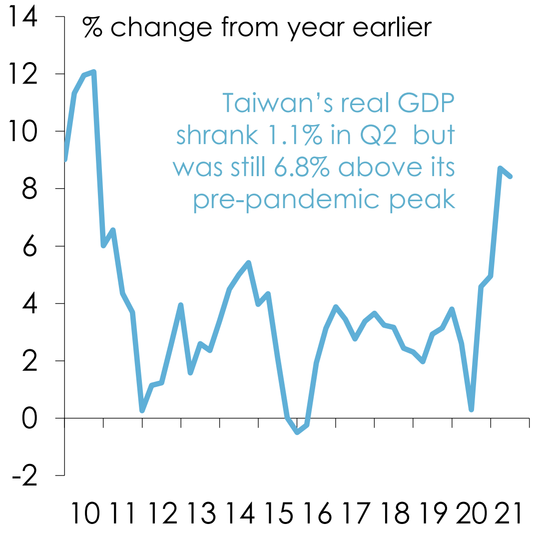
Thailand



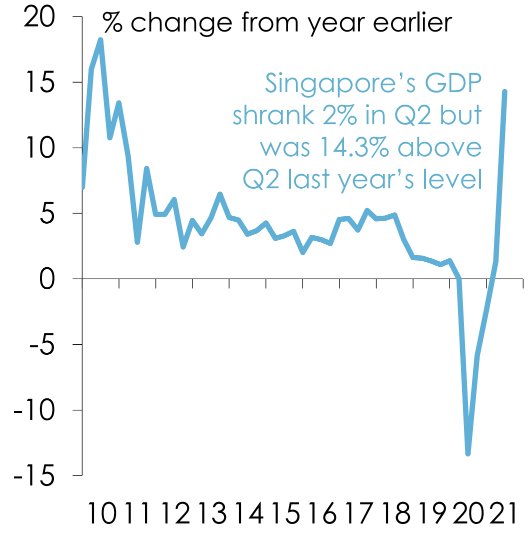
Vietnam



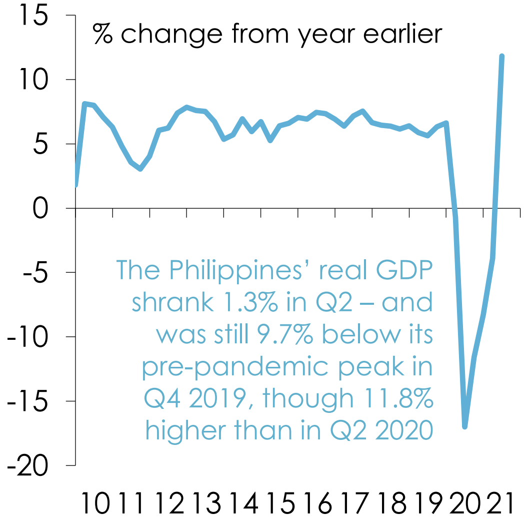
Taiwan



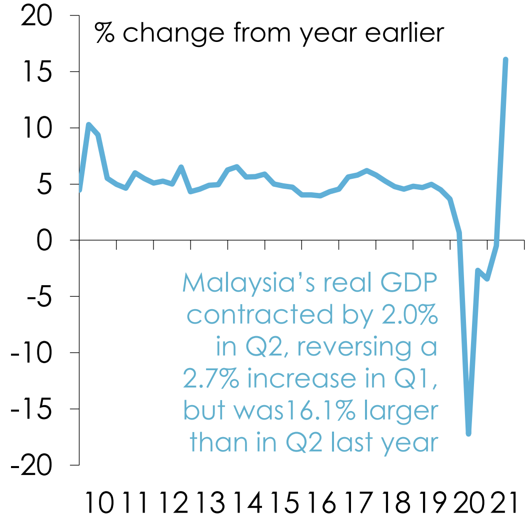
Singapore



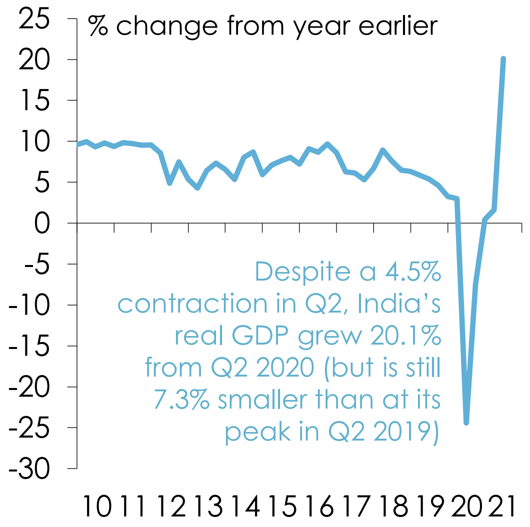
Philippines



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".

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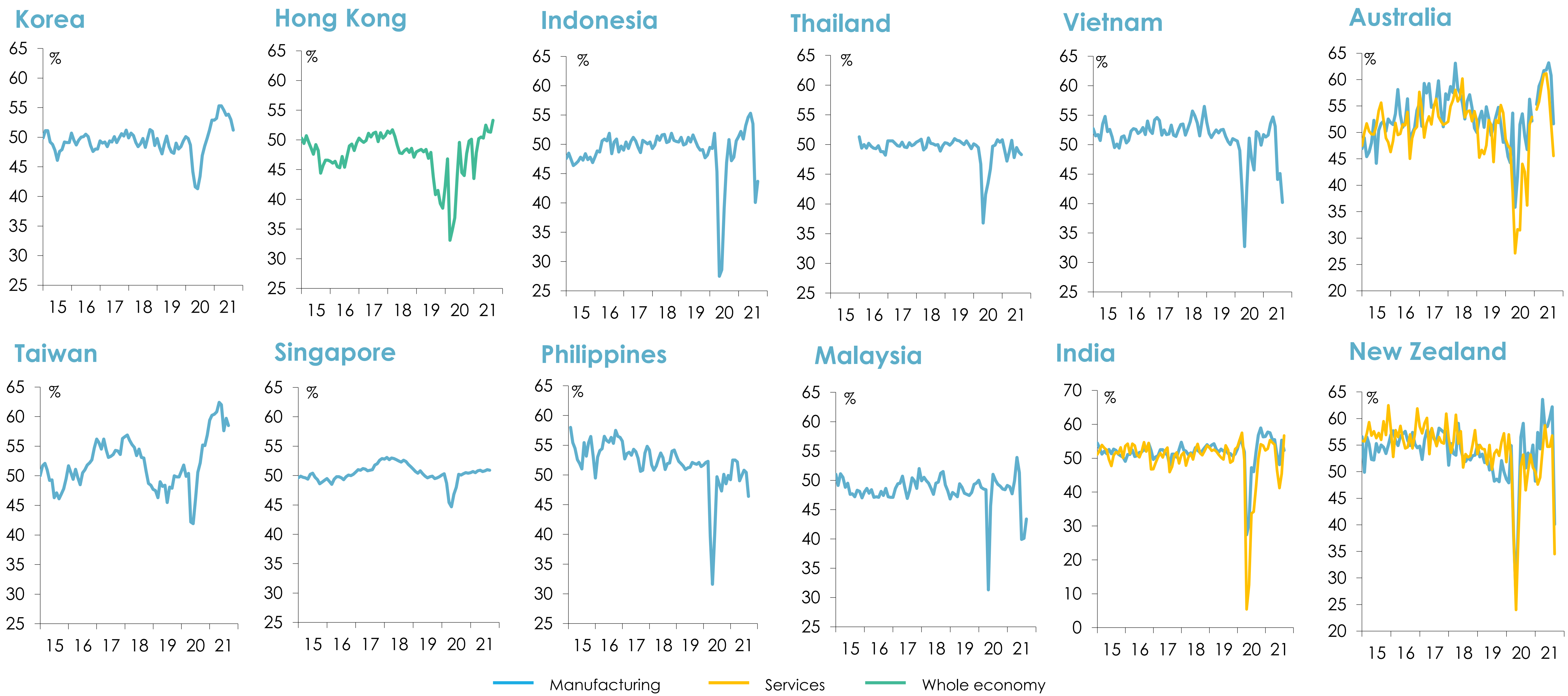
PMIs for August show continuing adverse effects of the wave of infections across south-east Asia, but a pick-up in India as the ‘delta wave’ eases



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 services. Australian data for January are ‘missing’.
Sources: IHS Markit; Singapore Institute of Purchasing and Materials Management; Australian Industry Group; Business NZ; Refinitiv Datastream. Return to "What's New".

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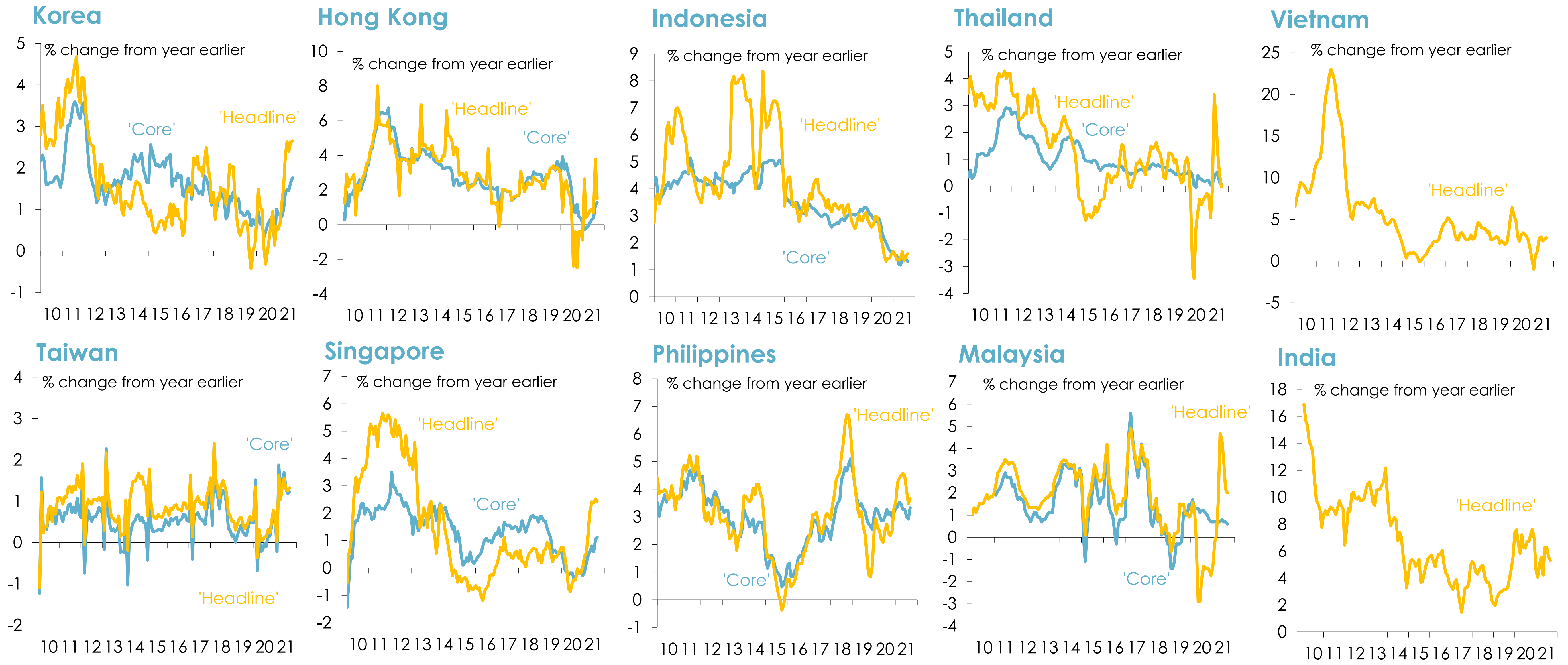
Some (though not all) Asian economies are experiencing temporary upward pressure on inflation as in North America and Europe



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".

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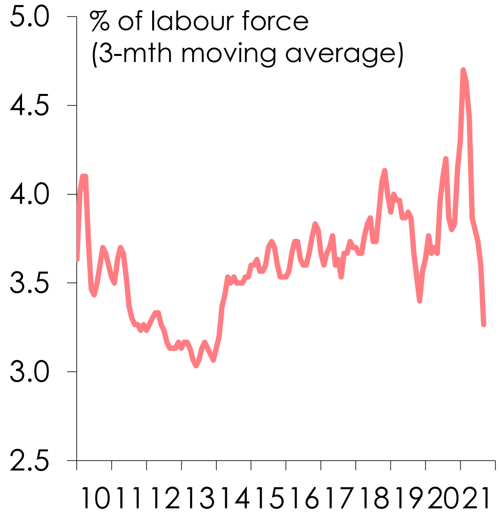
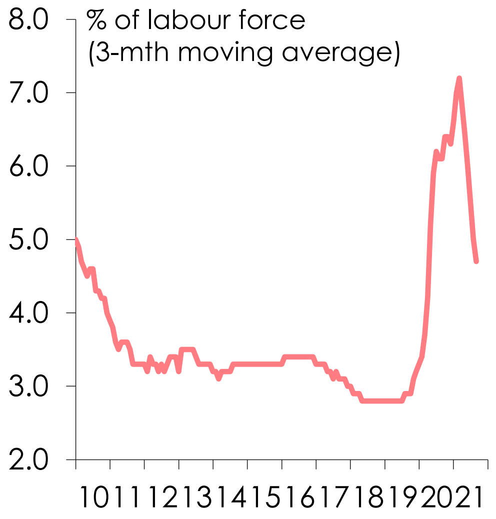
Unemployment rose sharply in most Asian economies last but is now falling in most of them

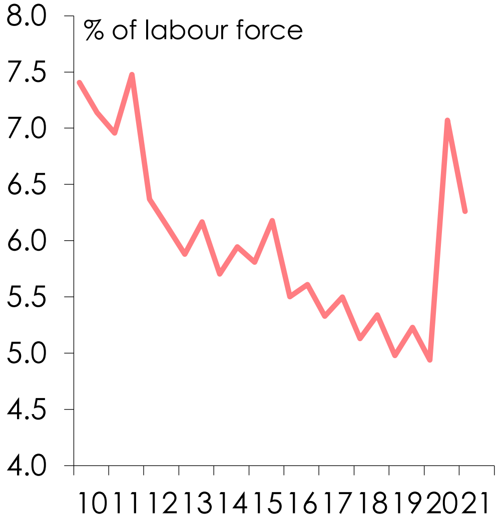
Korea



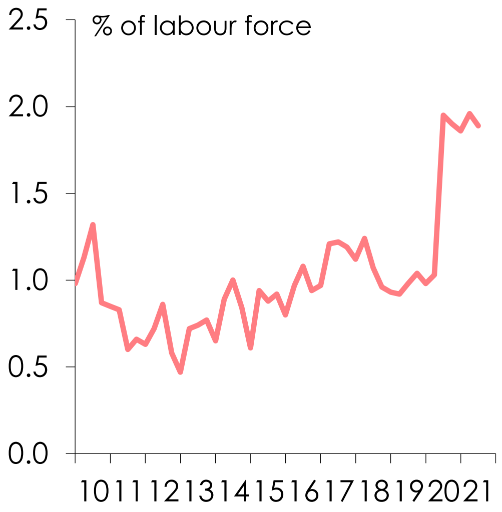
Hong Kong



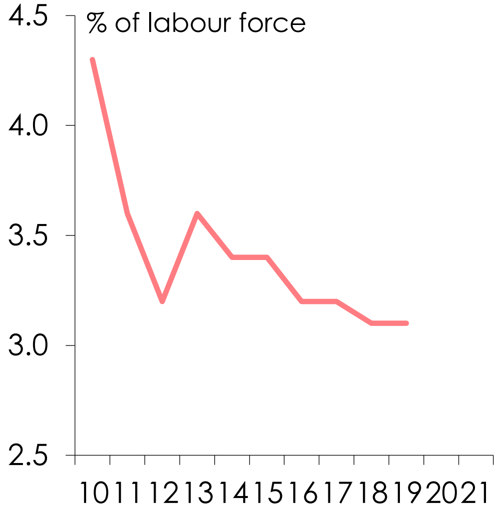
Indonesia



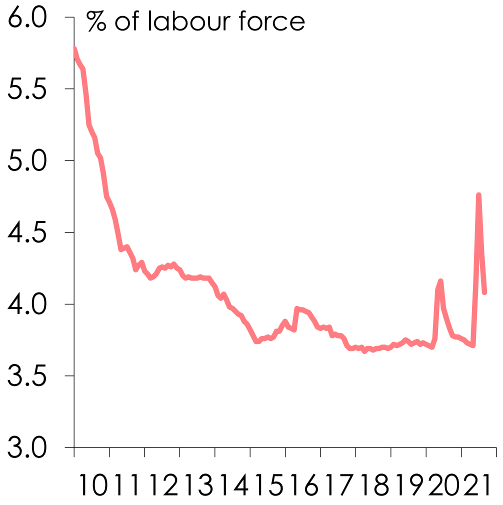
Thailand



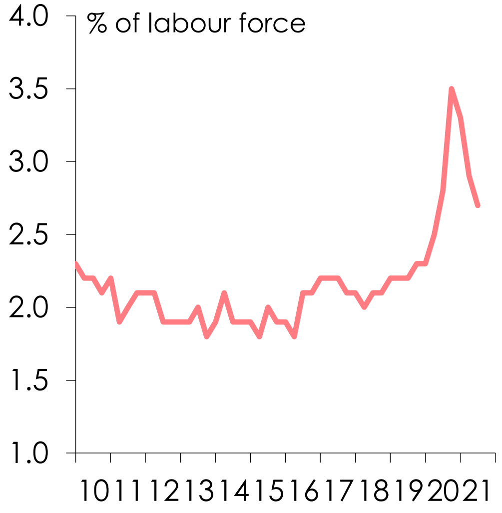
Vietnam



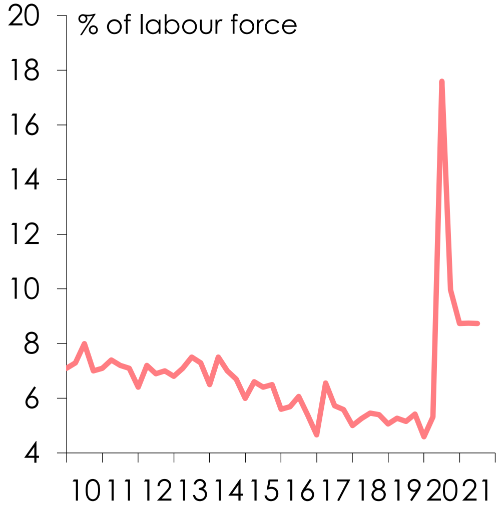
Taiwan



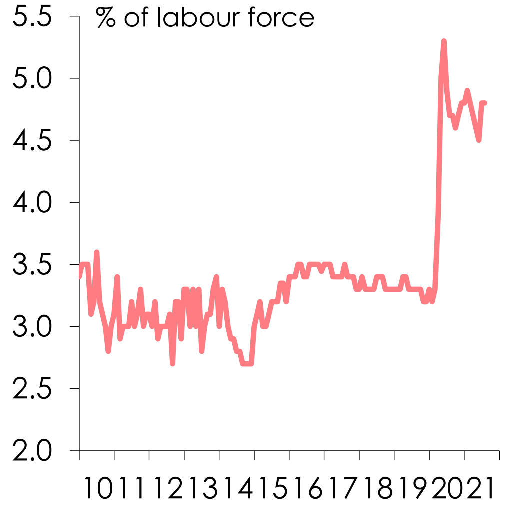
Singapore



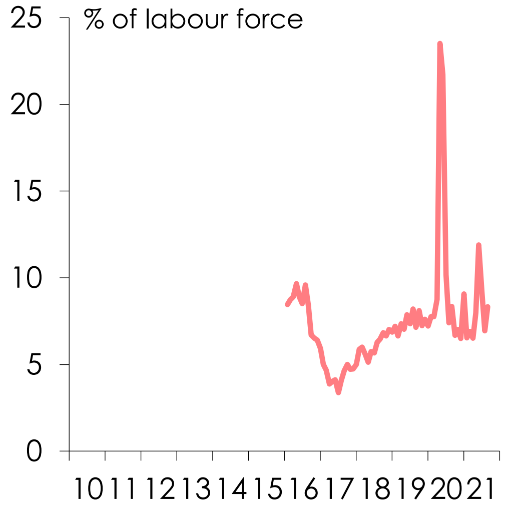
Philippines



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".

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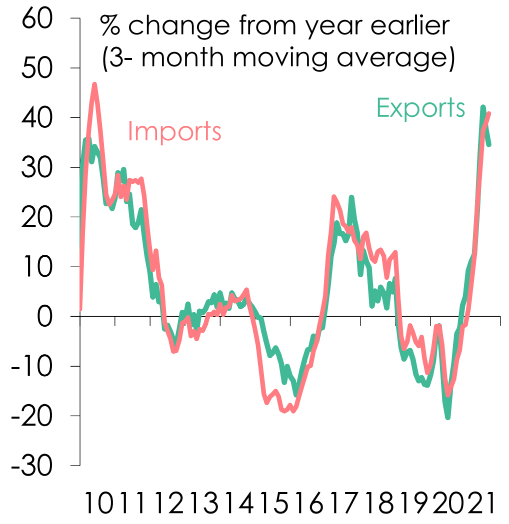
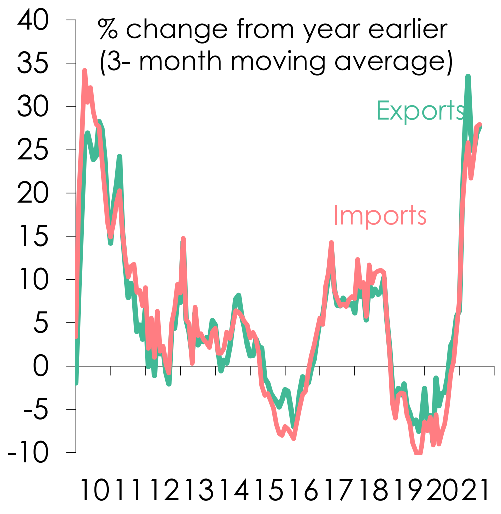
Asian exports are recovering from the Covid-induced slump – although 'base effects' from this time last year are inflating the growth

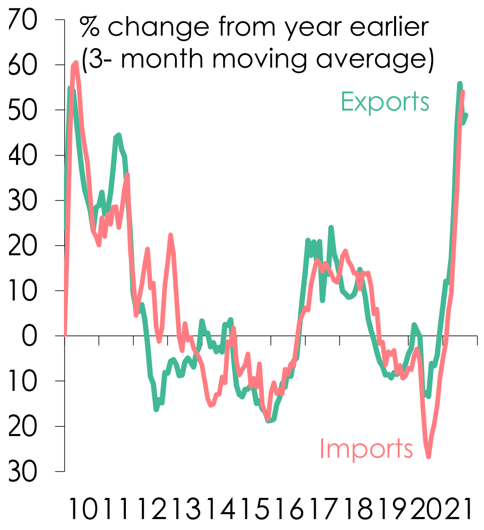
Korea



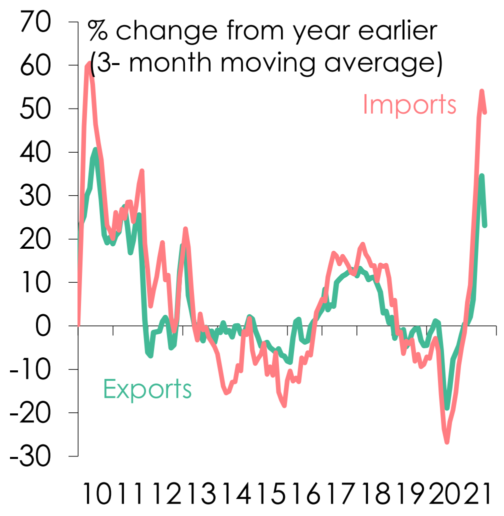
Hong Kong



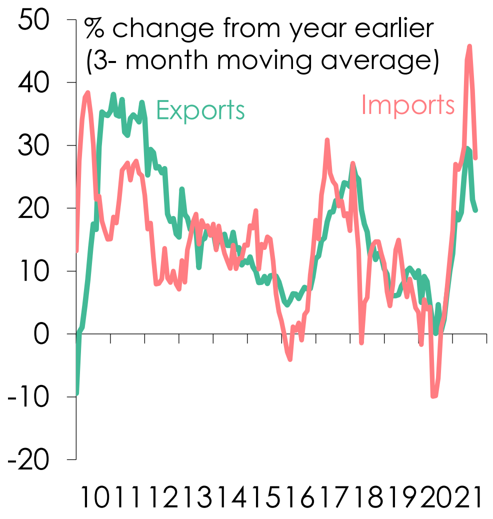
Indonesia



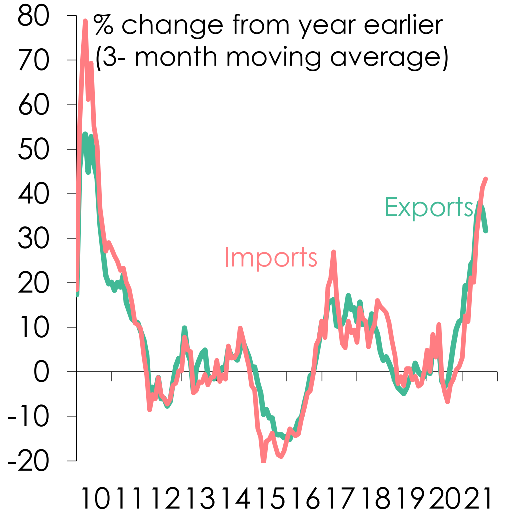
Thailand



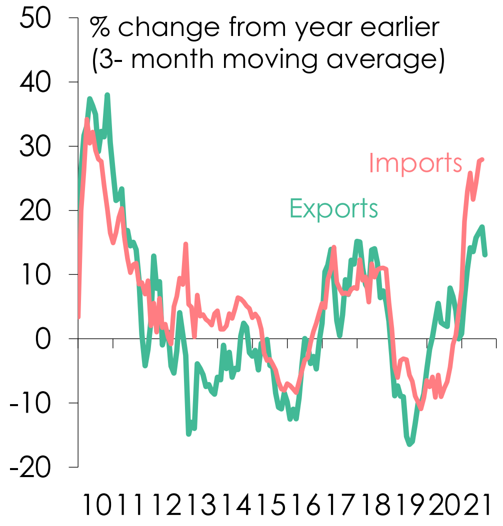
Vietnam



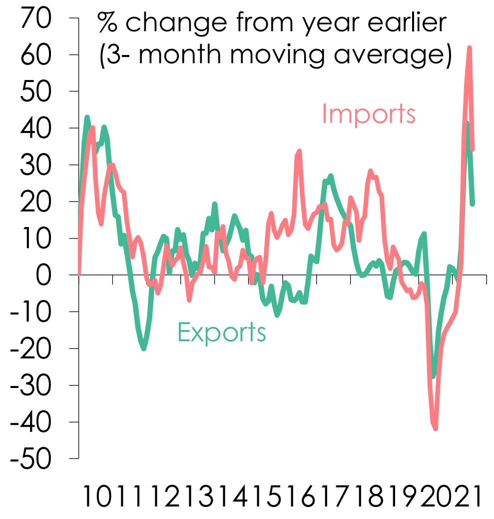
Taiwan



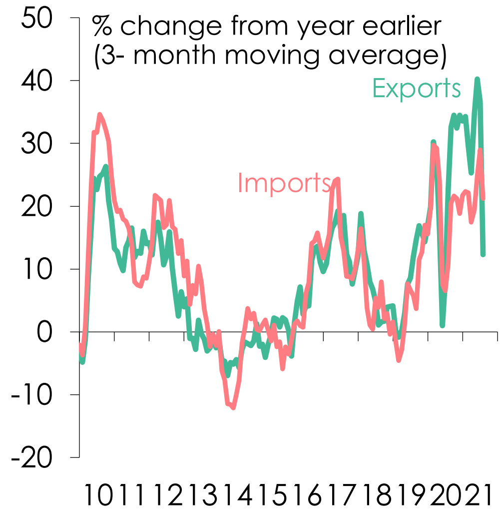
Singapore



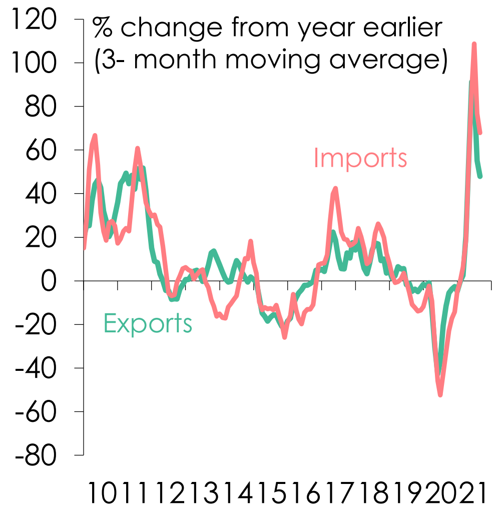
Philippines



Malaysia



India



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

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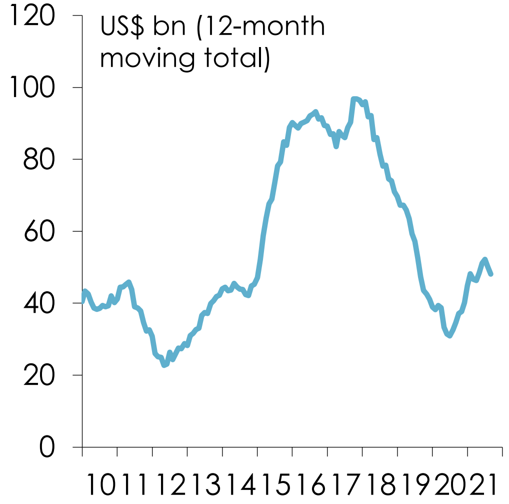
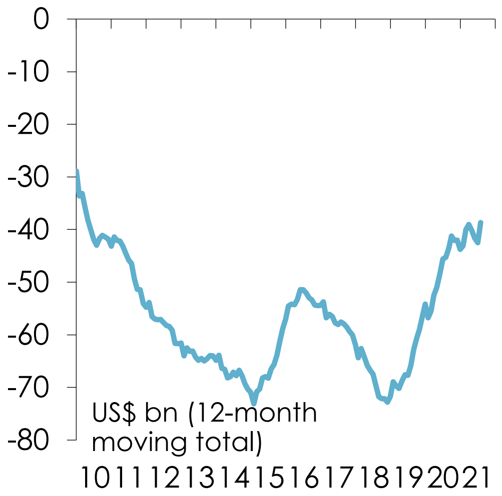
All Asian economies have experienced improvements in their trade balances since the onset of Covid, although some are now turning around

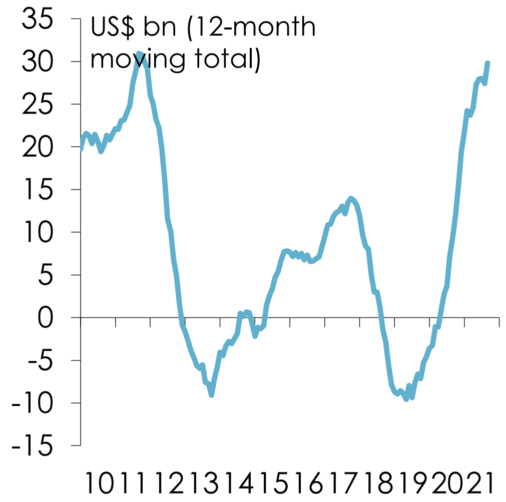
Korea



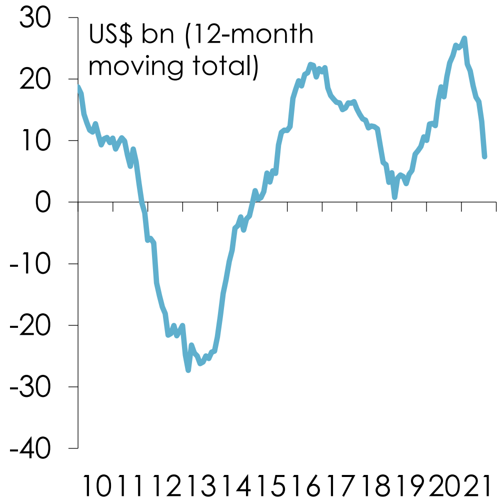
Hong Kong



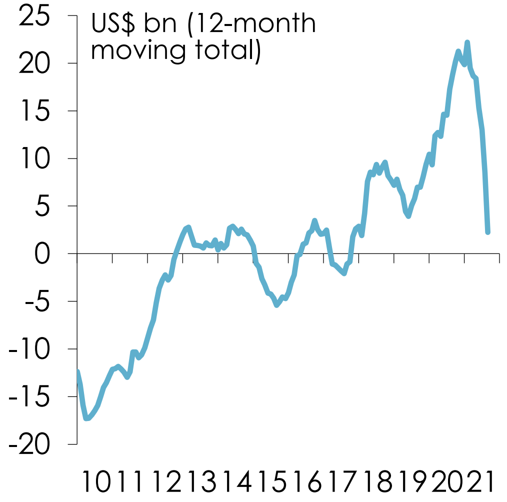
Indonesia



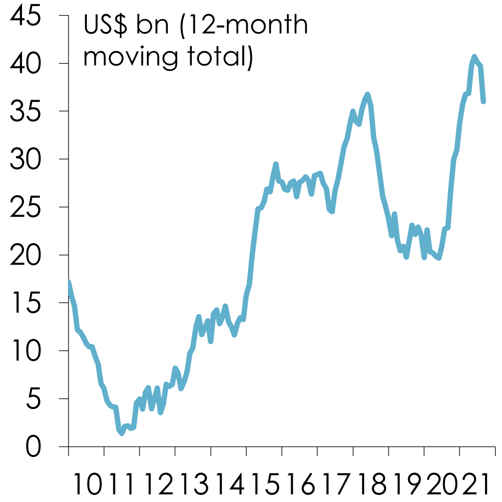
Thailand



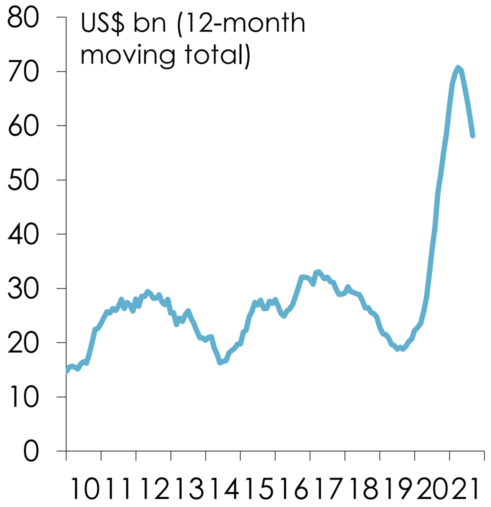
Vietnam



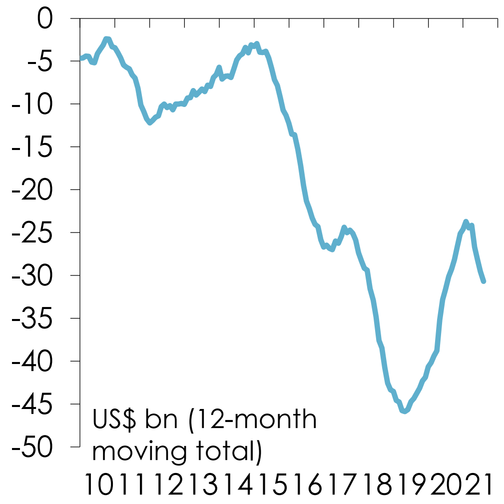
Taiwan



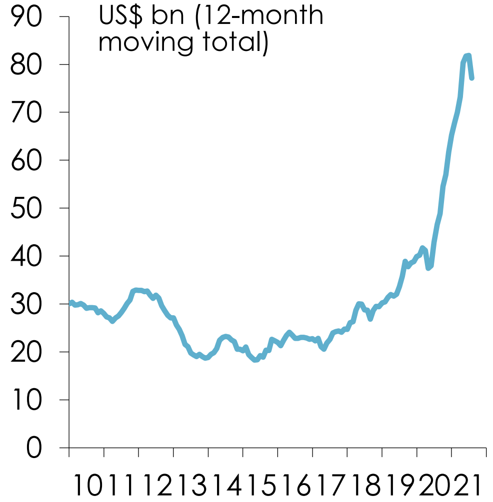
Singapore



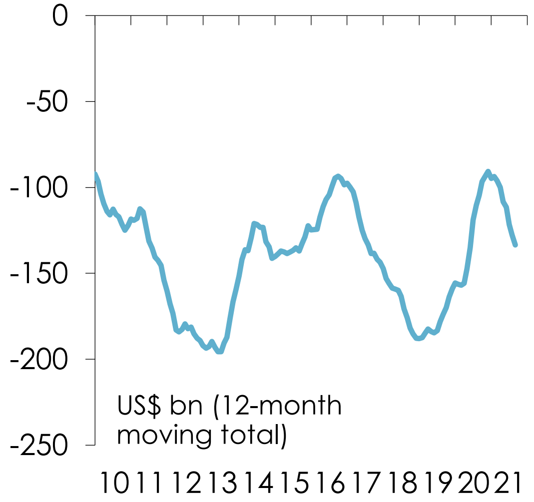
Philippines



Malaysia



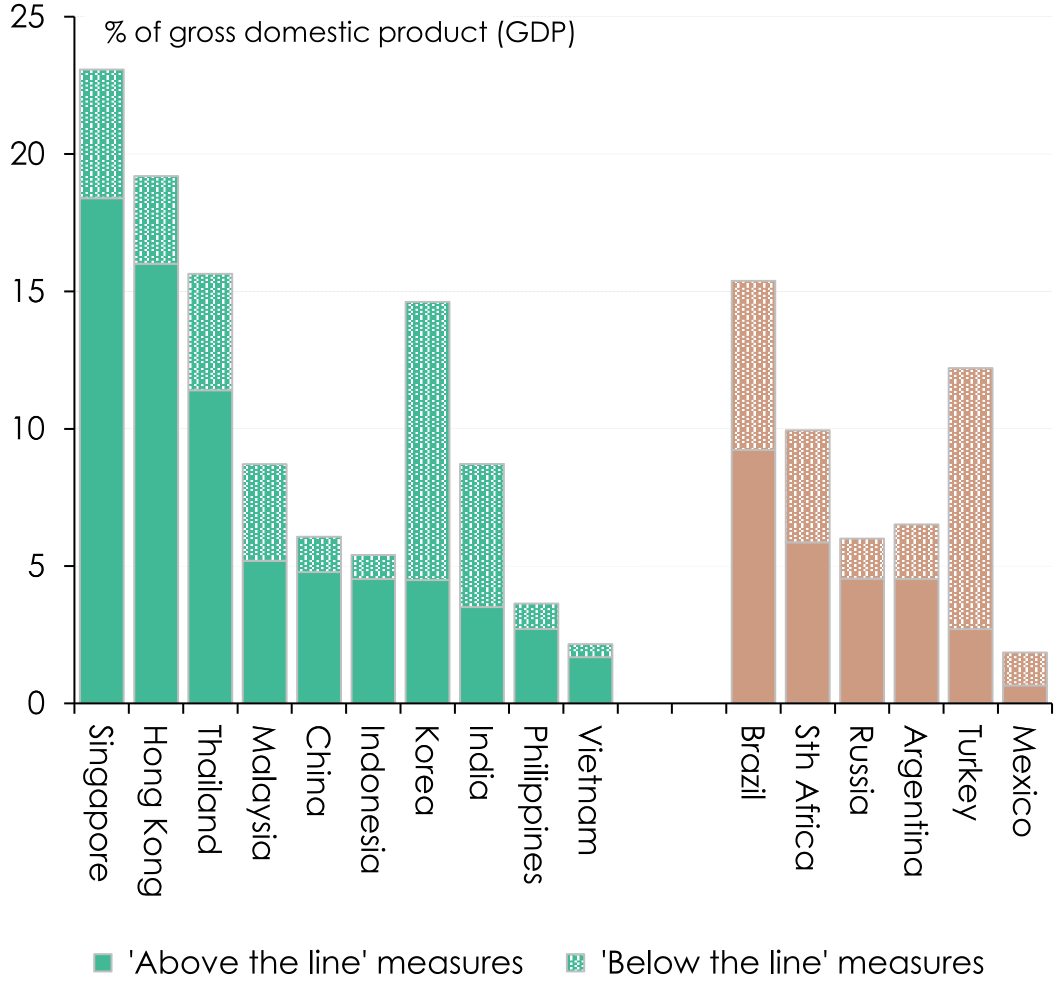
India



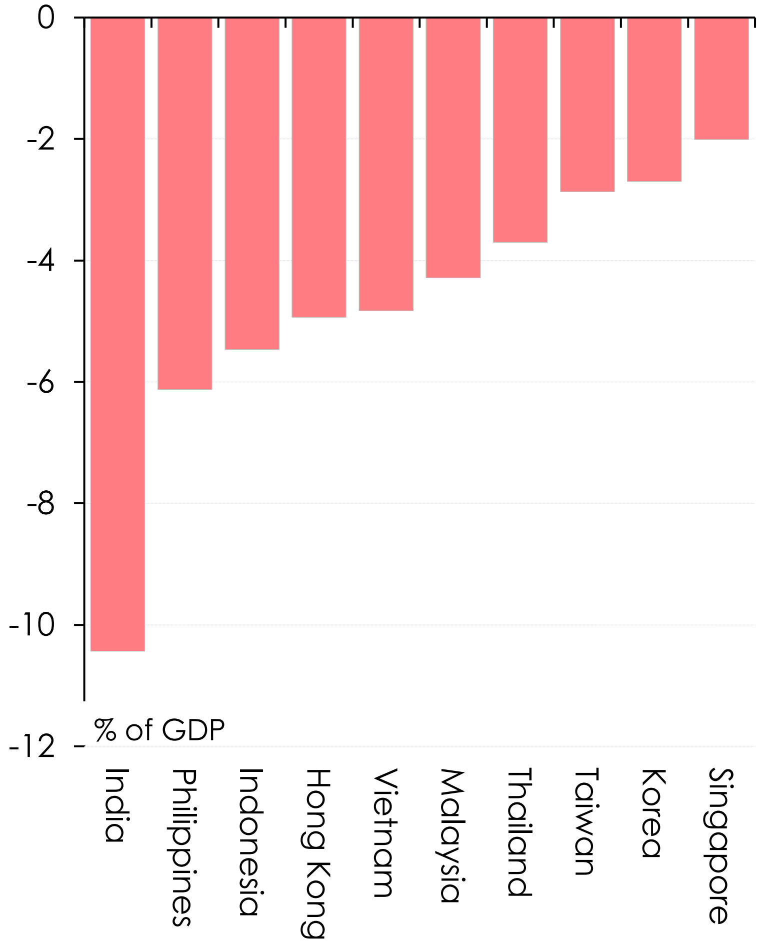
Note: Data for Hong Kong, Singapore and Malaysia are published in national currencies and converted to US dollars by Corinna using month-average exchange rates.
Sources: national statistical agencies and central banks. Return to "What's New".

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

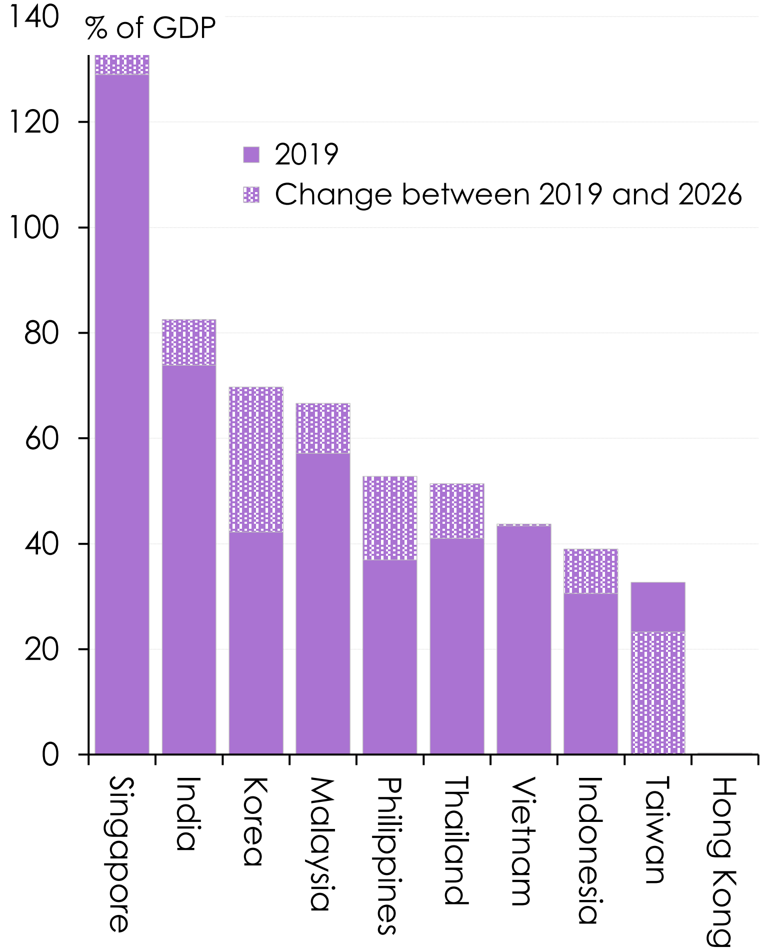
Fiscal policy responses to Covid-19 – Asian & other selected emerging market economies



Budget balances – Asian economies 2020-2022



Gross government debt – Asian economies 2019-26



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

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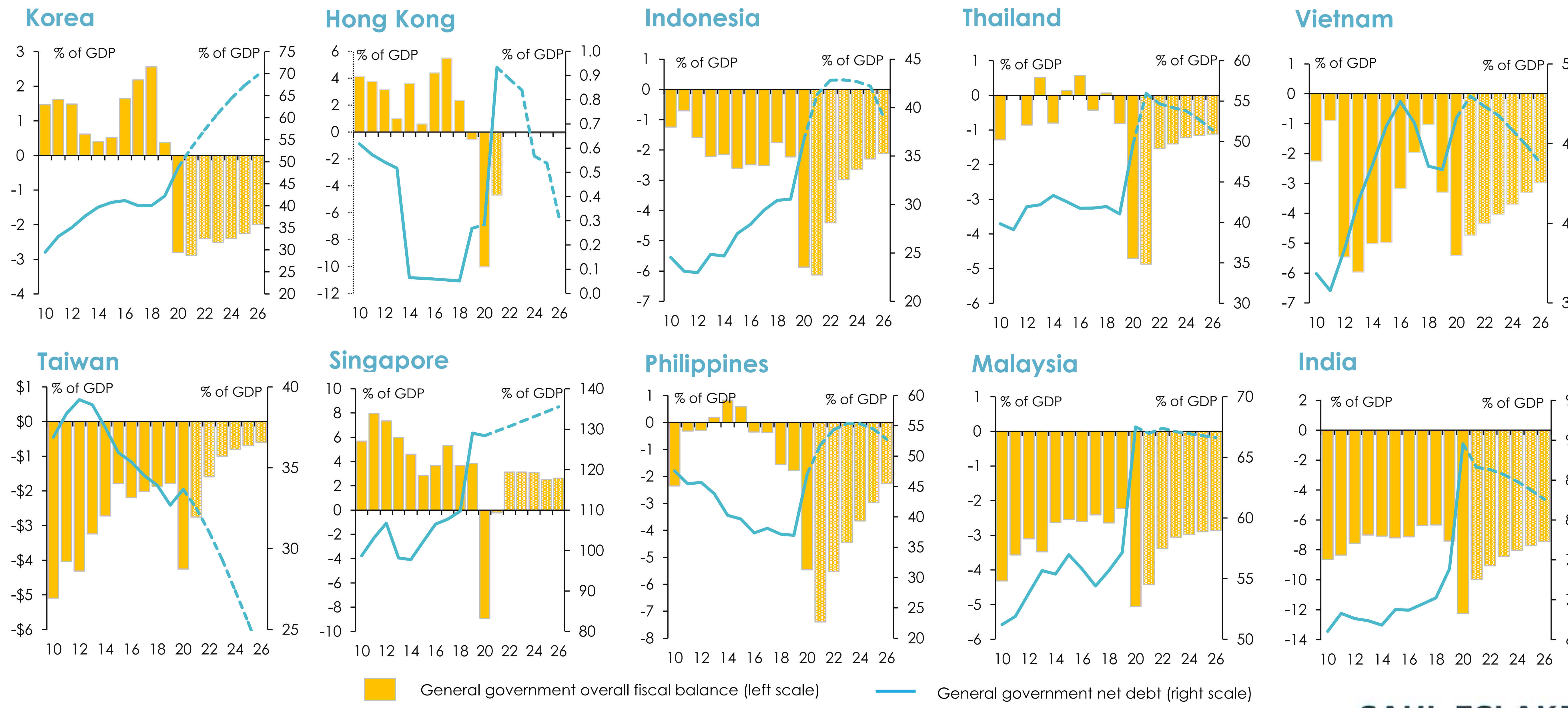
Asian governments, except for Singapore and Hong Kong, will be running large budget deficits for the next five years



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

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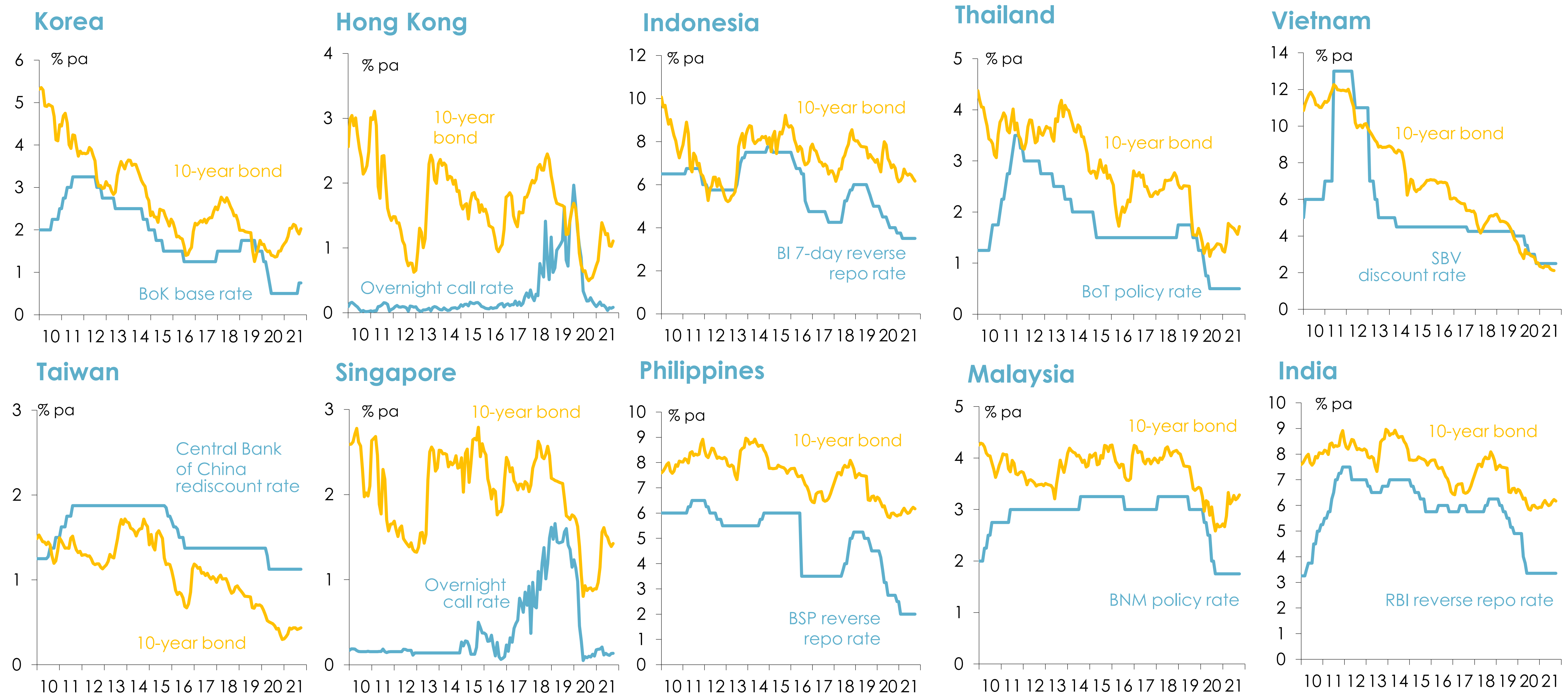
Central banks in Indonesia, the Philippines and Taiwan kept their policy settings unchanged, as expected, but Taiwan tightened lending controls

- **Bank Indonesia left its key policy interest rates – the 7day reverse repo rate, deposit facility rate, and lending facility rate – unchanged at 3.50%, 2.75% and 4.25% respectively at Tuesday's Board of Governors meeting**
  - in his post-meeting press statement BI Governor Perry Warjiyo characterized BI's monetary policy settings as "in line with the need to maintain exchange rate and financial system stability, amid low inflation forecasts and efforts to support economic growth"
  - in particular BI is continuing with its 'synergistic monetary expansion' policy under which it purchases government bonds in the primary as well as in the secondary market (see slide 67)
  - BI maintained its forecast of 3½-4¼% for GDP growth in 2021, a current account deficit in the range 0.6-1.4% of GDP, and inflation within the 3±1% range (over the 12 months to August inflation was below that range at 1.6%)
- **Bangko Sentral ng Pilipinas left its overnight repo rate unchanged at 2.0% (where it has been since January) at Thursday's Monetary Board meeting**
  - the post-meeting statement acknowledged that inflation would "settle slightly above the upper end of the target band of 2-4% in 2021", but was "projected to settle close to the midpoint of the target range" in 2022 and 2023, moreover "inflation expectations remain firmly aligned with the baseline projection path"
  - the Monetary Board concluded that "prevailing monetary policy settings remain appropriate given the manageable inflation environment and uncertain growth outlook", but will "closely monitor evolving conditions for any threats to the inflation target"
- **The Central Bank of the Republic of China (Taiwan's central bank) also left its discount rate at the record low of 1.125% at its Supervisory Board meeting on Thursday**
  - the Bank raised its forecast for 2021 growth to 5.75% (from 5.1% previously), slowing to 3½% in 2022; while inflation is expected to ease after being "temporarily high in the third quarter due to weather factors"
  - however the Bank further tightened macro-prudential controls on lending for property development "in order to avoid excessive credit resources flowing into the real estate market"

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".

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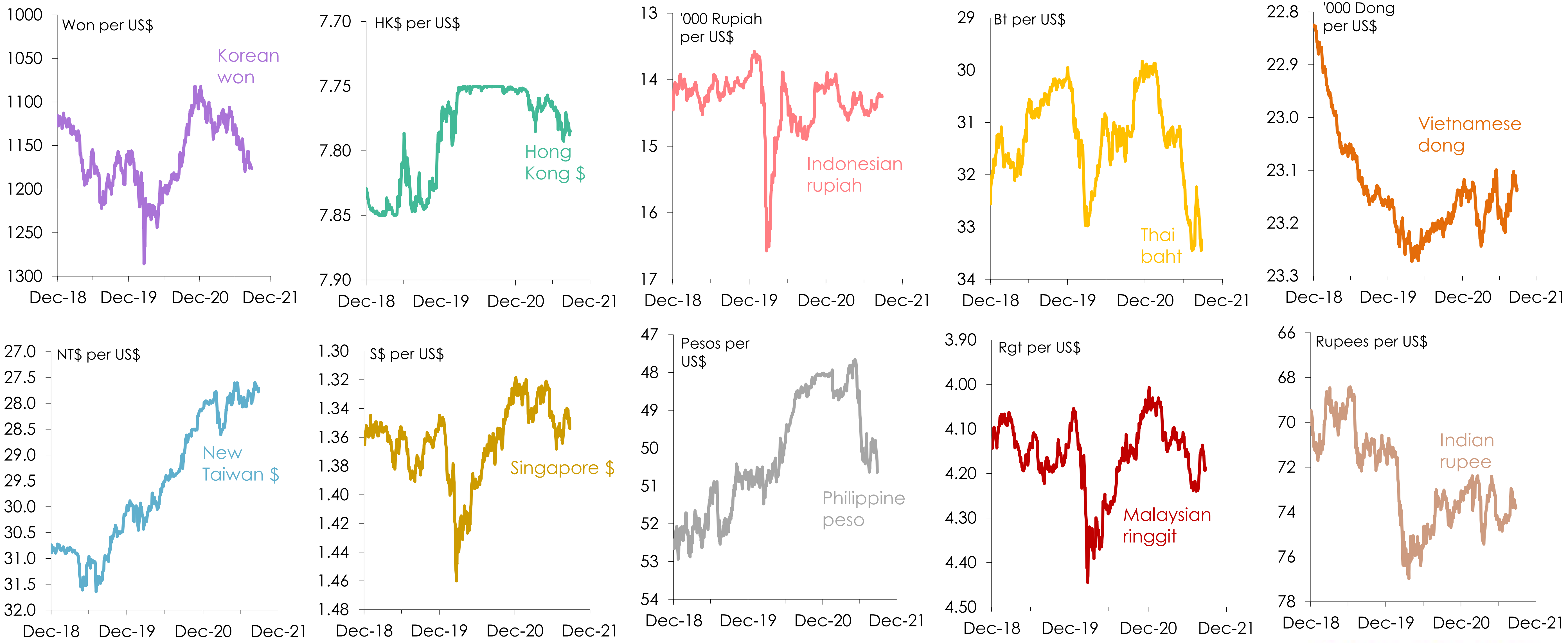
Asian currencies fell further against a stronger US dollar this week, with the peso down 1.4%, and the ringgit and Sing$ down 0.4%

Asian currency exchange rates vs US dollar



Note: Data up to 24th September. Source: Refinitiv Datastream. [Return to "What's New"](#).

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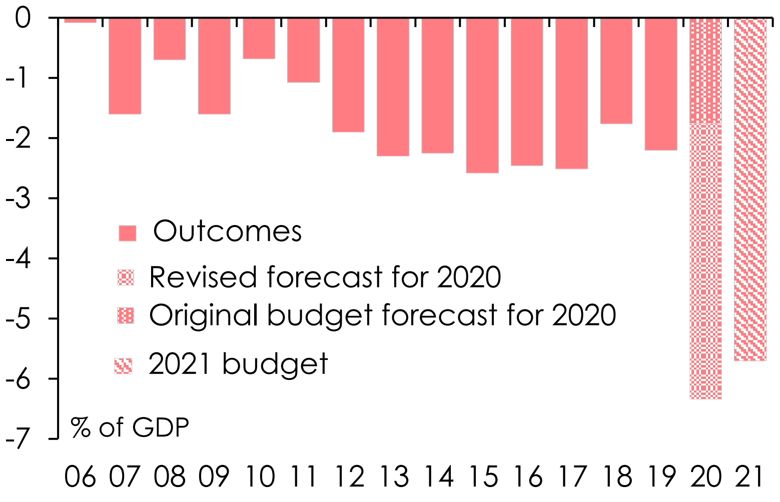
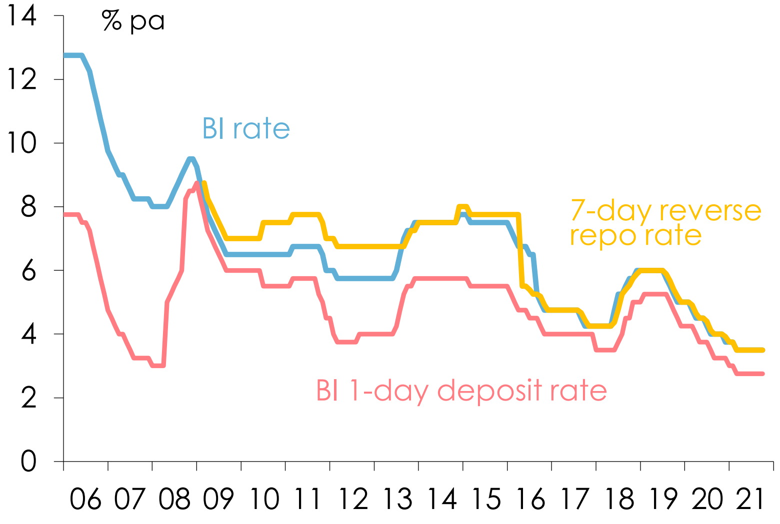
Bank Indonesia's monetary policy settings have been on hold since January although it has continued with its 'synergistic monetary expansion'

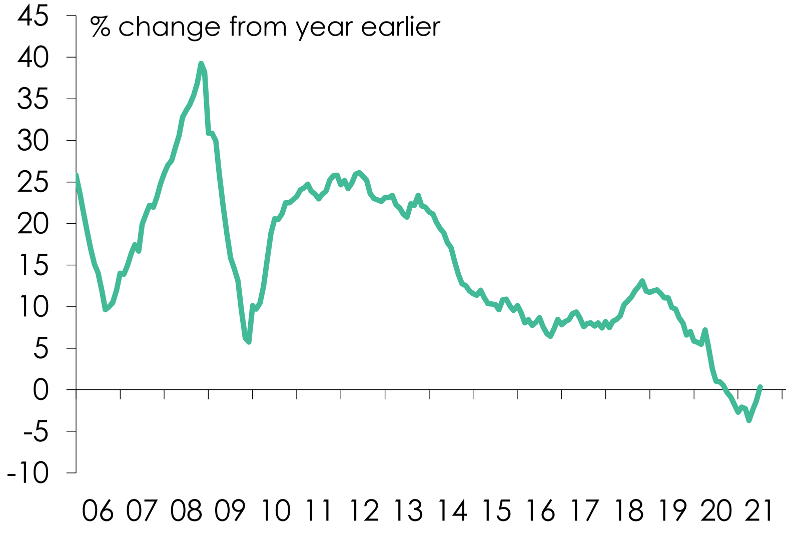
Indonesia budget deficit



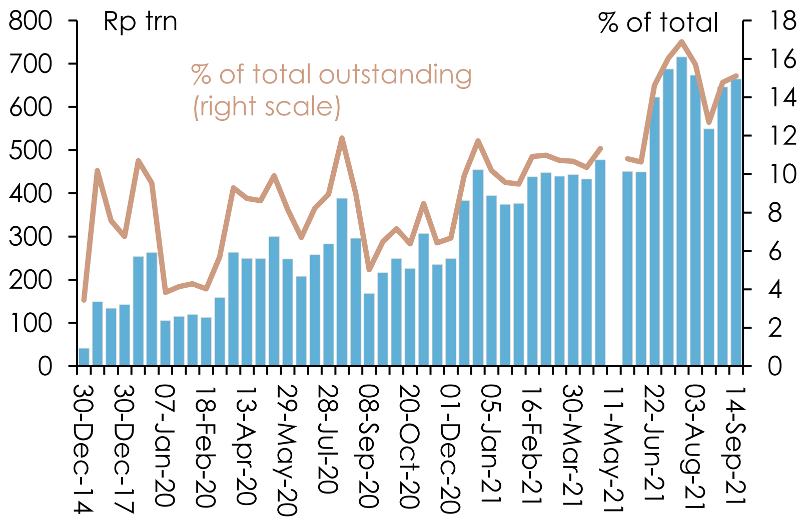
BI monetary policy rates



Bank lending



BI holdings of tradeable SBNs

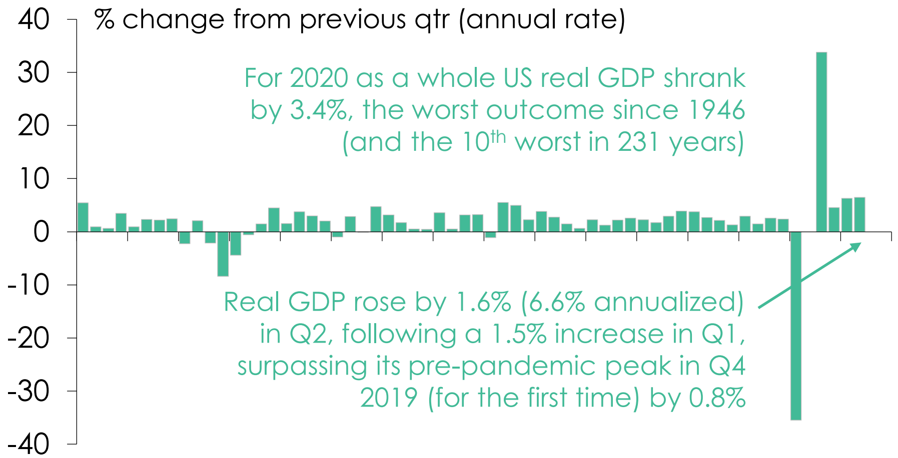


- In April 2020, the Indonesian Government and Bank Indonesia (BI) agreed to a 'burden-sharing' scheme under which BI will directly purchase bonds equivalent to 25% of this year's budget financing requirement (and return the interest received to the Government), as well as subsidizing interest payments on other bonds
  - BI calls this 'synergistic monetary expansion'
  - up to 17th September BI has purchased Rp 140trn of SBN in the primary market (cf. Rp 473trn in 2020)
  - BI has indicated that it will be a 'standby buyer' for up to one-quarter of government borrowing requirements through 2022
- BI's holdings of SBNs have risen by Rp115bn over the past four weeks, reversing most of the Rp166bn decline over the previous four weeks
  - BI has absorbed 40% 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 1.3% in August is well below BI's target of 2-4% (slide 58) and BI expects it to remain within target in 2021 and 2022
- BI again left its policy settings unchanged at this week's Governing Council meeting (slide 64)

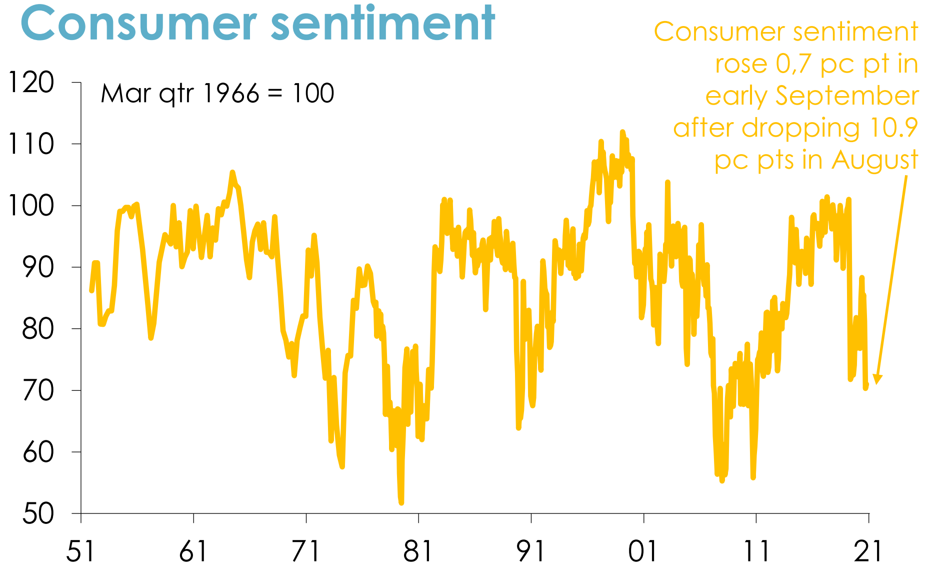
Sources: Indonesia Ministry of Finance (Kementarian Keuangan); Directorate of Government Debt Securities; Bank Indonesia.
Return to "What's New".

US ‘core’ retail sales rebounded in August as consumers switched back from services to goods (apart from supply-constrained motor vehicles)

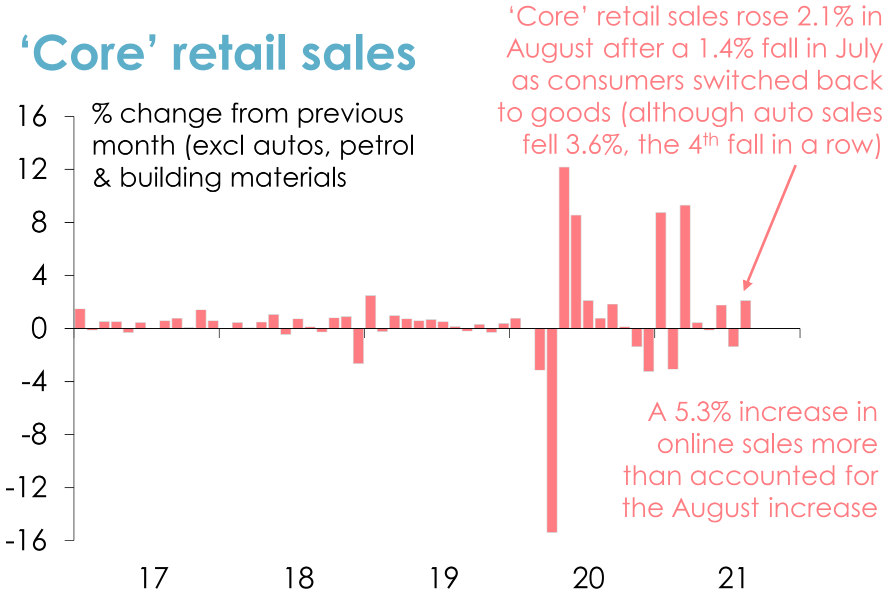
Real GDP



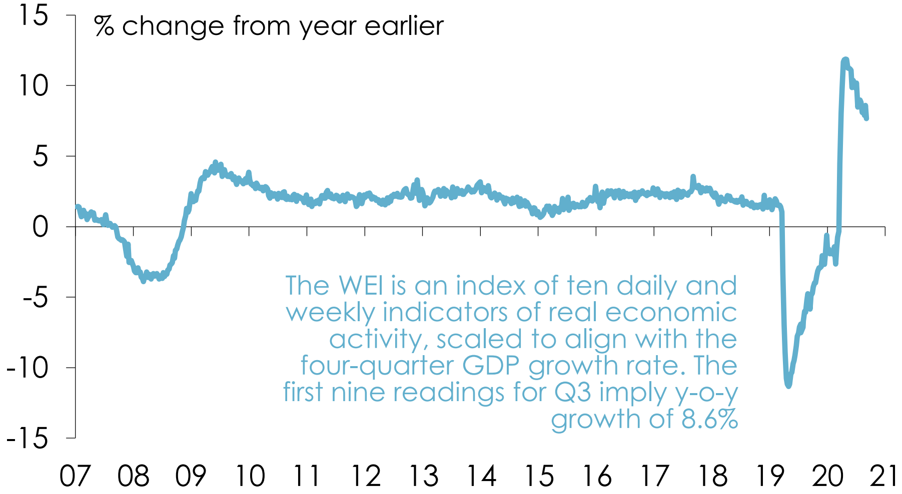
Consumer sentiment



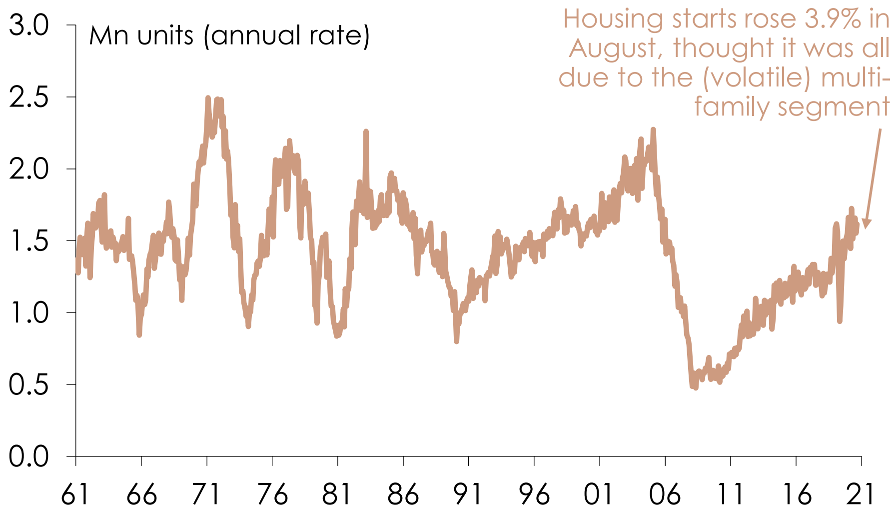
‘Core’ retail sales



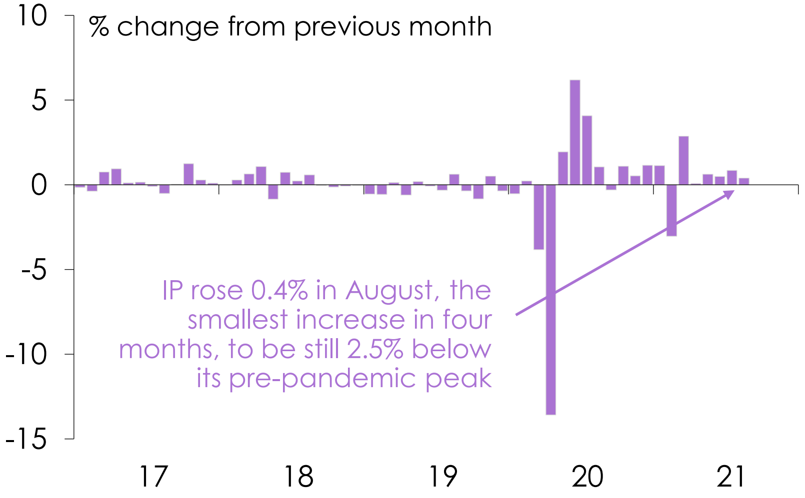
NY Fed weekly economic index



Housing starts



Industrial production



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

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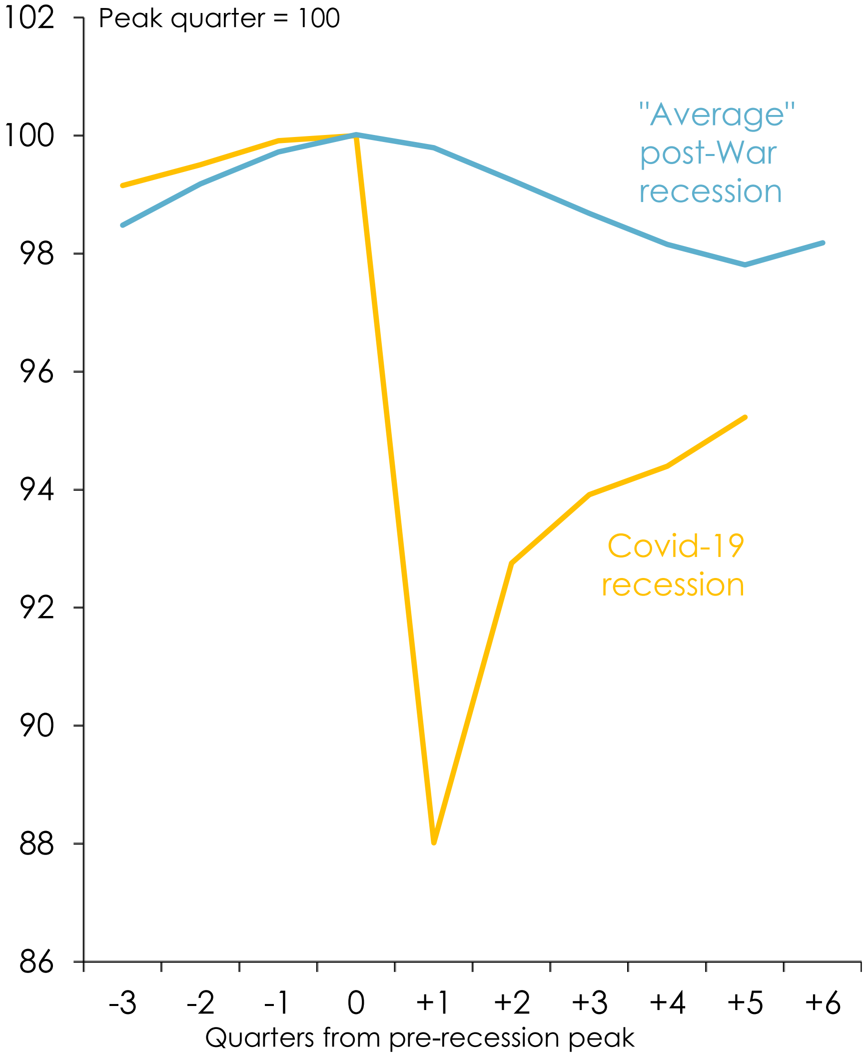
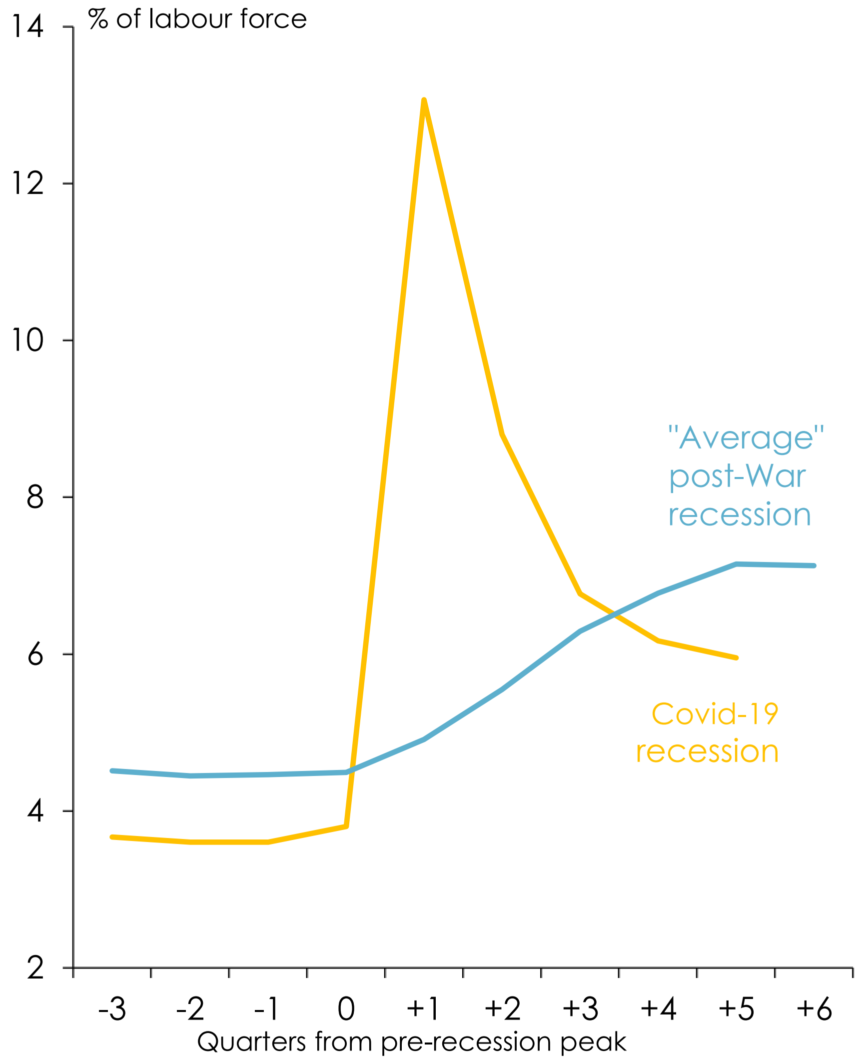
The Covid-19 recession has been quite unlike any other of the recessions the US has experienced since the end of World War II

Level of real GDP

Non-farm payroll employment



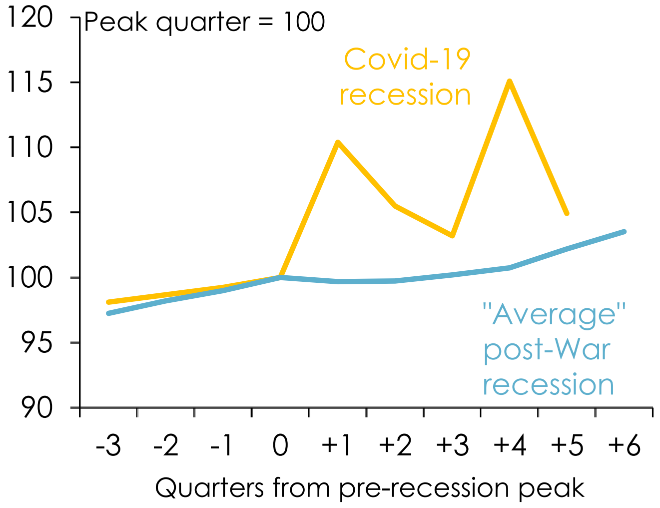
Unemployment rate



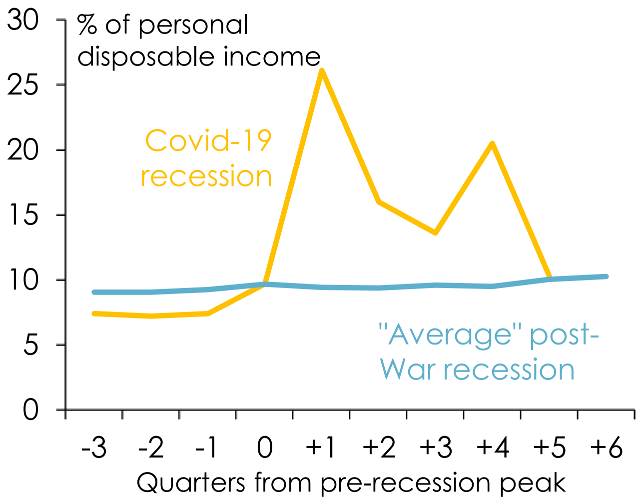
Note: 'average post-war recession' is the average of figures for each of the eleven post-war US recessions as designated by the National Bureau of Economic Research Business Cycle Dating Committee, with the exception of the recession of January-July 1980 (which was too short, and too close to the July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

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

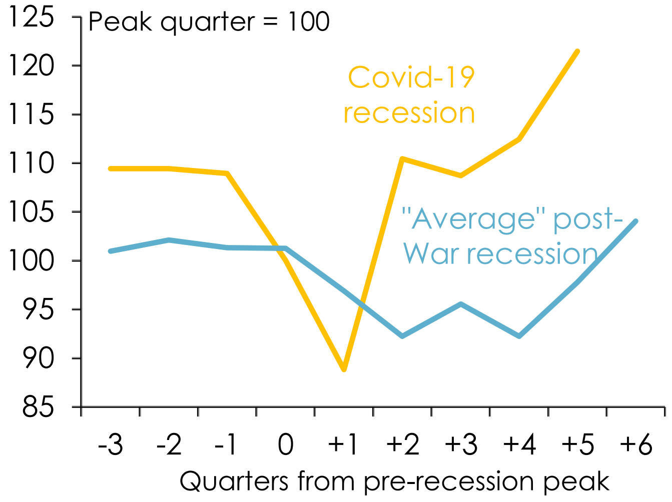
Personal disposable income



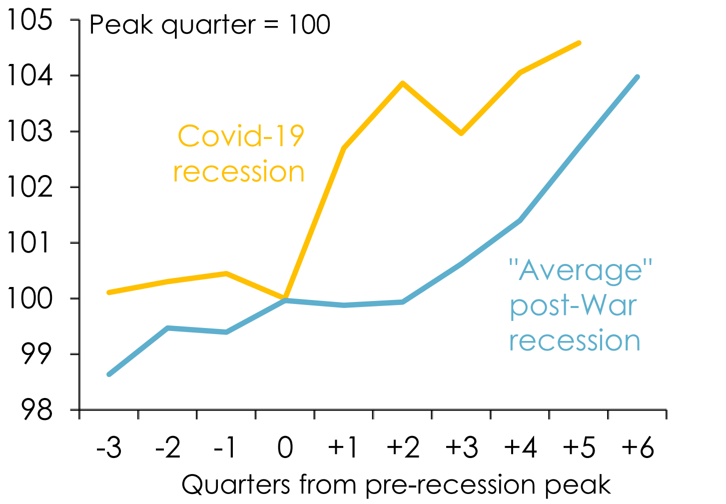
Personal saving rate



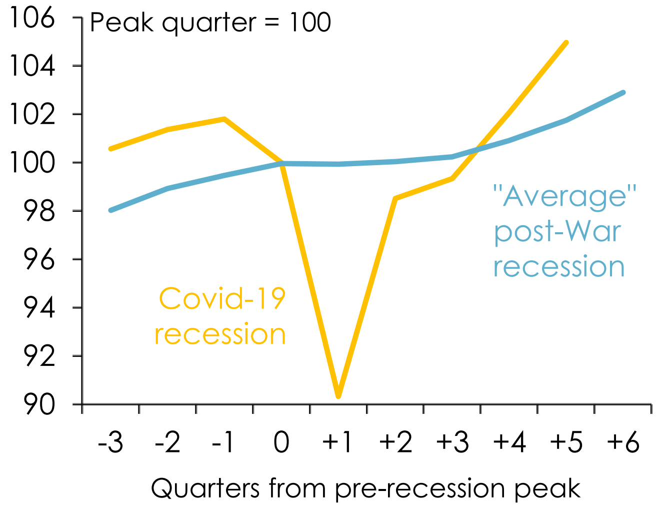
After-tax corporate profits



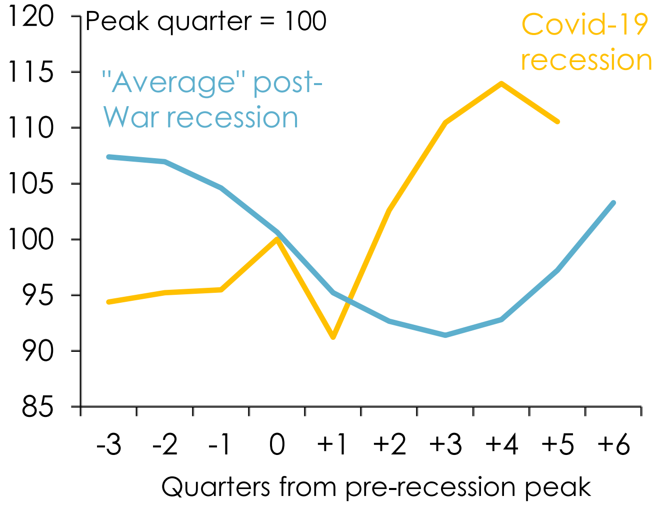
Labour productivity



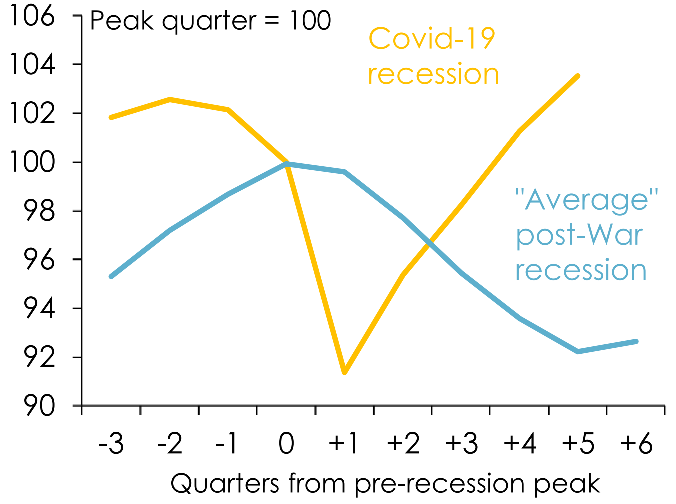
Personal consumption



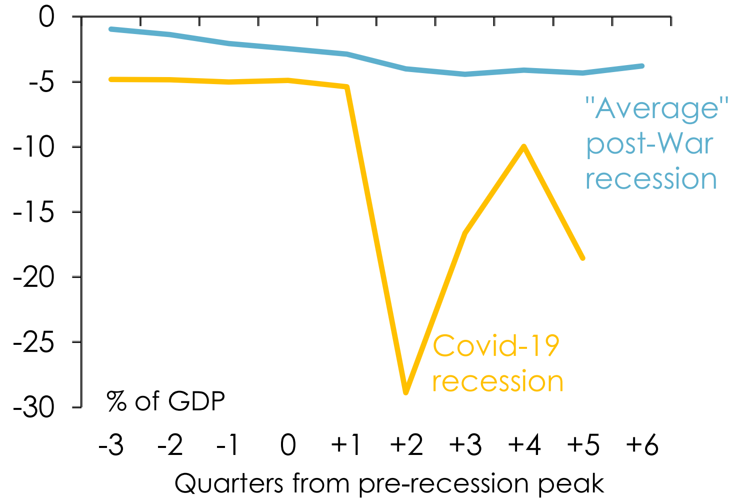
Residential investment



Business investment



Federal budget balance



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

Return to "What's New".

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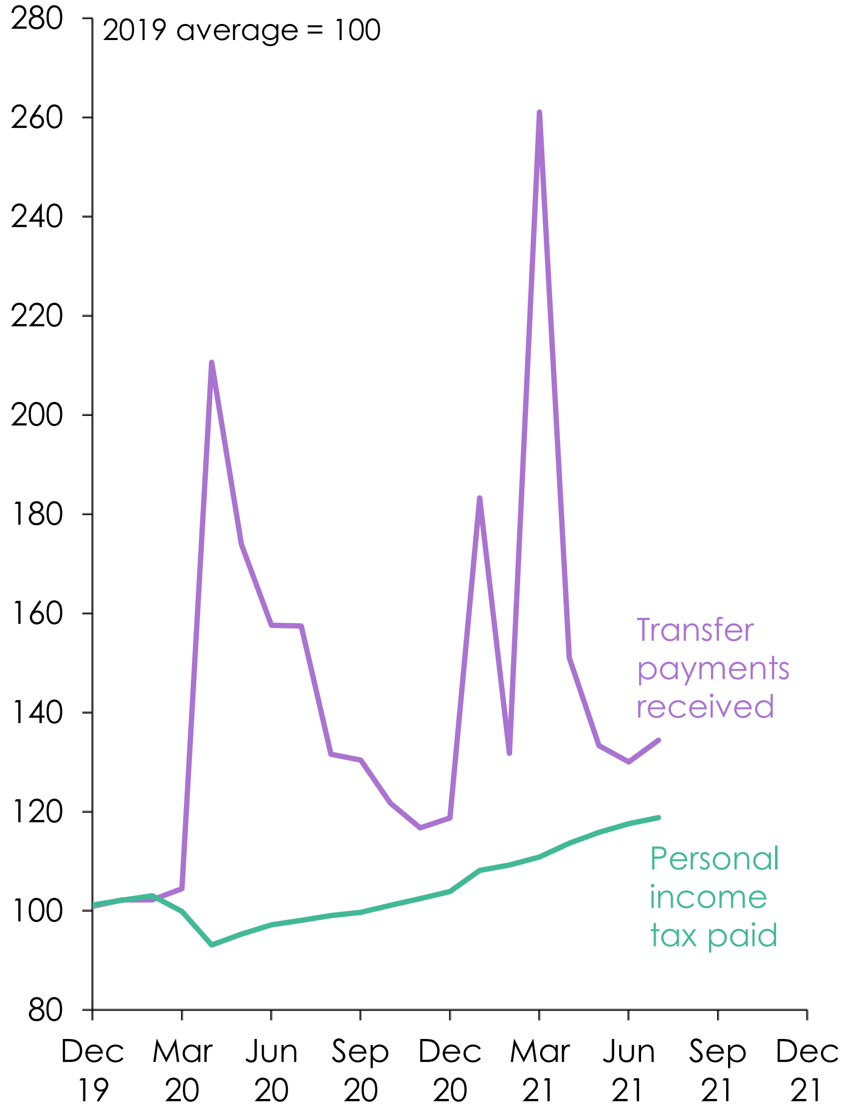
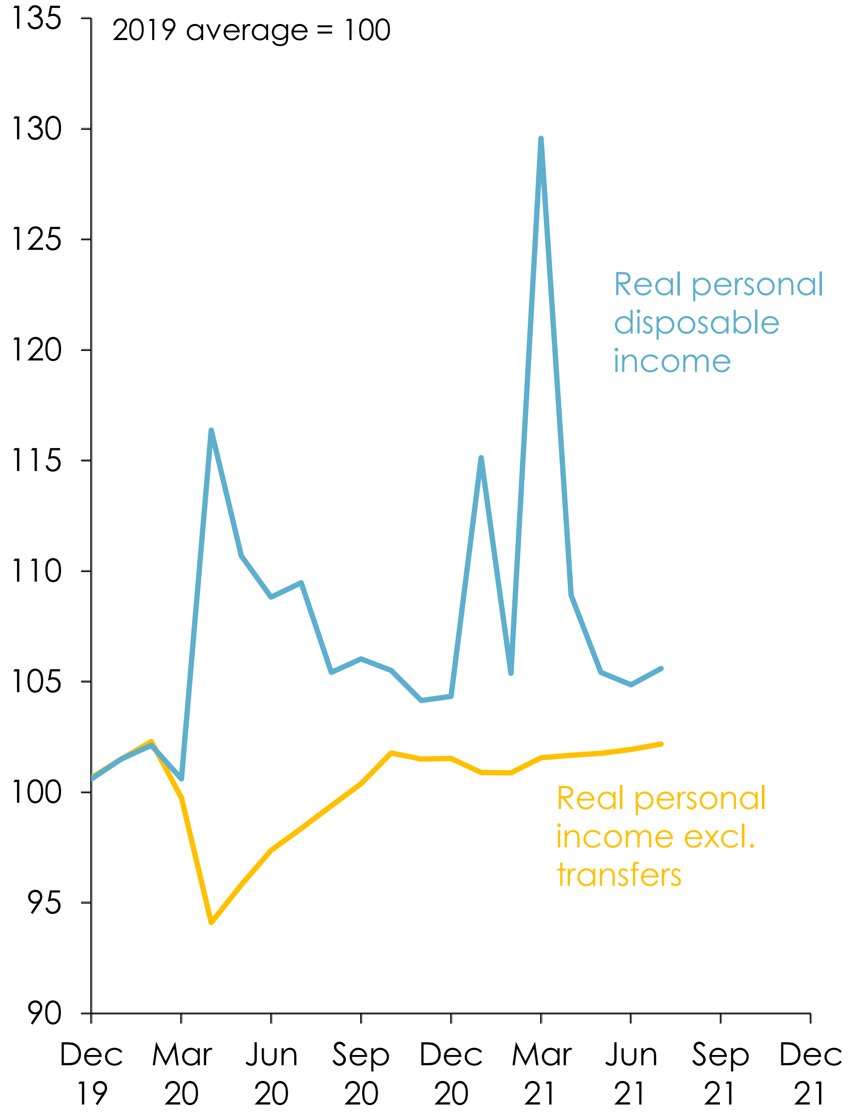
Recurring cash payments to households (combined with restrictions on movement) have had a major impact on spending patterns

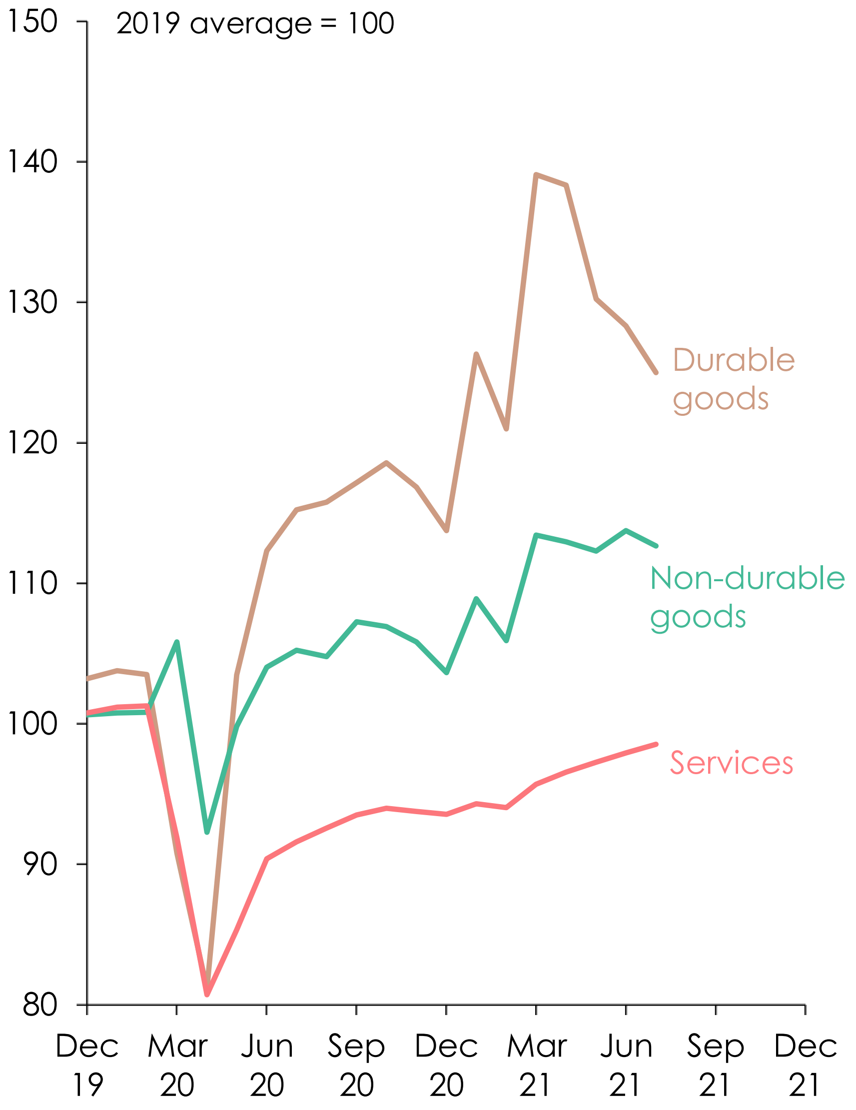
Tax and transfer payments



Real personal income



Real consumption expenditure



Source: US Bureau of Economic Analysis.

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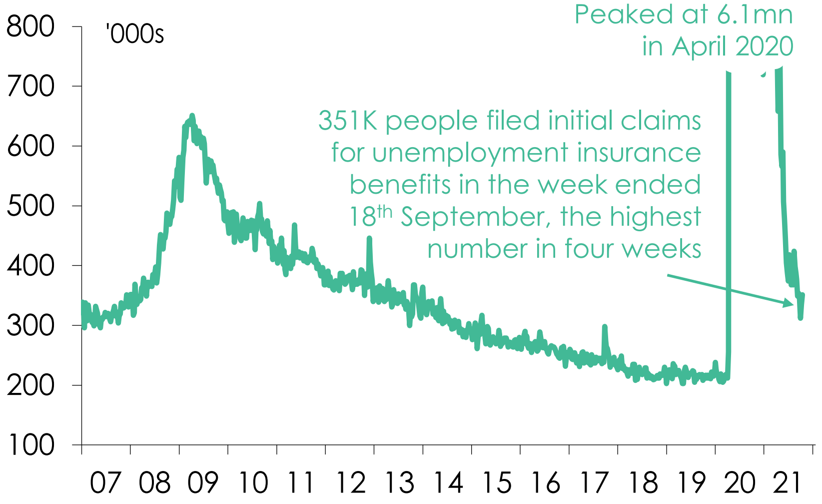
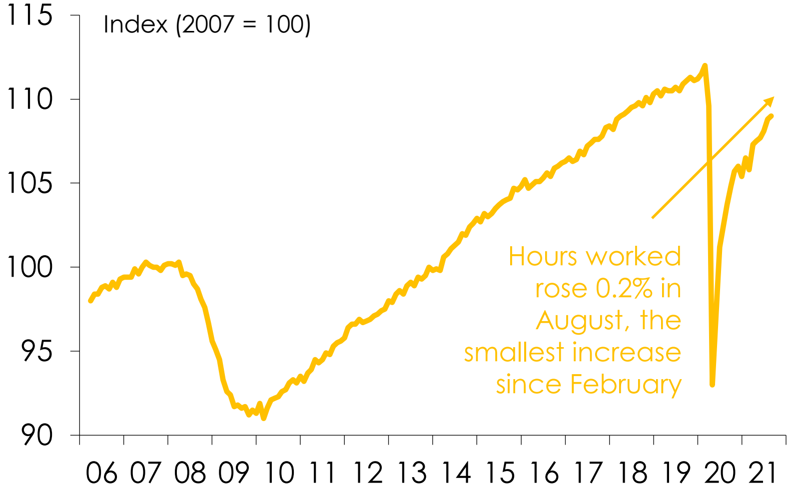
US non-farm payrolls rose 235K (0.2%) in August, to be still 5.3mn (3.5%) below their pre-pandemic peak, while unemployment dropped 0.2 pc pt

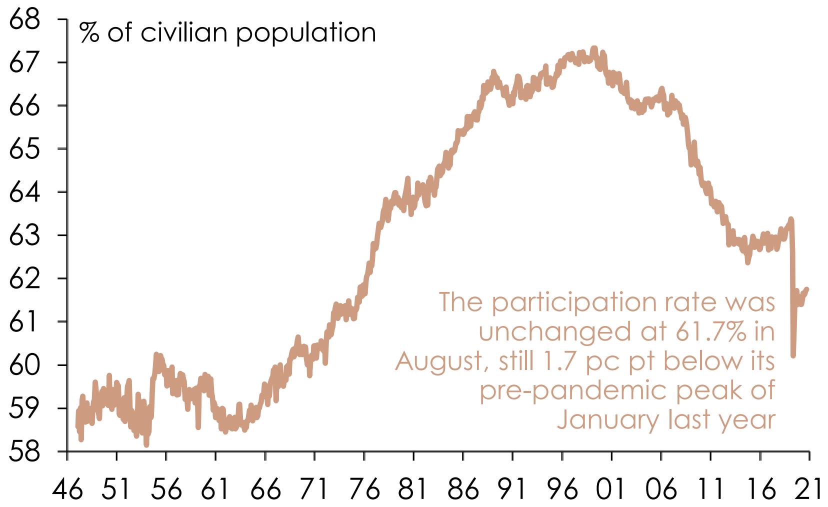
Unemployment benefit claims



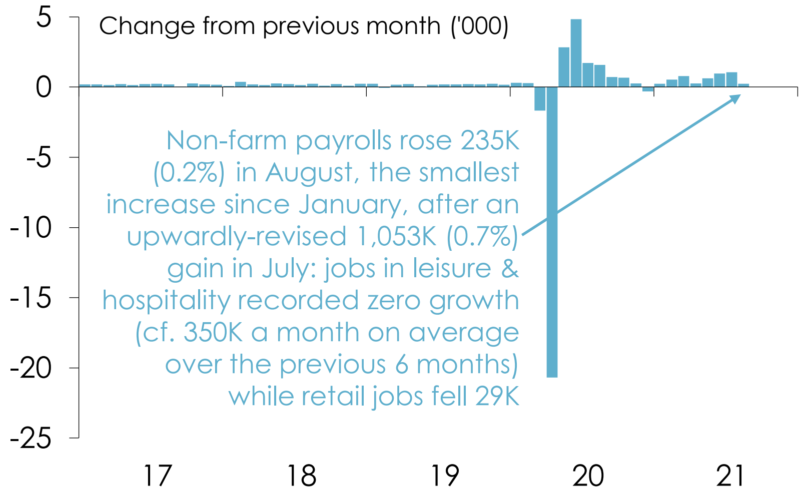
Hours worked (private sector)



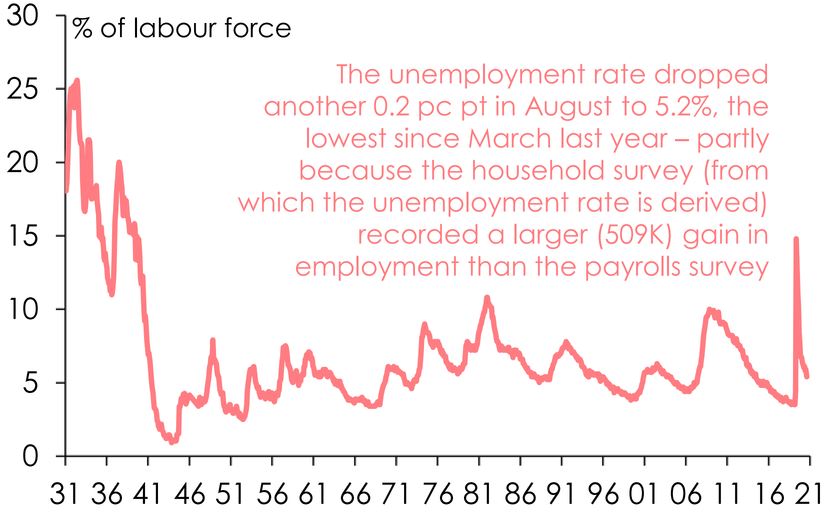
Labour force participation rate



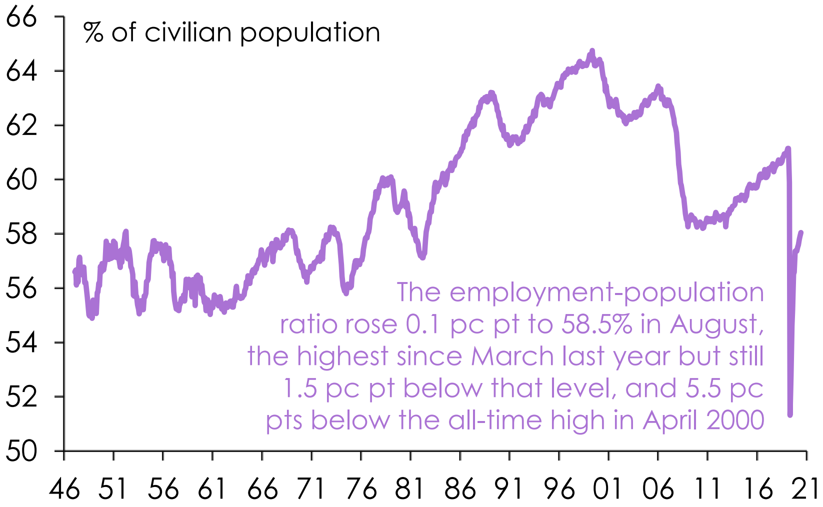
Non-farm payroll employment



Unemployment rate



Employment to population ratio



Sources: US Department of Labor; US Bureau of Labor Statistics; National Bureau of Economic Research Macro History database. September employment and other labour force data will be released on 1st October. Return to "What's New".

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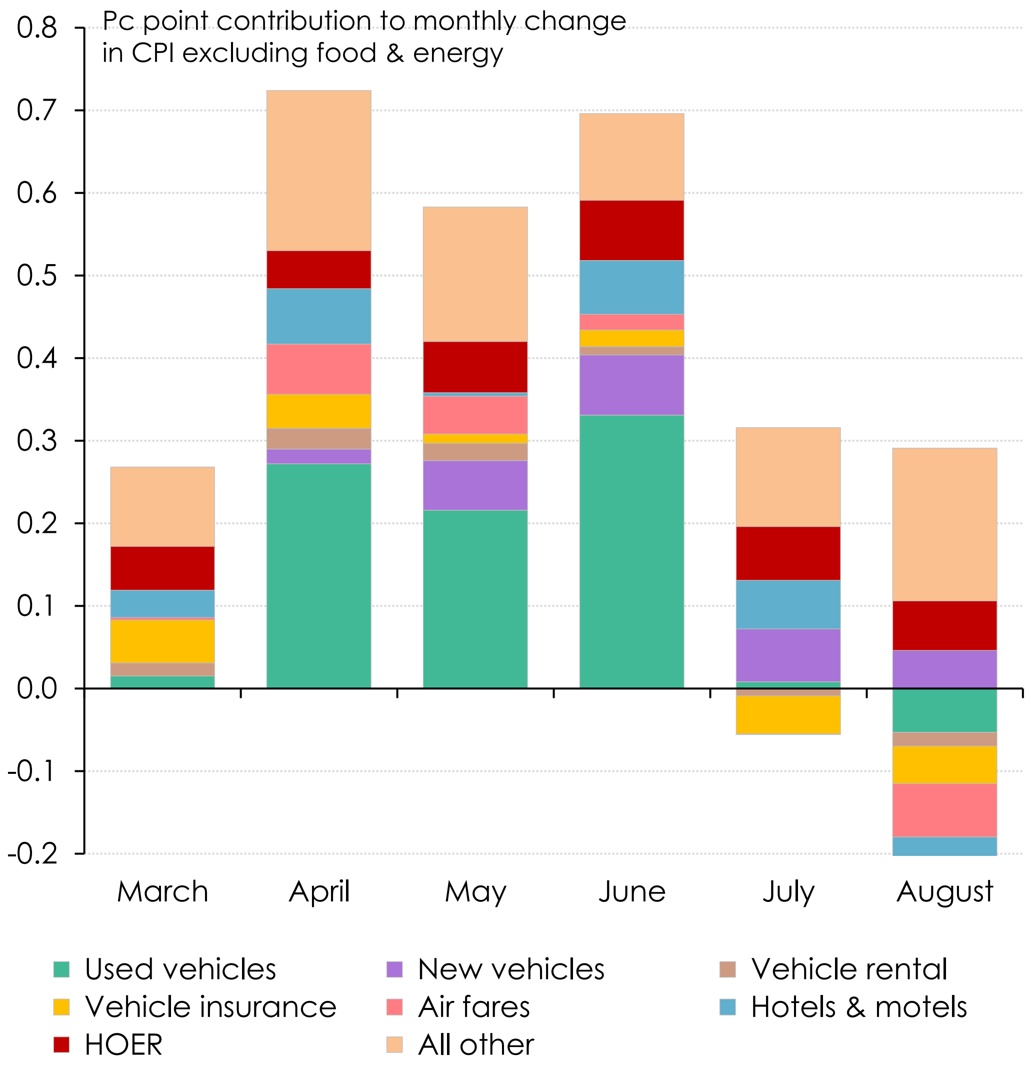
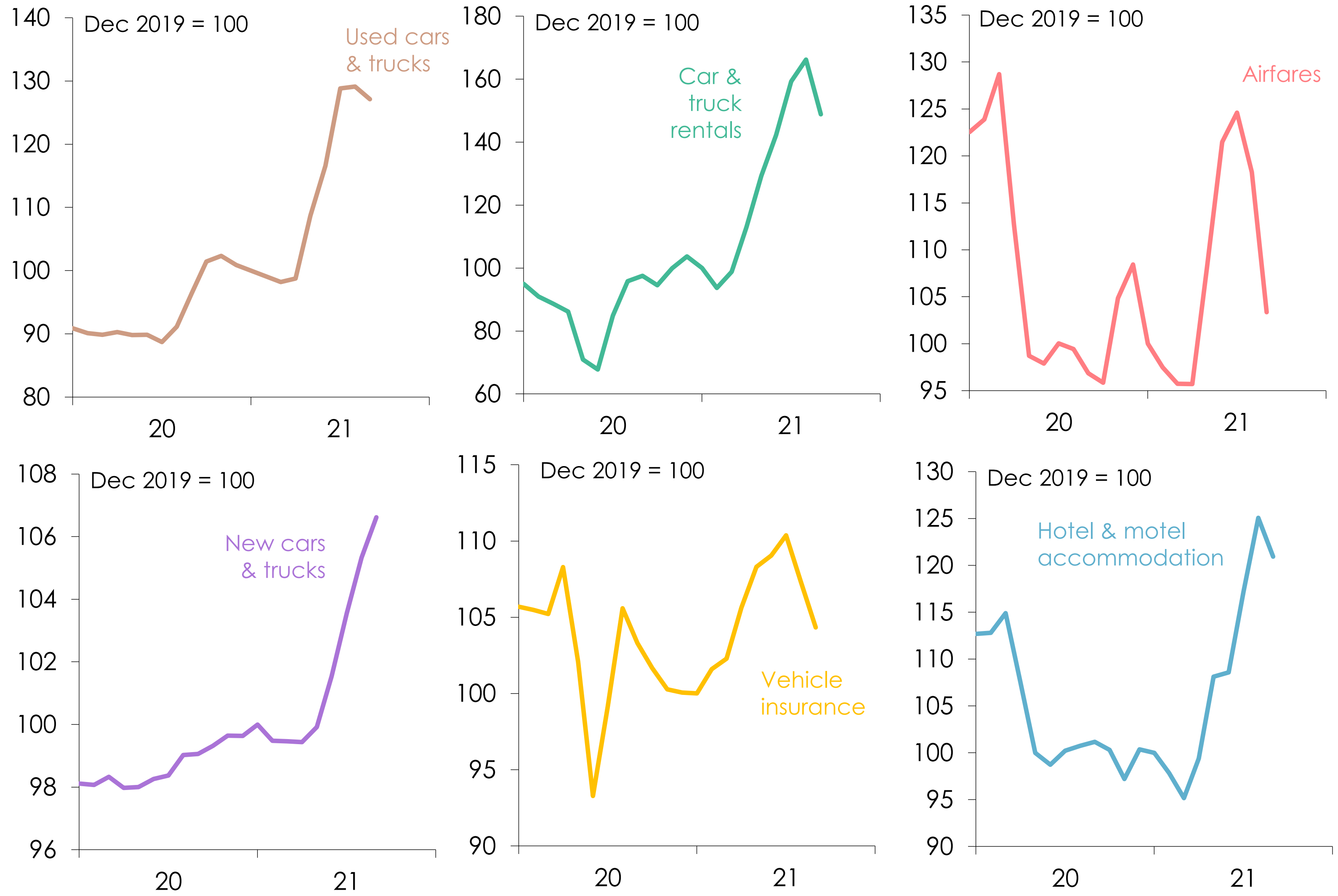
US consumer prices recorded their smallest increase since January in August with many of the contributors to the recent spike now abating

Contributions to recent monthly changes in CPI excluding food and energy



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



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

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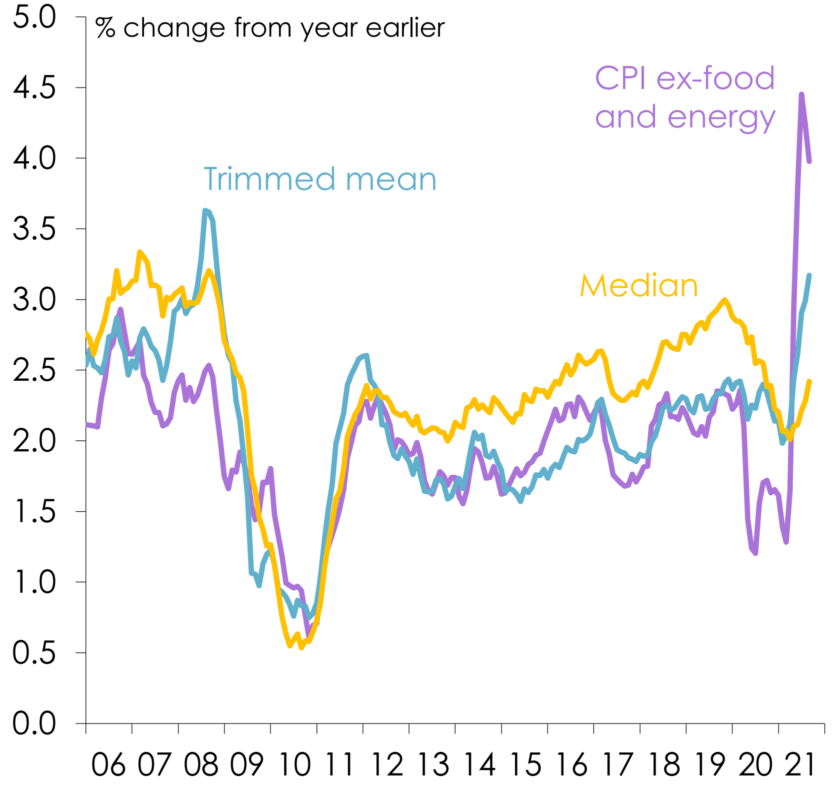
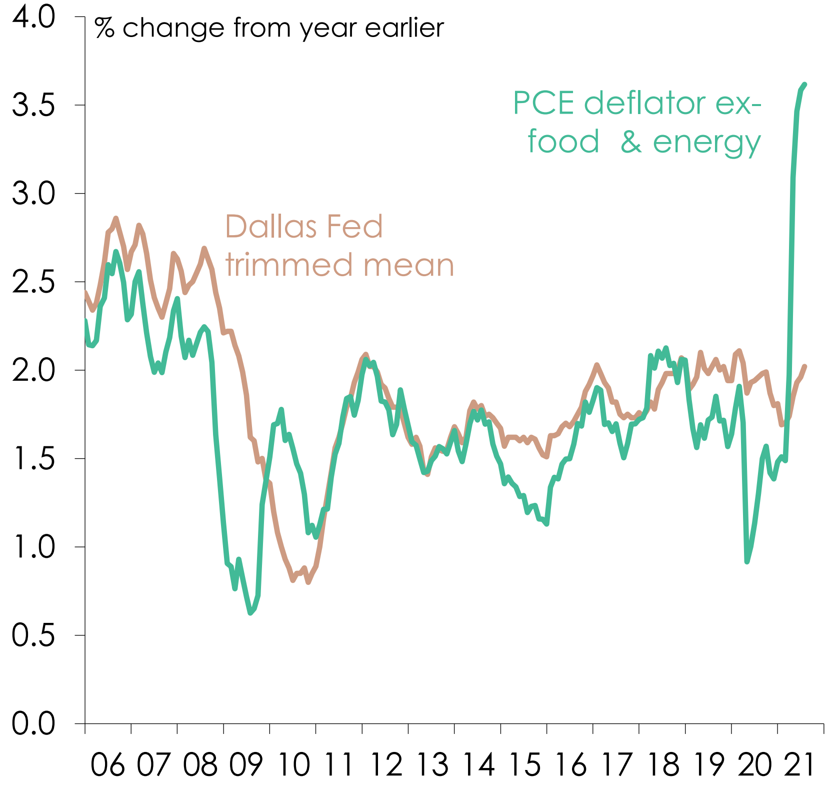
Statistical measures of 'core' inflation haven't increased very much – but longer-term inflation expectations are starting to edge upwards

Alternative measures of US 'core' CPI inflation



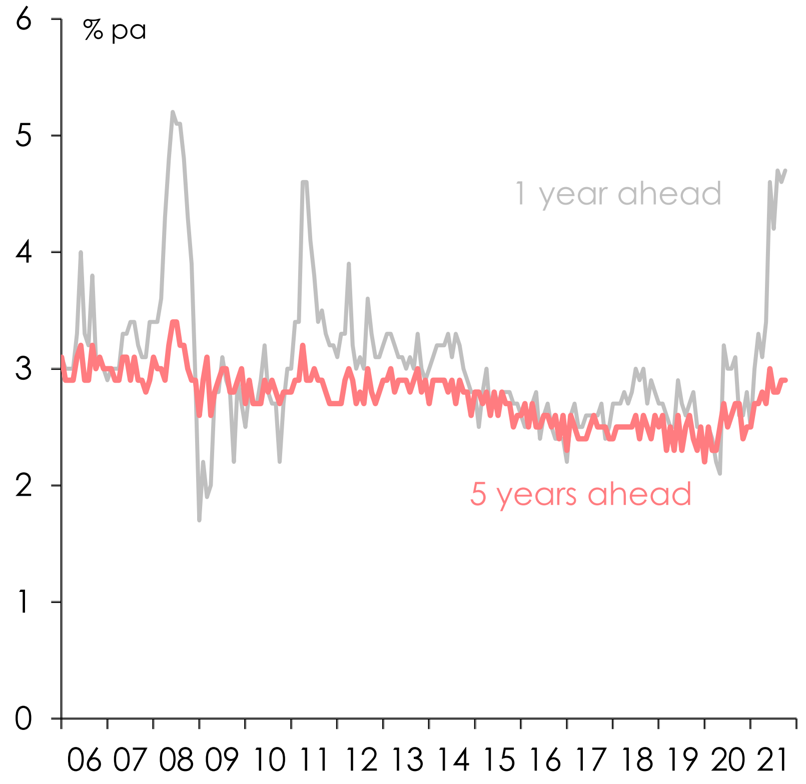
- Statistical measures (similar to those used by the RBA) confirm that the rise in 'core' CPI inflation is almost entirely due to 'outliers' (see previous slide)

Alternative measures of US 'core' PCE deflator inflation



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

Household inflationary expectations

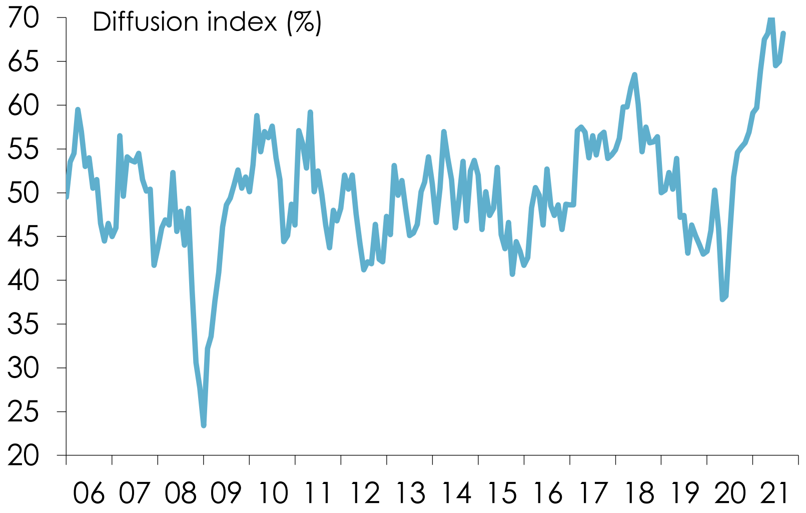


- Short-term household inflation expectations have risen sharply, but longer-term expectations are also creeping up

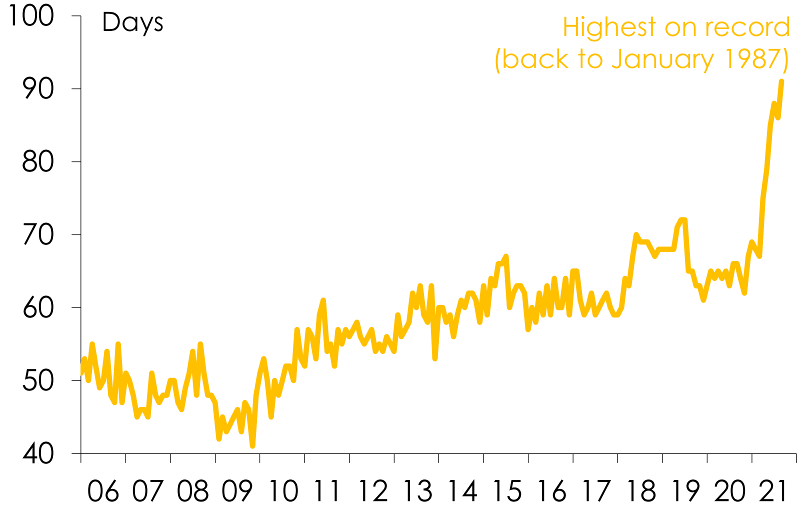
Note: The 'trimmed mean' CPI inflation rate excludes the components of the CPI whose weights fall in the top and bottom 8% of the distribution of price changes; the median is the component whose price change is in the middle of the distribution of price changes. The 'trimmed mean' of the PCE deflator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

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

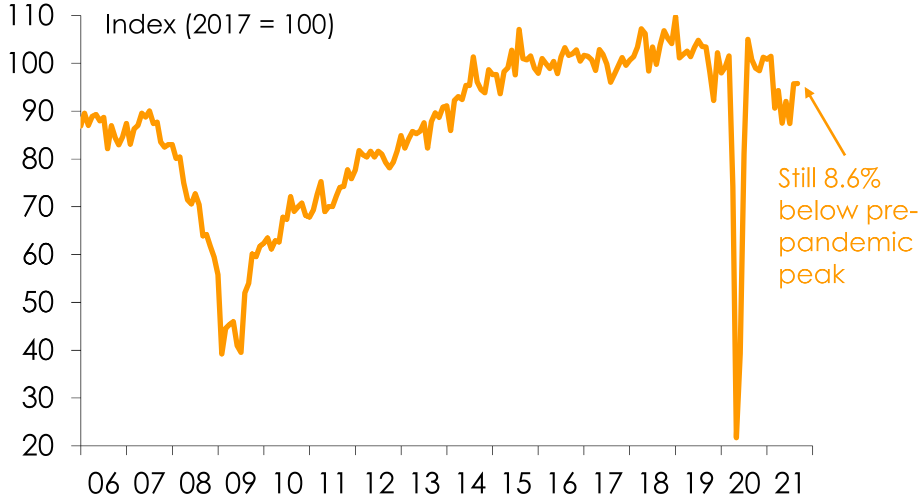
Manufacturers' order backlogs



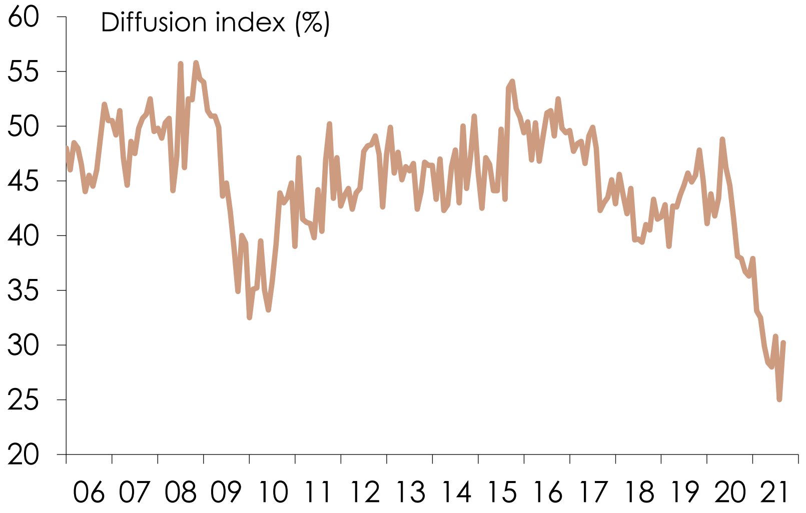
Lead-time for production materials



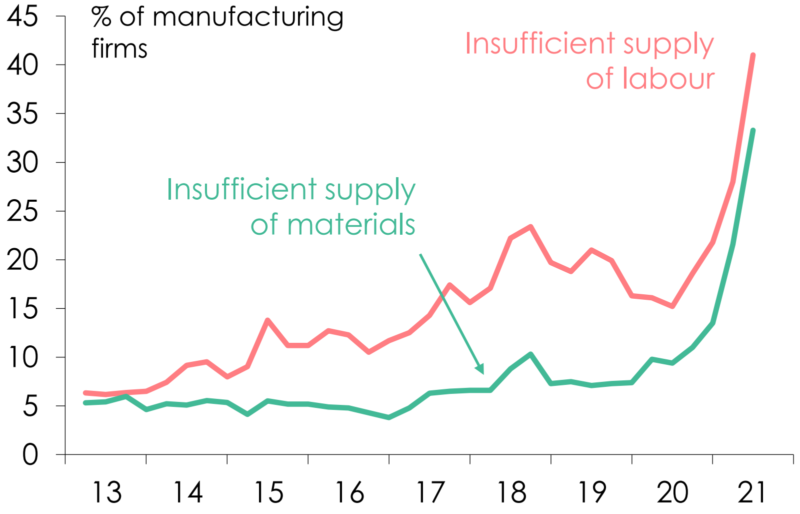
Motor vehicles & parts production



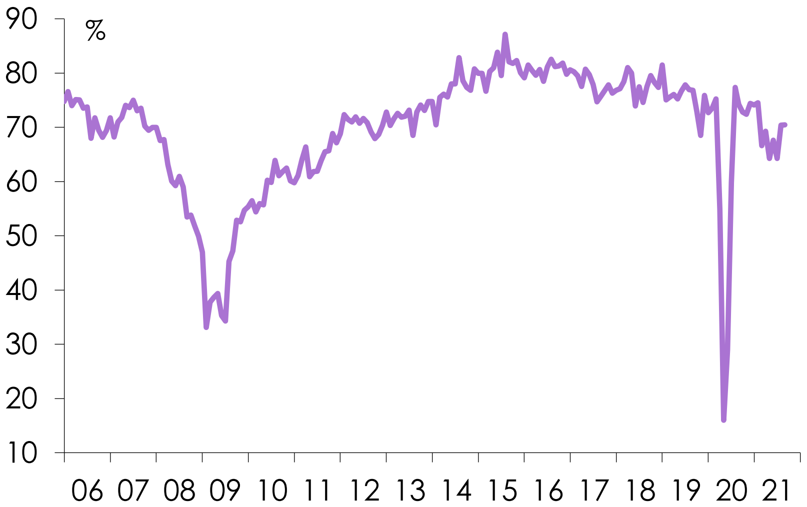
Manufacturers' customer inventories



Reasons for < full capacity



Auto industry capacity utilization



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

'Return to "What's New"'.

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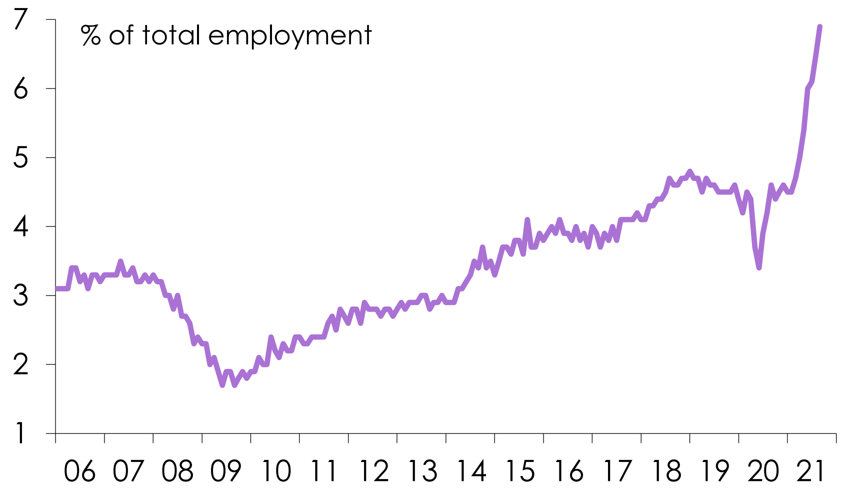
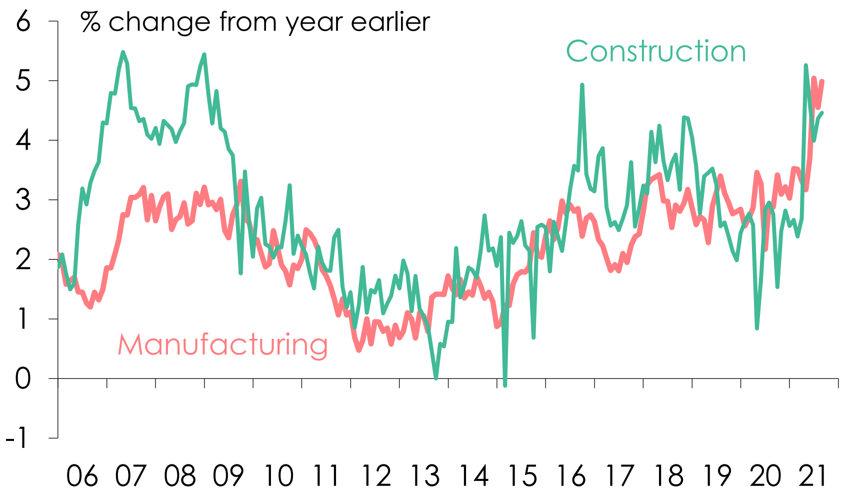
The US labour market appears to be tightening, and wages *are* rising in some sectors – but it's not clear how broadly-based this will become

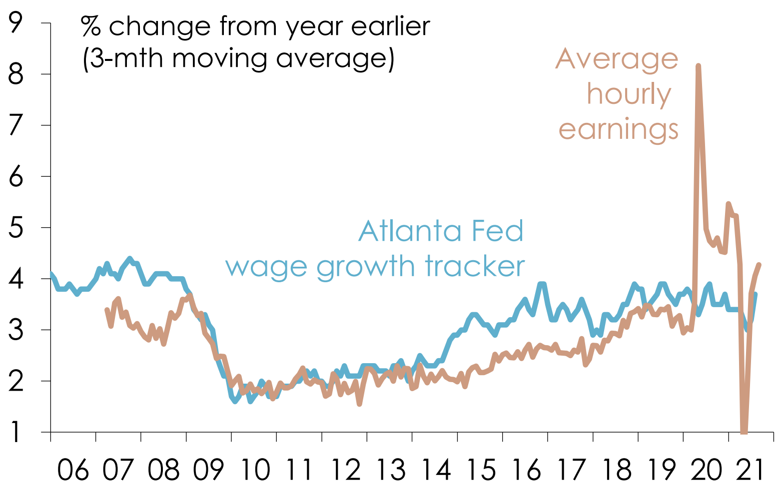
Job openings



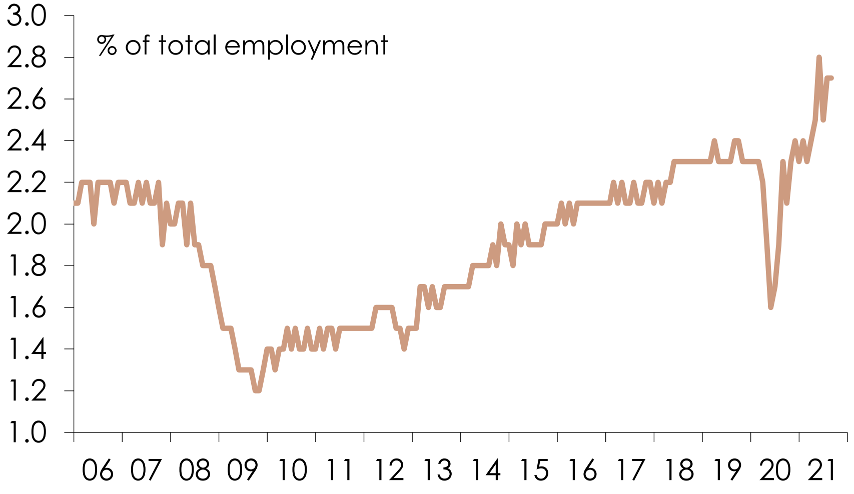
Average hourly earnings



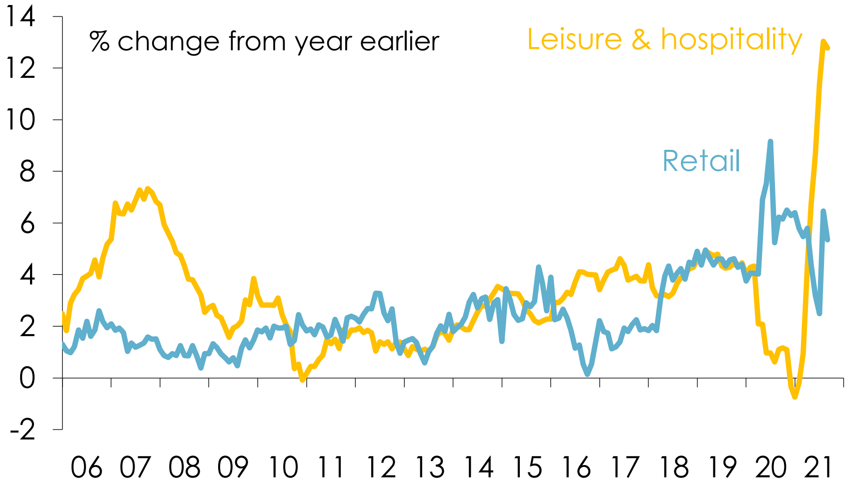
Overall wages growth - monthly



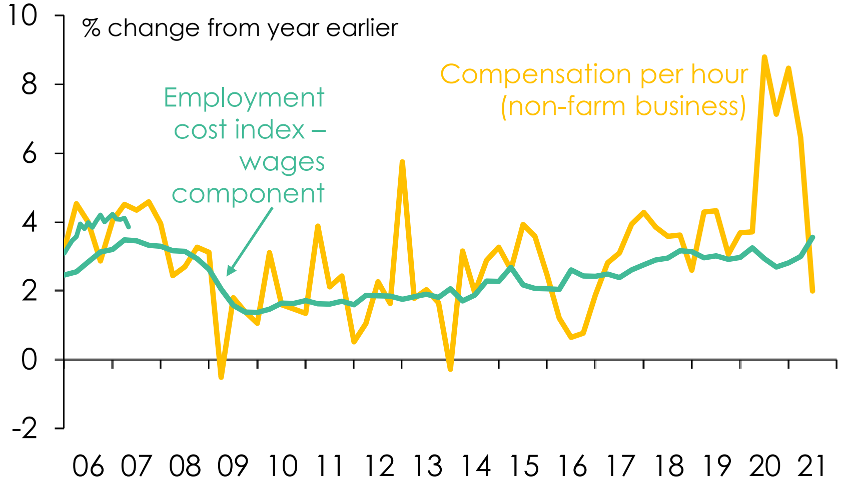
Quit rate



Average hourly earnings



Wages growth - quarterly



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

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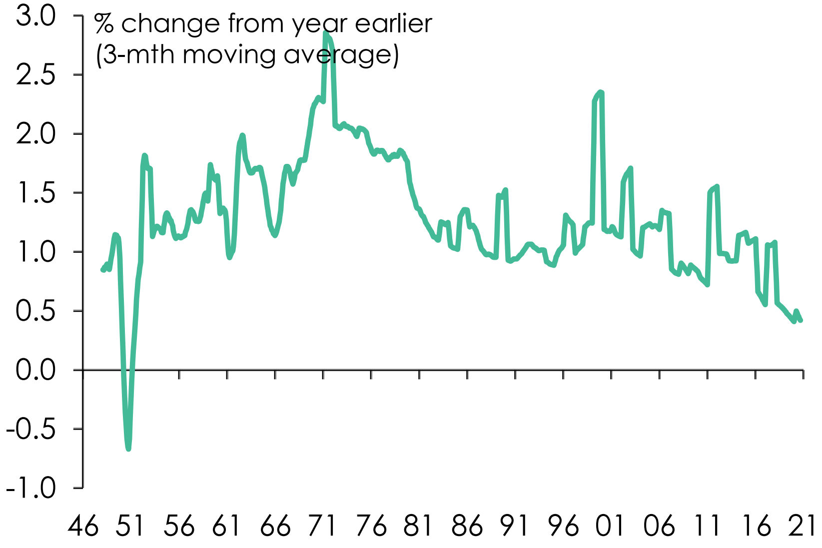
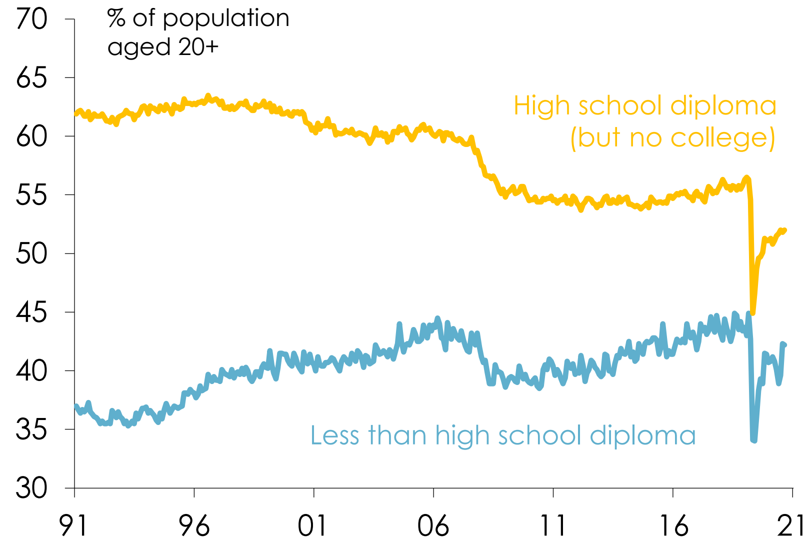
US labour market tightness owes a lot to restrictions on immigration, and to barriers to the return to the labour market of specific groups

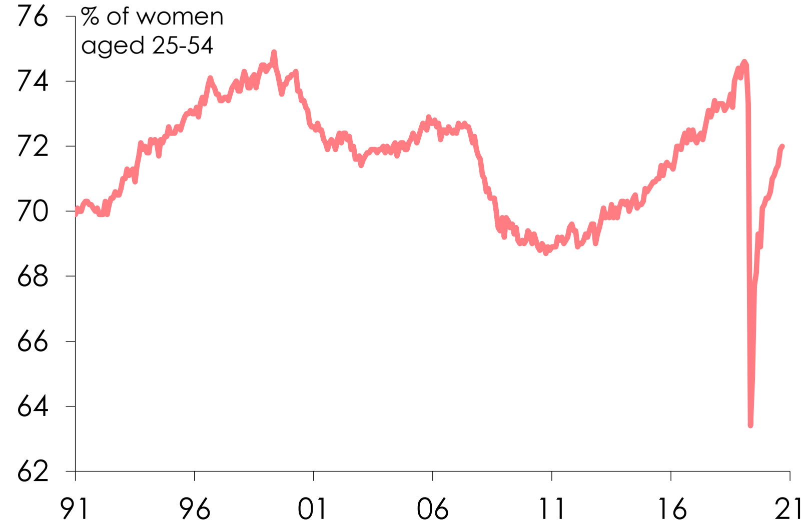
Civilian working age population



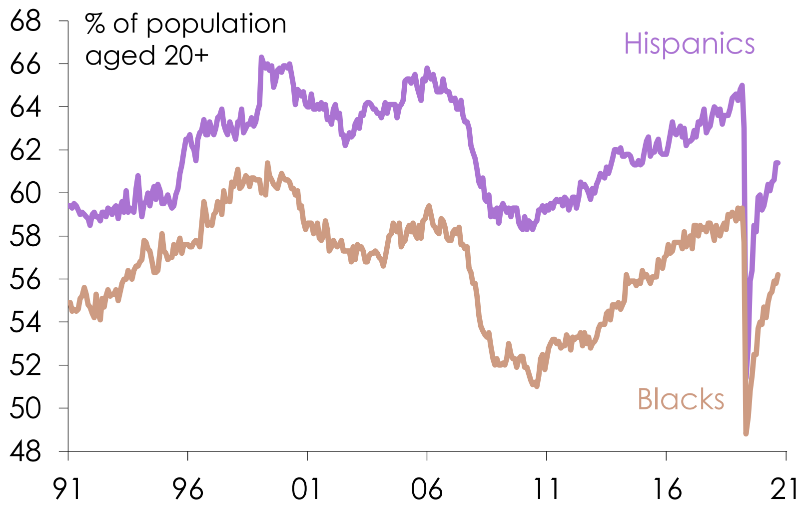
'E-pop' ratio – by education



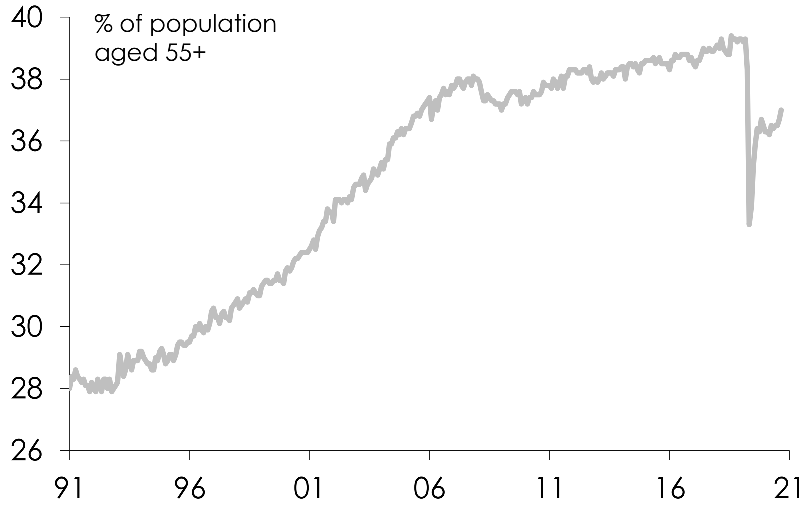
'E-pop' ratio – women 25-54



'E-Pop' ratio – Blacks & Hispanics



'E-pop' ratio – people 55 & over



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

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

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

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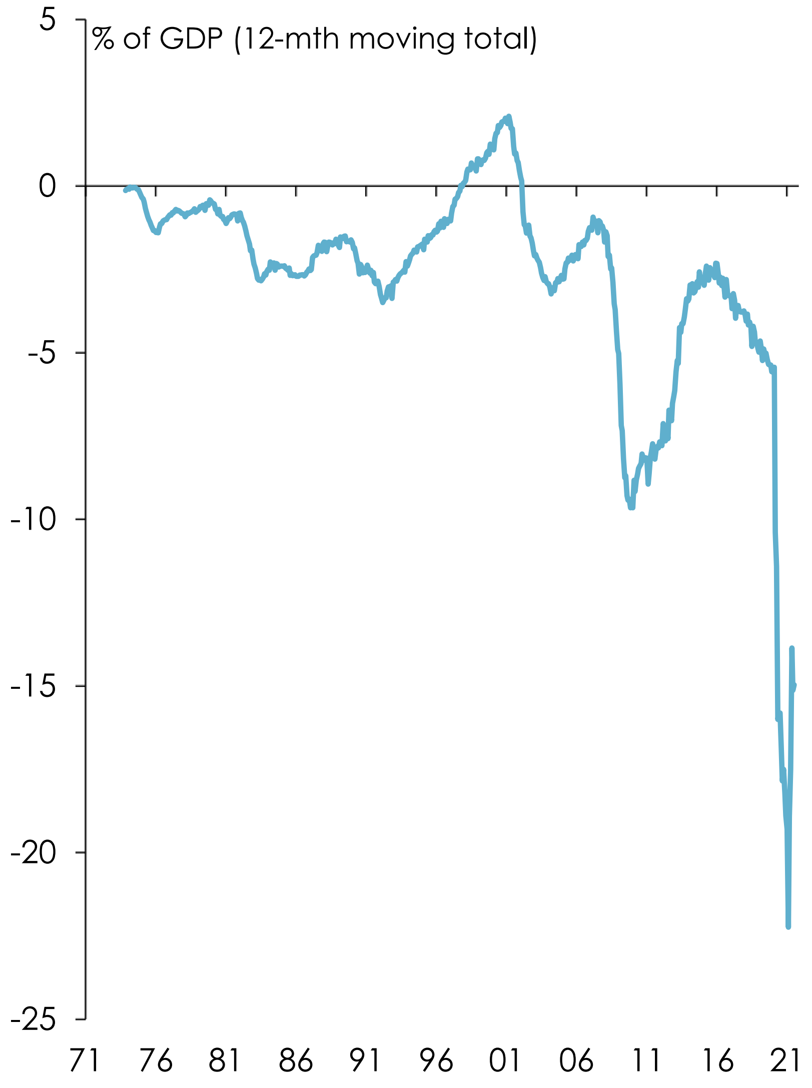
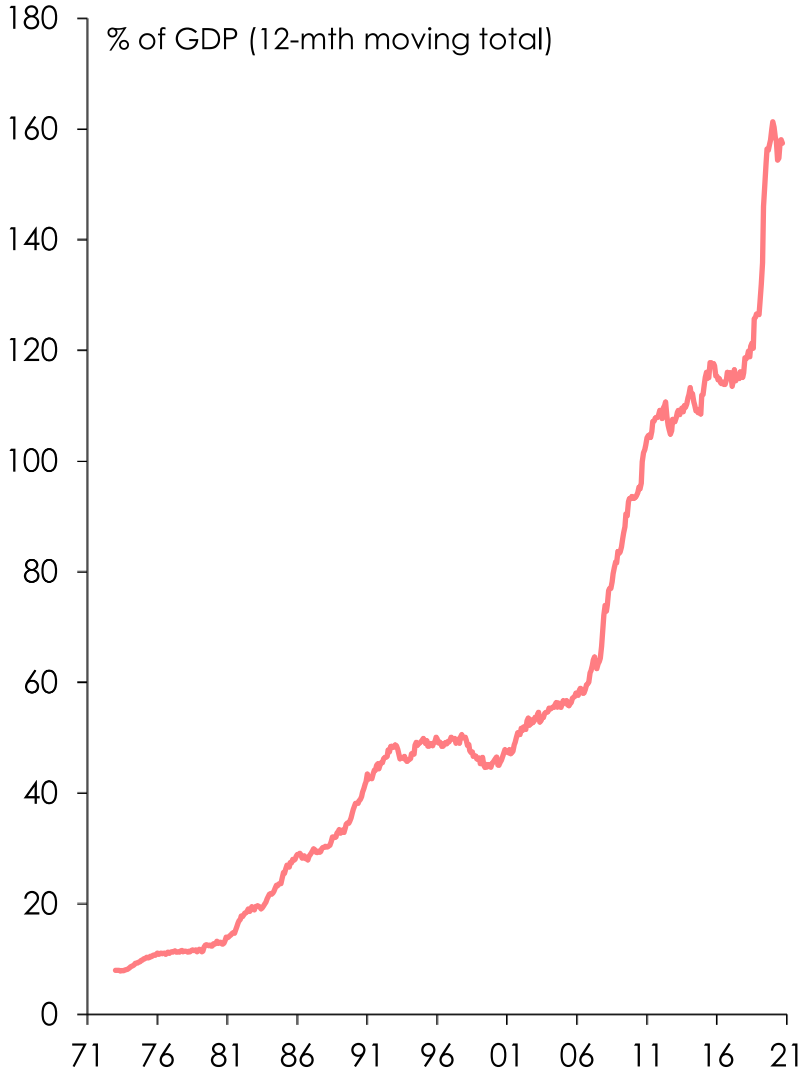
INDEPENDENT ECONOMICS

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



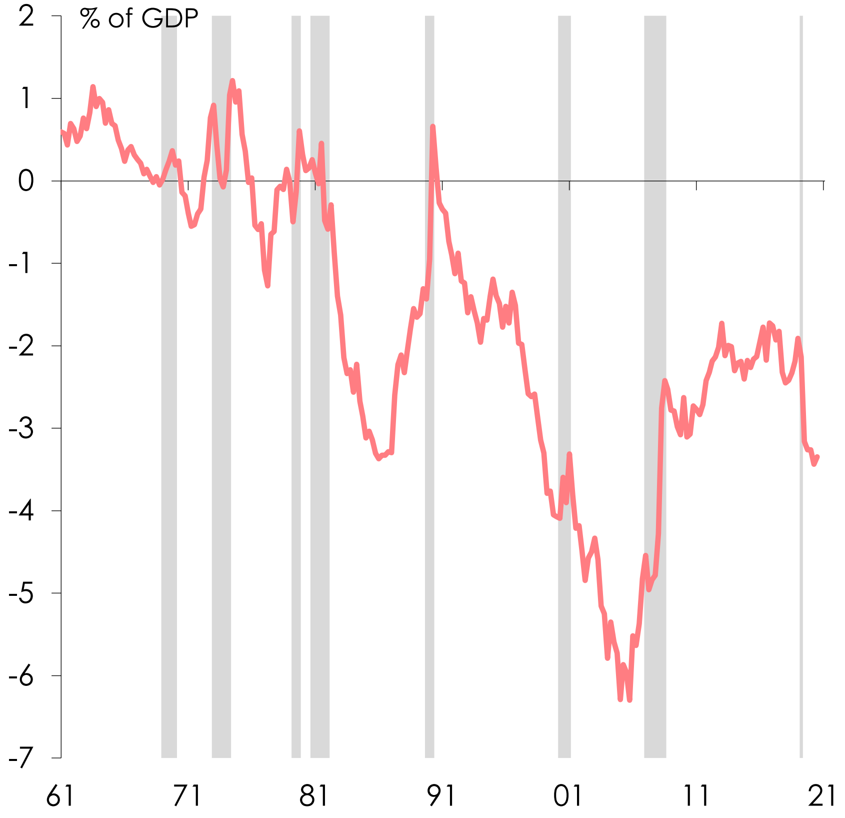
- The US Federal Government budget deficit narrowed by US$132bn to $171bn in August, largely due to lower spending on pandemic-related relief programs
- The deficit for the 12 months ended August was US$2.8 trn, down from a peak of $4.1 trn in the 12 months ended March, but almost exactly the same as in the 12 months to August last year
- The market value of gross debt outstanding fell by $122bn to $29.8 trn (157½% of GDP) in August, as a result of rising bond yields
- The US may be facing another stand-off over the debt ceiling which was suspended for two years in mid-2019 but which became binding again on 1st August
- Treasury Secretary Janet Yellen has indicated that the US Government is likely to run out of cash some time during October if the debt ceiling is not lifted before then
- History suggests that these squabbles 'go down to the wire' and may involve a temporary government 'shutdown' but won't result in a default

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".

SAUL ESLAKE
CORINNA ECONOMIC ADVISORY
INDEPENDENT ECONOMICS

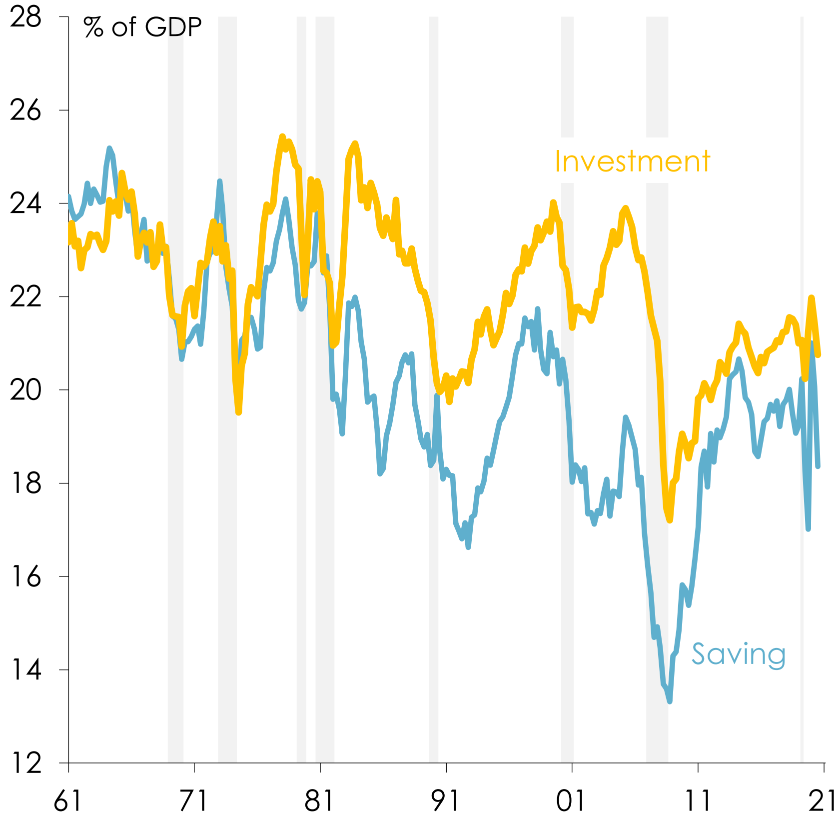
Any ‘excess demand’ resulting from ‘excessive’ stimulus is more likely to show up in the US current account deficit than in sustained higher inflation

US current account balance



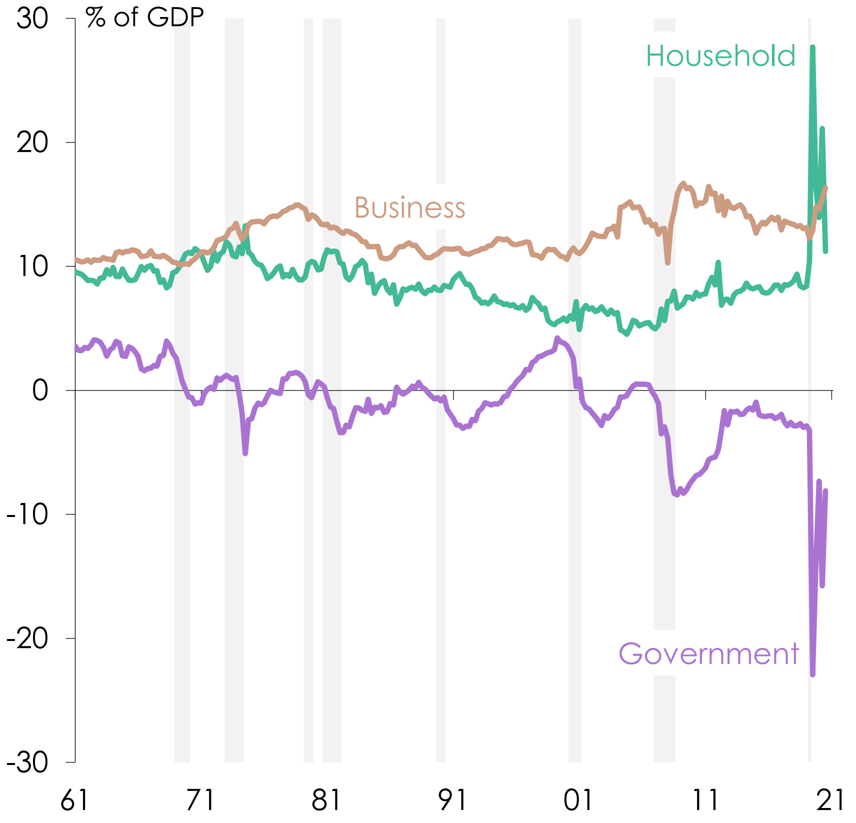
The US current account has *widened* since the recession that began last year – and in the first half of this year has been larger (as a pc of GDP) than at any time since the financial crisis

Gross saving and investment



Investment *didn’t* fall much during this recession – perhaps because it didn’t rise as much as usual during the preceding expansion (corporate tax cuts notwithstanding)

Gross saving by sector



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

Note: shaded areas denote recessions as designated by the US National Bureau of Economic Research. Data up to Q2 2021.
Source: US Bureau of Economic Analysis. Return to "What's New".

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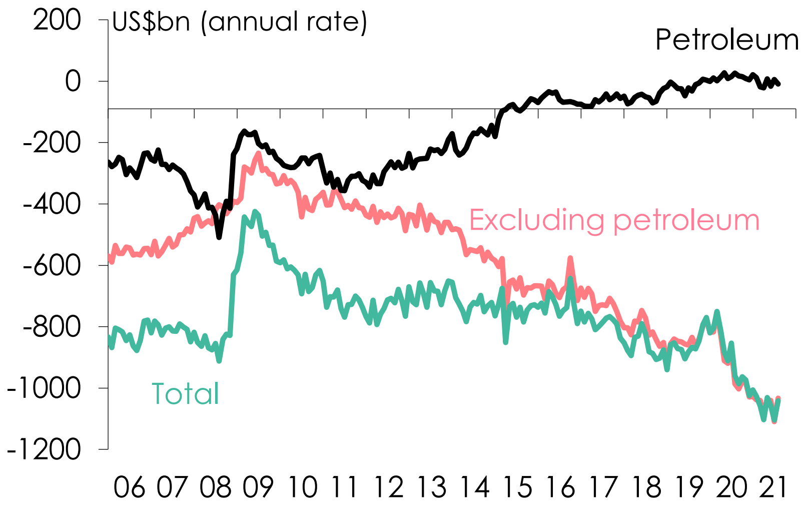
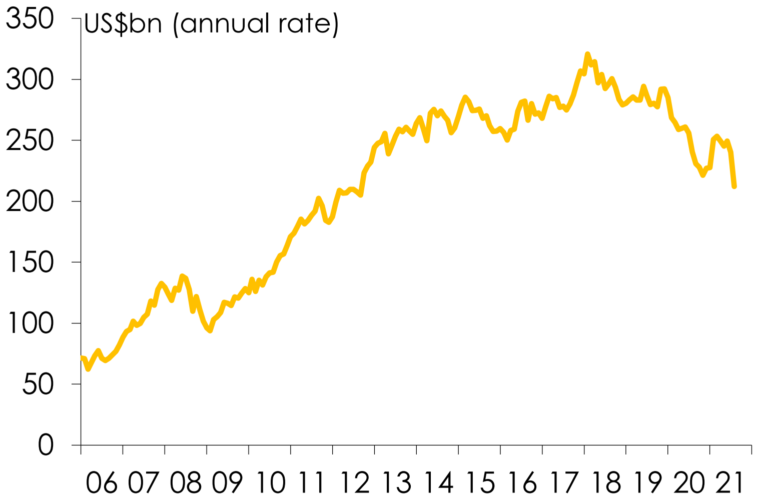
The US recorded its third-largest ever goods and services trade deficit in July, continuing a deterioration evident since the onset of Covid-19

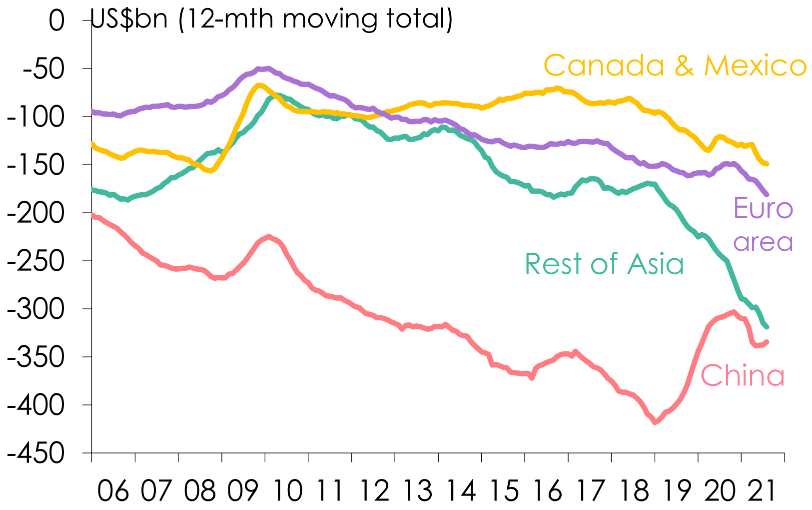
US goods trade balance



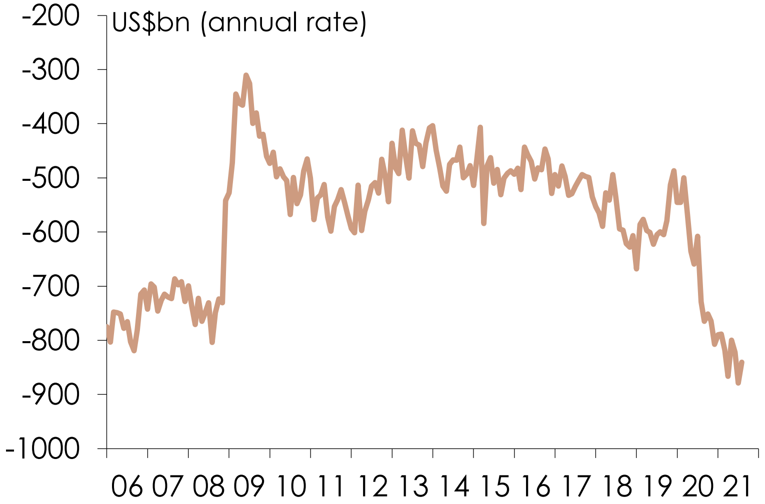
US services trade balance



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**

Source: US Census Bureau. Return to "What's New".

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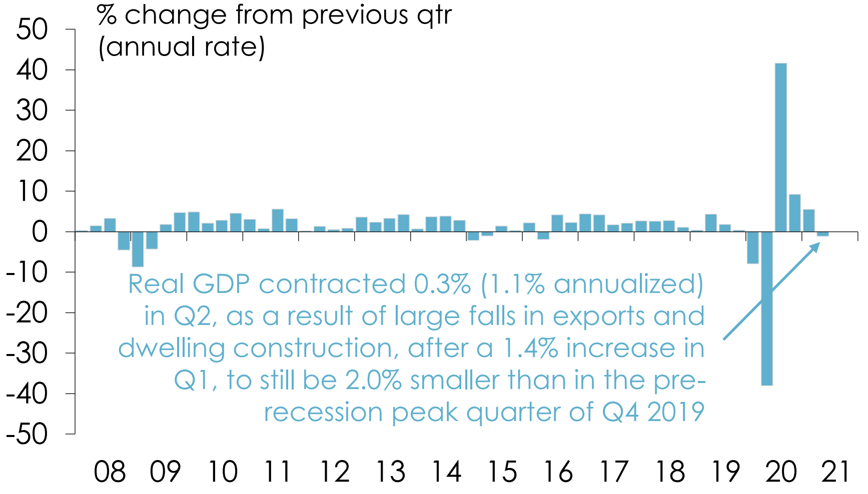
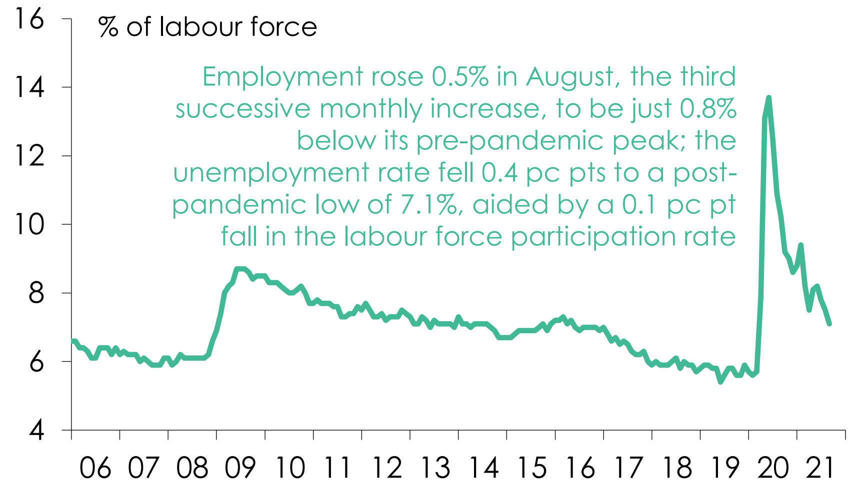
Employment in Canada increased in August for the third month in a row, and the unemployment rate fell 0.4 pc pts to 7.1%

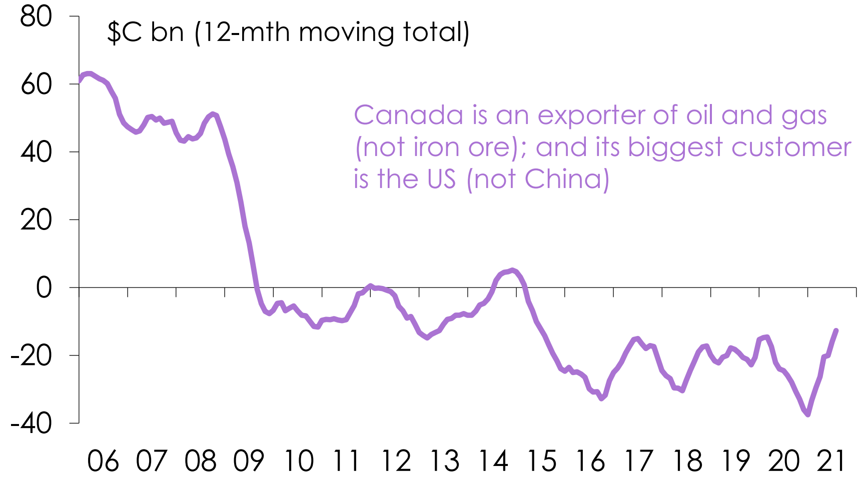
Real GDP



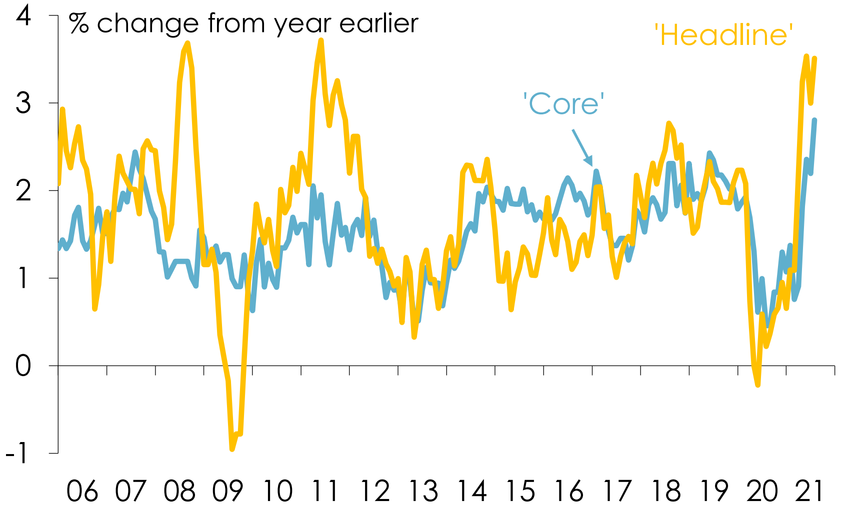
Unemployment rate



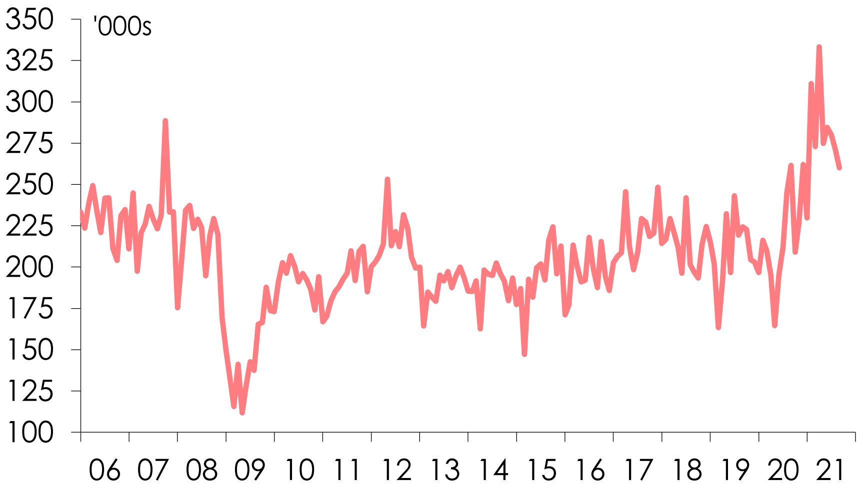
Merchandise trade balance



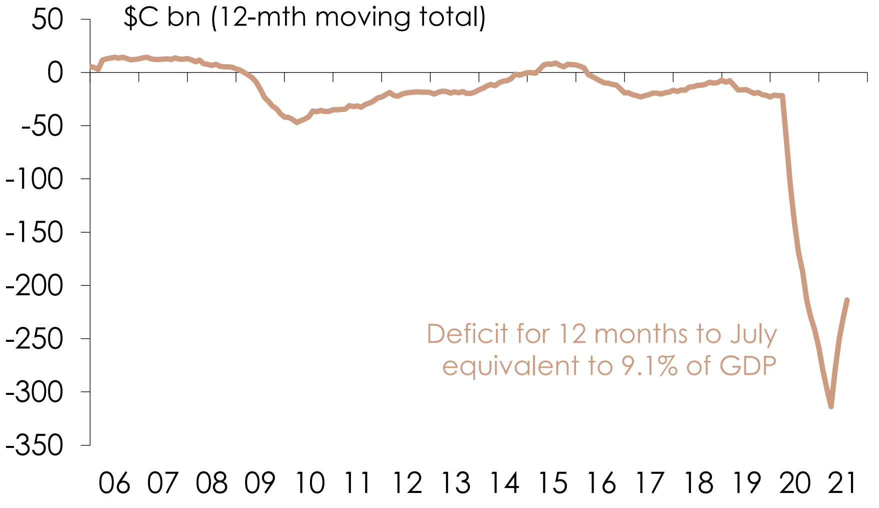
Consumer prices



Housing permits



Federal budget balance



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

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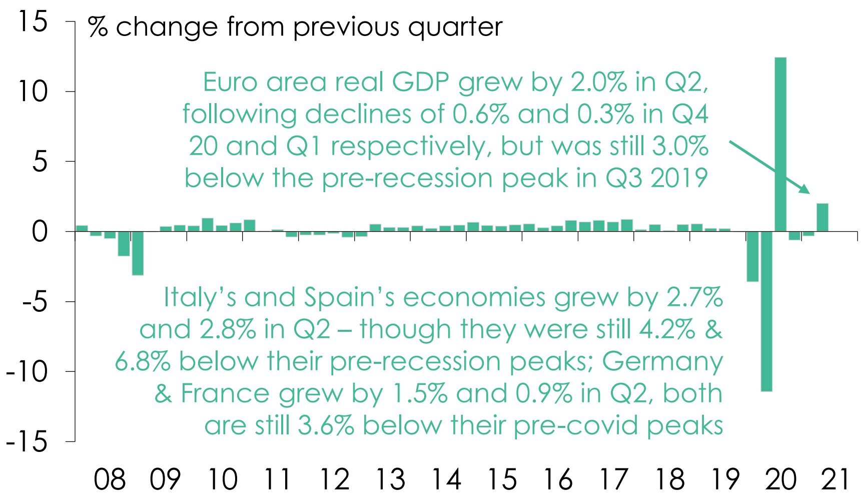
Canadian Prime Minister Justin Trudeau failed to gain a Parliamentary majority at last Monday's federal election

- **Canadian Prime Minister Justin Trudeau failed to regain a majority for his governing (centre-left) Liberals at Monday's early federal election**
  - voter turnout was unusually low at about 60%, down from 67% at the last election in 2019, and lower than at any other federal election in Canada's history apart from that of 2008 (which was also a 'snap' poll)
  - the Liberals' share of the nationwide vote fell about 0.5 pc pt to 32.6%, but they appear to have won 159 seats in the House of Commons, four more than they had in the previous Parliament
  - that's still short of the 170 required for a majority in the 338-member House
- **The Opposition Conservatives started the campaign well but finished poorly**
  - their share of the nation-wide vote fell 0.7 pc pt to 33.7%, and they failed to improve on the 119 seats they won at the last election
  - the Conservatives lost some votes to the right-wing People's Party which gained 5% of the vote (up 3.4 pc pts) – which may have cost the Conservatives victory in some seats (Canada has a 'first-past-the-post' electoral system) but not enough to have affected the overall outcome, and the PPC's leader (former Conservative MP Maxime Bernier) failed to win a seat
- **The more left-wing parties also didn't do as well as they'd expected**
  - the New Democrats gained 17.8% of the nationwide vote (up 1.8 pc pt), but only one additional seat (to 25)
  - while the Greens' share of the vote dropped 4.3 pc pts to just 2.3%, and the Greens' leader failed to win her Toronto seat leaving their representation in the House of Commons unchanged at just 2 seats
- **The separatist Bloc Québécois won 33 seats (out of 78 in Québéc), up 1, with 7.7% of the nationwide vote (unchanged from 2019)**
- **The Liberals will thus continue to rely on support from the NDP in order to govern, as they did in the previous Parliament**

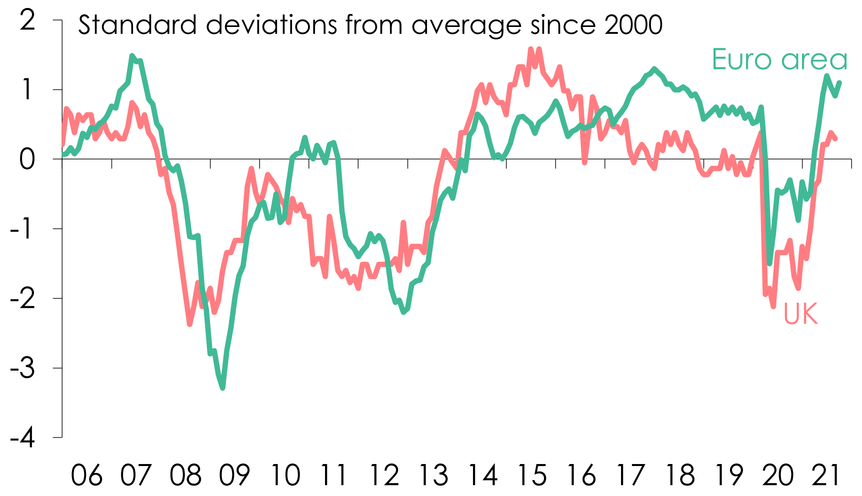
Return to "What's New".

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

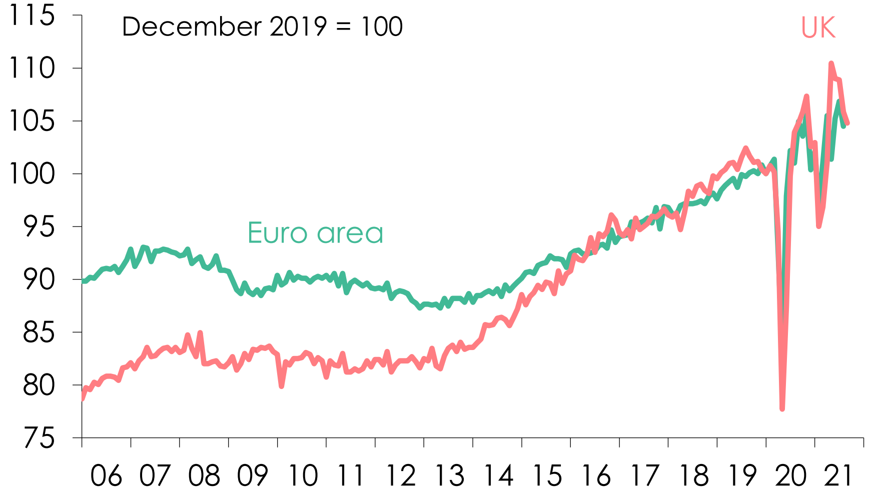
Euro area real GDP



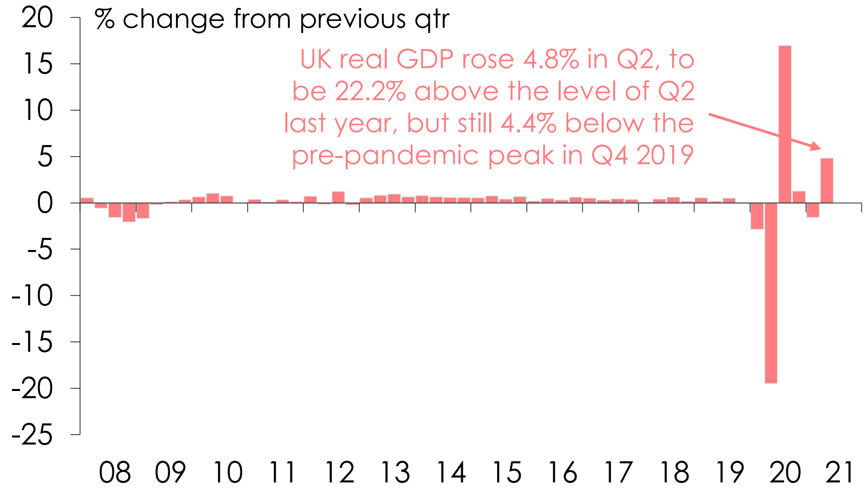
Consumer confidence



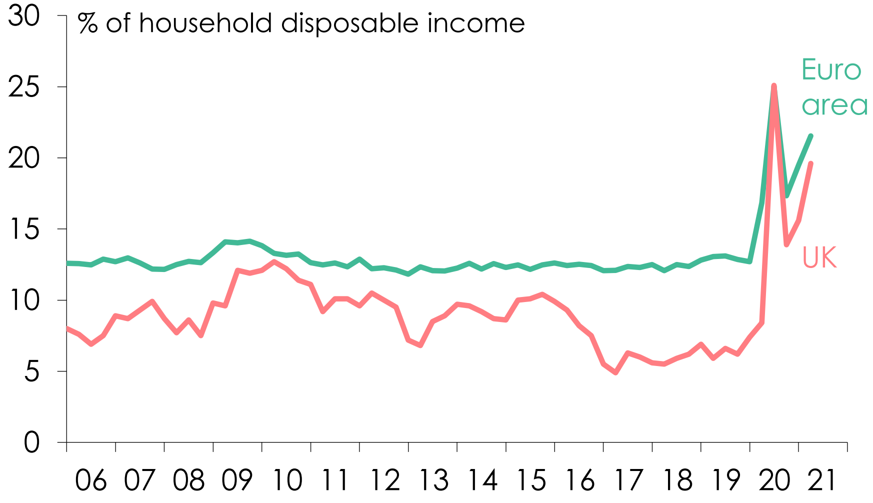
Retail sales volume



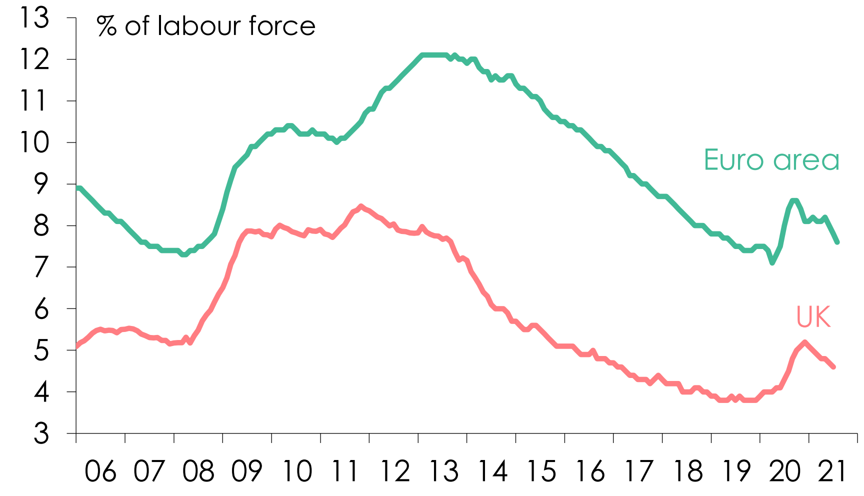
UK real GDP



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".

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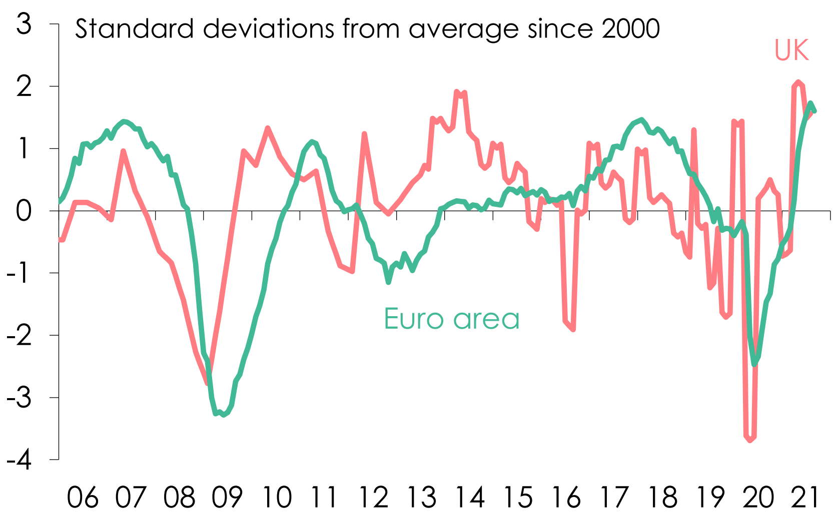
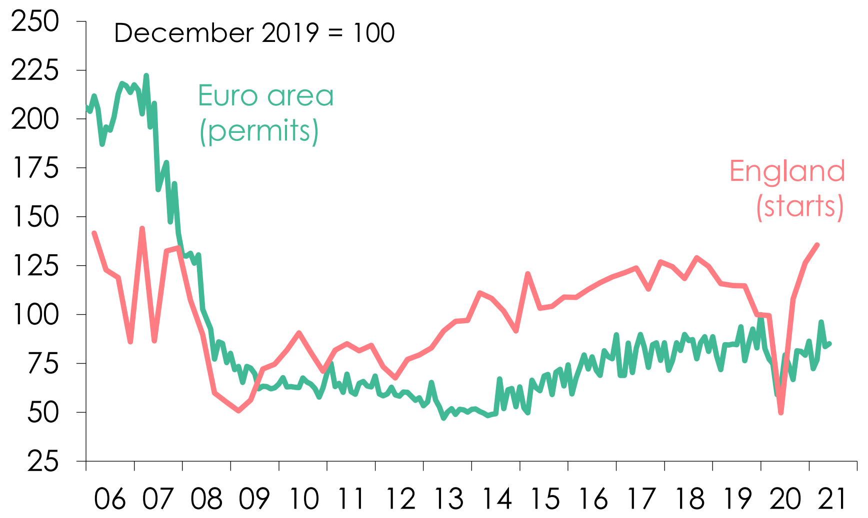
INDEPENDENT ECONOMICS

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

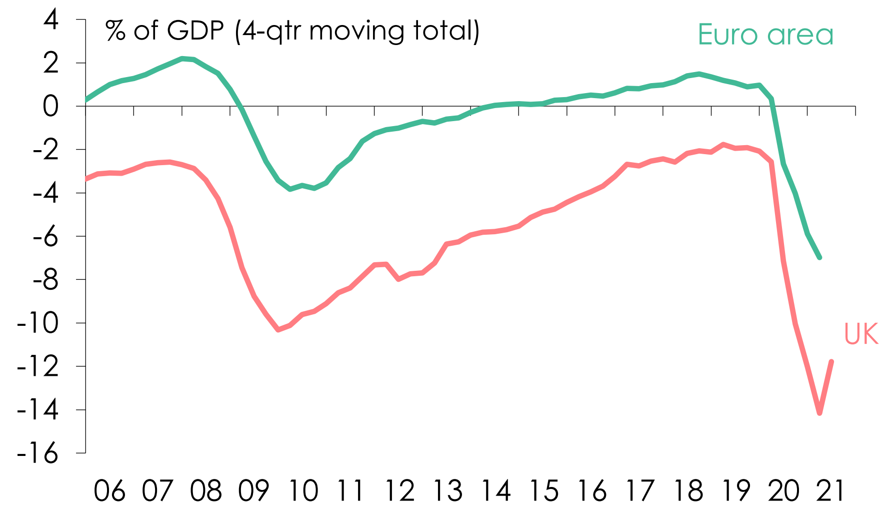
Business confidence



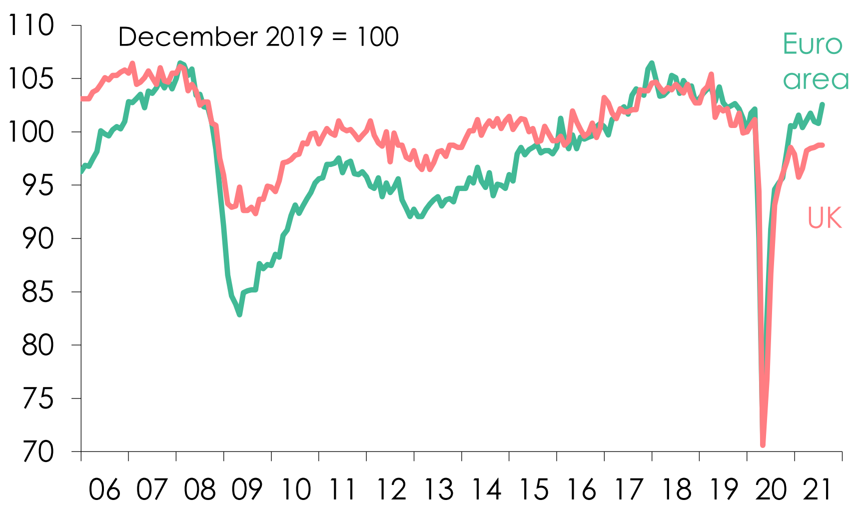
Housing activity



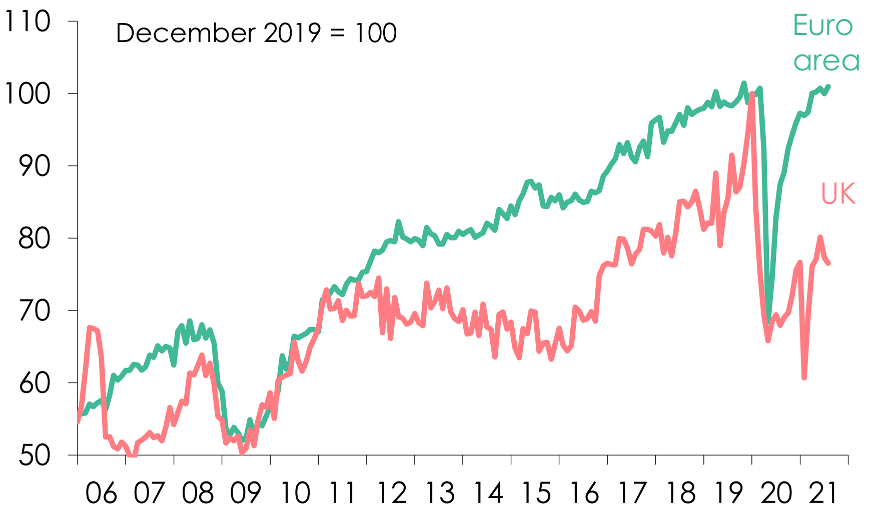
Government fiscal balance



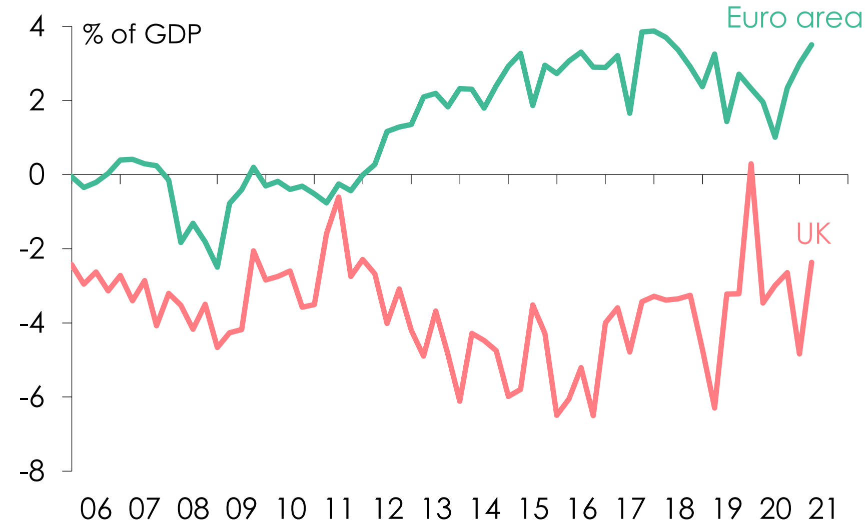
Manufacturing production



Merchandise exports



Current account balance



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

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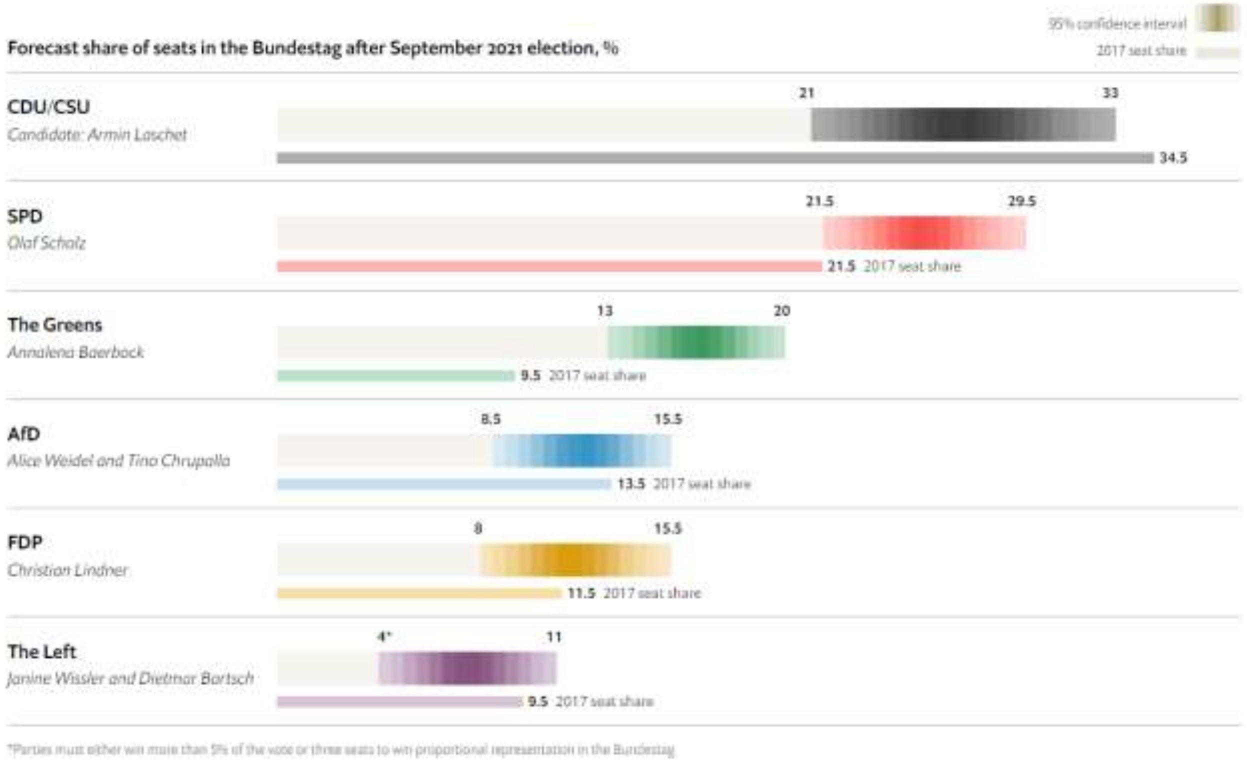
Germany has federal elections this Sunday which may result in a change of government for the first time since 2005

- Germans will vote in federal elections on 26th September which will presage the end of Angela Merkel's 16-year tenure as Chancellor (Prime Minister)
- Germany uses a mixed-member proportional system of voting similar to that used in New Zealand since 1994
  - each voter has two votes, one to elect representatives for each of 229 single-member constituencies (based on 'first past the post') and the second for a party list, which is then used to ensure that parties which gain at least three constituencies or at least 5% of the nationwide party vote are represented in the Bundestag in proportion to their share of the party vote
  - this usually results in the Bundestag having considerably more members than its nominal total of 598 (the previous Bundestag had 709 members, including 111 required to ensure 'proportionality' (see here for a more detailed explanation)



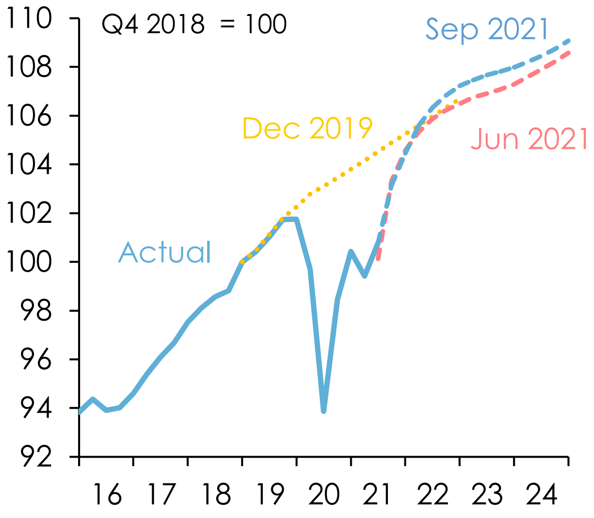
- Opinion polls suggest that the outcome is likely to be a coalition of one of the two major parties with one or more minor parties
  - either a 'traffic light' coalition comprised of the Socialists (SPD), liberal Free Democrats (FDP) and Greens
  - or a 'Jamaica' coalition of the centre-right CDU/CSU, the FDP and the Greens
  - far less likely is a coalition of the SPD, Greens and The Left
- There appears to be no appetite for another 'Grand Coalition' of the two major parties which has ruled Germany since 2013
  - negotiations over the formation of a new government could see Angela Merkel continuing as 'caretaker' for an extended period

Source: *The Economist*. Return to "What's New". *Note:* a more detailed assessment of the challenges facing the next German government is available for Independent Economics clients on request.

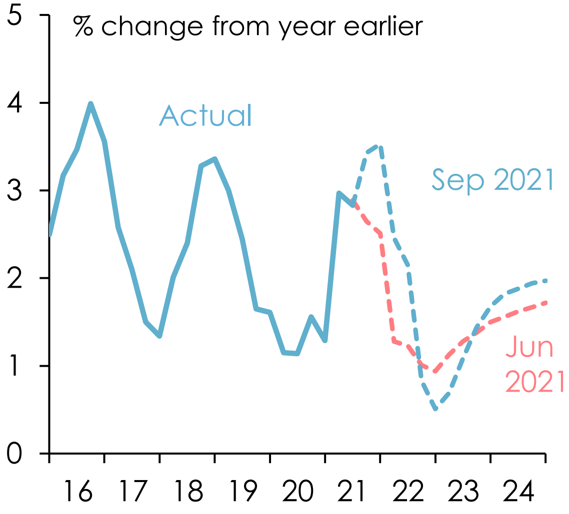
Norway's central bank initiated a monetary policy tightening cycle this week – the third 'advanced' economy central bank to do so

- Norges Bank raised its policy rate by 25 basis points to 0.25% at Thursday's Monetary Policy and Financial Stability Committee meeting
- Governor Øystein Olsen said the "re-opening of society" had led to a "marked upswing in the Norwegian economy" which was "likely to continue through the autumn" …
- … and "a normalizing economy suggests that there is no longer a need to maintain the current degree of monetary accommodation"
- The accompanying Monetary Policy Assessment noted that "high debt and high house prices are key household sector vulnerabilities"
- Governor Olsen indicated that "on the current assessment of the outlook and balance of risks, the policy rate will most likely be raised further in December"

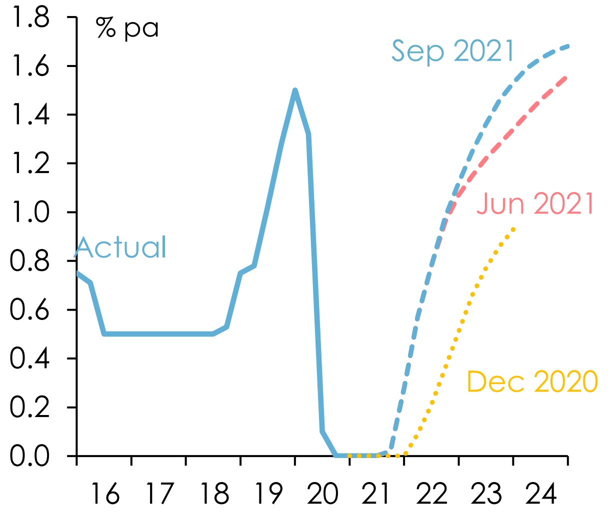
'Mainland' GDP



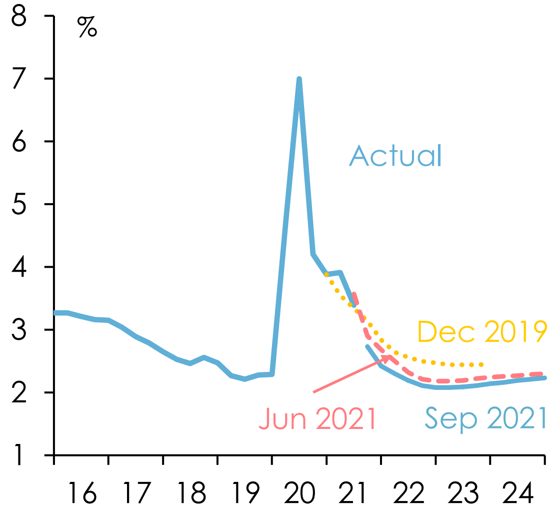
Inflation



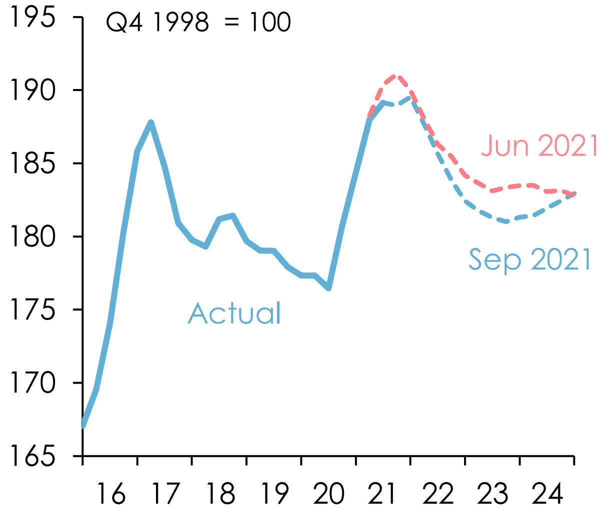
Norges Bank policy rate



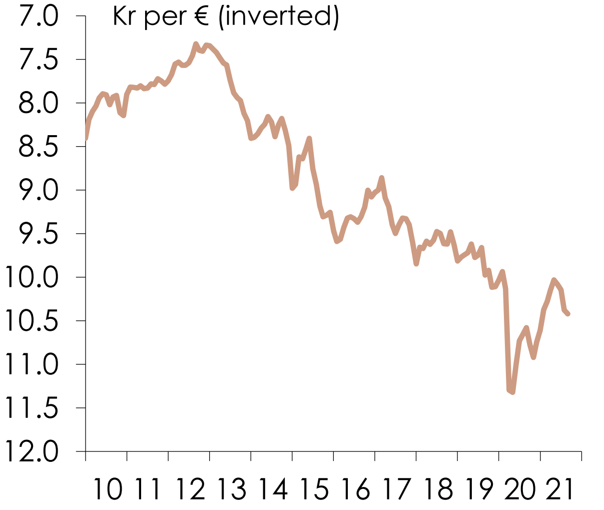
Unemployment



House prices



Norwegian krone vs euro



Note: 'mainland' GDP means excluding Norway's oil and gas industry which is entirely located offshore. *Sources:* Norges Bank; Statistisk sentralbyrå; Refinitiv Datastream.
Return to "What's New".

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INDEPENDENT ECONOMICS

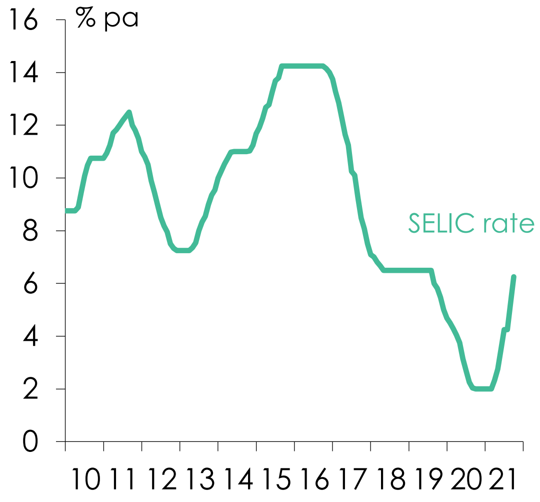
Three more emerging market central banks raised interest rates this week

- Banco Central do Brasil raised its key policy (SELIC) rate another 100 basis points to 6.25% at Wednesday's Monetary Policy Committee (Copom) meeting – the fifth successive increase, for a total of 425 basis points
  - Copom attributed the latest rate increase to "a higher-than-usual variance in the balance of risks" for inflation, and judged it to be "consistent with the convergence of inflation to its target over the relevant horizon for monetary policy"
  - inflation in Brazil reached 10.4% over the year to August (slide 44), well above BCB's 3±1½% target
  - it pointed specifically to the "elevated fiscal risk" (of policies that "increase aggregate demand and deteriorate the fiscal path" as a factor creating "an upward asymmetry in the balance of risks", and reiterated that "persevering in the process of reforms and necessary adjustments … is essential for a sustainable economic recovery"
  - and it foreshadowed "another adjustment of the same magnitude" at the next meeting (on 26th October), with the SELIC rate peaking at 8.50% in 2022 and then dropping to 6.75% in 2023
- Banco Central del Paraguay also raised its policy interest rate by 50 basis points to 1.50% this week, after a 25 bp increase in August, "in order to ensure compliance with the inflation target in the medium term"
  - inflation in Paraguay was 5.6% over the 12 months to August cf BCP's target of 4%
- Magyar Nemzeti Bank (Hungary's central bank) raised its base rate by another 15 basis points to 1.65% at Wednesday's Monetary Council meeting, the fourth increase in a row (for a total of 105 basis points)
  - this was the smallest increase in the tightening cycle which began in June, the three previous increases being 30 bp each
  - the latest increase was prompted by the fact that "the inflation outlook is surrounded by upside risks", but tempered by a recognition that "the fourth wave of the pandemic pointed to an increase in the risks to economic recovery", which warranted "a continuation of the monthly interest rate tightening cycle with lower pace"
  - the Monetary Council foreshadowed it would "continue the cycle of interest rate hikes until the outlook for inflation stabilizes around the central bank target in a sustainable manner and inflation risks become evenly balanced"
- The South African Reserve Bank left its repo rate unchanged at 3.5% despite "the risks to the short-term inflation outlook [being] assessed as to the upside", but flagged 25bp rises in Q4 and in each quarter of 2022 and 2023

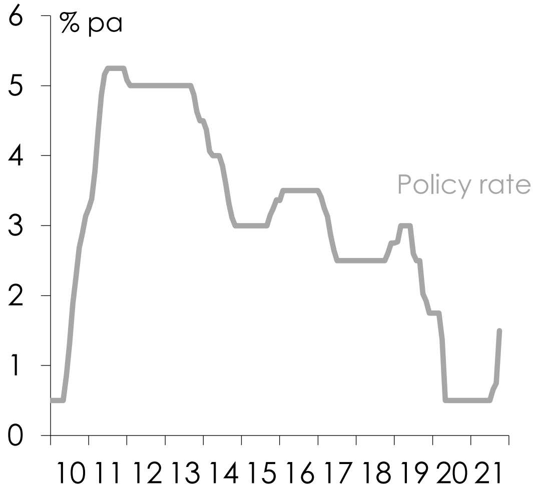
Return to "What's New".

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

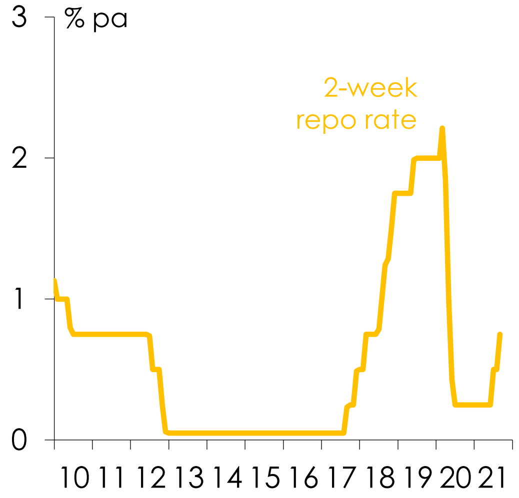
Brazil



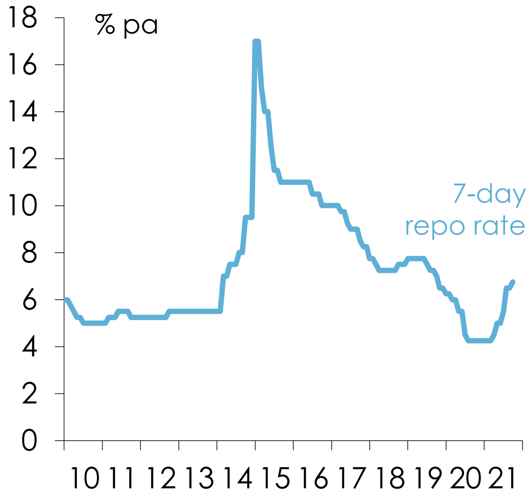
Chile



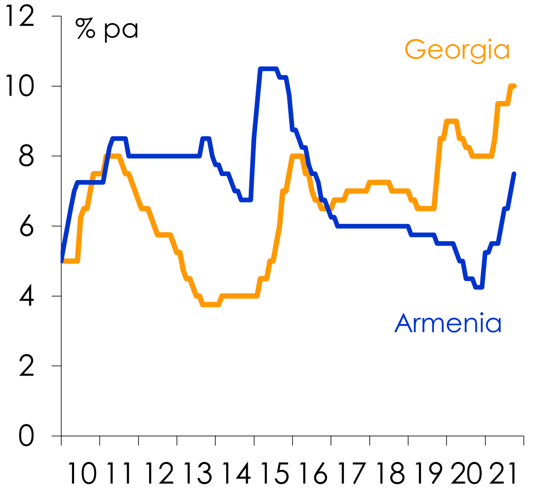
Czechia



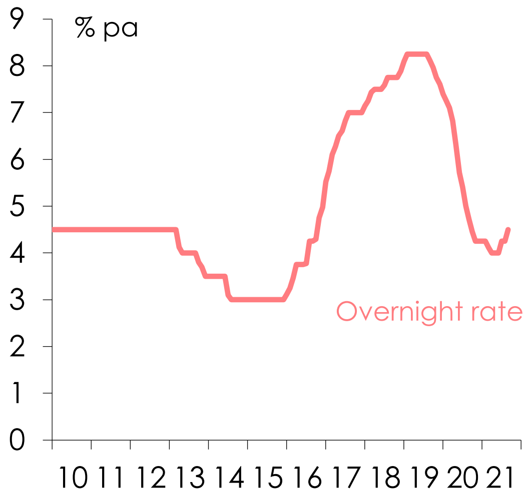
Russia



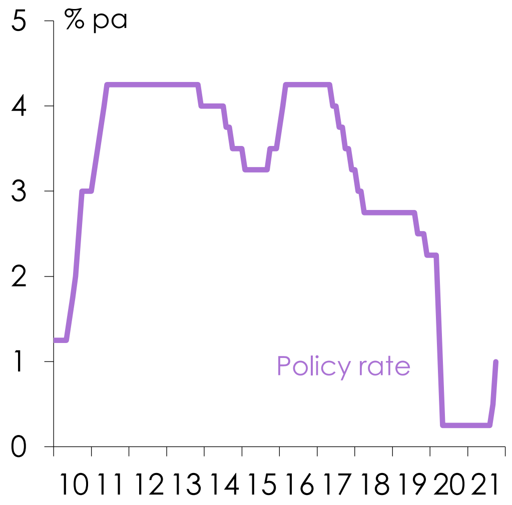
Georgia & Armenia



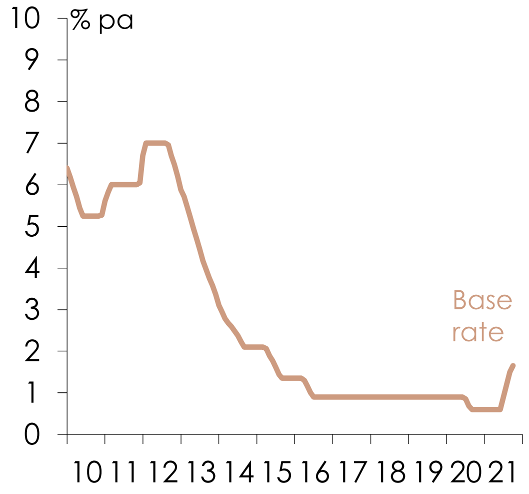
Mexico



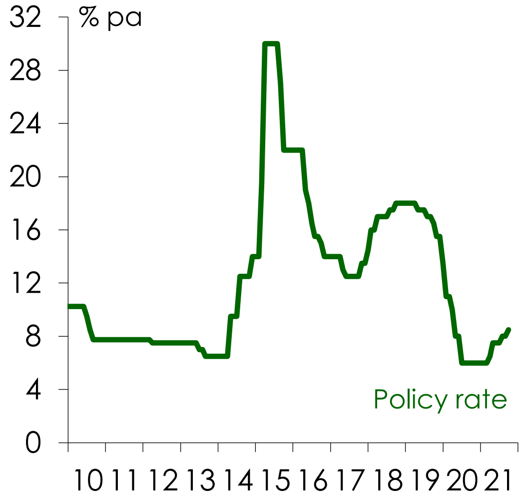
Peru



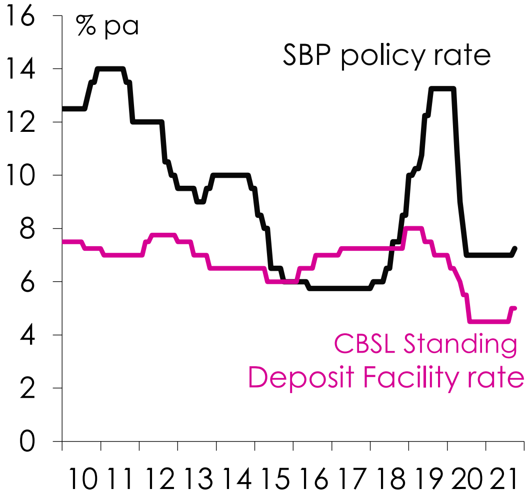
Hungary



Ukraine



Pakistan & Sri Lanka

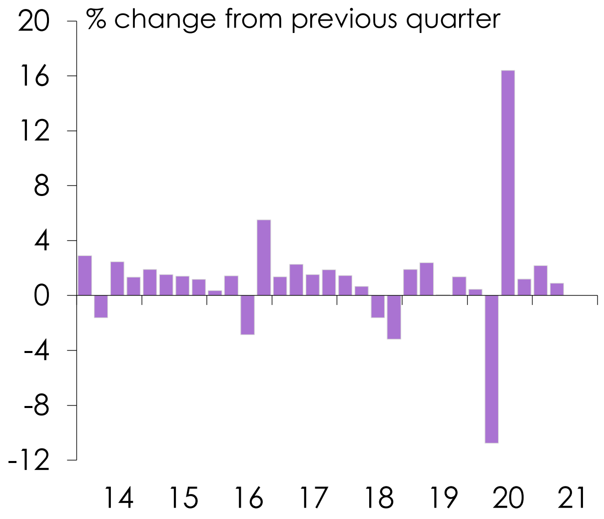


Sources: Banco Central do Brasil; Banco de México; Banco Central de Chile; Banco Central de Reserva del Perú; Magyar Nemzeti Bank; Česká národní banka; Bank Rossii; National Bank of Ukraine; Türkiye Cumhuriyet Merkez Bankasi; Sakartvelos Erovnuli Bank'I; Hayastani Kentronakan Bank; State Bank of Pakistan;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

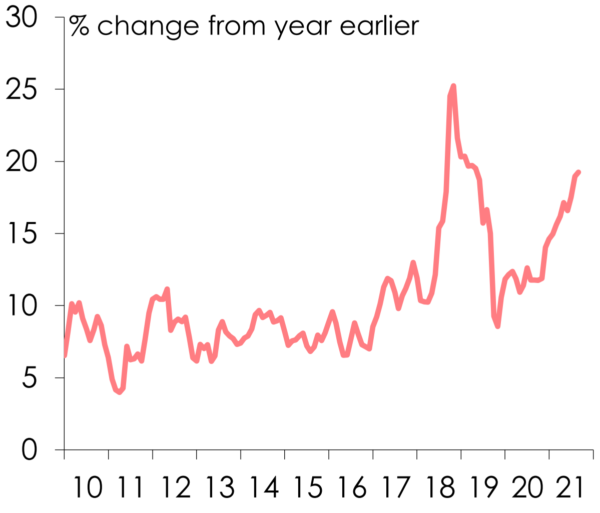
Turkey's central bank surprised by cutting rates this week (although it had been under sustained pressure from the President to do so)

- Turkey's central bank unexpectedly cut its policy interest rates 1 pc pt at Thursday's Monetary Policy Committee meeting (having raised them 10¾ pc pts between August last year and February this year)
- CBRT noted that its tight monetary policy had "started to have a higher than envisaged contractionary effect on commercial loans" and that the "macroprudential framework has been strengthened to curb personal loan growth"
- CBRT also pointed to the "improvement in the current account balance" as being "important for the price stability objective"
- Hence it judged that "a revision in the monetary policy stance is needed", but pledged to "continue to use decisively all available instruments until strong indicators point to a permanent fall in inflation"
- The Turkish lira dropped to a record low after the announcement

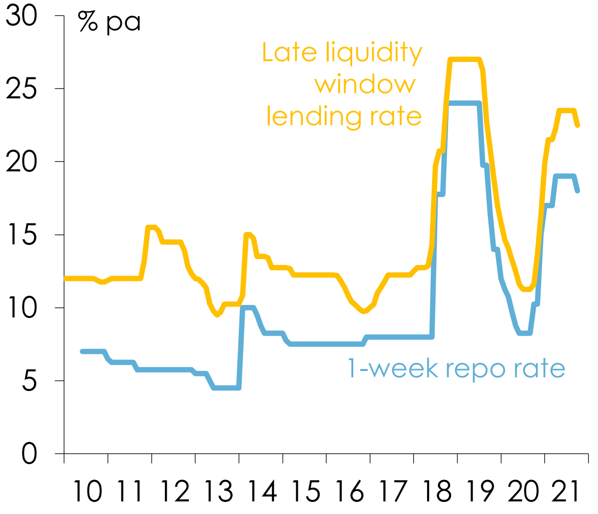
Real GDP growth



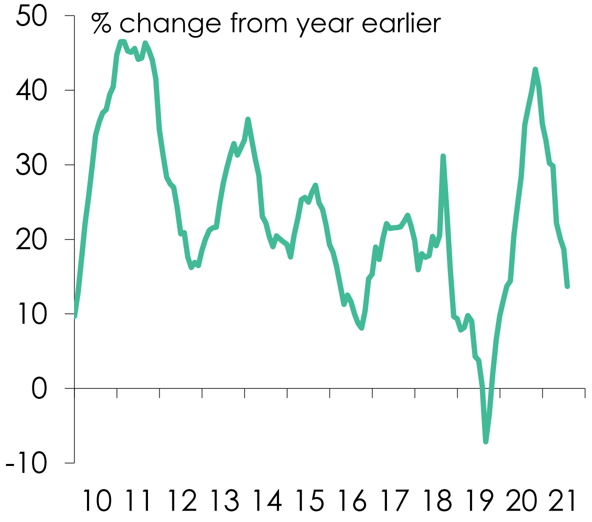
Inflation



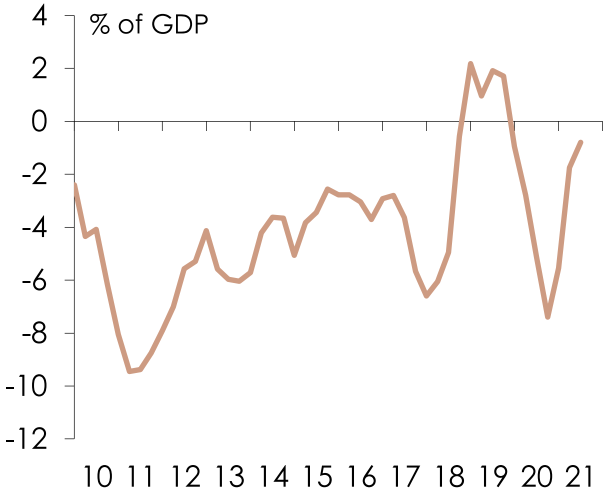
Interest rates



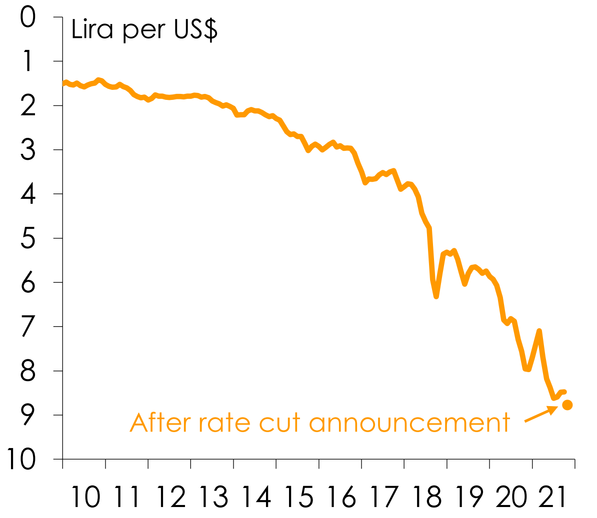
Bank lending



Current account



Turkish lira vs US$

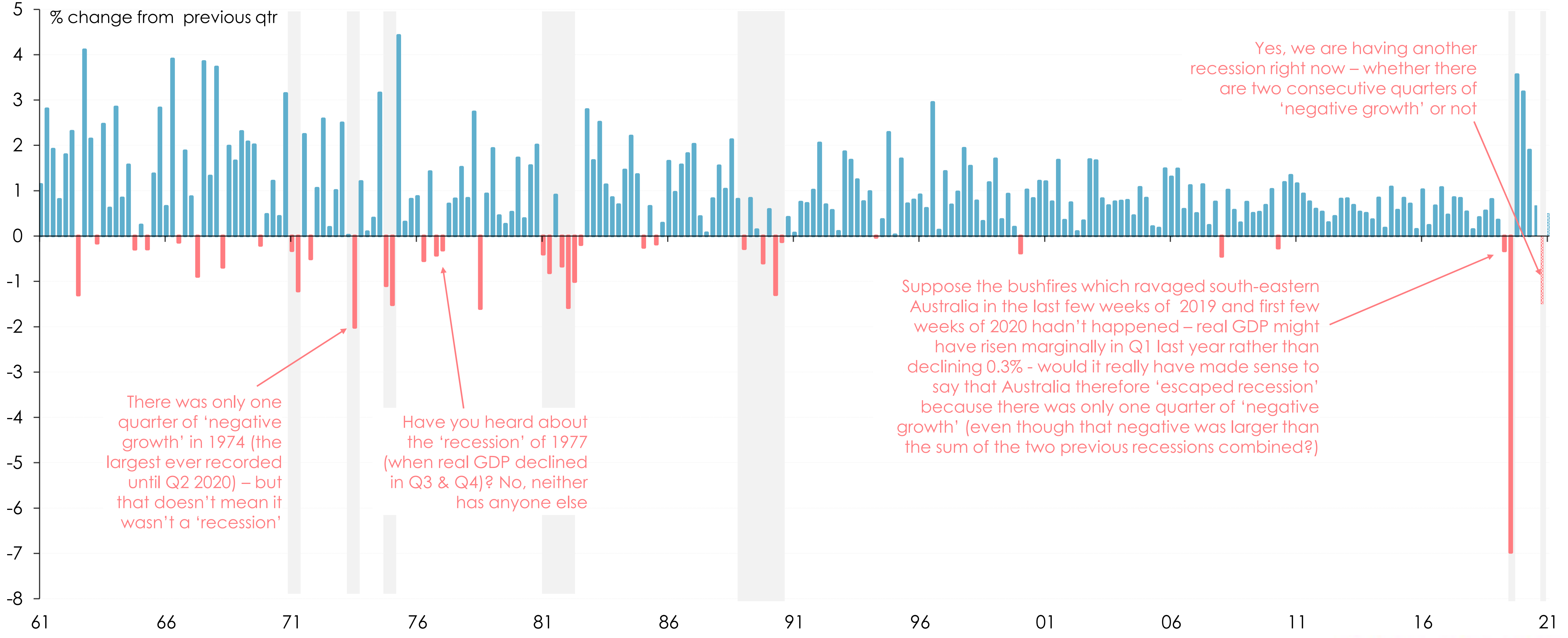


Sources: Turkey Statistical Institute (TÜIK); Central Bank of the Republic of Turkey (TCMB); Refinitiv Datastream. Return to "What's New".

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 1st December; and December quarter GDP on 2nd March 2022. Return to "What's New".

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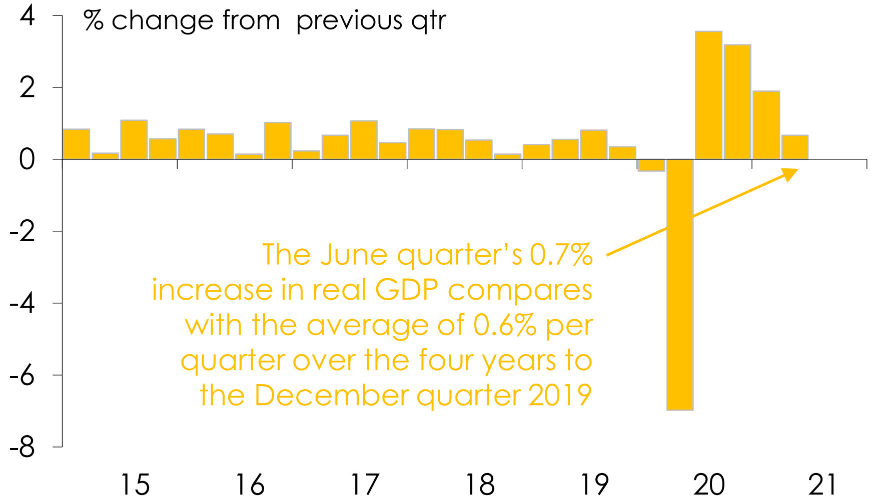
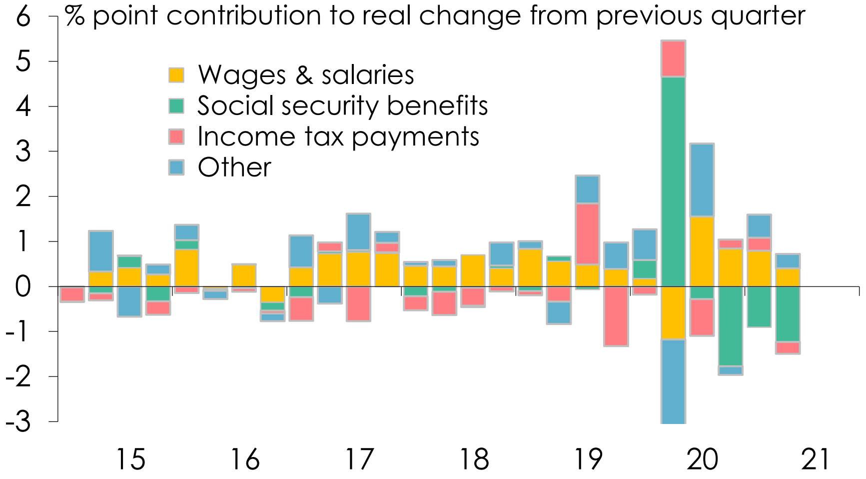
All the major components of domestic demand contributed to the June quarter's 0.7% GDP growth, but stocks and net exports detracted

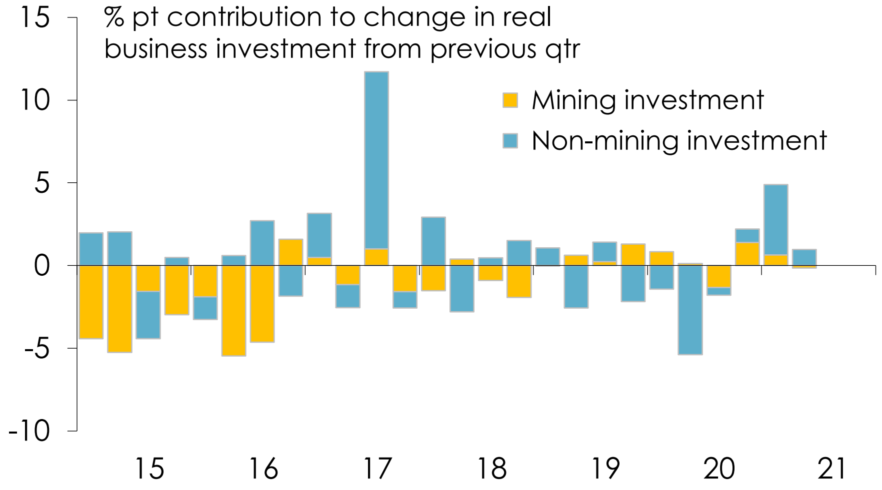
Quarterly change in real GDP



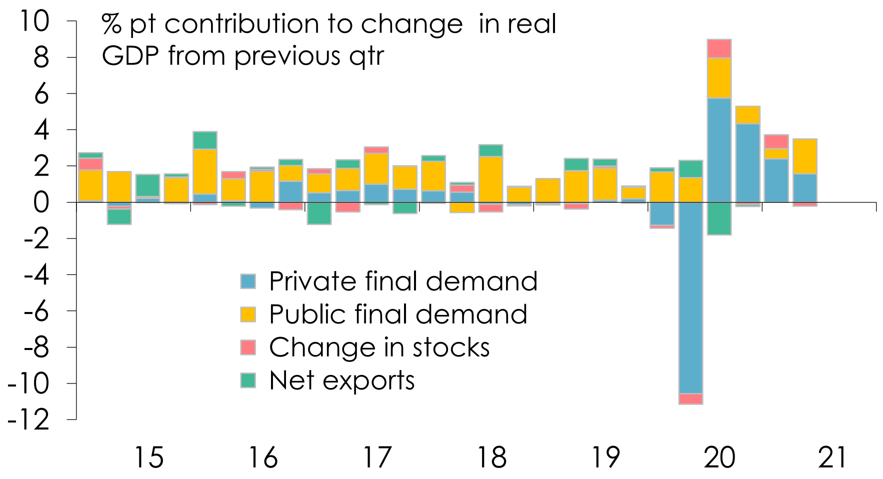
Household disposable income



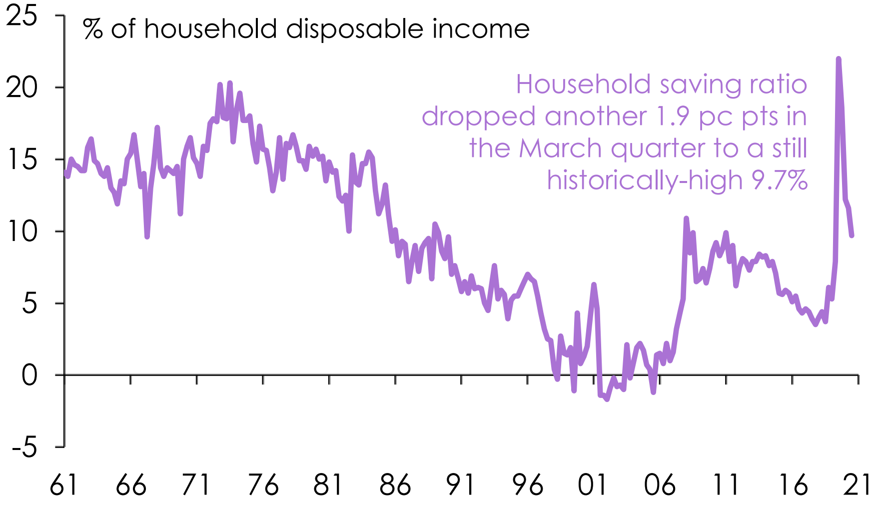
Business investment expenditure



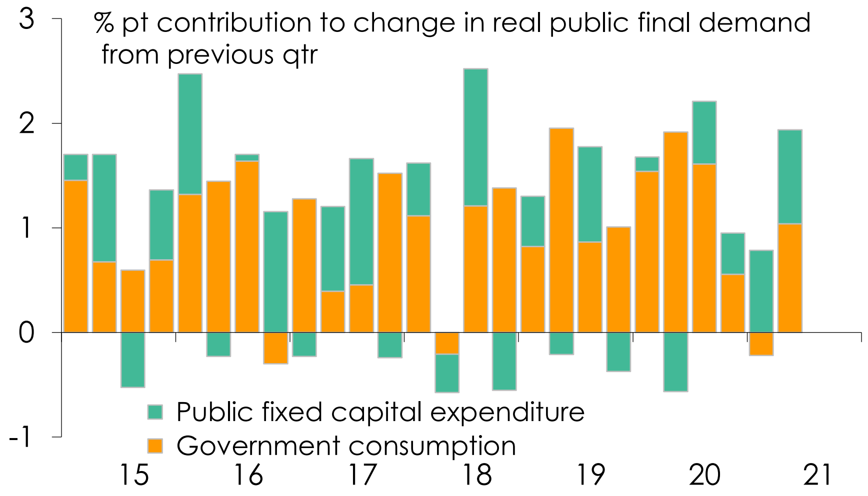
Contributions to quarterly GDP growth



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 1st December. Return to "What's New".

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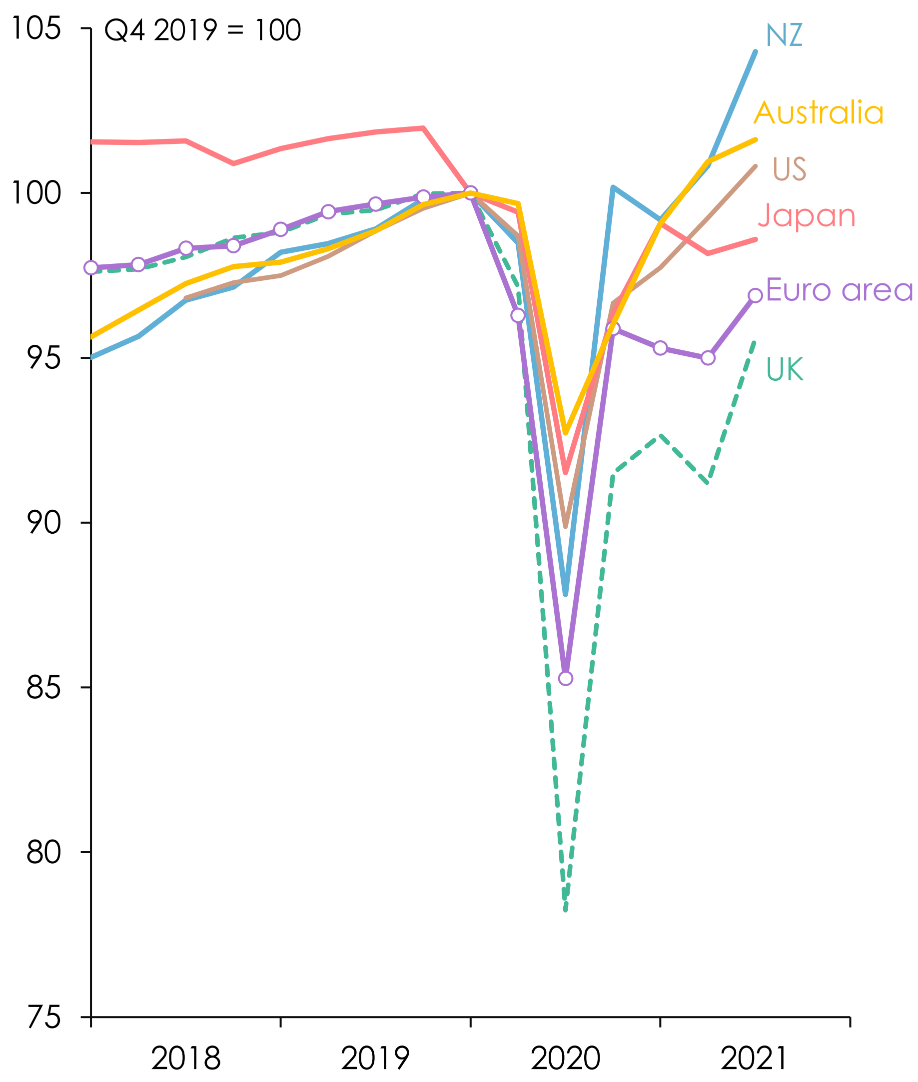
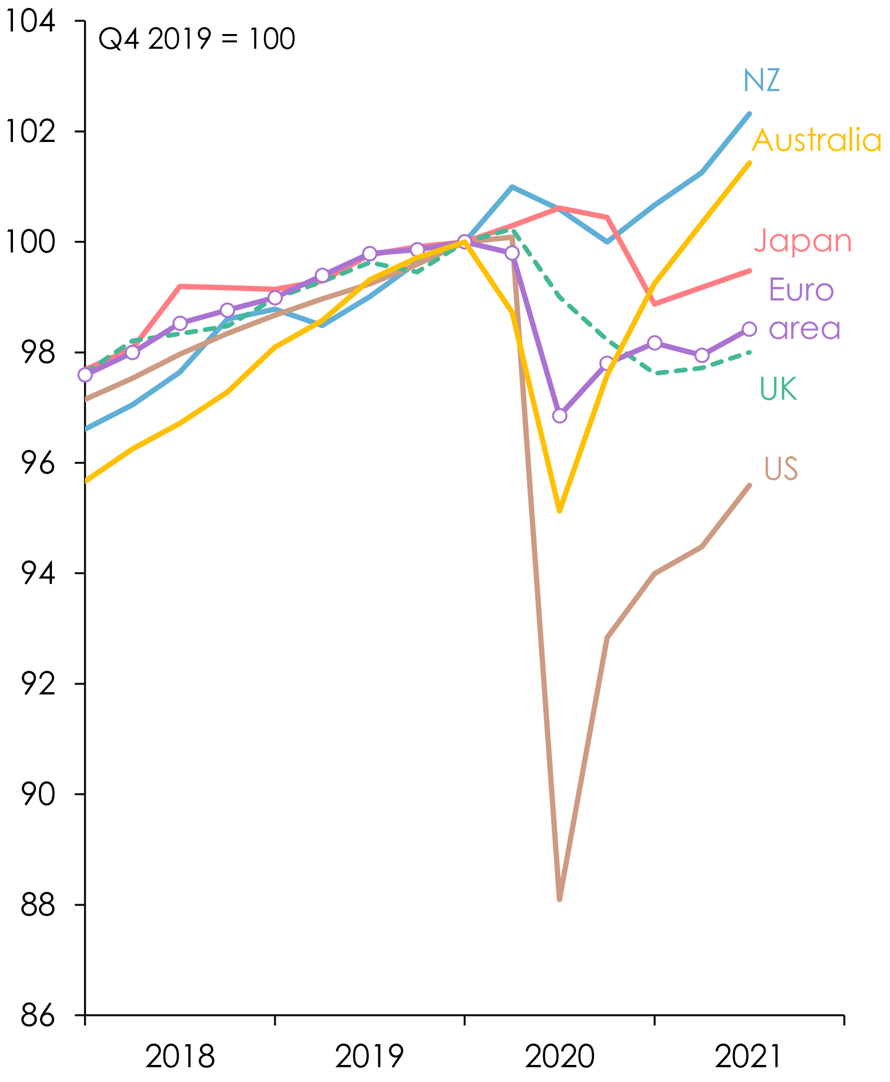
Australia's recession wasn't as severe as, and its recovery has been stronger than, most other 'advanced' economies – but will that continue?

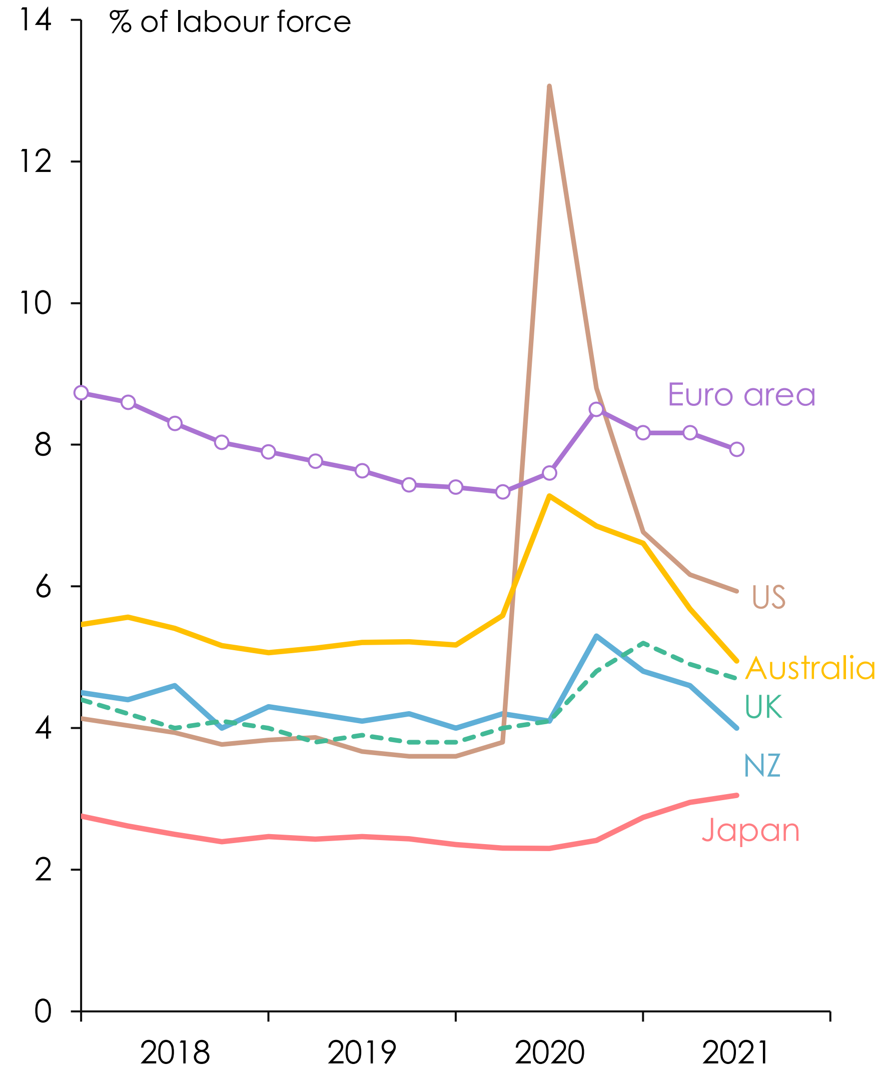
Level of real GDP



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.

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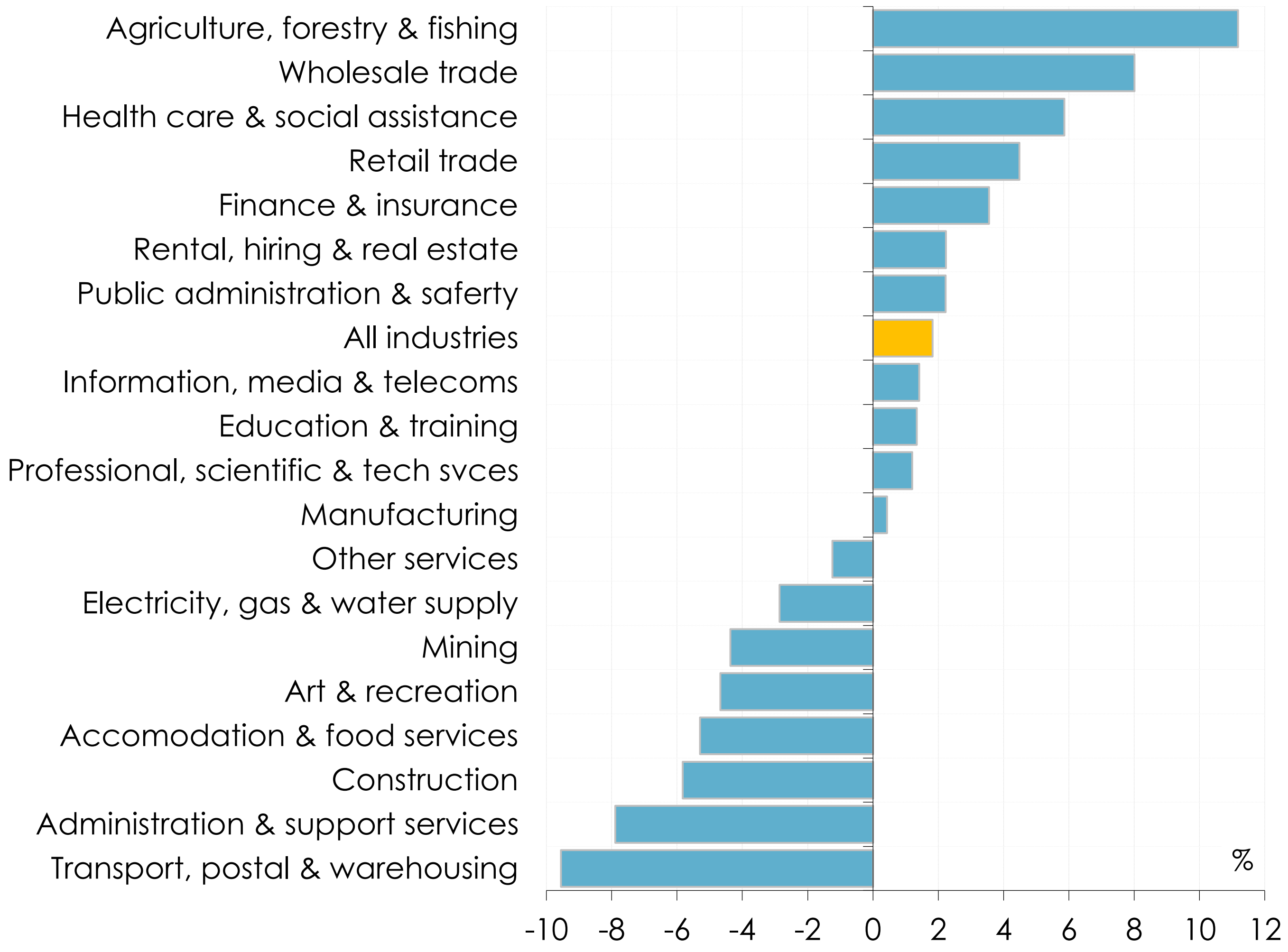
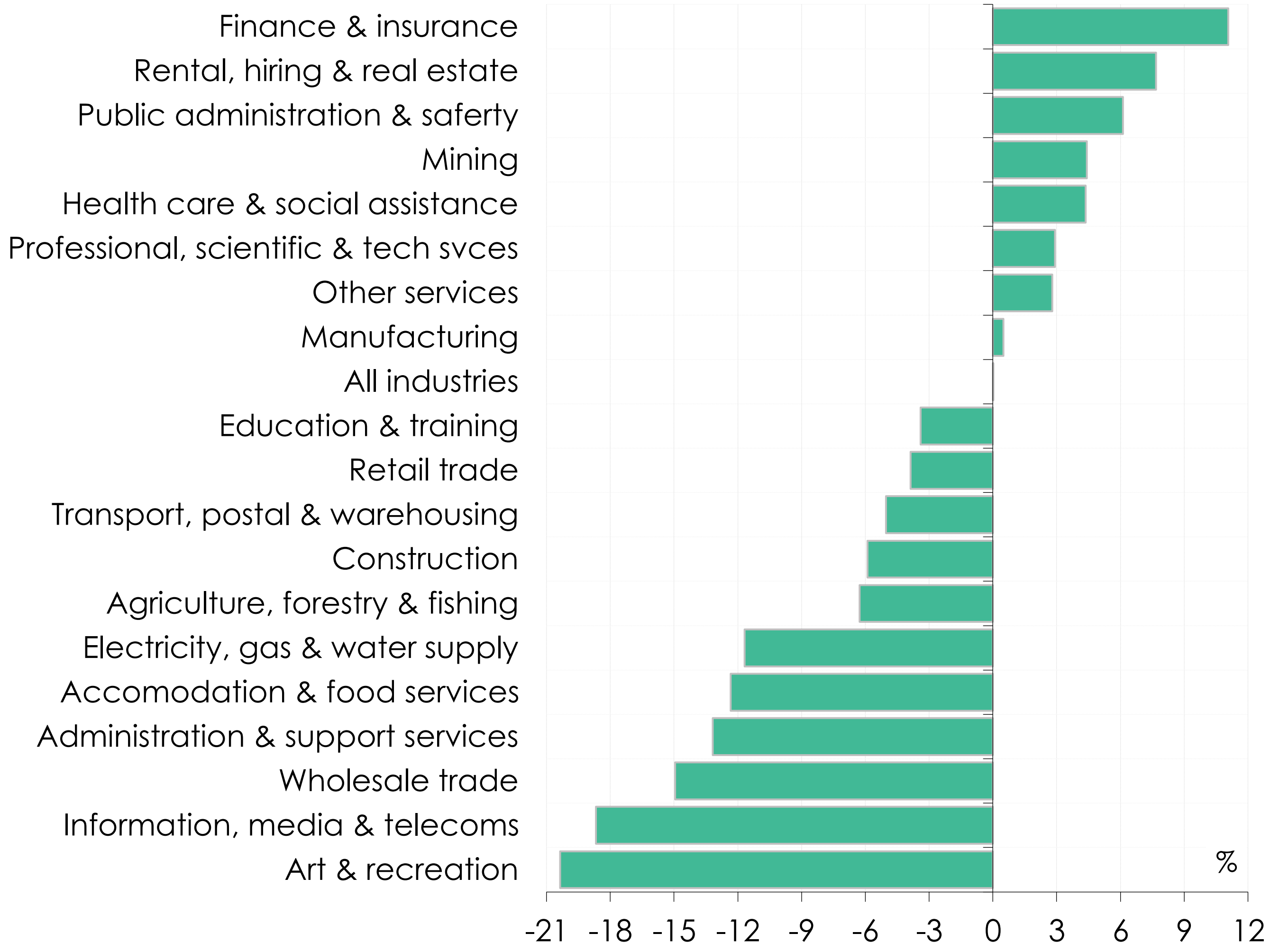
Though stronger-than-expected overall, the recovery in economic activity and employment has been very uneven across sectors

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



Q3 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, August 2021.

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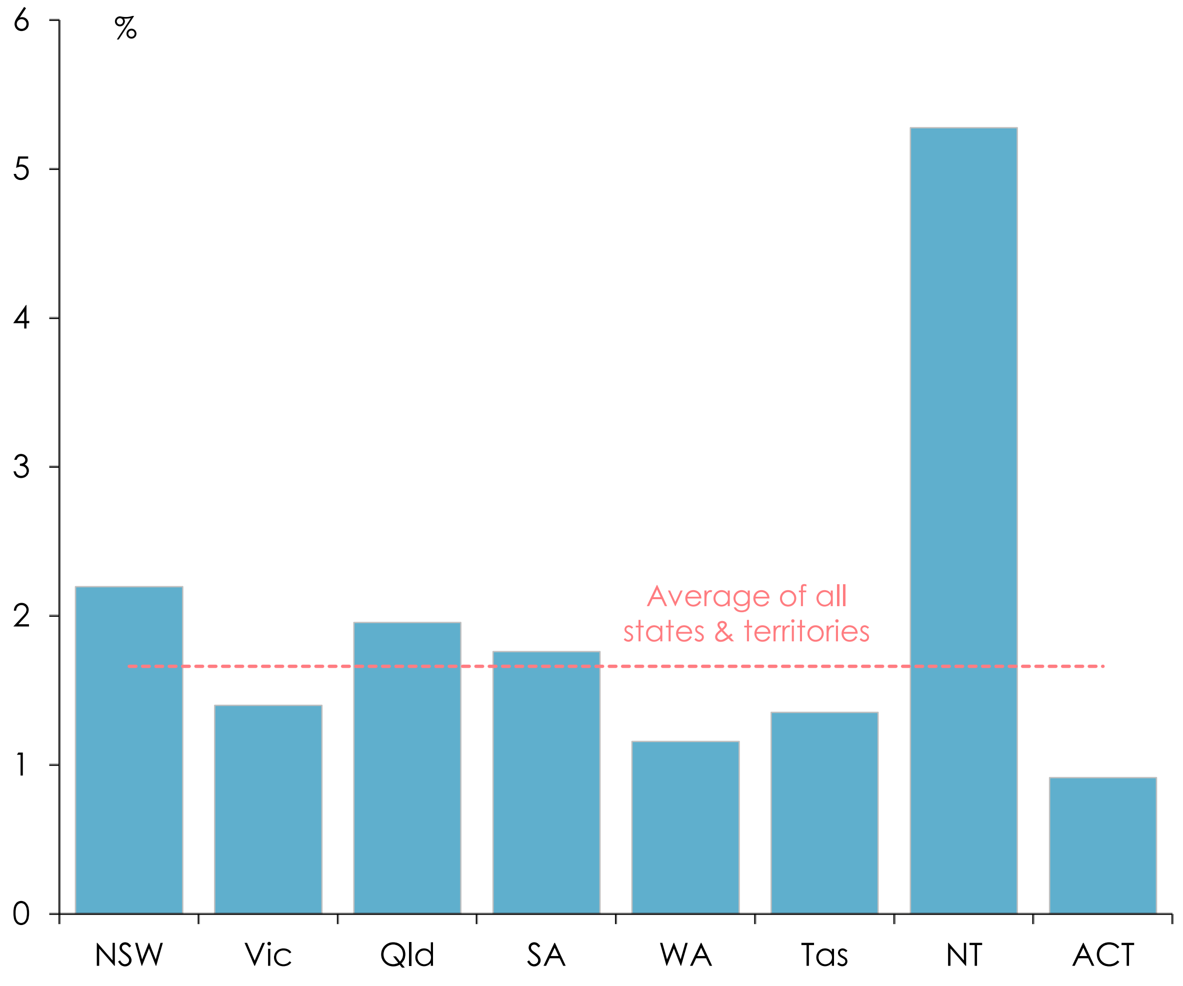
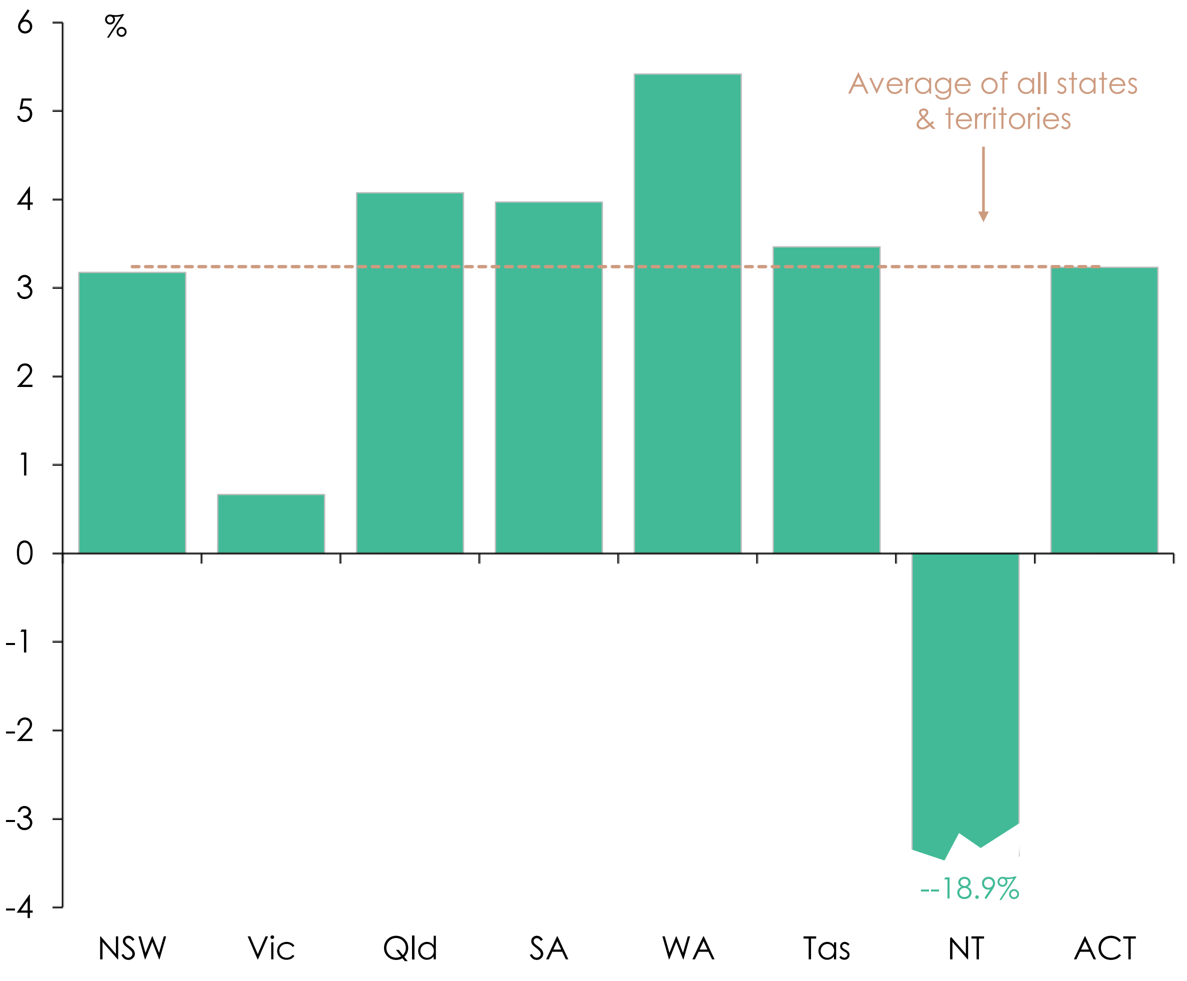
Up to Q2, Western Australia has had the strongest recovery in 'final demand', while Victoria and (especially) the Northern Territory

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



Shortfall between June quarter 20201 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, 1st December. Return to "What's New".

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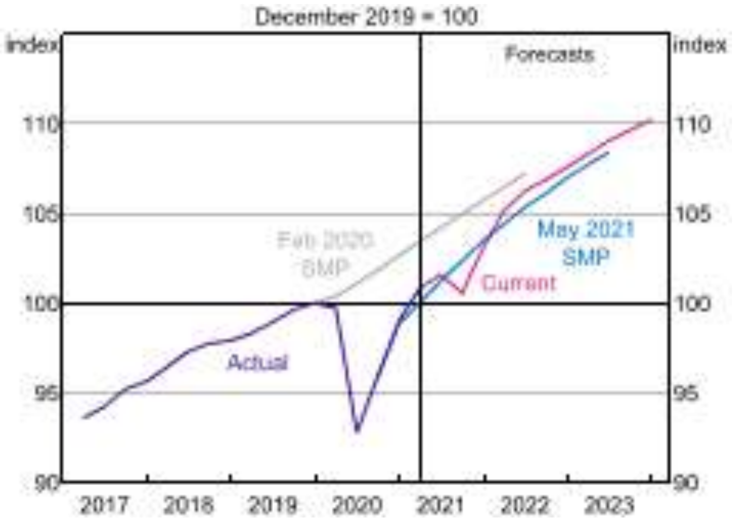
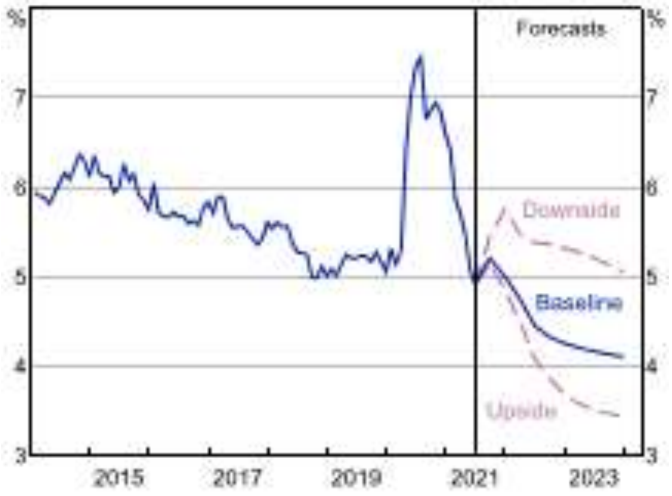
The RBA has raised its growth forecasts and lowered its forecast for unemployment next year but its inflation forecast is little changed

GDP

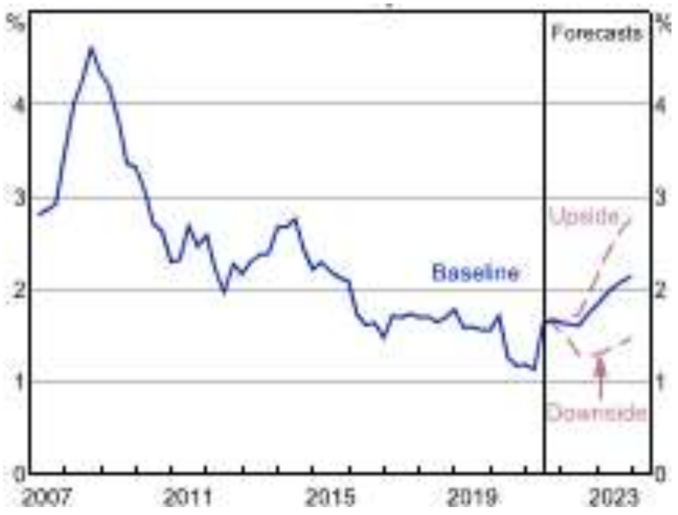


Unemployment



Wages

'Underlying' inflation



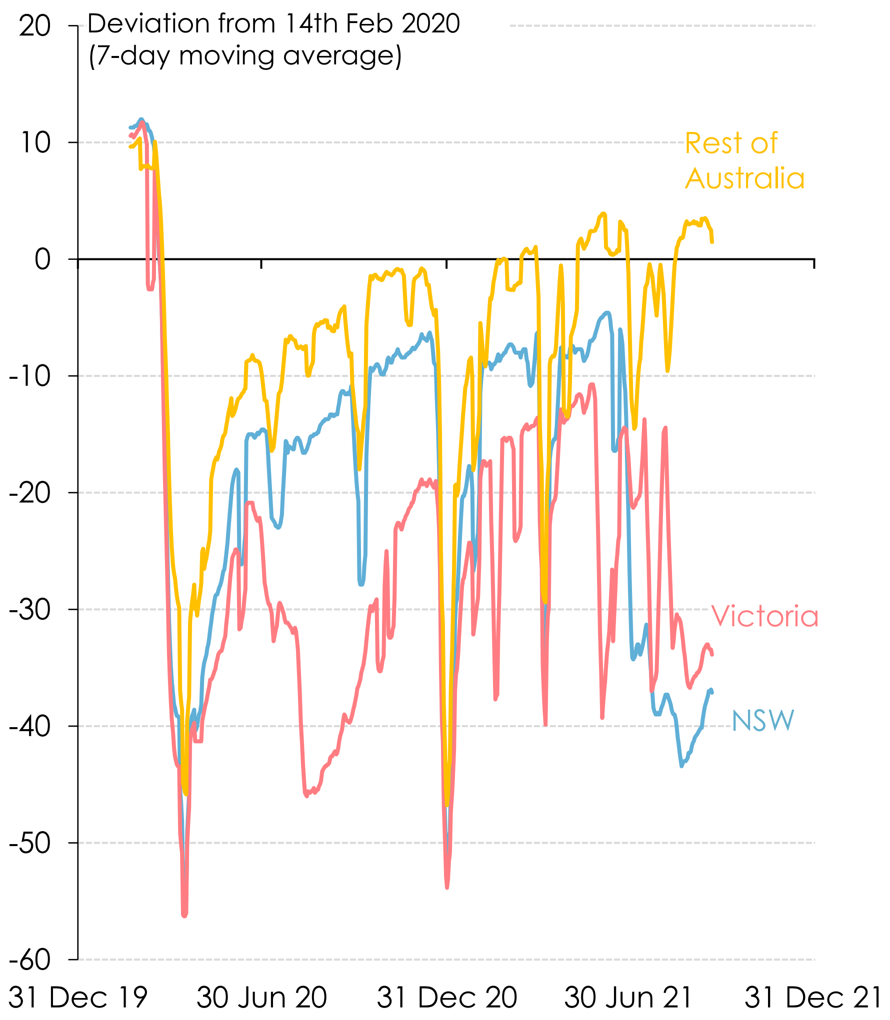
Source: Reserve Bank of Australia, *Statement on Monetary Policy*, 6th August 2021. The RBA's next set of forecasts will be published on Friday 5th November. Return to "What's New".

- 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

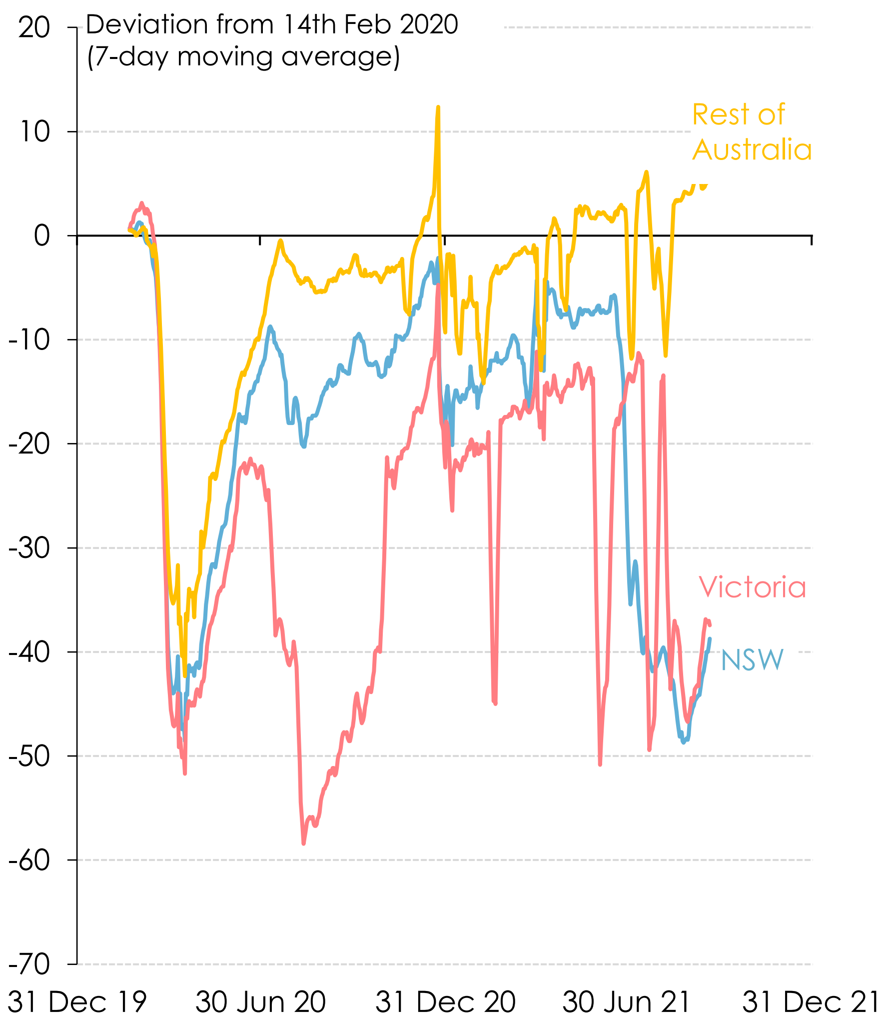
‘Mobility indicators’ illustrate the impact of lockdowns in NSW and Victoria on economic activity in those states – but also the recent first easings

Google mobility indicators

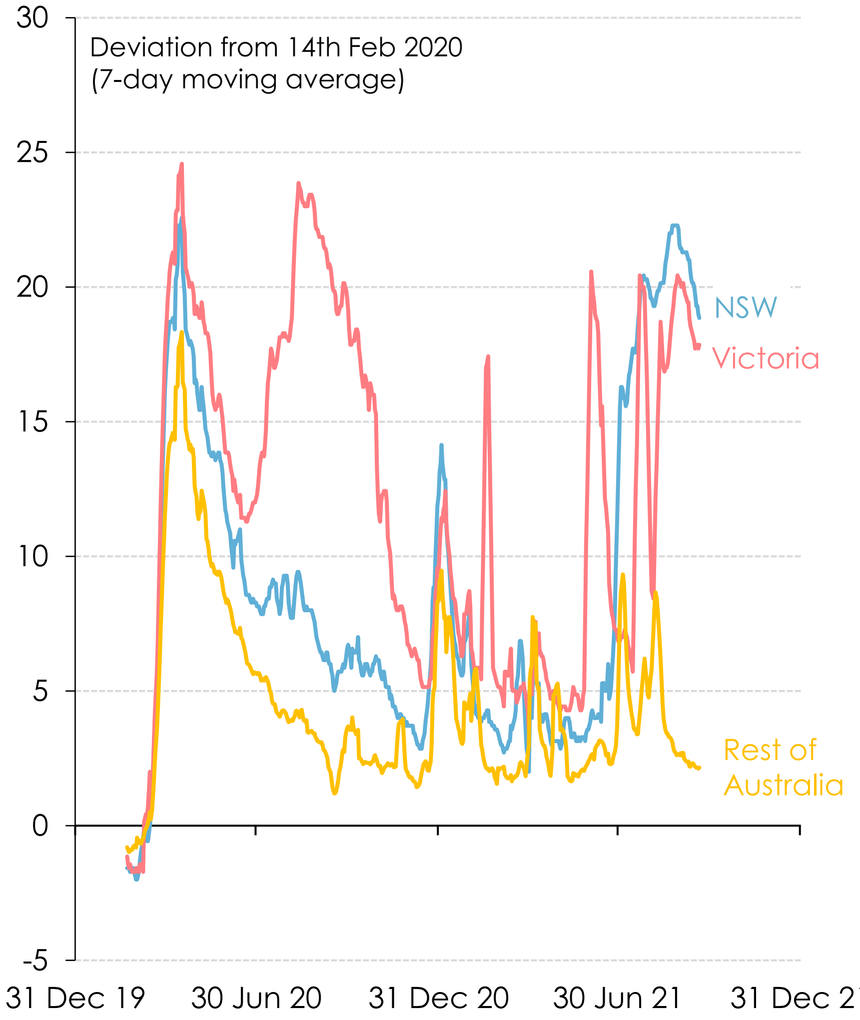
Workplaces



Retail and recreation



Residences



Note: data up to 20th September. *Sources:* Google Community Mobility Reports; Corinna. Return to "What's New".

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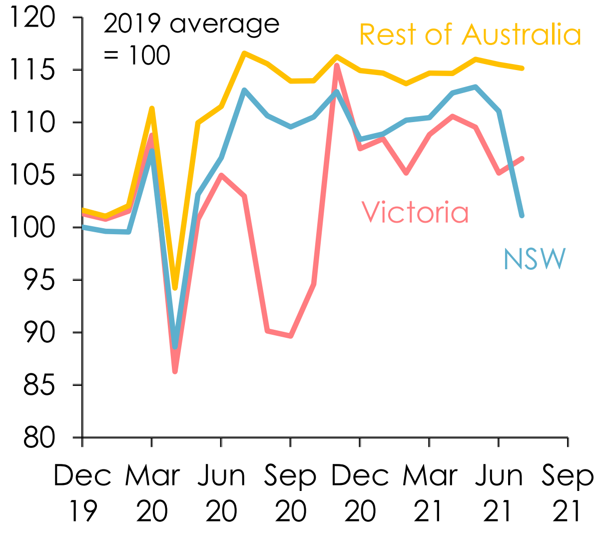
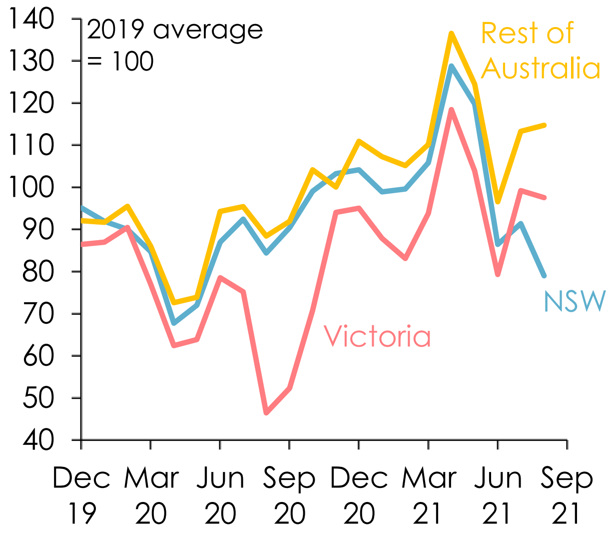
The extended lockdowns in Sydney, Melbourne and Canberra are increasing the risk of a second recession in two years

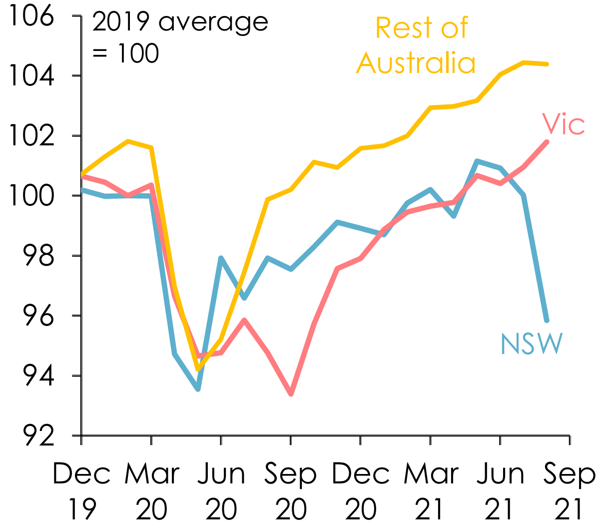
Retail sales



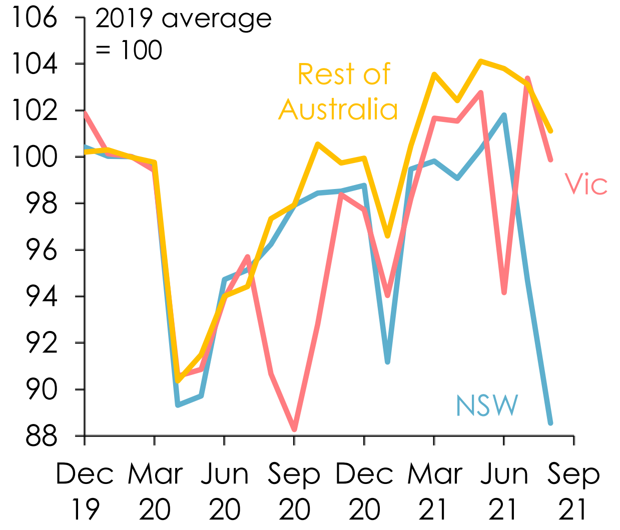
Motor vehicle sales



Employment



Hours worked



- **A widely-quoted estimate is that the 'Greater Sydney' lockdown has a 'cost' (economic activity foregone') of about $1bn a week**
  - if the 'Greater Sydney' lockdown lasts until 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 and in the ACT
- **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 at least 2% in the September quarter (see slide 91)
  - 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 108)

Sources: ABS, Retail Trade, Australia and Labour Force, Australia; FCAI, VFACTS. Corinna.
Return to "What's New".

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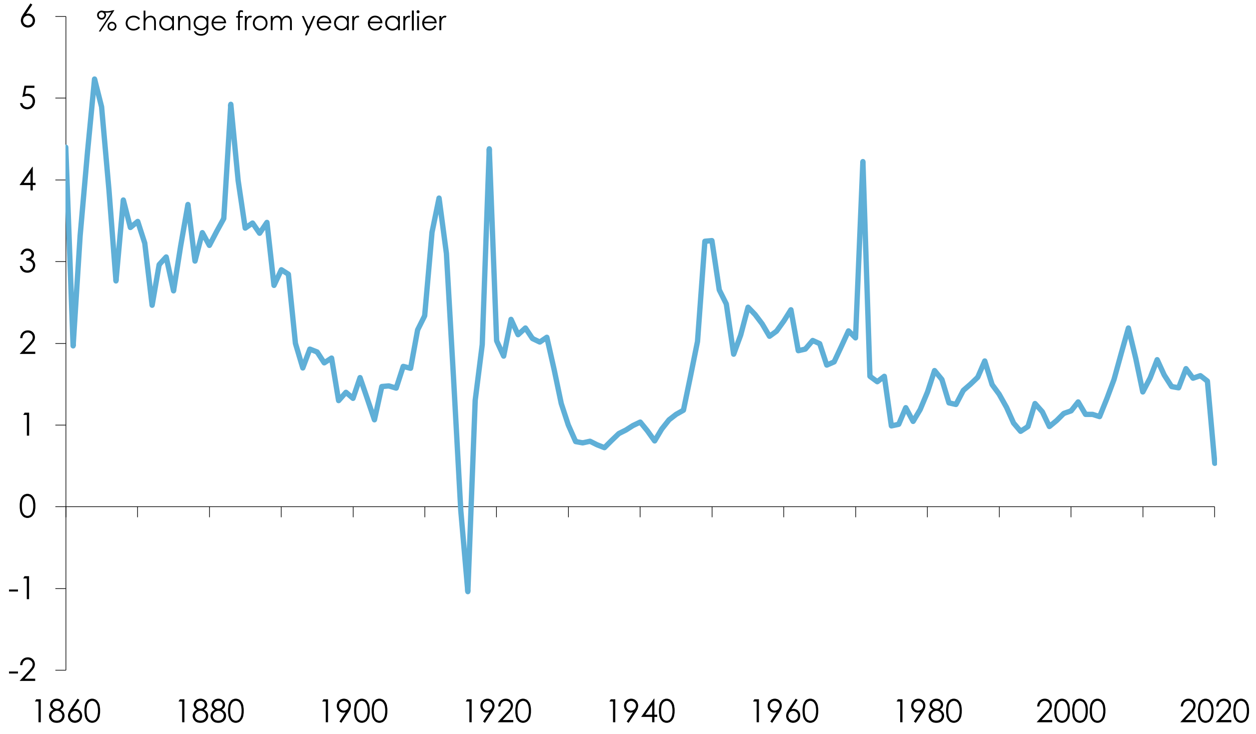
Australia's border measures have been stricter than almost any other country (and certainly any democracy)

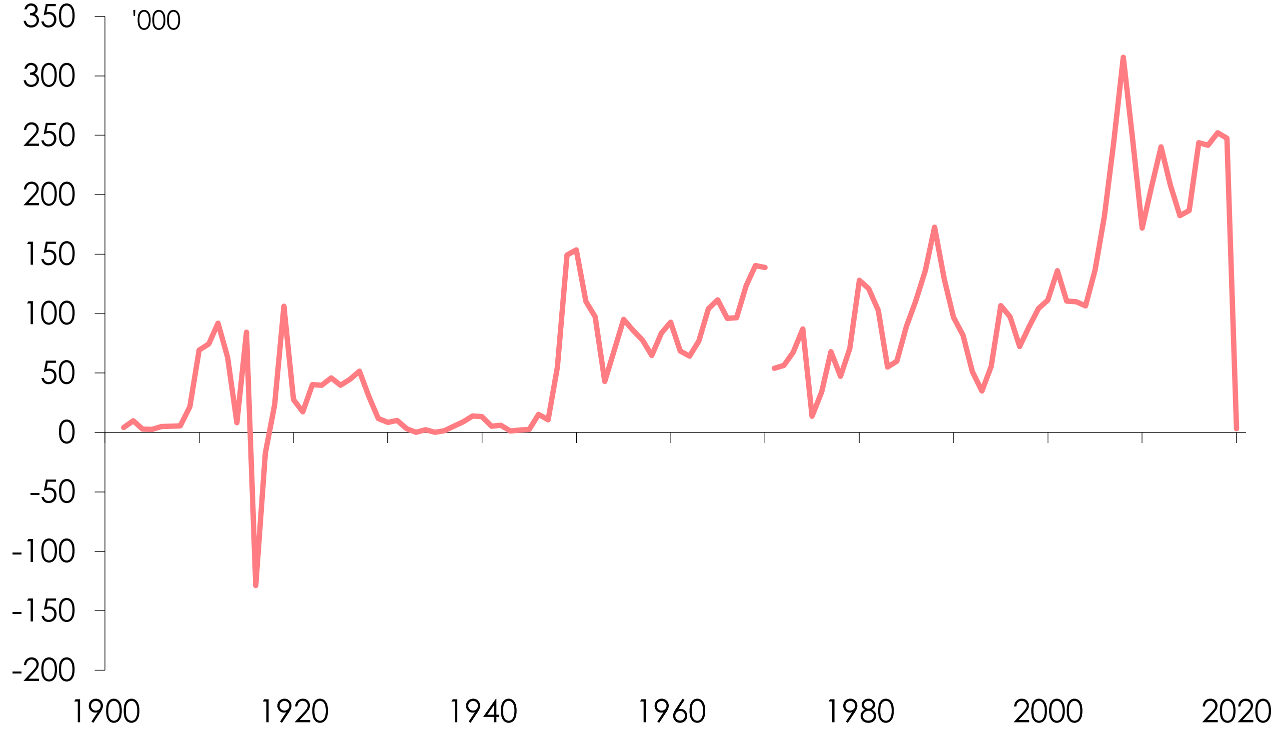
- **Article 12 of the United Nations International Covenant on Civil and Political Rights (which Australia signed in 1972, and which it ratified in 1980) says**
  - "everyone shall be free to leave any country, including his [sic] own" and "no-one shall be arbitrarily deprived of the right to enter his [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)**

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

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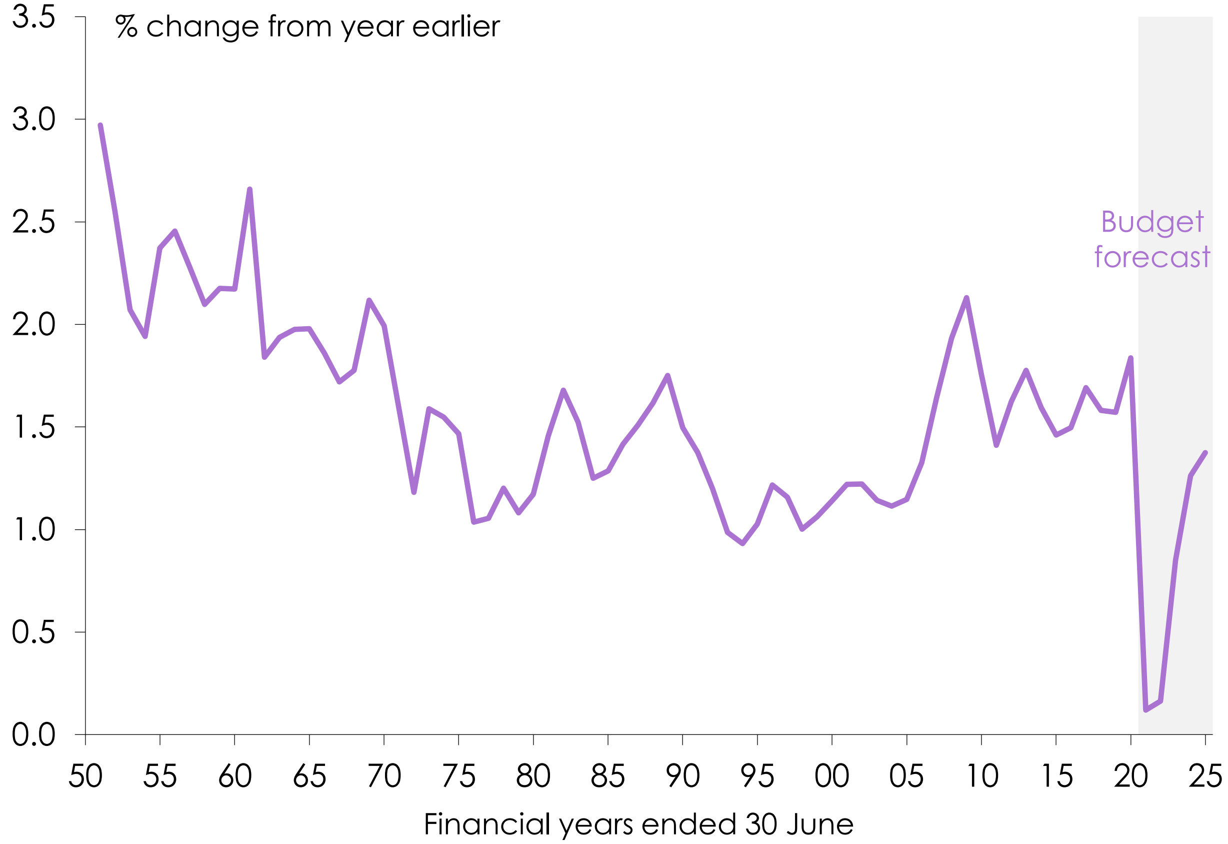
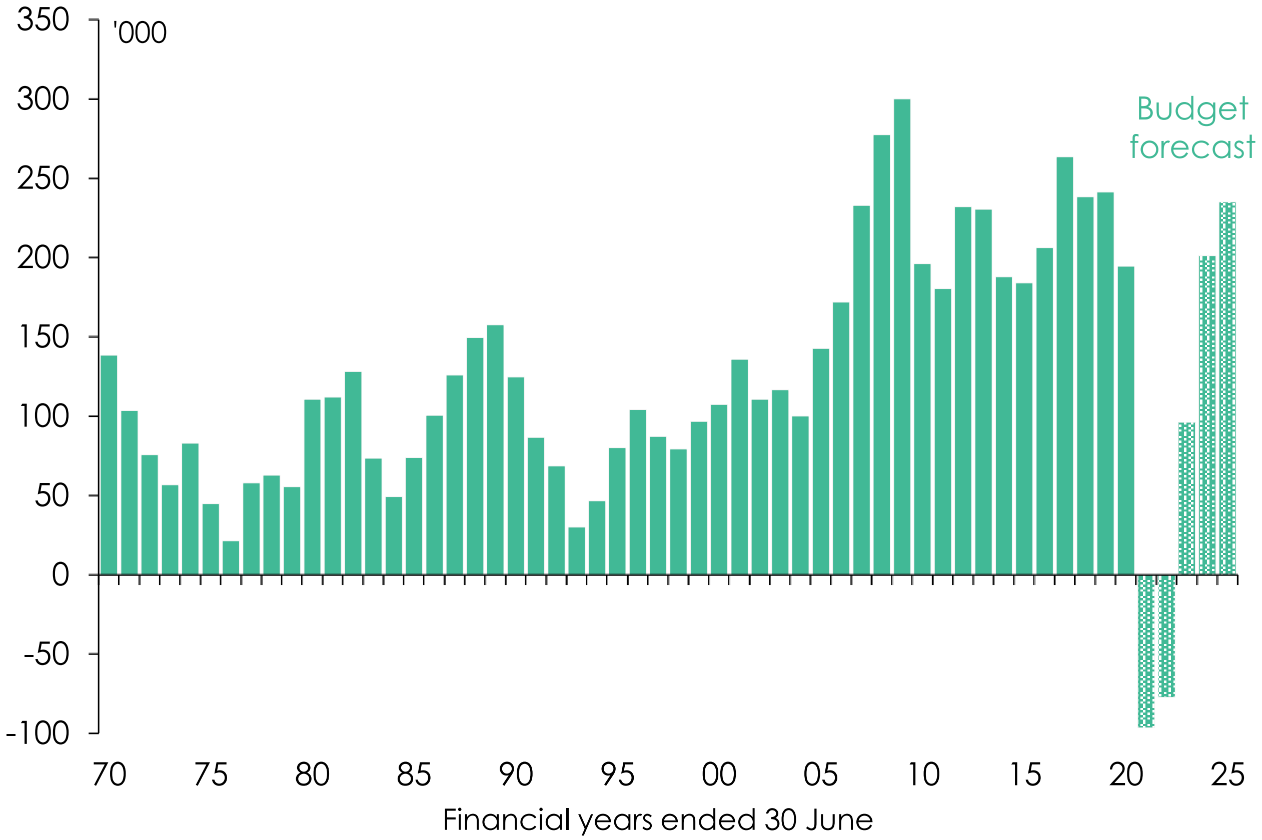
The Budget assumes that Australia's borders remain closed until after the next election – after which migration returns to pre-covid levels by 2024-25

Population growth



Net overseas migration



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

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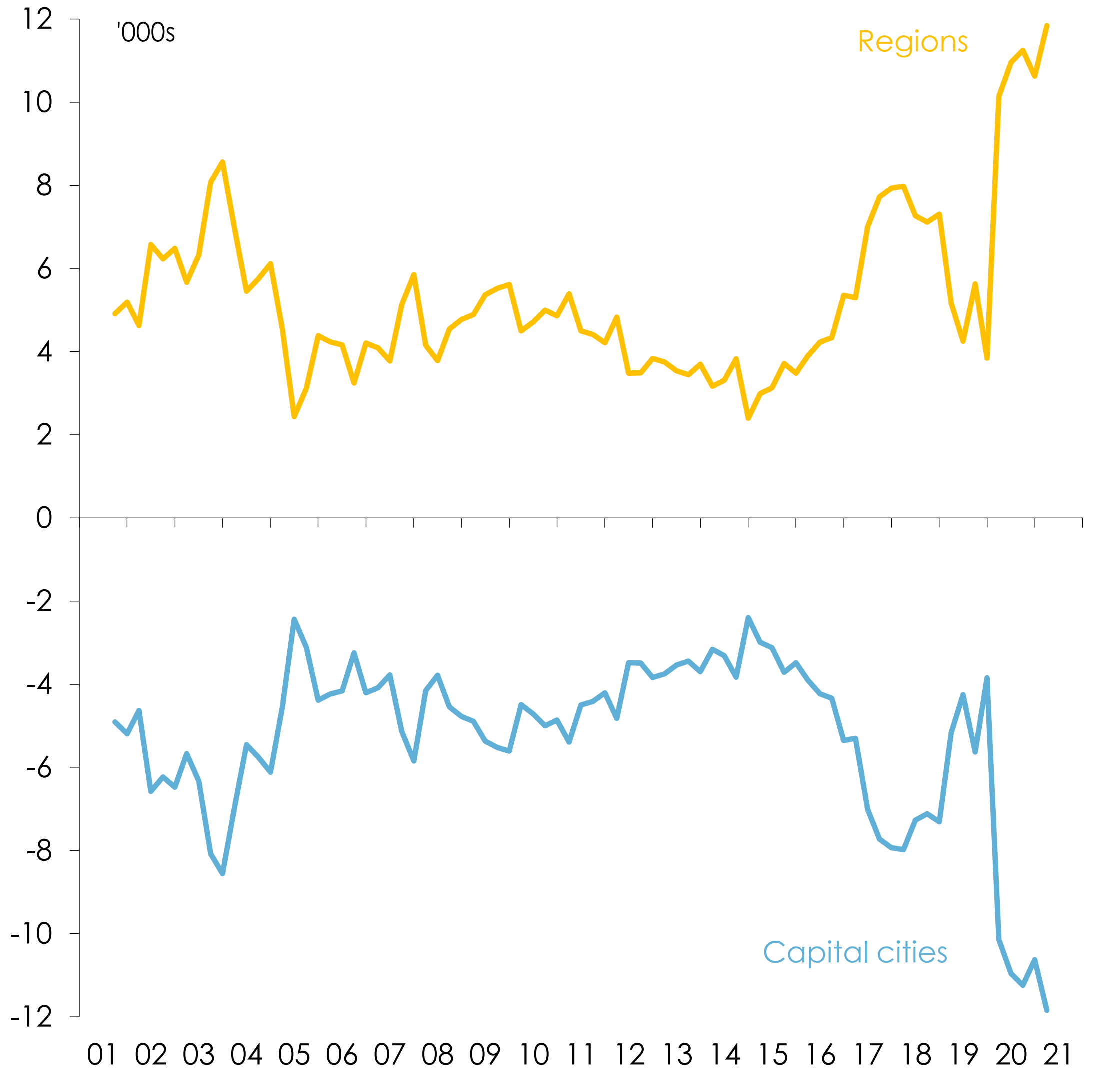
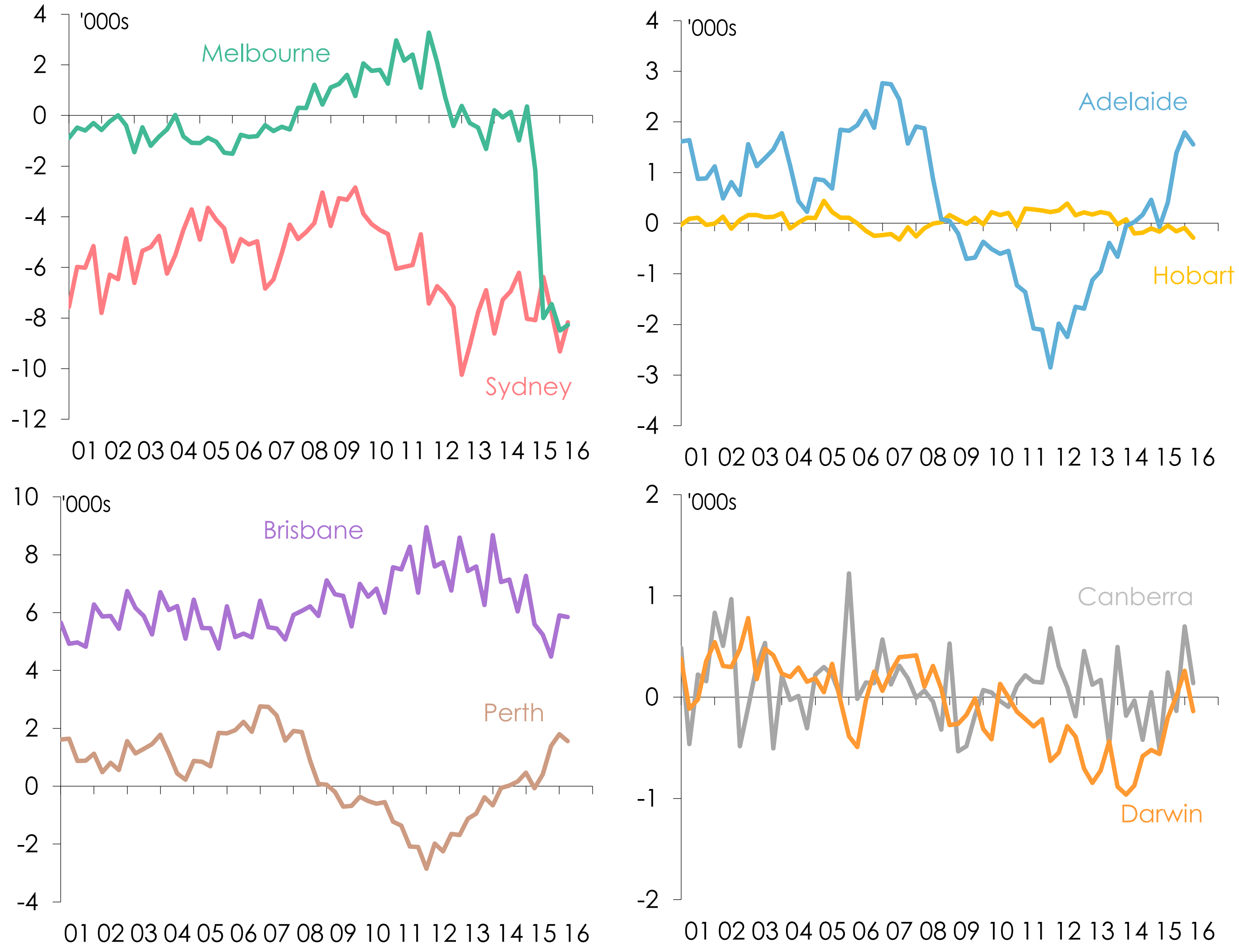
Another important demographic change wrought by Covid-19 has been the shift of people out of capitals (especially Melbourne) to regions

Internal migration flows



Net internal migration to or from Australia's capital cities



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

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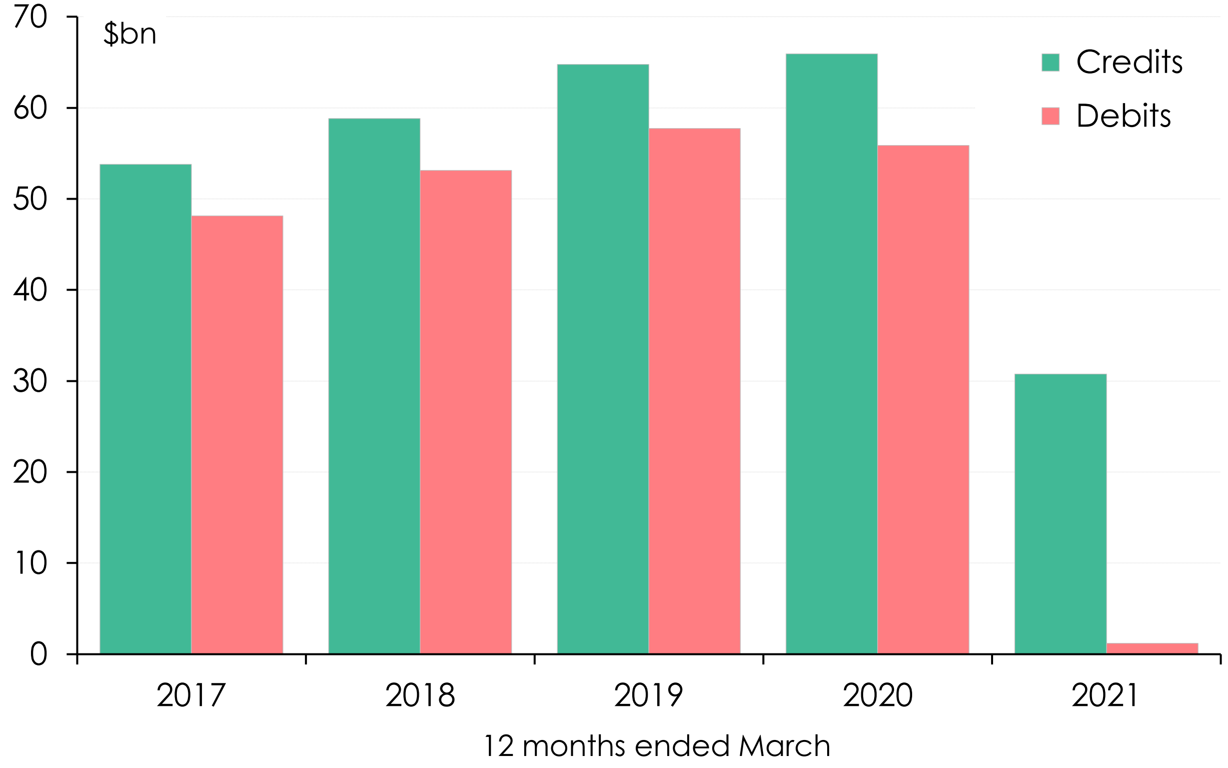
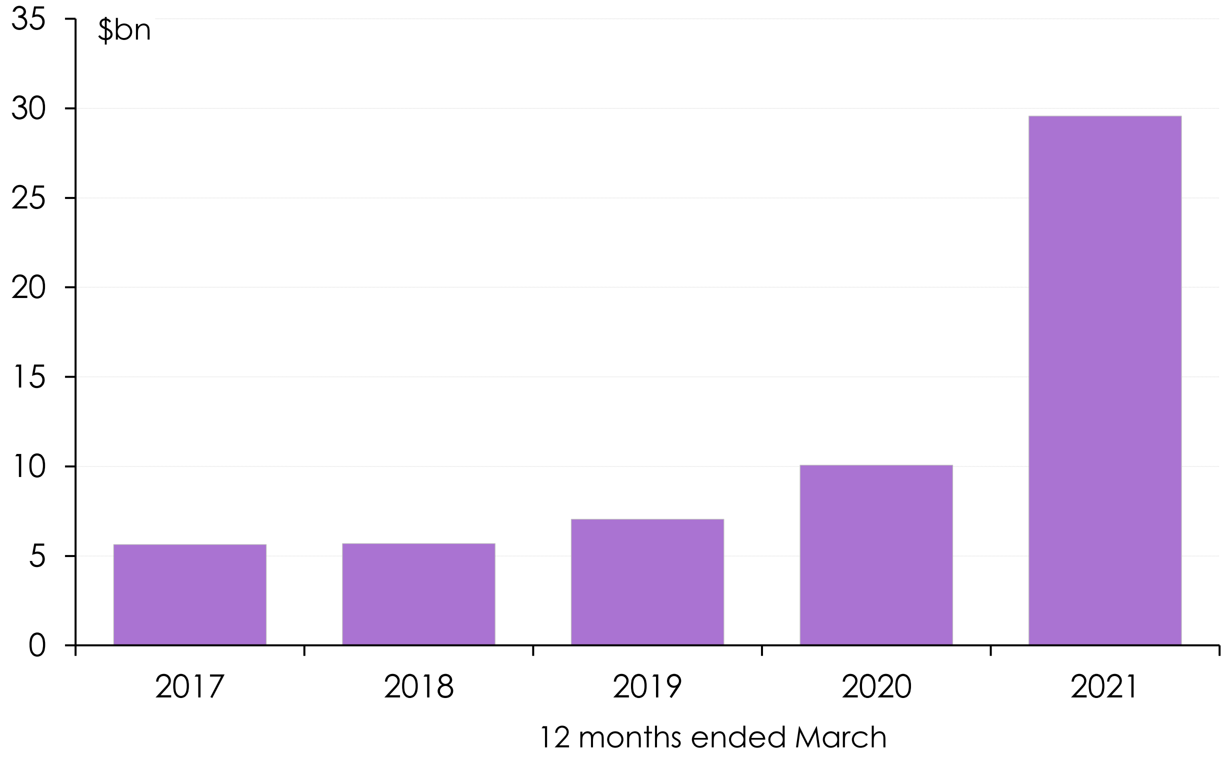
The *taboo* on Australians leaving the country more than offsets the loss of spending by foreign tourists and students

Travel credits and debits



❑ **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**

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

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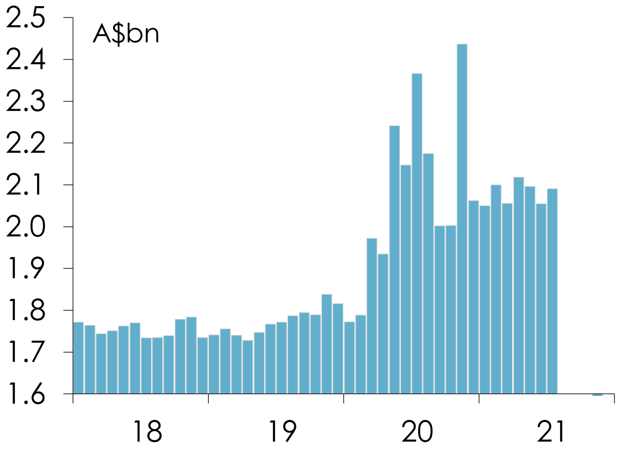
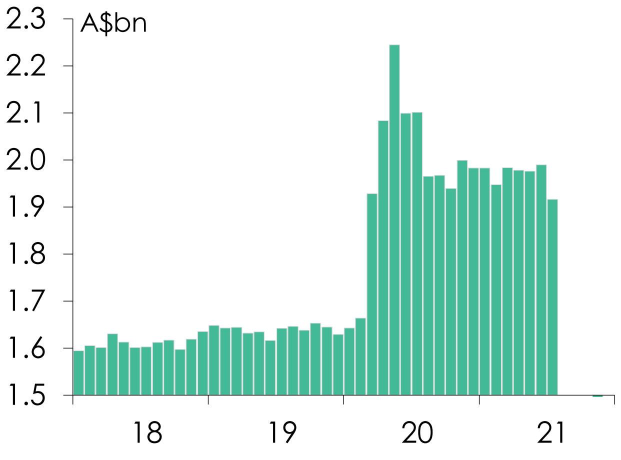
The >$50bn per annum that Australians would have spent overseas if they'd been allowed to has instead been spent at home

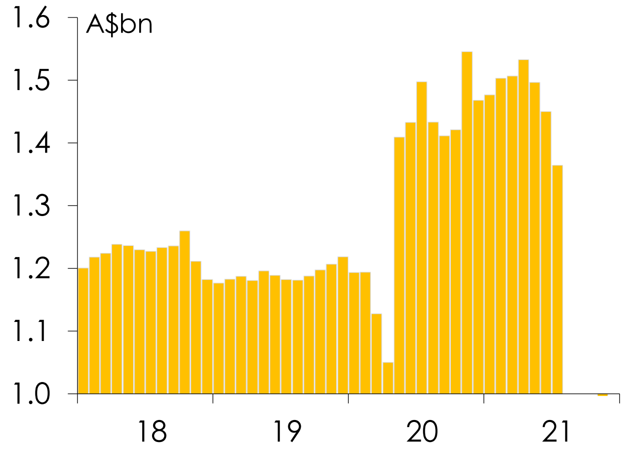
Electronic & electrical goods



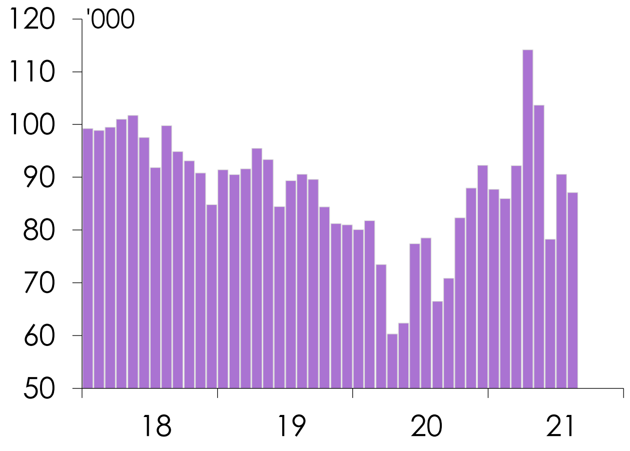
Hardware, building & garden supplies



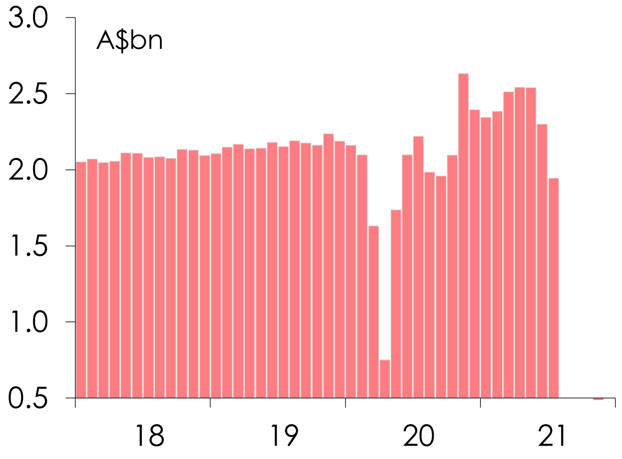
Floor coverings, furniture, housewares etc



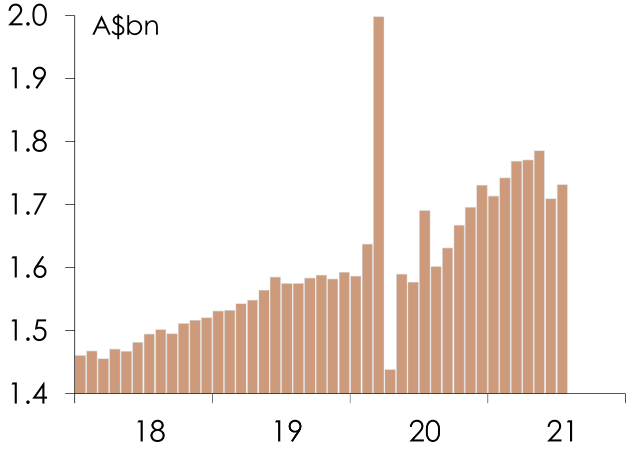
New motor vehicles



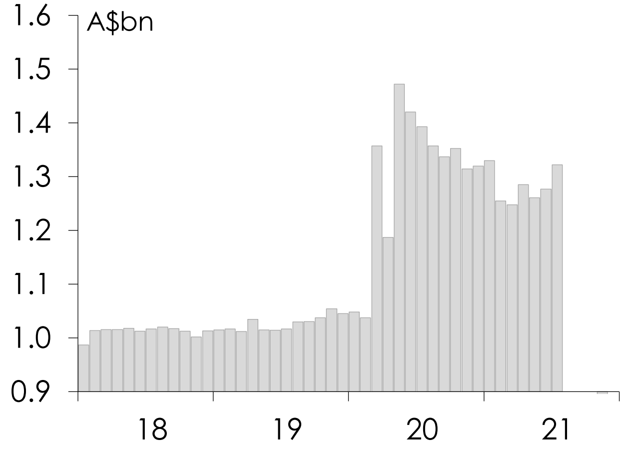
Clothing, footwear & personal accessories



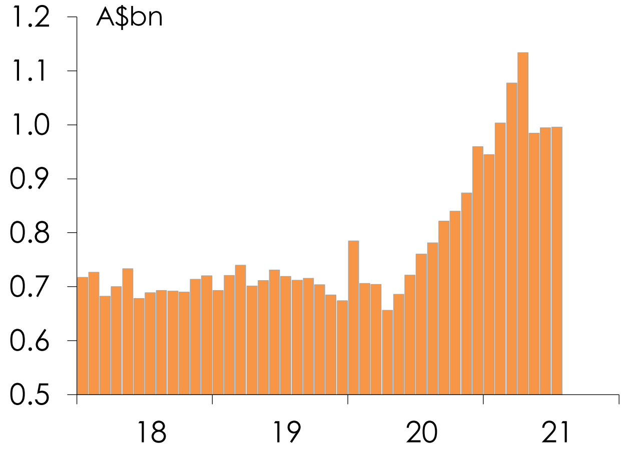
Pharmaceuticals, cosmetics & toiletries



Alcoholic beverages



Renovations



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

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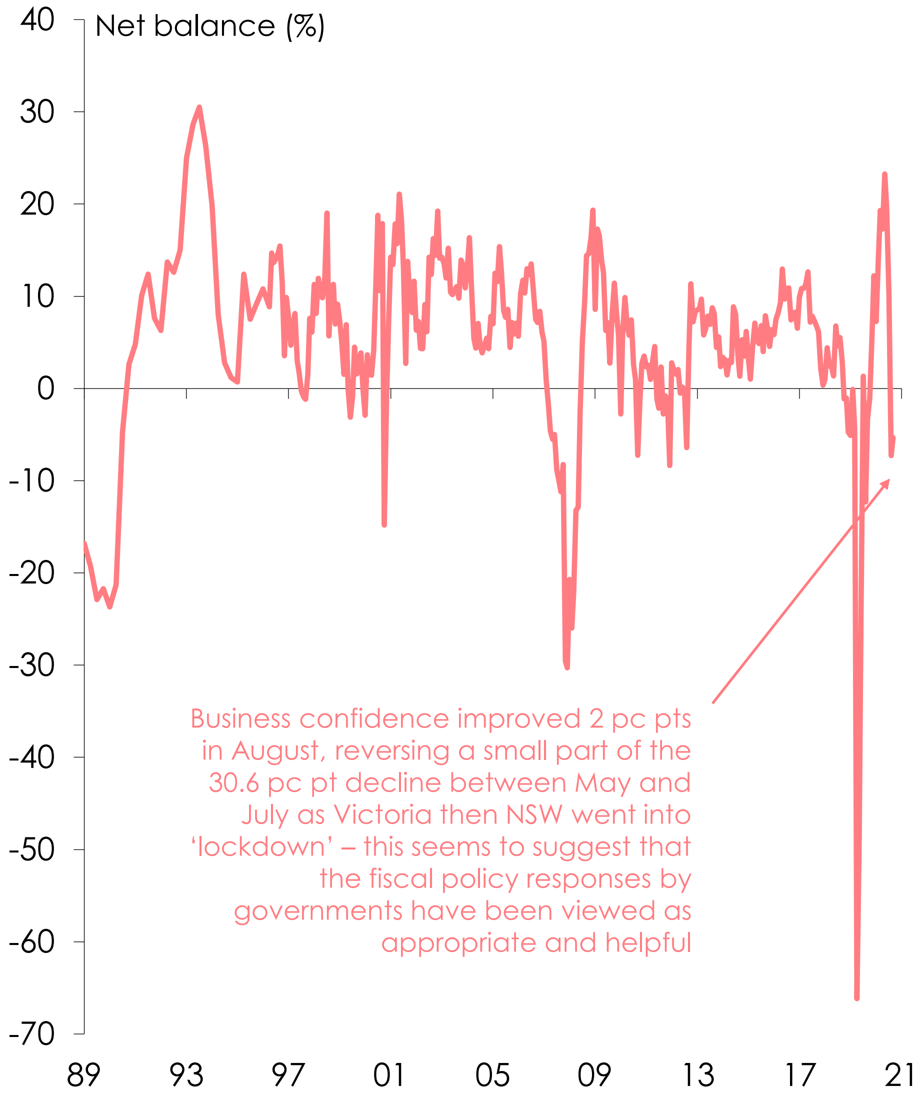
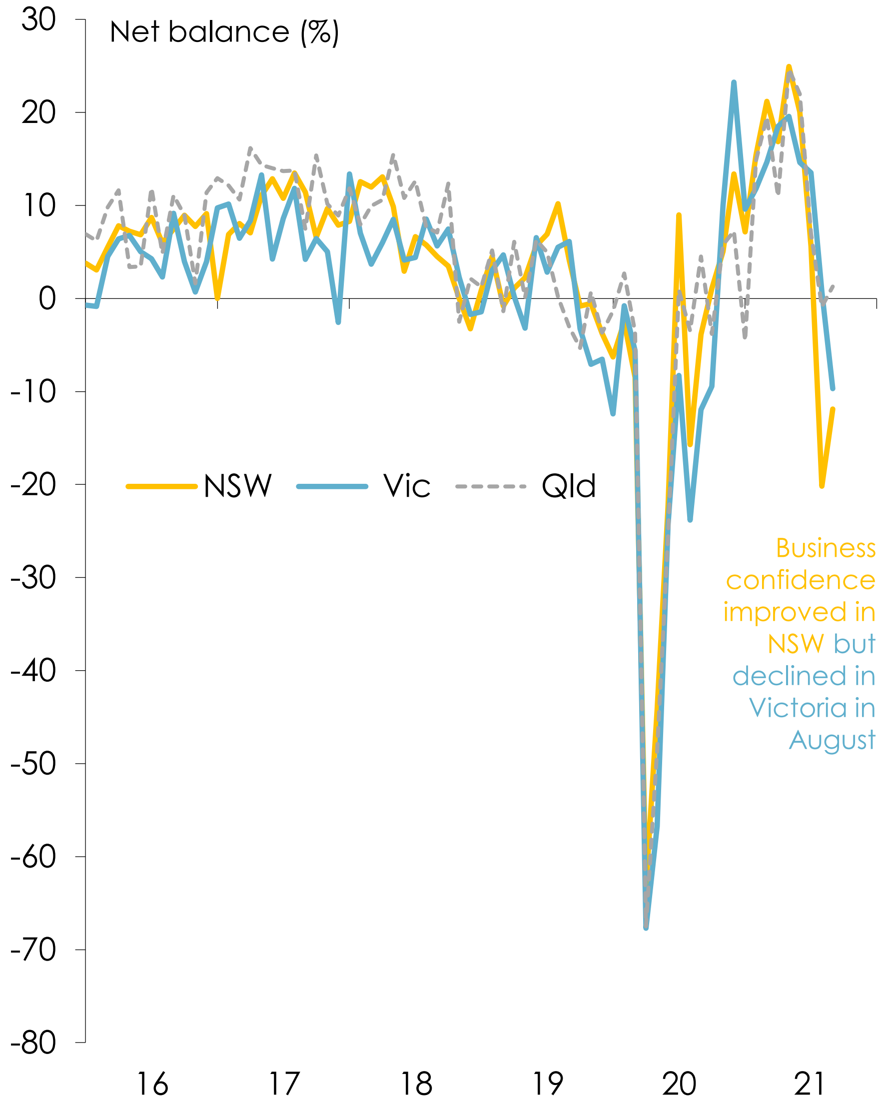
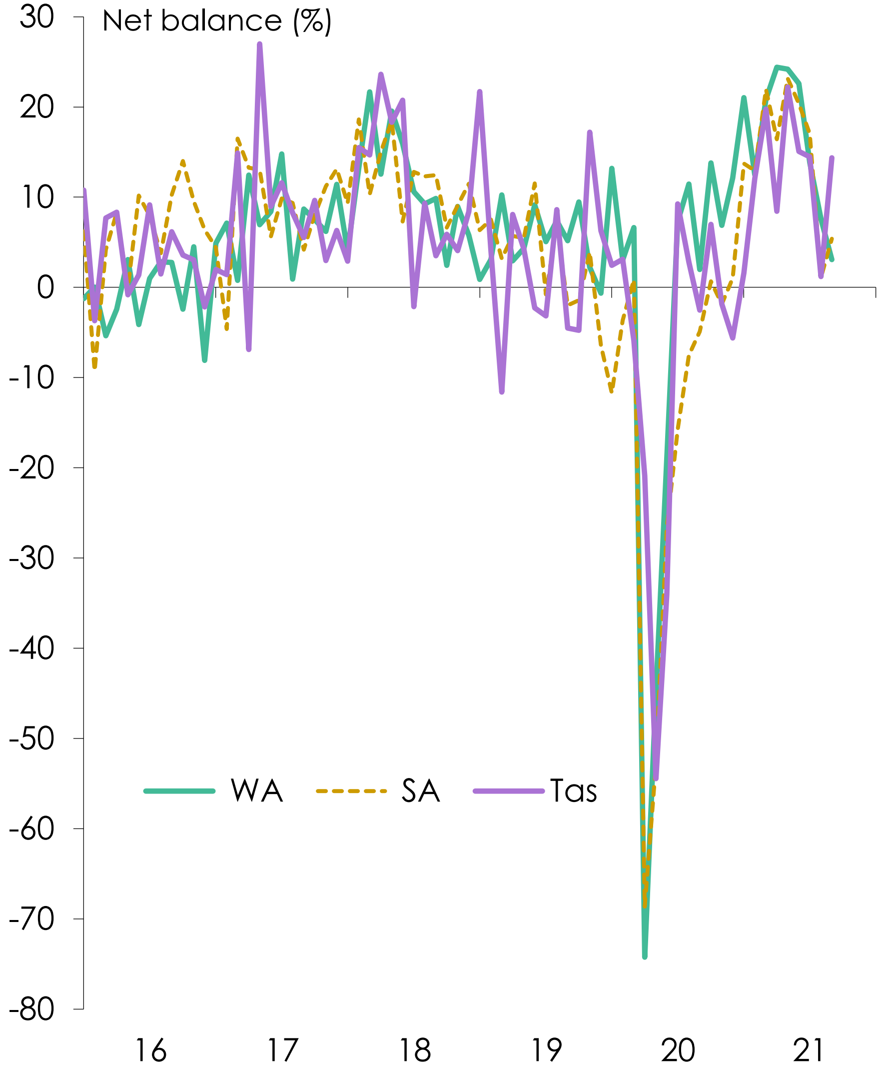
Business confidence recovered slightly in August which probably means that government policy responses have been viewed as effective

Business confidence



Business confidence, states and territories





Sources: National Australia Bank *Monthly Business Survey*, August 2021; September survey results will be released on 12th October. Return to "What's New".

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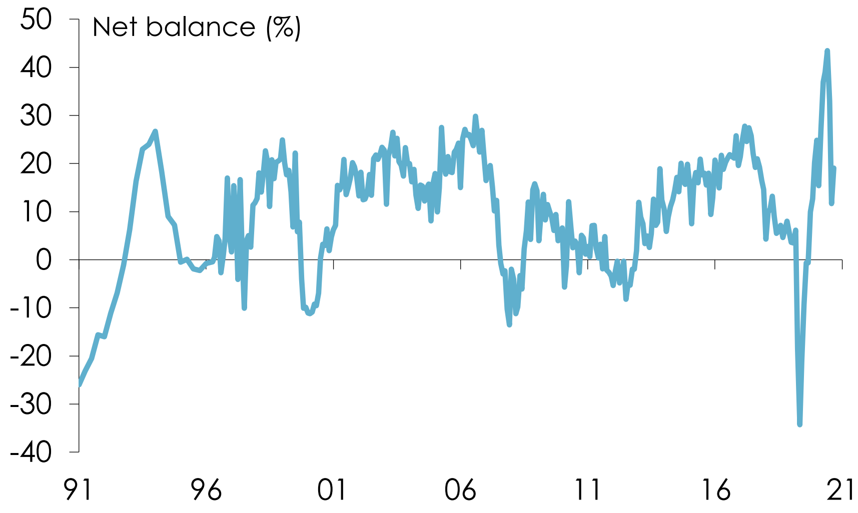
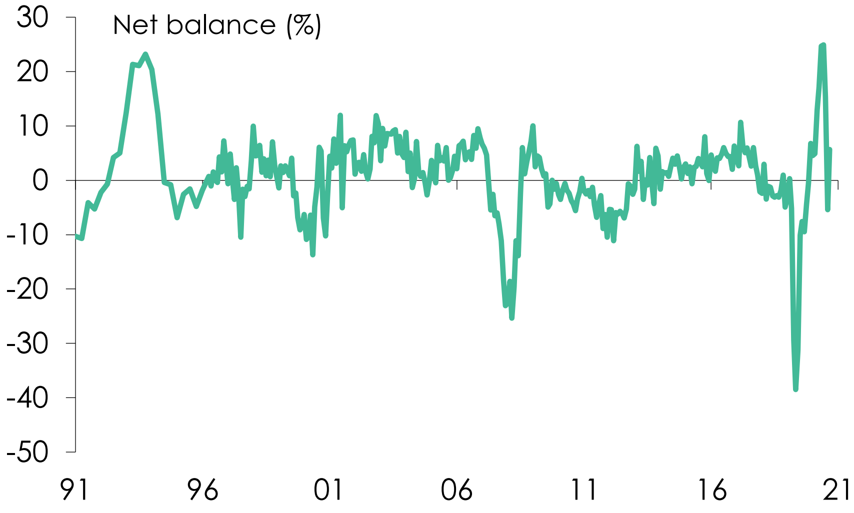
Almost all of the components of 'business conditions' improved in August, except for hiring intentions: forward orders rebounded strongly

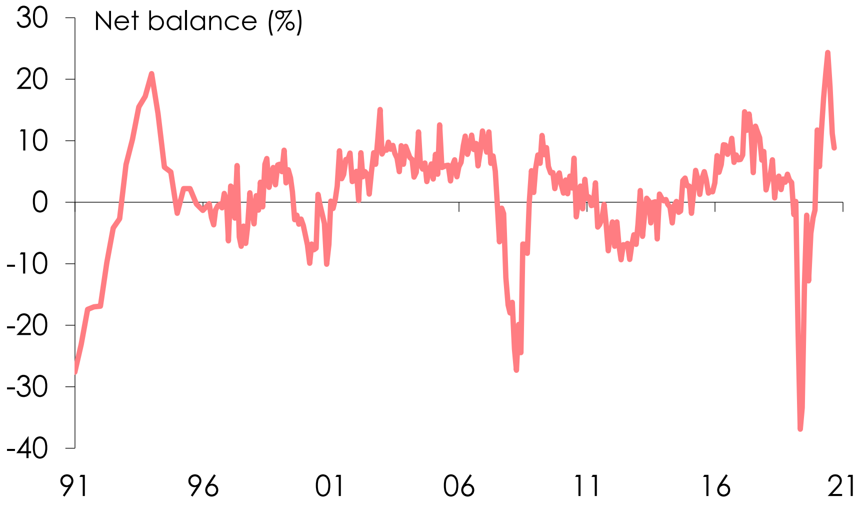
Trading conditions



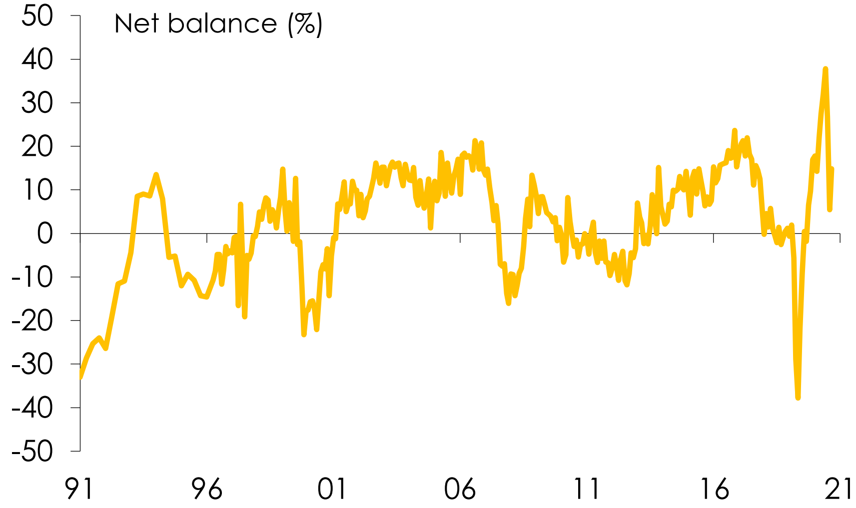
Forward orders



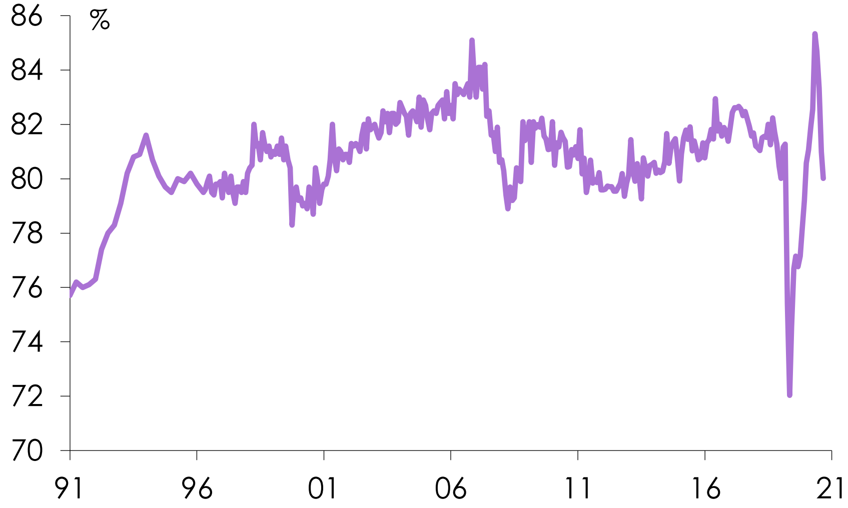
Employee hiring intentions



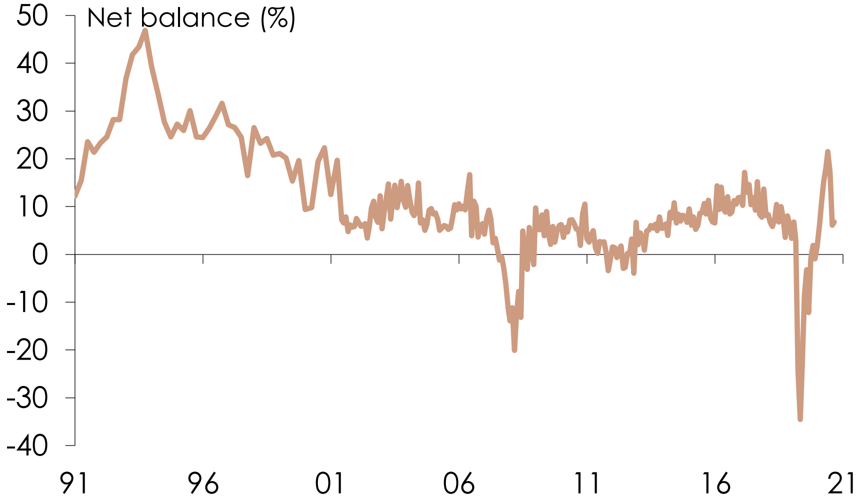
Profitability



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*, August 2021; September survey results will be released on 12th October. Return to "What's New".

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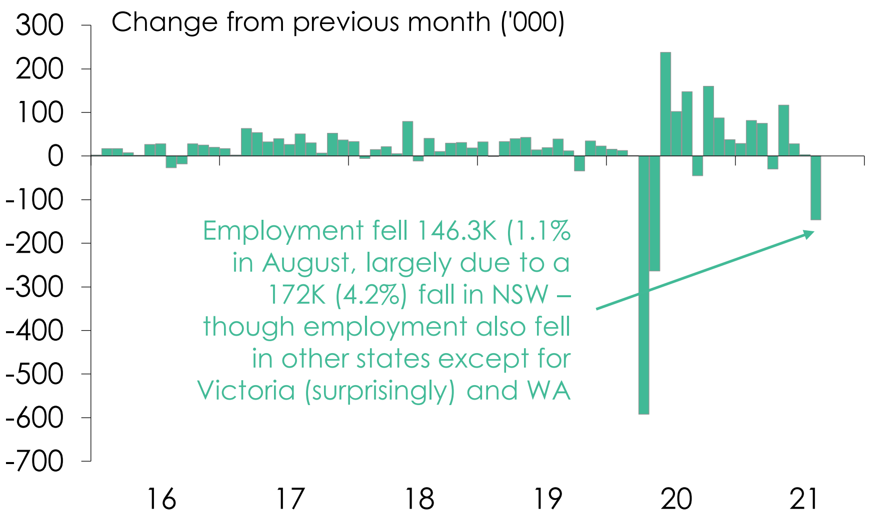
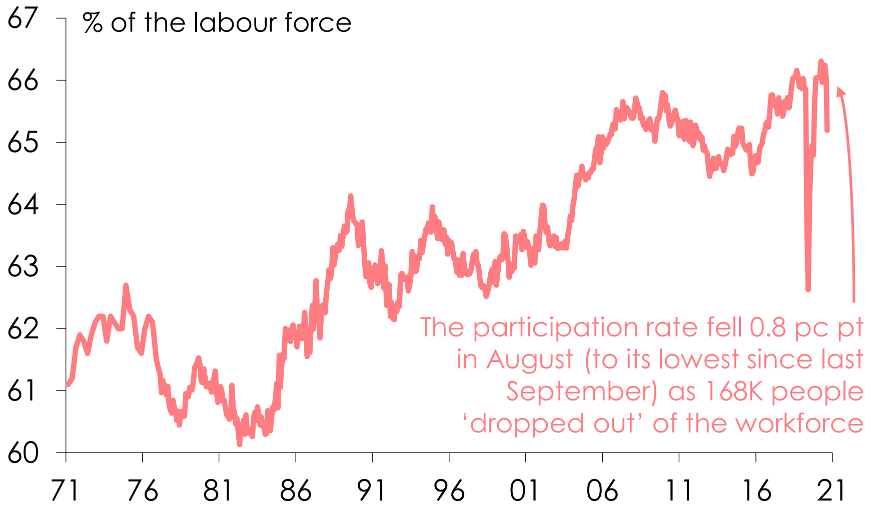
Employment fell sharply in August, particularly in NSW, but most of those who lost jobs also left the workforce, so the unemployment rate fell again

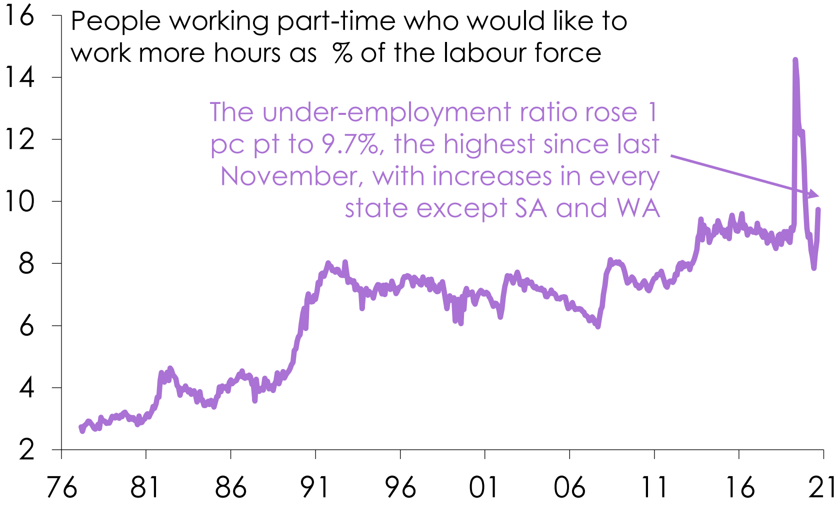
Employment



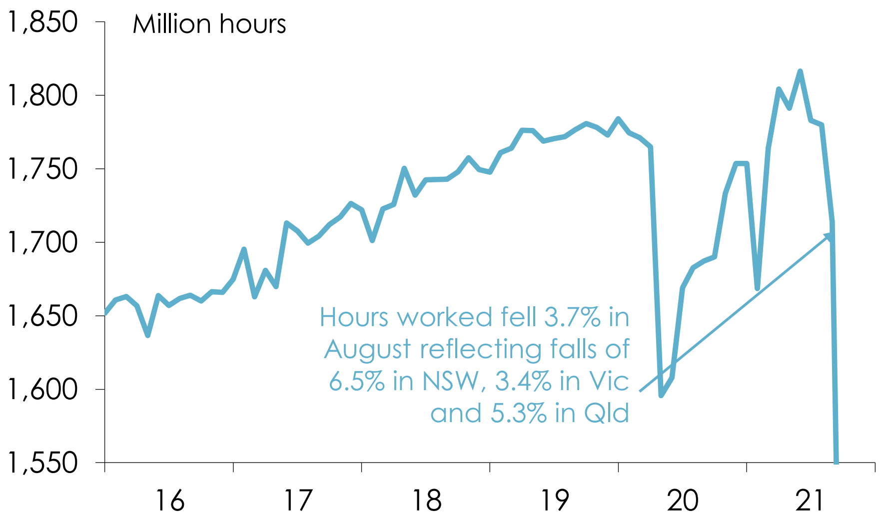
Labour force participation rate



Under-employment ratio

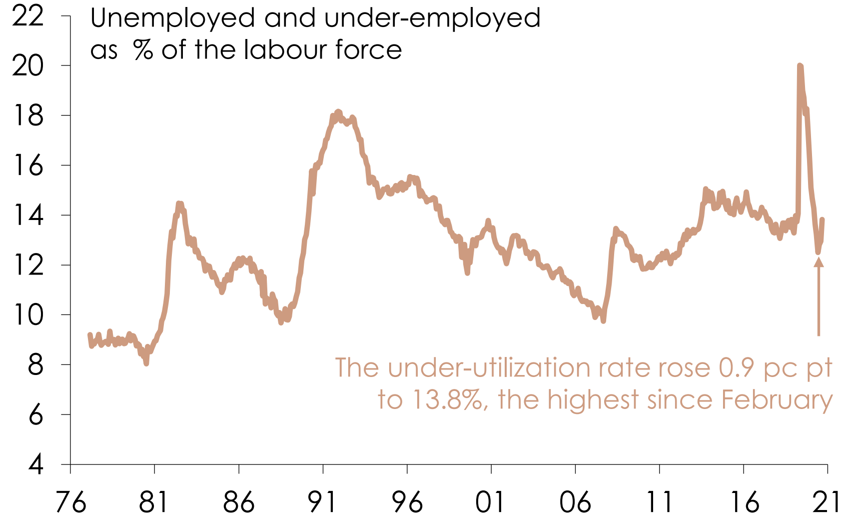


Total hours worked



Unemployment rate

'Under-utilization' rate



Source: ABS, *Labour Force, Australia*, August 2021. September data will be released on 14th October. Return to "What's New".

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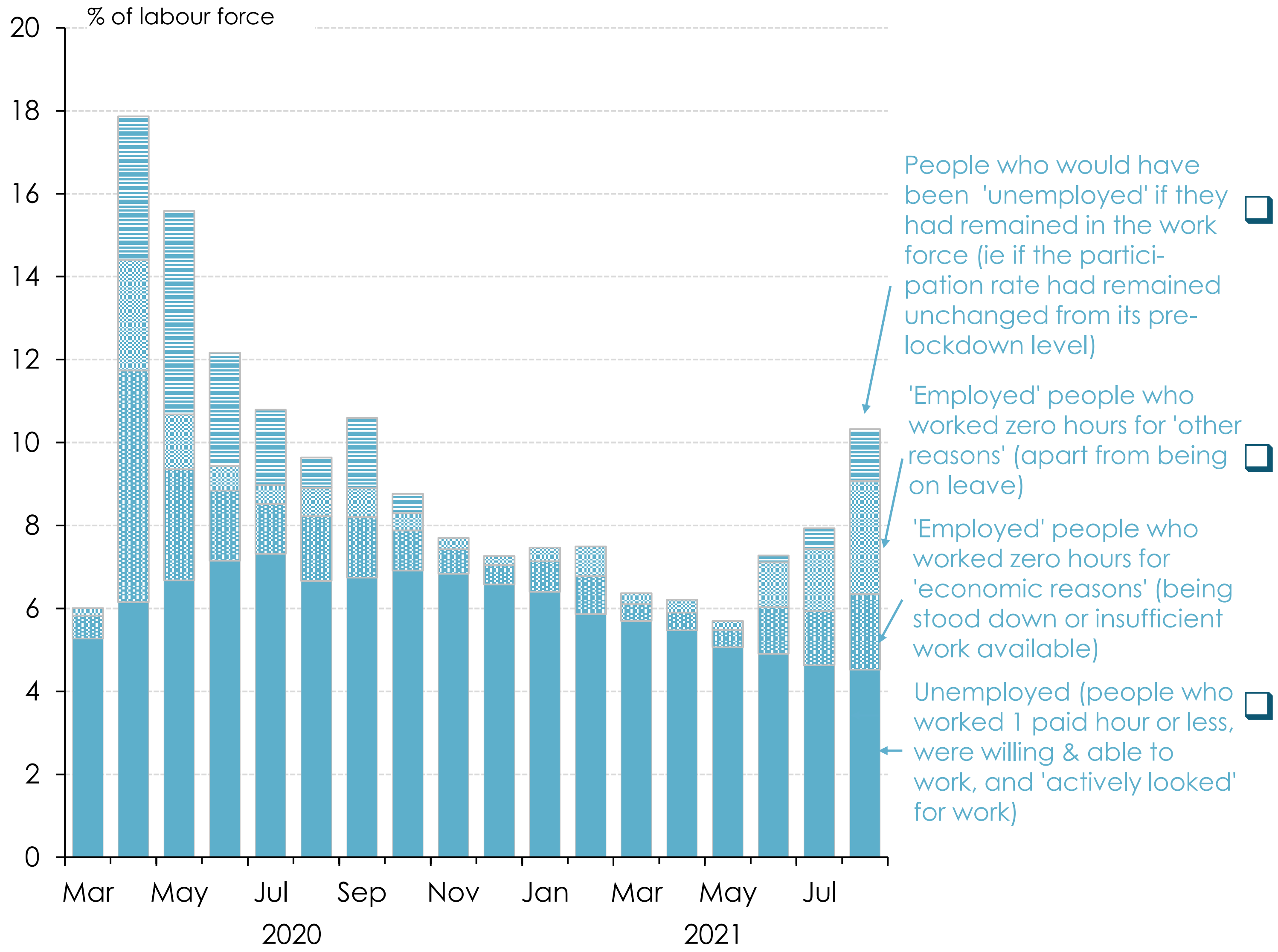
The 'effective' unemployment rate has risen from 5.7% in May to 10.3% in August, due to more 'working' zero hours or 'dropping out' of the workforce

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 68K in August (to 249K), following increases of 97K in June and 25K in July,
- There was also a 164K increase (to 371K) in the number of people working zero hours for 'other reasons' (apart from being on annual or other forms of leave) in August, after increases of 121K in June and 57K in July
- Finally, there were 169K people in NSW in August (up from 67K in July) plus 2.5K in the ACT who (as proxied by falls in the participation rate from pre-lockdown levels) have 'dropped out' of the workforce rather than being classified as 'unemployed'
- If all of these people are instead regarded as having been 'unemployed', then the unemployment rate would have risen to 10.3% in August, up from 5.3% in May, 7.3% in June and 7.9% in July
  - although that's still well down from a peak of 17.8% in April last year

Source: ABS, *Labour Force, Australia*, August 2021; Corinna. September data will be released on 14th October. Return to "What's New".

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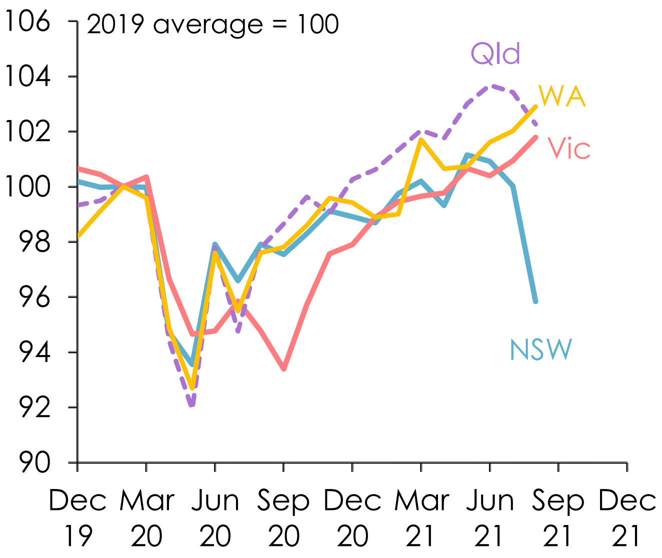
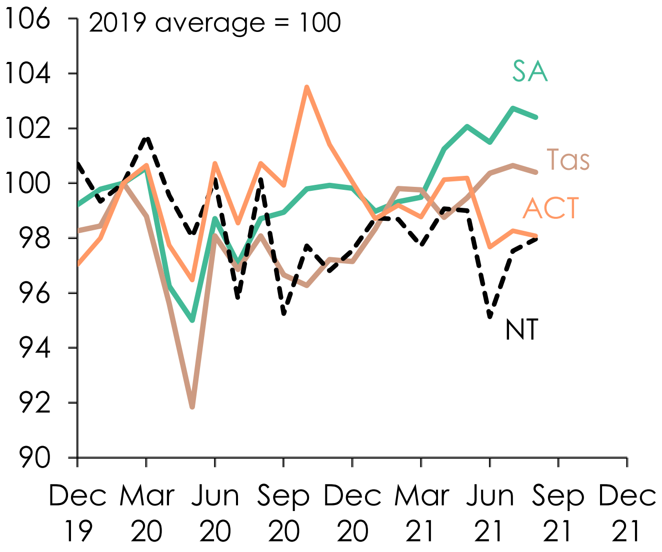
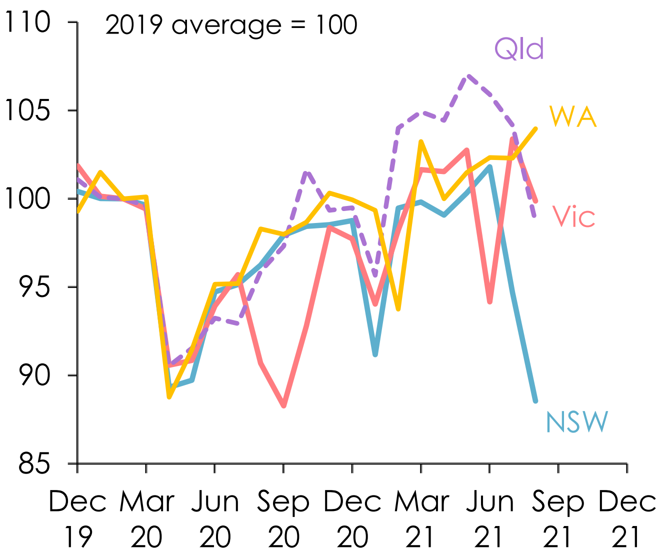
Lockdowns show up in falls in hours worked and participation rates – in Victoria in June, in NSW in July and August – rather than in employment

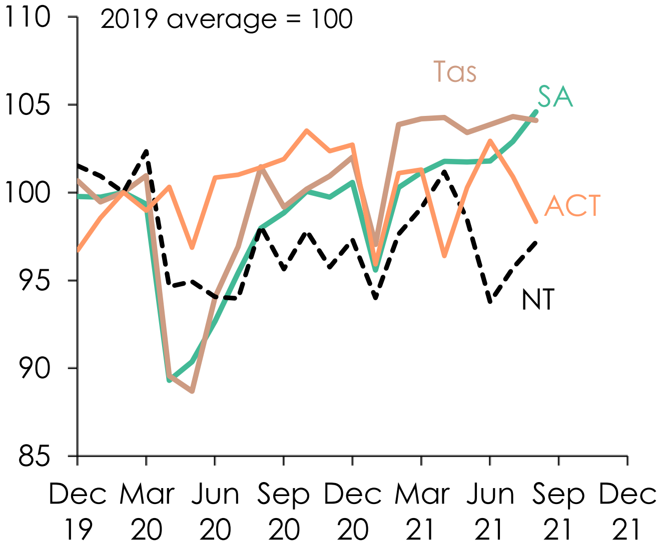
Employment



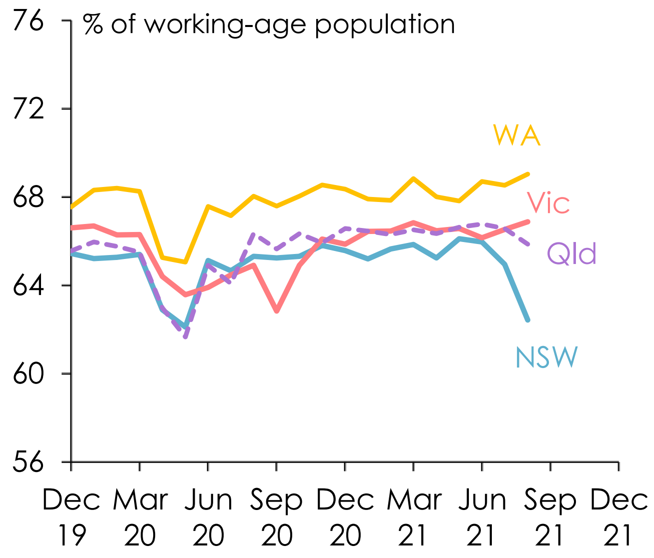


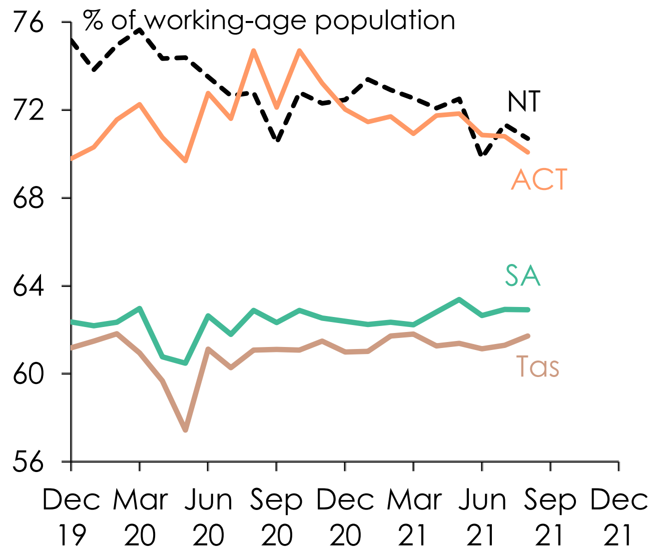
Hours worked



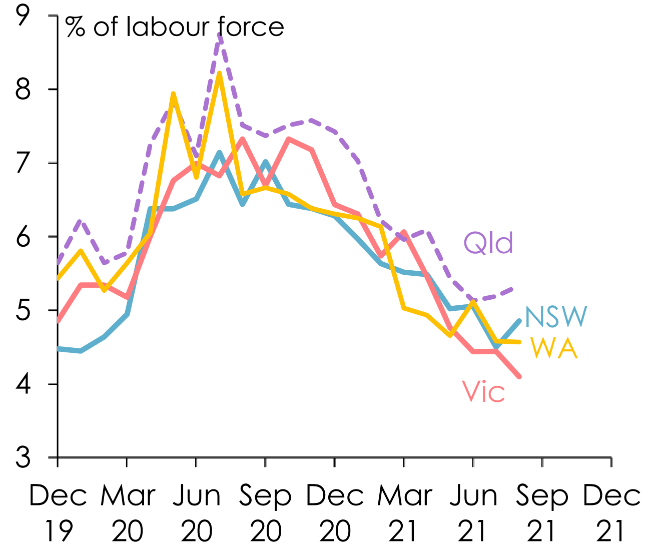


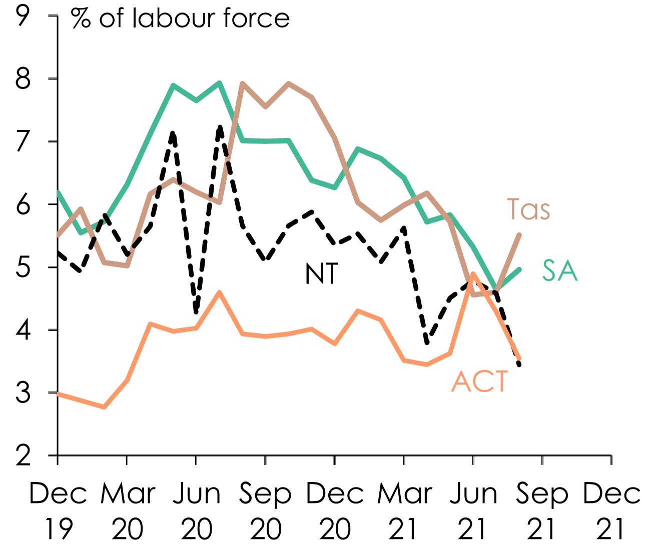
Participation rates





Unemployment rates





Source: ABS, *Labour Force, Australia*, August 2021; Corinna. September data will be released on 14th October. Return to "What's New".

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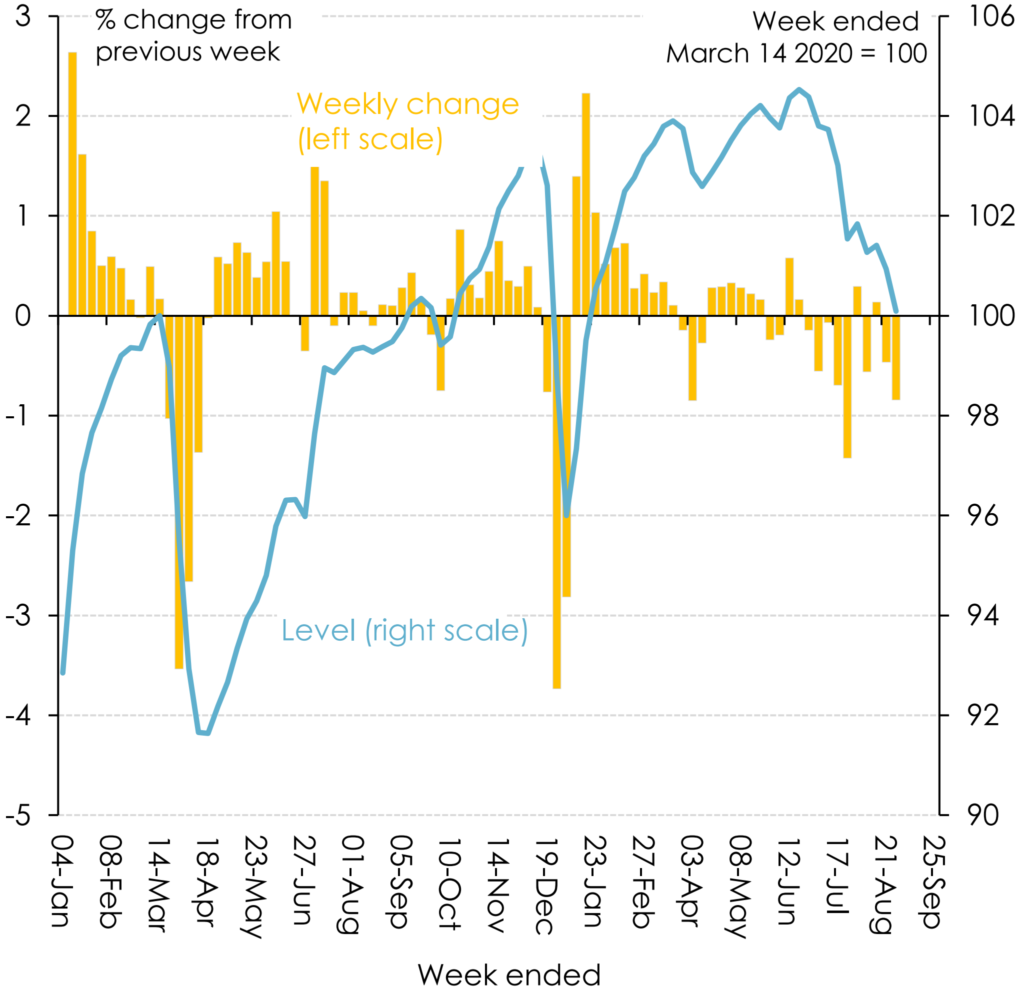
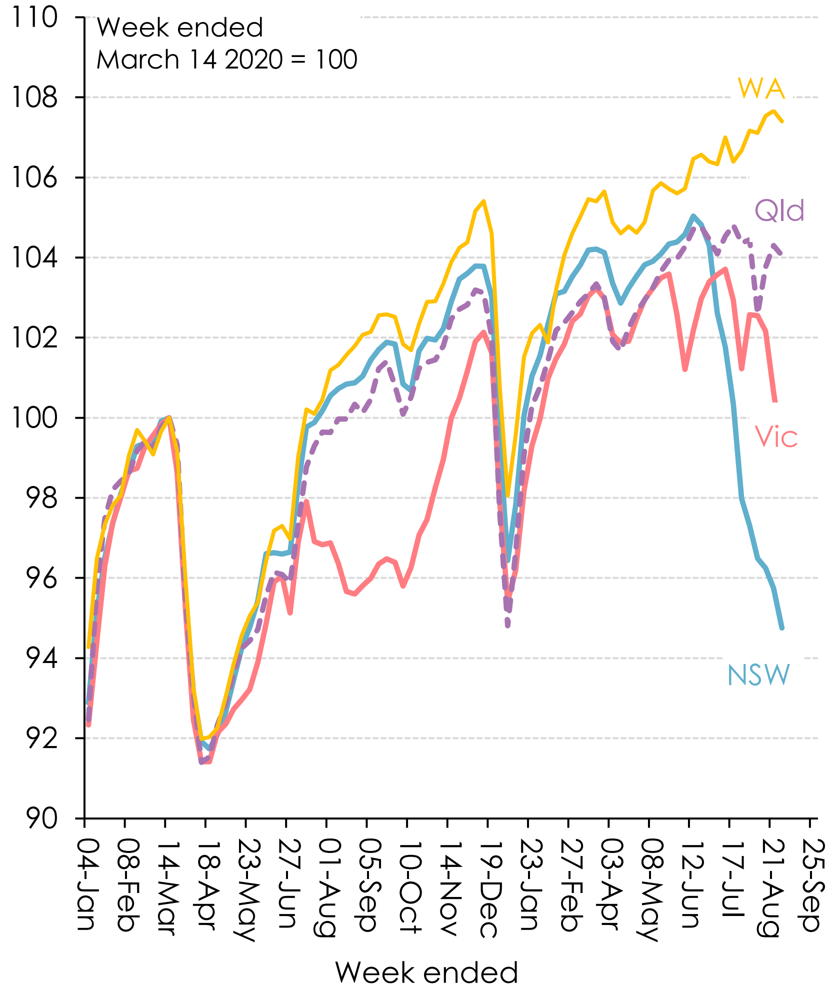
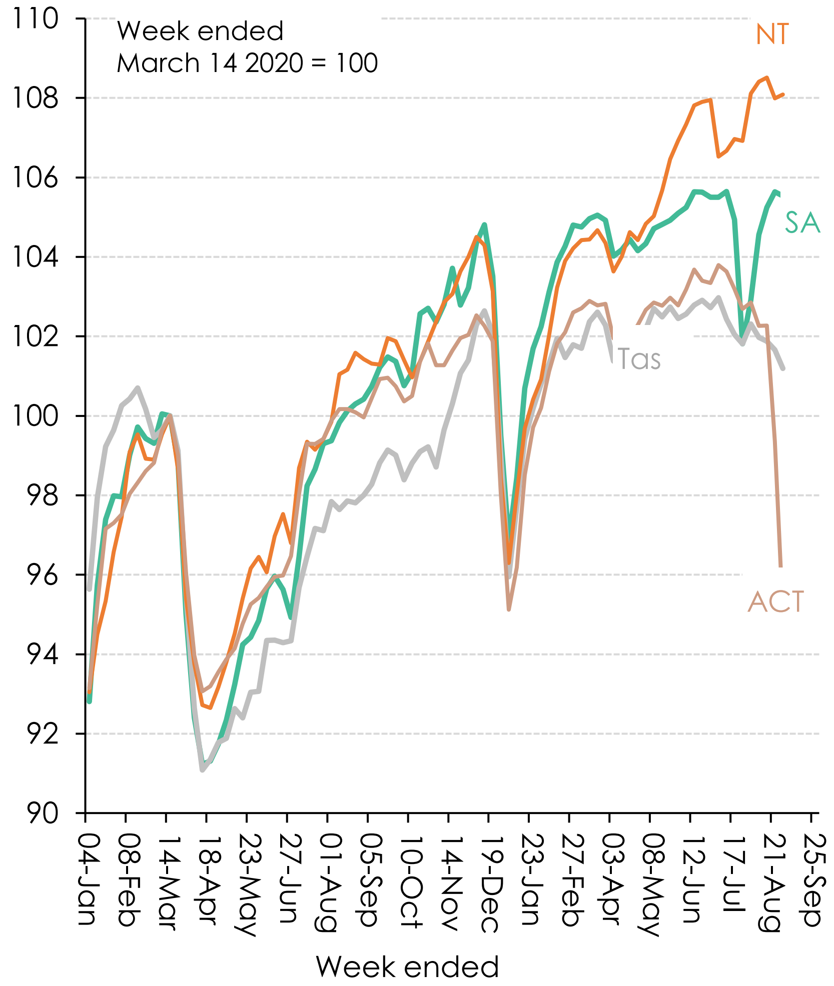
Payroll jobs have fallen by 4.2% since lockdowns began in mid-June, with falls of 9.8% in NSW, 8.4% in the ACT and 4.3% in Victoria

Level and weekly change in the number of payroll jobs



Payroll jobs by State & Territory





Source: ABS, Weekly Payroll Jobs and Wages in Australia, Interim. 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. Return to "What's New".

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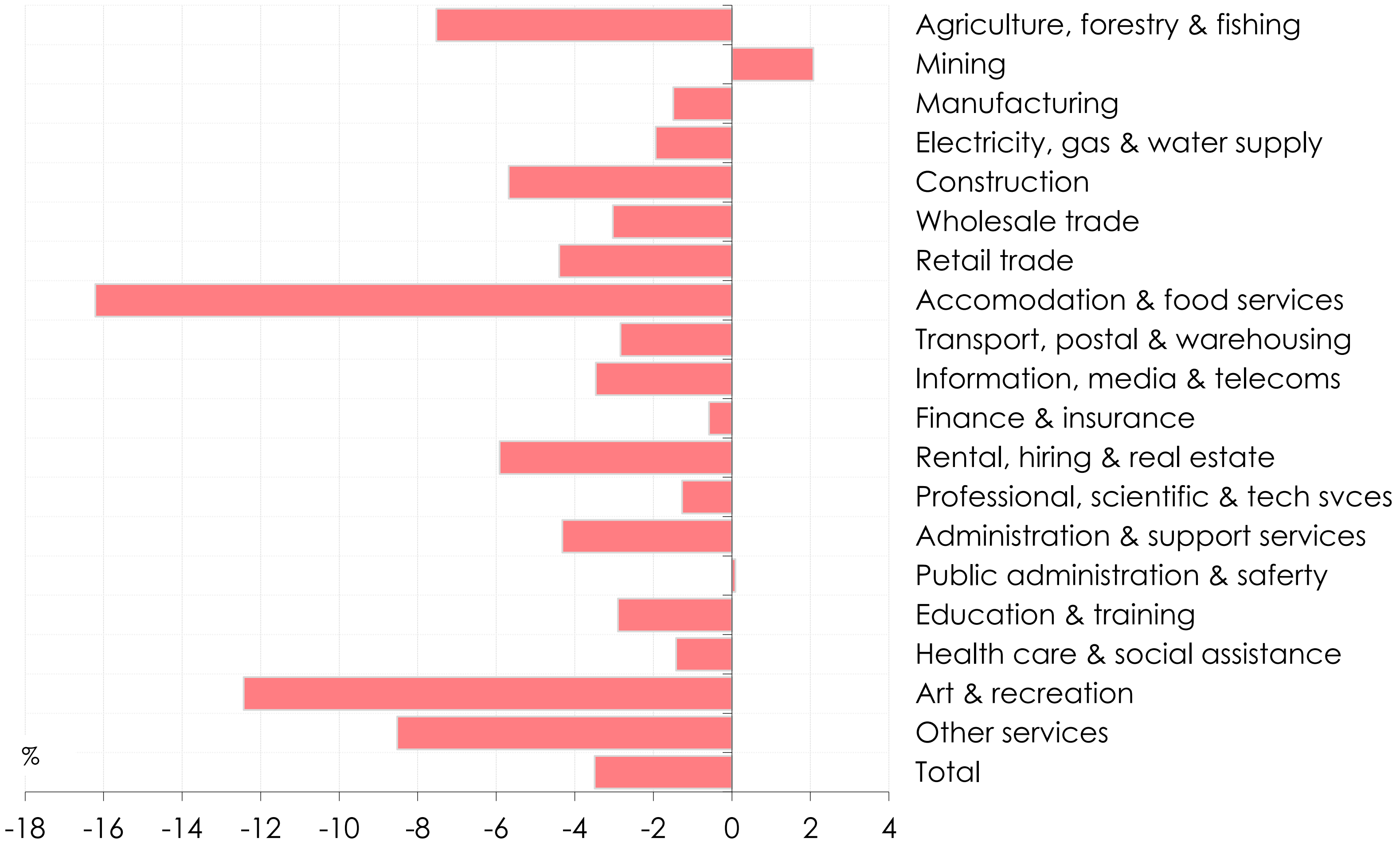
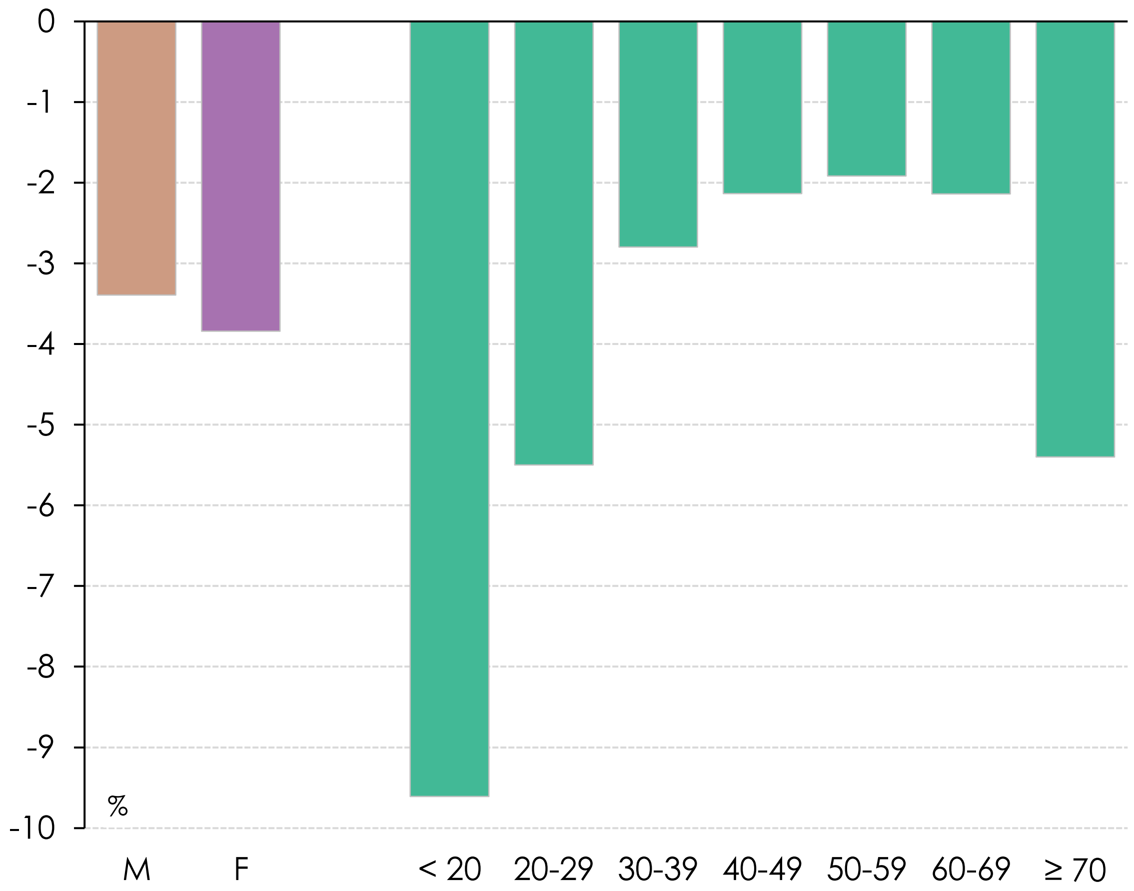
The same sectors, and the same groups, that were hardest hit in last year's lockdowns have been hardest hit in the latest one (plus agriculture)

Change in payroll jobs between week ended 26th June and week ended 14th August

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. Return to "What's New".

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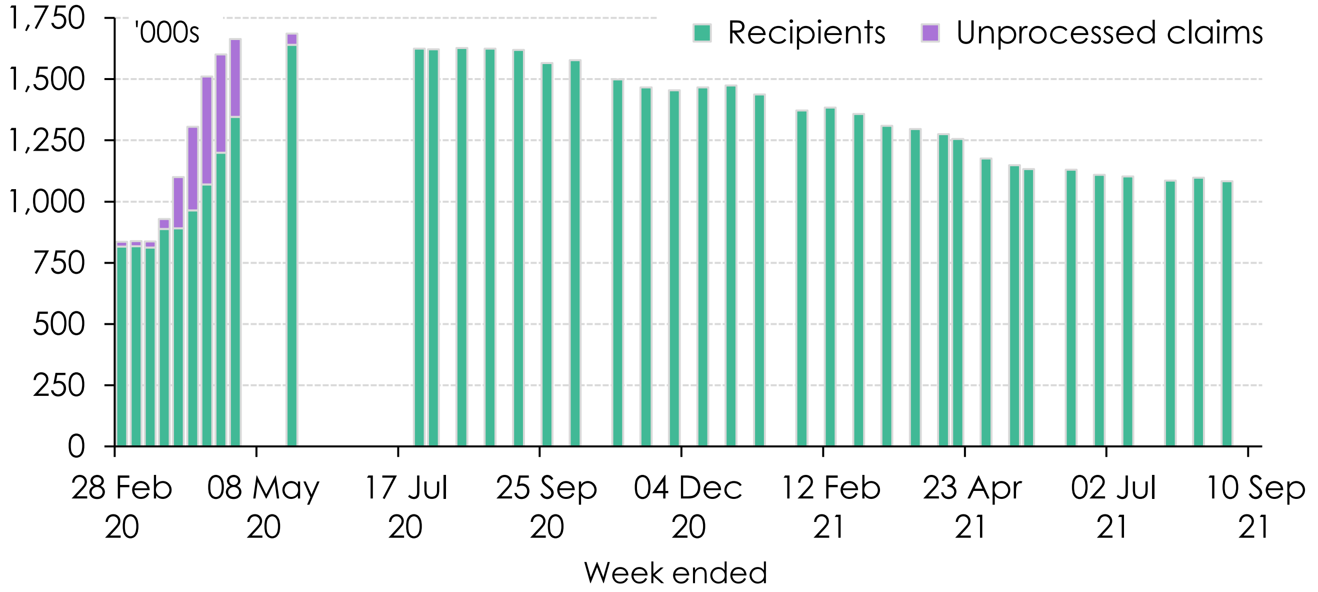
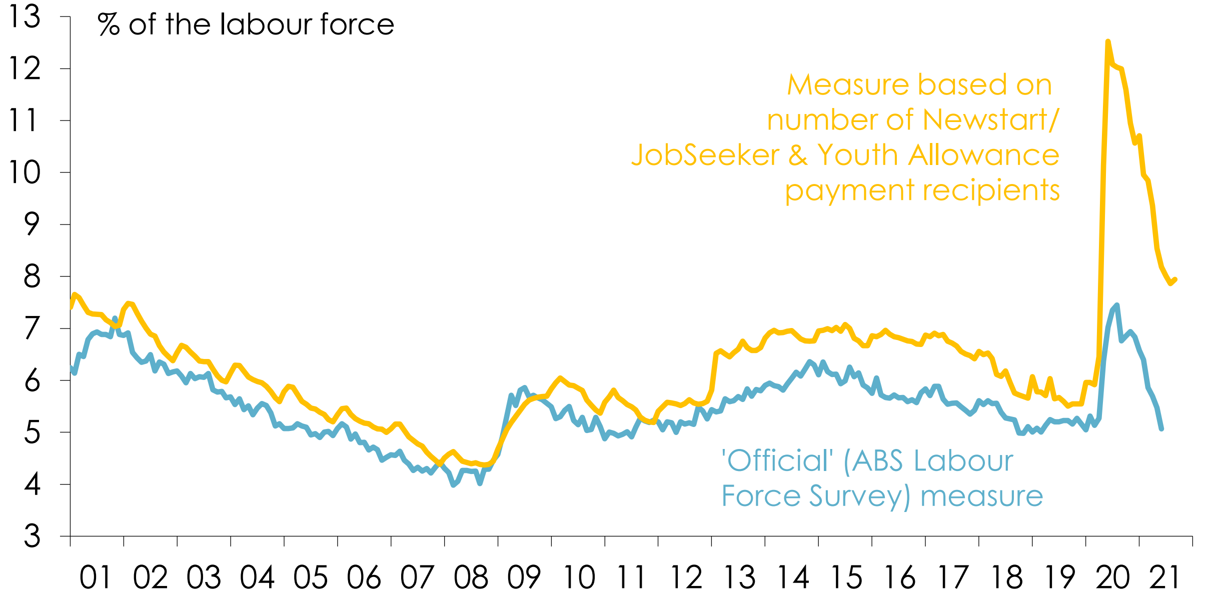
The number of people receiving 'unemployment benefits' fell to a post-pandemic low in the last week of August (despite lockdowns)

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



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



- **Ministers receive weekly data on the number of people on JobSeeker and Youth Allowance (Other) benefits – which since late July last year the Department of Social Services has made this available every second week to the Senate Select Committee examining the Government's responses to Covid-19**
- **The number of people receiving JobSeeker or Youth Allowance (Other) payments fell by 14,152 (1.3%) over the two weeks to 27th August – to its lowest level since the week ended 20th March last year – with a small increase of just under 2,500 in NSW more than offset by falls of almost 56,000 in Victoria and over 11,100 in Queensland**
- **People displaced from employment as a result of recent lockdowns are entitled to receive a range of other payments from the Federal or state governments – see slides 146-147**

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

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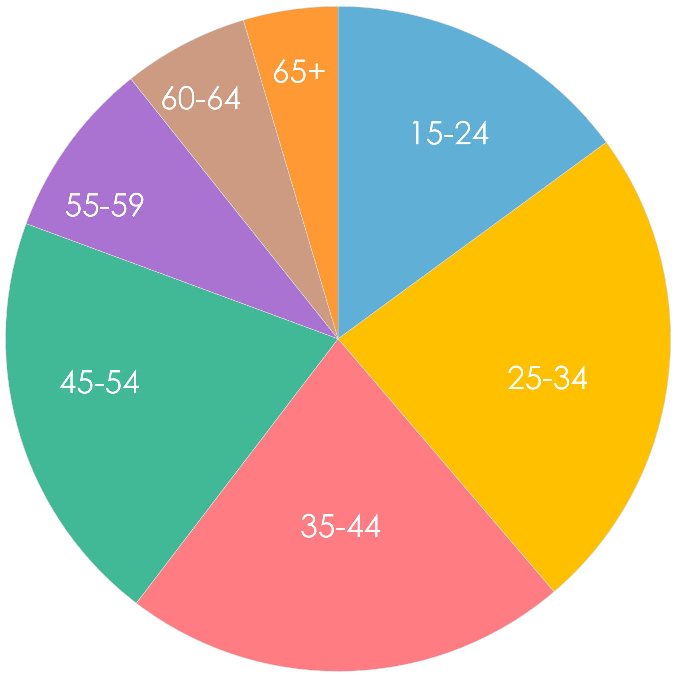
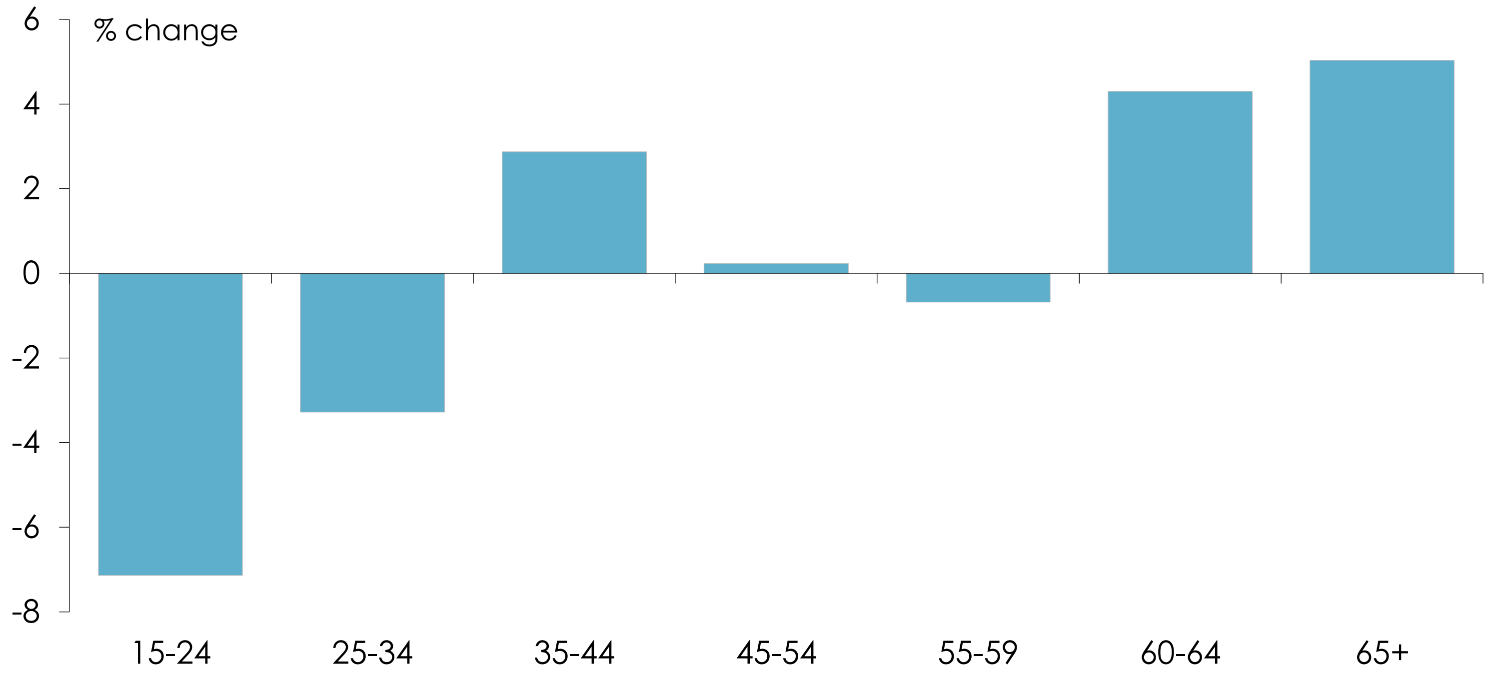
Younger workers bore the brunt of job losses during the early stages of the pandemic and have had a more difficult time regaining jobs

Composition of employment by age group, February 2020



Change in employment between February 2020 and August 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 50% of all job losses between June and August this year – their employment is down 7.1% from the pre-pandemic peak in February last year**
- **Likewise 25-34 year-olds accounted for 25% of all job losses between February and May last year, and for 23% of all job losses between June and August this year – their employment is down 3.3% from February last year**
- **By contrast most older age groups have fared much better, in particular 35-44 year-olds, and the (relatively smaller number of) people aged 60 and over**

Note: data on employment by age group is not seasonally adjusted. *Source:* ABS, Labour Force, Australia, Detailed, August 2021: September data will be released on 21st October. Return to "What's New".

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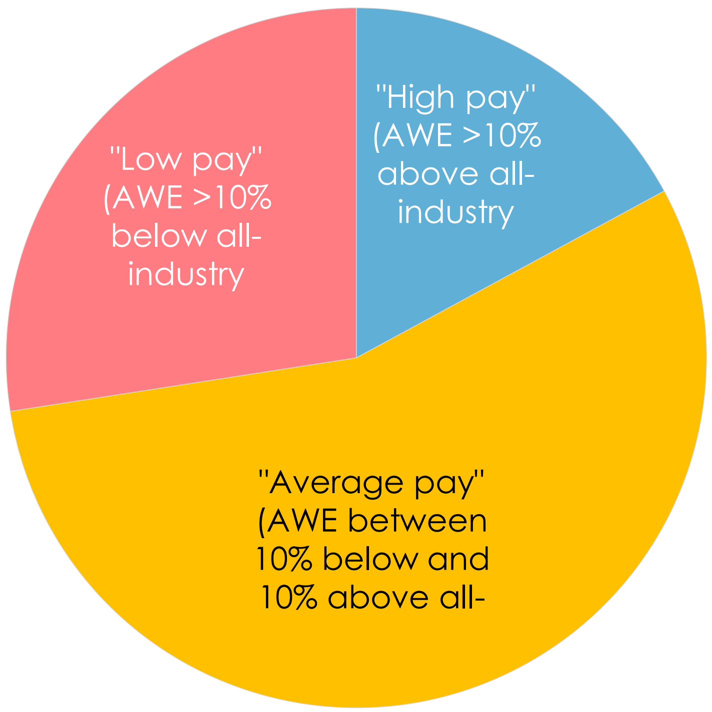
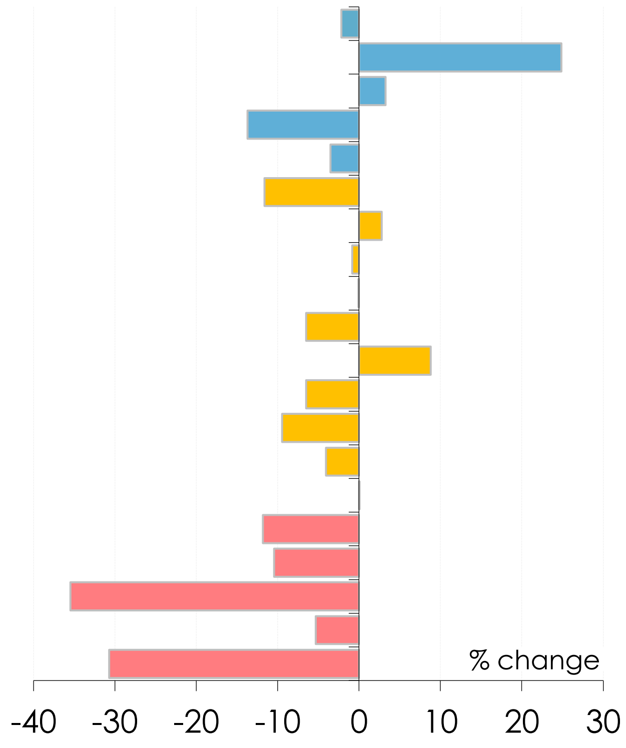
Workers in low-pay industries experienced the bulk of job losses during the downturn and the greatest difficulty regaining them since then

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

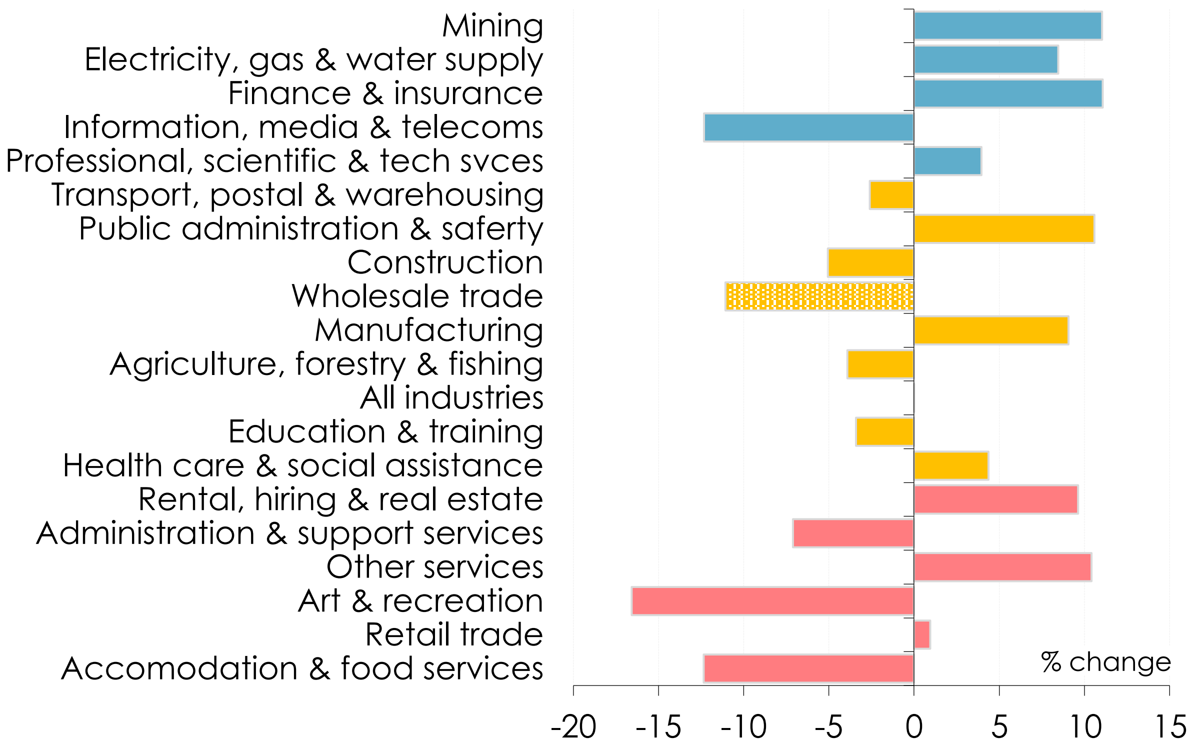


Change in employment by industry

February-May 2020



February 2020 – August 2021

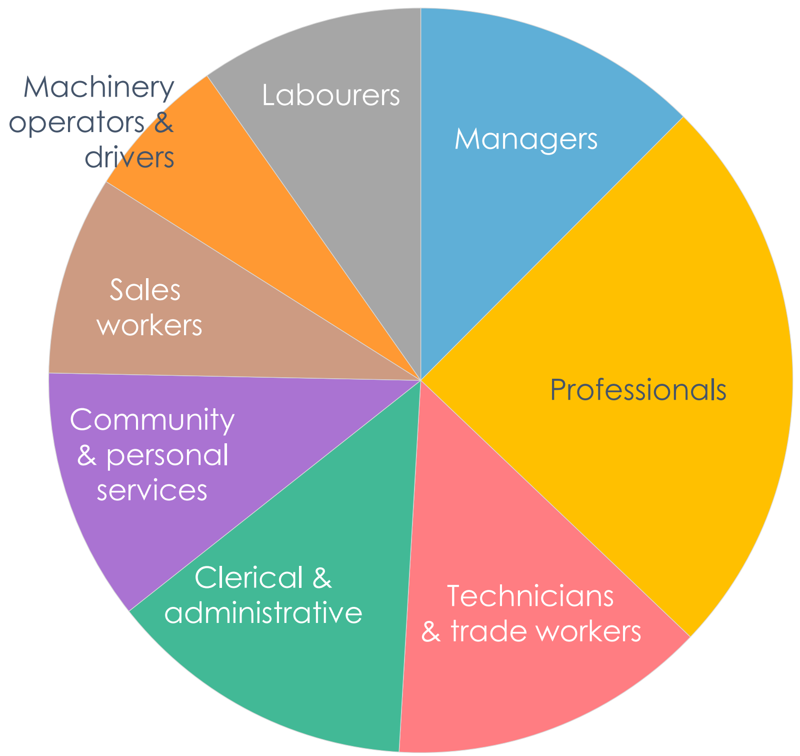


- **Industries with average earnings which are 10% or more below average accounted for 27½% of the pre-pandemic workforce, but experienced 64% of the job losses between February and May last year – and 89% of job losses between May and August this year – employment in these industries was down 2.9% between February last year and August this year**
- **By contrast employment in "high pay" industries (17% of the pre-pandemic workforce) was 4.9% higher in August than it had been in February last year**

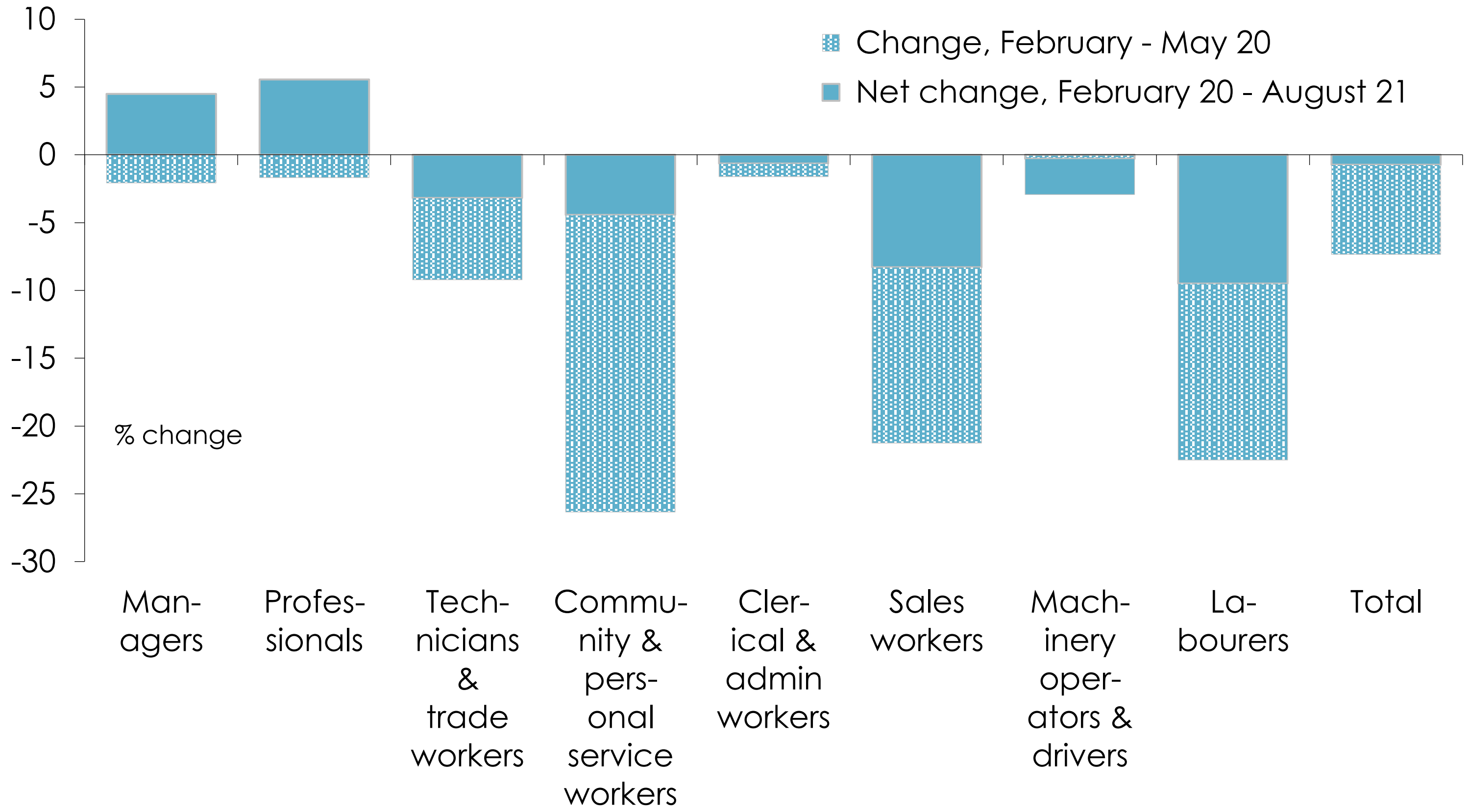
Source: ABS, Labour Force, Australia, Detailed, August 2021 and Average Weekly Earnings, Australia, November 2019. Labour force survey data on employment by occupation are available only for the middle month of each quarter: November data will be released on 23rd December. Return to "What's New".

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 August 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 between February and May last year – and for 73% (again) of job losses between May and August this year – and there were 7.2% fewer of them in August than in February last year**
- ❑ **… whereas there are 5.2% more employed managers and professionals than there were in February last year**

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

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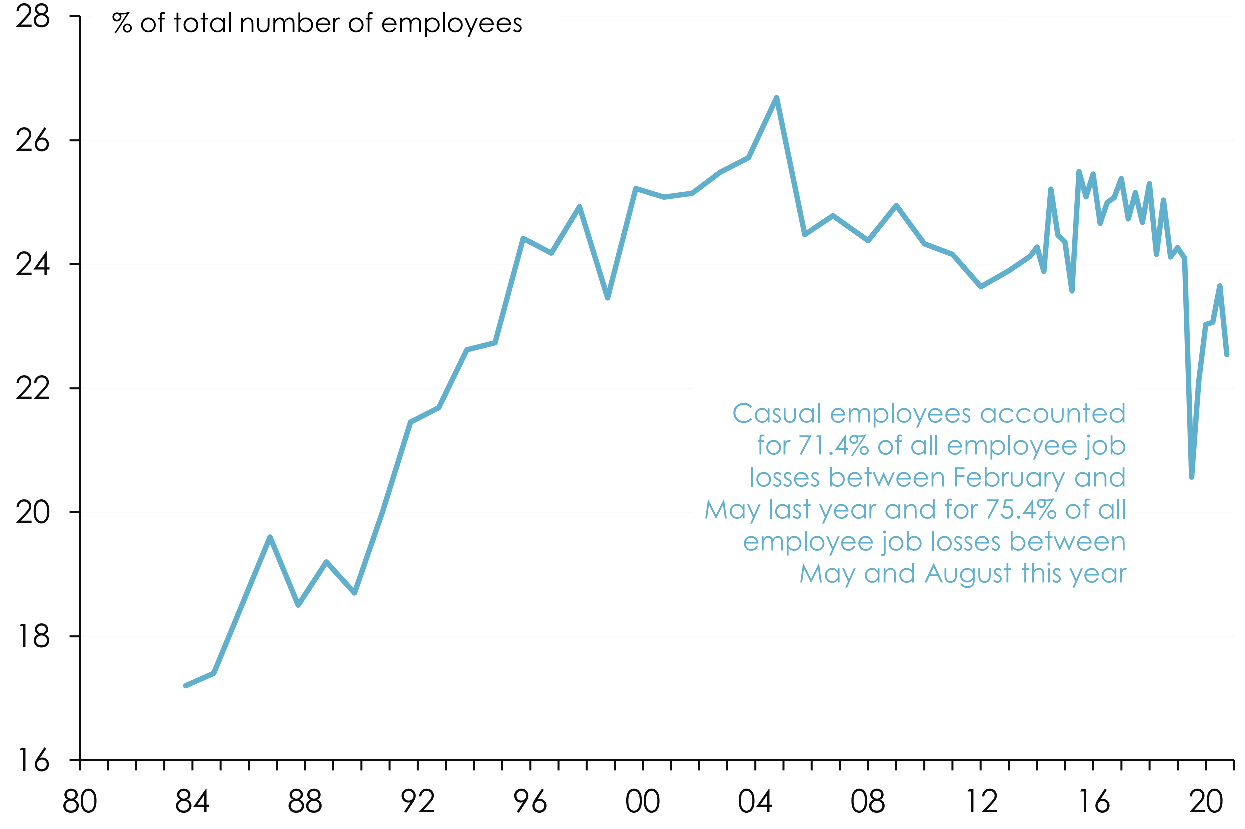
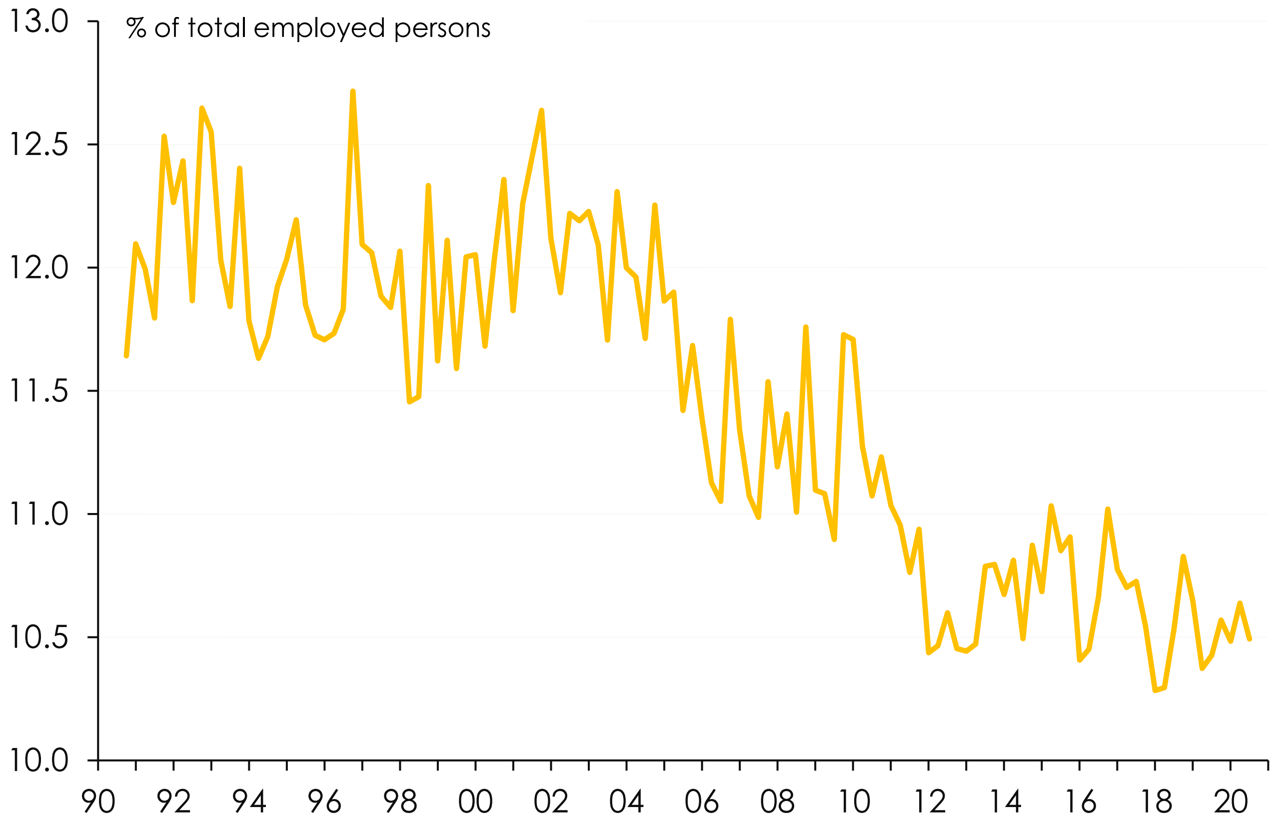
Contrary to popular belief neither casual jobs nor 'gig economy' jobs have become more commonplace during the past two decades

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



- 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".

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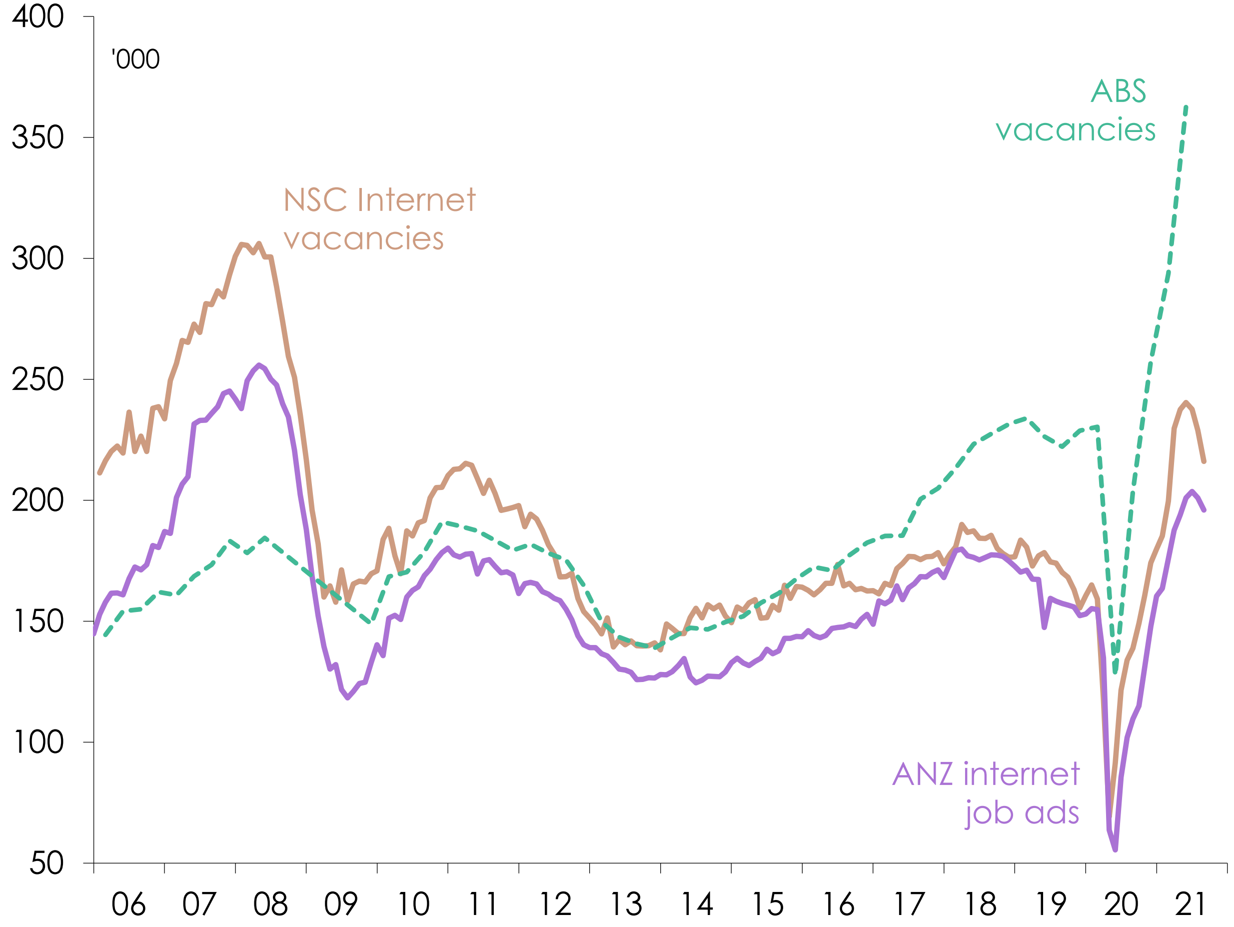
Job vacancies have rebounded swiftly from their recession lows – there are now fewer than two jobseekers for every vacancy, a record low

Measures of job vacancies



Ratio of unemployed people to job vacancies

- **Both the ANZ and NSC job advertisements measures have more than recouped their pandemic-induced losses, while the ABS vacancies measure is at an all-time high**
- **In May there were just over 1¾ unemployed people for every vacancy reported to ABS – a record low – and the halving of 'caps' on arrivals to Australia may push that ratio down even more**

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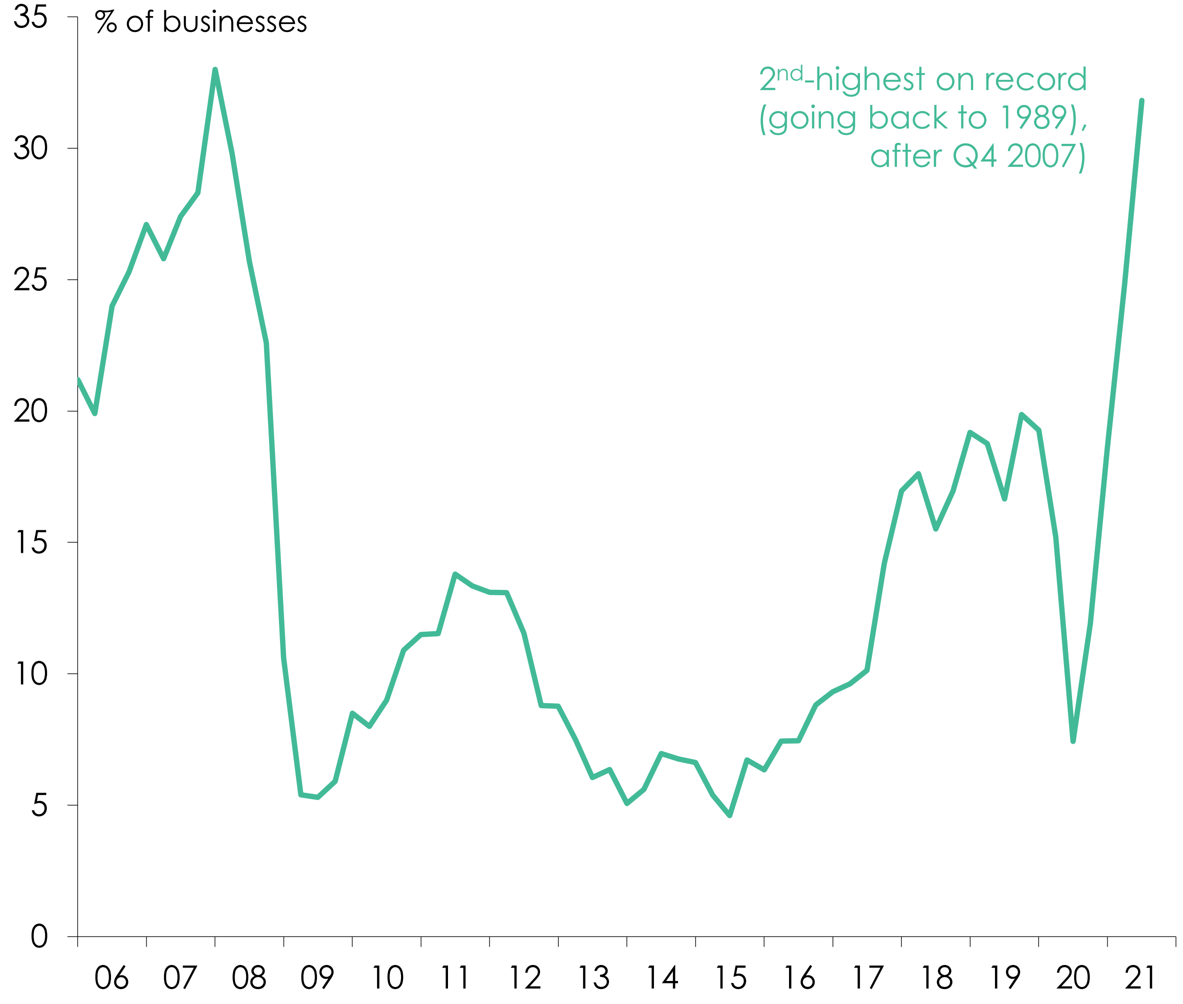
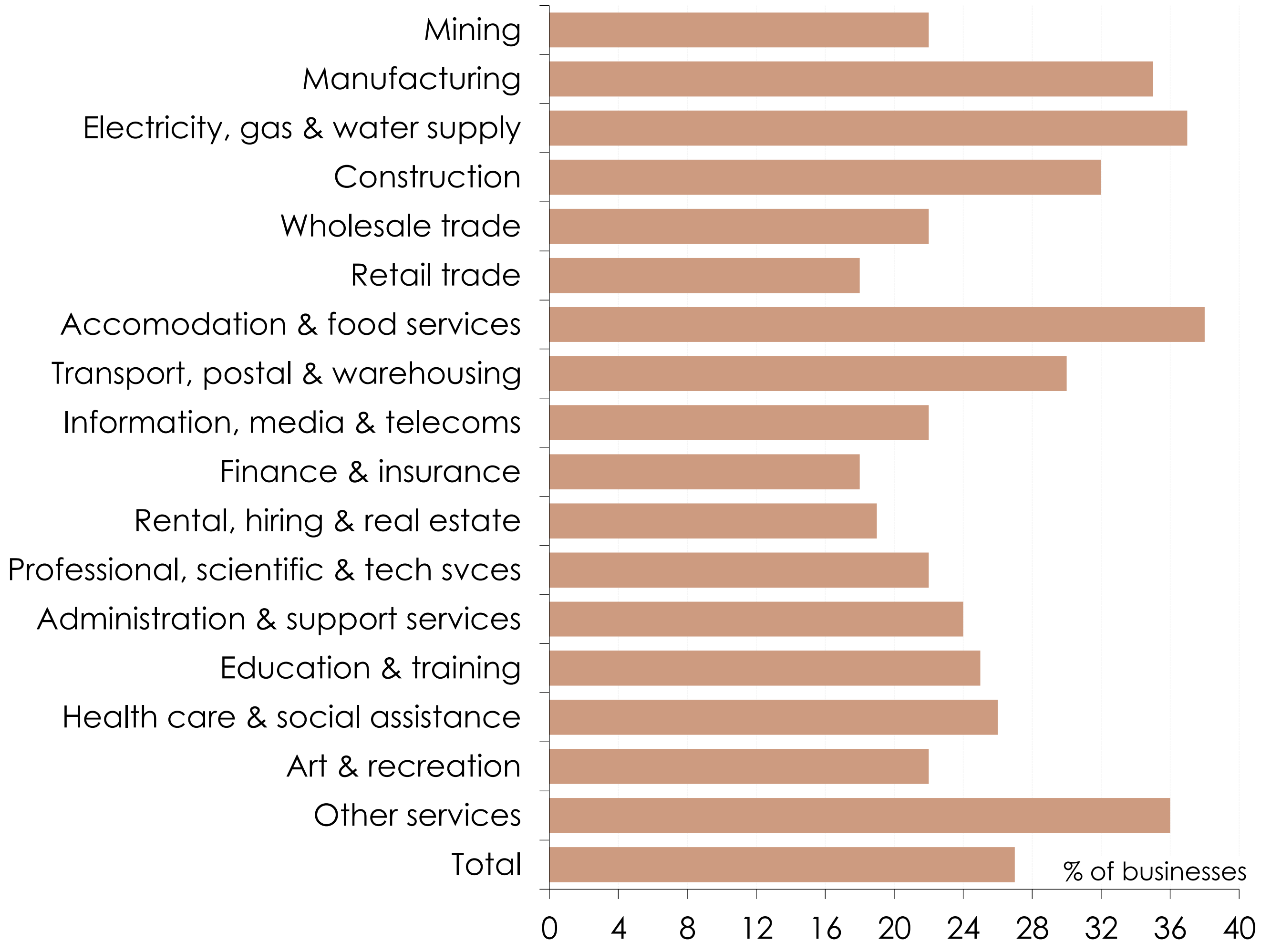
Sources: Australian Government, Labour Market Information Portal; ANZ Research; ABS, *Job Vacancies, Australia*. Return to "What's New".

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

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



Businesses reporting difficulty finding suitable staff, by industry



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

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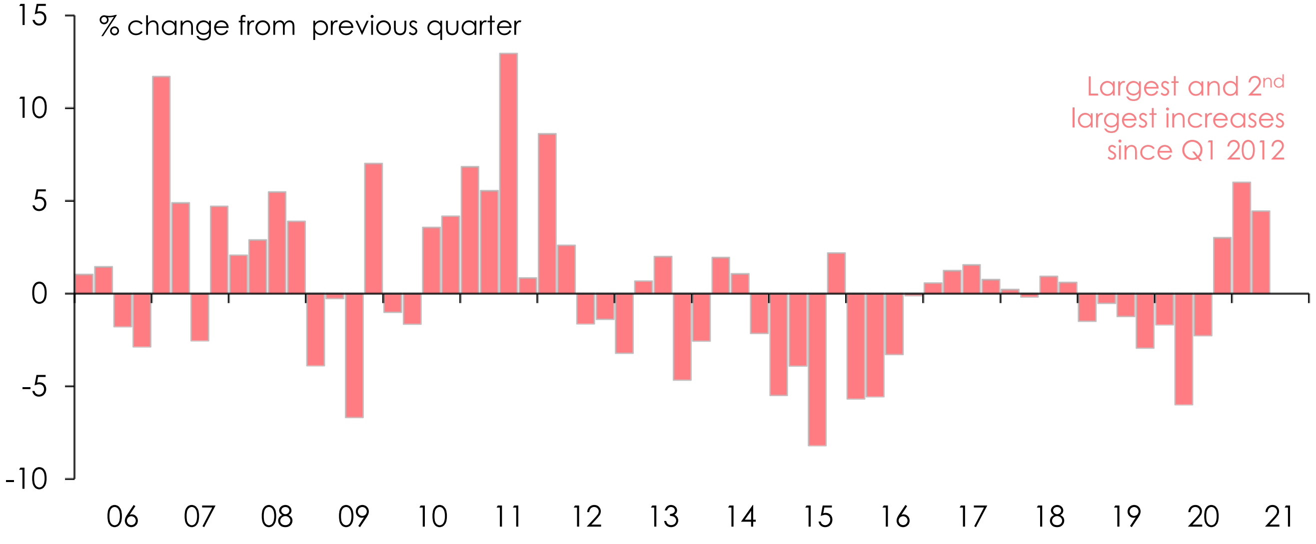
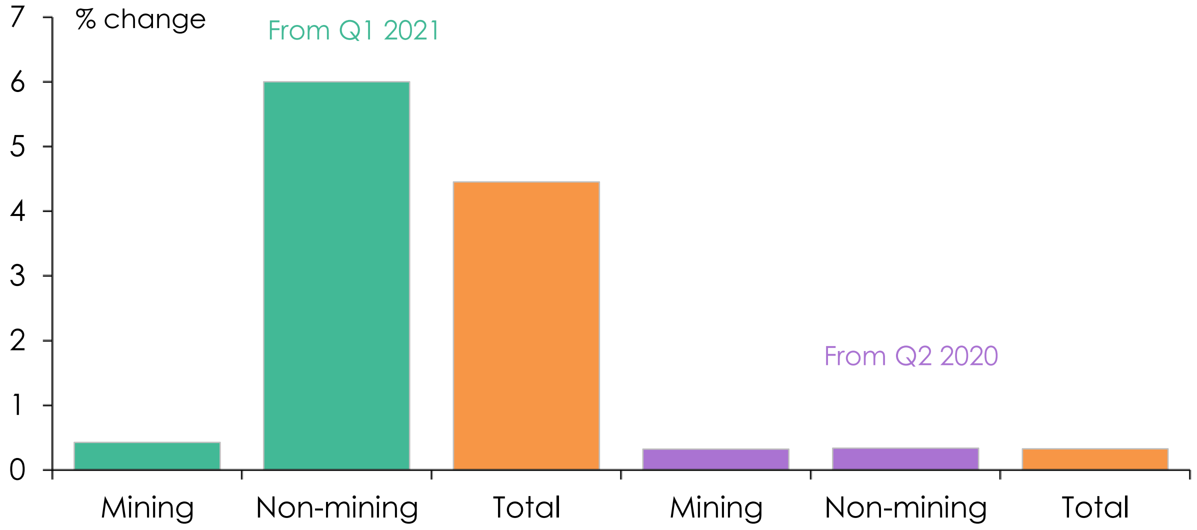
Business capex increased by 4.4% in Q2, the third consecutive rise, this time led by utilities and services sectors

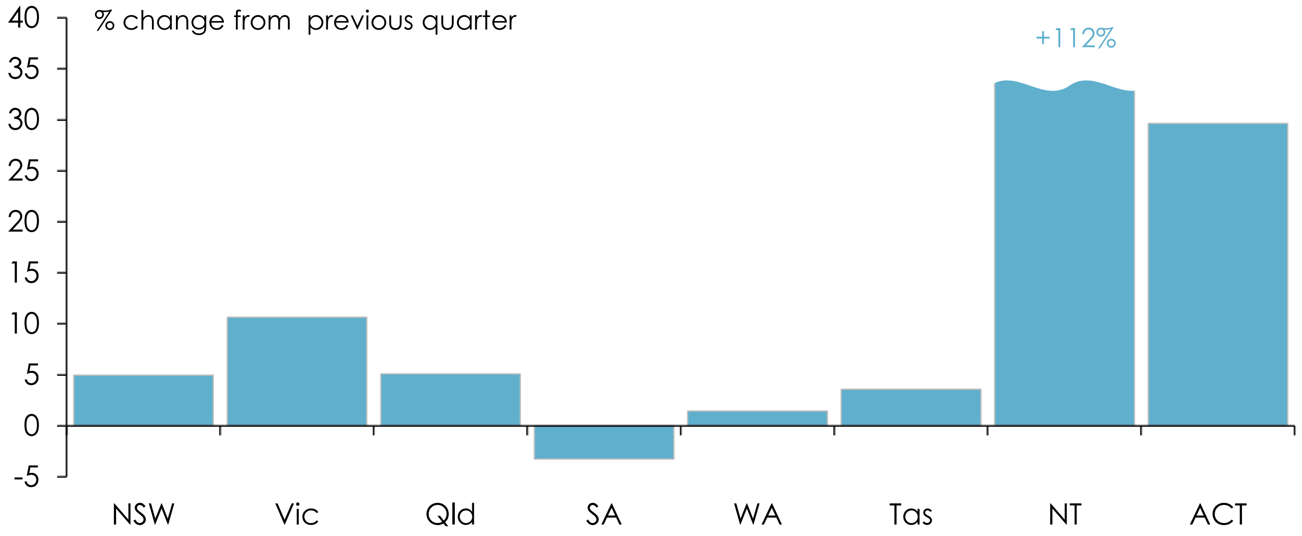
Real business new fixed capital expenditure



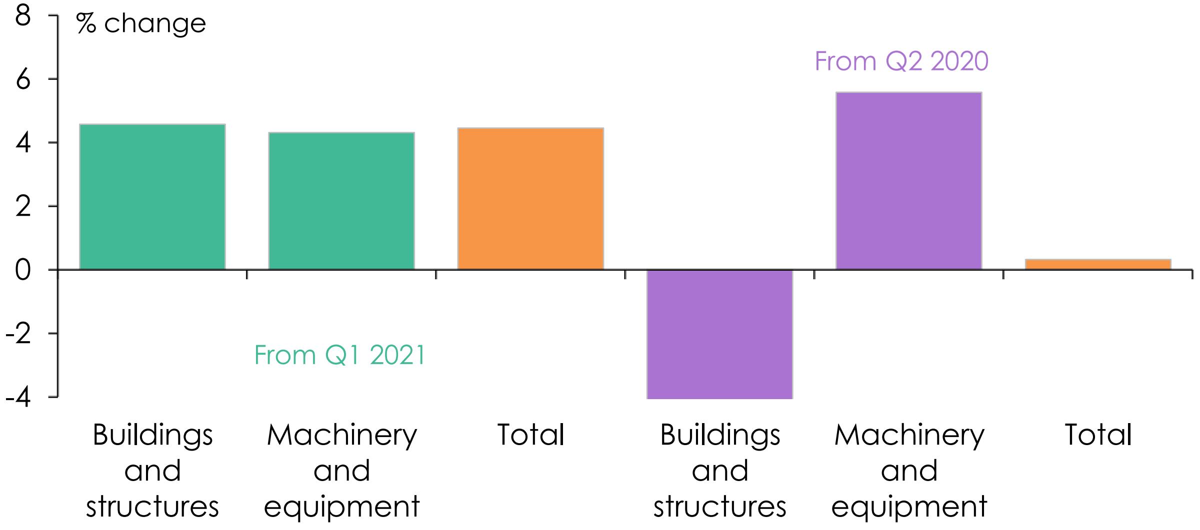
Real business new fixed capex, by industry, Q1



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 25th November. Return to "What's New".

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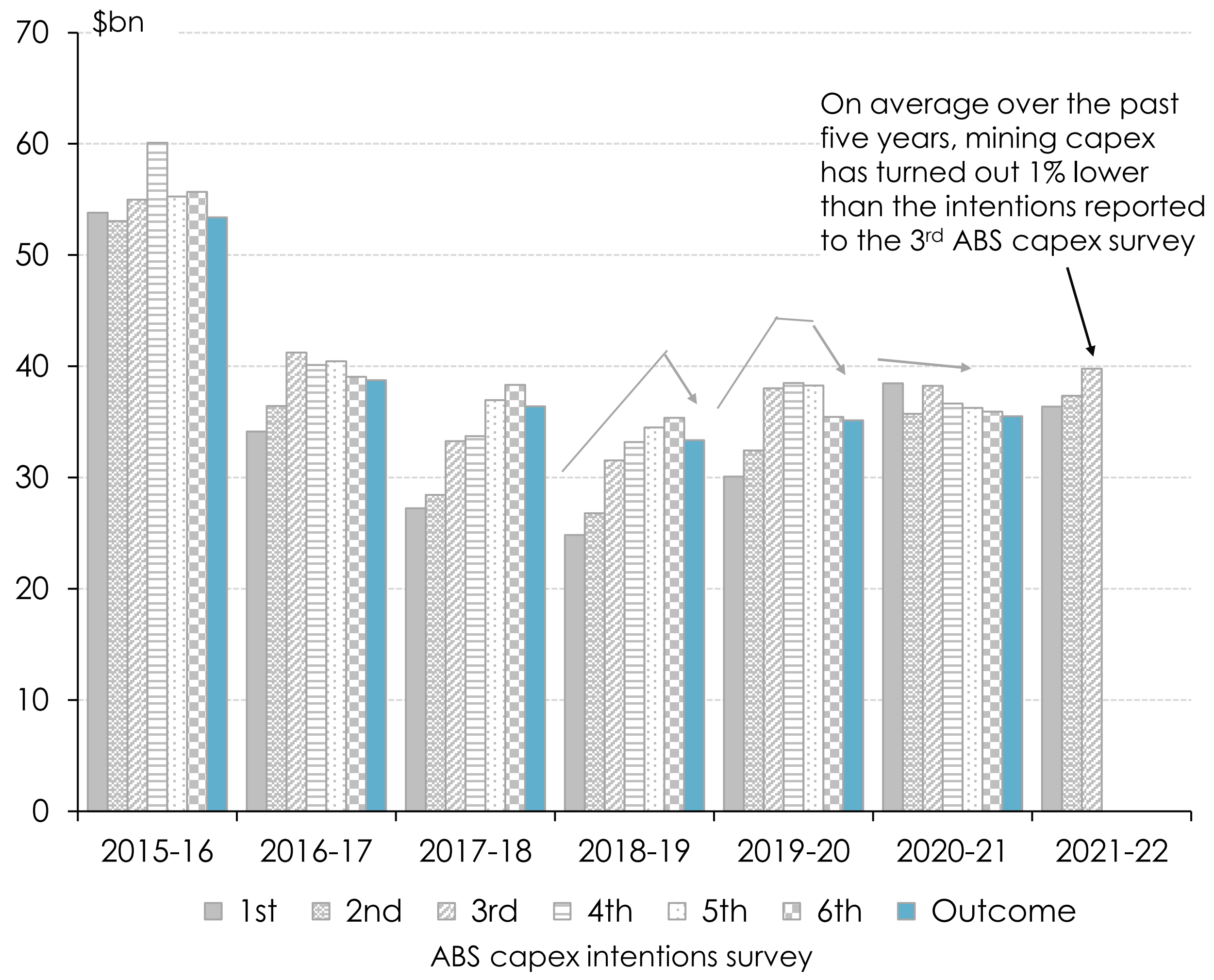
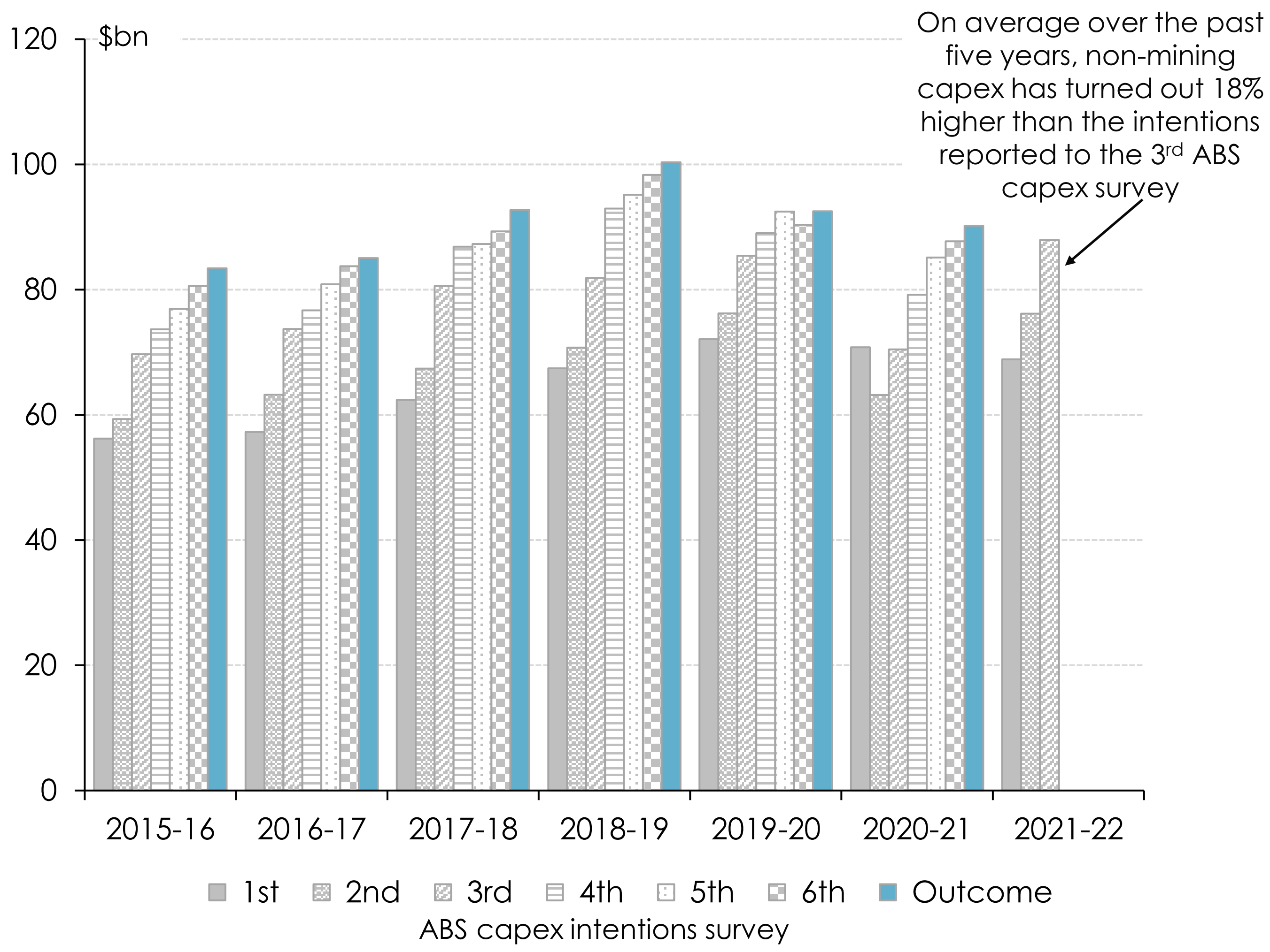
Business capex fell by 1.5% in 2021-22 and is expected to increase by 13½% in 2021-22 according to the latest capex intentions survey

Capital expenditure intentions - mining



Capital expenditure intentions – non-mining

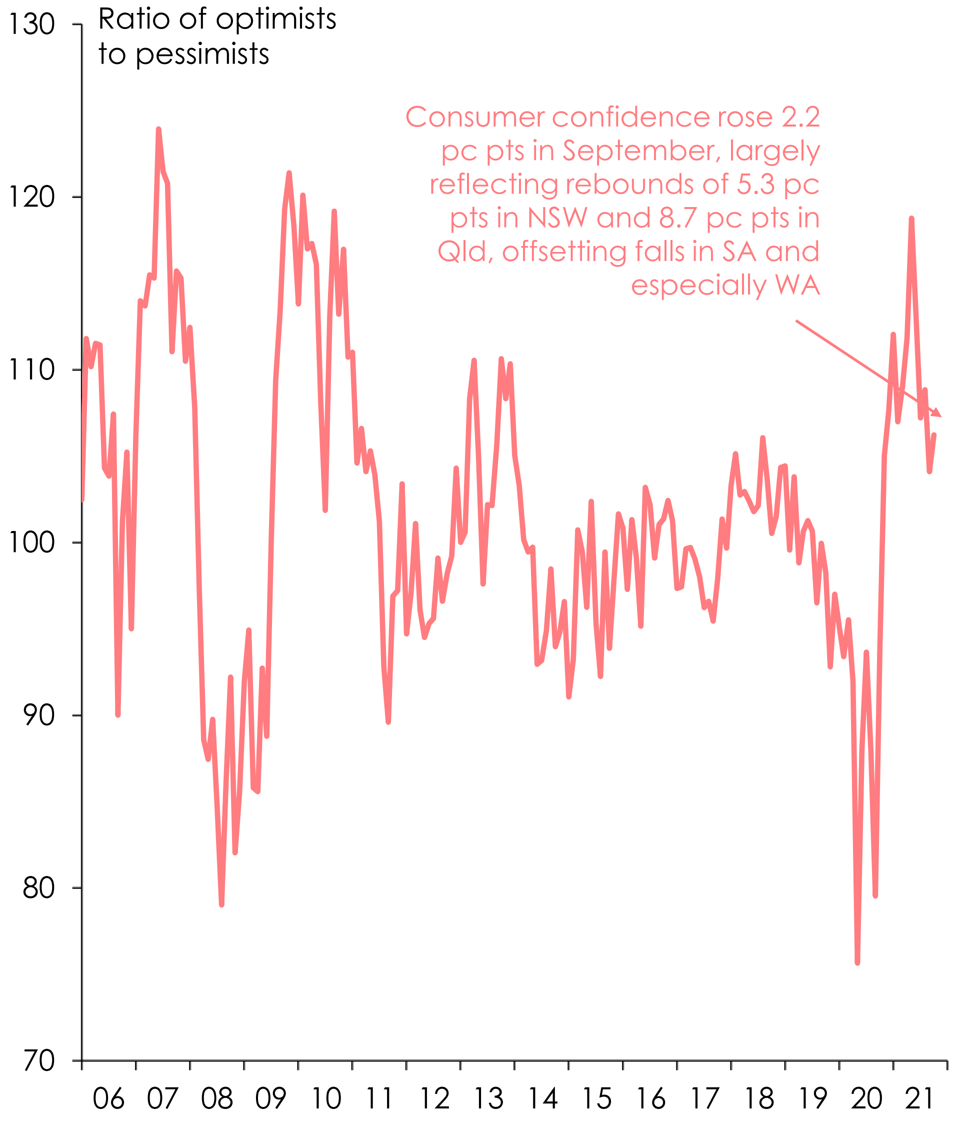


Note: The ABS conducts six surveys of business' capital expenditure intentions in respect of each financial year. The first is conducted in January & February prior to the commencement of the financial year, the second in May & June, the third in July & August of the financial year, the fourth in October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

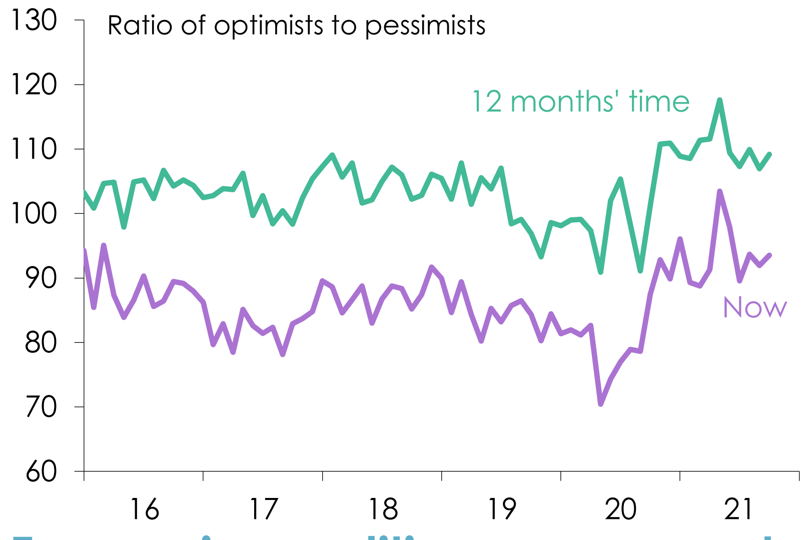
Source: ABS, *Private New Capital Expenditure and Expected Expenditure, Australia* (next update is released on 25th November). Return to "What's New".

Consumer confidence rose 2.2 pc pts in September, with consumers remaining confident about both their own finances and the economy

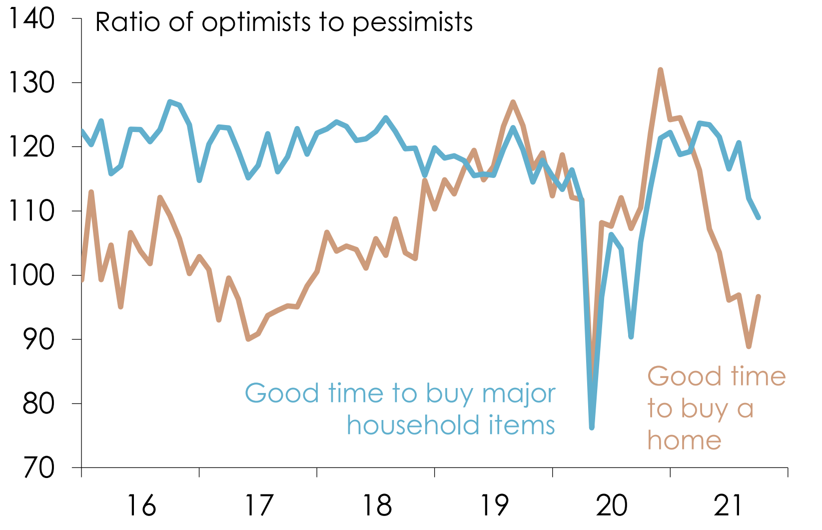
Consumer confidence index



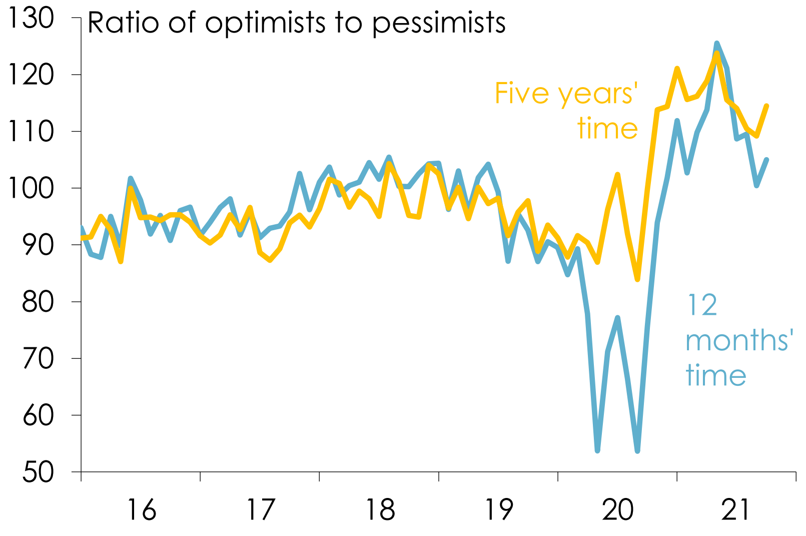
Household finances assessment



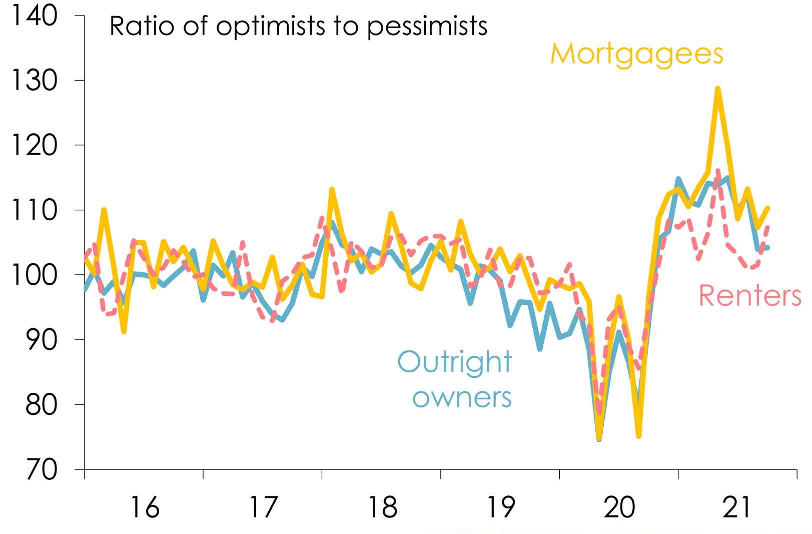
Buying conditions assessment



Economic conditions assessment



Confidence by housing tenure



Source: Westpac Banking Corporation. October consumer confidence will be released on 13th October . Return to "What's New".

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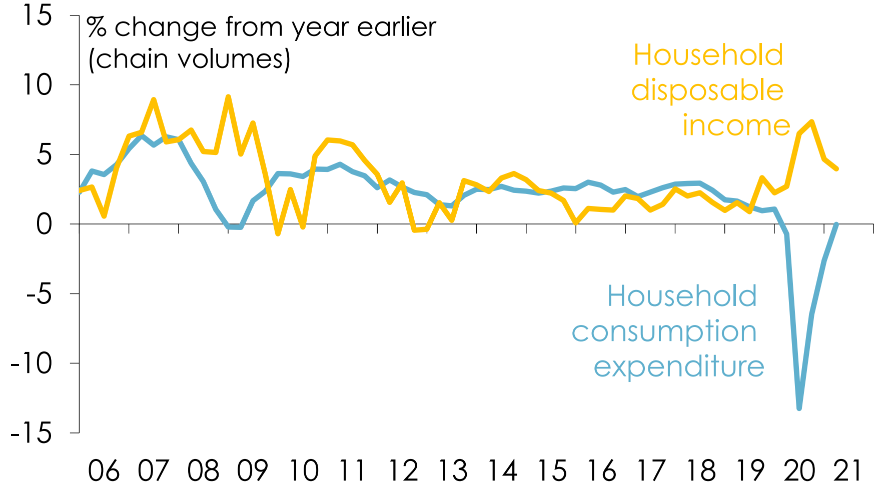
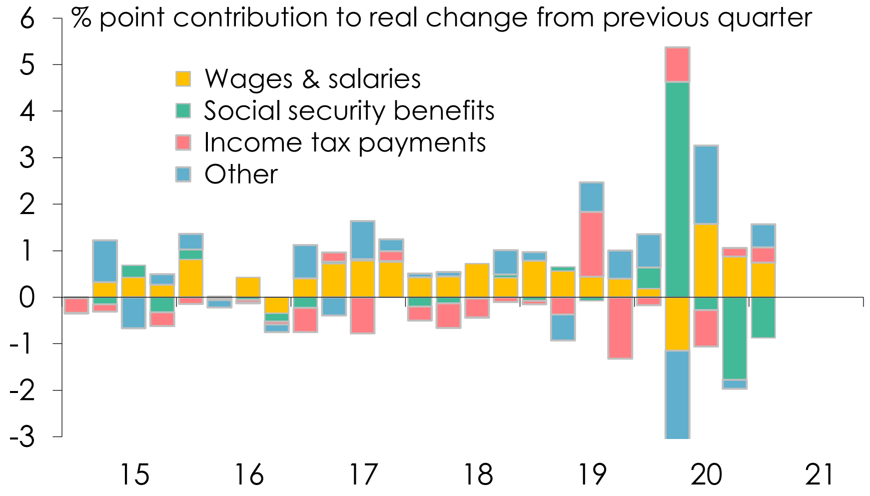
Household incomes have been supported by government payments, but spending has been curtailed, so households have lots of savings to spend

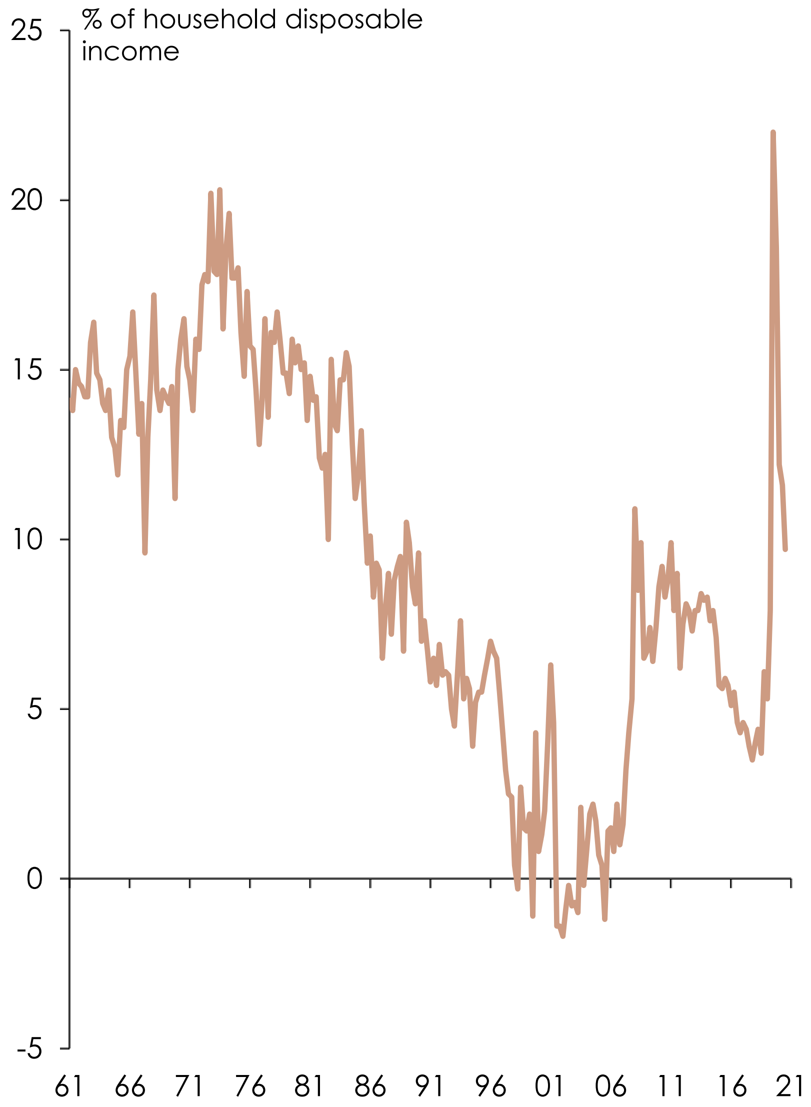
Household income and spending



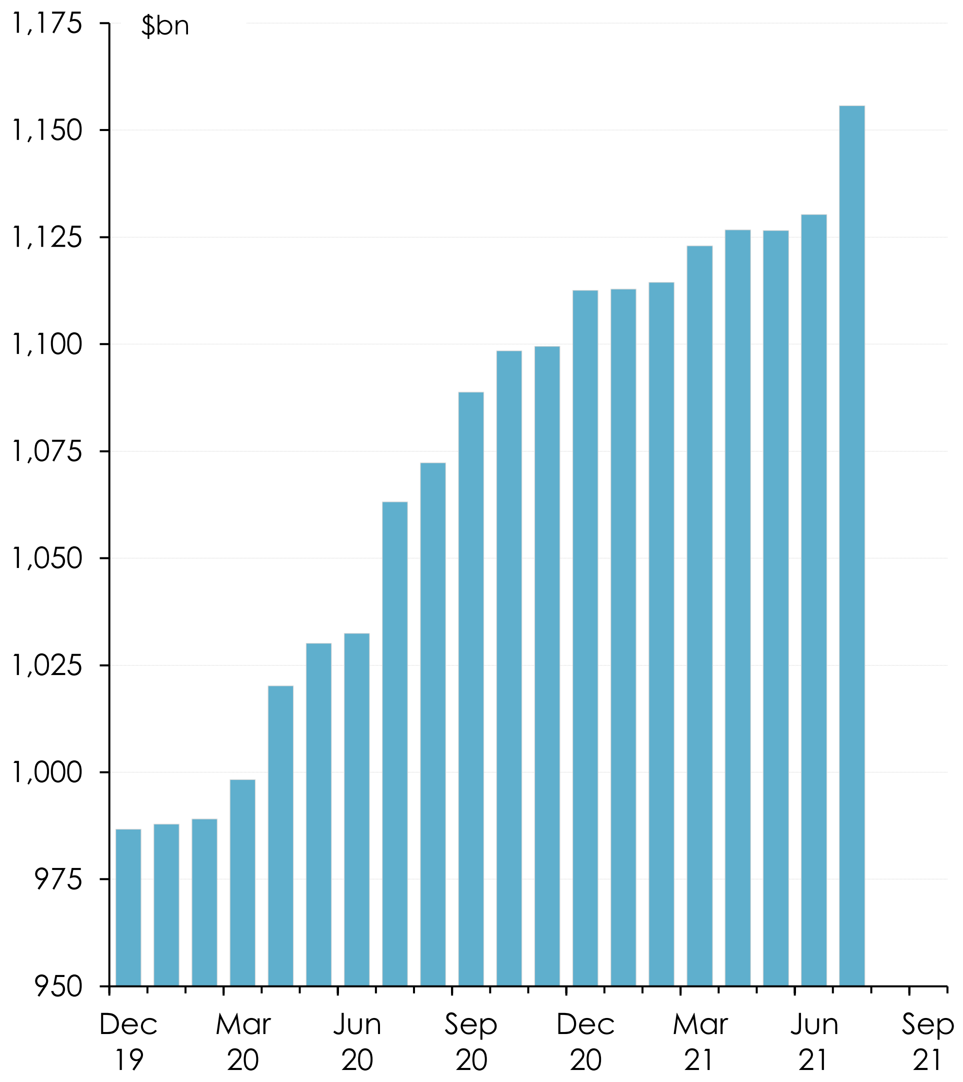
Sources of household income



Household saving ratio



Household bank deposits



Sources: ABS, *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".

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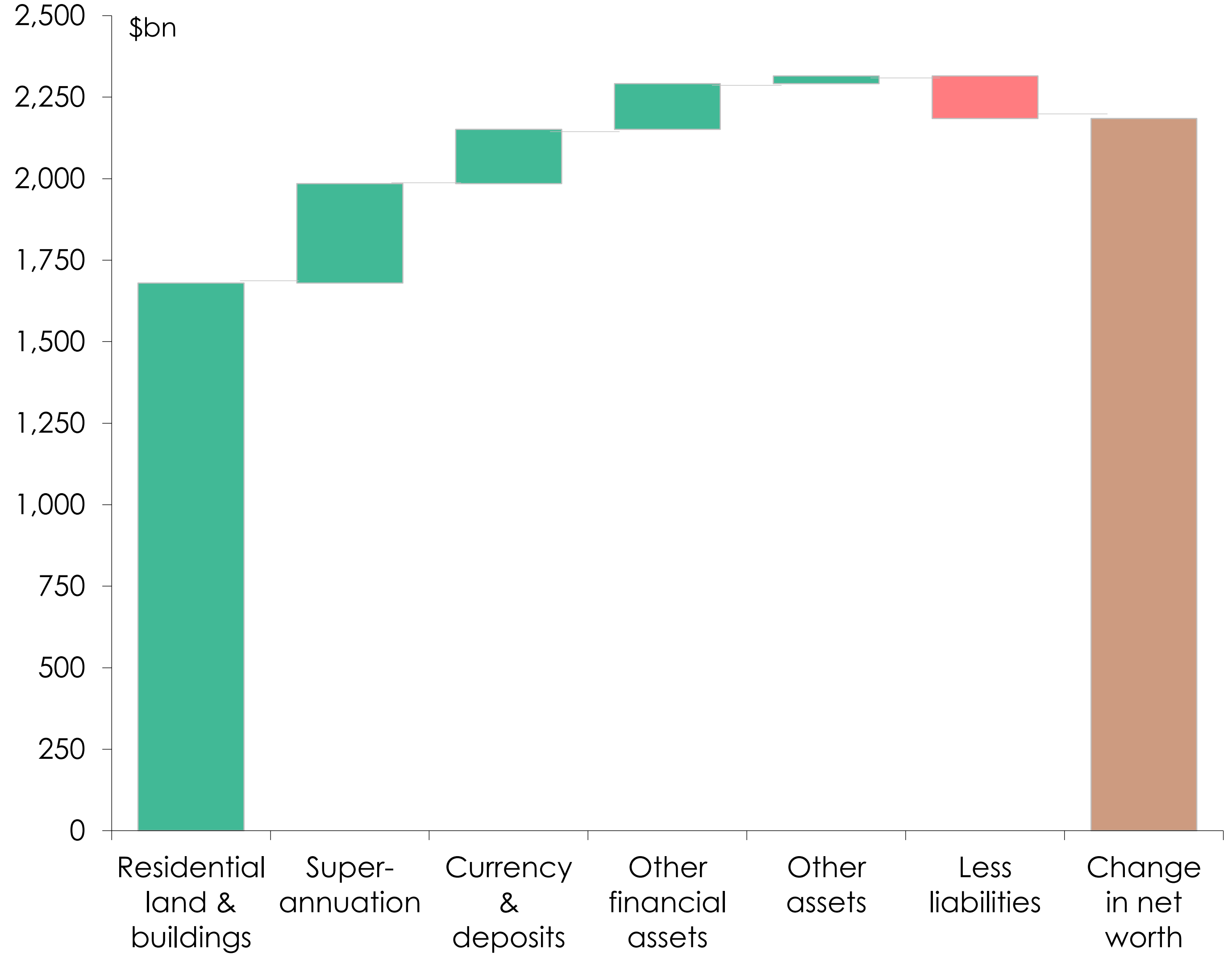
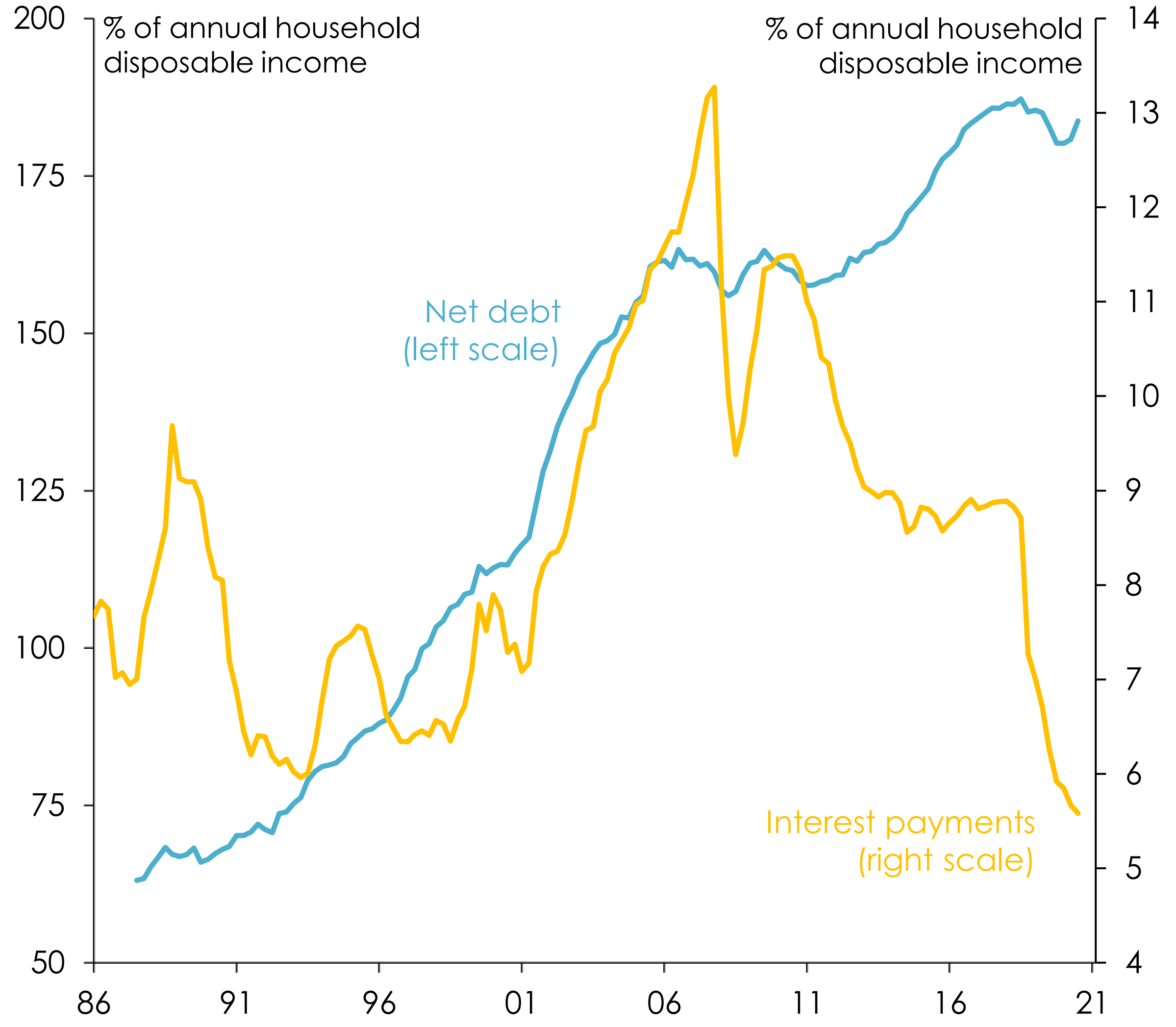
Household net worth has risen by $2.2trn (19½%) since the end of 2019, while debt service payments have fallen as a pc of income

Sources of gains in household net worth, Q4 2019 to Q2 2021



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



Sources: ABS, *Finance and Wealth Accounts*, June quarter 2021; RBA, *Statistical Tables* E1 & E2. September quarter data will be released on 16th December.
Return to "What's New".

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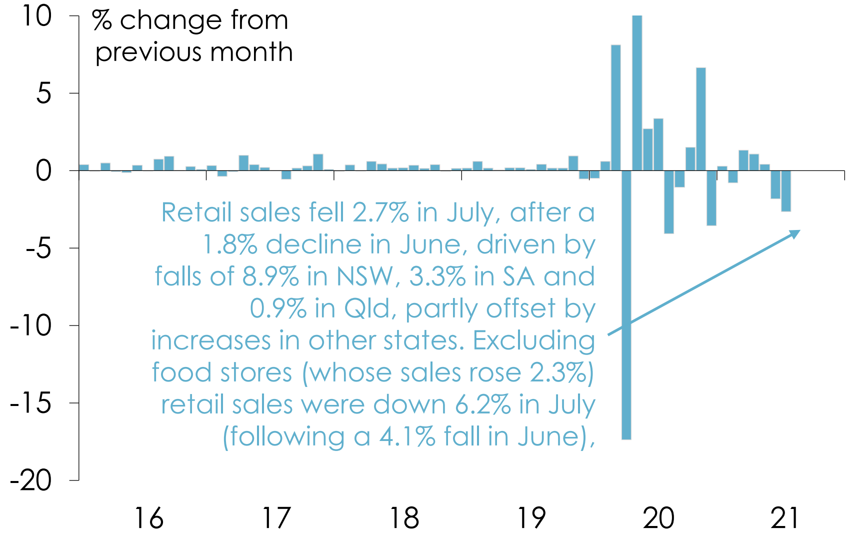
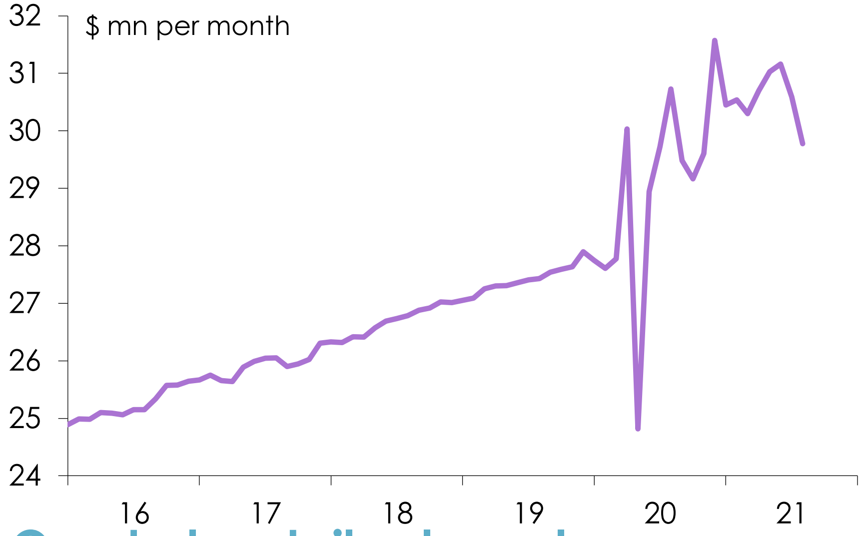
Retail sales fell another 2.7% in July (after a 1.8% fall in June), with sales in locked-down NSW falling 8.9%, while car sales fell 3.8% in August

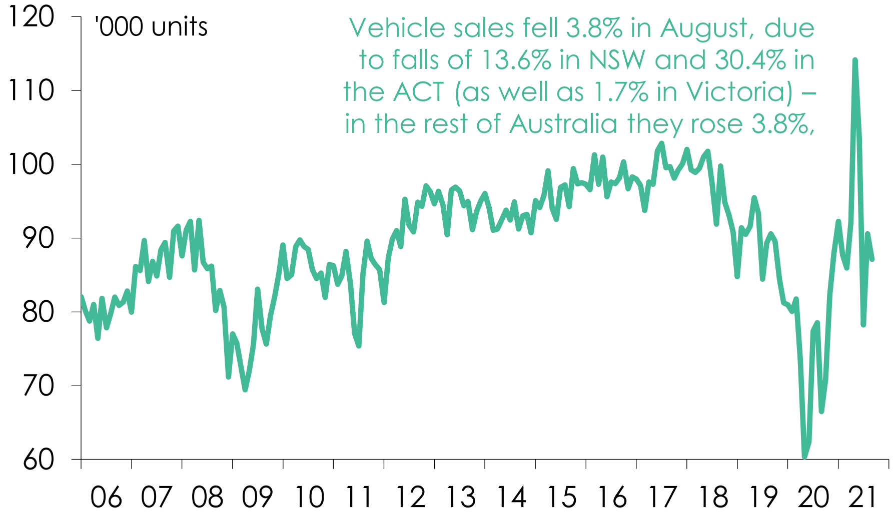
Monthly retail sales



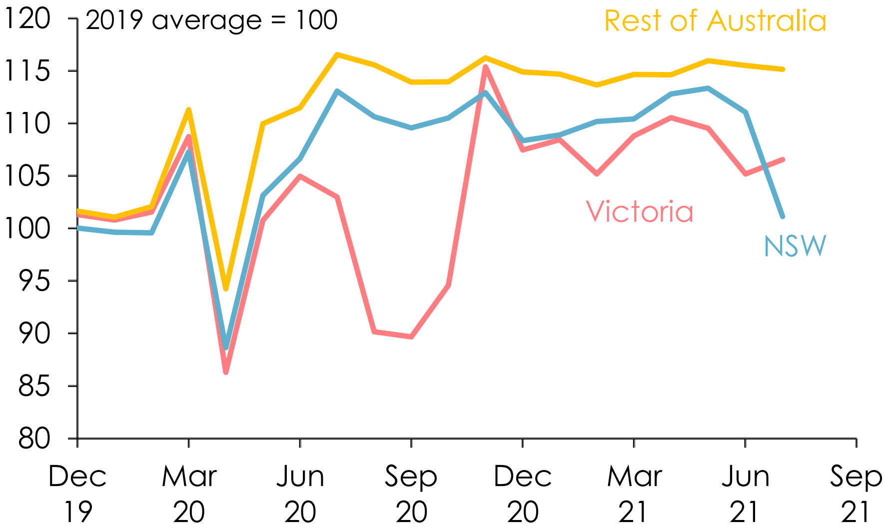
Level of retail sales



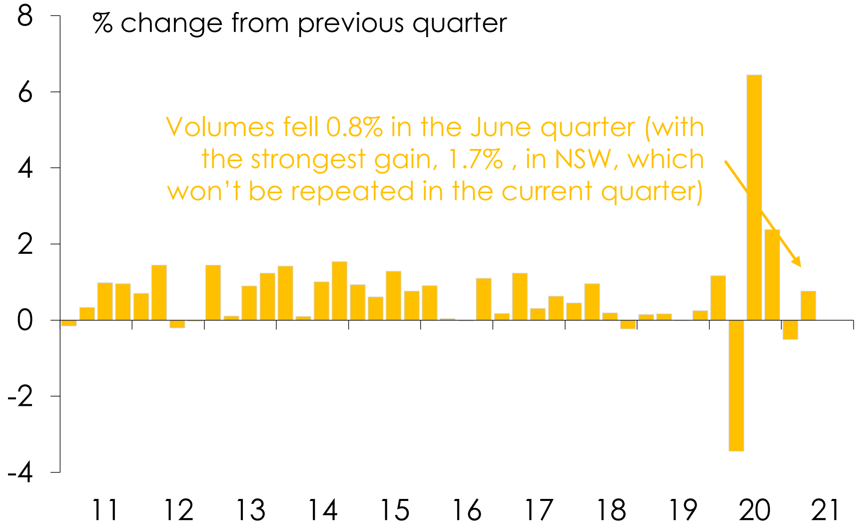
New motor vehicle sales



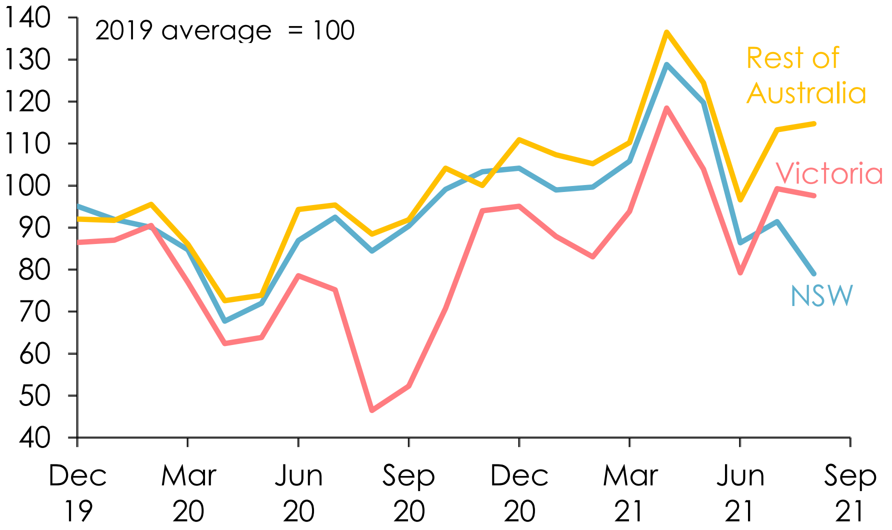
Retail sales – NSW, Vic & the rest



Quarterly retail sales volumes



Vehicle sales – NSW, Vic & the rest



Note: see also slide 104 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 28th September; August motor vehicle sales data will be released in the second week of September. Return to "What's New".

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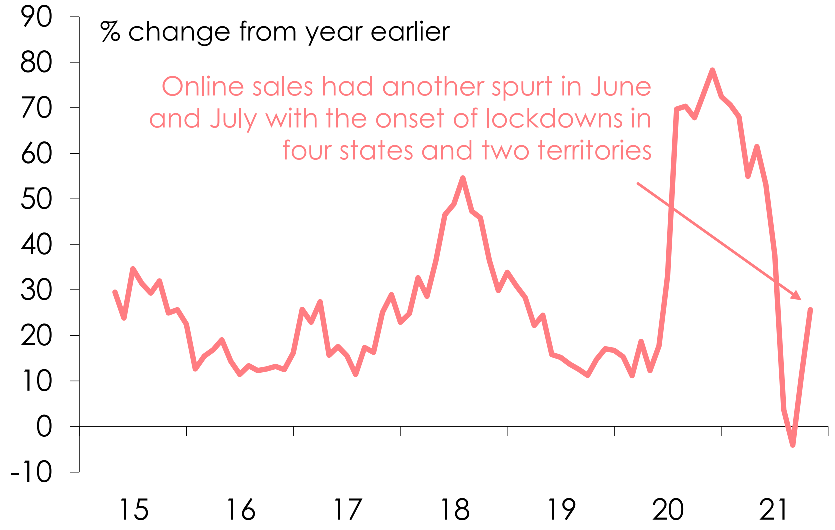
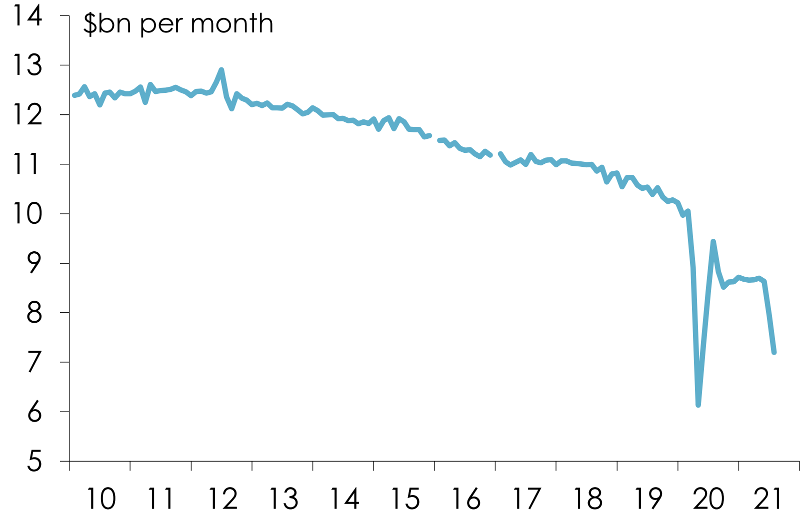
The most recent lockdowns have prompted a renewed surge in online spending and accelerated trends away from the use of cash

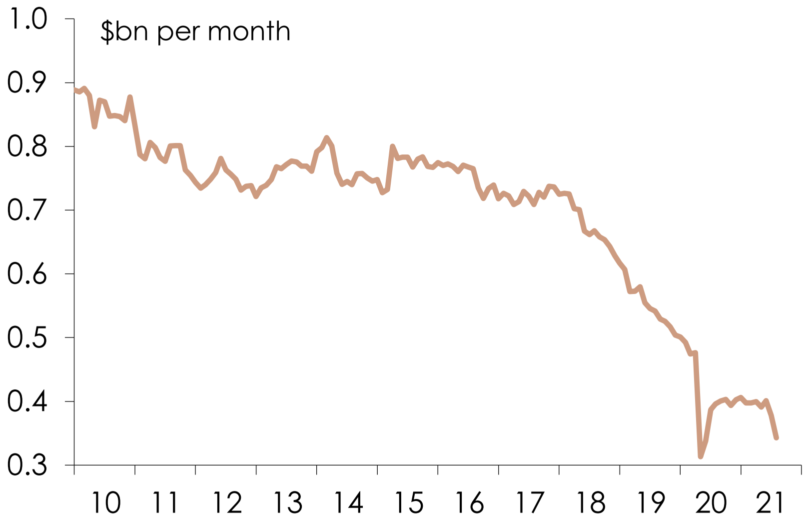
Growth in online retail sales



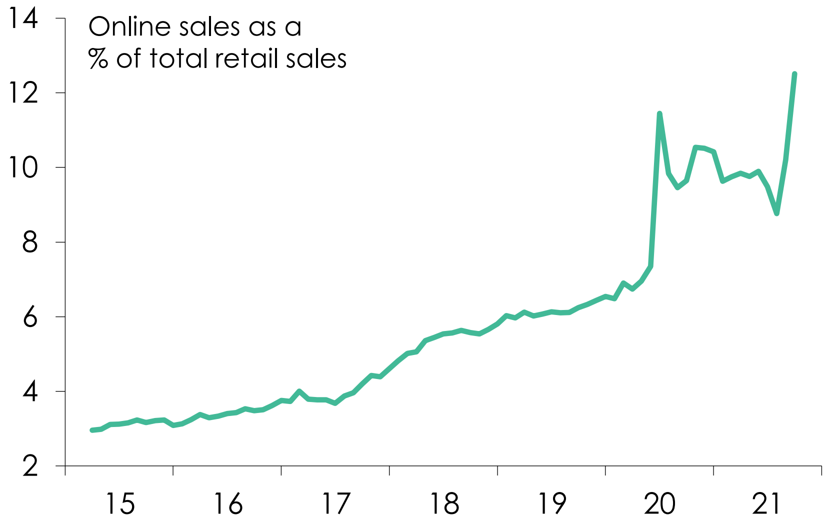
ATM cash withdrawals



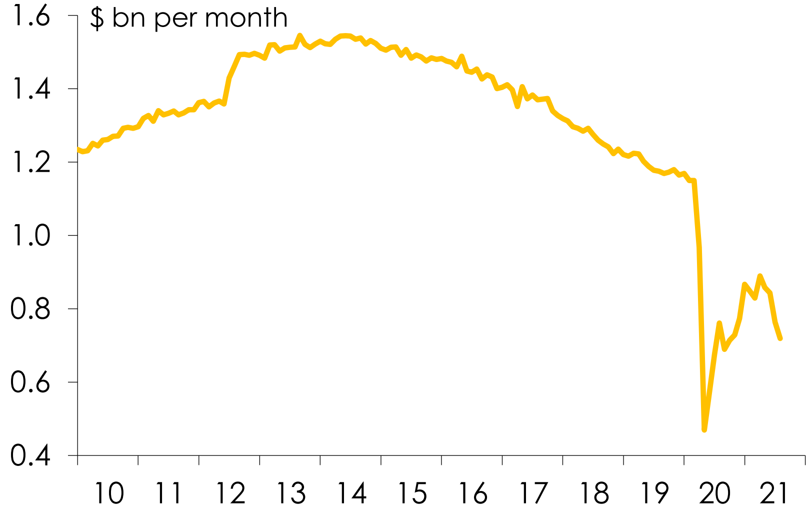
Credit card cash advances



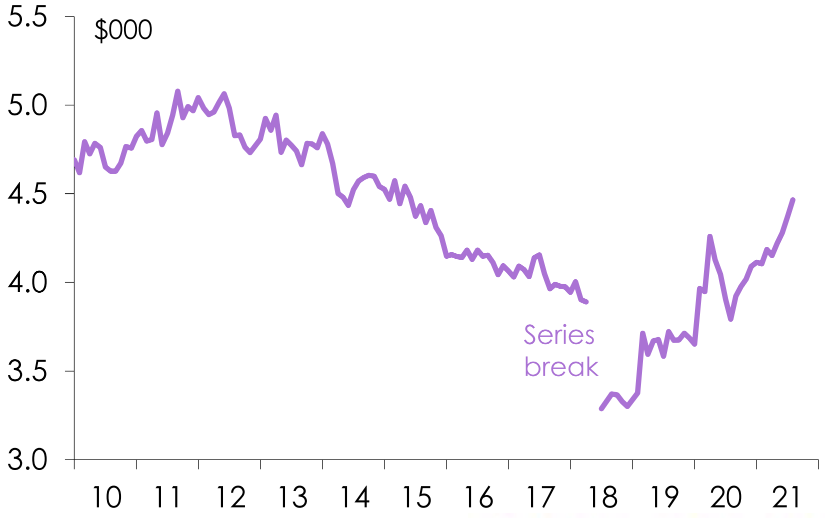
Online retail 'market share'



Debit card cash-outs



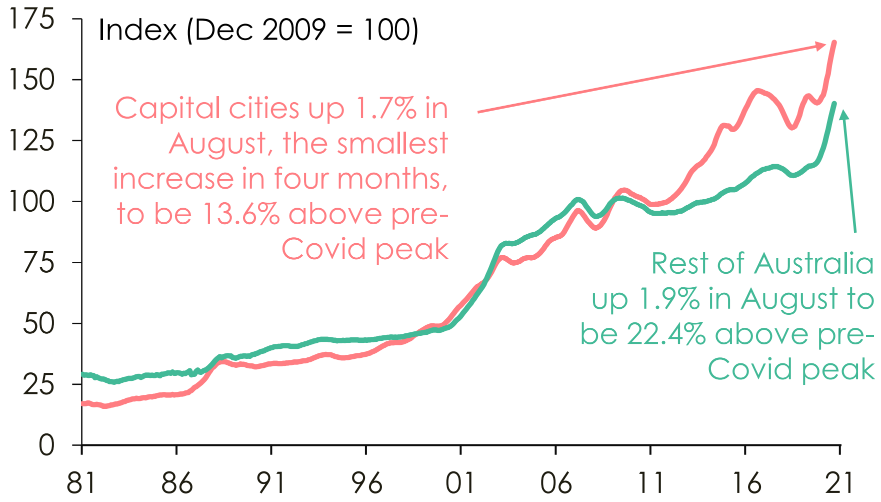
Direct entry payments



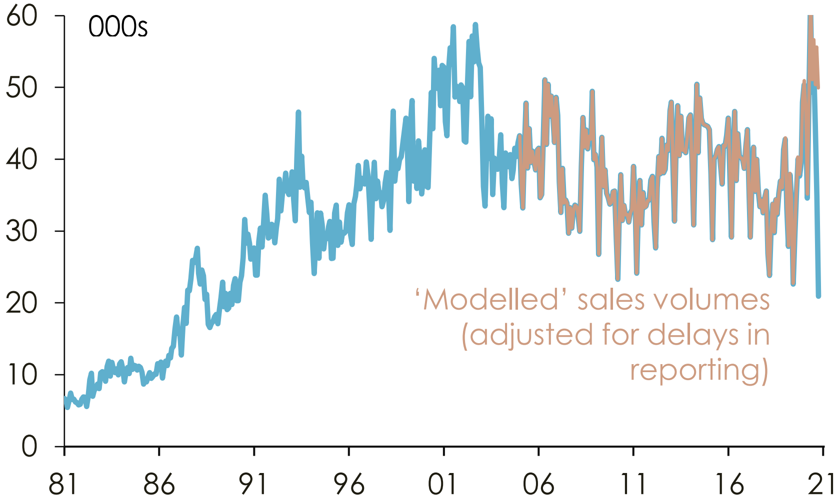
Sources: ABS, *Retail Trade, Australia*; RBA, *Statistical Tables*, C1, C2, C4 and C6. Latest data for online retail sales are for July: August online retail sales data will be published on 5th October; while August payments system data will be released on 7th October. Return to "What's New".

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

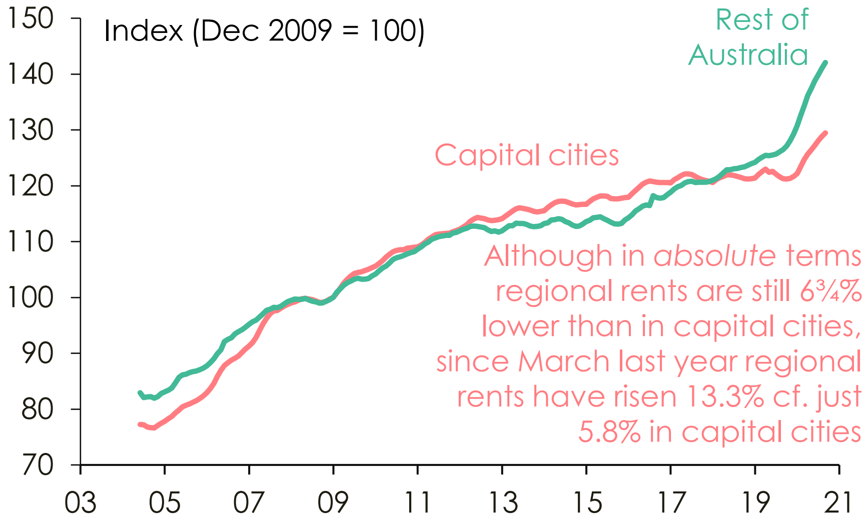
Residential property prices



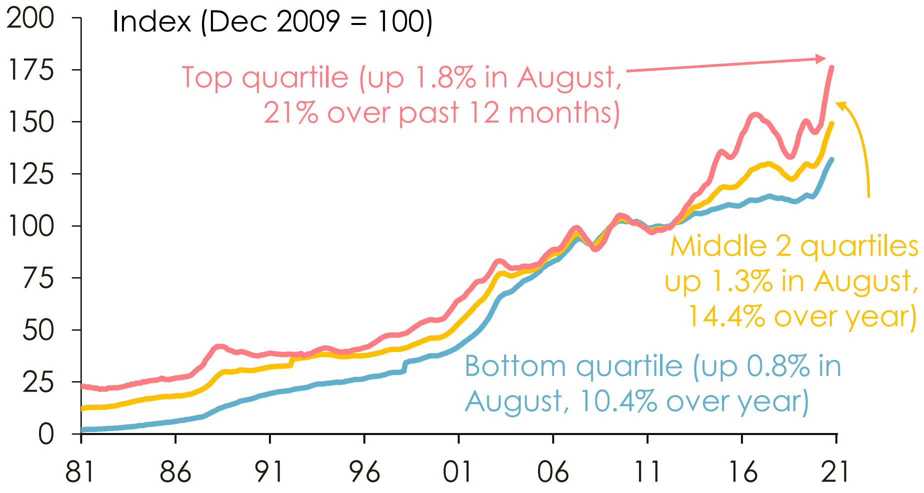
Residential property sales volumes



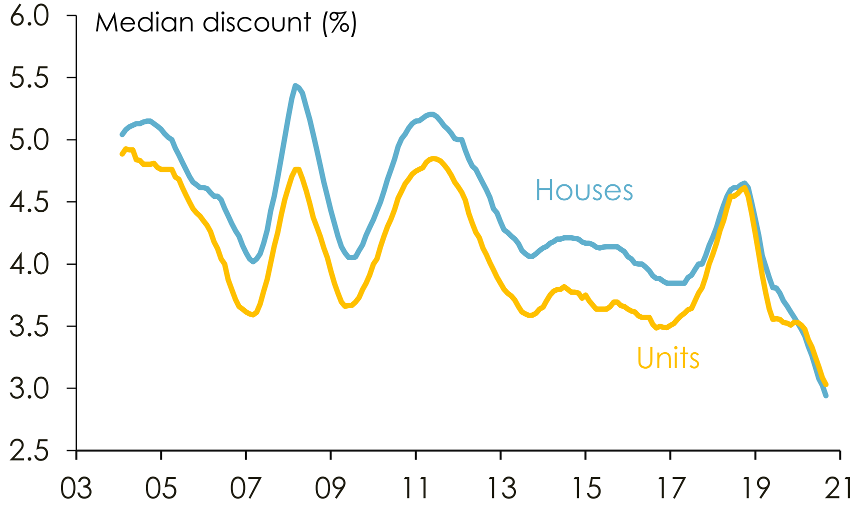
Residential rents



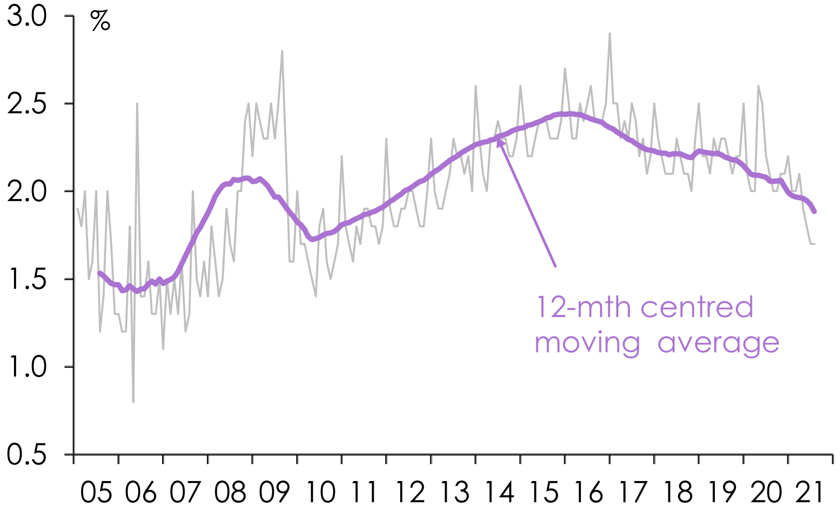
Property prices by tier



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 1st October. *Sources:* CoreLogic; SQM Research. Return to "What's New".

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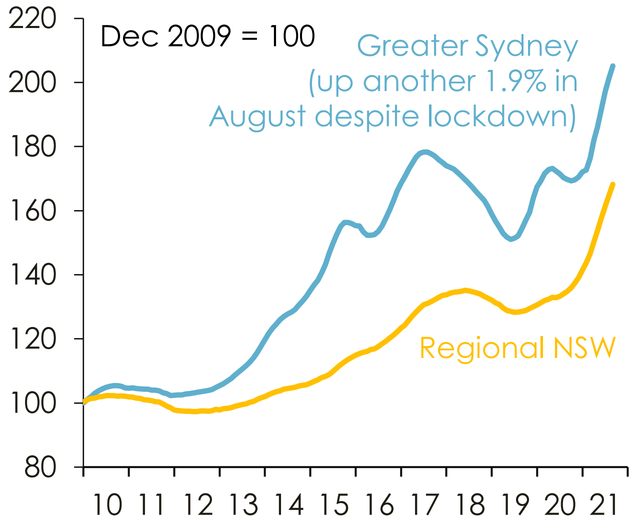
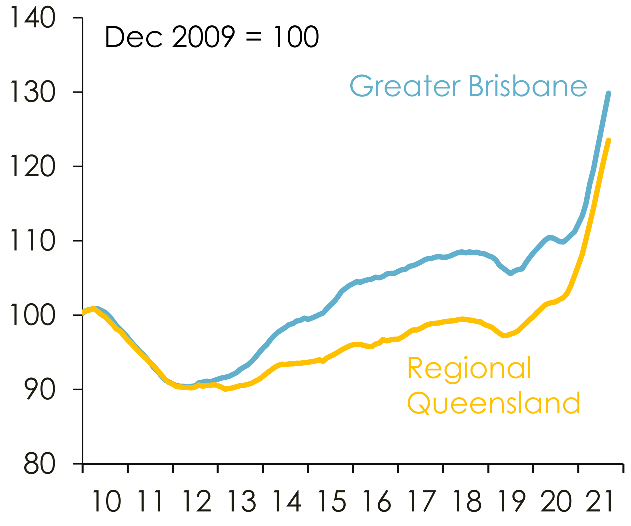
Prices in Hobart, Canberra, and regional New South Wales, Queensland and Tasmania are all more than 20% above their pre-pandemic peaks

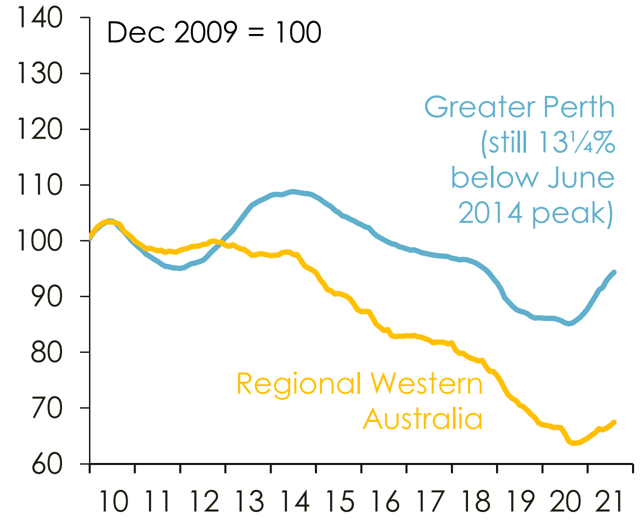
New South Wales



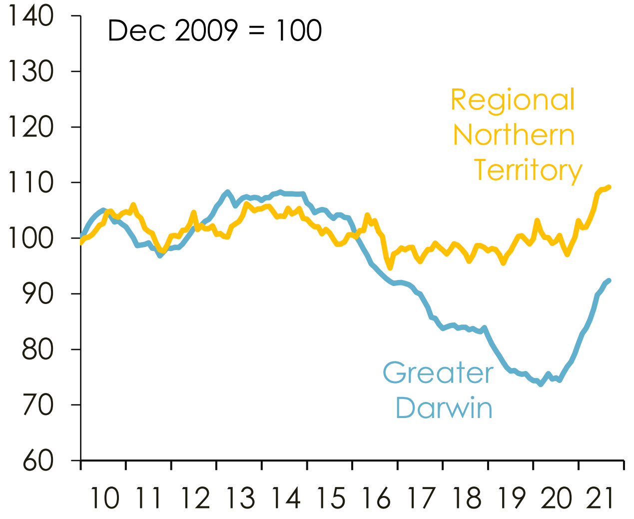
Queensland



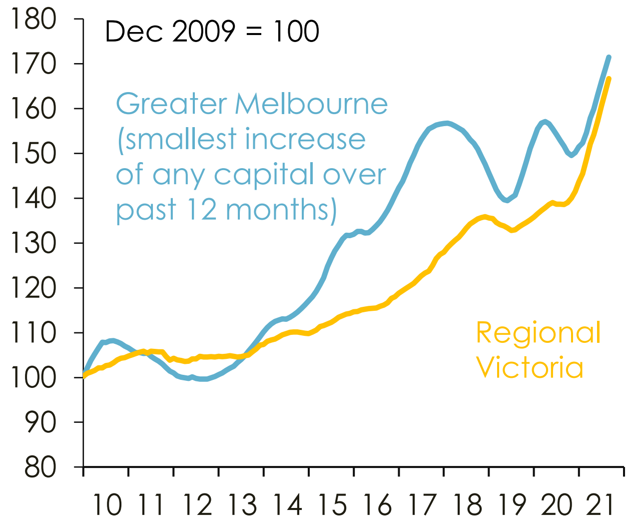
Western Australia



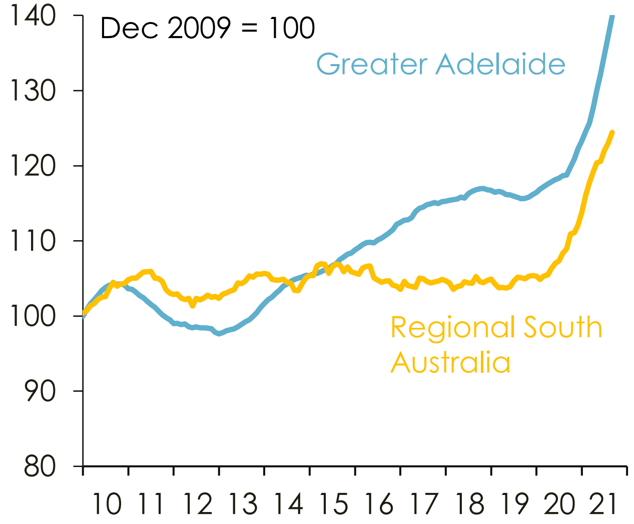
Northern Territory



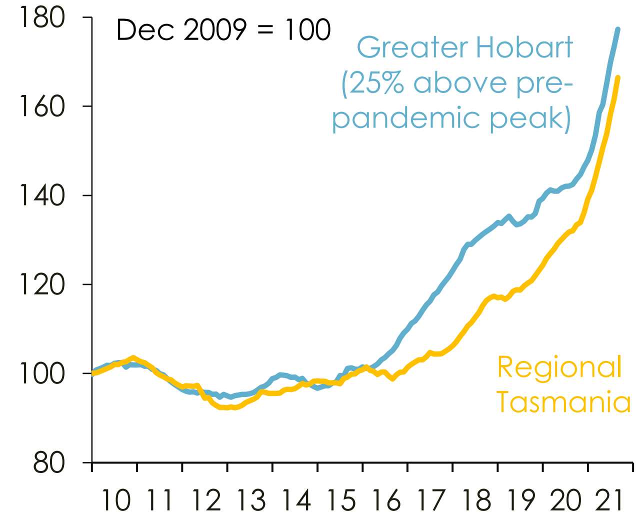
Victoria



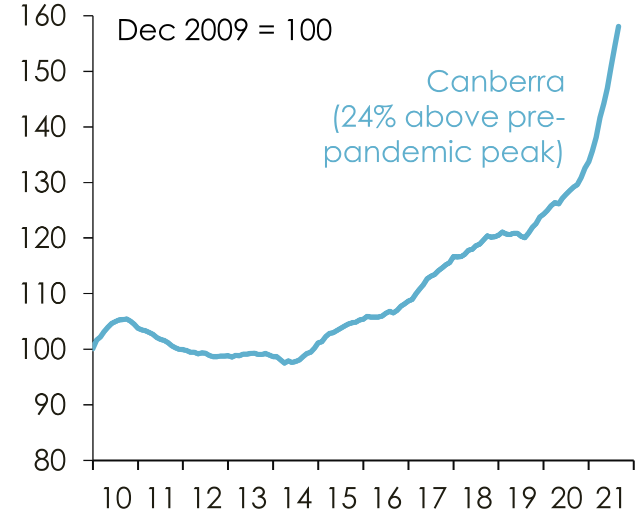
South Australia



Tasmania



Australian Capital Territory



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

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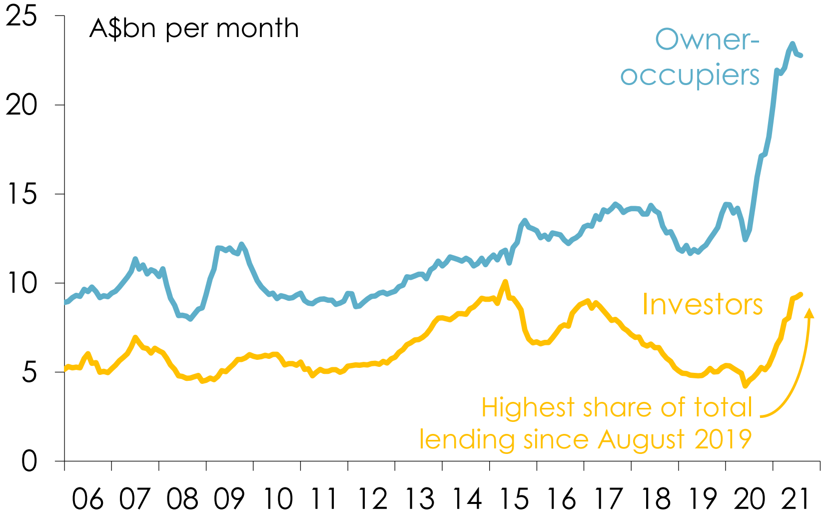
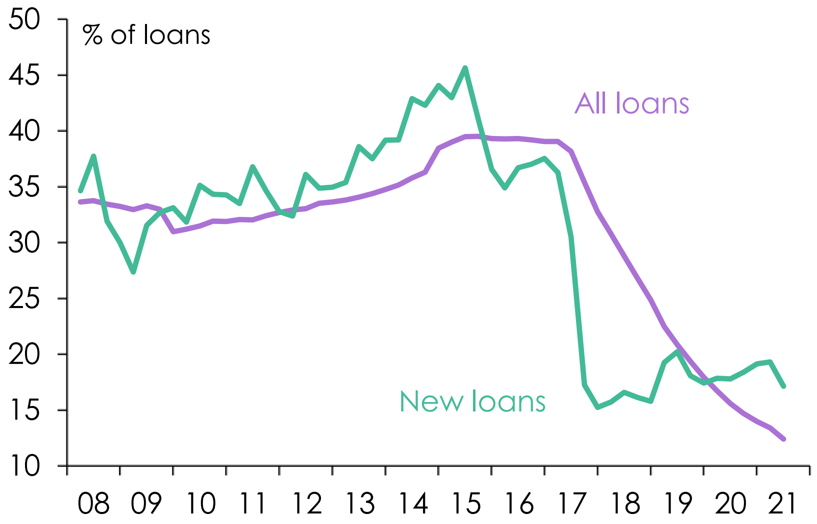
INDEPENDENT ECONOMICS

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

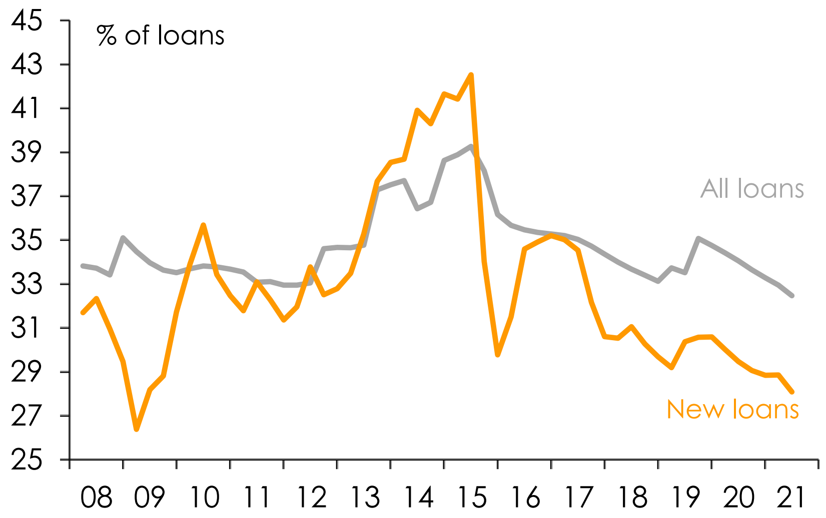
Housing finance commitments



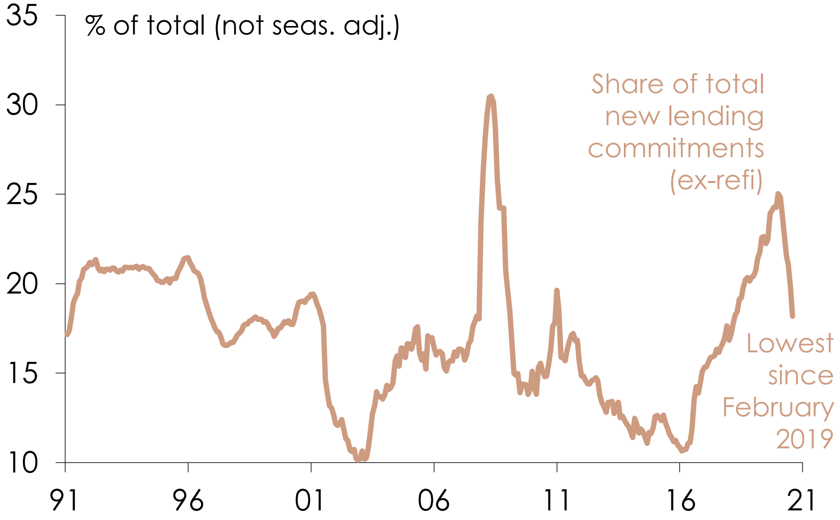
Interest-only loans as pc of total



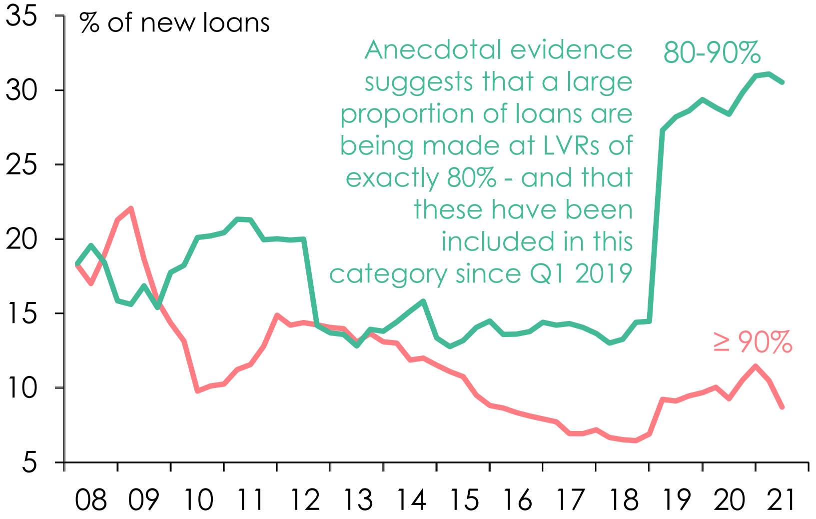
Loans to investors as a pc of total



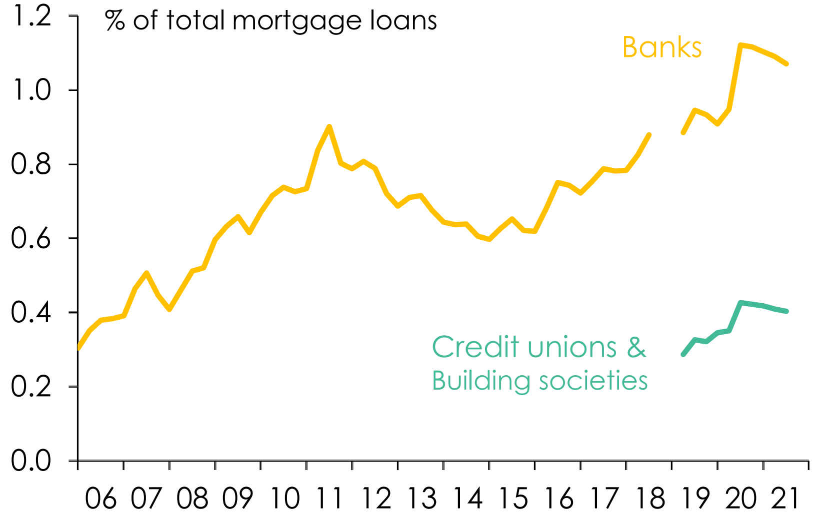
Lending to first home buyers



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 1st October; APRA data on ADI property exposures for the September quarter will be released on 7th December. Return to "What's New".

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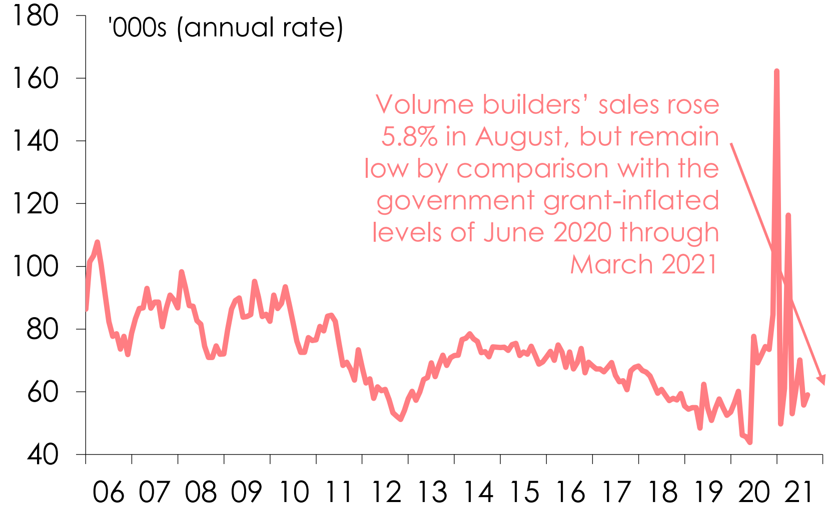
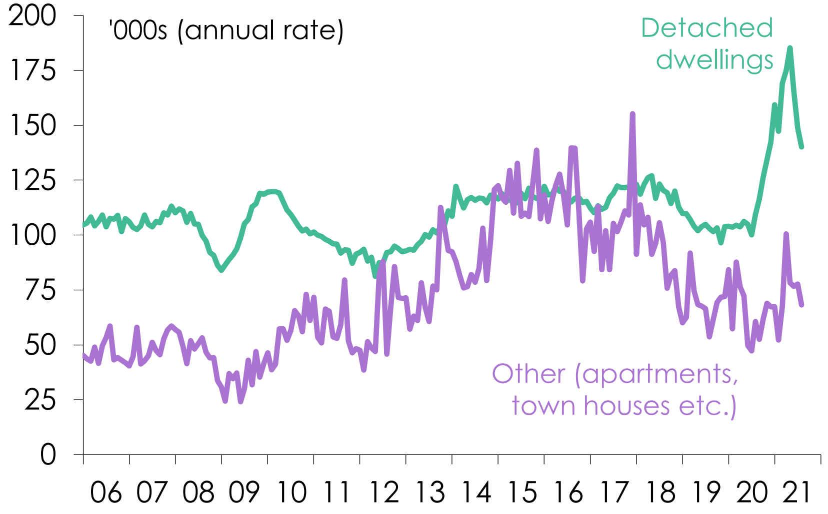
July housing approvals were down 25% from a government grant-induced record peak in March, but remain high by historical standards

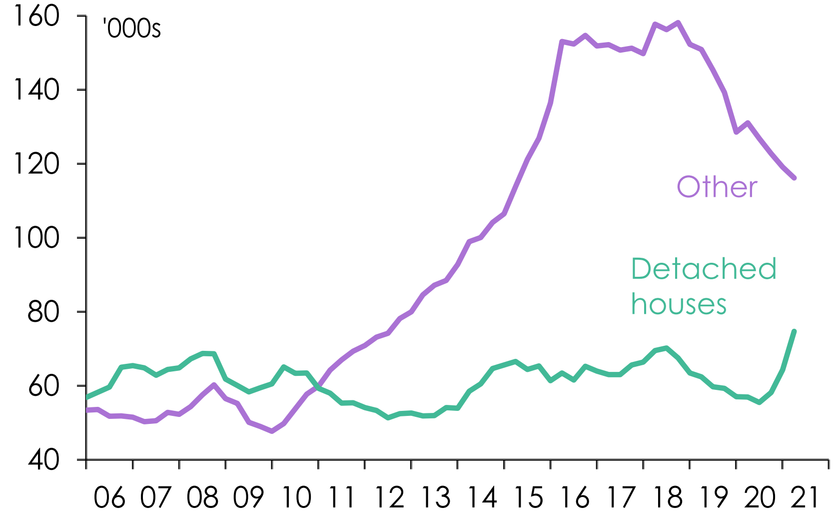
Large builders' new home sales



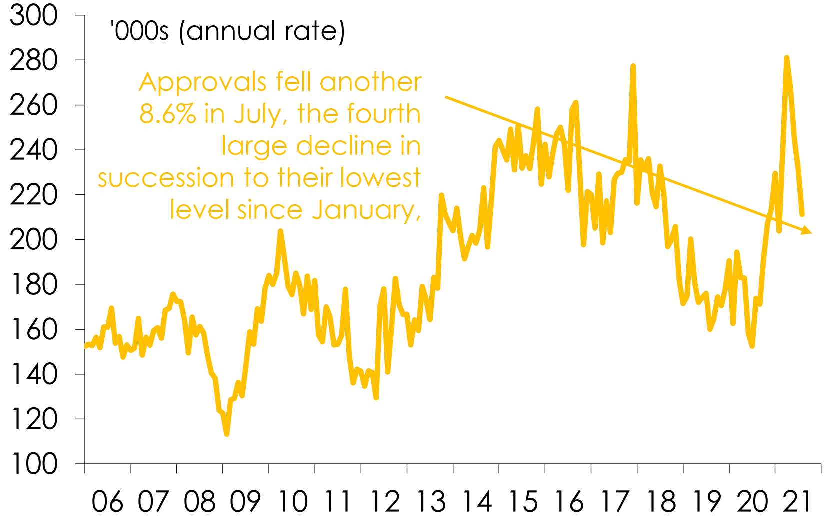
Building approvals, by type



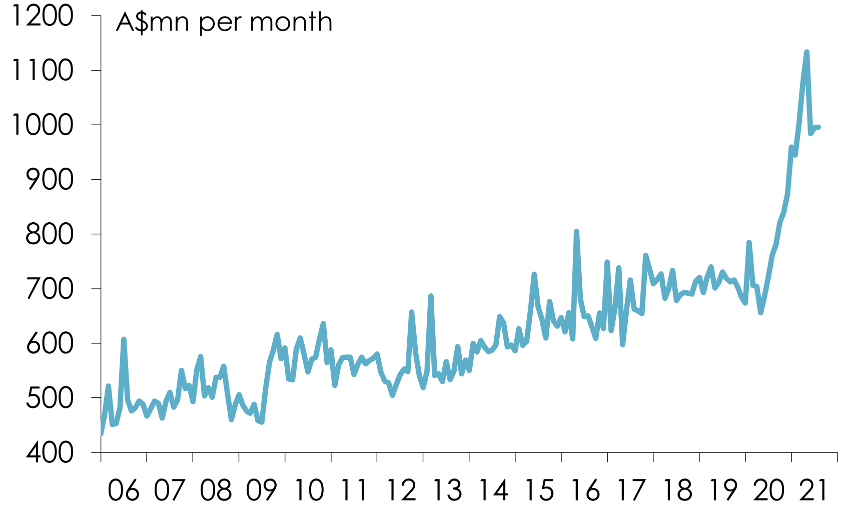
Dwellings under construction



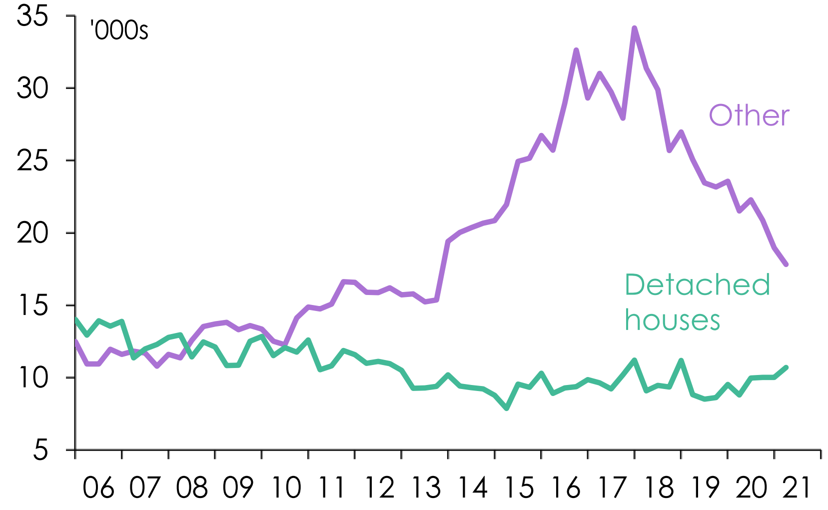
Residential building approvals



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 30th September; June quarter dwellings under construction and 'pipeline' data on 13th October. Return to "What's New".

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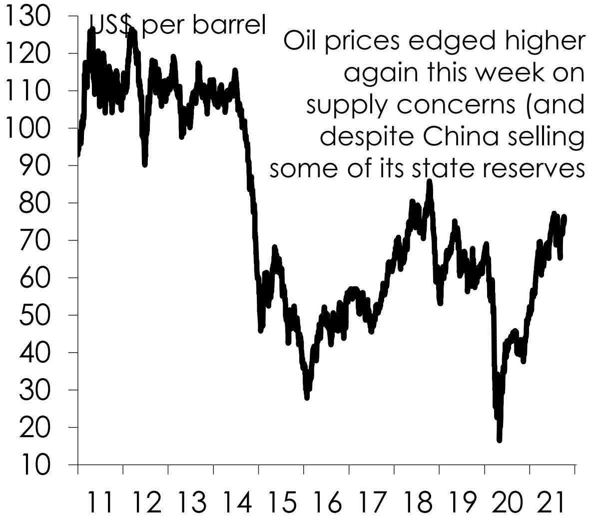
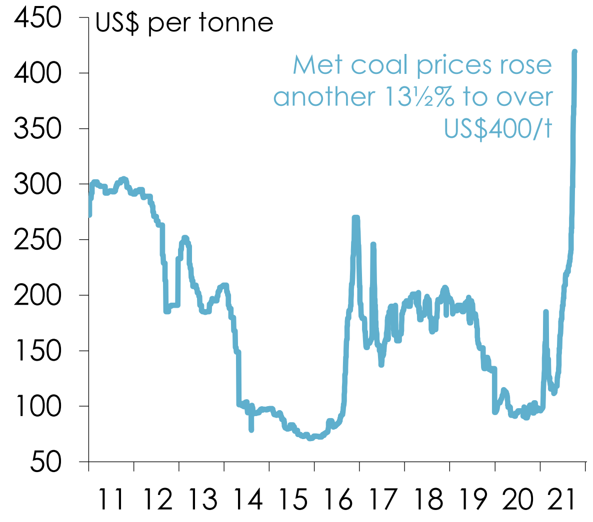
INDEPENDENT ECONOMICS

The iron ore price rebounded 5¼% this week but is still more than 50% down from early July, whereas coking coal topped US$400/t

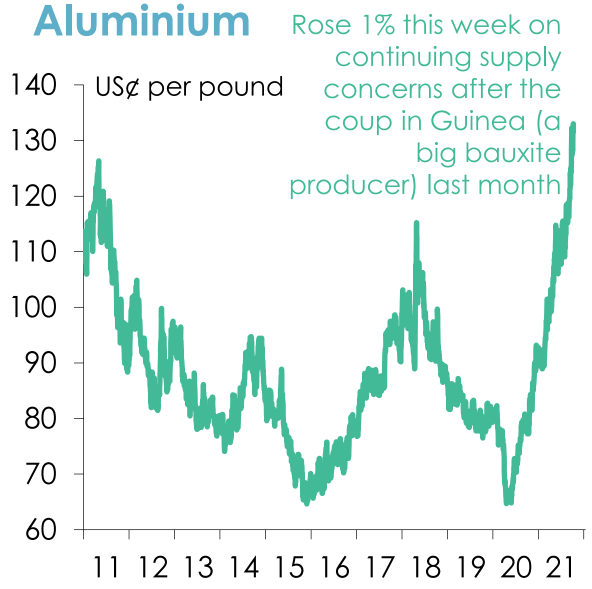
Brent crude oil



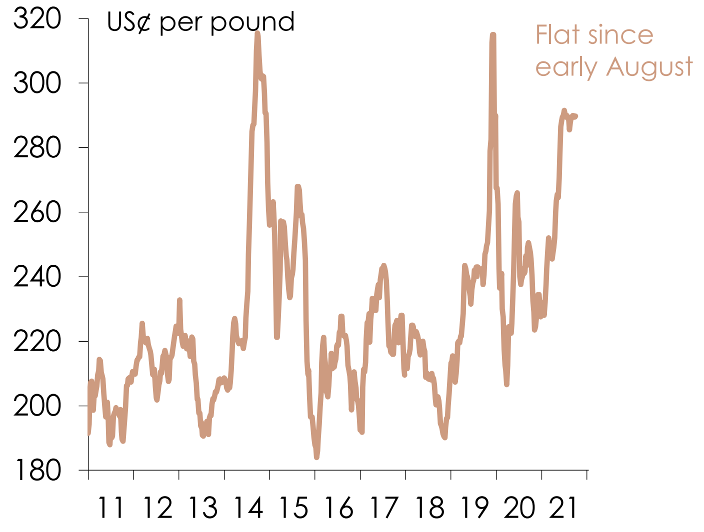
Metallurgical coal



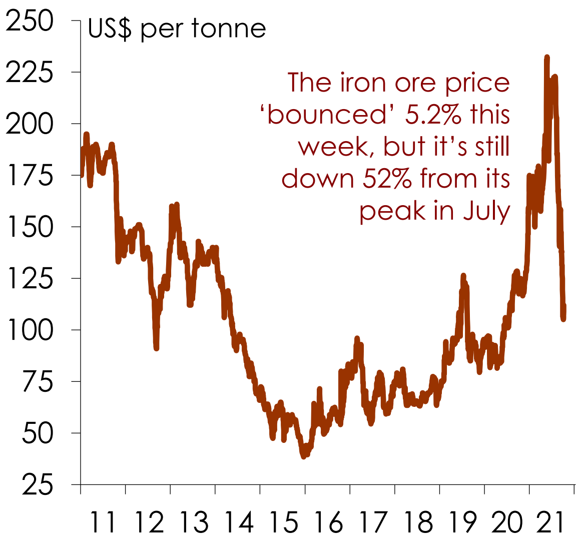
Aluminium



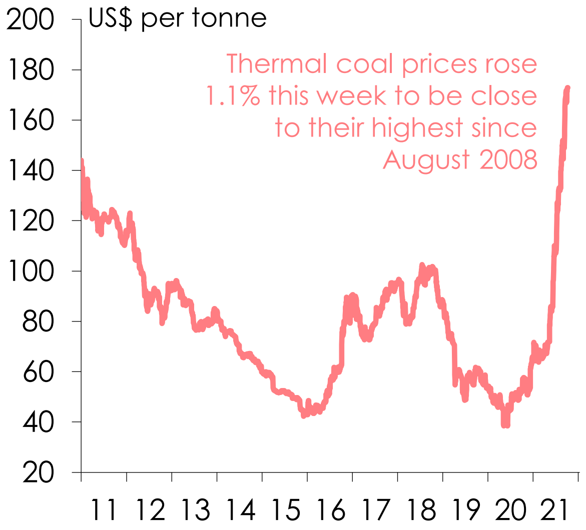
Beef



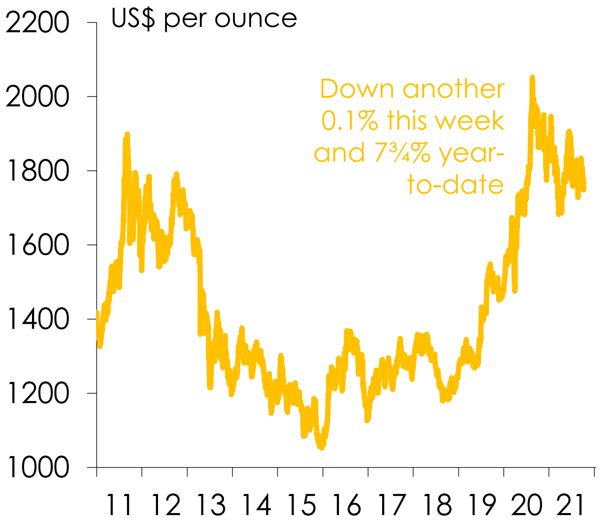
Iron ore



Thermal coal



Gold



Wool

Sources: Refinitiv Datastream; Meat & Livestock Australia; Australian Wool Innovation. Data up to 24th September. Return to "What's New".

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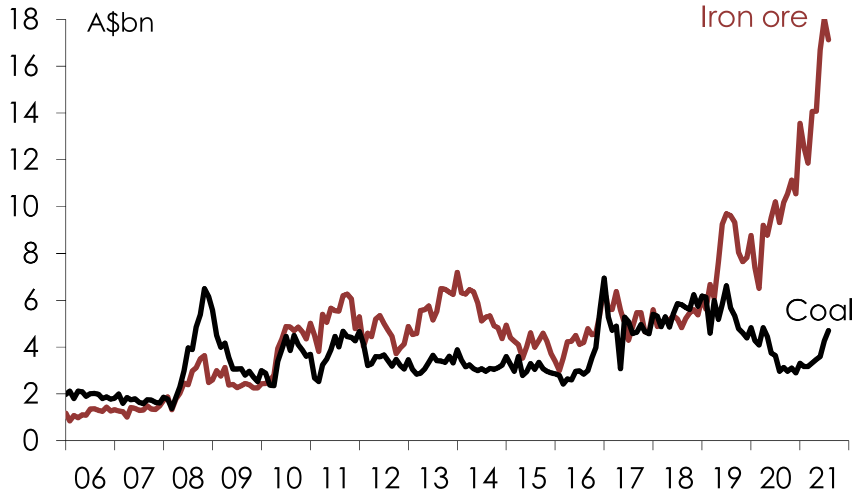
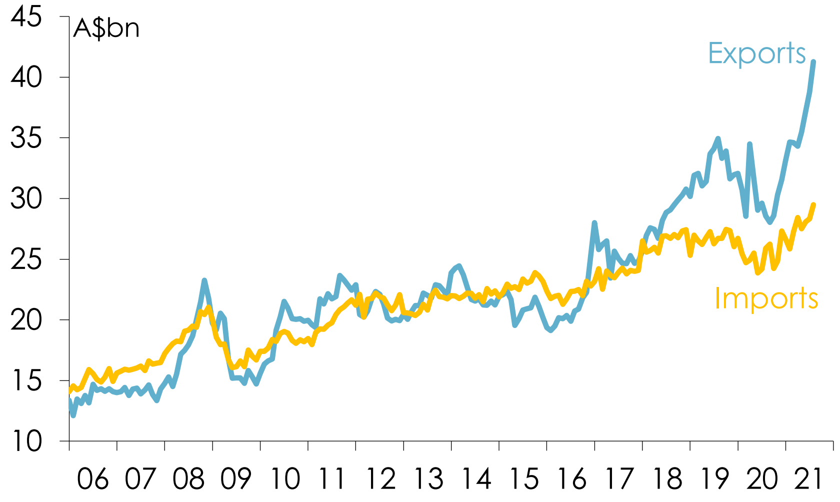
Australia registered another record monthly trade surplus of $12bn in July, this time thanks to strong growth in LNG and thermal coal exports

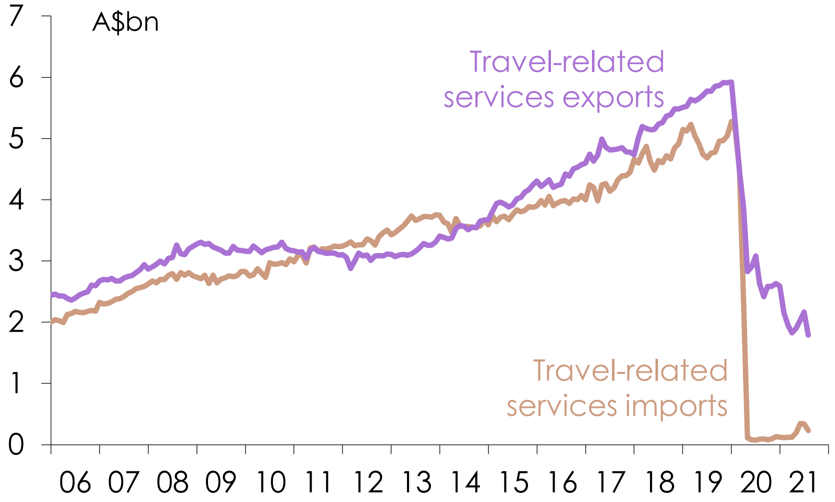
Iron ore and coal exports



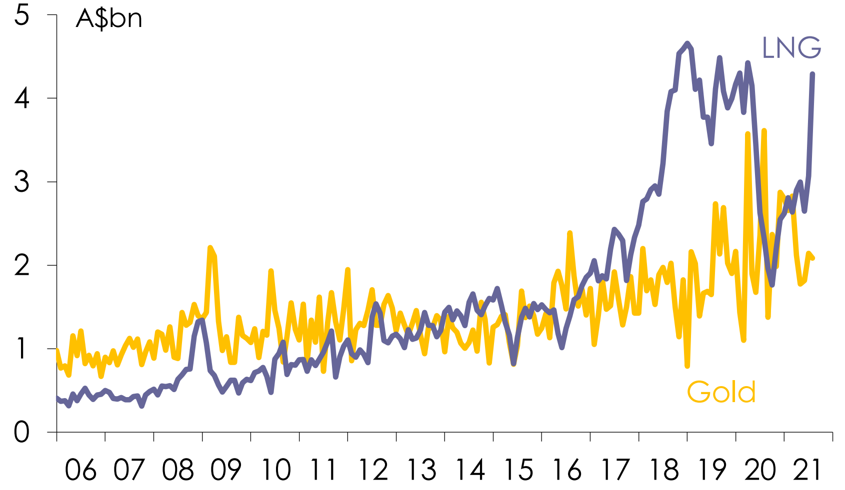
Merchandise exports and imports



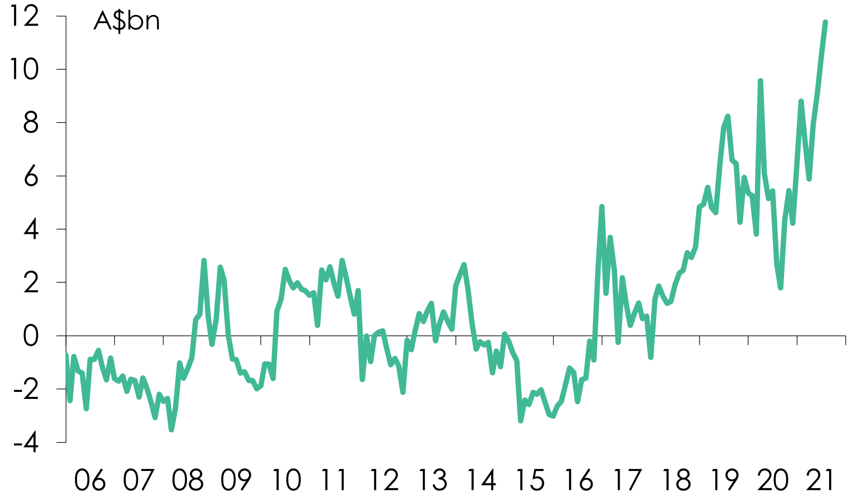
Tourism-related services trade



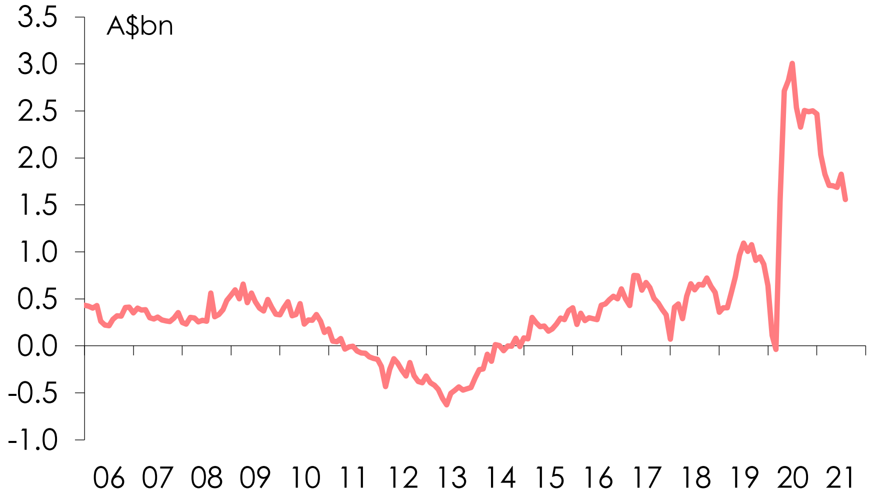
LNG and gold exports



Merchandise trade balance



Tourism services trade balance



Source: ABS, *International Trade in Goods and Services, Australia*, July 2021. August data will be released on 5th October. Return to "What's New".

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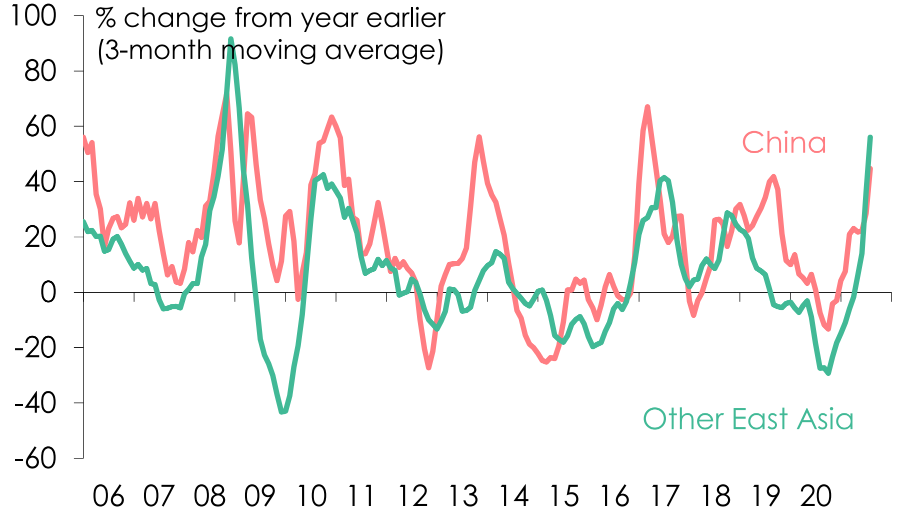
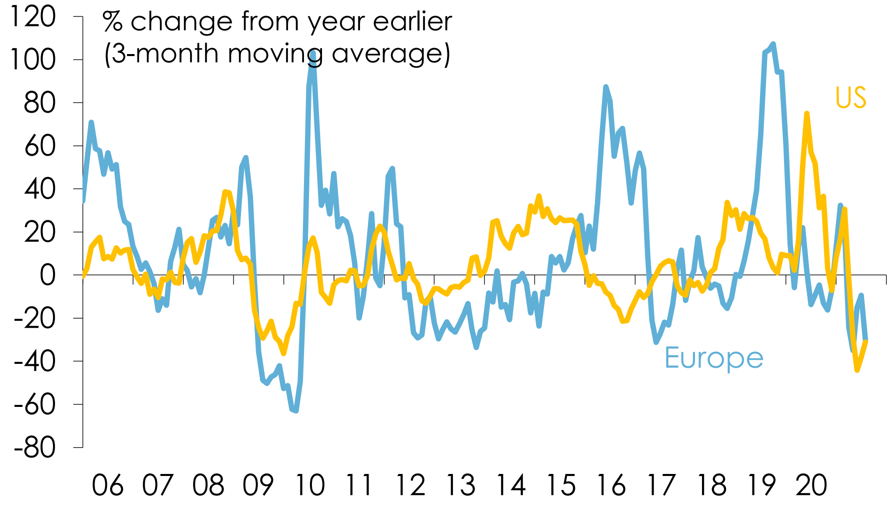
Australia continues to run a large trade surplus with China despite China's sanctions against a range of Australian exports, thanks to iron ore

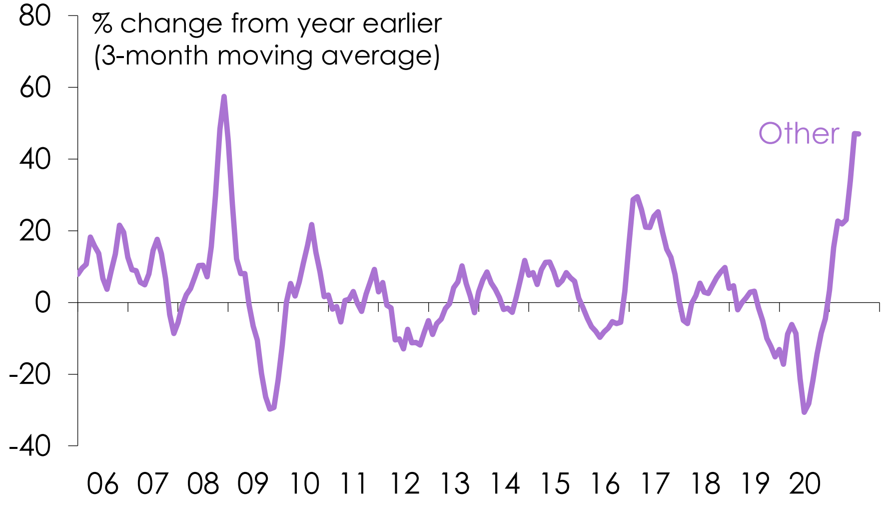
Merchandise exports – East Asia



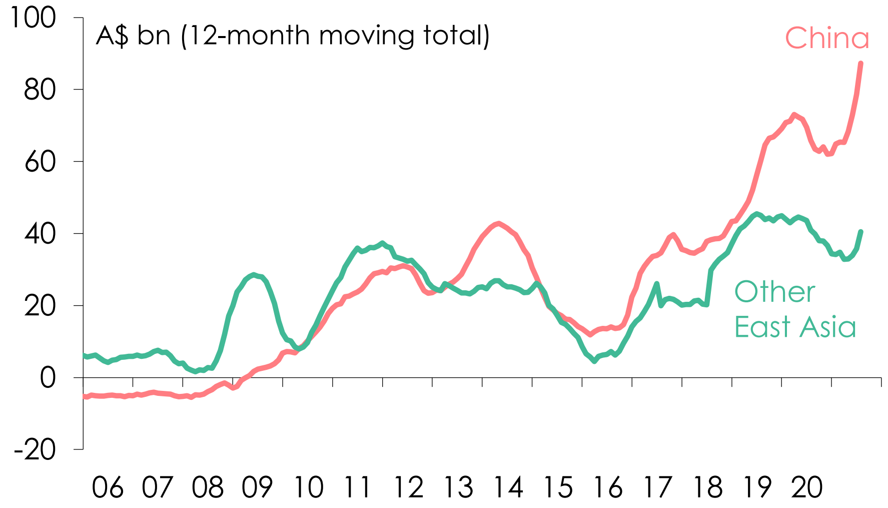
Merchandise exports – US & Europe



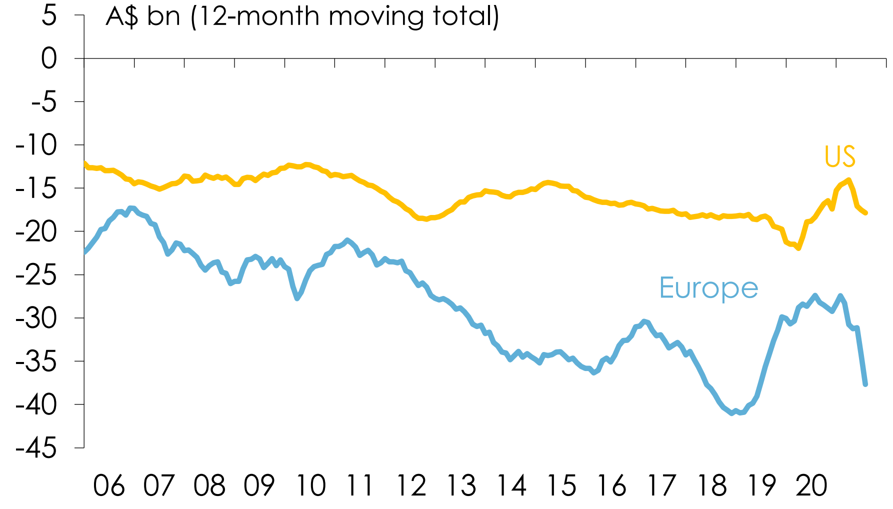
Merchandise exports – other



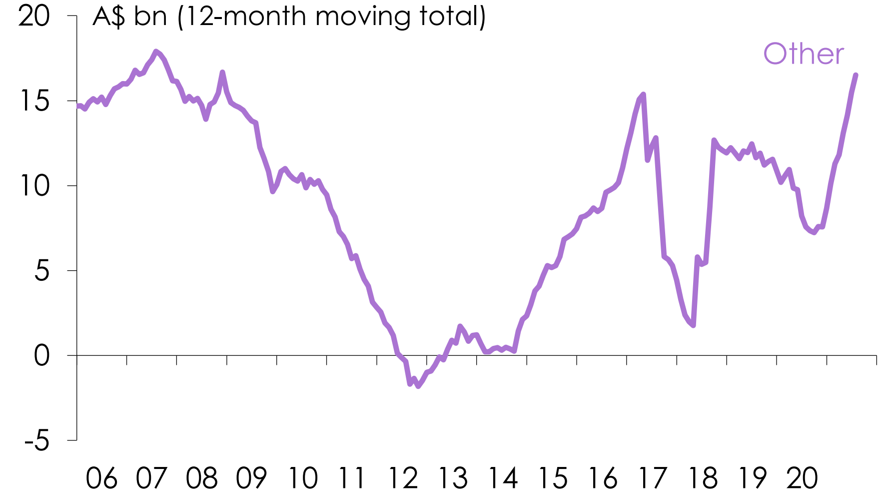
Goods trade balance – East Asia



Goods trade balance – US & Europe



Goods trade balance – other



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

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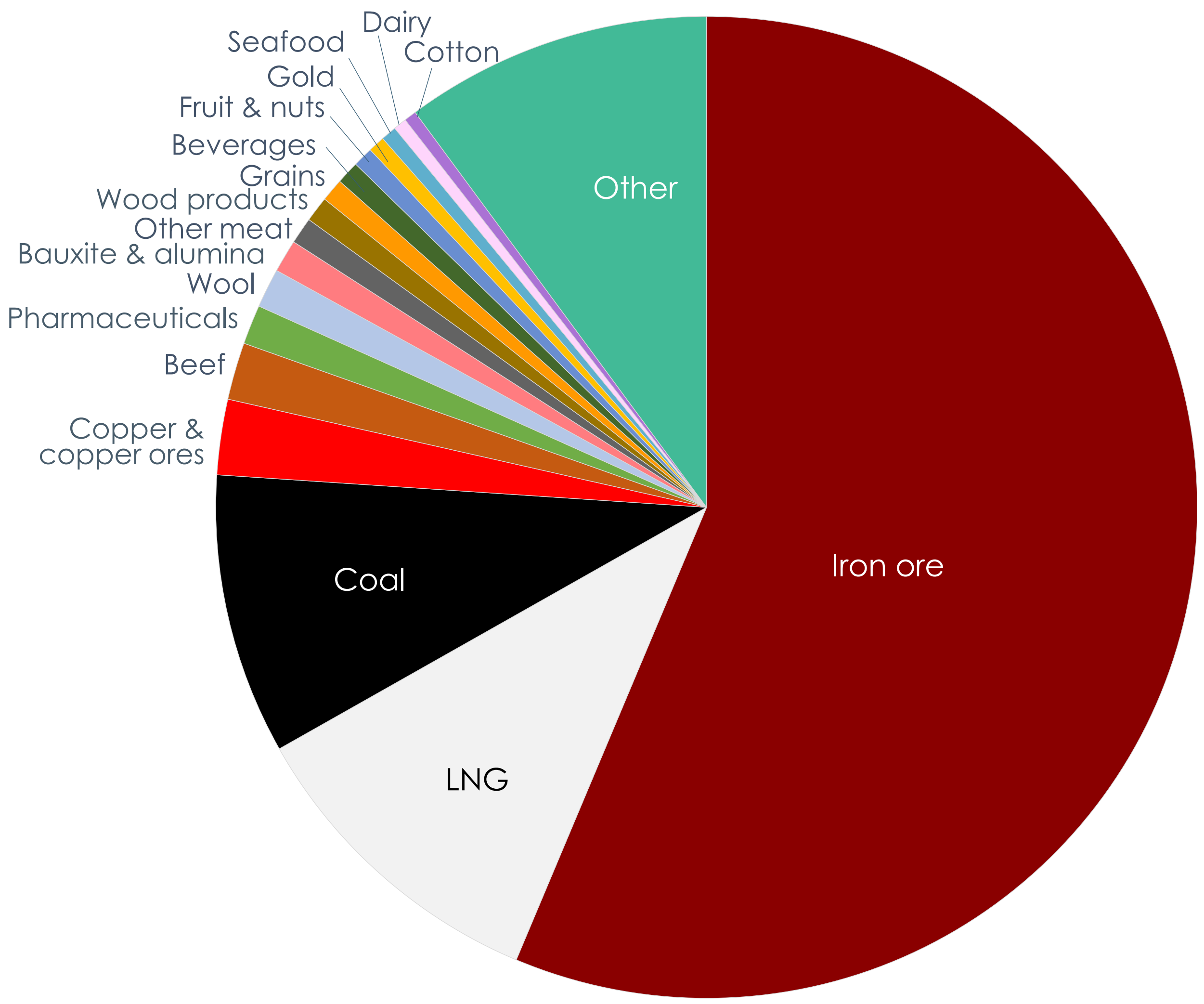
The bilateral relationship between Australia and its largest trading partner China seems unlikely to improve any time soon and could get worse

Australia's merchandise exports to China, 2019-20

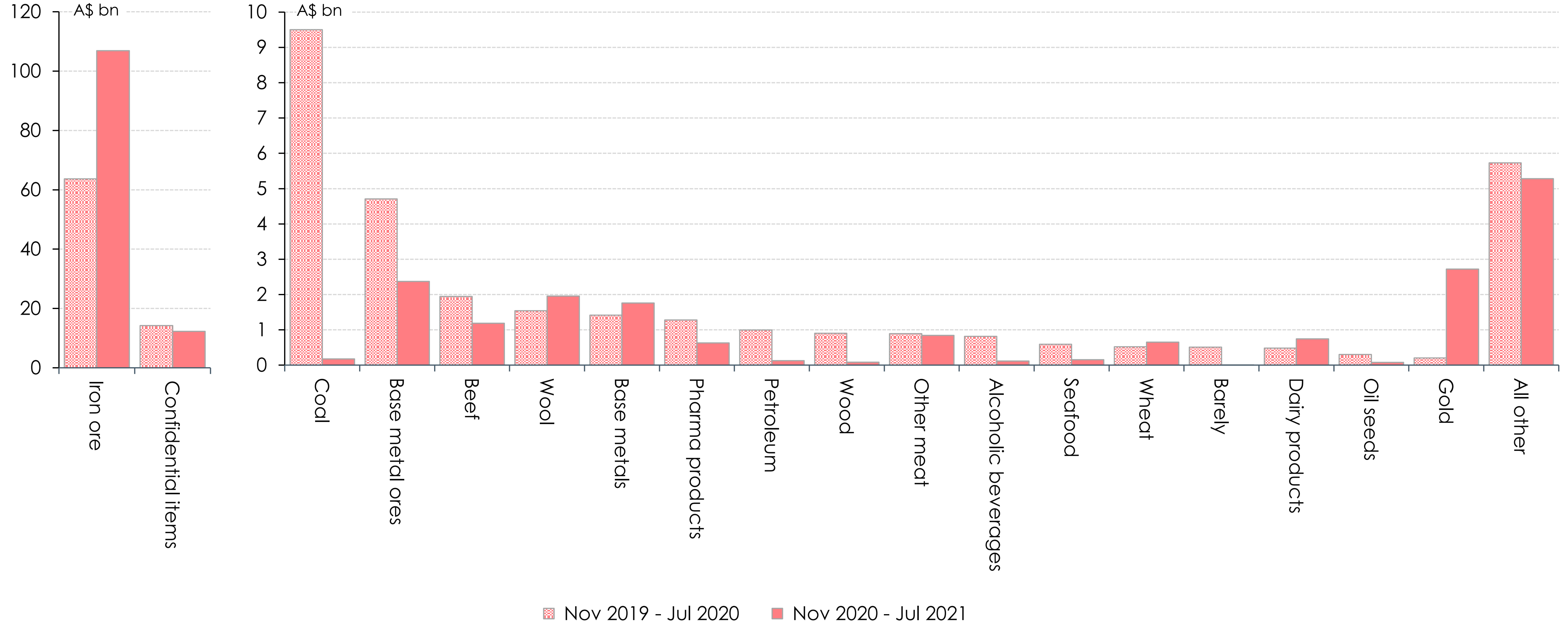


Note: 'Wood' includes wood products; 'dairy' includes milk, cream, butter & cheese; 'seafood' includes crustaceans, fish and processed seafood; 'other' includes confidential items.
Sources: Australian Department of Foreign Affairs & Trade, Trade Statistical Pivot Tables; Corinna. Return to "What's New".

- China accounted for 39½% of Australia's merchandise exports in FY 2019-20 (the largest proportion any country has since the mid-1950s when 36% of Australia's exports went to the UK)
  - of which iron ore & concentrates accounts for 56%
- China also accounted for 19% of Australia's services exports in CY 2019 of which tourism & education accounted for over 90%)
- China has no real alternatives to Australian iron ore in the near term – but it has been progressively expanding the range of other Australian products subject to discriminatory tariffs, "customs inspections", quarantine issues or outright bans – including wheat, wool, copper ores, sugar, lobsters, timber, wine and coal
  - Australia's exports of these products to China have dropped from about $25bn in 2019 to an annualized rate of about $5½bn since the sanctions were imposed – although in many cases Australian exporters have been able to find alternative markets (see next slide)
- 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 – a view likely to intensify after last week's announcement of a new defence pact with the US and UK
- Another looming flashpoint in the bilateral relationship may come from the forthcoming review (by the Defence Department) of the 2015 lease of the Port of Darwin to a Chinese company (Landbridge)

Iron ore, and to a much lesser extent gold, base metals, wool, wheat and dairy products are the only items Australia is selling more to China

Australian exports to China, eight months to July 2021 compared with eight months to July 2020



Note: ‘confidential items includes, in particular, LNG. *Source:* Australian Department of Foreign Affairs and Trade, Trade Statistical Pivot Tables - Country and commodity pivot table monthly; Corinna. Return to "What's New“.

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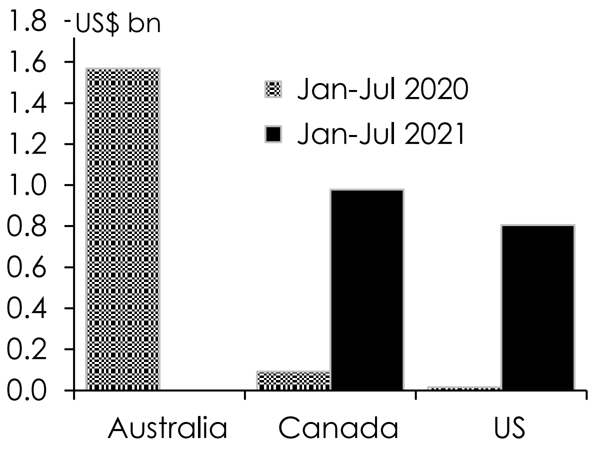
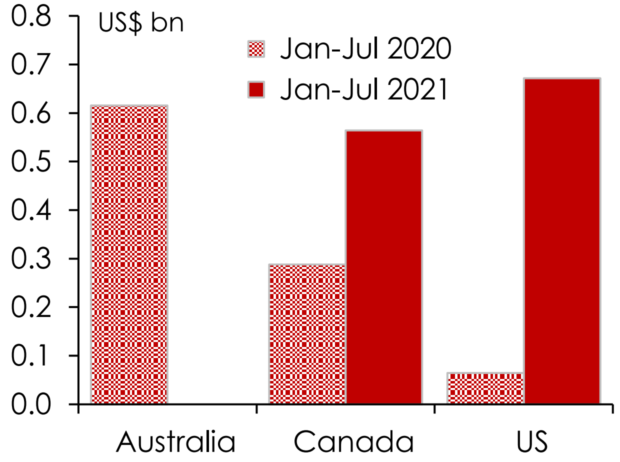
"With friends like these …" – how Australia's 'allies' have been 'cutting our lunch' in trade with China

China's imports of selected products, by origin – January-July 2021 compared with January-July 2020

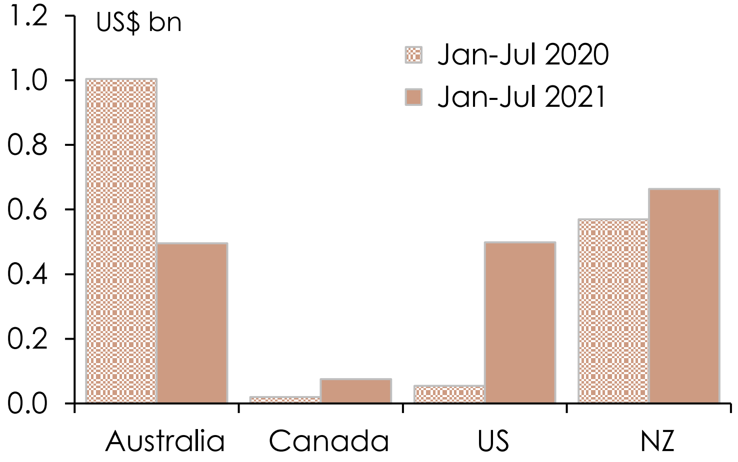
Coal



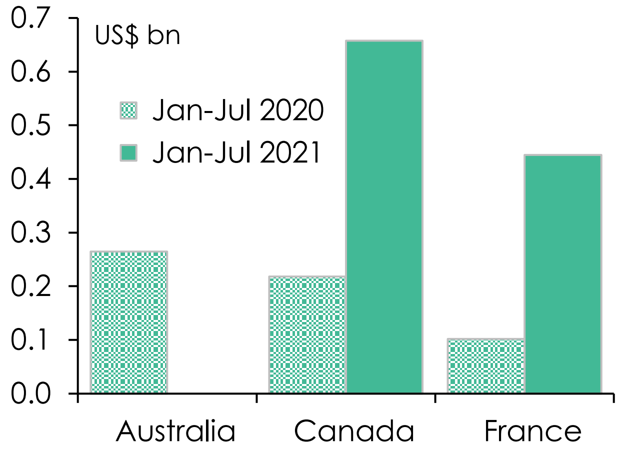
Copper ores



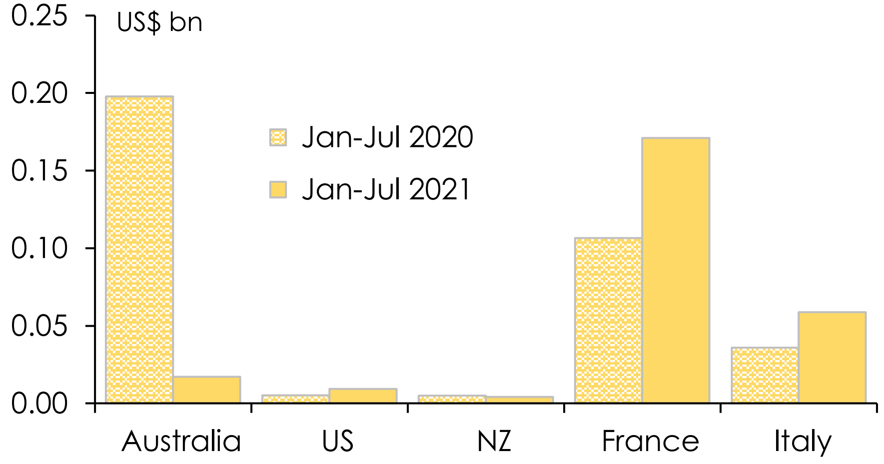
Beef



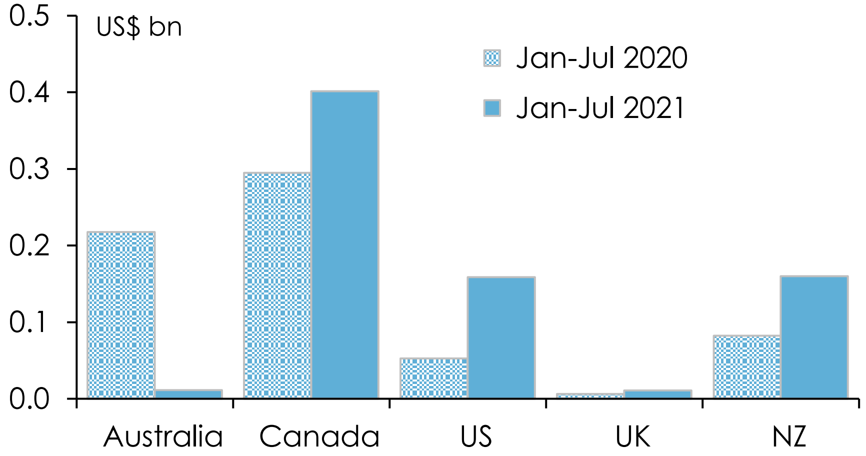
Barley



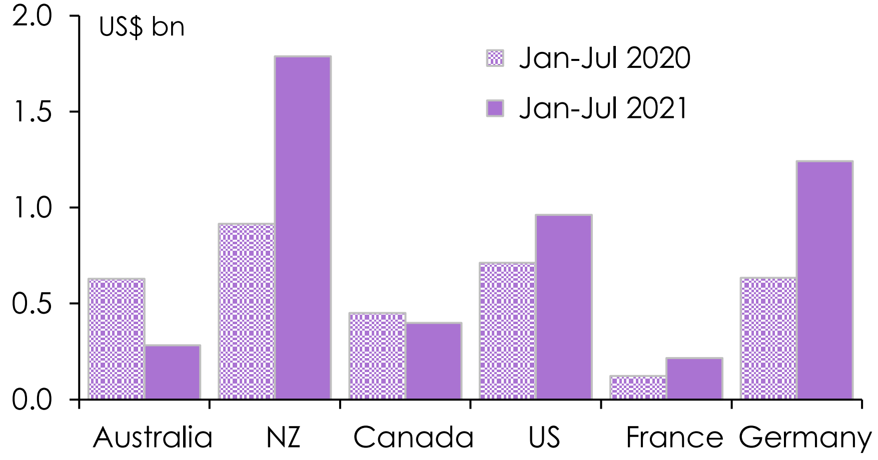
Wine



Crustaceans



Wood & wood products



Source: China General Administration of Customs; Corinna. Return to "What's New".

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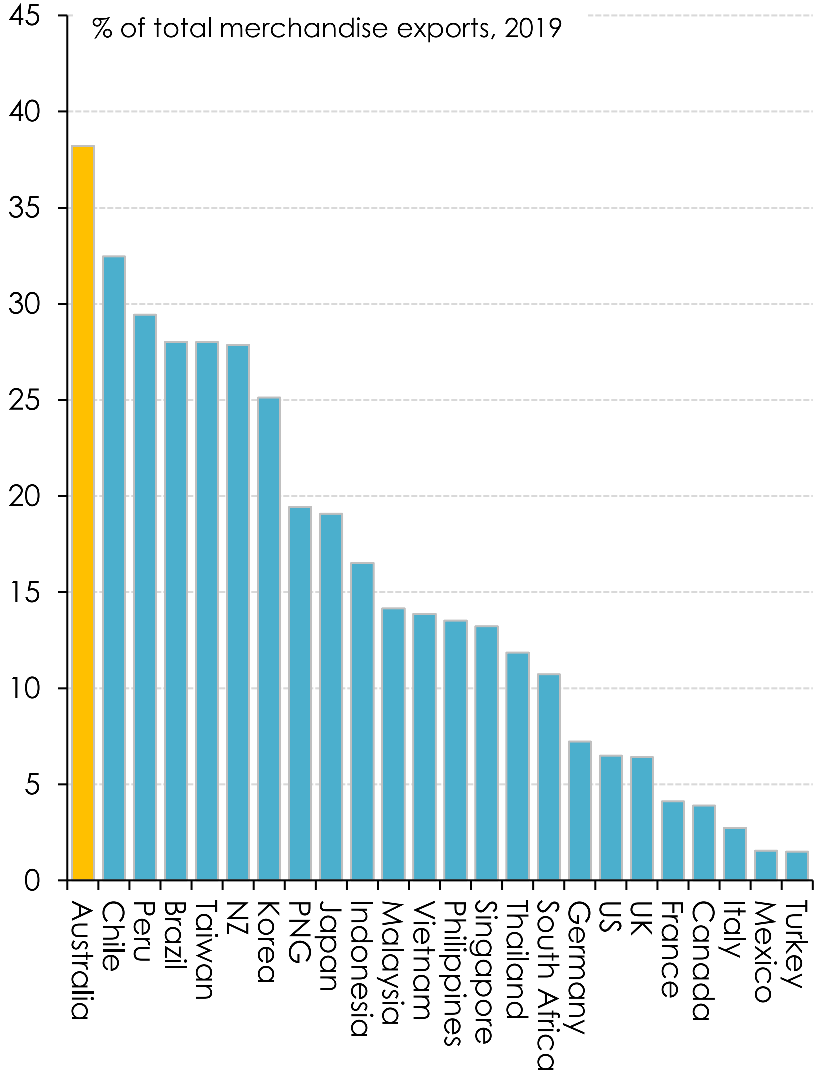
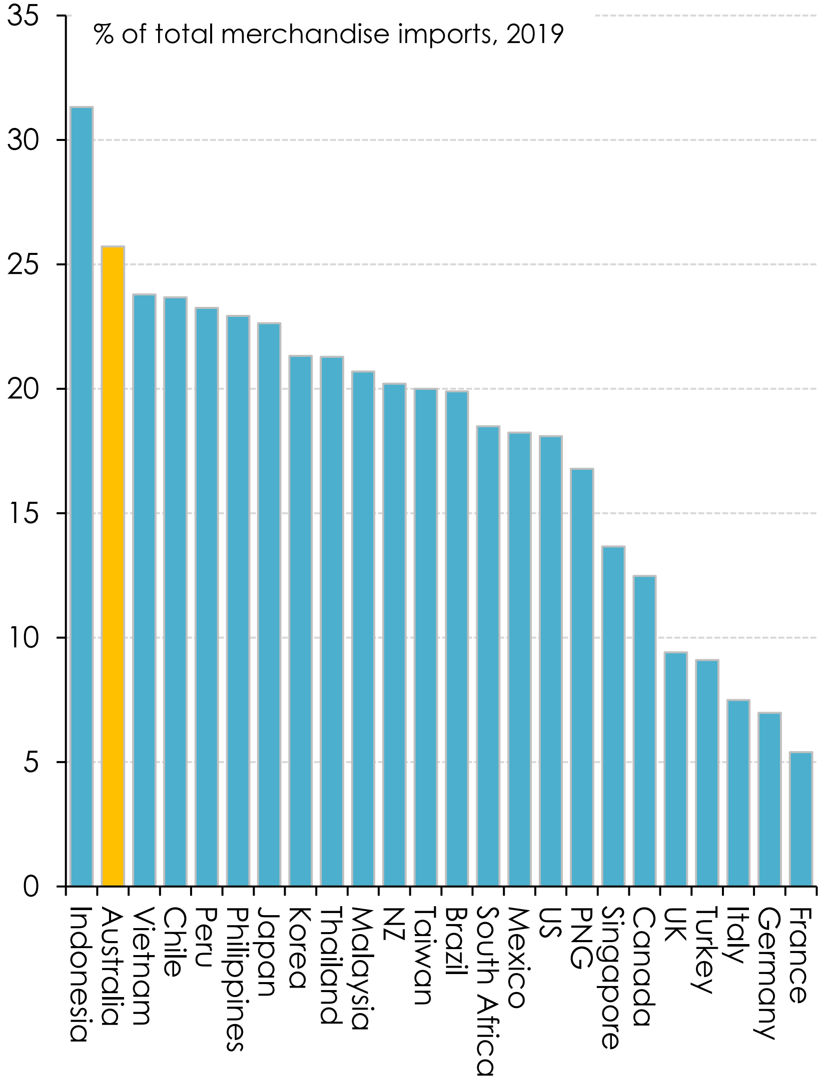
China can cause Australia economic pain because we're very dependent on it, and are one of the few countries with whom China runs a deficit

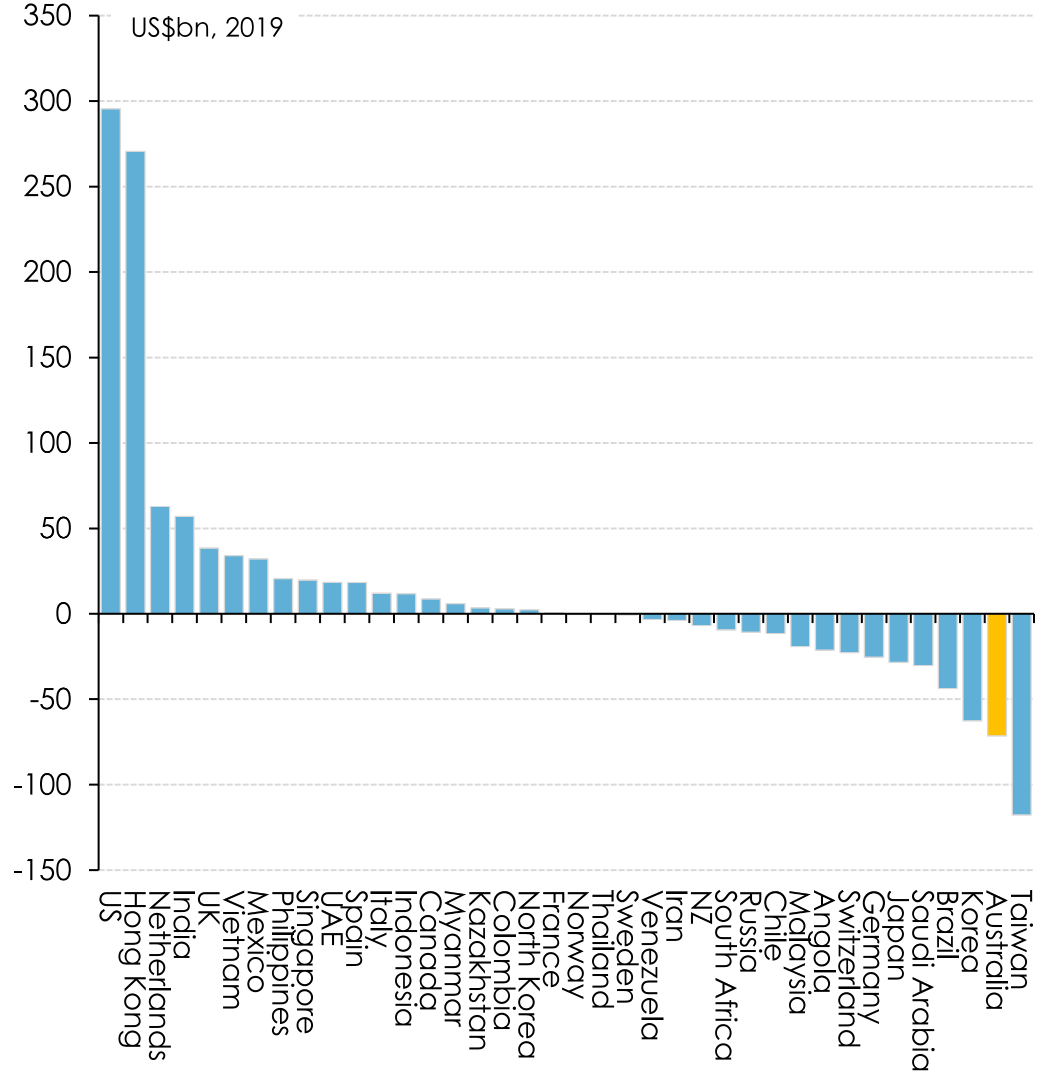
Merchandise exports to China as a pc of total



Merchandise imports from China as a pc of total



China's bilateral merchandise trade balances



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

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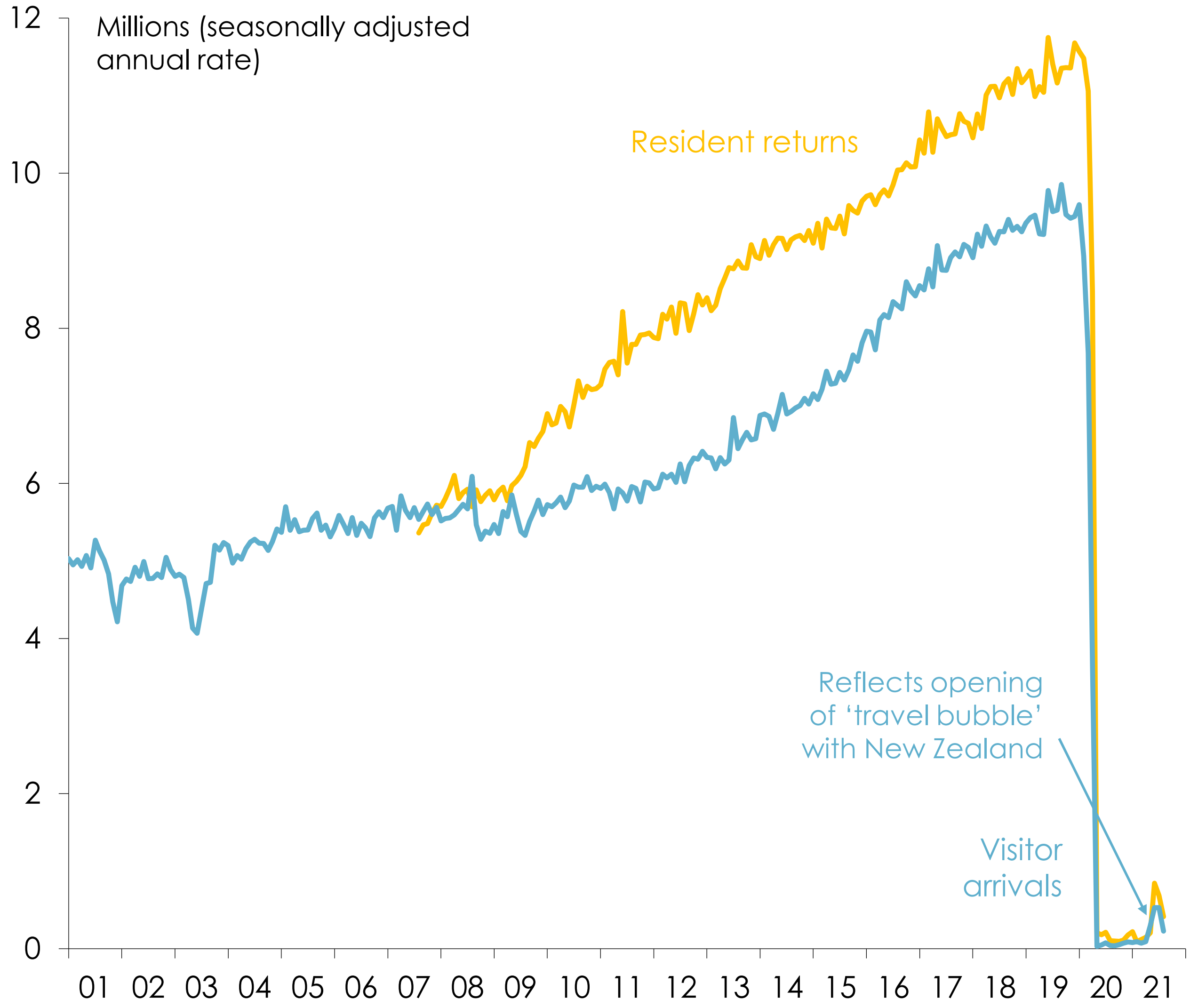
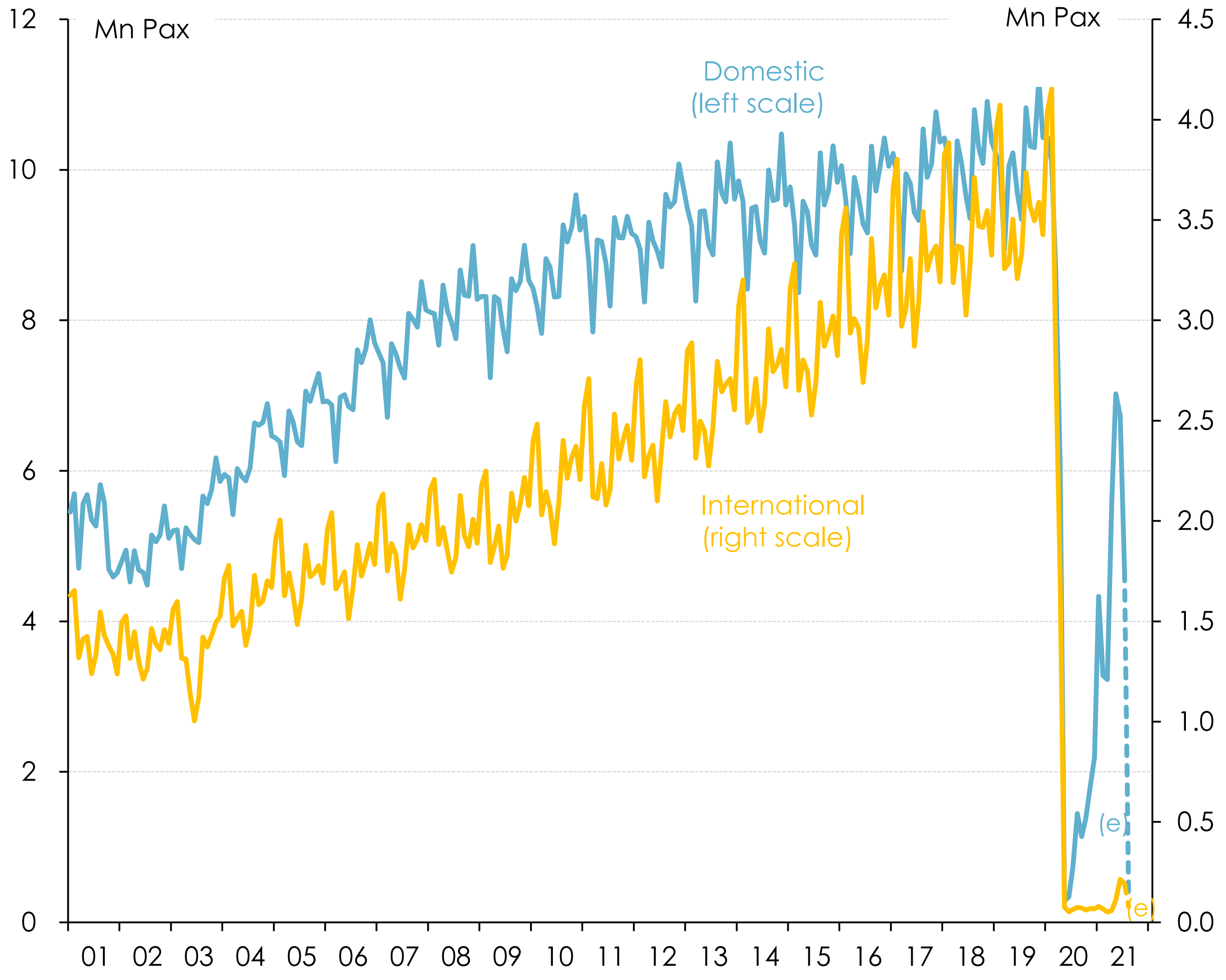
Domestic aviation picked up strongly between last November and May – but has since slumped with the lockdowns and tighter arrivals caps

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 July; BITRE data on airport passenger movements are for June; July 2021 estimate(e)has been extrapolated from data for Sydney Airport published by Sydney Airport Ltd. *Sources:* ABS; Bureau of Industry, Transport and Regional Economics (BITRE); Sydney Airport Ltd; Corinna. Return to "What's New".

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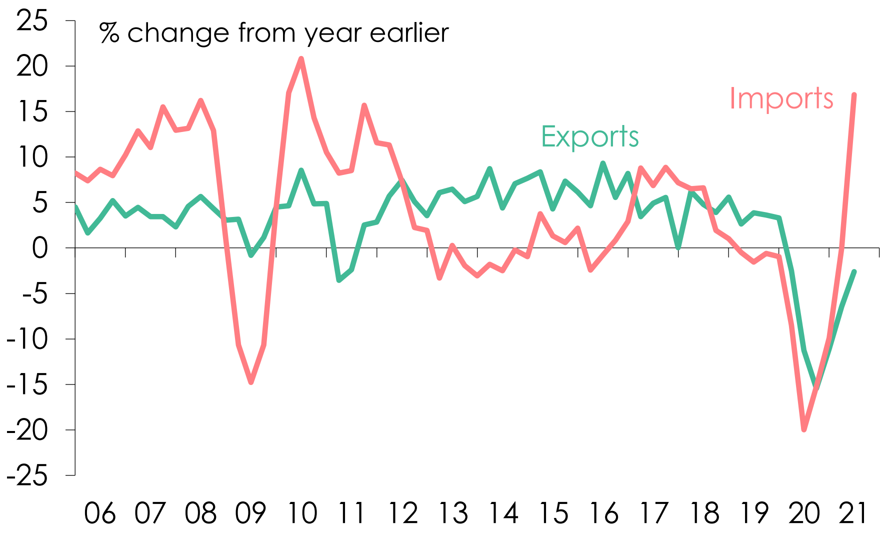
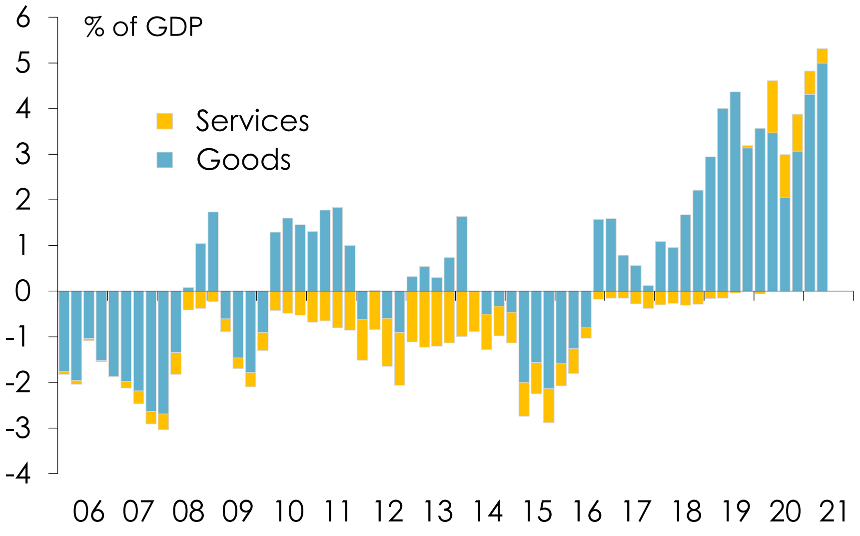
Australia recorded another record current account surplus in the June quarter, thanks to another large gain in export prices

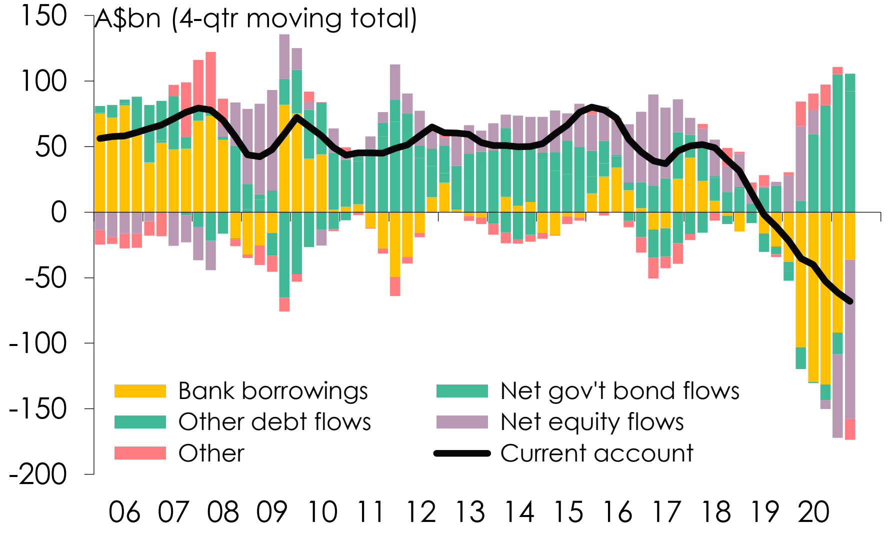
Export and import volumes



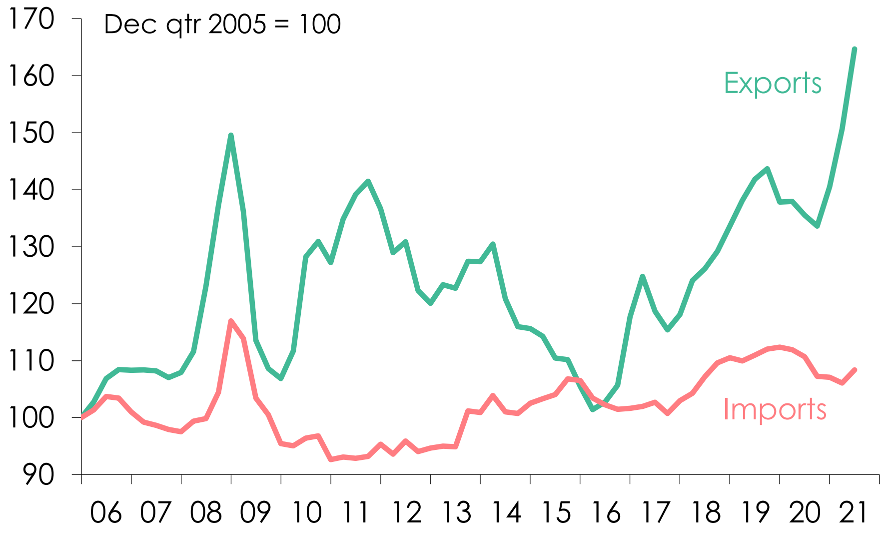
Goods & services trade balances



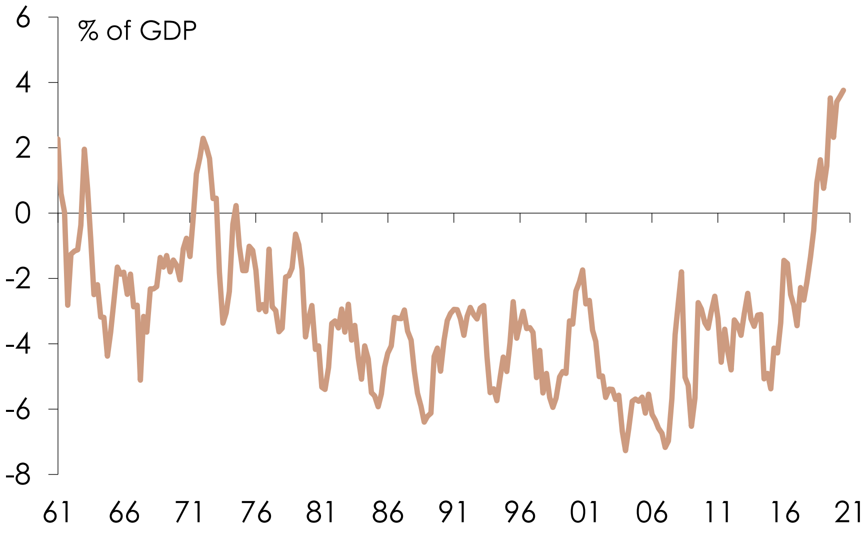
Capital flows



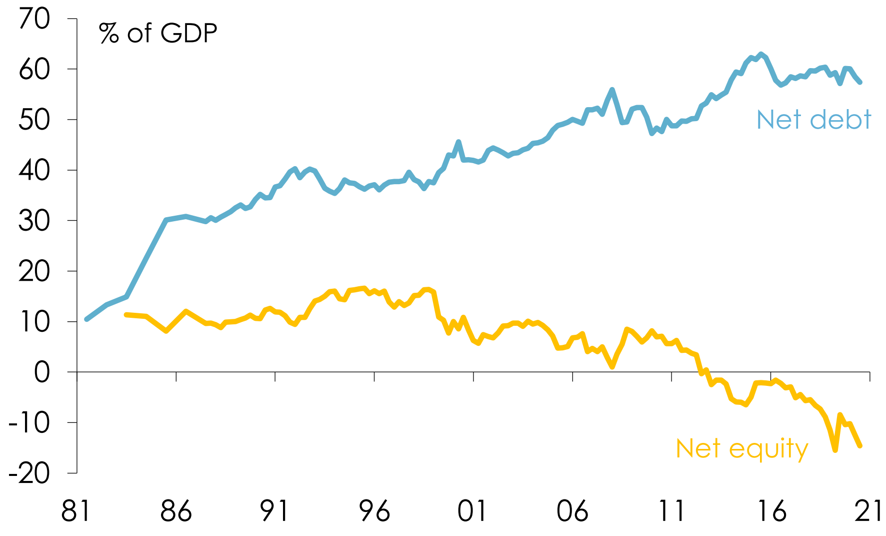
Export and import prices



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 30th November. *Source:* ABS, *Balance of Payments and International Investment Position, Australia*. Return to "What's New".

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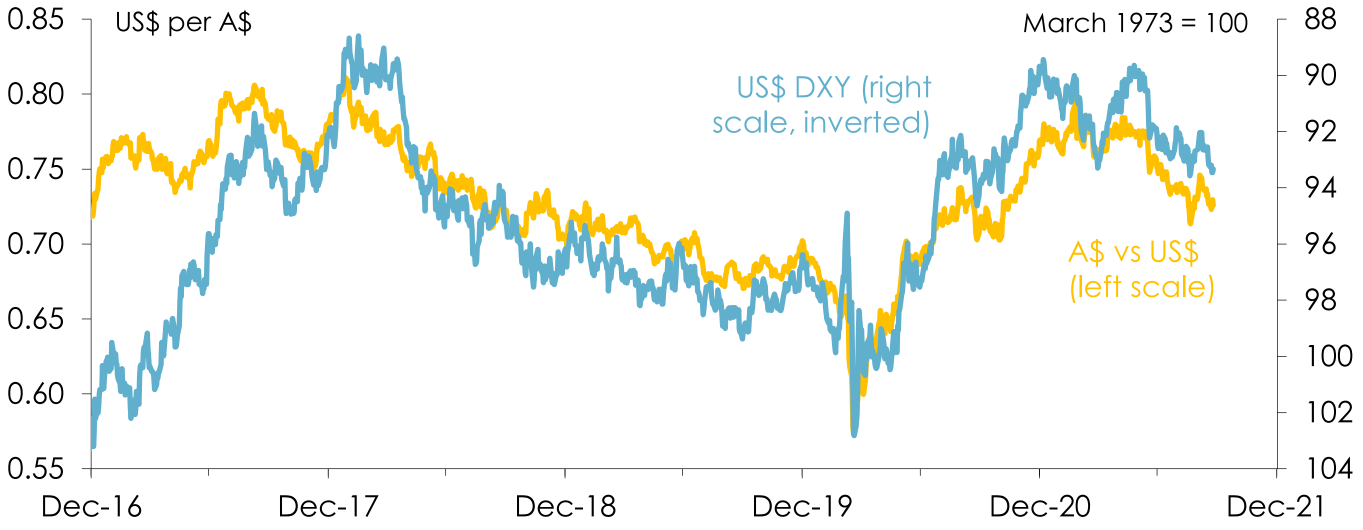
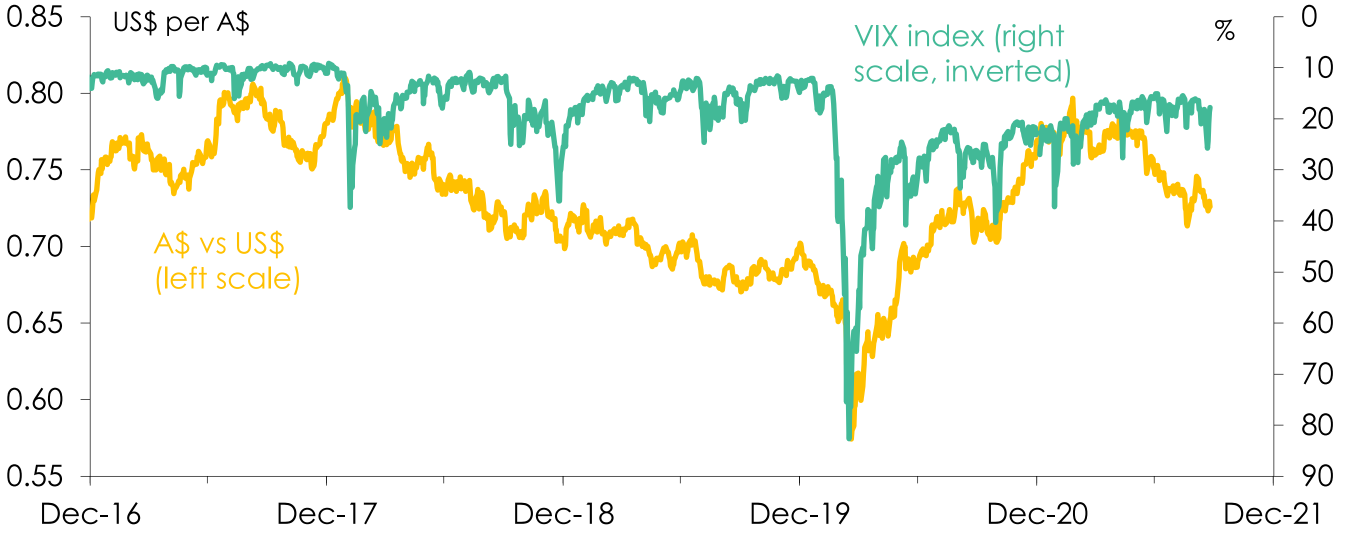
The A$ stayed below US73¢ this week, despite the rebound in the iron ore price, because the US dollar was stronger

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

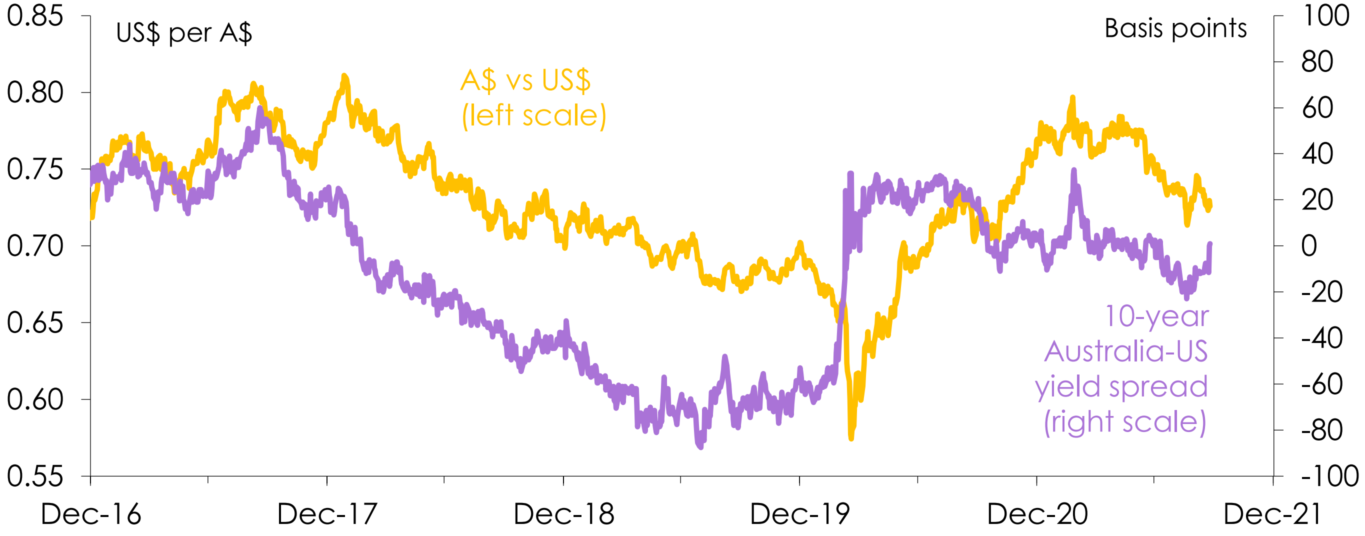


A$-US$ and US equity market volatility



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 24th September. Return to "What's New".

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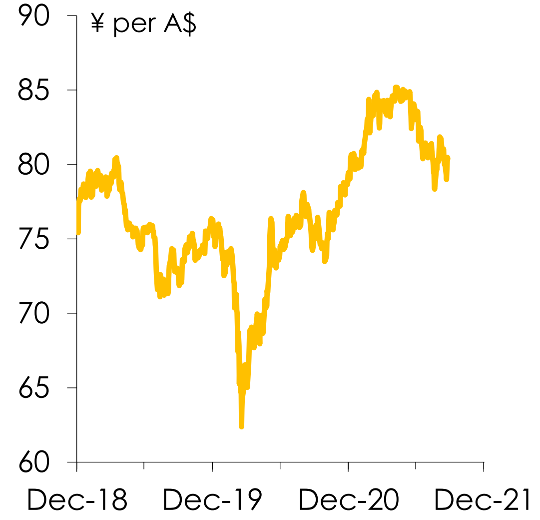
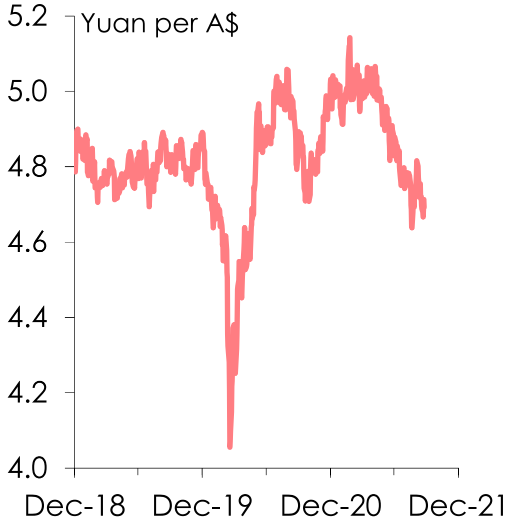
However the A$ rose against most third currencies (except for the C$)

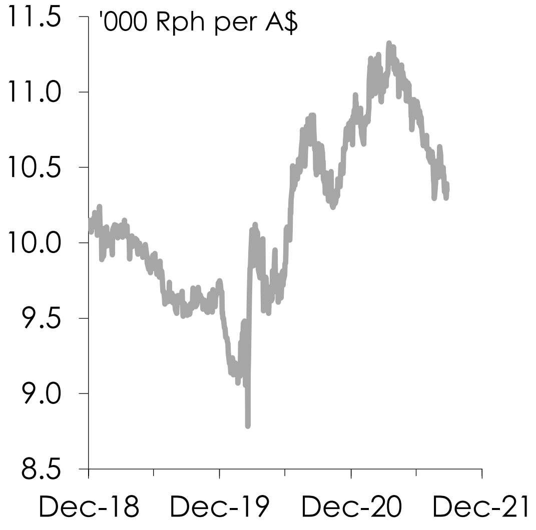
A$ vs Japanese yen



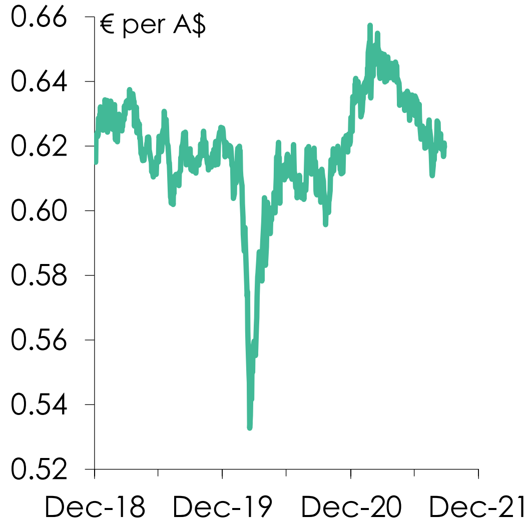
A$ vs Chinese yuan



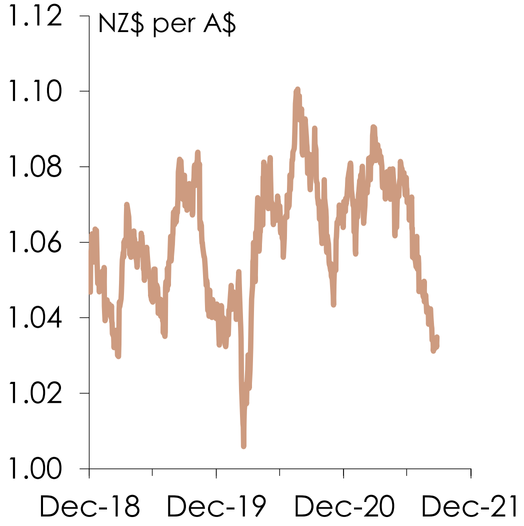
A$ vs Indo rupiah



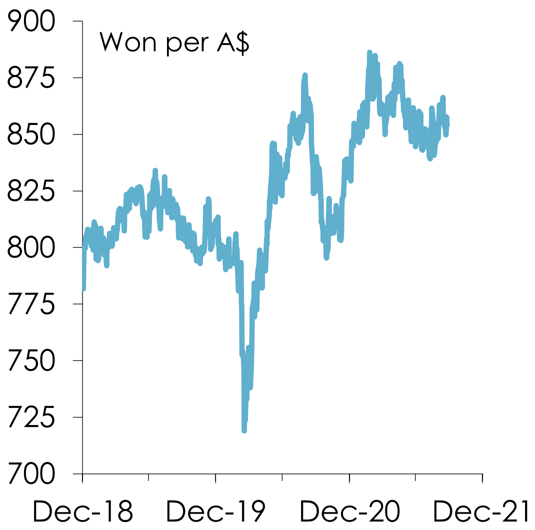
A$ vs Euro



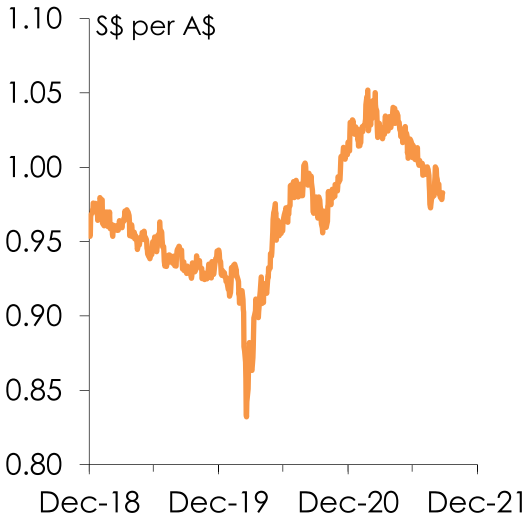
A$ vs NZ$



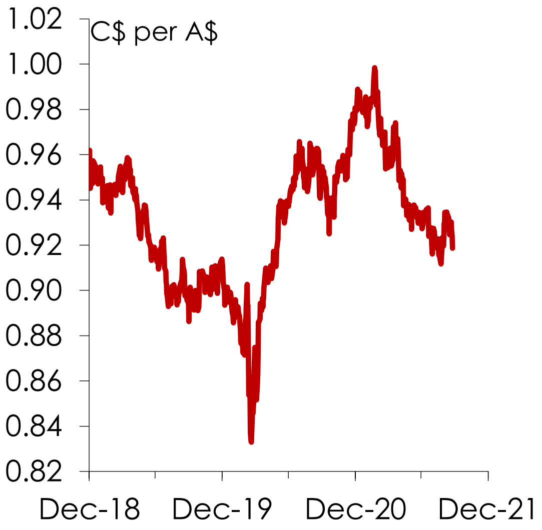
A$ vs Korean won



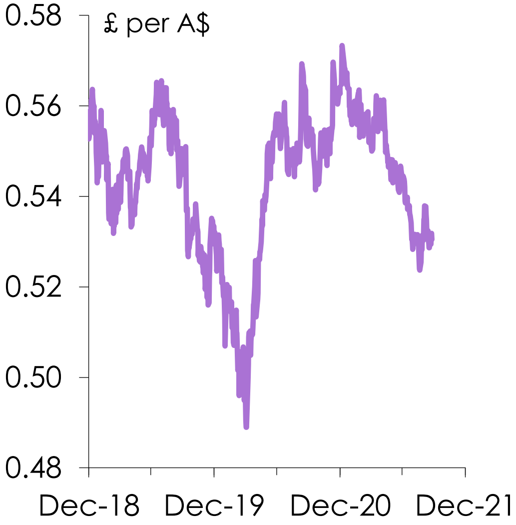
A$ vs Singapore $



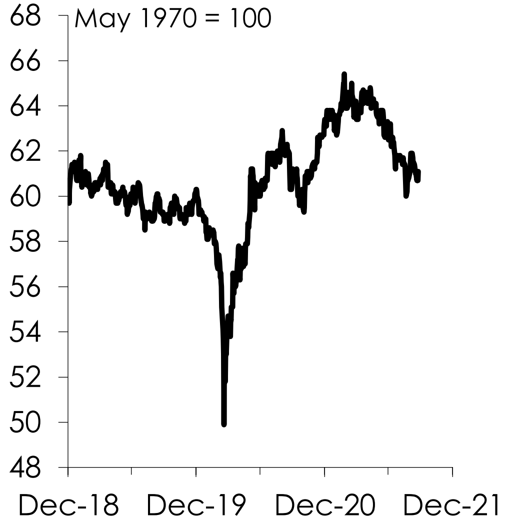
A$ vs Canadian $



A$ vs British pound



A$ TWI



Note: The 'TWI' is the RBA's trade-weighted index of the A$. *Source:* Refinitiv Datastream. Data up to 24th September. Return to "What's New".'

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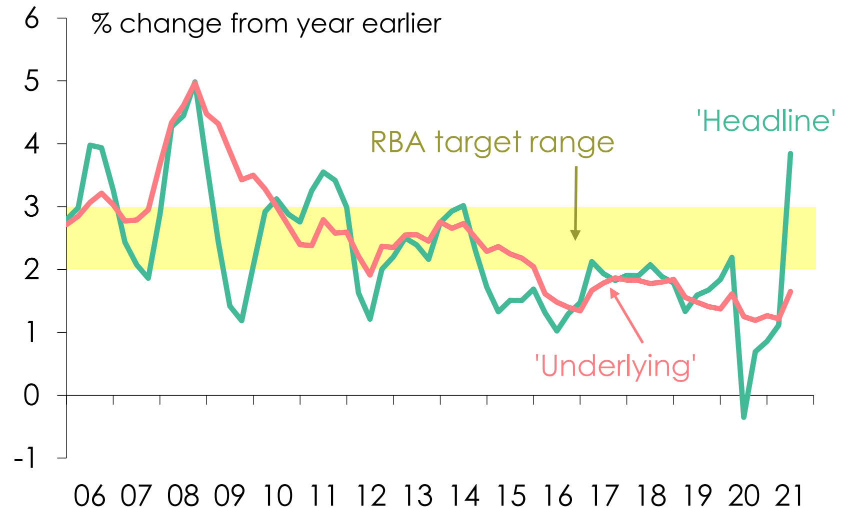
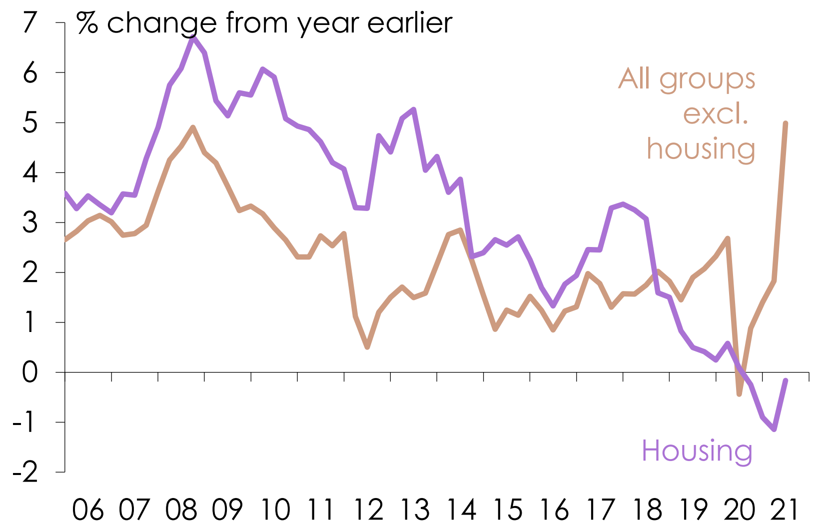
The 'headline' inflation rate shot up to 3.8% in Q2, but that was all due to 'base' effects – the underlying rate remains well below the RBA's target

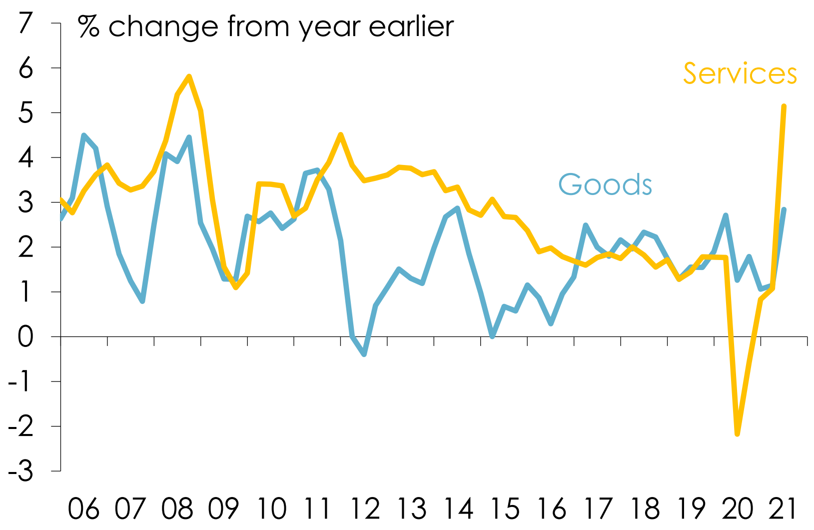
Consumer prices



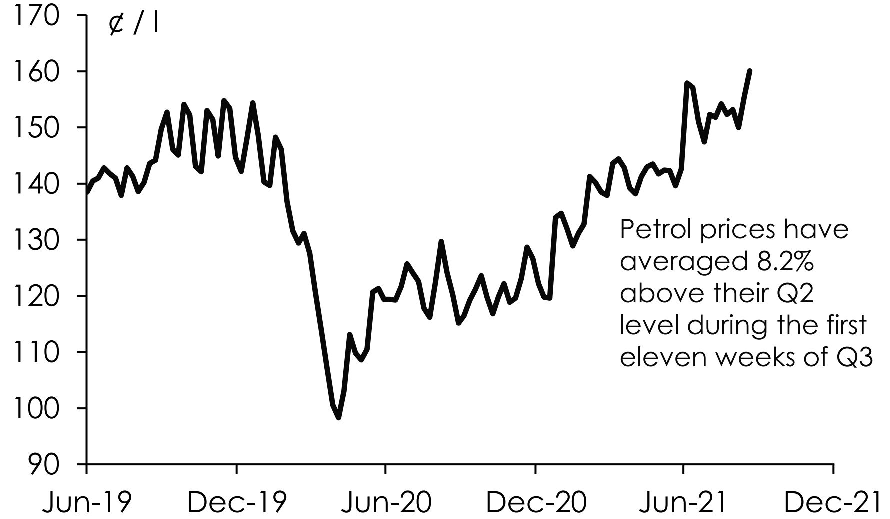
Housing costs



Goods vs services prices



Retail petrol prices



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

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

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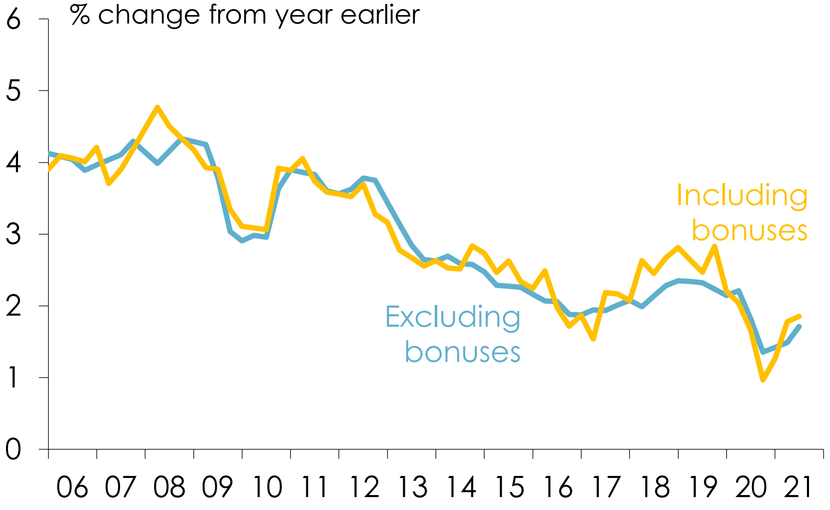
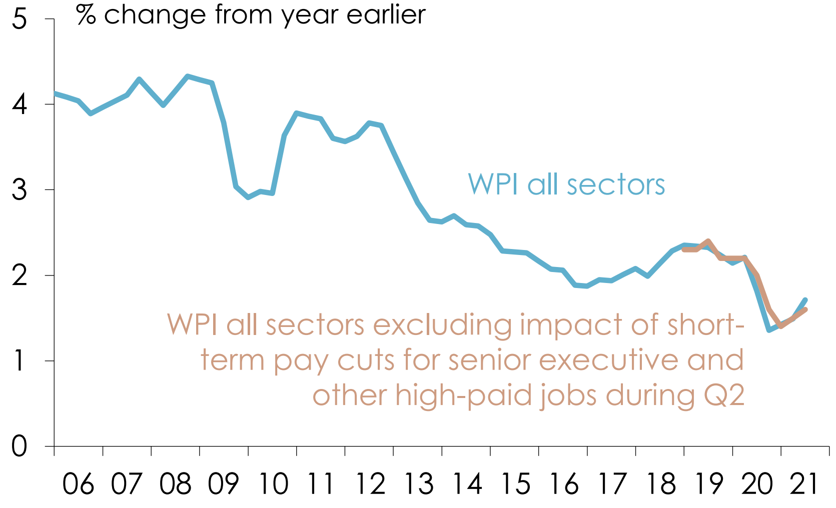
Wages rose by only 0.4% in Q2, down from 0.6% in Q1 and Q4 last year, though 'base effects' from Q2 last year pushed the annual rate up to 1.7%

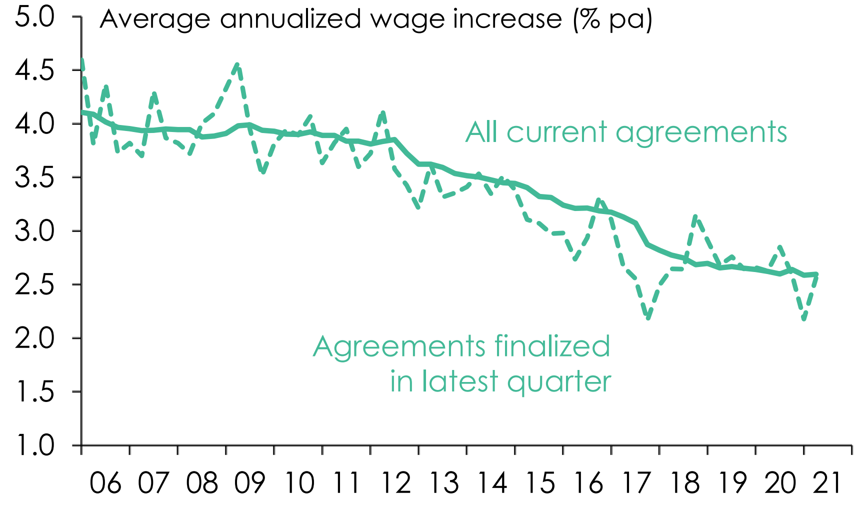
Wage price index – all sectors



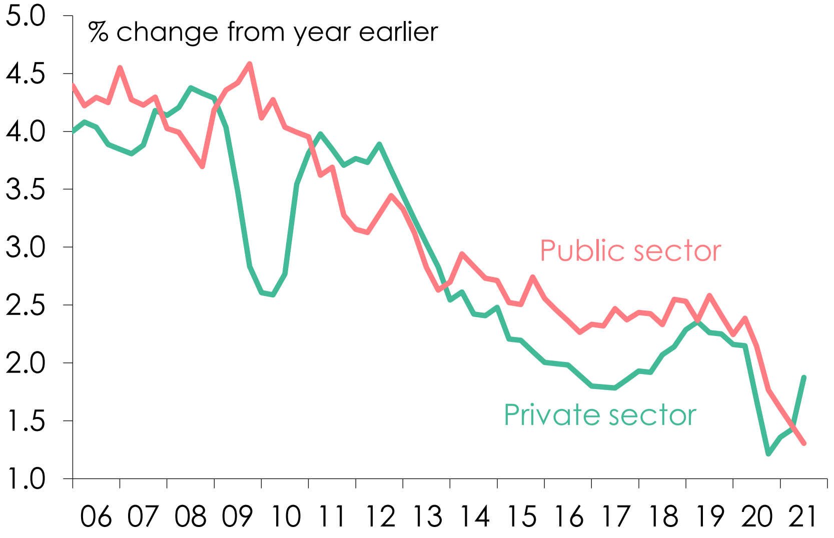
WPI excl. temporary wage cuts



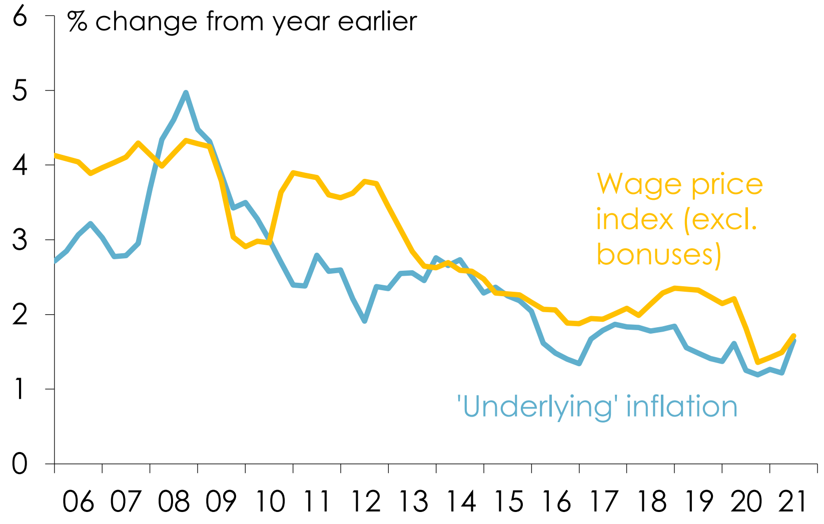
Enterprise bargaining agreements



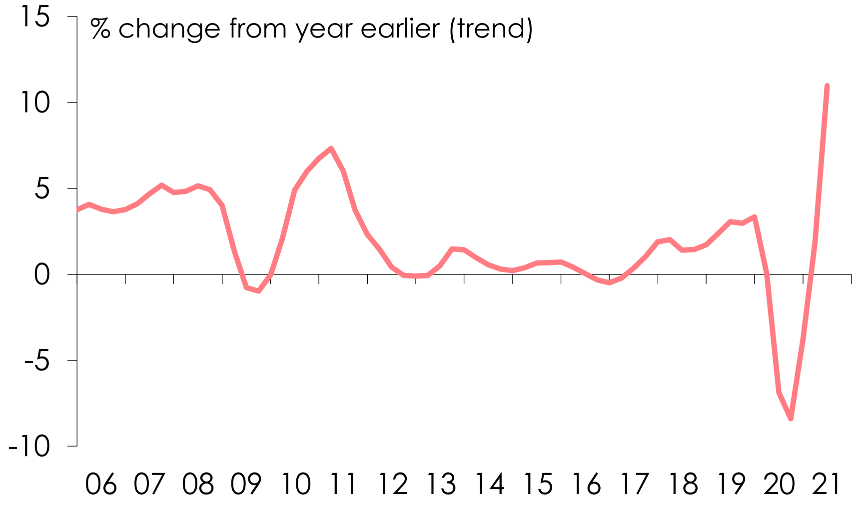
WPI – private vs public sectors



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 released on 17th November. Return to "What's New".

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Australia’s fiscal and monetary policy settings

The OECD's latest 'Economic Survey of Australia' makes some strong policy recommendations (but, sadly, they're unlikely to be implemented)

- The OECD's latest Economic Survey of Australia (the first in nearly three years) projects economic growth of 4% this year and 3.3% next year, with the unemployment rate falling from an average of 5.4% in 2021 to 4.9% in 2022 (assuming "strict containment measures remain in place in NSW and Victoria until midway through Q4")
- The OECD was generally supportive of Australian policy-makers' responses to the economic downturn
  - "the immediate fiscal response was one of the largest in the OECD" and "dwarfed the stimulus injected during the global financial crisis"
- The OECD makes a number of strong policy recommendations – but which are unlikely to be implemented
  - the Government should "further increase the generosity of unemployment benefits" (which it says are the lowest, relative to average wages, in the OECD) and "consider indexing further increases to average wage growth"
  - "now is an appropriate time for a review of Australia's monetary policy framework" which should be "broad in scope"
  - APRA should "continue to develop" its macro-prudential policy "toolkit" (noting that unlike most OECD countries Australia does not have a regulatory maximum LVR ratio)
  - the "entire value of the family home – or that portion above a certain threshold – should be included in the means test for pension eligibility"
  - the "contribution of the GST to the overall tax mix" should be increased; and "some of the concessions for the taxation of private pensions, particularly those that favour higher income earners" should be reduced; the capital gains tax discount should be "reduced"; and stamp duty on land transfers should be replaced with "a recurrent land tax"
  - the "distortionary impact of the current two-tier corporate tax system" (with the lower rate for "small" businesses) should be "investigated" (and if there are to be any preferences they should be for "young businesses in innovative sectors"
  - Australia's occupational licencing systems should be reformed with "better coordination between states"
  - Australia needs a "Long-term Emissions Reduction Strategy that defines clear goals and corresponding policy measures" to achieve net zero emissions by 2050, and "the least cost approach to meeting these targets would involve an economy-wide carbon price"

Return to "What's New".

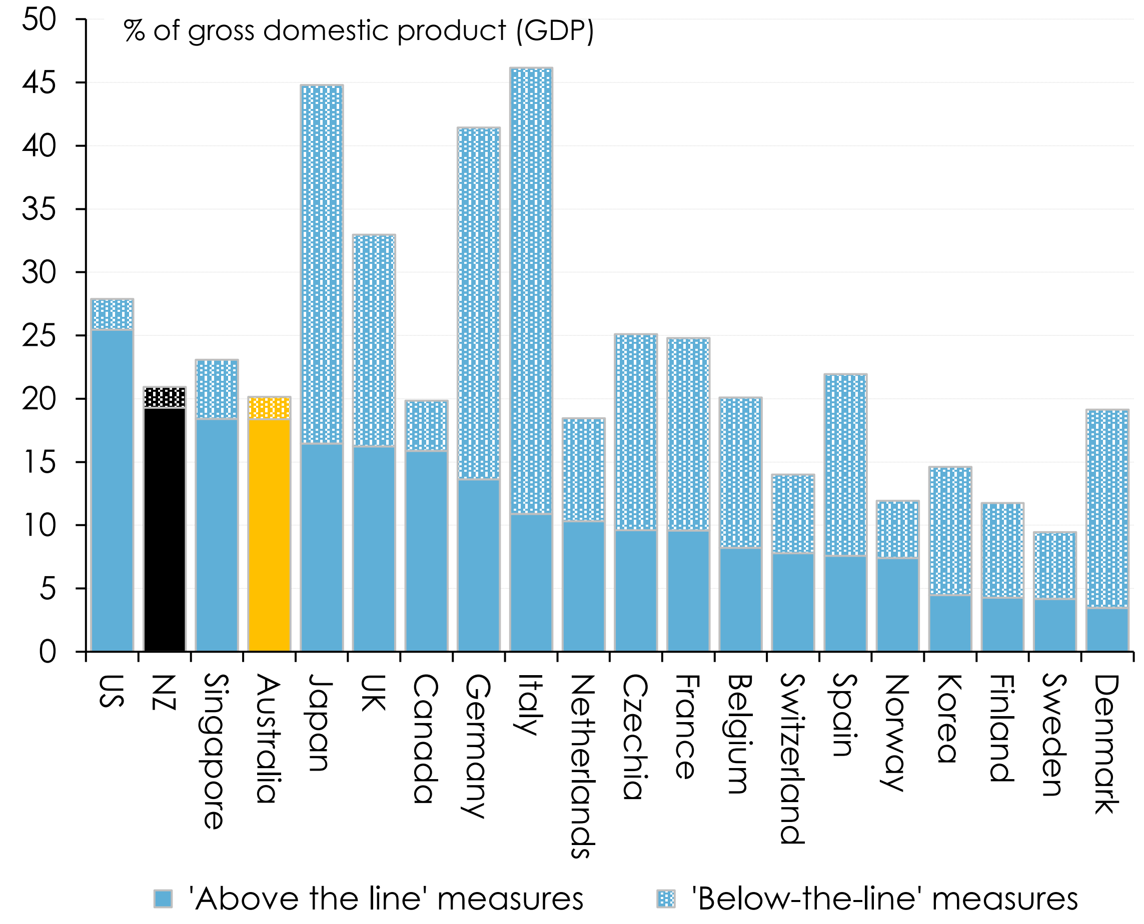
… and the OECD's recommendations were this week backed up by the IMF

- The OECD's recommendations were this week endorsed by the IMF in its annual 'Article IV' consultation with Australia
- The IMF recommends that fiscal policy should "continue to support vulnerable households and viable businesses", and that monetary policy should remain "data-dependent and nimble", with the timing and pace of "policy normalization" being calibrated in a "commensurate with the recovery in a gradual and well-sequenced manner"
- The IMF urges that "macro-prudential policy should be tightened to address gradually rising financial stability risks (in particular, portfolio restrictions on debt-to-income and loan-to-valuation ratios)
- It recommended a number of worthwhile (but hardly new) measures to improve housing affordability
  - it advocates "supply-side reforms including more efficient planning, zoning and better infrastructure" (including "financial incentives to local governments to streamline zoning regulations") and that governments should "expand social housing"
  - and it supports "transitioning from a housing transfer stamp duty to a general land tax" and "reducing structural incentives for leveraged investment by households … in residential real estate"
- The IMF urges "an integrated framework for climate change policies"
  - "broad-based carbon pricing, along with measures to mitigate transition risks for impacted industries and regions, would be the most effective way to achieve emissions reductions"
- And it recommends a range of other structural reforms
  - "there is scope to ease the regulatory burden faced by businesses … through continued reforms to digitize business-government interactions" and to "widen the scope for inter-jurisdictional recognition of occupational licences"
  - "continued reforms in the education sector" (without any specifics) "can improve education outcomes and ensure equal opportunities"
  - "scope remains to ease the administrative burden" associated with R&D tax incentives and to "scale up government R&D spending"

Return to "What's New".

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

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



Note: 'Above the line' measures comprise additional or accelerated spending and deferred or foregone revenue. 'Below the line' measures comprise equity injections, loans, asset purchases and debt assumptions, but do not include loan guarantees or other contingent liabilities. 'DMs' means 'developed markets' (or 'advanced economies'). Data includes measures announced up until 5th June 2021. *Source:* IMF, Fiscal Monitor Database of Country Fiscal Measures in Response to the COVID-19 Pandemic, July 2021.

Return to "What's New".

- **Policy measures announced by the Australian and state/territory governments in response to Covid-19 (up to March this year) have been equivalent to more than 18% of GDP – the fourth highest of any 'advanced' economy, according to new IMF estimates released last month**
- **The Federal Government has 'beefed up' its support for households and businesses adversely affected by lockdowns**
  - in NSW, businesses with an annual turnover of less than $200mn and whose revenue has dropped by more than 30% will receive 40% of their payroll, up to a maximum of $100,000 a week – provided they don't sack any employees (or $1000 a week for businesses with no employees)
  - income support for workers who've lose more than 20 hours a week will rise from $600 to $750 per week (or from $375 to $450 for those who've lost between eight and 20 hours)
  - a $200 per week payment will be made to those receiving income support payments who lose more than 8 hours per week
- **These payments will cost the Federal and NSW Governments $750mn and $325mn a week respectively, while the Federal and Victorian Governments will also provide $400mn of support for businesses in that state**

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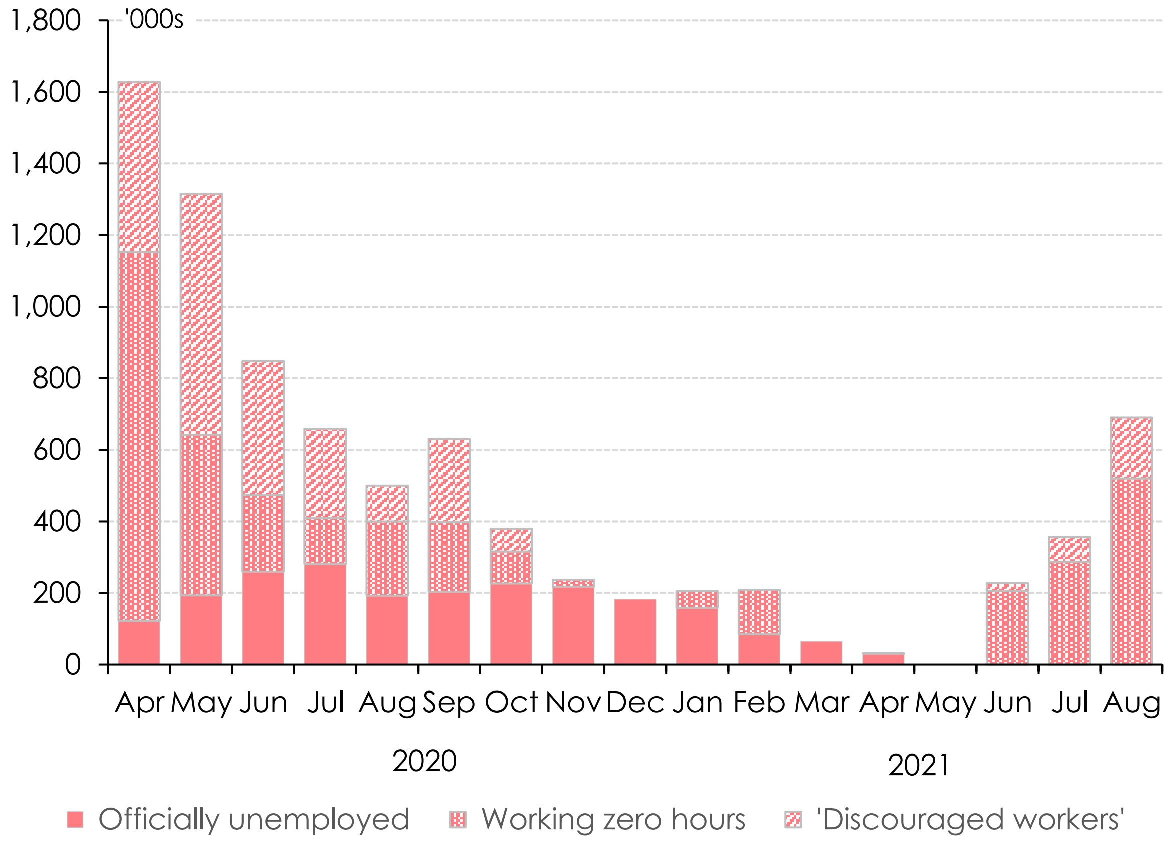
Government support payments in recent lockdowns are less than during last year's because far fewer workers have (so far) been affected

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; Commonwealth Department of Health, Covid-19 Vaccine Roll-out, 24th September 2019; Corinna. Return to "What's New".

- Since the beginning of June the Federal Government has paid out \$8.19bn in Covid-19 disaster payments to 1.96 mn workers unable to earn income due to public health orders or other Covid-related restrictions
  - of this amount, \$5.7bn has been to people in NSW, \$2.0bn to Victoria, \$252mn to Qld and \$189mn to the ACT
- The Federal Government has also paid out \$163.4mn in \$200 income support payments to 163,000 people already on income support payments who have lost 8 hours or more of part-time work due to lockdowns, and \$95mn in pandemic leave disaster payments to 60,000 people who have been required to self-isolate or quarantine, or who are caring for someone with Covid-19
- State Governments have also made payments to businesses and individuals affected by lockdowns or requirements to isolate
- The total 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

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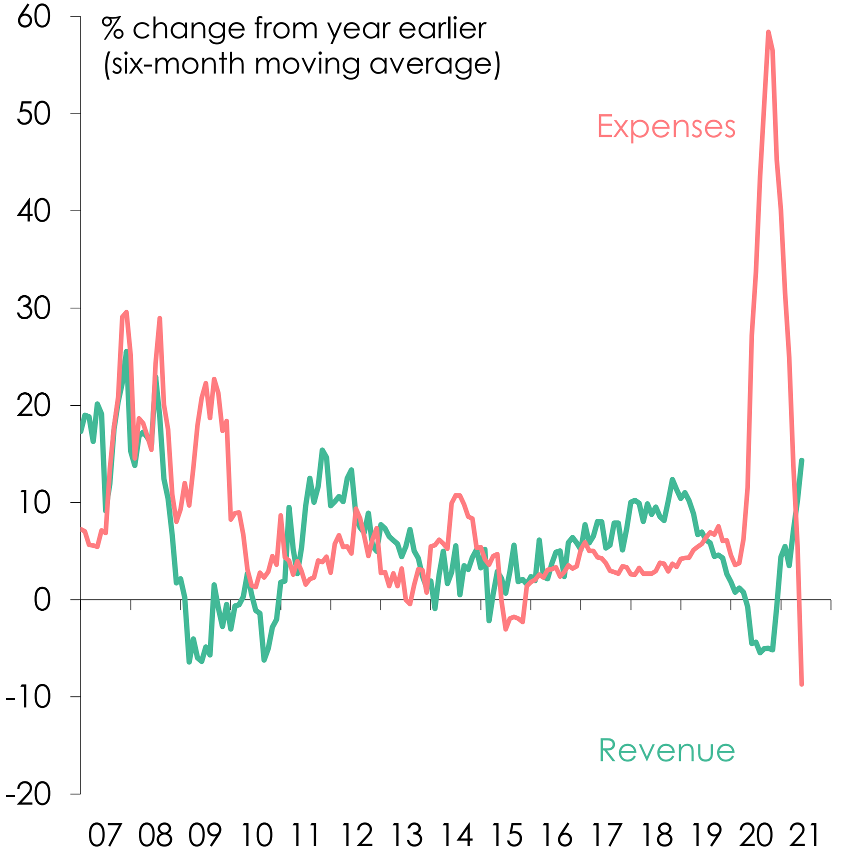
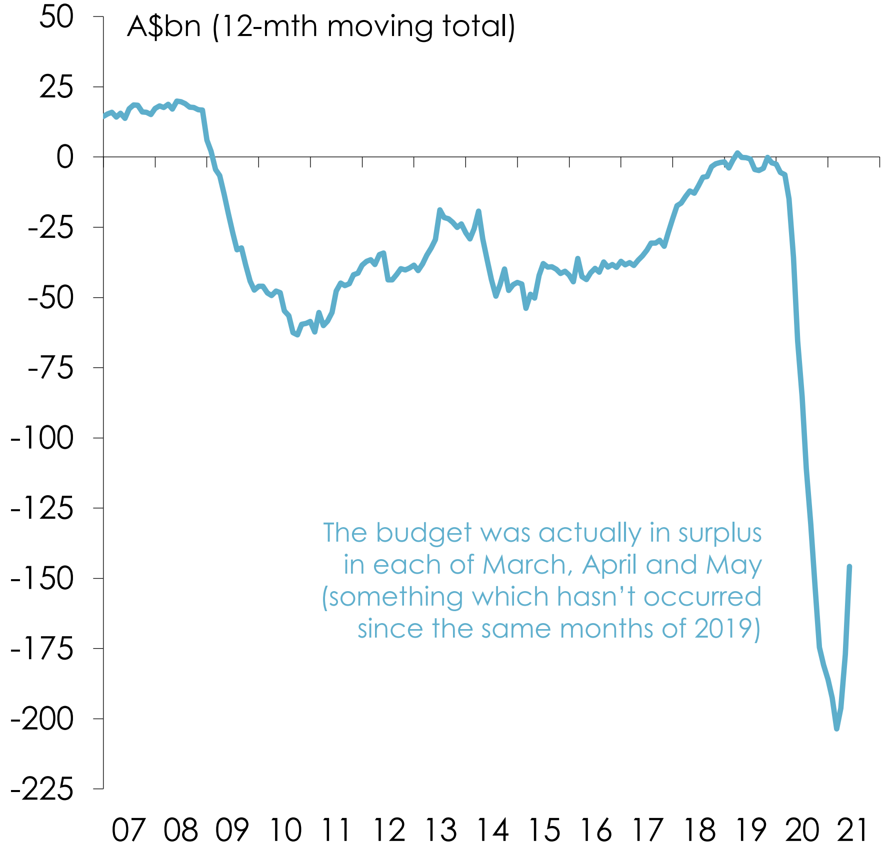
The 'final budget outcome' for the 2020-21 financial year will be released this coming week

Australian Government revenue and expenses



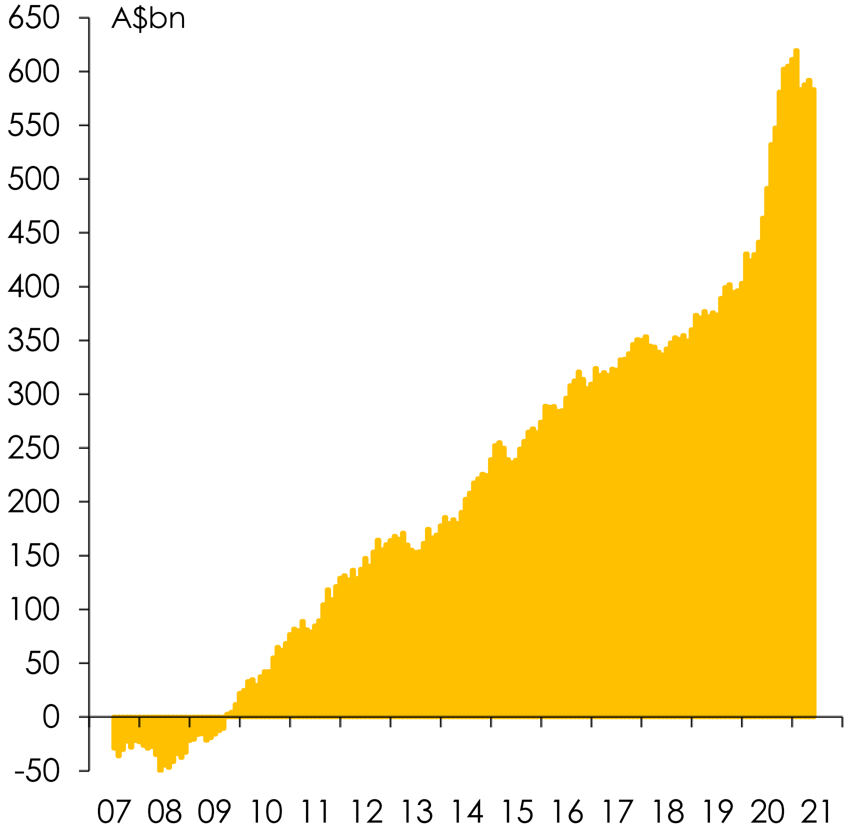
- Expenses have now peaked, while revenue is beginning to turn around as the economy picks up

Australian Government 'underlying' cash balance



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

Australian Government net debt



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

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

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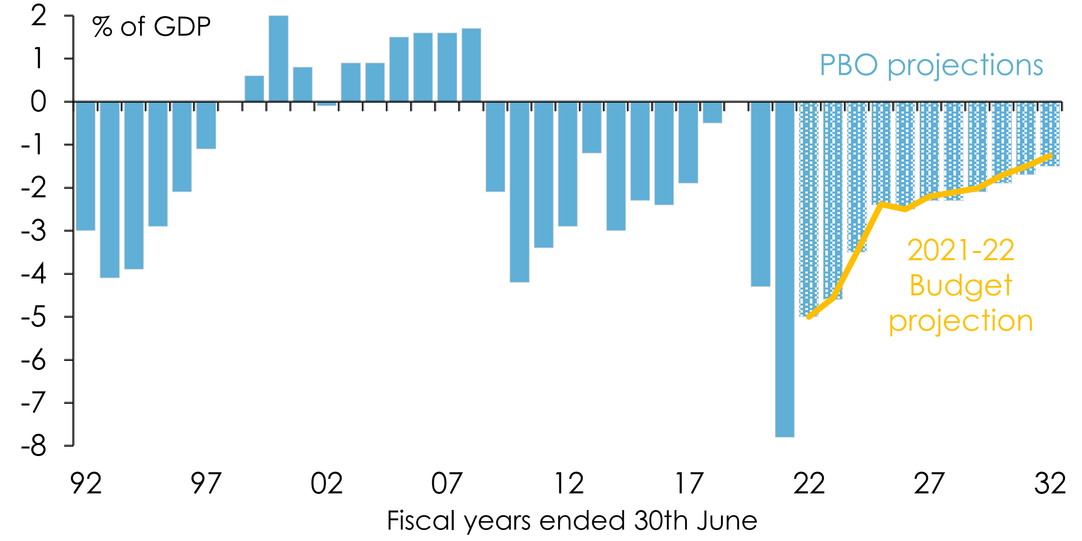
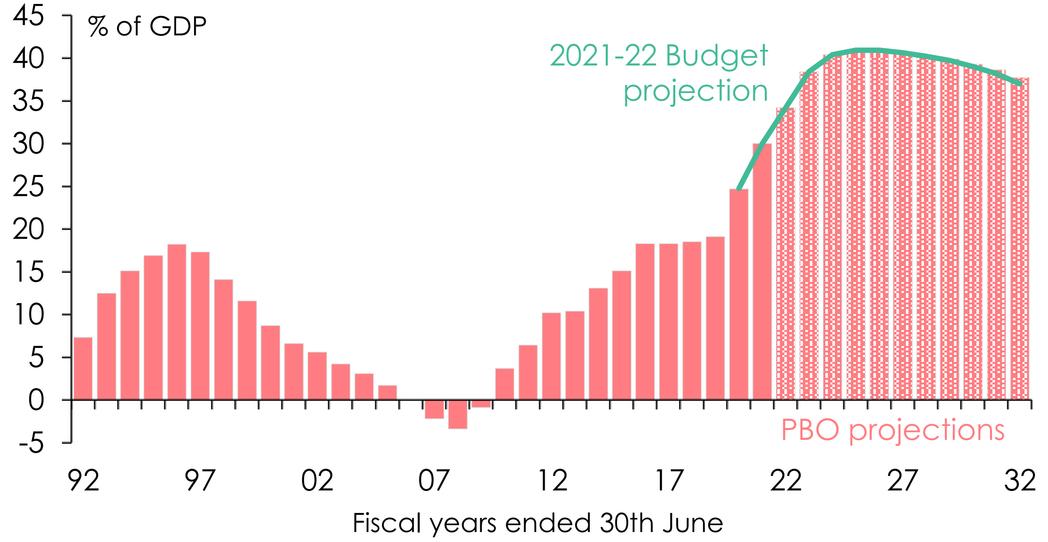
The Parliamentary Budget Office assesses the Government's fiscal position as being 'sustainable' – but partly thanks to 'bracket creep'

'Underlying' cash balance



Net debt



Source: Parliamentary Budget Office, Beyond the Budget: Fiscal outlook and scenarios, 21st September 2021. Return to "What's New".

- **The non-partisan Parliamentary Budget Office this week released an analysis concluding that "the Commonwealth Government's fiscal position can remain sustainable even if it continues to run modest deficits"**
  - the PBO's long-term projections are in line with those in the May Budget which suggest that net debt will peak at just under 41% of GDP in the middle of this decade and fall to below 38% of GDP by 2031-32
- **The PBO notes that this prospect "do[es] not require governments to achieve budget surpluses, nor does [it] require interest rates to remain at their current levels"**
  - it says that "future governments will need to act to ensure sustainability, but if they act consistently and early, they do not need to consolidate [ie, cut spending or raise taxes] more rapidly than after previous downturns"
- **As part of its sustainability assessment the PBO considers 27 different scenarios**
  - even under the 'worst case' scenarios, gross debt and gross interest payments increase but remain below previous peaks
- **The PBO highlights the importance of 'bracket creep' to fiscal sustainability**
  - it projects personal income tax receipts rising from 10.3% of GDP in 2021-22 to 11.9% of GDP in 2031-32, with the largest impact on those earning $20-50,000 in 2021-22

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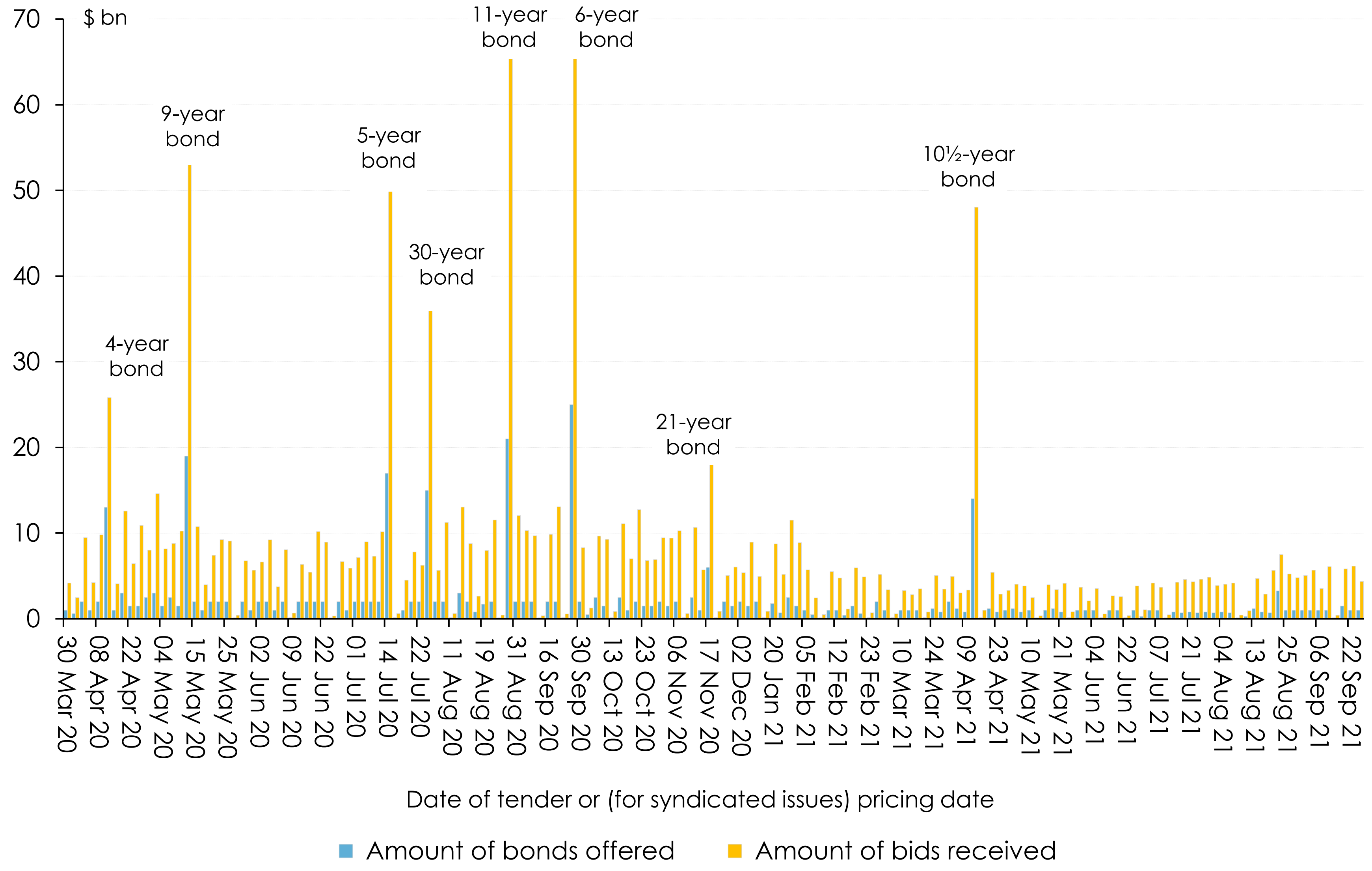
The Government continues to find a ready appetite for its bond issuance – so far this fiscal year it's received $112bn of bids for $24bn of bonds

Australian government bond issuance since March 2020



- Since 30th March 2020, the Australian Office of Financial Management has issued almost $321bn of Treasury bonds – based on the volume of bids received it could have borrowed more than $1.2 trn with yields at most 4 bp (0.04 of a pc point) above the highest yields actually accepted
- The AOFM issued another $2bn of bonds, this week, $1bn of 4½-year bonds at an average yield of 0.53%, and $1bn of 9¾-year bonds at an average yield of 1.33%
- The AOFM received over $10½bn of bids for these bonds
- So far this financial year, the AOFM has received bids totalling more than $112bn for the $24bn of bonds it has offered for sale – a 'coverage ratio' of 4.7 times, cf. 3¾ times during the 2020-21 financial year

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

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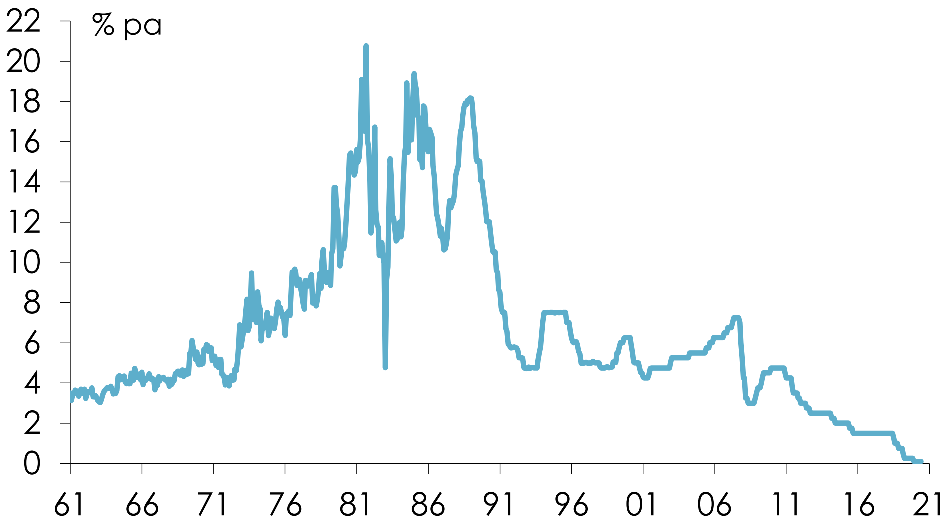
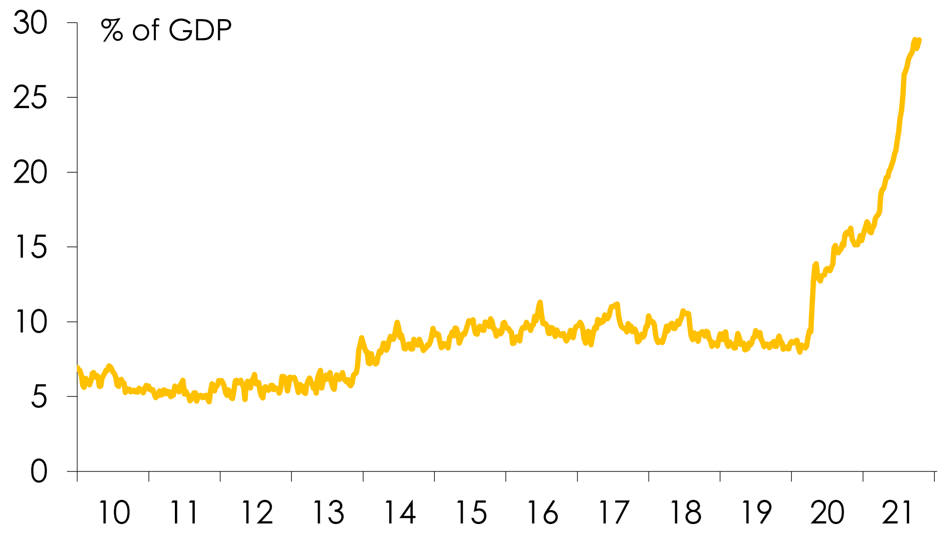
The RBA Board decided to proceed with its previously foreshadowed ‘tapering’ but to extend its bond purchase program until next February

Reserve Bank cash rate



Reserve Bank assets as a pc of GDP



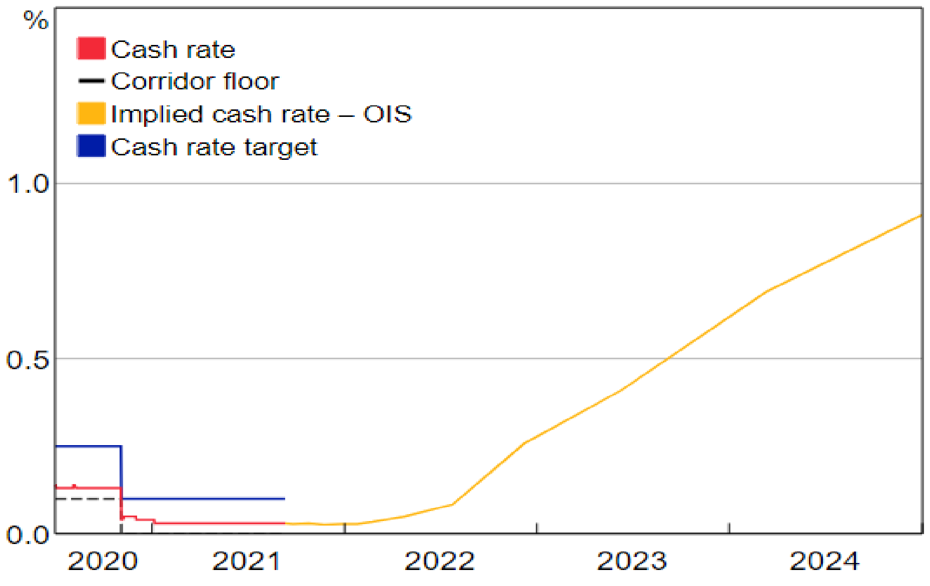
Source: Reserve Bank of Australia, *Statistical Tables* A3 and F1.1. See slide 96 for more detail on the RBA's forecasts. Return to "What's New".

- At its September meeting, the RBA Board left interest rates ‘on hold’ (as universally expected) but confirmed its previously-stated intention to ‘taper’ its bond purchase program
  - the RBA will now purchase bonds at a rate of $4bn a week, down from $5bn
  - but instead of terminating in November, the program will now continue until “at least mid February 2022”
- The decision to proceed with the previously-flagged ‘tapering’ of its bond purchase program, despite the “Delta outbreak and the associated restrictions on activity” as a result of which “GDP is expected to decline materially in the September quarter” reflects a recognition that the most effective policy response is coming from fiscal policy, and there's not much that monetary policy can realistically add
- But the decision to extend the period of bond purchases by at least three months is in response to the RBA's judgements that “there is … uncertainty about the timing” of the expected bounce-back in the economy when restrictions are eased and that the bounce-back, when it does occur, “is likely to be slower than that earlier in the year”
- The RBA re-iterated that it is “monitoring trends in housing borrowing carefully” and that “it is important that lending standards are maintained”
  - unlike NZ, in Australia responsibility for the deployment of ‘macro-prudential’ tools to influence lending standards rests with a separate agency (APRA), not the RBA
- The RBA also re-iterated that its ‘central scenario’ is that the conditions for an increase in the cash rate “will not be met before 2024”

RBA Governor Philip Lowe 'doubled down' on his 'no rate rise until 2024' guidance

- In a speech last week RBA Governor Philip Lowe firmly re-emphasized his judgement that the conditions for a lift in the RBA's official cash rate "will not be met before 2024"
  - the current delta outbreak has "delayed – but not derailed" the Australian economy's recovery
  - the economy is likely to contract by "at least 2%" (and "possibly significantly larger" than that) in the current quarter, but the RBA expects the economy to "be growing again in the December quarter" and to "be back on its pre-delta track by the second half of next year"
- The Governor sought to set the decisions made at this month's RBA Board meeting in this context
  - "given that the recovery has been delayed" – which "means that it will take longer to achieve [the RBA's] inflation goals", it was "appropriate [to] delay any consideration of a further taper in [the Bank's] bond purchases until next year" September and December quarters"
  - in the Bank's view, "fiscal policy is the more effective instrument in responding to the delta outbreak" because "fiscal policy can use the public balance sheet to offset the hit to private incomes" – whereas "monetary policy works mainly on the demand side … with a lag" – so that "realistically, there is little [the RBA] can do to offset the hit to demand in the September and December quarters"
- The Governor explicitly 'pushed back' against current market pricing …
  - current OIS pricing of a cash rate of 0.60% at end- w2023 and close to 1.0% at end-2024 was "difficult to reconcile" with the RBA's reading of the economy
  - it was "difficult to understand why rate rises are being priced in next year or early 2023"
- … and downplayed any connection with other central banks' moves
  - "while policy rates might be increased in other countries over this timeframe, [Australia's] wage and inflation experience is quite different"

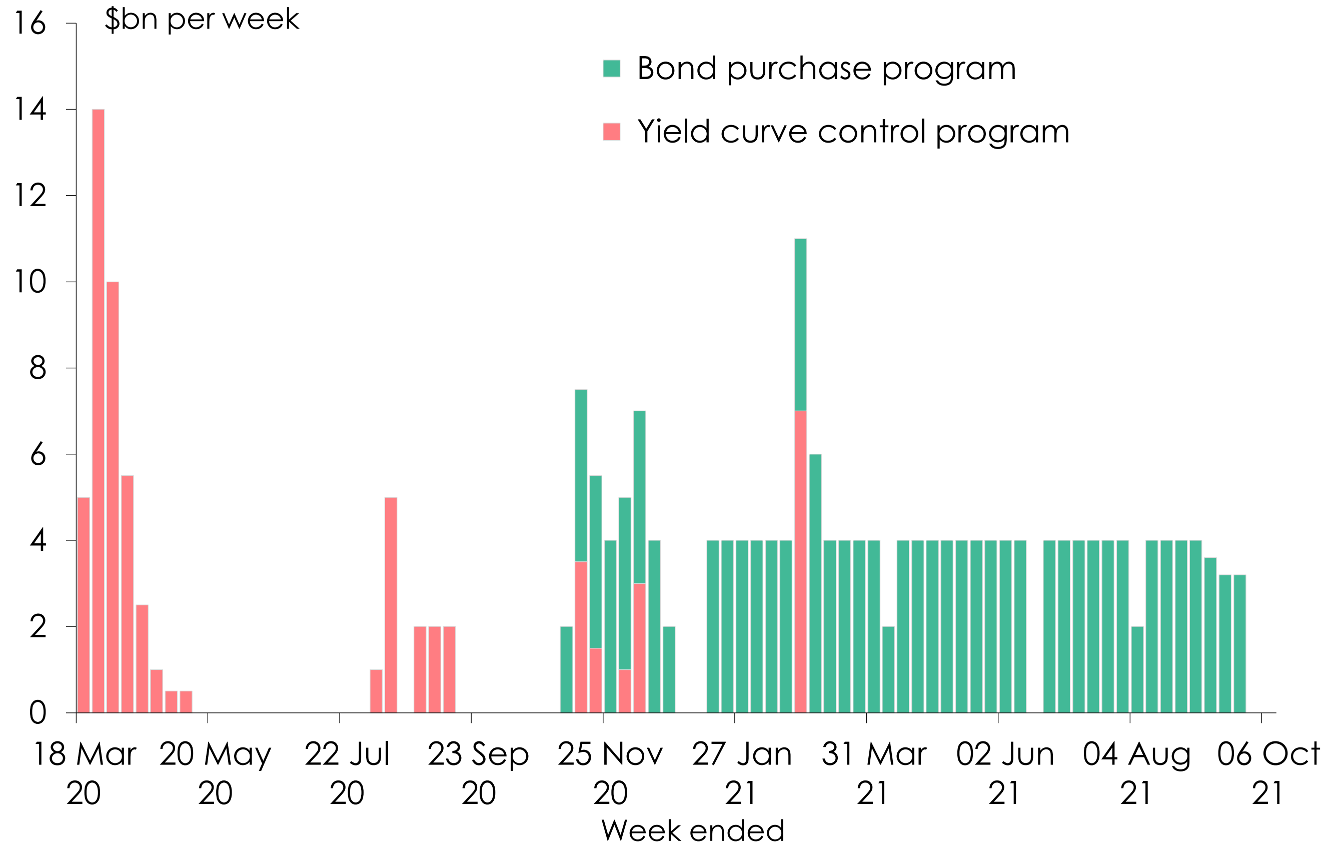
Cash and overnight index swap rates



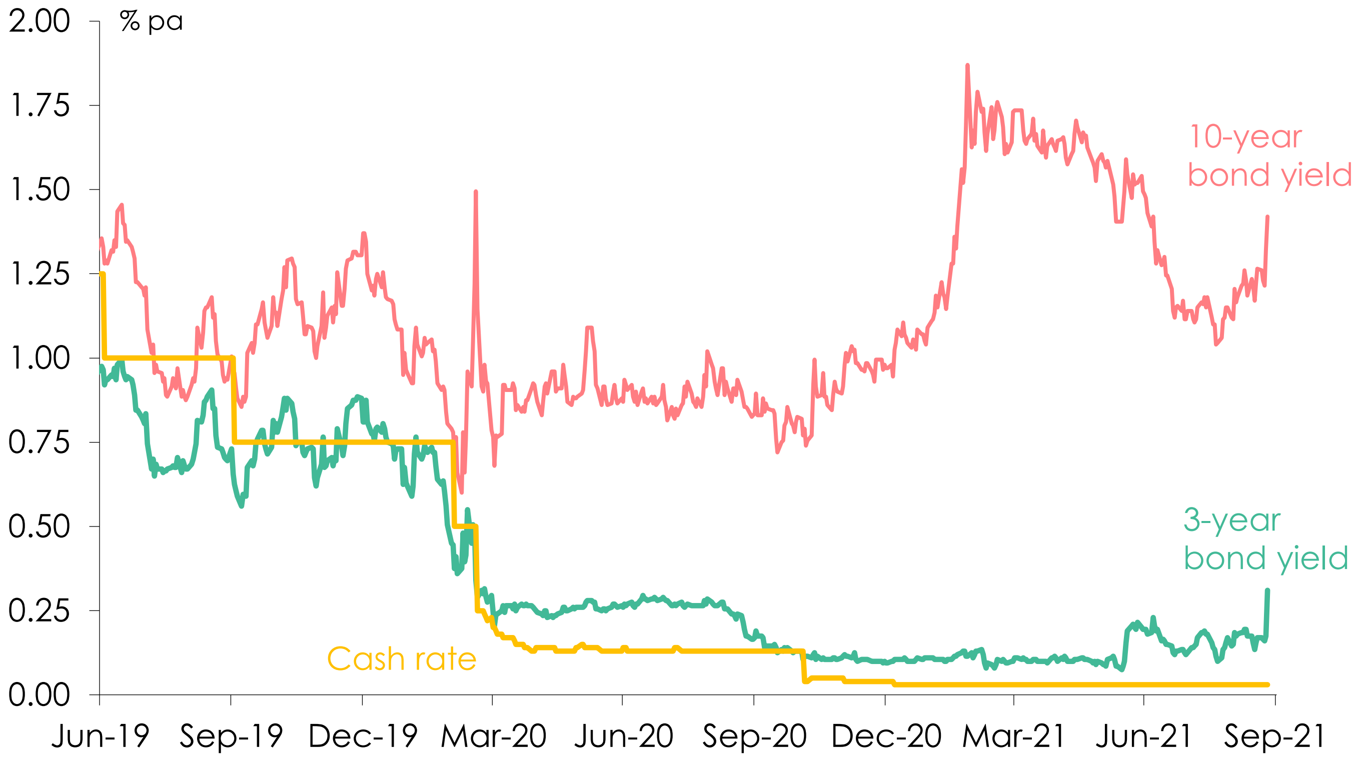
Source: Reserve Bank of Australia. Return to "What's New".

Australian bond yields rose this week in line with global trends as markets responded to more hawkish messages from leading central banks

RBA open market bond purchases



Interest rates



- **In line with the decision at its Board meeting earlier this month (slide 151), the RBA again bought $4bn of bonds this week, down from $5bn in most weeks since the Bond Purchase Program commenced in November last year, bringing its total bond purchases (including those under its now-inactive 3-year yield target program) to $288.5bn**
- **Bond yields rose this week, the 10-year yield finishing 15 bp higher at 1.42% (the highest since early July), in line with overseas movements which were in response to firmer hints of 'tapering' by the US Federal Reserve (slide 36) and a rate hike by the Bank of England later this year (slide 37)**

Source: Reserve Bank of Australia, *Statistical Tables* A3 and F2. Data up 24th September. Return to "What's New".`

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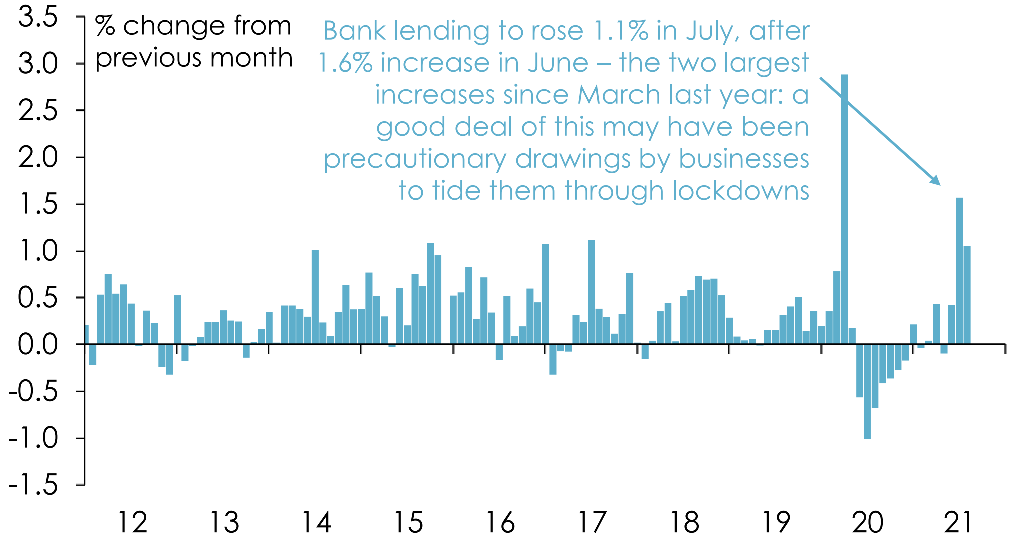
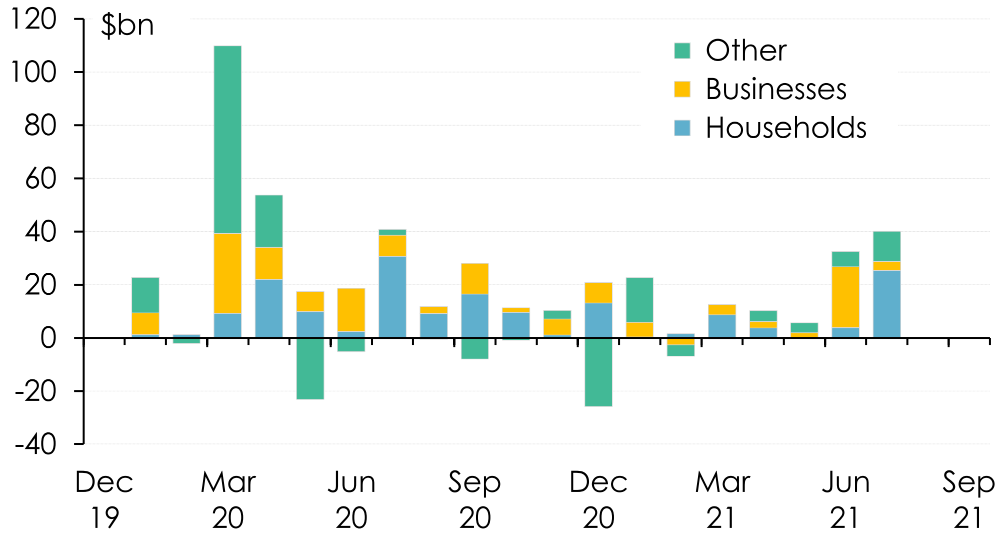
Banks have played an important role in assisting borrowers cope with shutdowns, and have been swamped with deposits

Business credit outstanding



Monthly change in bank deposits



Sources: Reserve Bank of Australia; APRA. Return to "What's New".

- Banks have cut interest rates on small business loans by more than the official cash rate since June 2019 (when the RBA started cutting rates again)
- Banks have made credit readily available when needed – 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%)

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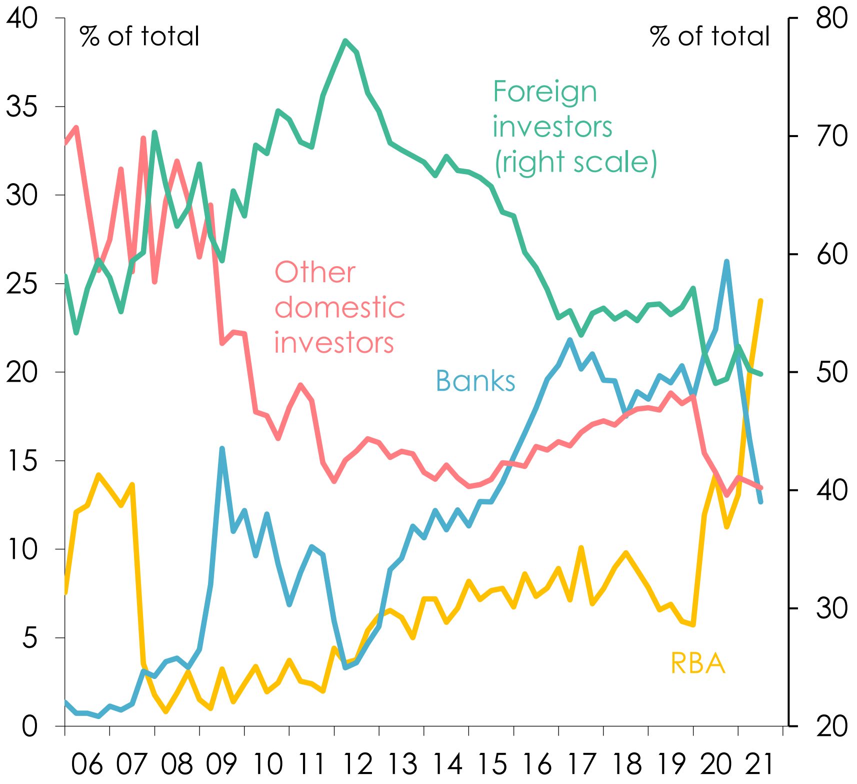
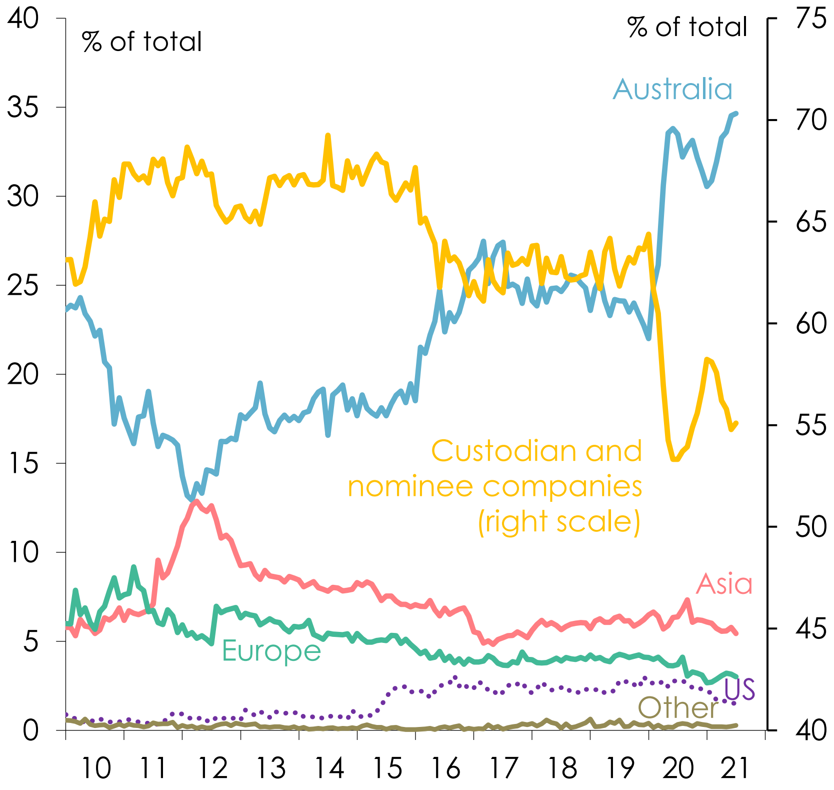
The RBA has (indirectly) absorbed almost two-thirds of the increase in government debt since the end of 2019, banks 2% and foreigners 31%

Holders of Australian Government bonds



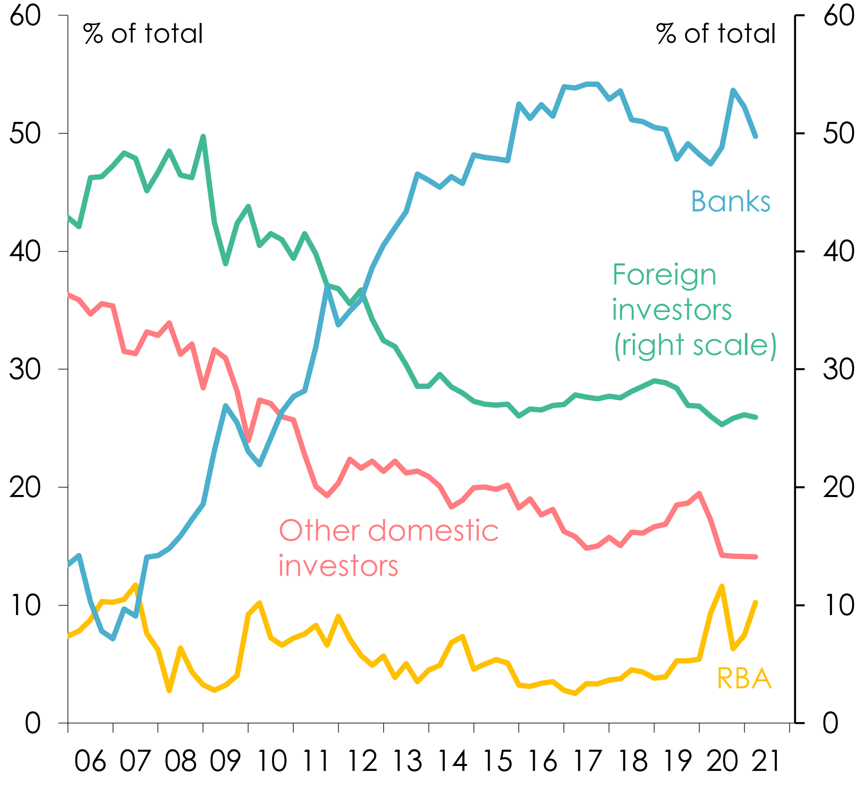
Australian Gov't bonds on issue have increased by $237bn since the end of 2019 – of which $173bn (73%) have been absorbed by the RBA, and $72bn by foreigners, while banks have reduced their holdings by $7bn

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

Holders of State and Territory Government bonds



State & Territory Gov't bonds on issue increased have increased by $107bn since the end of 2019, of which $45bn have been absorbed by banks, $40bn by the RBA and $29bn by foreigners

Sources: ABS, *Finance and Wealth Accounts*; Australian Office of Financial Management. September quarter data will be released on 16th December.
Return to "What's New".

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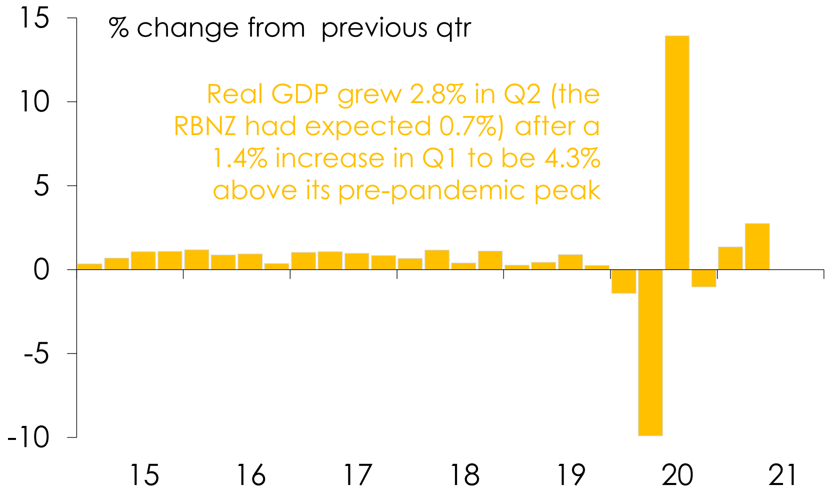
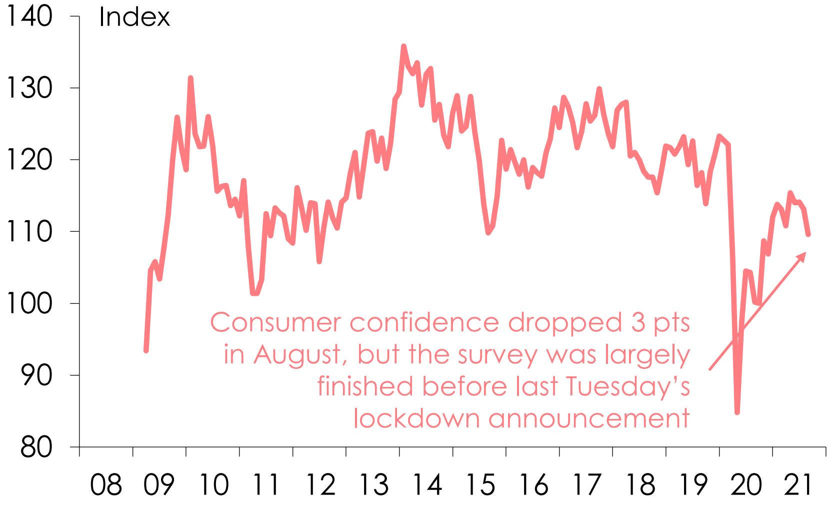
New Zealand

New Zealand's economy grew a much stronger-than-expected 2.8% in Q2 – but it was all due to net exports, and domestic demand contracted

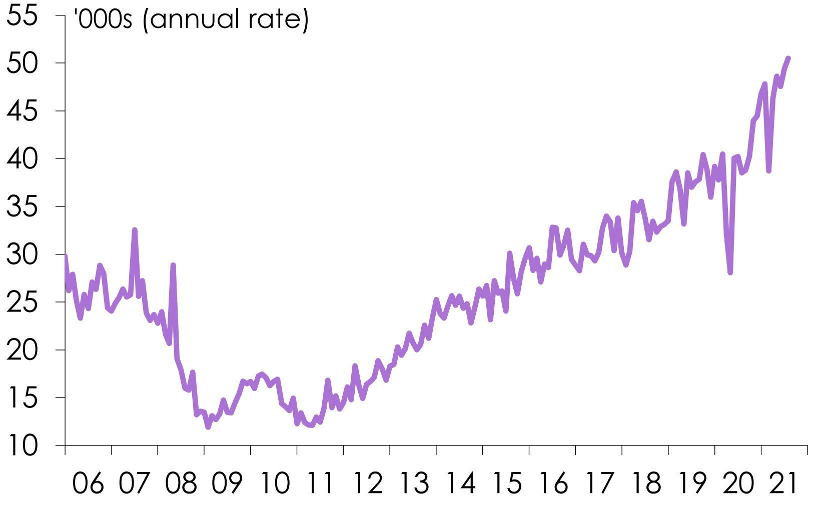
Real GDP



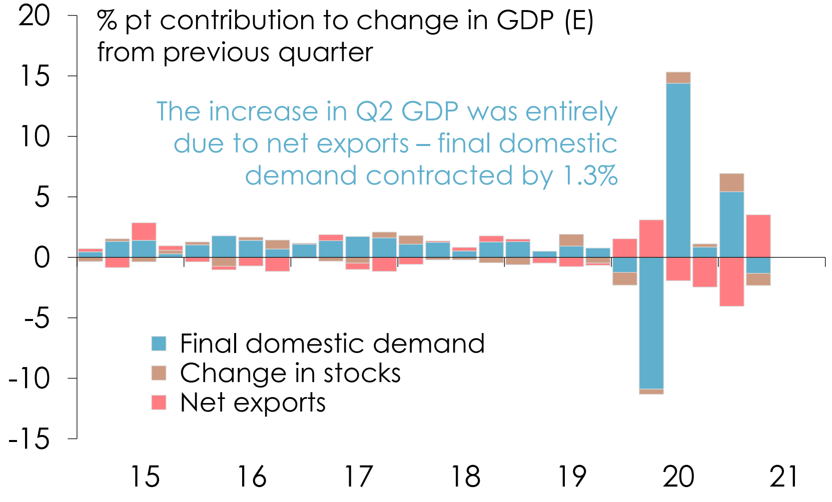
Consumer confidence



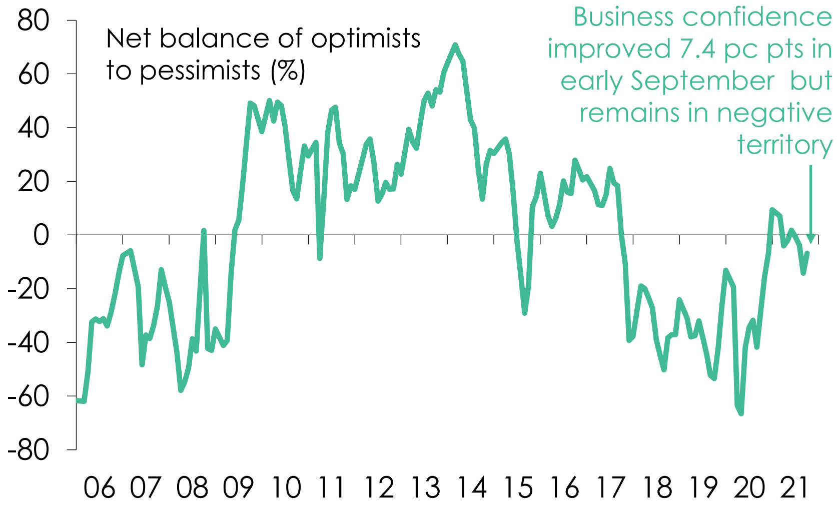
Dwelling 'consents' (permits)



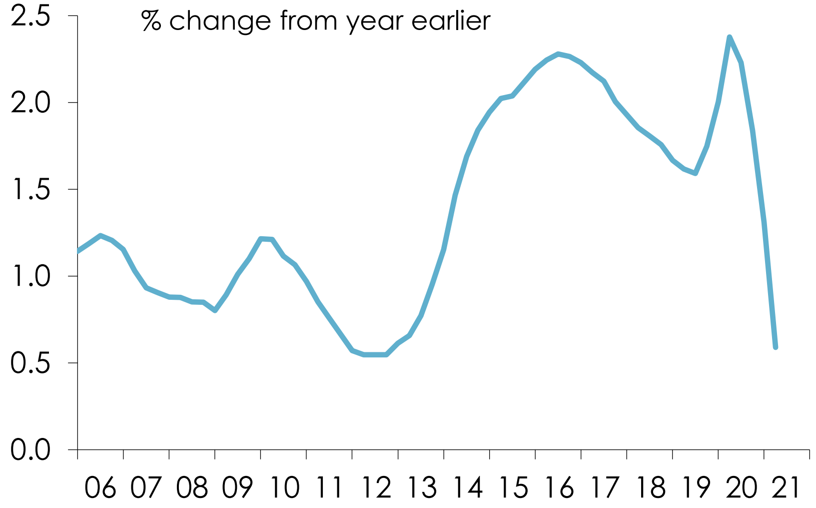
Contributions to GDP growth



Business confidence



Population growth



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

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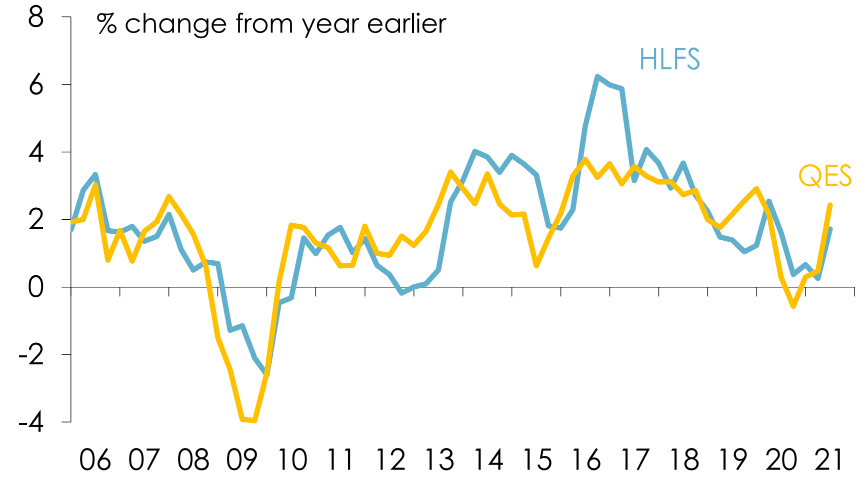
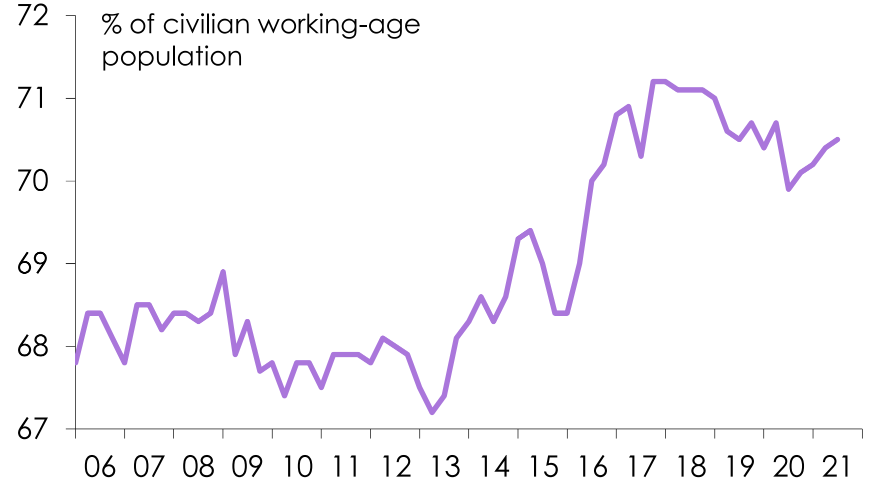
Employment rose 1.1% in Q2 (to 1.3% above pre-pandemic peak) and unemployment dropped to 4%

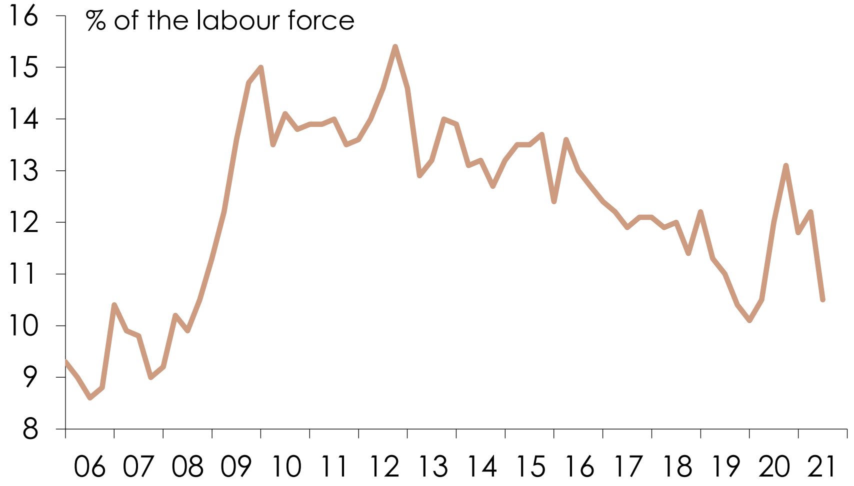
Employment



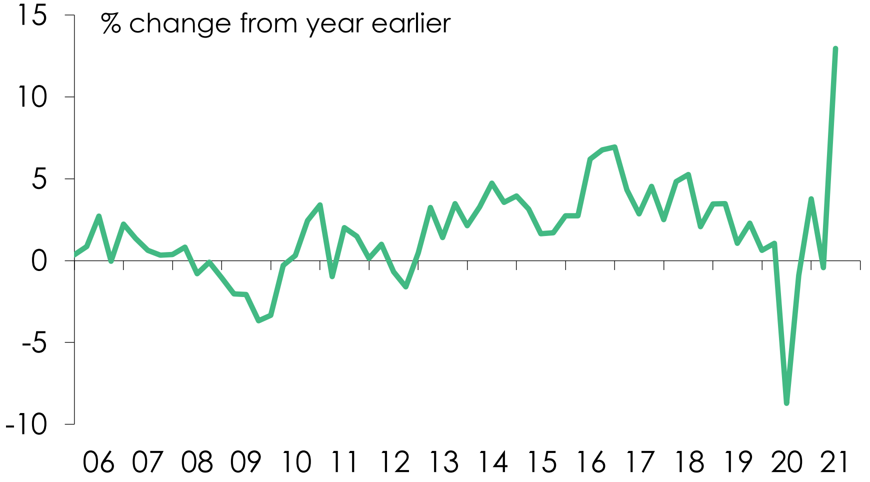
Labour force participation rate



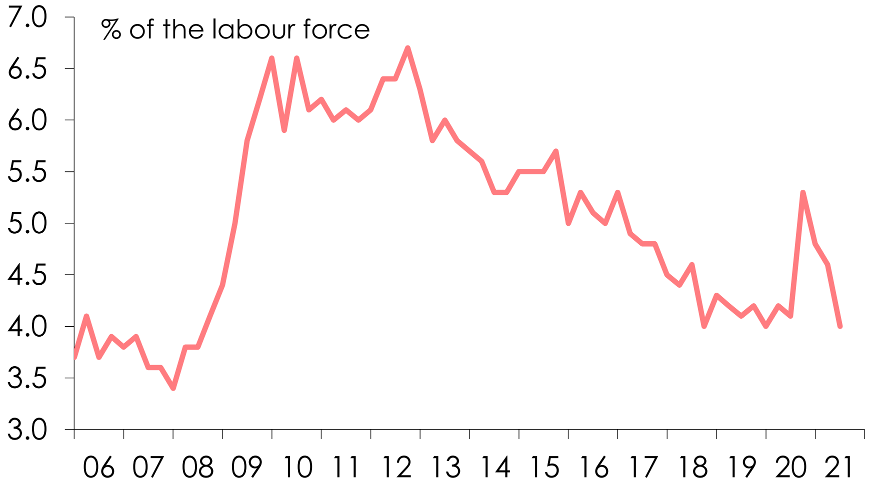
Labour force under-utilization rate



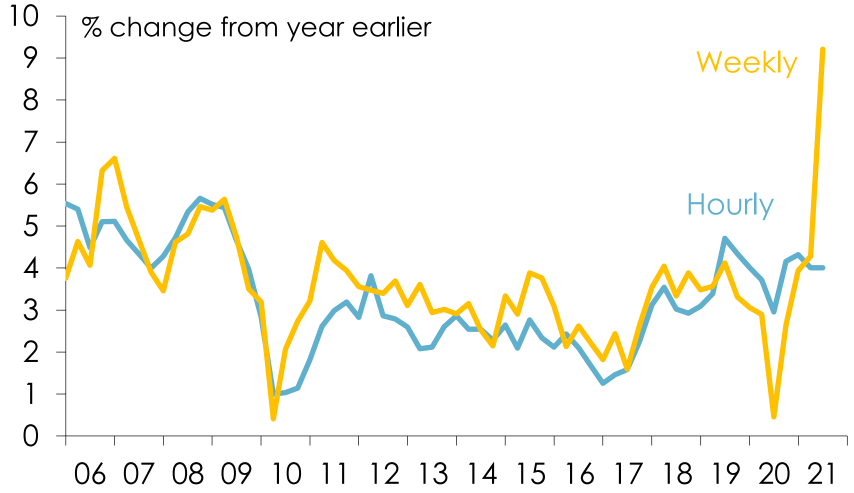
Hours worked



Unemployment rate



Average weekly earnings



Note: New Zealand labour force data are only published quarterly. There are two 'headline' series on employment – the household labour force survey (HLFS) which counts the number of people in employment during the quarter; and the quarterly employment survey (QES), which counts the number of 'filled jobs' at 'economically significant enterprises' in the 'reference week' in the middle of the quarter, excluding the self-employed and those working in agriculture and fishing. The labour force under-utilization rate measures those who are unemployed plus those who are employed part-time but working fewer hours than they are able and willing to work.
Source: Statistics NZ. September quarter data will be released on 3rd November. Return to "What's New".

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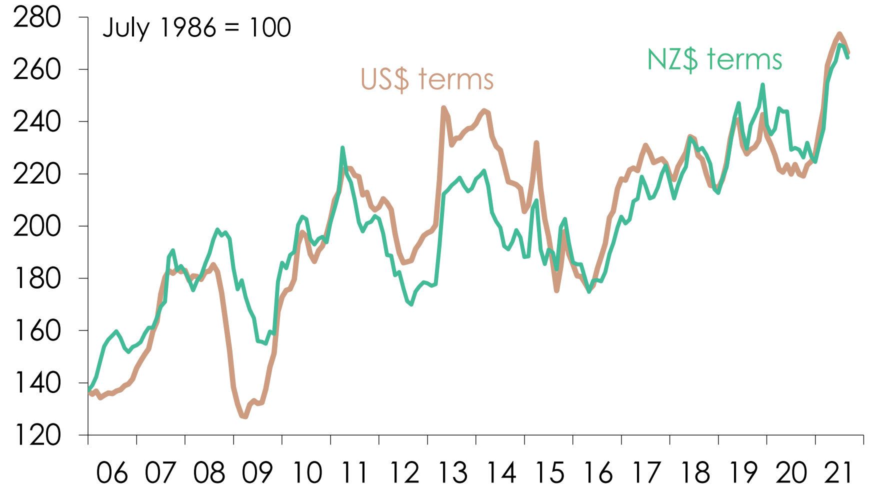
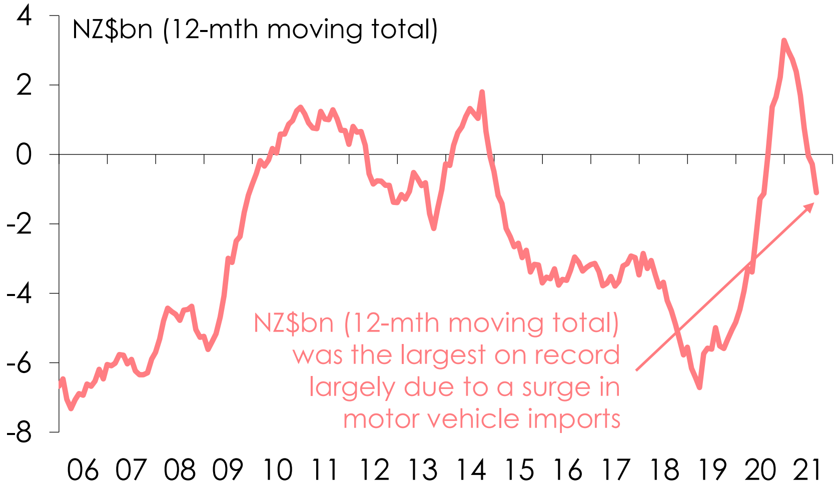
Although New Zealand's export commodity prices are at a record high, unlike Australia its current account has remained in deficit

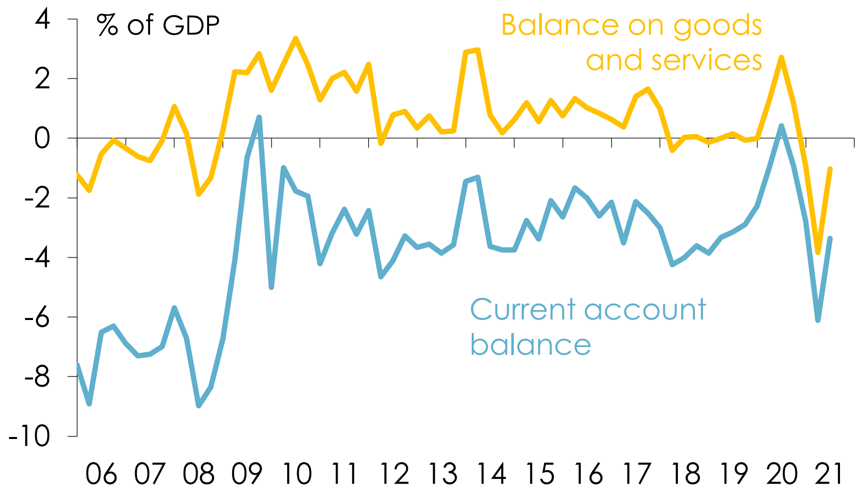
Export commodity prices



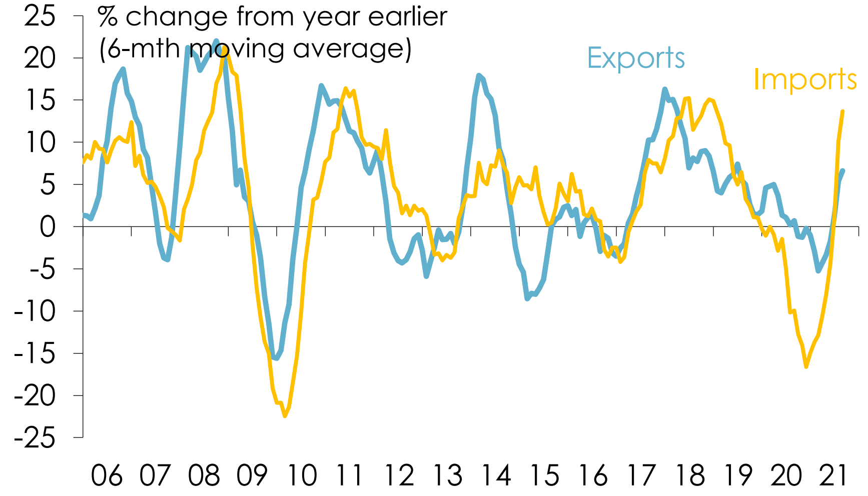
Merchandise trade balance



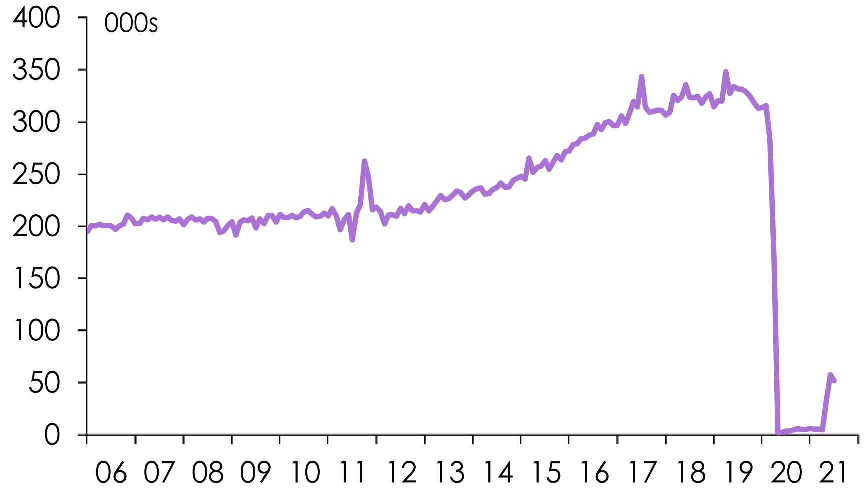
Balance of payments



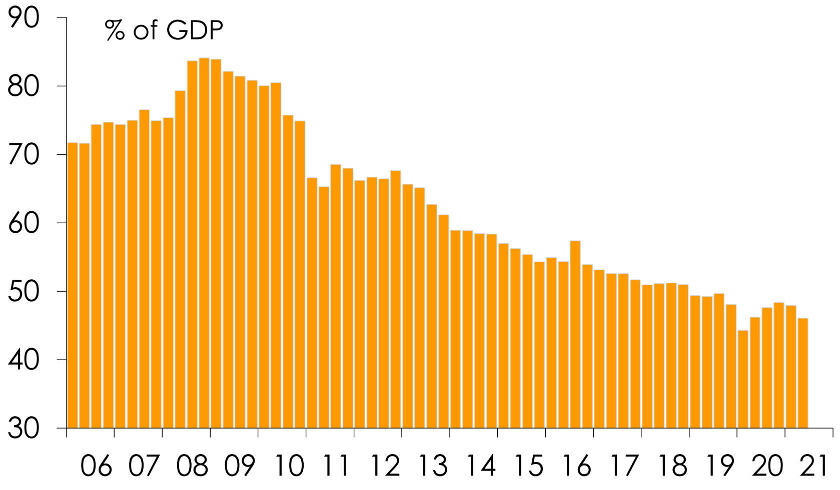
Merchandise exports and imports



Overseas visitor arrivals



Net foreign debt



Note: latest merchandise trade data is for August: September data will be released on 27th October; latest balance of payments and net foreign debt data is for the March quarter; September quarter data will be released on 15th December. *Sources:* ANZ Bank; Statistics New Zealand. Return to "What's New".

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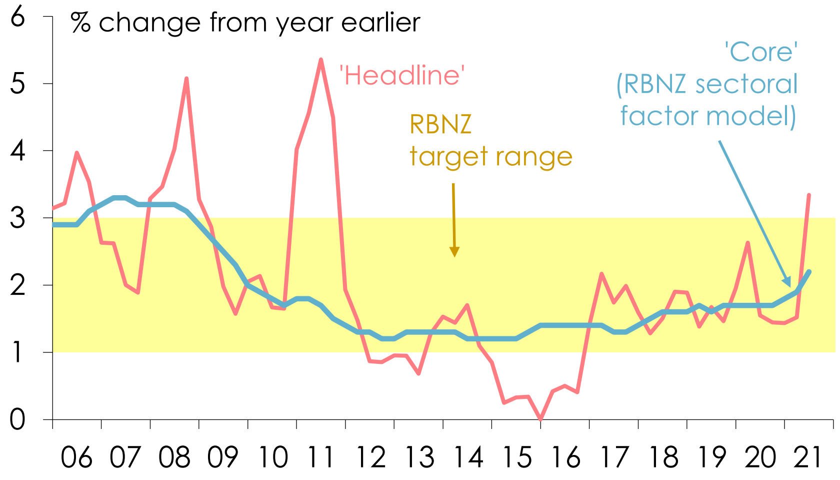
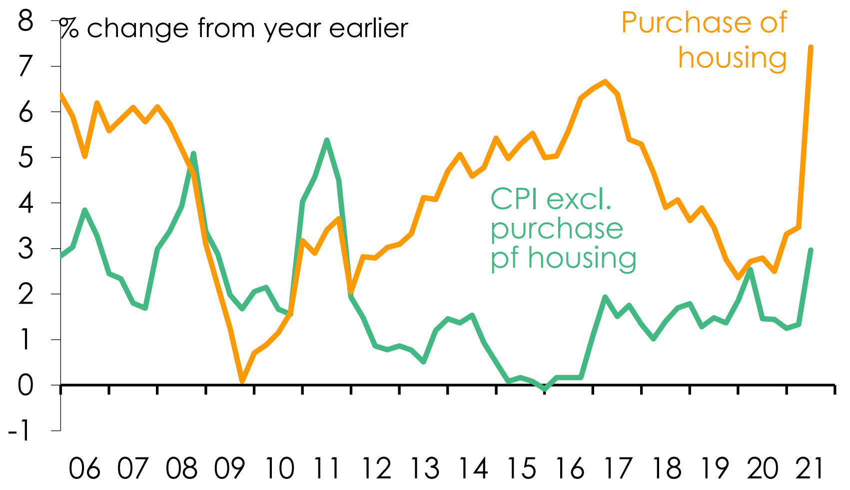
The Q2 CPI was a ‘shocker’, rising 1.3%, half a percentage point above market expectations, driven largely by housing costs

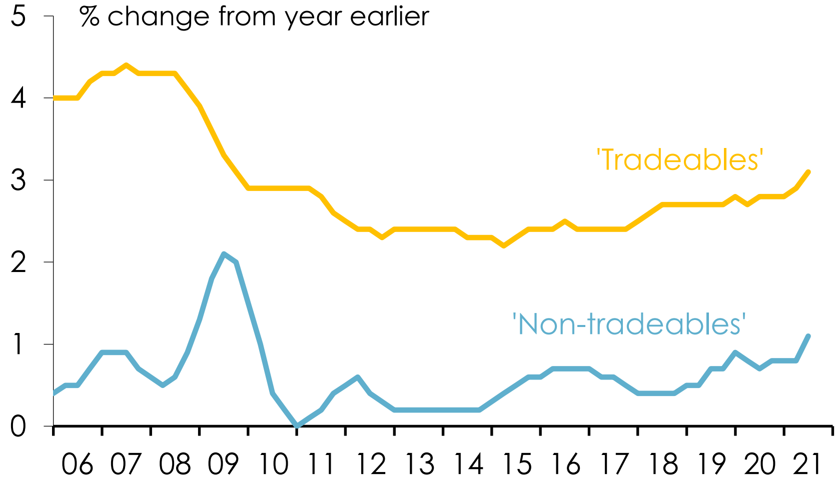
Consumer prices



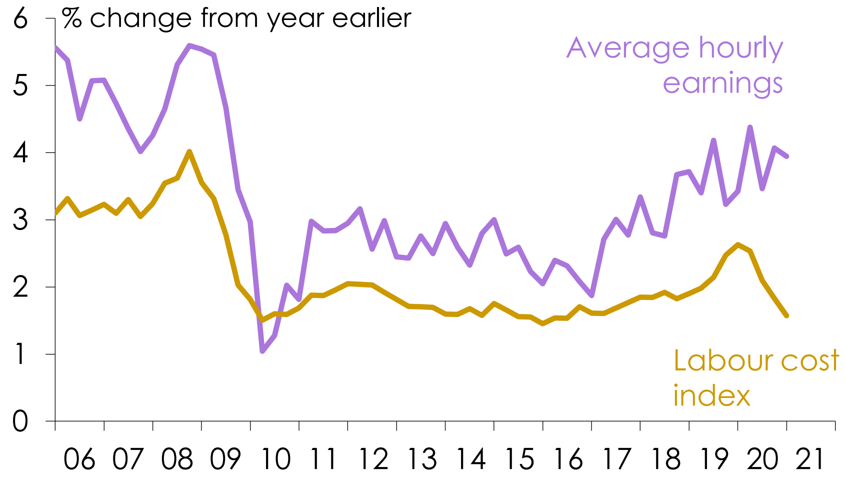
Housing costs in the CPI



Components of ‘core’ inflation



Labour costs



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

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

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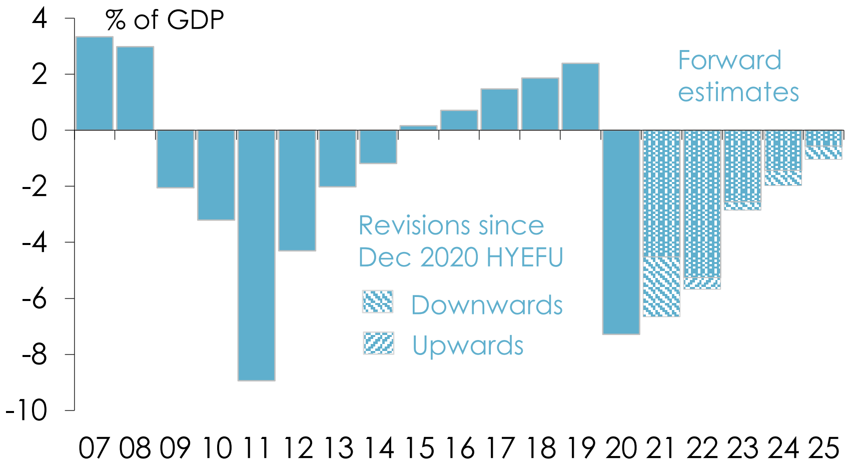
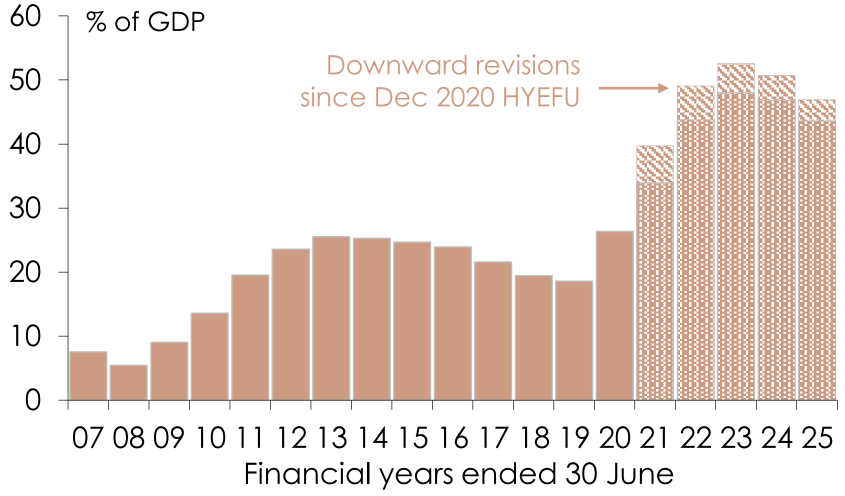
The 2021 NZ Budget uses gains from an improved economic outlook to fund additional spending as well as a slightly improved 'bottom line'

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



NZ 'core Crown debt'

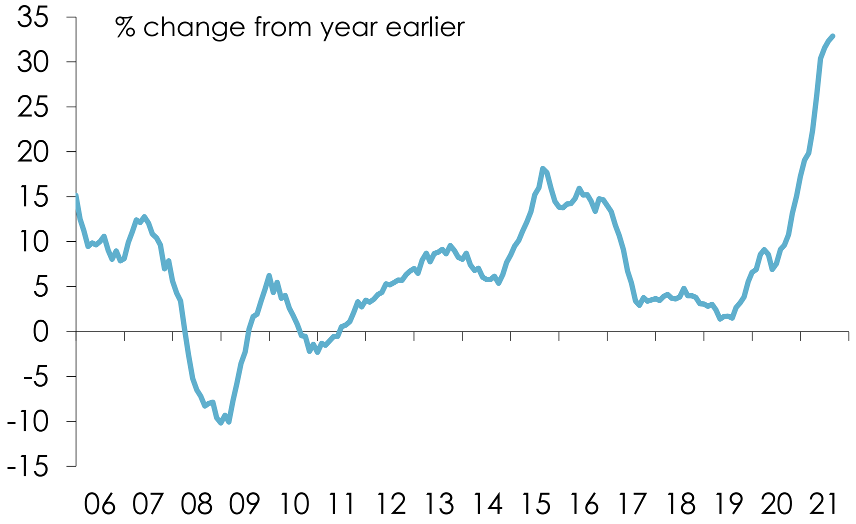


- **As was also the case in Australia, the 2021-22 New Zealand Budget presented by Finance Minister Grant Robertson in May benefited from a much stronger economic performance than had been anticipated in last year's Budget, or in last December's Half-Year Economic & Fiscal Update (HYEFU)**
  - Treasury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

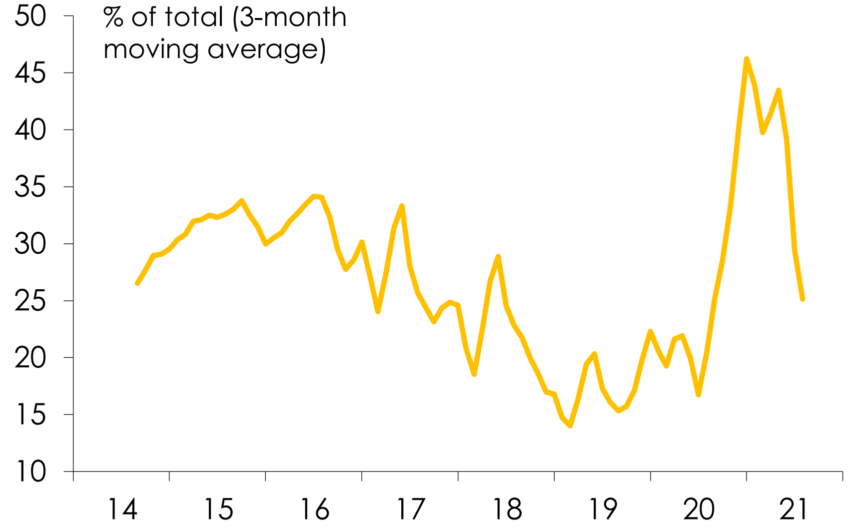
Note: The measure of the NZ Government budget balance is 'OBEGAL', which stands for 'operating balance excluding gains and losses' (an accrual accounting measure). Net 'core Crown debt' excludes assets of the NZ Super Fund, student loans and other advances, and financial assets held for public policy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

NZ's housing price boom has been fuelled by investors (a large proportion of them with very high LVRs) – but recent changes have had some impact

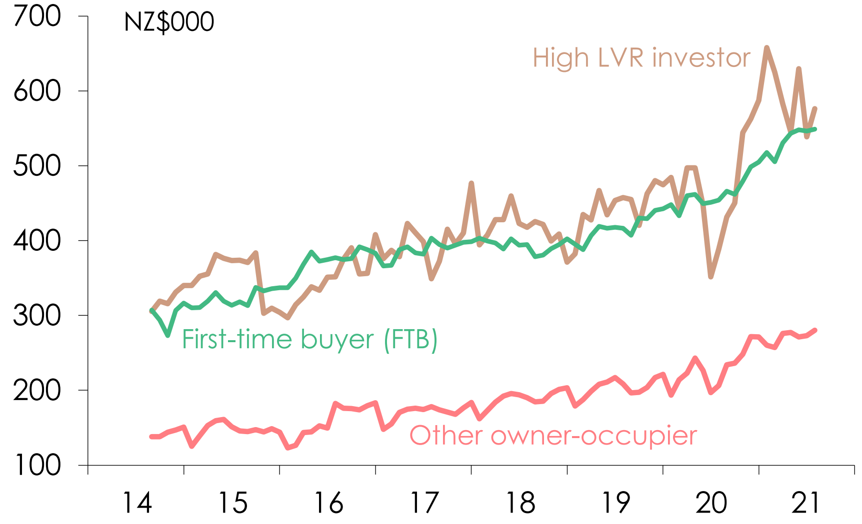
House price inflation



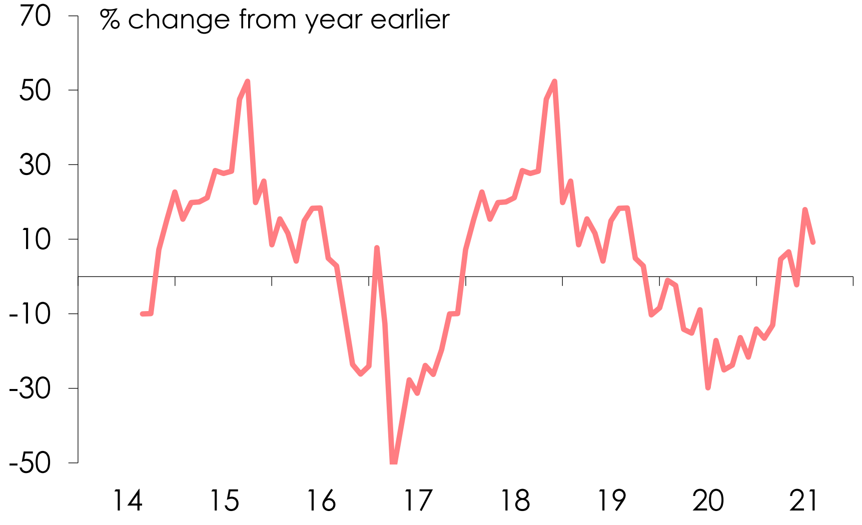
Lending to investors as pc of total



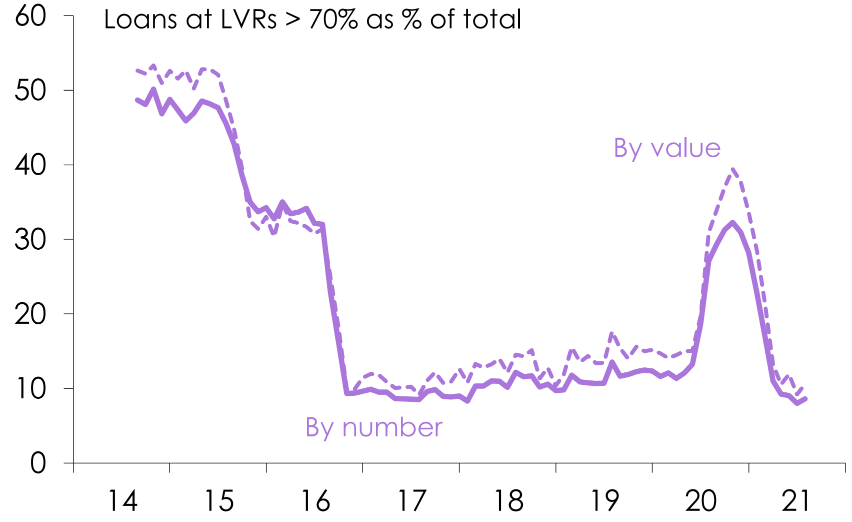
Average new mortgage



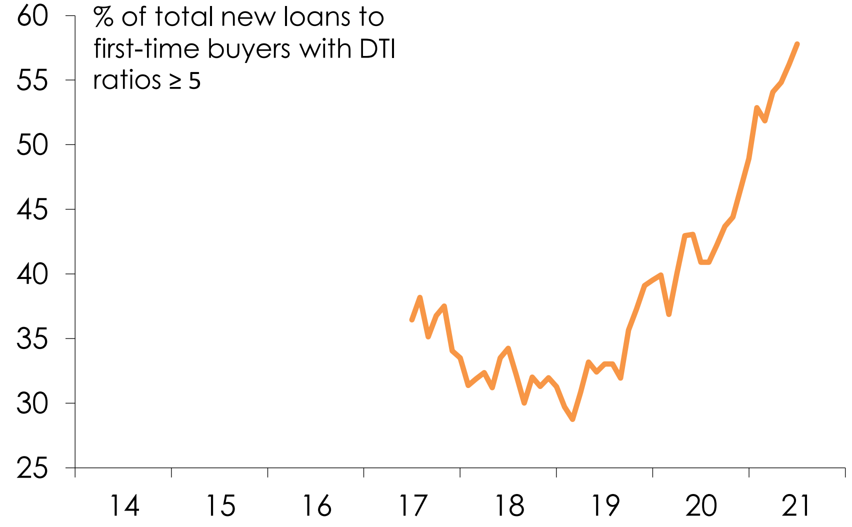
Mortgage lending growth



High-LVR loans to investors



Loans to FTBs at over 5 times income



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

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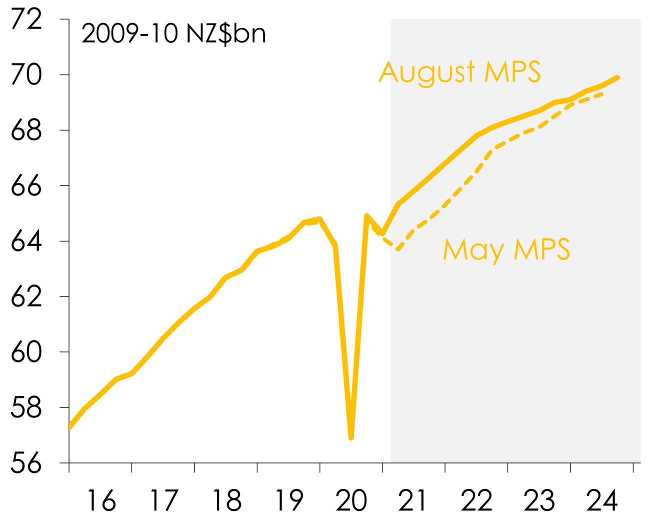
The RBNZ this week further reduced the ceiling on high LVR mortgage lending from 20% to 10%

- The RBNZ this week delivered on its foreshadowed further tightening of macro-prudential controls on mortgage lending, lowering the limit on the proportion of loans that can be originated at LVRs of more than 80% from 20% to 10% with effect from 1st 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 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 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

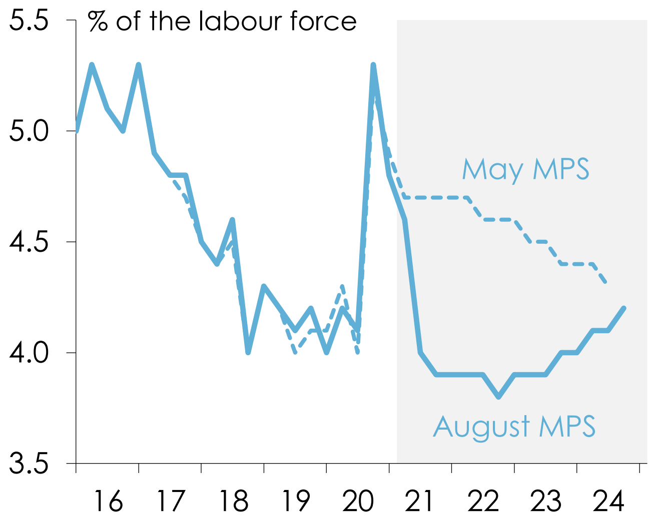
Return to "What's New".

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

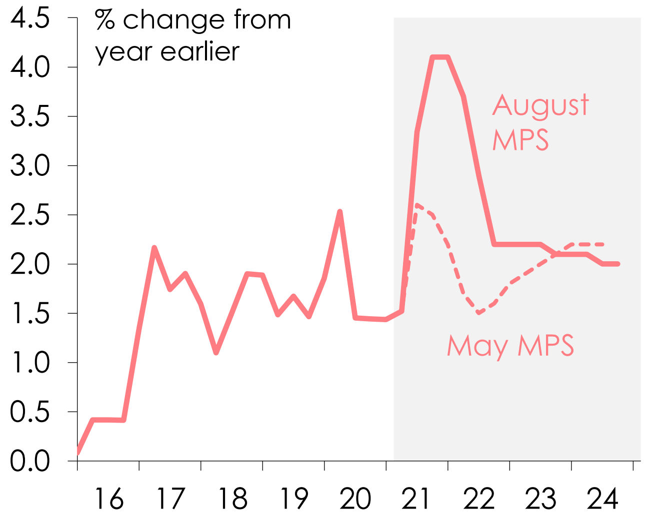
GDP



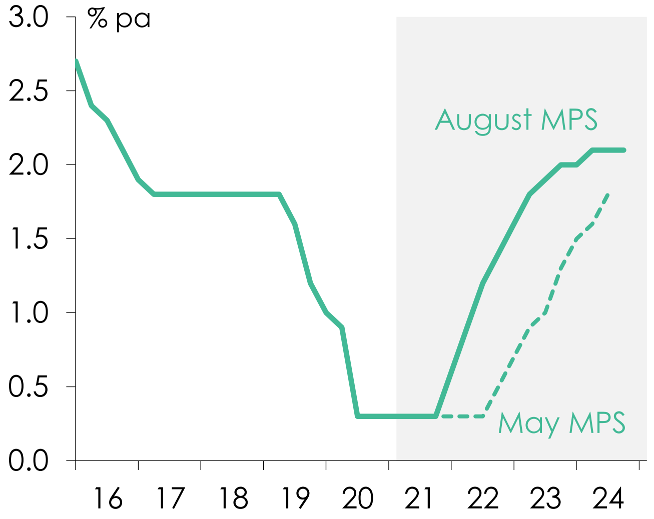
Unemployment



Inflation



Official cash rate

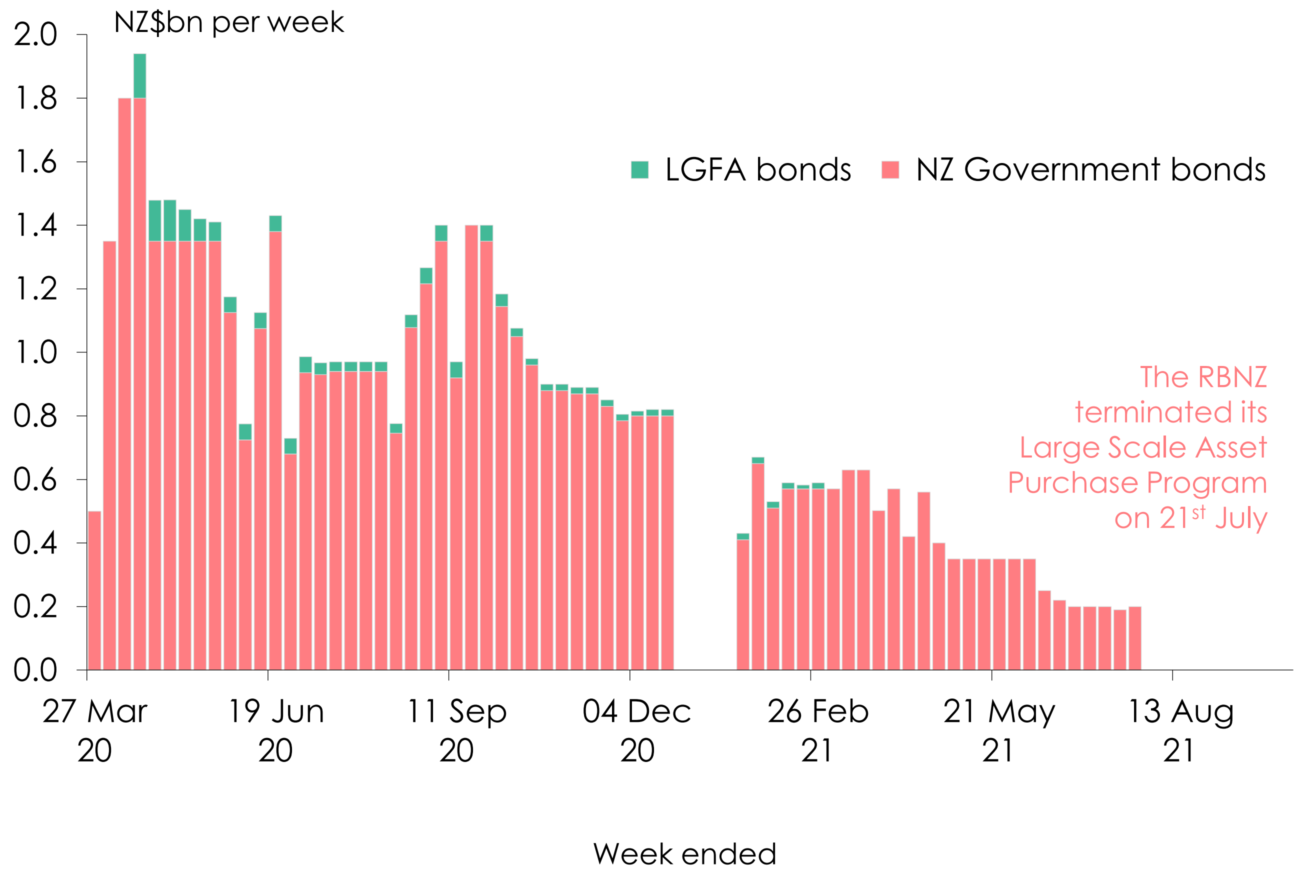


- The RBNZ had been widely expected to raise its OCR at last month's MPC meeting, but it instead decided to keep it at 0.25% "for now", given the "heightened uncertainty with the country in a lockdown" imposed the day before
- This was notwithstanding the MPC's view that "their least regrets policy" 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

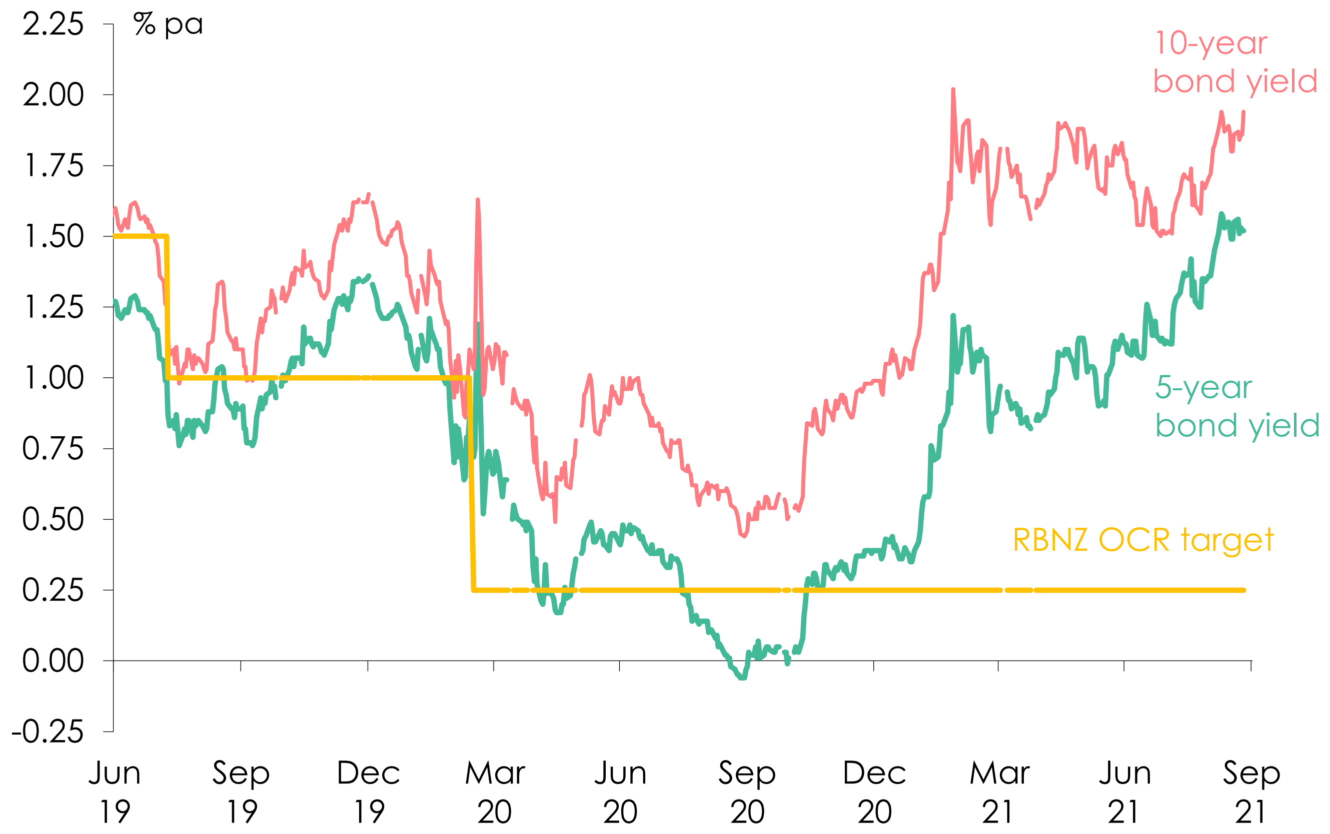
Source: Reserve Bank of New Zealand, *Monetary Policy Statement August 2021*. The next MPS will be released on 24th November. Return to "What's New".

Short-term NZ bond yields eased after the RBNZ appeared to downplay the likelihood of a 50 bp OCR hike next month, but longer yields rose

RBNZ open market bond purchases



New Zealand interest rates



- **Short-term NZ bond yields declined by around 10 bp this week following a speech by RBNZ Assistant Governor Christian Hawkesby which seemed to downplay the likelihood that the RBNZ will raise rates by 50bp when it next meets on 6th October (as the market had been more-than-half pricing)**
- **However longer-term yields rose this week in line with global trends, with the 10-year finishing at 1.94%**

Note: LGFA = Local Government Financing Authority. *Source:* Reserve Bank of New Zealand, *Statistics* Tables B2 and D3. Data up to 24th September. Return to "What's New".

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