

ECONOMIC IMPACT OF THE CORONAVIRUS PANDEMIC

23RD OCTOBER 2021

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INDEPENDENT ECONOMICS

What's new?

The world

- ❑ Just under 2.9mn Covid-19 cases were recorded this week, a slight increase for the first time in eight weeks ([slide 4](#)), largely on account of a rise in new infections in Europe and Russia ([slide 5](#))
- ❑ China's real GDP rose by a weaker-than-expected 0.2% in Q3, which combined with downward revisions to previous quarters cut the annual growth rate to 4.9%, the slowest in 30 years except for the first half of last year ([slide 47](#))
- ❑ September monthly data on both the 'supply' and 'demand' sides of China's economy were also weak, except for exports ([slides 48-49](#)), yet so far there's no sign of any policy response ([slide 50](#))
- ❑ The impact of the global shortage of semi-conductor chips on motor vehicle production showed up (again) in falls in Japan's exports ([slide 54](#)) and US industrial production ([slides 67 and 75](#)) in September ...
- ❑ ... but a strong increase in Taiwan's export orders for ICT products ([slide 40](#)) and falls in chip prices ([slide 39](#)) suggest that the semi-conductor shortage may have passed its worst
- ❑ The UK economy appears to be softening, with retail sales falling for the fifth month in a row in September, both consumer and business confidence taking a hit from surging energy prices, and exports stagnating in the aftermath of 'Brexit' ([slides 83-84](#))
- ❑ Russia's central bank raised its policy interest rate by 75bp this week, the 6th increase this year, while Hungary's central bank tightened for the 5th time and Paraguay's for the 3rd ([slide 85](#))
- ❑ Turkey's central bank cut interest rates by 200bp, following a 100bp cut last month, despite inflation of almost 20%, sending the Turkish lira to a record low ([slide 86](#))

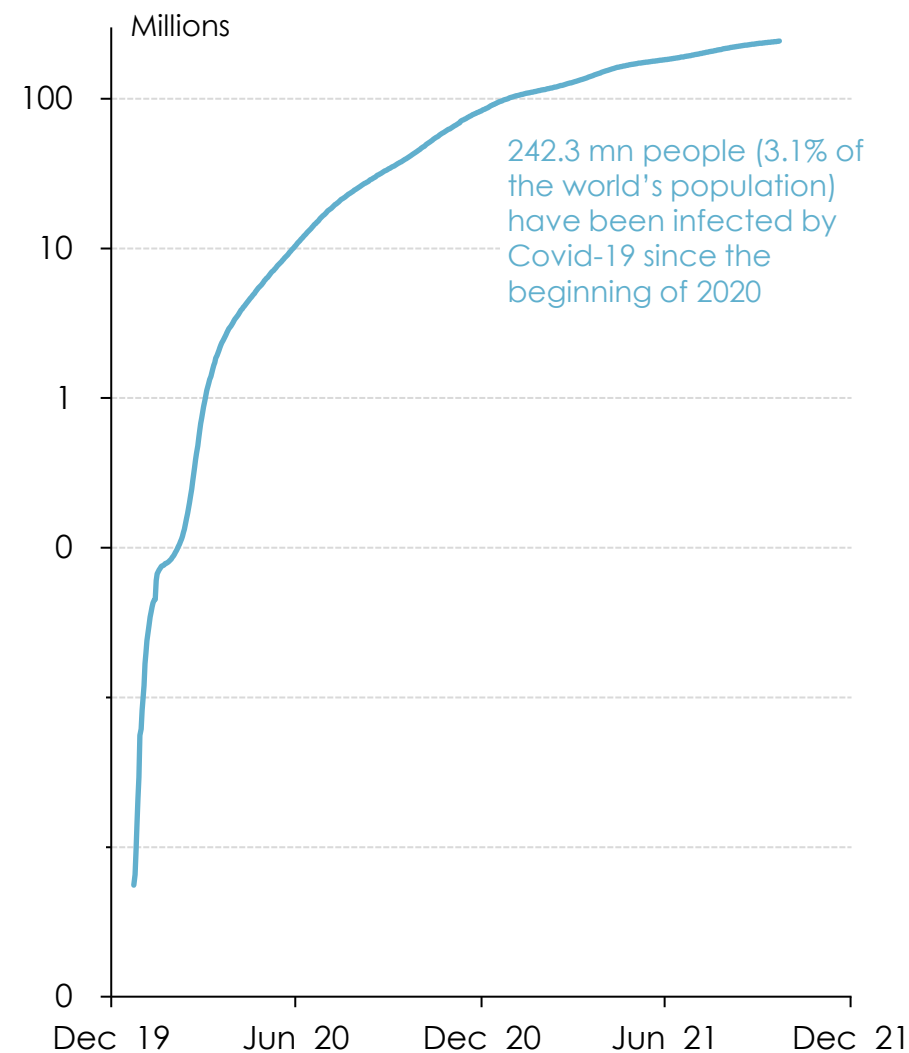
Australia and New Zealand

- ❑ Australia recorded 15,768 new Covid-19 infections this week, the first fall in 20 weeks ([slide 13](#))
- ❑ Victoria continued to record almost 2,000 new cases a day, but nonetheless eased restrictions on Friday as it passed the 70% (of the 16+ population) 'fully vaxxed' threshold ([slide 14](#)), while NSW eased more restrictions as it passed the 80% threshold – although Queensland and Tasmania indicated they won't open their borders to NSW and Victoria until mid-December
- ❑ The number of payroll jobs rose 0.2% over the last two weeks of September, but was still 4.5% below its pre-lockdown peak ([slide 106](#))
- ❑ 'Tax gap' estimates published in the ATO's 2020-21 Annual Report published this week show that small business accounts for almost half the shortfall between what was actually collected from personal and company income taxes in 2018-19 and what the ATO estimates it 'should' have collected given 'full compliance' with the tax law ([slide 116](#))
- ❑ Yet the 'blind eye' turned to non-compliance by small business, together with generous deliberate tax preferences, has done absolutely nothing to boost jobs, productivity or innovation ([slide 117](#))
- ❑ Latest detailed trade data through to August show the continuing impact of China's trade boycott on Australian exports of everything except iron ore, gold, base metals, wheat, wool and dairy products ([slide 131](#))
- ❑ Minutes of this month's RBA Board meeting show the RBA is confident about a strong jobs rebound and not worried about inflation ([slide 151](#))
- ❑ New Zealand's CPI rose a much larger-than-expected 2.2% increase in Q3, pushing the annual 'headline' inflation rate up to a 10-year high of 4.9%, while the annual 'underlying' inflation rate rose to a 12½-year high of 2.7% ([slide 160](#)), prompting a surge in NZ bond yields ([slide 164](#))

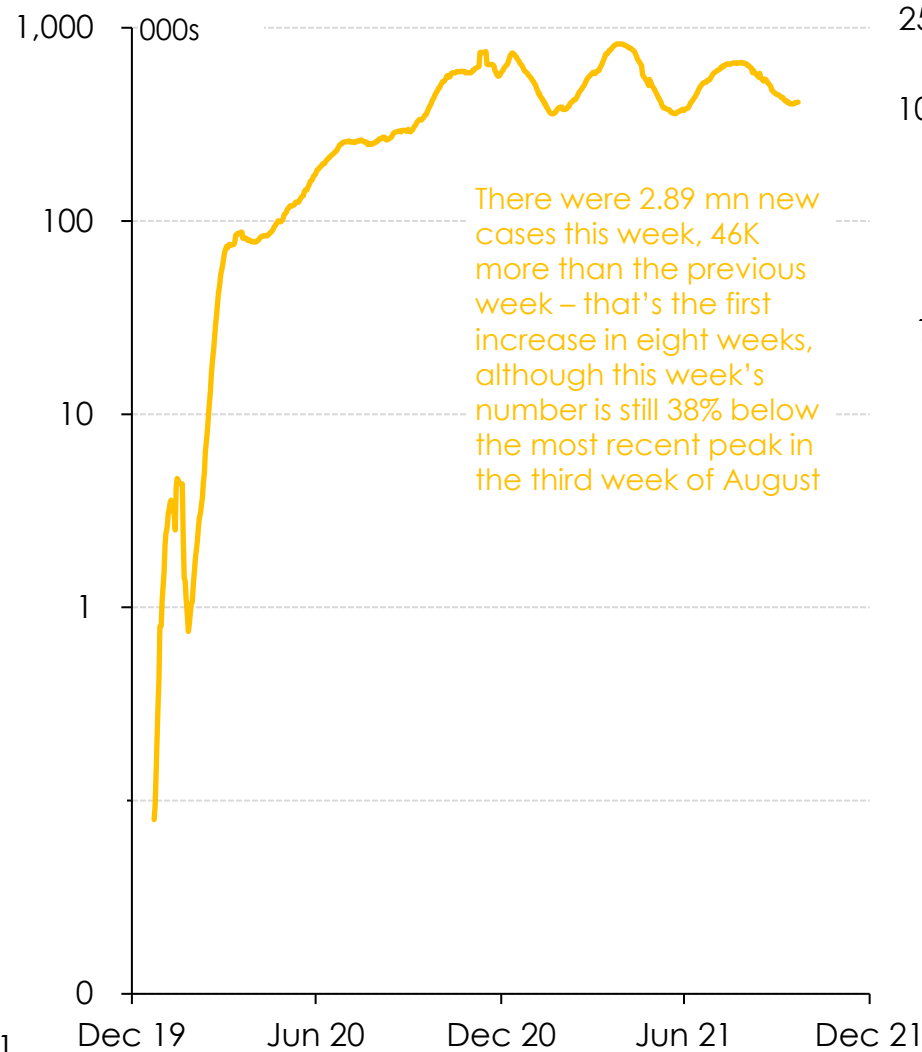
The virus

The world-wide total of new cases and deaths levelled out this week after declining for the previous eight weeks

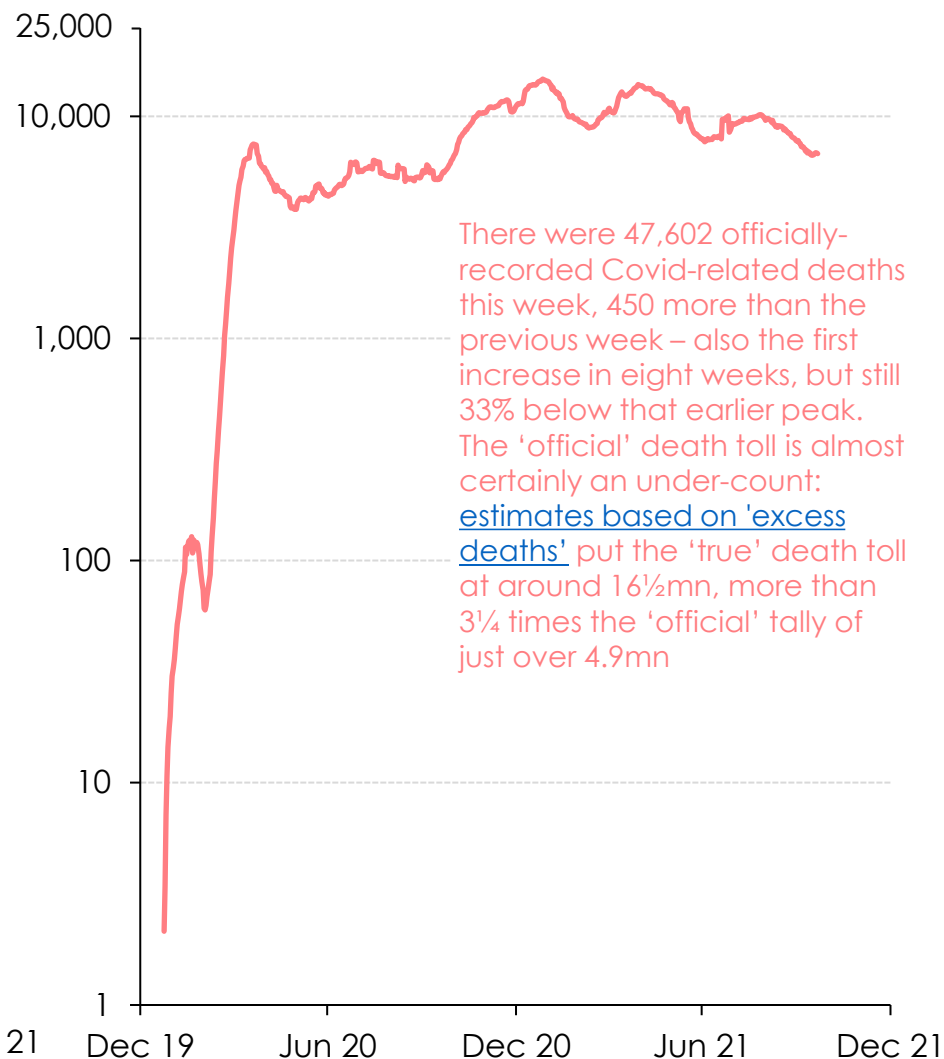
Cumulative confirmed cases – global total



New confirmed cases – global total



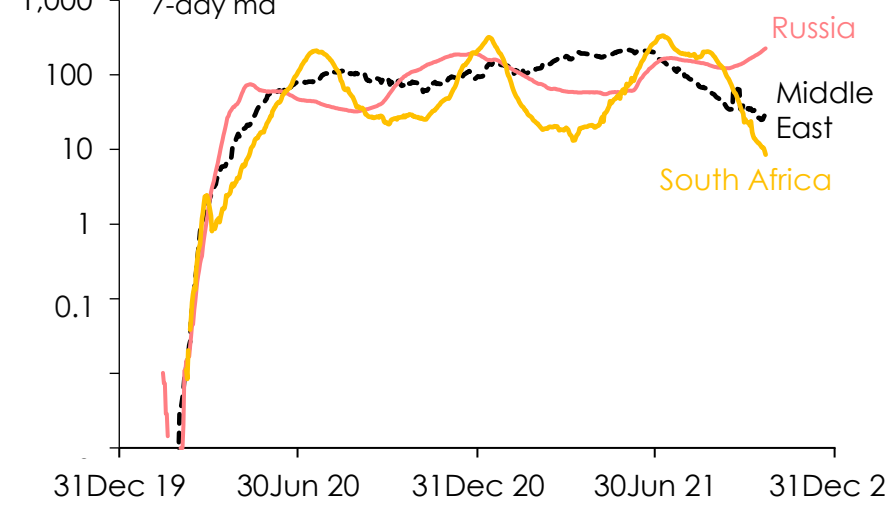
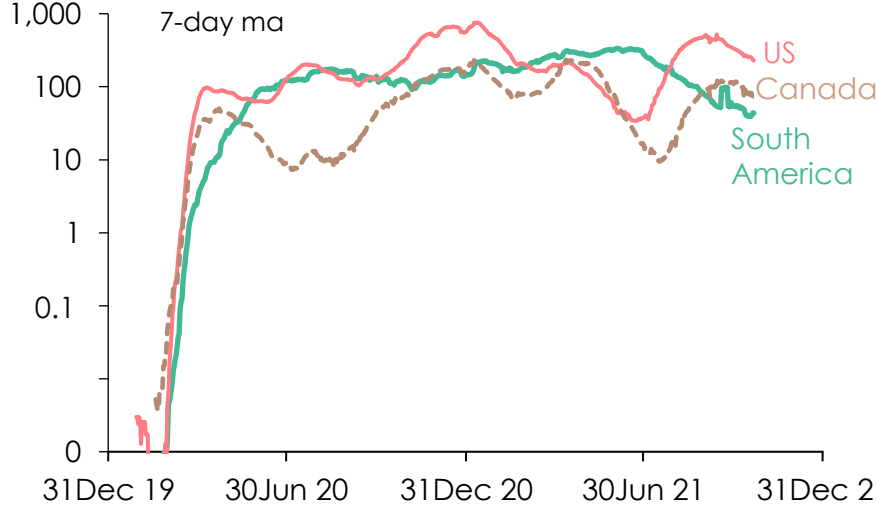
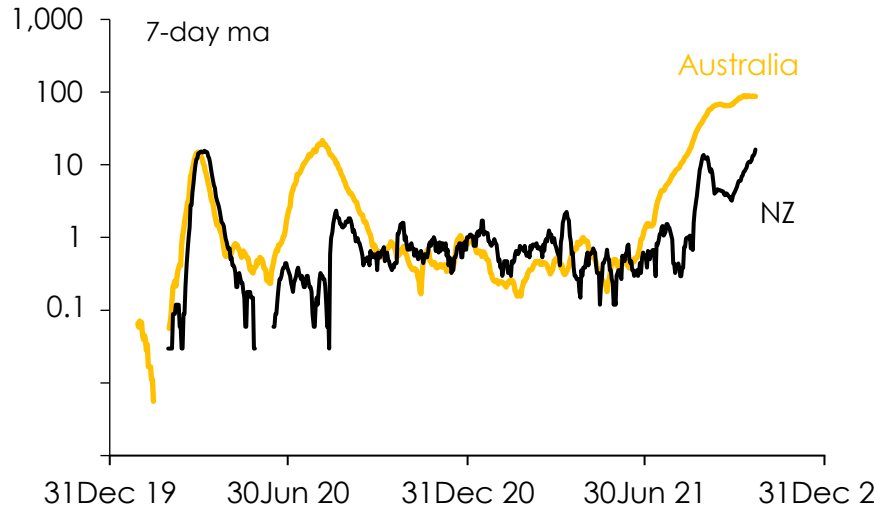
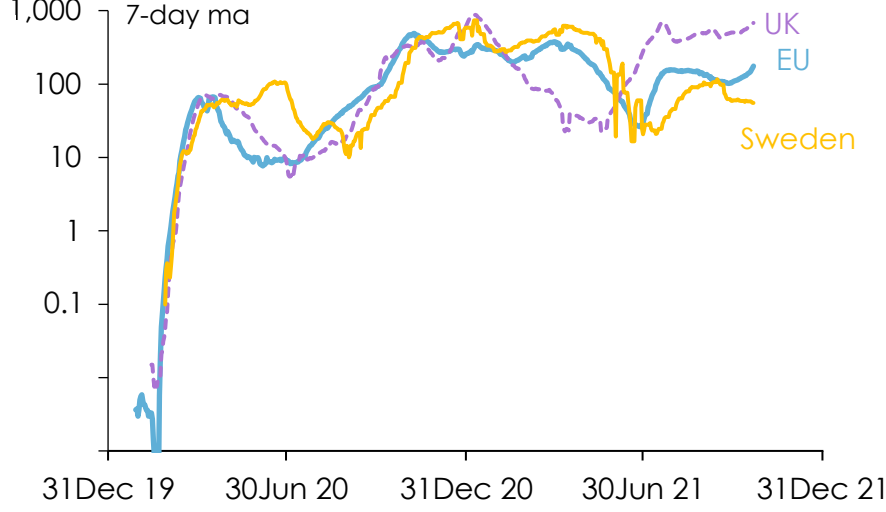
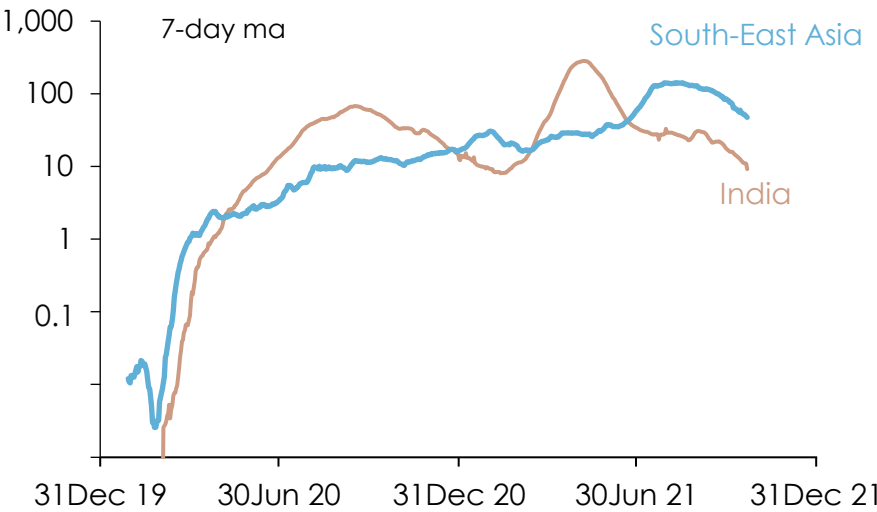
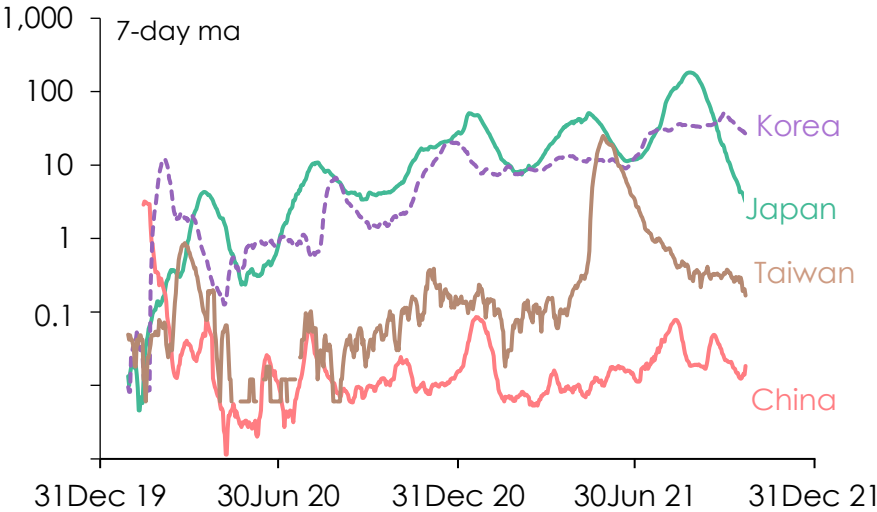
New deaths – global total



Note: All charts are on logarithmic scales. Data up to 21st October. Source: University of Oxford, [Our World in Data](#). [Return to "What's New"](#).

The increase in case numbers this week was almost entirely attributable to Europe (with 33% of all cases) and Russia (8% of the total)

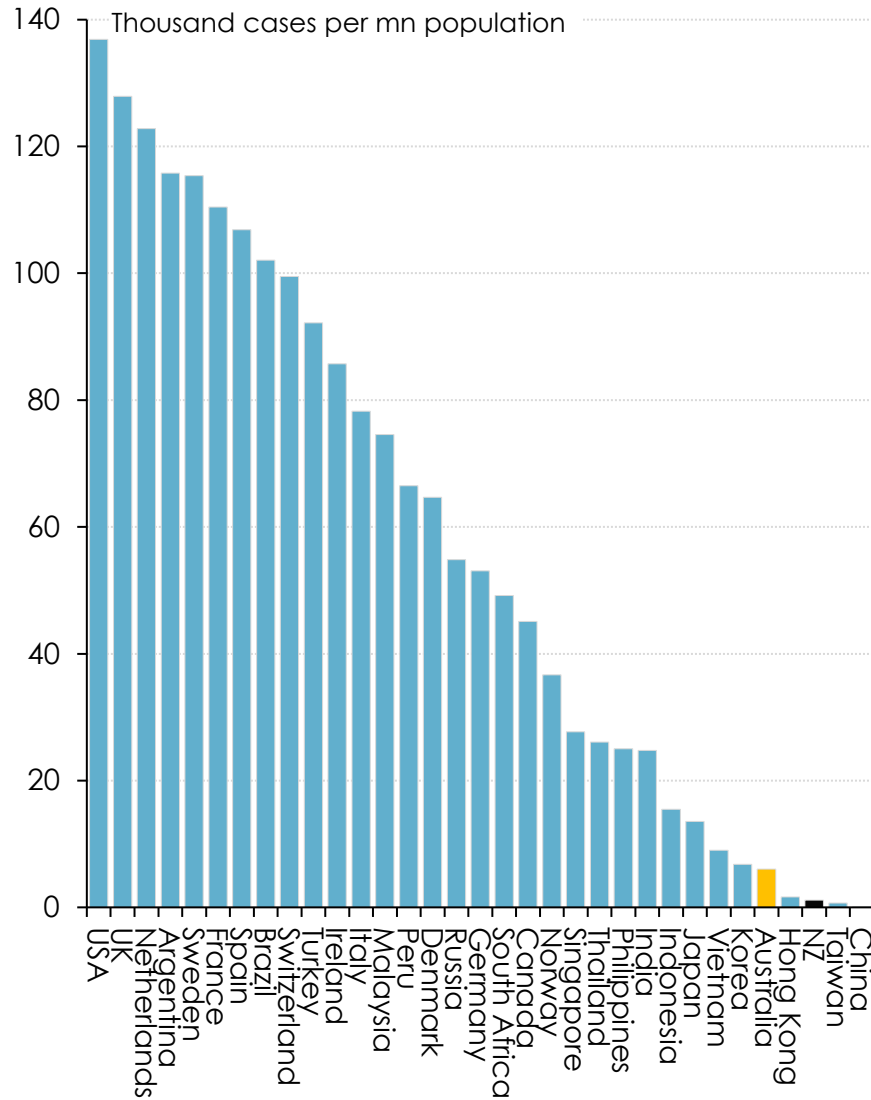
Daily new cases per million population – major countries and regions



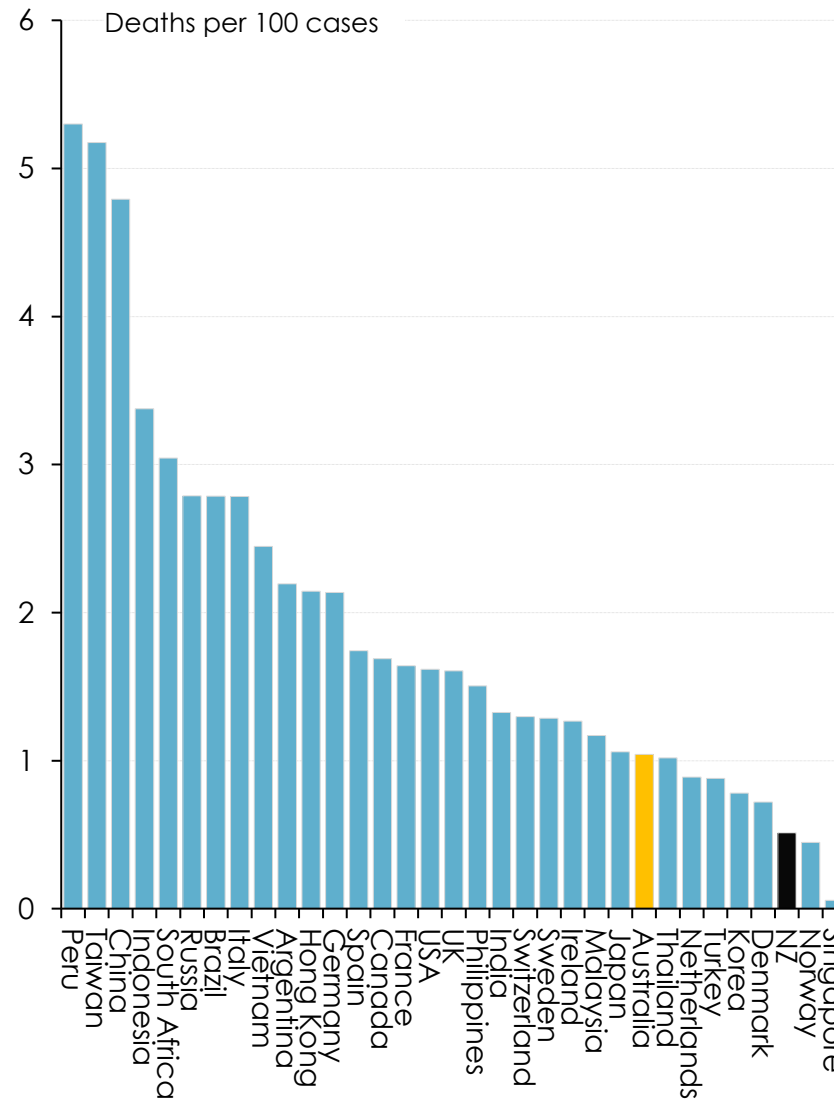
❑ The US still accounts for a larger share of 'official' deaths (24½% this week) than Europe (17%) but the death toll has been rising sharply in Russia (14½% of all 'official' deaths this week)

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

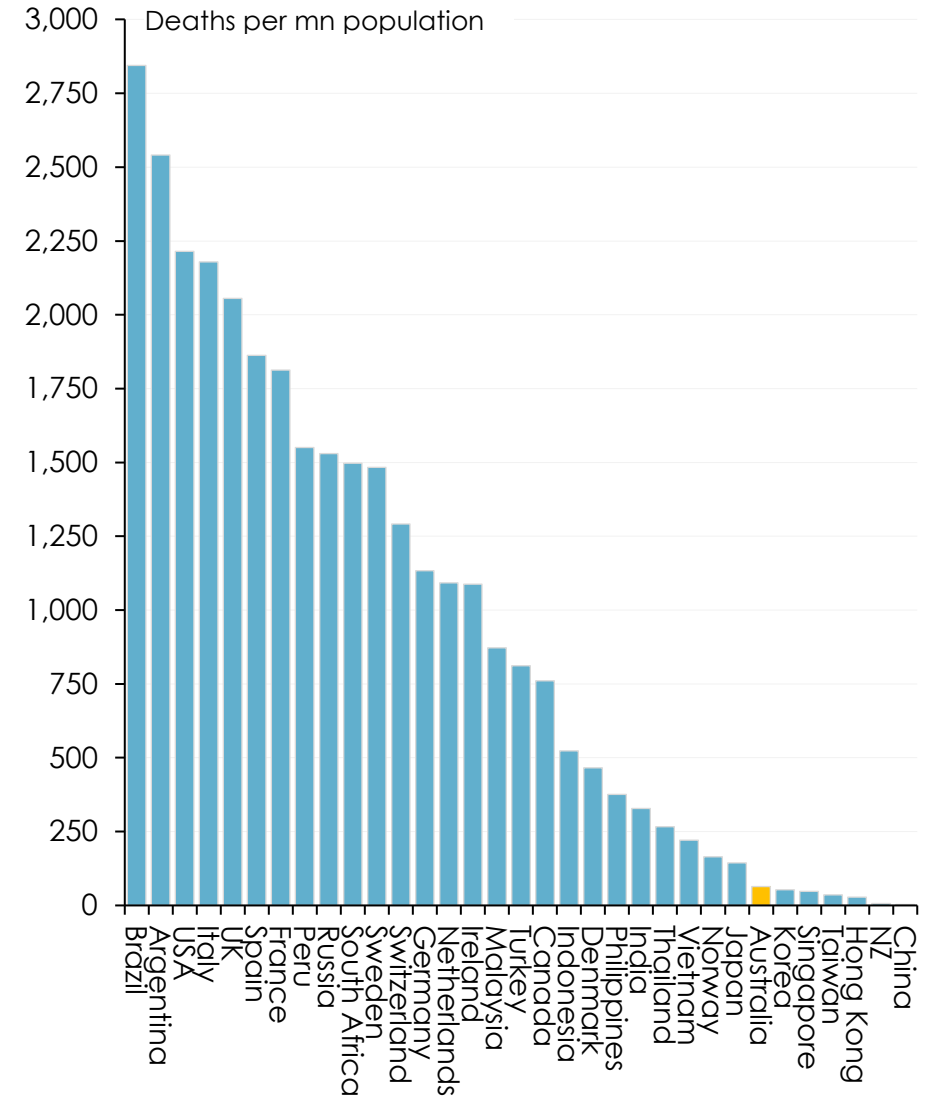
Apparent infection rate



Apparent fatality rate



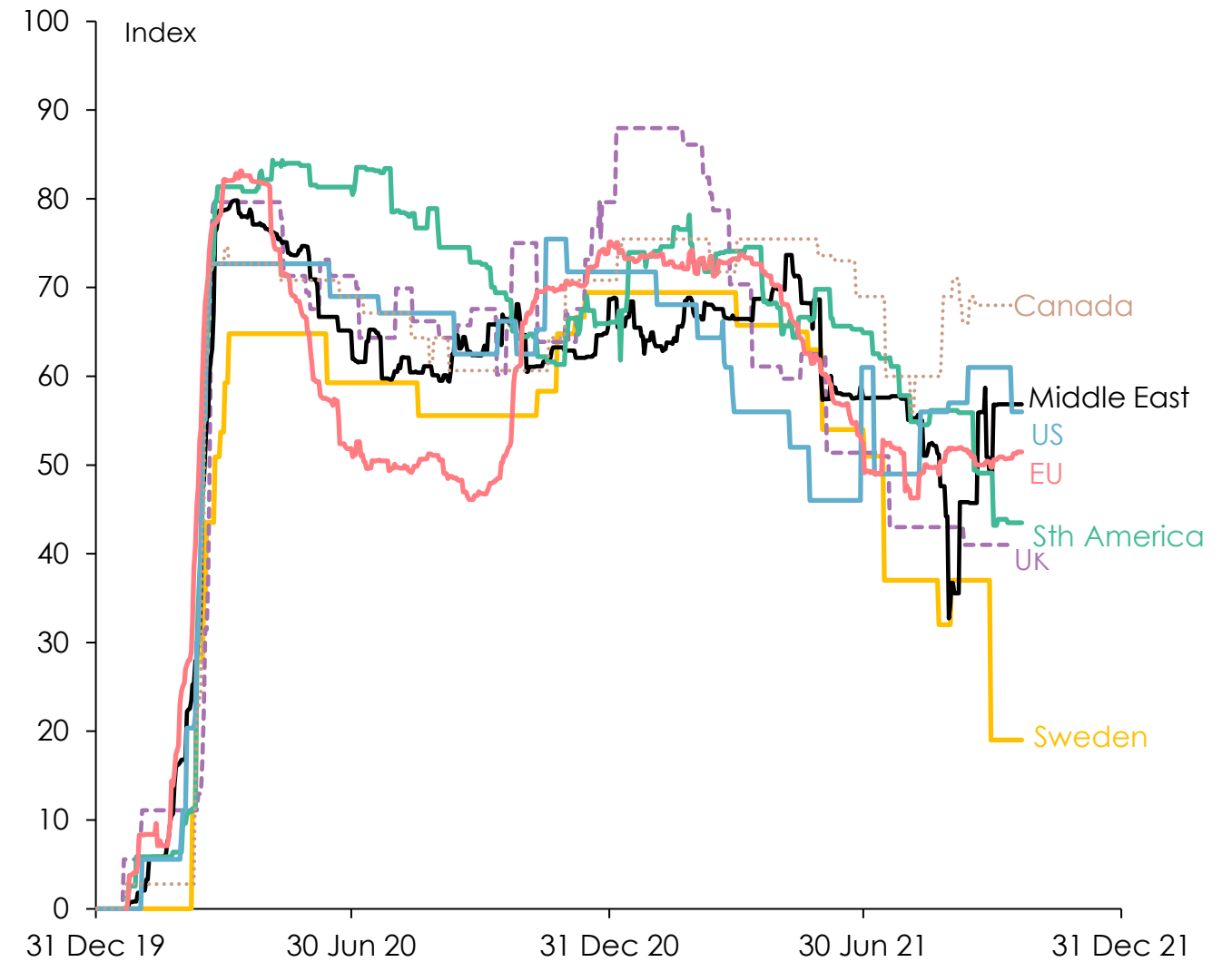
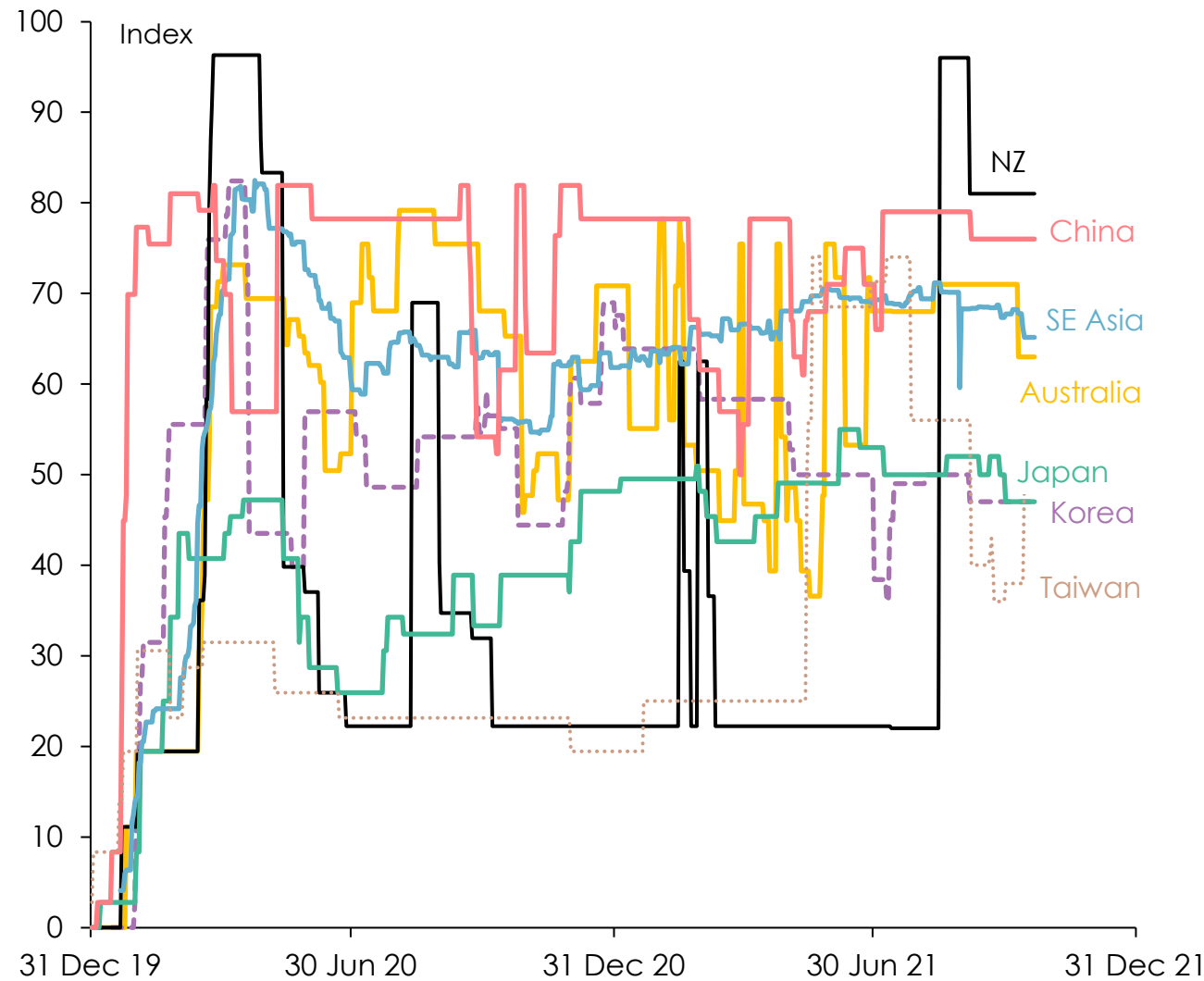
Death rate



Note: Data up to 21st October. Sources: University of Oxford, [Our World in Data](#); Corinna. [Return to "What's New"](#).

Restrictions have been eased this week in Australia, Malaysia, Vietnam and Chile, but tightened in Taiwan, Italy and Austria

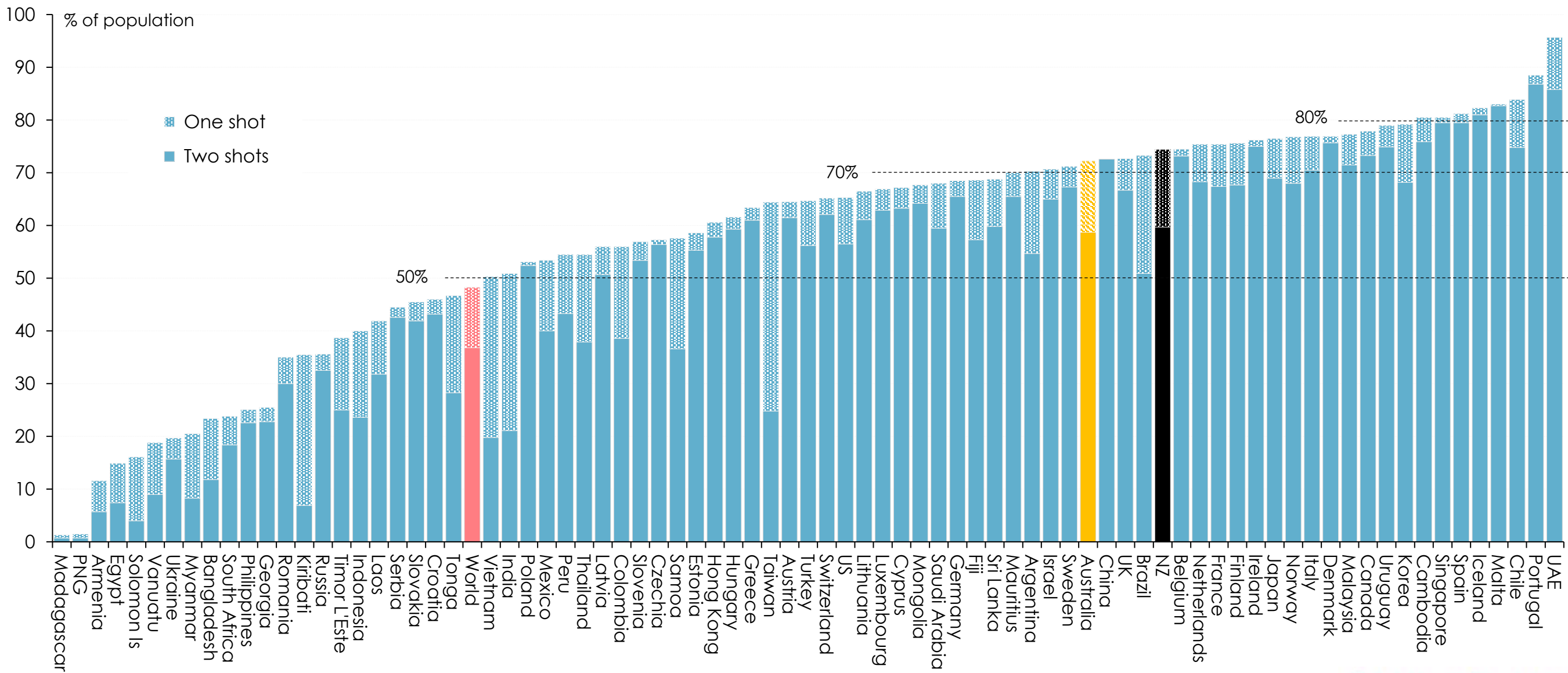
Timing and severity of government restrictions on movement and gathering of people



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 21st October (although the index for Australia doesn't reflect the easing of restrictions in Victoria at the end of this week). [Return to "What's New"](#).

16 countries have now fully vaccinated more than 70% of their population, another 10 are close to that threshold, and 24 more are over 50%

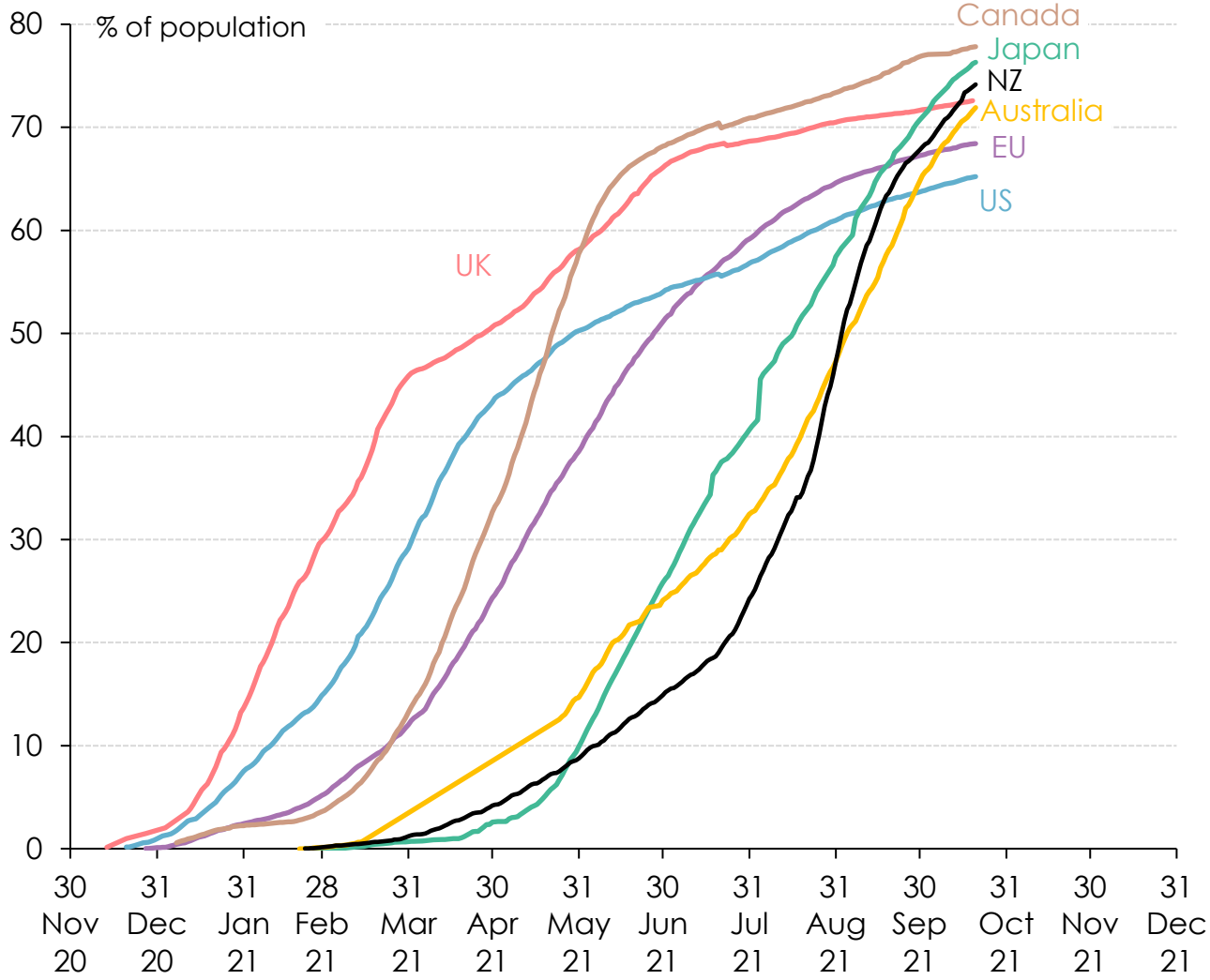
Percentage of population who have had at least one vaccination shot as at 18th-21st October



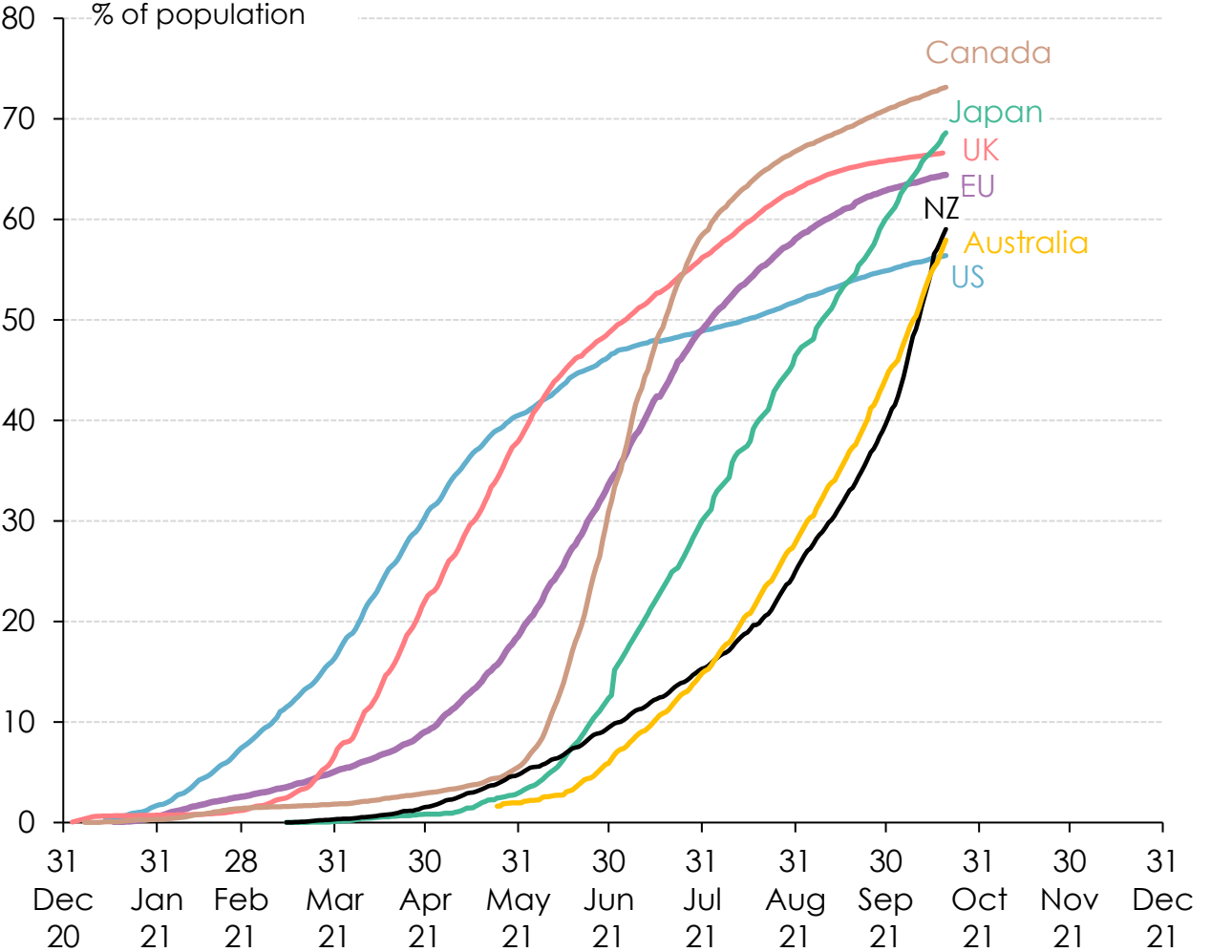
Note: Data for China is 28th September; for PNG, 5th October; for Armenia, 11th October; for Kiribati, Solomon Islands and Vanuatu, 12th October; for Laos, 13th October; for Luxembourg, 16th October; Egypt and Myanmar, 17th October; and for Colombia, Fiji, Samoa and Tonga, 18th October. Source: Our World in Data, [Coronavirus \(COVID-19\) Vaccinations](#). [Return to "What's New"](#).

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



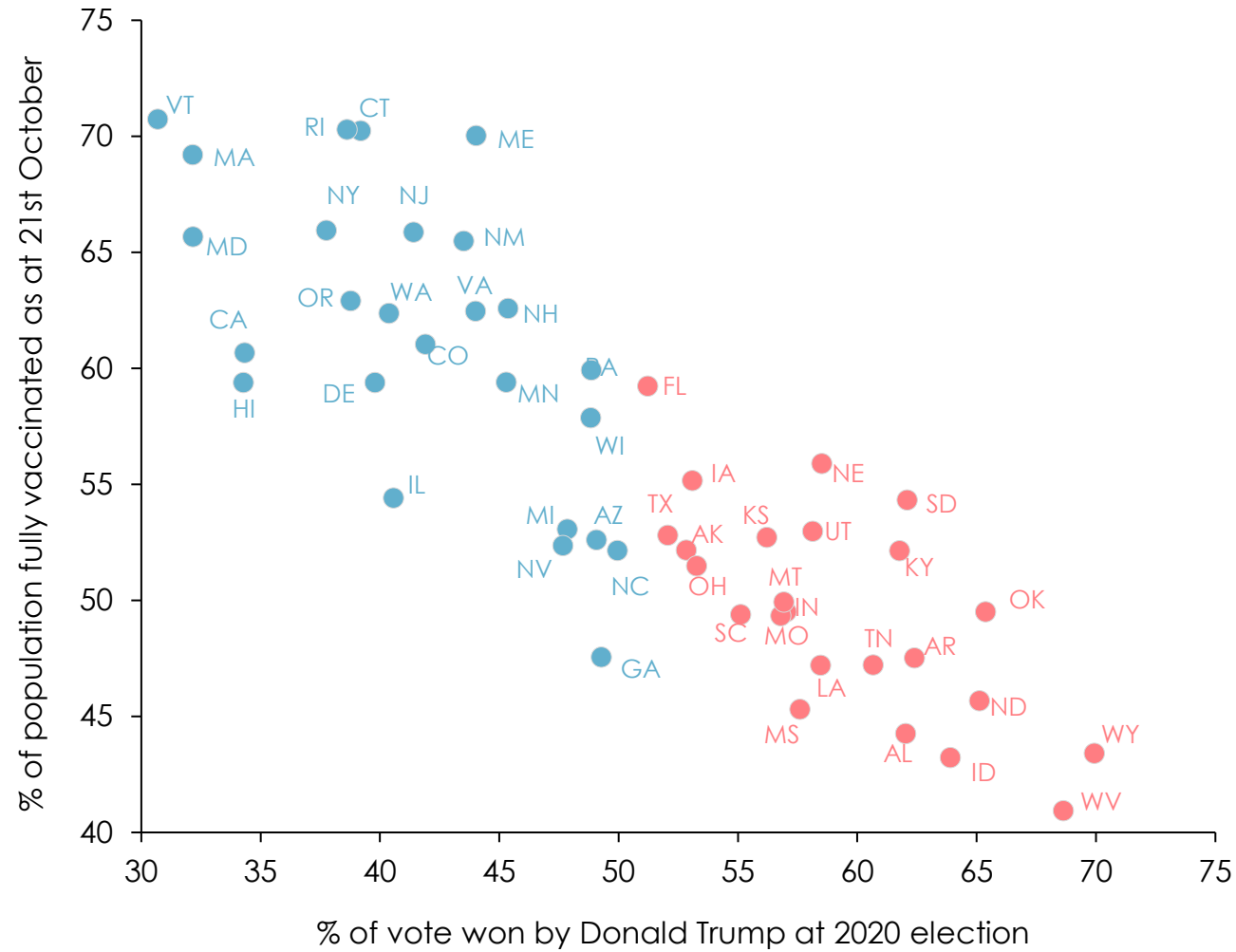
Percentage of major 'advanced' economies' populations who have had two shots



Note: Data up to 21st October, except UK, 29th October. 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



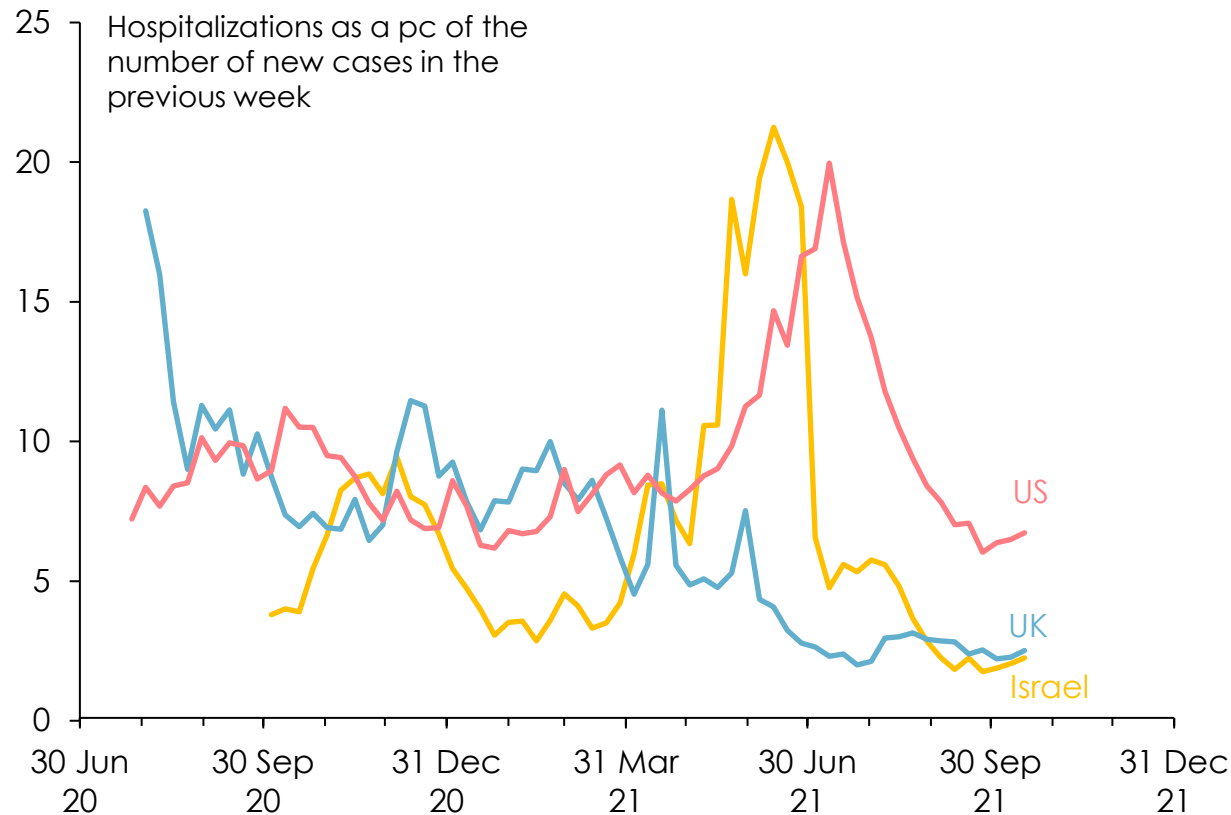
Vaccination rates vs infection rates since 30th June, by state



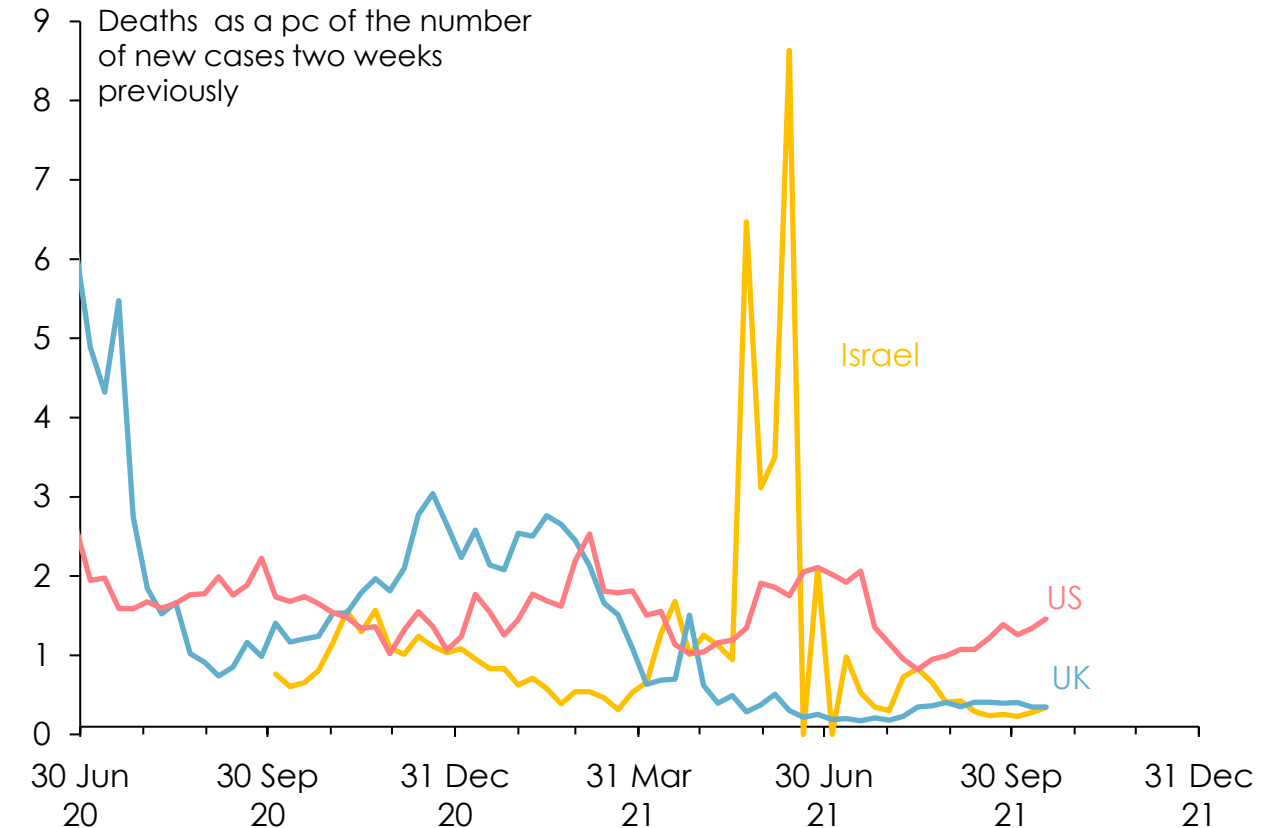
Note: Data as at 21st October. Sources: [The Cook Political Report](#); [Our World in Data](#); [USA Facts](#); Corinna. [Return to "What's New"](#).

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

Hospitalization rates



Fatality rates

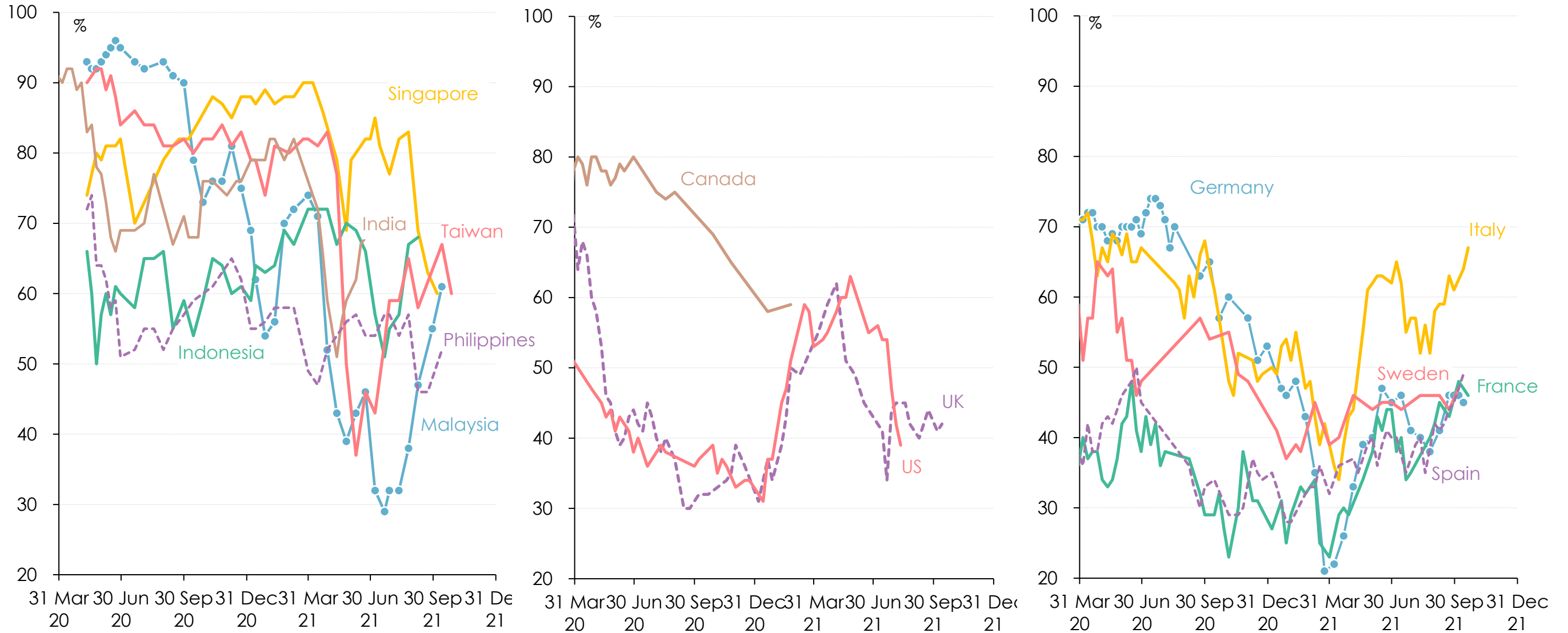


- ❑ Israel, the UK and the US all experienced a surge in the number of 'delta variant' cases after 'opening up'
- ❑ In the US, the increase in cases is concentrated in states and counties where vaccination rates are well below the national average (see previous slide)
- ❑ In Israel, the UK and those 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 21st October. Source: [Our World in Data](#). [Return to "What's New"](#).

Voter approval of governments' handling of Covid has improved in most countries over the past month, except Singapore and the US

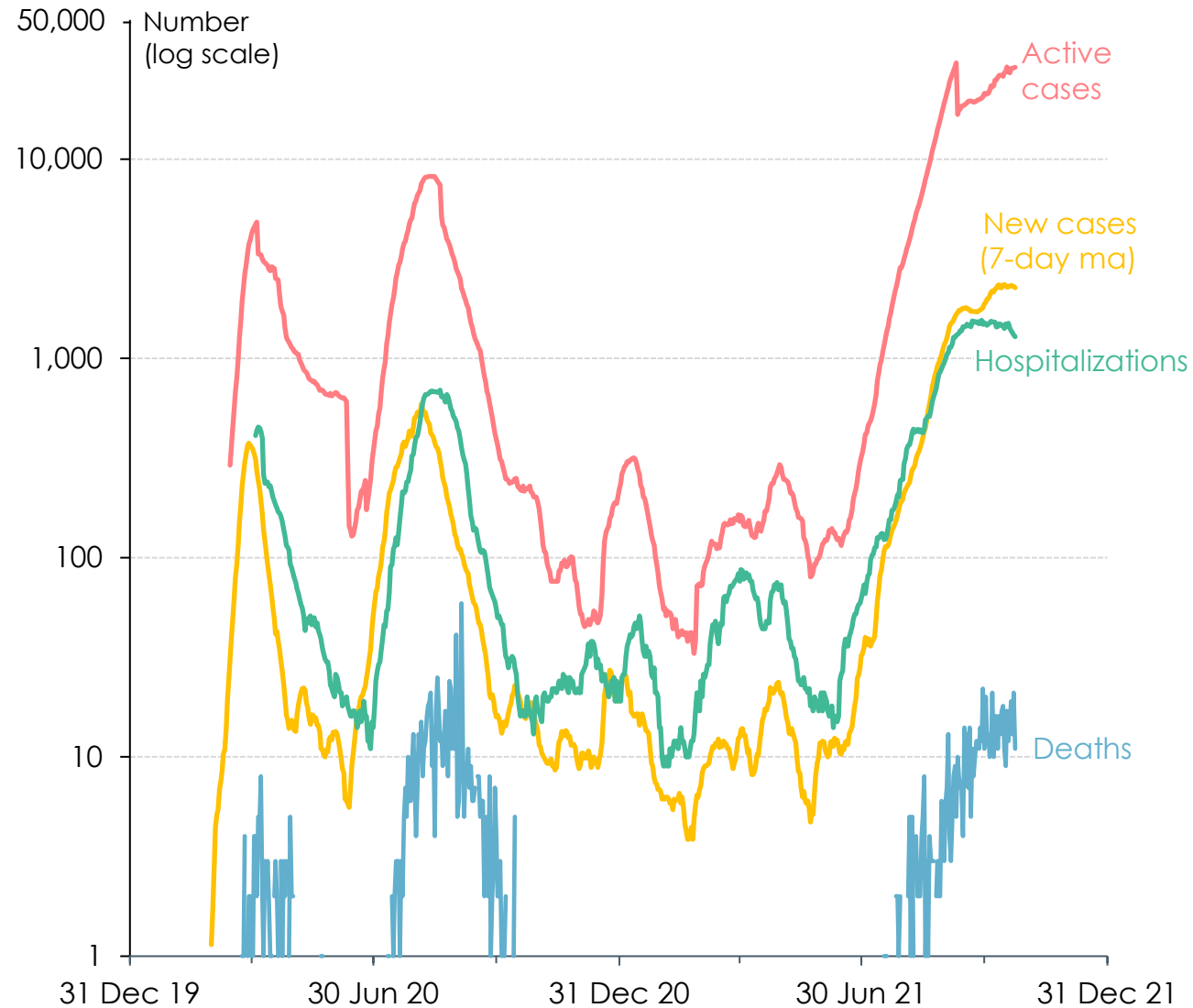
Voter approval of their government's handling of the coronavirus pandemic



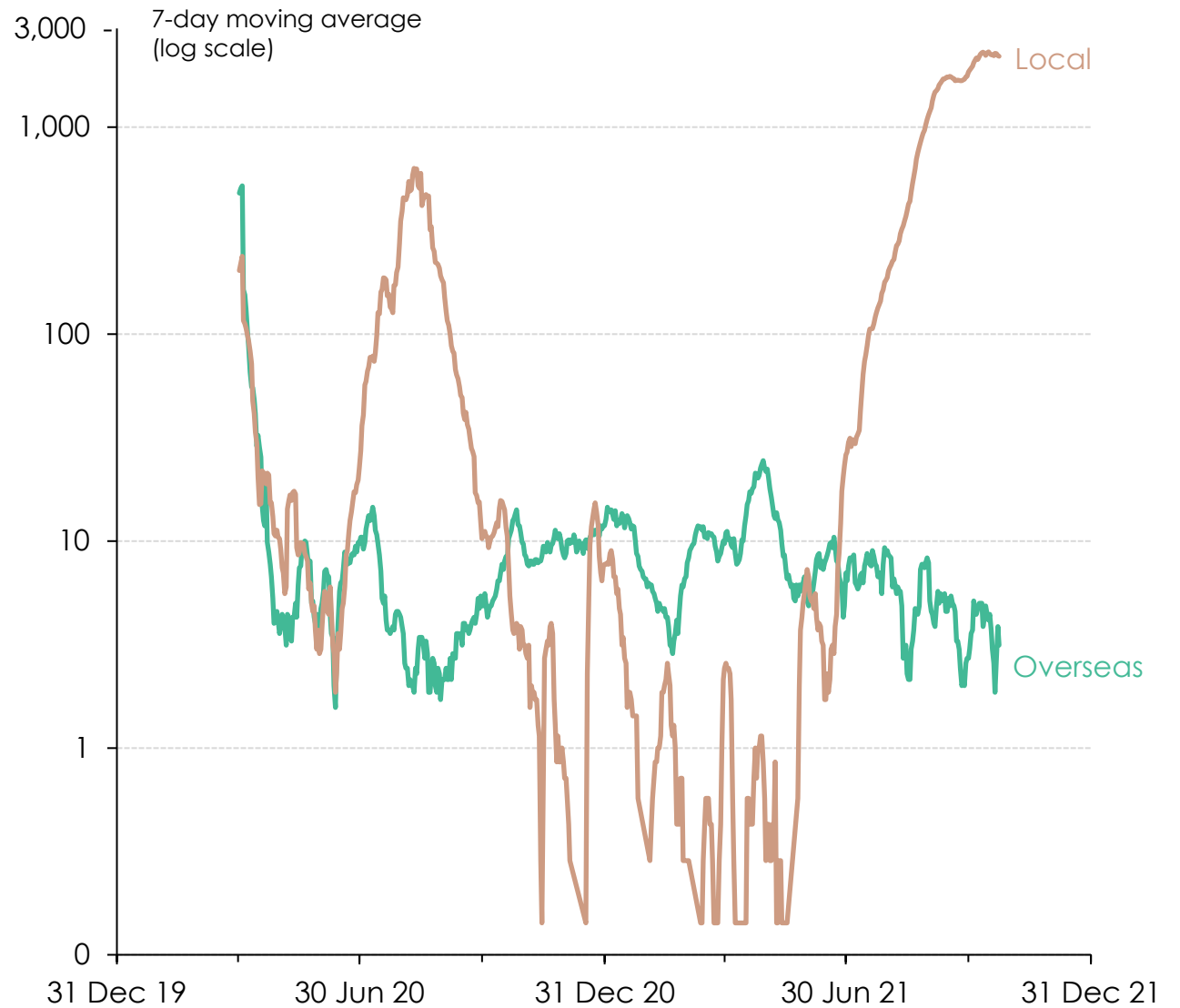
Source: YouGov, [Covid-19 tracker: government handling](#). [Return to "What's New"](#).

Australia recorded 15,768 new infections this week – the first time in 20 weeks that the number has dropped – and also 210 fewer hospitalizations

Cases, recoveries, hospitalizations and deaths



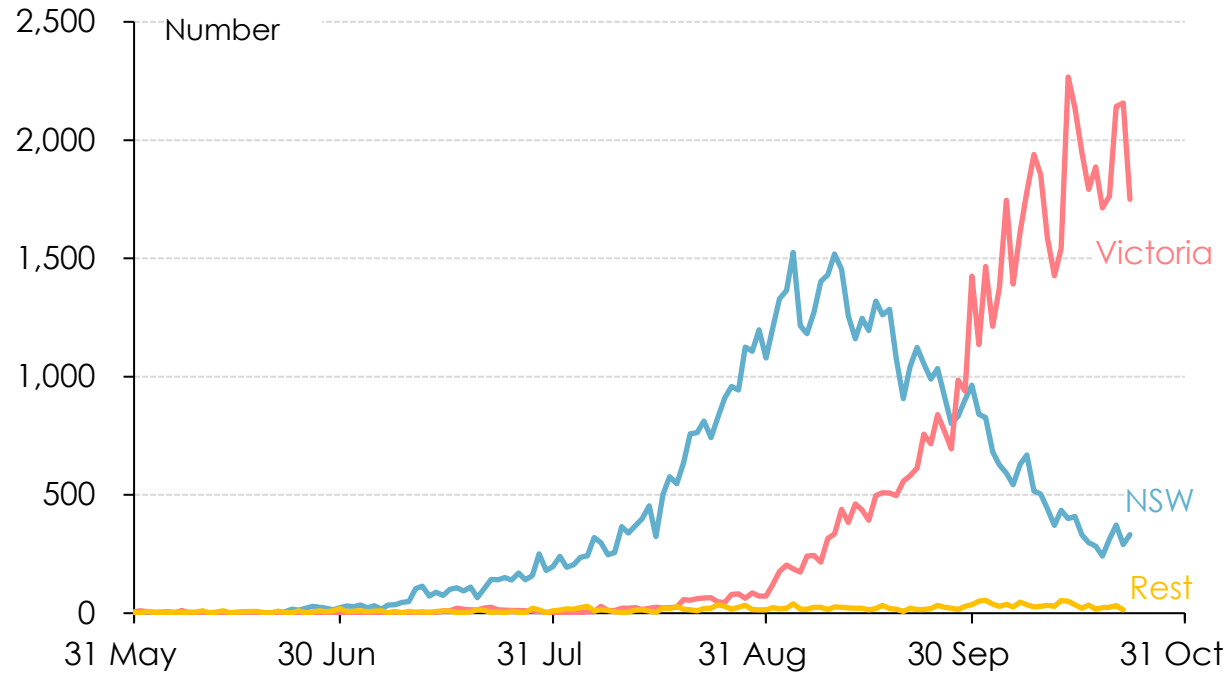
New cases, by source



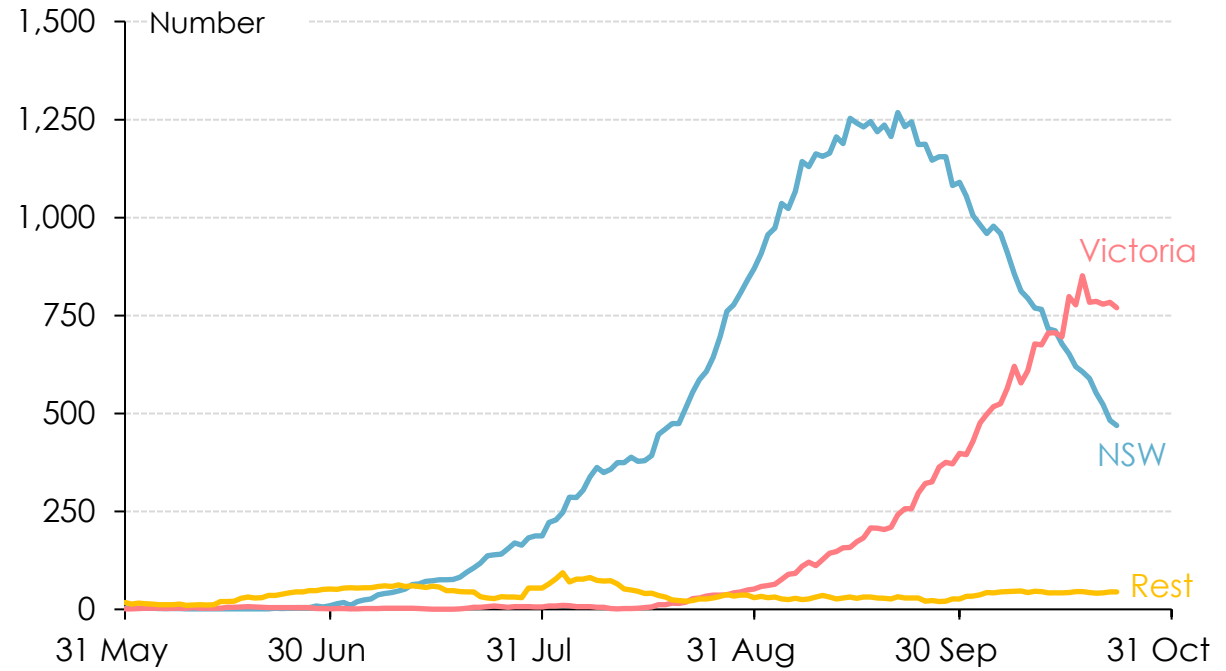
Note: Data up to 23rd October. The sharp decline in 'active cases' on 10th September is entirely attributable to a 13,949 drop in the number of active cases reported in NSW (the reasons for which are not clear). Source: covid19data.com.au. [Return to "What's New"](#).

Victoria continued to record almost 2,000 new cases a day this week, cf. just over 300 a day in New South Wales

New cases



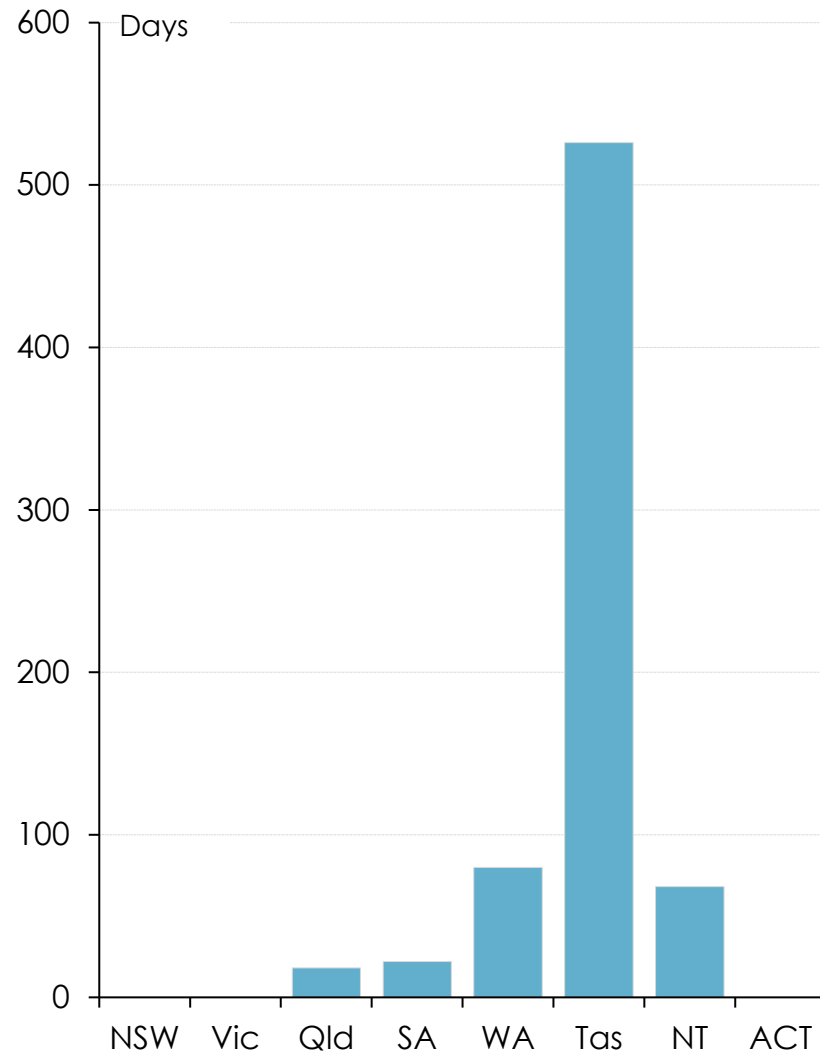
Hospitalizations



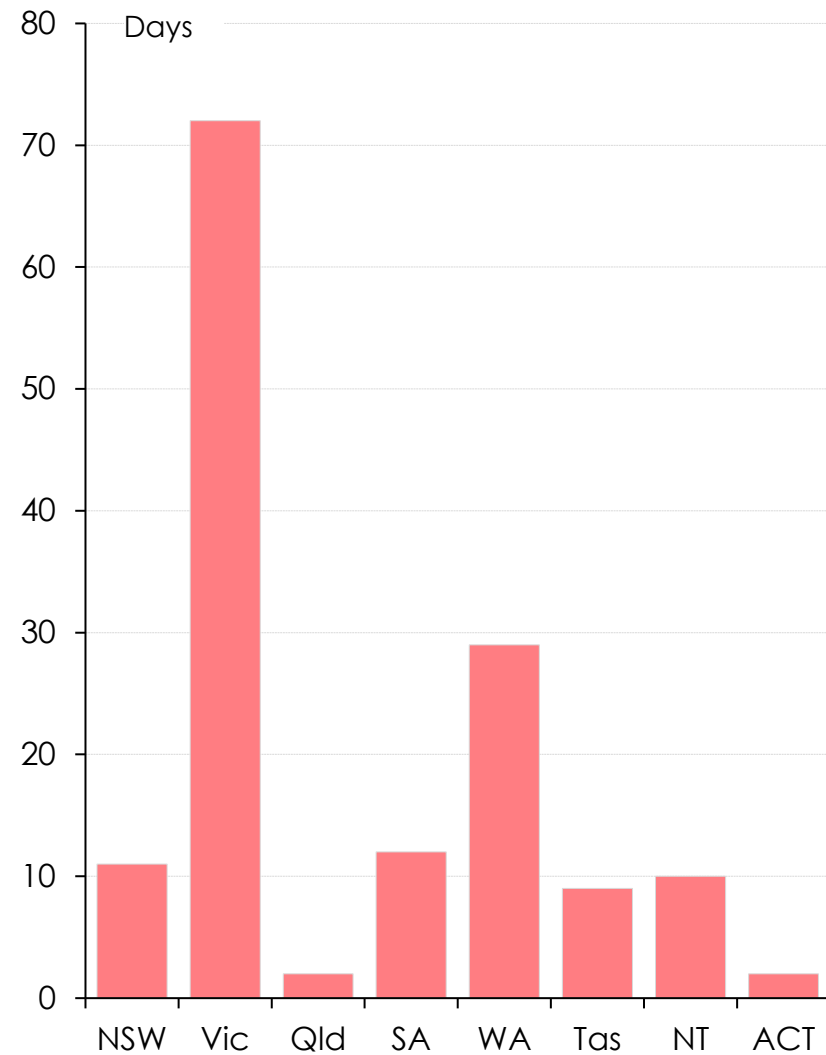
- ❑ The number of new infections in New South Wales levelled out at just over 300 a day this week, but hospitalizations continued to decline – and with NSW’s “fully-vaxxed” rate passing 80% (of the 16+ population), more restrictions were eased there this week
- ❑ Victoria’s new cases continued to average close to 2,000 a day, but hospitalizations appear to have peaked – and with Victoria’s “fully-vaxxed” rate passing 70% (of the 16+ population) this week some restrictions were eased in Victoria, too
- ❑ Victoria joined NSW in abolishing quarantine requirements for fully vaxxed international travellers
- ❑ 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 – as apparent in Queensland’s and Tasmania’s decision to keep their borders closed to NSW & Victoria until mid-December

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

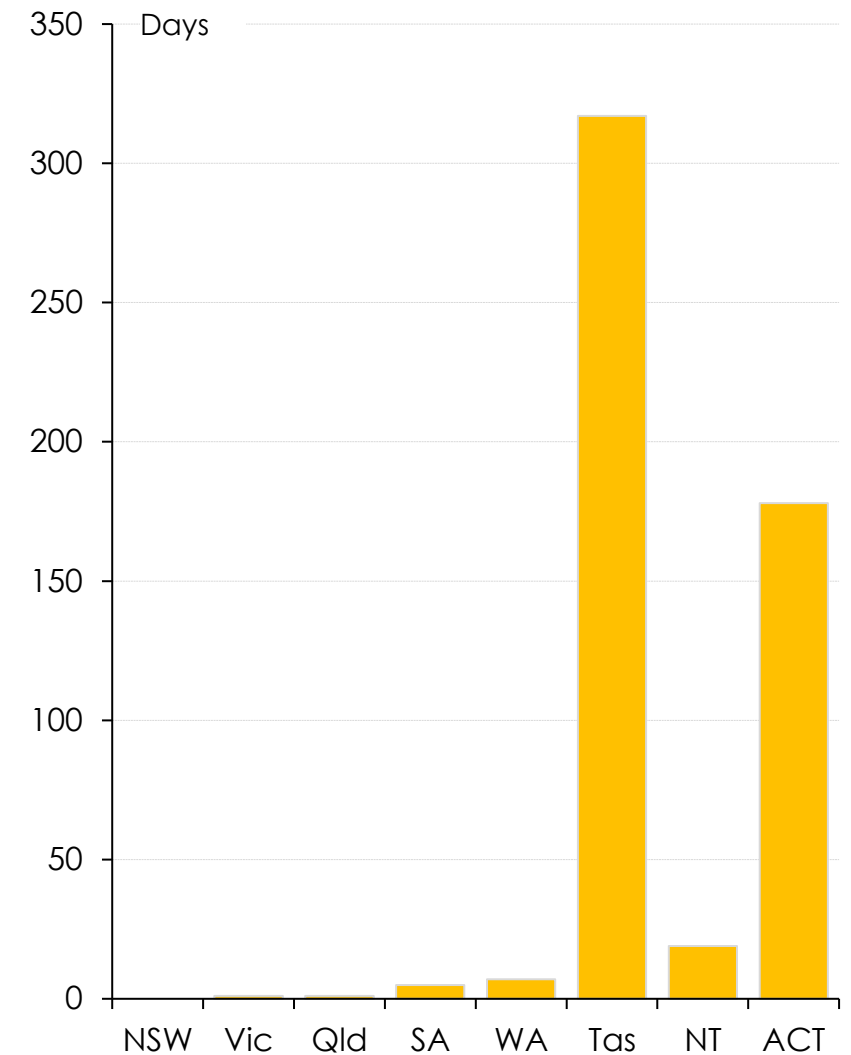
Days since last new locally-acquired case



Days since the last interstate-acquired case



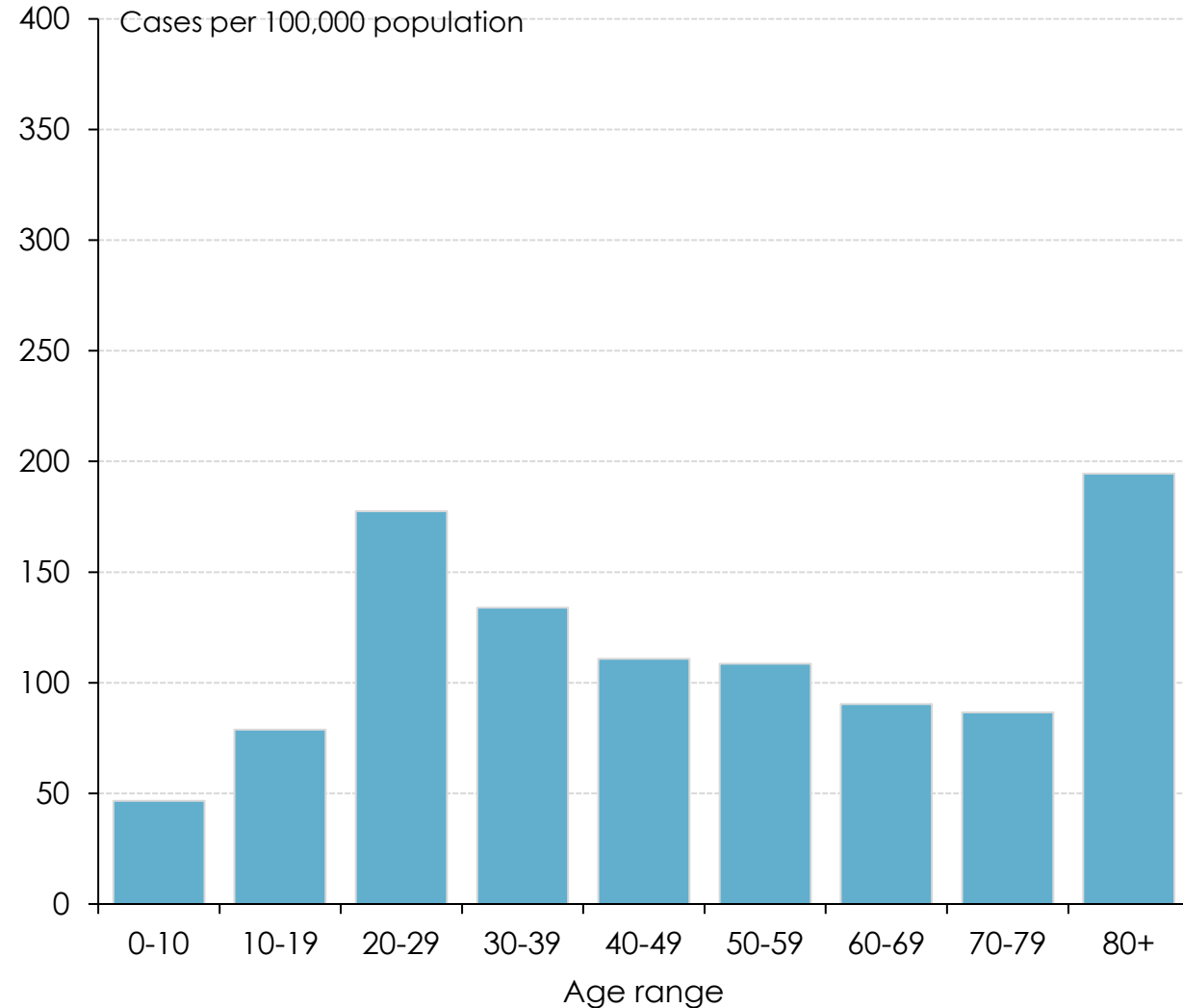
Days since last new overseas-acquired case



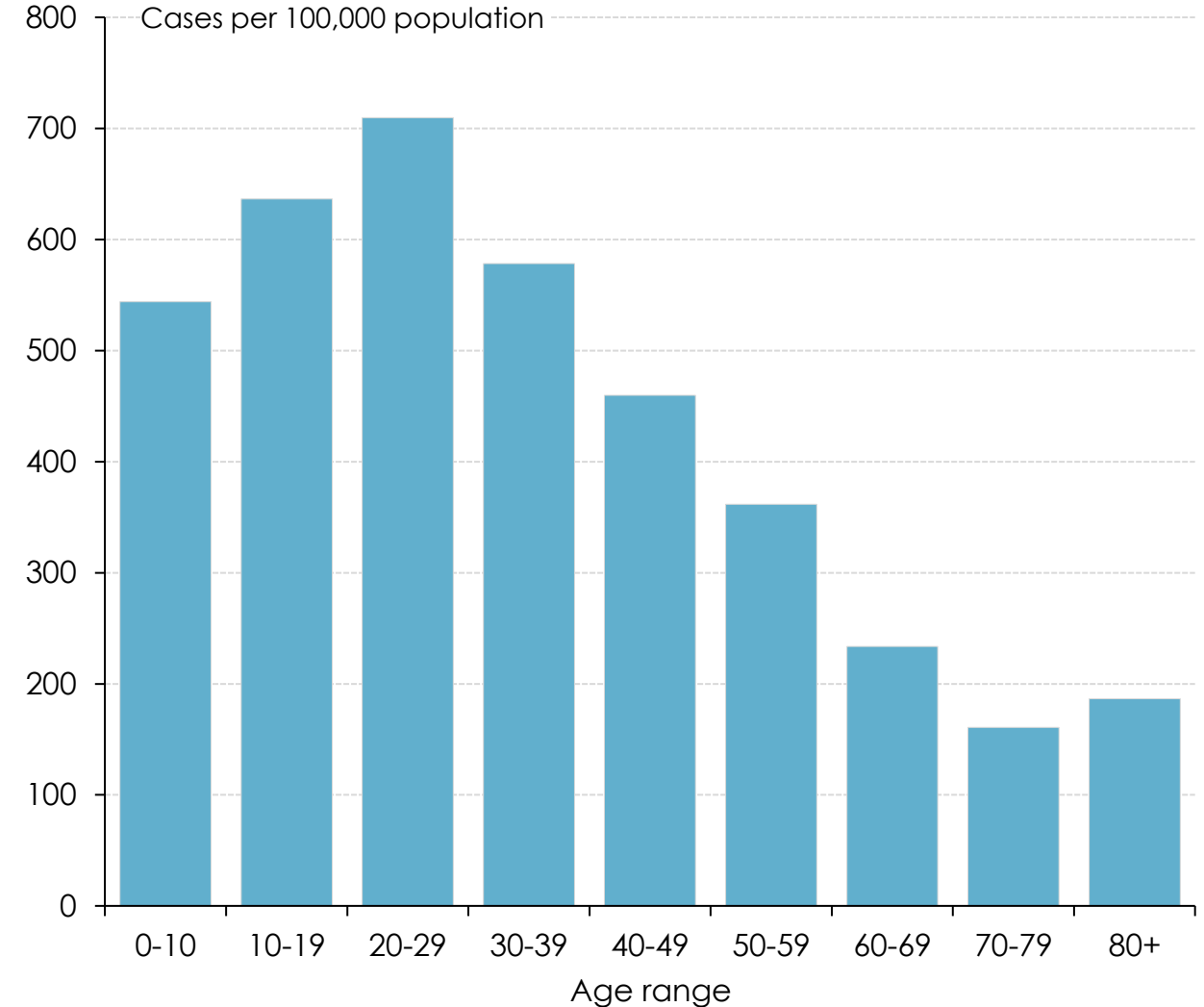
Note: Data are for 23rd October. Source: covid19data.com.au. [Return to "What's New"](#).

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

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

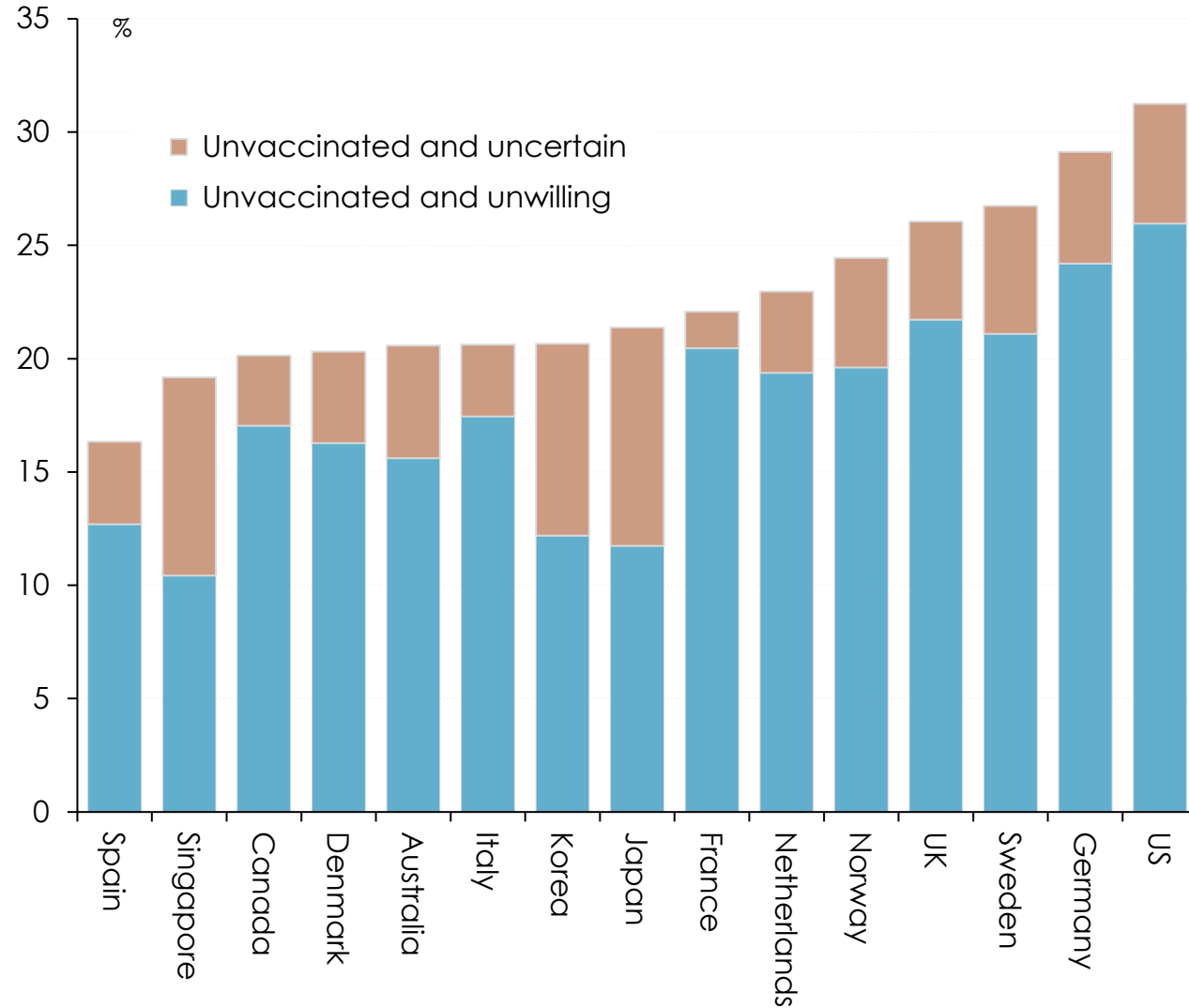


Cumulative confirmed cases per 100,000 population, by age group – 2021 to date

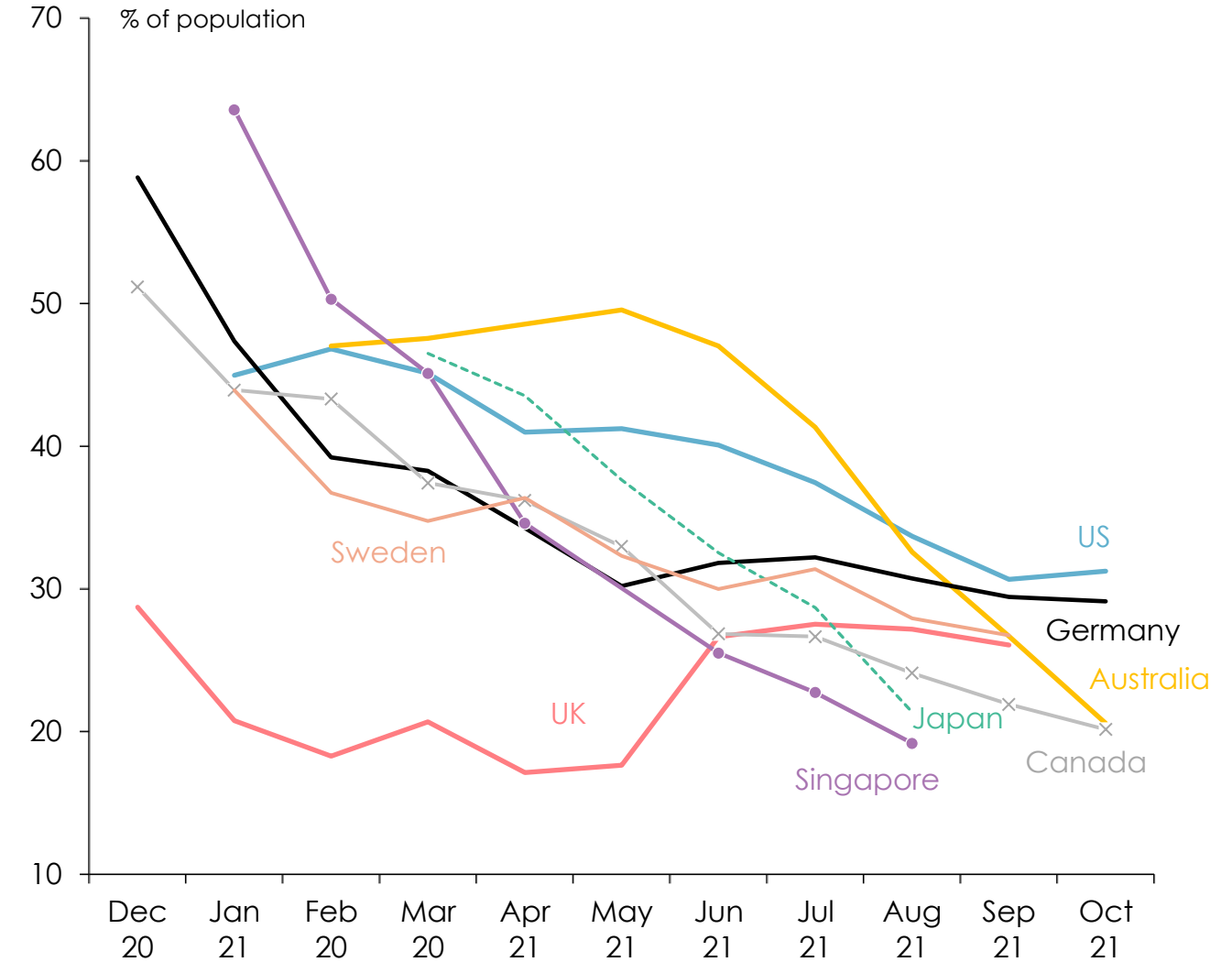


Vaccine hesitancy among Australians was the highest in the 'developed' world, but has fallen sharply over the past four months

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



Percentage of populations unvaccinated and unwilling or uncertain about getting vaccinated

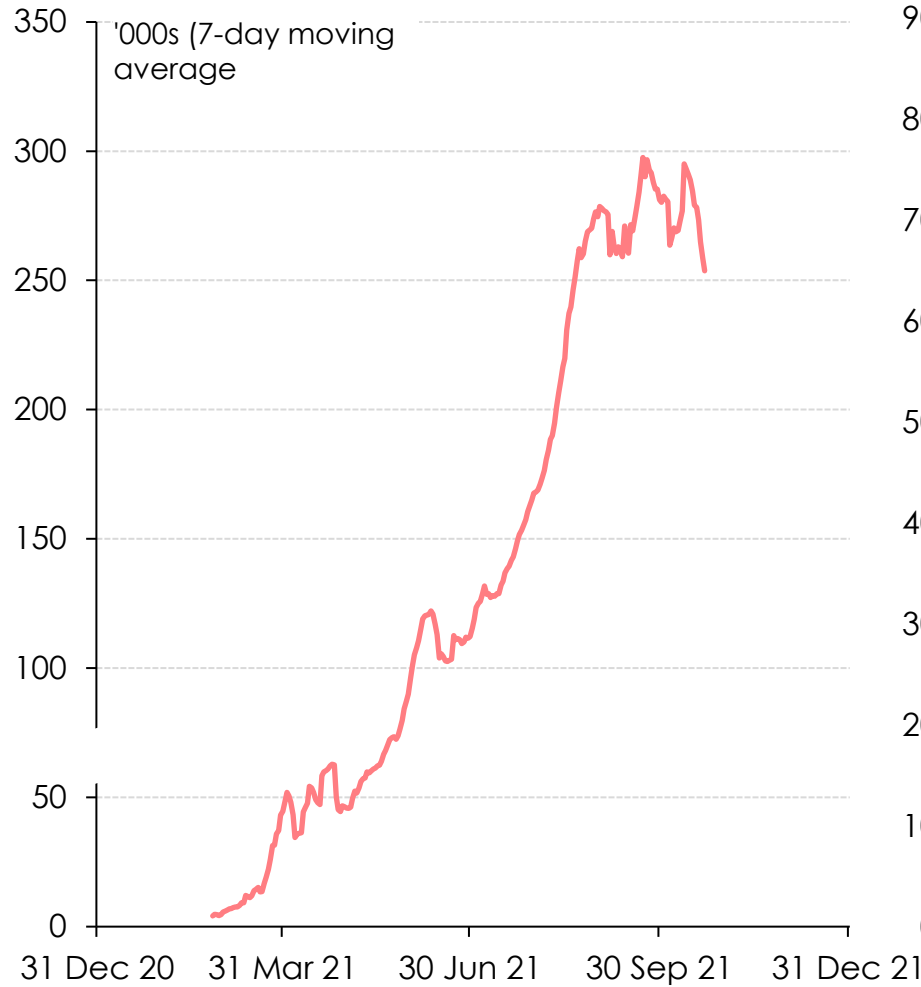


Note: Data for Japan, Singapore and Norway are for August; data for Denmark, Korea, the Netherlands, Spain and the UK are for September.

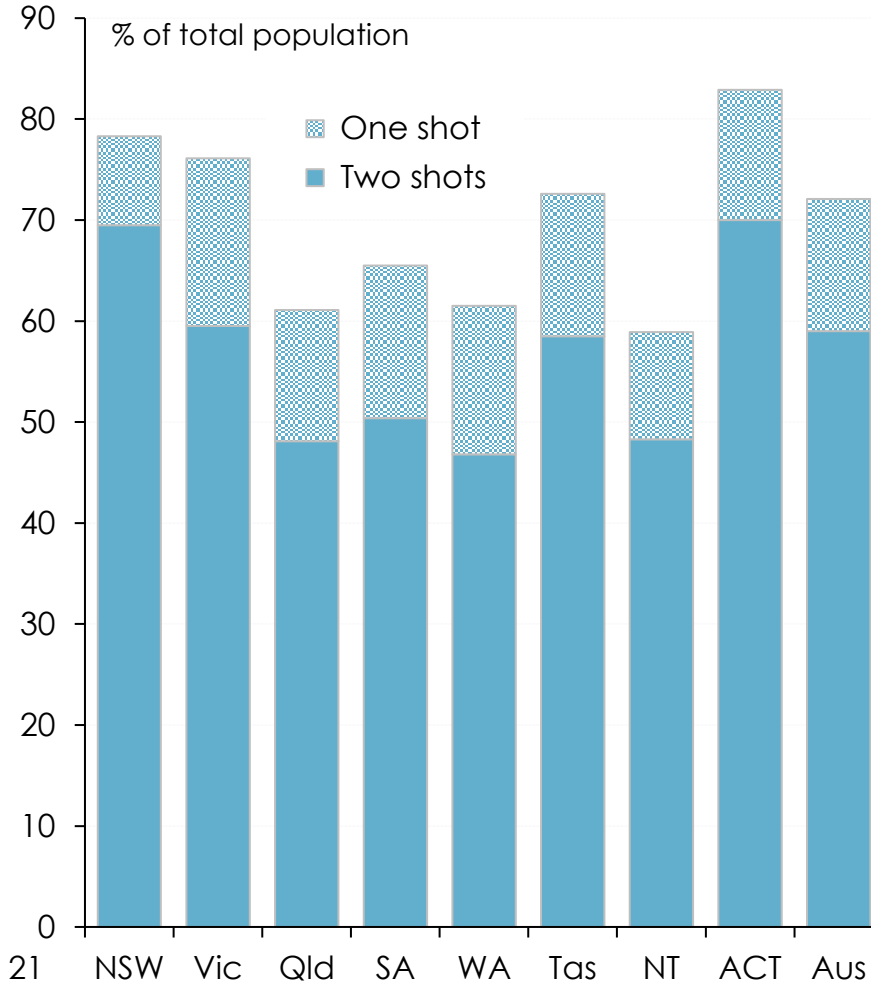
Source: Imperial College London and YouGov, [Covid 19 Behaviour Tracker Data Hub](#). [Return to "What's New"](#).

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'

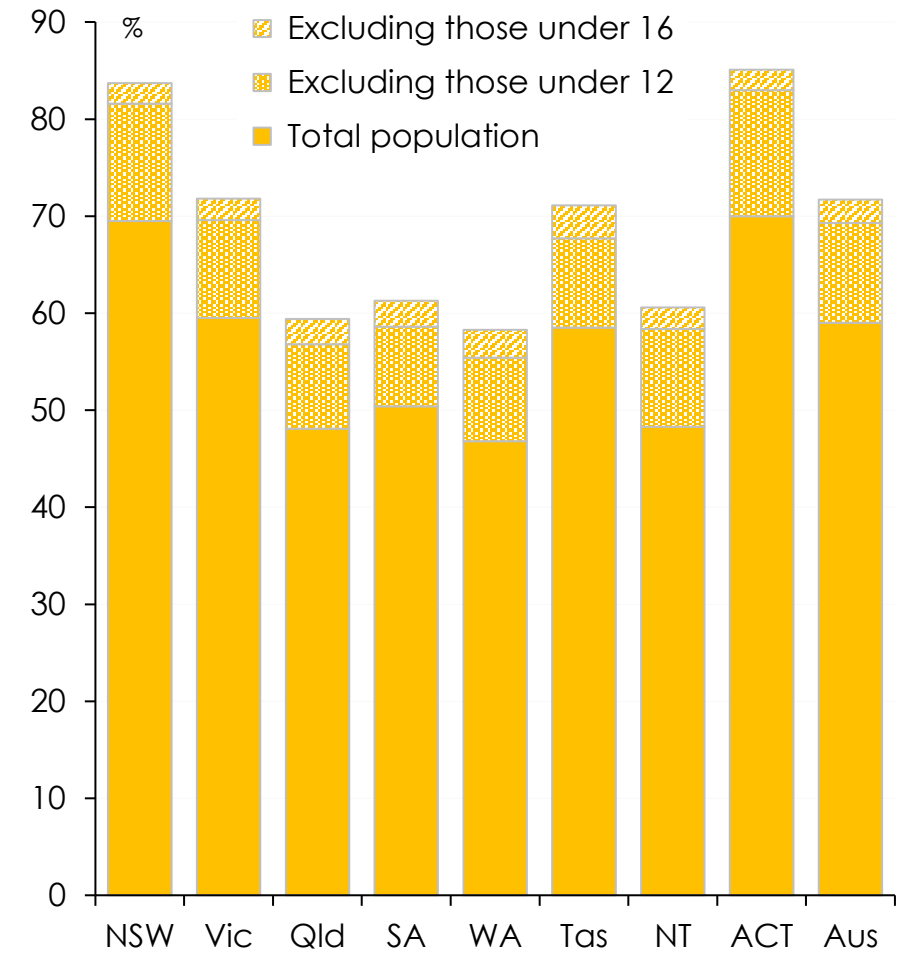
Daily number of vaccines administered



Percentage of total population vaccinated, states and territories



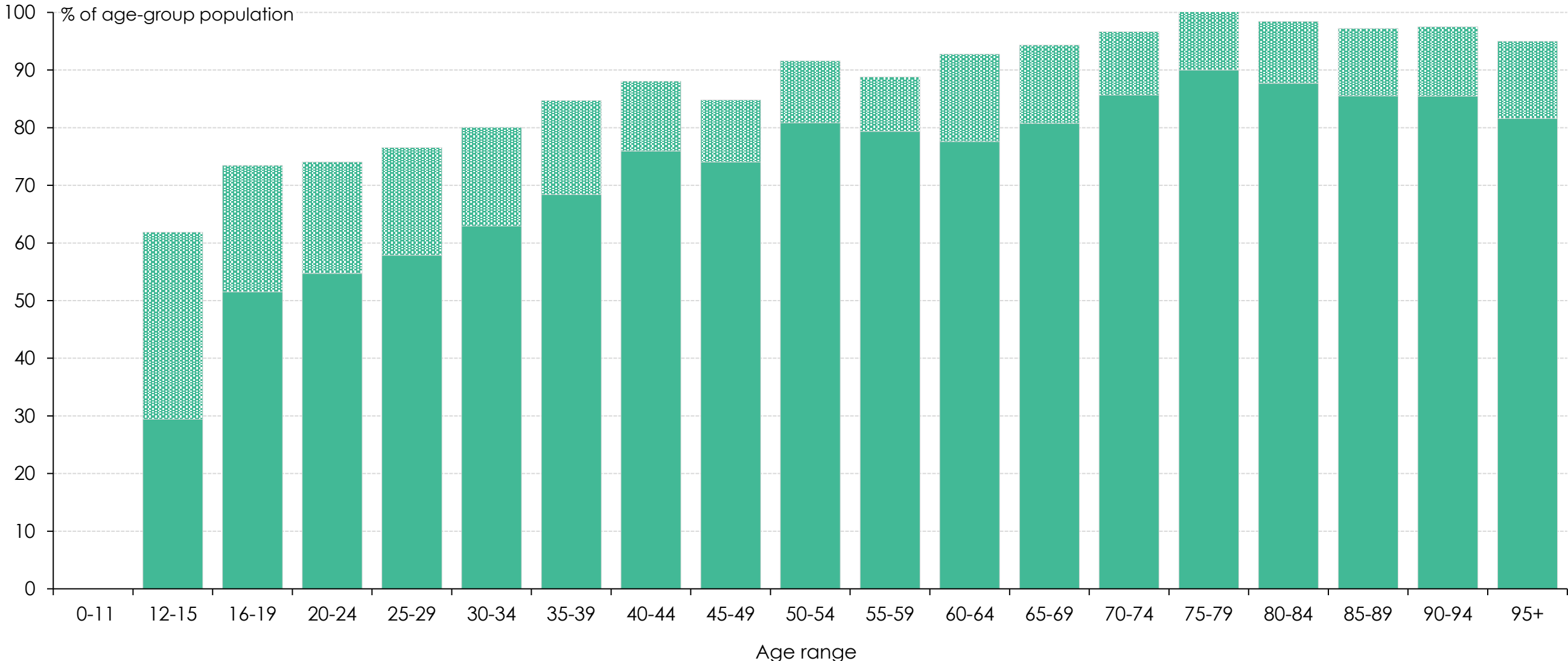
Percentage of populations double-vaccinated, states and territories



Note: Data up to 22nd October. 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"](#).

12-15 year-olds have been very quick to get vaccinated once they became eligible, and rates among younger adults have also picked up smartly

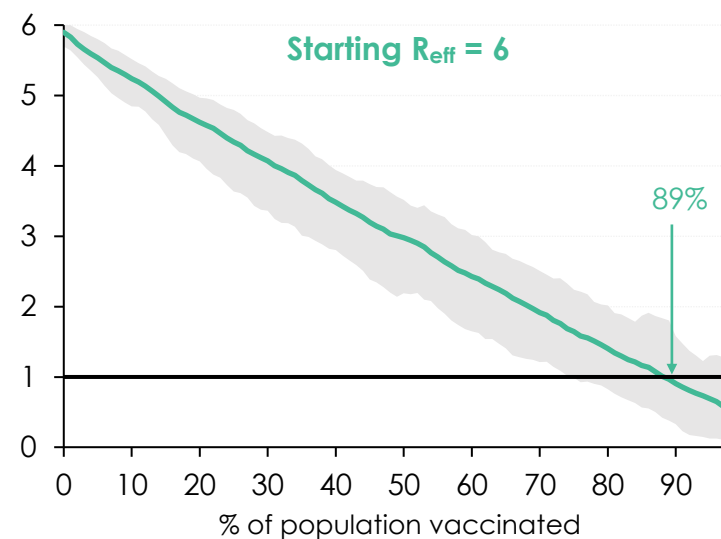
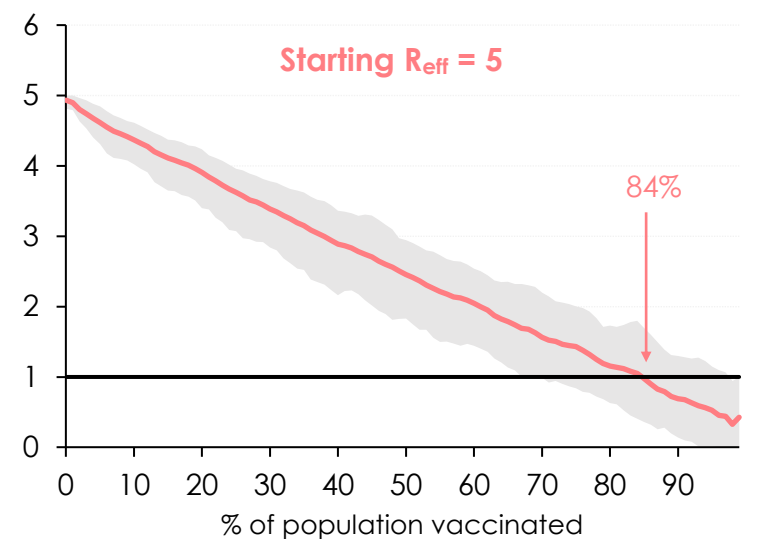
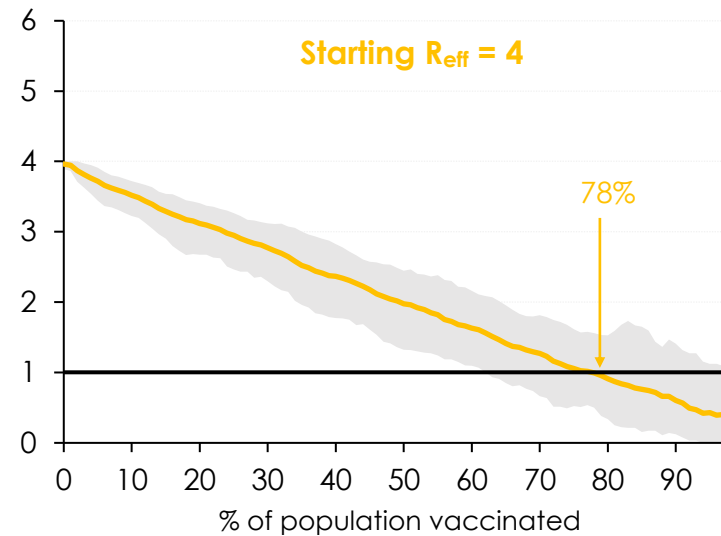
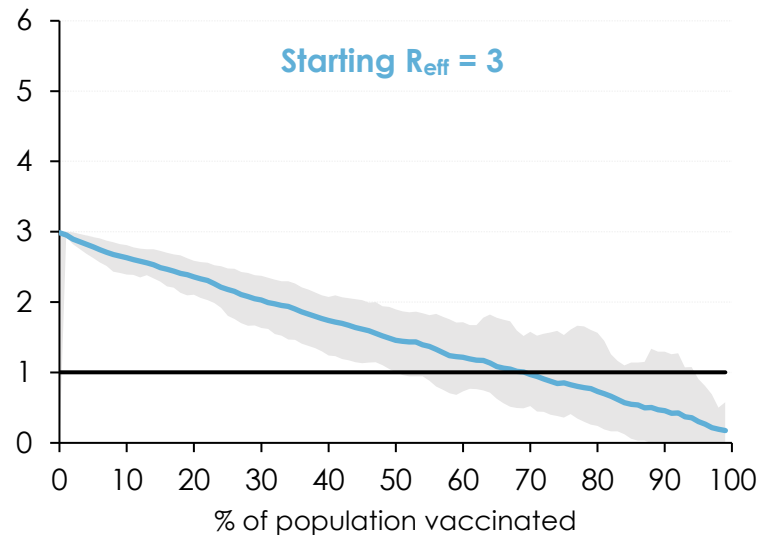
Vaccination rates by age group as at 22nd October



Note: For data on infections by age group see [slide 16](#).
Source: Commonwealth Department of Health, [Covid-19 Vaccine Roll-out update](#), 22nd October 2021. [Return to "What's New"](#).

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



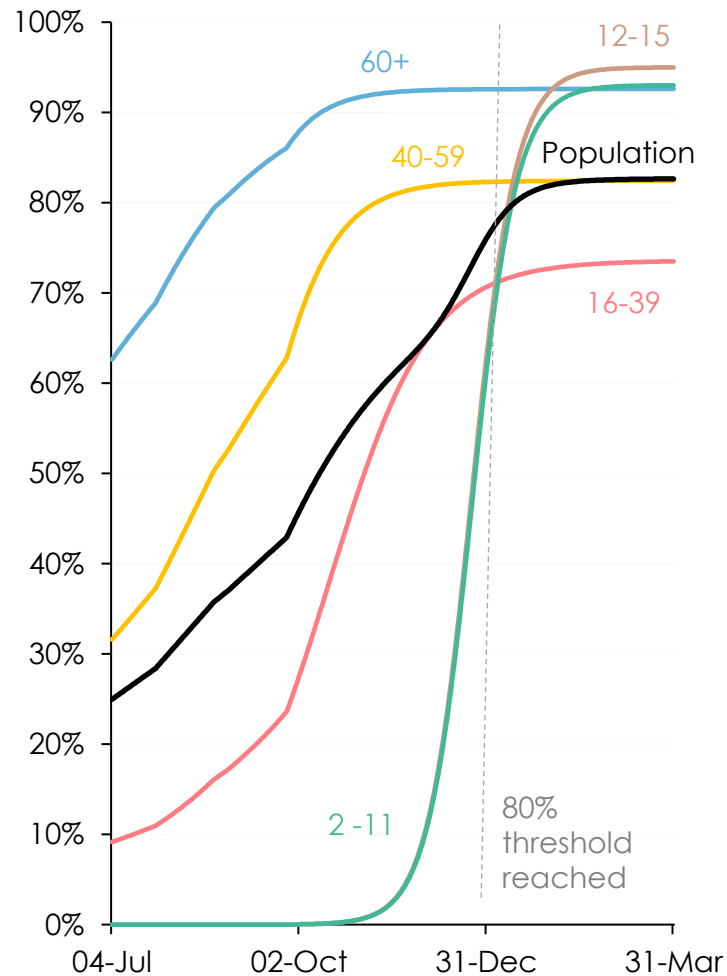
- ❑ Modelling released in July by the Grattan Institute (a Melbourne-based non-aligned policy 'think tank') suggests that, on the assumption that the starting ' R_{eff} ' (the number of people likely to be infected by each unvaccinated person) for the 'delta variant' of Covid-19 is at least 4, at least 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

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.

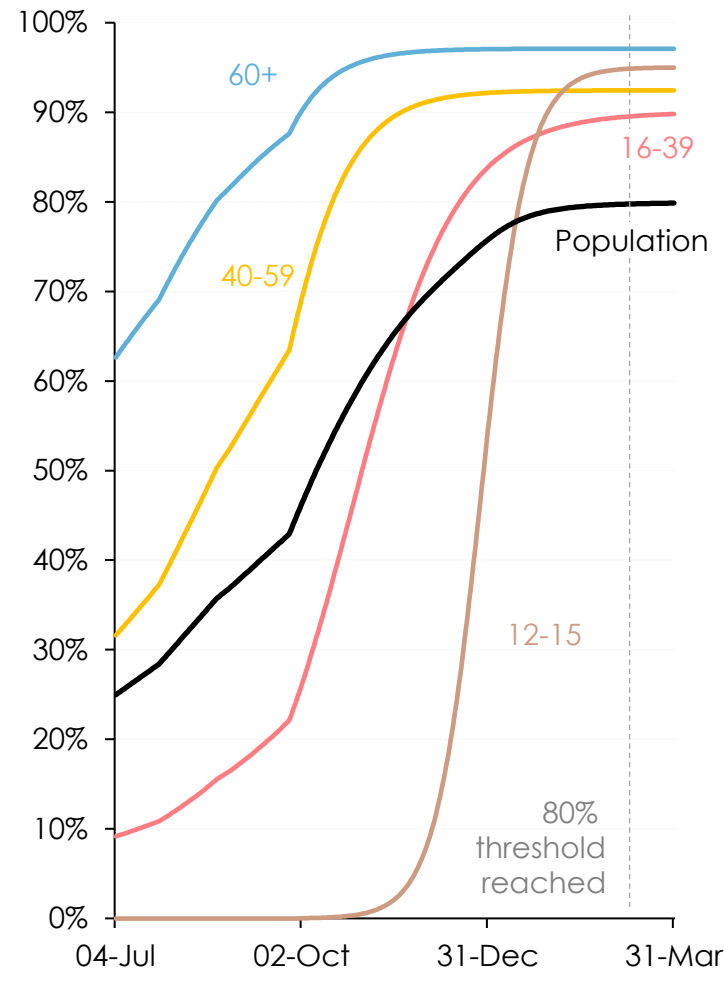
Because the Government's vaccination targets are expressed in terms of the 'eligible' population there may be some risk of opening up 'too early'

Plausible vaccination rates by age group

Assuming children aged 2-11 can be vaccinated



Assuming children aged 2-11 can't be vaccinated

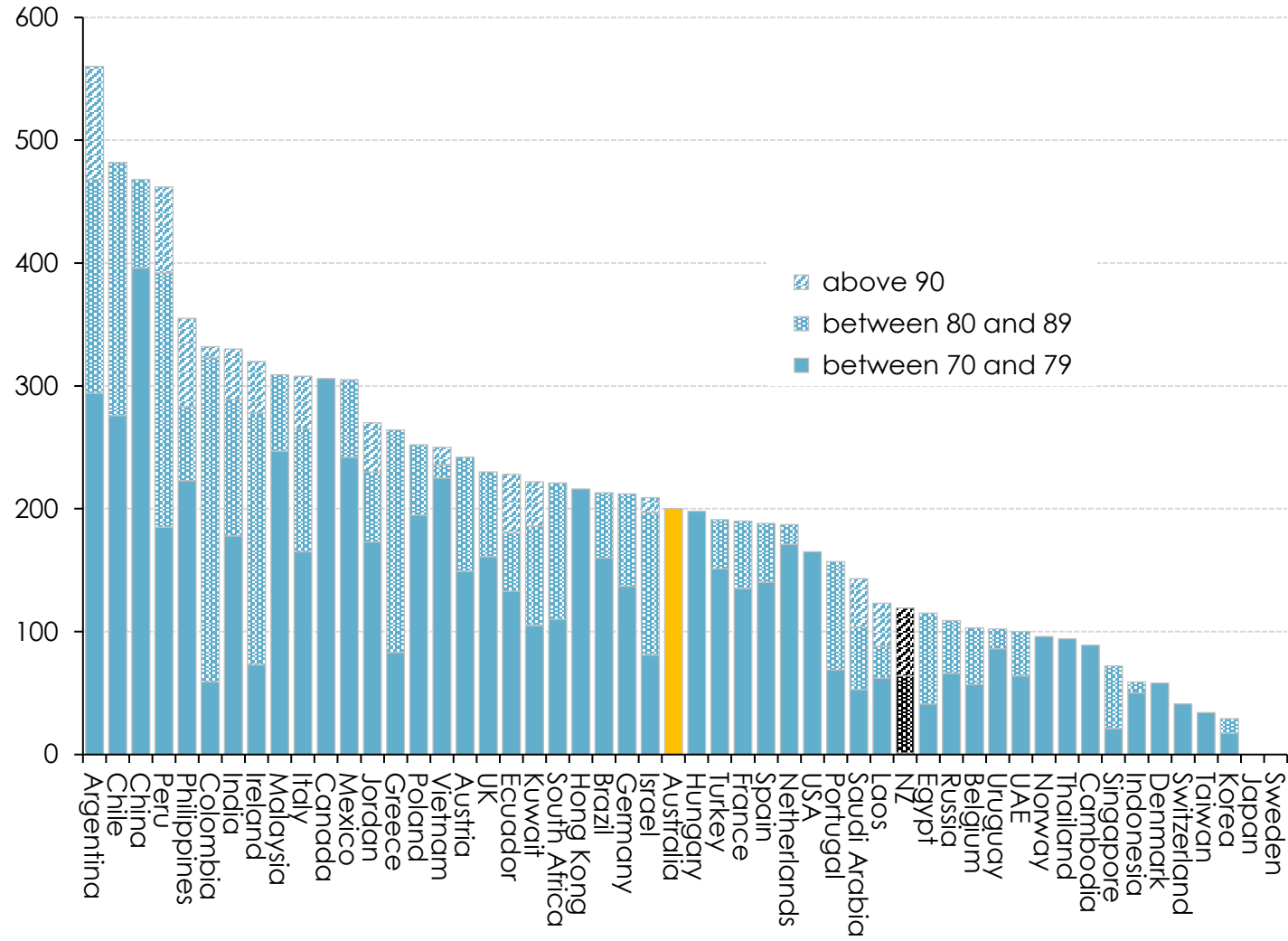


- ❑ the Federal Government's '[National Plan to transition Australia's National COVID-19 Response](#)' (based on [Doherty Institute modelling](#)) specifies 70% and 80% 'full vaccination rates' as thresholds for the progressive easing of restrictions
- ❑ These thresholds are expressed as percentages 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

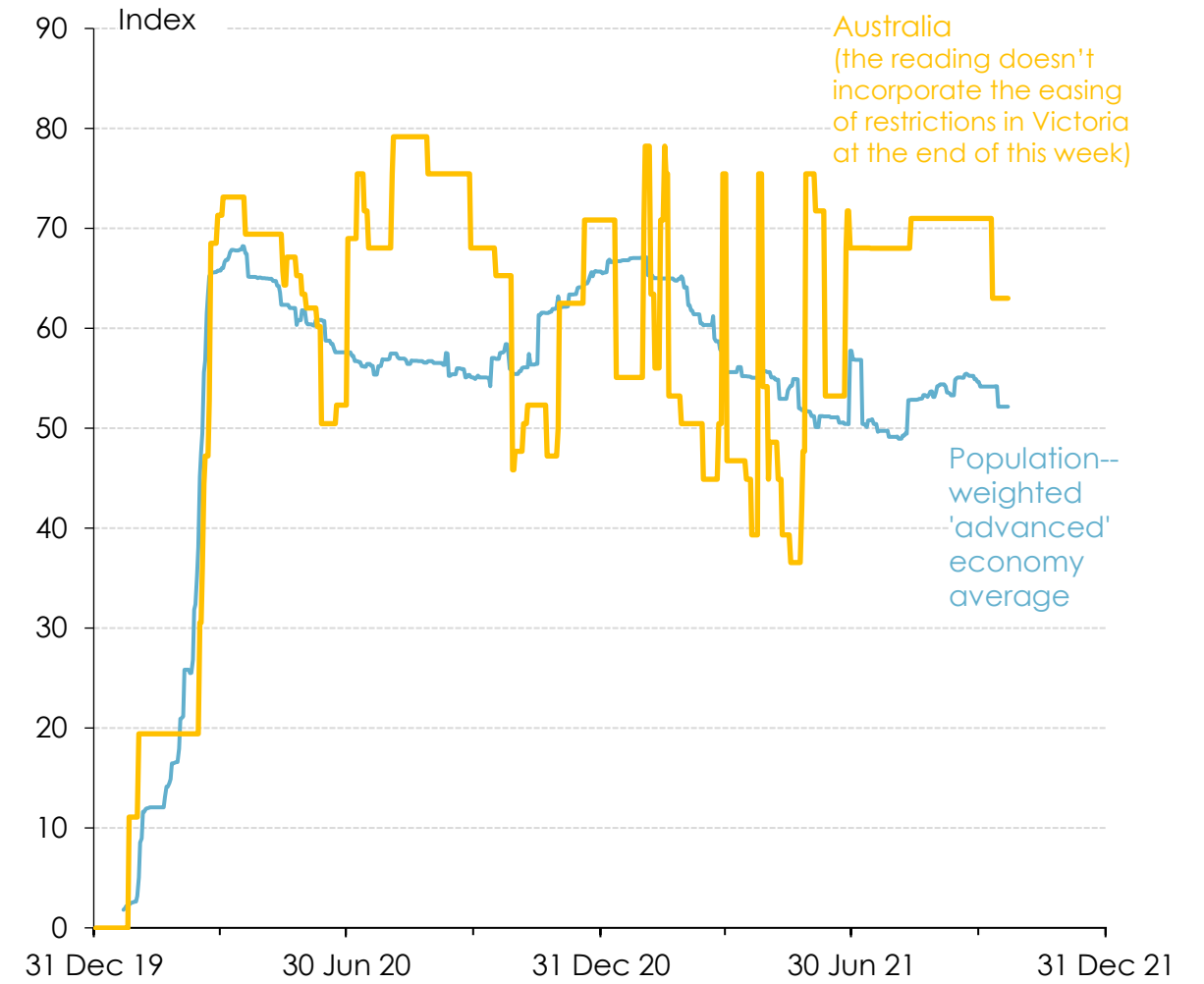
Source: Stephen Duckett, Danielle Wood, Brendan Coates et al, [Race to 80: Our best shot at living with Covid](#), Grattan Institute, 27th July 2021; Department of Prime Minister and Cabinet, [Doherty Institute COVID-19 modelling - Key findings and implications](#), 3rd August 2021.

Australia's health restrictions have been more onerous than in other 'advanced' economies, on average, over the past four months

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



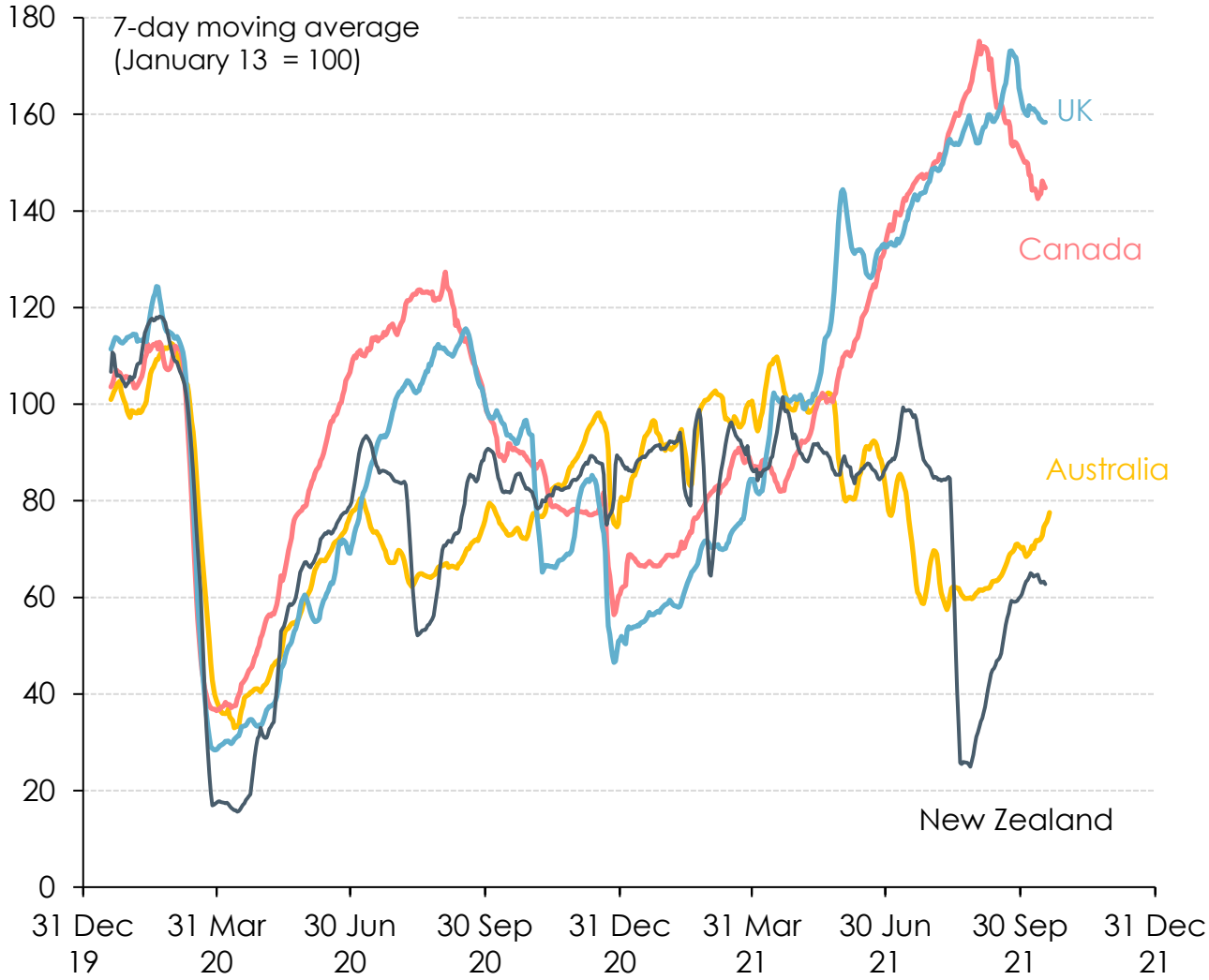
Stringency of Australia's restrictions compared with an average of other 'advanced' economies



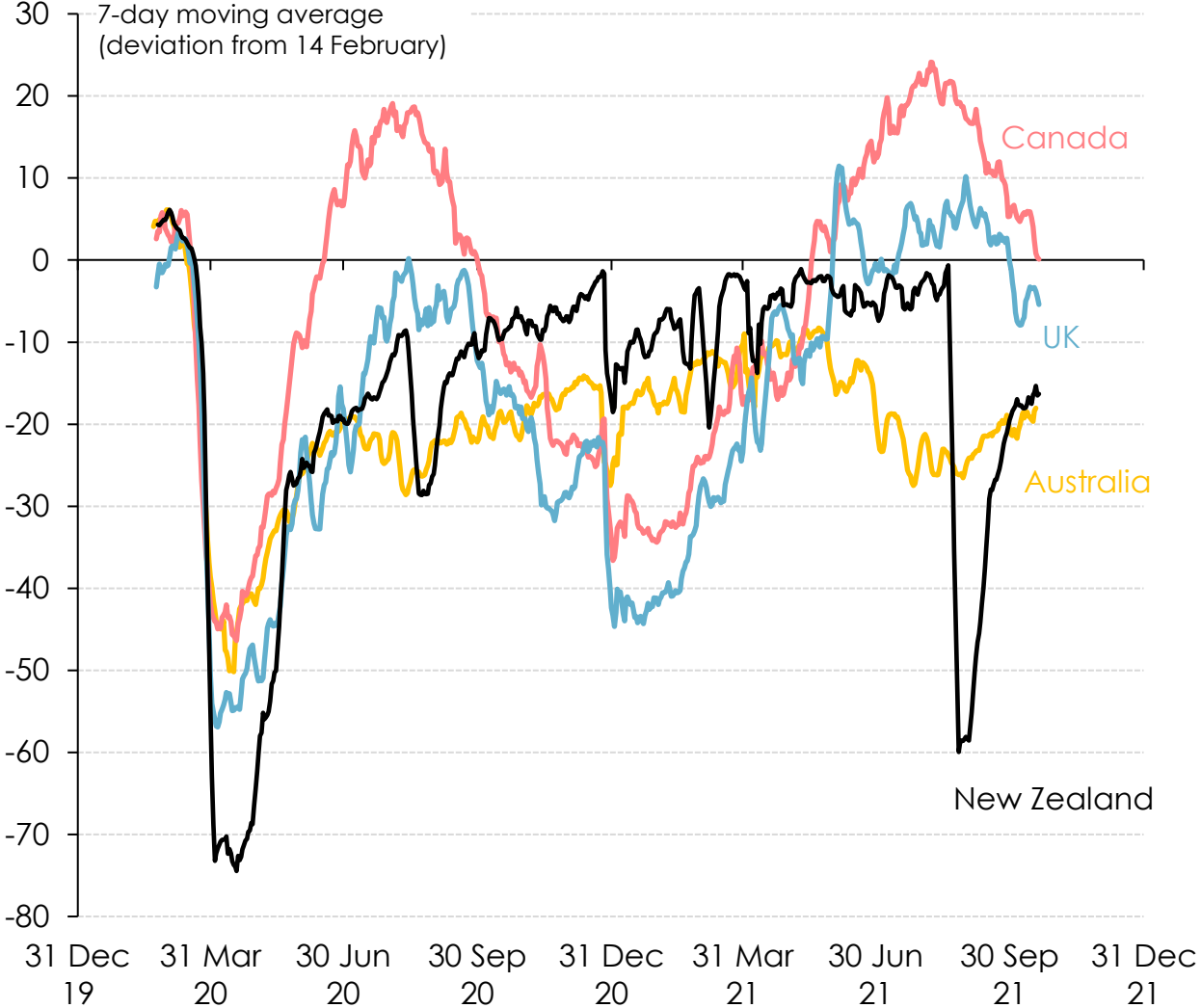
The Oxford COVID-19 Government Response Tracker collects publicly available information on 11 indicators of government response including school and workplace closures, public events cancellations, restrictions on public gatherings, stay at home requirements, public transport closures, domestic and international travel restrictions, public information campaigns, testing and contact tracing. Source: [Blavatnik School of Government, Oxford University](#). Data up to 21st October. [Return to "What's New"](#).

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

Apple mobility indicators



Google non-residential activity mobility indicators



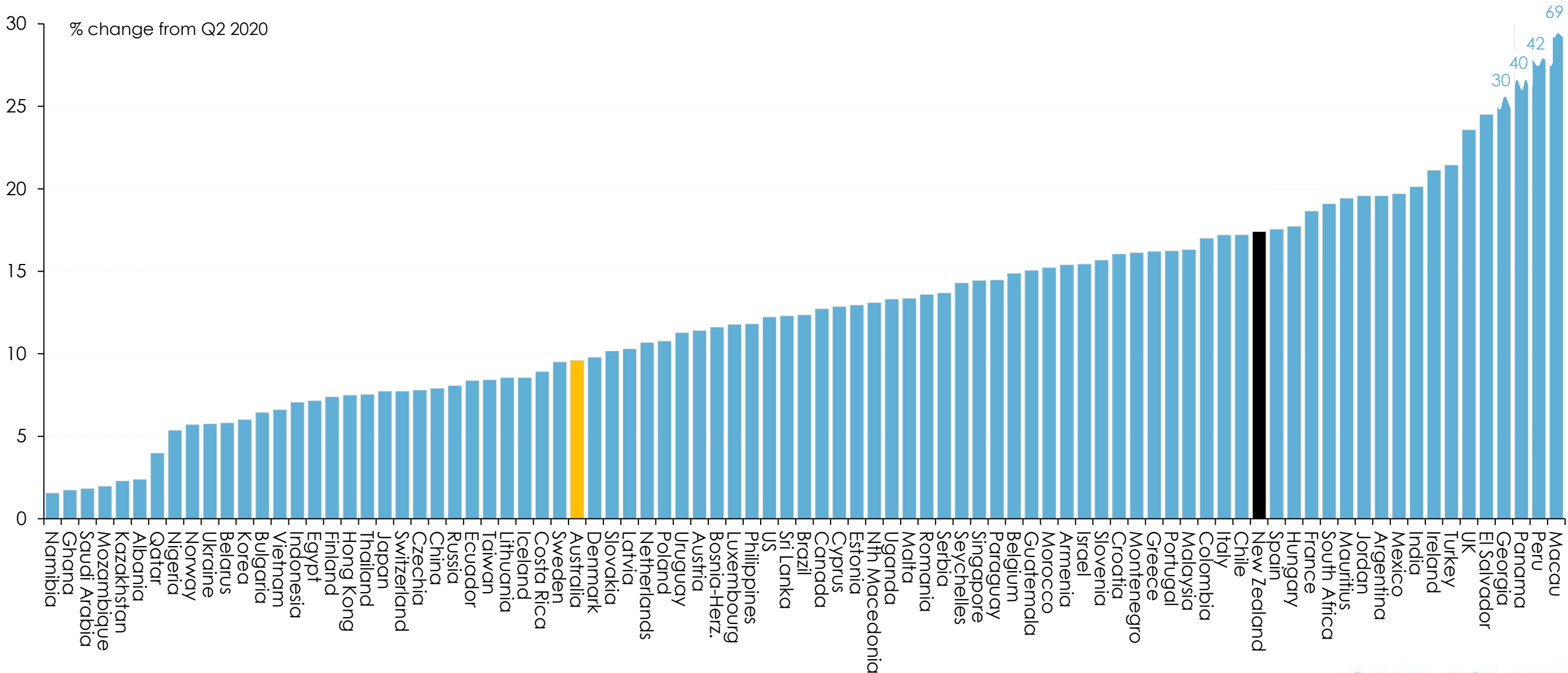
Note: 'Apple mobility indicator' is the average of three separate indicators for driving, use of transit and walking (data up to 20th October). Google 'non-residential activities' indicator is the average of separate indicators for workplaces, retail and recreation, groceries and pharmaceuticals, transit and parks (data up to 18th October).

Sources: Apple, [Mobility Trends Reports](#); Google, [Covid-19 Community Mobility Reports](#); Corinna Economic Advisory. [Return to "What's New"](#).

The world

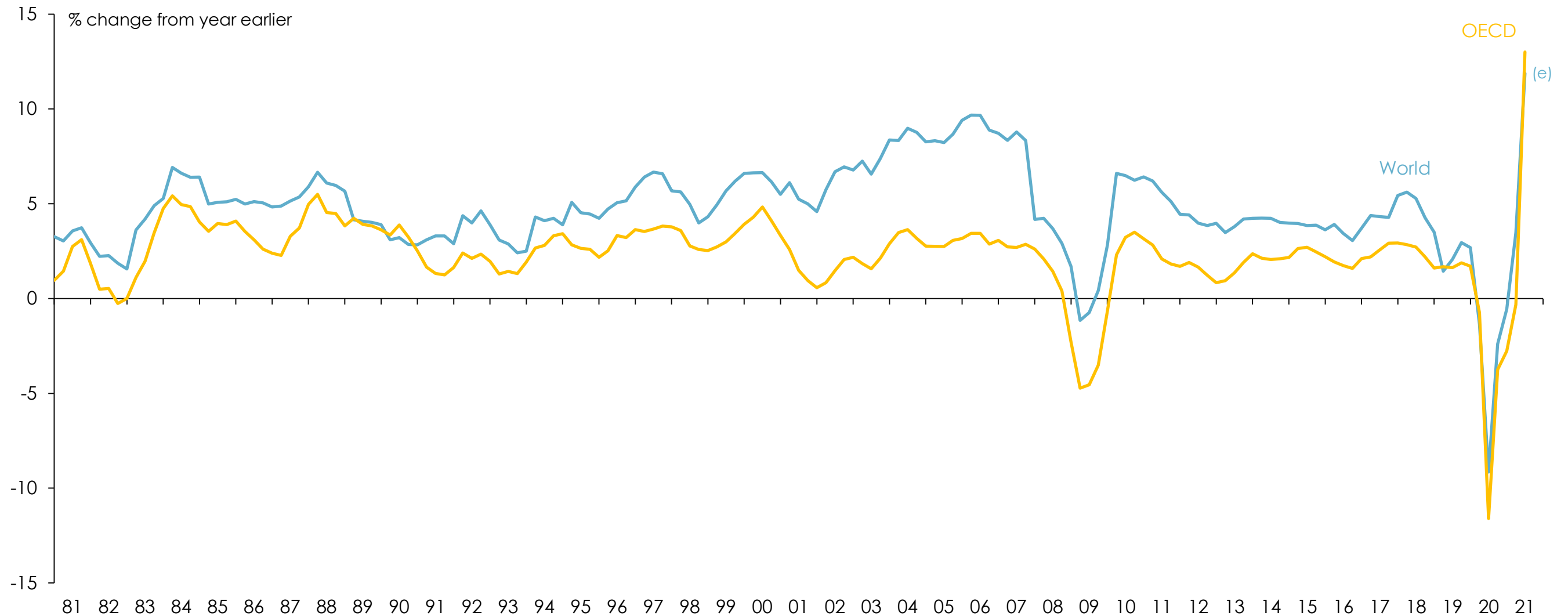
Of 87 countries which have now reported Q2 GDP estimates, 54 have recorded double-digit growth from last year's pandemic-induced trough

Growth in real GDP over the year to Q2 2021



The world economy likely grew by about 12% over the year to Q2 – a figure which is vastly flattered by comparison with last year's trough

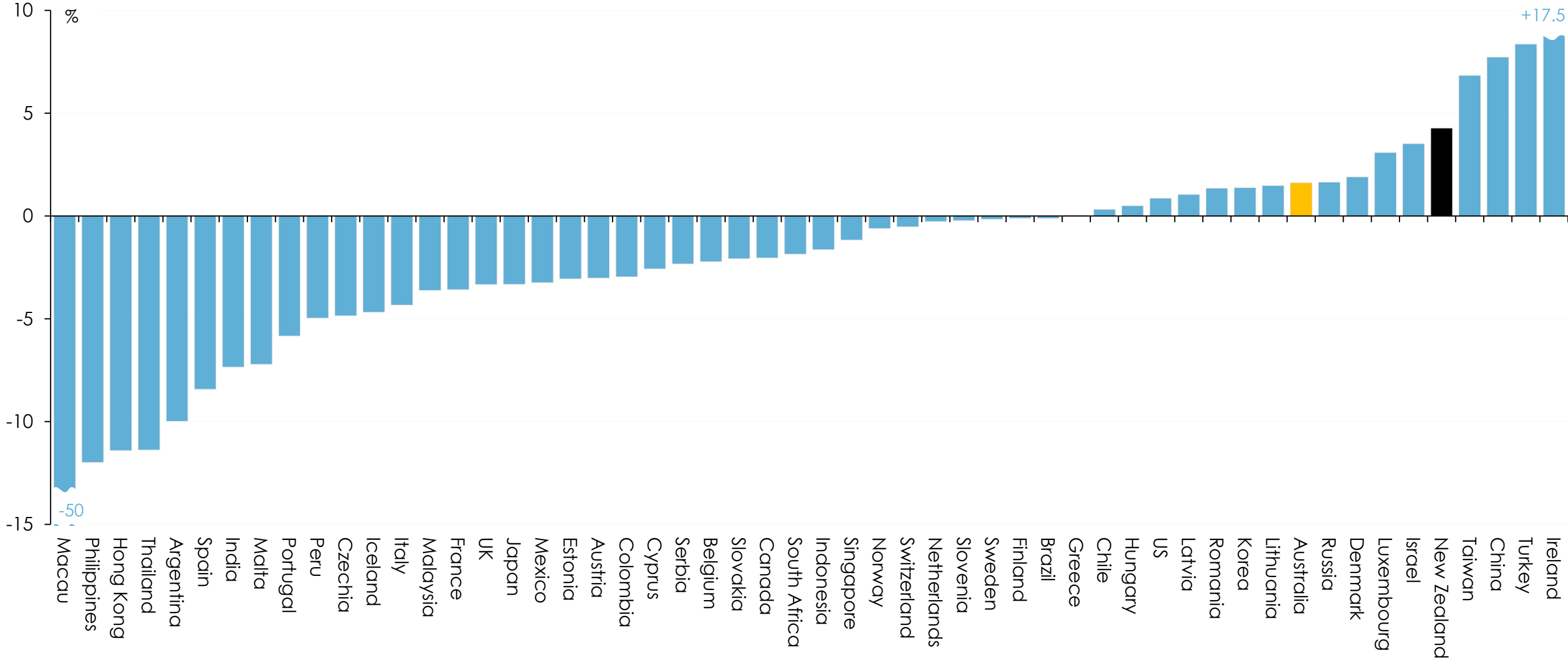
World and OECD area real GDP growth



Note: Estimates of global GDP growth compiled by Corinna using data for 100 countries accounting for 94% of 2019 world GDP as measured by the IMF, weighted in accordance with each country's share of global GDP at purchasing power parities in 2019; excludes constituents of the former USSR before 1993, the former Czechoslovakia before 1995, and the former Yugoslavia before 1998. (e) Estimate for Q2 2021 is based on published results the countries shown in the previous slide. Sources: national statistical agencies and central banks; Eurostat; [OECD](#); IMF; Corinna. [Return to "What's New"](#).

Only 17 countries (out of 52 for which seasonally-adjusted Q2 GDP estimates are available) have exceeded their pre-pandemic peaks

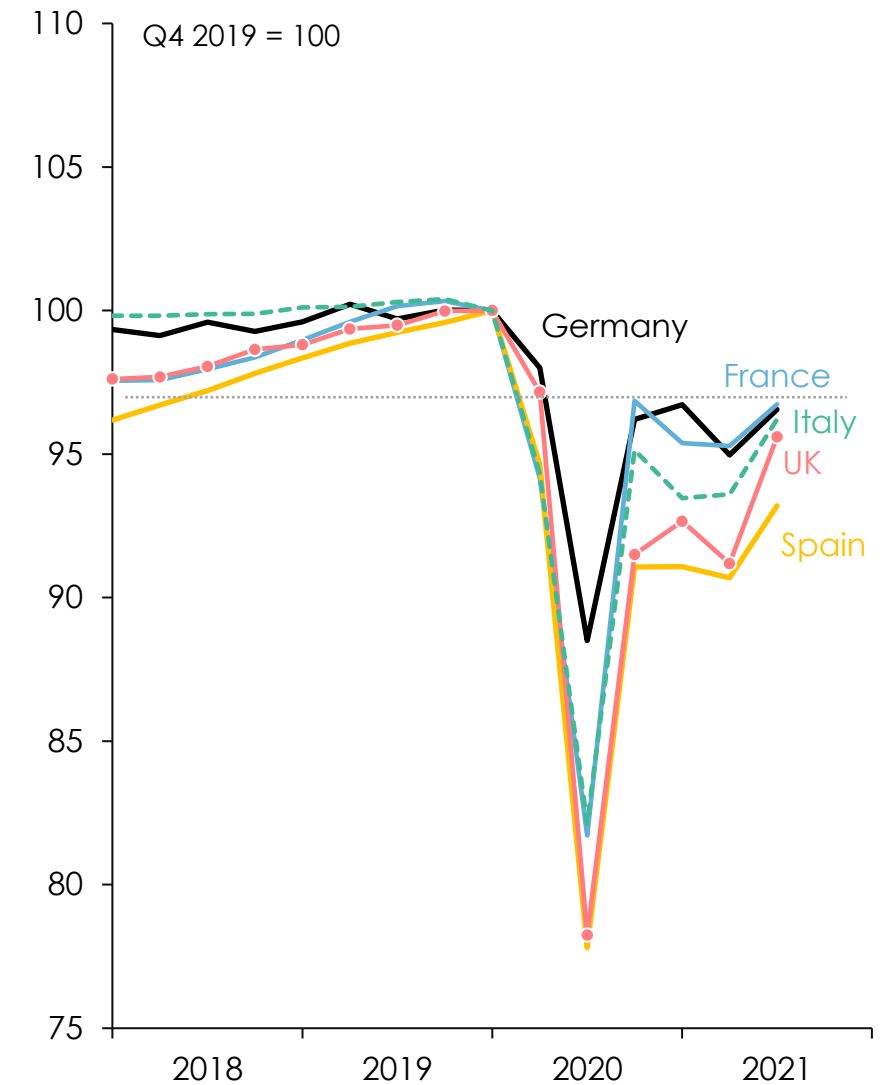
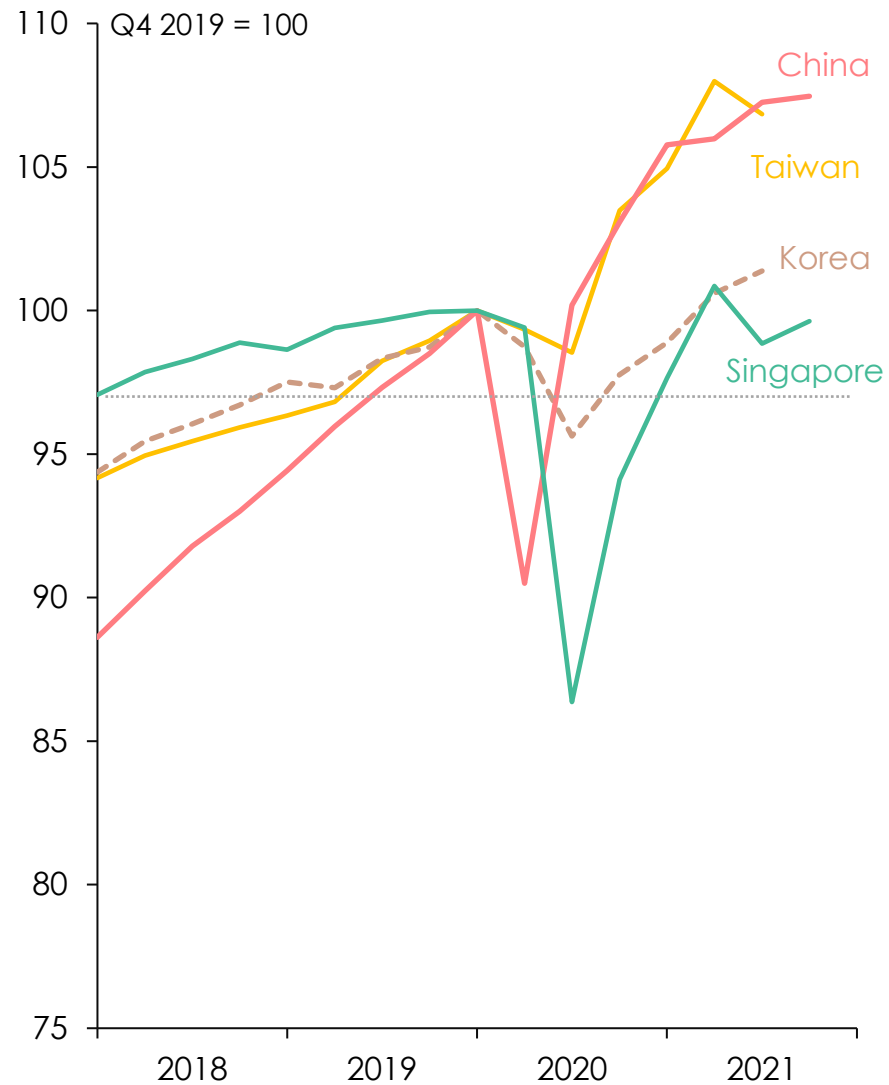
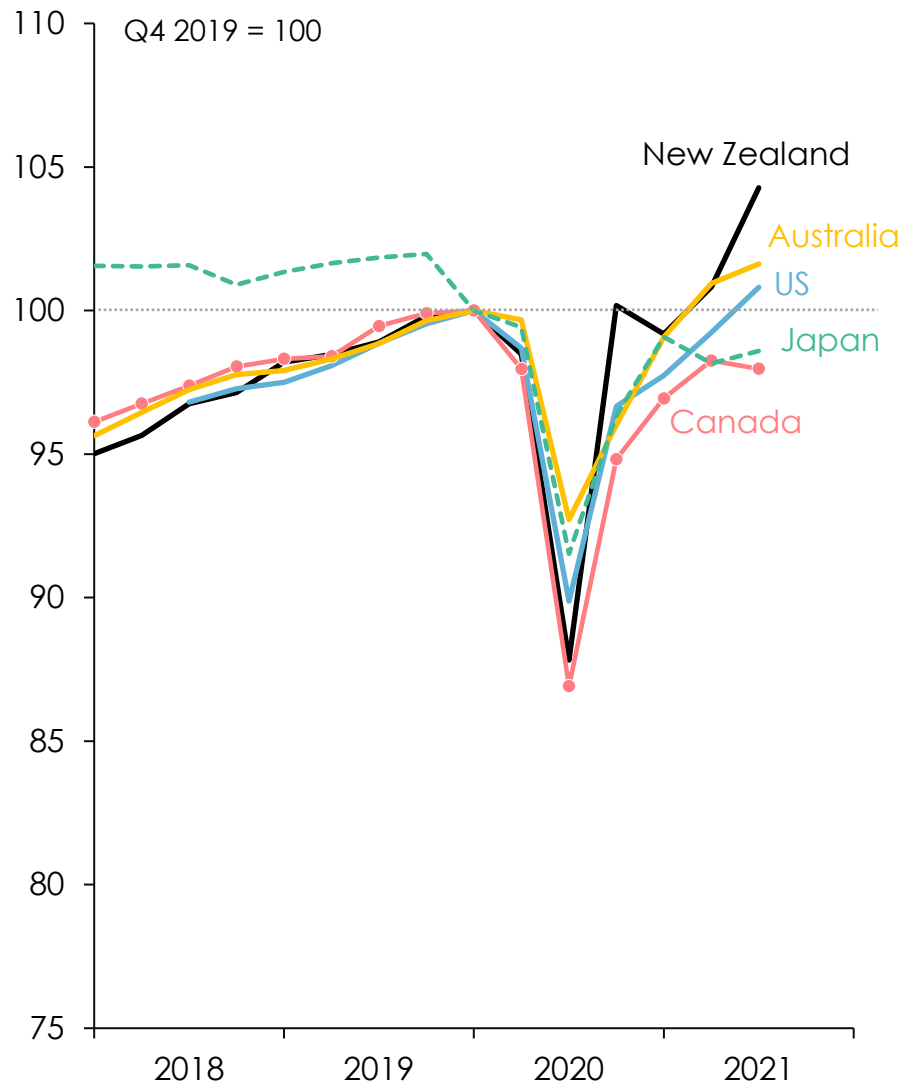
Q2 2021 real GDP compared with pre-recession peak



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

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

Levels of real GDP indexed to Q4 2019 = 100



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

The IMF last week marginally lowered its global growth forecast for 2021, but with larger (mostly offsetting) revisions for individual economies

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

	<i>Actual</i>		<i>IMF</i>		<i>World Bank</i>		<i>OECD</i>		<i>Australian Treasury</i>	
	2019	2020	2021	2022	2021	2022	2021	2022	2021	2022
US	2.2	-3.5	6.0	5.2	6.8	4.2	6.0	3.9	6.5	3.5
China	5.8	2.3	8.0	5.6	7.7	5.3	8.5	5.8	8.5	5.5
Euro area	1.3	-6.6	5.0	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	2.4	3.2	2.9	2.6	2.5	2.1	3.5	1.8
UK	1.4	-9.9	6.8	5.0	na	na	6.7	5.2	na	na
Australia	1.9	-2.4	3.5	4.1	na	na	4.0	3.3	4.3*	2.5*
New Zealand	2.2	-3.0	5.1	3.3	na	na	3.5	3.8	3.2 [†]	4.4 [†]
World	2.8	-3.3	5.9	4.9	5.6	4.3	5.7	4.5	6.0	4.5
World trade	0.9	-8.5	9.7	6.7	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](#), 12th October 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 IMF's latest forecast makes largely offsetting revisions to its outlook for economic growth, but upward revisions to its outlook for inflation

IMF real GDP growth forecasts

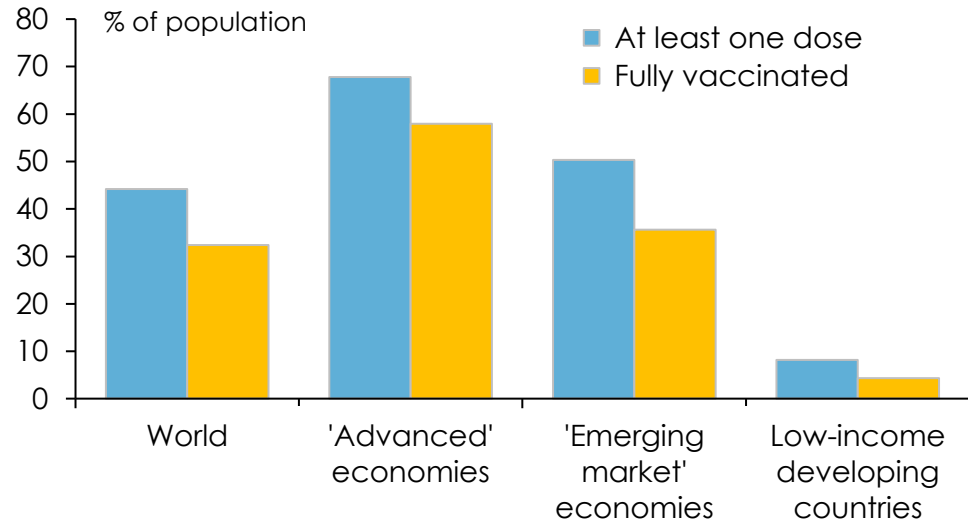
	October forecast (%)		Revision from July (pc pts)	
	2021	2022	2021	2022
Advanced economies				
US	6.0	5.1	-1.0	+0.3
Euro zone	5.0	4.2	+0.4	0.0
Japan	2.4	3.2	-0.4	+0.2
UK	6.8	5.0	-0.2	+0.2
Australia	3.5	4.1	-1.8	+1.1
New Zealand	5.1	3.3	+1.1	+0.1
Emerging economies				
China	8.0	5.6	-0.1	-0.1
India	9.5	8.5	0.0	0.0
ASEAN	2.9	5.8	-1.4	-0.5
Brazil	5.2	1.5	-0.1	-0.4
Russia	4.7	2.9	+0.3	-0.2
World	5.7	4.5	-0.1	0.0

- ❑ The IMF's latest [World Economic Outlook](#) lowers its growth forecasts for the US, Japan, ASEAN and Australia this year, offset by upward revisions for the euro area and commodity-exporting EMs – but with only minor changes to its outlook for 2022
- ❑ The key point in the IMF's growth outlook is the “further divergence across two blocs of countries: those that can look forward to further normalization later this year (almost all advanced economies) and those that will struggle with the adverse health and economic impacts from resurgent infections”
 - advanced economies (as a group) are expected to regain their pre-pandemic trend growth path in 2022 and exceed it by 0.9% in 2024 – whereas emerging & developing economies (ex China) GDP is expected to remain 5½% below the pre-pandemic forecast in 2024
 - this divergence results from “large disparities in vaccine access” and significant differences in “policy support” – with EMs “withdrawing policy support more quickly despite larger shortfalls in output”
- ❑ By contrast the IMF has revised its inflation forecasts upwards
 - inflation in advanced economies is expected to average 2.8% this year and 2.3% in 2022 (upward revisions of 0.4 and 0.2 pc pts), and in EMs 5.5% and 4.9% respectively (up 0.1 and 0.2 pc pts)
 - which it attributes to “a combination of pandemic-induced supply-demand mismatches, rising commodity prices and policy developments”, exchange rate depreciations (in some countries), and tight labour markets
- ❑ The IMF says the balance of risks for economic growth is “tilted to the downside” whereas inflation risks are “skewed to the upside”

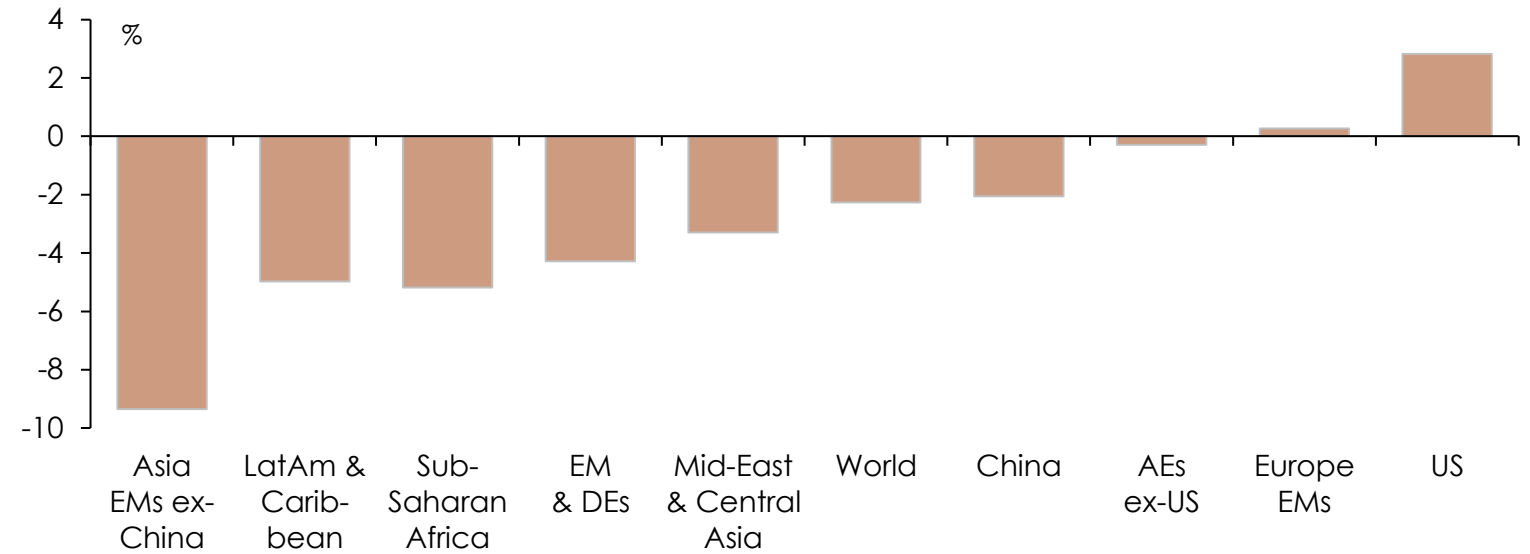
Source: IMF [World Economic Outlook](#), 12th October 2021.
[Return to "What's New"](#).

The IMF sees a growing divide between 'advanced' and 'emerging' economies based on vaccination rates and the amount of policy support

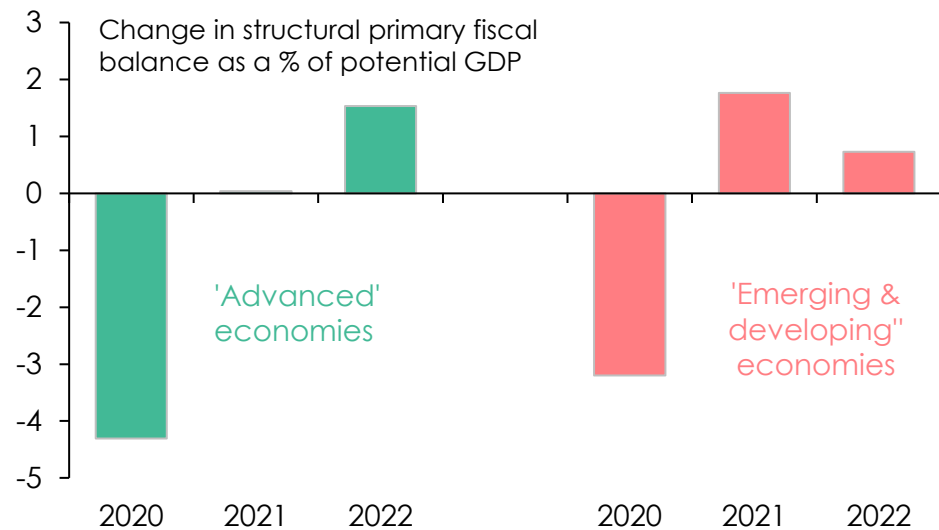
Vaccination rates



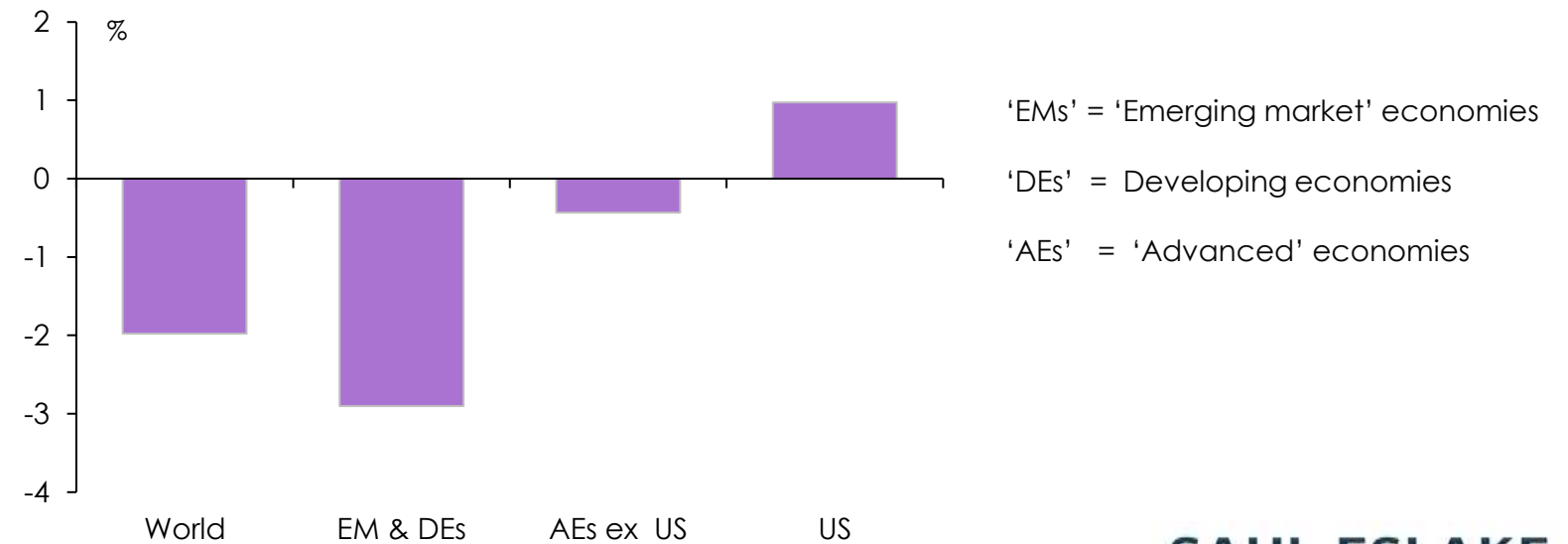
Output losses relative to pre-pandemic trend



Stance of fiscal policy

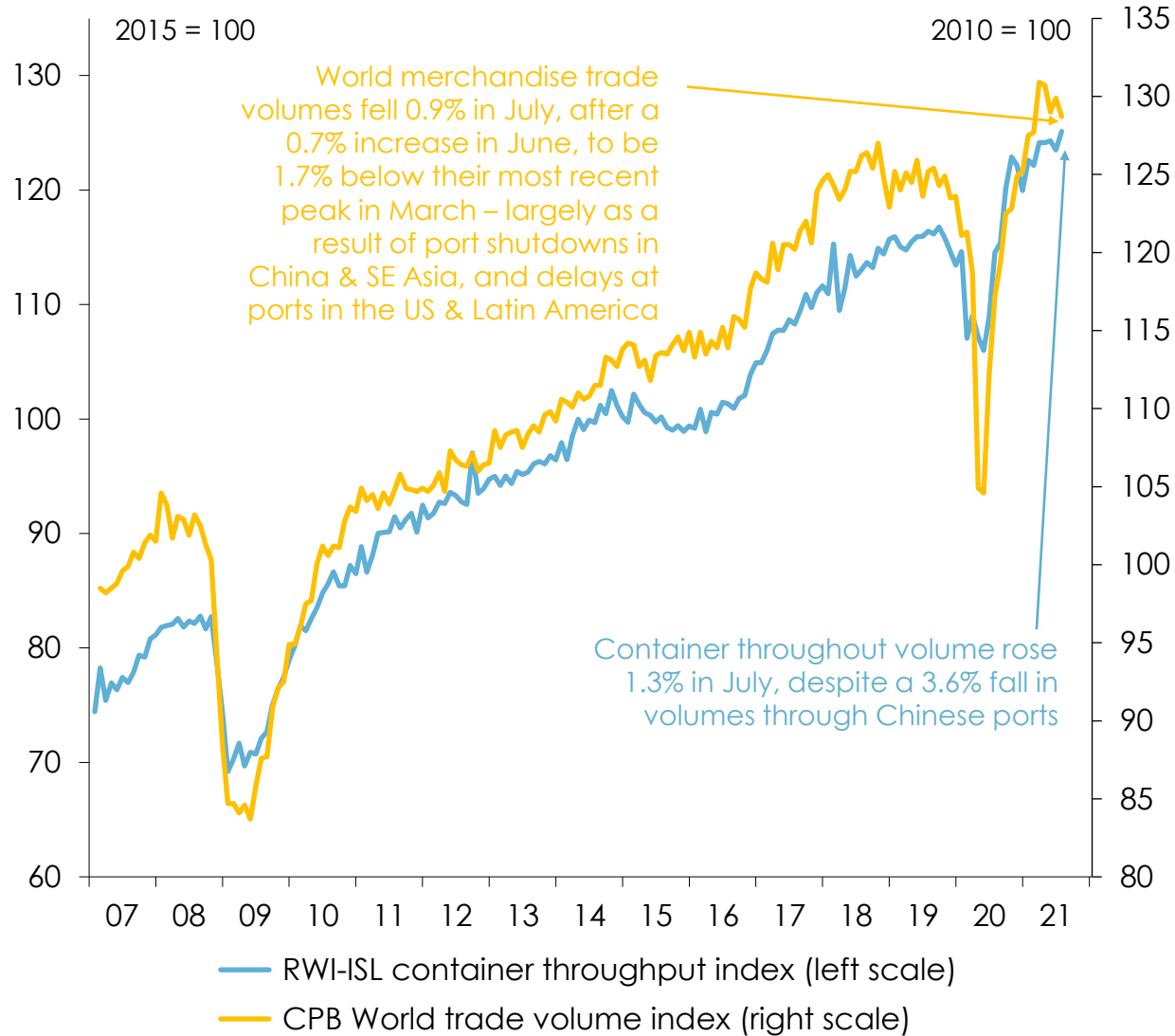


Employment losses relative to pre-pandemic trend

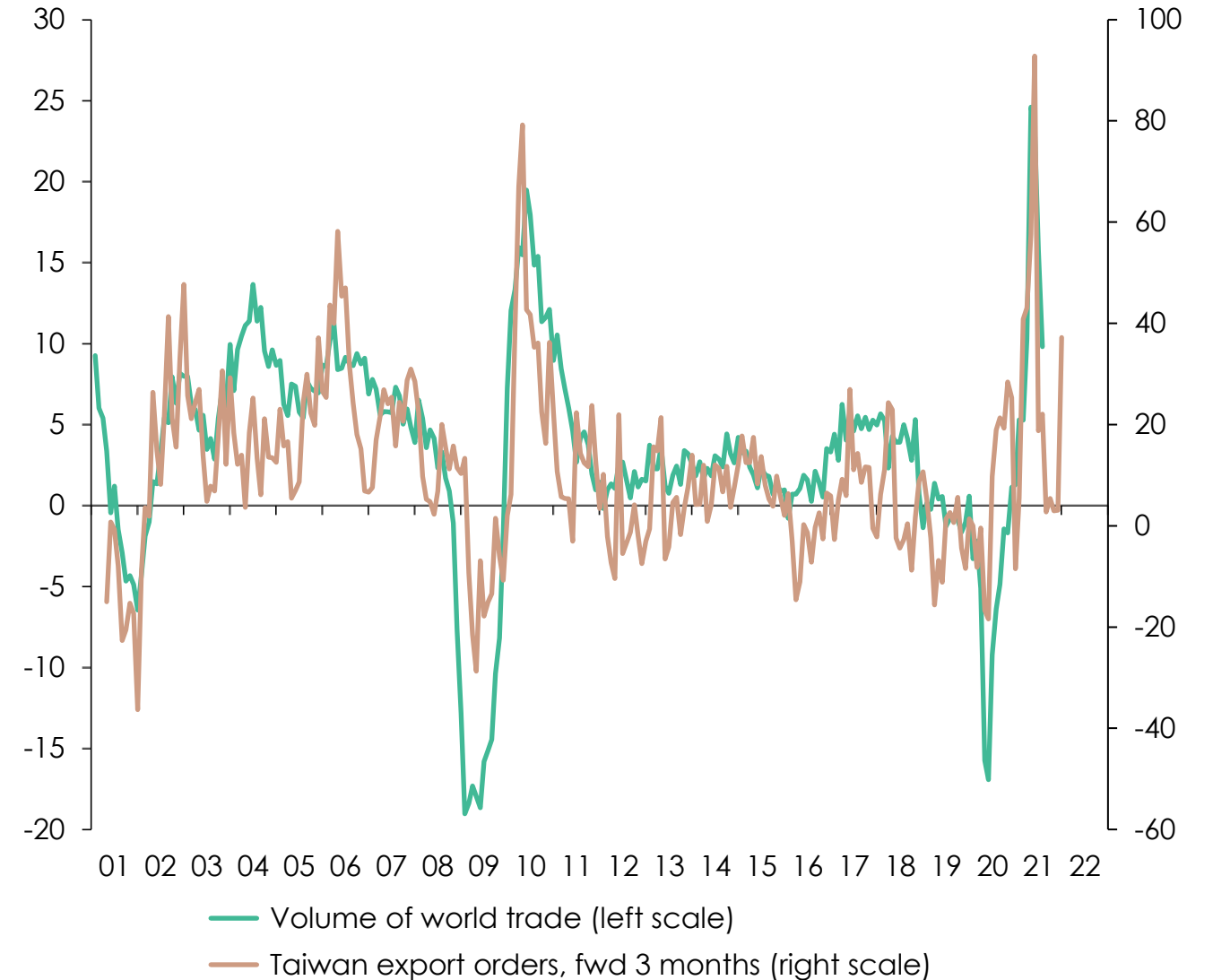


World trade volumes fell in July, as a result of port closures in Asia and delays at ports in the US

World trade volumes and container throughput



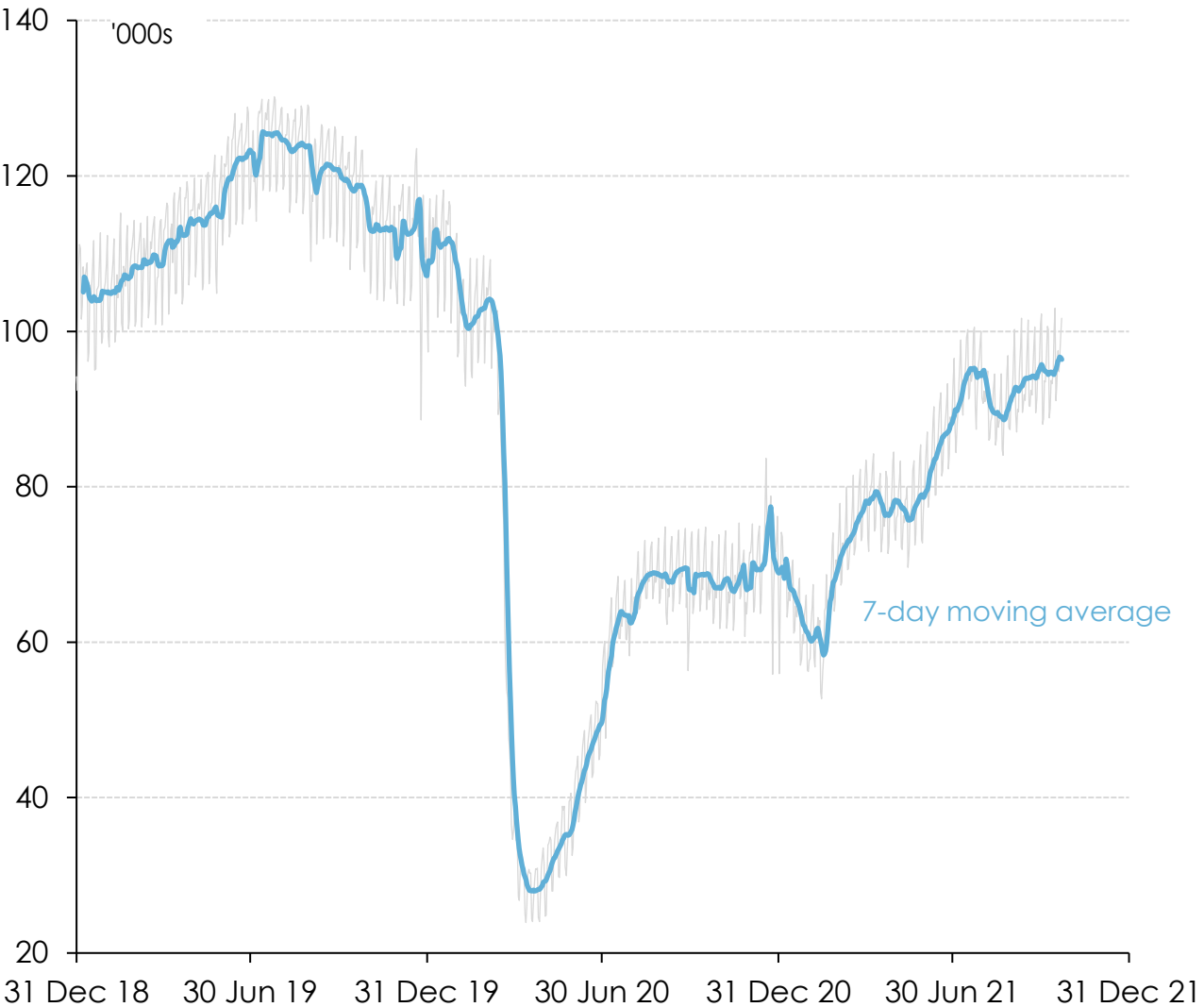
Taiwan export orders and world trade volumes



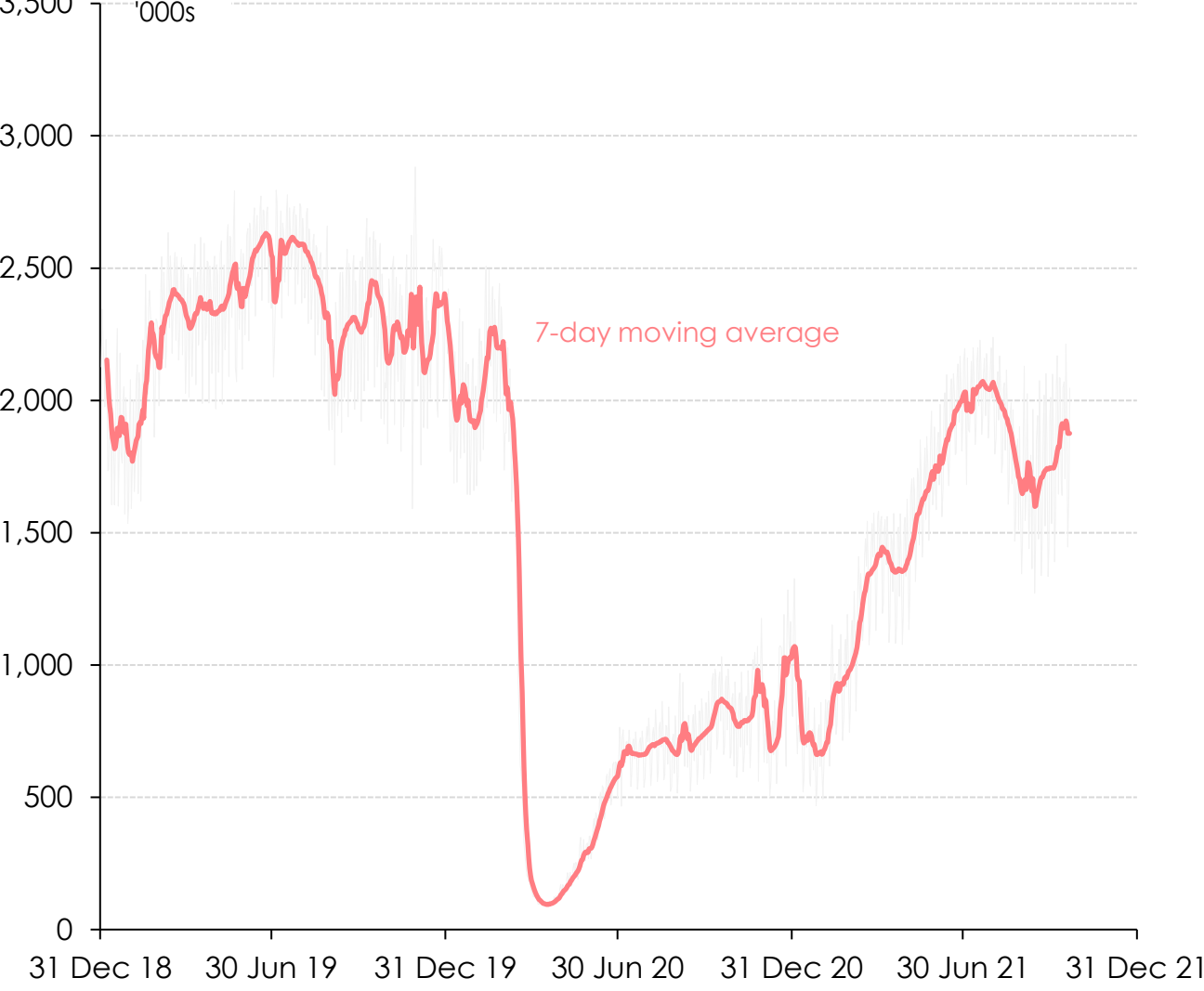
Note: The shipping container throughput index is based on reports from 91 ports around the world handling over 60% of global container shipping.
 Sources: CPB Netherlands Economic Planning Bureau, [World Trade Monitor](#) (August data to be released on 25th October); Institute of Shipping Economics & Logistics (ISL) and RWI Leibniz-Institut für Wirtschaftsforschung (RWI) [Container Throughput Index](#); Taiwan [Ministry of Economic Affairs](#). [Return to "What's New"](#).

The global 'delta wave' interrupted the recovery in travel – but that recovery appears to have (tentatively) resumed again

Daily commercial flights worldwide



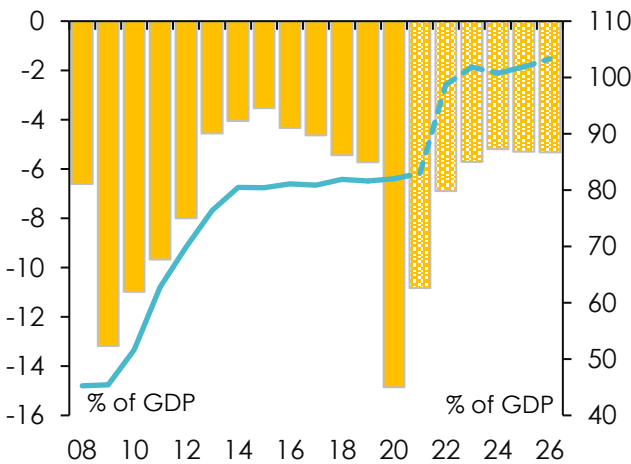
Daily US TSA 'security' checks



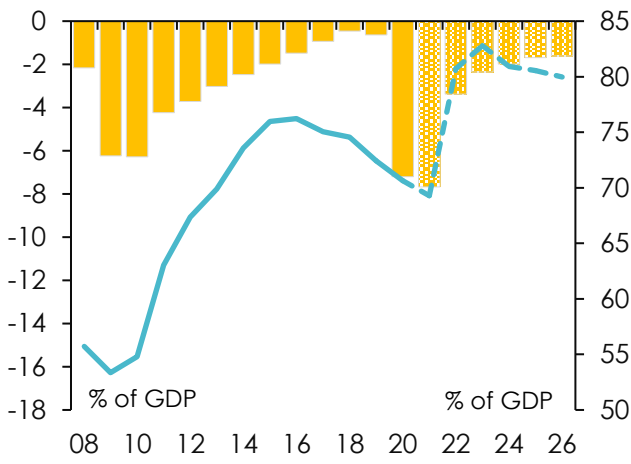
Note: Commercial flights include commercial passenger flights, cargo flights, charter flights, and some business jet flights. Daily flights data up to 22nd October, and TSA checks up to 21st October. Thicker coloured lines are 7-day centred moving averages of daily data plotted in thin grey lines. Sources: [Flightradar24.com](https://www.flightradar24.com); [US Transport Safety Administration](https://www.transportation.gov) (at last, something useful produced by aviation 'security'!!!). [Return to "What's New"](#).

Fiscal policy in almost all major economies is set to tighten significantly in 2022

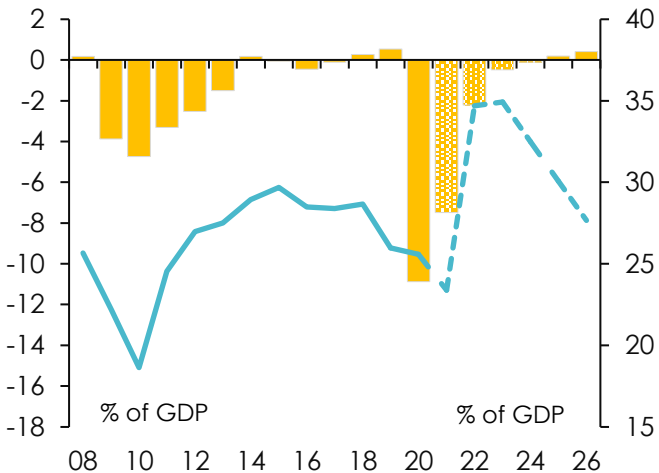
United States



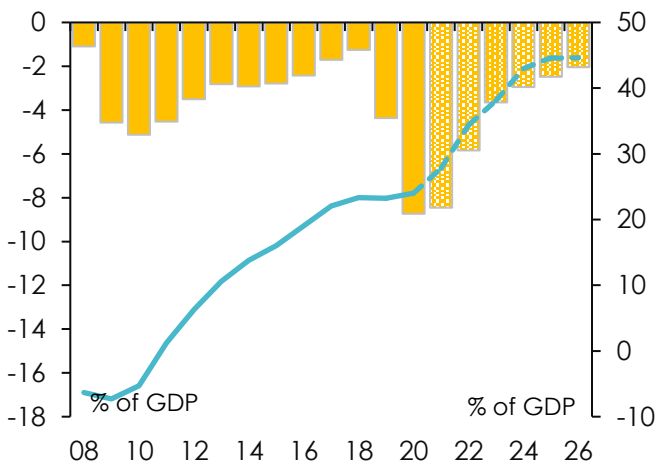
Euro area



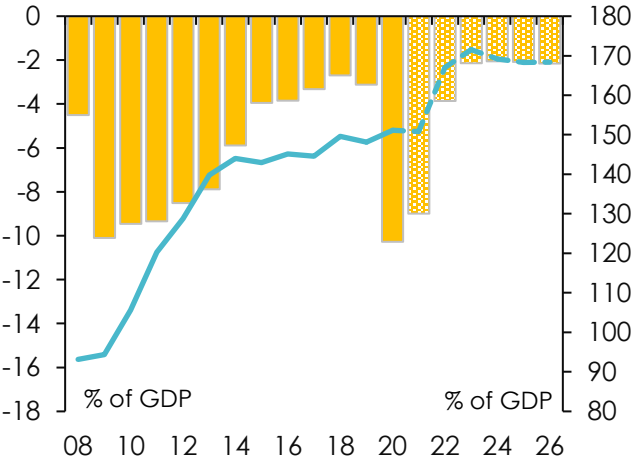
Canada



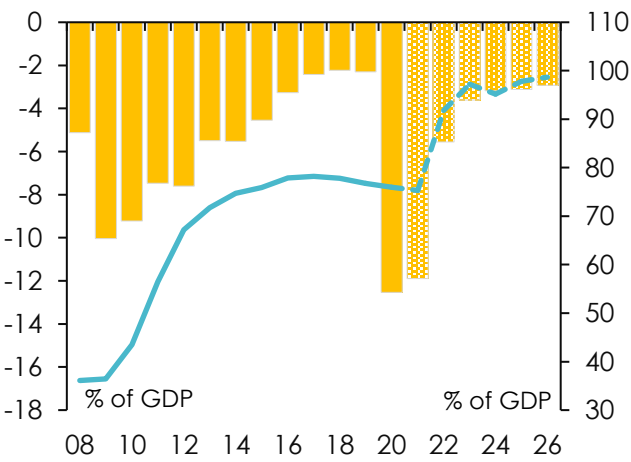
Australia



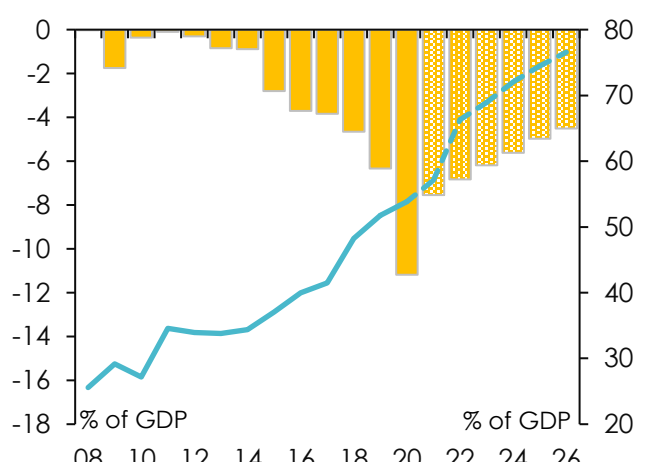
Japan



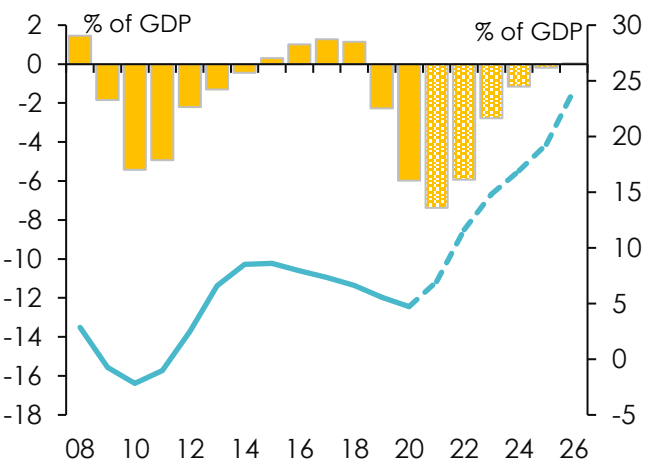
United Kingdom



China



New Zealand

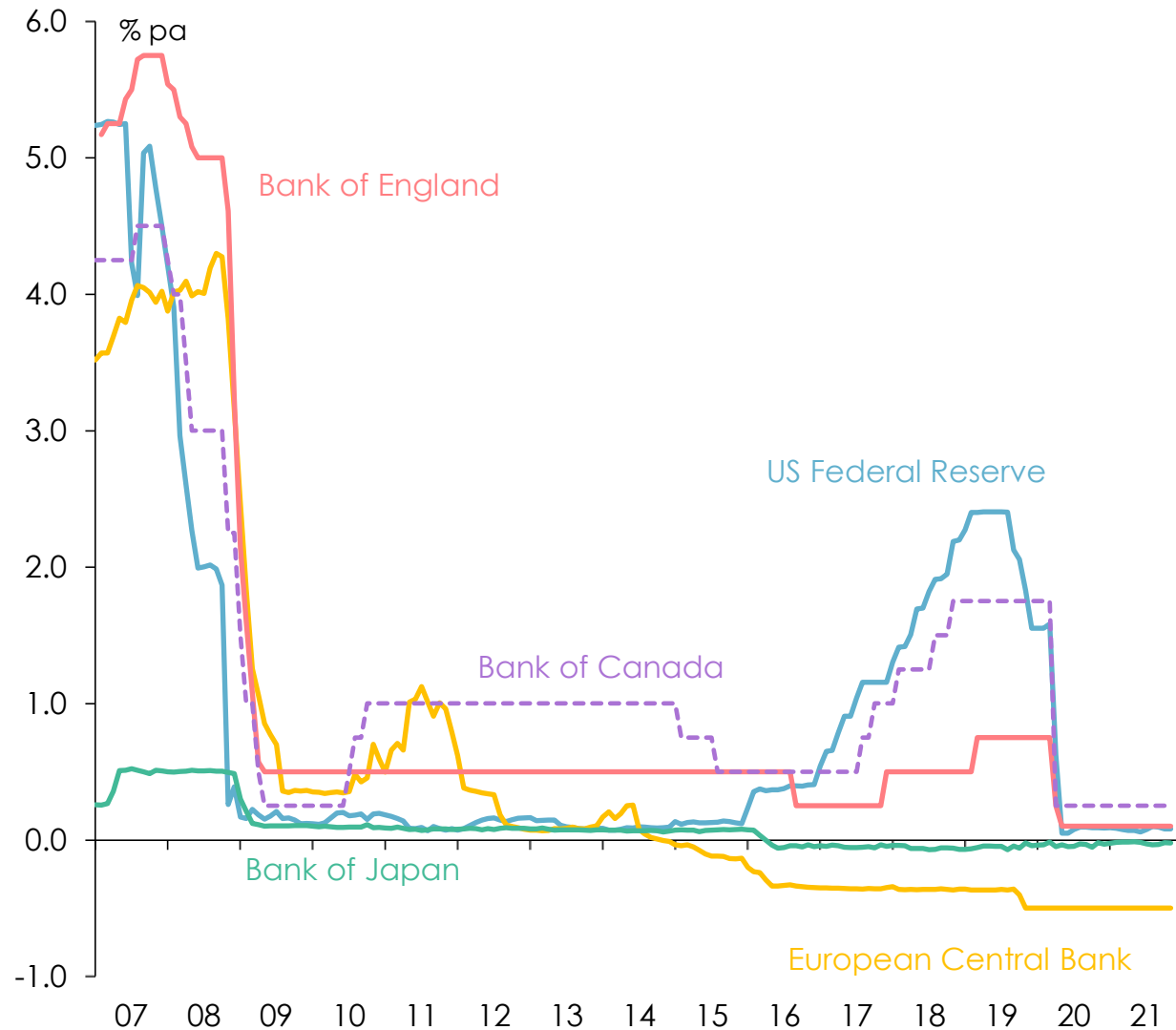


General government overall fiscal balance (left scale)
 General government net debt (right scale)

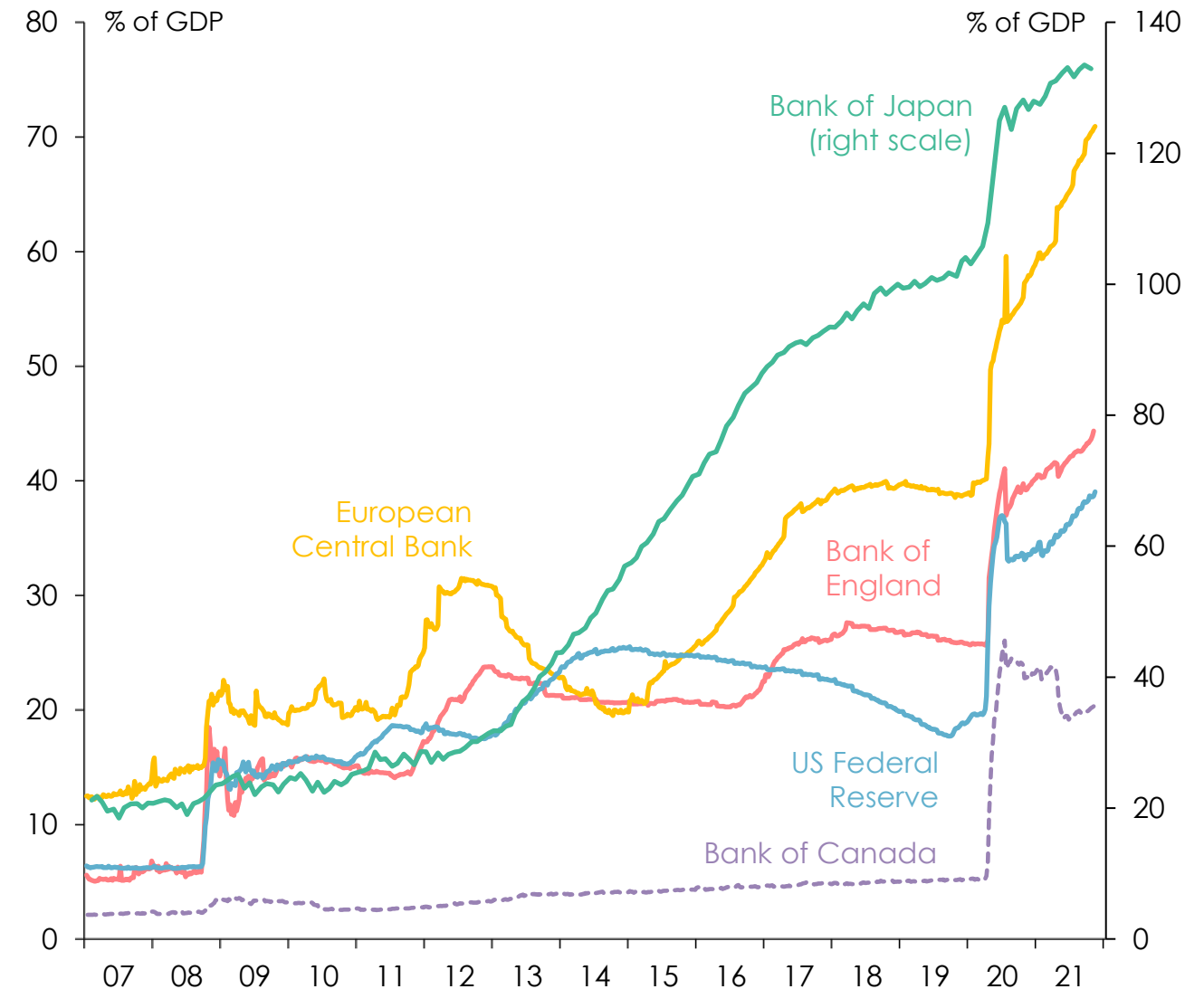
Note: China debt is gross debt, not net. Sources: International Monetary Fund, [Fiscal Monitor](#), and [World Economic Outlook](#), October 2021. [Return to "What's New"](#)

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

Major central bank policy interest rates



Major central bank balance sheets



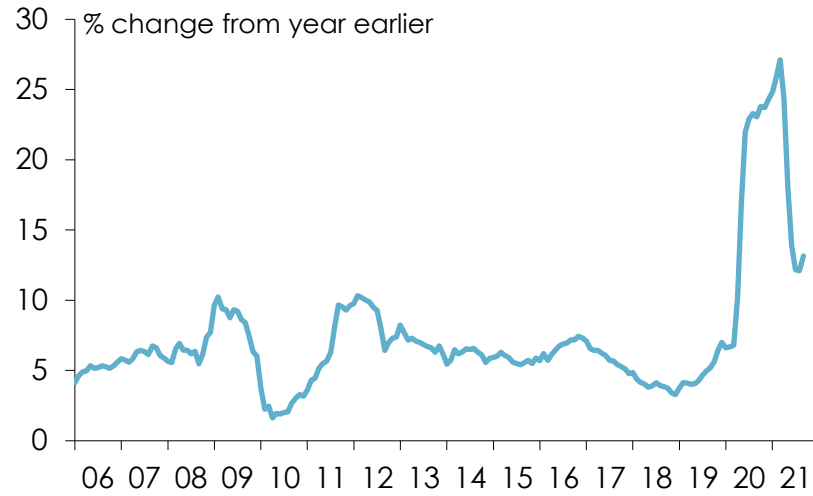
Note: estimates of central bank assets as a pc of GDP in Q2 2020 were inflated by the sharp drop in nominal GDP in that quarter: conversely, declines in estimates of central bank assets as a pc of GDP in Q3 2020 are in large part due to rebounds in nominal GDP. Sources: [US Federal Reserve](#); [European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

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

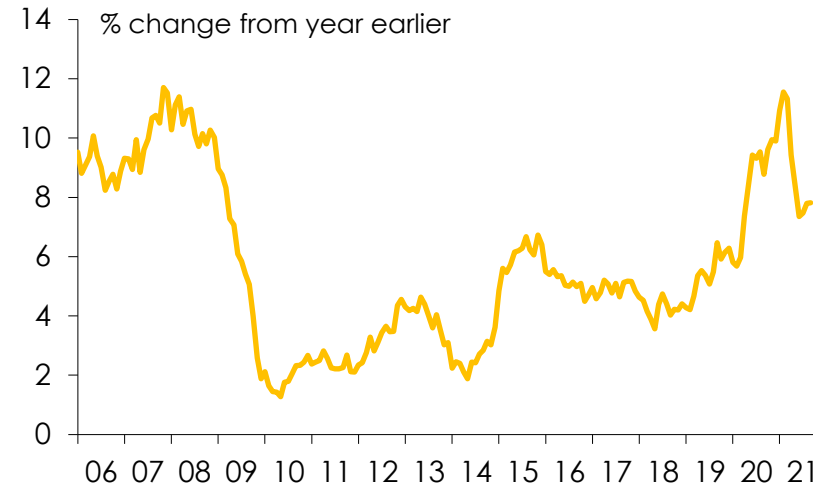
- ❑ The US Federal Reserve’s Open Market Committee left its target for the Federal funds rate unchanged at 0-0.25% at its 21-22 September meeting, as expected
 - but it **noted** that if the US economy continues to “progress ... broadly as expected” towards its “maximum employment and price stability 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 its 21-22 September 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”

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

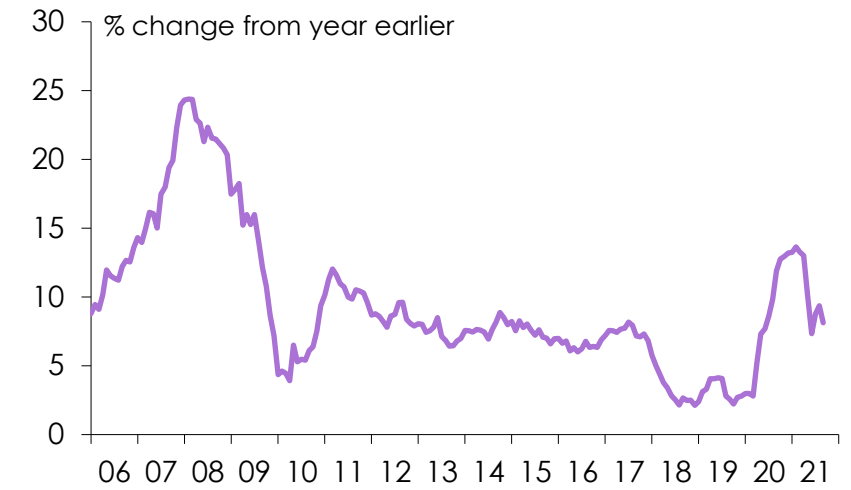
US M2



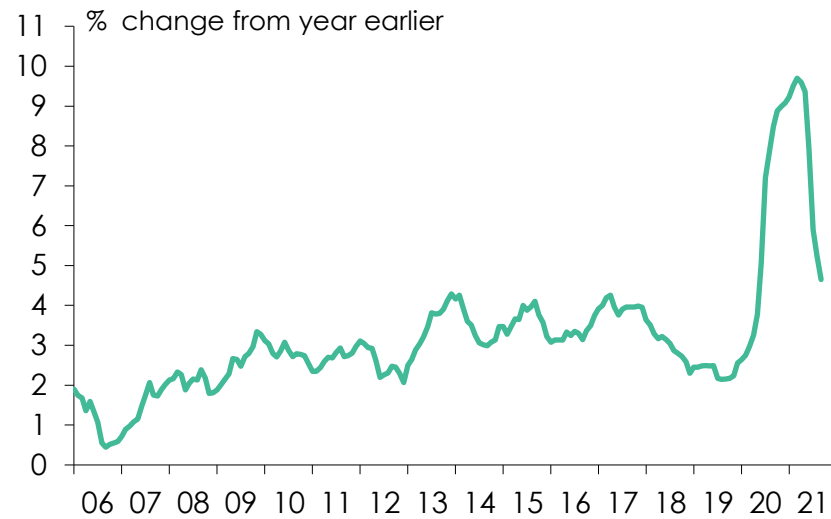
Euro area M2



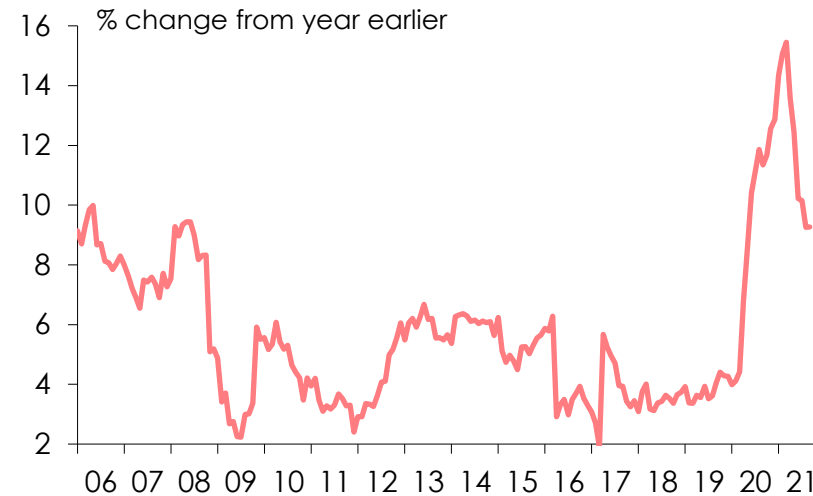
Australia M3



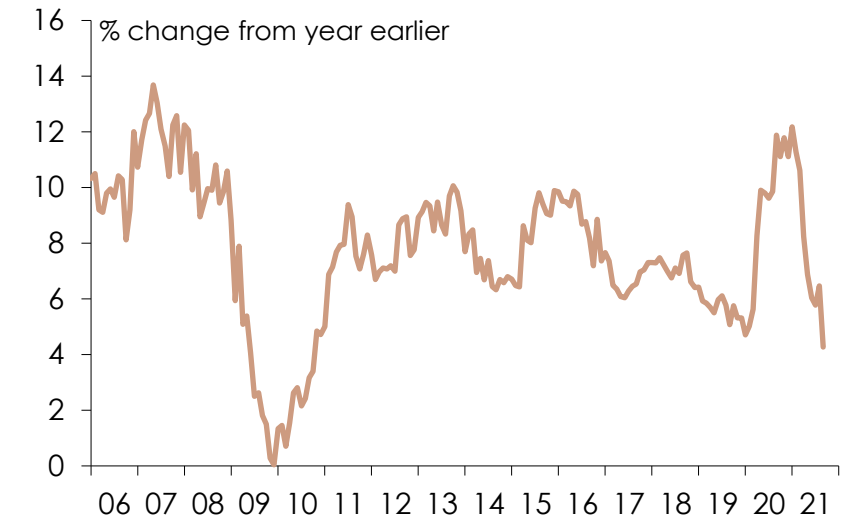
Japan M2 + CDs



UK M2



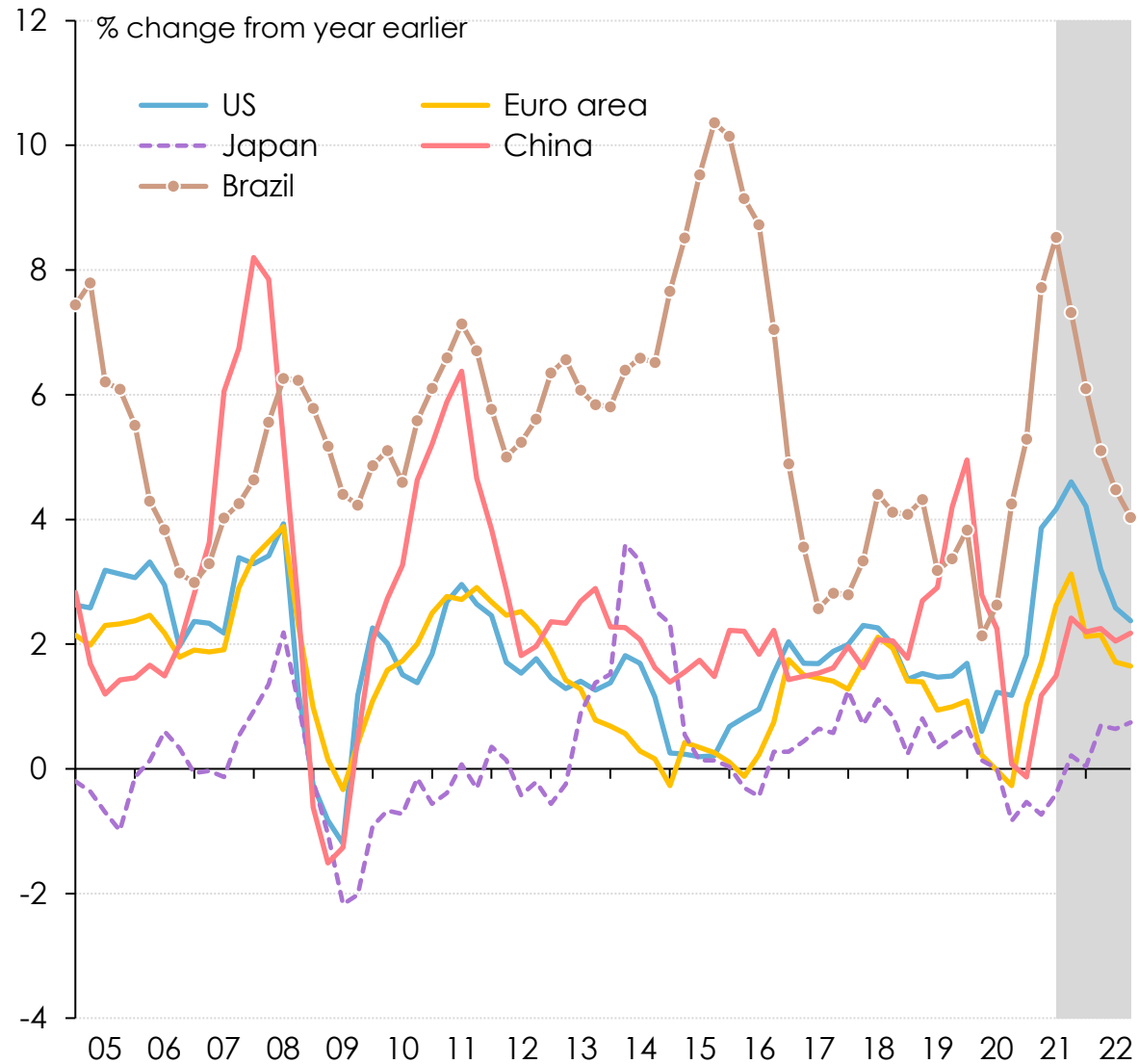
New Zealand M3



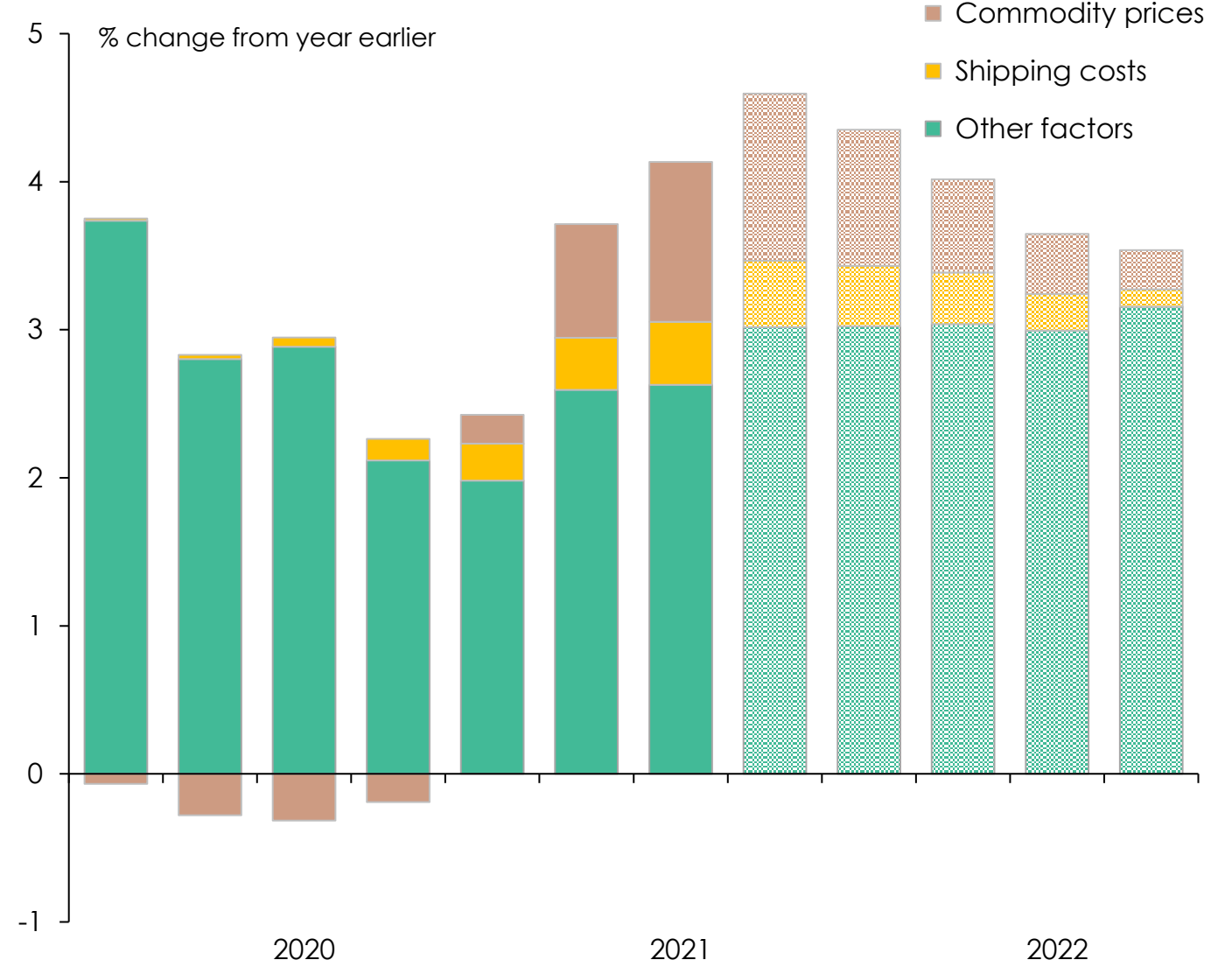
Sources: US Federal Reserve; European Central Bank; Bank of Japan; Bank of England; RBA; RBNZ. [Return to "What's New"](#).

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



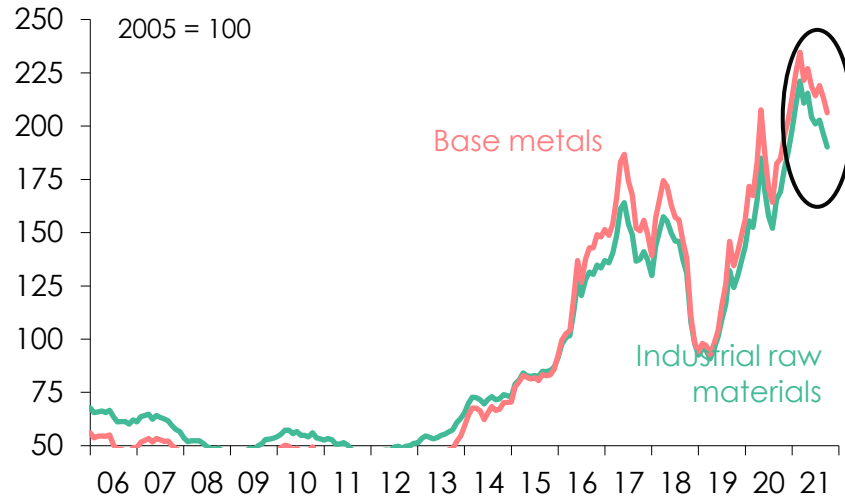
Contribution to annual G20 inflation



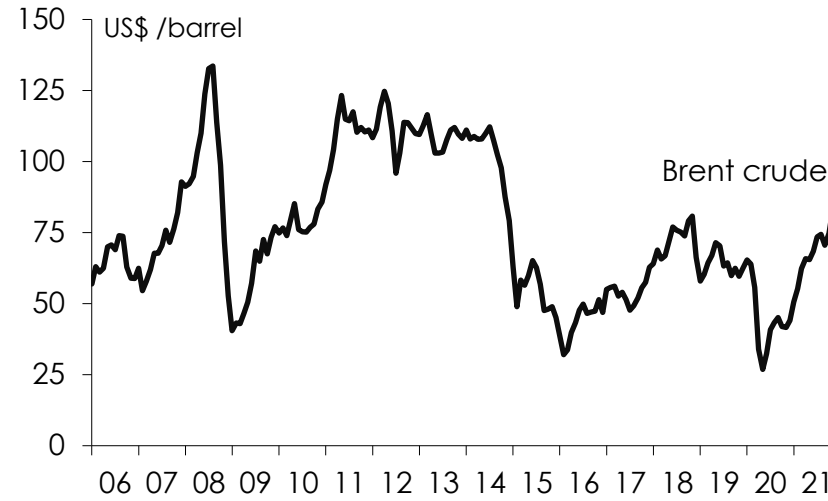
Source: OECD, [Economic Outlook, Interim Report](#), 21st September 2021.

Some of the factors which have contributed to 'upstream' price pressures in recent months may have peaked – but energy is an important exception

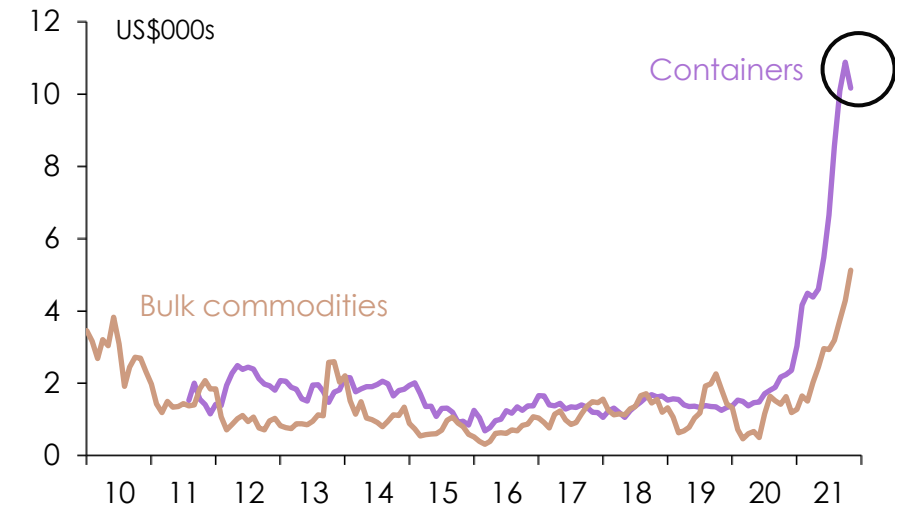
'Hard' commodity prices



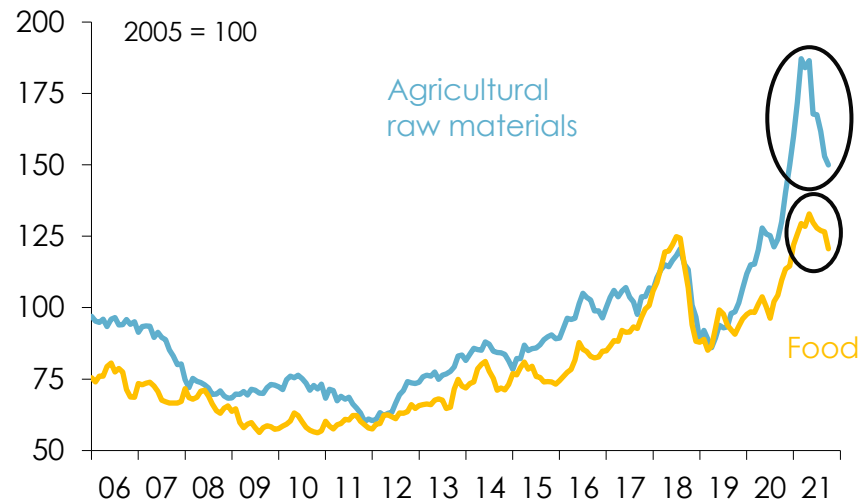
Crude oil price



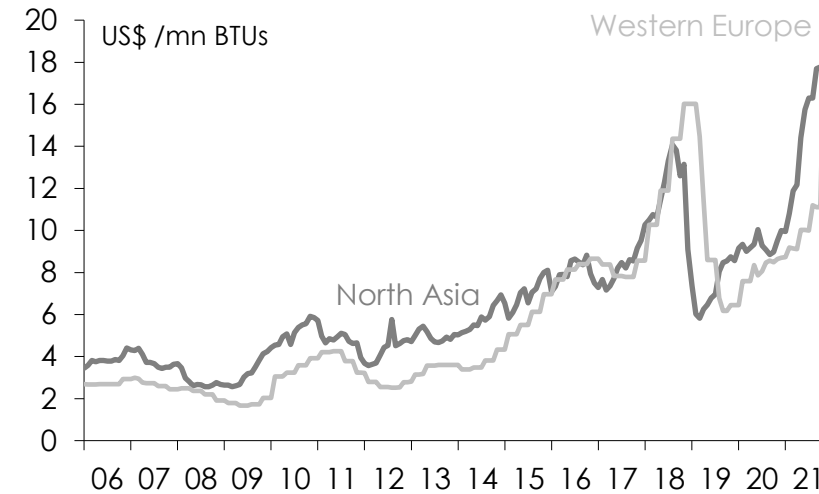
Shipping freight costs



'Soft' commodity prices



Liquefied natural gas prices



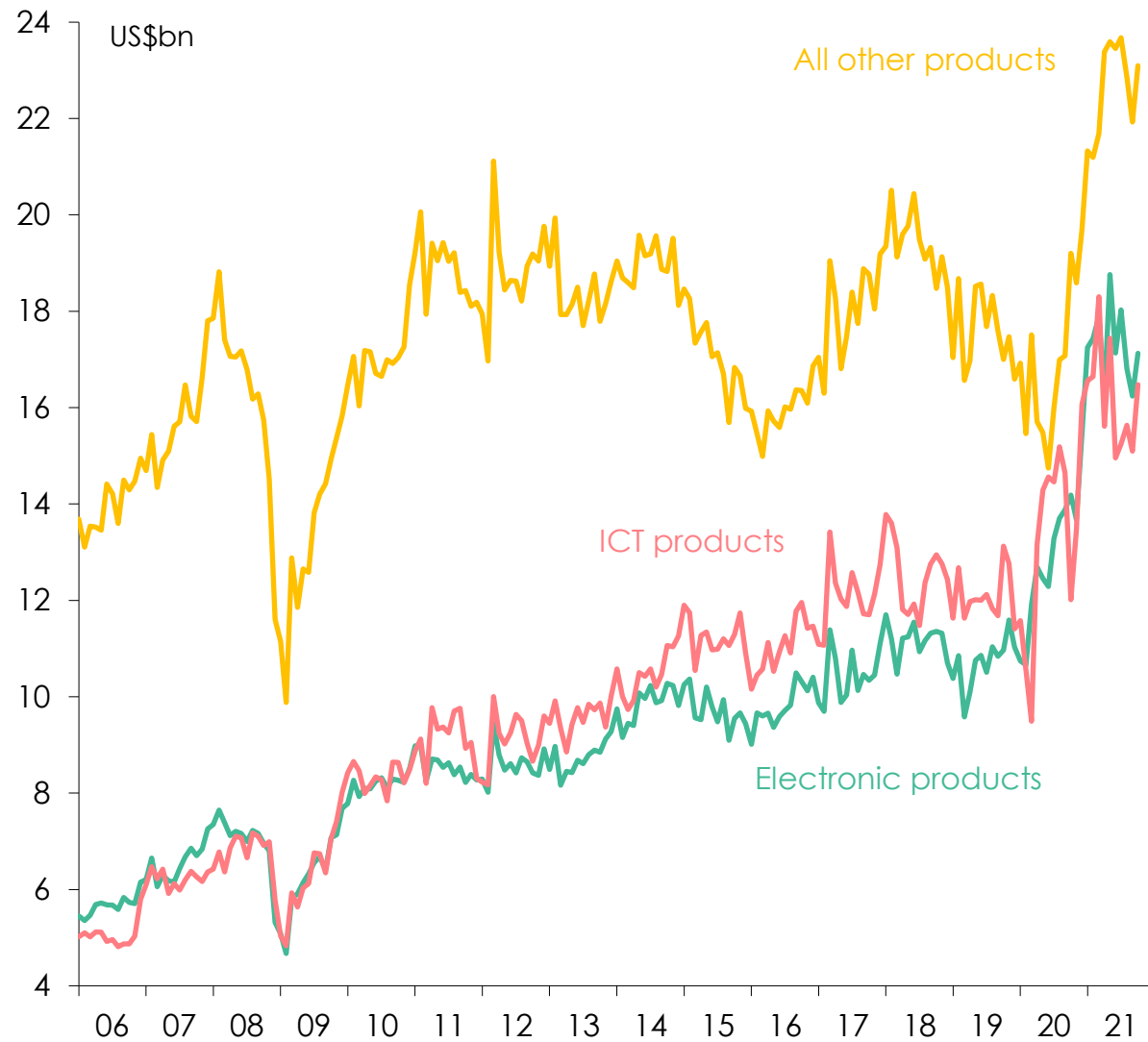
Semiconductor prices



Sources: [International Monetary Fund](#); [Freightos](#); [Drewry](#); [The Baltic Exchange](#); Refinitiv Datastream;

Taiwanese export orders data for September suggests that semi-conductor chip production is starting to recover

Taiwan export orders, by product

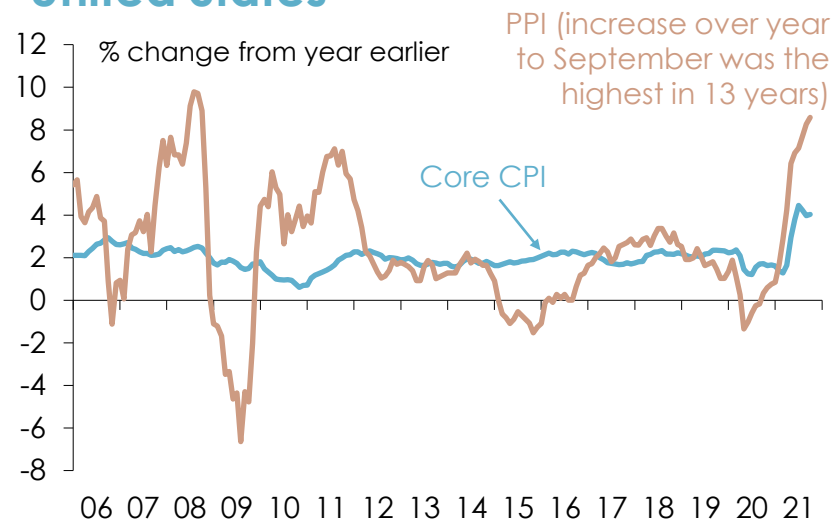


Note: Data have been seasonally adjusted by Corinna using Refinitiv Datastream. Latest data are for August. Source: Taiwan [Ministry of Economic Affairs](#). [Return to "What's New"](#).

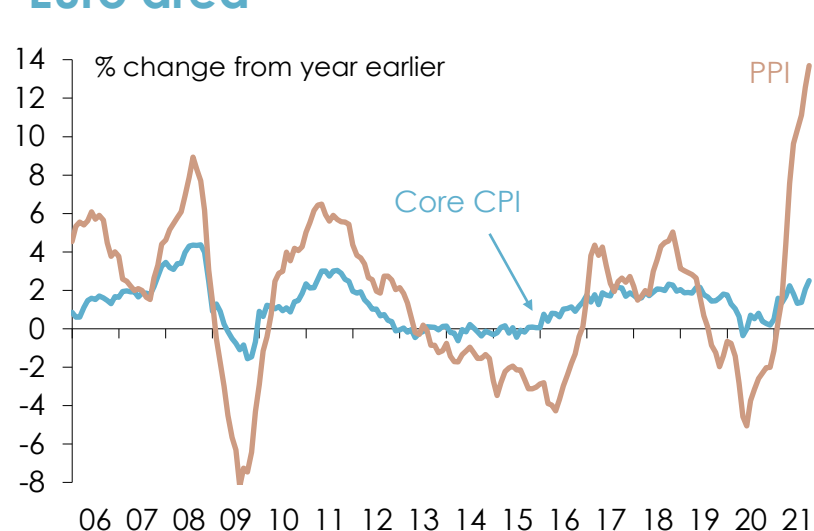
- ❑ Taiwan accounts for 63% of the US\$85bn global semi-conductor chip market (followed by Korea 18% and China 6%)
 - one Taiwanese company, Taiwan Semiconductor Manufacturing Co (TSMC) has 54% of the world market, and United Microelectronics Co (UMC) a further 7% (Samsung accounts for Korea's 18%)
- ❑ 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
- ❑ 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)
- ❑ Foreign orders for Taiwanese ICT products rose by 9.2% in September, and orders for other electronics products rose 5.5%
 - to be 10.0% and 8.7% respectively below their previous peaks

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

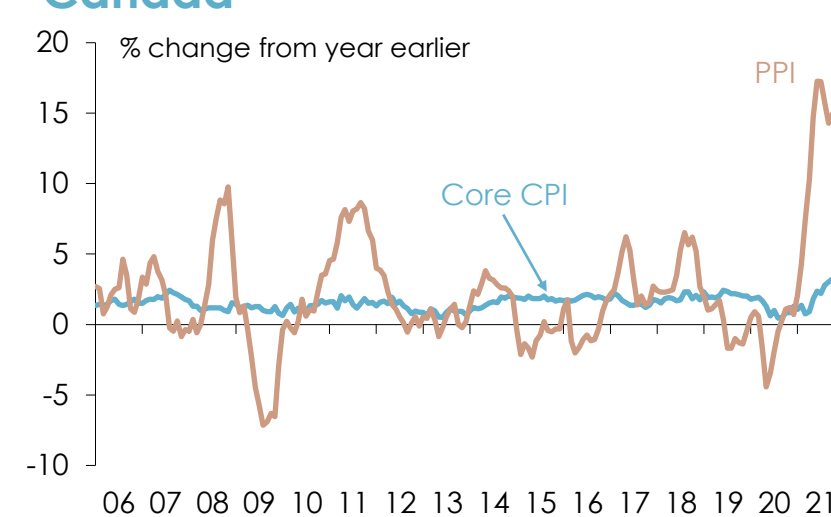
United States



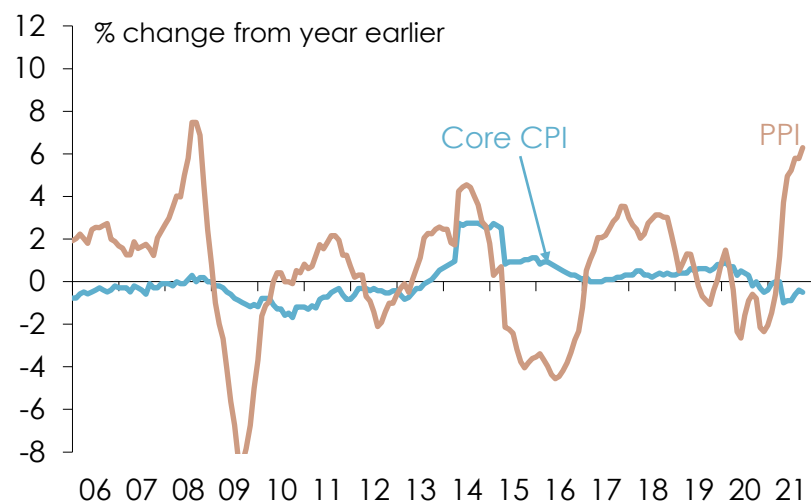
Euro area



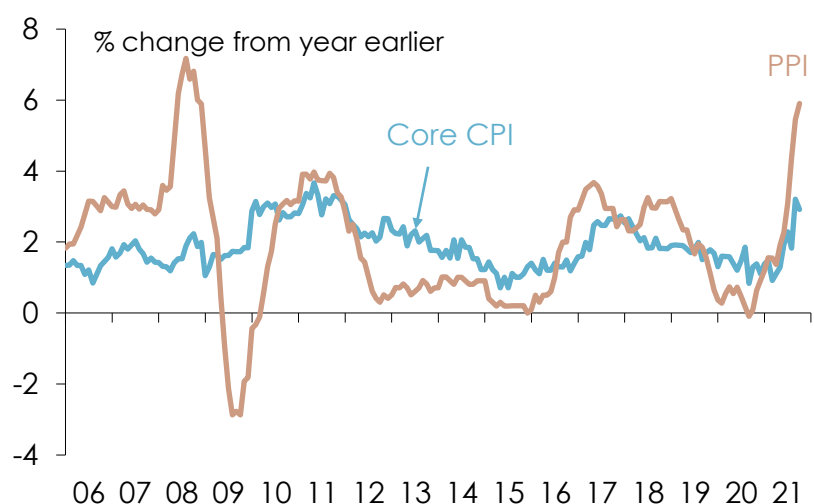
Canada



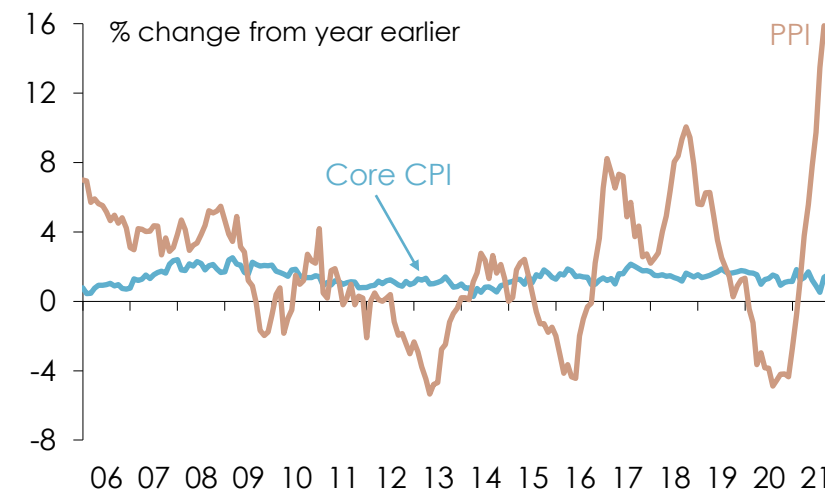
Japan



United Kingdom



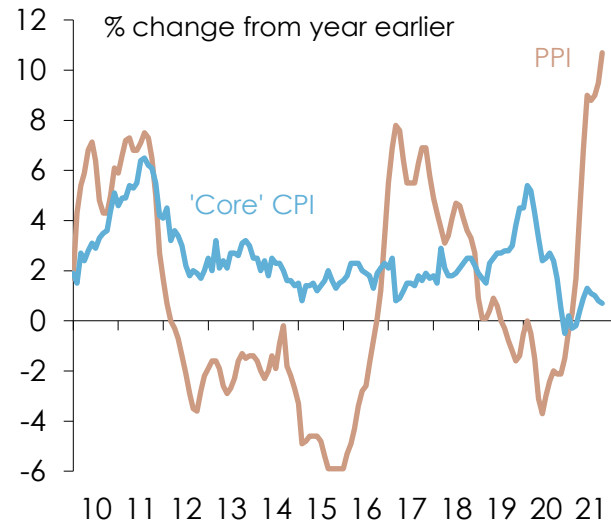
Sweden



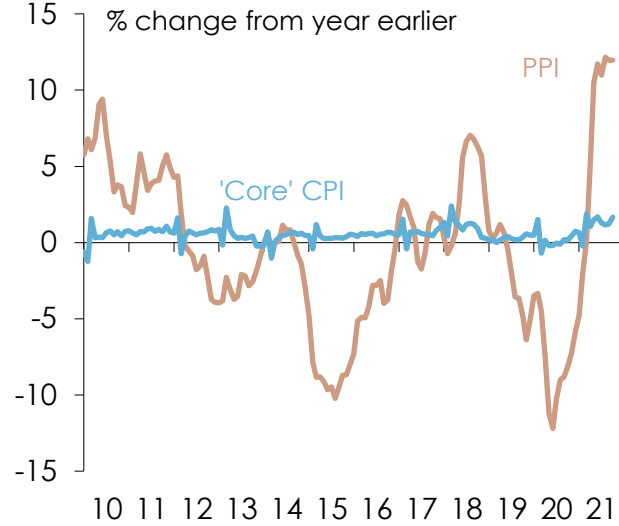
For a more detailed analysis of recent US inflation data see [slides 72-78](#). Sources: [US Bureau of Labor Statistics](#); [Statistics Bureau of Japan](#); [Eurostat](#); [UK Office for National Statistics](#); [Statistics Canada](#); [Statistics Sweden](#). [Return to "What's New"](#).

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

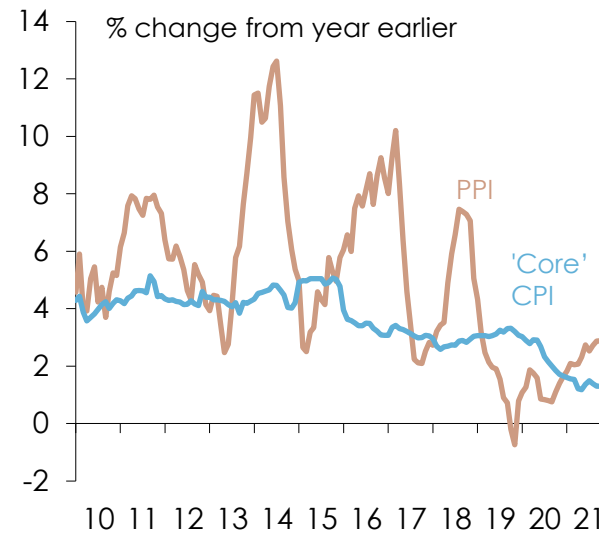
China



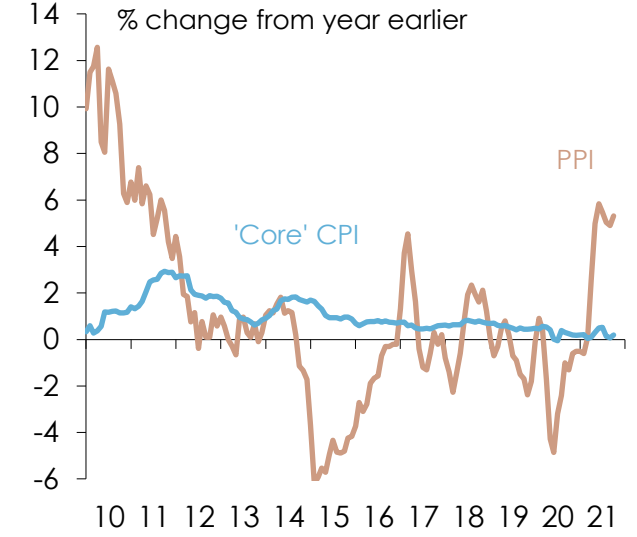
Taiwan



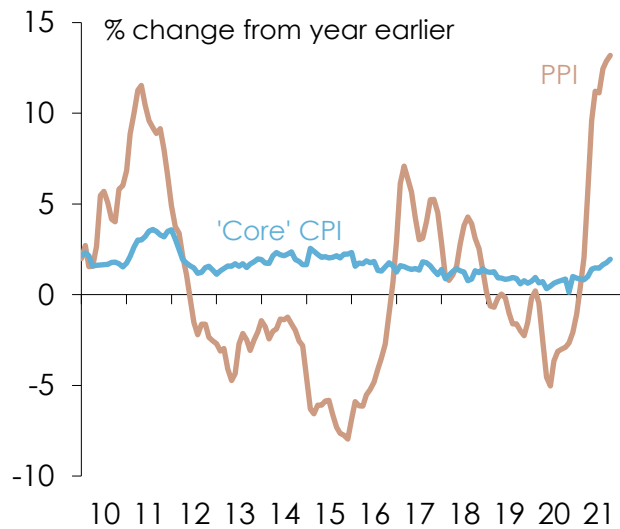
Indonesia



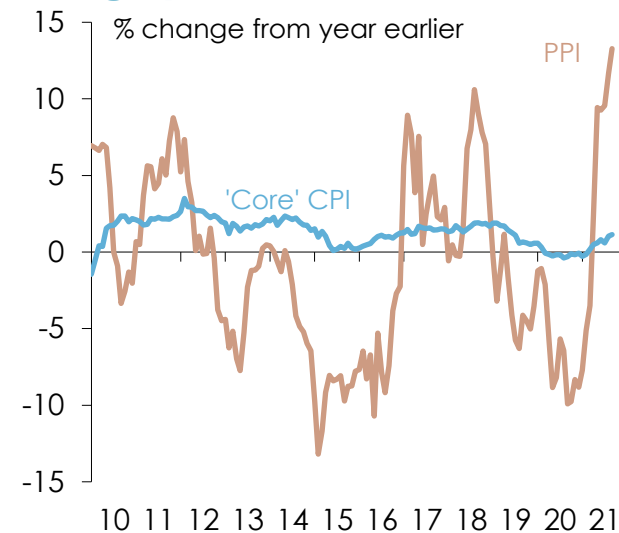
Thailand



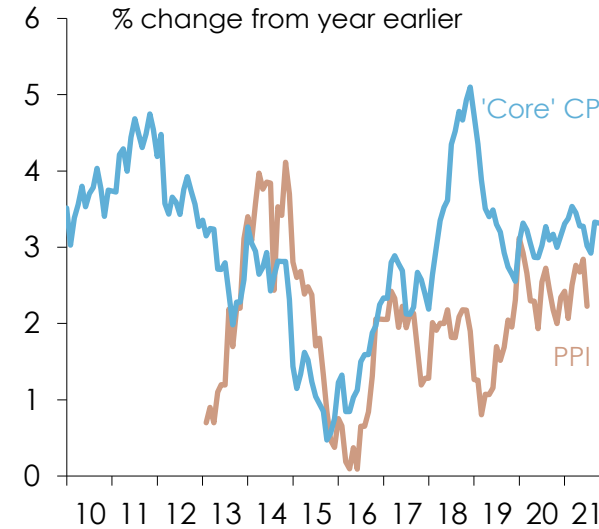
Korea



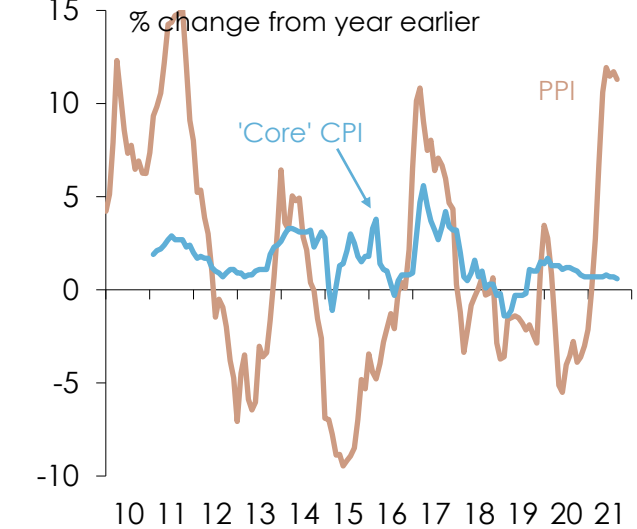
Singapore



Philippines



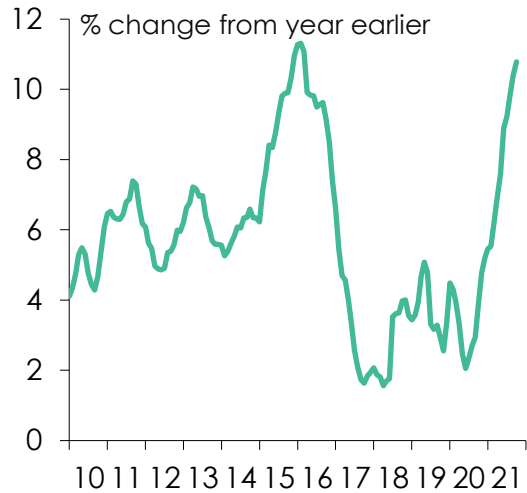
Malaysia



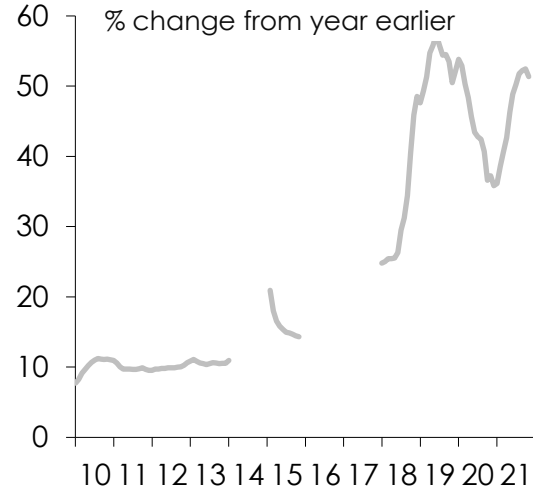
Note: 'Core' CPIs measure different things in different Asian economies – see footnotes to [slide 57](#). Sources: [China National Bureau of Statistics](#); [Statistics Korea](#); [Bank of Korea](#); [Taiwan Statistical Bureau](#); [Singstat](#); [Monetary Authority of Singapore](#); [Statistics Indonesia](#); [Philippine Statistics Authority](#); [Thailand Bureau of Trade and Economic Indices](#); [Department of Statistics Malaysia](#). [Return to "What's New"](#).

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

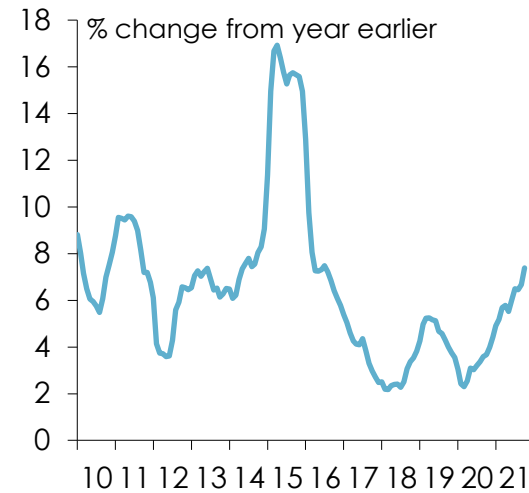
Brazil



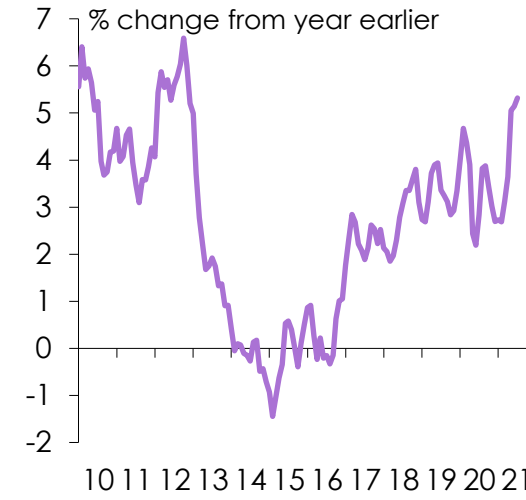
Argentina



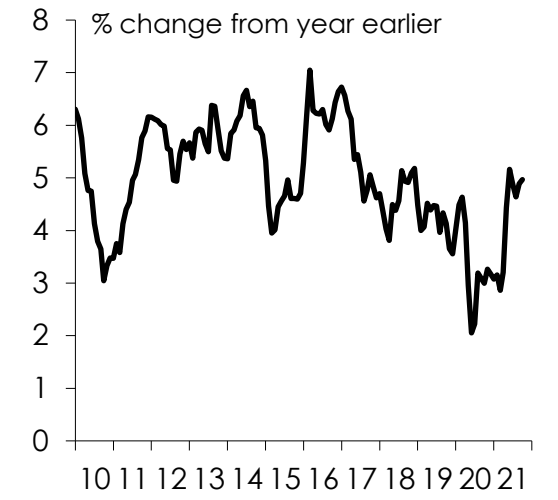
Russia



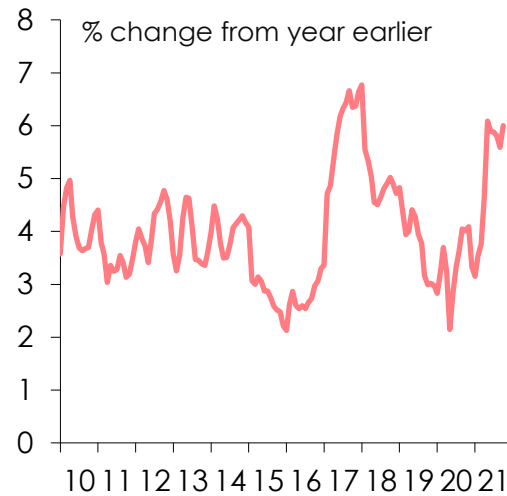
Hungary



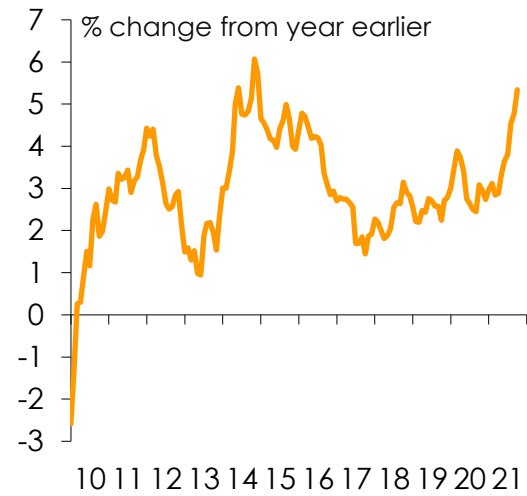
South Africa



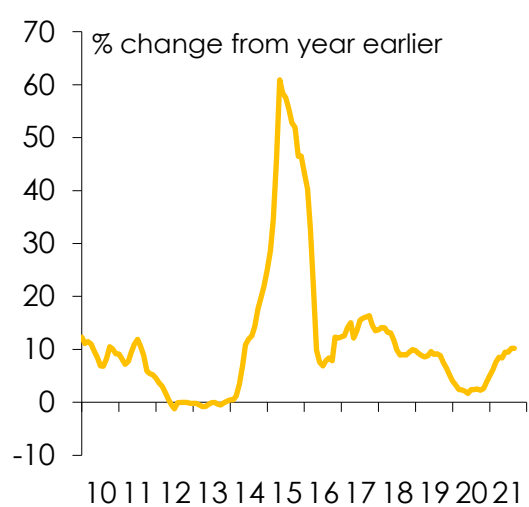
Mexico



Chile



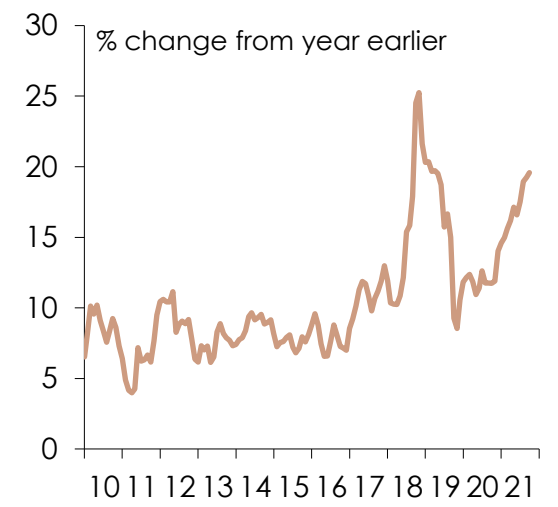
Ukraine



Poland



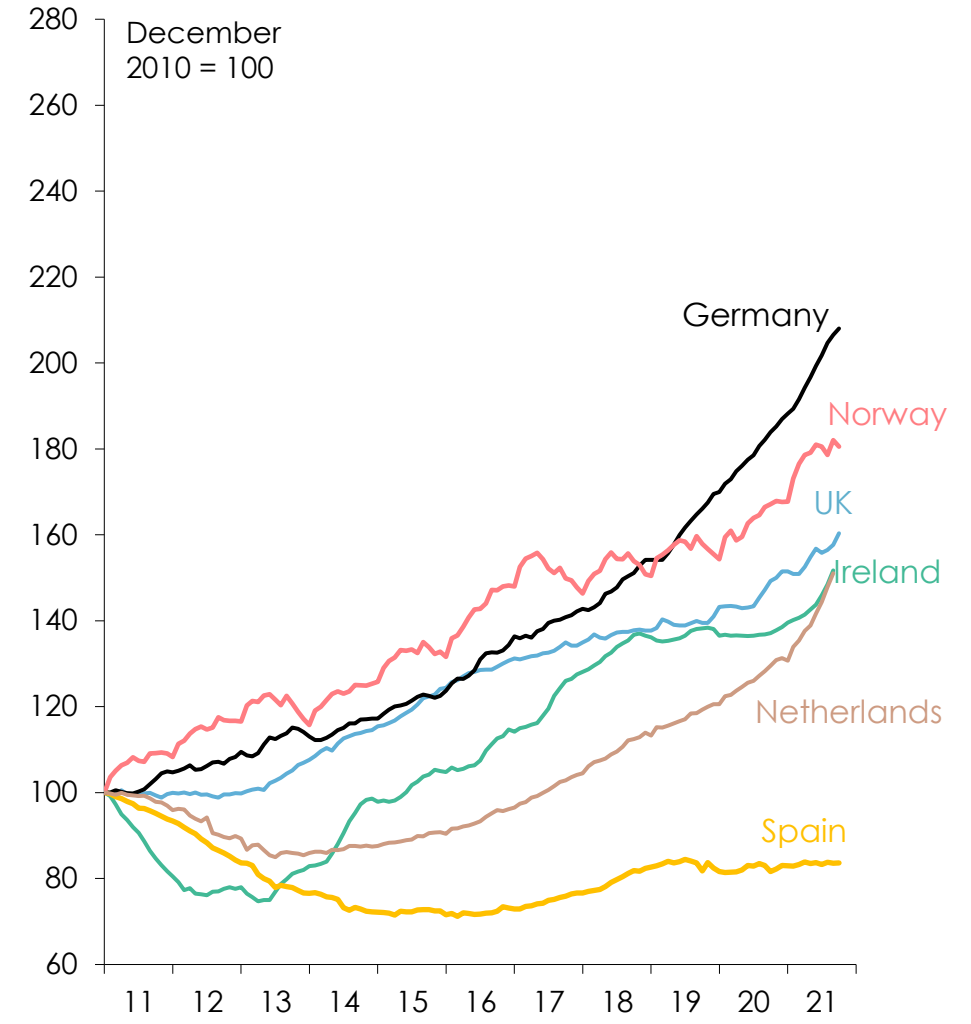
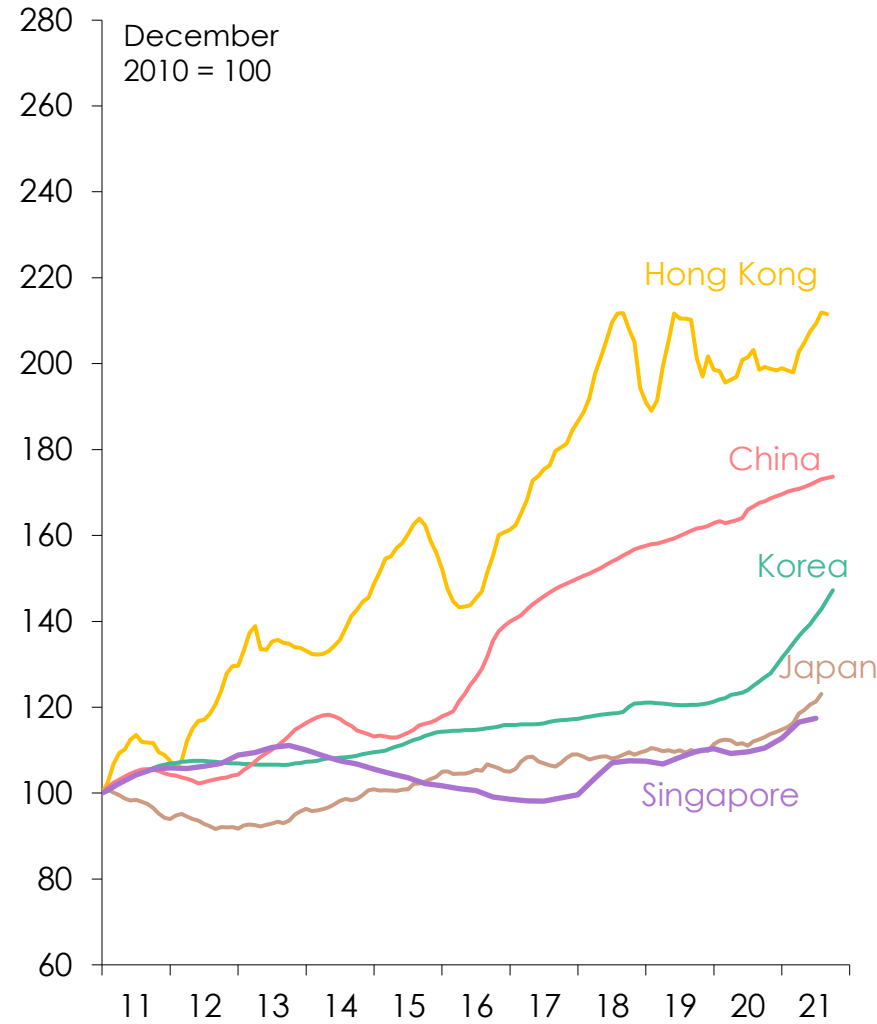
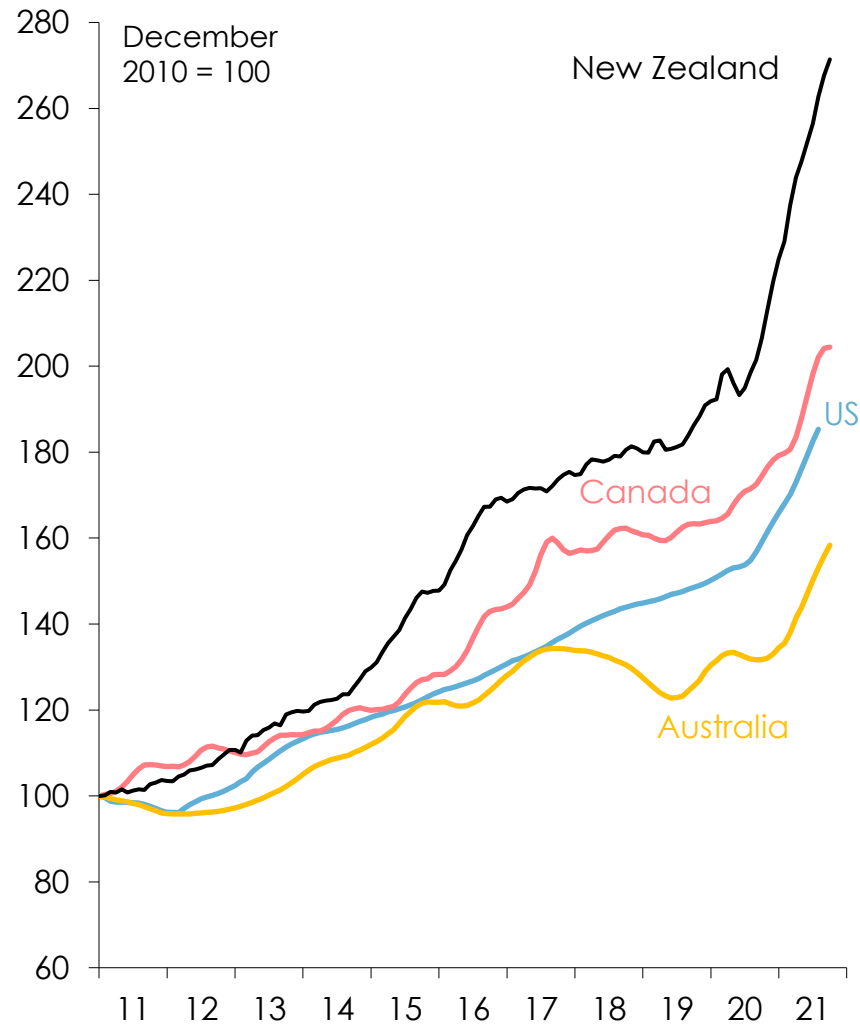
Turkey



Sources: [Instituto Brasileiro de Geografia e Estatística](#); [Instituto Nacional de Estadística y Geografía](#) (Mexico); [Instituto Nacional de Estadística y Censos](#) (Argentina); [Instituto Nacional de Estadísticas](#) (Chile); [Rosstat](#); [Ukrstat](#); [Központi Statisztikai Hivatal](#) (Hungary); [Główny Urząd Statystyczny](#) (Poland); [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

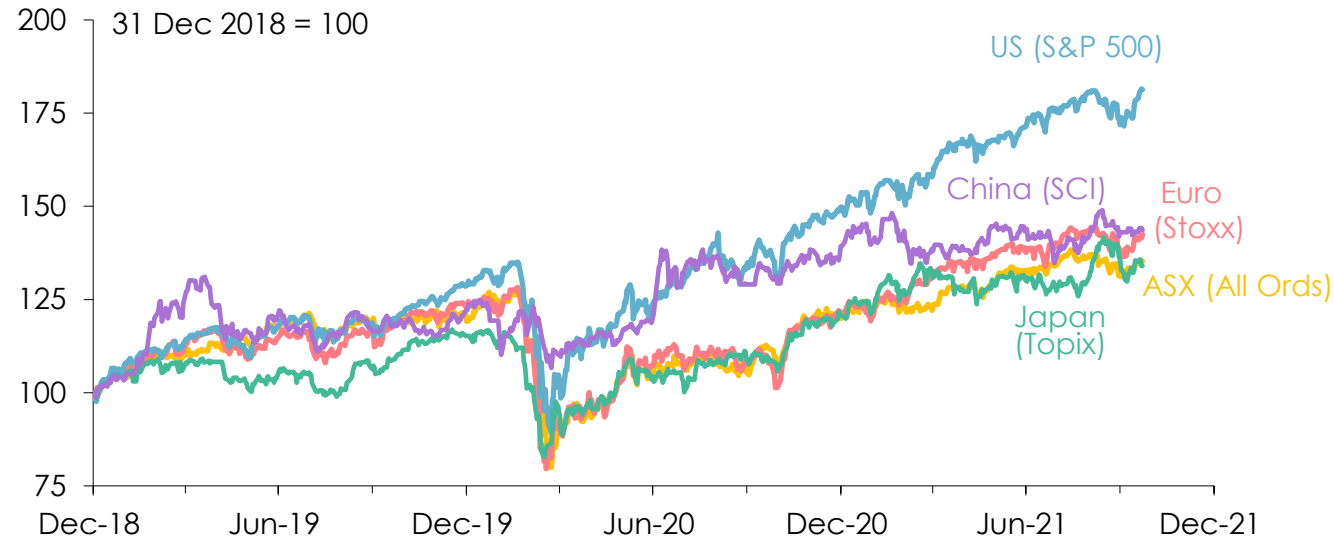
House price indices



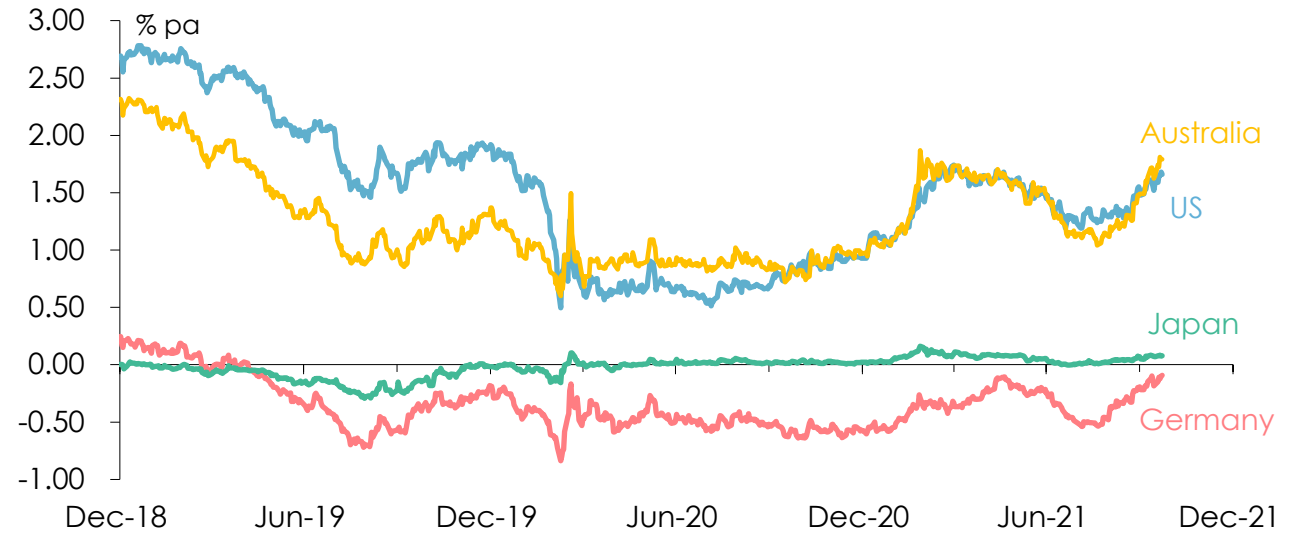
Note: House price indices shown in these charts are those published by [S&P-CoreLogic Case Shiller national](#) (United States); [Teranet-National Bank](#) (Canada); [CoreLogic](#) (Australia); [Real Estate Institute of New Zealand](#); [China Index Academy](#); [Japan Real Estate Institute](#) (Tokyo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

Bond yields continued rising this week on inflation and policy tightening fears, but that didn't bother stock markets – while the US\$ fell about 0.3%

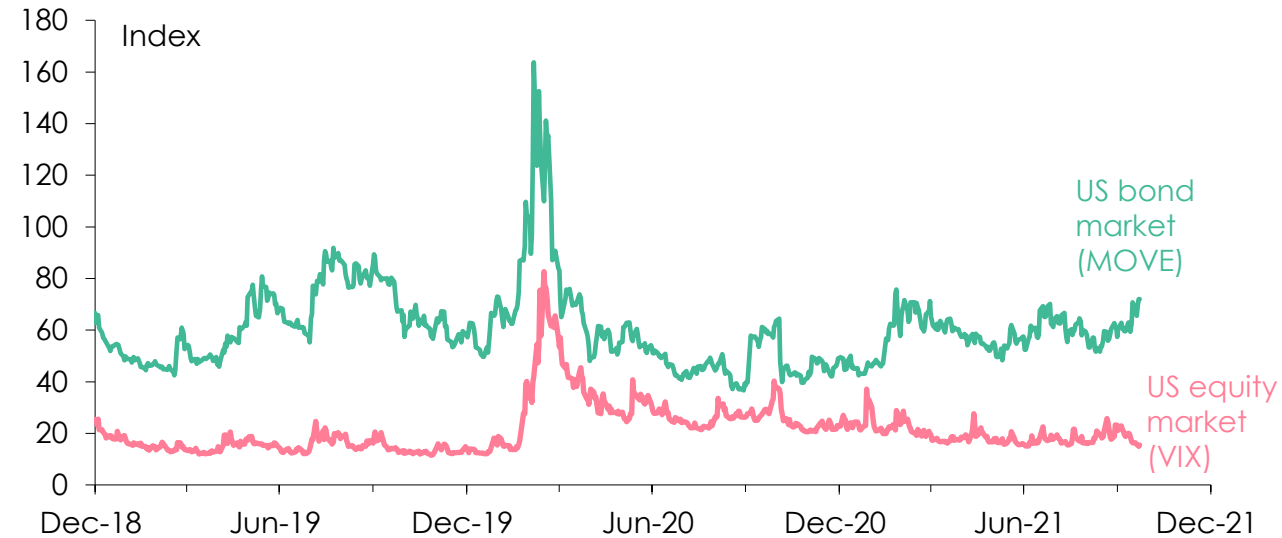
Stock markets



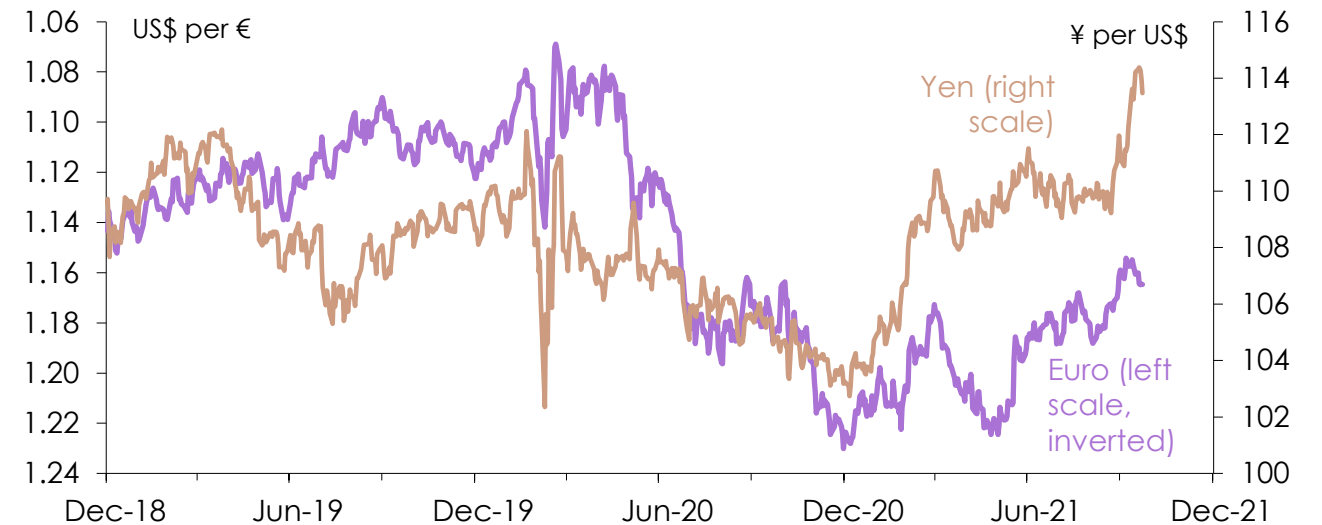
10-year bond yields



Measures of market volatility



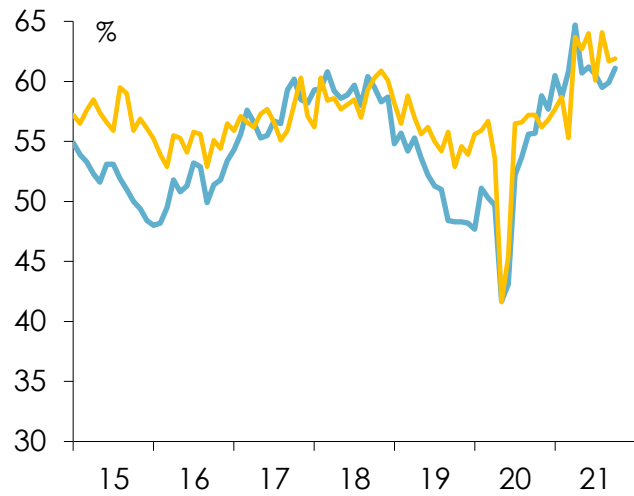
US dollar vs euro and yen



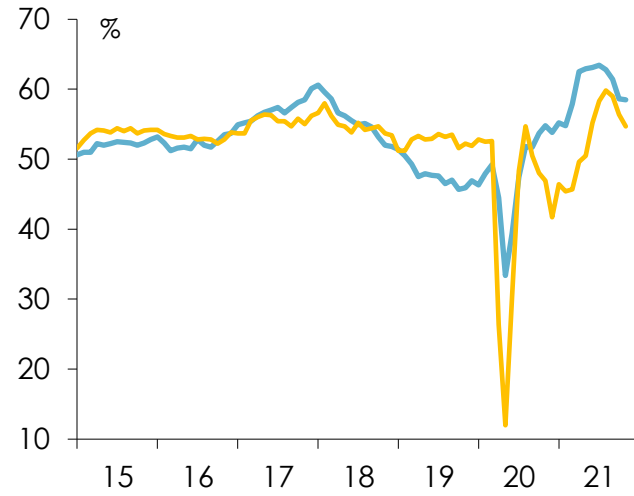
Source: Refinitiv Datastream. Data up to 22nd October. [Return to "What's New"](#).

October 'flash' PMIs show continued resilience in manufacturing, and a rebound in services activity in Japan and the UK (though not the euro area)

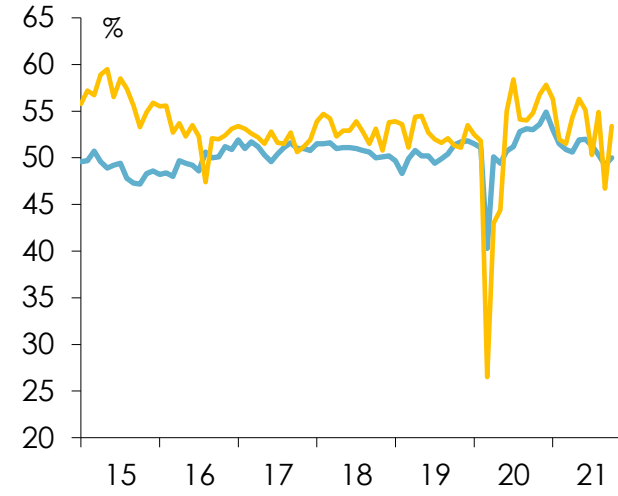
US



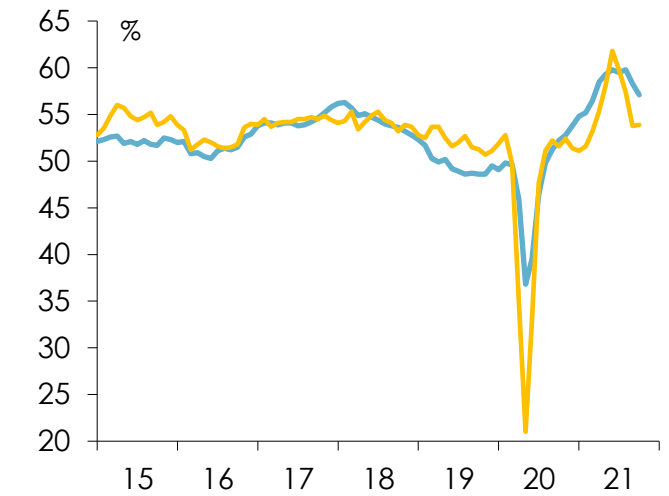
Euro area



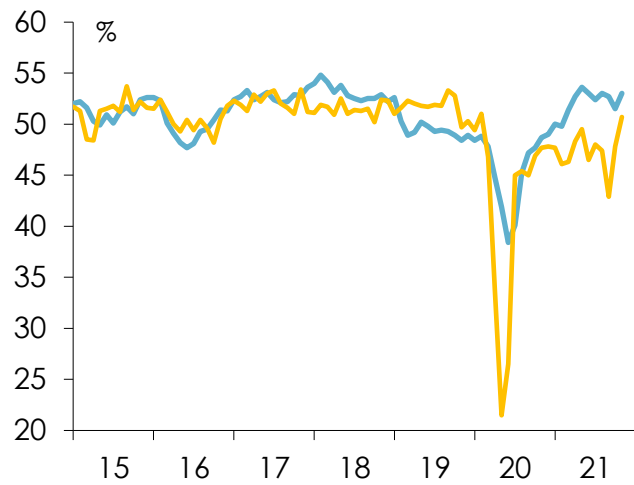
China



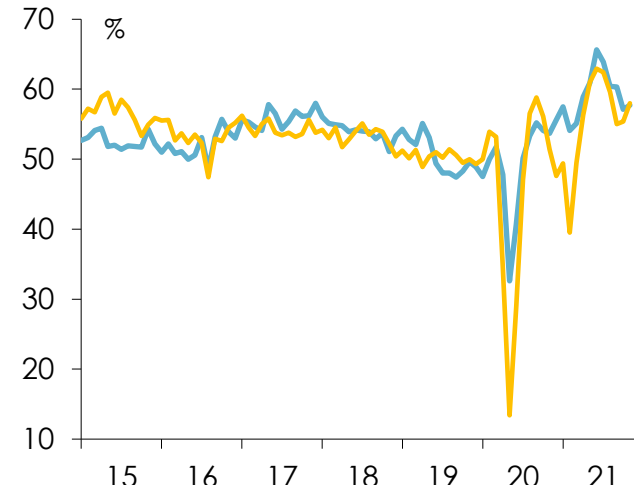
Developed markets



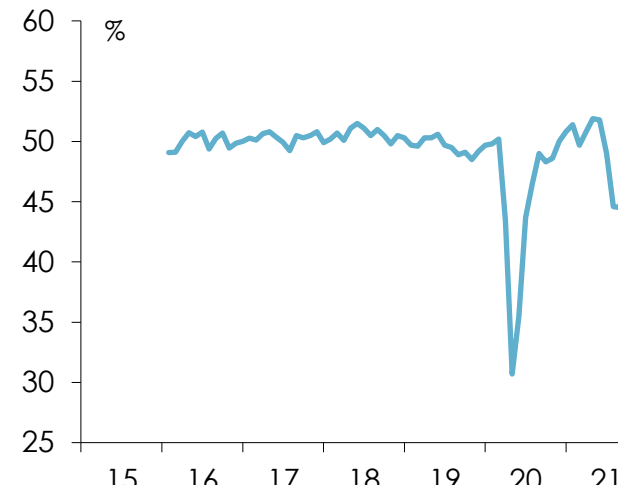
Japan



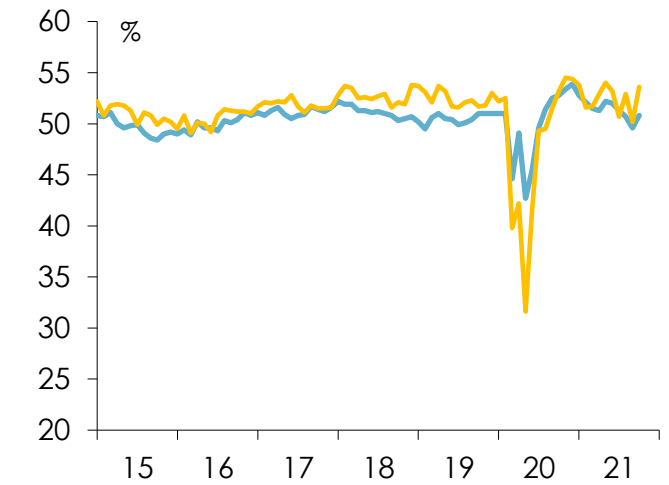
UK



ASEAN



Emerging markets



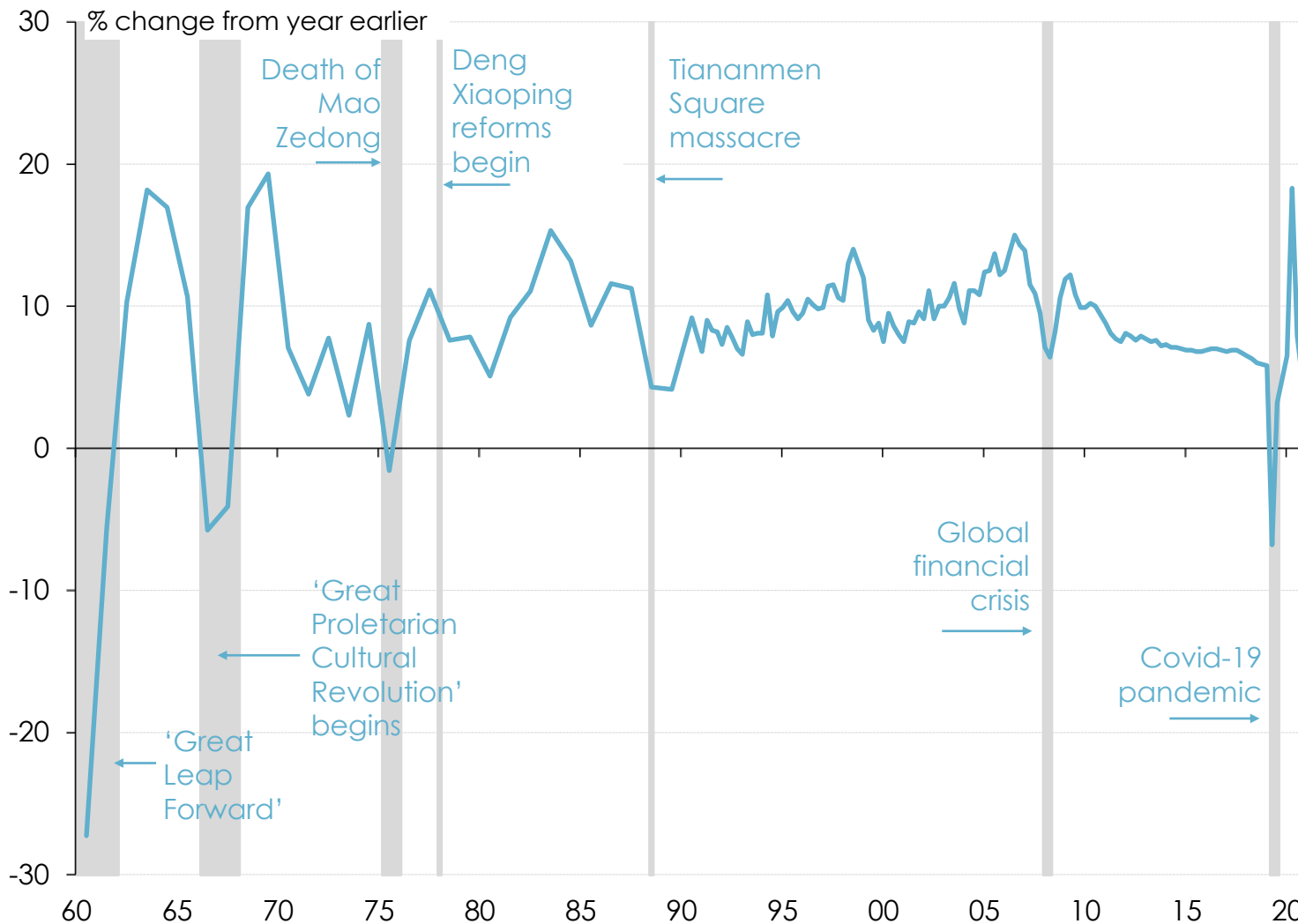
— Manufacturing

— Services

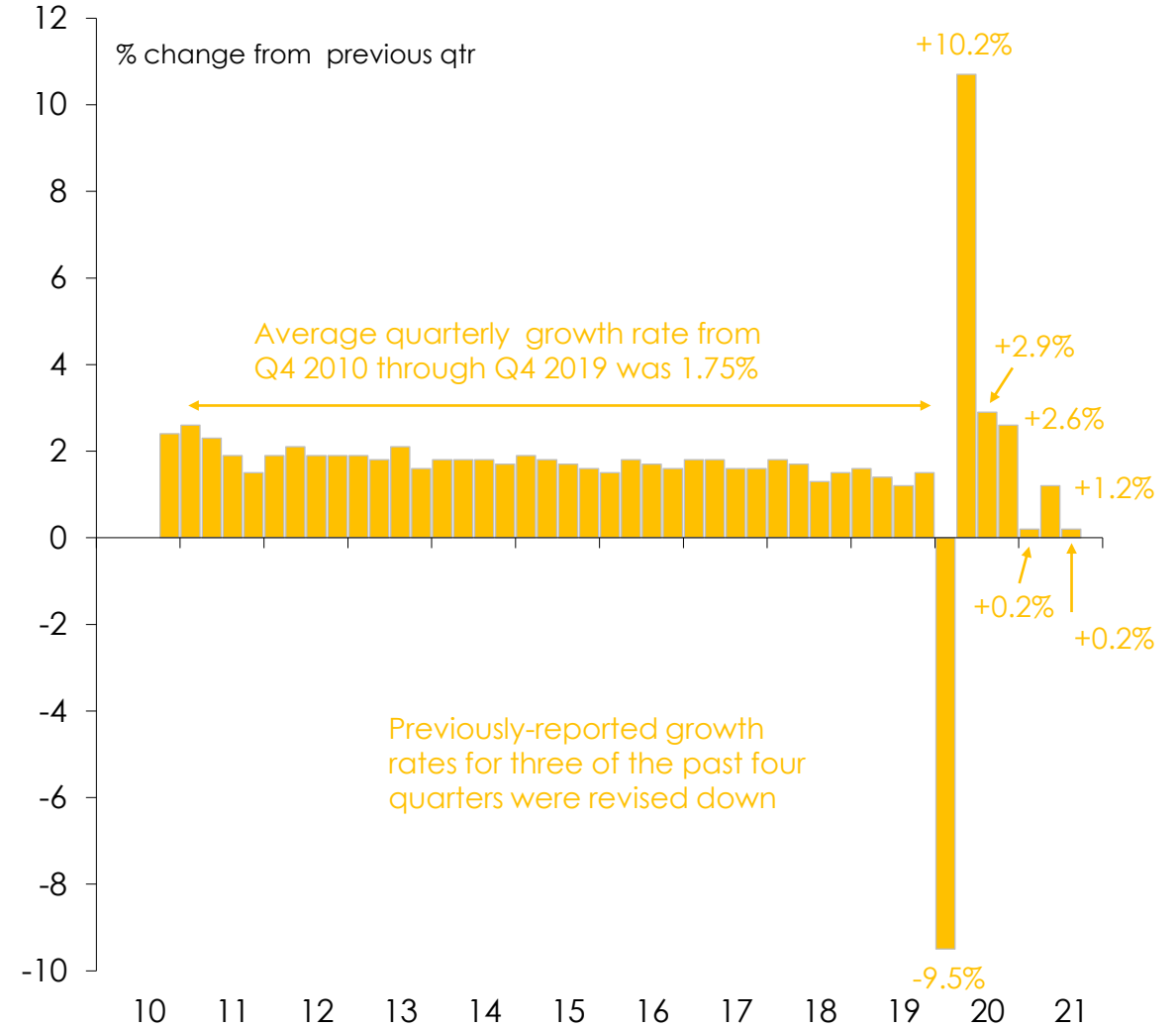
Note: Purchasing Managers' Indexes (PMIs) are derived from surveys of senior executives, who are asked to report whether various dimensions of business activity recorded an increase, decrease or no change compared with the previous month. Latest data for Japan, Euro area and UK are 'flash' estimates for October: all others latest data are for September. A reading of 50 indicates an overall increase cf. the previous month, and a reading of less than 50 indicates a decrease. See also PMIs for other Asia-Pacific economies on [slide 56](#). Sources: [US Institute for Supply Management](#); [IHS Markit](#); JP Morgan; [Caixin](#); Refinitiv Datastream. [Return to "What's New"](#).

China's real GDP grew by only 0.2% in Q3, cutting the annual growth rate to just 4.9%, the slowest in at least 30 years except for last year

Real GDP growth, from year earlier, 1961-2021



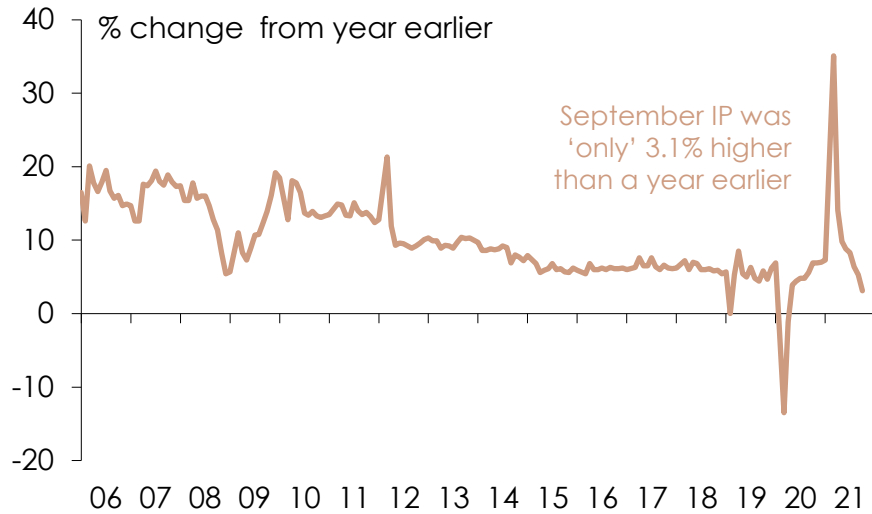
Quarterly real GDP growth, 2010-2021



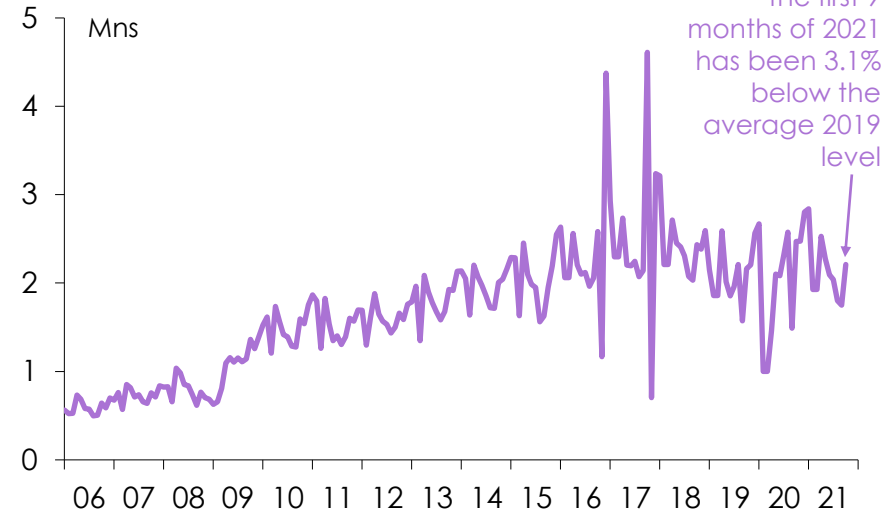
Note: In the left-hand chart, GDP growth rates are annual averages up to the December quarter of 1991, and then quarter-on-corresponding-quarter-of-previous-year thereafter. Source: [China National Bureau of Statistics](#). [Return to "What's New"](#).

Energy shortages, natural disasters and environmental curbs have slowed China's 'supply side' this year – exports have been the main growth motor

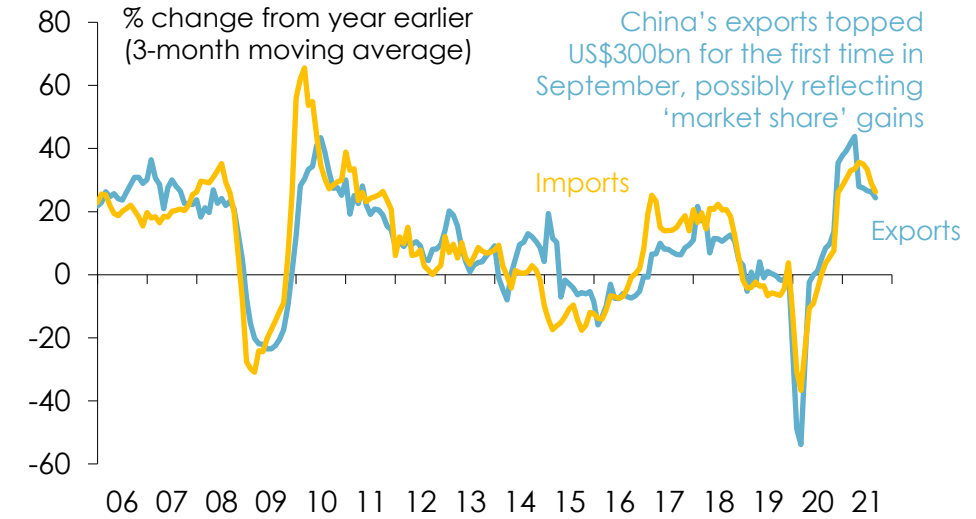
Industrial production



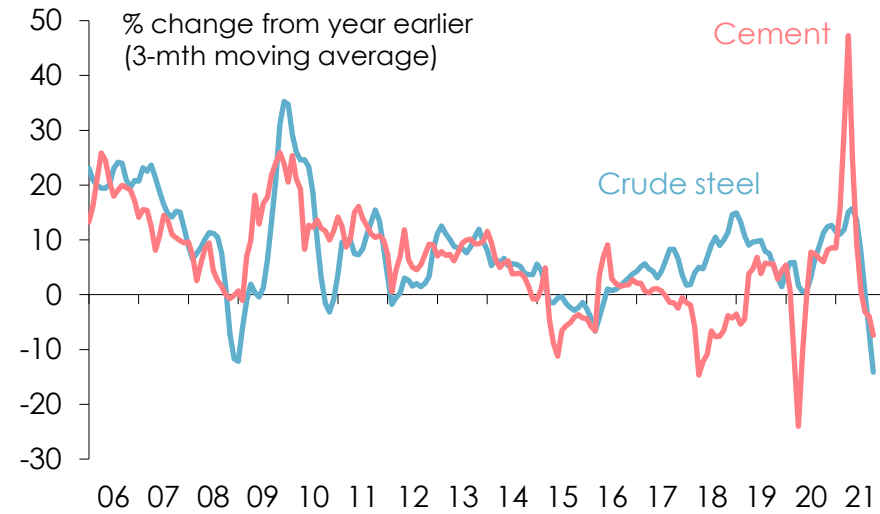
Motor vehicle production



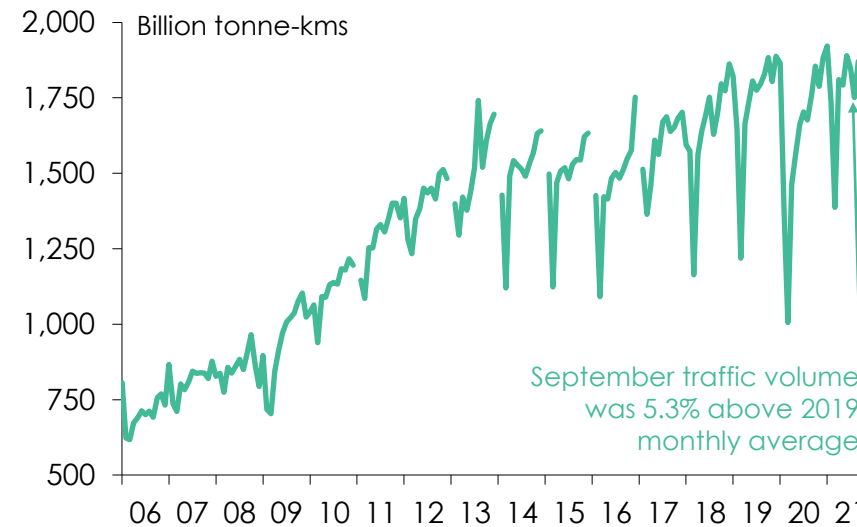
Merchandise trade



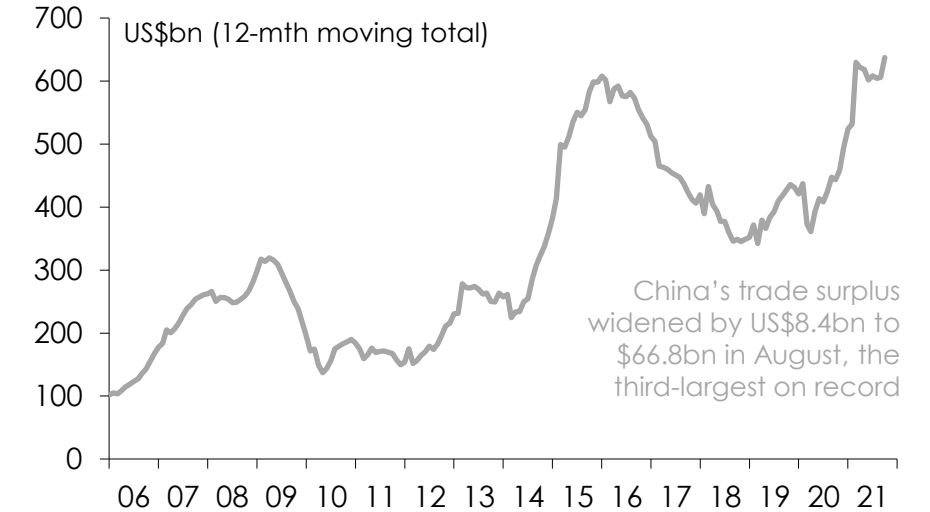
Steel and cement production



Freight traffic volumes



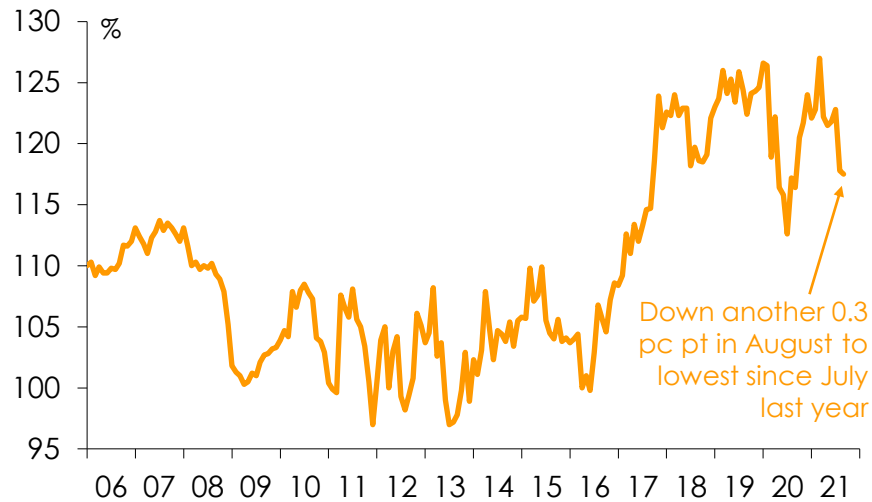
Merchandise trade balance



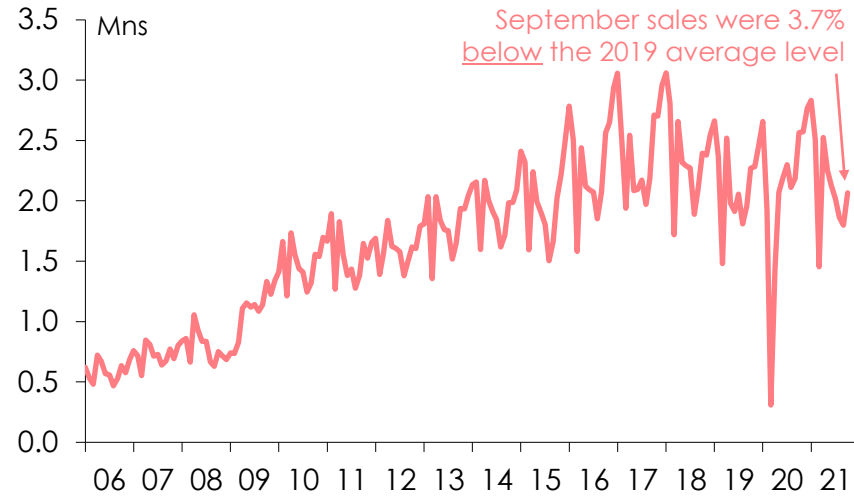
Note: Latest data are for September. Sources: [China National Bureau of Statistics](#); [China Association of Automobile Manufacturers](#); [China General Administration of Customs](#). [Return to "What's New"](#).

Consumer spending and property construction activity were also weak throughout the September quarter

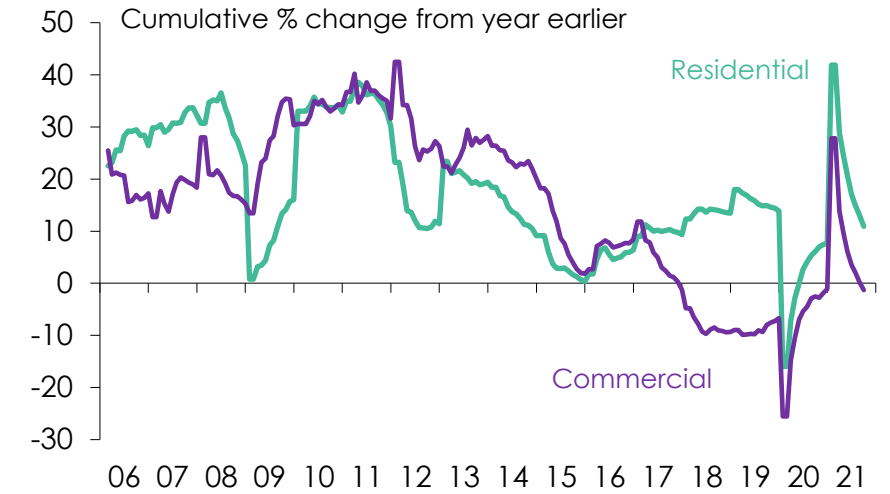
Consumer sentiment



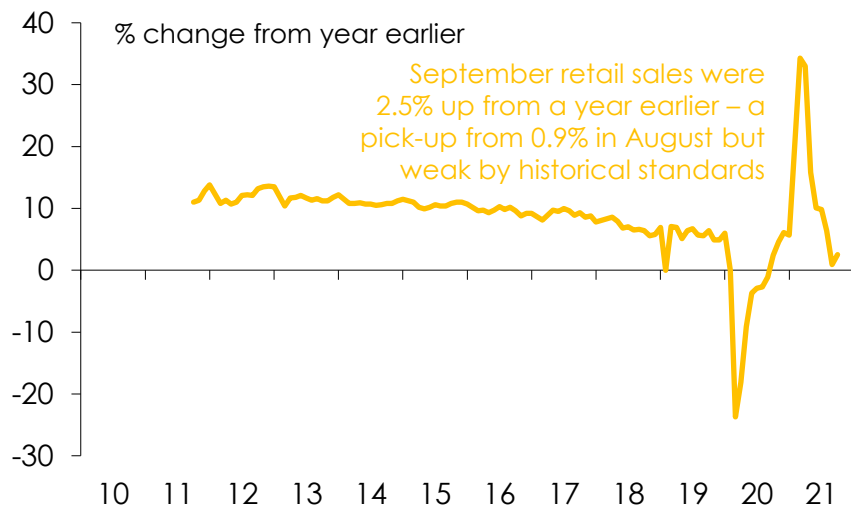
Motor vehicle sales



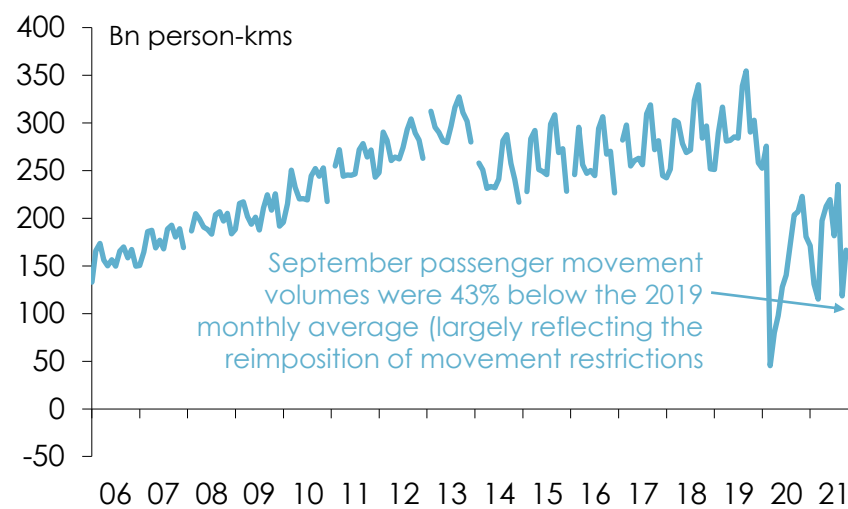
Real estate investment



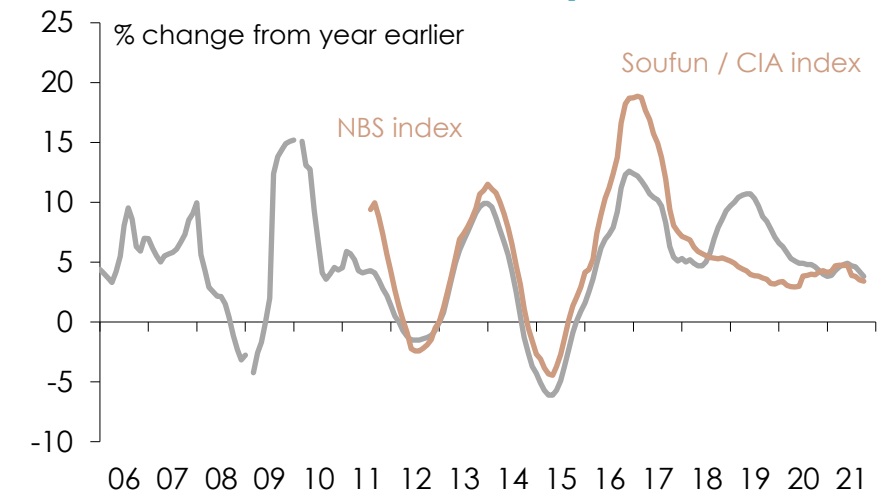
Volume of retail sales



Passenger traffic volumes



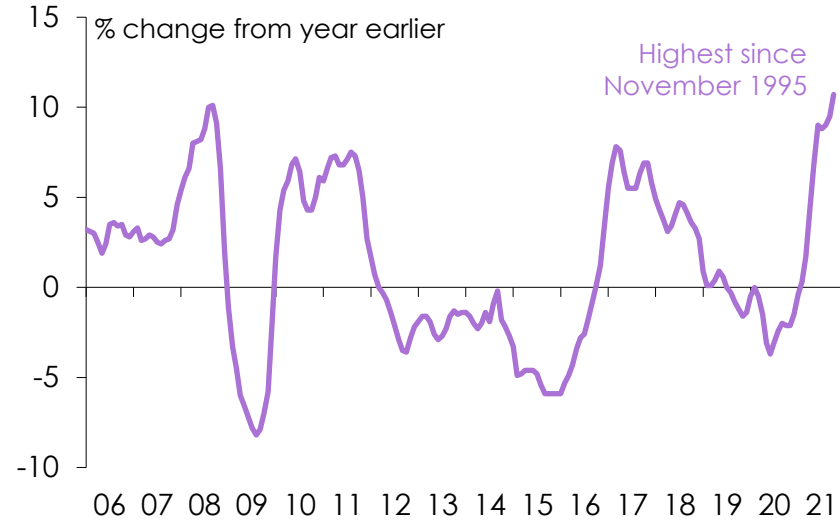
Residential real estate prices



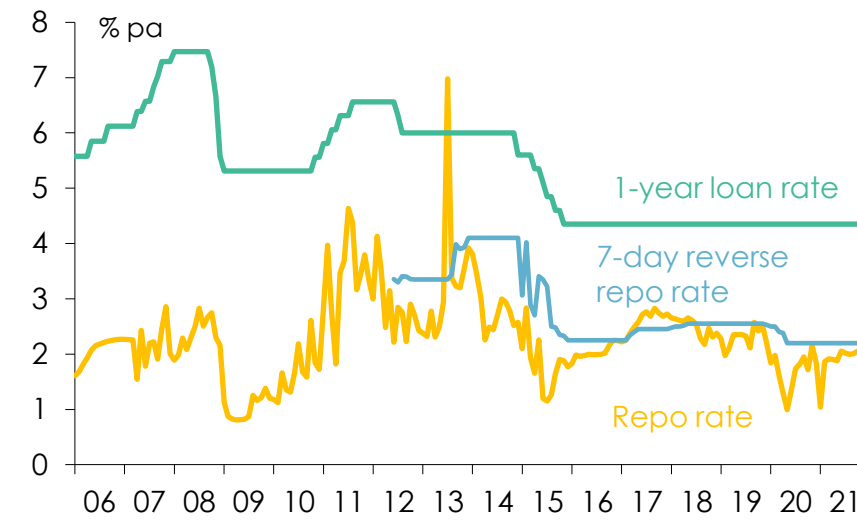
Sources: [China National Bureau of Statistics](#); [China Association of Automobile Manufacturers](#); [China Index Academy](#) (CIA). Latest data are for September, except for consumer sentiment which is for August. [Return to "What's New"](#).

There's absolutely no sign of any policy response to the softening in China's economy, despite very low consumer price inflation

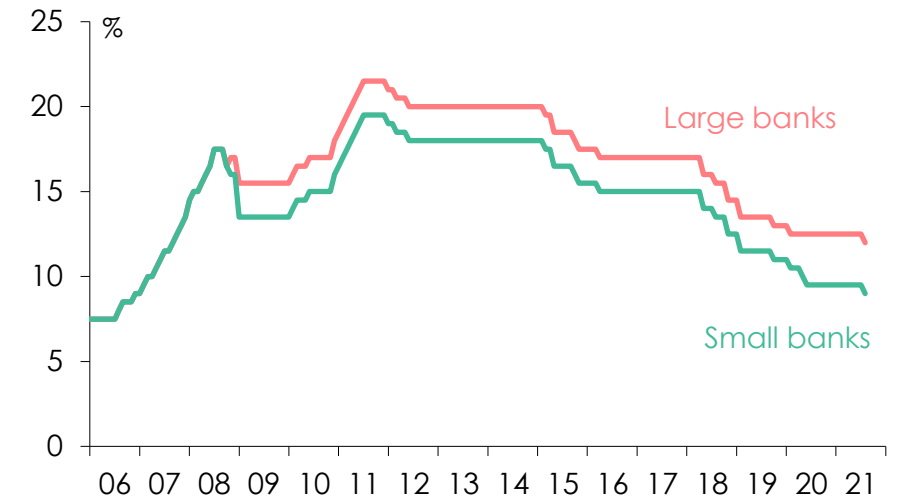
Producer prices



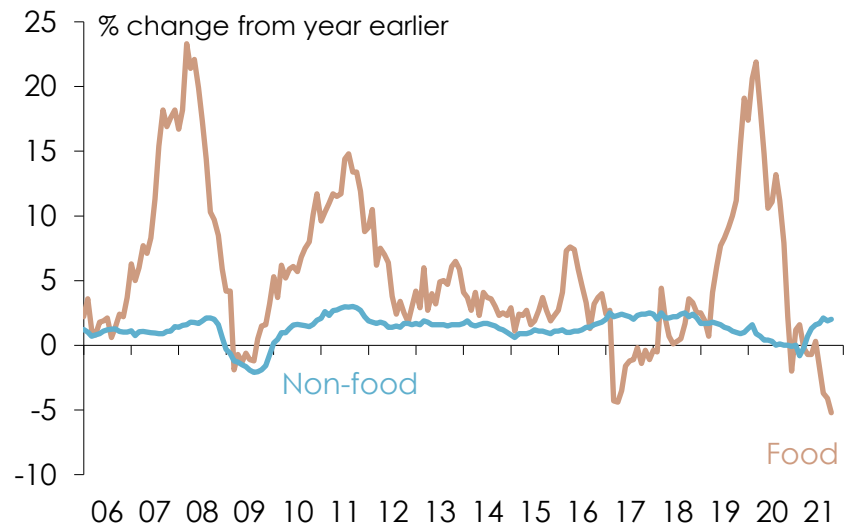
PBoC policy interest rates



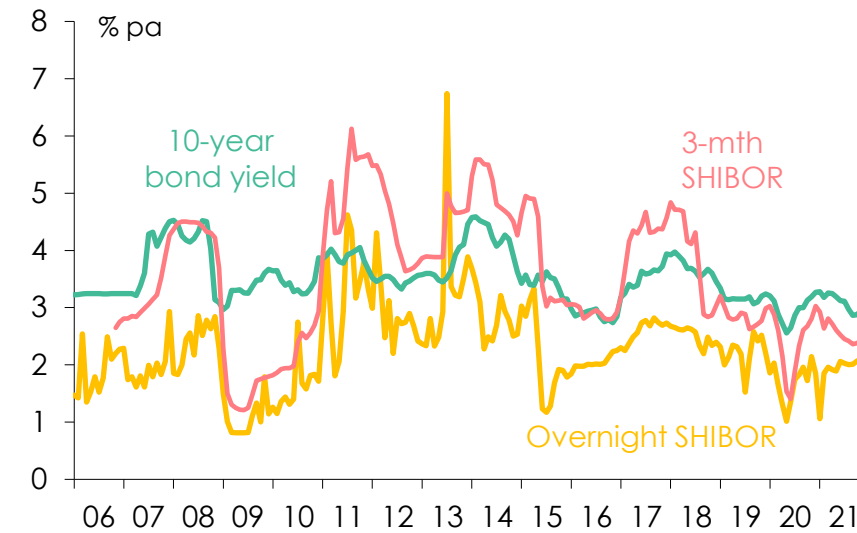
Bank reserve requirement ratios



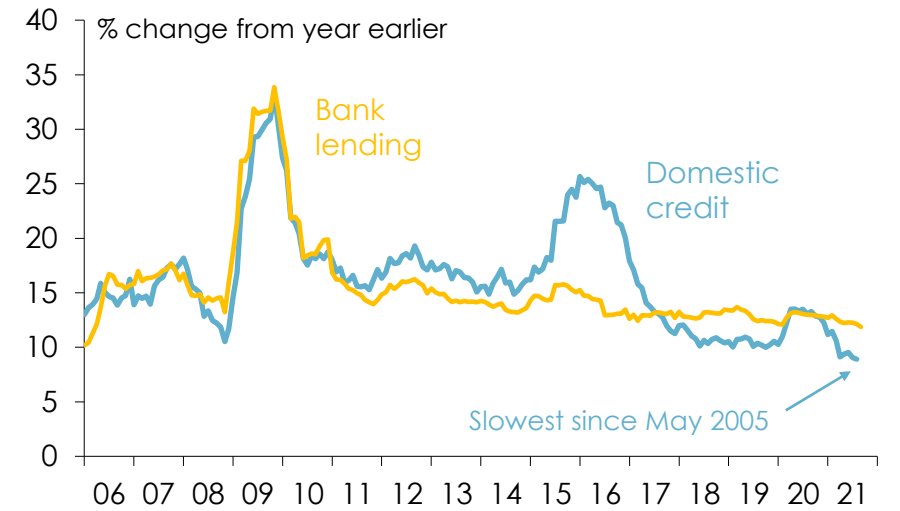
Consumer prices



Market interest rates



Credit growth



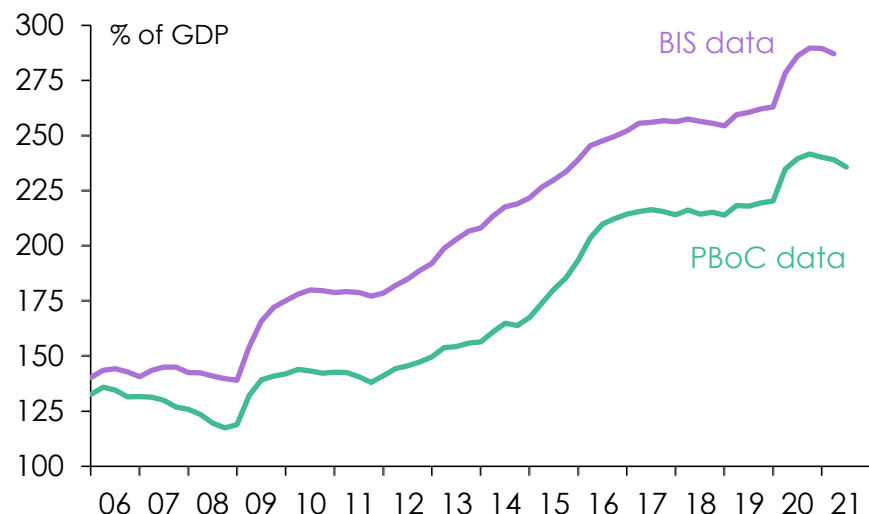
Note: 'SHIBOR' is the Shanghai Inter-Bank Offered Rate. Latest inflation and credit data are for September.
Sources: [China National Bureau of Statistics](#); Refinitiv Datastream; [People's Bank of China](#). [Return to "What's New"](#).

China Evergrande avoided default this week when it made an interest payment just before the 'grace period' expired

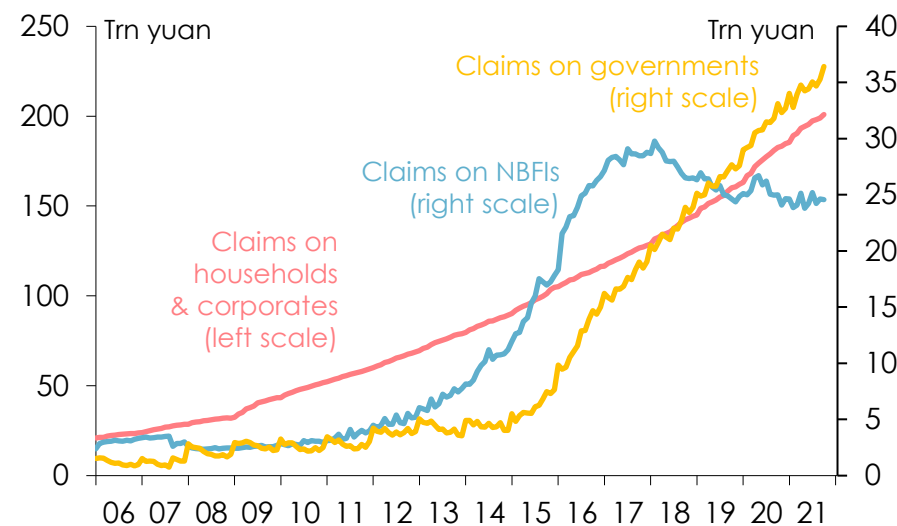
- ❑ Concerns have been mounting for some weeks about the possibility of a default by China Evergrande Group, a property development company with debts totalling US\$300 billion (of which US\$37bn falls due within a year)
 - Evergrande is China's second-largest property developer, with around 200,000 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
 - its founder and chairman, Xu Jiayin (aka Hui Ka Yan), was once "Asia's richest man", and has had strong connections with senior Chinese leaders including former Premier Wen Jiabao
- ❑ 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
- ❑ Evergrande avoided a formal default this week when it made payment just before the expiry of a 30-day 'grace period' on US\$83mn of interest on dollar-denominated bonds which had been due on 23rd September
 - the 'grace period' on another US\$47.5mn interest payment due on 29th September expires this coming week, and that on a further US\$145mn in mid-November
- ❑ The proposed sale of Evergrande's Hong Kong headquarters for US\$1.7bn fell through last week when mooted purchaser, state-owned Yuexi Property, withdrew from the deal following 'guidance' from Guangzhou authorities
- ❑ Director of the PBoC's Financial Market Department Zou Lan last week said that Evergrande's problems are "an isolated phenomenon in the real estate industry" and that, although "the company has been poorly managed" and had "blindly diversified and expanded", the "risk of its spillover to the financial industry is controllable" and "the real estate industry is generally healthy"
 - Zou pledged that the problems at Evergrande would be resolved by central authorities and local governments based on "market-oriented and rule-of-law principles"

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

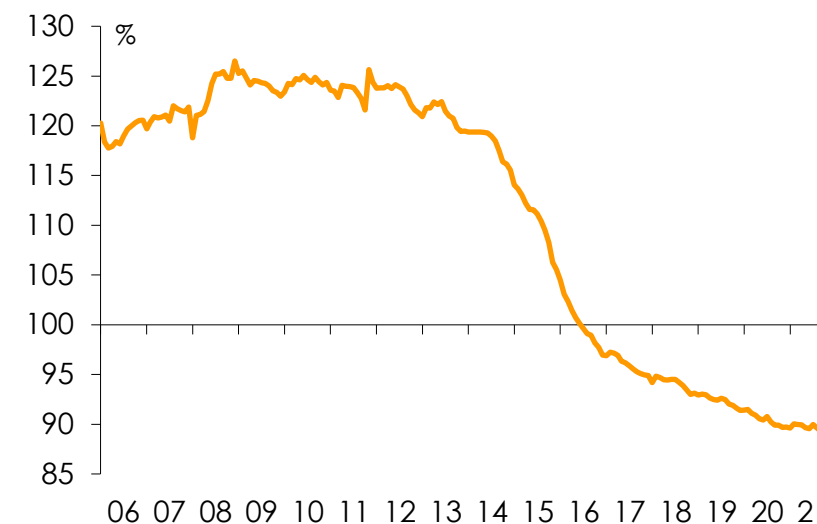
Credit outstanding as a pc of GDP



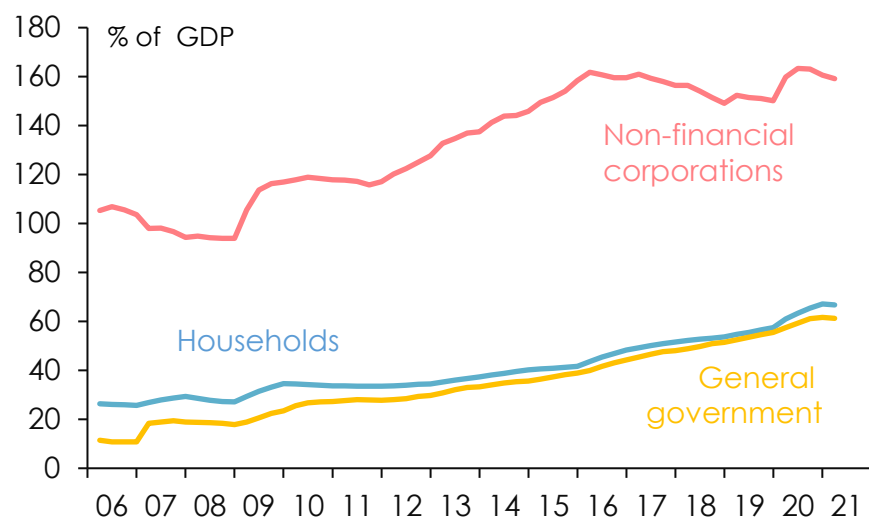
Banks' assets



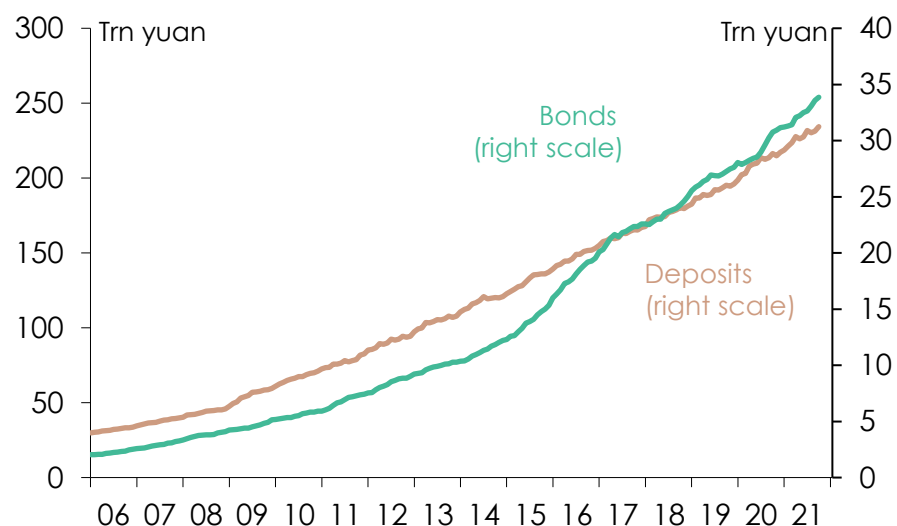
Banks' deposits-to-loans ratio



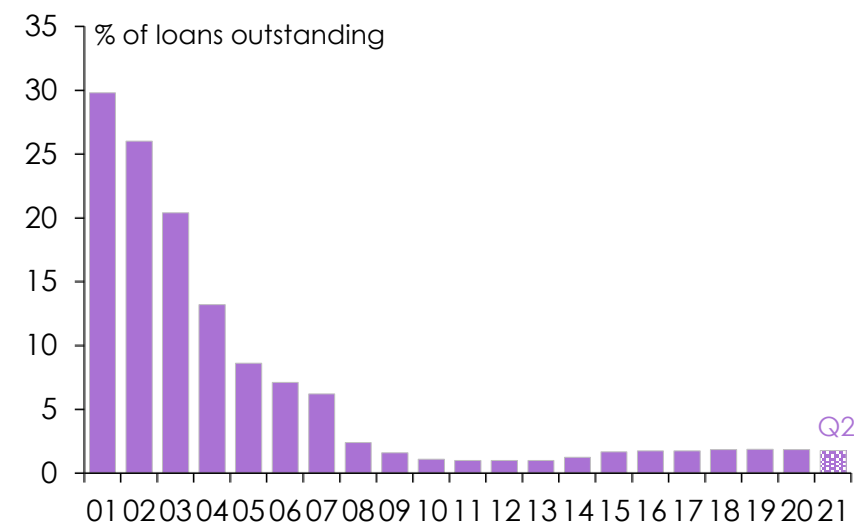
Credit outstanding by sector



Banks' liabilities



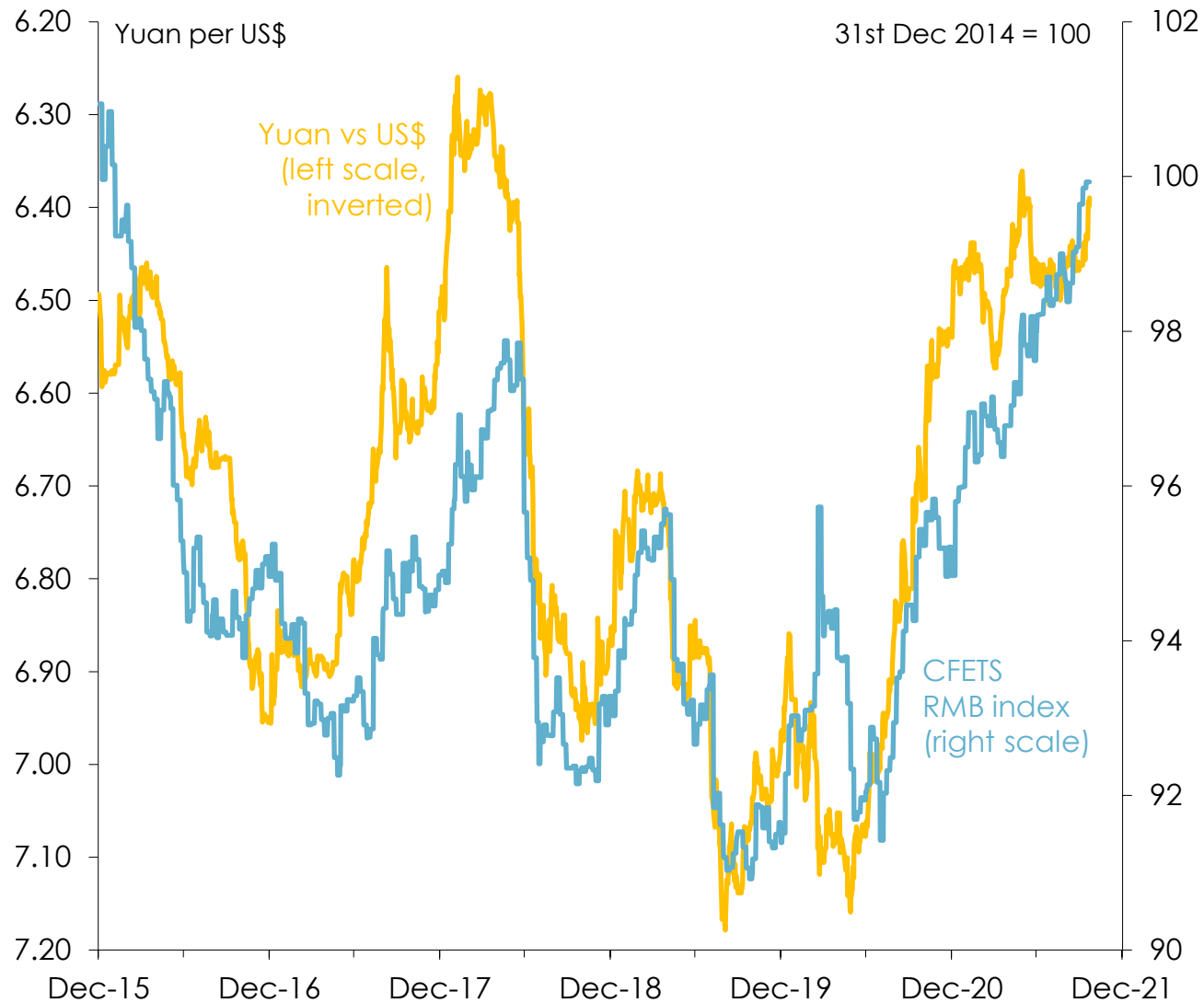
Banks NPLs – official estimates



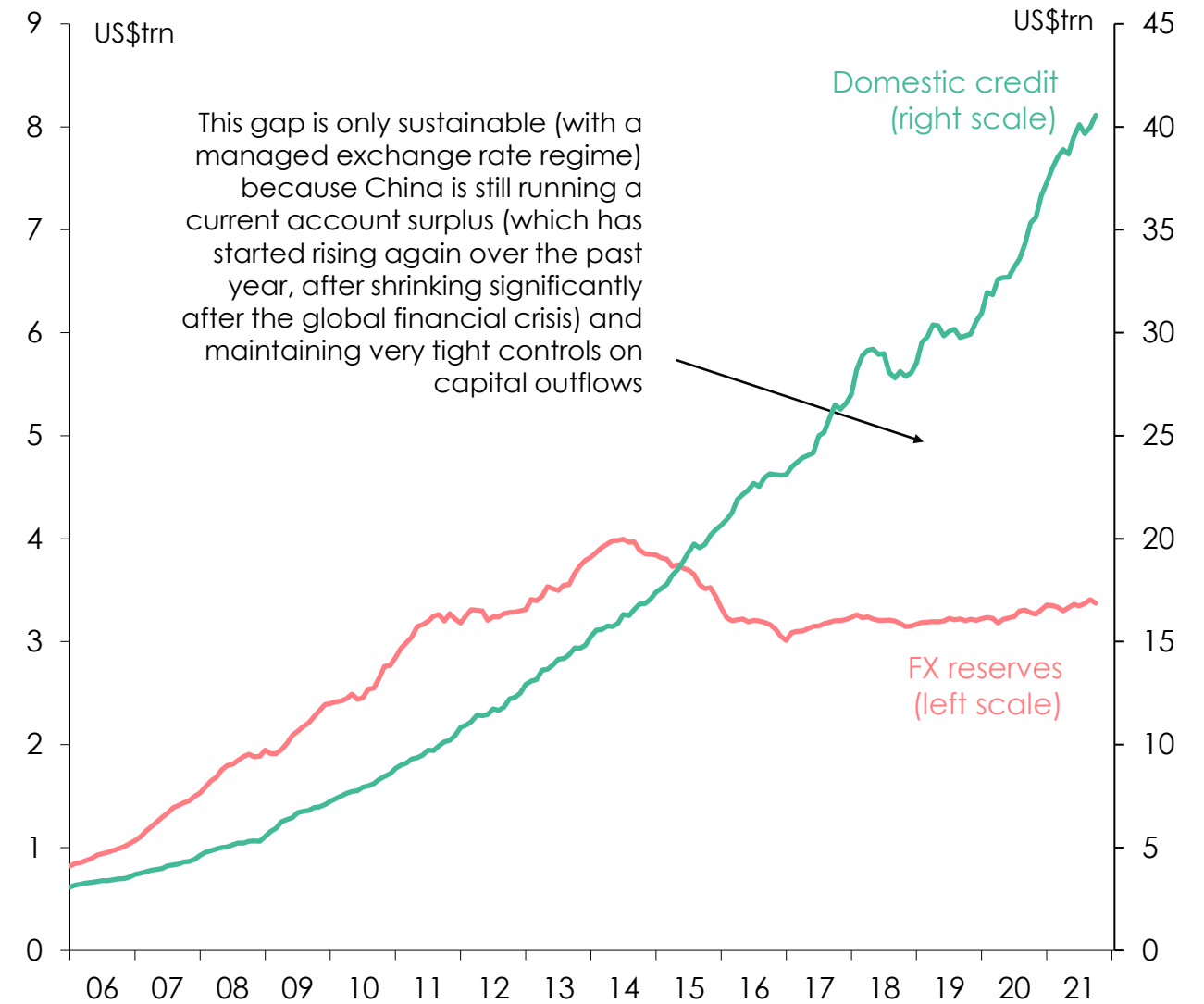
Sources: [People's Bank of China](#); [Bank for International Settlements](#); [China Banking and Insurance Regulatory Commission](#). [Return to "What's New"](#).

The yuan strengthened more than 1% against the US dollar but by only - 0.1% against the trade-weighted terms this week

Chinese renminbi vs US\$ and trade-weighted index



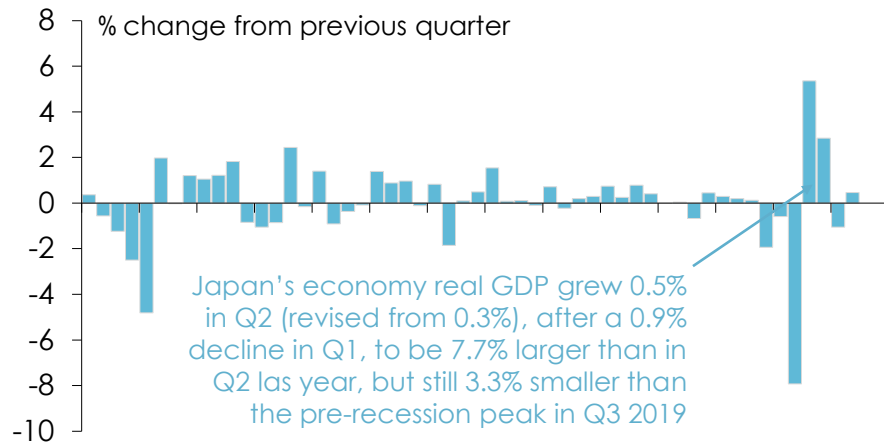
FX reserves and domestic credit



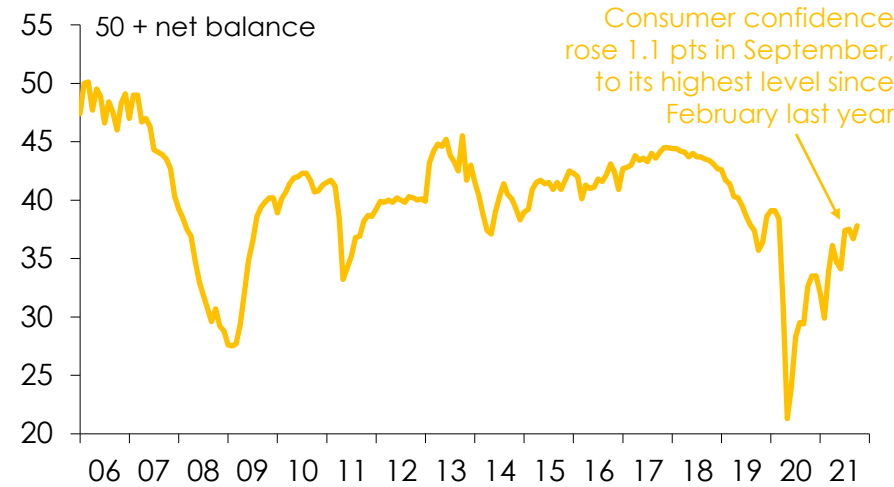
Sources: Refinitiv Datastream; China Foreign Exchange Trading System; People's Bank of China. Exchange rates up to 22nd October; FX reserves and domestic credit data are up to September. [Return to "What's New"](#).

Japan's exports fell sharply in September, largely because of a plunge in motor vehicle exports due to the shortage of semi-conductor chips

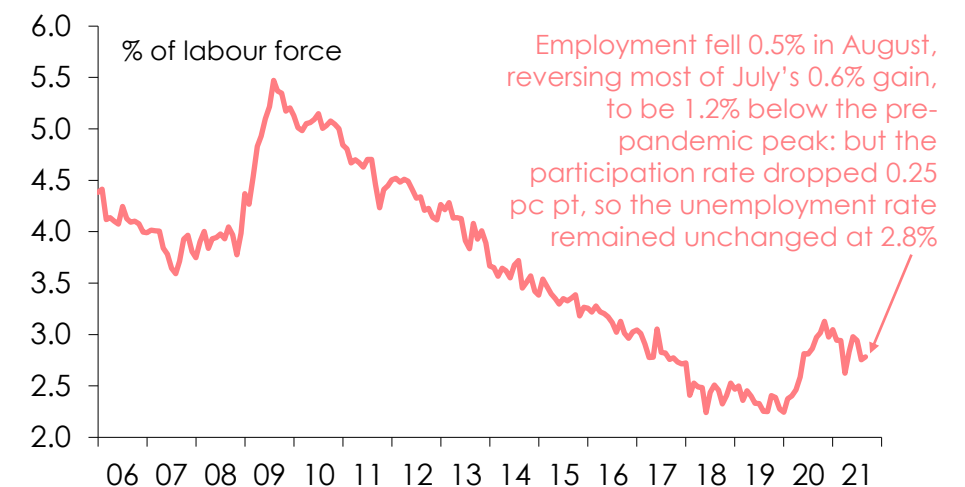
Real GDP



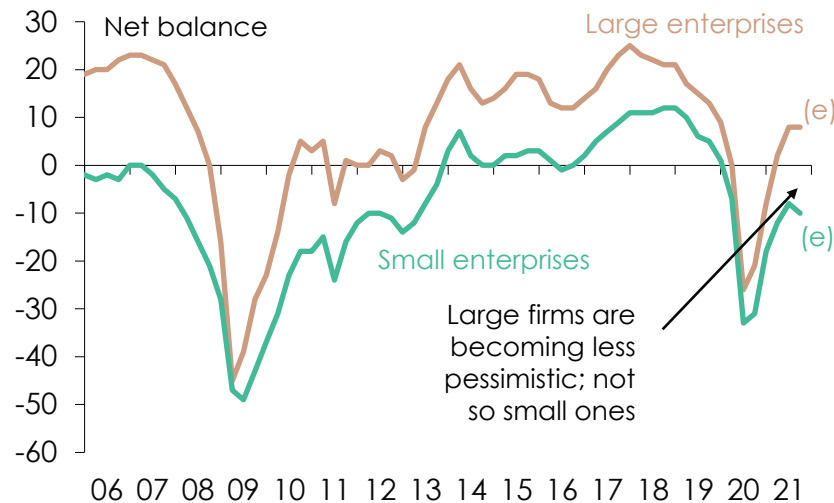
Consumer confidence



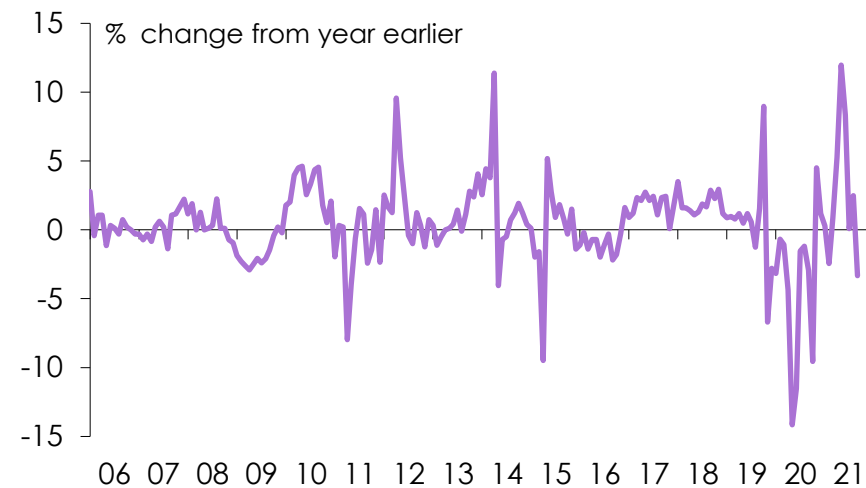
Unemployment



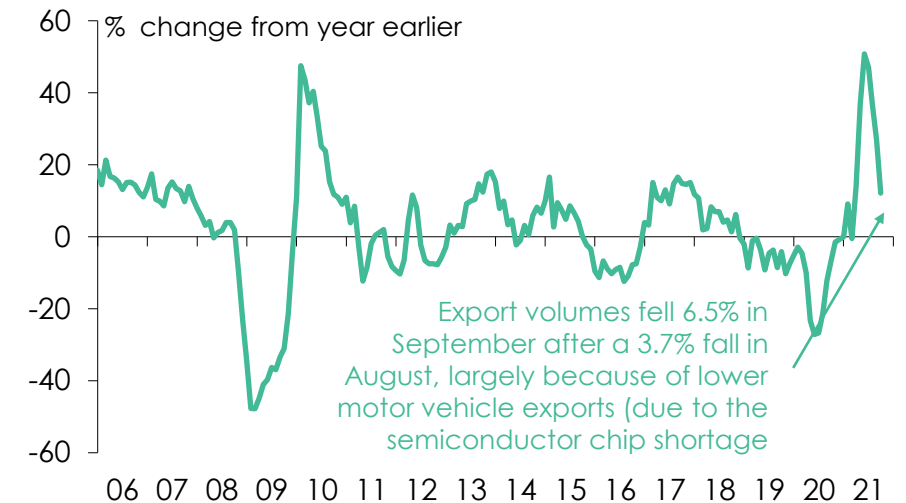
BoJ Tankan business conditions



Value of retail sales



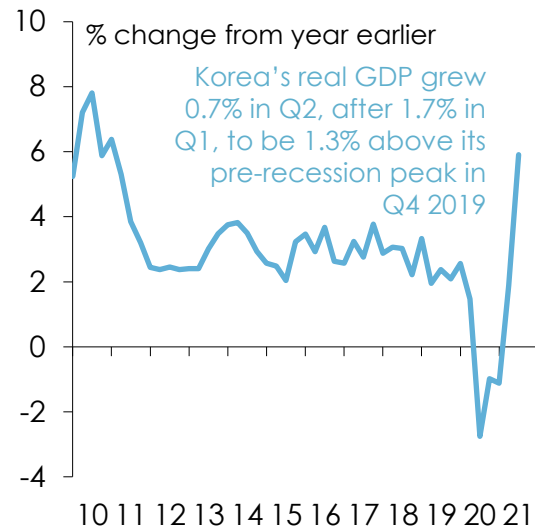
Merchandise export volumes



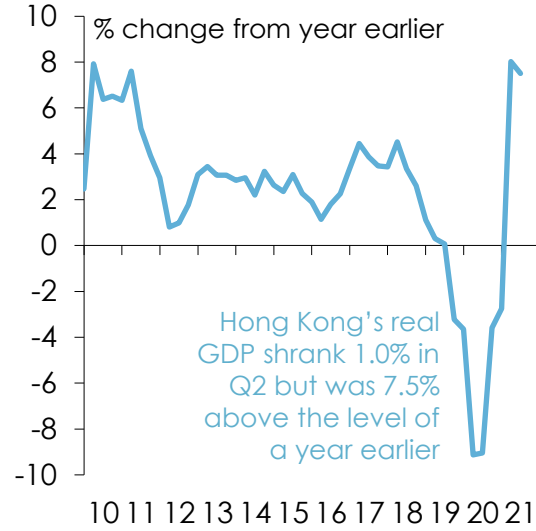
Sources: Japan Cabinet Office [Economic and Social Research Institute](#); [Bank of Japan](#); [Statistics Bureau of Japan](#); Japan [Ministry of Finance](#). [Return to "What's New"](#).

Singapore's economy grew 0.8% in Q3 after a 1.4% contraction in Q2 but is still 0.4% shy of its pre-pandemic peak

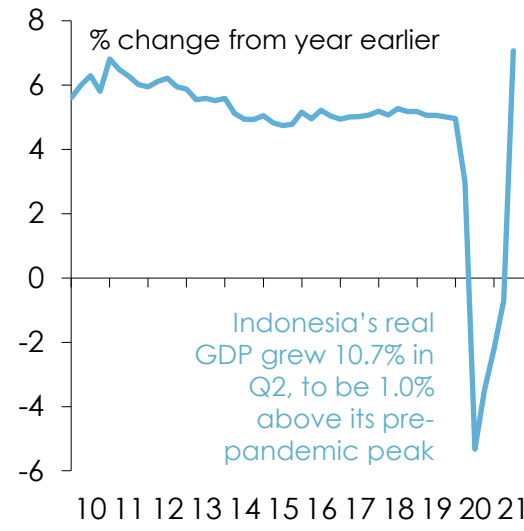
Korea



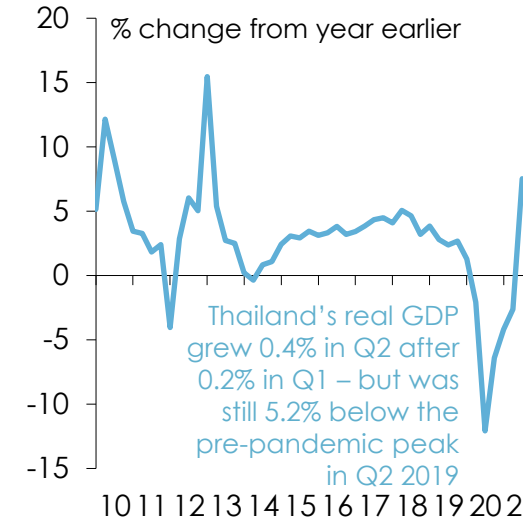
Hong Kong



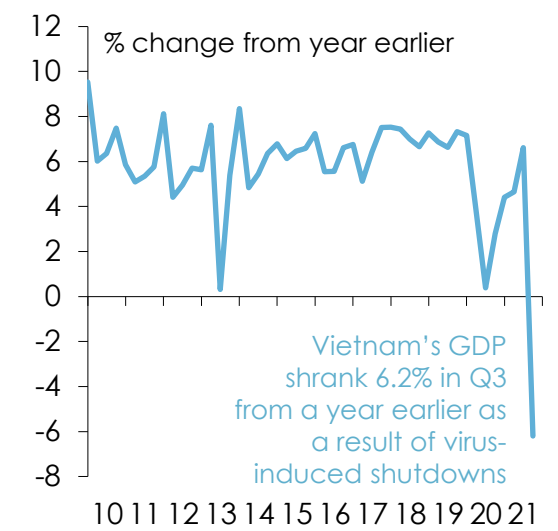
Indonesia



Thailand



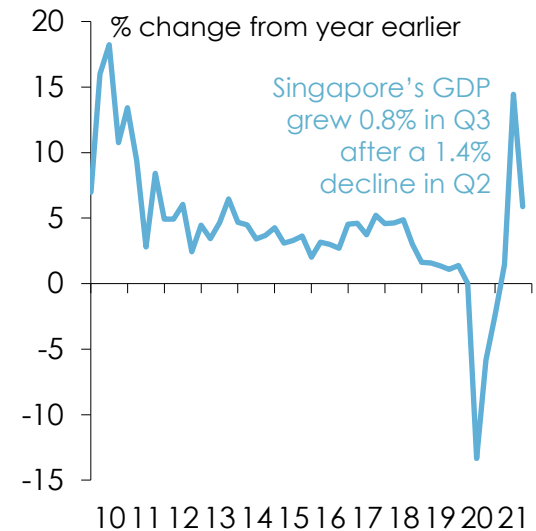
Vietnam



Taiwan



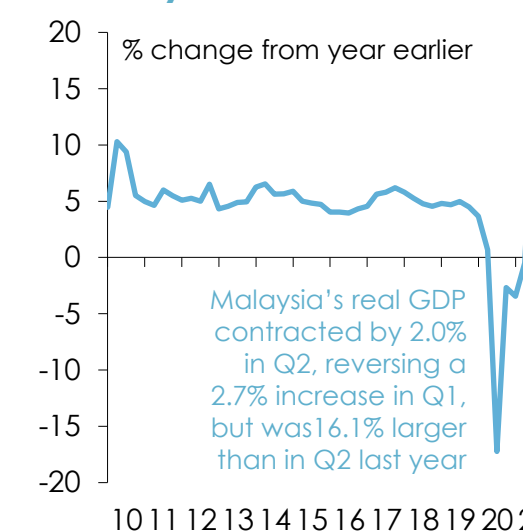
Singapore



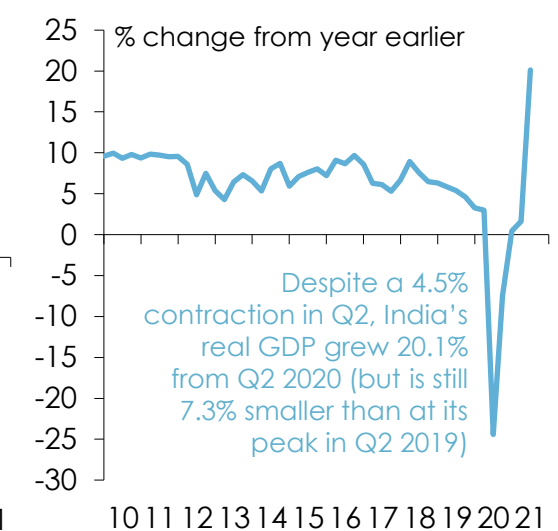
Philippines



Malaysia

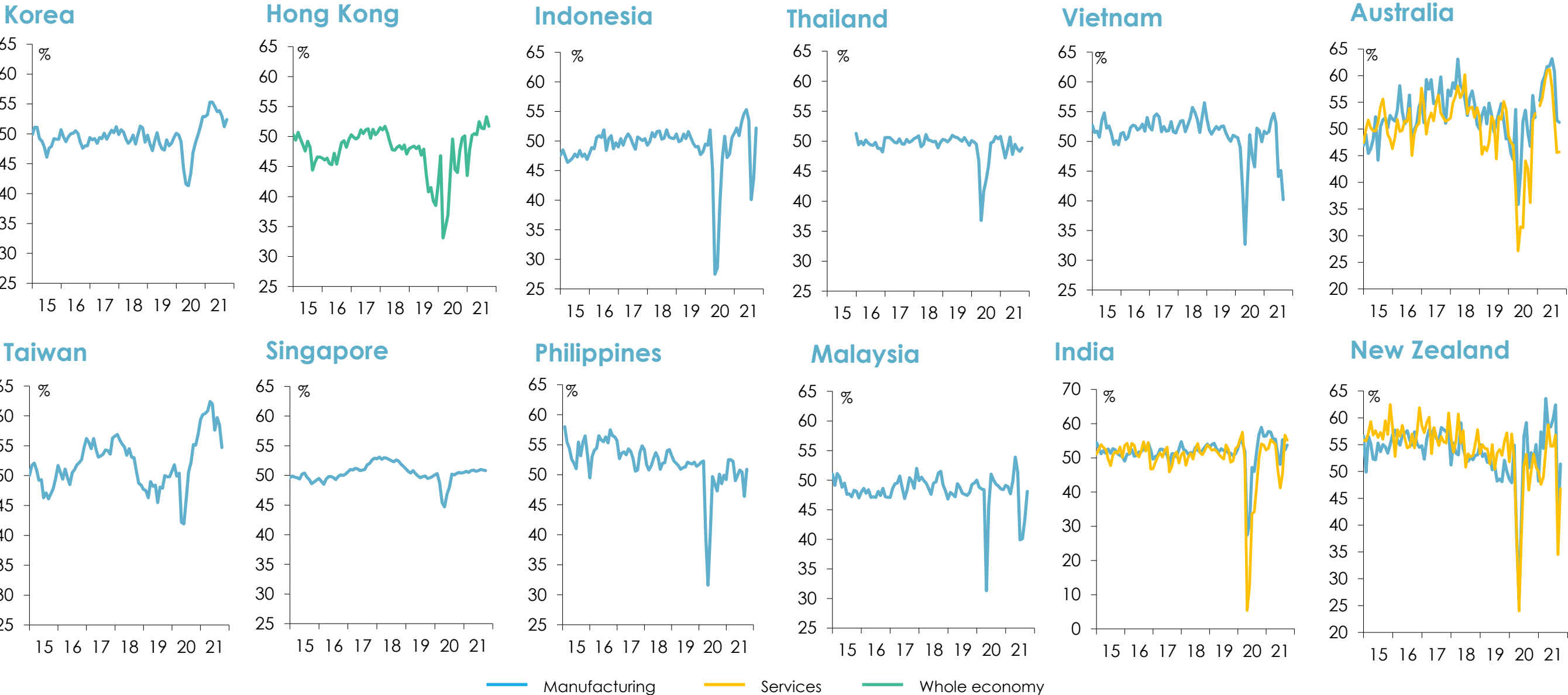


India



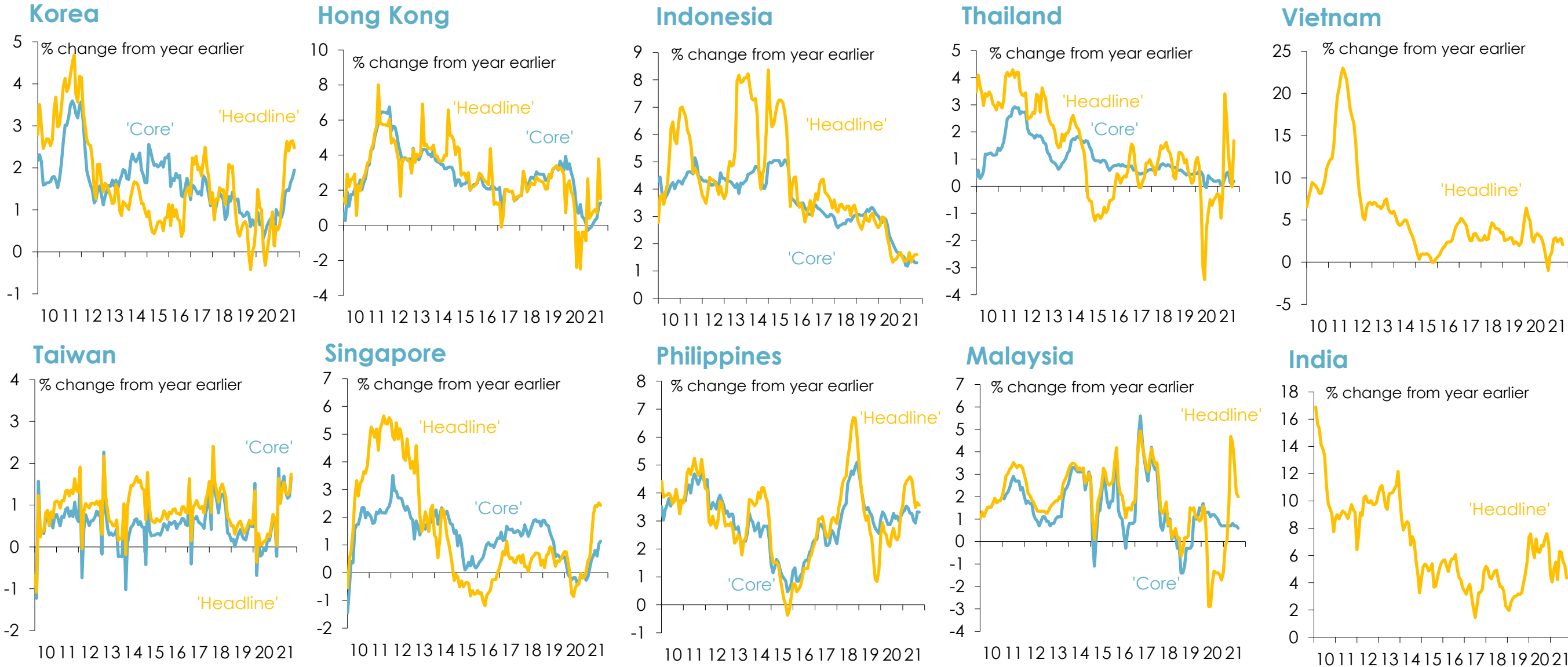
Sources: Bank of Korea; Taiwan Directorate-General of Budget, Accounting & Statistics; Hong Kong Census & Statistics Department; Singapore Ministry of Trade and Industry; Department of Statistics Malaysia; Office of the National Economic & Social Development Council of Thailand; Statistics Indonesia; Philippine Statistics Authority; General Statistics Office of Viet Nam; India Ministry of Statistics & Programme Implementation. [Return to "What's New"](#).

PMIs suggest a pick-up in manufacturing activity in most east Asian economies in September – with the exceptions of Taiwan and Vietnam



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

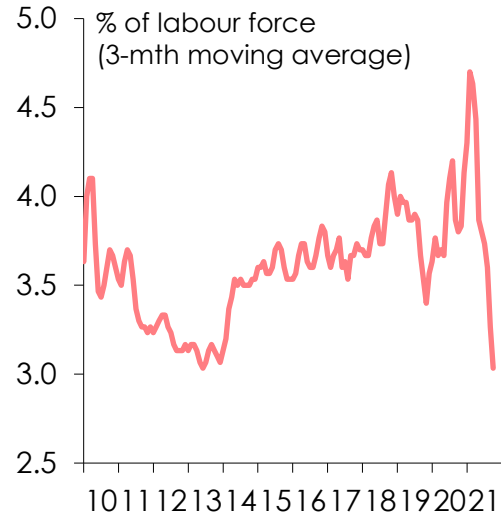
Some (though not all) Asian economies are experiencing temporary upward pressure on inflation as in North America and Europe



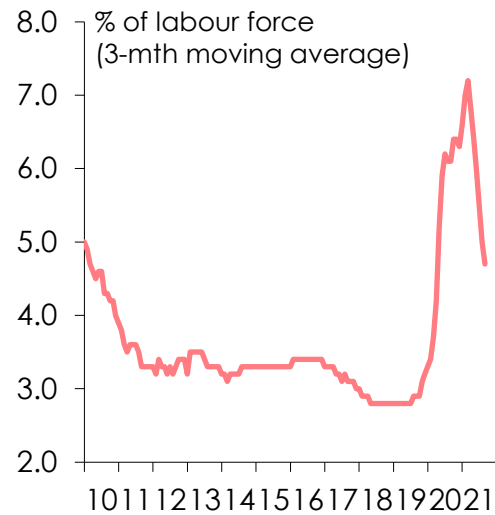
Note: 'Core' inflation in Korea excludes agricultural products and oil; in Taiwan it excludes fresh fruit, vegetables and energy; in Singapore it excludes accommodation and private transport; and in Hong Kong it excludes the effect of 'one-off government relief measures'. 'Core' inflation in Indonesia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

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

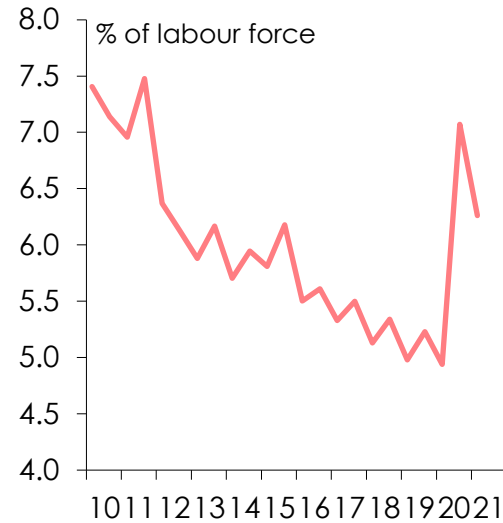
Korea



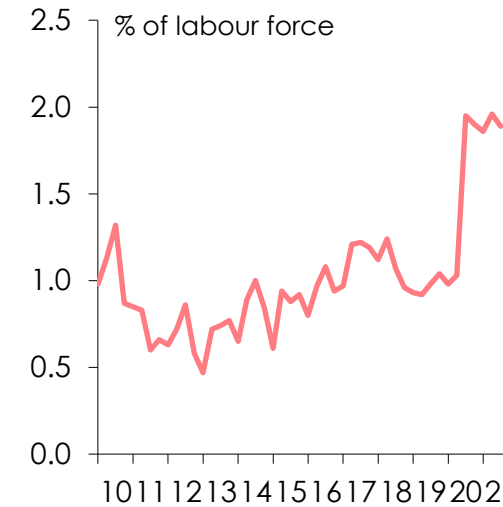
Hong Kong



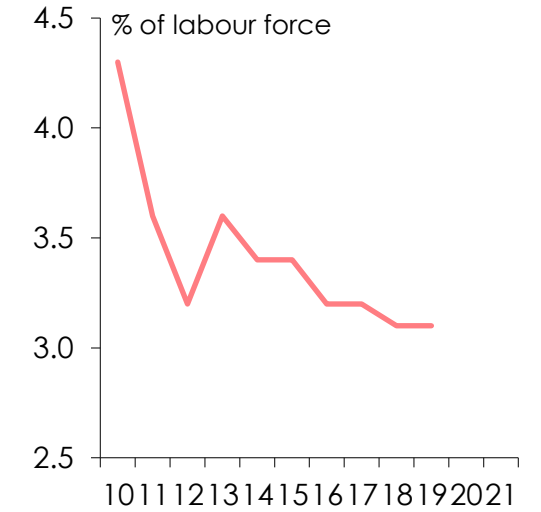
Indonesia



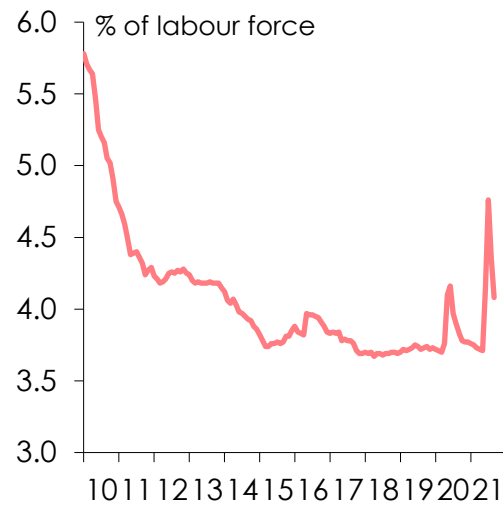
Thailand



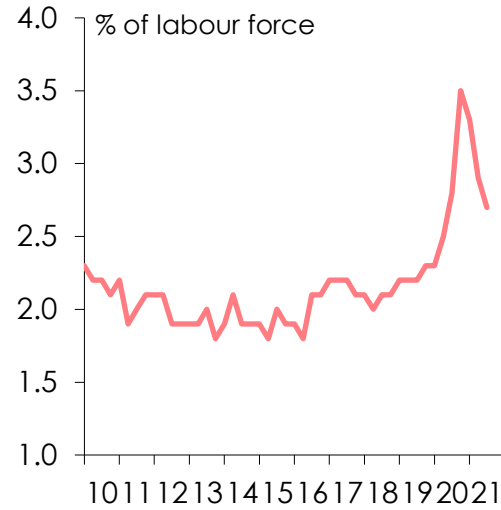
Vietnam



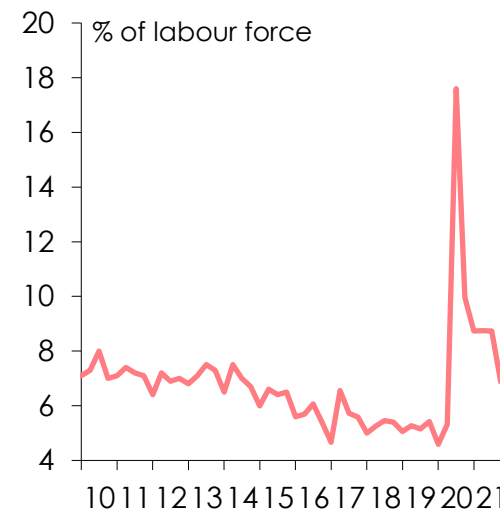
Taiwan



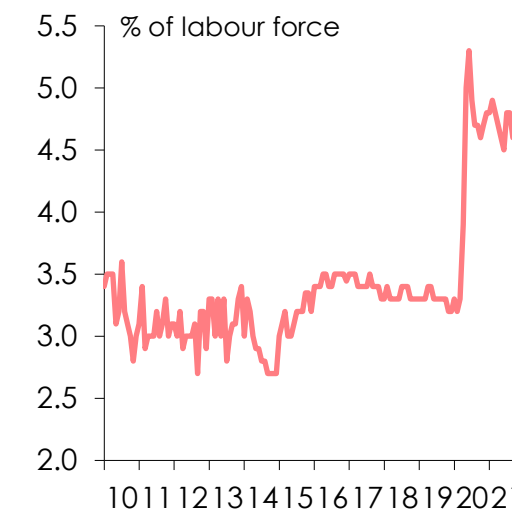
Singapore



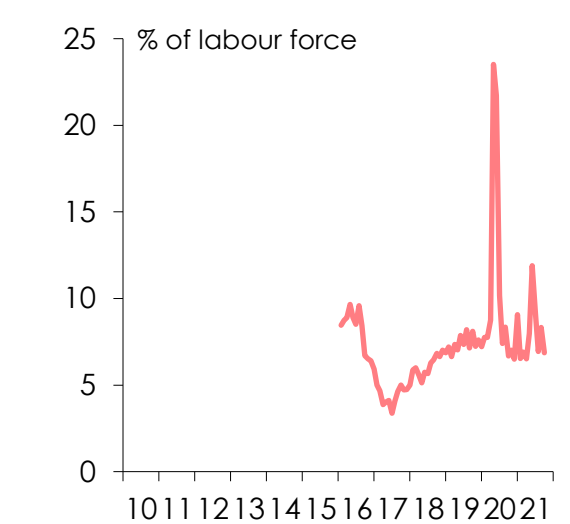
Philippines



Malaysia

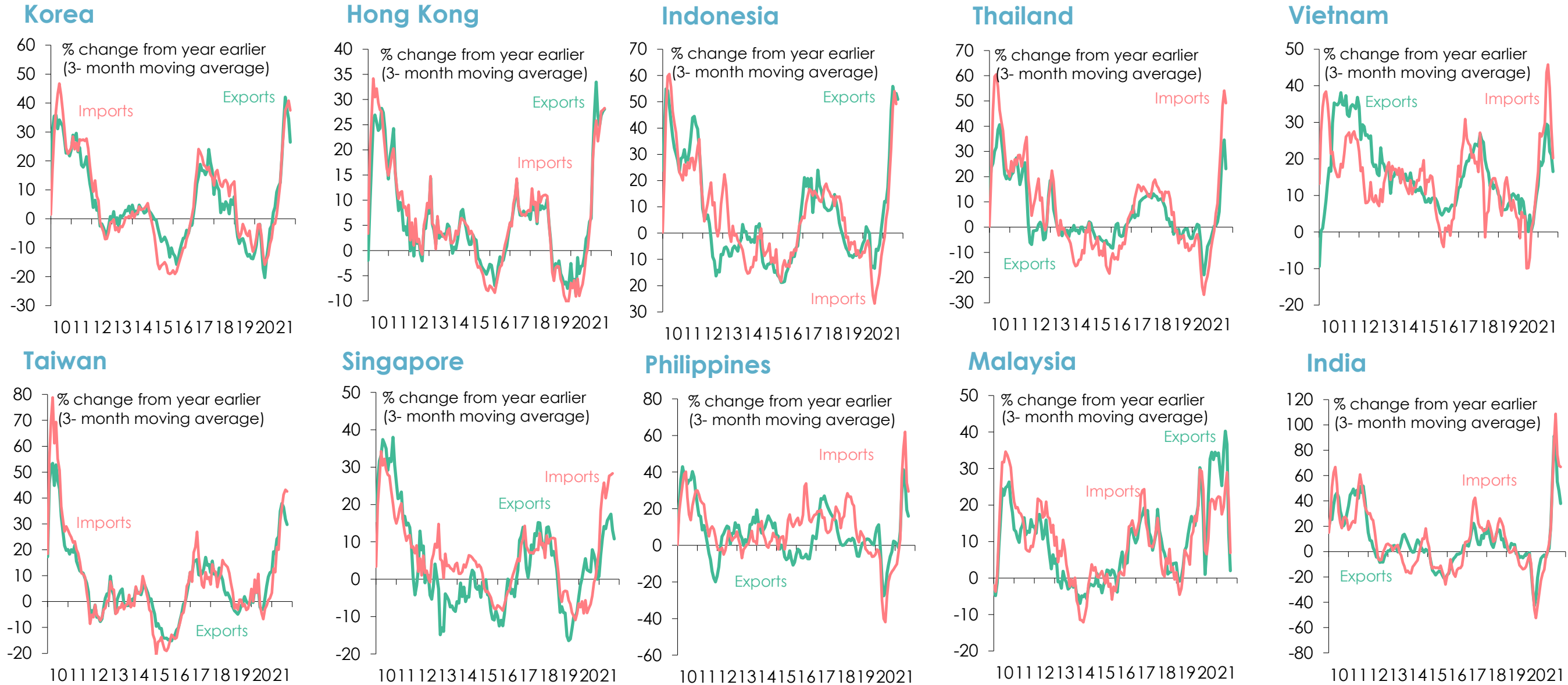


India



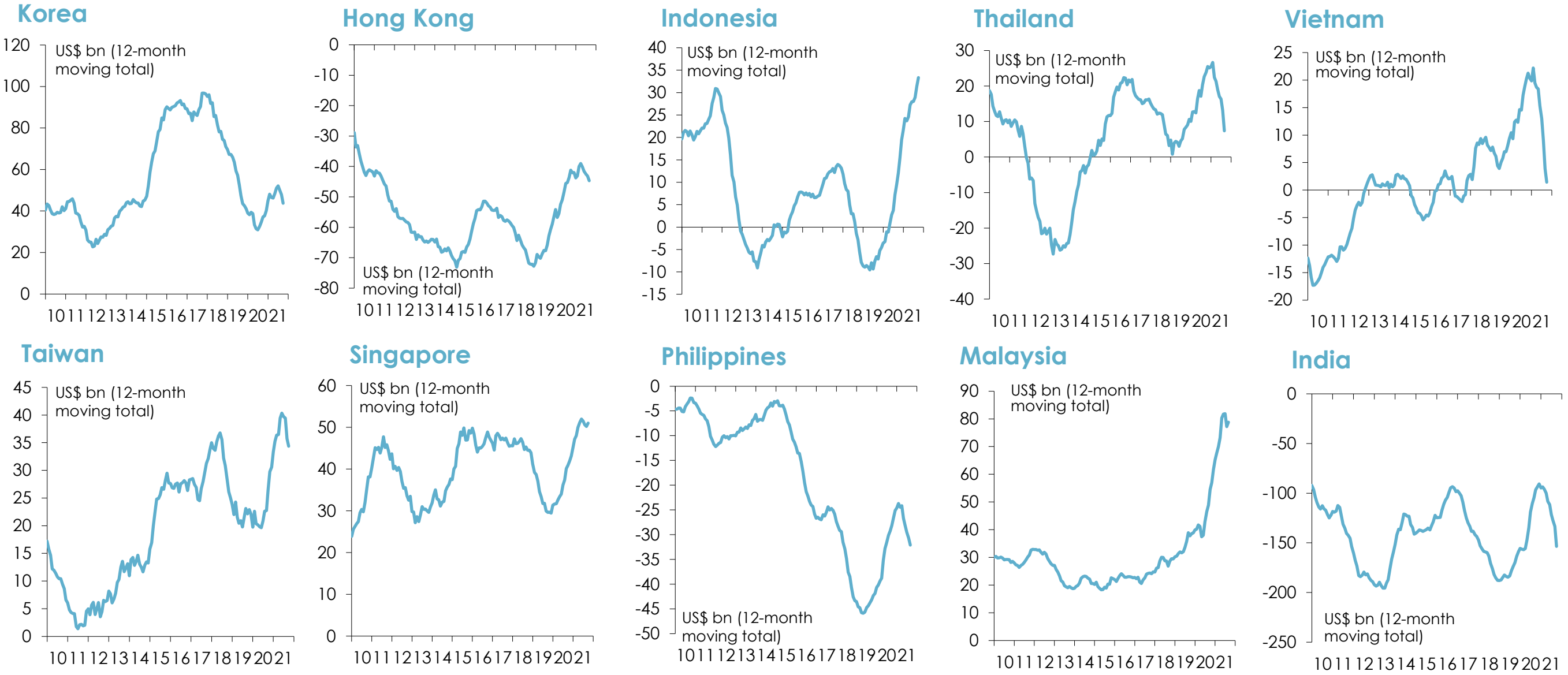
Note: Unemployment data is published monthly in Korea, Taiwan, Hong Kong, Thailand and Malaysia; quarterly in Singapore and the Philippines; semi-annually (February and August) in Indonesia; and annually in Vietnam (with the latest reading being for 2019). There is no official unemployment data in India: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

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



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

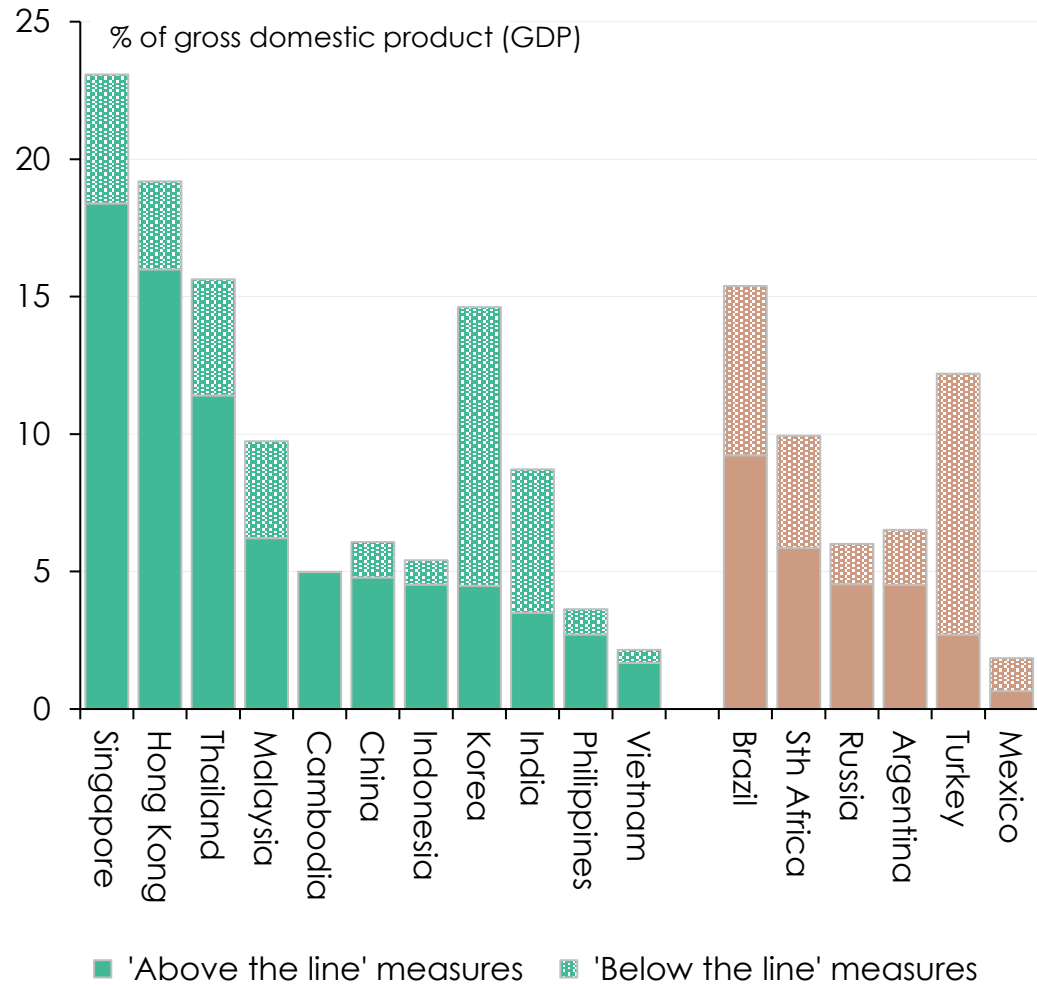
All Asian economies have experienced improvements in their trade balances since the onset of Covid, although some are now turning around



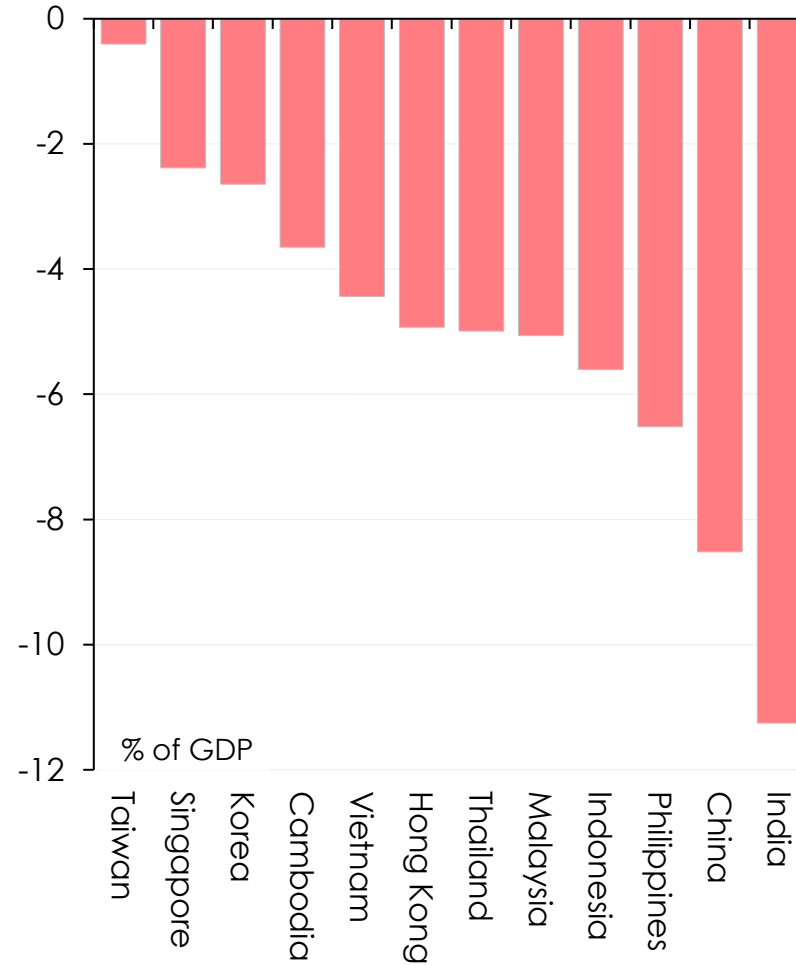
Note: Data for Hong Kong, Singapore and Malaysia are published in national currencies and converted to US dollars by Corinna using month-average exchange rates. Sources: national statistical agencies and central banks. [Return to "What's New"](#).

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

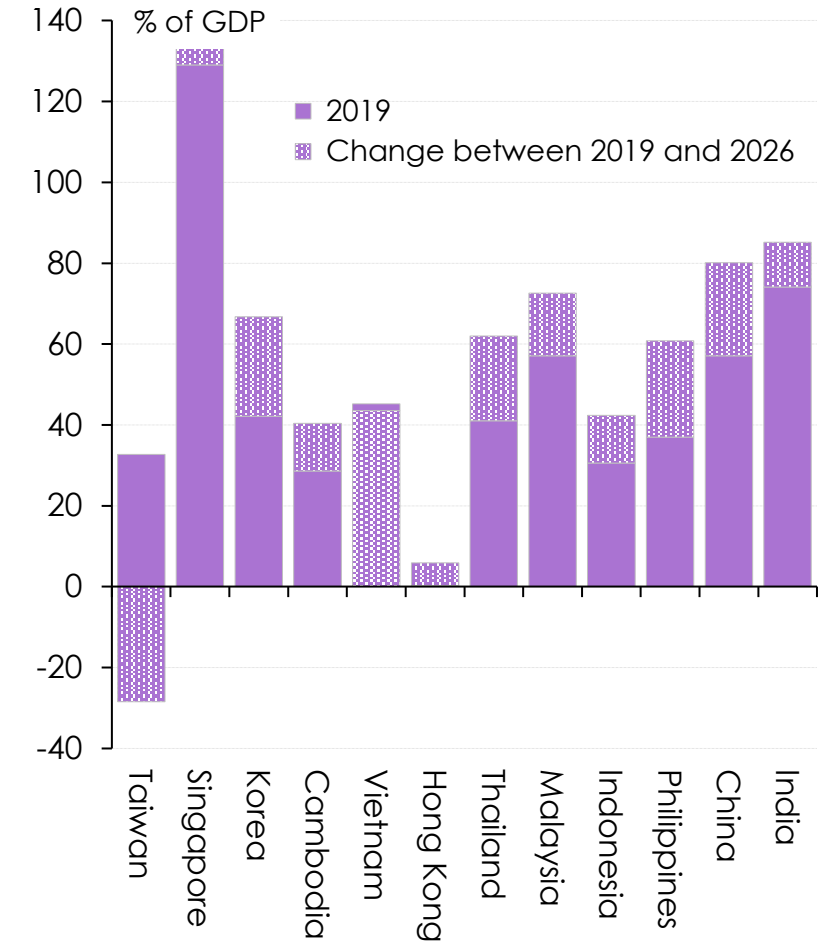
Fiscal policy responses to Covid-19 – Asian & other selected emerging market economies



Budget balances – Asian economies 2020-2022



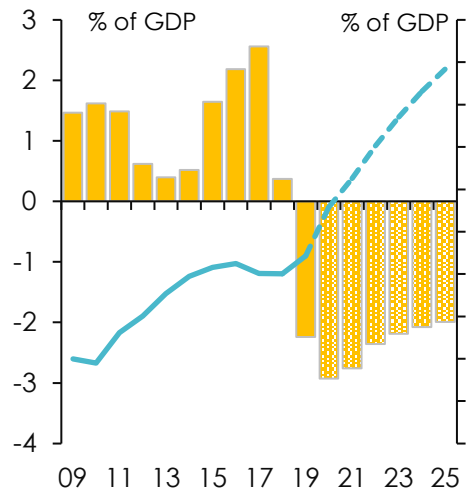
Gross government debt – Asian economies 2019-26



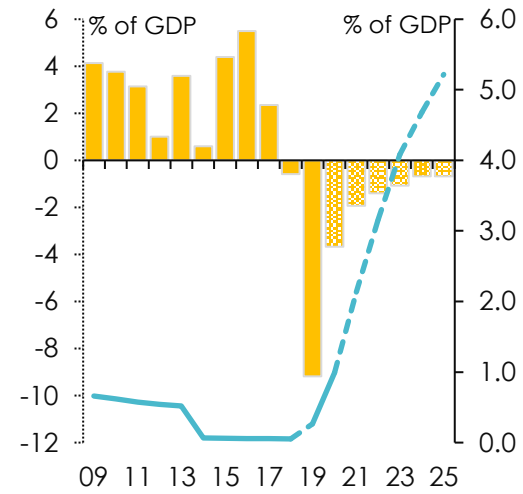
Note: 'Above the line' measures comprise additional or accelerated spending and deferred or foregone revenue. 'Below the line' measures comprise equity injections, loans, asset purchases and debt assumptions, but do not include loan guarantees or other contingent liabilities. 'DMS' means 'developed markets' (or 'advanced economies'). Data includes measures announced up until 27th September 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](#), October 2021; and [Fiscal Monitor](#), October 2021. [Return to "What's New"](#).

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

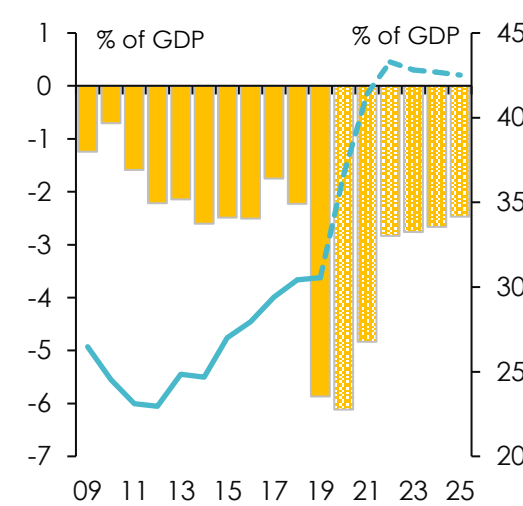
Korea



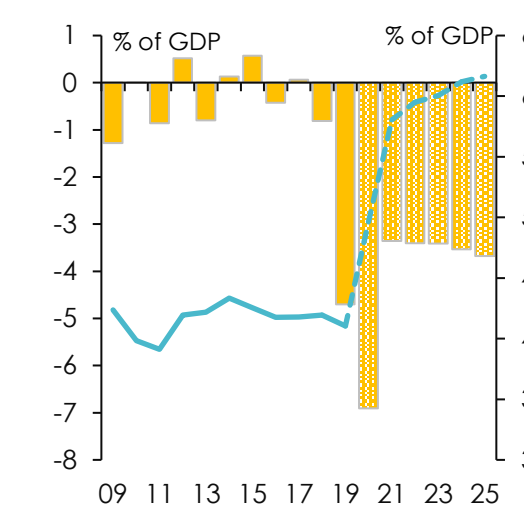
Hong Kong



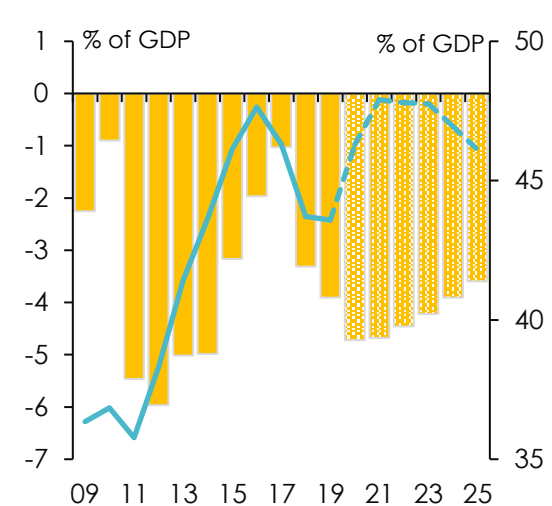
Indonesia



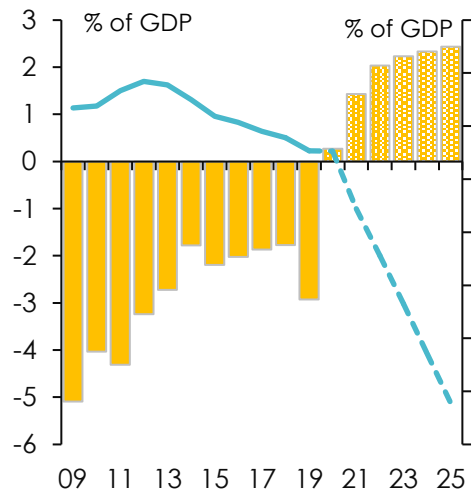
Thailand



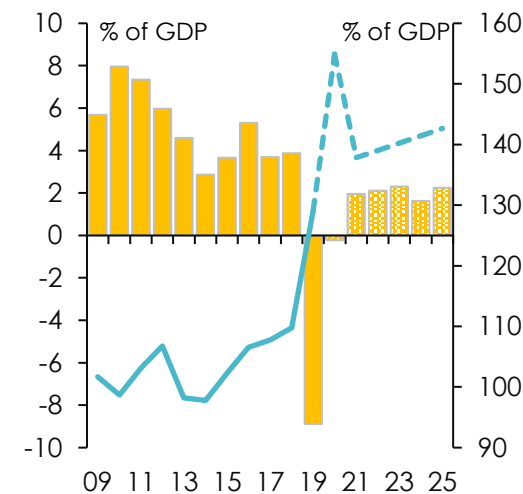
Vietnam



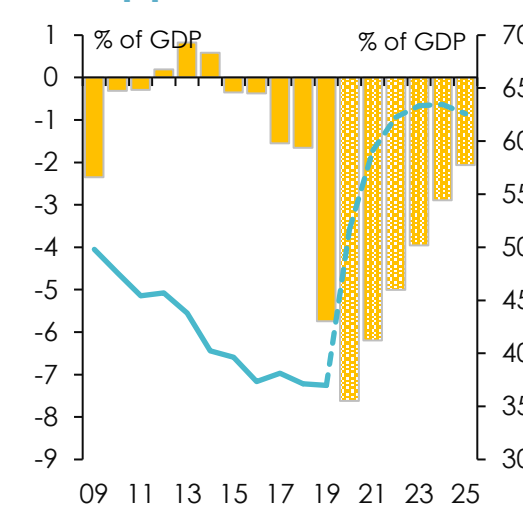
Taiwan



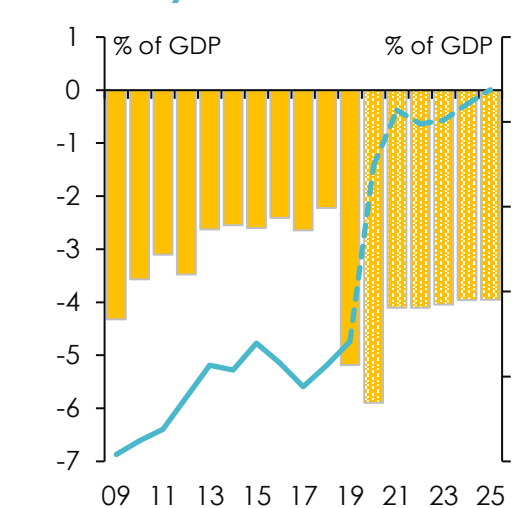
Singapore



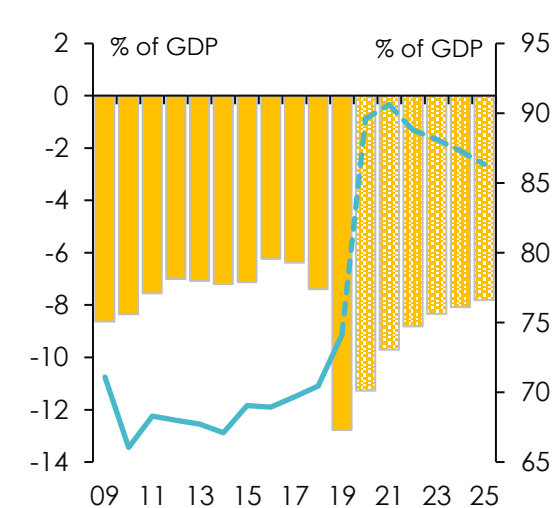
Philippines





Malaysia



India



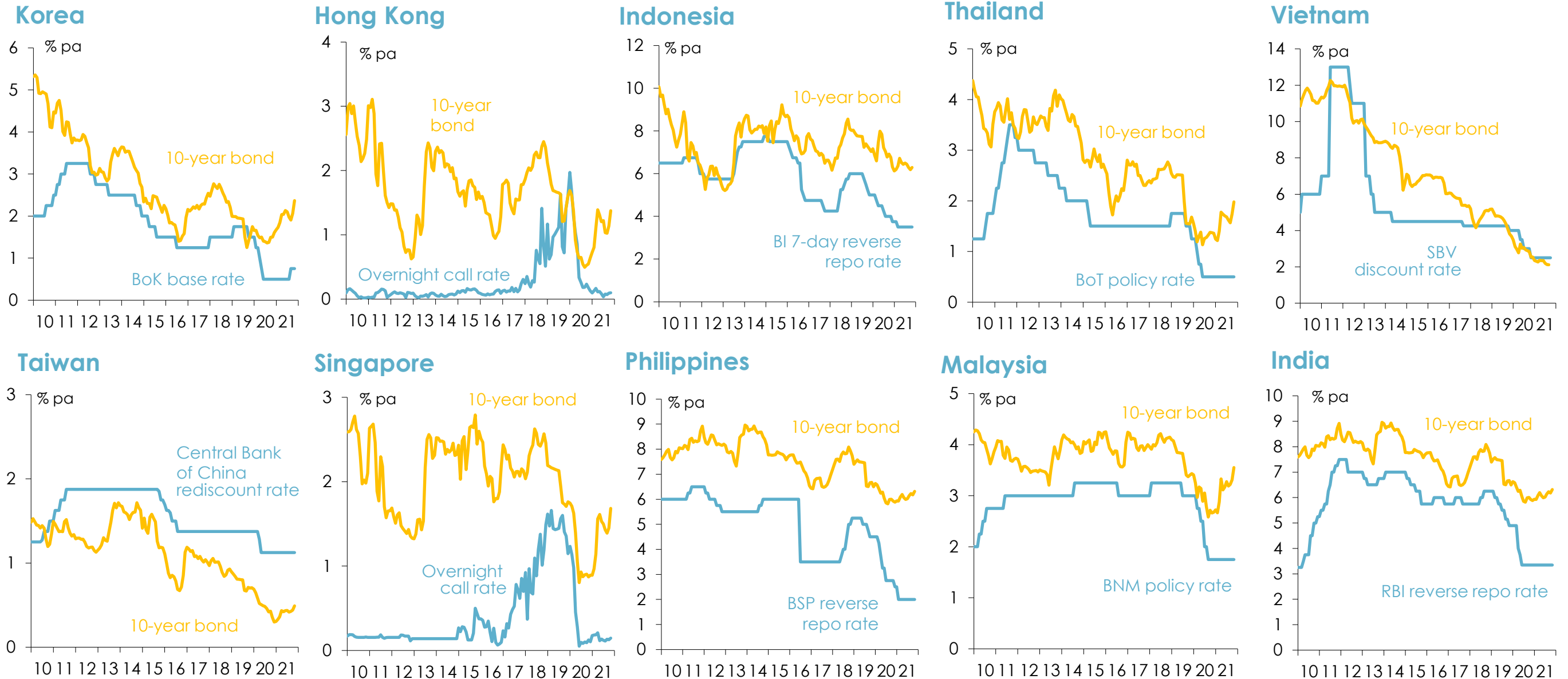
 General government overall fiscal balance (left scale)  General government gross debt (right scale)

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

Bank Indonesia left its monetary policy settings unchanged this week

- ❑ **Bank Indonesia** left its 7-day reverse repo rate unchanged at 3.5%, and its other monetary and macroprudential policy settings unchanged, at this week's Board of Governors meeting
 - in his post-meeting statement BI Governor Perry Warjiyo indicated that BI expects inflation to be below the mid-point of its $3 \pm 1\%$ target in 2021 and within the target range in 2022, with 2021 economic growth in the previously forecast range of $3\frac{1}{2}\%$ - $4\frac{1}{4}\%$ and the current account deficit lower than previously forecast at $0\text{-}\frac{3}{4}\%$ of GDP “supporting the resilience of Indonesia's external sector” and stability of the rupiah
 - as part of its ‘synergistic monetary expansion’ policy (co-ordination with the Indonesian Government to finance the budget deficit which is temporarily above the legislated maximum of 3% of GDP) BI has purchased Rp142.5trn of government bonds (SBNs) cf. Rp473 trn in 2020
 - BI is also seeking to foster growth in lending to the private sector by maintaining very loose liquidity conditions
- ❑ The **Bank of Korea** left its base rate unchanged at last week's Monetary Policy Board meeting, having raised it 0.25 basis points to 0.75% at its previous meeting in September
 - the BoK's post-meeting statement suggests that it is reasonably comfortable with the outlook for inflation – but it remains concerned about financial stability risks, noting that “the increase in household loans remains at a high level” and that “housing prices have continued to increase rapidly in all parts of the country”*
- ❑ The **Monetary Authority of Singapore** ‘tweaked’ its monetary policy settings last week by “raising slightly the slope” of the effective exchange rate band within which it will allow the S\$ to appreciate
 - this was in anticipation of “a broad-based pick-up in inflation”, flowing from “rising imported and labour costs, alongside the recovery in domestic economic activity”, without output expected to return “to around its potential in 2022”
- ❑ Next Asian central bank policy meetings are Bank Negara Malaysia on 3rd November, Bank of Thailand on 10th November, and Bangko Sentral ng Pilipinas on 11th November
 - none of these is expected to result in any changes to monetary policy settings

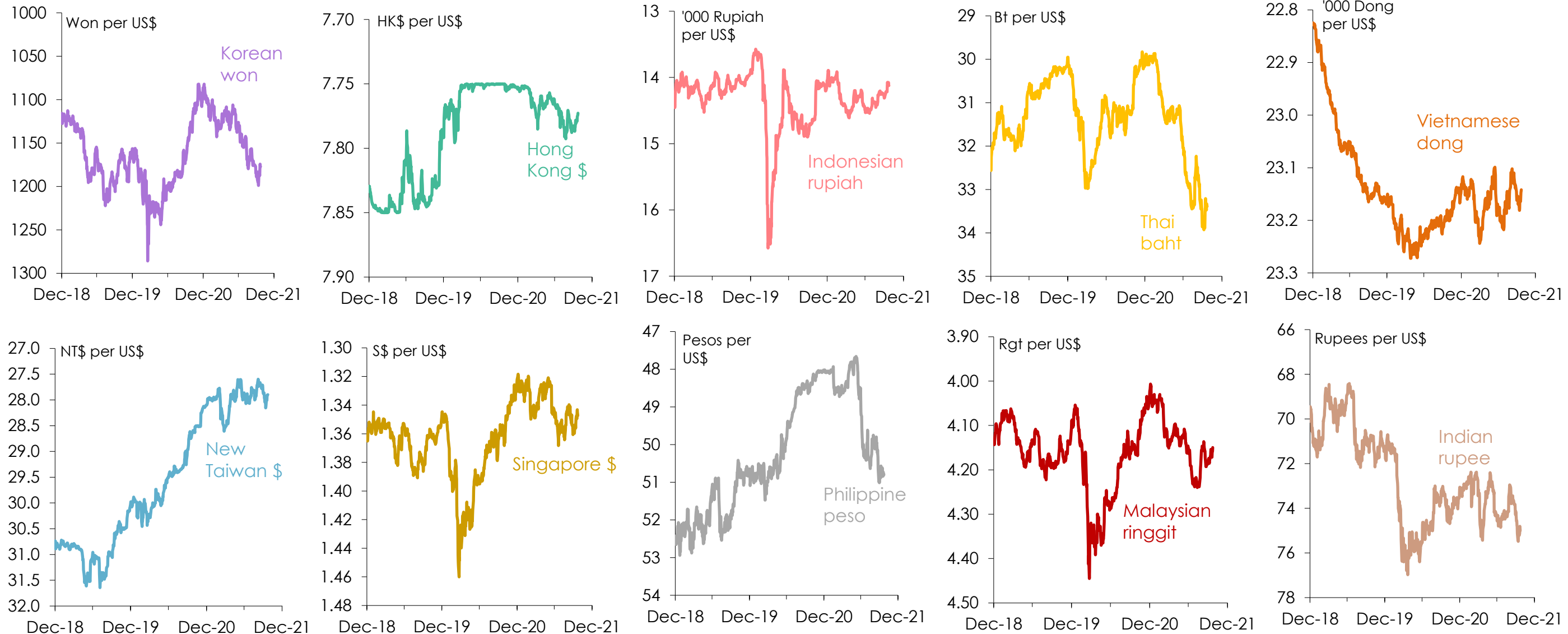
Apart from the Bank of Korea, and now the MAS, no other Asian central bank has given any indication of an imminent policy tightening



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

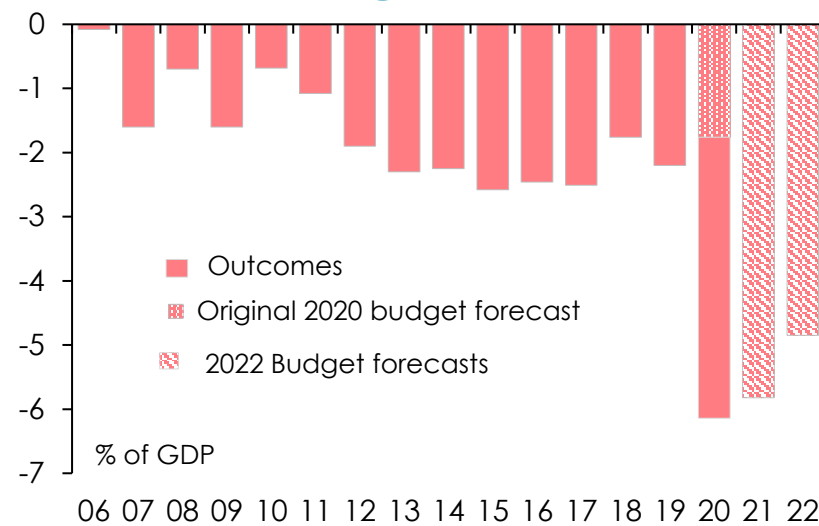
Asian currencies were mostly a bit stronger against the US\$ this week, with the won and NT\$ up 0.4%, but the rupiah dropped 0.3% and the baht 0.2%

Asian currency exchange rates vs US dollar

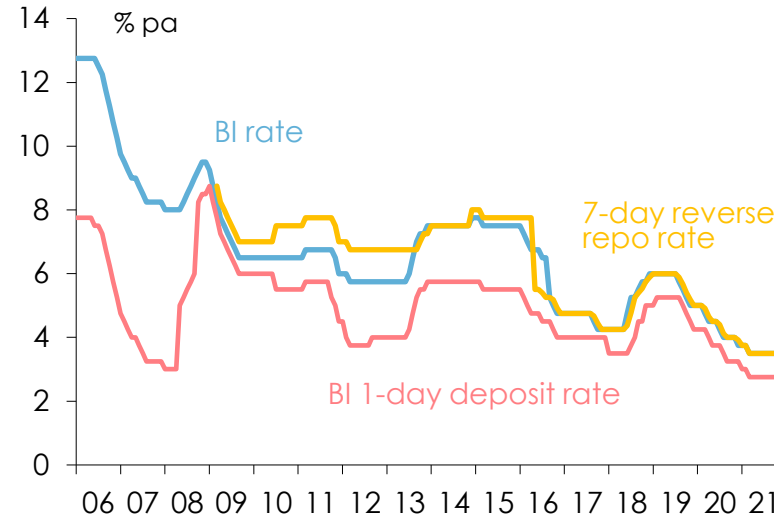


Bank Indonesia's monetary policy settings have been on hold since January although it has continued with its 'synergistic monetary expansion'

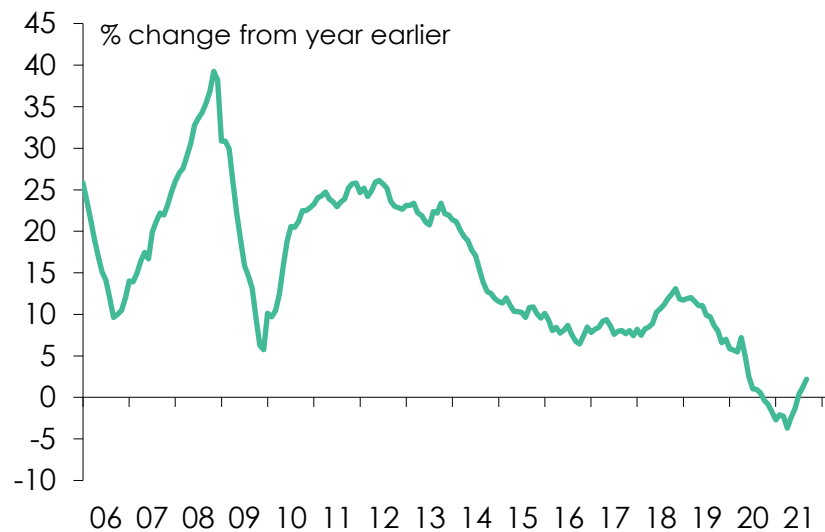
Indonesia budget deficit



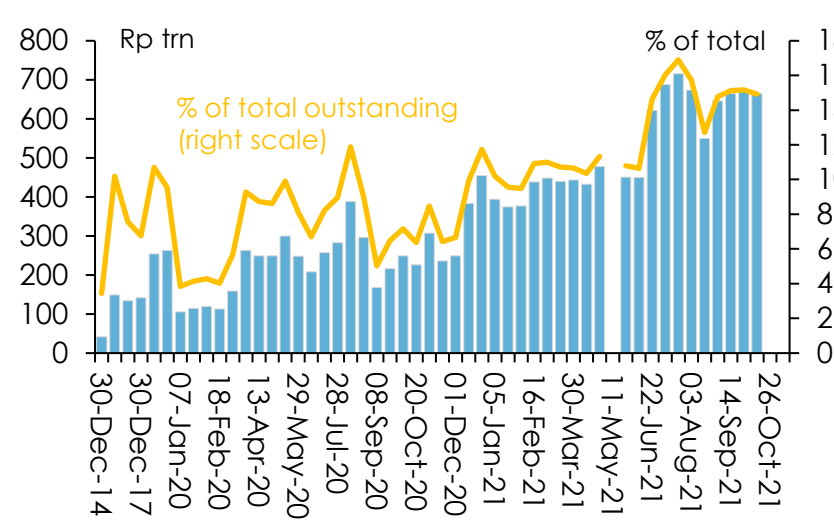
BI monetary policy rates



Bank lending



BI holdings of tradeable SBNs

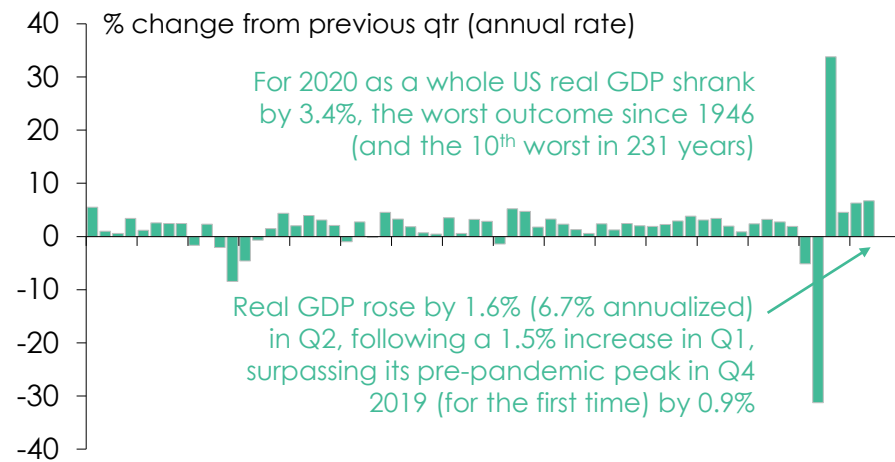


- In April 2020, the Indonesian Government and Bank Indonesia (BI) agreed to a 'burden-sharing' scheme under which BI will directly purchase bonds equivalent to 25% of this year's budget financing requirement (and return the interest received to the Government), as well as subsidizing interest payments on other bonds
 - BI calls this 'synergistic monetary expansion'
 - up to 15th October BI has purchased Rp 143trn 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 five weeks, reversing most of the Rp166bn decline over the previous four weeks
 - BI has absorbed 36% 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 September is well below BI's target of 2-4% (slide 57) 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 63)

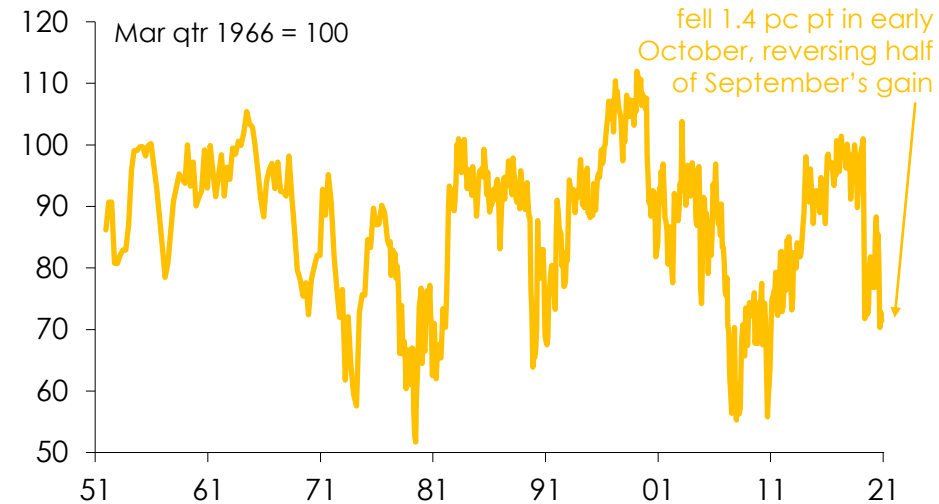
Sources: [Indonesia Ministry of Finance \(Kementerian Keuangan\)](#); [Directorate of Government Debt Securities](#); Bank Indonesia. [Return to "What's New"](#).

US industrial production recorded its largest fall in seven months in September, largely on account of a plunge in motor vehicle production

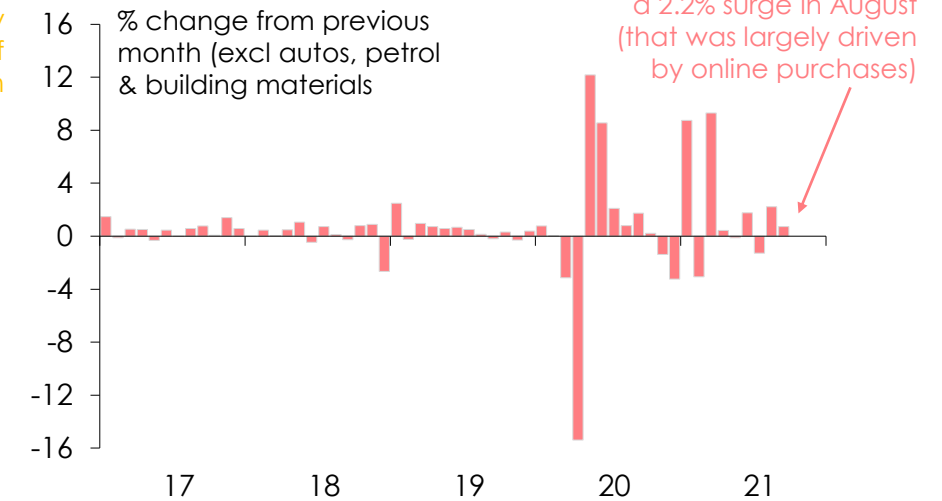
Real GDP



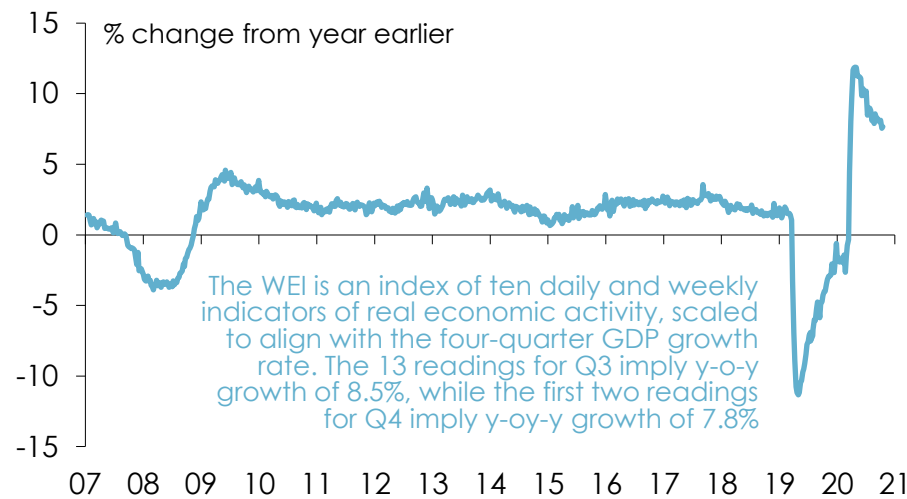
Consumer sentiment



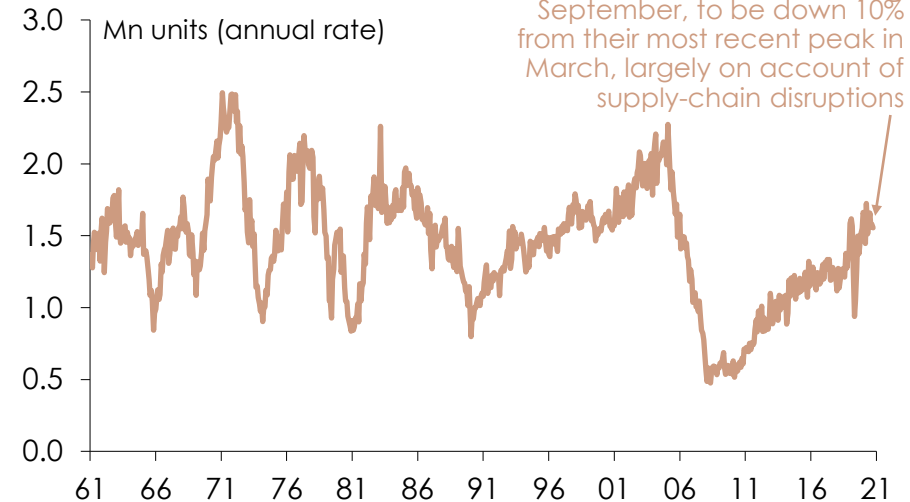
'Core' retail sales



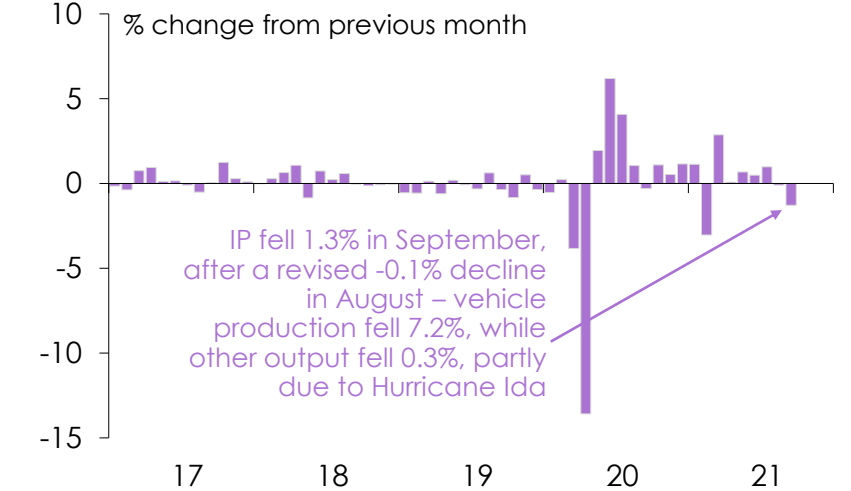
NY Fed weekly economic index



Housing starts



Industrial production

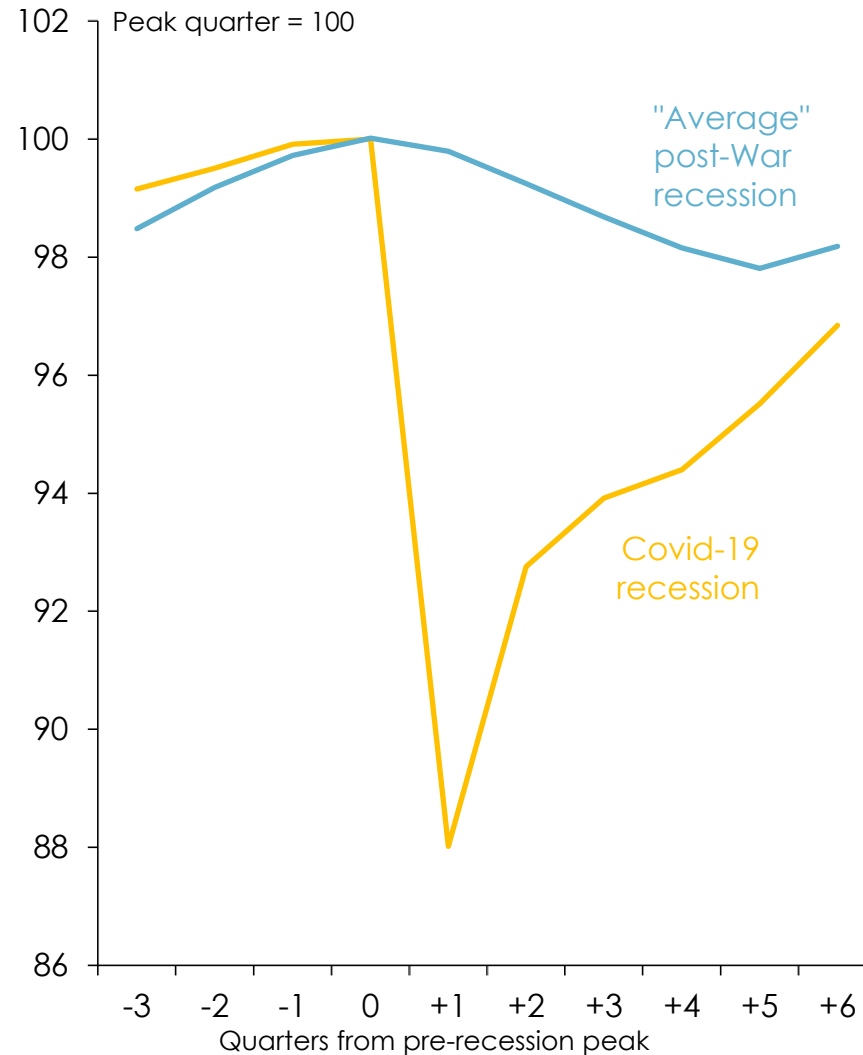


The Covid-19 recession has been quite unlike any other of the recessions the US has experienced since the end of World War II

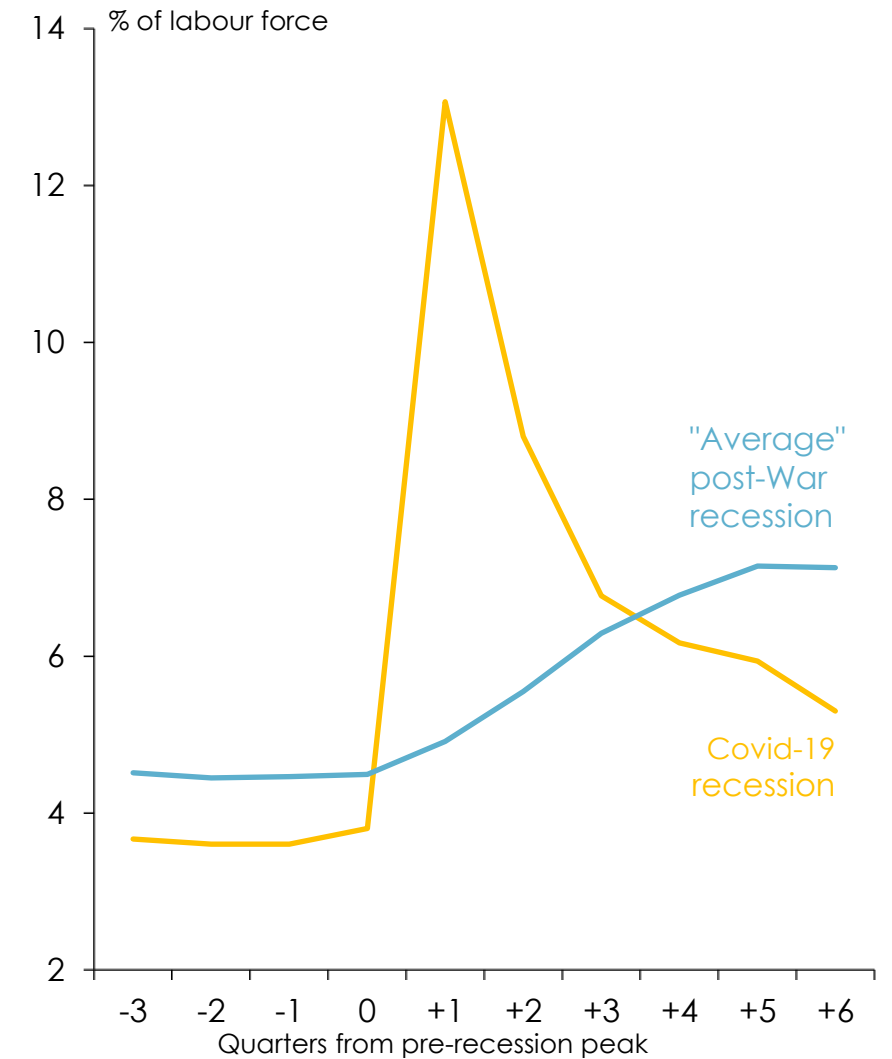
Level of real GDP



Non-farm payroll employment



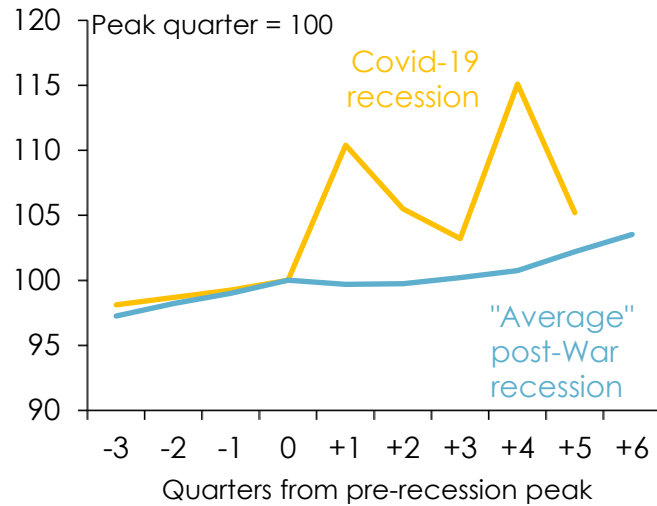
Unemployment rate



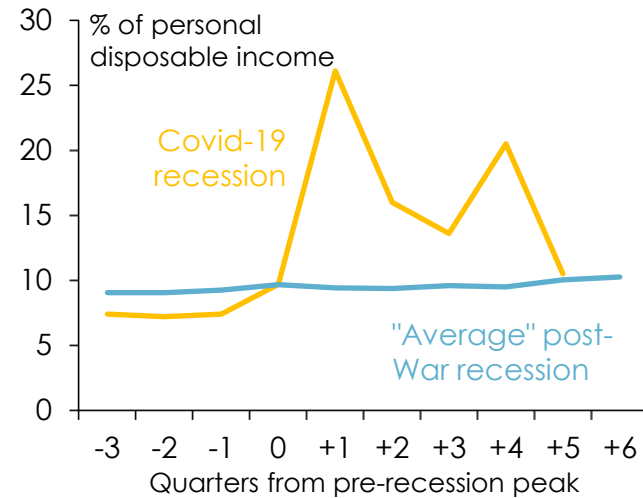
Note: 'average post-war recession' is the average of figures for each of the eleven post-war US recessions as designated by the [National Bureau of Economic Research Business Cycle Dating Committee](#), with the exception of the recession of January-July 1980 (which was too short, and too close to the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

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

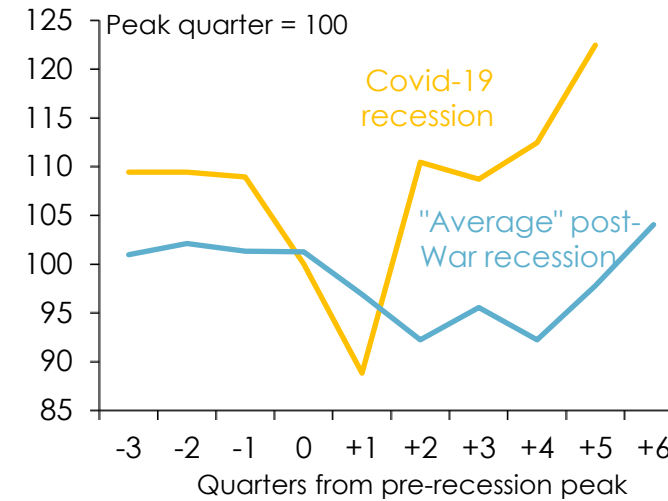
Personal disposable income



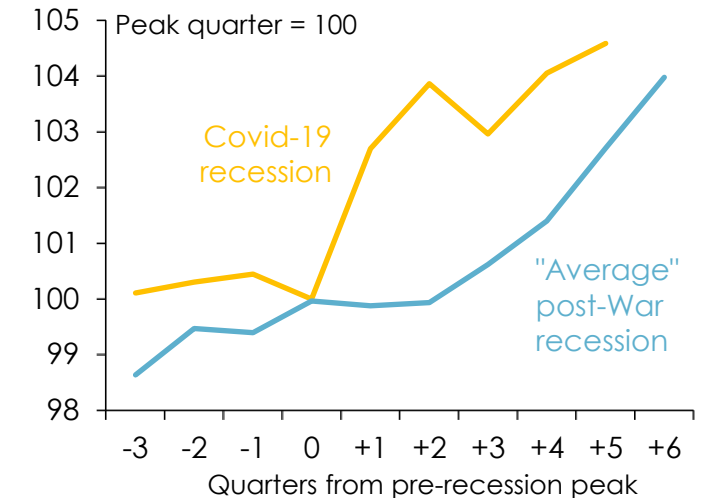
Personal saving rate



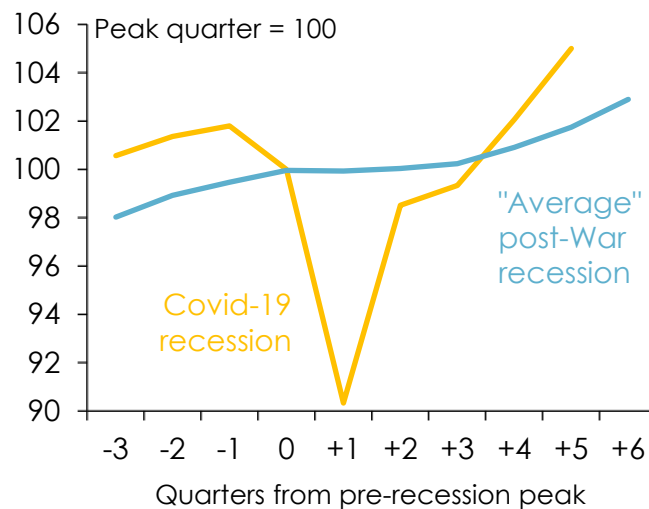
After-tax corporate profits



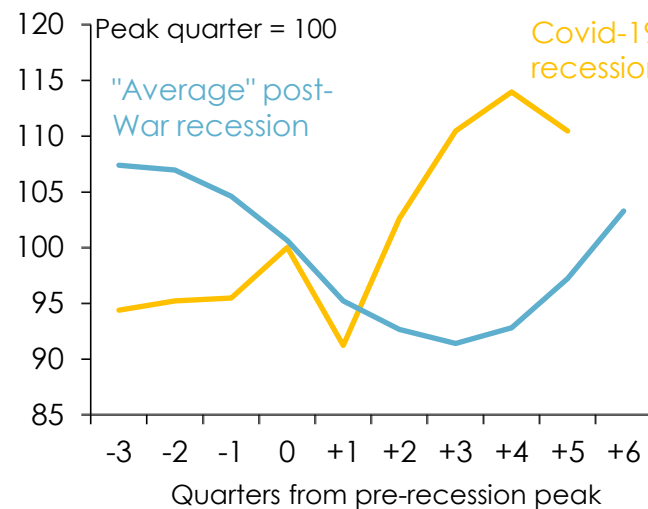
Labour productivity



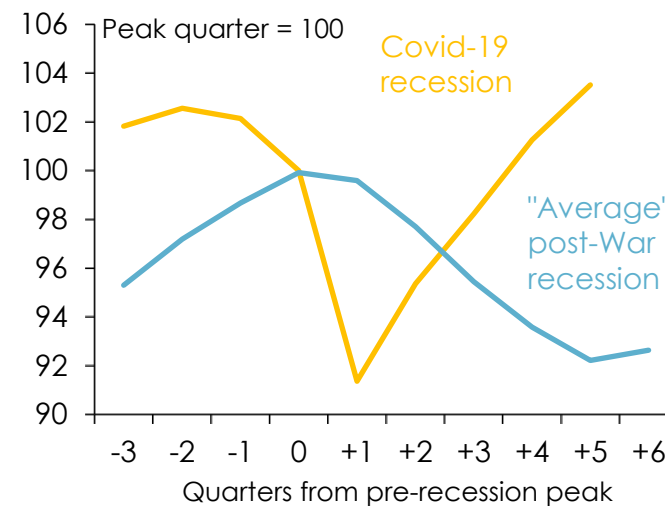
Personal consumption



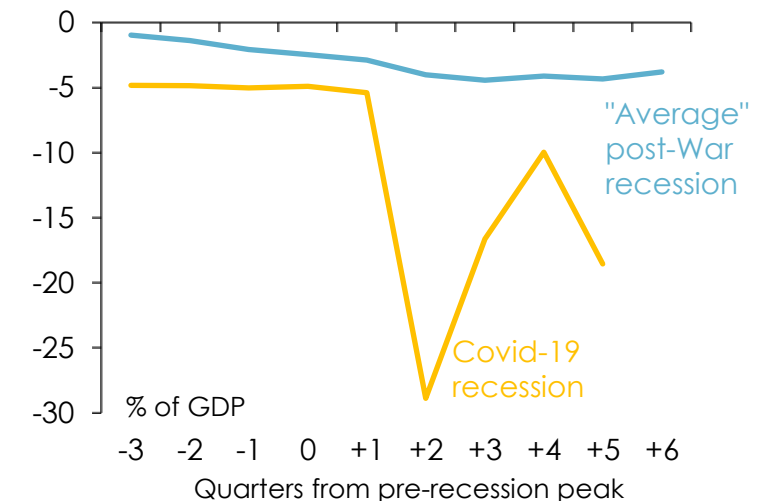
Residential investment



Business investment



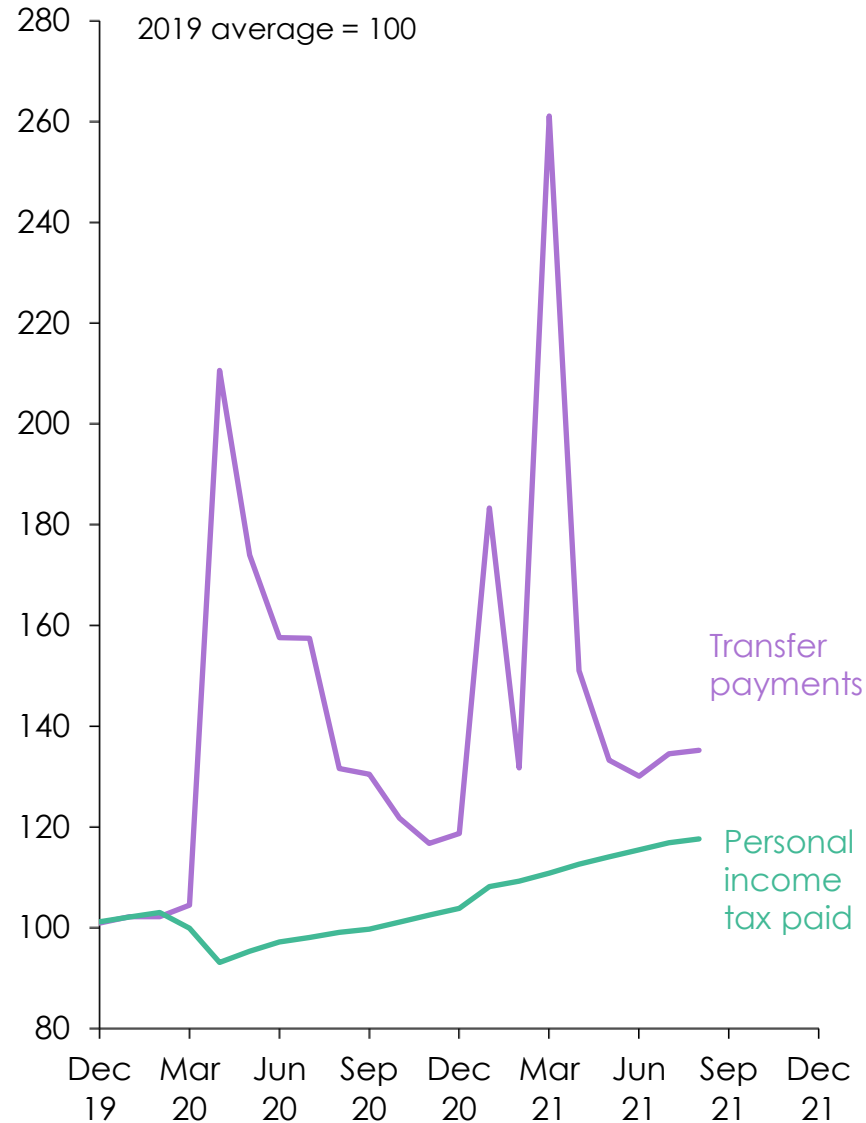
Federal budget balance



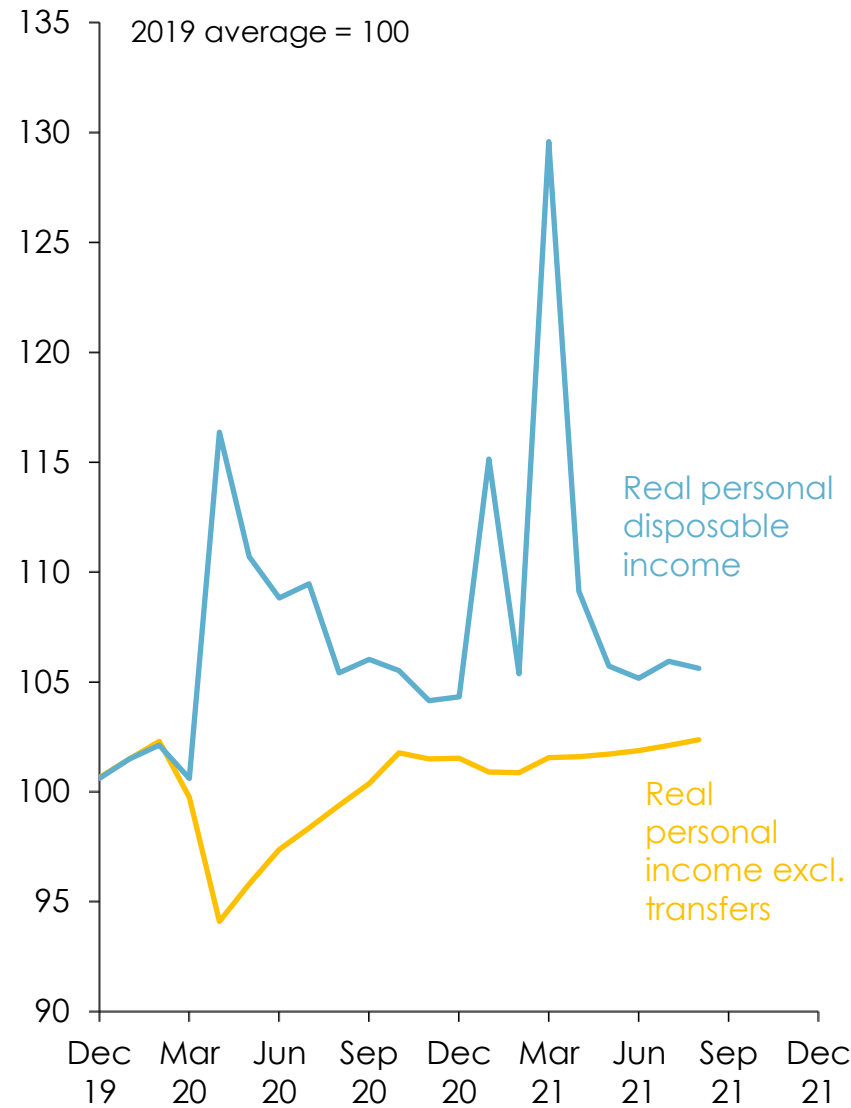
Note: 'average post-war recession' is the average of figures for each of the eleven post-war US recessions as designated by the [National Bureau of Economic Research Business Cycle Dating Committee](#), with the exception of the recession of January-July 1980; 'peak quarter' is the quarter in which real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

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

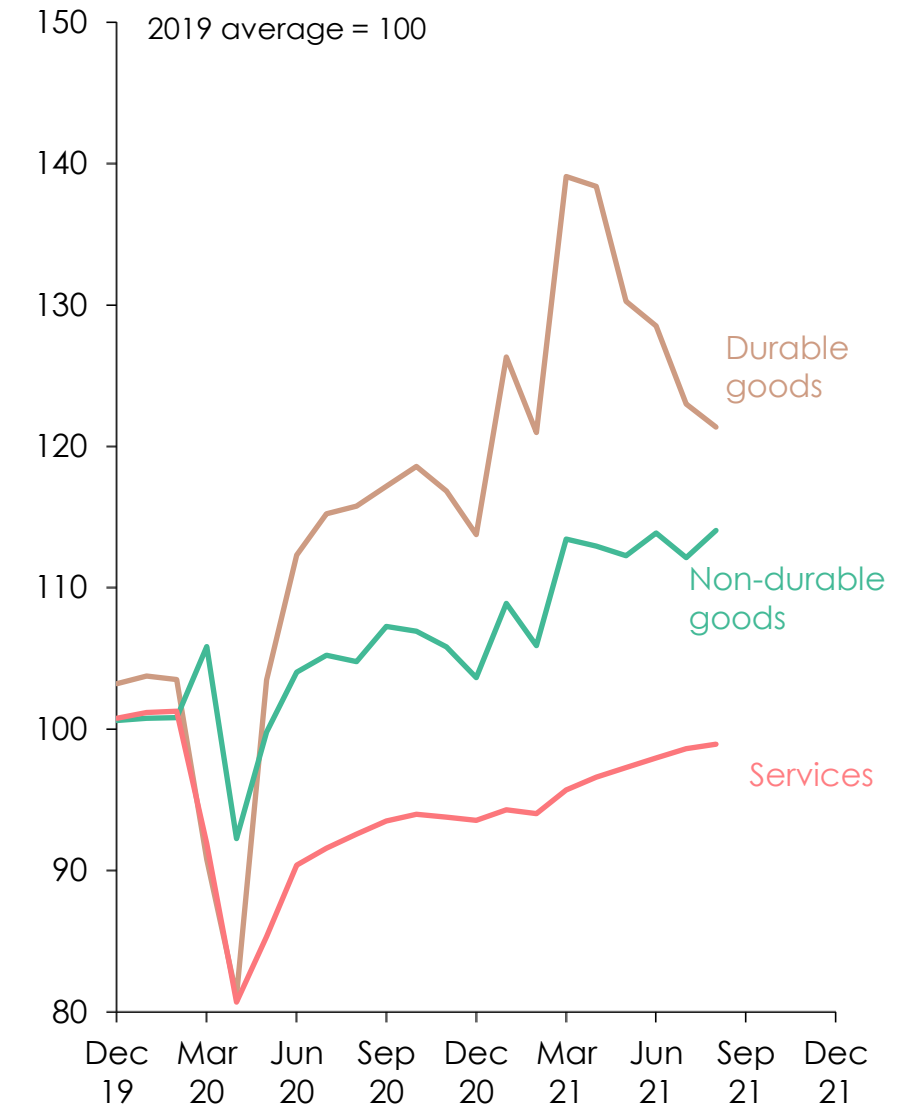
Tax and transfer payments



Real personal income

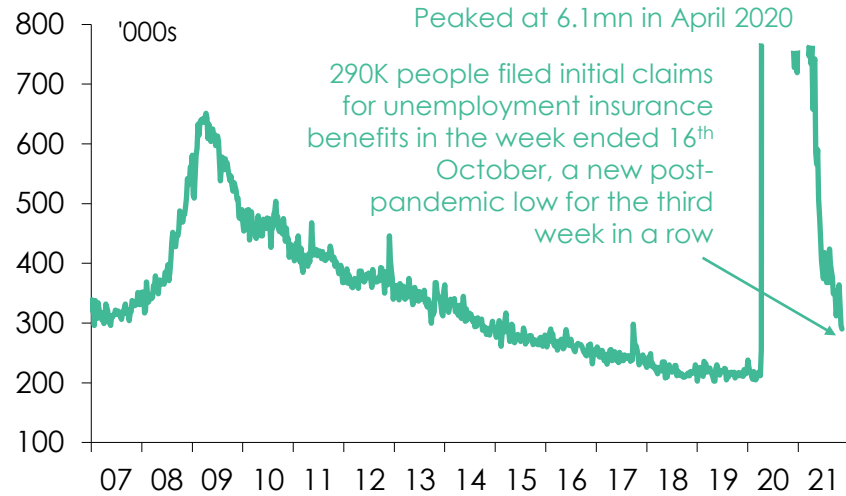


Real consumption expenditure

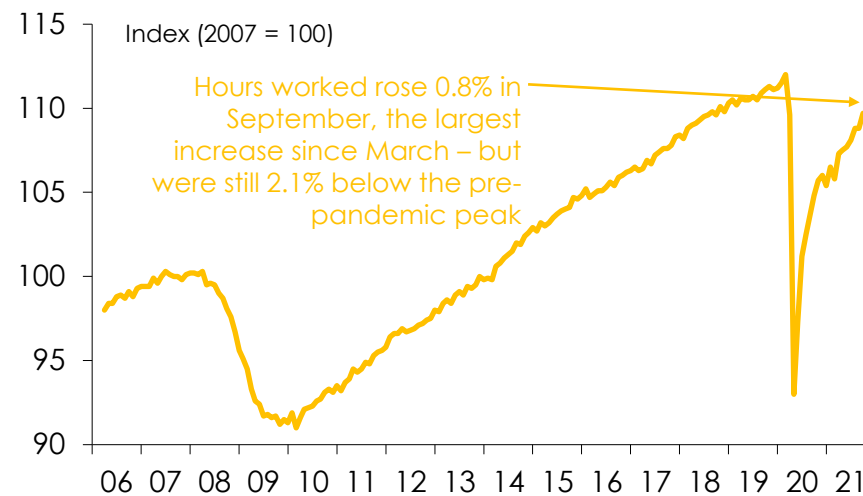


US non-farm payrolls rose a smaller-than-expected 194K in September, but the unemployment rate dropped 0.4 pc pt to 4.8%

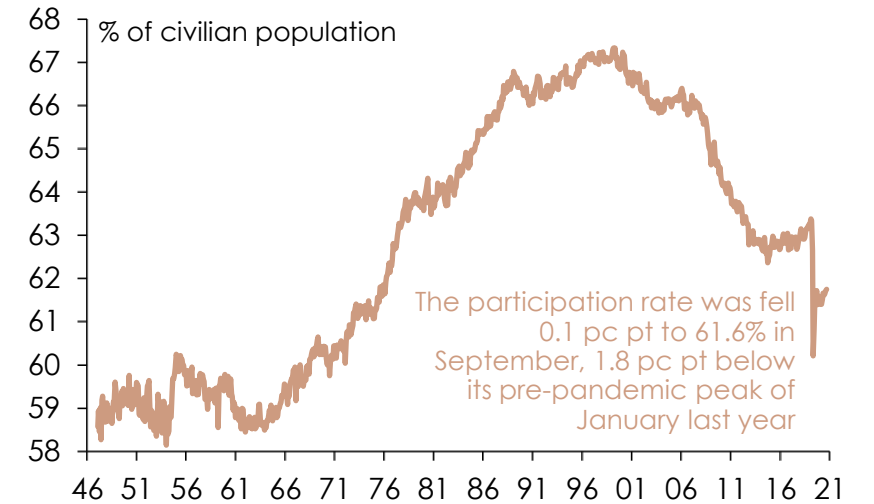
Unemployment benefit claims



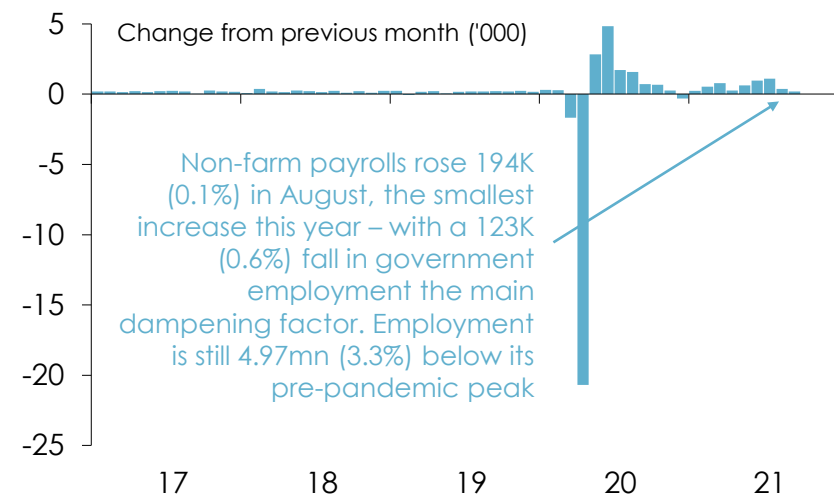
Hours worked (private sector)



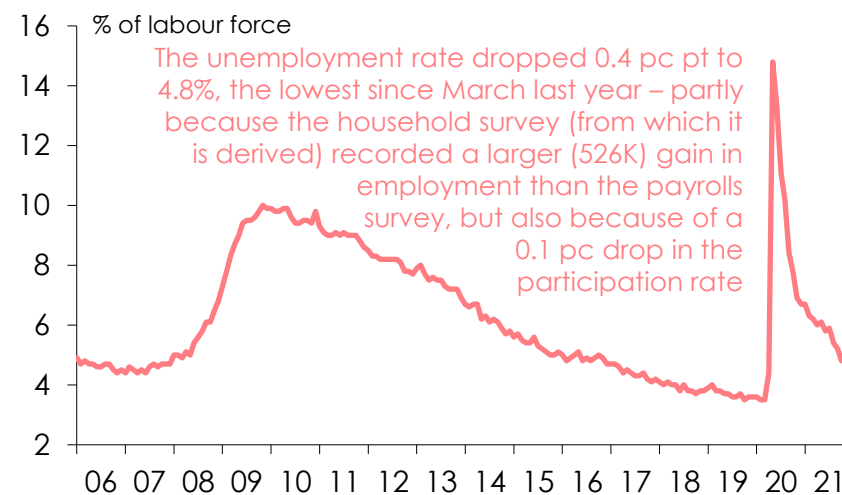
Labour force participation rate



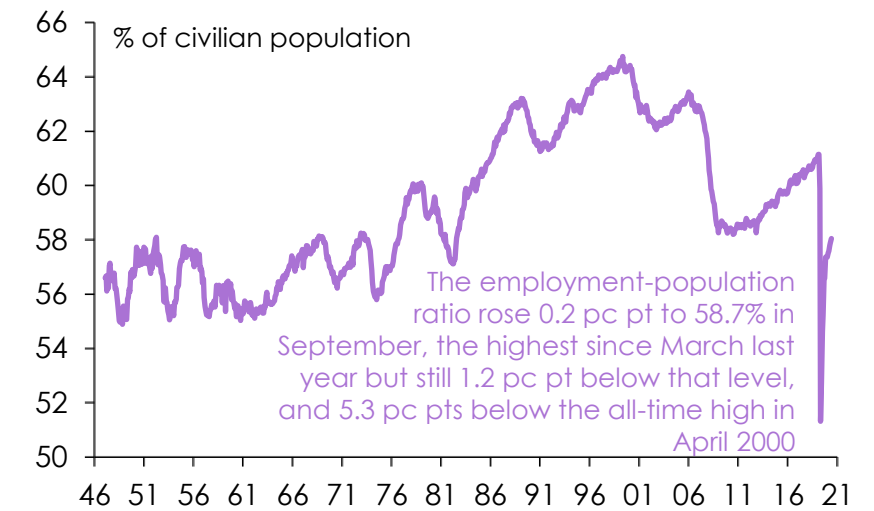
Non-farm payroll employment



Unemployment rate



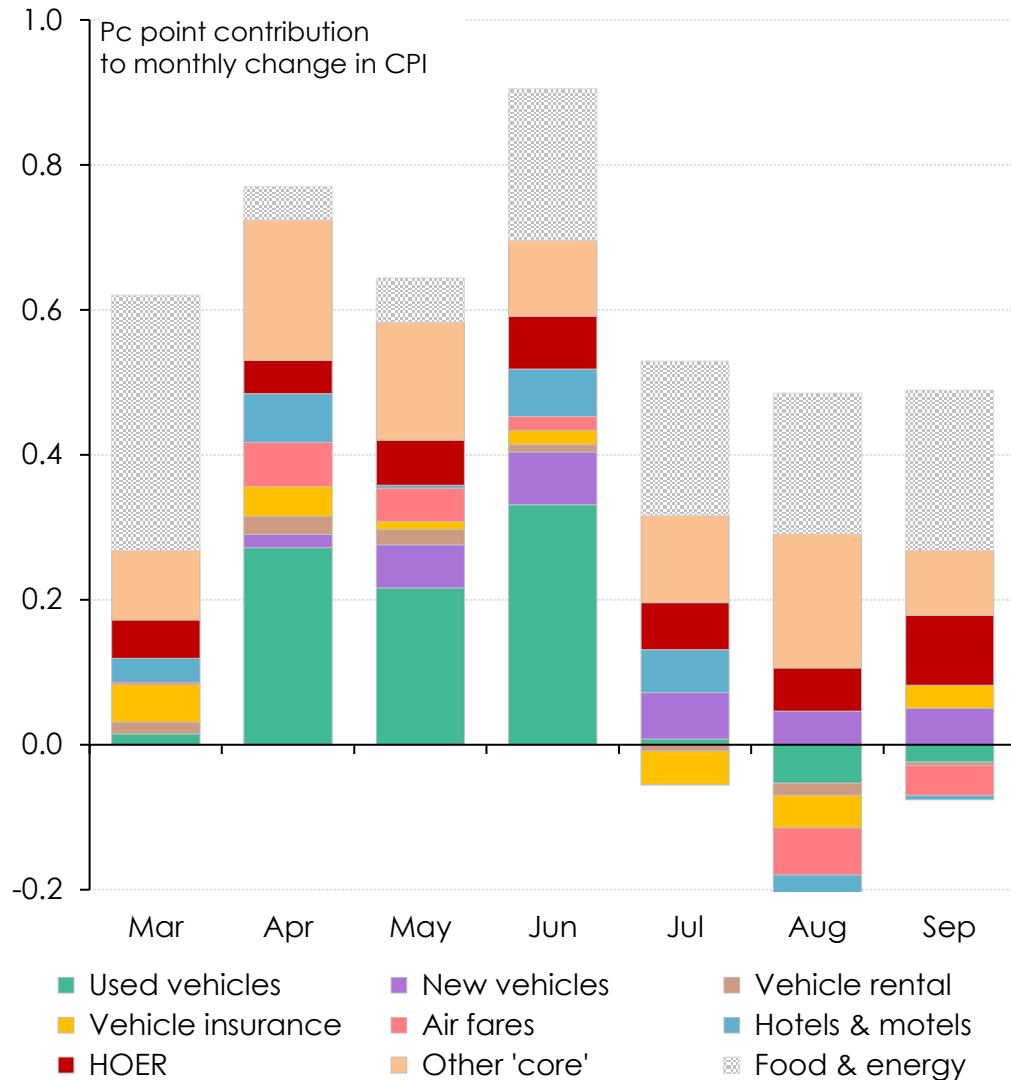
Employment to population ratio



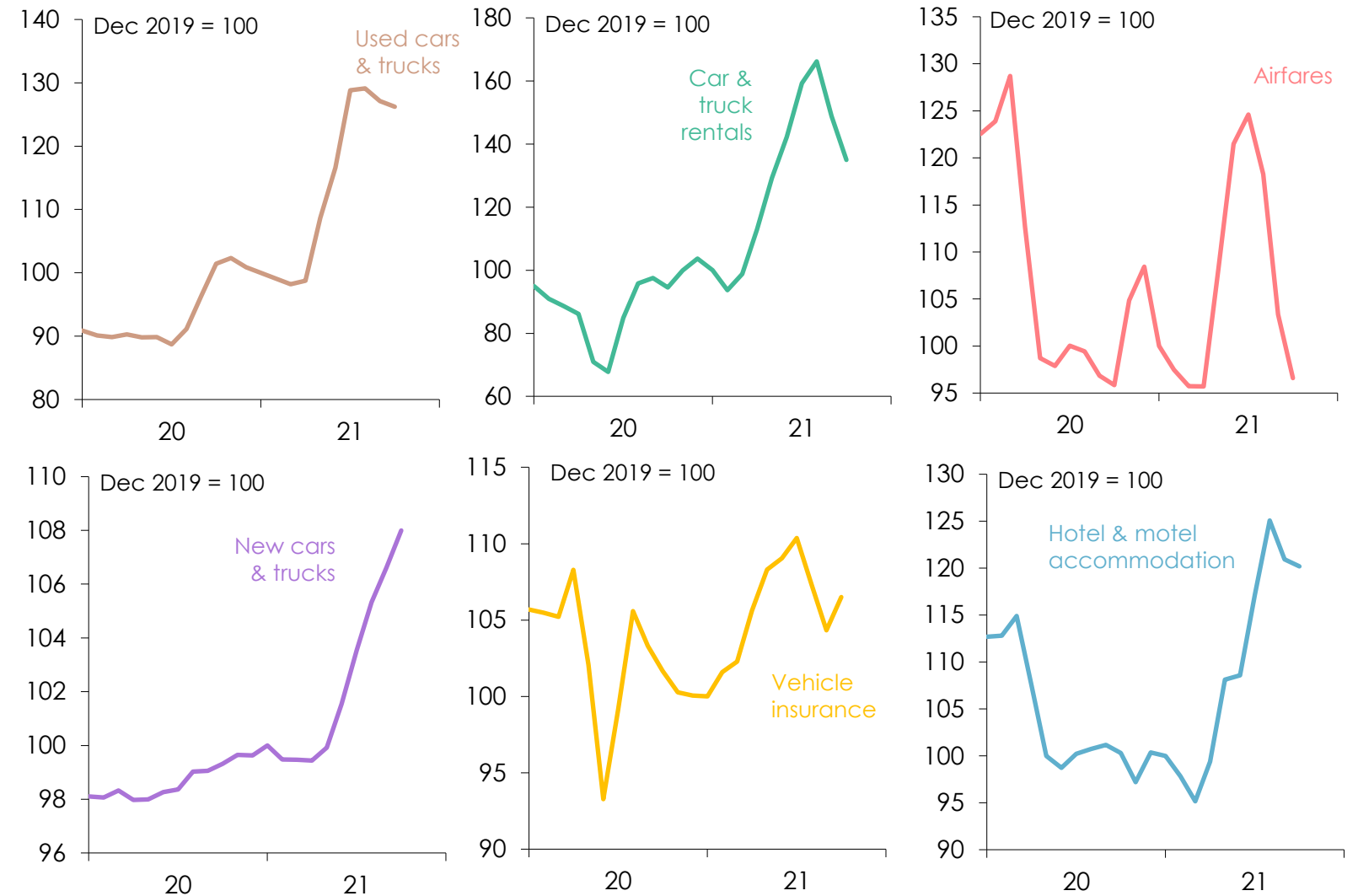
Sources: US [Department of Labor](#); US [Bureau of Labor Statistics](#); National Bureau of Economic Research [Macro History database](#). September employment and other labour force data will be released on 5th November. [Return to "What's New"](#).

Most of the contributors to the 'spike' in 'core' inflation earlier this year have since abated – pressure is now coming from food, energy and housing

Contributions to recent monthly changes in CPI excluding food and energy



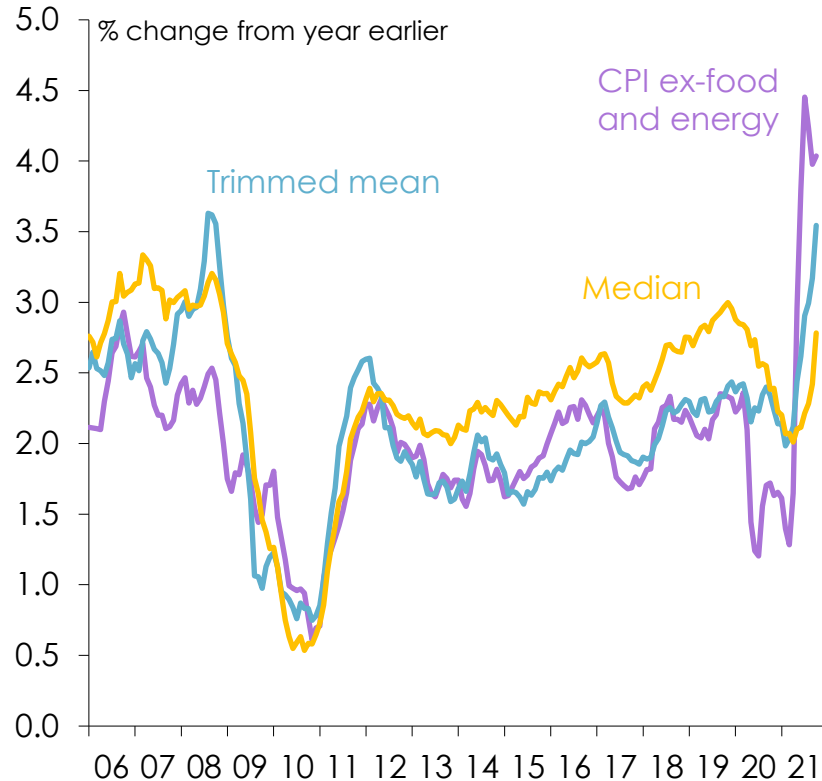
Price indices for items which have contributed most to recent monthly changes in the 'core' US CPI (rebased to December 2019 = 100)



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

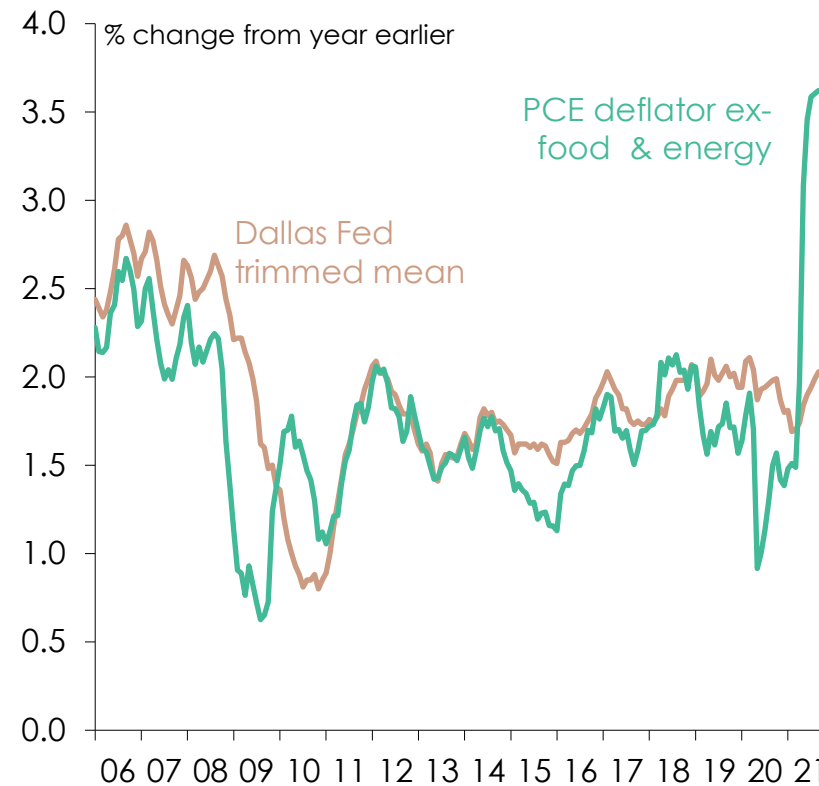
Statistical measures of 'core' inflation haven't risen as much as 'exclusion-based' ones – and long-run inflation expectations remain fairly stable

Alternative measures of US 'core' CPI inflation



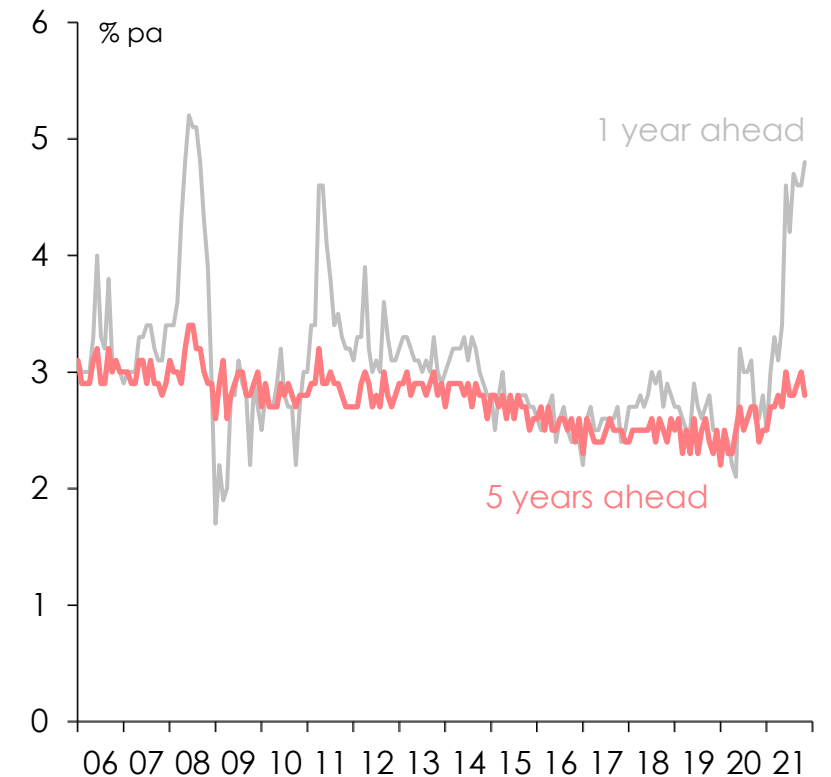
- ❑ Statistical measures (similar to those used by the RBA) confirm that the rise in 'core' CPI inflation is almost entirely due to 'outliers' (see previous slide)

Alternative measures of US 'core' PCE deflator inflation



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

Household inflationary expectations

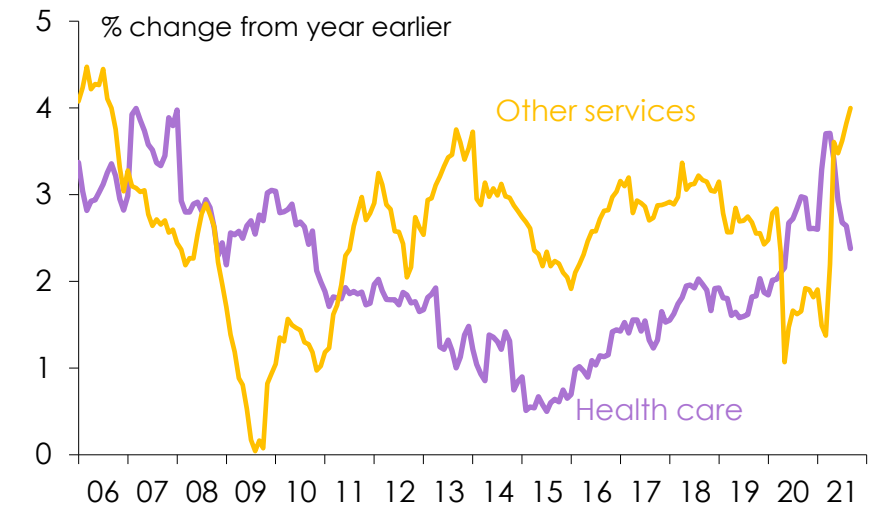
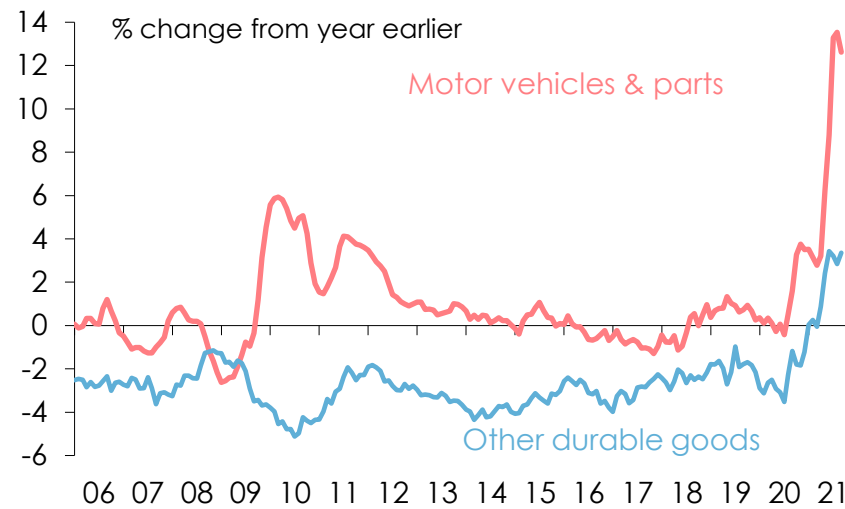
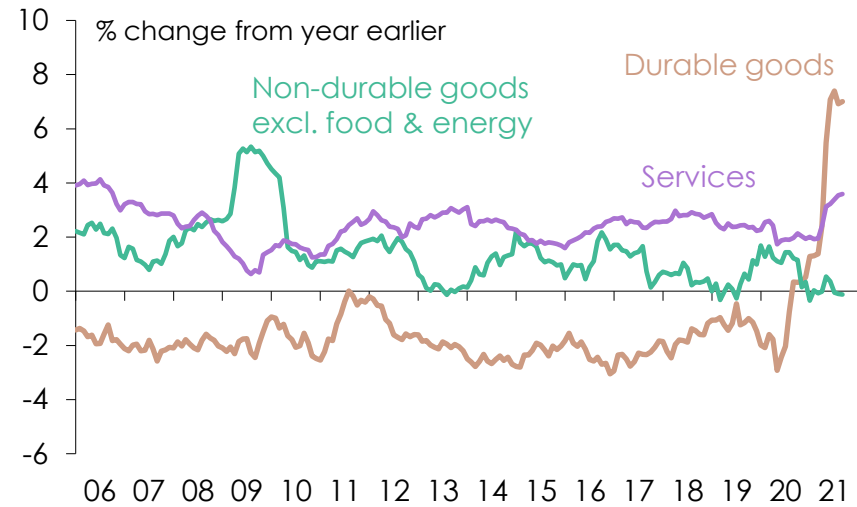


- ❑ Short-term household inflation expectations have risen sharply, but longer-term expectations remain "well anchored" (in Fed-speak)

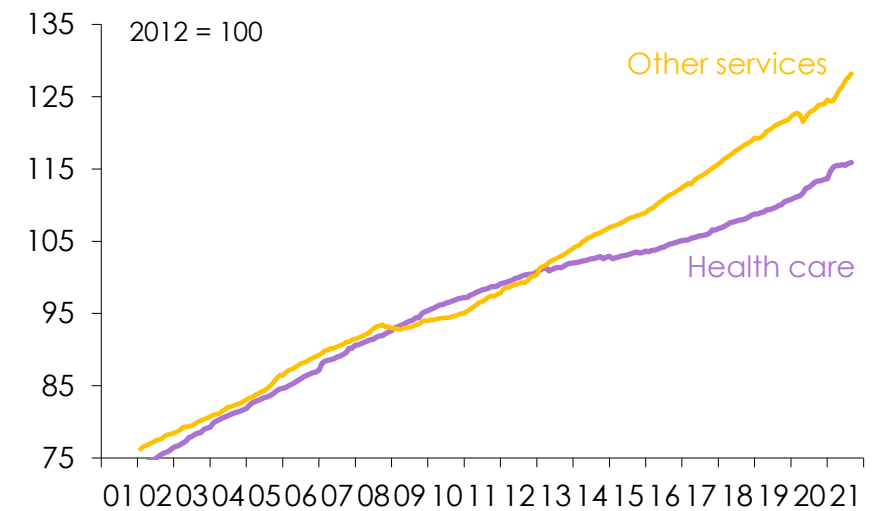
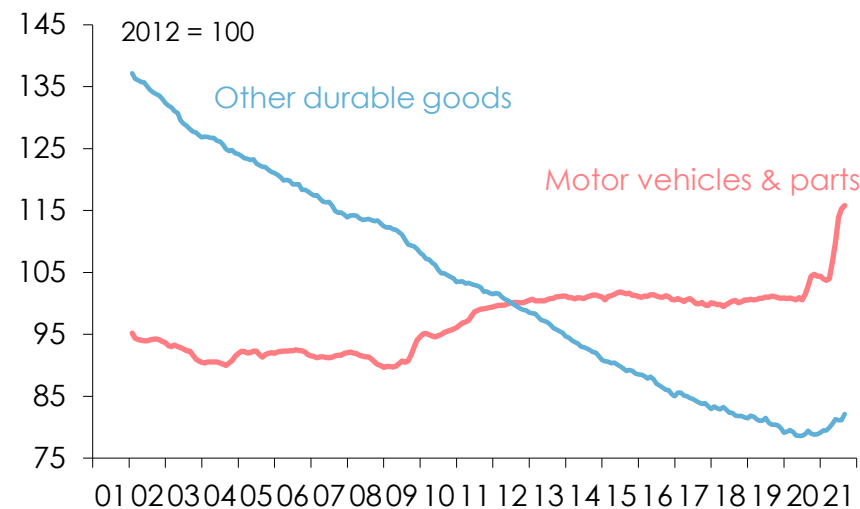
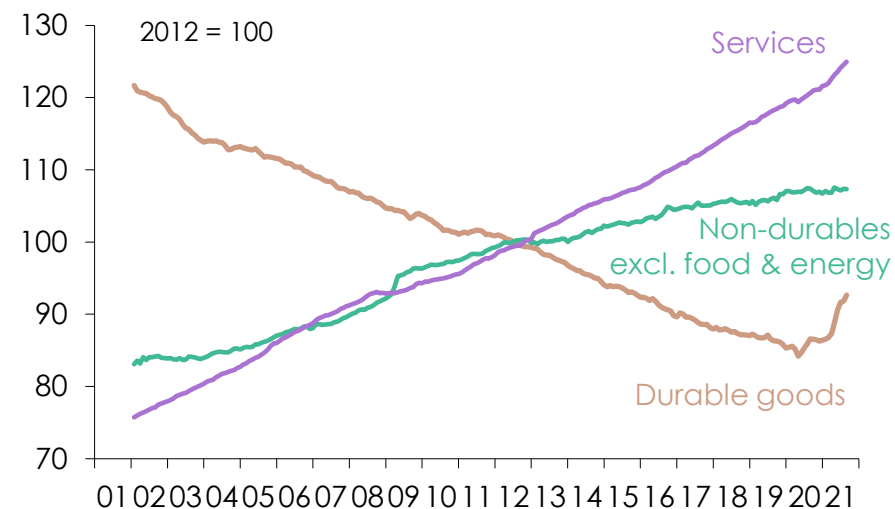
Note: The 'trimmed mean' CPI inflation rate excludes the components of the CPI whose weights fall in the top and bottom 8% of the distribution of price changes; the median is the component whose price change is in the middle of the distribution of price changes. The 'trimmed mean' of the PCE deflator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

PCE price deflators highlight the significant role of durable goods in the 'disinflation' of the past 20 years and the more recent 'spike' in inflation

Implicit price deflators of personal consumption expenditures – per cent changes over 12-month intervals



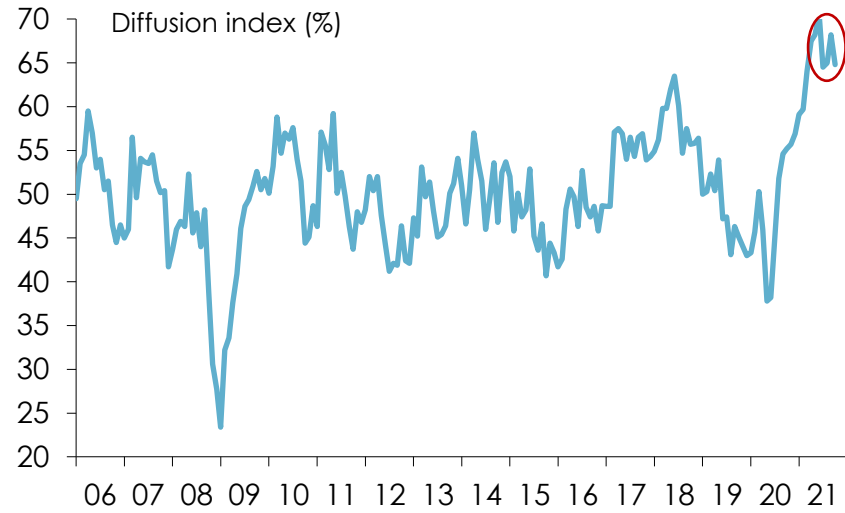
Implicit price deflators of personal consumption expenditures – levels



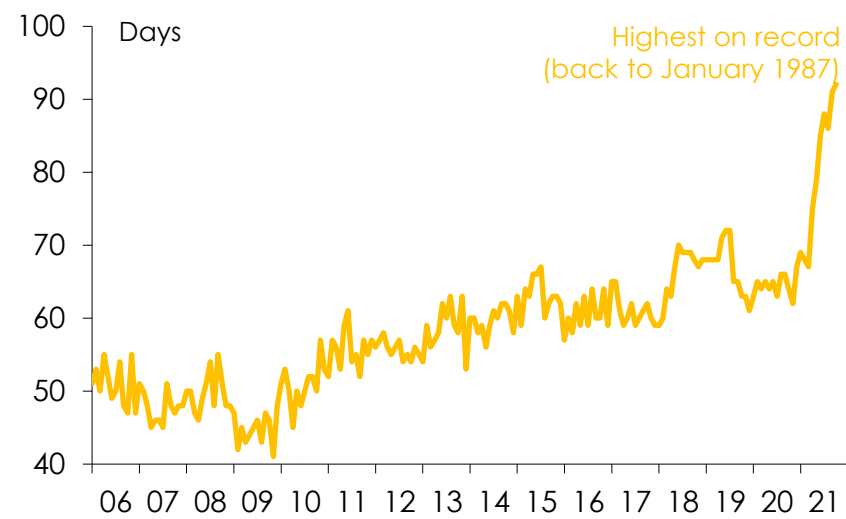
Source: [US Bureau of Economic Analysis](#). [Return to "What's New"](#).

There have been some serious supply-chain difficulties in the US – particularly in the auto sector – but they may have now peaked

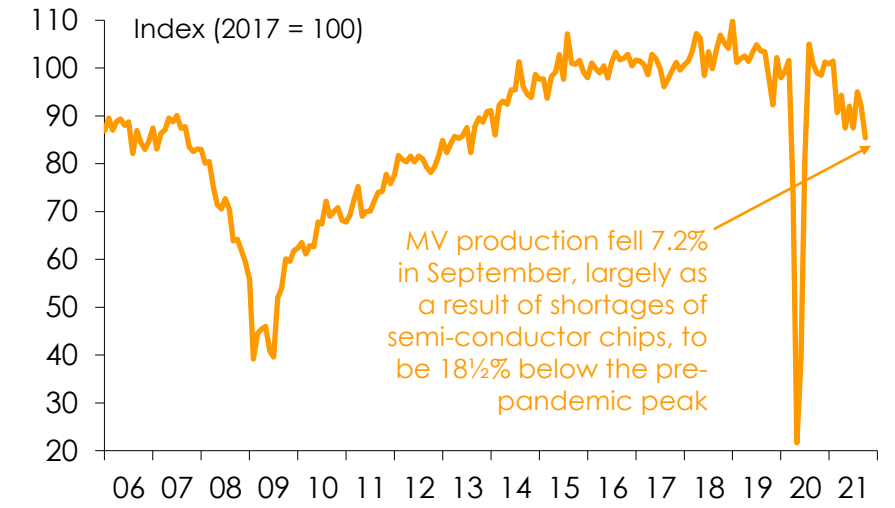
Manufacturers' order backlogs



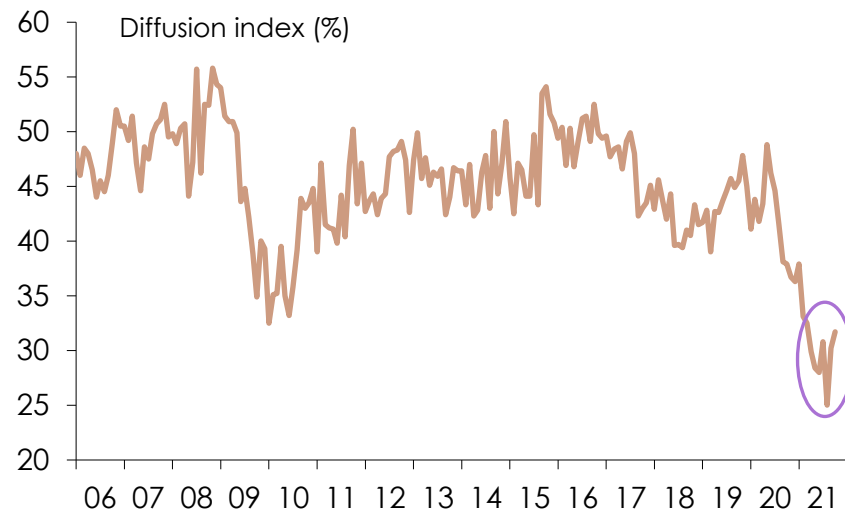
Lead-time for production materials



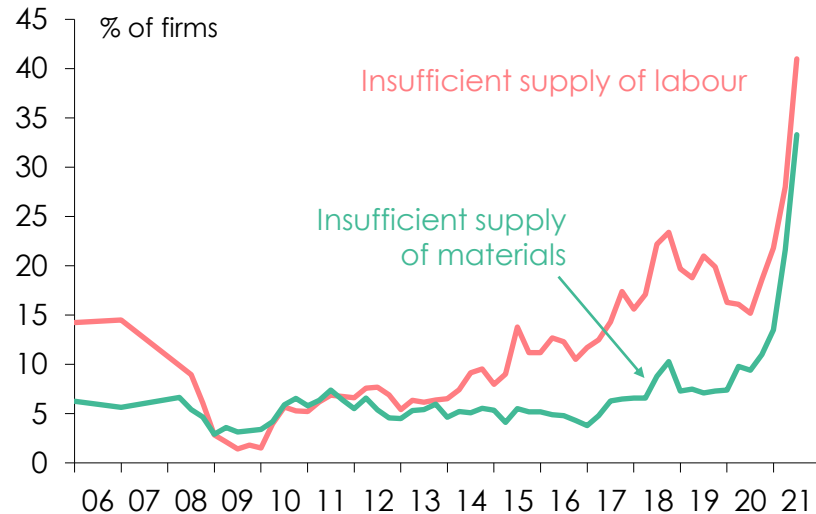
Motor vehicles & parts production



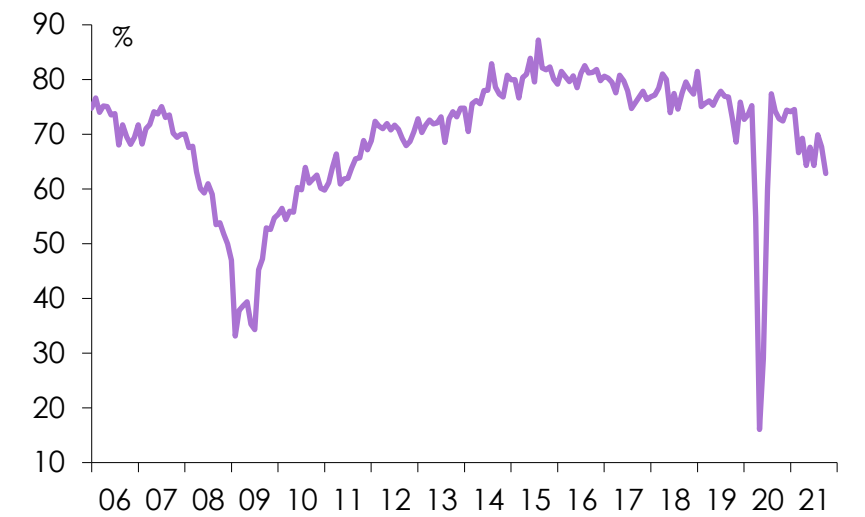
Manufacturers' customer inventories



Reasons for < full capacity



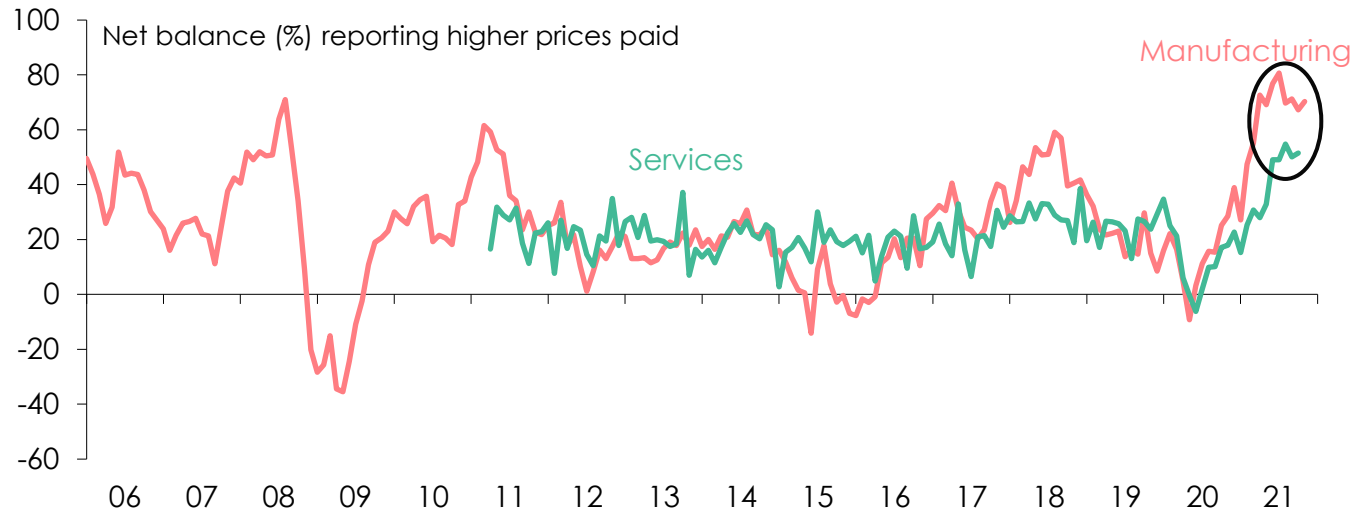
Auto industry capacity utilization



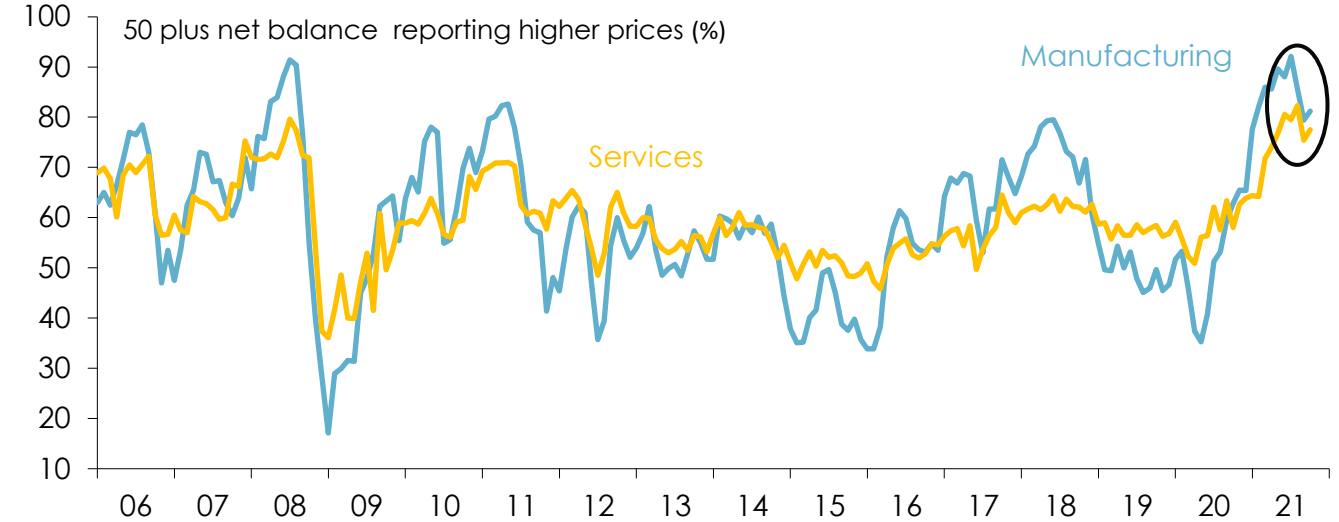
Note: The diffusion index of order backlogs is 50 plus the percentage of respondents reporting longer backlogs minus the percentage reporting shorter backlogs (and similarly for customer inventories). 'Reasons for < full capacity' means reasons for operating at less than full capacity. Sources: Institute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

Survey measures also suggest that 'upstream' price pressures in the US may be peaking – and import price inflation could also be easing

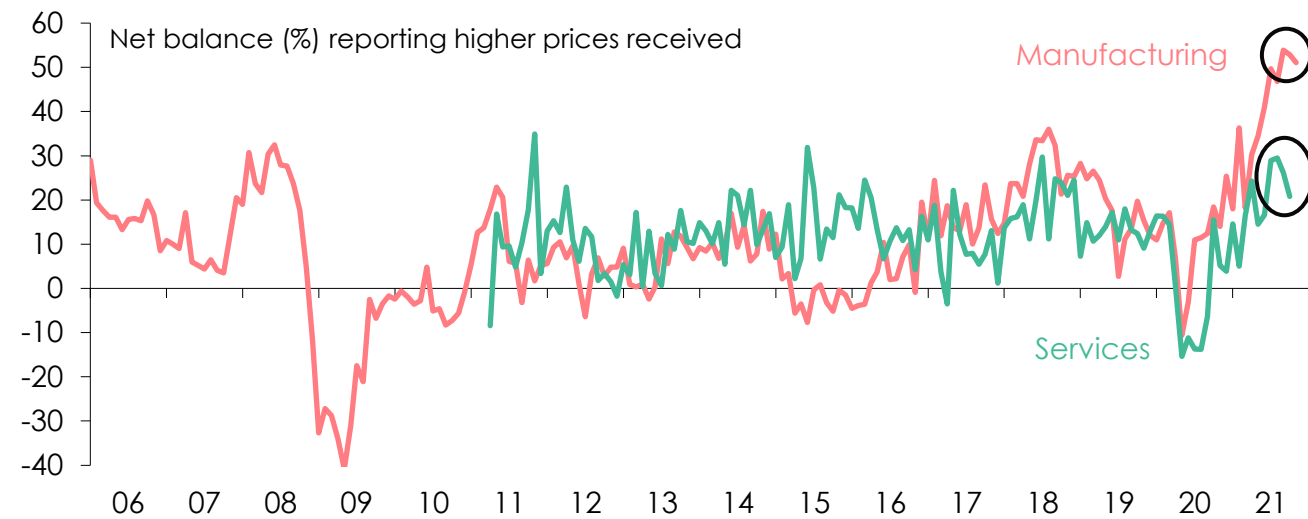
Philadelphia Fed survey – prices



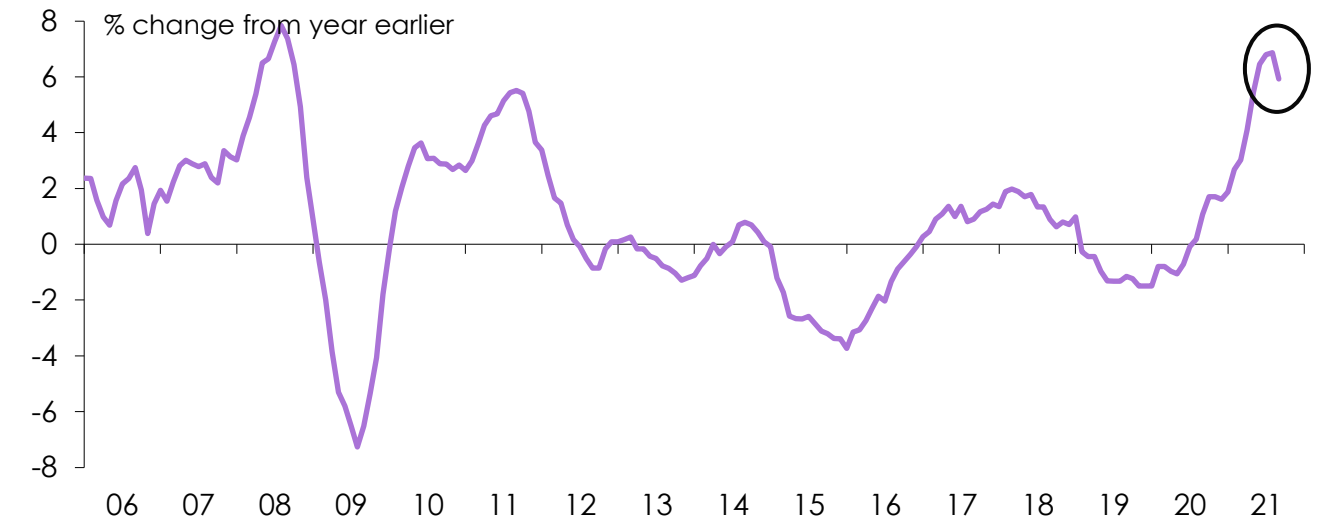
ISM survey – prices paid



'Philadelphia Fed survey – prices received



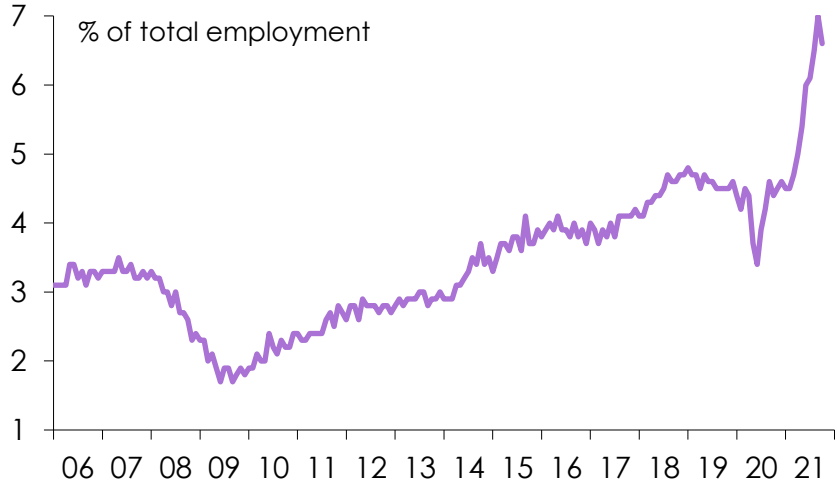
Import prices (excluding petroleum)



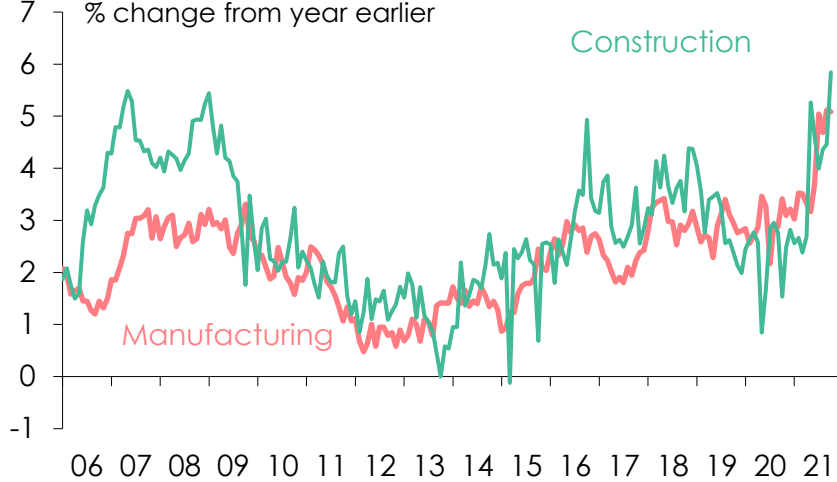
Note: The usefulness of the Business Outlook surveys conducted by the Federal Reserve Bank of Philadelphia is that the area which it covers (eastern and central Pennsylvania, southern New Jersey and Delaware) is a reasonable proxy for the broader US economy. Sources: [Federal Reserve Bank of Philadelphia](#); [Institute for Supply Management](#); [US Bureau of Labor Statistics](#). 'Return to "What's New".'

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

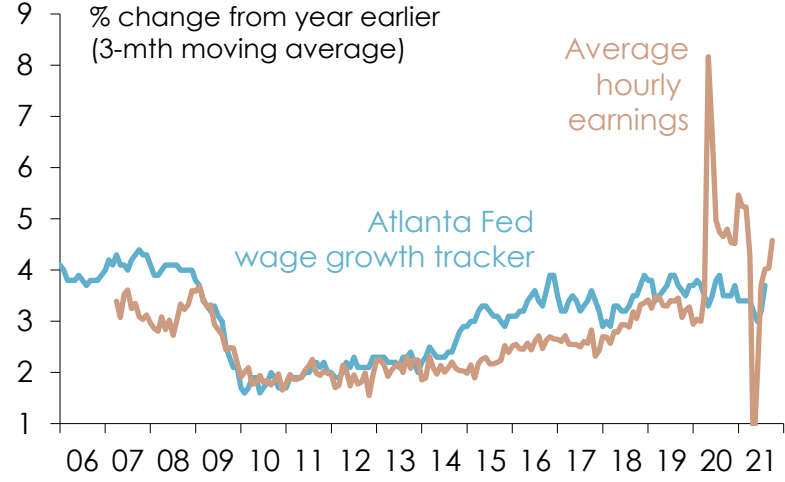
Job openings



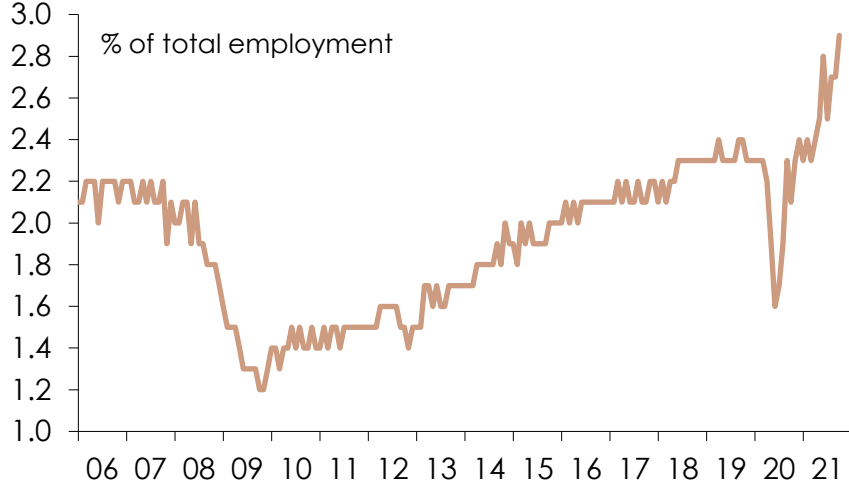
Average hourly earnings



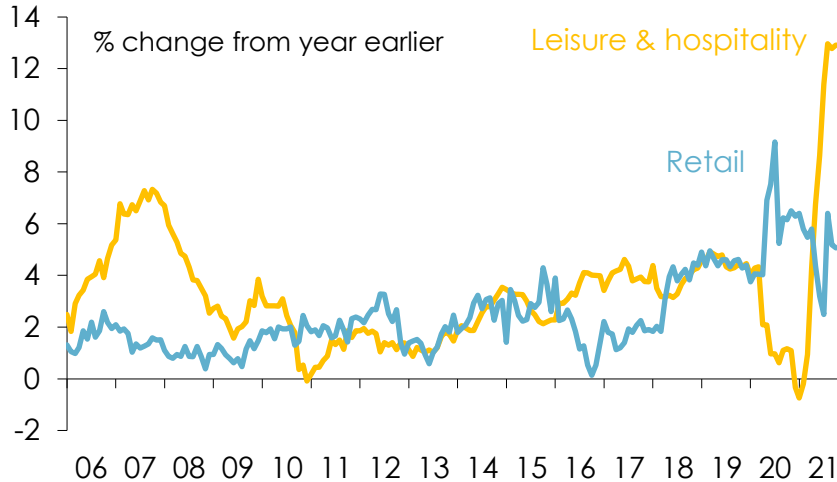
Overall wages growth - monthly



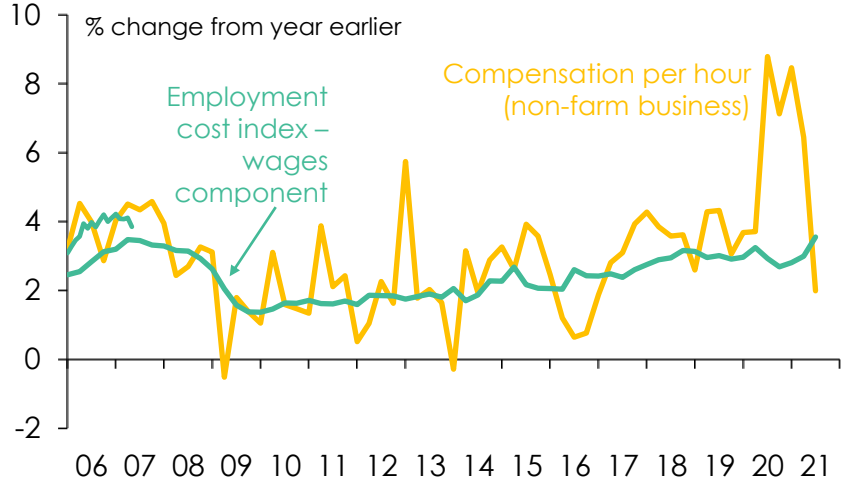
Quit rate



Average hourly earnings



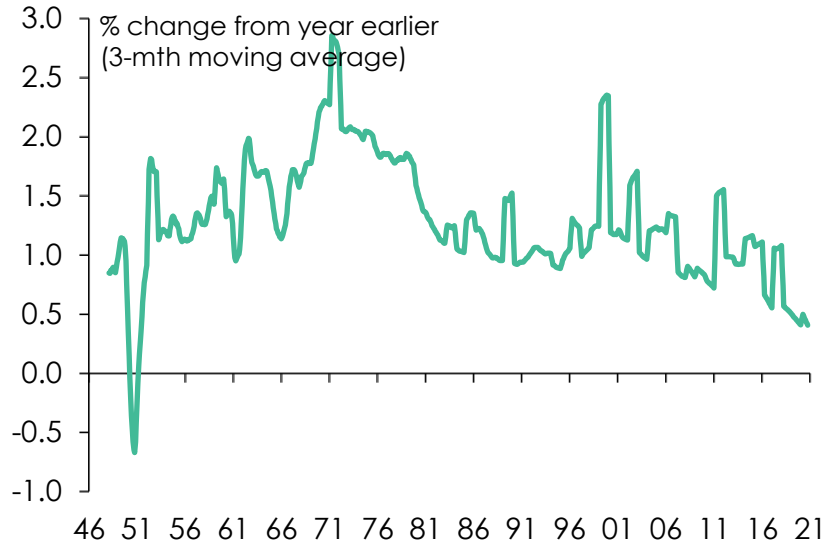
Wages growth - quarterly



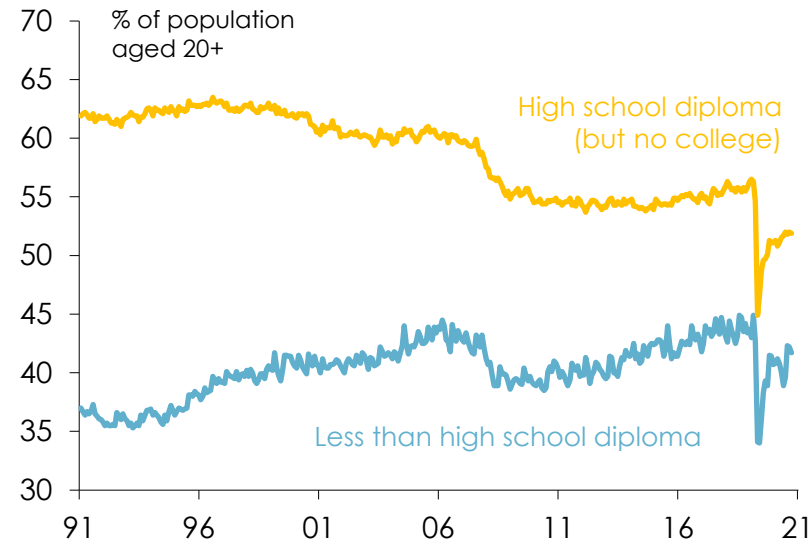
Note: Measures of average hourly earnings (especially the all-industries measures) and of average compensation per hour are affected by changes in the composition of employment (so for example they rose sharply in Q2 2020 when large numbers of low-paid workers were laid off and fell markedly when they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

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

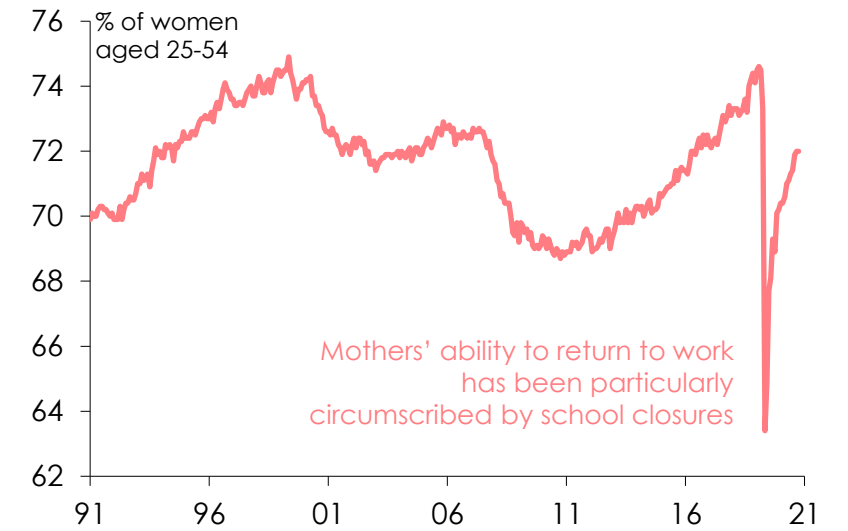
Civilian working age population



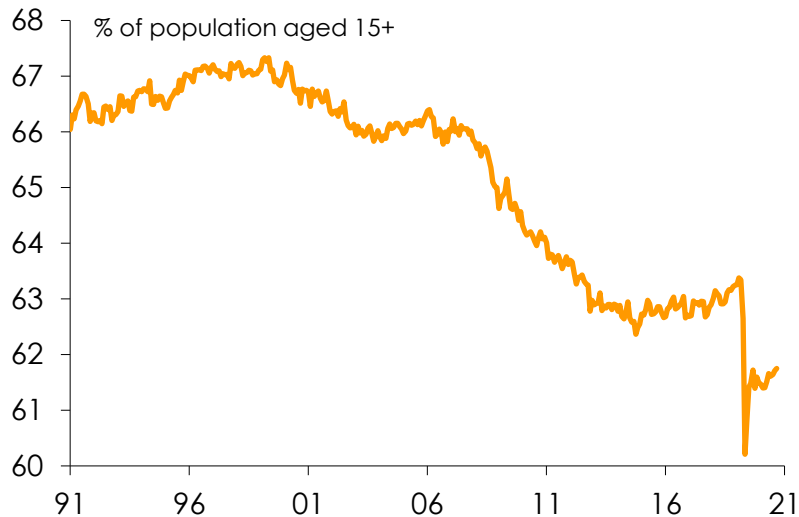
'E-pop' ratio – by education



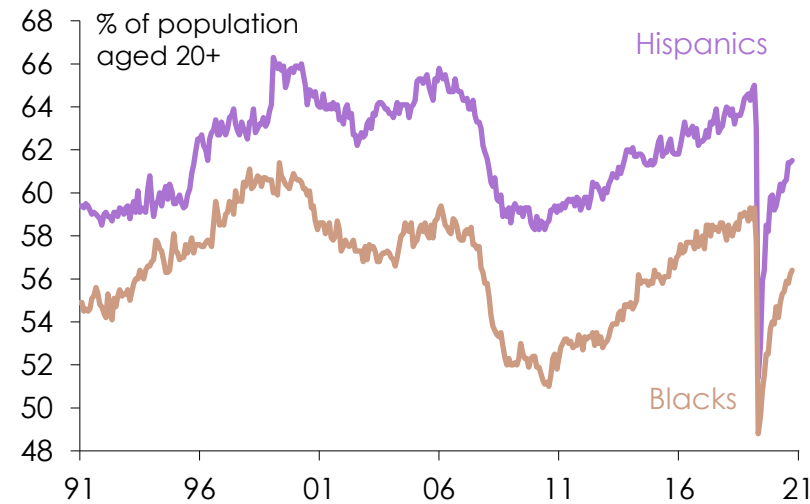
'E-pop' ratio – women 25-54



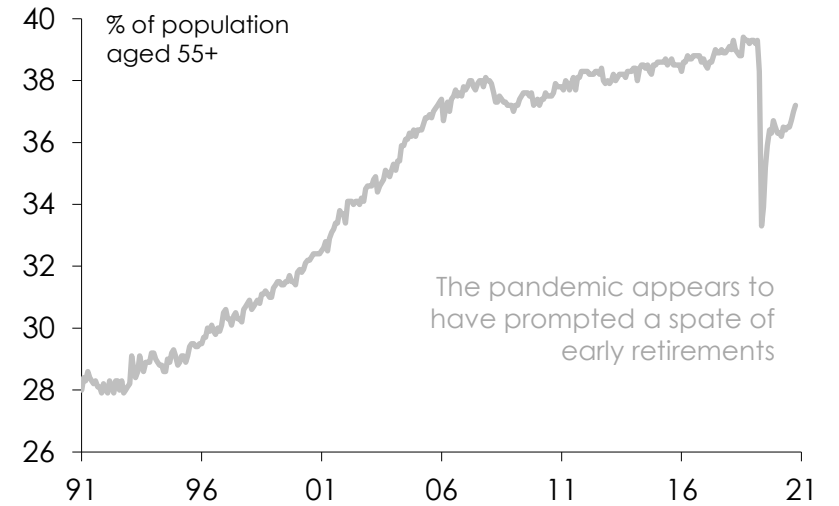
Employment-to-population ratio



'E-Pop' ratio – Blacks & Hispanics



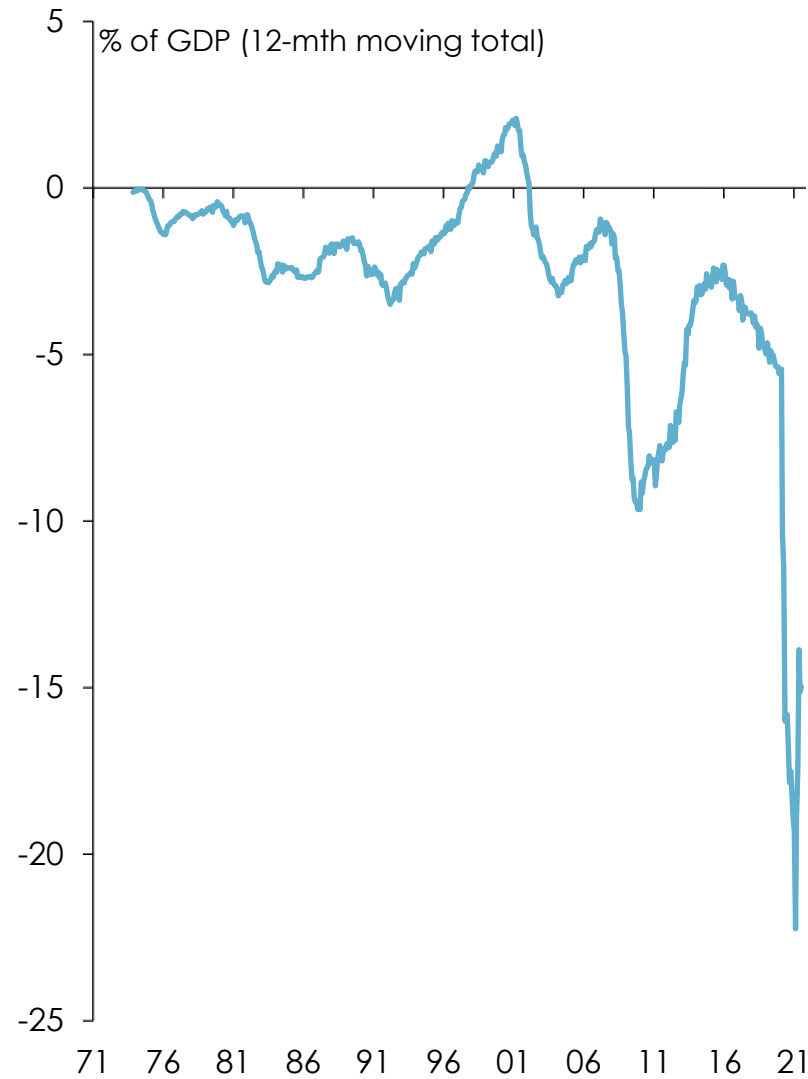
'E-pop' ratio – people 55 & over



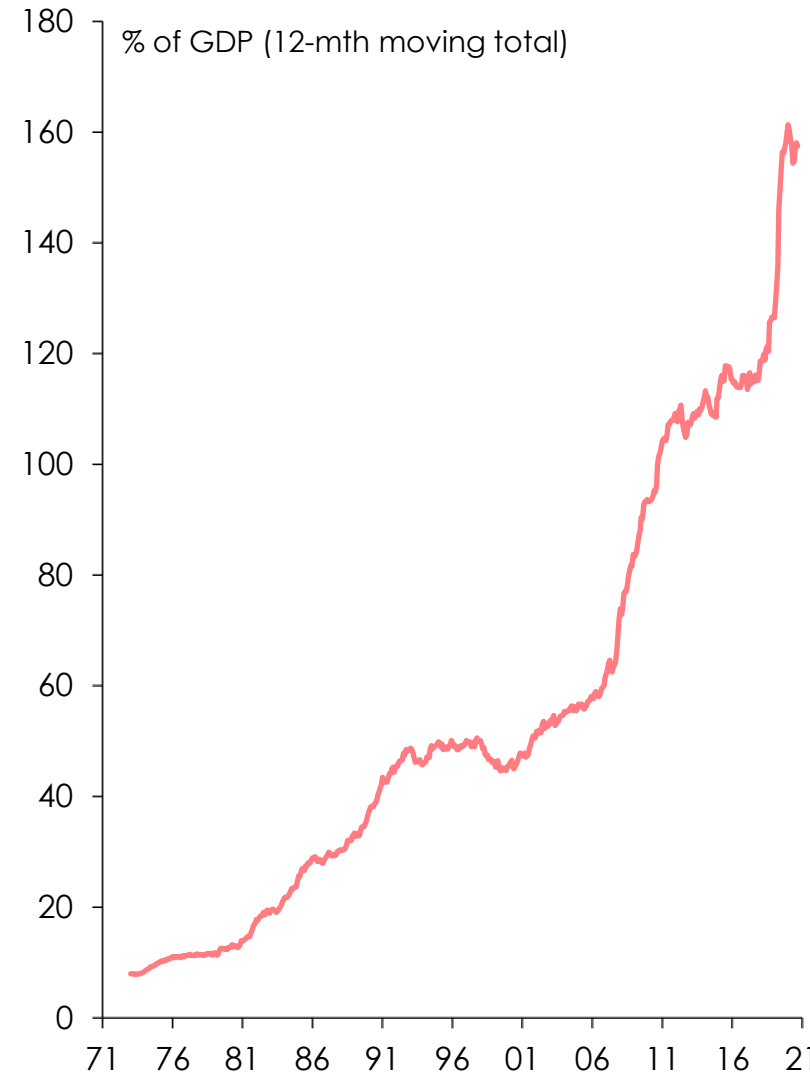
Source: US Bureau of Labor Statistics, [Current Employment Statistics](#).

Congress has now passed legislation temporarily raising the debt ceiling until early December, averting a possible shutdown this month

US Federal budget deficit



US gross Federal debt

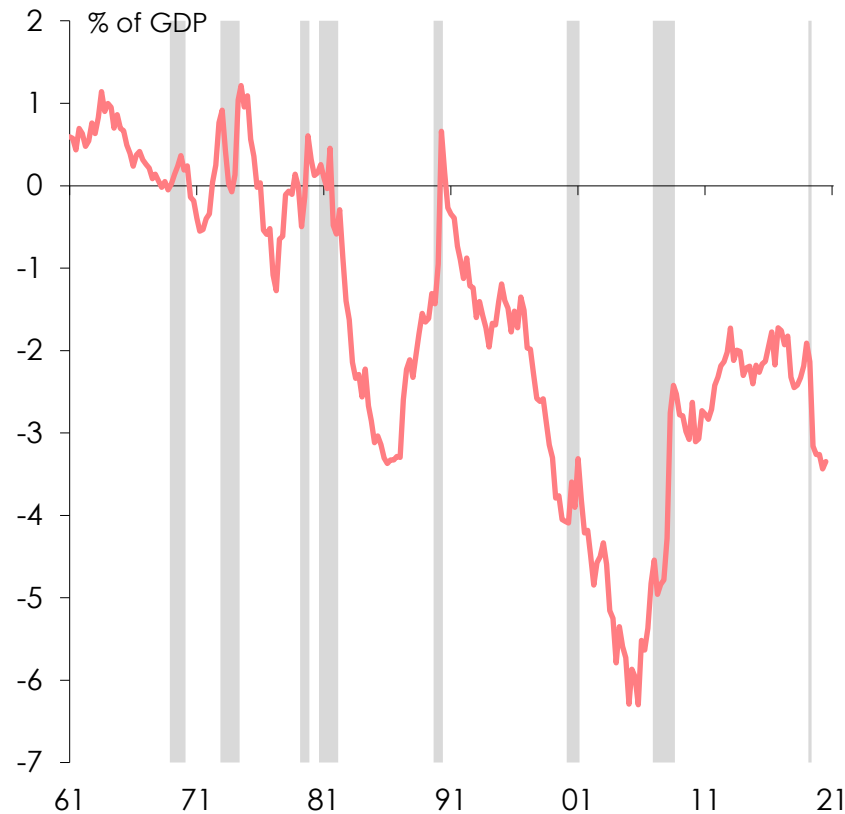


- ❑ The US Federal Government budget deficit narrowed by US\$132bn to \$171bn in August, largely due to lower spending on pandemic-related relief programs
- ❑ The deficit for the 12 months ended August was US\$2.8 trn, down from a peak of \$4.1 trn in the 12 months ended March, but almost exactly the 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
- ❑ Congress has passed legislation raising the US Government's debt ceiling by US\$480bn, which in effect allows the Government to continue operating until around 3rd December
- ❑ Negotiations are continuing on the Administration's infrastructure and other spending proposals, with conservative Senate Democrats likely to force significant reductions in proposed spending increases (and in proposed increases in corporate taxes)

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"](#).

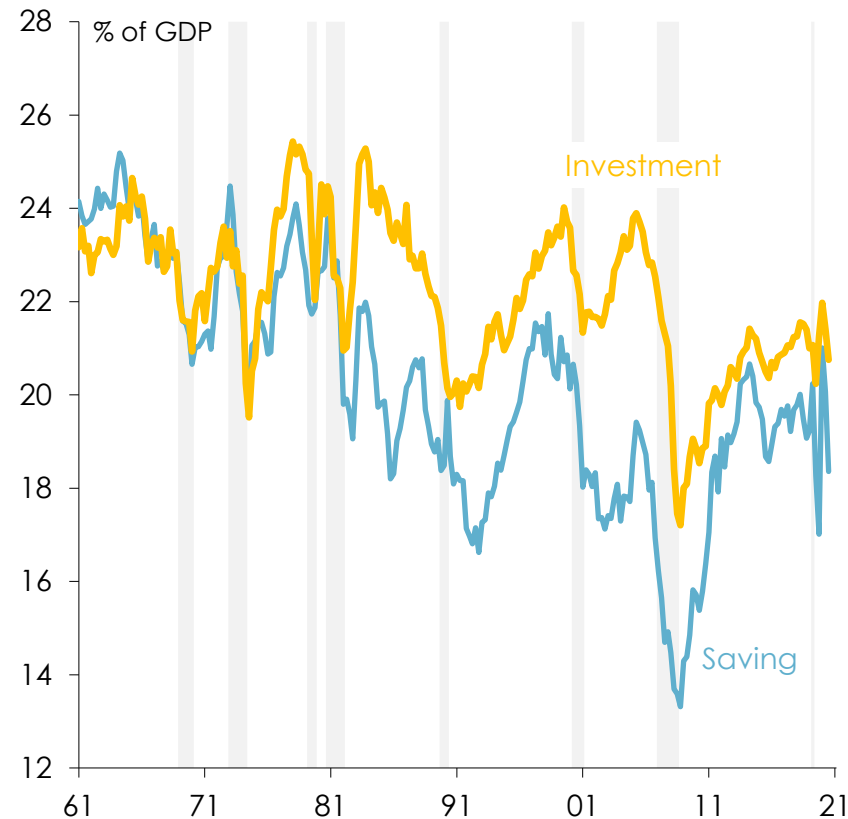
Any 'excess demand' resulting from 'excessive' stimulus is more likely to show up in the US current account deficit than in sustained higher inflation

US current account balance



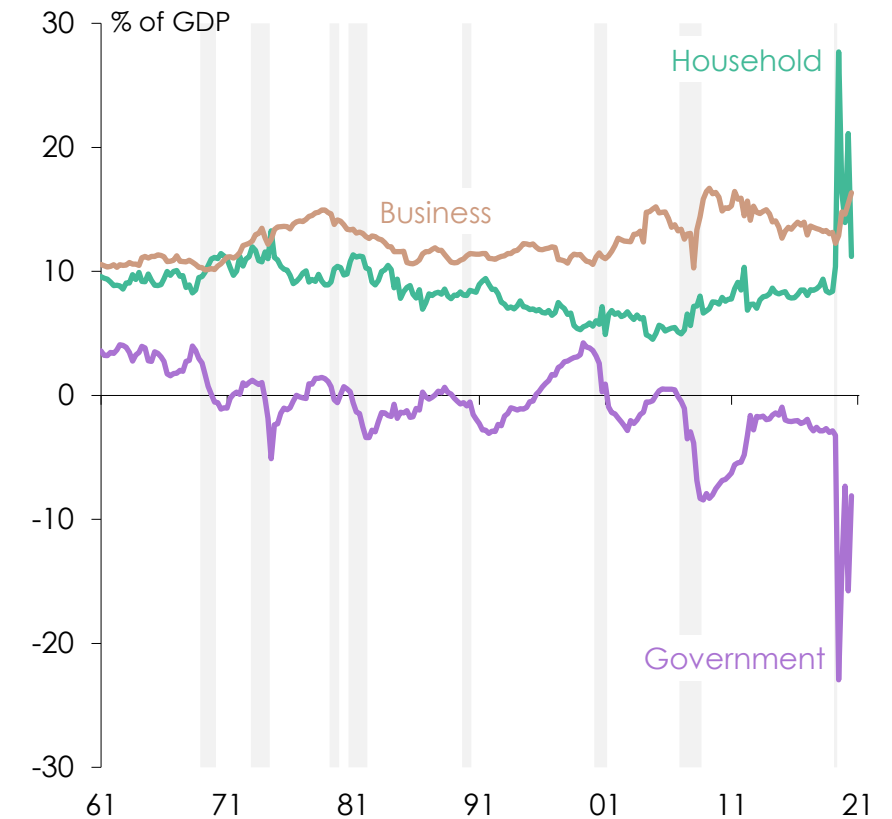
The US current account has *widened* since the recession that began last year – and in the first half of this year has been larger (as a pc of GDP) than at any time since the financial crisis

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



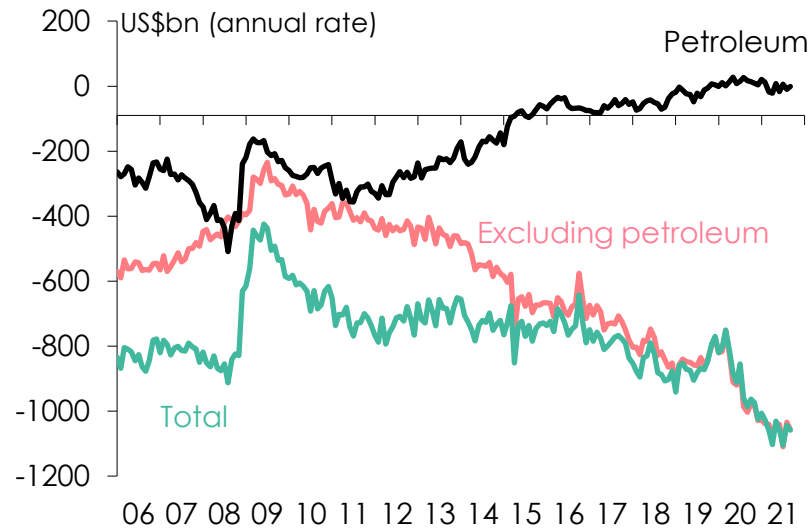
The dramatic increase in the budget deficit has been largely (but not totally) offset by an increase in household saving

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

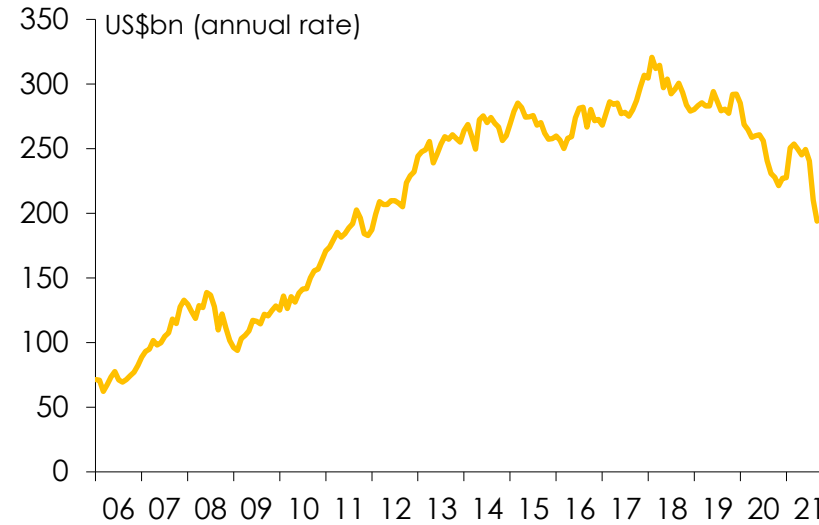
Source: US [Bureau of Economic Analysis](#). [Return to "What's New"](#).

The US recorded a new record goods and services trade deficit in August, continuing a deterioration evident since the onset of Covid-19

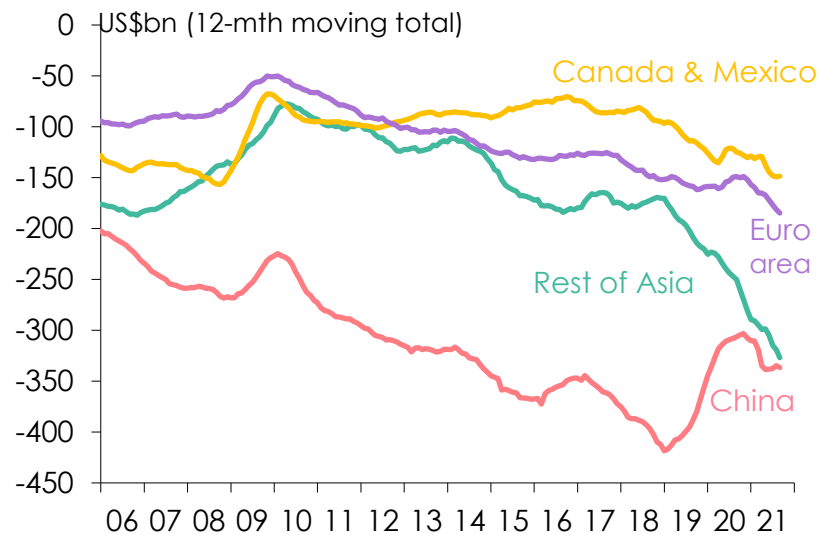
US goods trade balance



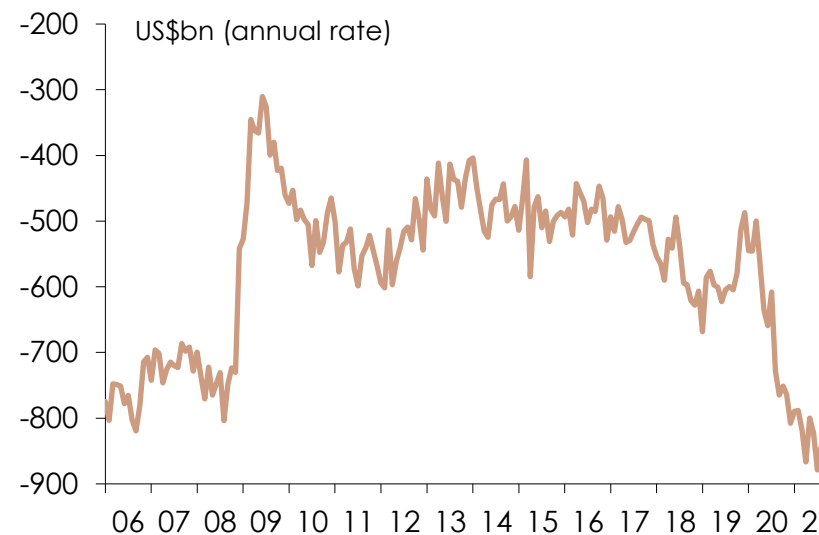
US services trade balance



US bilateral goods trade balances



US goods & services trade balance

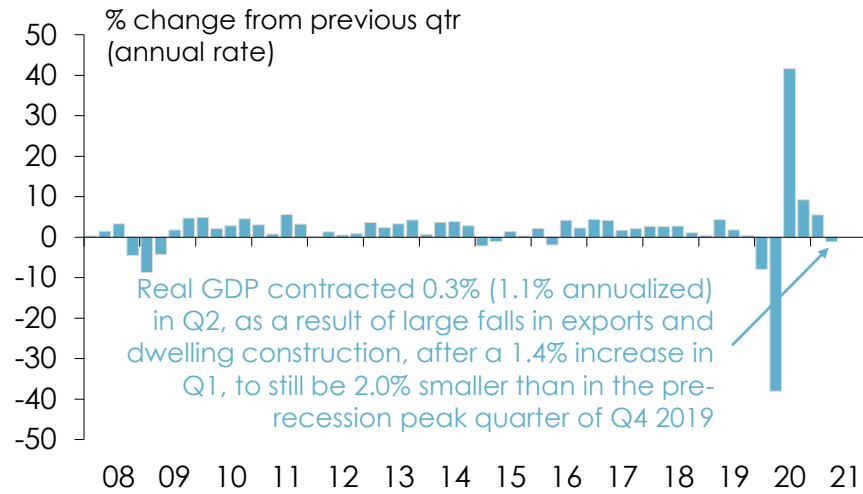


- The US goods trade deficit widened by US\$1.6bn to \$89.4bn in August
 - exports rose 0.7%, after a 1.8% increase in July, while imports rose 1.1%, cf a fall of 1.2% in July
 - August's was the second-largest monthly deficit on record (the largest was \$93.3bn in June)
- The services surplus narrowed by \$1.4bn to \$16.2bn in July, the smallest since December 2011
 - services exports fell 0.1% and imports 2.8%
- The combined goods and services deficit in August was a record \$73.3bn, \$3.0bn more than in July and \$0.1bn more than the previous record in June
 - for the first eight months of 2021 the goods and services deficit was \$558bn, compared with \$417bn in the first eight 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

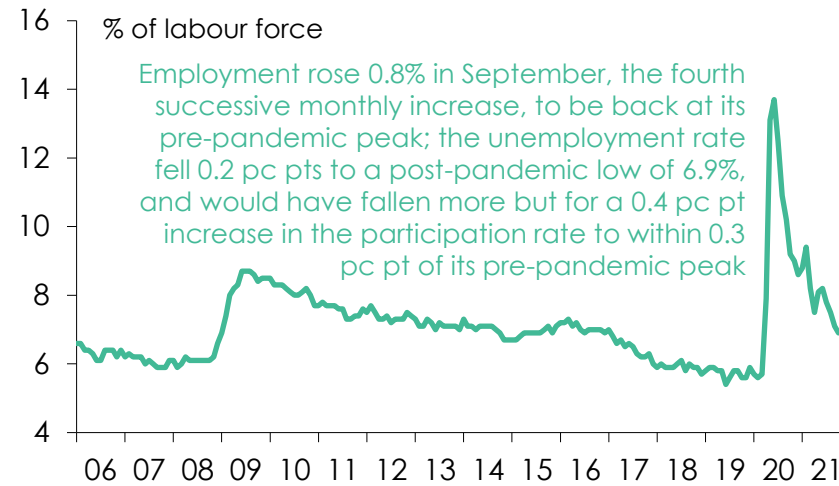
Source: US [Census Bureau](#). [Return to "What's New"](#).

Employment in Canada is now back to its pre-pandemic peak (as of September) – and Canada is also now running trade surpluses

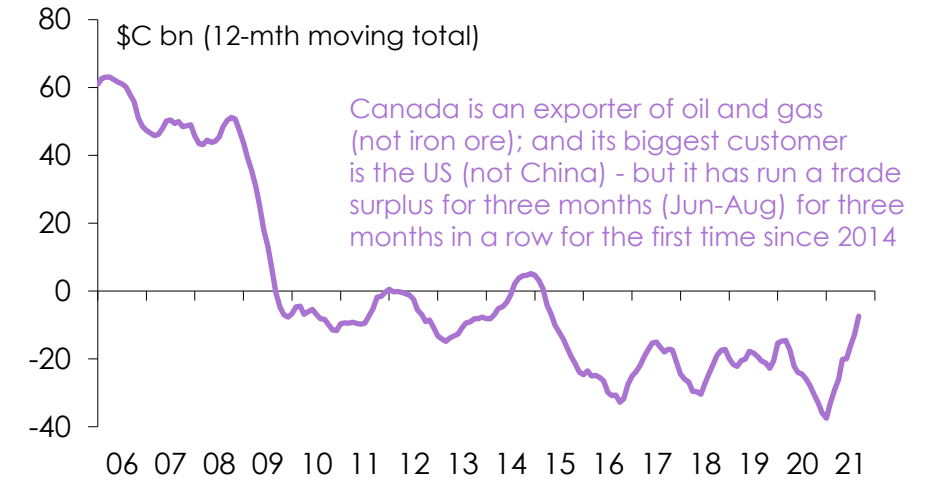
Real GDP



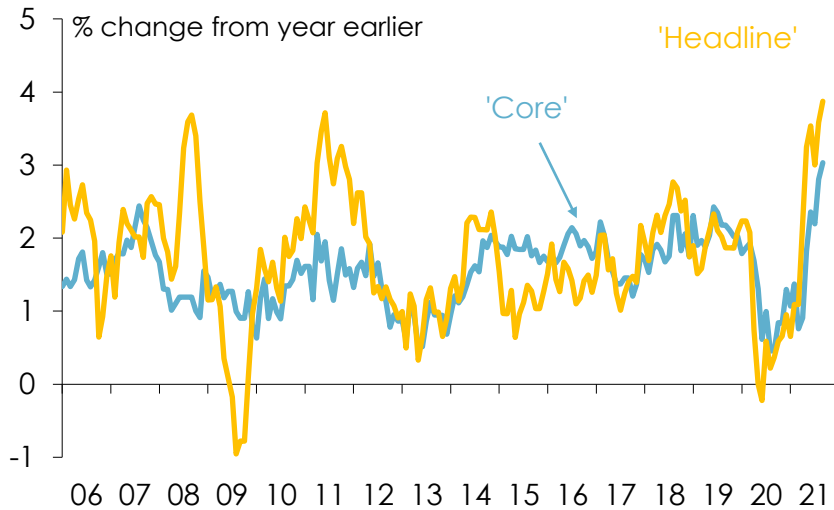
Unemployment rate



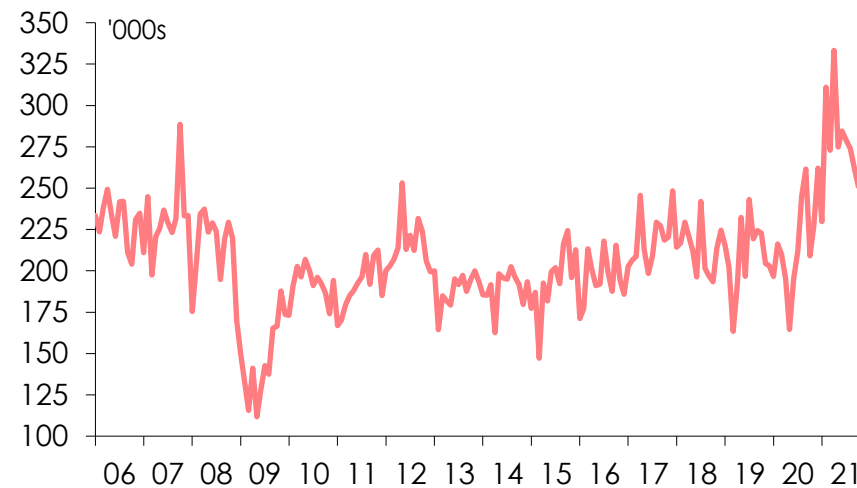
Merchandise trade balance



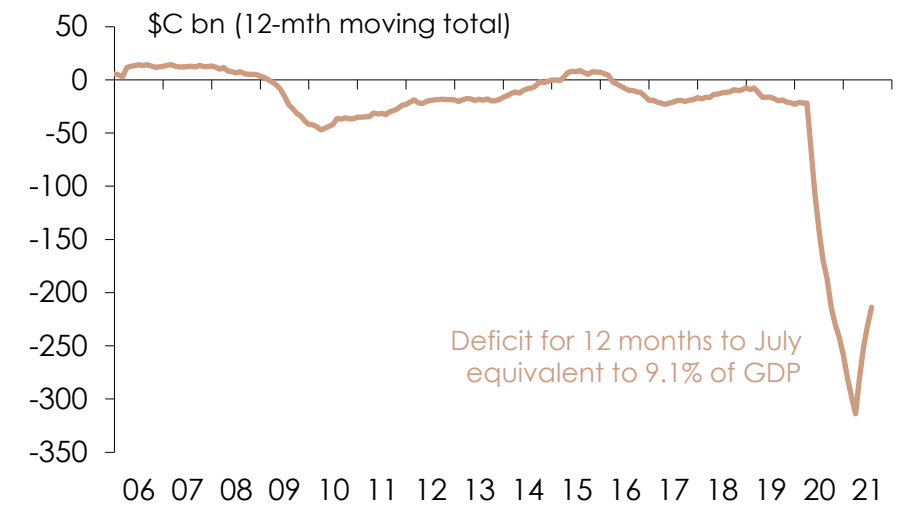
Consumer prices



Housing permits



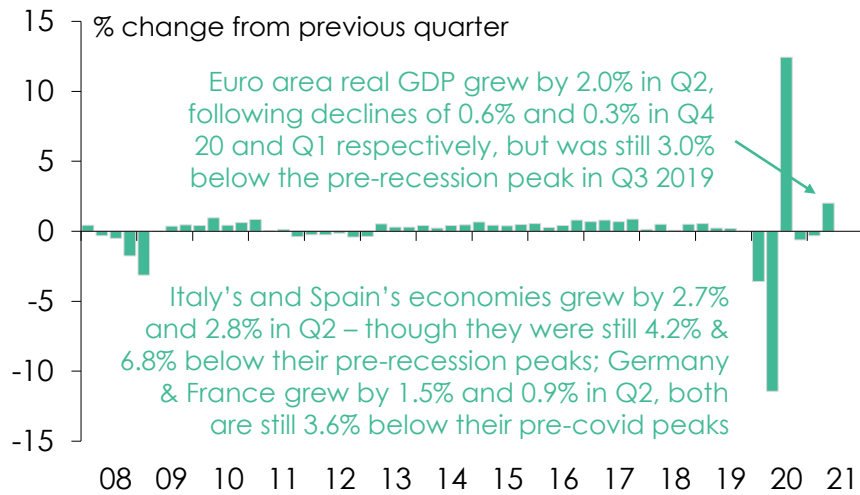
Federal budget balance



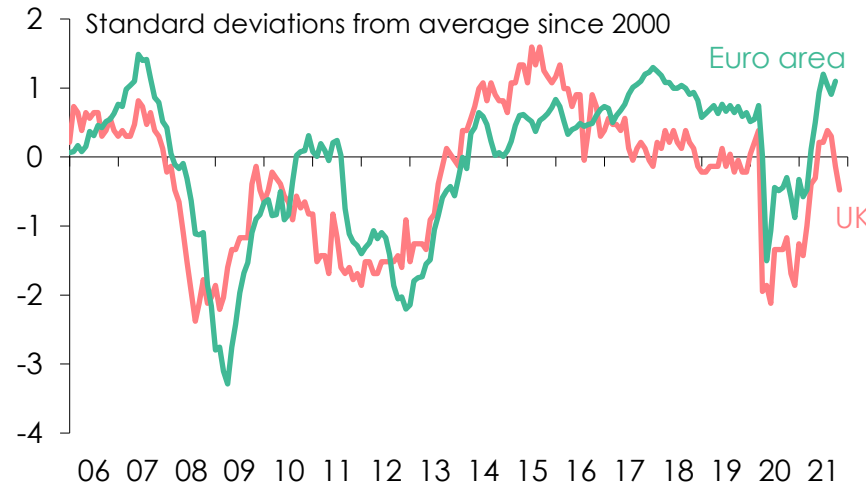
Sources: [Statistics Canada](#); [Teranet-National Bank of Canada](#); [Department of Finance Canada](#). [Return to "What's New"](#).

UK retail sales fell for the fifth month in a row in September, and consumer confidence has weakened in the face of rising energy prices

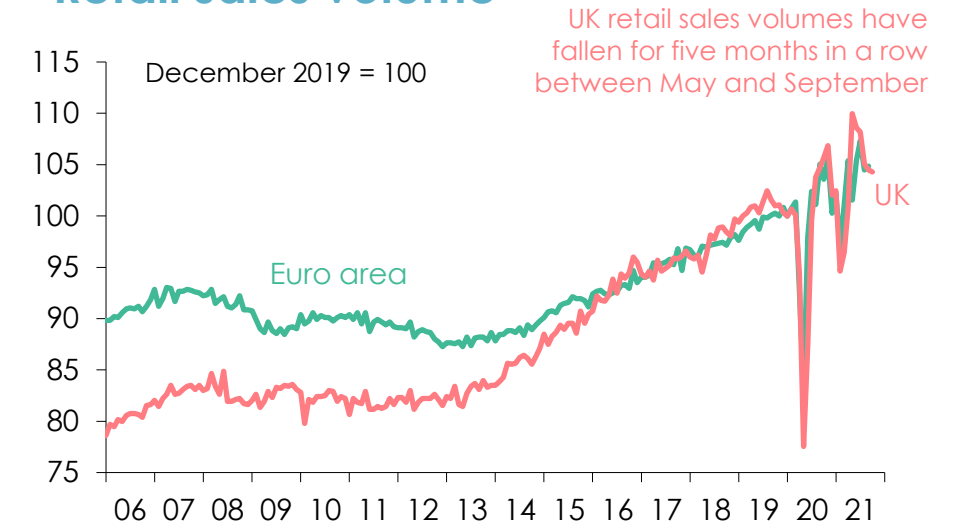
Euro area real GDP



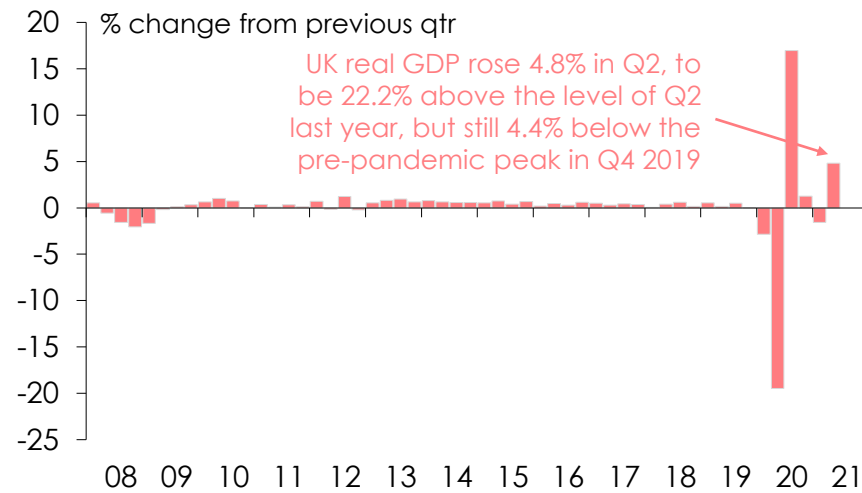
Consumer confidence



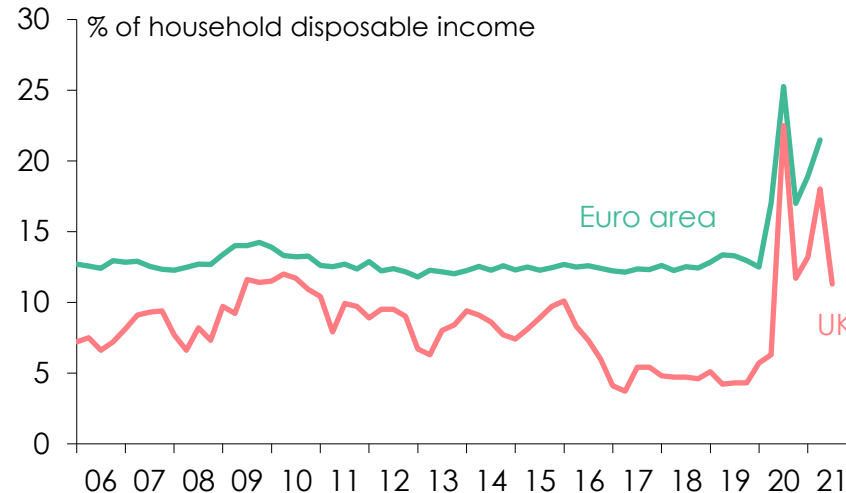
Retail sales volume



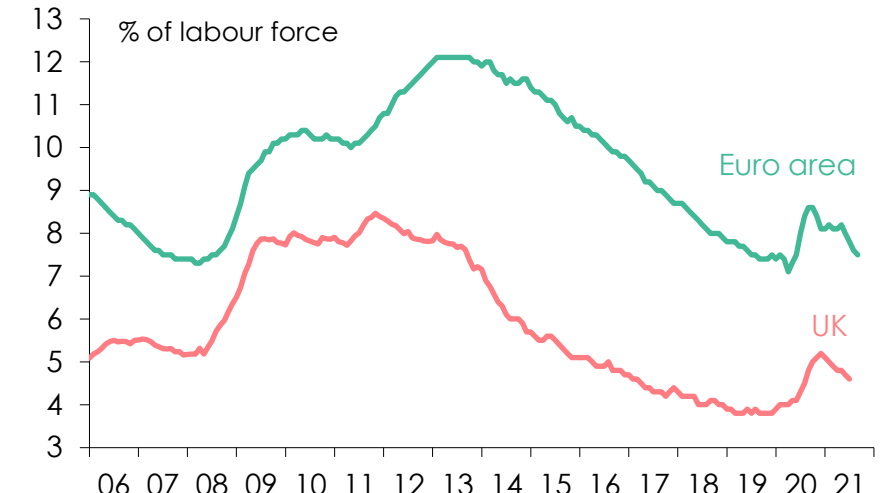
UK real GDP



Household saving ratio



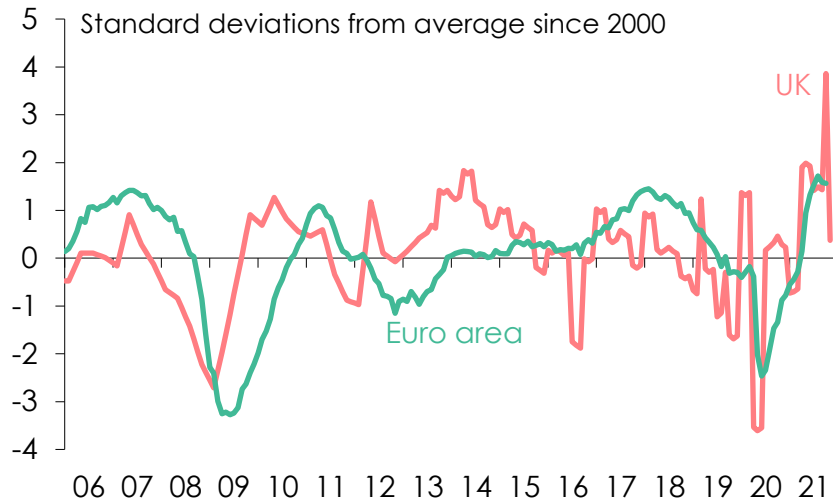
Unemployment



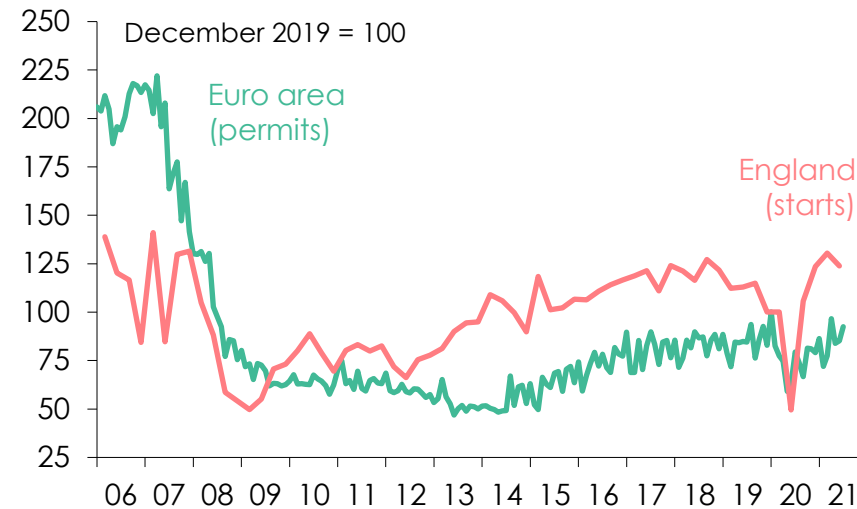
Sources: Eurostat; UK Office for National Statistics; GfK. The UK unemployment rate is published as a 3-month moving average.
[Return to "What's New"](#).

UK business confidence has also fallen sharply as energy prices have spiked, while UK exports have stagnated since 'Brexit'

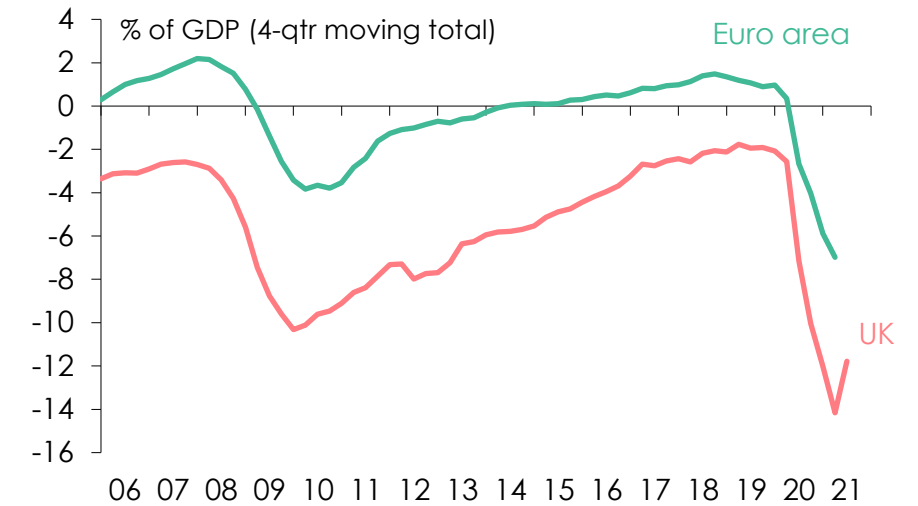
Business confidence



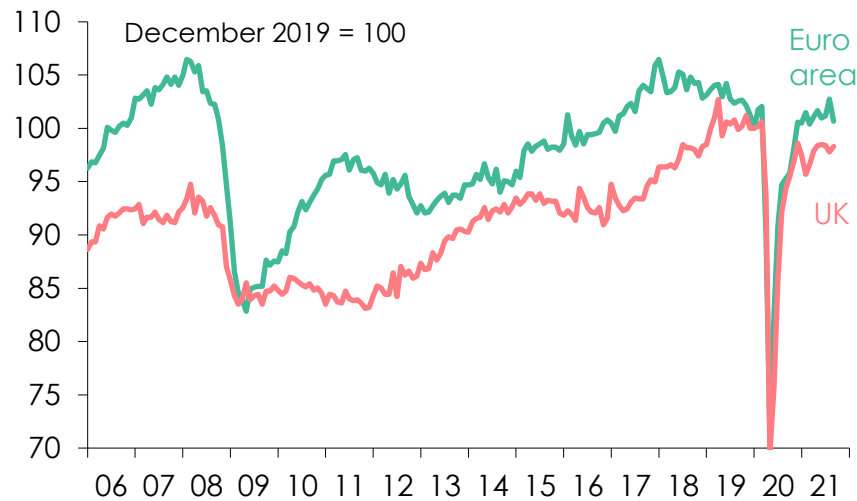
Housing activity



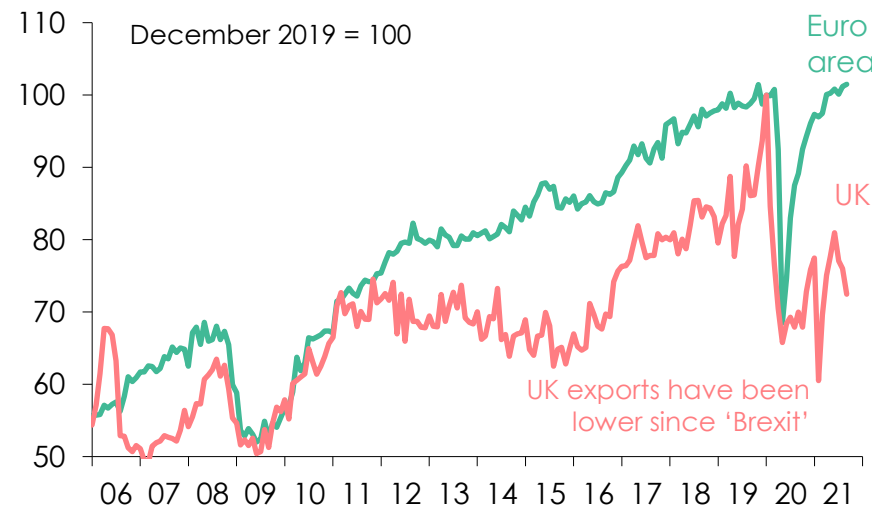
Government fiscal balance



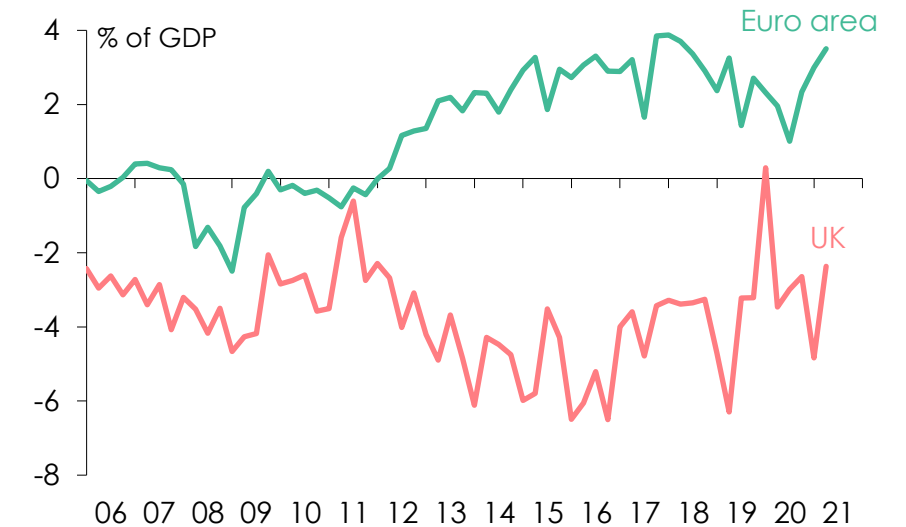
Manufacturing production



Merchandise exports



Current account balance



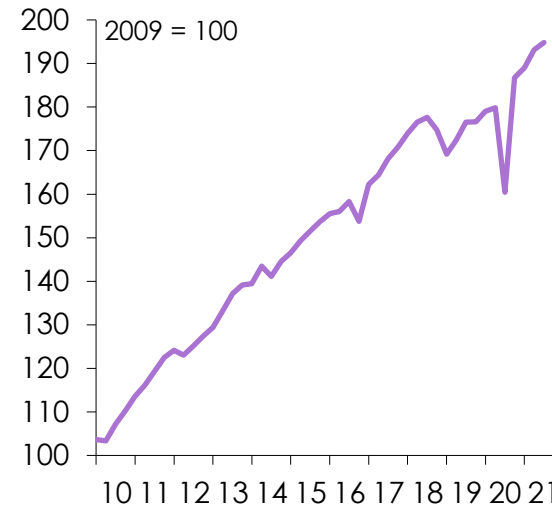
Russia's, Hungary's and Paraguay's central banks raised rates for the sixth, fifth and third times this year – but Turkey's cut rates for the second time

- ❑ The [Central Bank of Russia](#) raised its 7-day repo rate by 75 basis points to 7.50% on Friday – the sixth increase so far this year, for a total of 325 basis points, taking the key rate back to where it last was in June 2019
 - speaking after the Board of Directors meeting CBR Governor Elvira Nabiullina [said](#) the decision was driven “primarily by high inflation expectations” and a “considerable revision” of its previous inflation forecasts (to 7.4-7.9% for 2021 and 4-4.5% next year (cf. CBR’s target of 4%), which was the result of “a considerable gap between the current level of demand and the potential of supply to meet such demand”
 - she also indicated that rates were likely to be “higher ... for longer”, with the key rate averaging 7.3-8.3% next year, and 5.5-6.5% in 2023, returning to its long-term neutral range “no earlier than in the middle of 2023”
- ❑ [Magyar Nemzeti Bank](#) (Hungary’s central bank) raised its base rate another 15 basis points, to 1.80%, at its Monetary Council meeting on Tuesday, the fifth consecutive increase (for a total of 120 basis points)
 - in its post-meeting [press statement](#) the Monetary Council noted “the inflation outlook continues to be surrounded by upside risks which might prove to be more persistent than expected” and indicated that it would “continue the cycle of interest rate hikes until the outlook stabilizes around the [3%] target in a sustainable manner and inflation risks become evenly balanced on the horizon of monetary policy” – which on its forecasts won’t be until the second half of 2022
- ❑ [Banco Central del Paraguay](#) raised its policy rate by 125 basis points to 2.75% on Thursday, following increases of 25 bp in August and 50 bp in September, and foreshadowed a similar increase at next month’s meeting
 - inflation in Paraguay was 6.4% over the year to September, the highest since May 2014
- ❑ [Türkiye Cumhuriyet Merkez Bankası](#) (Turkey’s central bank) cut its 7day repo rate by 200 basis points to 16% at its Monetary Policy Committee meeting on Thursday
 - this was twice as much as markets had expected, and follows the unexpected 100bp rate cut at the previous meeting on 23rd September, and the subsequent dismissal by President Recep Tayyip Erdoğan of three members of the MPC (including TCMB’s two Deputy Governors) who had opposed that move (see next slide for more details)

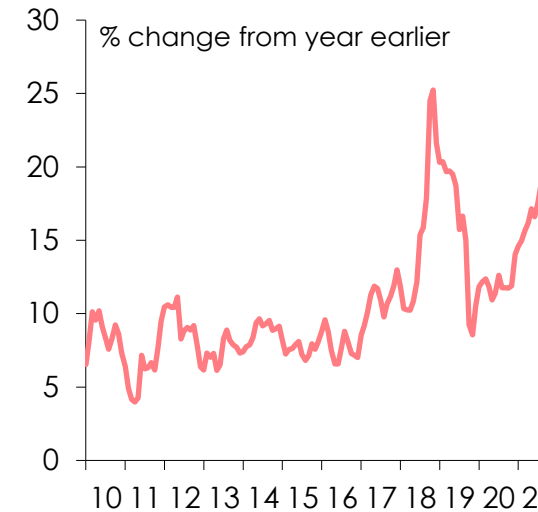
Turkey's central bank cut interest rates again this week despite inflation of almost 20% - and the currency then dropped sharply as a result

- **Turkey's central bank** cut its 7day repo rate by 200 basis points to 16% on Thursday
 - twice as much as markets had expected, and follows last month's unexpected 100bp rate cut
- **The rate cut came despite annual 'headline' inflation having risen to 19.6%, and 'core' inflation to 17.0%, in September**
 - the reconstituted MPC **asserted** that the recent rise in inflation was “due to transitory factors”, whereas the “tightness in monetary stance has started to have a higher than envisaged contractionary effect on commercial loans” and the “strengthened macroprudential framework has started to curb personal loan growth”
- **Notwithstanding this move, the MPC reiterated its previous 'commitment' that TCMB would “continue to use decisively all available instruments until strong indicators point to a permanent fall in inflation and the medium-term 5% target is achieved”**
 - and added that it would “continue to take its decisions in a transparent, predictable and data-driven framework”
- **Markets reacted badly to the decision, the lira dropping 3½% to a new record low**

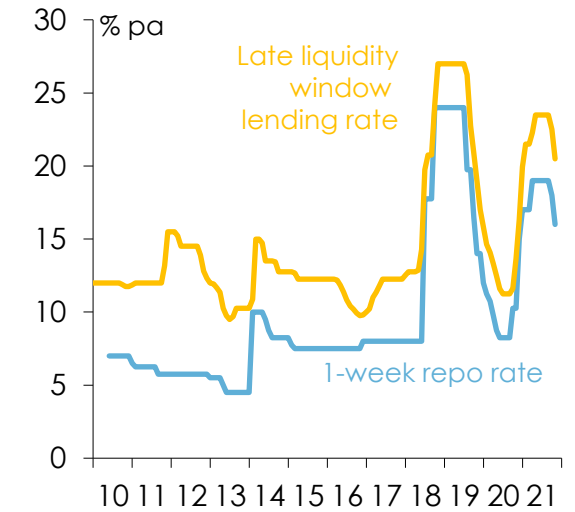
Real GDP



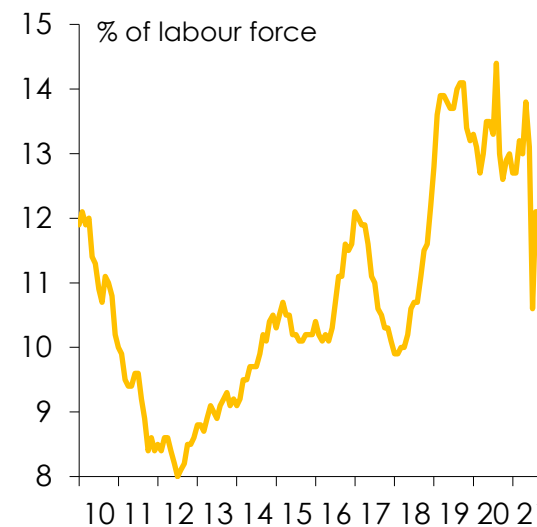
Inflation



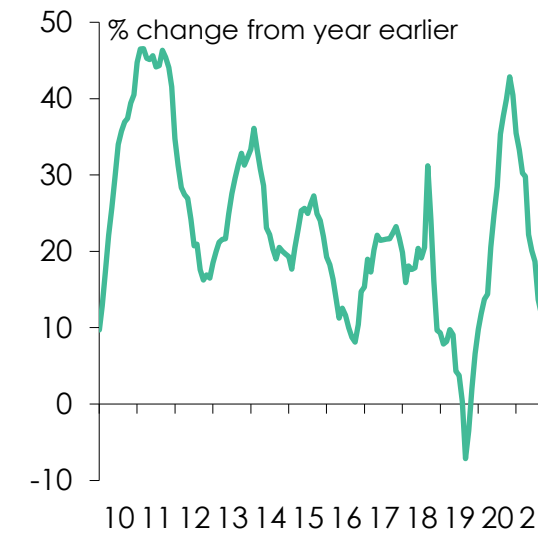
Interest rates



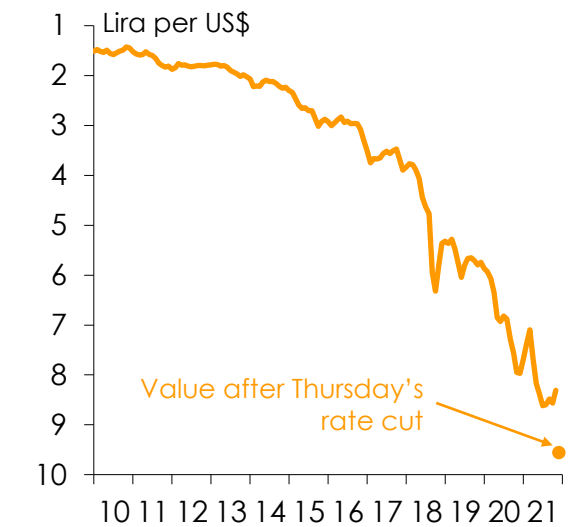
Unemployment rate



Bank lending

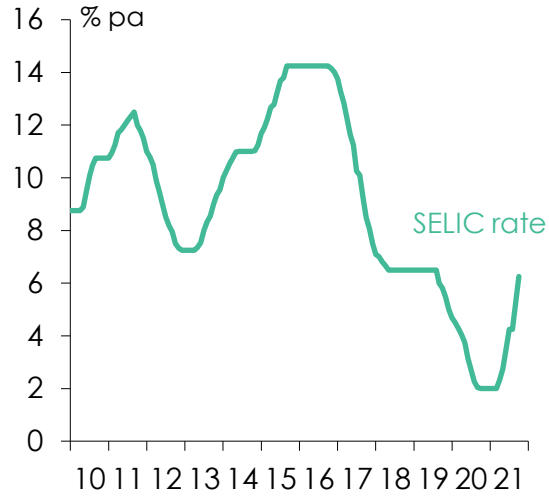


Turkish lira vs US\$

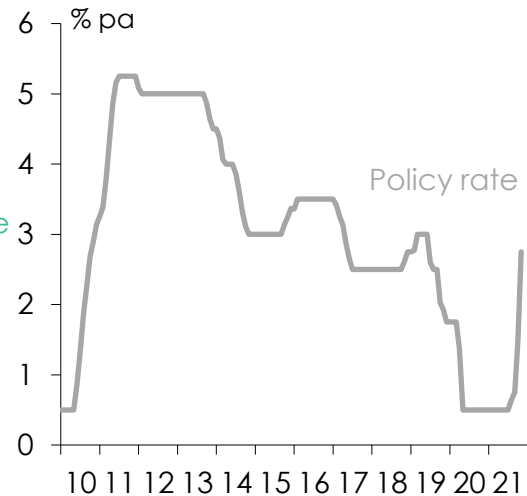


A growing number of 'emerging' market central banks have begun tightening monetary policy

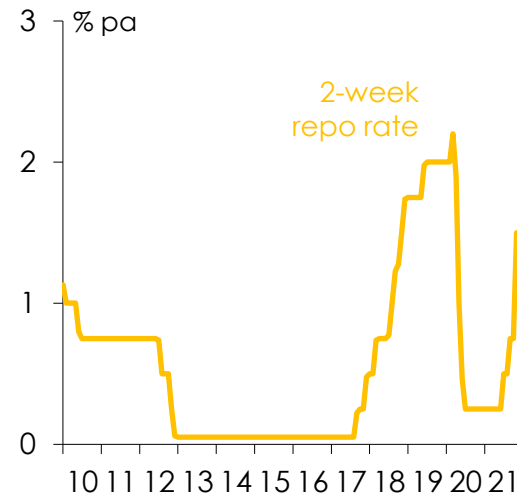
Brazil



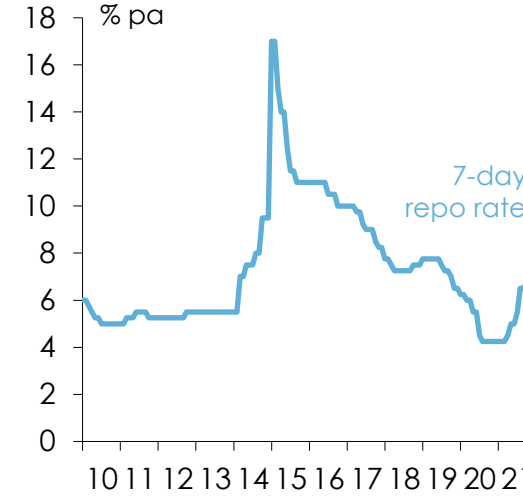
Chile



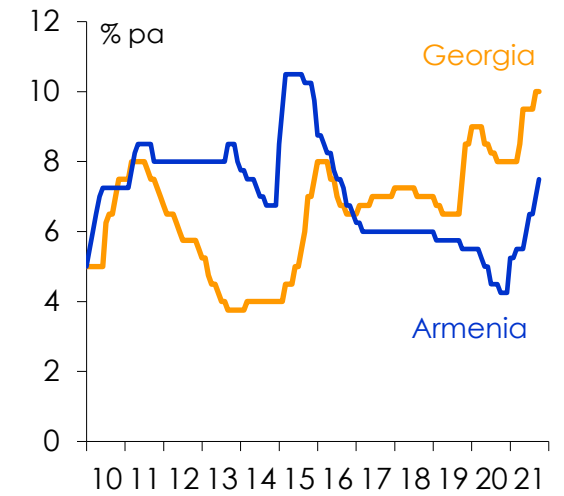
Czechia



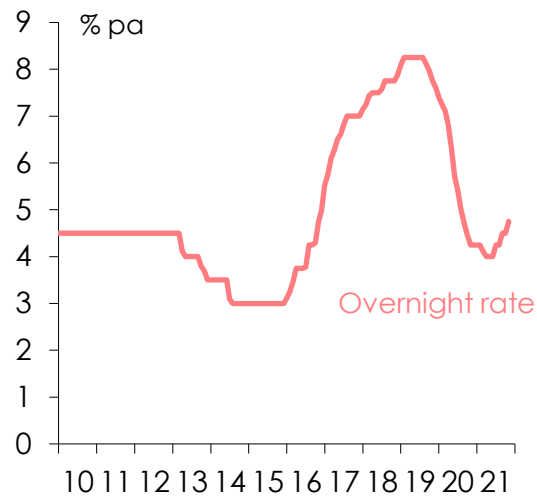
Russia



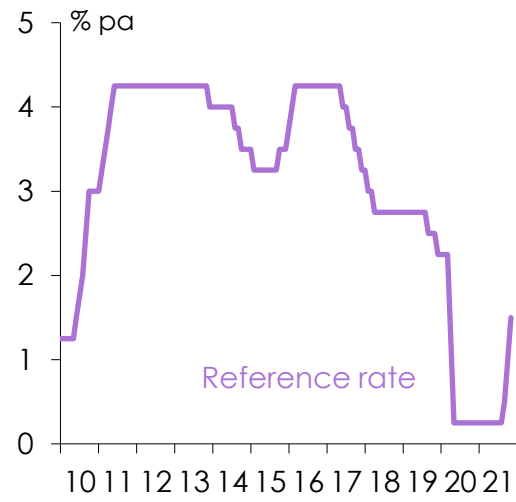
Georgia & Armenia



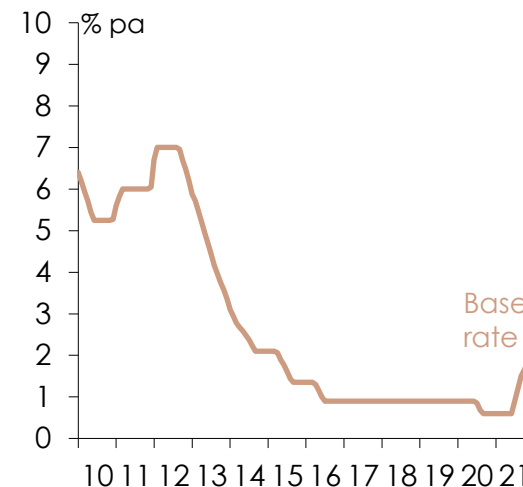
Mexico



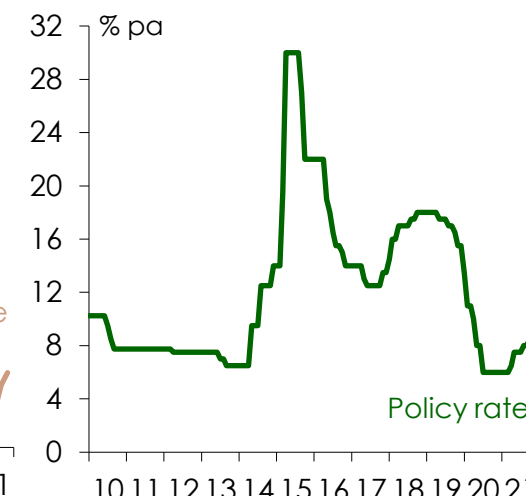
Peru



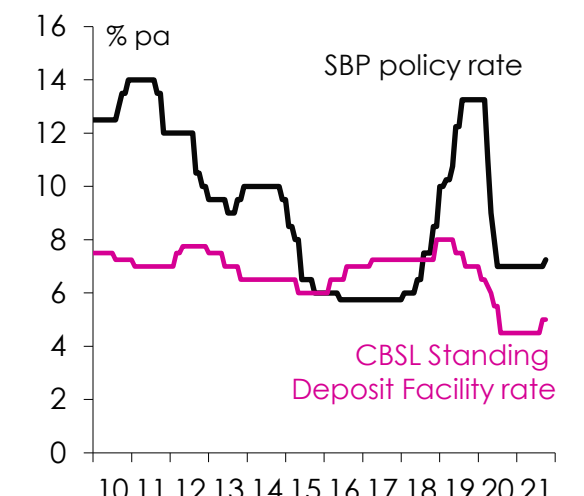
Hungary



Ukraine



Pakistan & Sri Lanka

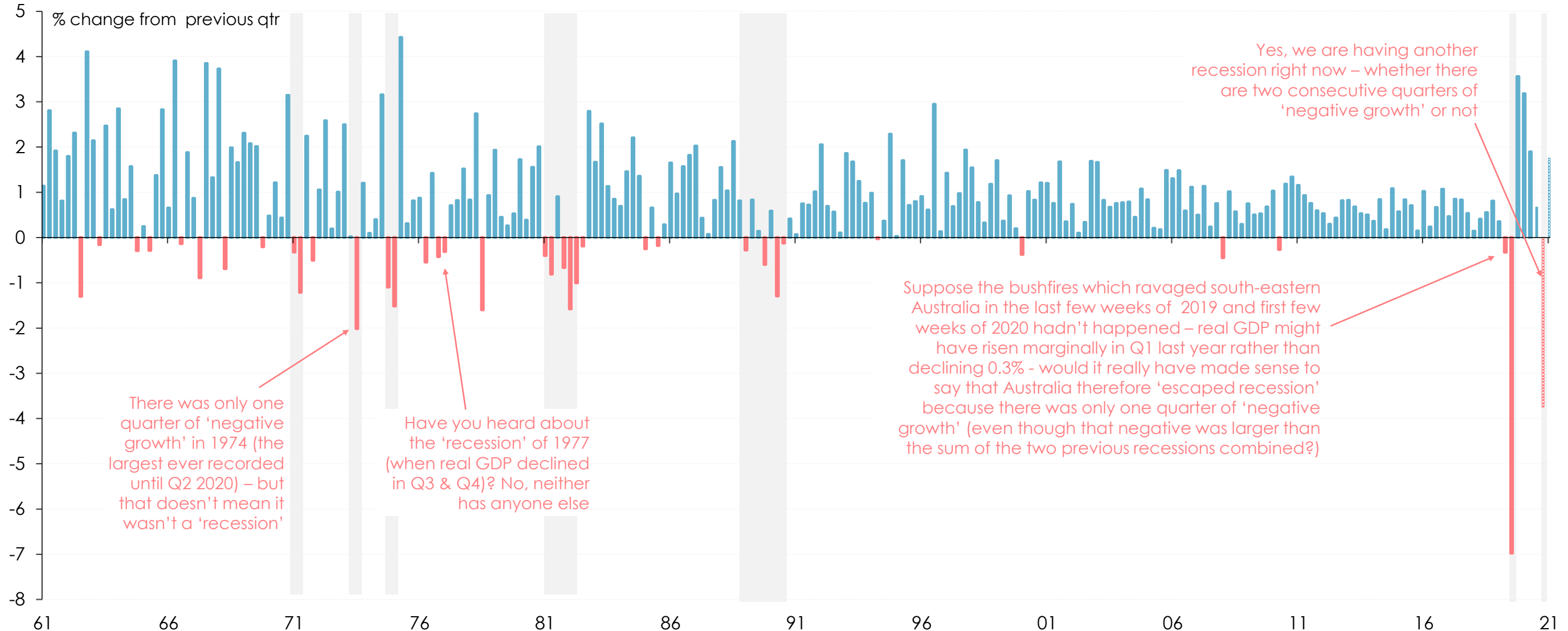


Sources: [Banco Central do Brasil](#); [Banco de México](#); [Banco Central de Chile](#); [Banco Central de Reserva del Perú](#); [Magyar Nemzeti Bank](#); [Česká národní banka](#); [Bank Rossii](#); [National Bank of Ukraine](#); [Türkiye Cumhuriyet Merkez Bankası](#); [Sakartvelos Erovnuli Bank'i](#);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

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

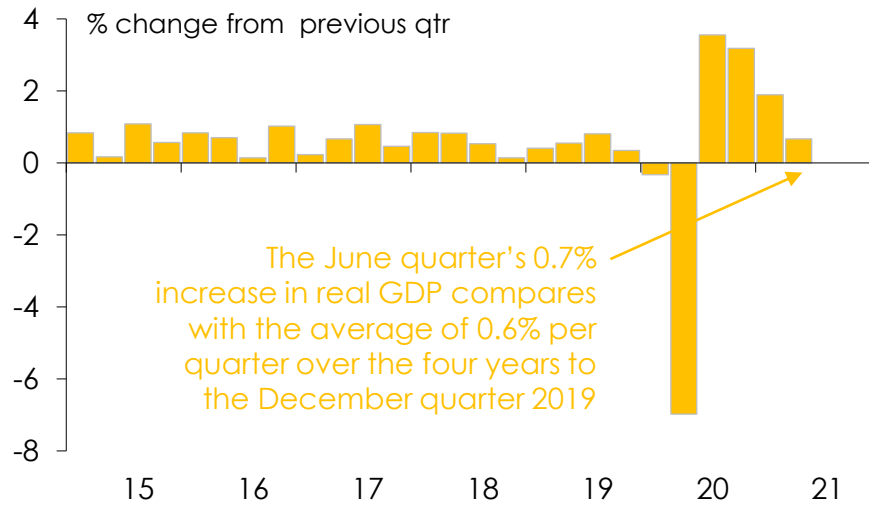
Quarterly growth in Australian real GDP, 1961-2021



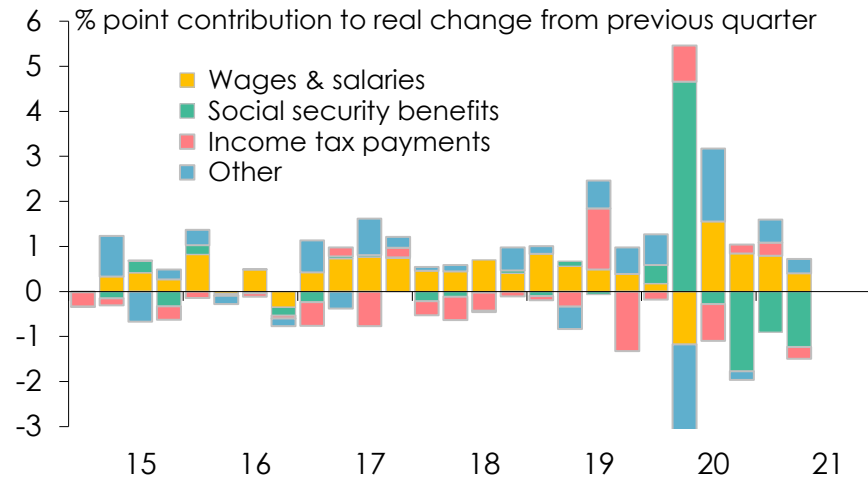
Note: Shaded areas denote recessions. Source: ABS, [Australian National Accounts: National Income, Expenditure and Product](#), March quarter 2021. September quarter GDP will be released on 1st December; and December quarter GDP on 2nd March 2022. [Return to "What's New"](#).

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

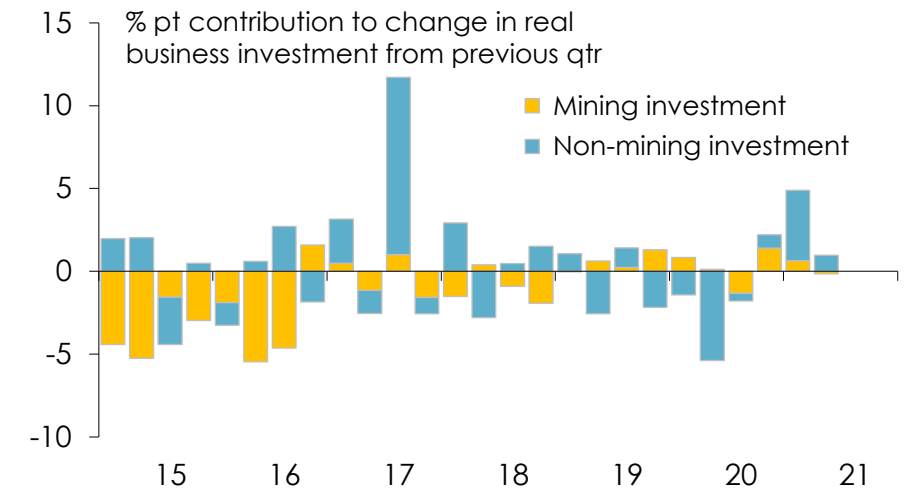
Quarterly change in real GDP



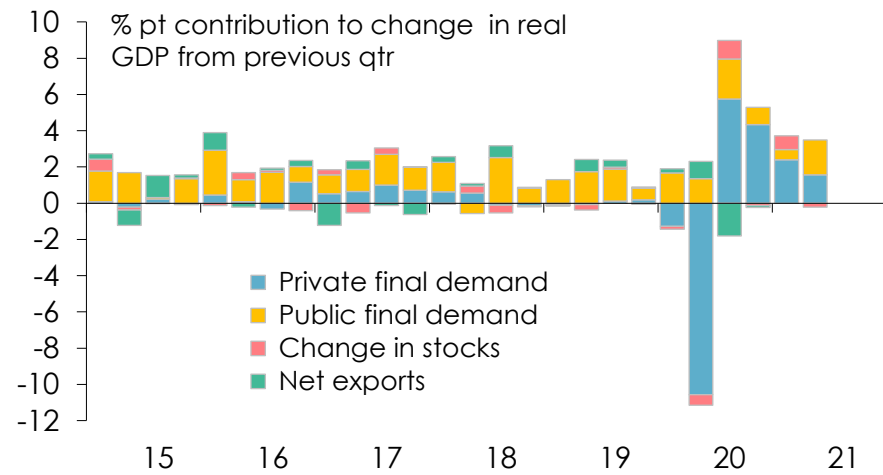
Household disposable income



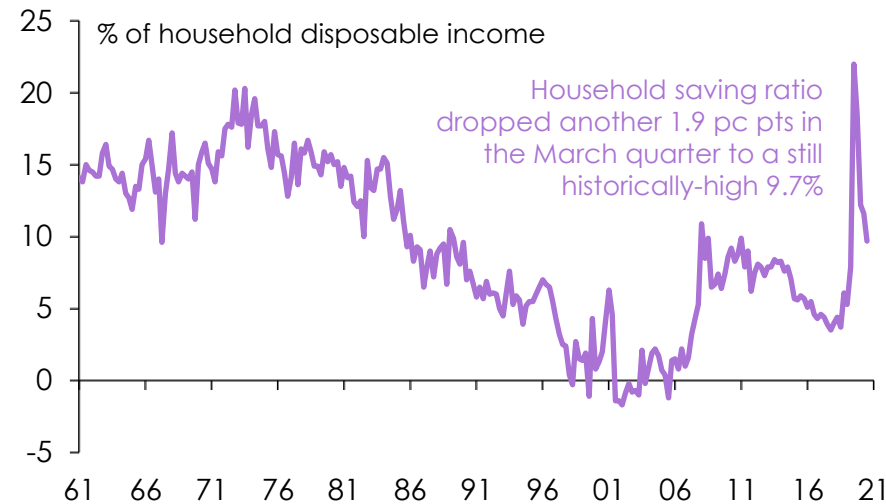
Business investment expenditure



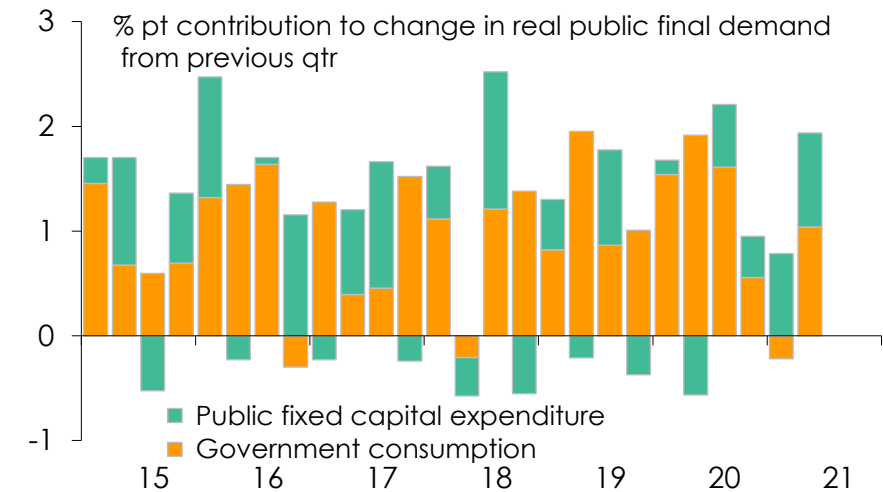
Contributions to quarterly GDP growth



Household saving rate



Public expenditure



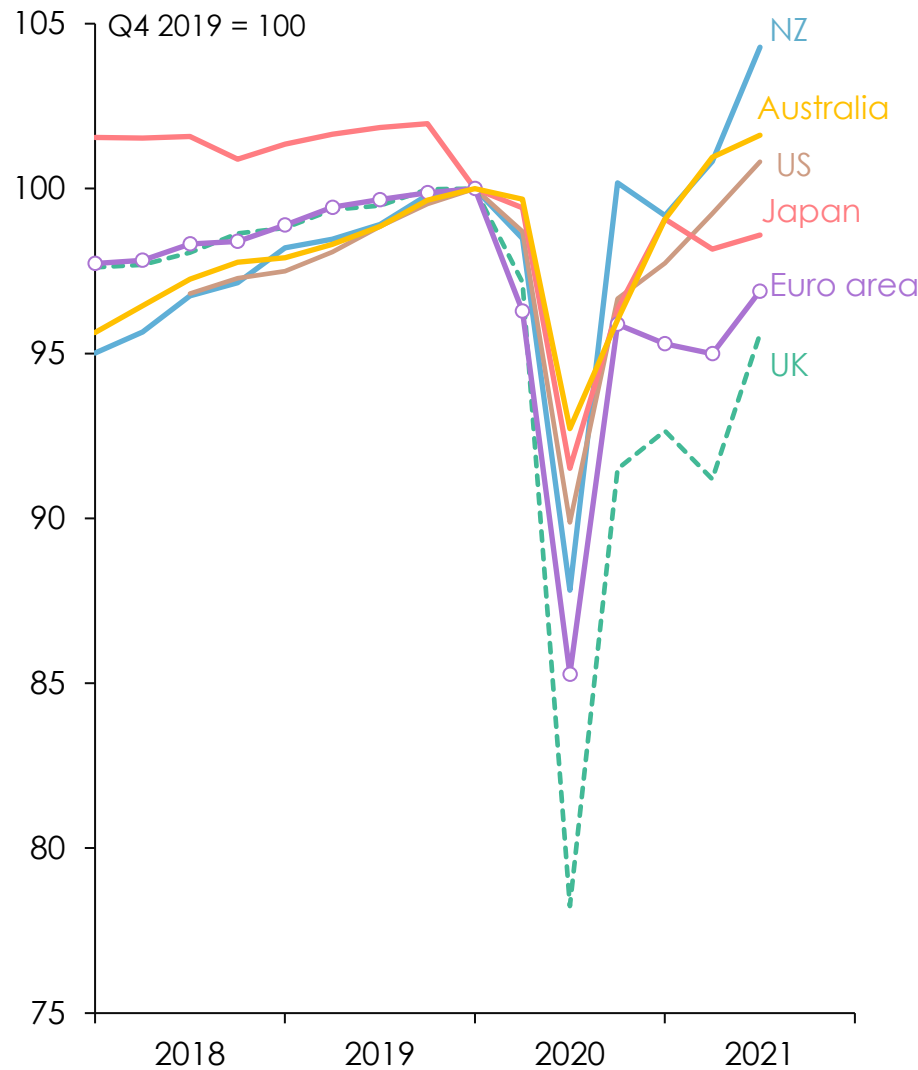
Note: Components of household disposable income are deflated by the implicit price deflator of household final consumption expenditure.

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

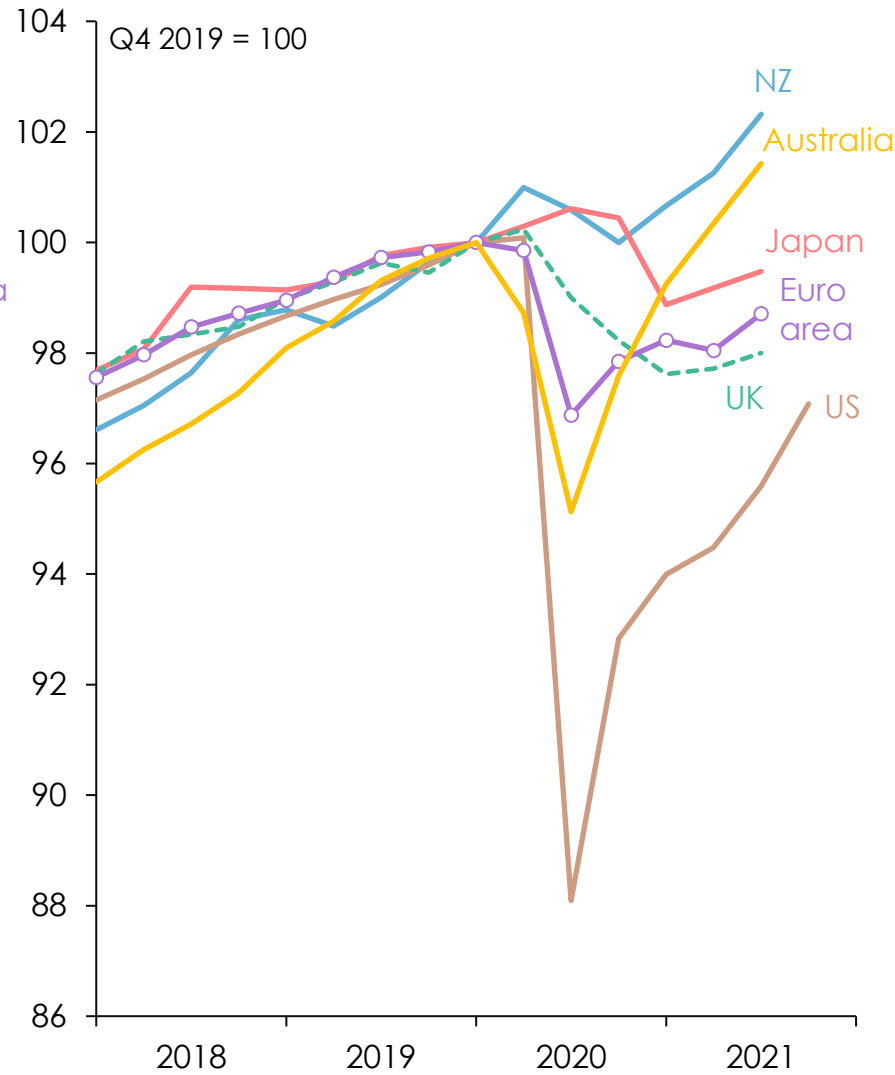
December. [Return to "What's New"](#).

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

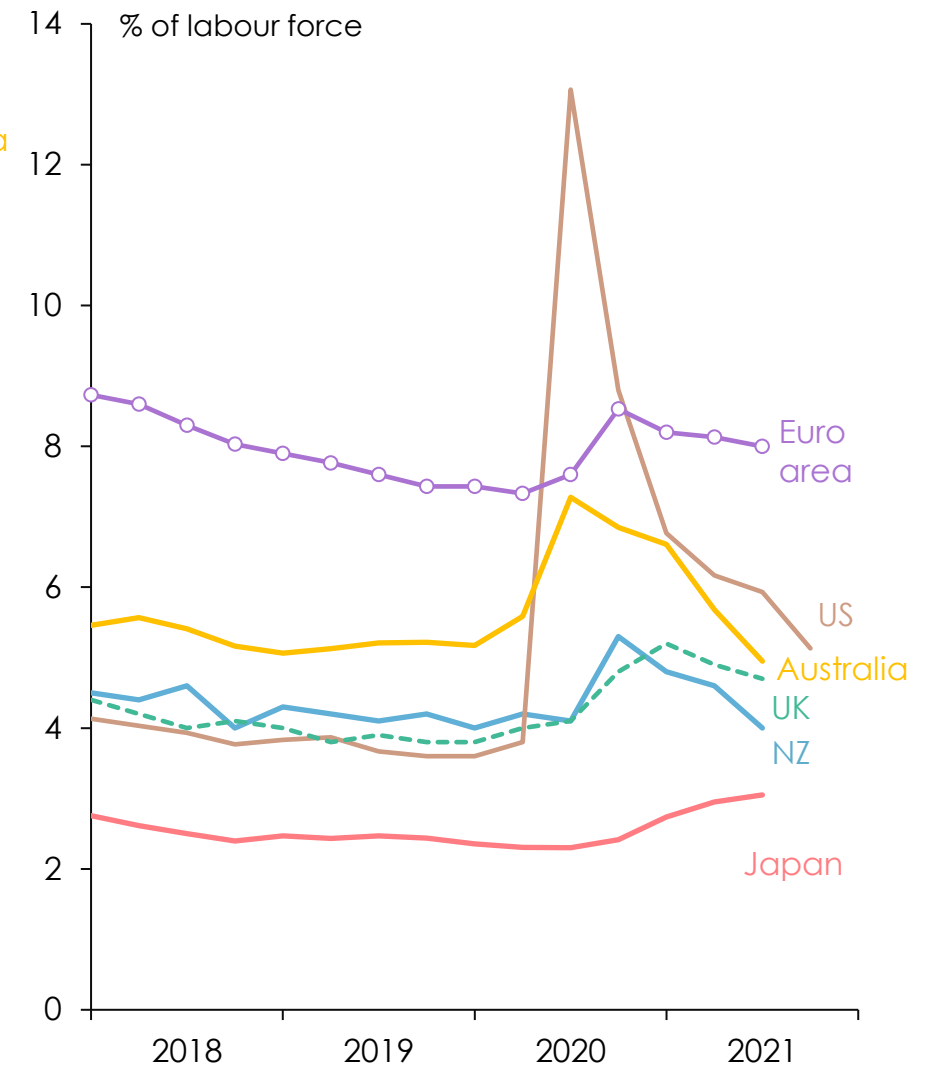
Level of real GDP



Employment



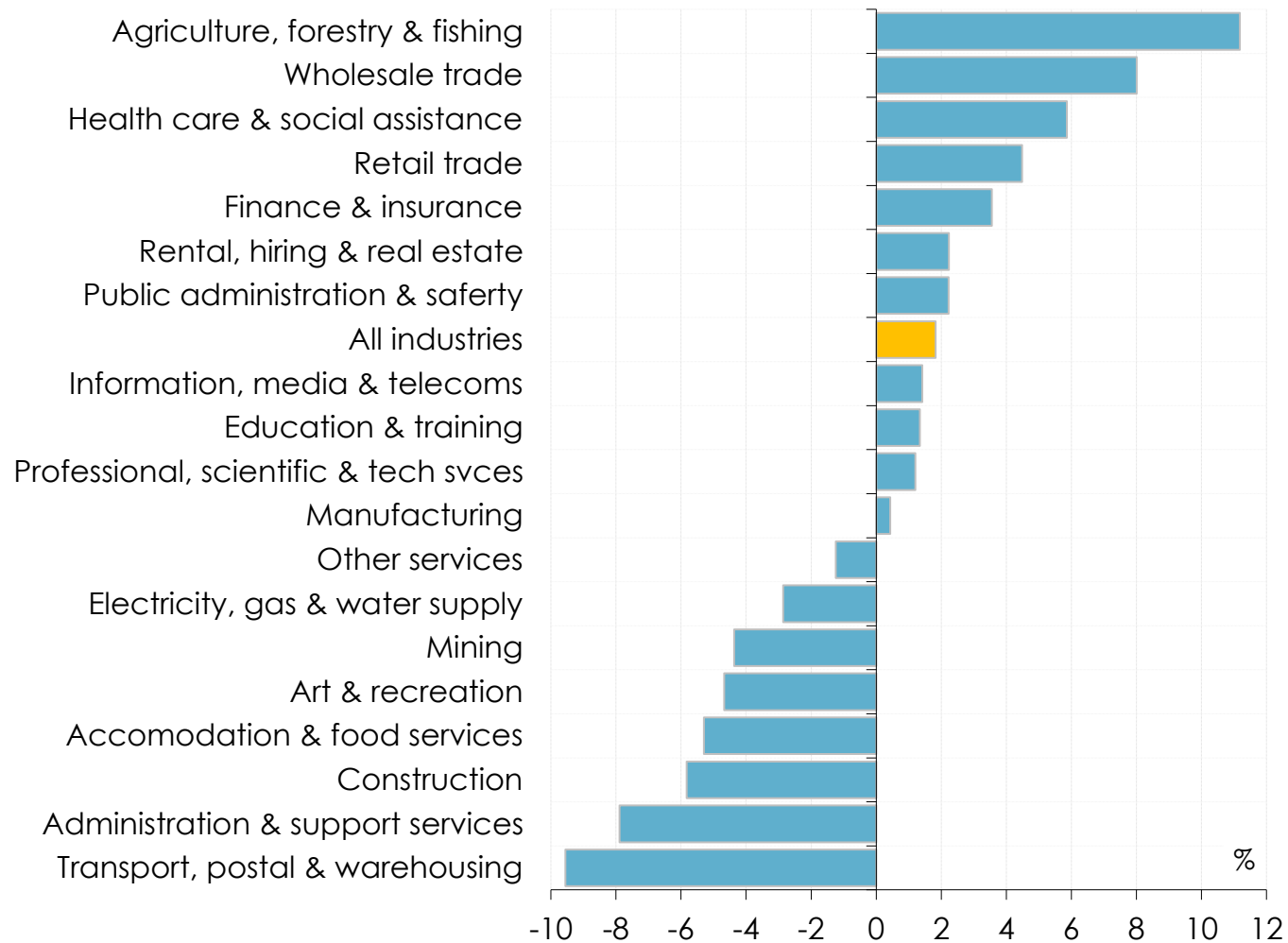
Unemployment



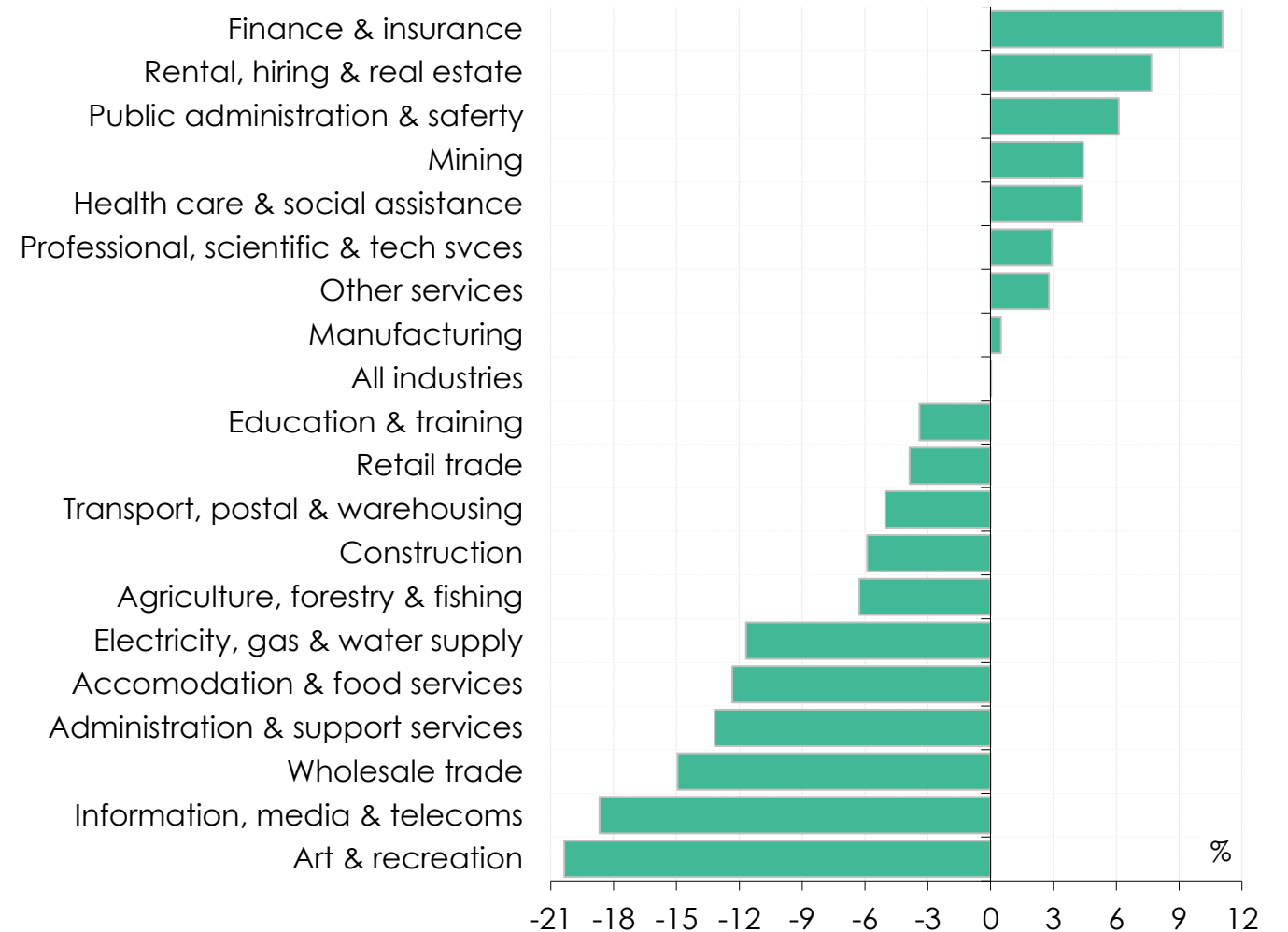
Sources: [ABS](#) ; [Statistics NZ](#) ; US [Bureau of Economic Analysis](#) and [Bureau of Labor Statistics](#); Japan [Cabinet Office](#) and [Statistics Bureau of Japan](#); [Eurostat](#); and UK [Office for National Statistics](#); Corinna.

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

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



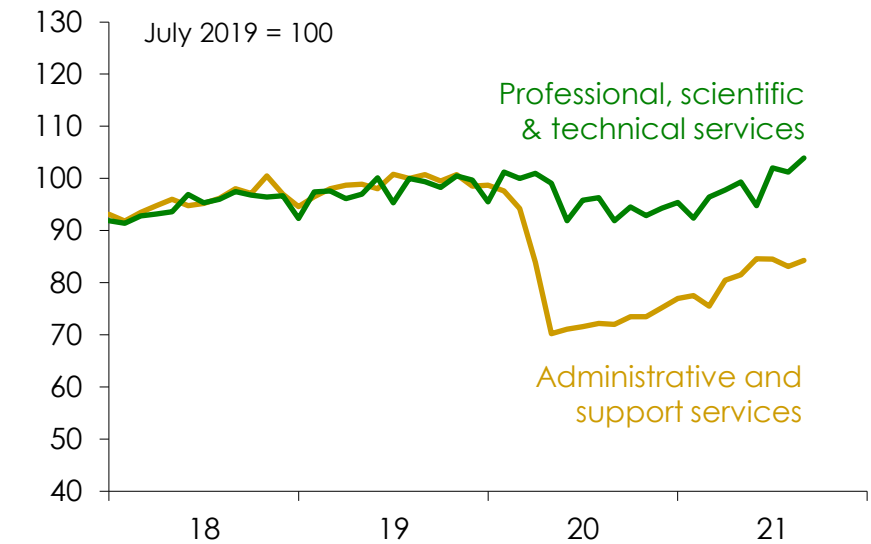
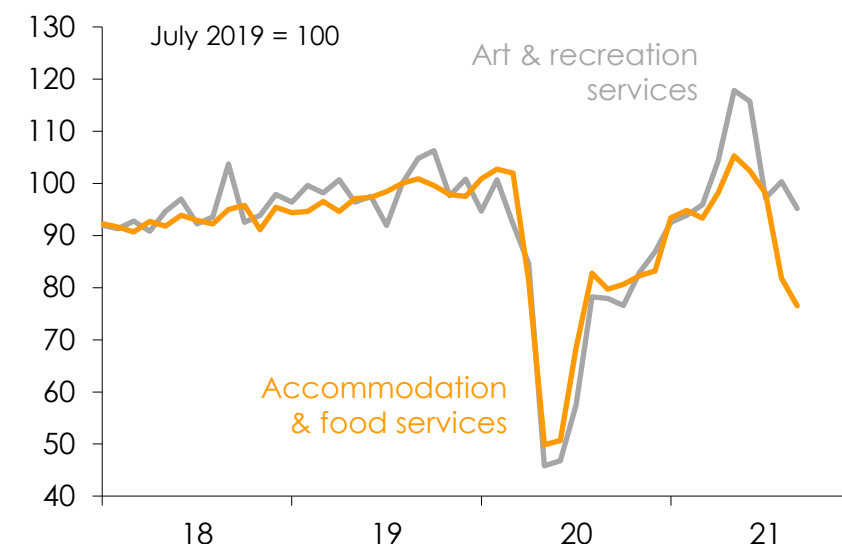
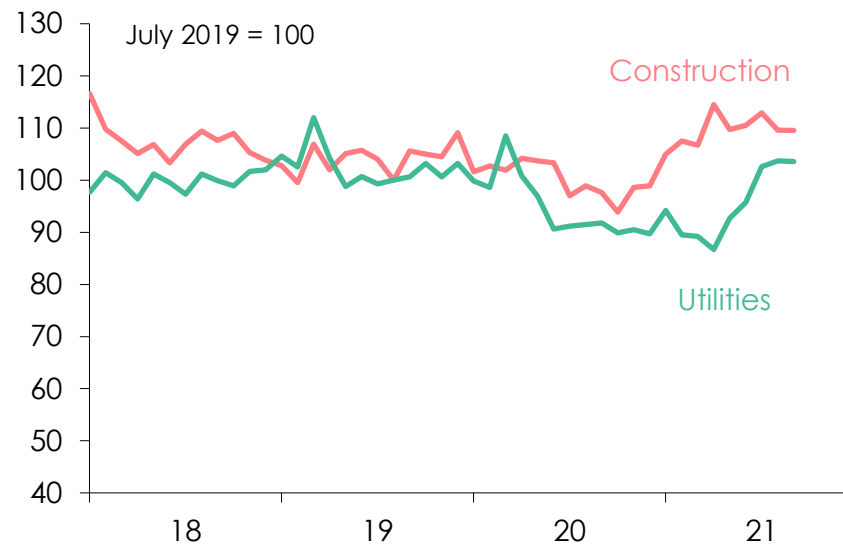
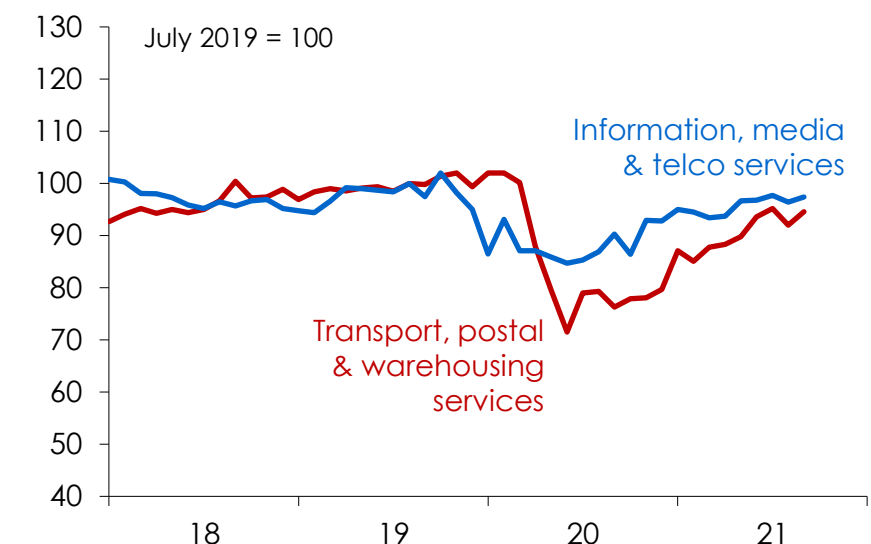
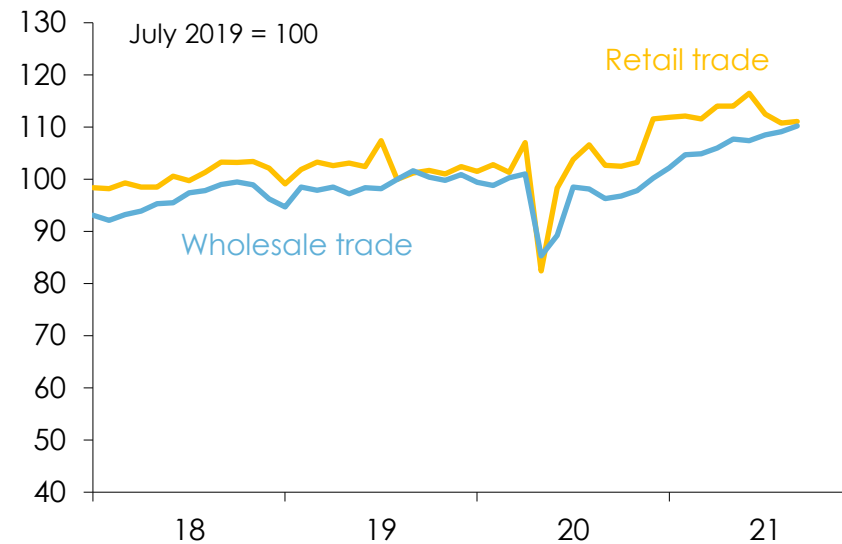
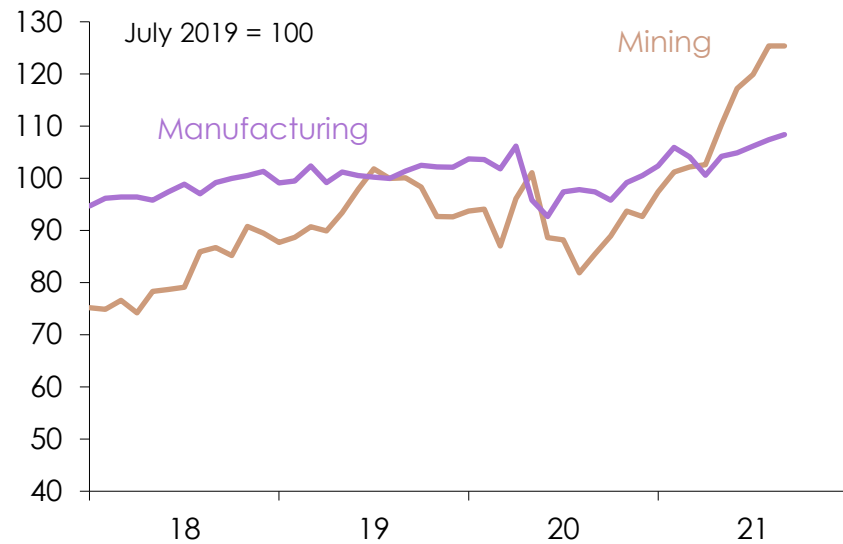
Q3 2021 employment by industry – change from pre-pandemic peak



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

The ABS' new business turnover indicator shows that the accommodation & food, and arts & recreation services sectors have been hardest hit

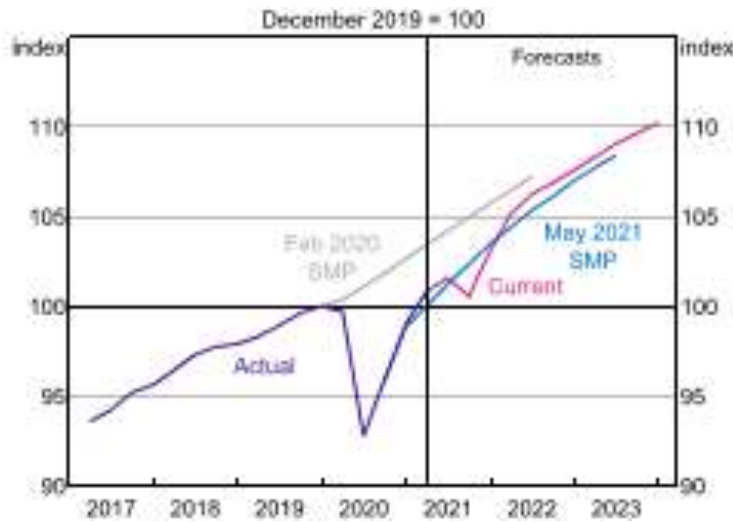
Indicators of business turnover, by industry



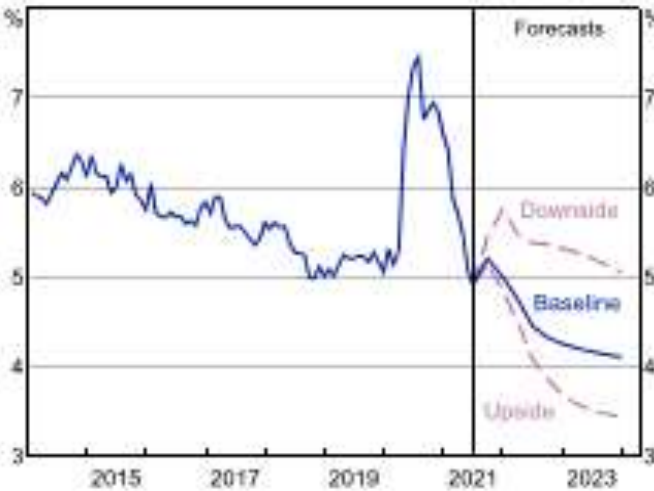
Note: The turnover indicators are derived from the Business Activity Statements submitted to the Australian Taxation Office by all businesses with an annual GST turnover of \$20mn or more (together with a proportion of smaller businesses which voluntarily report monthly). Source: ABS, [Monthly Business Turnover Indicator](#), August 2021. September data will be released on 10th November. [Return to "What's New"](#).

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

GDP



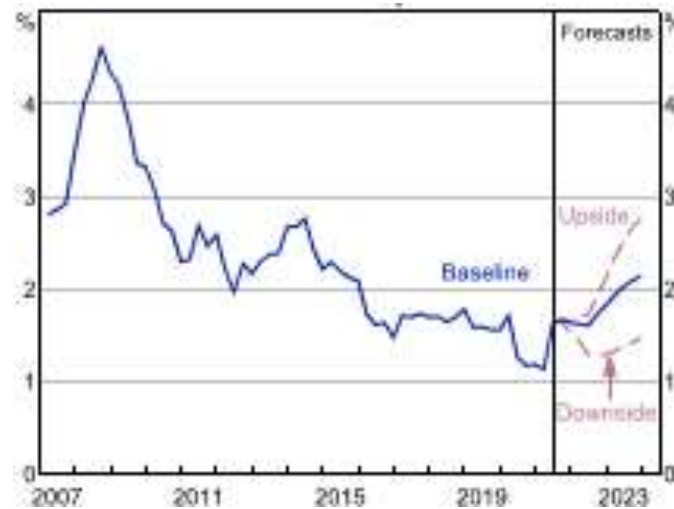
Unemployment



Wages



'Underlying' inflation

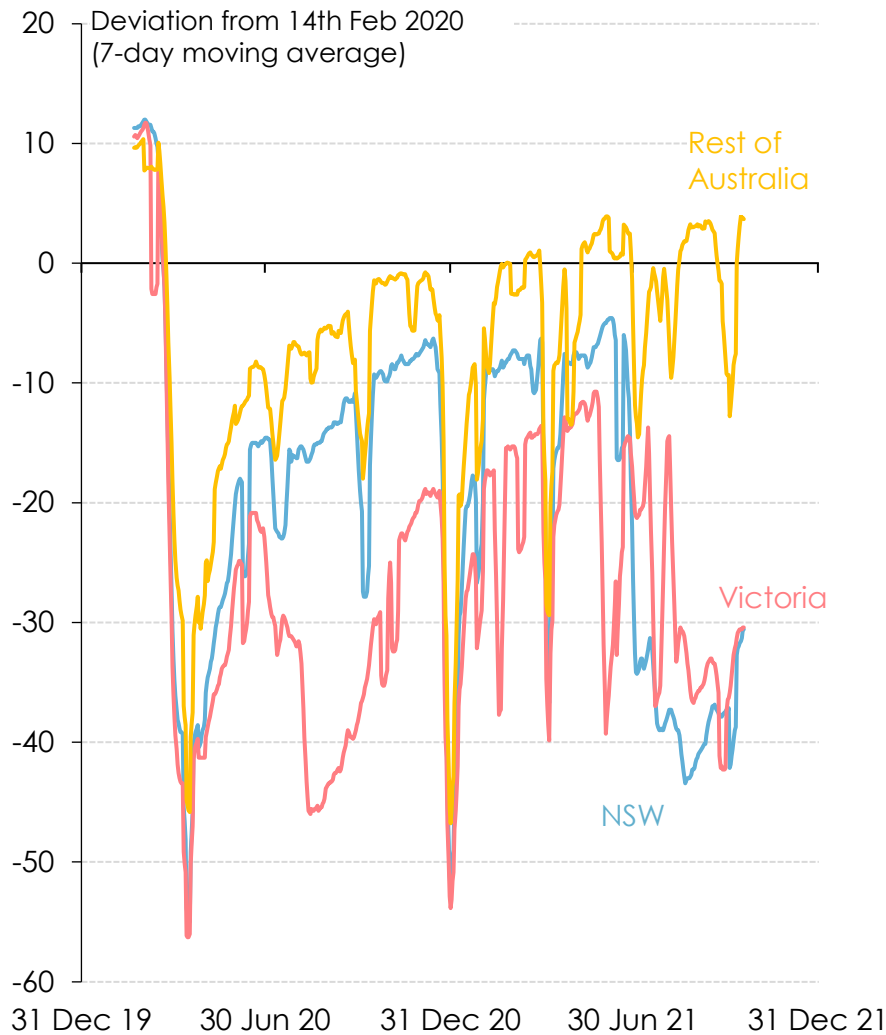


- ❑ Economic growth and in particular employment growth have continued to outpace the RBA's forecasts – but wage and price inflation haven't
- ❑ In its latest [Statement on Monetary Policy](#) published four weeks ago, the RBA acknowledged that current lockdowns would temporarily derail the recovery,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

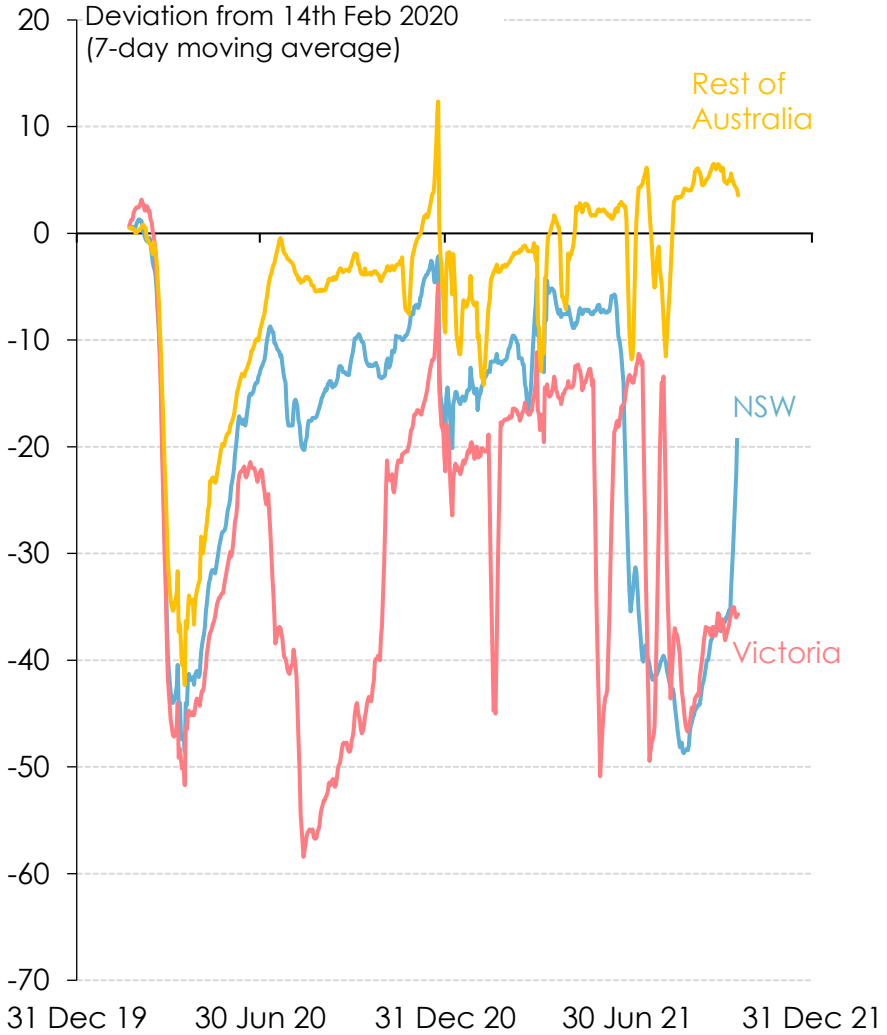
'Mobility indicators' illustrate the impact of lockdowns in NSW and Victoria on economic activity in those states – but also the recent first easings

Google mobility indicators

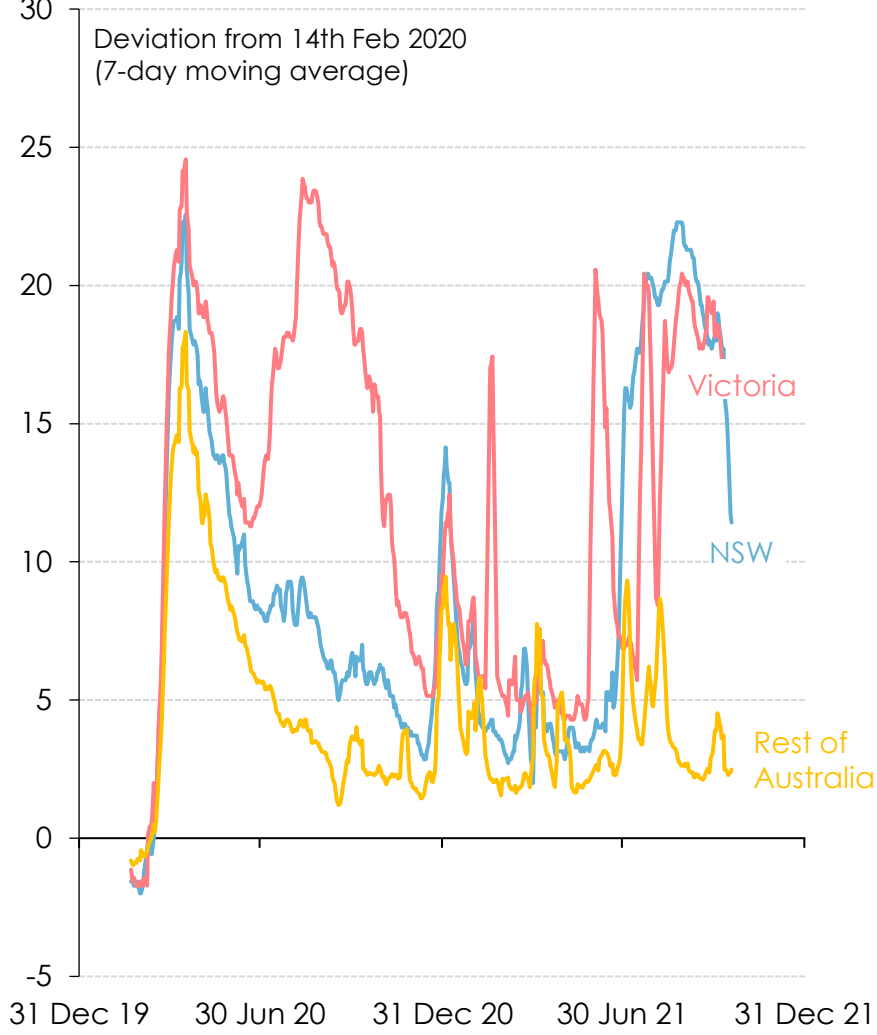
Workplaces



Retail and recreation



Residences



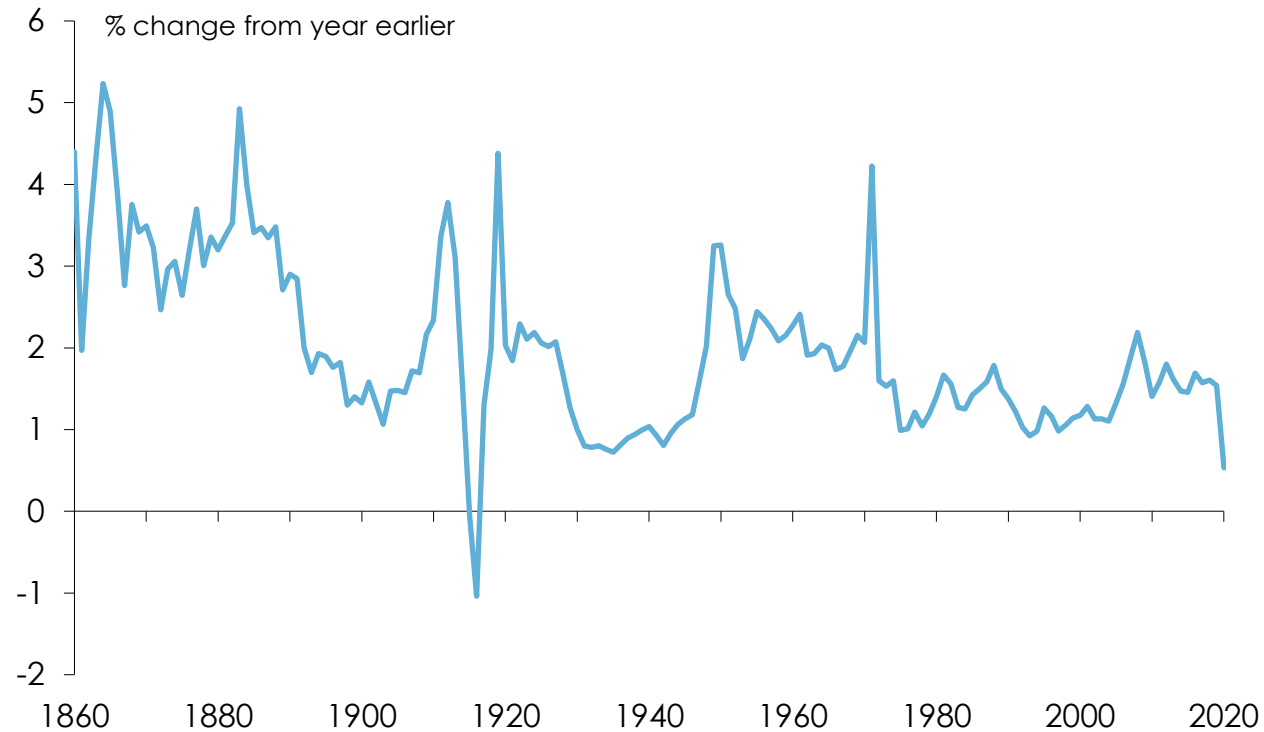
Note: data up to 18th October. Sources: [Google Community Mobility Reports](#); Corinna. [Return to "What's New"](#).

Australia's border measures have been stricter than any other democracy – but these are now (finally) set to be eased soon

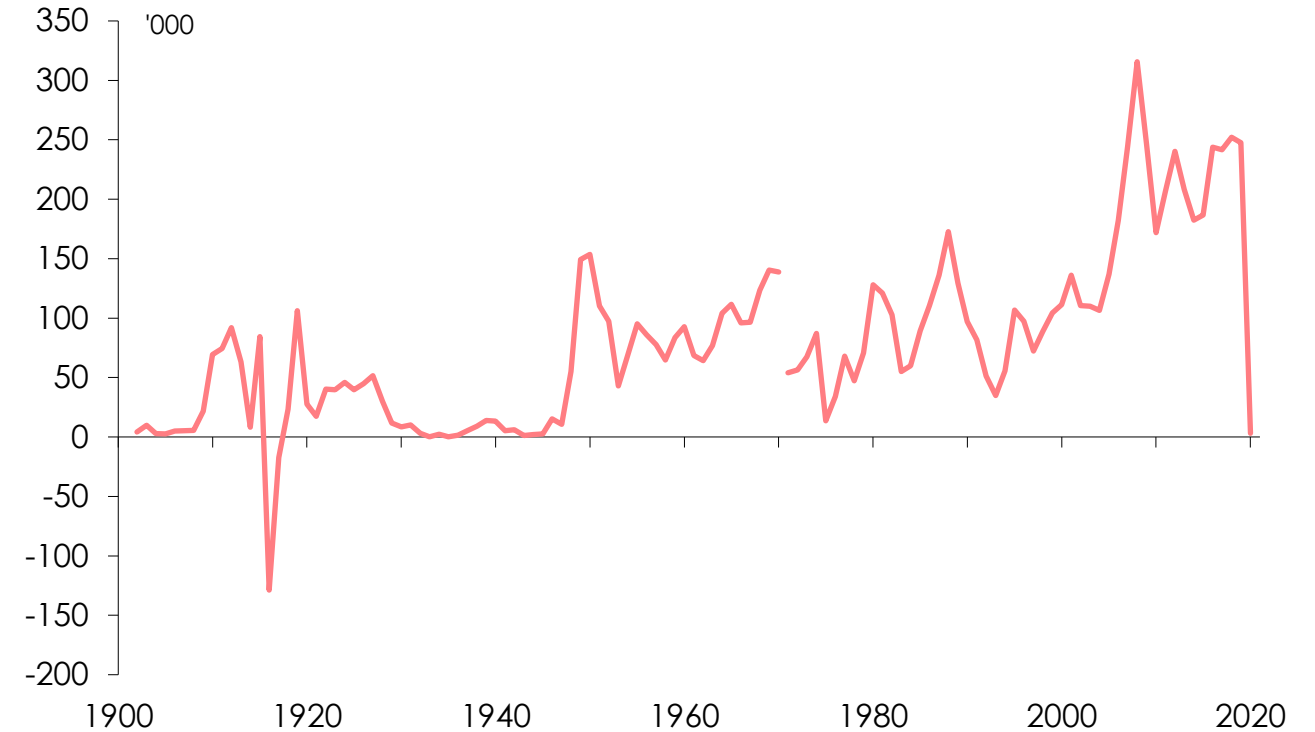
- ❑ Article 12 of the United Nations [International Covenant on Civil and Political Rights](#) (which Australia signed in 1972, and which it ratified in 1980) says
 - “everyone shall be free to leave any country, including his [sic] own” and “no-one shall be arbitrarily deprived of the right to enter 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
- ❑ 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 NSW State Government last week announced that it would [no longer require fully vaccinated travellers to quarantine on arrival](#), and removed ‘caps’ on the number of arrivals allowed into the state – and Victoria followed suit this week

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

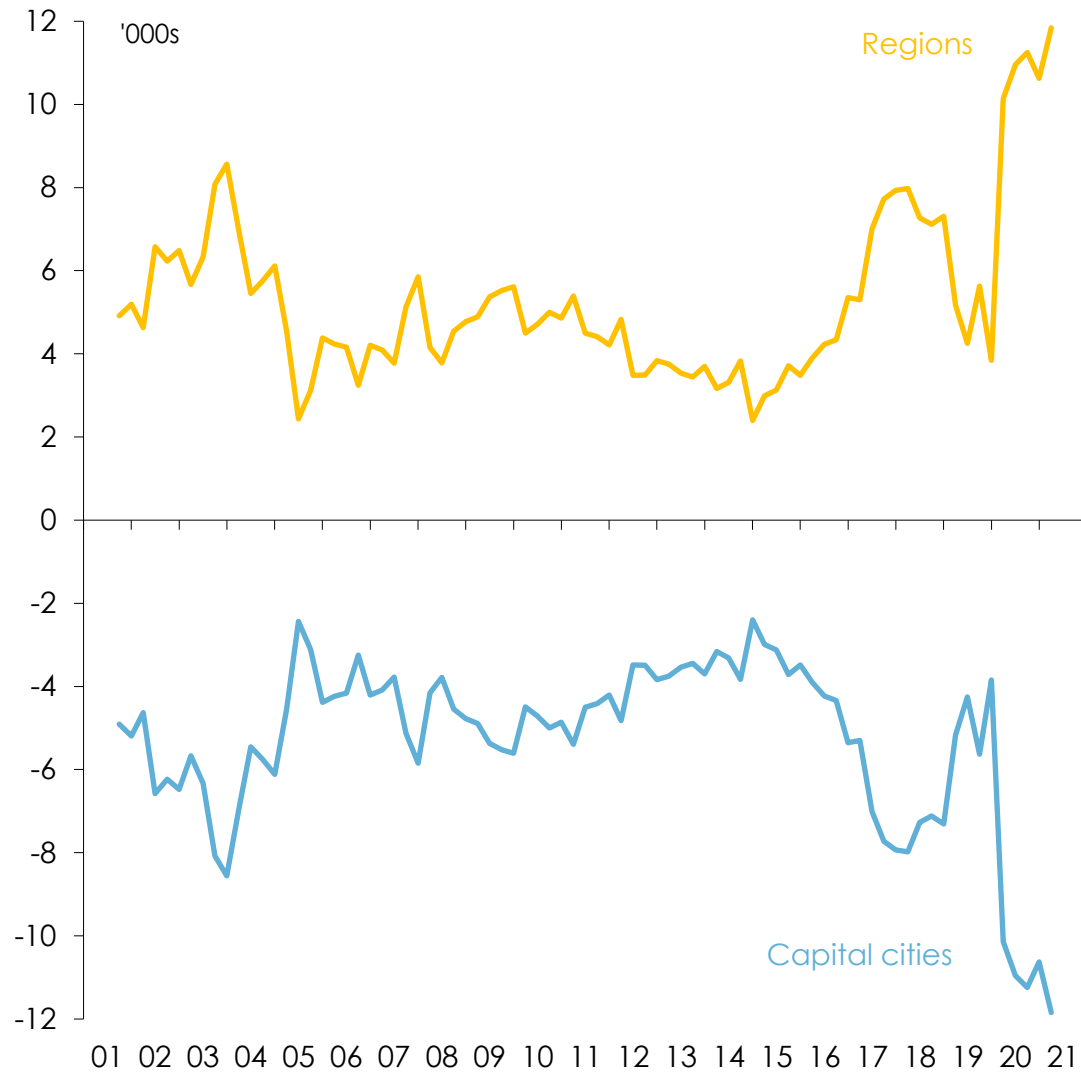


- ❑ Only 76K immigrants came to Australia in the last nine months of 2020, while 151K people departed permanently – implying a net outflow of almost 68,000 people
- ❑ As a result, Australia's population growth rate fell to just 0.5% over the year to Q4 2020, the slowest since 1916
- ❑ Slower growth in 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)
- ❑ The Prime Minister's [announcement](#) on Friday that Australians will be “allowed” to travel overseas – and Australians stranded overseas to return – doesn't (as yet) extend to foreigners being freely allowed into Australia

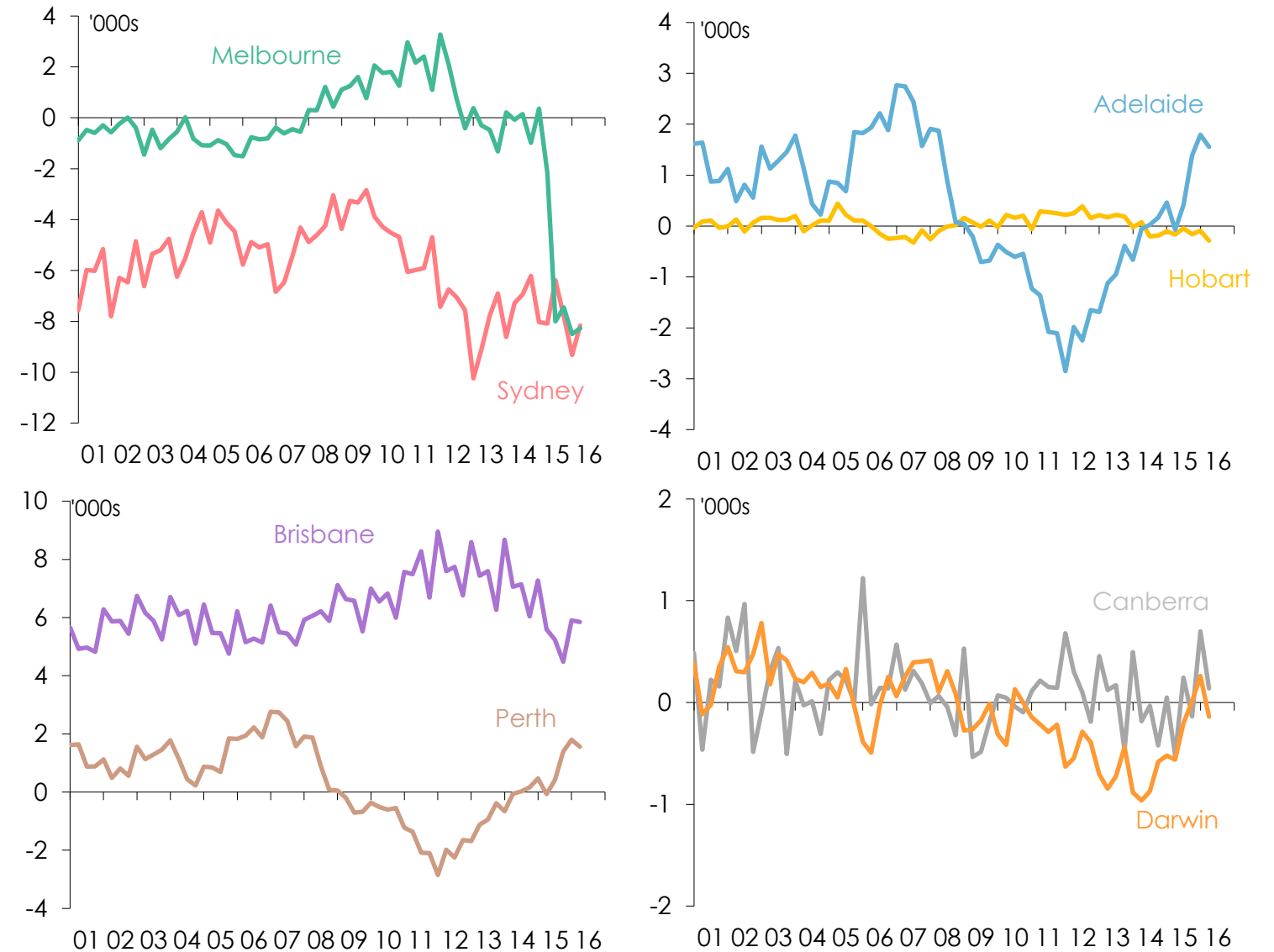
Note: The net migration data has a series break at 1971 due to definitional changes. Sources: ABS, [National, state and territory population](#), December 2020; [Historical Population](#), 2016; [Migration, Australia](#), 2019-20; [Demography Bulletin](#), 1923, 1940, 1950, 1960 and 1971; [Population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

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

Internal migration flows



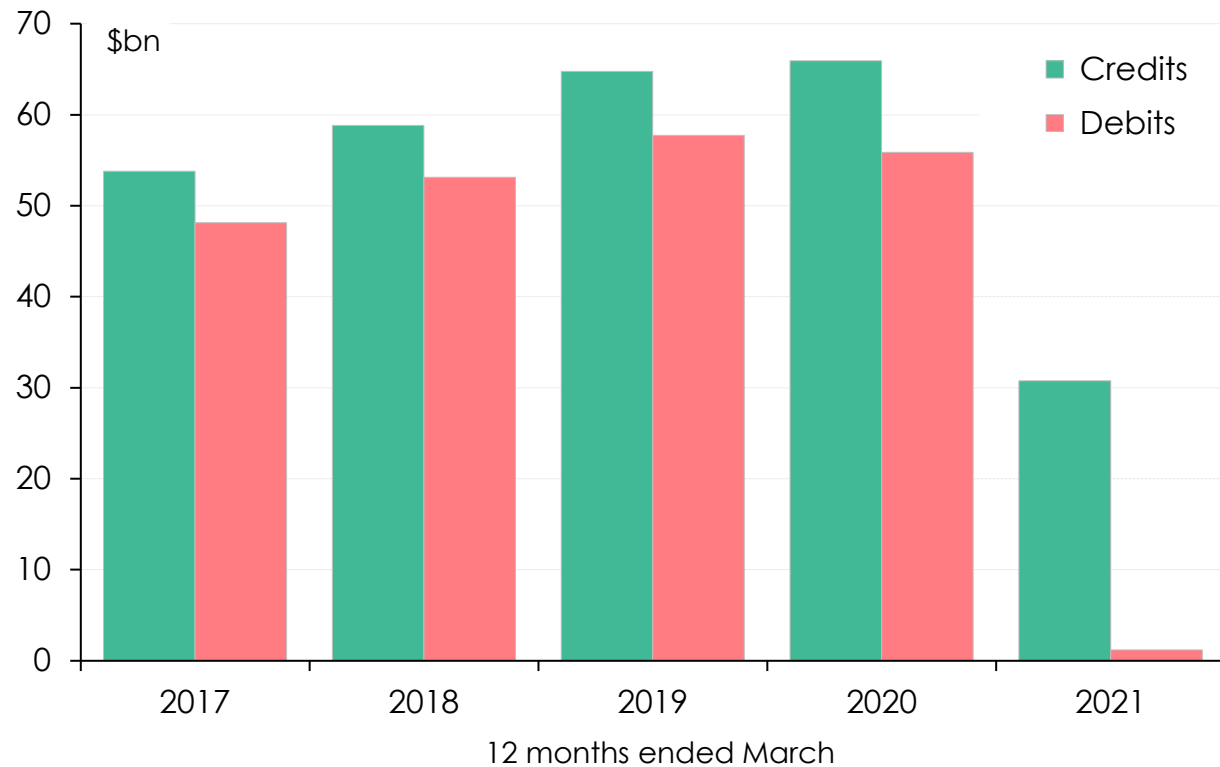
Net internal migration to or from Australia's capital cities



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

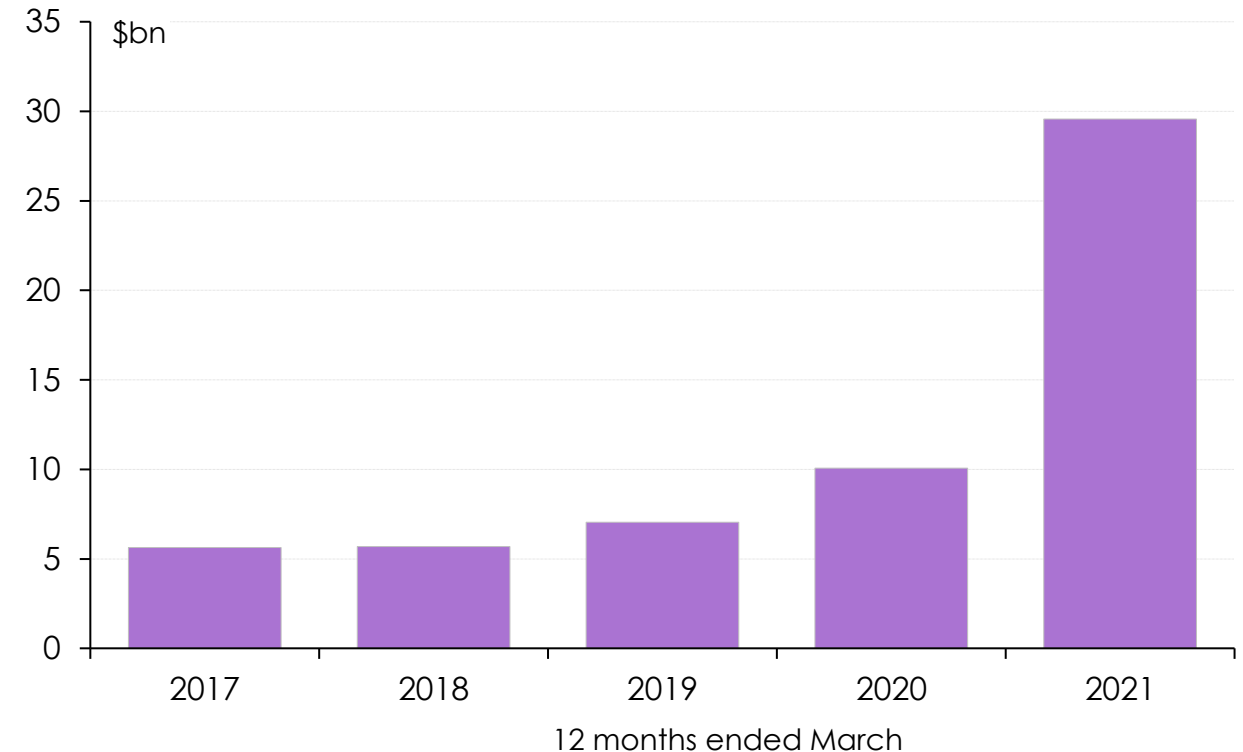
The *taboo* on Australians leaving the country has more than offset the loss of spending by foreign tourists and students

Travel credits and debits



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

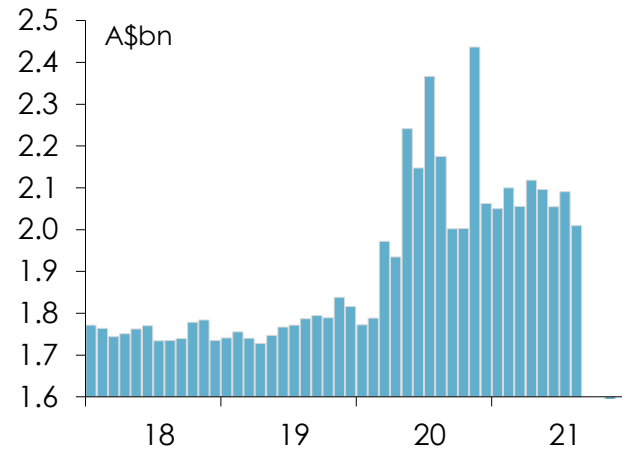
Net travel transactions



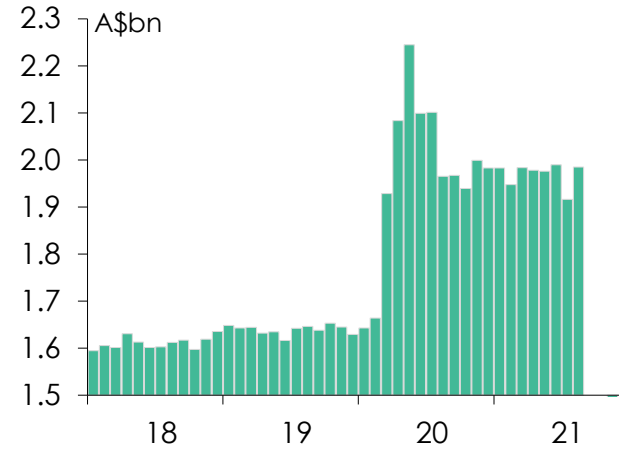
- Despite restrictions, foreigners still spent \$31bn in Australia in the 12 months to March 2021 (cf. an average of \$61bn per annum over the previous four years) implying a *net gain* to Australia during 12 months to March this year of almost \$22½bn by comparison with the 2016-19 average – equivalent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

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

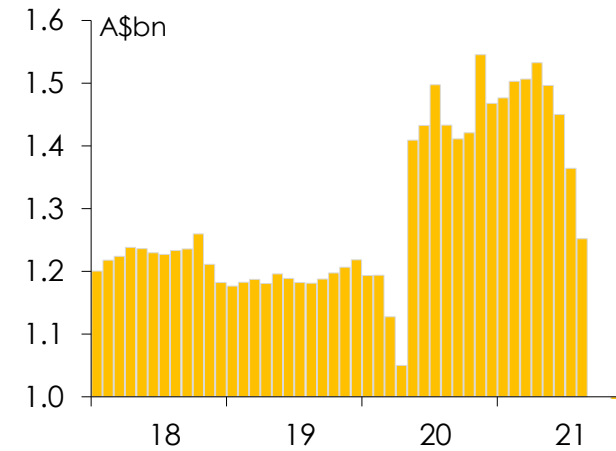
Electronic & electrical goods



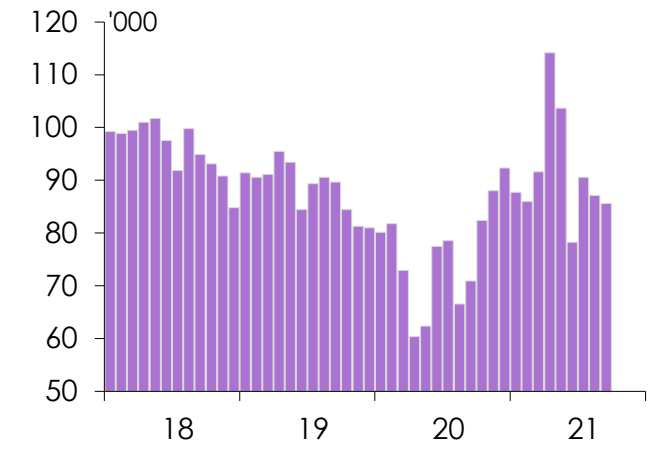
Hardware, building & garden supplies



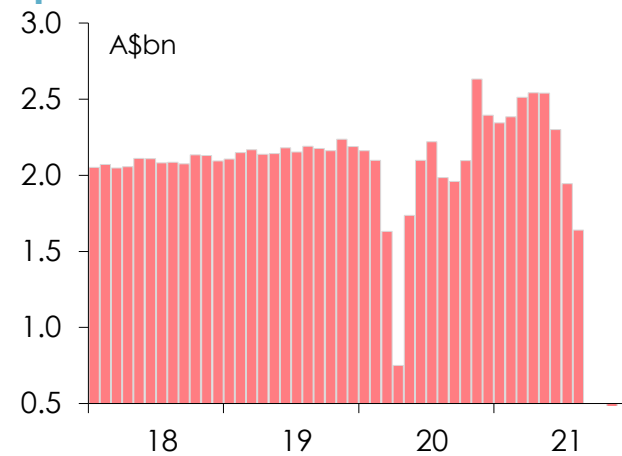
Floor coverings, furniture, housewares etc



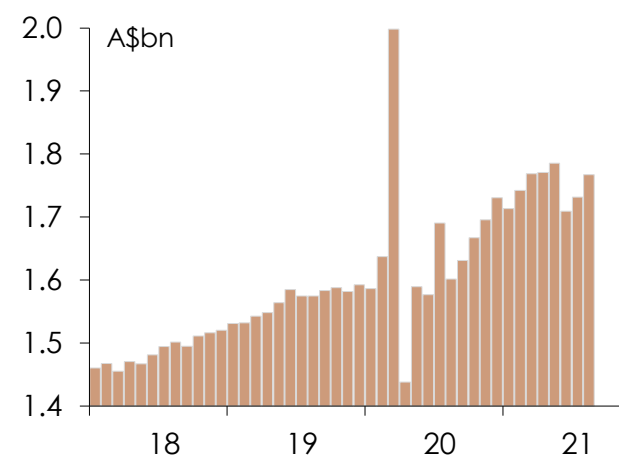
New motor vehicles



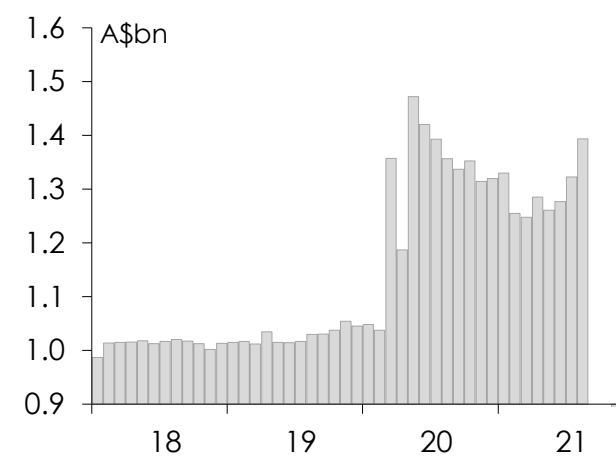
Clothing, footwear & personal accessories



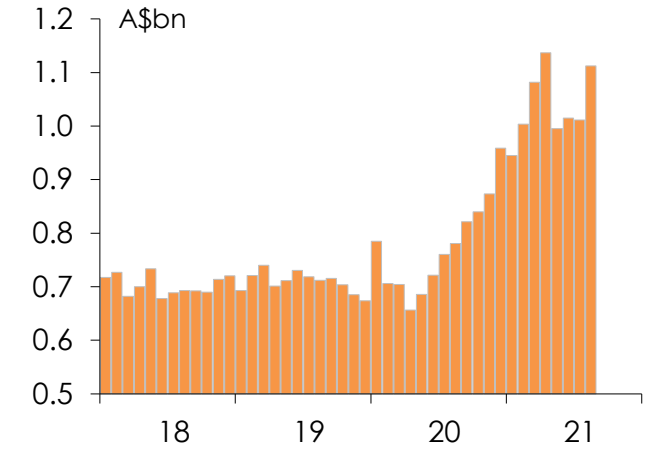
Pharmaceuticals, cosmetics & toiletries



Alcoholic beverages



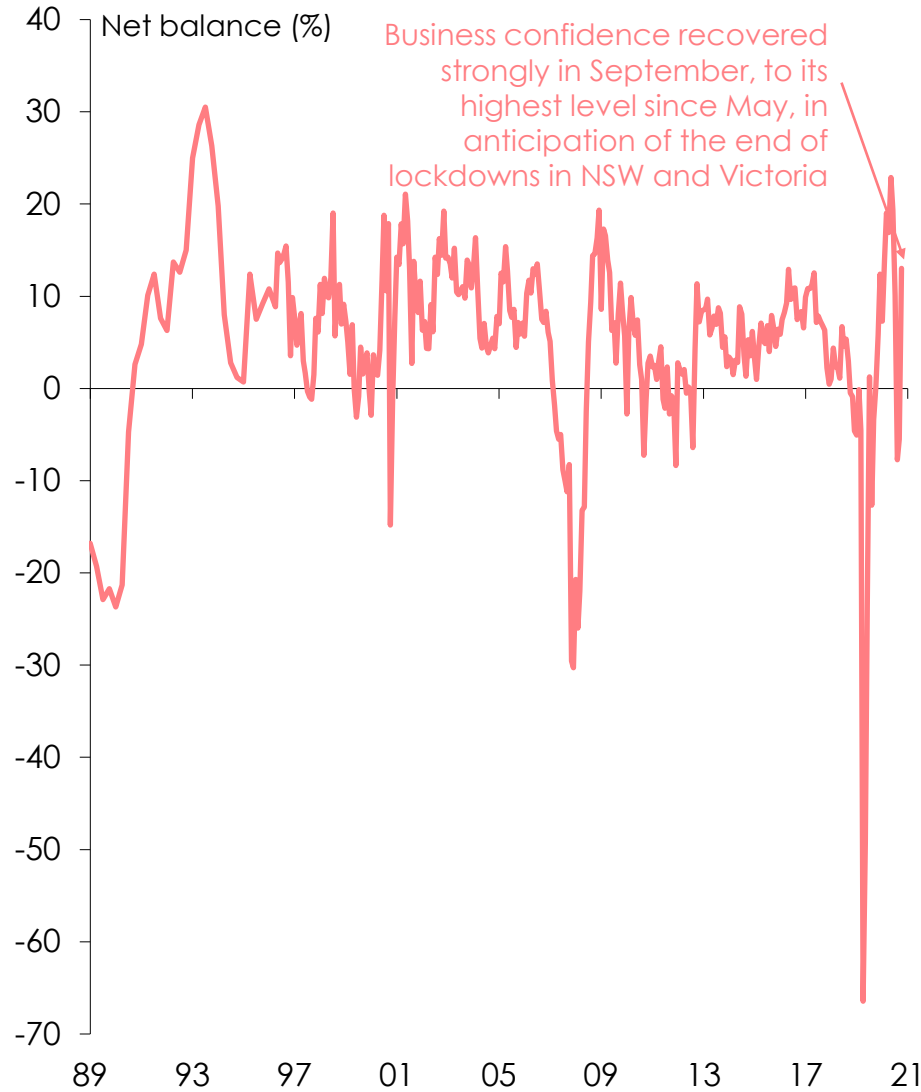
Renovations



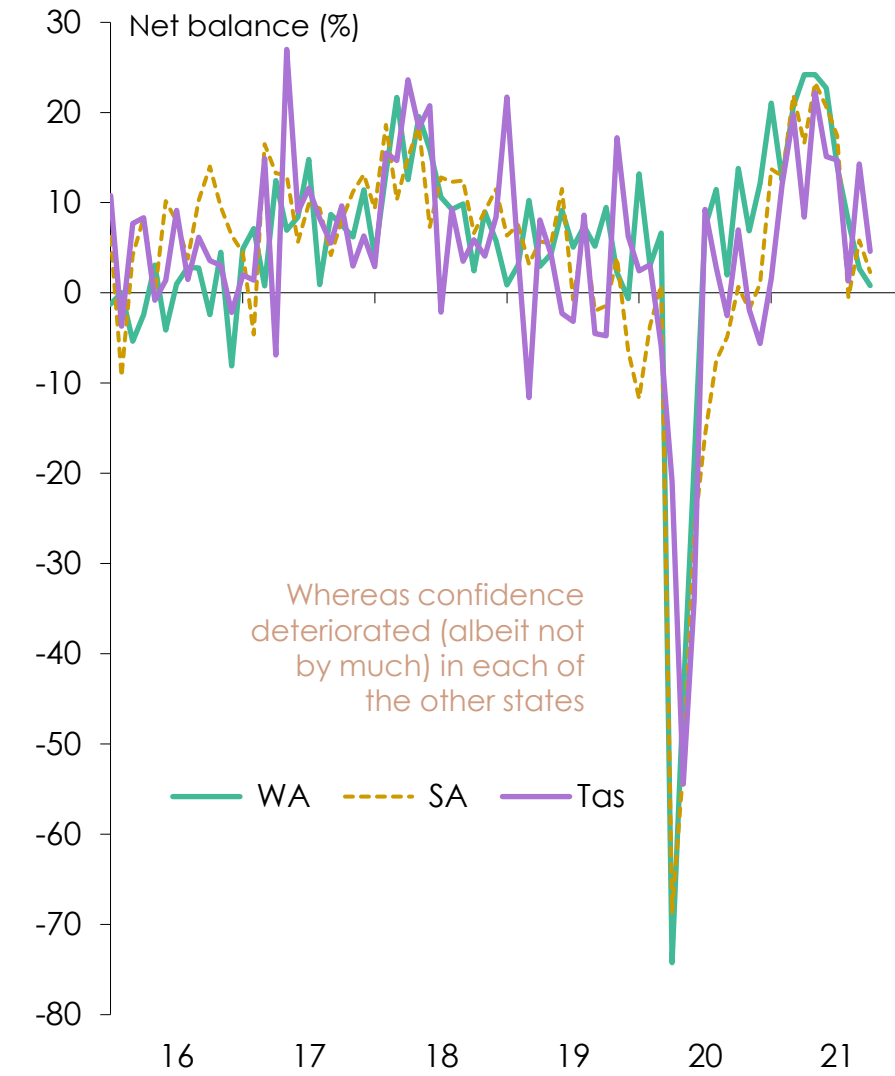
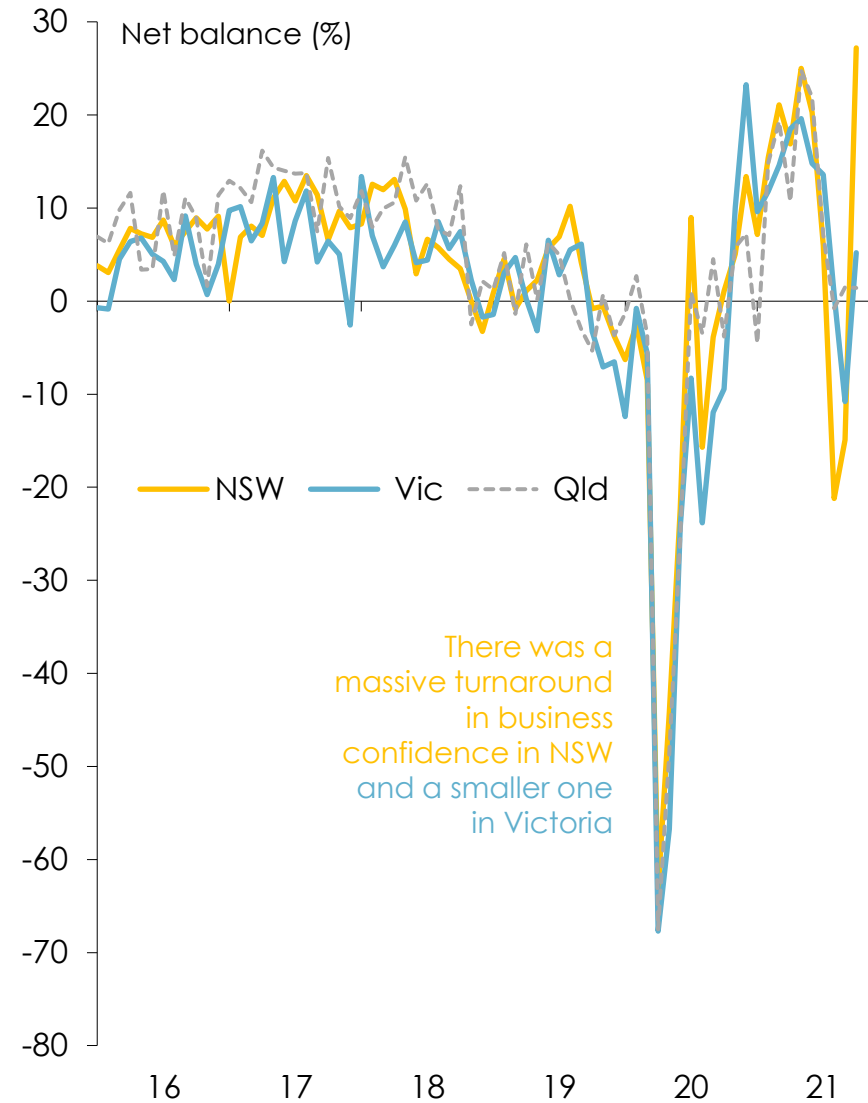
Note: First six charts (from left) are retail sales; new motor vehicles are numbers of vehicles sold; renovations are the value of alterations and additions to residential dwellings approved by local governments. Sources: ABS, [Retail Trade, Australia](#), August 2021 (September data will be released on 4th November); [Building Approvals, Australia](#), August 2021; Federal Chamber of Automotive Industries [VFACTS](#) (seasonal adjustment of Vfacts data by Corinna). [Return to "What's New"](#).

Business confidence recovered strongly in August in anticipation of an end to the lockdowns in NSW and Victoria

Business confidence



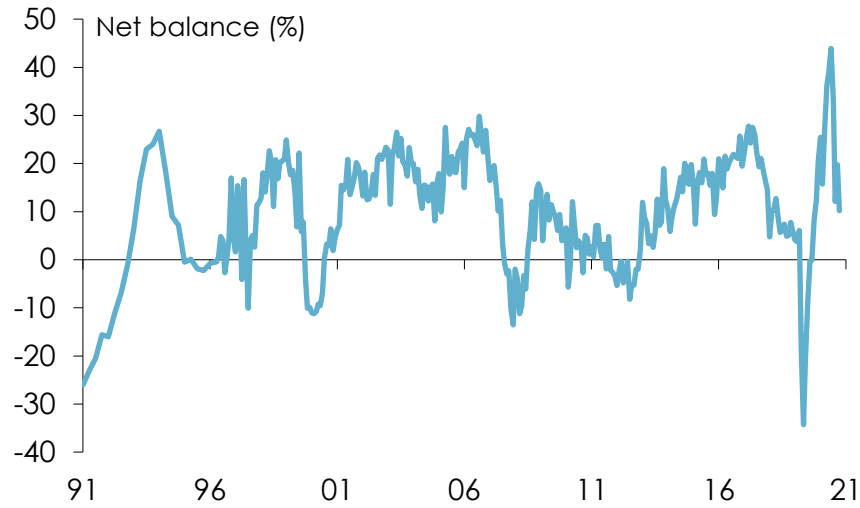
Business confidence, states and territories



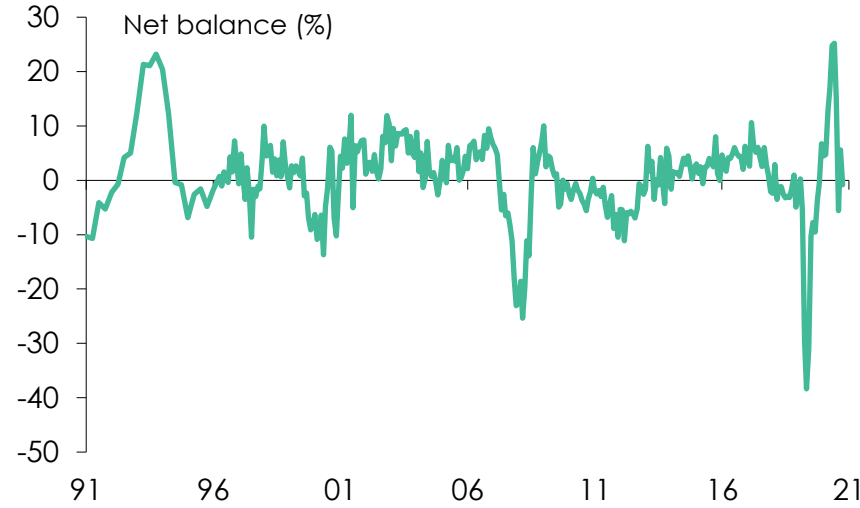
Sources: National Australia Bank [Monthly Business Survey](#), September 2021; October survey results will be released on 9th November. [Return to "What's New"](#).

The improvement in business confidence in September occurred despite a deterioration in all of the components of 'business conditions'

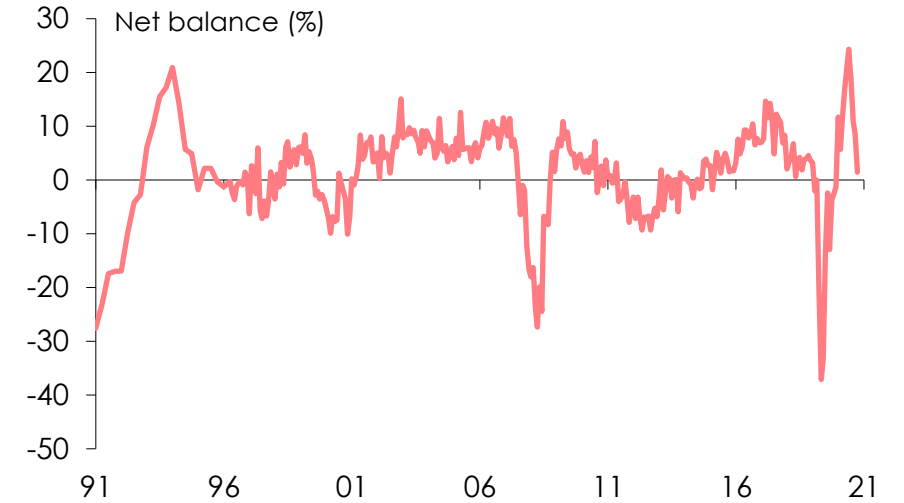
Trading conditions



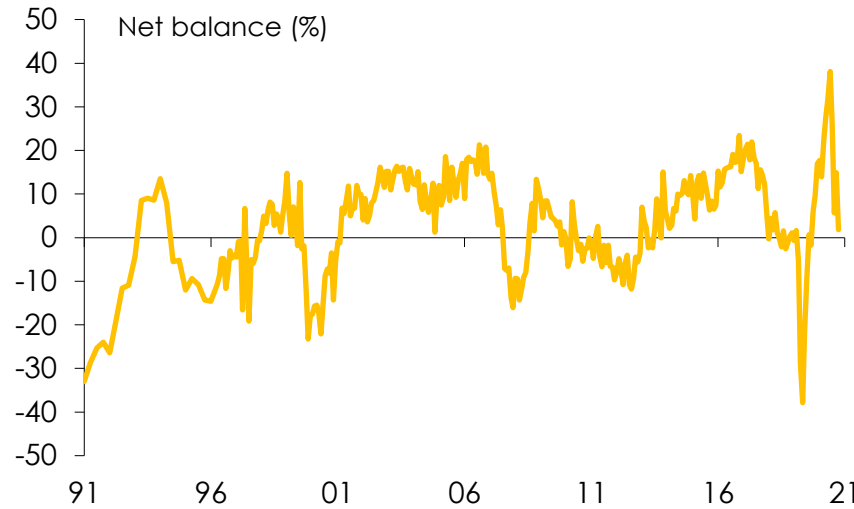
Forward orders



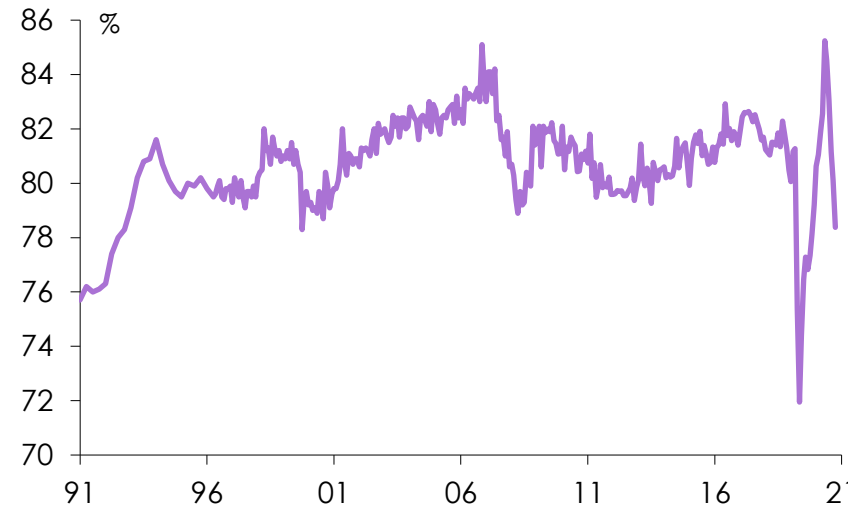
Employee hiring intentions



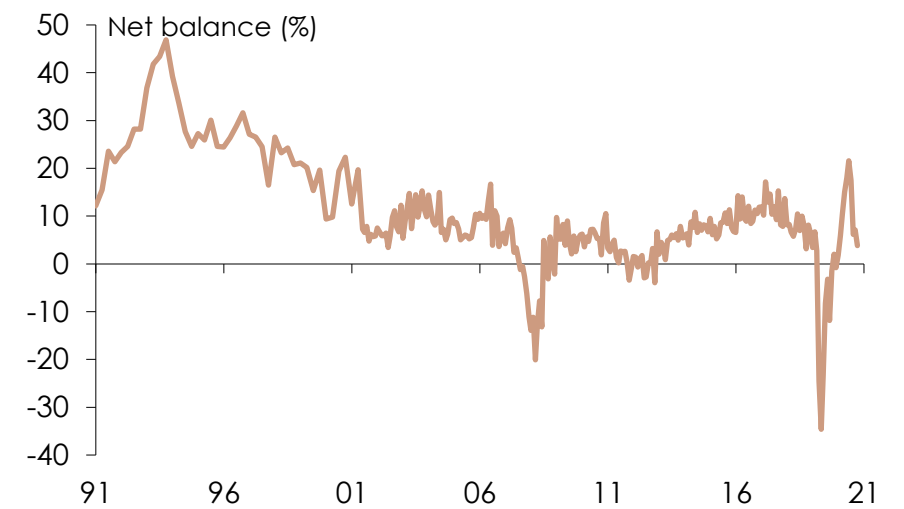
Profitability



Capacity utilization



Capital expenditure intentions

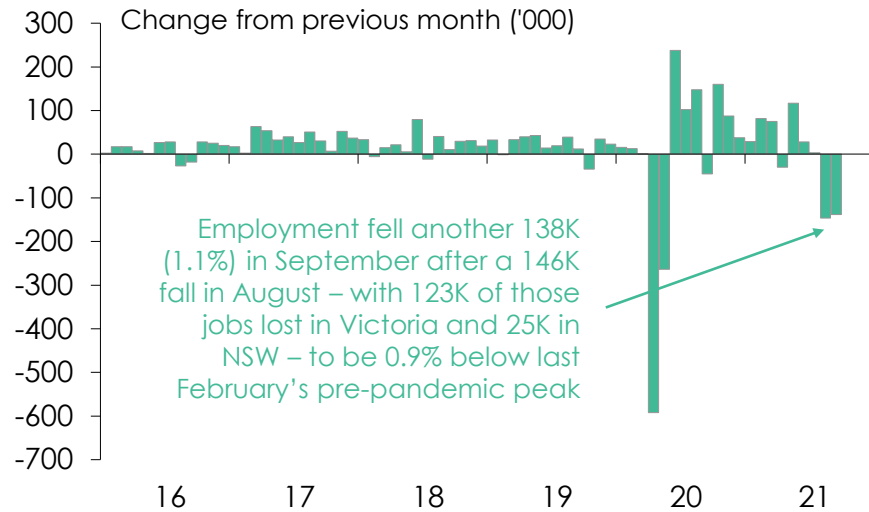


Note: Quarterly data up to March 1997 (May 2002 for capex intentions), monthly thereafter.

Source: National Australia Bank [Monthly Business Survey](#), September 2021; October survey results will be released on 9th November. [Return to "What's New"](#).

Employment fell another 138K in September to its lowest level this year, but is likely to rebound strongly as NSW and Victoria re-open

Employment



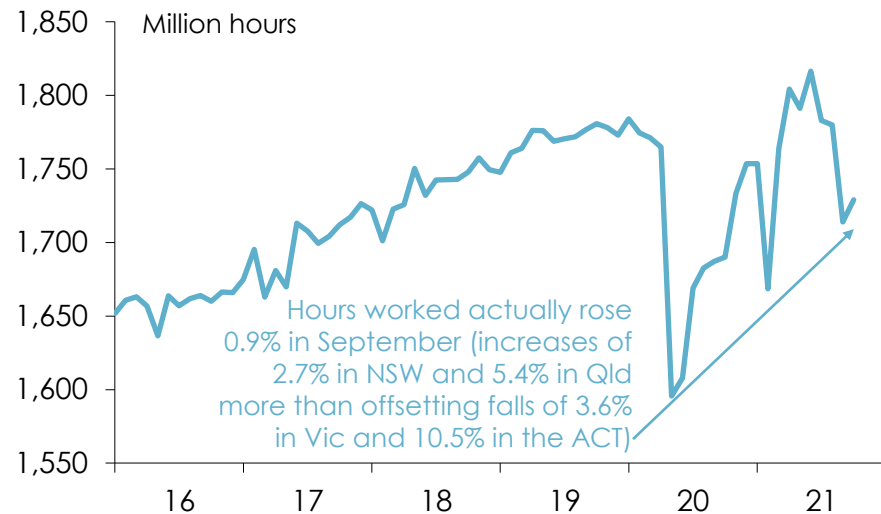
Labour force participation rate



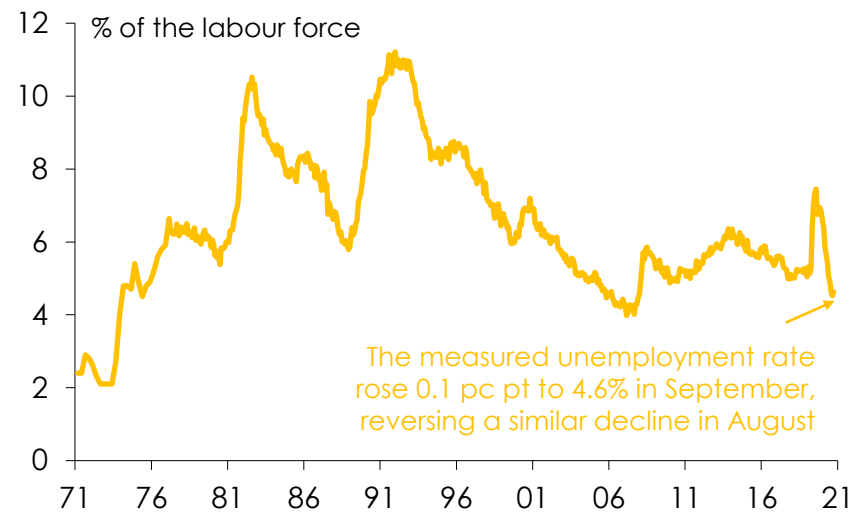
Under-employment ratio



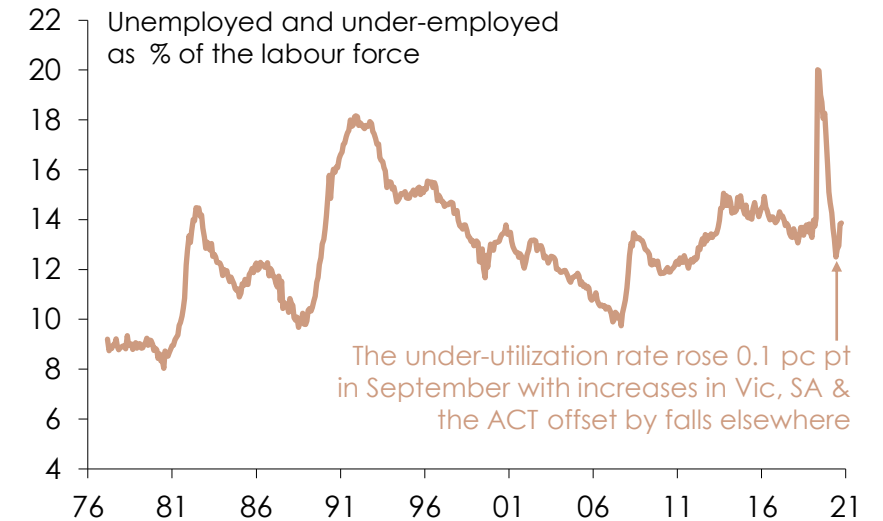
Total hours worked



Unemployment rate



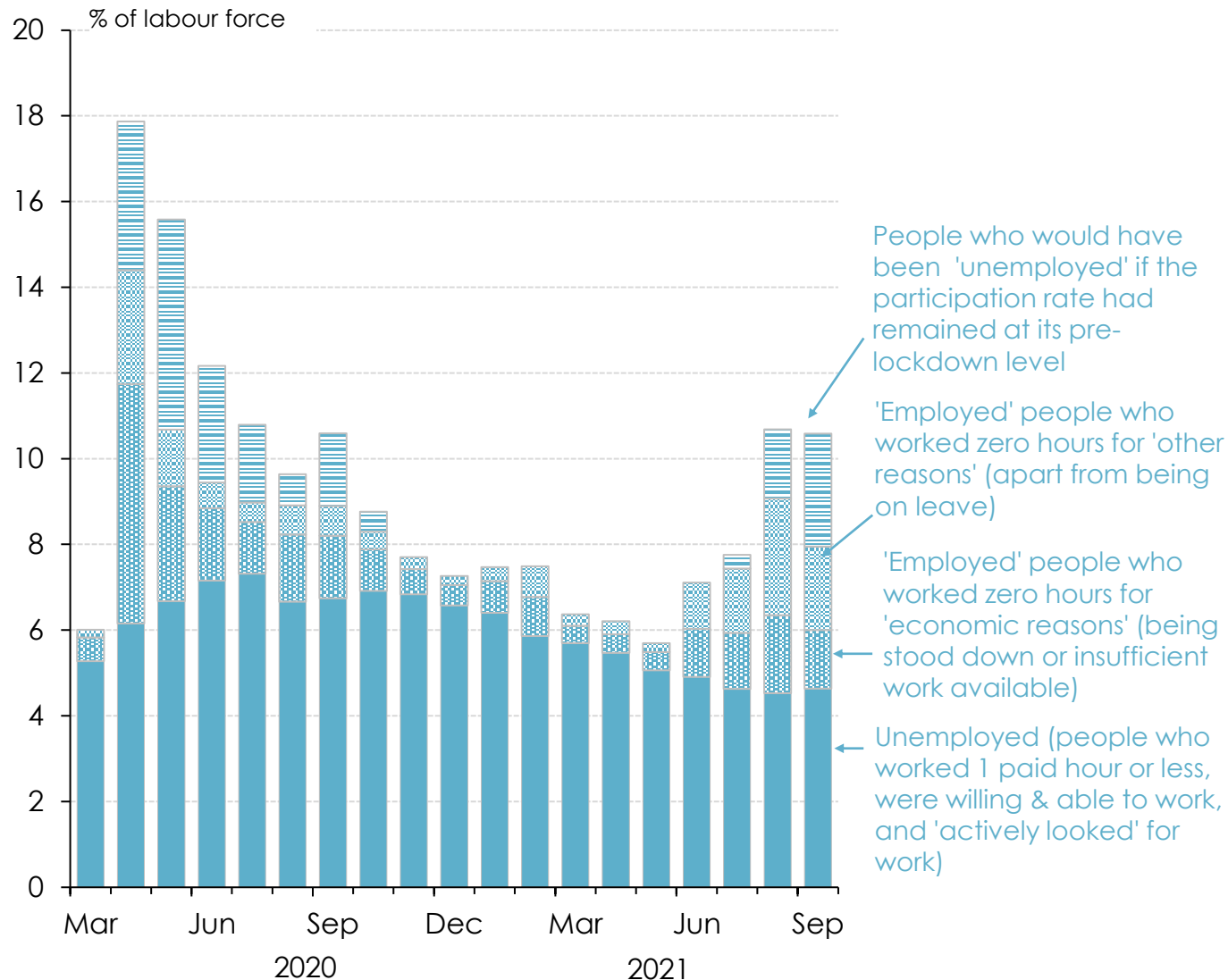
'Under-utilization' rate



Source: ABS, [Labour Force, Australia](#), September 2021. October data will be released on 11th November. [Return to "What's New"](#).

The 'effective' unemployment rate dropped 0.1 pc pt to 10.6% in September - well above May's low of 5.7% - but should fall over the next few months

Alternative measures of unemployment

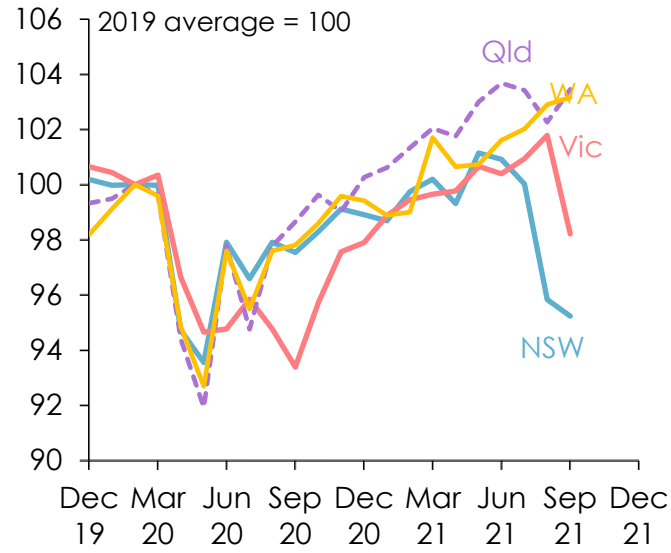


- ❑ The number of people counted as 'employed' but who worked zero hours for 'economic reasons' (no or insufficient work, or 'stood down') fell by 64K in September (having risen 191K between June and August) – entirely due to falls in NSW and Qld
- ❑ ... while the number of people counted as 'employed' but who worked zero hours for 'other reasons' (apart from being leave) fell by 108K in September (having risen by 343K over the previous three months) – with falls in NSW & Qld outweighing rises in Victoria & ACT
- ❑ However the number of people who have 'dropped out' of the labour force (as indicated by the fall in the participation rate since May) increased by 136K in September (after a 175K increase in August)
 - many if not most of these appear to be people who have 'worked zero hours' for more than 4 weeks and are hence classified as 'not in the labour force' if they haven't 'actively looked for work'
- ❑ The 'effective' unemployment rate, which 'adds back' these people to the 'official' rate, dropped 0.1 pc pt in September
 - but it should drop (probably a lot) in October and November

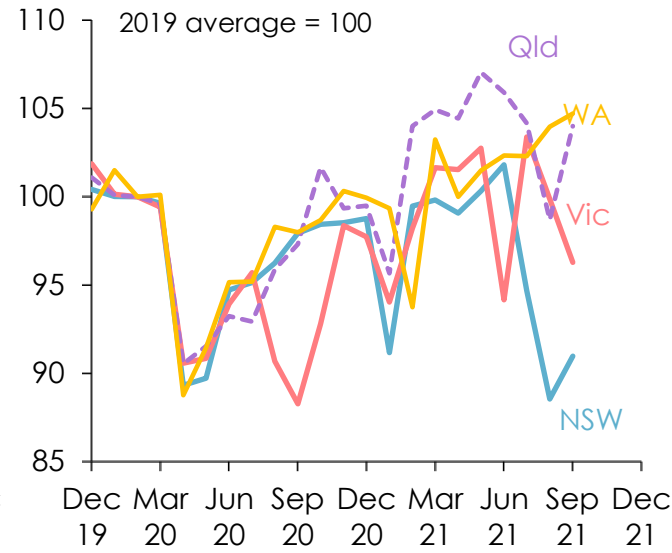
Source: ABS, [Labour Force, Australia](#), September 2021. October data will be released on 11th November. [Return to "What's New"](#).

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

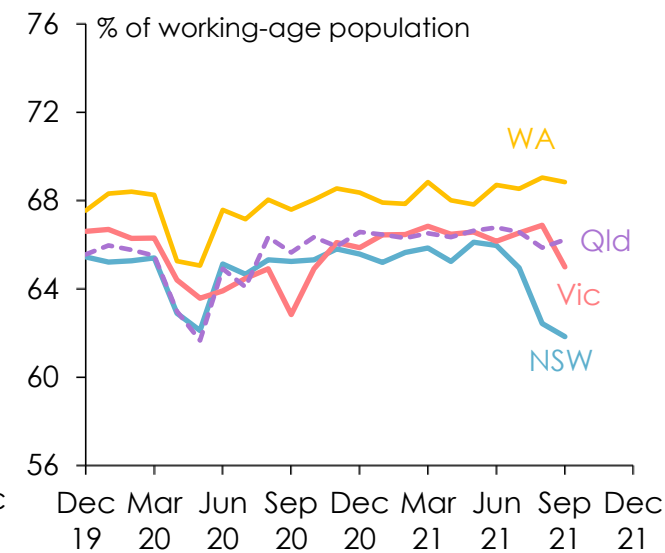
Employment



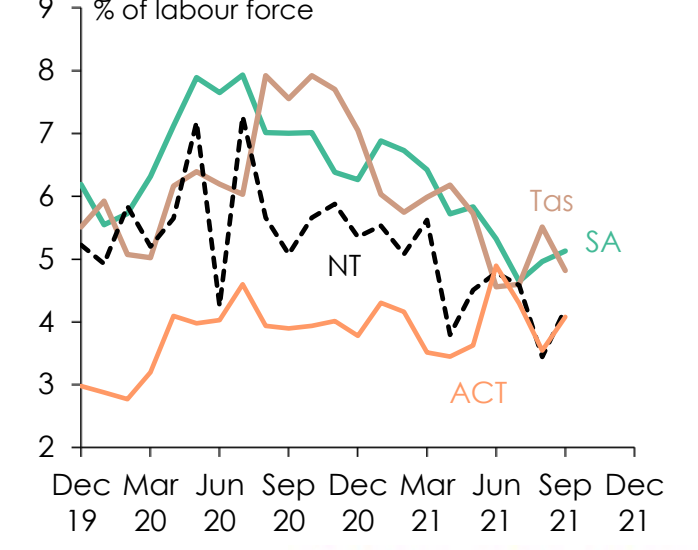
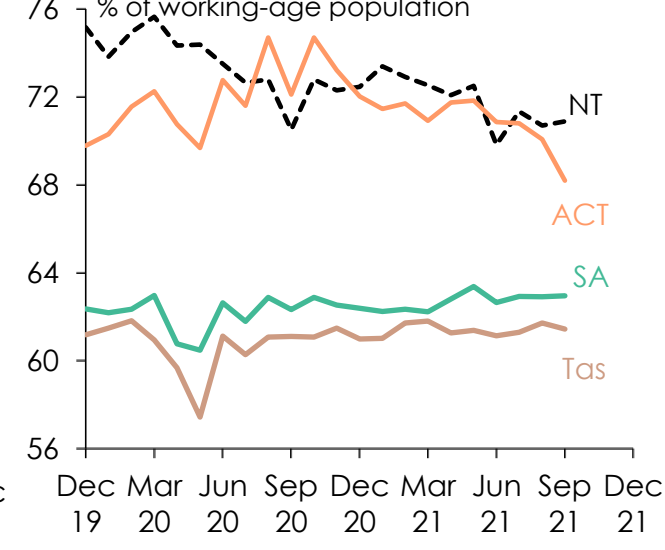
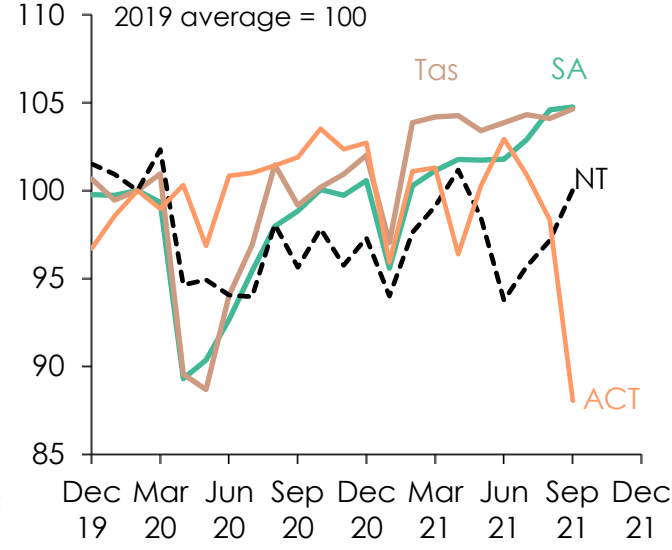
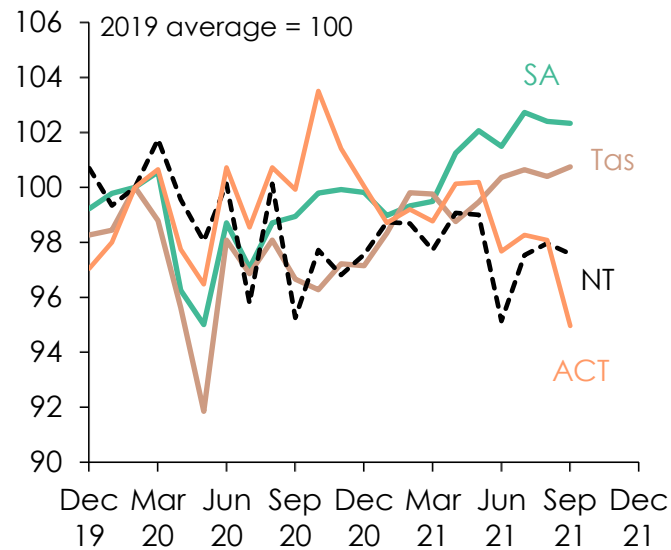
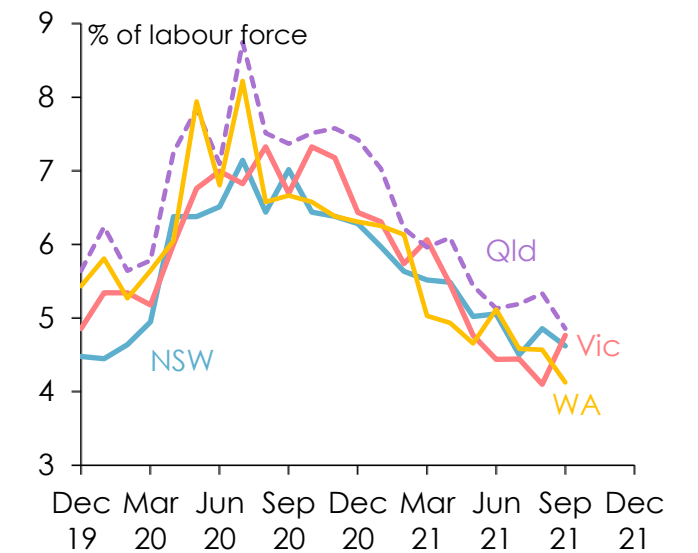
Hours worked



Participation rates



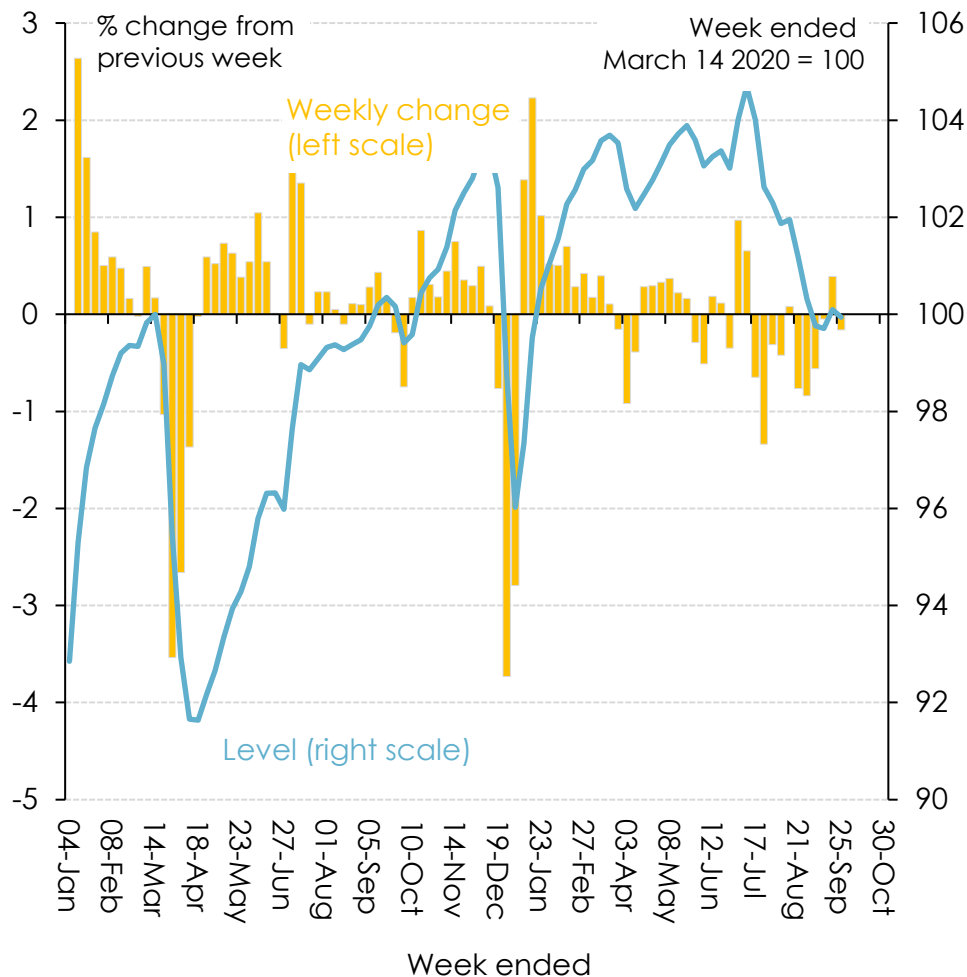
Unemployment rates



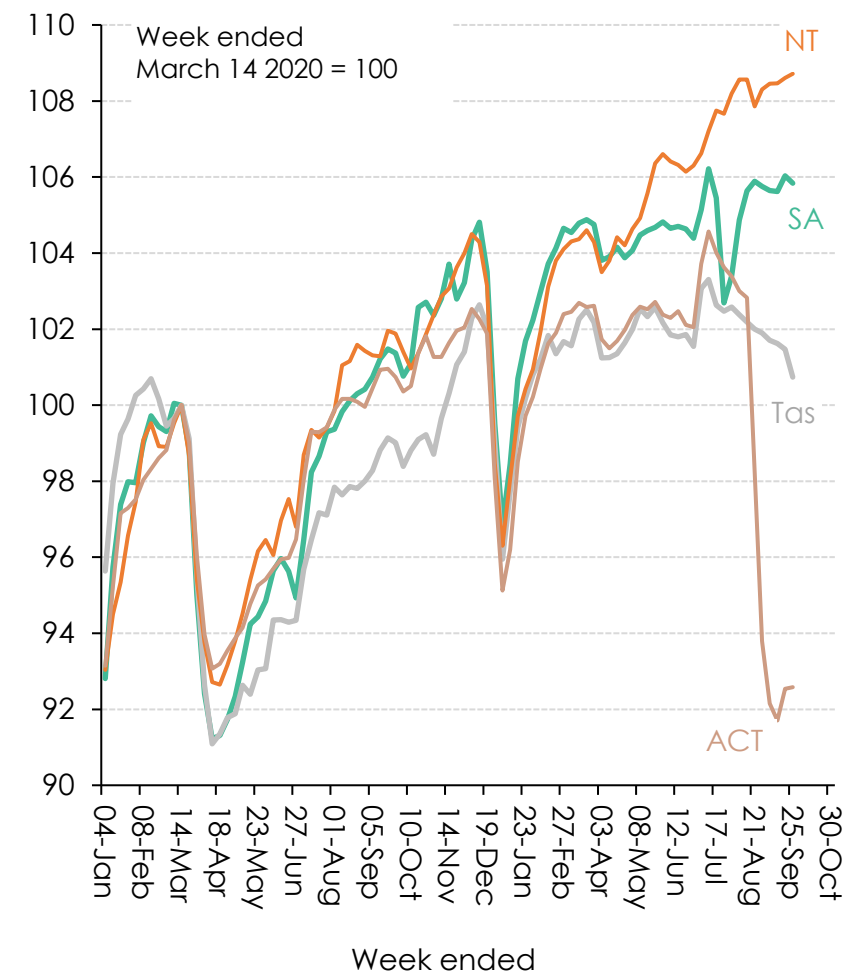
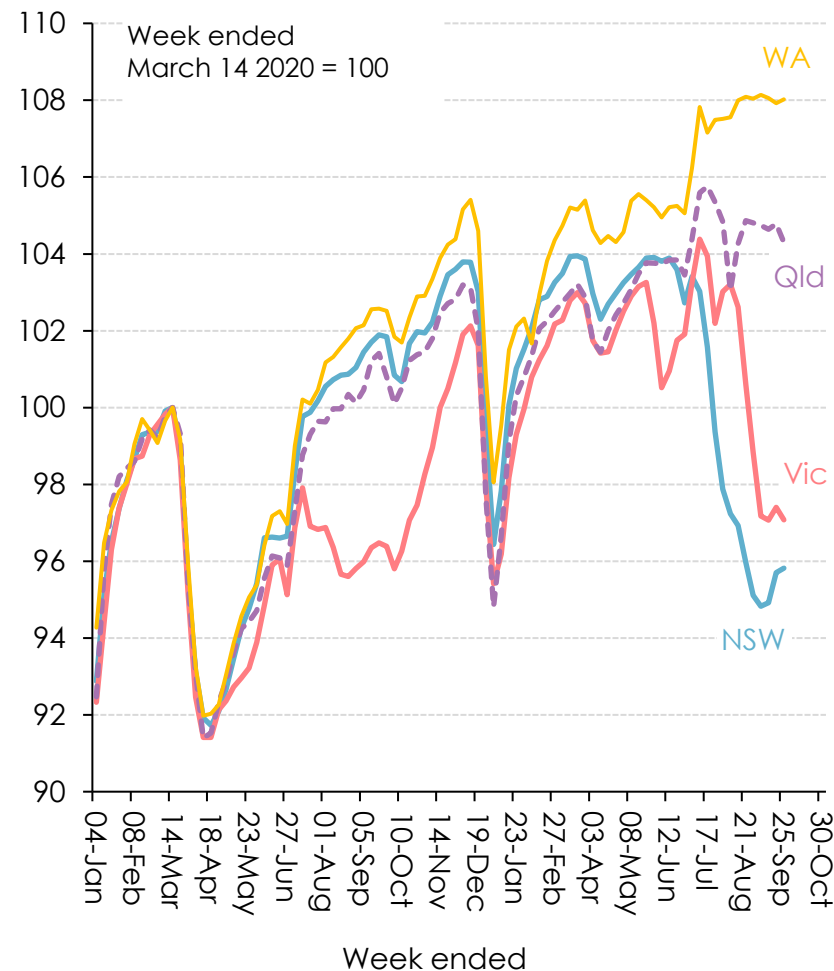
Source: ABS, [Labour Force, Australia](#), September 2021. October data will be released on 11th November. [Return to "What's New"](#).

Payroll jobs recovered 0.2% over the last two weeks of September but were still 4.5% below their pre-lockdown peak (ACT 11.5%, NSW 7.8%, Vic 7.0%)

Level and weekly change in the number of payroll jobs



Payroll jobs by State & Territory

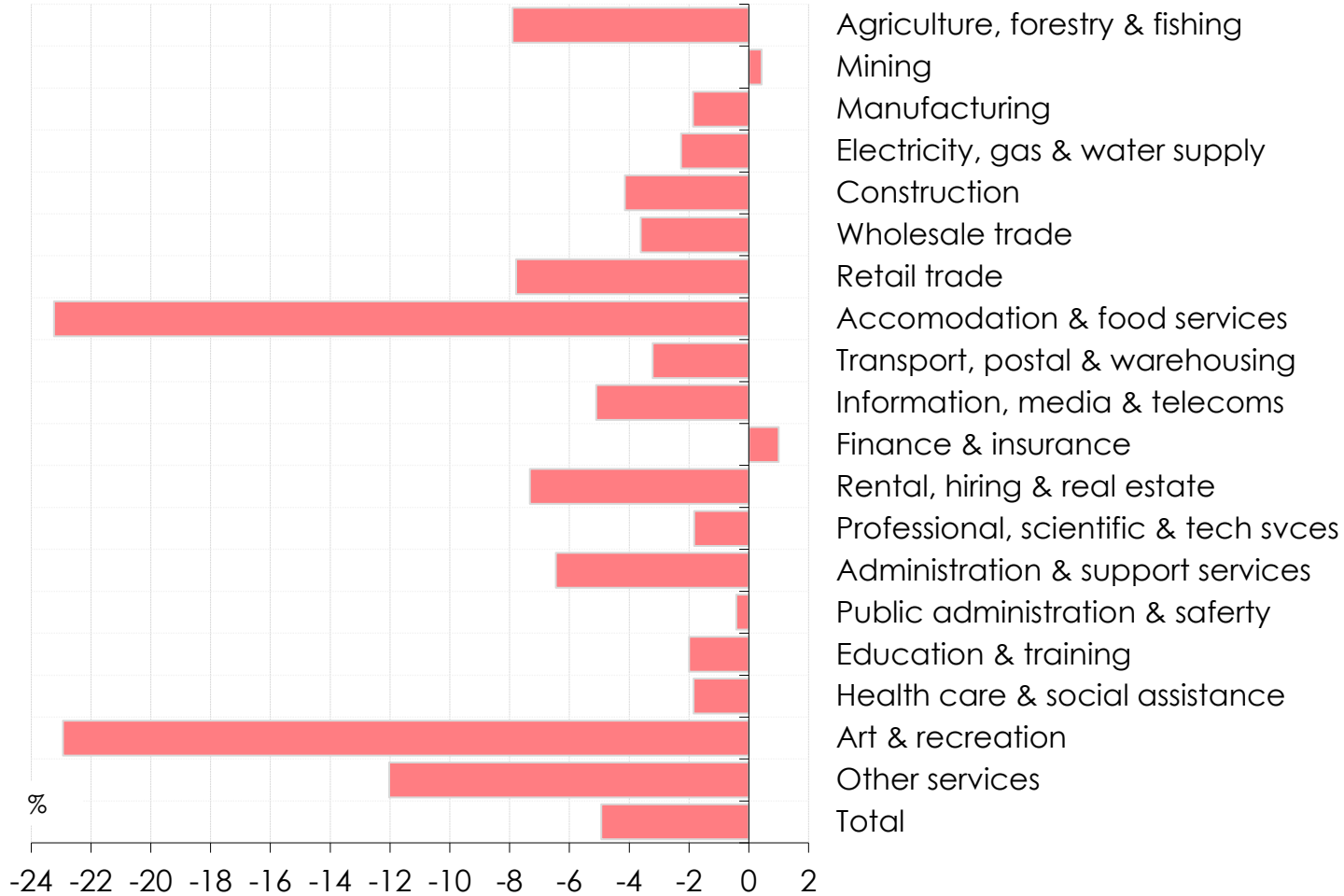


Source: ABS, [Weekly Payroll Jobs and Wages in Australia, Interim](#). Data refers to the number of payroll jobs at businesses participating in the Australian Taxation Office's Single Touch Payroll system, which covers 99% of employers with 20 or more employees and about 71% of smaller employees. People 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"](#).

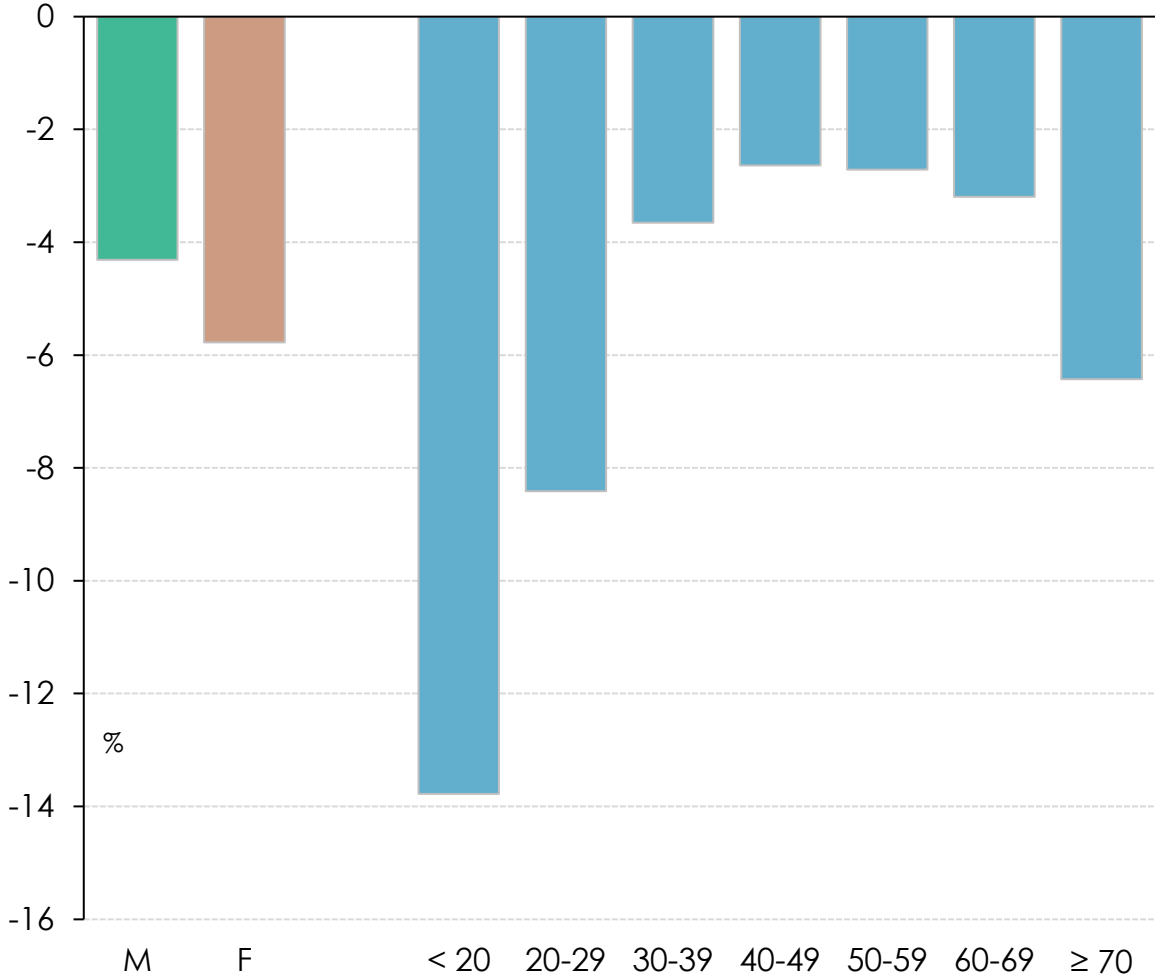
The same sectors, and the same groups, that were hardest hit in last year's lockdowns have been hardest hit in the latest one (plus agriculture)

Change in payroll jobs between week ended 3rd July and week ended 11th September

By industry



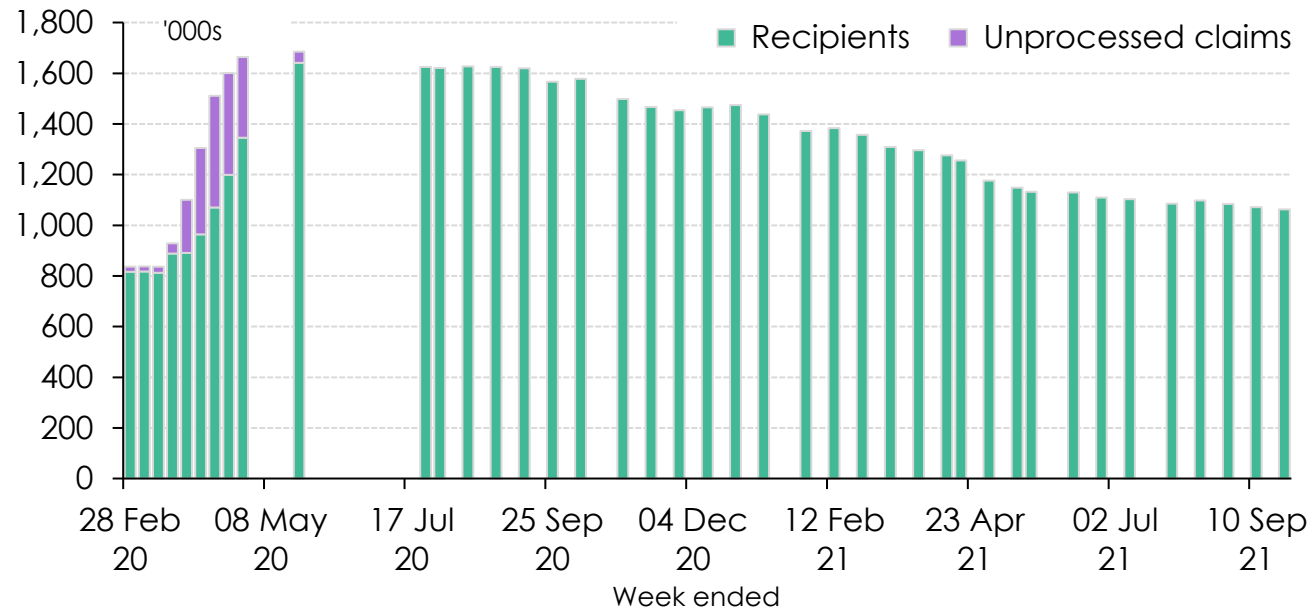
By gender and age



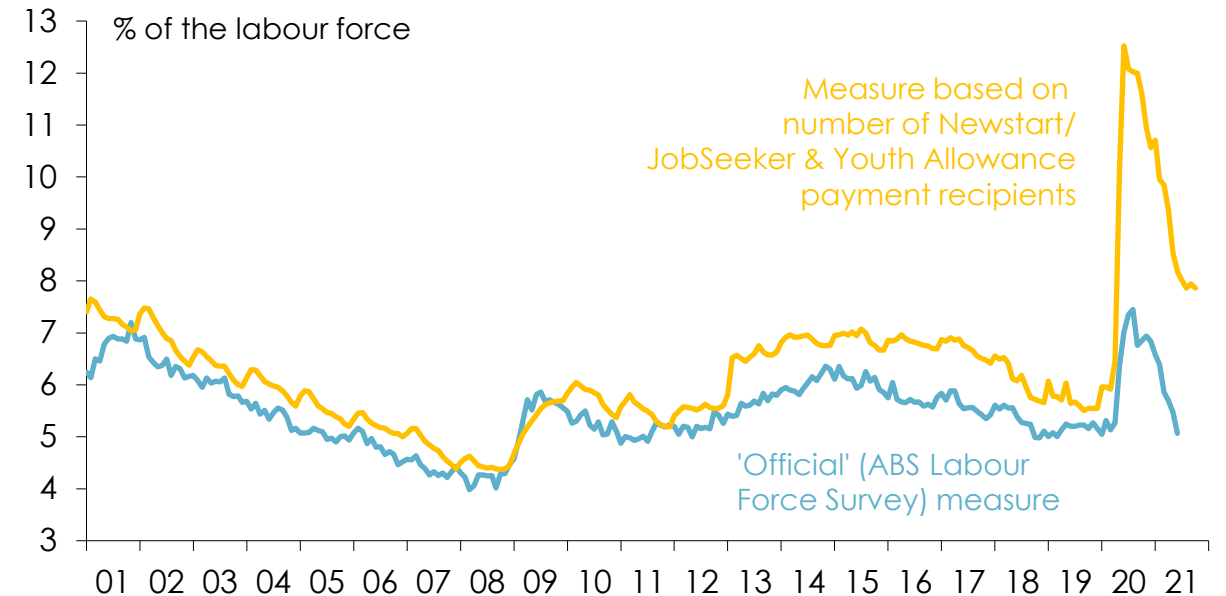
Source: ABS, [Weekly Payroll Jobs and Wages in Australia](#). Data refers to the number of payroll jobs at businesses participating in the Australian Taxation Office's Single Touch Payroll system, which covers 99% of employers with 20 or more employees and about 71% of smaller employees. People with 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"](#).

The number of people receiving 'unemployment benefits' fell to a post-pandemic low in the first half of September (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

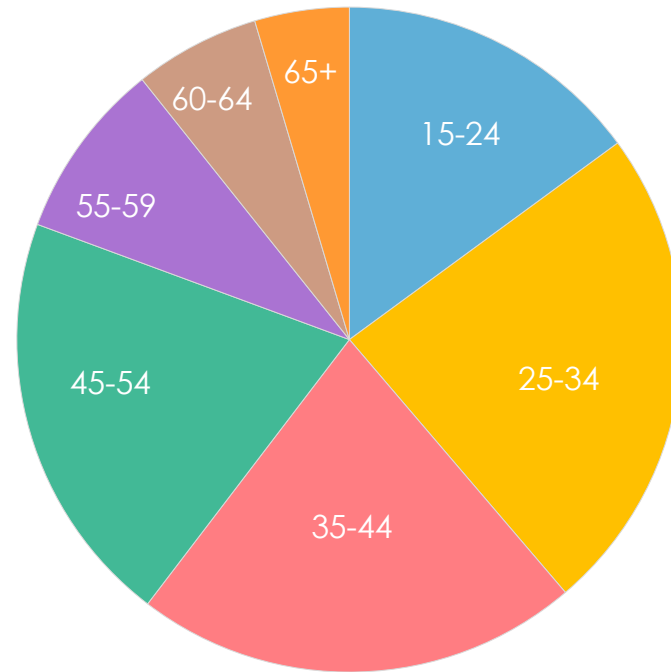


- ❑ Ministers receive weekly data on the number of people on JobSeeker and Youth Allowance (Other) benefits – which since late July last year the Department of Social Services has made this available every second week to the Senate Select Committee examining the Government’s responses to Covid-19
- ❑ The number of people receiving JobSeeker or Youth Allowance (Other) payments fell by 8,589 (0.8%) over the two weeks to 24th September – to its lowest level since the week ended 20th March last year – with most of the decline occurring in New South Wales and 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, though these will ‘taper off’ once vaccination rates pass the thresholds set out in the Government’s ‘National Plan’ – see [slides 143-144](#)

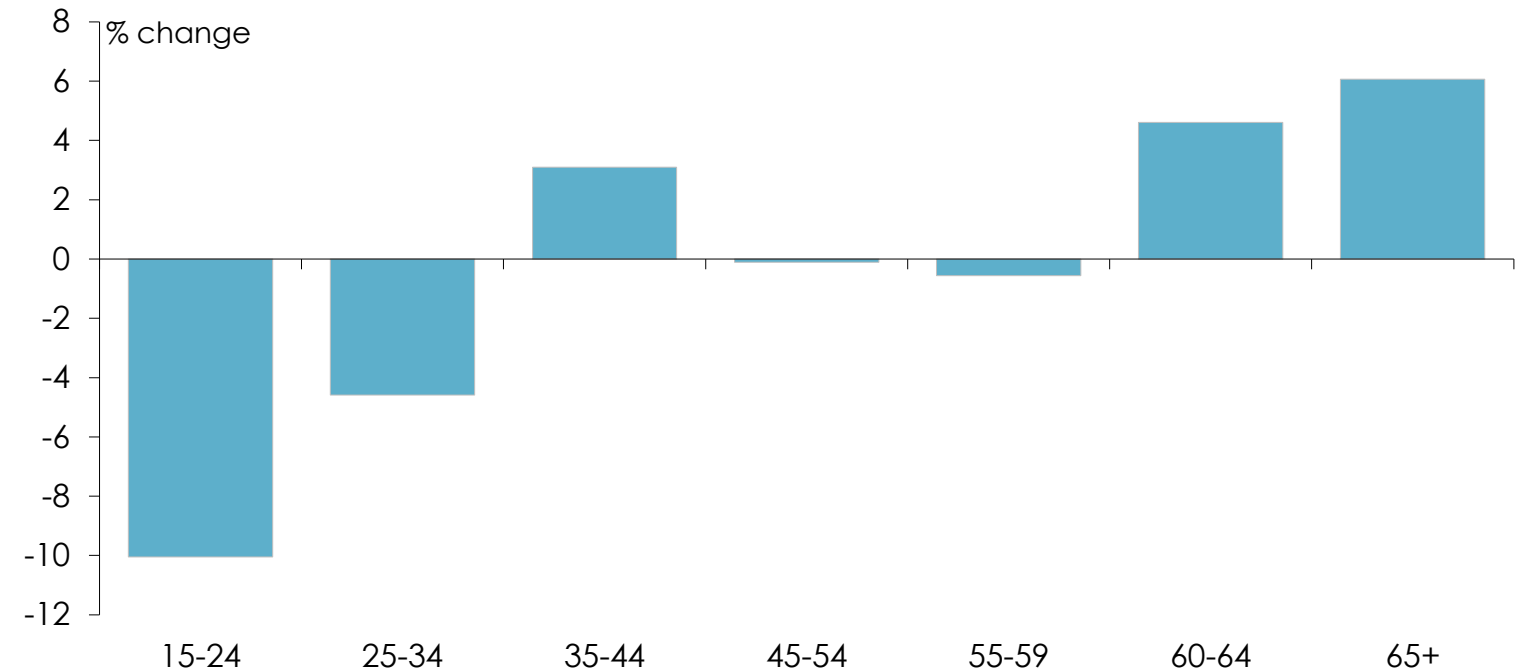
Sources: Department of Social Services, [JobSeeker Payment and Youth Allowance Recipients - monthly profile](#), ABS; Senate Select Committee on Covid-19, [Additional documents](#). [Return to "What's New"](#).

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 September 2021, by age group

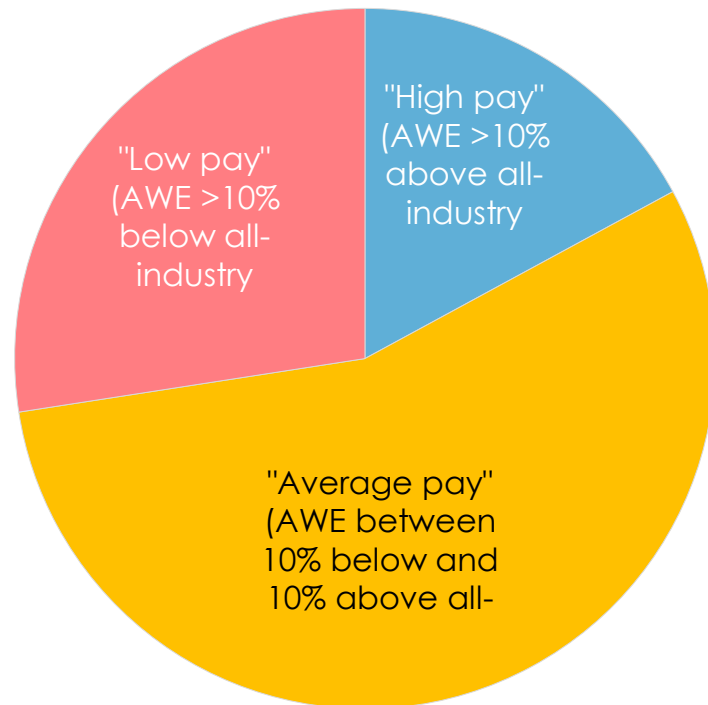


- ❑ People aged 15-24 accounted for 15% of pre-covid employment but experienced 39% of all job losses between February and May last year – and 54% of all job losses between June and September this year – their employment is down 10.1% from the pre-pandemic peak in February last year
- ❑ Likewise 25-34 year-olds accounted for 25% of all job losses between February and May last year, and for 29% of all job losses between June and August this year – their employment is down 4.6% 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

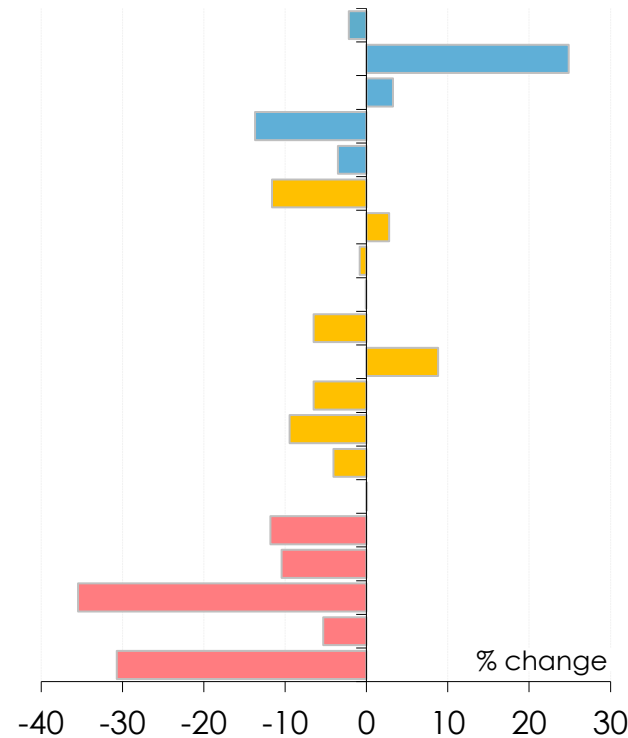
Note: data on employment by age group is not seasonally adjusted. Source: ABS, [Labour Force, Australia, Detailed](#), August 2021: September data will be released on 21st October. [Return to "What's New"](#).

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

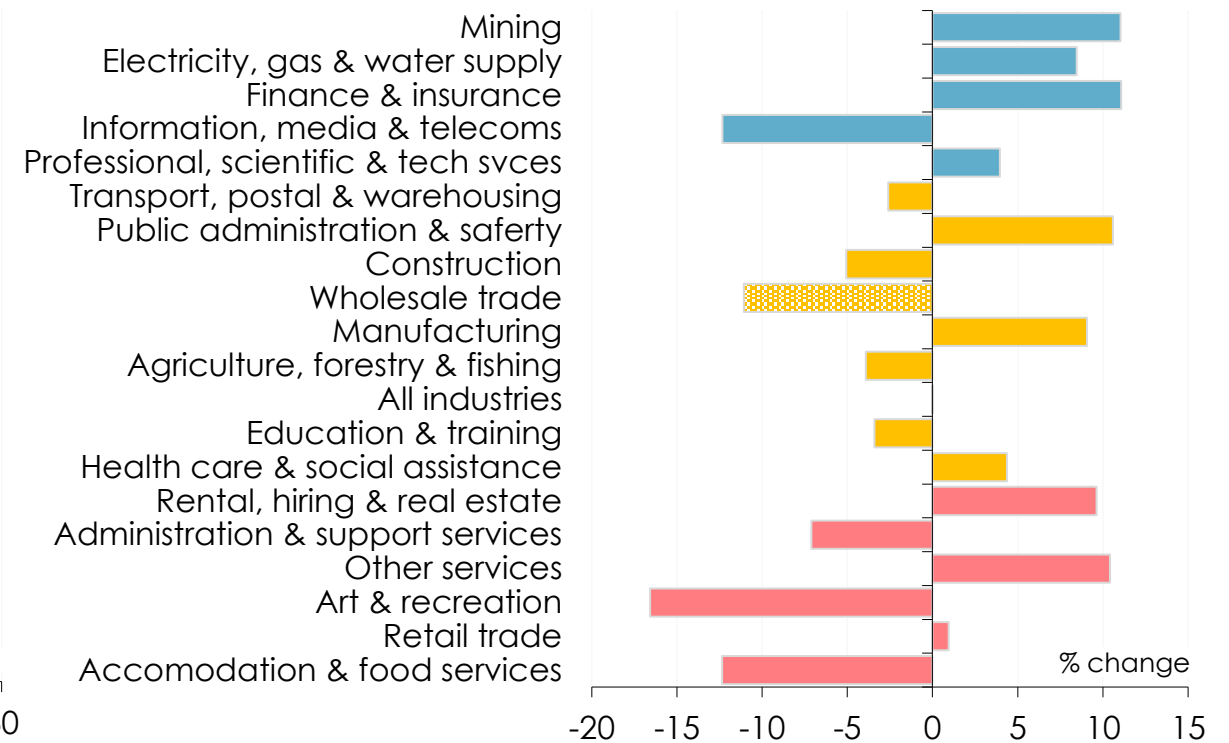
Composition of employment by industry ranked by average weekly earnings, February 2020



Change in employment by industry
February-May 2020



February 2020 – August 2021

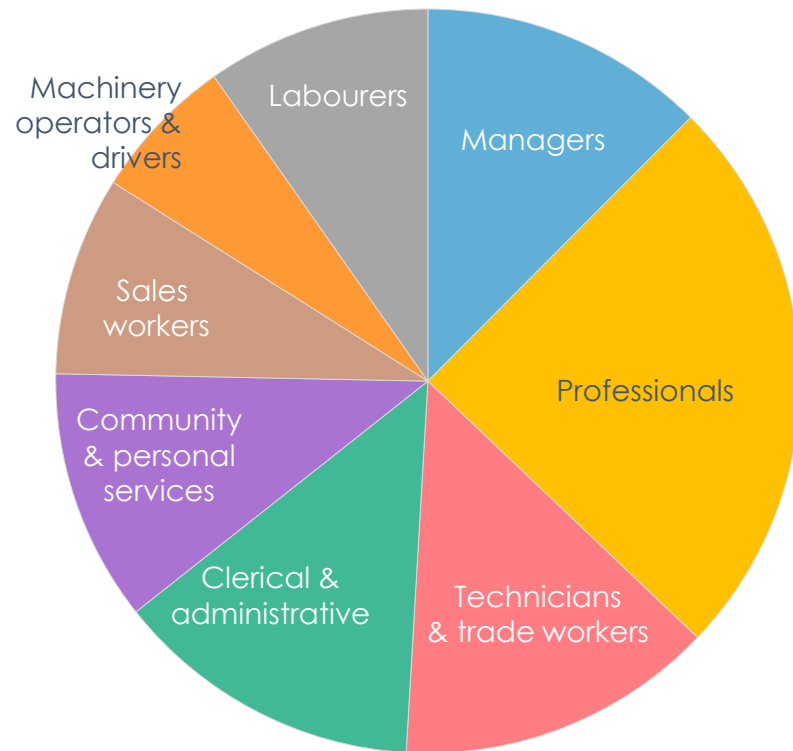


- ❑ Industries with average earnings which are 10% or more below average accounted for 27½% of the pre-pandemic workforce, but experienced 64% of the job losses between February and May last year – and 89% of job losses between May and August this year – employment in these industries was down 2.9% between 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

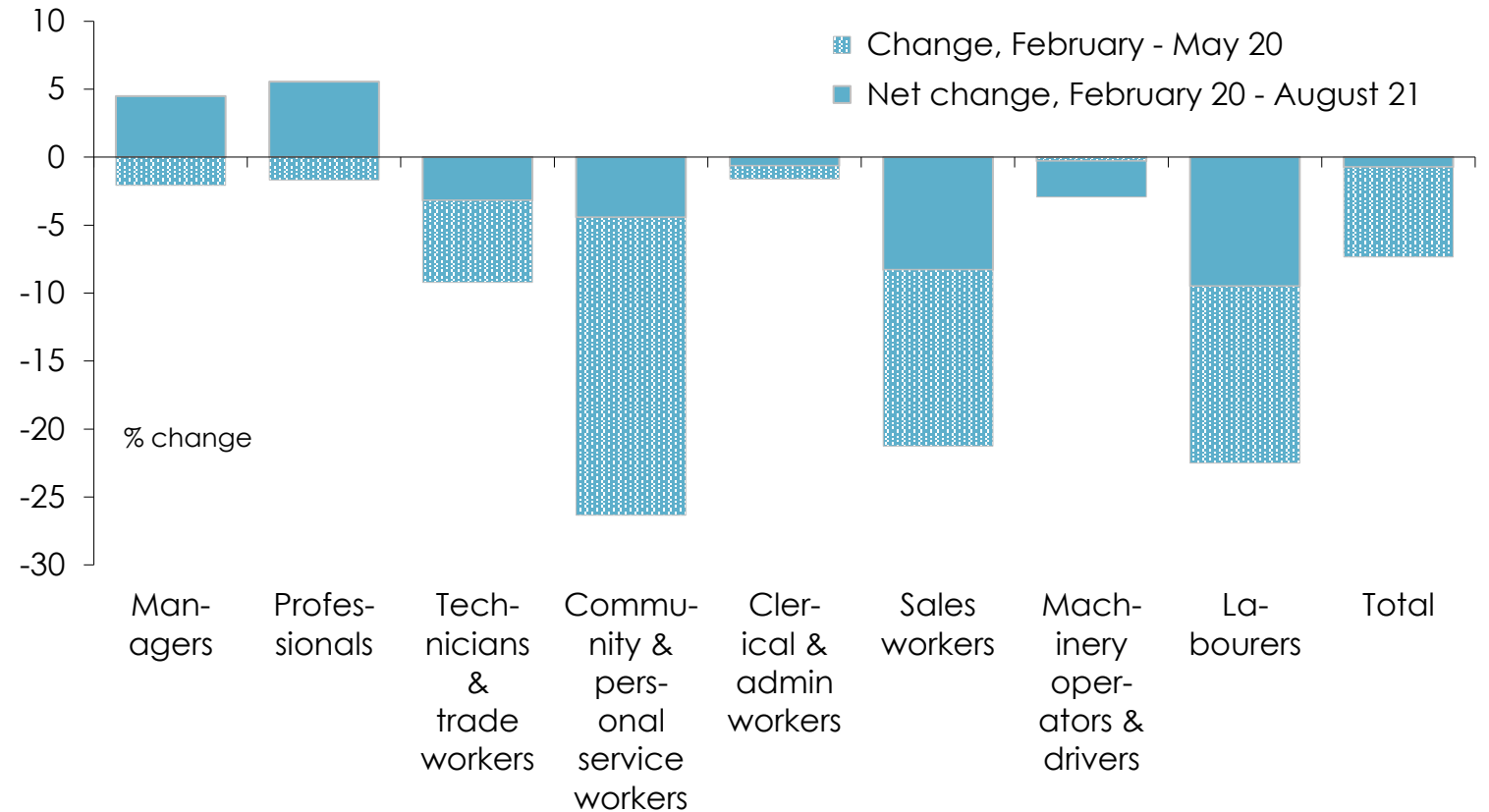
Source: ABS, [Labour Force, Australia, Detailed](#), August 2021 and [Average Weekly Earnings, Australia](#), November 2019. Labour force survey data on employment by occupation are available only for the middle month of each quarter: November data will be released on 23rd December. [Return to "What's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

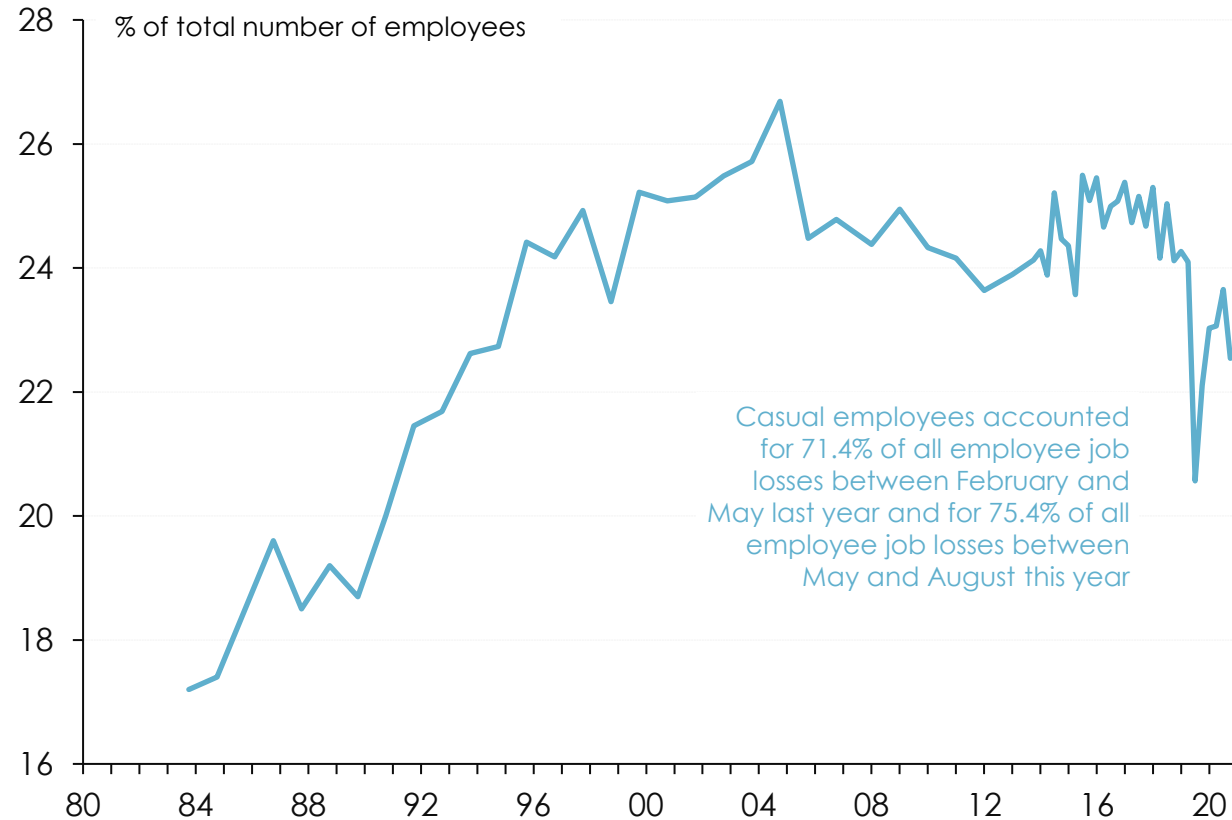


- Community & personal services workers, sales workers and labourers accounted for 29% of the pre-covid work force, but experienced 73% of the job losses between February and May last year – and for 73% (again) of job losses between May and August this year – and there were 7.2% fewer of them in August 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"](#).

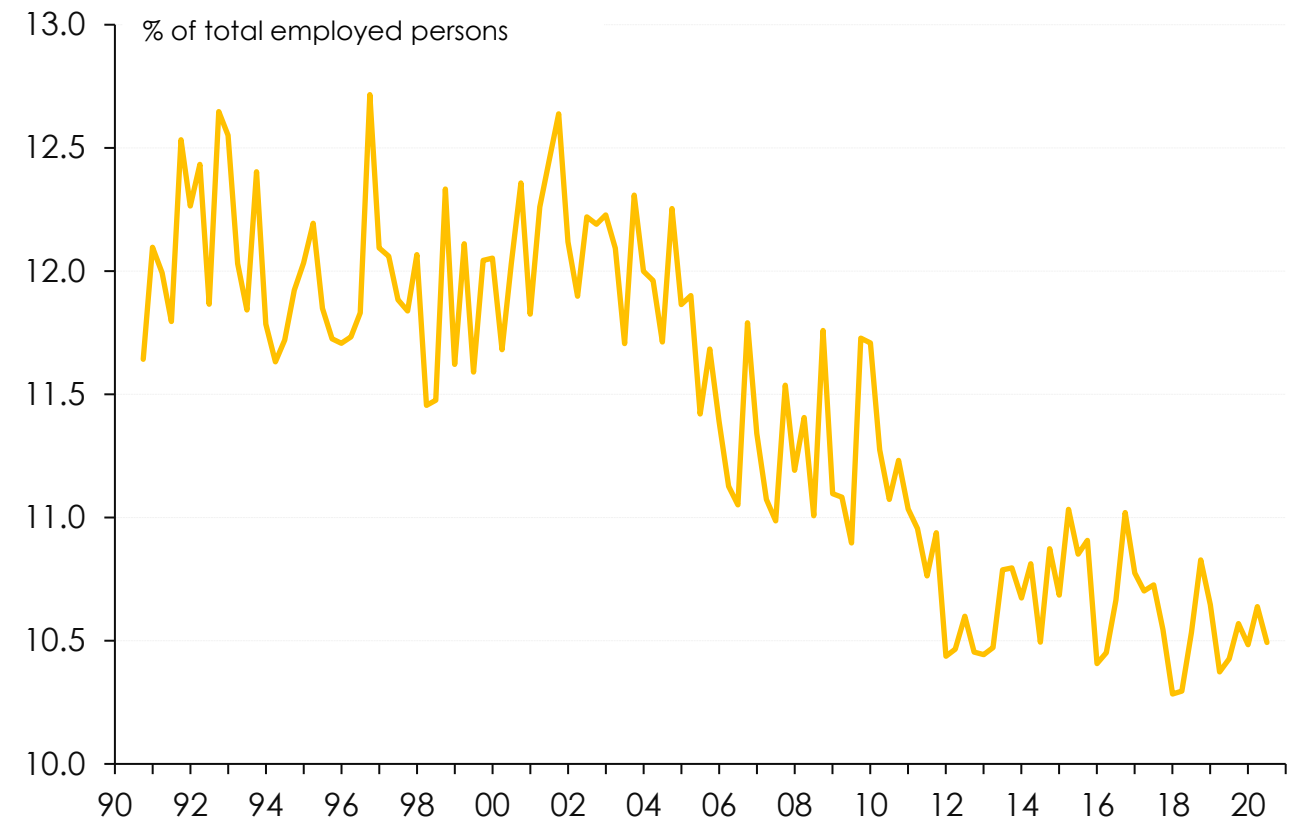
Contrary to popular belief neither casual jobs nor 'gig economy' jobs have become more commonplace during the past two decades

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



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

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

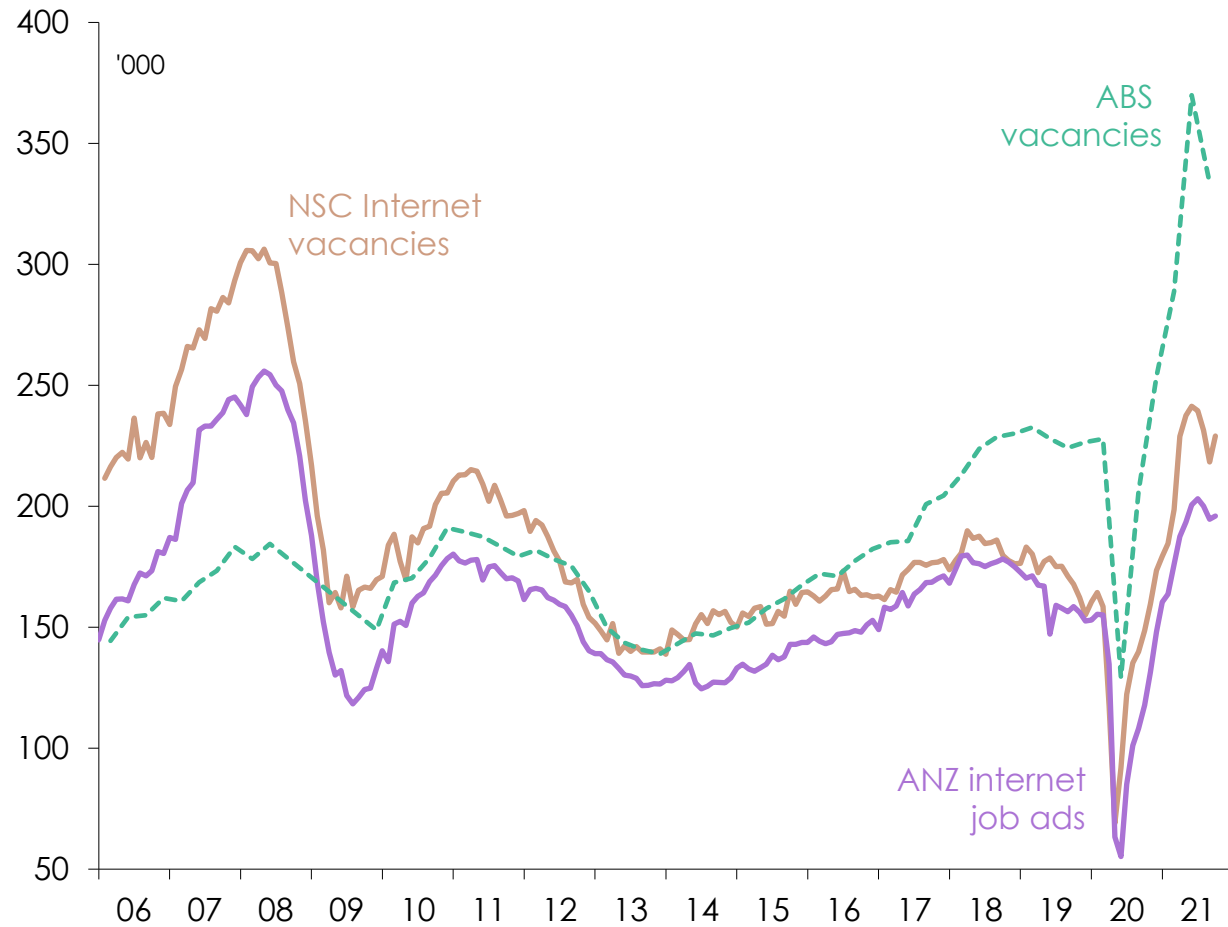


- ❑ 'Independent contractors' have actually declined as a share of the workforce since the early 2000s – had haven't increased during the current recession

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

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

Measures of job vacancies



- ❑ Job vacancies have eased slightly during the NSW and Victorian lockdowns, but remain high by historical standards

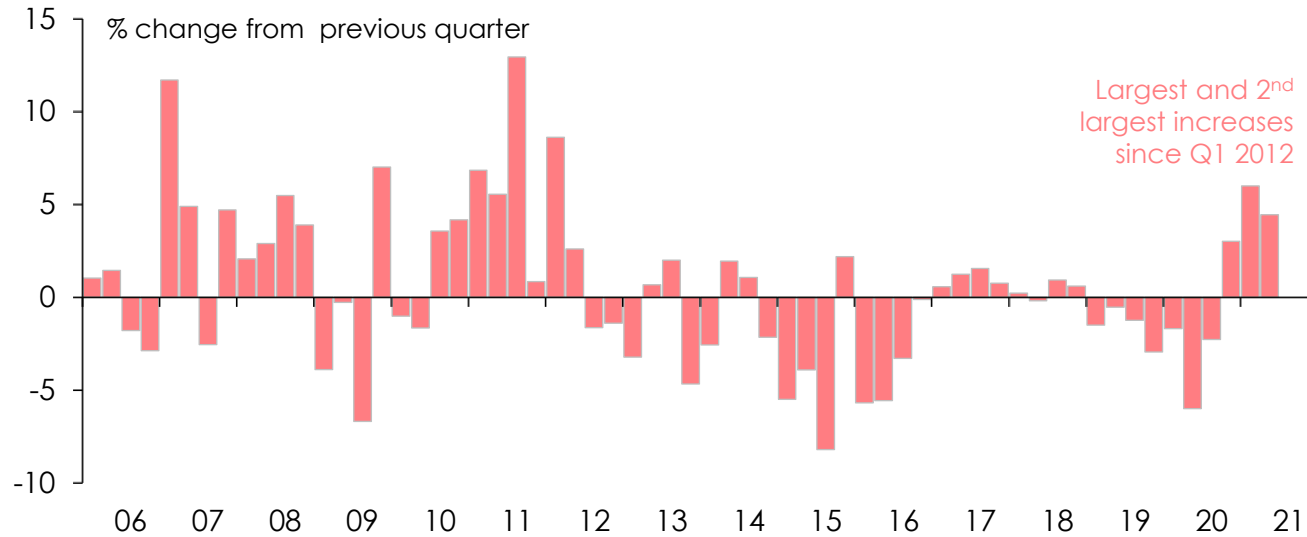
Ratio of unemployed people to job vacancies



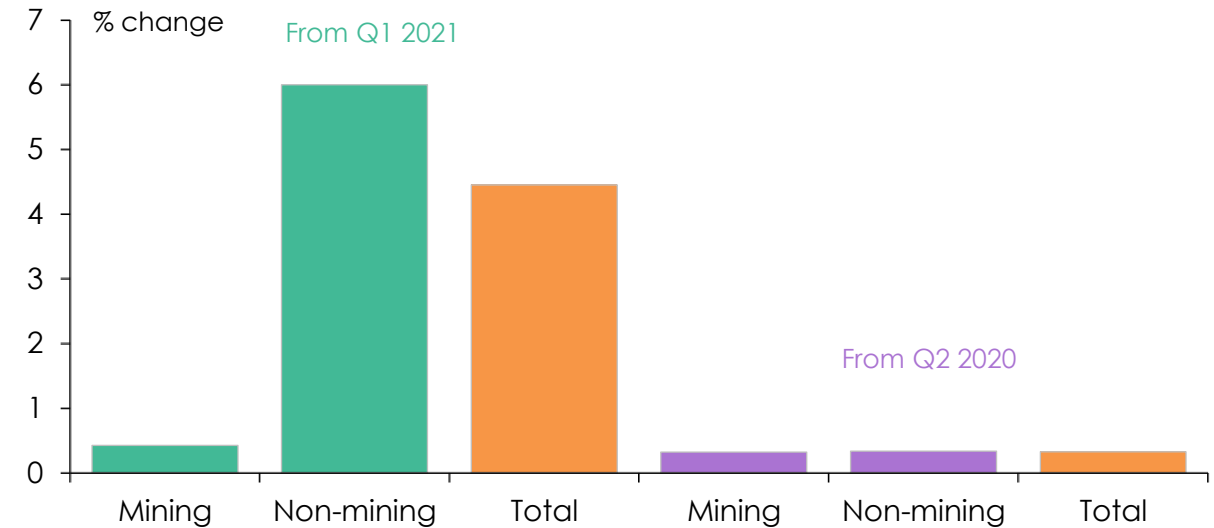
- ❑ The ratio of unemployed people to the number of job vacancies remain close to a record low in August

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

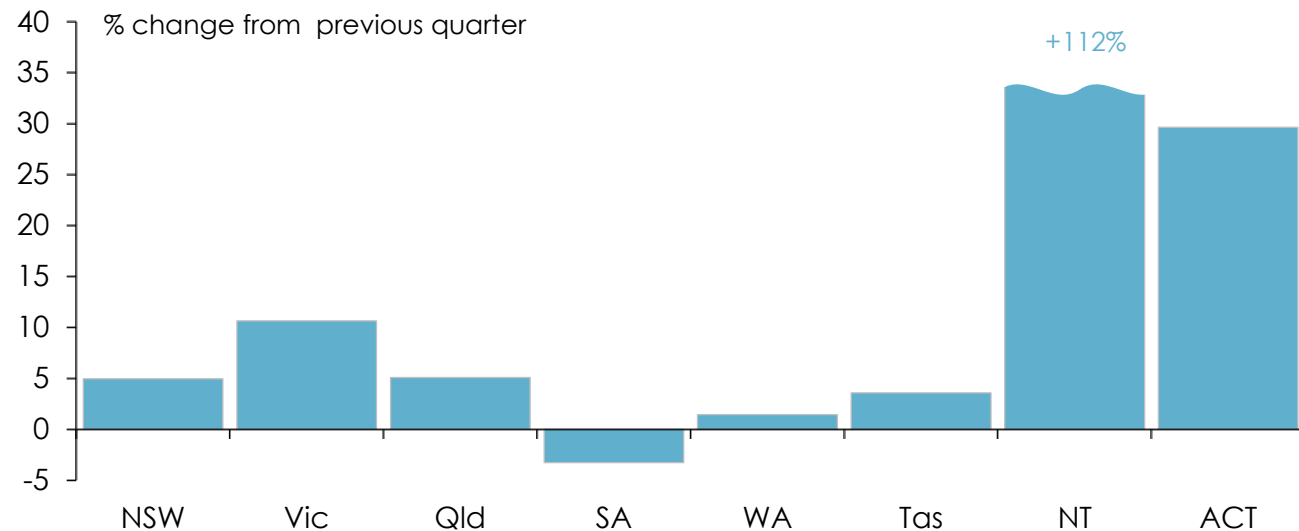
Real business new fixed capital expenditure



Real business new fixed capex, by industry, Q1



Real business new fixed capex, by state, Q2 2021



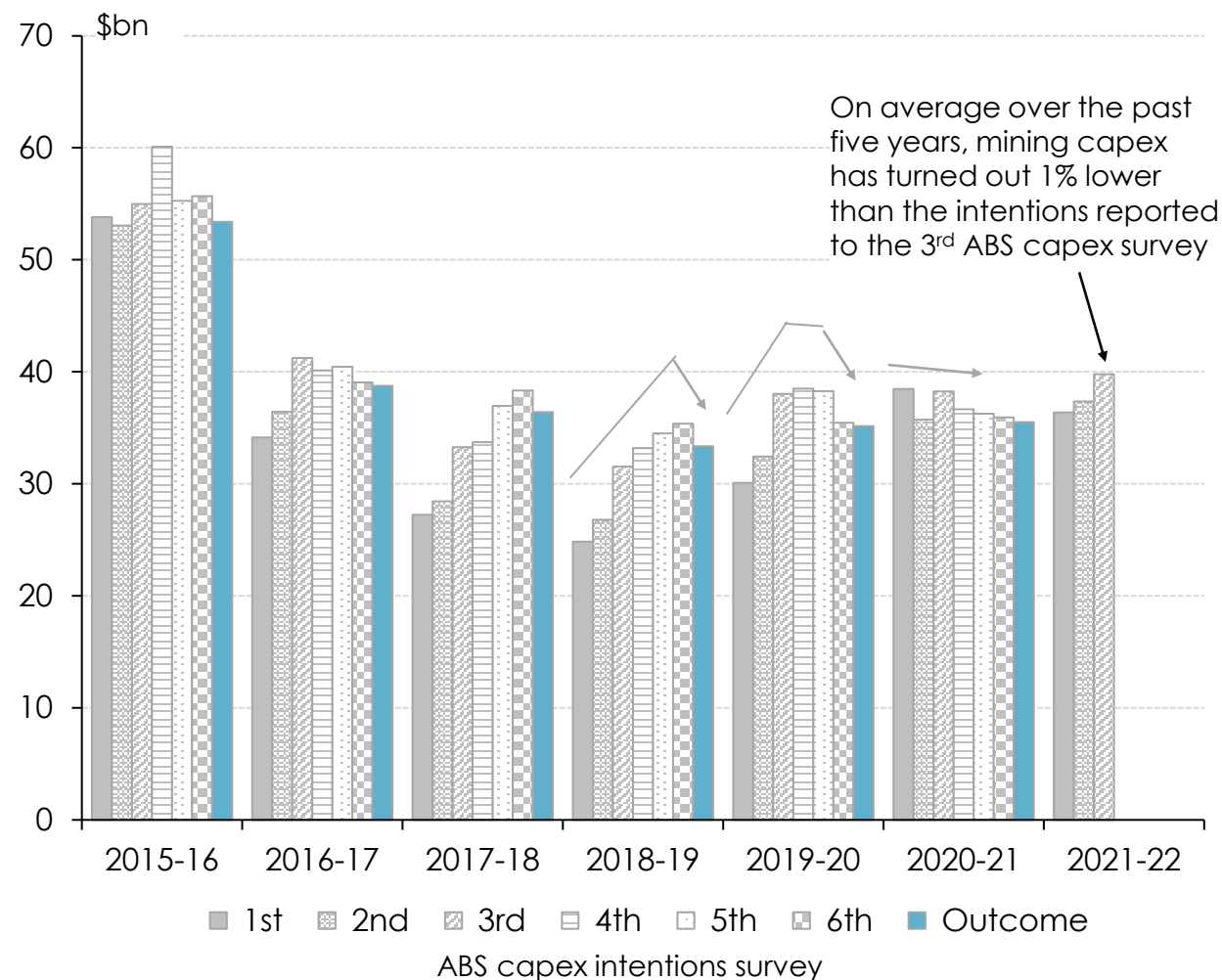
Real business new fixed capex, by asset, Q1



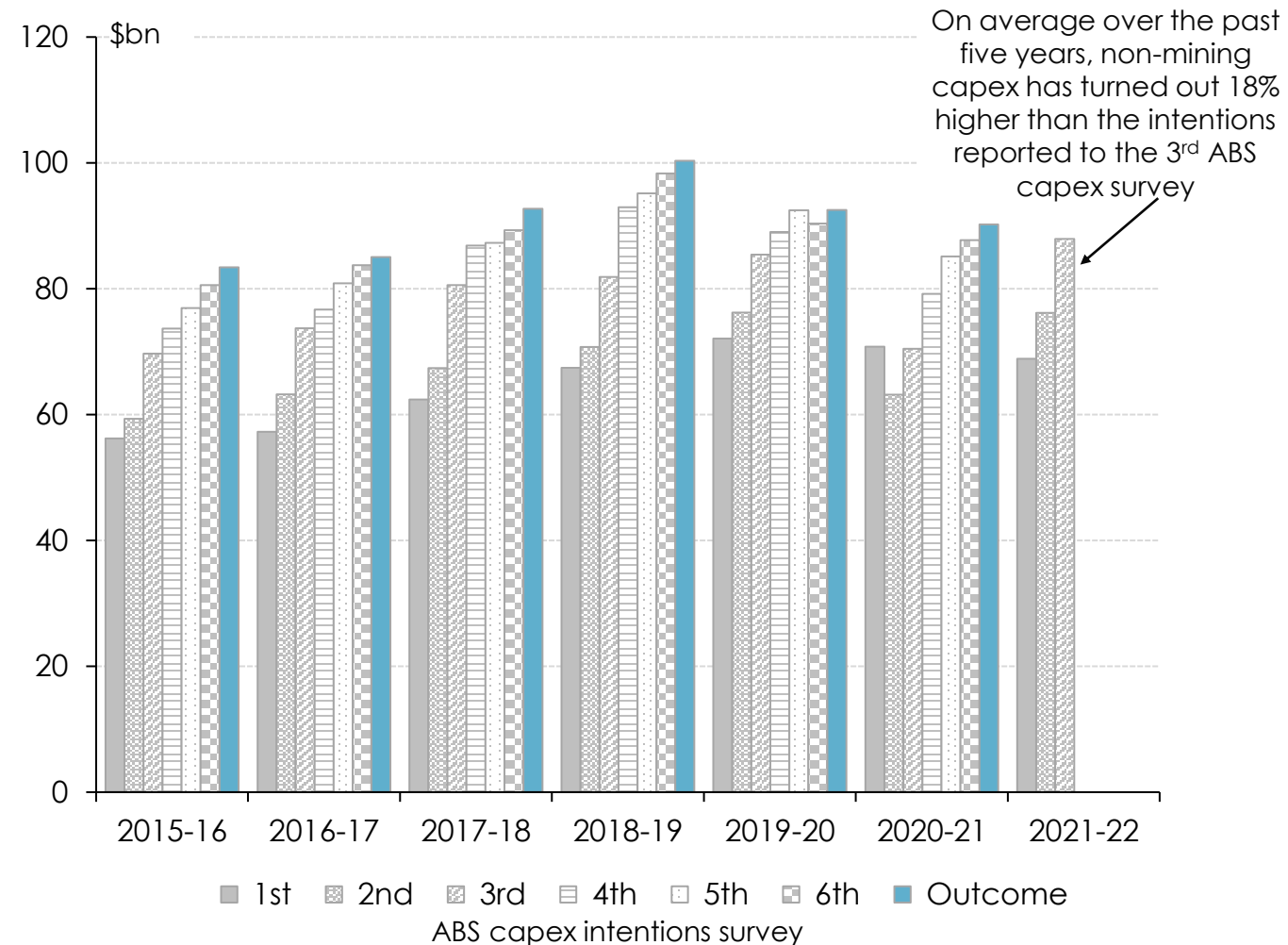
Note: the ABS Survey of New Capital Expenditure excludes the agriculture, forestry & fishing, and public administration & defence sectors, and superannuation funds.
 Source: ABS, [Private New Capital Expenditure and Expected Expenditure, Australia](#); March quarter data will be released on 25th November. [Return to "What's New"](#).

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

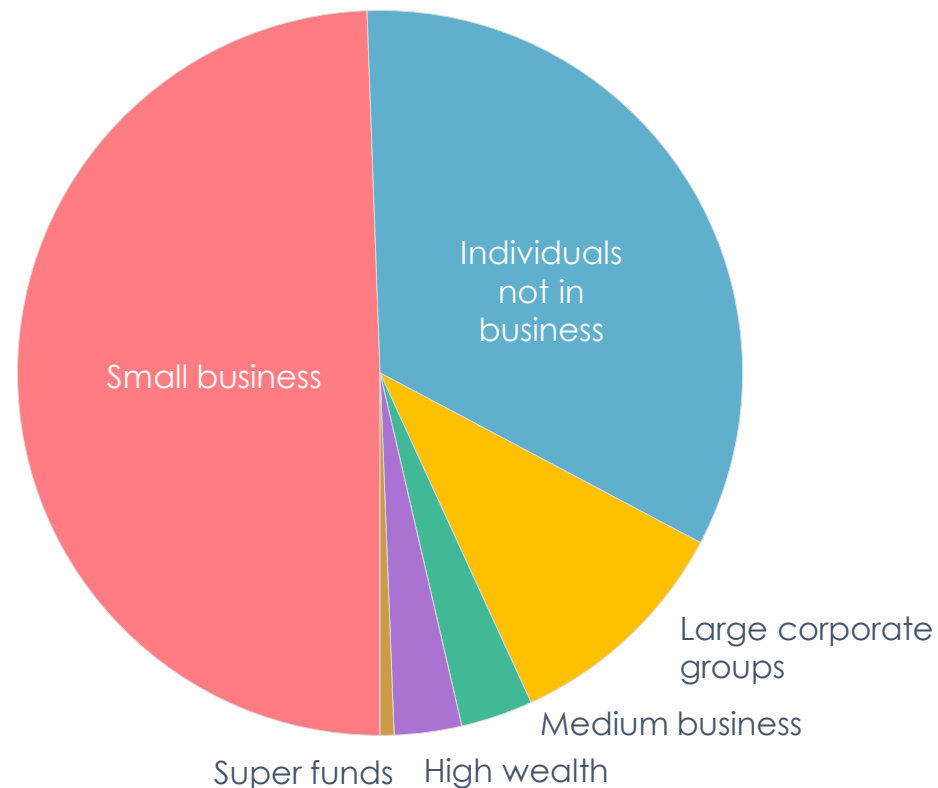


Note: The ABS conducts six surveys of business' capital expenditure intentions in respect of each financial year. The first is conducted in January & February prior to the commencement of the financial year, the second in May & June, the third in July & August of the financial year, the fourth in October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

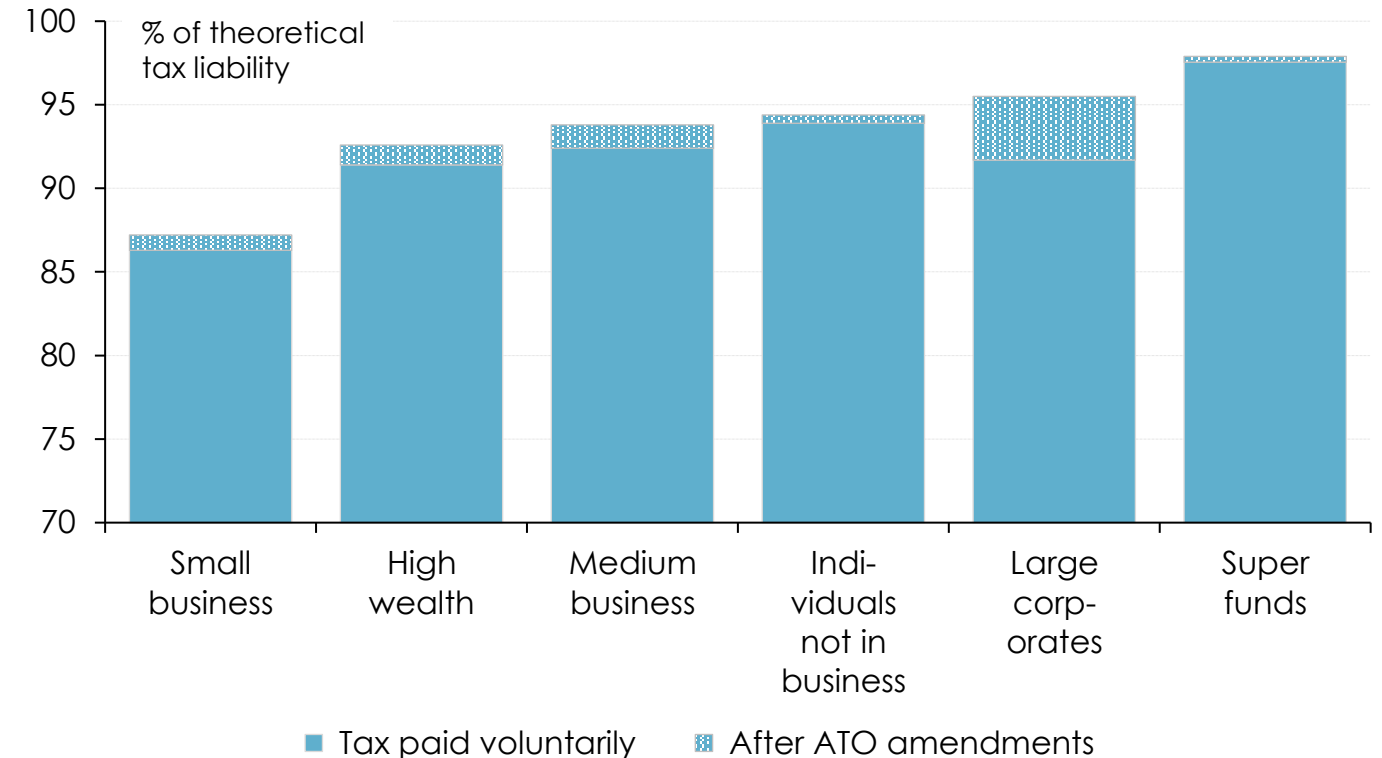
The Tax Office's latest 'tax gap' estimates again show that small businesses, not big ones or rich families, that are the least compliant with the tax law

Share of total income-based 'tax gap' by class of taxpayer, 2018-19



- Small businesses account for 49% of the total 'gap' between what the ATO collected in 2018-19 from various income-based taxes and what it estimates it would have collected given 100% compliance with the tax law – cf. large corporates 10% and high wealth individuals 3%

Share of theoretical tax liability paid voluntarily and after ATO amendments, 2018-19

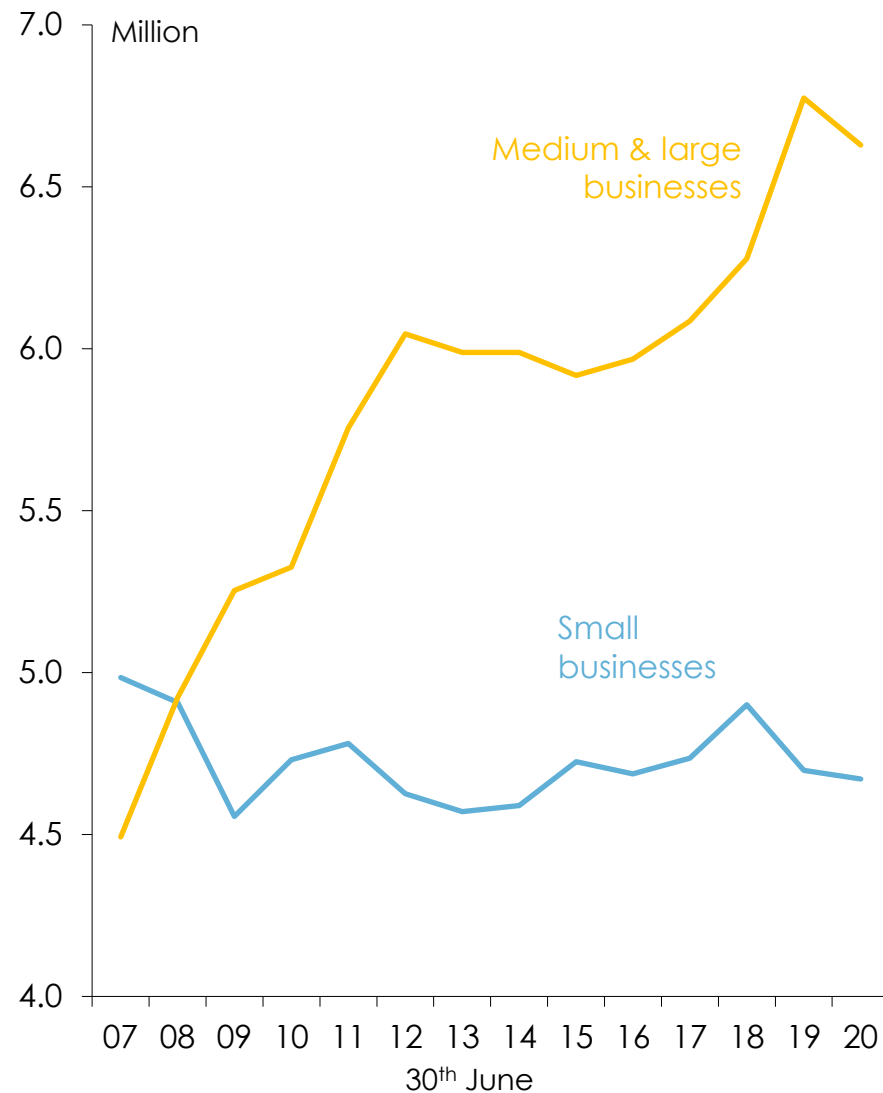


- Small businesses pay a smaller proportion of the tax which the ATO estimates they 'should' than either large corporates or high net worth individuals – contrary to the popular perception that the latter two are the groups least likely to be paying their 'fair share' of tax

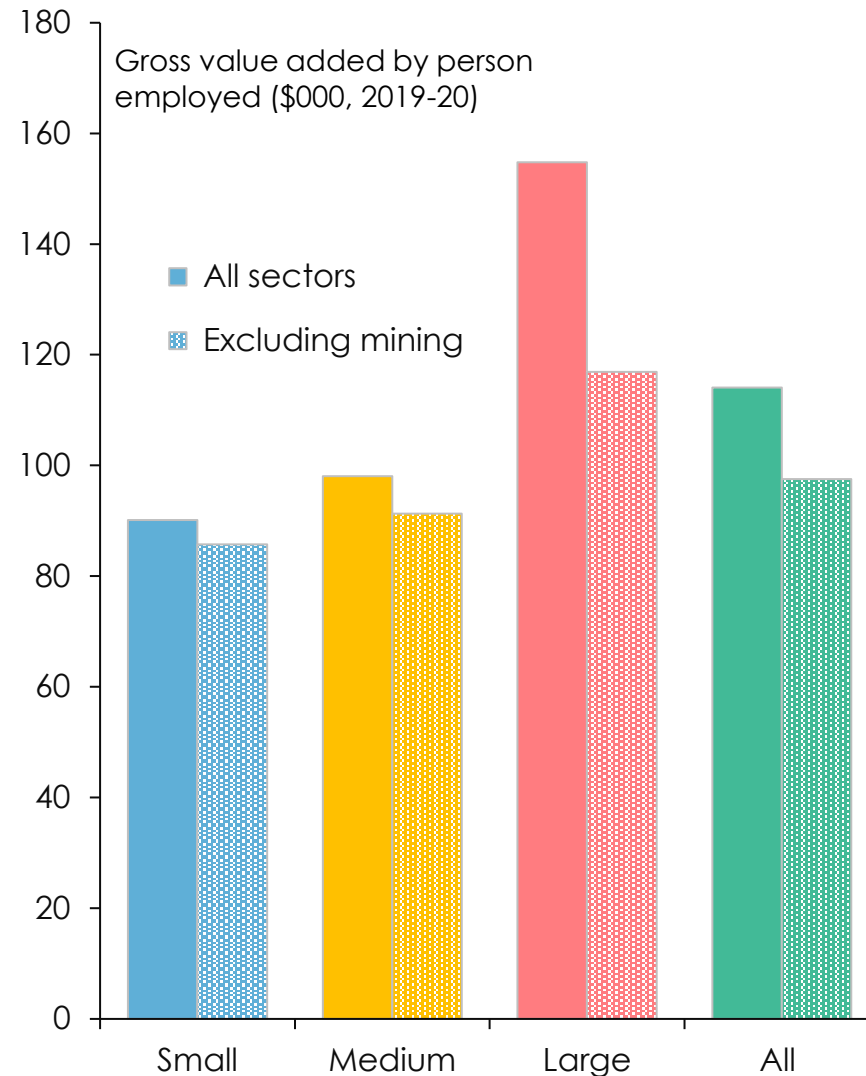
Note: 'small' businesses are those with income of up to \$10mn; medium businesses are those with income of up to \$250mn; and large corporates those with income of over \$250mn. 'High wealth' individuals are those who (with associates) control wealth of more than \$50mn. Source: Australian Taxation Office, [Annual Report 2020-21](#). Disclosure: Saul Eslake is a member of the ATO's Tax Gap Independent Expert Panel which provides advice on the suitability of the ATO's gap estimates and methodologies.

None of the generous tax preferences accorded to small business does anything to boost employment, productivity or innovation

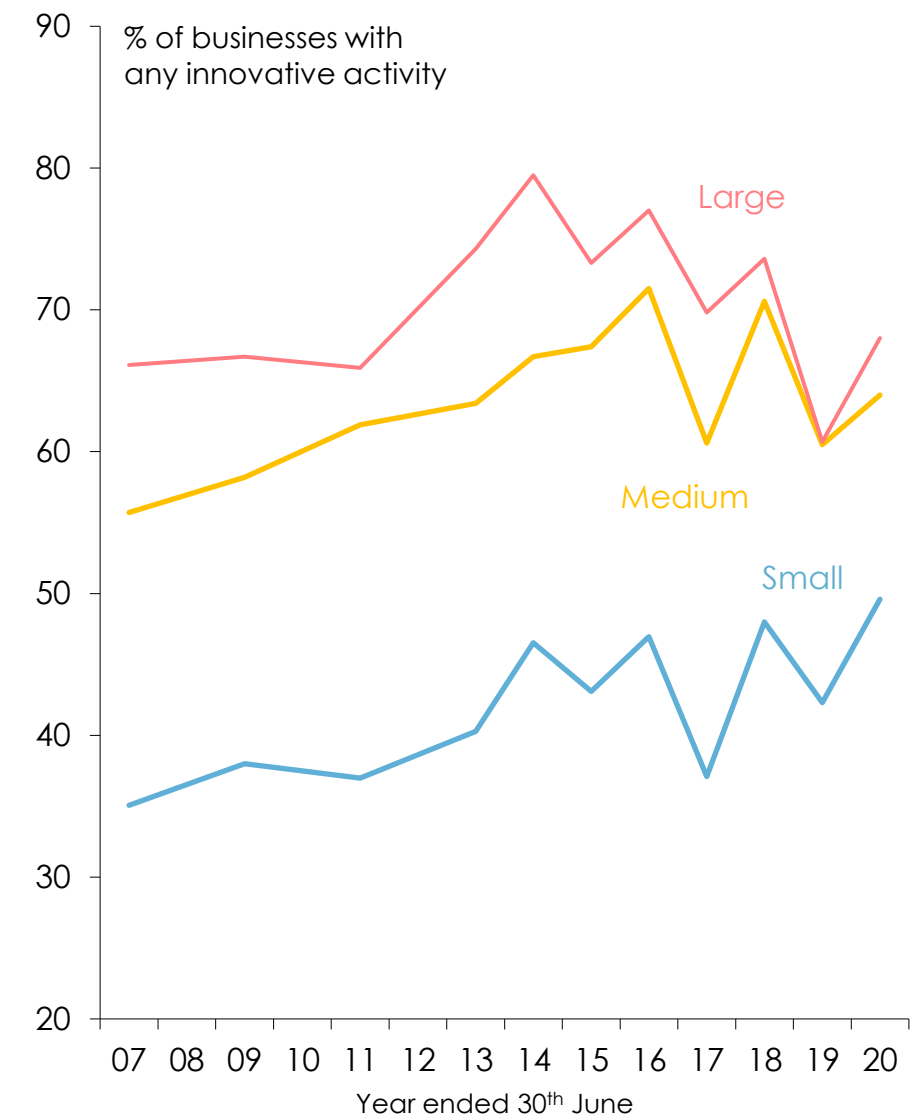
Employment by size of business



Productivity by size of business



Innovation by size of business



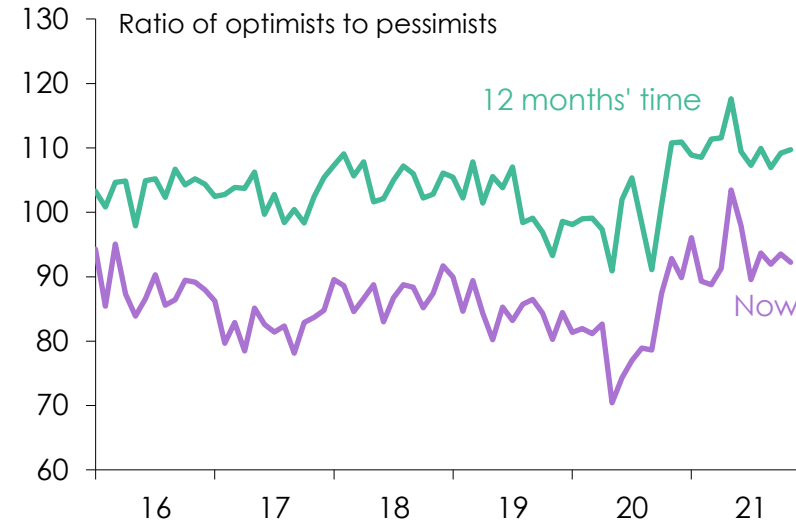
Note: 'Small' businesses in ABS statistics are those with fewer than 20 employees; 'medium' businesses are those with between 20 and 199 employees; and 'large' businesses are those with 200 or more employees. Sources: ABS, [Characteristics of Australian Business, 2019-20](#) (and earlier publications); Corinna.

Consumer confidence fell 1.8 pc pt in October – although this was largely driven by concerns about deteriorating housing affordability

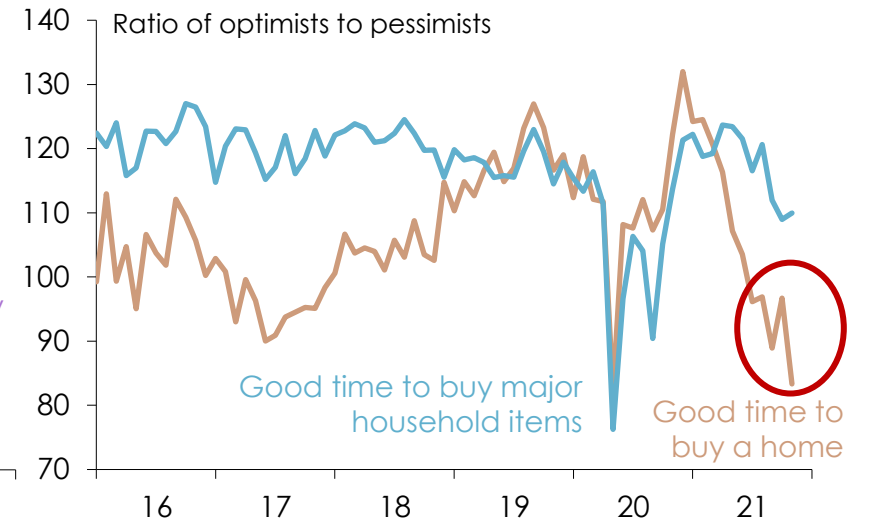
Consumer confidence index



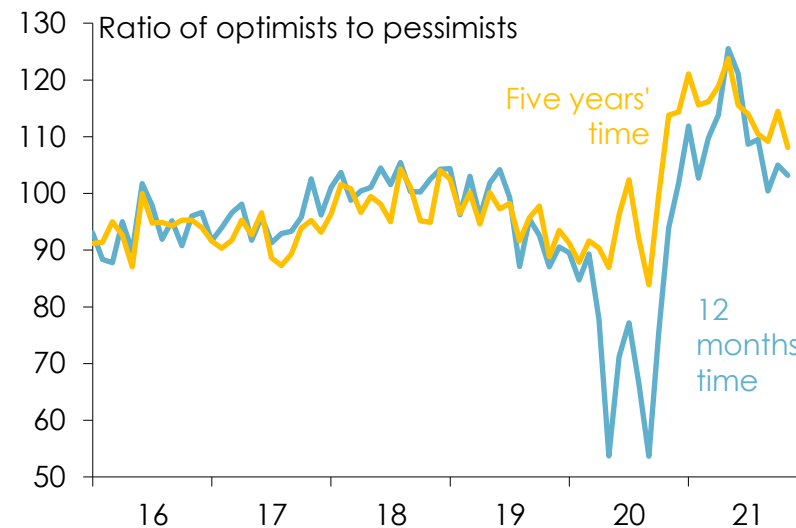
Household finances assessment



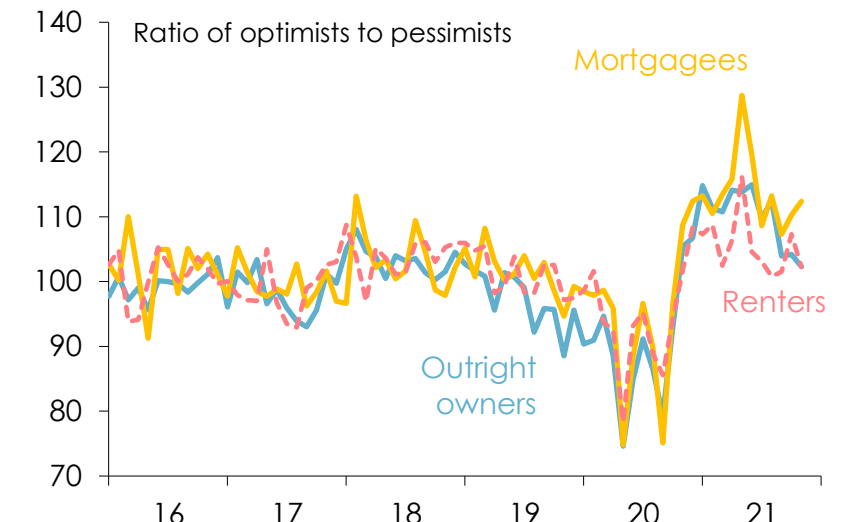
Buying conditions assessment



Economic conditions assessment

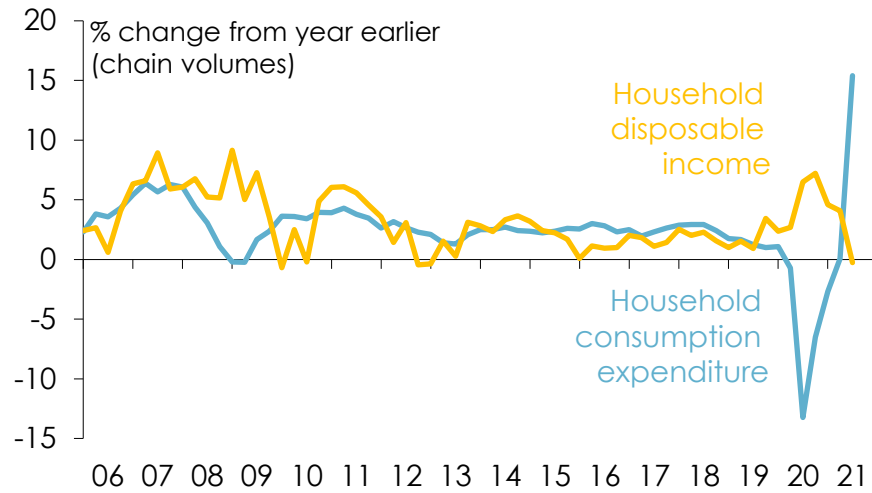


Confidence by housing tenure

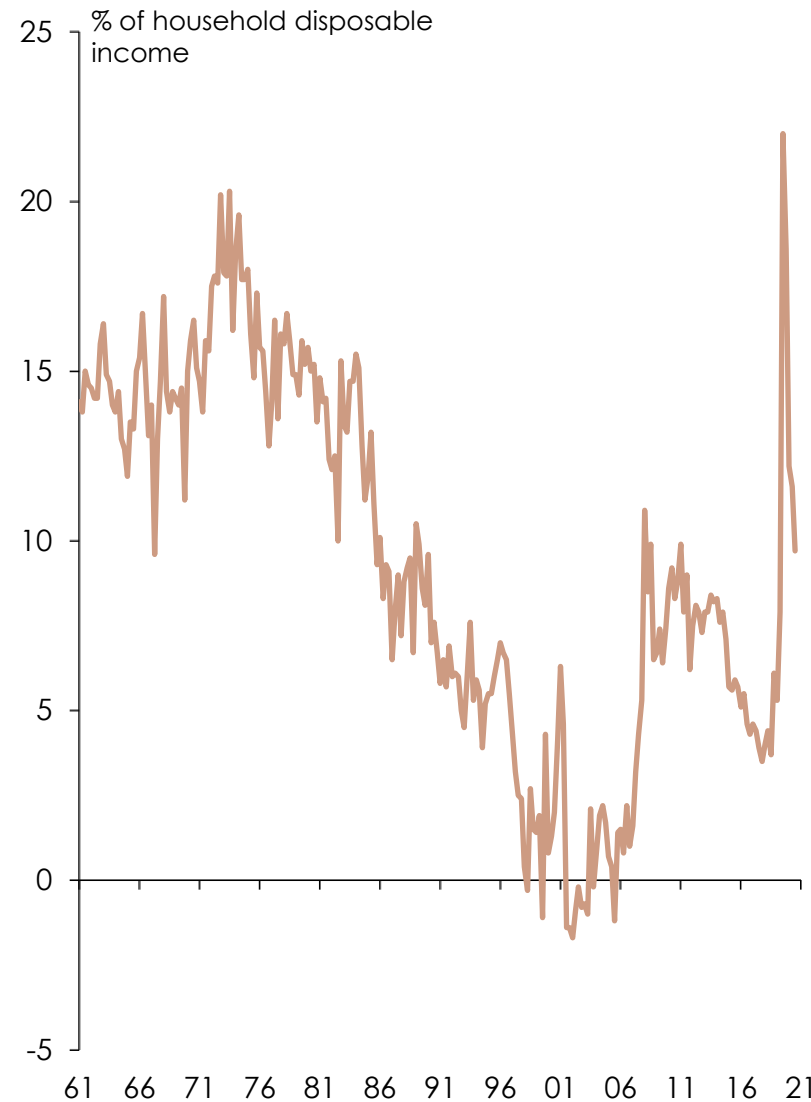


Household incomes have been supported by government payments, but spending has been curtailed, so households have lots of savings to spend

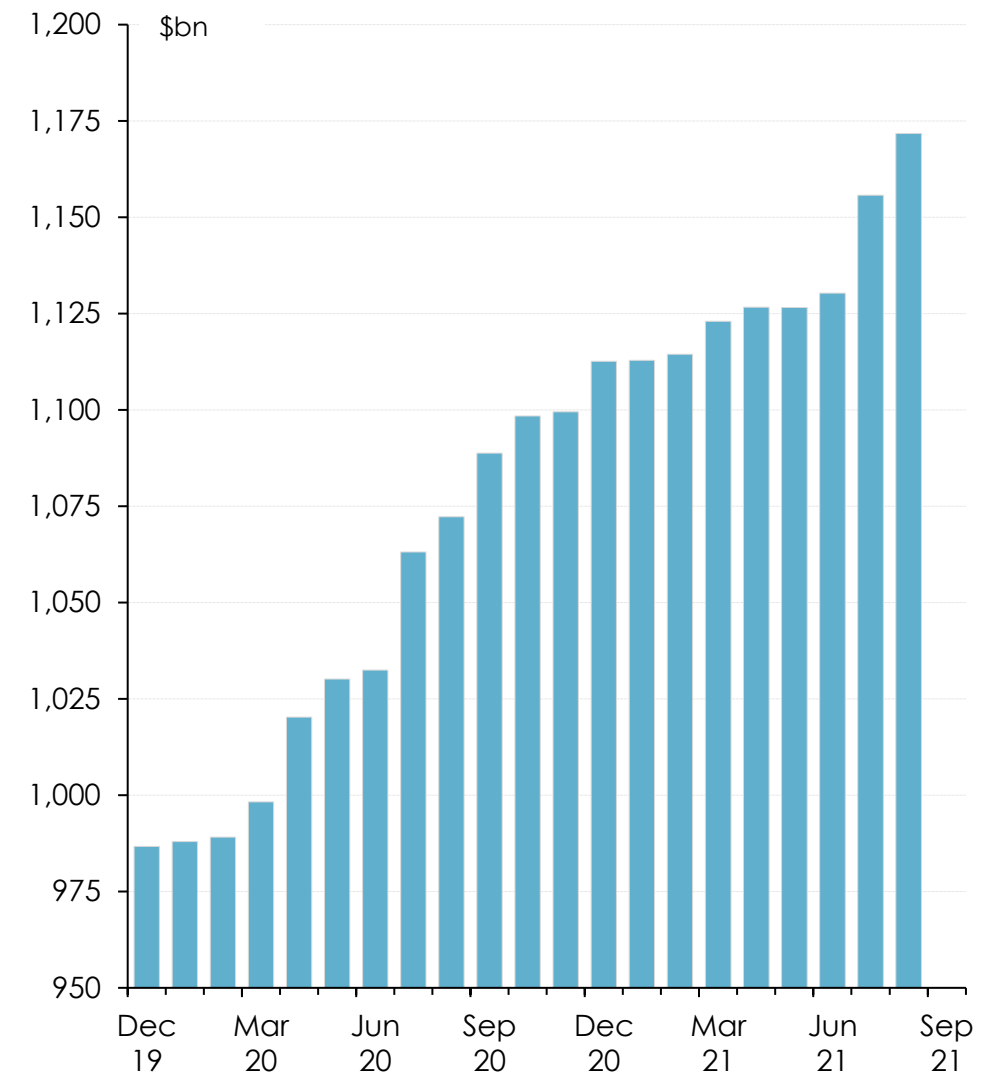
Household income and spending



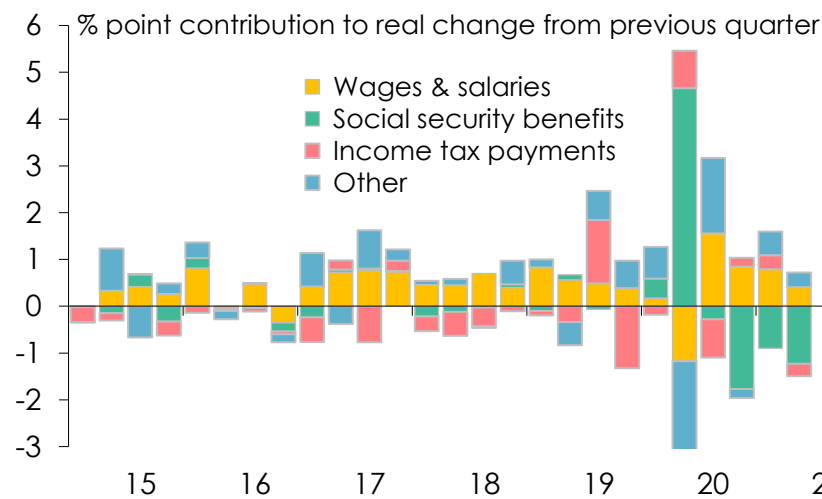
Household saving ratio



Household bank deposits



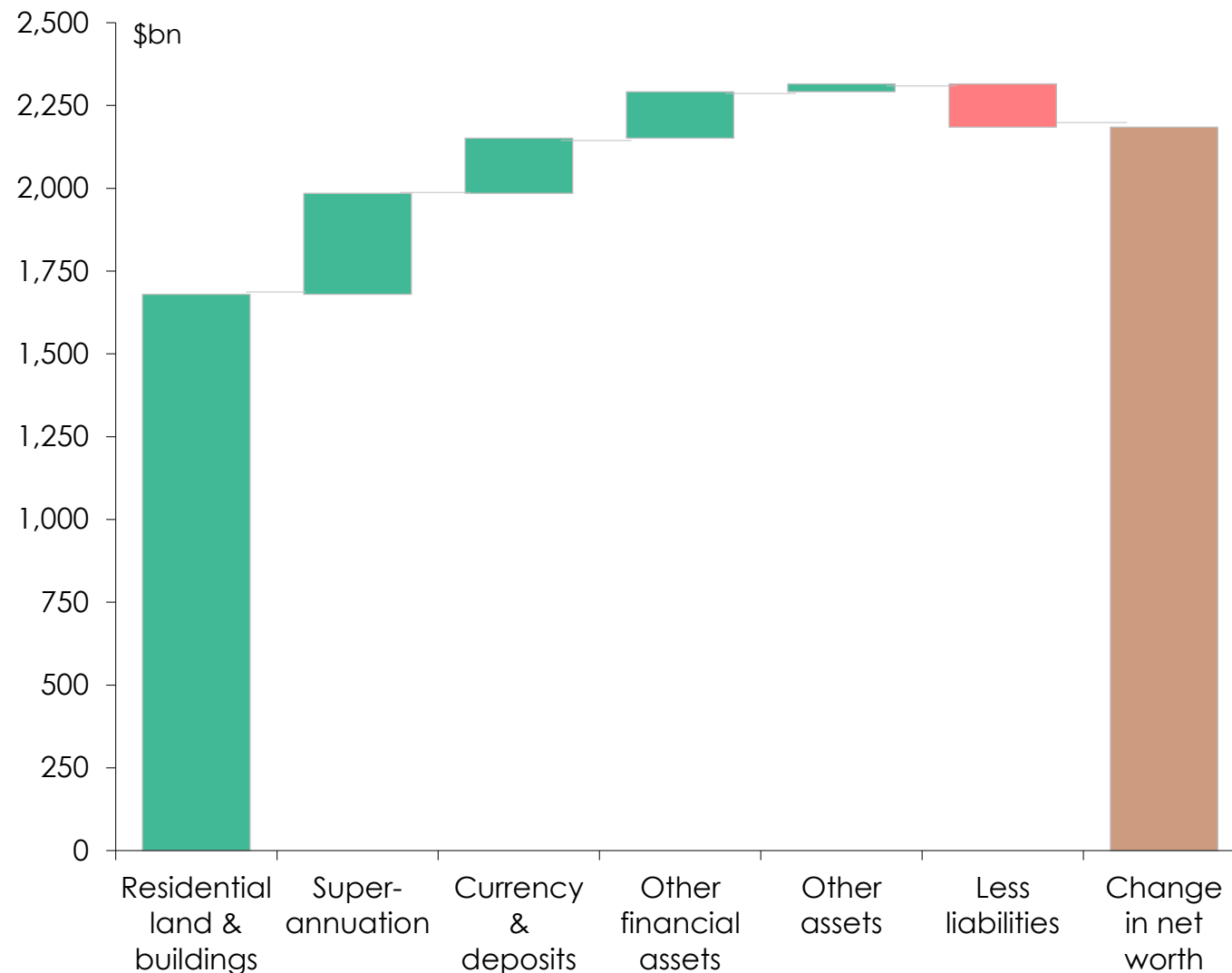
Sources of household income



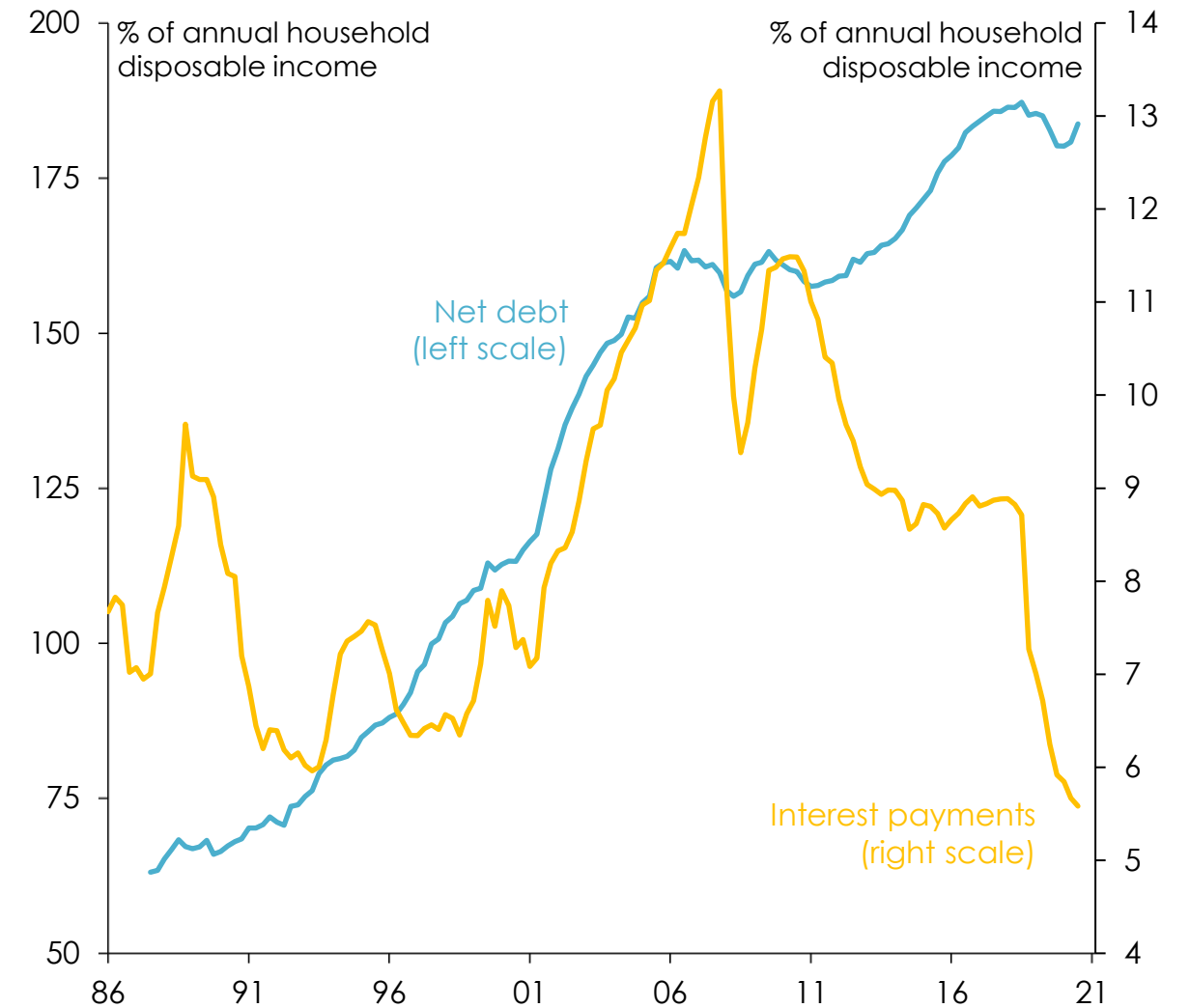
Sources: ABS, [Australian National Accounts: National Income, Expenditure and Product](#), March quarter 2021; Australian Prudential Regulation Authority, [Monthly Authorised Deposit-taking Institution Statistics](#). [Return to "What's New"](#).

Household net worth has risen by \$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



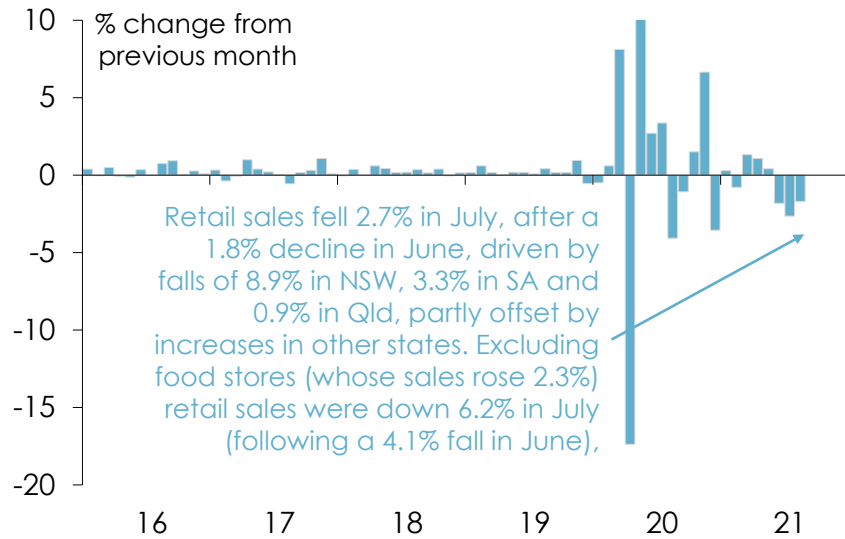
Household net debt and interest payments as a percentage of disposable income



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"](#).

New motor vehicle sales fell 1.7% in September, after a 3.8% fall in August, despite a 5.7% rebound in NSW

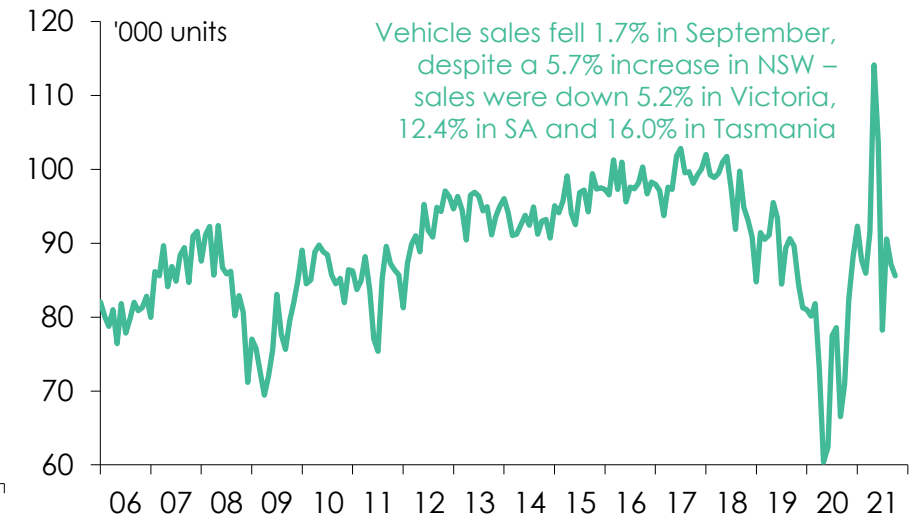
Monthly retail sales



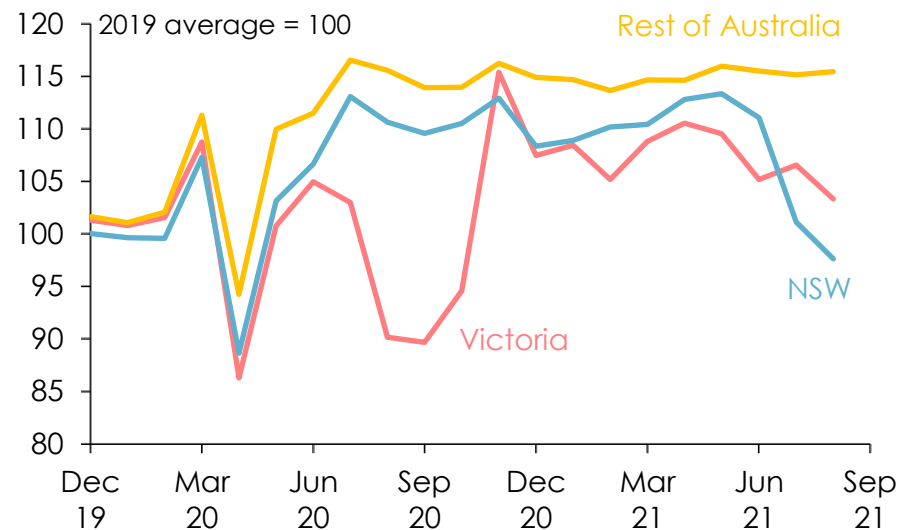
Level of retail sales



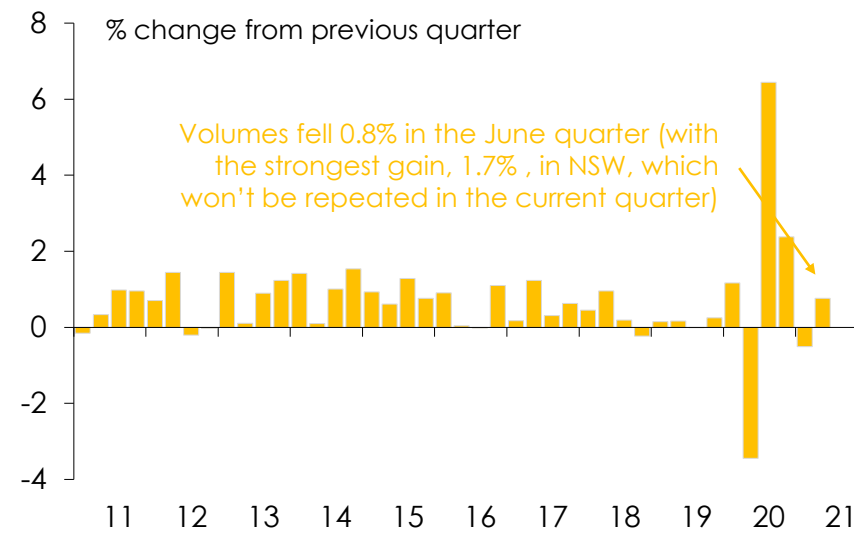
New motor vehicle sales



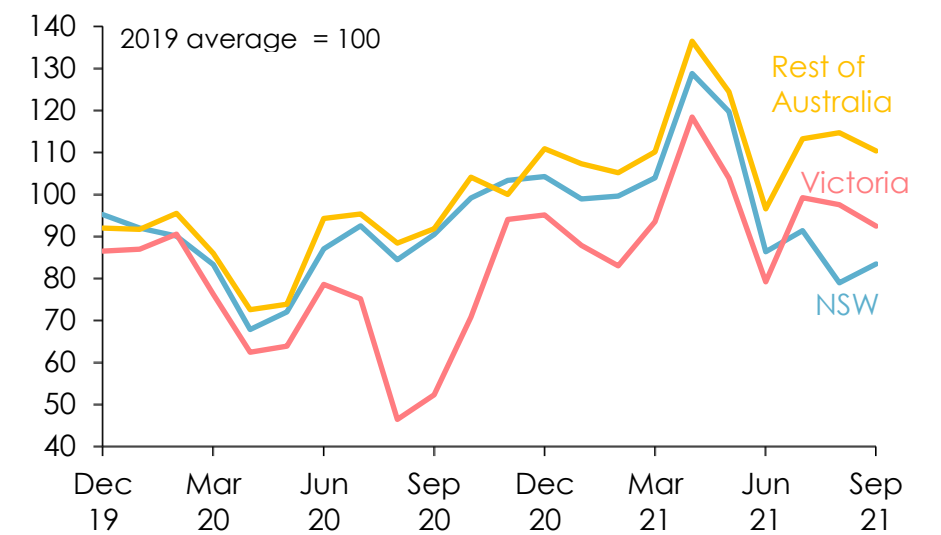
Retail sales – NSW, Vic & the rest



Quarterly retail sales volumes



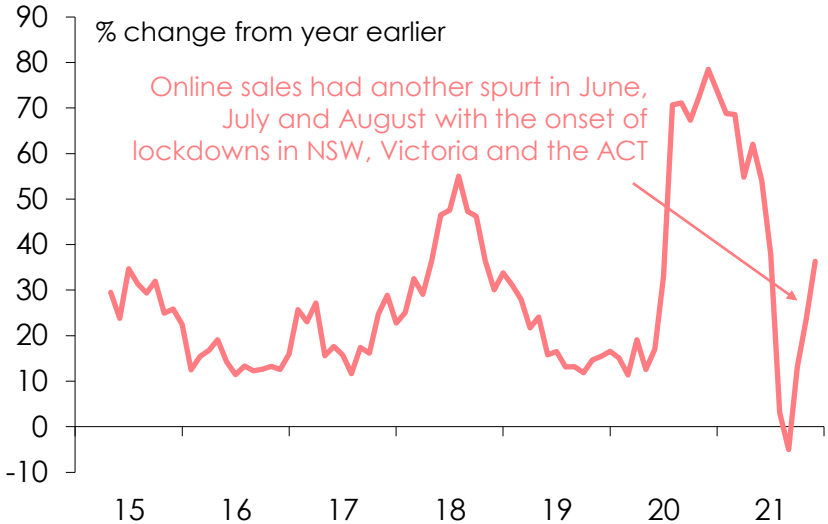
Vehicle sales – NSW, Vic & the rest



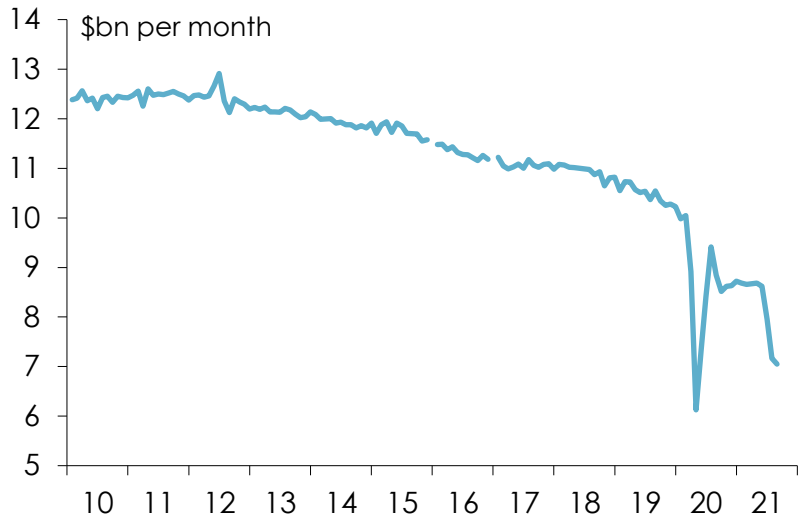
Note: see also [slide 100](#) for more detail on the composition of retail sales since the onset of the pandemic. Sources: ABS, [Retail Trade, Australia](#); Federal Chamber of Automotive Industries [VFACTS](#) (seasonal adjustment of FCAI data by Corinna). September retail sales data will be released on 29th October; October motor vehicle sales data will be released in the second week of November. [Return to "What's New"](#).

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

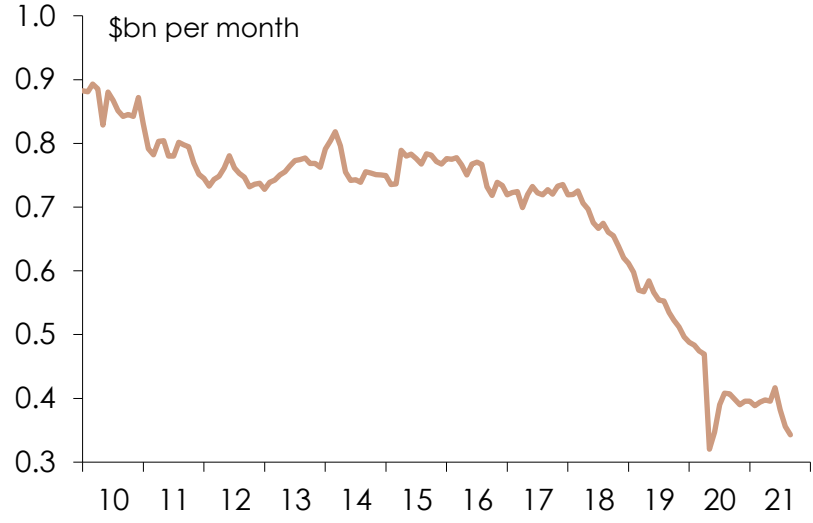
Growth in online retail sales



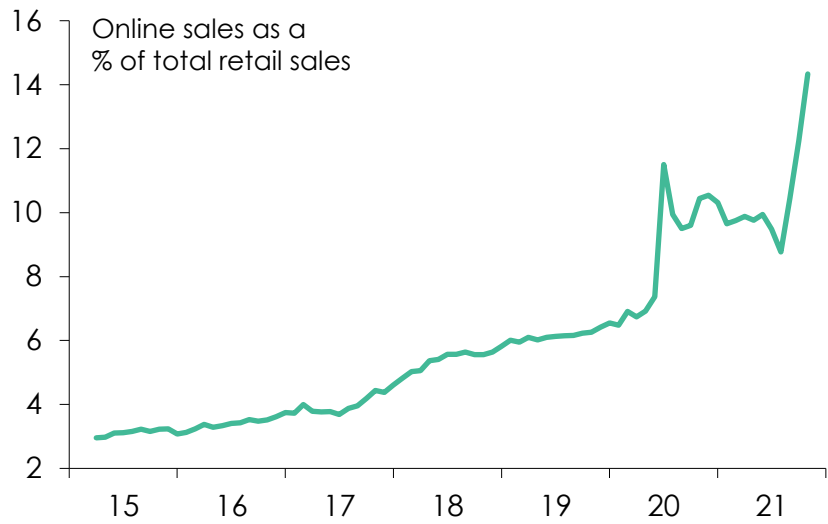
ATM cash withdrawals



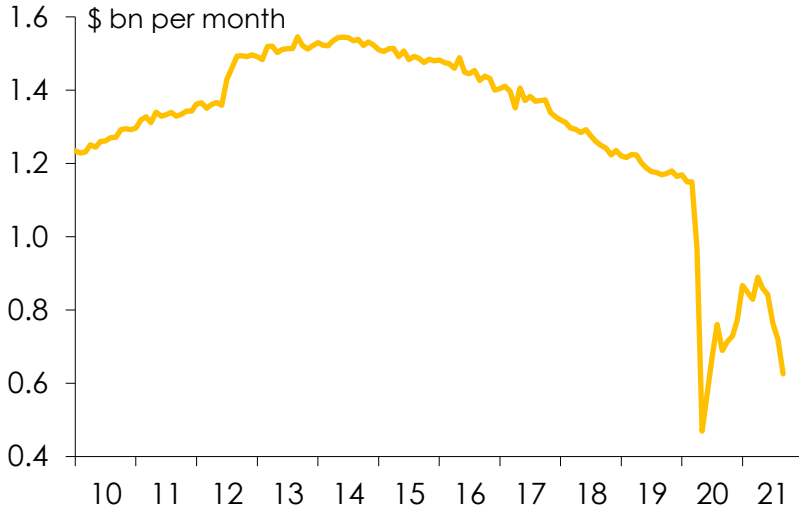
Credit card cash advances



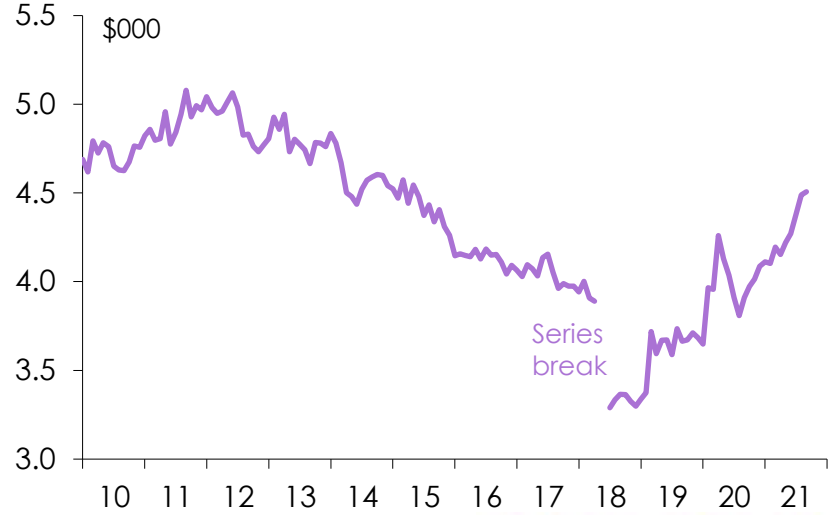
Online retail 'market share'



Debit card cash-outs



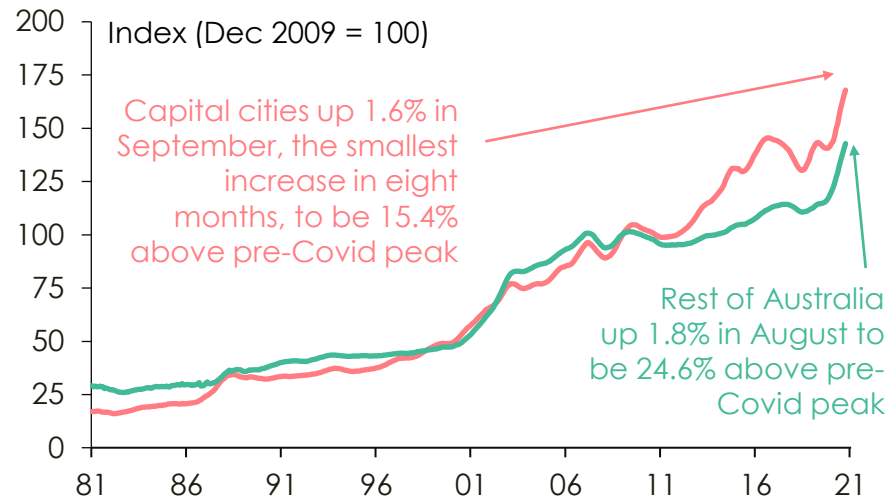
Direct entry payments



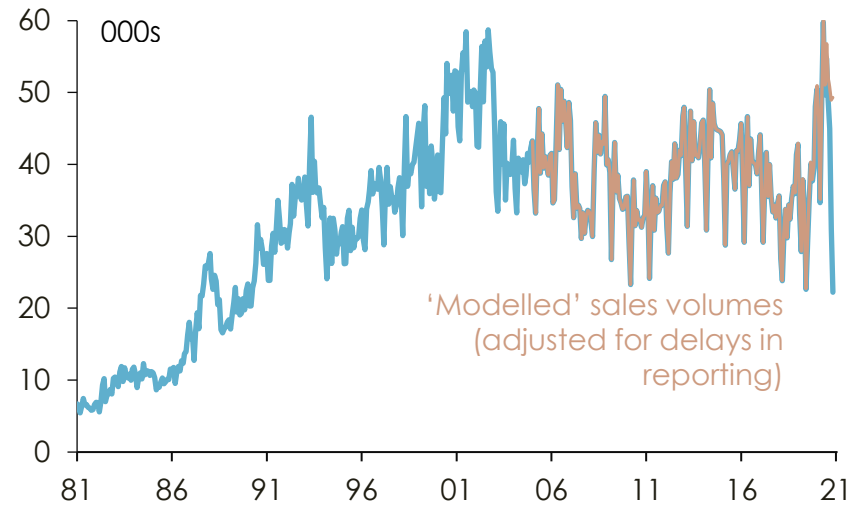
Sources: ABS, [Retail Trade, Australia](#); RBA, [Statistical Tables](#), C1, C2, C4 and C6. Latest data are for August: September online retail sales data will be published on 4th November; while September payments system data will be released on 7th November. [Return to "What's New"](#).

Property prices rose another 1.6% in September, the smallest increase since January, to be 18% above their pre-covid peak

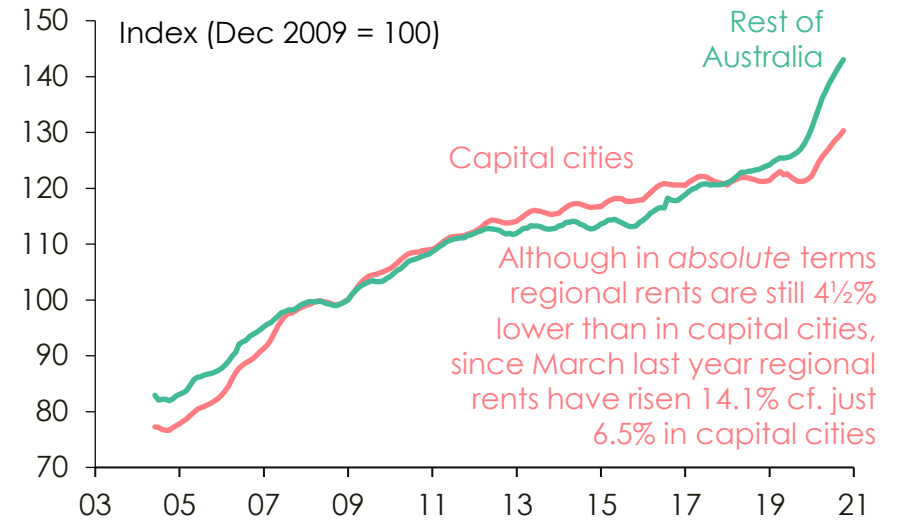
Residential property prices



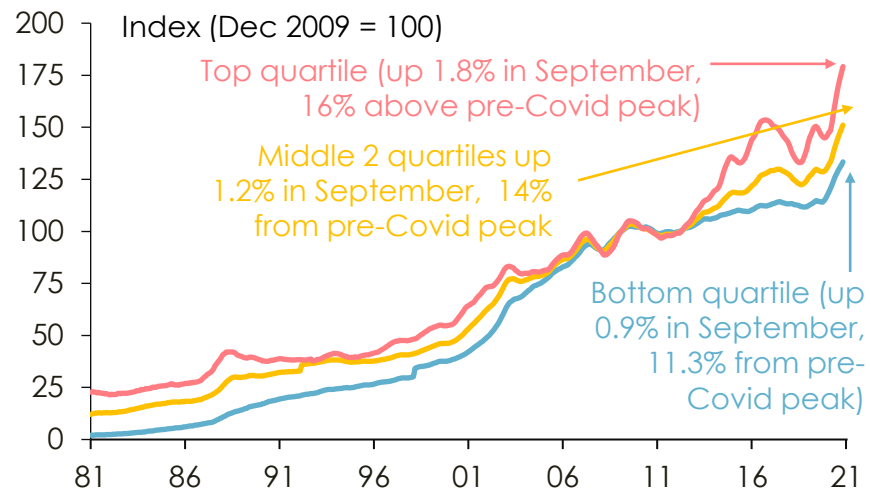
Residential property sales volumes



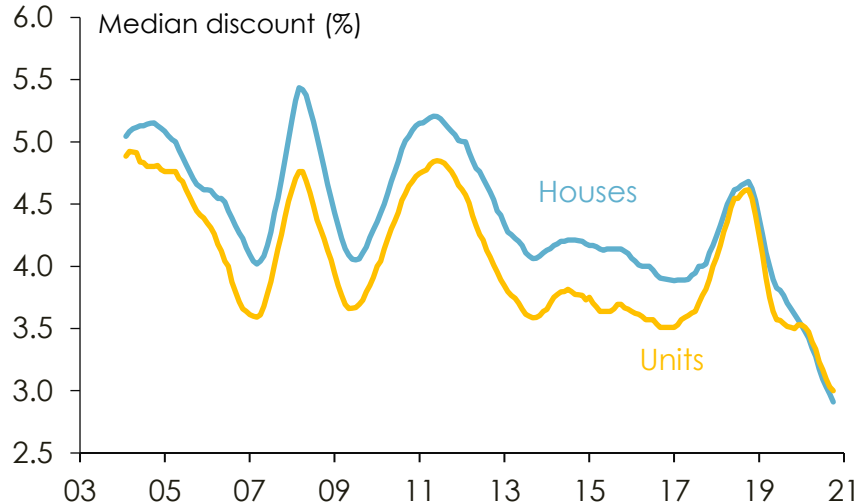
Residential rents



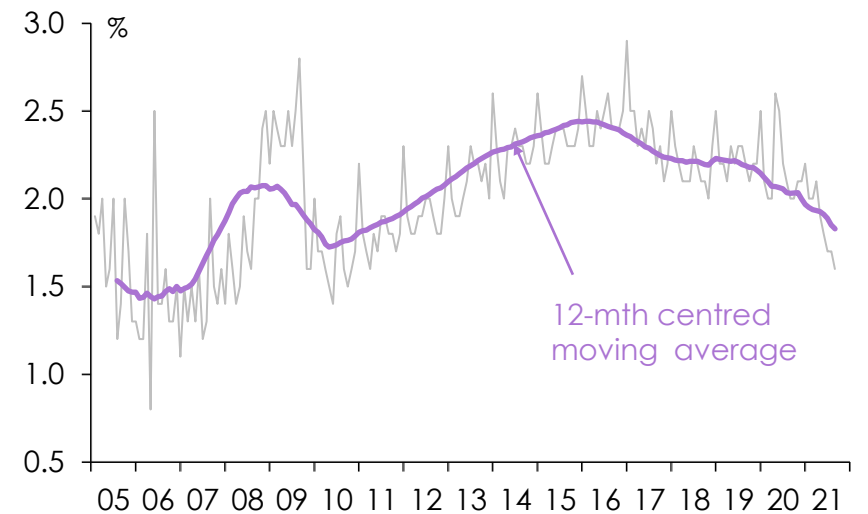
Property prices by tier



Vendor discounting



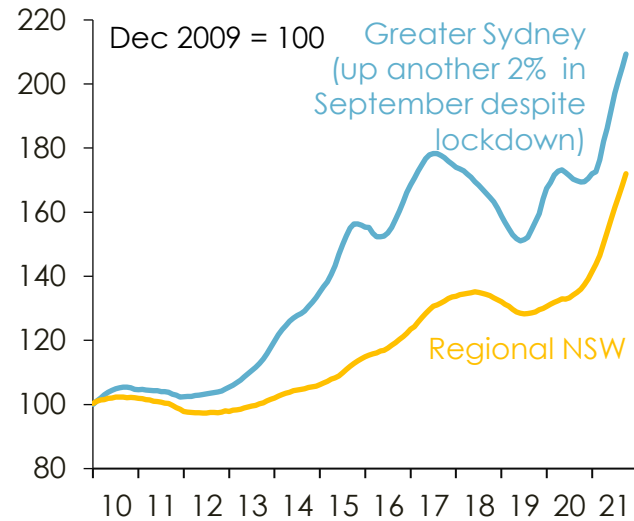
Capital city rental vacancy rates



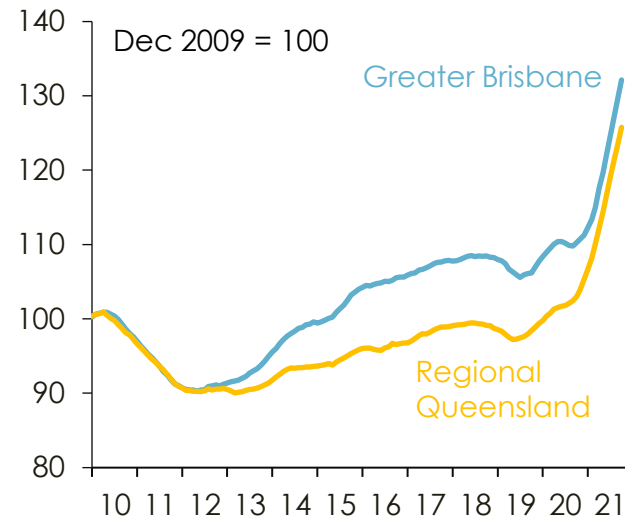
Note: The index of property prices measures the 'organic' change in underlying sales values by using a hedonic regression methodology that takes account of changes in the characteristics of properties being sold from month to month. Property price data shown here are seasonally adjusted. The index of 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 September (except for vacancy rates which is August). October prices, sales volumes and rents data will be released on 1st November. Sources: [CoreLogic](#); [SQM Research](#). [Return to "What's New"](#).

Prices in Adelaide, Canberra and Hobart, and regional NSW, Victoria, Qld and Tasmania are all more than 20% above their pre-pandemic peaks

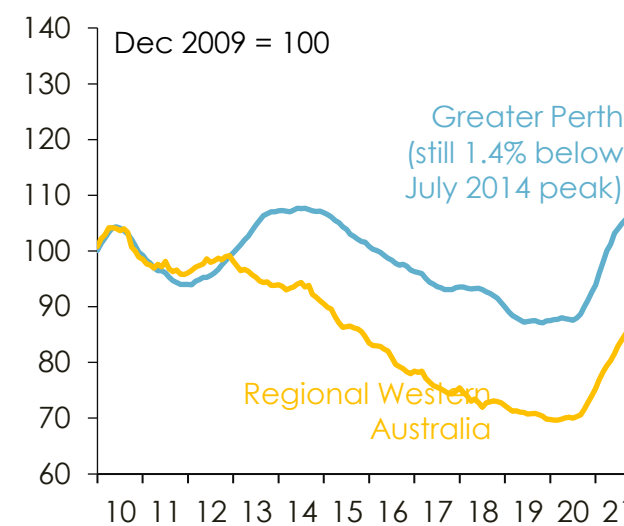
New South Wales



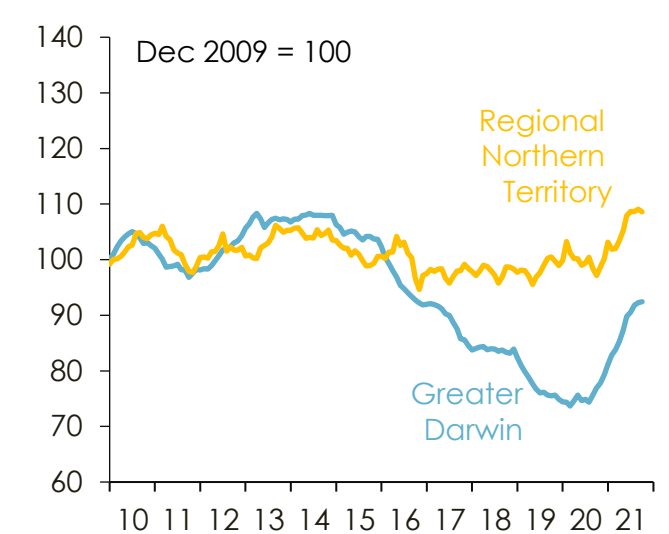
Queensland



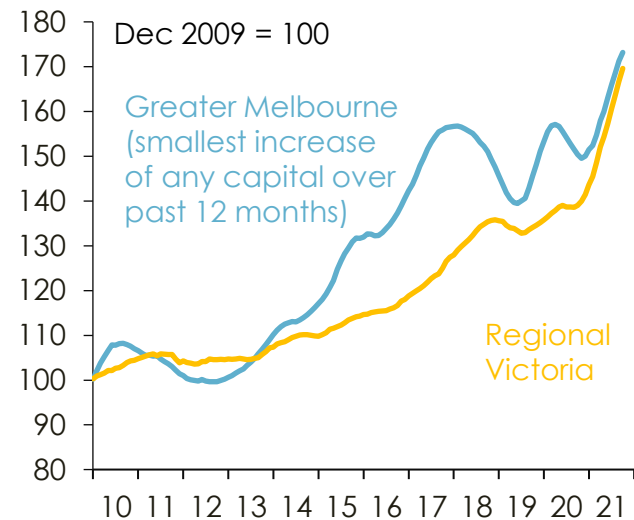
Western Australia



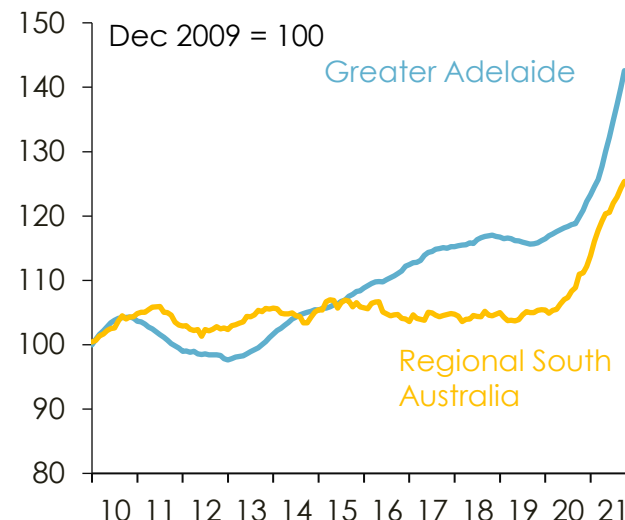
Northern Territory



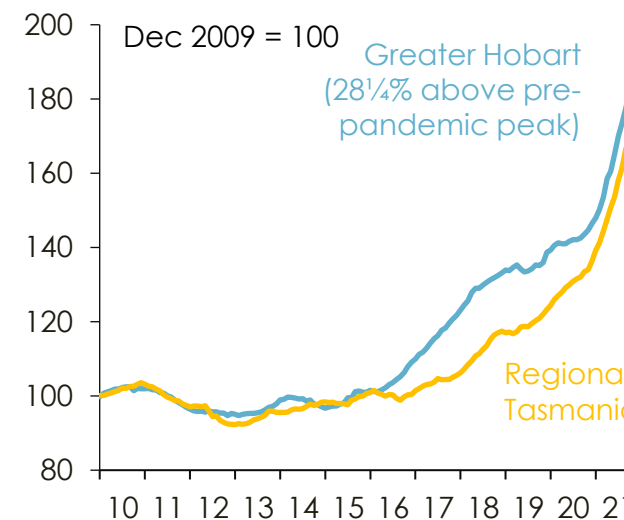
Victoria



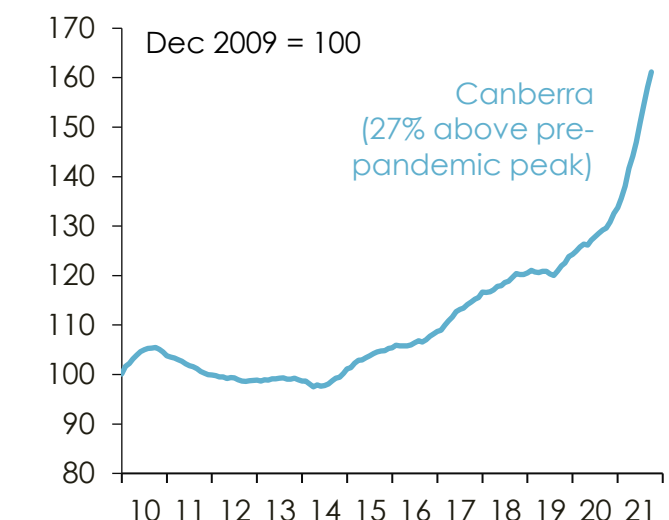
South Australia



Tasmania



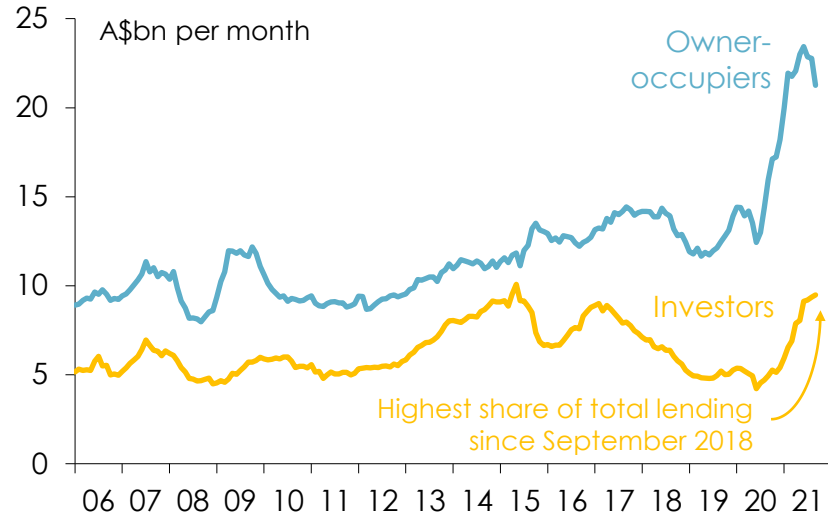
Australian Capital Territory



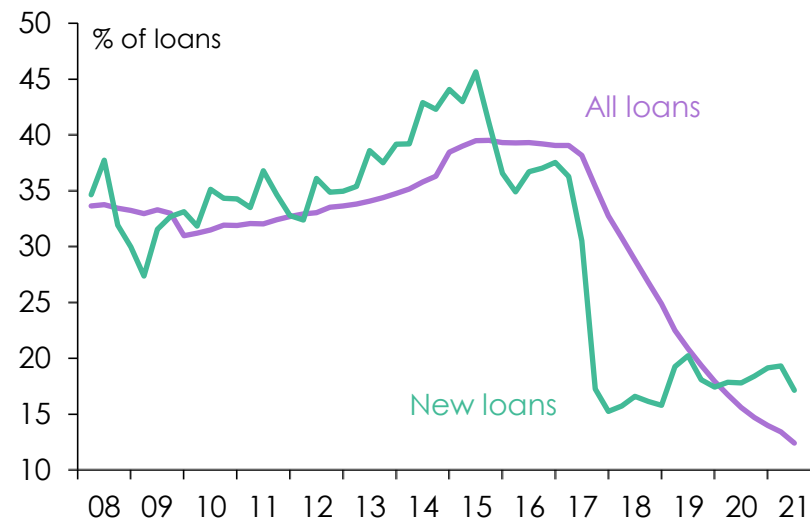
Note: The index of property prices measures the 'organic' change in underlying sales values by using a hedonic regression methodology that takes account of changes in the characteristics of properties being sold from month to month. Property price data are seasonally adjusted. Latest data are September;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

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

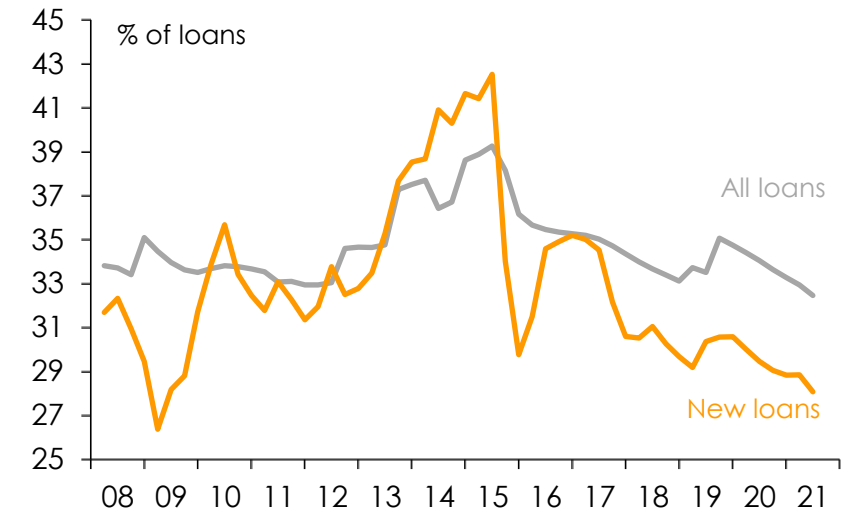
Housing finance commitments



Interest-only loans as pc of total



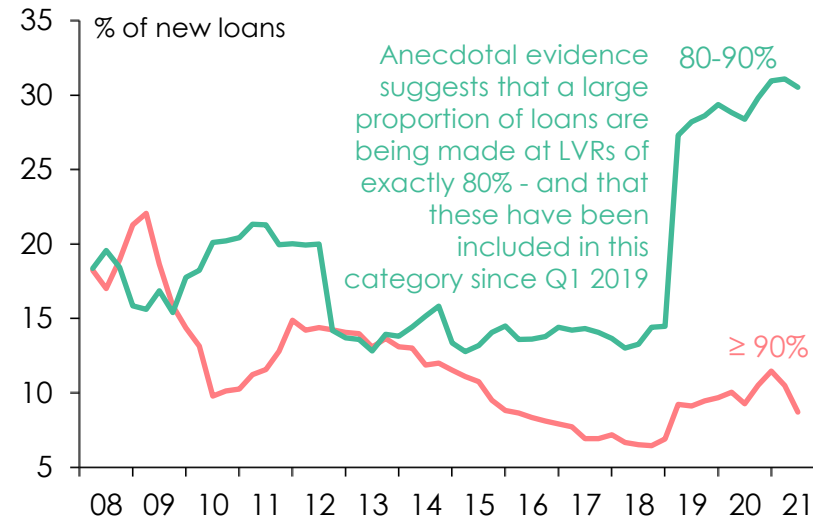
Loans to investors as a pc of total



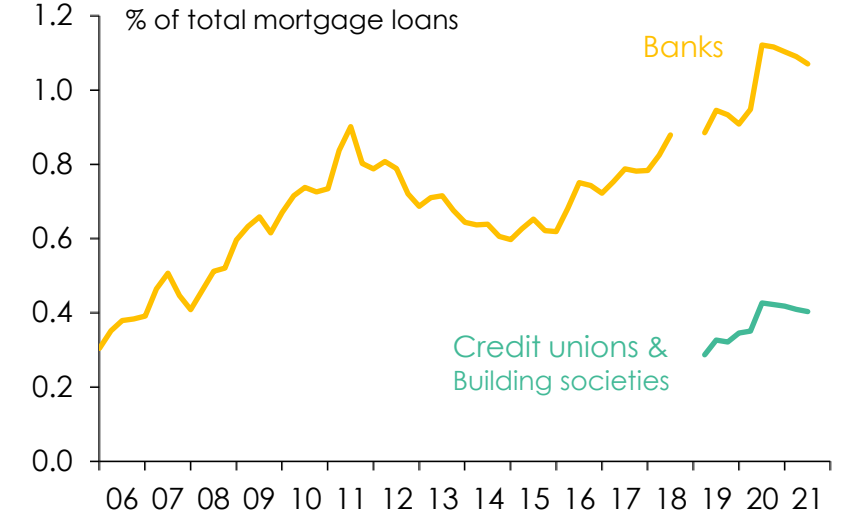
Lending to first home buyers



High LVR loans as a pc of total



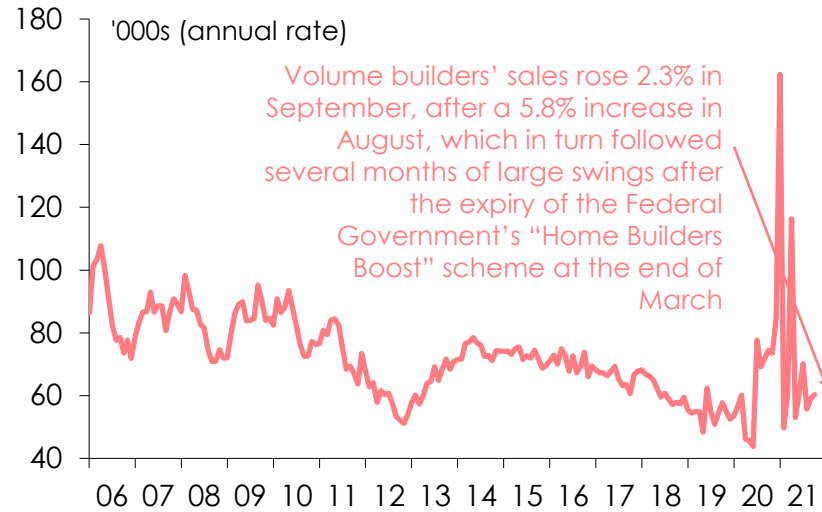
Non-performing mortgage loans



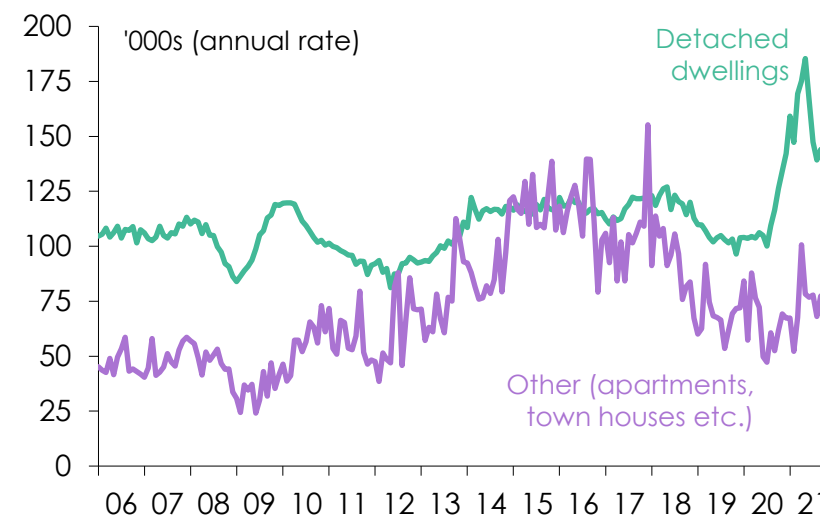
Sources: ABS, [Lending Indicators](#); Australian Prudential Regulation Authority (APRA), [Quarterly authorised deposit-taking institution statistics](#). September housing finance data will be released on 1st October; APRA data on ADI property exposures for the September quarter will be released on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

Housing approvals rose 6.8% in August, after four consecutive declines, although most of the rebound was in the volatile apartments component

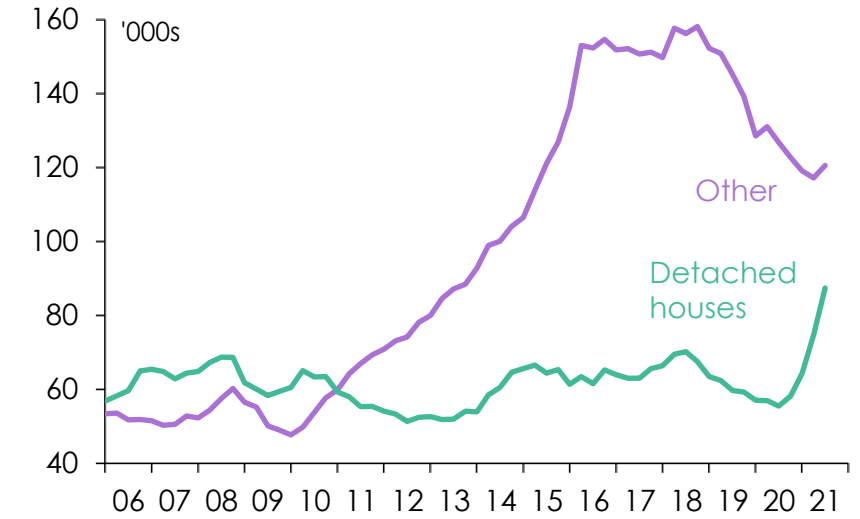
Large builders' new home sales



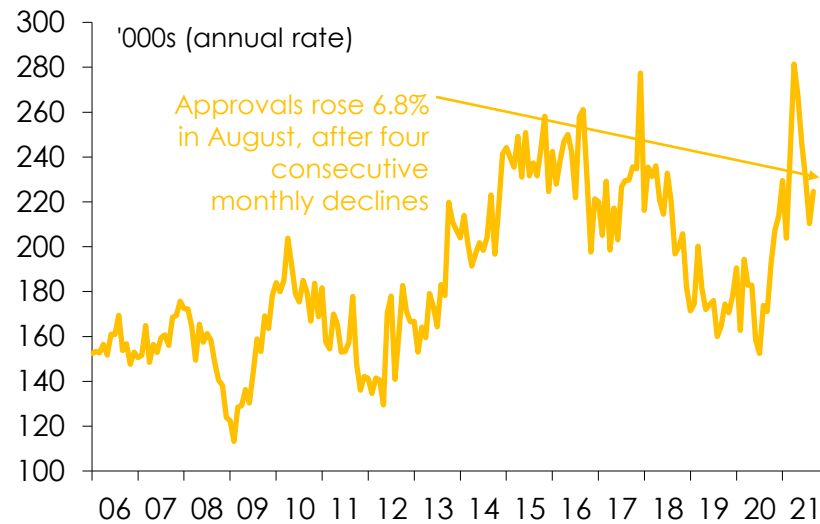
Building approvals, by type



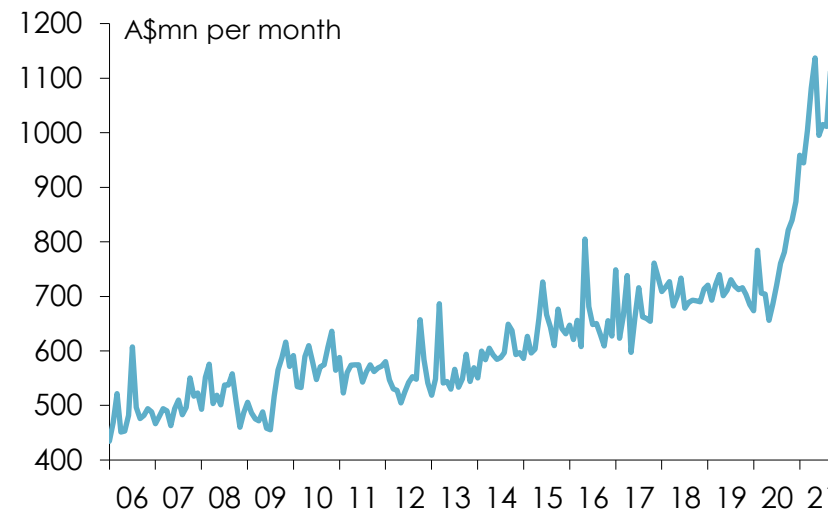
Dwellings under construction



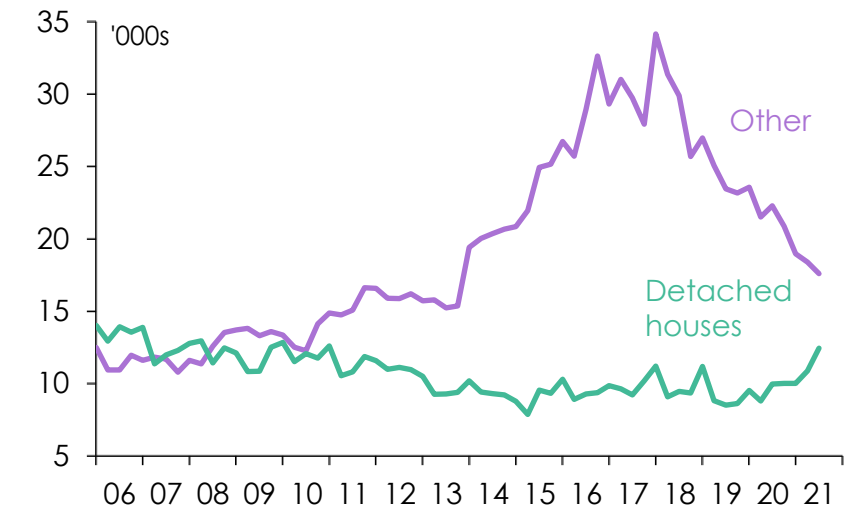
Residential building approvals



Alterations & additions approved



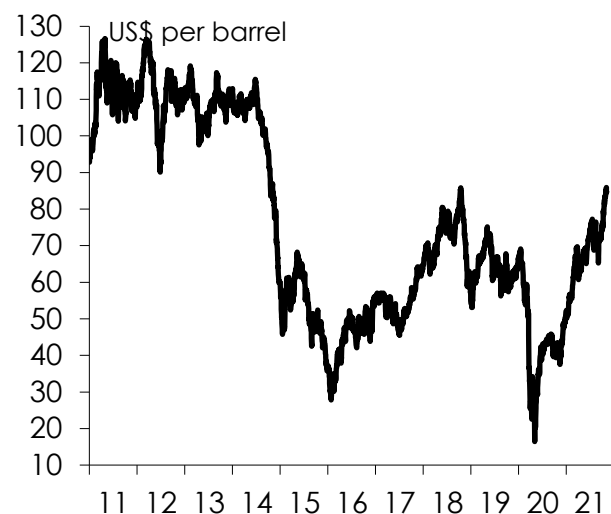
'Pipeline' of work yet to be started



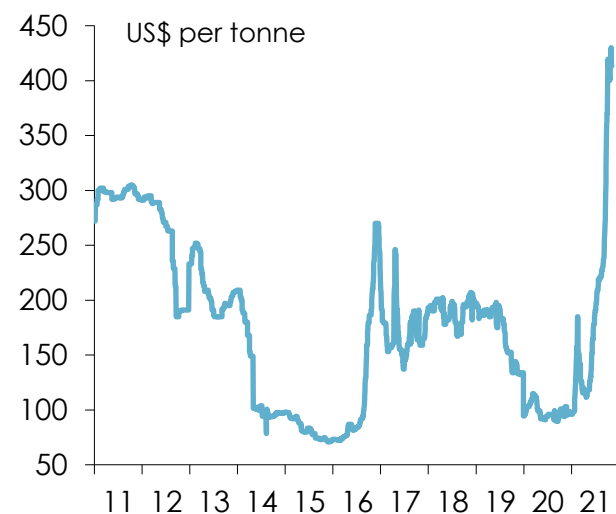
Note: 'New home sales' are of detached dwellings only and exclude small-scale builders. Sources: ABS, [Building Approvals](#); Housing Industry Association. September building approvals data will be released on 3rd November; September quarter dwellings under construction and 'pipeline' data on 19th January. [Return to "What's New"](#).

The iron ore price fell 4½% this week, thermal coal fell 4¼%, and aluminium 9½% - but gold and ag commodities were a bit firmer

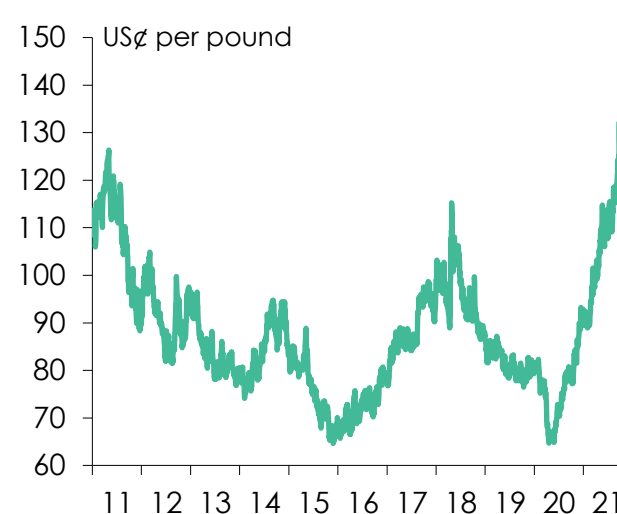
Brent crude oil



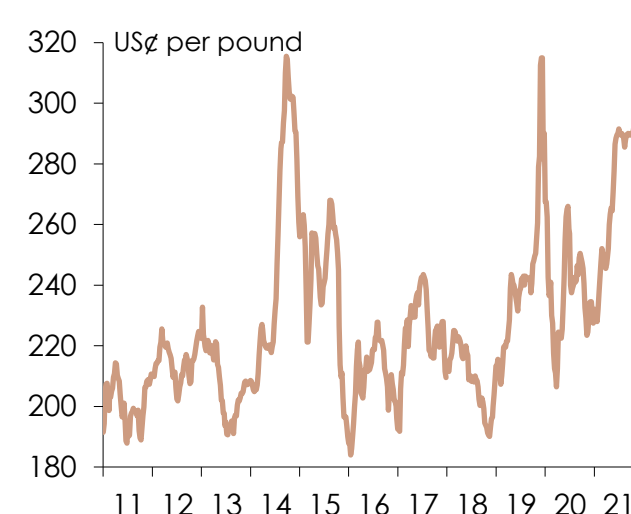
Metallurgical coal



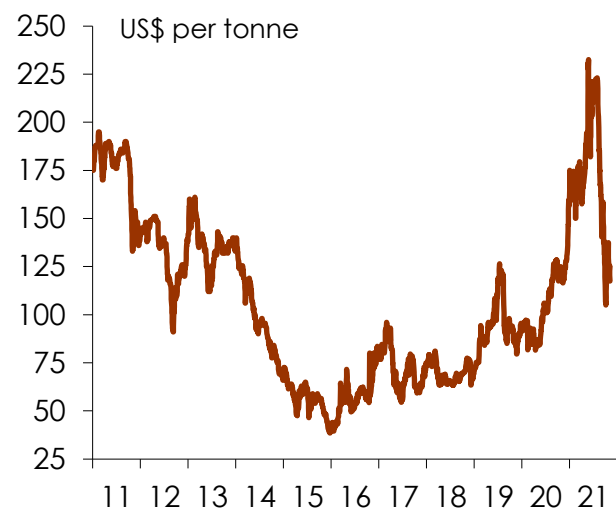
Aluminium



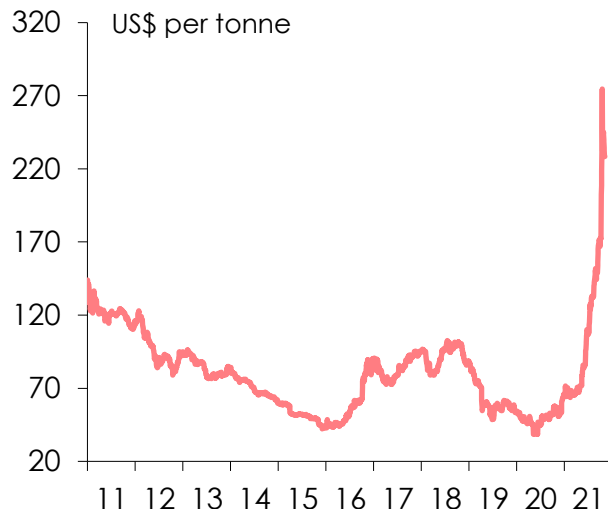
Beef



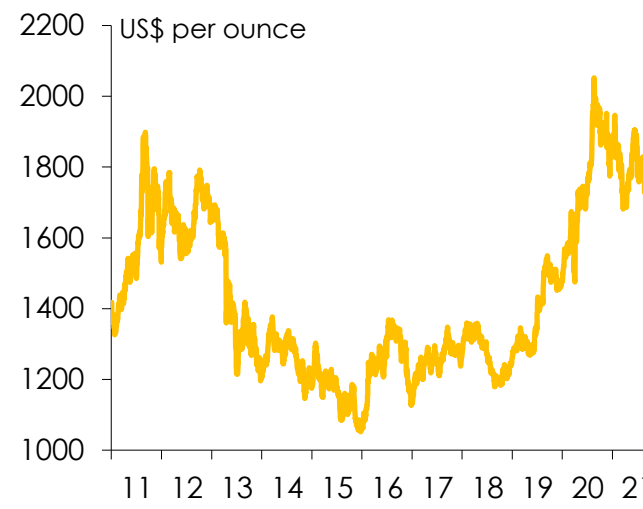
Iron ore



Thermal coal



Gold

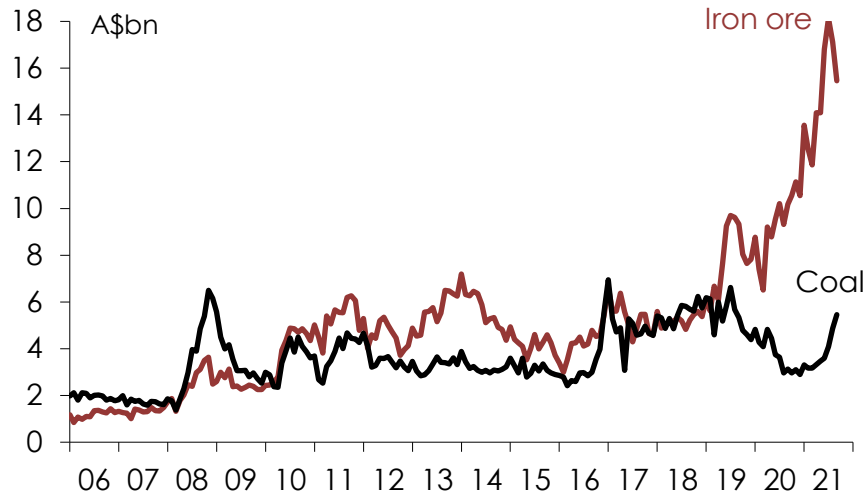


Wool

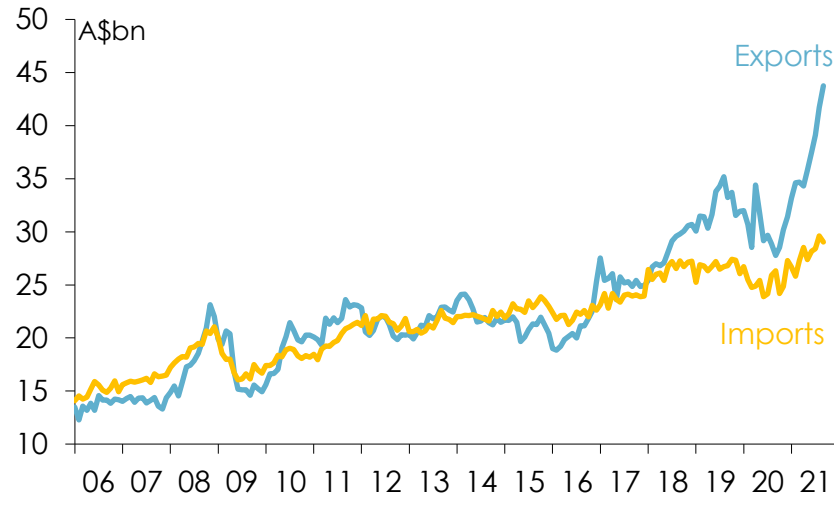


Australia registered another record trade surplus of \$15bn in August, thanks to large increases in coal, LNG & metals exports and lower imports

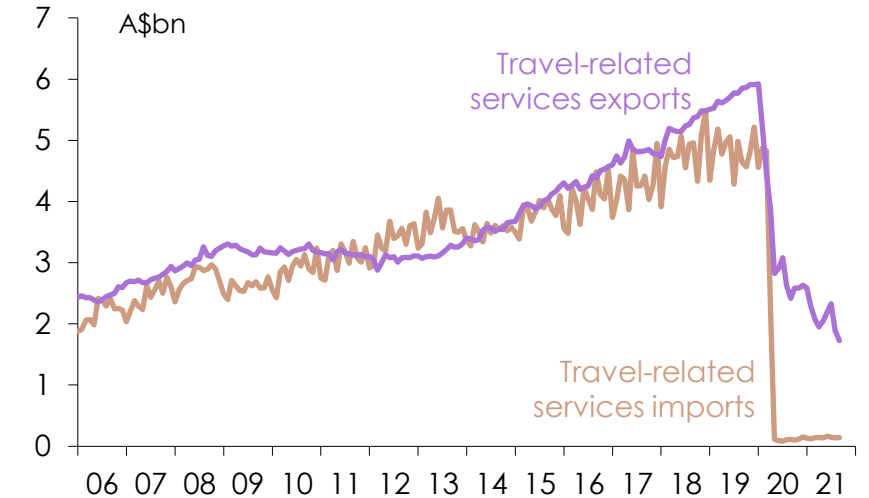
Iron ore and coal exports



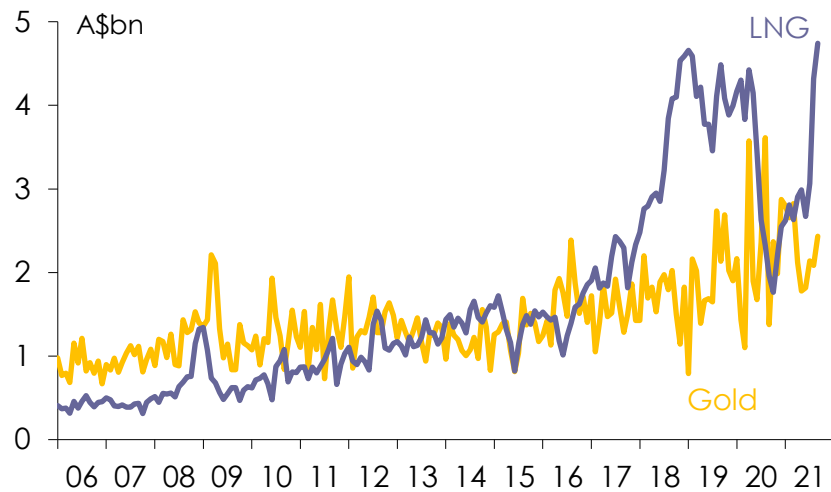
Merchandise exports and imports



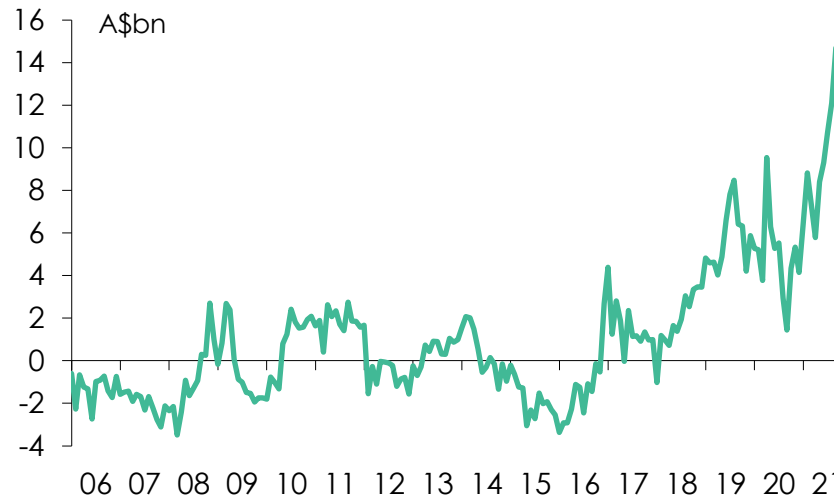
Tourism-related services trade



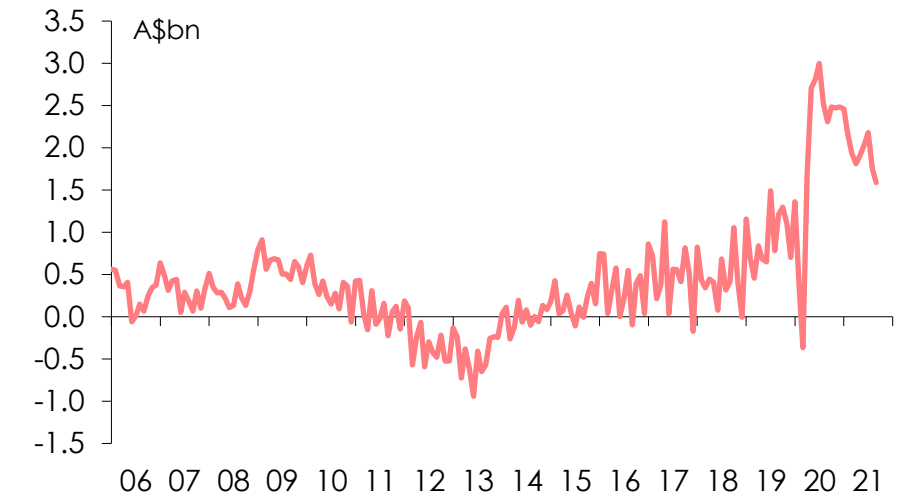
LNG and gold exports



Merchandise trade balance



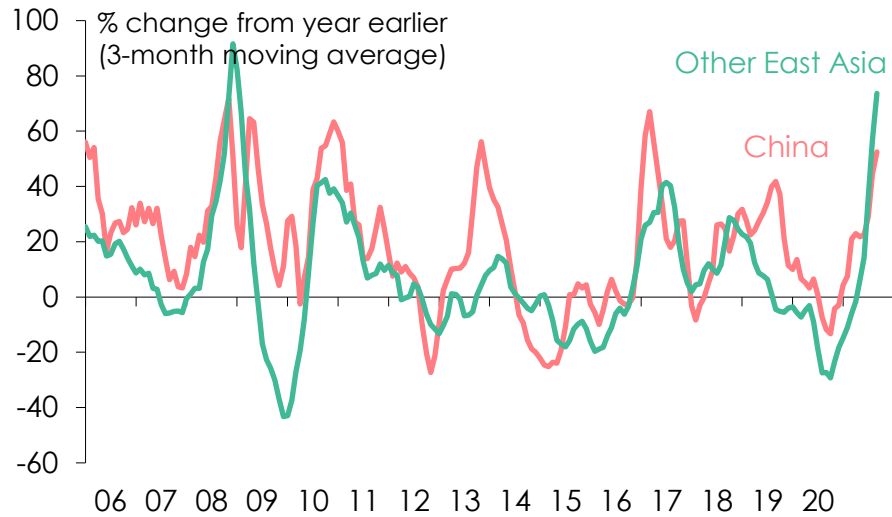
Tourism services trade balance



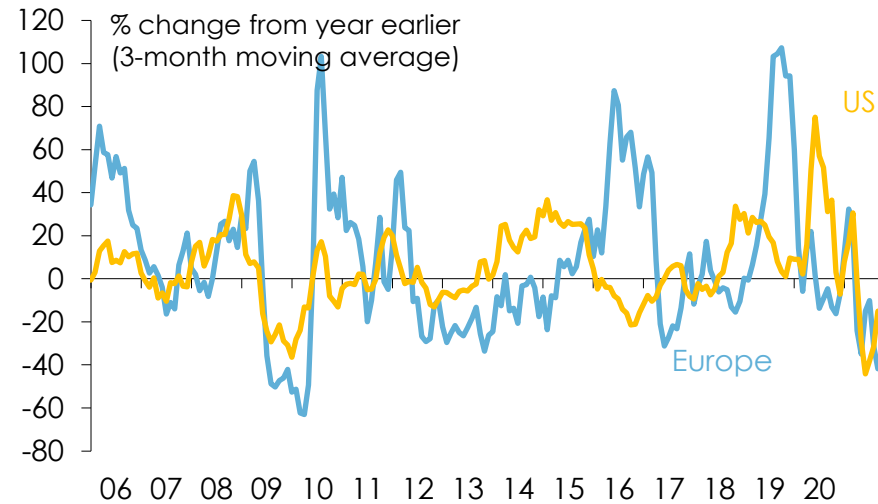
Source: ABS, [International Trade in Goods and Services, Australia](#), August 2021. September data will be released on 4th November. [Return to "What's New"](#).

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

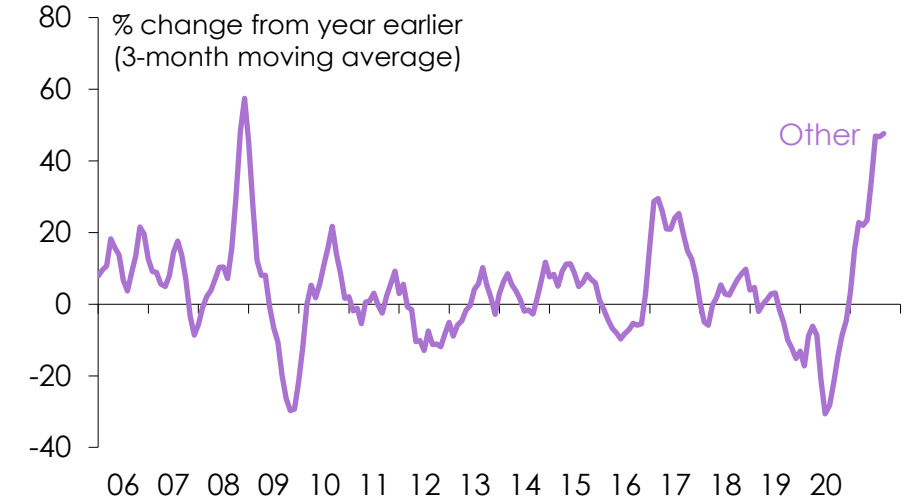
Merchandise exports – East Asia



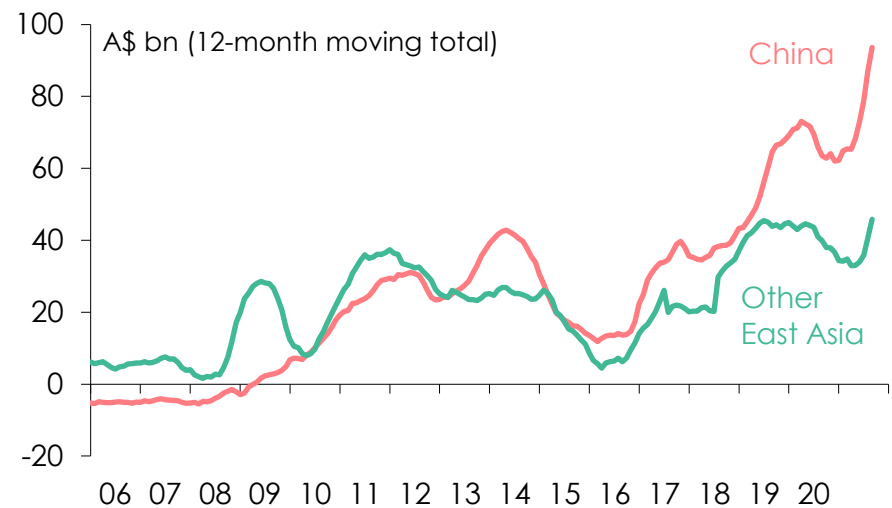
Merchandise exports – US & Europe



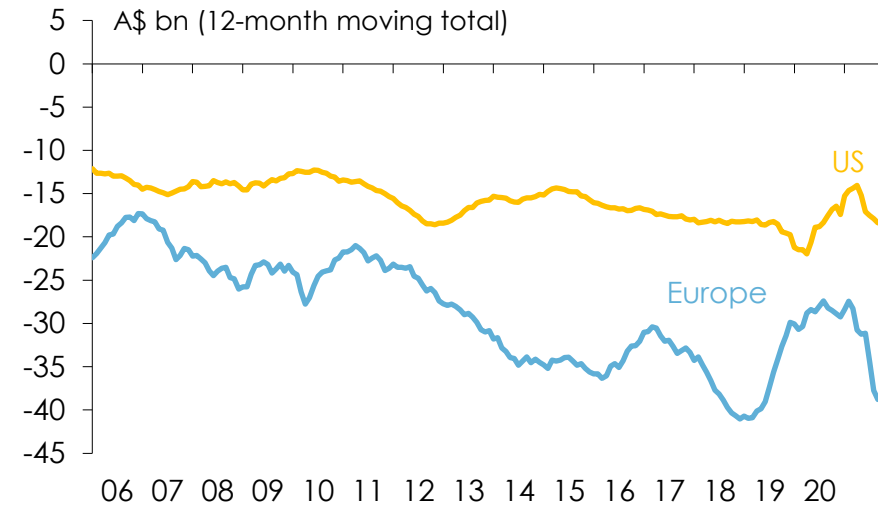
Merchandise exports – other



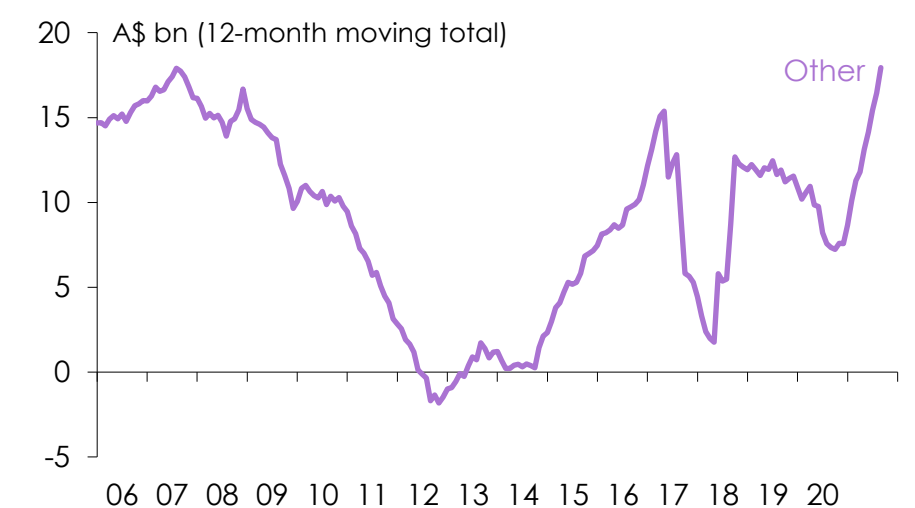
Goods trade balance – East Asia



Goods trade balance – US & Europe



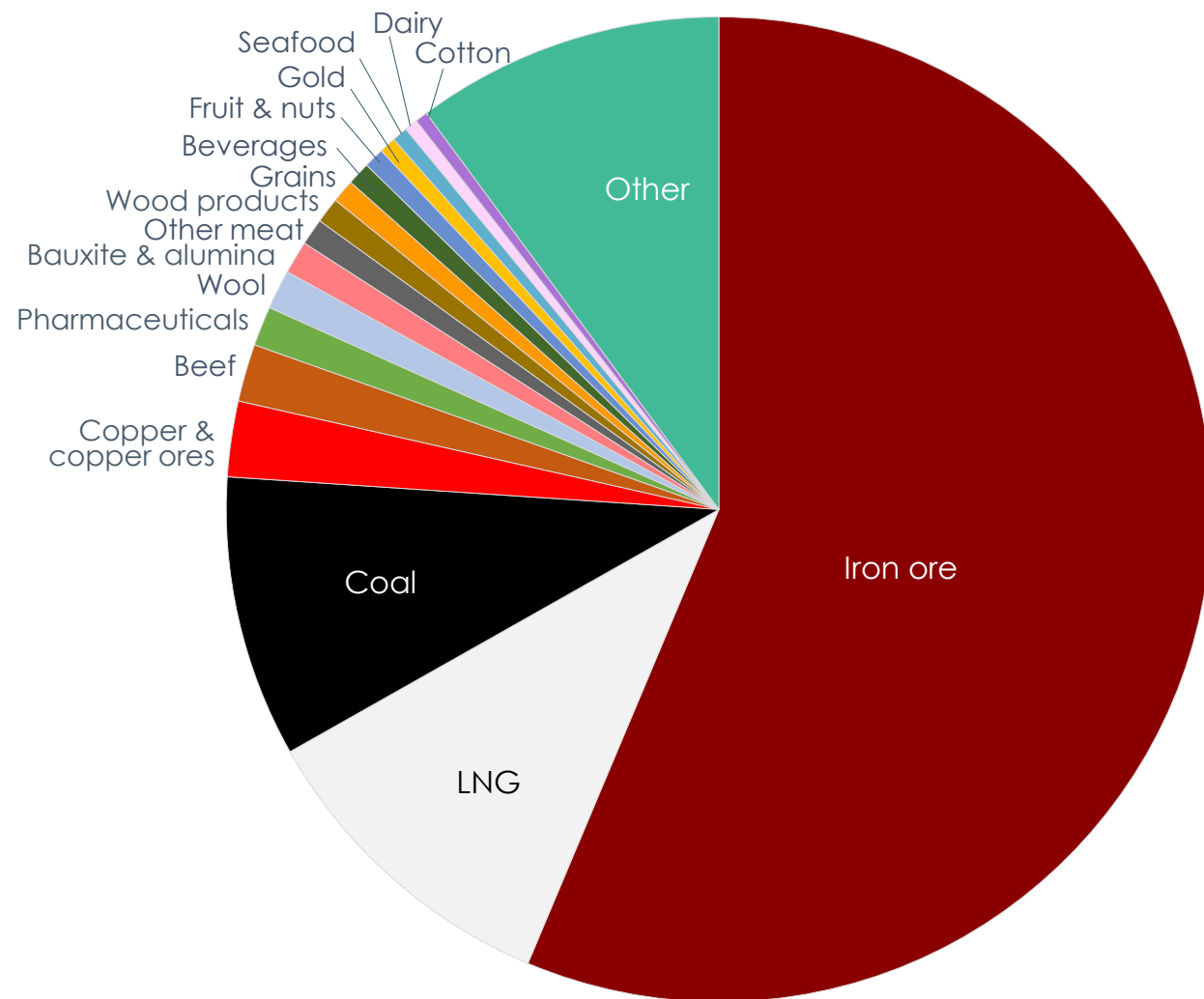
Goods trade balance – other



Note: 'Other East Asia' includes Japan, Korea, Taiwan, Hong Kong and ASEAN. 'Europe' includes the EU, UK and Switzerland. 'Other' includes India, New Zealand and the Pacific, Canada, Latin America, Africa, the Middle East and others not included in the foregoing. Latest data are for August. Source: ABS, [International Trade in Goods and Services, Australia](#), August 2021. September data will be released on 4th November. [Return to "What's New"](#).

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



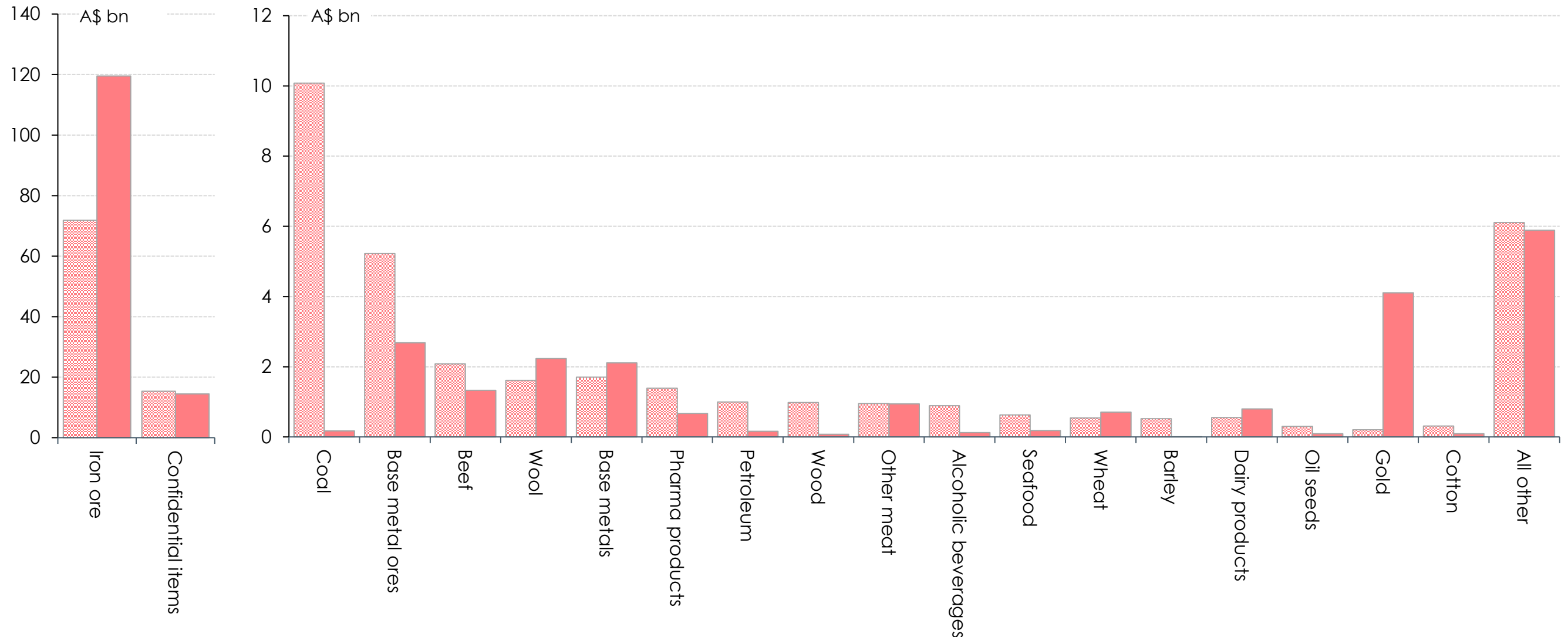
Note: 'Wood' includes wood products; 'dairy' includes milk, cream, butter & cheese; 'seafood' includes crustaceans, fish and processed seafood; 'other' includes confidential items.

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 month'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](#))

China's trade boycott of Australia is affecting everything except iron ore, gold, base metals, wool, wheat and dairy products

Australian exports to China, ten months to August 2021 compared with ten months to August 2020

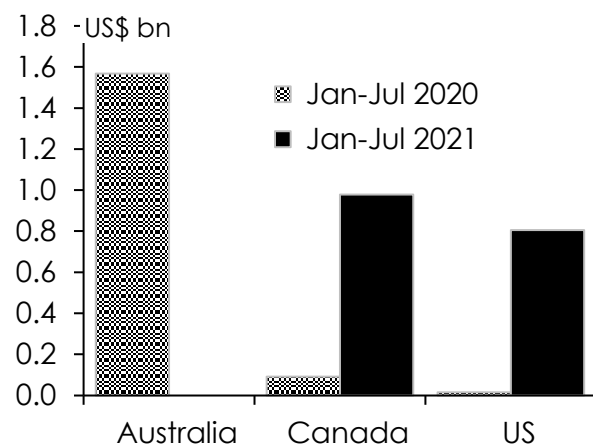


Note: 'confidential items includes, in particular, LNG. Source: Australian Department of Foreign Affairs and Trade, [Trade Statistical Pivot Tables - Country and commodity pivot table monthly](#); Corinna. [Return to "What's New"](#).

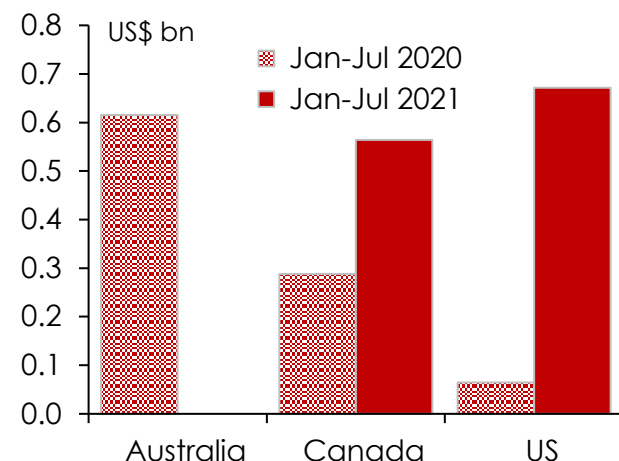
“With friends like these ...” – how Australia’s ‘allies’ have been ‘cutting our lunch’ in trade with China

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

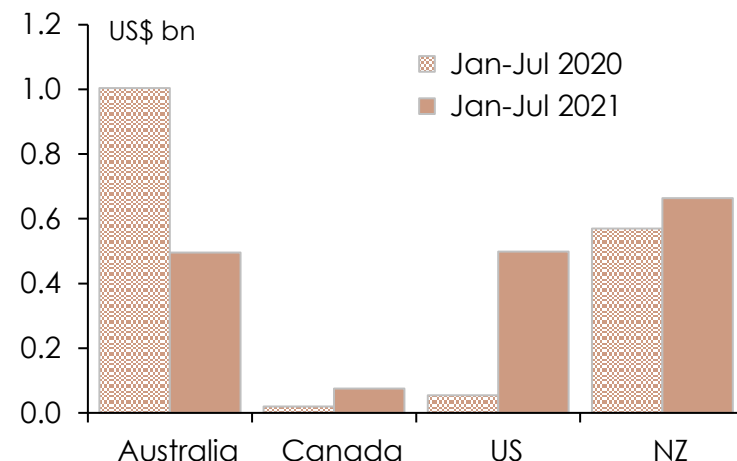
Coal



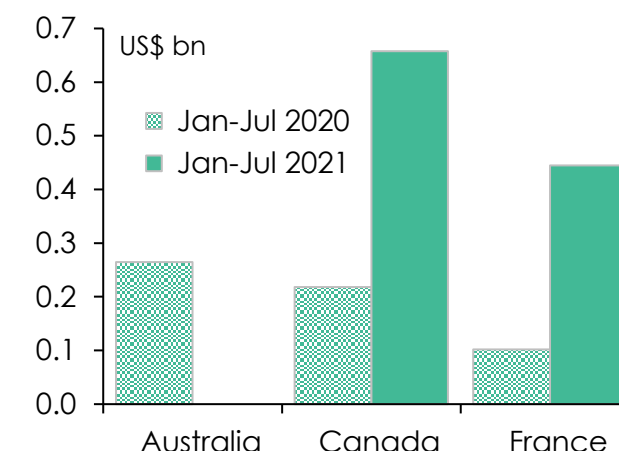
Copper ores



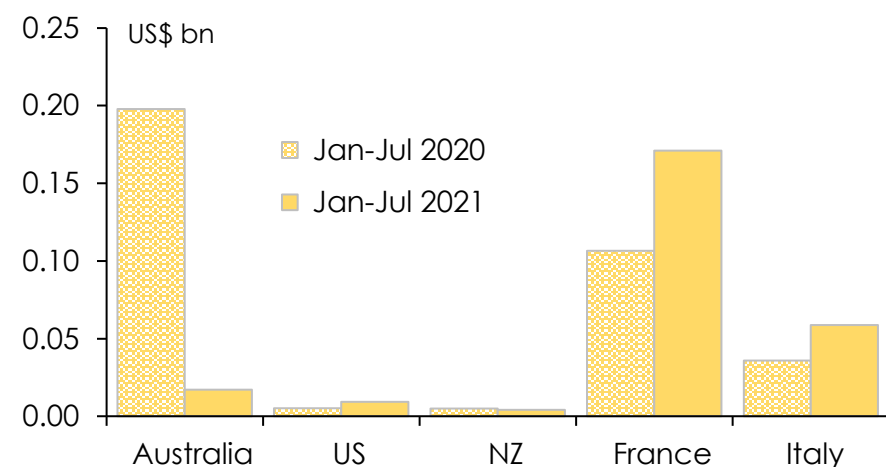
Beef



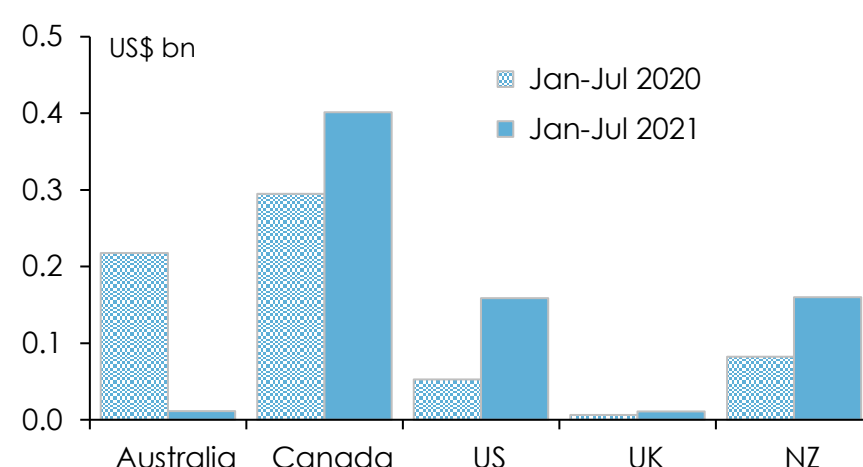
Barley



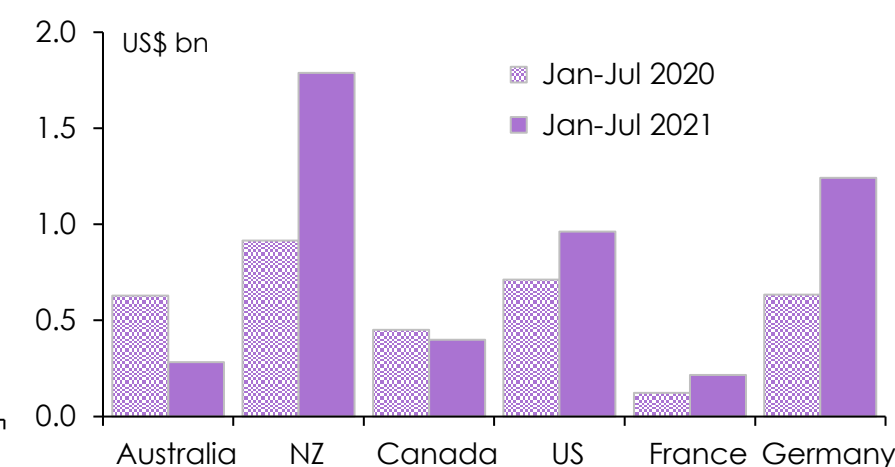
Wine



Crustaceans

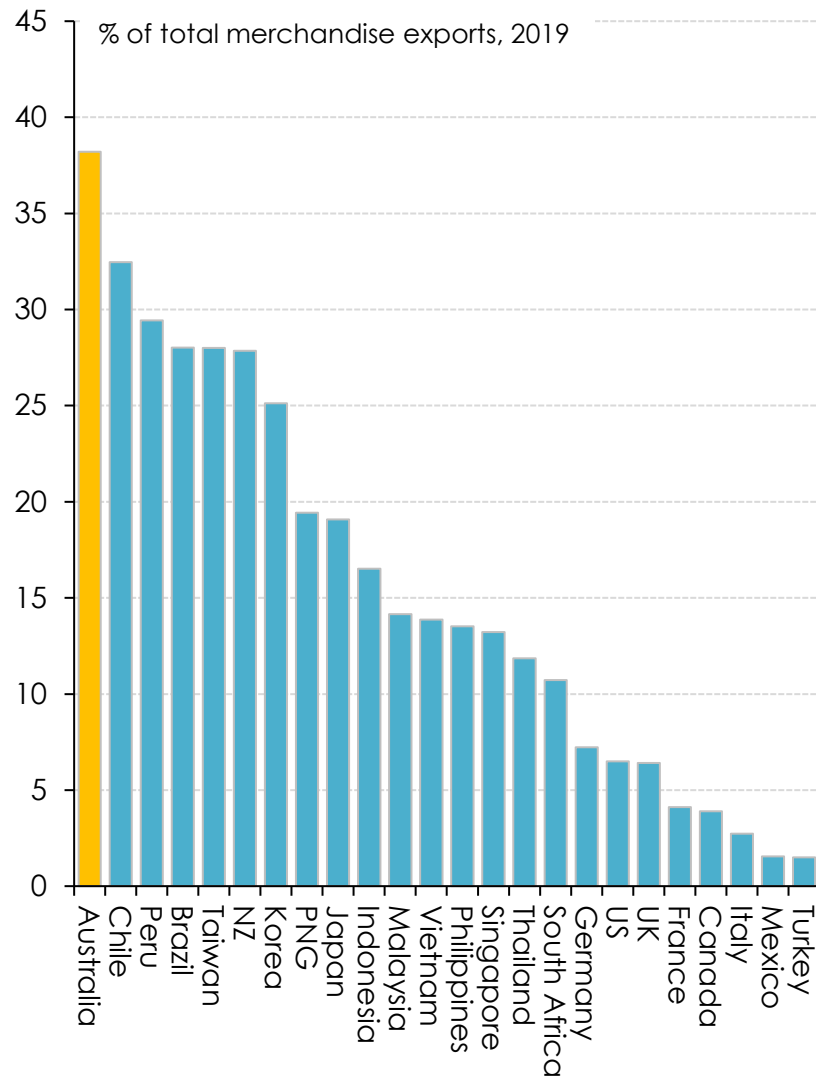


Wood & wood products

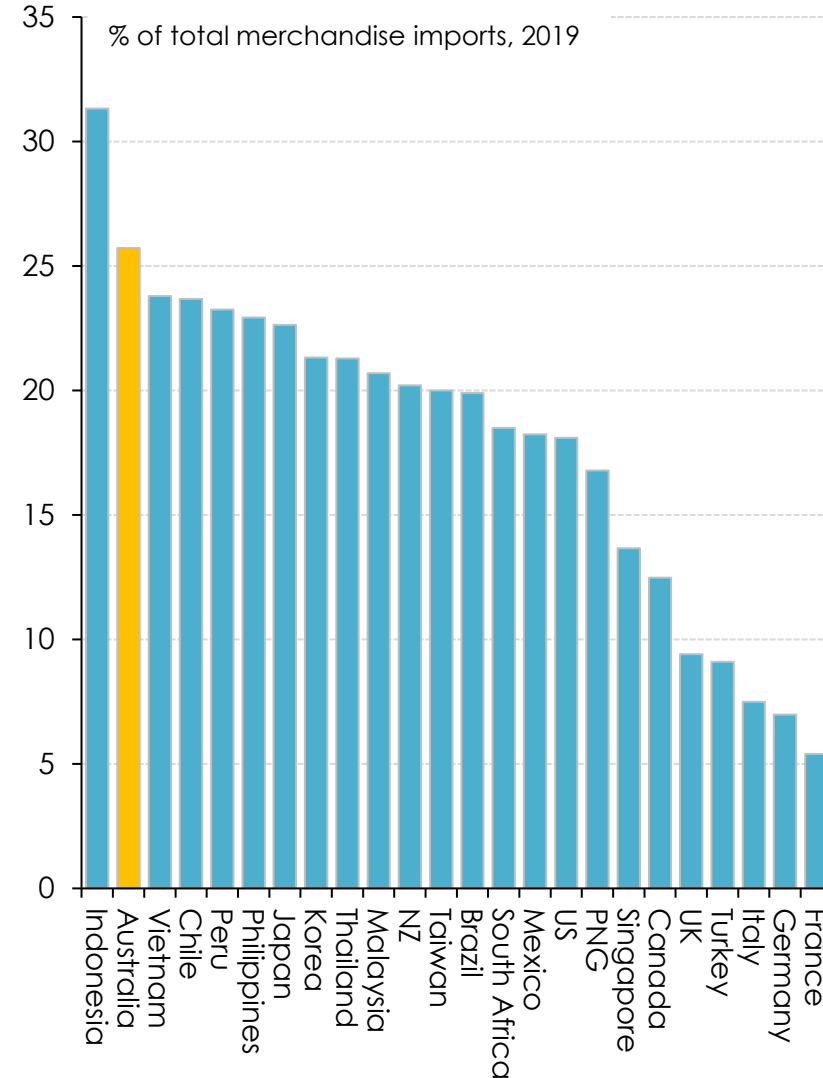


China can cause Australia economic pain because we're very dependent on it, and are one of the few countries with whom China runs a deficit

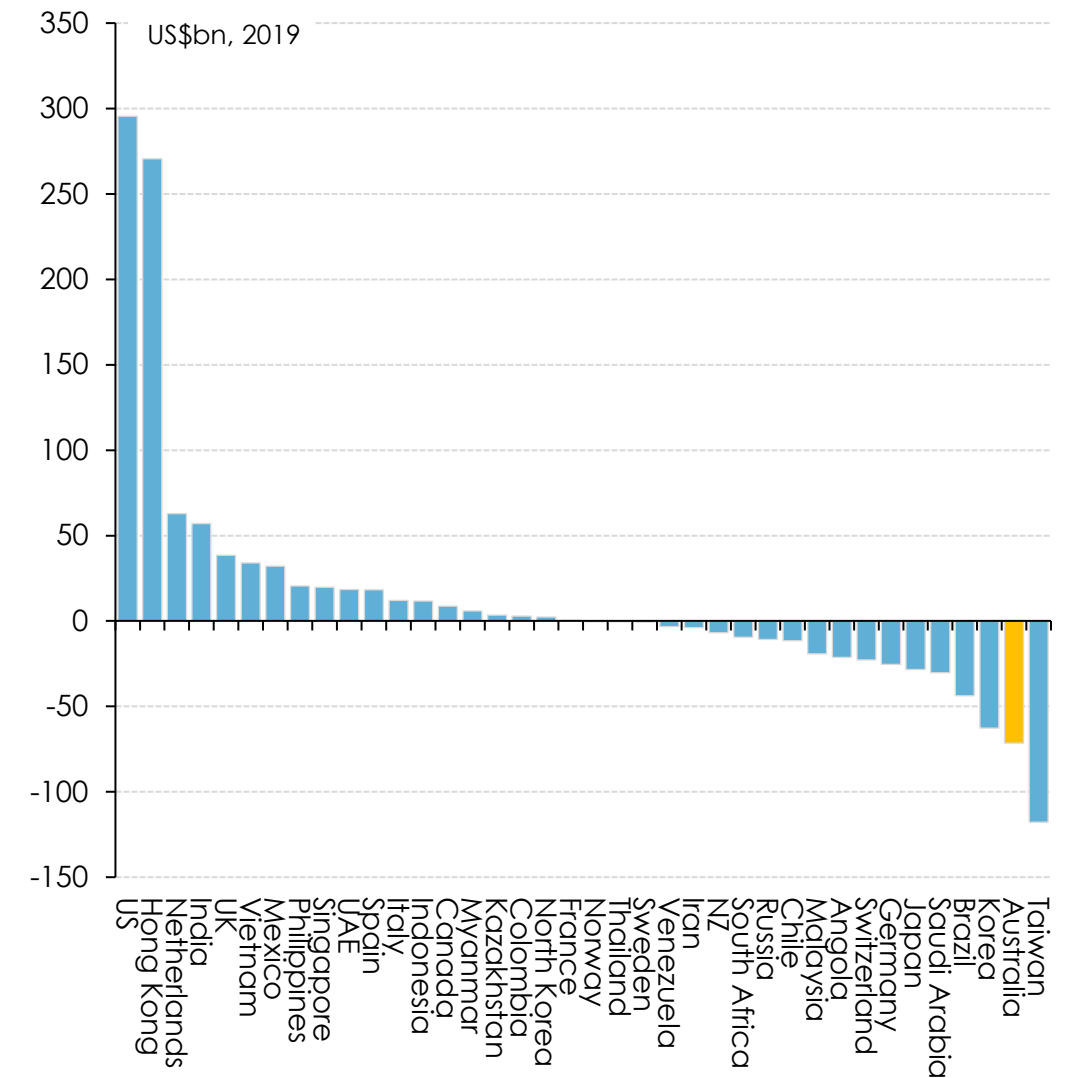
Merchandise exports to China as a pc of total



Merchandise imports from China as a pc of total



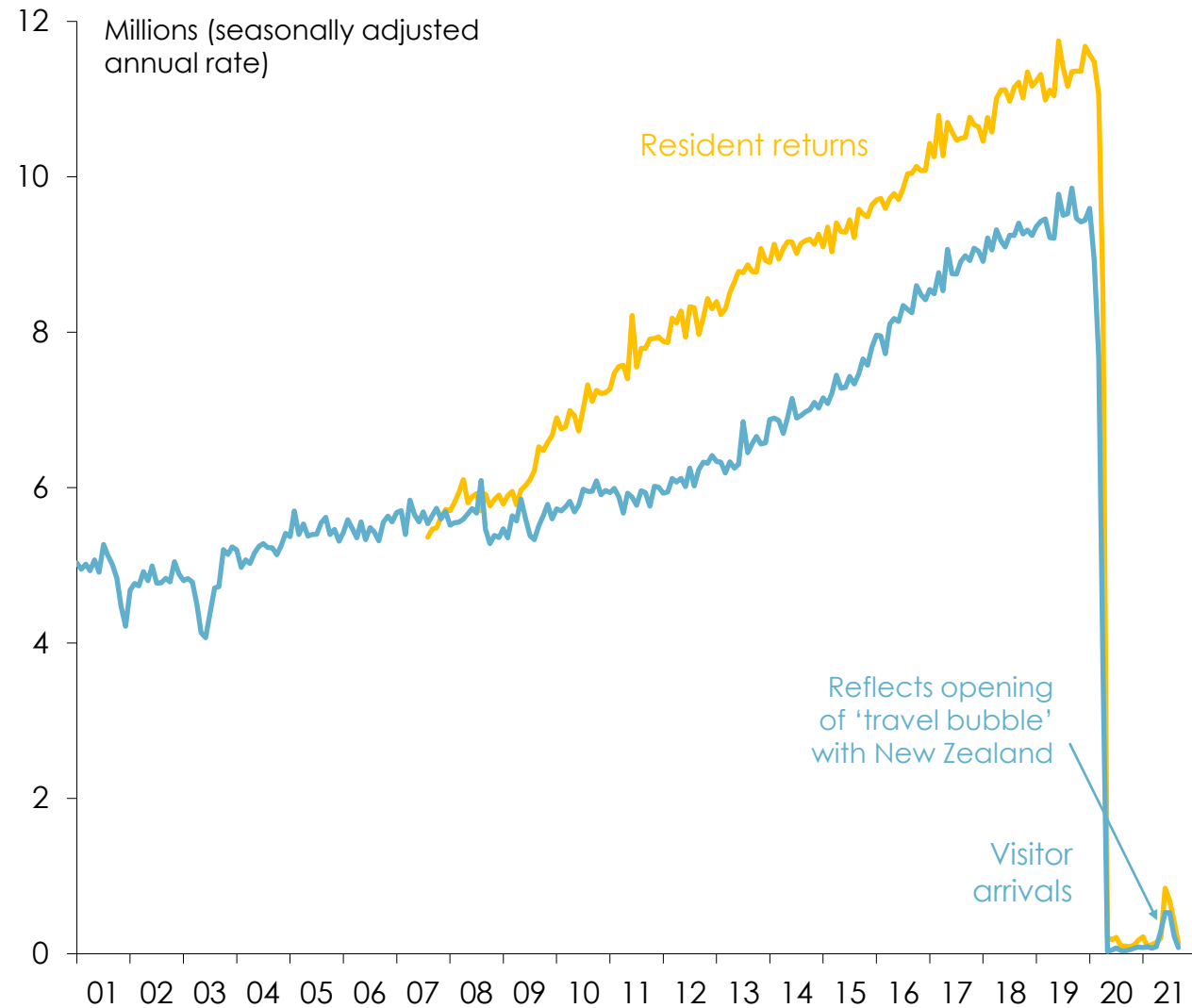
China's bilateral merchandise trade balances



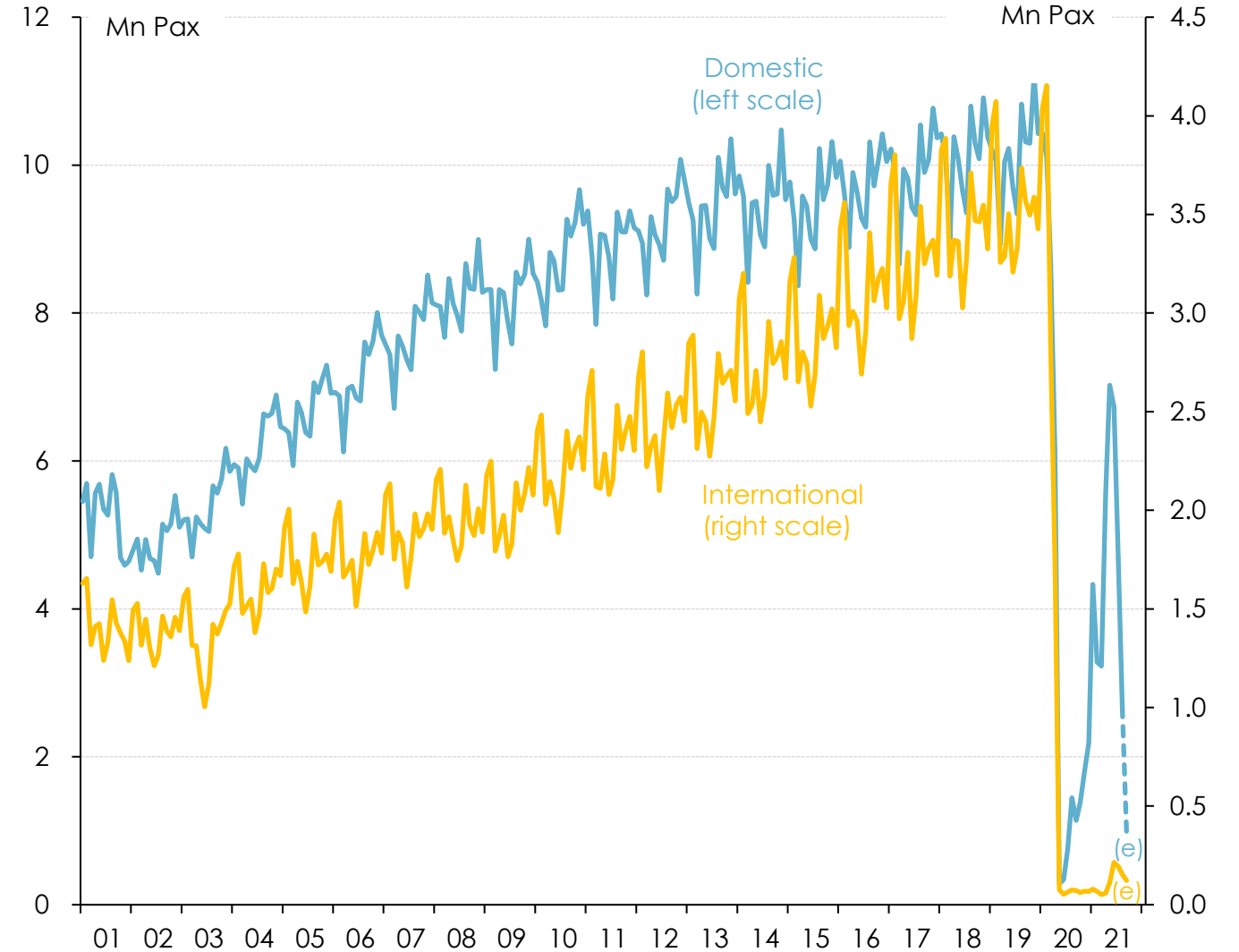
Sources: IMF, Direction of Trade Statistics; Taiwan Ministry of Economic Affairs, Bureau of Foreign Trade. [Return to "What's New"](#).

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

Short-term visitor arrivals and resident returns



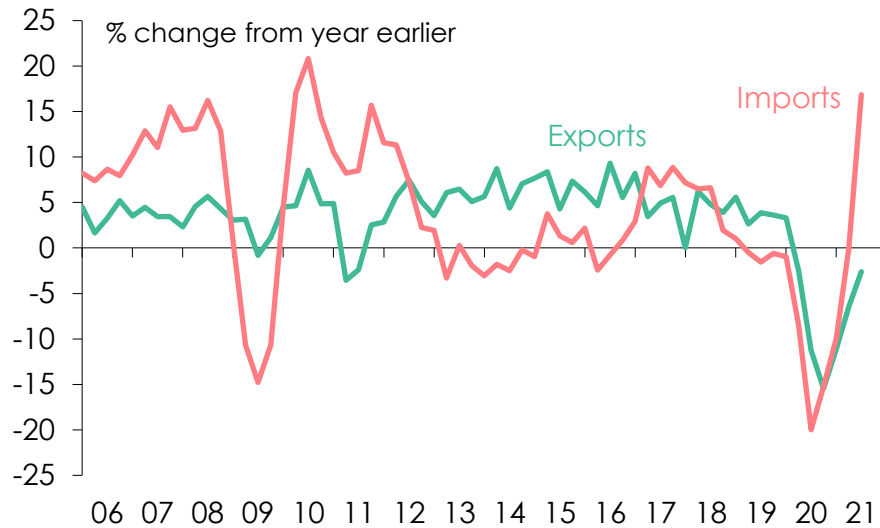
Airport passenger movements



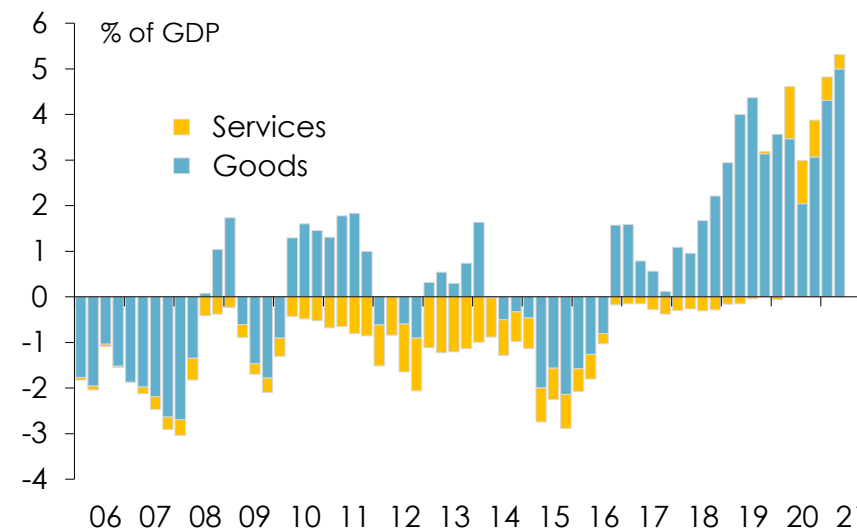
Note: The ABS has suspended publication of seasonally adjusted estimates of short-term visitor arrivals and resident returns, so published original estimates for April 2020 (and beyond) have been seasonally adjusted by Corinna using the same seasonal factors as for the corresponding month of 2019. Latest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

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

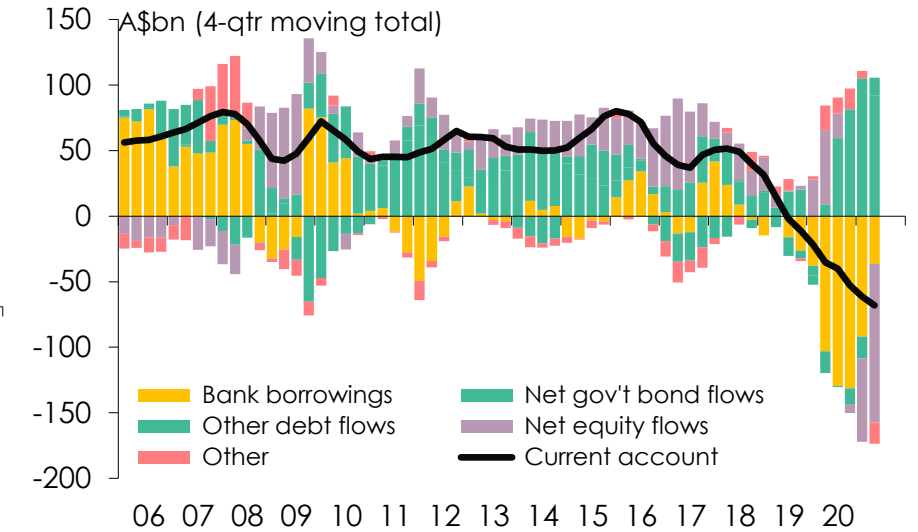
Export and import volumes



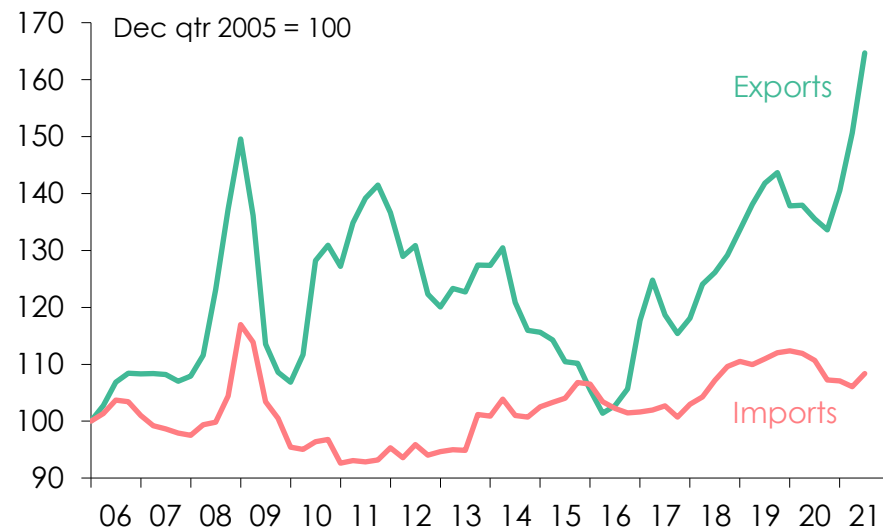
Goods & services trade balances



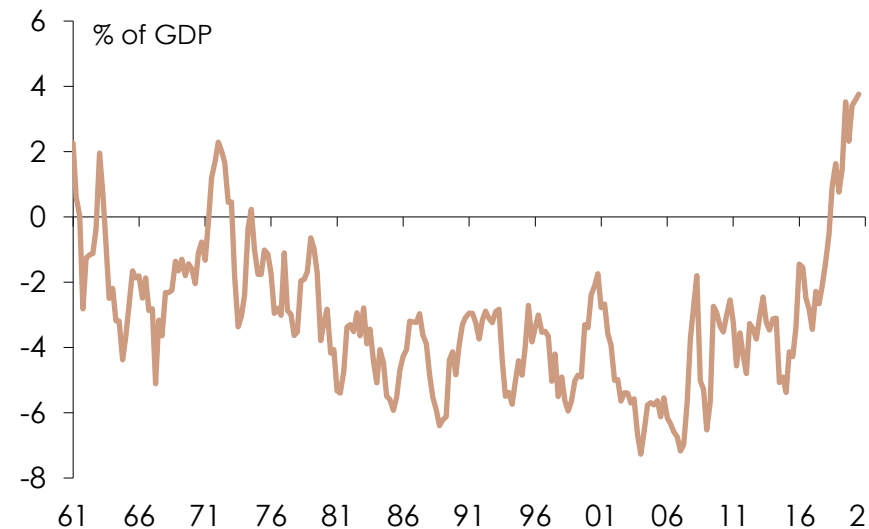
Capital flows



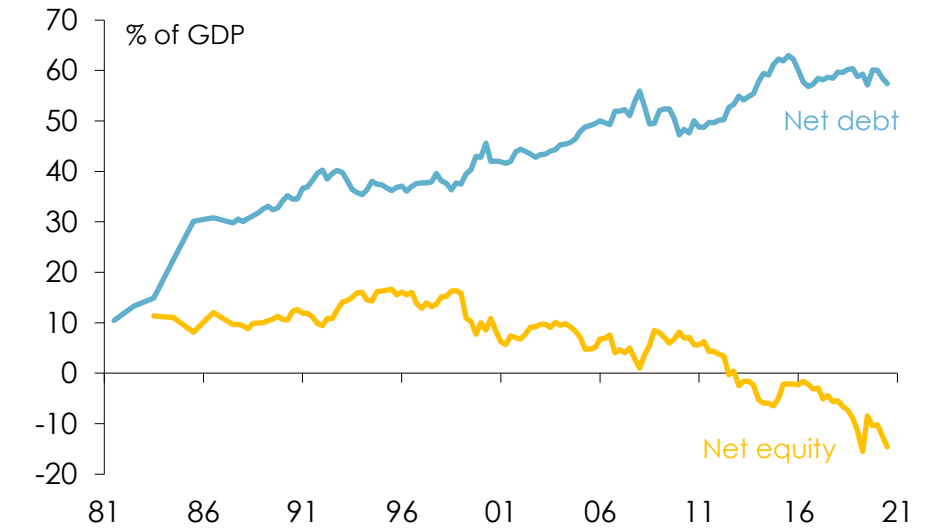
Export and import prices



Current account balance



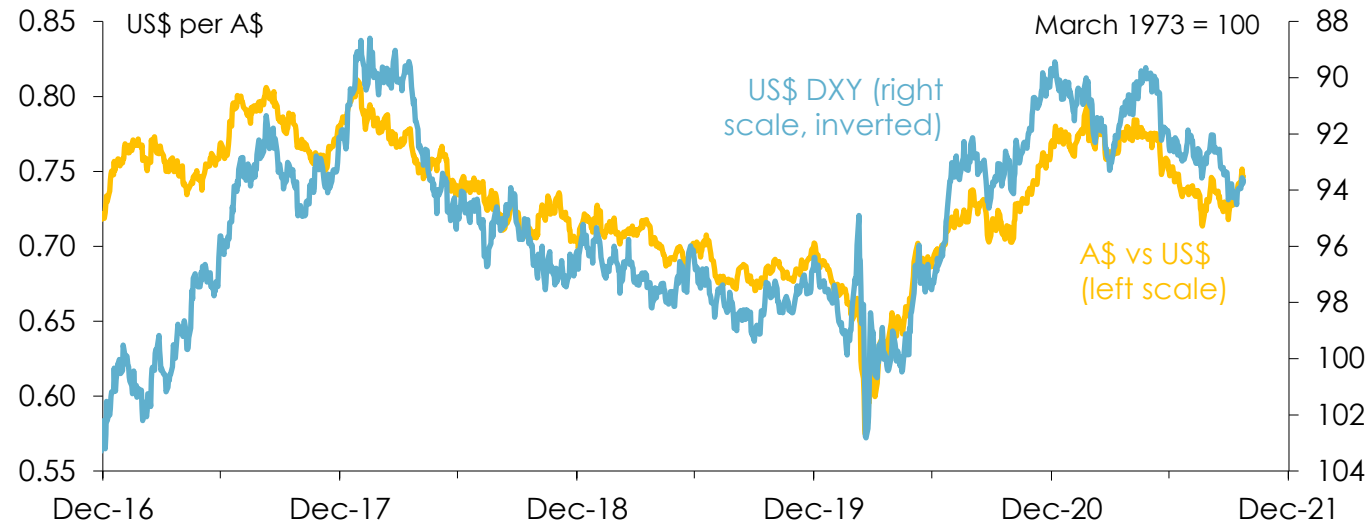
Net international investment position



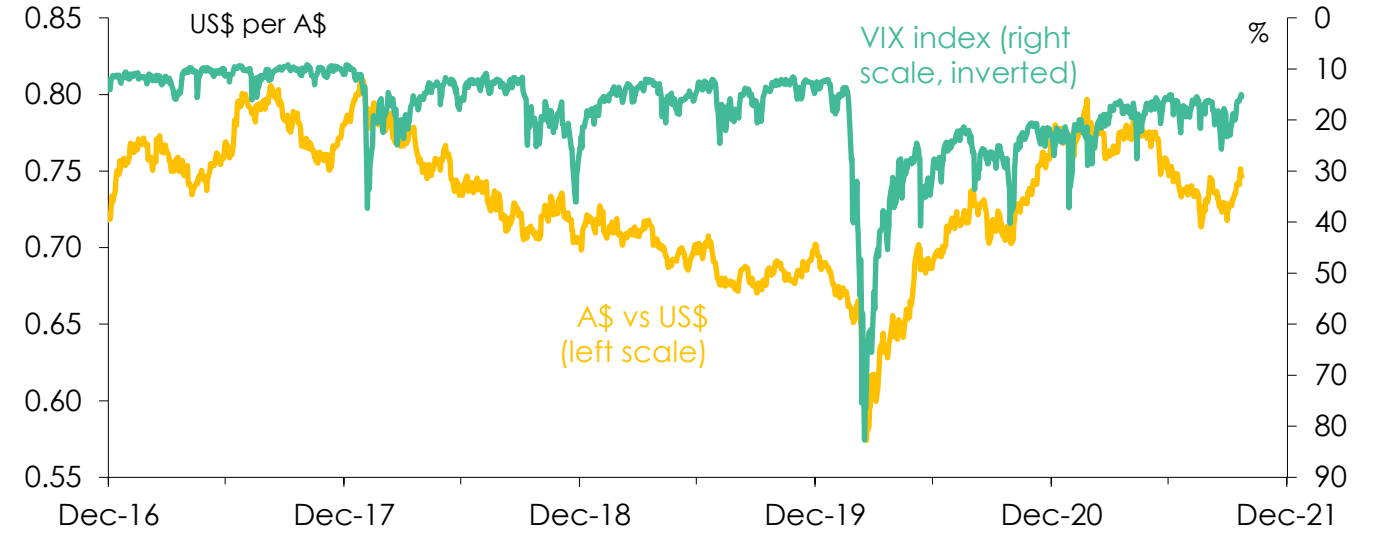
Note: The chart of Australia's international capital flows shows inflows (eg borrowings from abroad) as a positive and outflows (eg repayments of debt, or purchases of foreign equity assets) as a negative. Likewise the chart of Australia's international investment position shows net foreign debt as a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

The A\$ continued its climb this week, reaching a 15-week high of US75¢, despite a lower iron ore price, thanks to 'positive carry' and a weaker US\$

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



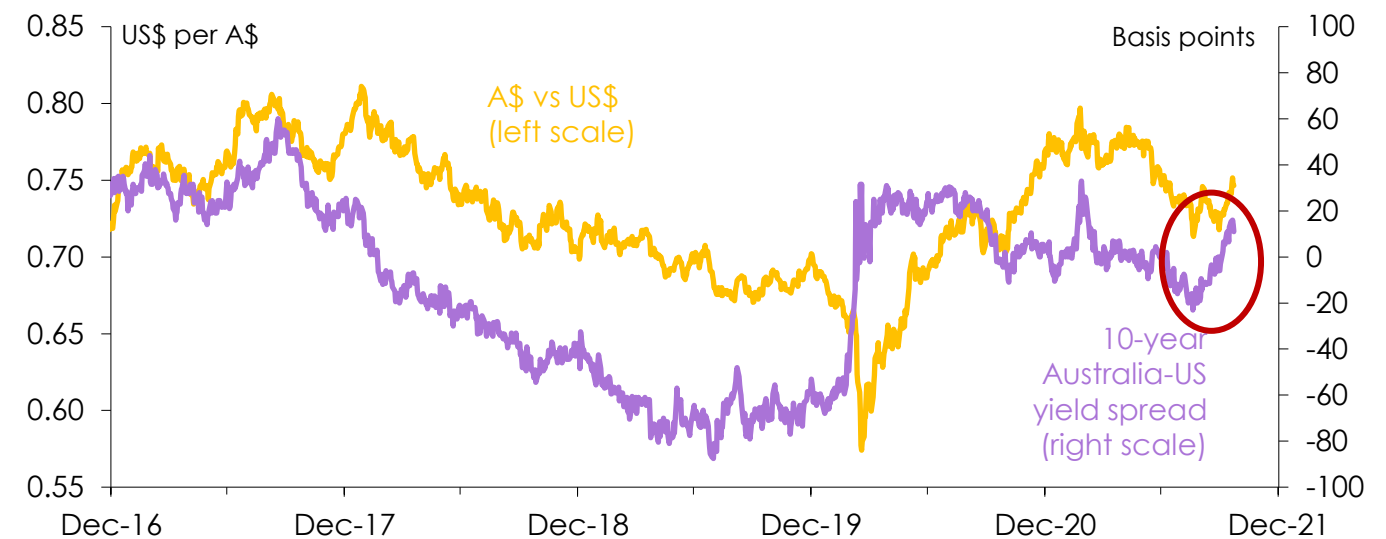
A\$-US\$ and US equity market volatility



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



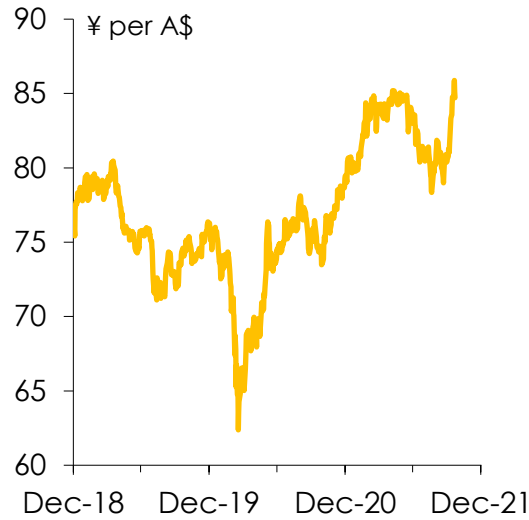
A\$-US\$ and Australia-US 10-year bond yield spread



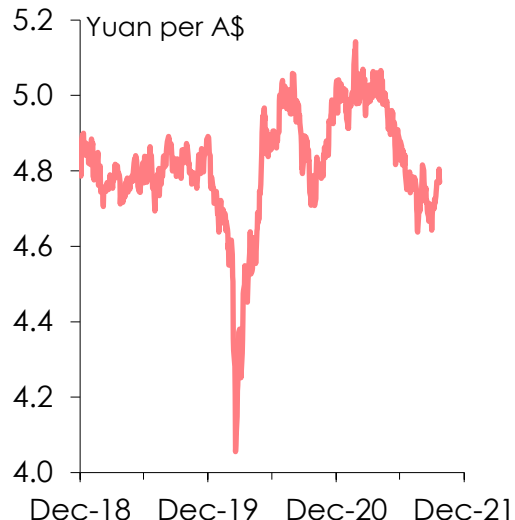
Note: The DXY is an index of the value of the US dollar against 6 other currencies (the euro, yen, pound, Canadian dollar, Swedish krona and Swiss franc). The VIX index is a measure of the implied volatility of S&P500 options and is widely interpreted as an indicator of investor risk appetite or aversion. Source: Refinitiv Datastream. Data up to 22nd October. [Return to "What's New"](#).

The A\$ was also stronger against most third currencies, except for the NZ\$ against which it fell 0.7% as NZ markets prices in more OCR hikes

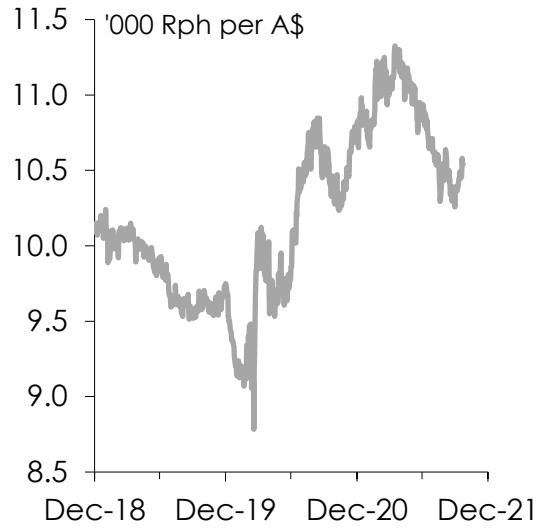
A\$ vs Japanese yen



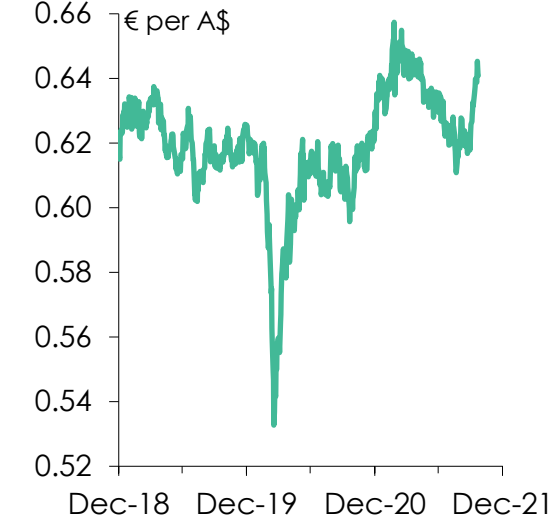
A\$ vs Chinese yuan



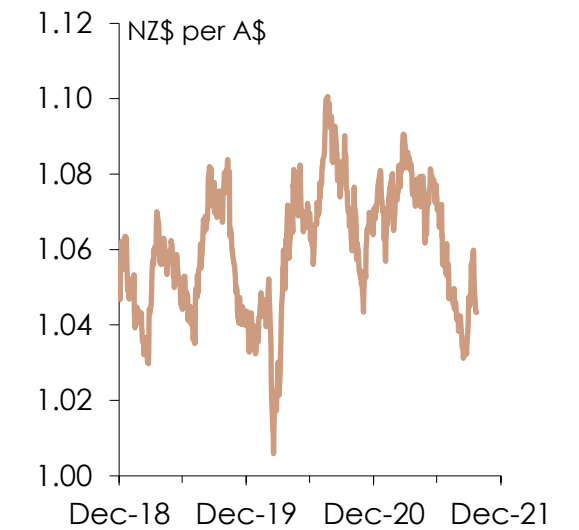
A\$ vs Indo rupiah



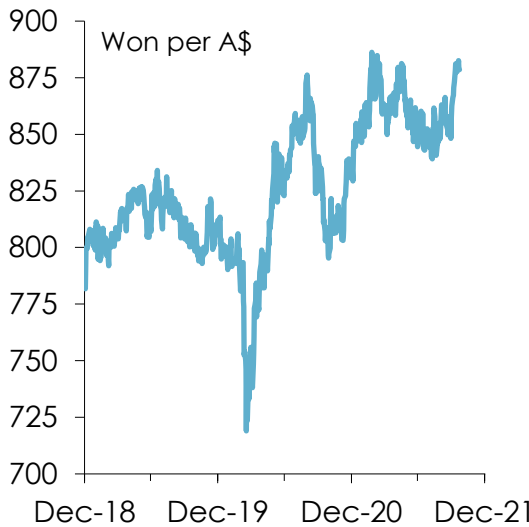
A\$ vs Euro



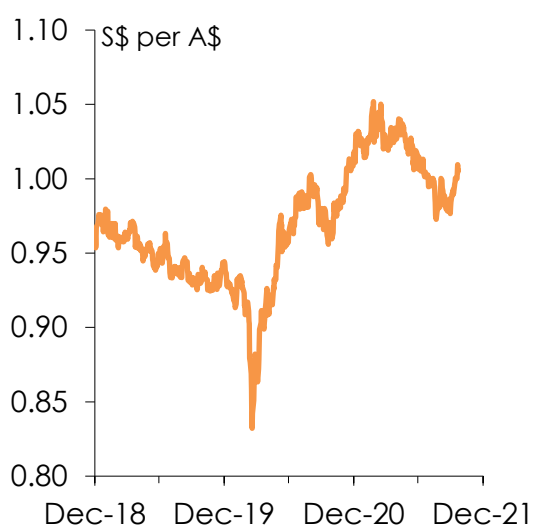
A\$ vs NZ\$



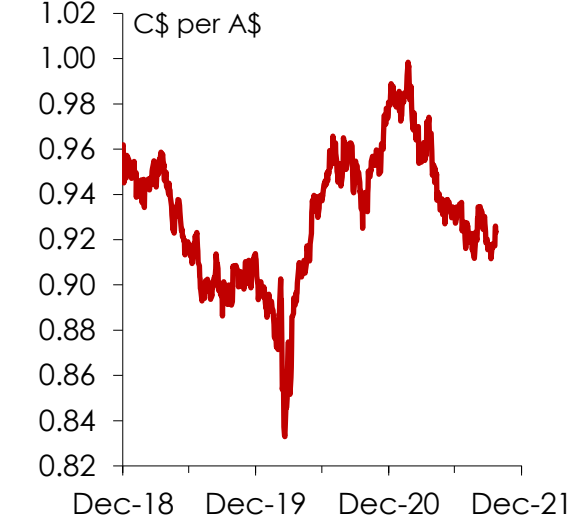
A\$ vs Korean won



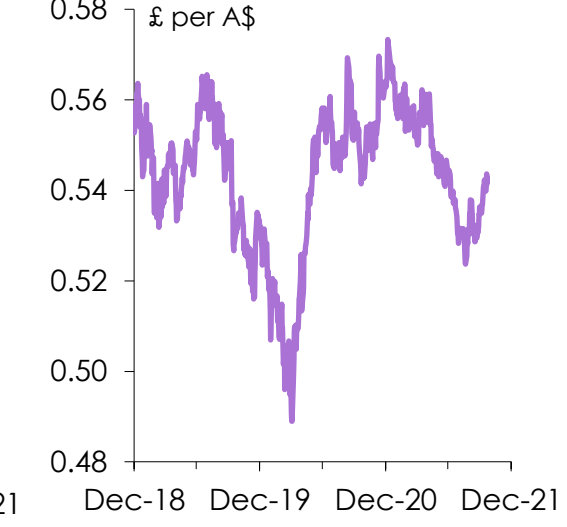
A\$ vs Singapore \$



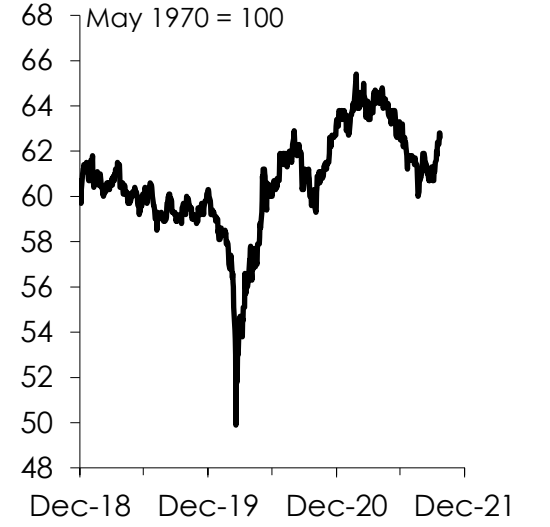
A\$ vs Canadian \$



A\$ vs British pound



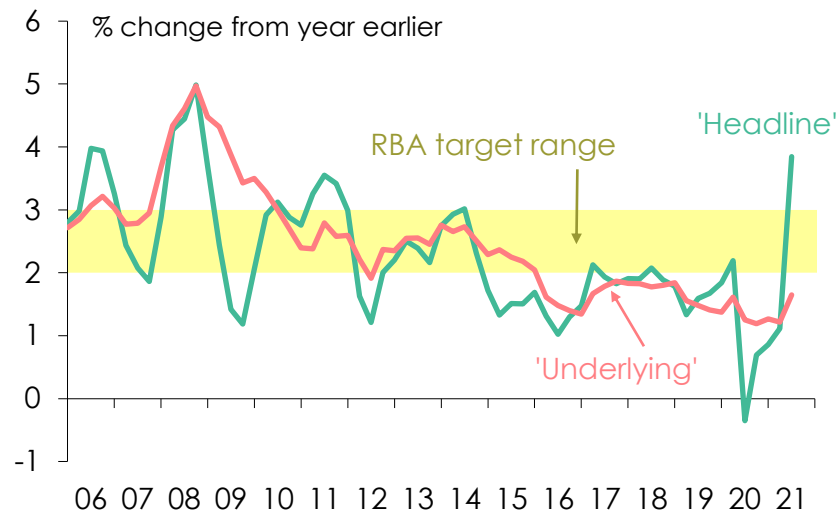
A\$ TWI



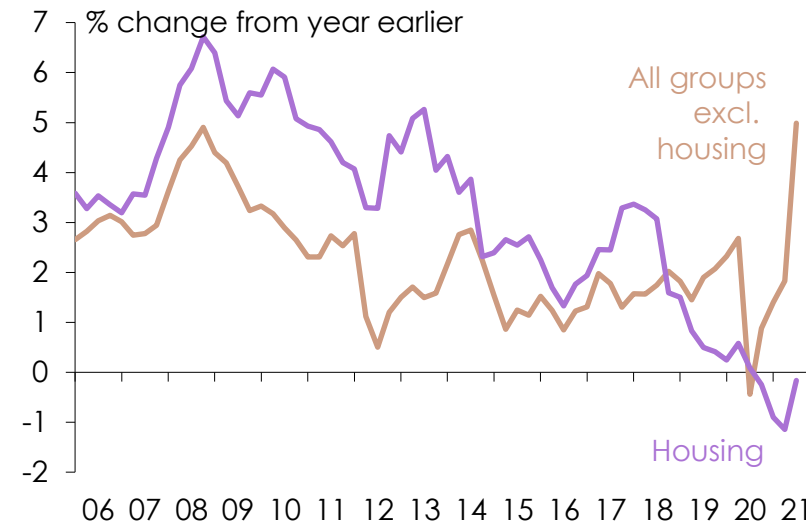
Note: The 'TWI' is the RBA's [trade-weighted index](#) of the A\$. Source: Refinitiv Datastream. Data up to 22nd October. [Return to "What's New"](#).

Markets expect the CPI to have risen 0.8% in Q3, with the 'underlying' measures having risen 0.5% to leave the annual rate at 1³/₄%

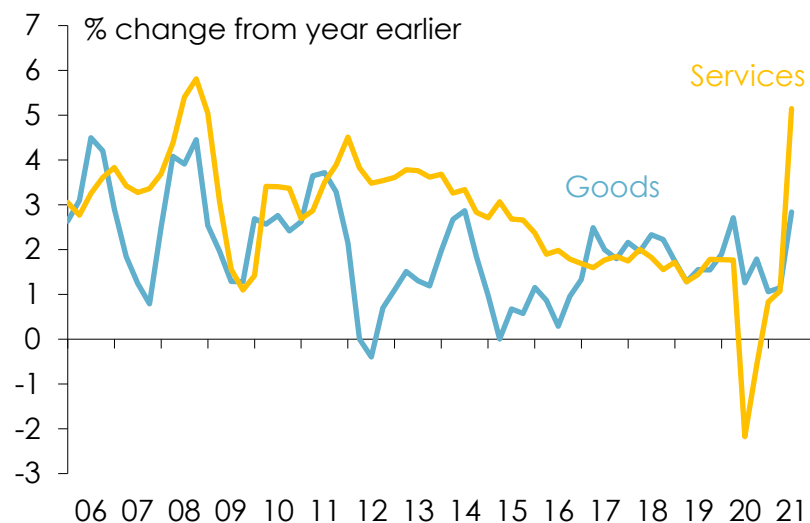
Consumer prices



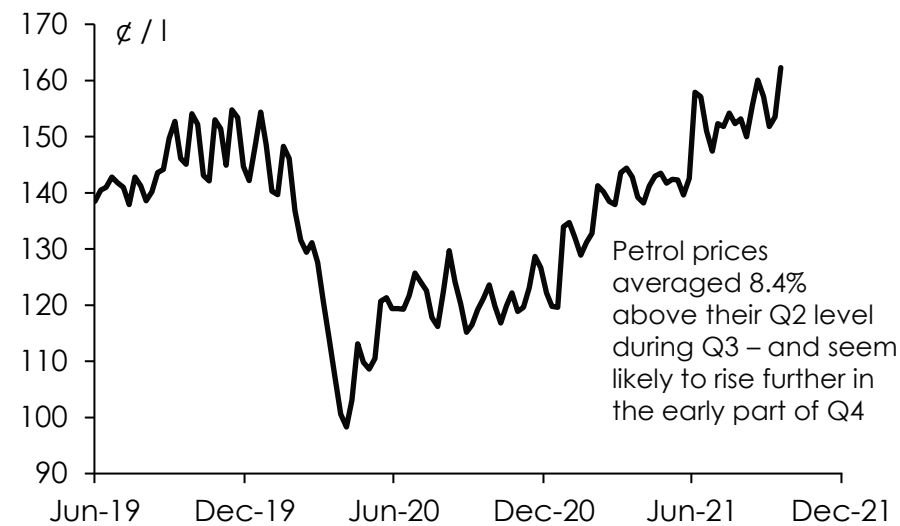
Housing costs



Goods vs services prices



Retail petrol prices

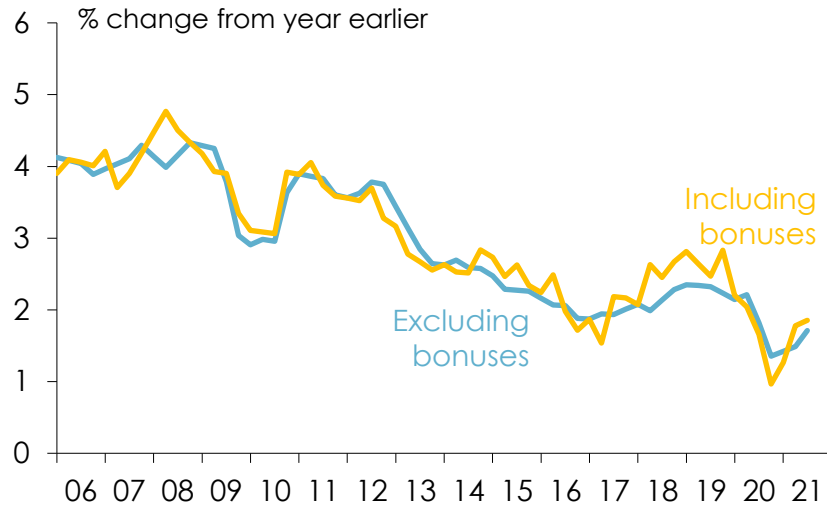


- ❑ The CPI rose a slightly higher-than-expected 0.8% in Q2 – but because the 1.9% fall in Q2 last year (the result of child care being free for most of it, and a sharp fall in petrol prices), the annual 'headline' inflation rate jumped to 3.8%, its highest since Q3 2008
- ❑ 70% of the increase in the 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 Q1 2020, but still below the RBA's target for the 22nd quarter in a row

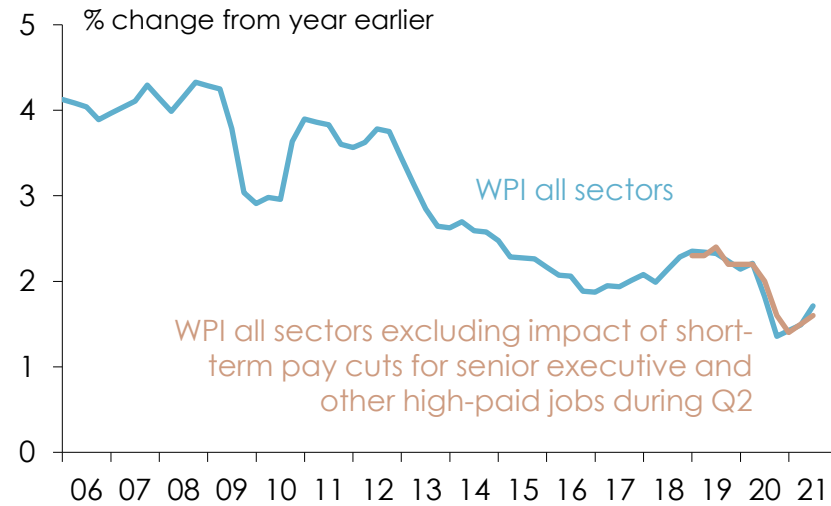
Note: 'Underlying' inflation is the average of the weighted median and trimmed mean CPIs. Wage price indices exclude bonuses.
Sources: ABS, [Consumer Price Index, Australia](#); [Australian Institute of Petroleum](#). The September quarter (Q3) CPI will be released on 27th October. [Return to "What's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

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

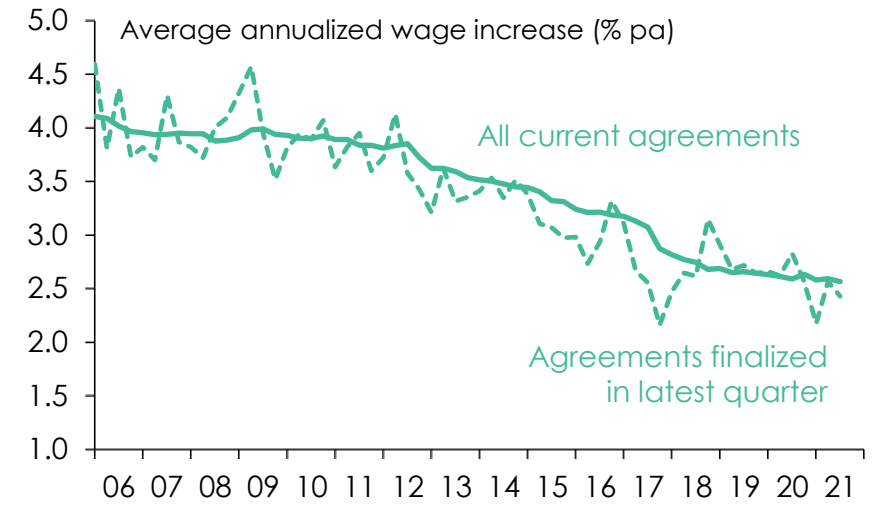
Wage price index – all sectors



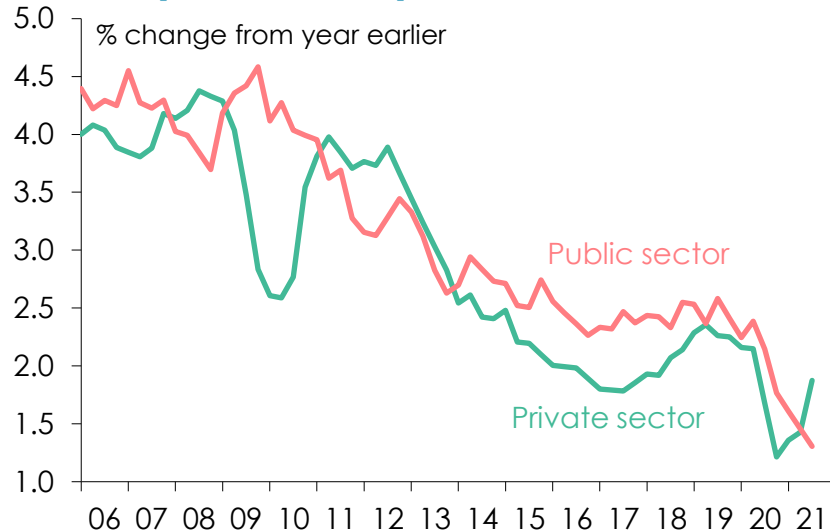
WPI excl. temporary wage cuts



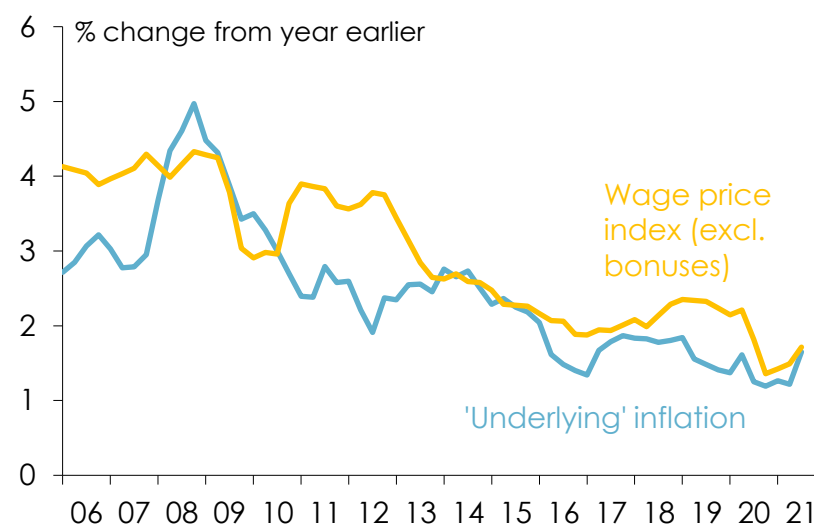
Enterprise bargaining agreements



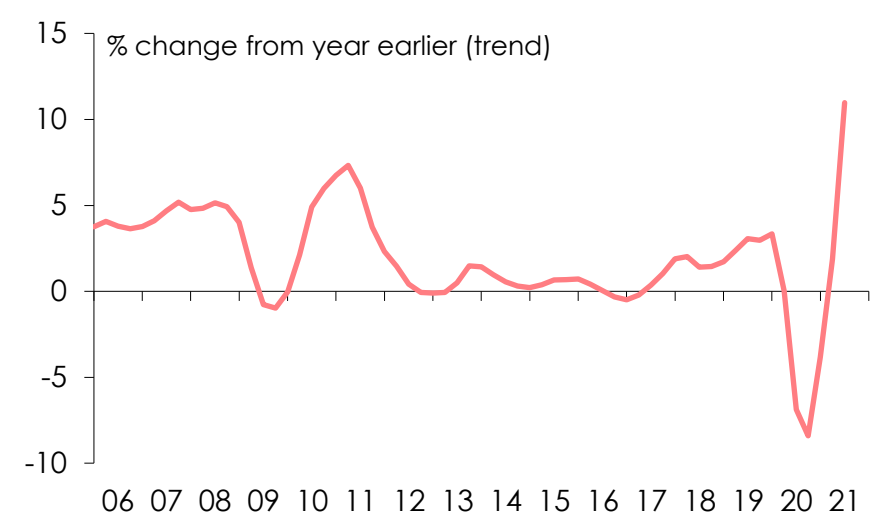
WPI – private vs public sectors



WPI and 'underlying' CPI inflation



Unit labour costs



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

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)

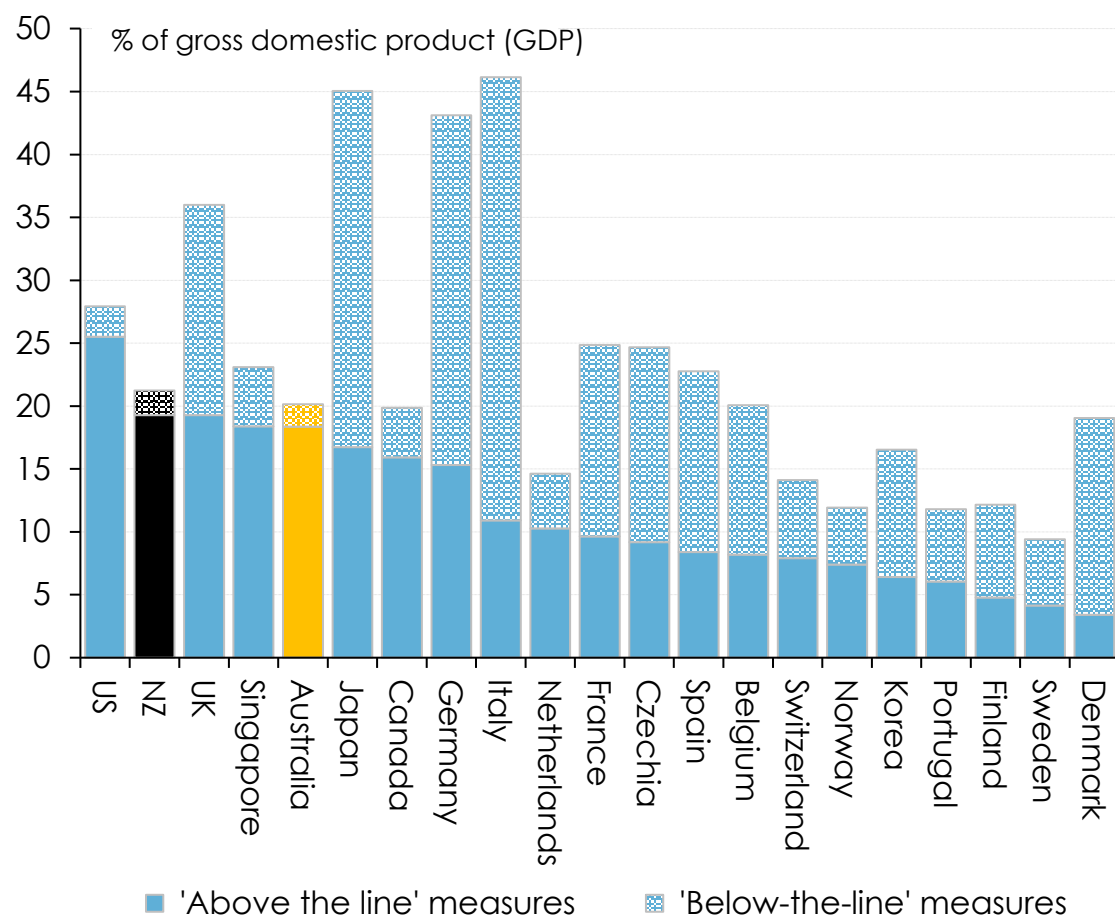
- ❑ The OECD's latest [Economic Survey of Australia](#) (the first in nearly three years) projects economic growth of 4% this year and 3.3% next year, with the unemployment rate falling from an average of 5.4% in 2021 to 4.9% in 2022 (assuming "strict containment measures remain in place in NSW and Victoria 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
 - 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"
 - 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"
- ❑ Most if not all of these are unlikely to be implemented

... and the OECD's recommendations were backed up by the IMF (not that that is likely to make any difference)

- ❑ The OECD's recommendations were 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”

The Government's fiscal policy response to Covid-19 now exceeds 18% of GDP – compared with the 'advanced' economy average of 11¼%

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

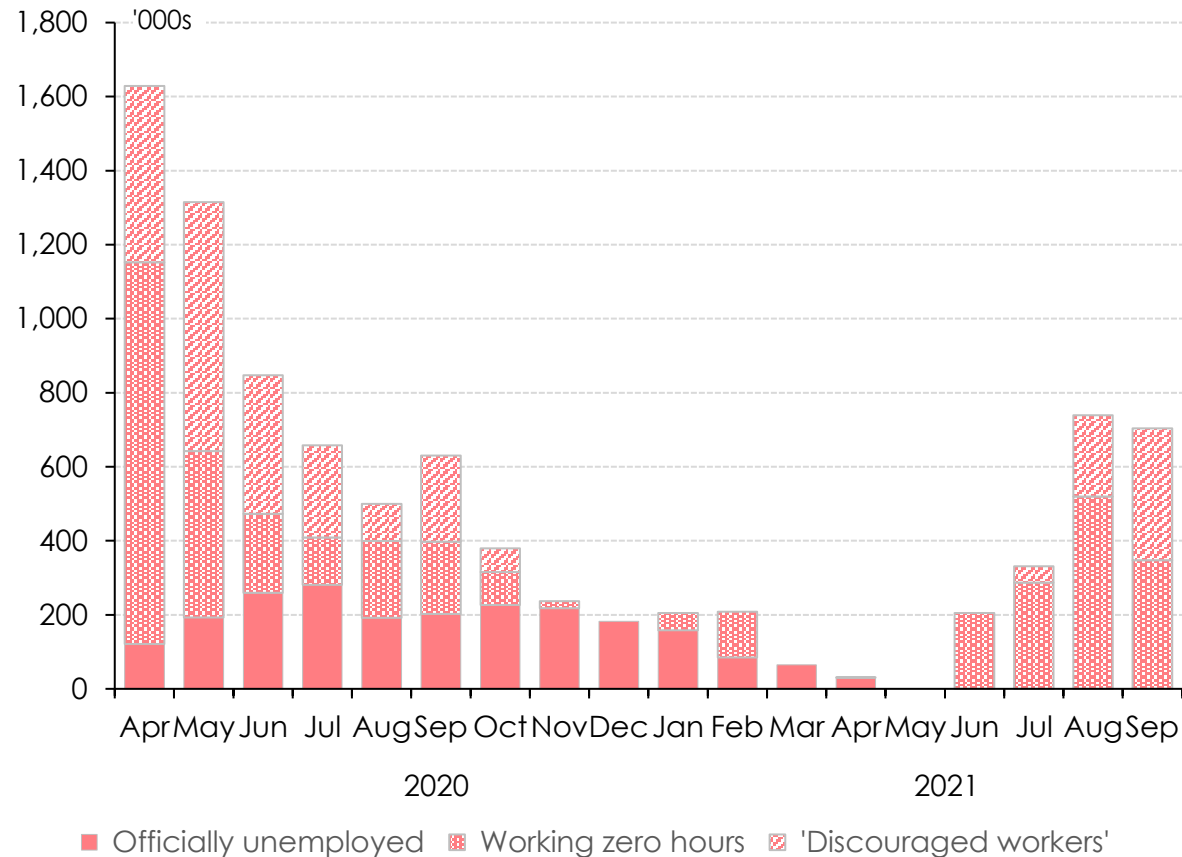


Note: 'Above the line' measures comprise additional or accelerated spending and deferred or foregone revenue. 'Below the line' measures comprise equity injections, loans, asset purchases and debt assumptions, but do not include loan guarantees or other contingent liabilities. 'DMs' means 'developed markets' (or 'advanced economies'). Data includes measures announced up until 27th September 2021. Source: IMF, [Fiscal Monitor Database of Country Fiscal Measures in Response to the COVID-19 Pandemic](#), October 2021. [Return to "What's New"](#).

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

Government support payments for those affected by lockdowns will be phased out after vaccination rates pass 70%

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

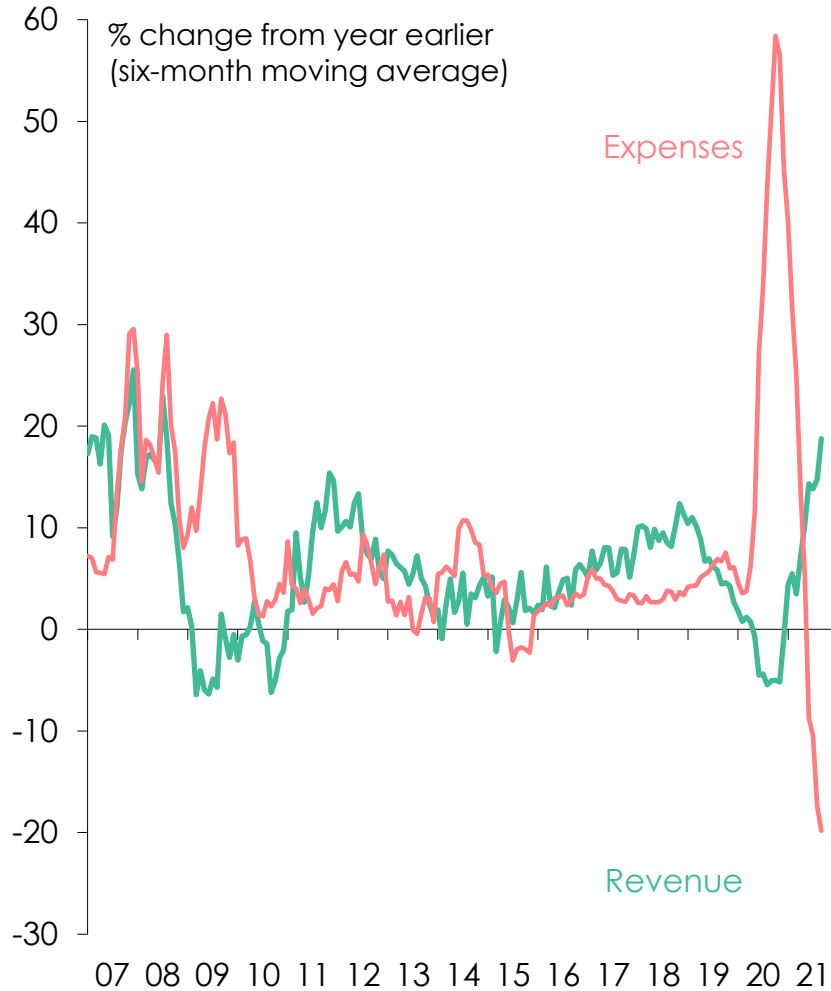


Note: Numbers depicted in the above chart are derived as the difference between the number of people in each category in the months shown and the number in those categories in March 2020. People 'working zero hours' excludes those doing so because they are on annual or other types of leave. 'Discouraged 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](#), September 2021; Commonwealth Department of Health, [Covid-19 Vaccine Roll-out](#), 22nd October 2021; Corinna. [Return to "What's New"](#).

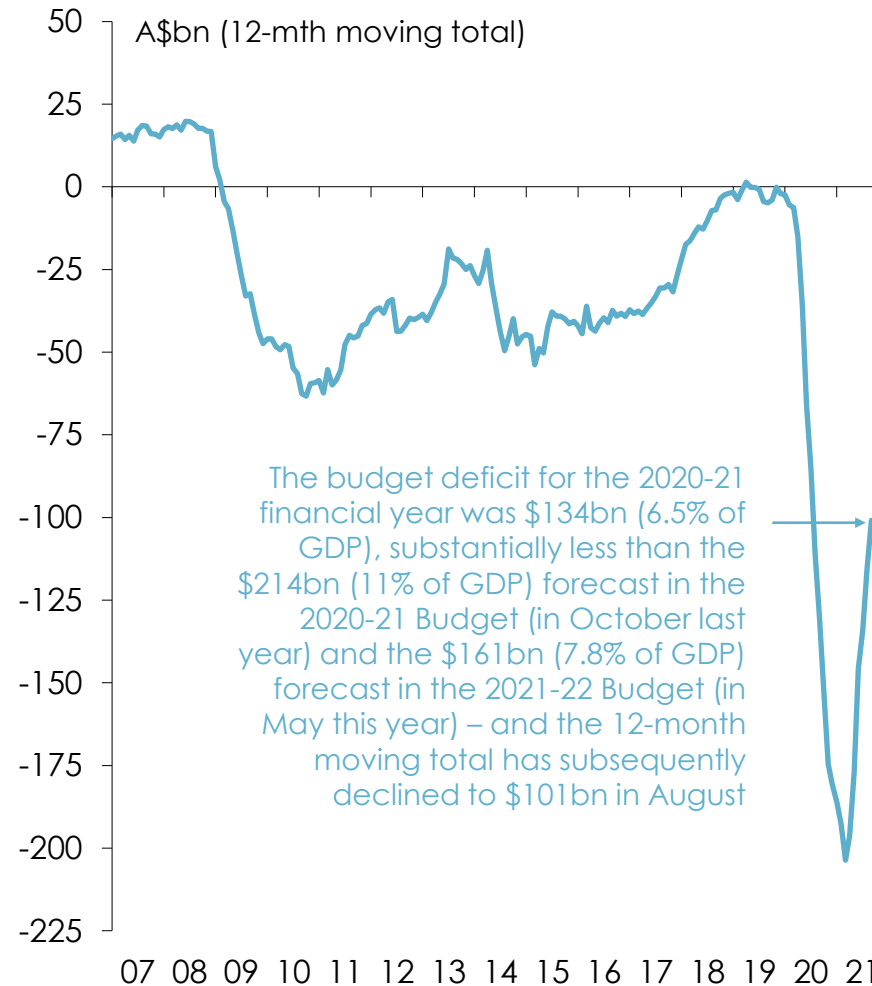
- ❑ Since the beginning of June the Federal Government has paid out \$11.6bn in [Covid-19 disaster payments](#) to 2.16 mn workers unable to earn income due to public health orders or other Covid-related restrictions
 - of this amount, \$7.3bn has been to people in NSW, \$3.7bn to Victoria, \$318mn to the ACT and \$253mn to Queensland
- ❑ The Federal Government has also paid out \$239mn in [\\$200 income support payments](#) to 178,000 people already on income support payments who have lost 8 hours or more of part-time work due to lockdowns, and \$145mn in [pandemic leave disaster payments](#) to 90,000 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 Government has [announced](#) that it will cease making these payments automatically in states where 70% of the over-16 population have been fully vaccinated, and that once more than 80% have been fully vaccinated, payments will be 'tapered' over a 3-week period

The budget deficit for 2020-21 was \$80bn less than originally anticipated, and \$27bn less than estimated almost five months ago

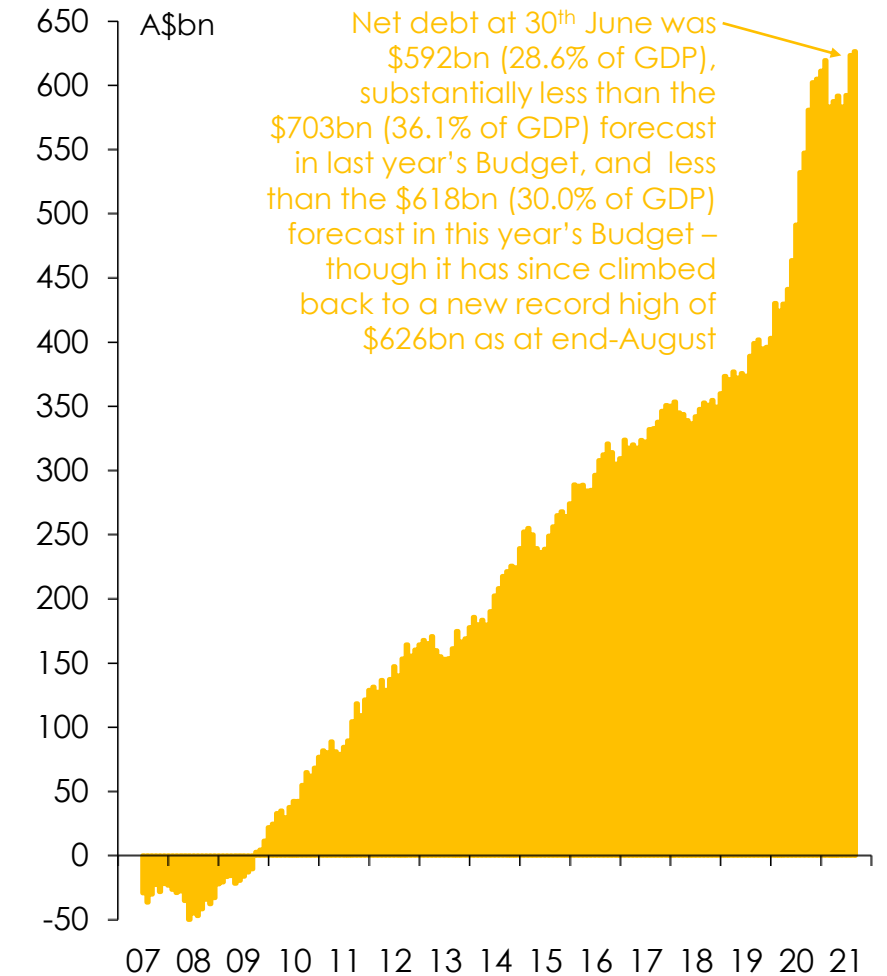
Australian Government revenue and expenses



Australian Government 'underlying' cash balance



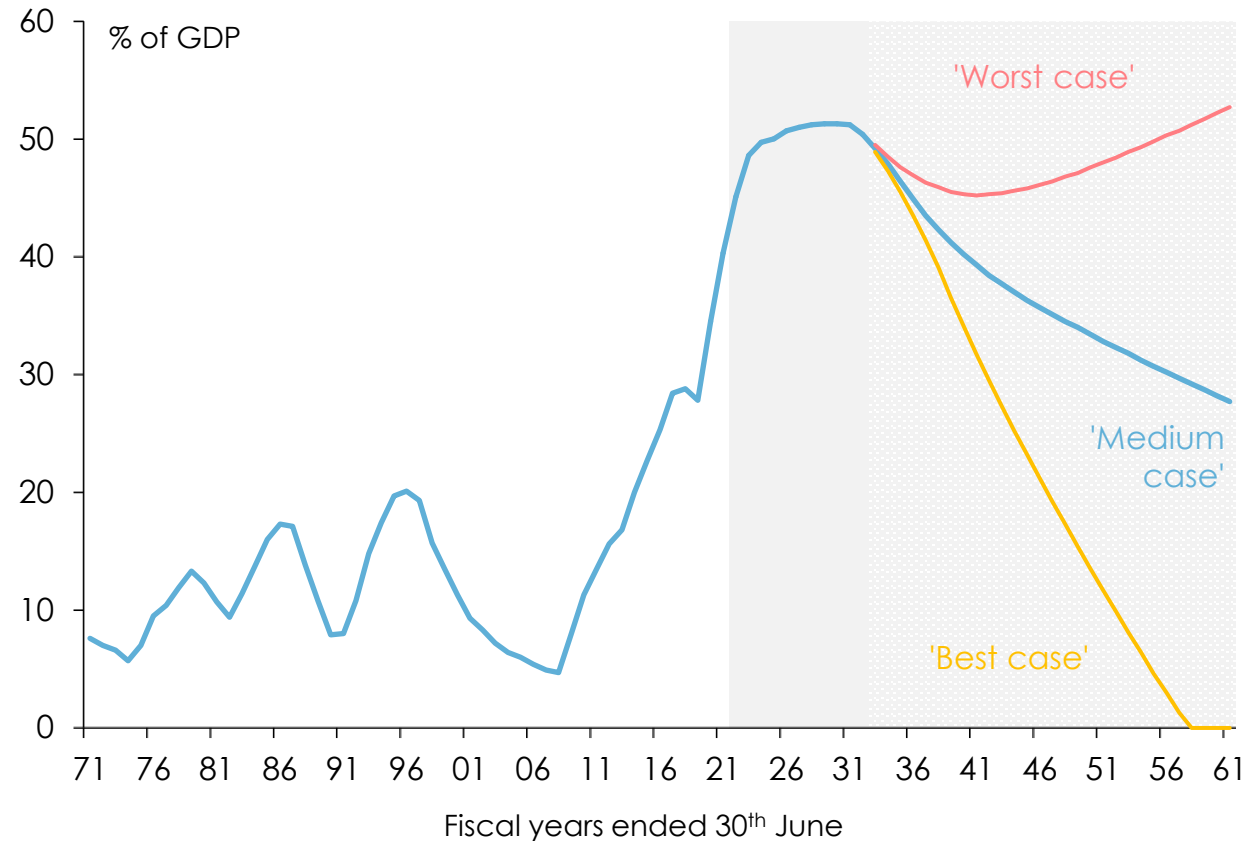
Australian Government net debt



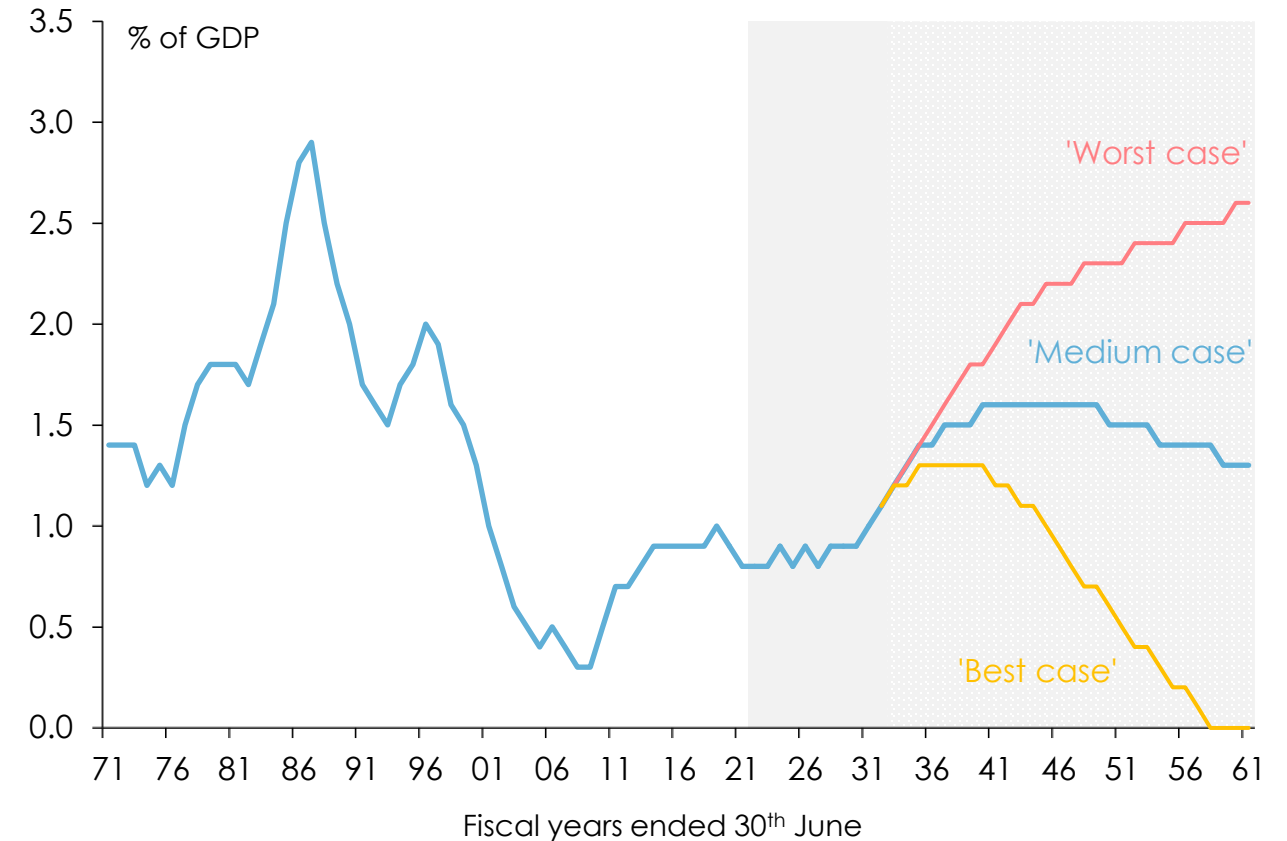
Note: Revenue and expenses are accrual accounting items. The 'underlying' cash balance is (cash) receipts minus payments, excluding transactions in financial assets for policy purposes and net earnings of the Future Fund. Net debt is total interest-bearing liabilities (government securities, deposits, loans and other borrowing) minus cash and deposits, advances paid, and (interest-bearing) loans, placements and investments. Source: Australian Government, [Final Budget Outcome 2020-21](#); Department of Finance, [Commonwealth Monthly Financial Statements](#). [Return to "What's New"](#).

Analysis by the Parliamentary Budget Office suggests the debt which the Government has incurred is sustainable under a wide range of scenarios

PBO projections of Commonwealth Government gross debt



PBO projections of Commonwealth Government interest payments

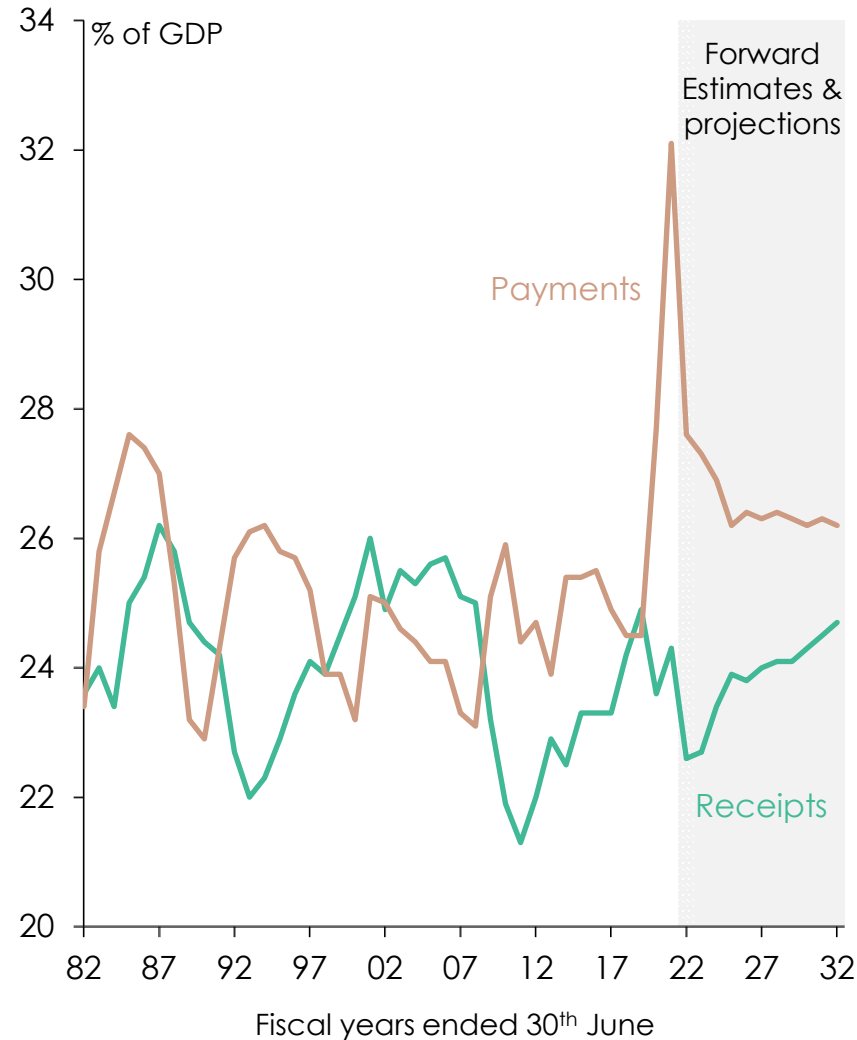


- ❑ The PBO derived projections of gross debt and interest payments over the next 40 years based on 27 combinations of different assumptions about economic growth, interest rates and the budget balance
- ❑ Under all of these scenarios (even the 'worst case'), both total debt and debt-servicing costs remain within the bounds of historical experience

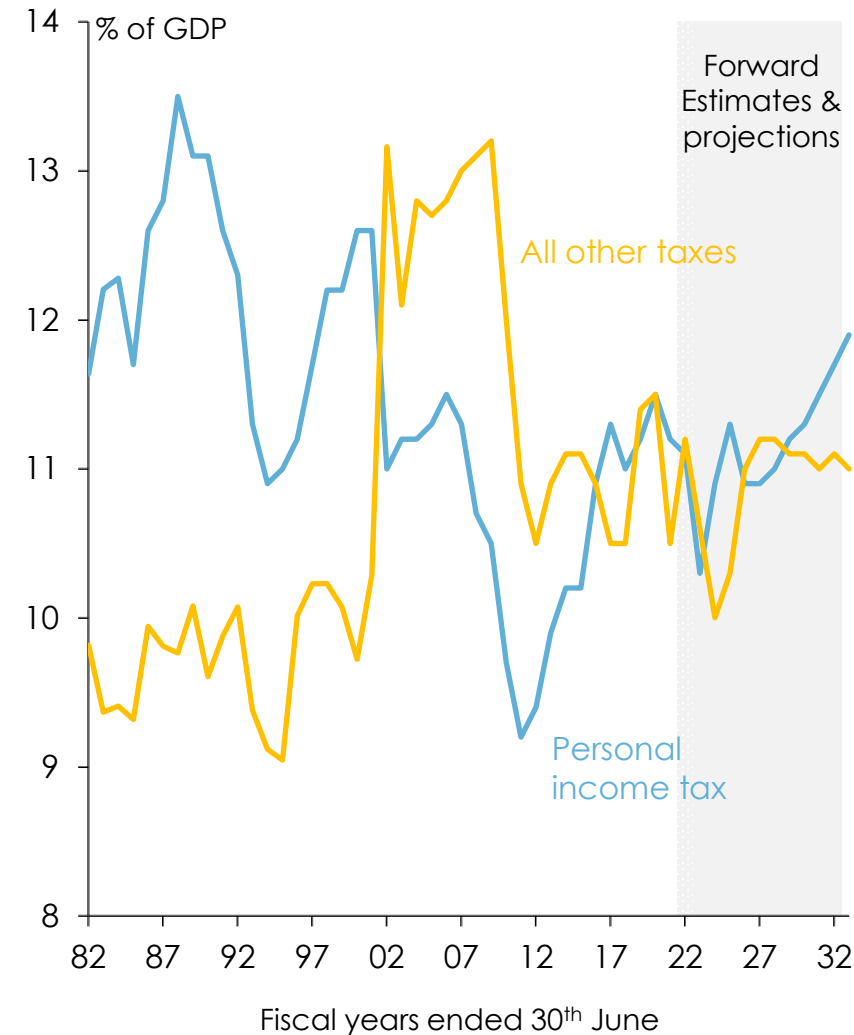
Source: Parliamentary Budget Office, [Beyond the Budget: Fiscal outlook and scenarios](#), 21st September 2021. [Return to "What's New"](#).

Australia's problem is that the Government will be relying solely on rising personal income tax collections to keep the deficit on a declining path

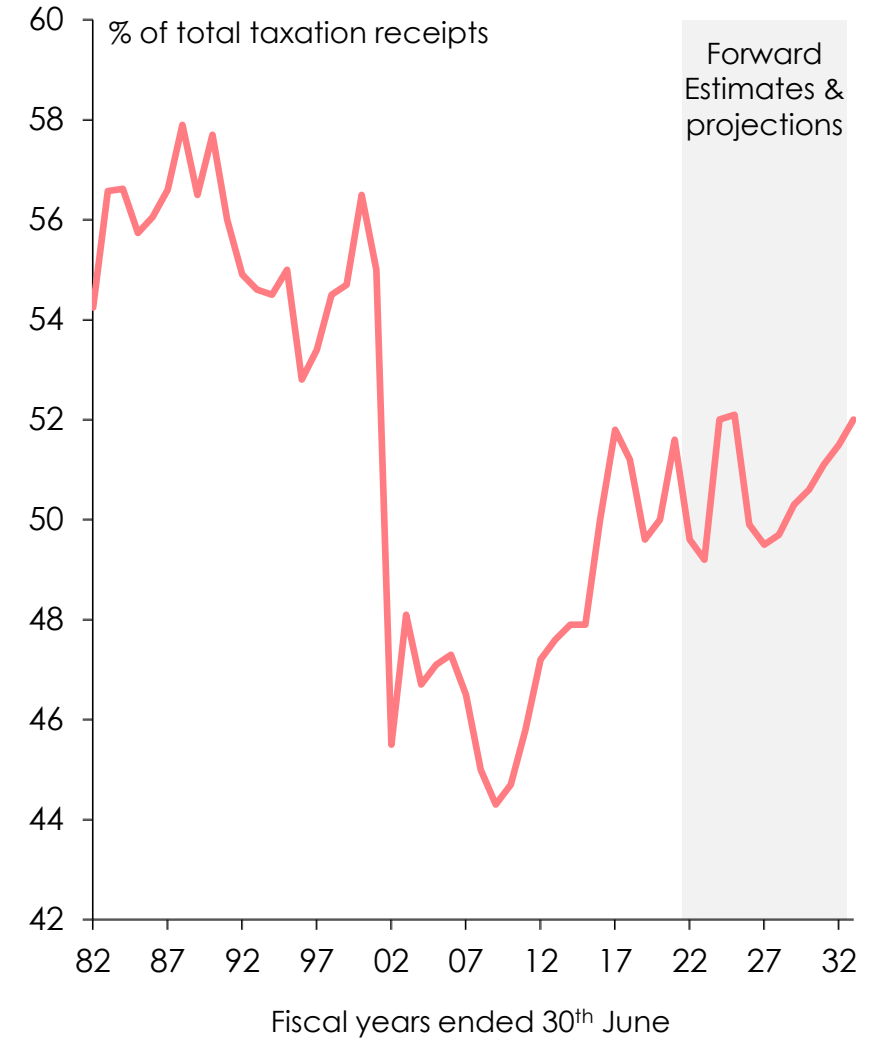
Commonwealth Government receipts and payments



Personal income tax and other tax receipts as pc of GDP

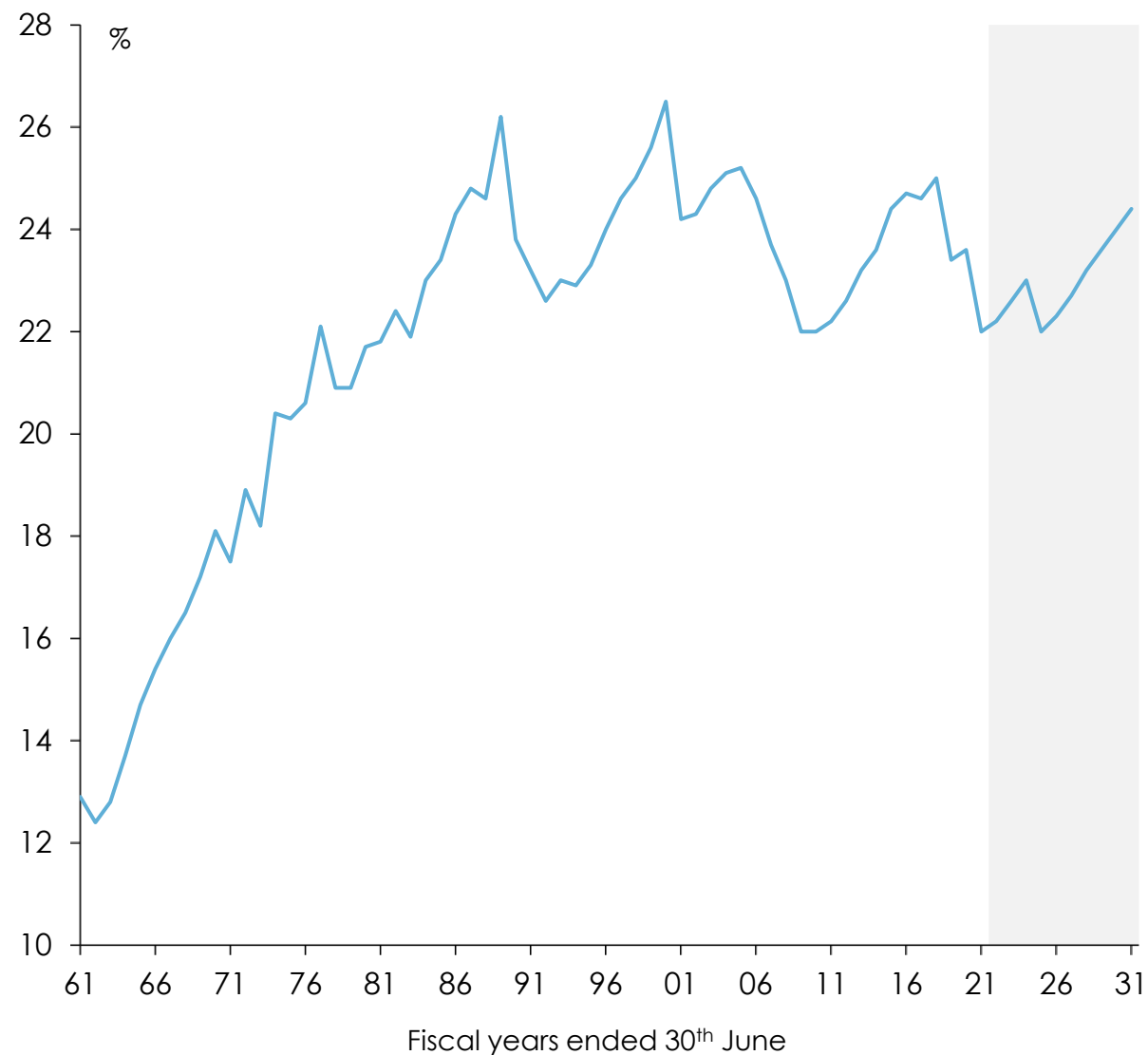


Personal income tax receipts as a pc of total tax receipts

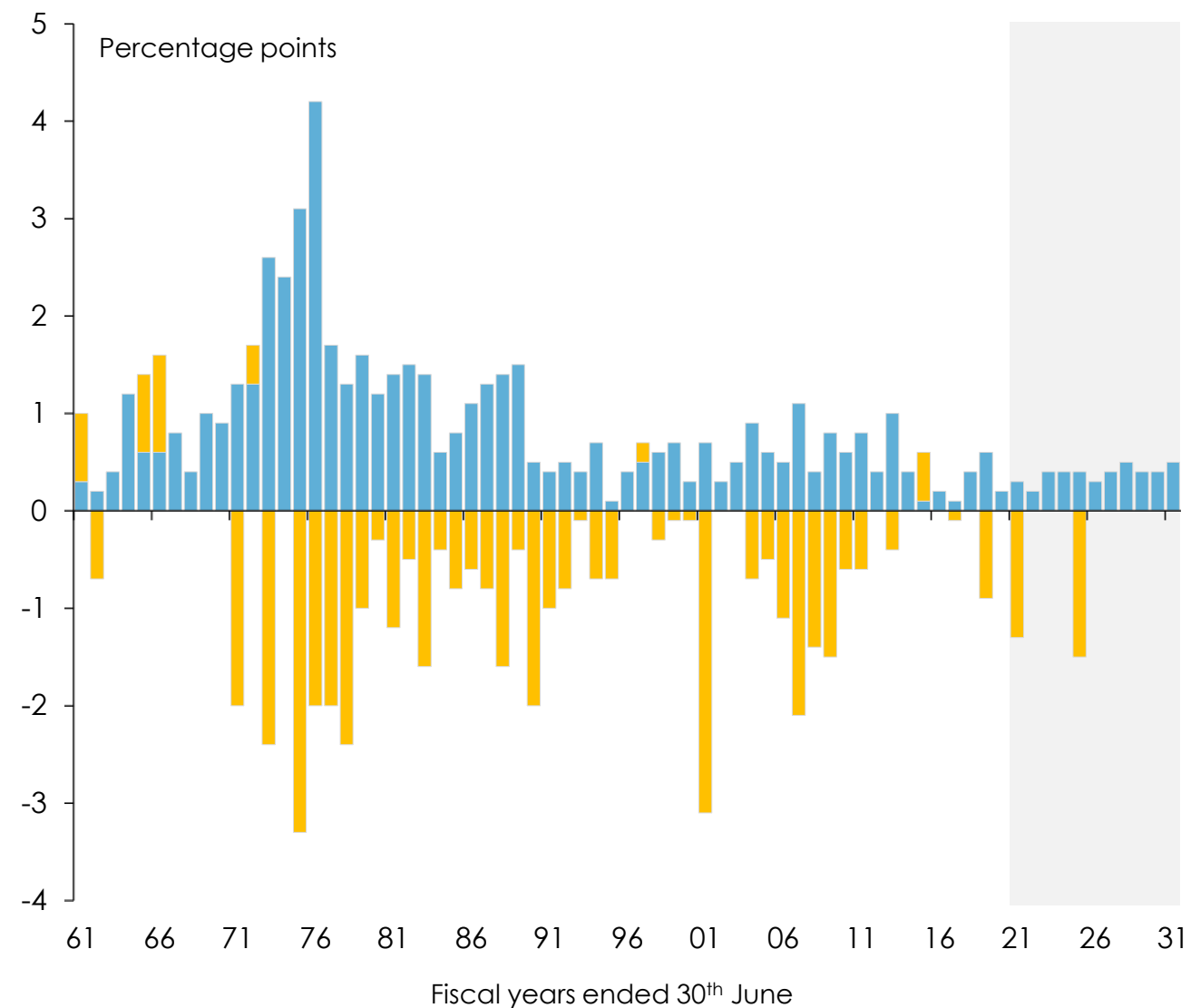


And the prospective increase in personal income tax collections *isn't* the result of a conscious policy decision, but is rather due to 'bracket creep'

Average personal income tax rate



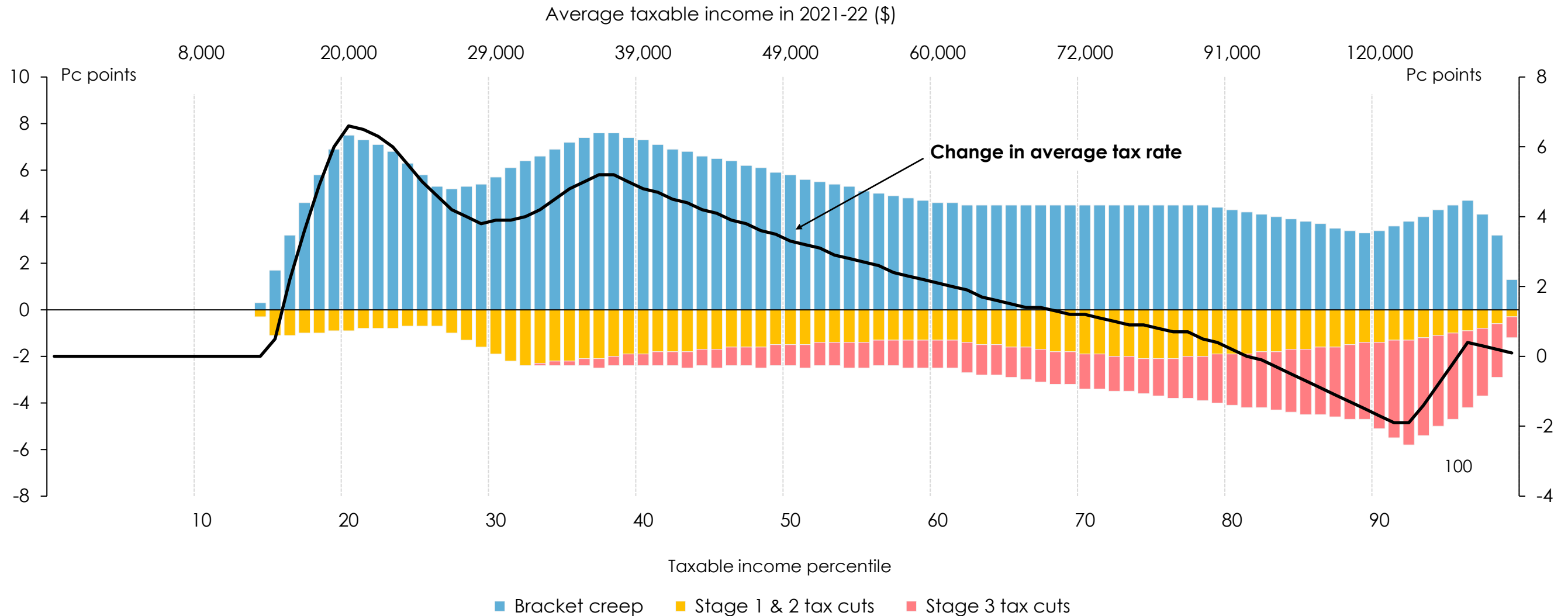
Source of changes in average personal income tax rates



Source: Parliamentary Budget Office, [Bracket creep and its fiscal impact](#), 29th September 2021. [Return to "What's New"](#).

'Bracket creep' disproportionately impacts taxpayers with incomes of between \$20,000 and \$50,000 per annum

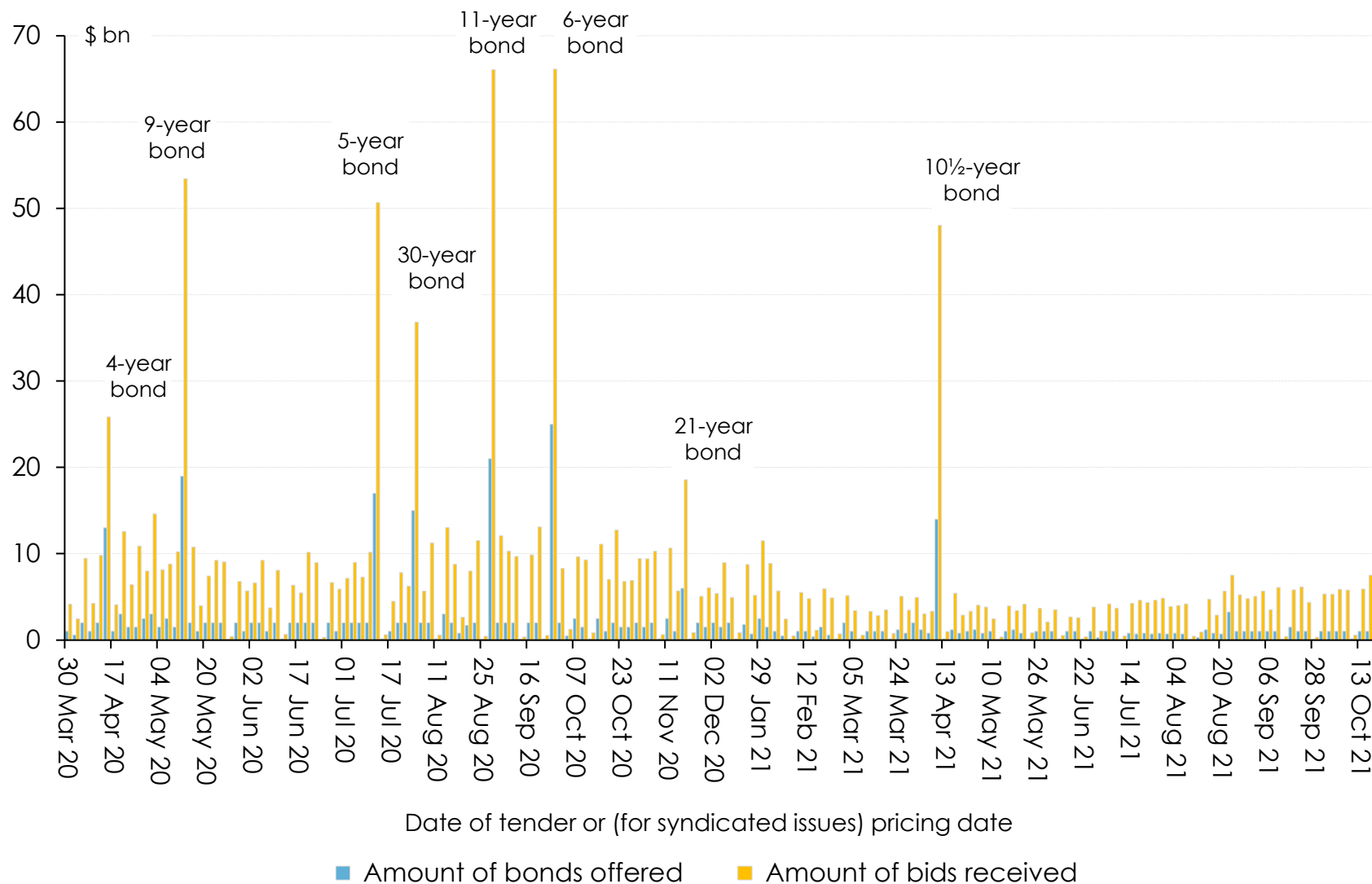
Change in average tax rates between 2021-22 and 2031-32 by taxable income percentile



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

The Government continues to find a ready appetite for its bond issuance – so far this fiscal year it's received \$153bn of bids for \$31bn of bonds

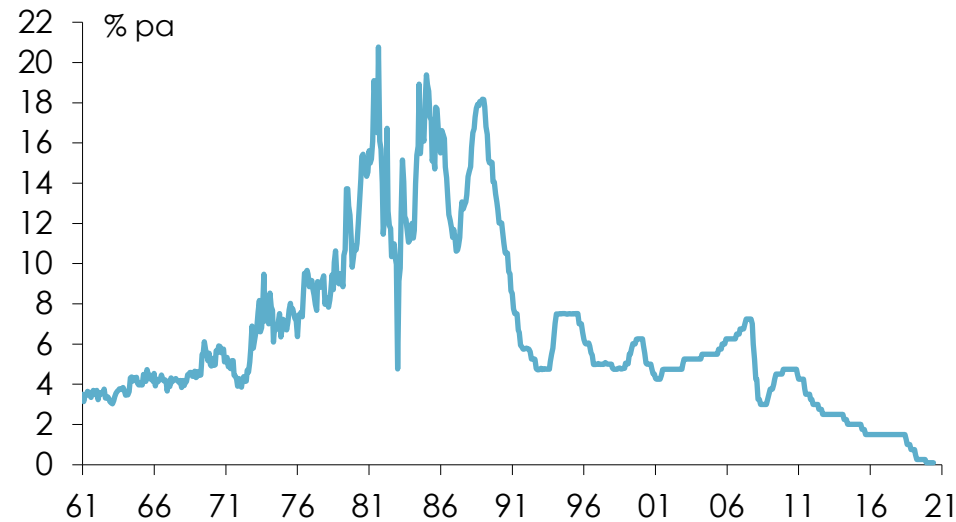
Australian government bond issuance since March 2020



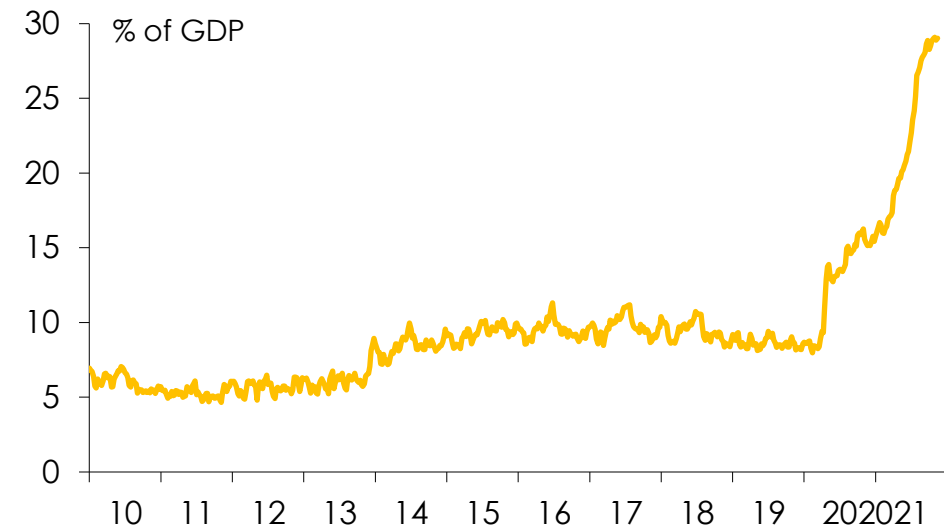
- ❑ Since 30th March 2020, the Australian Office of Financial Management has issued \$327bn of Treasury bonds – based on the volume of bids received it could have borrowed more than \$1.2 trn with yields at most 4 bp (0.04 of a pc point) above the highest yields actually accepted
- ❑ The AOFM only conducted one bond tender this week, for \$1.5bn of 11½-year bonds, for which it received bids totalling \$4.5bn, and sold at an average yield of 1.83%
- ❑ So far this financial year, the AOFM has received bids totalling more than \$153bn for the \$31.8bn of bonds it has offered for sale – a ‘coverage ratio’ of 4.8 times, cf. 3¾ times during the 2020-21 financial year

The minutes of this month's RBA Board meeting indicate that the RBA is confident of a rebound in employment and not concerned about inflation

Reserve Bank cash rate



Reserve Bank assets as a pc of GDP



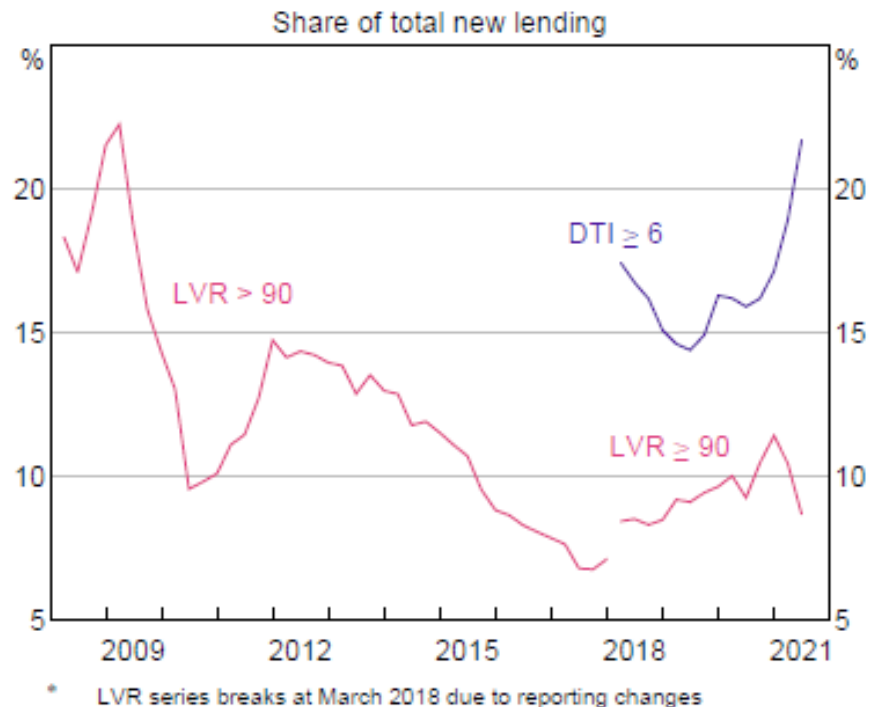
- ❑ The Reserve Bank left all of its monetary policy settings unchanged at its October Board meeting, as universally expected
- ❑ The [minutes](#) of that meeting released this week show that RBA Board members were confident that the setback to the recovery in economic activity resulting from the lockdowns in NSW, Victoria and the ACT would be “only temporary”, with a return to growth in the (current) quarter and to its “pre-Delta path” in the second half of next year
 - although the recovery was “likely to be slower than in late 2020/early 2021”
- ❑ The minutes suggest the RBA is anticipating a rapid rebound in employment, noting that “forward indicators of labour demand had been much more resilient” than during last year’s lockdowns, and that firms had been “reluctant to lay off staff given their experience with labour shortages and strong labour demand prior to the delta outbreak”
- ❑ However, they also record that there appeared to be little sign of the inflationary pressures being experienced in other economies in Australia
 - “most firms’ expectations for wages growth ... were returning to pre-pandemic norms – even in industries that had experienced strong labour demand, wages growth remained subdued”
 - and “underlying inflation pressures in Australia were more moderate than in other advanced economies [reflecting] a range of factors, including the relatively slow growth rate of wages growth”

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

The RBA's latest Financial Stability Review cautions against "exuberance" resulting from rapidly rising property prices

- ❑ The Reserve Bank's latest semi-annual [Financial Stability Review](#) (published on Friday) draws attention to "a build-up of systemic risks associated with high and rising household indebtedness" in Australia, and warns that "vulnerabilities could build further if housing market strength gives way to exuberance"
 - it is concerned that "unsustainable debt trends could emerge in an environment of rapidly rising property prices and extrapolative expectations" with "a greater chance of disorderly future price corrections"
- ❑ The RBA points to "some increases in particular forms of mortgage lending that are typically considered to be more risky"
 - in particular, lending at high debt-to-income (DTI) ratios and at high loan-to-value (LVR) ratios

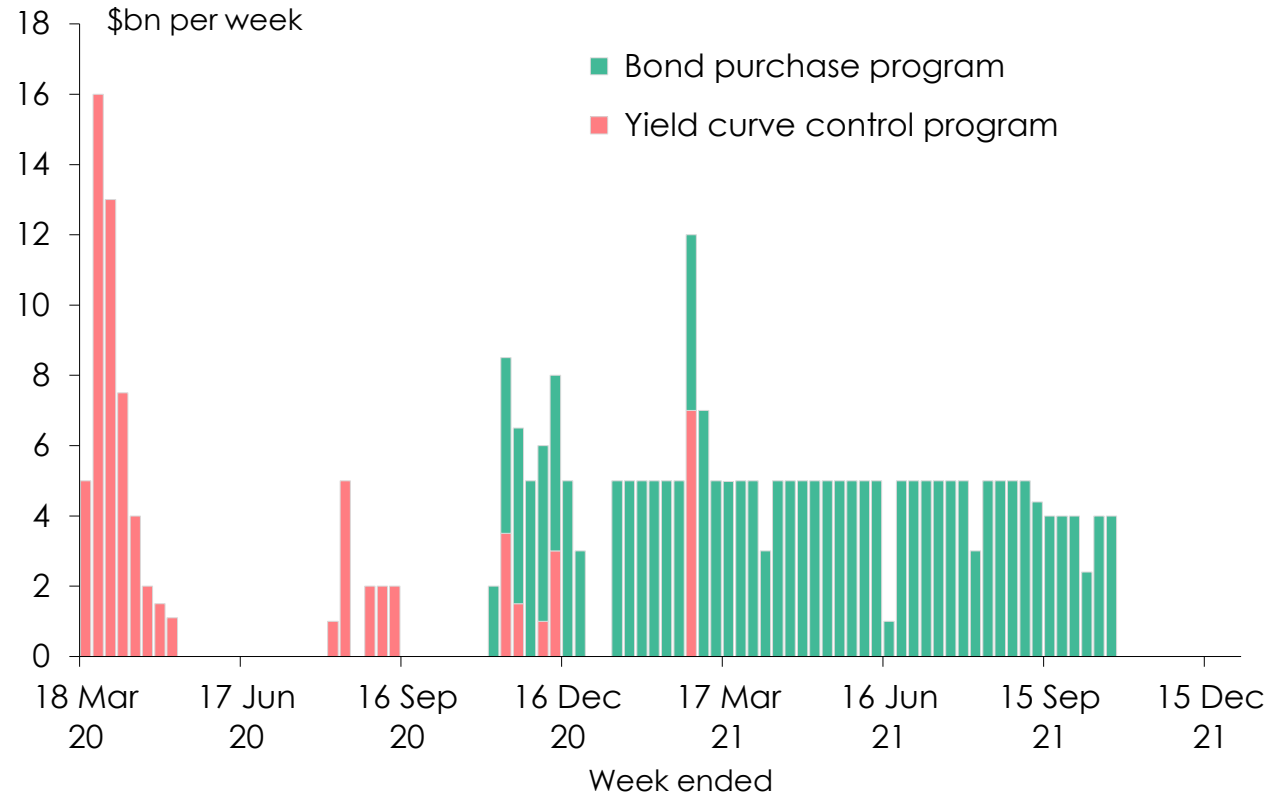
Characteristics of housing loans



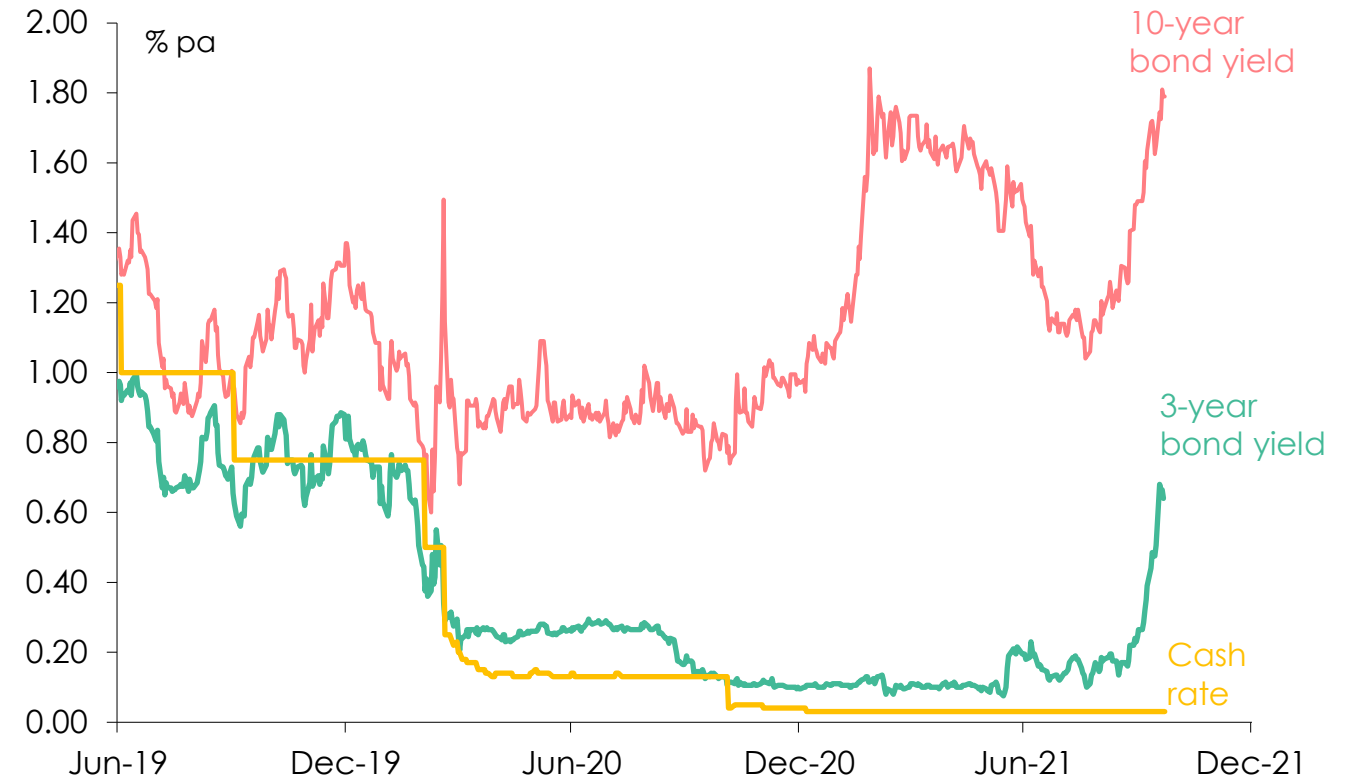
- ❑ The rise in high LVR lending was largely the result of the increase in demand from first-home buyers (FHBs), prompted by elevated government grants, which has now passed
 - "in practice, FHBs are no more likely to report financial stress, difficulty repaying their mortgages or losing their job than other indebted households"
- ❑ The more recent increase in high DTI lending reflects the increase in the share of loans going to investors combined with higher demand for 'bridging loans' from repeat purchasers
- ❑ The RBA also foreshadows a rise in business insolvencies "as vulnerable businesses exhaust their cash buffers"
 - although it notes that recent increases in property prices will help some businesses (with loans secured by residential property) avoid insolvency, and that recent changes to the insolvency framework should "improve outcomes for businesses and their creditors"

Australian long-term bond yields resumed their previous upward trend in the early part of this week, spurred by the NZ CPI and rising US yields

RBA open market bond purchases



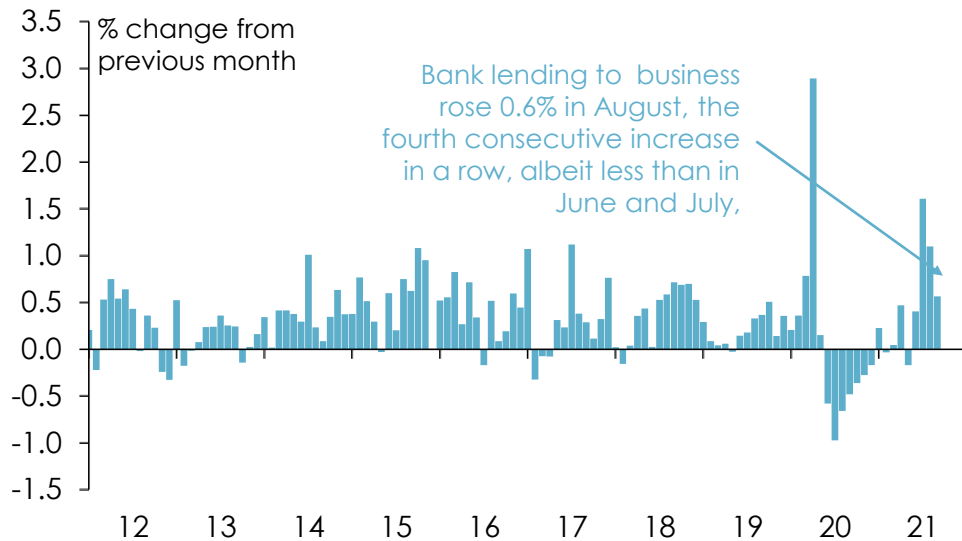
Interest rates



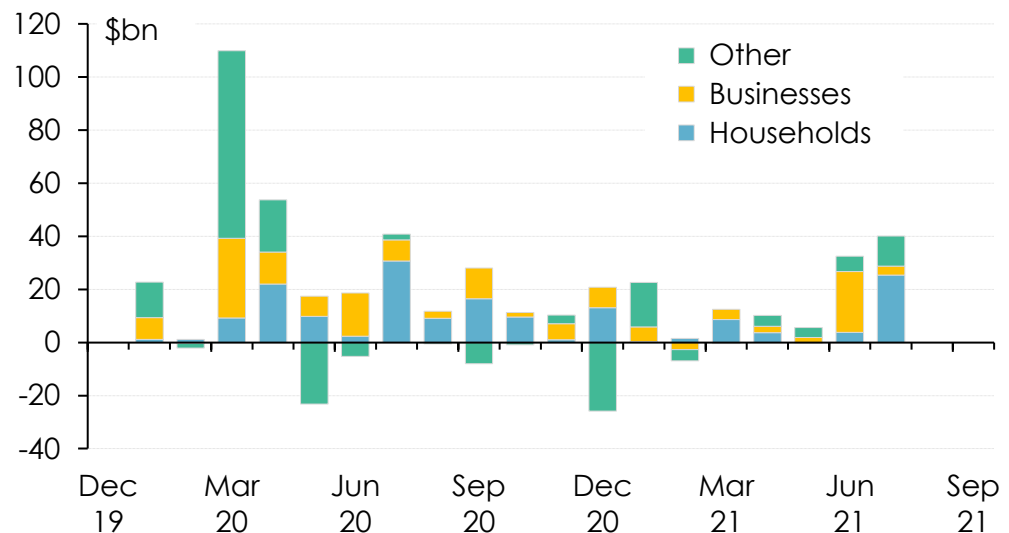
- ❑ The Reserve Bank purchased just the usual \$4bn of bonds this week – bringing its total purchases since March last year to just under \$304bn (15¼% of GDP)
- ❑ Bond yields continued rising sharply over the first half of this week, in line with US trends and following the outsized increases in New Zealand’s Q3 CPI reported on Monday – the 3-year yield peaked at 0.68% and the 10-year yield at 1.81% (in each case the highest since late February last year) before stabilizing towards the end of the week
- ❑ The 10-year spread over US Treasuries peaked at 16bp mid-week, the widest since mid-March this year, a turnaround from -23 bp in mid-August

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

Business credit outstanding



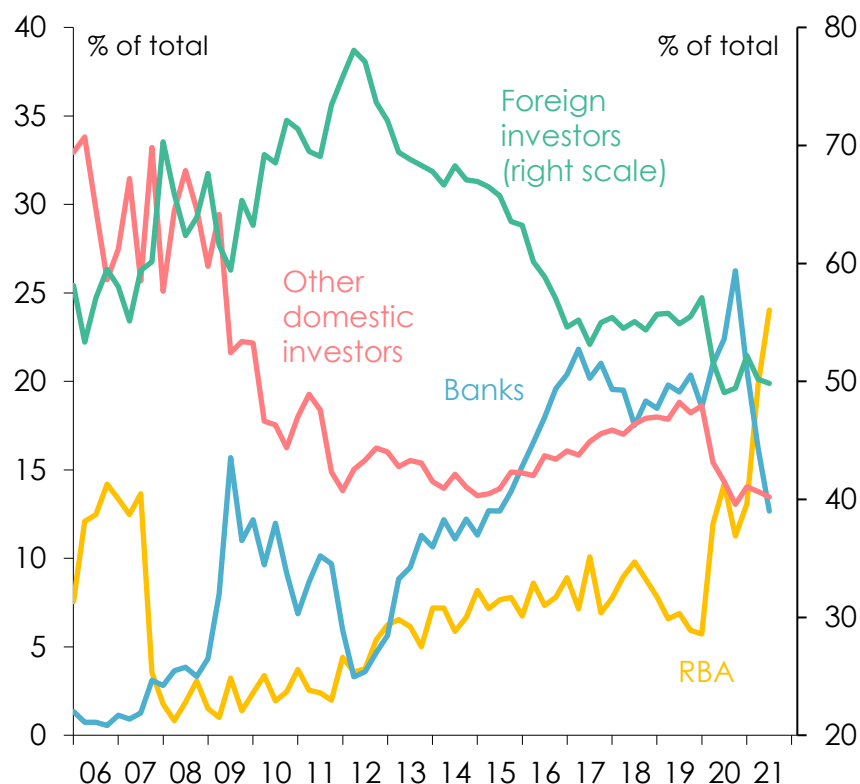
Monthly change in bank deposits



- ❑ Banks have cut interest rates on small business loans by more than the official cash rate since June 2019 (when the RBA started cutting rates again)
- ❑ Banks have made credit readily available when needed – in the early stages of the pandemic and during the most recent lockdowns
- ❑ Banks extended ‘repayment holidays’ to business and home mortgage borrowers who requested it
 - in May last year, 11% of mortgage borrowers and 18% of SME borrowers were deferring debt service payments
- ❑ Bank deposits have swelled by \$386bn (18¼%) 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 \$183bn (18½%) since last February – of which \$36bn has been sourced from early release of superannuation savings – while business deposits have risen by \$138bn (23%)

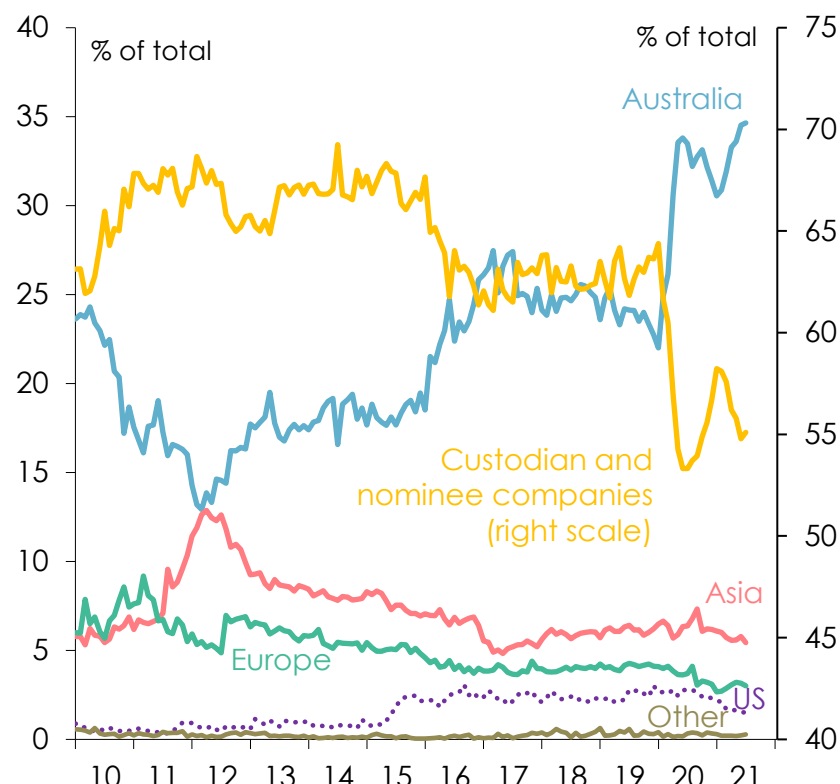
The RBA has (indirectly) absorbed almost two-thirds of the increase in government debt since the end of 2019, banks 2% and foreigners 31%

Holders of Australian Government bonds



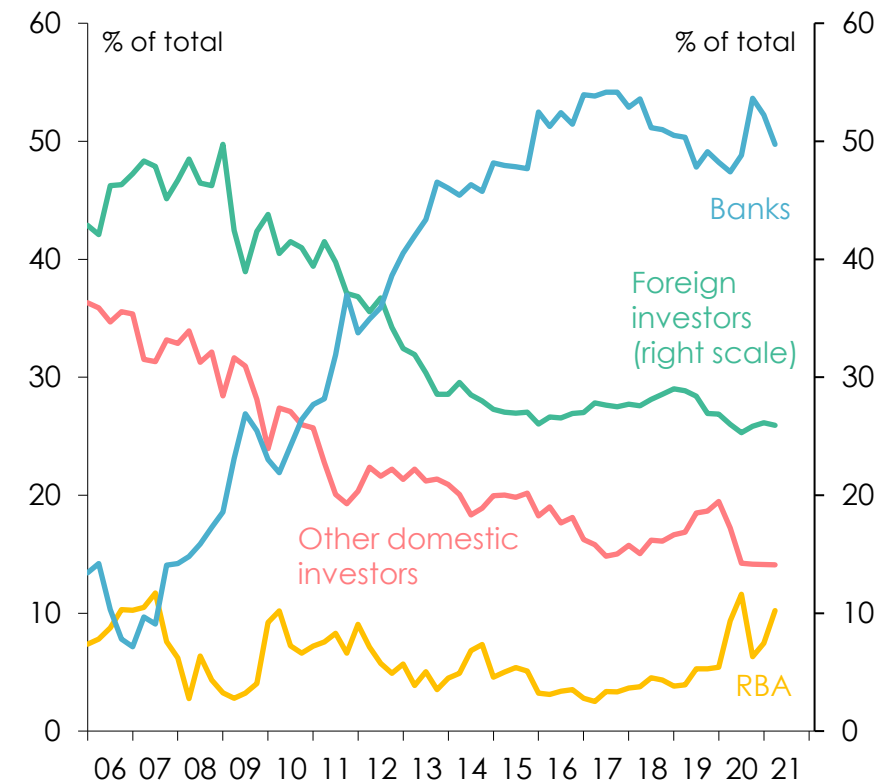
Australian Gov't bonds on issue have increased by \$237bn since the end of 2019 – of which \$173bn (73%) have been absorbed by the RBA, and \$72bn by foreigners, while banks have reduced their holdings by \$7bn

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



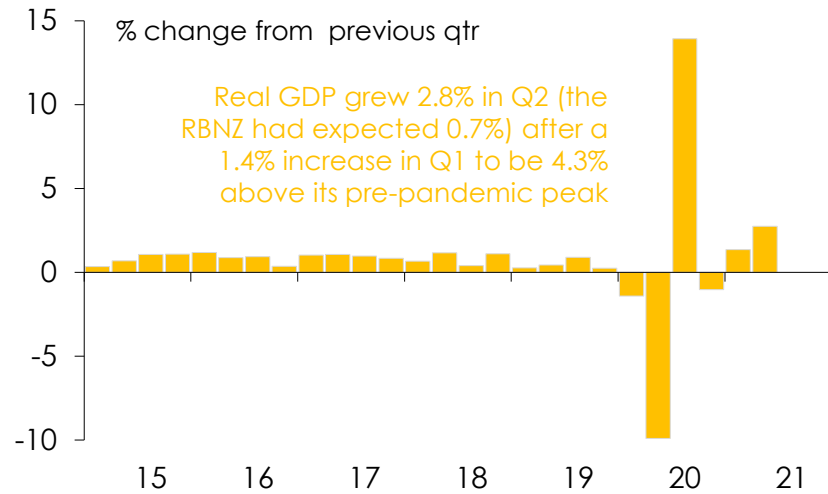
State & Territory Gov't bonds on issue increased have increased by \$107bn since the end of 2019, of which \$45bn have been absorbed by banks, \$40bn by the RBA and \$29bn by foreigners

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"](#).

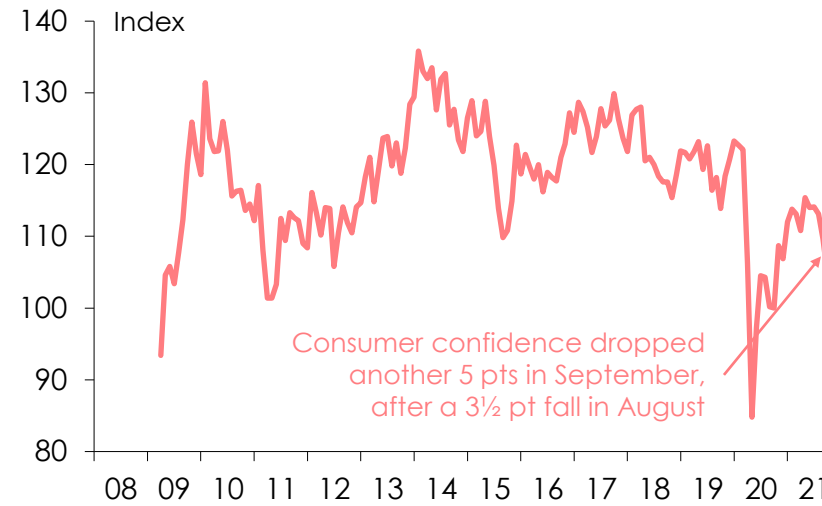
New Zealand

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

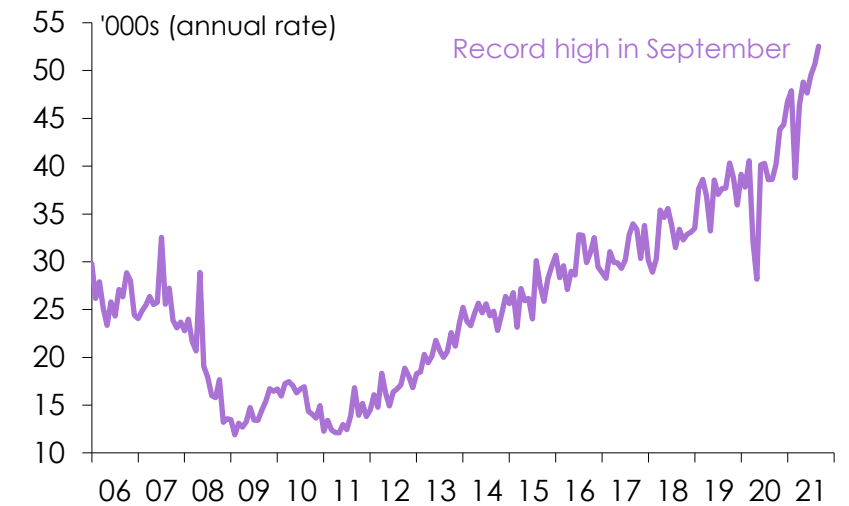
Real GDP



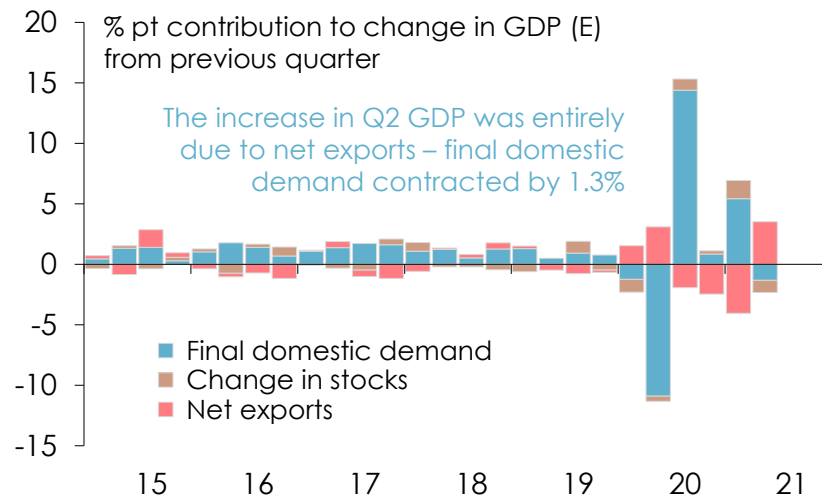
Consumer confidence



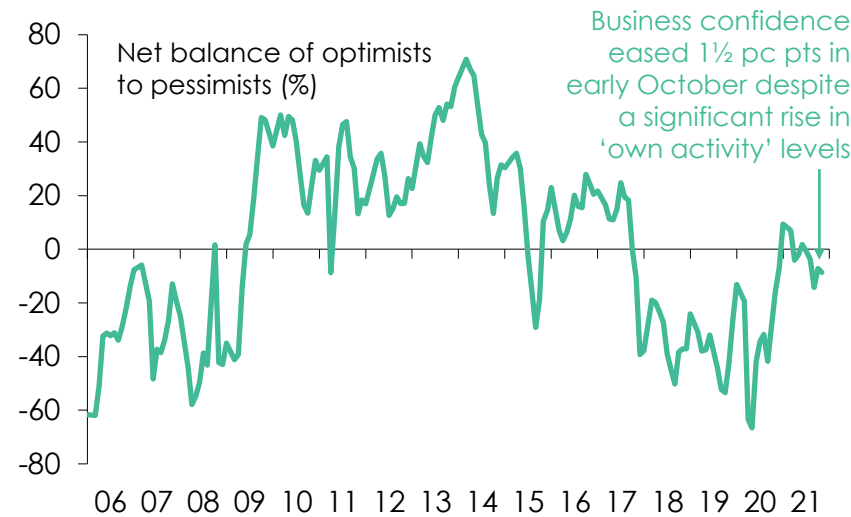
Dwelling 'consents' (permits)



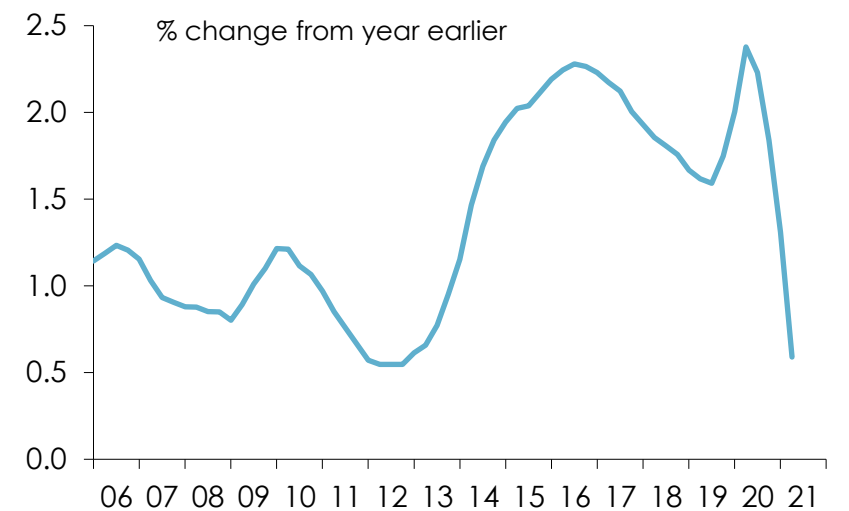
Contributions to GDP growth



Business confidence



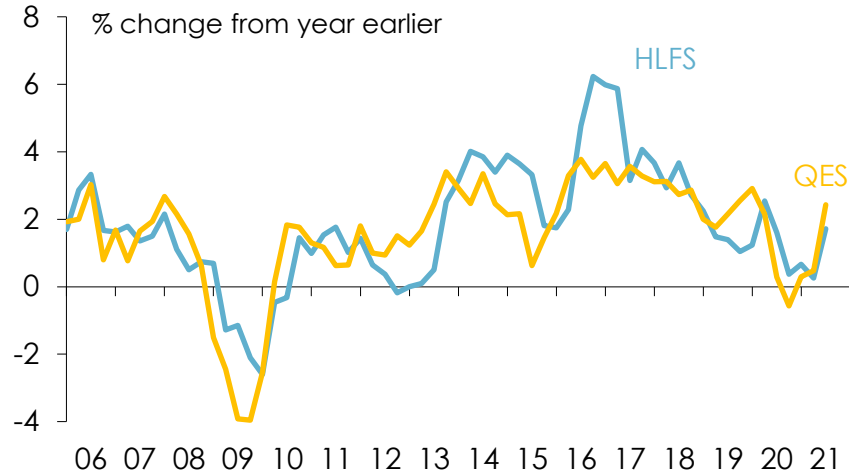
Population growth



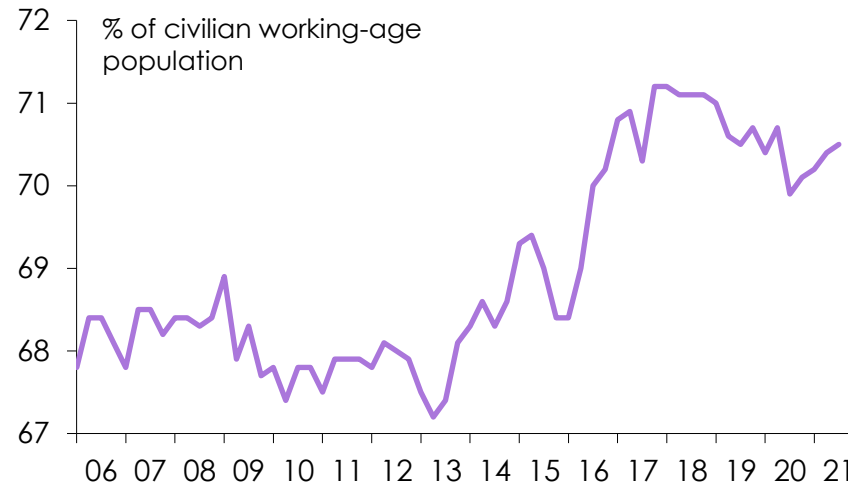
Note: New Zealand uses GDP(P) as its preferred measure of GDP. September GDP data will be released on 16th December.
Sources: [Statistics NZ](#); NZ Treasury, [Budget Economic and Fiscal Update 2021](#); ANZ-Roy Morgan; [ANZ Bank NZ](#). [Return to "What's New"](#).

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

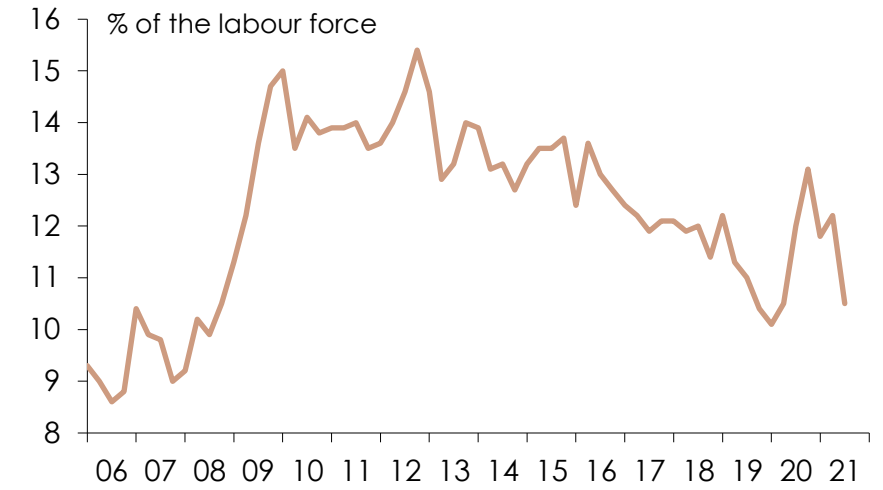
Employment



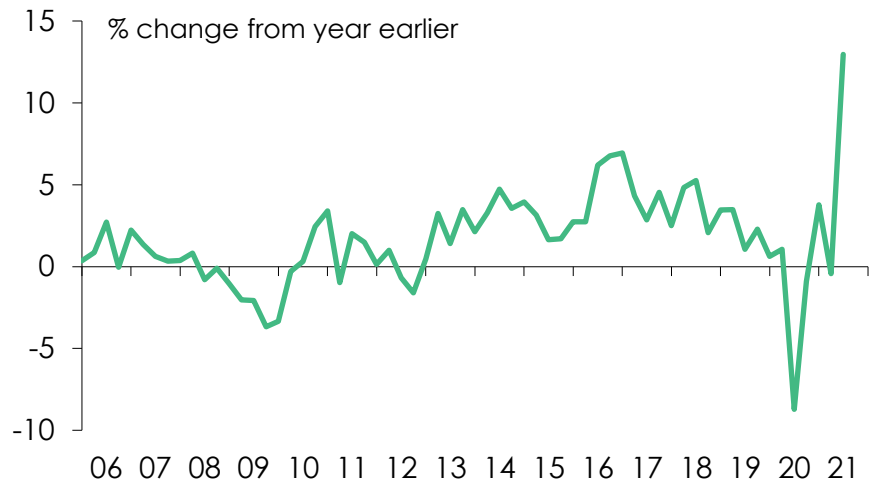
Labour force participation rate



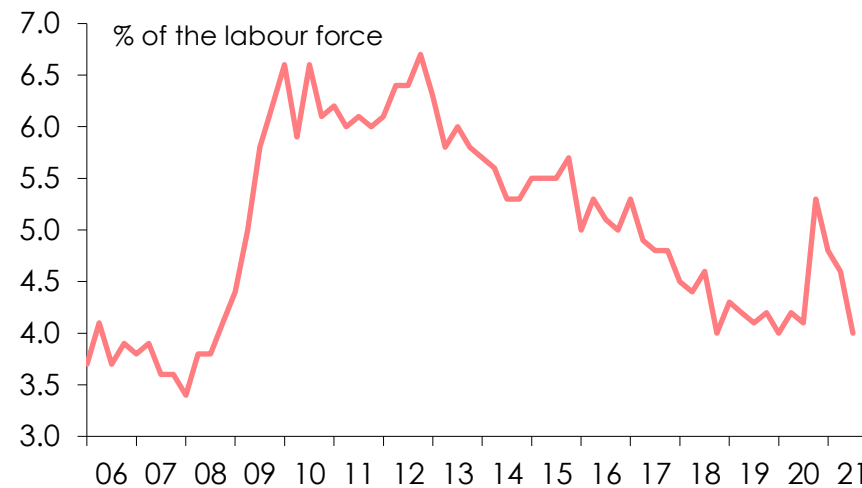
Labour force under-utilization rate



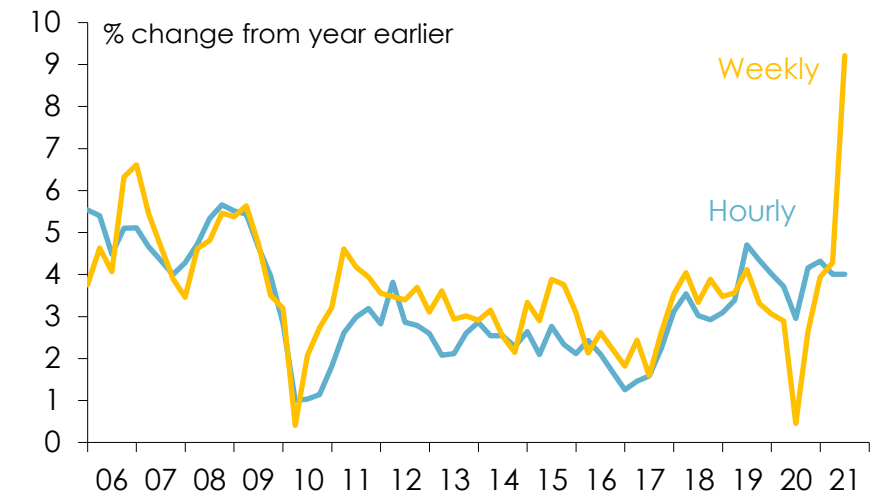
Hours worked



Unemployment rate



Average weekly earnings

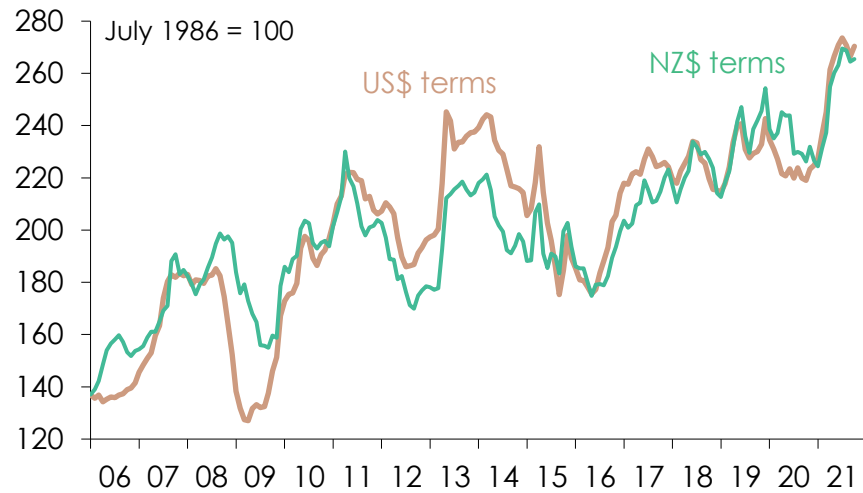


Note: New Zealand labour force data are only published quarterly. There are two 'headline' series on employment – the household labour force survey (HLFS) which counts the number of people in employment during the quarter; and the quarterly employment survey (QES), which counts the number of 'filled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

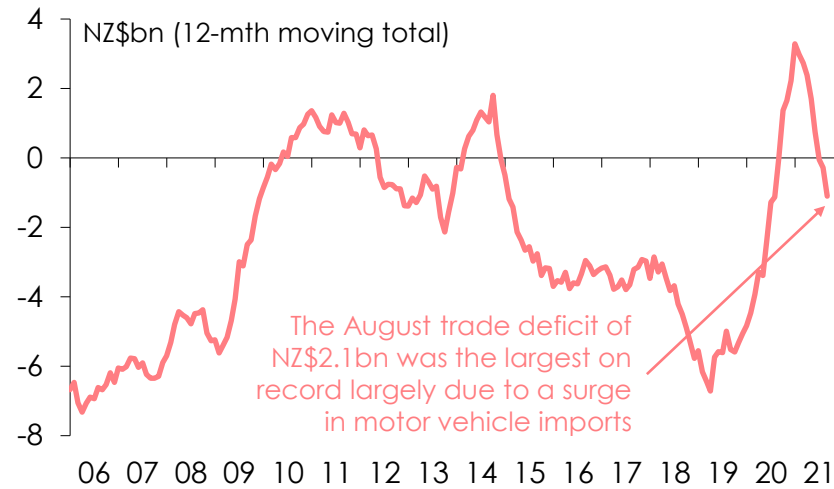
Source: [Statistics NZ](#). September quarter data will be released on 3rd November. [Return to "What's New"](#).

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

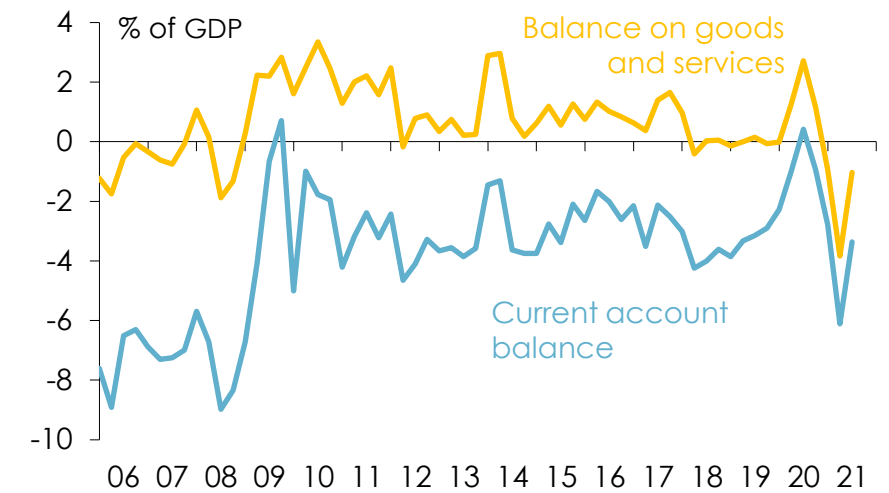
Export commodity prices



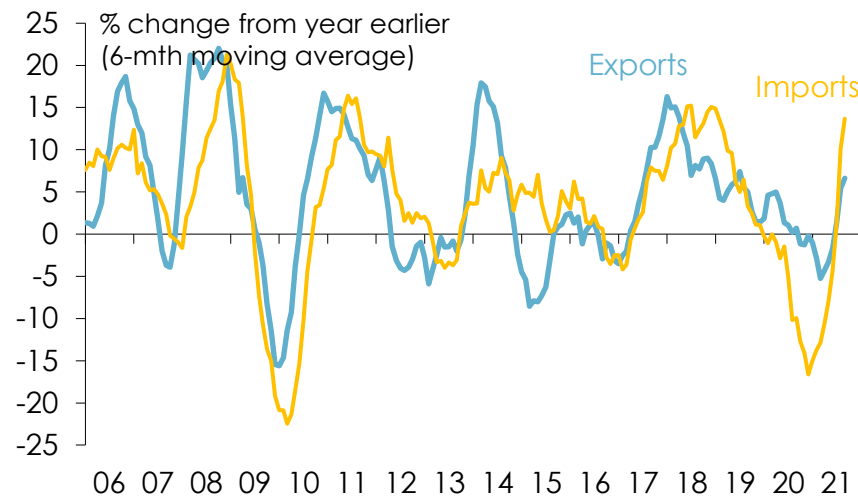
Merchandise trade balance



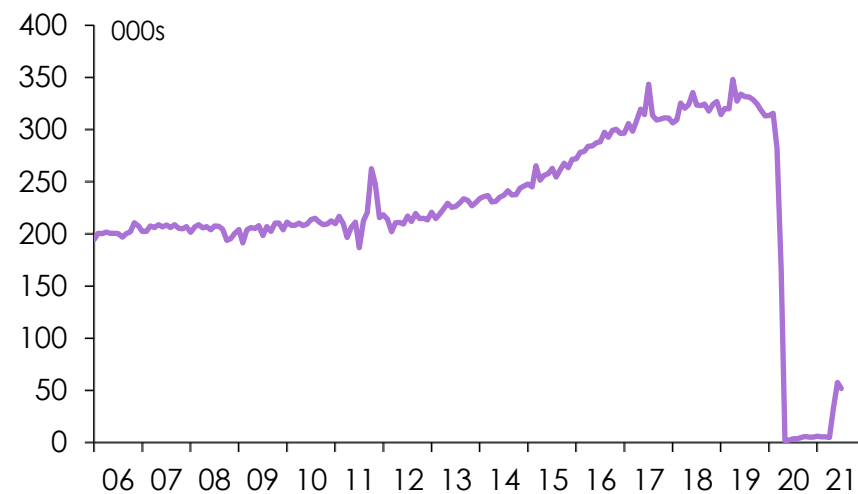
Balance of payments



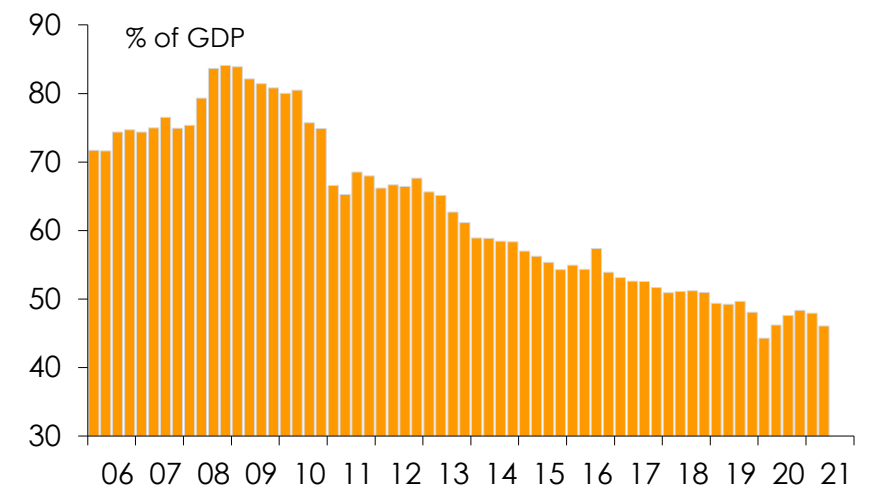
Merchandise exports and imports



Overseas visitor arrivals



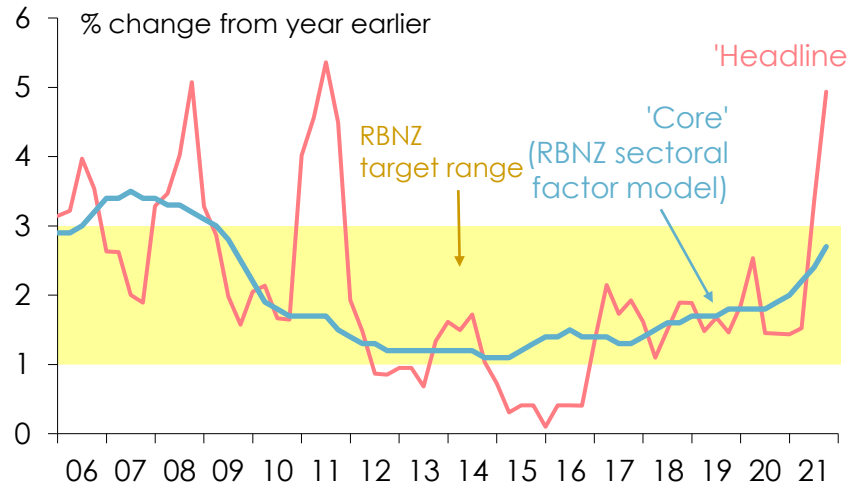
Net foreign debt



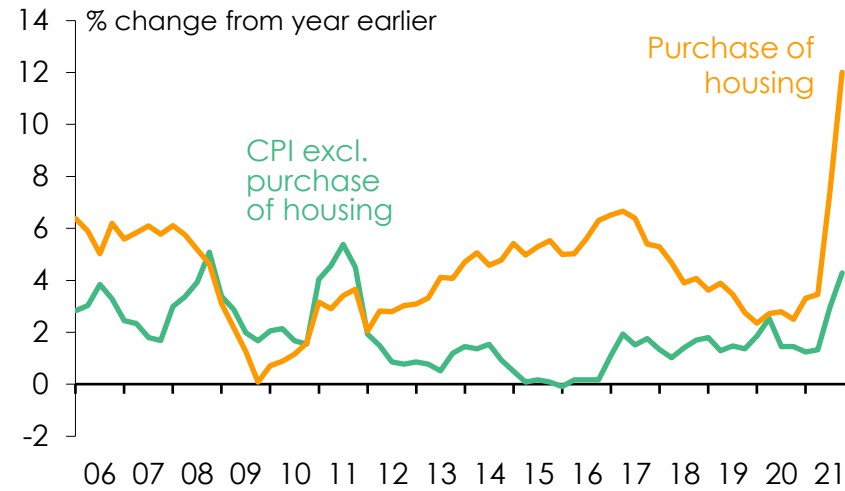
Note: latest merchandise trade data is for August; September data will be released on 27th October; latest balance of payments and net foreign debt data is for the March quarter; September quarter data will be released on 15th December. Sources: [ANZ Bank](#); [Statistics New Zealand](#). [Return to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

The Q3 CPI was a 'shocker', rising 2.2% (cf. the RBNZ's expectation of 1.4%), pushing the annual 'headline' inflation rate to 4.9%

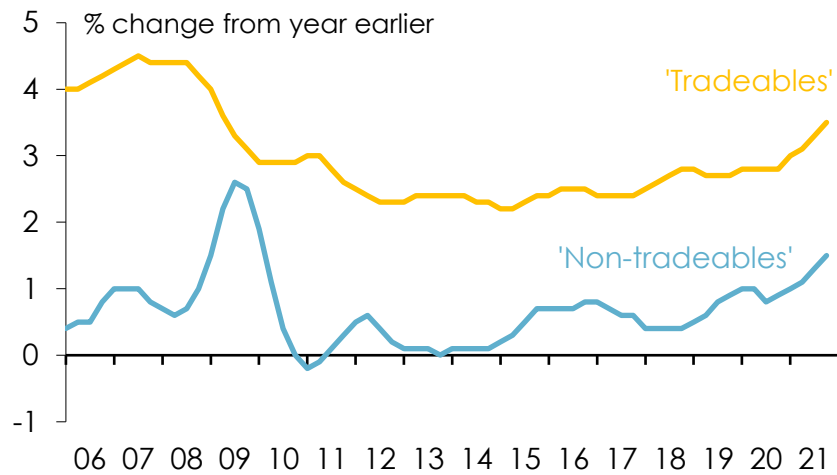
Consumer prices



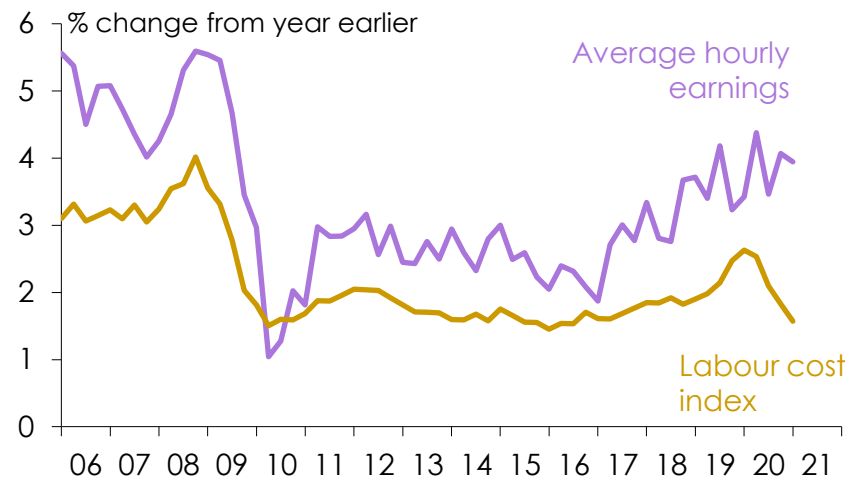
Housing costs in the CPI



Components of 'core' inflation



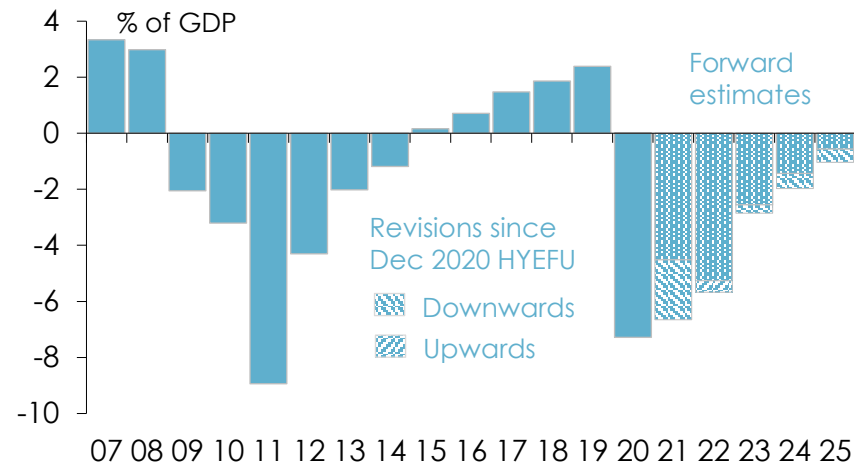
Labour costs



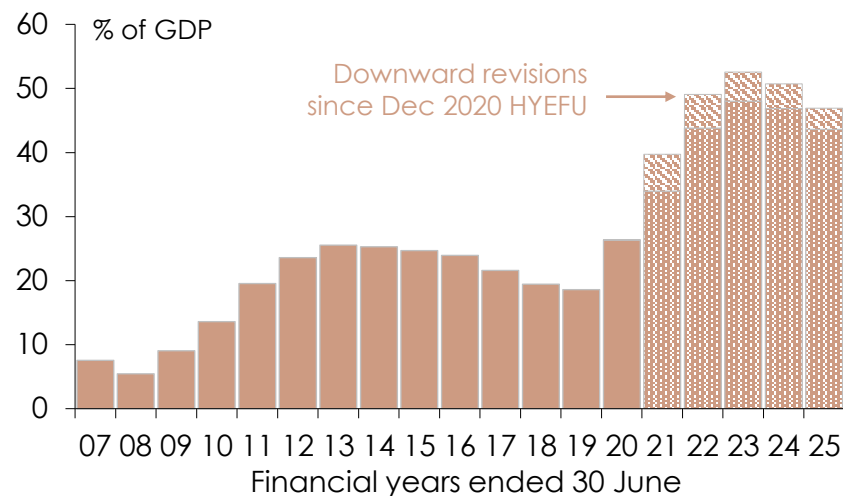
- ❑ The CPI rose 2.2% in Q3, the largest q-o-q increase since Q1 2011, after a 1.3% increase in Q2, pushing the annual 'headline' inflation rate up to 4.9%, the highest since Q2 2011 (after GST was raised from 12½% to 15%)
- ❑ Six components representing 18¼% of the CPI basket accounted for 66% of the increase in the CPI in Q3
 - a 4.5% increase in new housing costs alone contributed 0.4 pc pts to the Q2 increase (19% of the total), and 1.0 pc pt to the annual rate (21% of the total)
 - other significant contributors were vegetables (up 18.7%), petrol (6.5%), council rates (7.1%), international air fares (66%) and games & toys (18.4%)
- ❑ The annual rate of 'core' inflation as measured by the RBNZ's 'sectoral factor model', rose to 2.7% in Q3, the highest since Q1 2009, from 2.2% in Q2
- ❑ The RBNZ had been expecting a 1.4% increase in the CPI in Q3

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' ('OBEGAL')



NZ 'core Crown debt'

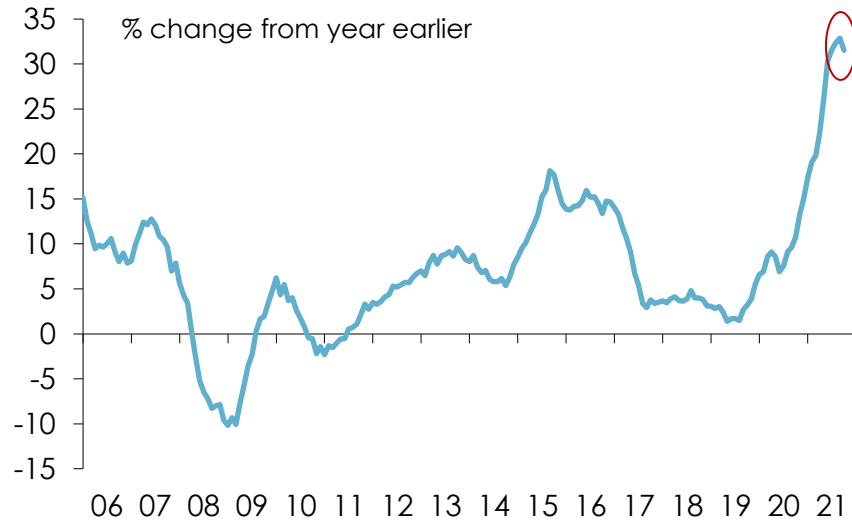


- ❑ As was also the case in Australia, the 2021-22 New Zealand Budget presented by Finance Minister Grant Robertson in May benefited from a much stronger economic performance than had been anticipated in last year's Budget, or in last December's Half-Year Economic & Fiscal Update (HYEFU)
 - Treasury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

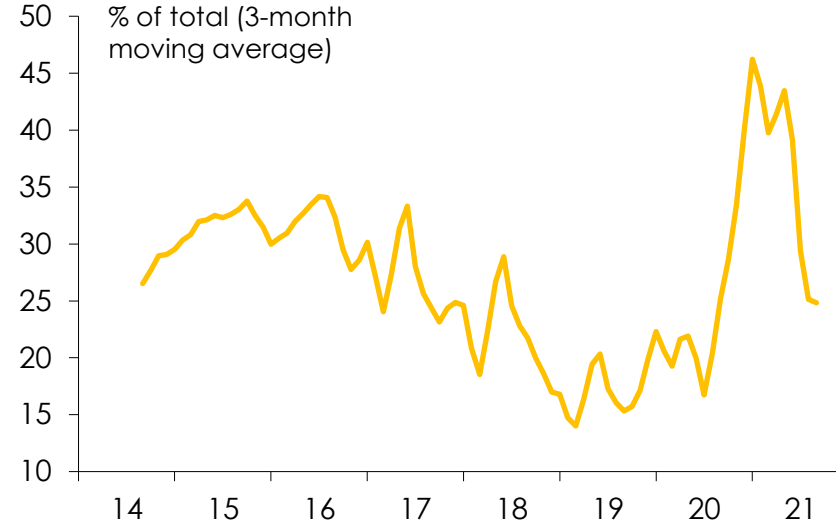
Note: The measure of the NZ Government budget balance is 'OBEGAL', which stands for 'operating balance excluding gains and losses' (an accrual accounting measure). Net 'core Crown debt' excludes assets of the NZ Super Fund, student loans and other advances, and financial assets held for public policy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

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

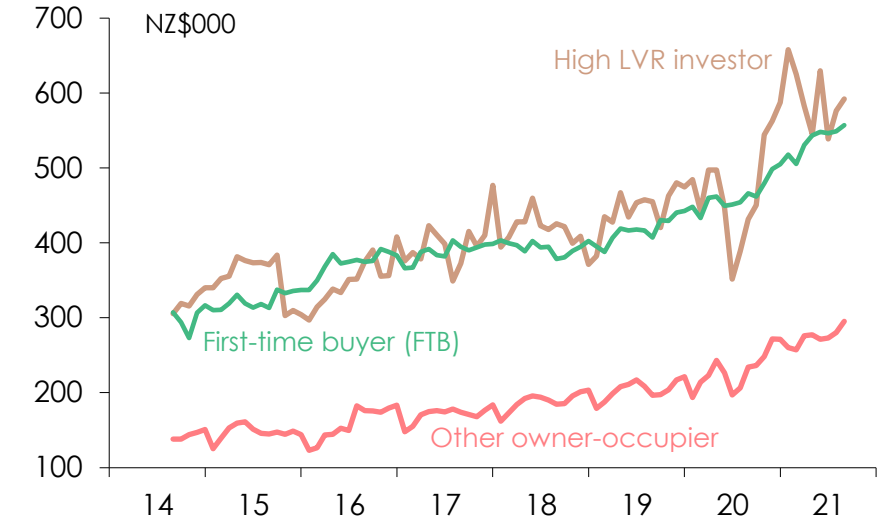
House price inflation



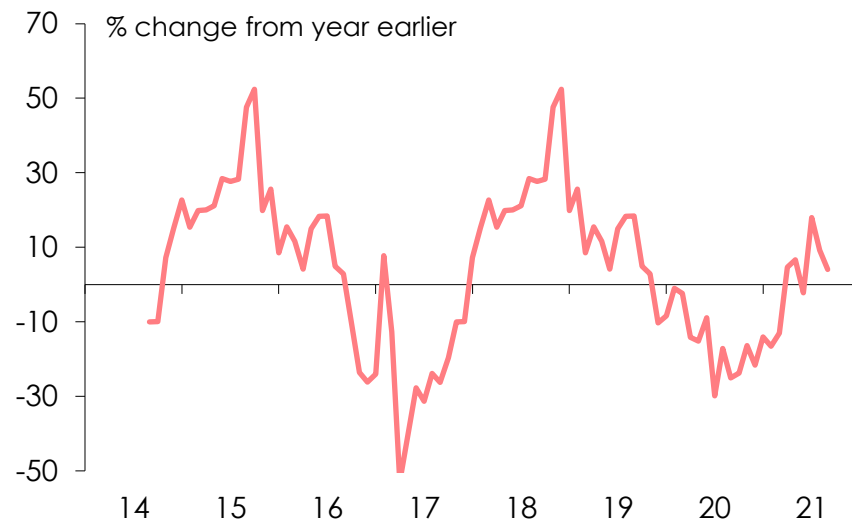
Lending to investors as pc of total



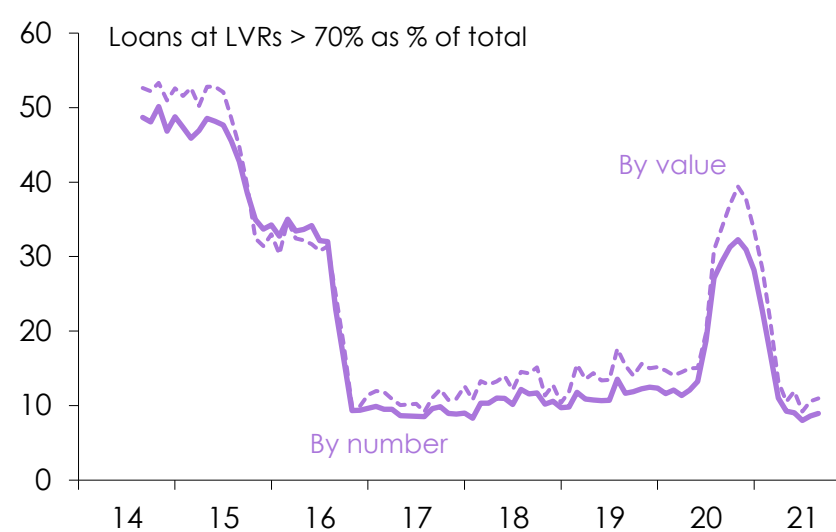
Average new mortgage



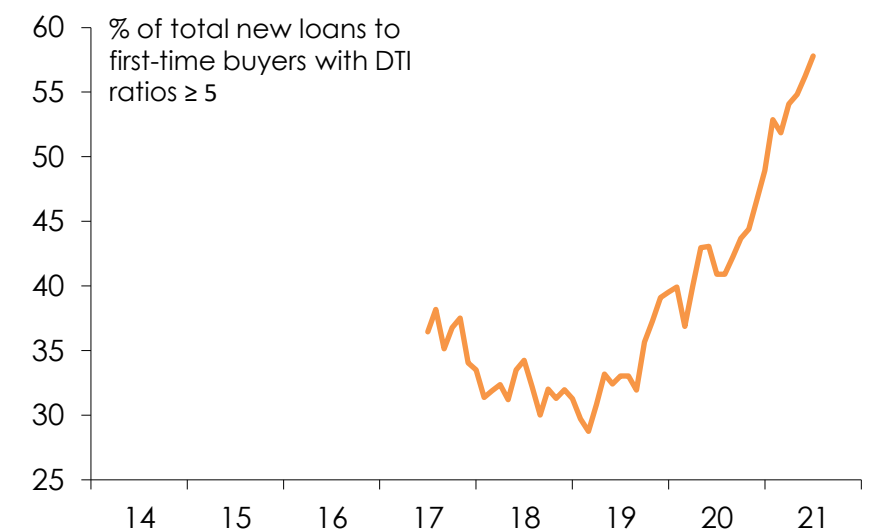
Mortgage lending growth



High-LVR loans to investors



Loans to FTBs at over 5 times income



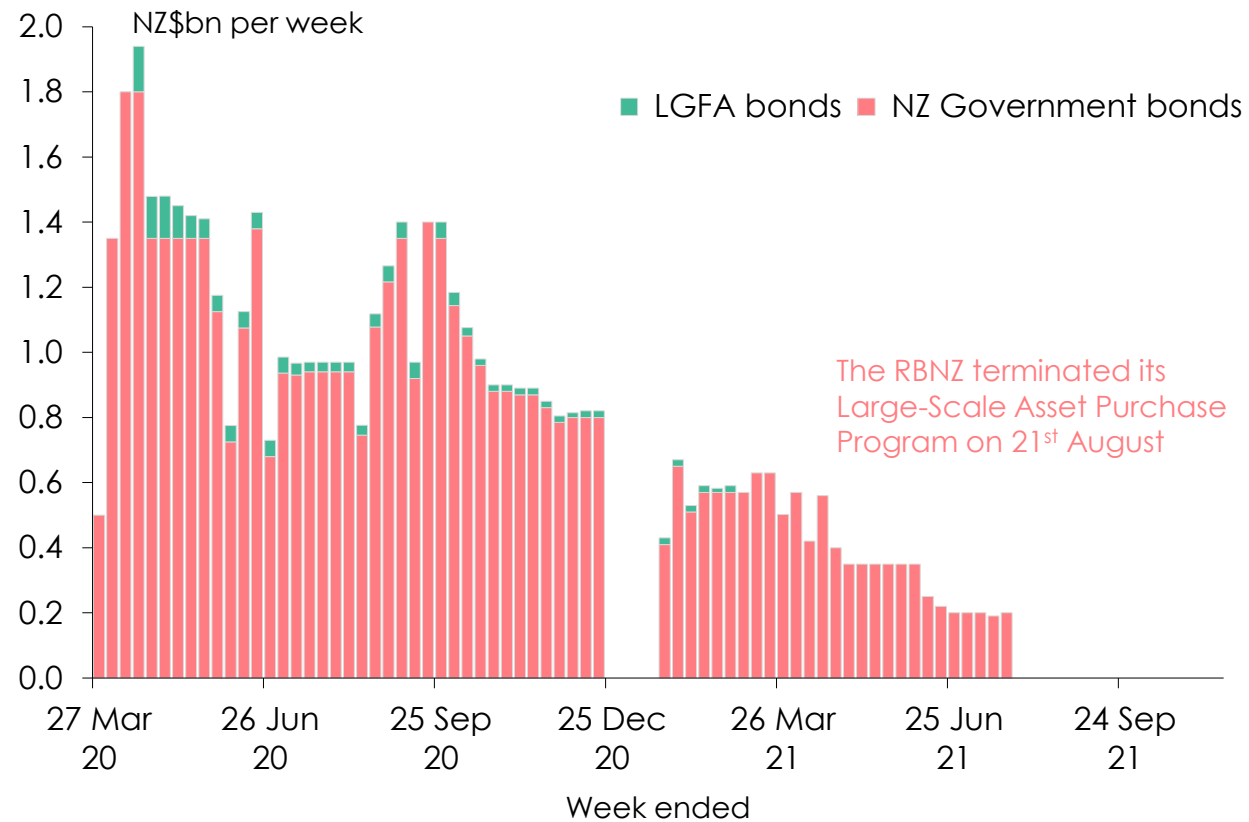
Sources: [Real Estate Institute of NZ](#); Reserve Bank of New Zealand (Tables [C30](#), [C31](#) and [C40](#)). [Return to "What's New"](#).

As expected, the RBNZ raised its official cash rate by 25 bp at this month's Monetary Policy Committee meeting

- ❑ **The RBNZ raised its official cash rate by 25 basis points, to 0.50%, at this month's Monetary Policy Committee meeting**
 - the MPC was going to raise the OCR at its previous meeting on 18th August, but stayed its hand following the announcement of a nationwide lockdown the day before
 - however this month the MPC **concluded** that the current restrictions “have not materially changed the medium-term outlook for inflation and employment”, and that “timely Government support for business and jobs is effective at cushioning the near-term impact on economic activity”
- ❑ **The decision to raise the OCR was primarily driven by concern about the consequences of ‘capacity’ pressures for inflation**
 - in the MPC's assessment, “rising demand alongside capacity constraints is contributing to higher domestic inflation”, accentuated by “higher oil prices, supply shortfalls and rising transport costs”, which are expected to result in CPI inflation rising “above 4% in the near term” before returning towards 2% “over the medium term”
 - In its view, “demand shortfalls are less of an issue than the economy hitting capacity constraints given the effectiveness of Government support and resilience of household and business balance sheets”
- ❑ **The MPC re-iterated its judgement that “the level of house prices is currently unsustainable”**
 - although they also noted that “a number of factors are expected to constrain house prices over the medium term”, including increased levels of new building, slower population growth, **changes in tax policy** announced by the Government in March (which came into effect at the beginning of this month), and the recent further tightening of macro-prudential **restrictions on high-LVR mortgage lending**
- ❑ **The RBNZ foreshadowed further increases in the OCR at future meetings, noting that “monetary policy stimulus will need to be reduced to maintain price stability and maximum sustainable employment over the medium term” and that “further removal of monetary policy stimulus is expected over time”**

New Zealand bond yields surged after Monday's higher-than-expected Q3 CPI data

RBNZ open market bond purchases



New Zealand interest rates



- ❑ New Zealand bond yields surged this week following Monday's higher-than-expected CPI release ([slide 160](#))
- ❑ The 5-year yield rose 37 bp to 2.03%, and the 10-year yield 32 bp to 2.43%, in each case the highest since late 2018 (when the OCR was 1.75% cf. 0.50% currently)
- ❑ NZ financial markets are giving some credence to the possibility of a 50bp hike in the OCR at the next RBNZ MPC meeting on 21st November

Important information

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

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

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