

# ECONOMIC IMPACT OF THE CORONAVIRUS PANDEMIC

30<sup>TH</sup> OCTOBER 2021

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# What's new?

## The world

- ❑ Just over 3mn new Covid-19 cases were recorded this week, the second increase in a row after eight weeks of declines ([slide 4](#)), with the upward trend concentrated in Europe, Russia and the Middle East ([slide 5](#))
- ❑ US real GDP increased by a less-than-expected 0.5% (equivalent to an annual rate of 2.0%) in Q3, weighed down by declines in consumer spending on durable goods (especially motor vehicles), falls in housing and non-IP business investment, and a fifth consecutive detracting from net exports ([slide 67](#))
- ❑ The wages component of the US employment cost index (a measure which, unlike average hourly earnings, isn't distorted by changes in the composition of employment) rose 4.2% over the year to Q3, the fastest pace in 30 years
- ❑ The US incurred a record monthly merchandise trade deficit of US\$96.3bn in September ([slide 81](#))
- ❑ The euro area's real GDP grew 2.2% in Q3, after a 2.1% increase in Q2, led by 3.0% growth in France – but it is still 0.5% below the pre-pandemic peak in Q3 2019 ([slide 83](#))
- ❑ Britain's mid-year Budget update forecasts the largest increase in taxes in 28 years, resulting in the largest 'tax take' as a share of GDP in 70 years ([slide 85](#))
- ❑ The BoJ and the ECB left their policy interest rates on hold, as expected, this week, but the ECB foreshadowed a slowing in the pace of its bond purchases – meanwhile the Bank of Canada signalled a stop to its bond purchase program ([slide 36](#))
- ❑ Brazil's central bank raised its policy rate for the sixth time this year, by a larger-than-expected 150 basis points ([slides 86-87](#))

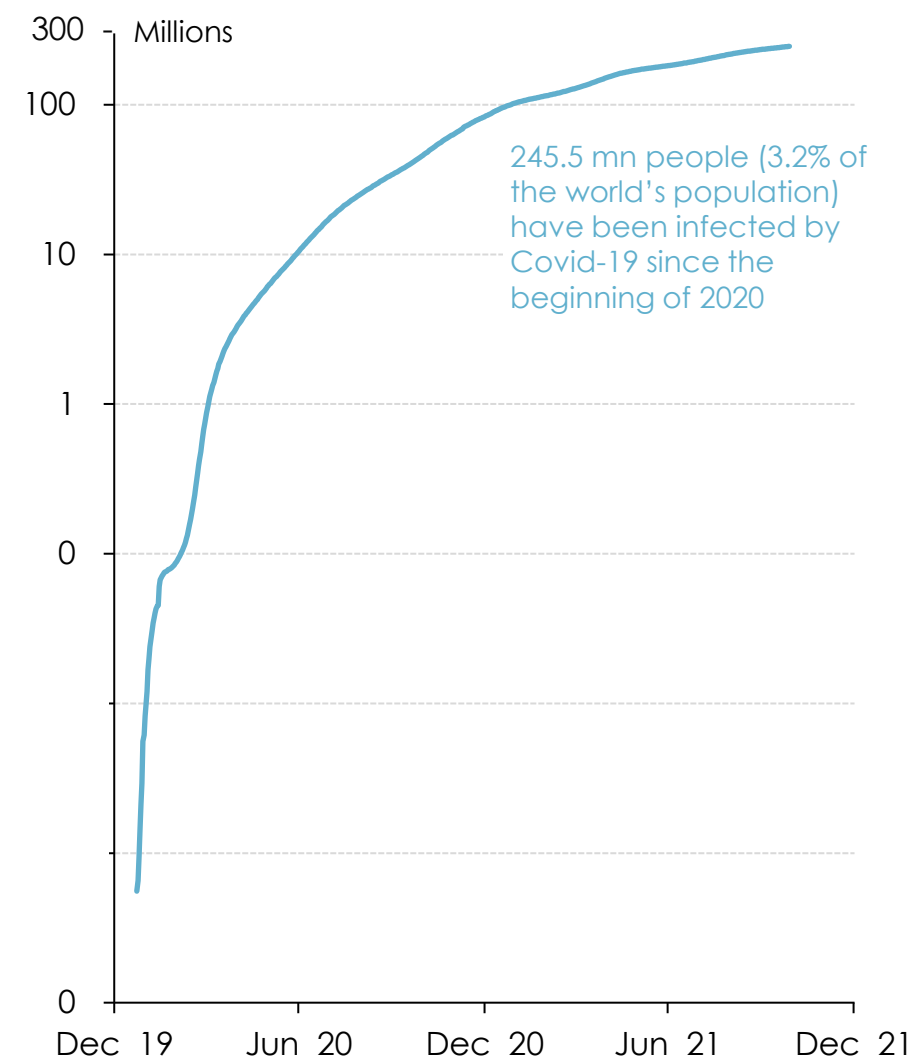
## Australia and New Zealand

- ❑ Australia recorded just over 13,300 new Covid-19 infections this week, the second decline in a row after 20 weeks of rising numbers ([slide 13](#))
- ❑ Victoria's new infection numbers look to have passed their peak, while NSW's continue to decline, as both states begin to 'open up' – although the other states will wait longer before re-opening their borders to both interstate and international travellers ([slide 14](#))
- ❑ Australia's CPI rose 0.8% in Q3, as expected – but the measures of 'underlying' inflation rose a larger-than-expected 0.7% (the biggest increase since Q4 2013), pushing the annual 'underlying' inflation rate back into the RBA's 2-3% for the first time since Q4 2015, something the RBA hadn't expected to happen until the second half of 2023 ([slide 138](#))
- ❑ 'Upstream' price pressures have also intensified more quickly than anticipated, with both domestic producer and import prices recording their largest increases in eight years in Q3 ([slide 139](#))
- ❑ These developments are likely to prompt the RBA formally to abandon its 0.1% target for the 3-year bond yield, and to concede that it may start raising rates before 2024, at this Tuesday's Board meeting ([slides 152-153](#))
- ❑ Retail sales rose 1.3% in September, led by a 5.2% increase in Queensland but with gains in every state except Victoria and the ACT ([slide 121](#))
- ❑ The federal budget deficit has narrowed more rapidly than expected in the first quarter of the 2021-22 fiscal year, despite unforeseen payments to people and businesses affected by lockdowns, thanks to a surge in tax collections ([slide 146](#))
- ❑ New Zealand business and consumer confidence have fallen sharply after October's rate rise with the prospect of more to come ([slide 158](#))

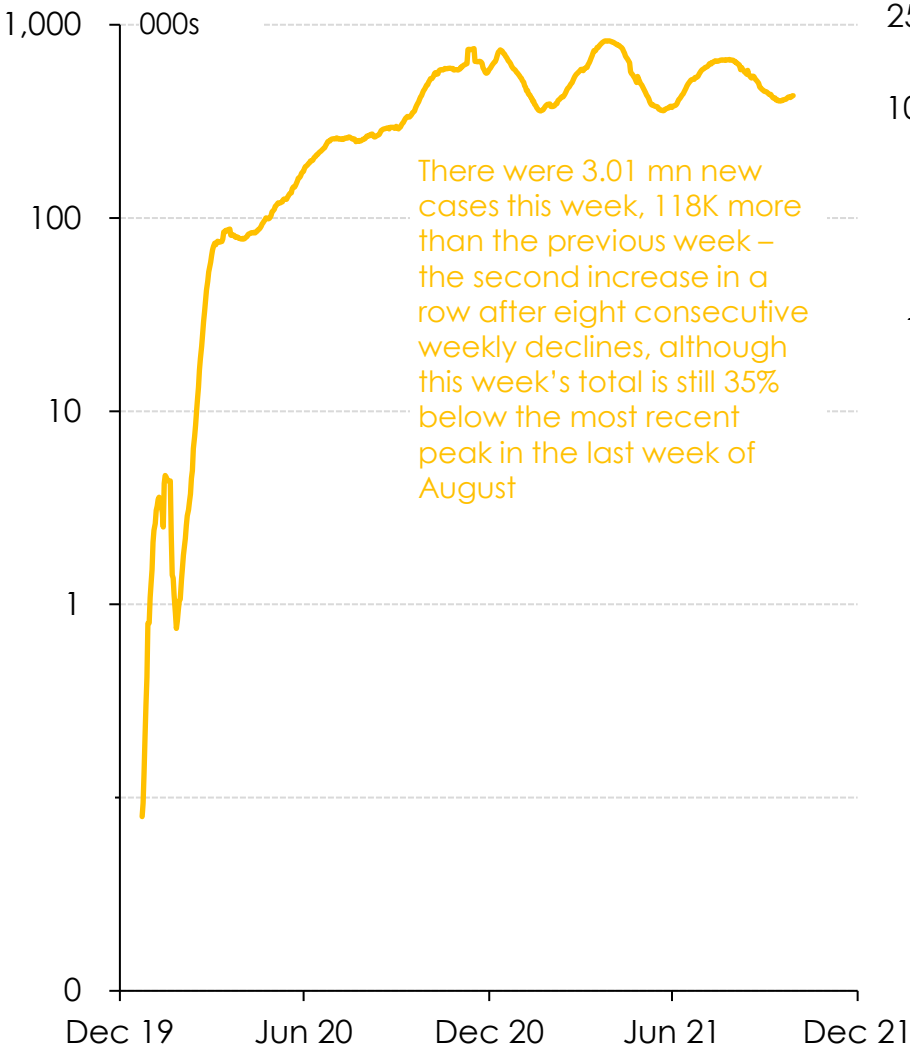
**The virus**

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

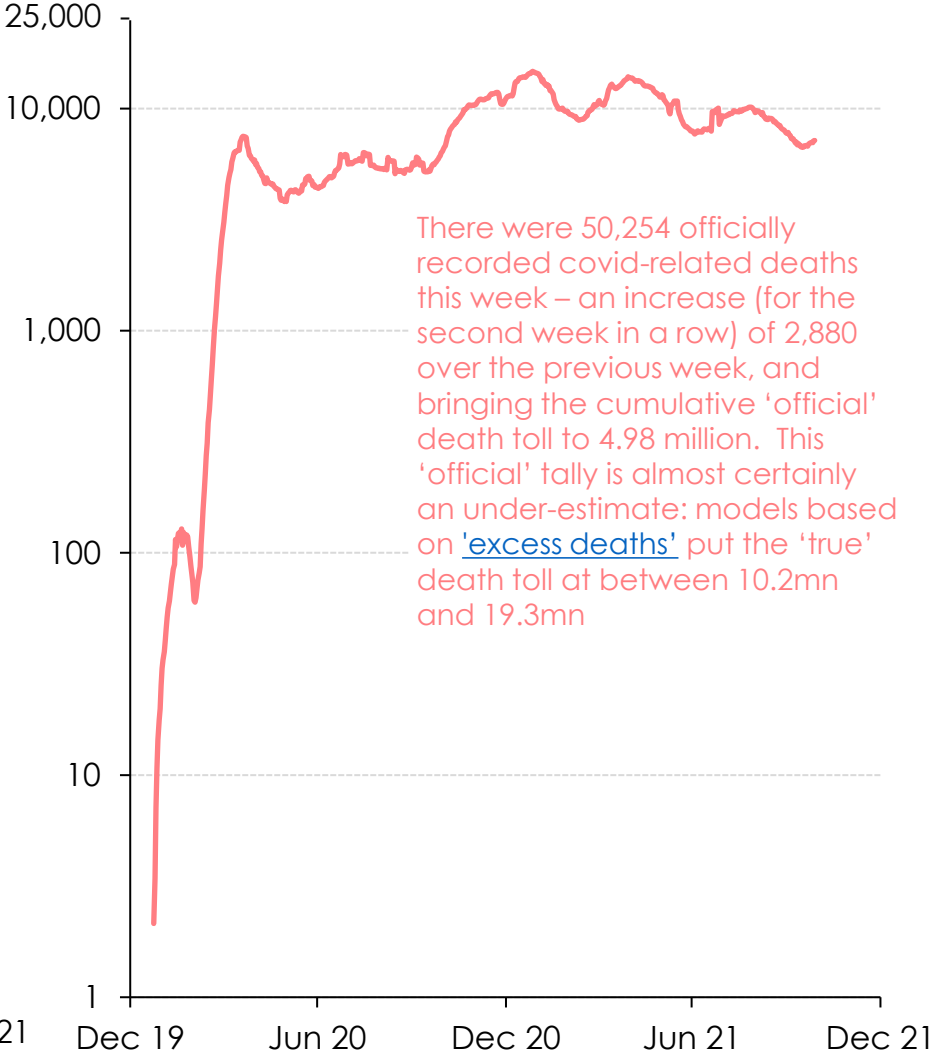
Cumulative confirmed cases – global total



New confirmed cases – global total



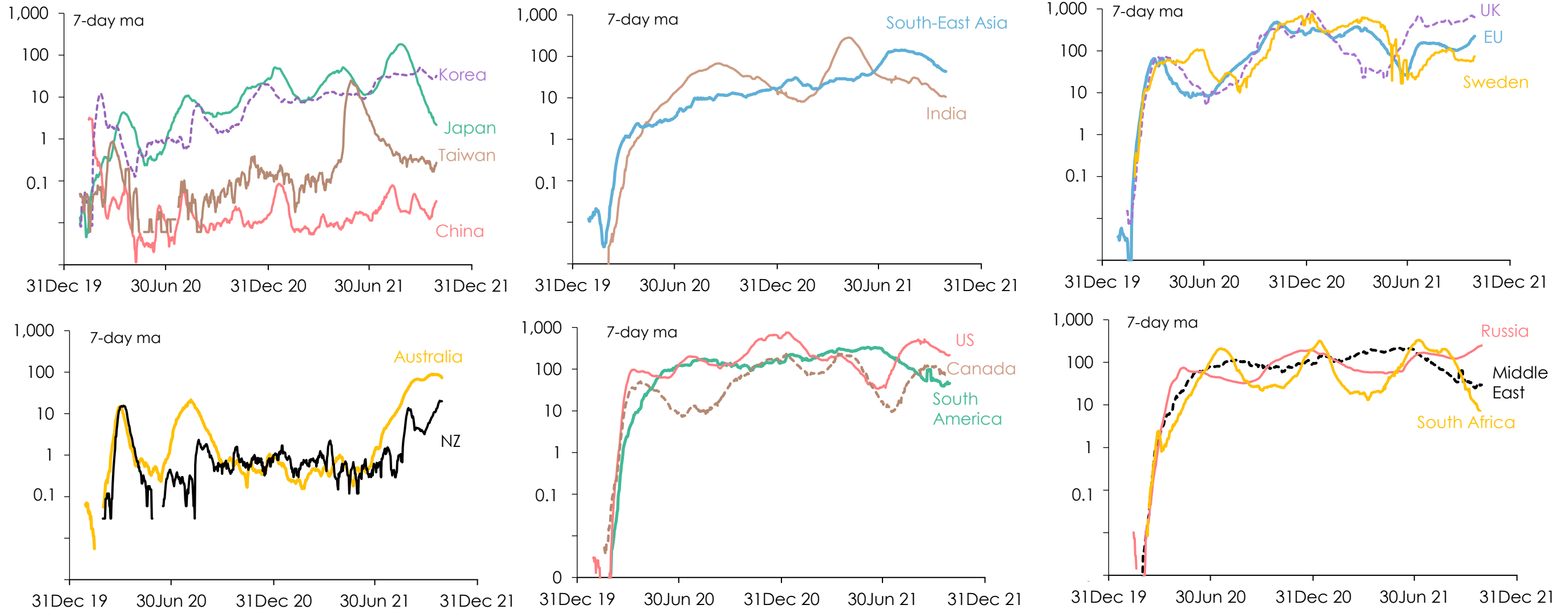
New deaths – global total



Note: All charts are on logarithmic scales. Data up to 28<sup>th</sup> October. Source: University of Oxford, [Our World in Data](#). [Return to "What's New"](#).

# The increase in case numbers this week was concentrated in Europe (35½% of all cases), the Middle East and Russia, offsetting falls in the US and Asia

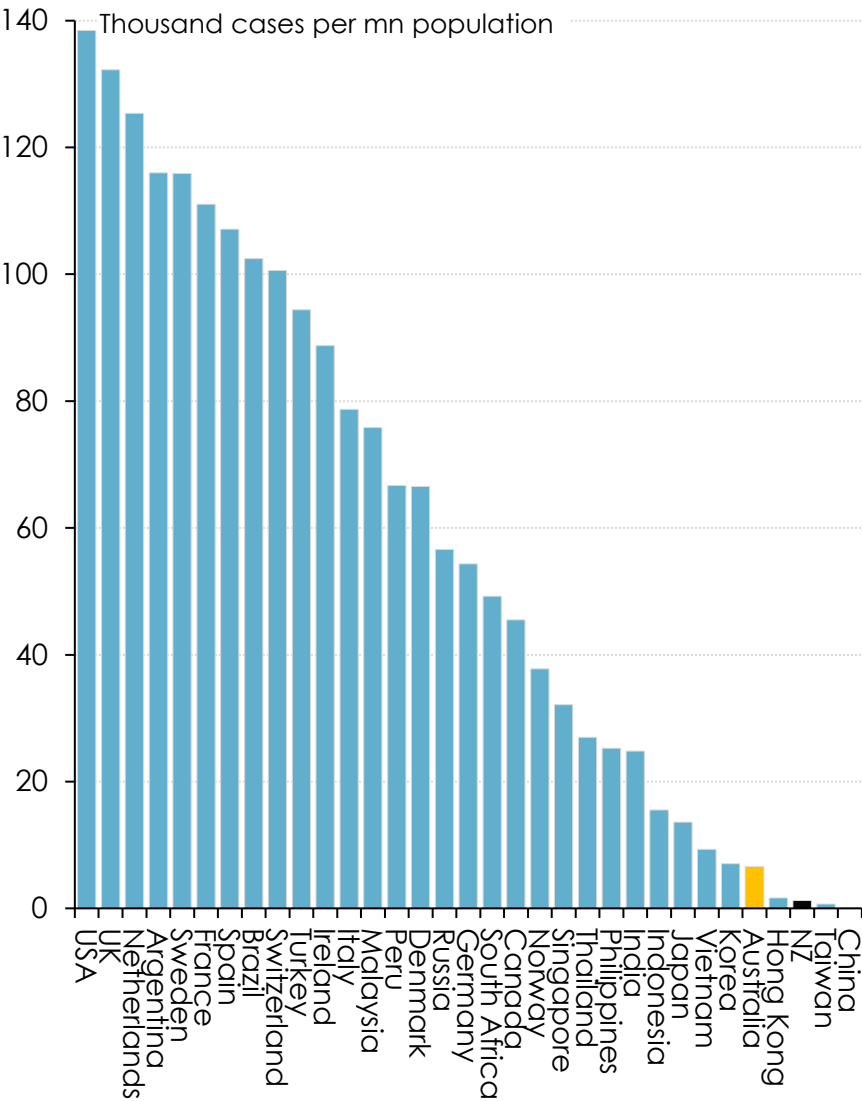
## Daily new cases per million population – major countries and regions



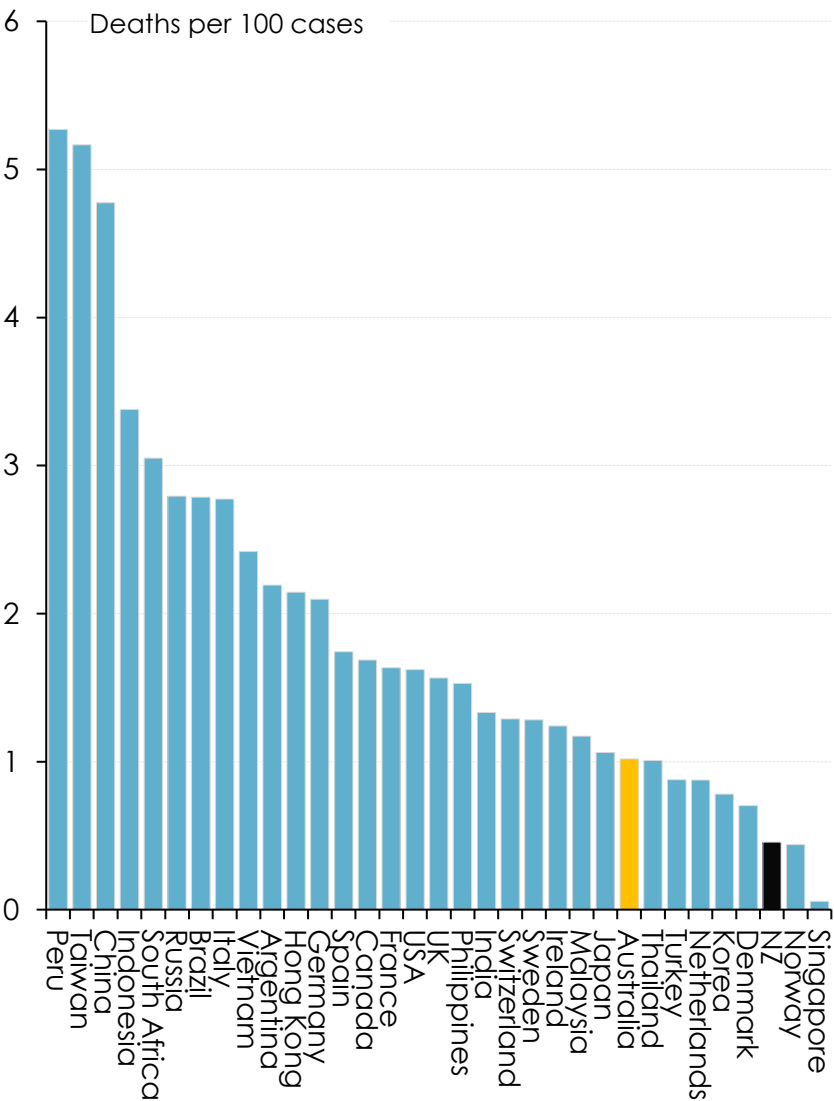
❑ The US still accounts for a larger share of 'official' deaths (19% this week) than Europe (16%) but the death toll has been rising sharply in Russia (14½% of all 'official' deaths in each of the past two weeks)

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

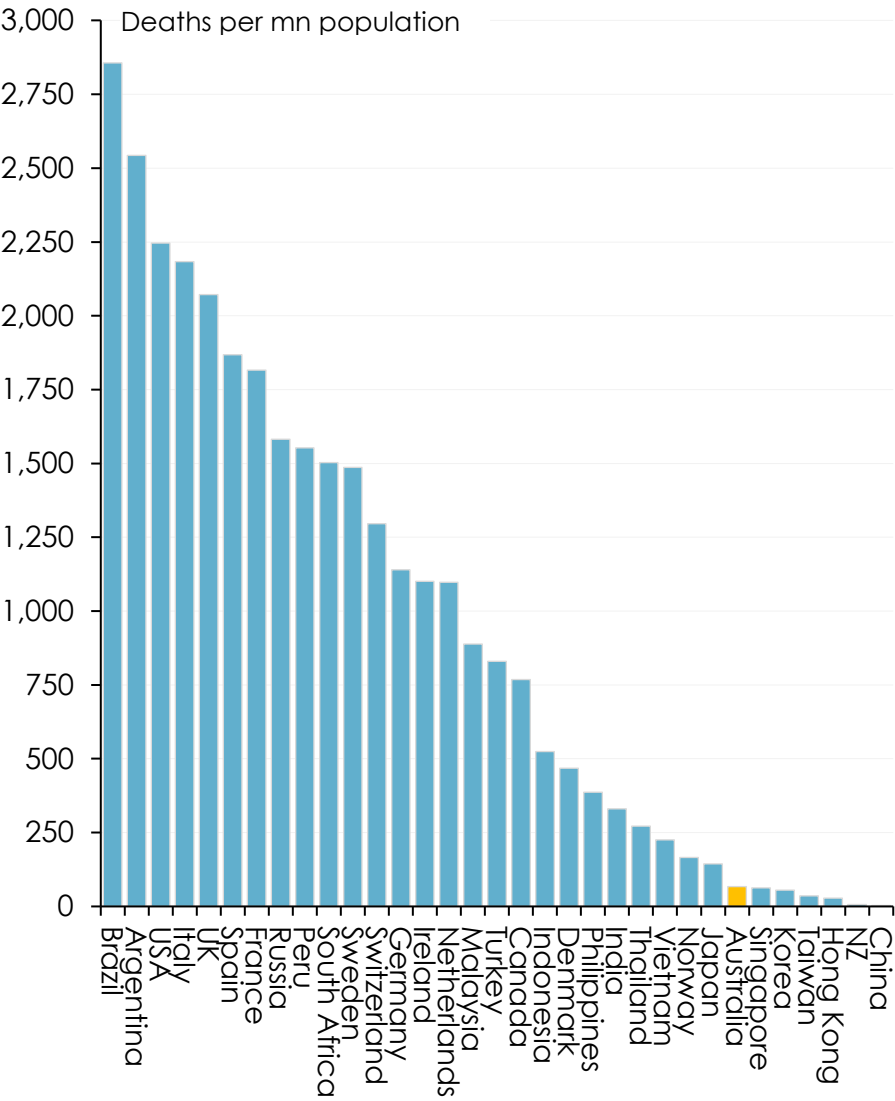
Apparent infection rate



Apparent fatality rate



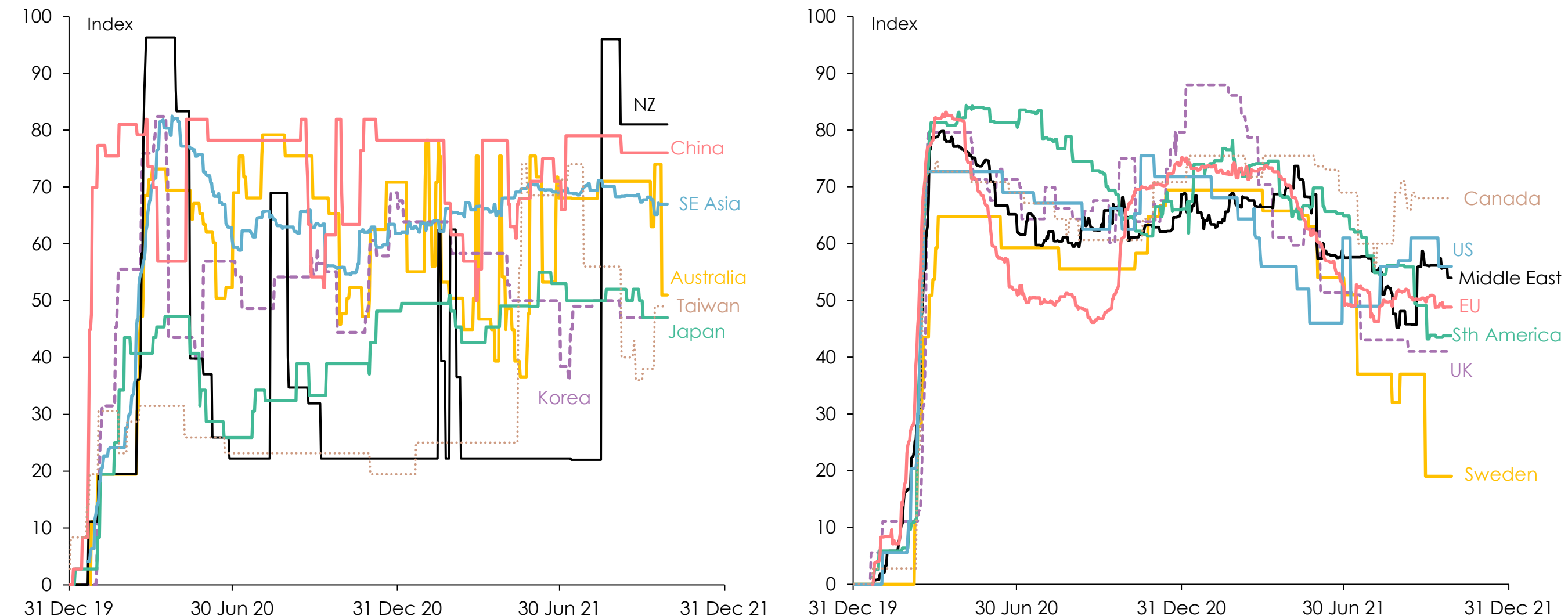
Death rate



Note: Data up to 28<sup>th</sup> October. Sources: University of Oxford, [Our World in Data](#); Corinna. [Return to "What's New"](#).

# Restrictions have been eased over the past two weeks in Australia, Malaysia, Italy & Greece but tightened in Taiwan

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

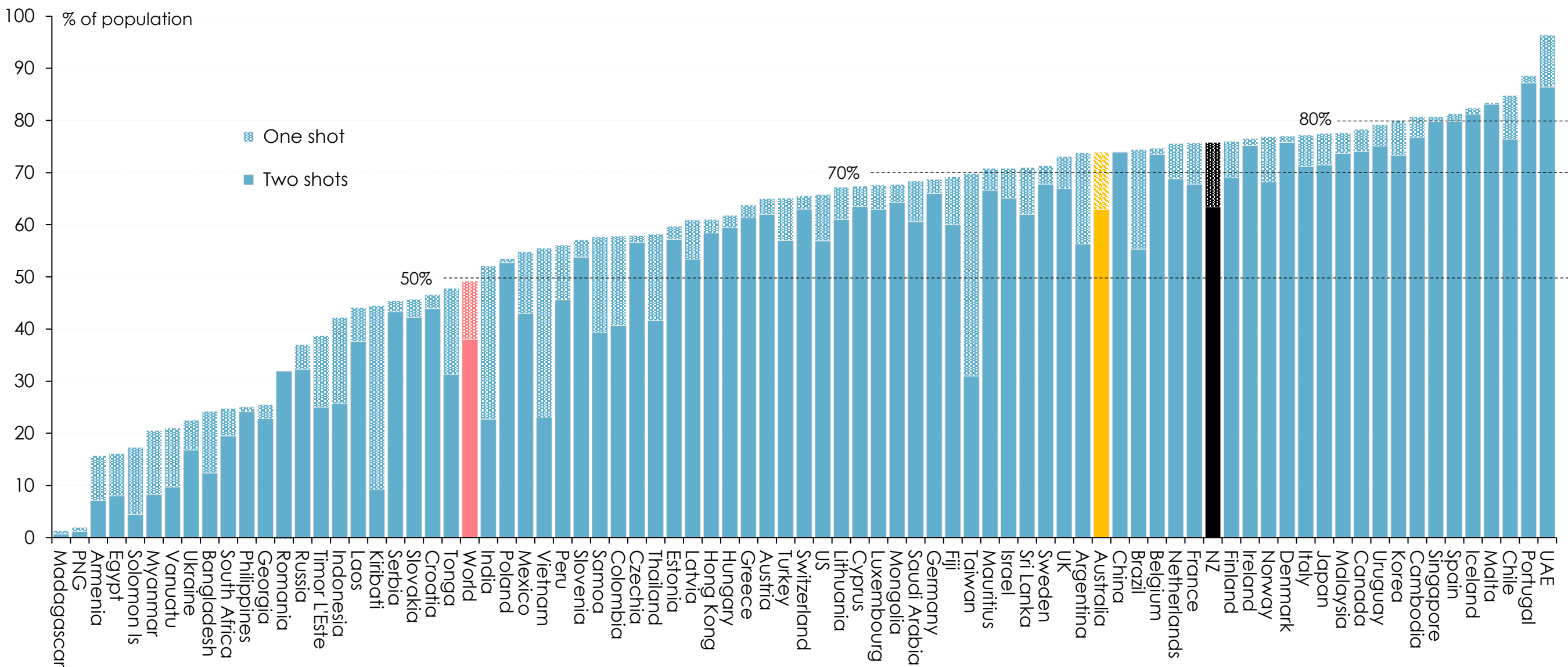


The Oxford COVID-19 Government Response Tracker collects publicly available information on 11 indicators of government response including school & workplace closures, public events cancellations, restrictions on public gatherings, stay at home requirements, public transport closures, domestic & international 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 28<sup>th</sup> October. [Return to "What's New"](#).



# 18 countries have now fully vaccinated more than 70% of their population, another 9 are close to that threshold, and 23 more are over 50%

Percentage of population who have had at least one vaccination shot as at 25<sup>th</sup>-27<sup>th</sup> October

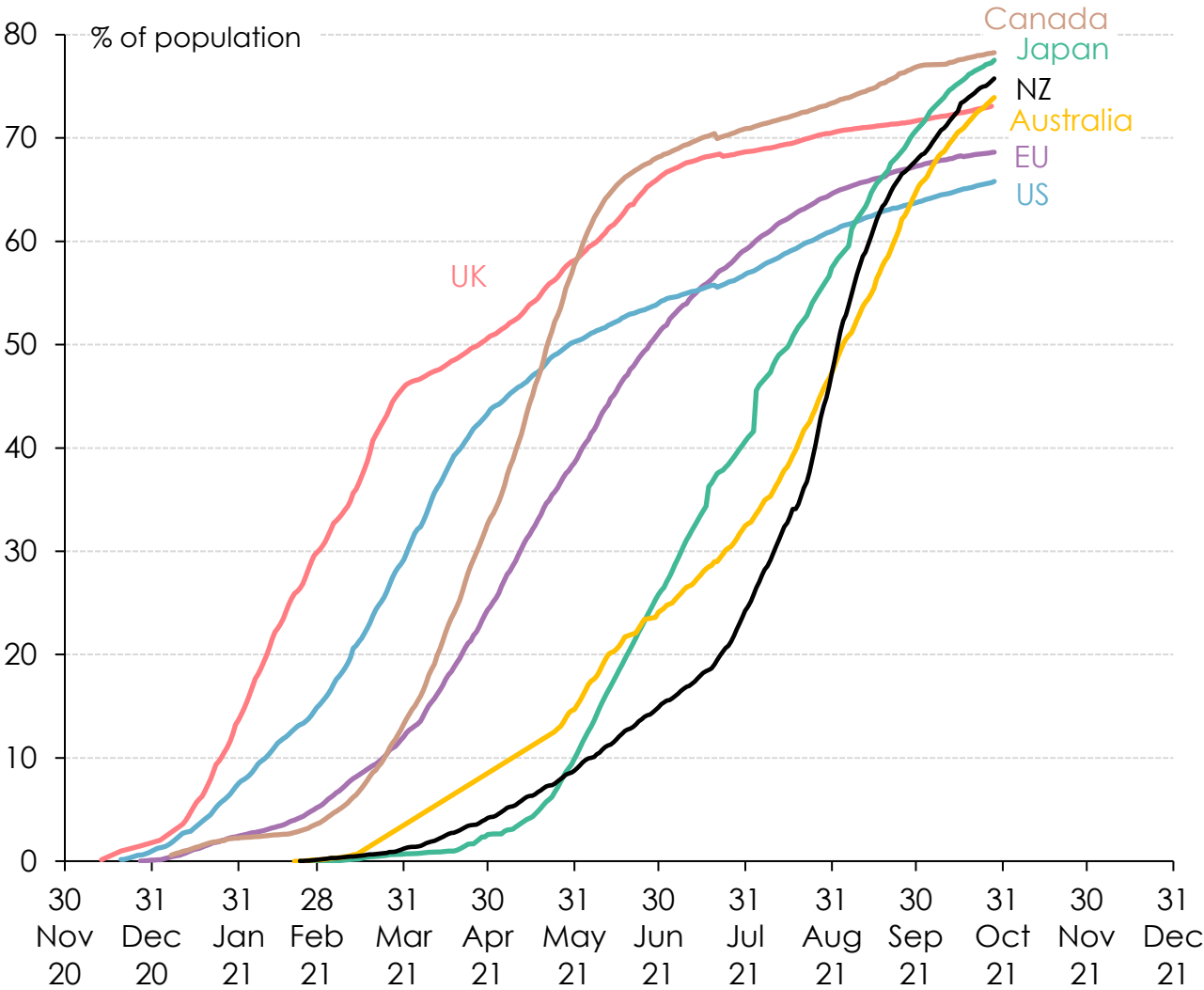


Note: Data for Myanmar and Romania are as at 17<sup>th</sup> October; Georgia and Timor L'Este, 19<sup>th</sup> October; Madagascar, 20<sup>th</sup> October; Egypt and China, 23<sup>rd</sup> October; and Armenia, 24<sup>th</sup> October. Source: Our World in Data, [Coronavirus \(COVID-19\) Vaccinations](#). [Return to "What's New"](#).

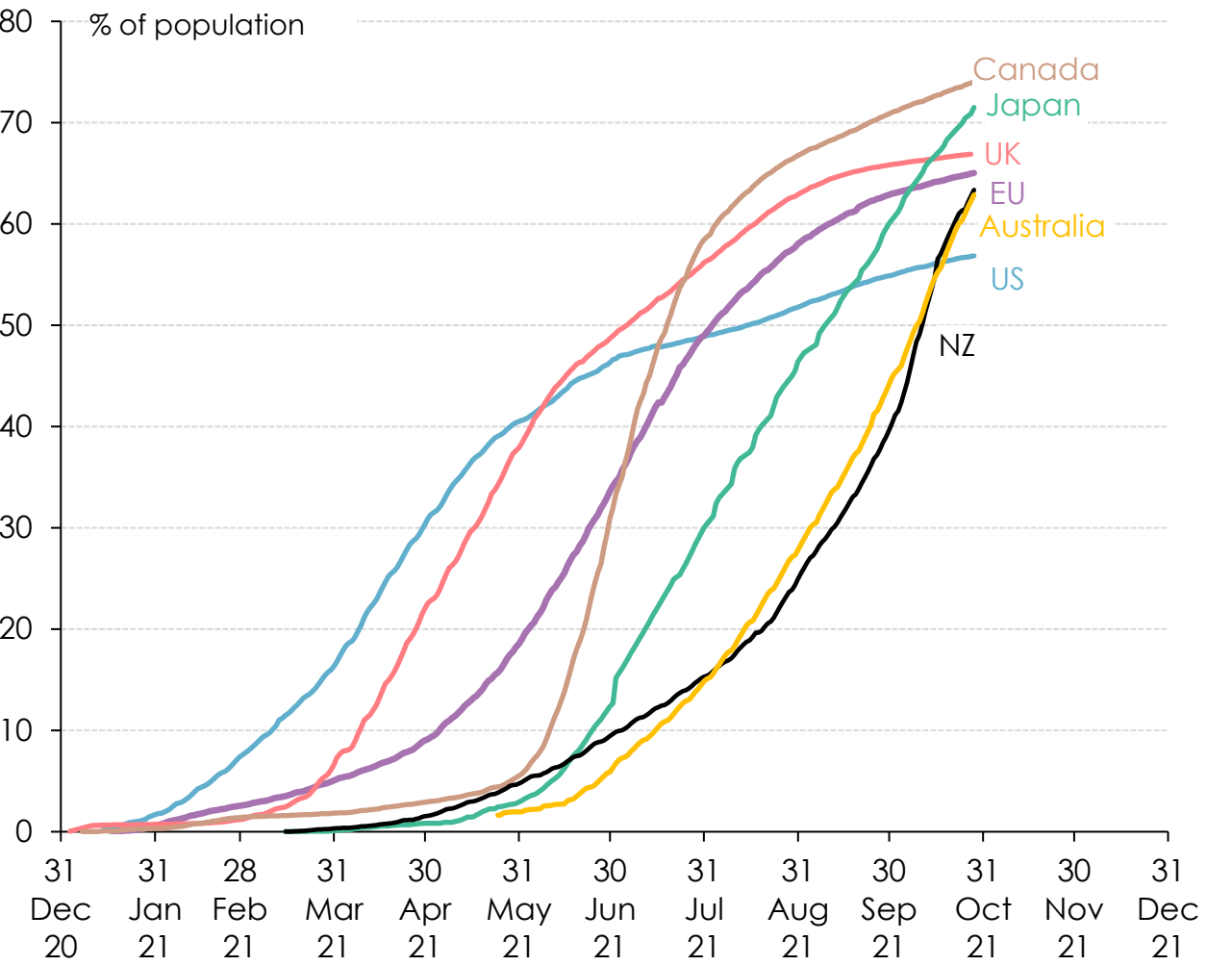


# Progress of vaccinations has slowed in Canada, the US, UK and Europe in recent weeks but has picked up in Japan, Australia and New Zealand

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



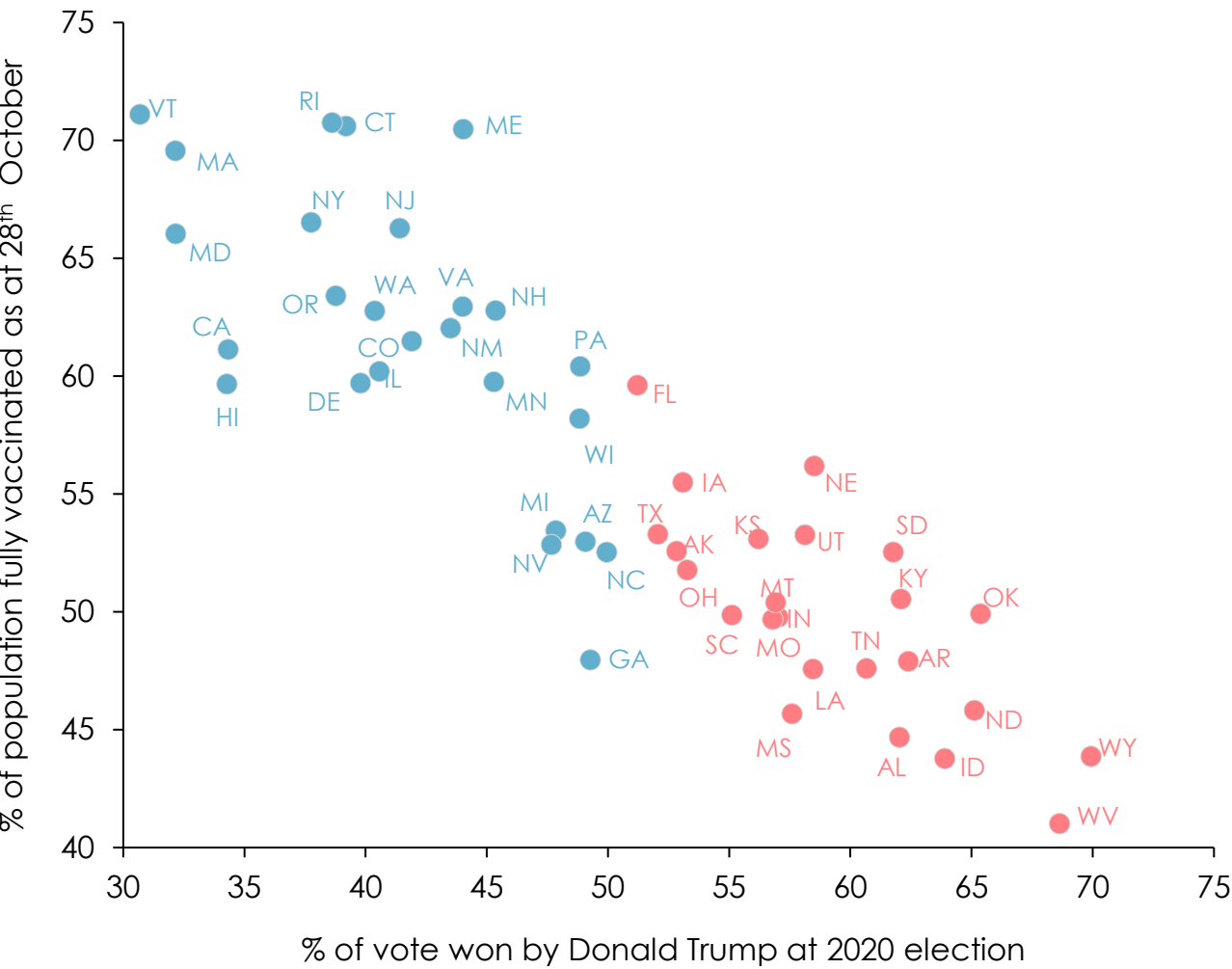
Percentage of major 'advanced' economies' populations who have had two shots



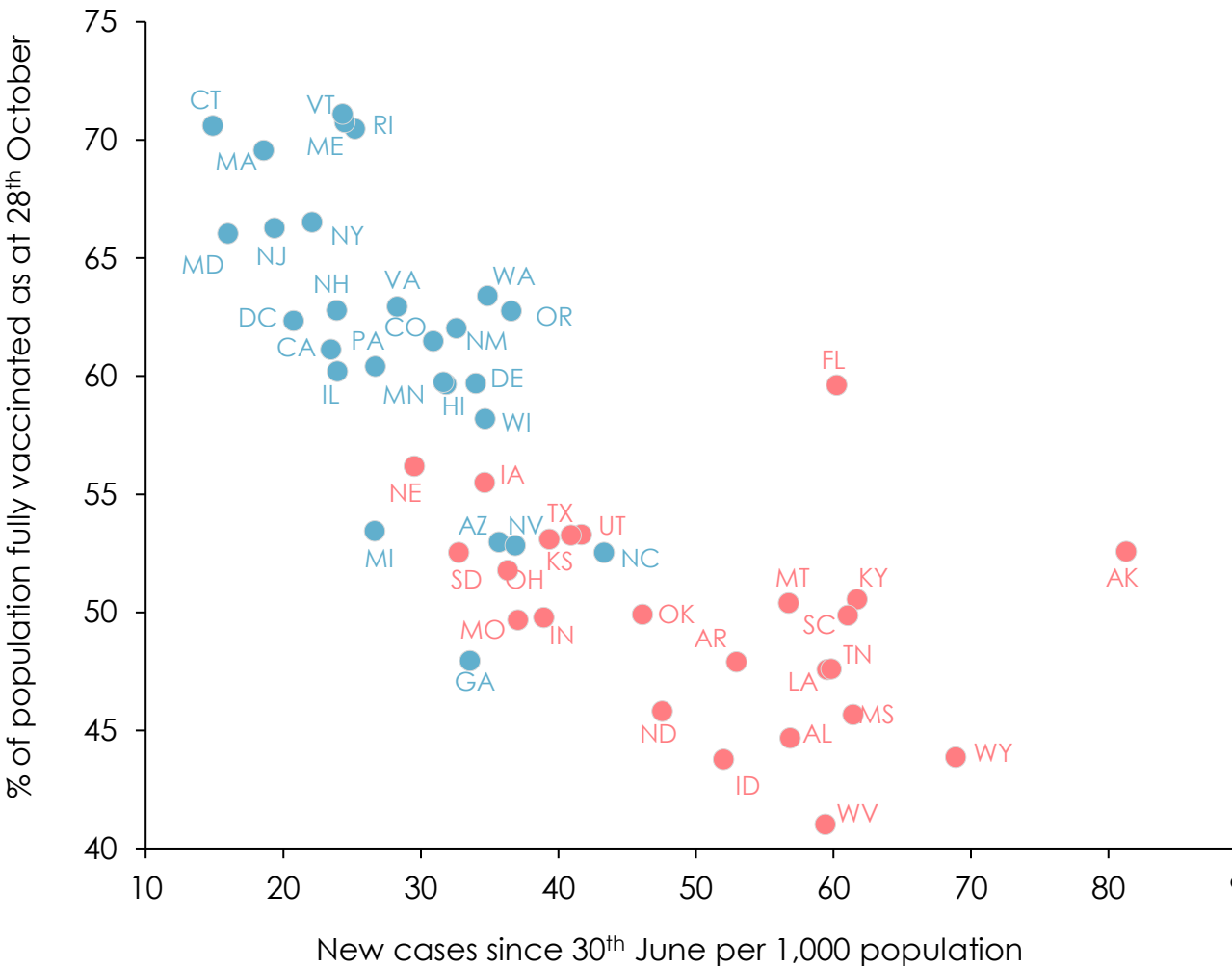
Note: Data up to 28<sup>th</sup> October, except UK, 27<sup>th</sup> October. Source: [Our World in Data](#); [Coronavirus \(COVID-19\) Vaccinations](#). [Return to "What's New"](#).

# 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



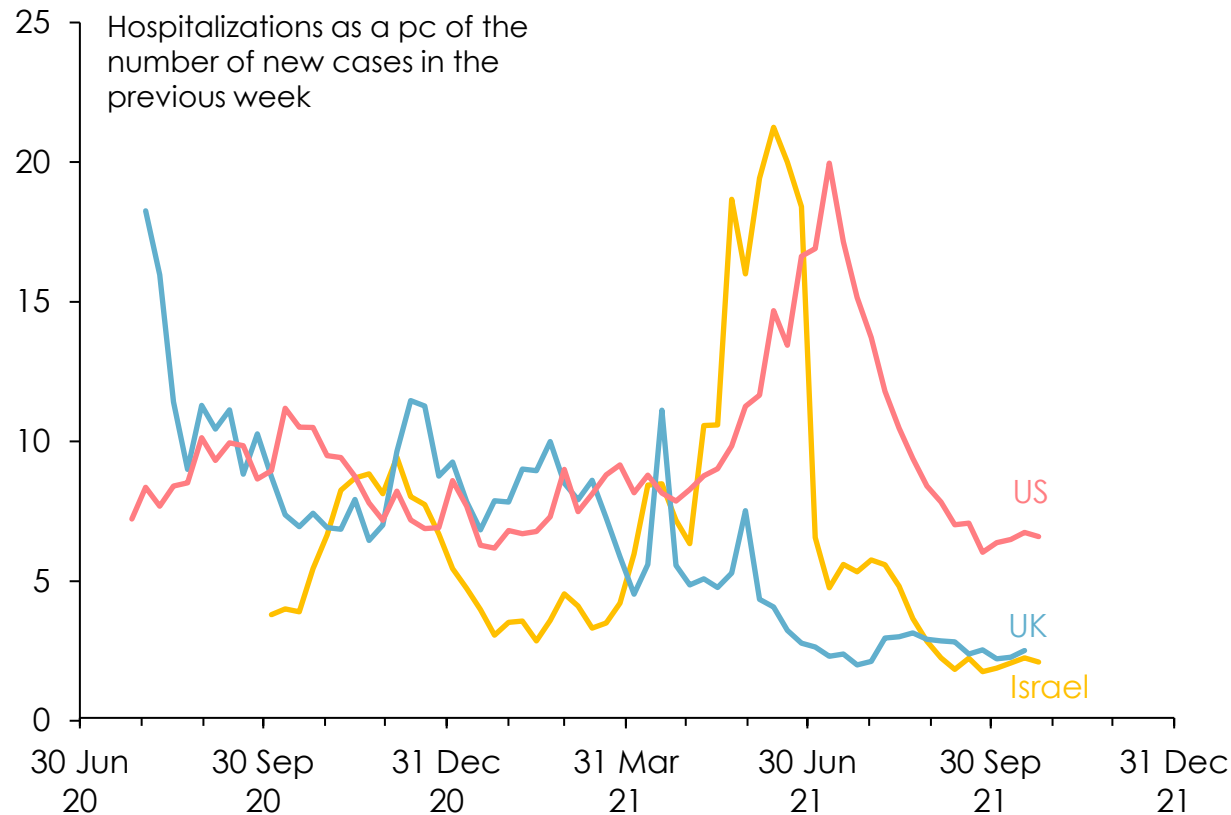
Vaccination rates vs infection rates since 30th June, by state



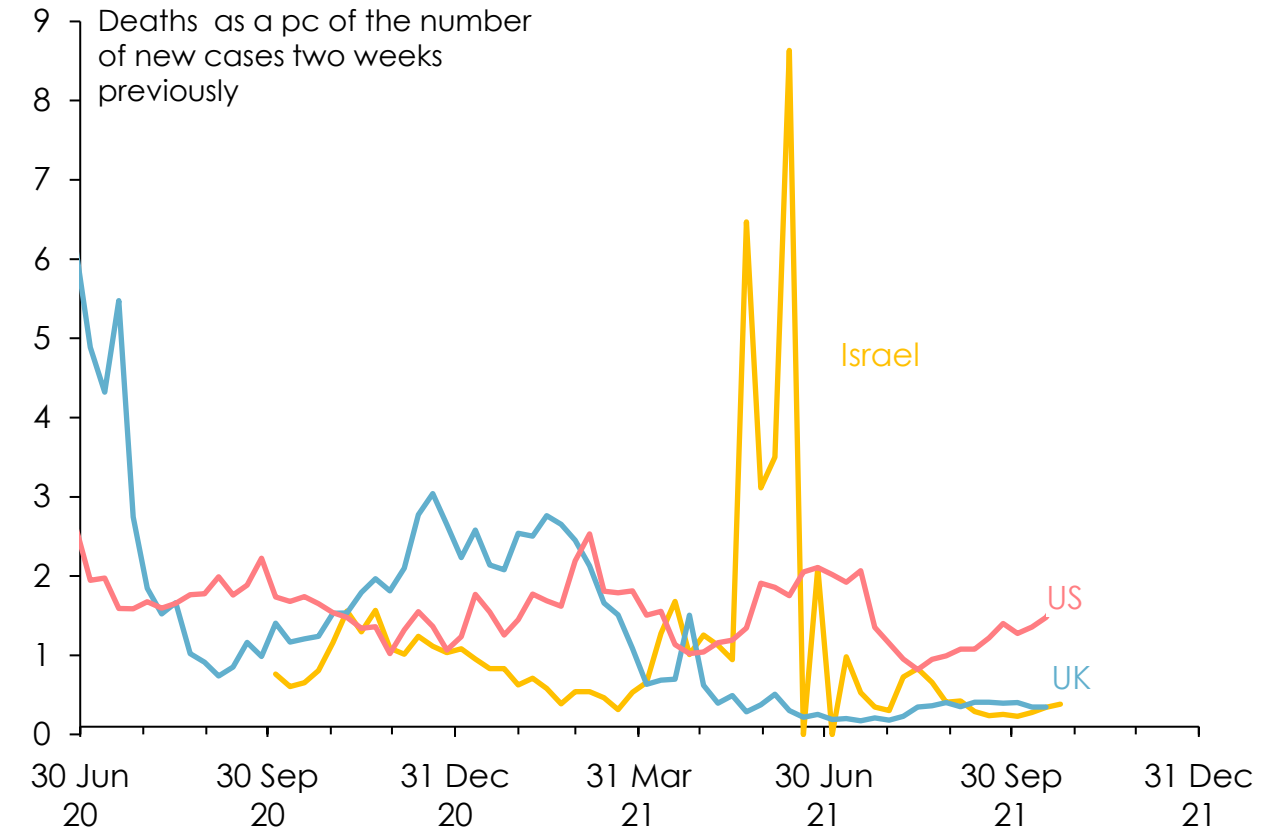
Note: Data as at 28th October. Sources: [The Cook Political Report](#); [Our World in Data](#); [USA Facts](#); Corinna. [Return to "What's New"](#).

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

## Hospitalization rates



## Fatality rates

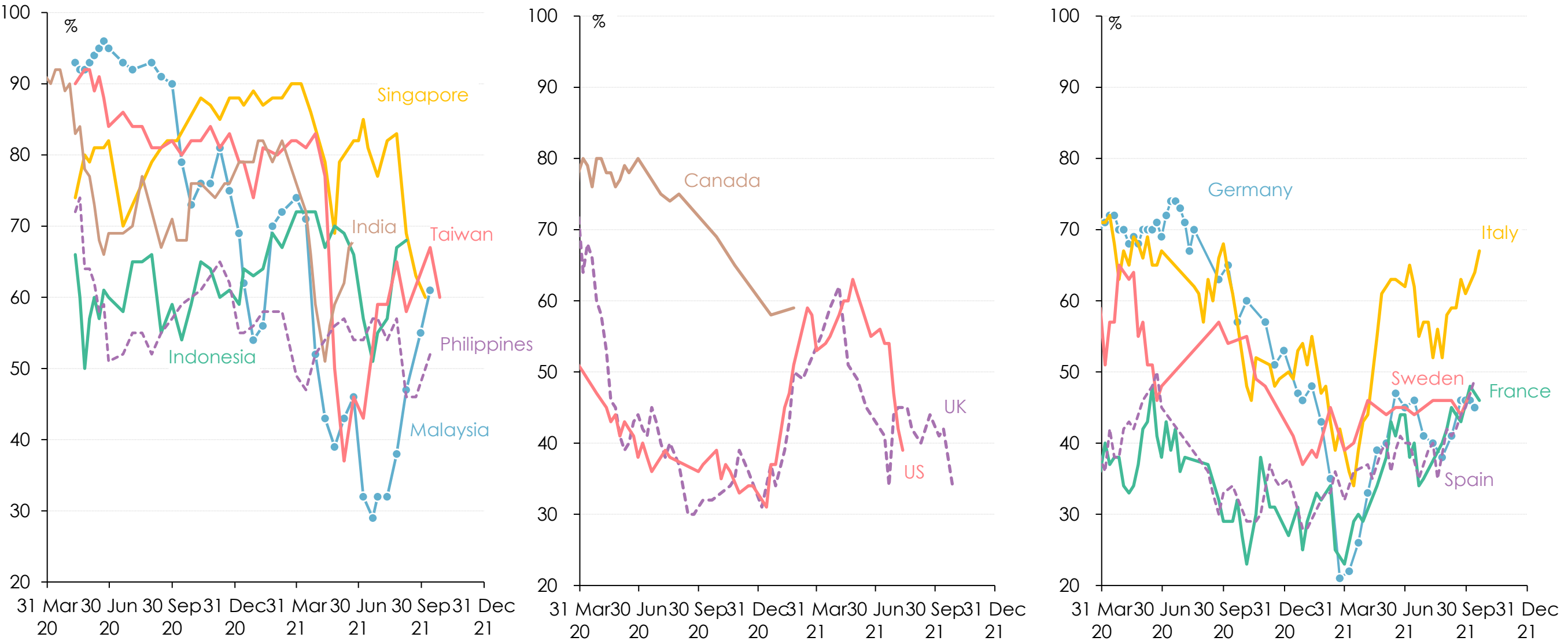


- ❑ Israel, the UK and the US all experienced a surge in the number of 'delta variant' cases after 'opening up'
- ❑ In the US, the increase in cases is concentrated in states and counties where vaccination rates are well below the national average (see previous slide)
- ❑ In Israel, the UK and those 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 28<sup>th</sup> 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, the UK and the US

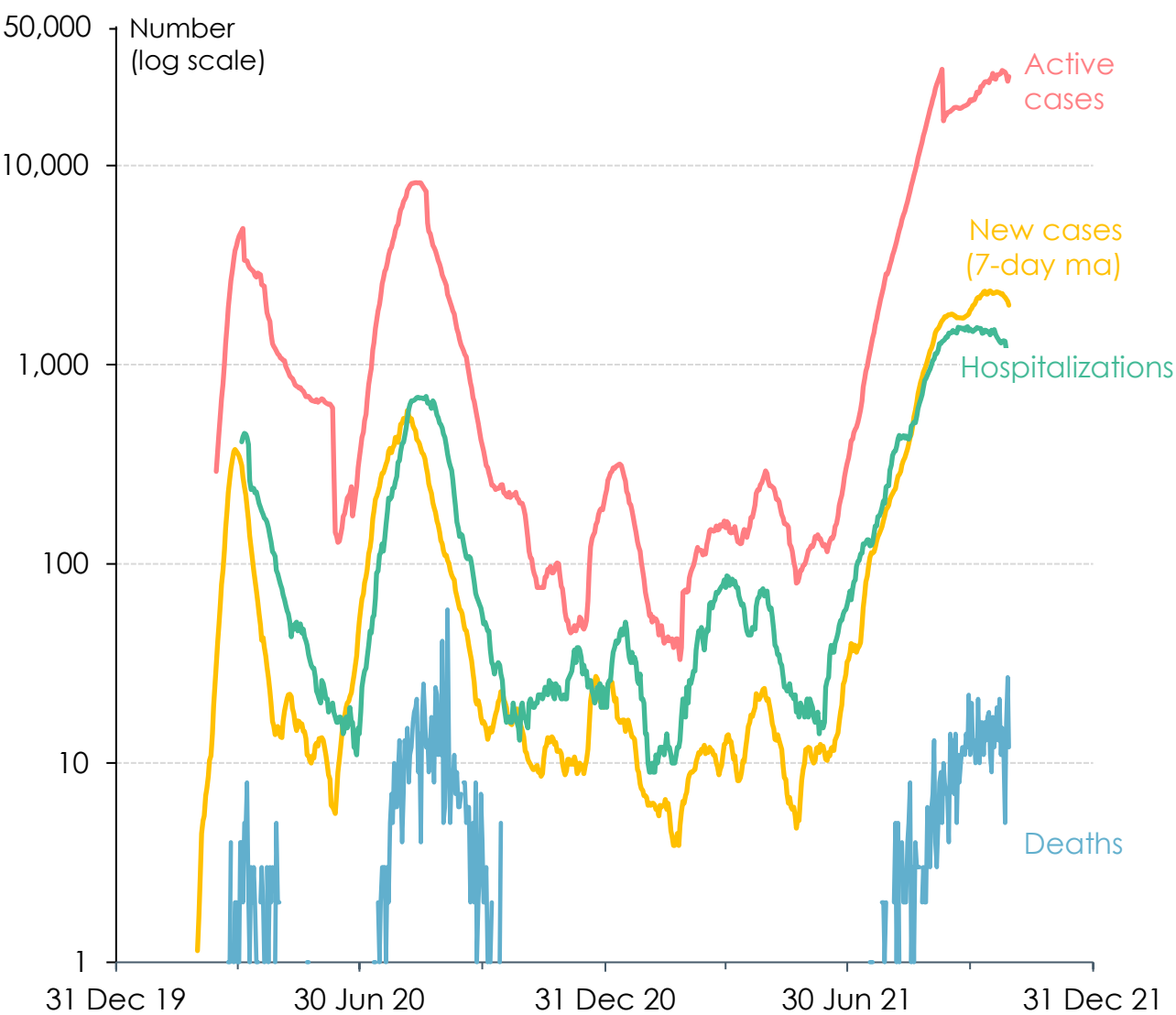
Voter approval of their government's handling of the coronavirus pandemic



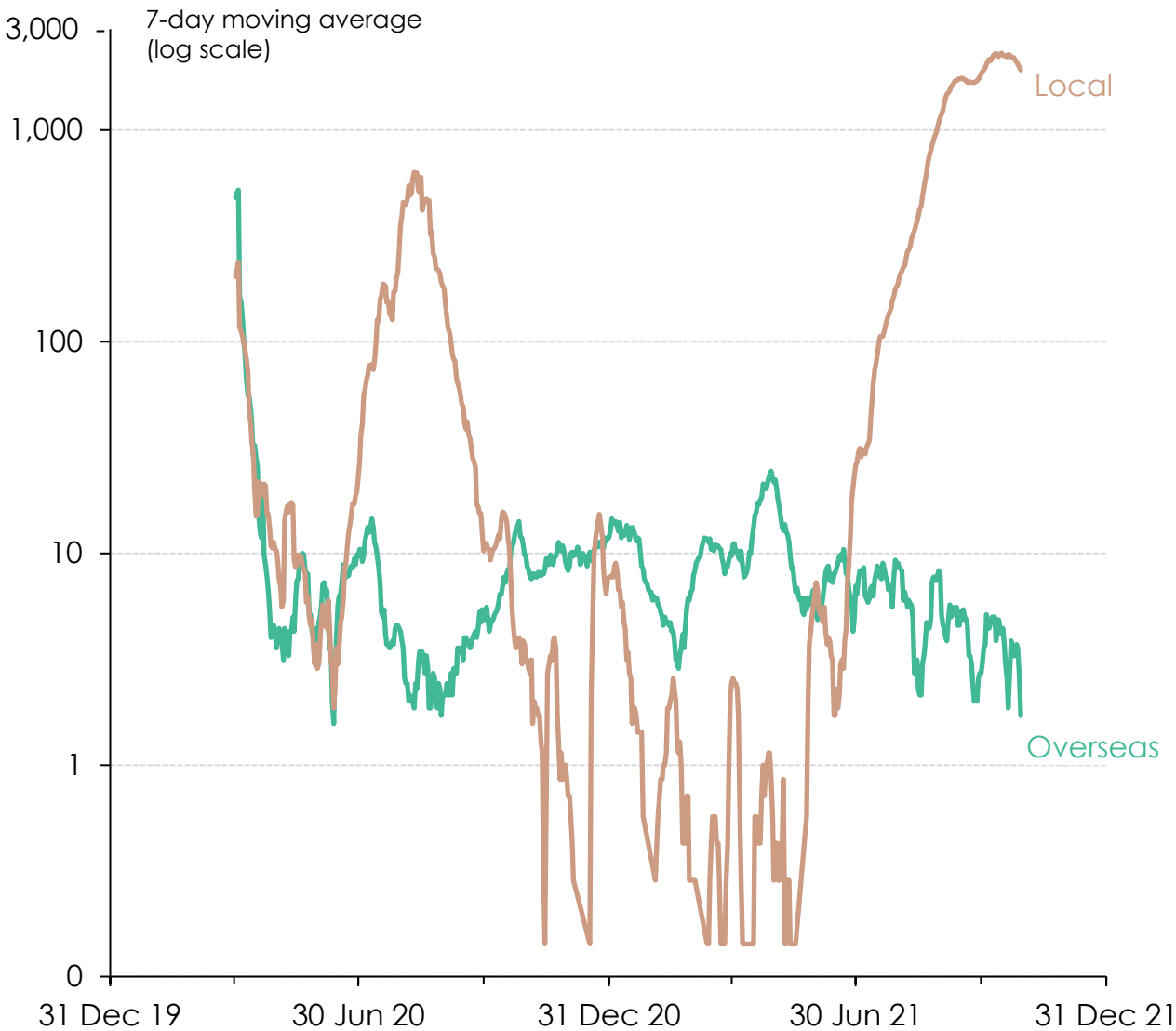
Source: YouGov, [Covid-19 tracker: government handling](#). [Return to "What's New"](#).

# Australia recorded 13,301 new infections this week – the 2nd decline in as many weeks – and the number in hospital was the lowest since 3<sup>rd</sup> Sept

Cases, recoveries, hospitalizations and deaths



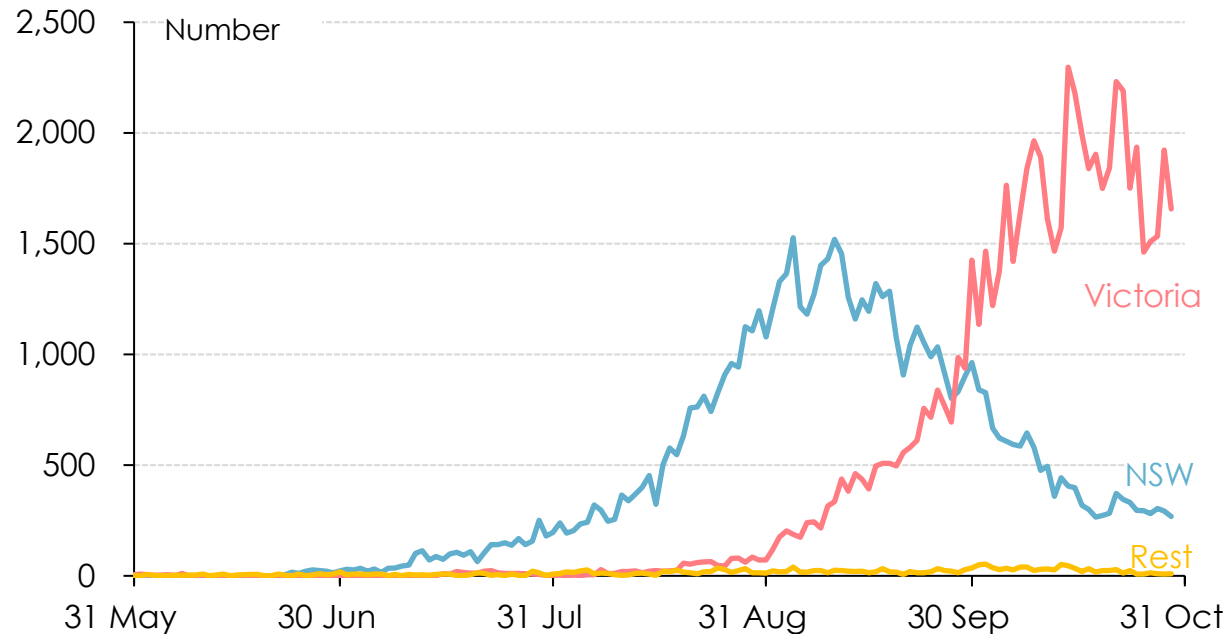
New cases, by source



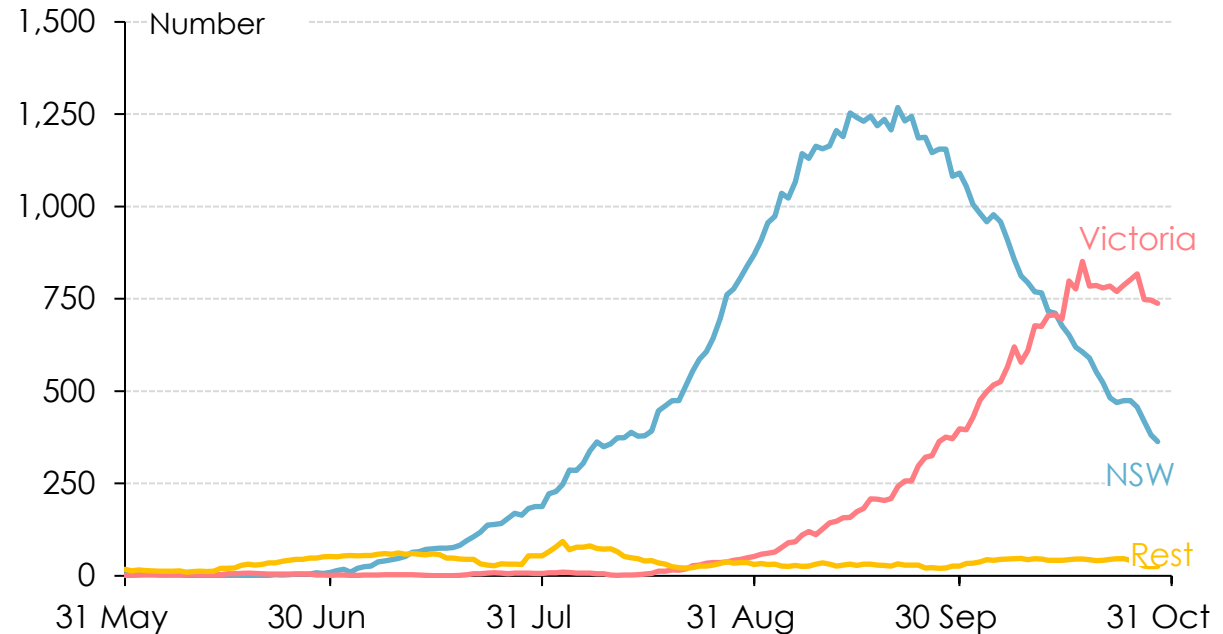
Note: Data up to 29<sup>th</sup> October. The sharp decline in 'active cases' on 10<sup>th</sup> September is entirely attributable to a 13,949 drop in the number of active cases reported in NSW (the reasons for which are not clear). Source: [covid19data.com.au](https://covid19data.com.au). [Return to "What's New"](#).

# Case numbers and hospitalizations appear to have passed their peak in Victoria, and continue to decline steadily in New South Wales

## New cases

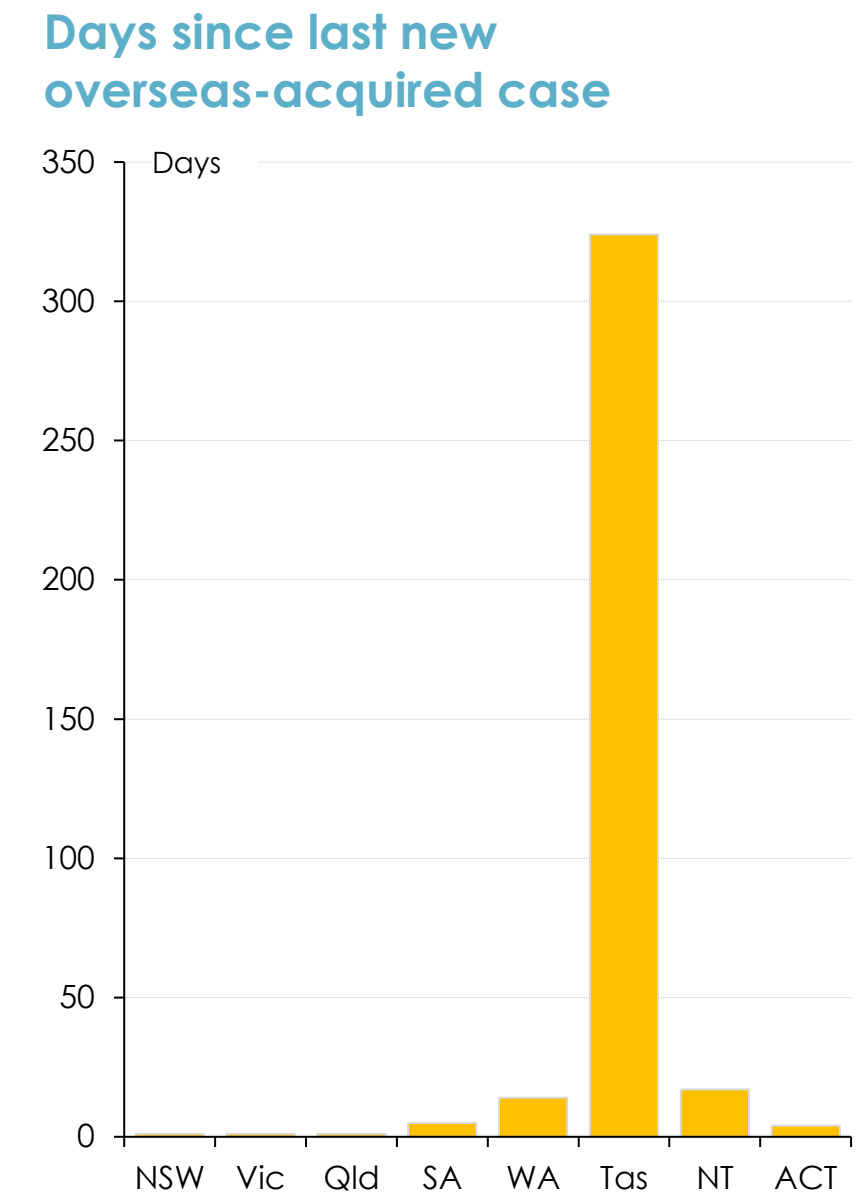
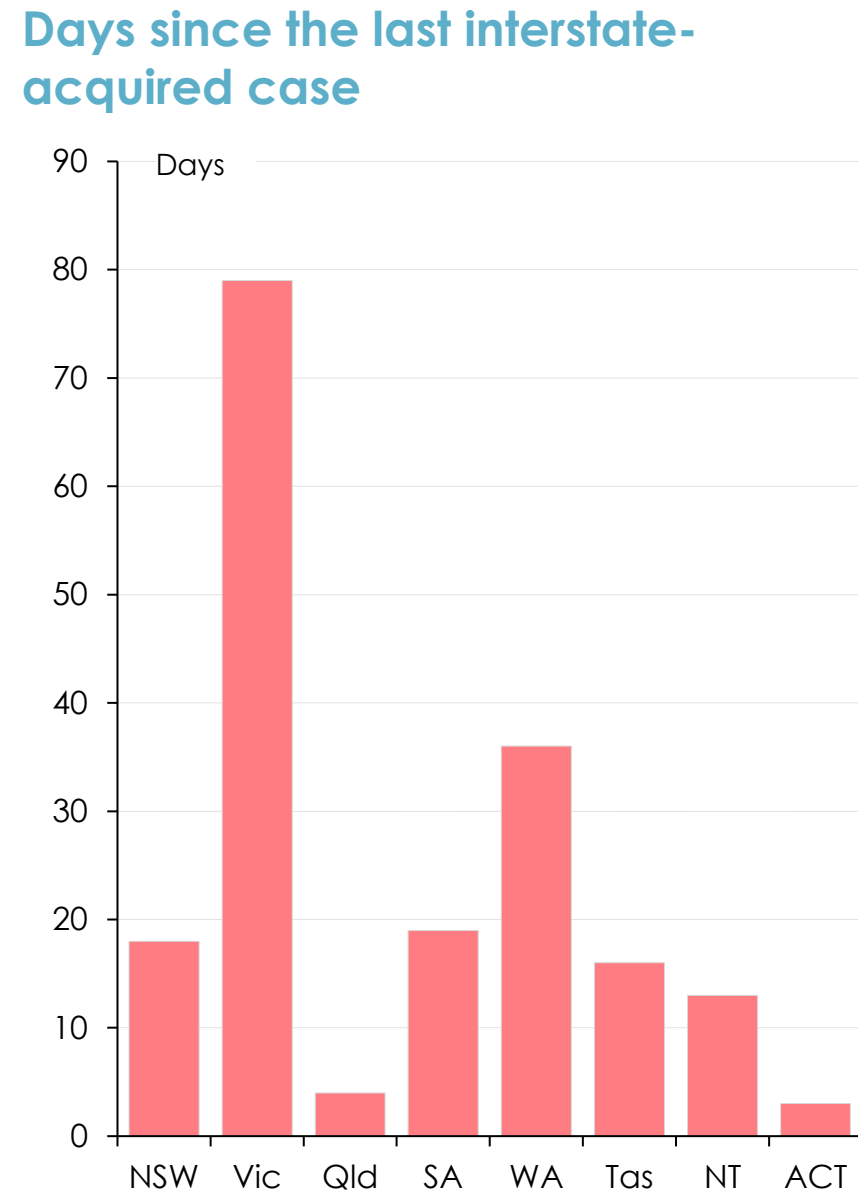
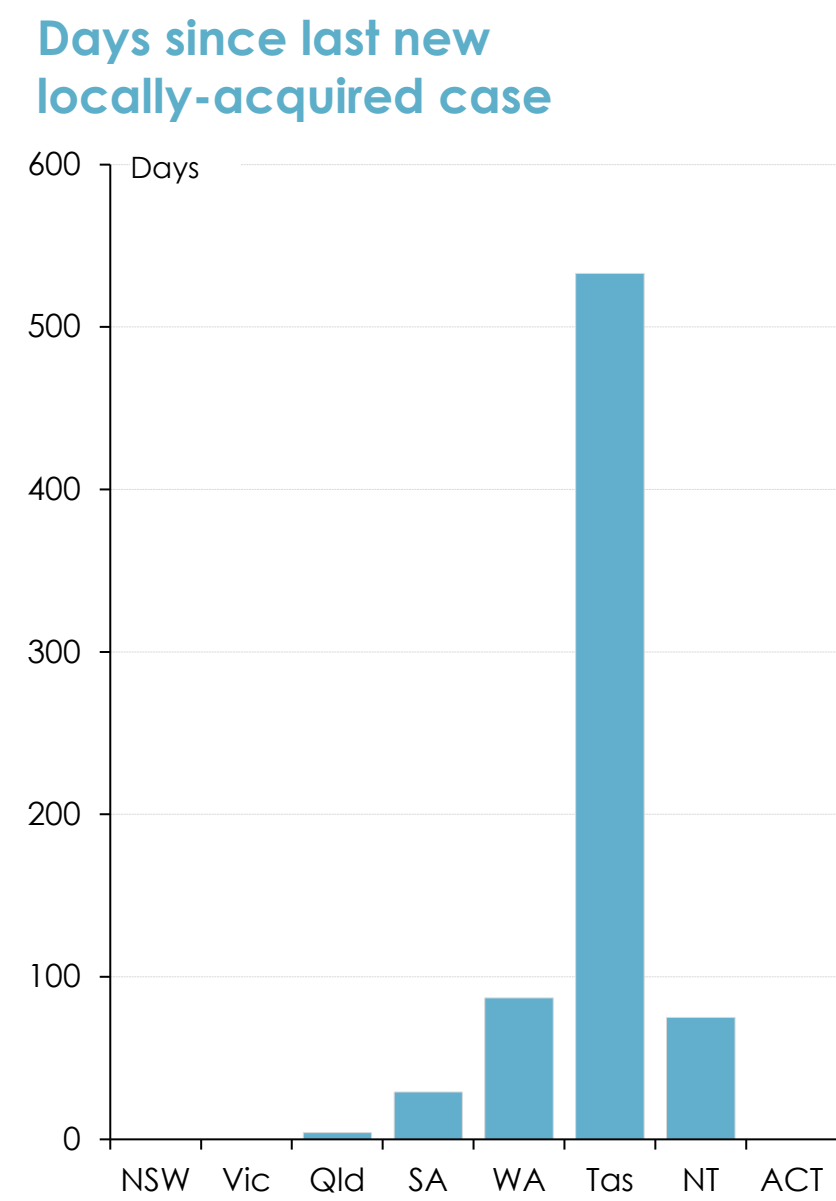


## Hospitalizations



- ❑ The number of new infections in New South Wales fell below 300 a day this week, and hospitalizations continued to decline – despite the easing of restrictions over the past two weeks (thanks to 87% of the 16+ population now being fully vaccinated)
- ❑ Victoria's new case numbers also now seem to have passed their (higher peak), and the number of hospitalizations is starting to edge down – with more restrictions being eased this week despite the 80% fully-vaccinated target not quite being reached
- ❑ Fully-vaccinated residents of NSW and Victoria will be able to travel overseas from next month without having to quarantine on their return
- ❑ Queensland will allow fully-vaccinated travellers to arrive by air from NSW & Victoria from 19<sup>th</sup> November (and by land from 17<sup>th</sup> December), South Australia will open its borders from 23<sup>rd</sup> December, but Tasmania will keep its borders closed to travellers from NSW & Victoria until 15<sup>th</sup> December – and Western Australia may remain closed until next year

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

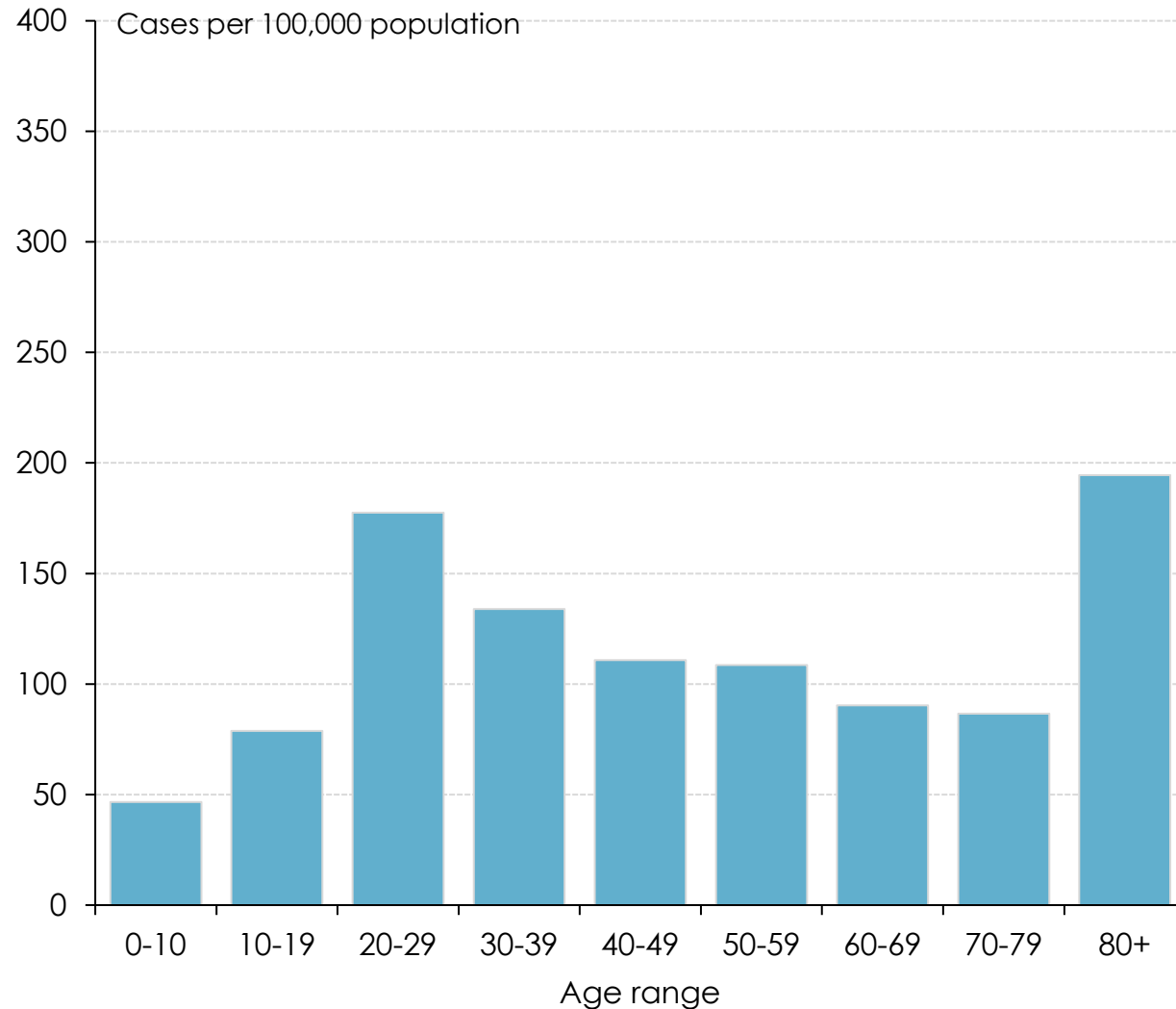


Note: Data are for 29<sup>th</sup> October. Source: [covid19data.com.au](https://covid19data.com.au). [Return to "What's New"](#).

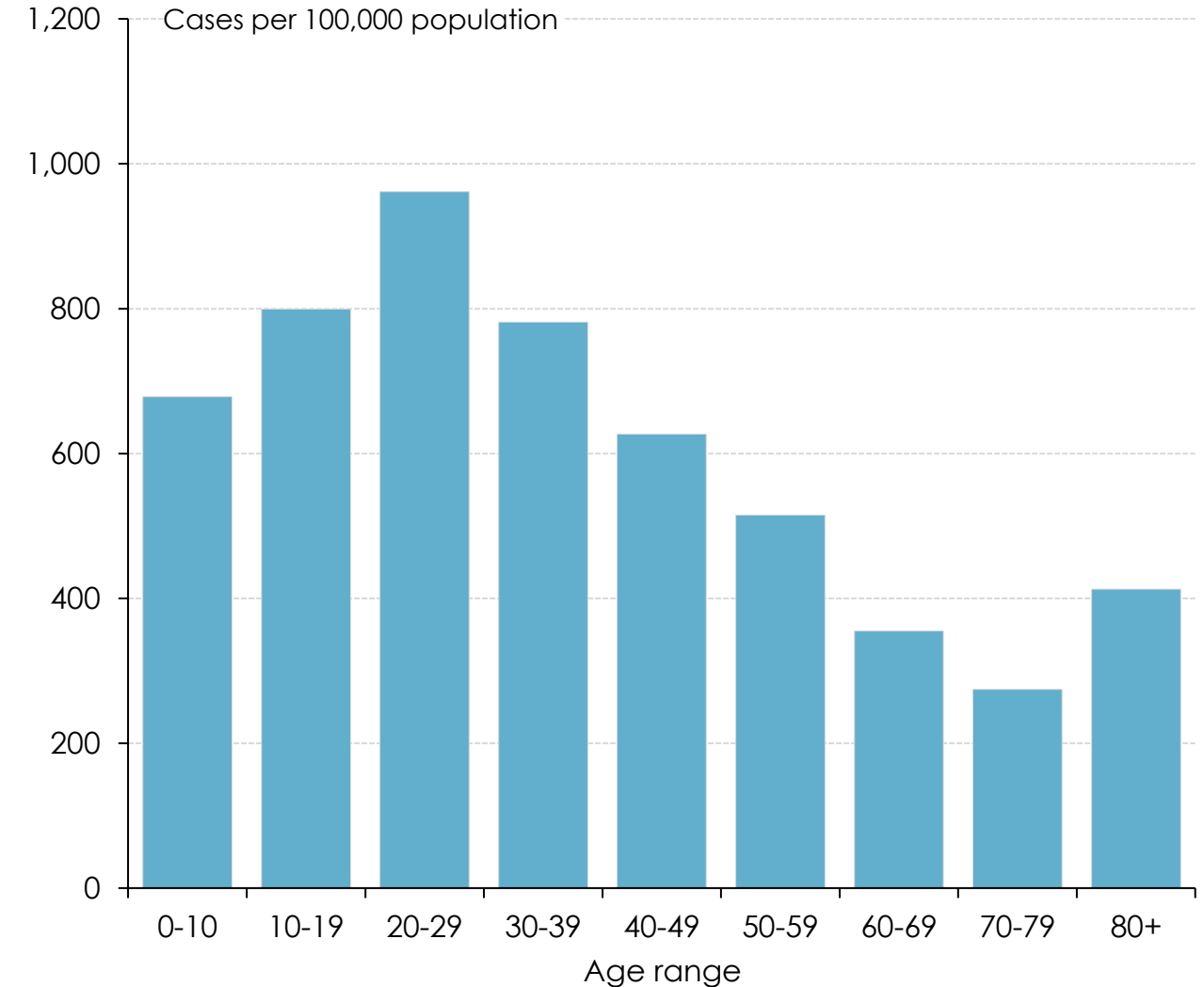


# People in their 20s & 30s have been more likely to become infected than other age groups this year – partly because fewer have been vaccinated

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

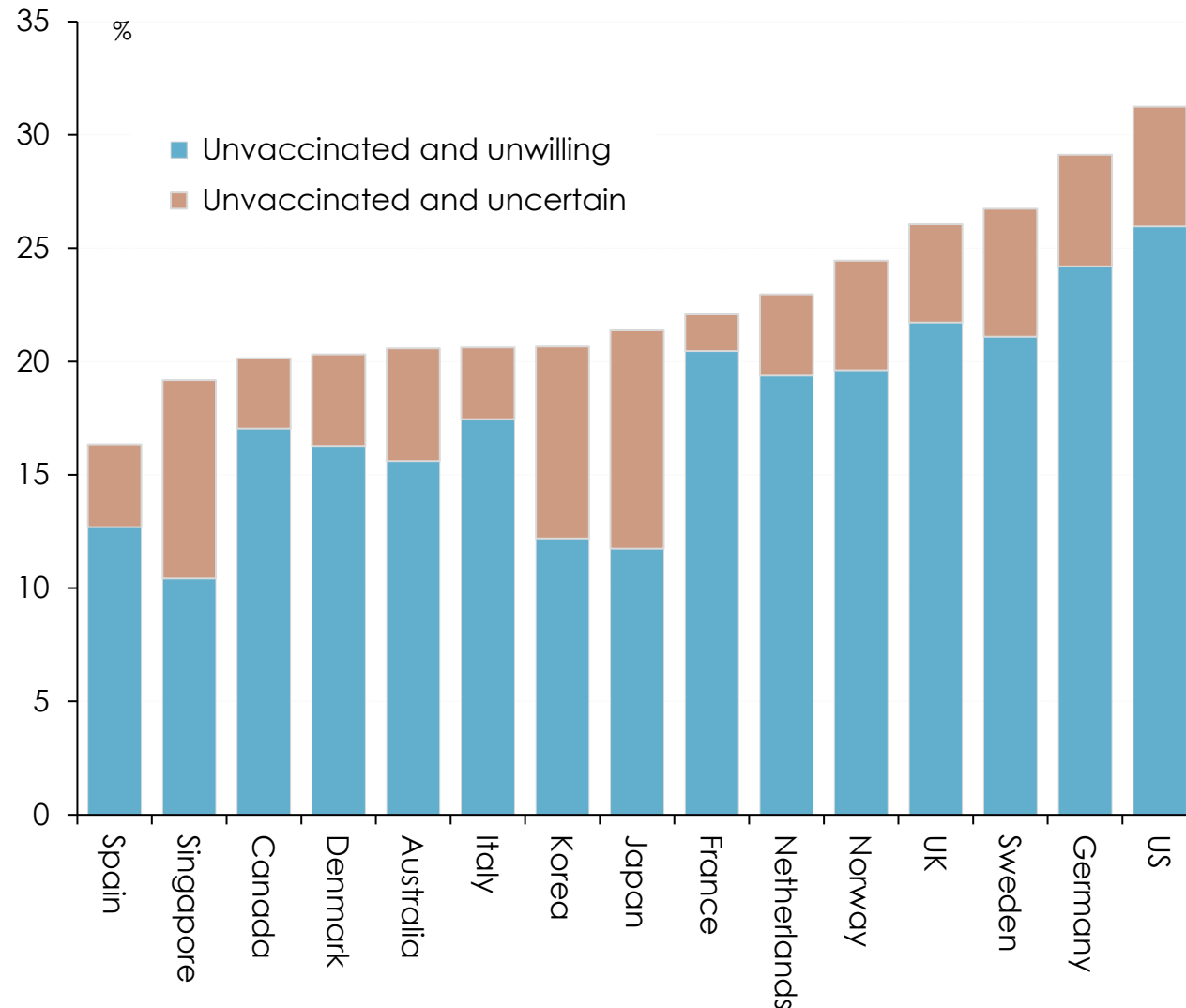


Cumulative confirmed cases per 100,000 population, by age group – 2021 to date

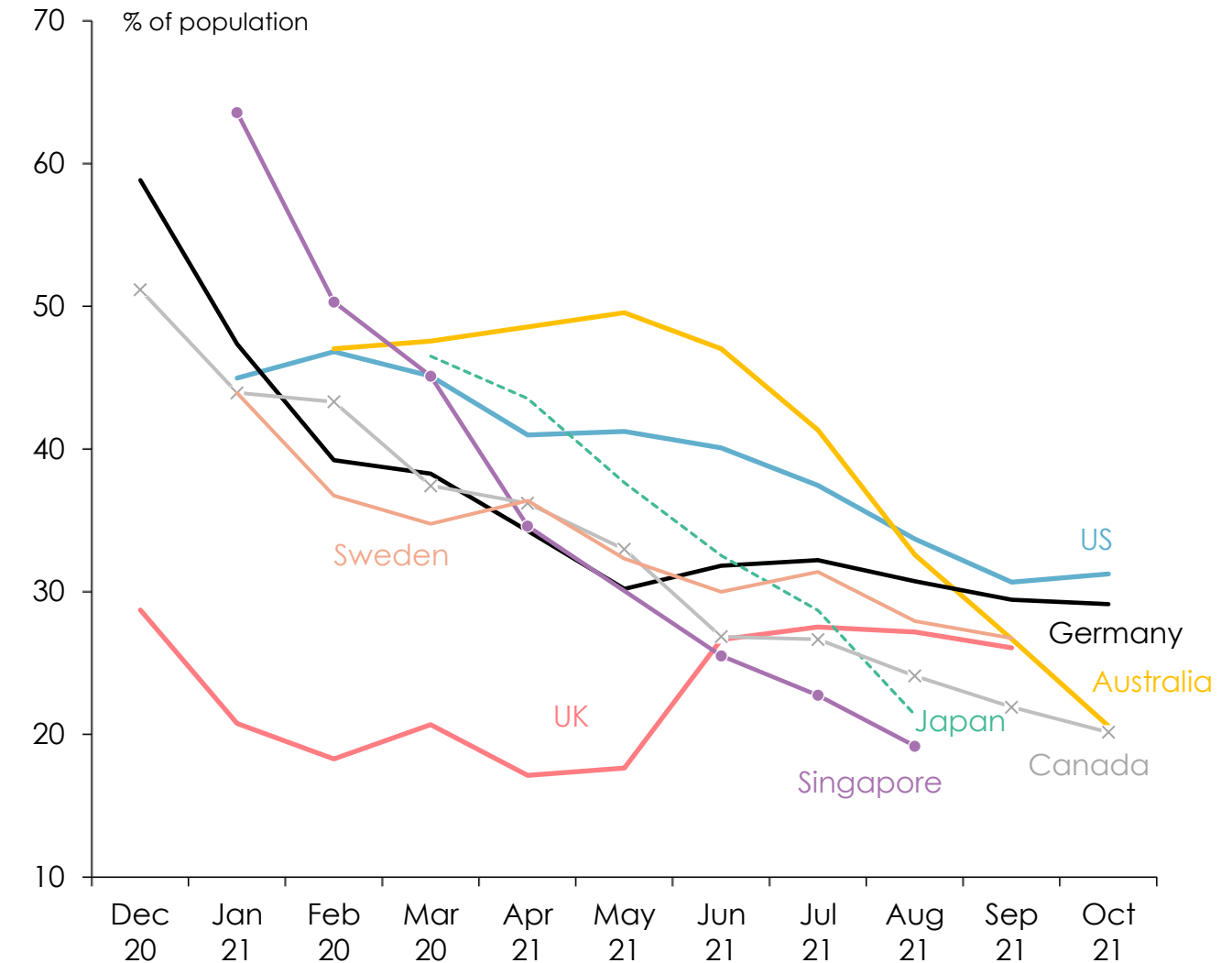


# Vaccine hesitancy among Australians was the highest in the 'developed' world, but has fallen sharply over the past four months

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



Percentage of populations unvaccinated and unwilling or uncertain about getting vaccinated

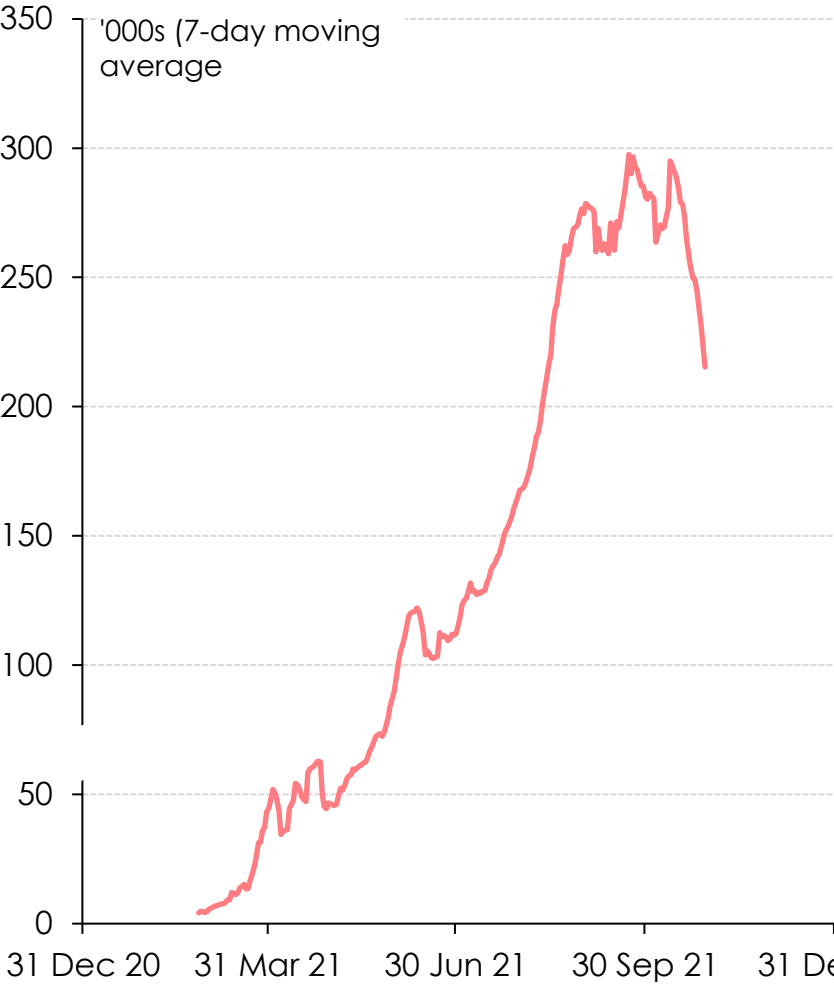


Note: Data for Japan, Singapore and Norway are for August; data for Denmark, Korea, the Netherlands, Spain and the UK are for September.

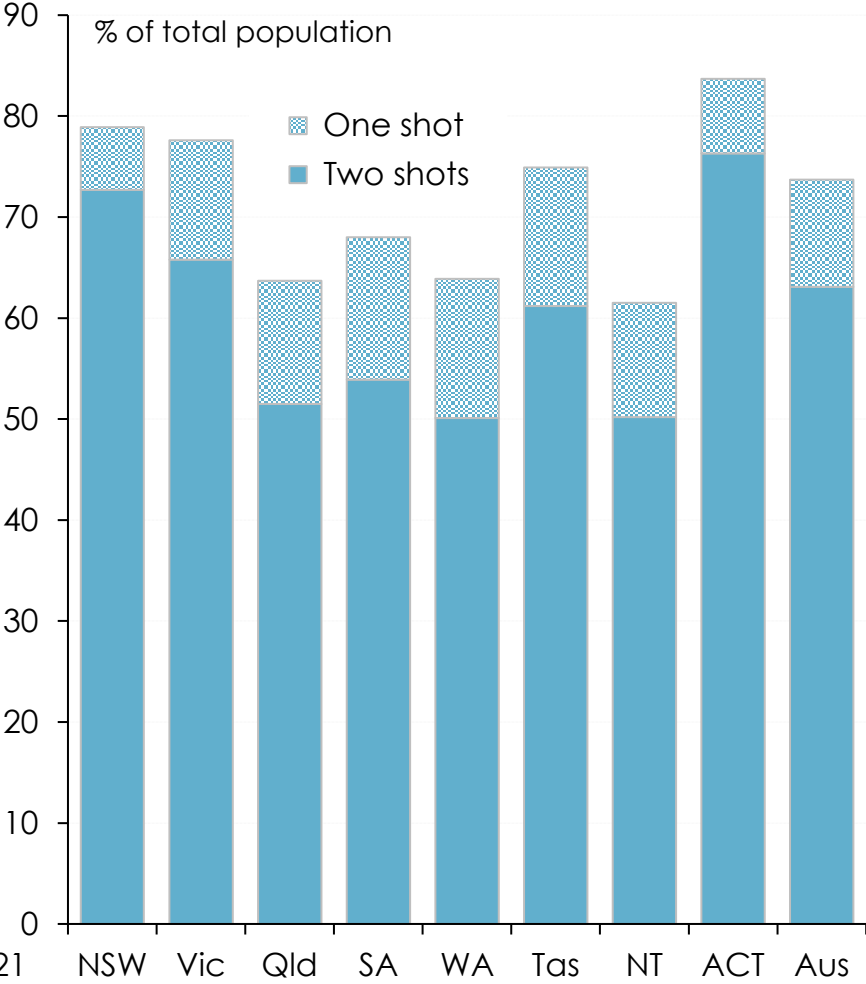
Source: Imperial College London and YouGov, [Covid 19 Behaviour Tracker Data Hub](#). [Return to "What's New"](#).

# 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'

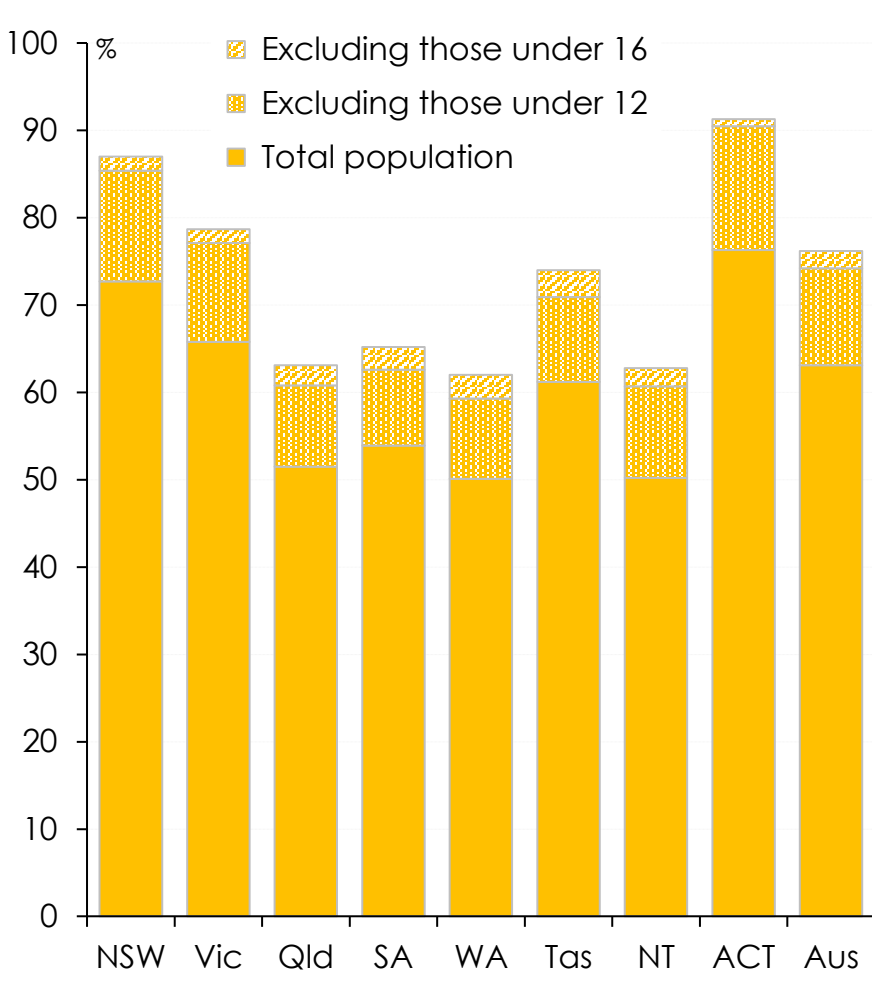
Daily number of vaccines administered



Percentage of total population vaccinated, states and territories



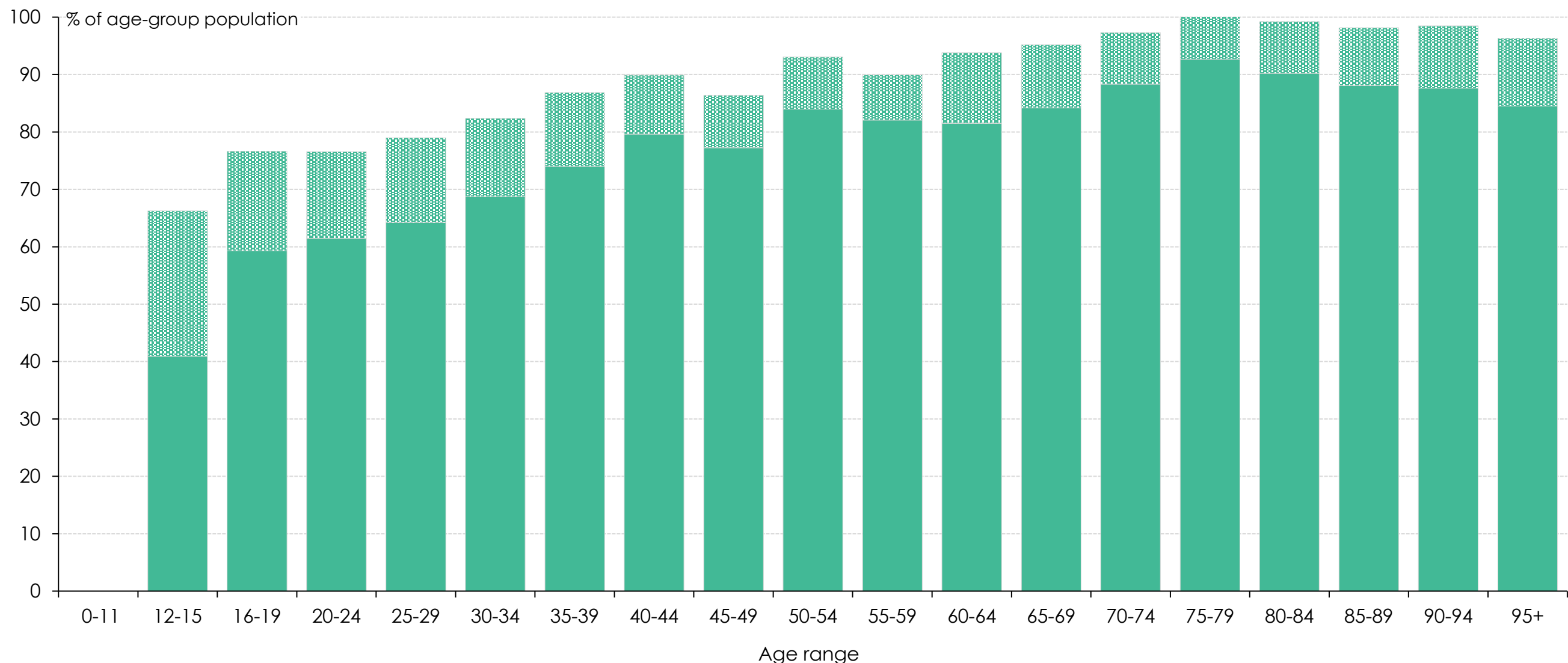
Percentage of populations double-vaccinated, states and territories



Note: Data up to 29<sup>th</sup> 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

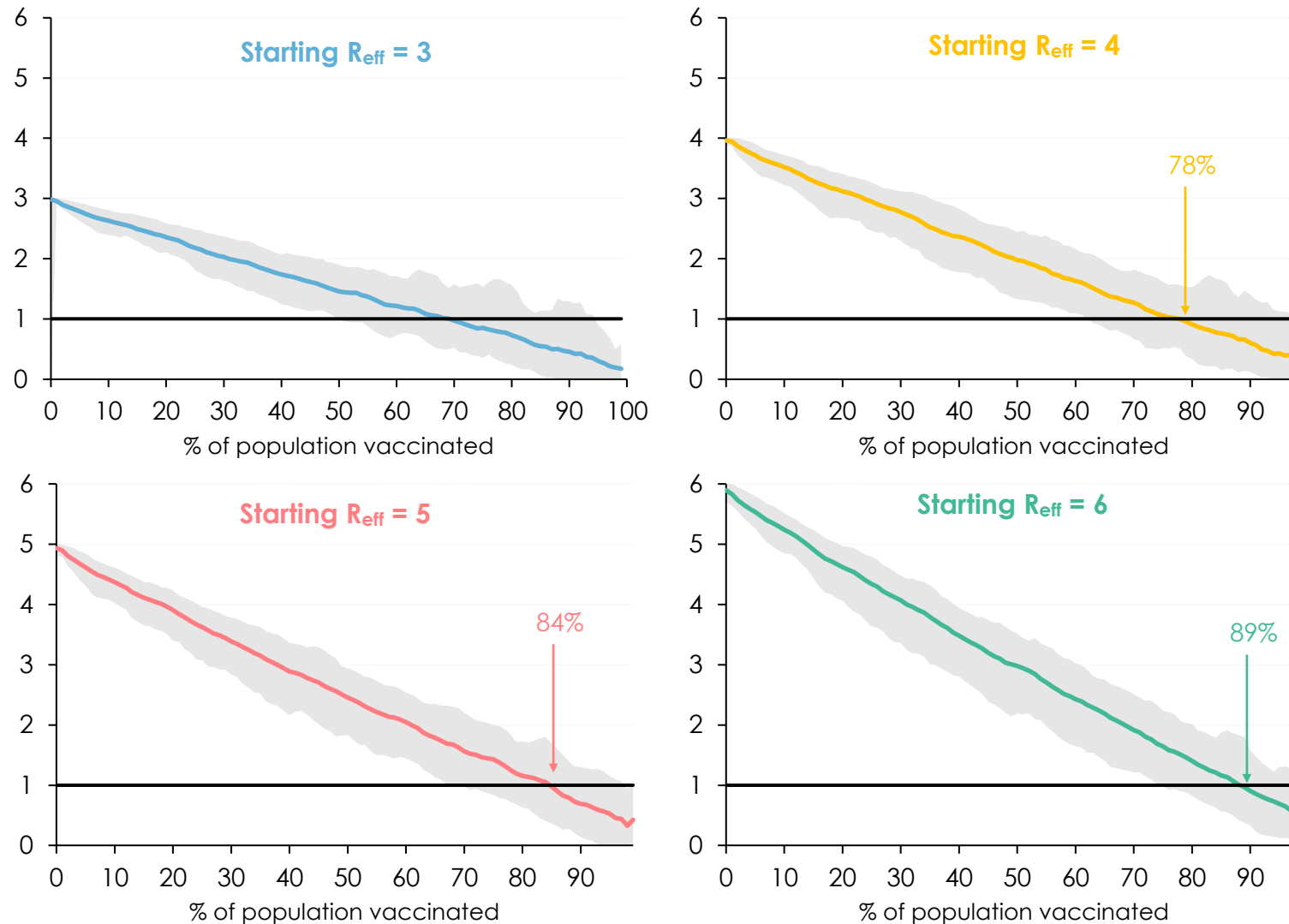
Vaccination rates by age group as at 29<sup>th</sup> October



Note: For data on infections by age group see [slide 16](#).  
Source: Commonwealth Department of Health, [Covid-19 Vaccine Roll-out update](#), 29<sup>th</sup> October 2021. [Return to "What's New"](#).

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

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



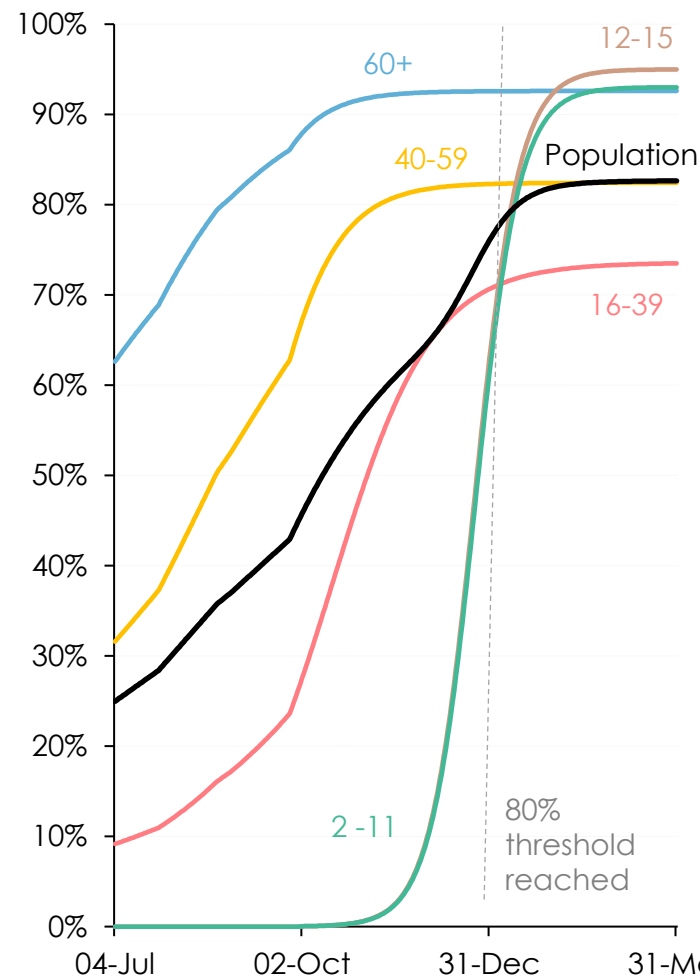
Note: Solid lines show the mean outcomes of the model simulations, while shaded areas show the 10<sup>th</sup> and 90<sup>th</sup> percentiles of the simulations. Source: Stephen Duckett, Danielle Wood, Brendan Coates et al, [Race to 80: Our best shot at living with Covid](#), Grattan Institute, 27<sup>th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

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

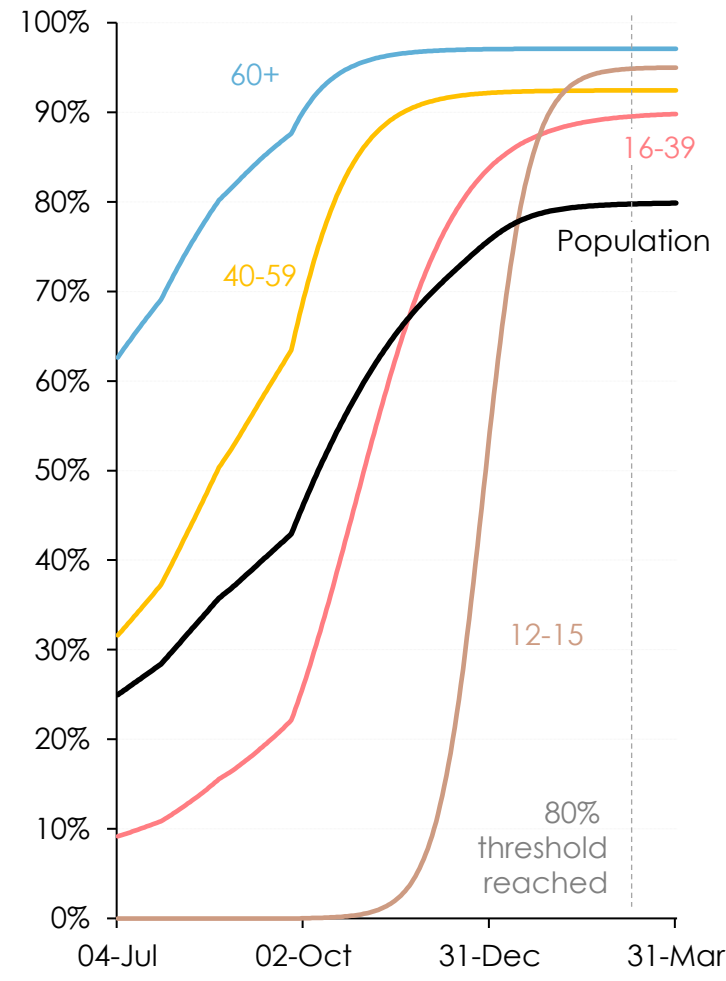
# Because the Government's vaccination targets are expressed in terms of the 'eligible' population there may be some risk of opening up 'too early'

## Plausible vaccination rates by age group

Assuming children aged 2-11 can be vaccinated



Assuming children aged 2-11 can't be vaccinated



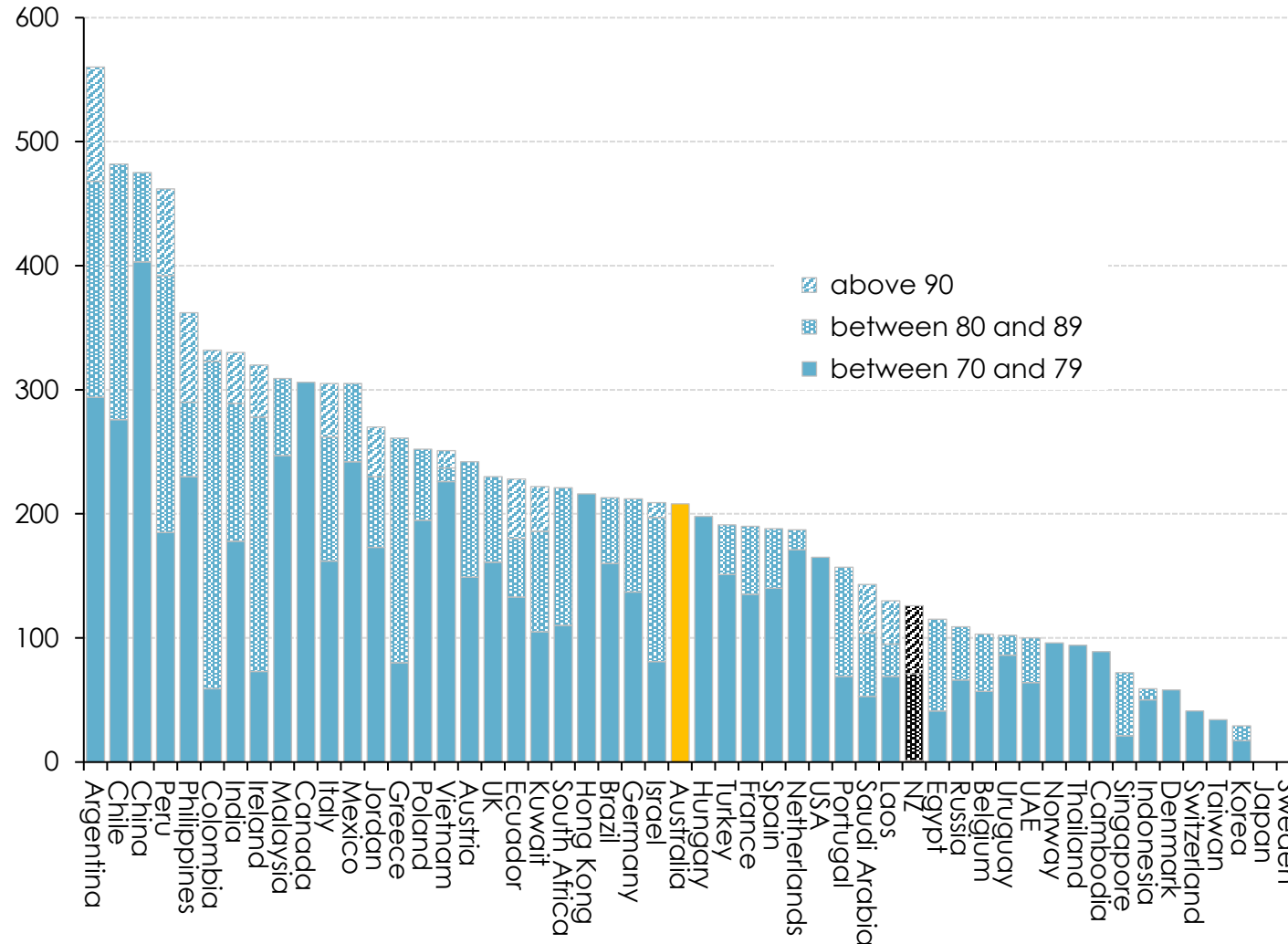
- ❑ the Federal Government's '[National Plan to transition Australia's National COVID-19 Response](#)' (based on [Doherty Institute modelling](#)) specifies 70% and 80% 'full vaccination rates' as thresholds for the progressive easing of restrictions
- ❑ These thresholds are expressed as percentages 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, 27<sup>th</sup> July 2021; Department of Prime Minister and Cabinet, [Doherty Institute COVID-19 modelling - Key findings and implications](#), 3<sup>rd</sup> August 2021.

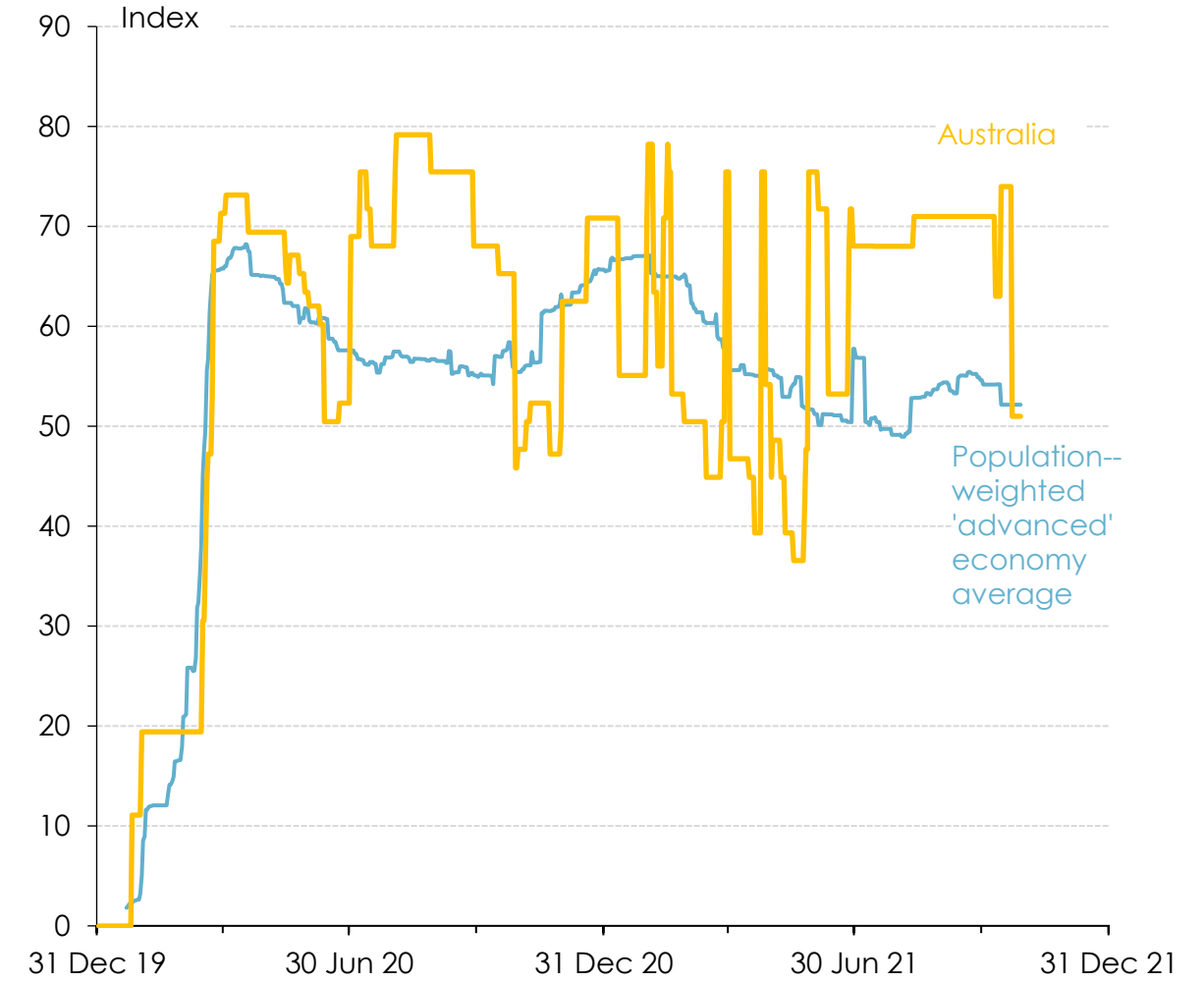


# Australia's health restrictions are now back in line with the average of other 'advanced' economies having been stricter for three months

## 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

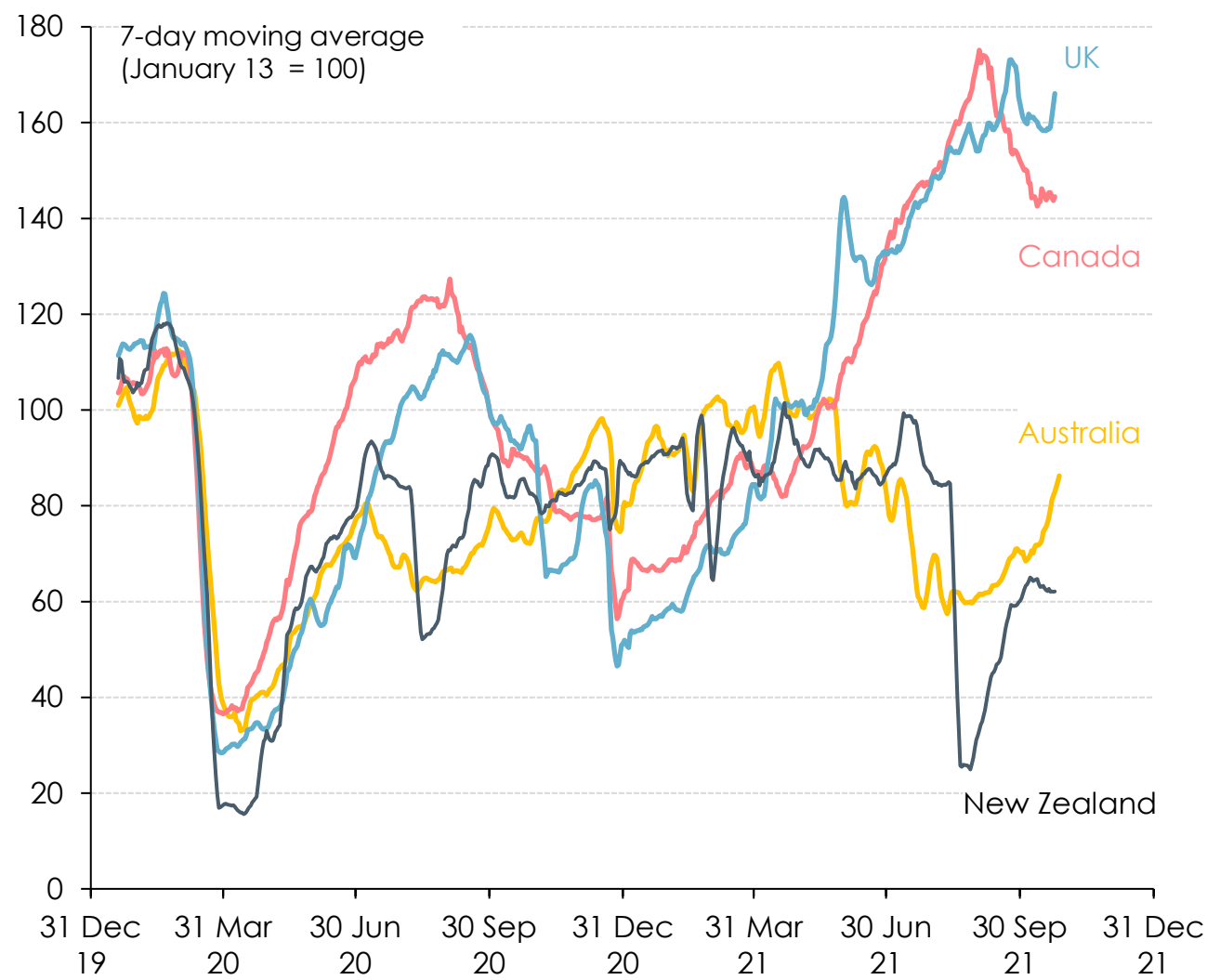


The Oxford COVID-19 Government Response Tracker collects publicly available information on 11 indicators of government response including school and workplace closures, public events cancellations, restrictions on public gatherings, stay at home requirements, public transport closures, domestic and international travel restrictions, public information campaigns, testing and contact tracing. Source: [Blavatnik School of Government, Oxford University](#). Data up to 28<sup>th</sup> October. [Return to "What's New"](#).

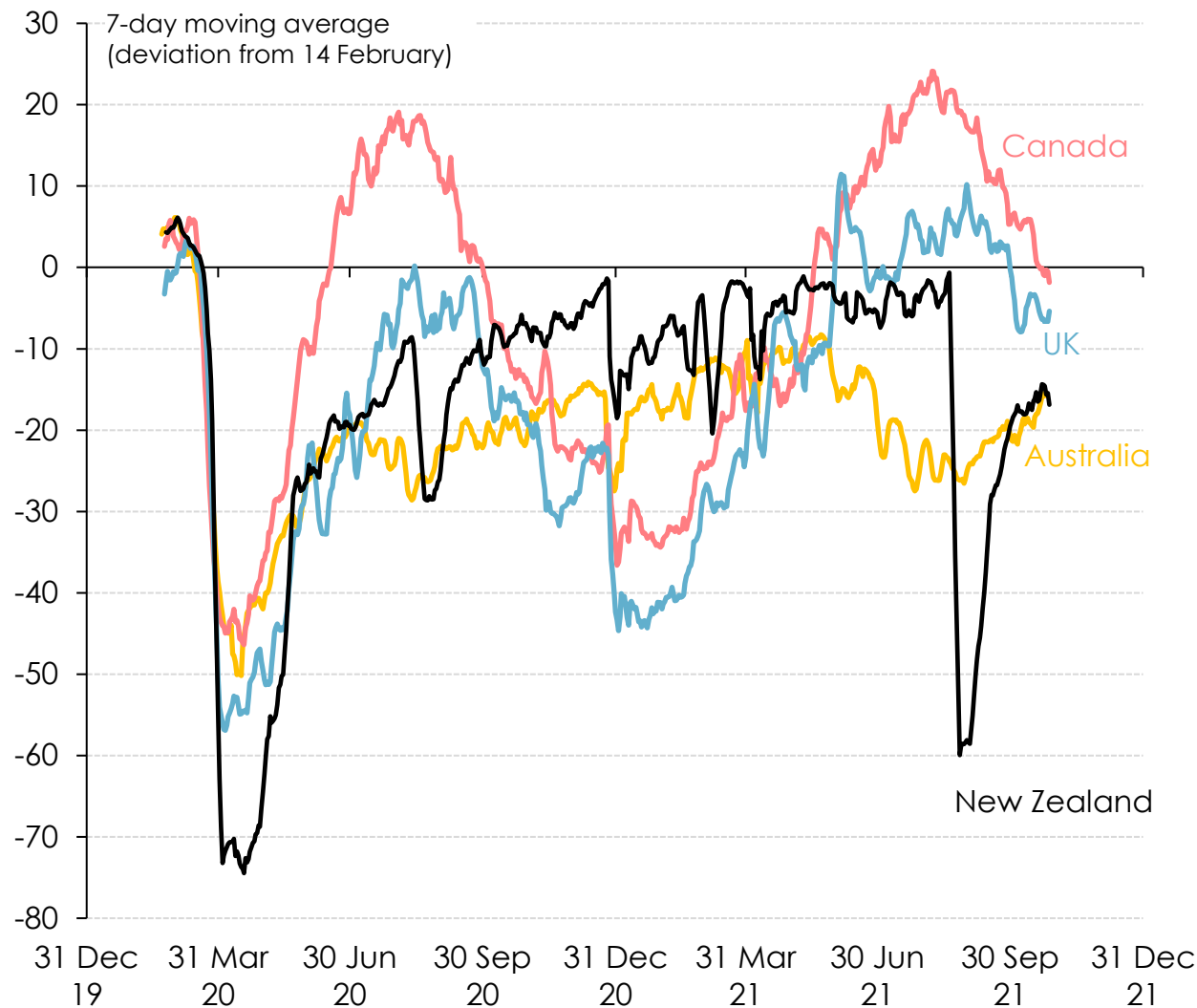


# Mobility indicators give some sense of how more onerous restrictions have affected Australia's economy compared with (eg) Canada & the UK

Apple mobility indicators



Google non-residential activity mobility indicators

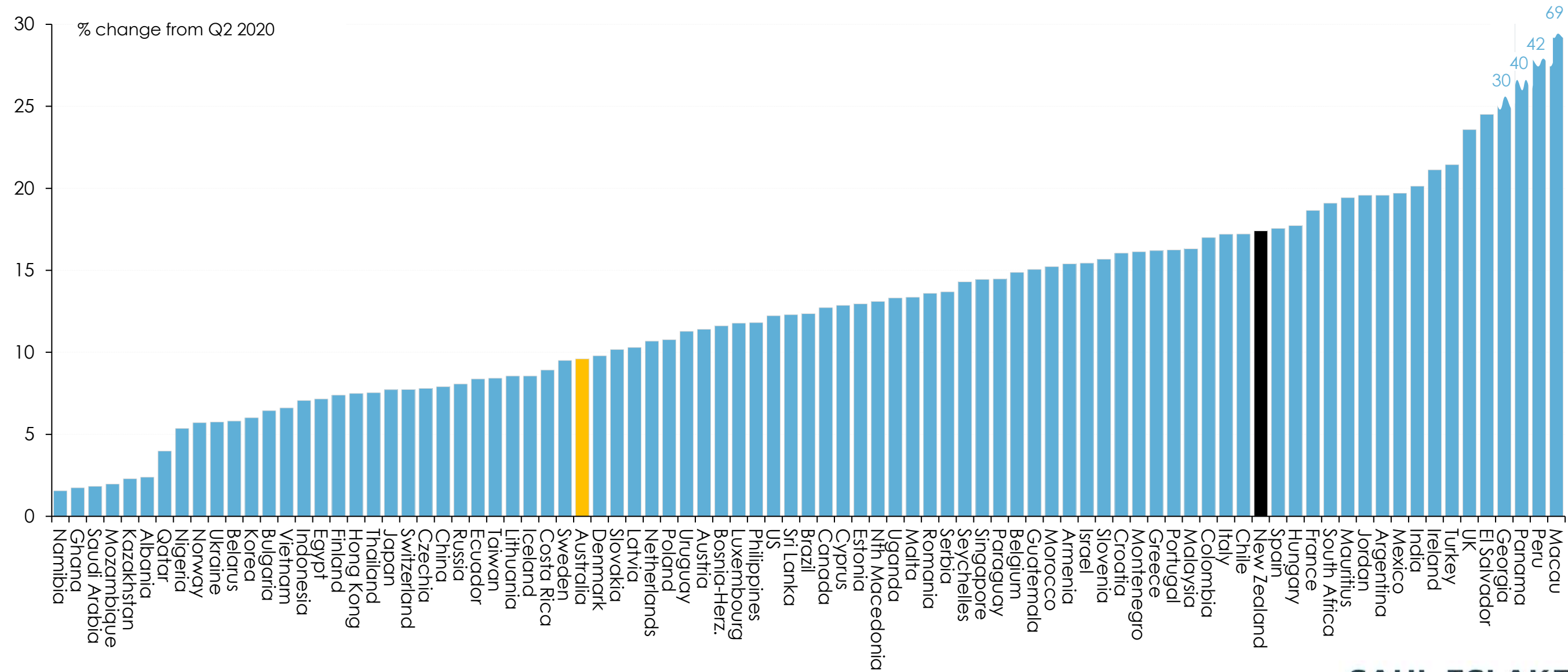


Note: 'Apple mobility indicator' is the average of three separate indicators for driving, use of transit and walking (data up to 27<sup>th</sup> October). Google 'non-residential activities' indicator is the average of separate indicators for workplaces, retail and recreation, groceries and pharmaceuticals, transit and parks (data up to 25<sup>th</sup> October).  
Sources: Apple, [Mobility Trends Reports](#); Google, [Covid-19 Community Mobility Reports](#); Corinna Economic Advisory. [Return to "What's New"](#).

**The world**

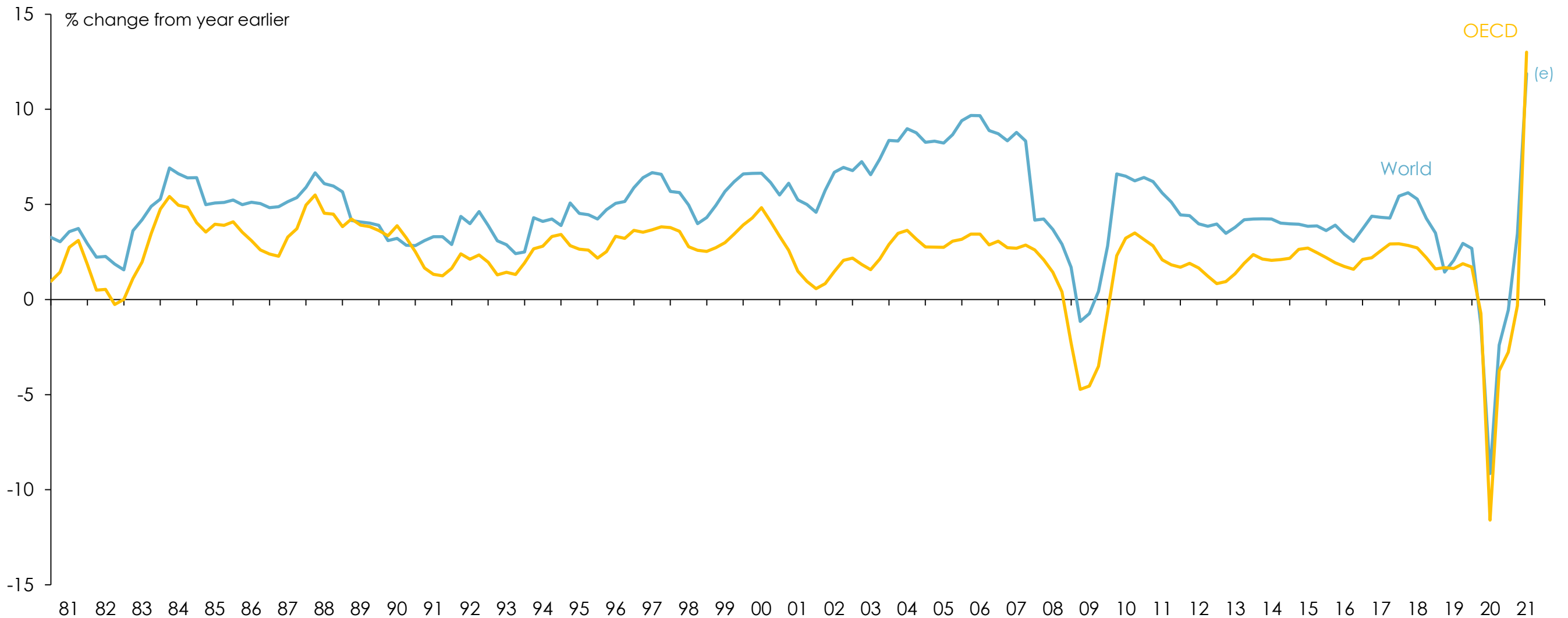
# Of 87 countries which have now reported Q2 GDP estimates, 54 have recorded double-digit growth from last year's pandemic-induced trough

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

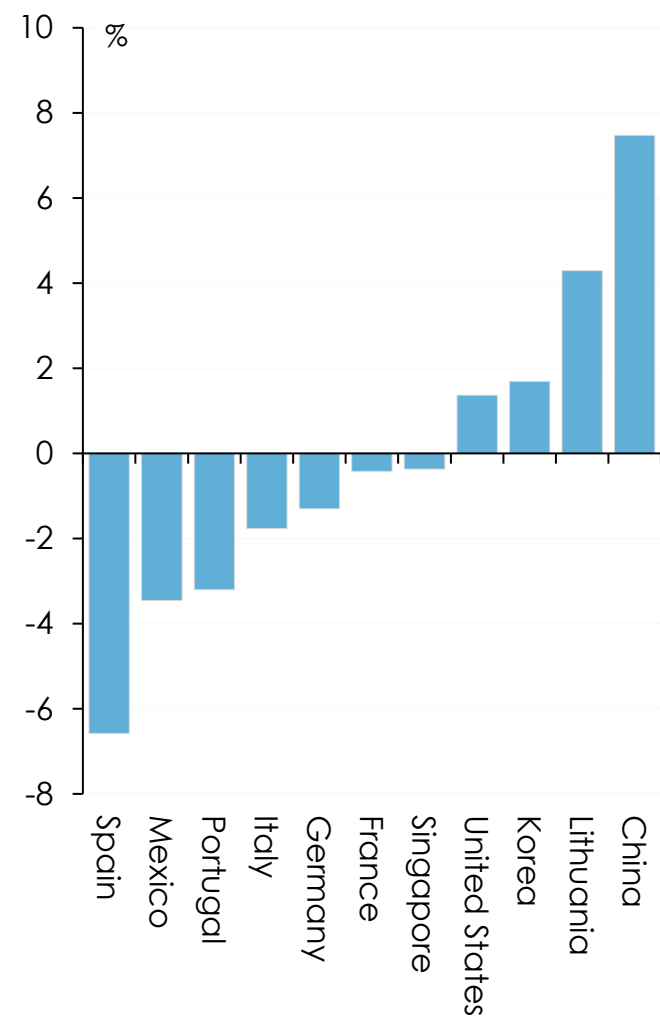


Note: Estimates of global GDP growth compiled by Corinna using data for 100 countries accounting for 94% of 2019 world GDP as measured by the IMF, weighted in accordance with each country's share of global GDP at purchasing power parities in 2019; excludes constituents of the former USSR before 1993,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

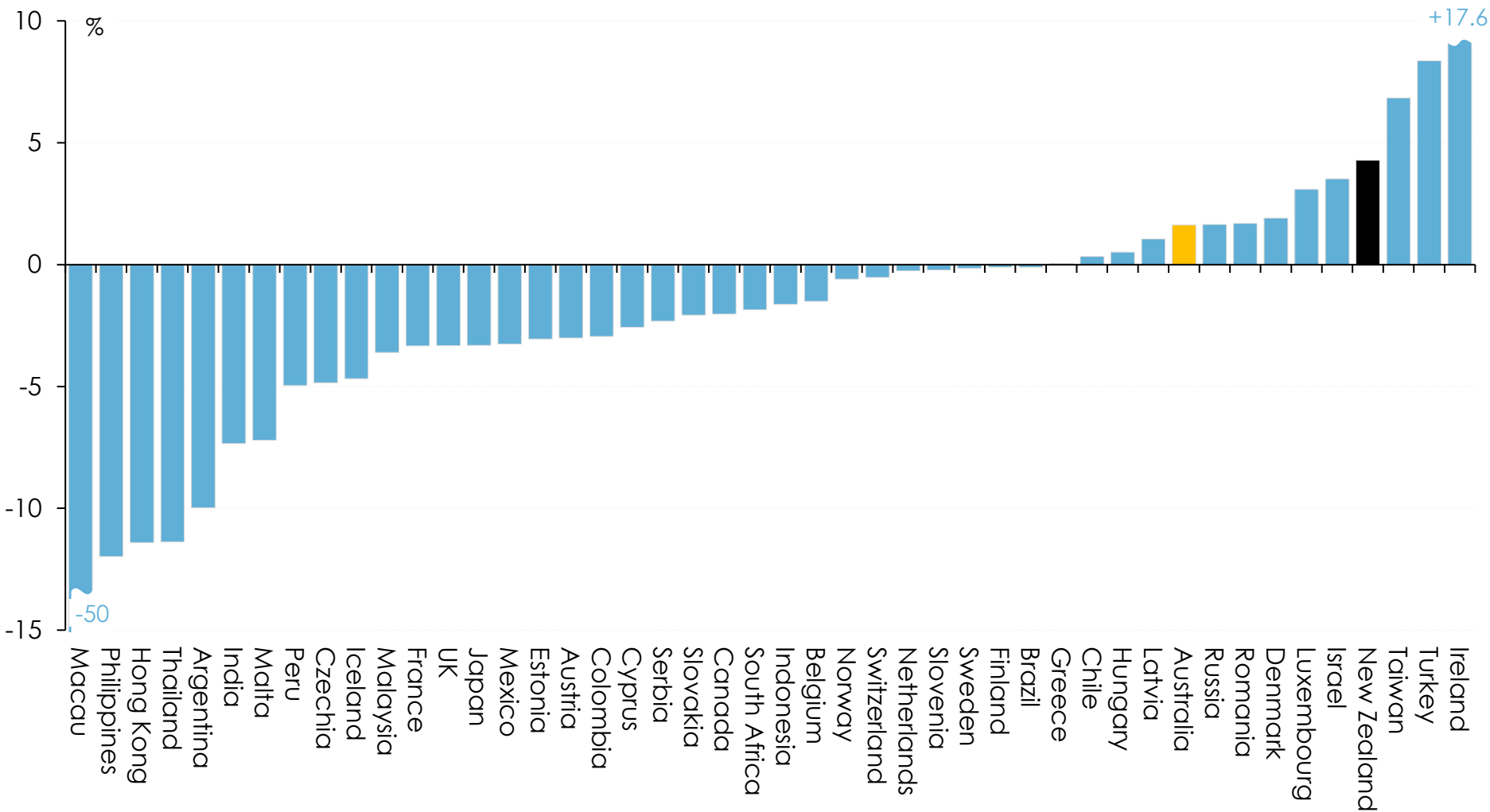
Sources: national statistical agencies and central banks; Eurostat; [OECD](#); IMF; Corinna. [Return to "What's New"](#).

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

Q3 2021 real GDP compared with pre-recession peak



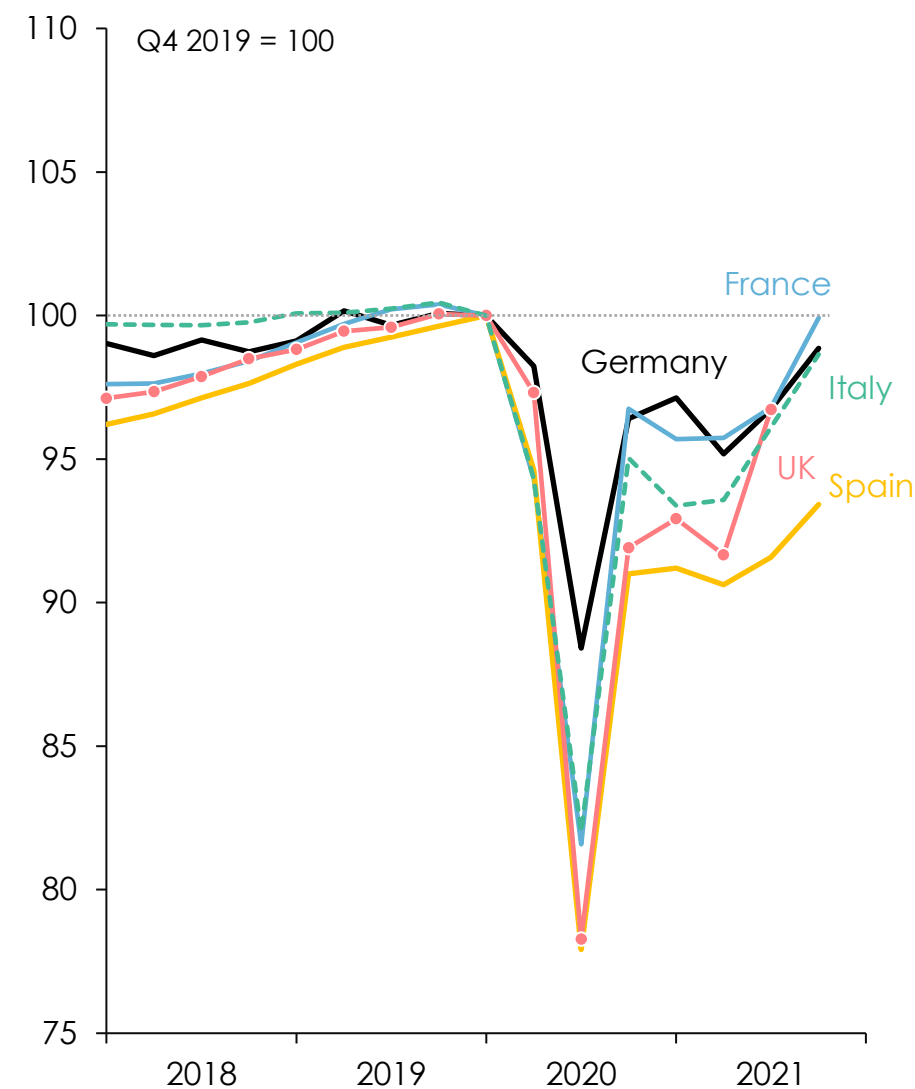
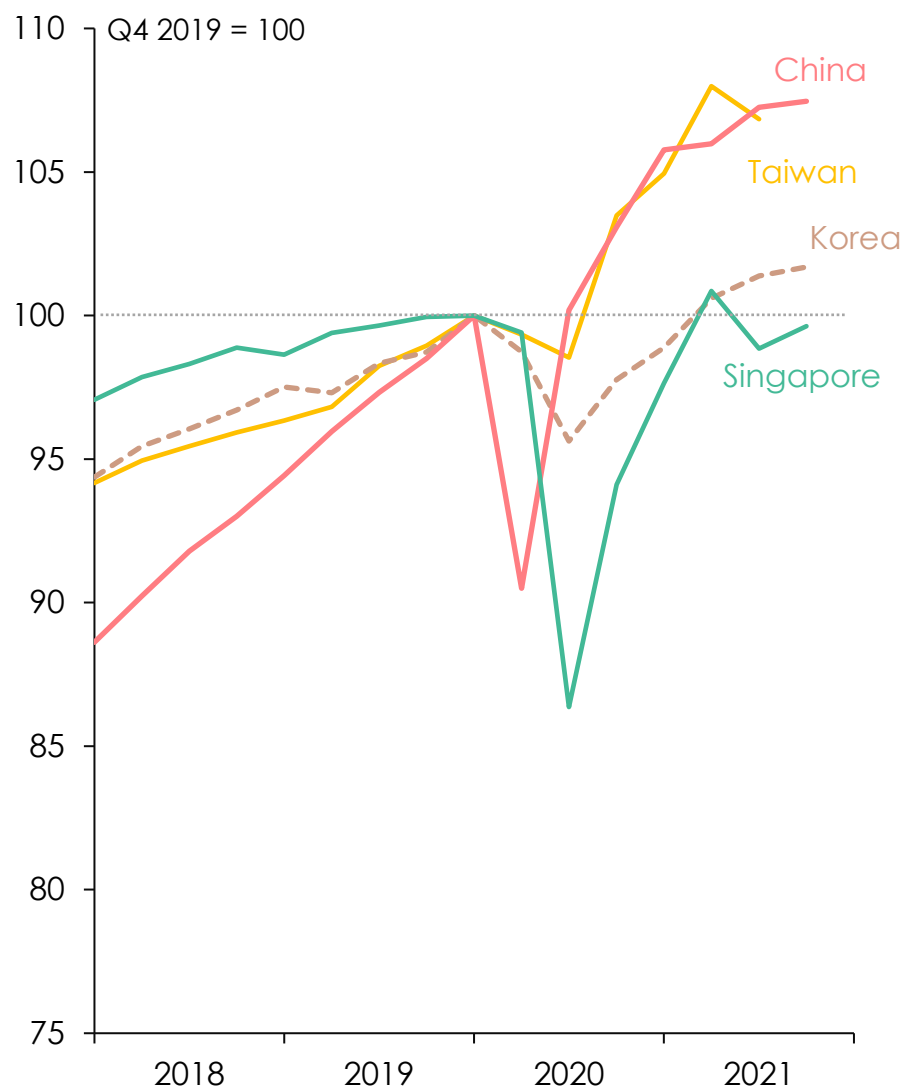
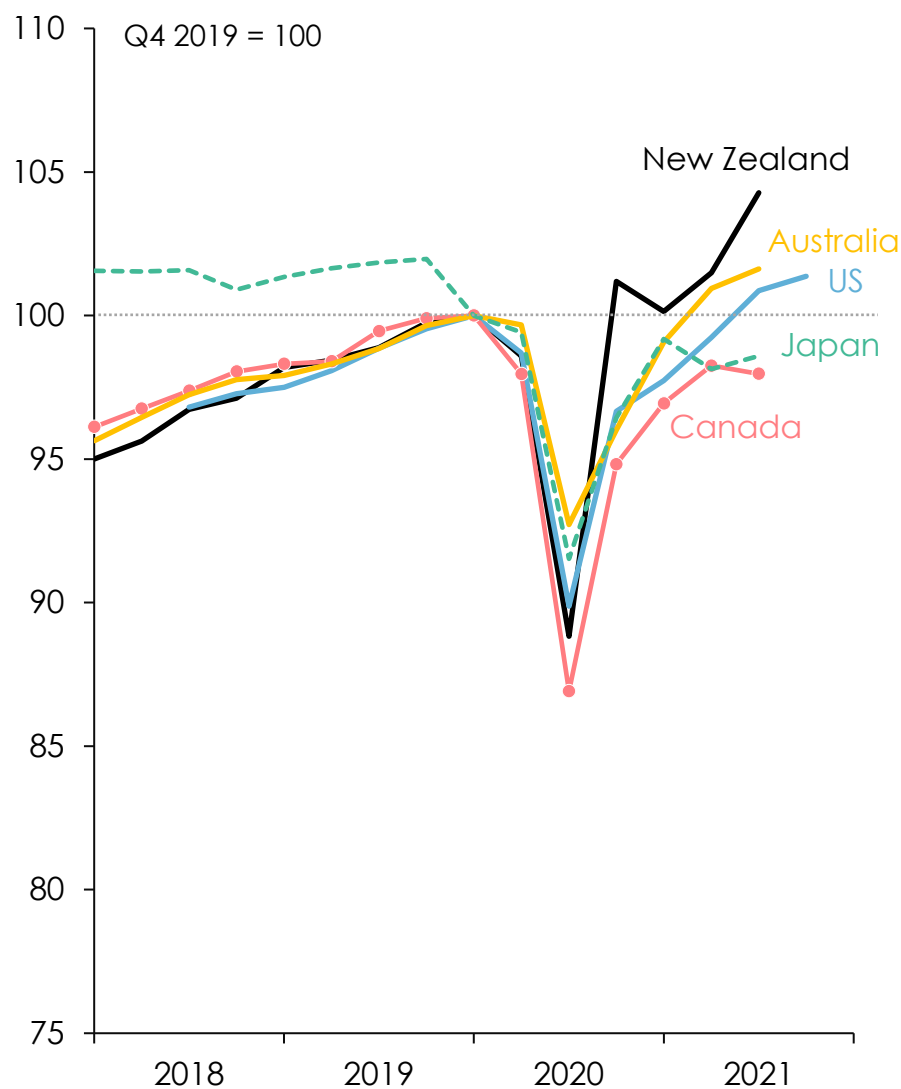
Q2 2021 real GDP compared with pre-recession peak



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 has 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 <sup>†</sup>	4.4 <sup>†</sup>
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 1<sup>st</sup> July (and finishing 30<sup>th</sup> June following year) † Forecasts by New Zealand Treasury for fiscal years beginning 1<sup>st</sup> July  
Sources : International Monetary Fund (IMF), [World Economic Outlook](#), 12<sup>th</sup> October 2021; The World Bank, [Global Economic Prospects](#), 8<sup>th</sup> June 2021;  
Organization for Economic Co-operation & Development (OECD), [Economic Outlook, Interim Report](#), 21<sup>st</sup> September 2021; Australian Treasury, 2021-22 [Budget Paper No. 1, Statement No. 2](#), 11<sup>th</sup> May 2021; New Zealand Treasury, [Budget Economic and Fiscal Update 2021](#), 20<sup>th</sup> May 2021. [Return to "What's New"](#).



# 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

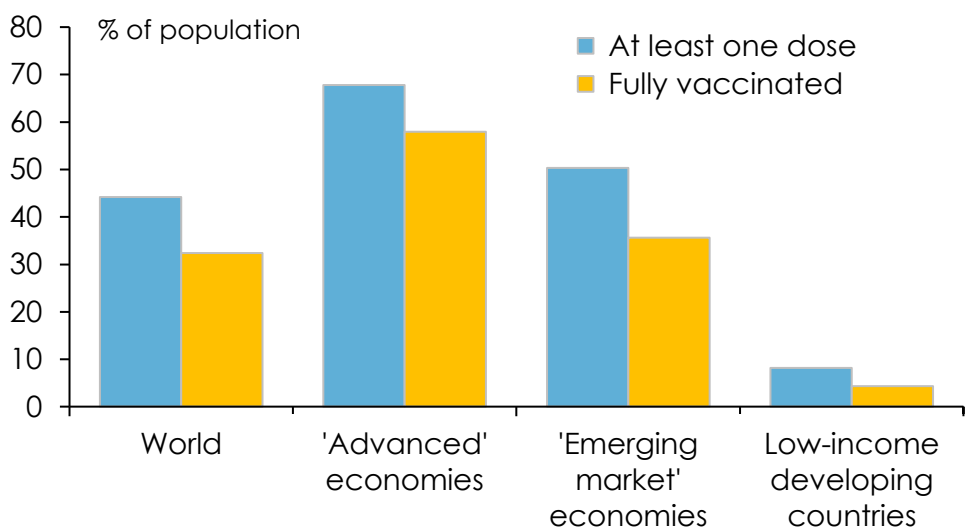
	October forecast (%)		Revision from July (pc pts)	
	2021	2022	2021	2022
<b>Advanced economies</b>				
US	6.0	5.1	-1.0	+0.3
Euro zone	5.0	4.2	+0.4	0.0
Japan	2.4	3.2	-0.4	+0.2
UK	6.8	5.0	-0.2	+0.2
Australia	3.5	4.1	-1.8	+1.1
New Zealand	5.1	3.3	+1.1	+0.1
<b>Emerging economies</b>				
China	8.0	5.6	-0.1	-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
<b>World</b>	<b>5.7</b>	<b>4.5</b>	<b>-0.1</b>	<b>0.0</b>

- ❑ 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”

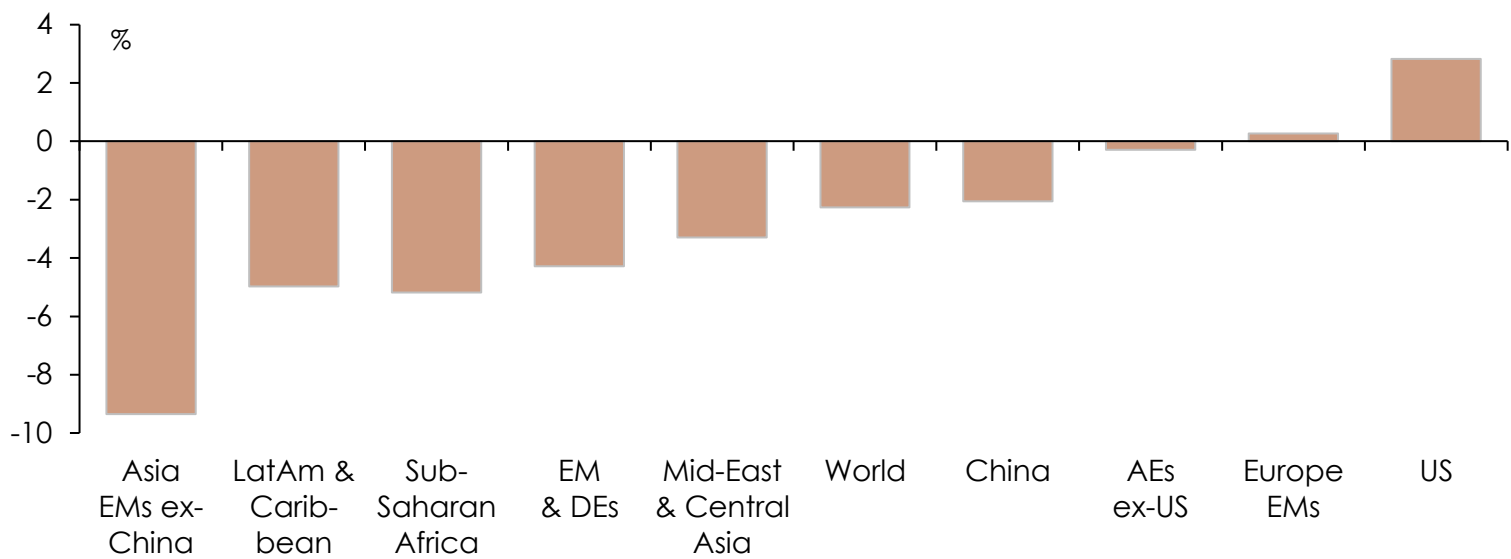
Source: IMF [World Economic Outlook](#), 12<sup>th</sup> October 2021.  
[Return to "What's New"](#).

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

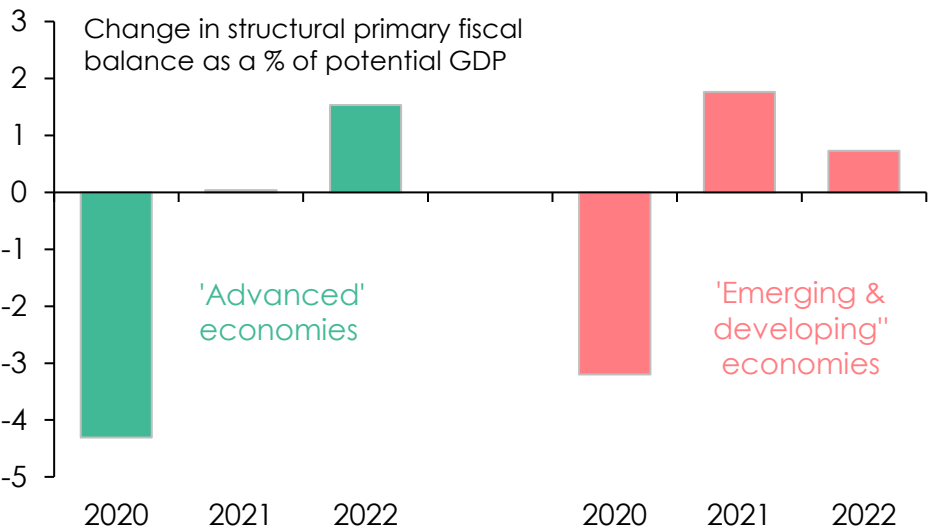
## Vaccination rates



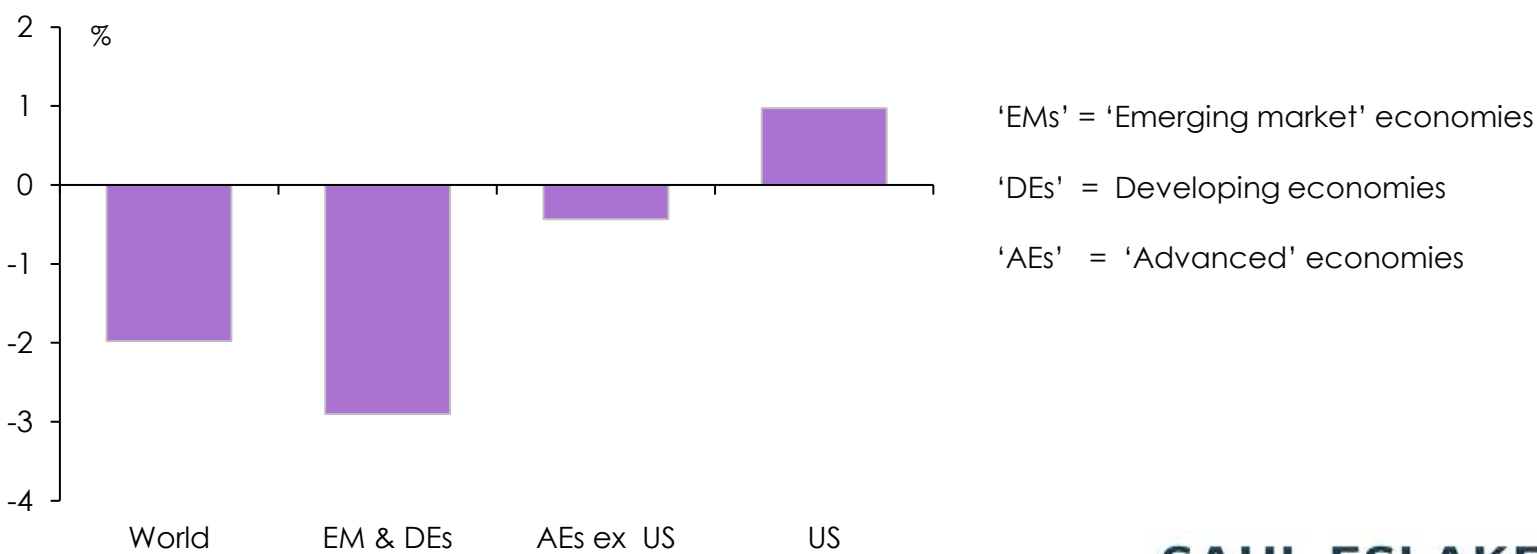
## Output losses relative to pre-pandemic trend



## Stance of fiscal policy

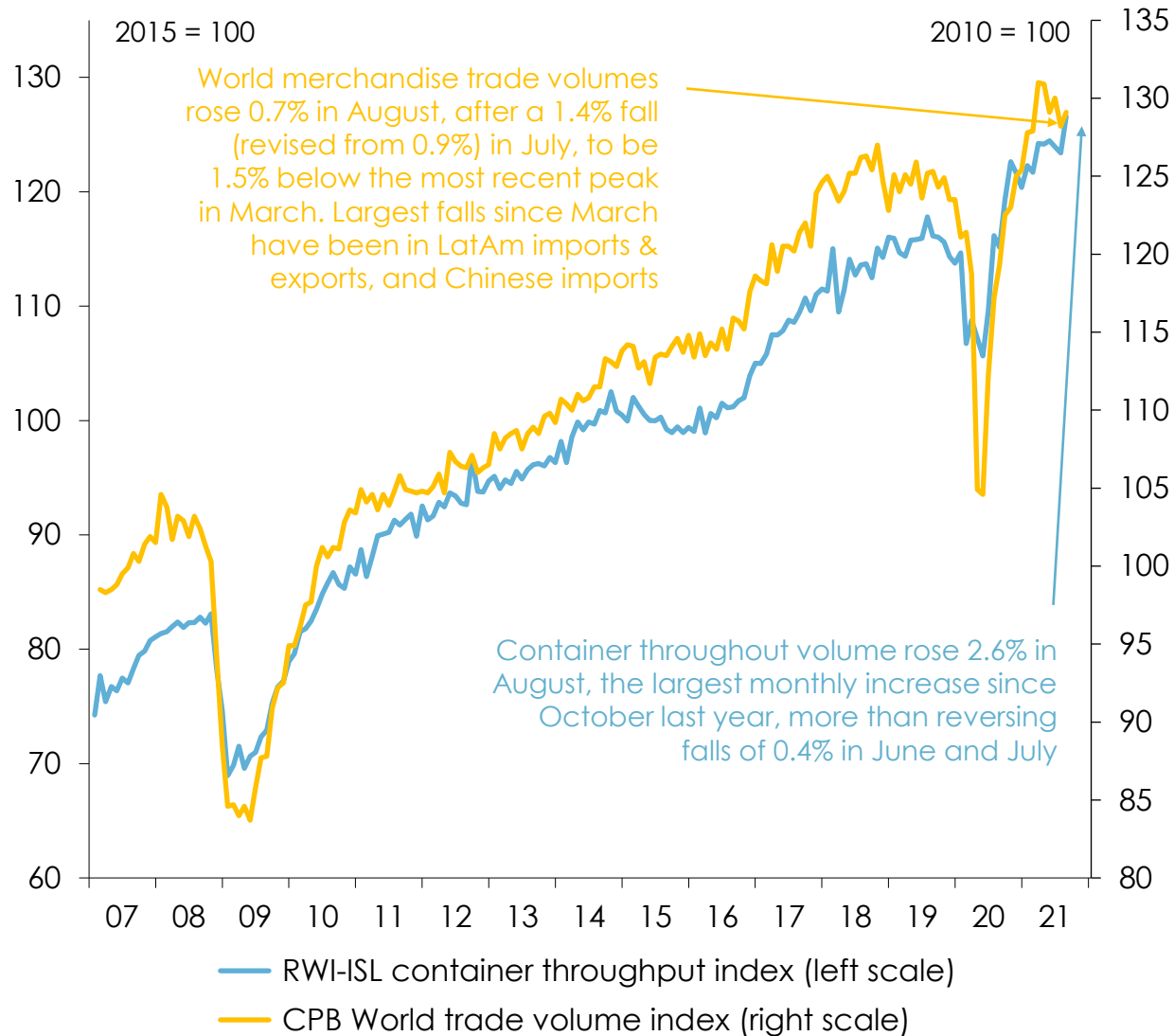


## Employment losses relative to pre-pandemic trend

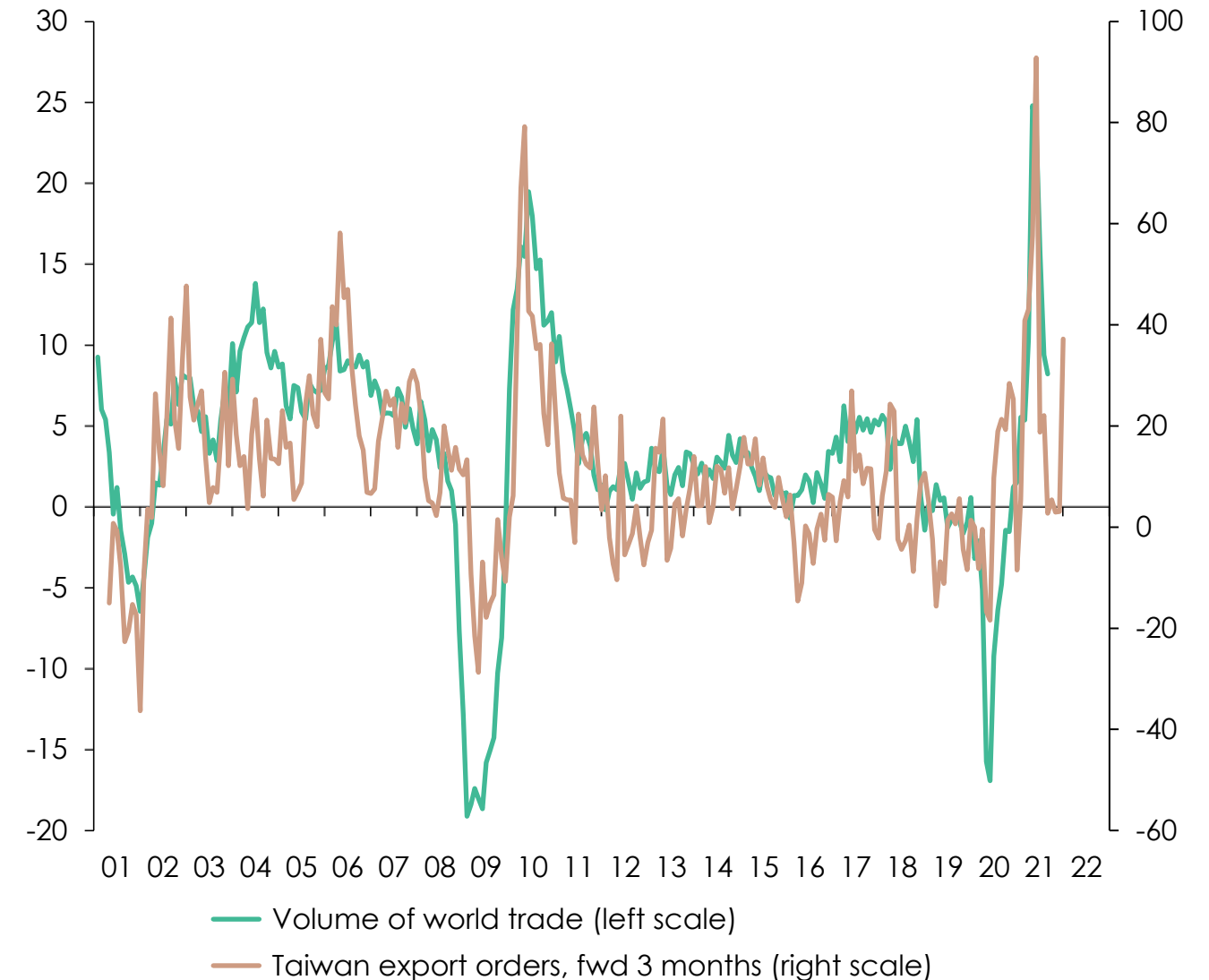


# World trade volumes rose 0.7% in August, after falling 2.1% between March and July – and should recover further over the next three months or so

## World trade volumes and container throughput



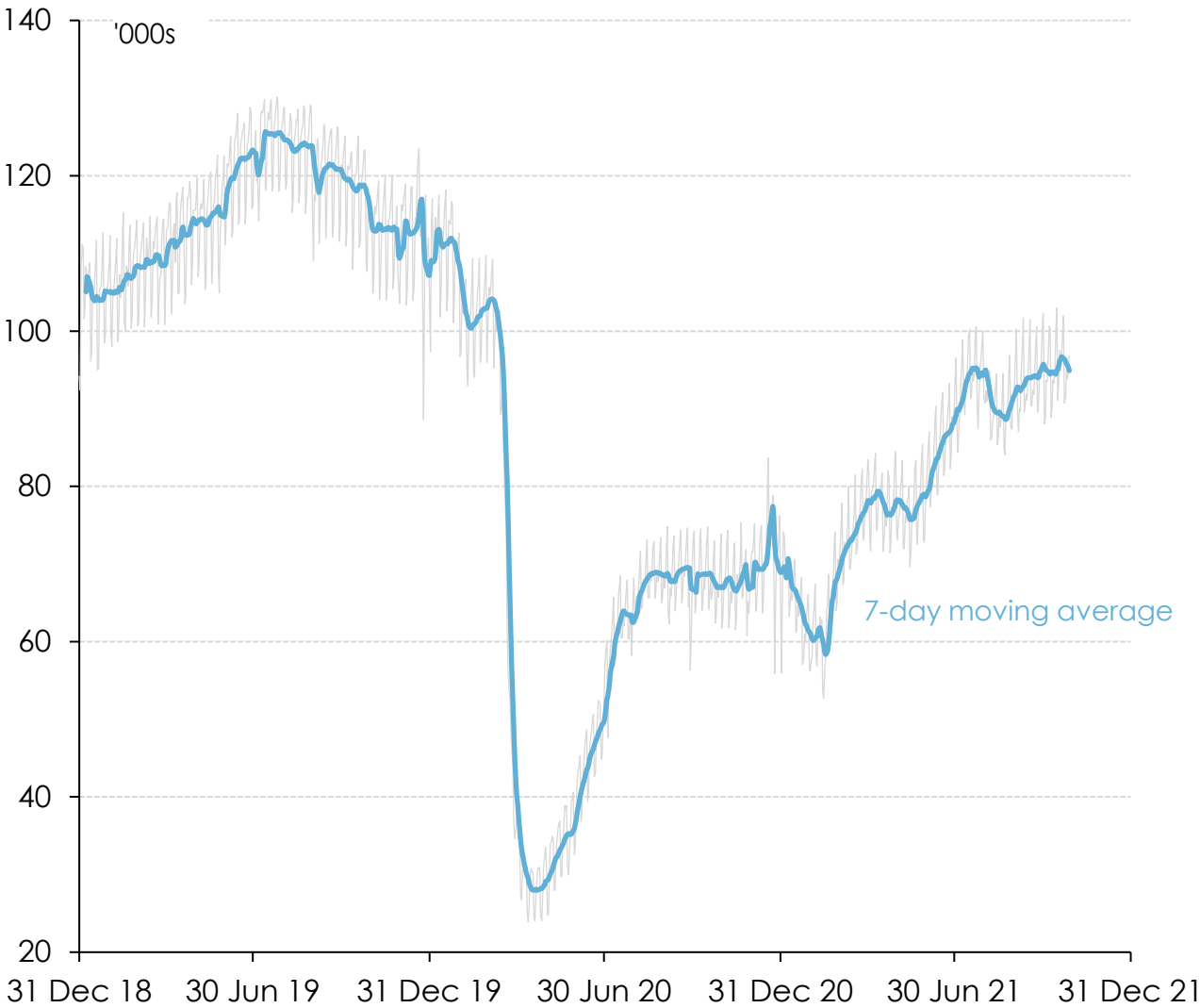
## Taiwan export orders and world trade volumes



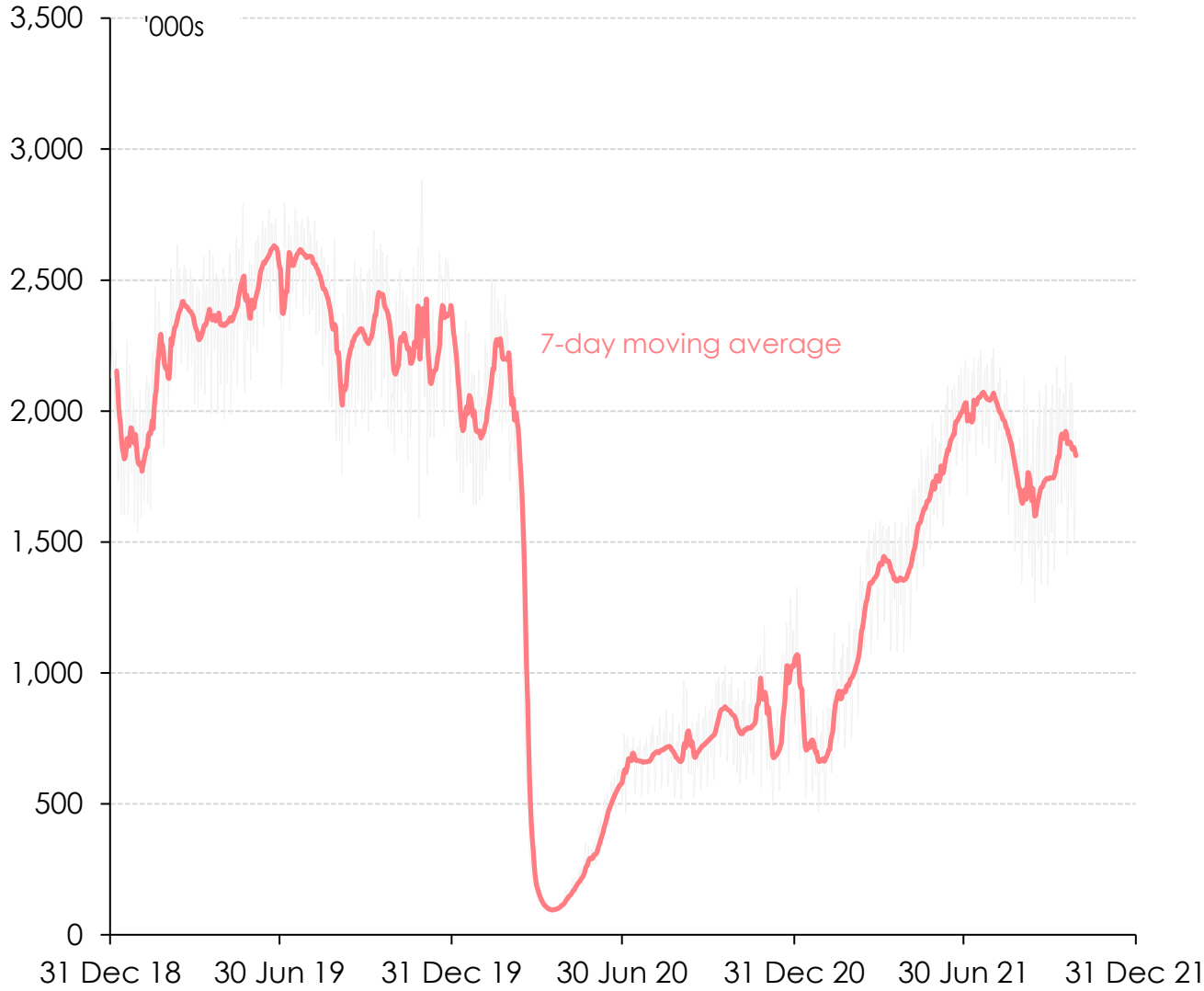
Note: The shipping container throughput index is based on reports from 91 ports around the world handling over 60% of global container shipping.  
Sources: CPB Netherlands Economic Planning Bureau, [World Trade Monitor](#) (September data to be released on 25<sup>th</sup> November); Institute of Shipping 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 – that recovery resumed in September, but seems to be faltering again

Daily commercial flights worldwide

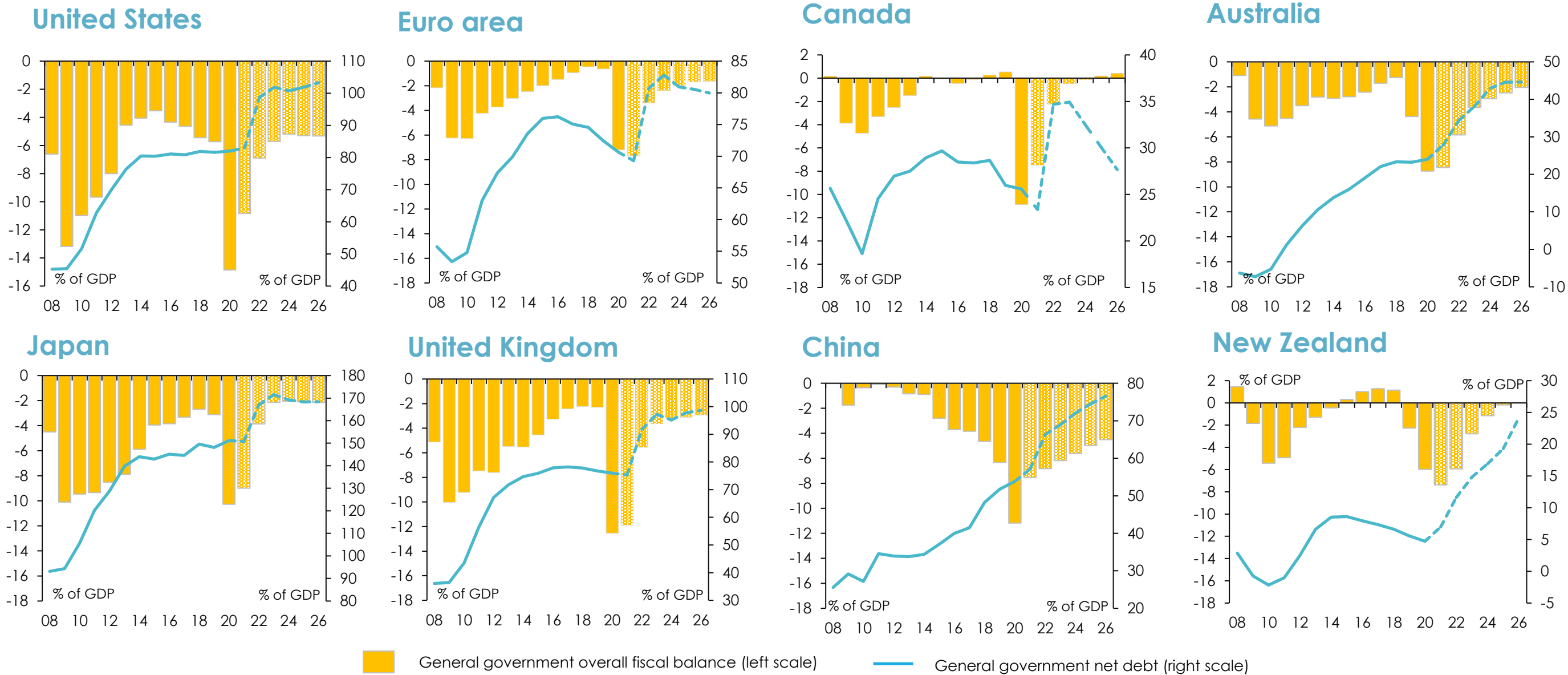


Daily US TSA ‘security’ checks



Note: Commercial flights include commercial passenger flights, cargo flights, charter flights, and some business jet flights. Daily flights data up to 29<sup>th</sup> October, and TSA checks up to 28<sup>th</sup> October. Thicker coloured lines are 7-day centred moving averages of daily data plotted in thin grey lines. Sources: [Flightradar24.com](#); [US Transport Safety Administration](#) (at last, something useful produced by aviation ‘security’!!!). [Return to "What's New"](#).

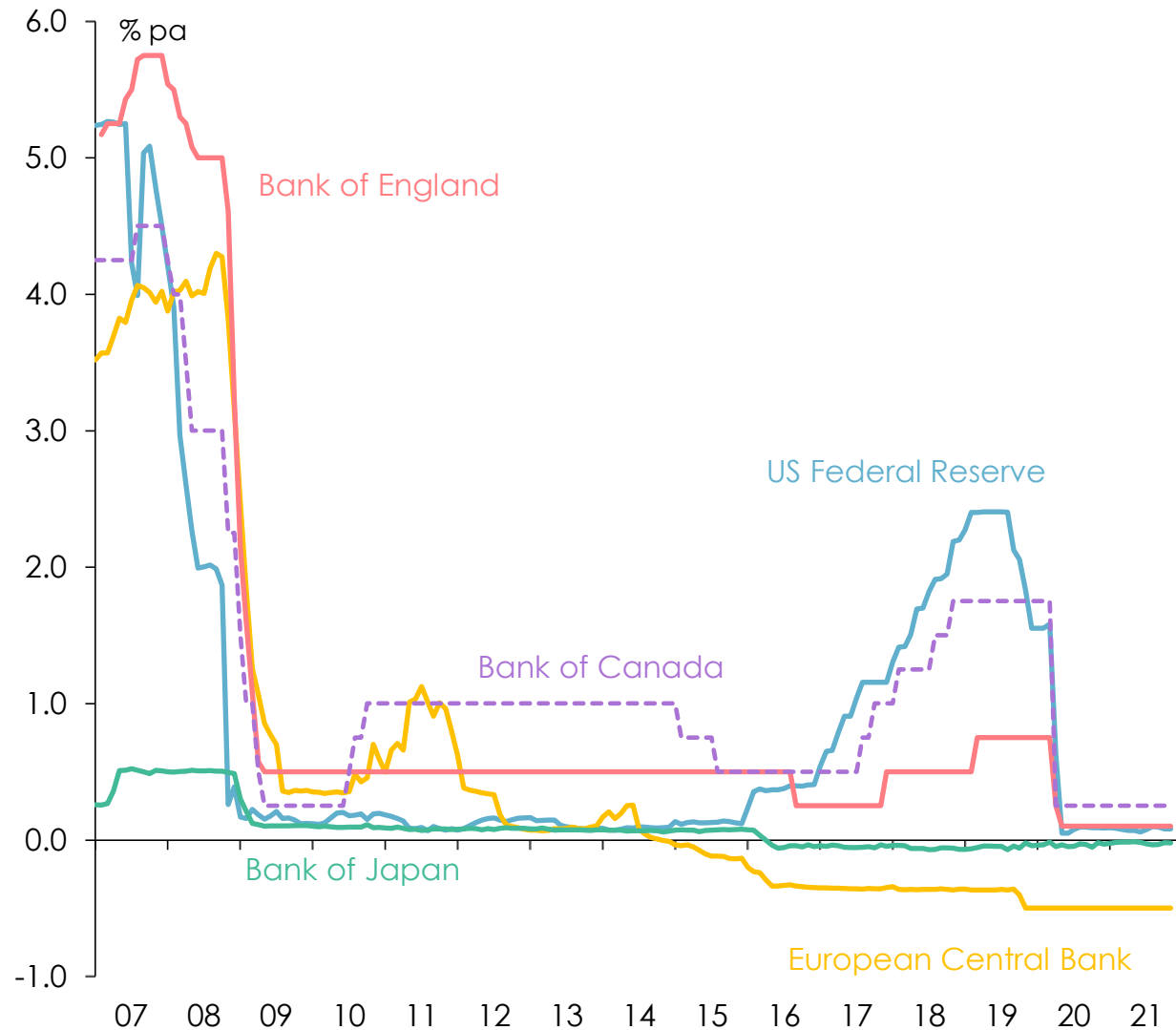
# Fiscal policy in almost all major economies is set to tighten significantly in 2022



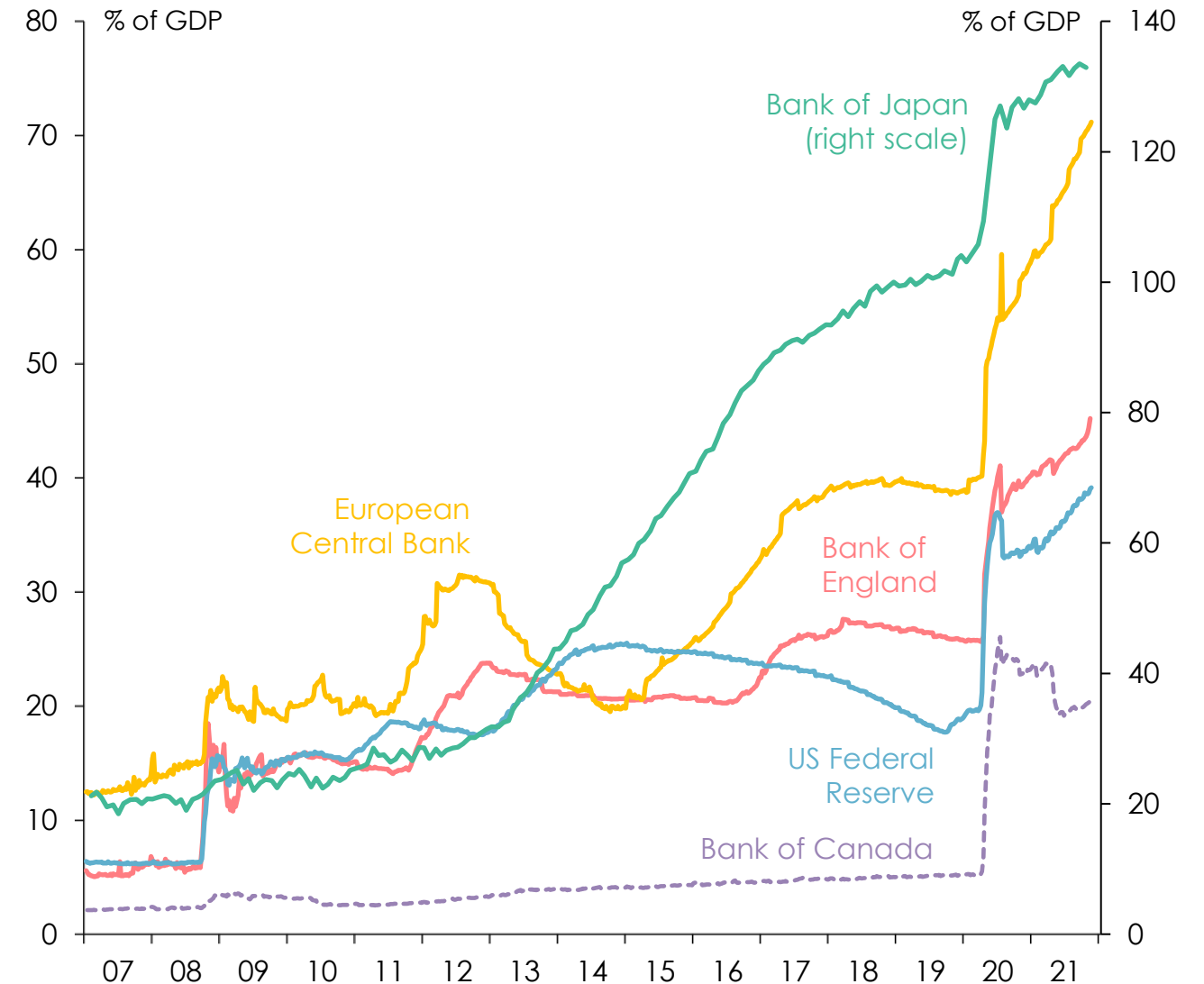
Note: China debt is gross debt, not net. Sources: International Monetary Fund, [Fiscal Monitor](#), and [World Economic Outlook](#), October 2021. [Return to "What's New"](#)

# 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"](#).



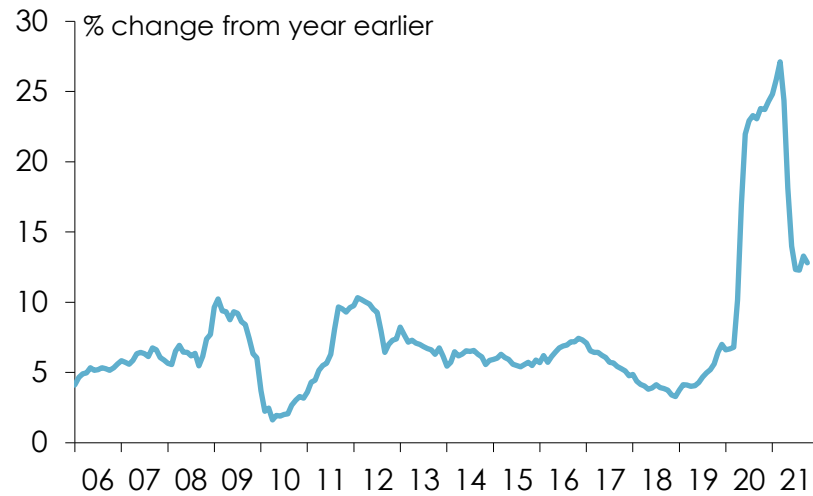
# The ECB and the BoJ left rates on hold this week – with neither giving any hint of thinking about raising them – unlike the BoC

- ❑ The [European Central Bank](#) left its policy interest rates unchanged (as expected) but foreshadowed a mild ‘tapering’ of its bond purchases
  - it will continue to purchase bonds within its ‘total envelope’ of €1,850bn ‘at least until the end of March 2022’ but will do so at a ‘moderately lower pace’ than in the second and third quarters of this year
  - ECB President Christine Lagarde [acknowledged](#) that “the current phase of higher inflation will last longer than originally expected”, but nonetheless insisted that (“after a lot of soul-searching to test our analysis”) the factors responsible for this (energy prices, supply chain disruptions and ‘base effects’ flowing from the end of the temporary VAT reduction in Germany) will “ease in the course of 2022”
- ❑ The [Bank of Japan](#) left all of its monetary policy settings on hold, as expected, at this Thursday’s Monetary Policy Board meeting
  - Policy Board members lowered their [forecast](#) for real GDP growth in FY2021 to 3.4% (from 3.8% in July) – mainly due to near-term weakness in exports (especially of motor vehicles) and in household services consumption (as a result of ongoing public health measures) – but raise it for FY2022 to 2.9% (from 2.7%), and lowered their CPI inflation forecast for FY2021 to 0% (from 0.6%) while leaving the FY2022 forecast unchanged at 0.9%
  - unlike most other central banks. the BoJ sees risks to prices as still being “skewed to the downside”, as are the near-term risks to economic activity
- ❑ The [Bank of Canada](#) ended its quantitative easing program at Wednesday’s Governing Council meeting (although it will continue to purchase bonds to replace maturing bonds in its portfolio)
  - in its [Monetary Policy Report](#) the BoC lowered its forecasts for Canadian GDP growth in 2021 by 0.9 pc pt to 5.1%, and in 2022 by 0.3 pc pt to 4.3%, but raised its inflation forecasts for 2021 by 0.4 pc pt to 3.4%, and for 2022 by 1.0 pc pt to 3.4%
  - the BoC noted that “the main factors pushing up prices - higher energy prices and pandemic-related supply bottlenecks – now appear to be stronger and more persistent than expected” – and the output gap is now expected to close “some time in the middle quarters of 2022” (which is when the BoC will likely begin raising its overnight rate target, currently 0.25%), earlier than previously indicated

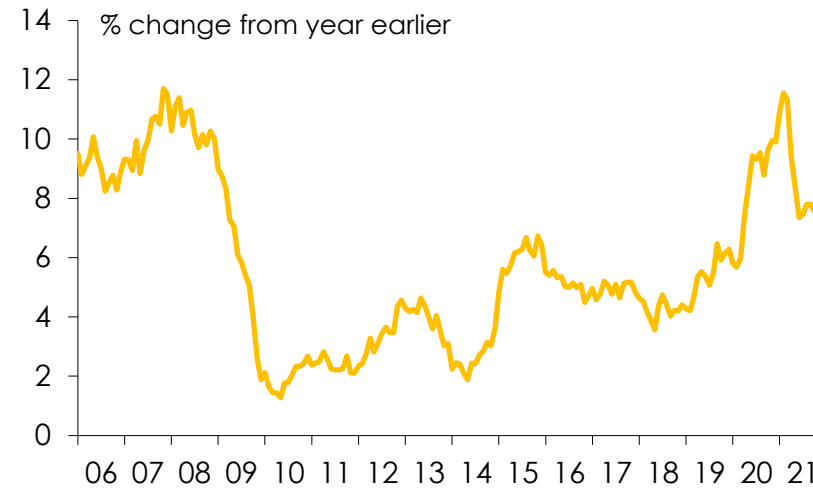


# Money supply growth has slowed sharply from the peaks recorded earlier this year as large monthly increases a year ago 'wash out'

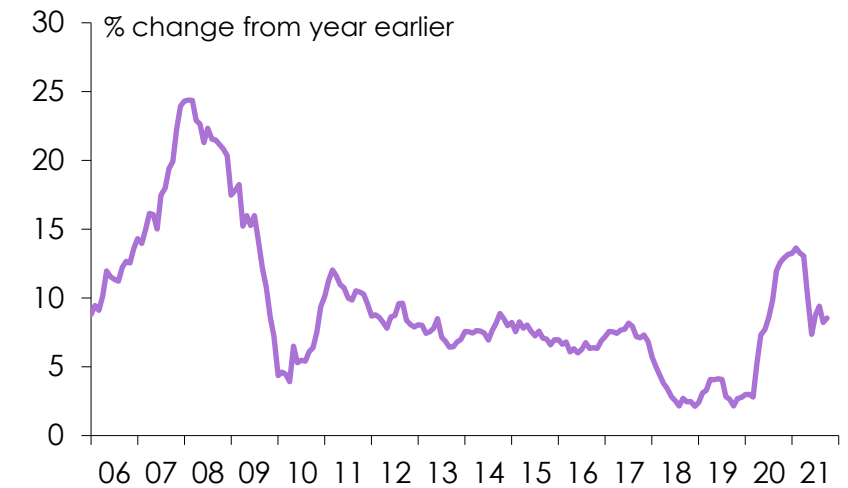
## US M2



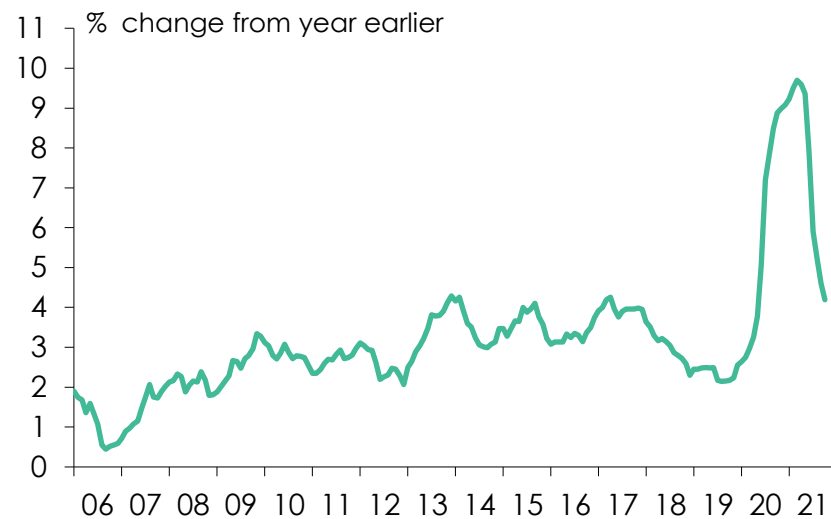
## Euro area M2



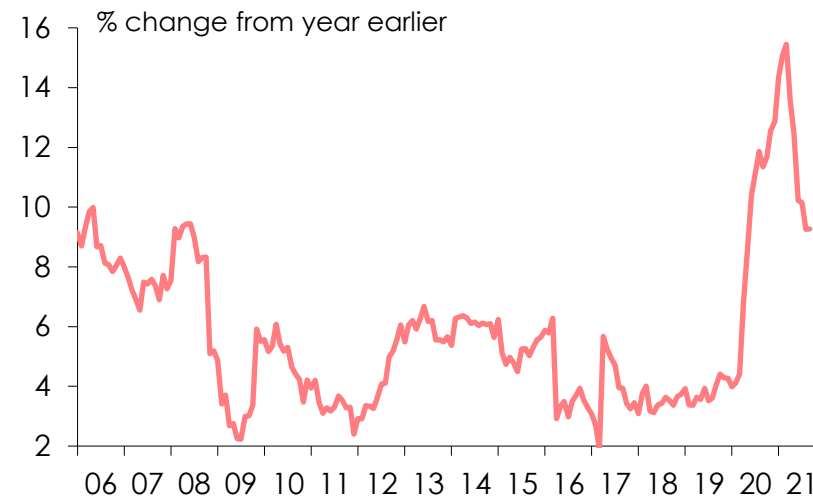
## Australia M3



## Japan M2 + CDs



## UK M2



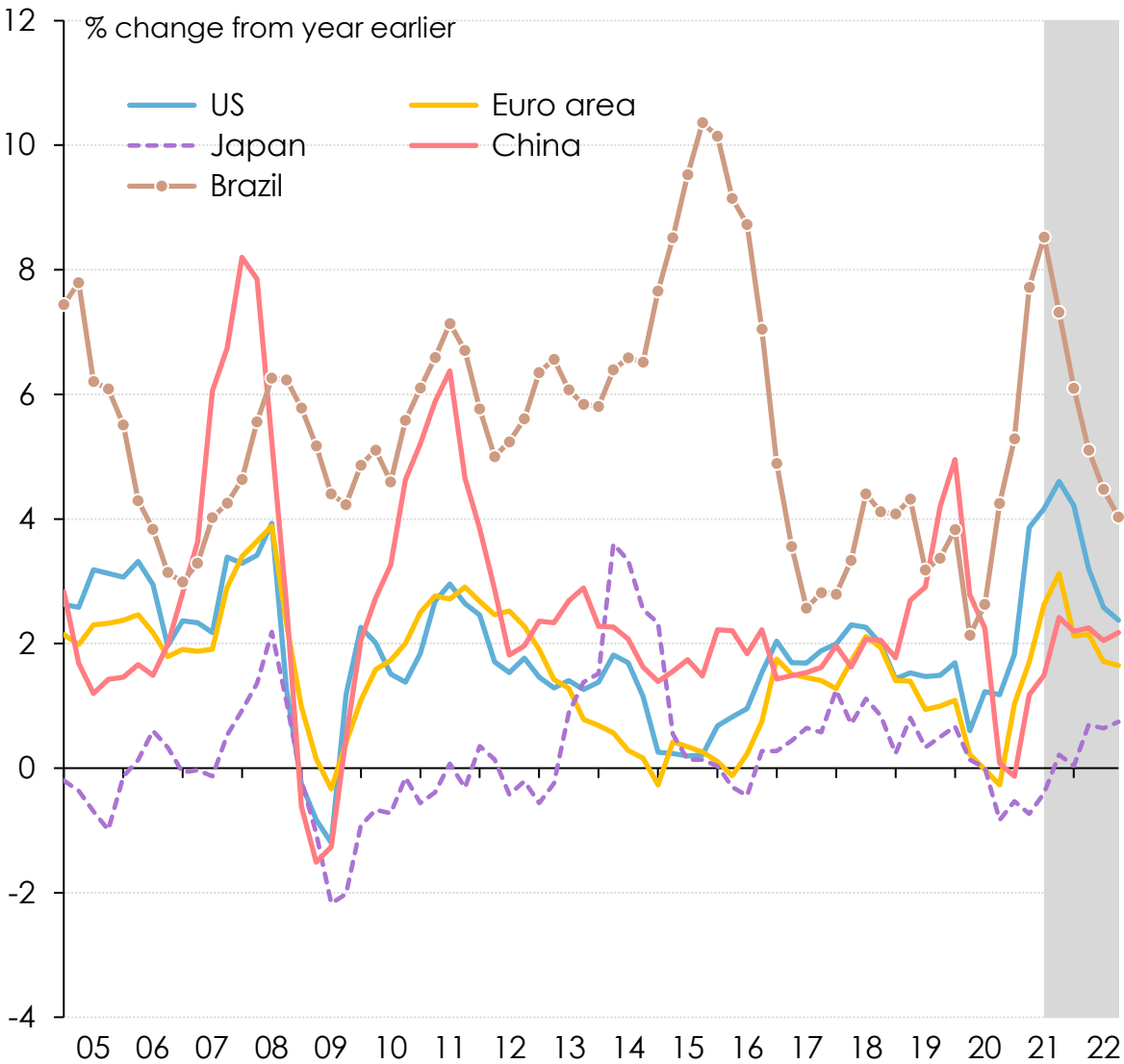
## New Zealand M3



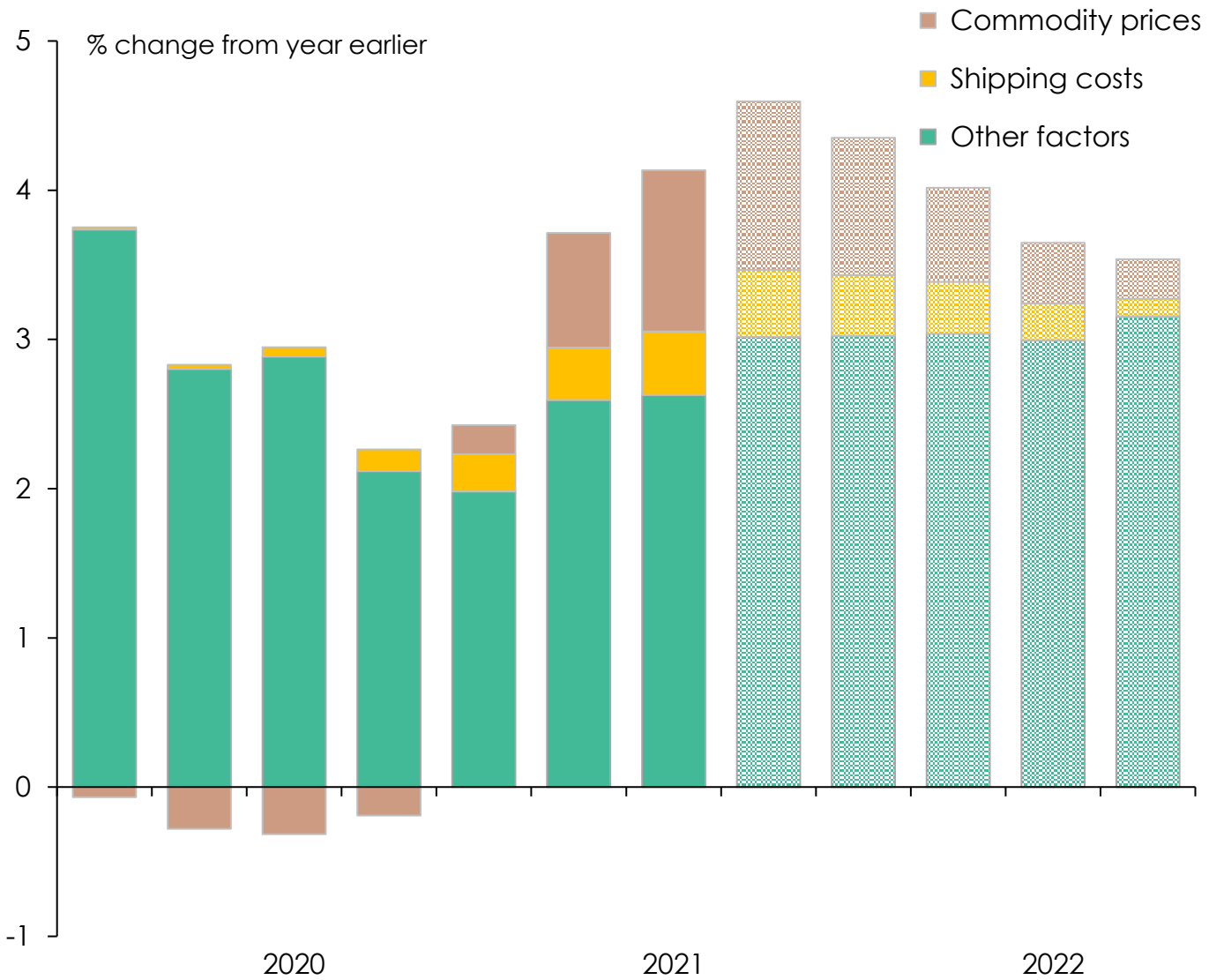
Sources: US Federal Reserve; European Central Bank; Bank of Japan; Bank of England; RBA; RBNZ. [Return to "What's New"](#).

# 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



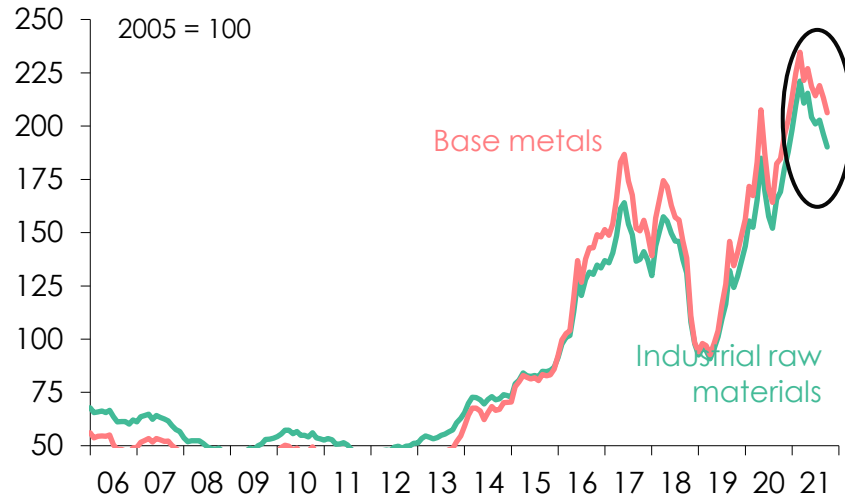
Contribution to annual G20 inflation



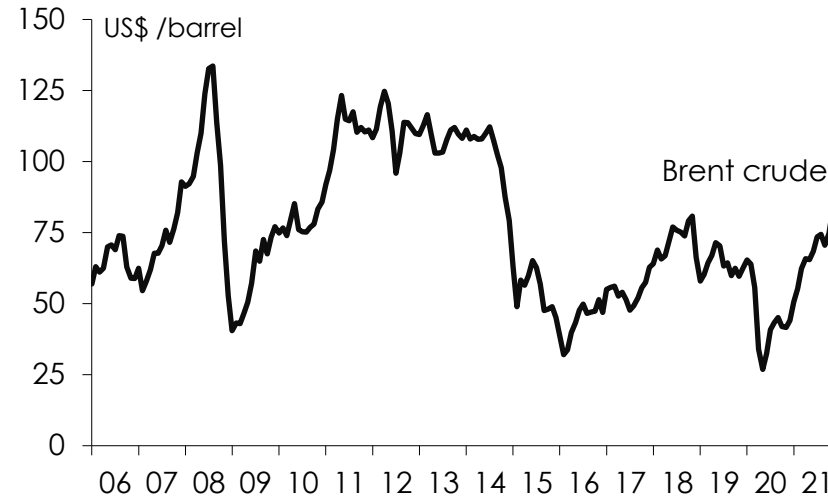
Source: OECD, [Economic Outlook, Interim Report](#), 21<sup>st</sup> September 2021.

# The factors which have contributed to 'upstream' price pressures in recent months may have peaked – including perhaps energy on Friday

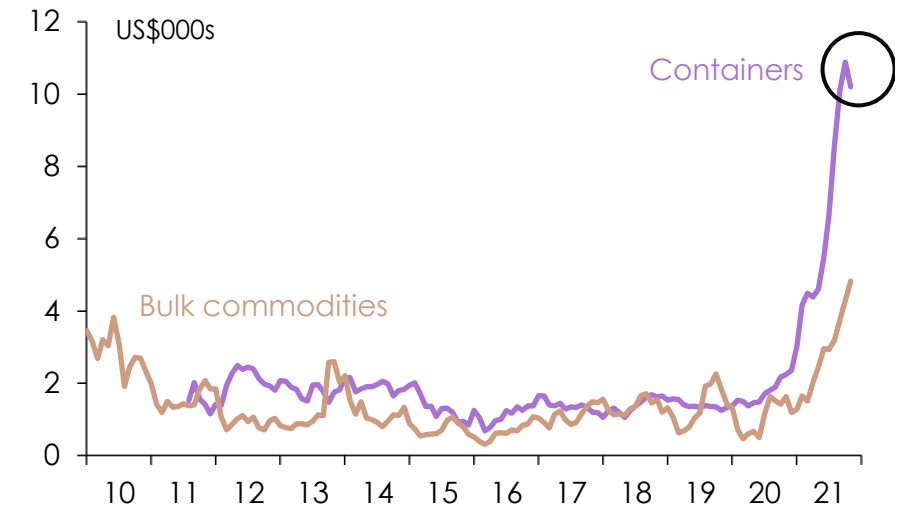
## 'Hard' commodity prices



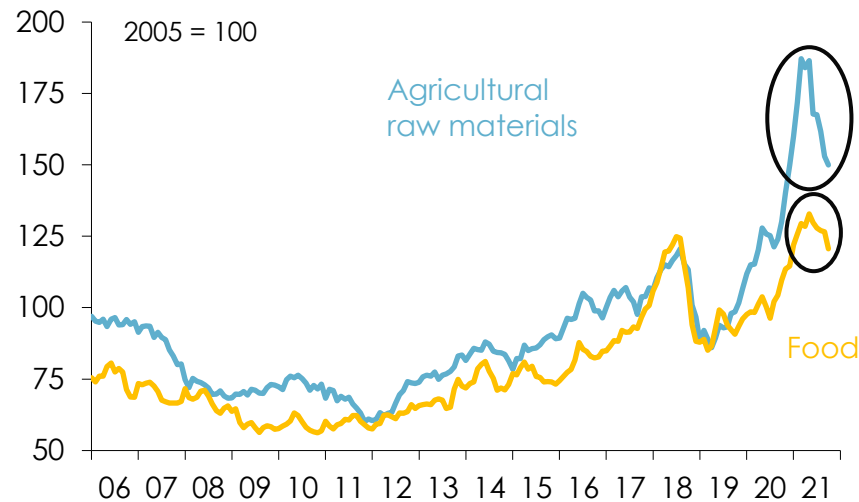
## Crude oil price



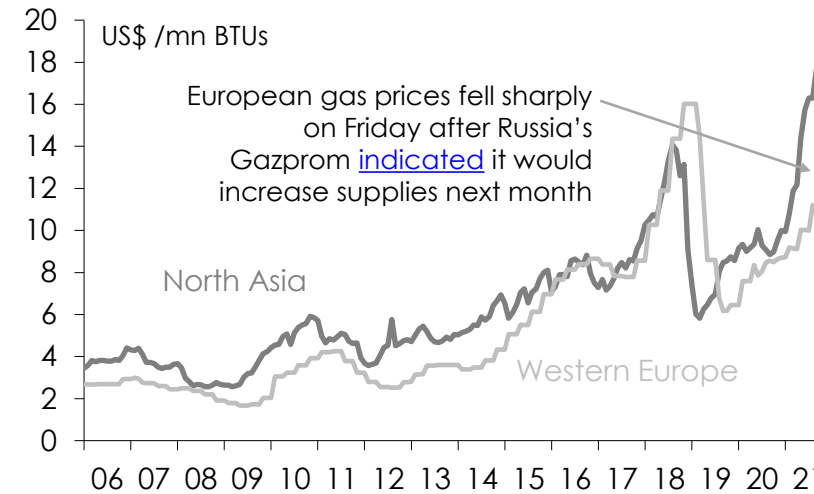
## Shipping freight costs



## 'Soft' commodity prices



## Liquefied natural gas prices

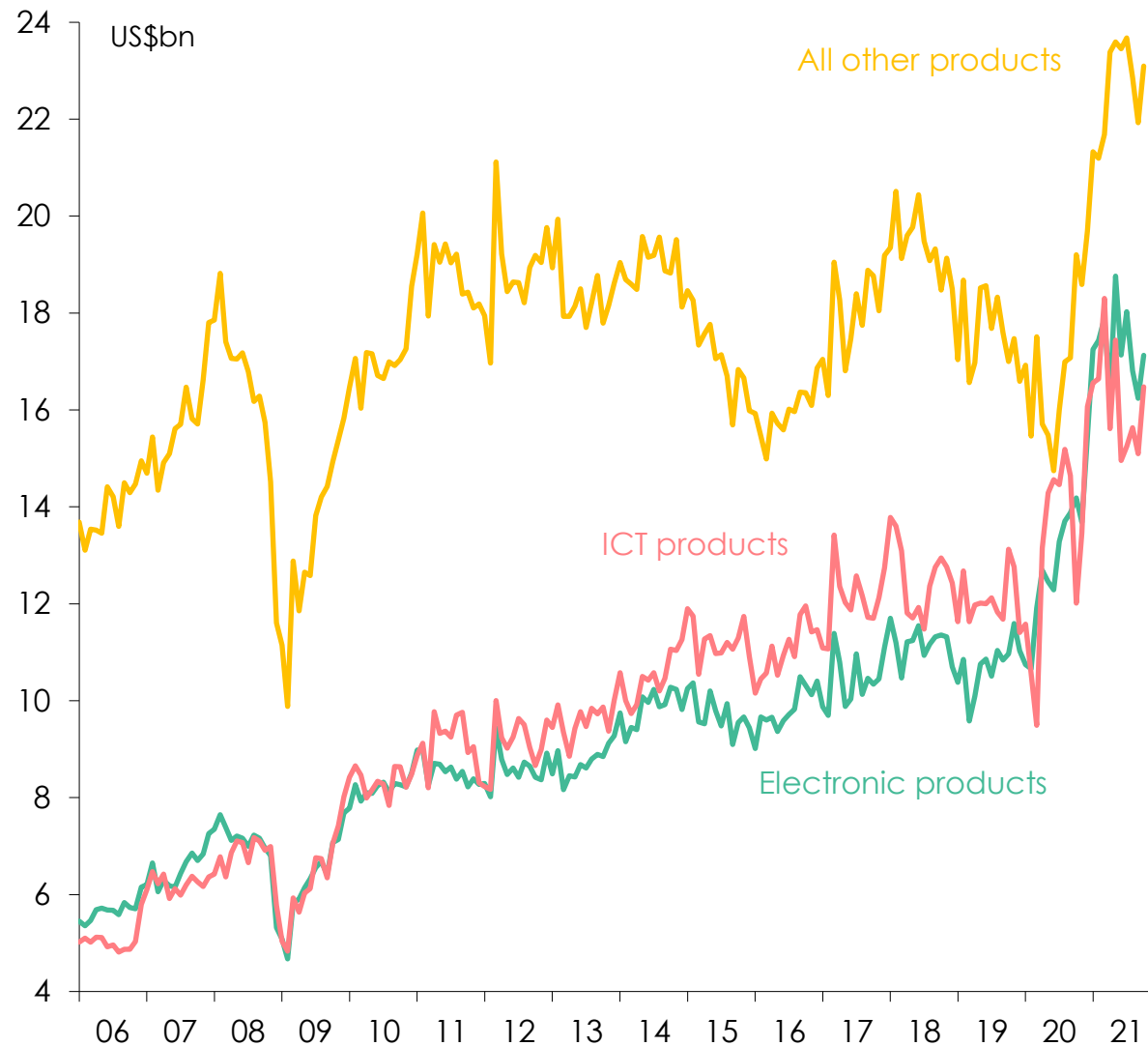


## Semiconductor prices



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

Taiwan export orders, by product

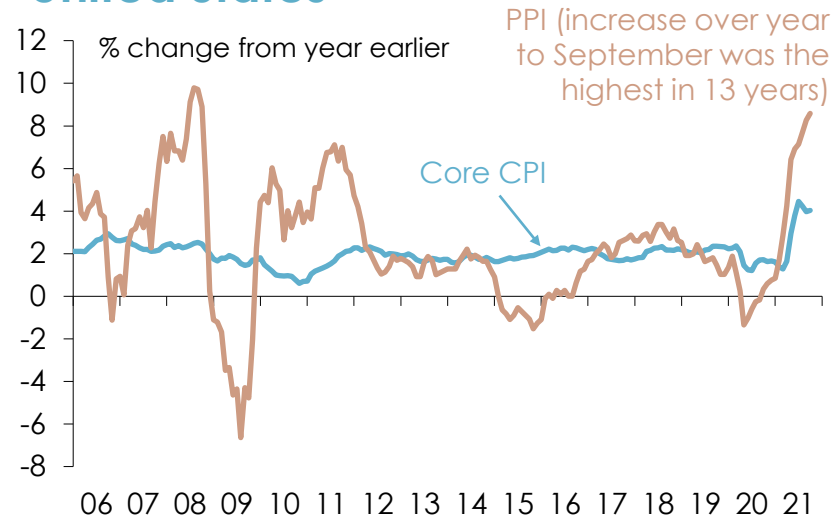


Note: Data have been seasonally adjusted by Corinna using Refinitiv Datastream. Latest data are for September. Source: Taiwan [Ministry of Economic Affairs](#). [Return to "What's New"](#).

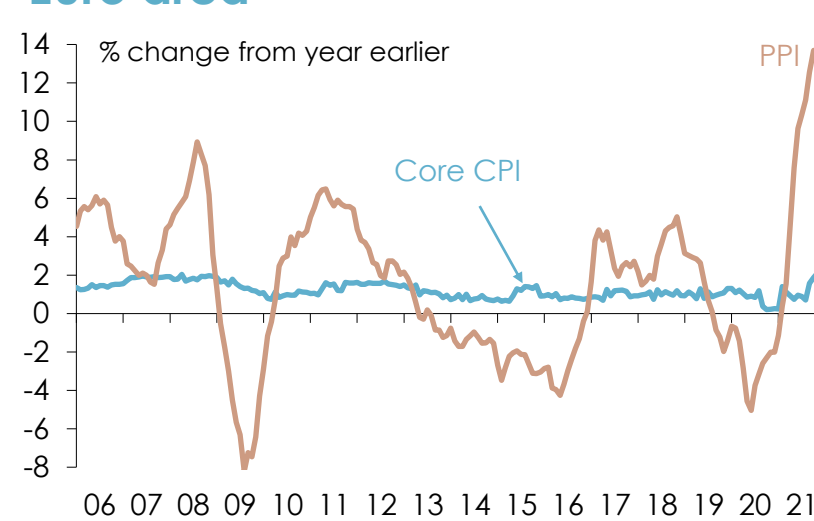
- ❑ Taiwan accounts for 63% of the US\$85bn global semi-conductor chip market (followed by Korea 18% and China 6%)
  - one Taiwanese company, Taiwan Semiconductor Manufacturing Co (TSMC) has 54% of the world market, and United Microelectronics Co (UMC) a further 7% (Samsung accounts for Korea's 18%)
- ❑ 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 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 the UK is this feeding into markedly higher core CPI inflation

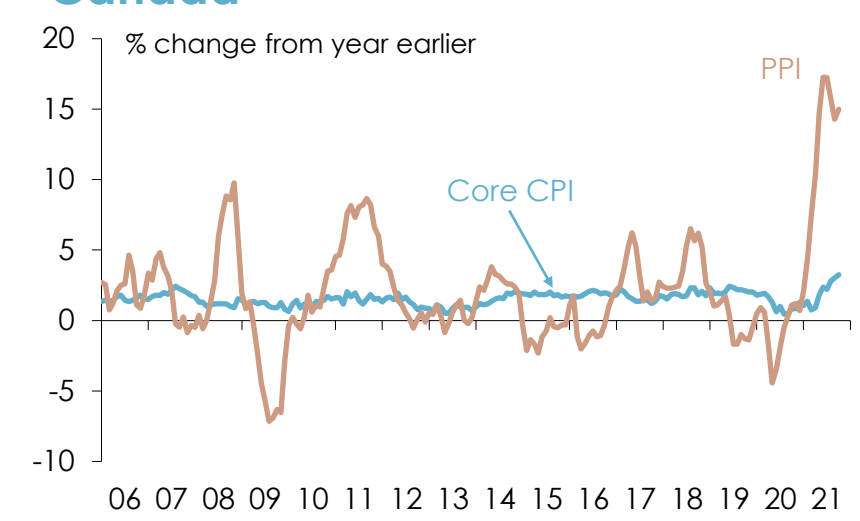
## United States



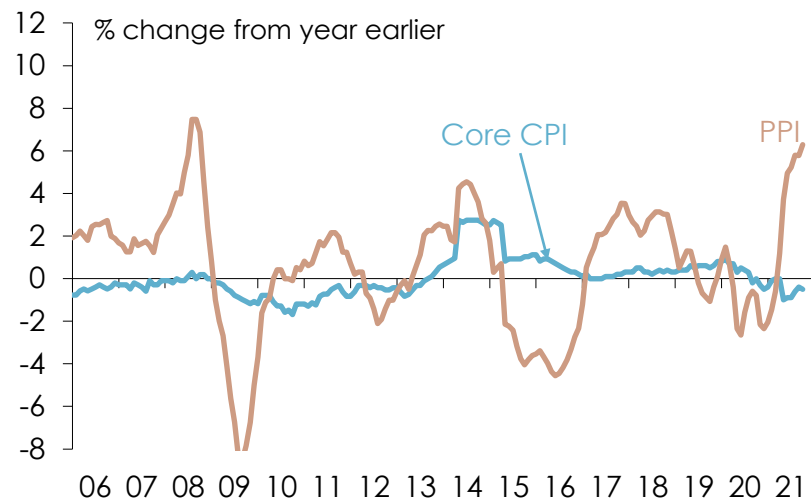
## Euro area



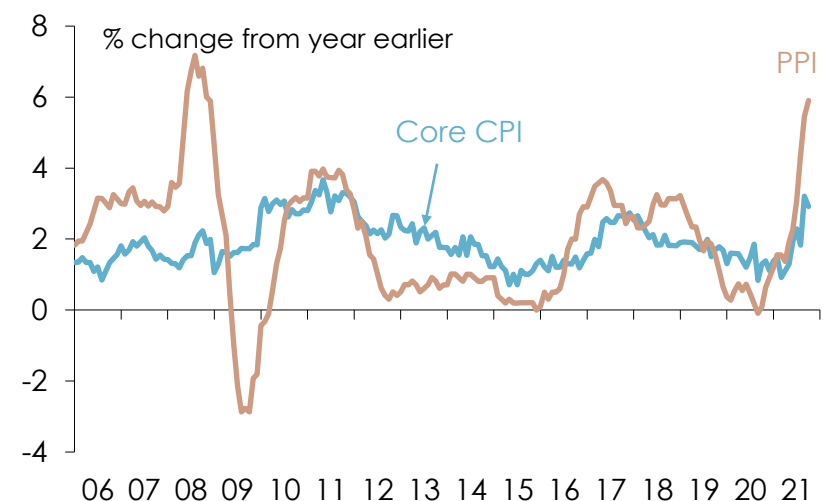
## Canada



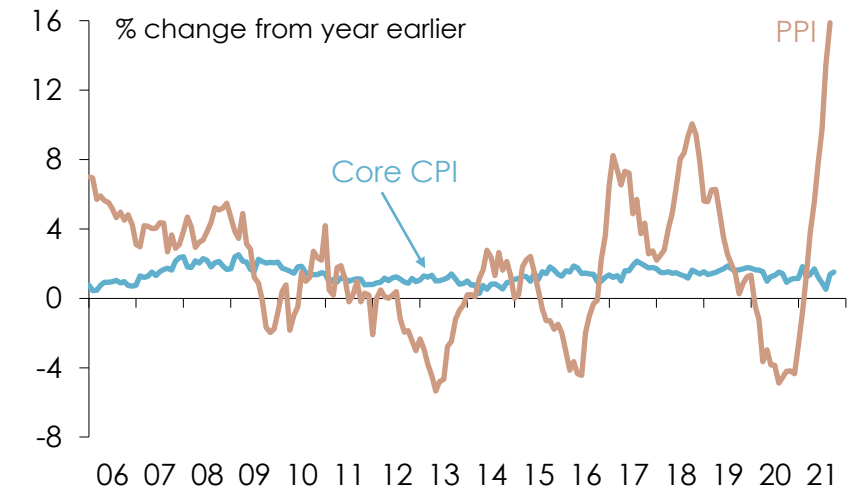
## Japan



## United Kingdom

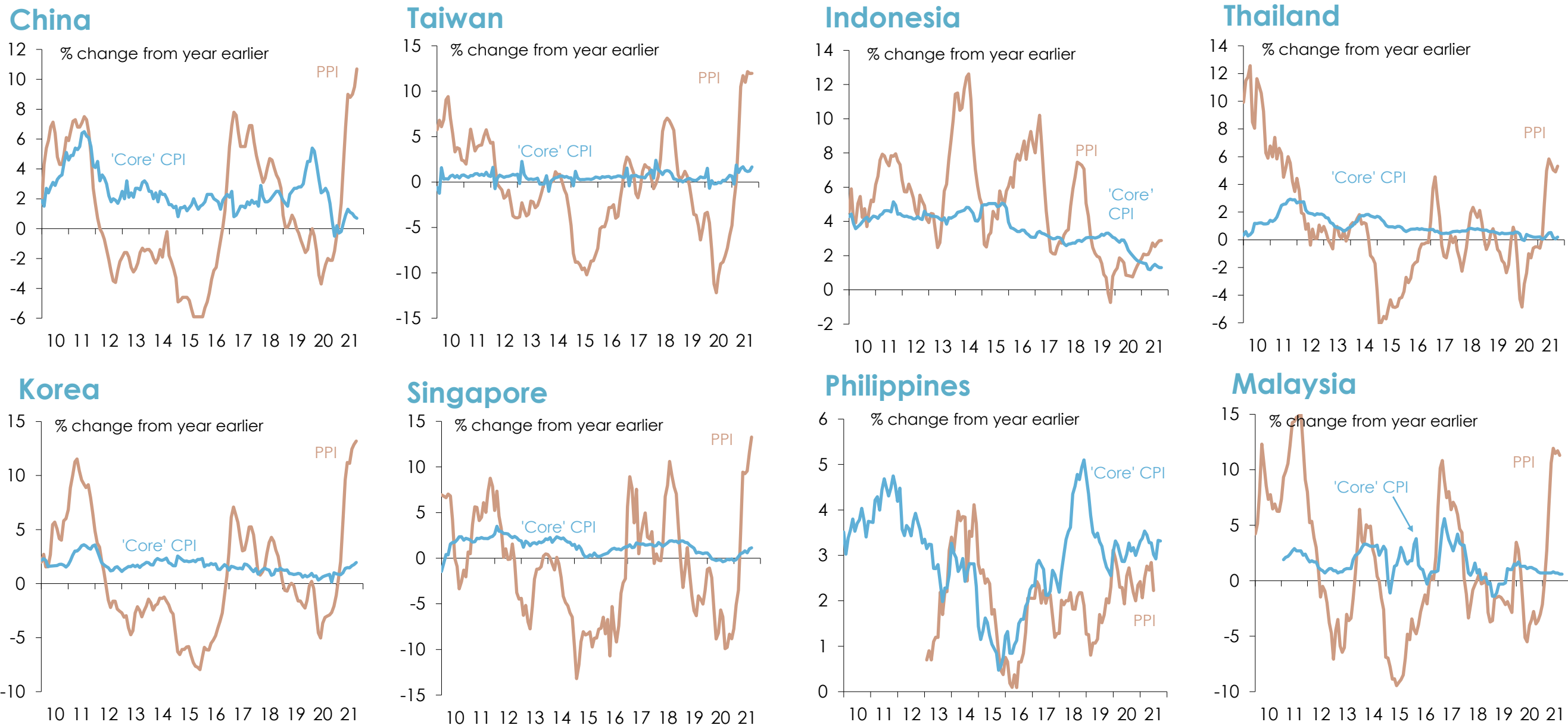


## Sweden



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

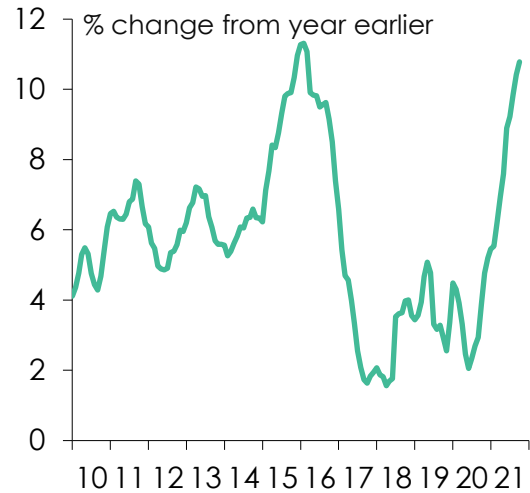


Note: 'Core' CPIs measure different things in different Asian economies – see footnotes to [slide 57](#). Sources: [China National Bureau of Statistics](#); [Statistics Korea](#); [Bank of Korea](#); [Taiwan Statistical Bureau](#); [Singstat](#); [Monetary Authority of Singapore](#); [Statistics Indonesia](#);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

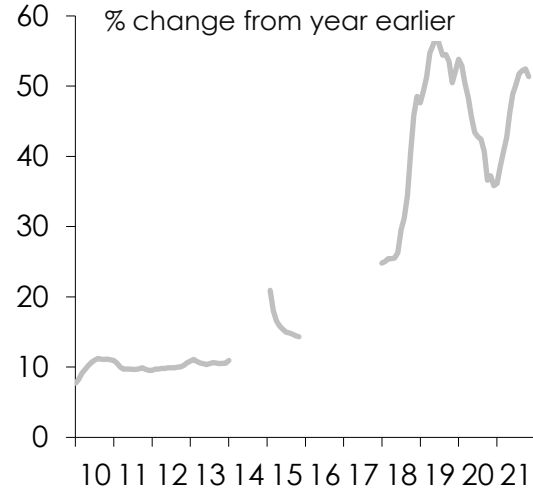


# Consumer price inflation is rising in many other 'emerging' markets

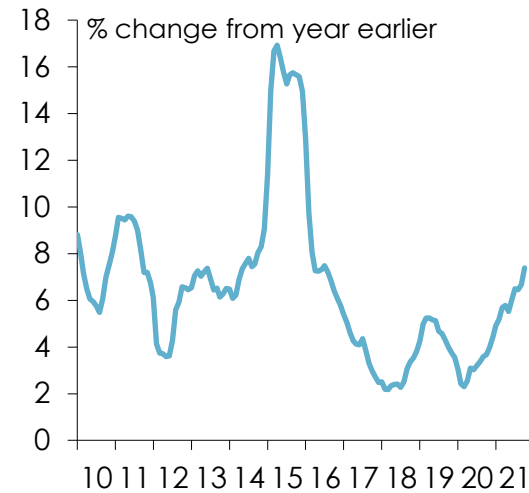
Brazil



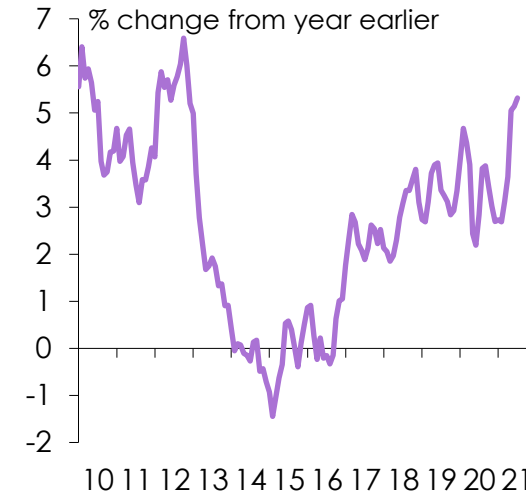
Argentina



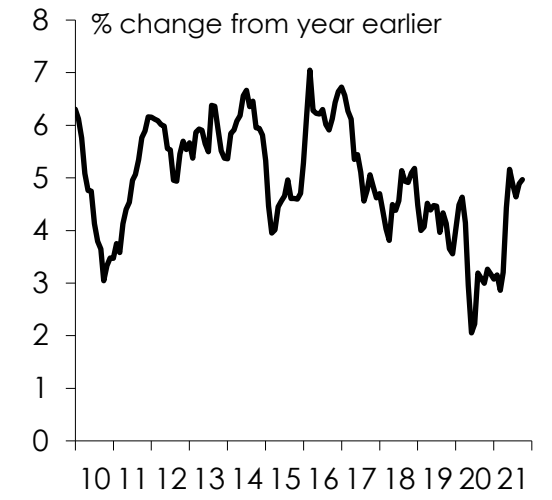
Russia



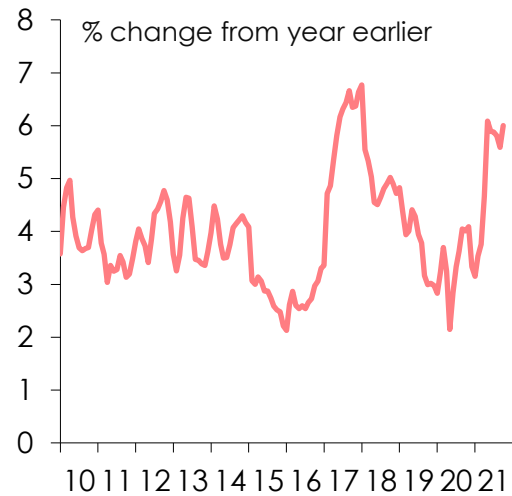
Hungary



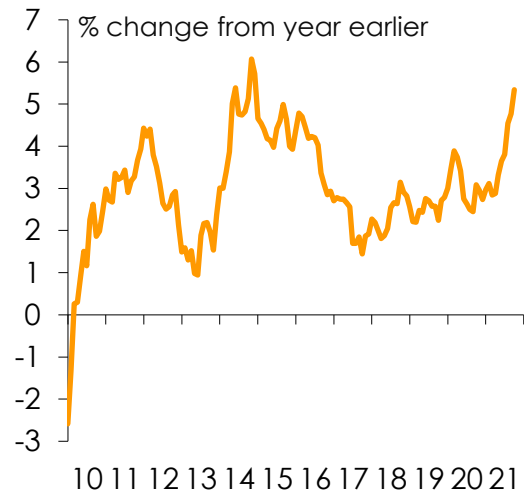
South Africa



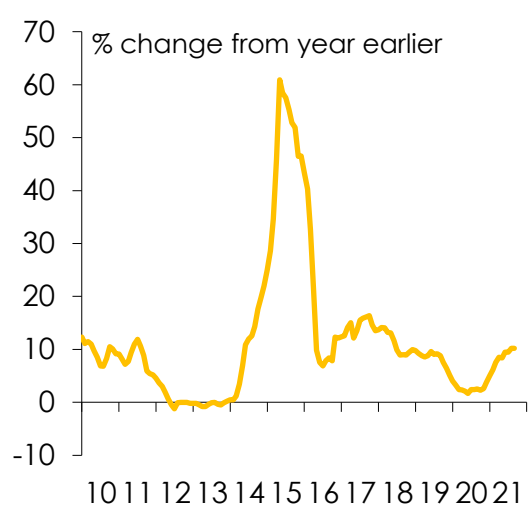
Mexico



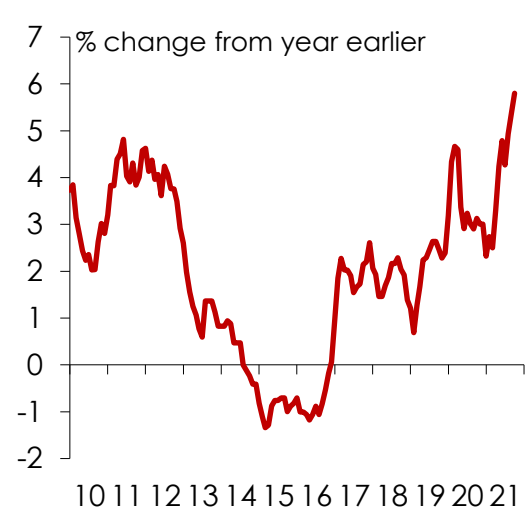
Chile



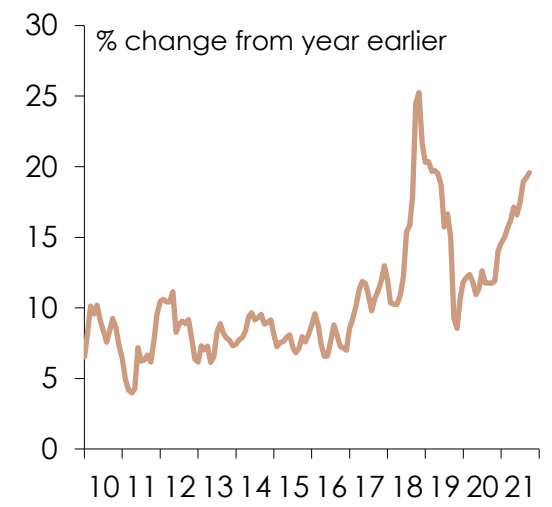
Ukraine



Poland



Turkey

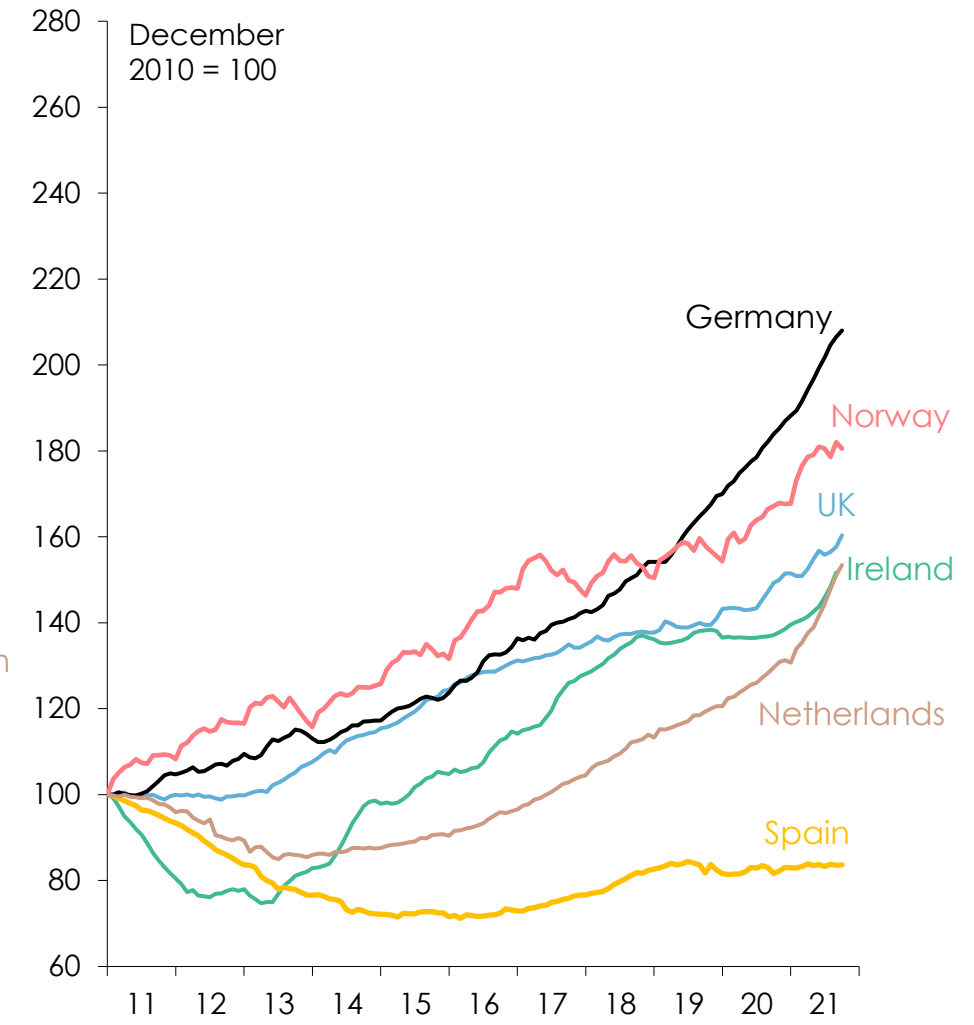
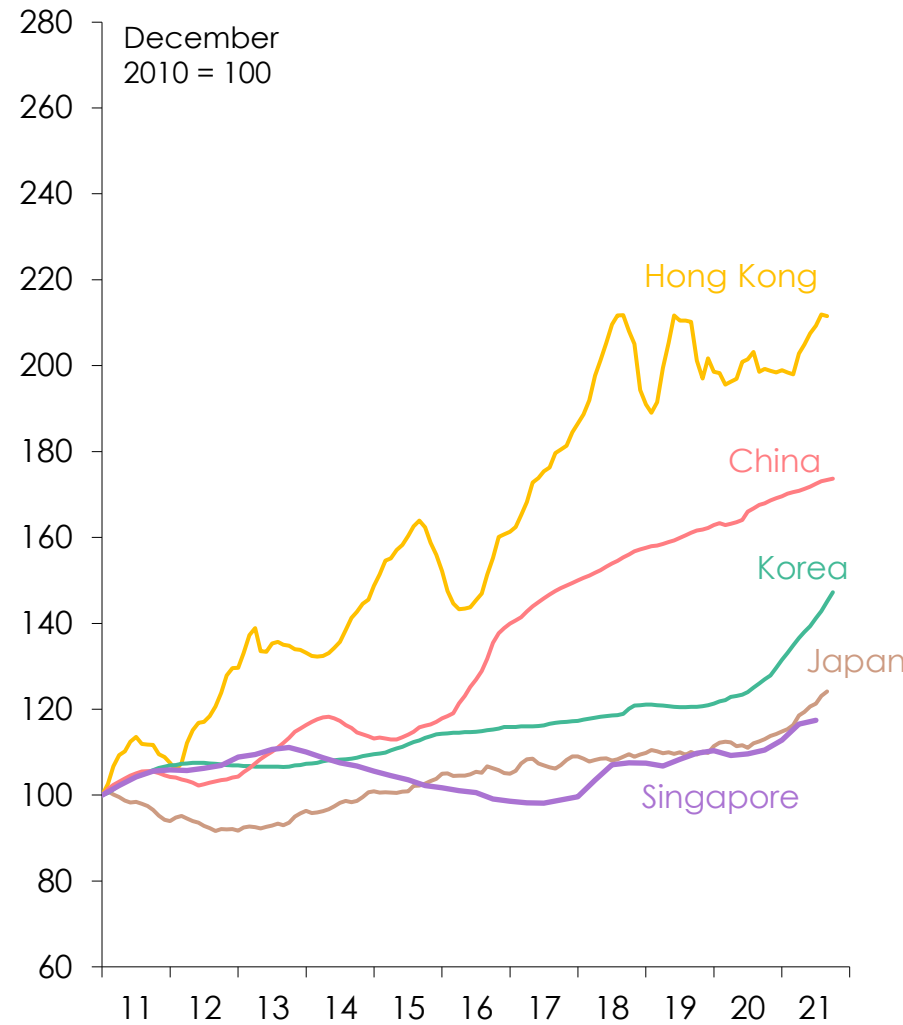
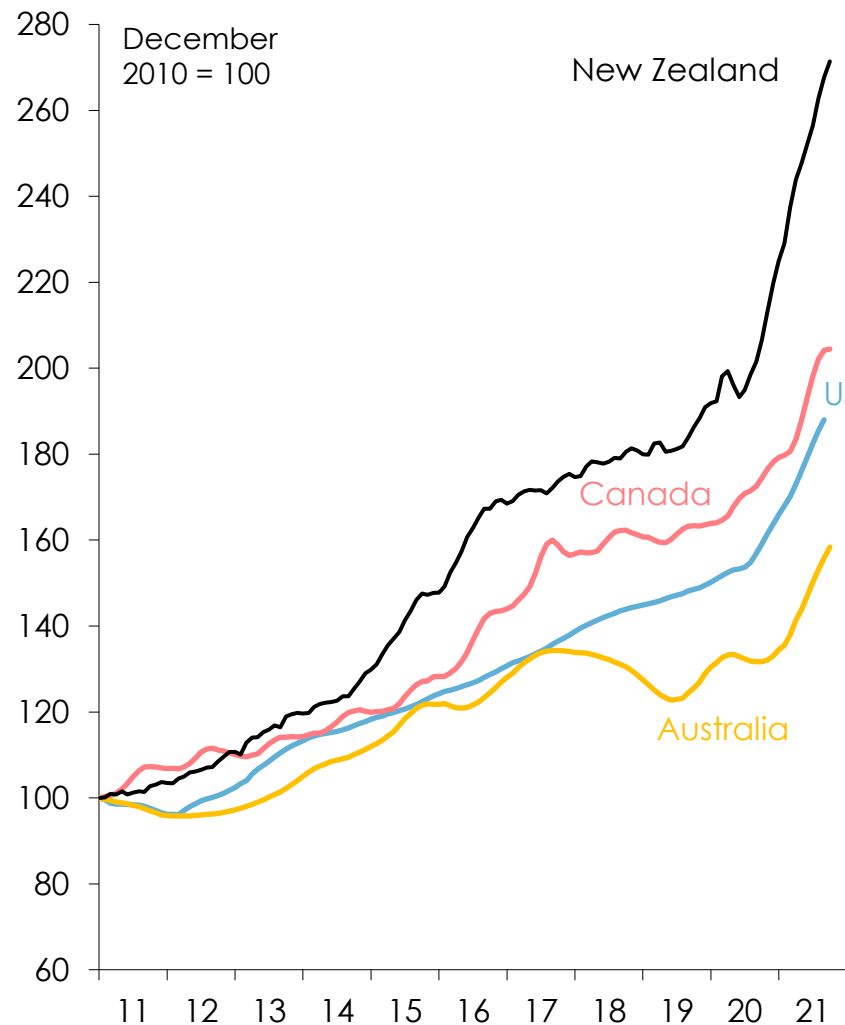


Sources: [Instituto Brasileiro de Geografia e Estatística](#); [Instituto Nacional de Estadística y Geografía](#) (Mexico); [Instituto Nacional de Estadística y Censos](#) (Argentina); [Instituto Nacional de Estadísticas](#) (Chile); [Rosstat](#); [Ukrstat](#); [Központi Statisztikai Hivatal](#) (Hungary);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

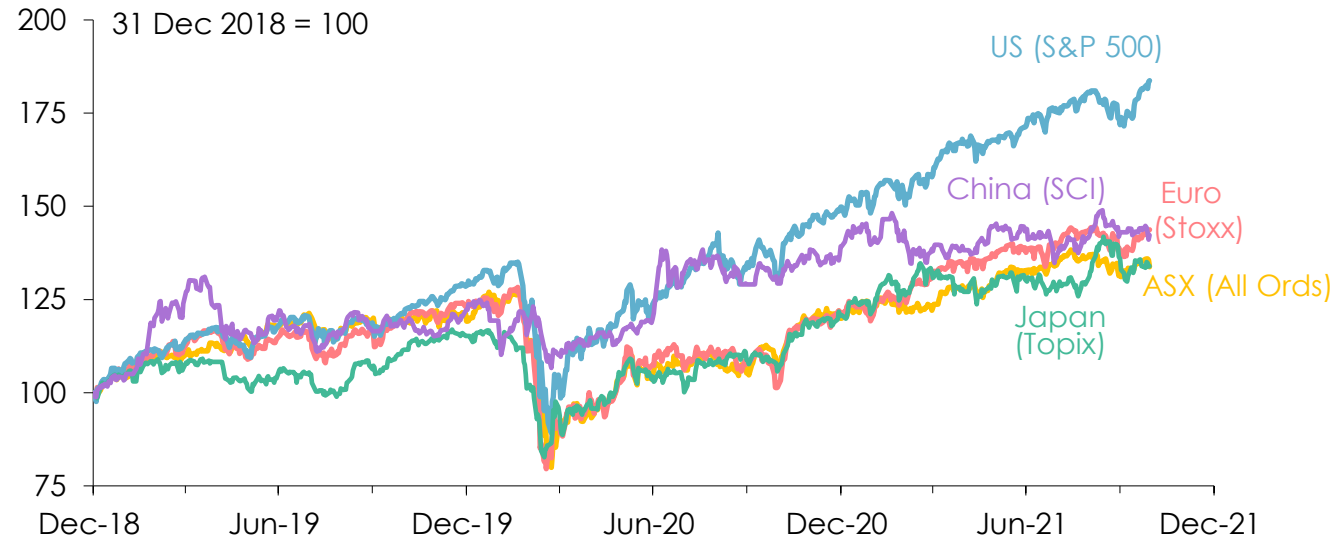
## House price indices



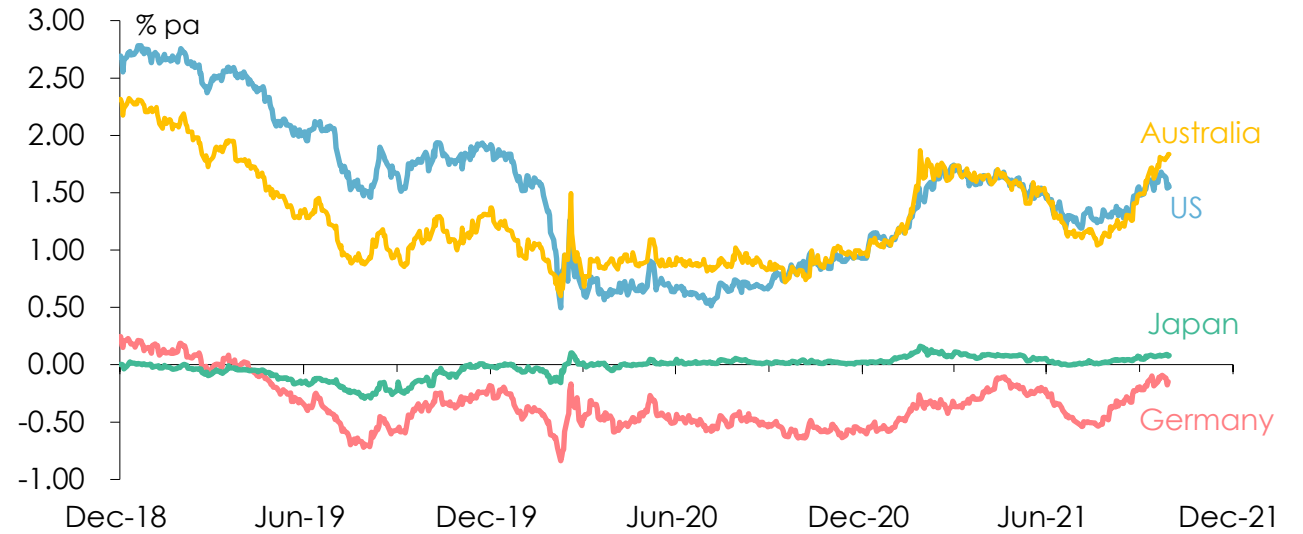
Note: House price indices shown in these charts are those published by [S&P-CoreLogic Case Shiller national](#) (United States); [Teranet-National Bank](#) (Canada); [CoreLogic](#) (Australia); [Real Estate Institute of New Zealand](#); [China Index Academy](#); [Japan Real Estate Institute](#) (Tokyo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

# US & European bond yields edged lower this week despite ongoing inflation concerns, stocks rose in 'advanced' economies, and the US\$ gained ½%

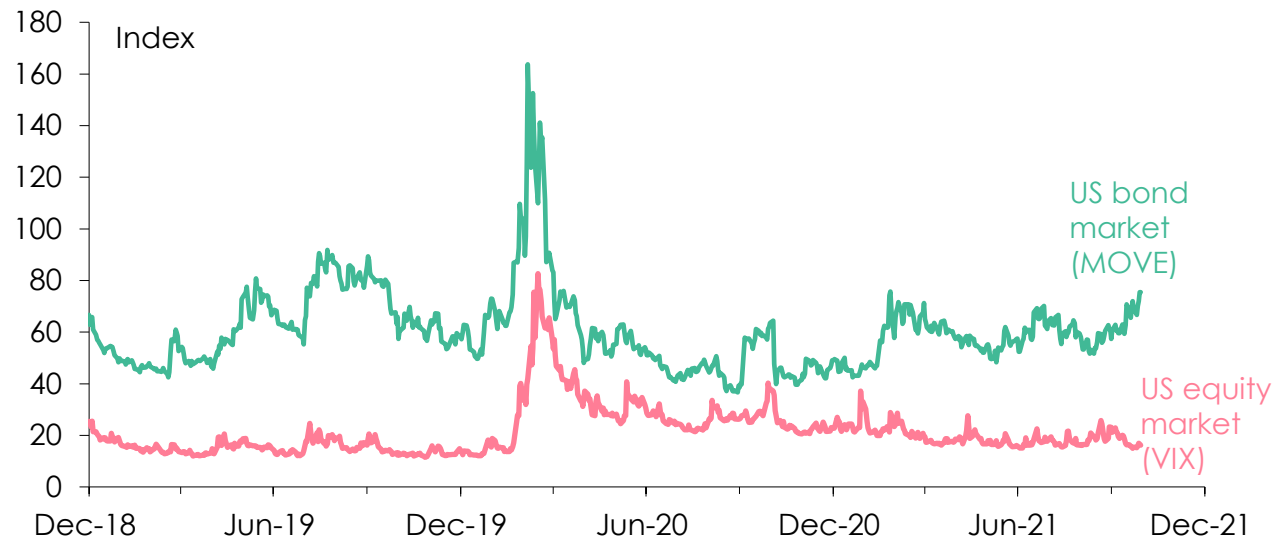
## Stock markets



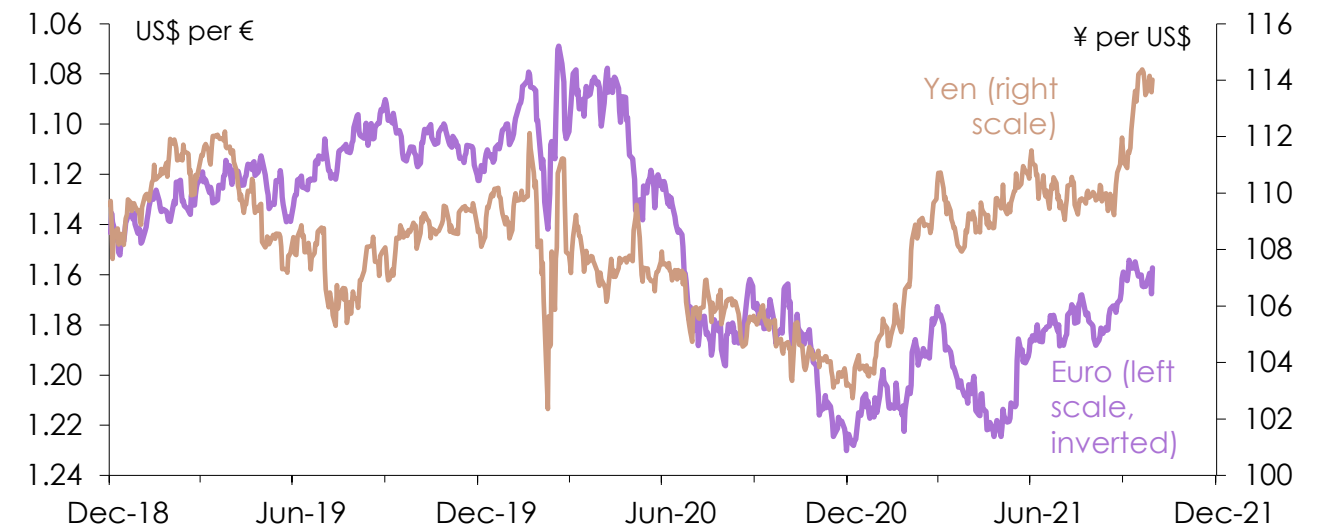
## 10-year bond yields



## Measures of market volatility



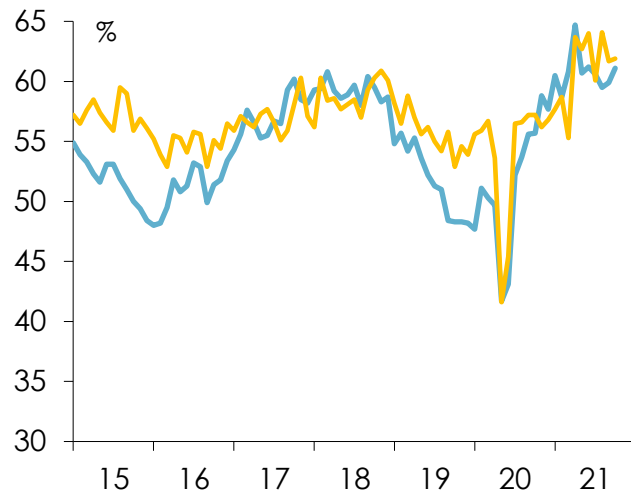
## US dollar vs euro and yen



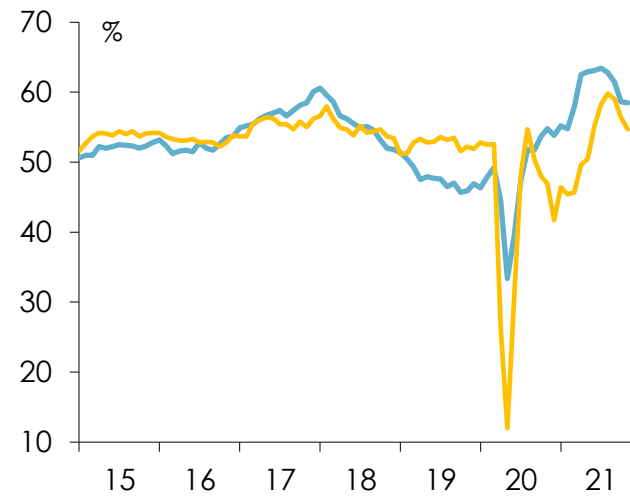
Source: Refinitiv Datastream. Data up to 29<sup>th</sup> October. [Return to "What's New"](#).

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

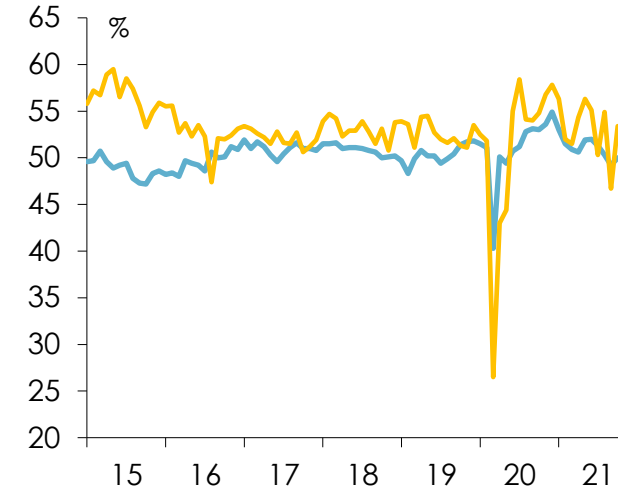
## US



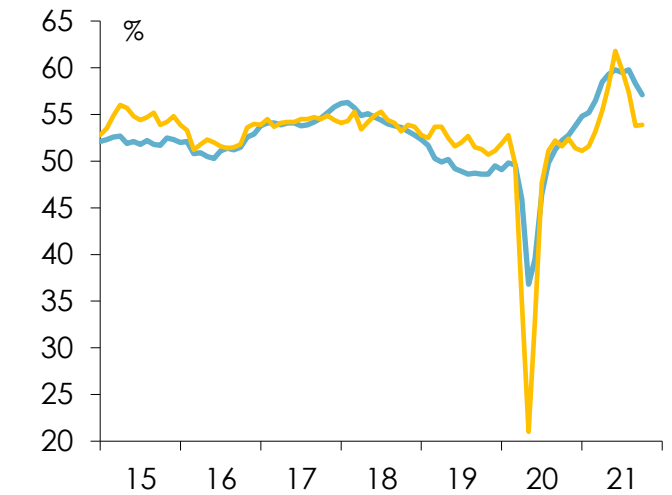
## Euro area



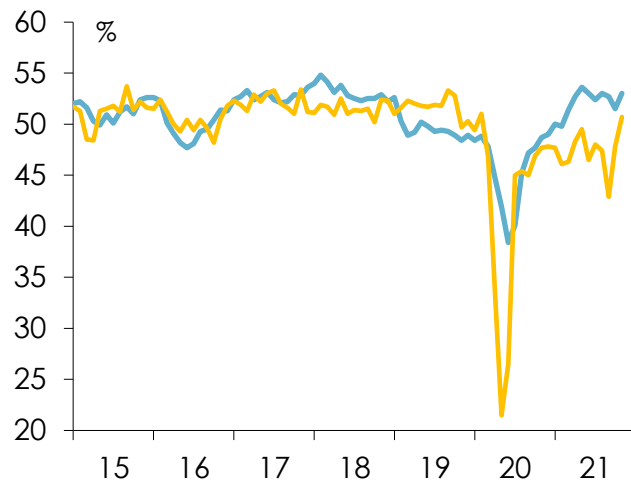
## China



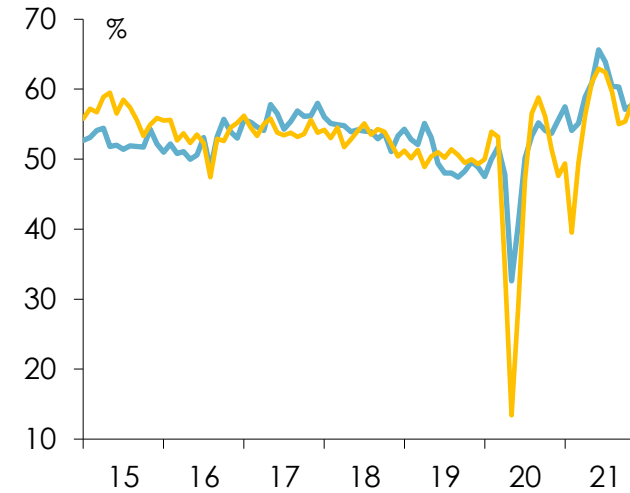
## Developed markets



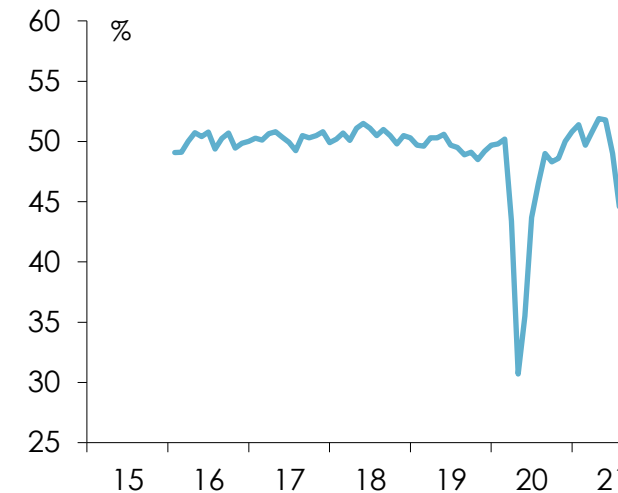
## Japan



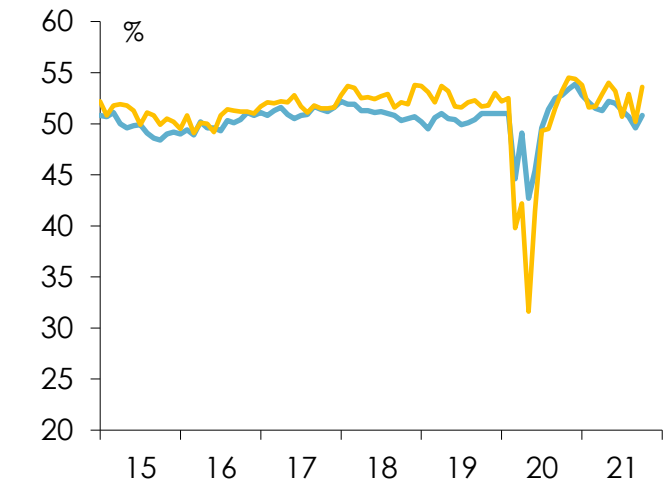
## UK



## ASEAN



## Emerging markets



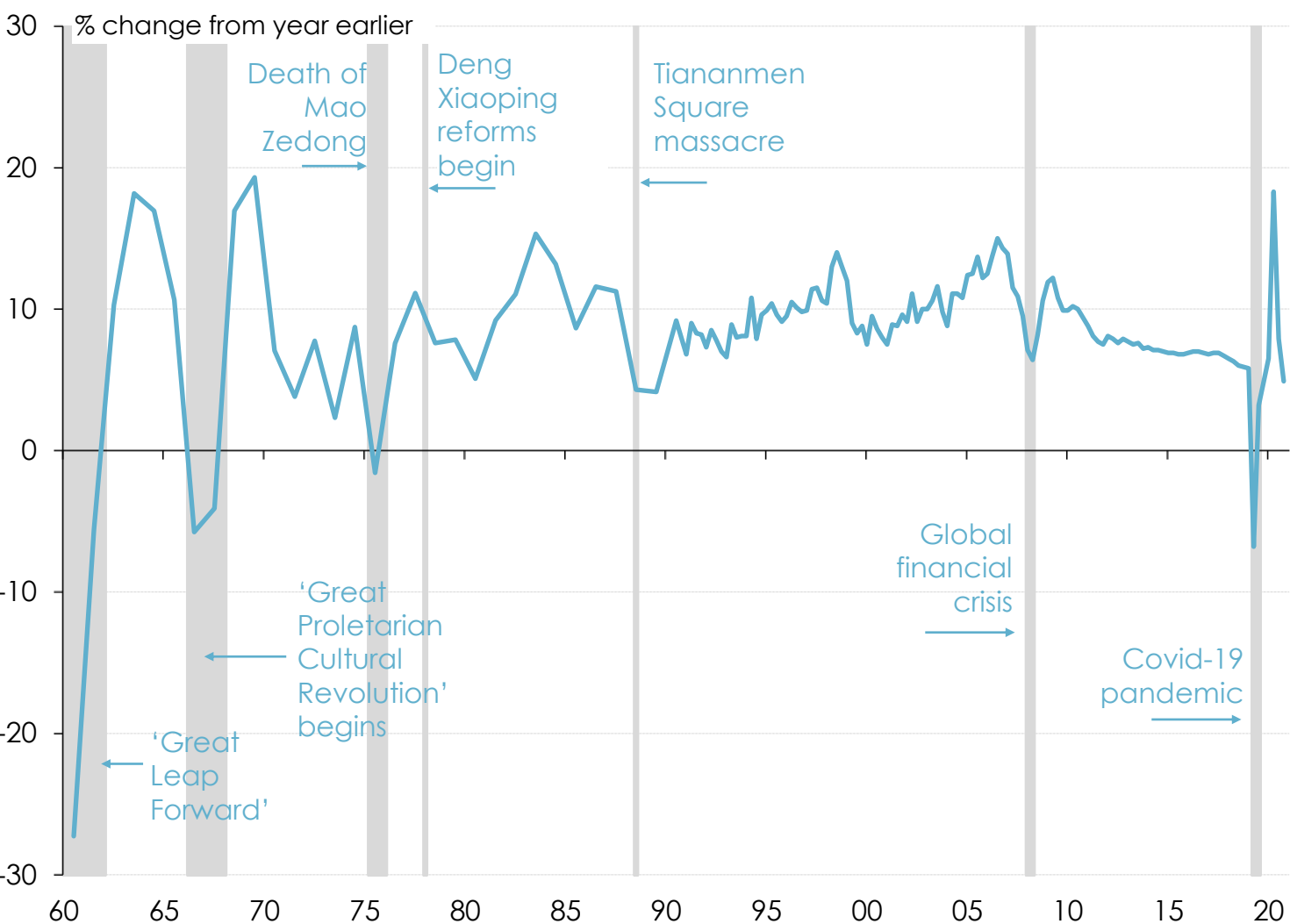
— Manufacturing

— Services

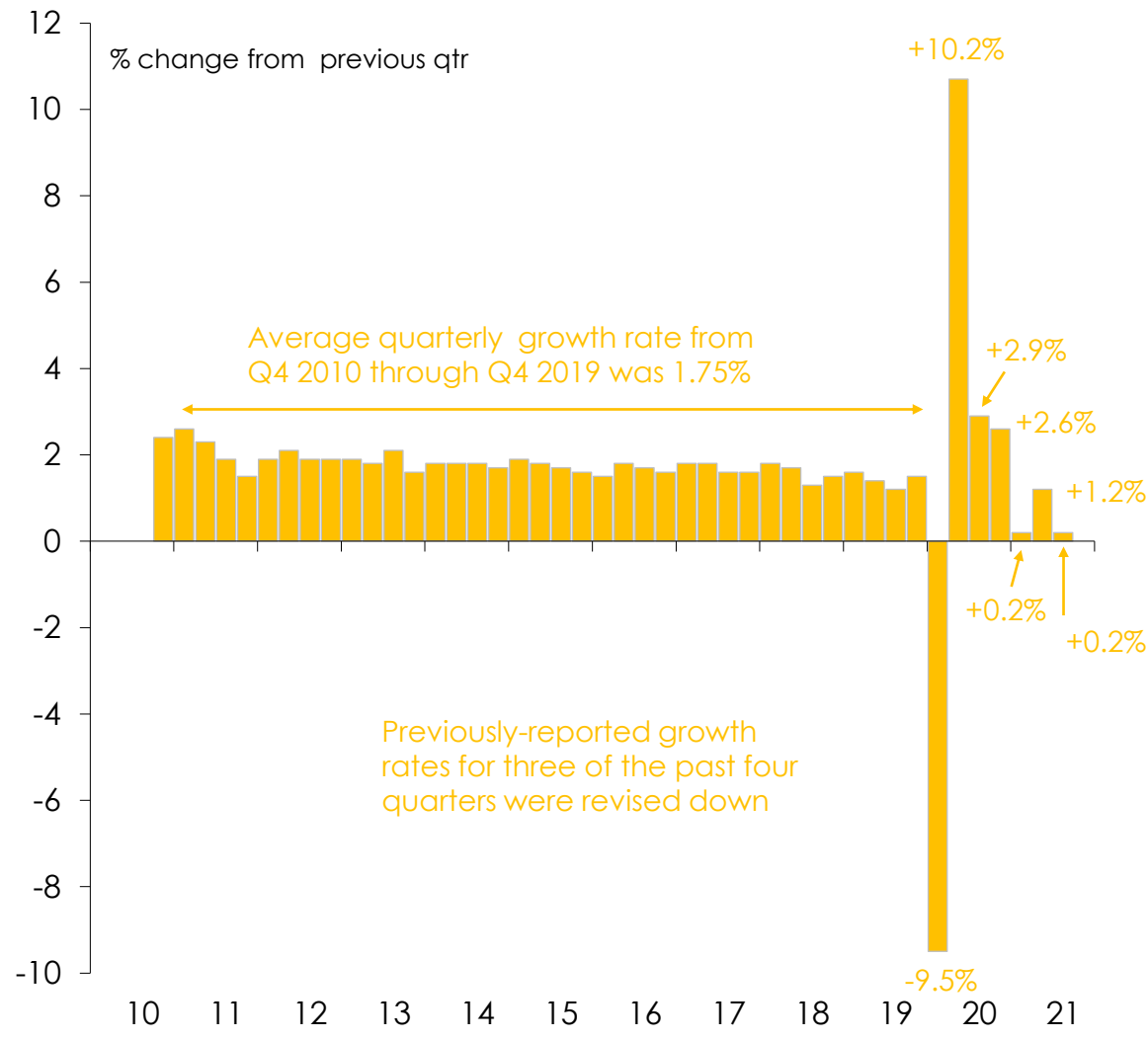
Note: Purchasing Managers' Indexes (PMIs) are derived from surveys of senior executives, who are asked to report whether various dimensions of business activity recorded an increase, decrease or no change compared with the previous month. Latest data for Japan, Euro area and UK are 'flash' estimates 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



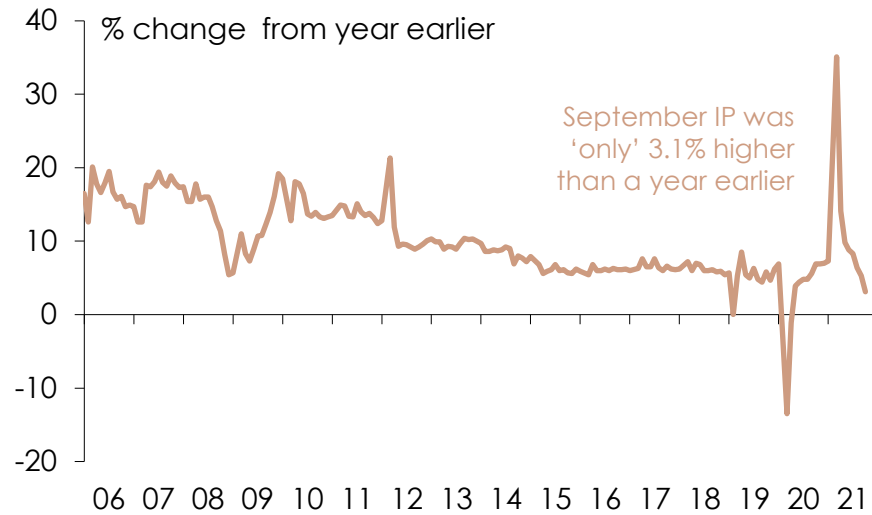
Quarterly real GDP growth, 2010-2021



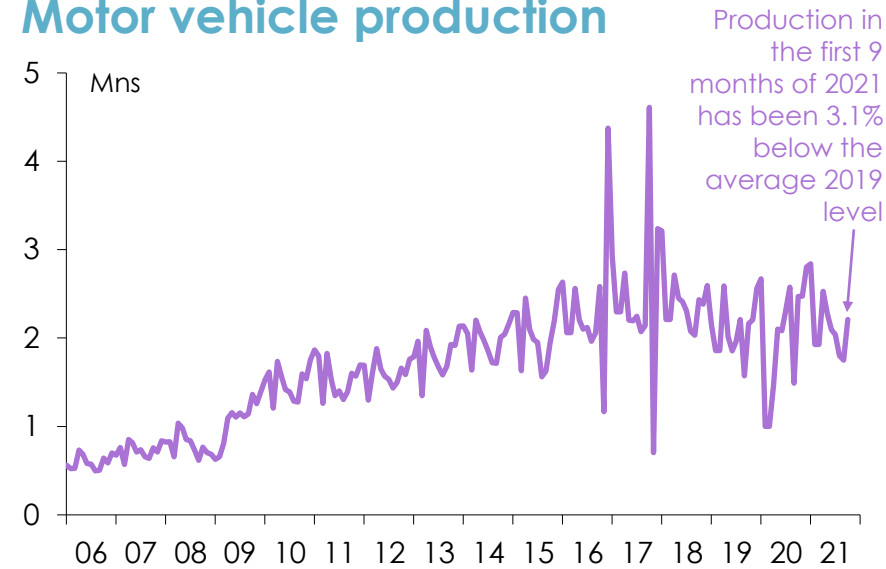
Note: In the left-hand chart, GDP growth rates are annual averages up to the December quarter of 1991, and then quarter-on-corresponding-quarter-of- previous-year thereafter. Source: [China National Bureau of Statistics](#). [Return to "What's New"](#).

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

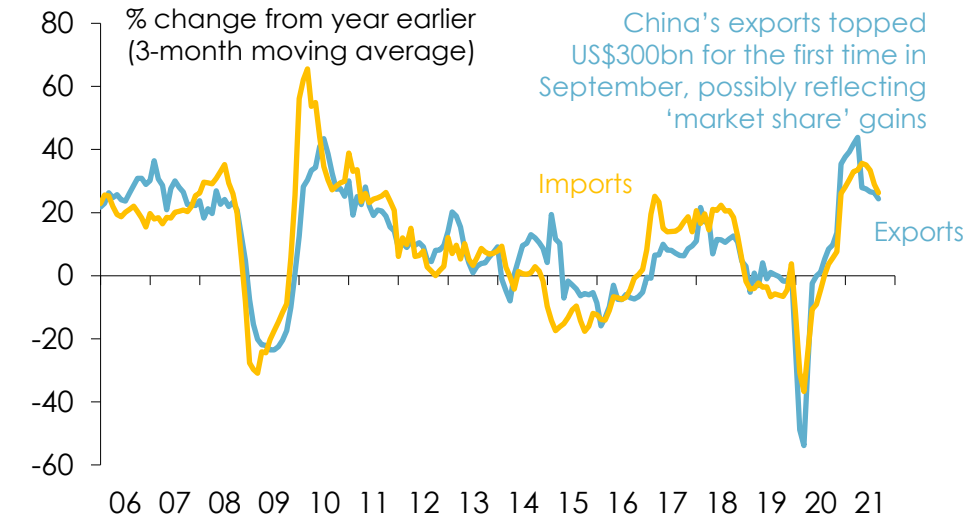
## Industrial production



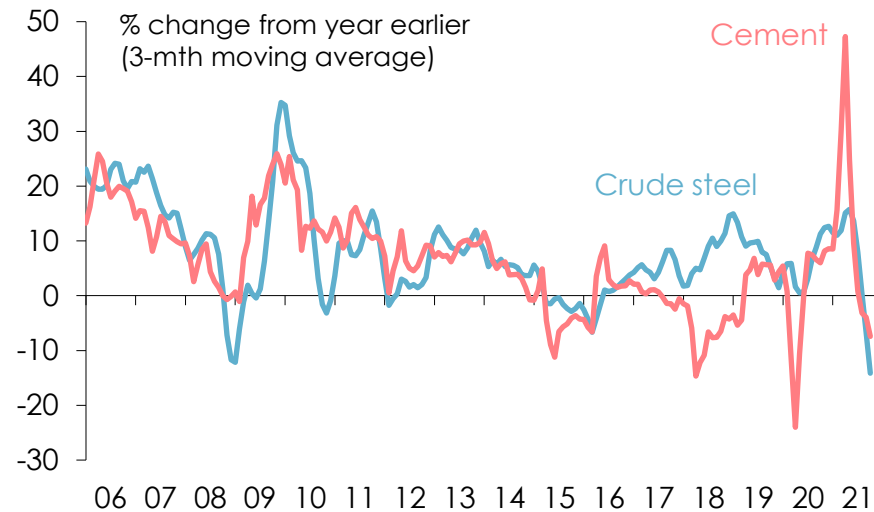
## Motor vehicle production



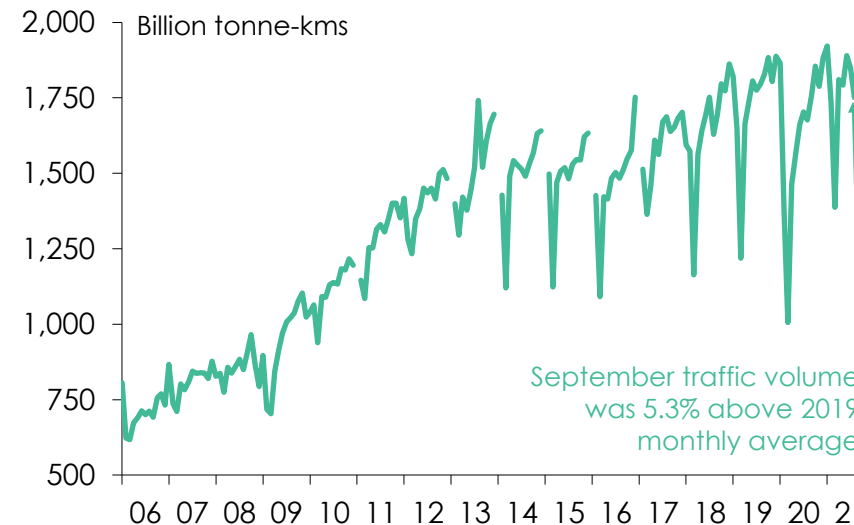
## Merchandise trade



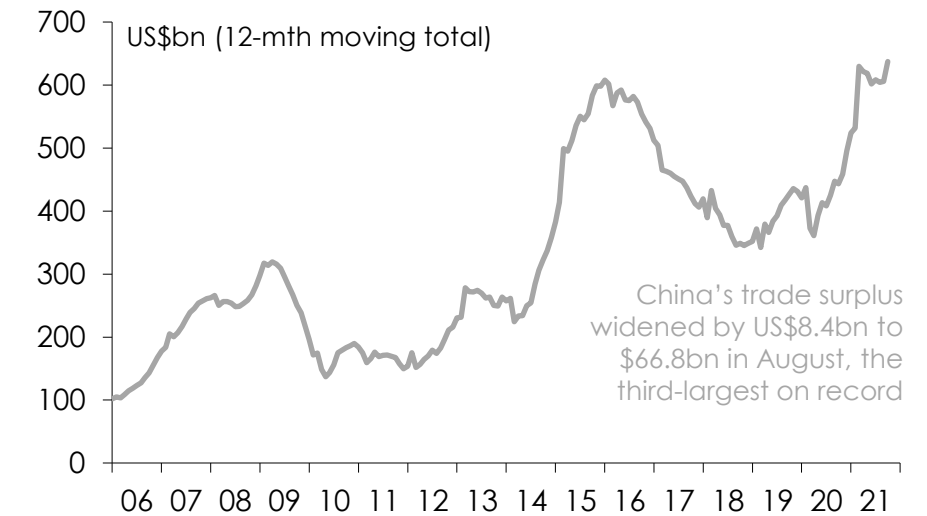
## Steel and cement production



## Freight traffic volumes



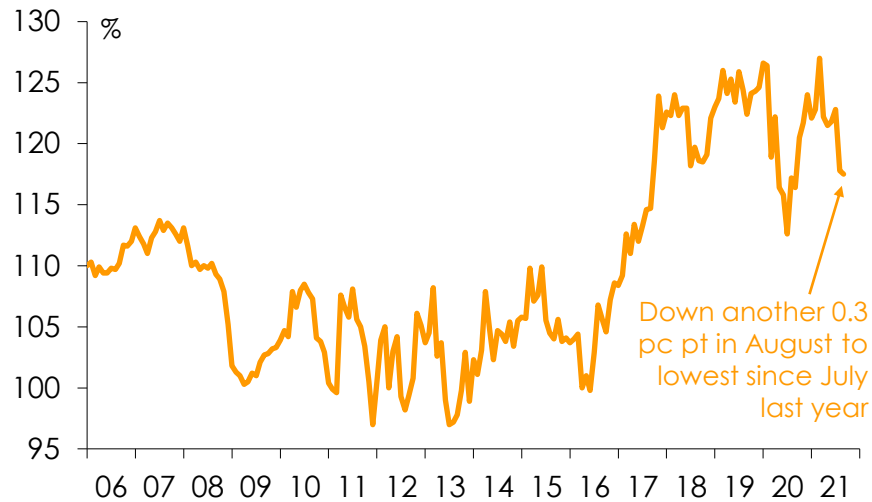
## Merchandise trade balance



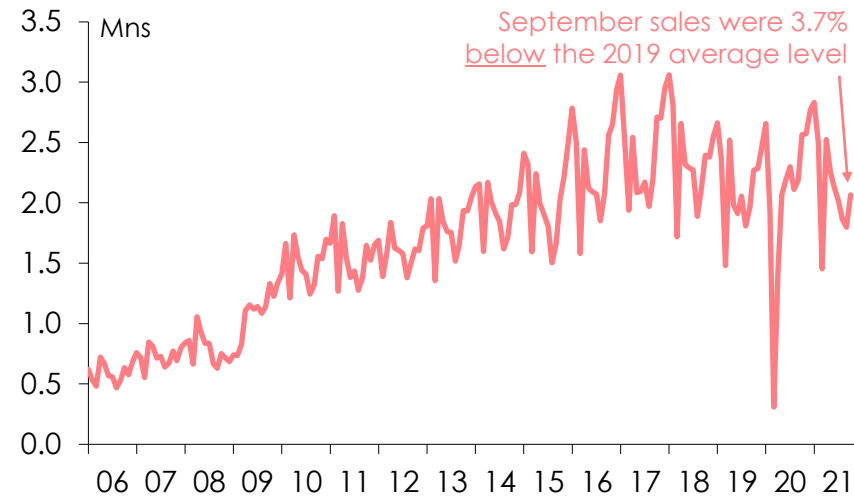
Note: Latest data are for September. Sources: [China National Bureau of Statistics](#); [China Association of Automobile Manufacturers](#); [China General Administration of Customs](#).  
[Return to "What's New"](#).

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

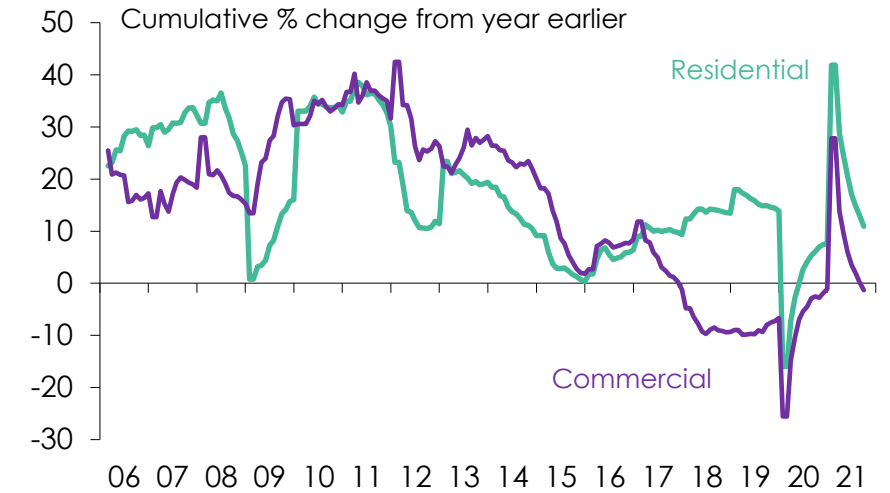
## Consumer sentiment



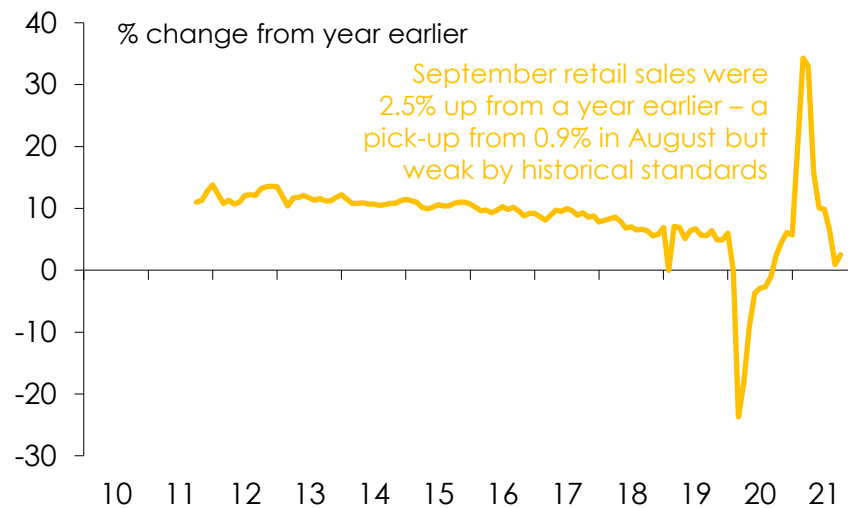
## Motor vehicle sales



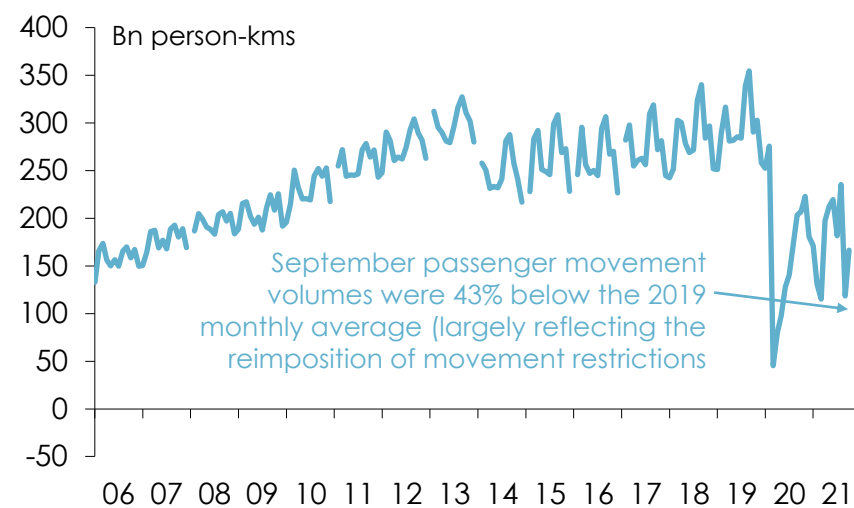
## Real estate investment



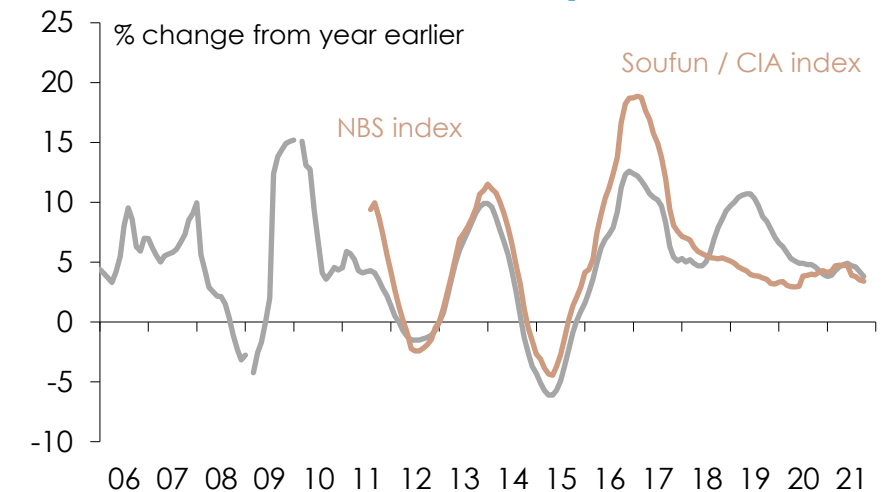
## Volume of retail sales



## Passenger traffic volumes



## Residential real estate prices

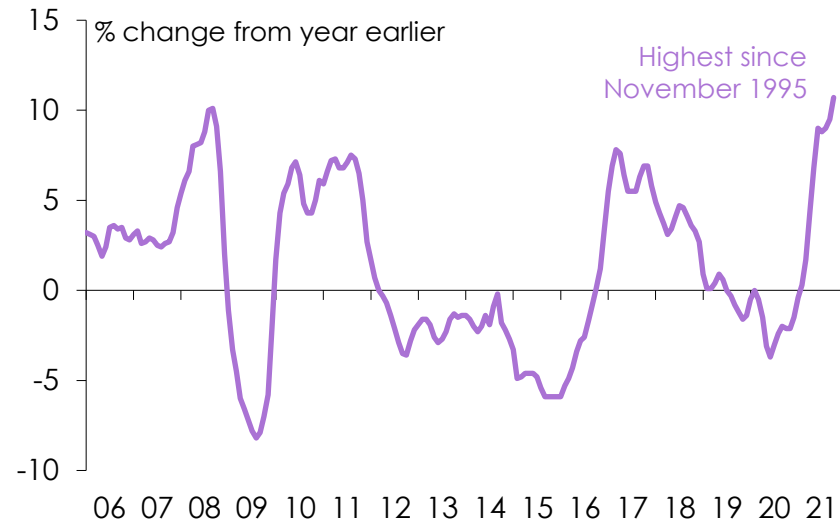


Sources: [China National Bureau of Statistics](#); [China Association of Automobile Manufacturers](#); [China Index Academy](#) (CIA). Latest data are for September, except for consumer sentiment which is for August. [Return to "What's New"](#).

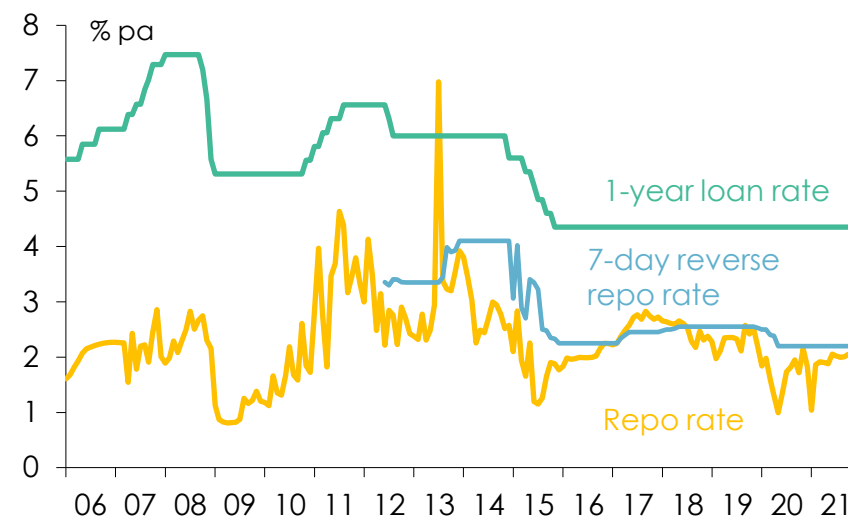


# There's absolutely no sign of any policy response to the softening in China's economy, despite very low consumer price inflation

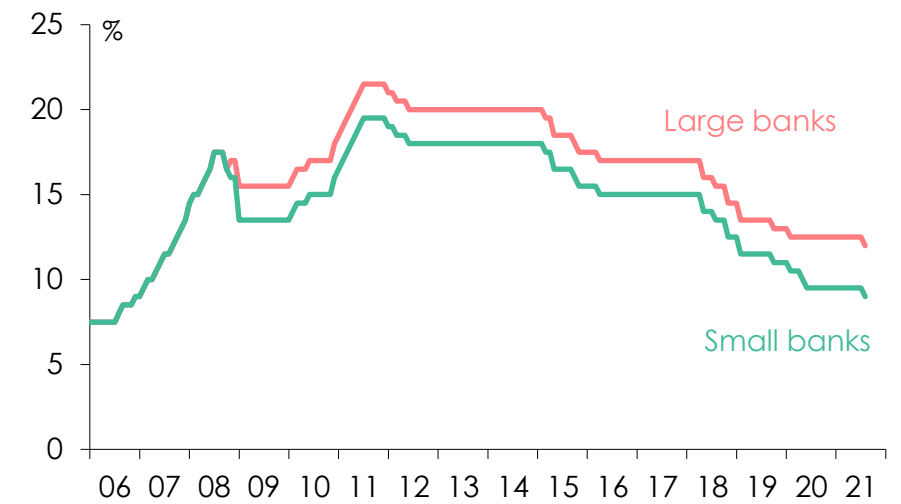
## Producer prices



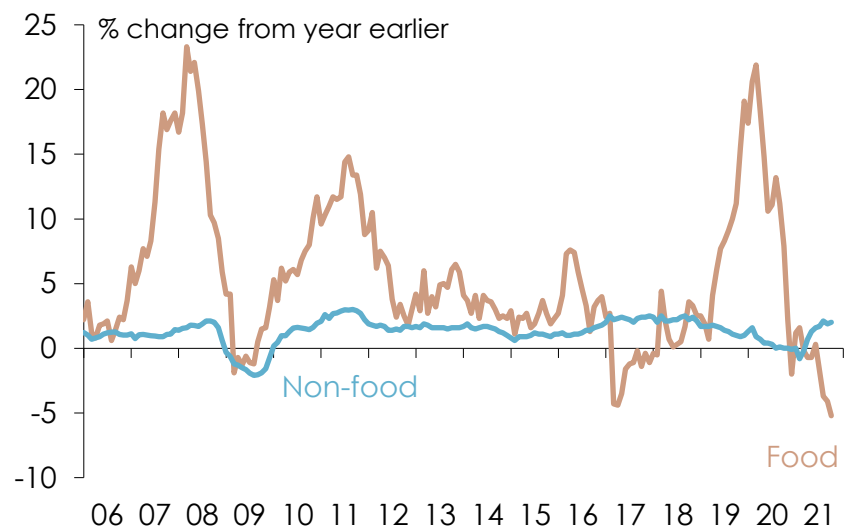
## PBoC policy interest rates



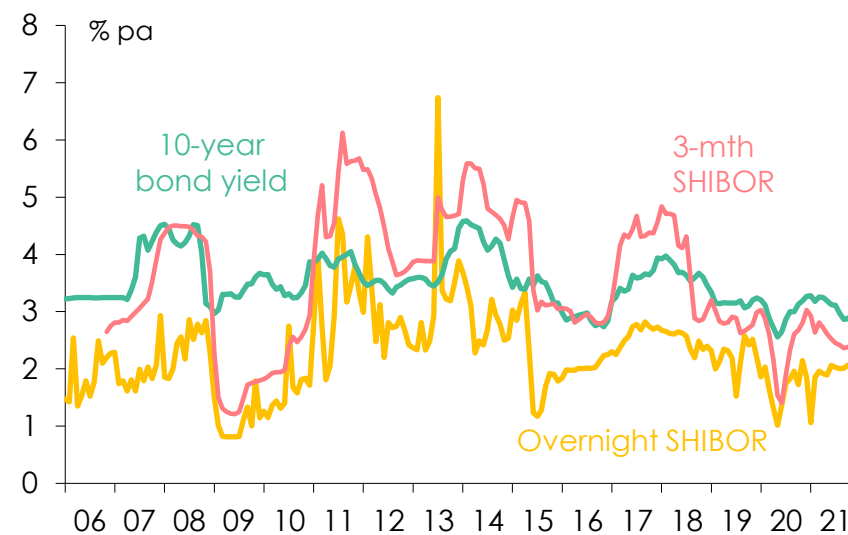
## Bank reserve requirement ratios



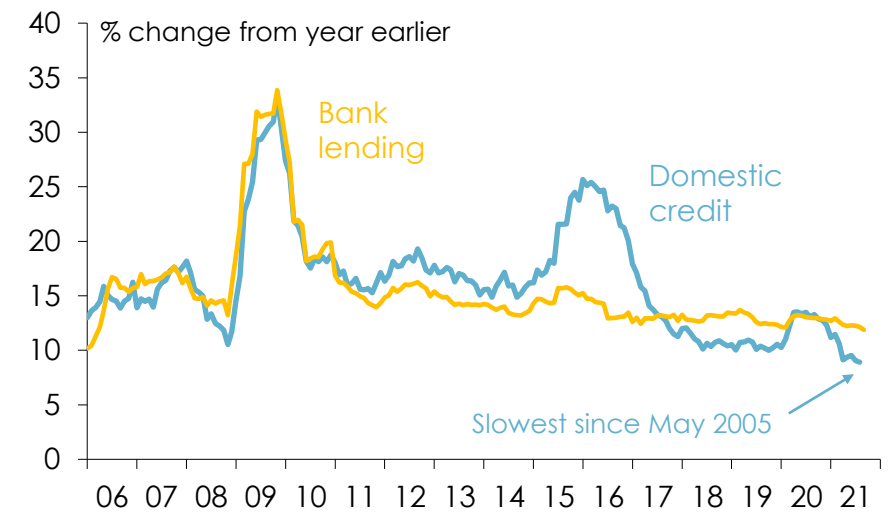
## Consumer prices



## 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"](#).

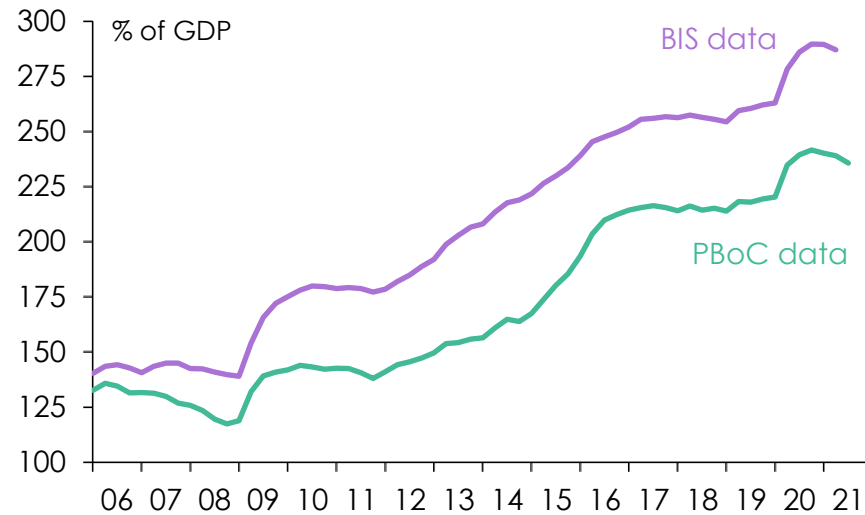


# China Evergrande again staved off default this week when it made another interest payment just before the ‘grace period’ expired

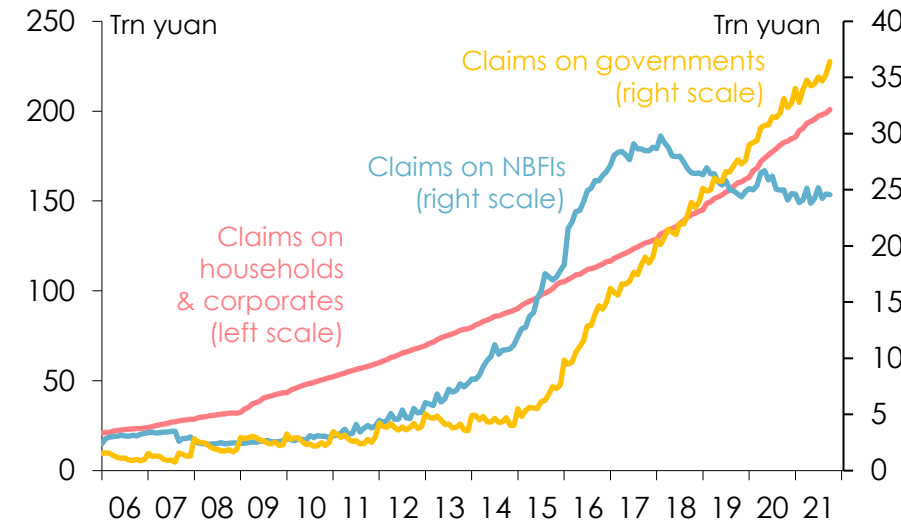
- ❑ Concerns have been mounting for some weeks about the possibility of a default by China Evergrande Group, a property development company with debts totalling US\$300 billion (of which US\$37bn falls due within a year)
  - Evergrande is China’s second-largest property developer, with around 200,000 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 again avoided a formal default this week by [making payment](#) of US\$45mn on interest on about \$950mn of bonds which had been due on 29<sup>th</sup> September, ahead of the expiry of the 30-day ‘grace period’ this week
  - it made a similarly [late interest payment](#) last week of US\$83mn on \$2bn of bonds which had been due since 23<sup>rd</sup> September
  - however it still has another US\$338mn in interest payments to offshore bondholders due in November and December
- ❑ At least four other (much smaller) property developers have defaulted in recent weeks,
- ❑ Director of the PBoC’s Financial Market Department Zou Lan [said](#) on 16<sup>th</sup> October 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

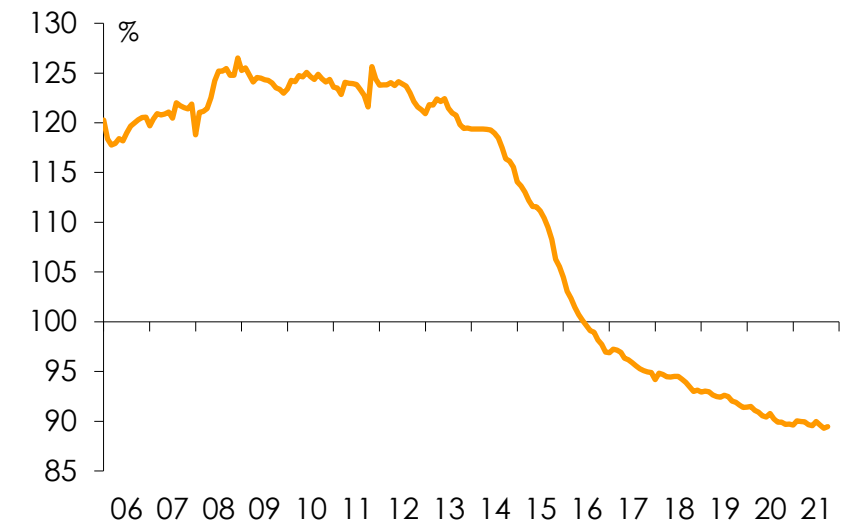
## Credit outstanding as a pc of GDP



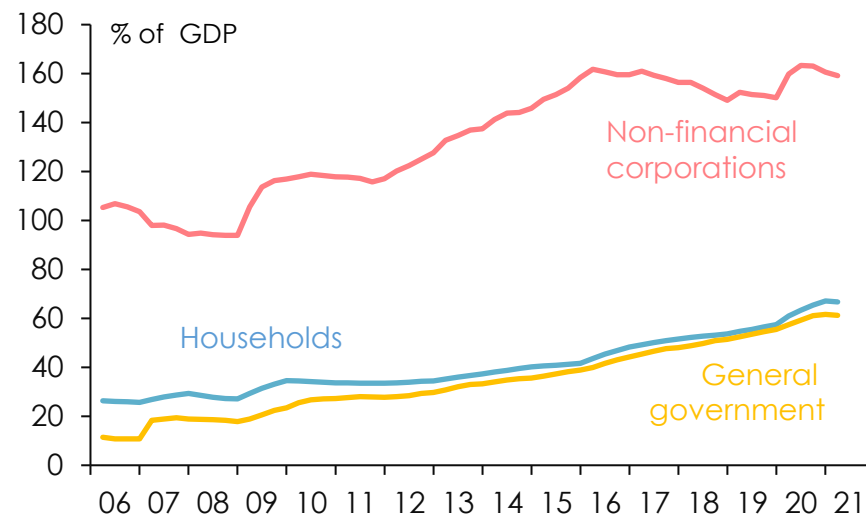
## Banks' assets



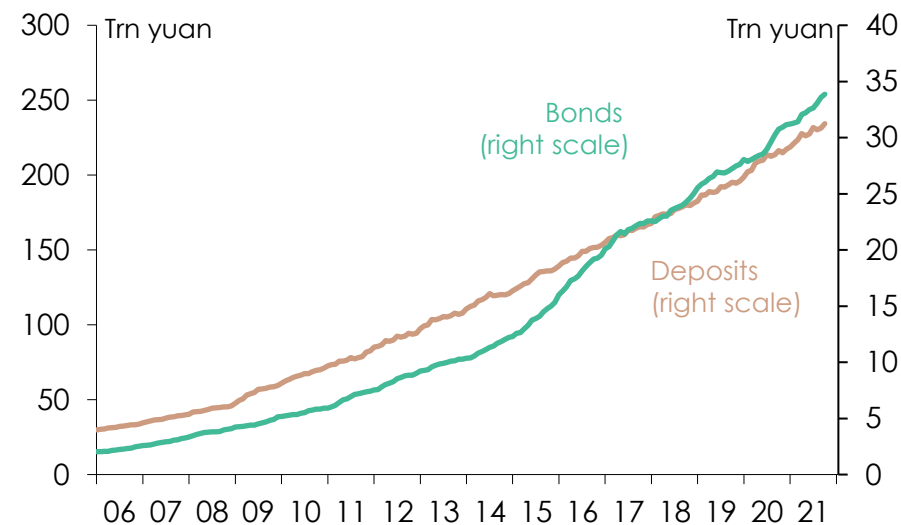
## Banks' deposits-to-loans ratio



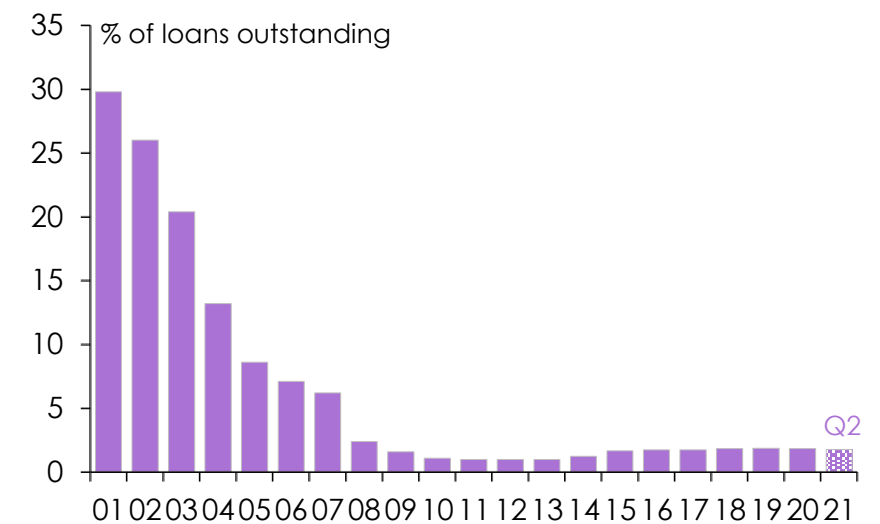
## Credit outstanding by sector



## Banks' liabilities

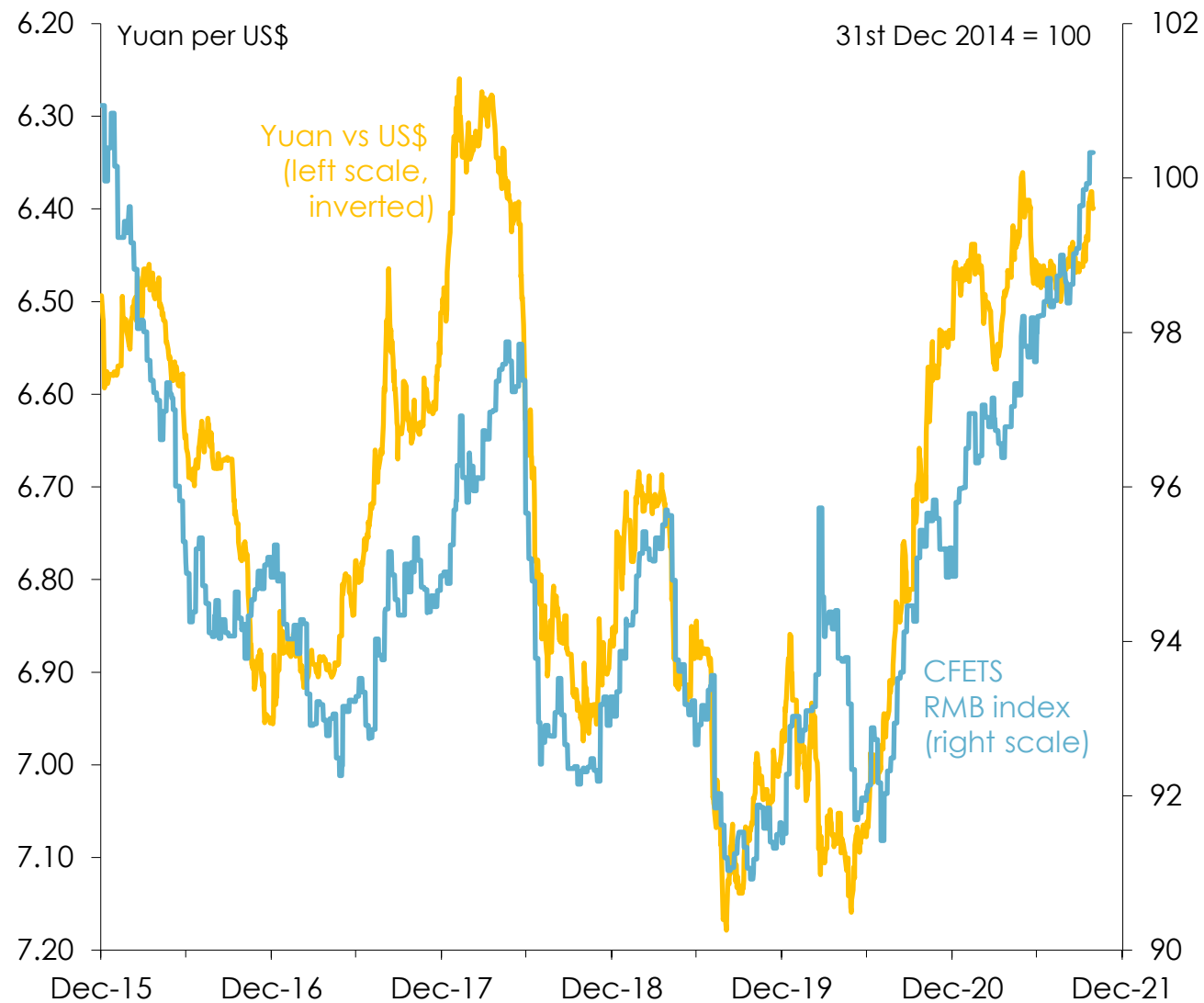


## Banks NPLs – official estimates

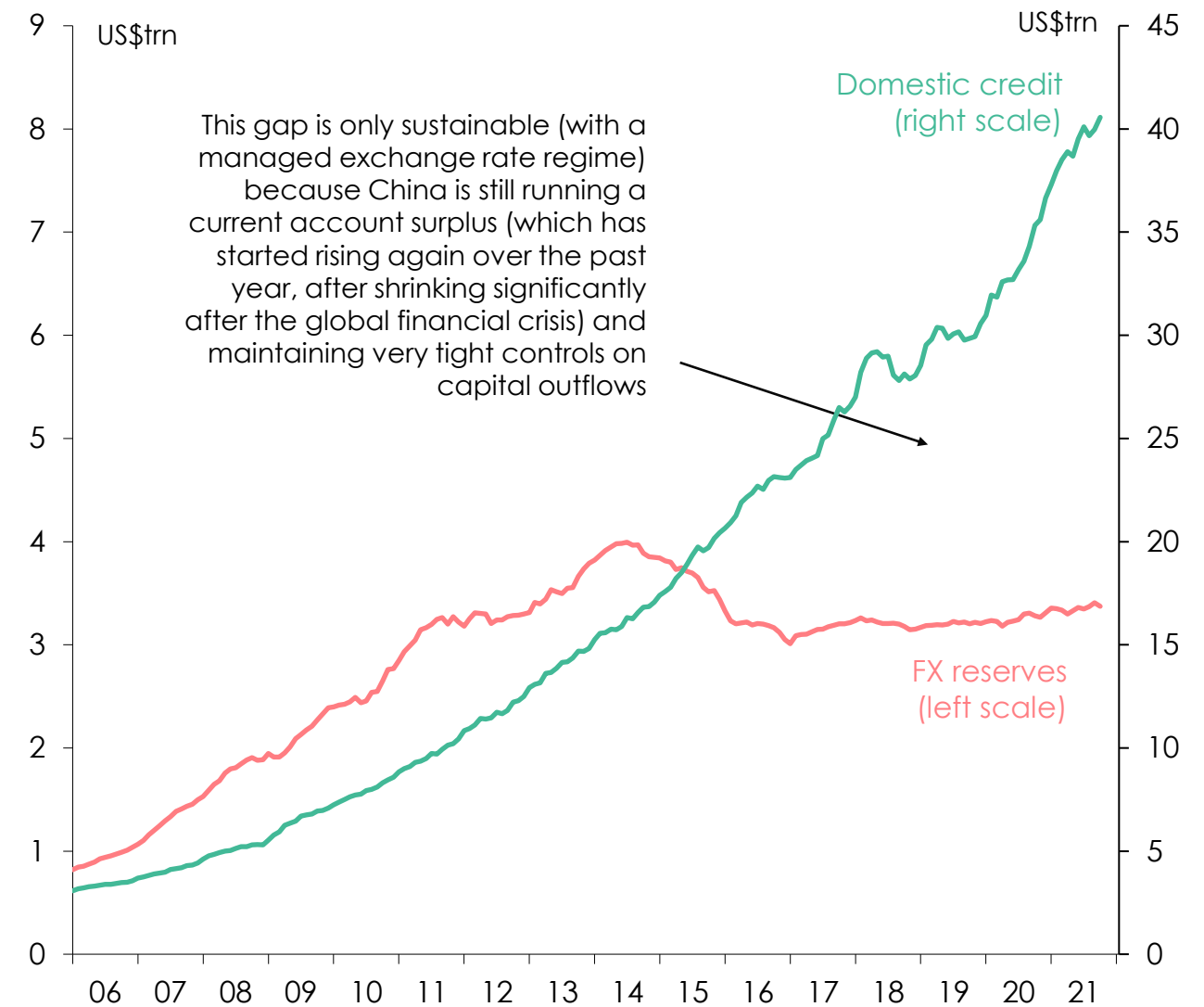


# The yuan rose strongly this week driven by corporates selling US\$, gaining almost 1% vs the US dollar and 0.4% in trade-weighted terms

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



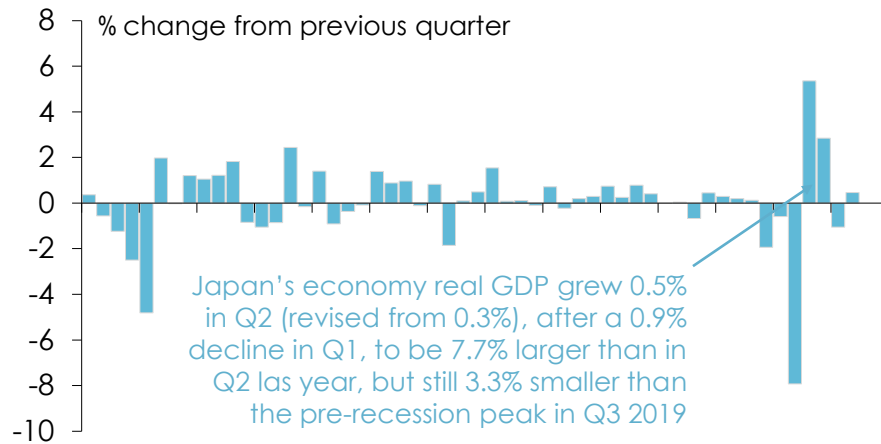
## FX reserves and domestic credit



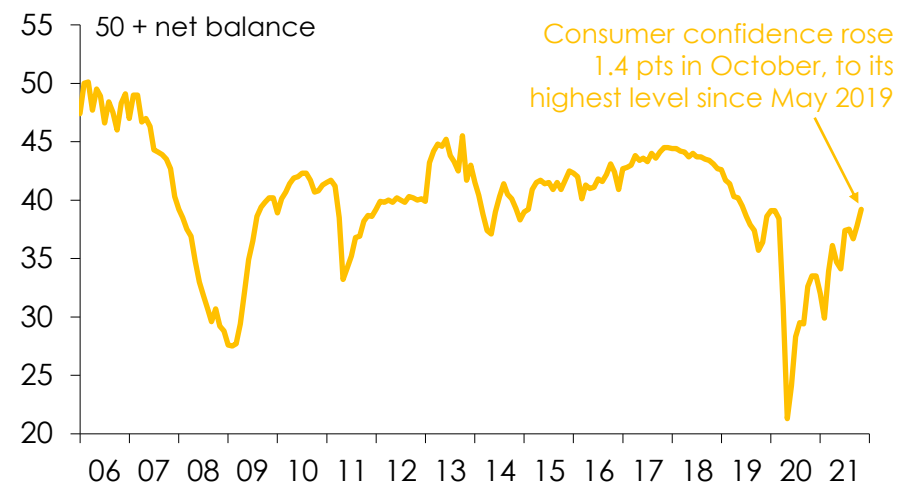
Sources: Refinitiv Datastream; China Foreign Exchange Trading System; People's Bank of China. Exchange rates up to 29<sup>th</sup> October; FX reserves and domestic credit data are up to September. [Return to "What's New"](#).

# Employment in Japan fell in September for the second month in a row, to be 1.6% below the pre-pandemic peak, but unemployment stayed at 2.8%

## Real GDP



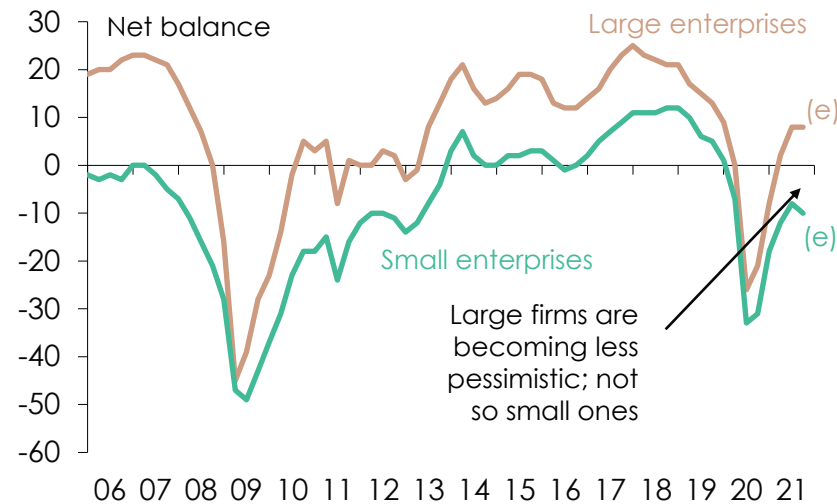
## Consumer confidence



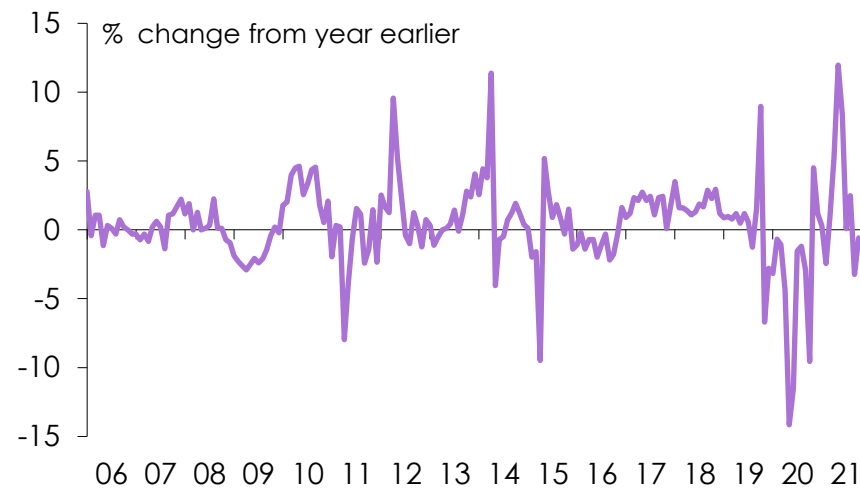
## Unemployment



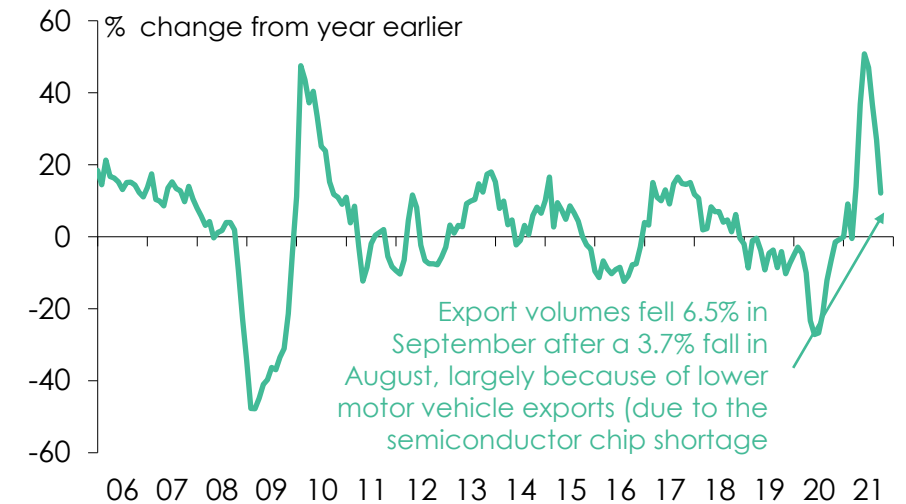
## BoJ Tankan business conditions



## Value of retail sales

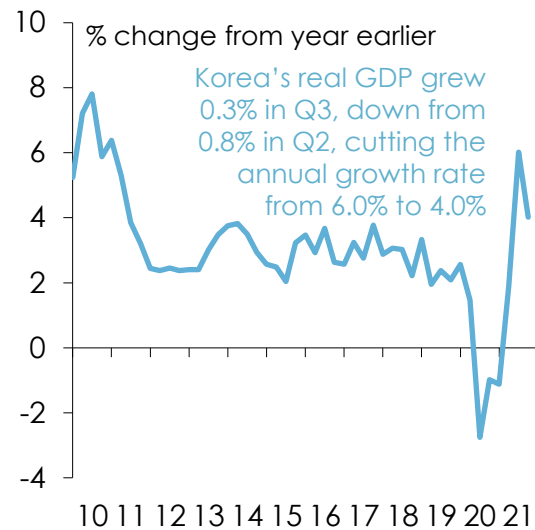


## Merchandise export volumes

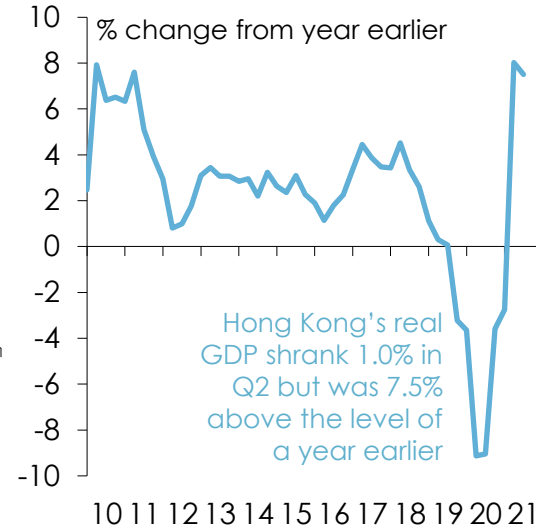


# Korea's economy grew 0.3% in Q3, down from 0.8% in Q2, largely due to a 0.3% fall in household consumption, cutting the annual growth rate to 4.0%

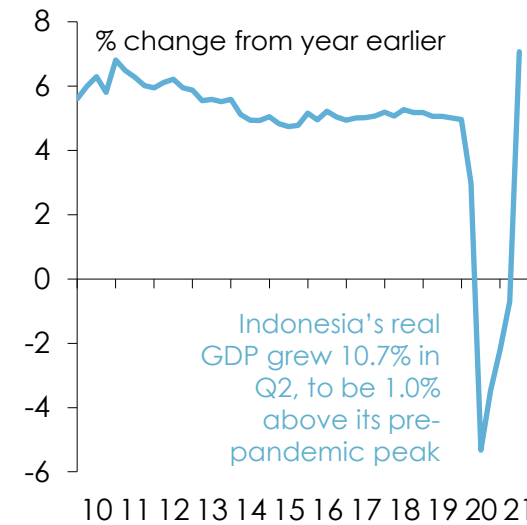
## Korea



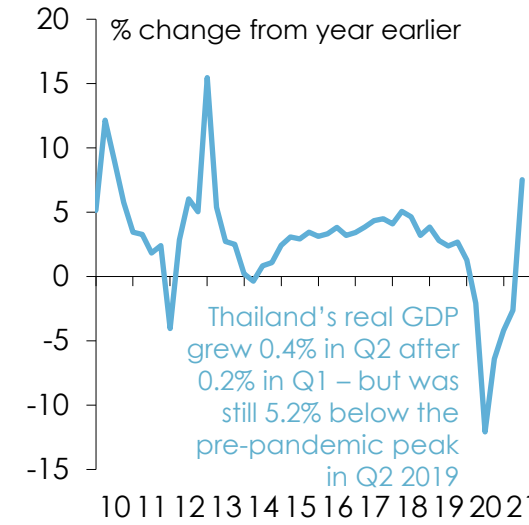
## Hong Kong



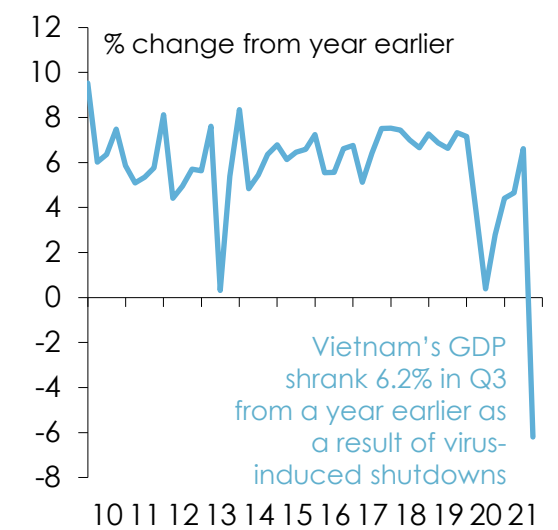
## Indonesia



## Thailand



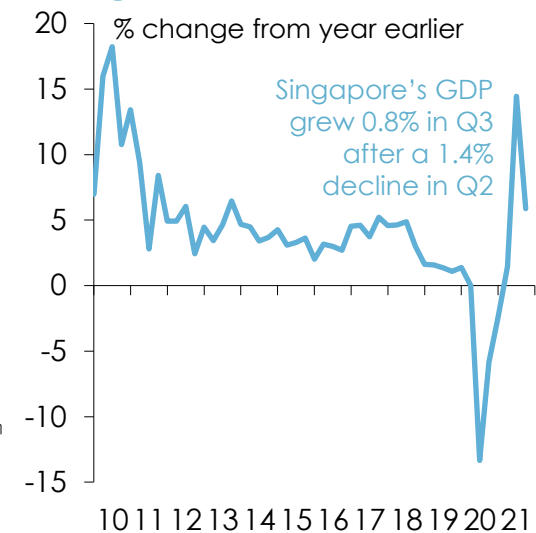
## Vietnam



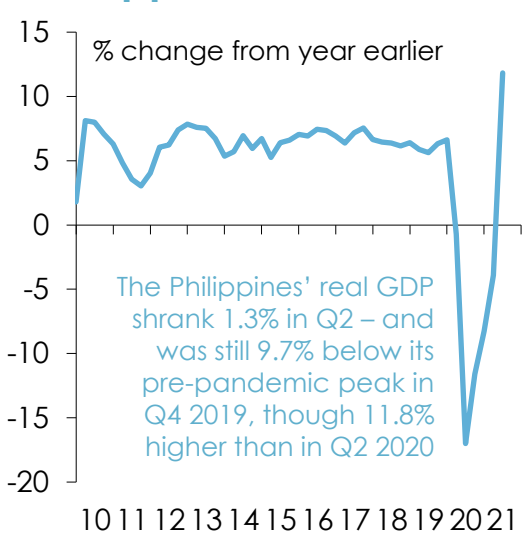
## Taiwan



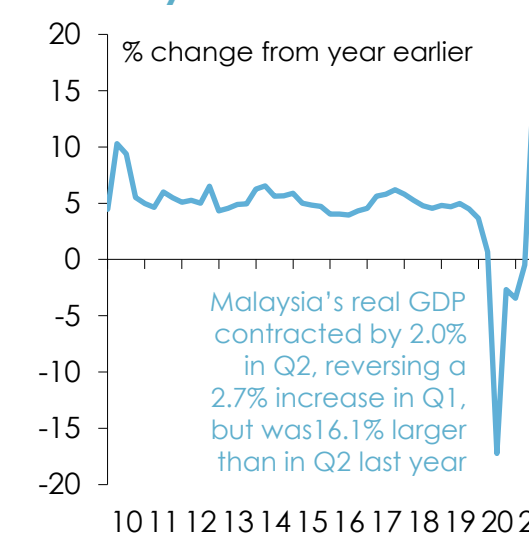
## Singapore



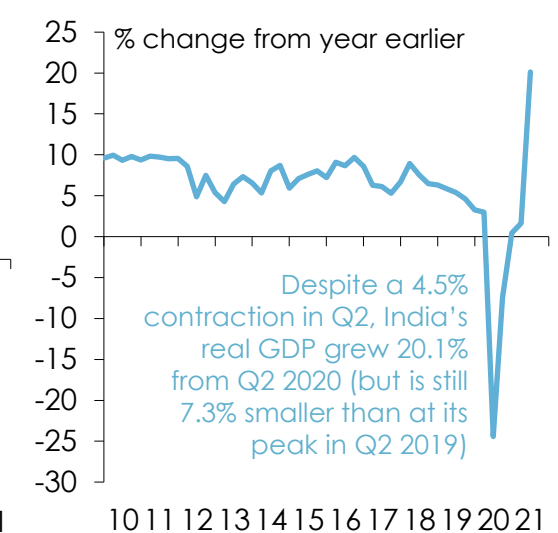
## Philippines



## Malaysia



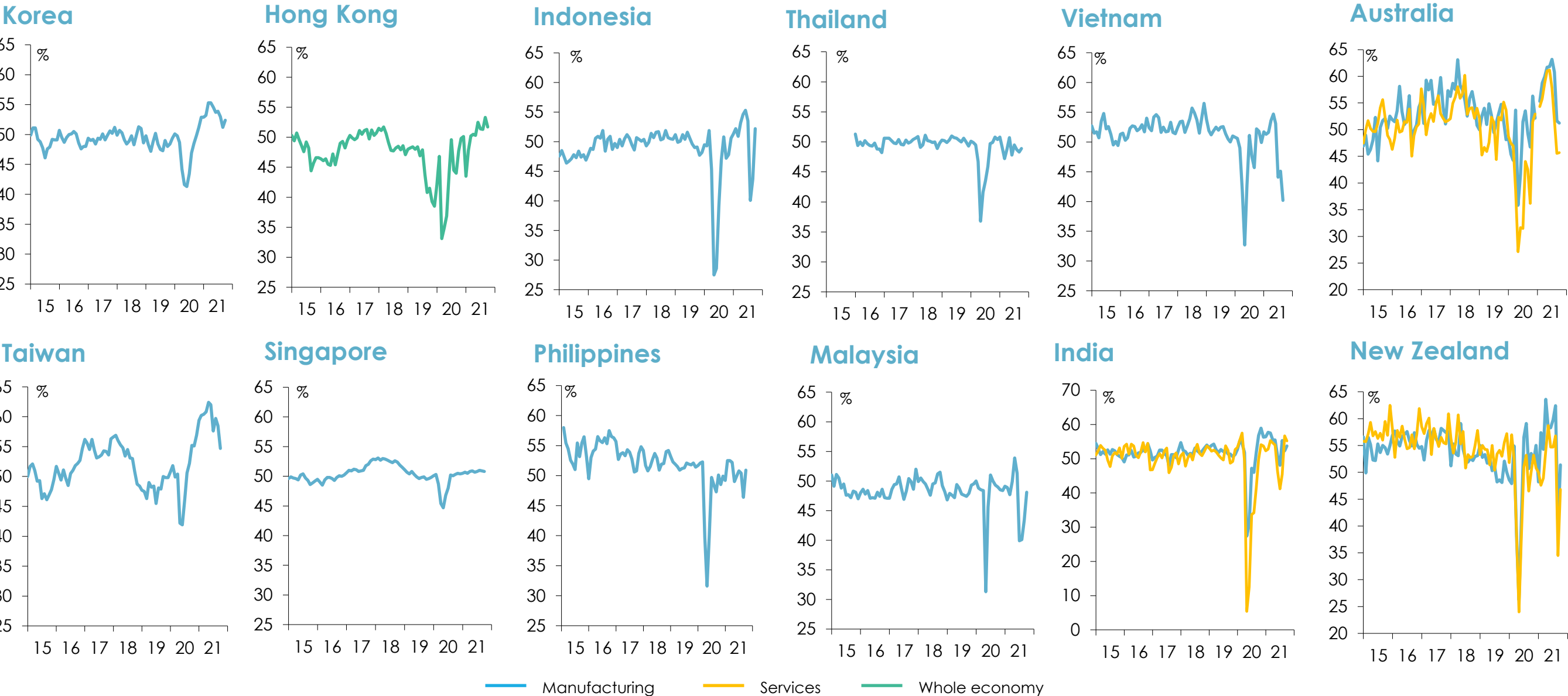
## India



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"](#).

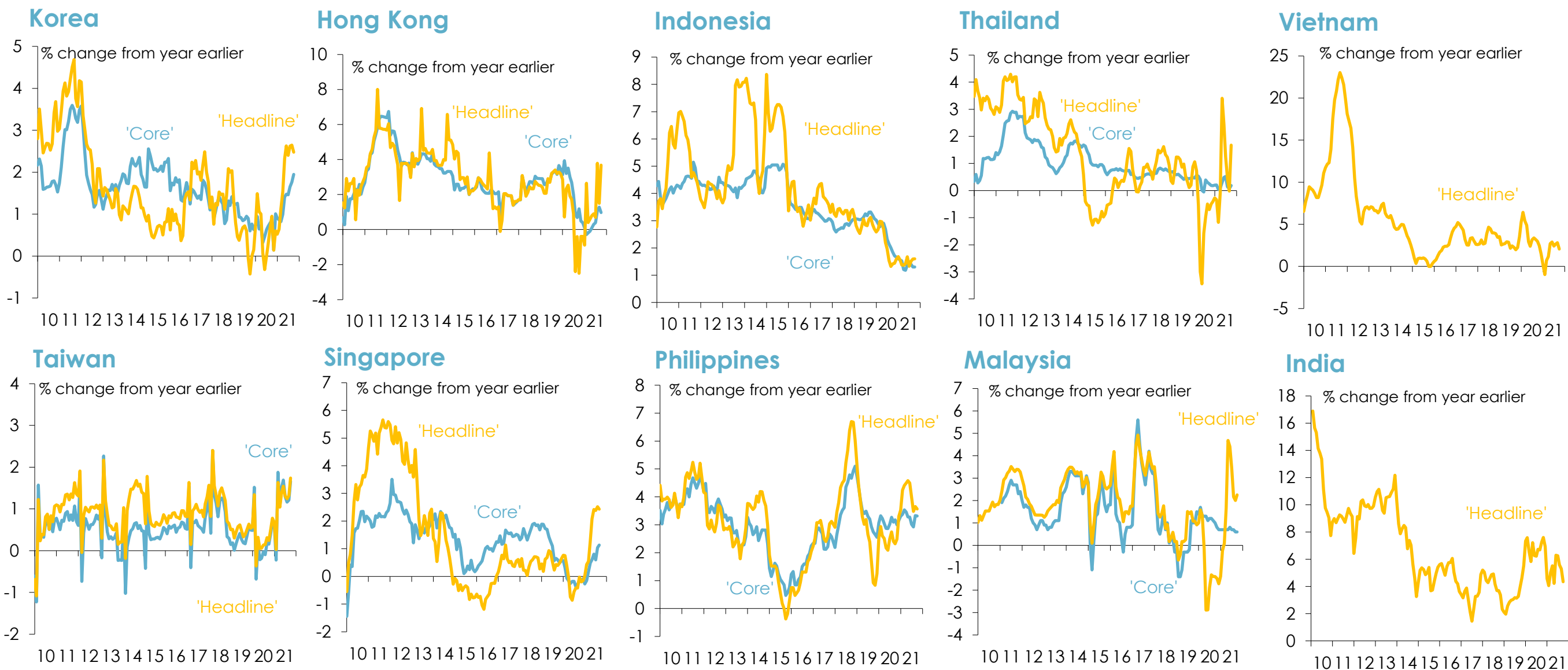


# PMIs suggest a pick-up in manufacturing activity in most east Asian economies in September – with the exceptions of Taiwan and Vietnam



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

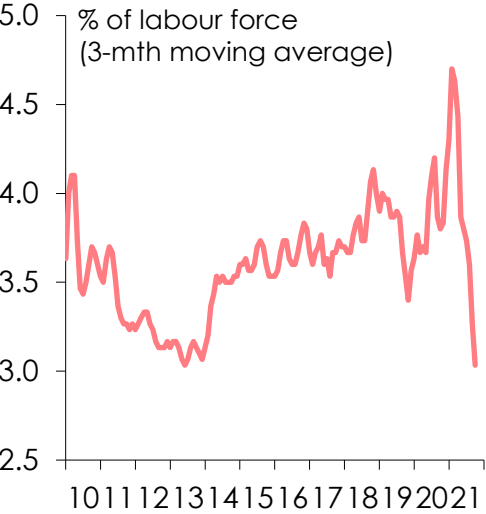


Note: 'Core' inflation in Korea excludes agricultural products and oil; in Taiwan it excludes fresh fruit, vegetables and energy; in Singapore it excludes accommodation and private transport; and in Hong Kong it excludes the effect of 'one-off government relief measures'. 'Core' inflation in Indonesia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

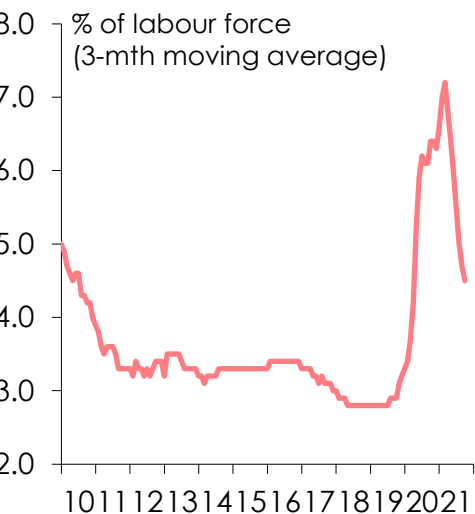


# Unemployment rose sharply in most Asian economies last year but is now falling in most of them

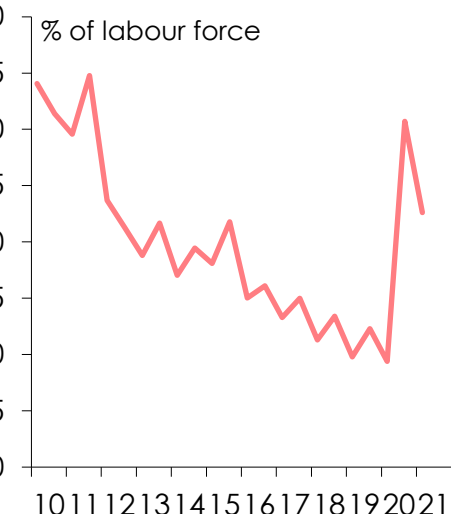
## Korea



## Hong Kong



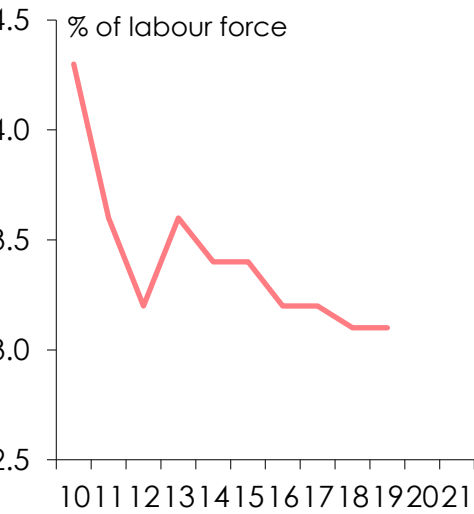
## Indonesia



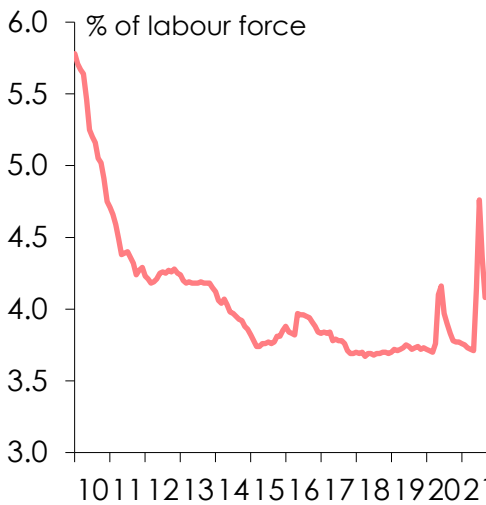
## Thailand



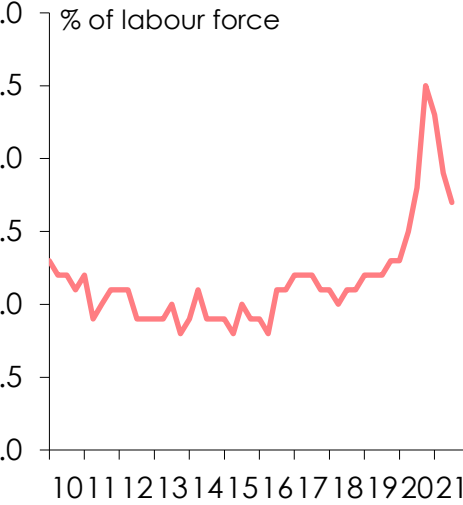
## Vietnam



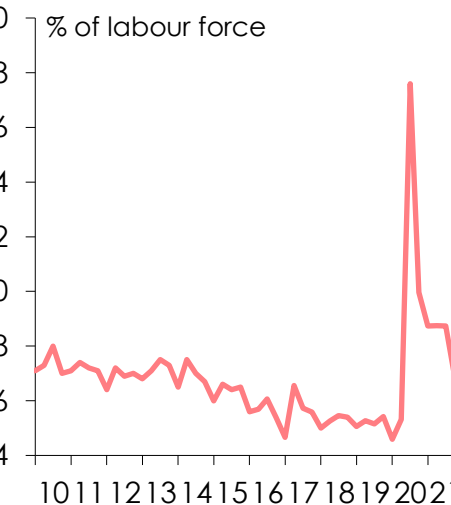
## Taiwan



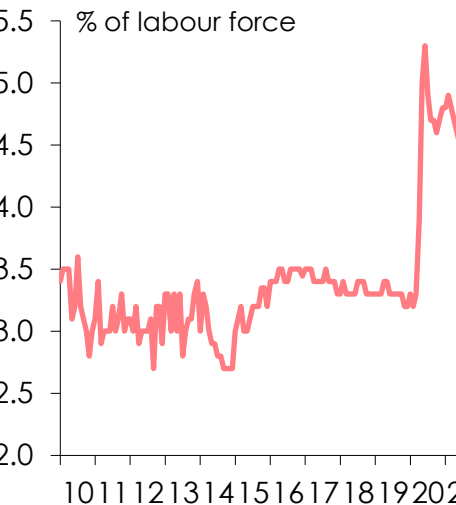
## Singapore



## Philippines



## Malaysia

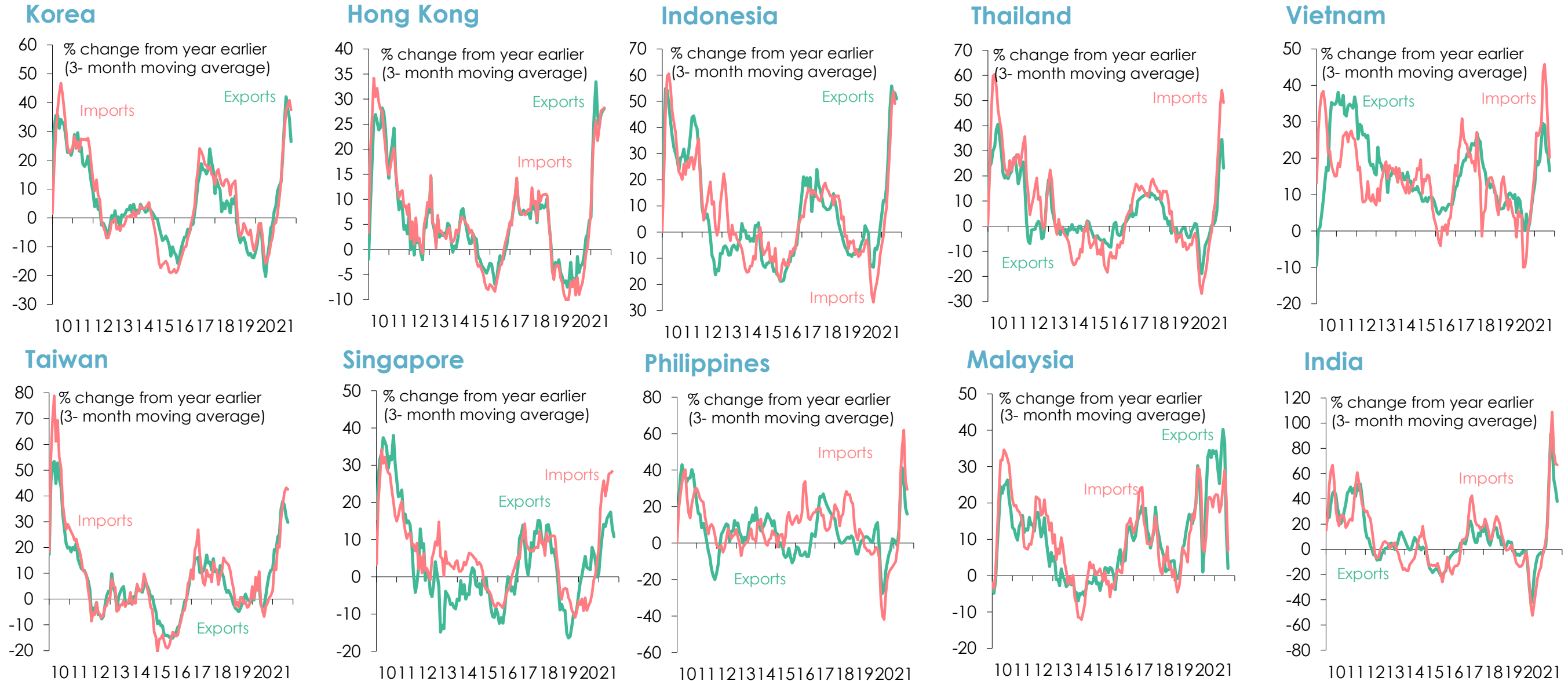


## India



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"](#).

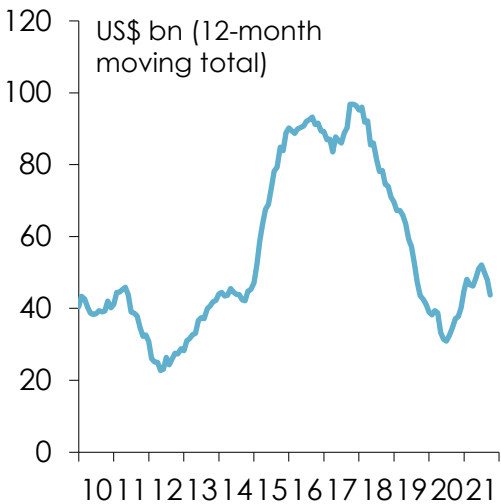
# Asian exports are recovering from the Covid-induced slump – although ‘base effects’ from this time last year are inflating the growth



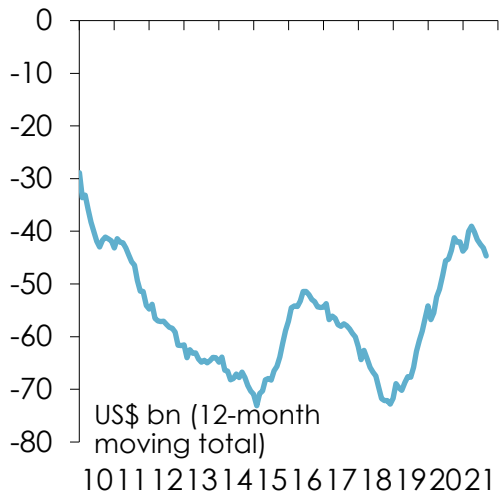
Note: Data for Hong Kong, Singapore and Malaysia are published in national currencies and converted to US dollars by Corinna using month-average exchange rates.  
Sources: national statistical agencies and central banks. [Return to "What's New"](#).

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

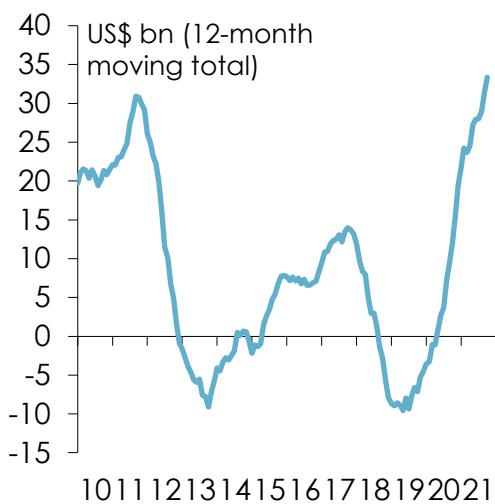
Korea



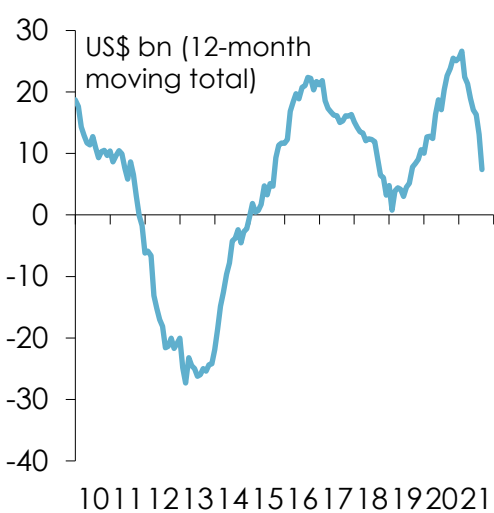
Hong Kong



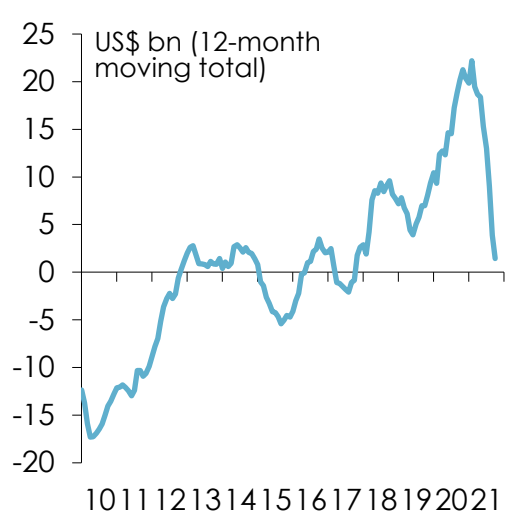
Indonesia



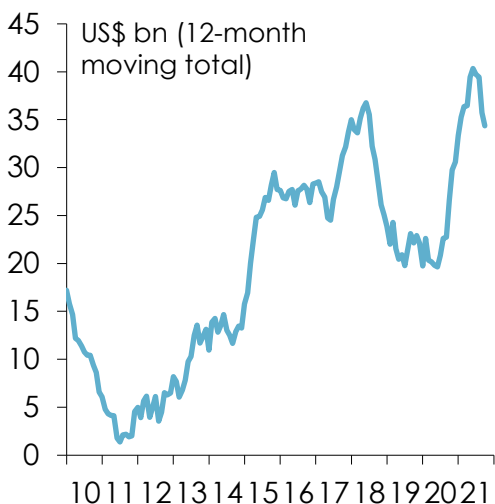
Thailand



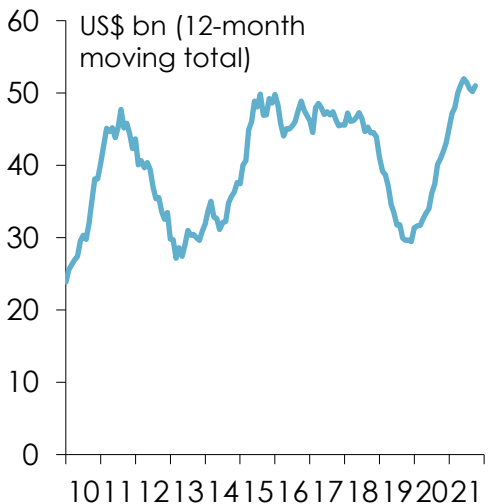
Vietnam



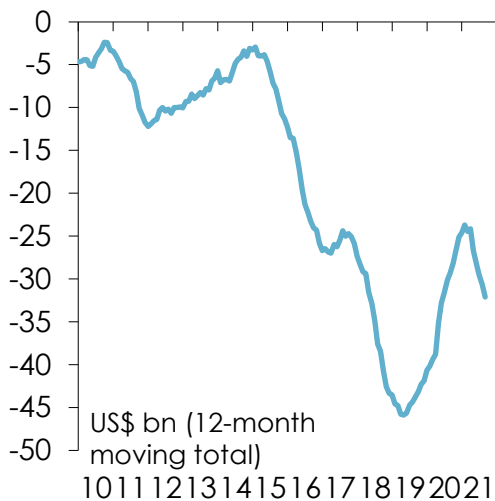
Taiwan



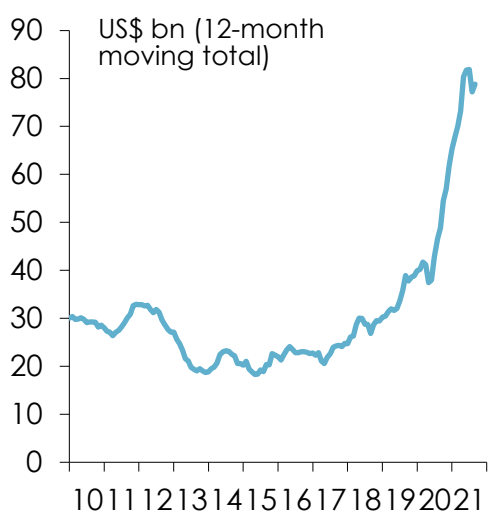
Singapore



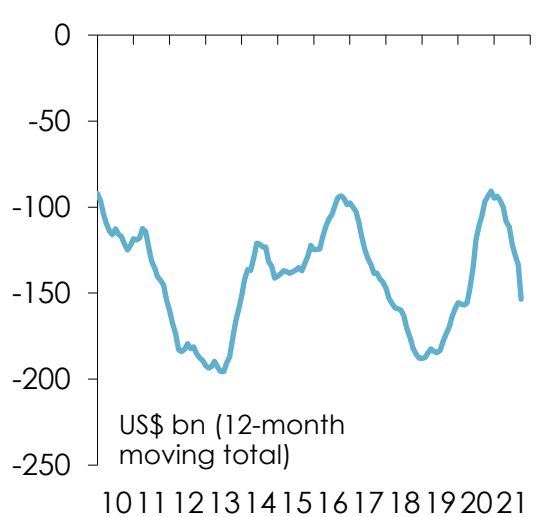
Philippines



Malaysia



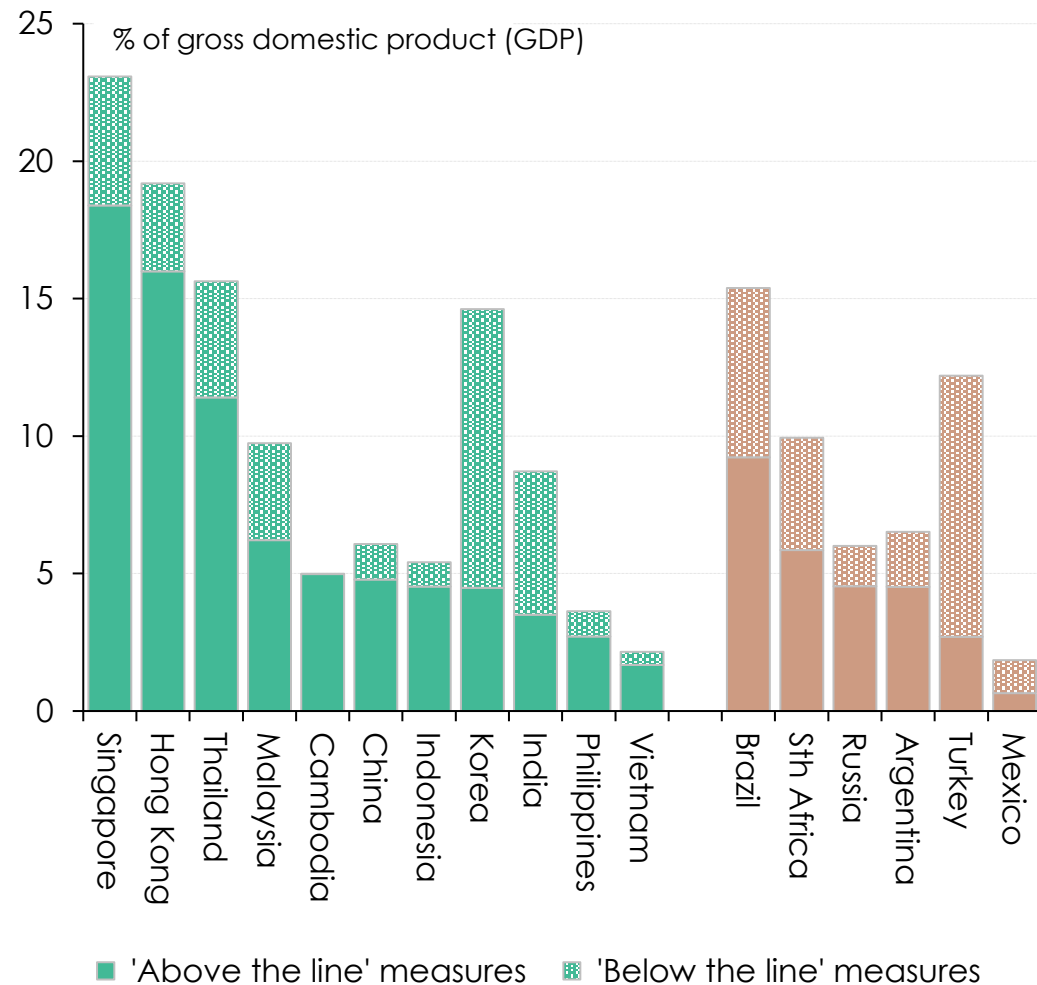
India



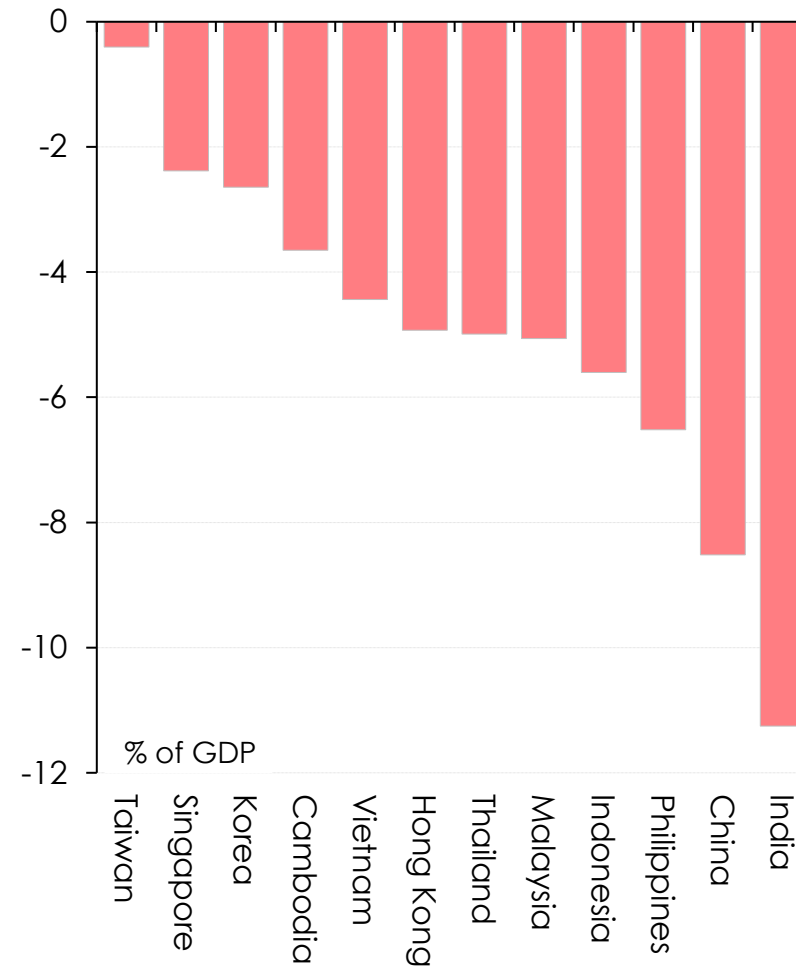
Note: Data for Hong Kong, Singapore and Malaysia are published in national currencies and converted to US dollars by Corinna using month-average exchange rates.  
Sources: national statistical agencies and central banks. [Return to "What's New"](#).

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

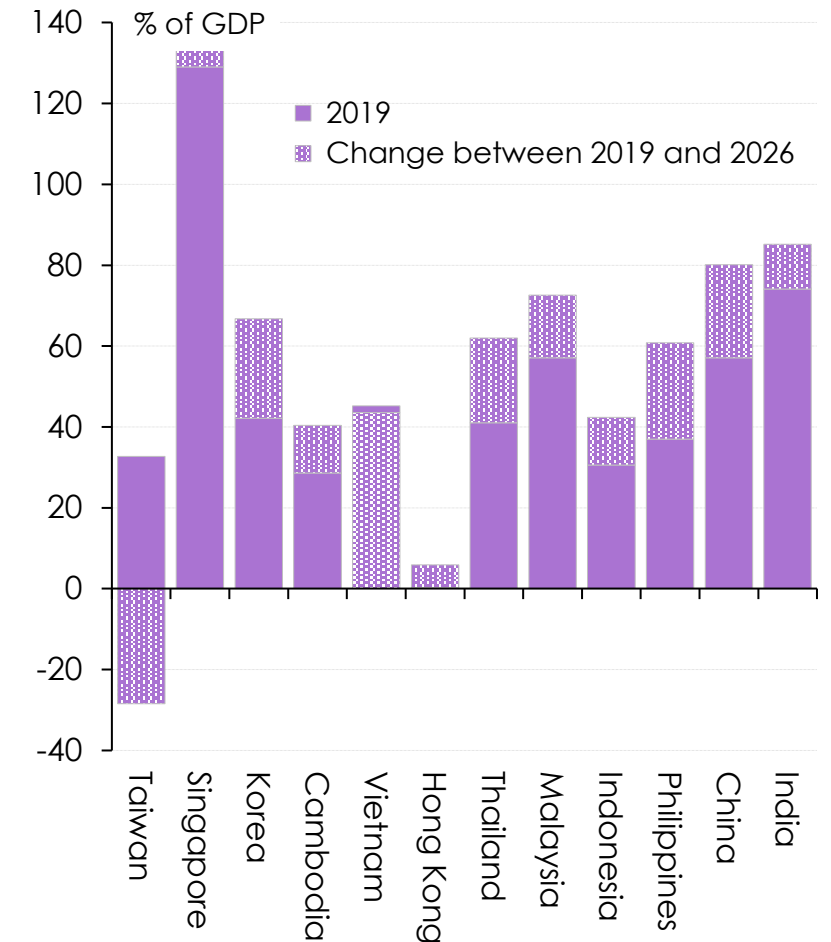
## Fiscal policy responses to Covid-19 – Asian & other selected emerging market economies



## Budget balances – Asian economies 2020-2022

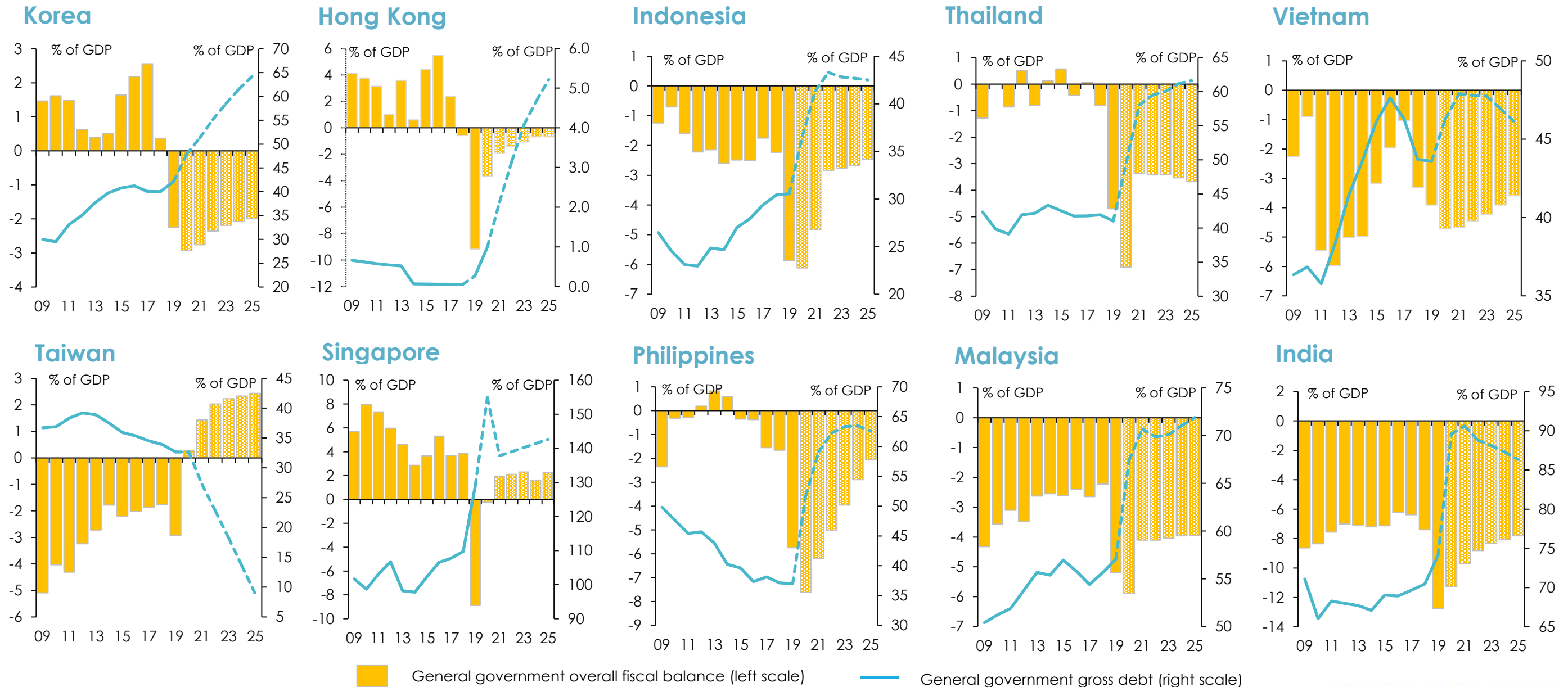


## Gross government debt – Asian economies 2019-26



Note: 'Above the line' measures comprise additional or accelerated spending and deferred or foregone revenue. 'Below the line' measures comprise equity injections, loans, asset purchases and debt assumptions, but do not include loan guarantees or other contingent liabilities. 'DMs' means 'developed markets' (or 'advanced economies'). Data includes measures announced up until 27<sup>th</sup> 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



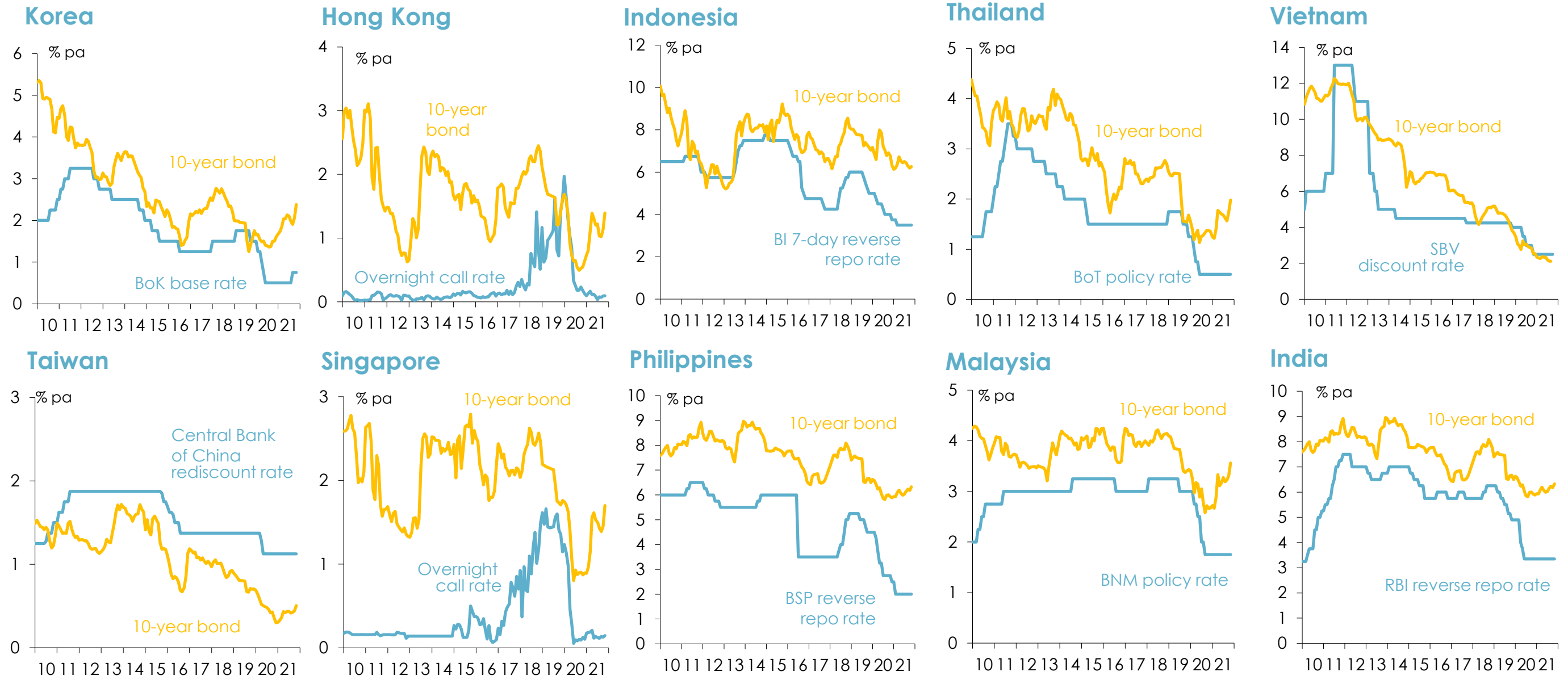
Source: International Monetary Fund, [Fiscal Monitor](#), and [World Economic Outlook](#), October 2021. [Return to "What's New"](#)



# Asian central banks, except for Korea and Singapore, are keeping monetary policy settings unchanged

- ❑ **Bank Indonesia** left its 7-day reverse repo rate unchanged at 3.5%, and its other monetary and macroprudential policy settings unchanged, at last 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 October'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 in October 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 3<sup>rd</sup> November, Bank of Thailand on 10<sup>th</sup> November, and Bangko Sentral ng Pilipinas on 11<sup>th</sup> 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

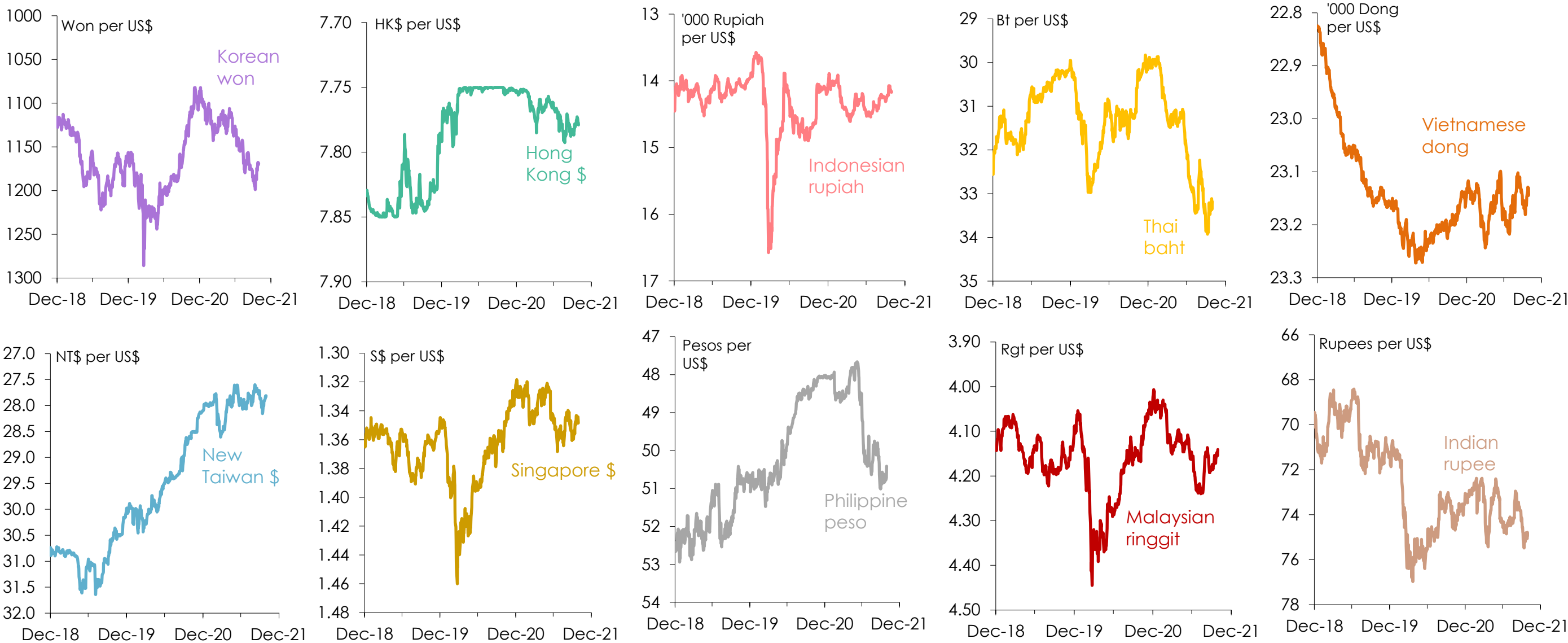


Note: Neither Hong Kong nor Singapore use a monetary policy indicator interest rate. Hong Kong has a currency board system, so HK interest rates track US rates very closely; the Monetary Authority of Singapore uses the (effective) exchange rate as its principal monetary policy instrument. Data are monthly averages up to October 2021. Sources: national central banks; Refinitiv Datastream. [Return to "What's New"](#).



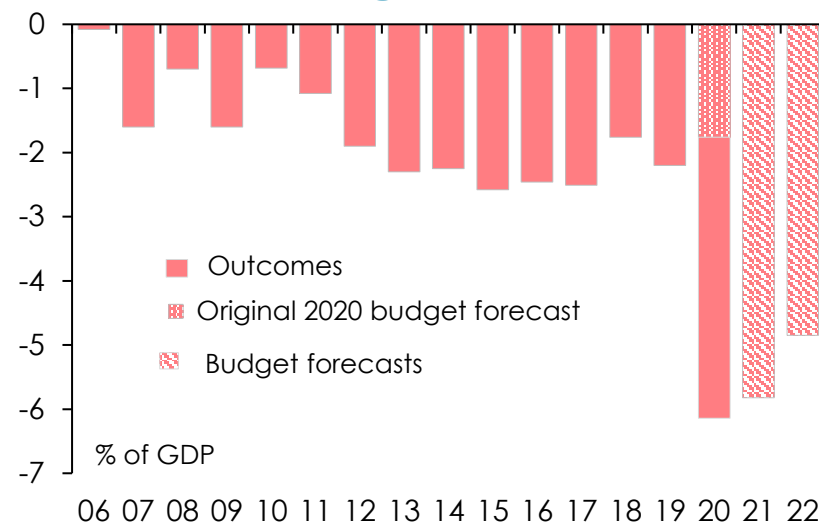
# The Korean won, Philippine peso and Thai baht all gained more than ½% vs the US\$ this week, and the NT\$ 0.3%, but the Indonesian rupiah eased 0.3%

## Asian currency exchange rates vs US dollar

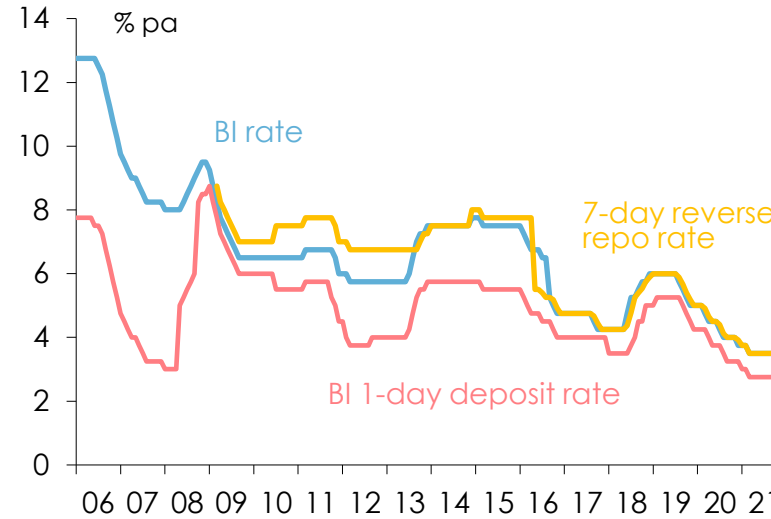


# Bank Indonesia's monetary policy settings have been on hold since January although it has continued with its 'synergistic monetary expansion'

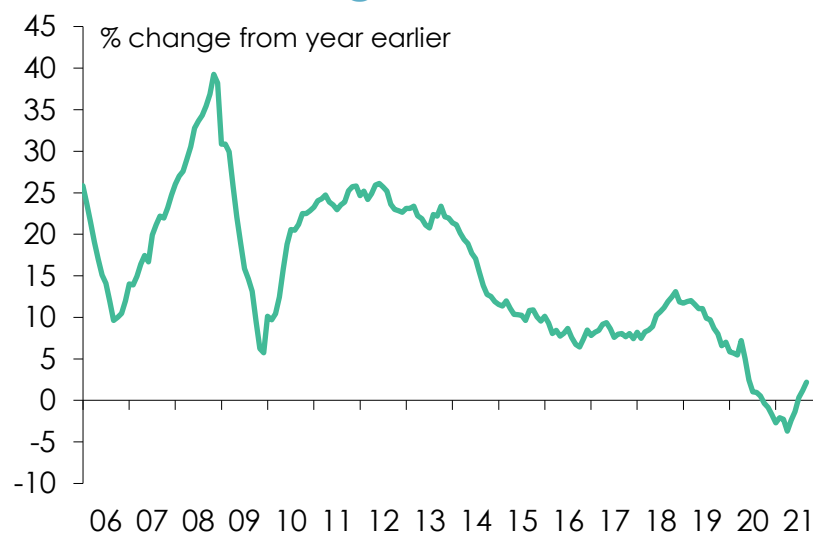
## Indonesia budget deficit



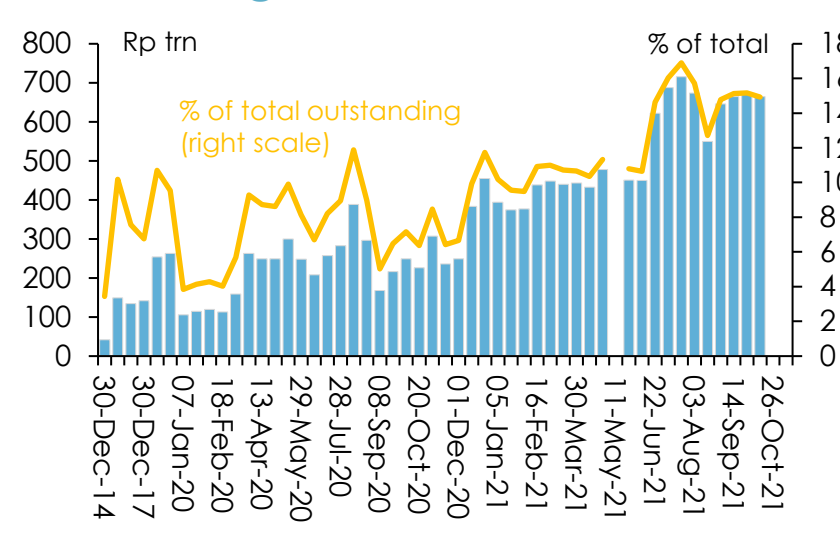
## BI monetary policy rates



## Bank lending



## BI holdings of tradeable SBNs

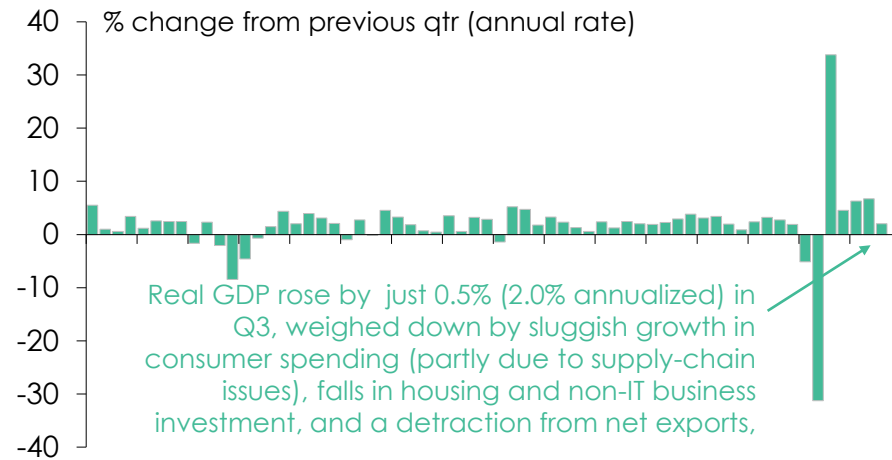


- In April 2020, the Indonesian Government and Bank Indonesia (BI) agreed to a 'burden-sharing' scheme under which BI will directly purchase bonds equivalent to 25% of this year's budget financing requirement (and return the interest received to the Government), as well as subsidizing interest payments on other bonds
  - BI calls this 'synergistic monetary expansion'
  - up to 15<sup>th</sup> 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 last week's Governing Council meeting (slide 63)

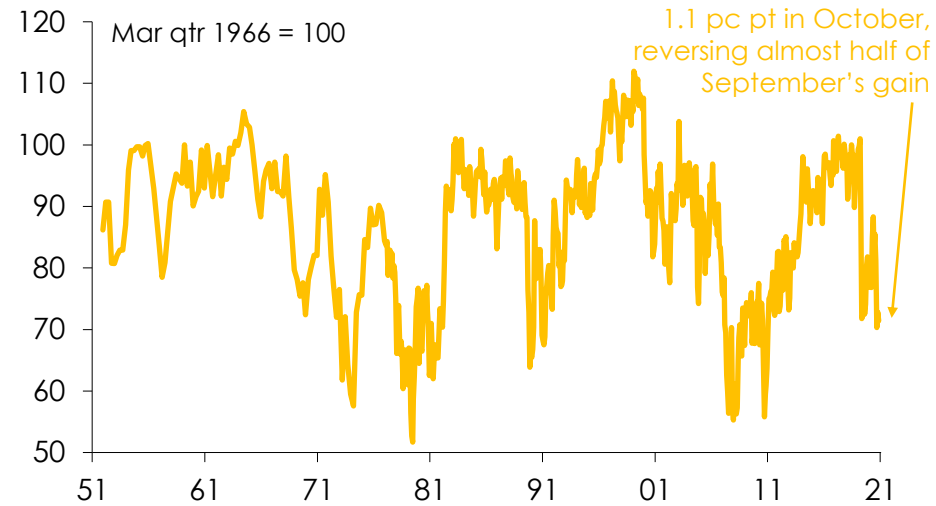
Sources: [Indonesia Ministry of Finance \(Kementerian Keuangan\)](#); [Directorate of Government Debt Securities](#); Bank Indonesia. [Return to "What's New"](#).

# The US economy grew at its slowest rate in five quarters in Q3, largely as a result of renewed Covid infections and supply-chain difficulties

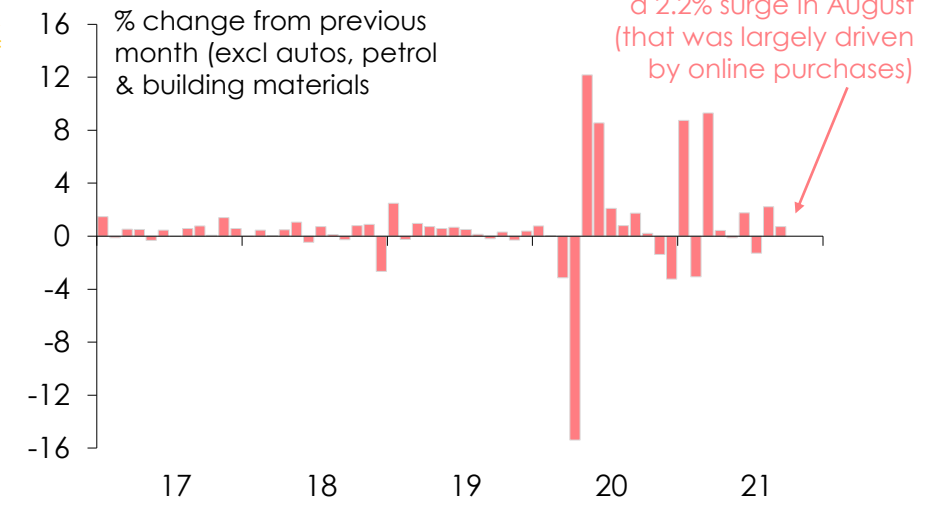
## Real GDP



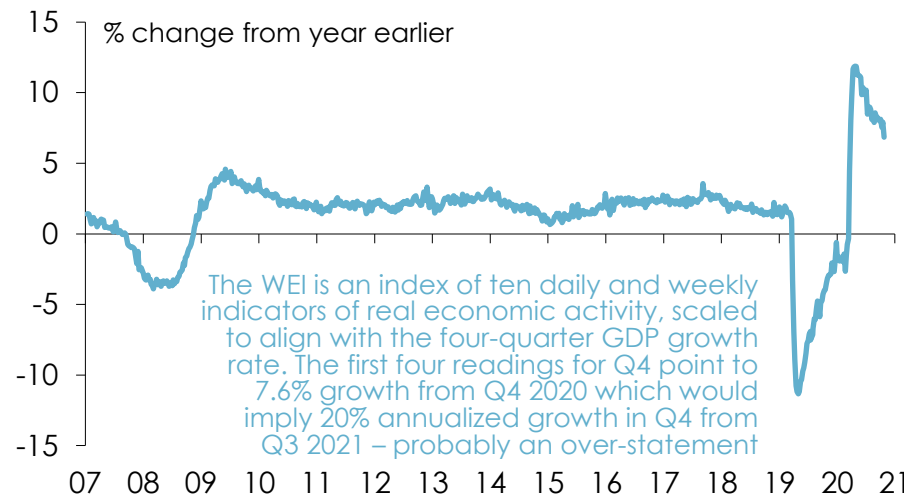
## Consumer sentiment



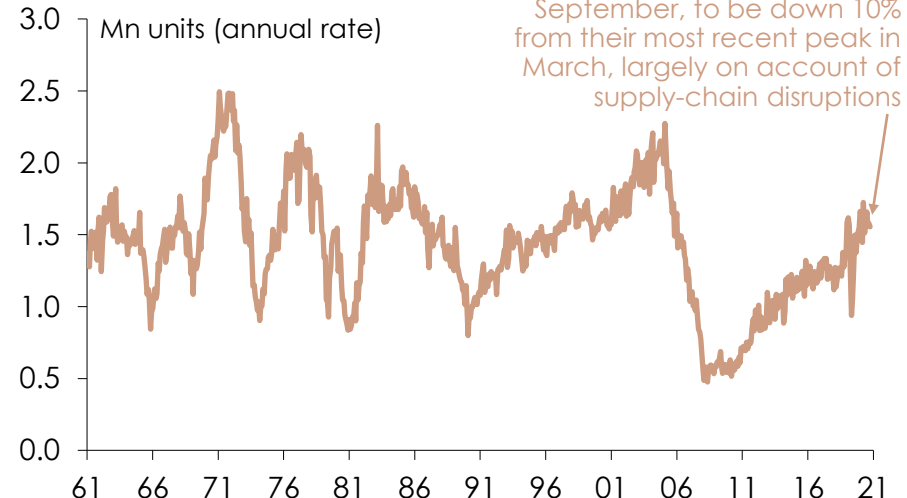
## 'Core' retail sales



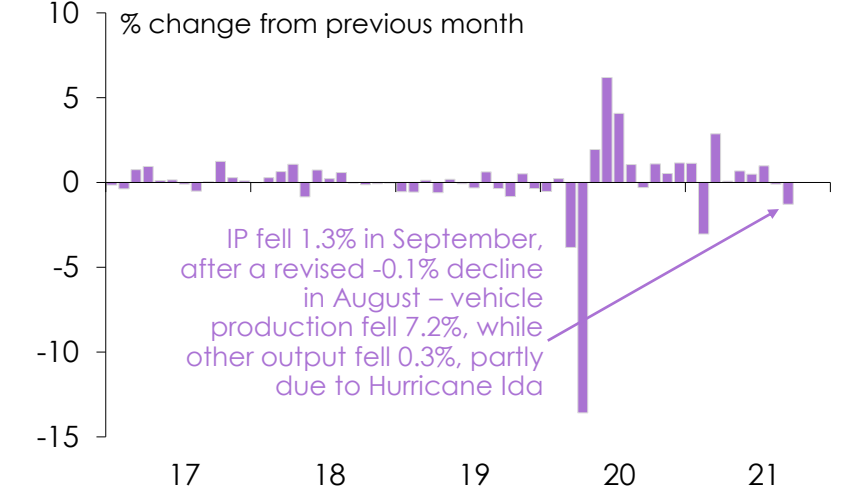
## NY Fed weekly economic index



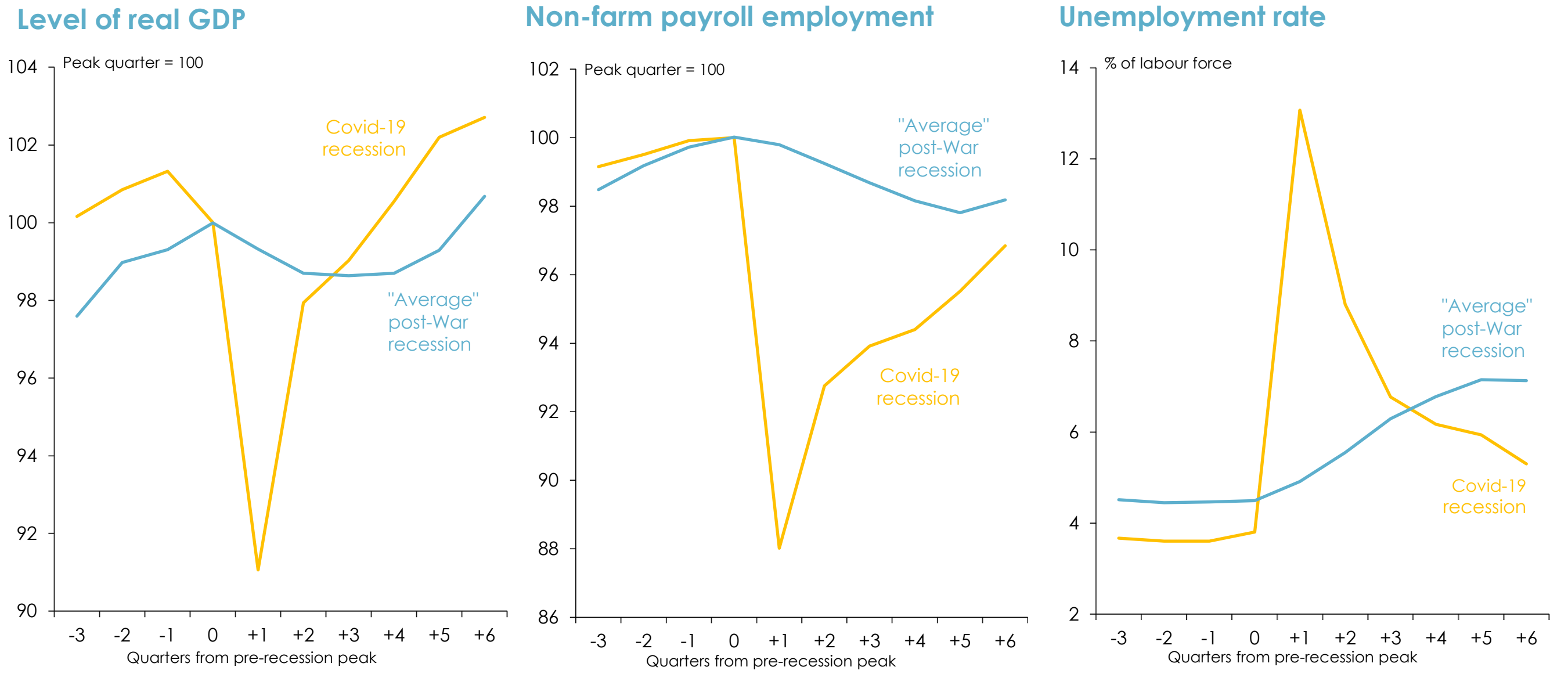
## Housing starts



## Industrial production



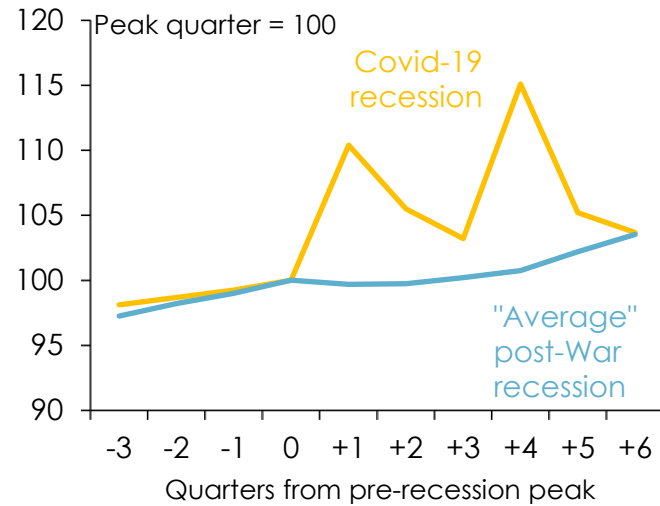
# The Covid-19 recession has been quite unlike any other of the recessions the US has experienced since the end of World War II



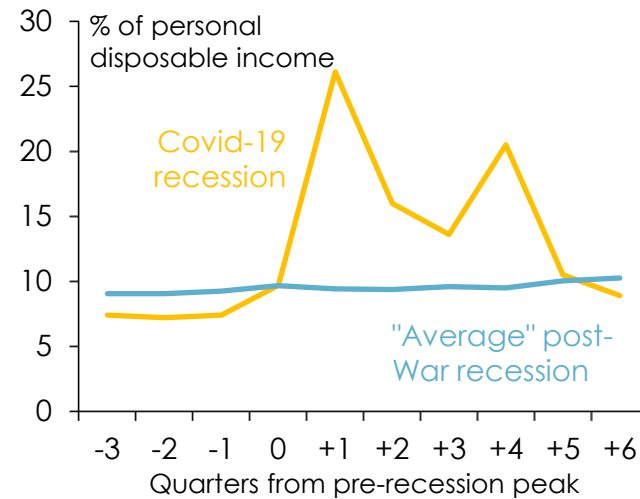
Note: 'average post-war recession' is the average of figures for each of the eleven post-war US recessions as designated by the [National Bureau of Economic Research Business Cycle Dating Committee](#), with the exception of the recession of January-July 1980 (which was too short, and too close to the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

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

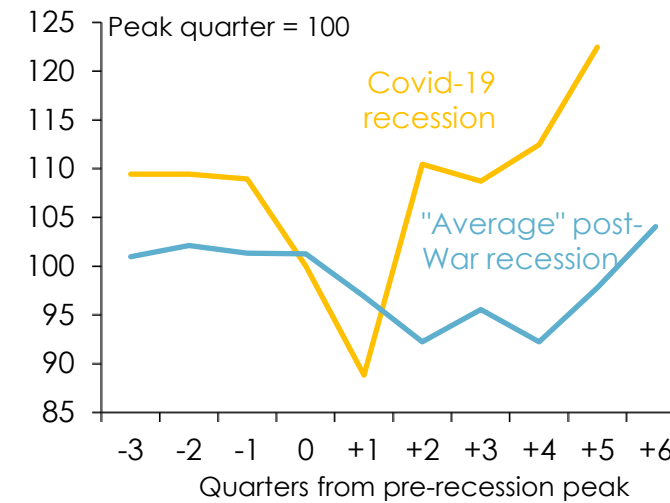
## Personal disposable income



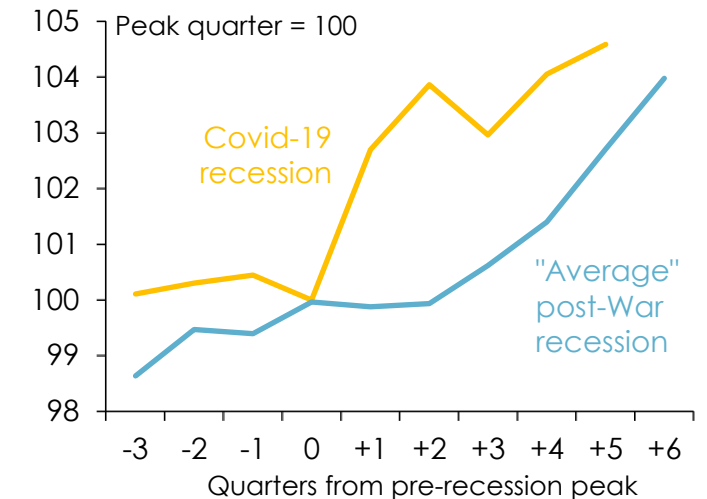
## Personal saving rate



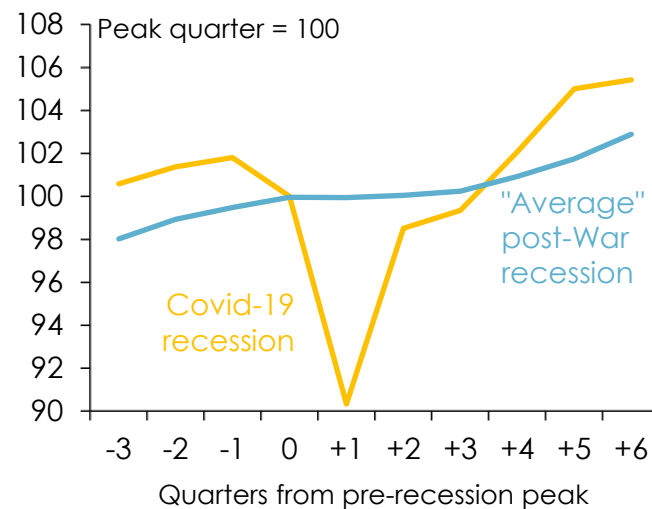
## After-tax corporate profits



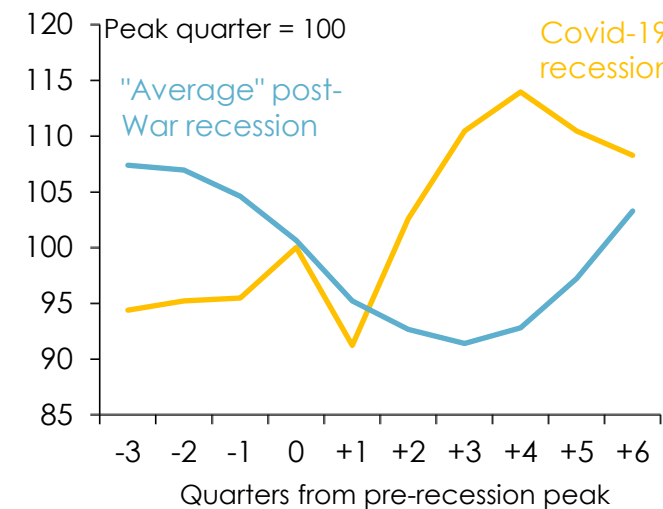
## Labour productivity



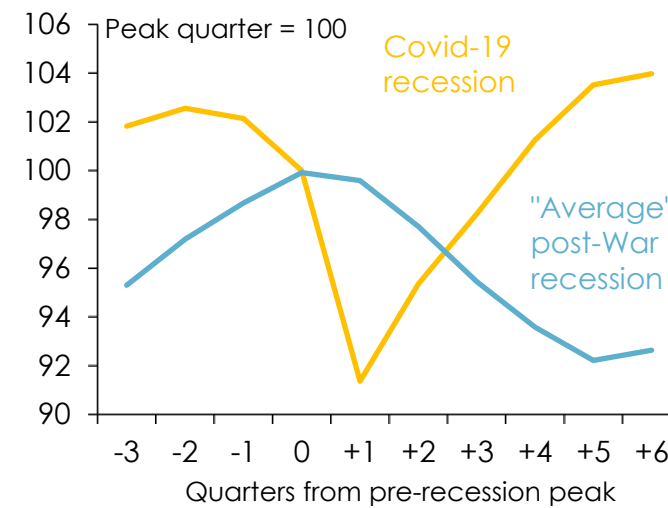
## Personal consumption



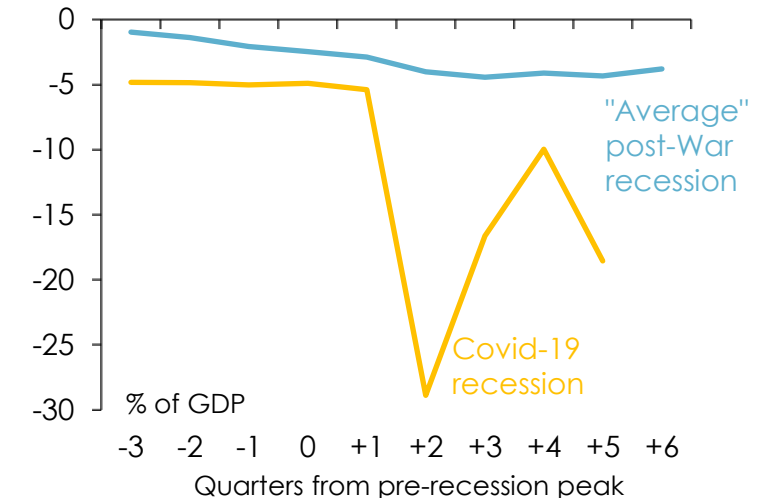
## Residential investment



## Business investment



## Federal budget balance

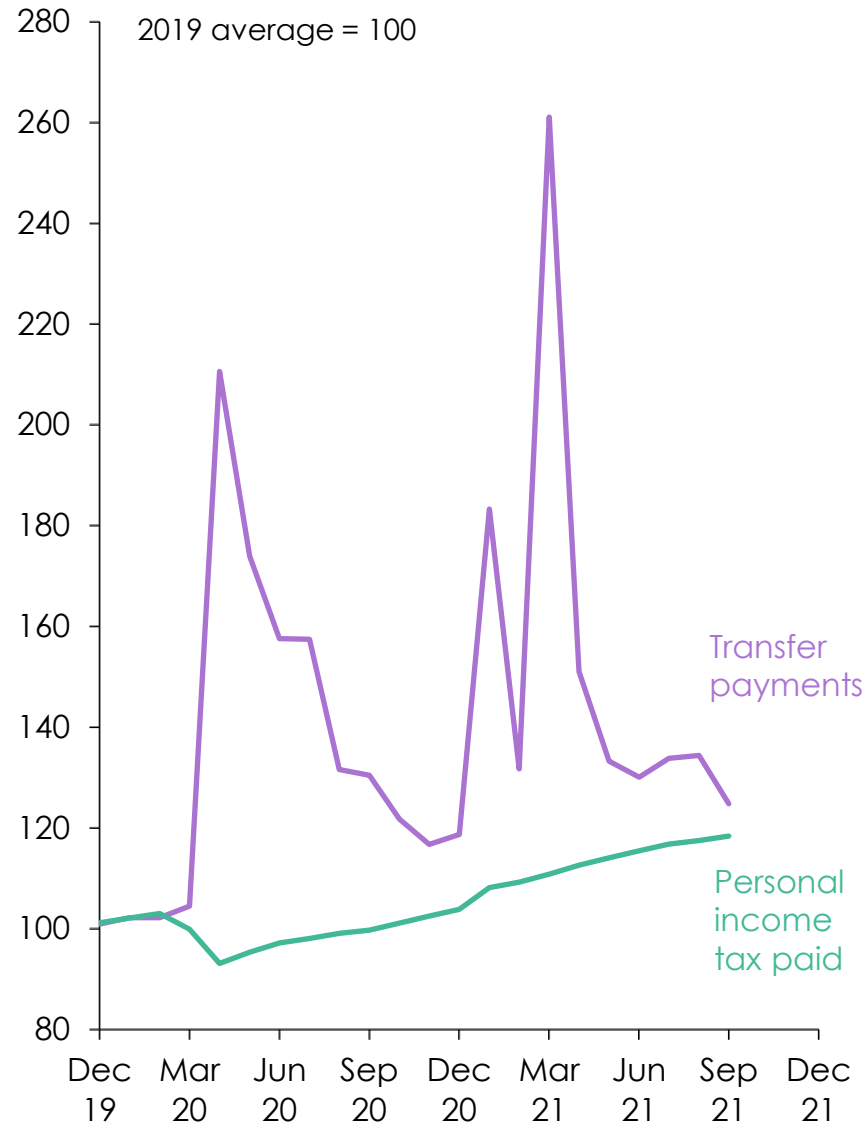


Note: 'average post-war recession' is the average of figures for each of the eleven post-war US recessions as designated by the [National Bureau of Economic Research Business Cycle Dating Committee](#), with the exception of the recession of January-July 1980; 'peak quarter' is the quarter in which real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

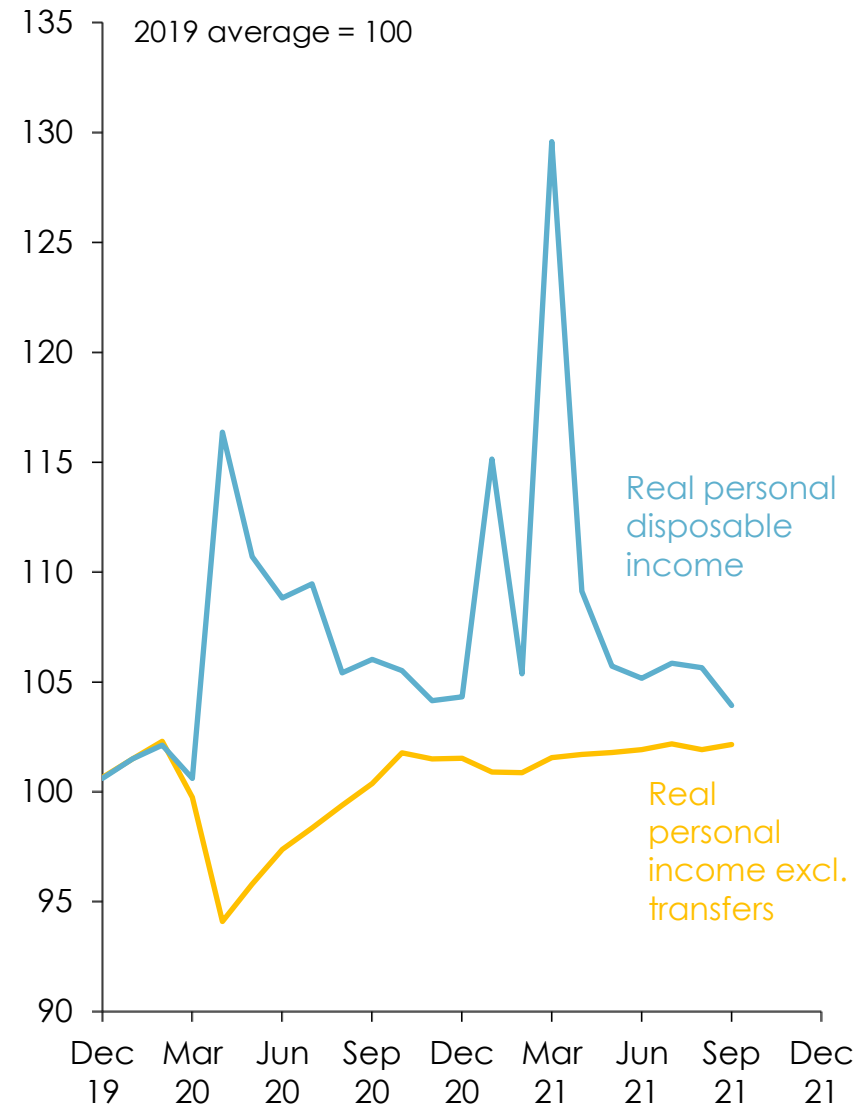


# Recurring cash payments to households (combined with restrictions on movement) have had a major impact on US consumer spending patterns

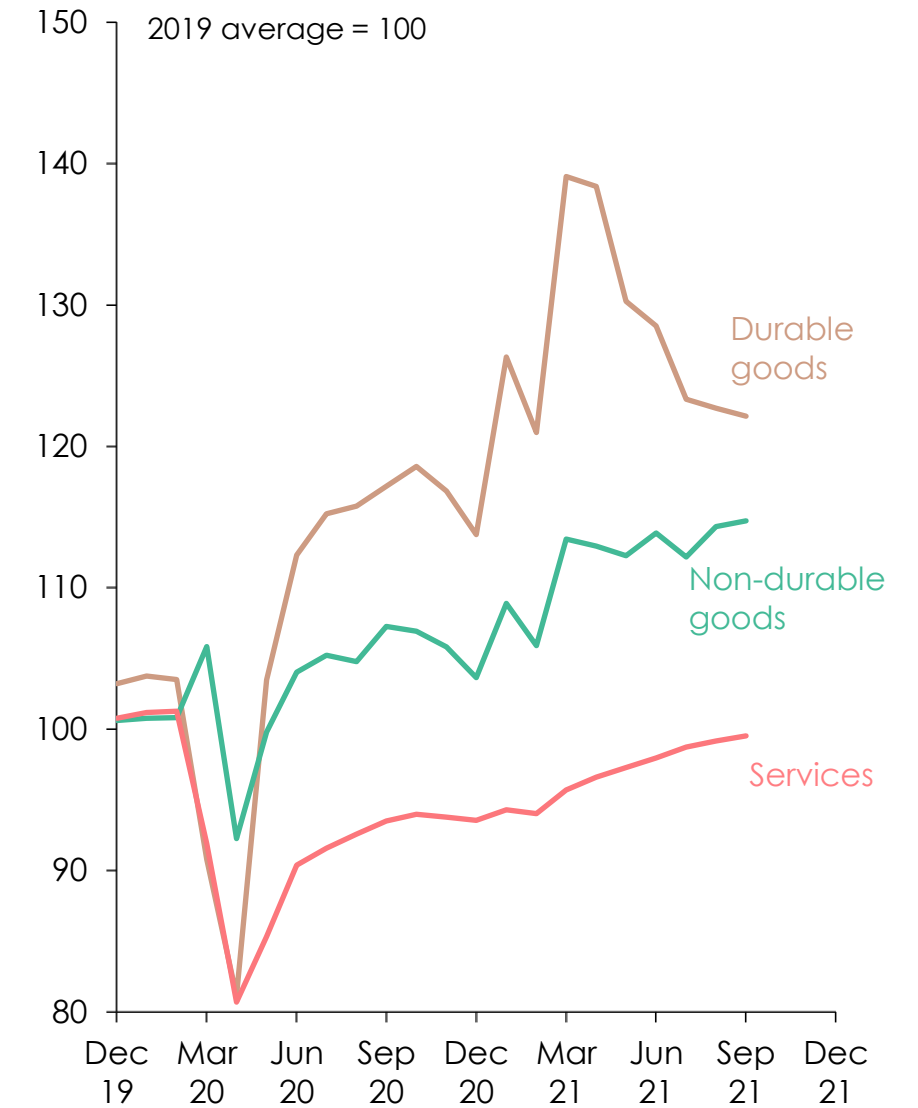
## Tax and transfer payments



## Real personal income



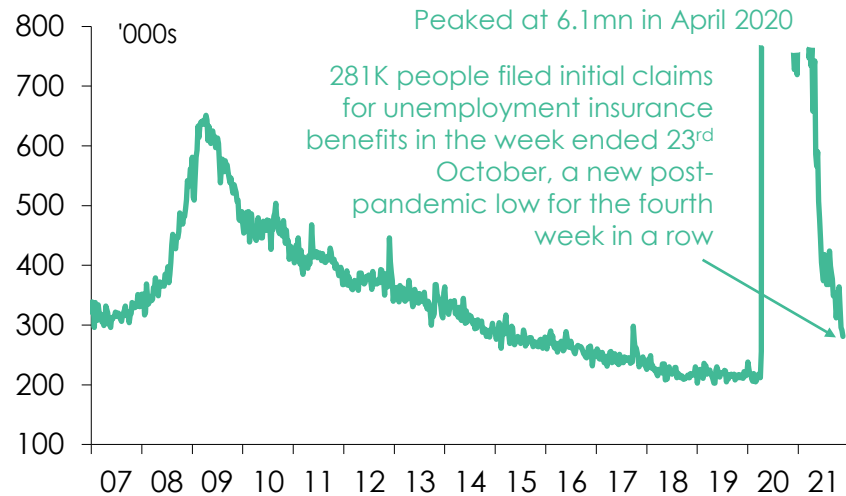
## Real consumption expenditure



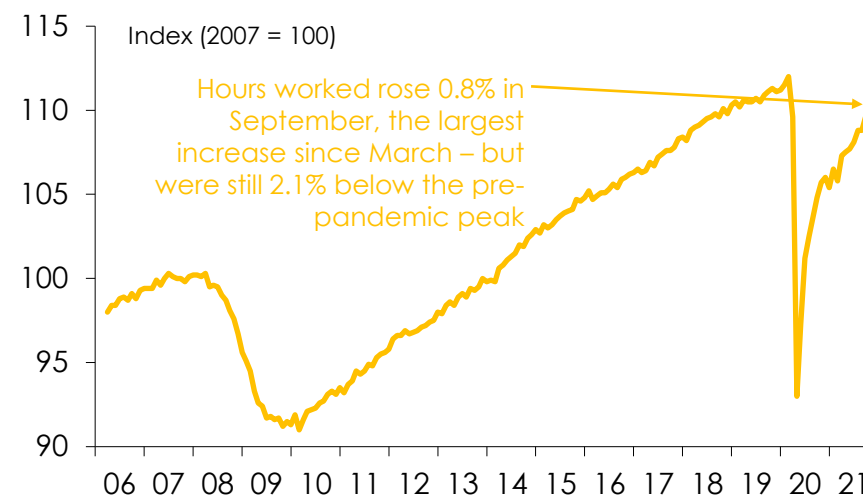


# Steady falls in initial claims for unemployment benefits point to strong growth in employment during October

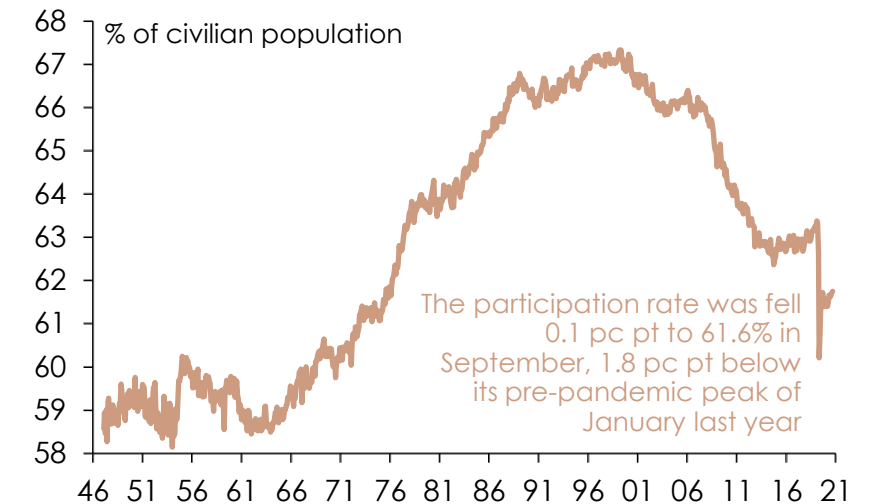
## Unemployment benefit claims



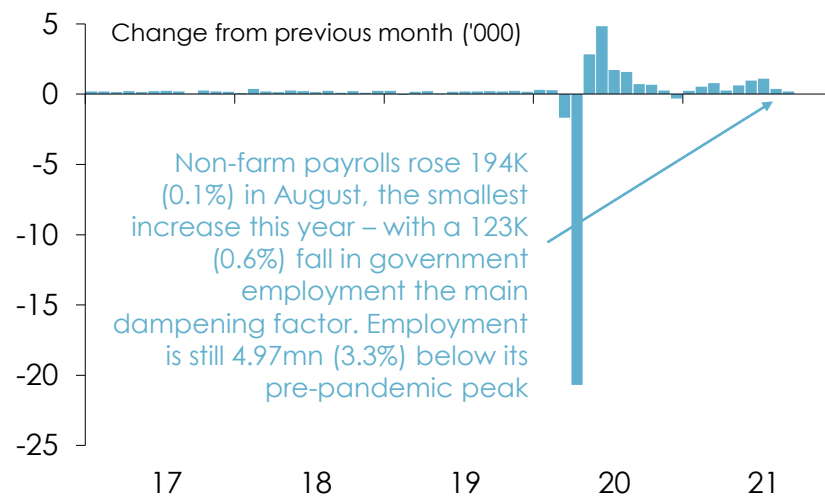
## Hours worked (private sector)



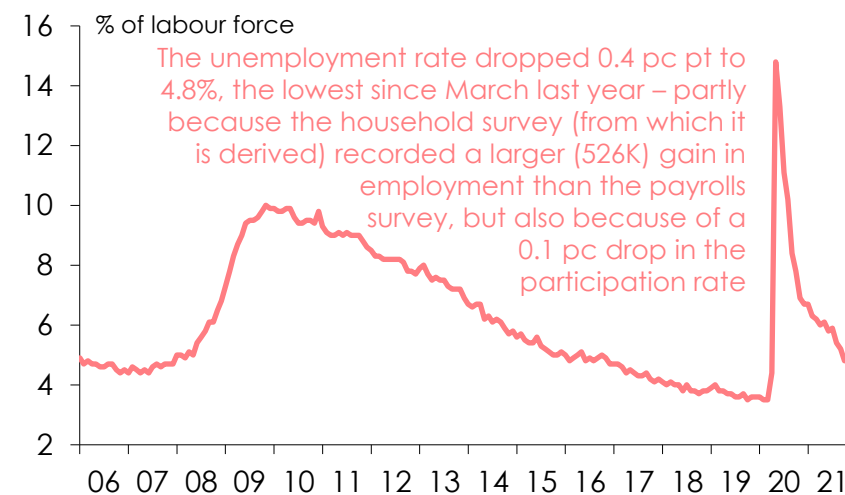
## Labour force participation rate



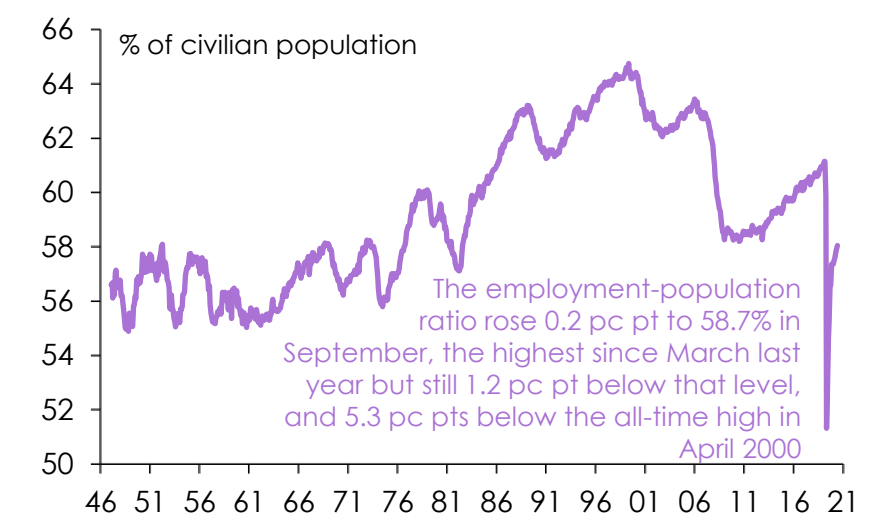
## Non-farm payroll employment



## Unemployment rate



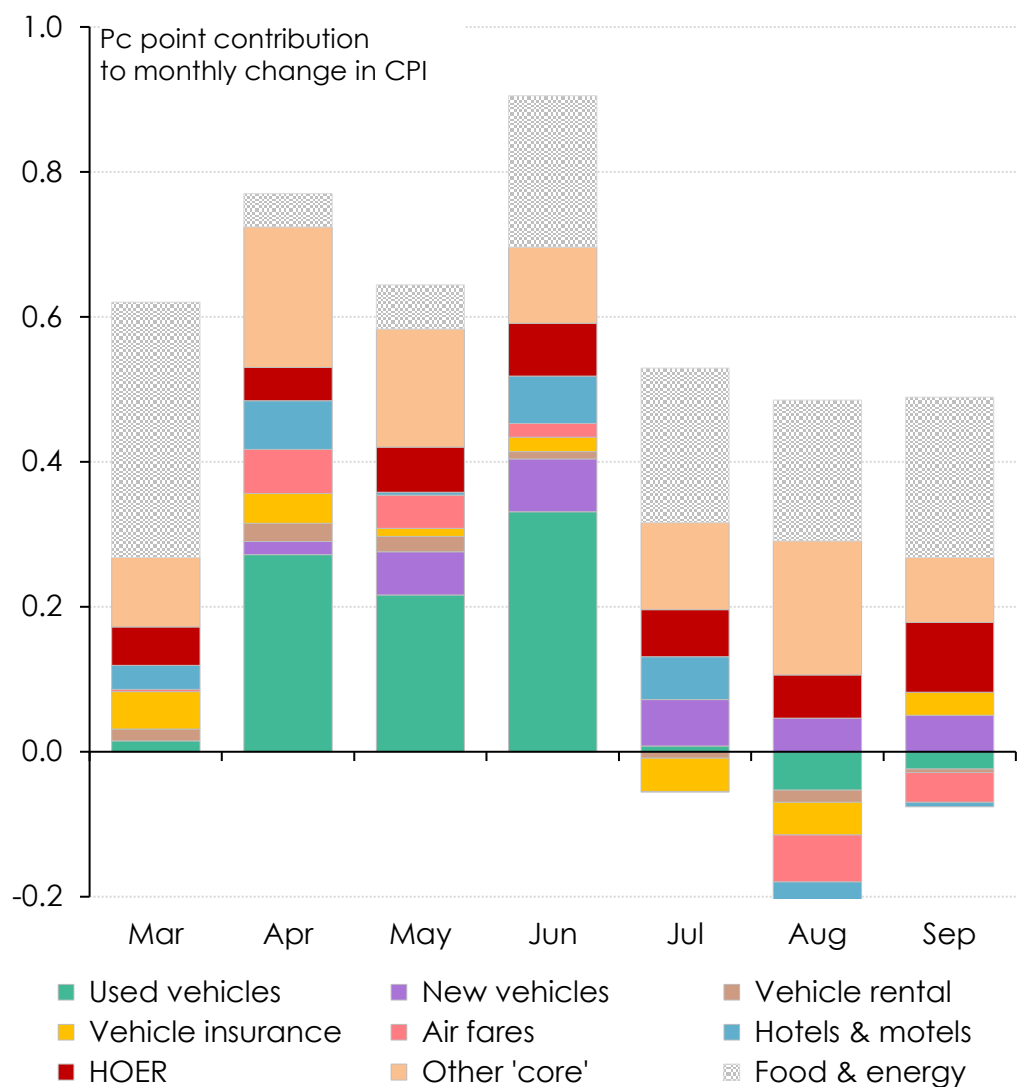
## Employment to population ratio



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 5<sup>th</sup> 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



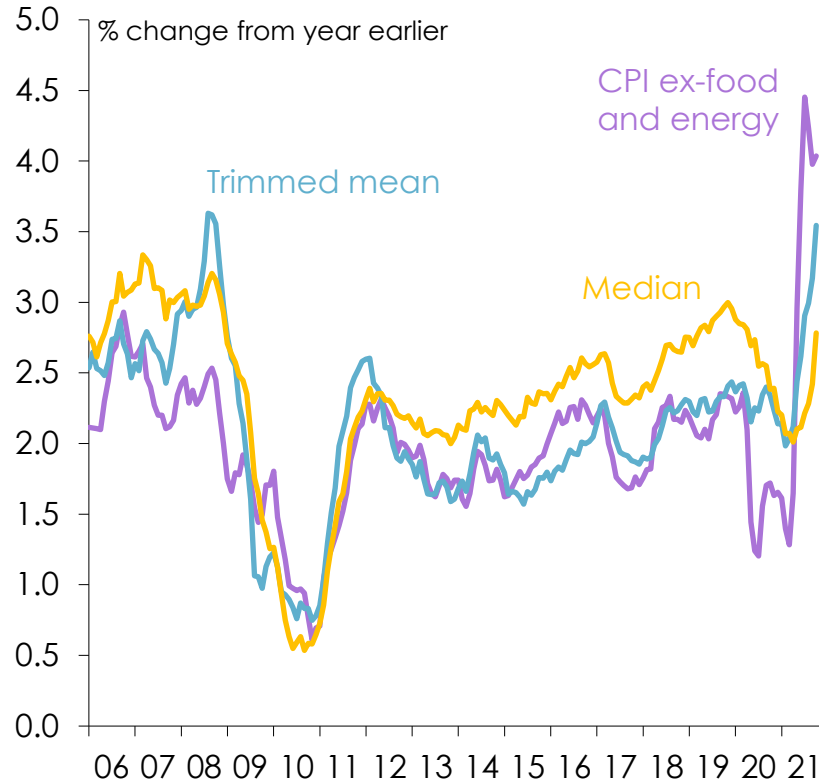
Price indices for items which have contributed most to recent monthly changes in the 'core' US CPI (rebased to December 2019 = 100)



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"](#).

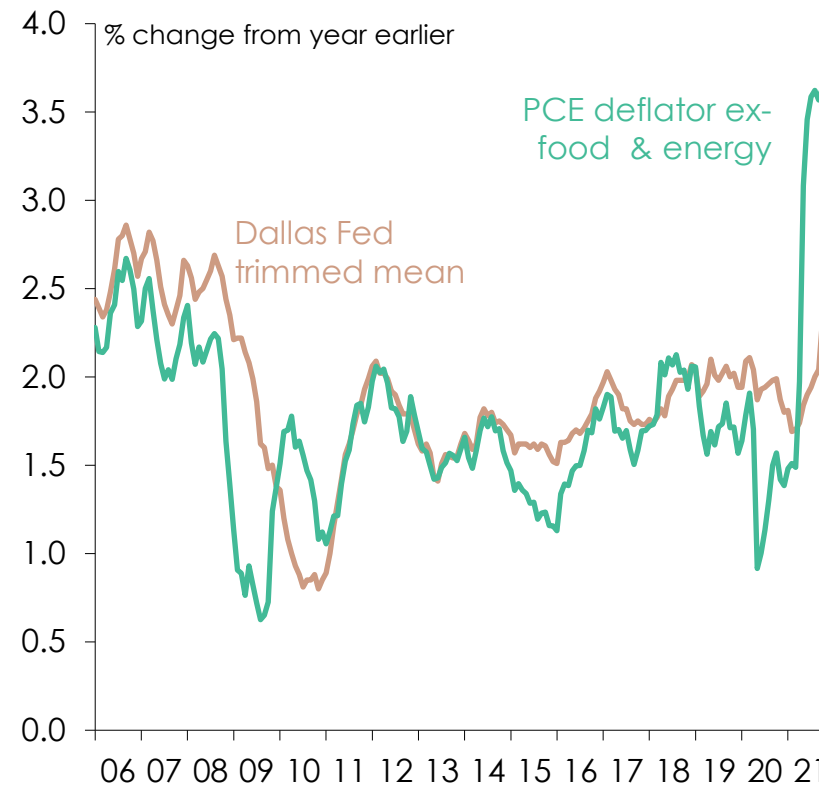
# Statistical measures of 'core' inflation are also beginning to rise – although not nearly as much as the 'ex-food-and-energy' measures

## Alternative measures of US 'core' CPI inflation



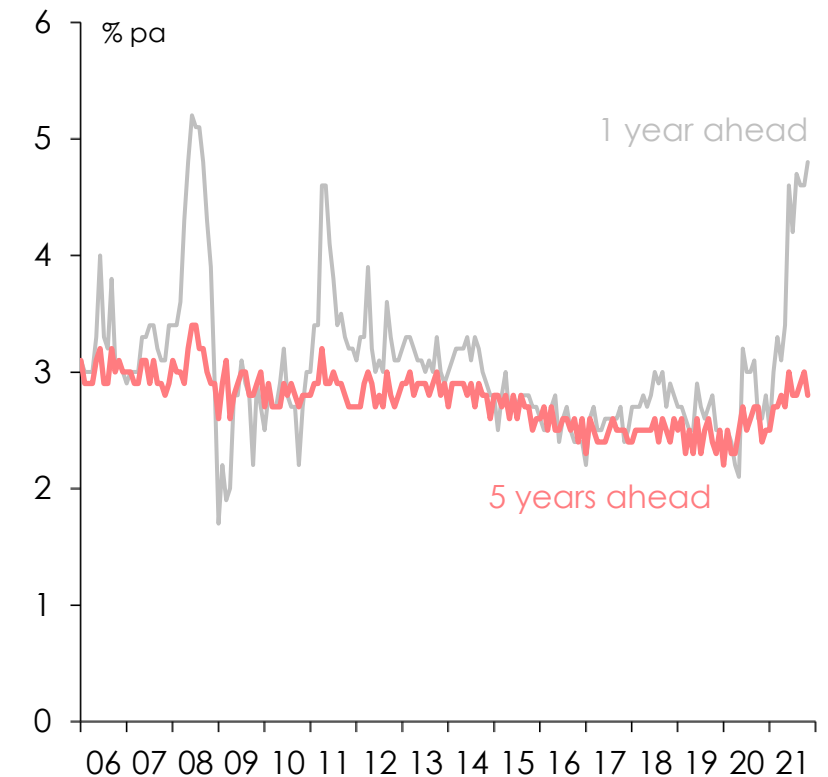
- ❑ Statistical measures of 'underlying' CPI inflation (similar to those used by the RBA) have risen, but not by as much the ex-food-&-energy measure

## Alternative measures of US 'core' PCE deflator inflation



- ❑ The trimmed mean measure of 'underlying' PCE deflator inflation has also picked up in recent months, but not nearly as much as 'core' inflation

## Household inflationary expectations

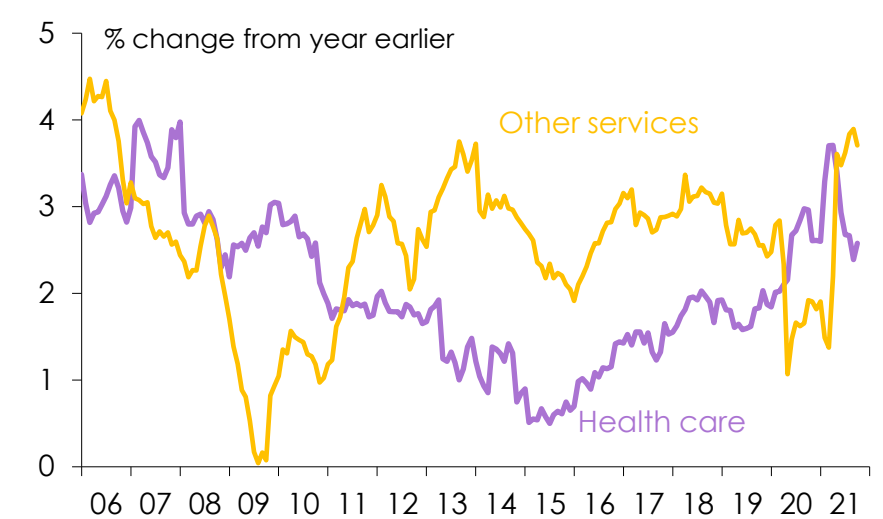
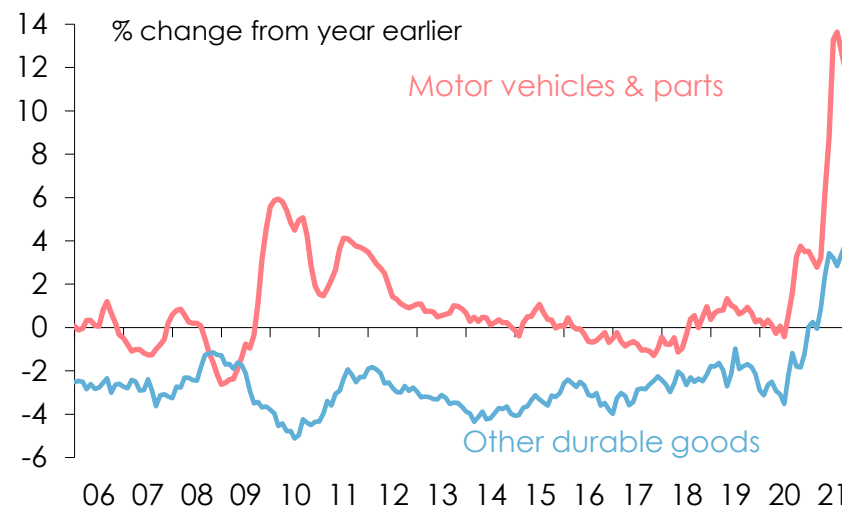
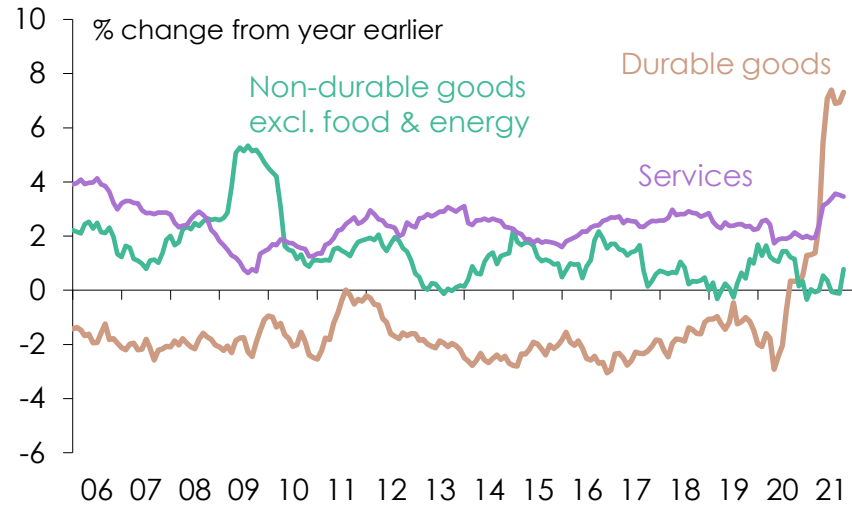


- ❑ Short-term household inflation expectations have risen sharply, but longer-term expectations remain "well anchored" (in Fed-speak)

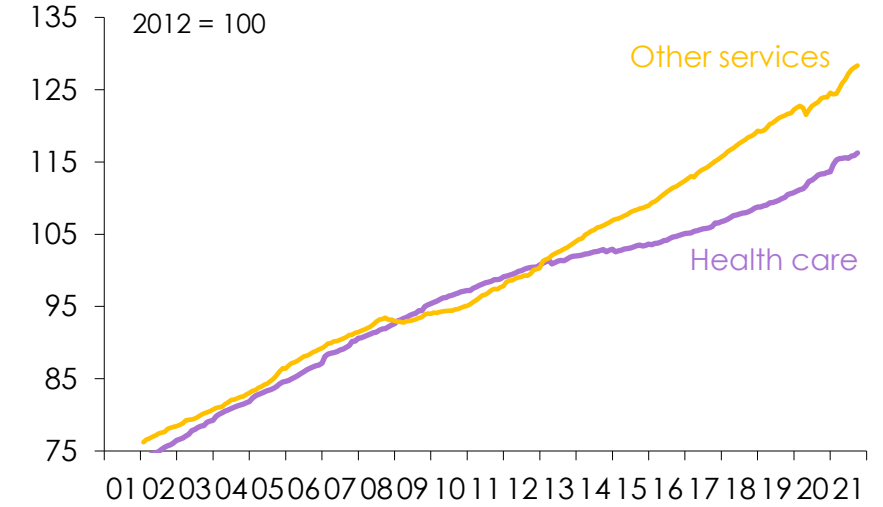
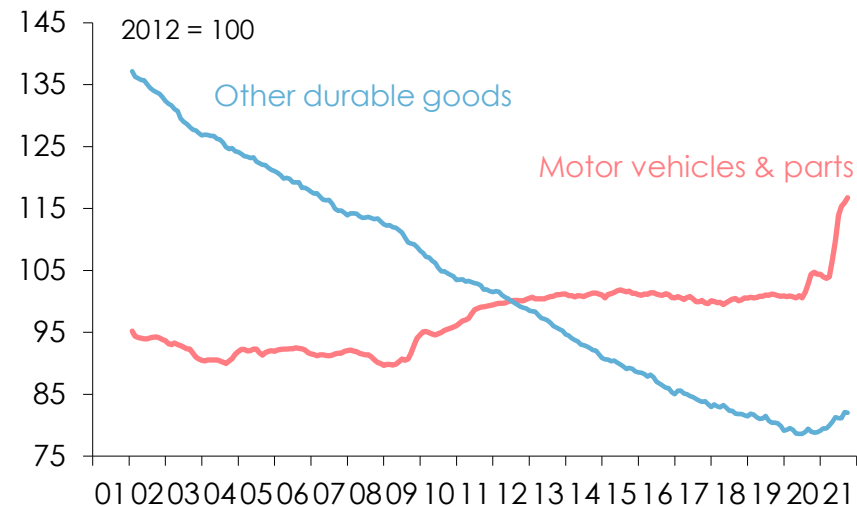
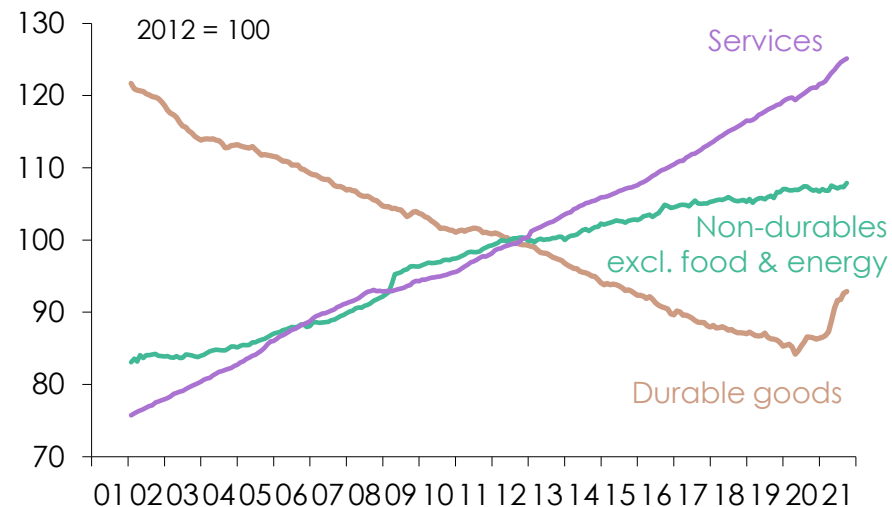
Note: The 'trimmed mean' CPI inflation rate excludes the components of the CPI whose weights fall in the top and bottom 8% of the distribution of price changes; the median is the component whose price change is in the middle of the distribution of price changes. The 'trimmed mean' of the PCE deflator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



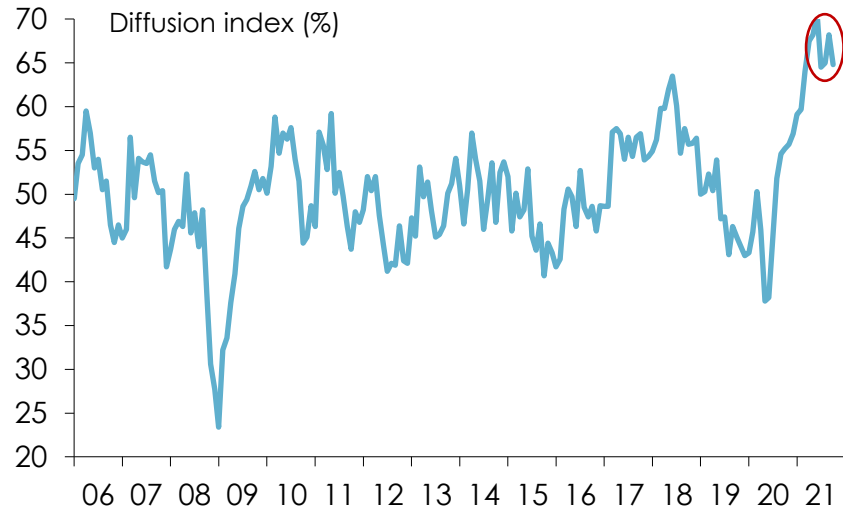
## Implicit price deflators of personal consumption expenditures – levels



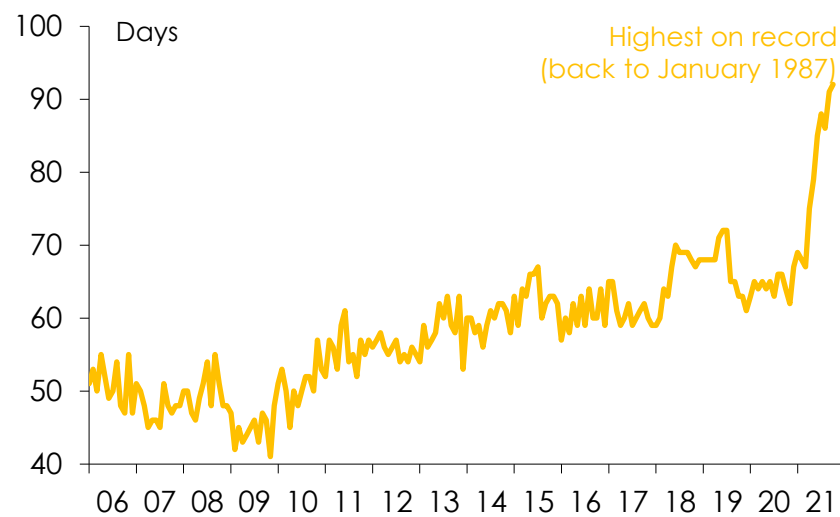
Source: [US Bureau of Economic Analysis](#). [Return to "What's New"](#).

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

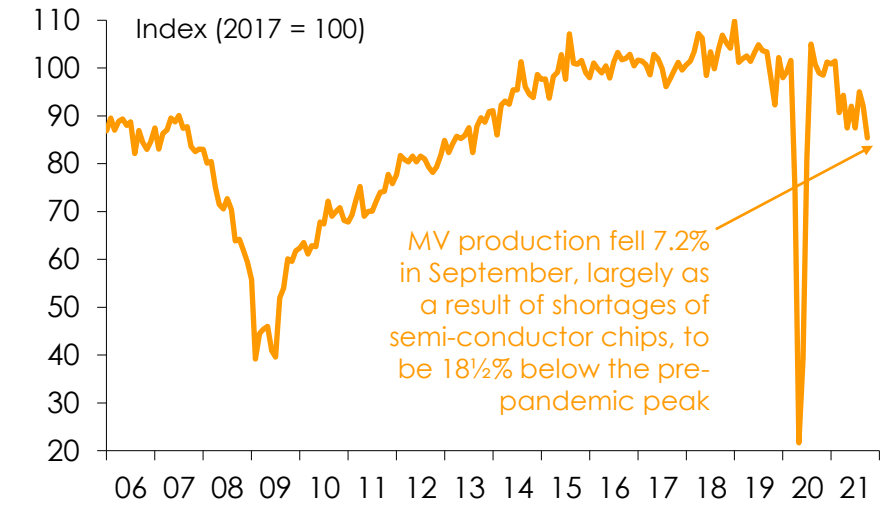
## Manufacturers' order backlogs



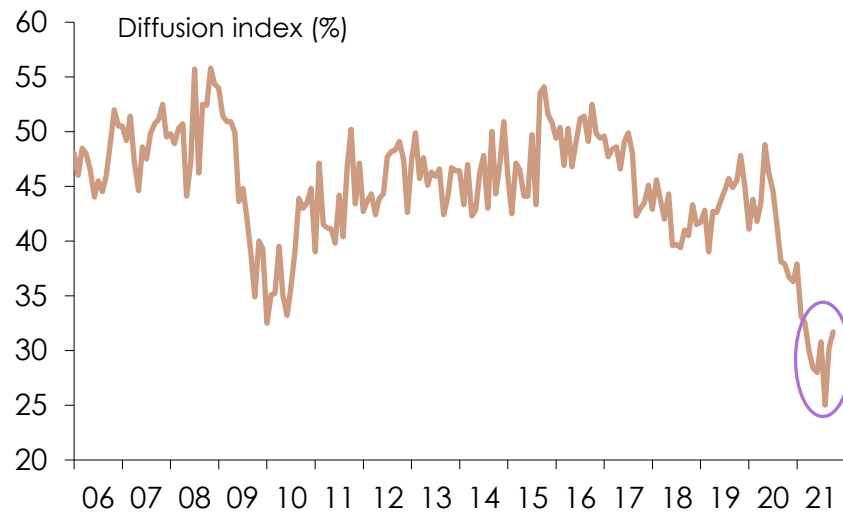
## Lead-time for production materials



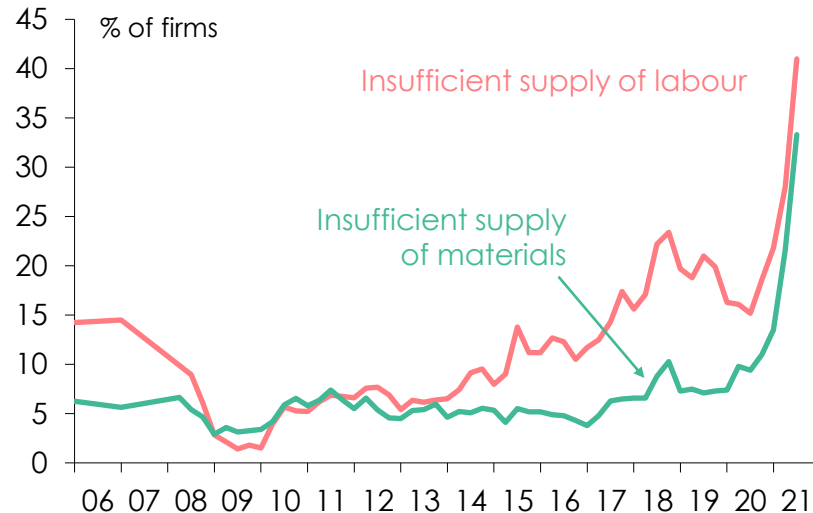
## Motor vehicles & parts production



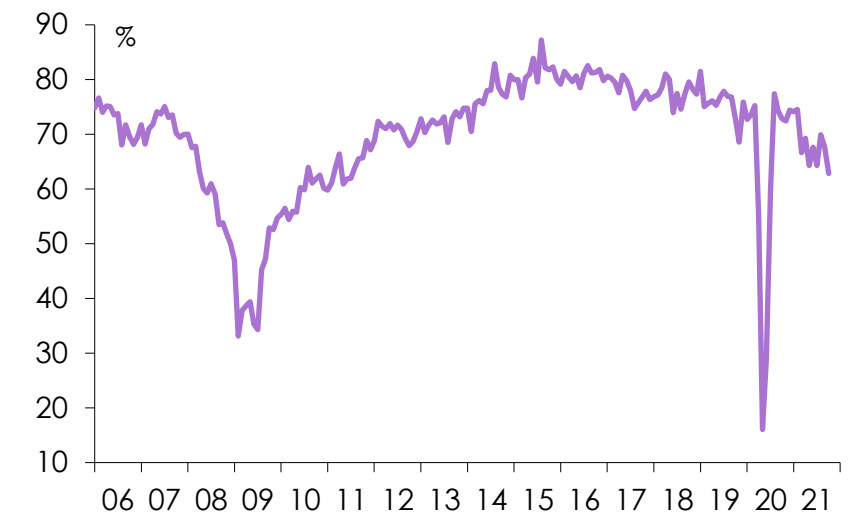
## Manufacturers' customer inventories



## Reasons for < full capacity



## Auto industry capacity utilization

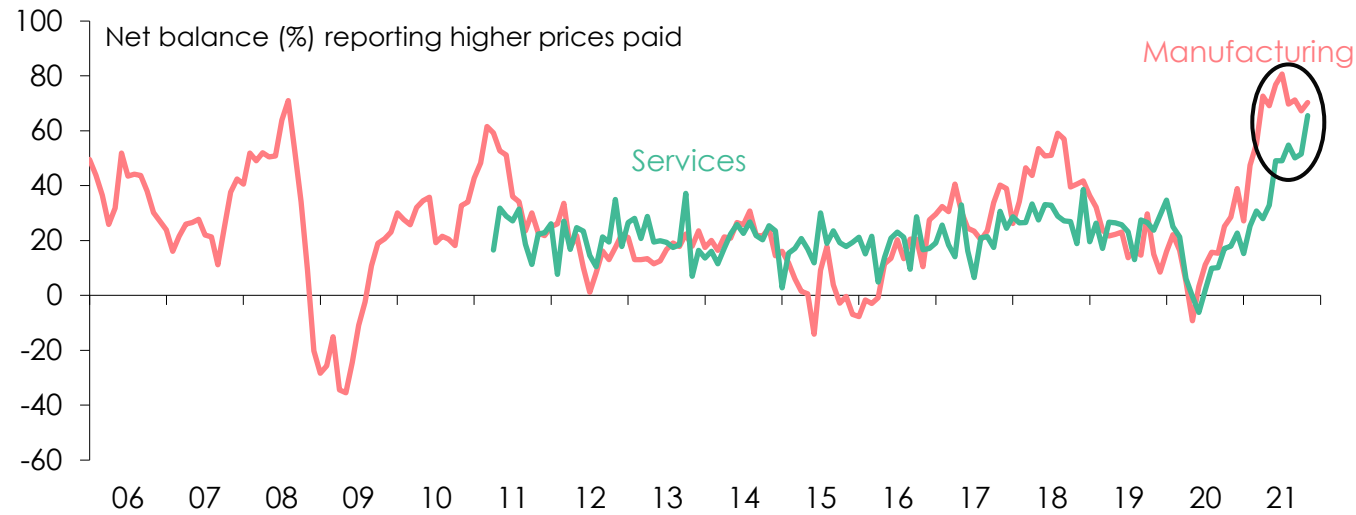


Note: The diffusion index of order backlogs is 50 plus the percentage of respondents reporting longer backlogs minus the percentage reporting shorter backlogs (and similarly for customer inventories). 'Reasons for < full capacity' means reasons for operating at less than full capacity. Sources: Institute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

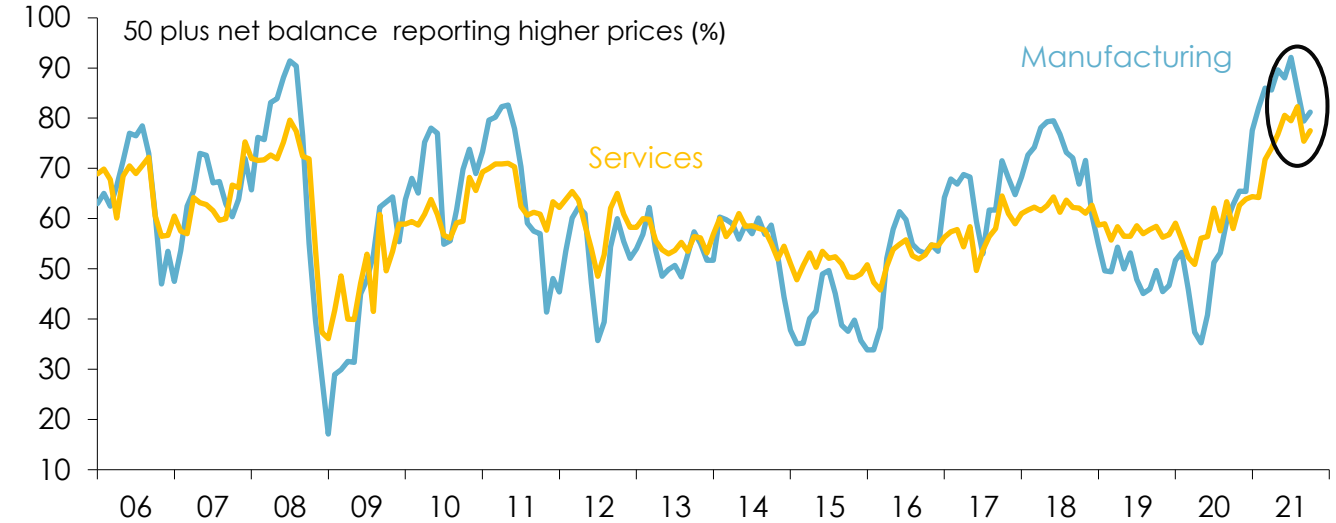


# Survey measures also suggest that 'upstream' price pressures in the US may be peaking, for goods although perhaps less so for services

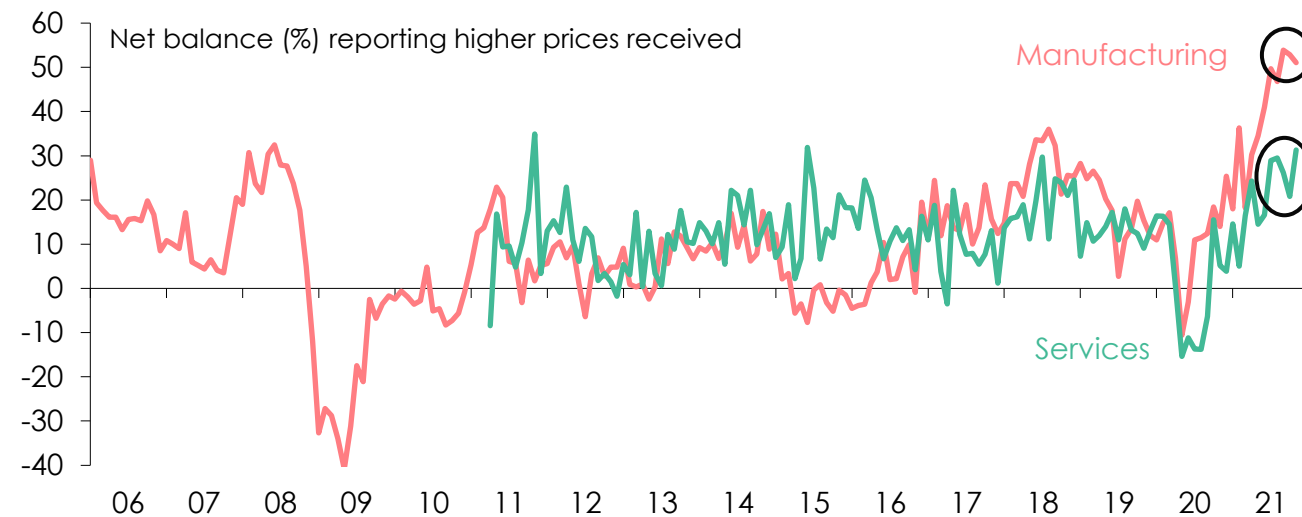
## Philadelphia Fed survey – prices



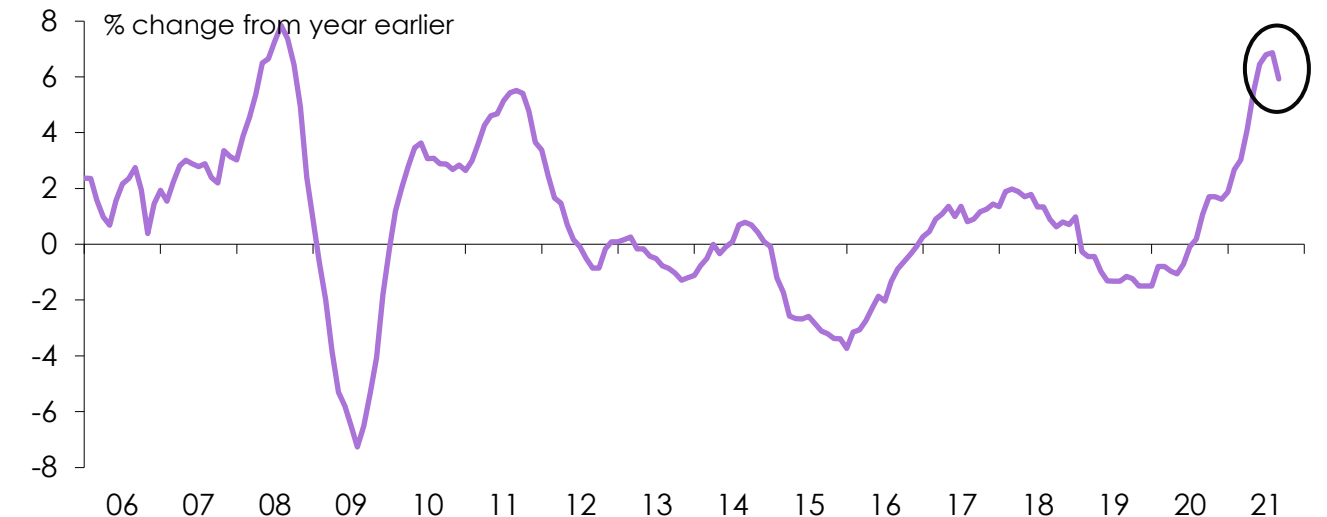
## ISM survey – prices paid



## 'Philadelphia Fed survey – prices received



## Import prices (excluding petroleum)

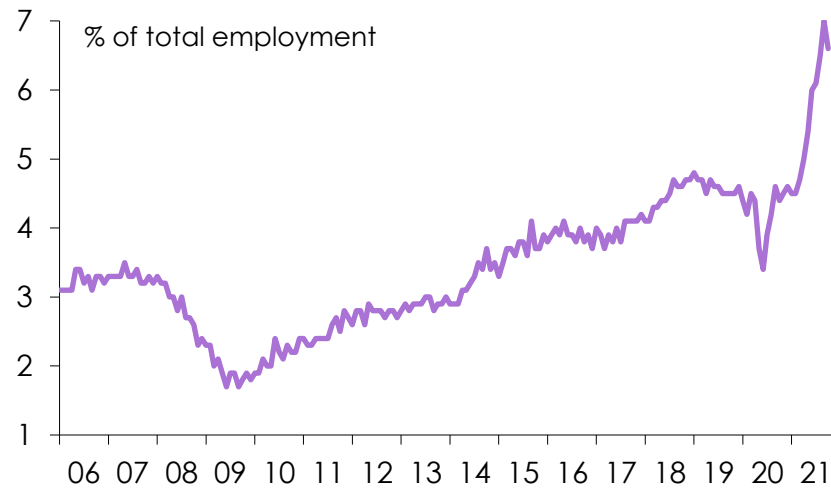


Note: The usefulness of the Business Outlook surveys conducted by the Federal Reserve Bank of Philadelphia is that the area which it covers (eastern and central Pennsylvania, southern New Jersey and Delaware) is a reasonable proxy for the broader US economy. Sources: [Federal Reserve Bank of Philadelphia](#);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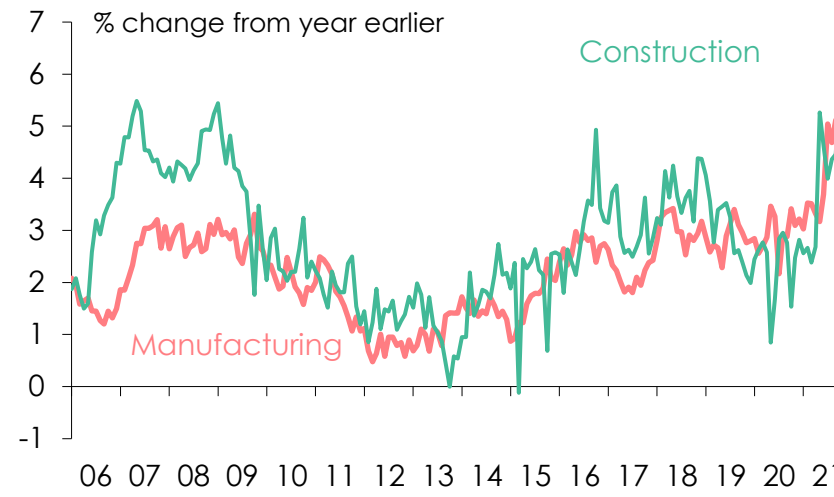


# The wages component of the US employment cost index rose 4.2% over the year to Q3, the fastest pace in 30 years

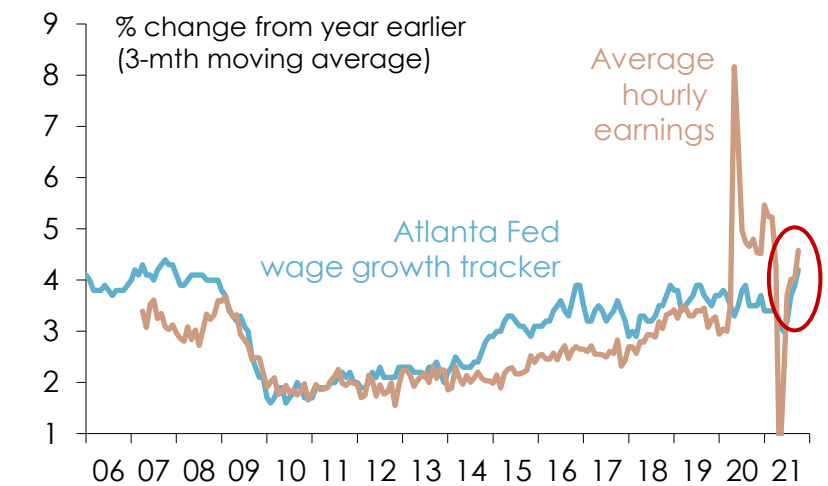
## Job openings



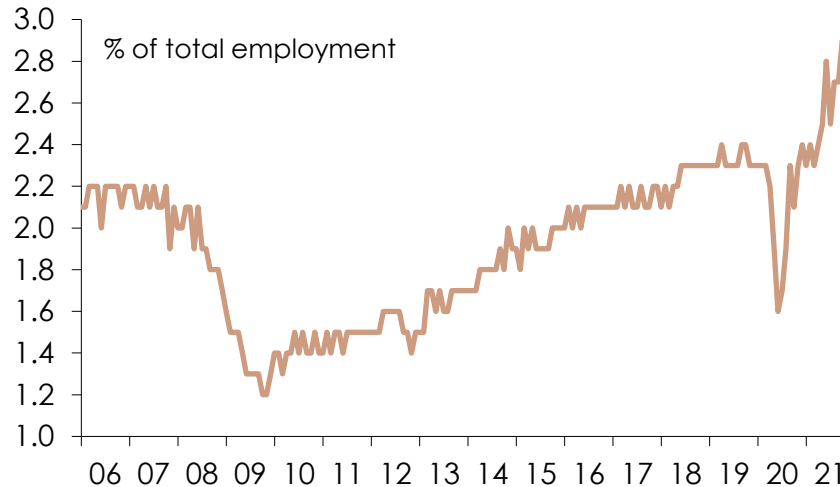
## Average hourly earnings



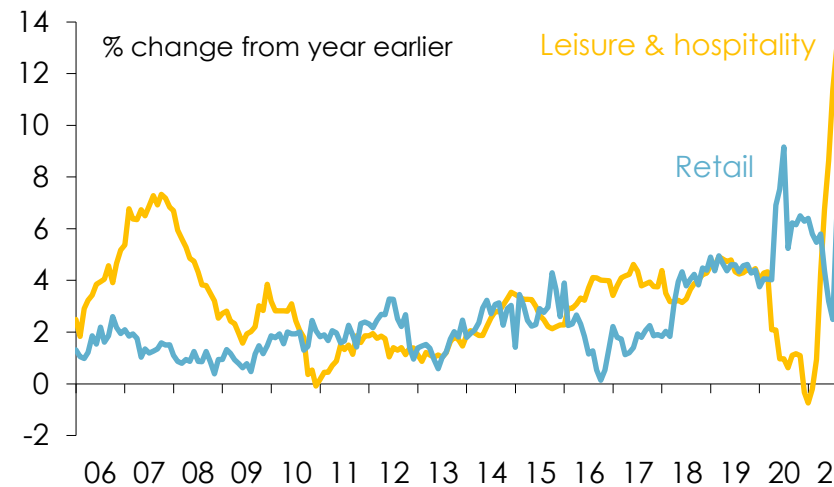
## Overall wages growth - monthly



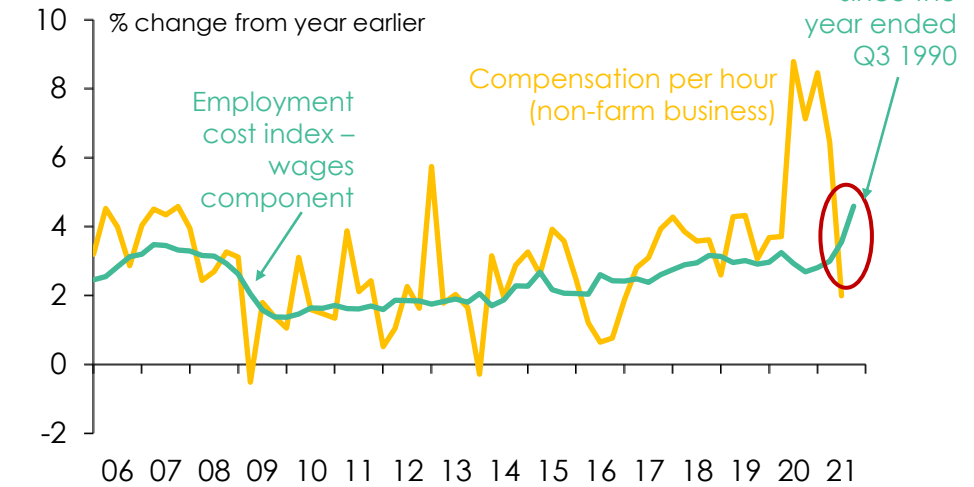
## Quit rate



## Average hourly earnings



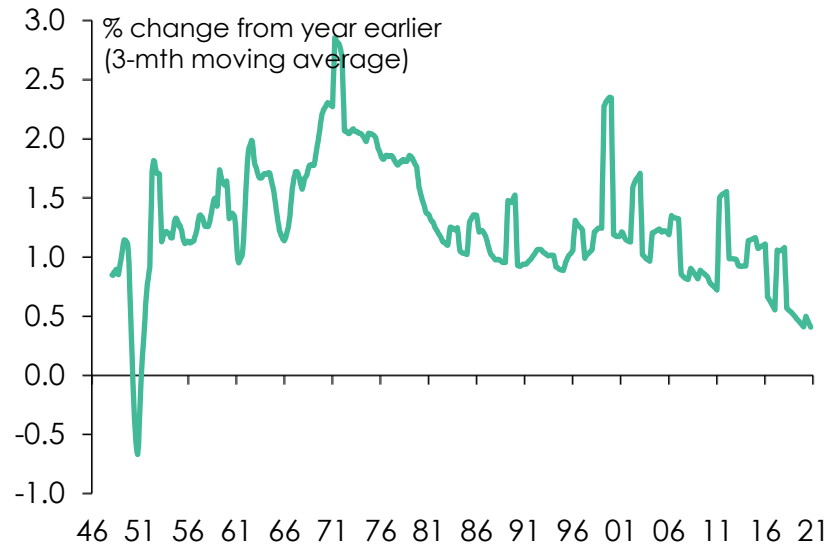
## Wages growth - quarterly



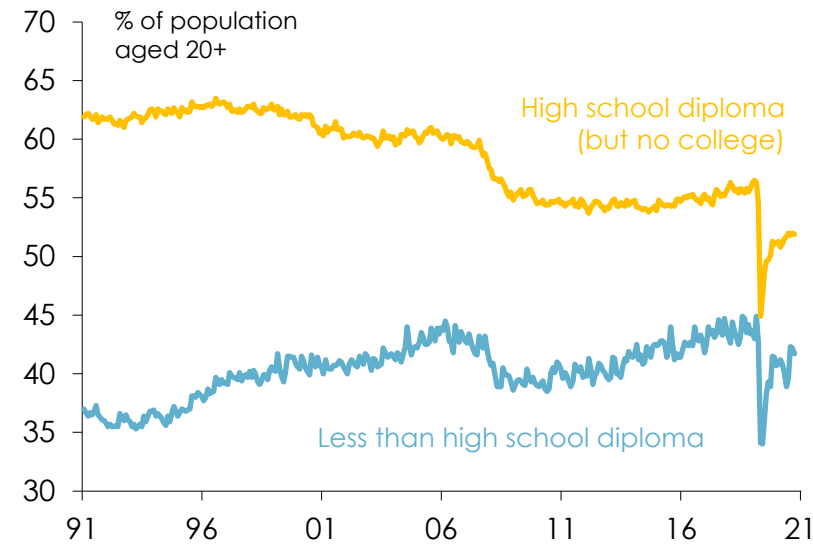
Note: Measures of average hourly earnings (especially the all-industries measures) and of average compensation per hour are affected by changes in the composition of employment (so for example they rose sharply in Q2 2020 when large numbers of low-paid workers were laid off and fell markedly when they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

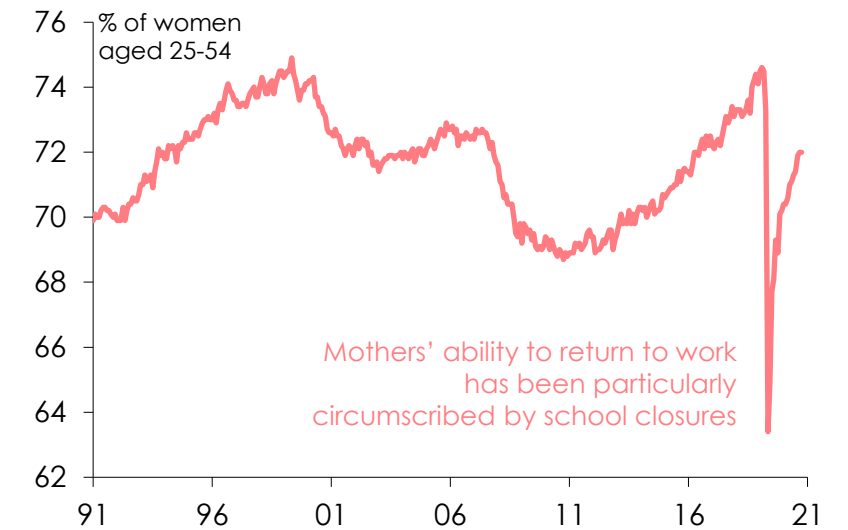
## Civilian working age population



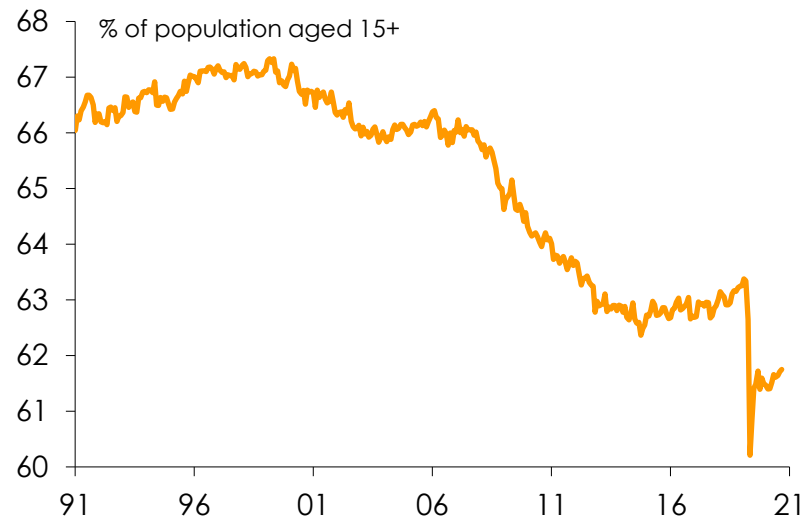
## 'E-pop' ratio – by education



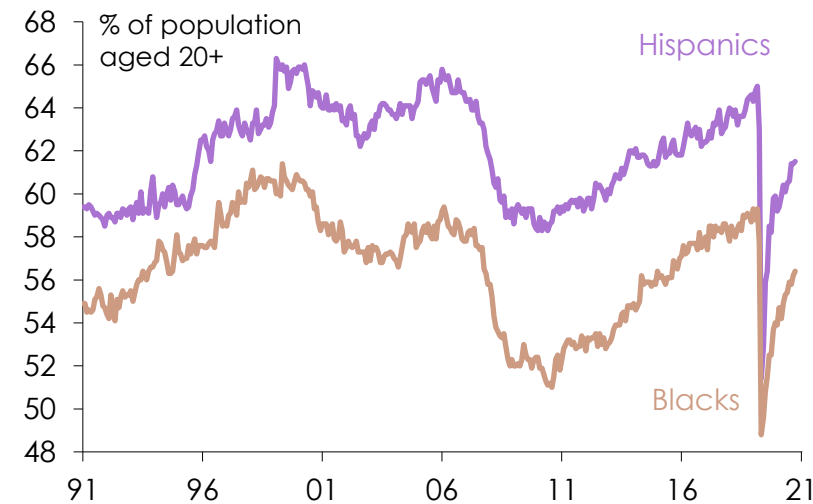
## 'E-pop' ratio – women 25-54



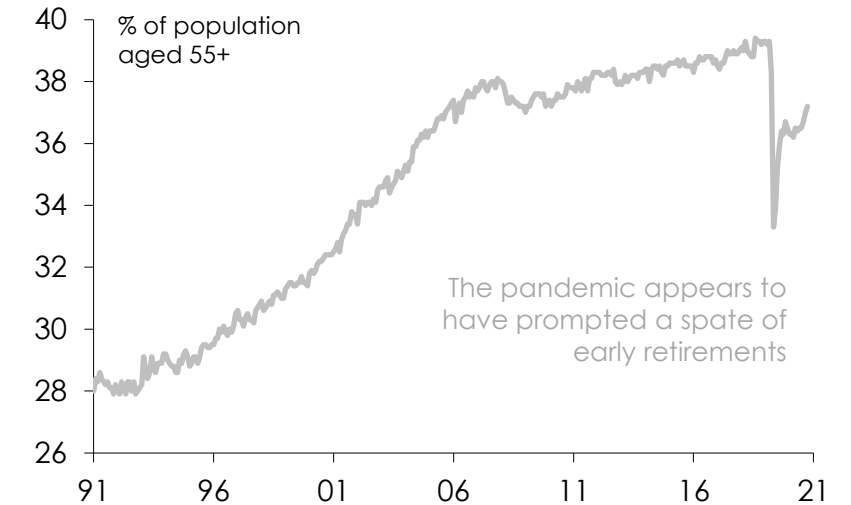
## Employment-to-population ratio



## 'E-Pop' ratio – Blacks & Hispanics



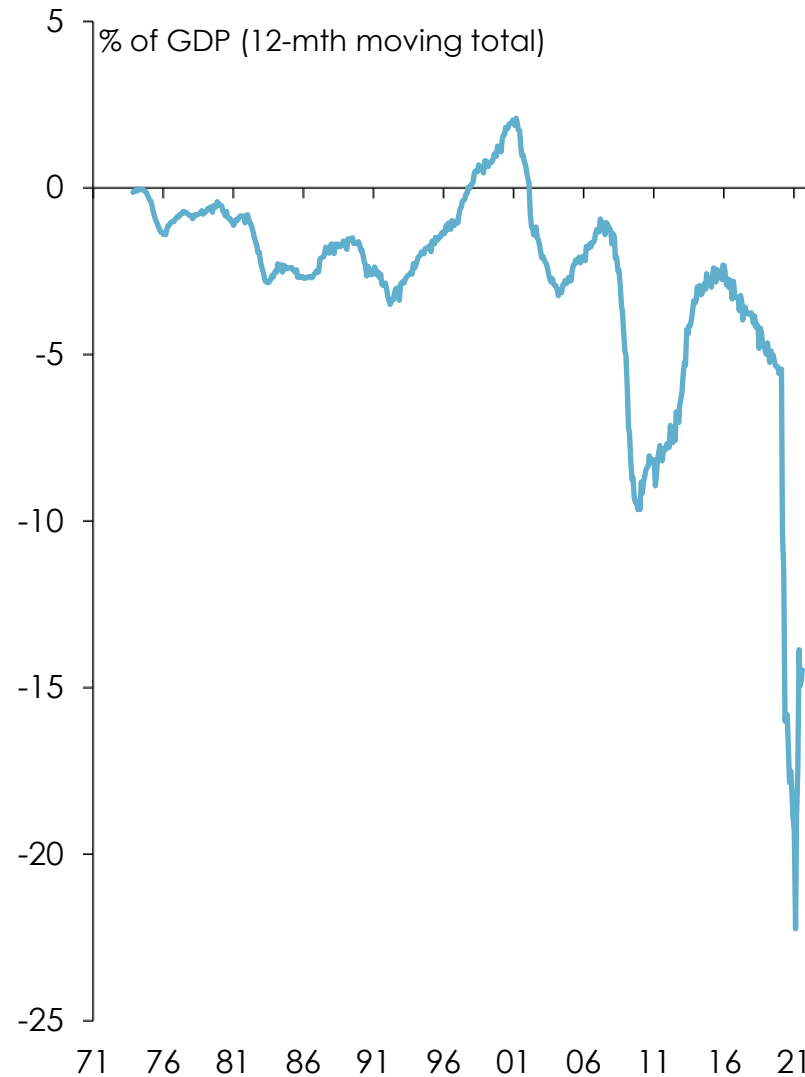
## 'E-pop' ratio – people 55 & over



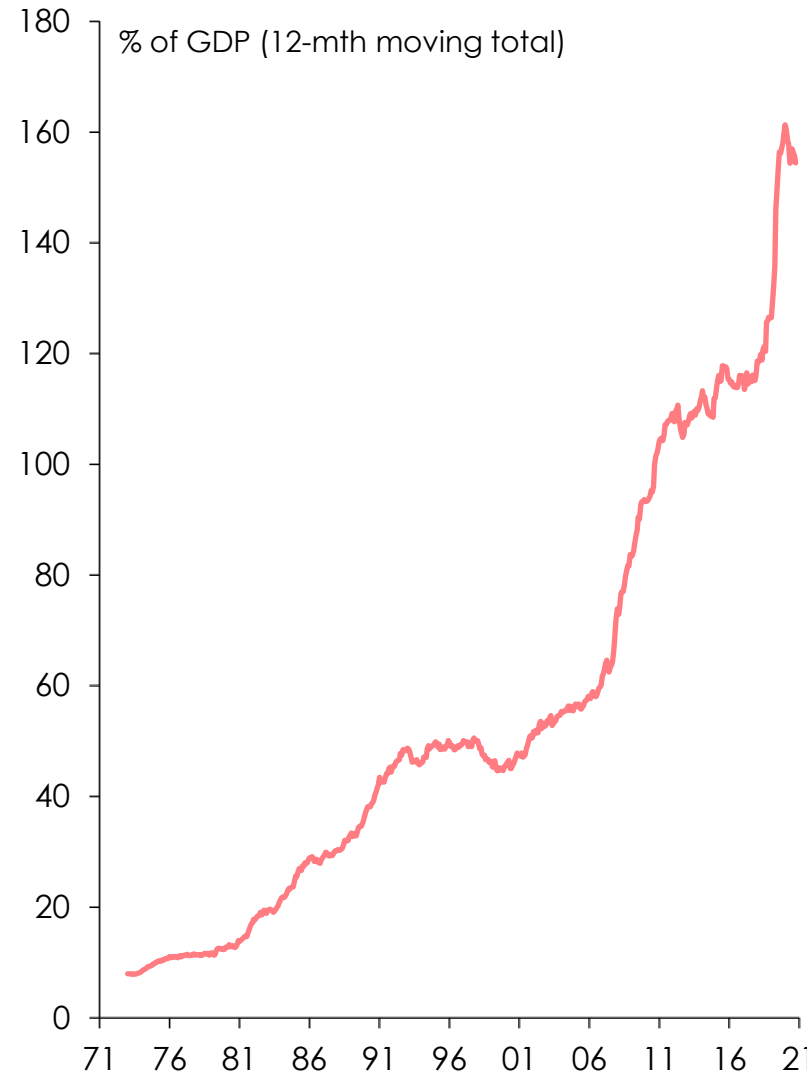
Source: US Bureau of Labor Statistics, [Current Employment Statistics](#).

# Congress has passed legislation temporarily raising the debt ceiling until early December, but is still yet to pass an infrastructure spending bill

## US Federal budget deficit



## US gross Federal debt

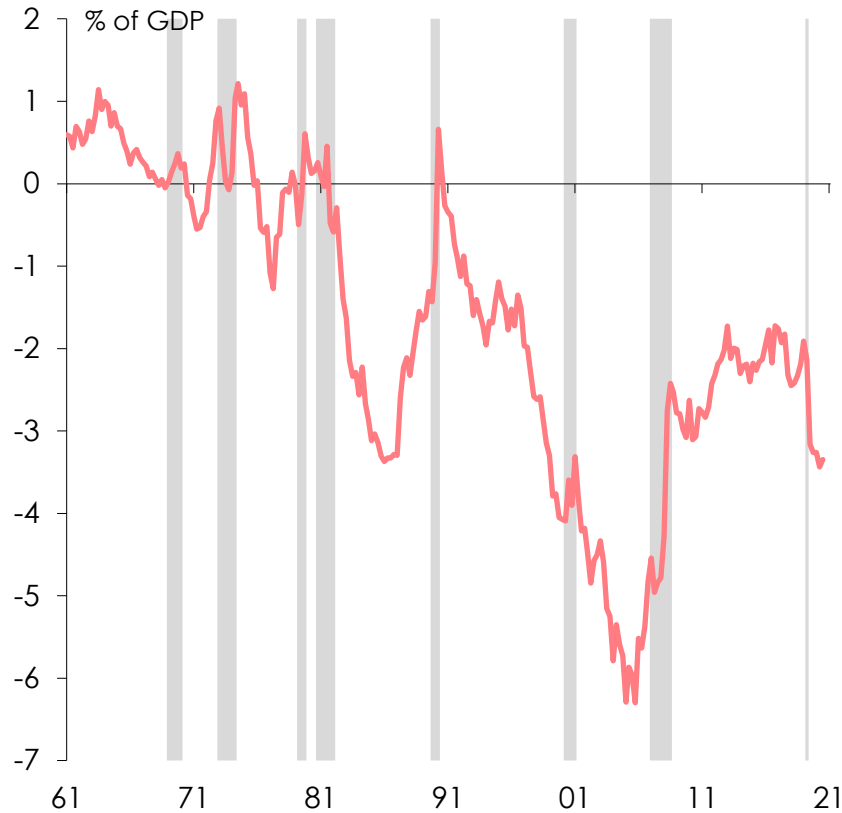


- ❑ The US Federal Government budget deficit narrowed by US\$109bn to \$62bn in September, the smallest monthly total since January 2020, due to a surge in tax collections
- ❑ The deficit for the 2020-21 fiscal year (which ended on 30<sup>th</sup> September) was US\$2.8trn (14.5% of GDP), down from \$3.1trn (16.9% of GDP) in 2019-20, with revenues rising 18.3% cf. spending 4.1%
- ❑ The face value of gross federal debt rose by \$1.5trn, to \$28.4trn, over the year to September, but the market value rose by 'only' \$518bn, to \$29.6trn, 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 3<sup>rd</sup> December
- ❑ The Biden Administration this week tabled a less ambitious 'social infrastructure' spending bill totalling US\$1.75 trillion – although it remains unclear whether this will attract the support of all 50 Senate Democrats – while a collage of proposals for higher taxes stands little chance of being legislated

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"](#).

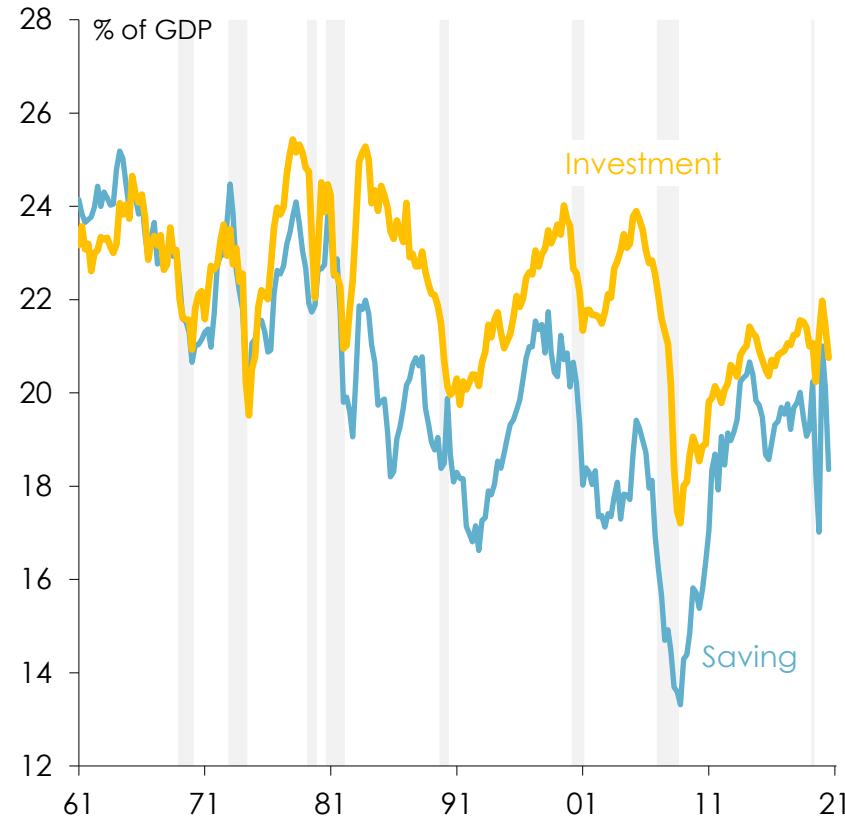
# Any 'excess demand' resulting from 'excessive' stimulus is more likely to show up in the US current account deficit than in sustained higher inflation

## US current account balance



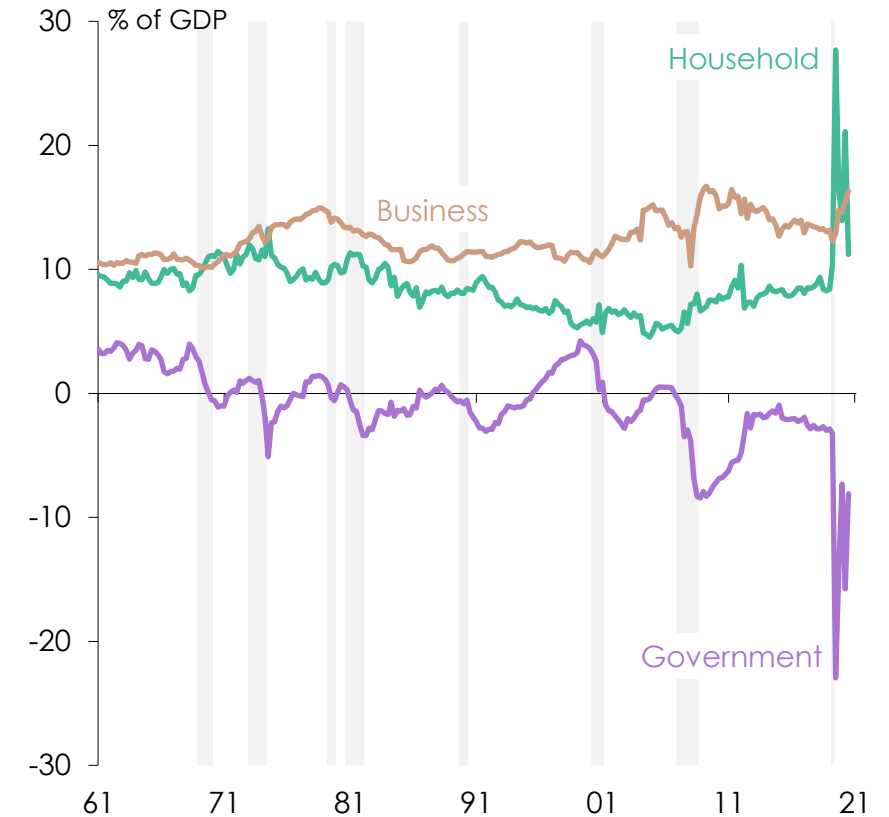
The US current account has *widened* since the recession that began last year – and in the first half of this year has been larger (as a pc of GDP) than at any time since the financial crisis

## 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



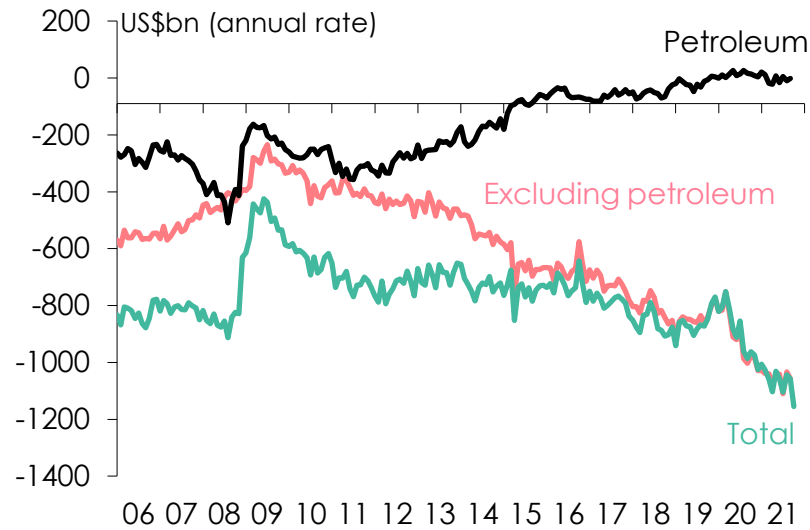
The dramatic increase in the budget deficit has been largely (but not totally) offset by an increase in household saving

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

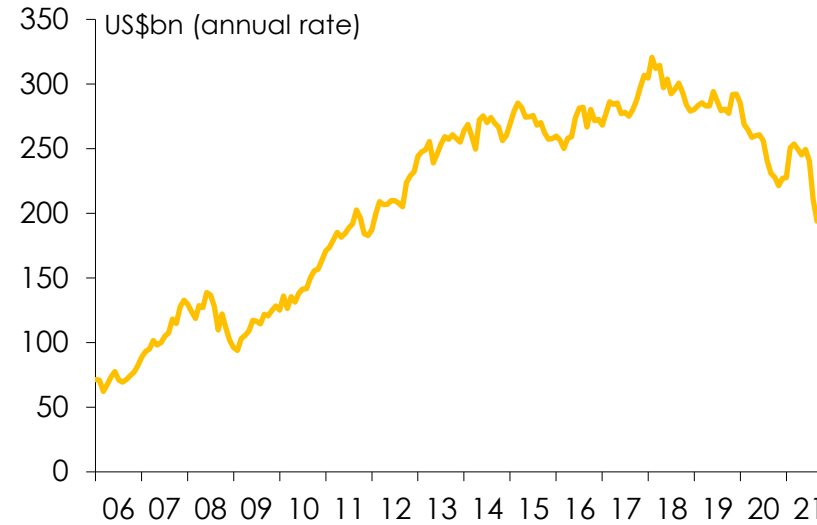
Source: US [Bureau of Economic Analysis](#). [Return to "What's New"](#).

# The US recorded a new record merchandise trade deficit in September – and is likely to record a deficit of US\$1 trillion for 2021 as a whole

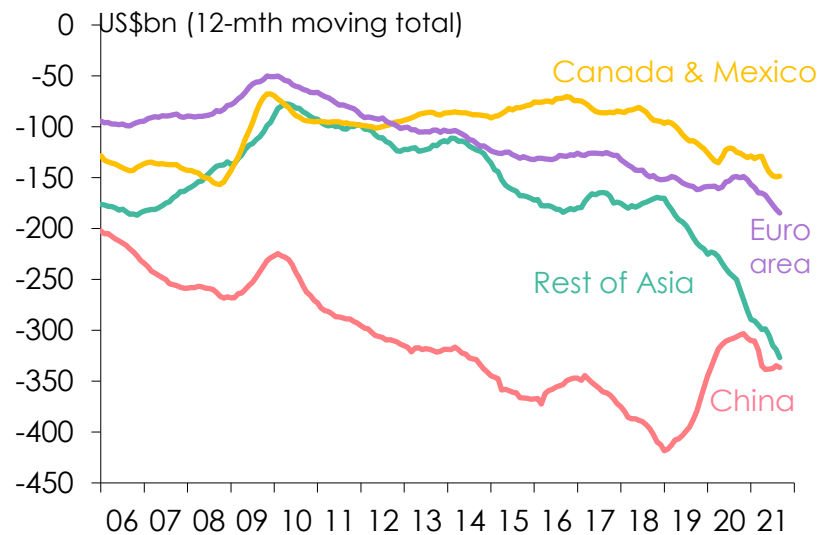
## US goods trade balance



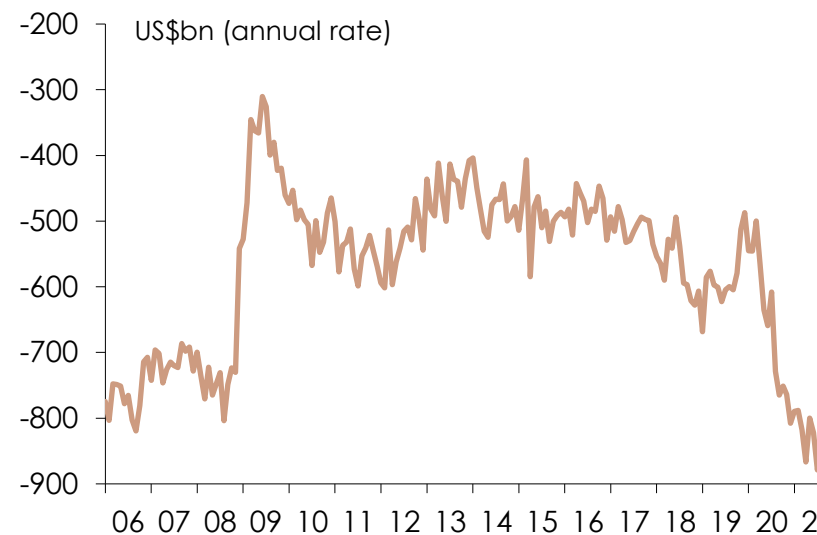
## US services trade balance



## US bilateral goods trade balances



## US goods & services trade balance



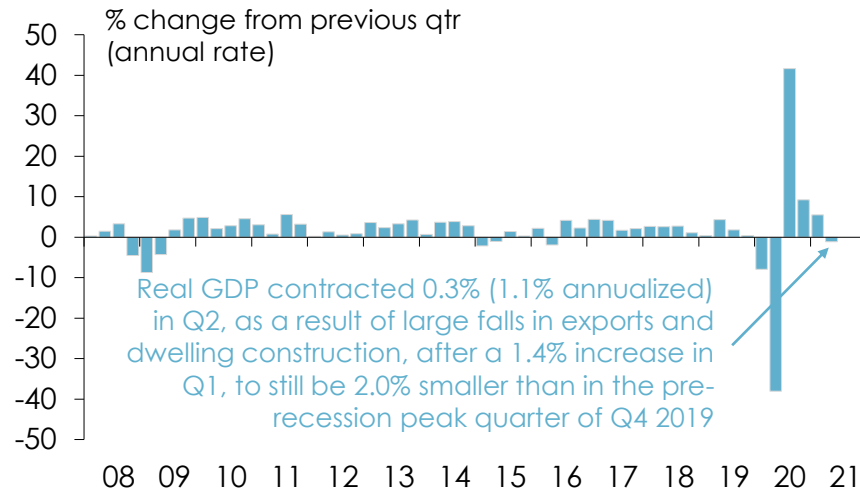
- ❑ The US goods trade deficit widened by US\$8.1 bn to a new record \$96.3bn in September, according to 'advance' estimates
  - exports fell 4.7% (largely driven by a 10% fall in exports of industrial supplies and materials) while imports rose 0.5%
  - the merchandise trade deficit is likely to exceed US\$1 trn in 2021 for the second year in a row
- ❑ The services surplus narrowed by \$1.4bn to \$16.2bn in August, 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

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

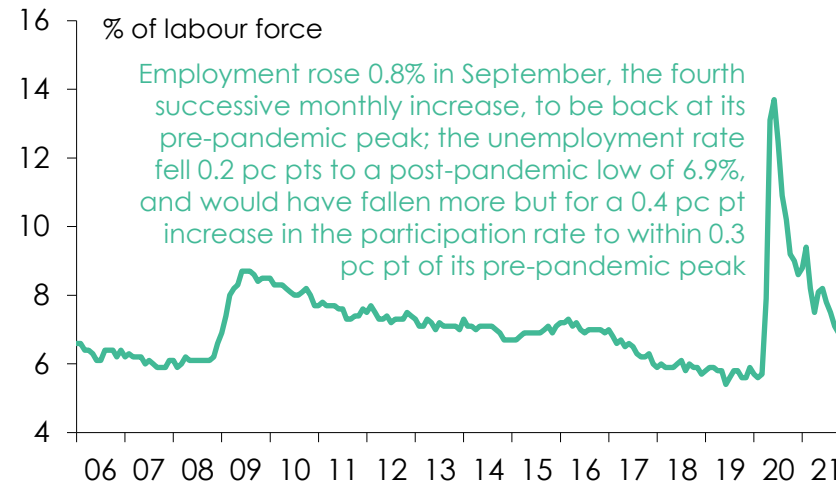


# Employment in Canada is now back to its pre-pandemic peak (as of September) – but inflation has risen sharply as well

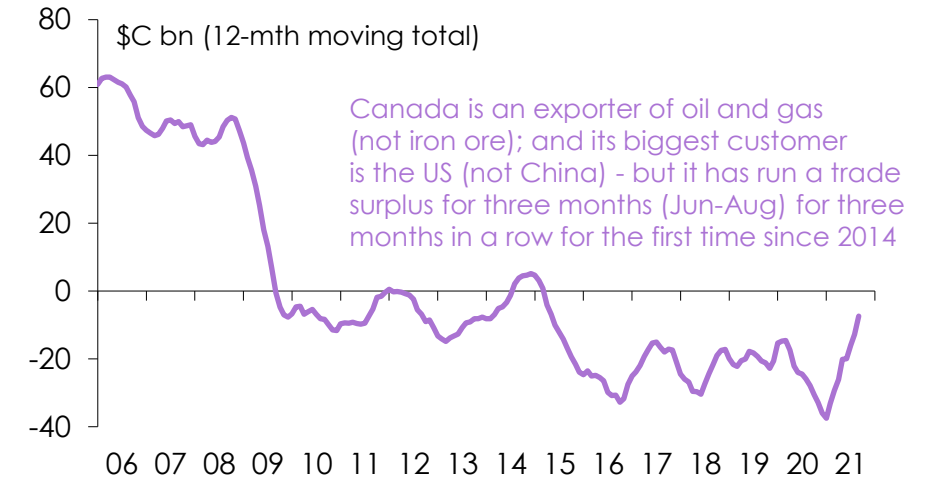
## Real GDP



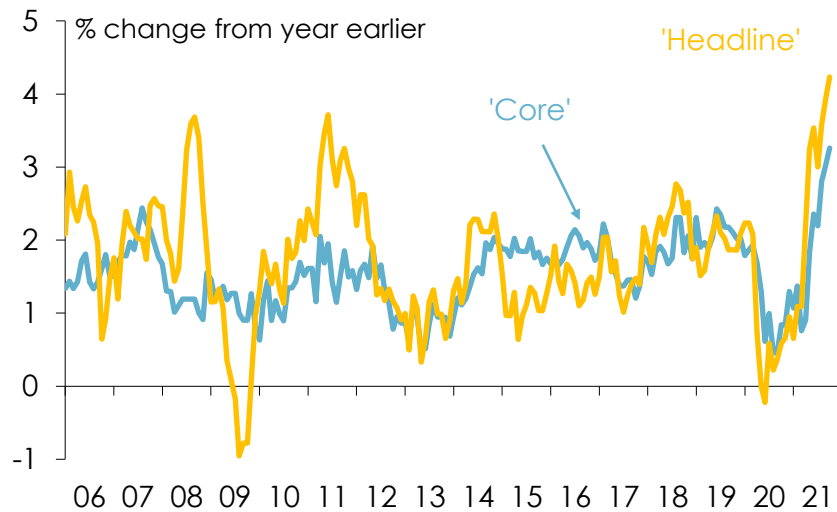
## Unemployment rate



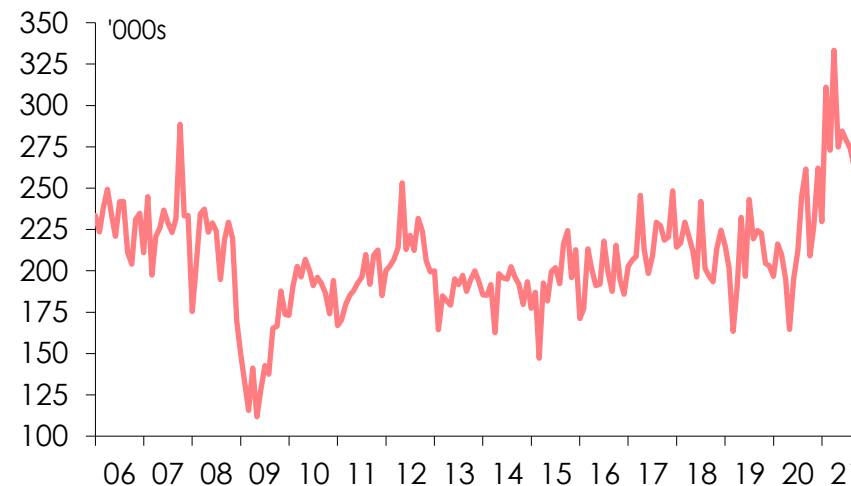
## Merchandise trade balance



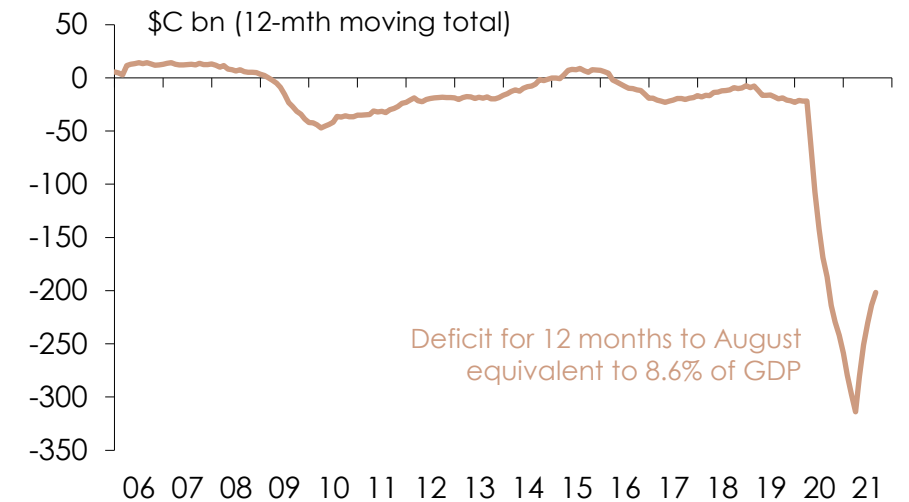
## Consumer prices



## Housing permits



## Federal budget balance

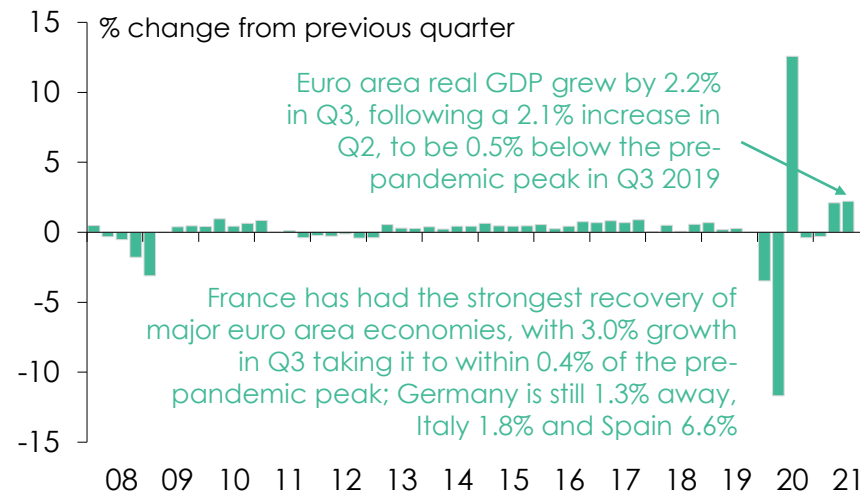


Sources: [Statistics Canada](#); [Department of Finance Canada](#). [Return to "What's New"](#).

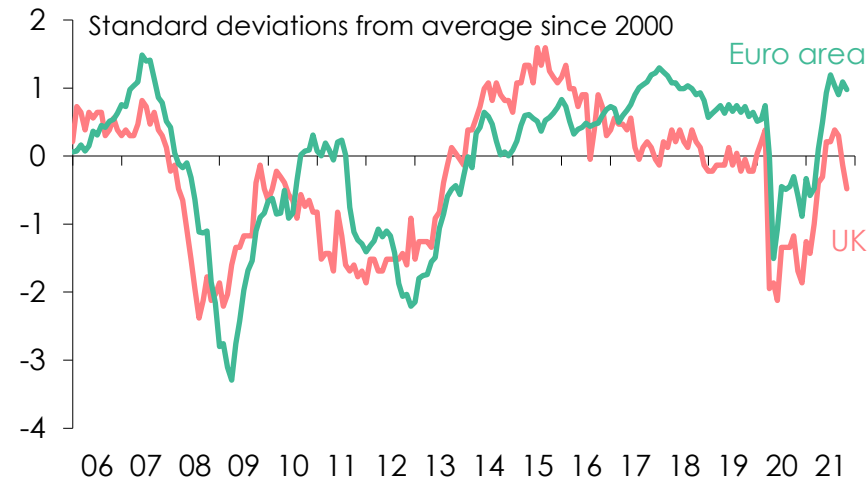


# Euro area GDP grew 2.2% in Q3 after 2.1% in Q1, with strong growth in France and Italy, to be just 0.5% below the pre-pandemic peak in Q3 2019

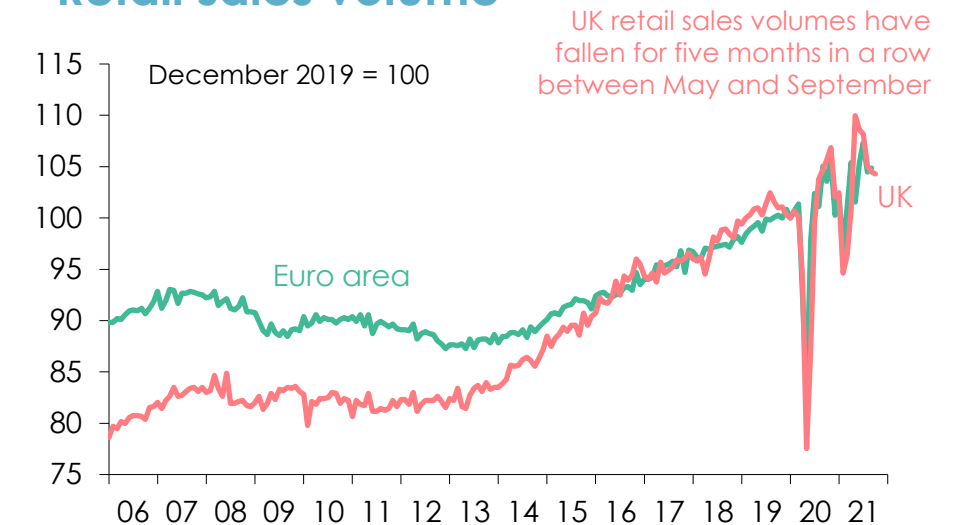
## Euro area real GDP



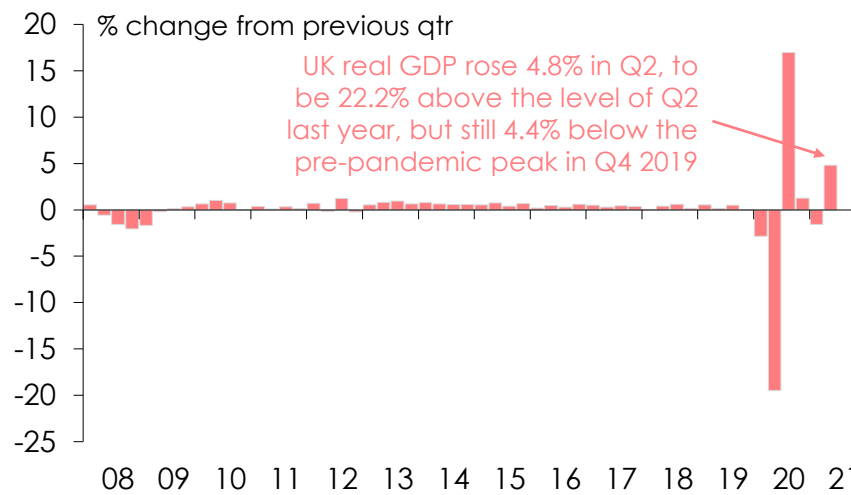
## Consumer confidence



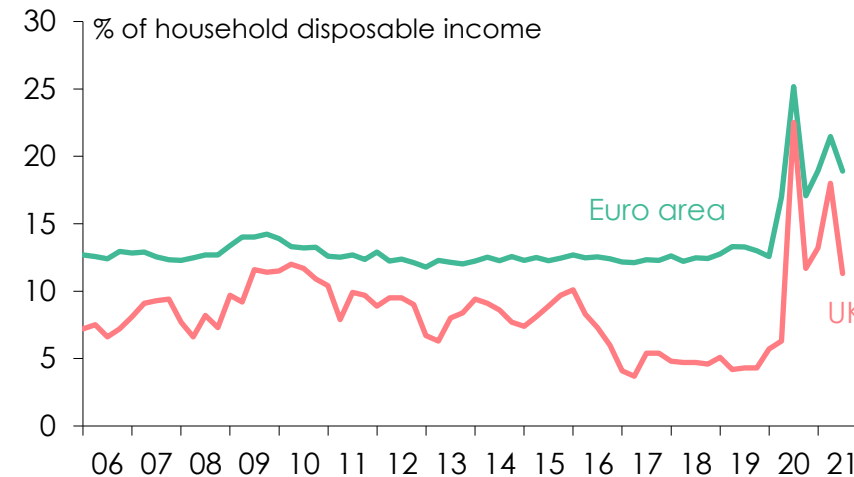
## Retail sales volume



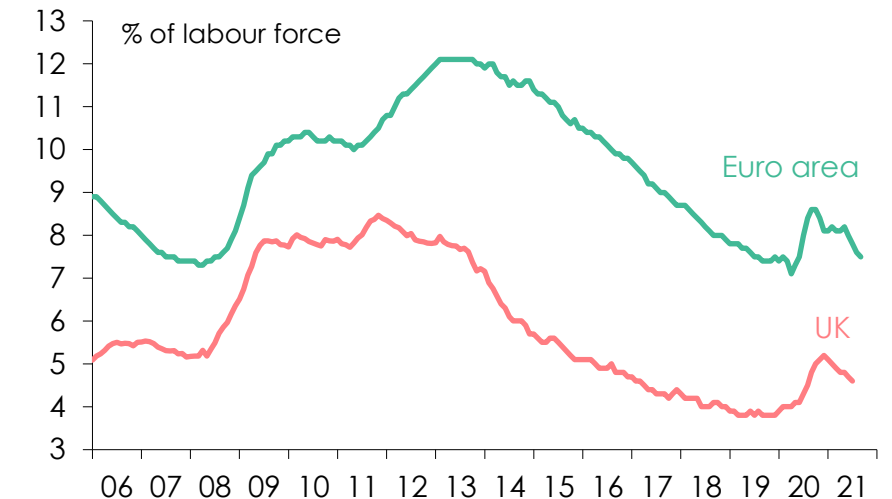
## UK real GDP



## Household saving ratio



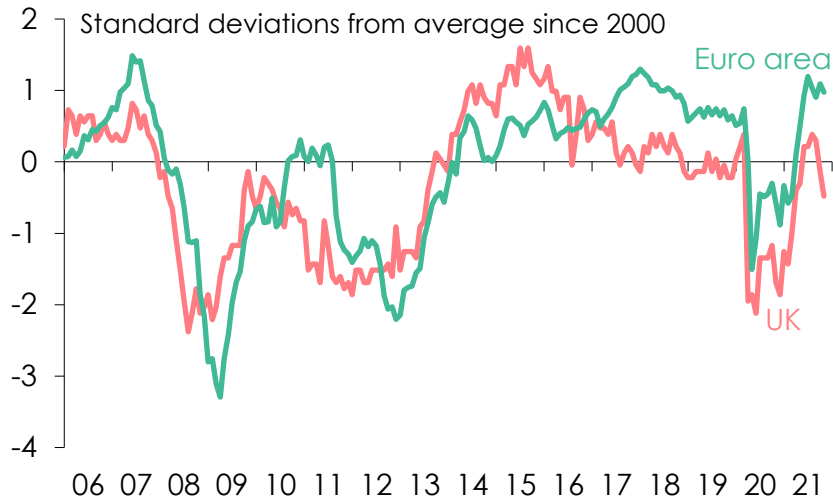
## Unemployment



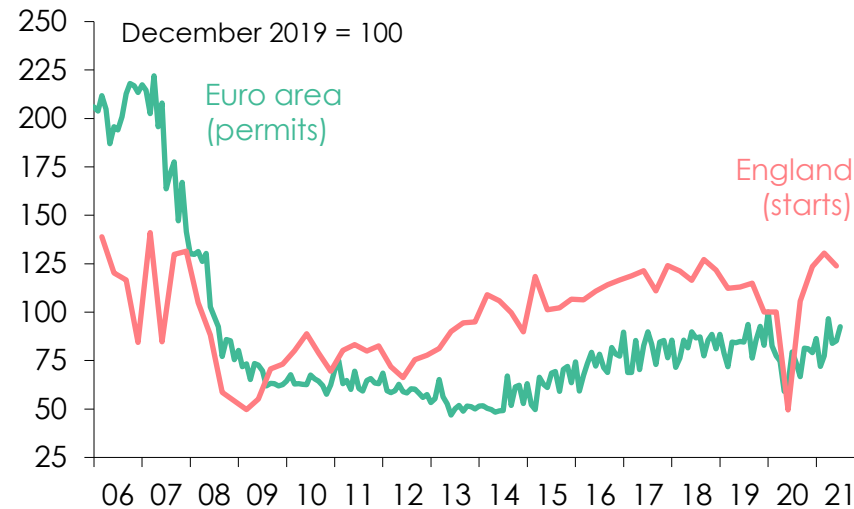
Sources: Eurostat; UK Office for National Statistics; GfK. The UK unemployment rate is published as a 3-month moving average.  
[Return to "What's New".](#)

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

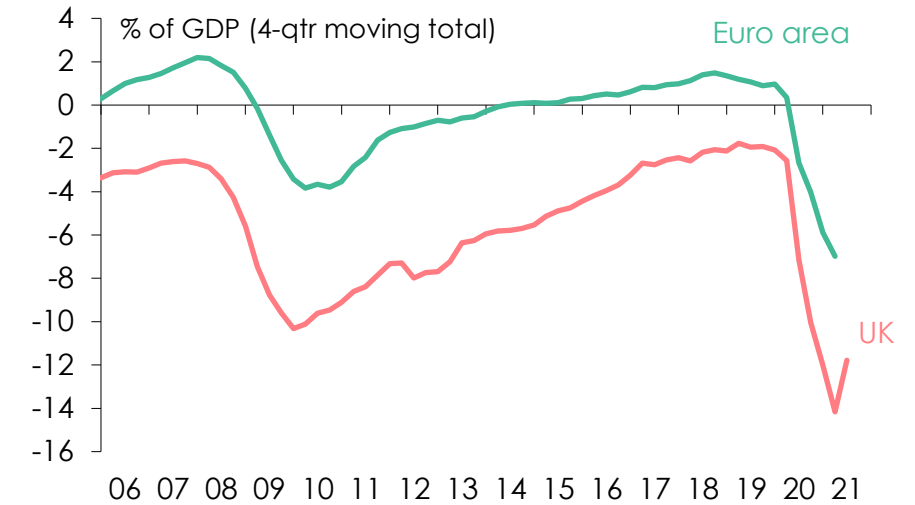
## Business confidence



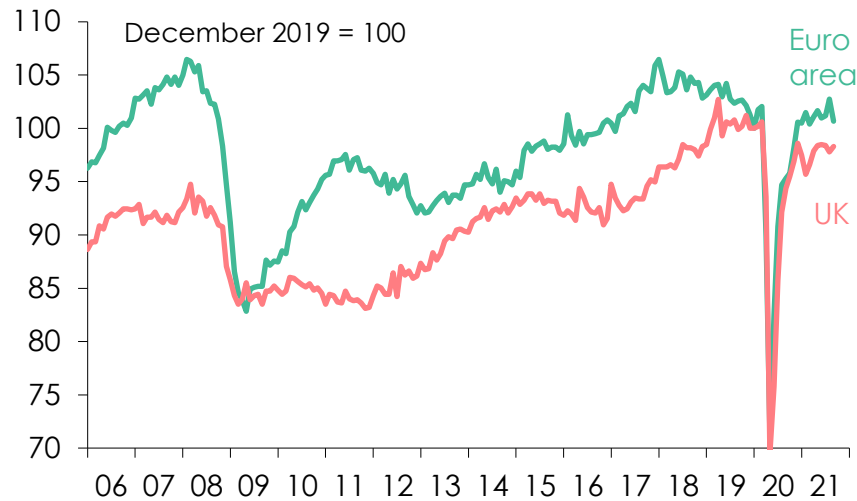
## Housing activity



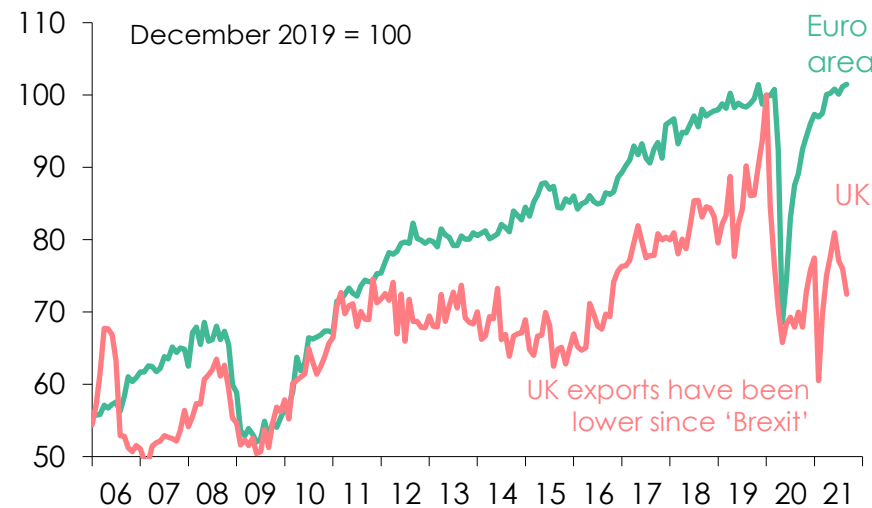
## Government fiscal balance



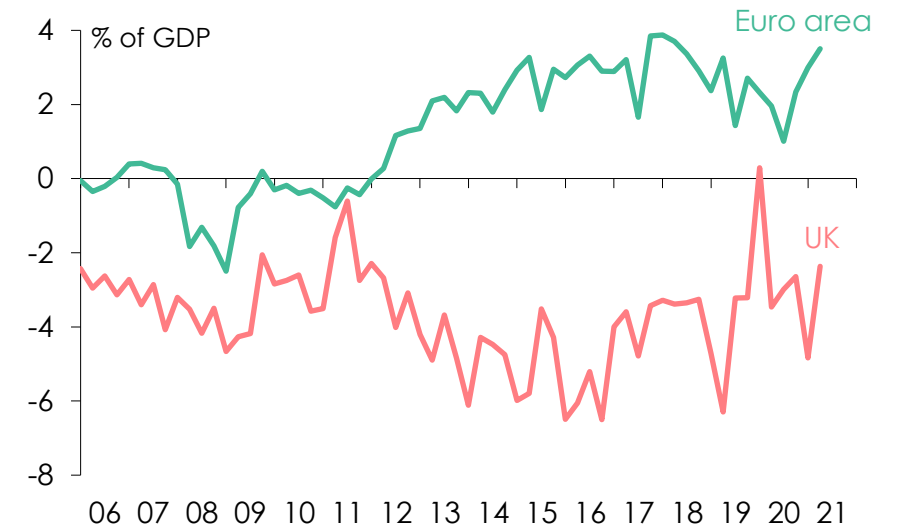
## Manufacturing production



## Merchandise exports

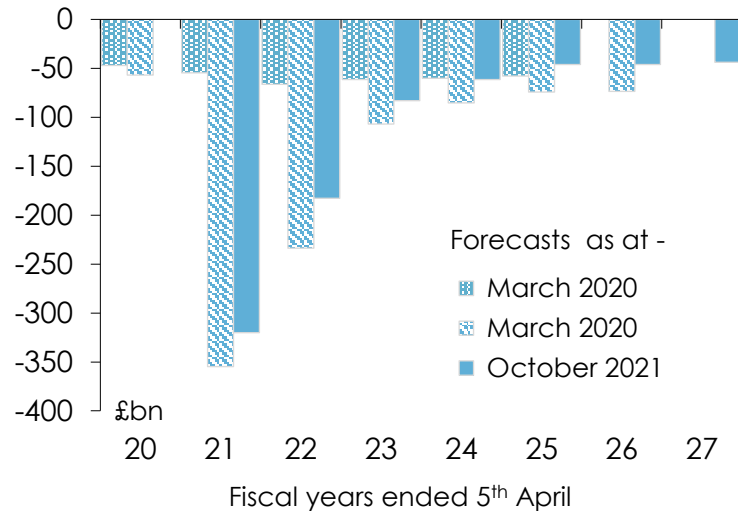


## Current account balance

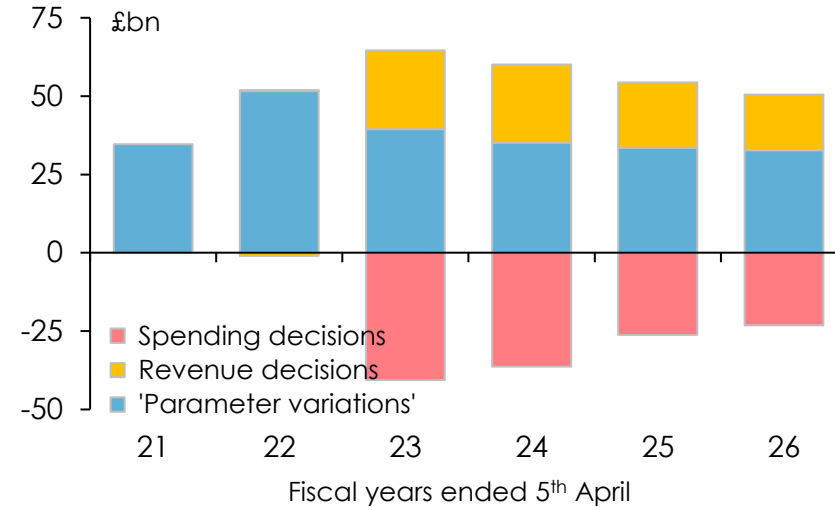


# The 2021 UK Autumn Budget Review 'bakes in' a large increase in the size of the British state – not what one would expect from the Conservatives

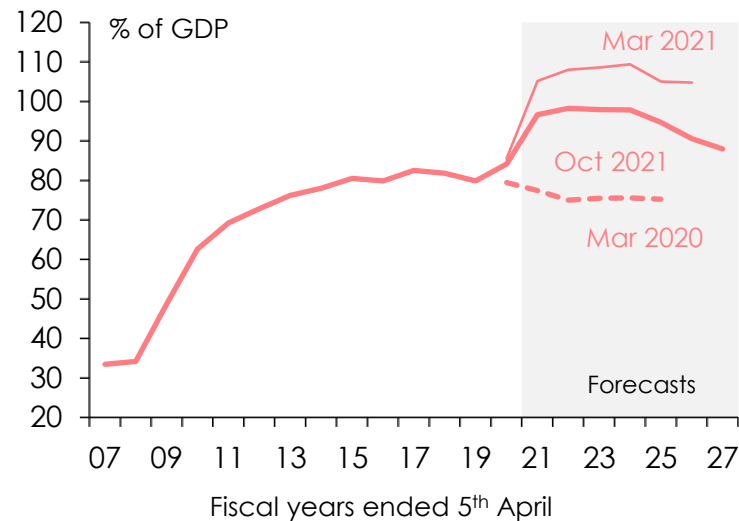
## Public sector net borrowing



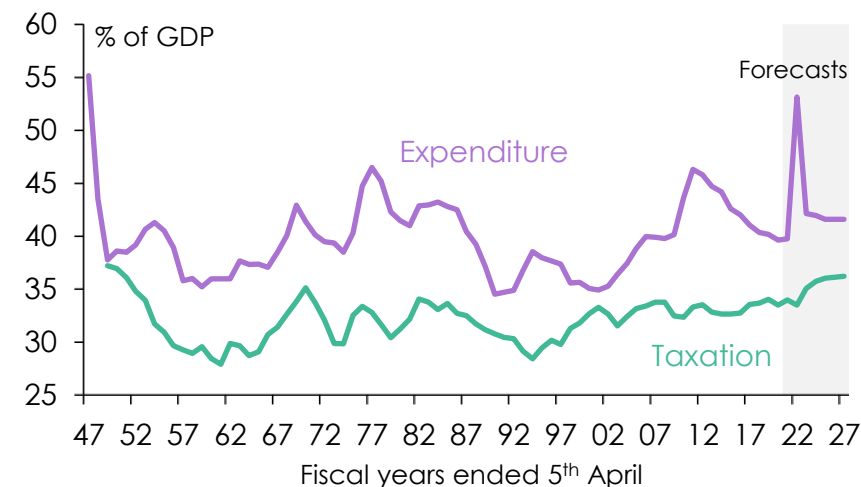
## Sources of change in PSNB



## Public sector net debt



## Tax & spending as pc of GDP



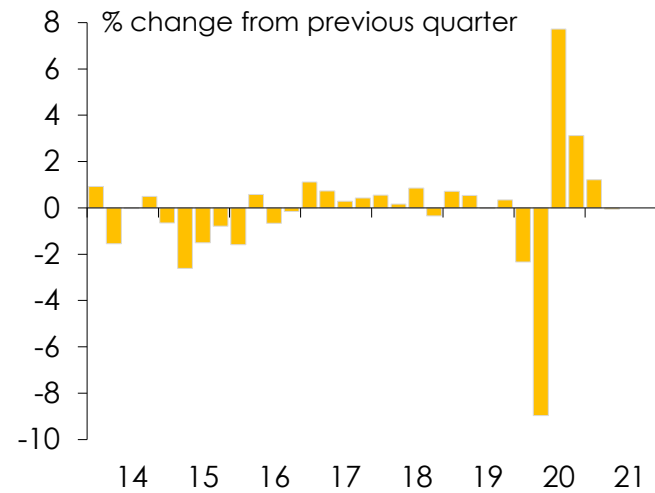
- ❑ The UK Government's [Autumn Budget and Spending Review](#) revised down the deficits forecast for the five years to FY2025-26 by £154bn (27%) from what had been forecast in March
- ❑ The improvement is largely the result of favourable 'parameter variations' (mainly stronger forecast nominal GDP growth) and tax increases announced since the March Budget
  - in particular, the 1¼% health and social care levy announced by the Chancellor in September
- ❑ Together with the increases in personal and corporate income tax announced in the March Budget, these will result in tax revenue rising by 2026-27 to its highest share of GDP since 1950
  - the independent [Office for Budget Responsibility](#) says that taxes have been raised by more this year than in any single year since 1993

# Brazil's central bank raised its policy interest rate for the sixth time this year, to its highest level in four years, with more to come

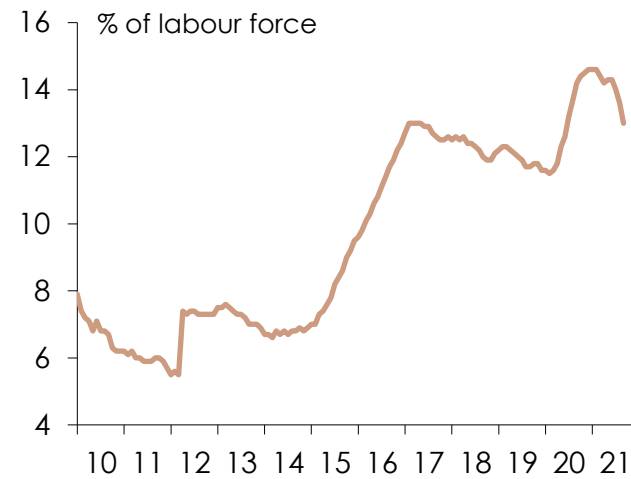
- ❑ [Banco Central do Brasil](#) raised its policy (SELIC) interest rate another 150 basis points to 7.75% at Wednesday's Monetary Policy Committee (Copom) meeting
  - this was the sixth increase so far this year, and 50 basis points more than Brazilian financial markets had expected
  - it takes the SELIC rate to its highest level in four years
- ❑ In its [post-meeting statement](#) Copom noted that inflation (10.3% over the twelve months to September) had been “higher than expected”, with “additional pressures on the items associated with core inflation”
  - Copom's inflation forecast for 2021 was raised another 1pc pt to 9.5%, while the forecast for 2022 was raised by 0.4 pc pt to 4.1% and for 2023 by 0.1 pc pt to 3.3% - cf. targets of  $3.75\% \pm 1.5\%$  for 2021,  $3.5\% \pm 1.5\%$  for 2022 and  $3.25\% \pm 1.5\%$  for 2023
  - this scenario assumes further increases in the SELIC rate to 8.75% by end 2021, and to 9.75% during 2022, dropping to 9.50% by the end of next year and to 7.0% during 2023
- ❑ Copom also pointed specifically to “recent questioning regarding the fiscal framework” which “increased the risk of deanchoring inflation expectations, raising the upward asymmetry in the balance of risks”
  - this is a reference to the Government's proposed [Auxilio Brasil \(Brazil Aid\)](#) program due to commence next month, as a replacement for the Bolsa Familia program (originally introduced by the Lula Administration, the central feature of which is a 20% increase in cash payments to eligible families – but for which no provision has been made in the Budget – as well as to more general uncertainty about the fiscal outlook ahead of next year's elections
- ❑ Elsewhere in emerging markets the [National Bank of Kazakhstan](#) raised its base rate by 25 basis points to 9.75%, following similar increases in July and September, [citing](#) “continued pro-inflationary pressure in the economy”; and the [National Bank of Tajikistan](#) raised its refinancing rate by 25 basis points to 13.25%, following previous increases totalling 225 basis points in February, April and July; but the [National Bank of Georgia](#) left its refinancing rate unchanged at 10.0% (having previously raised it by a total of 200 basis points between March and August)
  - although it warned that “inflationary risks persist” and “further tightening of monetary policy” may be warranted

# Banco Central do Brasil's aggressive monetary tightening reflects its concerns over inflation and fiscal policy

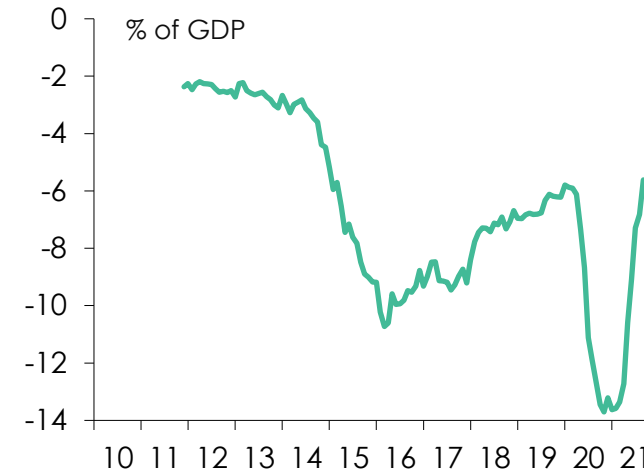
## Real GDP growth



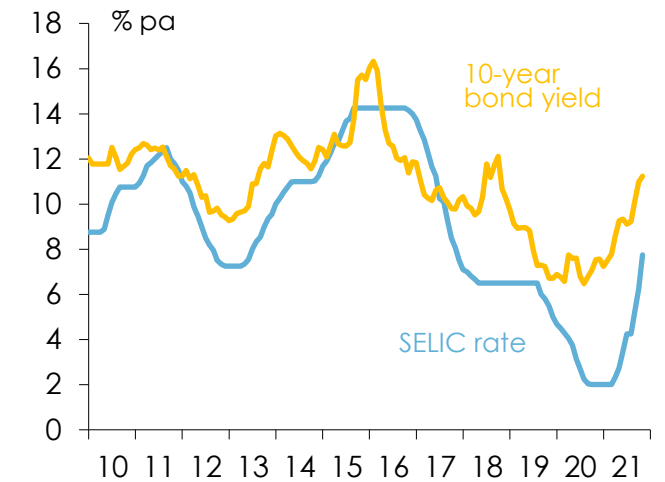
## Unemployment



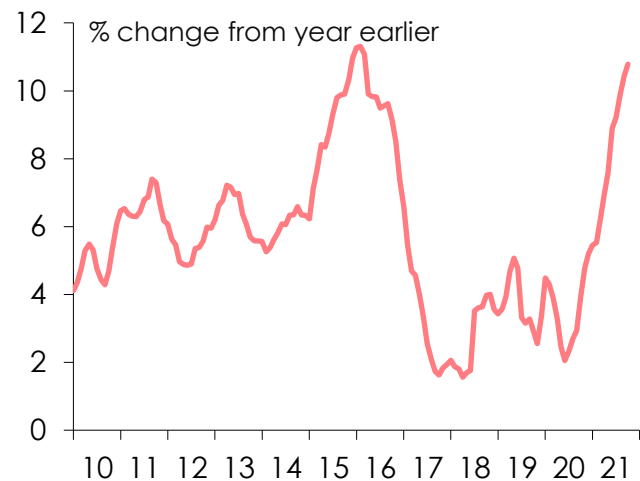
## Public sector borrowing



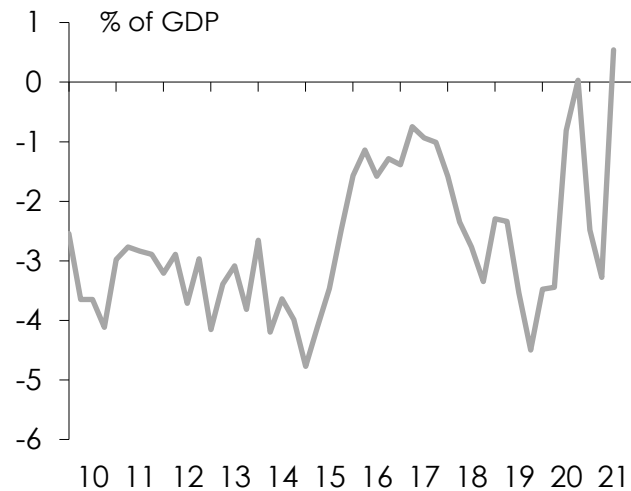
## Interest rates



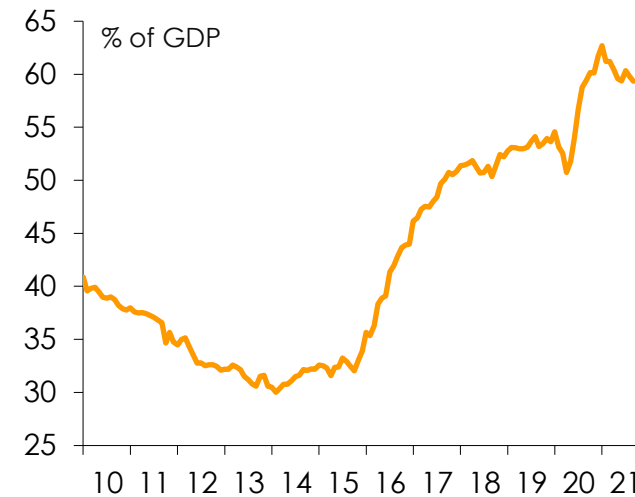
## Inflation



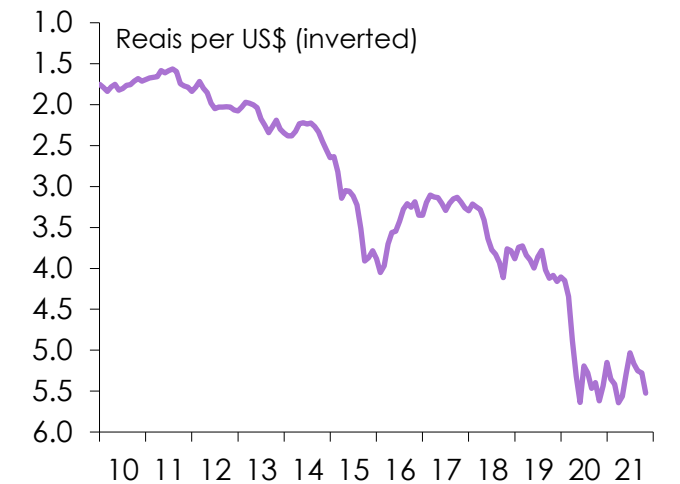
## Current account balance



## Public sector net debt



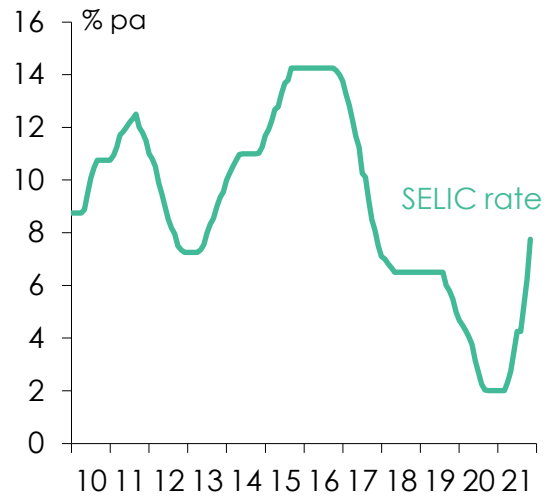
## Brazilian real vs US\$



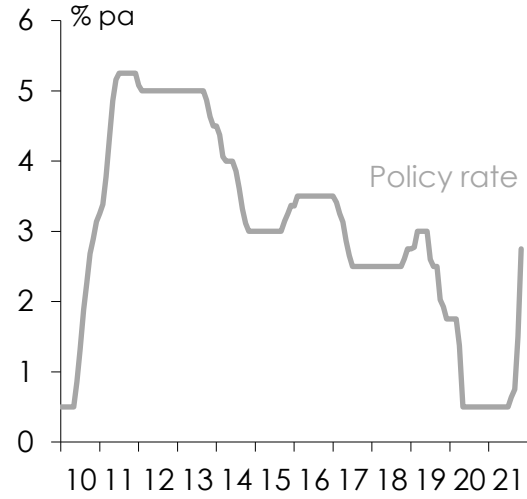


# A growing number of 'emerging' market central banks have begun tightening monetary policy

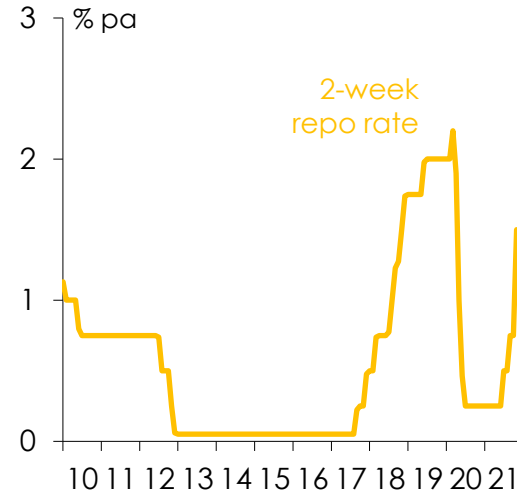
Brazil



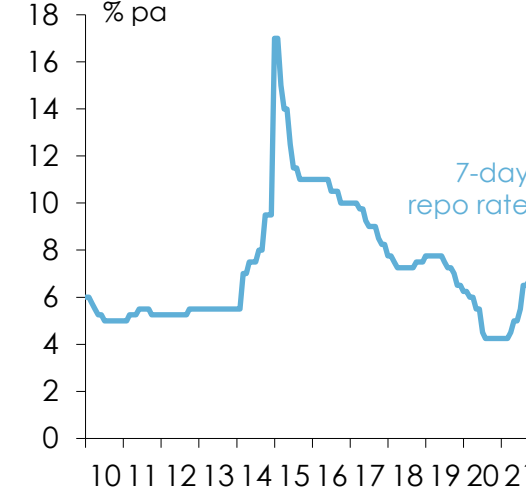
Chile



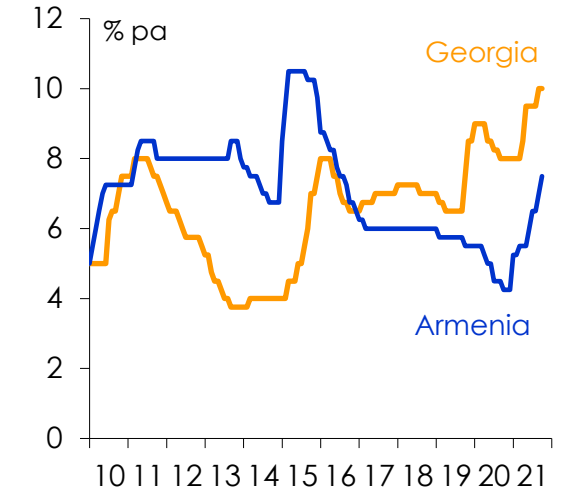
Czechia



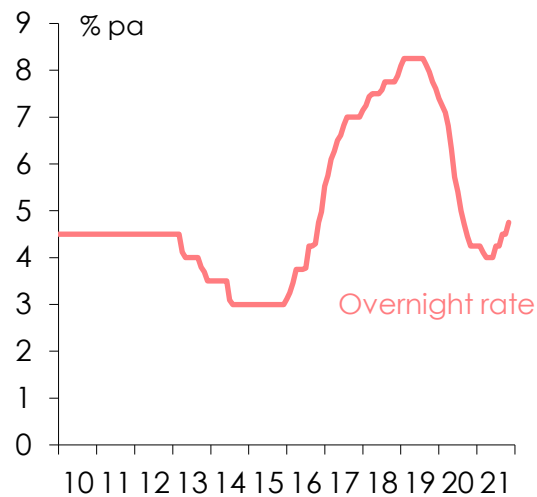
Russia



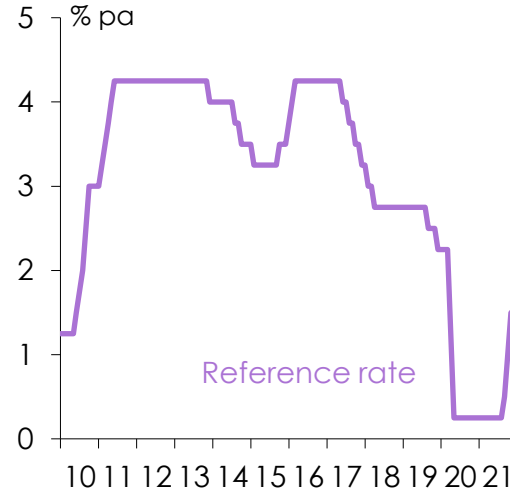
Georgia & Armenia



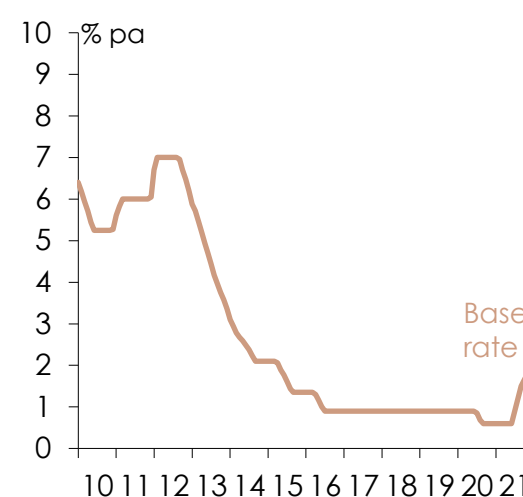
Mexico



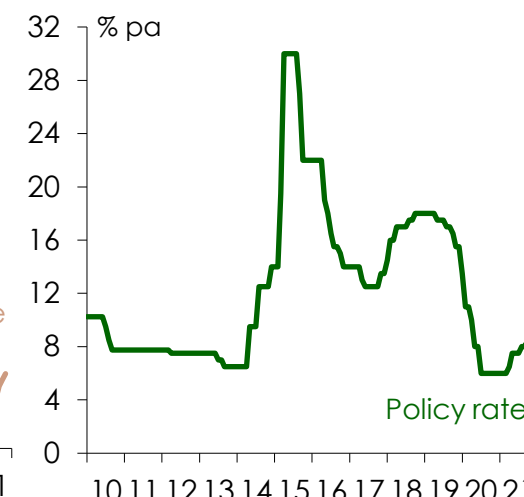
Peru



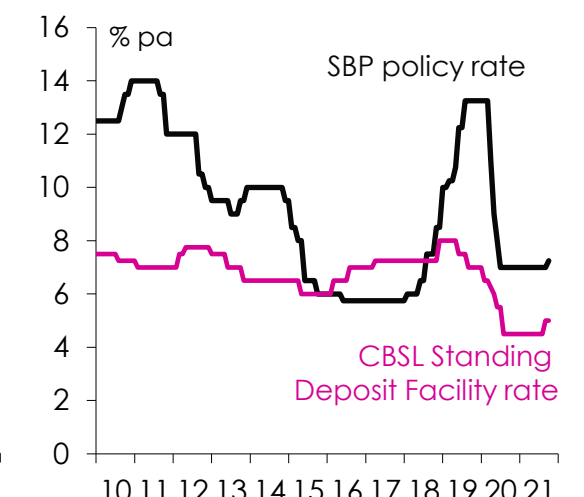
Hungary



Ukraine



Pakistan & Sri Lanka



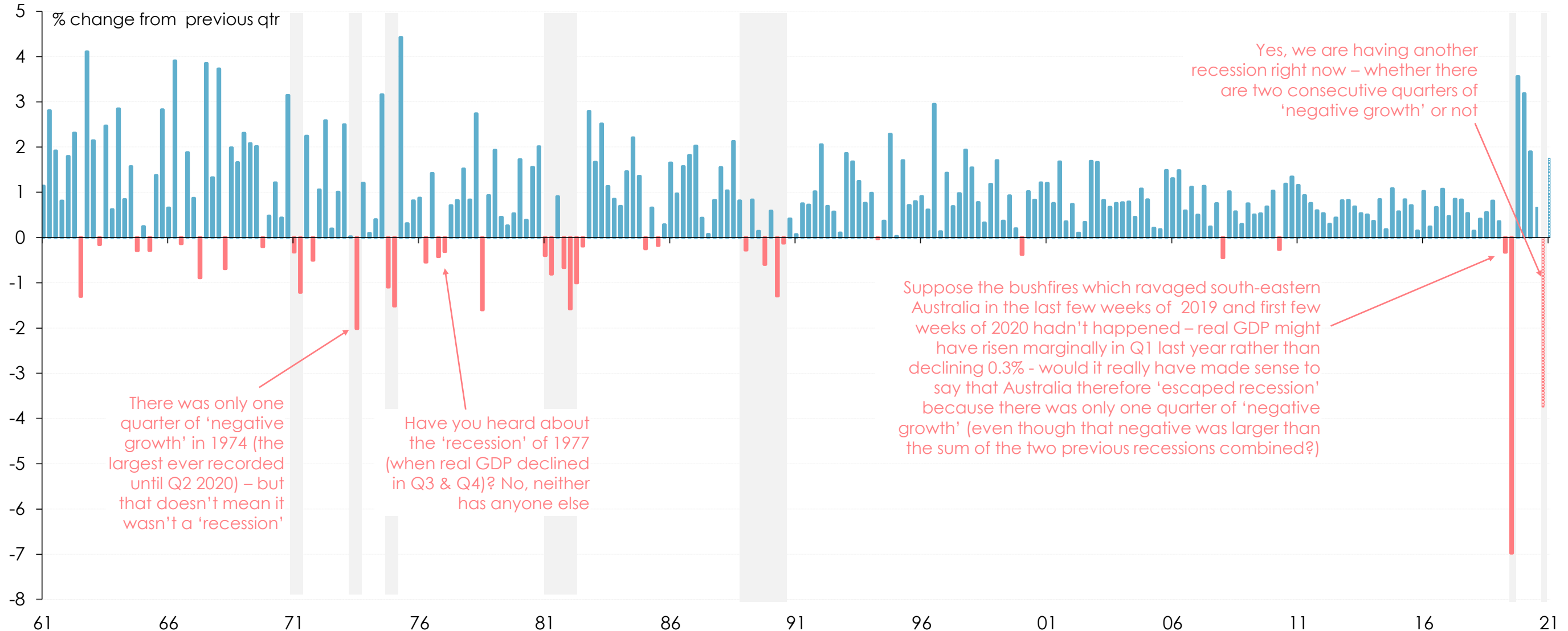
Sources: [Banco Central do Brasil](#); [Banco de México](#); [Banco Central de Chile](#); [Banco Central de Reserva del Perú](#); [Magyar Nemzeti Bank](#); [Česká národní banka](#); [Bank Rossii](#); [National Bank of Ukraine](#); [Türkiye Cumhuriyet Merkez Bankası](#); [Sakartvelos Erovnuli Bank'i](#);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

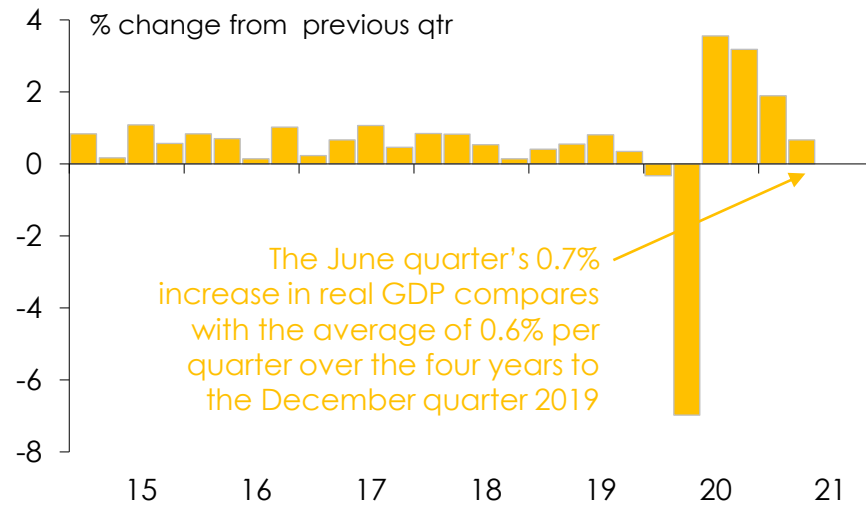
## Quarterly growth in Australian real GDP, 1961-2021



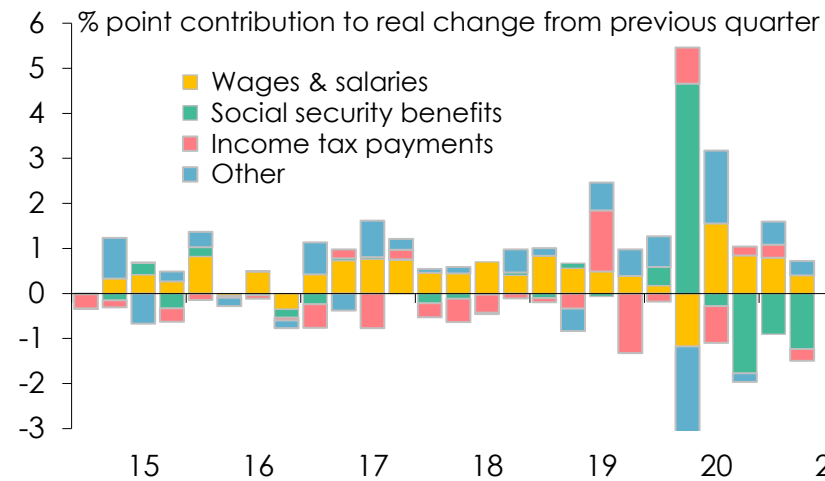
Note: Shaded areas denote recessions. Source: ABS, [Australian National Accounts: National Income, Expenditure and Product](#), March quarter 2021. September quarter GDP will be released on 1<sup>st</sup> December; and December quarter GDP on 2<sup>nd</sup> March 2022. [Return to "What's New"](#).

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

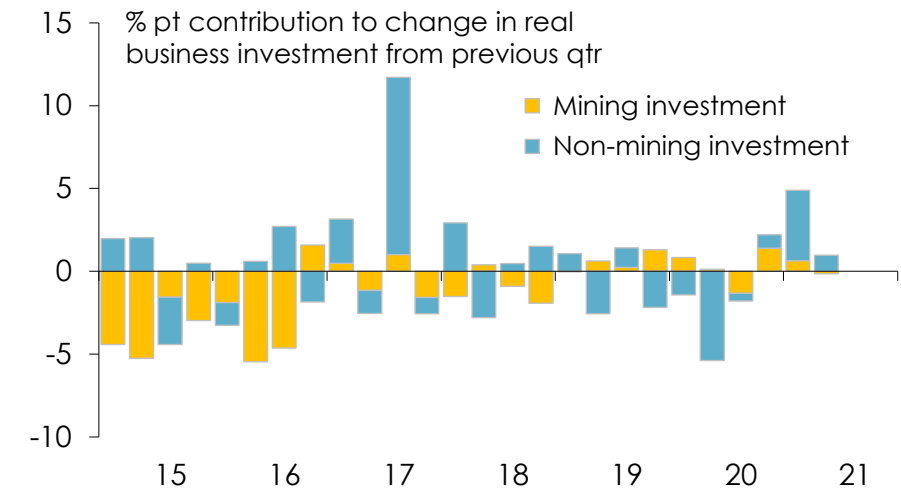
## Quarterly change in real GDP



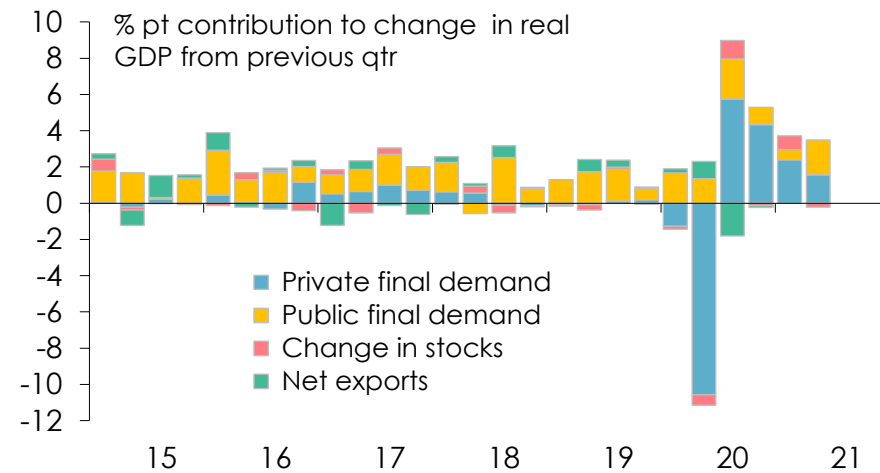
## Household disposable income



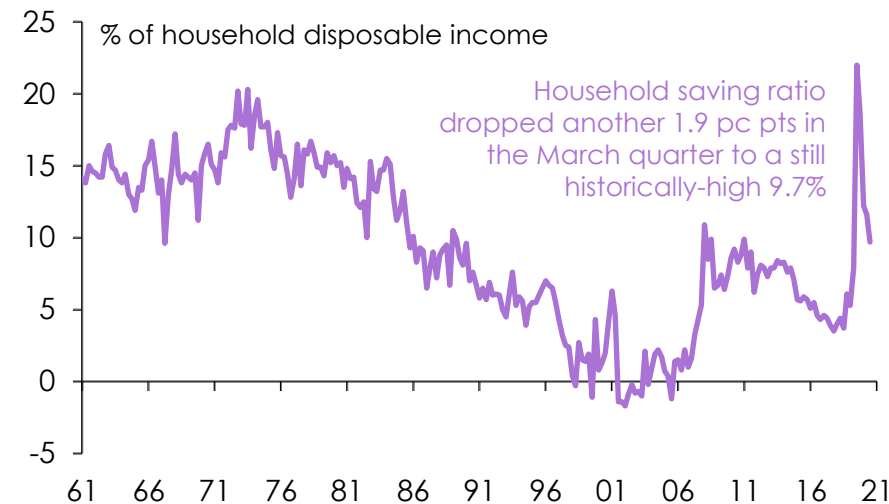
## Business investment expenditure



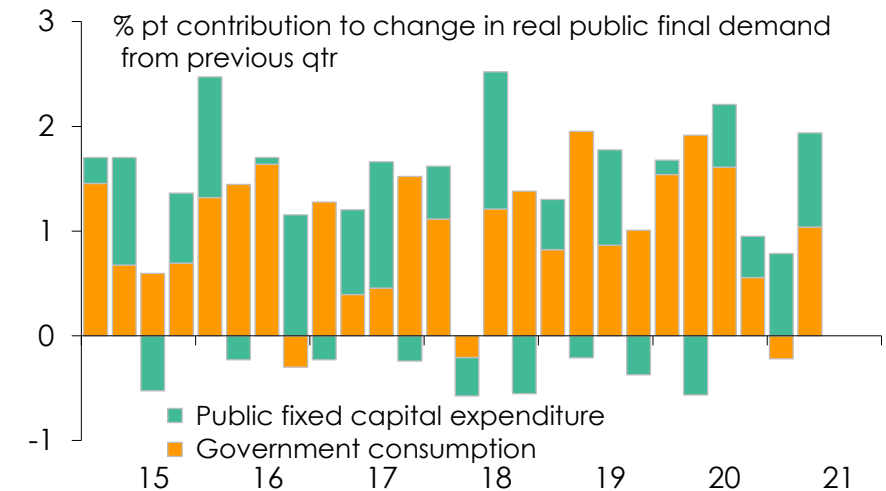
## Contributions to quarterly GDP growth



## Household saving rate



## Public expenditure



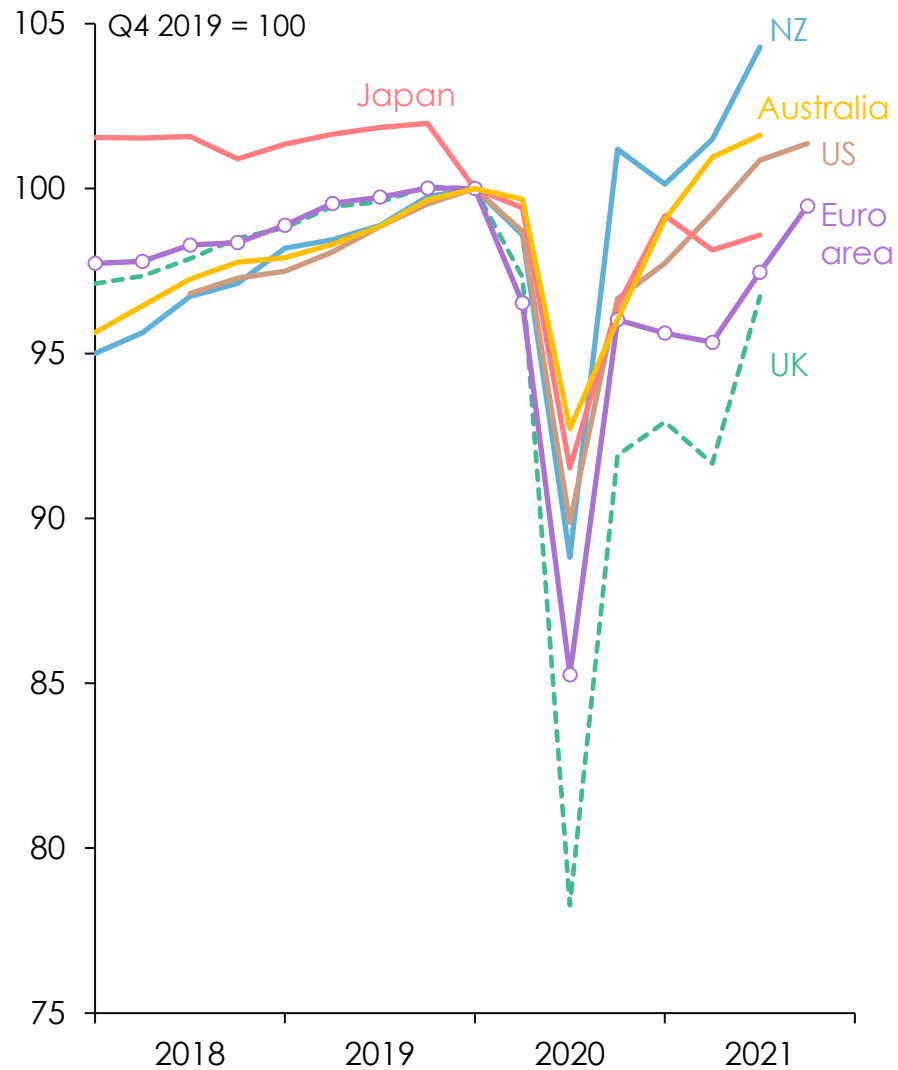
Note: Components of household disposable income are deflated by the implicit price deflator of household final consumption expenditure.

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

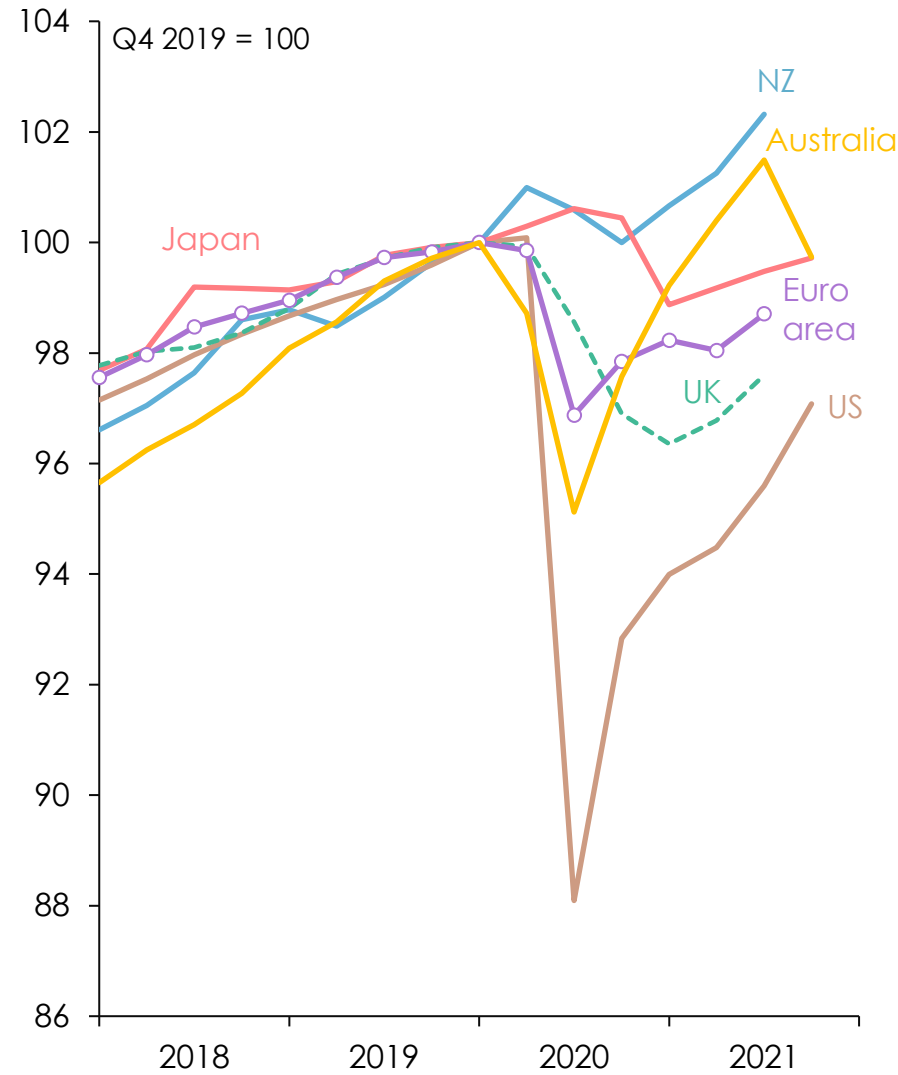
December. [Return to "What's New"](#).

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

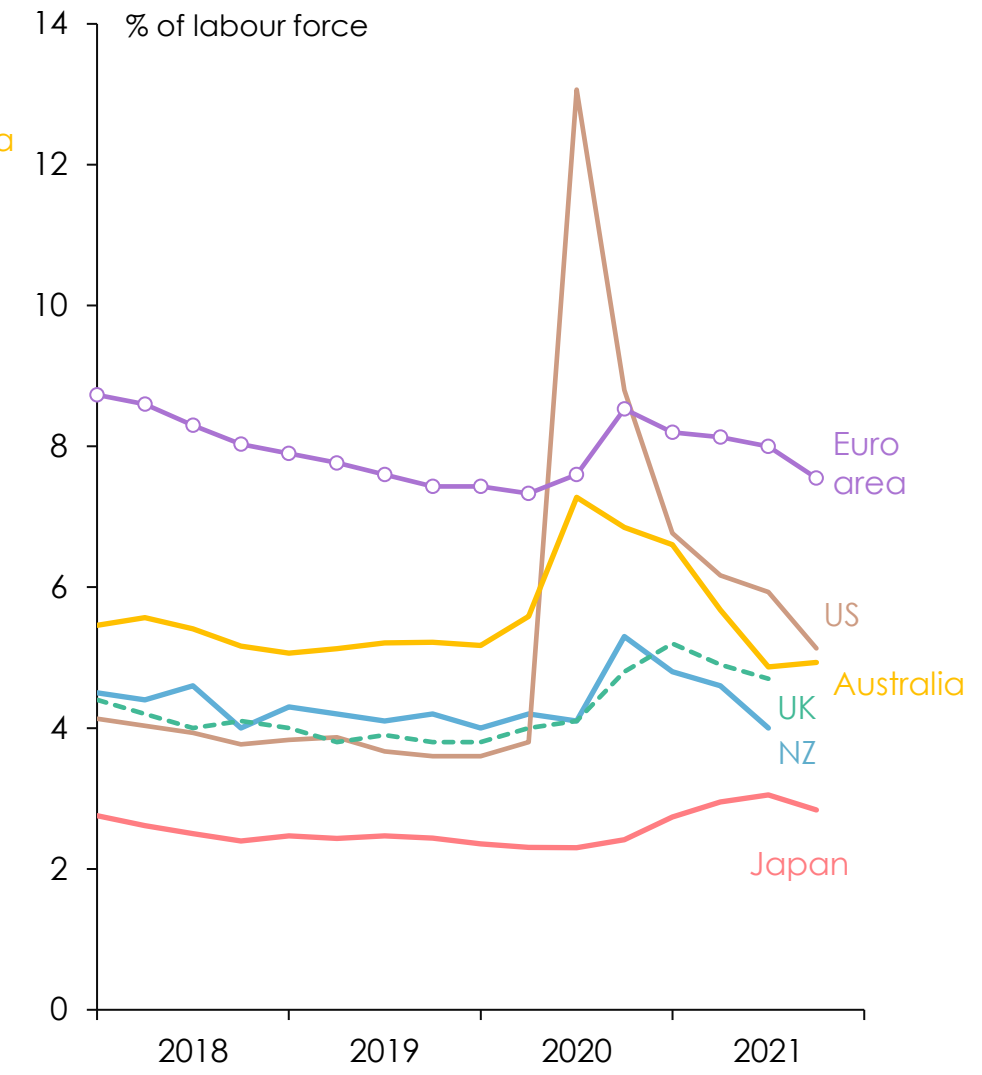
## Level of real GDP



## Employment



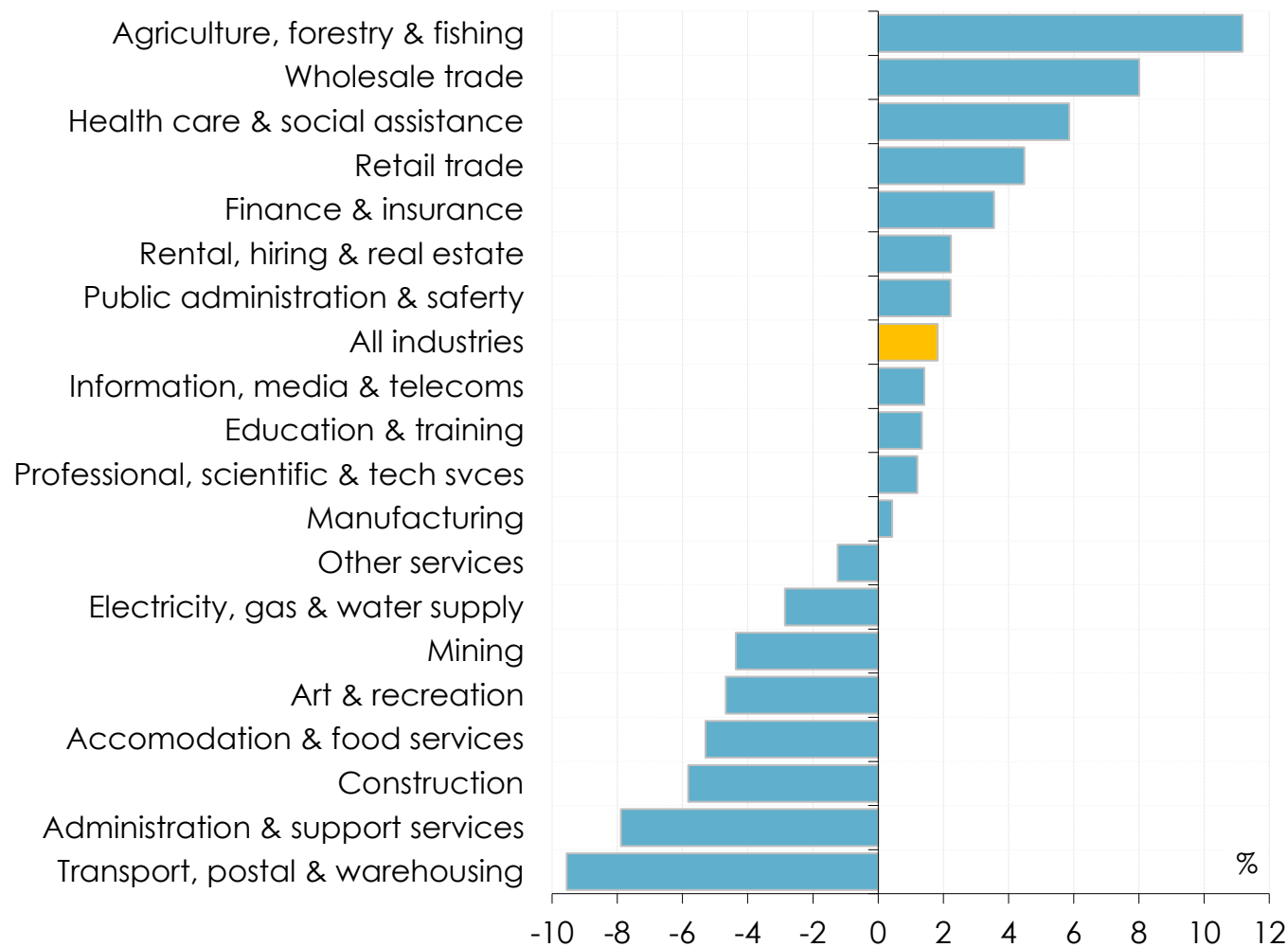
## Unemployment



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

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

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



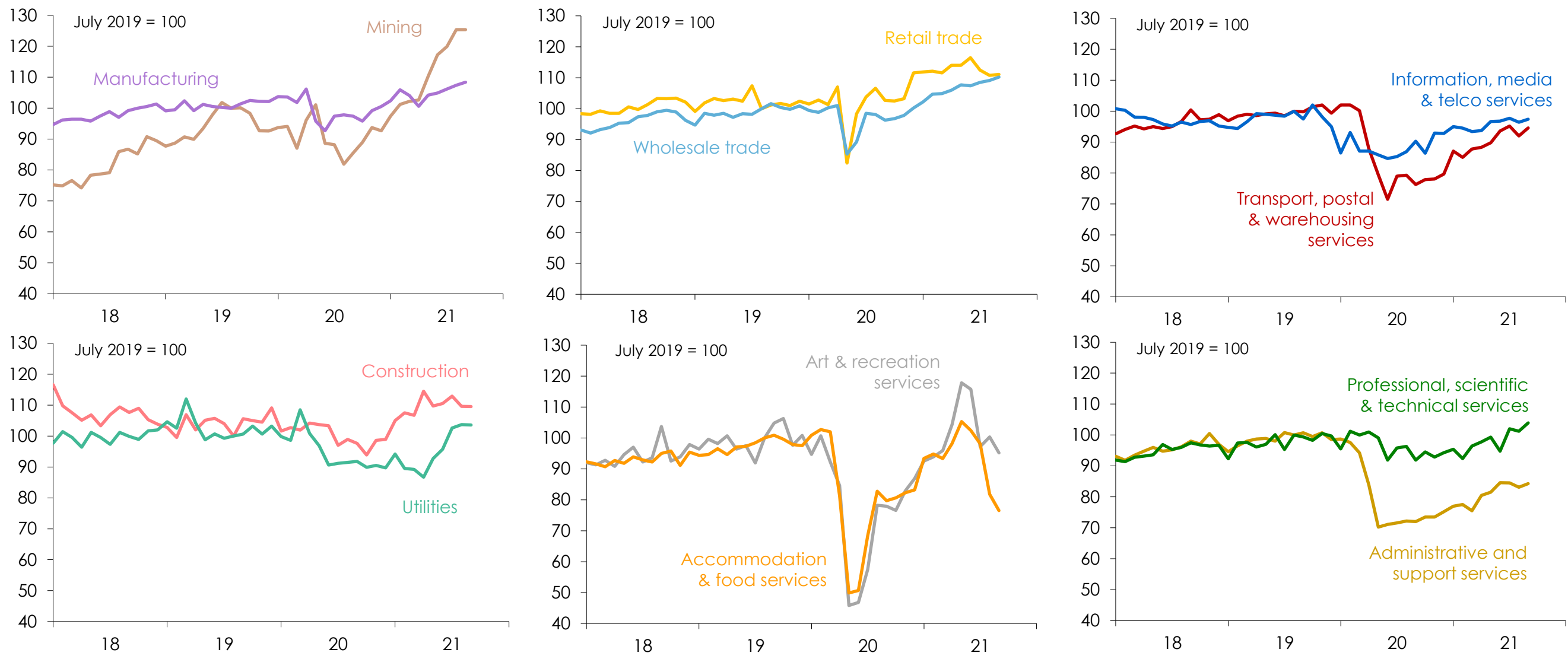
Q3 2021 employment by industry – change from pre-pandemic peak



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

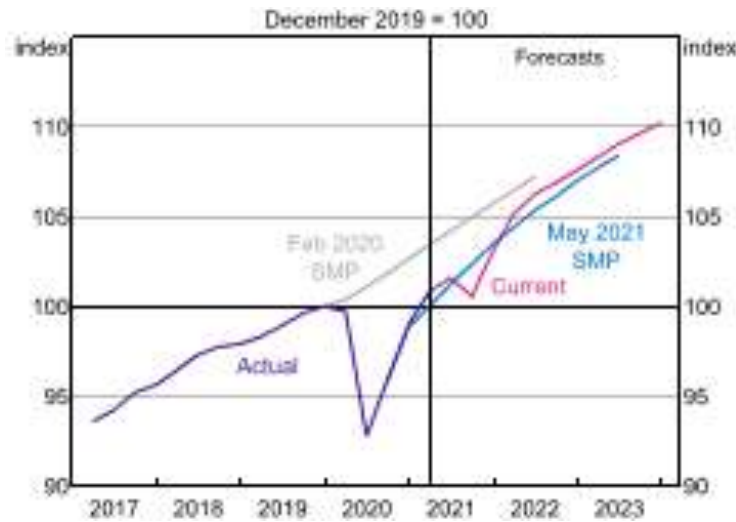


Note: The turnover indicators are derived from the Business Activity Statements submitted to the Australian Taxation Office by all businesses with an annual GST turnover of \$20mn or more (together with a proportion of smaller businesses which voluntarily report monthly). Source: ABS, [Monthly Business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

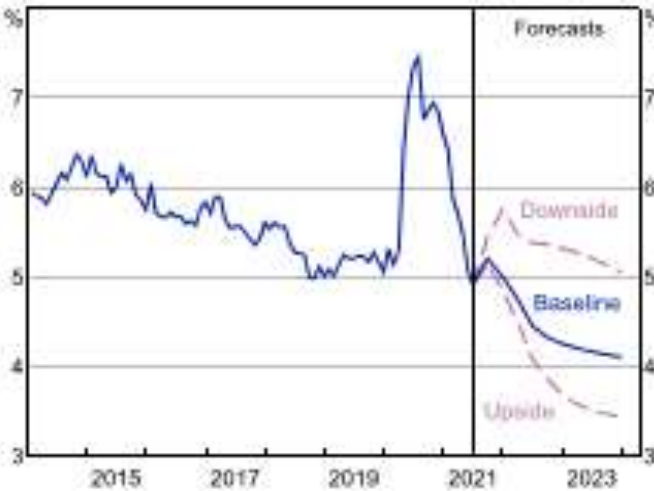


# The RBA will likely raise its inflation forecasts in its next *Statement on Monetary Policy*, to be released on Friday, after this week's CPI numbers

## GDP



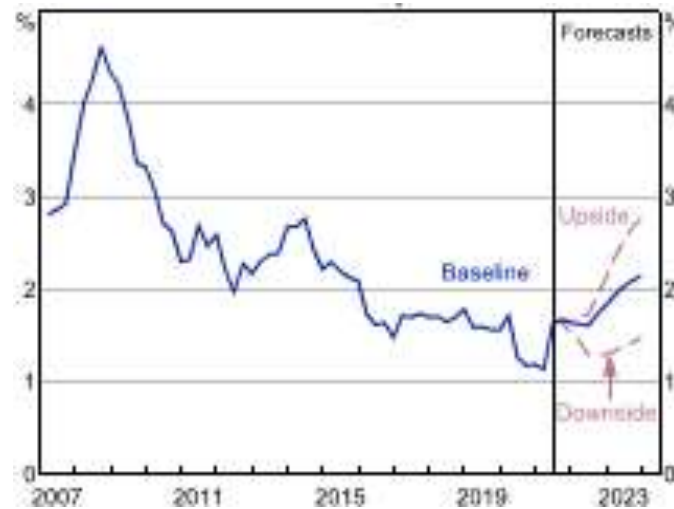
## Unemployment



## Wages



## 'Underlying' inflation

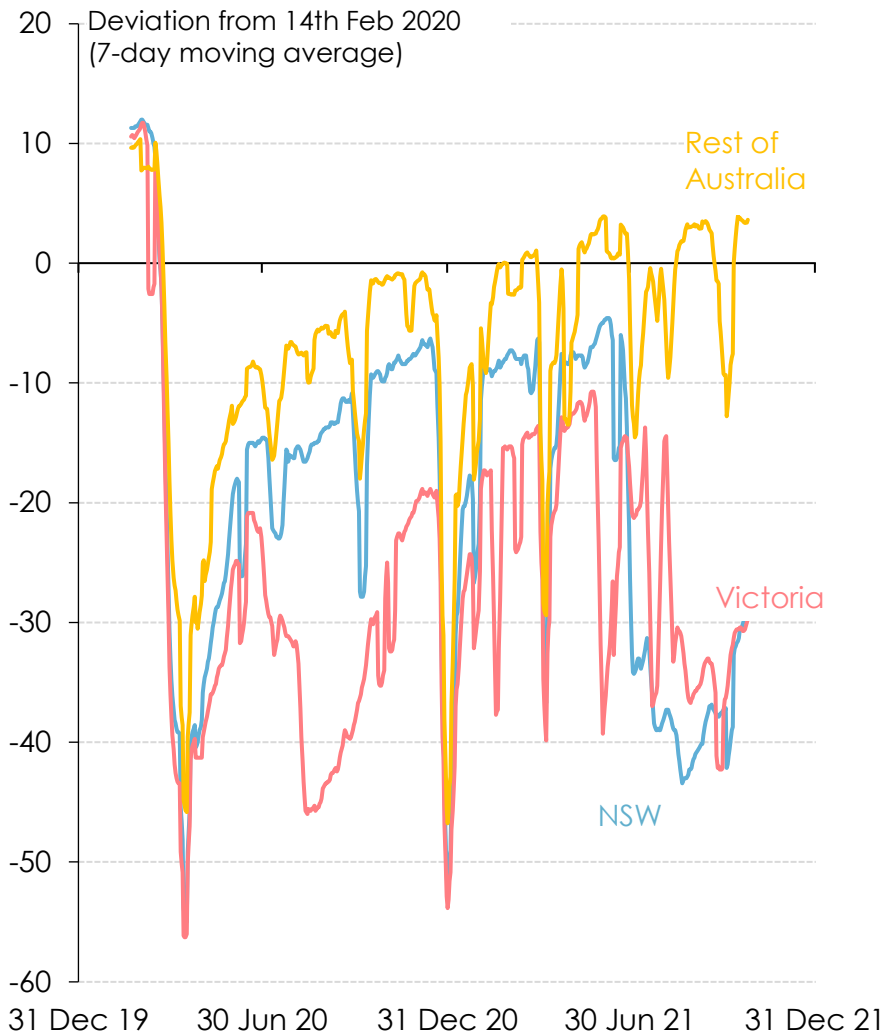


- ❑ Economic growth and in particular employment growth have continued to outpace the RBA's forecasts – but wage and price inflation haven't (at least not until this week)
- ❑ In its most recent [Statement on Monetary Policy](#) published in early August, the RBA acknowledged that the lockdowns in NSW and Victoria 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 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 revised its forecast for wages (WPI) growth marginally higher to 2¾% by end-2023
- ❑ Its forecasts for 'underlying' inflation were 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
- ❑ This forecast, in particular, is likely to be revised in the wake of the larger-than-expected increase in 'underlying' inflation in Q3 reported on Wednesday ([slide 138](#))

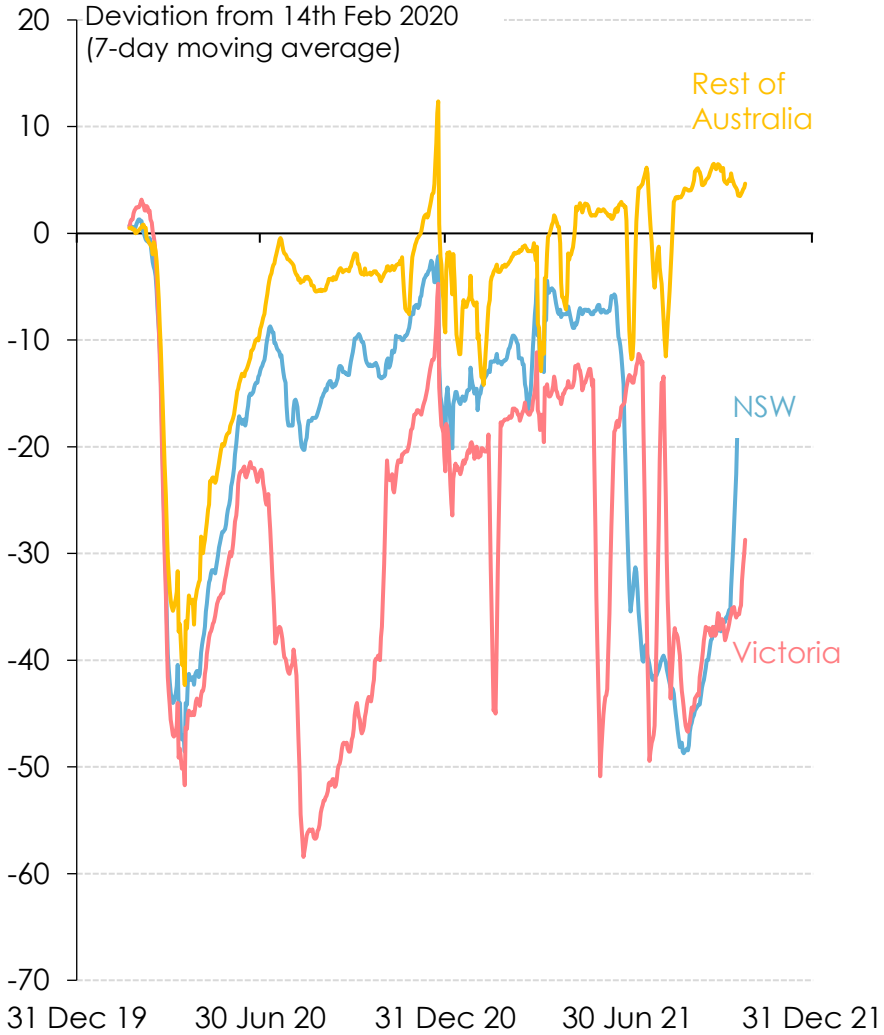
# 'Mobility indicators' illustrate how NSW and Victoria have begun to emerge from their protracted lockdowns

## Google mobility indicators

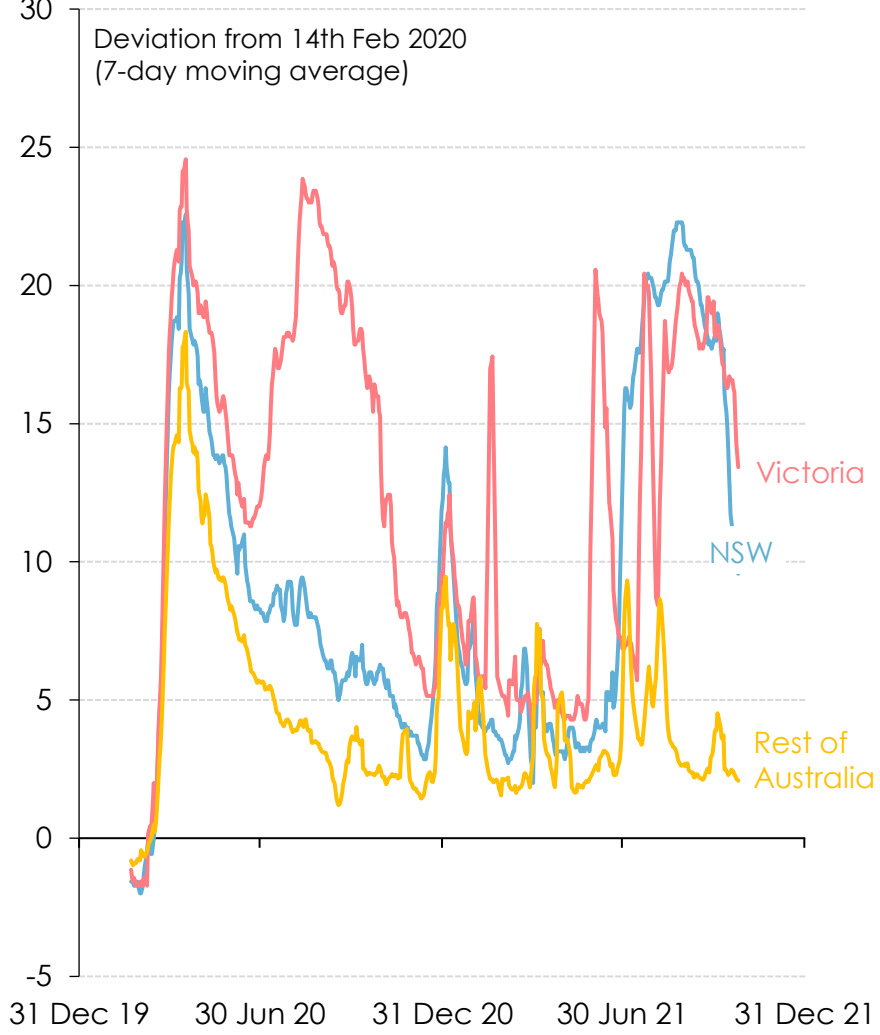
### Workplaces



### Retail and recreation



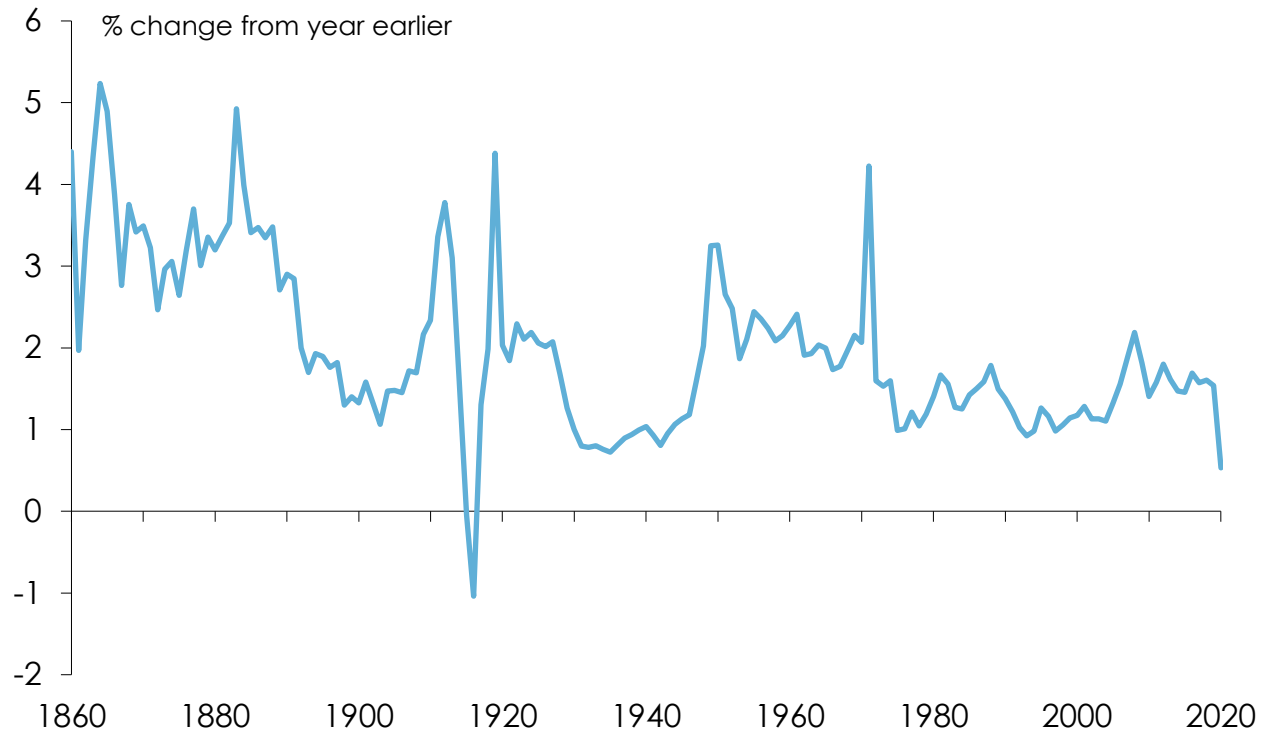
### Residences



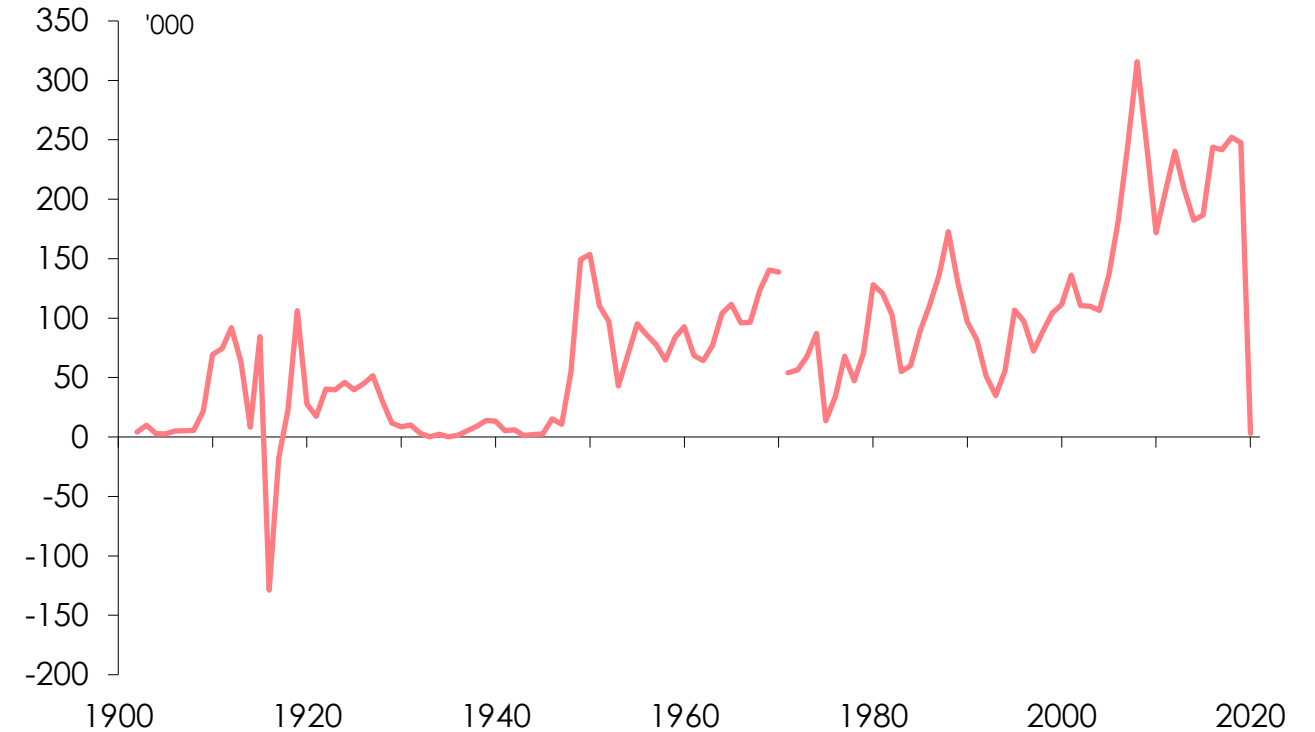
Note: data up to 25<sup>th</sup> October. Sources: [Google Community Mobility Reports](#); Corinna. [Return to "What's New"](#).

# 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

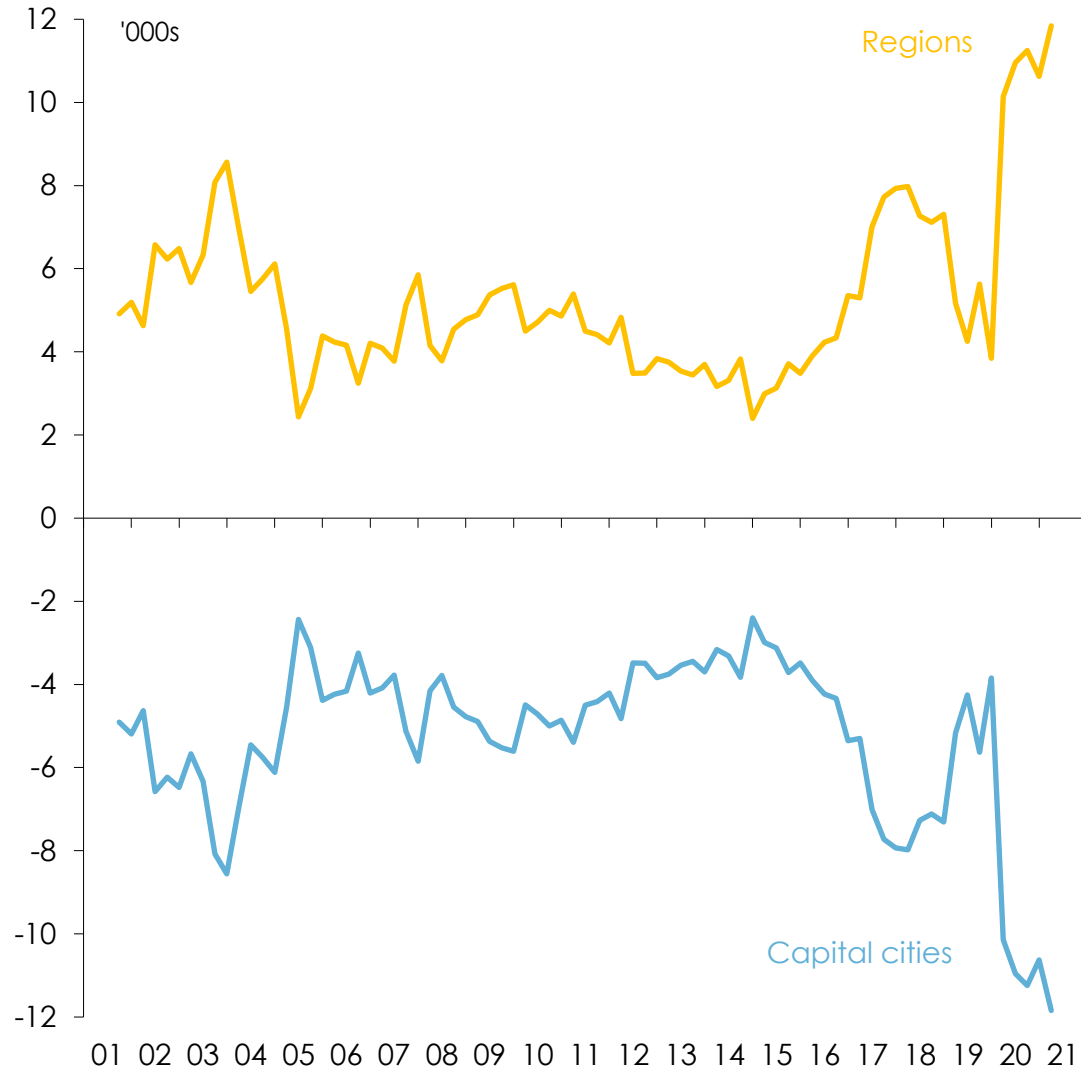


- ❑ Only 76K immigrants came to Australia in the last nine months of 2020, while 151K people departed permanently – implying a net outflow of almost 68,000 people
- ❑ As a result, Australia's population growth rate fell to just 0.5% over the year to Q4 2020, the slowest since 1916
- ❑ Slower growth in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

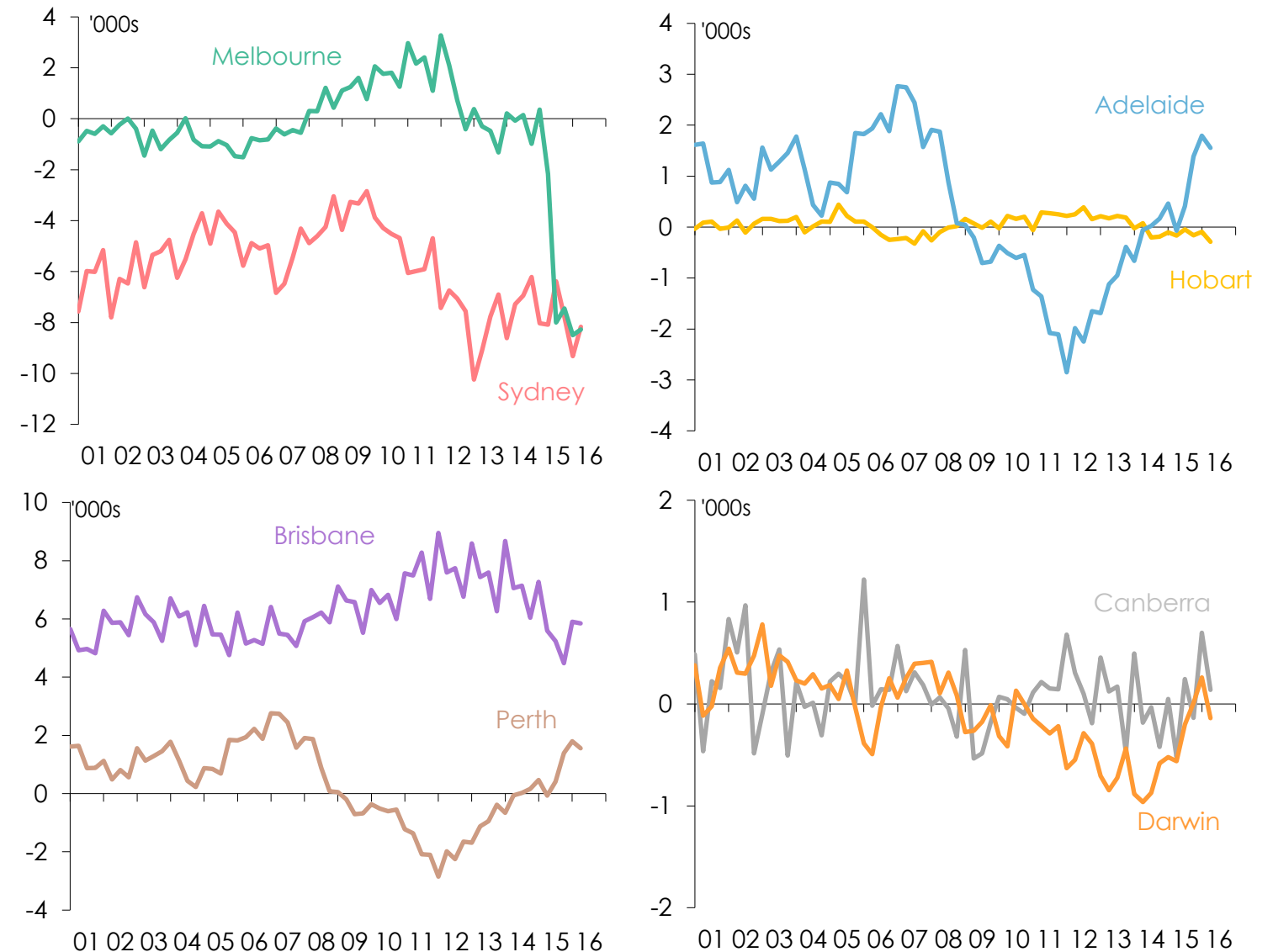
Note: The net migration data has a series break at 1971 due to definitional changes. Sources: ABS, [National, state and territory population](#), December 2020; [Historical Population](#), 2016; [Migration, Australia](#), 2019-20; [Demography Bulletin](#), 1923, 1940, 1950, 1960 and 1971; [Population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



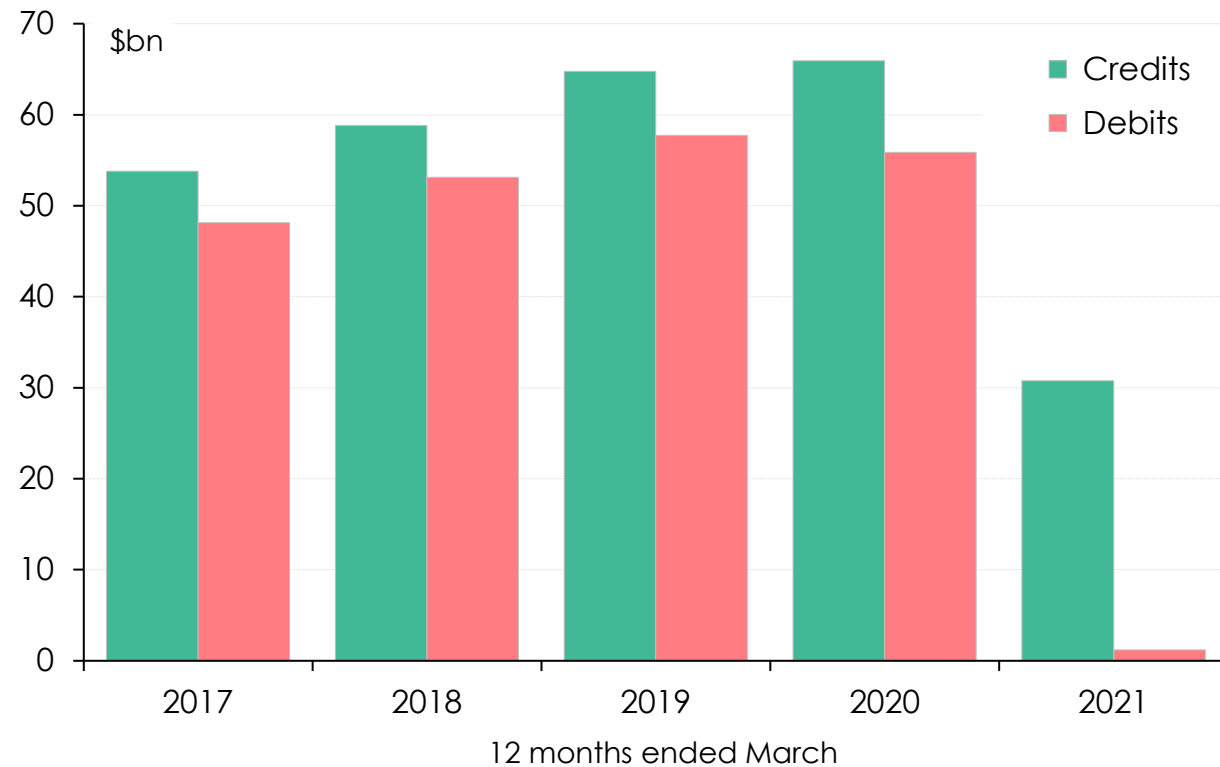
## Net internal migration to or from Australia's capital cities



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"](#).

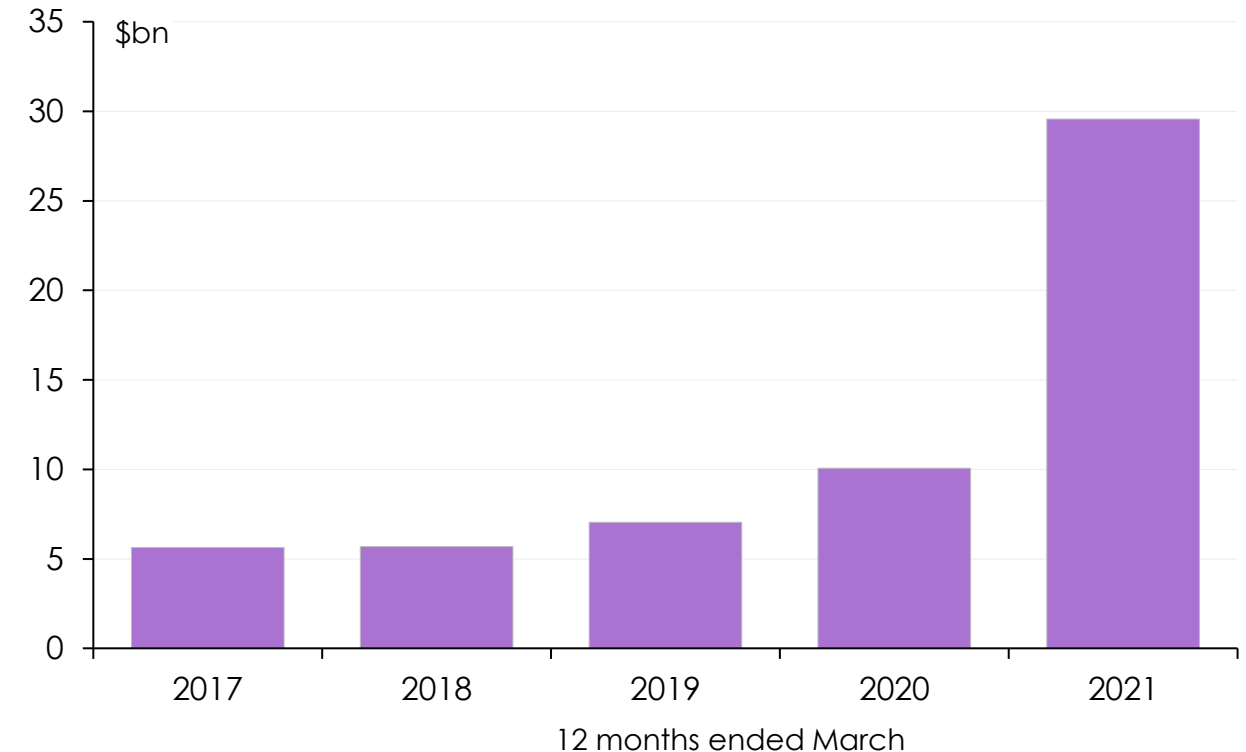
# The *taboo* on Australians leaving the country has more than offset the loss of spending by foreign tourists and students

## 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

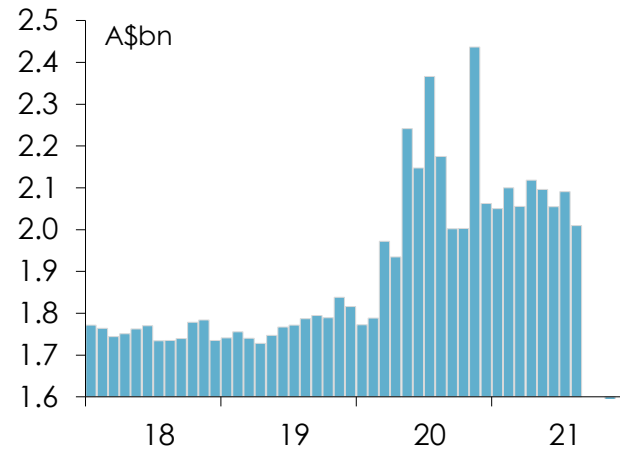


- Despite restrictions, foreigners still spent \$31bn in Australia in the 12 months to March 2021 (cf. an average of \$61bn per annum over the previous four years) implying a *net gain* to Australia during 12 months to March this year of almost \$22½bn by comparison with the 2016-19 average – equivalent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

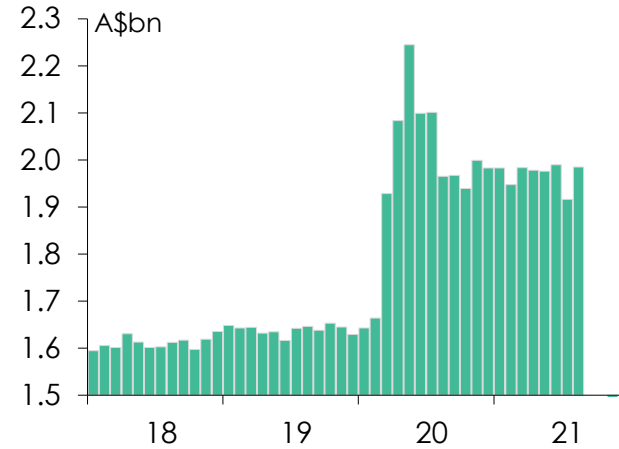


# The >\$50bn per annum that Australians would have spent overseas if they'd been allowed to

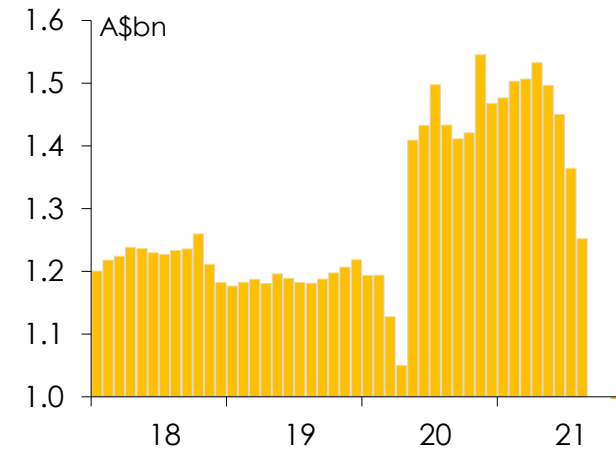
Electronic & electrical goods



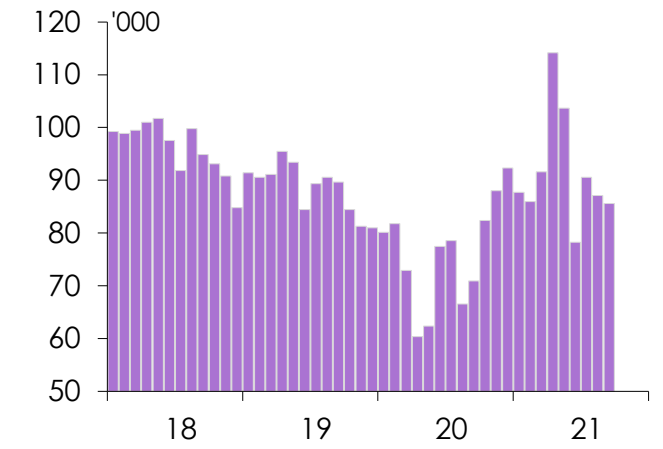
Hardware, building & garden supplies



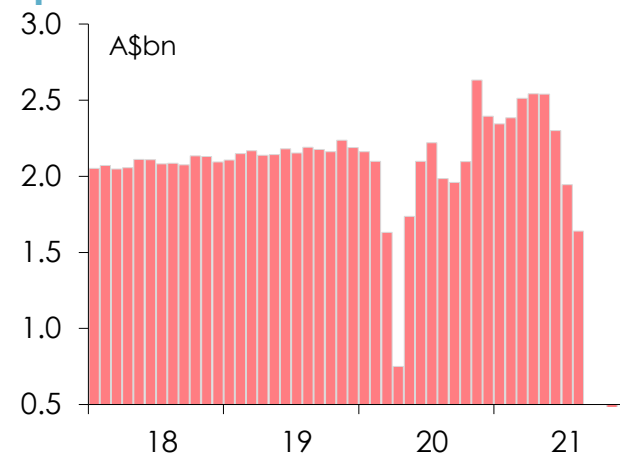
Floor coverings, furniture, housewares etc



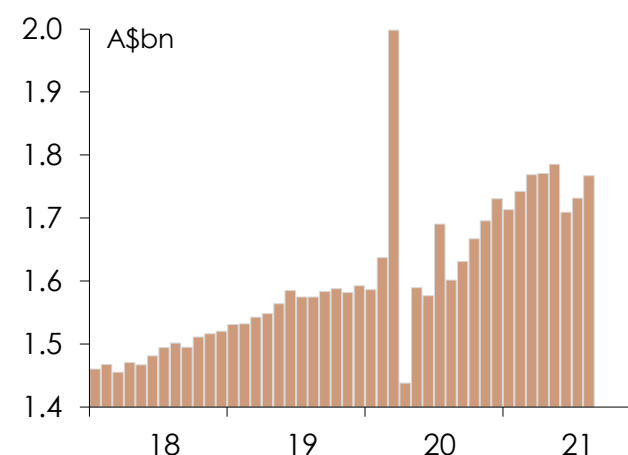
New motor vehicles



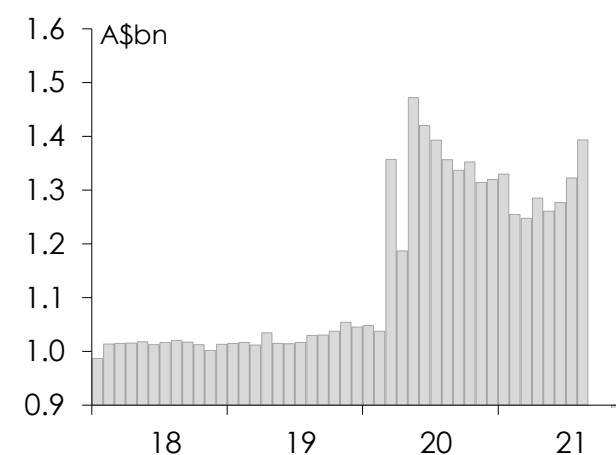
Clothing, footwear & personal accessories



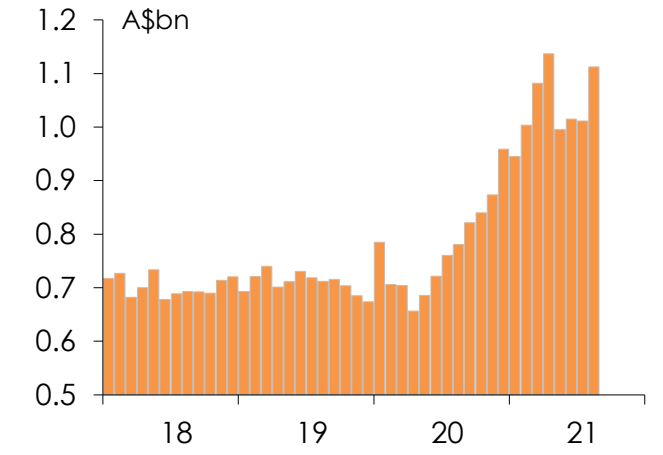
Pharmaceuticals, cosmetics & toiletries



Alcoholic beverages



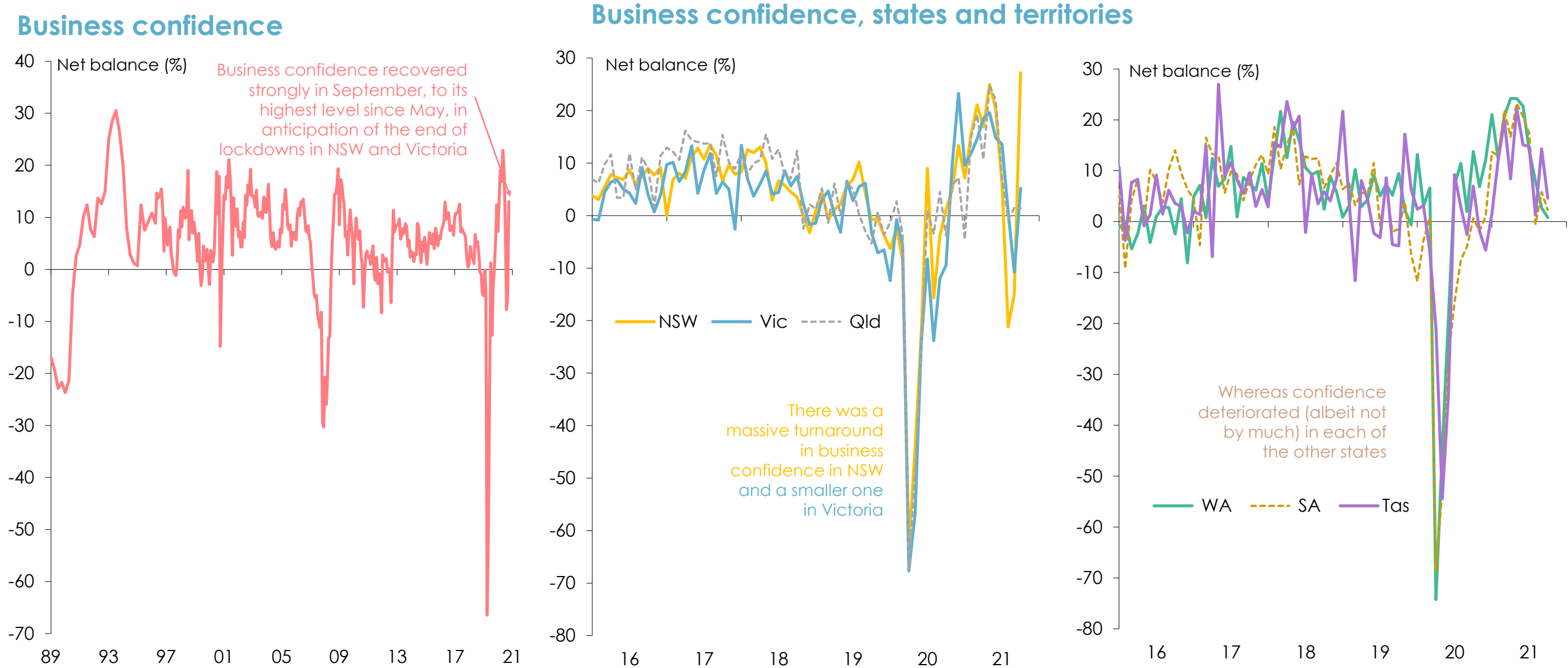
Renovations



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 4<sup>th</sup> November); [Building Approvals, Australia](#), August 2021; Federal Chamber of Automotive Industries [VFACTS](#) (seasonal adjustment of Vfacts data by Corinna). [Return to "What's New"](#).



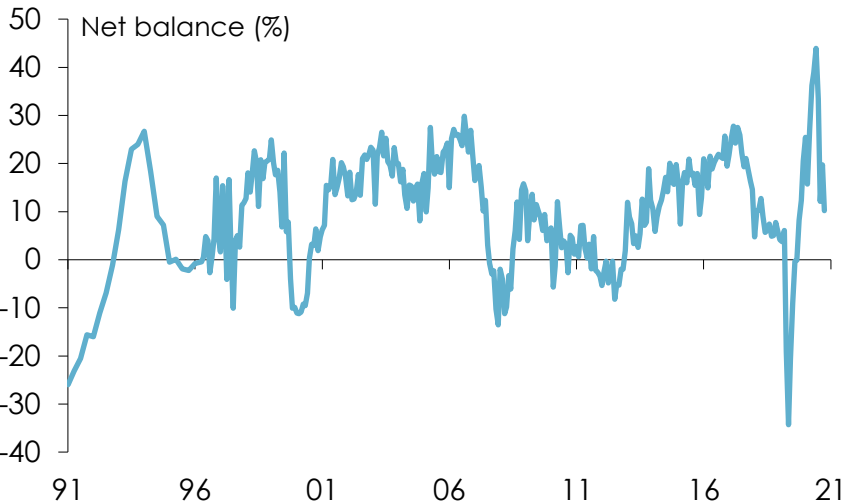
# Business confidence recovered strongly in August in anticipation of an end to the lockdowns in NSW and Victoria



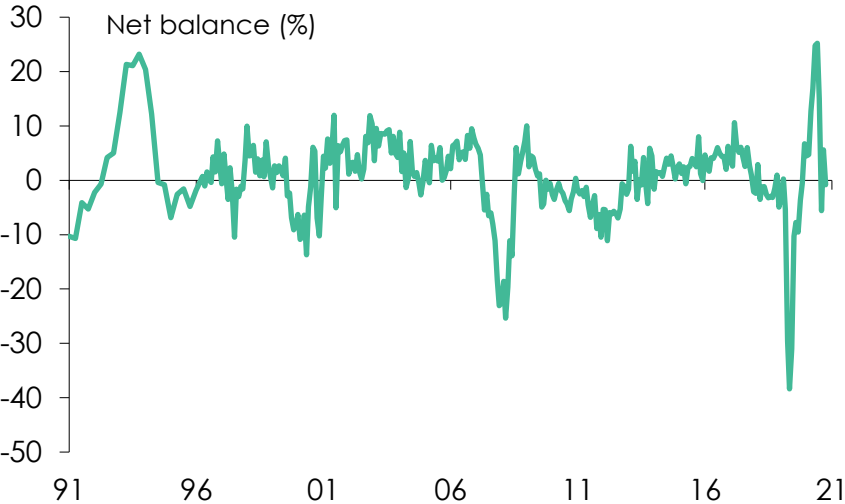
Sources: National Australia Bank [Monthly Business Survey](#), September 2021; October survey results will be released on 9<sup>th</sup> November. [Return to "What's New"](#).

# The improvement in business confidence in September occurred despite a deterioration in all of the components of ‘business conditions’

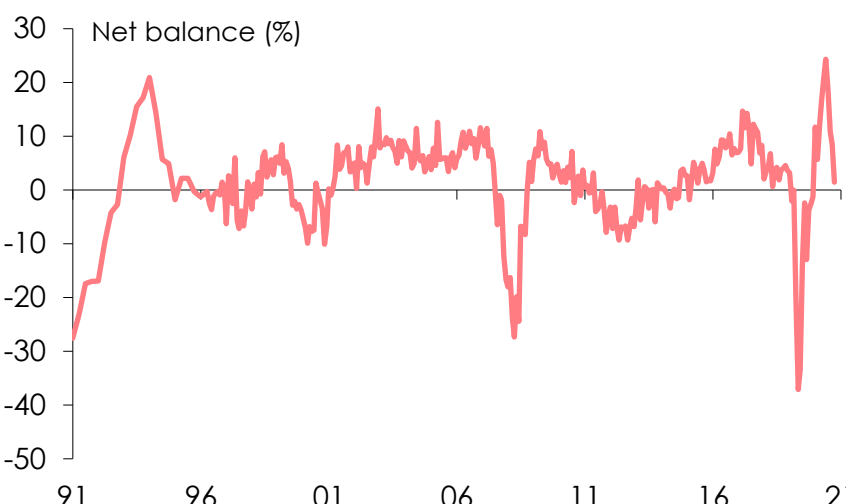
Trading conditions



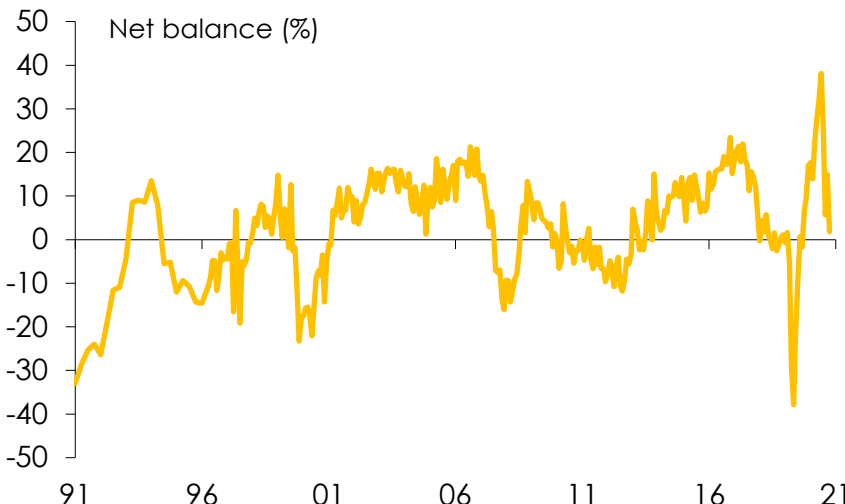
Forward orders



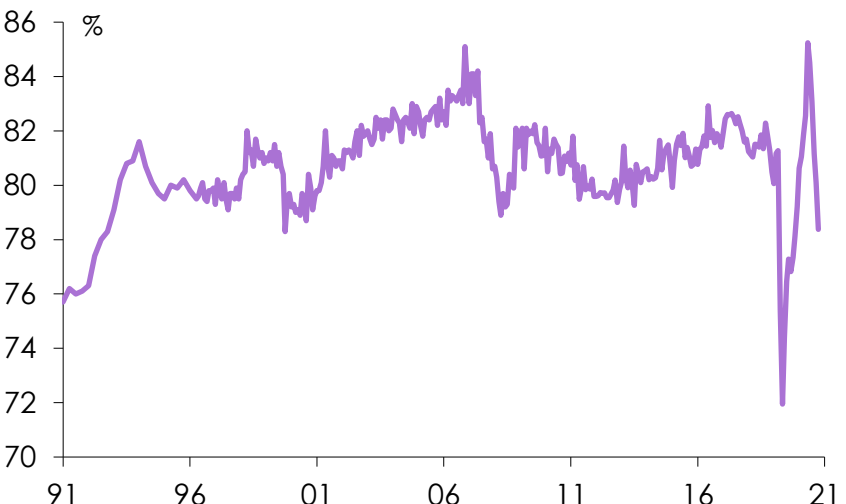
Employee hiring intentions



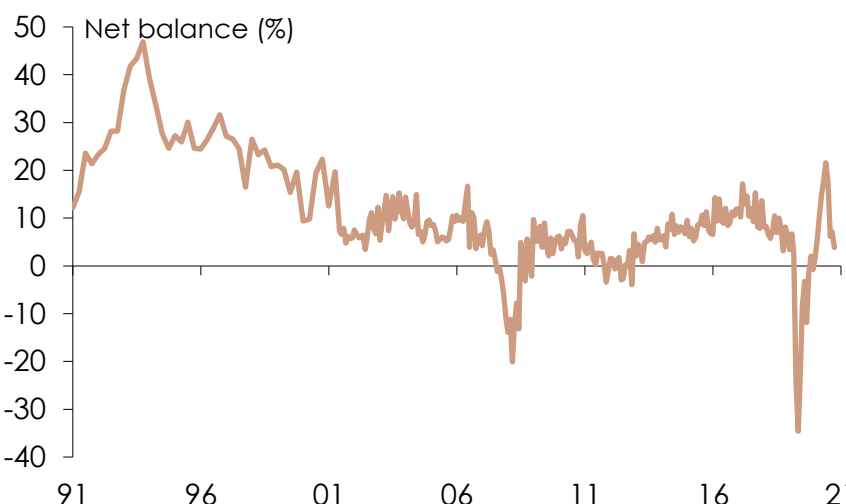
Profitability



Capacity utilization



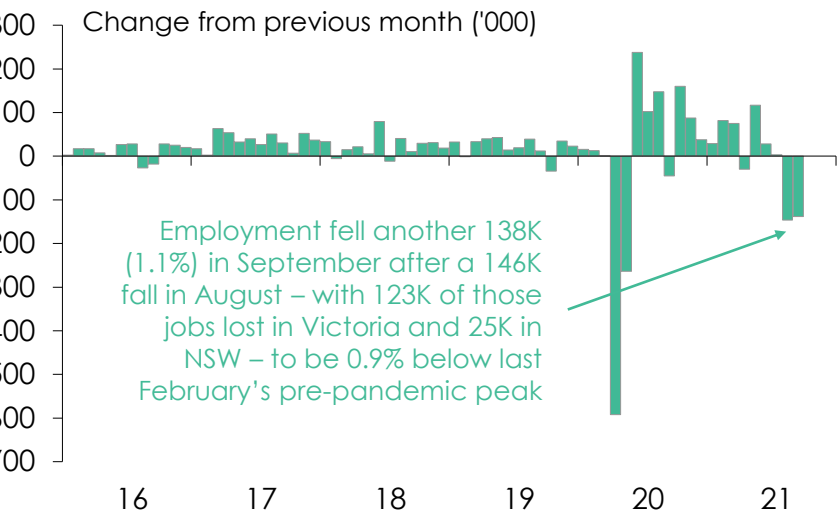
Capital expenditure intentions



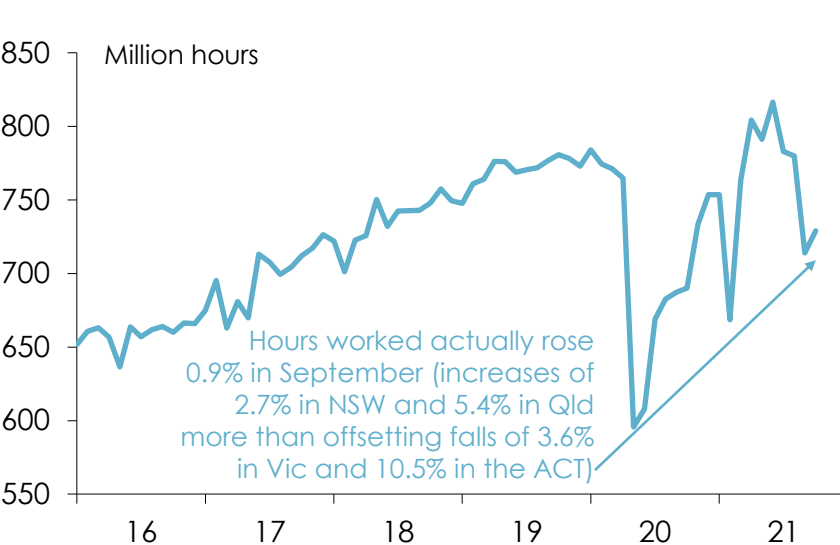
Note: Quarterly data up to March 1997 (May 2002 for capex intentions), monthly thereafter.  
Source: National Australia Bank [Monthly Business Survey](#), September 2021; October survey results will be released on 9<sup>th</sup> November. [Return to "What's New"](#).

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

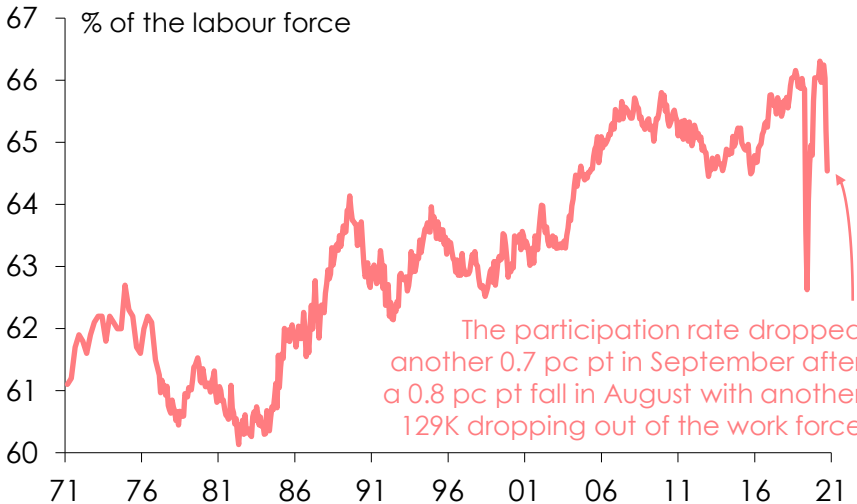
## Employment



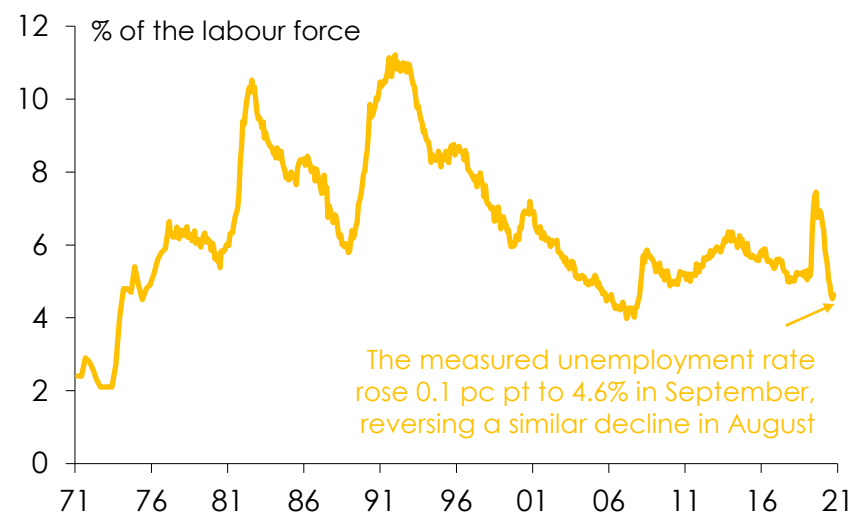
## Total hours worked



## Labour force participation rate



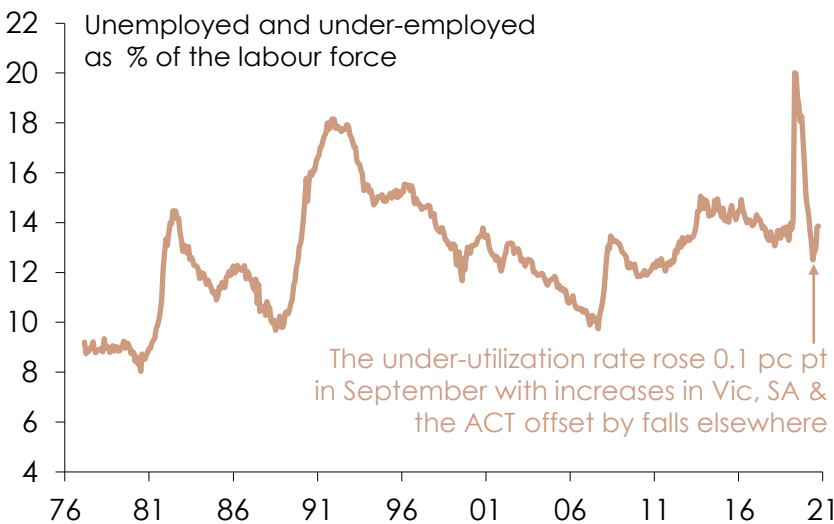
## Unemployment rate



## Under-employment ratio

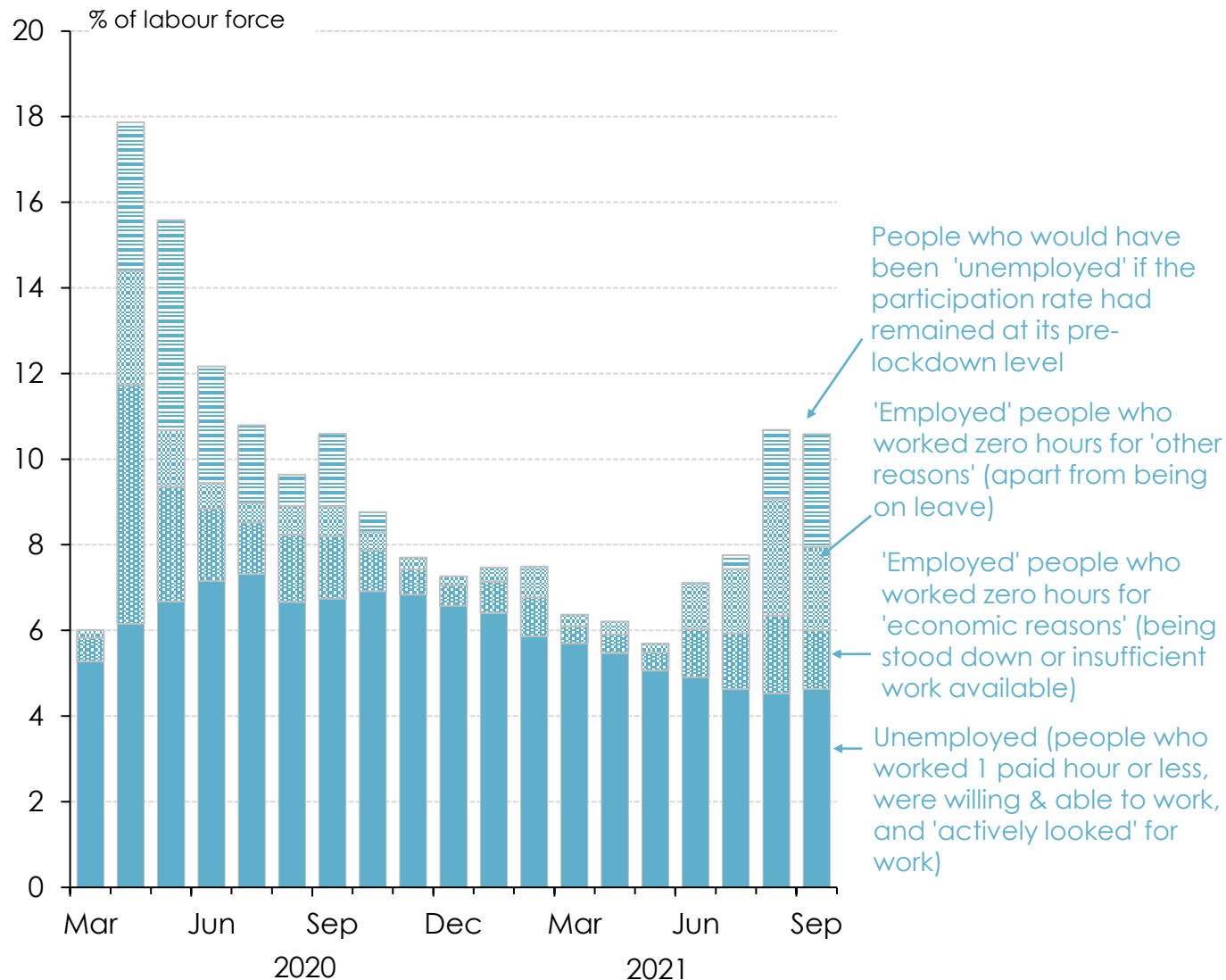


## 'Under-utilization' rate



# 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

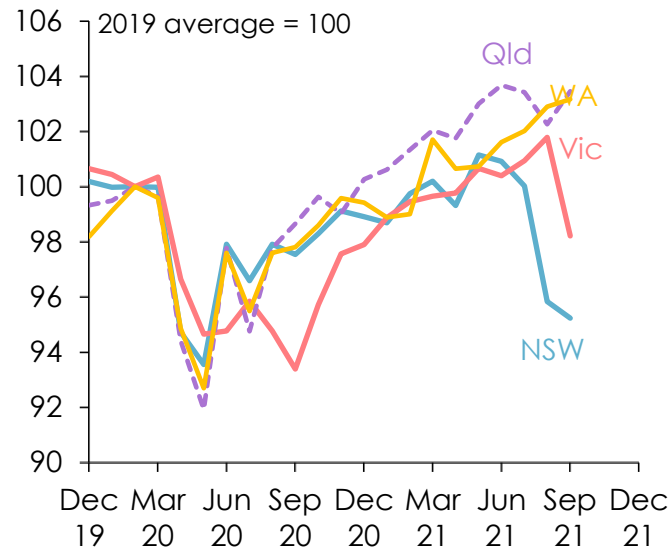


- ❑ The number of people counted as 'employed' but who worked zero hours for 'economic reasons' (no or insufficient work, or 'stood down') fell by 64K in September (having risen 191K between June and August) – entirely due to falls in NSW and Qld
- ❑ ... while the number of people counted as 'employed' 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

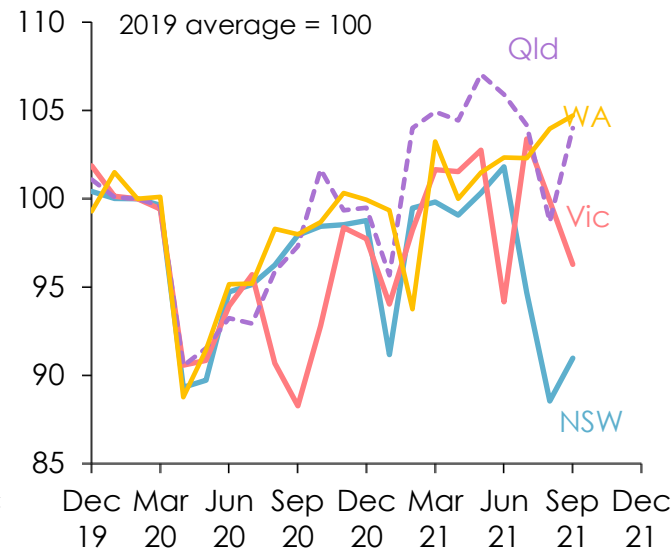
Source: ABS, [Labour Force, Australia](#), September 2021. October data will be released on 11<sup>th</sup> November. [Return to "What's New"](#).

# 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

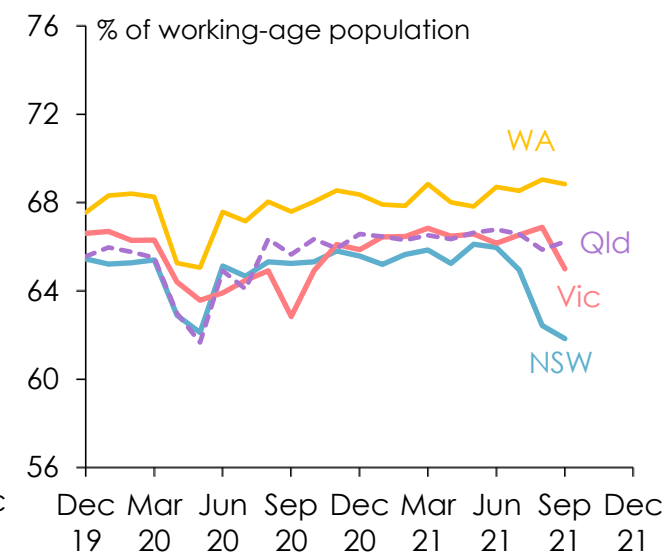
## Employment



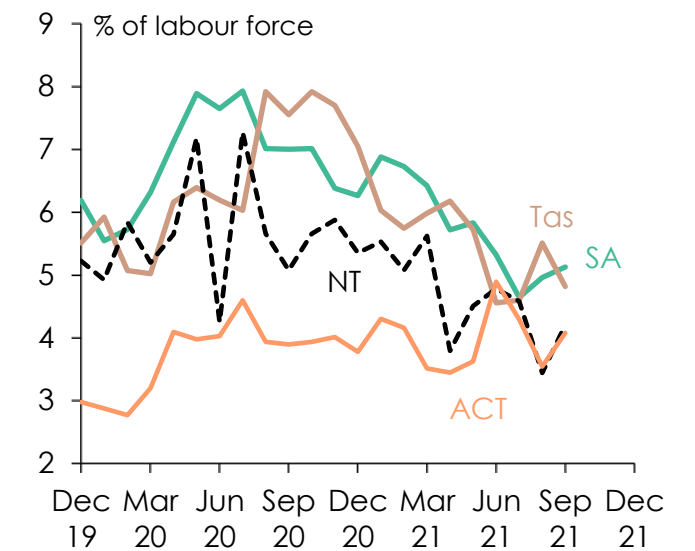
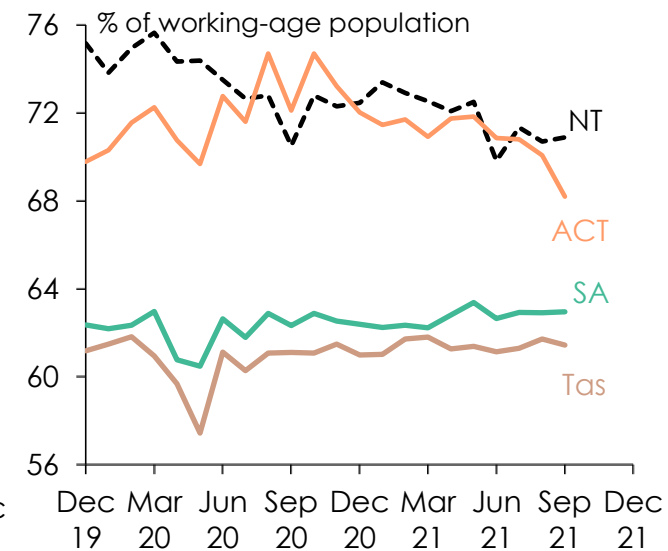
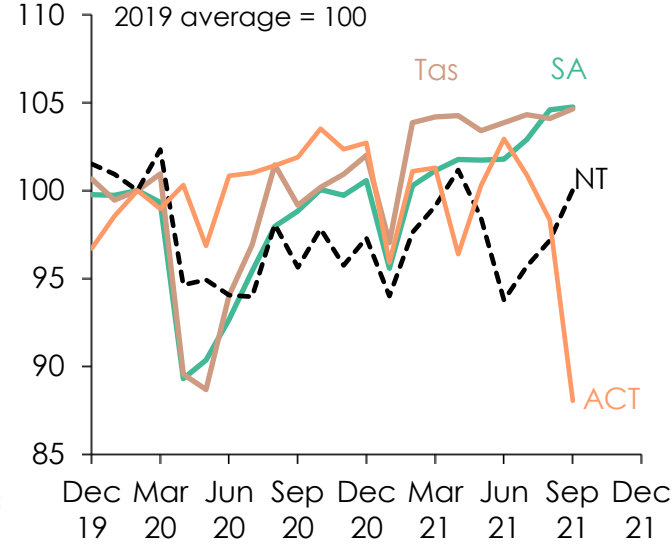
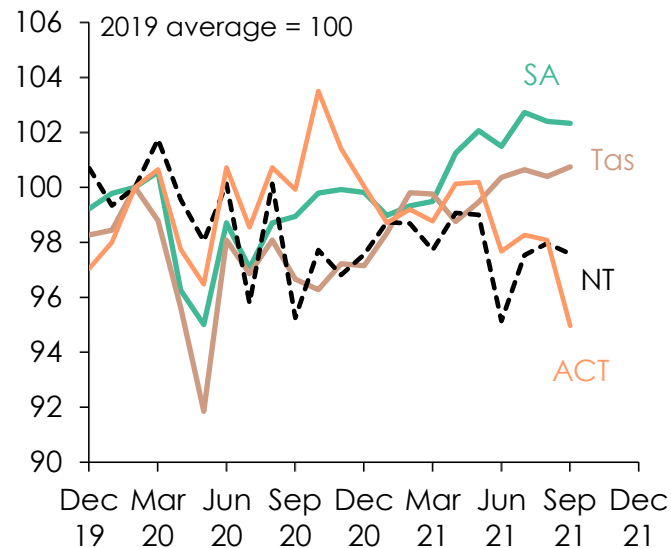
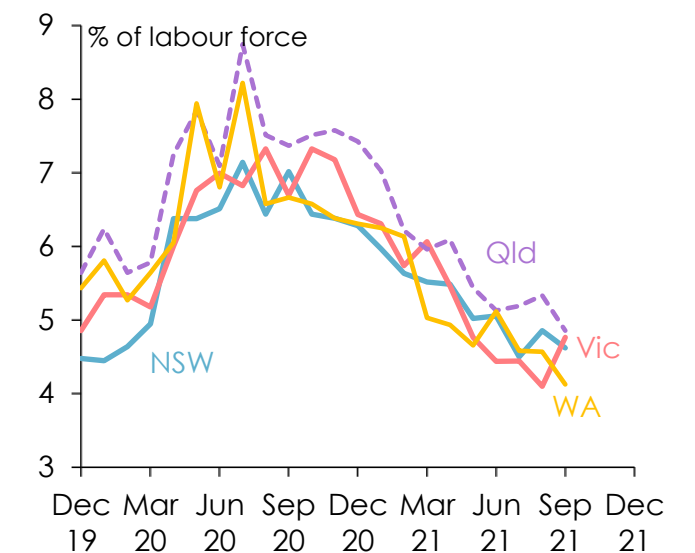
## Hours worked



## Participation rates



## Unemployment rates

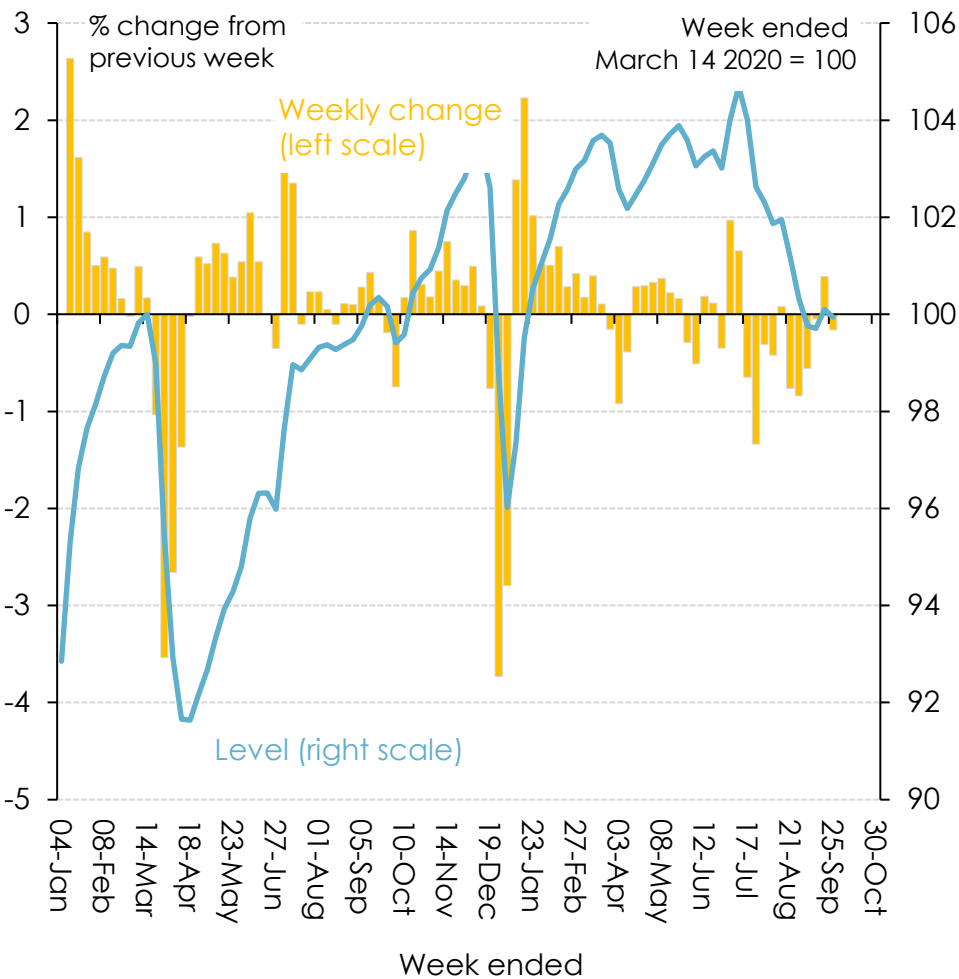


Source: ABS, [Labour Force, Australia](#), September 2021. October data will be released on 11<sup>th</sup> November. [Return to "What's New"](#).

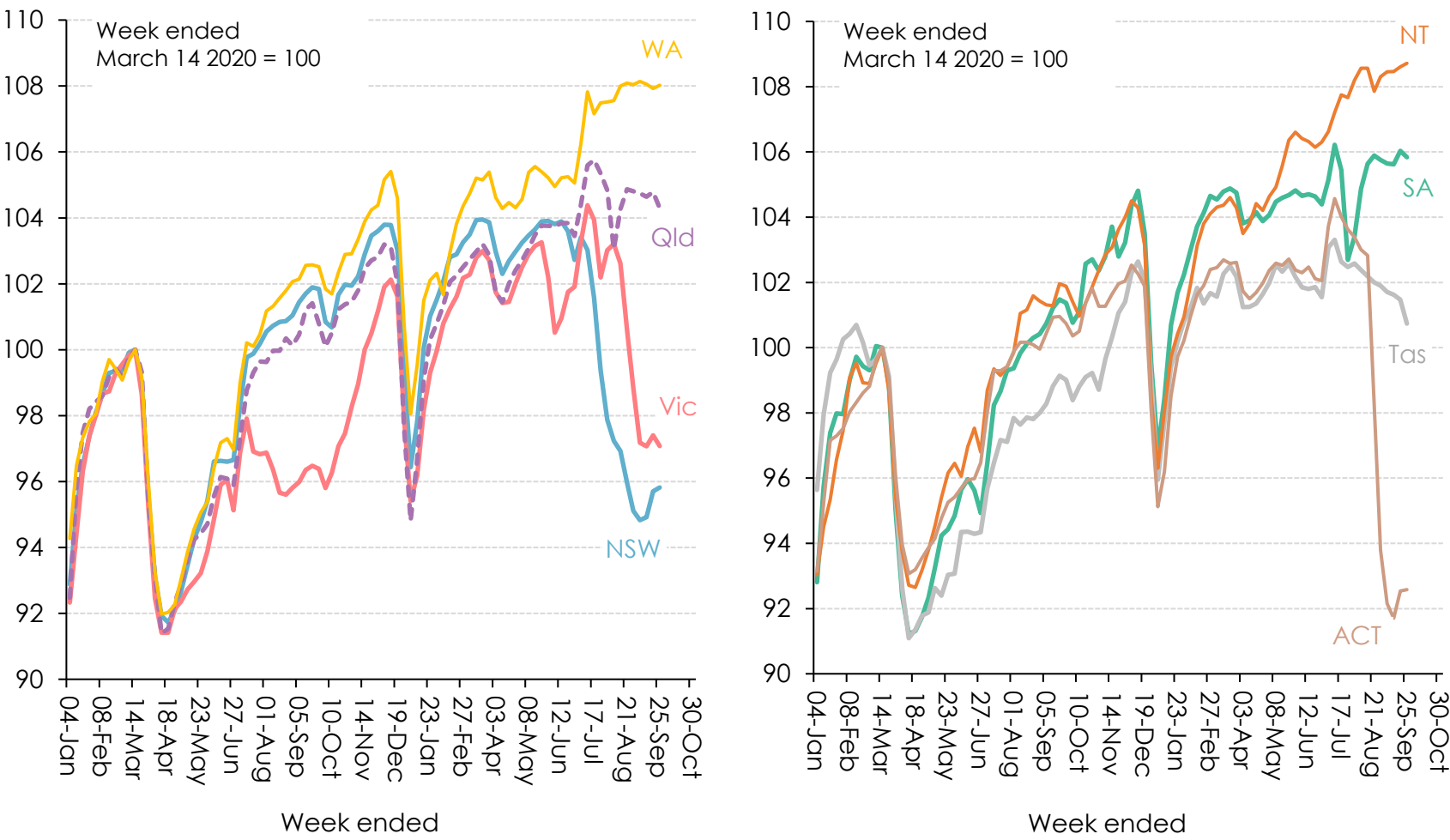


# Payroll jobs recovered 0.2% over the last two weeks of September but were still 4.5% below their pre-lockdown peak (ACT 11.5%, NSW 7.8%, Vic 7.0%)

Level and weekly change in the number of payroll jobs



Payroll jobs by State & Territory



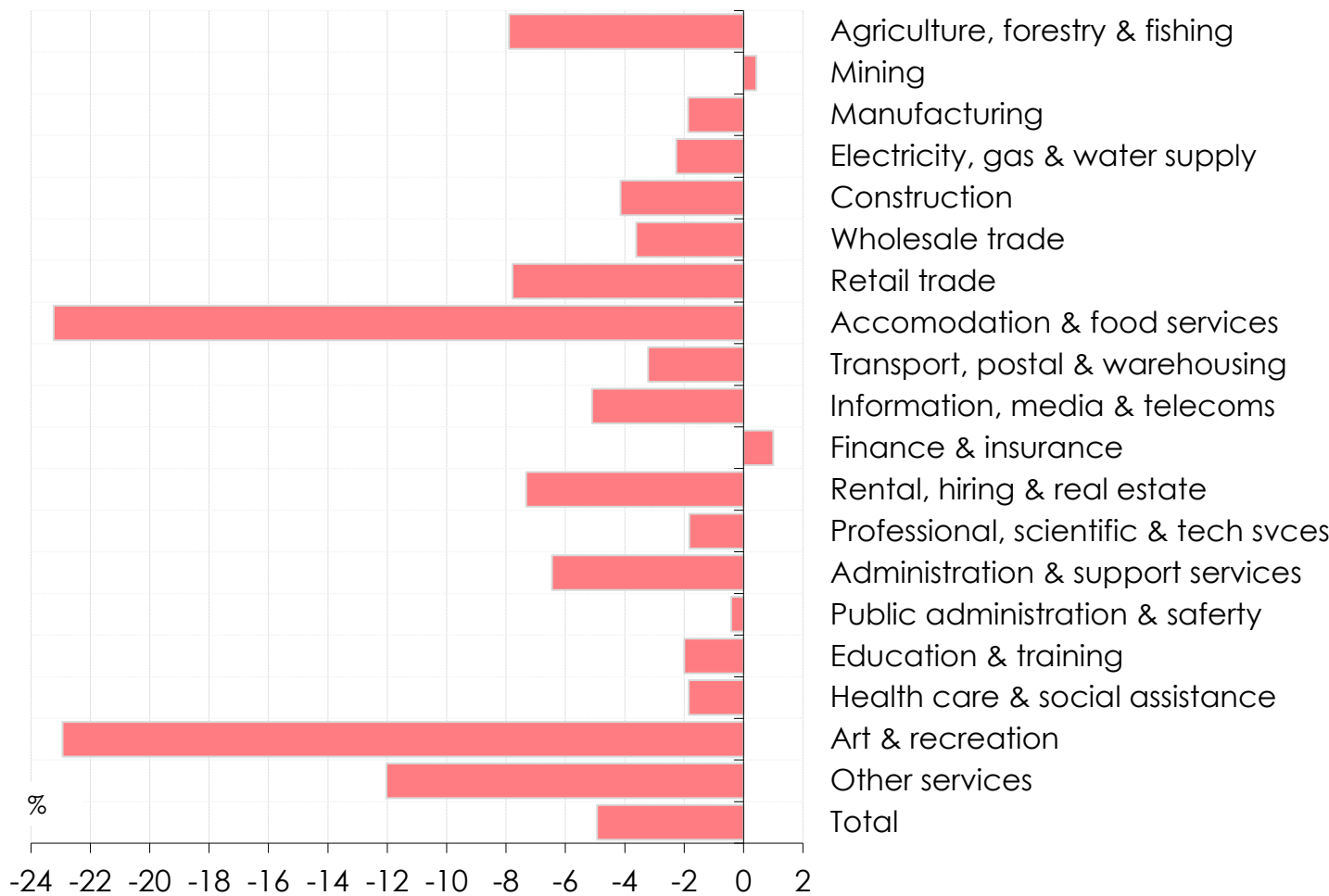
Source: ABS, [Weekly Payroll Jobs and Wages in Australia, Interim](#). Data refers to the number of payroll jobs at businesses participating in the Australian Taxation Office's Single Touch Payroll system, which covers 99% of employers with 20 or more employees and about 71% of smaller employees. People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



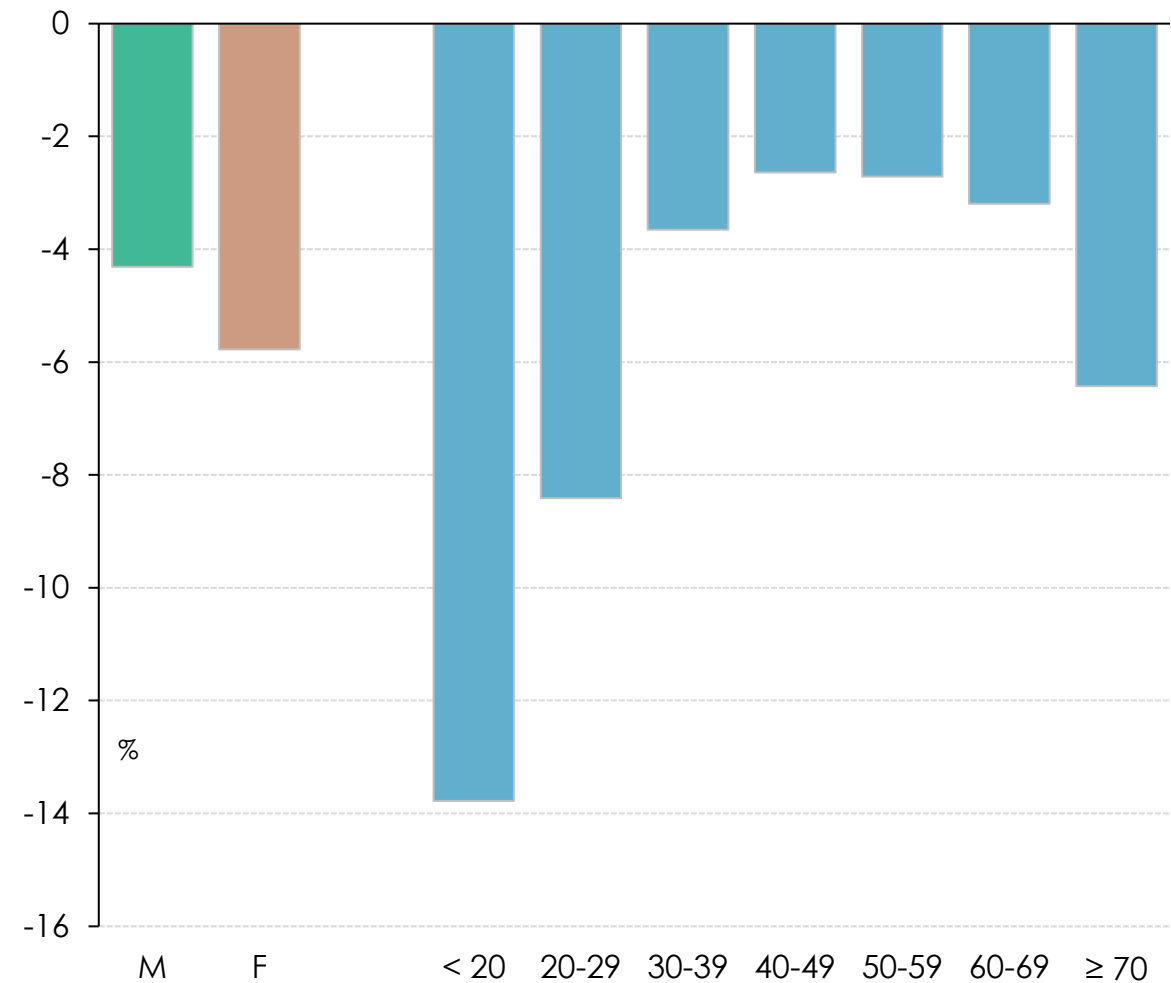
# The same sectors, and the same groups, that were hardest hit in last year's lockdowns have been hardest hit in the latest one (plus agriculture)

Change in payroll jobs between week ended 3<sup>rd</sup> July and week ended 11<sup>th</sup> September

By industry



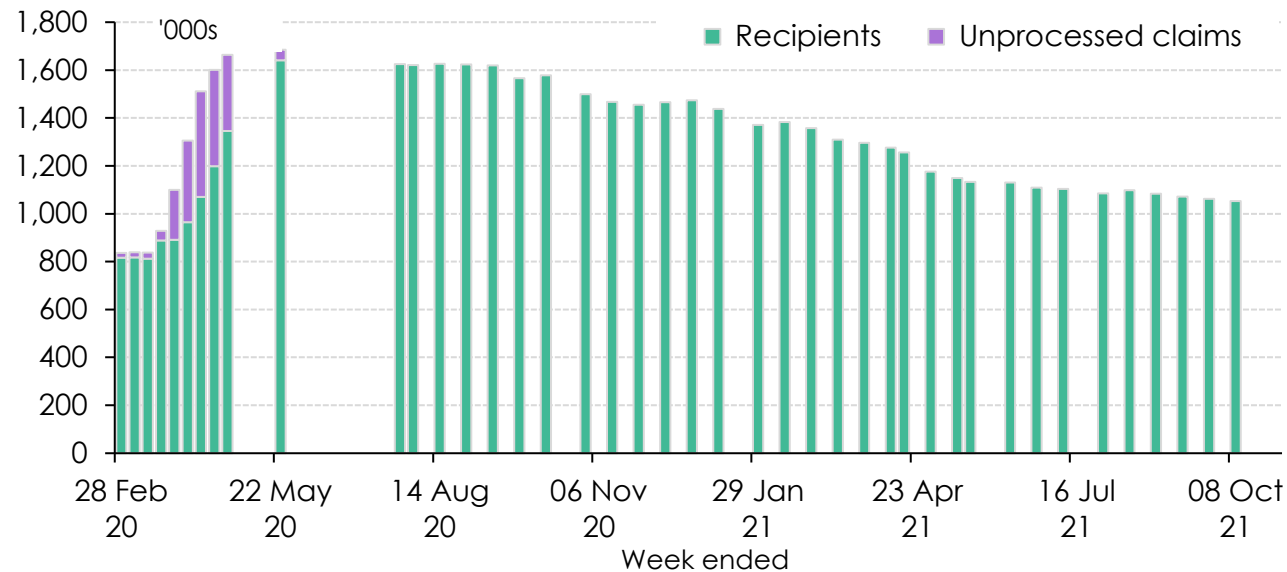
By gender and age



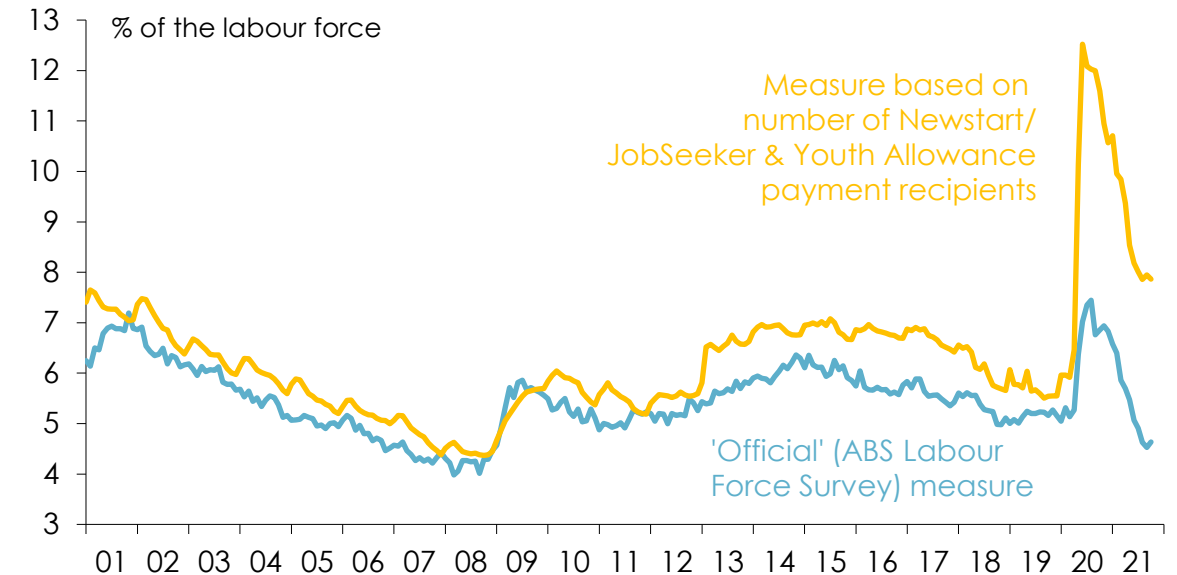
Source: ABS, [Weekly Payroll Jobs and Wages in Australia](#). Data refers to the number of payroll jobs at businesses participating in the Australian Taxation Office's Single Touch Payroll system, which covers 99% of employers with 20 or more employees and about 71% of smaller employees. People with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

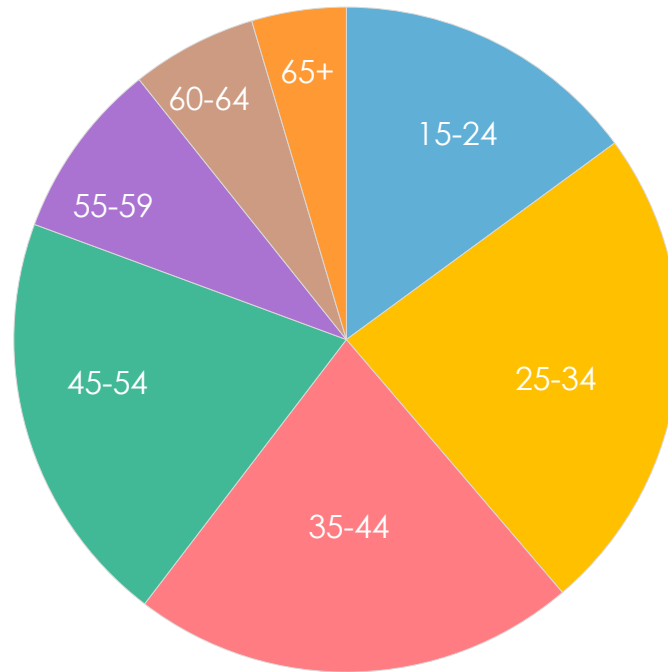


- ❑ Ministers receive weekly data on the number of people on JobSeeker and Youth Allowance (Other) benefits – which since late July last year the Department of Social Services has made this available every second week to the Senate Select Committee examining the Government's responses to Covid-19
- ❑ The number of people receiving JobSeeker or Youth Allowance (Other) payments fell by 10,009 (0.9%) over the two weeks to 8<sup>th</sup> October – to its lowest level since the week ended 20<sup>th</sup> March last year – with more than half the decline occurring in New South Wales and Queensland
- ❑ People displaced from employment during recent lockdowns have received 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 144-145](#)

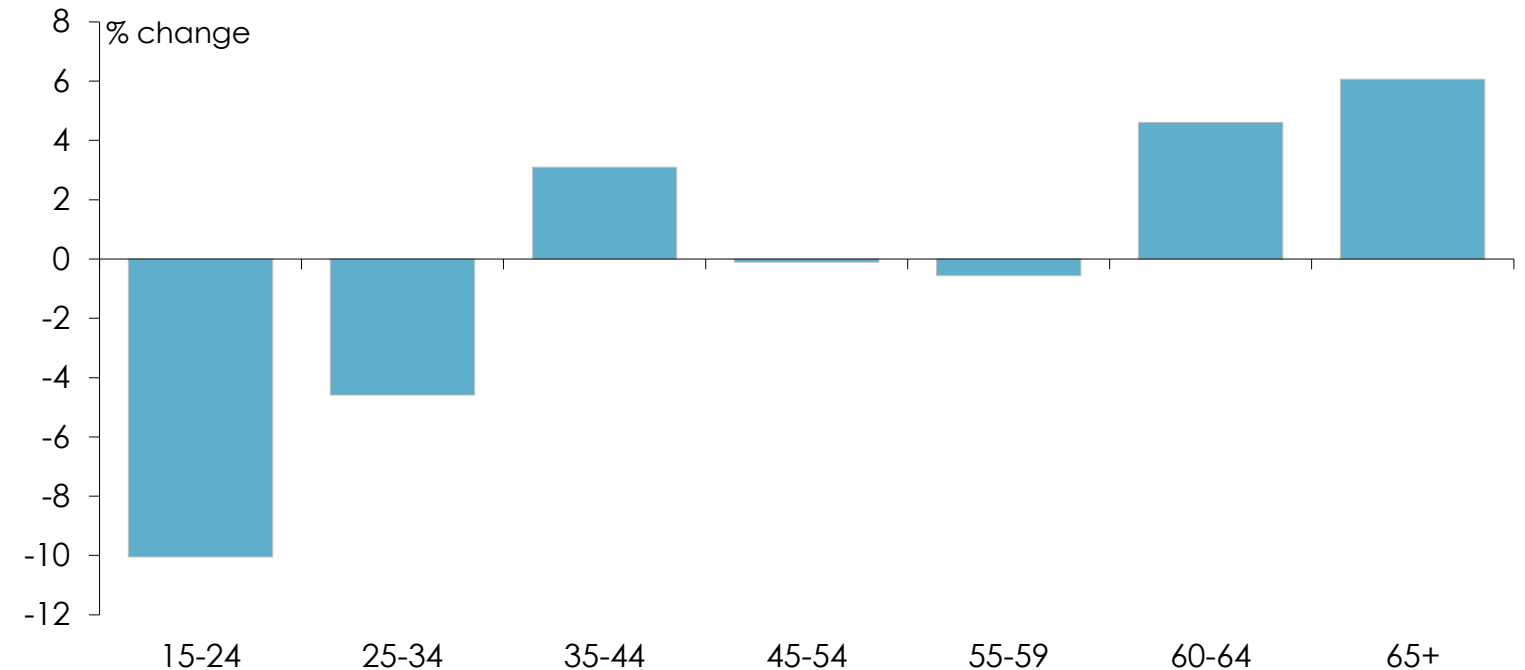
Sources: Department of Social Services, [JobSeeker Payment and Youth Allowance Recipients - monthly profile](#), ABS; Senate Select Committee on Covid-19, [Additional documents](#). [Return to "What's New"](#).

# 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

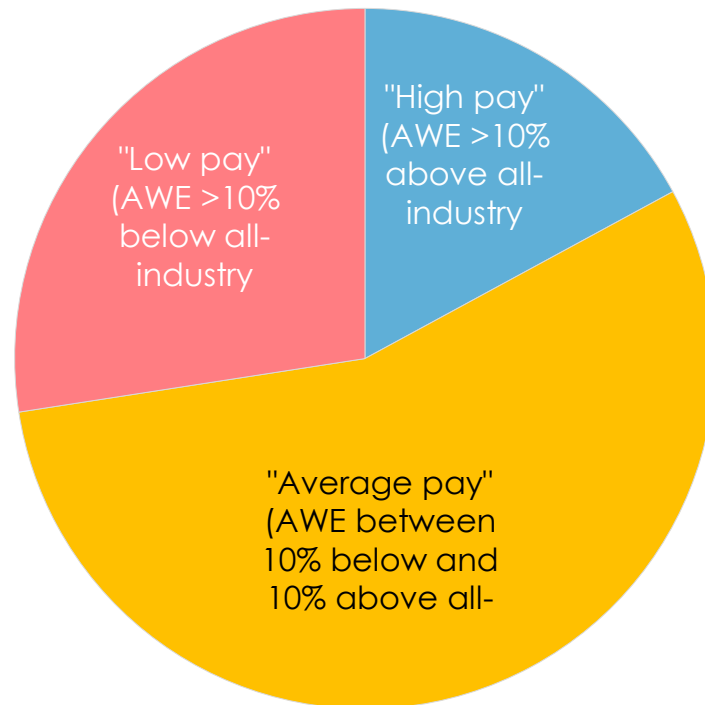


- ❑ People aged 15-24 accounted for 15% of pre-covid employment but experienced 39% of all job losses between February and May last year – and 54% of all job losses between June and September this year – their employment is down 10.1% from the pre-pandemic peak in February last year
- ❑ Likewise 25-34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

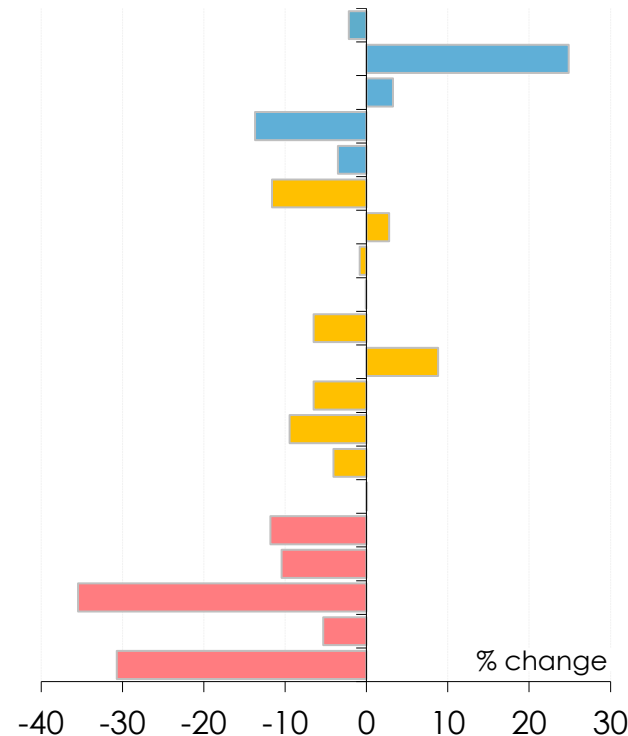
Note: data on employment by age group is not seasonally adjusted. Source: ABS, [Labour Force, Australia, Detailed](#), August 2021: September data will be released on 21<sup>st</sup> October. [Return to "What's New"](#).

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

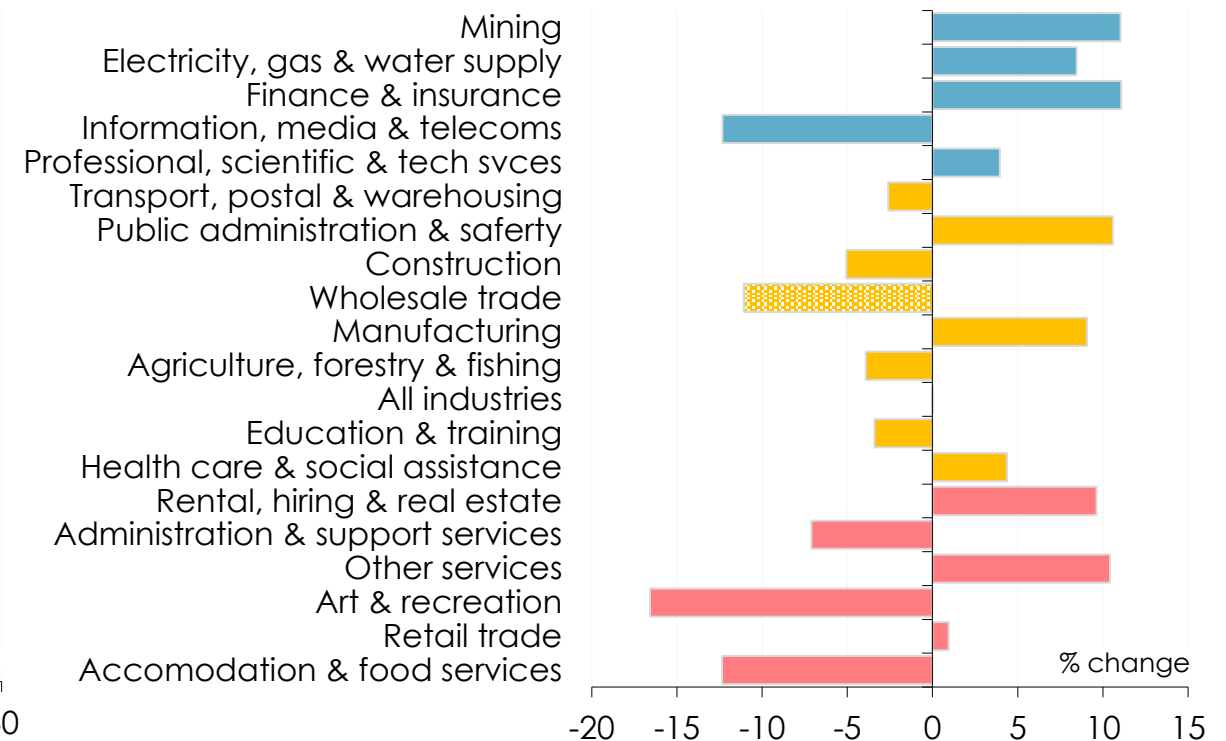
Composition of employment by industry ranked by average weekly earnings, February 2020



Change in employment by industry  
February-May 2020



February 2020 – August 2021

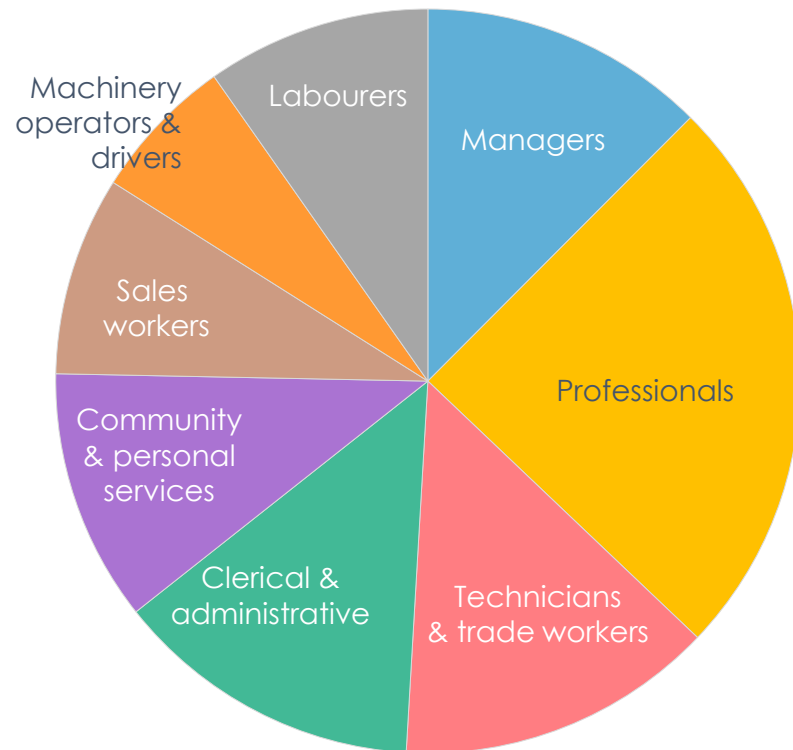


- ❑ Industries with average earnings which are 10% or more below average accounted for 27½% of the pre-pandemic workforce, but experienced 64% of the job losses between February and May last year – and 89% of job losses between May and August this year – employment in these industries was down 2.9% between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

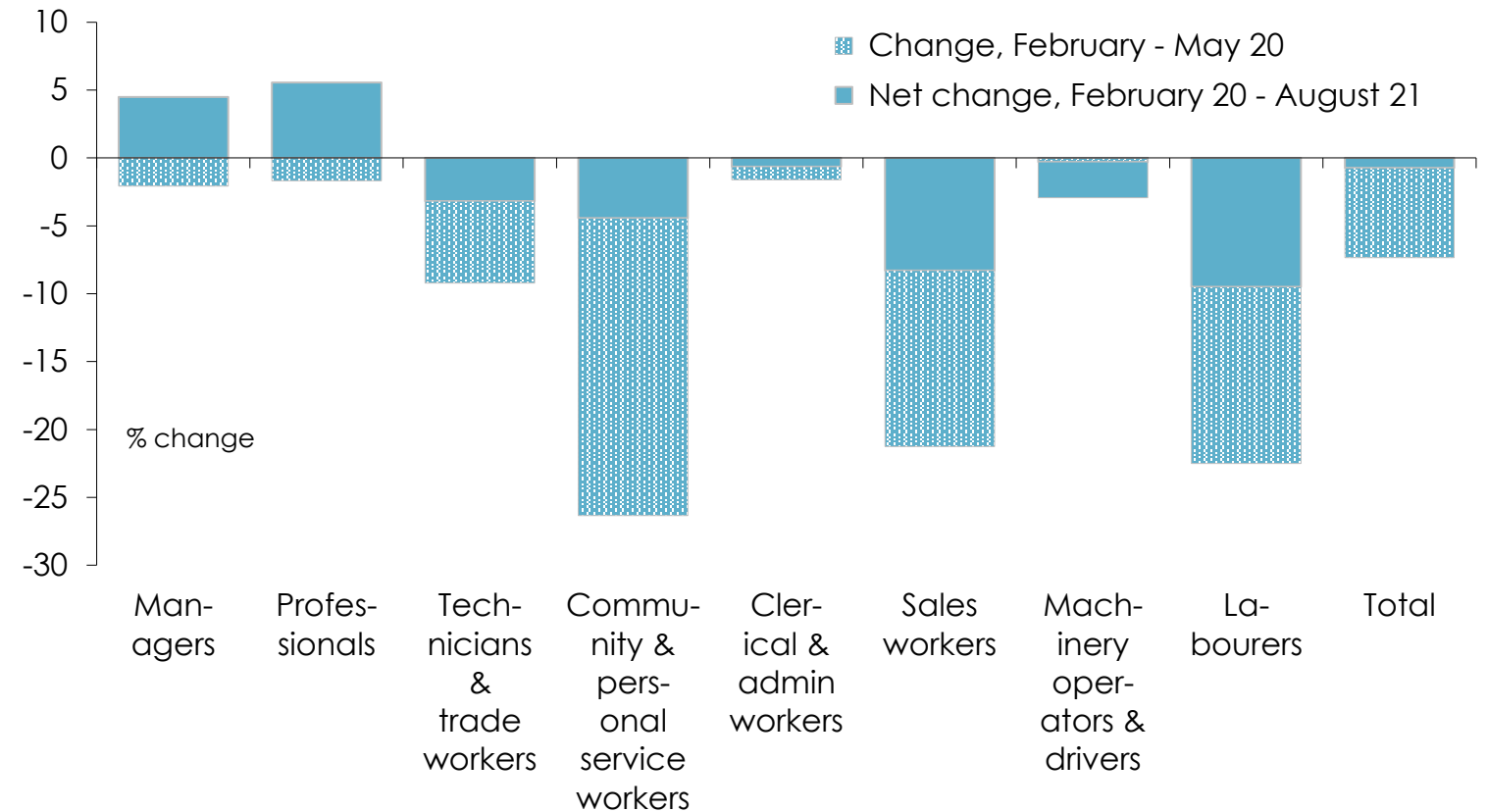
Source: ABS, [Labour Force, Australia, Detailed](#), August 2021 and [Average Weekly Earnings, Australia](#), November 2019. Labour force survey data on employment by occupation are available only for the middle month of each quarter: November data will be released on 23<sup>rd</sup> December. [Return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

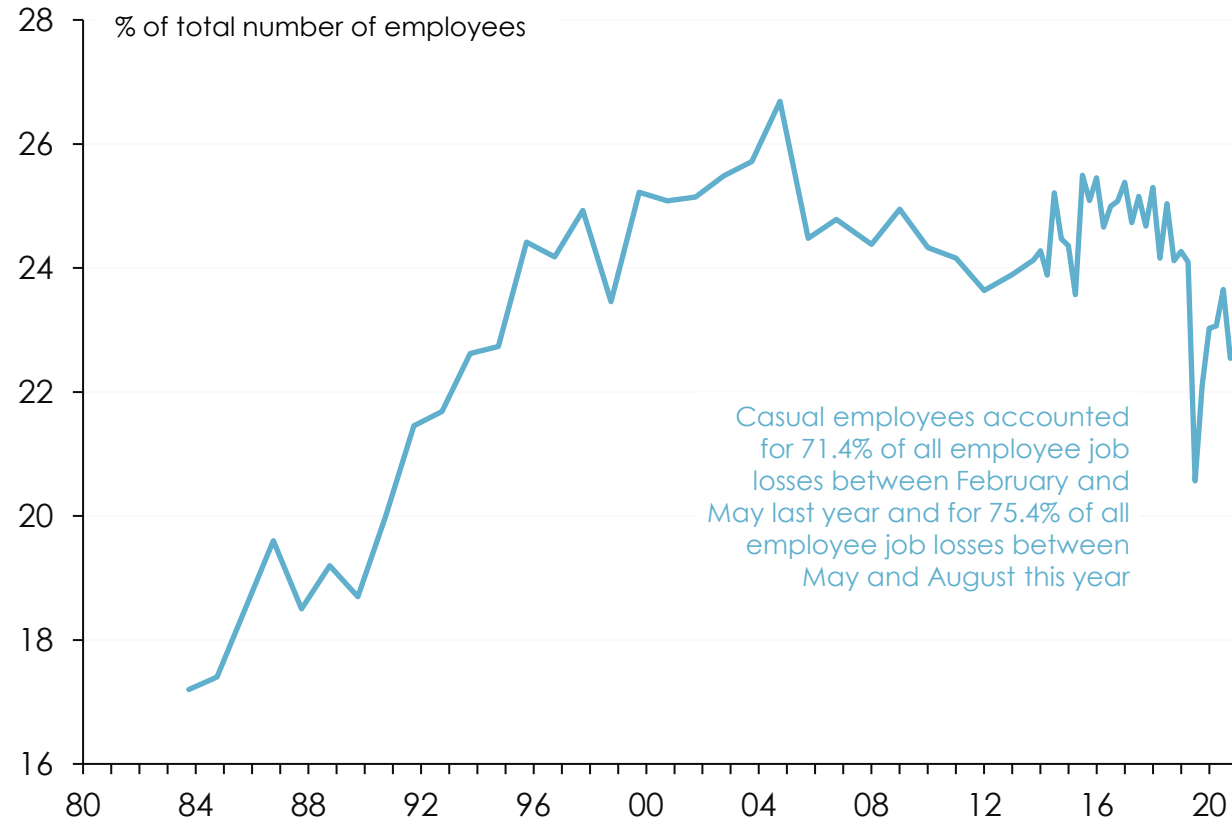


- ❑ Community & personal services workers, sales workers and labourers accounted for 29% of the pre-covid work force, but experienced 73% of the job losses between February and May last year – and for 73% (again) of job losses between May and August this year – and there were 7.2% fewer of them in August 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 23<sup>rd</sup> December. [Return to "What's New"](#).

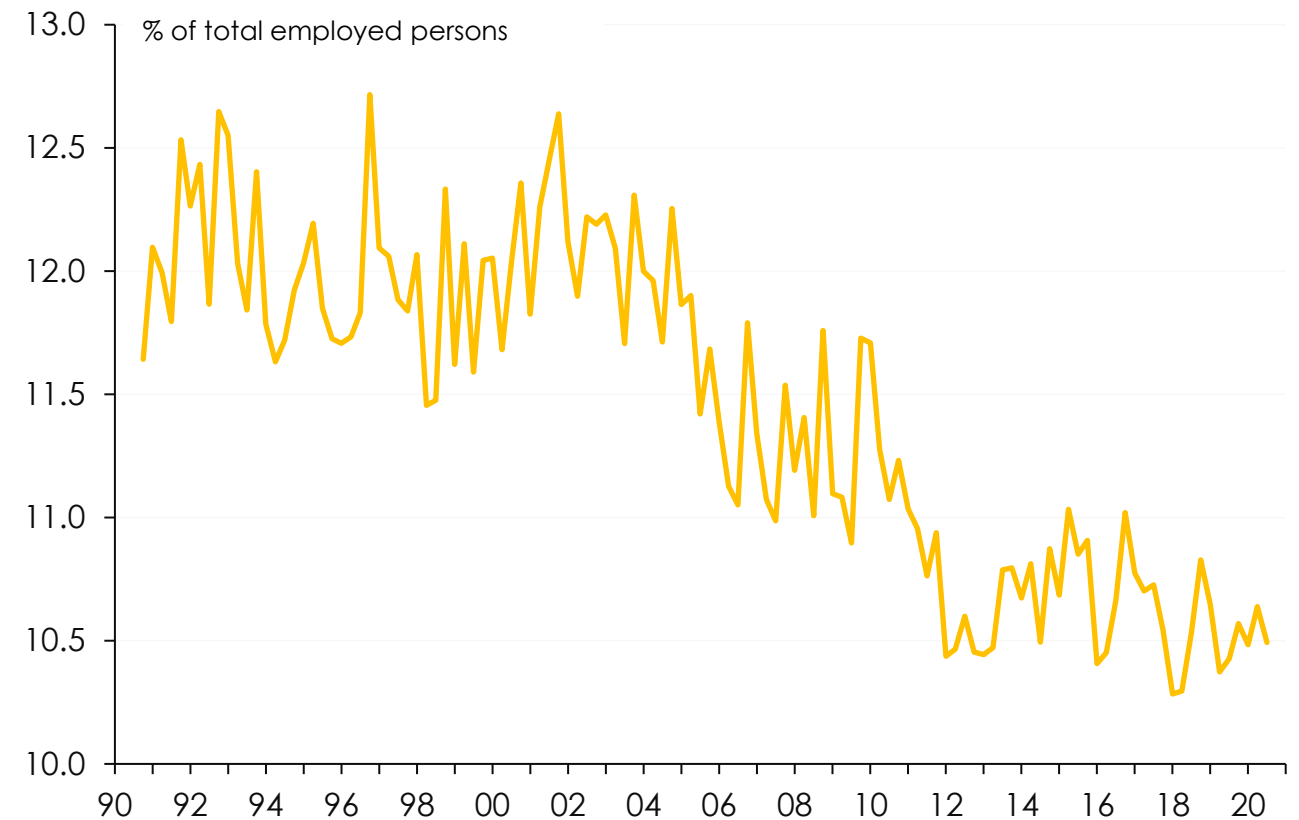
# Contrary to popular belief neither casual jobs nor 'gig economy' jobs have become more commonplace during the past two decades

## '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



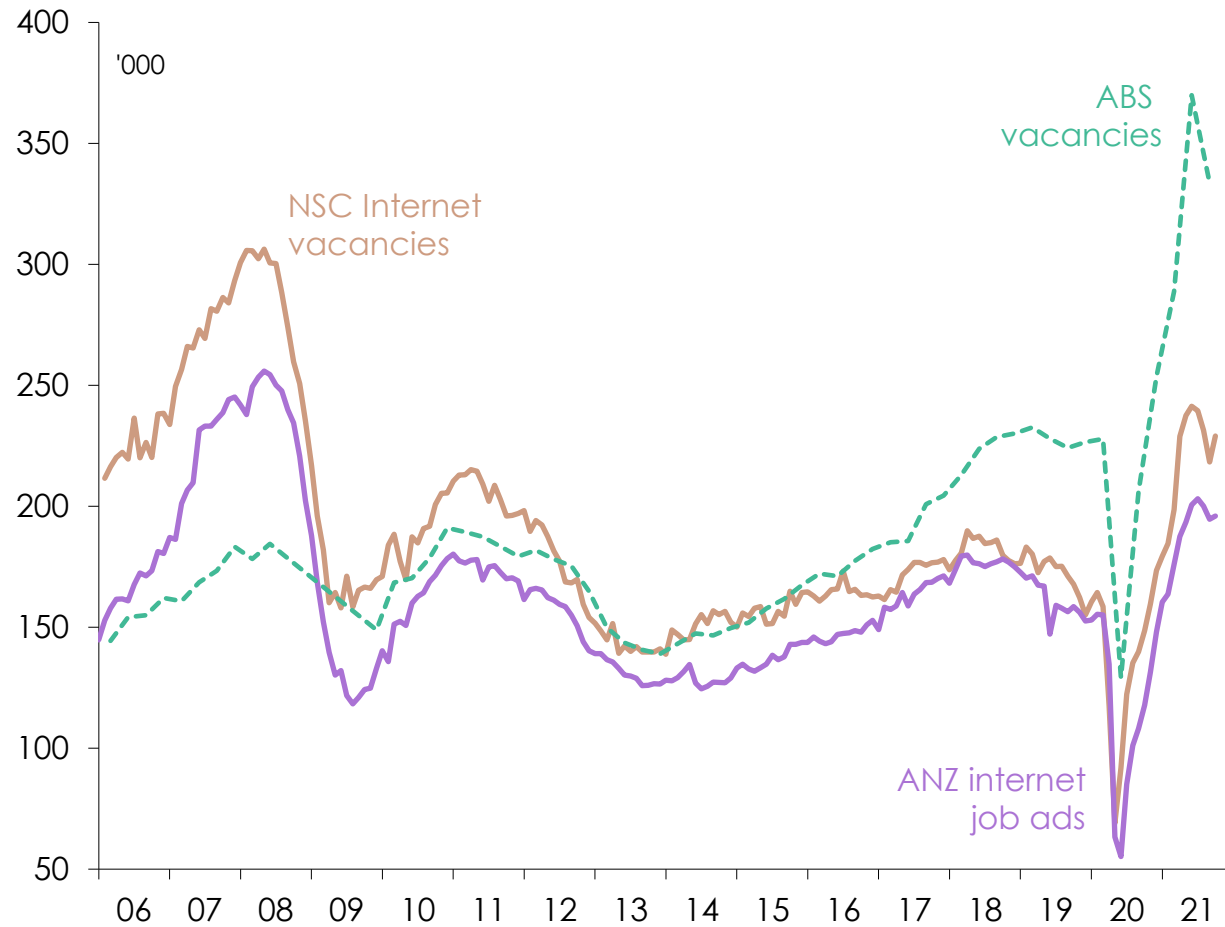
- ❑ 'Independent contractors' have actually declined as a share of the workforce since the early 2000s – had haven't increased during the current recession

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

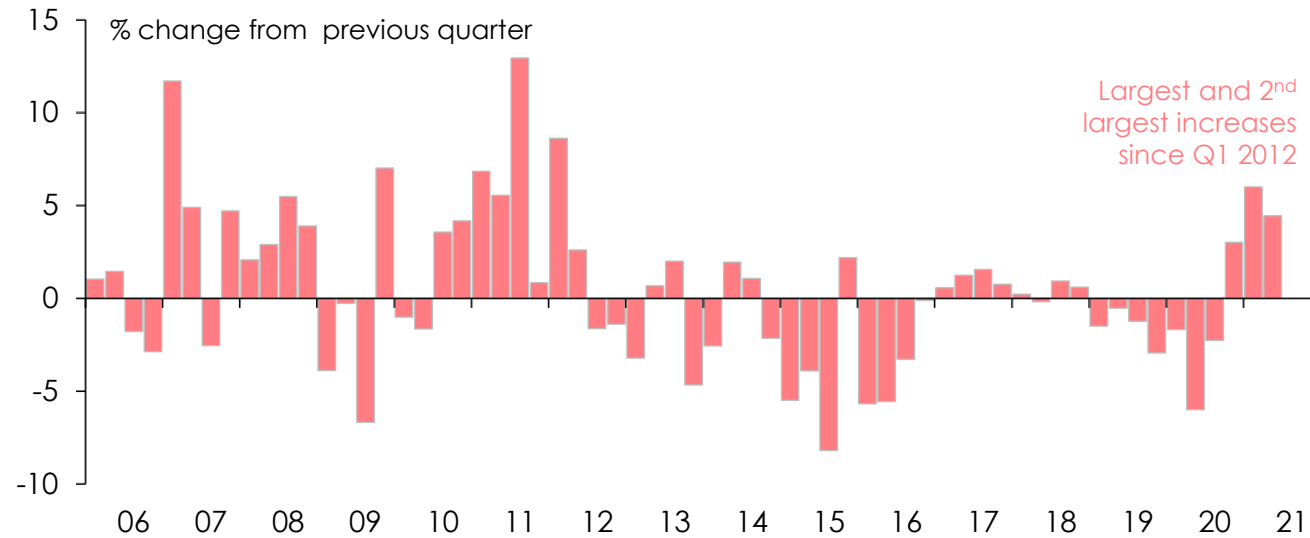
## Ratio of unemployed people to job vacancies



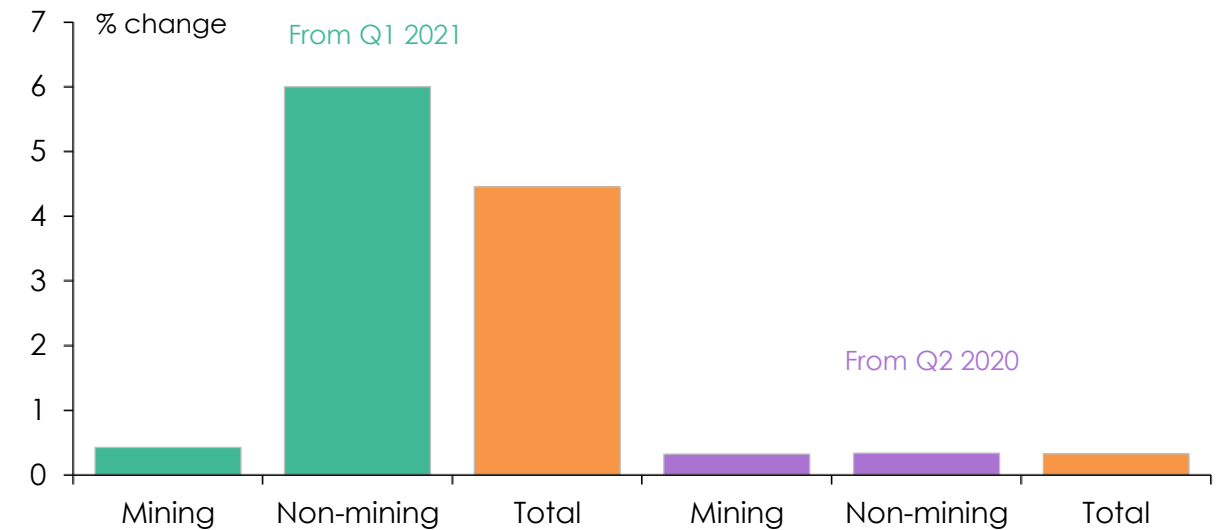
- ❑ The ratio of unemployed people to the number of job vacancies remain close to a record low in August

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

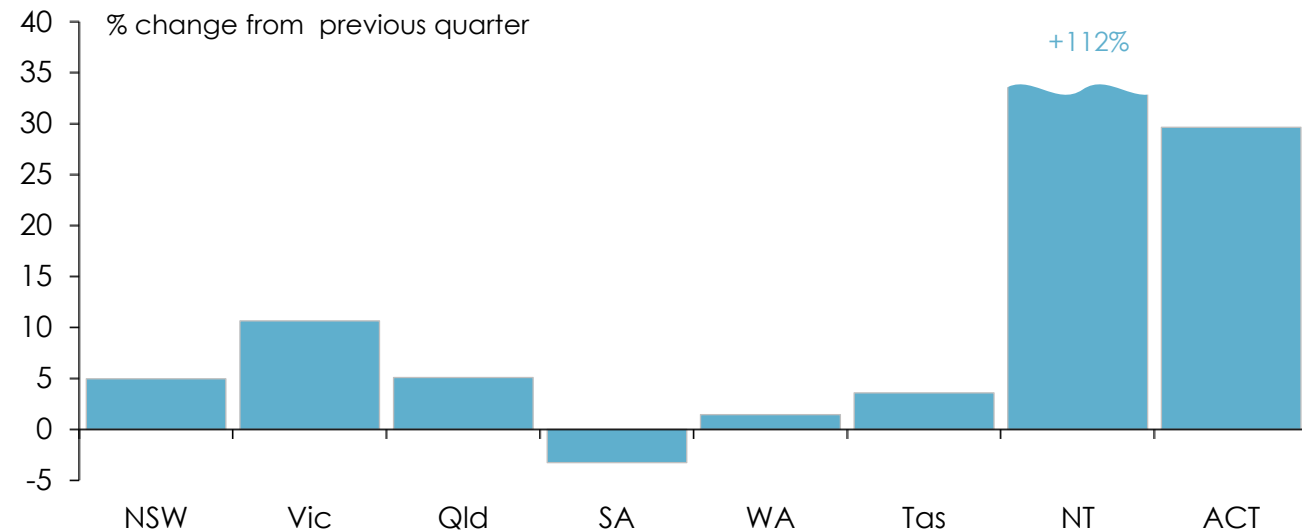
## Real business new fixed capital expenditure



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



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



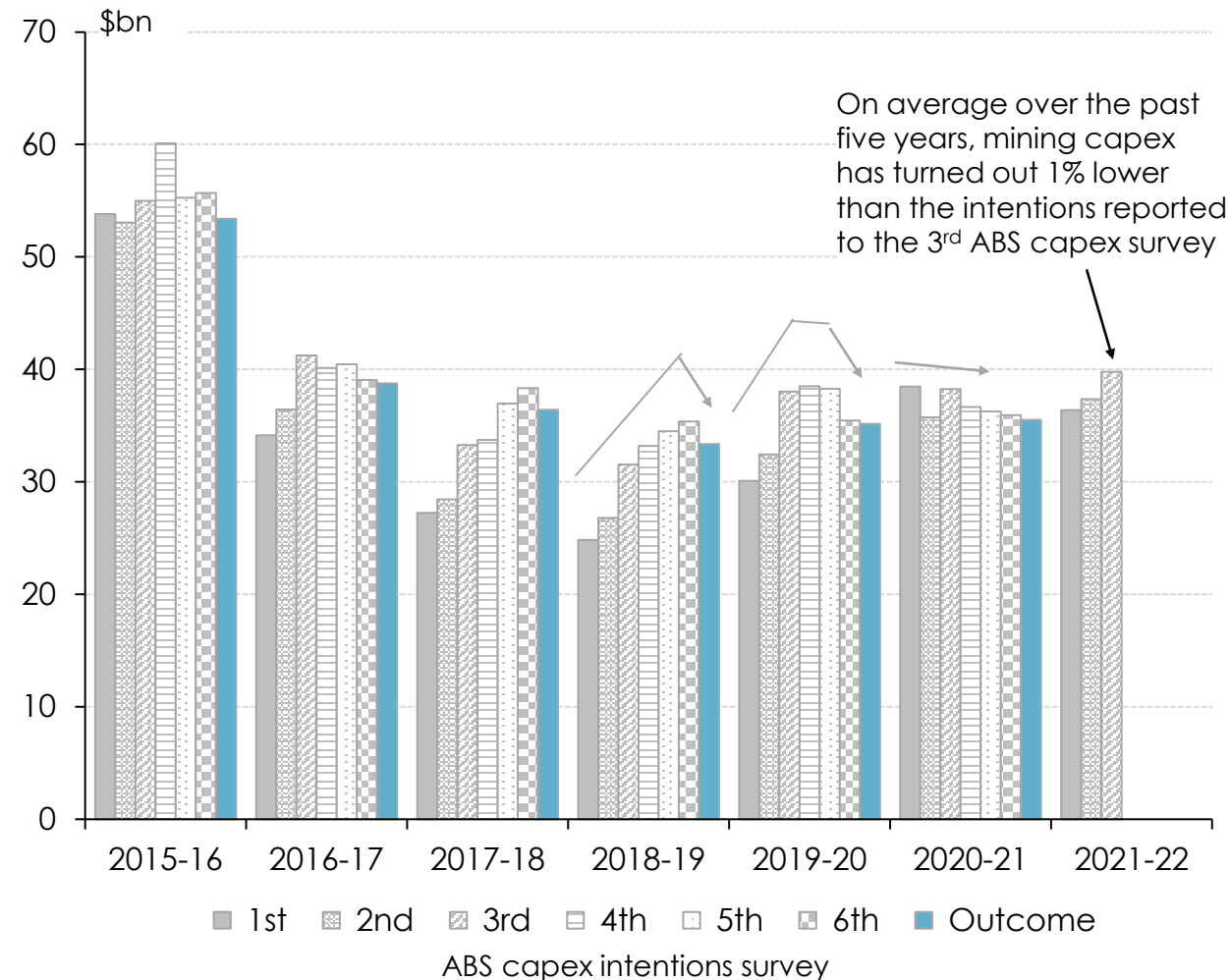
## Real business new fixed capex, by asset, Q1



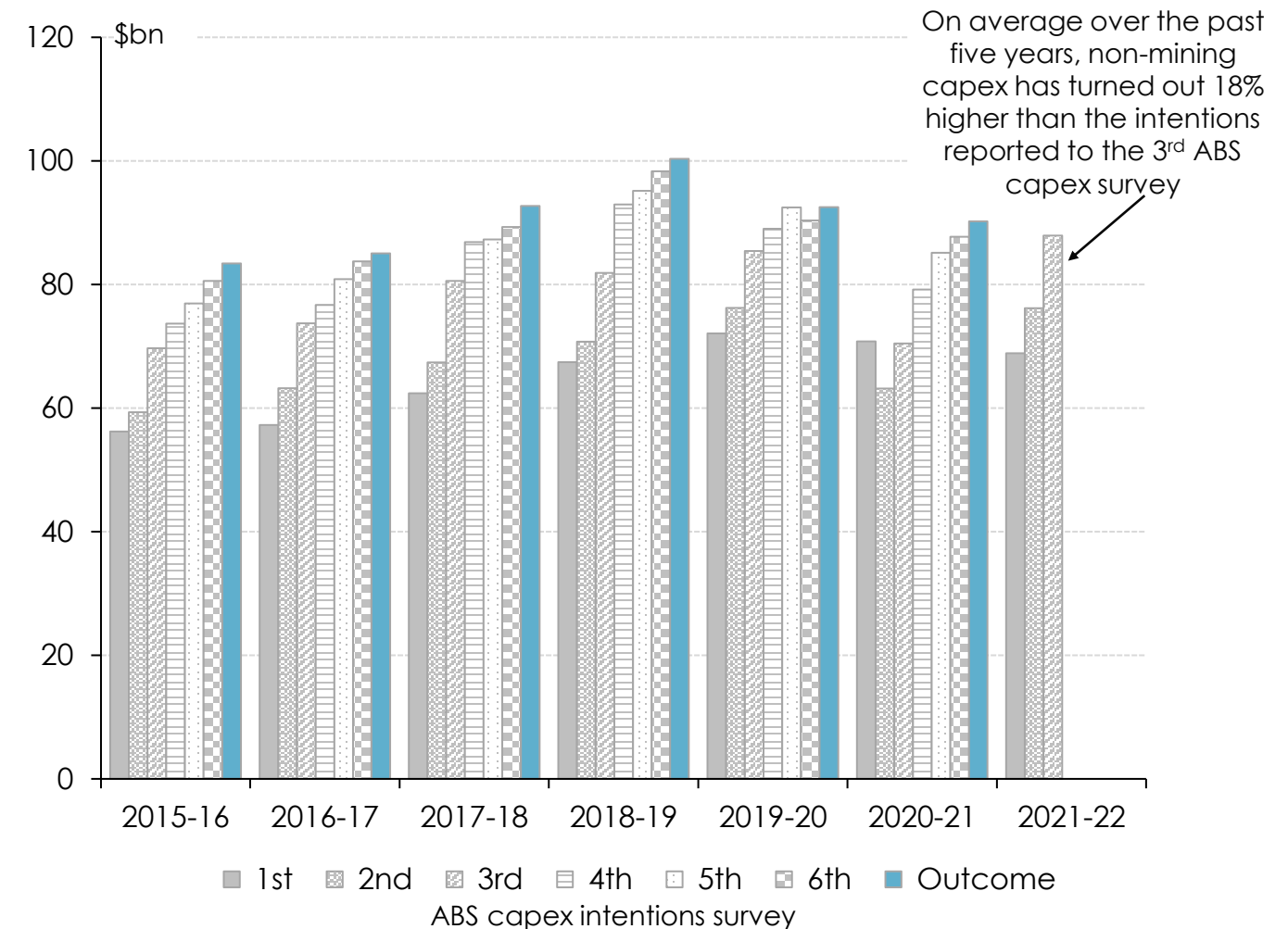
Note: the ABS Survey of New Capital Expenditure excludes the agriculture, forestry & fishing, and public administration & defence sectors, and superannuation funds.  
Source: ABS, [Private New Capital Expenditure and Expected Expenditure, Australia](#); March quarter data will be released on 25<sup>th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

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

## Capital expenditure intentions - mining



## Capital expenditure intentions – non-mining

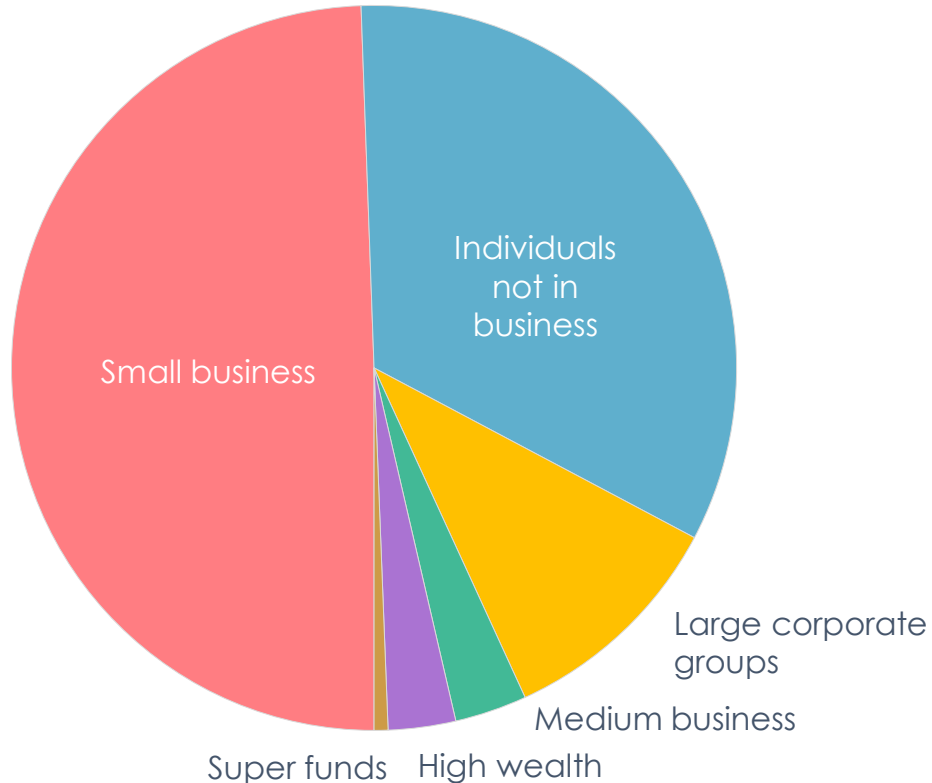


Note: The ABS conducts six surveys of business' capital expenditure intentions in respect of each financial year. The first is conducted in January & February prior to the commencement of the financial year, the second in May & June, the third in July & August of the financial year, the fourth in October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

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

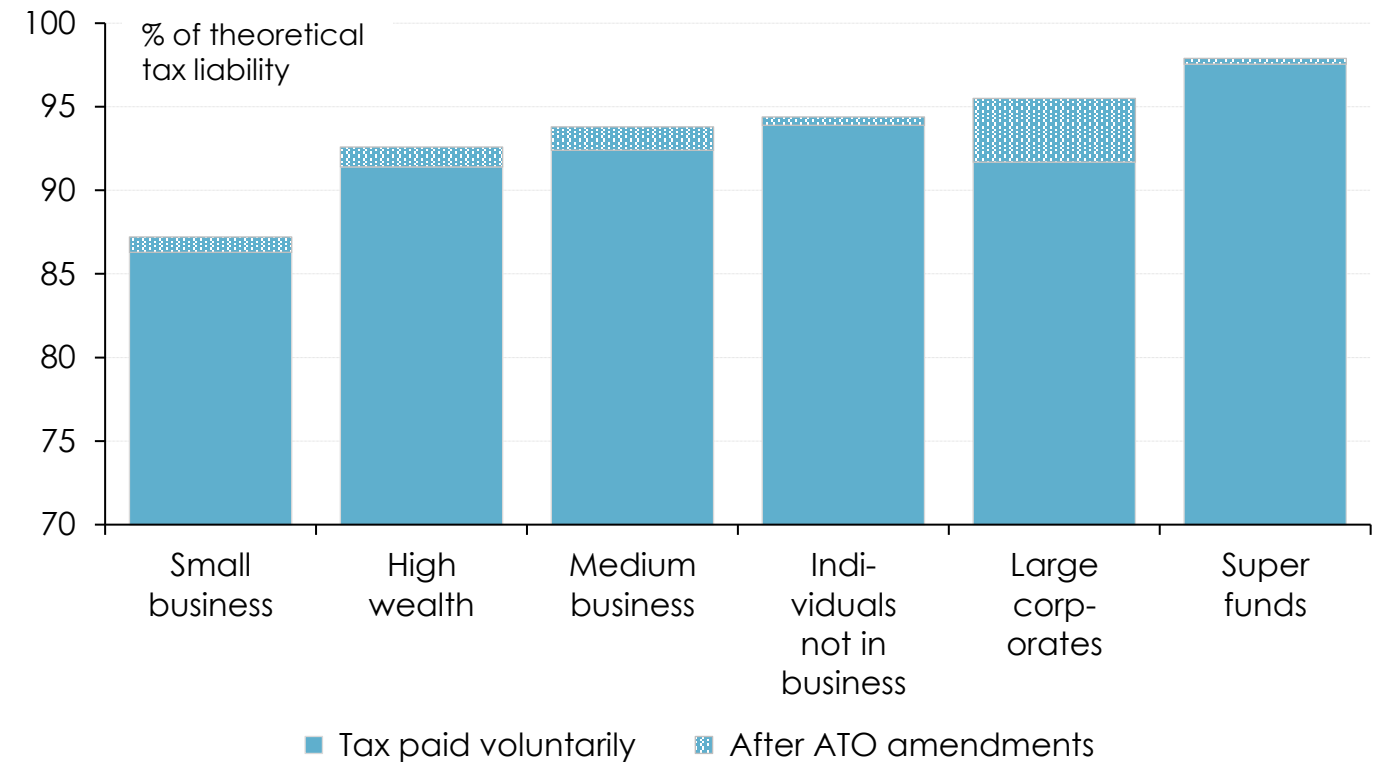
# The Tax Office's latest 'tax gap' estimates again show that small businesses, not big ones or rich families, that are the least compliant with the tax law

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



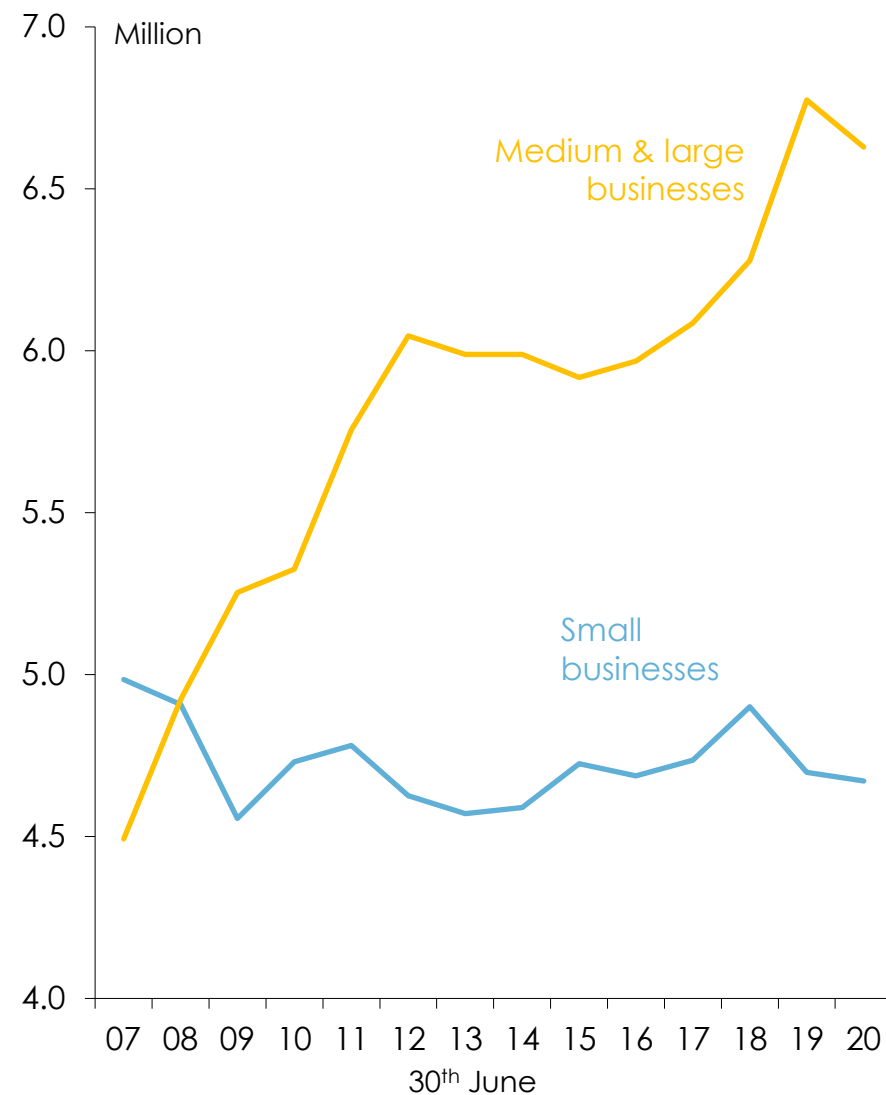
- ❑ Small businesses pay a smaller proportion of the tax which the ATO estimates they 'should' than either large corporates or high net worth individuals – contrary to the popular perception that the latter two are the groups least likely to be paying their 'fair share' of tax

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.

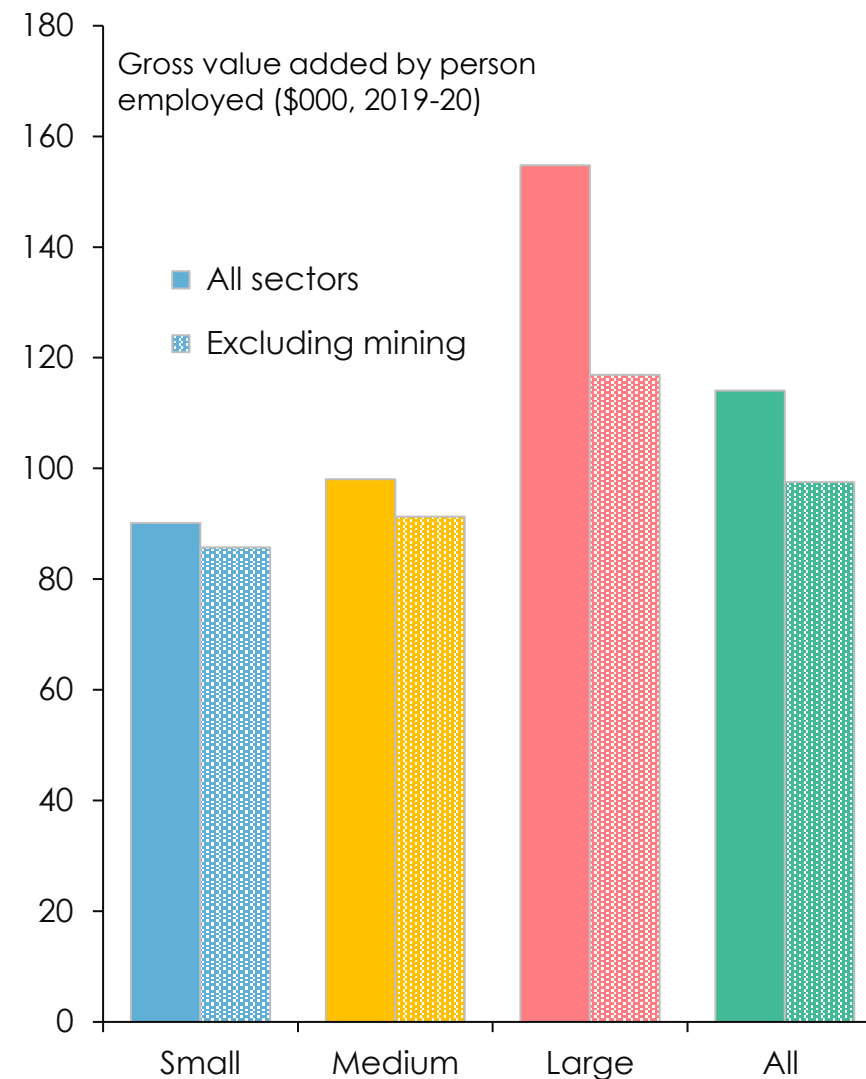
[Return to "What's New"](#).

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

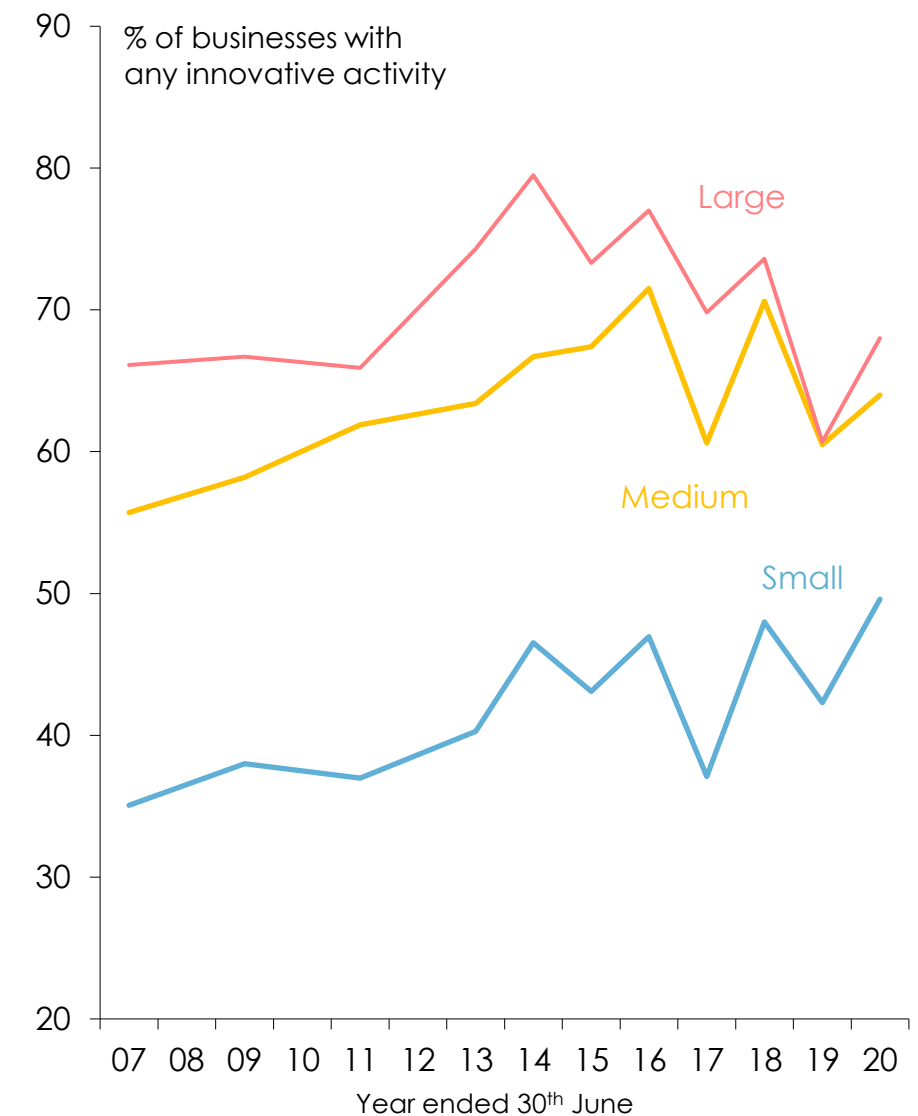
## Employment by size of business



## Productivity by size of business



## Innovation by size of business



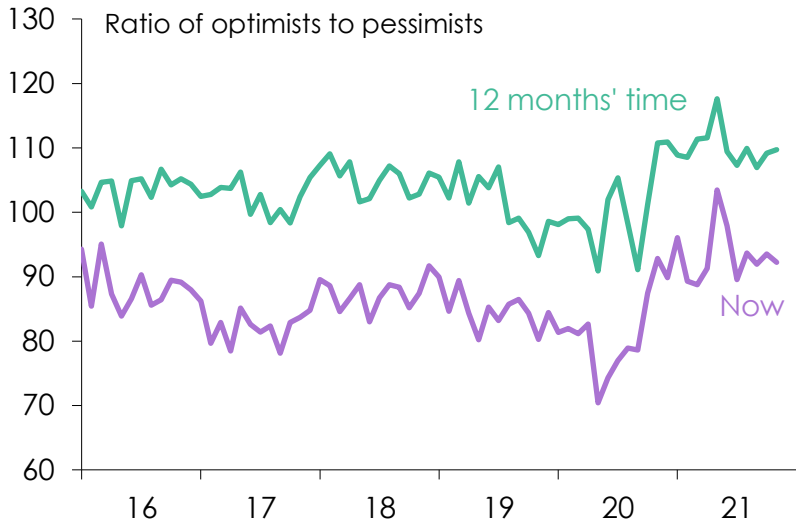
Note: 'Small' businesses in ABS statistics are those with fewer than 20 employees; 'medium' businesses are those with between 20 and 199 employees; and 'large' businesses are those with 200 or more employees. Sources: ABS, [Characteristics of Australian Business, 2019-20](#) (and earlier publications);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

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

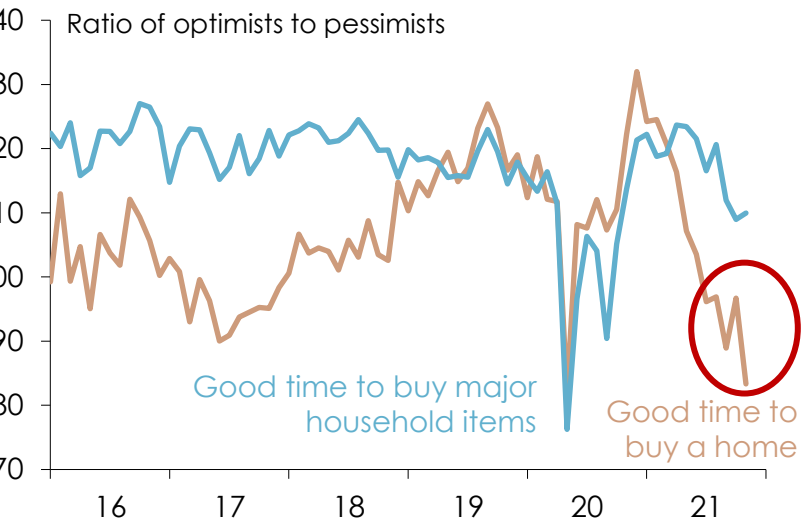
Consumer confidence index



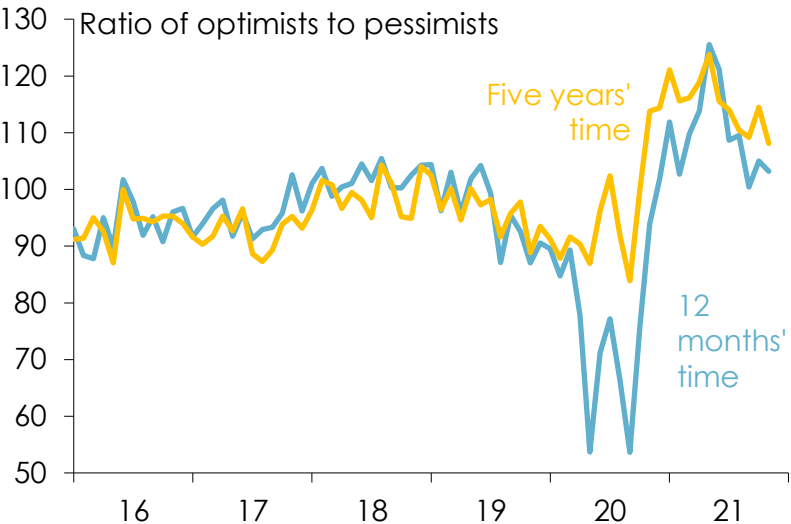
Household finances assessment



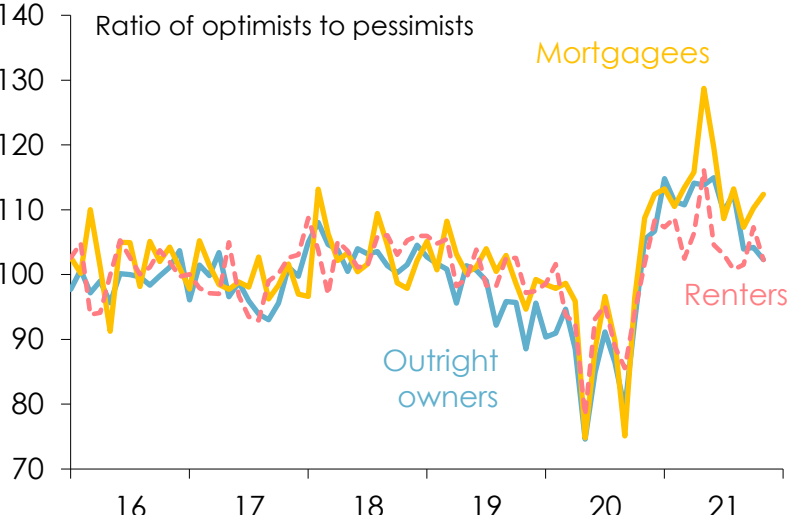
Buying conditions assessment



Economic conditions assessment



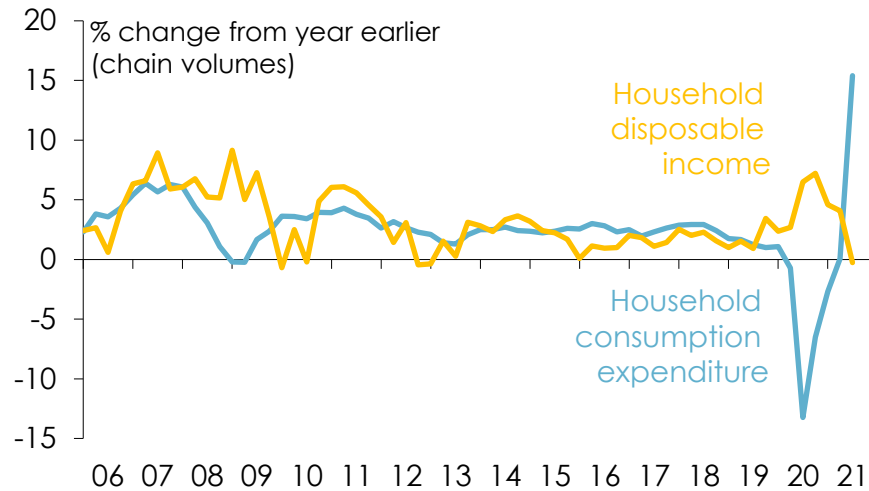
Confidence by housing tenure



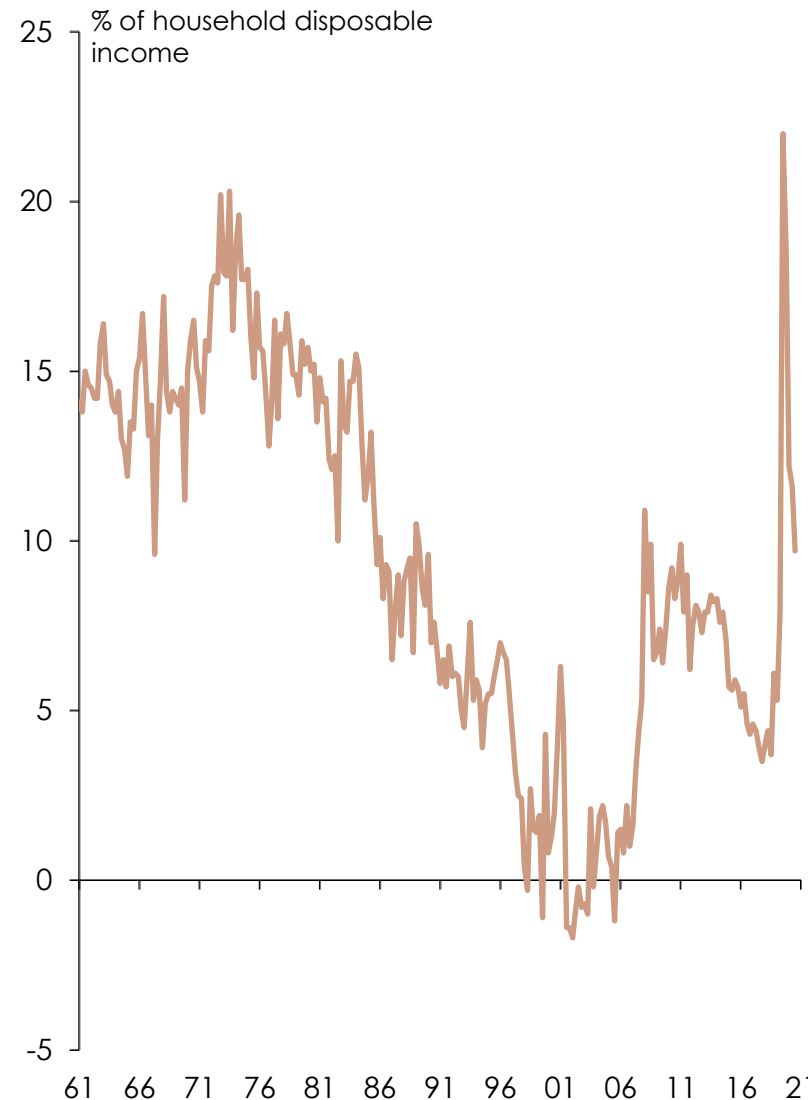


# Household incomes have been supported by government payments, but spending has been curtailed, so households have lots of savings to spend

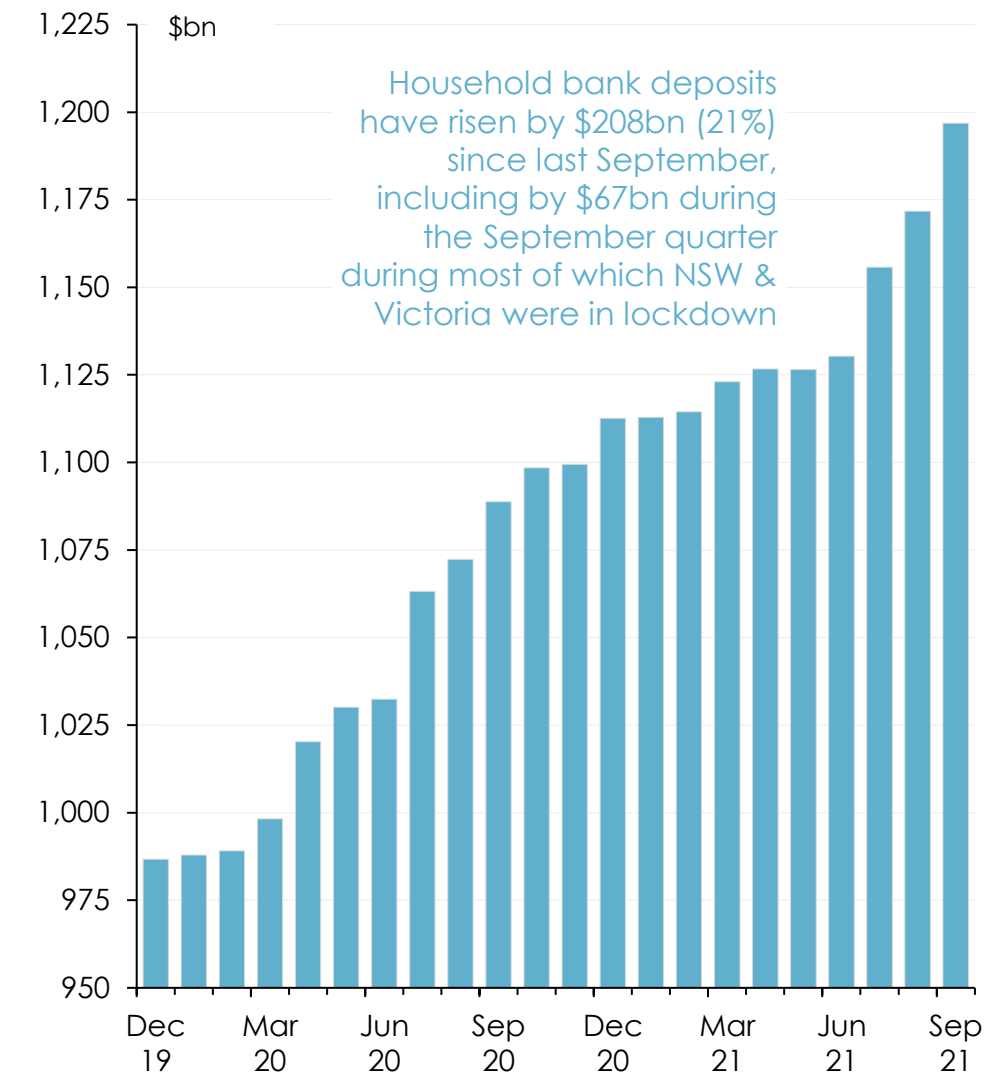
## Household income and spending



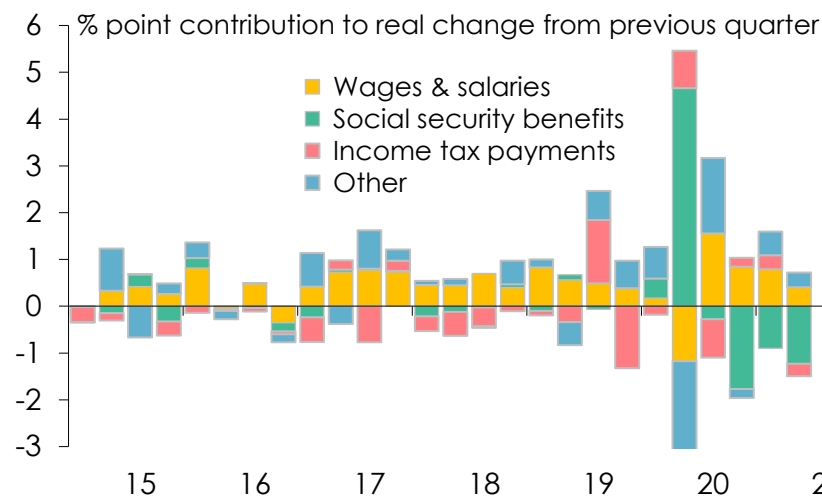
## Household saving ratio



## Household bank deposits

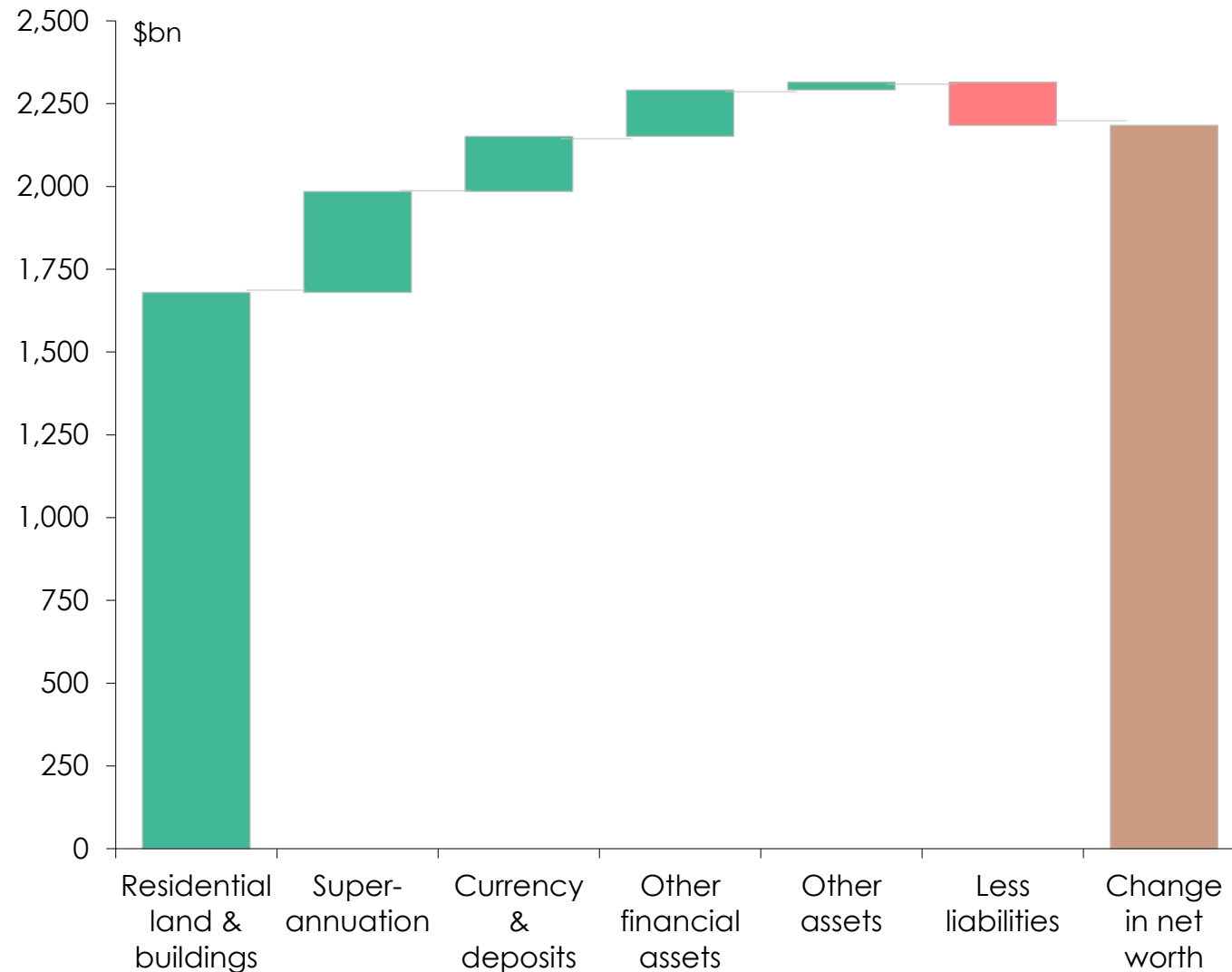


## Sources of household income

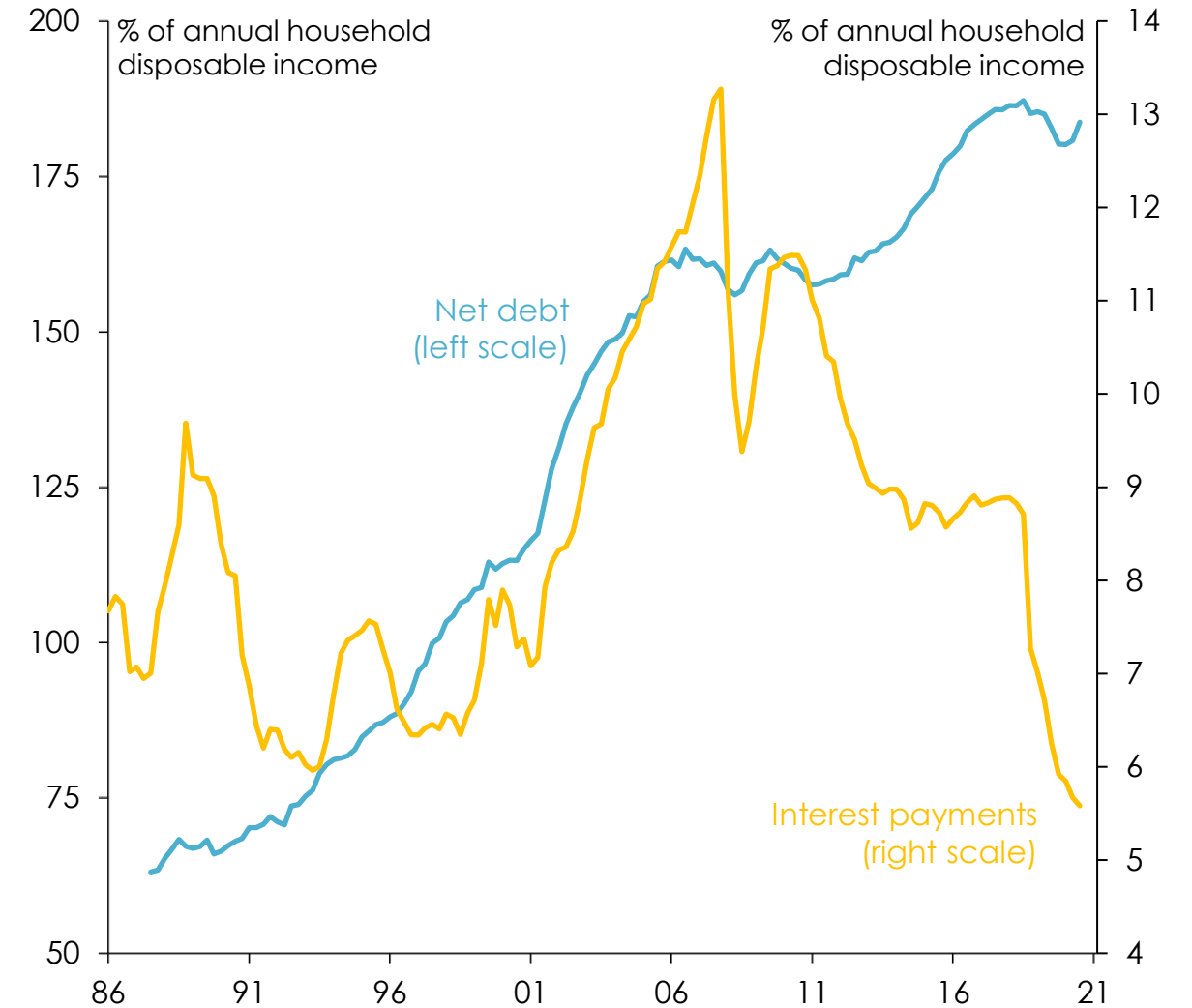


# Household net worth has risen by \$2.2trn (19½%) since the end of 2019, while debt service payments have fallen as a pc of income

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



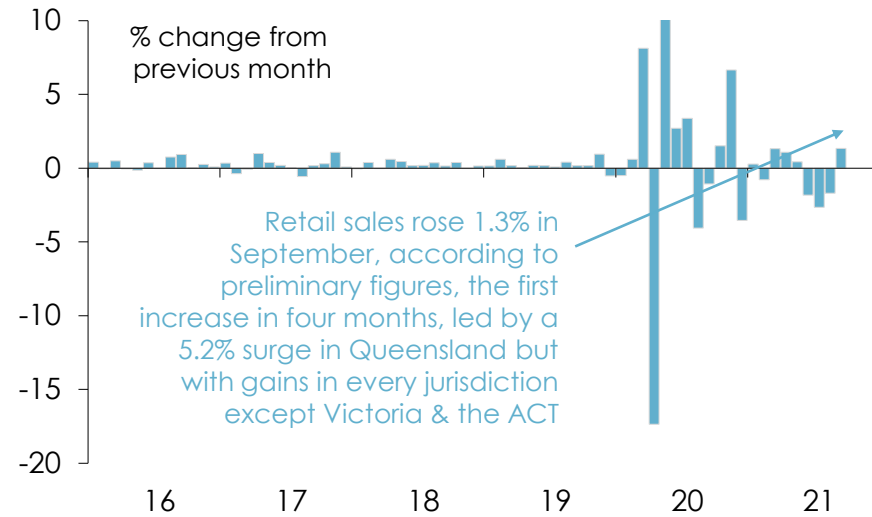
## Household net debt and interest payments as a percentage of disposable income



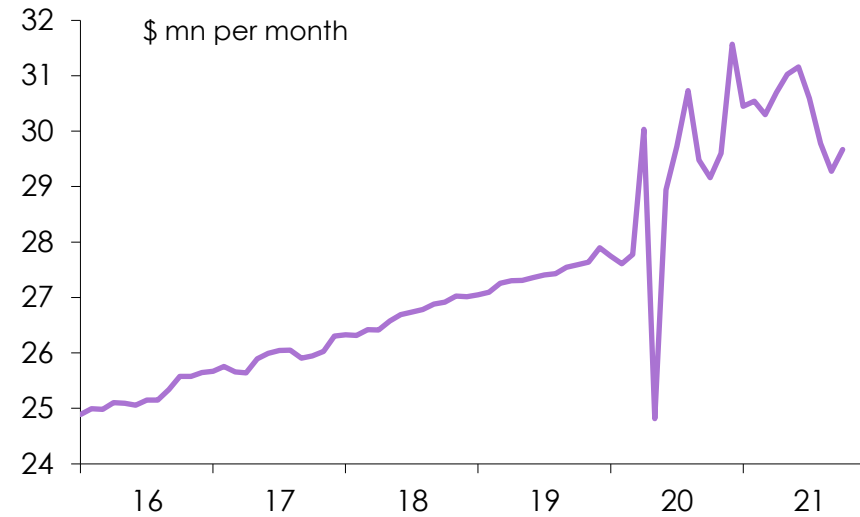
Sources: ABS, [Finance and Wealth Accounts](#), June quarter 2021; RBA, [Statistical Tables](#) E1 & E2. September quarter data will be released on 16<sup>th</sup> December.  
[Return to "What's New"](#).

# Retail sales rose 1.3% in September, the first increase in four months, led by strong gains in Queensland, New South Wales and Tasmania

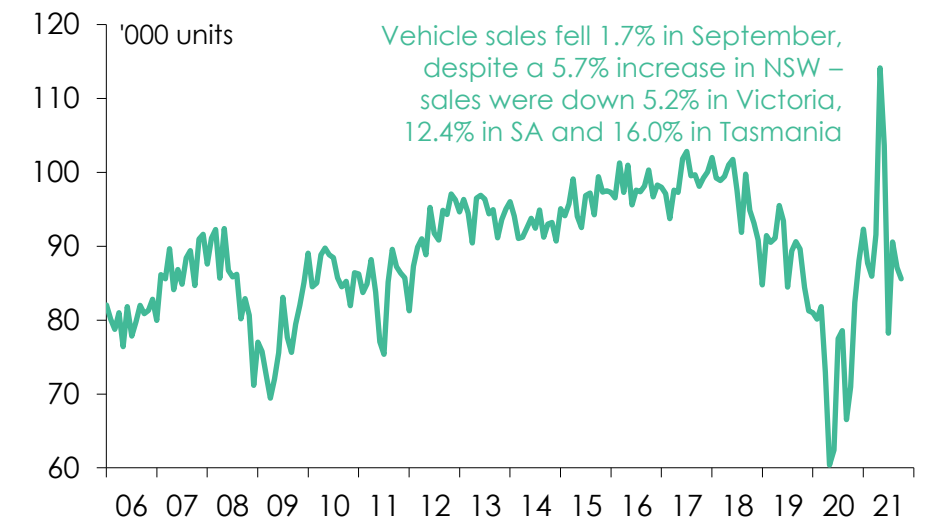
## Monthly retail sales



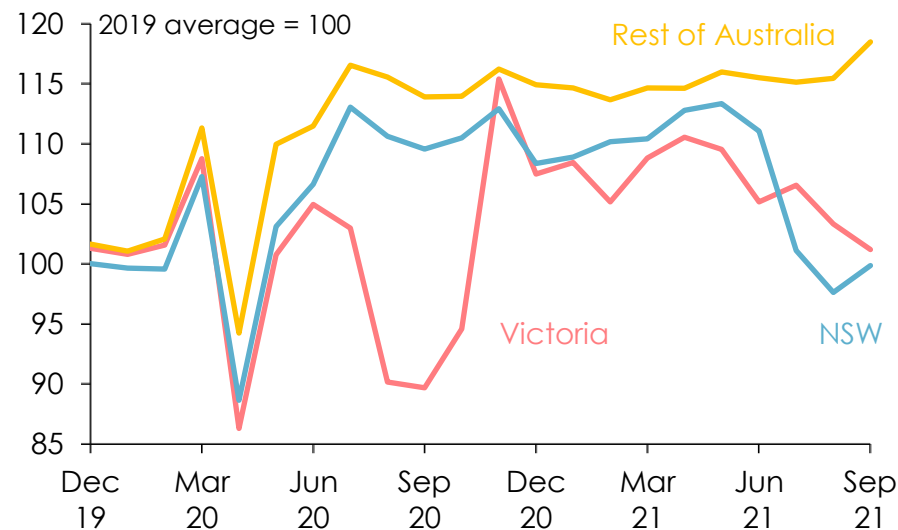
## Level of retail sales



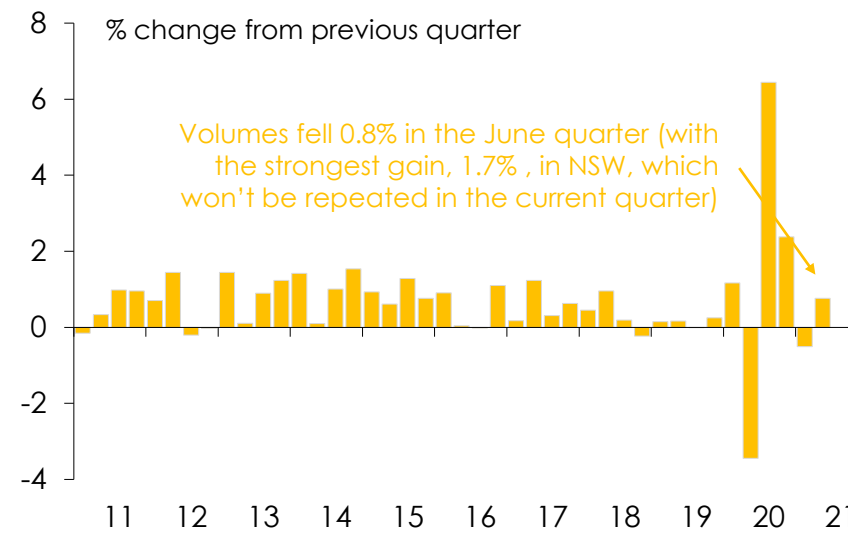
## New motor vehicle sales



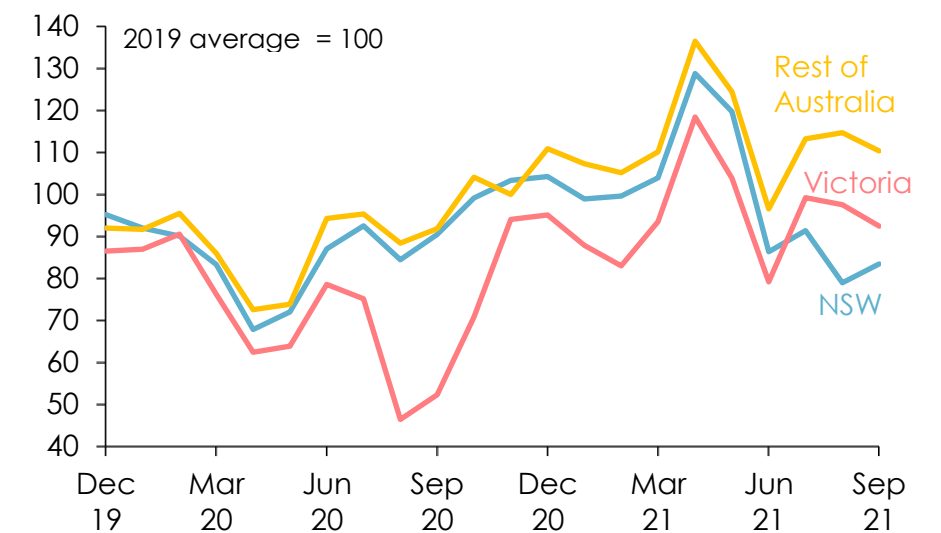
## Retail sales – NSW, Vic & the rest



## Quarterly retail sales volumes



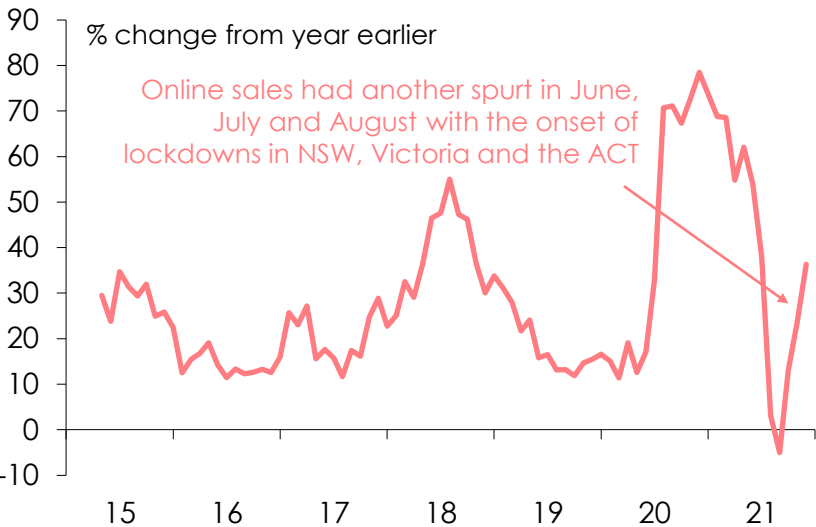
## Vehicle sales – NSW, Vic & the rest



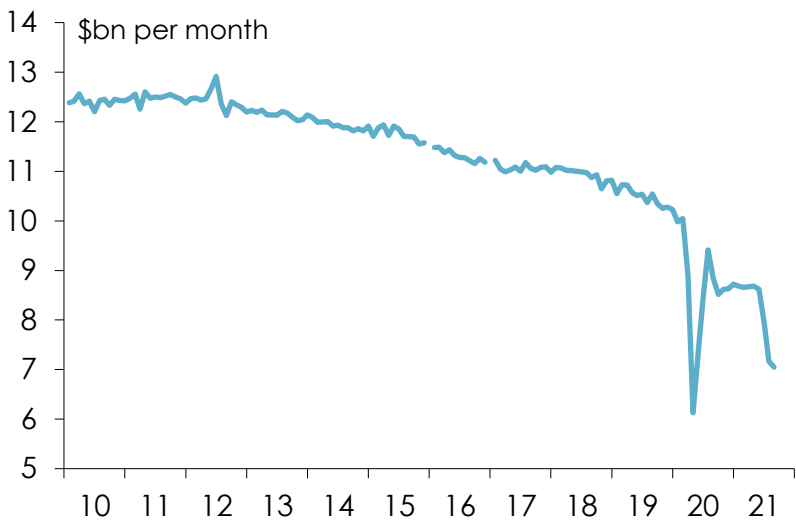
Note: see also [slide 100](#) for more detail on the composition of retail sales since the onset of the pandemic. Sources: ABS, [Retail Trade, Australia](#); Federal Chamber of Automotive Industries [VFACTS](#) (seasonal adjustment of FCAI data by Corinna). September retail sales data will be released on 29<sup>th</sup> 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

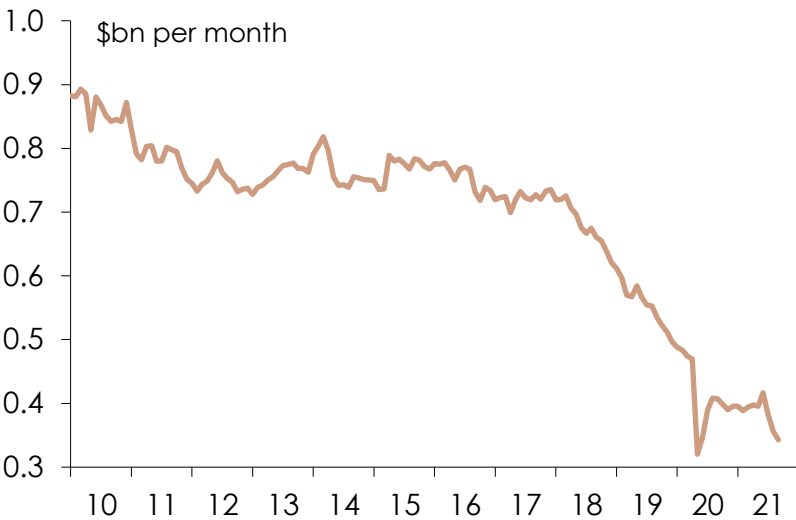
Growth in online retail sales



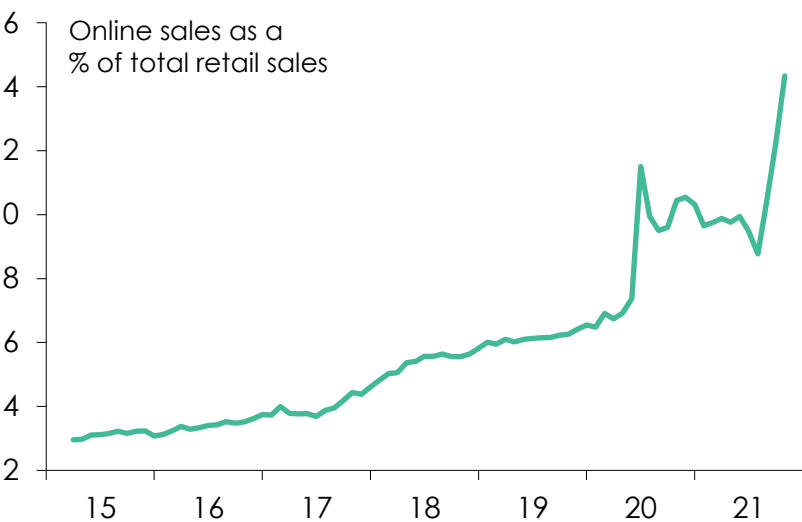
ATM cash withdrawals



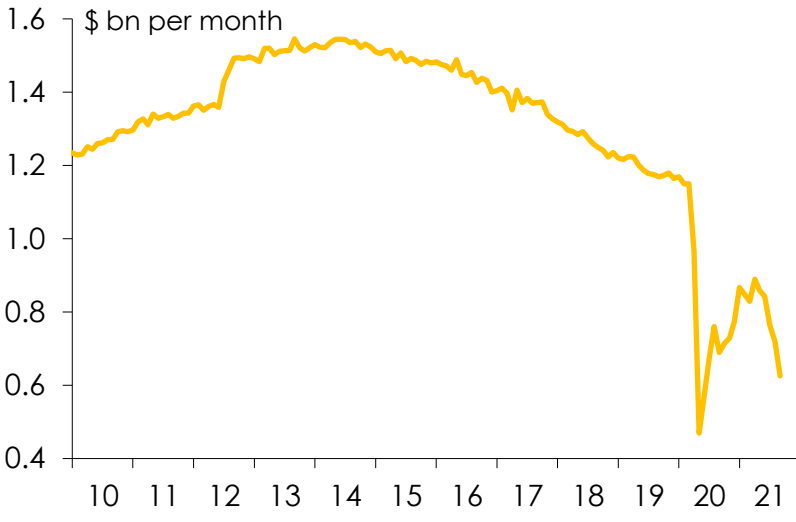
Credit card cash advances



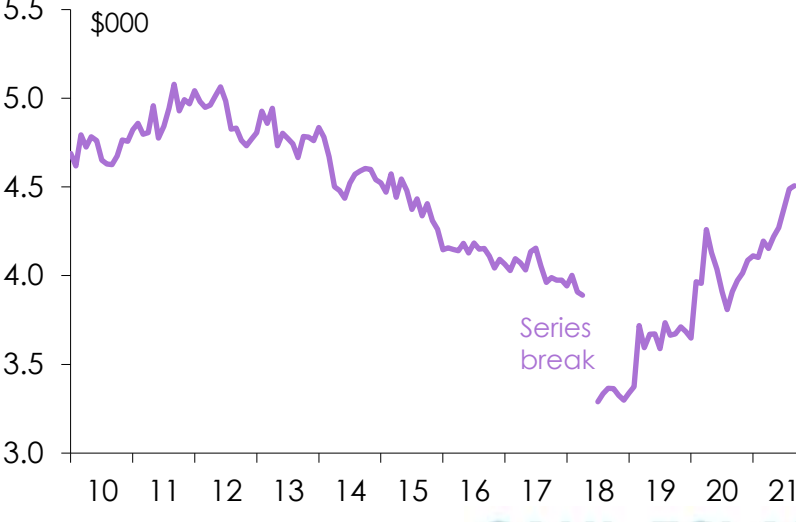
Online retail 'market share'



Debit card cash-outs



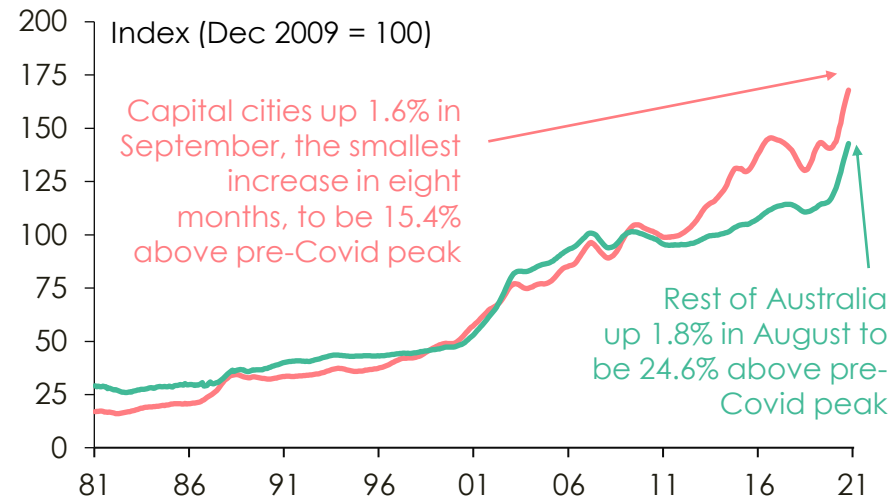
Direct entry payments



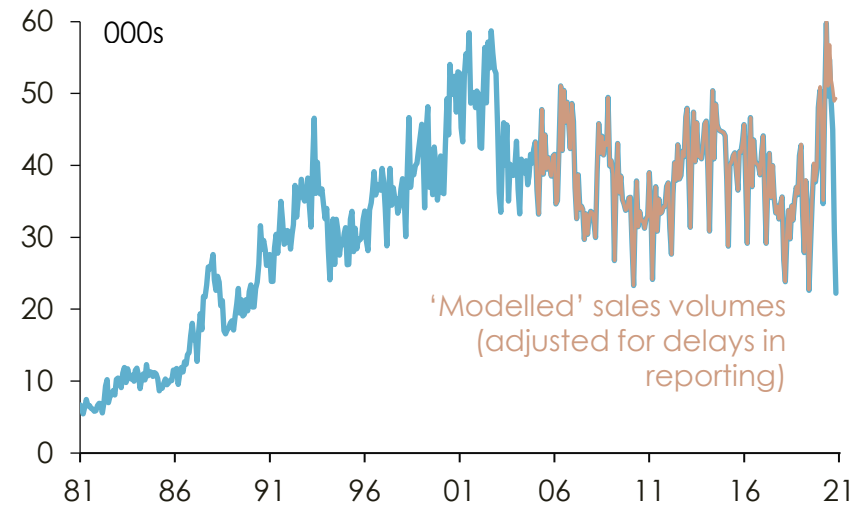
Sources: ABS, [Retail Trade, Australia](#); RBA, [Statistical Tables](#), C1, C2, C4 and C6. Latest data are for August: September online retail sales data will be published on 4<sup>th</sup> November; while September payments system data will be released on 7<sup>th</sup> November. [Return to "What's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

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

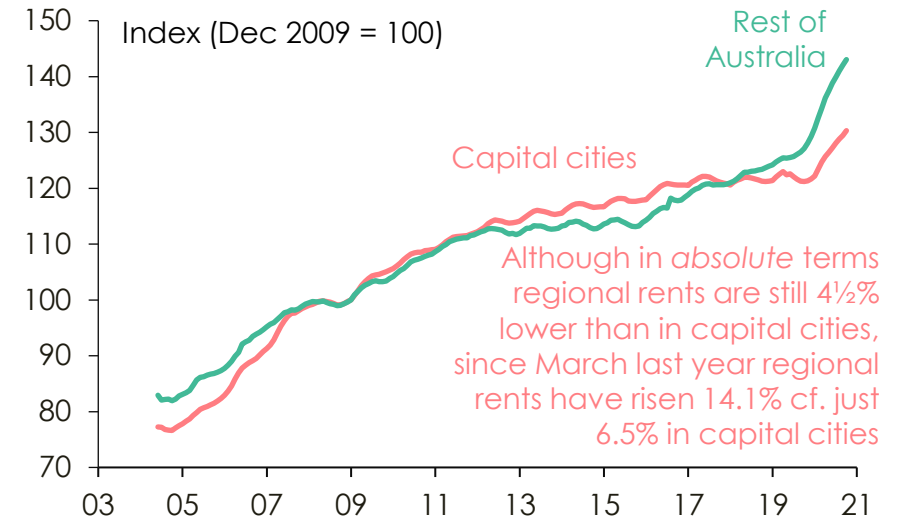
## Residential property prices



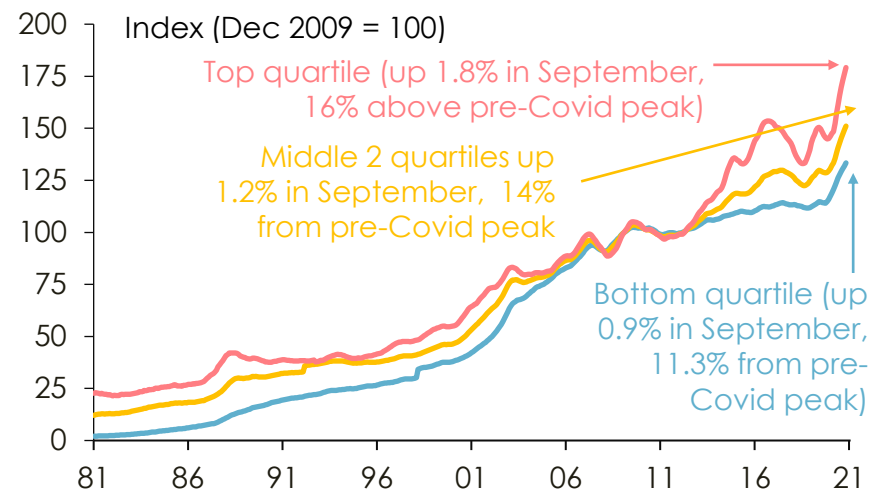
## Residential property sales volumes



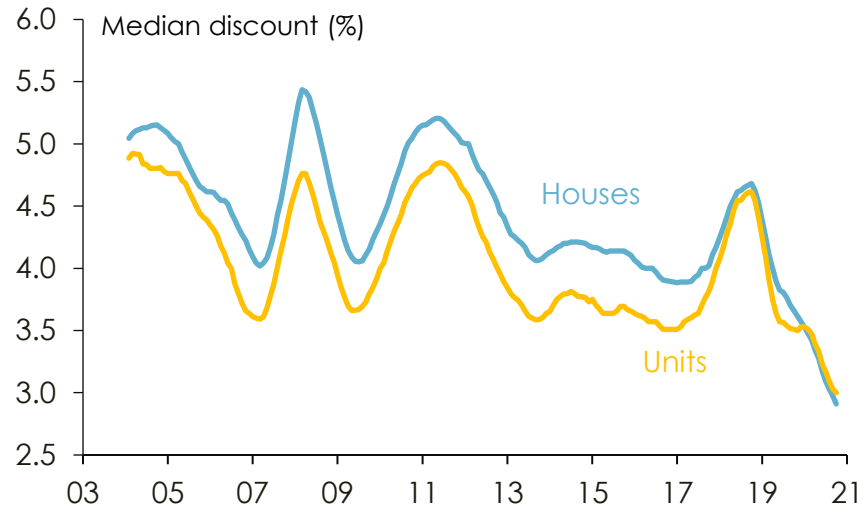
## Residential rents



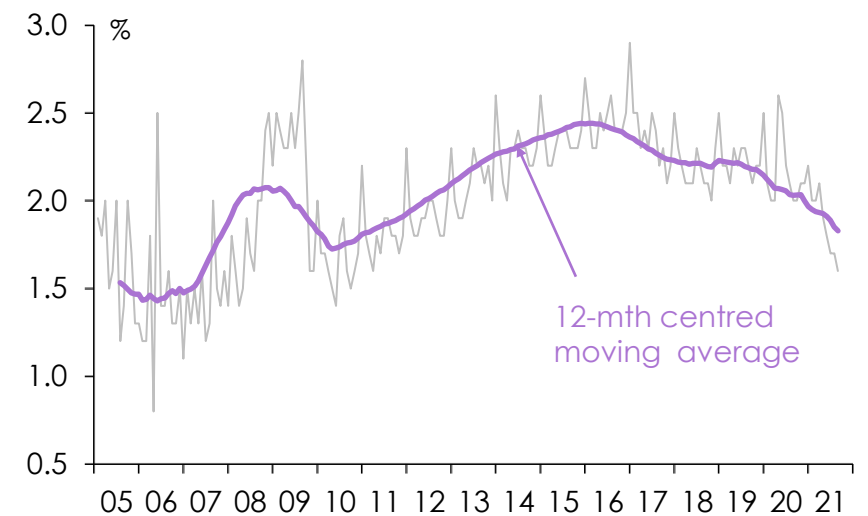
## Property prices by tier



## Vendor discounting



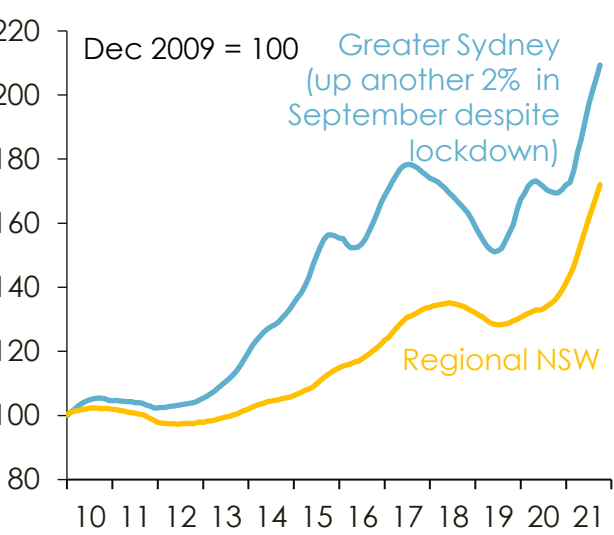
## Capital city rental vacancy rates



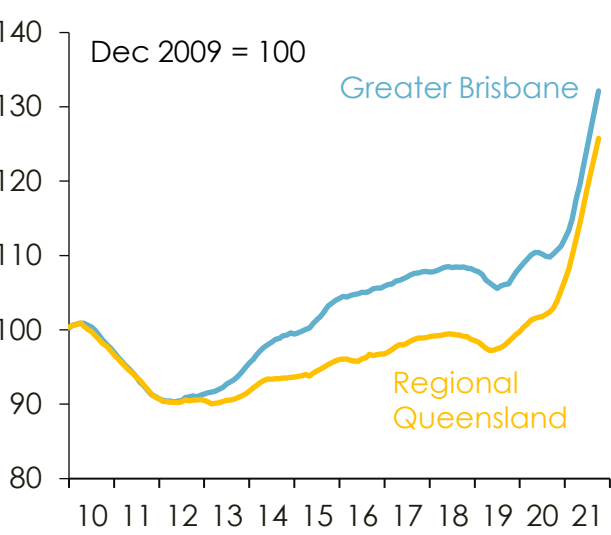
Note: The index of property prices measures the 'organic' change in underlying sales values by using a hedonic regression methodology that takes account of changes in the characteristics of properties being sold from month to month. Property price data shown here are seasonally adjusted. The index of 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 1<sup>st</sup> 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

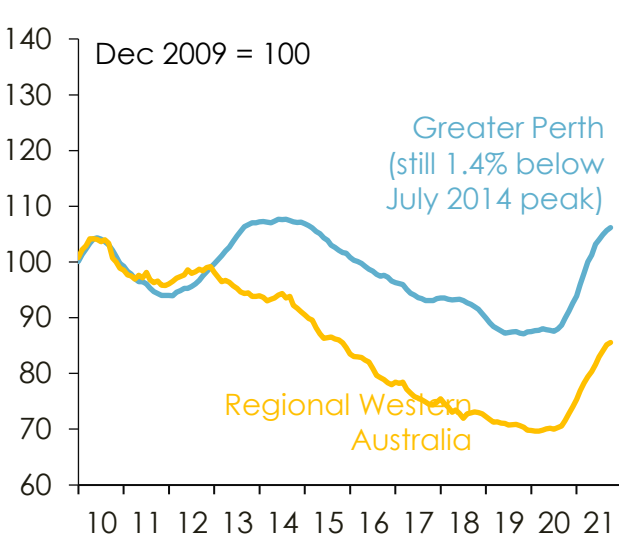
## New South Wales



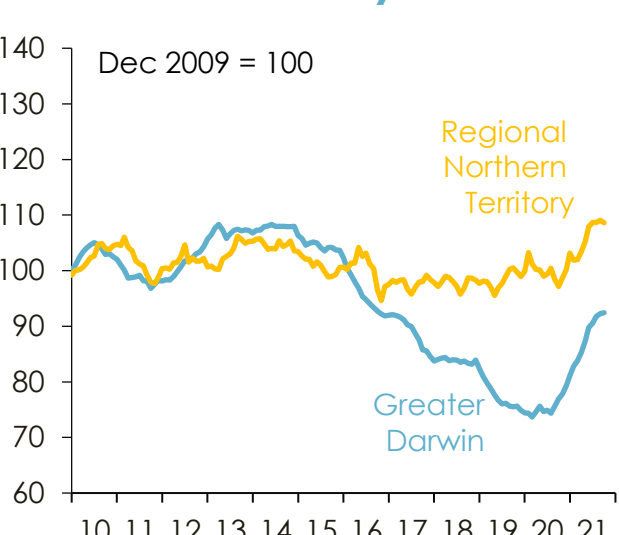
## Queensland



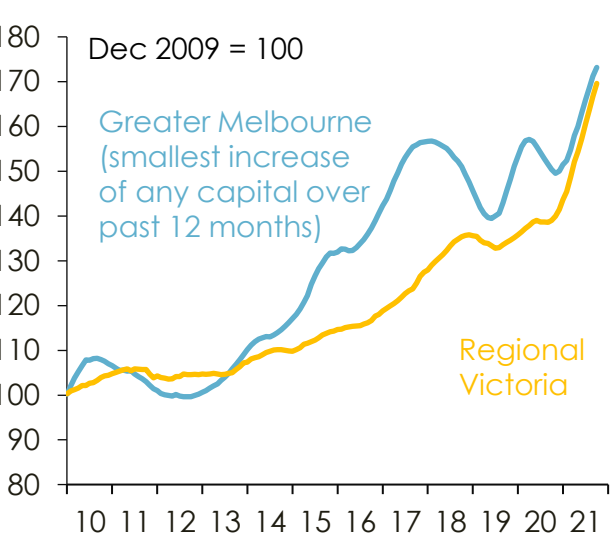
## Western Australia



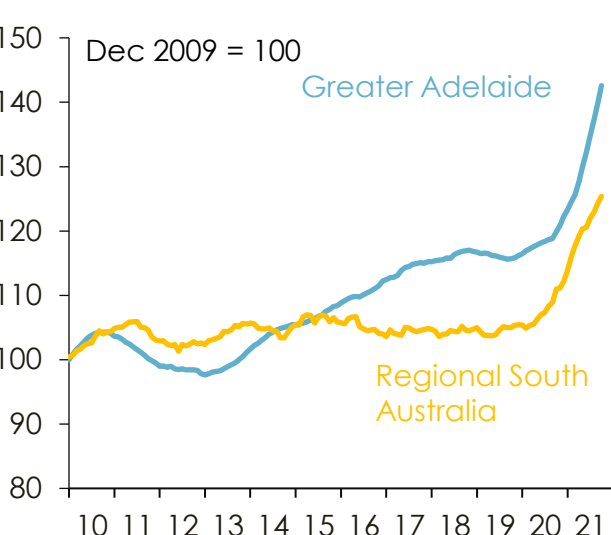
## Northern Territory



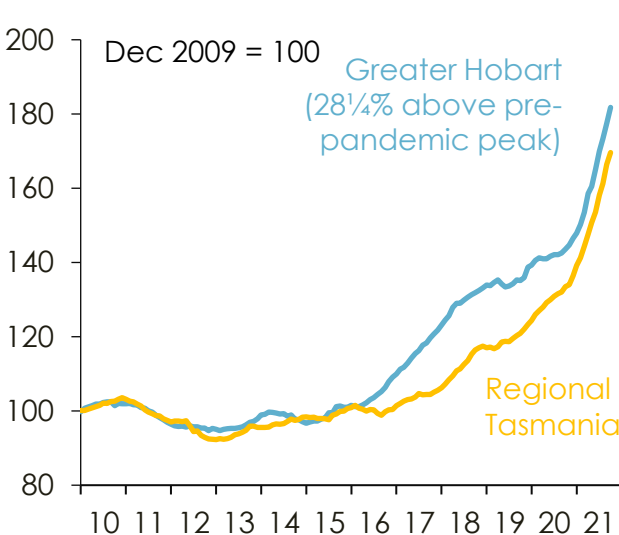
## Victoria



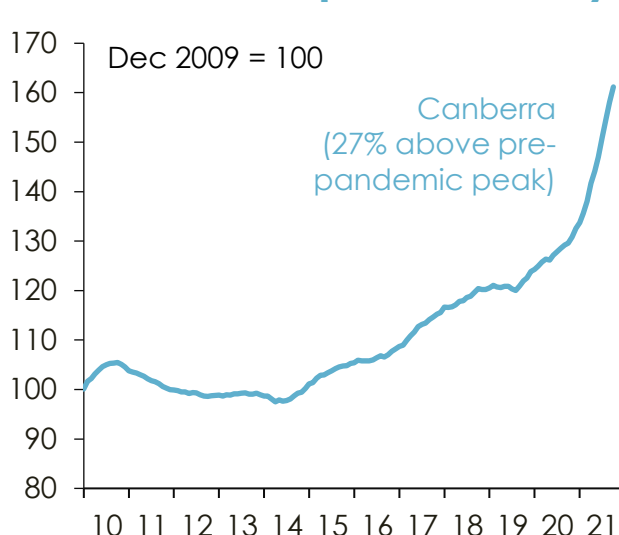
## South Australia



## Tasmania



## Australian Capital Territory

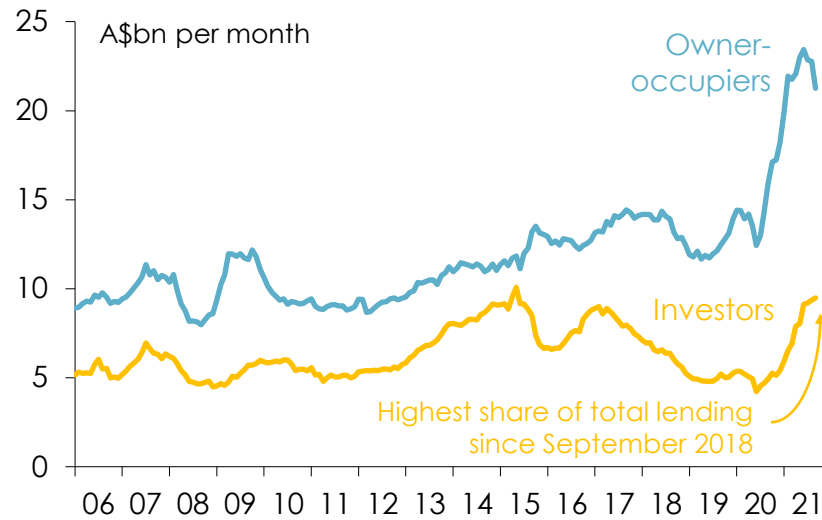


Note: The index of property prices measures the 'organic' change in underlying sales values by using a hedonic regression methodology that takes account of changes in the characteristics of properties being sold from month to month. Property price data are seasonally adjusted. Latest data are September;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

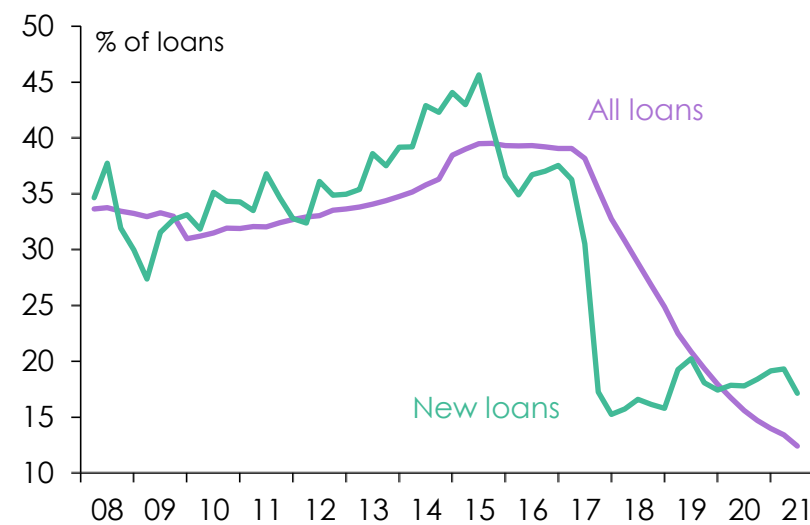


# Lending to property investors and to existing home-owners 'trading up' has risen sharply in recent months while FHBs are again being 'squeezed out'

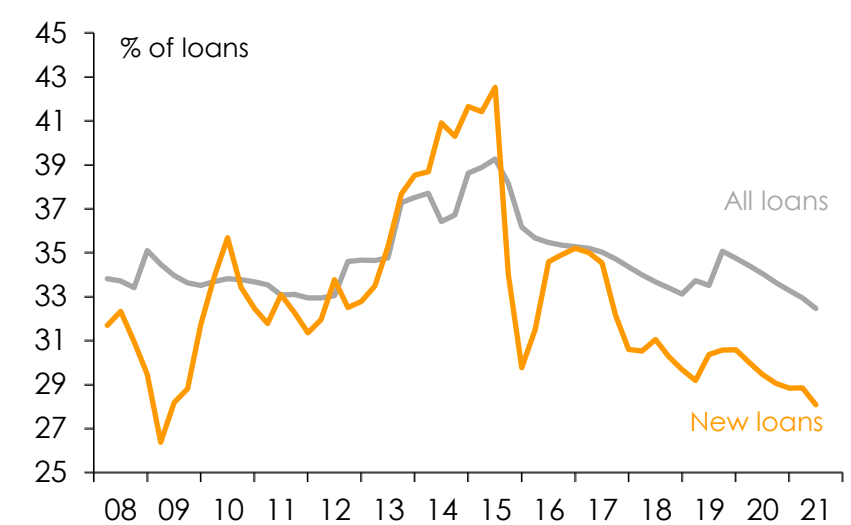
## Housing finance commitments



## Interest-only loans as pc of total



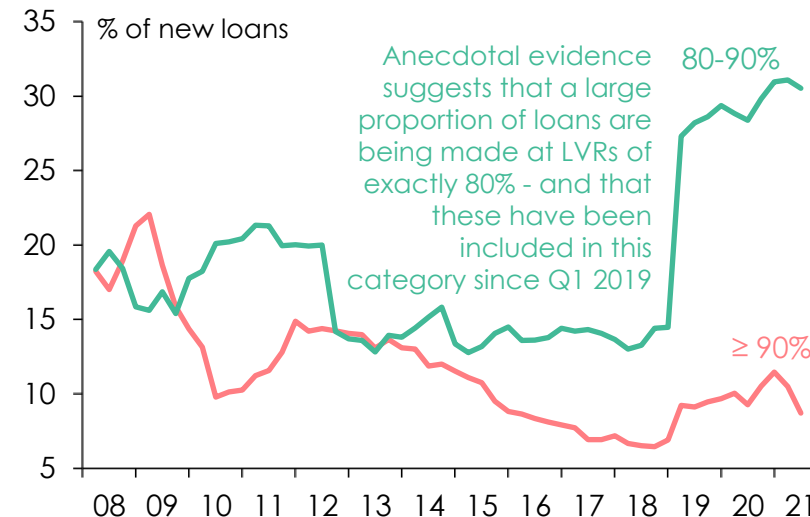
## Loans to investors as a pc of total



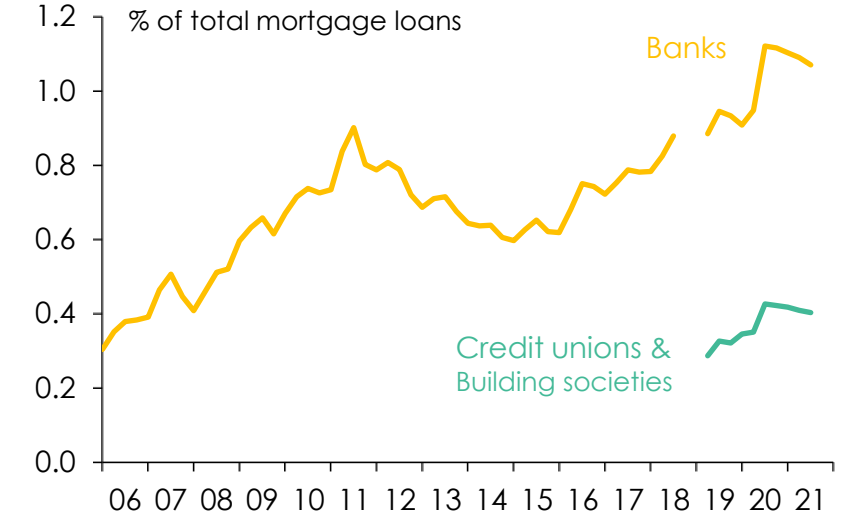
## Lending to first home buyers



## High LVR loans as a pc of total



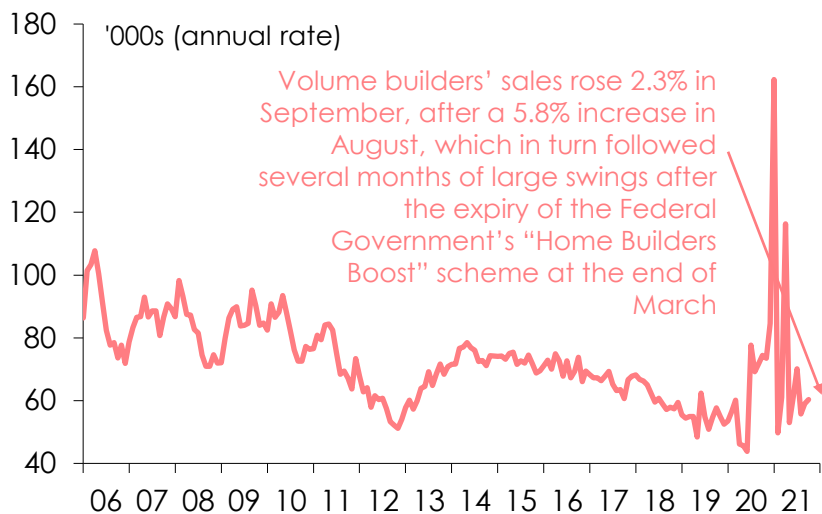
## Non-performing mortgage loans



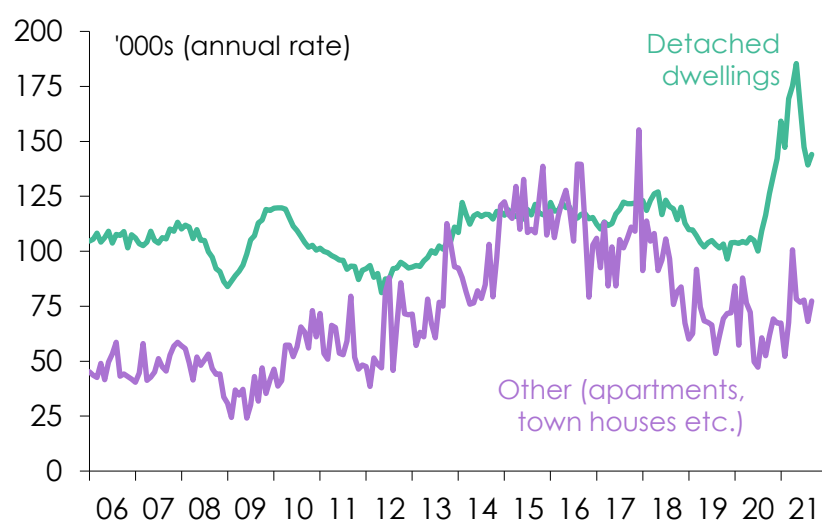
Sources: ABS, [Lending Indicators](#); Australian Prudential Regulation Authority (APRA), [Quarterly authorised deposit-taking institution statistics](#). September housing finance data will be released on 1<sup>st</sup> October; APRA data on ADI property exposures for the September quarter will be released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

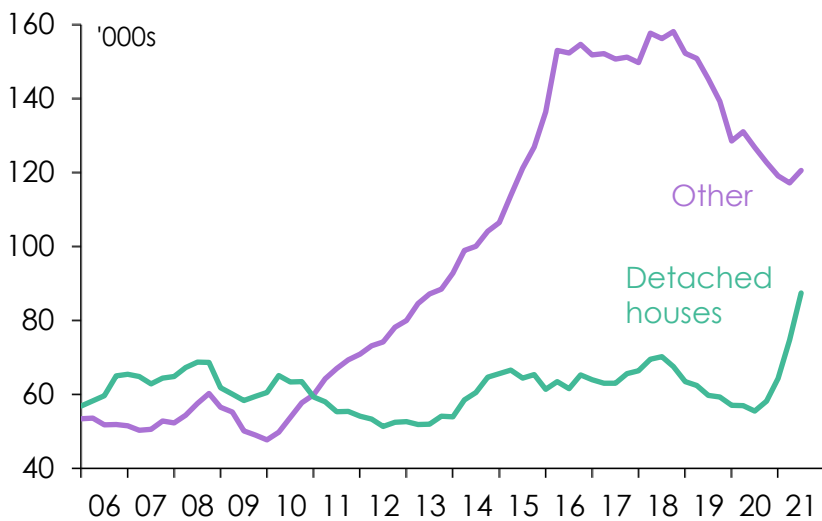
Large builders' new home sales



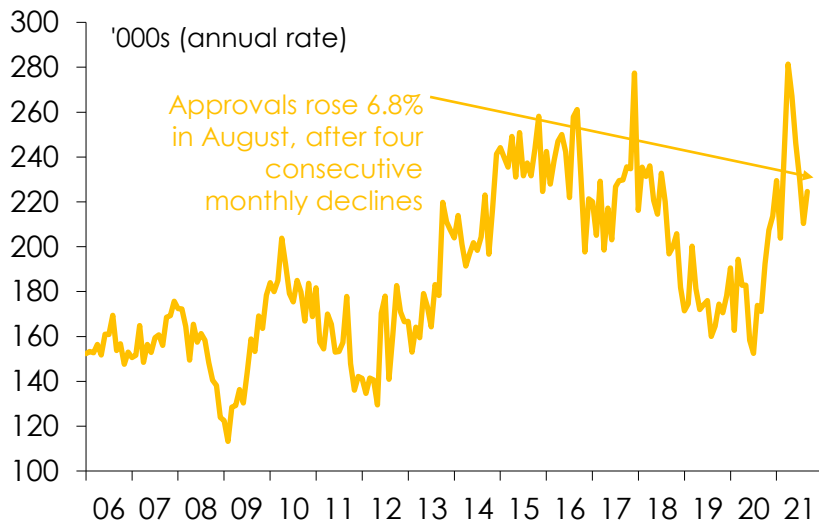
Building approvals, by type



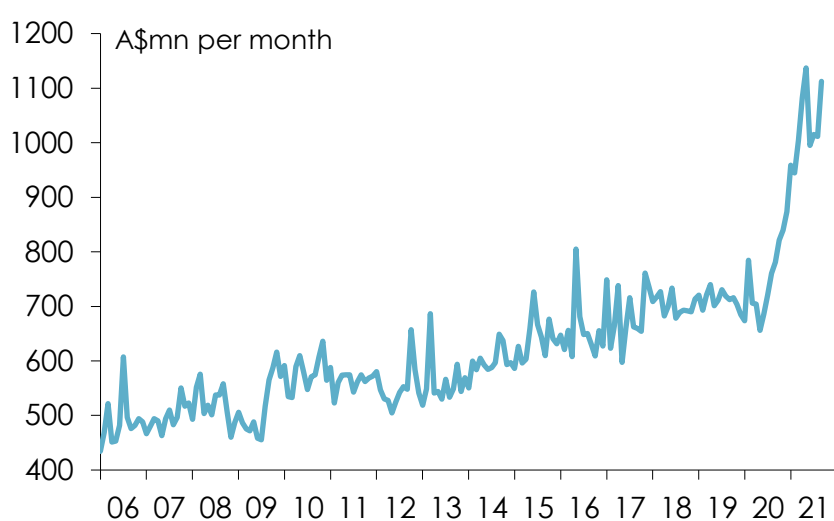
Dwellings under construction



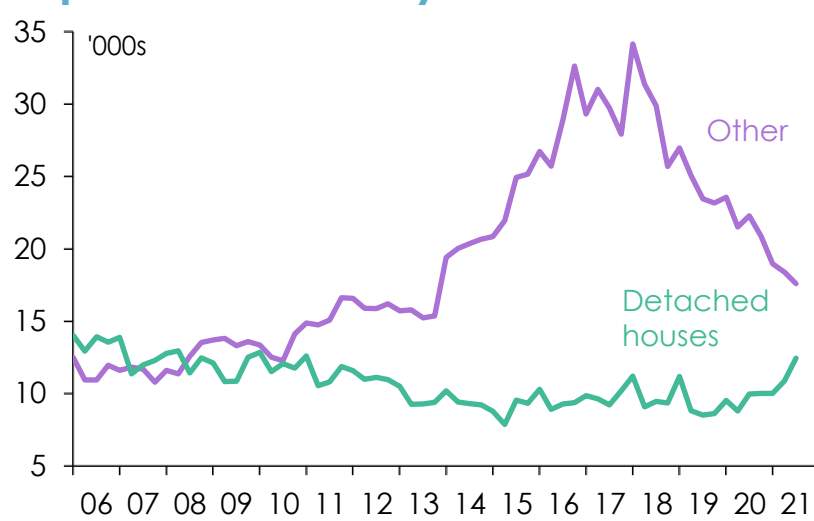
Residential building approvals



Alterations & additions approved



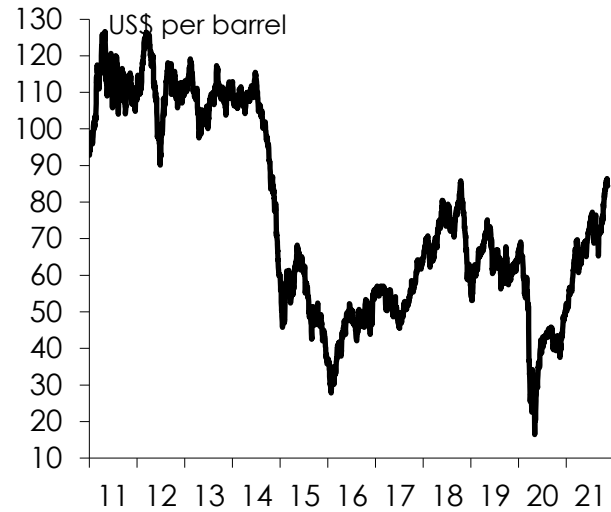
'Pipeline' of work yet to be started



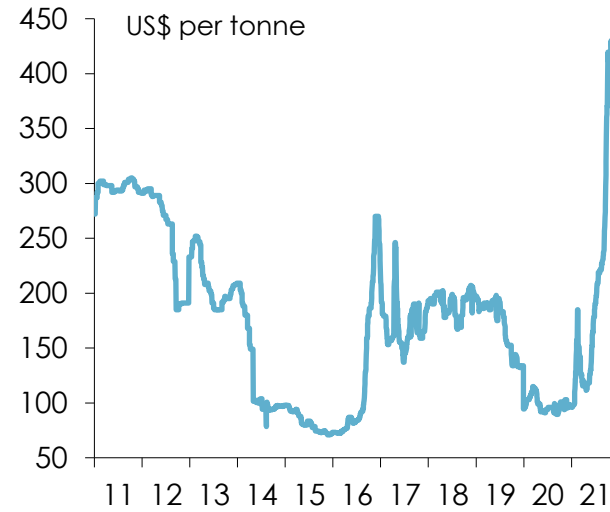
Note: 'New home sales' are of detached dwellings only and exclude small-scale builders. Sources: ABS, [Building Approvals](#); Housing Industry Association. September building approvals data will be released on 3<sup>rd</sup> November; September quarter dwellings under construction and 'pipeline' data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

# Commodity prices were generally lower this week with iron ore down 3¾%, coal down ¼-1¾%, oil down 1-1½% and aluminium down 4%

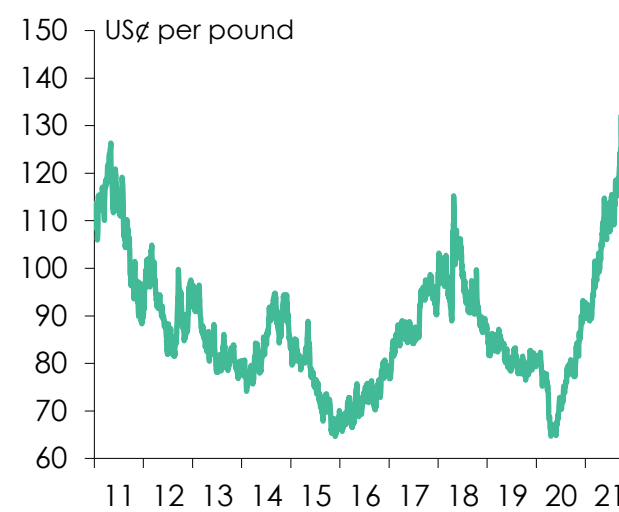
## Brent crude oil



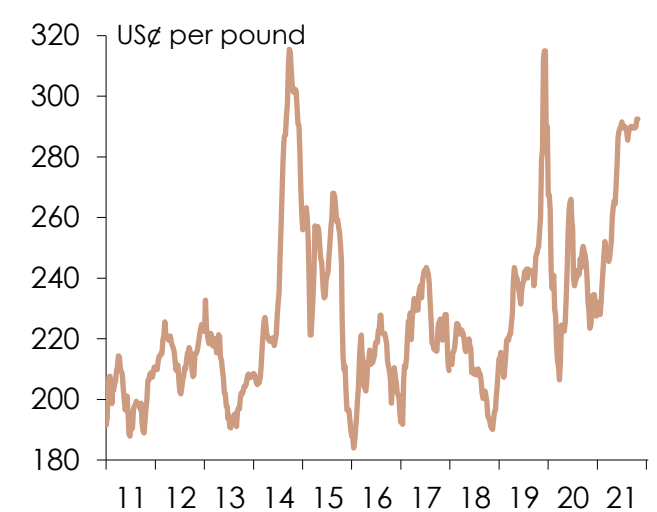
## Metallurgical coal



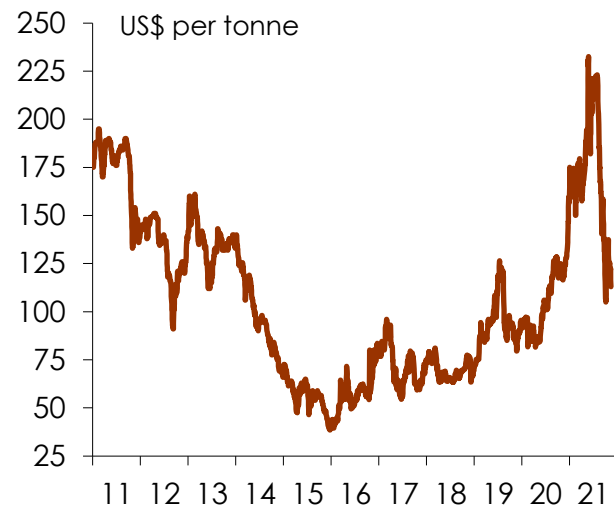
## Aluminium



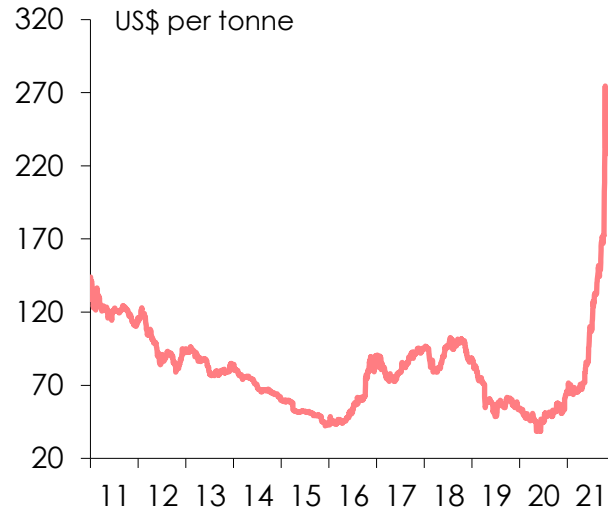
## Beef



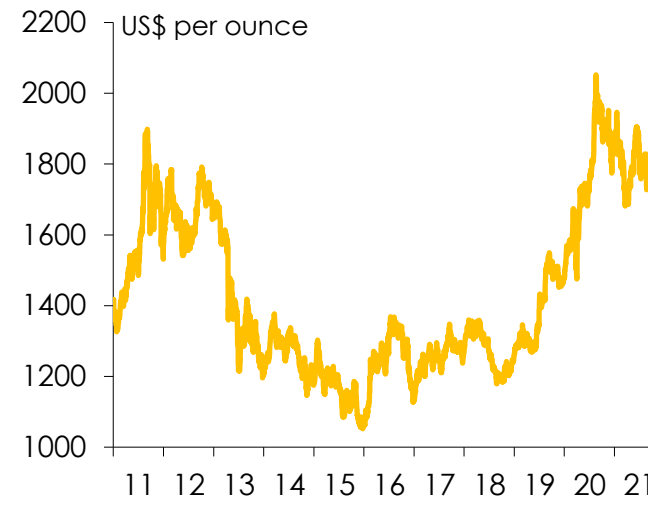
## Iron ore



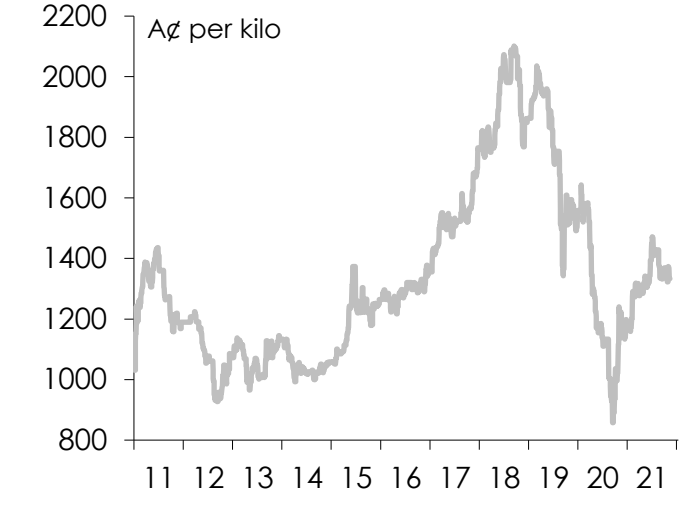
## Thermal coal



## Gold

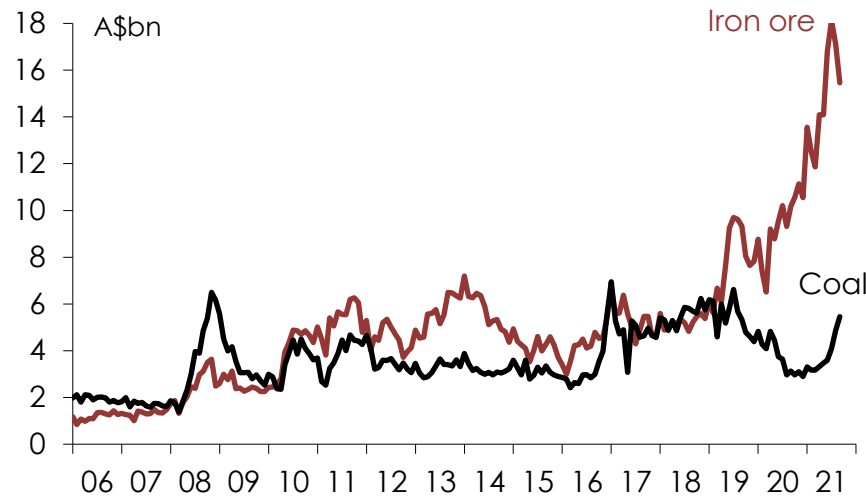


## Wool

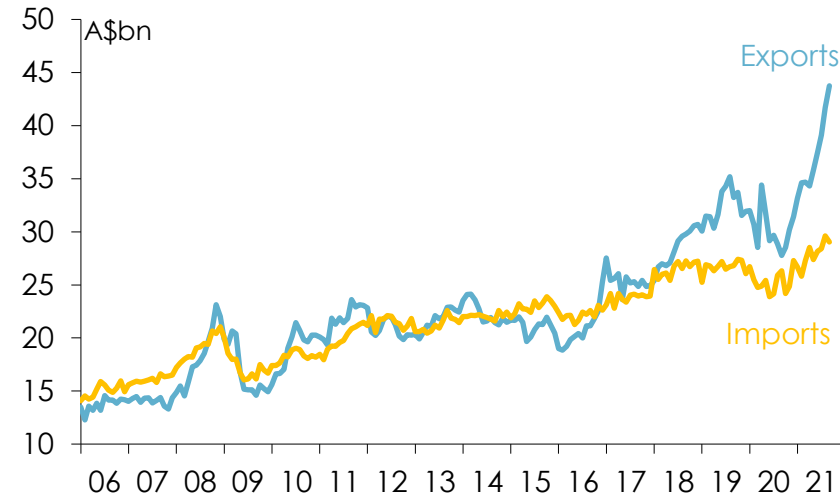


# Australia registered another record trade surplus of \$15bn in August, thanks to large increases in coal, LNG & metals exports and lower imports

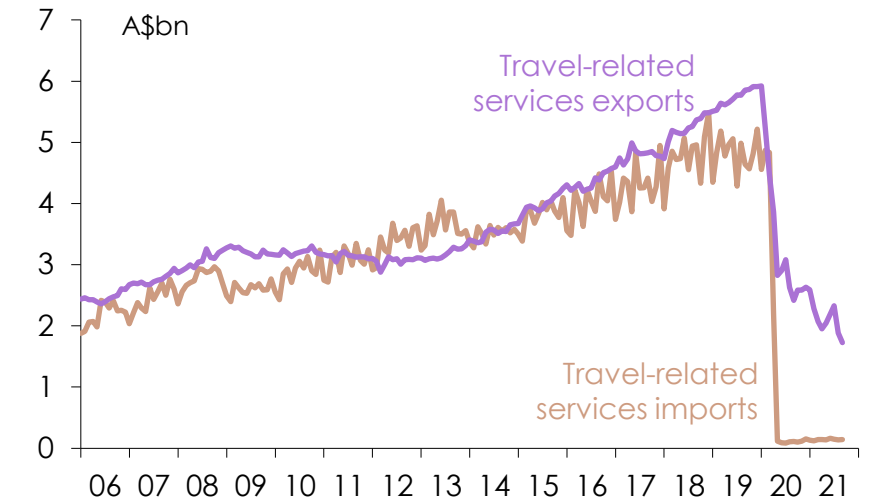
## Iron ore and coal exports



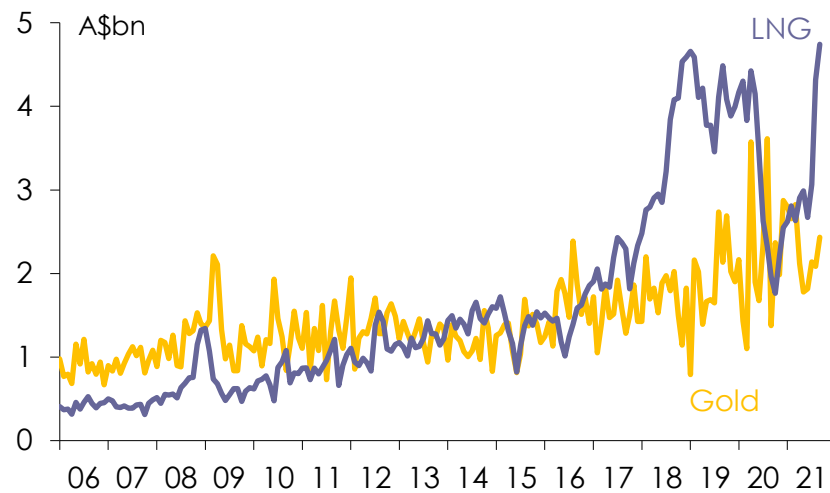
## Merchandise exports and imports



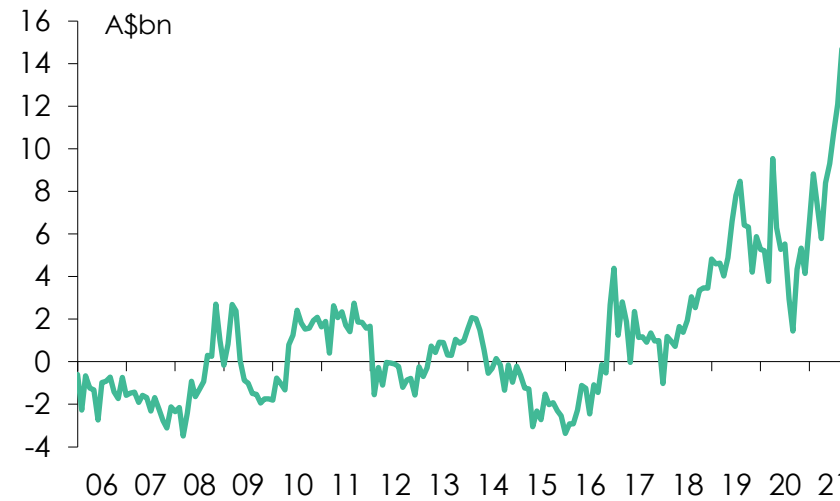
## Tourism-related services trade



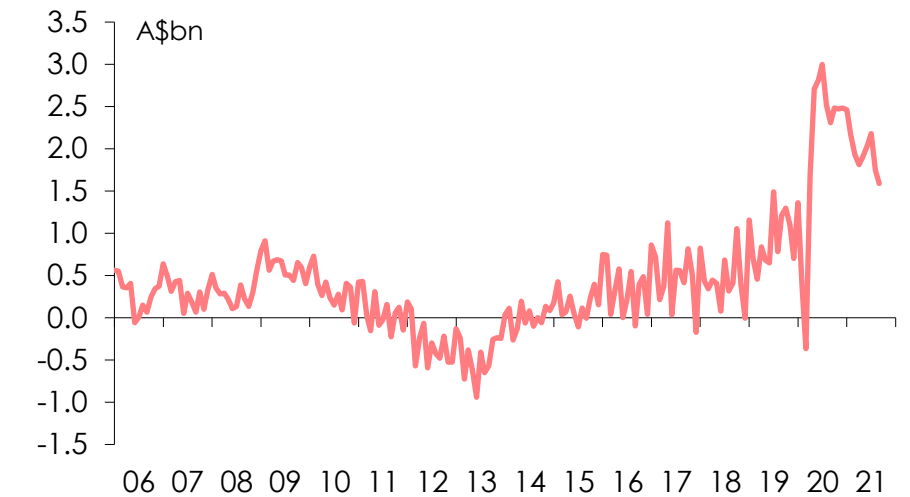
## LNG and gold exports



## Merchandise trade balance



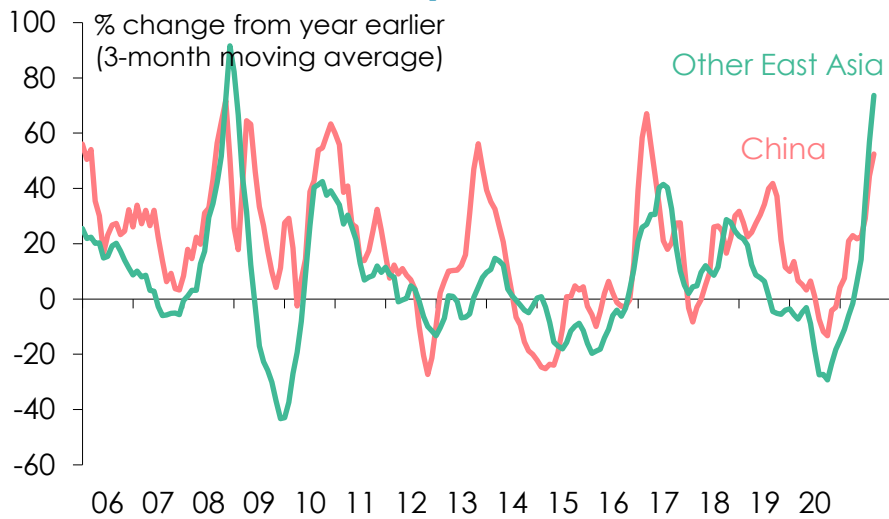
## Tourism services trade balance



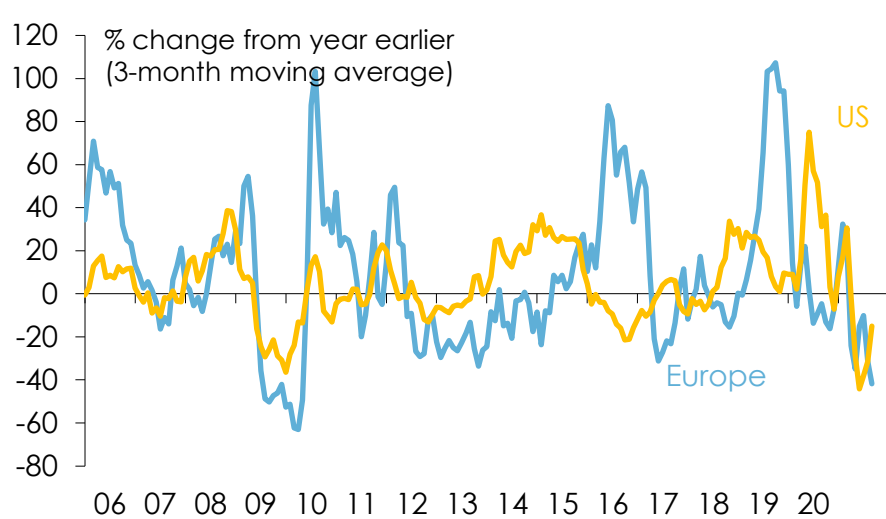
Source: ABS, [International Trade in Goods and Services, Australia](#), August 2021. September data will be released on 4<sup>th</sup> November. [Return to "What's New"](#).

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

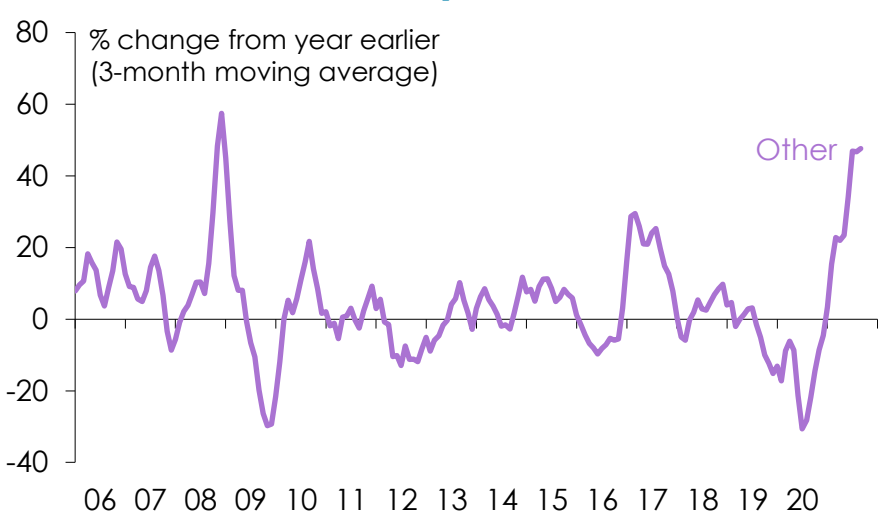
Merchandise exports – East Asia



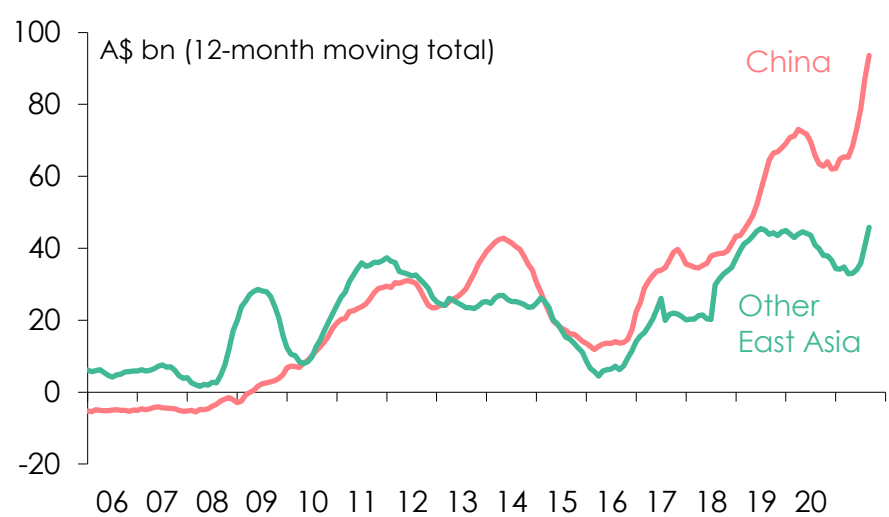
Merchandise exports – US & Europe



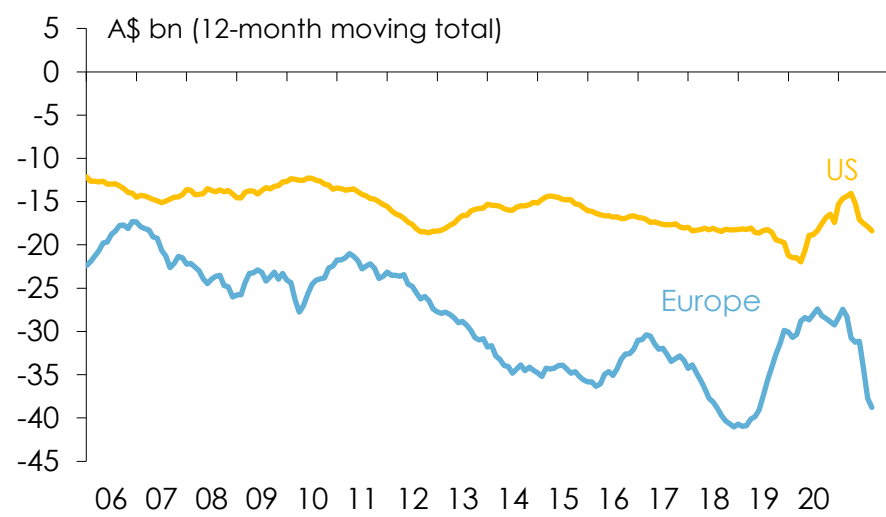
Merchandise exports – other



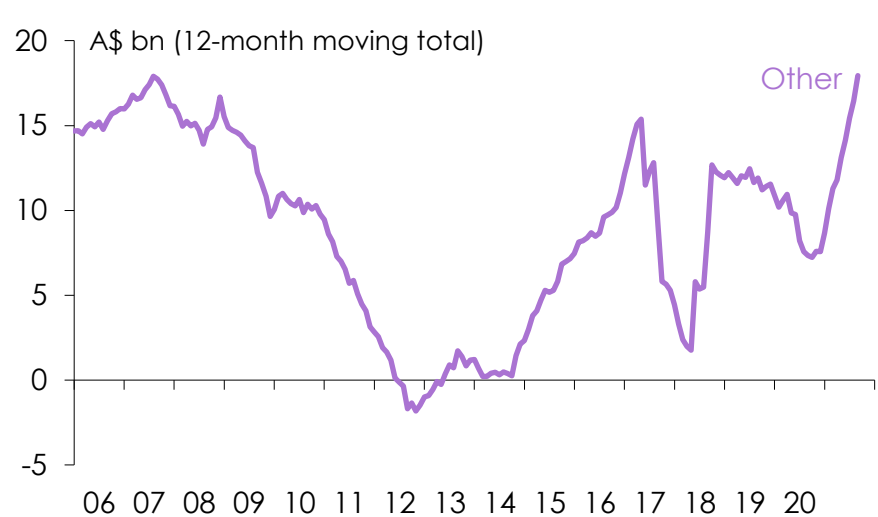
Goods trade balance – East Asia



Goods trade balance – US & Europe



Goods trade balance – other

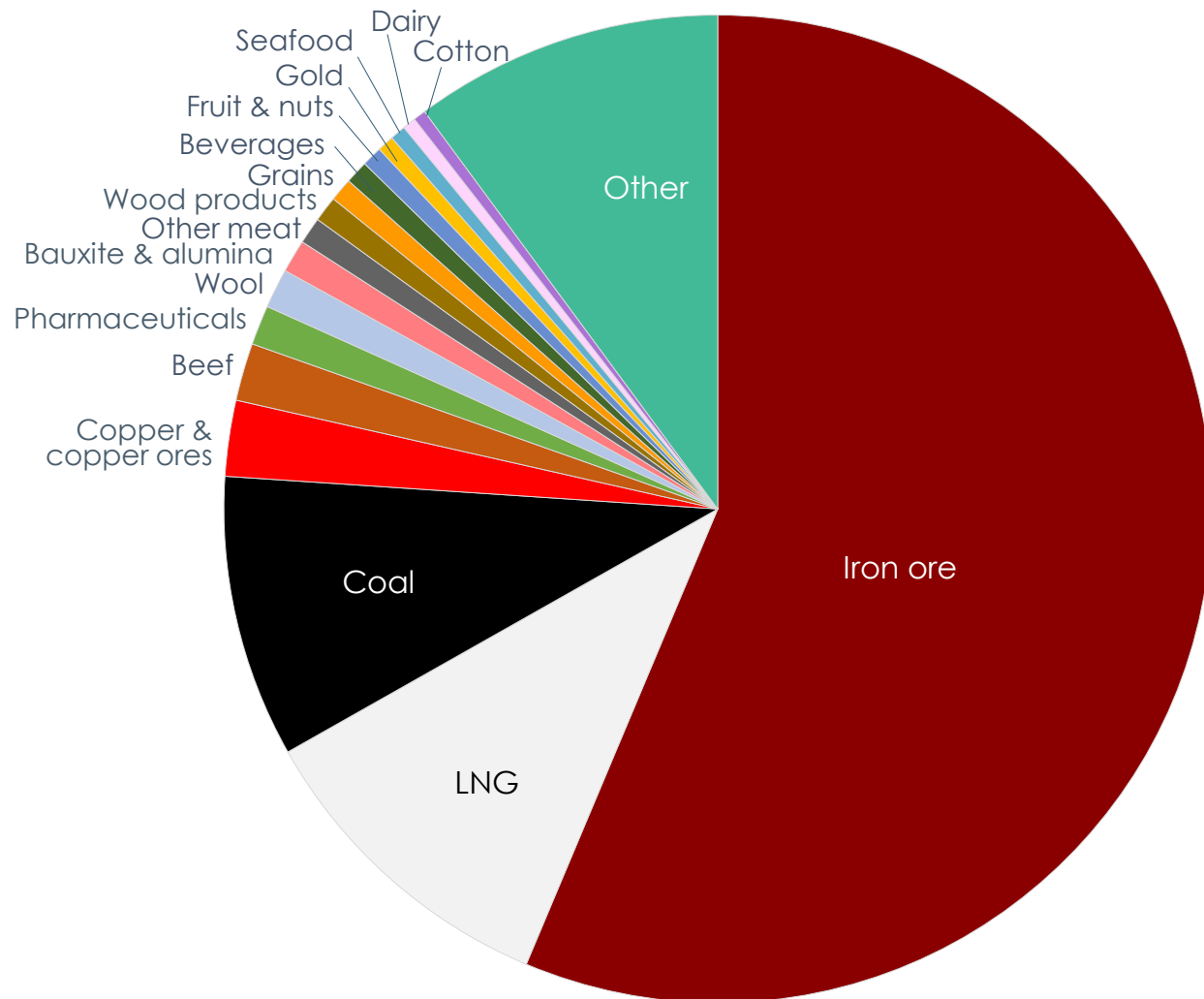


Note: 'Other East Asia' includes Japan, Korea, Taiwan, Hong Kong and ASEAN. 'Europe' includes the EU, UK and Switzerland. 'Other' includes India, New Zealand and the Pacific, Canada, Latin America, Africa, the Middle East and others not included in the foregoing. Latest data are for August. Source: ABS,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



- ❑ 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 the announcement of a new defence pact with the US and UK on 16<sup>th</sup> September
- ❑ 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)

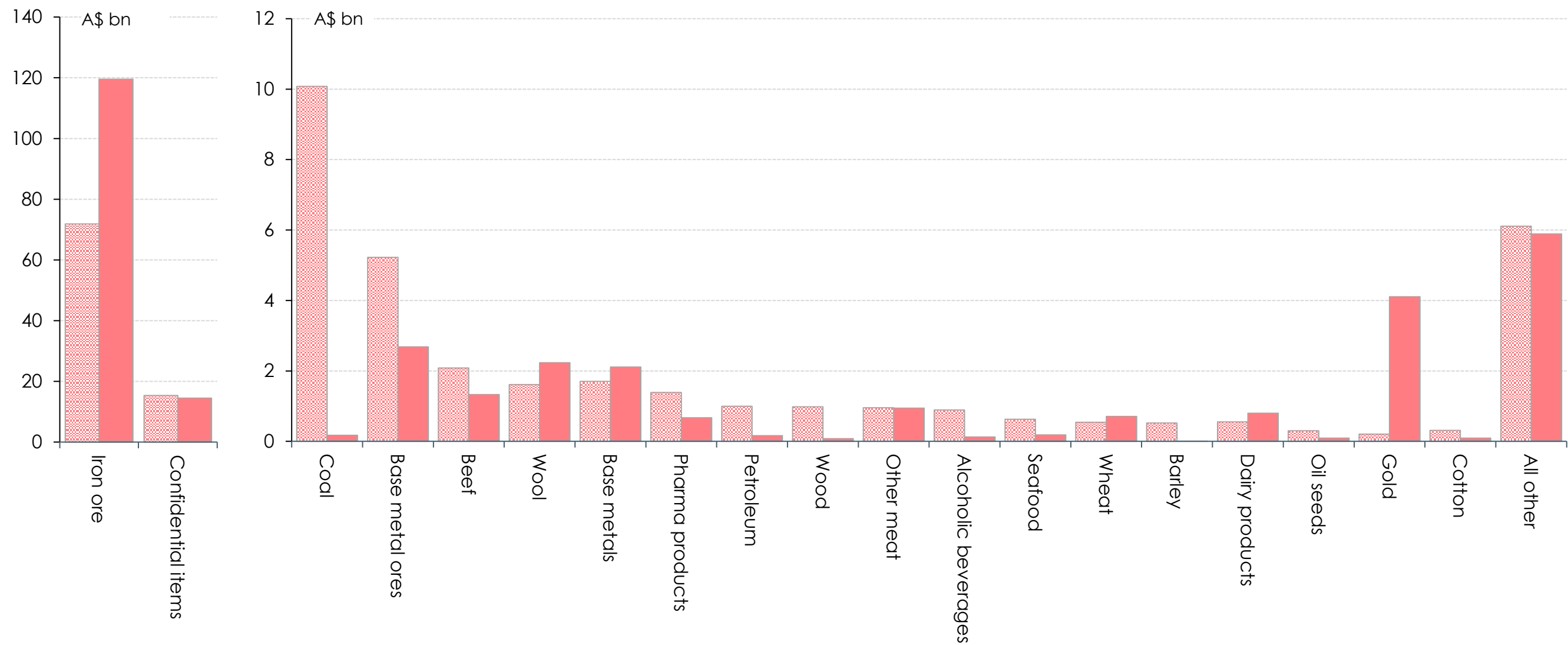
Note: 'Wood' includes wood products; 'dairy' includes milk, cream, butter & cheese; 'seafood' includes crustaceans, fish and processed seafood; 'other' includes confidential items.

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



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

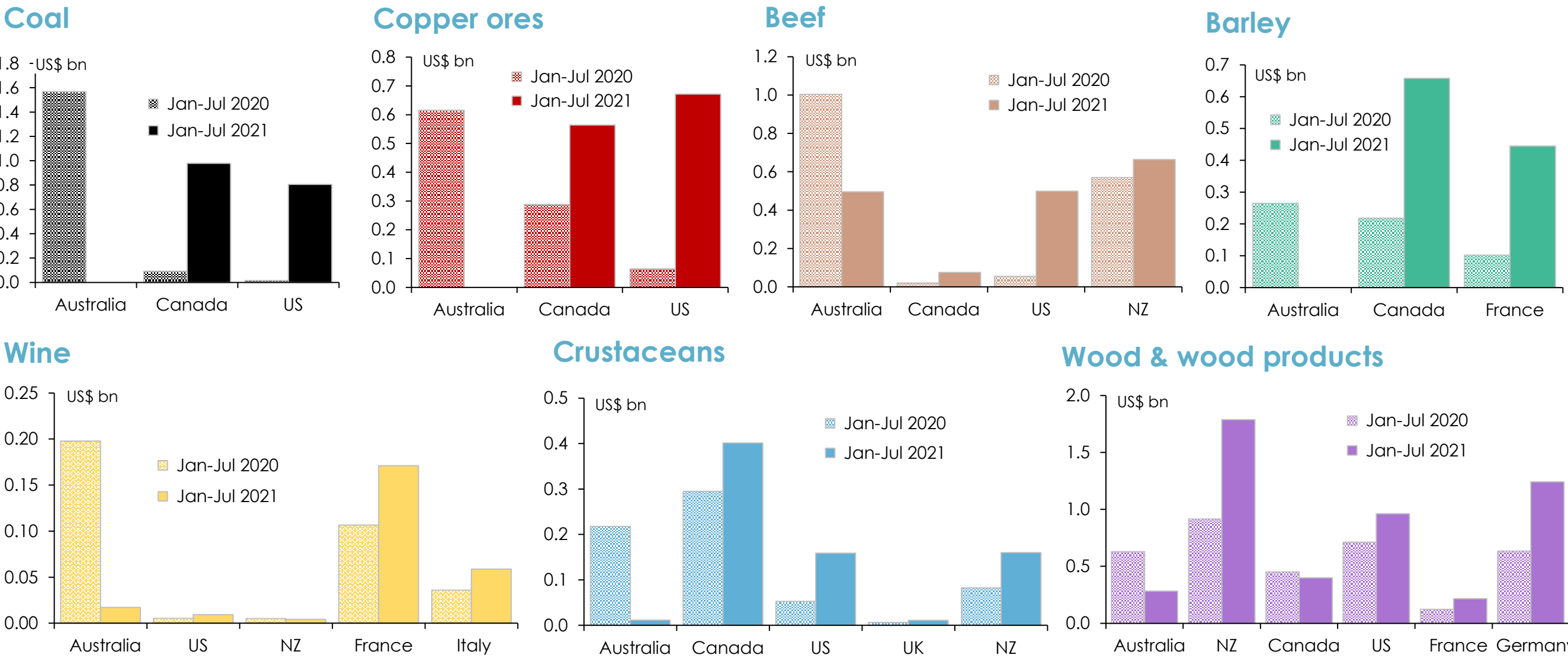
Australian exports to China, ten months to August 2021 compared with ten months to August 2020



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

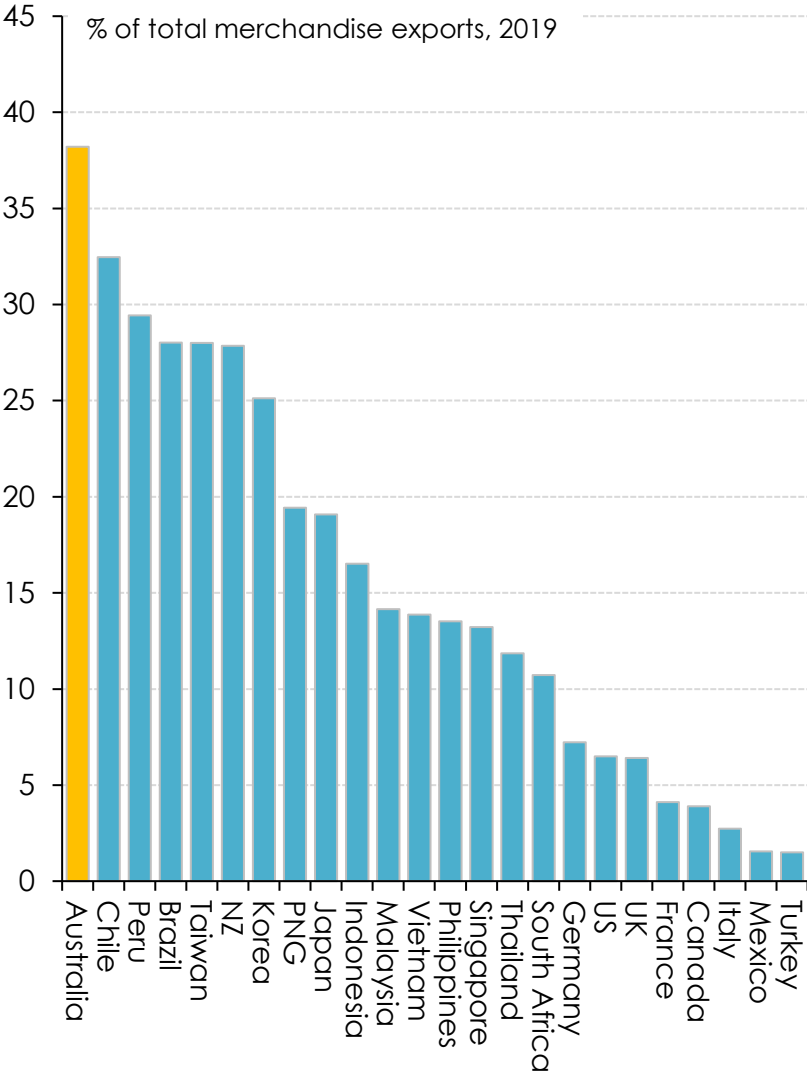
China’s imports of selected products, by origin – January-July 2021 compared with January-July 2020



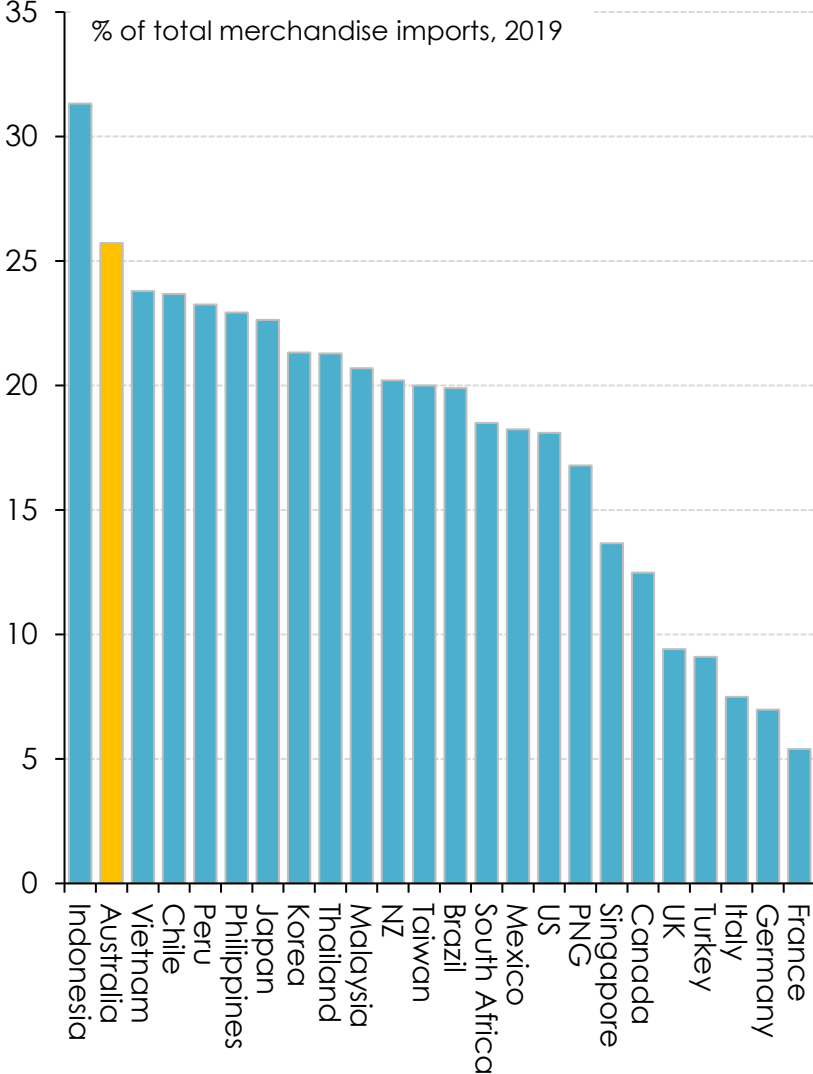
Source: China [General Administration of Customs](#); Corinna. [Return to "What's New"](#).

# 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

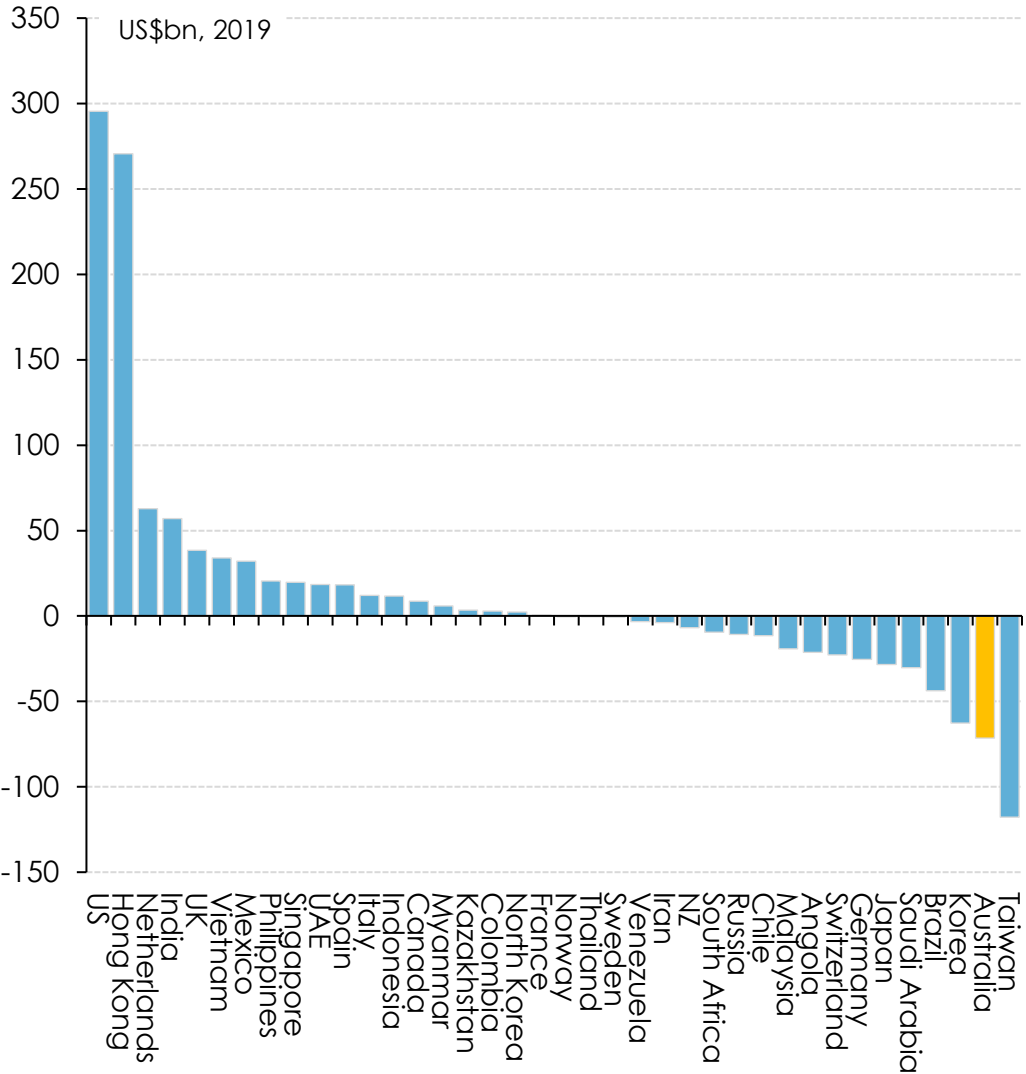
Merchandise exports to China as a pc of total



Merchandise imports from China as a pc of total



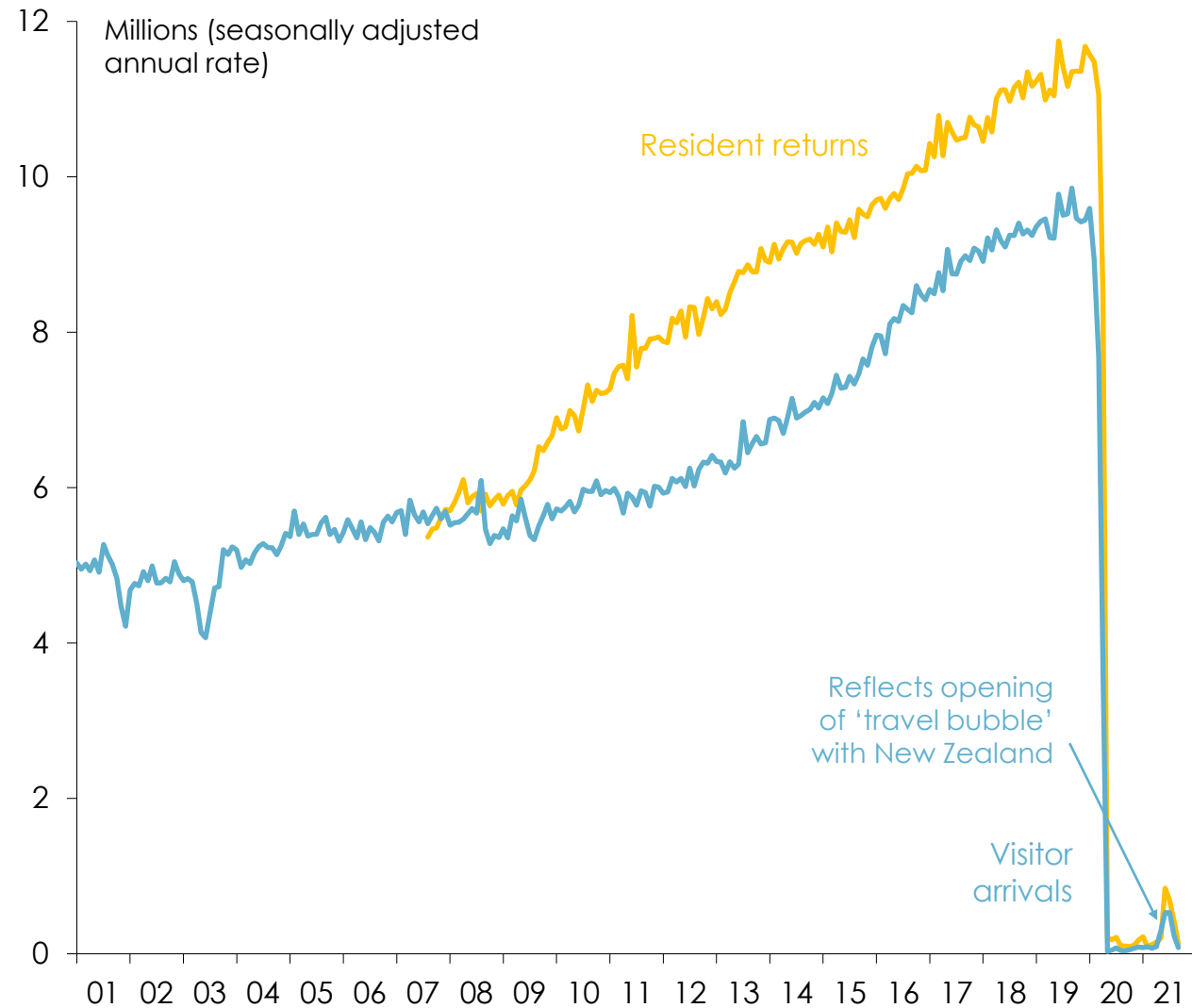
China's bilateral merchandise trade balances



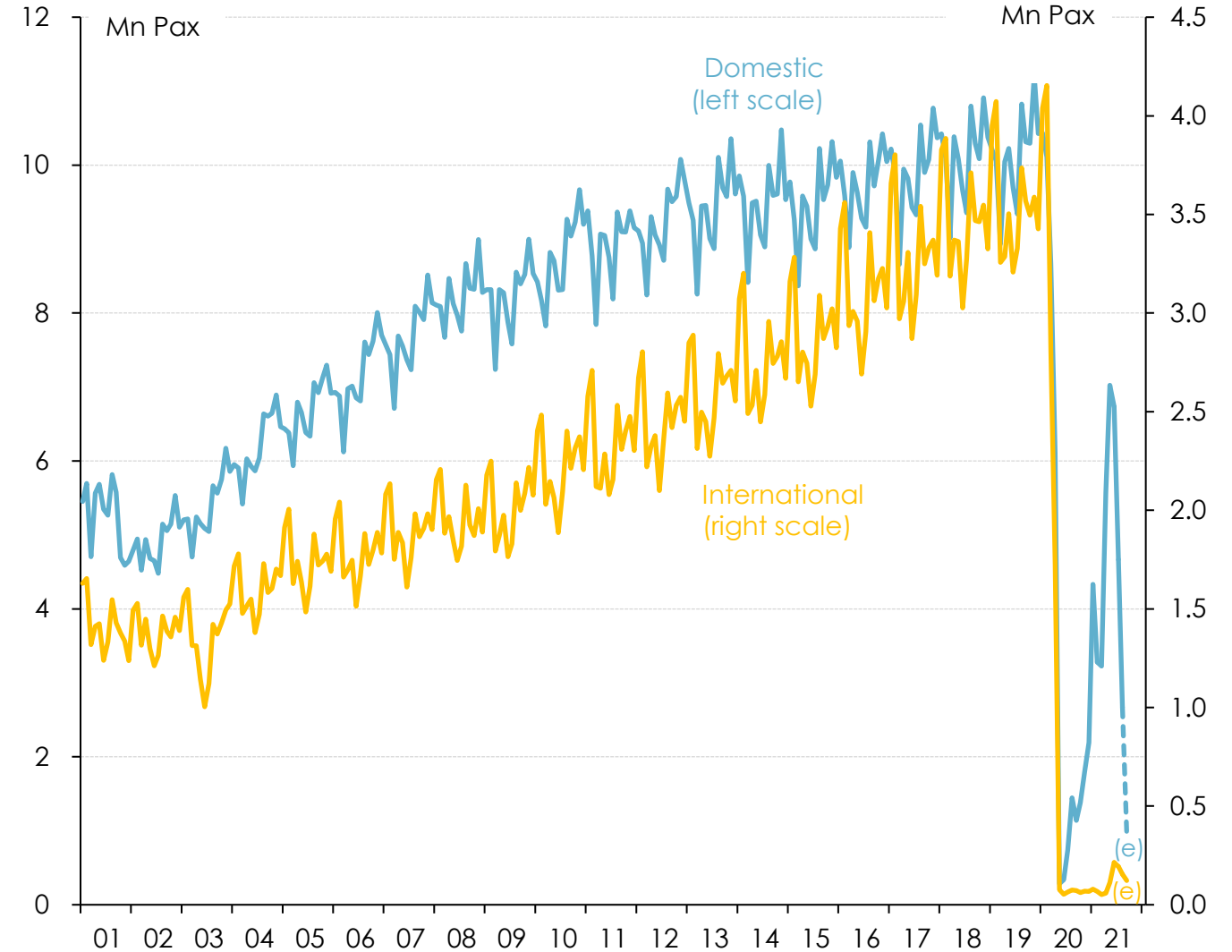
Sources: IMF, Direction of Trade Statistics; Taiwan Ministry of Economic Affairs, Bureau of Foreign Trade. [Return to "What's New"](#).

# 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



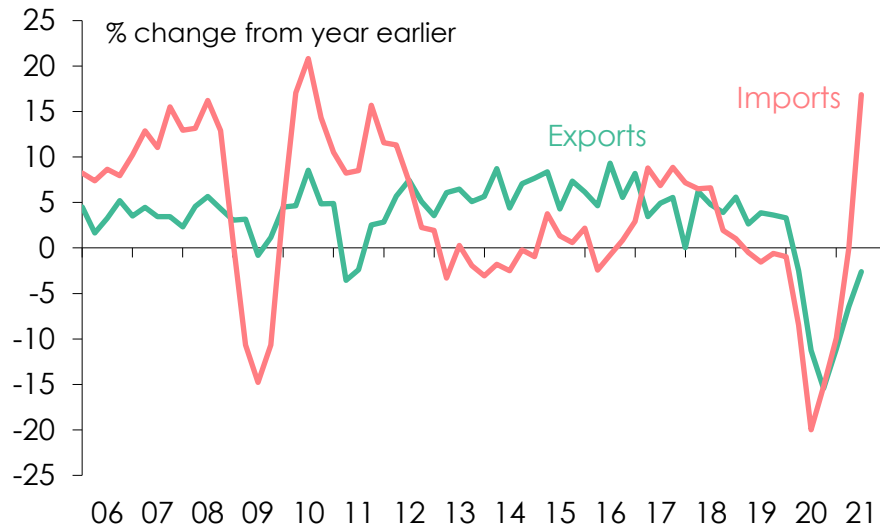
## Airport passenger movements



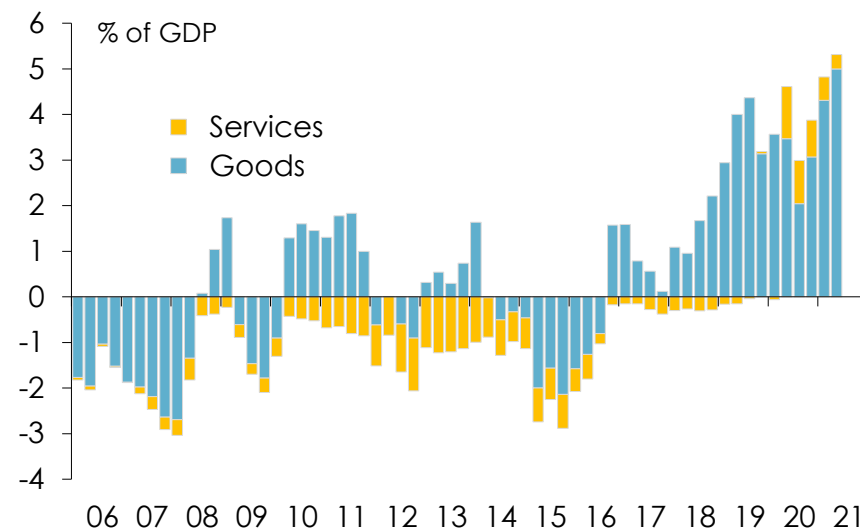
Note: The ABS has suspended publication of seasonally adjusted estimates of short-term visitor arrivals and resident returns, so published original estimates for April 2020 (and beyond) have been seasonally adjusted by Corinna using the same seasonal factors as for the corresponding month of 2019. Latest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

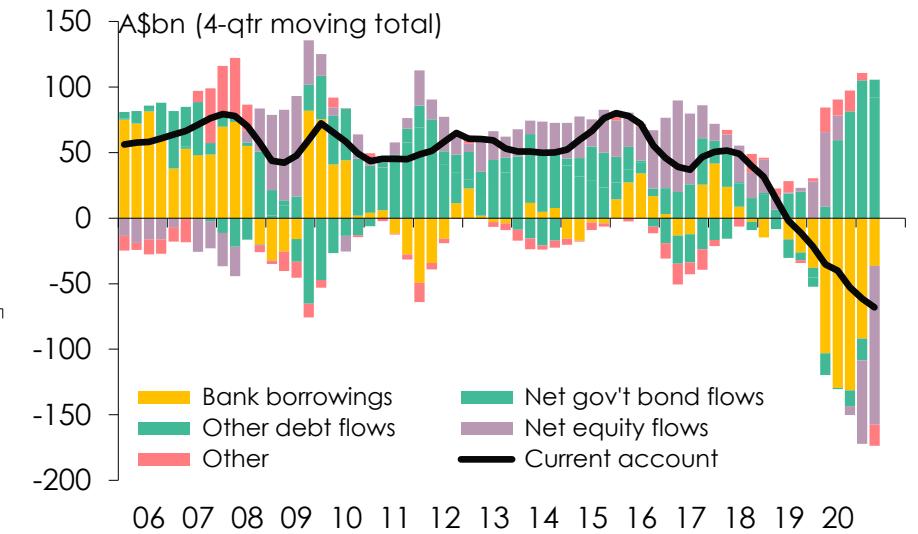
## Export and import volumes



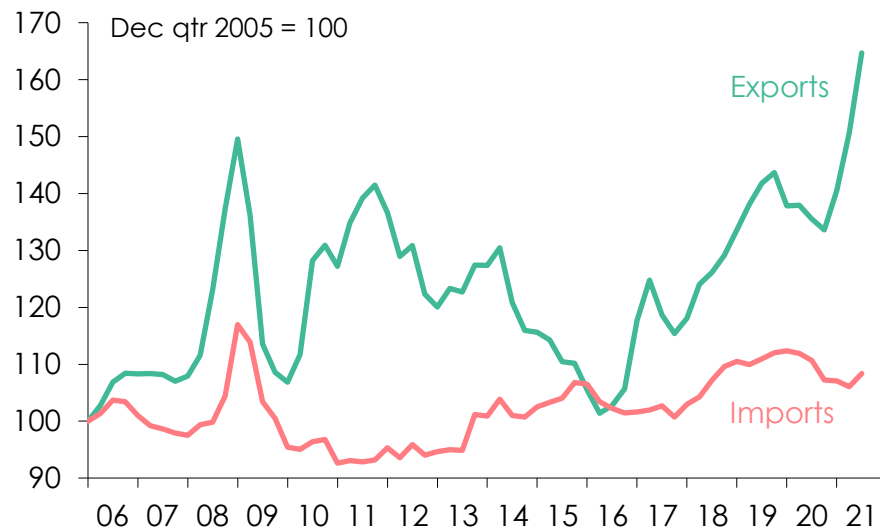
## Goods & services trade balances



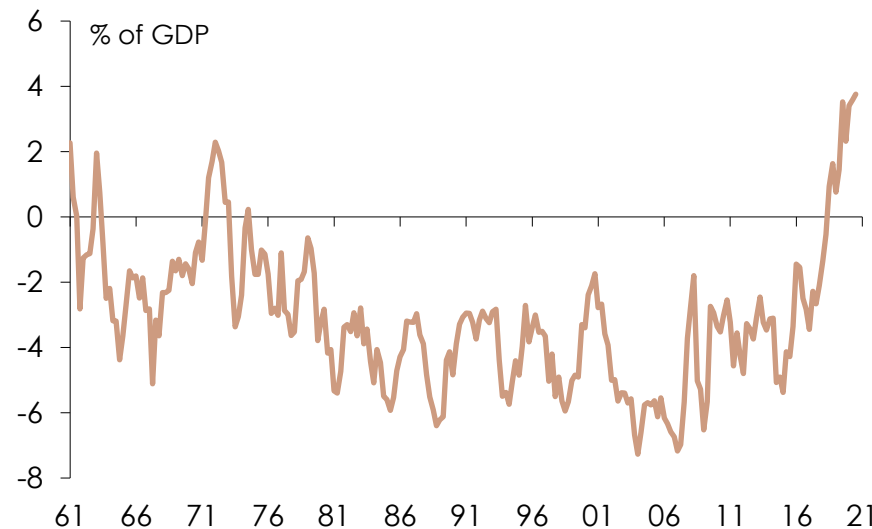
## Capital flows



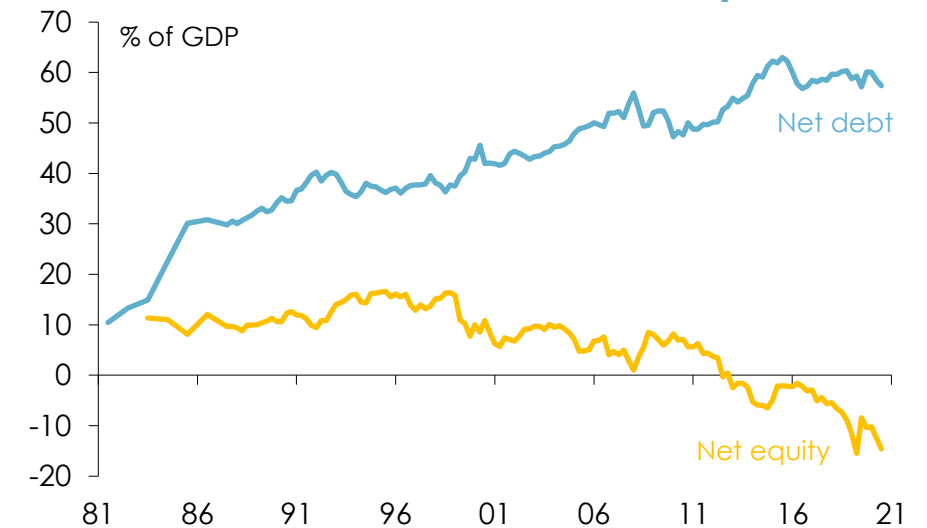
## Export and import prices



## Current account balance



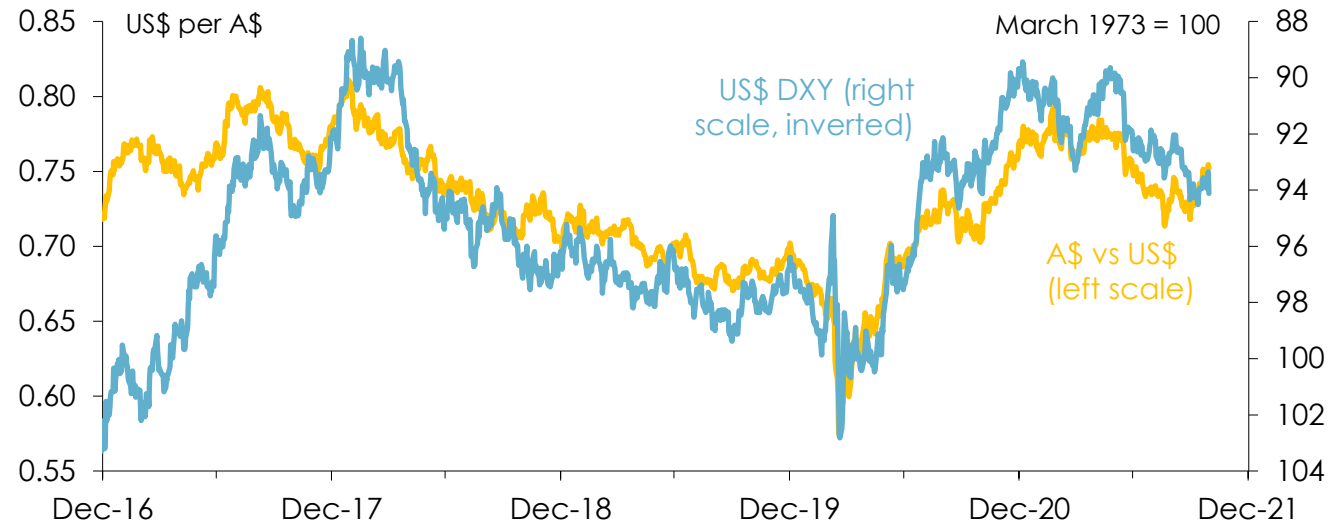
## Net international investment position



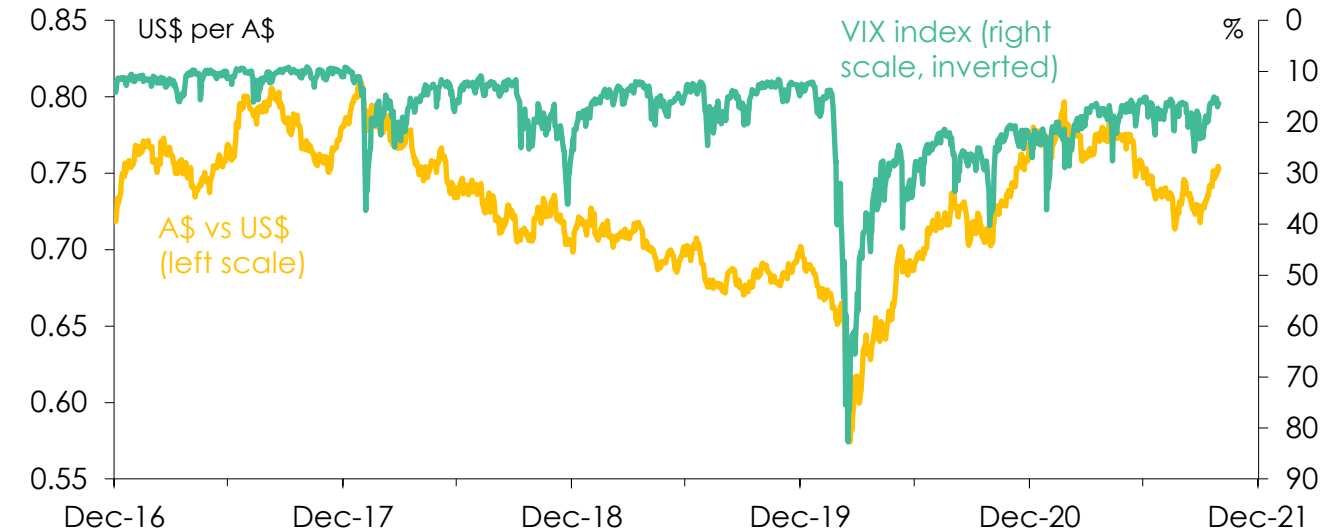
Note: The chart of Australia's international capital flows shows inflows (eg borrowings from abroad) as a positive and outflows (eg repayments of debt, or purchases of foreign equity assets) as a negative. Likewise the chart of Australia's international investment position shows net foreign debt as a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

# The A\$ moved above US75¢ this week for the first time since early July, despite a lower iron ore price, but buoyed by higher local bond yields

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



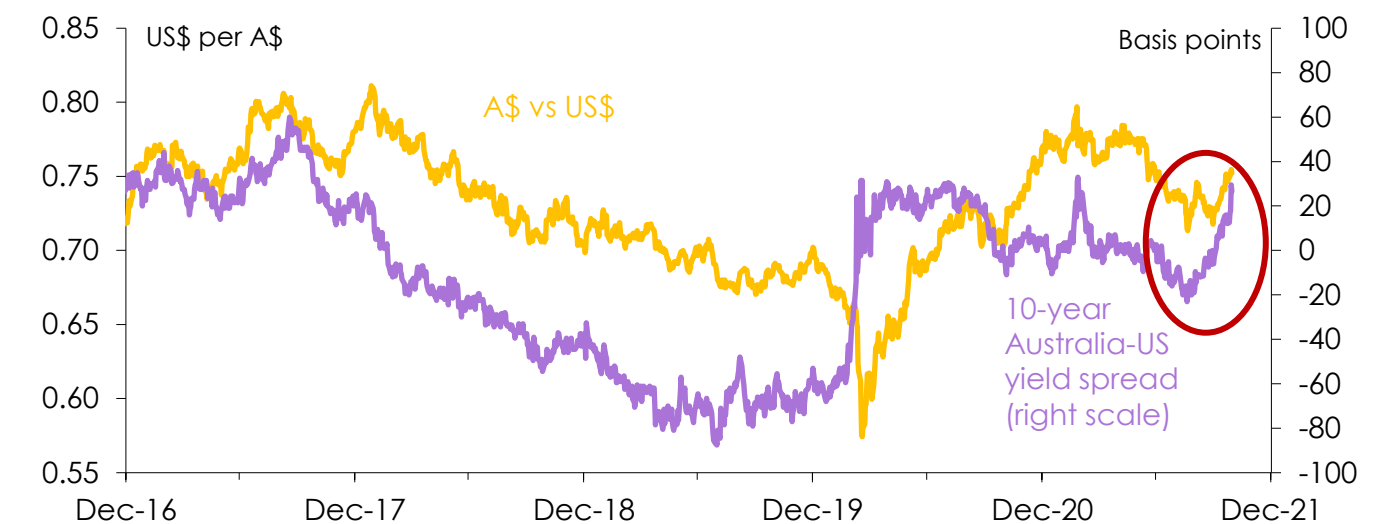
## A\$-US\$ and US equity market volatility



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



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

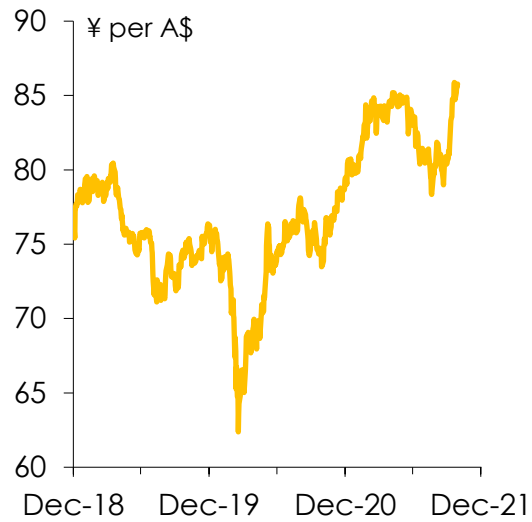


Note: The DXY is an index of the value of the US dollar against 6 other currencies (the euro, yen, pound, Canadian dollar, Swedish krona and Swiss franc). The VIX index is a measure of the implied volatility of S&P500 options and is widely interpreted as an indicator of investor risk appetite or aversion. Source: Refinitiv Datastream. Data up to 29<sup>th</sup> October. [Return to "What's New"](#).

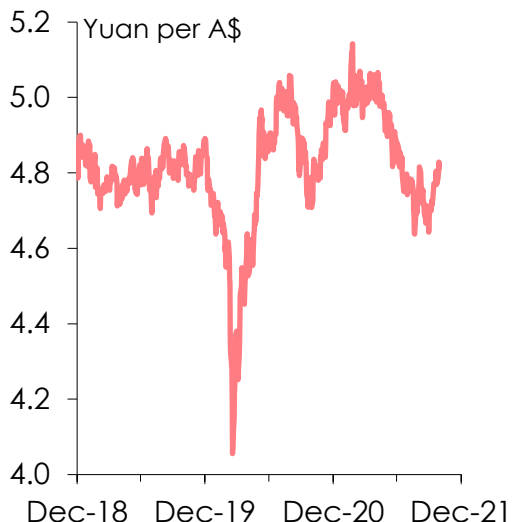


# The A\$ also rose strongly against third currencies, gaining more than 1% vs the yen, euro and pound, 0.9% vs the C\$ and 0.6% vs the NZ\$

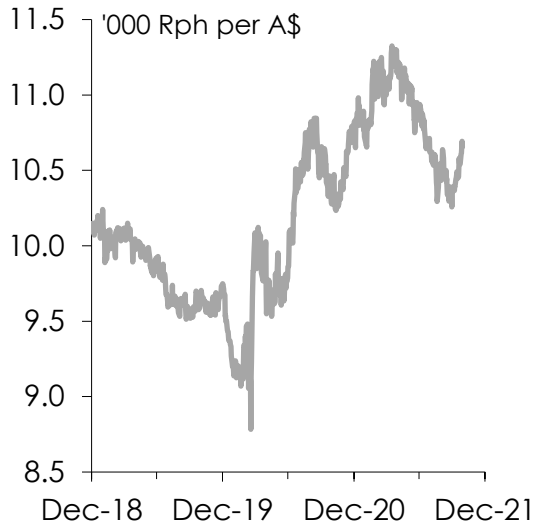
## A\$ vs Japanese yen



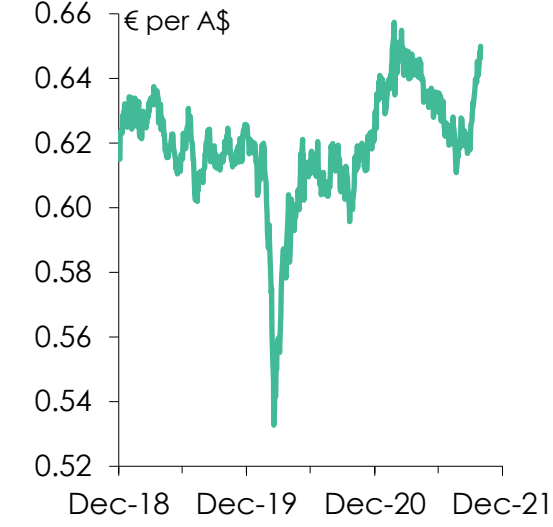
## A\$ vs Chinese yuan



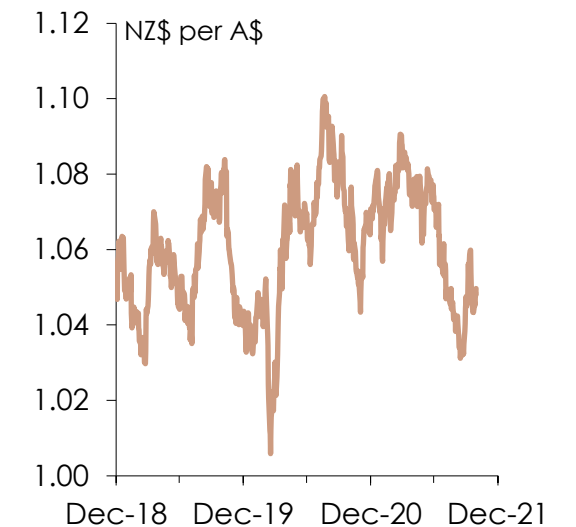
## A\$ vs Indo rupiah



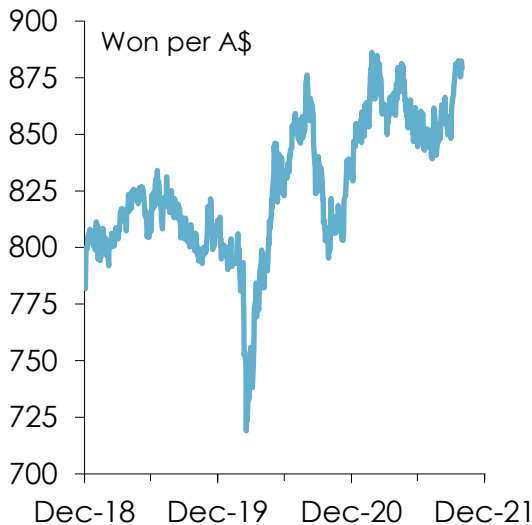
## A\$ vs Euro



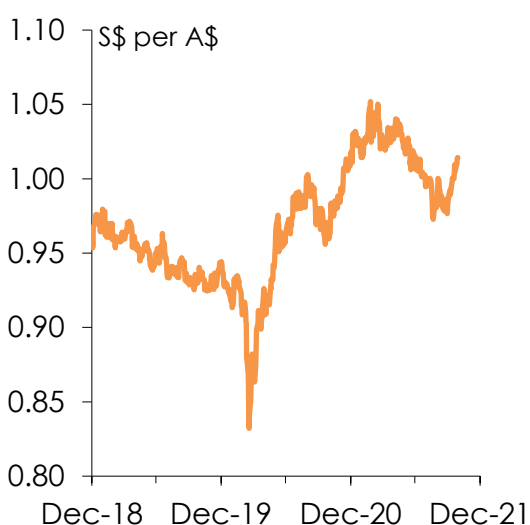
## A\$ vs NZ\$



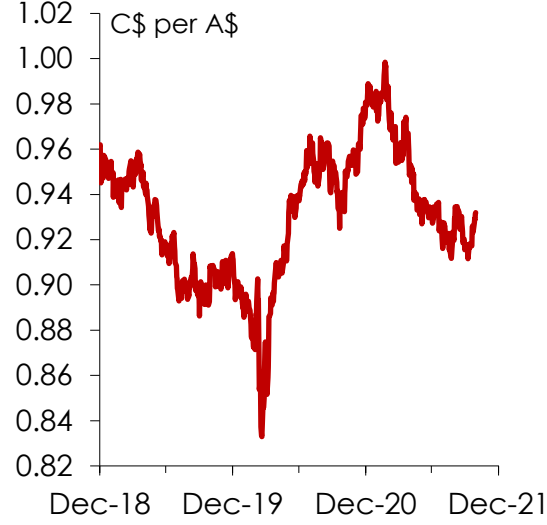
## A\$ vs Korean won



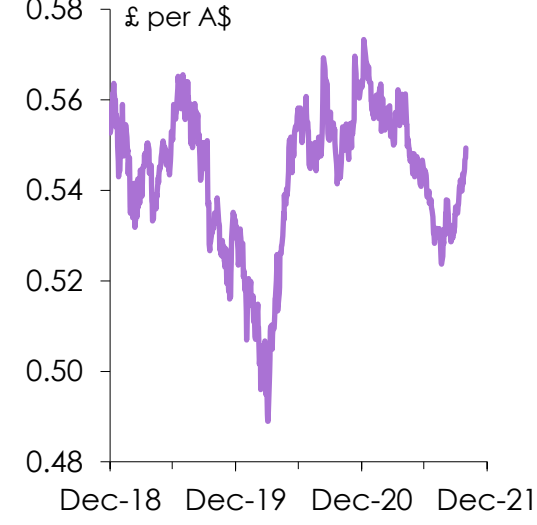
## A\$ vs Singapore \$



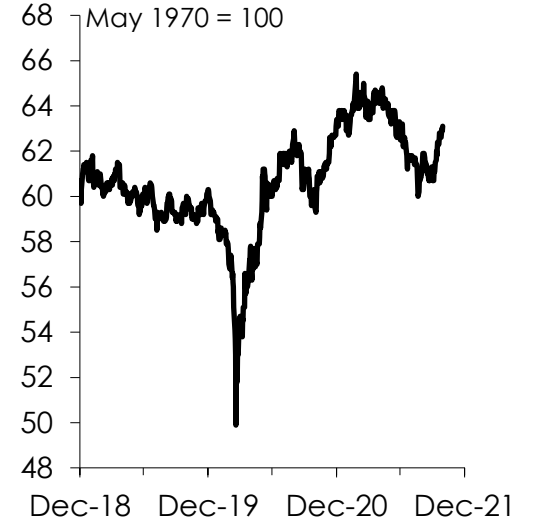
## A\$ vs Canadian \$



## A\$ vs British pound



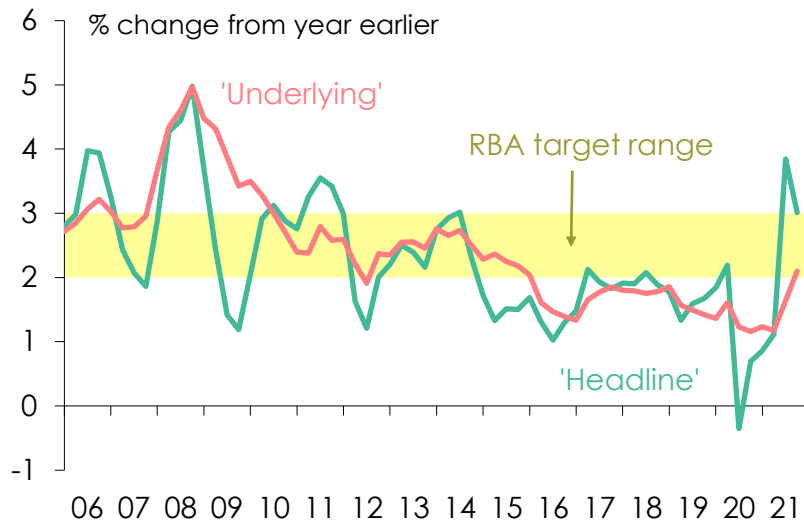
## A\$ TWI



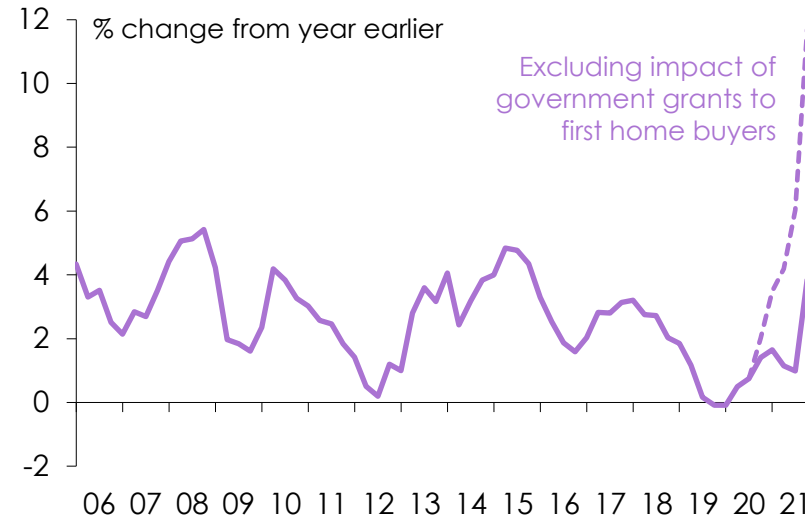
Note: The 'TWI' is the RBA's [trade-weighted index](#) of the A\$. Source: Refinitiv Datastream. Data up to 29<sup>th</sup> October. [Return to "What's New"](#).

# The 'headline' CPI rose 0.8% in Q3, as expected, but 'underlying' inflation surprised rising 0.7%, pushing the annual rate above 2%

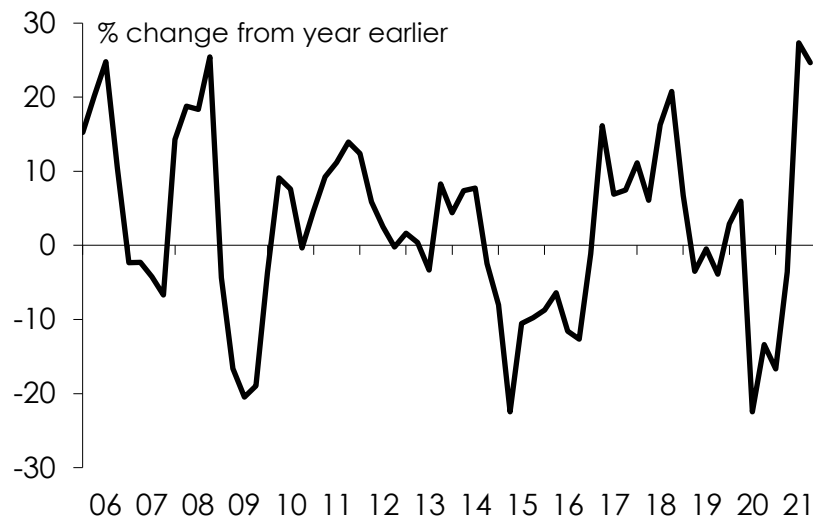
## Consumer prices



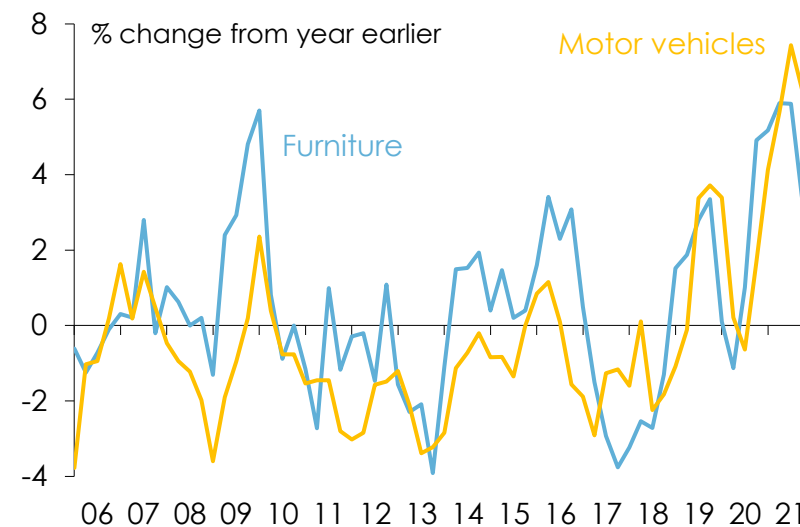
## New dwelling purchase costs



## Automotive fuel prices



## Supply-chain affected prices

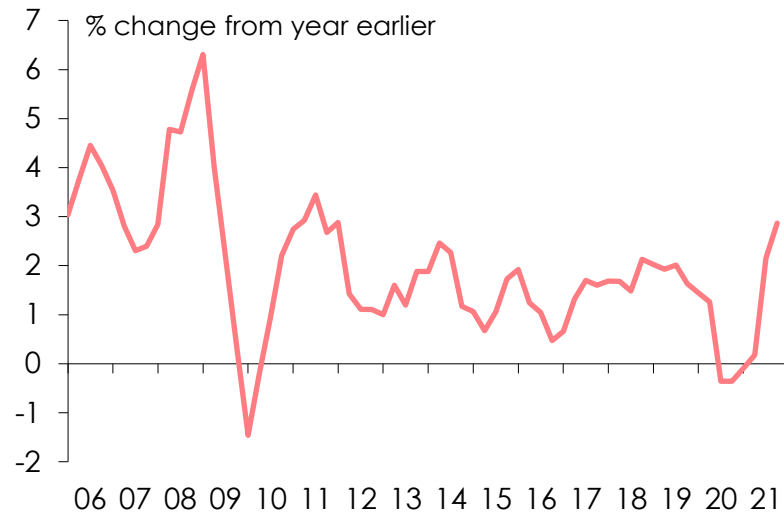


- ❑ The CPI rose 0.8%, as expected, in Q3, with the annual rate (which had been inflated in Q2 by 'base effects' especially from free child care in Q2 last year) falling from 3.8% to 3.0%
- ❑ But the statistical measures of 'underlying' rose a larger-than-expected 0.7%, the biggest quarterly increase since Q4 2013, pushing the annual 'underlying' inflation rate to 2.1%, the first time it has been inside the RBA's target band since Q4 2015 – which wasn't supposed to happen until Q4 2023
- ❑ 0.28 pc pts (or 37%) of the 0.8% rise in the CPI in Q3 came from a 3.3% increase in new dwelling purchase costs (would have been 6.5% but for the impact of government grants)
- ❑ 0.25 pc pts (33%) of the Q3 increase came from a 24.6% increase in petrol prices, 0.09 pc pts (12%) from increased prices for meals out and take-away foods, and 0.08 pc pts (11%) from supply-chain affected items such as furniture and cars
- ❑ The larger-than-expected rise in measures of 'underlying' inflation (which exclude these 'outliers') is partly due to an unusually small number of items experiencing price falls

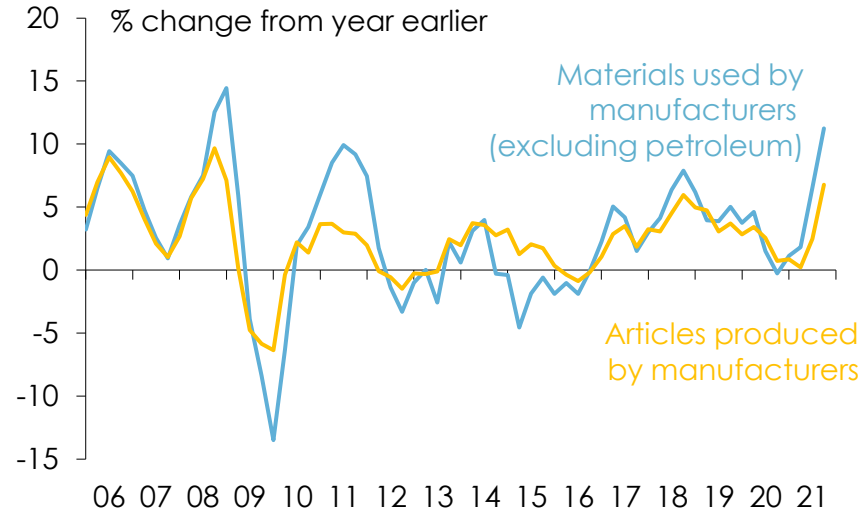
Note: 'Underlying' inflation is the average of the weighted median and trimmed mean CPIs. Wage price indices exclude bonuses.  
Sources: ABS, [Consumer Price Index, Australia](#). The December quarter (Q4) CPI will be released on 25<sup>th</sup> January. [Return to "What's New"](#).

# 'Upstream' price pressures, which had been less apparent in Australia than elsewhere earlier this year, intensified during the September quarter

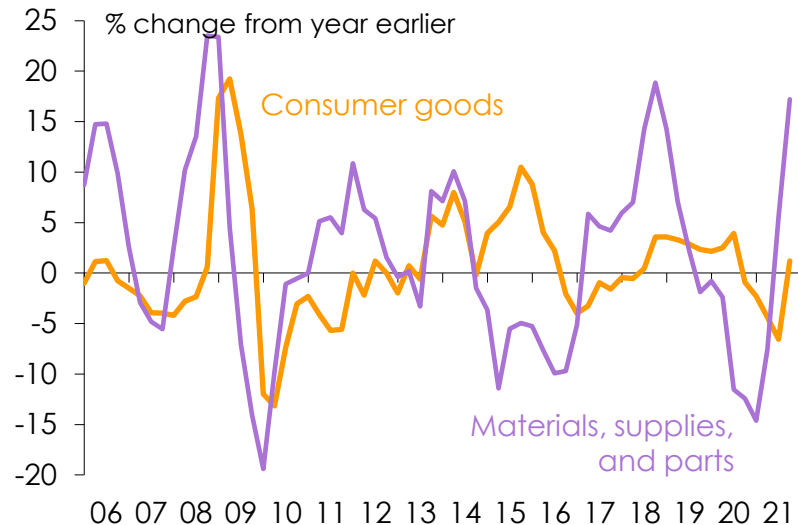
## Producer price index



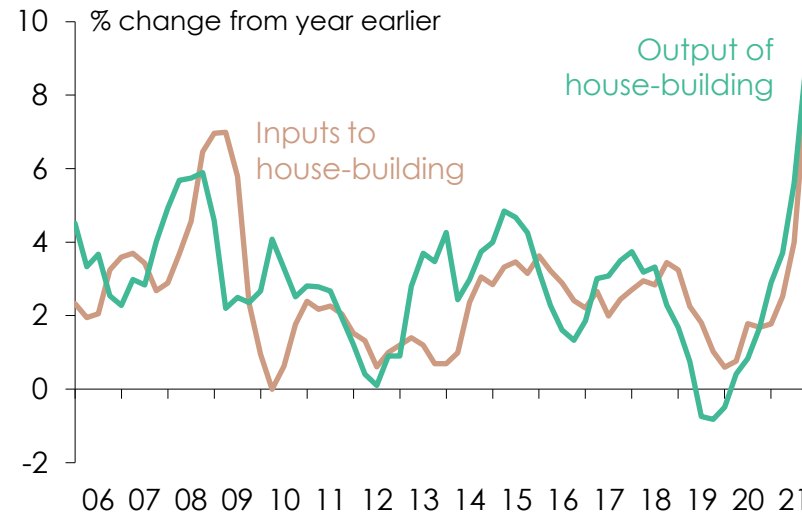
## Manufacturing input & output prices



## Imported consumer goods prices



## Construction input & output prices

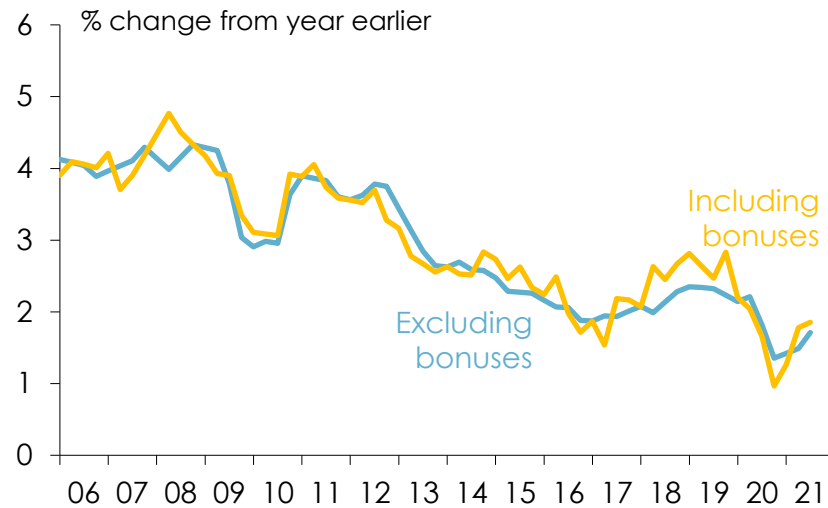


- Until the September quarter there had been very little evidence in Australia of the 'upstream' inflation pressure apparent in many other economies – with the exception of the house-building sector
- However the producer price index (which in Australia includes a range of services sectors, but excludes exports) rose by 1.1% in Q3 – the largest increase in eight years
  - which after a 0.7% increase in Q2 pushed the annual PPI inflation rate to 2.9%, the highest since Q4 2011
  - the manufacturing sector contributed 36% Q3 PPI increase, and the construction sector a further 31%
  - sea freight transport services prices rose 43% in Q3 (and by 105% from Q3 last year) although this only accounted for 1½% of the increase in the overall PPI in Q3
- The import price index rose 5.4% in Q3, the largest increase since Q3 2013
  - a 57% increase in prices of imported petroleum products was the largest contributor
  - but imported consumer goods prices also rose 4.1%, the largest in eight years

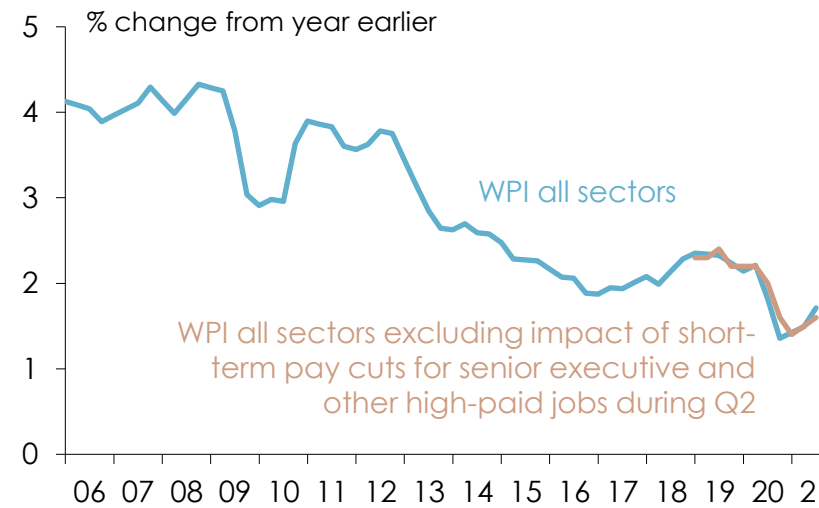
Sources: ABS, [Producer Price Indexes, Australia](#) and [International Trade Price Indexes, Australia](#), September quarter 2021.  
[Return to "What's New"](#).

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

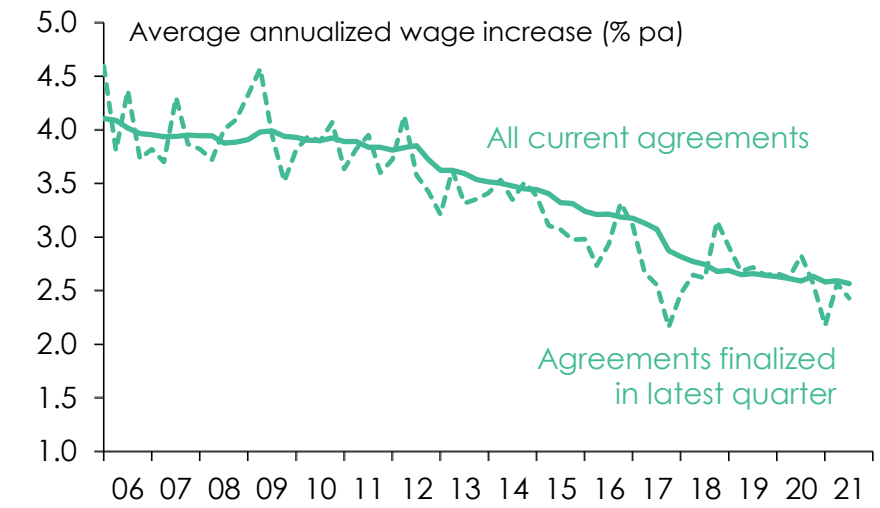
## Wage price index – all sectors



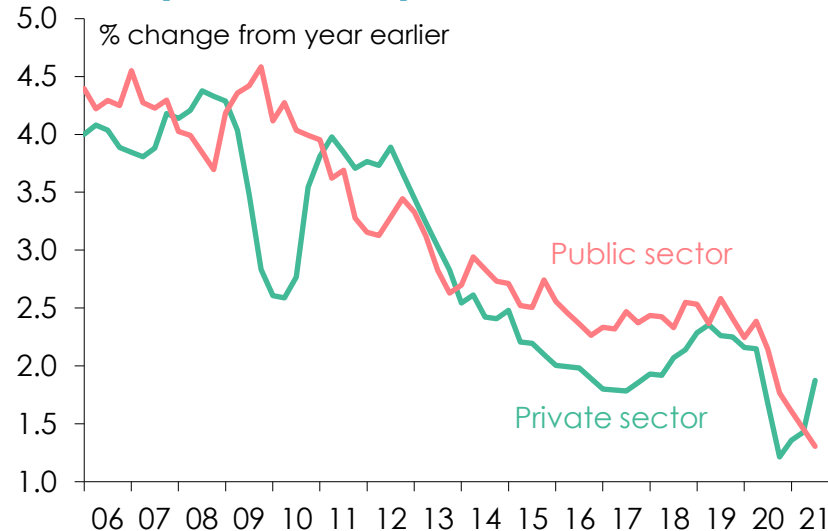
## WPI excl. temporary wage cuts



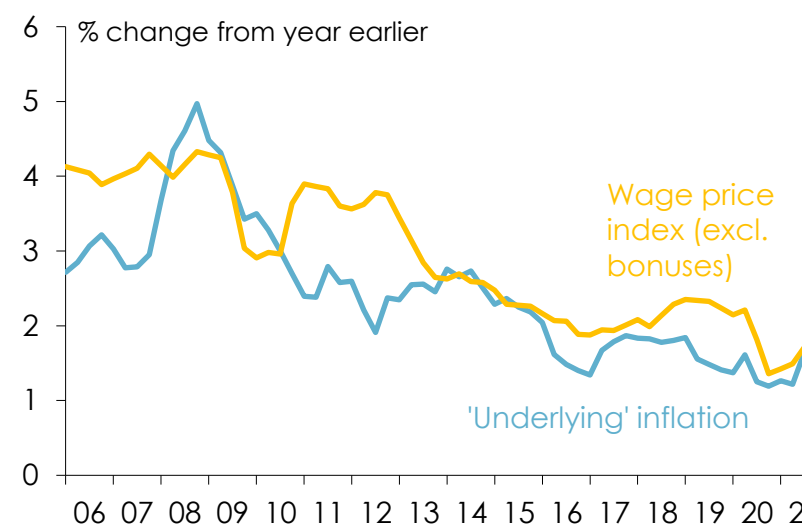
## Enterprise bargaining agreements



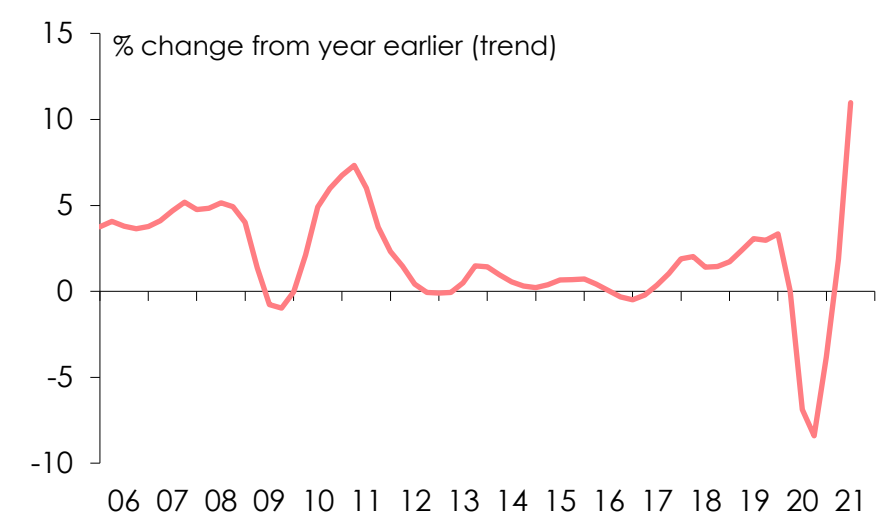
## WPI – private vs public sectors



## WPI and 'underlying' CPI inflation



## Unit labour costs



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

# Australia's fiscal and monetary policy settings

# The 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

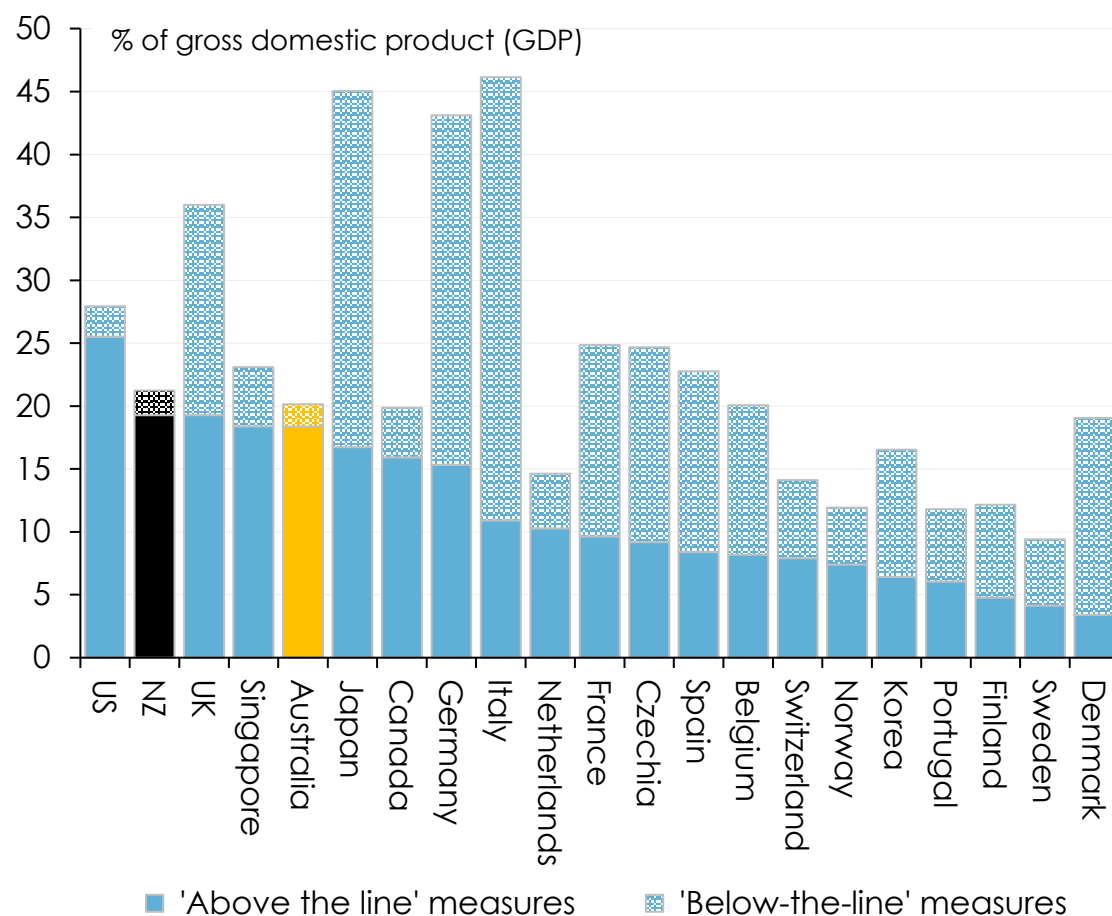


# ... and the OECD's recommendations were backed up by the IMF (not that that is likely to make any difference)

- ❑ 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

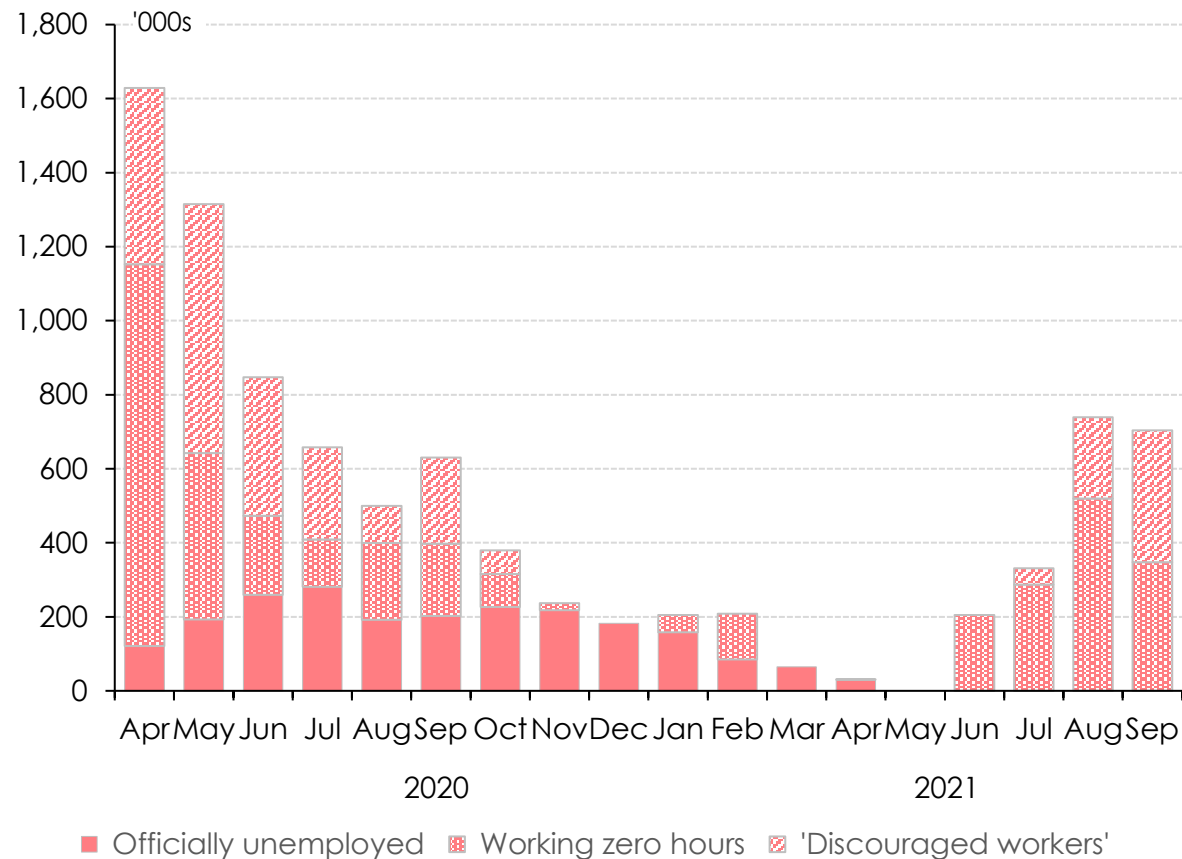


Note: 'Above the line' measures comprise additional or accelerated spending and deferred or foregone revenue. 'Below the line' measures comprise equity injections, loans, asset purchases and debt assumptions, but do not include loan guarantees or other contingent liabilities. 'DMs' means 'developed markets' (or 'advanced economies'). Data includes measures announced up until 27<sup>th</sup> 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 in October
- 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% received 40% of their payroll, up to a maximum of \$100,000 a week – provided they didn't sack any employees (or \$1000 a week for businesses with no employees)
  - income support for workers who've lost more than 20 hours a week rose from \$600 to \$750 per week (or from \$375 to \$450 for those who lost between eight and 20 hours)
  - a \$200 per week payment was made to those receiving income support payments who lost more than 8 hours per week
- These payments cost the Federal and NSW Governments \$750mn and \$325mn a week respectively, while the Federal and Victorian Governments also provided \$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)

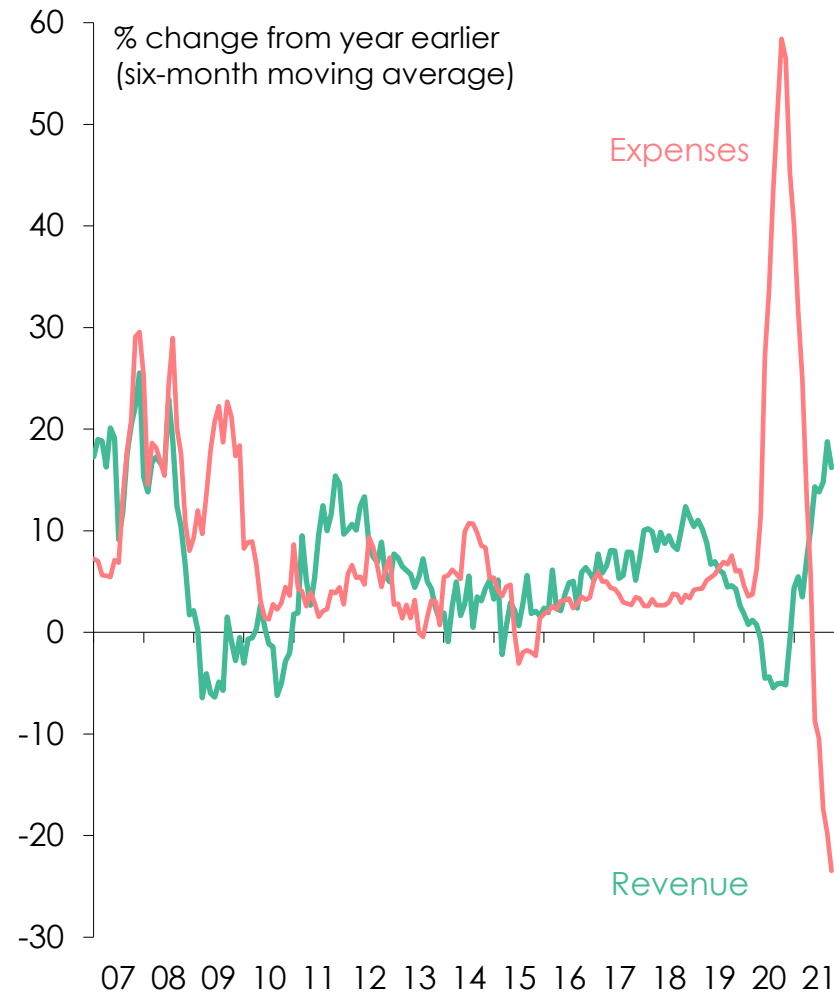


Note: Numbers depicted in the above chart are derived as the difference between the number of people in each category in the months shown and the number in those categories in March 2020. People 'working zero hours' excludes those doing so because they are on annual or other types of leave. 'Discouraged 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](#), 29<sup>th</sup> October 2021; Corinna. [Return to "What's New"](#).

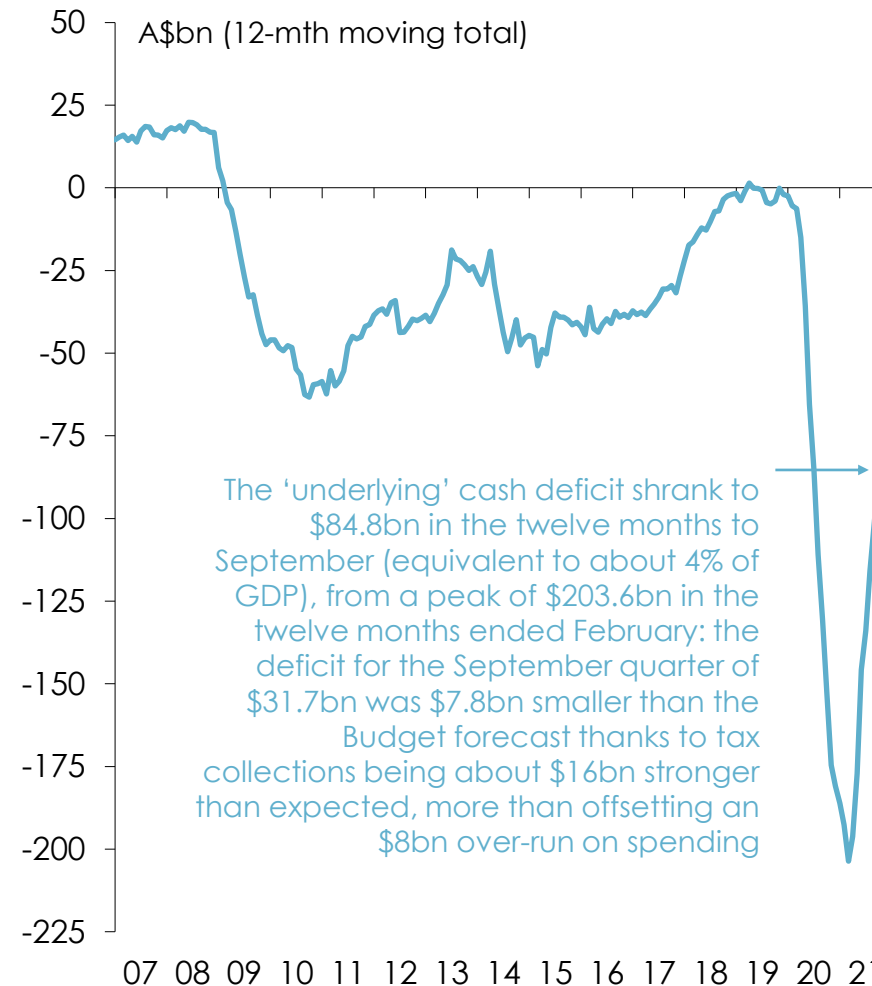
- ❑ Since the beginning of June the Federal Government has paid out \$12.1bn in [Covid-19 disaster payments](#) to 2.17 mn workers unable to earn income due to public health orders or other Covid-related restrictions
  - of this amount, \$7.4bn has been to people in NSW, \$4.1bn to Victoria, \$333mn to the ACT and \$306mn to other states
- ❑ The Federal Government has also paid out \$261mn in [\\$200 income support payments](#) to 180,000 people already on income support payments who have lost 8 hours or more of part-time work due to lockdowns, and \$157mn in [pandemic leave disaster payments](#) to 97,000 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 is declining rapidly despite the additional payments to people affected by lockdowns, thanks to buoyant tax revenues

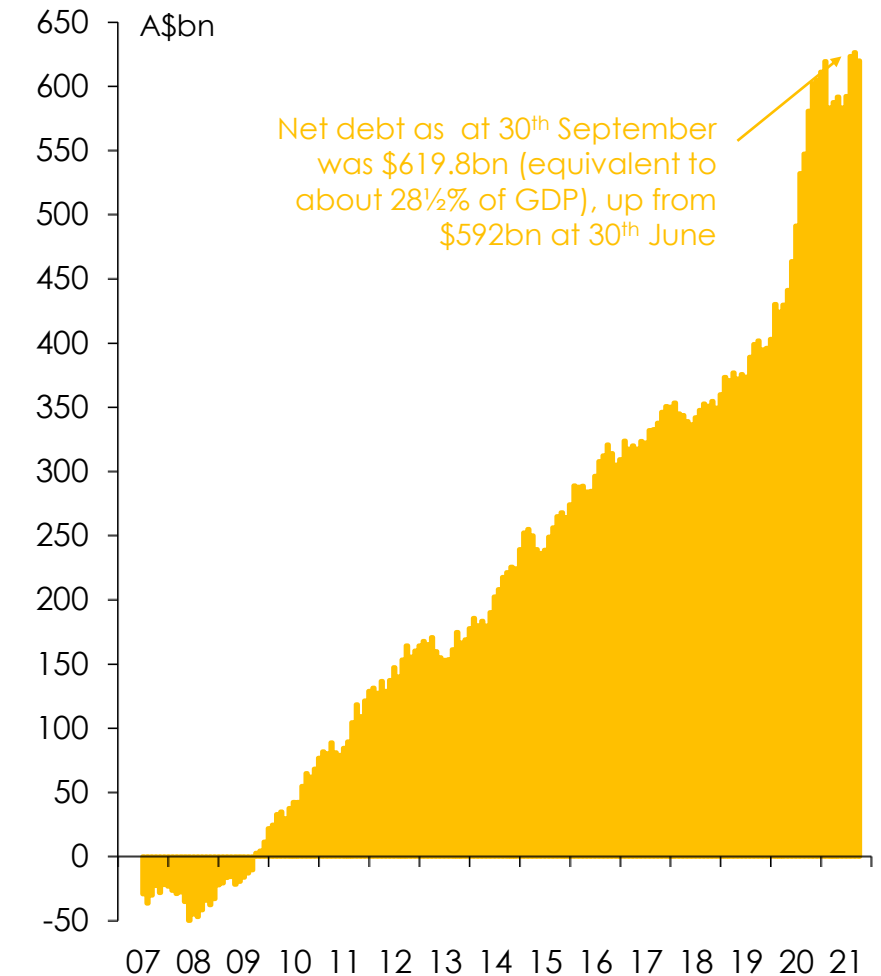
## Australian Government revenue and expenses



## Australian Government 'underlying' cash balance



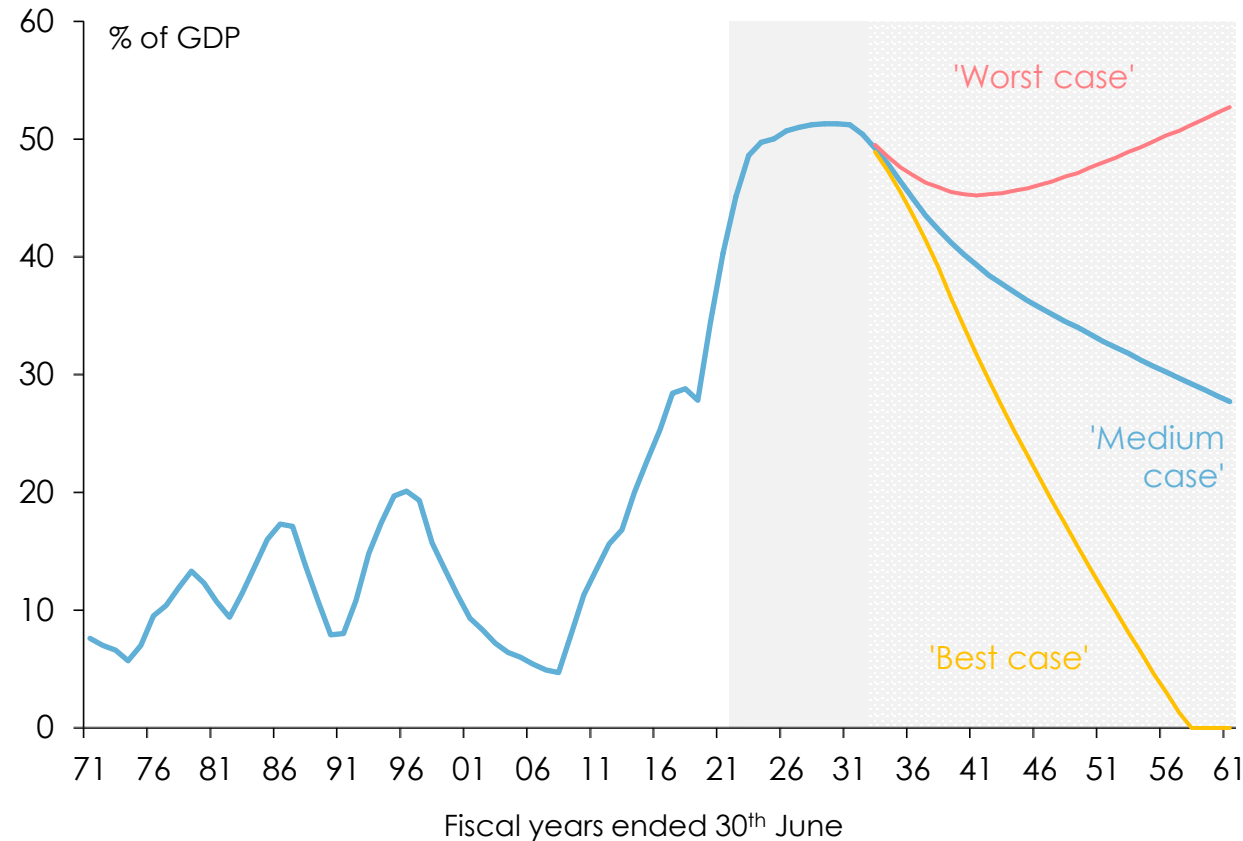
## Australian Government net debt



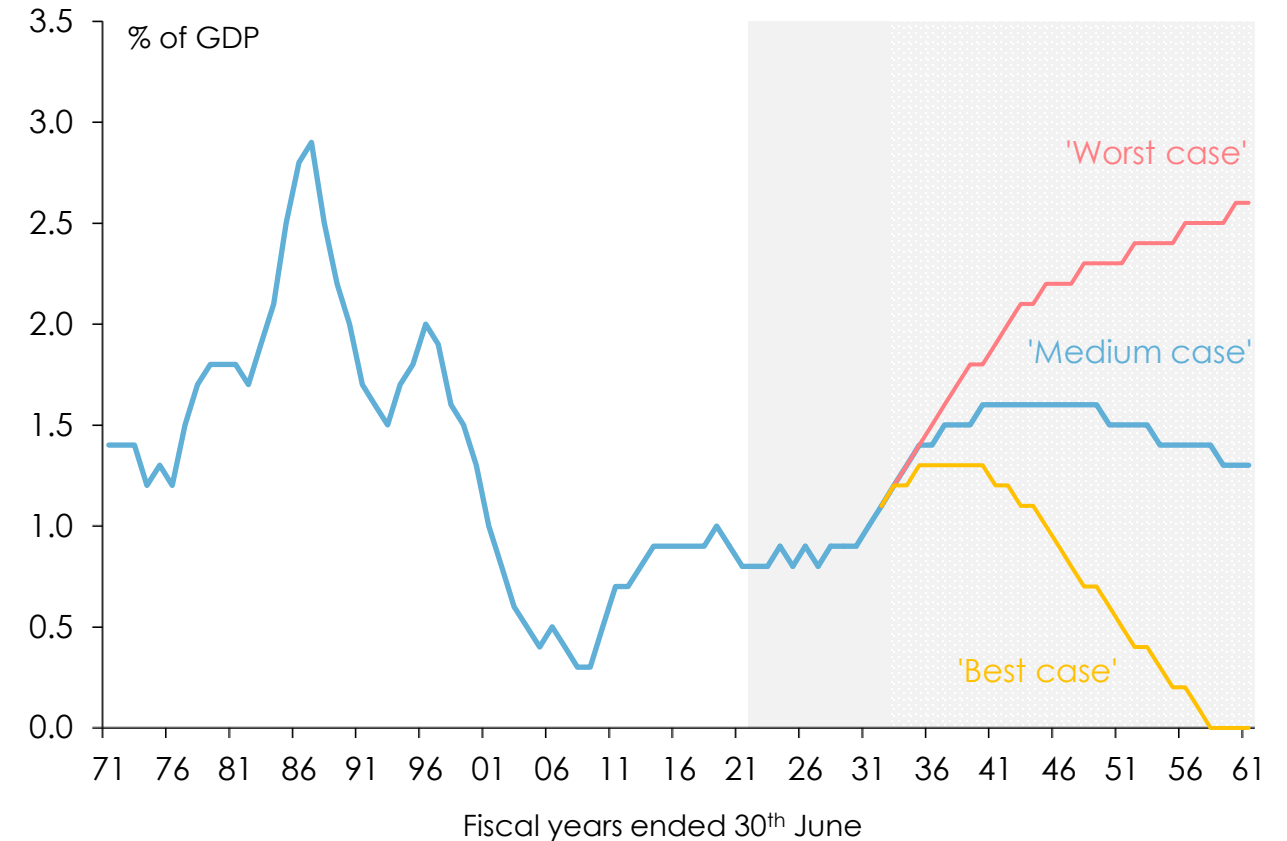
Note: Revenue and expenses are accrual accounting items. The 'underlying' cash balance is (cash) receipts minus payments, excluding transactions in financial assets for policy purposes and net earnings of the Future Fund. Net debt is total interest-bearing liabilities (government securities, deposits, 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

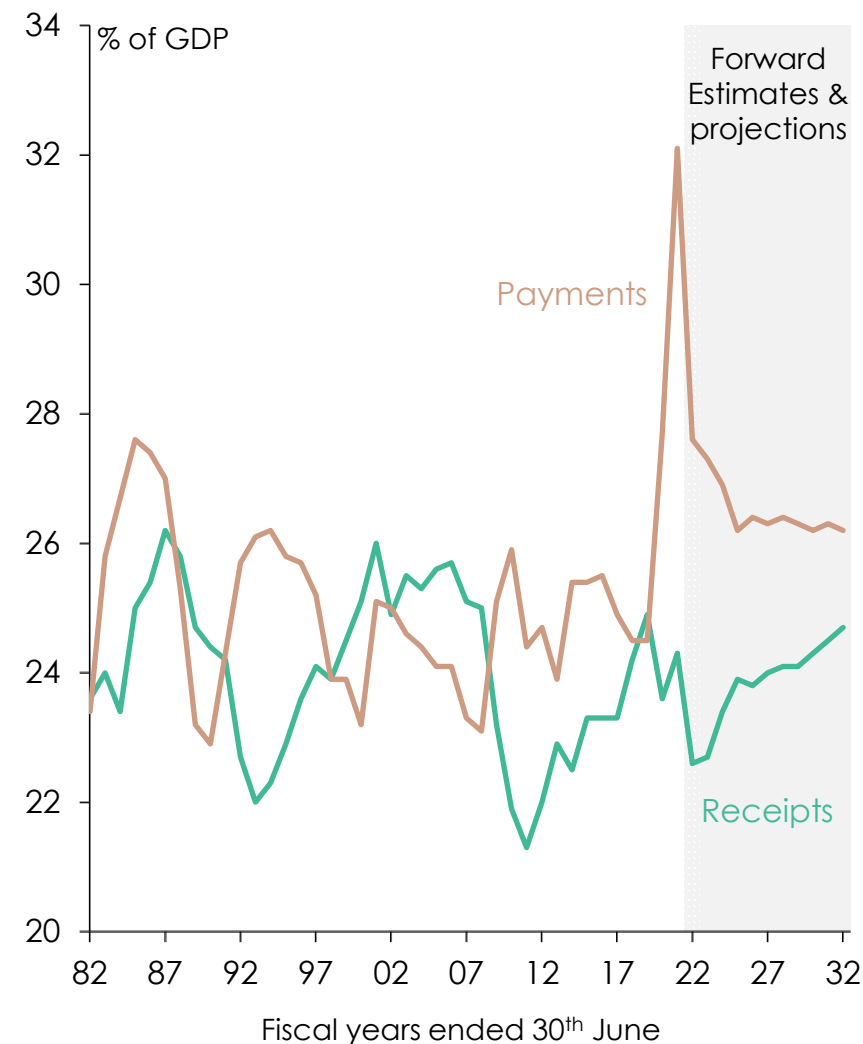


- ❑ The PBO derived projections of gross debt and interest payments over the next 40 years based on 27 combinations of different assumptions about economic growth, interest rates and the budget balance
- ❑ Under all of these scenarios (even the 'worst case'), both total debt and debt-servicing costs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

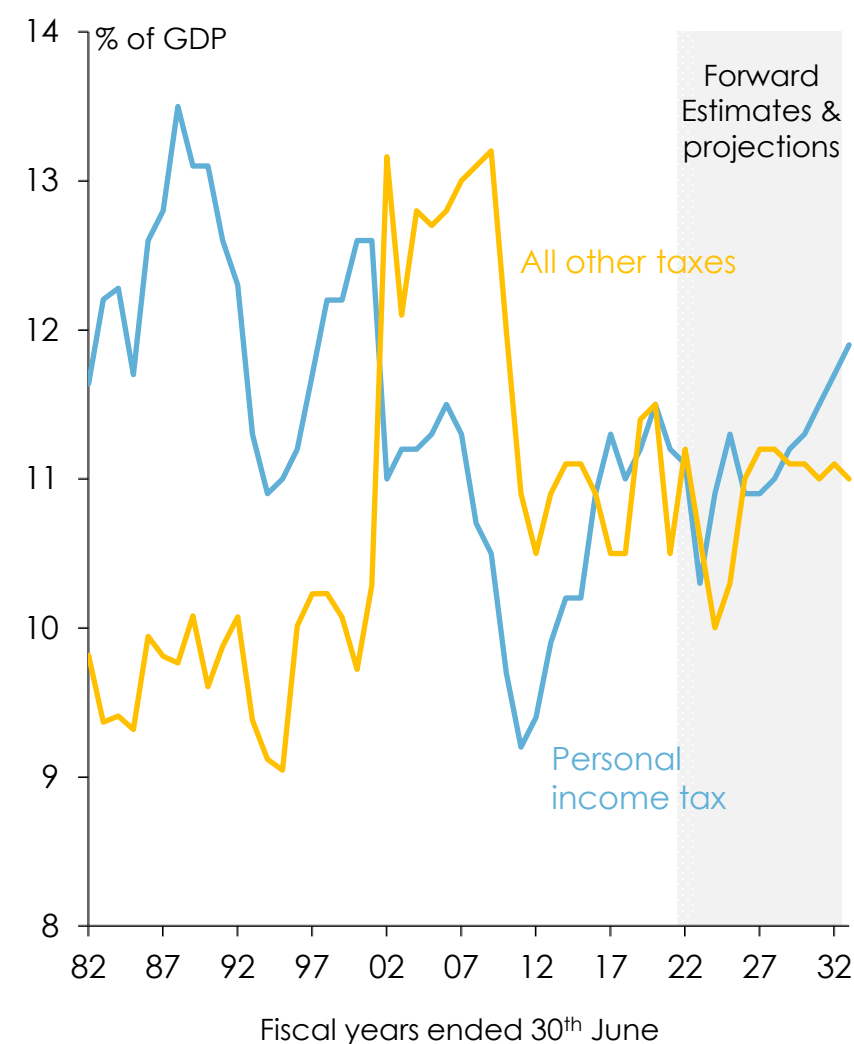


# Australia's problem is that the Government will be relying solely on rising personal income tax collections to keep the deficit on a declining path

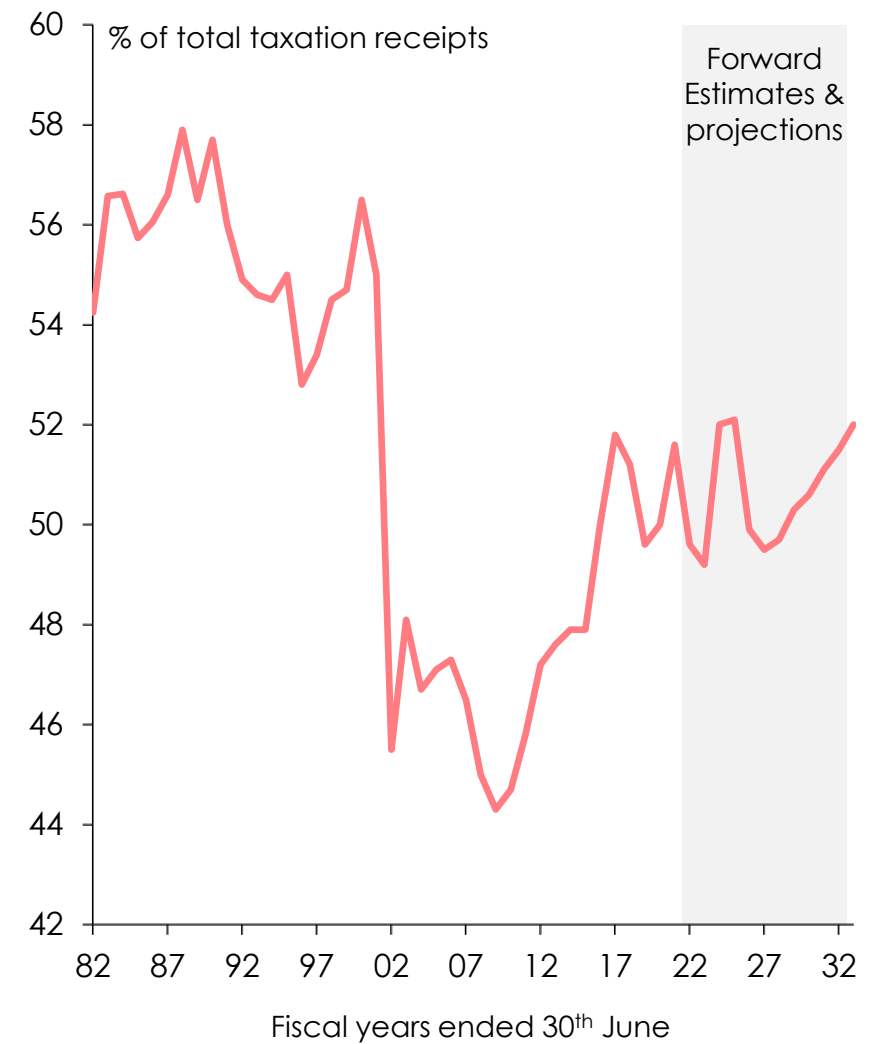
Commonwealth Government receipts and payments



Personal income tax and other tax receipts as pc of GDP



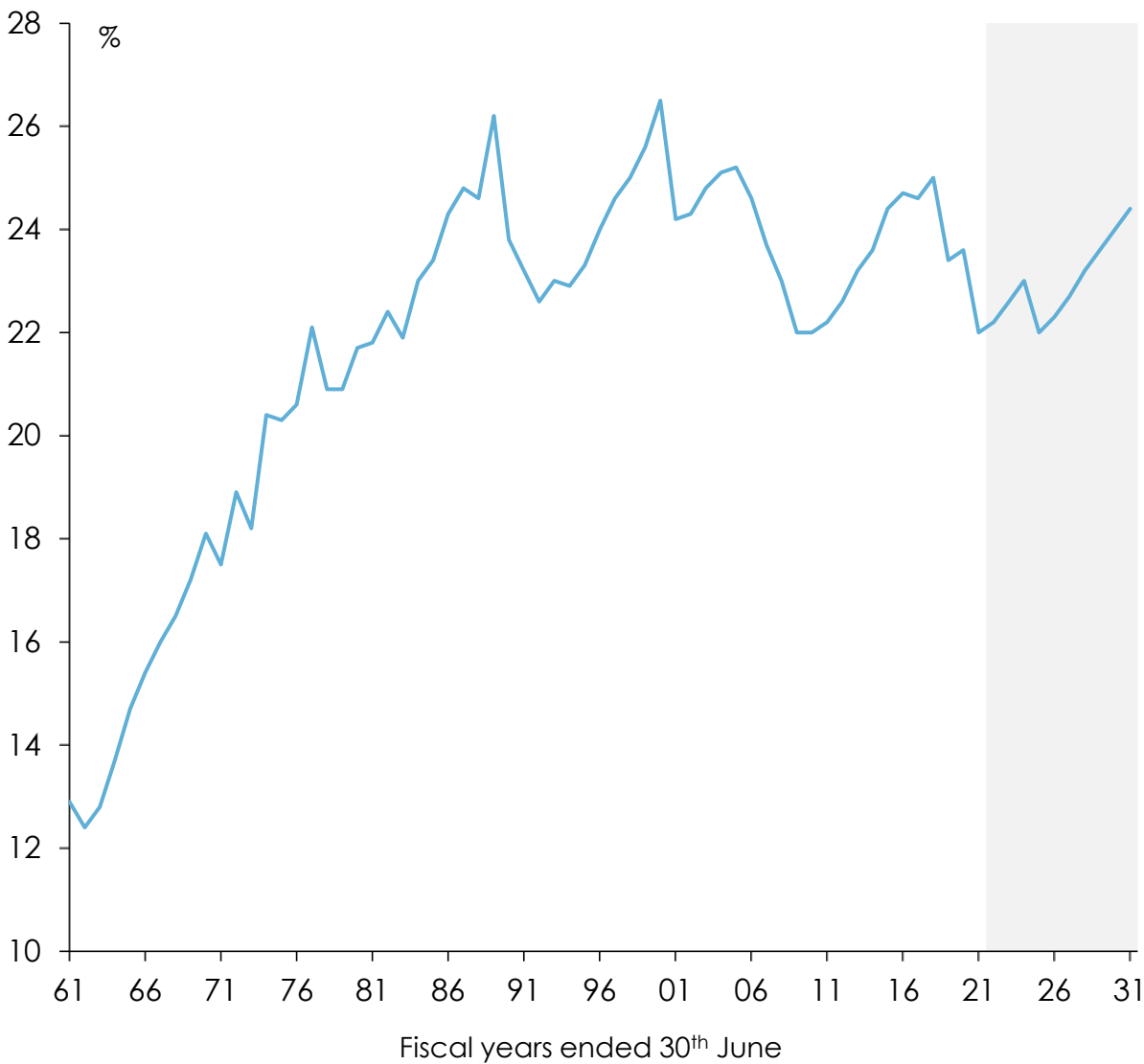
Personal income tax receipts as a pc of total tax receipts



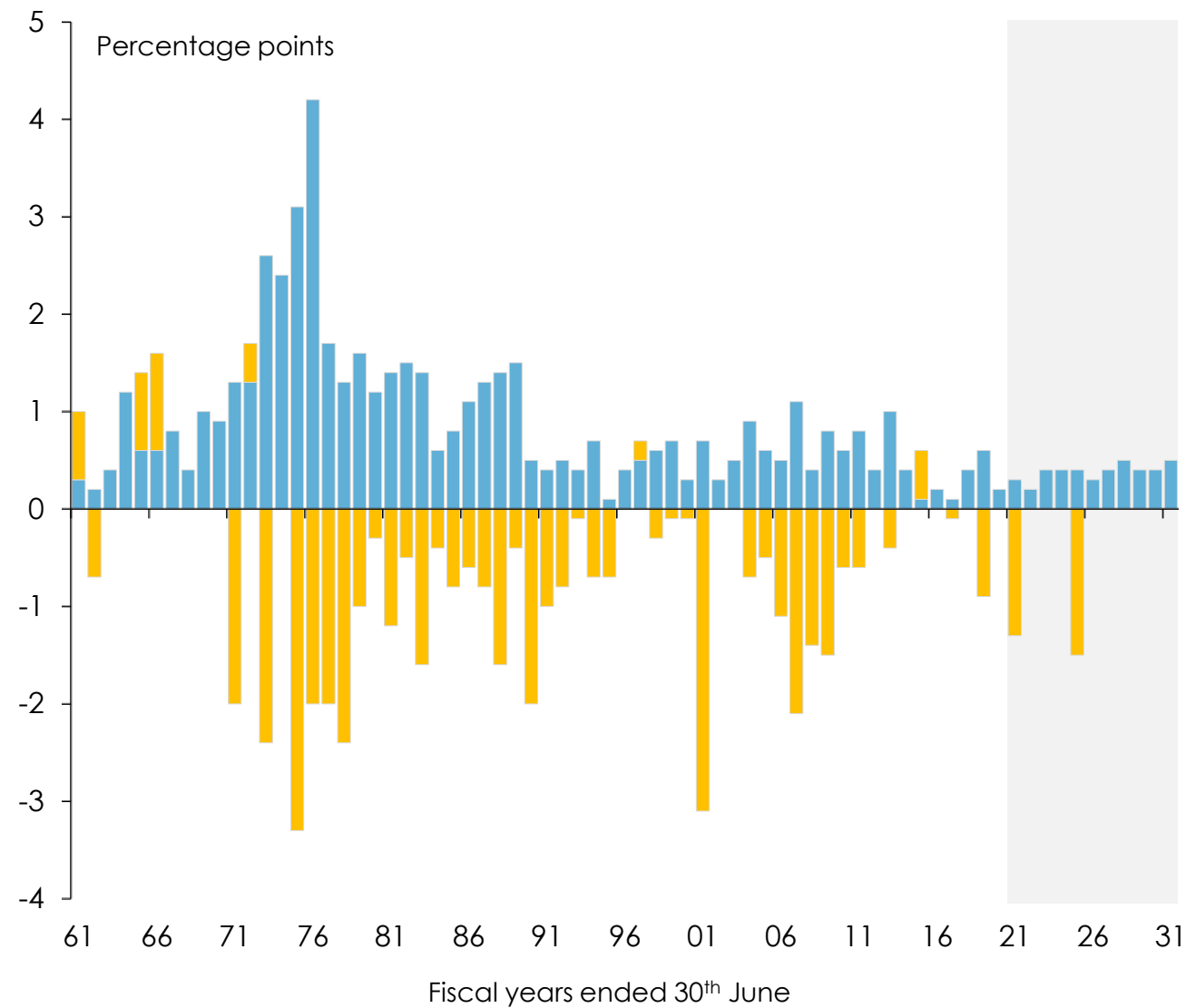


# And the prospective increase in personal income tax collections *isn't* the result of a conscious policy decision, but is rather due to 'bracket creep'

Average personal income tax rate



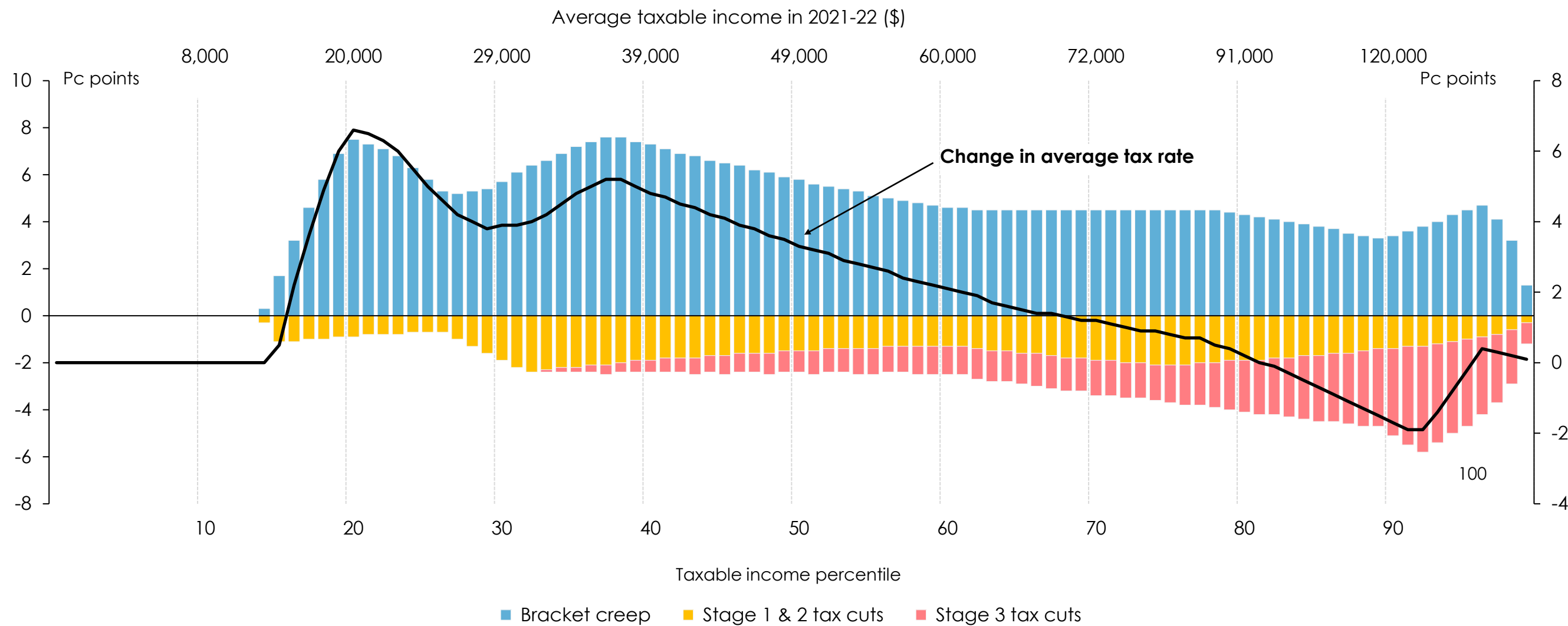
Source of changes in average personal income tax rates



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

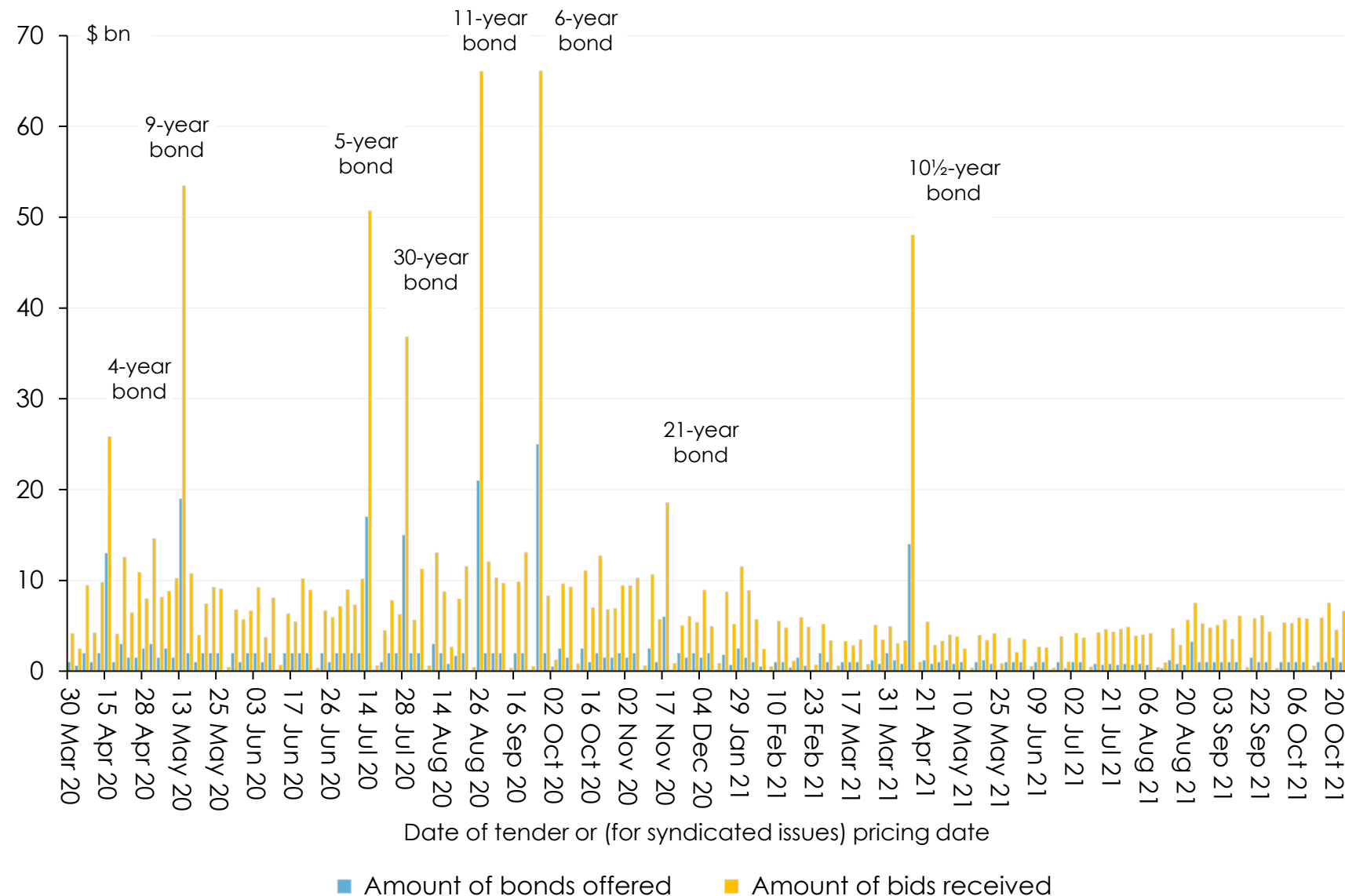
Change in average tax rates between 2021-22 and 2031-32 by taxable income percentile



Source: Parliamentary Budget Office, [Beyond the Budget: Fiscal outlook and scenarios](#), 21<sup>st</sup> 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 \$164bn of bids for \$34bn of bonds

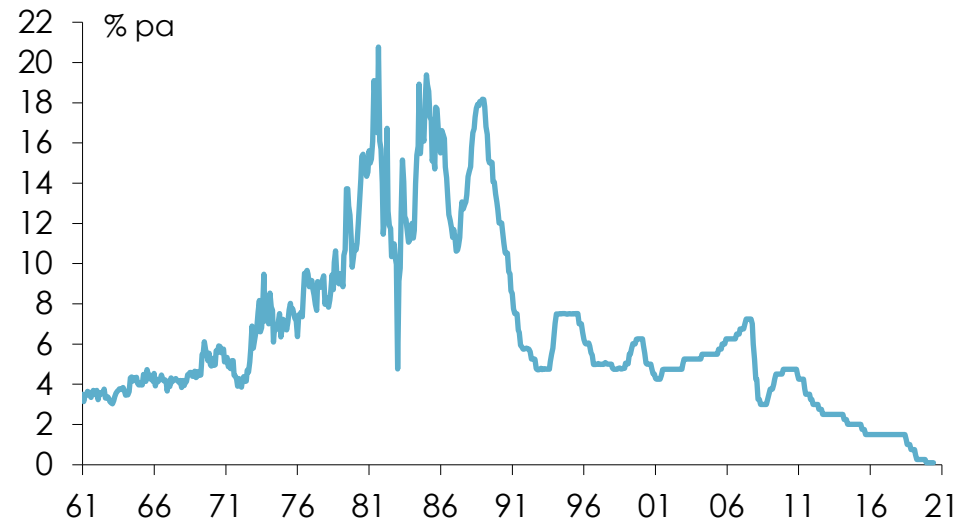
## Australian government bond issuance since March 2020



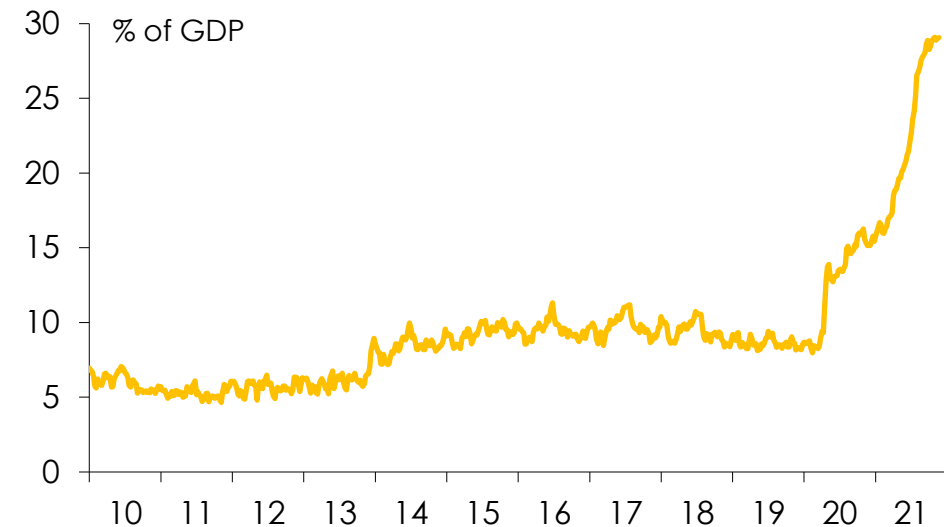
- Since 30<sup>th</sup> March 2020, the Australian Office of Financial Management has issued \$331bn of Treasury bonds – based on the volume of bids received it could have borrowed more than \$1.25 trn with yields at most 4 bp (0.04 of a pc point) above the highest yields actually accepted
- The AOFM conducted two bond tenders this week, for \$1bn of 3-year bonds (for which it received bids totalling \$6.6bn) at an average yield of 0.72%, and \$1bn of 11-year bonds (for which it received bids totalling \$4.1bn) at an average yield of 1.93%
- So far this financial year, the AOFM has received bids totalling more than \$164bn for the \$33.8bn of bonds it has offered for sale – a 'coverage ratio' of 4.9 times, cf. 3¾ times during the 2020-21 financial year

# The RBA could formally abandon its 3-year yield target, and concede that rates could rise before 2024, at Tuesday's Board meeting

## Reserve Bank cash rate



## Reserve Bank assets as a pc of GDP

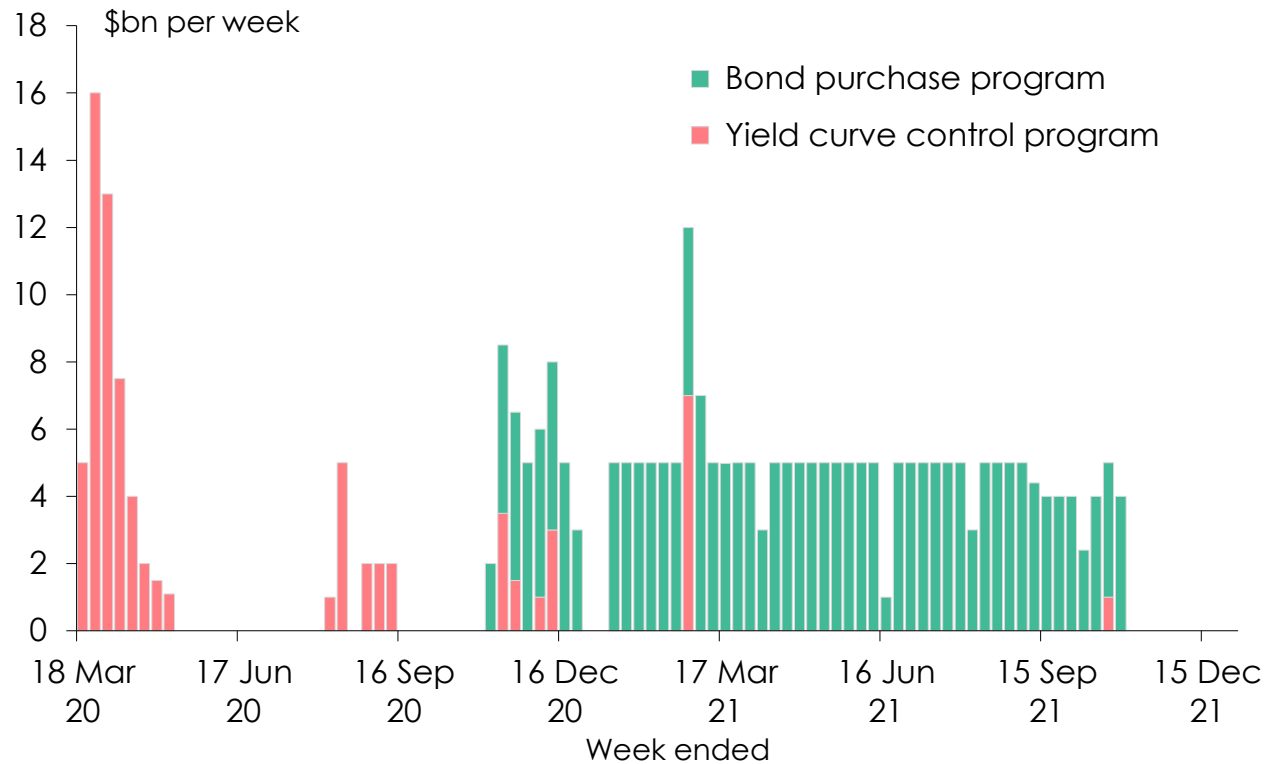


- ❑ Since the onset of the pandemic in March last year, the RBA has been insistent that it wouldn't raise the cash rate until inflation was "sustainably within the 2-3% target band"
  - and since February this year it has been quite emphatic that that wouldn't be until 2024
  - although in July it slightly softened that timetable from "2024 at the earliest" to 2024 being the "central scenario"
- ❑ The RBA's most recent set of forecasts, issued in August (and summarized in [slide 95](#)) didn't envisage the annual 'underlying' inflation rate re-entering the 2-3% target band until the second half of 2023
- ❑ As recently as [its last Board meeting](#) on 5<sup>th</sup> October the RBA was confident that "underlying inflation pressures in Australia were more moderate than in other advanced economies" and that "domestic inflation would pick up only gradually over the medium term"
- ❑ These views have been challenged by Wednesday's September quarter CPI data showing that the 'underlying' inflation rate is back in the 2-3% target band ([slide 138](#)) and that 'upstream' price pressures have also been intensifying ([slide 139](#))
  - these developments are likely to prompt revisions to the RBA's inflation outlook to be published in the *Statement on Monetary Policy* on Friday
  - they may also prompt the RBA Board formally to abandon its 0.10% target for the 3-year bond yield, and to concede that it may need to begin raising the cash rate before 2024, at this Tuesday's meeting

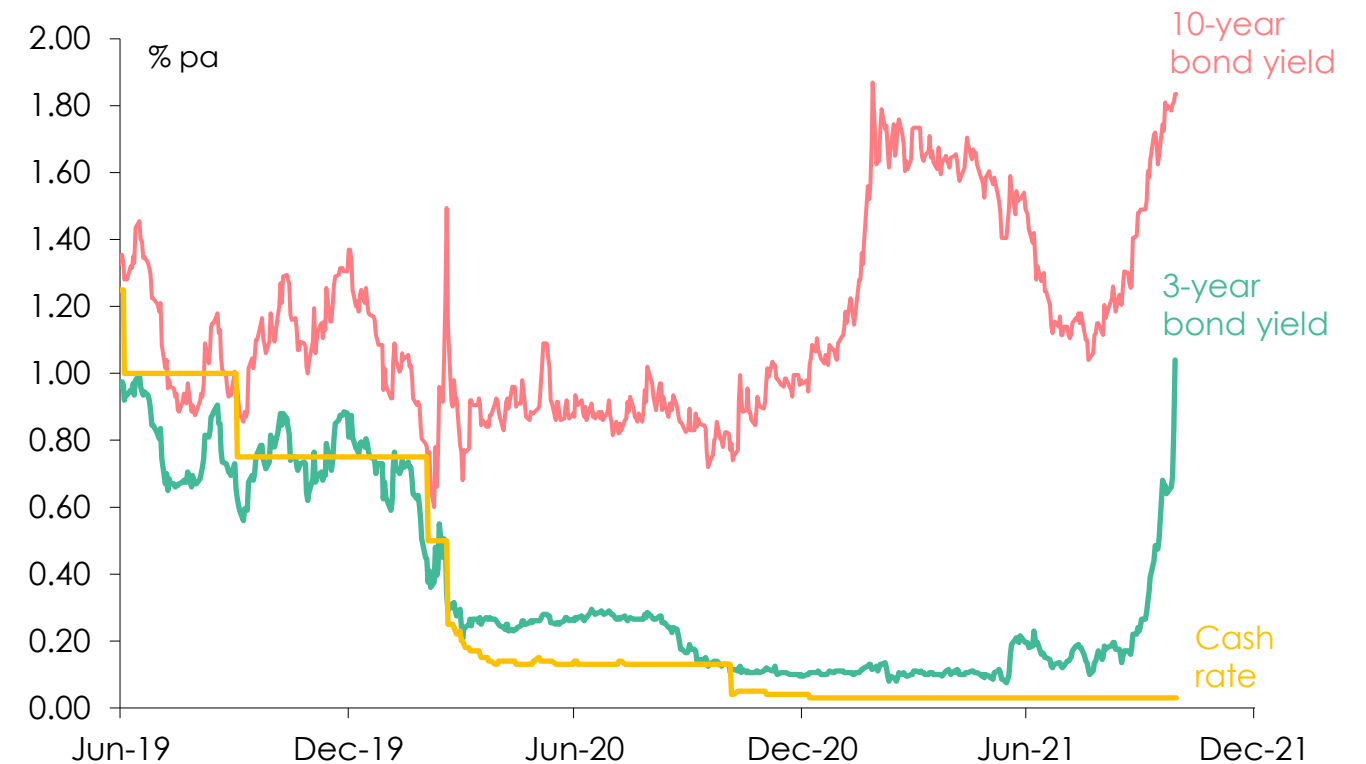
Source: Reserve Bank of Australia, [Statistical Tables](#) A3 and F1.1.  
[Return to "What's New"](#).

# Shorter-dated bond yields surged after Wednesday's CPI release, while the 10-year yield also edged higher despite falling US yields

## RBA open market bond purchases



## Interest rates

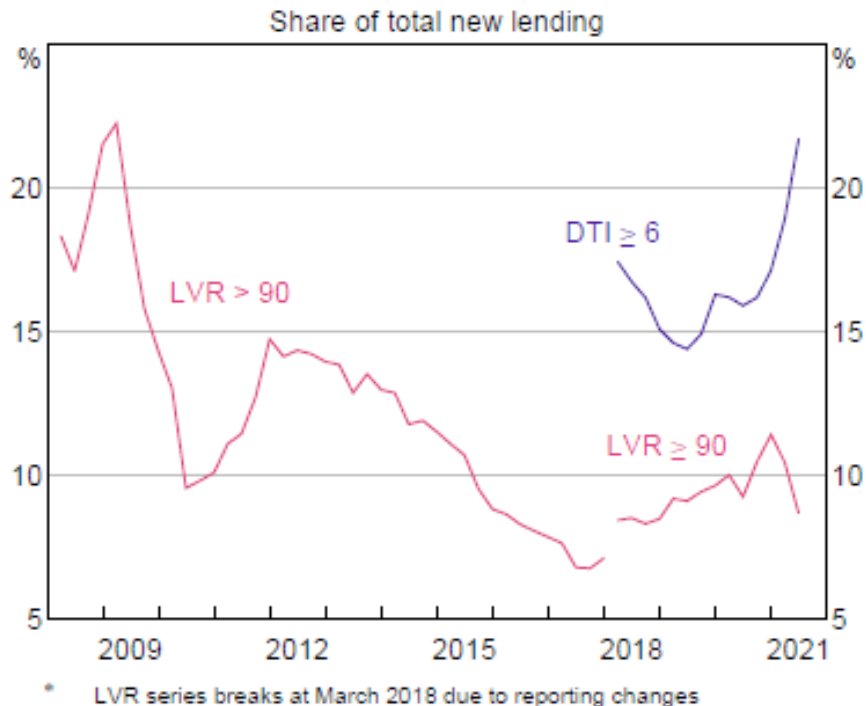


- ❑ Short-term bond yields surged after Wednesday's Q3 CPI release ([slide 138](#)) and despite the RBA's purchase of \$1bn of 3-year bonds last Friday under its Yield Curve Control program (for the first time since February), moving above 1% for the first time since June 2019 – while the 10-year yield rose much less, by 3bp to 1.84%, given the fall in longer-dated US yields
- ❑ The RBA again bought \$4bn of bonds under its Bond Purchase Program – bringing its cumulative purchases to just under \$230bn (or \$308bn including YCC program purchases) – but it conspicuously didn't react to the post-CPI surge in short-term yields, prompting market expectations that the RBA will formally abandon the 3-year yield target at Tuesday's Board meeting
- ❑ The 10-year spread over US Treasuries widened further to a peak of 30bp on Thursday – the largest since late February and a turnaround of more than 50bp from -23bp in mid-August

# 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

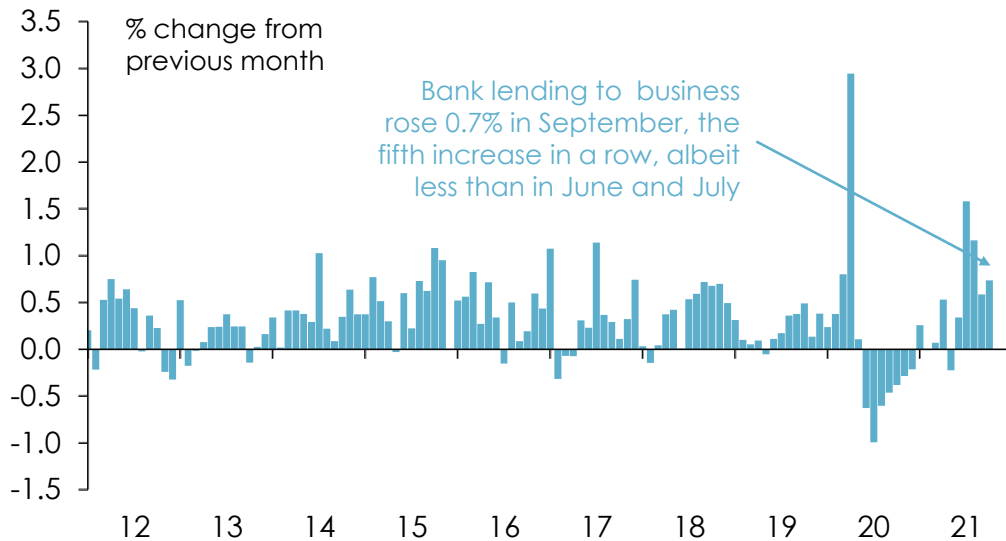


- ❑ The rise in high LVR lending was largely the result of the increase in demand from first-home buyers (FHBs), prompted by elevated government grants, which has now passed
  - “in practice, FHBs are no more likely to report financial stress, difficulty repaying their mortgages or losing their job than 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”

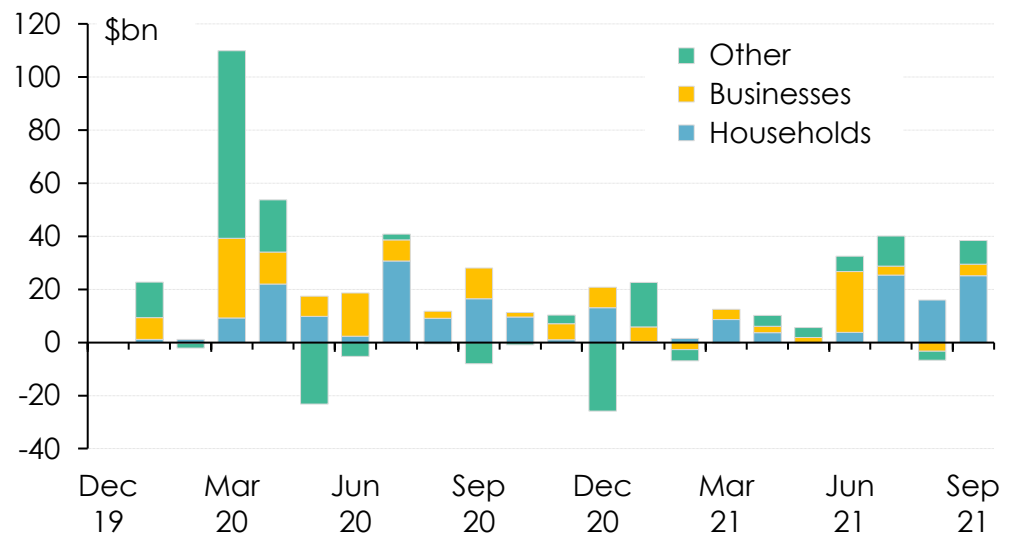


# Banks have played an important role in assisting borrowers cope with shutdowns, and have been swamped with deposits

## Business credit outstanding



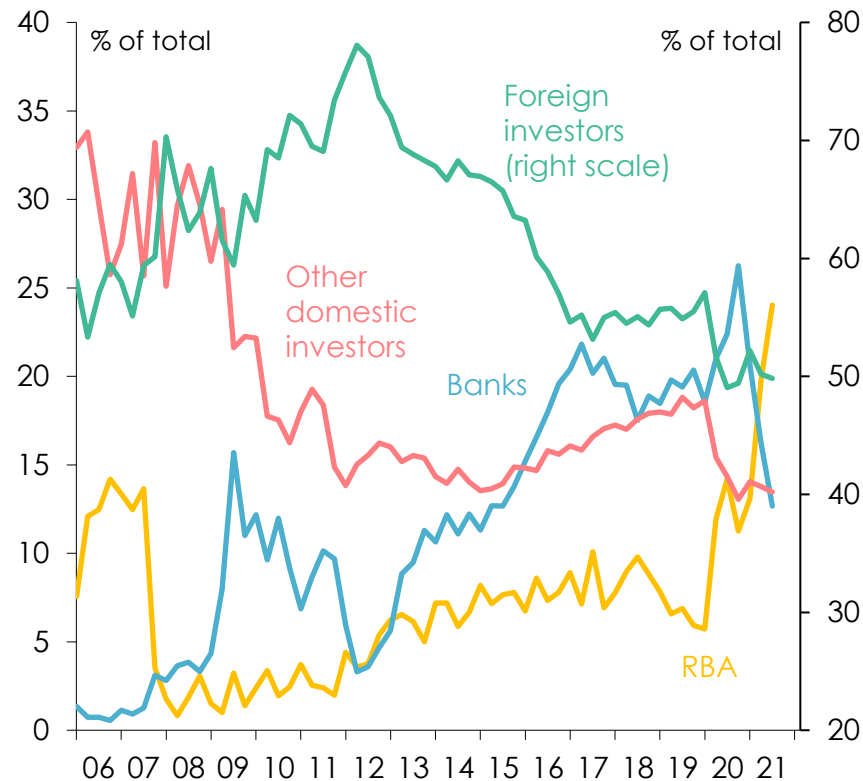
## Monthly change in bank deposits



- ❑ 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 \$424bn (20%) 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 \$208bn (21%) since last February – including by \$67bn during the September quarter most of which NSW and Victoria spent in lockdown – while business deposits have risen by \$142bn (24%)

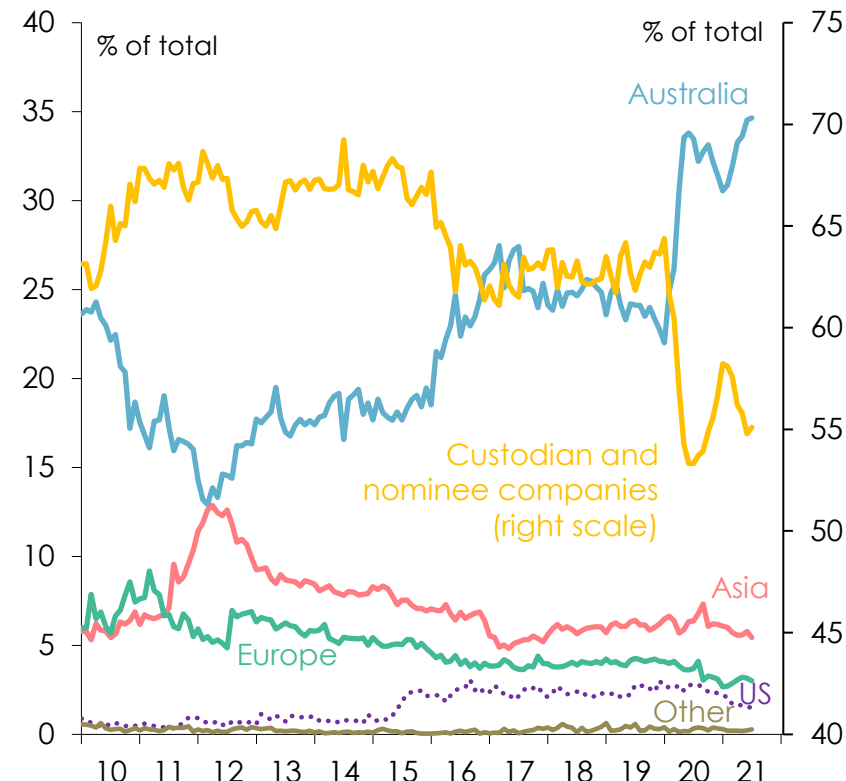
# The RBA has (indirectly) absorbed almost two-thirds of the increase in government debt since the end of 2019, banks 2% and foreigners 31%

## Holder of Australian Government bonds



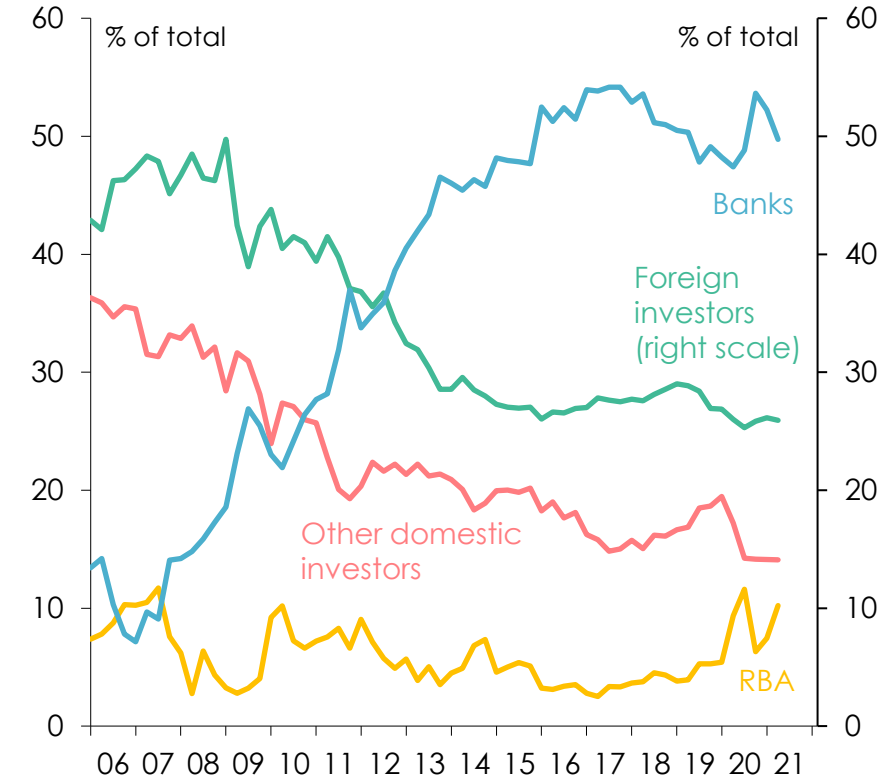
Australian Gov't bonds on issue have increased by \$237bn since the end of 2019 – of which \$173bn (73%) have been absorbed by the RBA, and \$72bn by foreigners, while banks have reduced their holdings by \$7bn

## 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

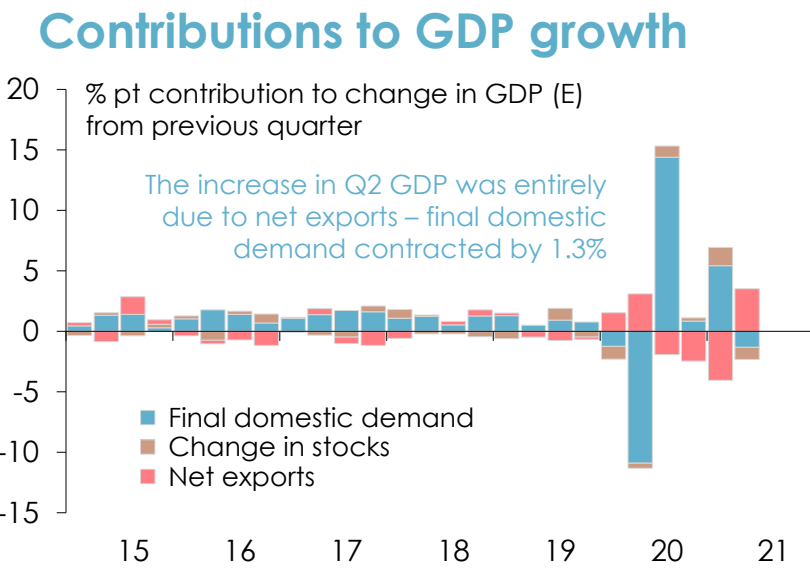
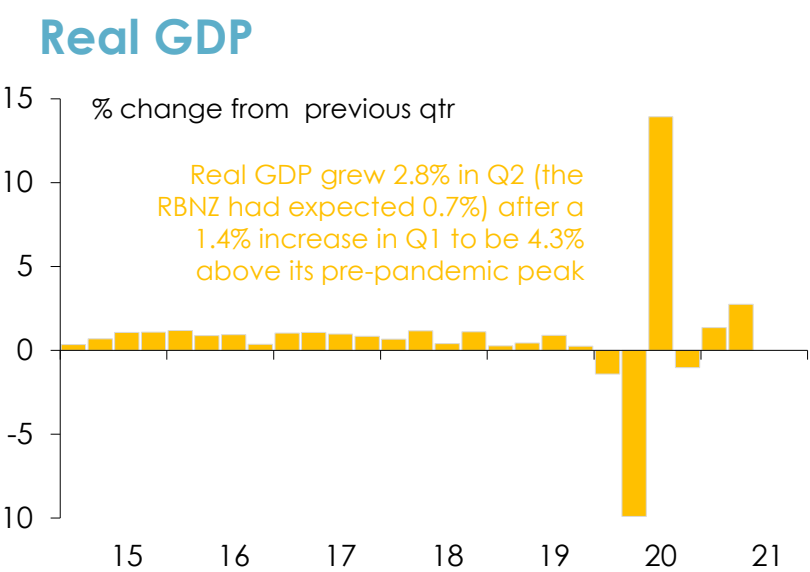
## Holder of State and Territory Government bonds



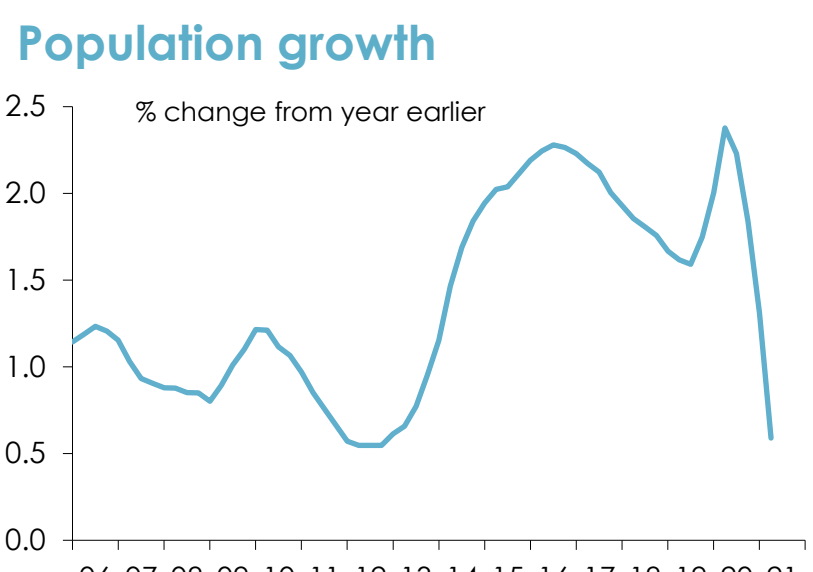
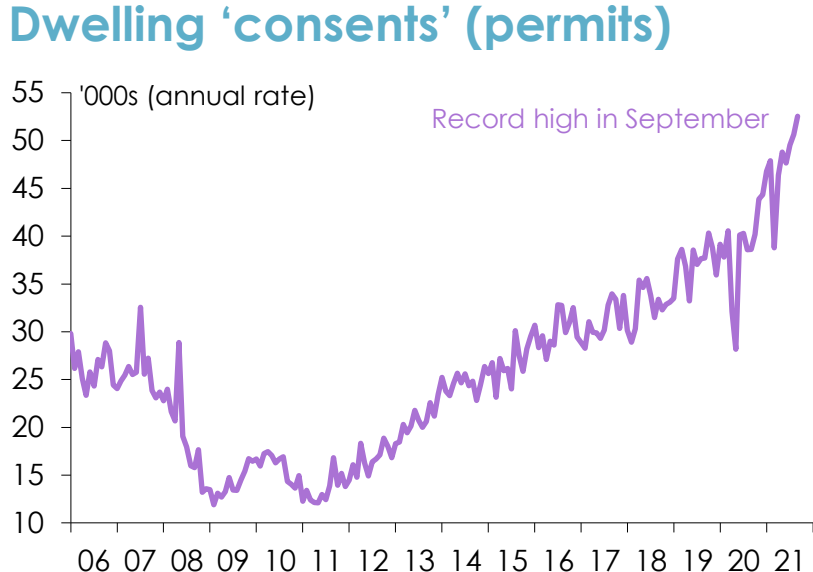
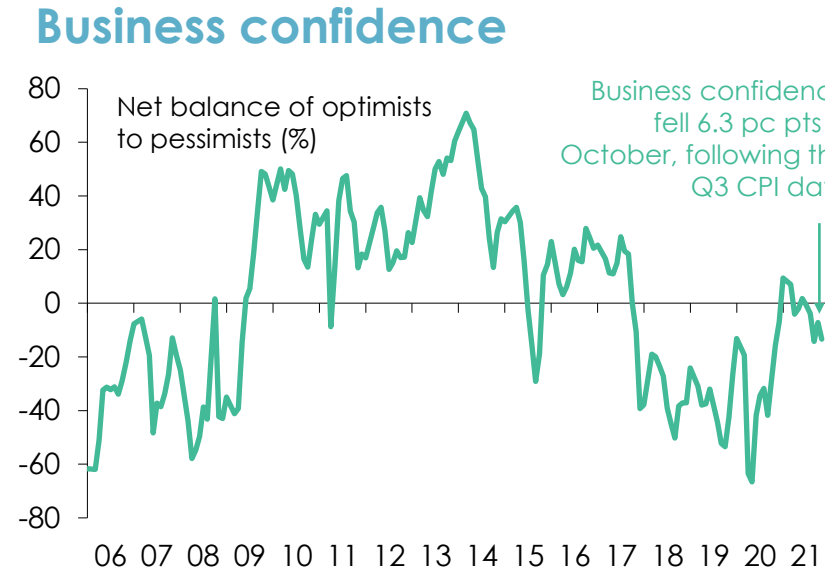
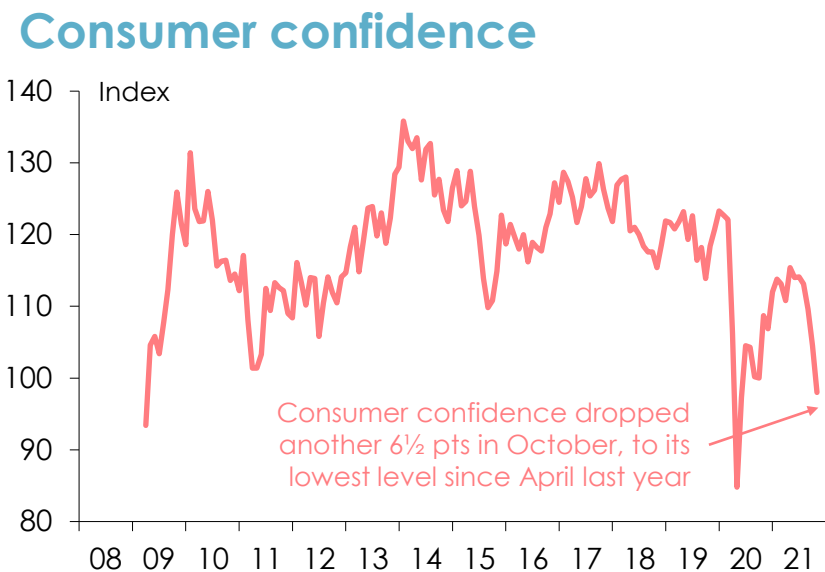
State & Territory Gov't bonds on issue increased have increased by \$107bn since the end of 2019, of which \$45bn have been absorbed by banks, \$40bn by the RBA and \$29bn by foreigners

**New Zealand**

# Business and (especially) consumer confidence have fallen after October's rate hike and the subsequent sharp rise in inflation in Q3

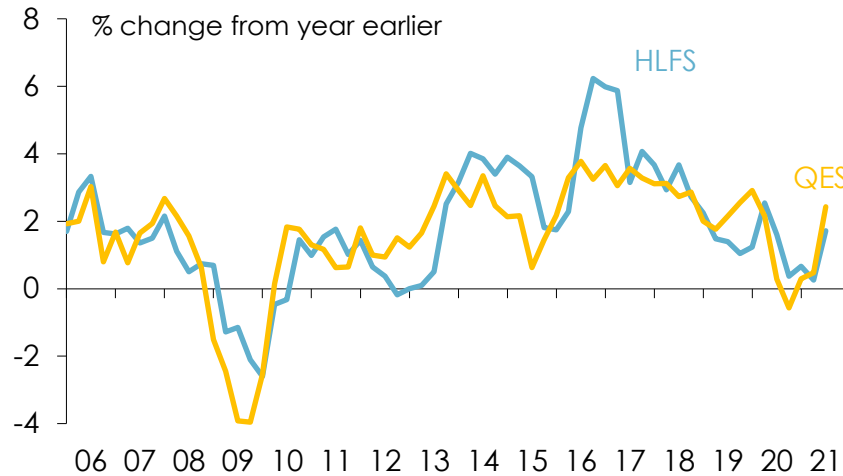


Note: New Zealand uses GDP(P) as its preferred measure of GDP. September GDP data will be released on 16<sup>th</sup> December.  
Sources: [Statistics NZ](#); NZ Treasury, [Budget Economic and Fiscal Update 2021](#); ANZ-Roy Morgan; [ANZ Bank NZ](#). [Return to "What's New"](#).

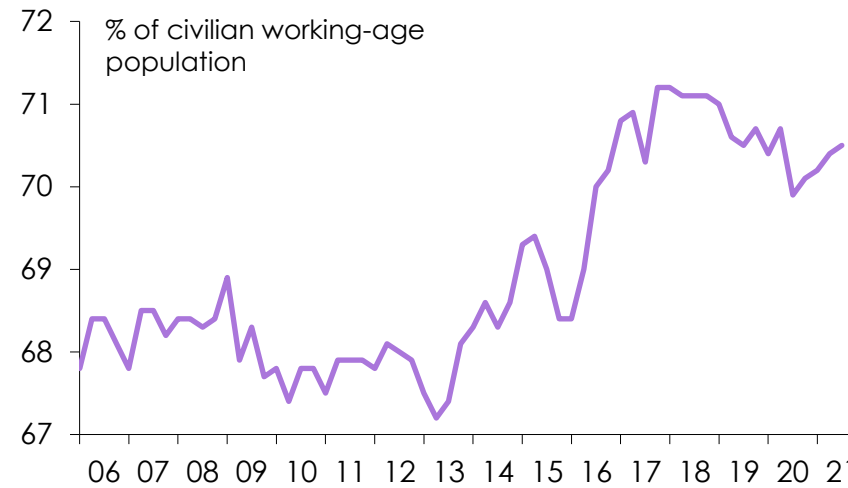


# Employment rose 1.1% in Q2 (to 1.3% above pre-pandemic peak) and unemployment dropped to 4%

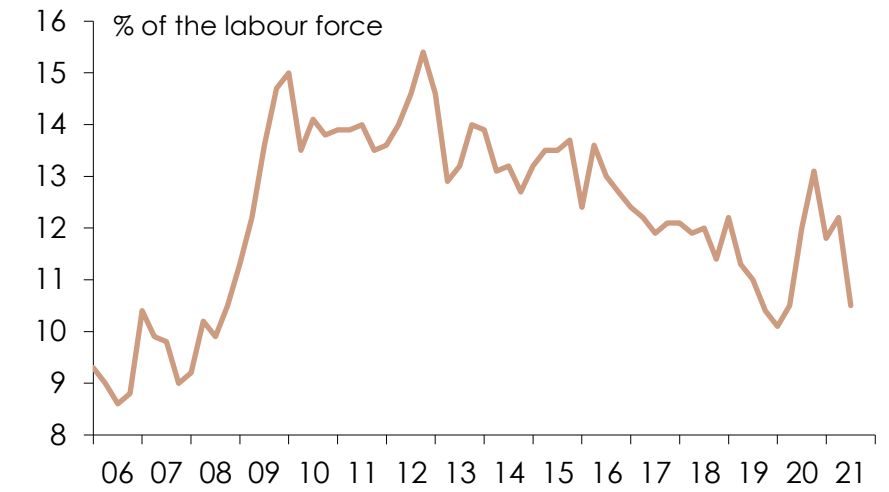
## Employment



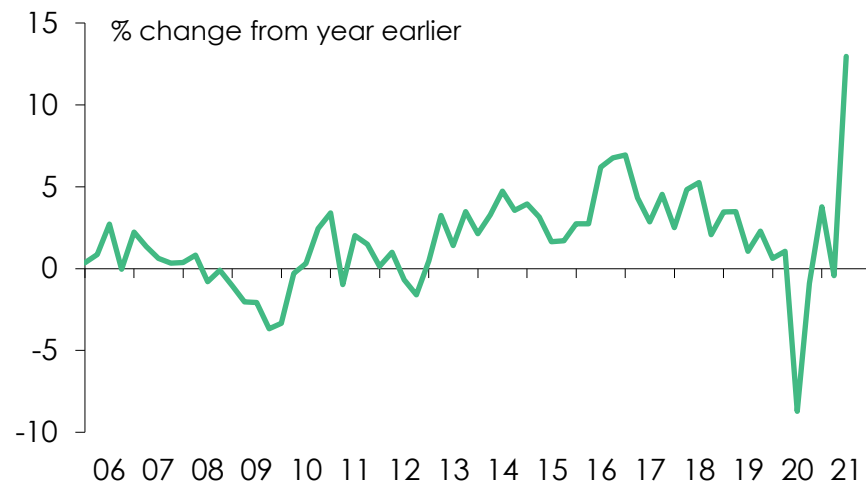
## Labour force participation rate



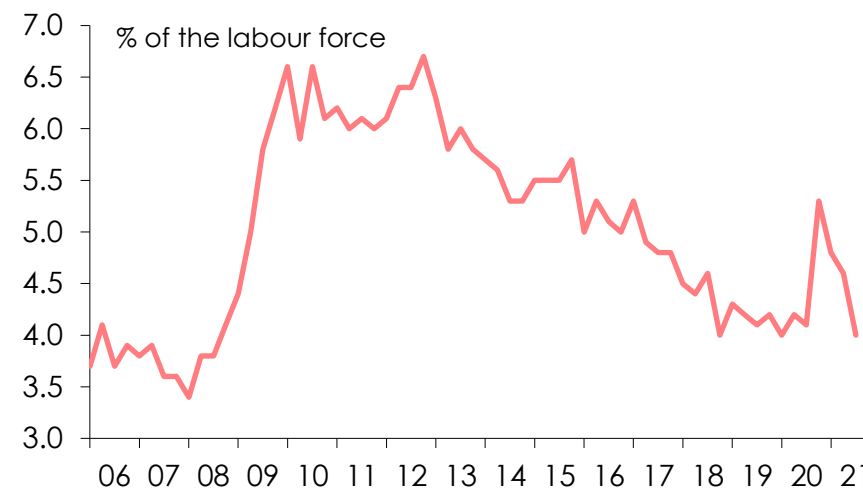
## Labour force under-utilization rate



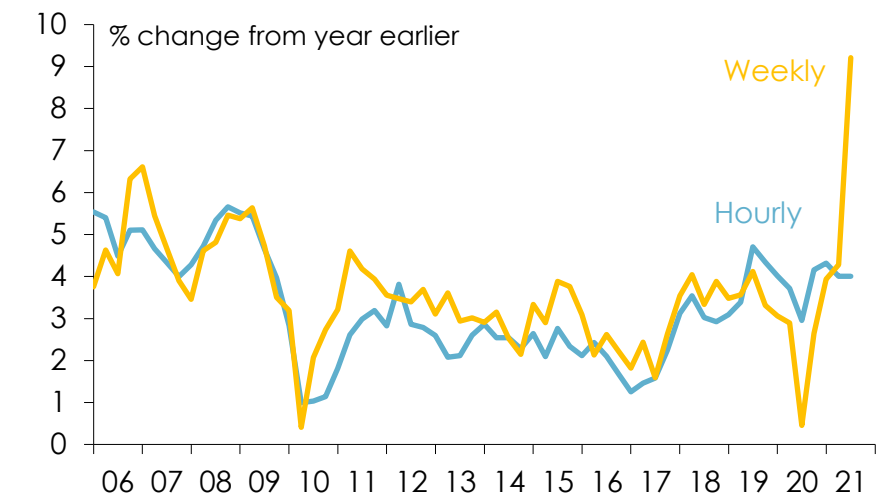
## Hours worked



## Unemployment rate



## Average weekly earnings

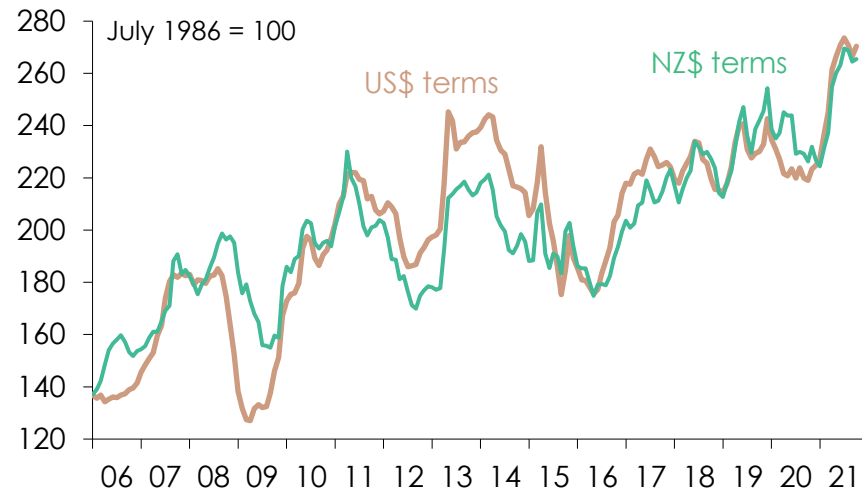


Note: New Zealand labour force data are only published quarterly. There are two 'headline' series on employment – the household labour force survey (HLFS) which counts the number of people in employment during the quarter; and the quarterly employment survey (QES), which counts the number of 'filled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

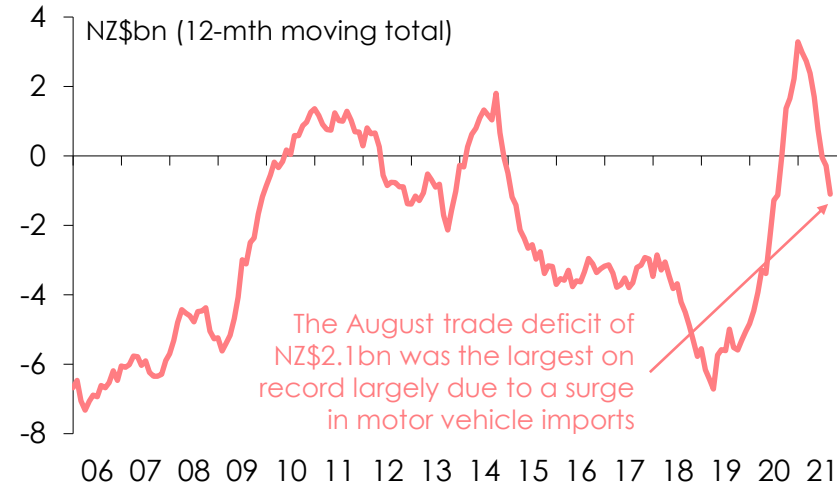
Source: [Statistics NZ](https://www.stats.govt.nz/). September quarter data will be released on 3<sup>rd</sup> November. [Return to "What's New"](#).

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

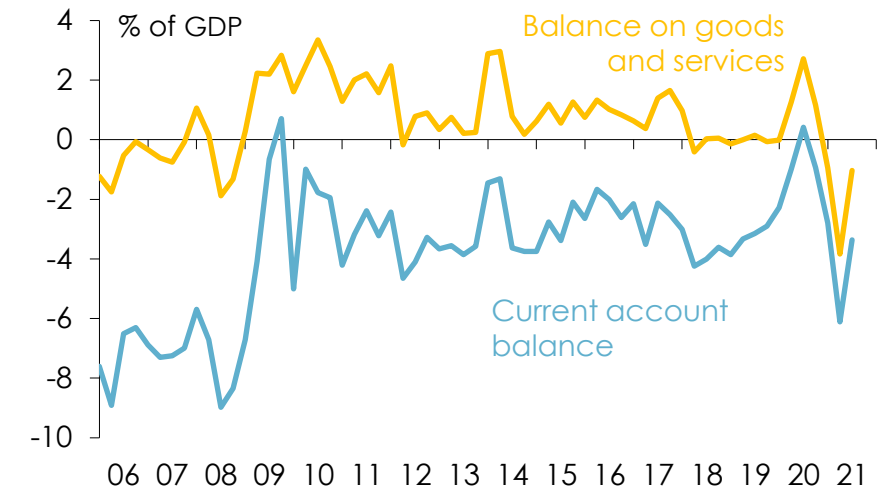
## Export commodity prices



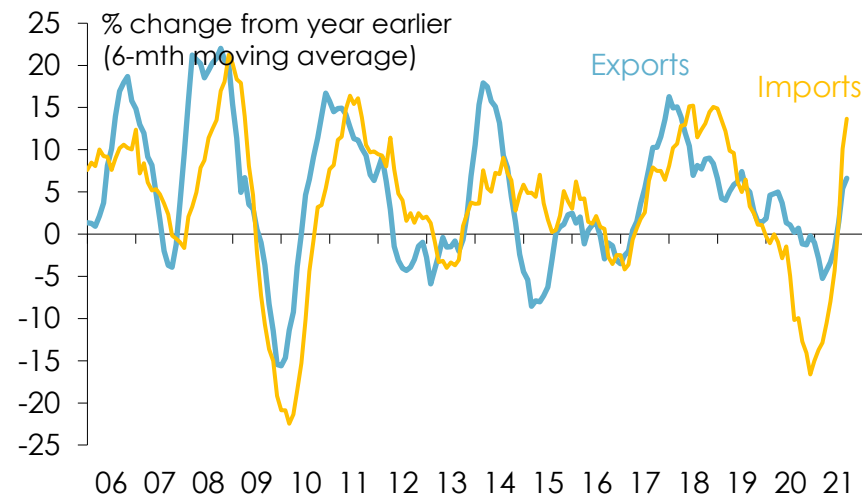
## Merchandise trade balance



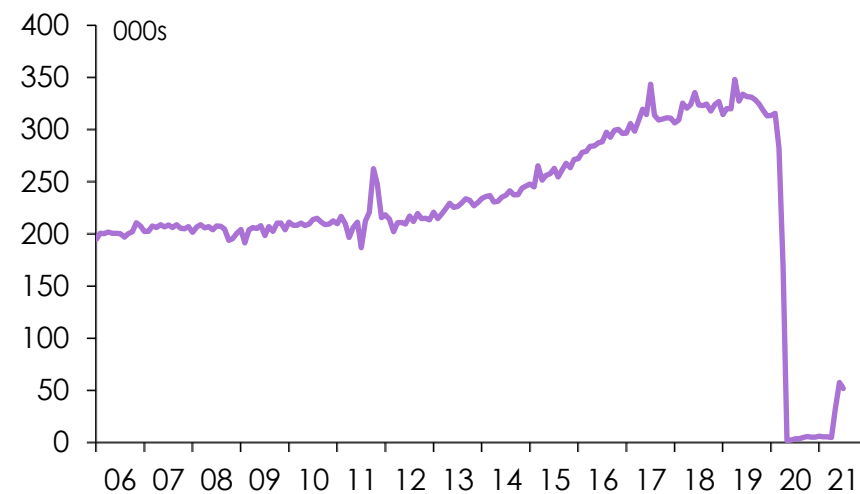
## Balance of payments



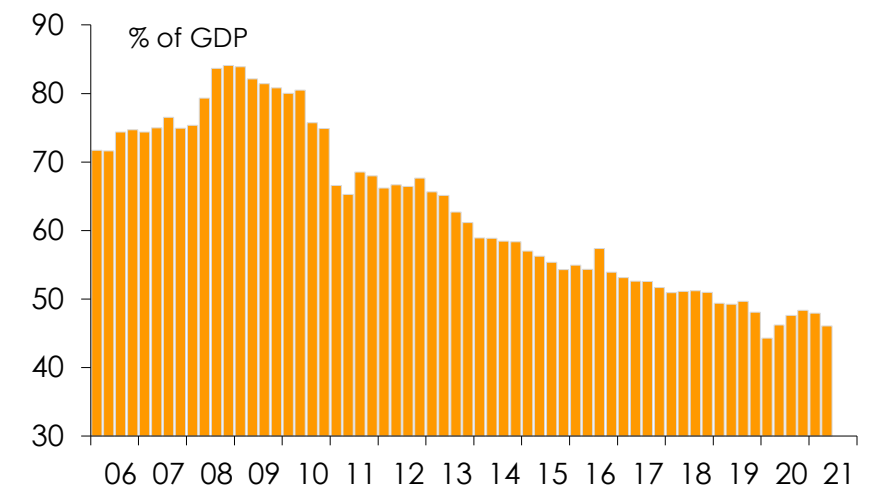
## Merchandise exports and imports



## Overseas visitor arrivals



## Net foreign debt

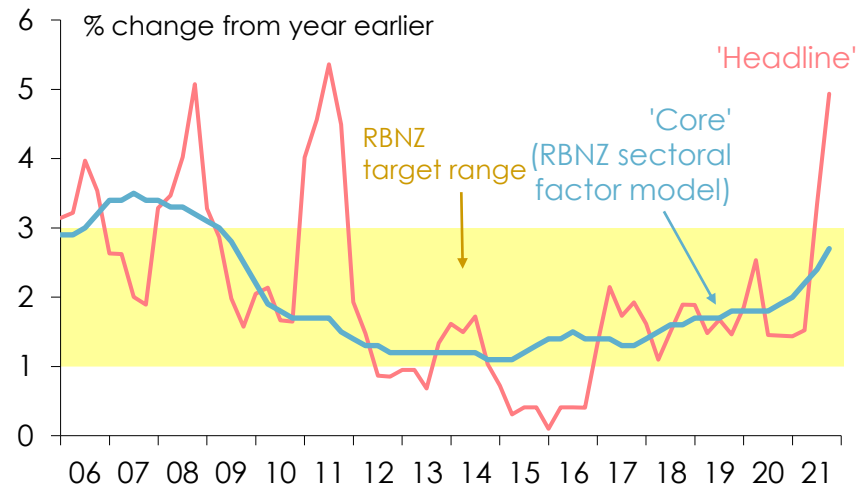


Note: latest merchandise trade data is for August: September data will be released on 27<sup>th</sup> October; latest balance of payments and net foreign debt data is for the March quarter; September quarter data will be released on 15<sup>th</sup> December. Sources: [ANZ Bank](#); [Statistics New Zealand](#).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

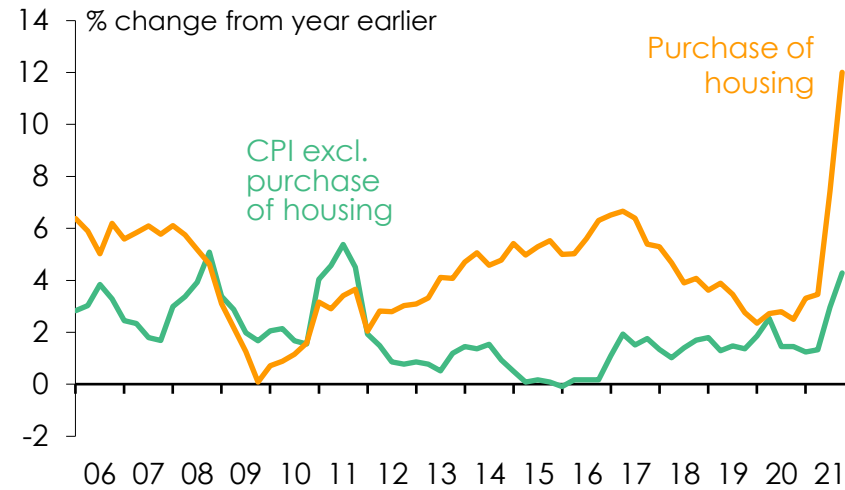


# The Q3 CPI was a 'shocker', rising 2.2% (cf. the RBNZ's expectation of 1.4%), pushing the annual 'headline' inflation rate to 4.9%

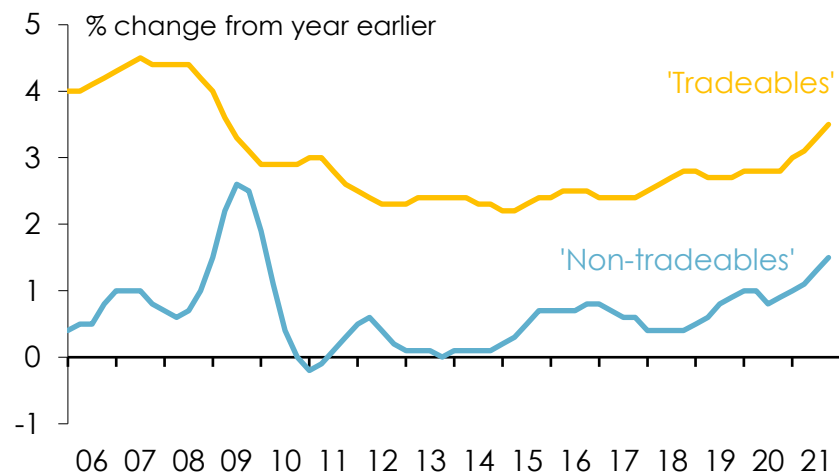
## Consumer prices



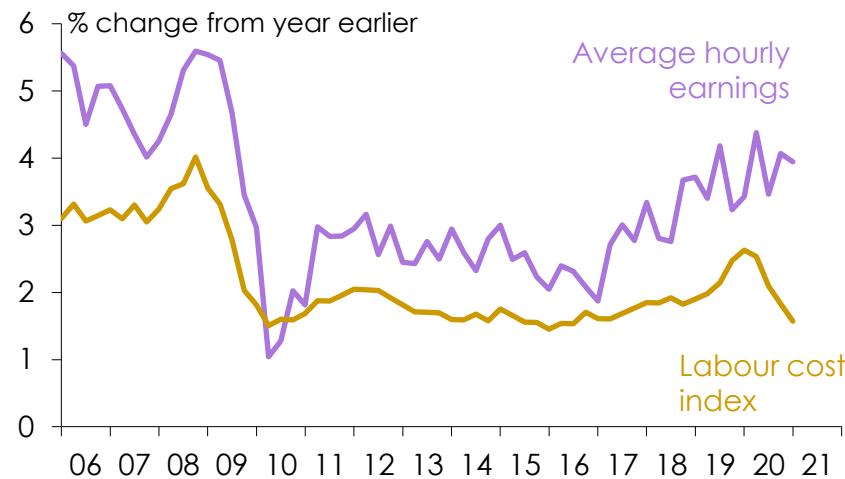
## Housing costs in the CPI



## Components of 'core' inflation



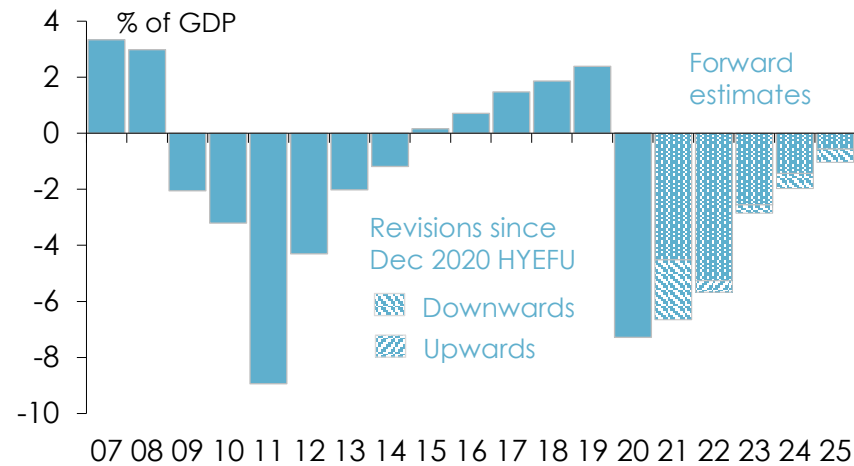
## Labour costs



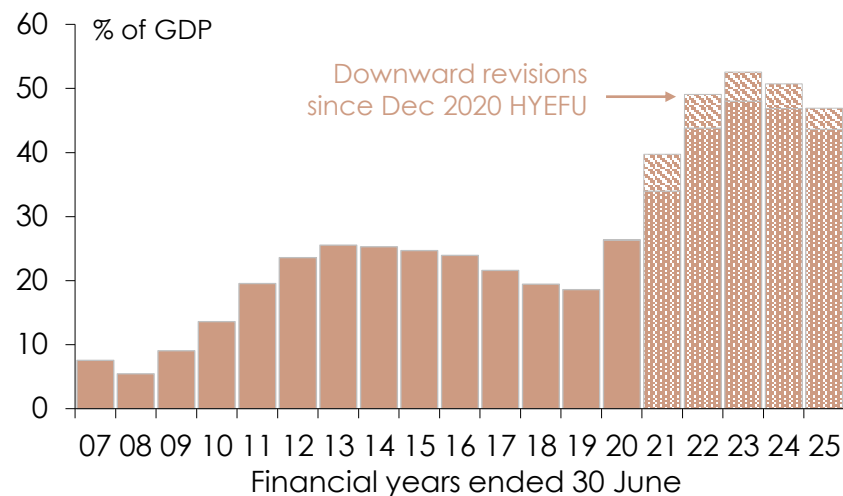
- ❑ The CPI rose 2.2% in Q3, the largest q-o-q increase since Q1 2011, after a 1.3% increase in Q2, pushing the annual 'headline' inflation rate up to 4.9%, the highest since Q2 2011 (after GST was raised from 12½% to 15%)
- ❑ Six components representing 18¼% of the CPI basket accounted for 66% of the 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' ('OEBGAL')



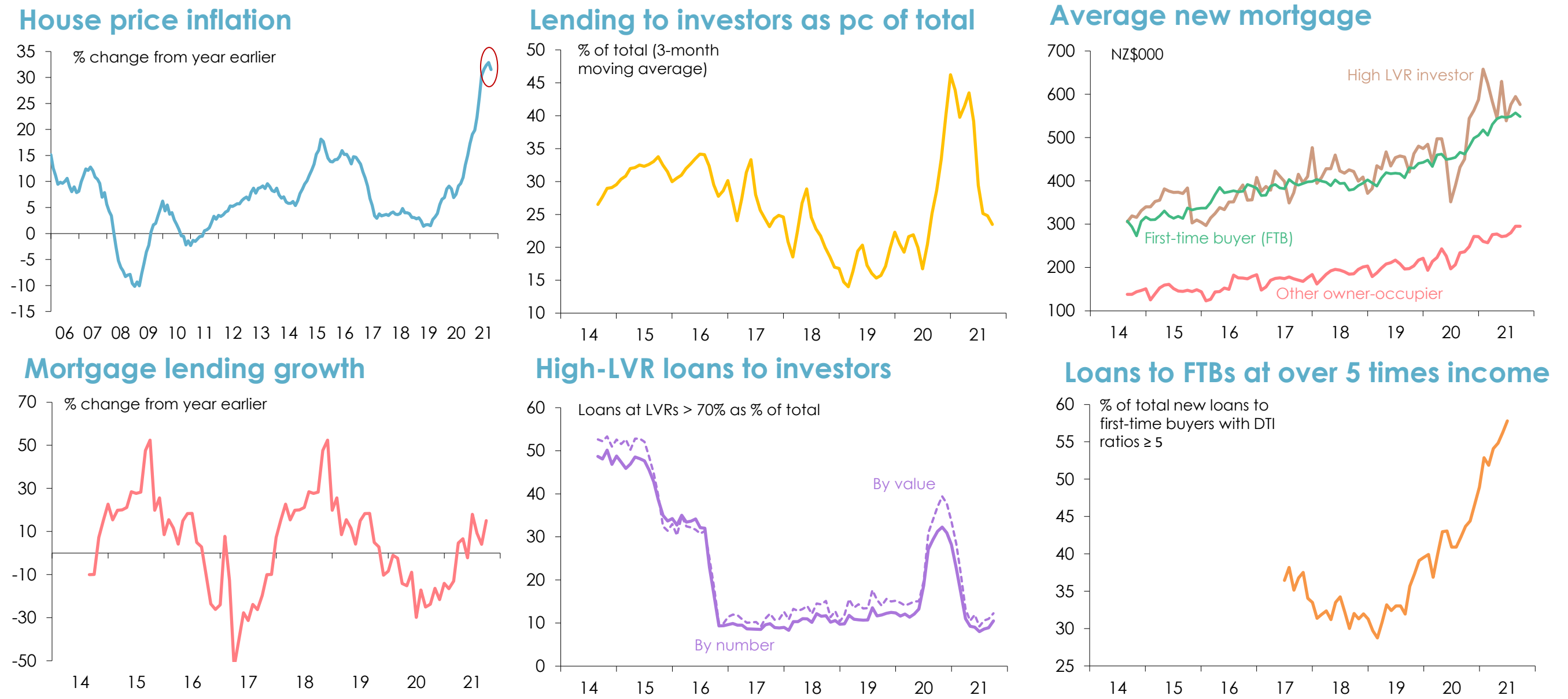
## NZ 'core Crown debt'



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

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

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

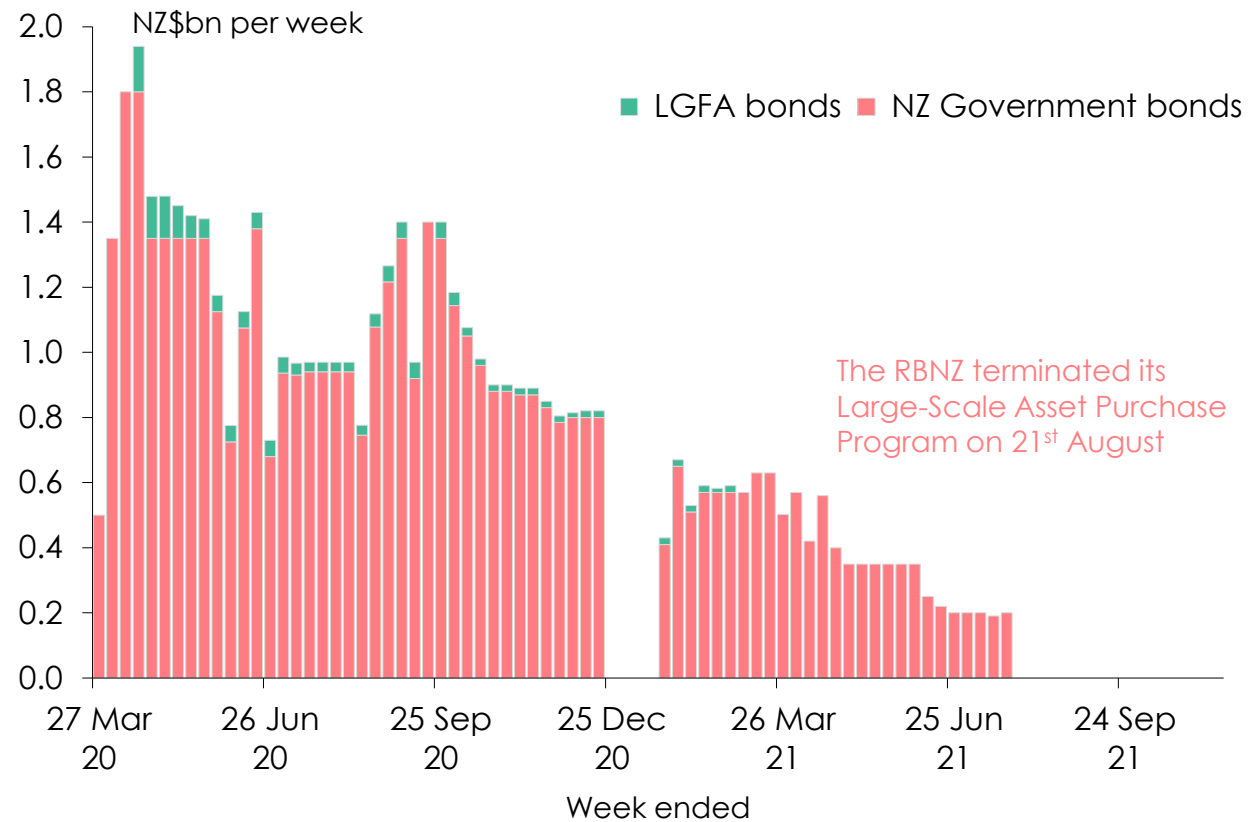


# As expected, the RBNZ raised its official cash rate by 25 bp at its October Monetary Policy Committee meeting – and there will be more this month

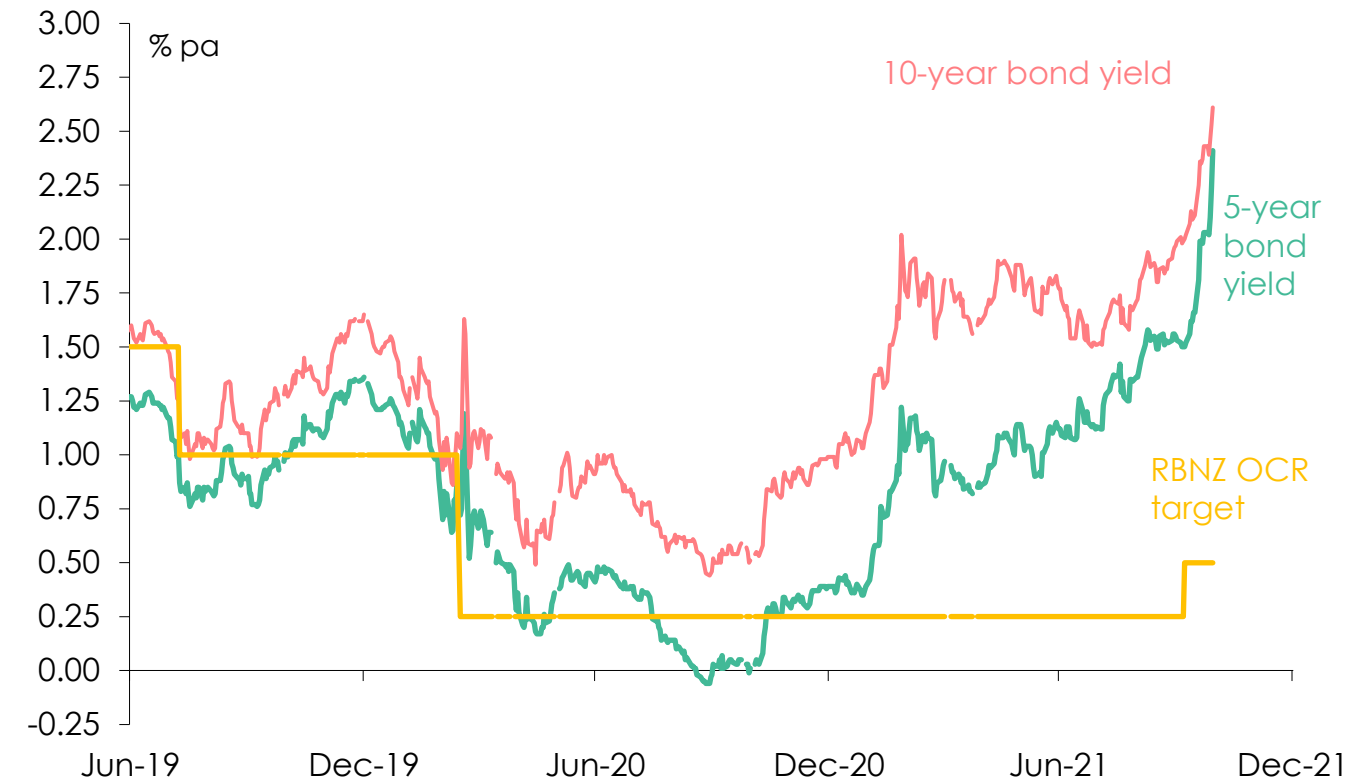
- ❑ The RBNZ raised its official cash rate by 25 basis points, to 0.50%, at October's Monetary Policy Committee meeting
  - the MPC was going to raise the OCR at its previous meeting on 18<sup>th</sup> August, but stayed its hand following the announcement of a nationwide lockdown the day before
  - however at its 6<sup>th</sup> October meeting 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 October), 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 continued their rapid rise prompted by last week's higher-than-expected Q3 CPI data

## RBNZ open market bond purchases



## New Zealand interest rates



- ❑ New Zealand bond yields continued their rapid rise this week with the 2-year rising 6 bp to 0.80% (the highest since March last year), the 5-year leaping 38 bp to 2.41% (the highest since April 2018) and the 10-year rising 18 bp to 2.61% (the highest since November 2018)
- ❑ NZ financial markets are giving some credence to the possibility of a 50bp hike in the OCR at the next RBNZ MPC meeting on 21<sup>st</sup> 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.

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