ECONOMIC IMPACT OF THE CORONAVIRUS PANDEMIC

20TH NOVEMBER 2021

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CORINNA ECONOMIC ADVISORY
INDEPENDENT ECONOMICS

What's new?

The world

- 3.68mn new Covid-19 infections were reported around the world this week, the fifth increase in a row (slide 4) – with Europe again accounting for most of the rise (slide 5), prompting fears of restrictions being re-imposed (again) (slide 7)
- ECB President Lagarde and BoJ Governor Kuroda both played down inflation risks, the former indicating that rates were unlikely to rise next year and the latter saying that the inflation target wouldn't be reached in FY 2023 (slide 34)
- A larger proportion of manufacturers in the Philadelphia Fed's district reported paying and receiving higher prices in November, reversing declines in the preceding three months, and raising some doubt about whether 'upstream' price pressures are easing in the US (slide 76)
- US retail sales and industrial production both rose more strongly than expected in November, with the rise in IP being led by a rebound in motor vehicle production (slides 67 and 75)
- China's November industrial production and retail sales numbers were a bit better than expected, but still very soft (slides 47-48)
- Japan's real GDP shrank by a larger-than-expected 0.8% in Q3, weighed down by falling household spending and supply-chain difficulties for exports (slide 53), prompting a new fiscal package with a face value equivalent to 10% of GDP (slide 54)
- Indonesia's and the Philippines' central banks kept their rates on hold this week (slide 63) , Iceland's raised its for the fourth time this year (slide 86), Hungary's and Pakistan's raised theirs again (slides 87-88) and South Africa's raised its for the first time (slide 89) -but Turkey again cut rates despite inflation of near 20% (slide 90)

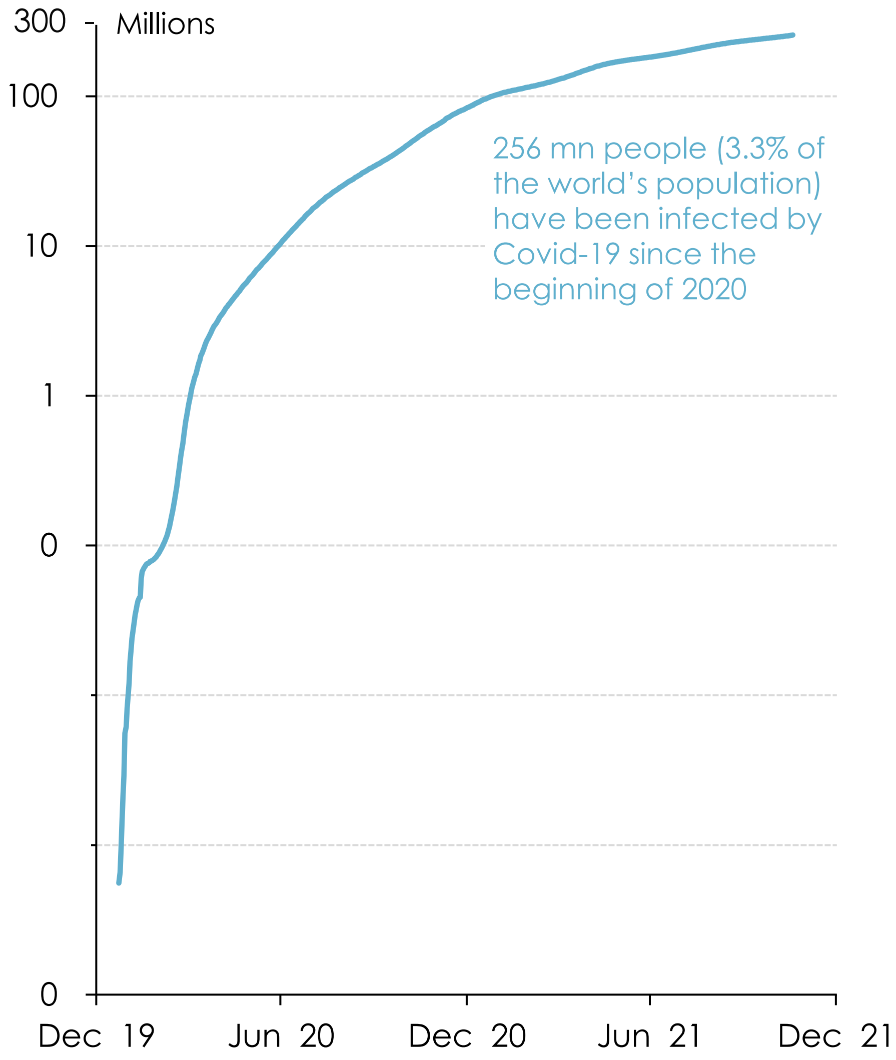
Australia and New Zealand

- Australia recorded just under 8,600 new infections this week, the lowest in 12 weeks, and down from the peak of 16,000 in mid-October (slide 14)
- Victoria's case numbers and hospitalizations have begun to fall but remain noticeably higher than NSW's despite a similarly high proportion of its population having been double-vaccinated (slide 15)
- South Australia and Tasmania – for long the states with the weakest economies – recorded the strongest economic growth in the 2020-21 financial year, while Victoria's economy contracted, leaving Victoria with the second-lowest per capita household disposable income of any state or territory (slide 96)
- The wage price index rose by 0.6% in Q3, pushing the annual rate of 'wage inflation' back to 2.2%, where it had been before the onset of Covid-19, but still well below the 3-point-something which the RBA regards as consistent with inflation being "sustainably" within its target range (slide 141) – with only 2 out of 18 sectors recording annual wages growth of more than 2¾% (slide 142)
- RBA Governor Phillip Lowe again forcefully pushed back against market pricing of two rate increases in 2022, re-iterating that these "weren't warranted" by "the latest data and forecasts" (slide 151)
- Australia's "allies" are continuing to replace the coal, copper, beef, barley, wine, seafood, wood and cotton which China has refused to import from Australia (slides 132-133)
- The A$ dropped below US73¢ again this week on the back of a stronger US$, lower commodity prices and lower Australian bond yields (slide 137)
- The RBNZ is almost certain to raise its official cash rate by another 25 bp at this Wednesday's Monetary Policy Committee meeting (slides 163-164)

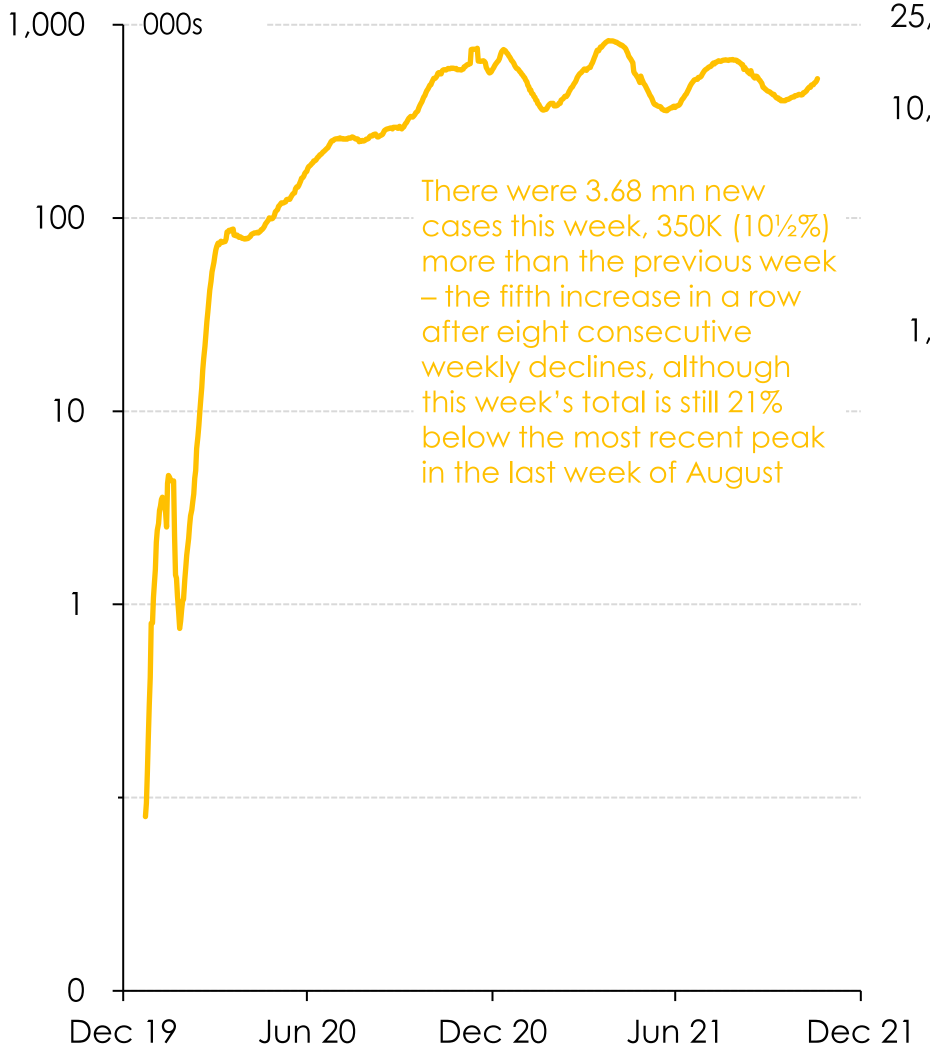
The virus

New Covid-19 case numbers have been rising for the past five weeks, although the official death toll has been relatively steady

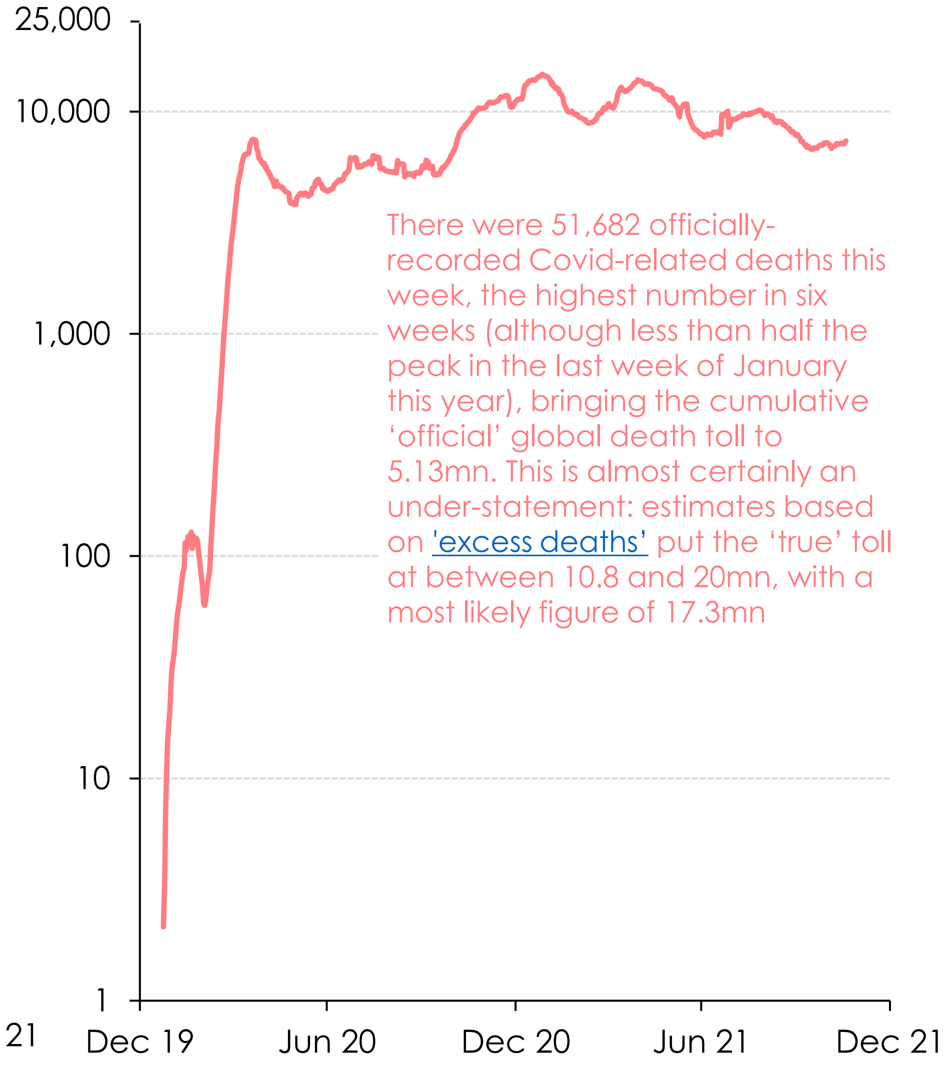
Cumulative confirmed cases – global total



New confirmed cases – global total



New deaths – global total



Note: All charts are on logarithmic scales. Data up to 18th November. *Source:* University of Oxford, Our World in Data. Return to "What's New".

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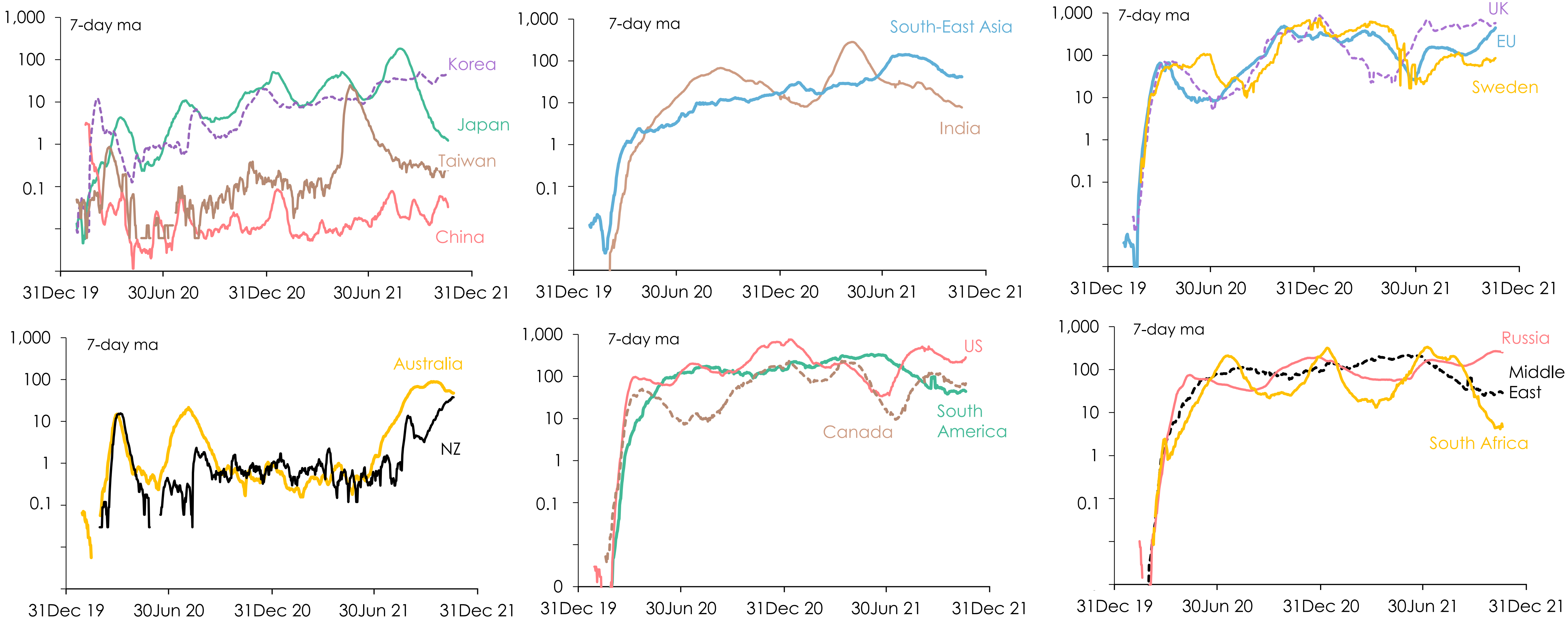
The increase in global case numbers in recent weeks has been almost wholly attributable to Europe and, in the past week, the US

Daily new cases per million population – major countries and regions



- Europe accounted for 48% of the world's new cases this week, the US 18%, the Middle East 7%, Russia 7%, SE Asia 5¼% and Sth America 3½% - Europe also accounted for 25% of total deaths, Russia and the US 16¼% each

Note: All charts are on logarithmic scales. Data up to 18th November. *Source:* University of Oxford, Our World in Data; Corinna. Return to "What's New".

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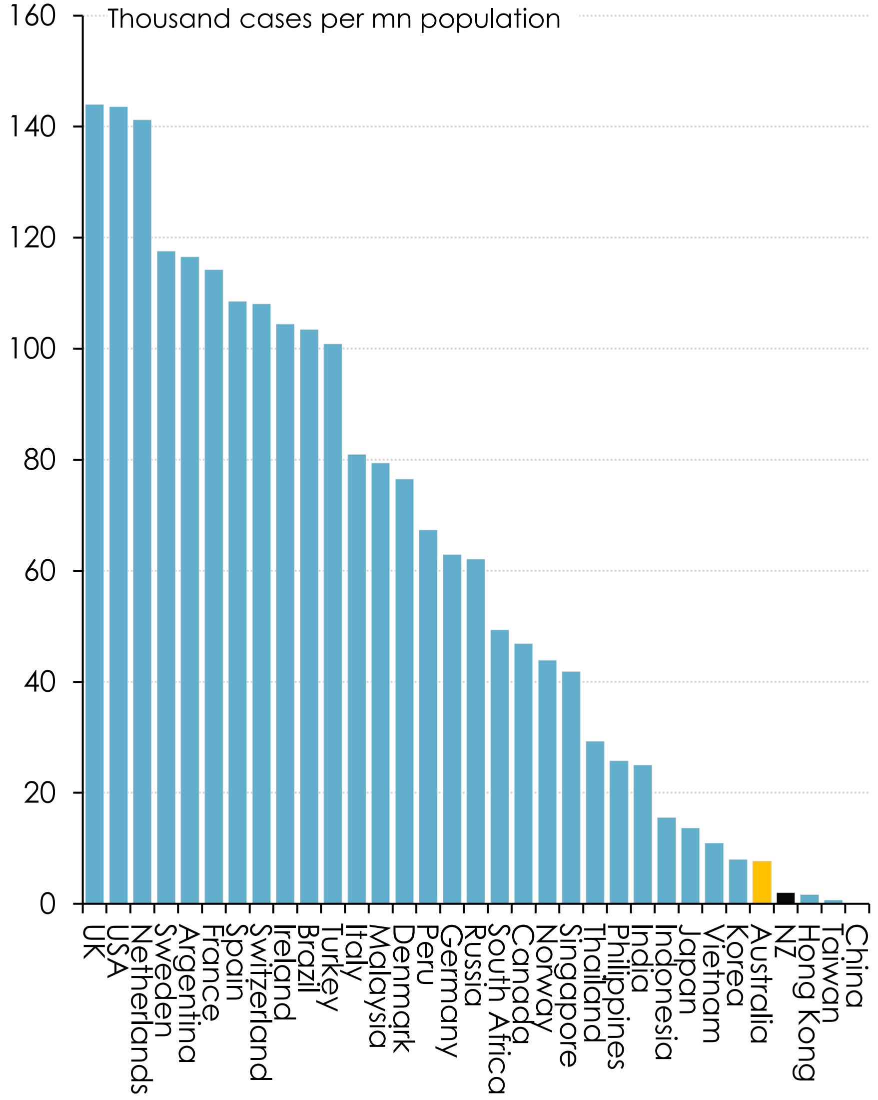
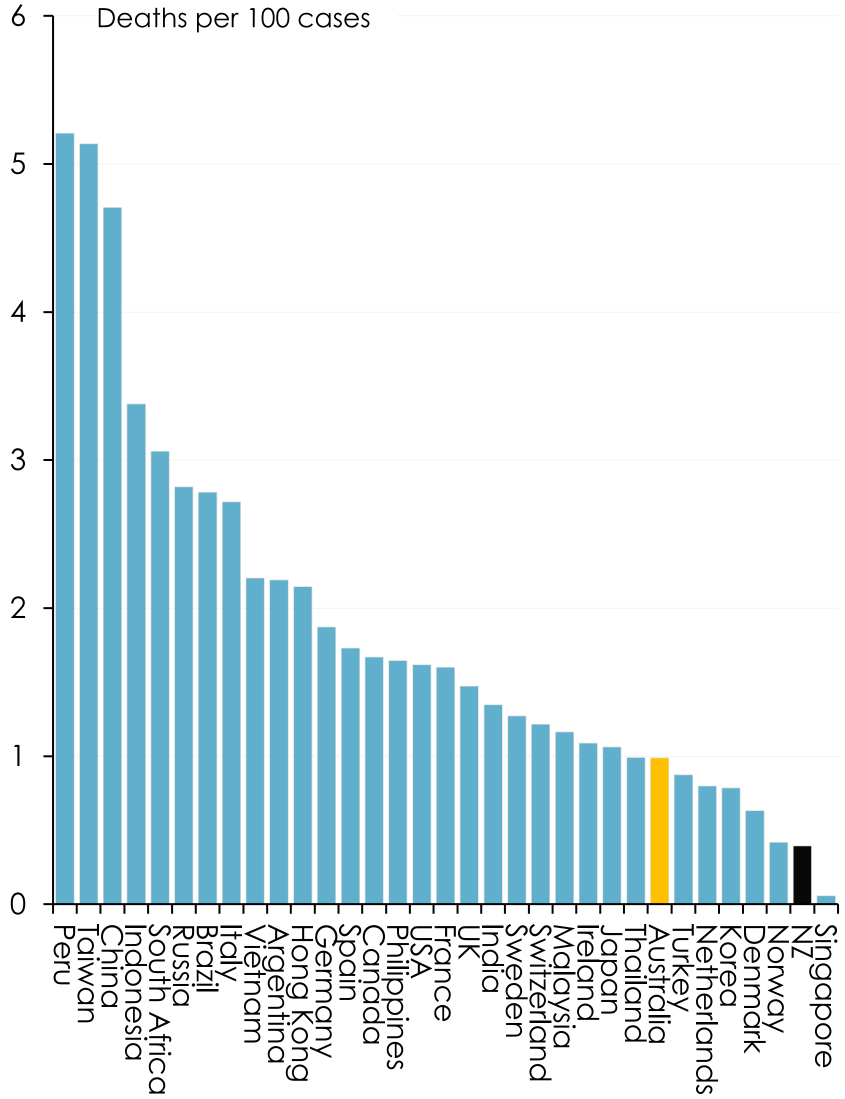
The highest cumulative infection and death rates (since the onset of the pandemic) have been in Europe, South and North America

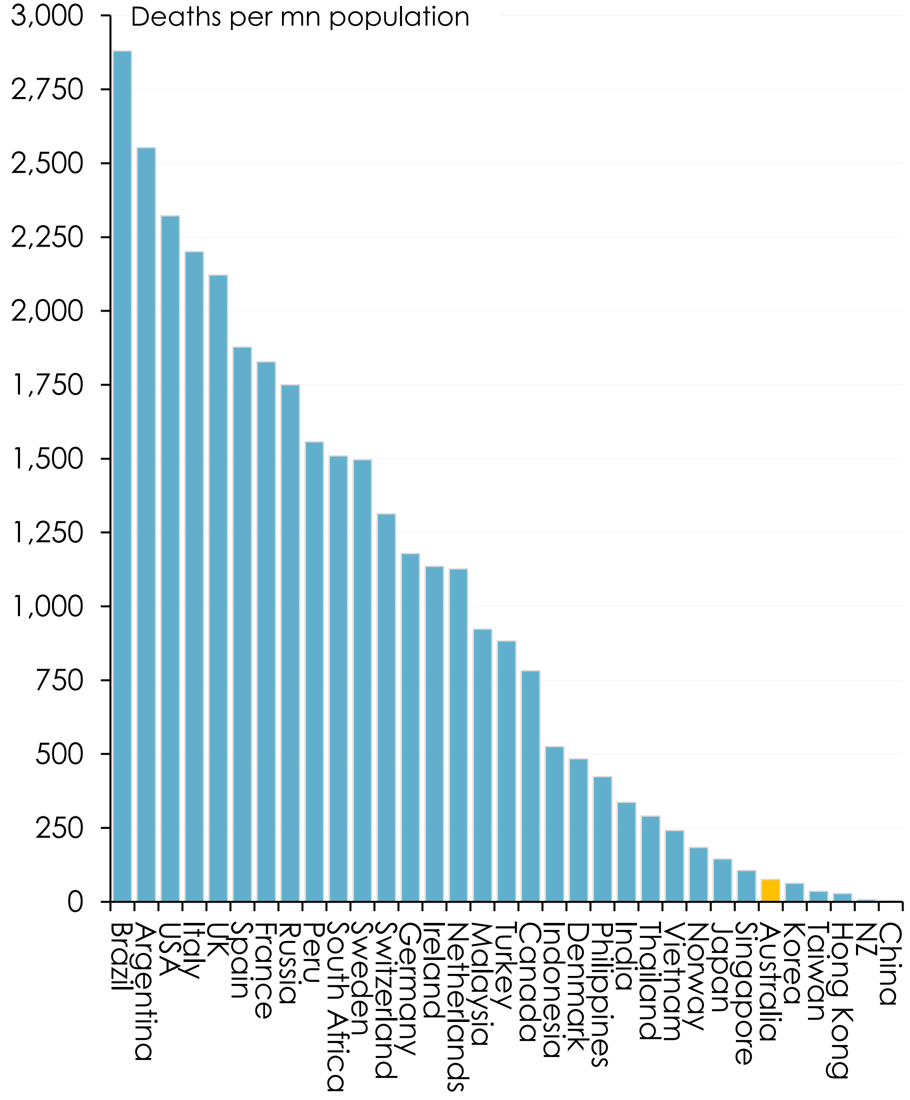
Apparent infection rate



Apparent fatality rate



Death rate



Note: Data up to 18th November. *Sources:* University of Oxford, *Our World in Data*; Corinna. Return to "What's New".

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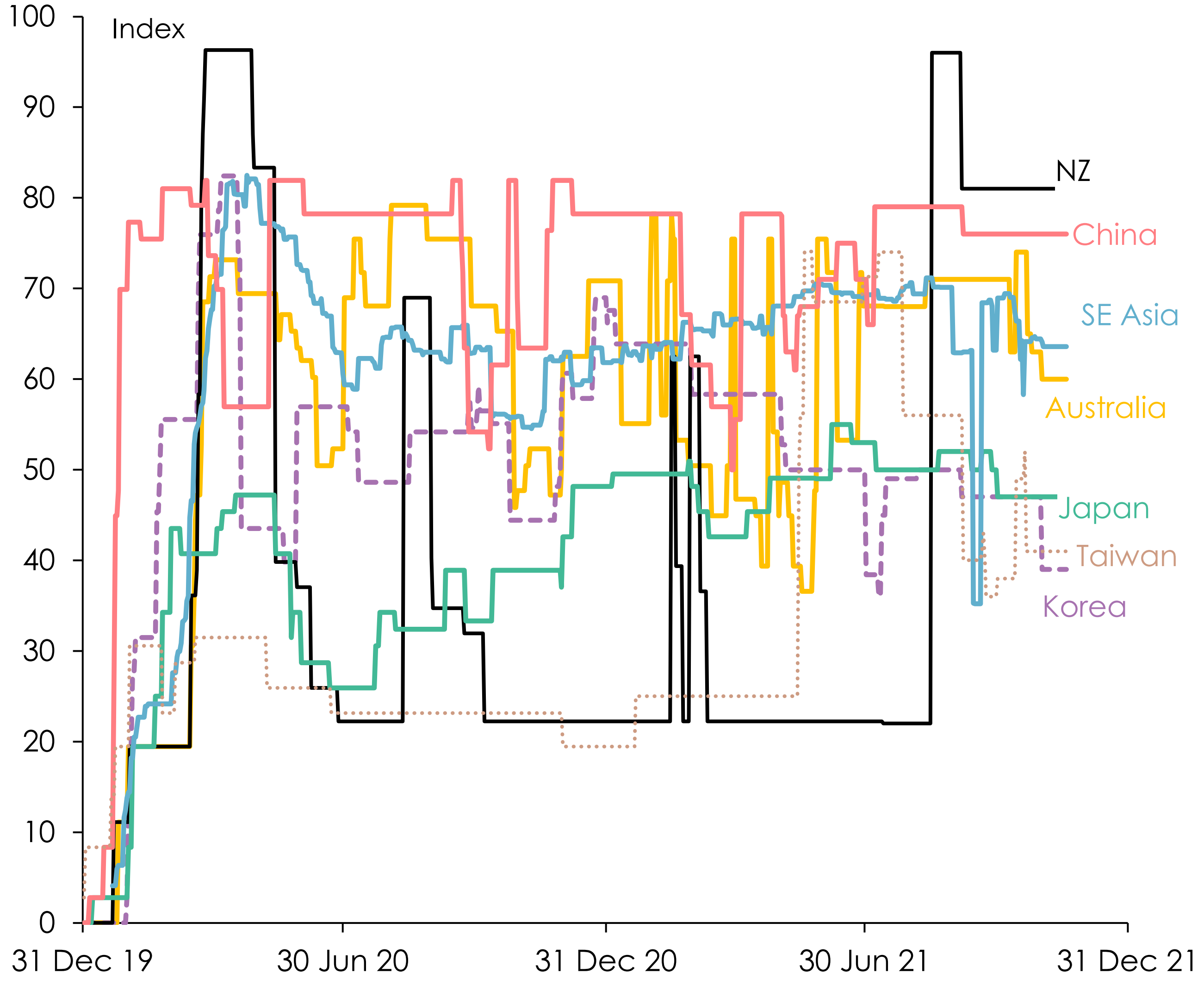
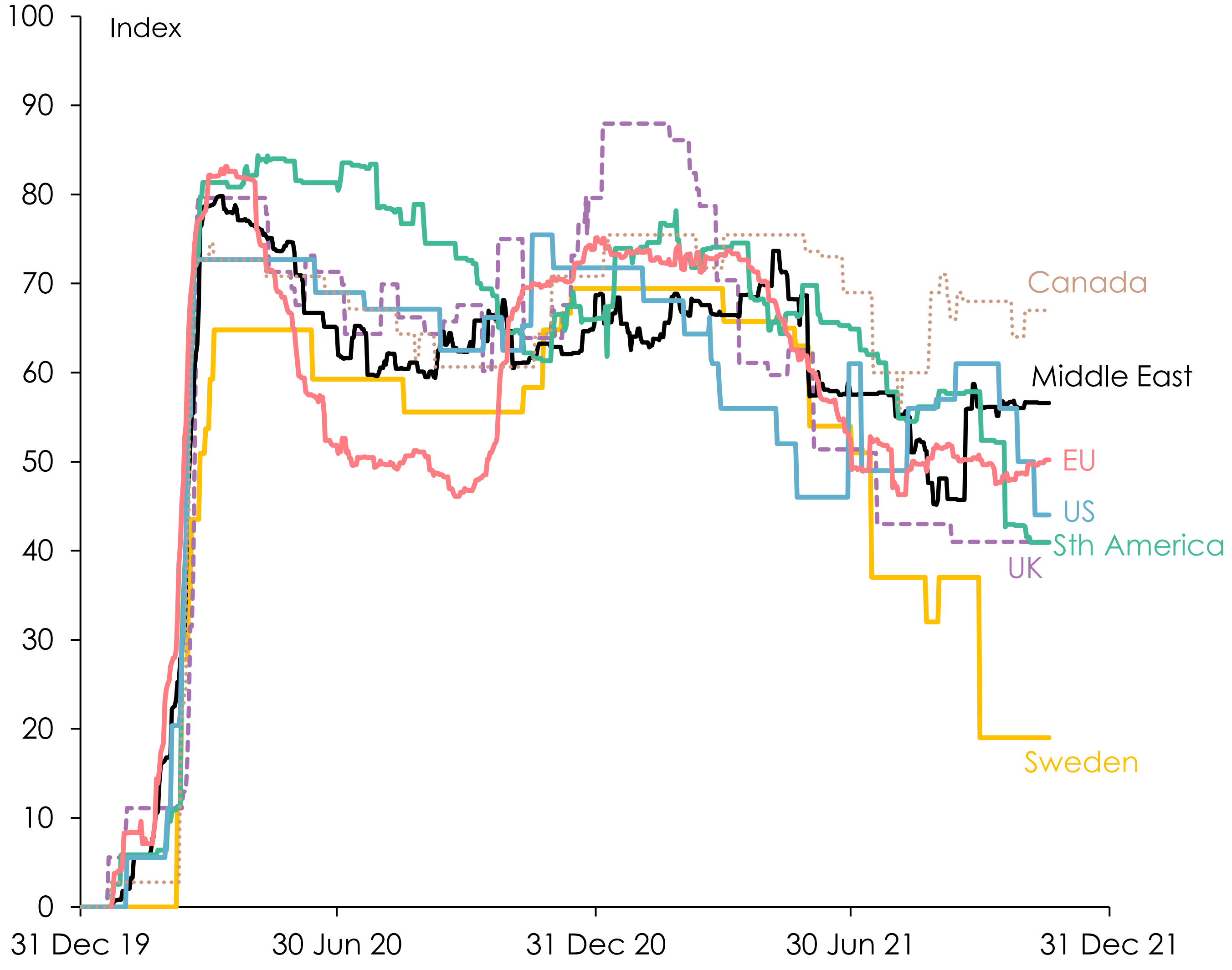
Austria imposed new restrictions on unvaccinated people this week and other European countries may also tighten restrictions

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 18th November. Return to "What's New".

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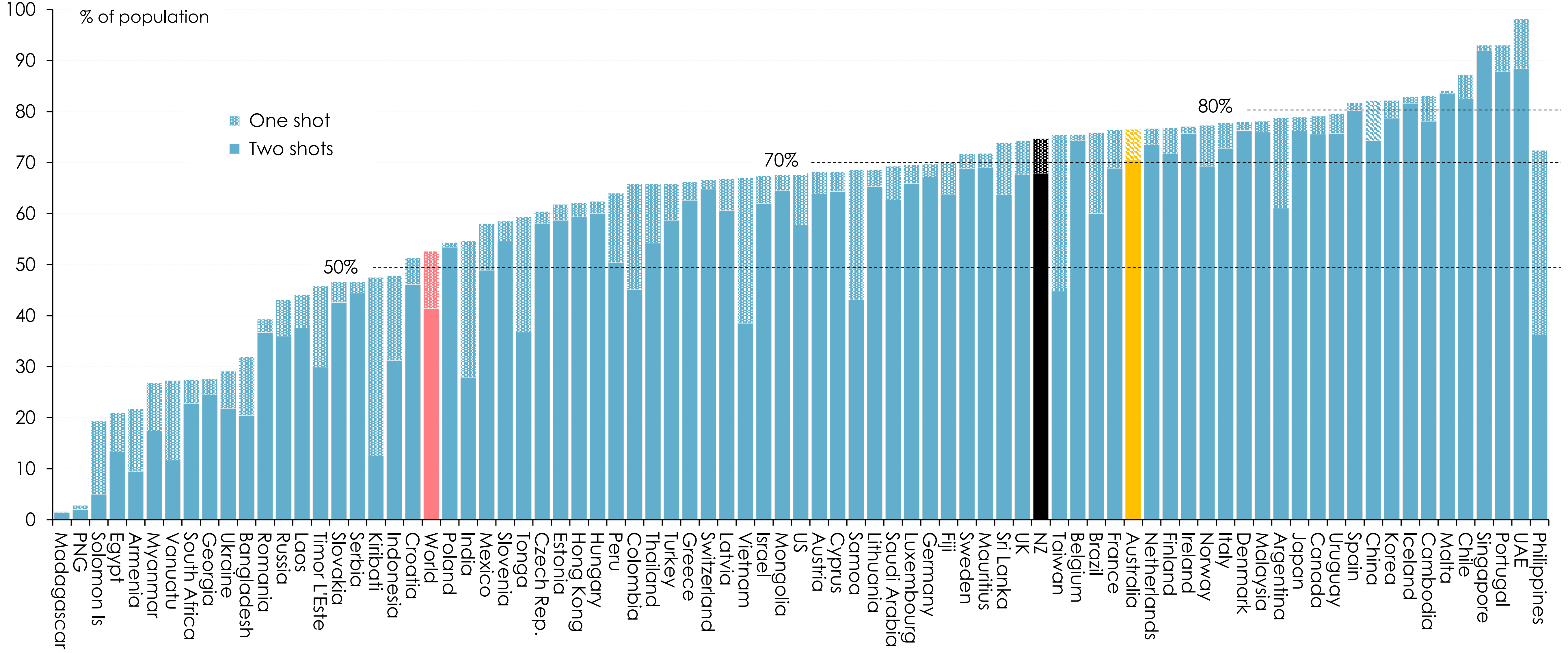
21 countries have now fully vaccinated more than 70% of their population, another 9 are close to that threshold, and 32 more are over 50%

Percentage of population who have had at least one vaccination shot as at 16th-18th November



Note: Data for Laos are as at 28th October; Singapore, 5th November; PNG, 7th November; Solomon Islands, 8th November; China, 12th November; Egypt and Myanmar, 13th November; Armenia, the Netherlands, Romania and Serbia, 14th November; Fiji, Kiribati, Samoa, Tonga and Vanuatu, 15th November. *Source:* Our World in Data, Coronavirus (COVID-19) Vaccinations. Return to "What's New".

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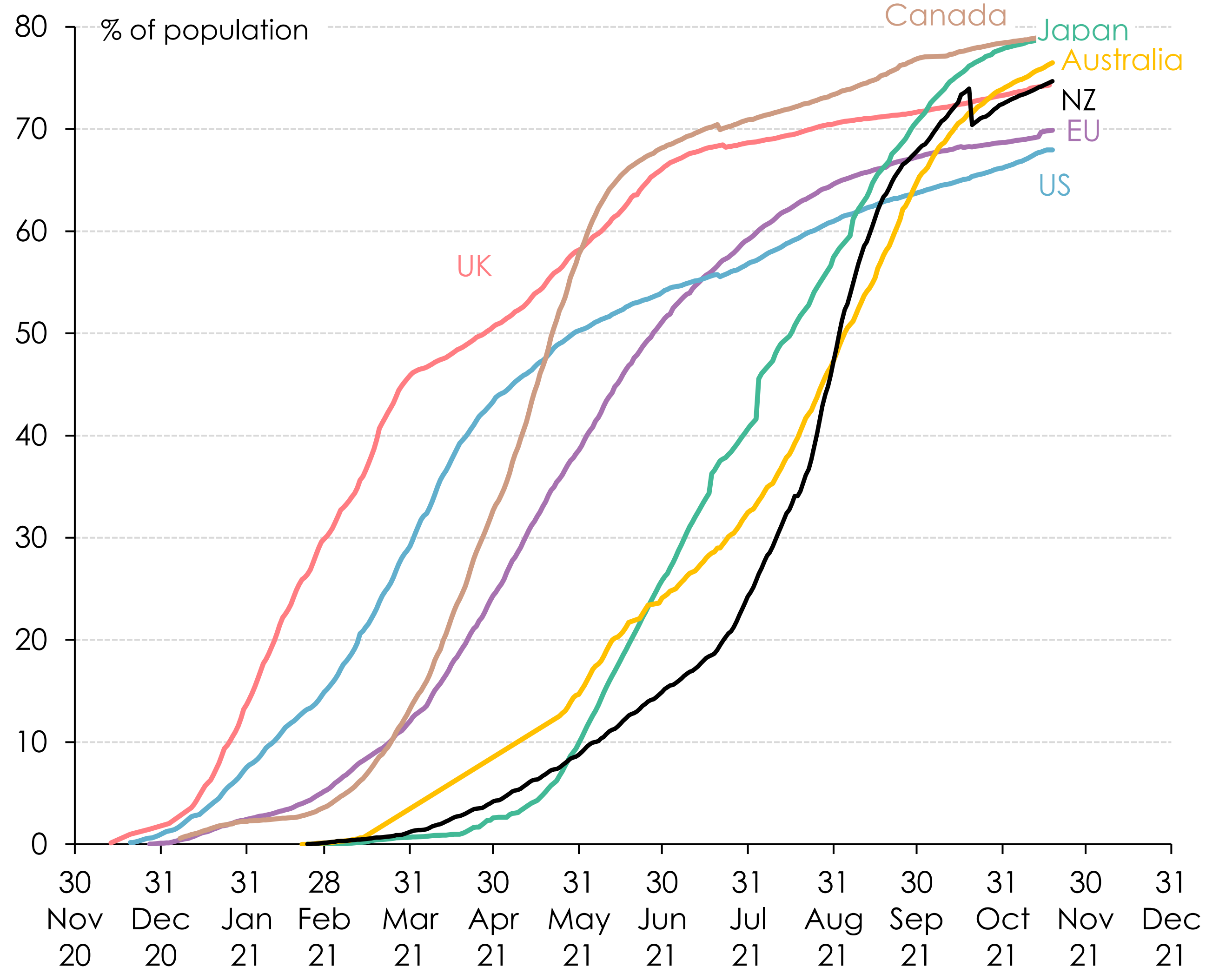
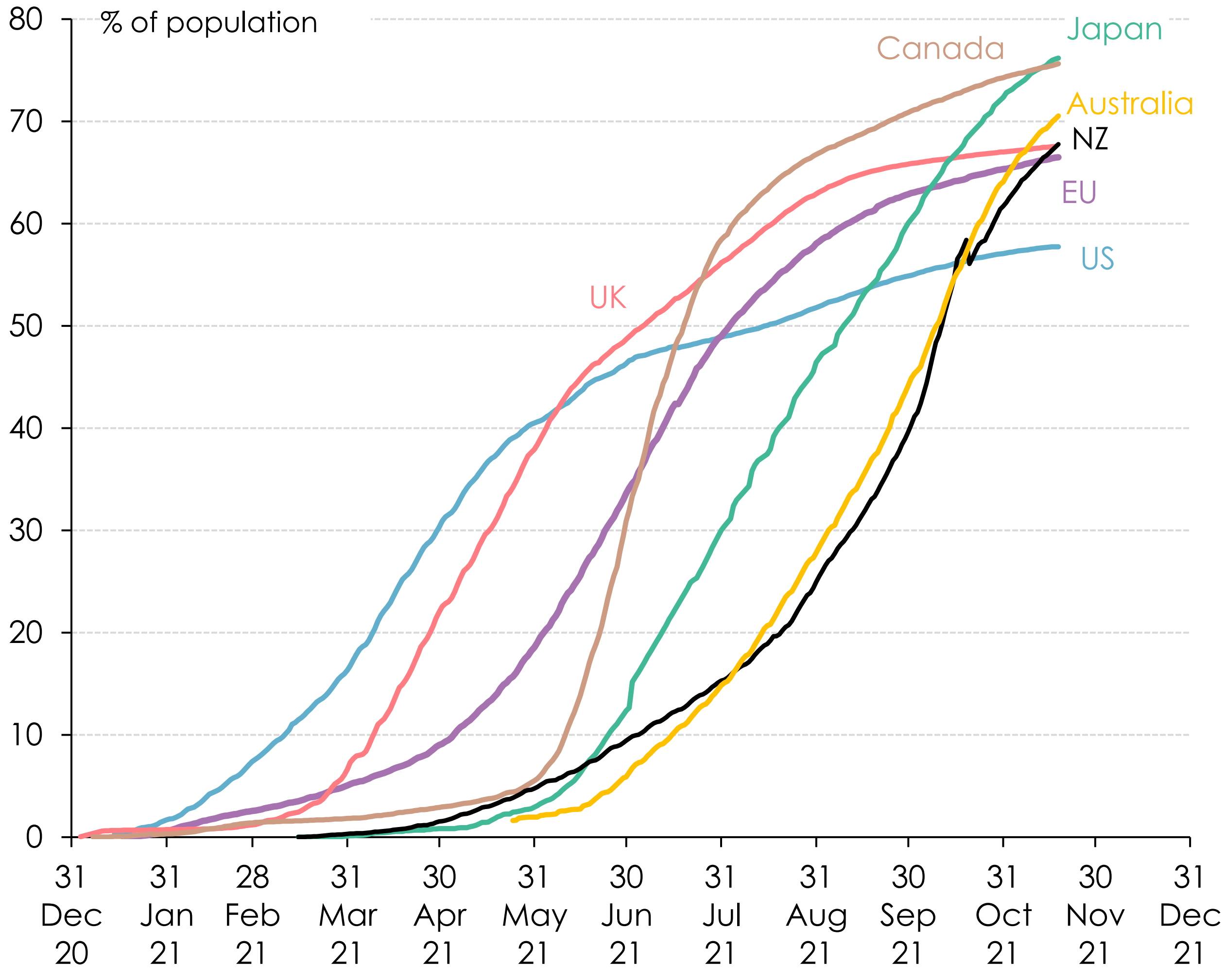
Progress of vaccinations has slowed in Canada, the US, UK and Europe in the past 2 months but has picked up in Japan, Australia and New Zealand

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



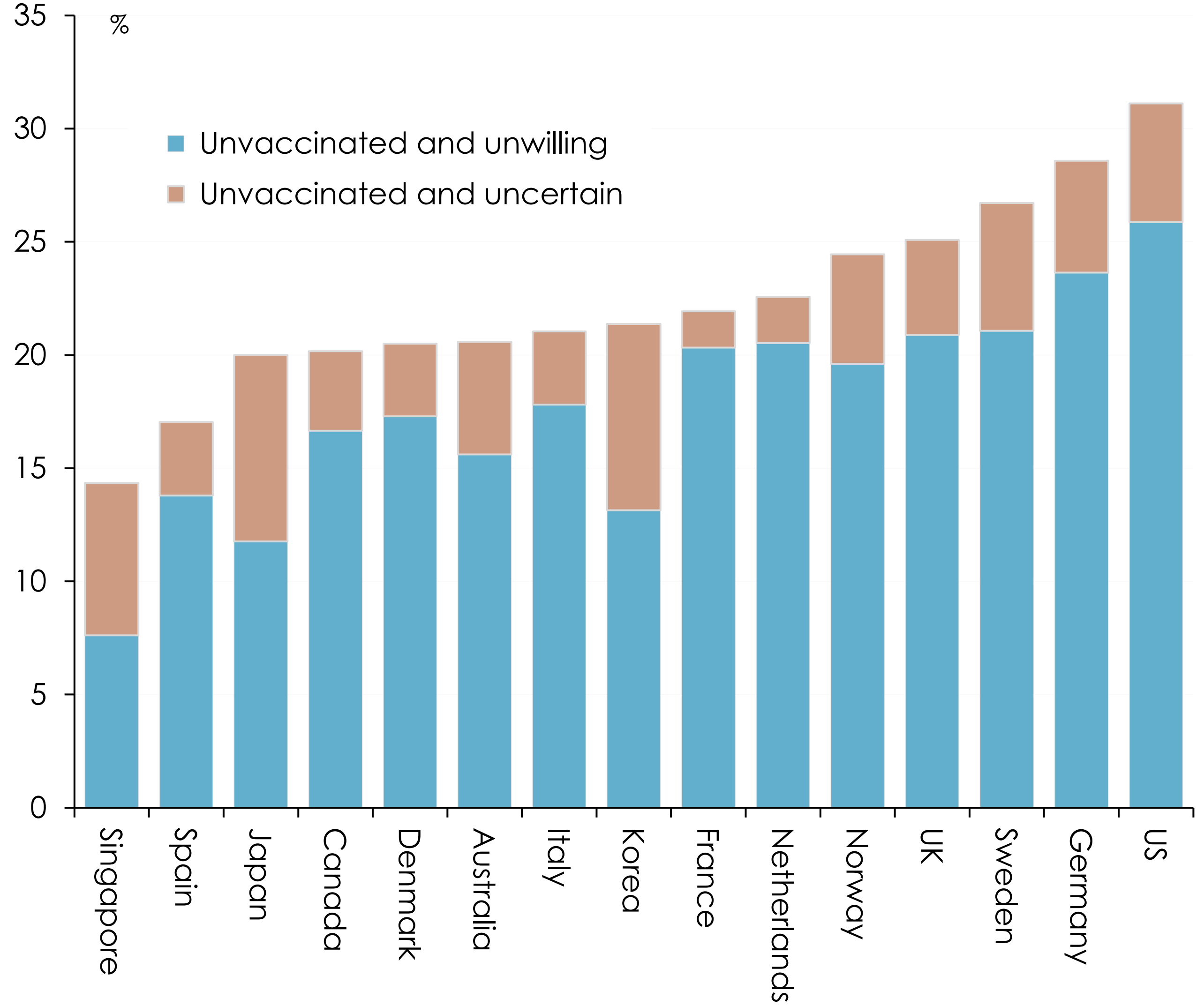
Percentage of major 'advanced' economies' populations who have had two shots



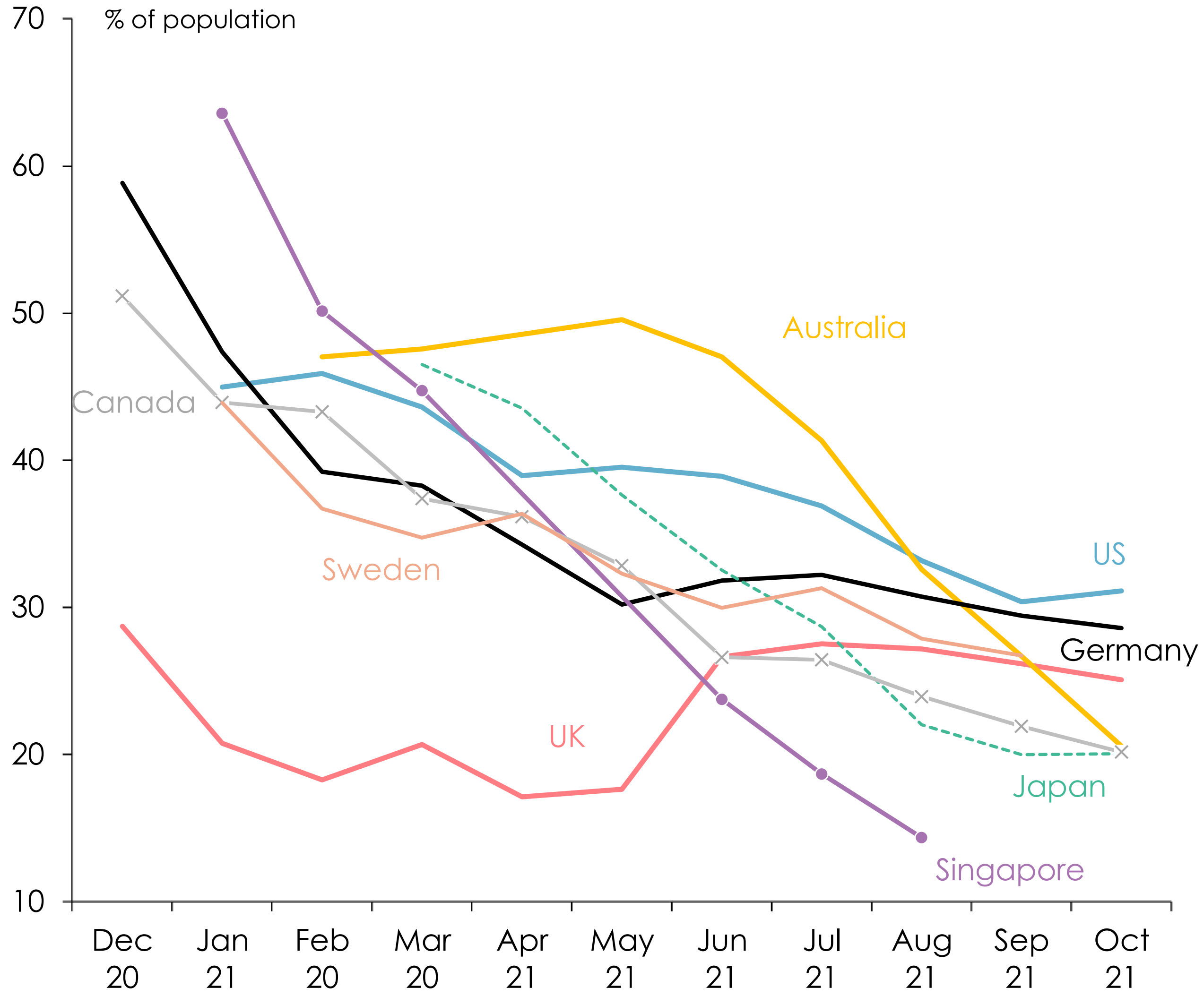
Note: Data up to 18th November, except for UK, 17th November. It's not clear from the data source why reported NZ vaccination rates were adjusted downwards on 20th October. *Source:* Our World in Data; Coronavirus (COVID-19) Vaccinations. Return to "What's New".

Vaccine hesitancy is now higher in the US and (surprisingly) in Germany than in other 'advanced' economies – and has fallen sharply in Australia

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



Percentage of populations unvaccinated and unwilling or uncertain about getting vaccinated



Note: Data for Singapore and Norway are for August; data for Korea and Sweden are for September.
Source: Imperial College London and YouGov, Covid 19 Behaviour Tracker Data Hub. Return to "What's New".

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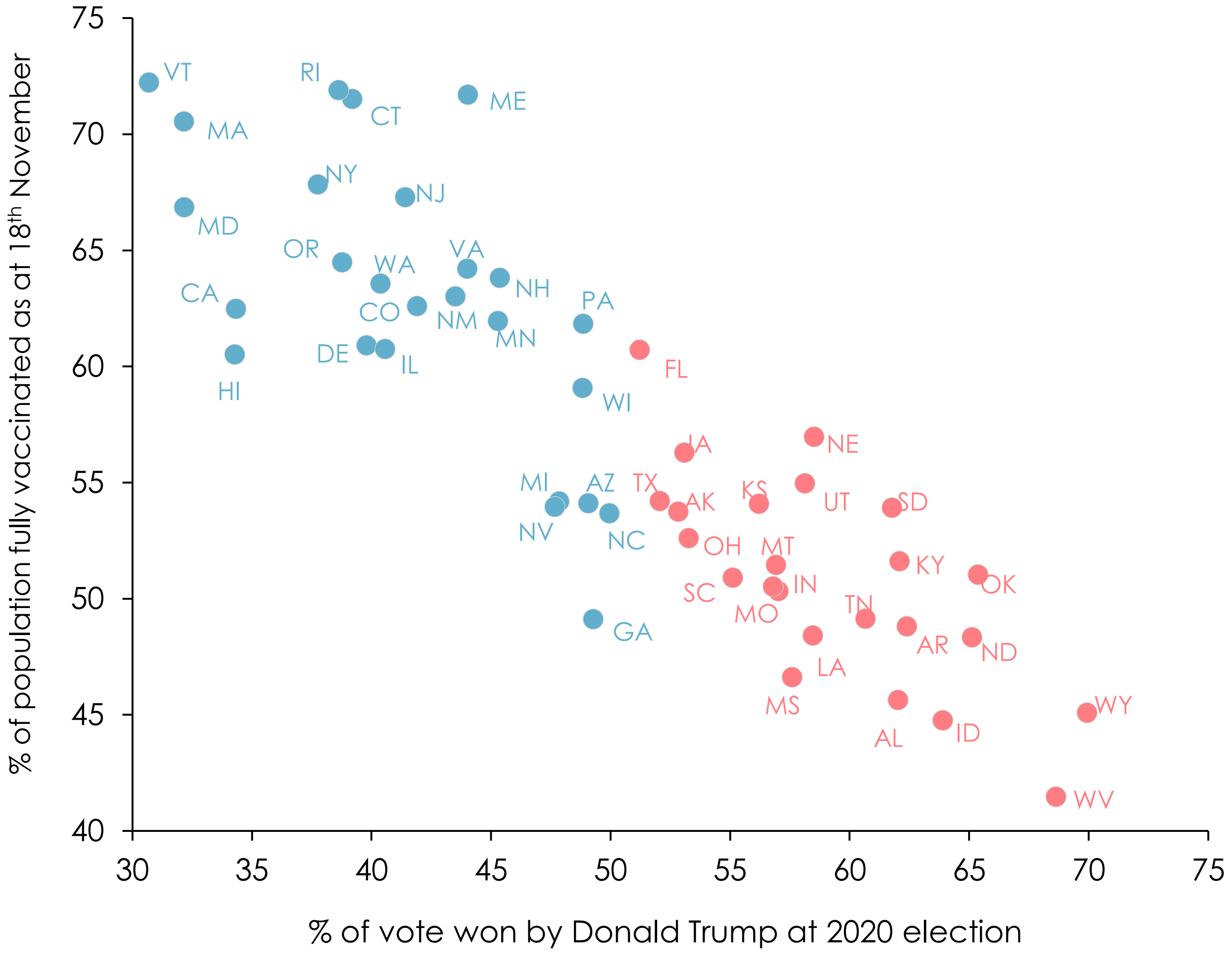
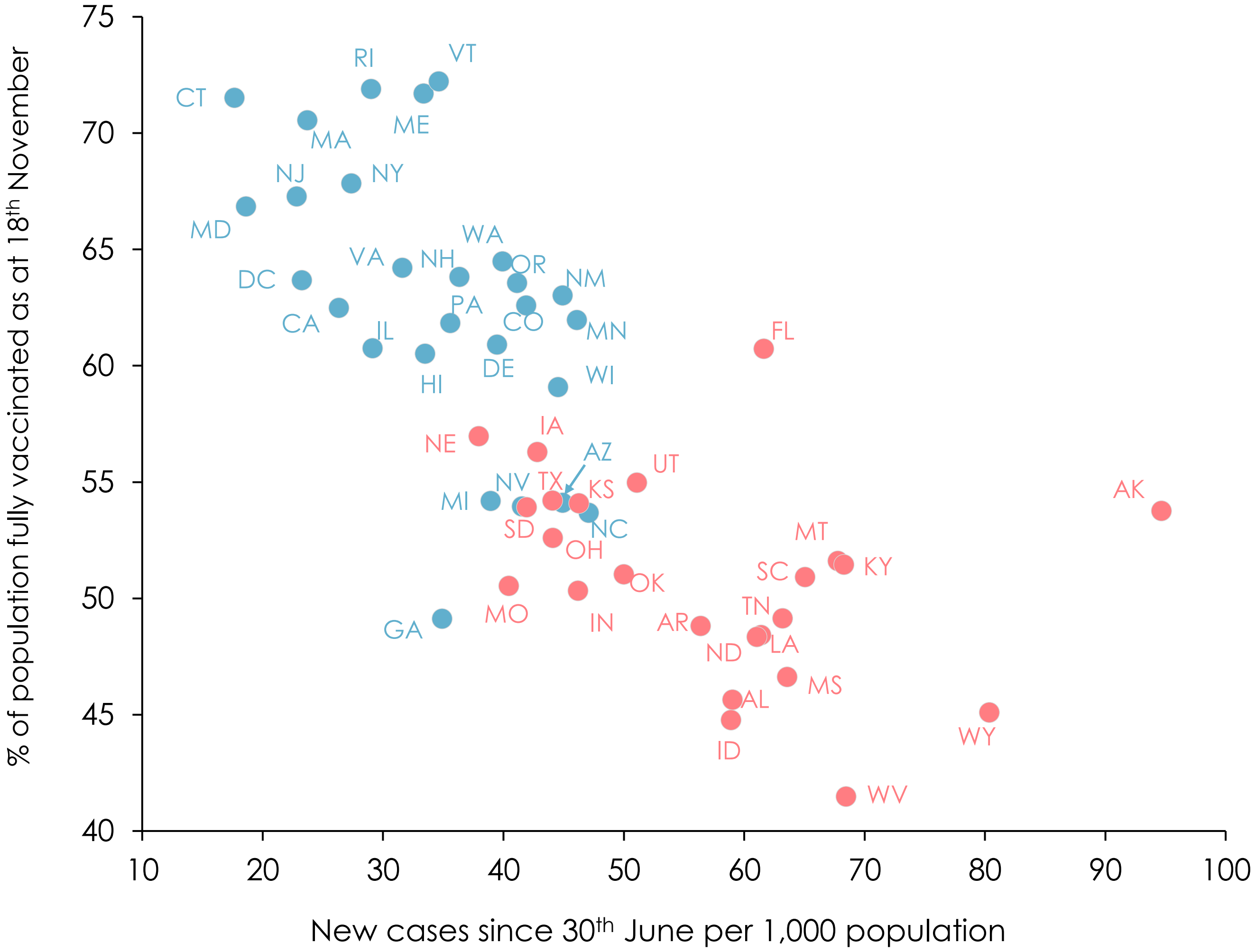
In the US there's a strong correlation between voting patterns and vaccine hesitancy, and between vaccination rates and infection rates

Vaccination rates vs Trump vote at 2020 elections, by state



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



Note: Data as at 18th November . *Sources:* The Cook Political Report; Our World in Data; USA Facts; Corinna. Return to "What's New".

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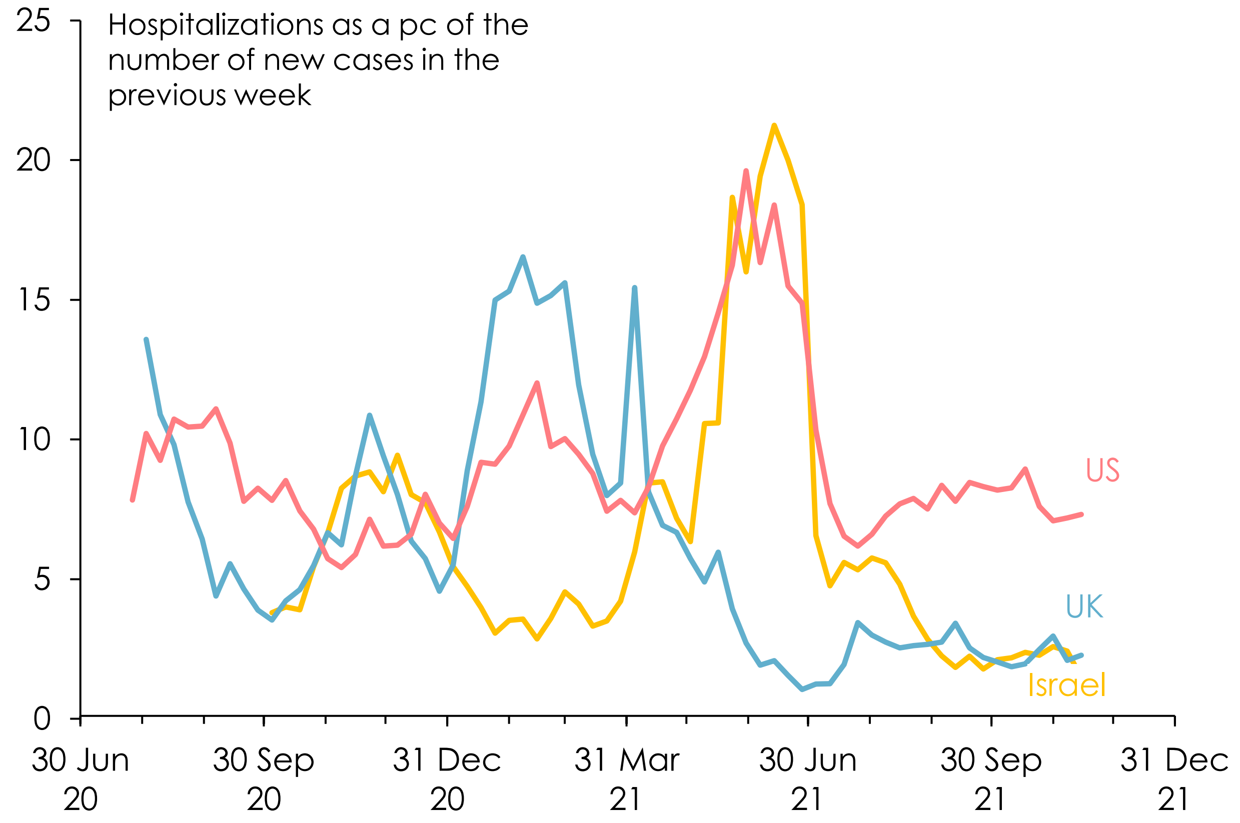
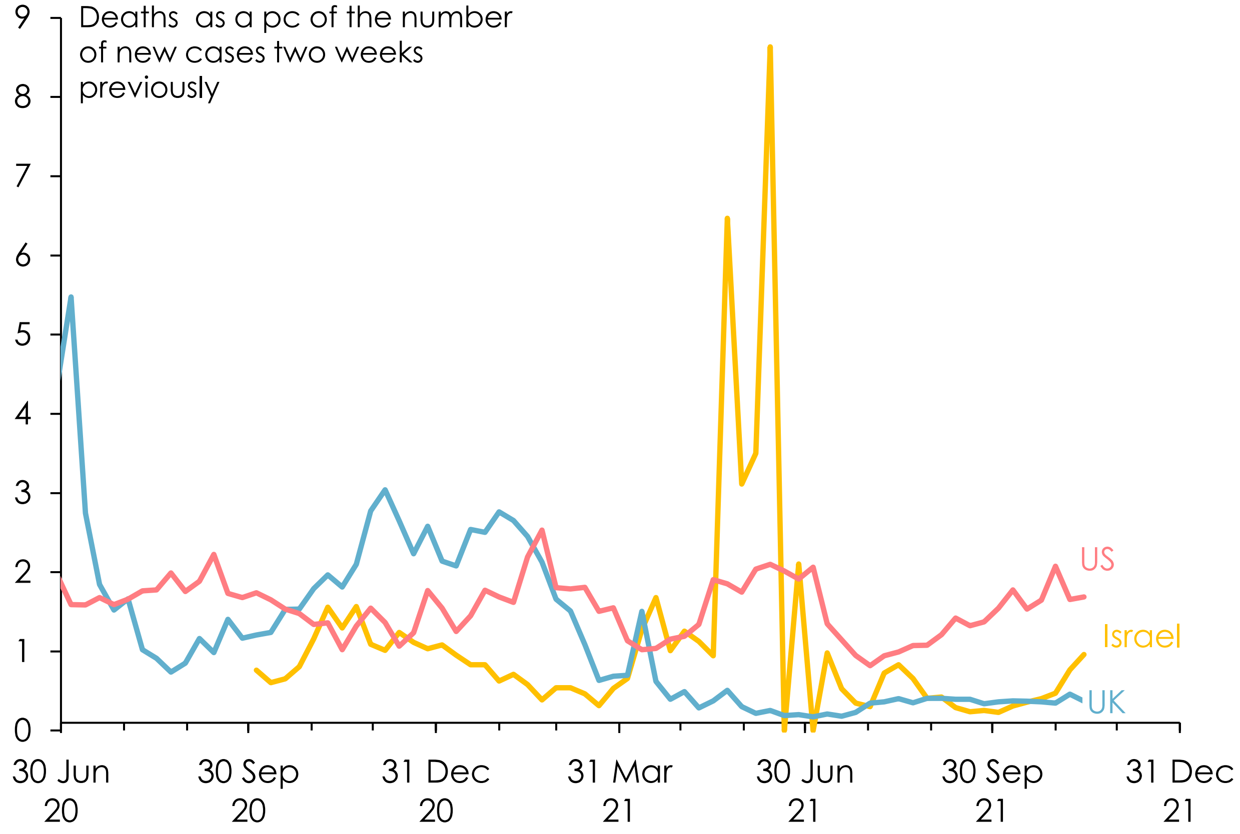
Although vaccination appears not to prevent the 'delta variant' from spreading, it does appear to reduce hospitalization and death rates

Hospitalization rates



Fatality rates



- **Israel, the UK and the US 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 16th November. *Source:* Our World in Data. Return to "What's New".

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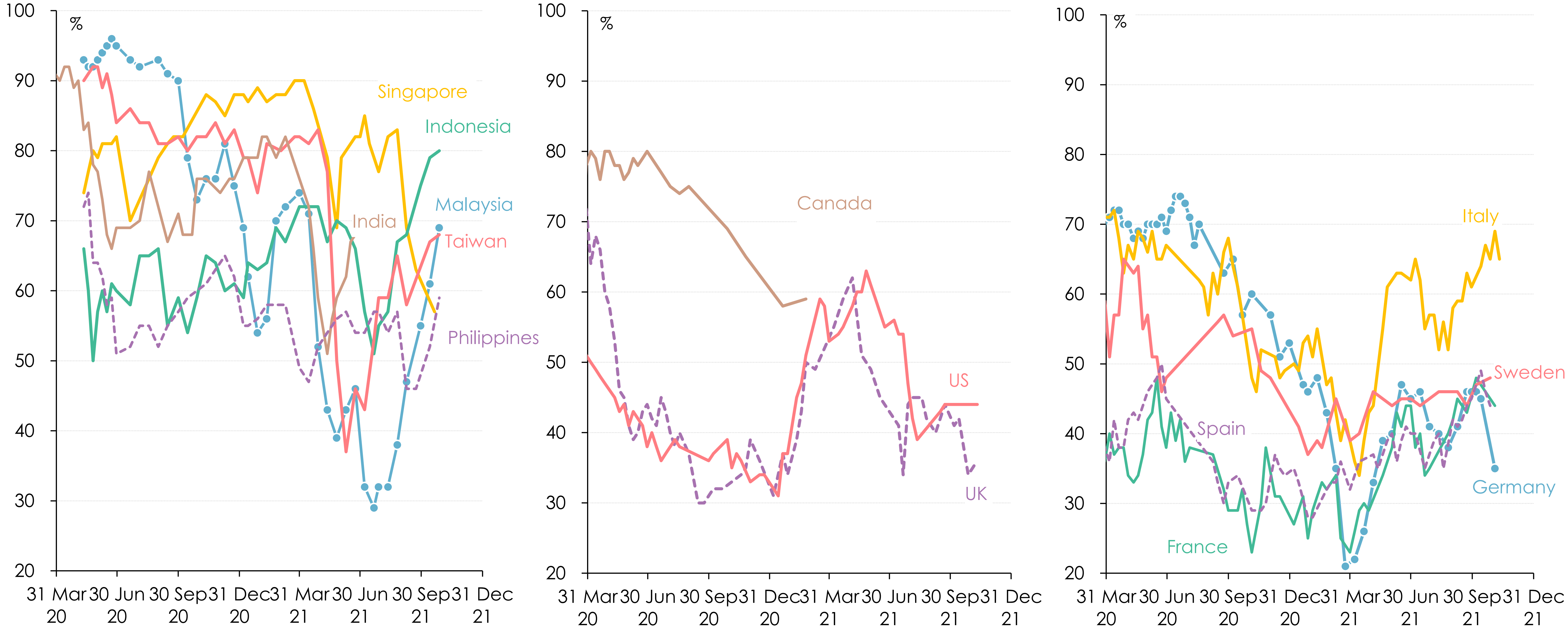
Voter approval of governments' handling of Covid has improved in Asia (except for Singapore) but declined in Europe (except for Italy & France)

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



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

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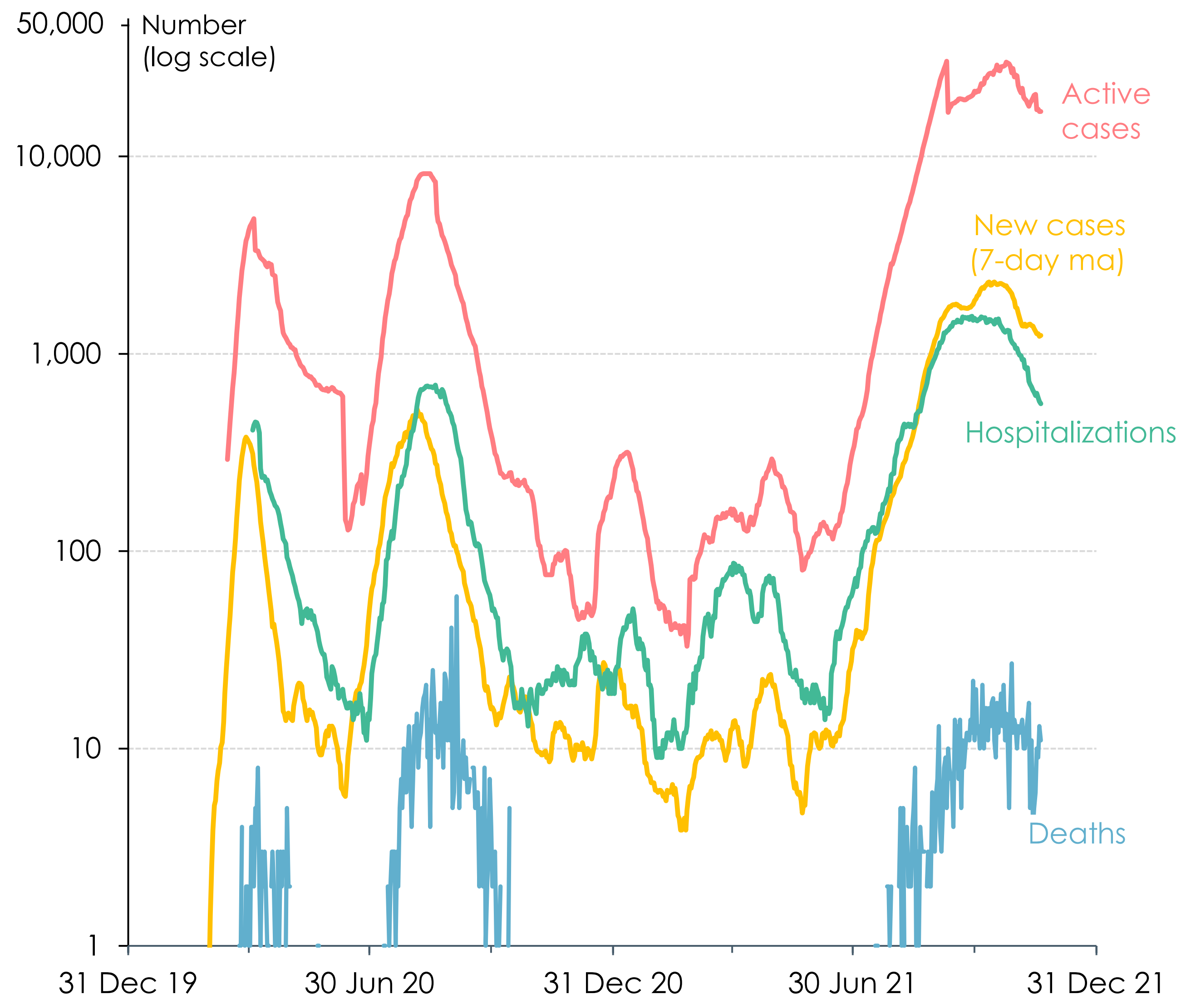
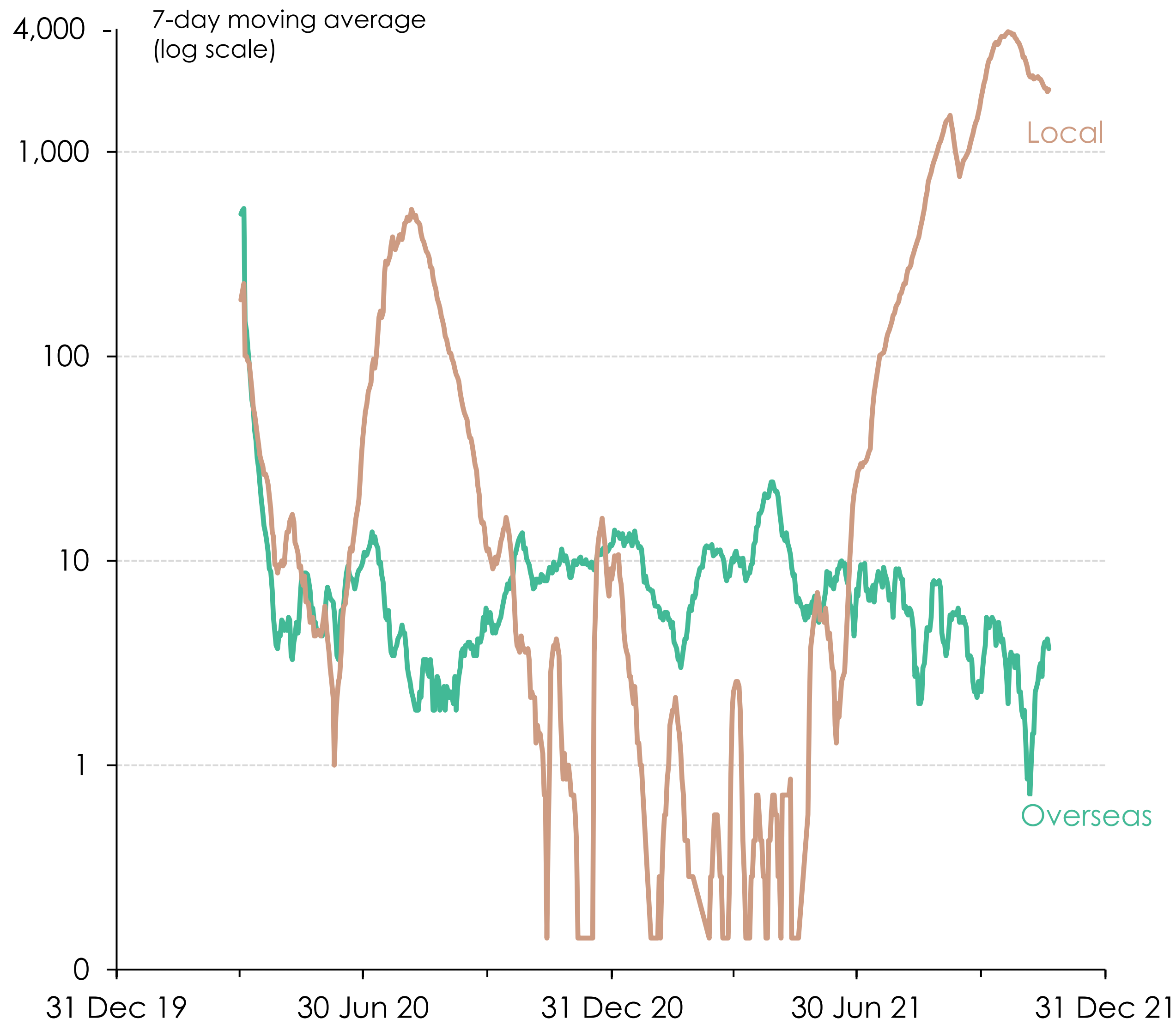
Australia recorded 8,590 new cases this week, the lowest number in 12 weeks, and hospitalizations are also the lowest in three months

Cases, recoveries, hospitalizations and deaths



New cases, by source



Note: Data up to 19th November. The sharp decline in 'active cases' on 10th September is entirely attributable to a 13,949 drop in the number of active cases reported in NSW (the reasons for which are not clear). *Source:* covid19data.com.au. Return to "What's New".

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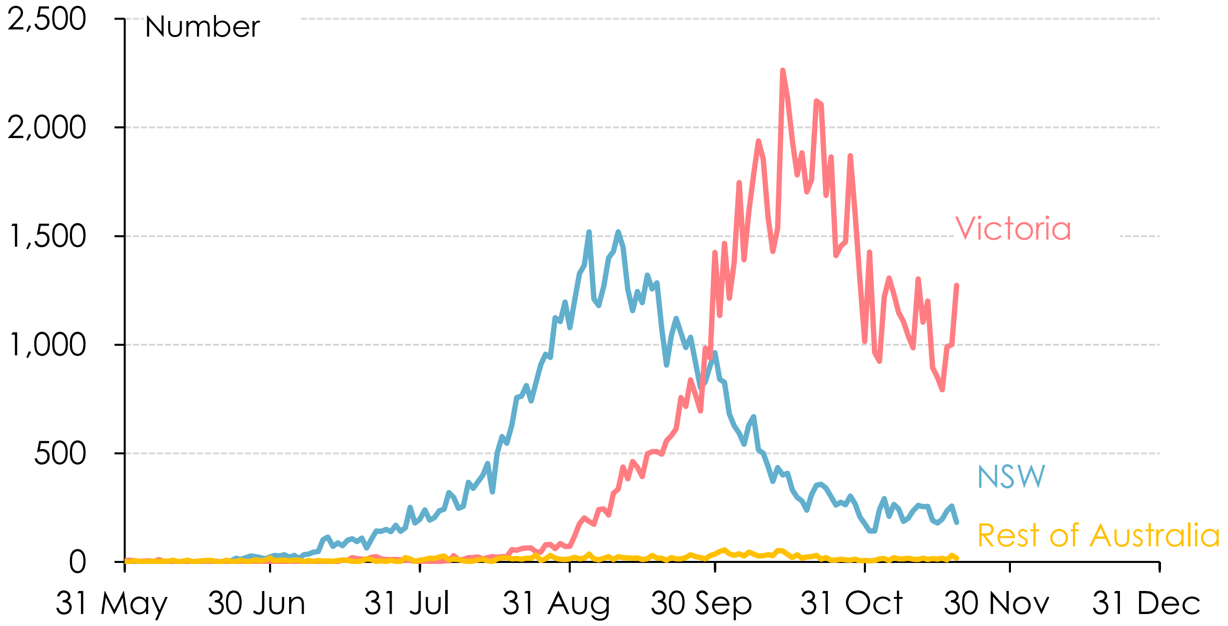
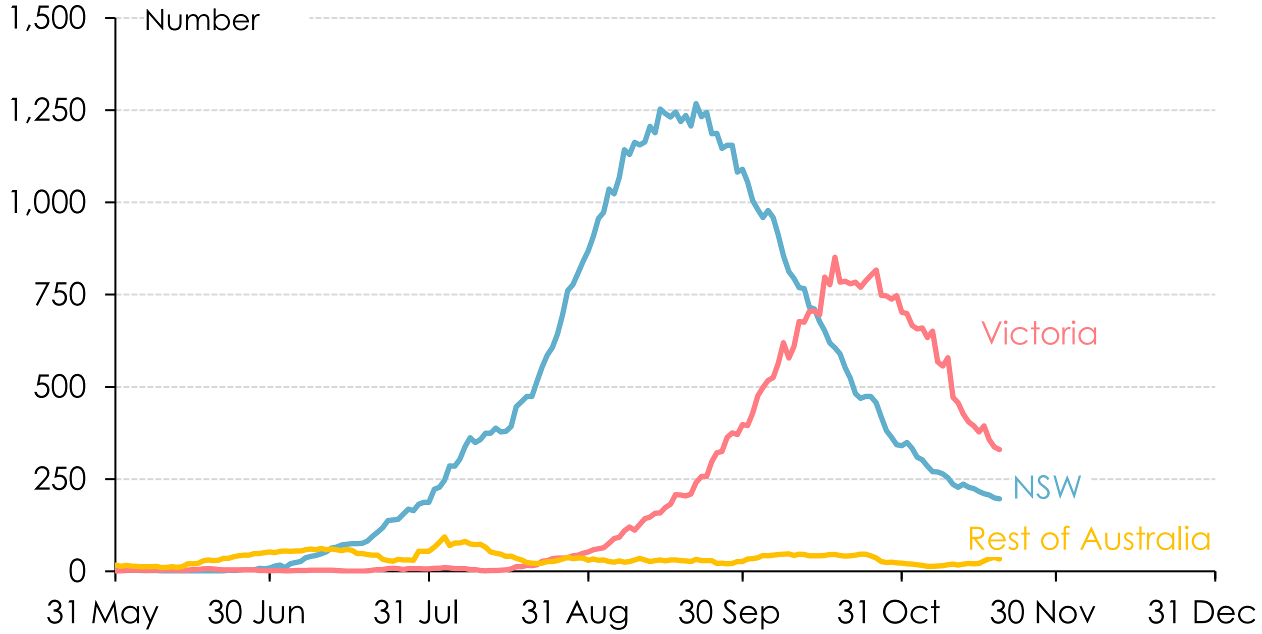
New cases and hospitalizations are falling in both NSW and (more slowly) Victoria – while Western Australia will remain 'closed' until early next year

New cases



Hospitalizations



- **The number of new cases in NSW has fallen to 250 a day during the past two weeks, and hospitalizations are down 85% from their peak, despite the easing of restrictions since late October – no doubted aided by over 91% of people aged 12 & over now being fully vaccinated (slide 18)**
- **Victoria is still recorded around 1,000 new cases a day (down from a peak of over 1,900 in mid-October), but hospitalizations are down about 60% % from their peak, with almost 89% of people aged 12 and over being double-vaccinated, prompting a further easing of restrictions in Victoria this weekend**
- **The Western Australian Government last week announced that its borders would remain closed until 90% of its population aged 12 and over had been fully vaccinated (cf. 70.8% this week, the lowest in Australia) – a target which it doesn't expect to be attained until late January or early February**

Note: Data up to 19th November. *Source:* covid19data.com.au. Return to "What's New".

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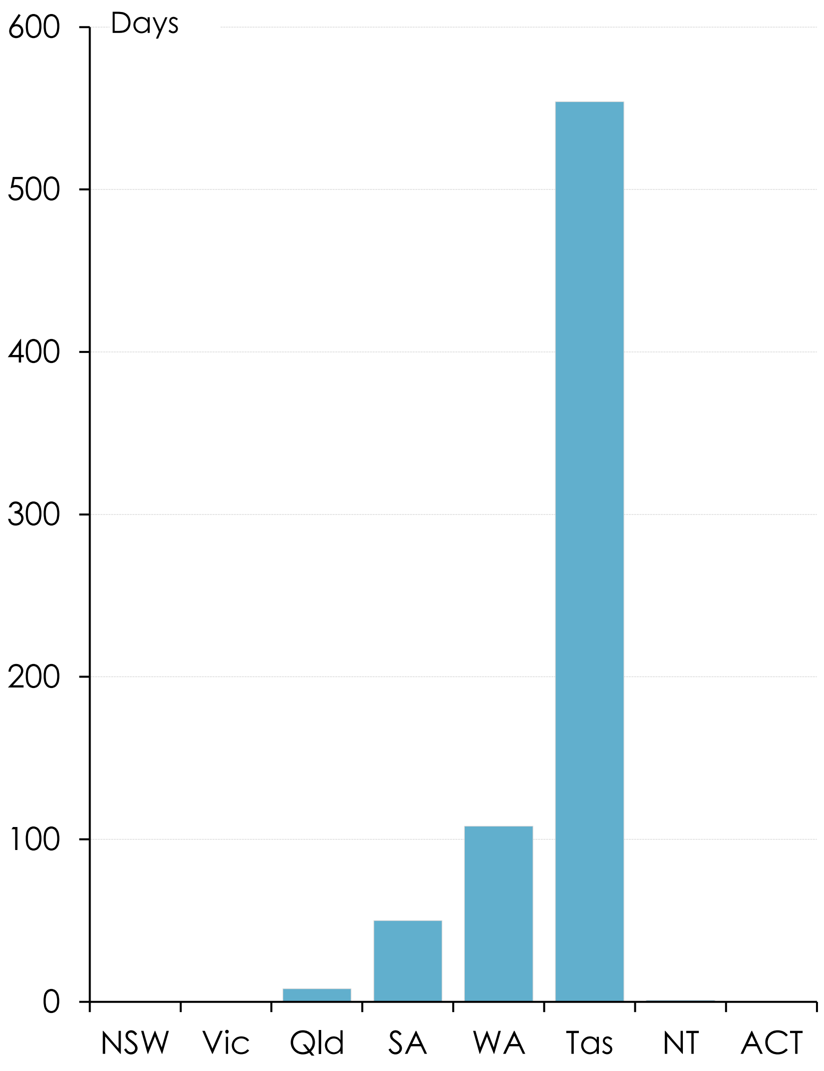
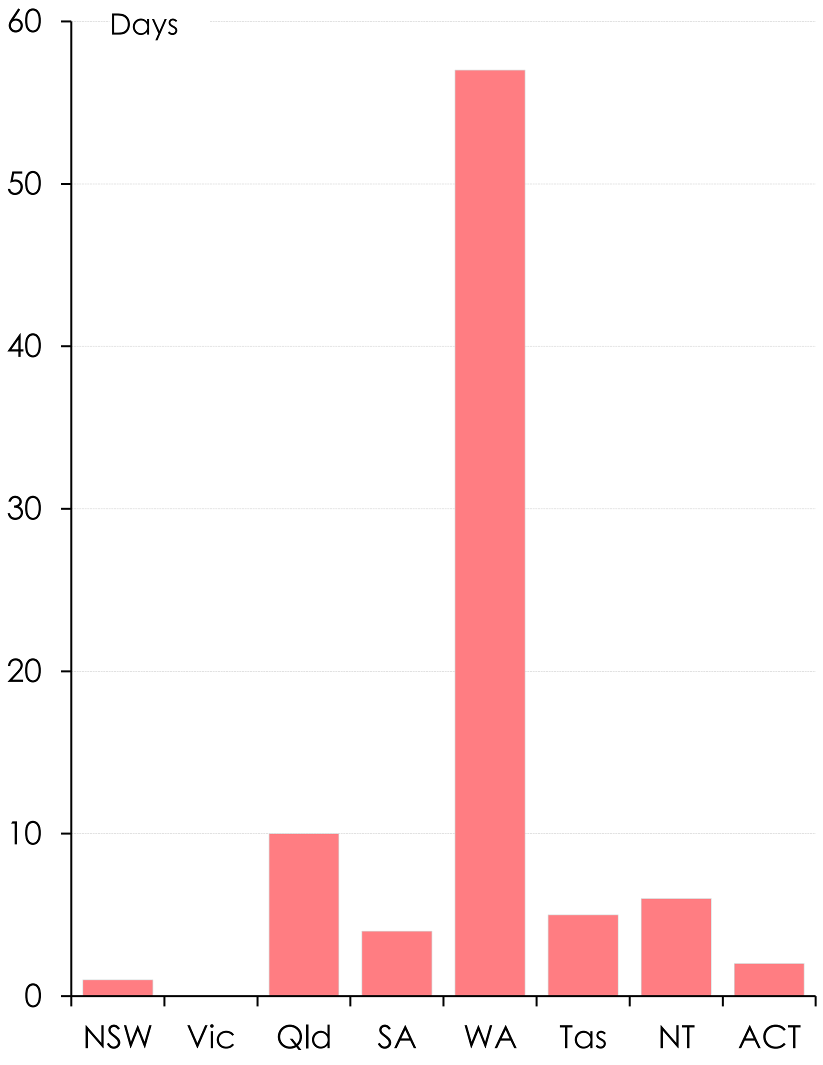
The smaller states and territories have done better at keeping the virus at bay, partly because they receive fewer overseas arrivals

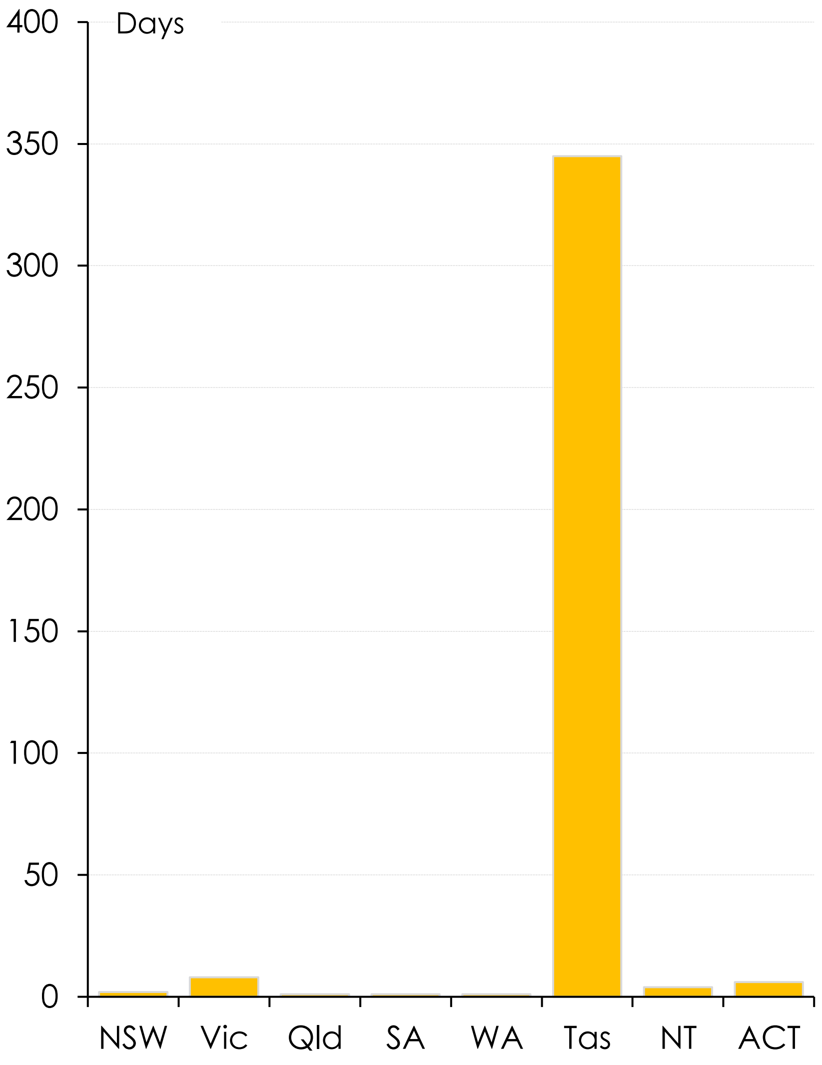
Days since last new locally-acquired case



Days since the last interstate-acquired case



Days since last new overseas-acquired case



Note: Data are for 19th November. *Source:* covid19data.com.au. Return to "What's New".

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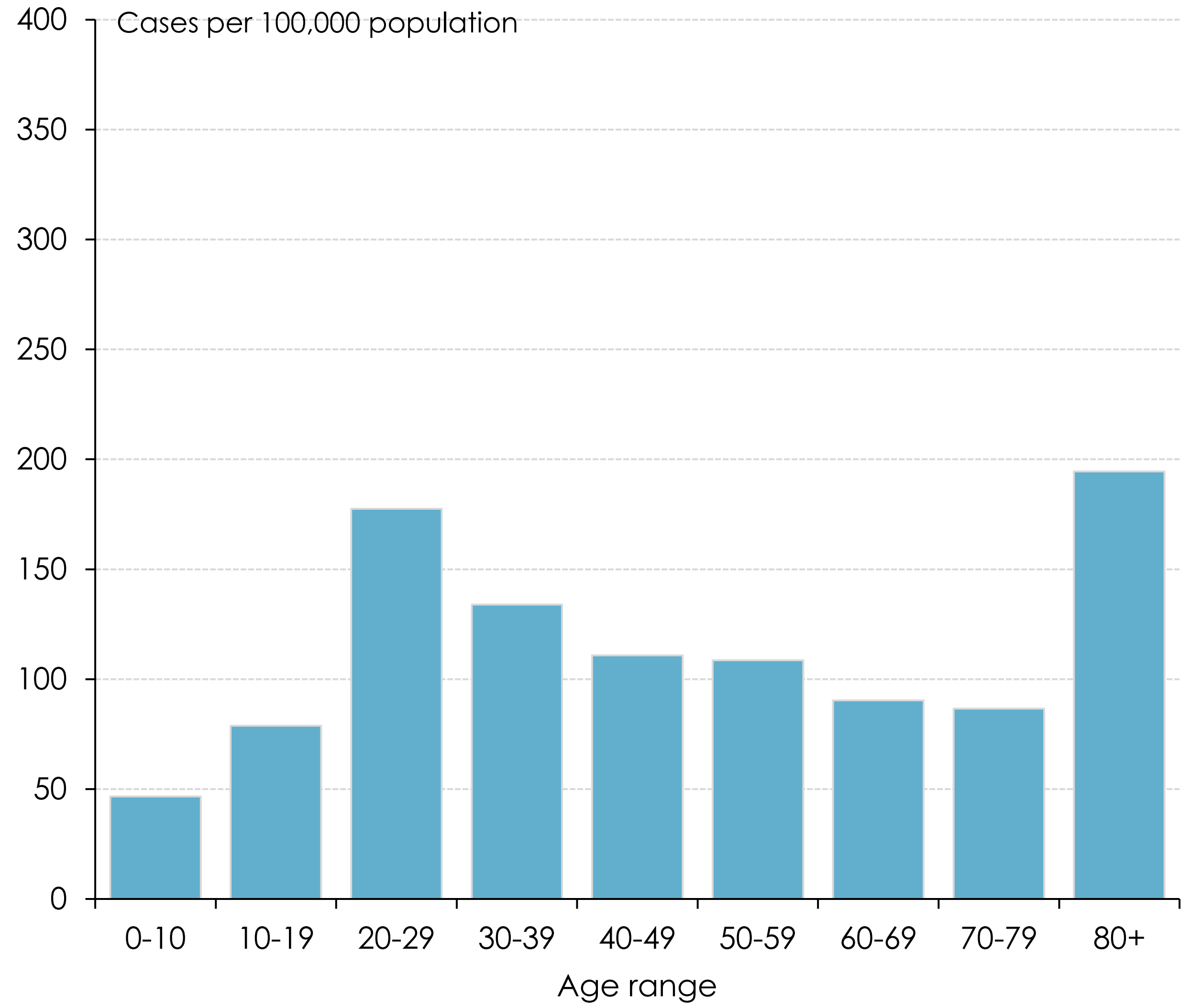
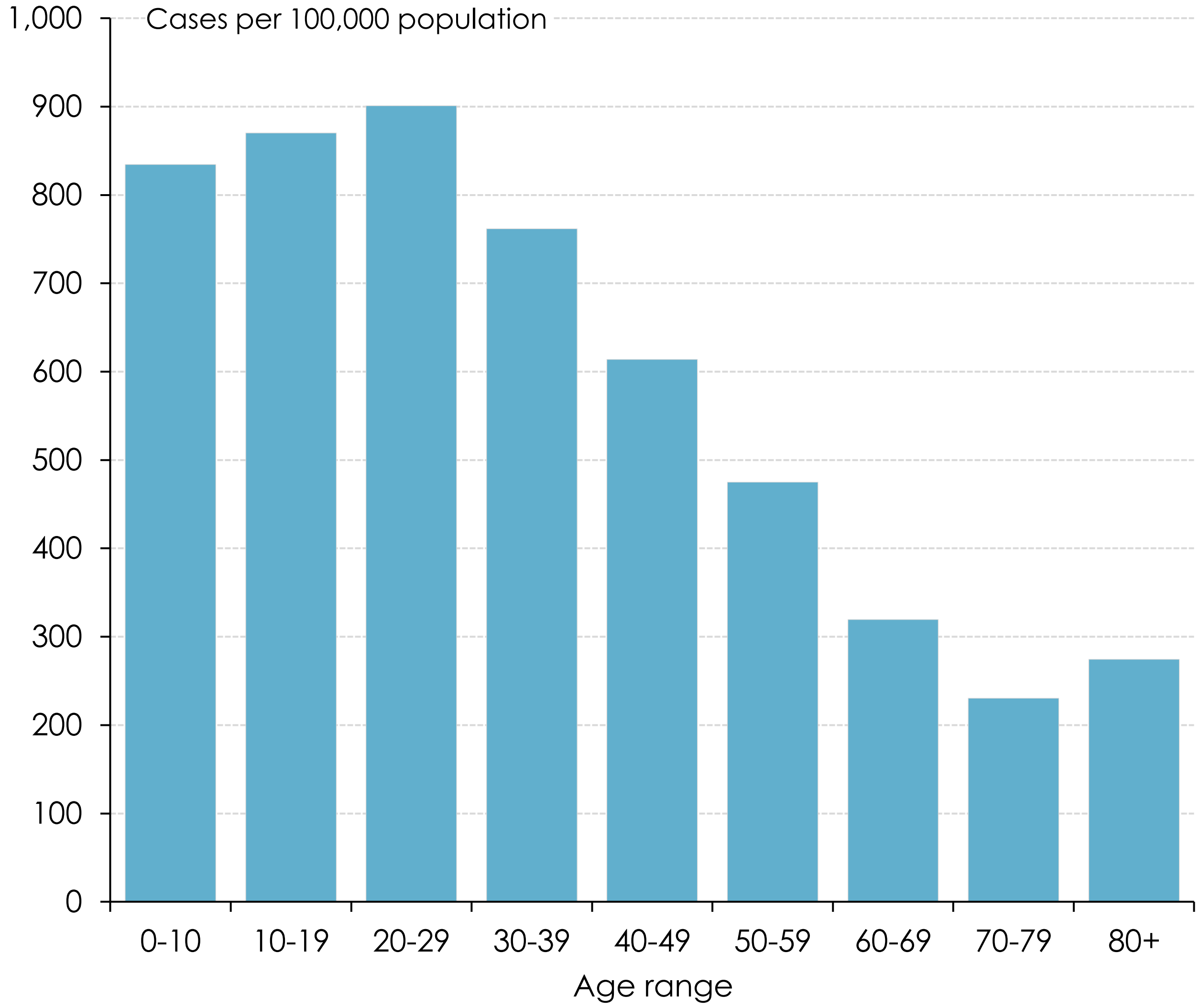
People in their 20s & 30s have been more likely to become infected than other age groups this year – partly because fewer have been vaccinated

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



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



Note: Data for 2021 up to 19h November. *Source:* Australian Government Department of Health; ABS; Corinna. Return to "What's New".

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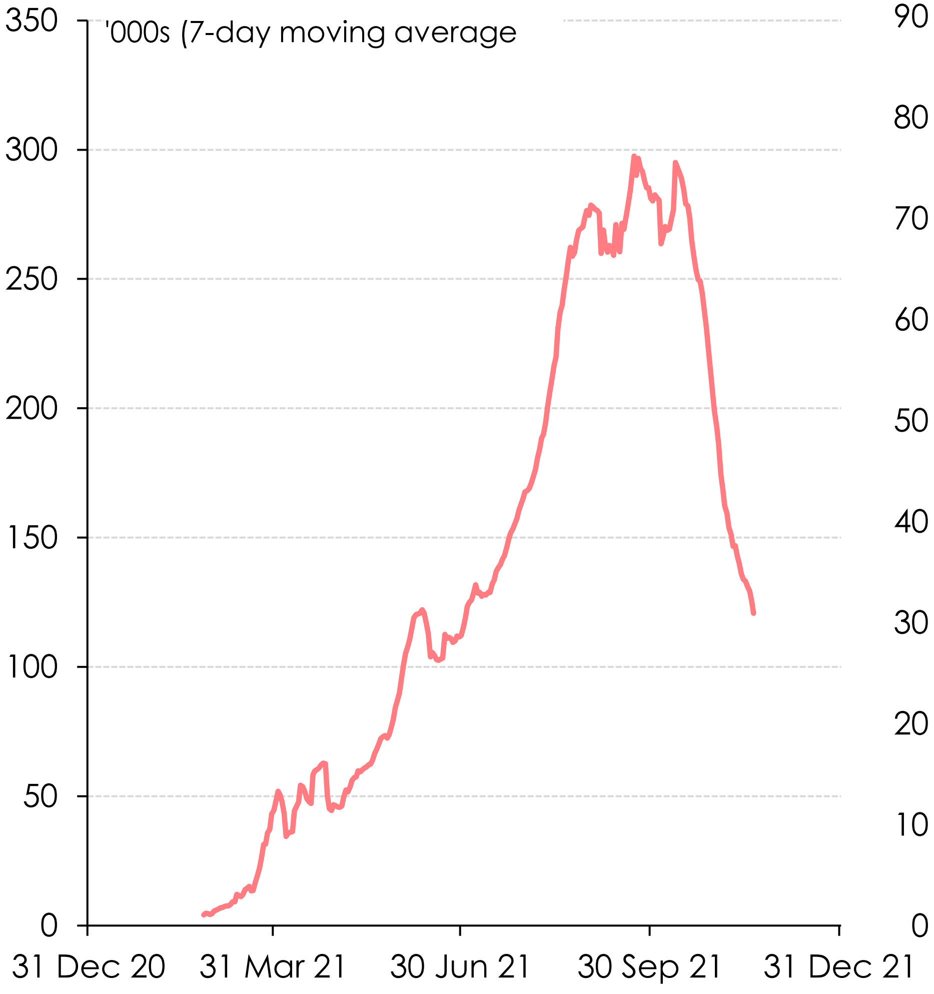
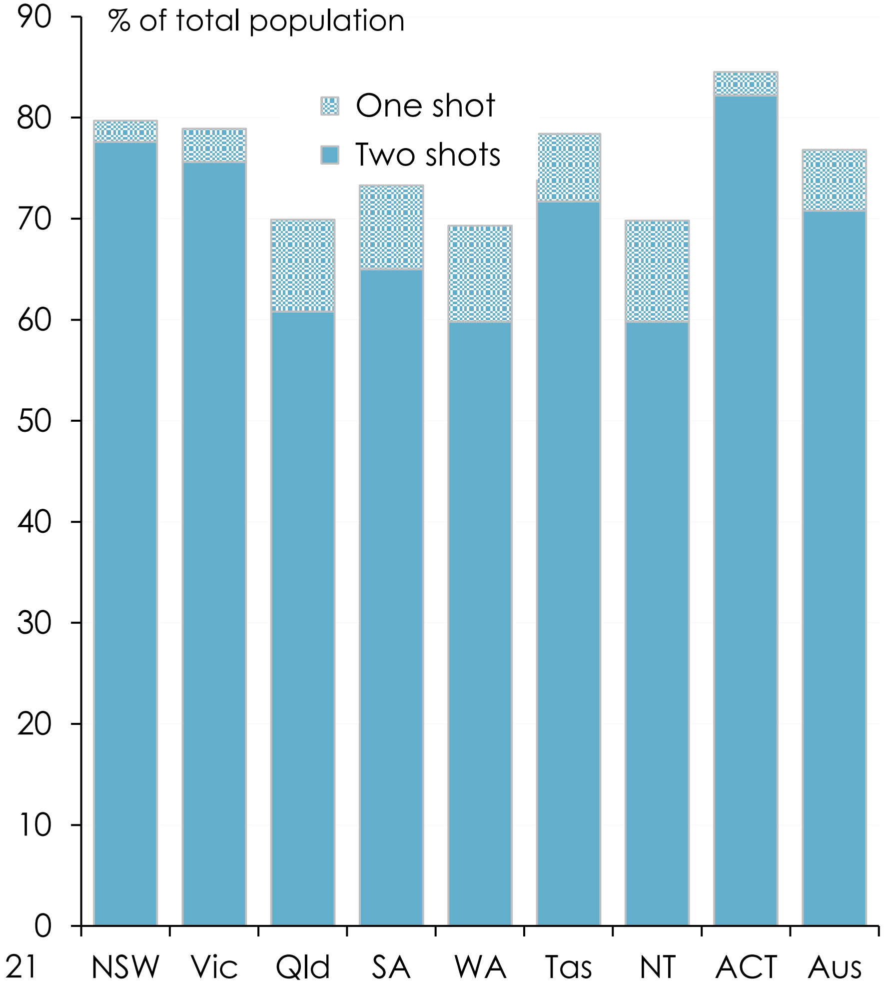
After surging in NSW, Victoria & the ACT during the recent lockdowns, vaccinations have begun to slow – with the ‘outlying states’ now well behind

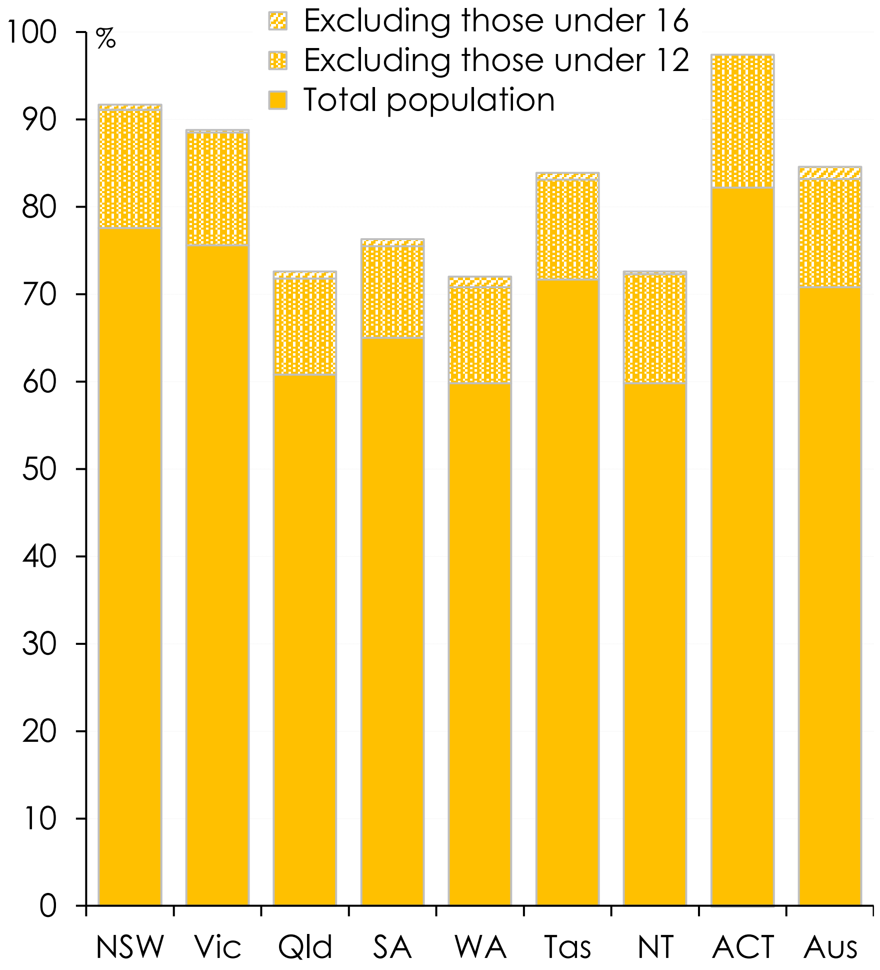
Daily number of vaccines administered



Percentage of total population vaccinated, states and territories



Percentage of populations double-vaccinated, states and territories



Note: Data up to 19th November. The Federal and State Governments usually cite vaccination rates as percentages of the ‘eligible’ population – which currently excludes children under the age of 16; the third chart on this page shows vaccination rates as percentages of the total population including children. See also comparisons with other nations on slides 8 and 9. *Sources:* covid19data.com.au; Australian Department of Health, Australia's COVID-19 vaccine rollout. Return to "What's New".

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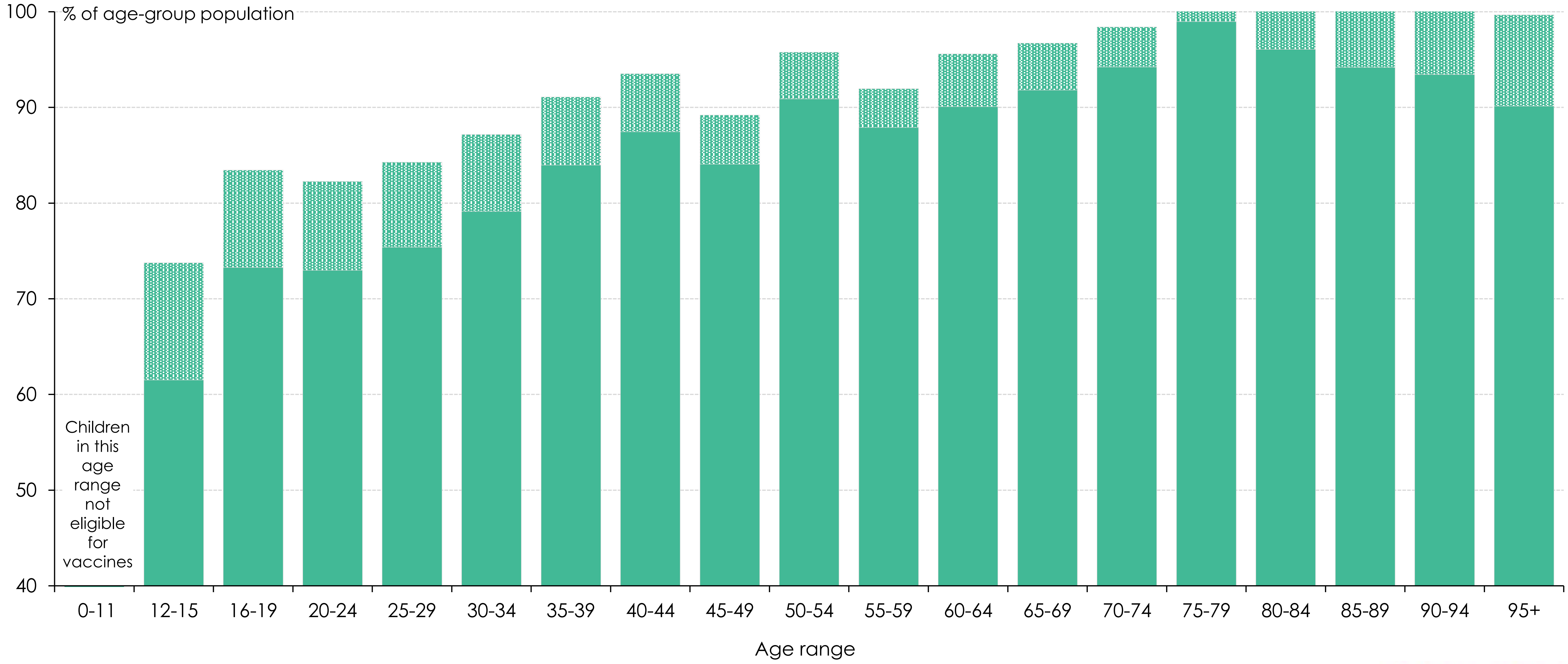
Vaccination rates among teenagers and younger adults appear to have slowed in recent weeks

Vaccination rates by age group as at 19th November



Note: For data on infections by age group see slide 17.
Source: Commonwealth Department of Health, *Covid-19 Vaccine Roll-out update*, 29th October 2021. Return to "What's New".

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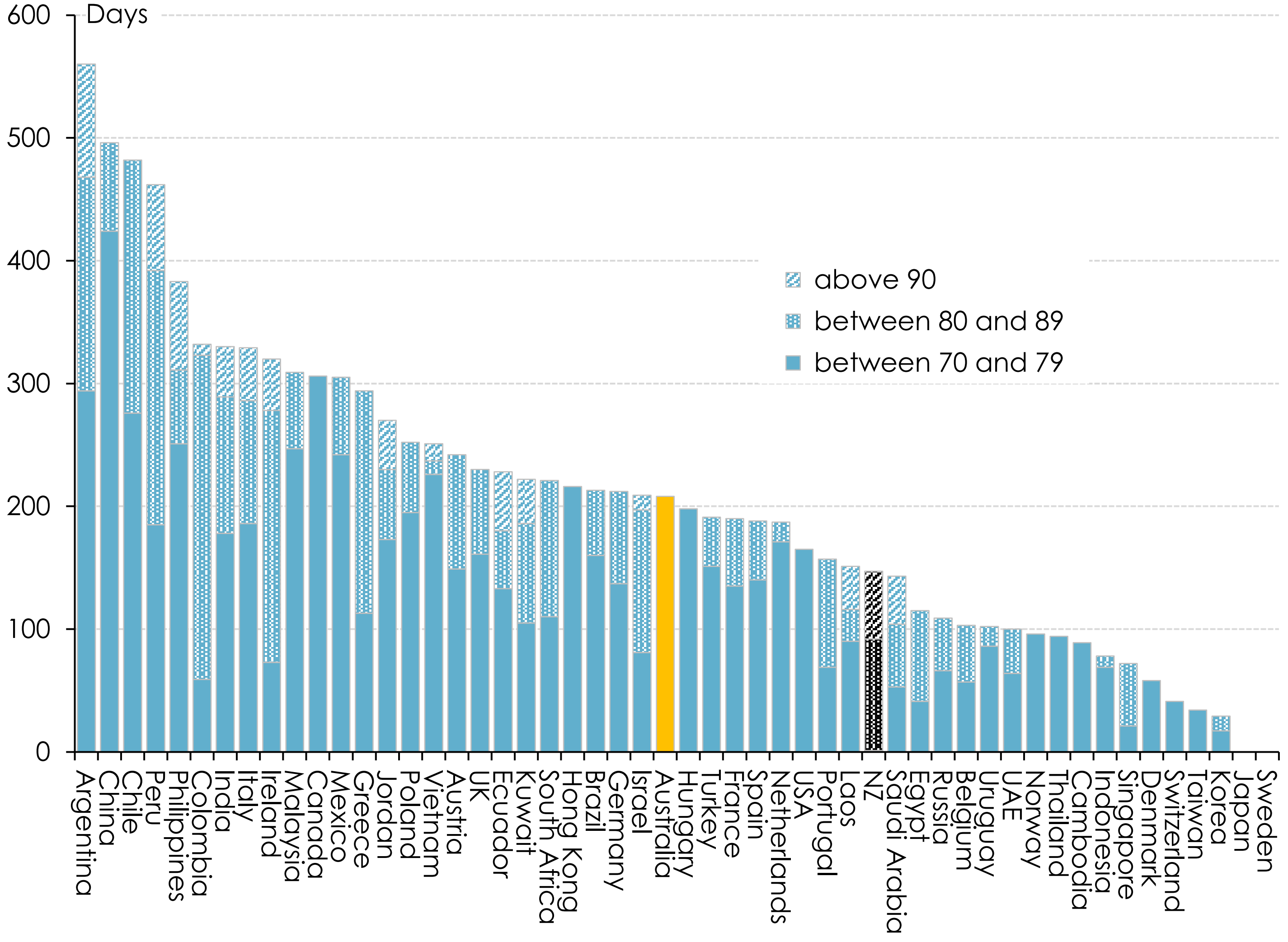
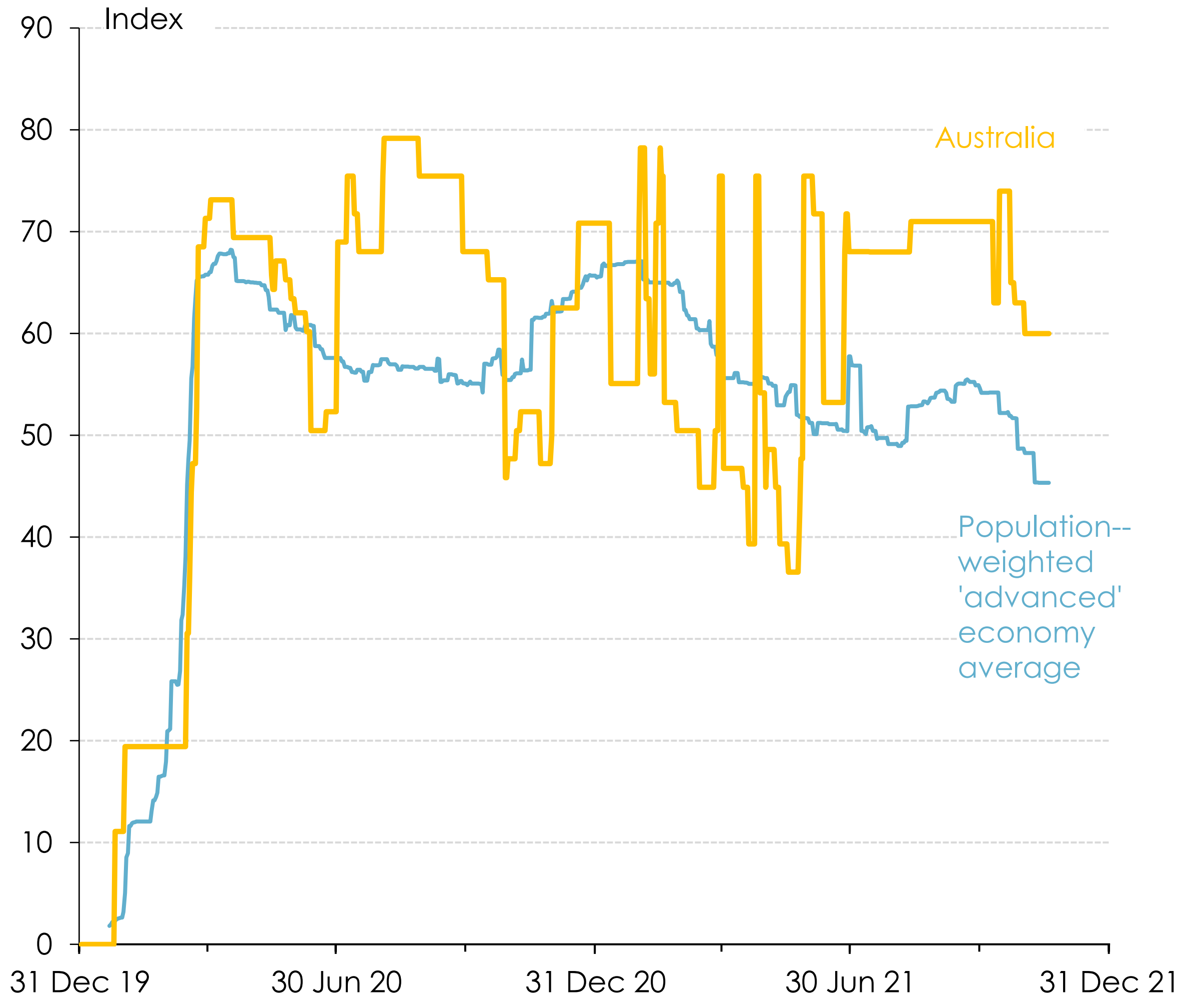
Australia's health restrictions are still stricter on average than other 'advanced' economies, but the gap is narrowing

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 18th November. Return to "What's New".

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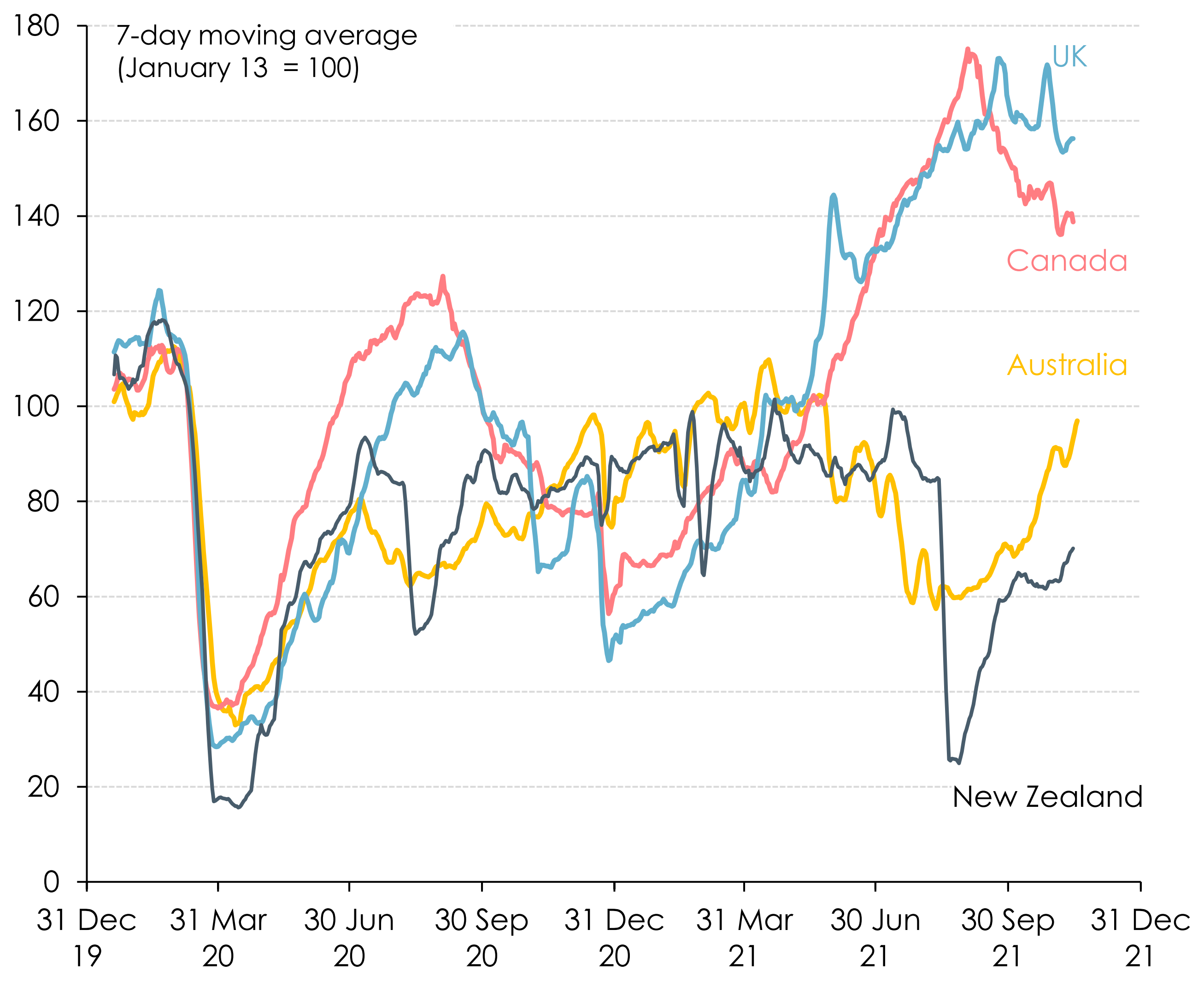
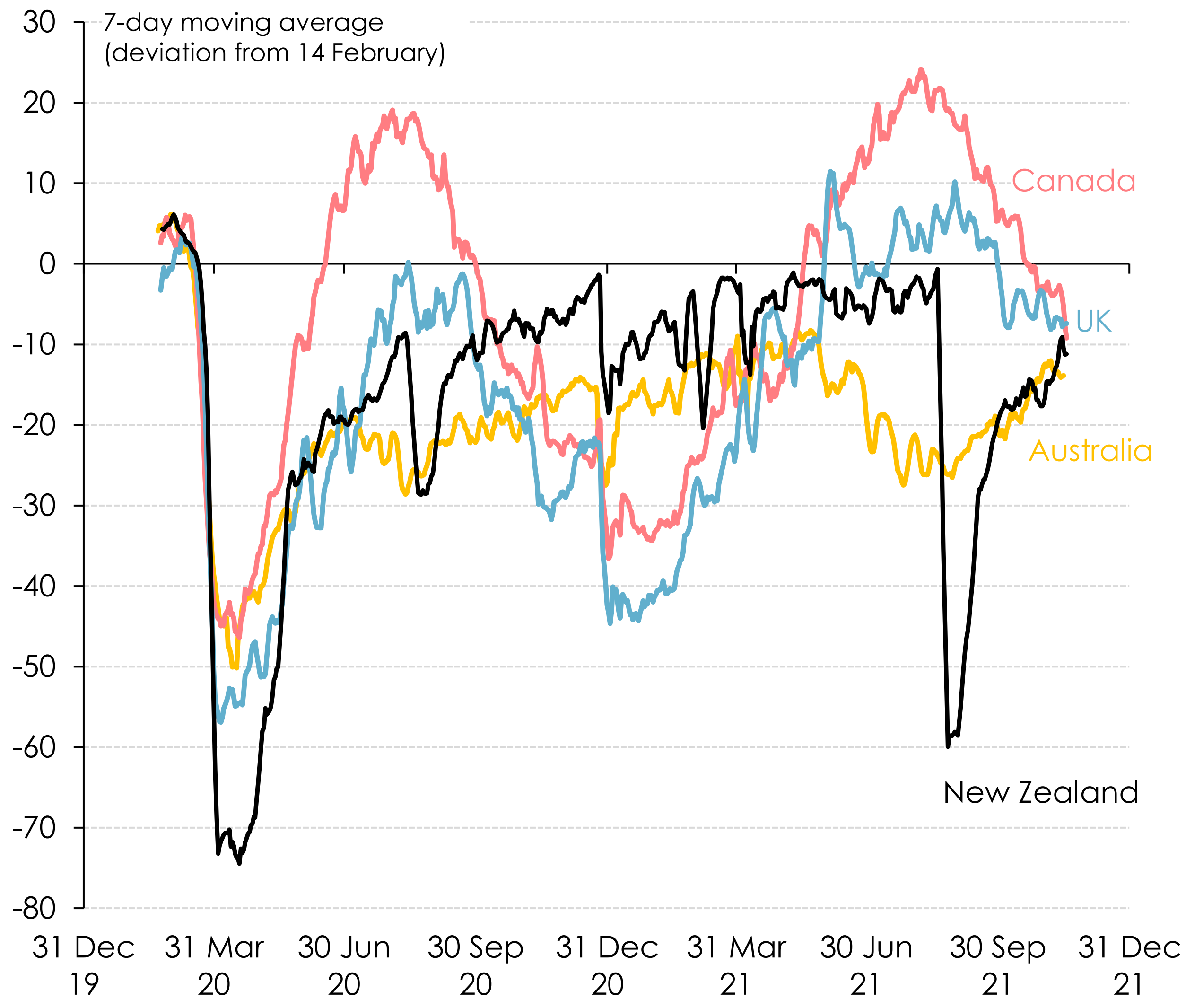
Mobility indicators are showing how Australia is returning to 'normal' compared with other countries who haven't been under lockdown recently

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 17th November). 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 15th November). *Sources:* Apple, Mobility Trends Reports; Google, Covid-19 Community Mobility Reports; Corinna Economic Advisory. Return to "What's New".

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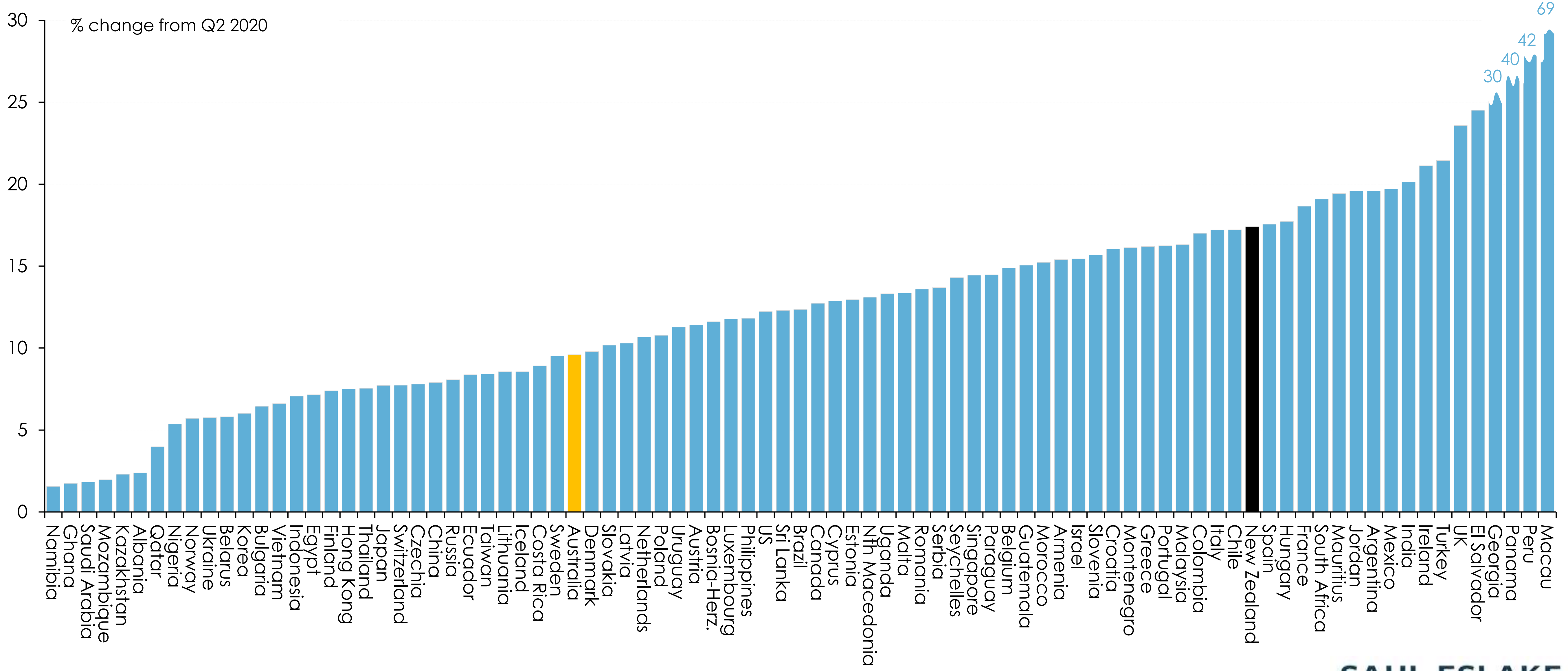
The world

Of 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



Source: National statistical agencies and central banks. [Return to "What's New"](#).

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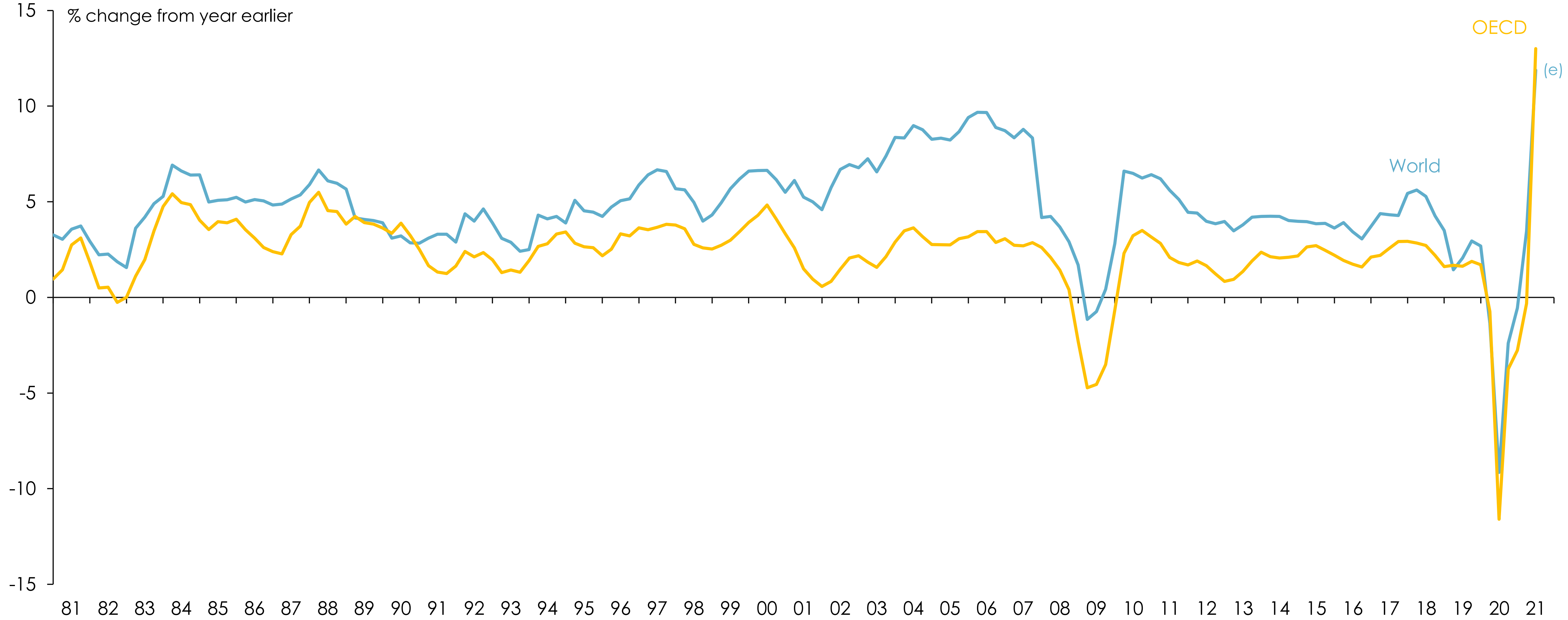
The world economy likely grew by about 12% over the year to Q2 – a figure which is vastly flattered by comparison with last year's trough

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".

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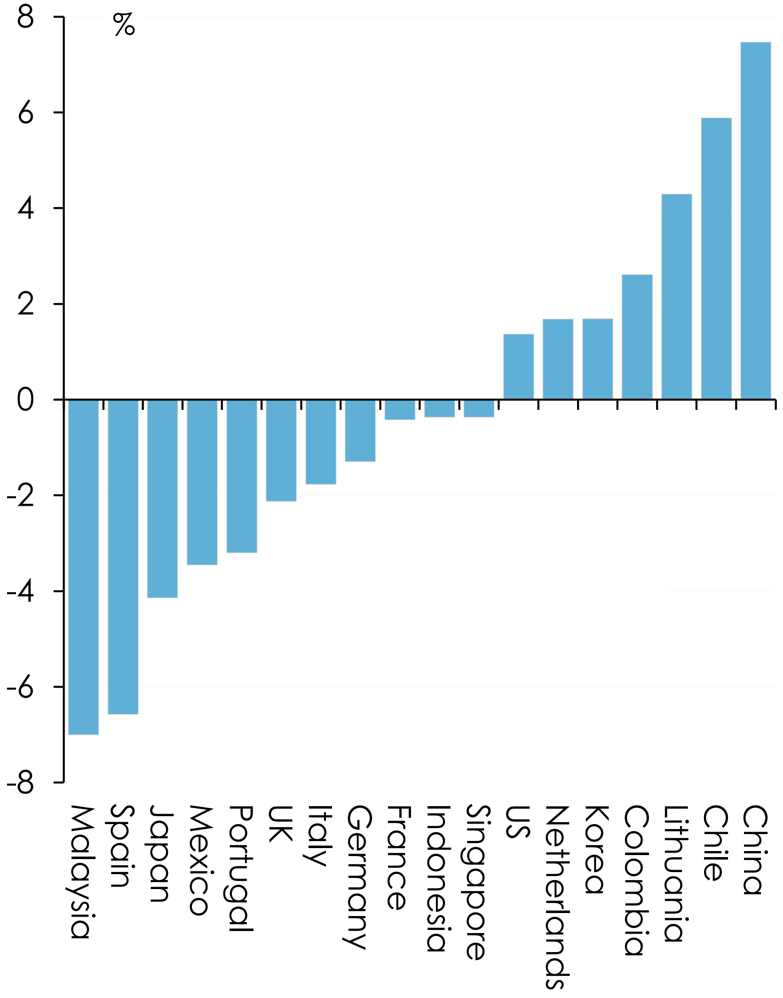
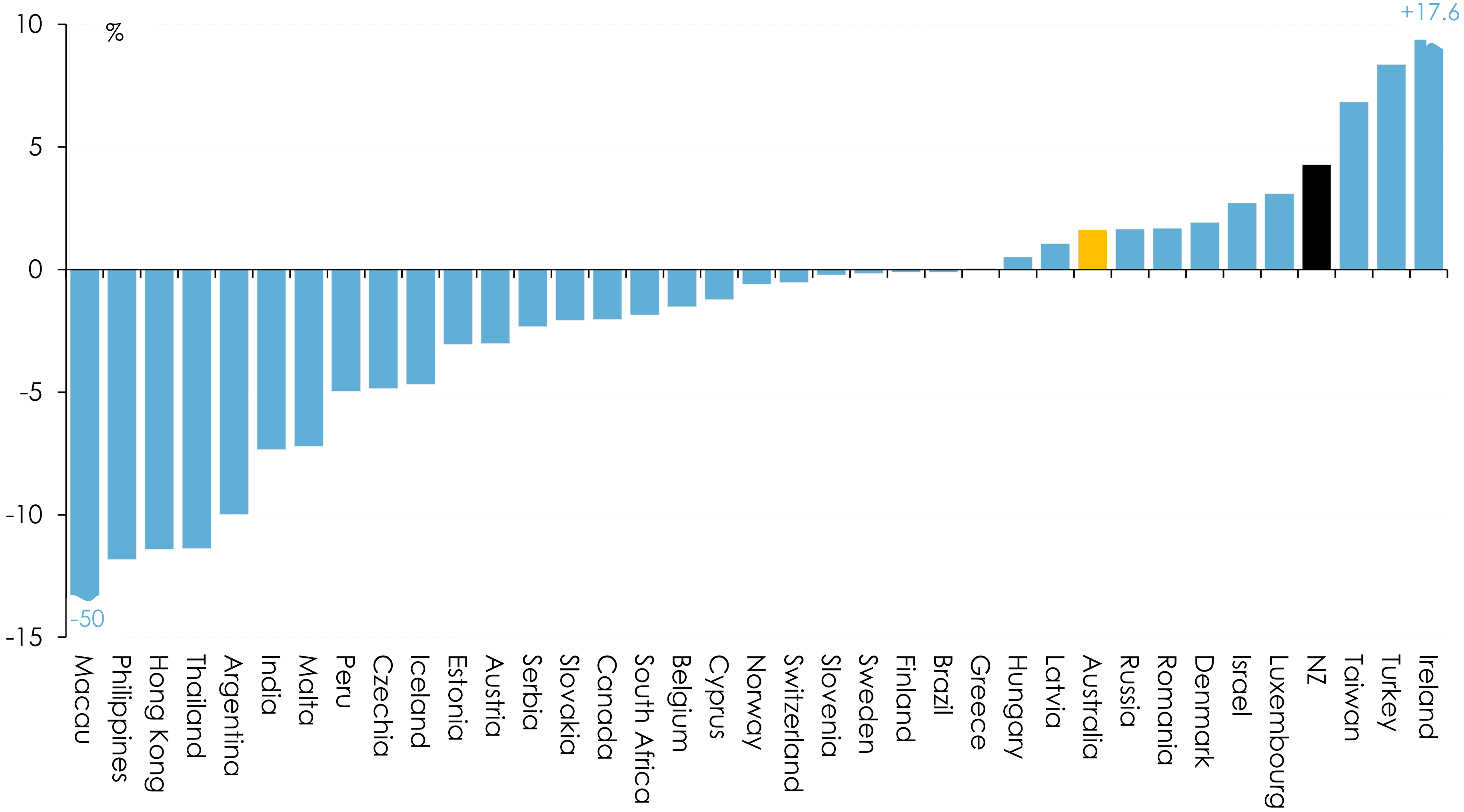
Only 19 countries (out of 52 for which seasonally-adjusted Q2 or Q3 GDP estimates are available) have exceeded their pre-pandemic peaks

Q3 2021 real GDP compared with pre-recession peak



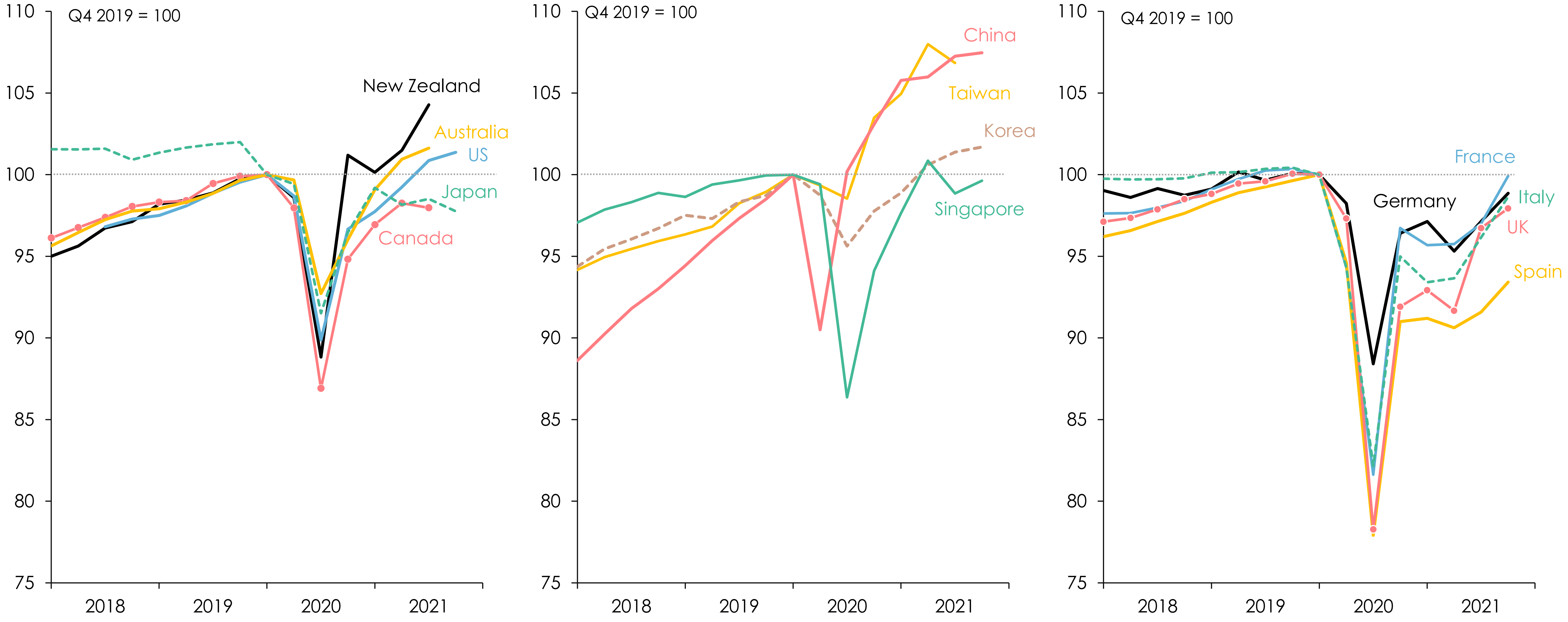
Q2 2021 real GDP compared with pre-recession peak



Note: Estimate for China derived from quarterly growth rates published by China NBS; estimate for India and Indonesia seasonally adjusted by Corinna using Refinitiv 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.

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The IMF last month 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

	Actual		*IMF*		*World Bank*		*OECD*		*Australian Treasury*	
	2019	2020	2021	2022	2021	2022	2021	2022	2021	2022
US	2.2	-3.5	6.0	5.2	6.8	4.2	6.0	3.9	6.5	3.5
China	5.8	2.3	8.0	5.6	7.7	5.3	8.5	5.8	8.5	5.5
Euro area	1.3	-6.6	5.0	4.3	4.2	4.4	4.3	4.6	4.5	4.0
India	4.0	-8.0	9.5	8.5	8.3	7.5	6.7	9.9	11.0	5.8
Japan	0.3	-4.8	2.4	3.2	2.9	2.6	2.5	2.1	3.5	1.8
UK	1.4	-9.9	6.8	5.0	na	na	6.7	5.2	na	na
Australia	1.9	-2.4	3.5	4.1	na	na	4.0	3.3	4.3*	2.5*
New Zealand	2.2	-3.0	5.1	3.3	na	na	3.5	3.8	3.2†	4.4†
World	2.8	-3.3	5.9	4.9	5.6	4.3	5.7	4.5	6.0	4.5
World trade	0.9	-8.5	9.7	6.7	8.3	6.3	na	na	na	na

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

The IMF's latest forecast makes largely offsetting revisions to its outlook for economic growth, but upward revisions to its outlook for inflation

IMF real GDP growth forecasts

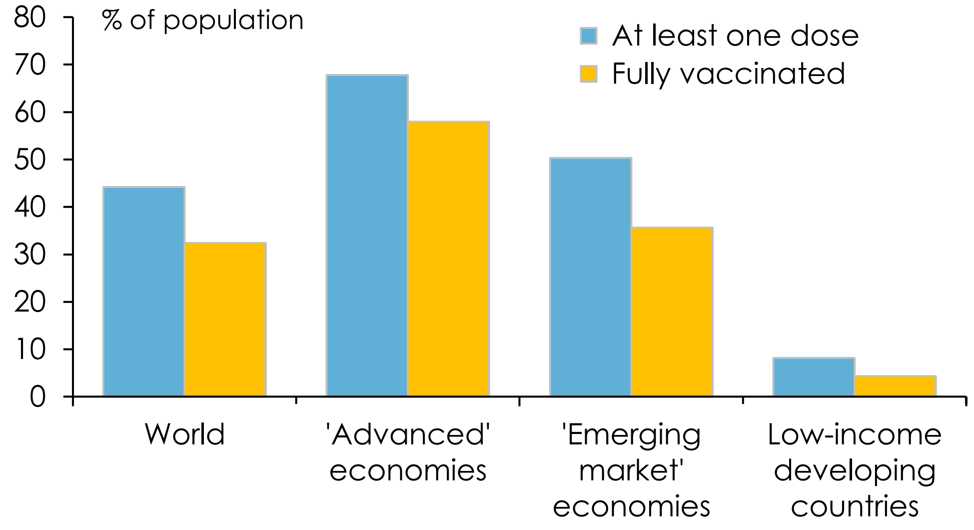
	October forecast (%)		*Revision from July (pc pts)*	
	2021	2022	2021	2022
Advanced economies				
US	6.0	5.1	-1.0	+0.3
Euro zone	5.0	4.2	+0.4	0.0
Japan	2.4	3.2	-0.4	+0.2
UK	6.8	5.0	-0.2	+0.2
Australia	3.5	4.1	-1.8	+1.1
New Zealand	5.1	3.3	+1.1	+0.1
Emerging economies				
China	8.0	5.6	-0.1	-0.1
India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

Source: IMF *World Economic Outlook*, 12th October 2021.
Return to "What's New".

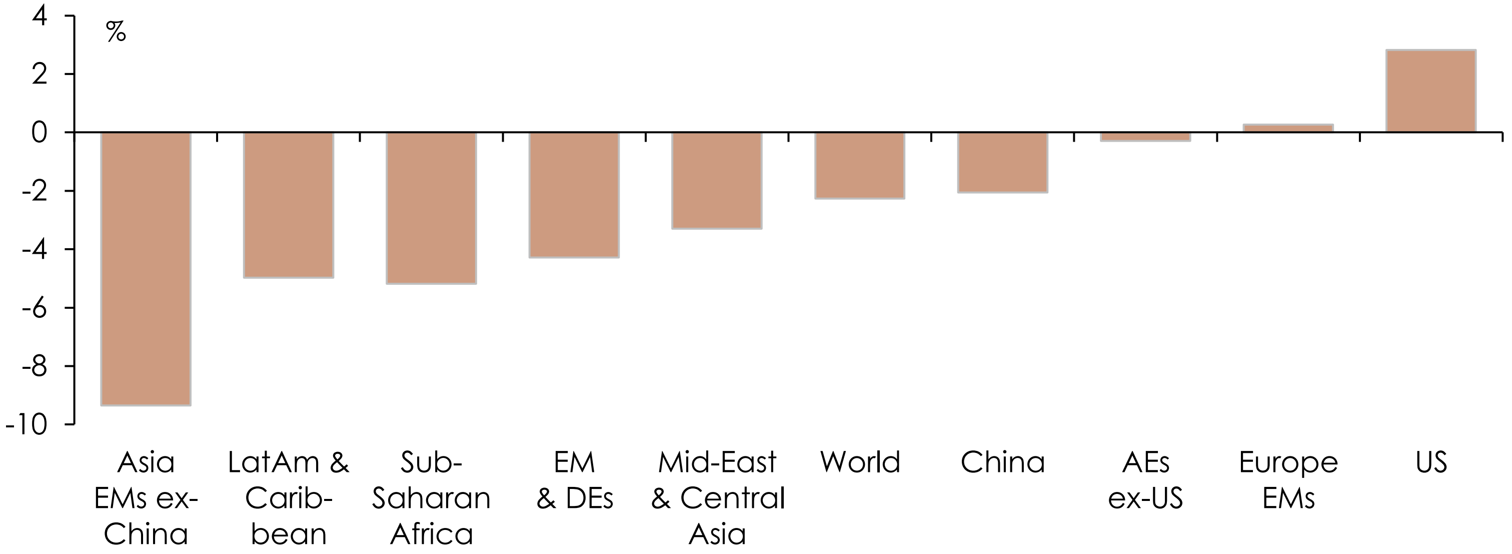
- The IMF's latest *World Economic Outlook* lowers its growth forecasts for the US, Japan, ASEAN and Australia this year, offset by upward revisions for the euro area and commodity-exporting EMs – but with only minor changes to its outlook for 2022
- The key point in the IMF's growth outlook is the "further 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"

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

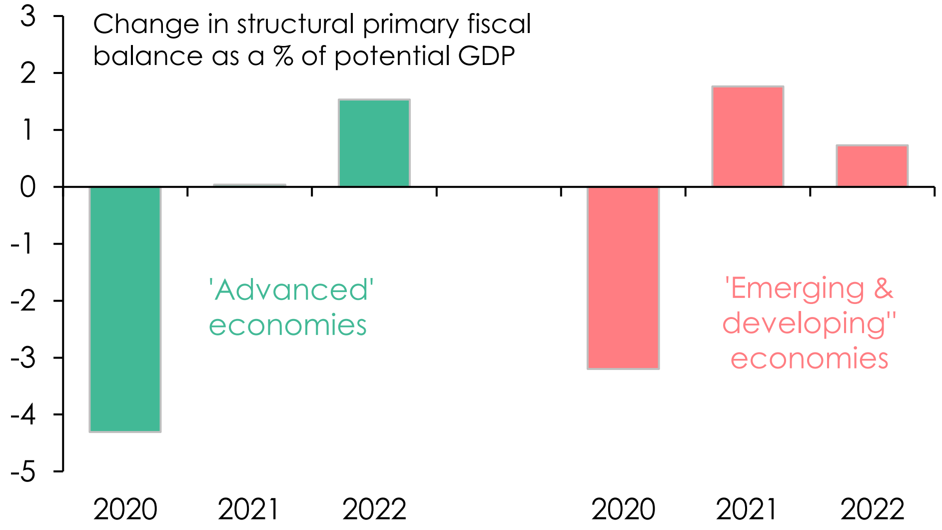
Vaccination rates



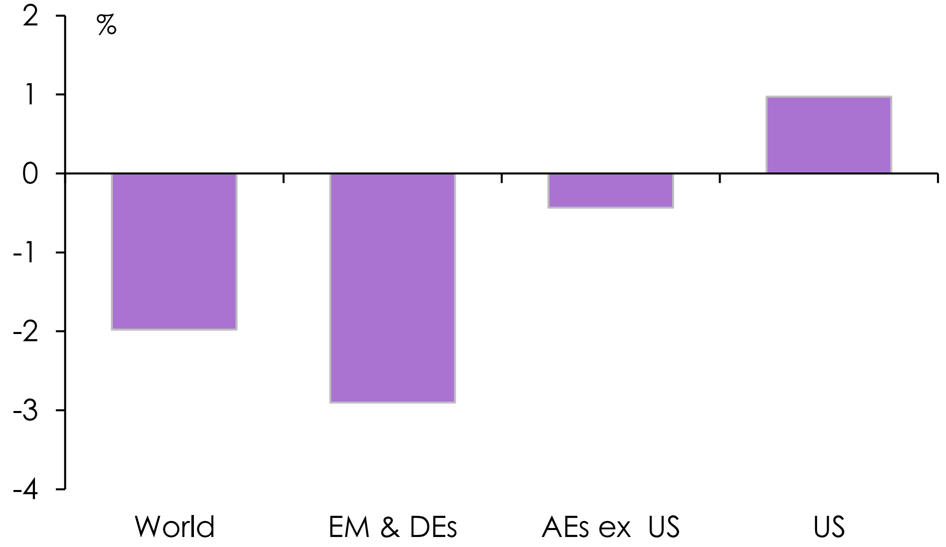
Output losses relative to pre-pandemic trend



Stance of fiscal policy



Employment losses relative to pre-pandemic trend



‘EMs’ = ‘Emerging market’ economies

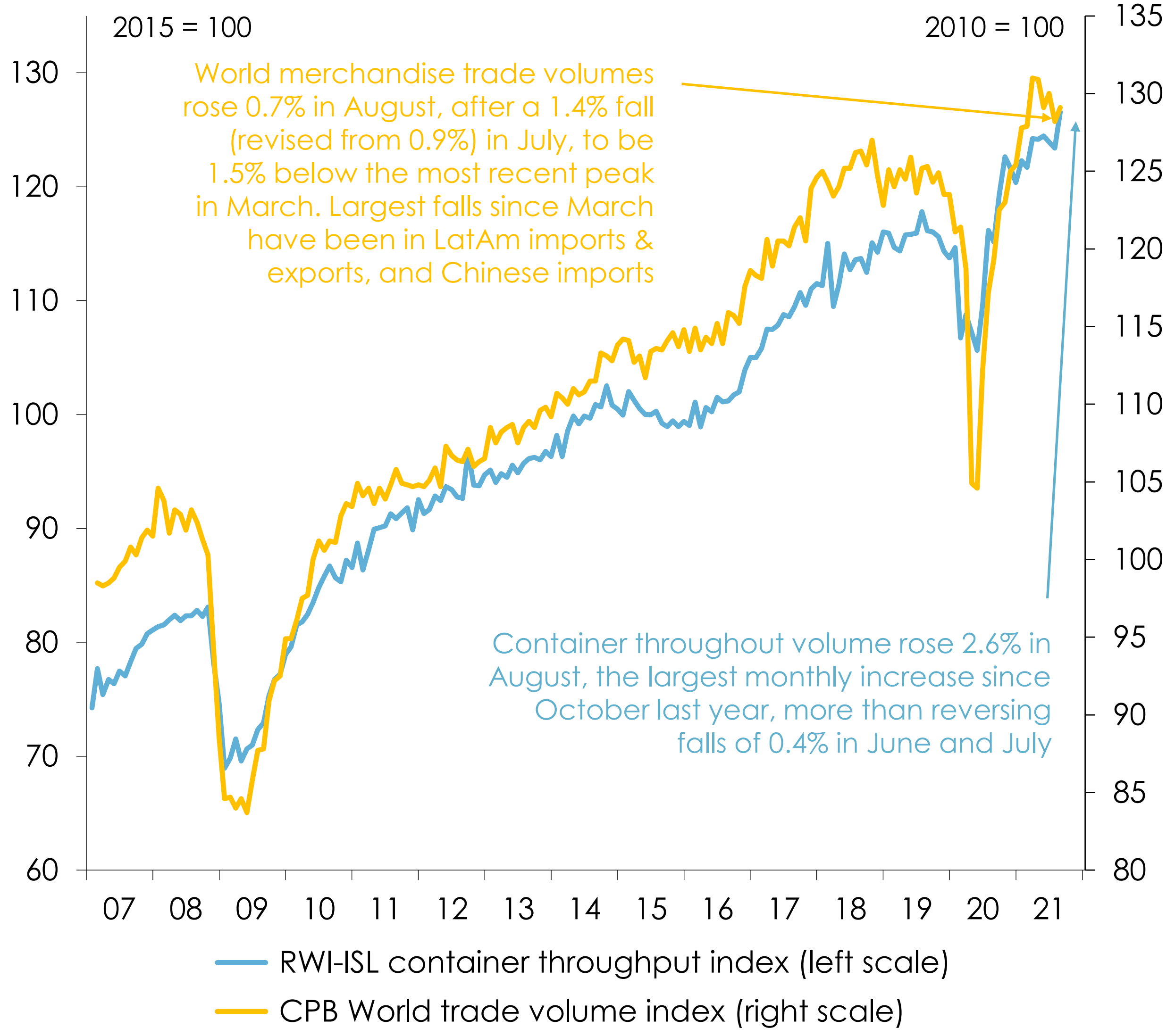
‘DEs’ = Developing economies

‘AEs’ = ‘Advanced’ economies

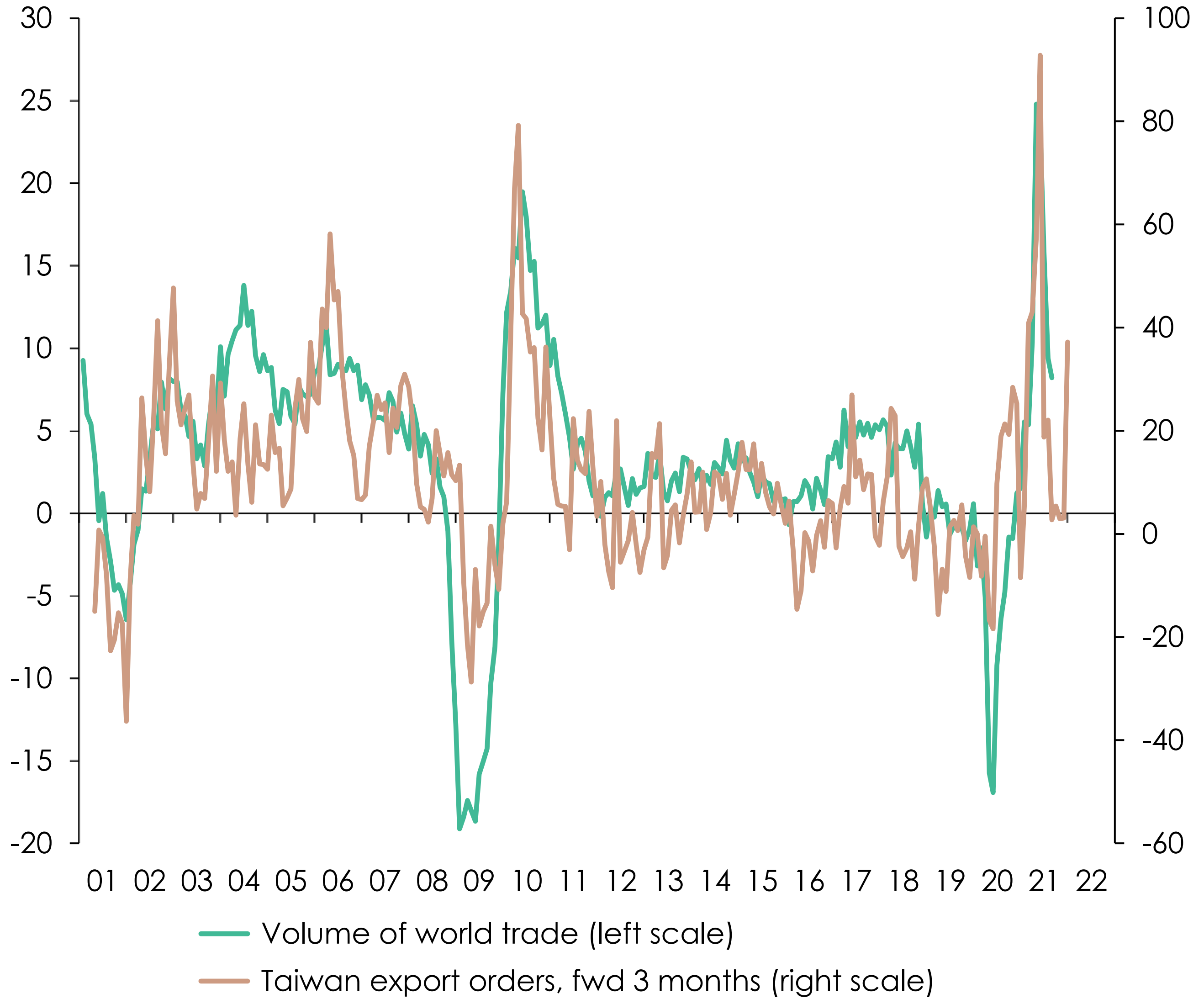
Source: IMF *World Economic Outlook*, 12th October 2021. Return to "What's New“.

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 25th 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".

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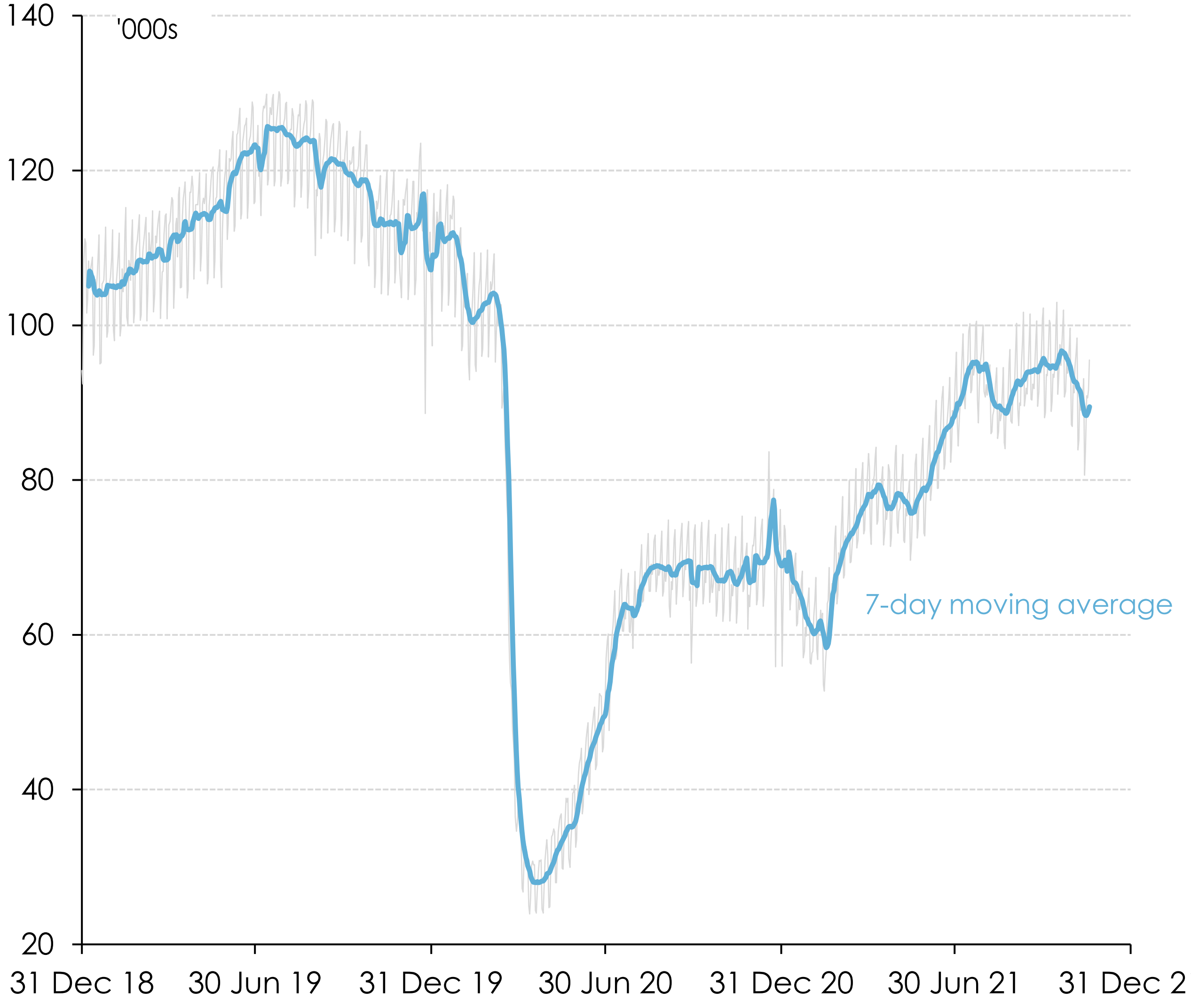
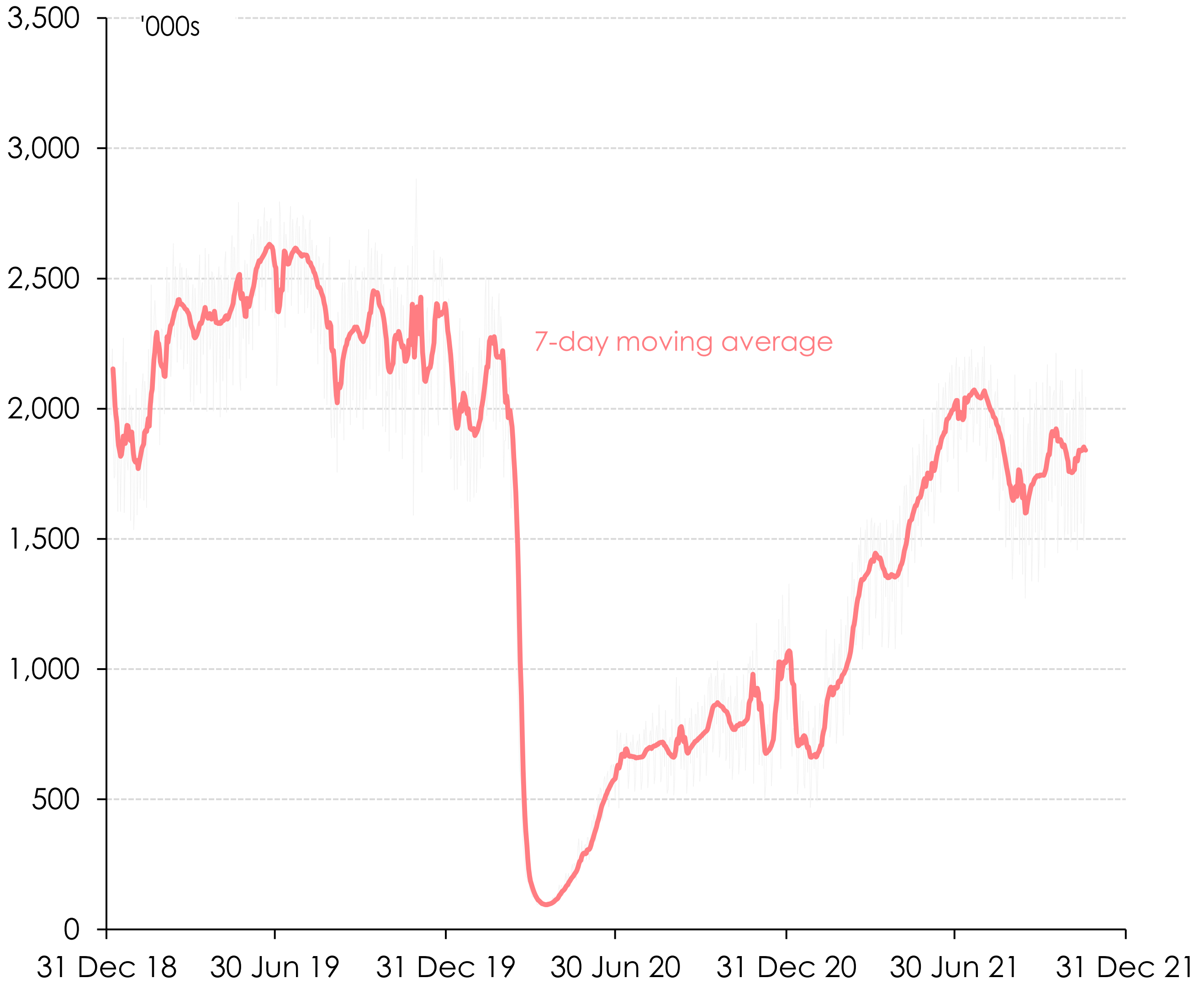
The global 'delta wave' interrupted the recovery in travel during Q3 – and after an apparent recovery, global flight traffic seems to be faltering again

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 and TSA checks up to 18th November. Thicker coloured lines are 7-day centred moving averages of daily data plotted in thin grey lines. *Sources:* Flightradar24.com; US Transport Safety Administration (at last, something useful produced by aviation 'security'!!!). Return to "What's New".

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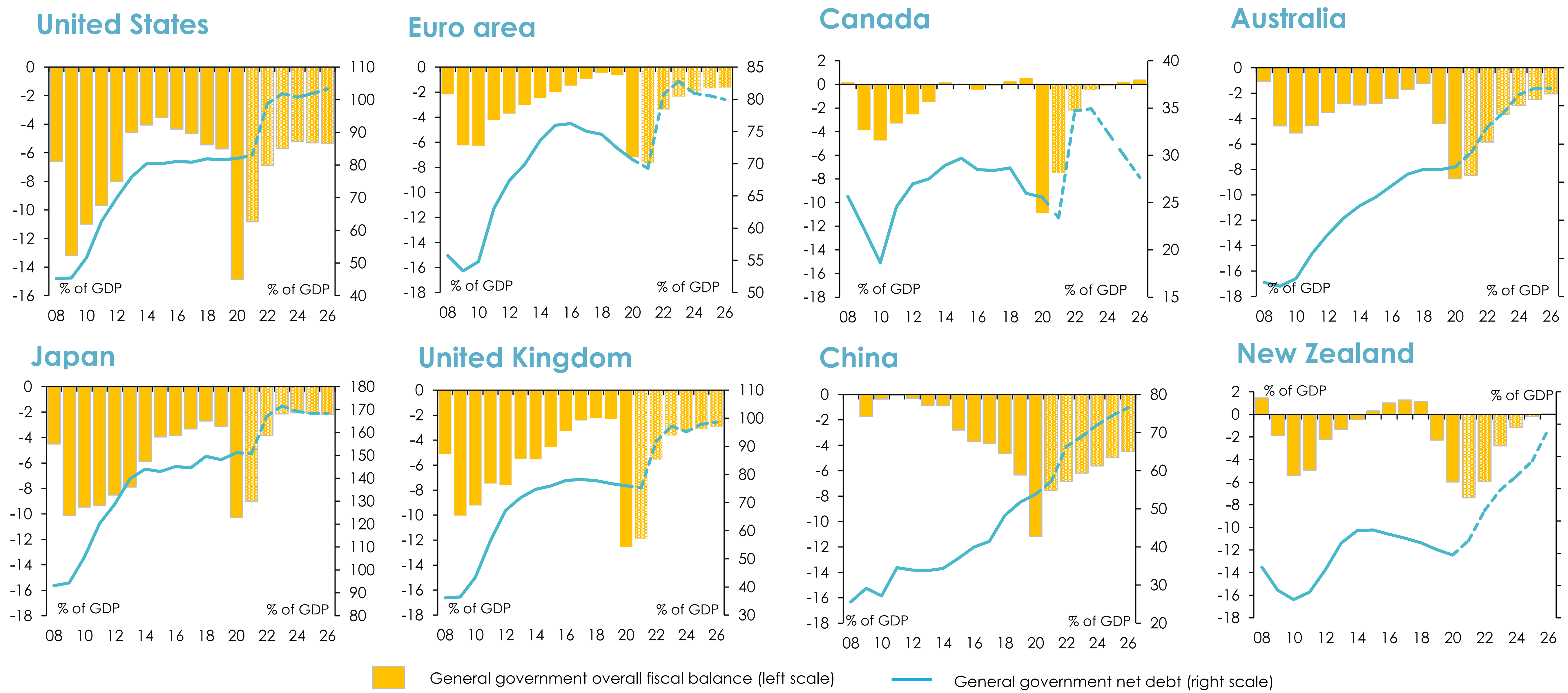
Fiscal policy in almost all major economies is set to tighten significantly in 2022



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"

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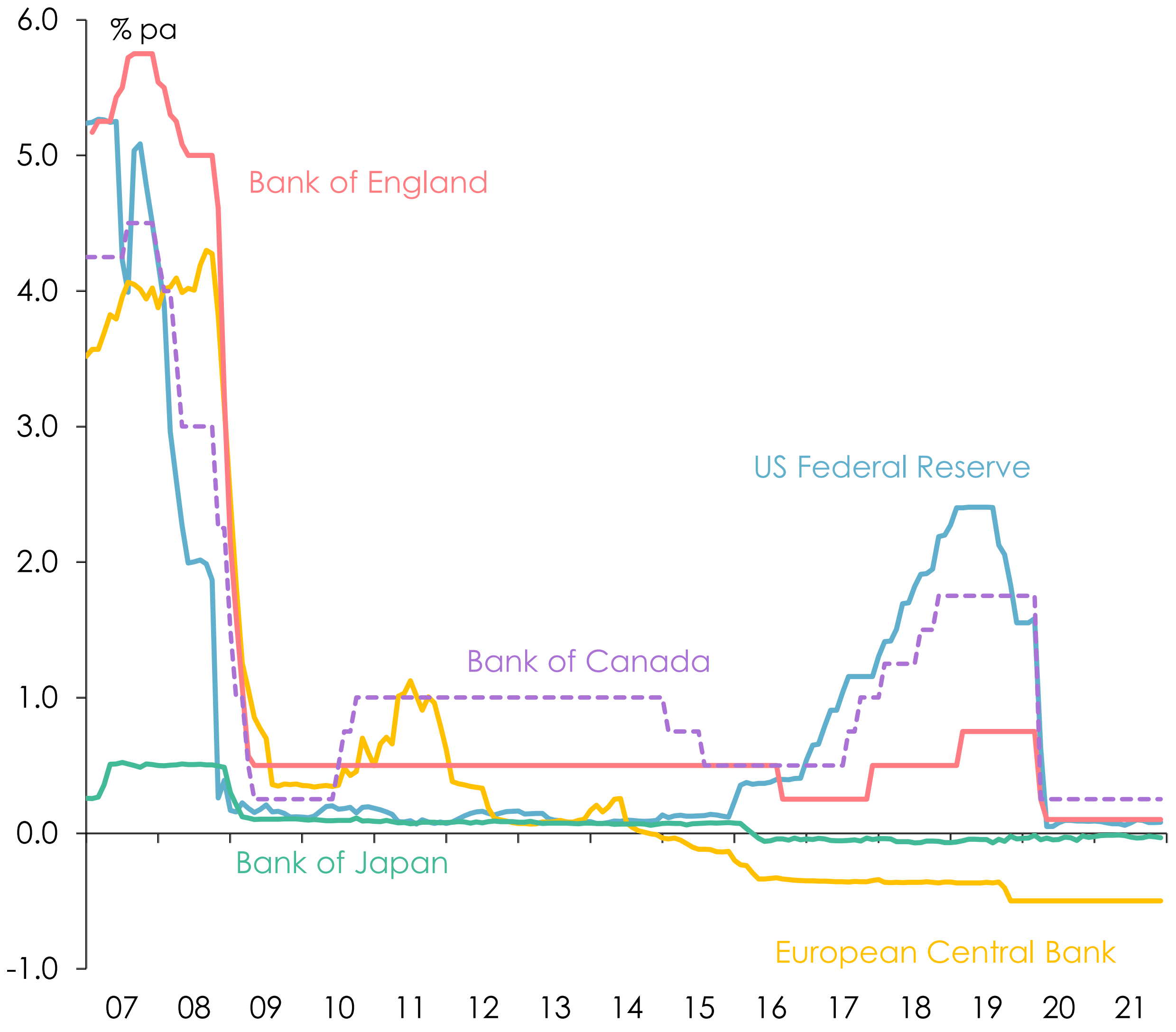
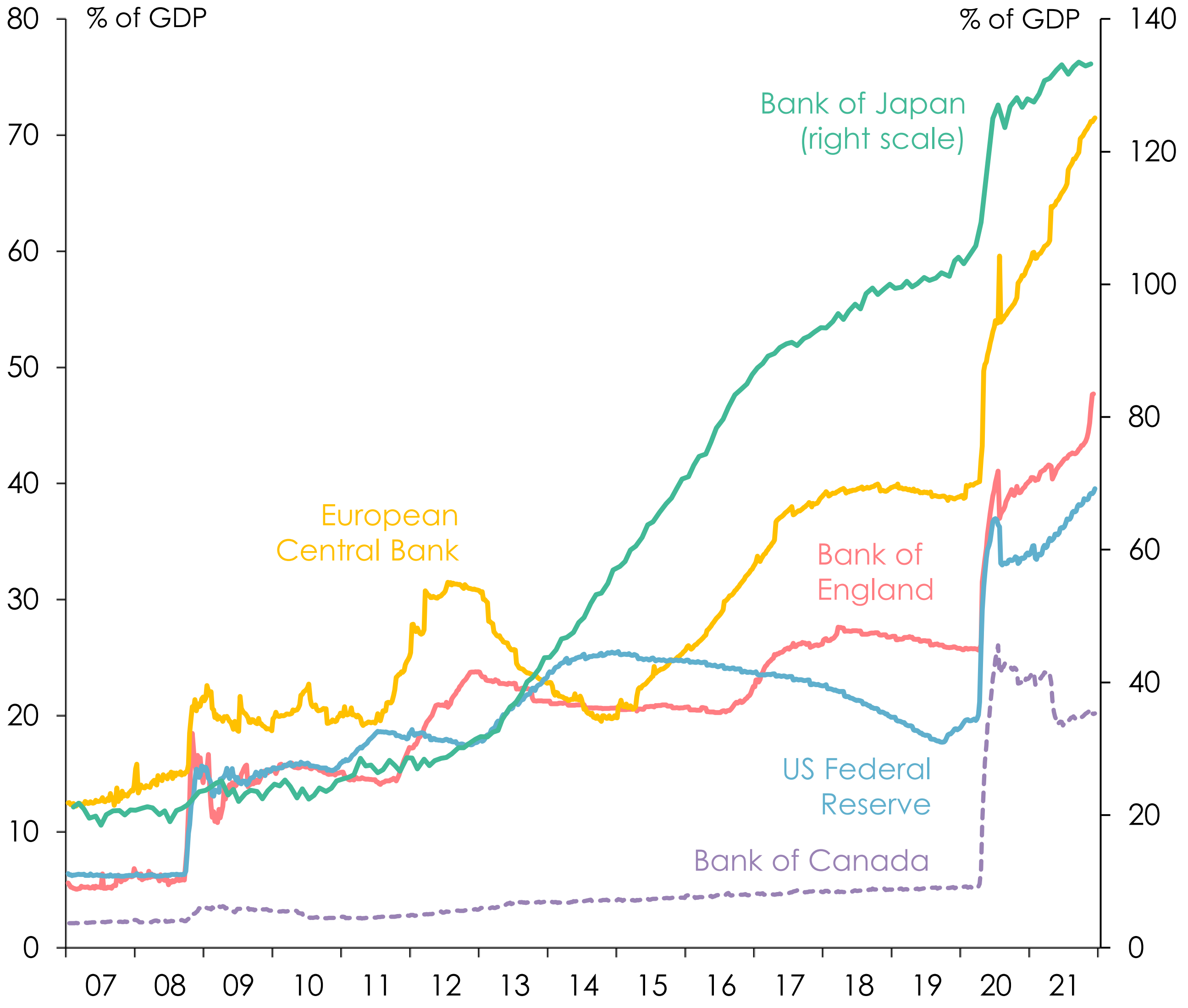
Major central banks have cut interest rates to record lows, and done more 'quantitative easing' than during the global financial crisis

Major central bank policy interest rates



Major central bank balance sheets



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

ECB President Lagarde and BoJ Governor Kuroda this week both downplayed inflation risks and any prospect of rate increases next year

- **ECB President Christine Lagarde this week pushed back against suggestions that it needed to or would raise interest rates any time soon**
  - in a speech on Friday in Frankfurt she said "we do not see the conditions in place – either at the economy-wide level or at the sectoral level – for inflation rates above our target to become self-sustained"
  - in her view, there is no "excess demand" in the euro area, and there was "no reason to believe that aggregate supply has fallen significantly" so the "eventual resolution of supply-chain disruptions should have a self-limiting effect on inflation"
  - although "slack in the labour market is receding … wage pressures have not yet started to emerge" and the ECB "does not see broad-based signs of a skills mismatch in the labour market"
  - given these considerations, "it does not make sense to react by tightening policy" – tightening policy would make the "squeeze on household incomes" (arising from higher energy prices and other transitory factors) "worse"
- **She concluded that "the conditions to raise rates are very unlikely to be satisfied next year"**
- **The outgoing President of the Bundesbank, Jens Weidmann, took a different view immediately afterwards**
  - speaking at a separate conference in Berlin, Weidmann said "we should not ignore the risk of too high inflation", and that "monetary policy should not commit to its current very expansionary stance for too long"
  - although he also appeared to acknowledge that his was a minority opinion on the ECB's Governing Council, noting that "the diversity of opinions and viewpoints on the Council has always been a strength, not a weakness:
- **Bank of Japan Governor Kuroda Haruhiko likewise downplayed upside risks to inflation in Japan**
  - in a speech in Nagoya on Monday, Kuroda noted that "labour-hoarding" had "enabled Japanese firms to maintain capacity to swiftly increase supply even when demand has risen due to the resumption of economic activity" (in contrast to the US), and that Japanese firms were much more cautious about raising prices, instead "put[ting] priority on long-term relationships with the customers and try[ing] to meet their demand as much as possible by keeping selling prices unchanged while asking for understanding regarding delivery delays"
  - he indicated it was unlikely Japan will have reached the "price stability target" of 2% by FY 2023

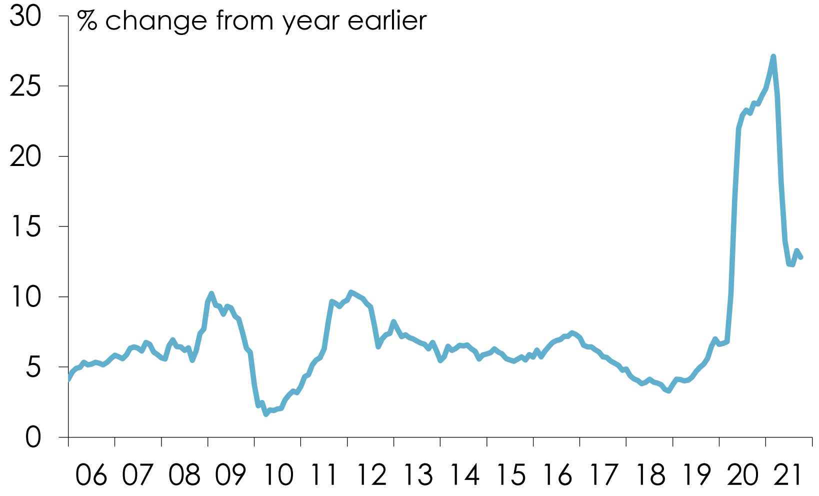
Return to "What's New".

President Biden is expected to announce this week whether Jerome Powell will be re-appointed as Federal Reserve Chair

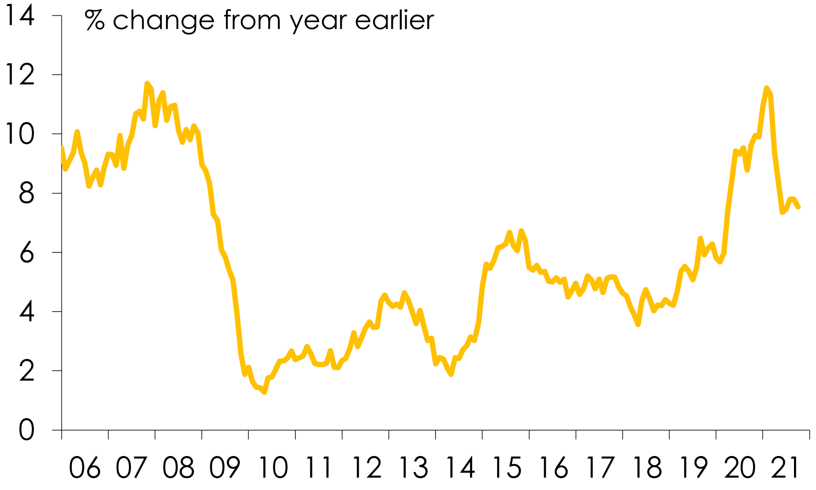
- **US President Joe Biden is expected to announce his appointment of the next Federal Reserve Chairman this week**
  - incumbent Jerome Powell's term as Chair expires on 5th February next year (although in theory he could remain as a Governor until January 2028)
  - Powell was originally appointed to the Fed Board of Governors by President Obama in May 2012, and appointed Chair by President Trump in 2018 (Trump having declined to re-appoint Janet Yellen when her term as Chair expired, the first time an incumbent Fed Chair had been denied re-appointment since 1978)
  - left-leaning Democrats have opposed Powell's re-appointment, advocating instead for Lael Brainard, who was Under-Secretary of the Treasury in the Obama Administration and has been on the Fed Board of Governors since June 2014
  - the President has interviewed both Powell and Brainard ahead of making his decision
- **After its FOMC meeting on 3rd November, the US Federal Reserve announced that it would begin 'tapering' its asset purchases (as expected)**
  - "later this month", the Fed will lower its purchases of US Treasury securities from US$80bn to $70bn a month, and its purchases of agency mortgage-backed securities from $40bn to $35bn a month
  - these purchases will be reduced to a monthly pace of $60bn and $30bn, respectively, in December, with similar reductions "likely [to be] appropriate each month" (implying that asset purchases will have ceased altogether by June next year)
- **However at his post-FOMC meeting press conference Fed Chair Jerome Powell sought to emphasize that this decision did "not imply any direct signal" about interest rates, with a "different and more stringent test for economic conditions" needing to be met "before raising the federal funds rate"**
  - he acknowledged that inflation "is running well above [the Fed's] 2% longer-run goal" but insisted that the economy "will adjust to supply and demand imbalances and that, as it does, inflation will decline to … much closer to … 2%"
  - he asserted that the Fed's tools "cannot ease supply constraints" but that if it were to see "signs that inflation, or longer-term inflation expectations, was moving materially and persistently beyond" the 2% target, it would "use [its] tools to preserve price stability"

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

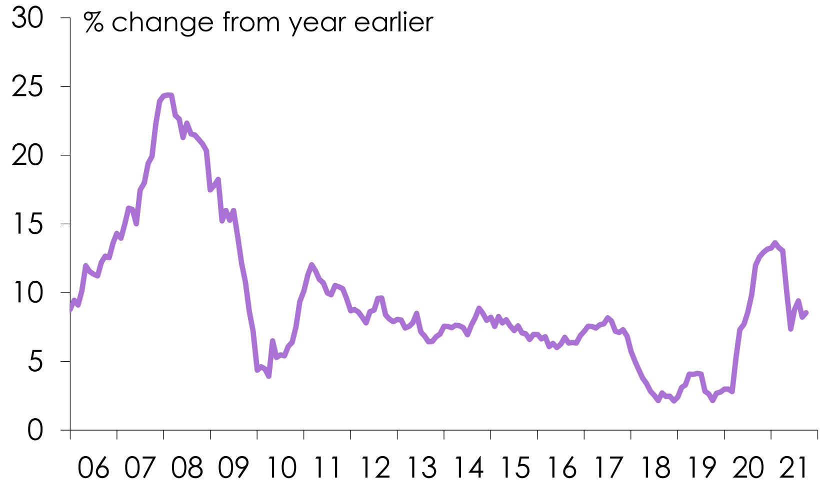
US M2



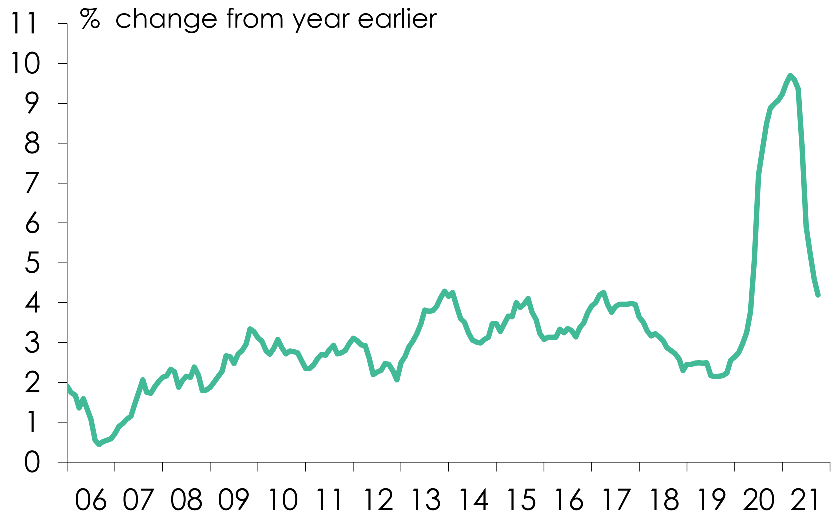
Euro area M2



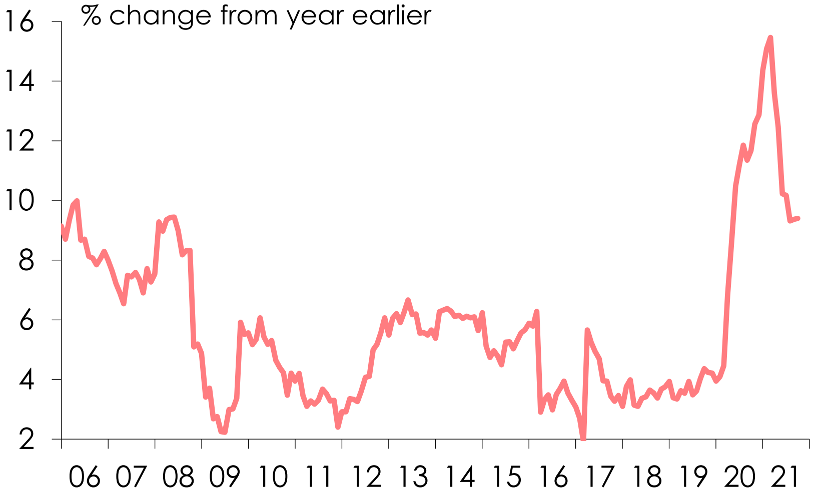
Australia M3



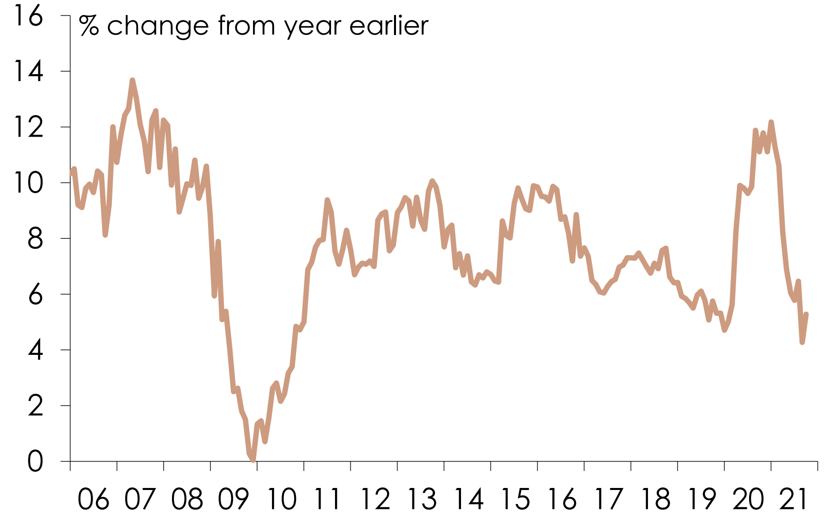
Japan M2 + CDs



UK M2



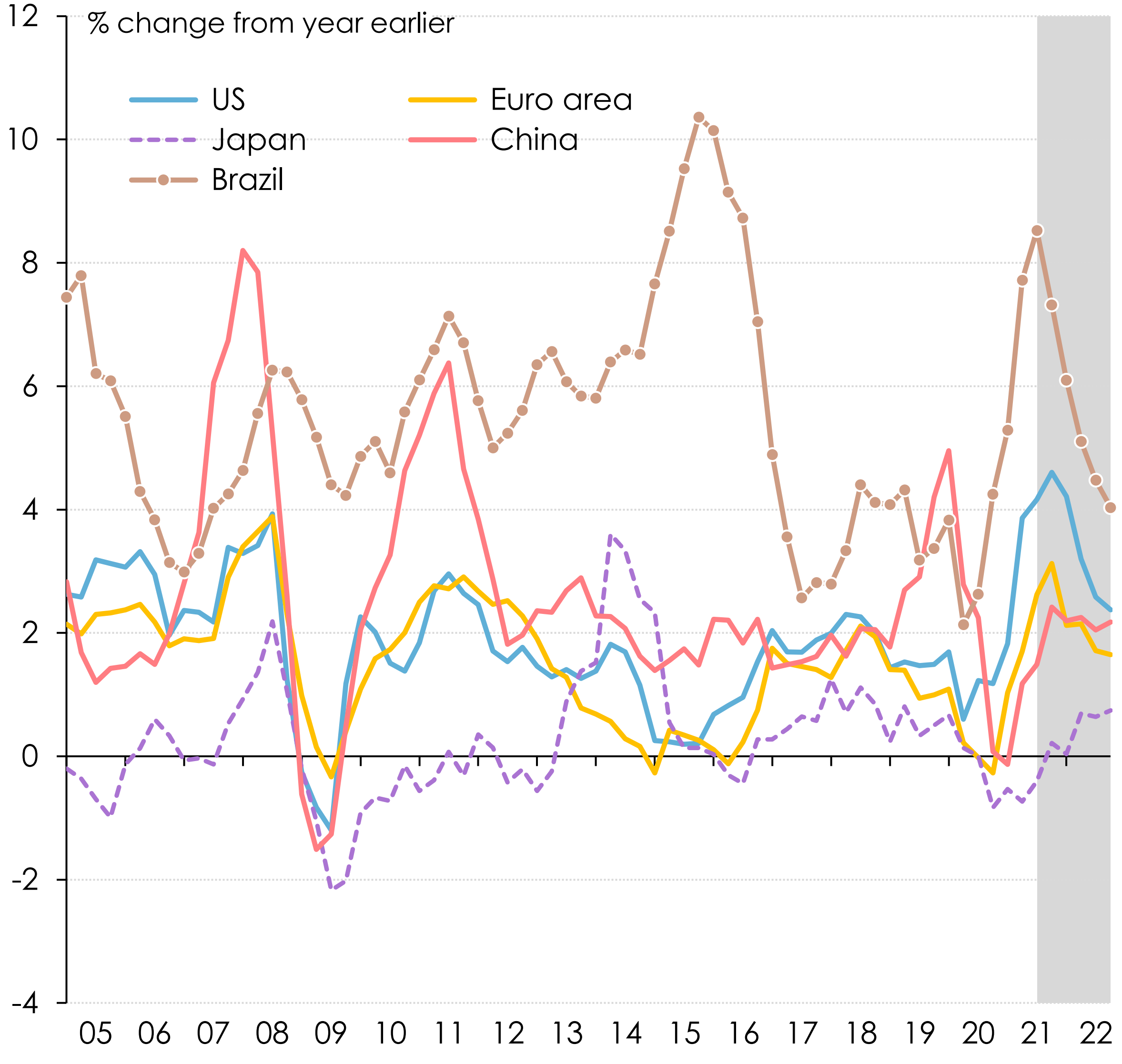
New Zealand M3



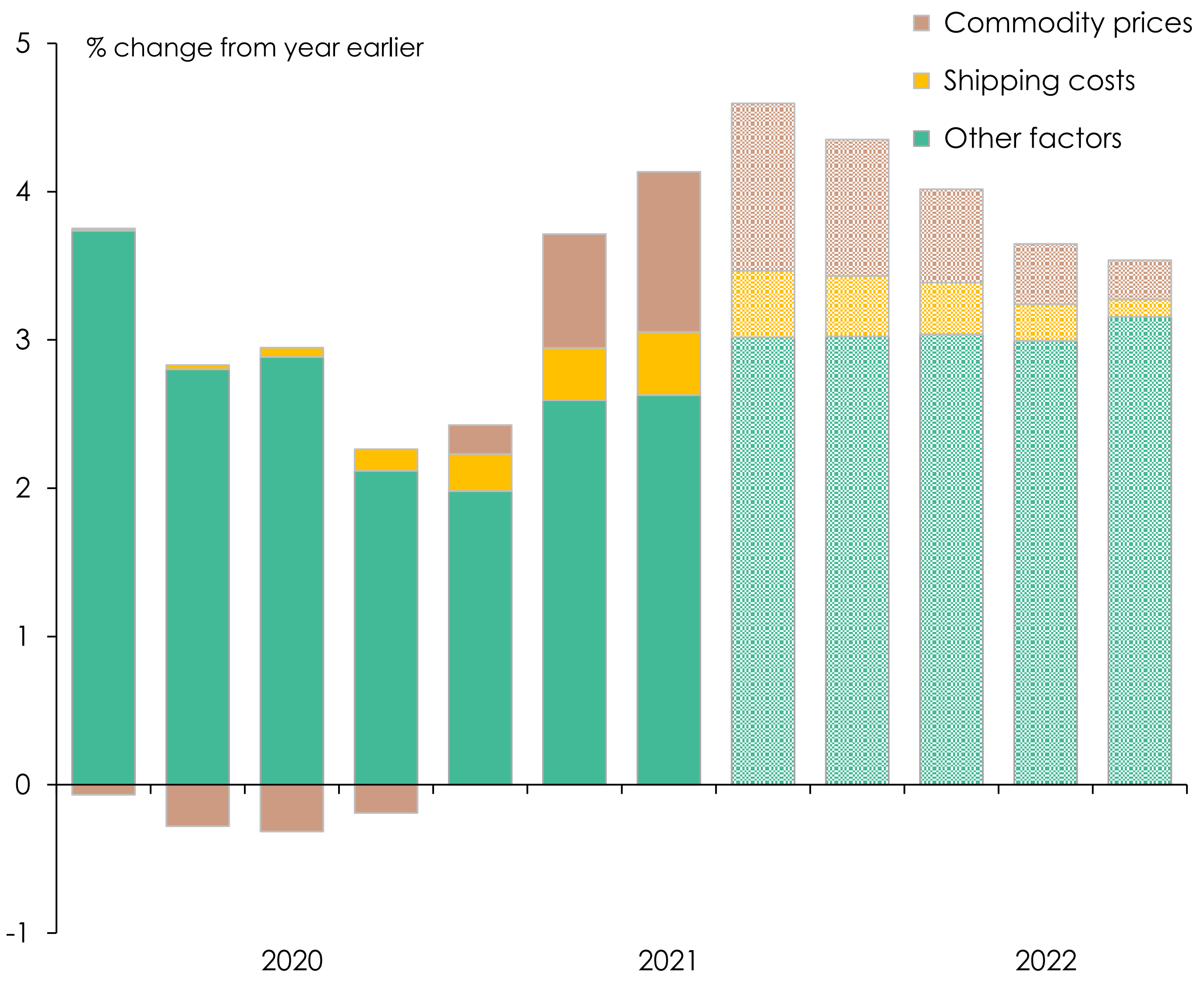
Sources: US Federal Reserve; European Central Bank; Bank of Japan; Bank of England; RBA; RBNZ. Return to "What's New".

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

Inflation in major advanced economies



Contribution to annual G20 inflation



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

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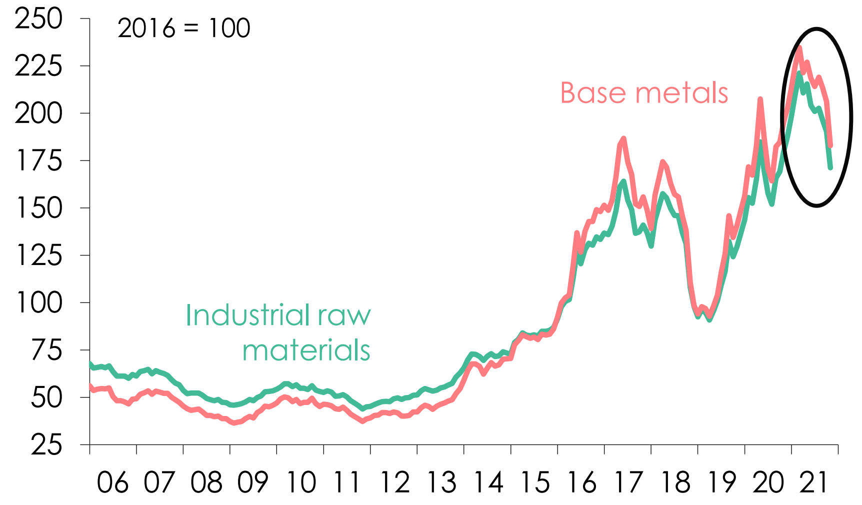
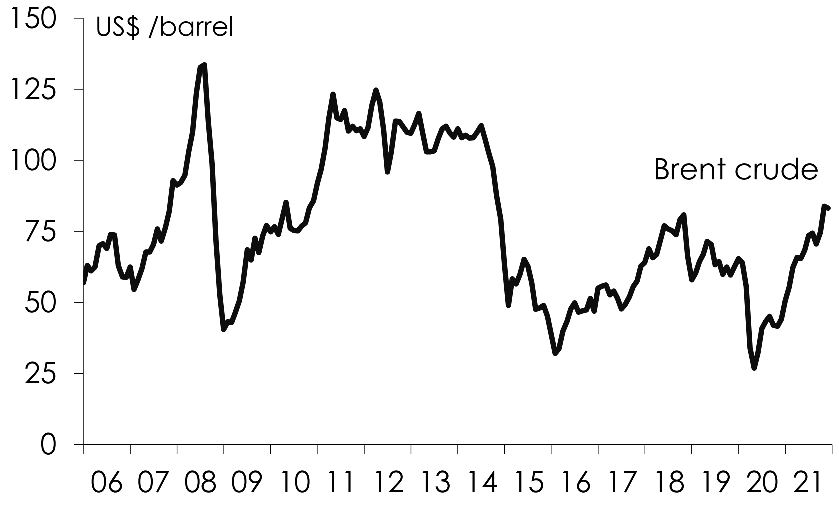
The factors which have contributed to ‘upstream’ price pressures in recent months seem to have peaked (at least for now)

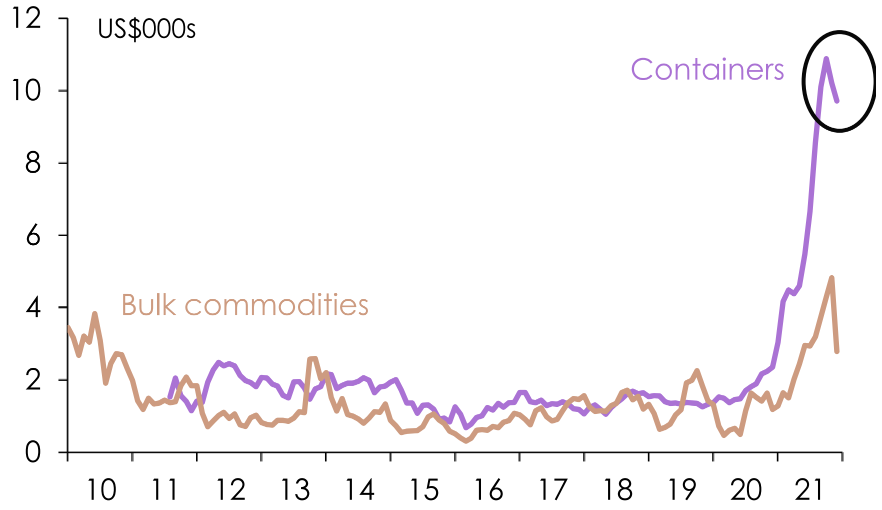
‘Hard’ commodity prices



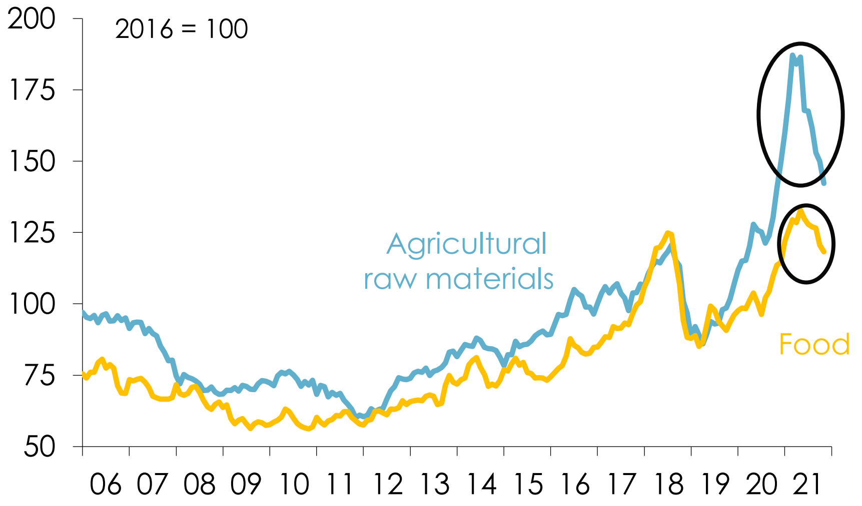
Crude oil price



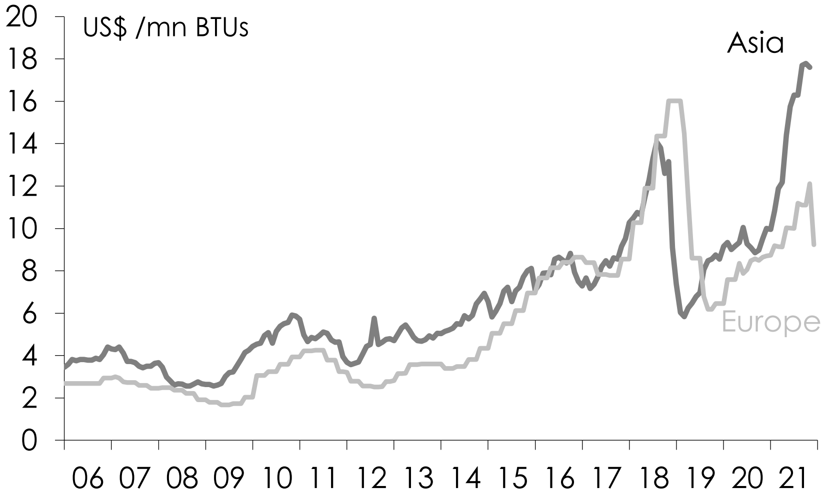
Shipping freight costs



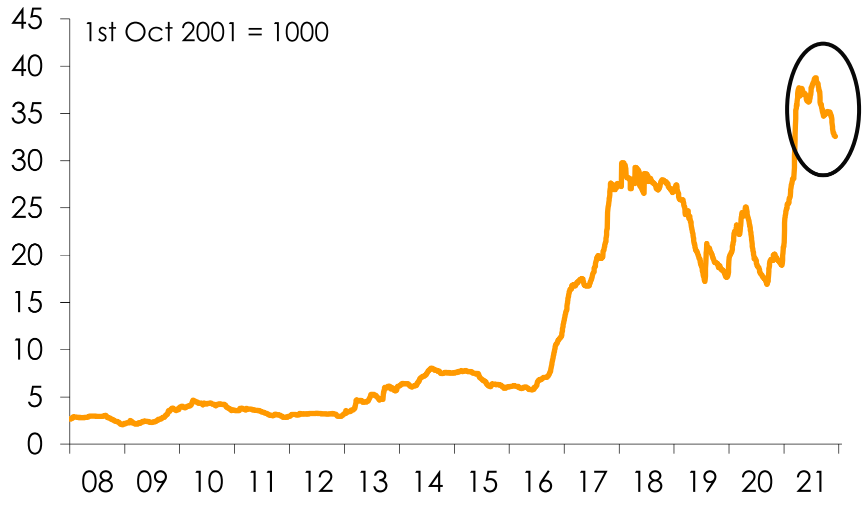
‘Soft’ commodity prices



Natural gas prices



Semiconductor chip prices



Note: The IMF commodity price indices were re-based to 2016 = 100 (previously 2005) this month. The European natural gas price is the Netherlands TTF forward day ahead price, up to October; the November reading is derived by adjusting the October value for subsequent movements in the UK natural gas price (for which daily data are available. The Asian natural gas price is that of Indonesian LNG in Japan. *Sources:* International Monetary Fund; Freightos; Drewry; The Baltic Exchange; Refinitiv Datastream.

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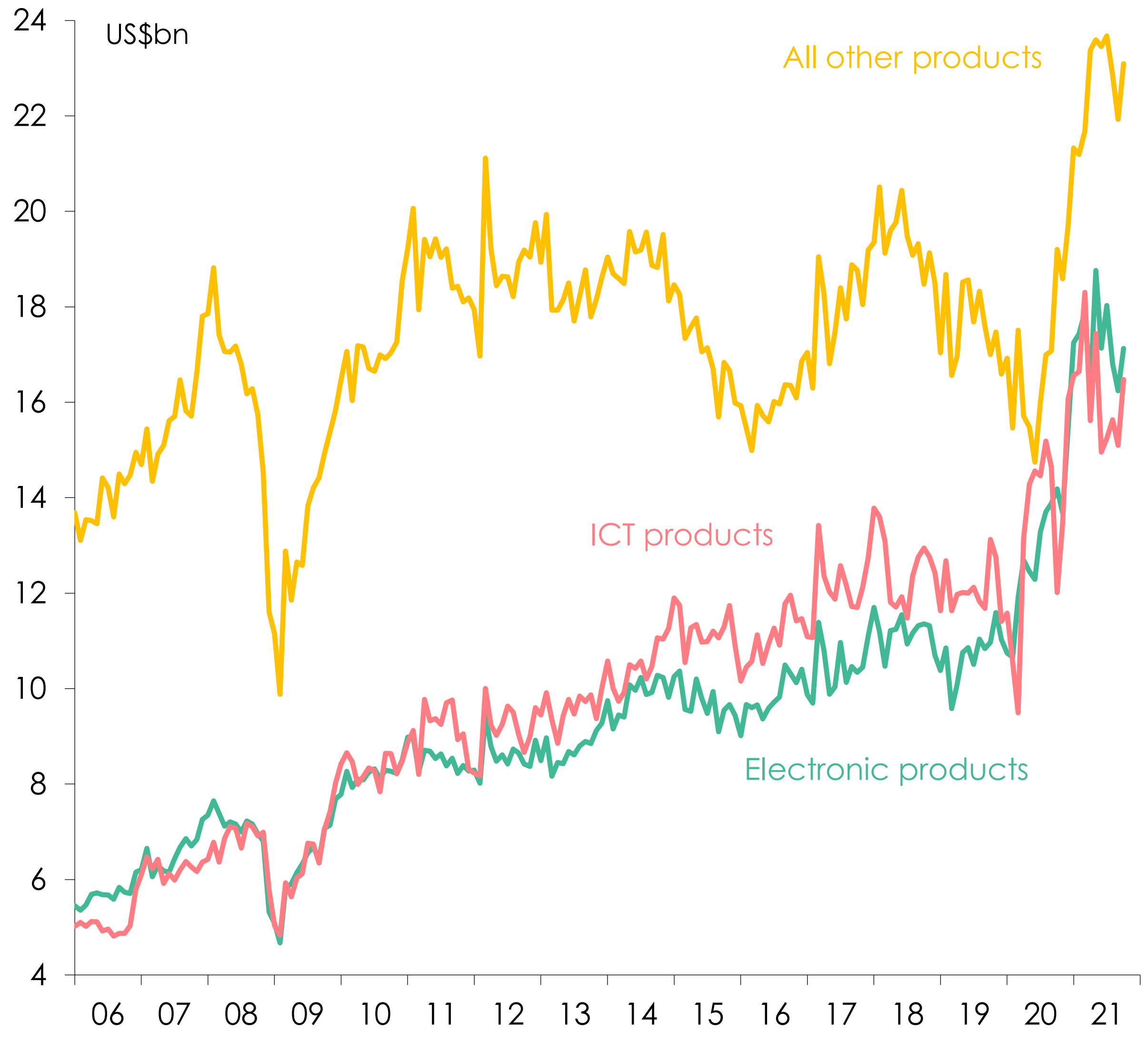
Taiwanese export orders data for September suggests that semi-conductor chip production is starting to recover

Taiwan export orders, by product

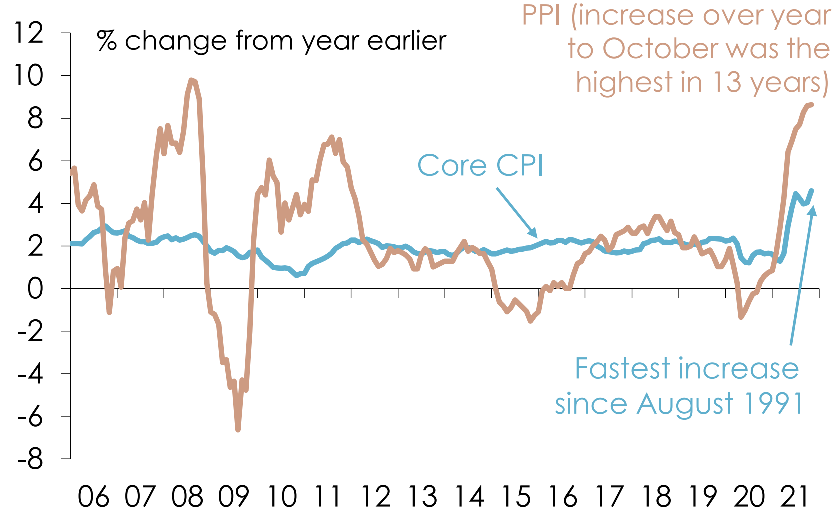


Note: Data have been seasonally adjusted by Corinna using Refinitiv Datastream. Latest data are for September. *Source:* Taiwan Ministry of Economic Affairs. Return to "What's New".

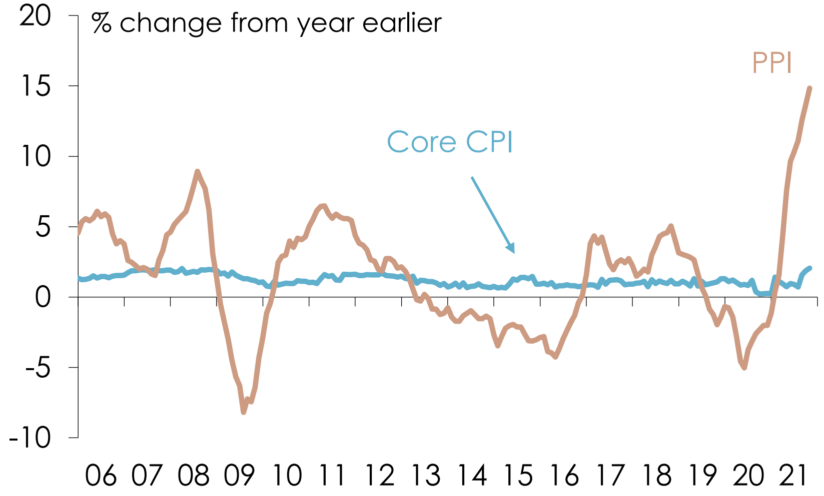
- Taiwan accounts for 63% of the US$85bn global semi-conductor chip market (followed by Korea 18% and China 6%)
  - one Taiwanese company, Taiwan Semiconductor Manufacturing Co (TSMC) has 54% of the world market, and United Microelectronics Co (UMC) a further 7% (Samsung accounts for Korea's 18%)
- Semiconductor 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 cut in production by 40% 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

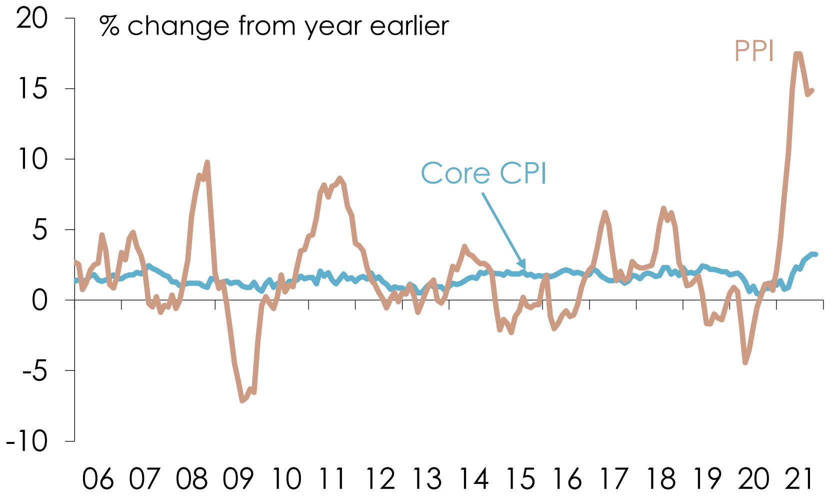
United States



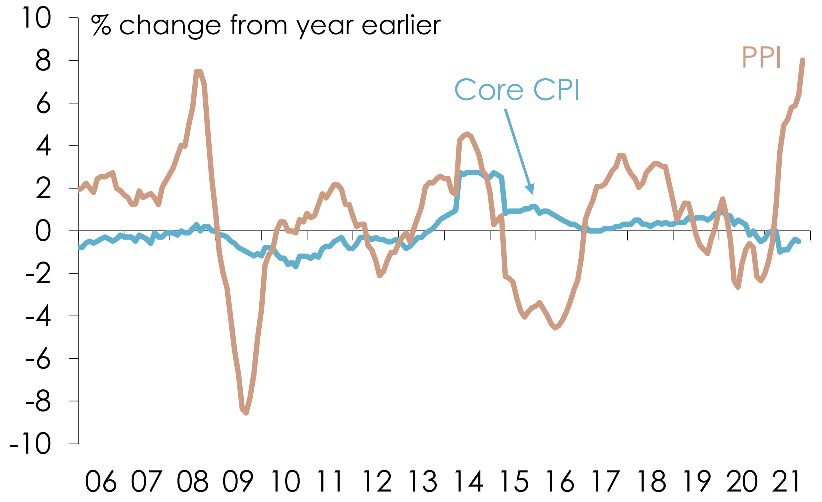
Euro area



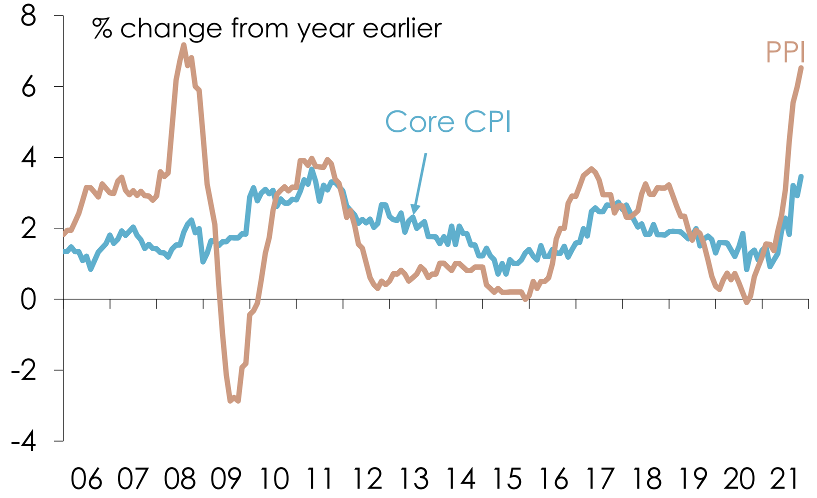
Canada



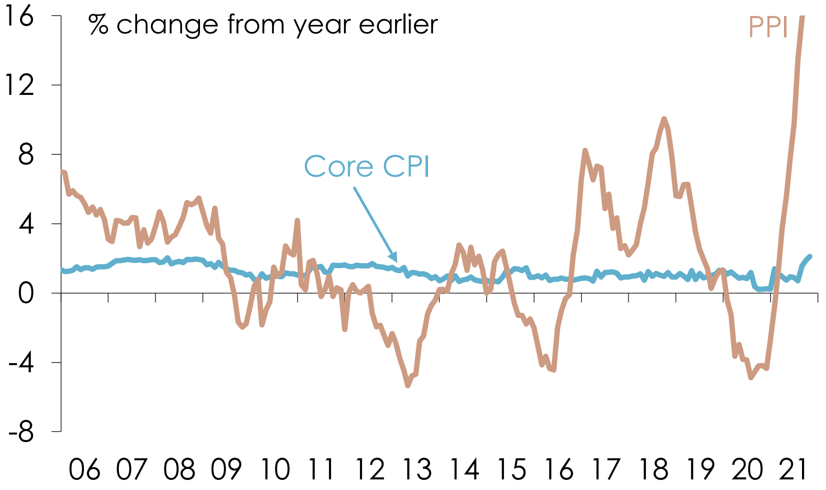
Japan



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".

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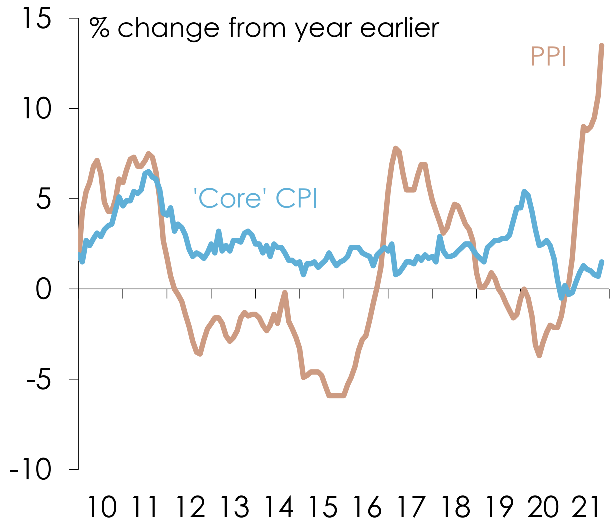
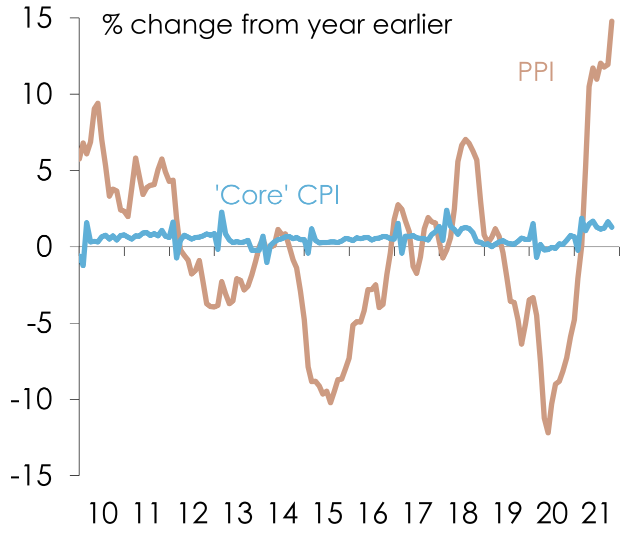
There’s been very little pass-through of higher producer prices into ‘core’ consumer price inflation in Asia

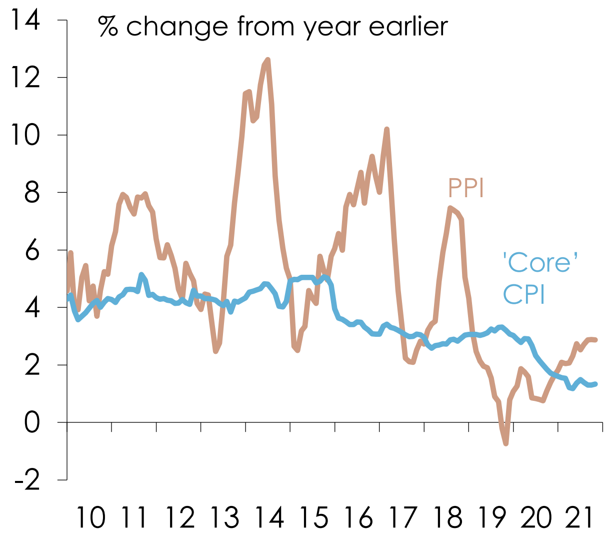
China



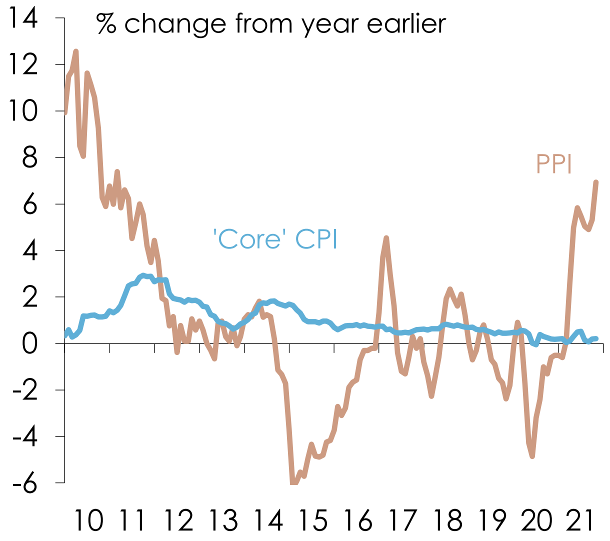
Taiwan



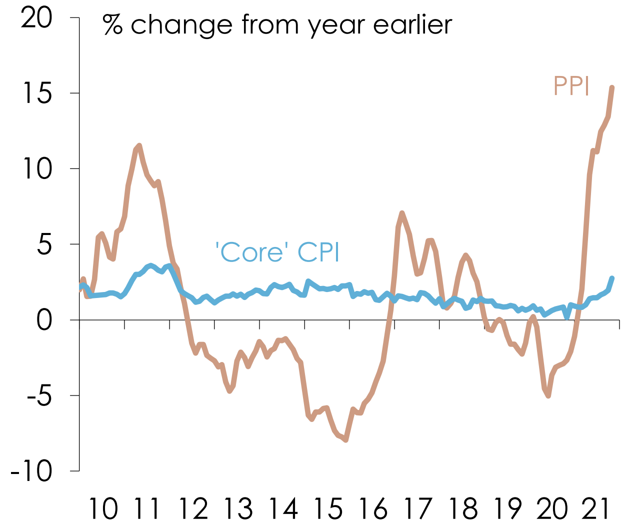
Indonesia



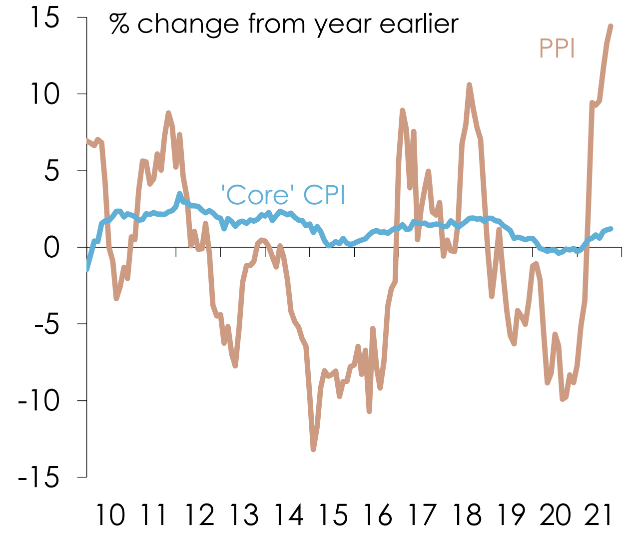
Thailand



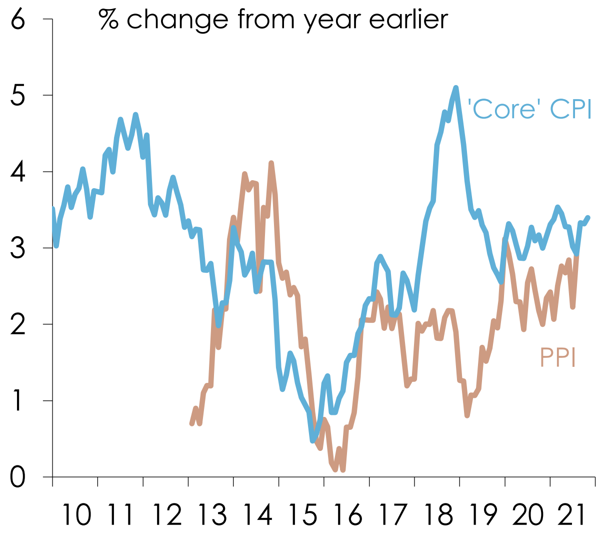
Korea



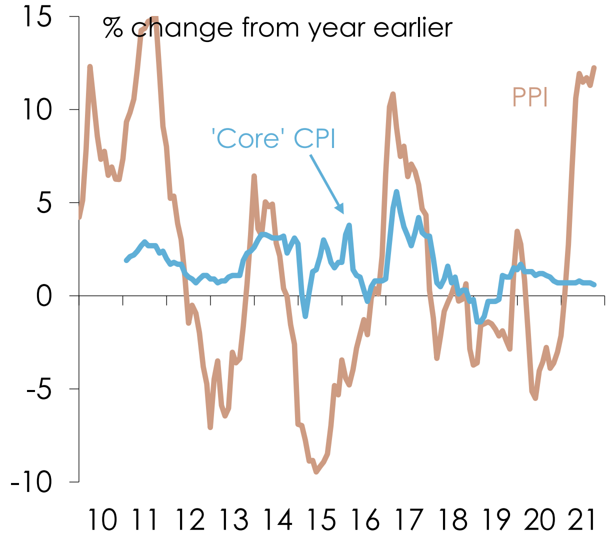
Singapore



Philippines



Malaysia



Note: ‘Core’ CPIs measure different things in different Asian economies – see footnotes to slide 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".

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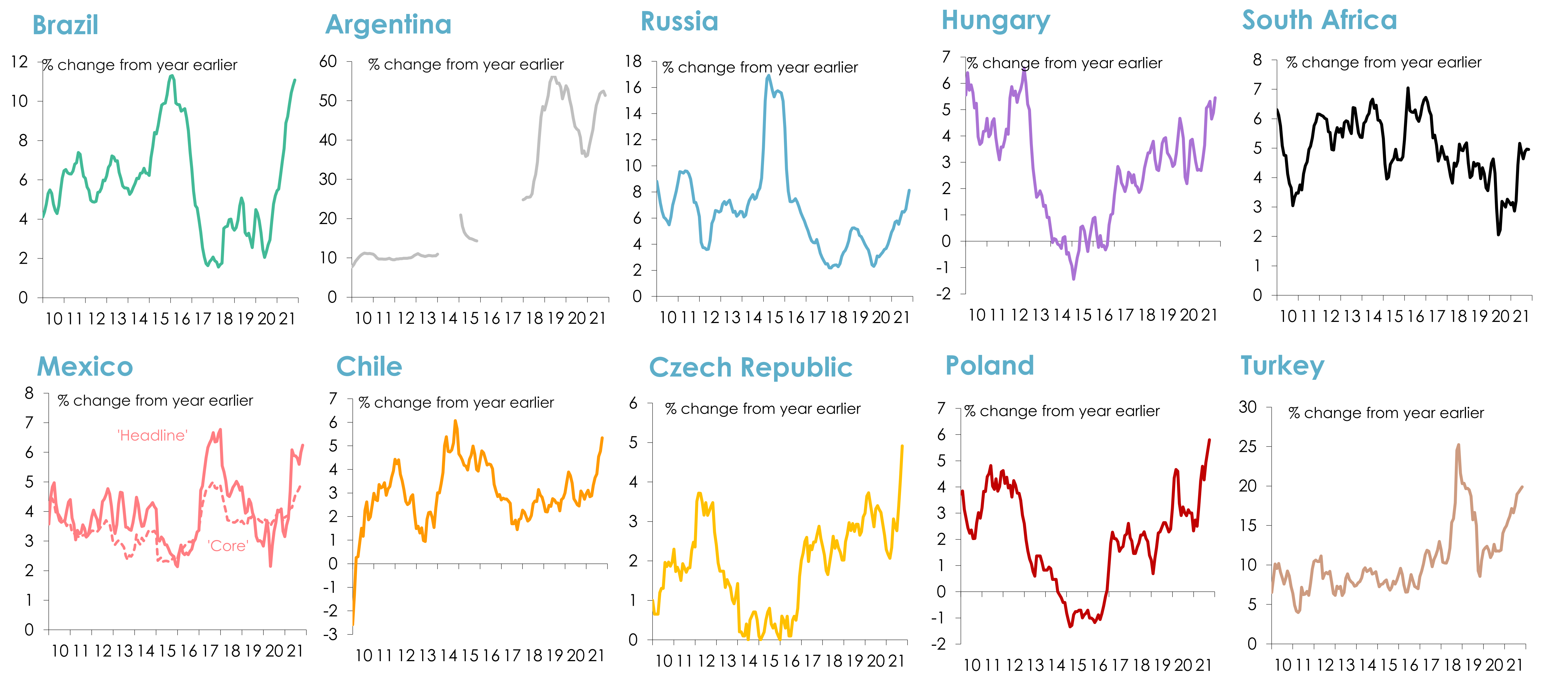
Consumer price inflation is rising in many other ‘emerging’ markets



Sources: Instituto Brasileiro de Geografia e Estatística; Instituto Nacional de Estadística y Geografía (Mexico); Instituto Nacional de Estadística y Censos (Argentina); Instituto Nacional de Estadisticas (Chile); Rosstat; Český statistický úřad (Czechia); Központi Statisztikai Hivatal (Hungary); Główny Urząd Statystyczny (Poland); Statistics South Africa; Turkstat. Return to "What's New".

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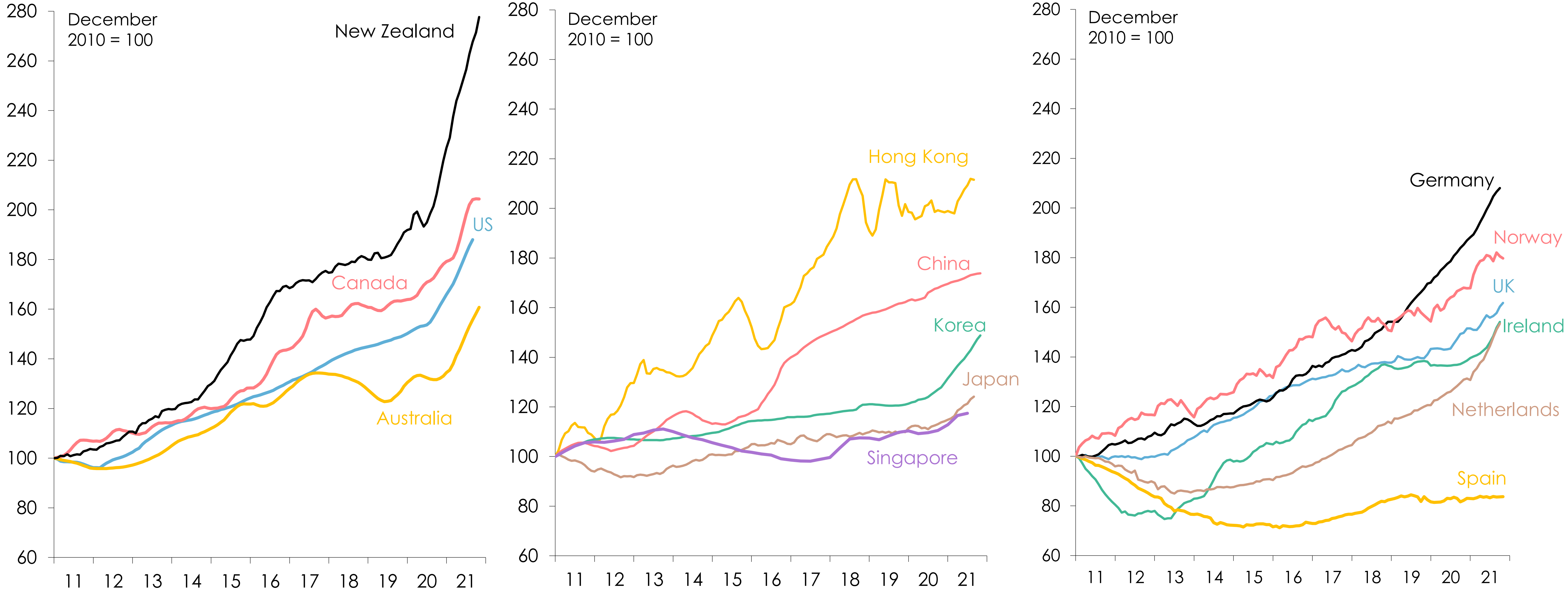
Residential property prices have been remarkably resilient in most countries thanks to record-low interest rates and ample supply of credit

House price indices



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

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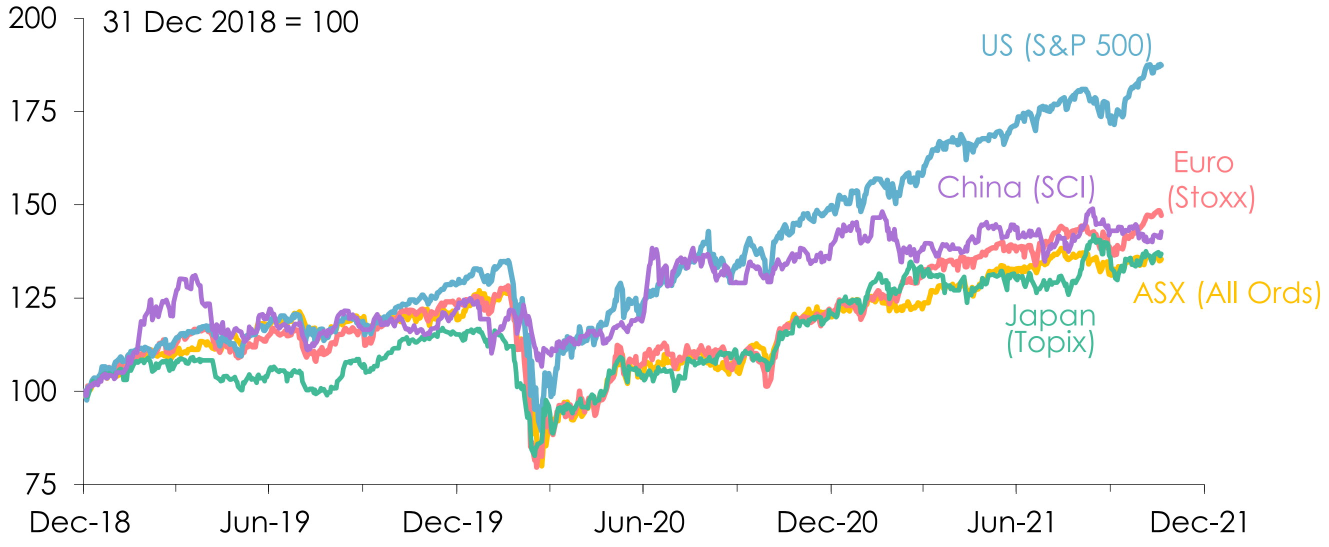
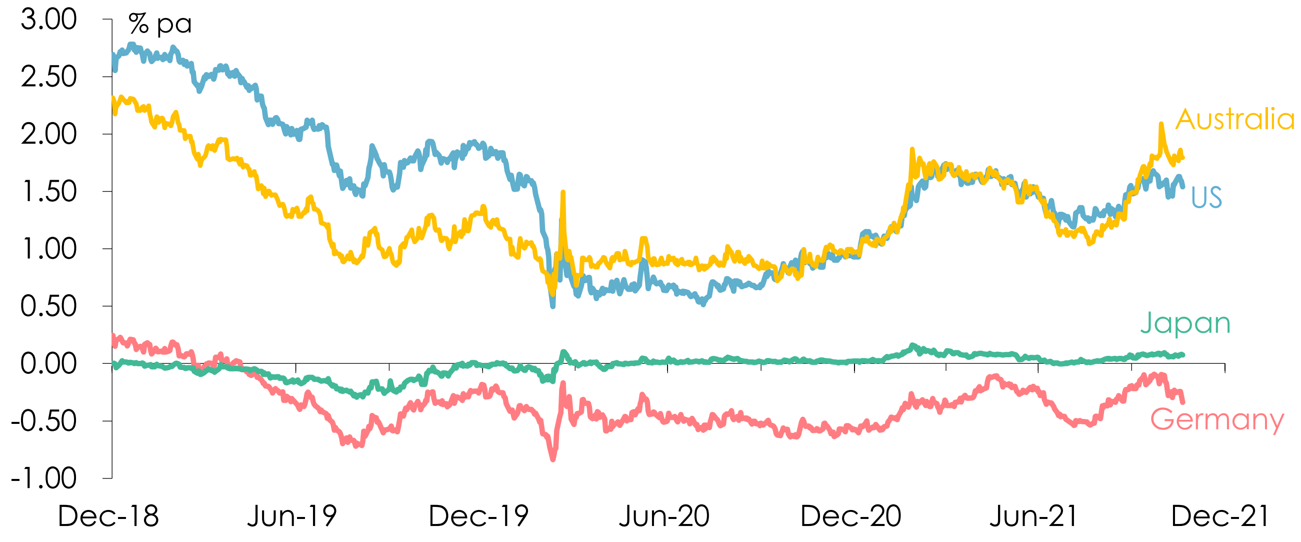
Bond yields, European equities and the euro declined over the second half of this week in response to fears of renewed lockdowns in Europe

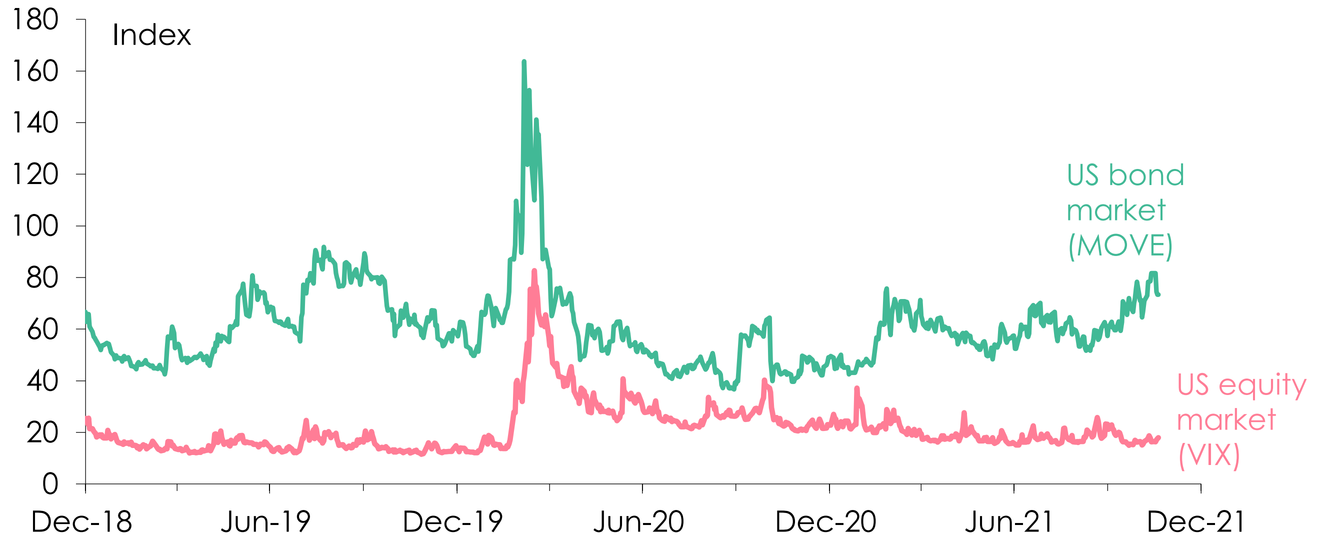
Stock markets



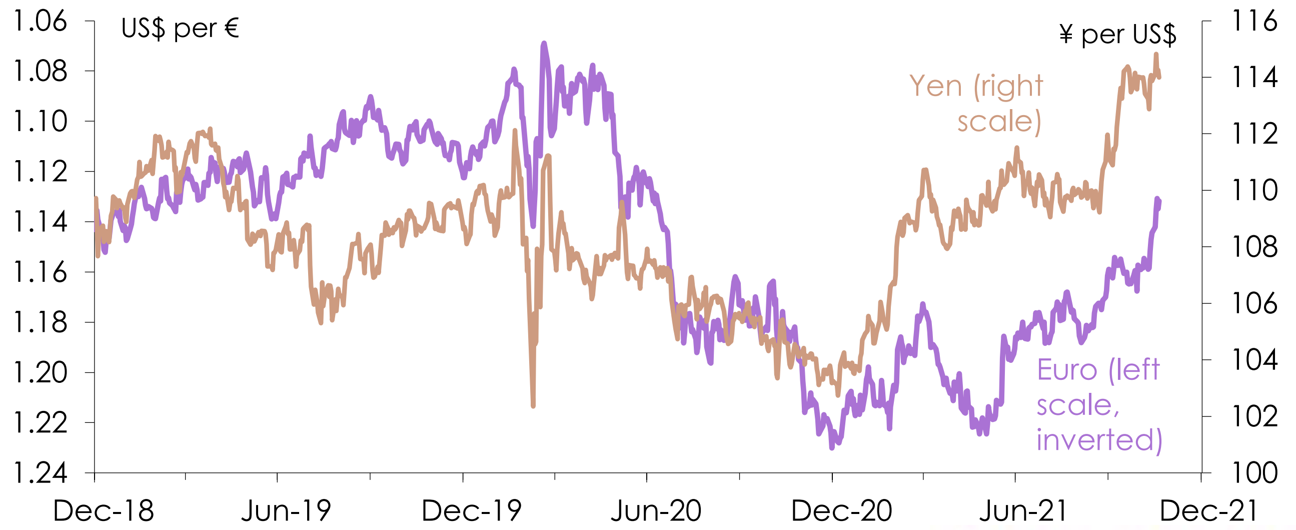
10-year bond yields



Measures of market volatility



US dollar vs euro and yen



Source: Refinitv Datastream. Data up to 19th November. Return to "What's New".

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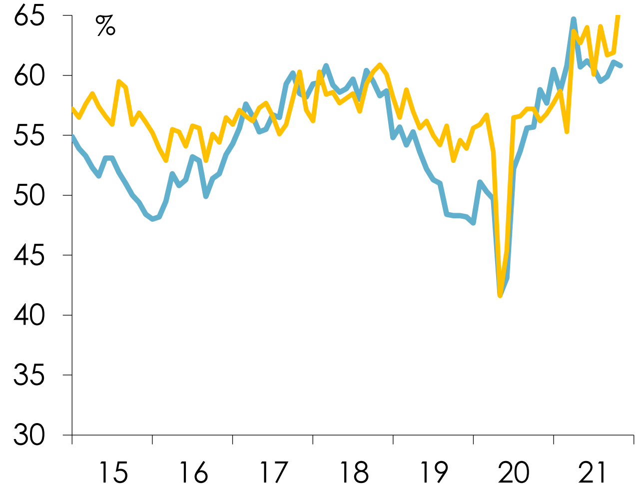
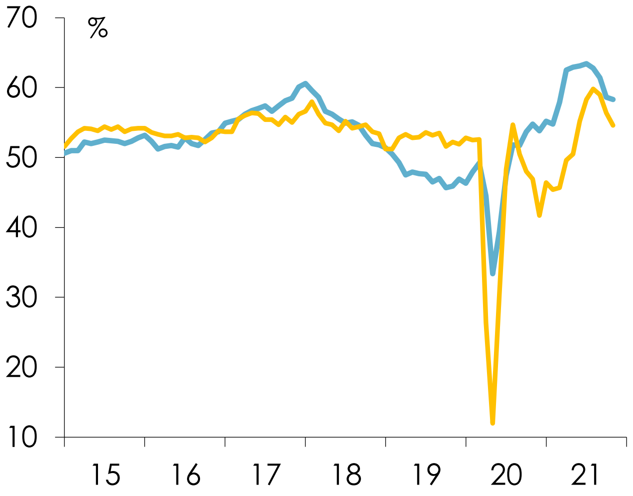
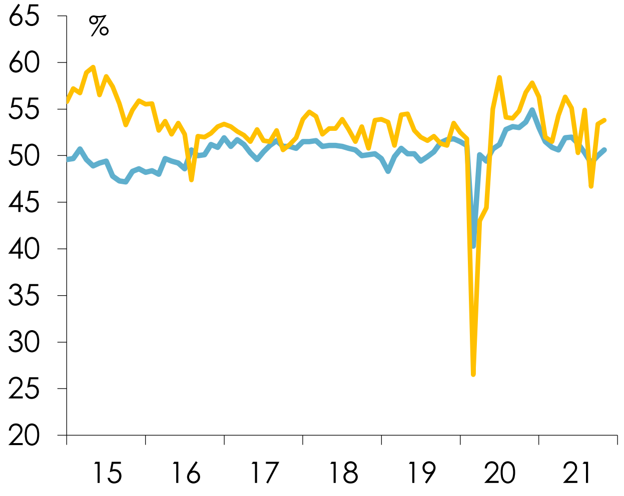
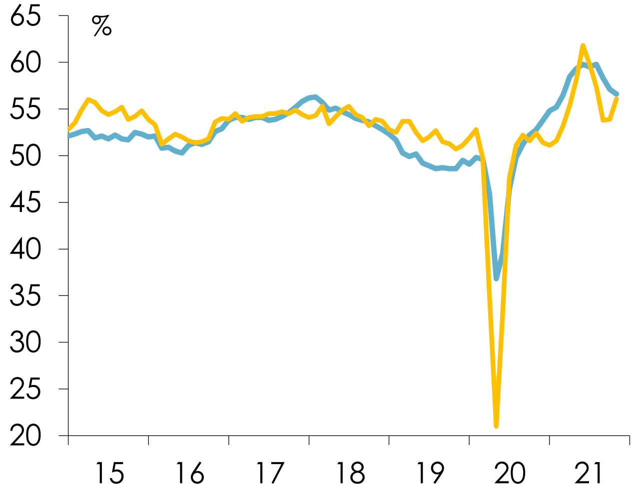
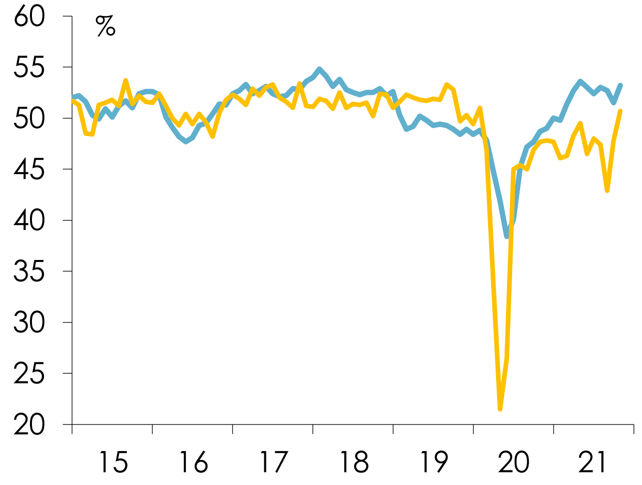
October PMIs show a strong rebound in manufacturing in SE Asia, with some easing in most ‘advanced’ economies, and mostly stronger services activity

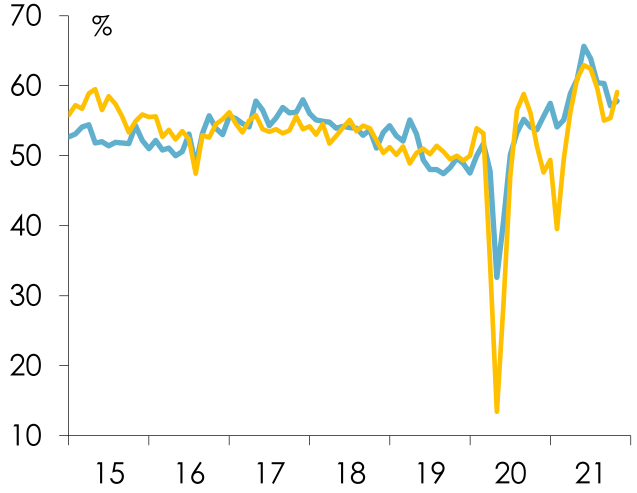
US


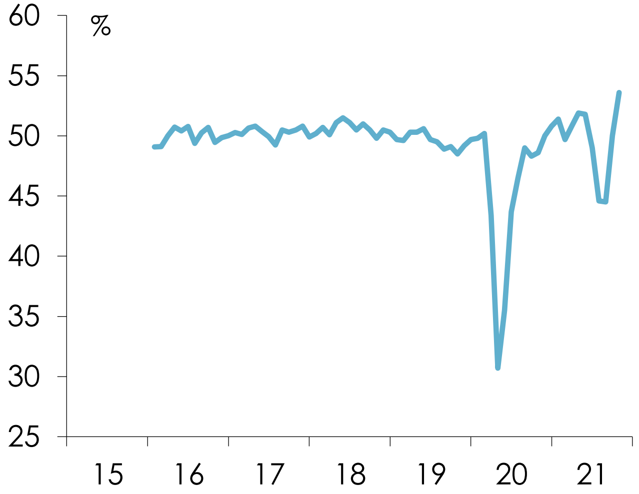
Euro area


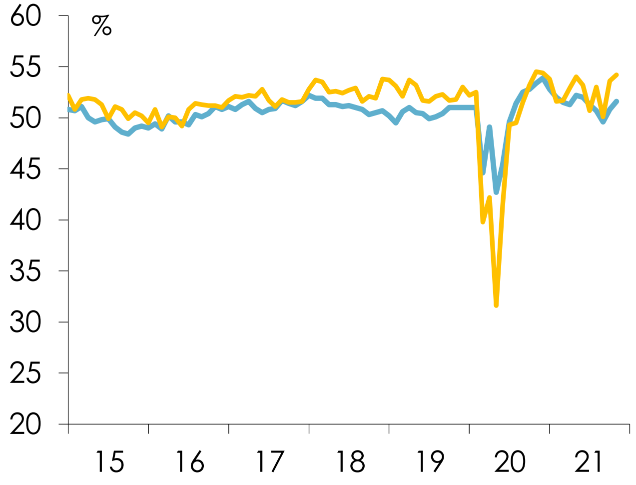
China


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 are for October. 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“.

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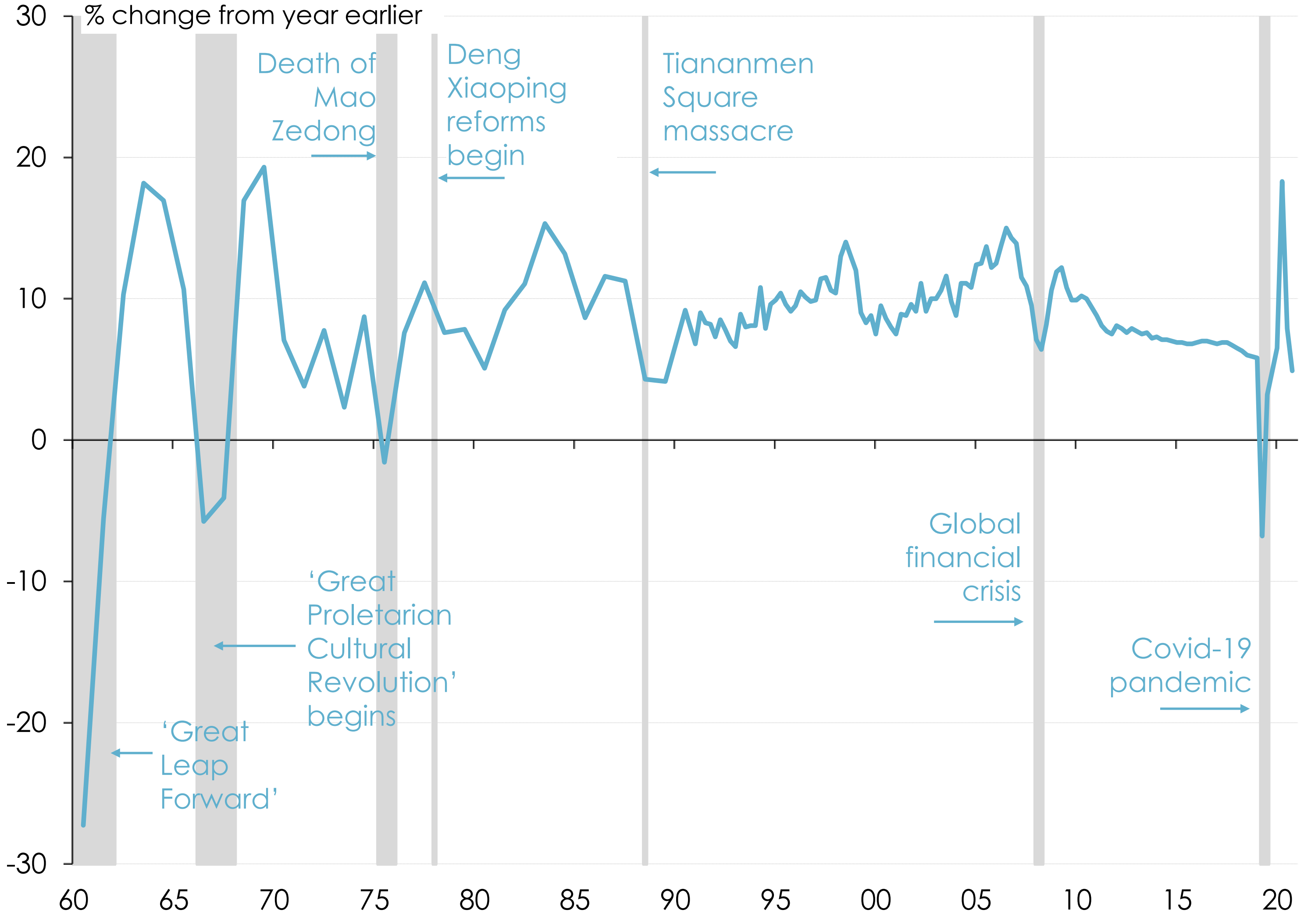
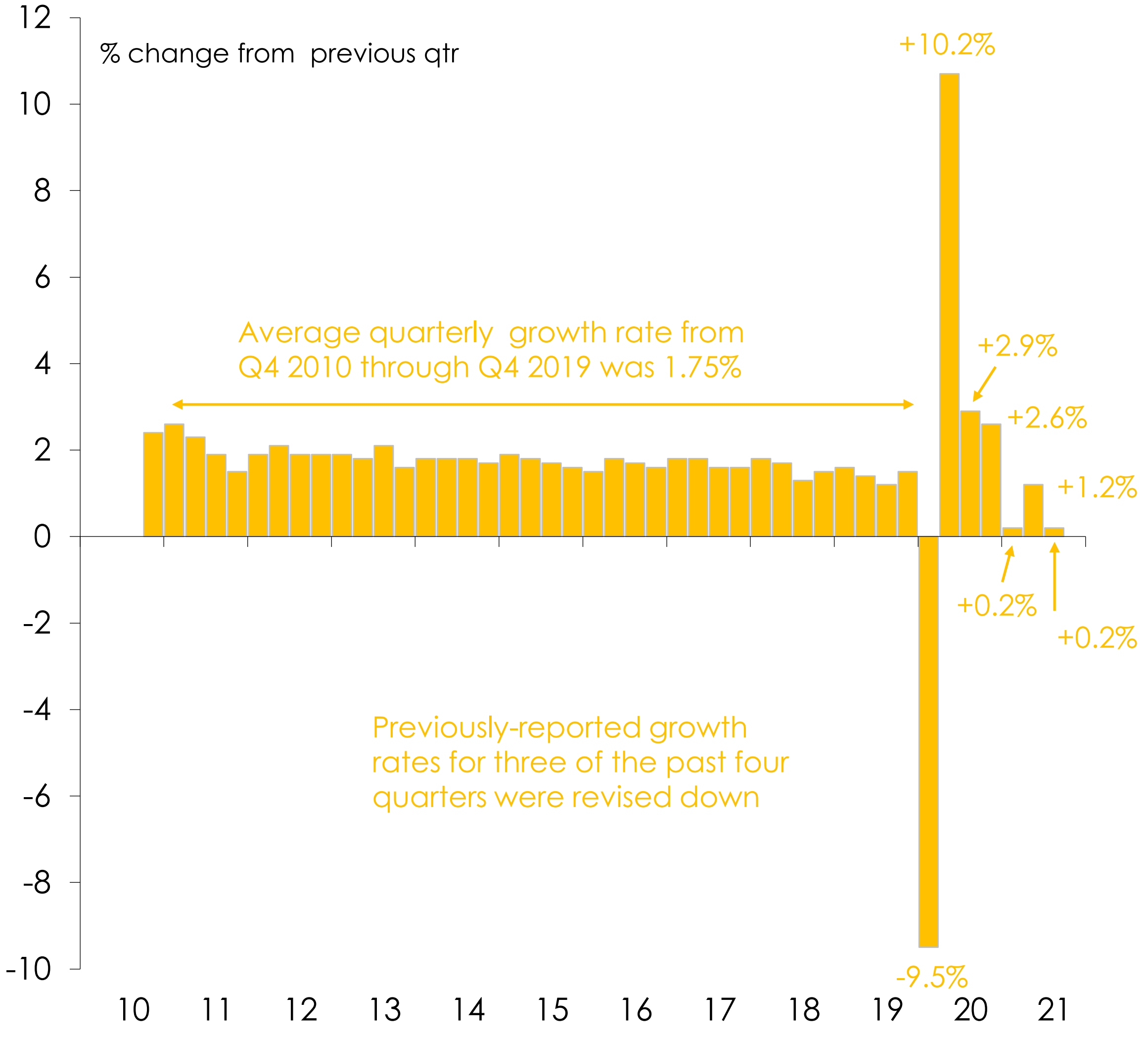
China's real GDP grew by only 0.2% in Q3, cutting the annual growth rate to just 4.9%, the slowest in at least 30 years except for last year

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".

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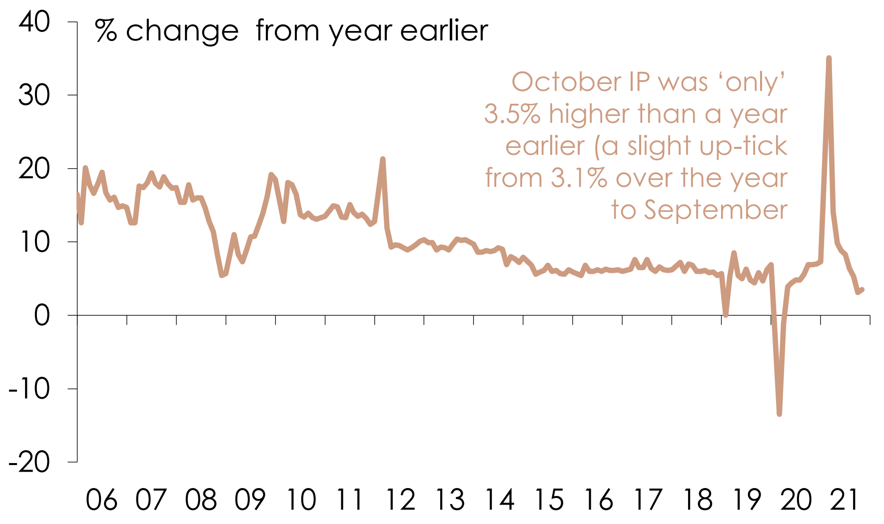
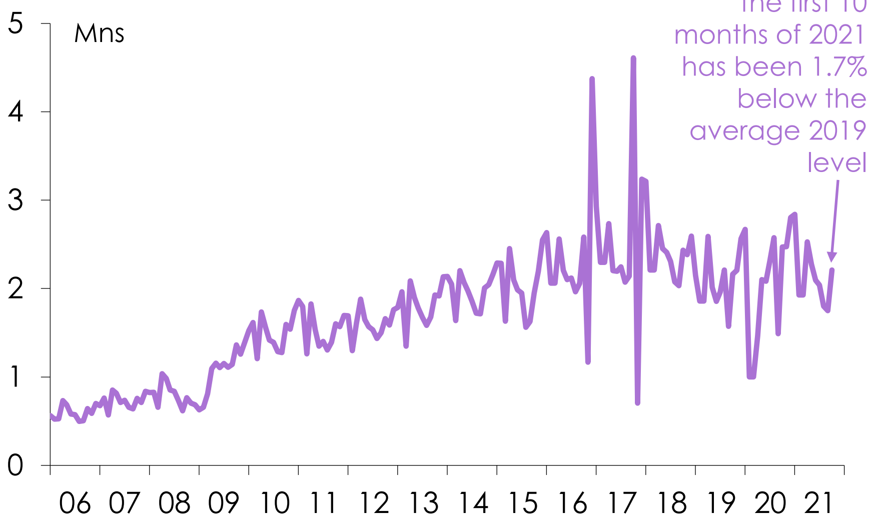
China's production indicators were mostly a bit stronger in October than in September, thanks to exports, but are still weak by historical standards

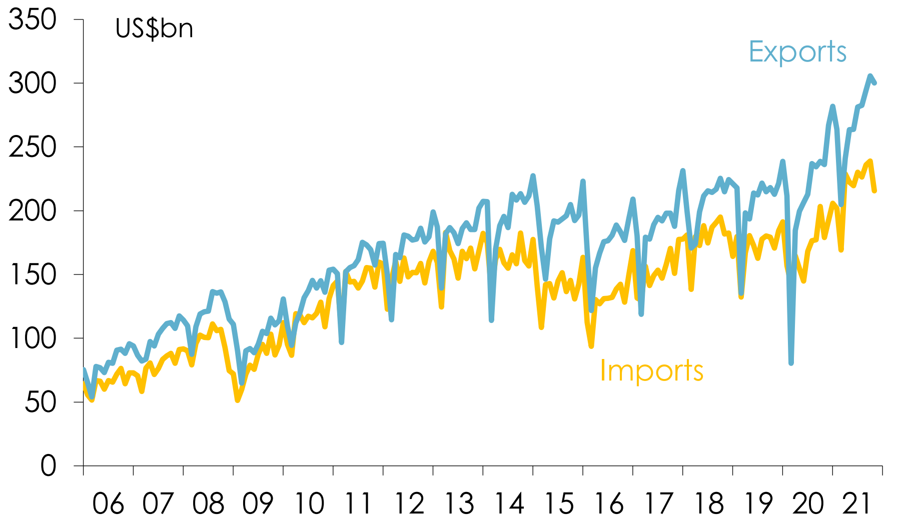
Industrial production



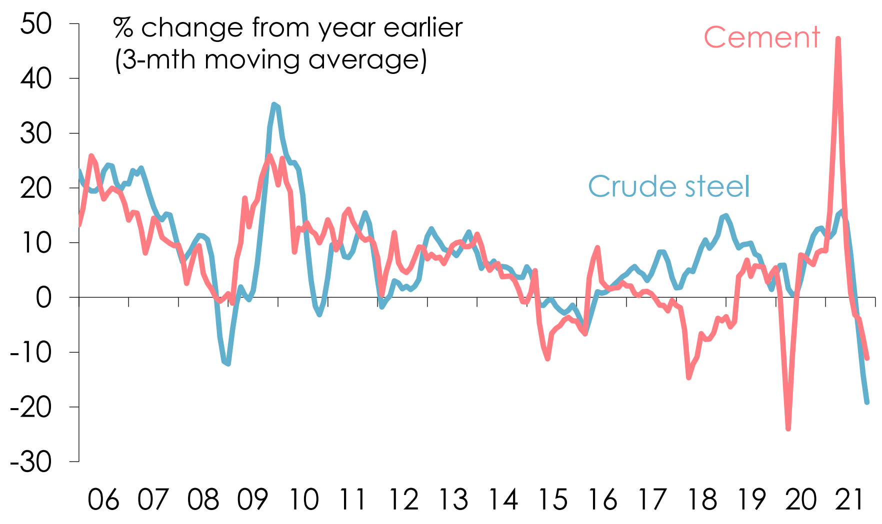
Motor vehicle production



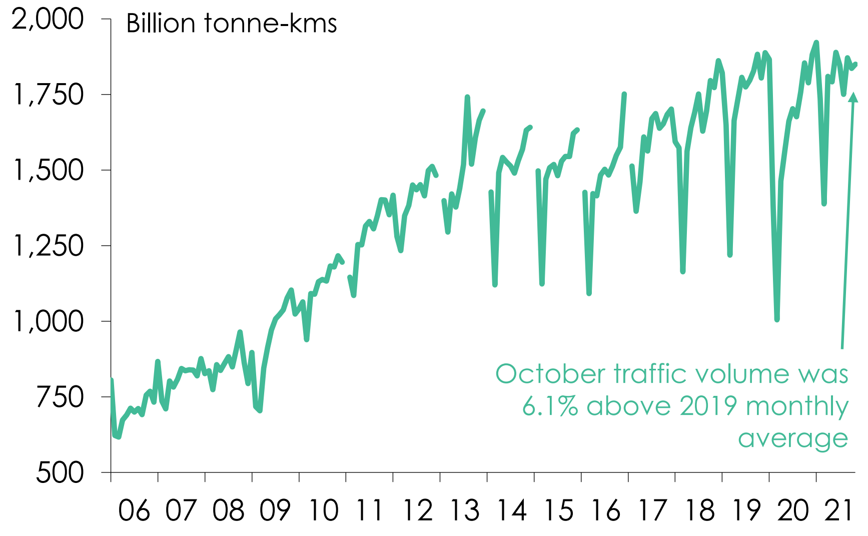
Merchandise trade



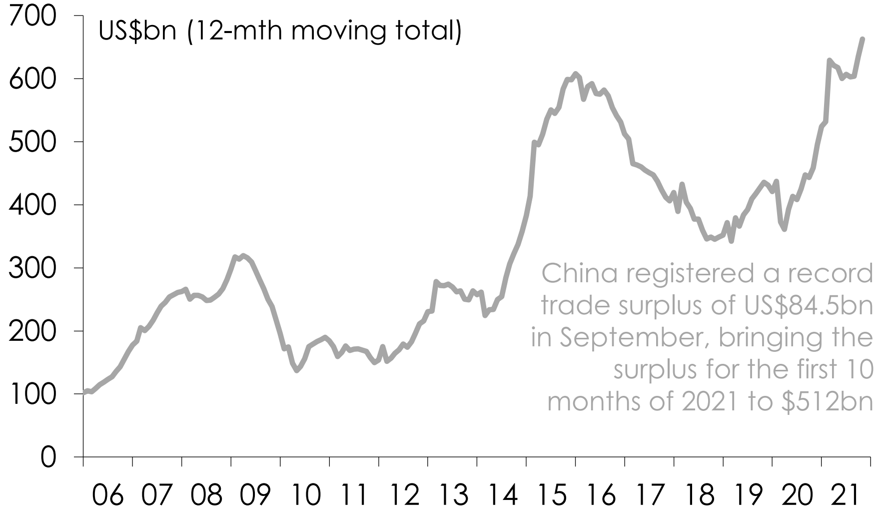
Steel and cement production



Freight traffic volumes



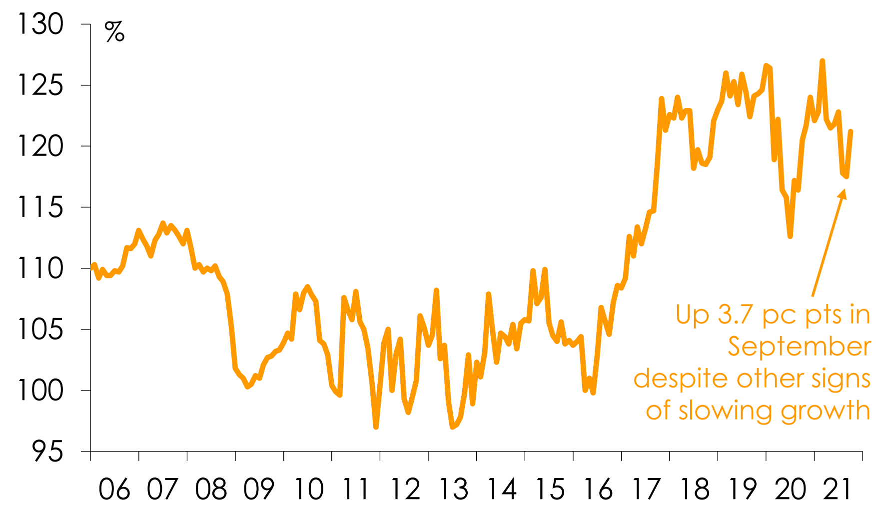
Merchandise trade balance



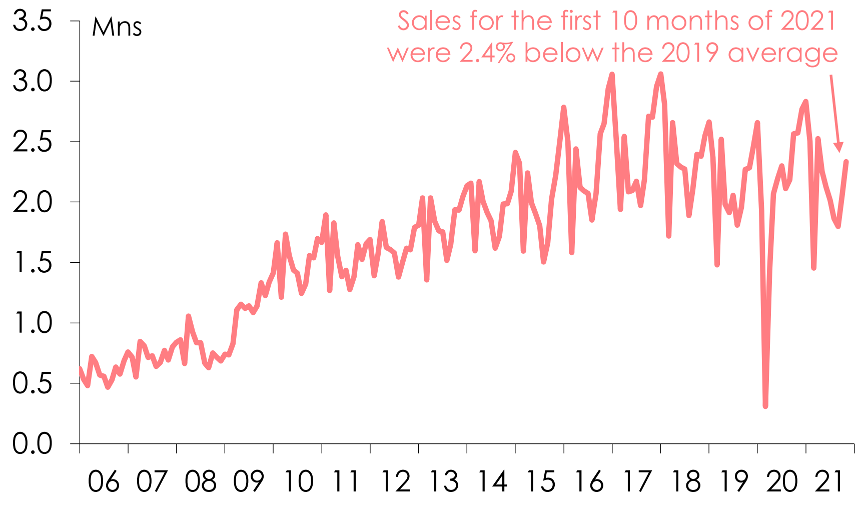
Note: Latest data are for October. *Sources:* China National Bureau of Statistics; China Association of Automobile Manufacturers; China General Administration of Customs. Return to "What's New".

The ‘demand’ side of China’s economy – and in particular the property construction sector – continued to look soft in October

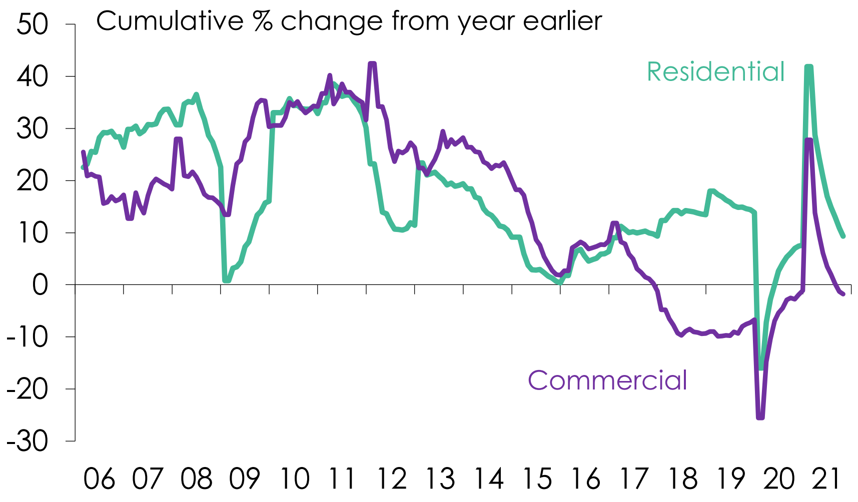
Consumer sentiment



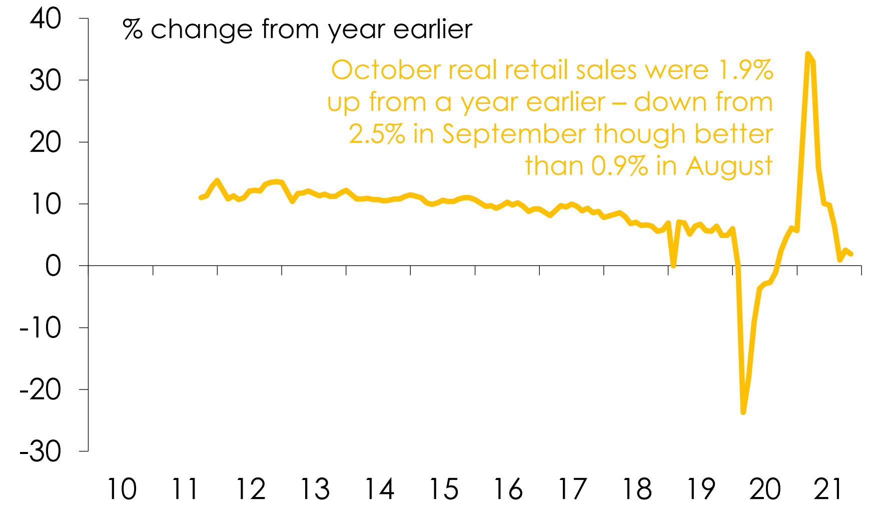
Motor vehicle sales



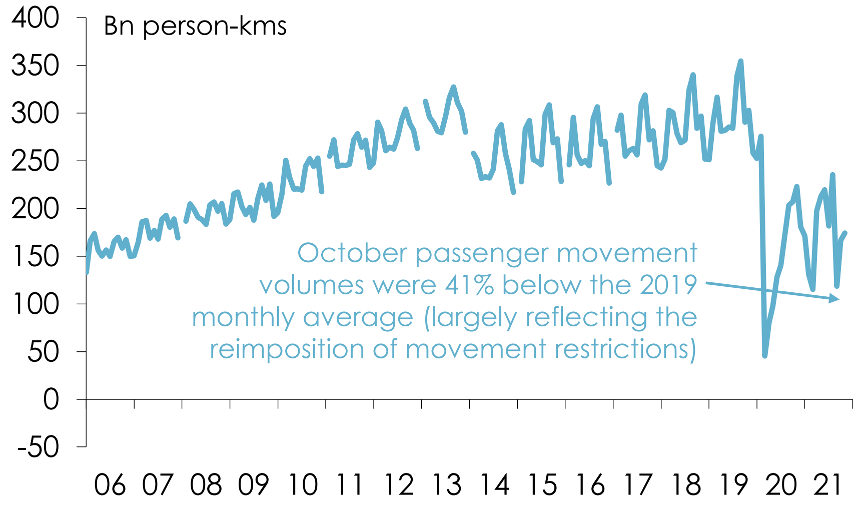
Real estate investment



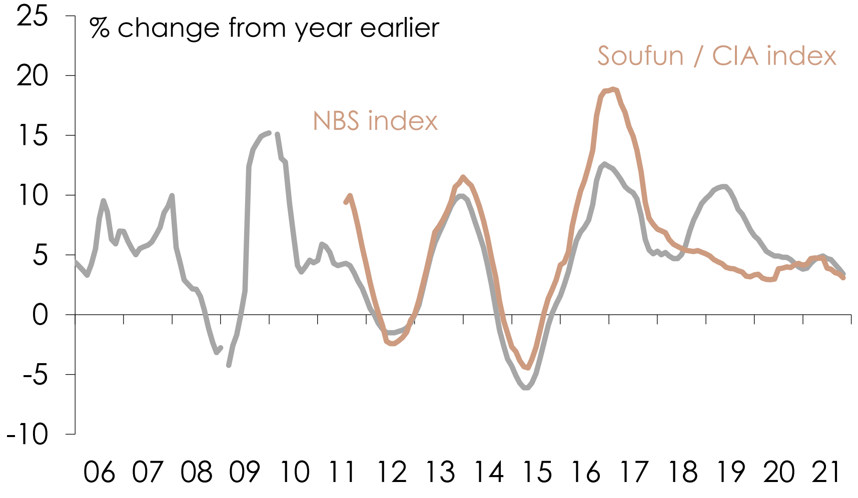
Volume of retail sales



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 October, except for consumer sentiment which is September. Return to "What's New“.

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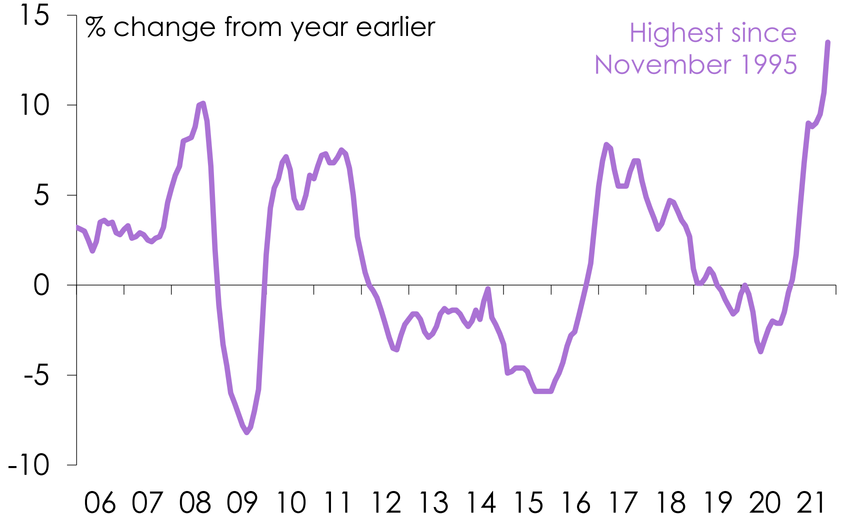
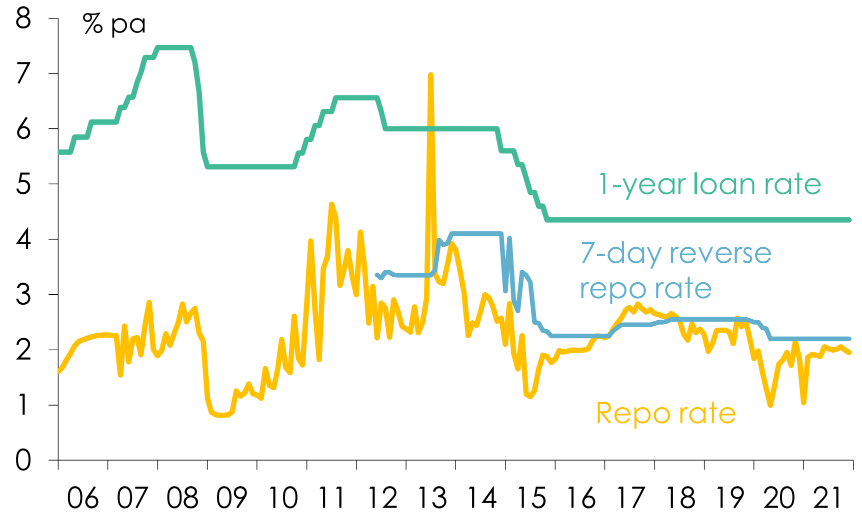
Producer price inflation is at a record high, and consumer price inflation though still low is creeping up – while monetary policy remains unchanged

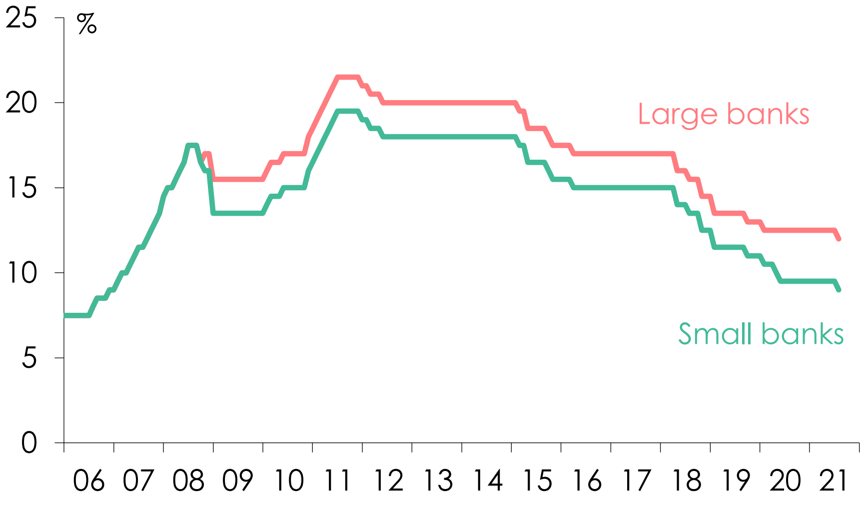
Producer prices



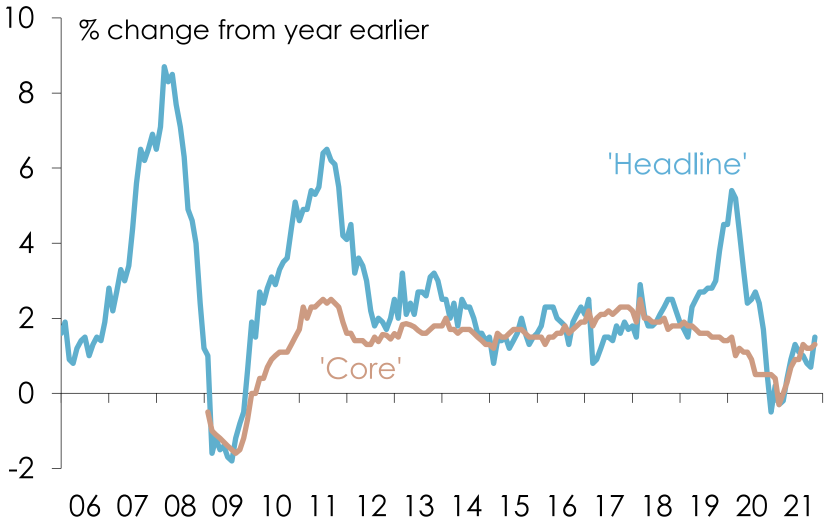
PBoC policy interest rates



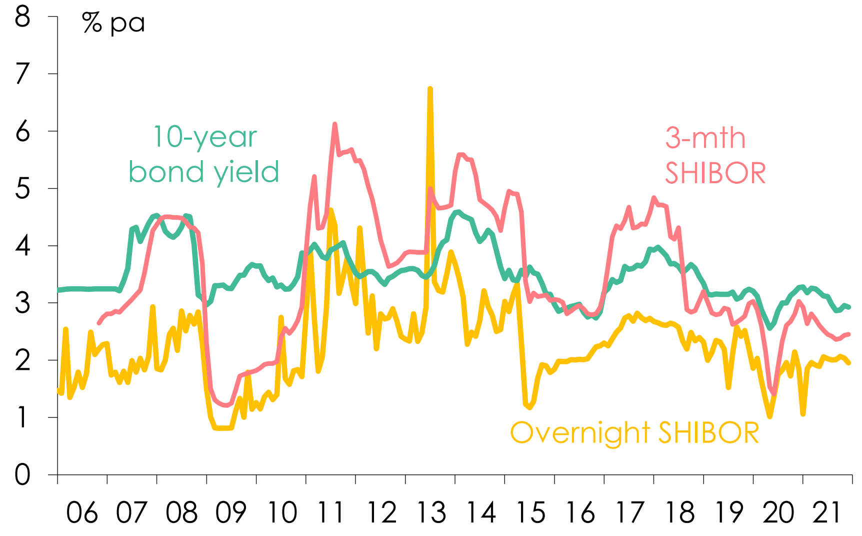
Bank reserve requirement ratios



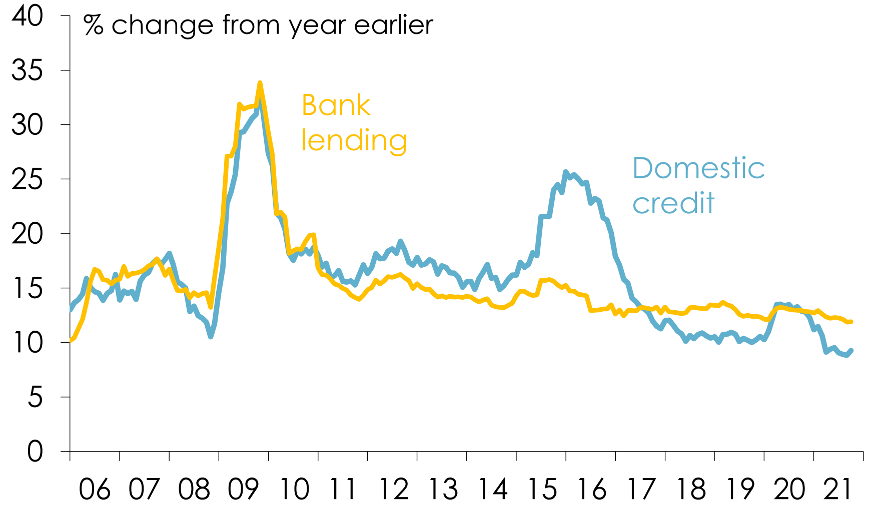
Consumer prices



Market interest rates



Credit growth



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

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China Evergrande is continuing to stave off default, with the 'grace period' on another overdue interest payment expiring this coming week

- **Concerns have been mounting for some weeks about the possibility of a default by China Evergrande Group, a property development company with debts totalling US$300 billion (of which US$37bn falls due within a year)**
  - Evergrande is China's second-largest property developer, 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
- **Last week Evergrande again avoided a formal default by making payment of US$148mn on interest which had been due on 11th October, ahead of the expiry of the 30-day 'grace period' last week**
  - this is the third time Evergrande has made an interest payment on the latest possible date
  - another 'grace period' for overdue interest payments totalling US$135mn expires this Wednesday
  - there are two further relatively small interest payments due to onshore bond holders over the next two weeks, and two much larger payments (totalling US$255mn) due to offshore bond holders on 28th December
- **This week Evergrande raised US$273mn through the sale of its remaining 18% stake in Heng Ten, "the Netflix of China" (which was a joint venture with Tencent Holdings)**
- **At least four other (much smaller) property developers have defaulted in recent weeks**
  - Kaisa Group, which reportedly owes more to offshore bond-holders than any Chinese property development company except Evergrande, was due to make $59mn in interest payments at the end of this week, but has asked investors for "time and patience" to solve its "liquidity problems"

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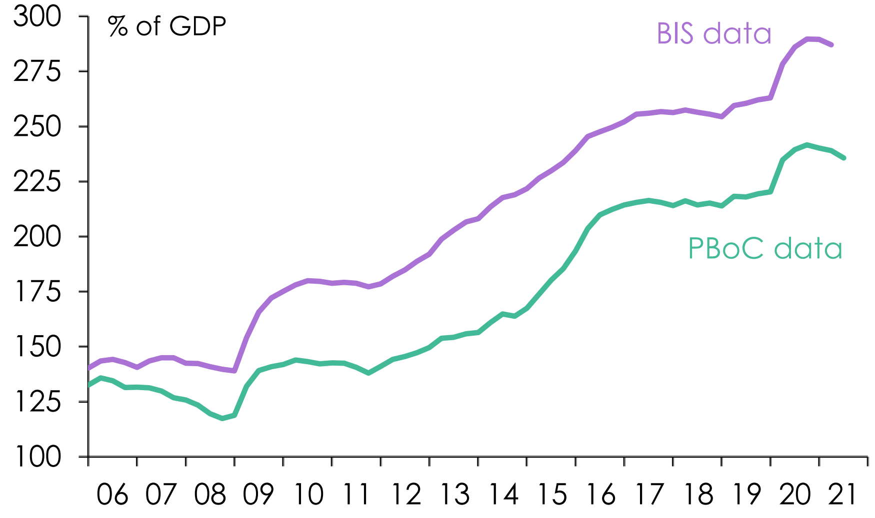
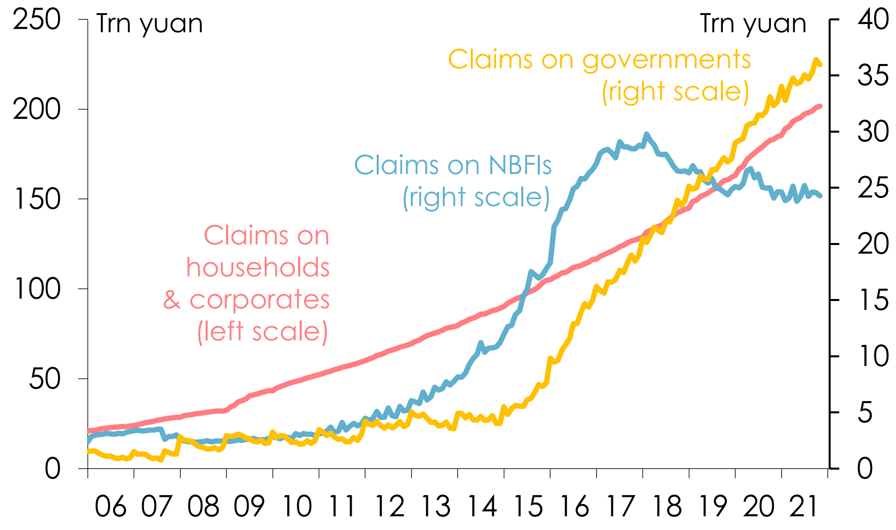
Return to "What's New".

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

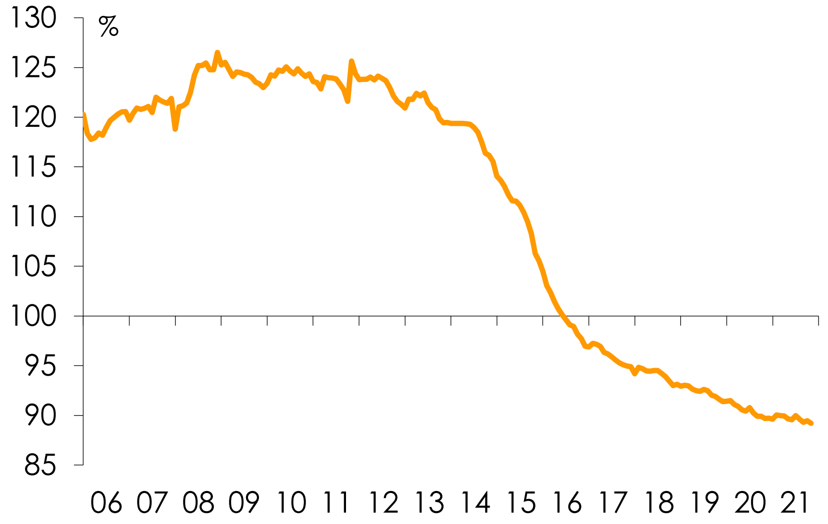
Credit outstanding as a pc of GDP



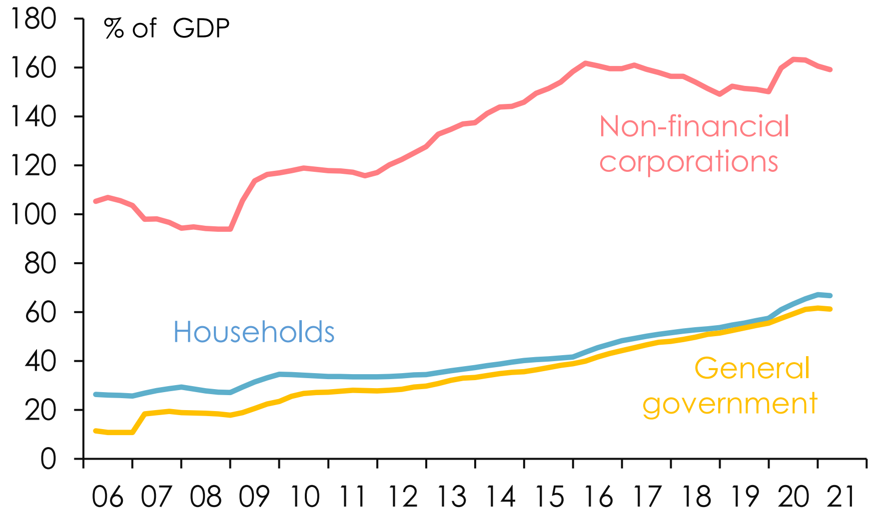
Banks' assets



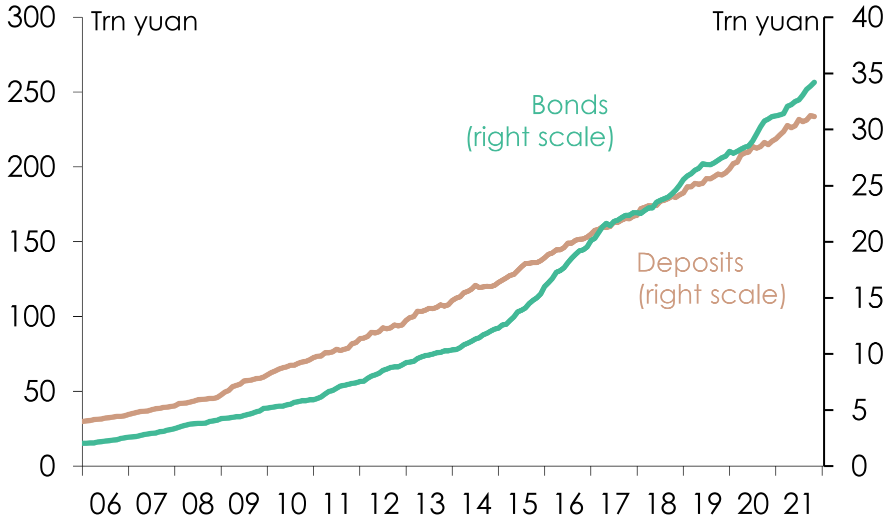
Banks' deposits-to-loans ratio



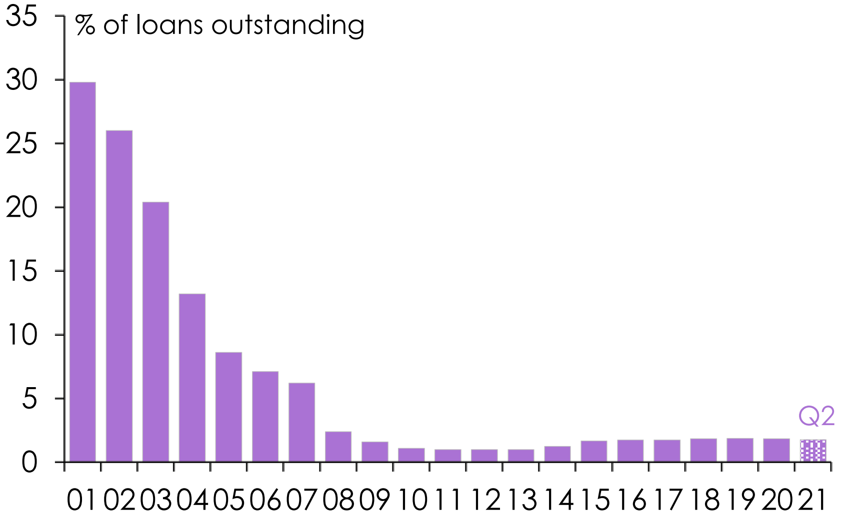
Credit outstanding by sector



Banks' liabilities



Banks NPLs – official estimates



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

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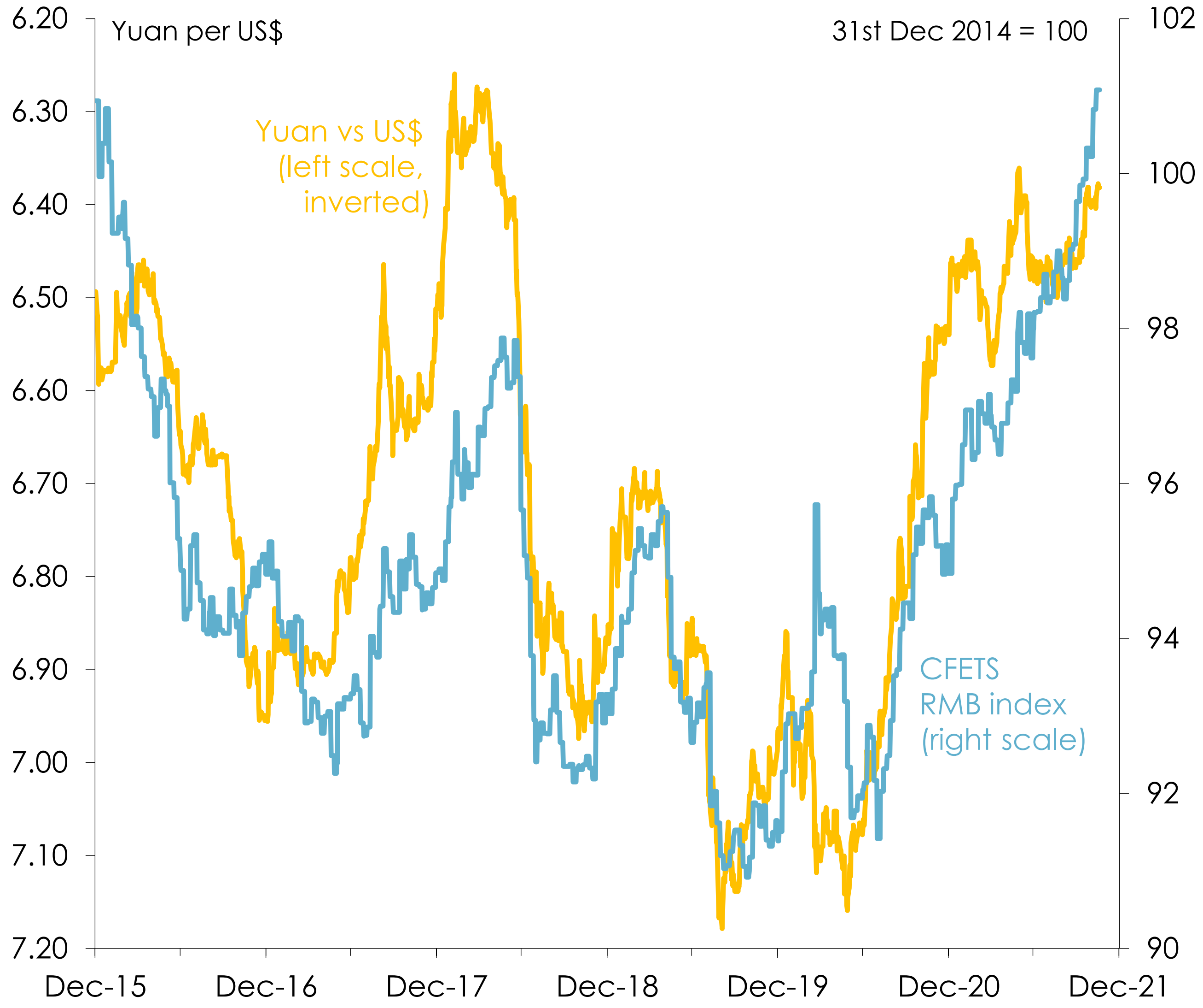
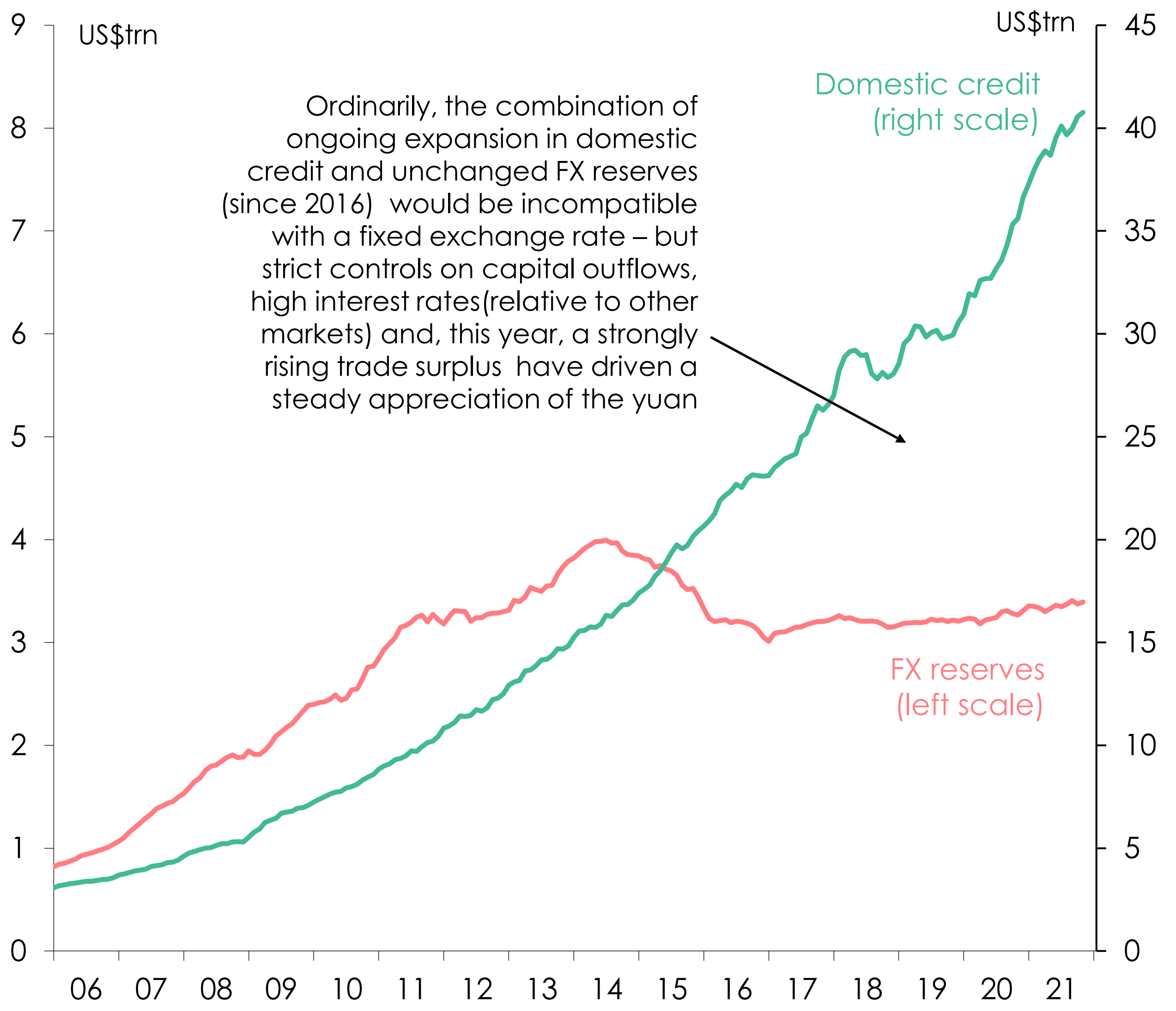
The yuan has risen by 2½% against the US$, and by 6½% in trade-weighted terms, so far this year, underpinned by China's rising trade surplus

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 19th November; FX reserves data are up to October, and domestic credit data are up to September. Return to "What's New".

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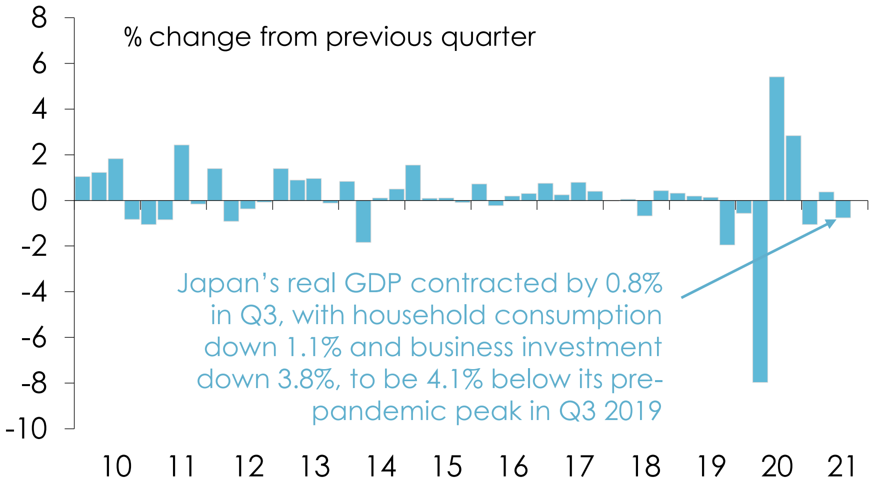
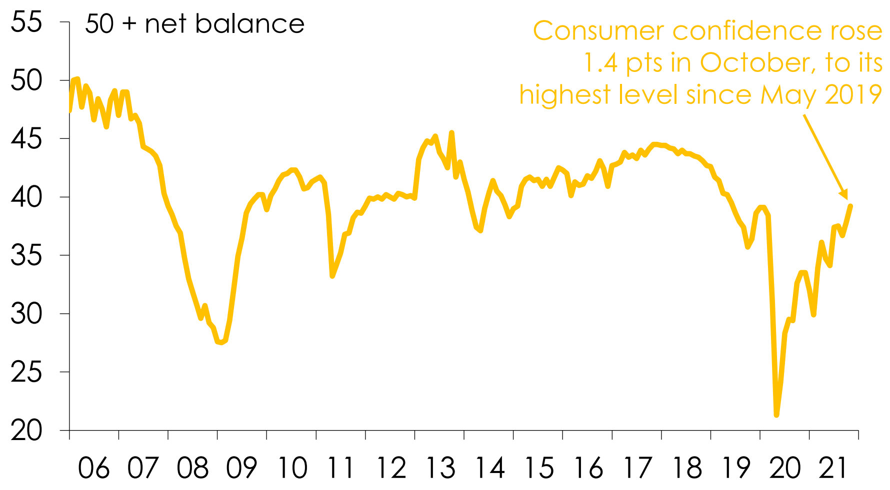
Japan's economy contracted by a larger-than-expected 0.8% in Q3, leaving it 4.1% smaller than the pre-pandemic peak in Q3 2019

Real GDP

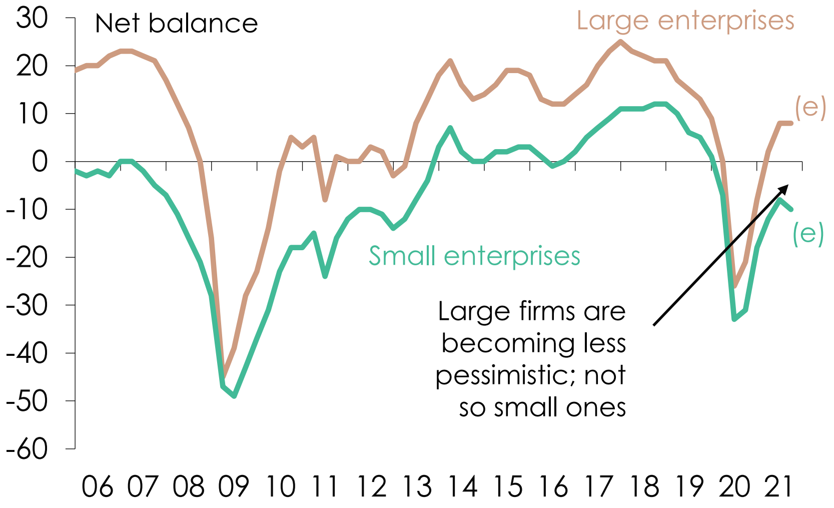


Consumer confidence

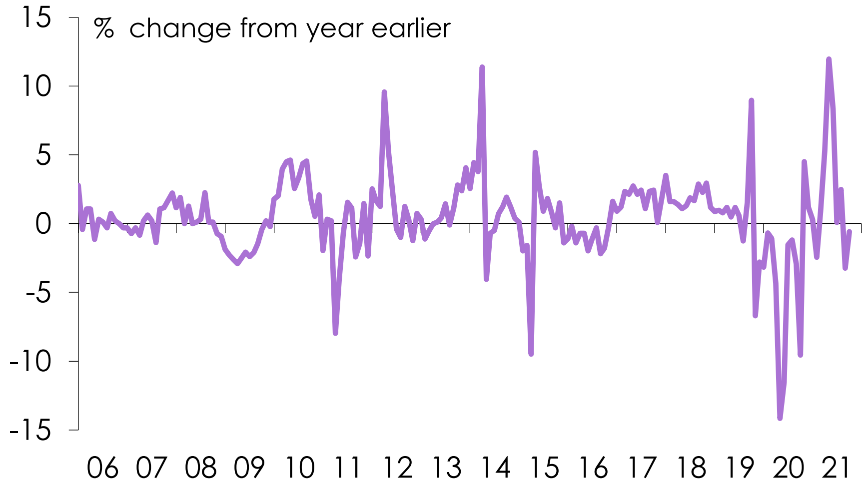


Unemployment

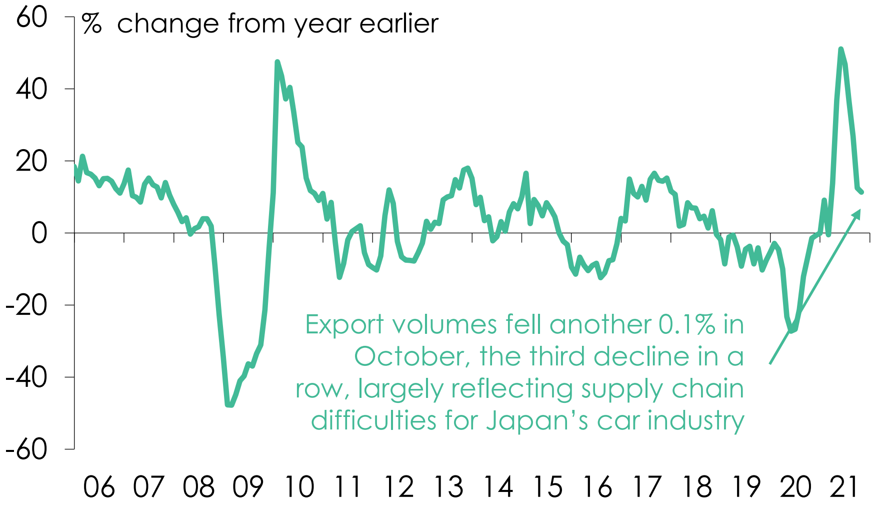
BoJ *Tankan* business conditions



Value of retail sales



Merchandise export volumes



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

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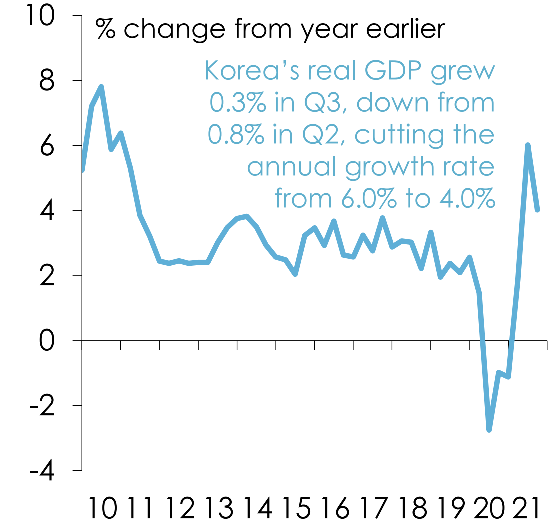
The Japanese Government this week announced a new fiscal stimulus package equivalent to 10% of GDP

- The Government of new (and newly re-elected) Prime Minister Kishida on Friday announced a new fiscal stimulus package with a 'face value' of ¥55.7 trillion (equivalent to about 10% of Japan's GDP) – of which ¥32 trn is to be added to the budget for the current fiscal year
- The highest-profile component of the measures announced on Friday is a payment of ¥100,000 (US$880, A$1200) per child to families with children under 18 whose annual income is less than ¥9.6mn (A$116,000), which includes more than 90% of households with children – costing ¥19.8 trn
  - although the experience with similar payments last year was that most of them were saved
- The Government will also make payments of ¥2.5 mn (just over A$30,000) to small businesses adversely affected by pandemic restrictions
- Other elements in the stimulus package include a ¥10 trn fund for technological and scientific research at universities, ¥500bn in subsidies for semiconductor chip factories and private investment in battery storage, subsidies for the purchase of electric vehicles, subsidies for oil refineries in attempt to limit increases in petrol prices, support for domestic tourism promotion, tax incentives for businesses to increase employees' pay, and wage increases for public sector health and aged care workers
- The Government estimates that the package will boost Japan's GDP by 5.6% in FY 2022 and 2023
- It called for "co-operation" from the Bank of Japan in the form of continued ultra-easy monetary policy
  - it expressed "hope [that] the BOJ shares a strong sense of urgency, and continues to coordinate closely with the government for an appropriate mix of fiscal and monetary policy"

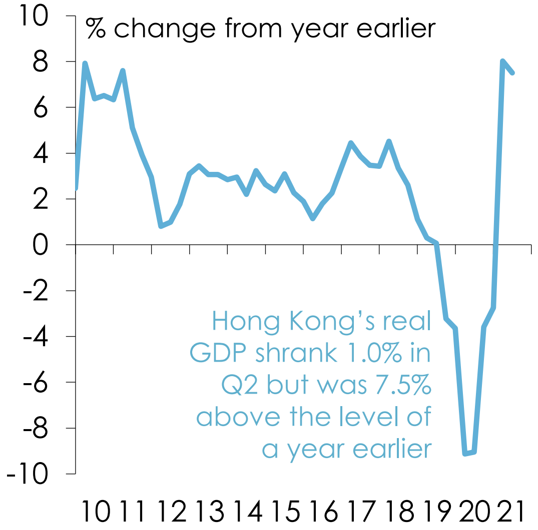
Return to "What's New".

Malaysia's economy shrank by 3.6% in Q3, the second consecutive quarterly decline, to be 4.3% smaller than in Q3 last year

Korea

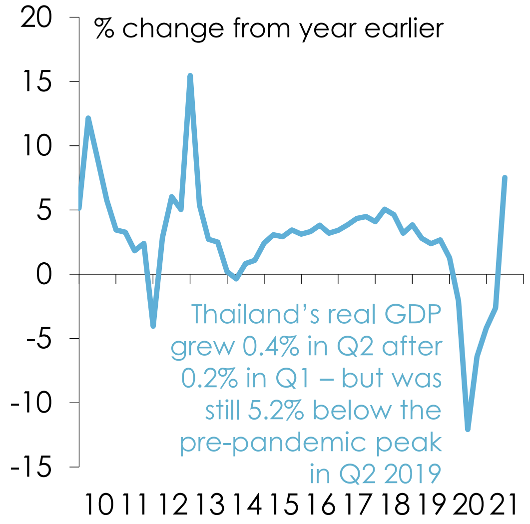


Hong Kong

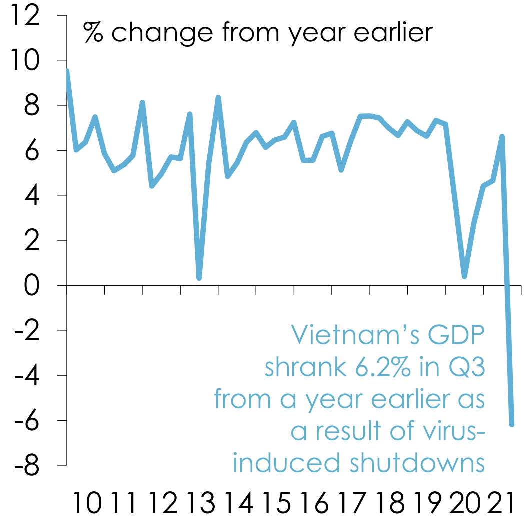


Indonesia

Thailand

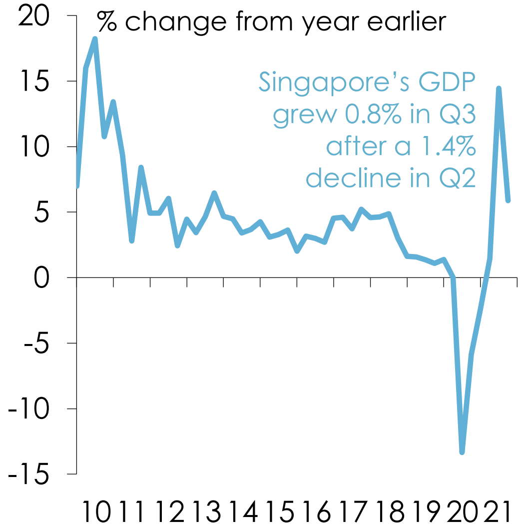


Vietnam

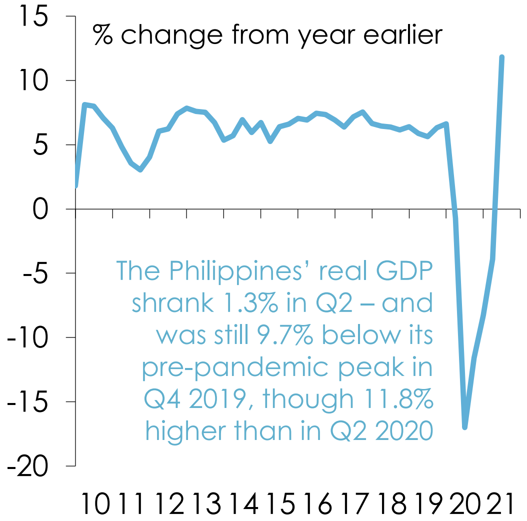


Taiwan

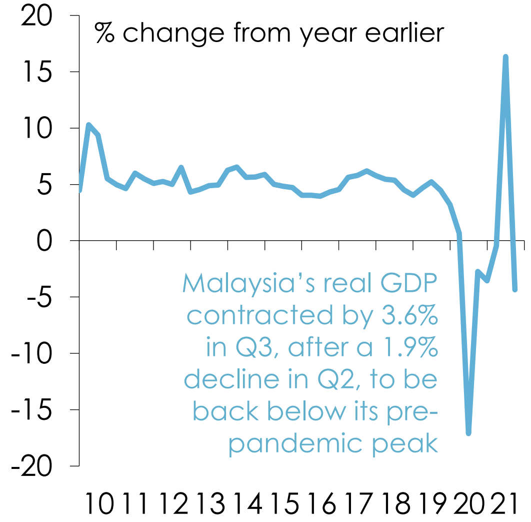
Singapore



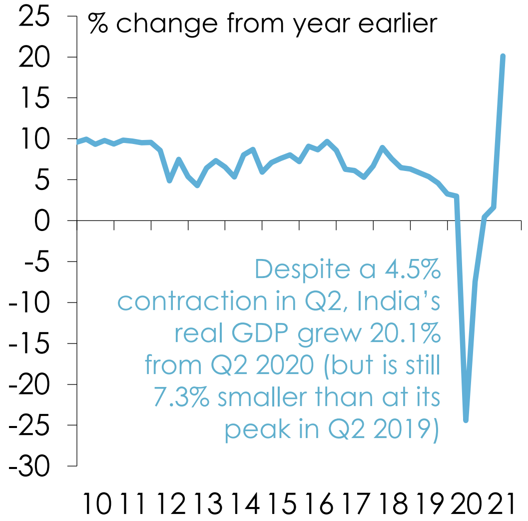
Philippines



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".

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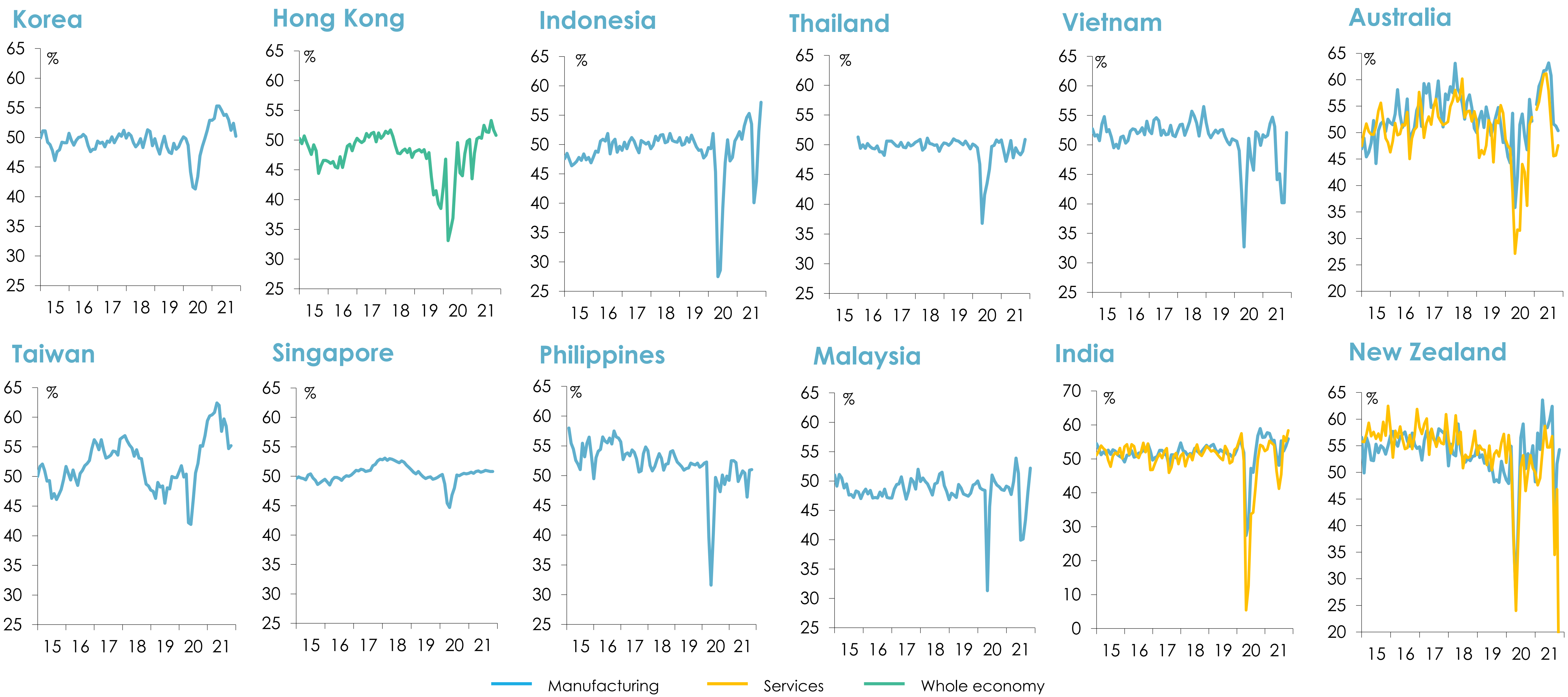
PMIs suggest a strong recovery in manufacturing in SE Asian economies previously hit by delta outbreaks, and steady growth elsewhere



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 October, except for NZ services which is September. Sources: IHS Markit; Singapore Institute of Purchasing and Materials Management; Australian Industry Group; Business NZ; Refinitiv Datastream. Return to "What's New".

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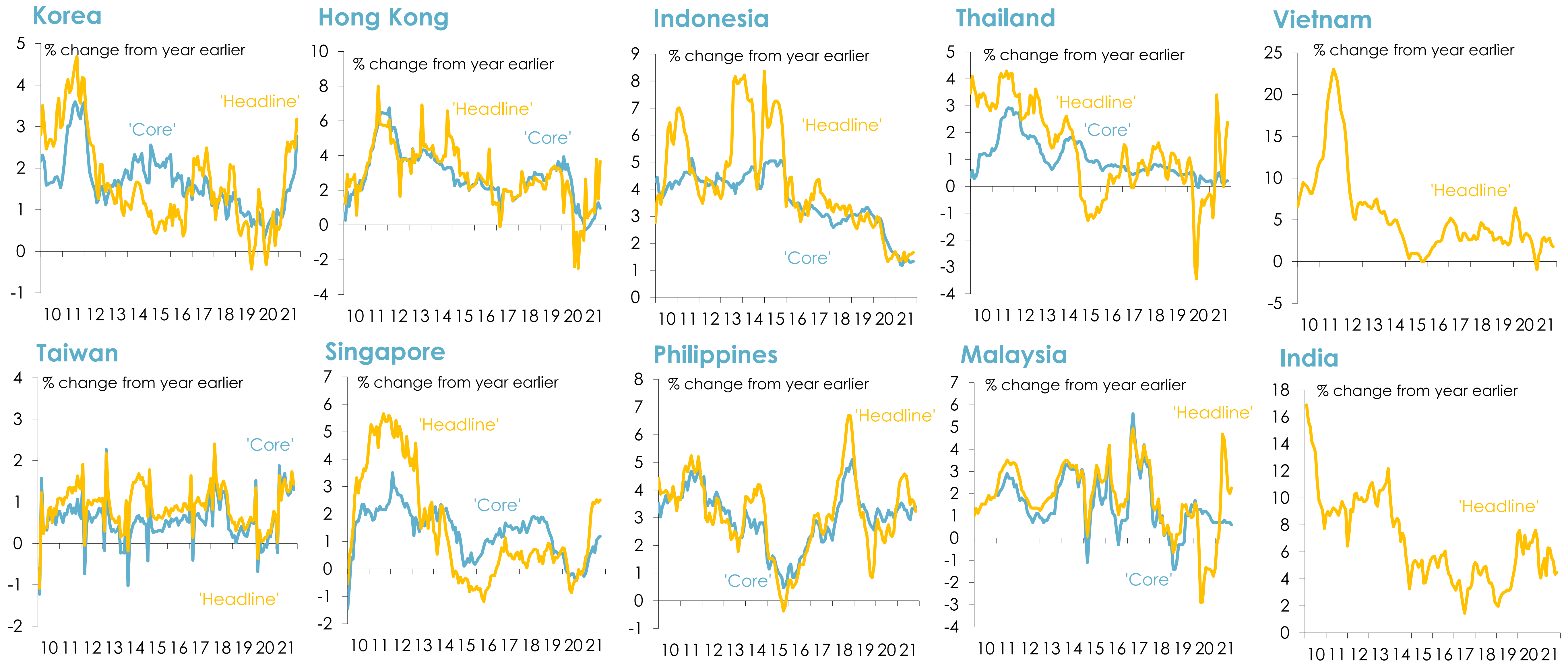
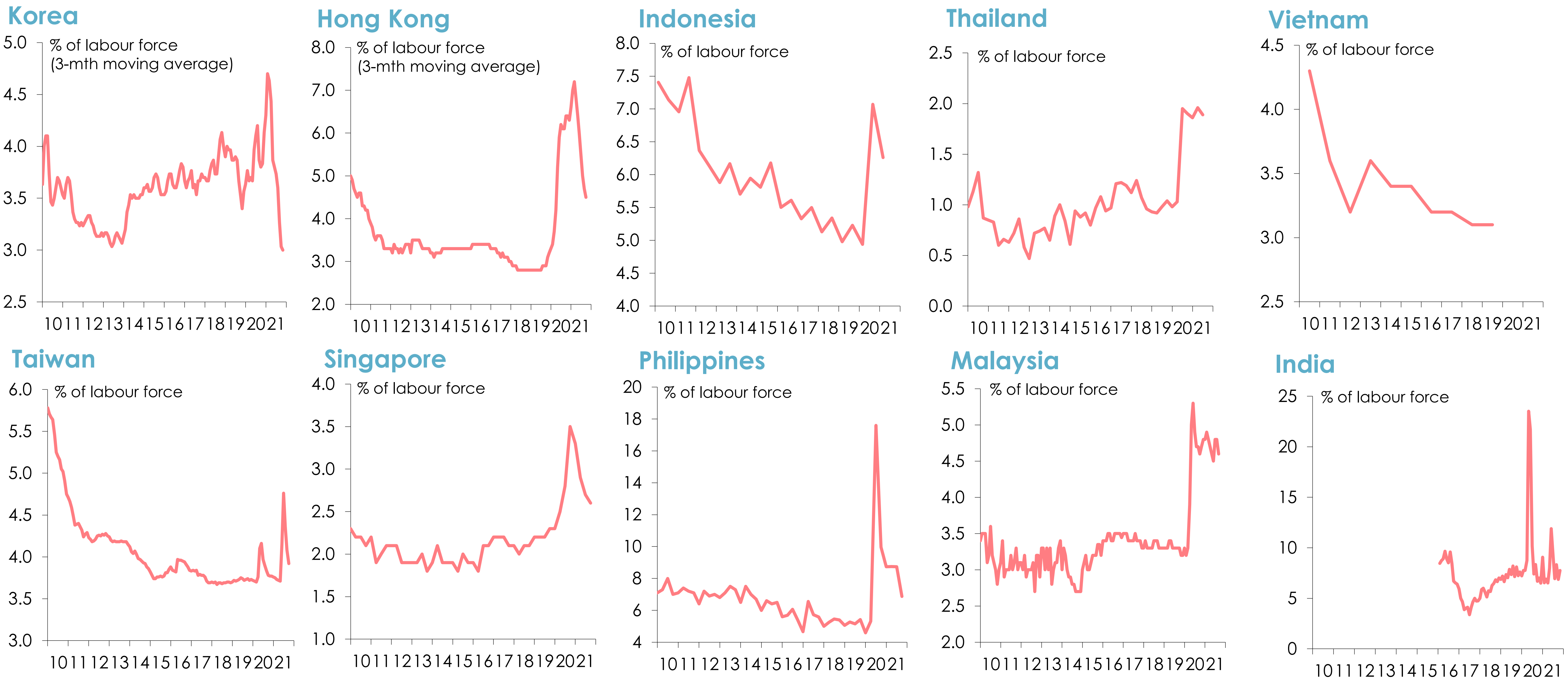
Some (though not all) Asian economies are experiencing temporary upward pressure on inflation as in North America and Europe



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

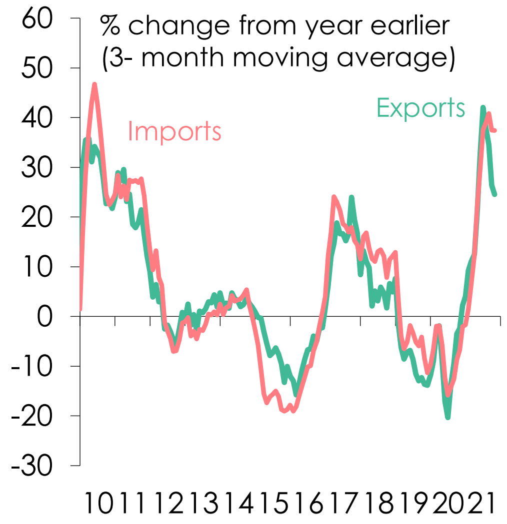
Unemployment rose sharply in most Asian economies last year but is now falling in most of them



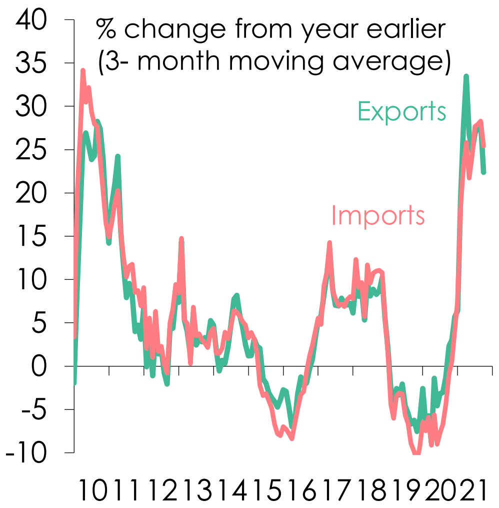
Note: Unemployment data is published monthly in Korea, Taiwan, Hong Kong, Thailand and Malaysia; quarterly in Singapore and the Philippines; semi-annually (February and August) in Indonesia; and annually in Vietnam (with the latest reading being for 2019). There is no official unemployment data in India: 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

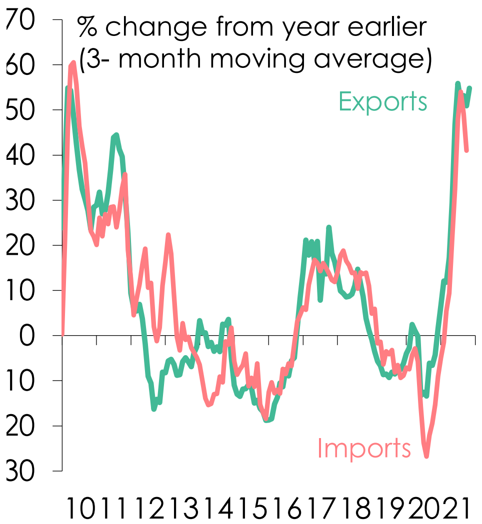
Korea



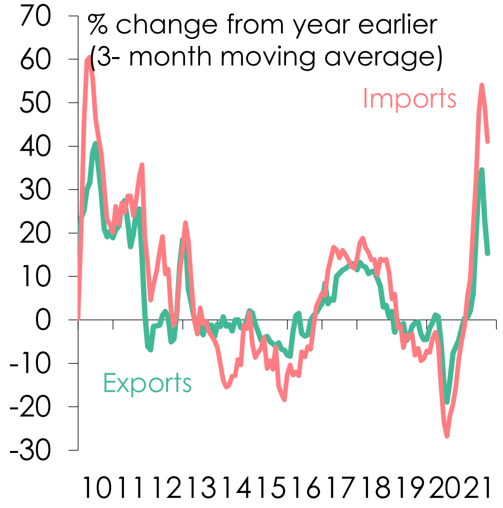
Hong Kong



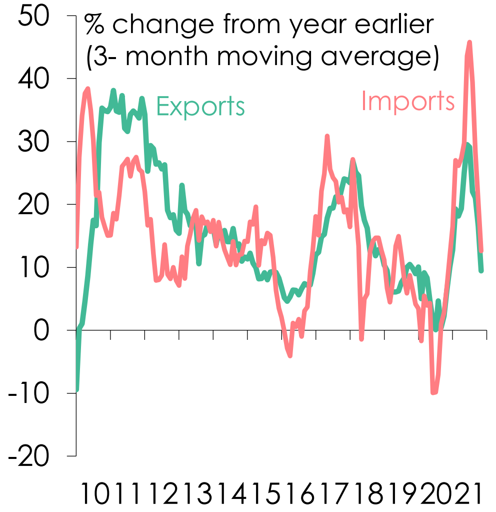
Indonesia



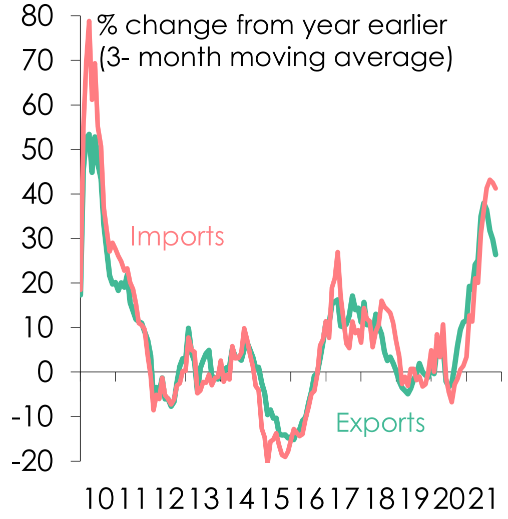
Thailand



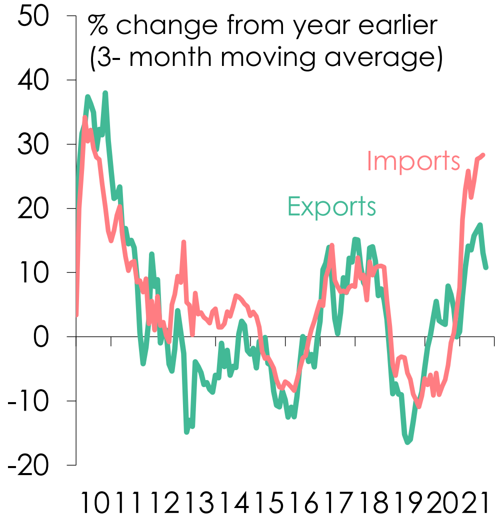
Vietnam



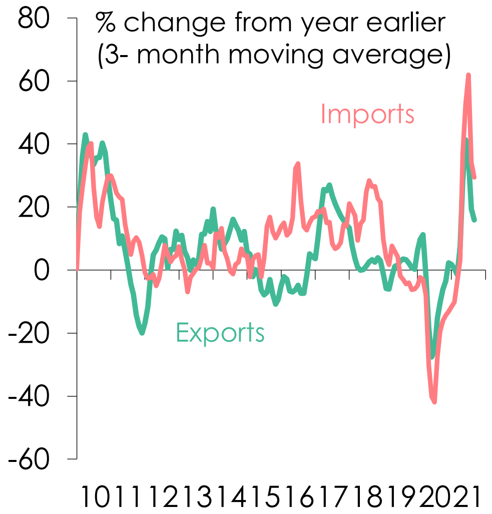
Taiwan



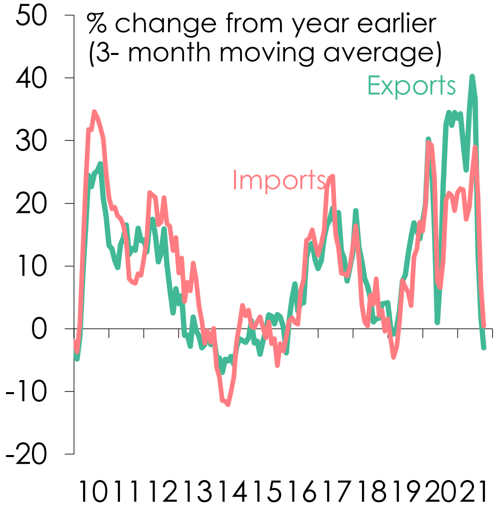
Singapore



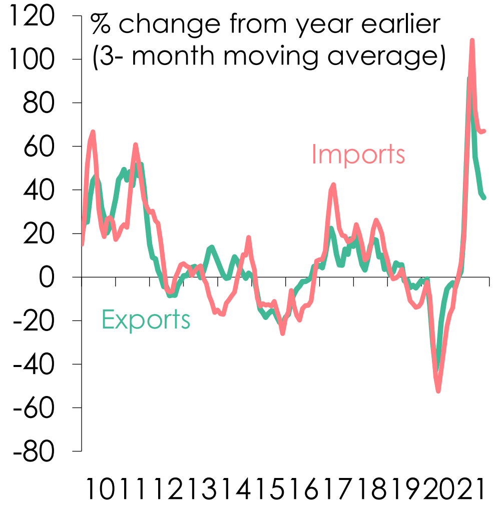
Philippines



Malaysia



India



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

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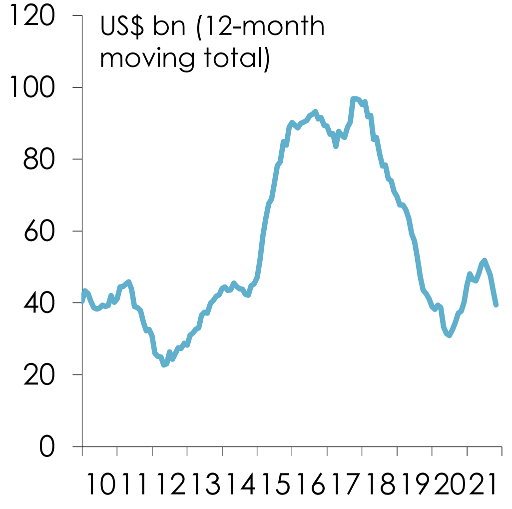
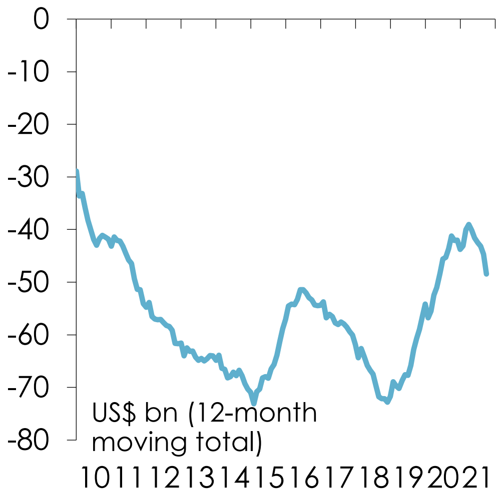
All Asian economies have experienced improvements in their trade balances since the onset of Covid, although some are now turning around

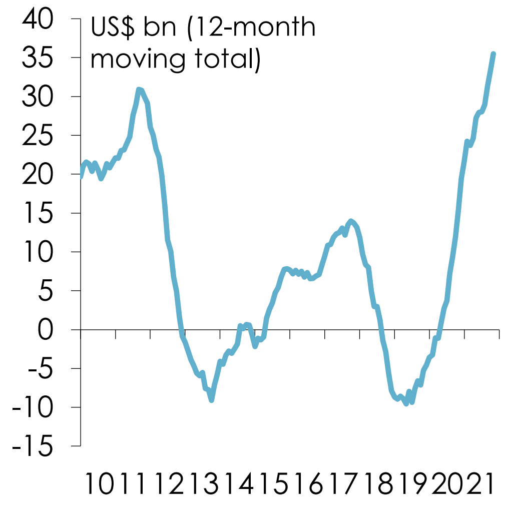
Korea



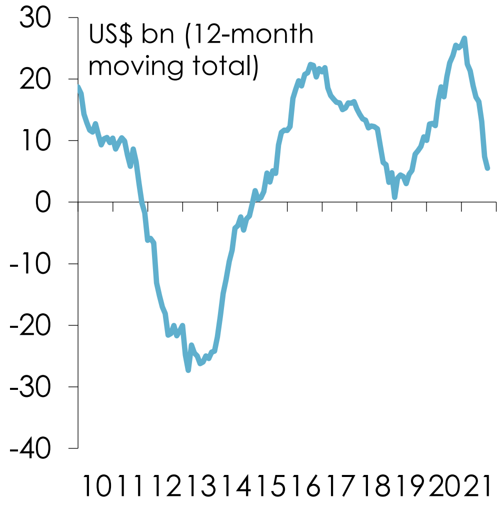
Hong Kong



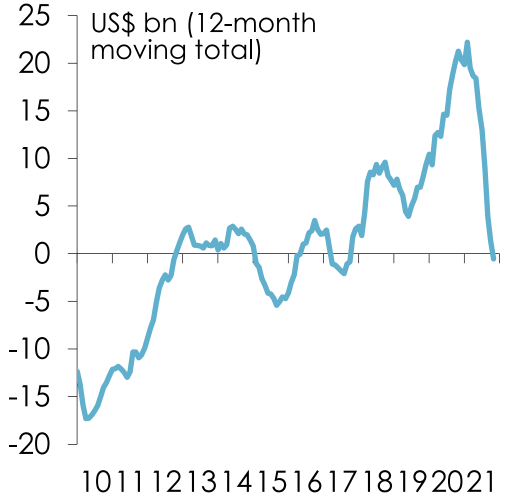
Indonesia



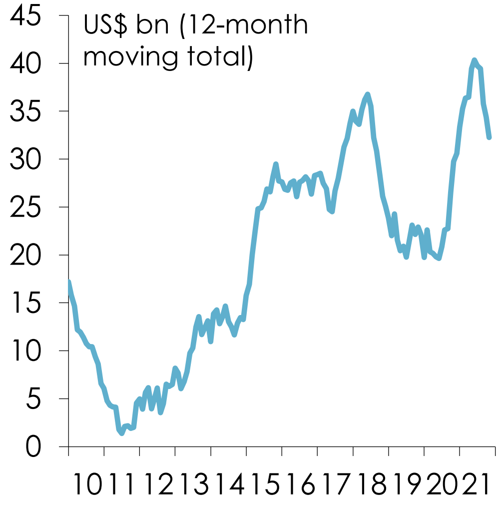
Thailand



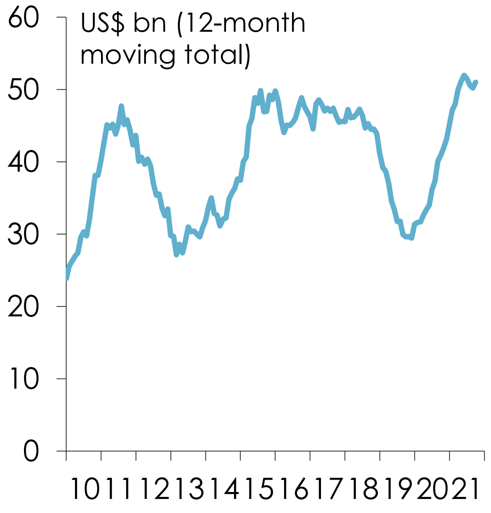
Vietnam



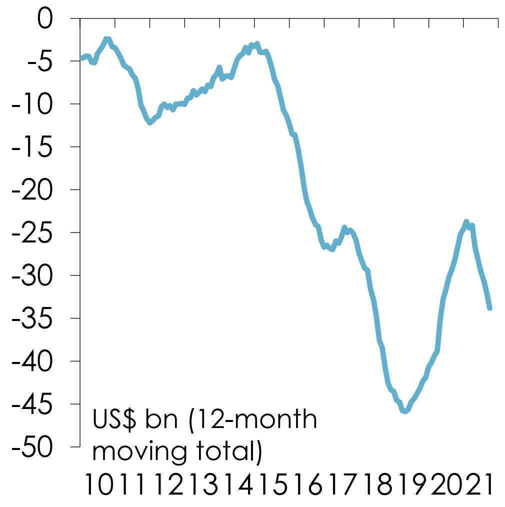
Taiwan



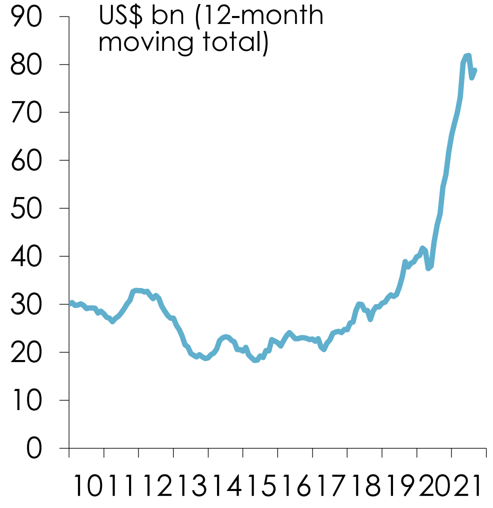
Singapore



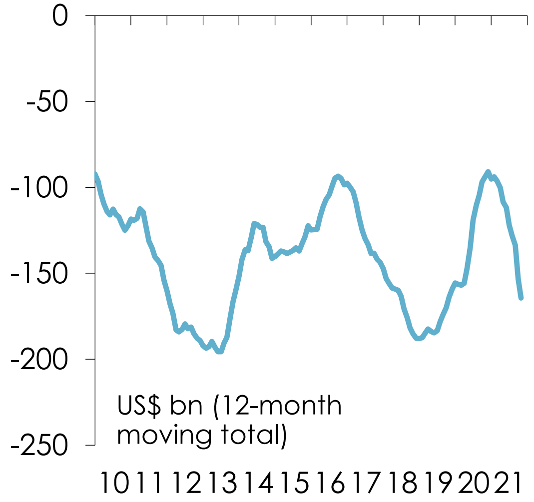
Philippines



Malaysia



India



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

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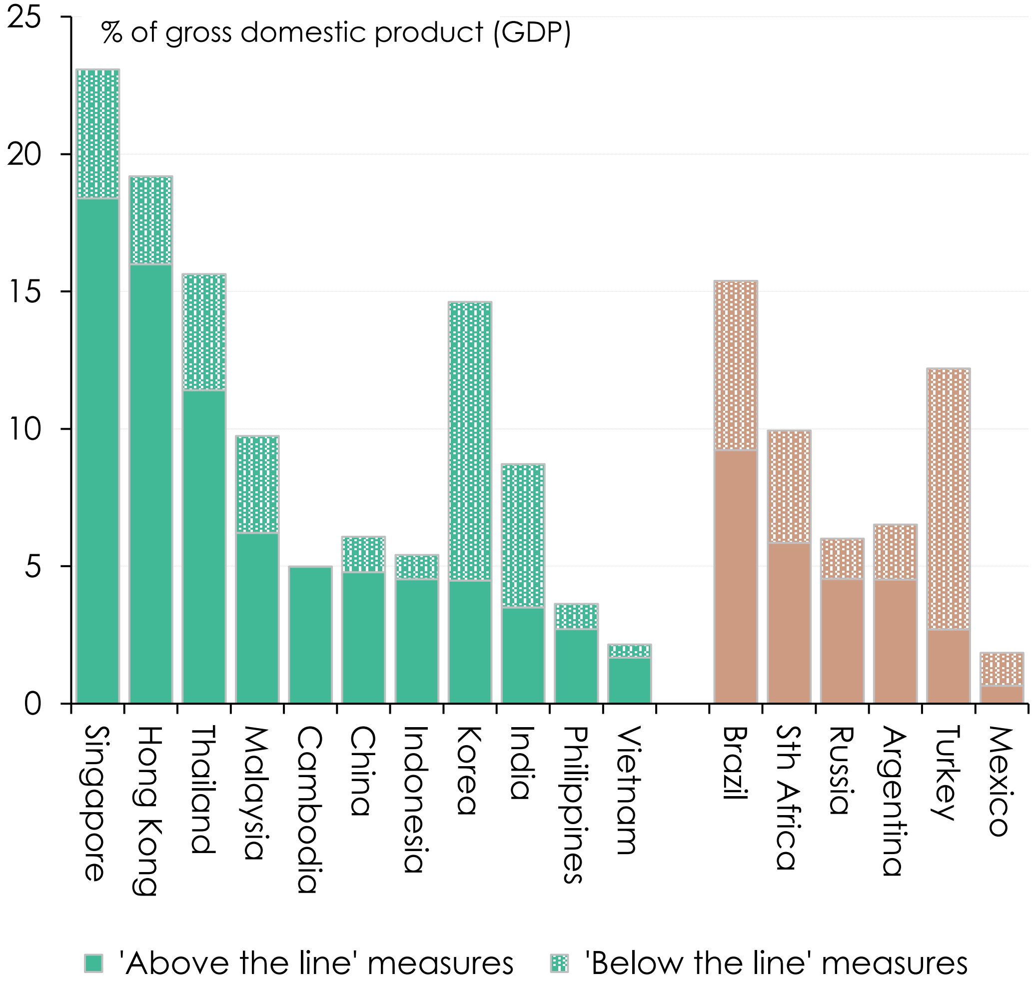
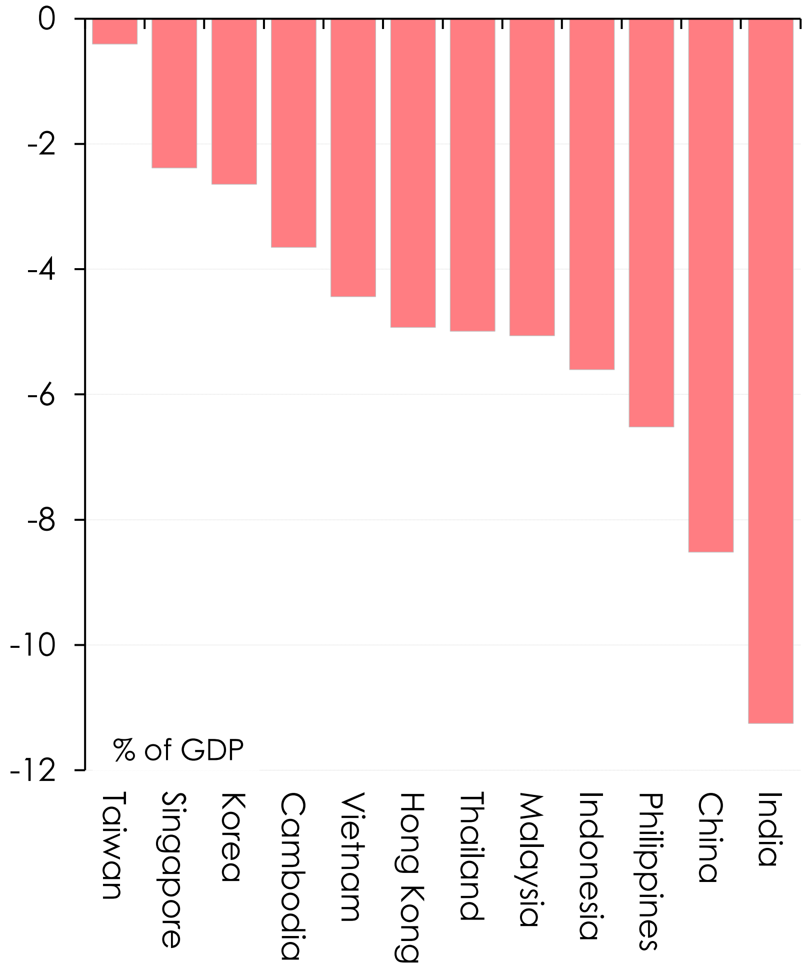
Apart from Singapore, Hong Kong and Thailand, Asian governments' discretionary fiscal responses to Covid-19 have been relatively modest

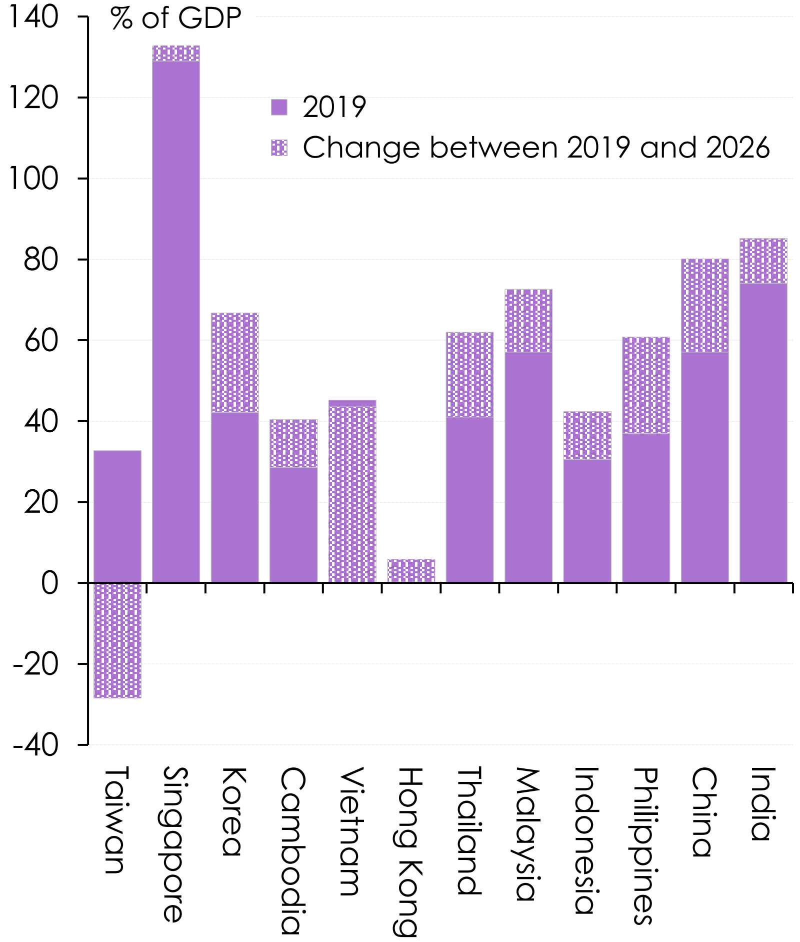
Fiscal policy responses to Covid-19 – Asian & other selected emerging market economies



Budget balances – Asian economies 2020-2022



Gross government debt – Asian economies 2019-26



Note: 'Above the line' measures comprise additional or accelerated spending and deferred or foregone revenue. 'Below the line' measures comprise equity injections, loans, asset purchases and debt assumptions, but do not include loan guarantees or other contingent liabilities. 'DMs' means 'developed markets' (or 'advanced economies'). Data includes measures announced up until 27th September 2021. Singapore's apparently very large gross debt is offset by substantial financial asset holdings. Taiwan's gross debt is projected to decline as a percentage of GDP between 2019 and 2026. *Sources:* IMF, *Fiscal Monitor Database of Country Fiscal Measures in Response to the COVID-19 Pandemic*, October 2021; and *Fiscal Monitor*, October 2021. Return to "What's New".

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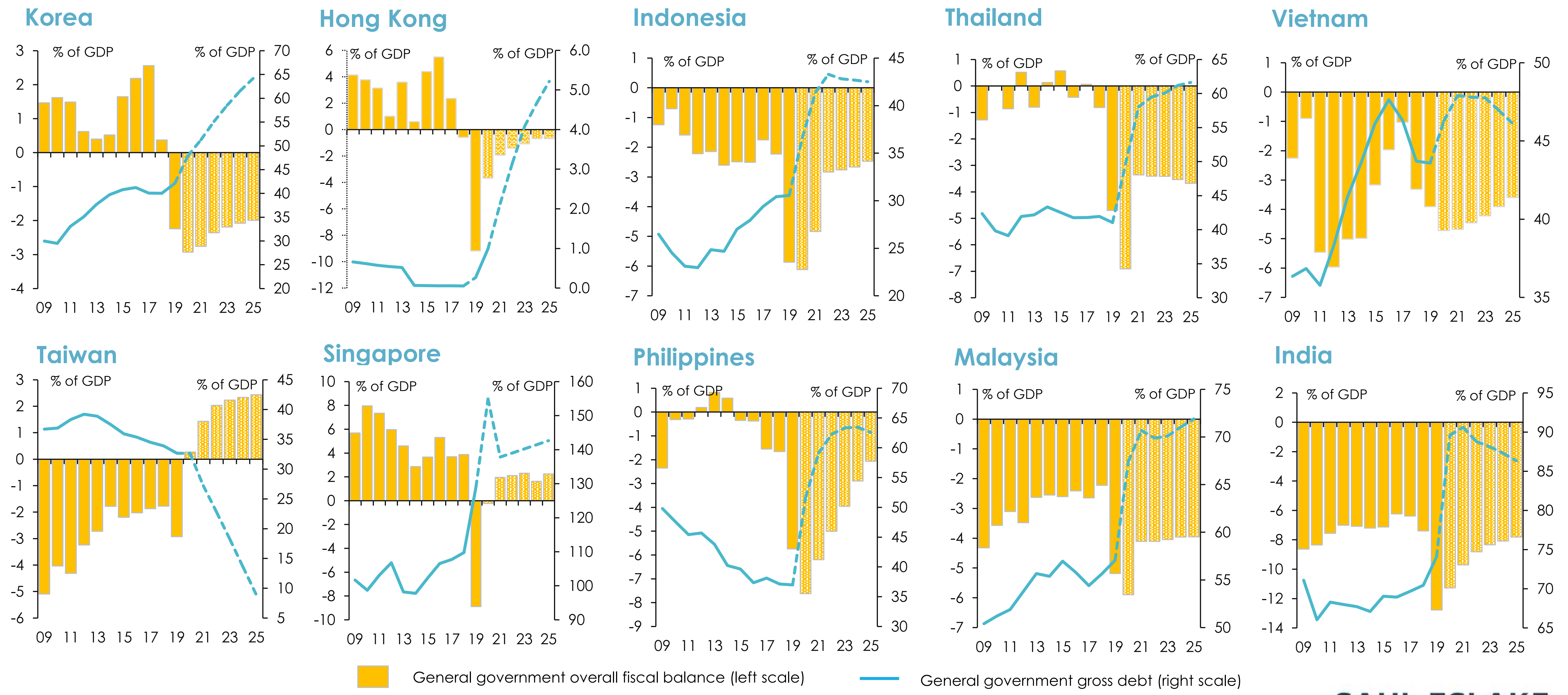
Asian governments, except for Taiwan, Singapore and Hong Kong, will be running large budget deficits for the next five years



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

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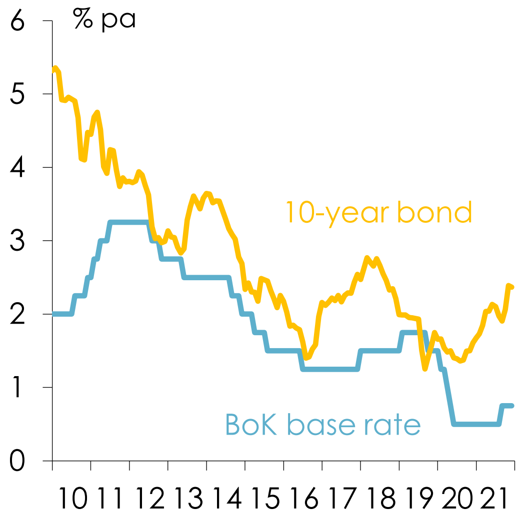
The Indonesian and Philippines central banks left interest rates unchanged this week, but the Bank of Korea is expected to raise rates again next week

- **Bank Indonesia left its 7-day reverse repo rate unchanged at 3.50% at its Board of Governors meeting this week**
  - a decision characterized by Governor Perry Warjiyo as being "in line with the need to maintain exchange rate and financial system stability, amid low inflation forecasts and efforts to support economic growth"
  - BI noted that core inflation remained low "amid rising domestic demand, supported by controlled supply, a stable exchange rate, and maintained inflation expectations", and that movements in the exchange rate were "under control", with the rupiah having depreciated by only 1.35% so far this year, less than the currencies of neighbouring countries, "supported by the improvement in Indonesia's balance of payments performance"
  - BI has continued to pursue loose liquidity conditions and lower lending interest rates through its purchases of government bonds under its 'synergistic monetary expansion' agreement with the Indonesian Government – thus far this year it has purchased Rp143 trn, of which Rp75 trn has been purchased directly from the Government via the 'Greenshoe Option' mechanism
- **Bangko Sentral ng Pilipinas also left its overnight reverse repo rate unchanged at 2.0% at its Monetary Board meeting on Thursday**
  - the Monetary Board described the "inflation environment" as "manageable" with inflation seen as "slightly exceeding" the upper end of the 2-4% target band in 2021 but "projected to settle close to the midpoint of the target range in 2022 and 2023" with inflation expectations having "remained firmly anchored to the baseline projection path"
  - the Board "observed" that "economic growth appears to be gaining solid traction", but indicated that it would "continue to prioritize providing policy support for the economy while keeping an eye on the potential risks to future inflation"
- **Last week the Bank of Thailand also kept its policy rate unchanged at 0.50%**
- **The only Asian central bank to have raised rates so far this year has been the Bank of Korea, which raised its base rate 25 bp to 0.75% in August and is expected to raise it by a similar amount when it meets this coming Thursday**

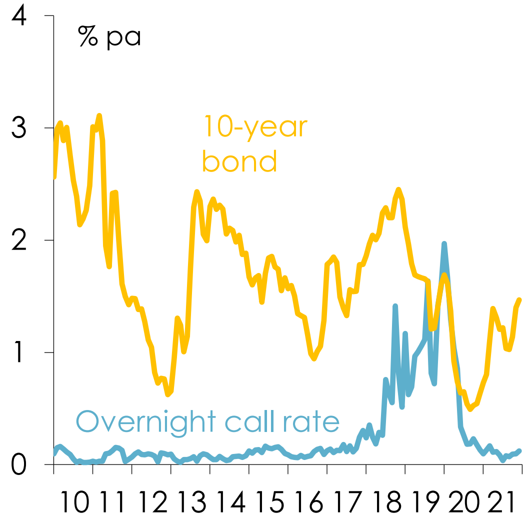
Return to "What's New".

The Bank of Korea is the only Asian central bank to have raised rates this year, and is likely to do so a second time this coming week

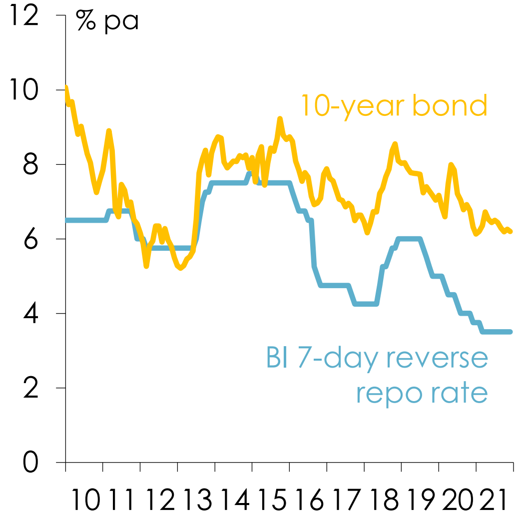
Korea



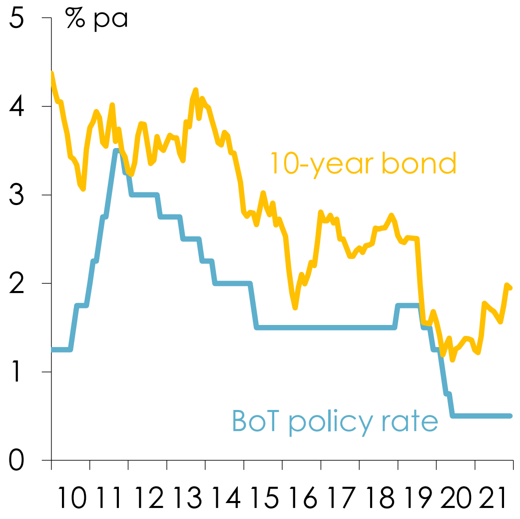
Hong Kong



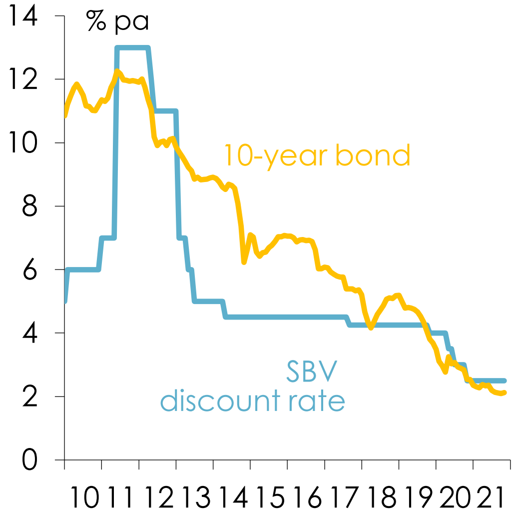
Indonesia



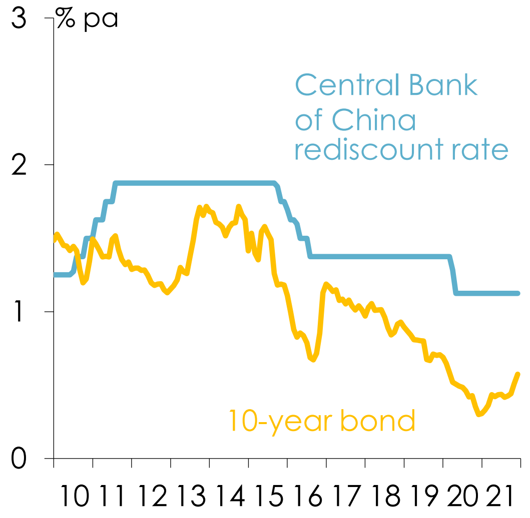
Thailand



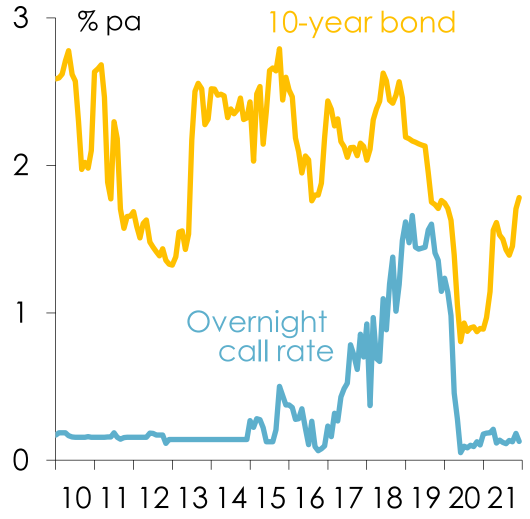
Vietnam



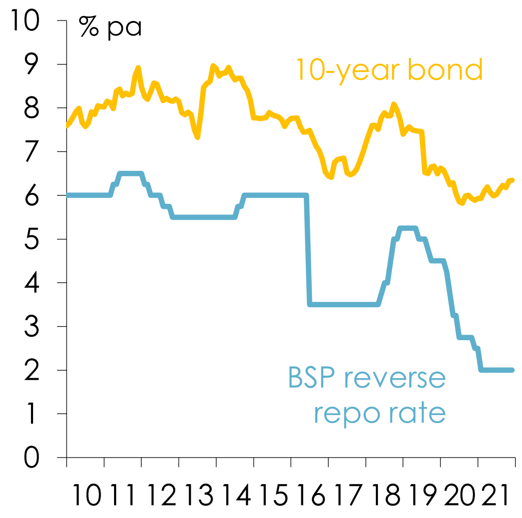
Taiwan



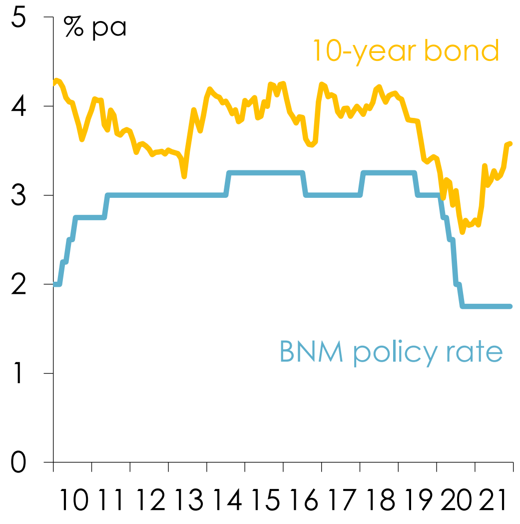
Singapore



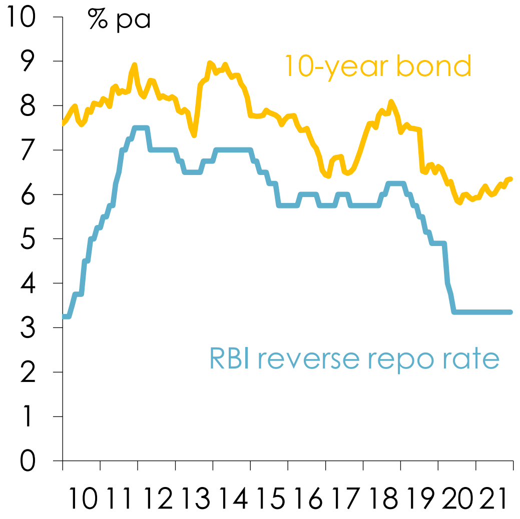
Philippines



Malaysia



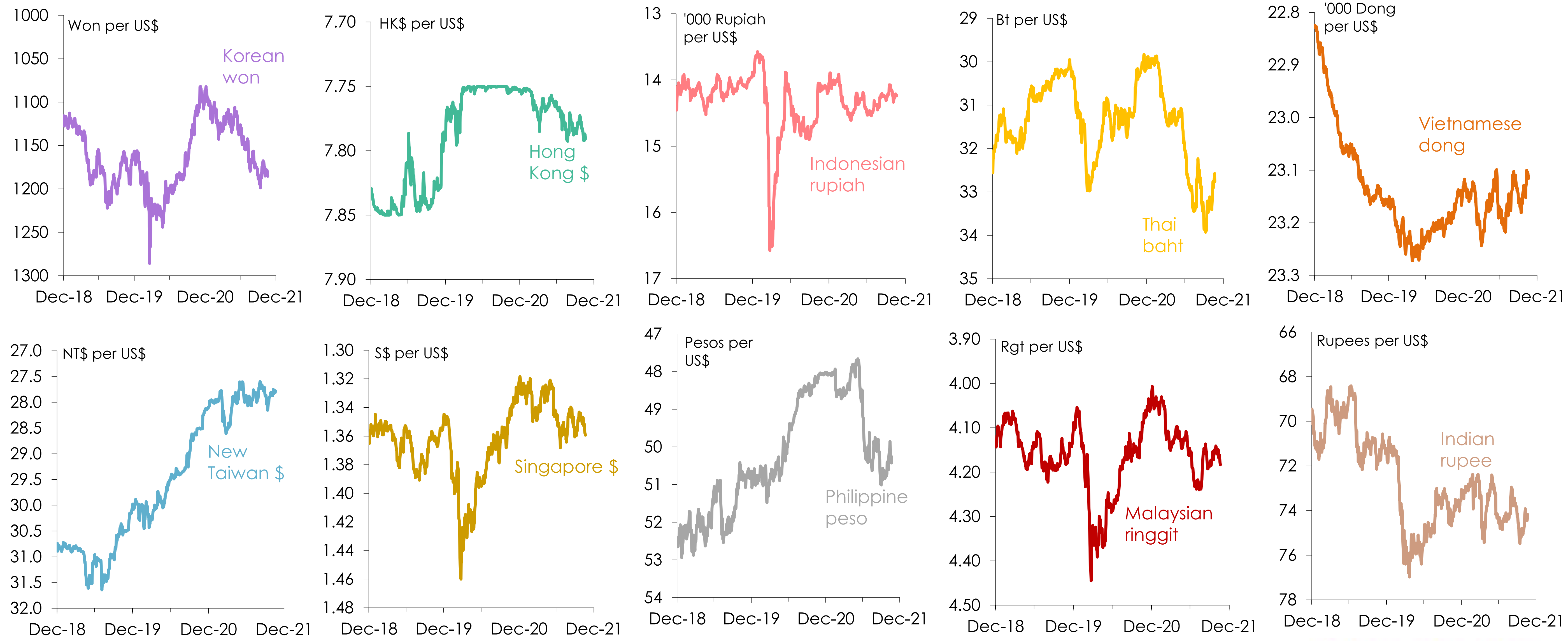
India



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

Most Asian currencies eased against the US$ this week with the peso down 1.1%, the won and Sing$ down 0.5%, but the NT$ and baht rose 0.2%

Asian currency exchange rates vs US dollar



Note: Data up to 19th November. Source: Refinitiv Datastream. [Return to "What's New"].

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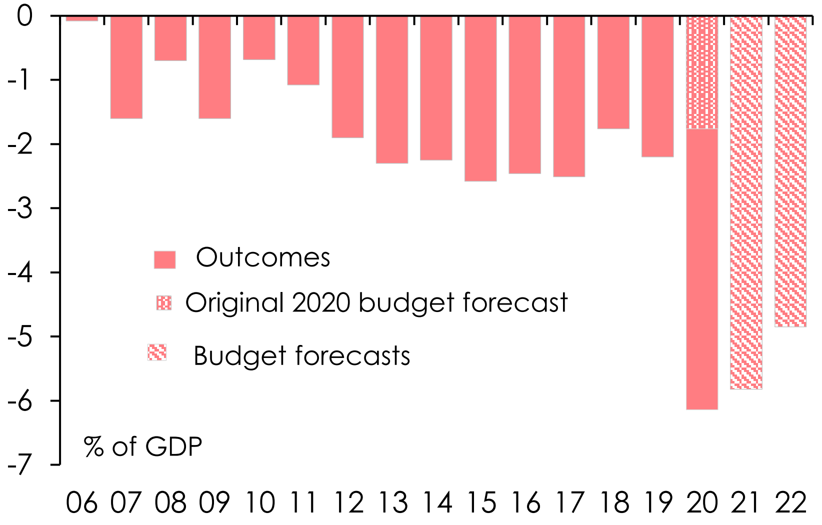
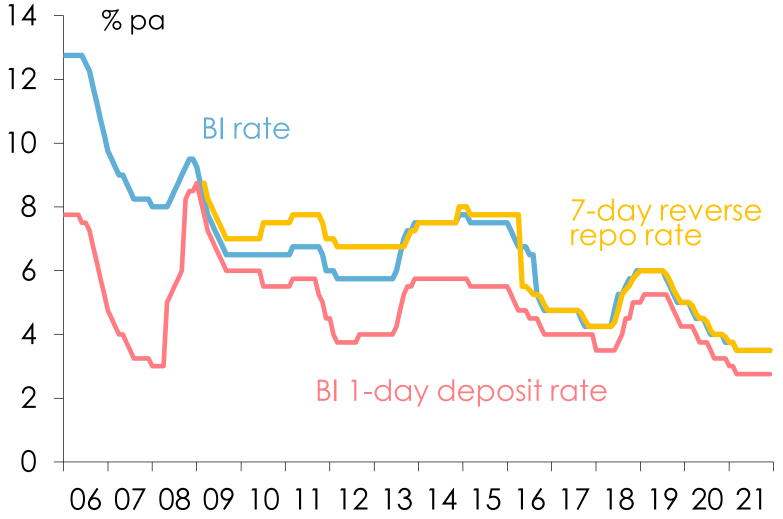
Bank Indonesia's monetary policy settings have been on hold since January although it has continued with its 'synergistic monetary expansion'

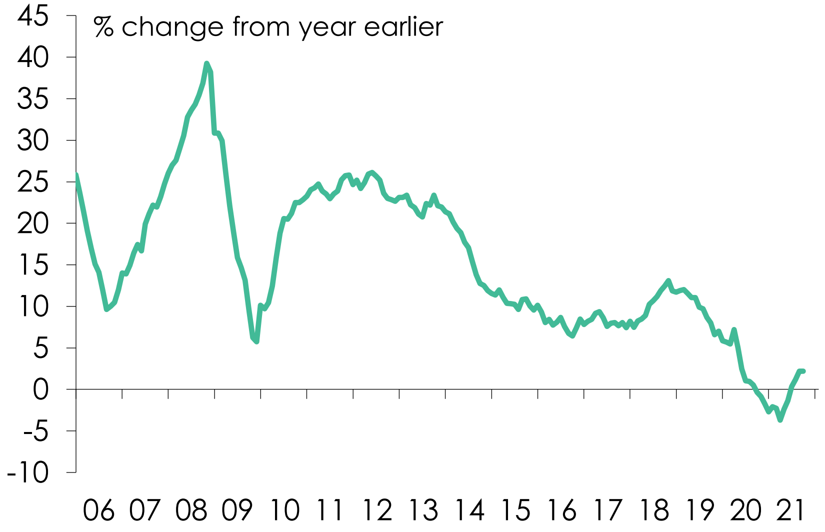
Indonesia budget deficit



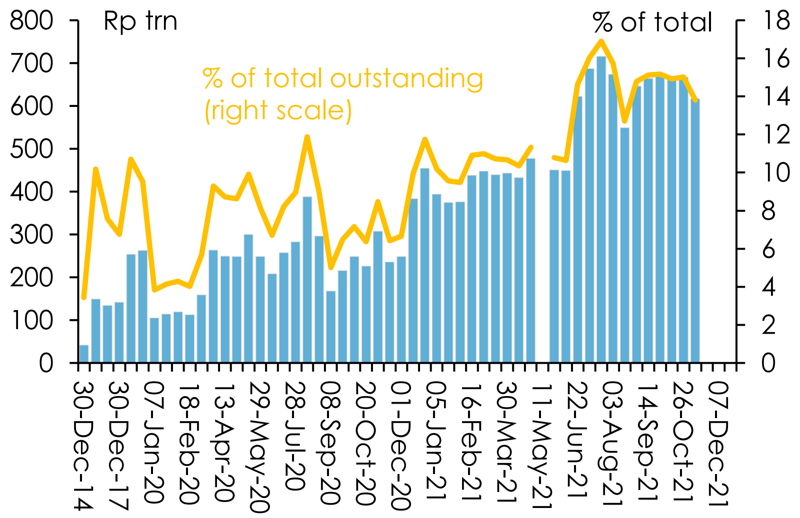
BI monetary policy rates



Bank lending



BI holdings of tradeable SBNs

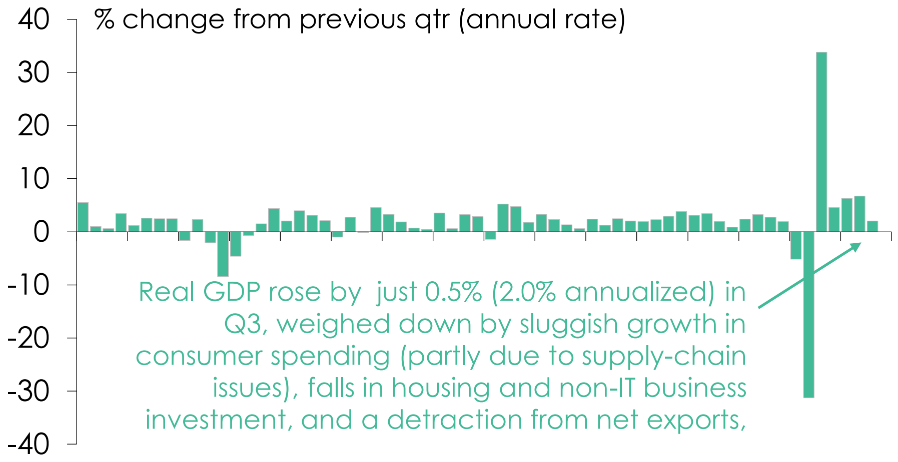


- In April 2020, the Indonesian Government and Bank Indonesia (BI) agreed to a 'burden-sharing' scheme under which BI will directly purchase bonds equivalent to 25% of this year's budget financing requirement (and return the interest received to the Government), as well as subsidizing interest payments on other bonds
  - BI calls this 'synergistic monetary expansion'
  - up to 15th October BI has purchased Rp 143trn of SBN in the primary market (cf. Rp 473trn in 2020)
  - BI has indicated that it will be a 'standby buyer' for up to one-quarter of government borrowing requirements through 2022
- BI's holdings of SBNs have fallen by Rp57bn (8½%) from the most recent peak at the end of September)
  - BI has absorbed 27% of the increase in the total stock of SBNs outstanding so far this year, cf. 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 October is well below BI's target of 2-4% (slide 57) and BI expects it to remain within target in 2021 and 2022
- BI again left its policy settings unchanged at this week's Governing Council meeting (slide 63)

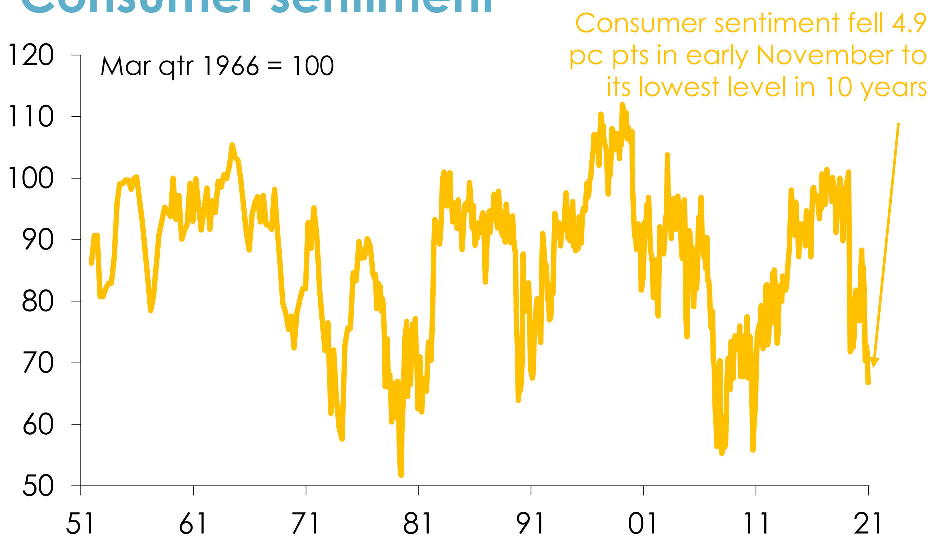
Sources: Indonesia Ministry of Finance (Kementarian Keuangan); Directorate of Government Debt Securities; Bank Indonesia.
Return to "What's New".

US retail sales and industrial production both rose strongly in October

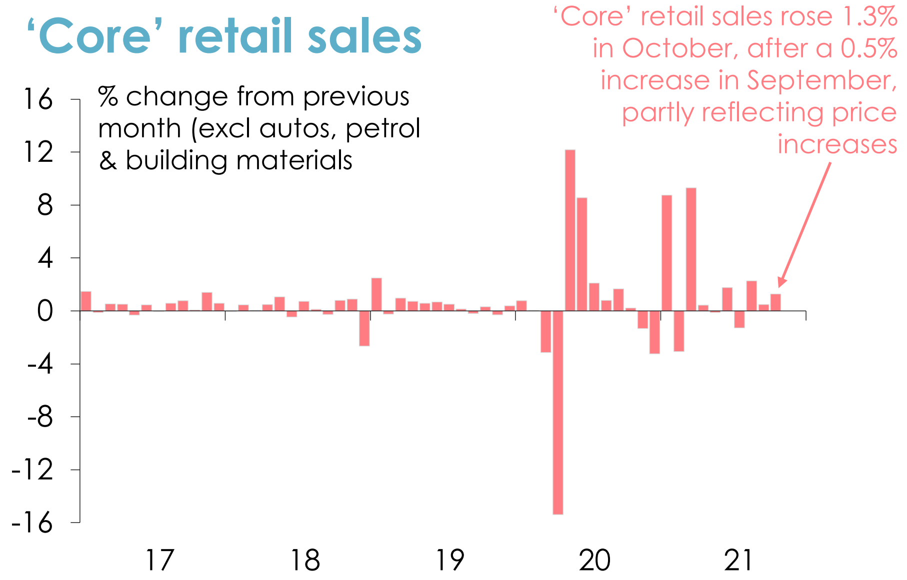
Real GDP



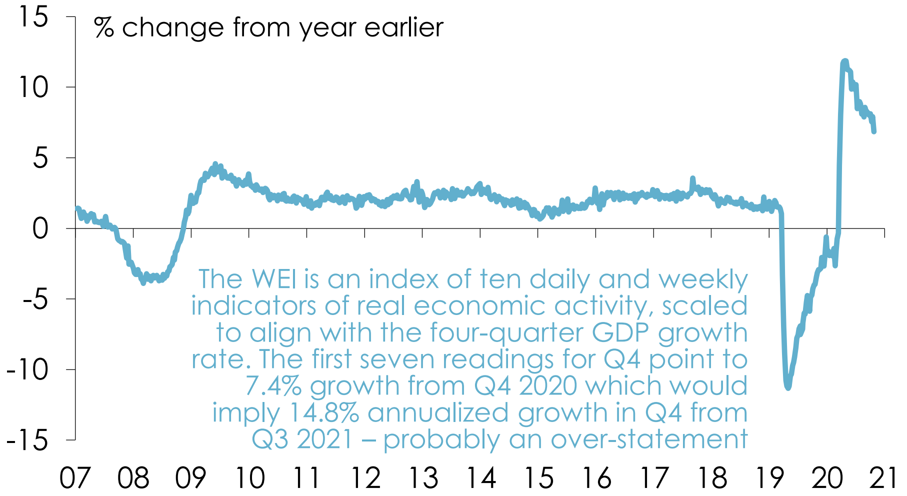
Consumer sentiment



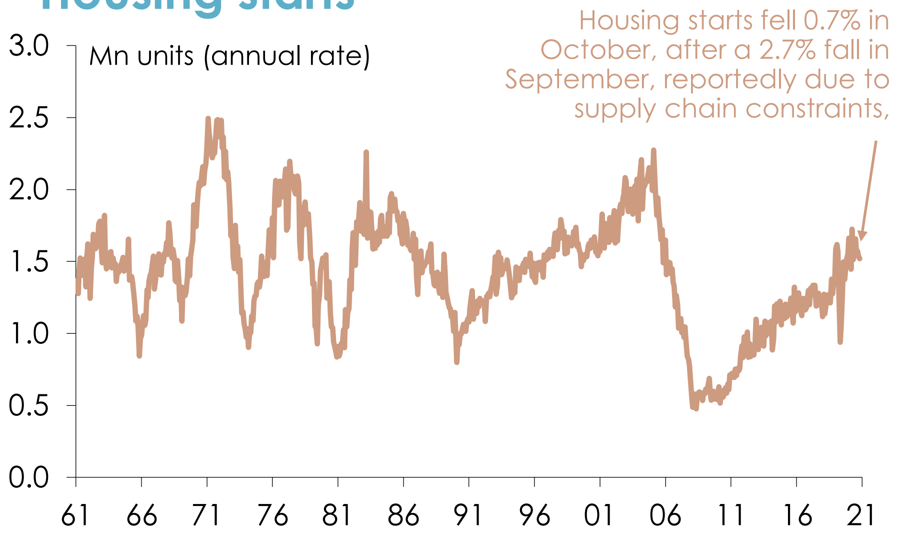
'Core' retail sales



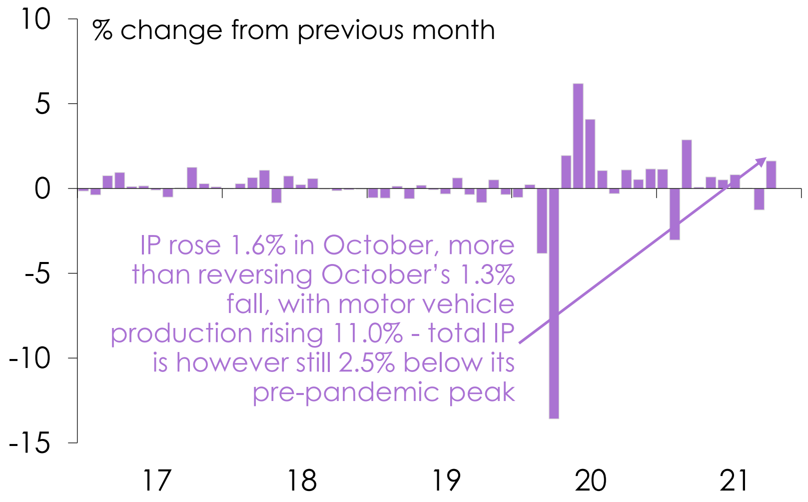
NY Fed weekly economic index



Housing starts



Industrial production



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

SAUL ESLAKE
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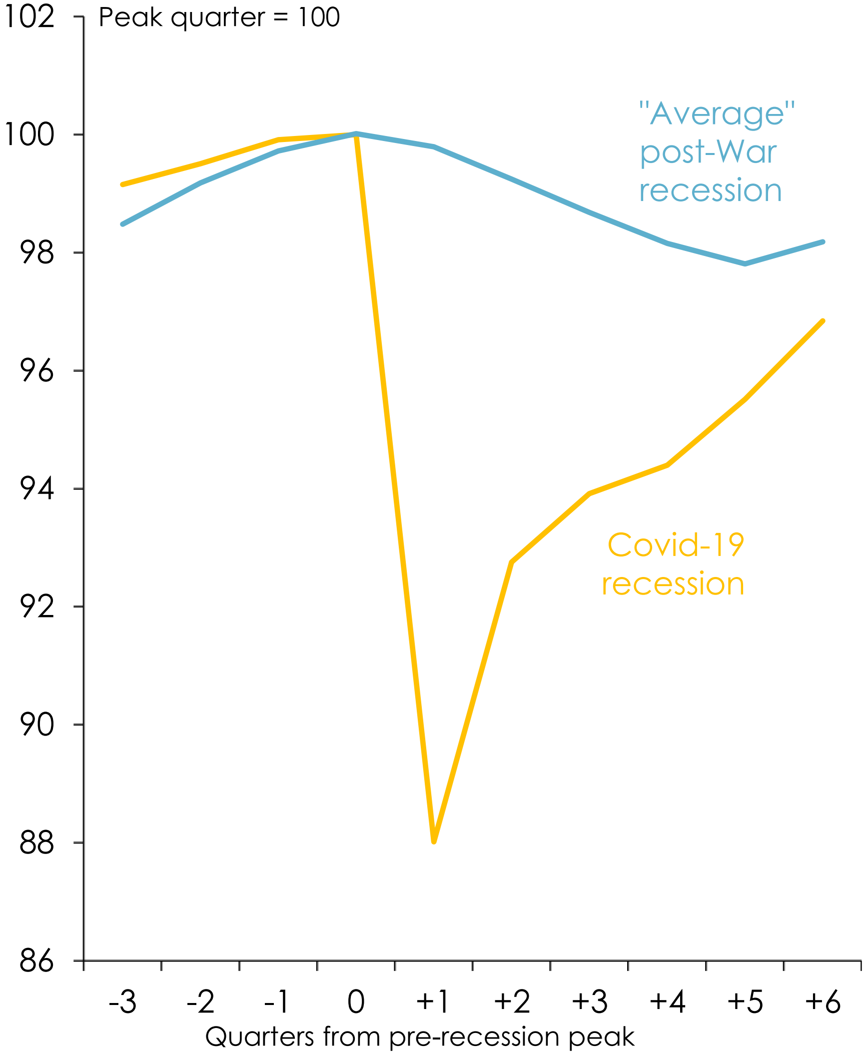
INDEPENDENT ECONOMICS

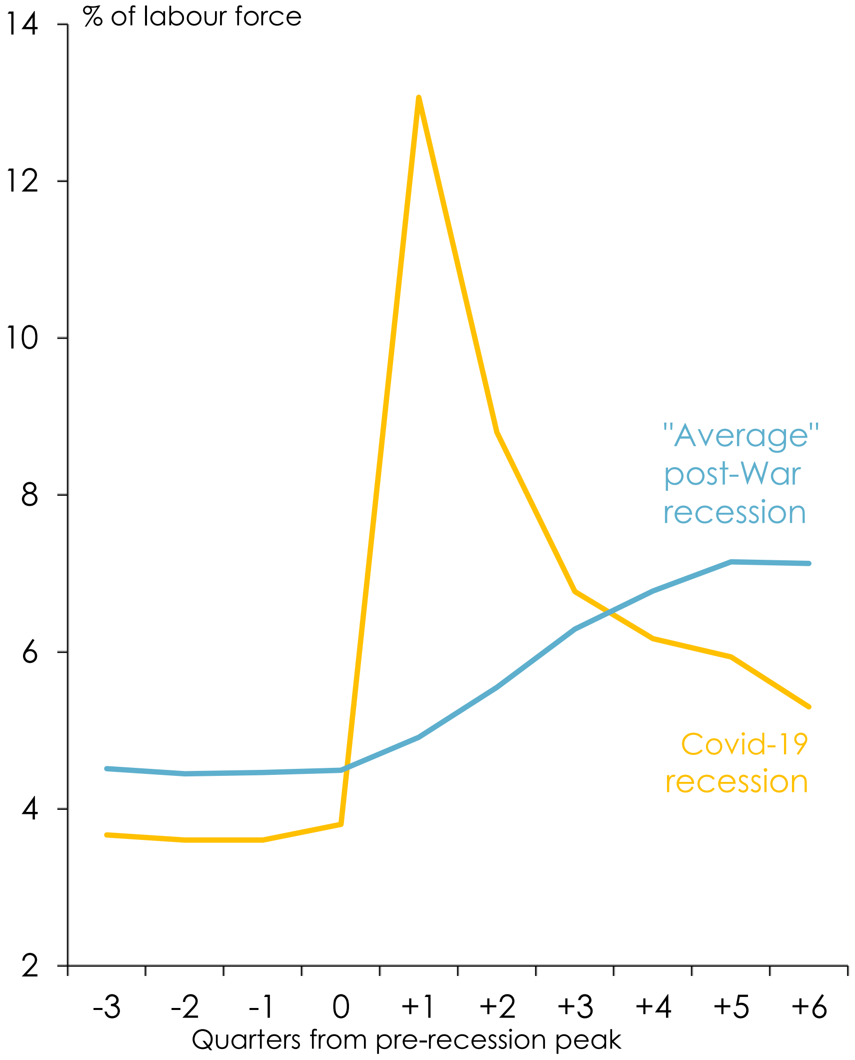
The Covid-19 recession has been quite unlike any other of the recessions the US has experienced since the end of World War II

Level of real GDP

Non-farm payroll employment



Unemployment rate



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

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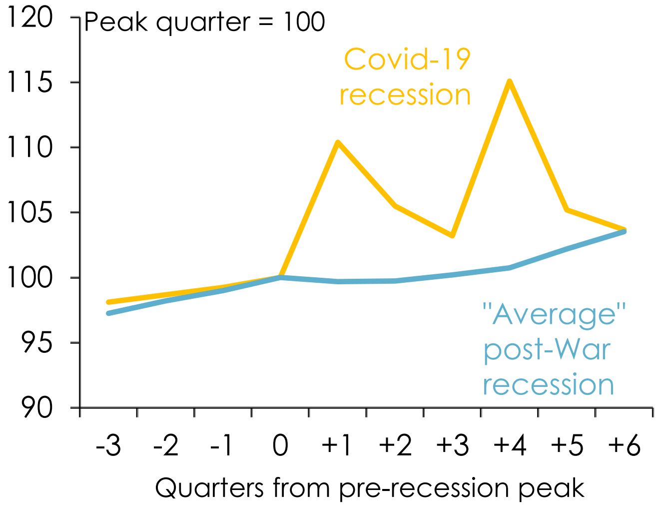
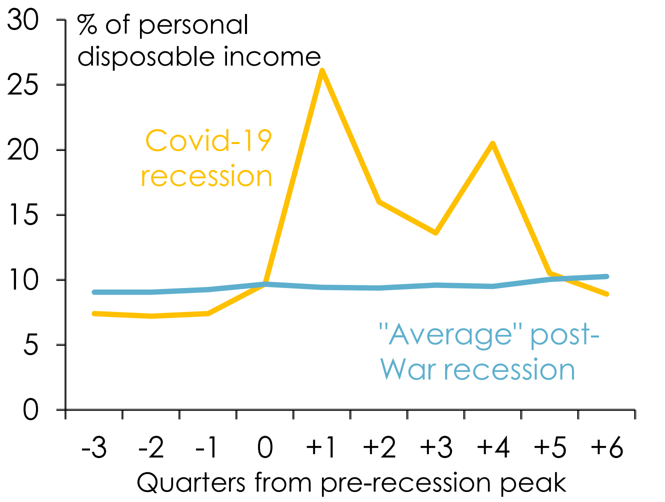
The differences between this recession and previous ones are even more apparent from some of the details in the national accounts

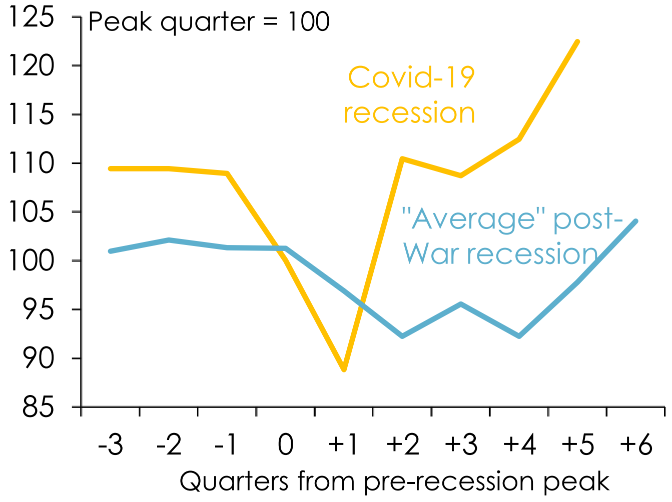
Personal disposable income



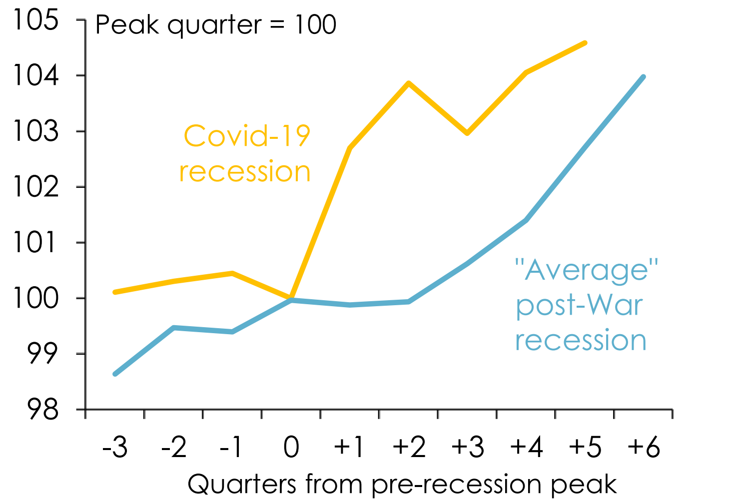
Personal saving rate



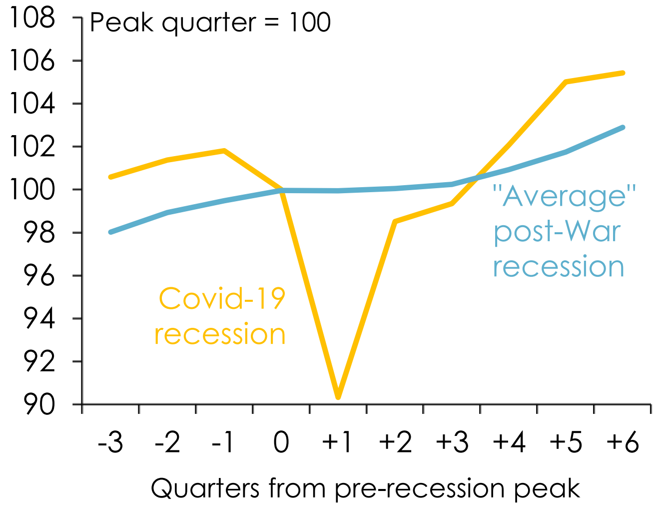
After-tax corporate profits



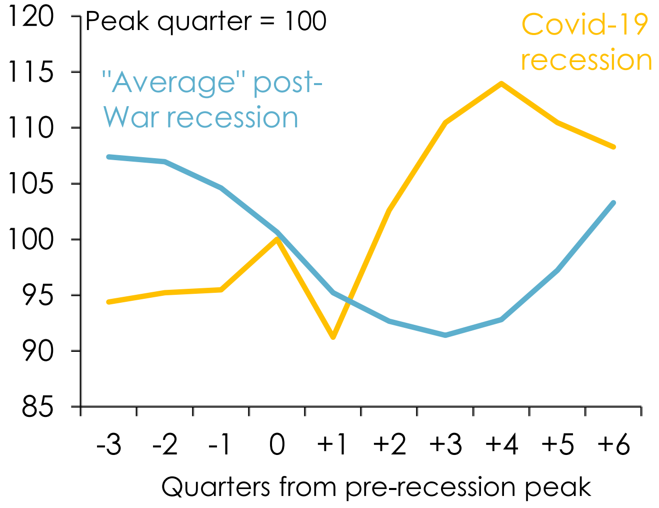
Labour productivity



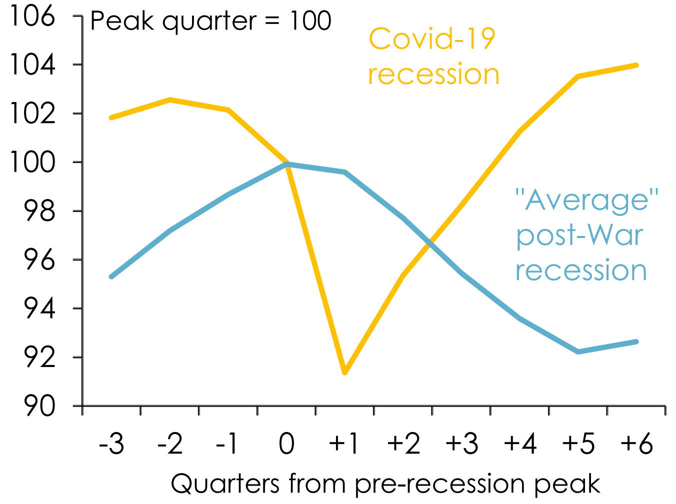
Personal consumption



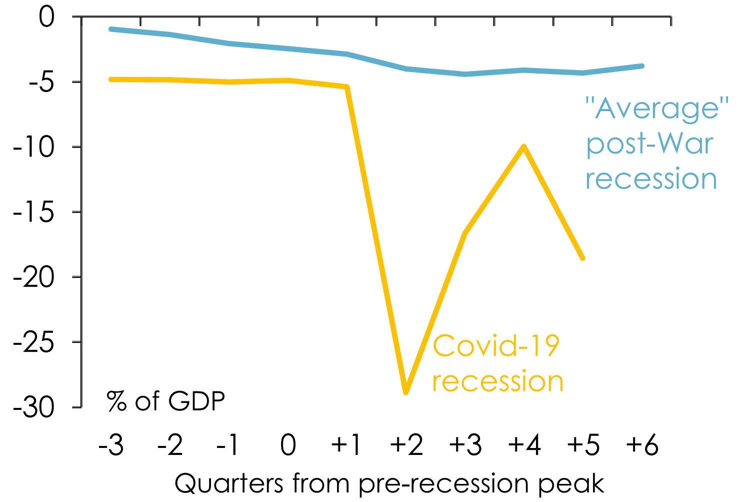
Residential investment



Business investment



Federal budget balance



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

Return to "What's New".

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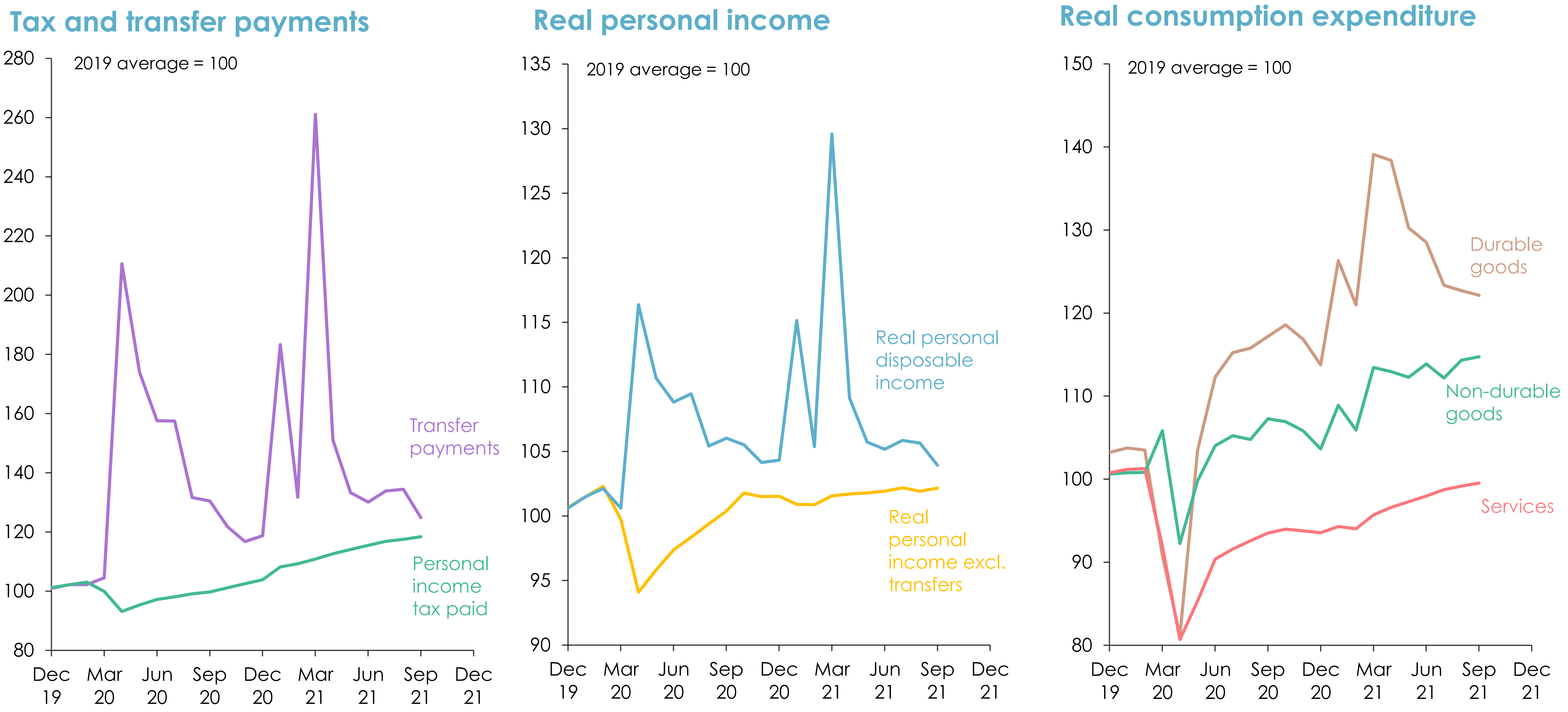
With their incomes bolstered by government payments, US consumers have splurged on durable goods – a key source of price pressures



Source: US Bureau of Economic Analysis.

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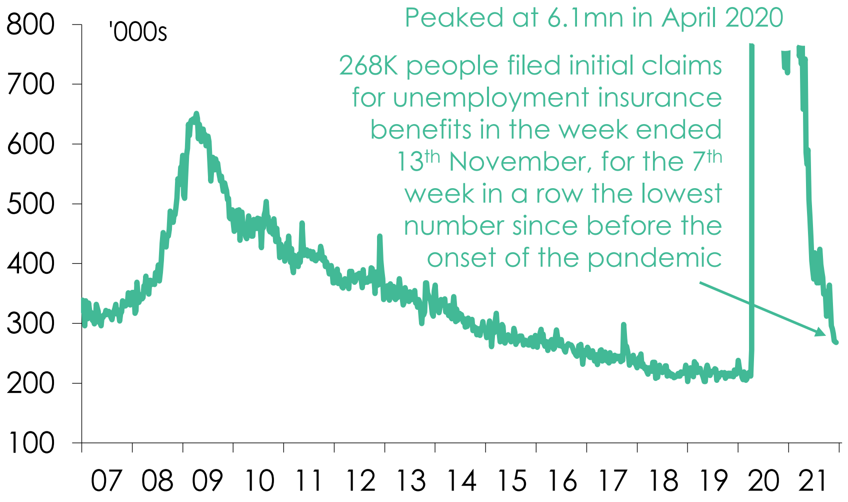
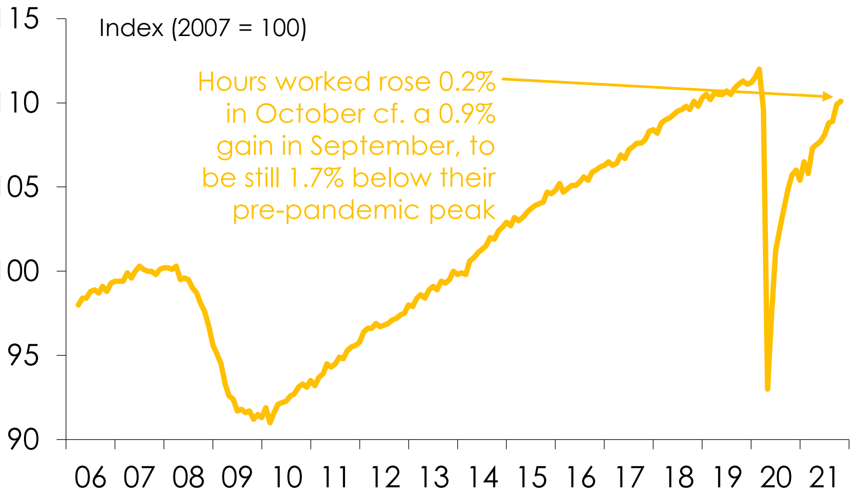
US non-farm payrolls gained 0.4% in October but were still 2.8% below the pre-pandemic peak, while the unemployment rate is still 1.1 pc pt higher

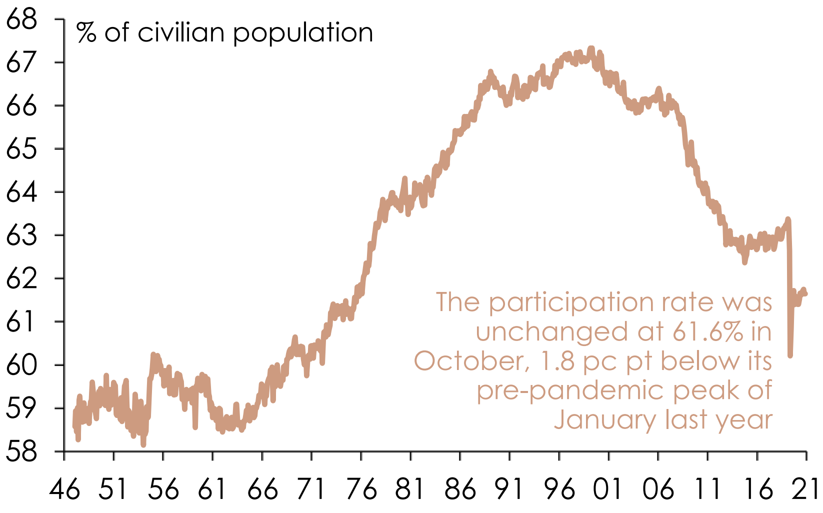
Unemployment benefit claims



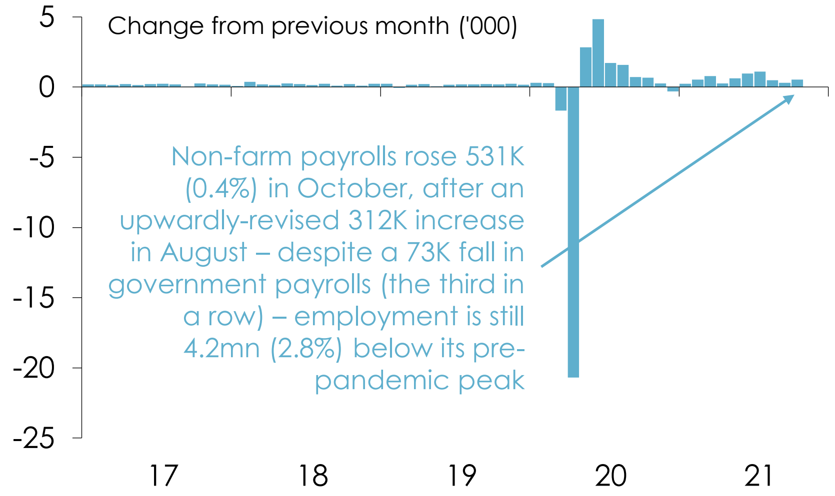
Hours worked (private sector)



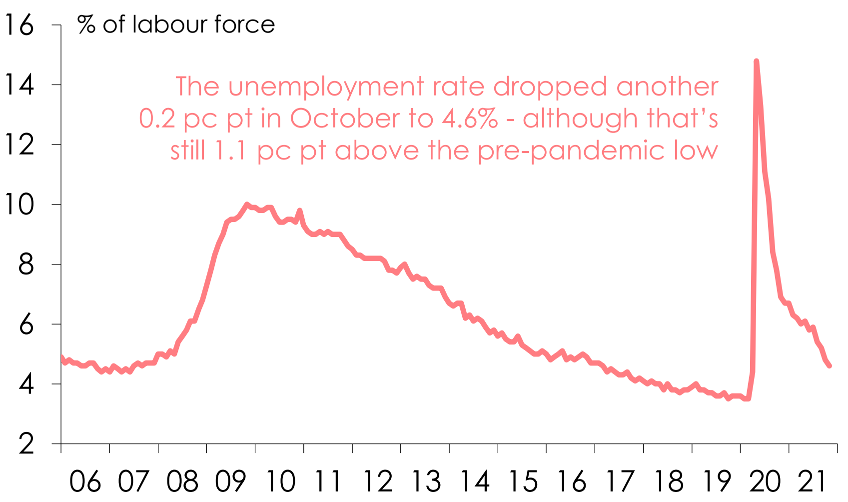
Labour force participation rate



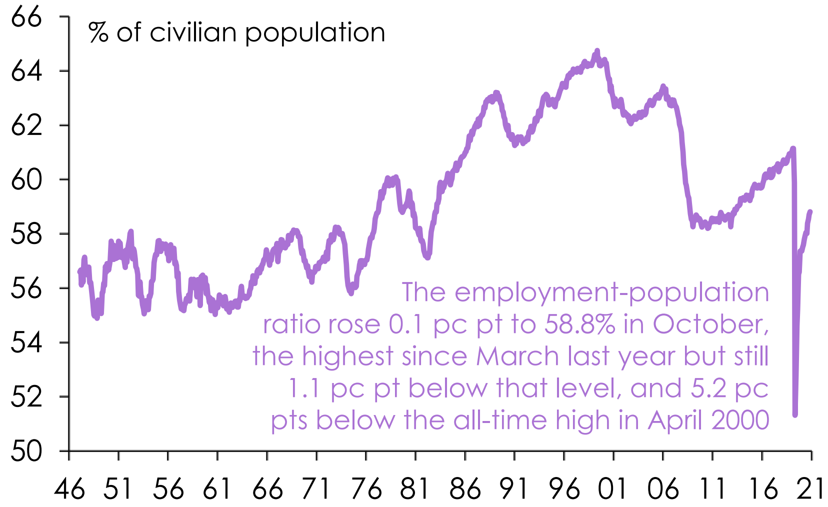
Non-farm payroll employment



Unemployment rate



Employment to population ratio



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

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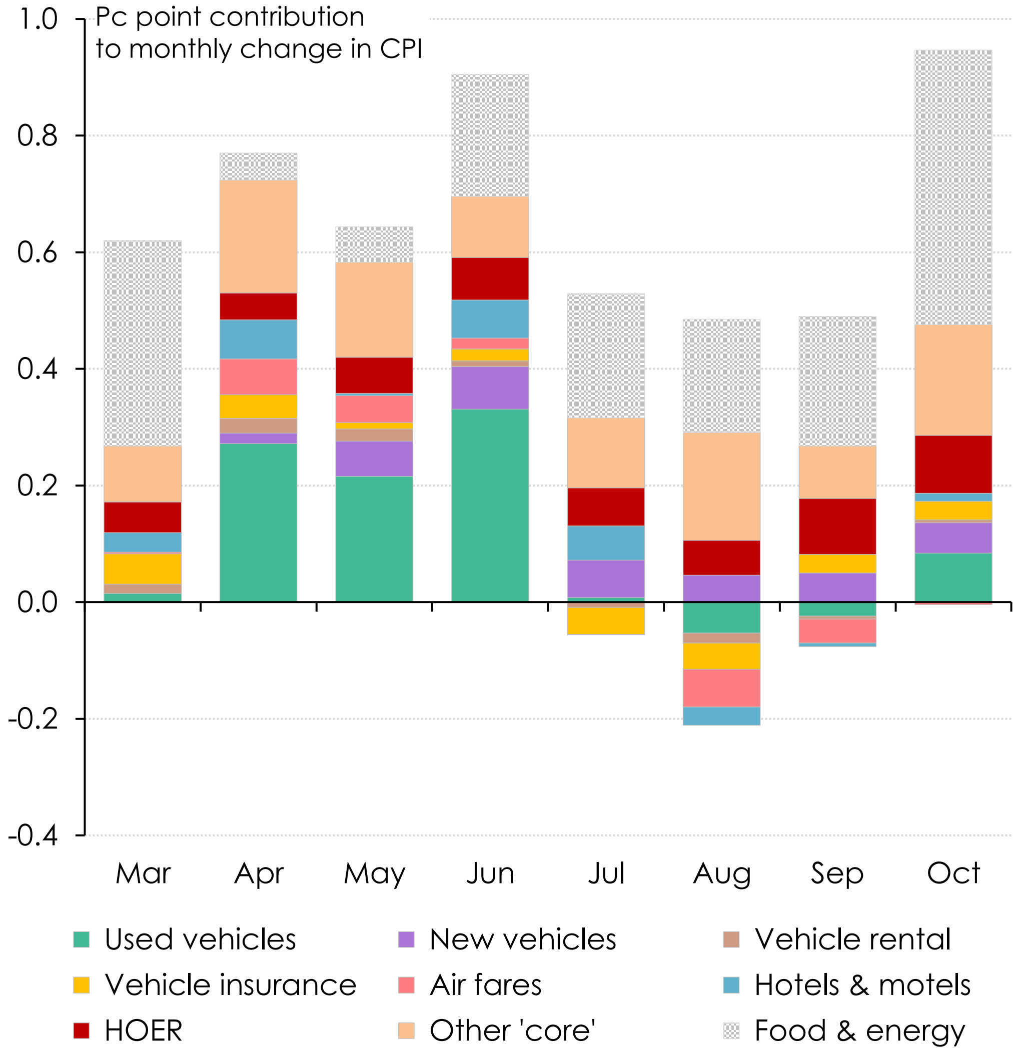
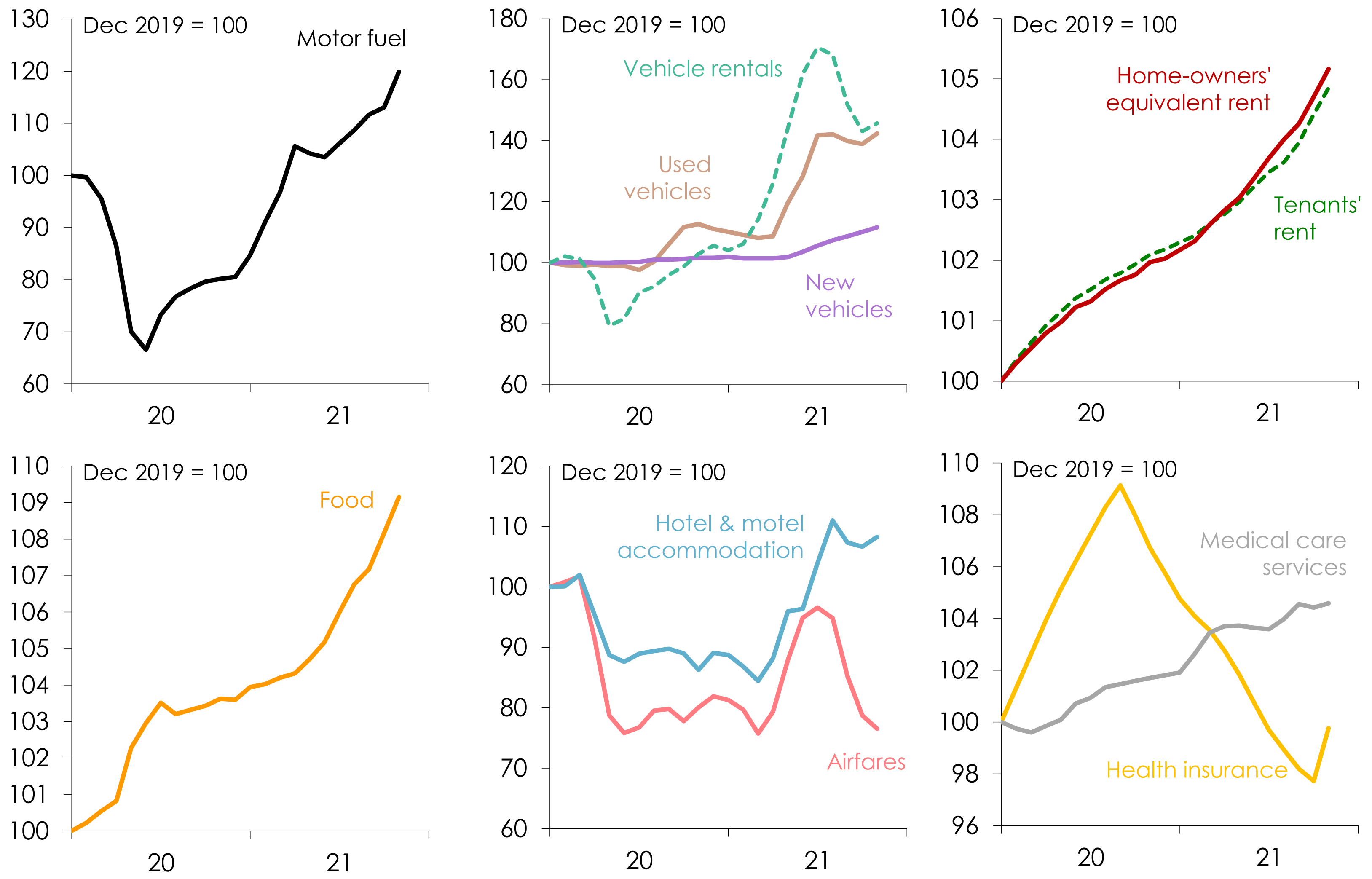
Most of the contributors to the 'spike' in 'core' inflation earlier this year have since abated – but higher inflation is now becoming more broadly-based

Contributions to recent monthly changes in CPI excluding food and energy



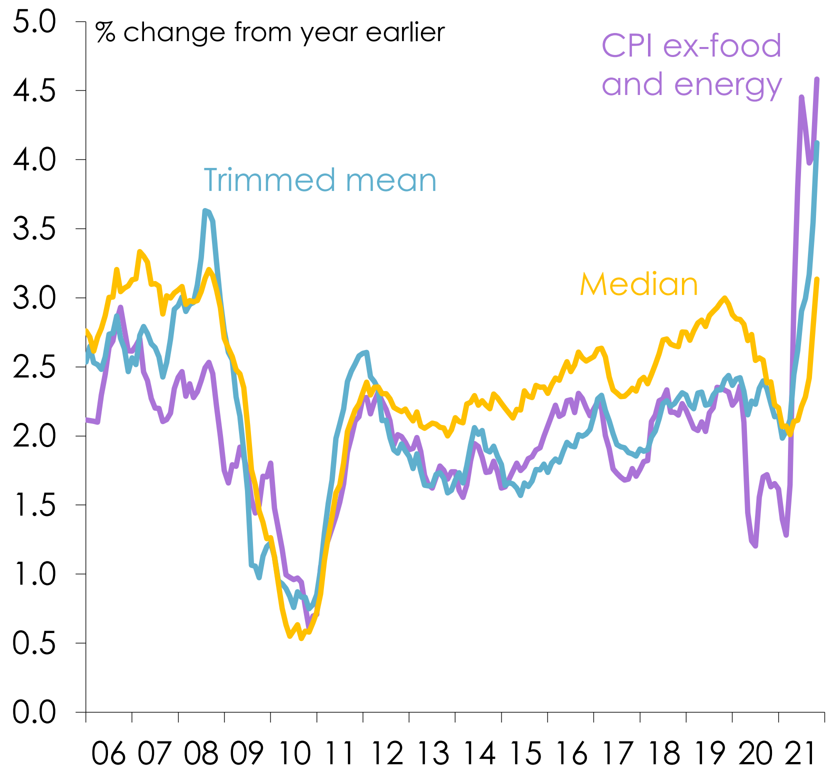
Price indices for items which have contributed most to recent monthly changes in the 'core' US CPI (rebased to December 2019 = 100)



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".

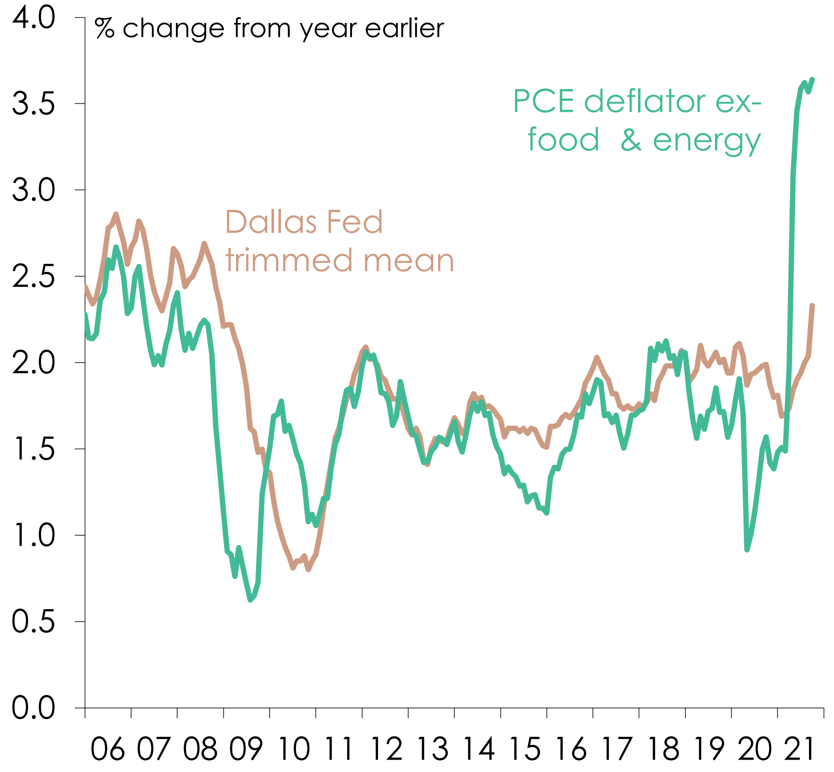
‘Statistical’ measures of ‘underlying’ inflation are also beginning to pick up – although longer-term inflation expectations remain ‘well anchored’

Alternative measures of US ‘core’ CPI inflation



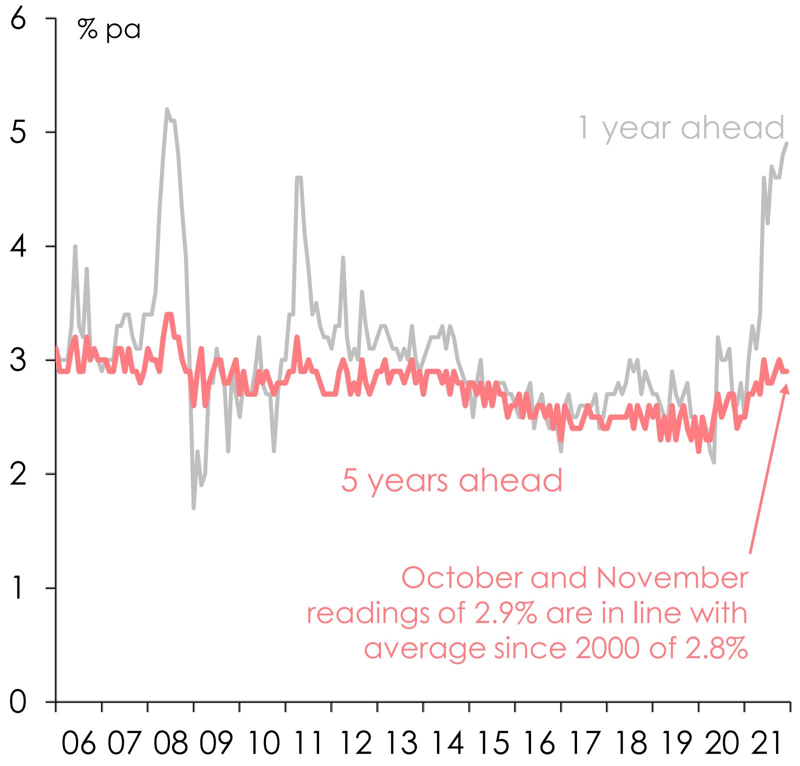
- Statistical measures of ‘underlying’ CPI inflation are now rising more rapidly – the annual ‘trimmed mean’ inflation rate in October was the highest since July 1991

Alternative measures of US ‘core’ PCE deflator inflation



- The trimmed mean measure of ‘under-lying’ PCE deflator inflation has also picked up in recent months (although not as much as the trimmed mean CPI)

Household inflationary expectations

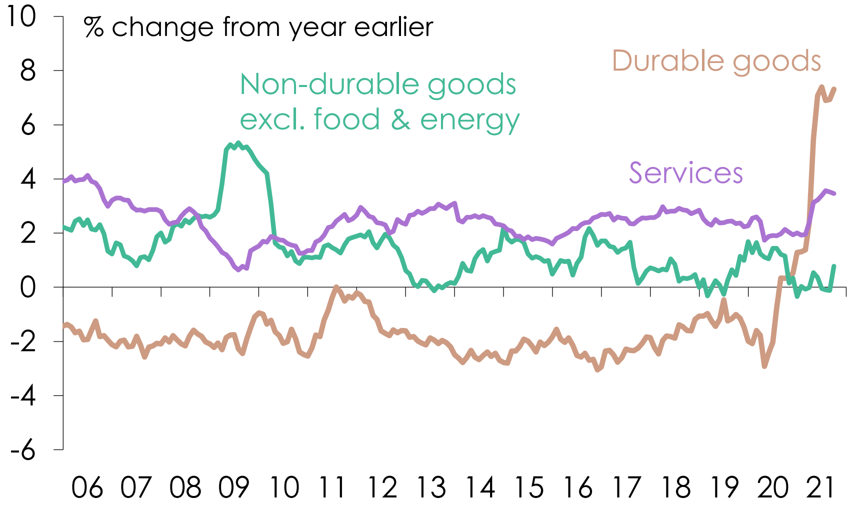


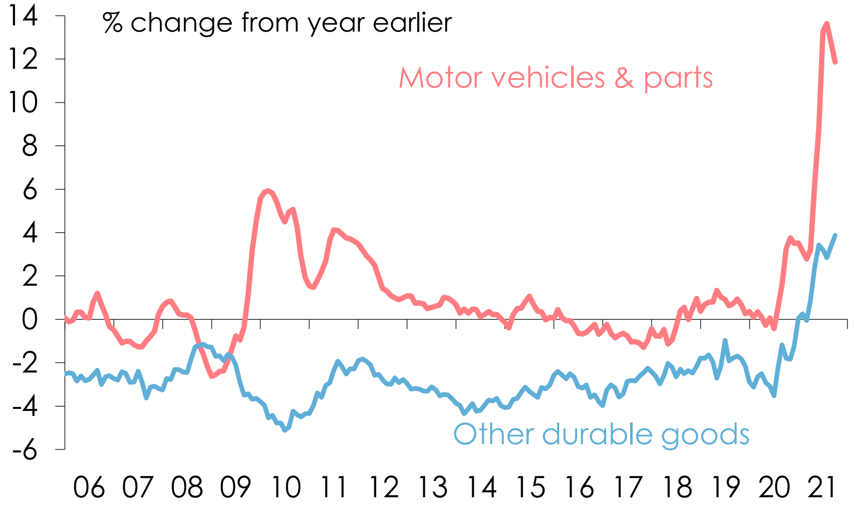
- Short-term household inflation expectations have risen sharply, but the Fed will draw some comfort from the fact that longer-term expectations remain “well-anchored”

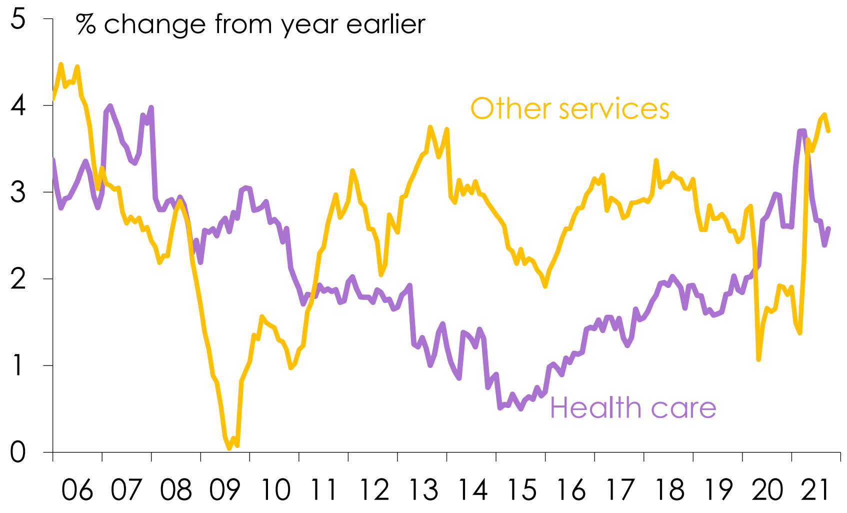
Note: The ‘trimmed mean’ CPI inflation rate excludes the components of the CPI whose weights fall in the top and bottom 8% of the distribution of price changes; the median is the component whose price change is in the middle of the distribution of price changes. The ‘trimmed mean’ of the PCE deflator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

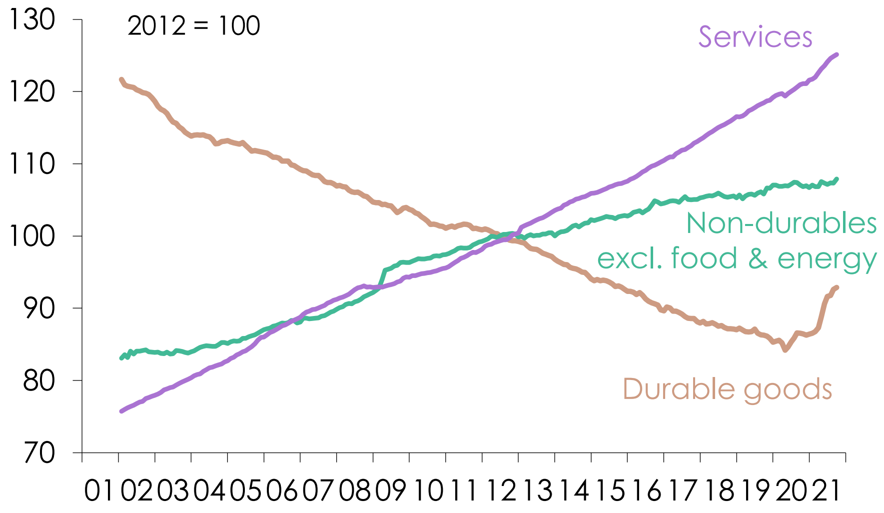
Implicit price deflators of personal consumption expenditures – per cent changes over 12-month intervals

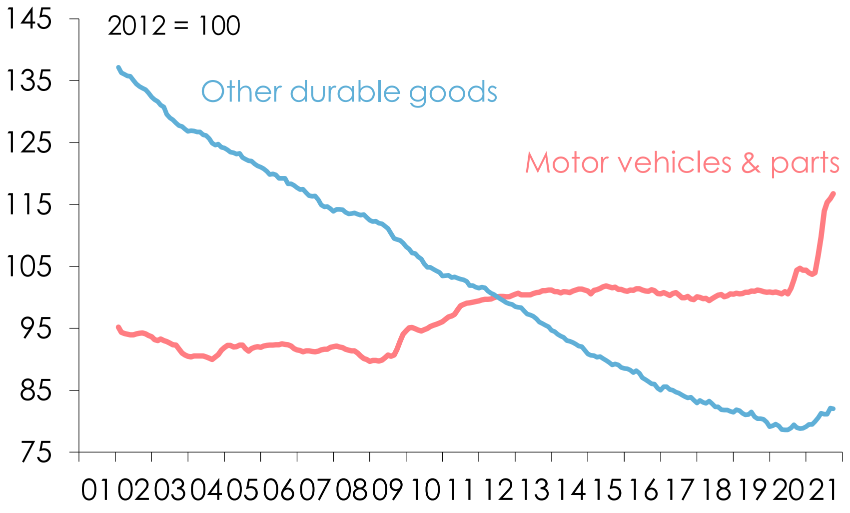


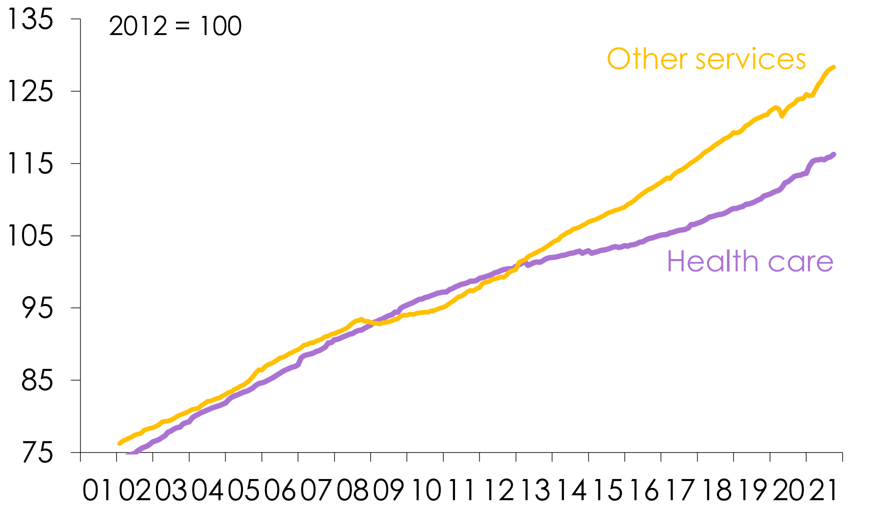




Implicit price deflators of personal consumption expenditures – levels







Source: US Bureau of Economic Analysis. Return to "What's New".

SAUL ESLAKE
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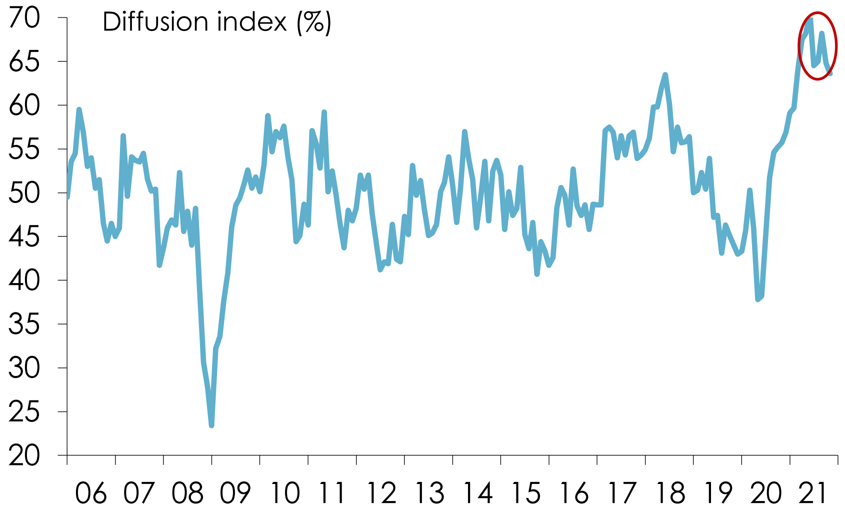
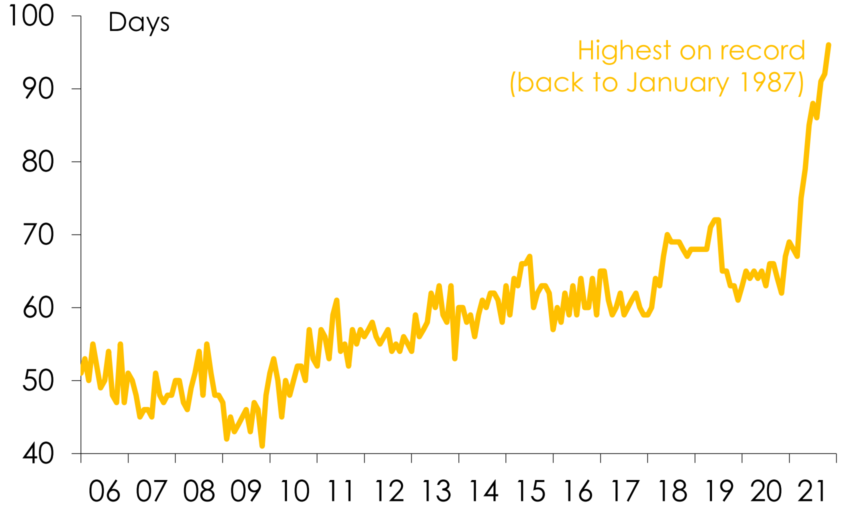
INDEPENDENT ECONOMICS

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

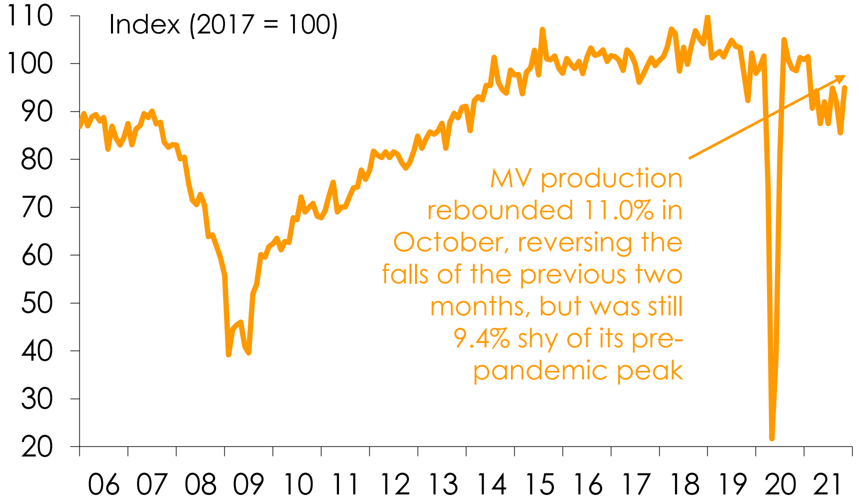
Manufacturers' order backlogs



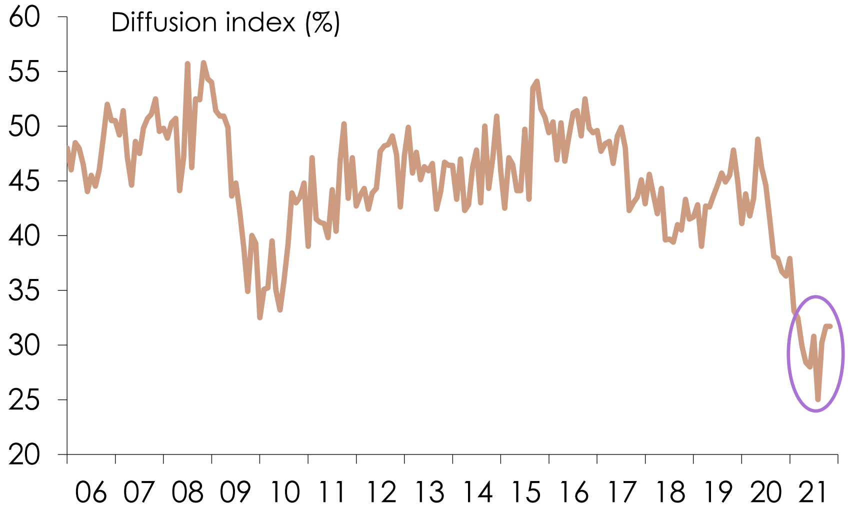
Lead-time for production materials



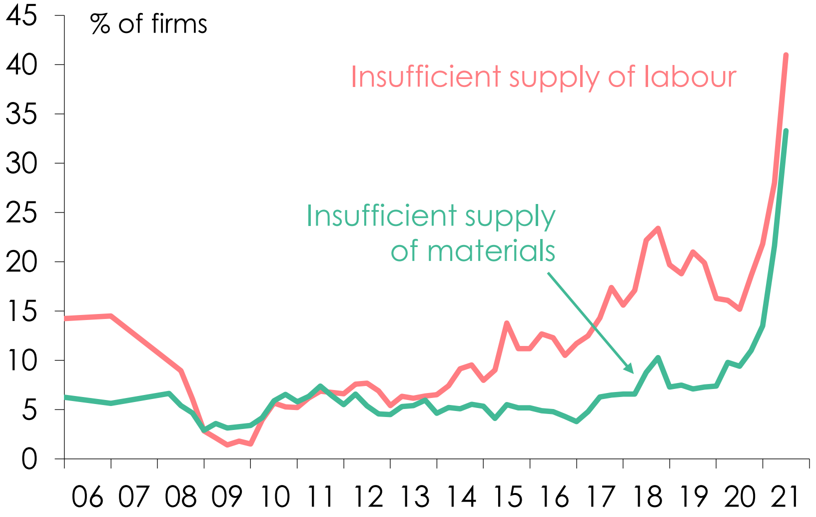
Motor vehicles & parts production



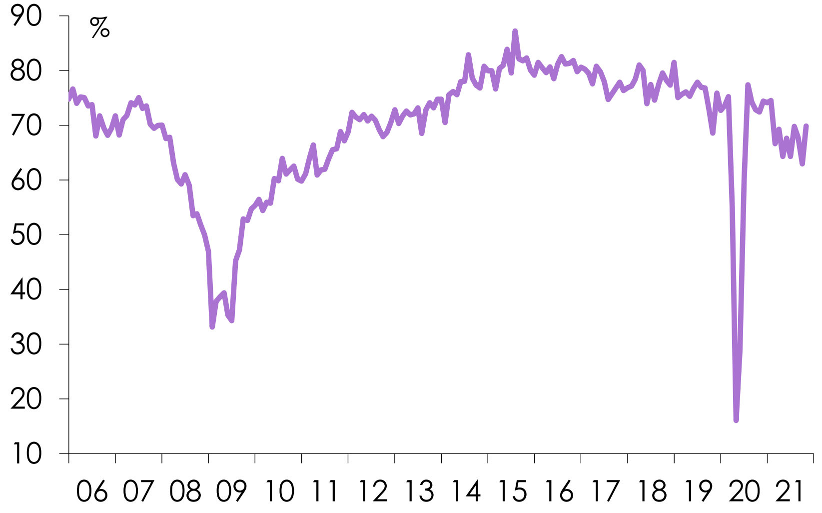
Manufacturers' customer inventories



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"'.

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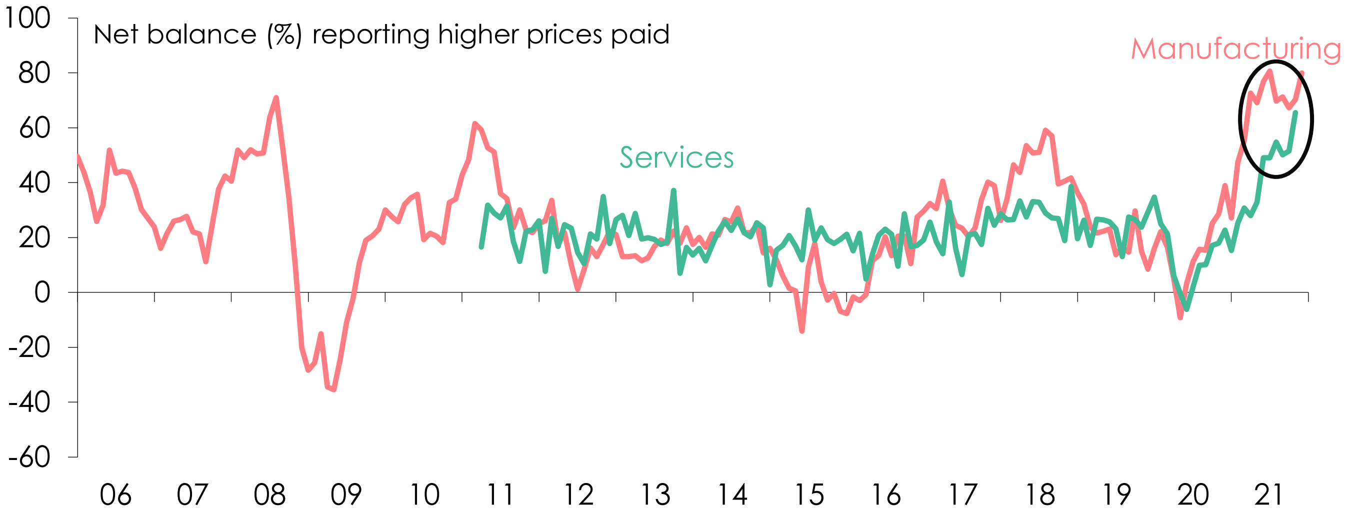
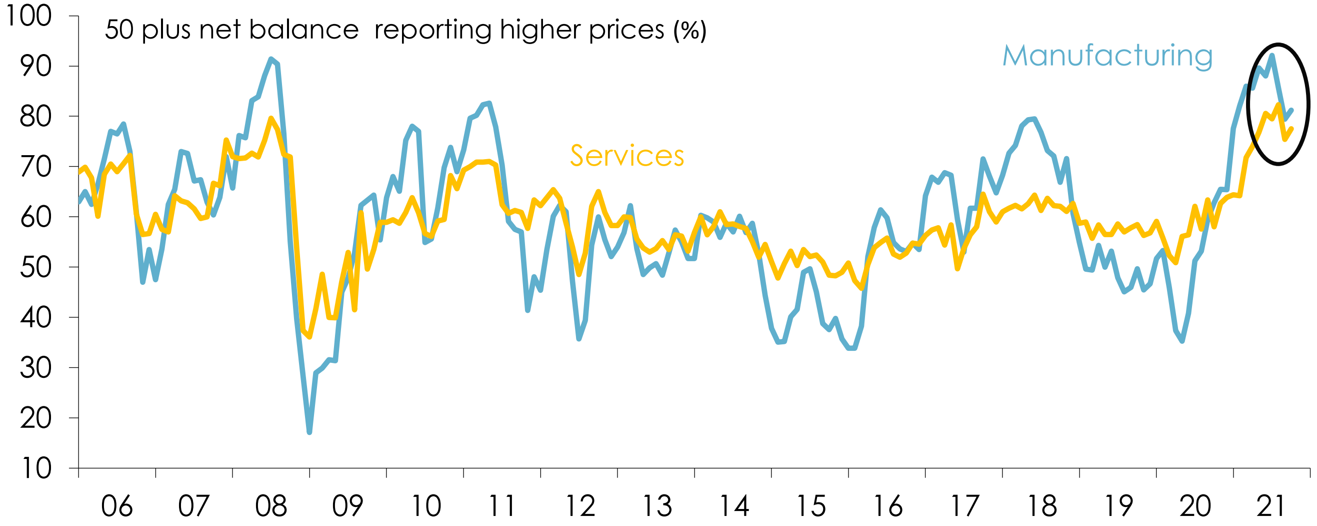
The November Philadelphia Fed survey suggests renewed upward pressure on goods prices, contrary to the previous two months

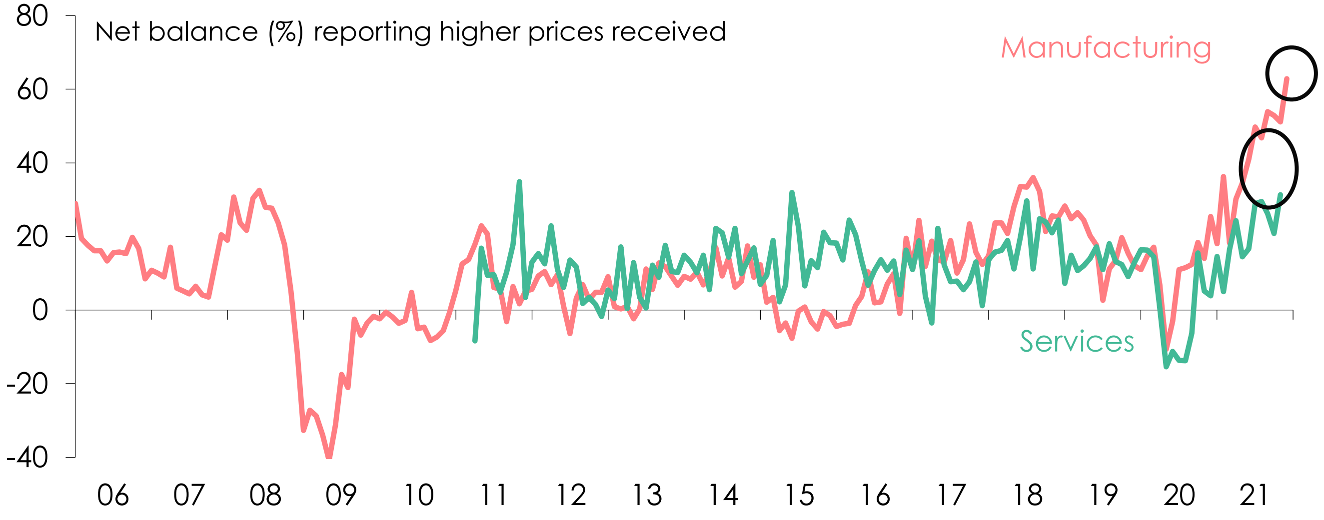
Philadelphia Fed survey – prices



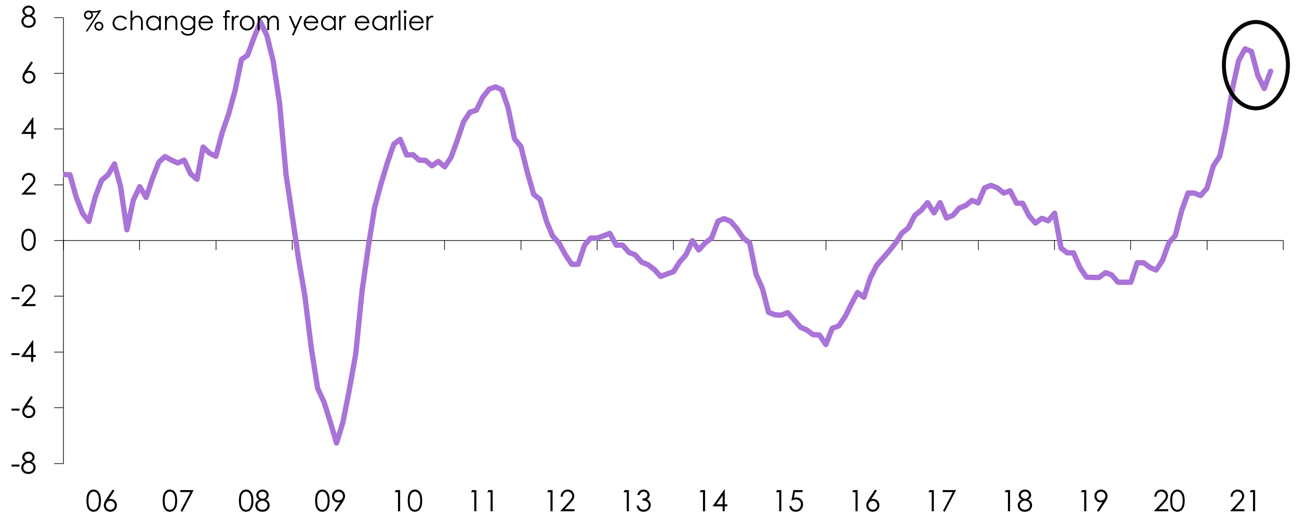
ISM survey – prices paid



'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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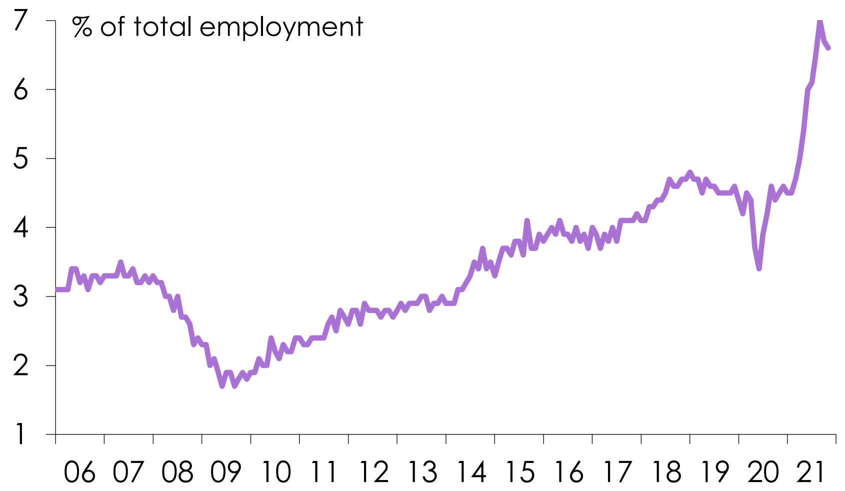
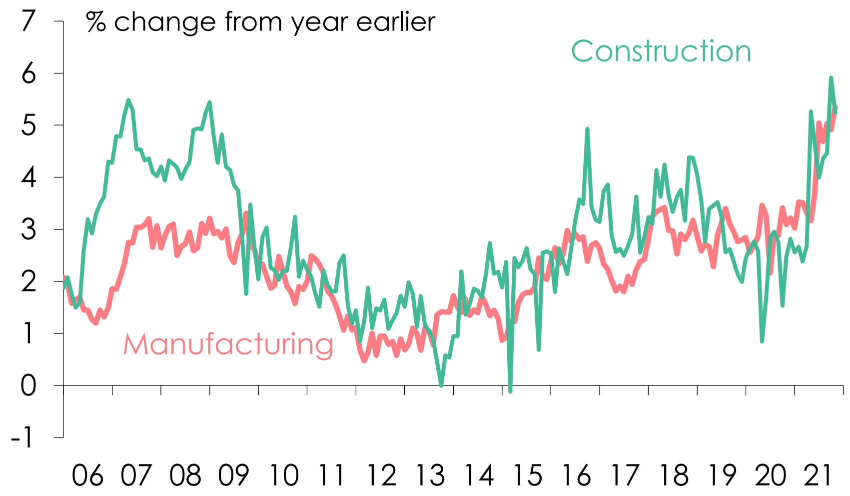
The so-called 'Great Resignation' may mean the non-accelerating inflation rate of unemployment ('NAIRU') is higher than the Fed thinks

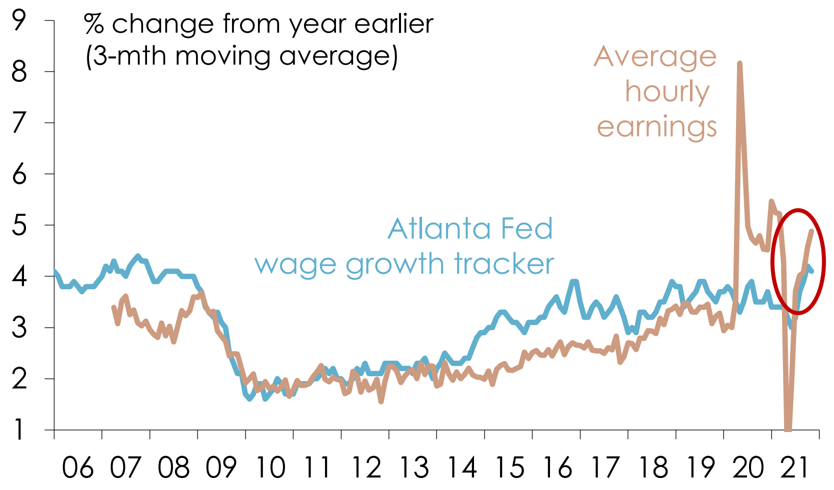
Job openings



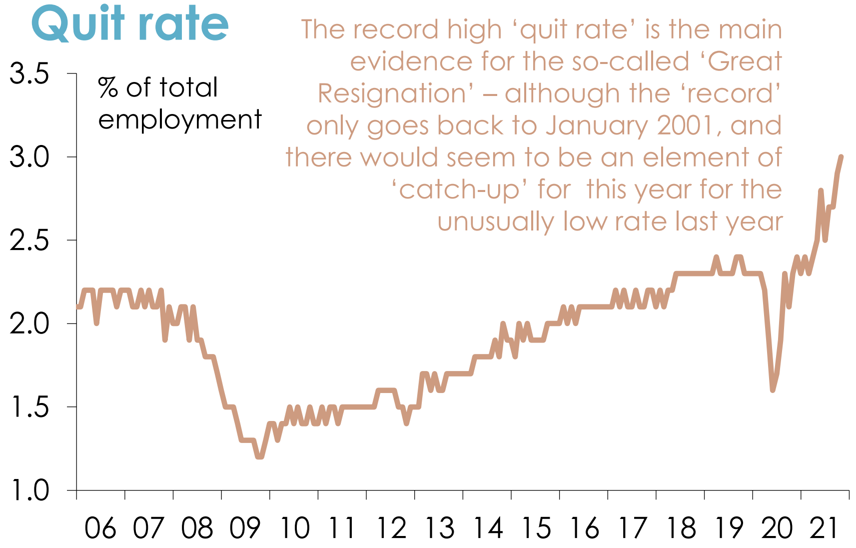
Average hourly earnings



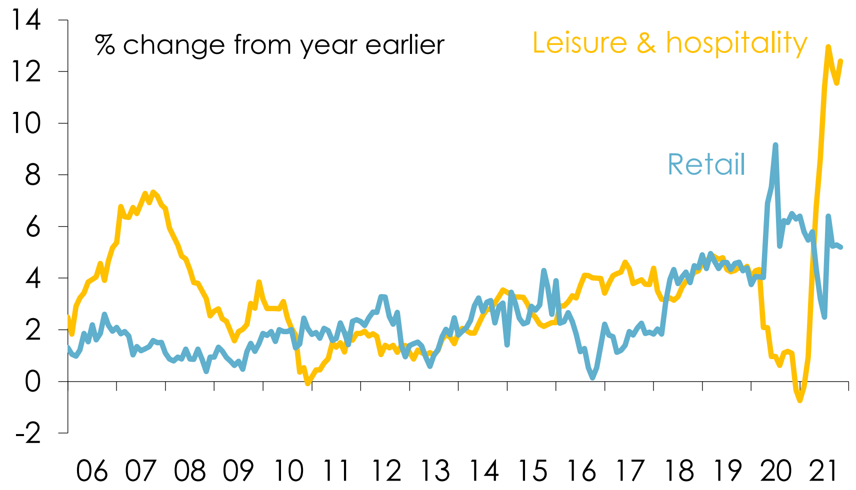
Overall wages growth - monthly



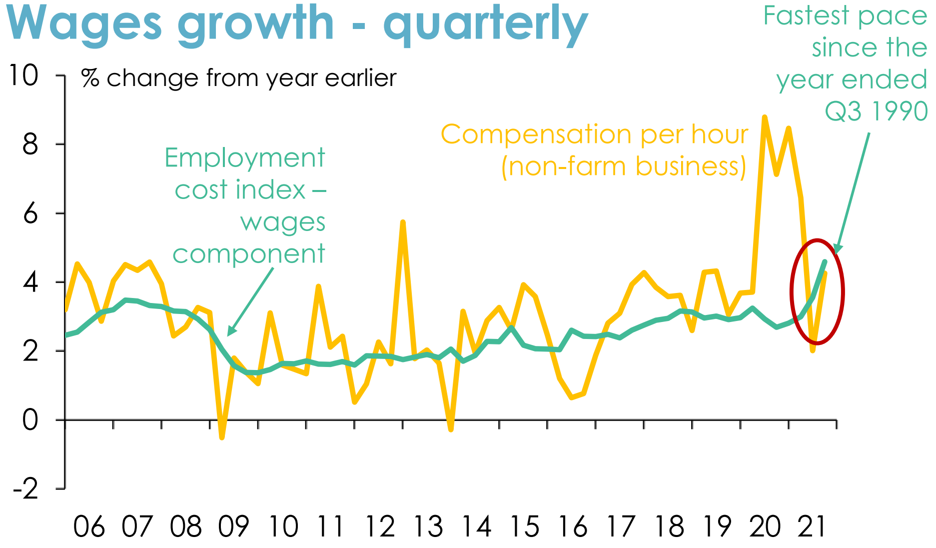
Quit rate



Average hourly earnings



Wages growth - quarterly



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

'Return to "What's New"'.

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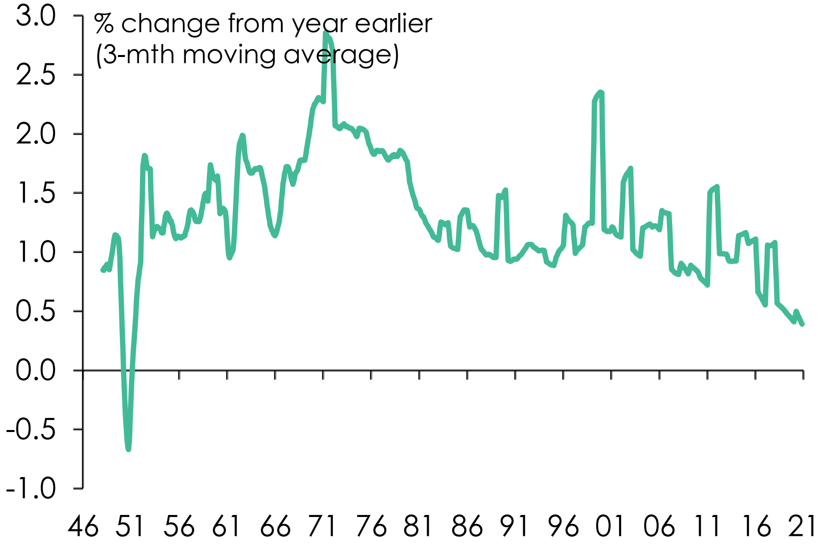
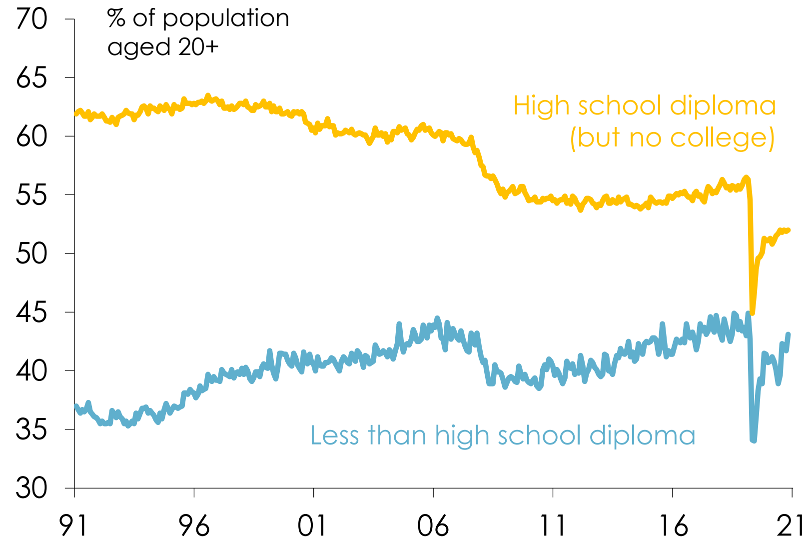
US labour market tightness owes a lot to restrictions on immigration, and to barriers to the return to the labour market of specific groups

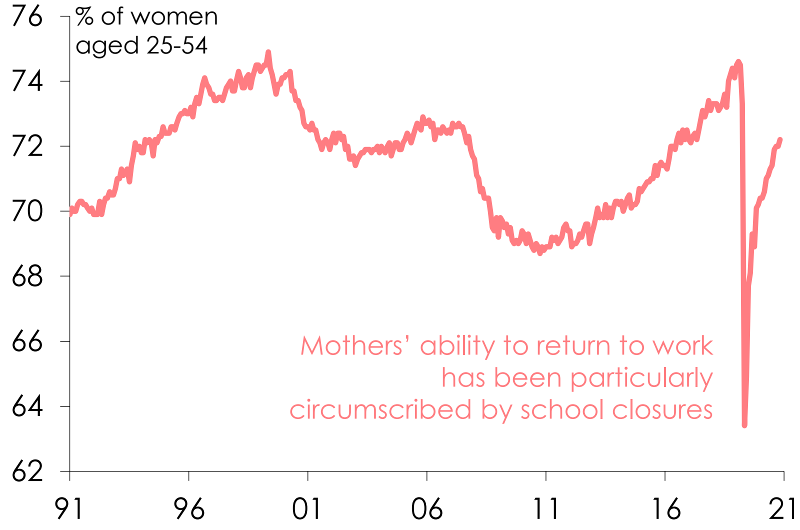
Civilian working age population



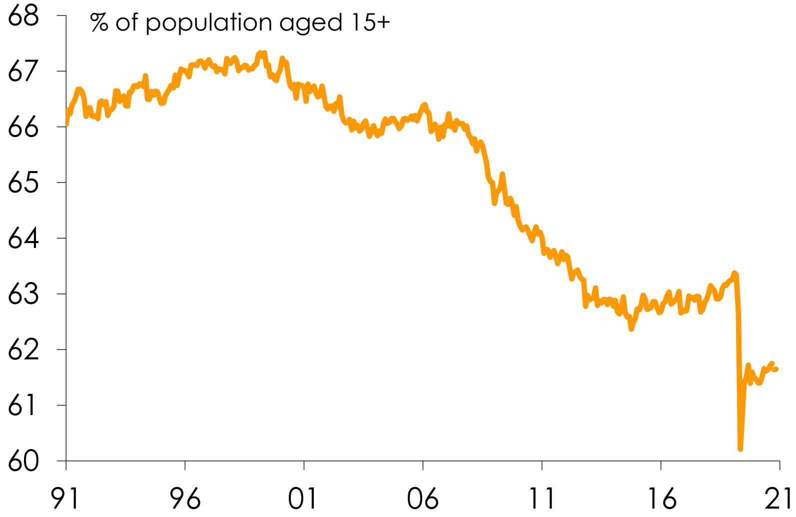
'E-pop' ratio – by education



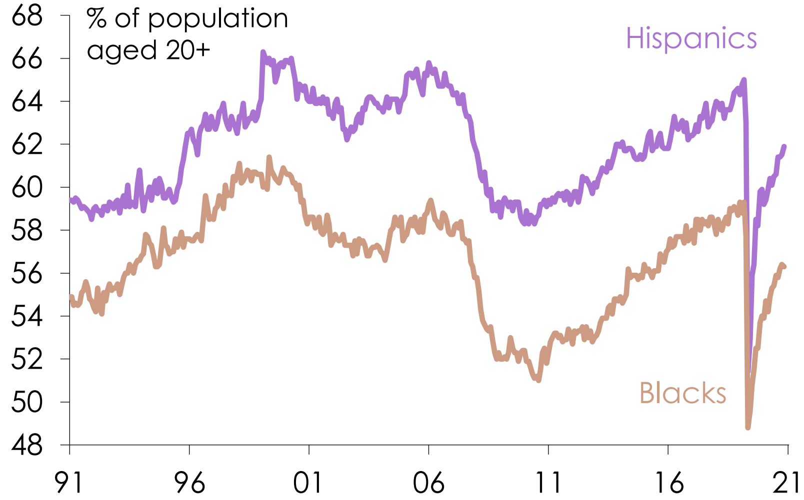
'E-pop' ratio – women 25-54



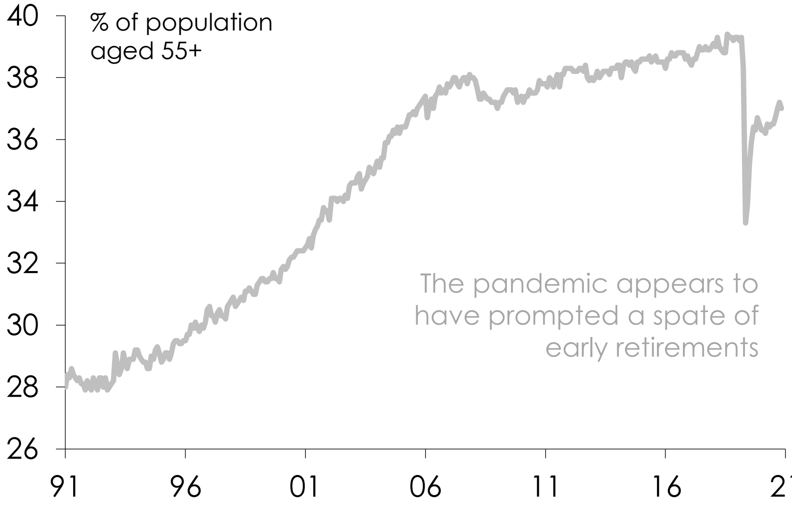
Employment-to-population ratio



'E-Pop' ratio – Blacks & Hispanics



'E-pop' ratio – people 55 & over



Source: US Bureau of Labor Statistics, *Current Employment Statistics*.

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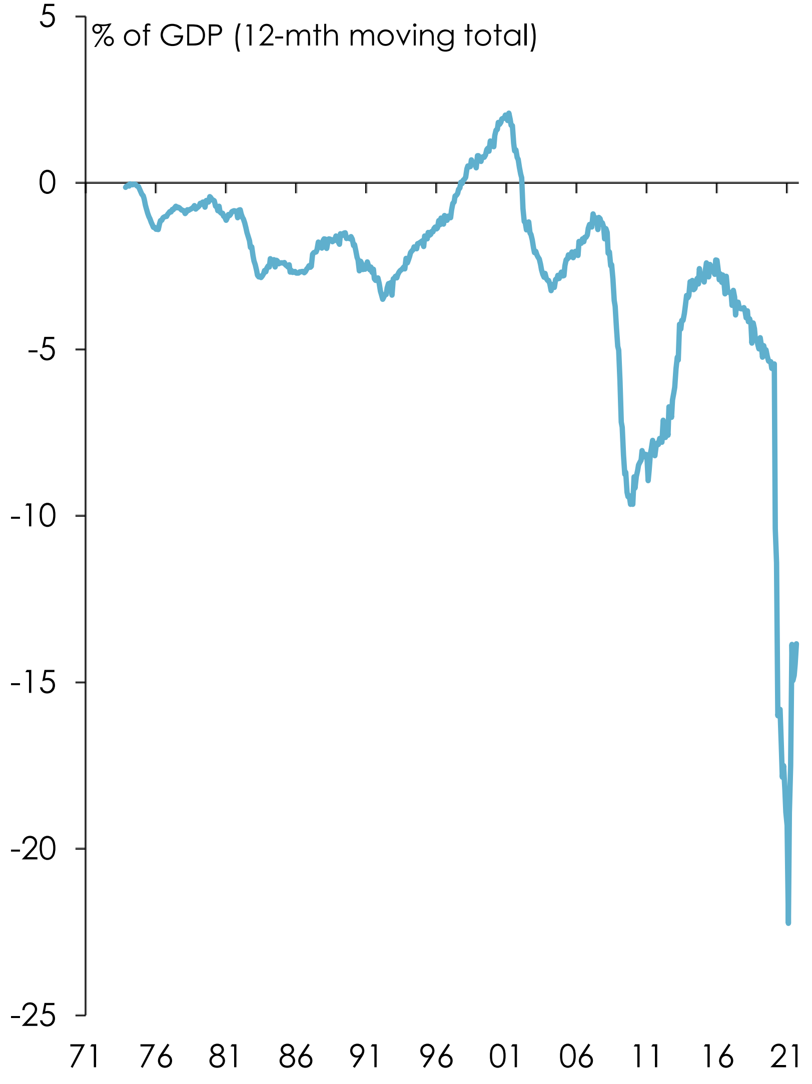
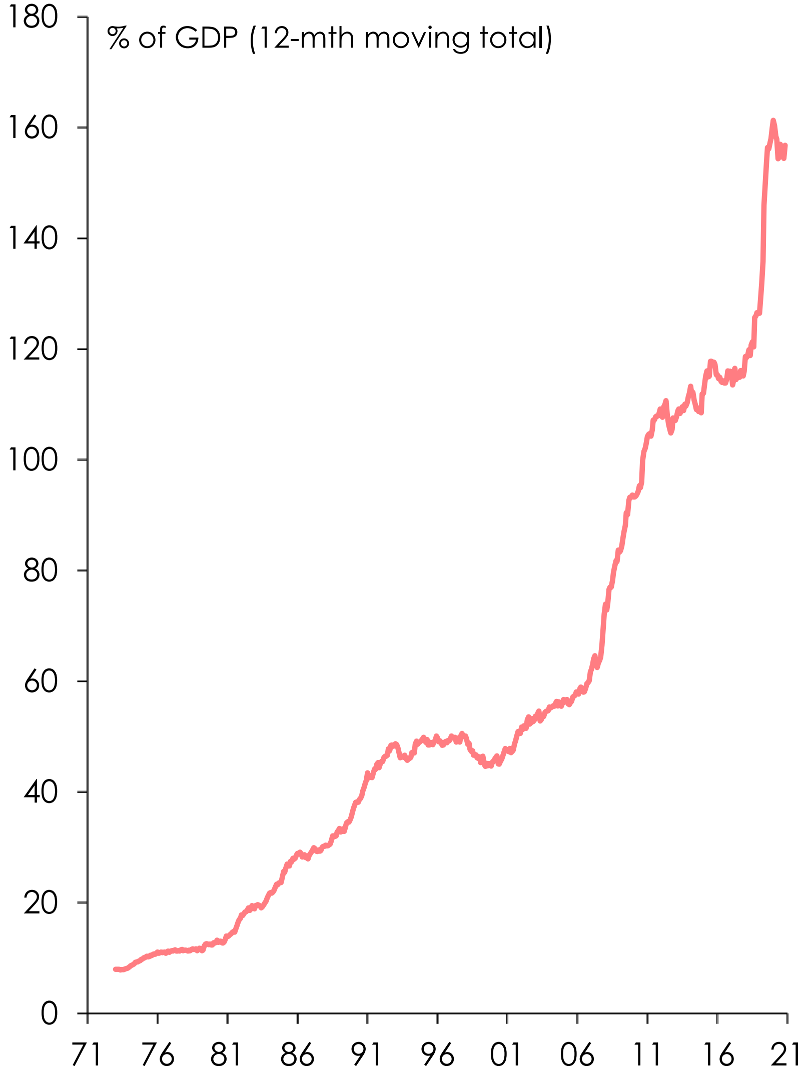
The US Federal Government's gross debt topped US$30trn in October – and Congress has approved one of the Administration's two big spending bills

US Federal budget deficit



US gross Federal debt

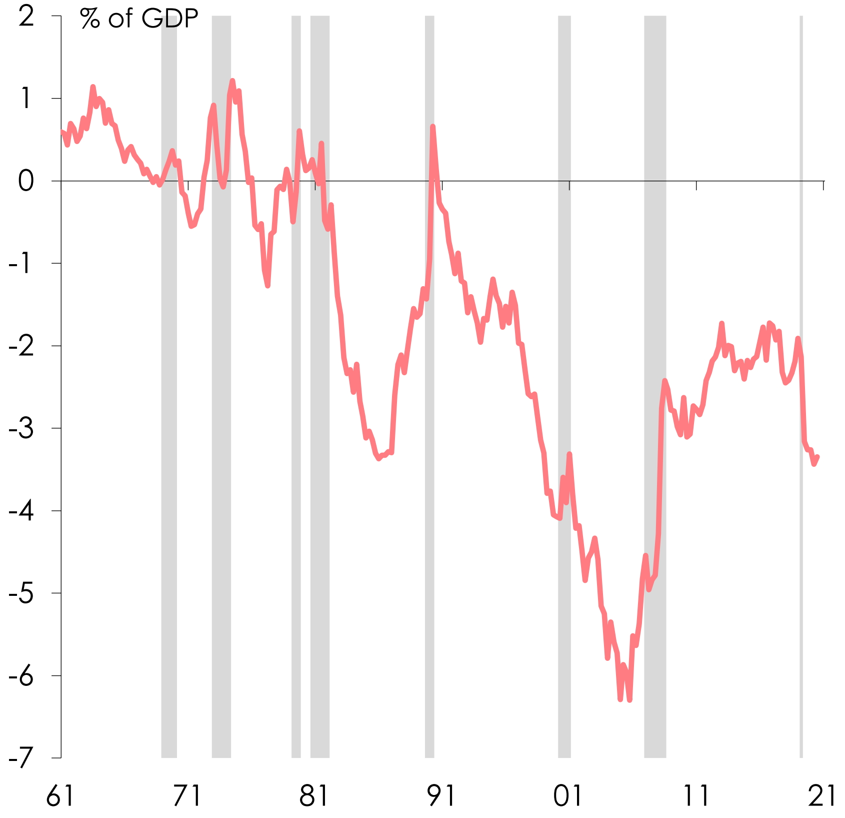


- The US Federal Government budget deficit widened by US$104bn to $165bn in October, although that was considerably less than the $284bn deficit incurred in October last year
- For the 12 months ended October the budget deficit totalled $2.66 trn (13.8% of GDP), down from a peak of $4.1 trn (22.2% of GDP) in the 12 months ended June
- The Treasury issued an unusually large amount of debt during October, pushing the market value of total debt on issue up by $453bn to $30.0trn (156.8% of GDP) – although $12.3 trn of this amount is held by the Federal Reserve or US Government trust accounts (eg Social Security)
- Congress has passed legislation raising the US Government's debt ceiling by US$480bn, which in effect allows the Government to continue operating until around 3rd December
- Congress also passed the Administration's US#1 trillion 'hard' infrastructure bill – and the House has passed the 'soft' infrastructure bill, but it is likely to face more difficulties in the Senate

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".

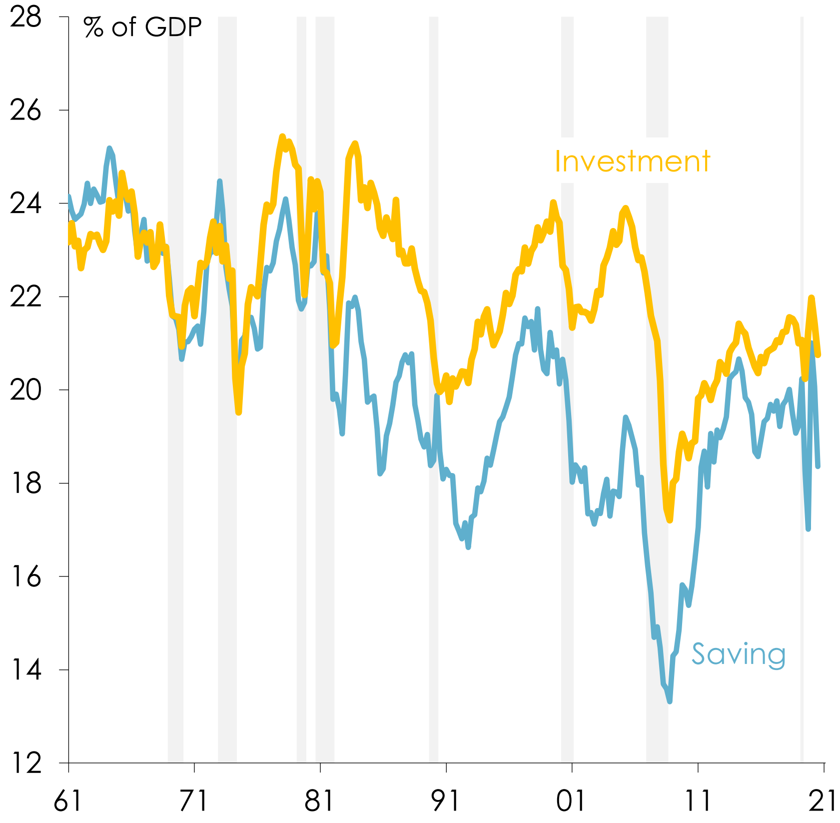
Any 'excess demand' resulting from 'excessive' stimulus is more likely to show up in the US current account deficit than in sustained higher inflation

US current account balance



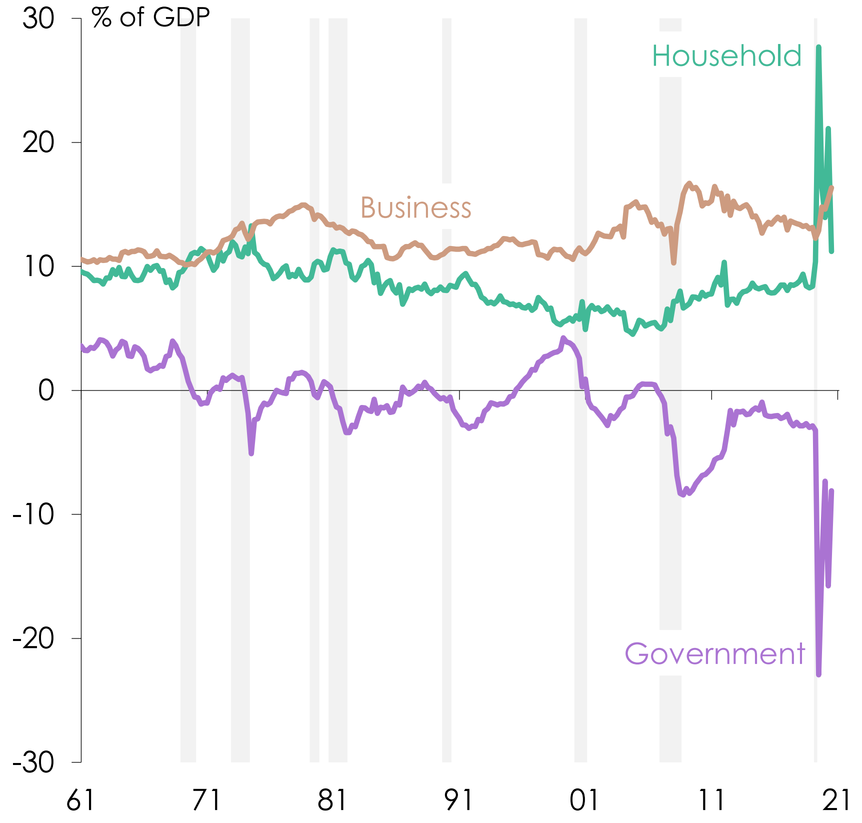
The US current account has *widened* since the recession that began last year – and in the first half of this year has been larger (as a pc of GDP) than at any time since the financial crisis

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

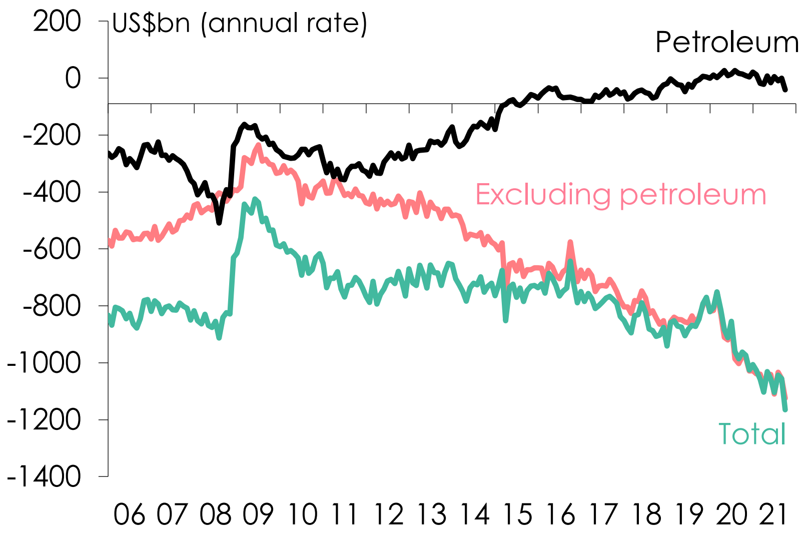


The dramatic increase in the budget deficit has been largely (but not totally) offset by an increase in house-hold saving

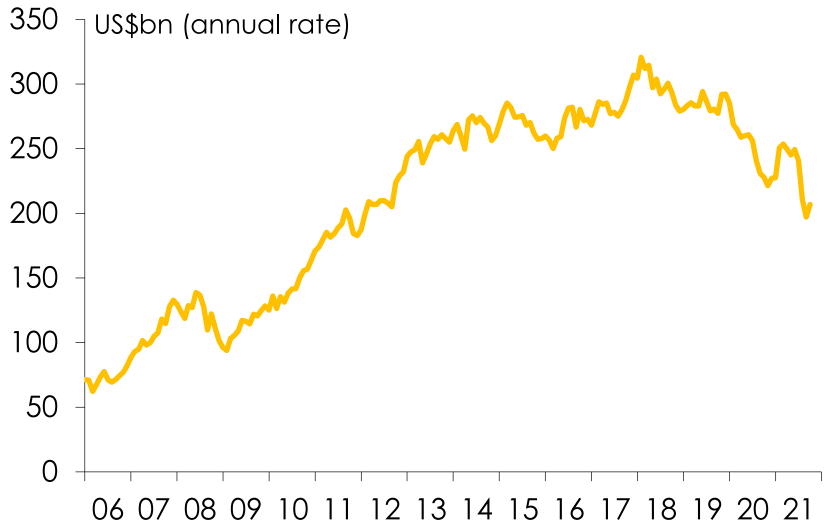
Note: shaded areas denote recessions as designated by the US National Bureau of Economic Research. Data up to Q2 2021.
Source: US Bureau of Economic Analysis. Return to "What's New".

The US recorded a new record goods and services trade deficit in September, and 2021 is likely to exceed the record of US$755bn set in 2006

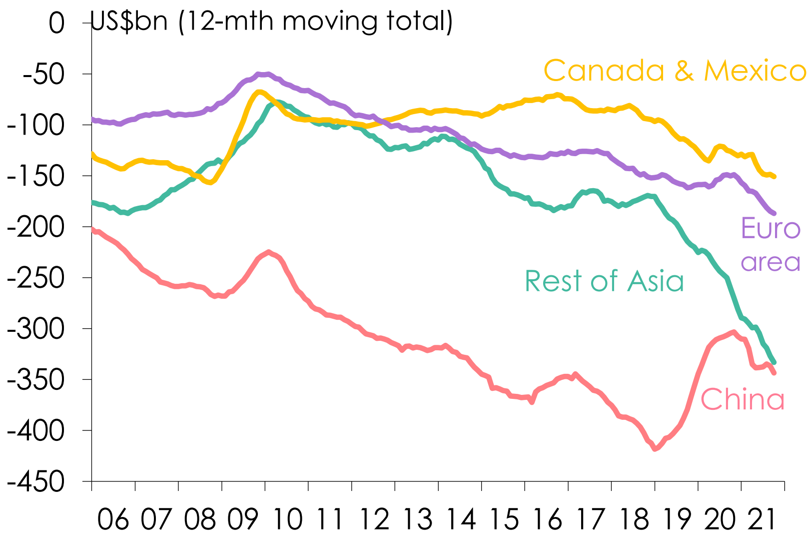
US goods trade balance



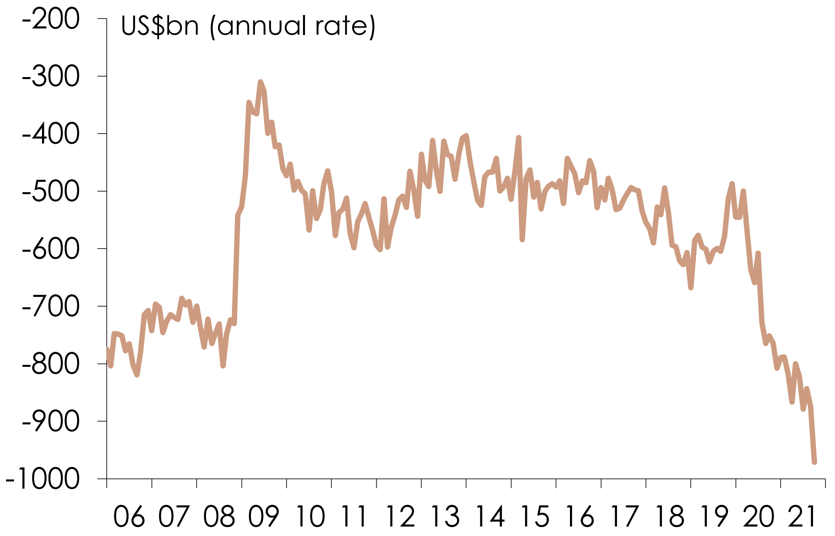
US services trade balance



US bilateral goods trade balances



US goods & services trade balance



- **The US goods trade deficit widened by US$8.9 bn to a new record $98.2bn in September**
  - exports fell 4.7% (largely driven by a 10% fall in exports of industrial supplies and materials) while imports rose 0.8%
  - the merchandise trade deficit is likely to exceed US$1 trn in 2021 for the second year in a row
- **The services surplus widened by $0.8bn to $17.2bn**
  - services exports rose 0.9% and imports fell 0.4%
- **The combined goods and services deficit in September was a record $80.9bn, $7.7bn more than the previous record in June**
  - for the first nine months of 2021 the goods and services deficit was $639bn, compared with $480bn in the first nine months of 2020
  - the deficit would need to shrink to an average of less than $39bn a month for the 2021 total not to exceed 2006's record of $755bn
- **This is where 'excess demand' is showing up in a sustained way, rather than in sustained higher inflation**

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

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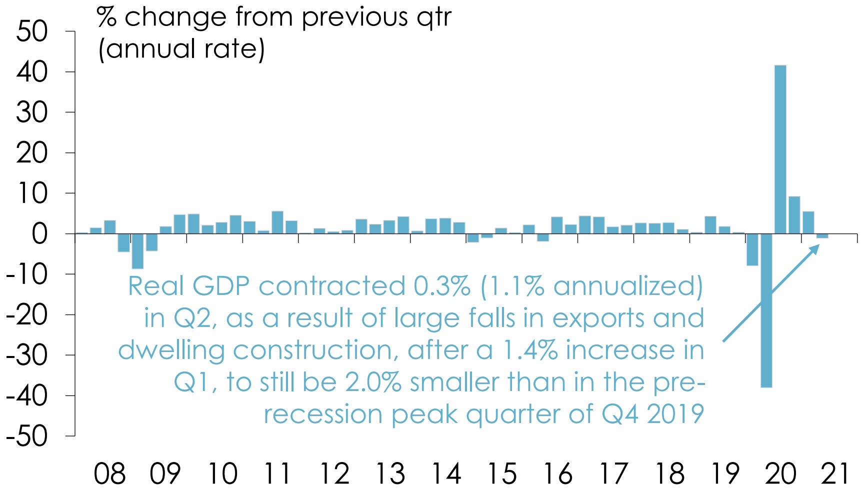
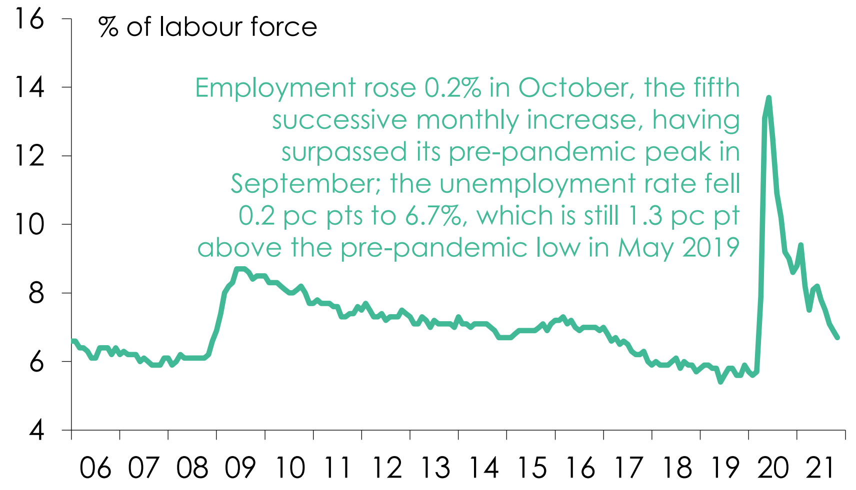
Employment in Canada rose another 0.2% in October, although the unemployment rate is still more than 1 pc pt above its pre-pandemic low

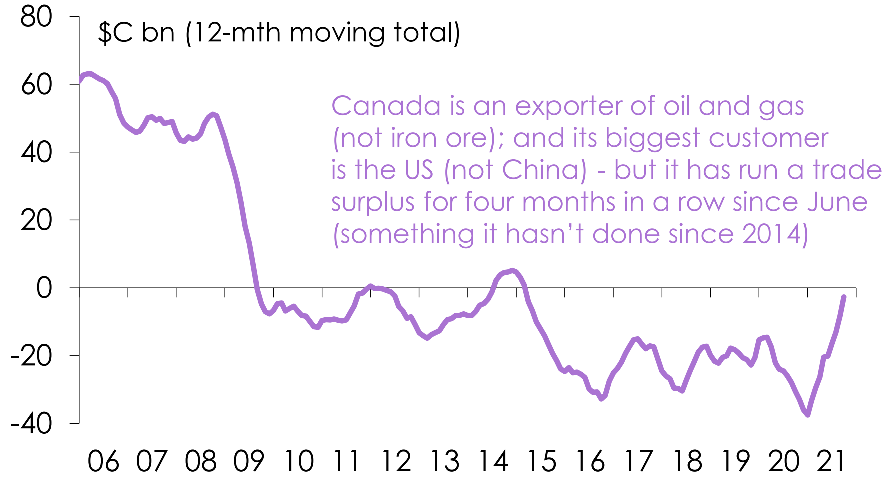
Real GDP



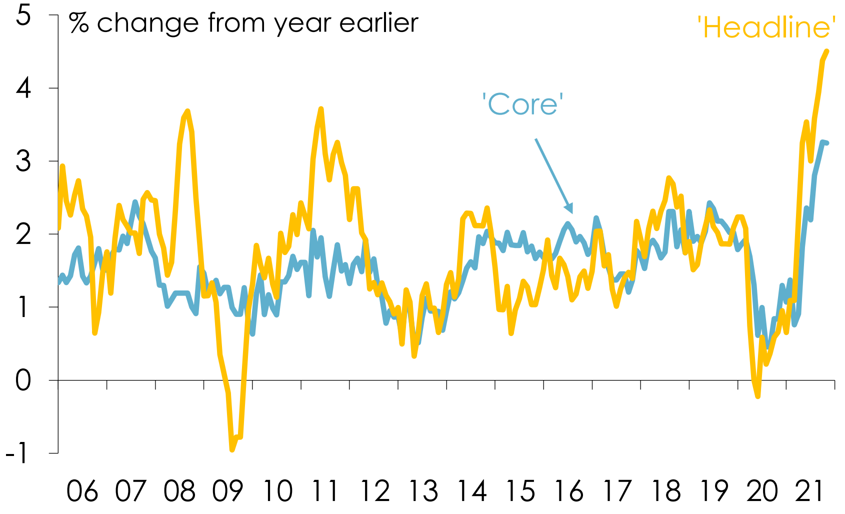
Unemployment rate



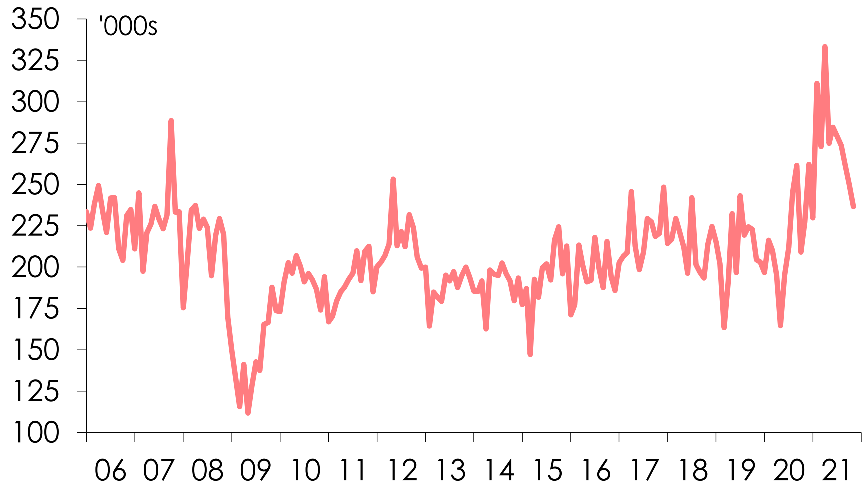
Merchandise trade balance



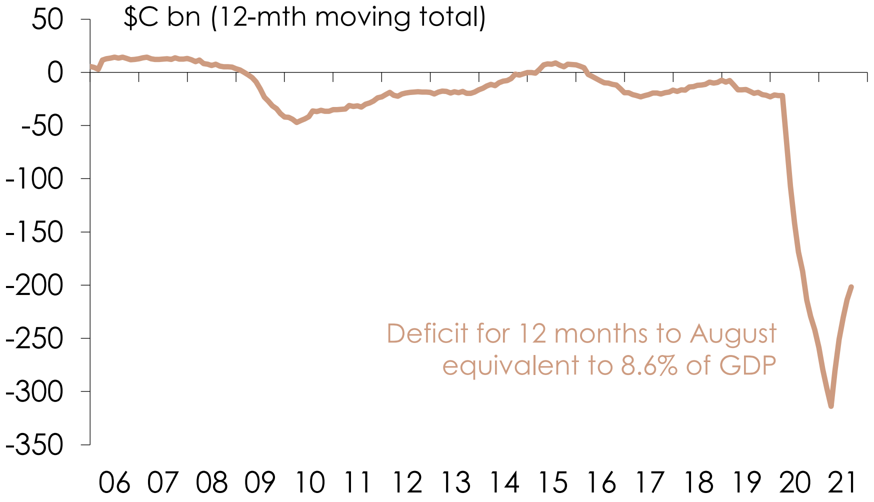
Consumer prices



Housing permits



Federal budget balance



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

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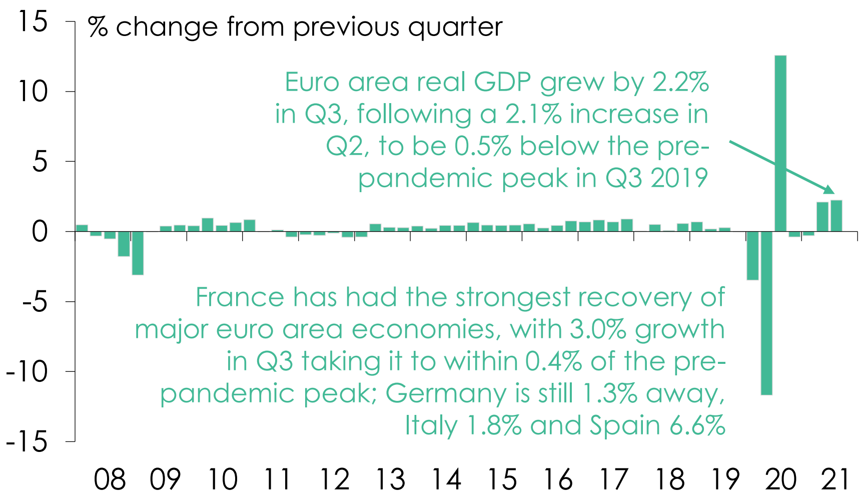
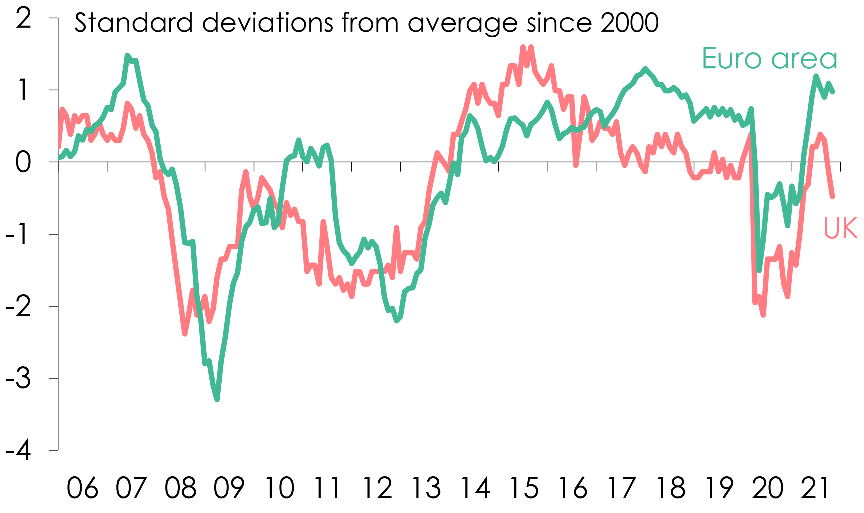
The UK economy grew a slower-than-expected 1.3% in Q3, to be still 2.1% below its pre-pandemic peak, cf. a 0.5% shortfall for the euro area

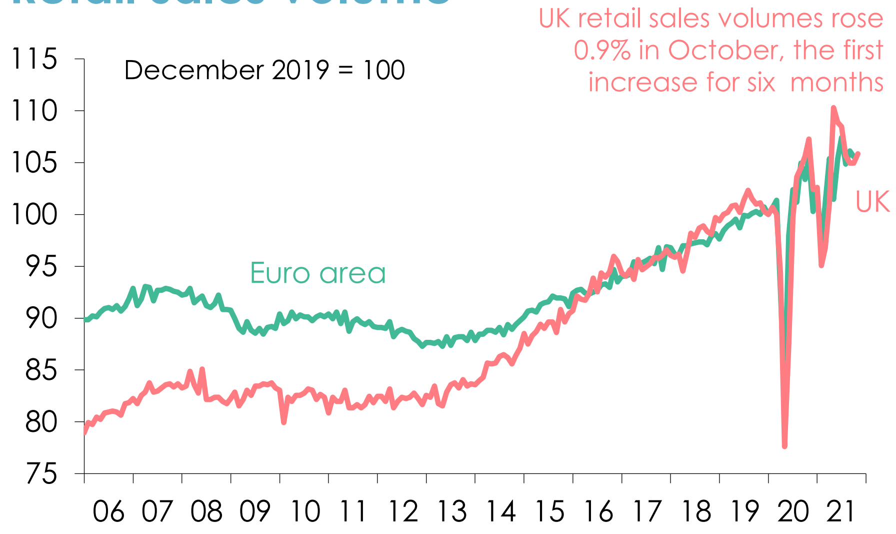
Euro area real GDP



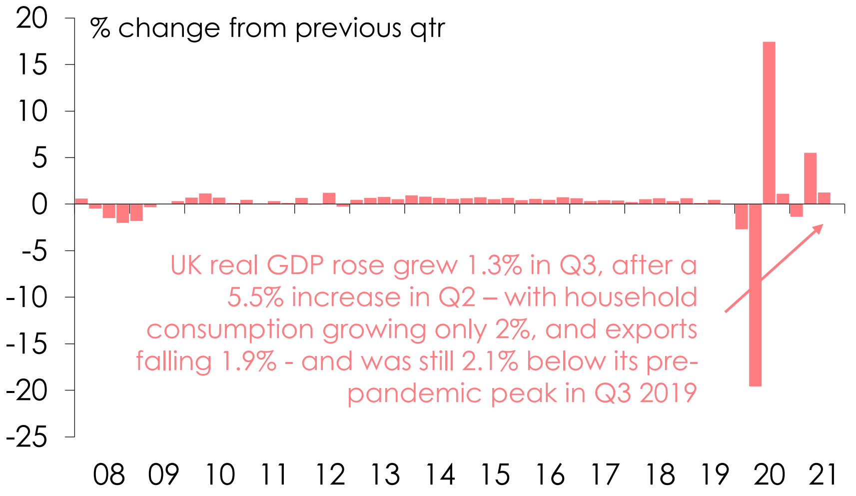
Consumer confidence



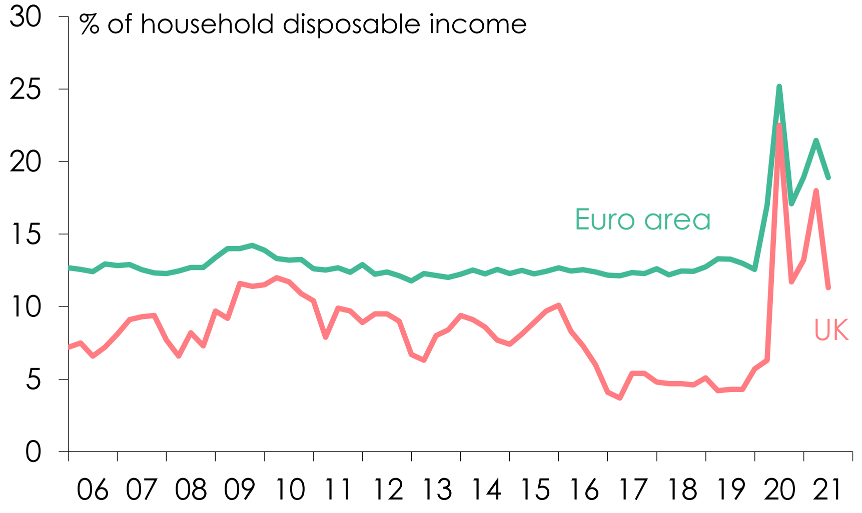
Retail sales volume



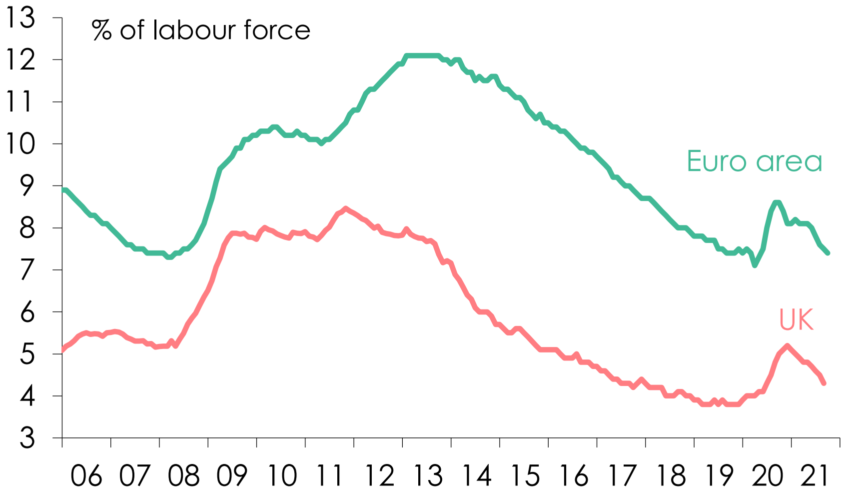
UK real GDP



Household saving ratio



Unemployment



Sources: Eurostat; UK Office for National Statistics; GfK. The UK unemployment rate is published as a 3-month moving average.

Return to "What's New".

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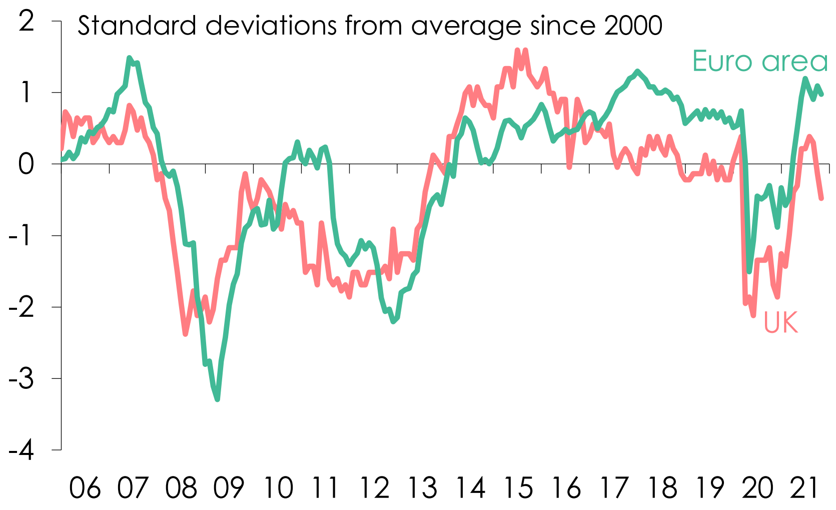
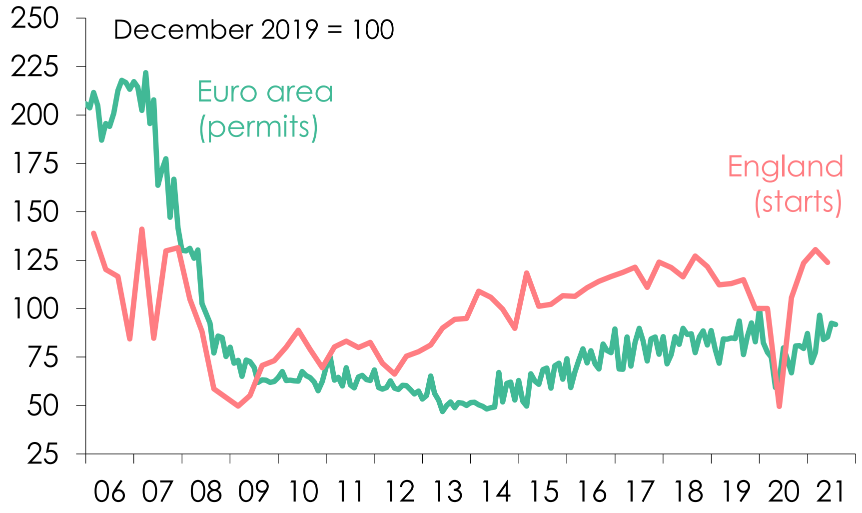
UK business confidence has also fallen sharply as energy prices have spiked, while UK exports have stagnated since 'Brexit'

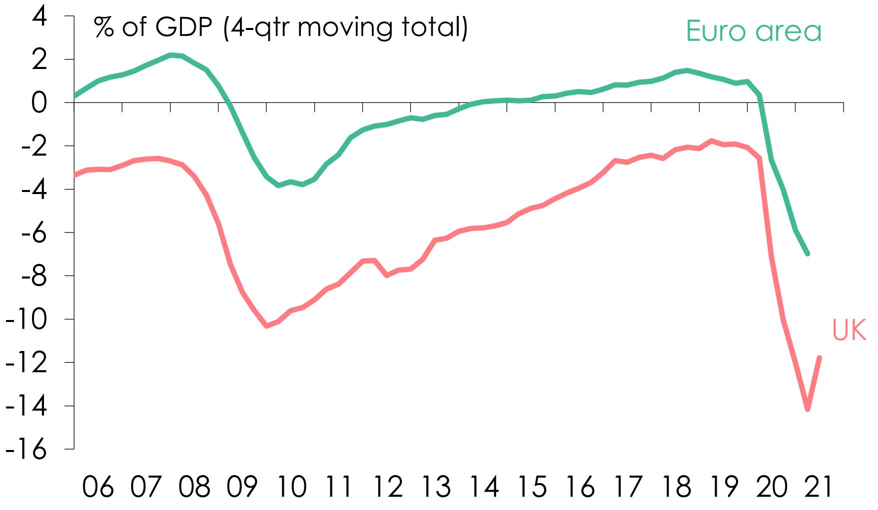
Business confidence



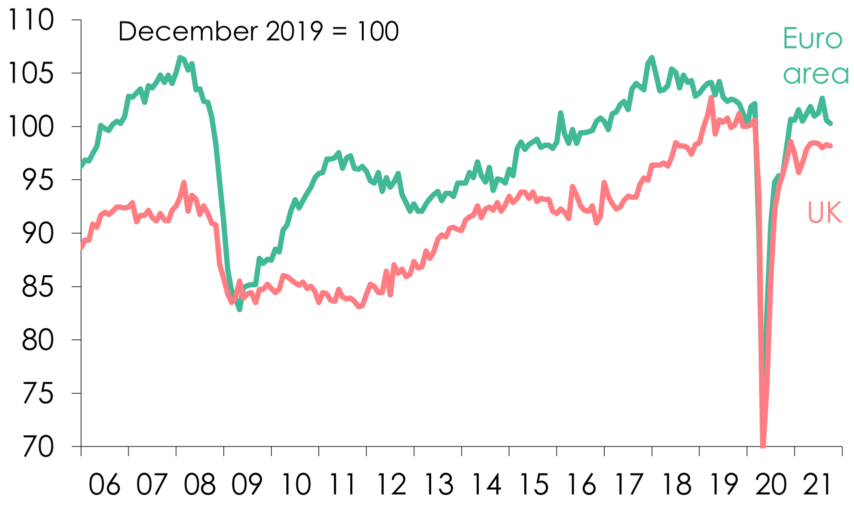
Housing activity



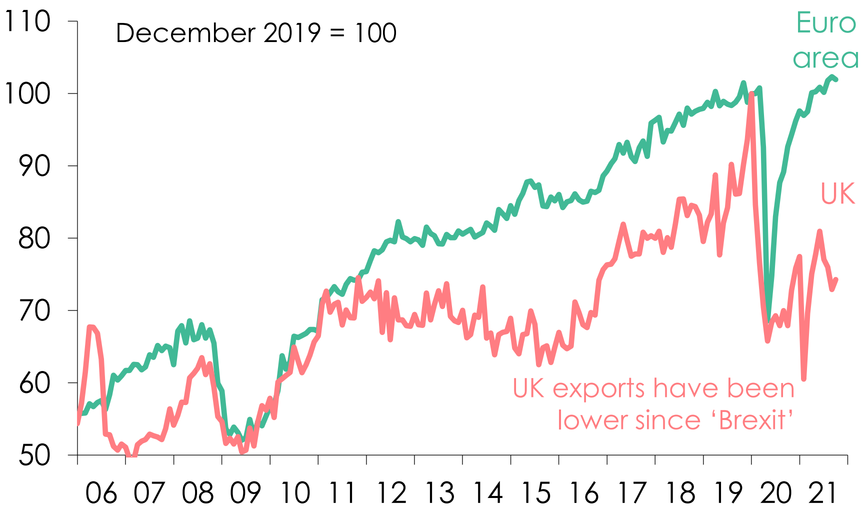
Government fiscal balance



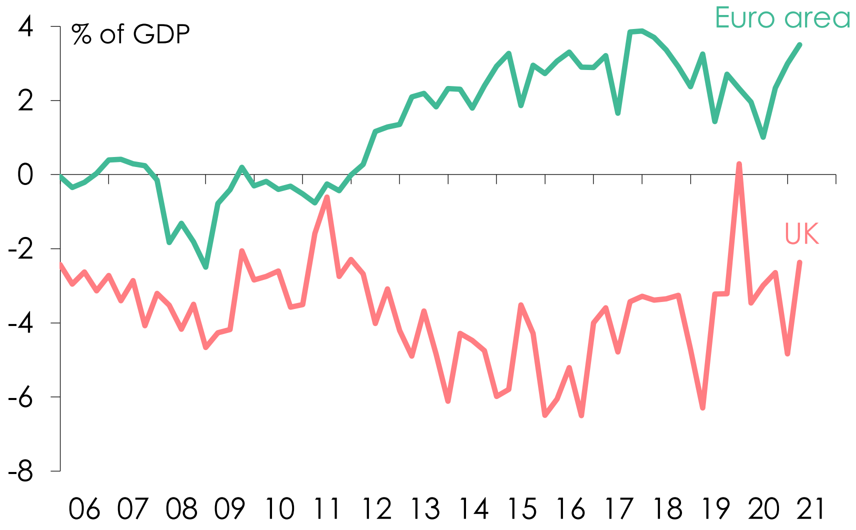
Manufacturing production



Merchandise exports



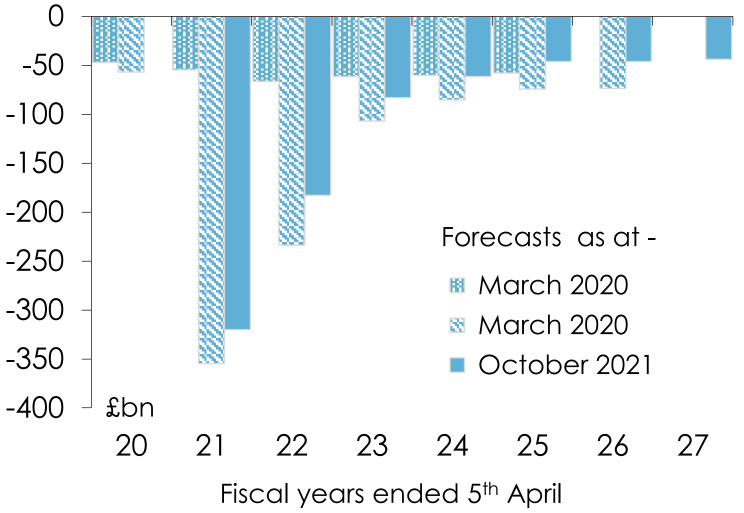
Current account balance



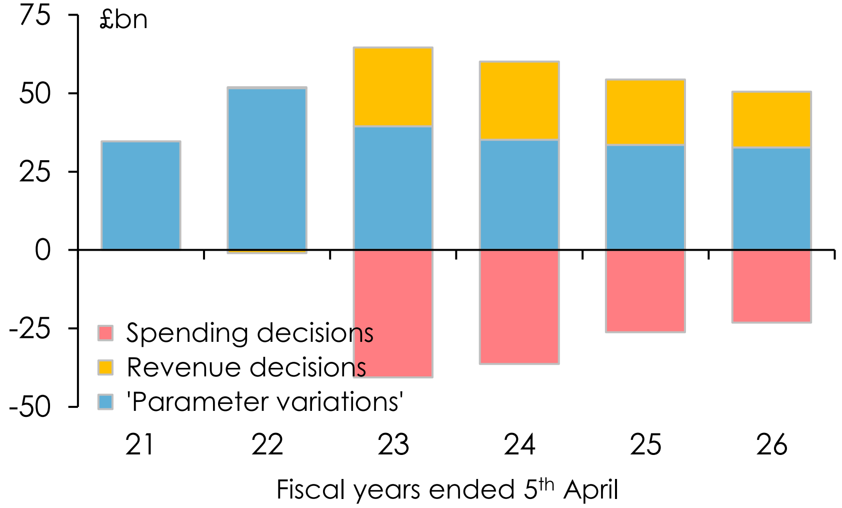
Sources: Confederation of British Industry; Eurostat; UK Office for National Statistics. Return to "What's New".

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

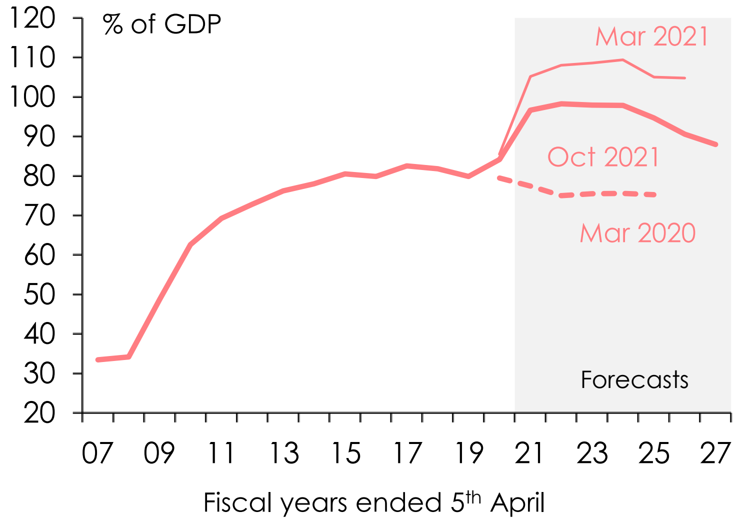
Public sector net borrowing



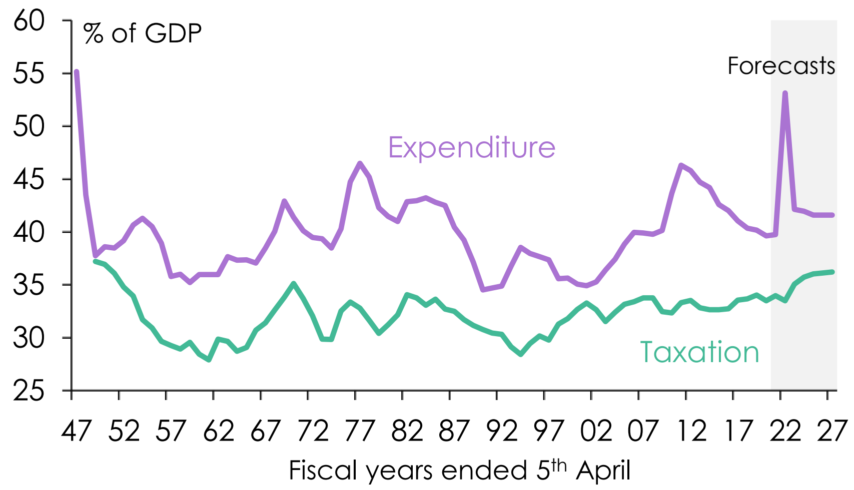
Sources of change in PSNB



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

Sources: UK Office for Budget Responsibility; HM Treasury.

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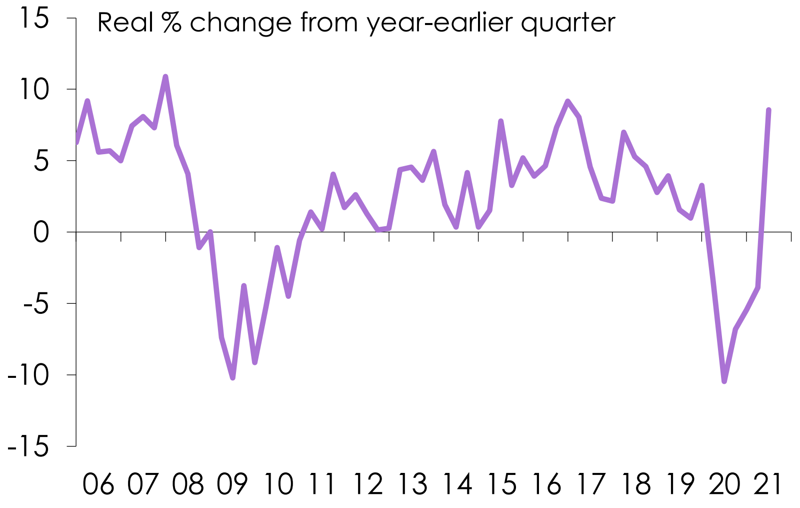
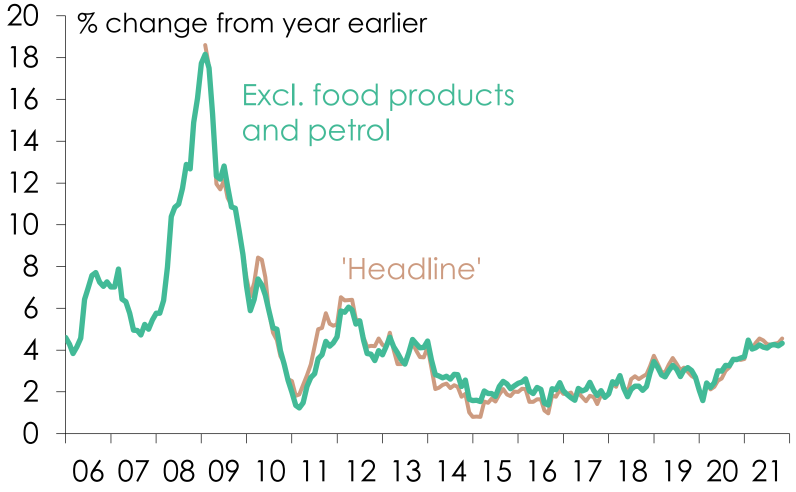
Iceland's central bank this week raised rates for the fourth time this year after revising its growth and inflation forecasts upwards

- **Seðlabanki Íslands, the Central Bank of Iceland, this week raised its policy interest rate, the rate on seven-day term deposits, by another 25 basis points to 2.0%**
  - this is the fourth such increase this year, after increases in May, August and October
- **In its latest Monetary Bulletin, SI raised its forecast for 2022 GDP growth to 5.1% (from 3.9% previously), from an expected 3.9% this year**
  - and noted that "the slack in output is narrowing quickly and may even have closed already"
- **It also revised up its inflation forecasts, with inflation expected to peak at 4.7% in the current quarter, "to remain above 4% for longer than previously anticipated, and not to fall below 3% until Q4 2022"**
  - and noted that the risk profile was "tilted to the upside", given that "wage negotiations slated for next year [could] result in conti-nued pay rises well in excess of productivity" and that house prices might not "abate as is assumed in the baseline forecast"

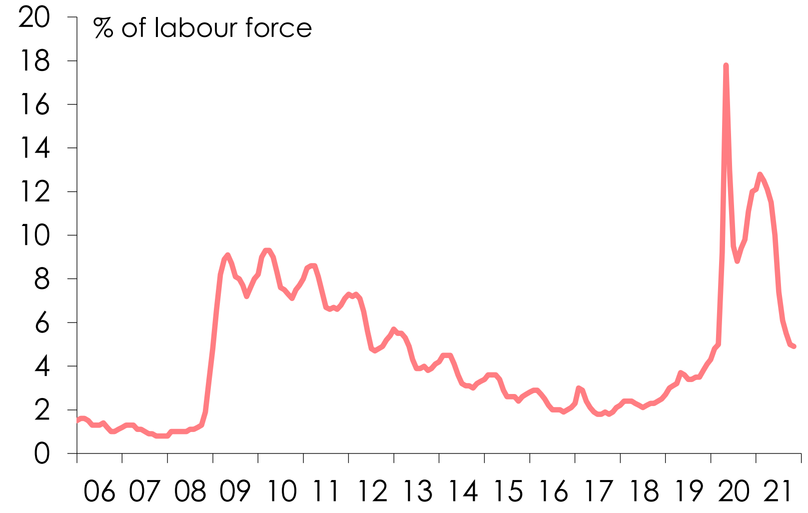
Real GDP



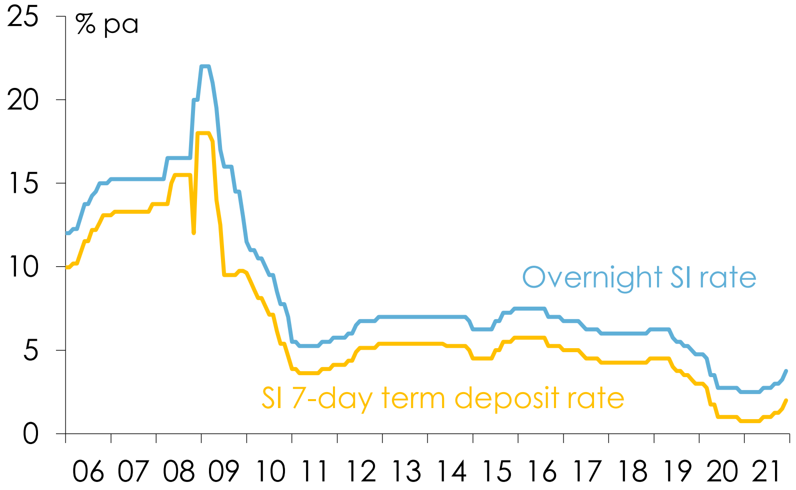
Inflation



Unemployment



Interest rates



Sources: Hagstofu Íslands; Seðlabanki Íslands. Return to "What's New".

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Central banks in Central and Eastern Europe, and in Latin America and the Caribbean, are continuing to raise rates – with Turkey the 'odd man out'

- Magyar Nemzeti Bank (Hungary's central bank) raised its base rate another 30 bp, to 2.10%, at its Monetary Council meeting on Tuesday, bringing the total increase since June to 150 bp
  - in its assessment the Monetary Council expects inflation to be "substantially higher in 2022 as a whole" than previously projected, warning that the "tight labour market, coupled with strong wage growth … may lead to increases in inflation expectations and strengthen second-round inflation risks"
  - the Council "considers it a key priority to anchor inflation expectations properly and thereby continuously to mitigate second-round inflation risks" and "intends to shape expectation appropriately by continuing the cycle of base rate hikes"
- This follows rate increases earlier this month by central banks in Czechia, Poland and Romania (see slide 87)
- Central banks in Mexico, Peru and Uruguay also raised their policy interest rates last week, in each case for the third time this year (see slide 87)
- South Africa's Reserve Bank raised its policy rate for the first time this week – even though inflation is, and is expected to remain, within its target range – see slide 89
- The State Bank of Pakistan raised its policy rate by 150bp, to 8.75%, following an initial 25bp rise in September, citing "unforeseen developments that have affected the outlook for inflation and the balance of payments"
- The BoJ – no, not *that* one, the Bank of Jamaica – raised its policy interest rate by 50bp to 2% this week, following a 100bp increase in September
  - this followed upward revisions to the BoJ's inflation forecasts, with inflation expected to peak in the 8-9% range over the next 10-12 months, cf the inflation target of 4-6%, and a desire to "moderate the pace of depreciation in the exchange rate" so that "movements in the exchange rate do not threaten the inflation target"
- The one 'outlier' among emerging markets is Turkey, whose central bank this week cut its policy rates for the third time in three months, this time by 100bp, despite inflation running at almost 20% - see slide 90

Return to "What's New".

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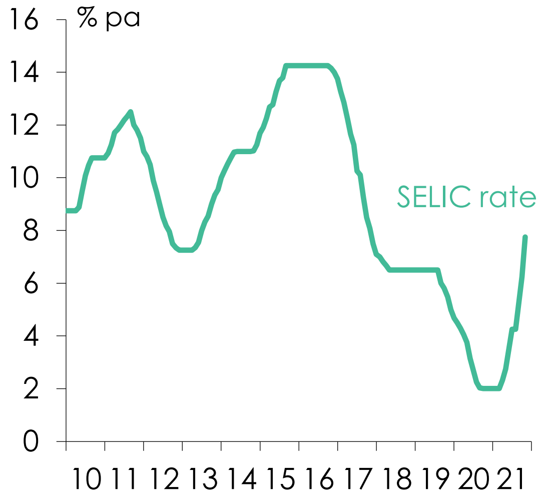
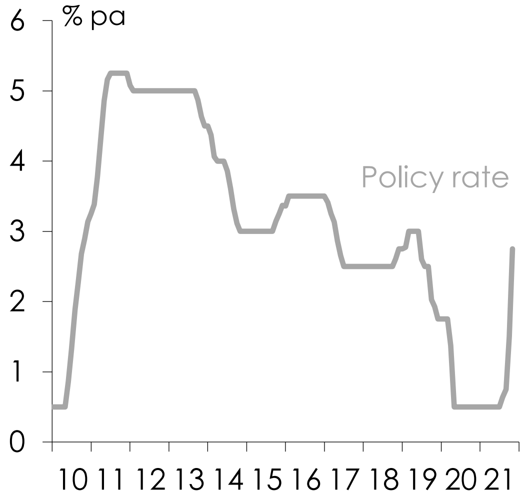
A growing number of 'emerging' market central banks have begun tightening monetary policy

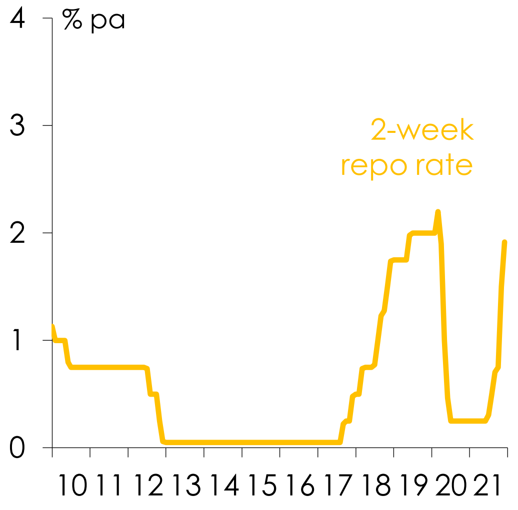
Brazil



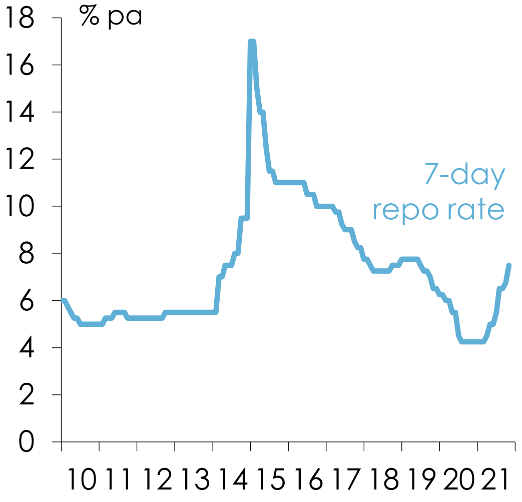
Chile



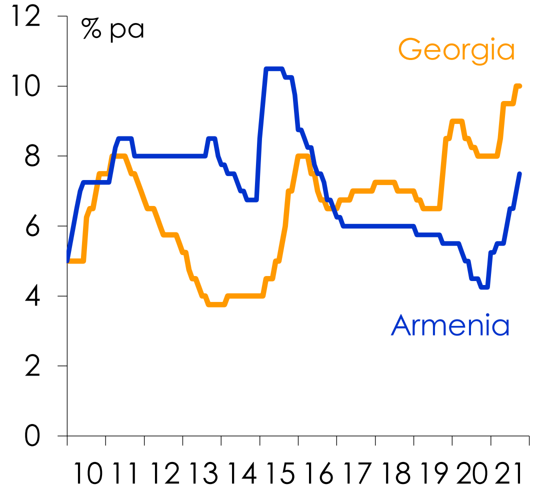
Czechia



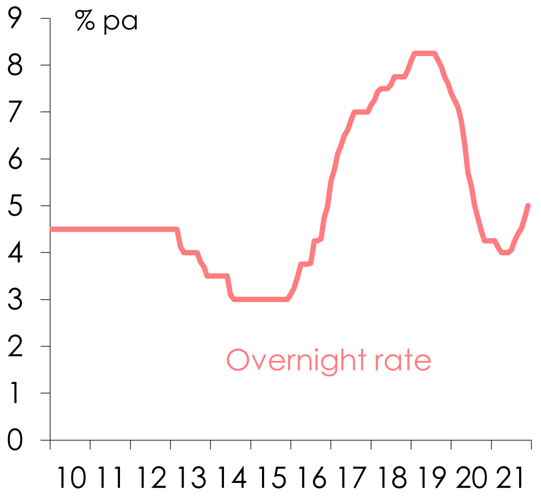
Russia



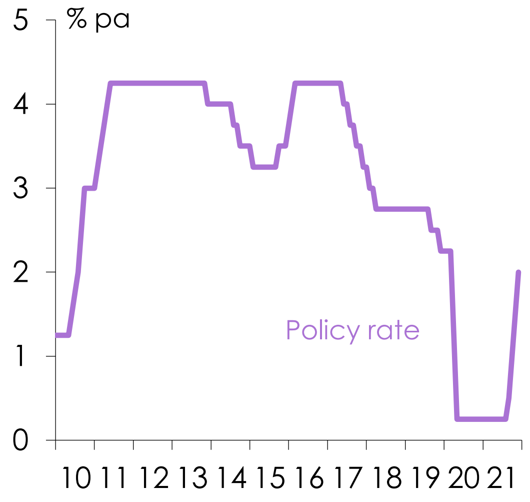
Georgia & Armenia



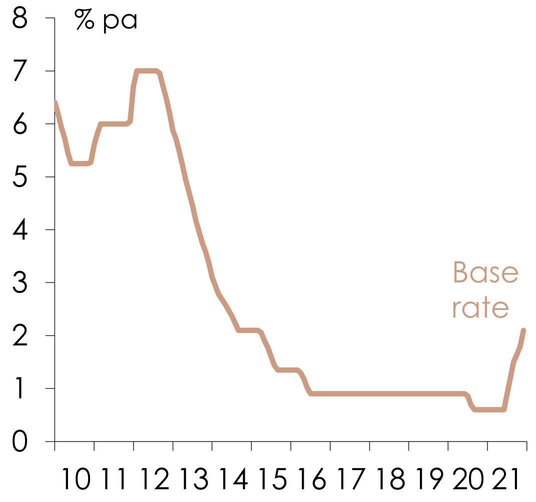
Mexico



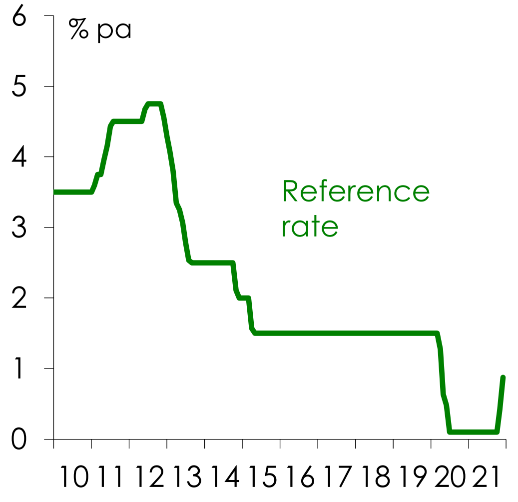
Peru



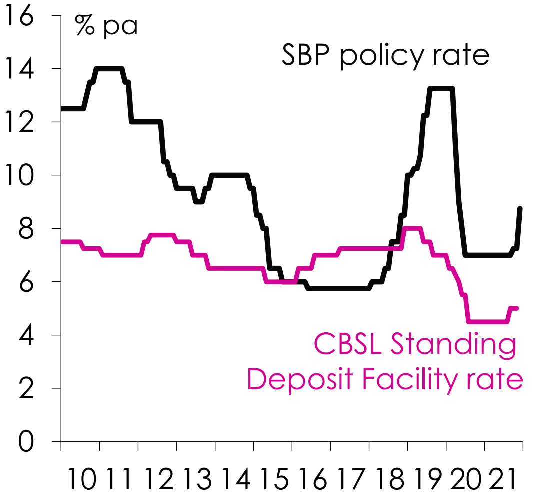
Hungary



Poland



Pakistan & Sri Lanka

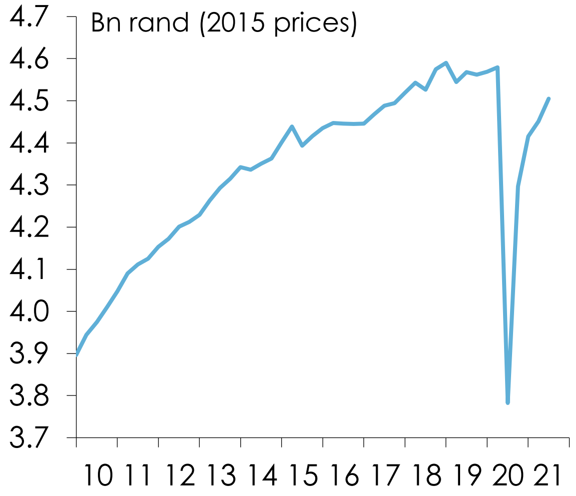


Sources: Banco Central do Brasil; Banco de México; Banco Central de Chile; Banco Central de Reserva del Perú; Česká národní banka; Magyar Nemzeti Bank; Bank Rossii; Narodowy Bank Polski; Sakartvelos Erovnuli Bank'I; Hayastani Kentronakan Bank; State Bank of Pakistan; Central Bank of Sri Lanka.

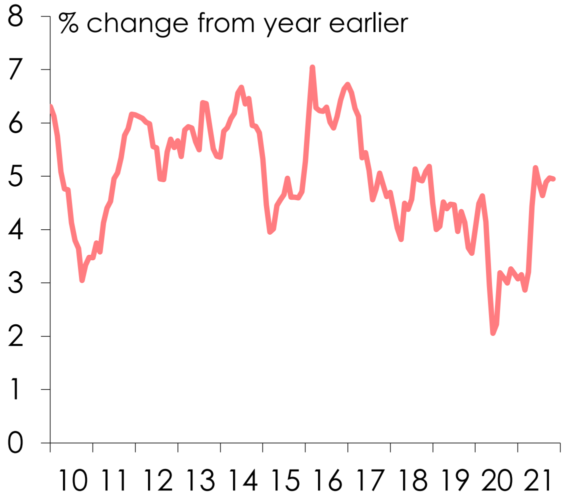
South Africa's central bank raised its repo rate this week, for the first time since November 2018

- The South African Reserve Bank raised its repo rate by 25 bp, to 3.75%, this week
  - although the decision was finely balanced, the outcome of a 3-2 vote of SARB's Monetary Policy Committee
- The decision followed small upward revisions to SARB's inflation forecasts, to 4.5% for 2021, 4.4% in 2022 and 4.6% in 2023 (in each case 0.1 pc pt higher than previously), but with the risks assessed as being "to the upside"
- SARB revised its forecast for GDP growth in 2021 down slightly from 5.3% to 5.2%, but left its forecasts for 2022 and 2023 unchanged at 1.7% and 1.8%, with medium term risks assessed as being "to the downside"
- In his post-meeting press statement SARB Governor Lesetja Kganyago indicated that "a gradual rise in the repo rate will be sufficient to keep inflation expectations well anchored and moderate the future path of interest rates"

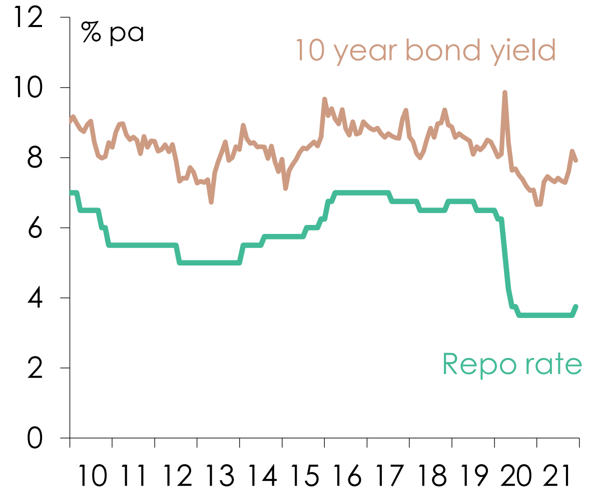
Real GDP



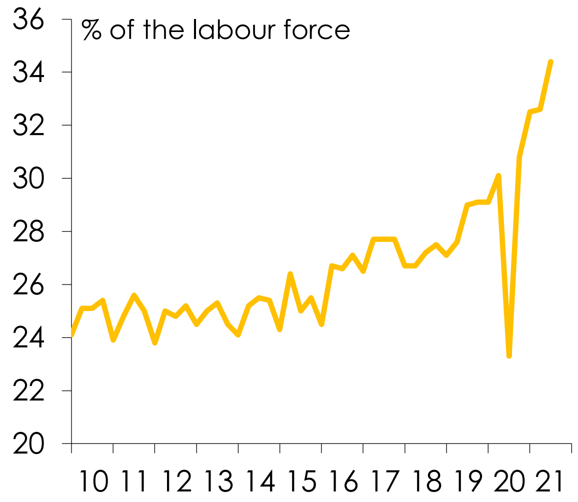
Inflation



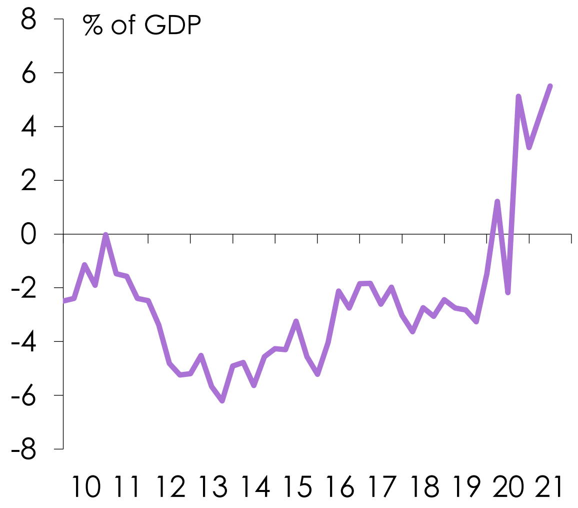
Interest rates



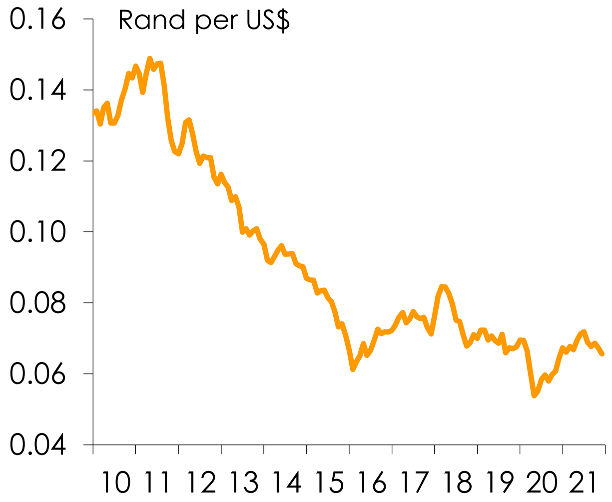
Unemployment



Current account balance



Rand vs US$



Sources: Statistics South Africa; South African Reserve Bank; Refinitiv Datastream. Return to "What's New".

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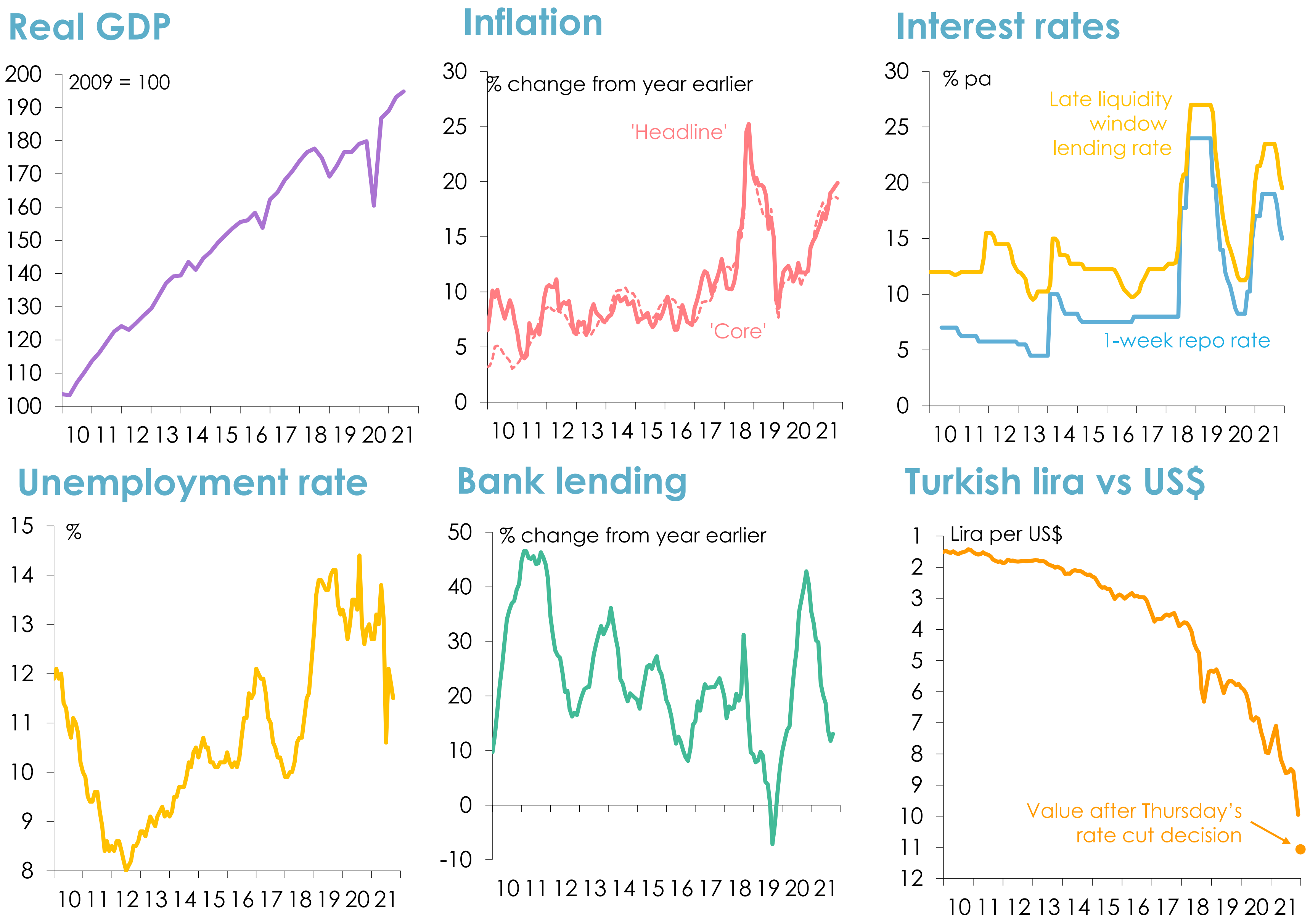
Turkey's central bank cut interest rates again this week despite inflation of almost 20% - and (as before) the lira dropped to a new low afterwards

- **Turkey's central bank cut its 7day repo rate by 100 basis points to 15% on Thursday**
  - this follows reductions of 100 bp in September and (after the dismissal of the three Monetary Policy Committee members who had opposed that reduction) another 200bp in October
- **The rate cut came despite annual 'headline' inflation having risen to 19.9%, and 'core' inflation to 18.5%, in October**
  - the MPC said that it had "evaluated the analyses to decompose the impact of demand factors that monetary policy can have an effect, core inflation developments and supply shocks and decided to reduce the policy rate by 100 basis points"
- **Notwithstanding this move, the MPC re-iterated its previous 'commitment' that TCMB would "continue to use decisively all available instruments until strong indicators point to a permanent fall in inflation and the medium-term 5% target is achieved"**
  - and added that it would "continue to take its decisions in a transparent, predictable and data-driven framework" (!)
- **As in September and October, the Turkish lira fell to a new low after the decision – down 21% since the first rate cut**



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

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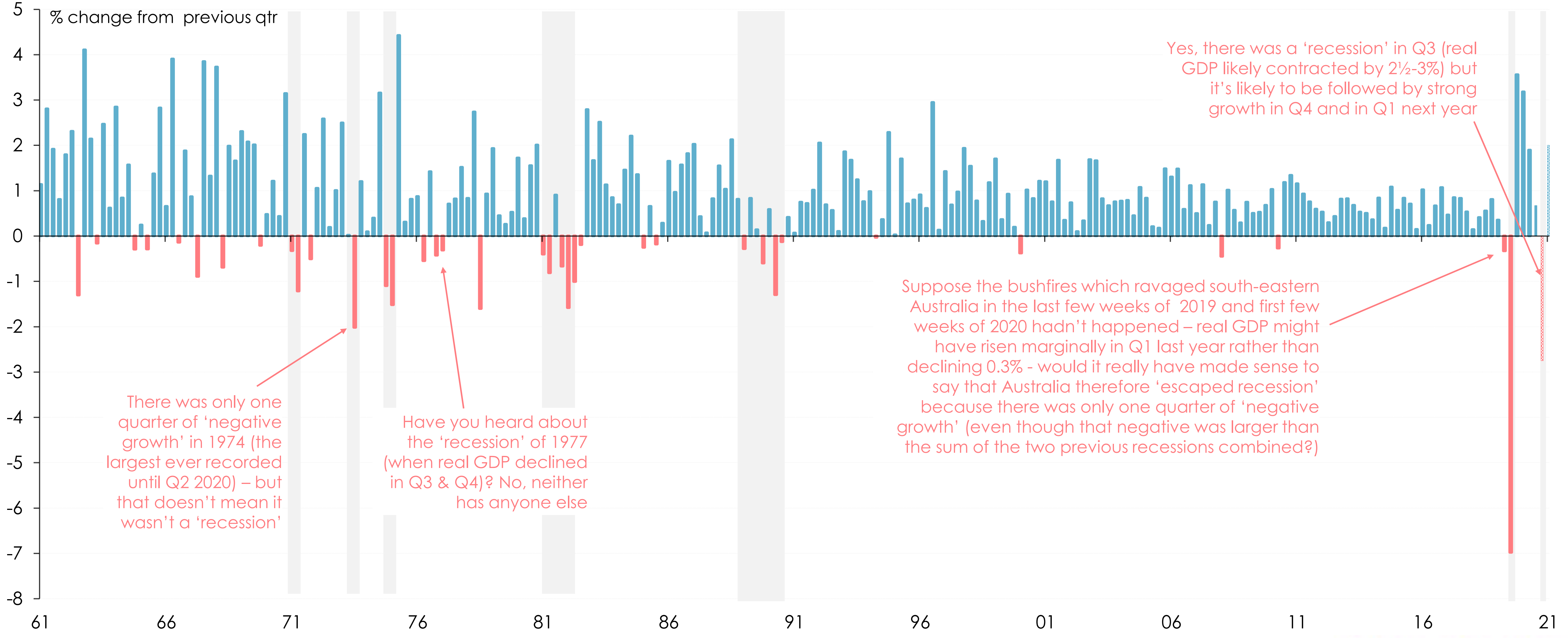
Australia

Australia's real GDP likely contracted by 2½-3% in Q3 – which would constitute a 'recession' – but there's likely to be a strong rebound in Q4

Quarterly growth in Australian real GDP, 1961-2021



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

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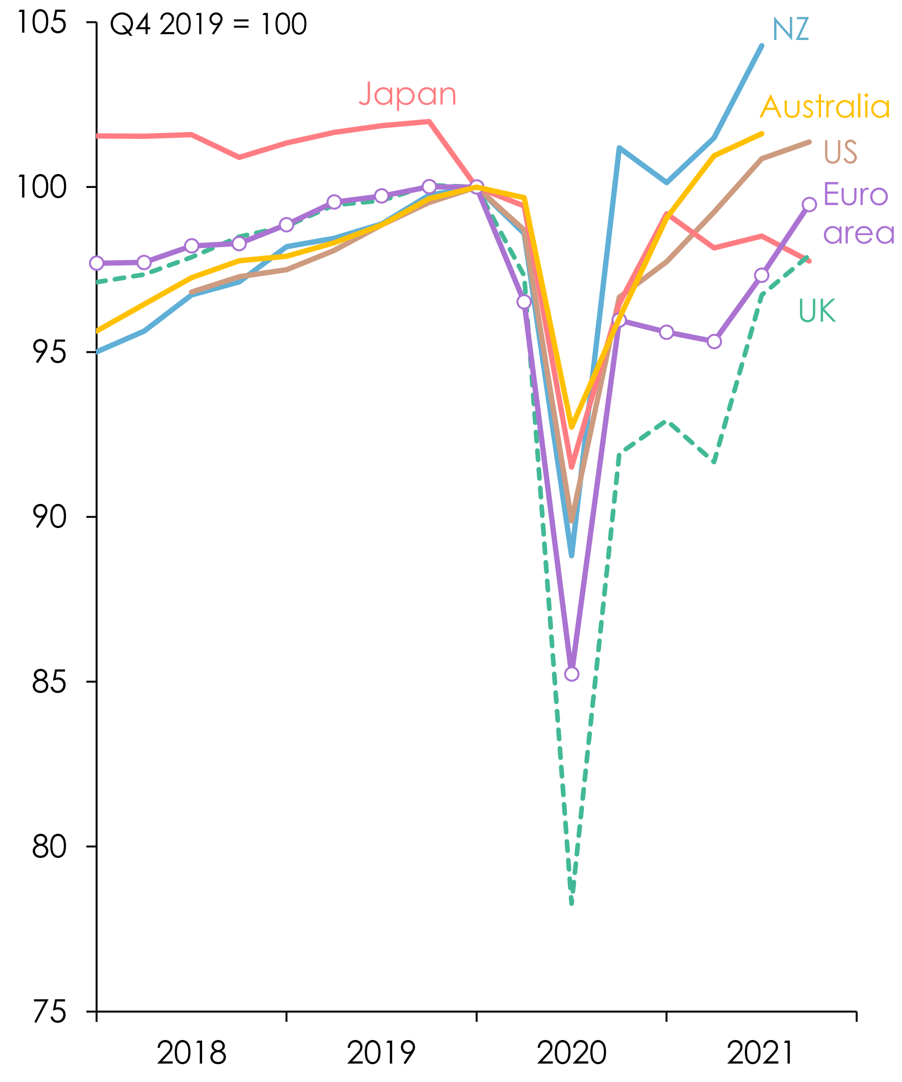
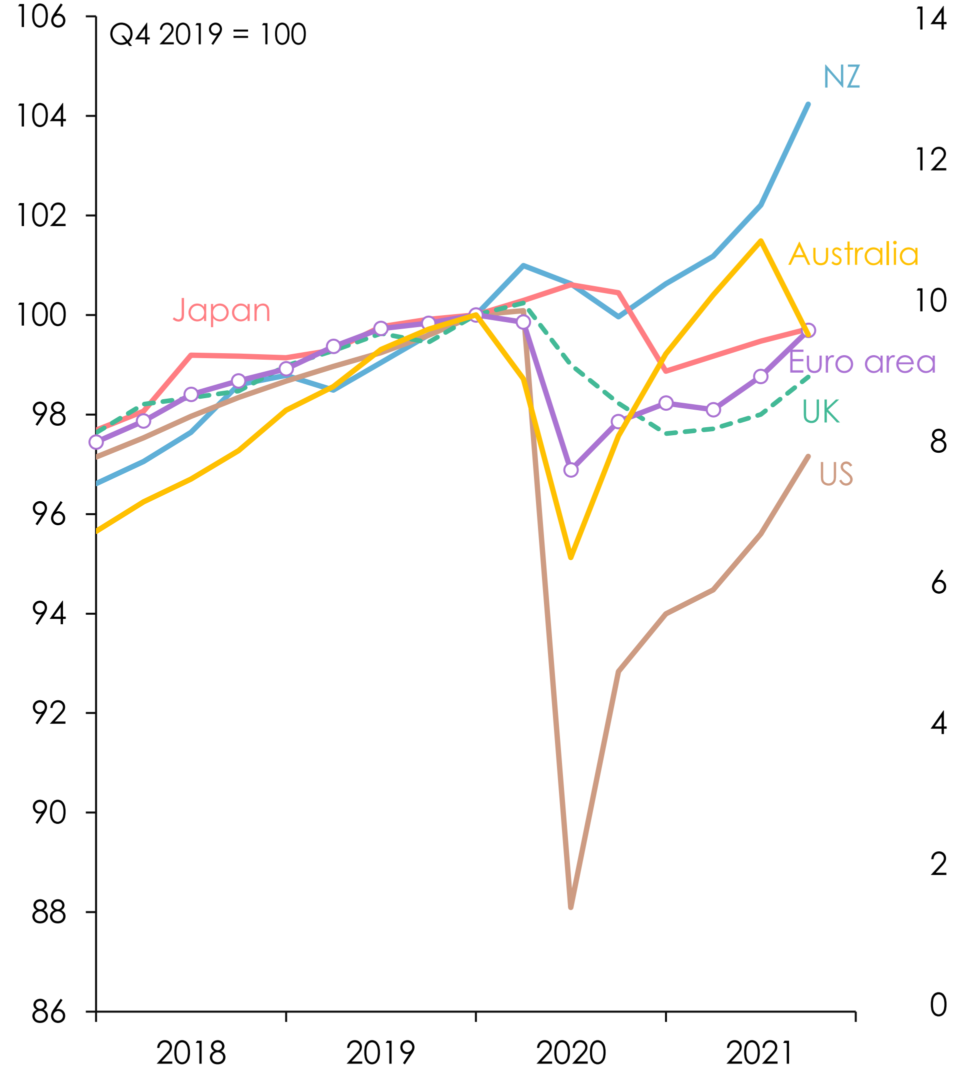
Australia's 'Covid' recession wasn't as severe as, and its recovery has been stronger than, most other 'advanced' economies – but will that continue?

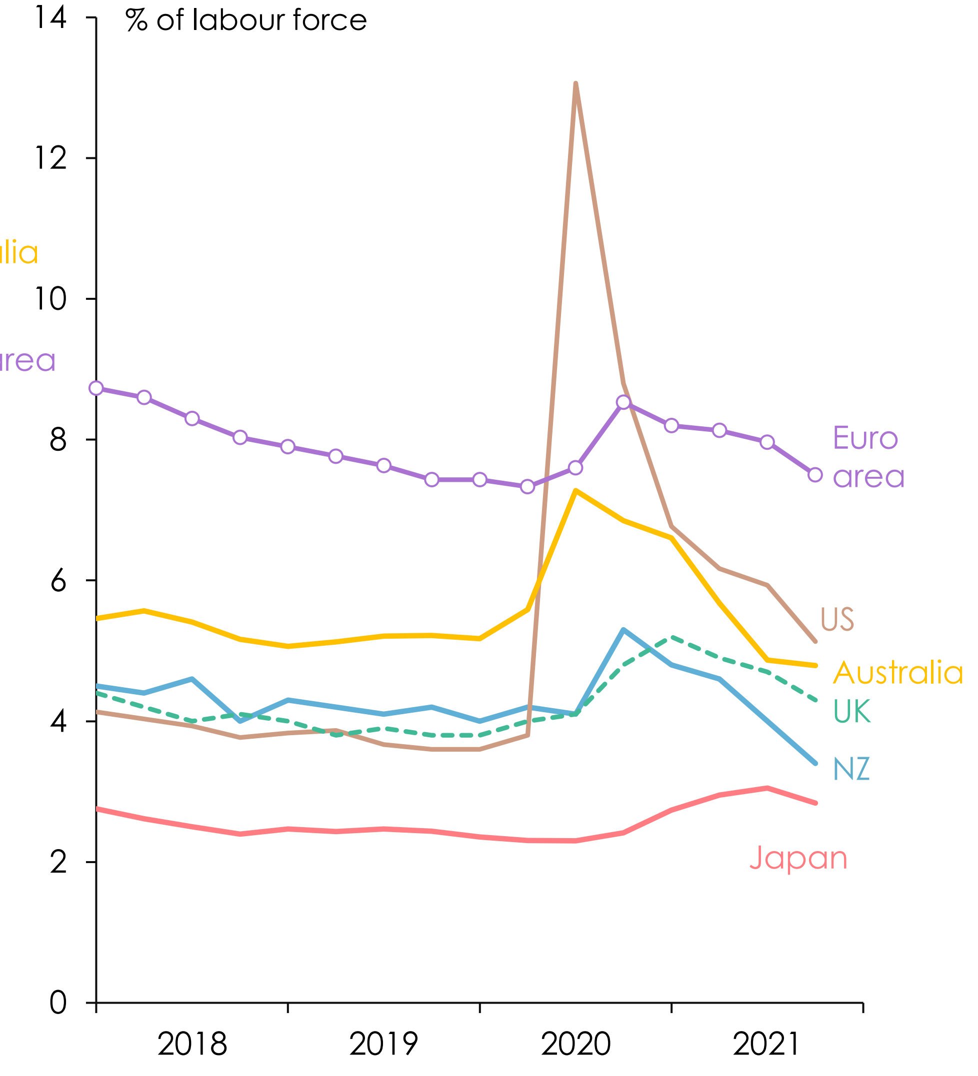
Level of real GDP



Employment



Unemployment



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

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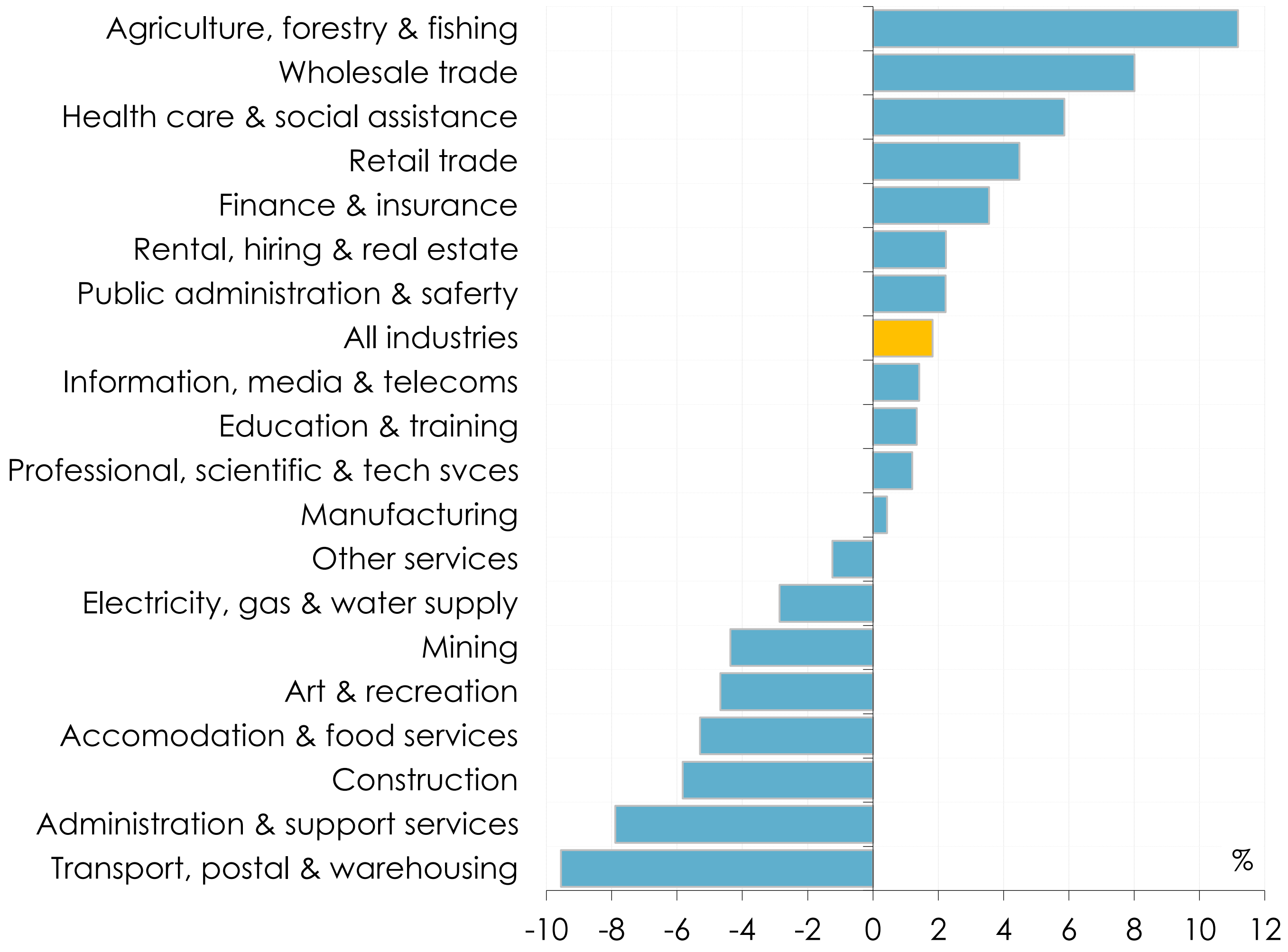
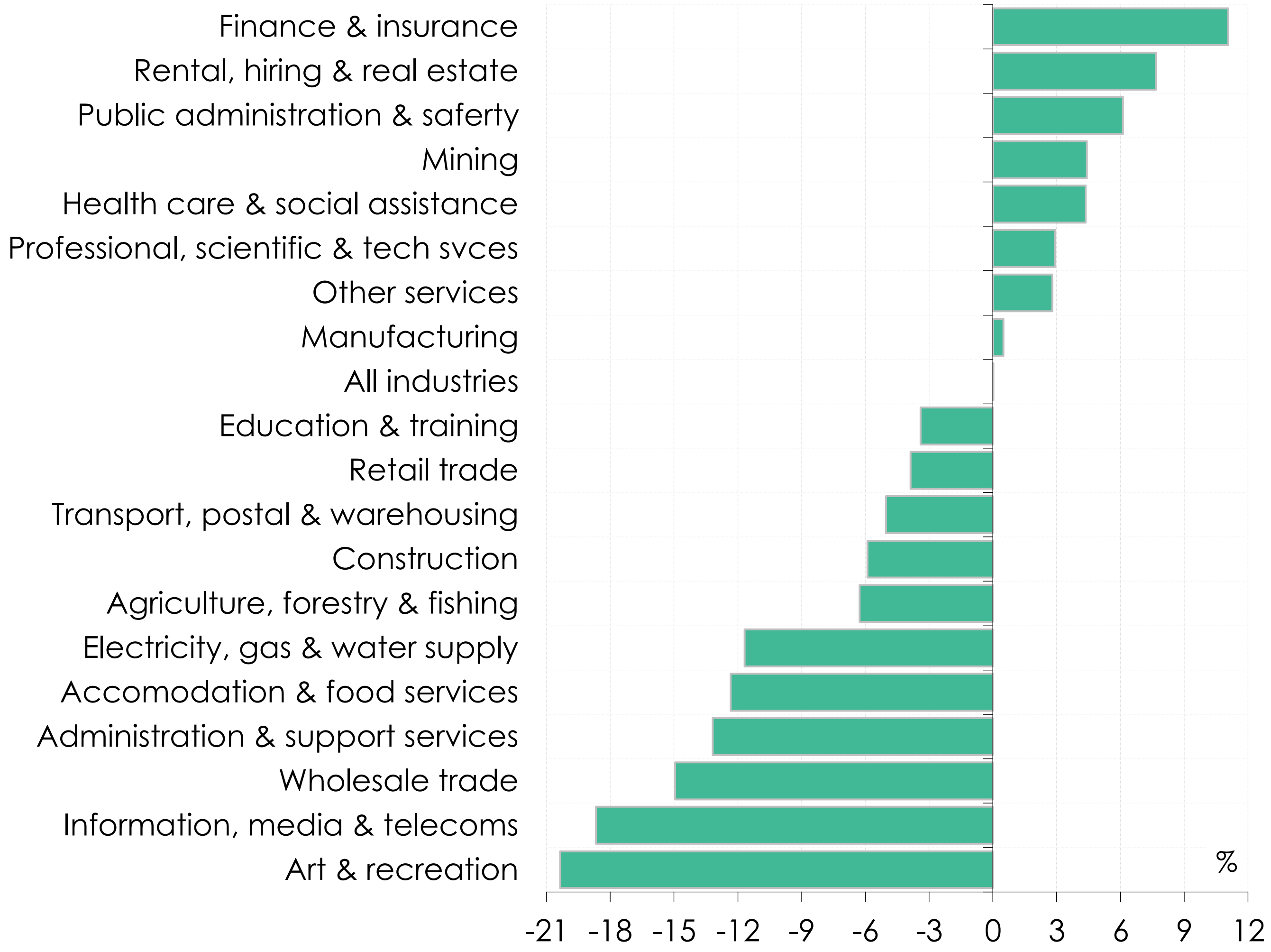
Though stronger-than-expected overall, the recovery in economic activity and employment has been very uneven across sectors

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



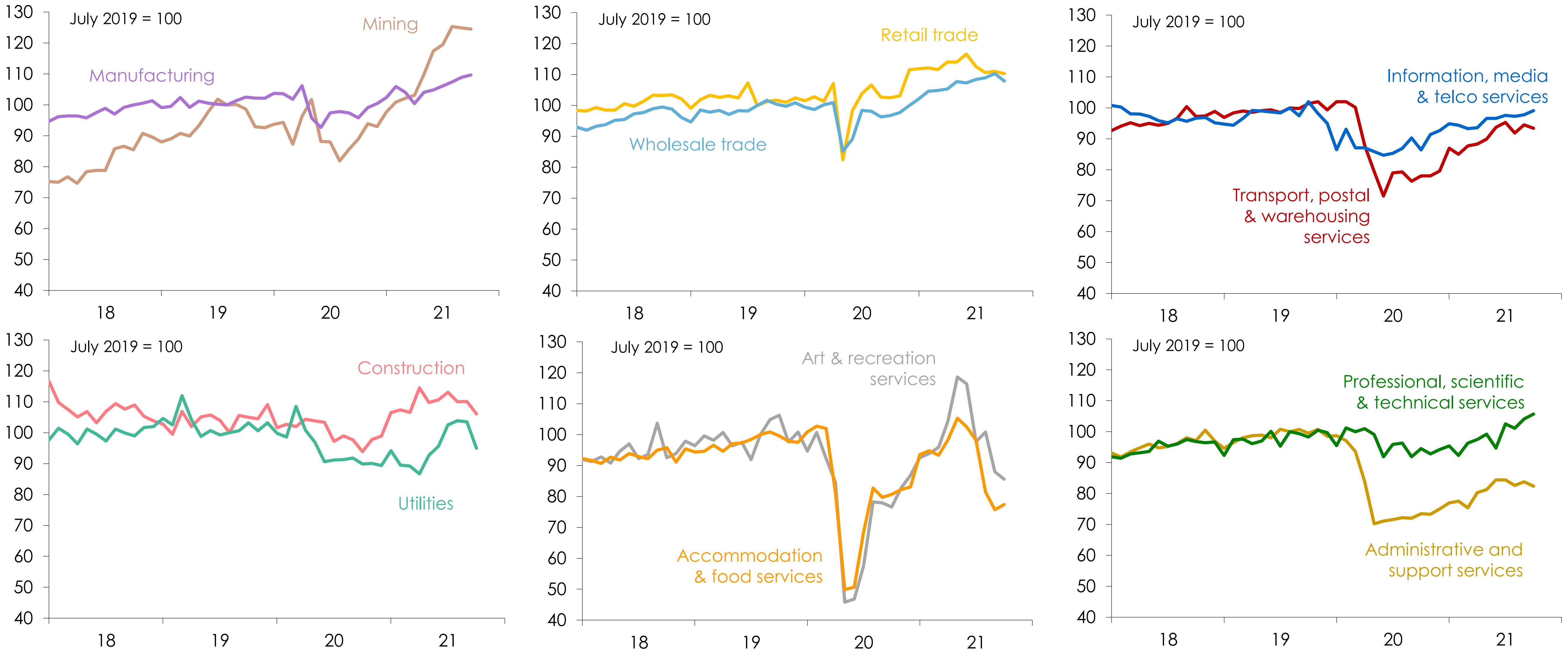
Q3 2021 employment by industry – change from pre-pandemic peak



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

8 out of 13 industry sectors experienced a decline in turnover in September – compared with 5 in August, with the largest in utilities and construction

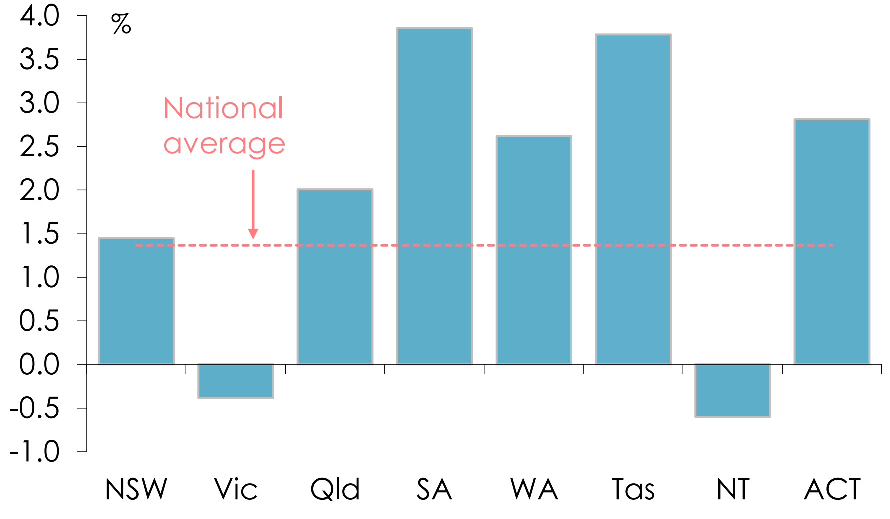
Indicators of business turnover, by industry



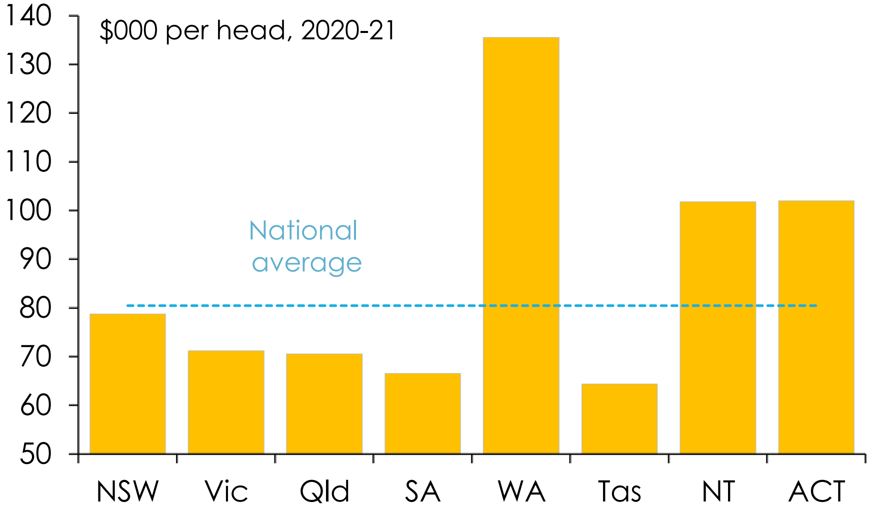
Note: The turnover indicators are derived from the Business Activity Statements submitted to the Australian Taxation Office by all businesses with an annual GST turnover of \$20mn or more (together with a proportion of smaller businesses which voluntarily report monthly). *Source:* ABS, Monthly Business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

South Australia & Tasmania (unusually) had the fastest economic growth in 2020-21, while Victoria has become a relatively poor state in recent years

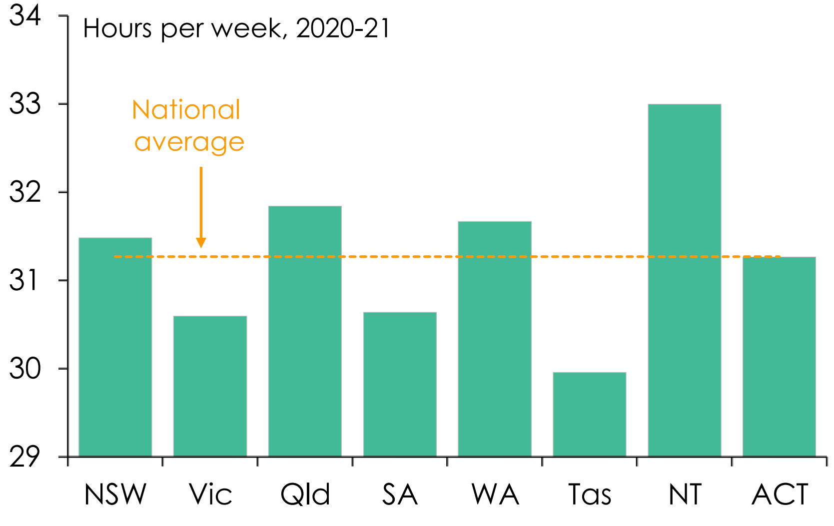
Economic growth in FY 2020-21



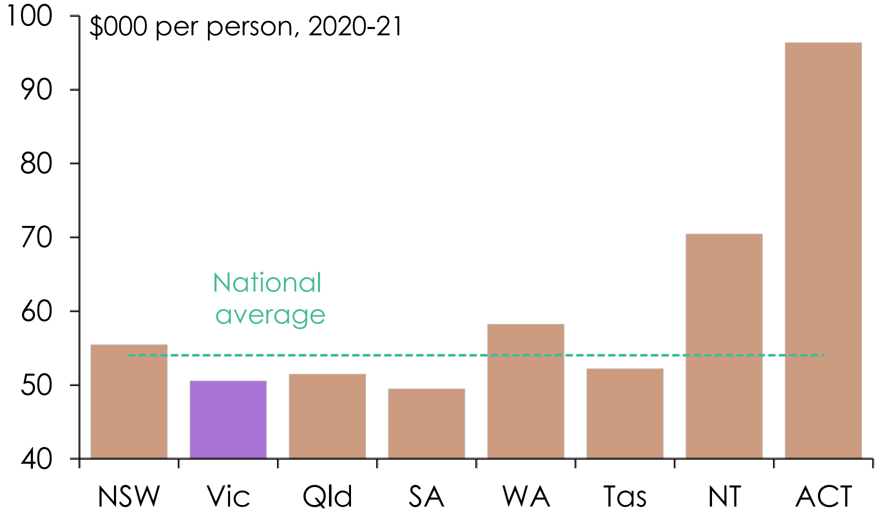
Per capita gross state product



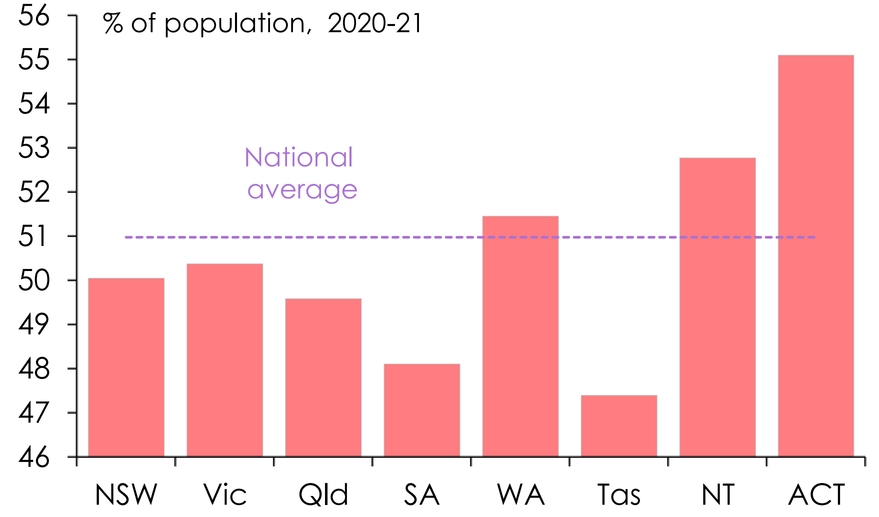
Average hours worked



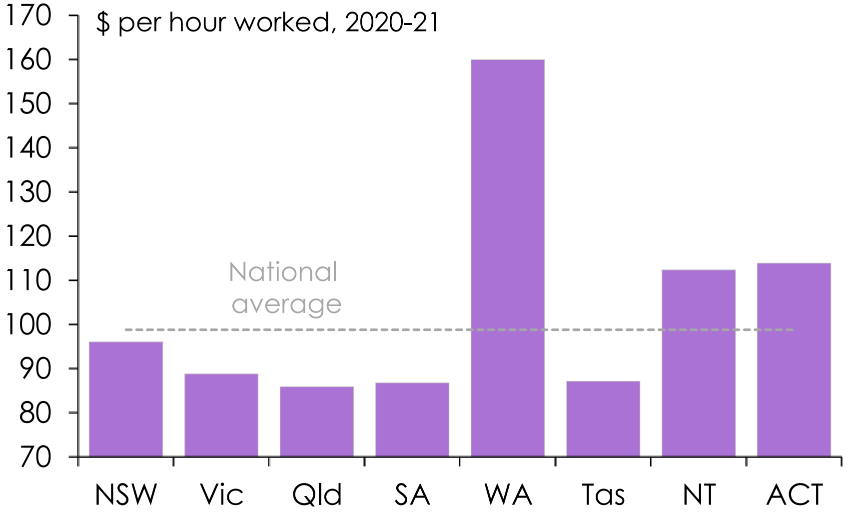
Household disposable income



Employment-to-population ratios



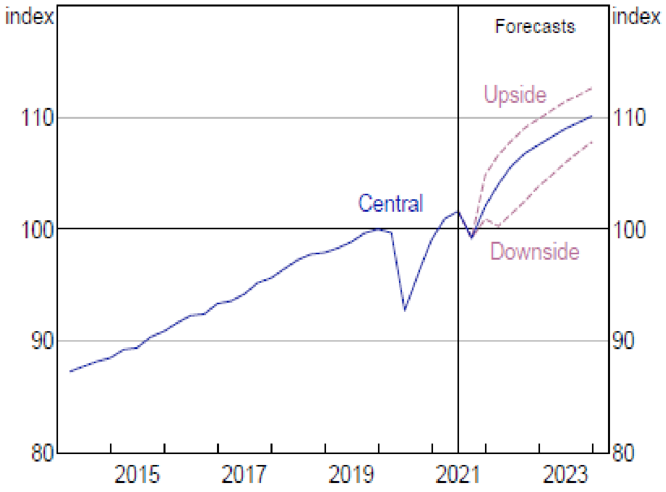
Labour productivity



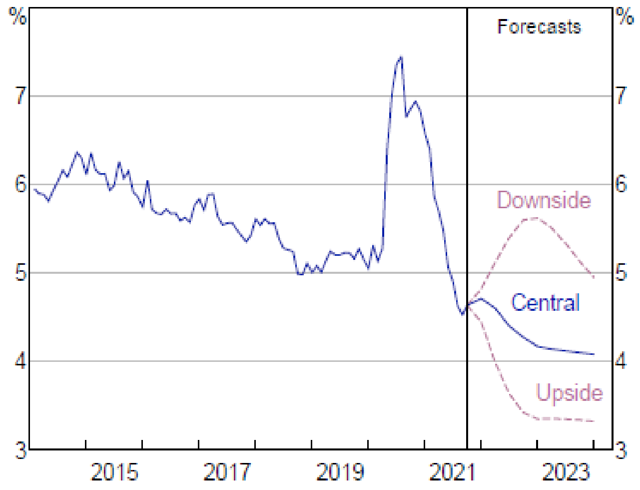
Sources: ABS, Australian National Accounts: State Accounts, 2020-21; Labour Force, Australia, Detailed, October 2021. Return to "What's New".

After revising up its inflation forecasts the RBA concedes an increase in the cash rate “could be warranted” in 2023, but emphatically not in 2022

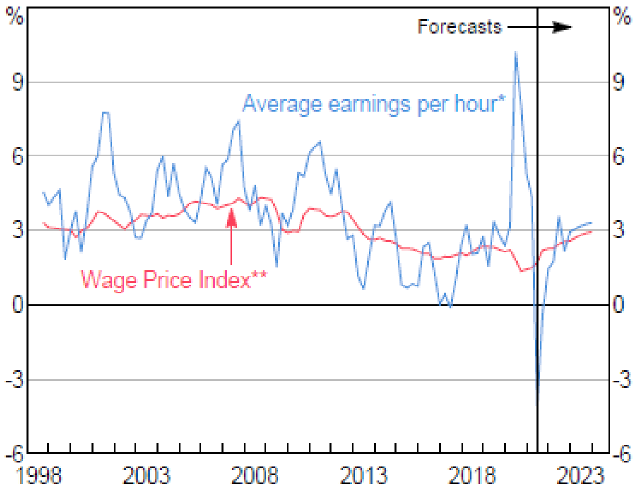
GDP



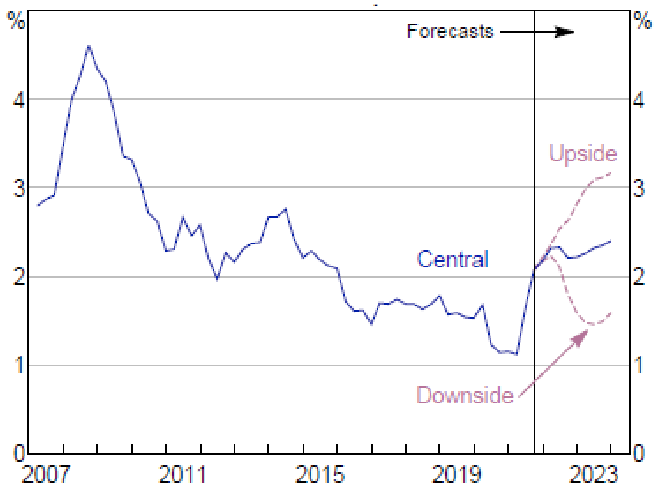
Unemployment



Wages



‘Underlying’ inflation



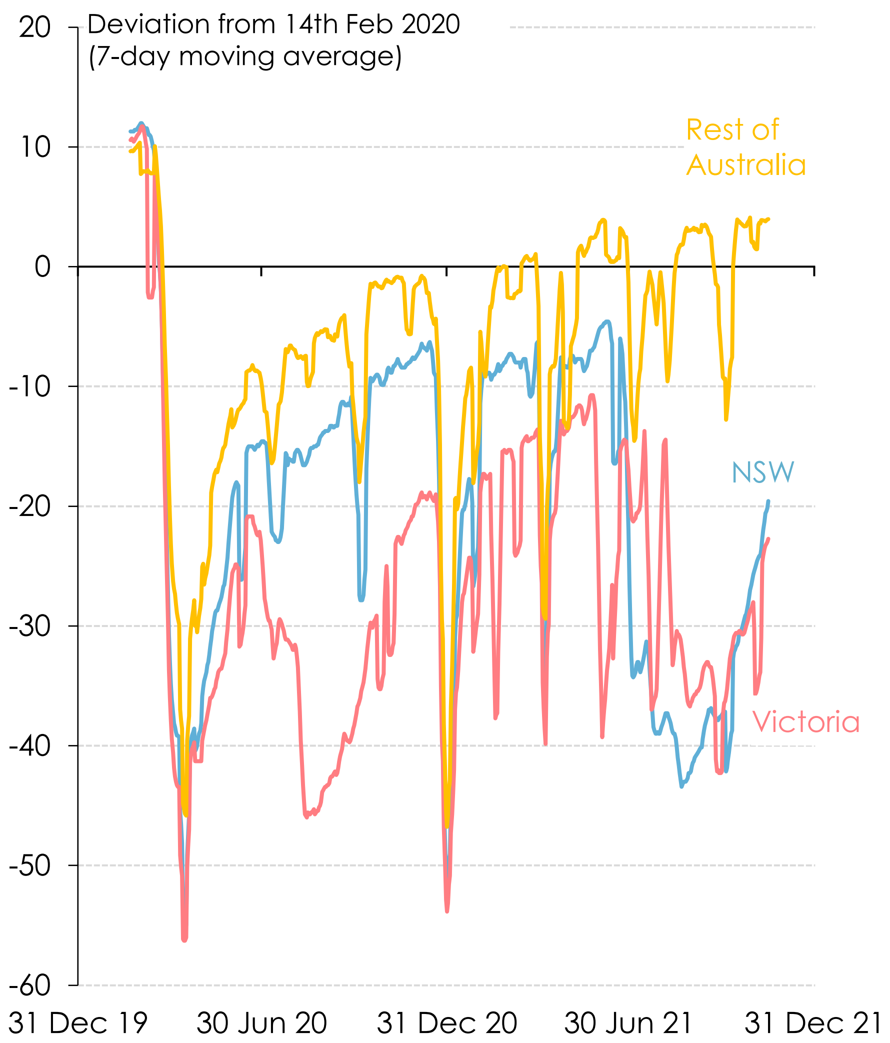
Source: Reserve Bank of Australia, *Statement on Monetary Policy*, 5th November 2021. The RBA’s next set of forecasts will be published on 4th February 2022. Return to "What's New".

- In its latest *Statement on Monetary Policy* RBA expects that real GDP contracted by around 2½% in Q3 but that there will be a “rapid bounce back” in Q4 and in Q1 next year such that GDP grows by 5½% over the year to Q4 2022 before slowing to 2½% through 2023
- In this ‘central’ scenario the RBA expects the unemployment rate to fall from 4¾% in Q4 2021 to 4¼% by Q4 2022, and the more slowly to “just above 4% by the end of 2023” …
- … in which case wage inflation is expected to pick up to “above 2% by the end of 2021” and “to be around 3% by the end of 2023”
- ‘Underlying’ inflation is now expected to be “around 2¼ for much of the forecast period”, rising to “around 2½% by the end of 2023” …
- … which “could be consistent with the first increase in the cash rate being in 2024”
- In the SoMP the RBA also presents an ‘upside’ scenario “driven by stronger wealth effects [on household spending] and reduced uncertainty related to positive health outcomes” – with unemployment falling to 3¼% and inflation rising above 3% by end-2024” – in which case “an increase in the cash rate in 2023 could be warranted”
- However “the latest data and forecasts do not warrant an increase in the cash rate in 2022” in the RBA Board’s view

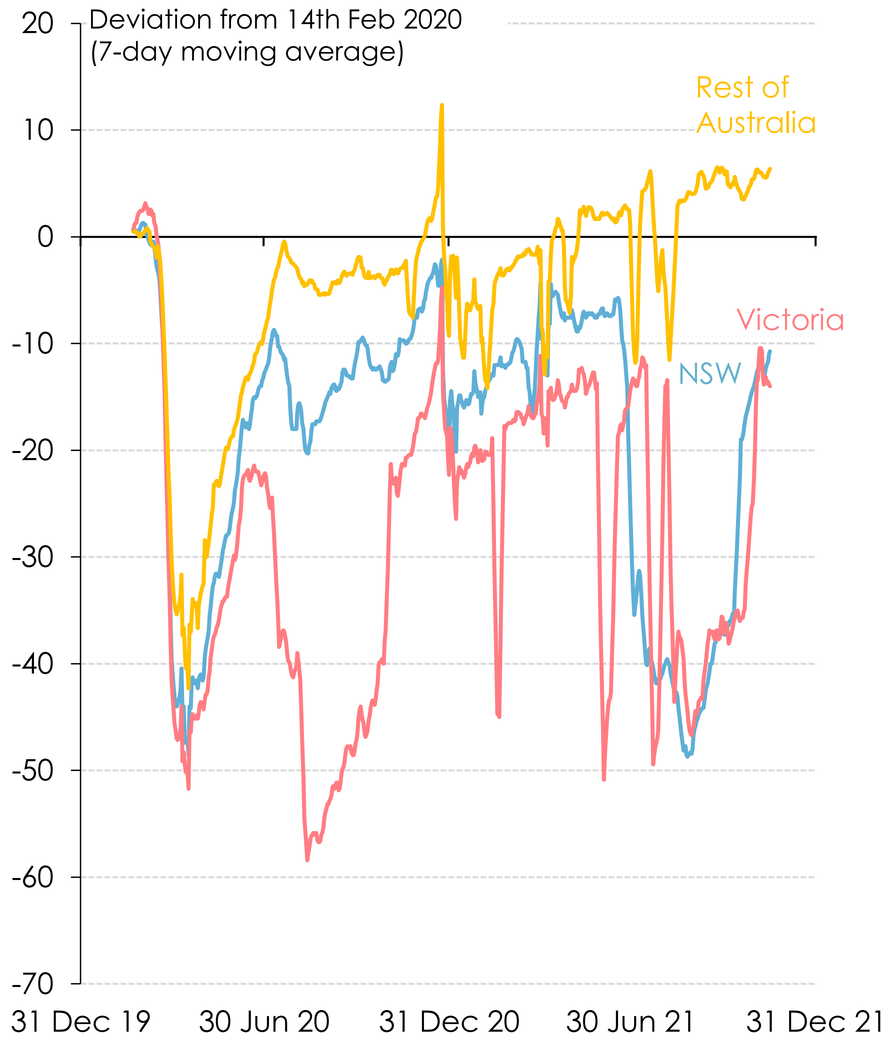
‘Mobility indicators’ illustrate how NSW and Victoria have begun returning to ‘normal’ as restrictions have been eased

Google mobility indicators

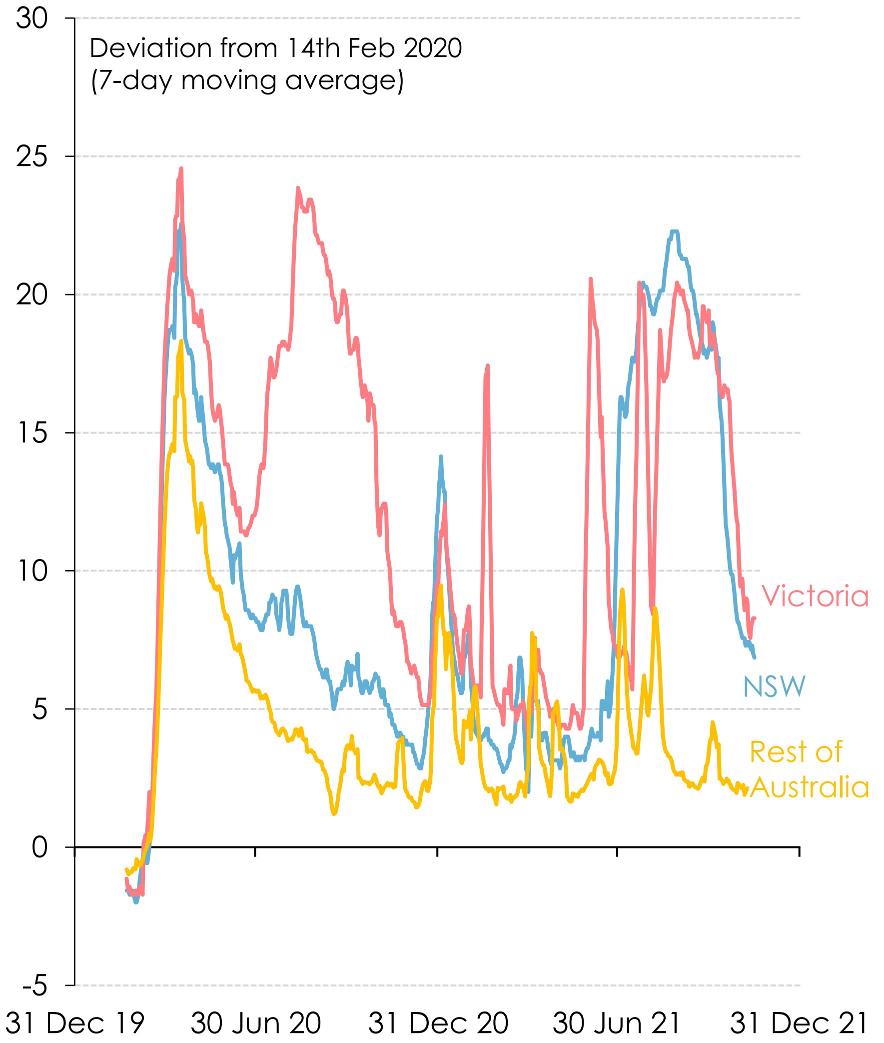
Workplaces



Retail and recreation



Residences



Note: data up to 15th November. *Sources:* Google Community Mobility Reports; Corinna. Return to "What's New".

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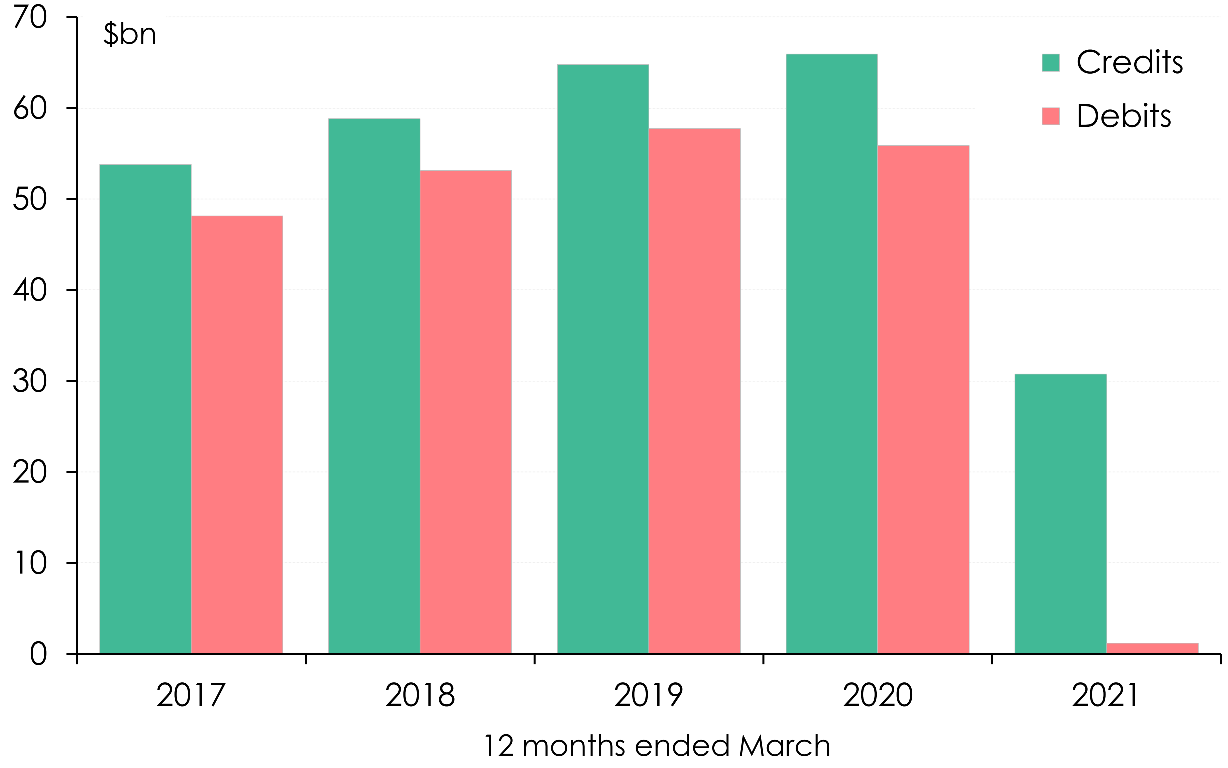
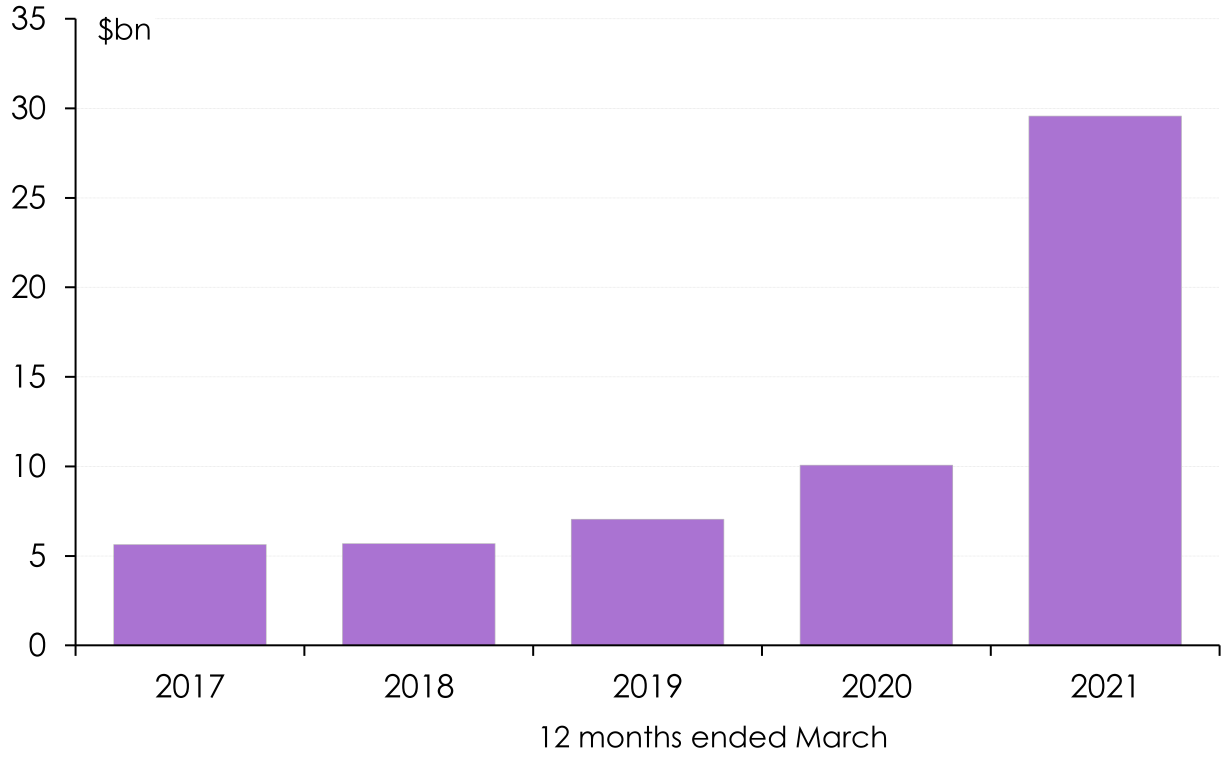
The *taboo* on Australians leaving the country has more than offset the loss of spending by foreign tourists and students

Travel credits and debits



Net travel transactions



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

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

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

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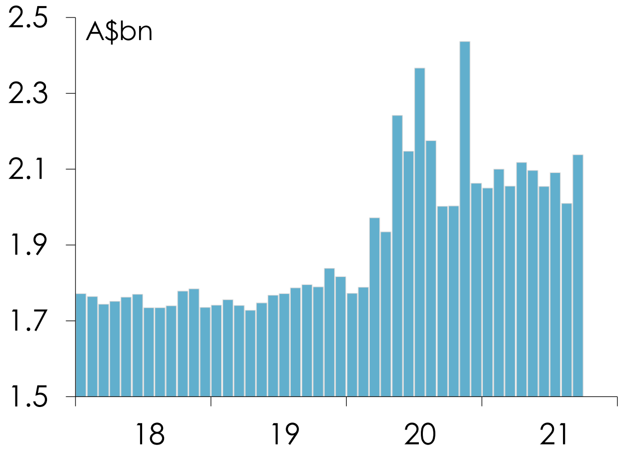
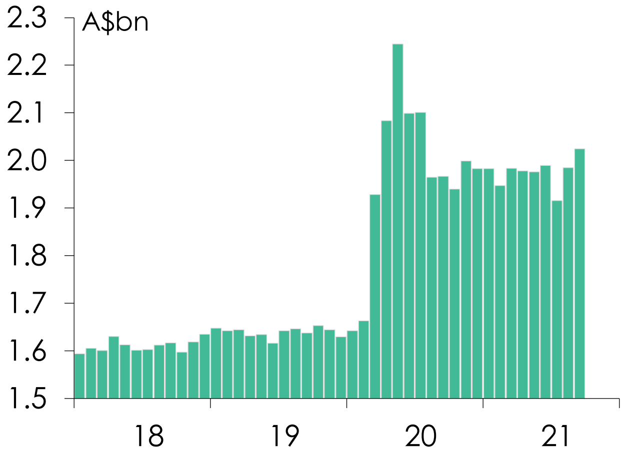
The >$50bn per annum that Australians would have spent overseas if they'd been allowed to has instead been spent at home

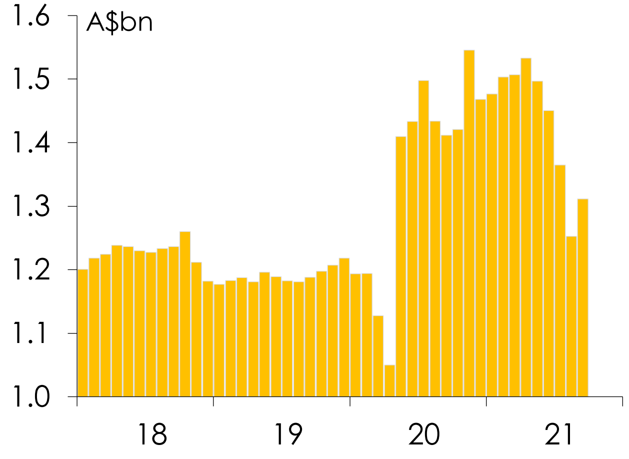
Electronic & electrical goods



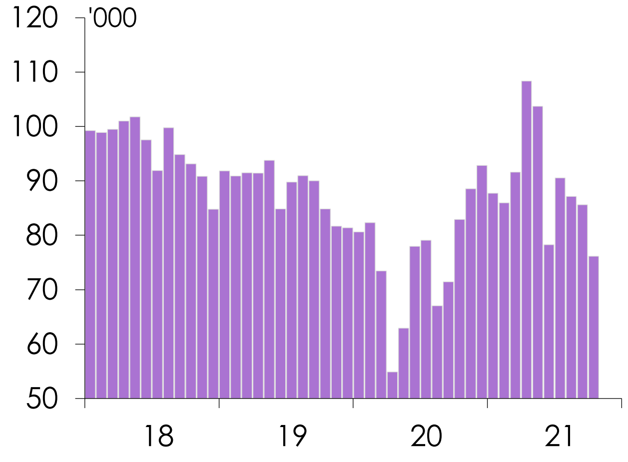
Hardware, building & garden supplies



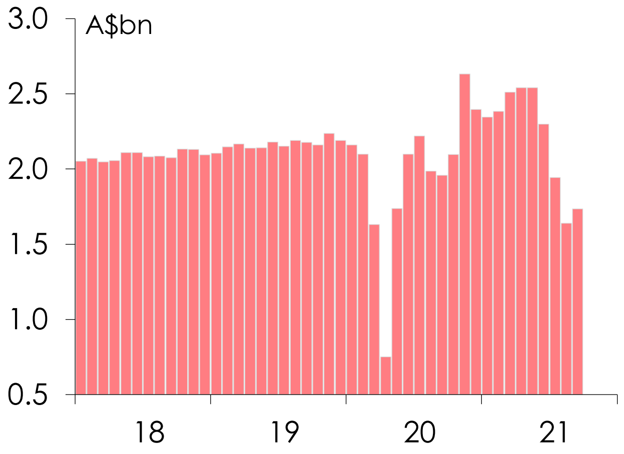
Floor coverings, furniture, housewares etc



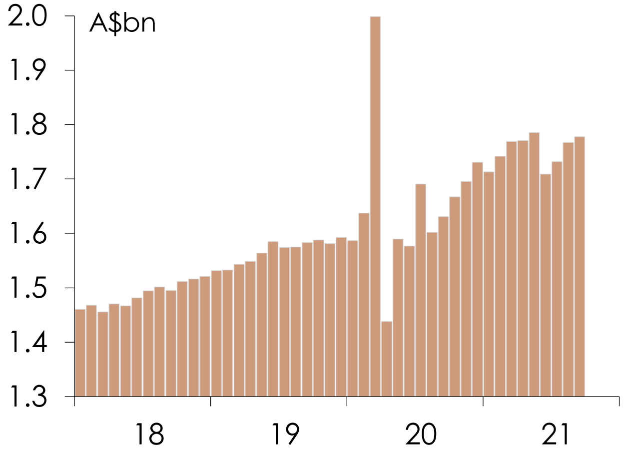
New motor vehicles



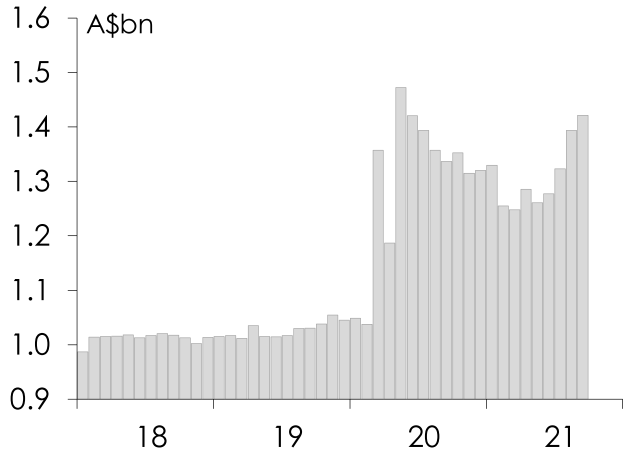
Clothing, footwear & personal accessories



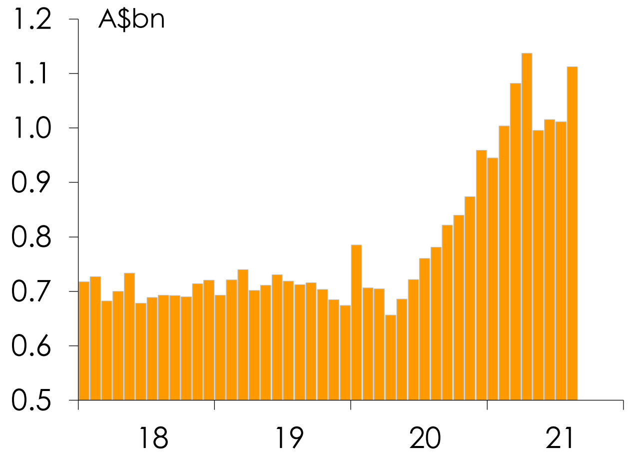
Pharmaceuticals, cosmetics & toiletries



Alcoholic beverages



Renovations



Note: First six charts (from left) are retail sales; new motor vehicles are numbers of vehicles sold; renovations are the value of alterations and additions to residential dwellings approved by local governments. *Sources:* ABS, Retail Trade, Australia, September 2021 (October data will be released on 2nd December); Building Approvals, Australia, September 2021; Federal Chamber of Automotive Industries VFACTS (seasonal adjustment of Vfacts data by Corinna). Return to "What's New".

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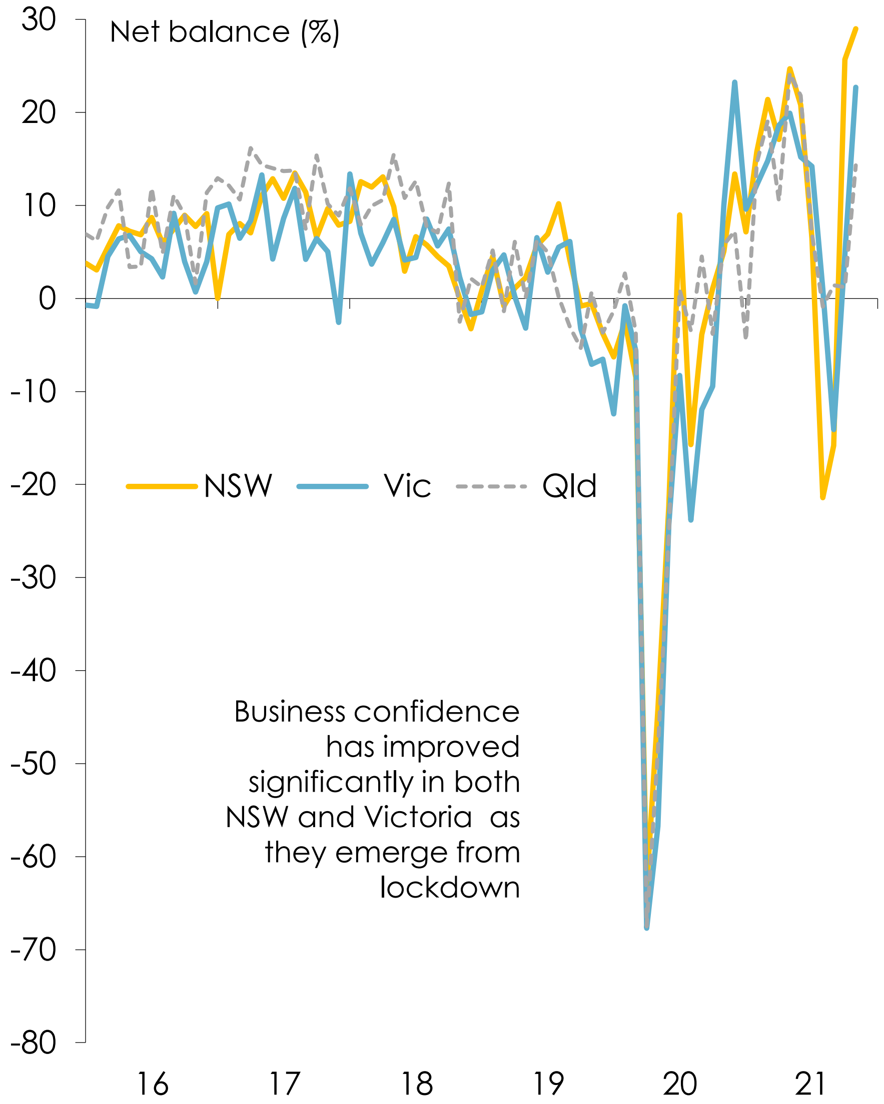
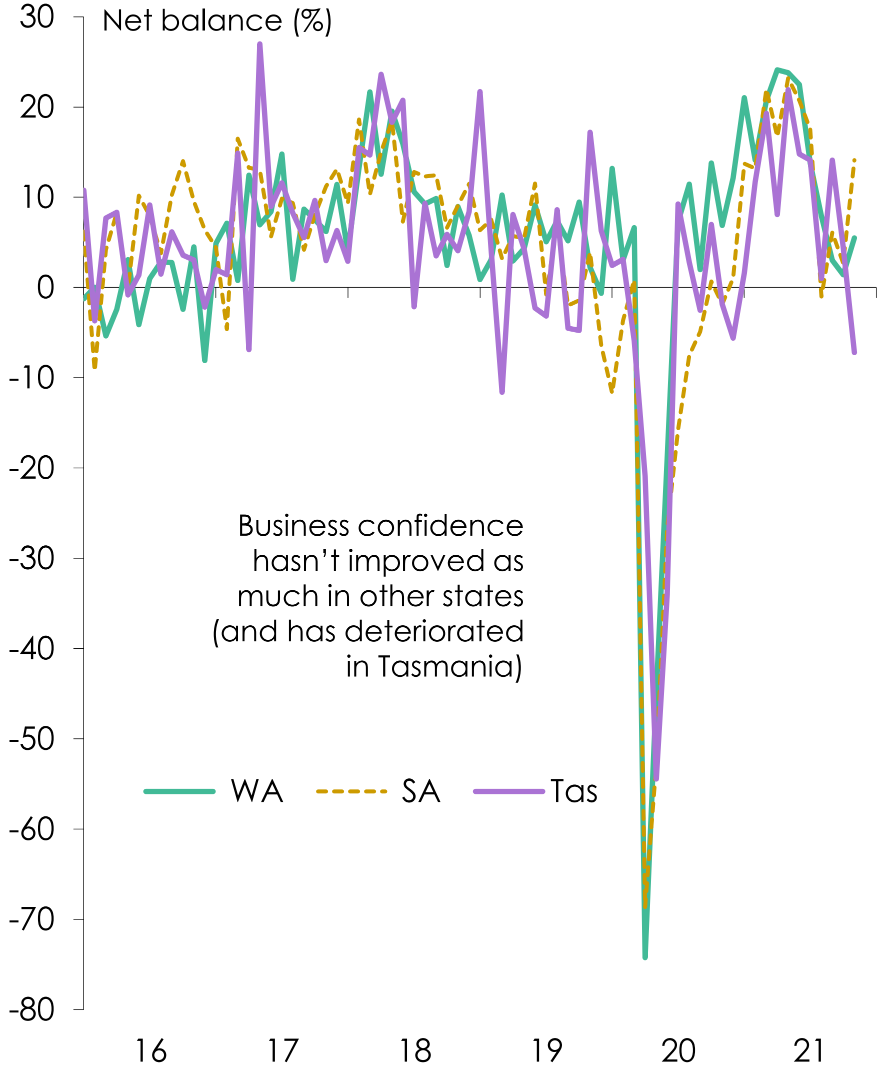
Business confidence again rose strongly in October as New South Wales and then Victoria came out of lockdown

Business confidence

Business confidence, states and territories





Sources: National Australia Bank *Monthly Business Survey*, October 2021; November survey results will be released on 8th December. Return to "What's New".

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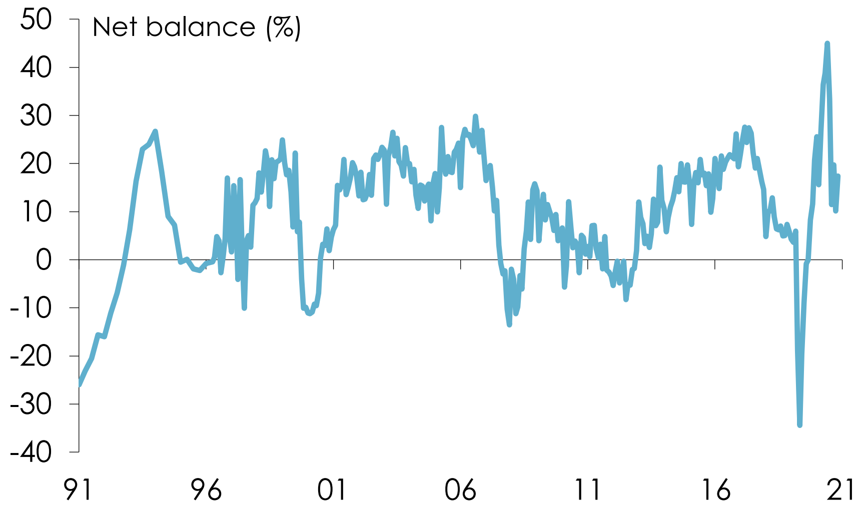
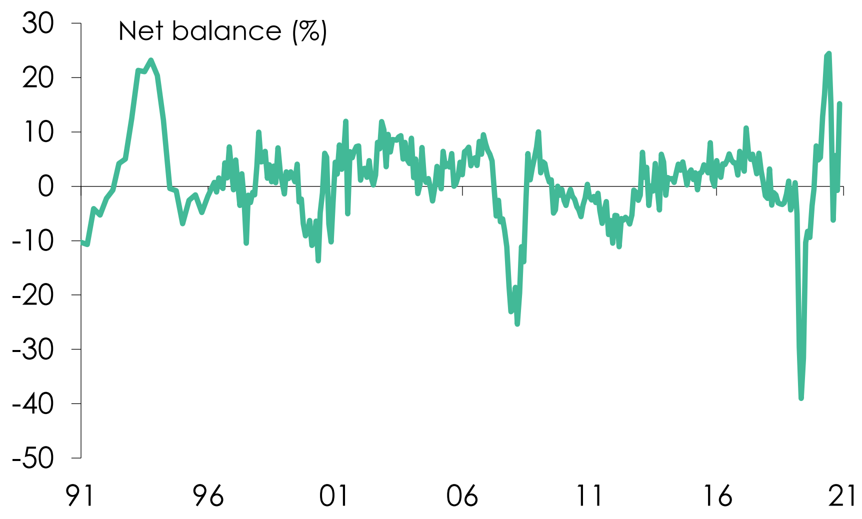
The improvement in actual business conditions in October was more modest, though there was an encouraging strong rise in forward orders

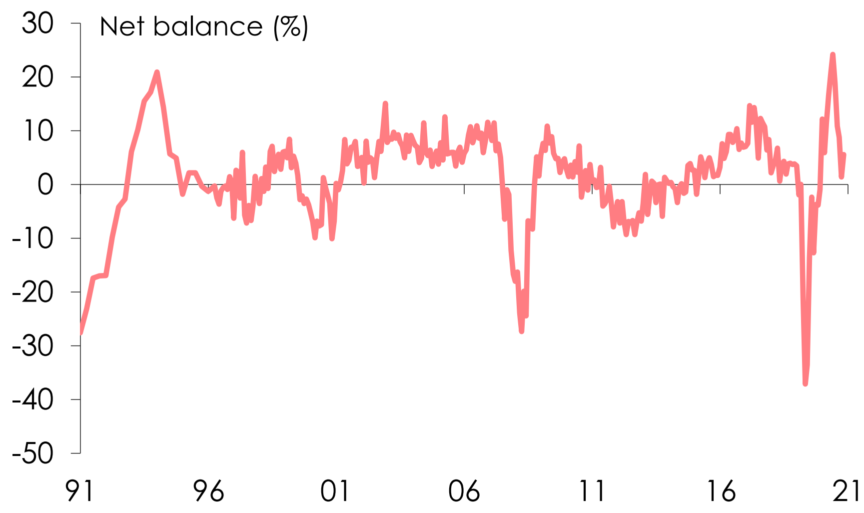
Trading conditions



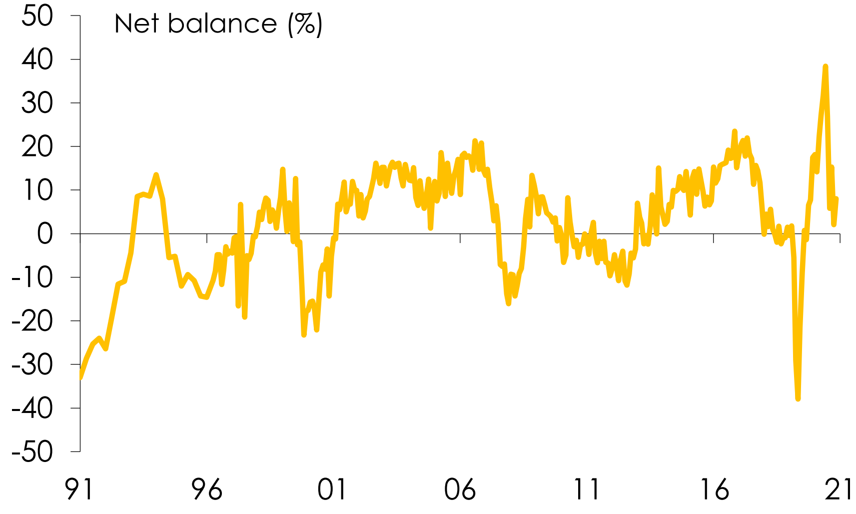
Forward orders



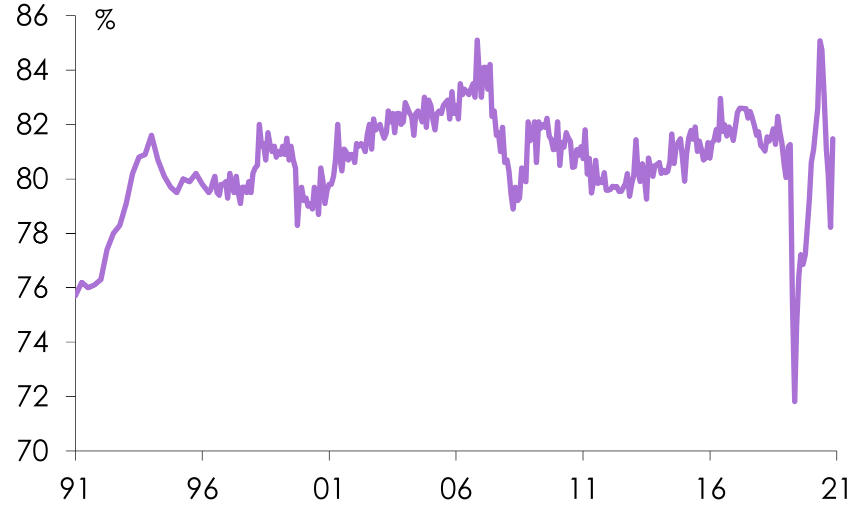
Employee hiring intentions



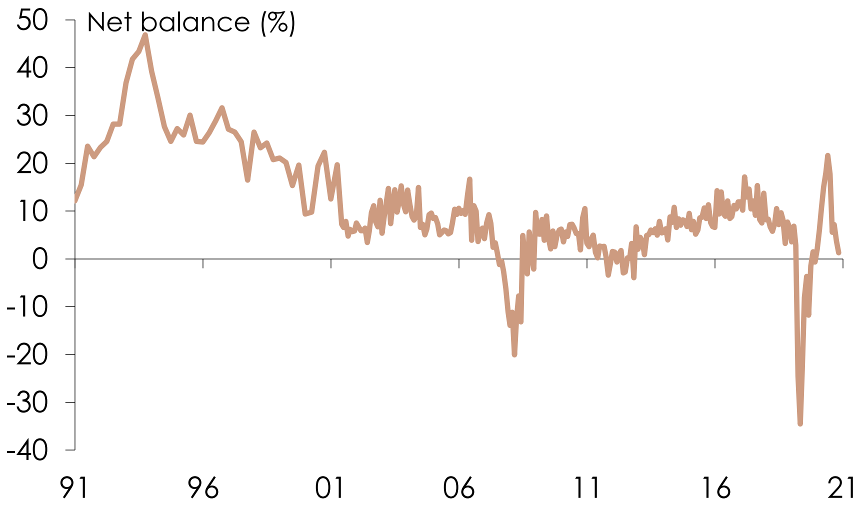
Profitability



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*, October 2021; November survey results will be released on 8th December. Return to "What's New".

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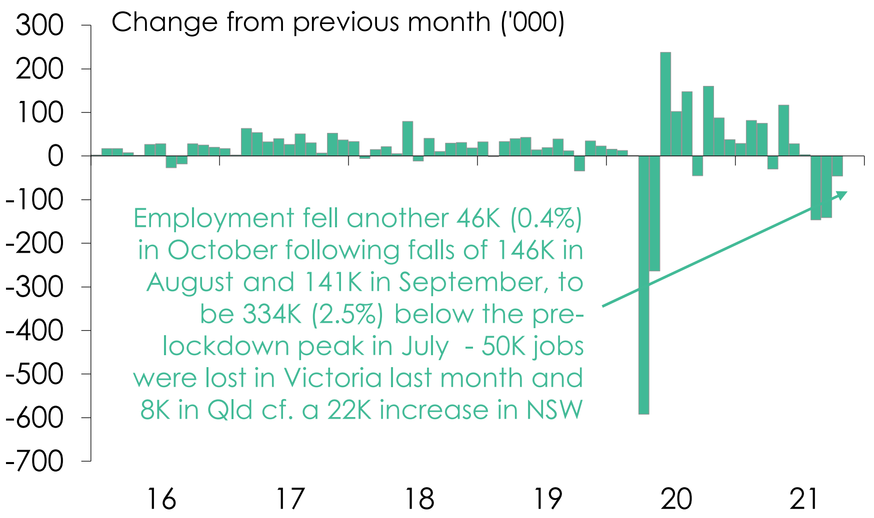
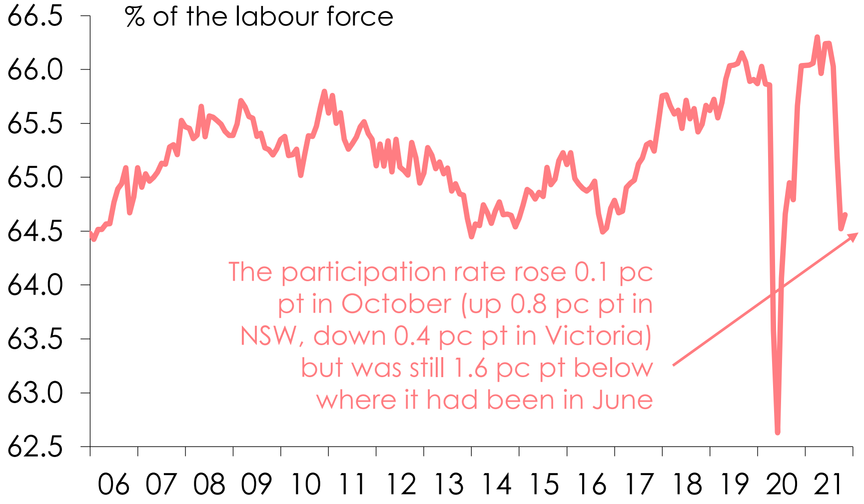
Employment fell another 46K in October, and the unemployment rose 0.6 pc pt to 5.2%, with the October survey pre-dating Victoria's re-opening

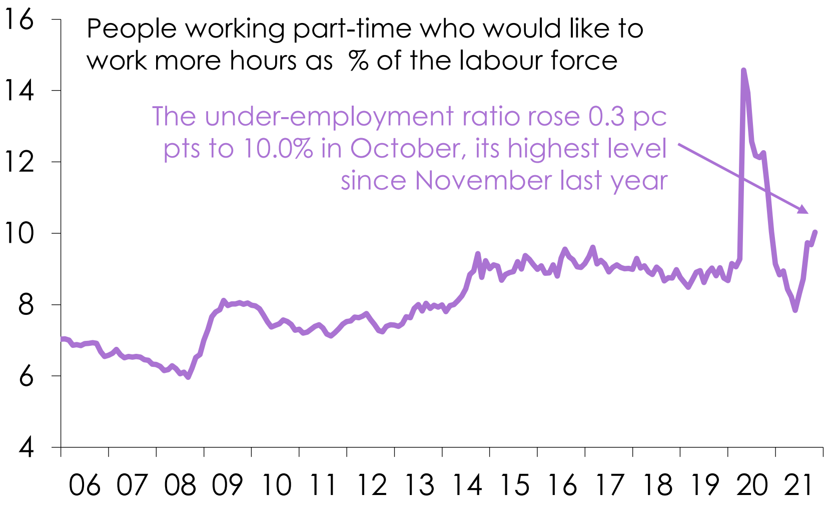
Employment



Labour force participation rate

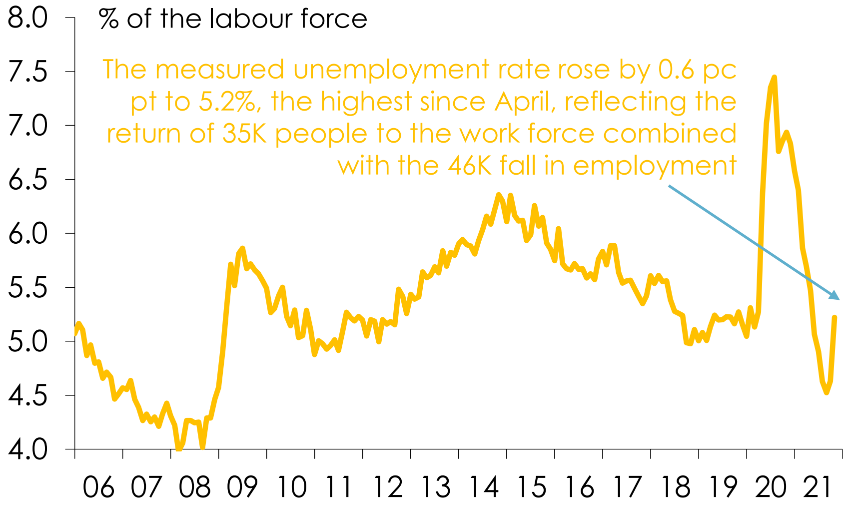


Under-employment ratio

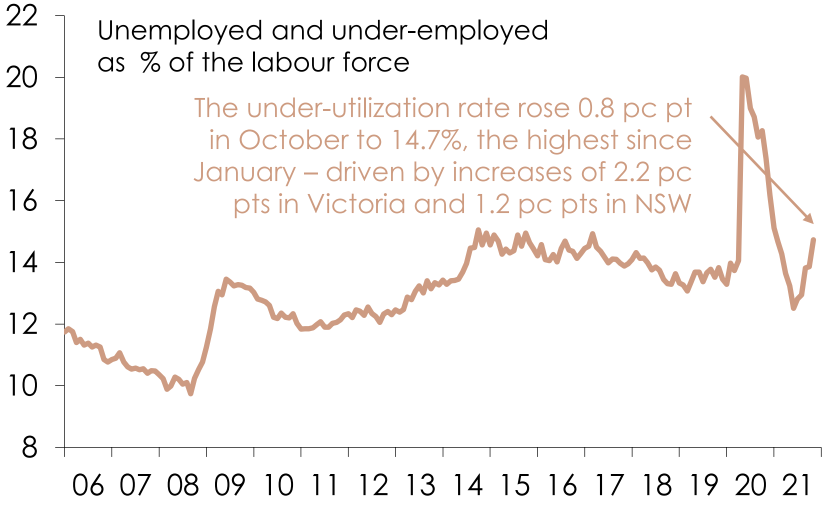


Total hours worked

Unemployment rate



'Under-utilization' rate



Source: ABS, *Labour Force, Australia*, October 2021. November data will be released on 16th December. Return to "What's New".

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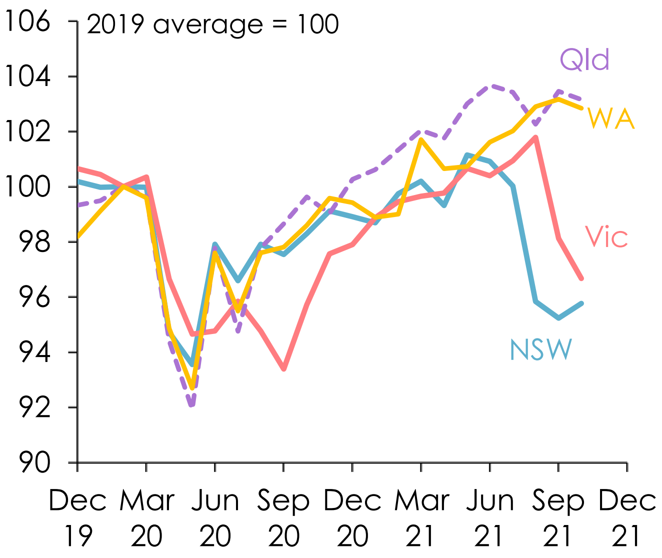
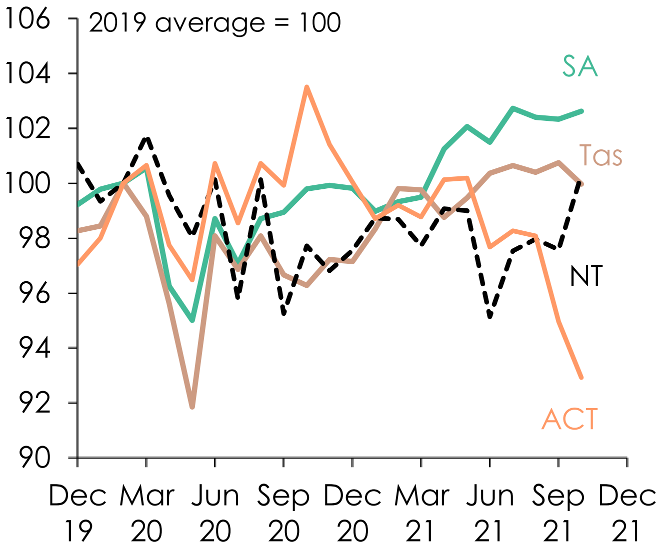
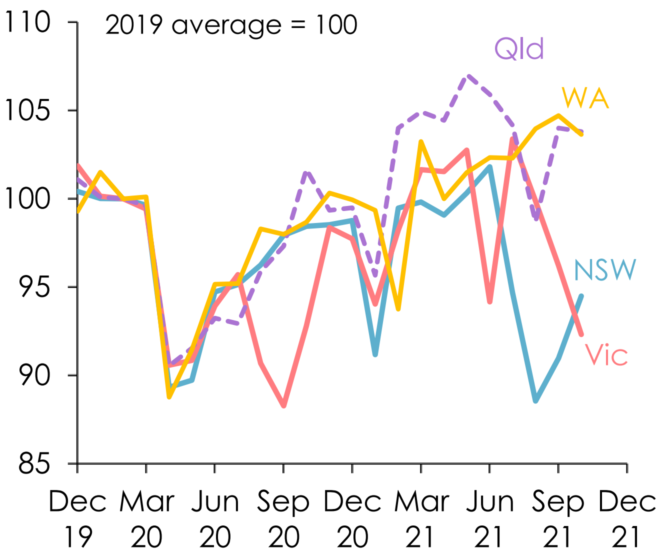
The October labour force survey picked up the easing of restrictions in NSW, but not the (later) easing in Victoria

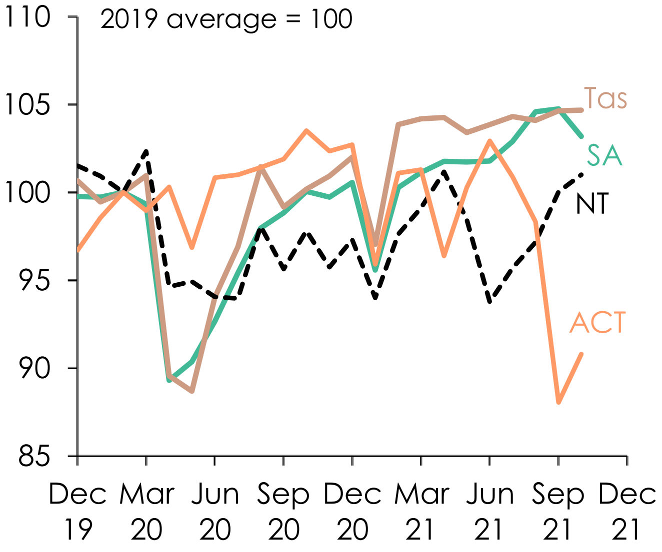
Employment



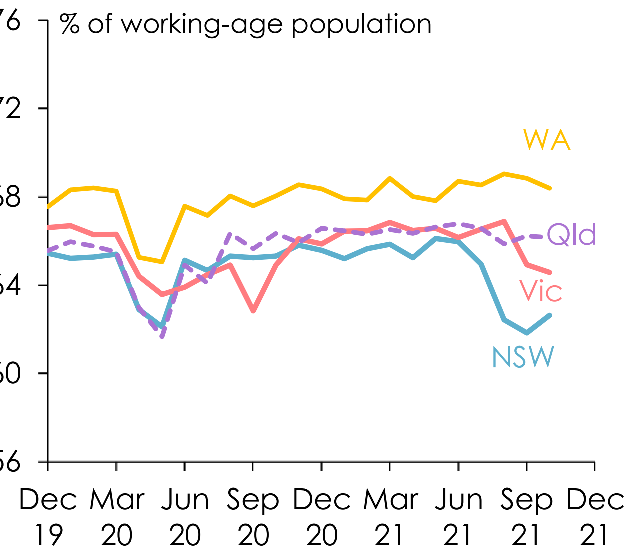


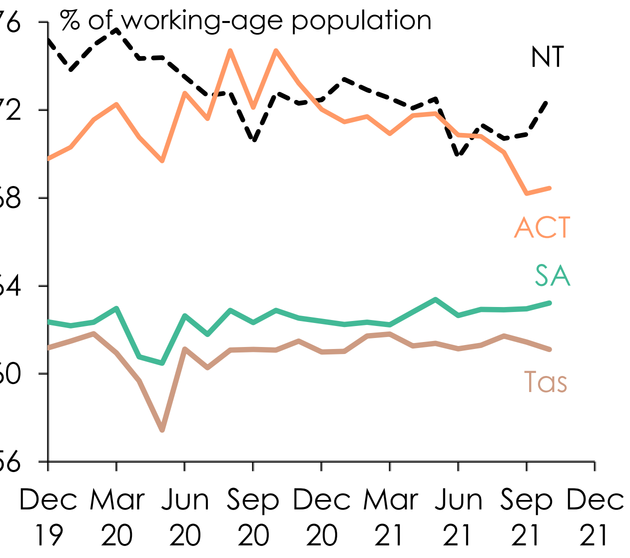
Hours worked



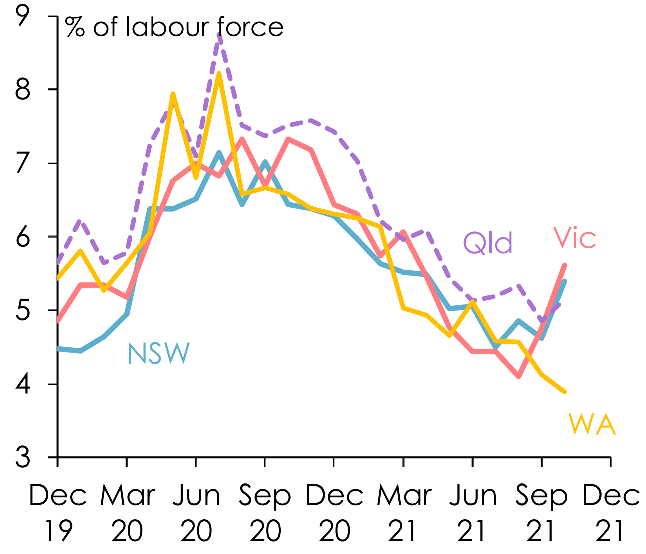


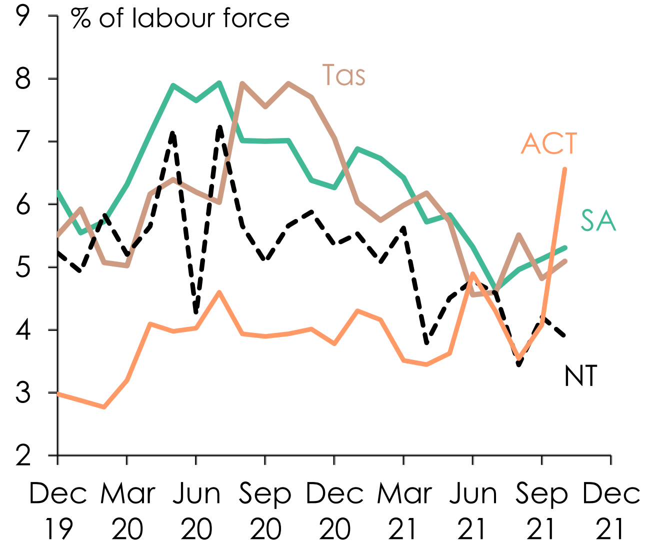
Participation rates





Unemployment rates





Source: ABS, *Labour Force, Australia*, October 2021. November data will be released on 16th December. Return to "What's New".

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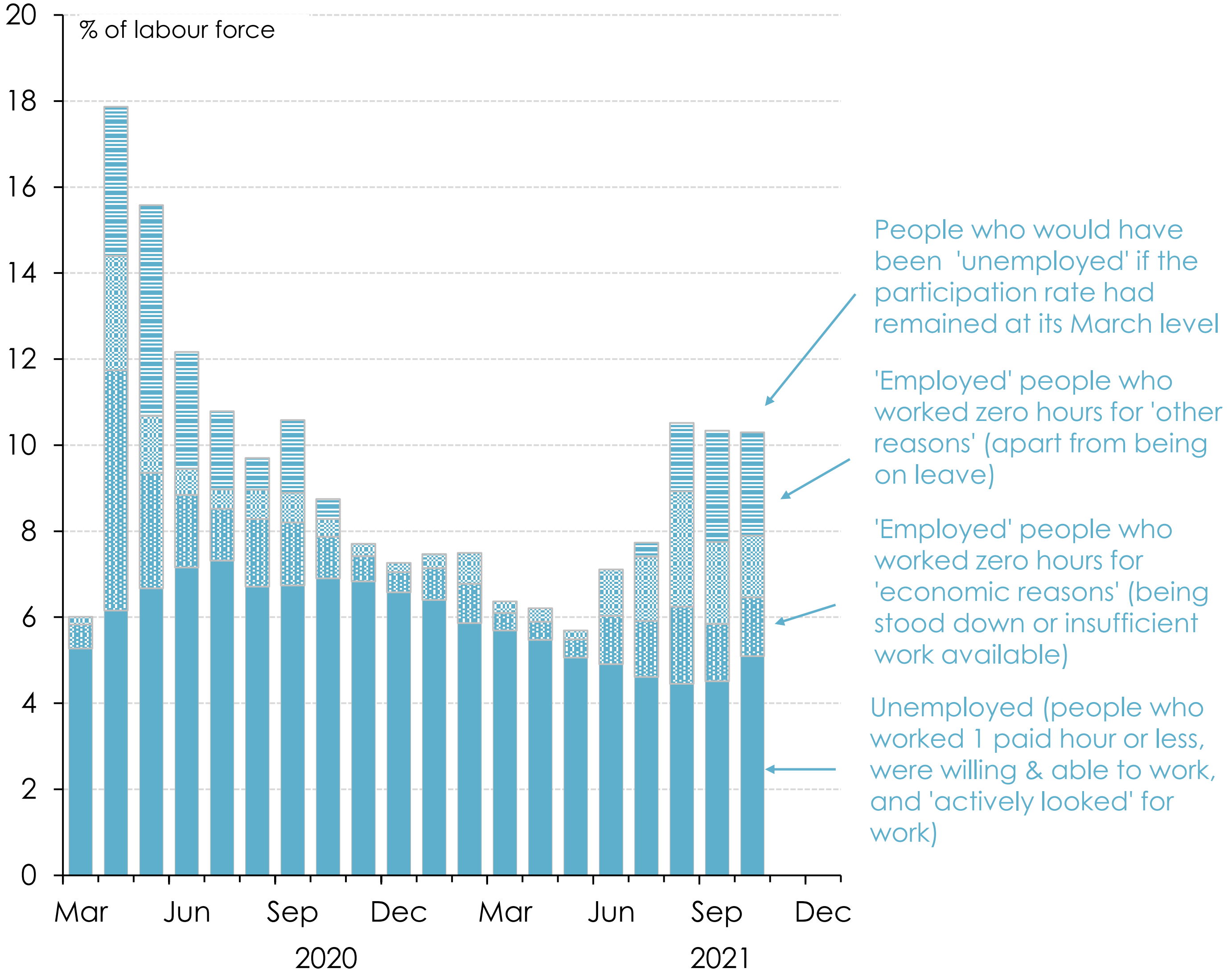
The 'effective' unemployment rate remained unchanged at 10.3% in May, despite the rise in the 'official' rate

Alternative measures of unemployment



- The number of people counted as 'employed' but who worked zero hours for 'economic reasons' (no or insufficient work, or 'stood down') rose by 4½K in October (Victoria up 22½K, rest of Australia down 18K)
- The number of people counted as 'employed' but who worked zero hours for 'other reasons' (apart from being leave) fell by 64K in October (after a 108K decline in September), of which 49K was in NSW & 12K in the ACT
- The number of people who have 'dropped out' of the labour force (as indicated by the fall in the partici-pation rate since May) fell 27K in October, to 333K
  - 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'
- Most of those who re-entered the labour force in October have yet to regain employment, thus adding to the number of 'officially' unemployed
- The 'effective' unemployment rate thus remained unchanged at 10.3% in October, up from a low of 5.7% in May
  - but it should drop (probably a lot) in November and December

Source: ABS, *Labour Force, Australia*, October 2021. November data will be released on 16th December.
Return to "What's New".

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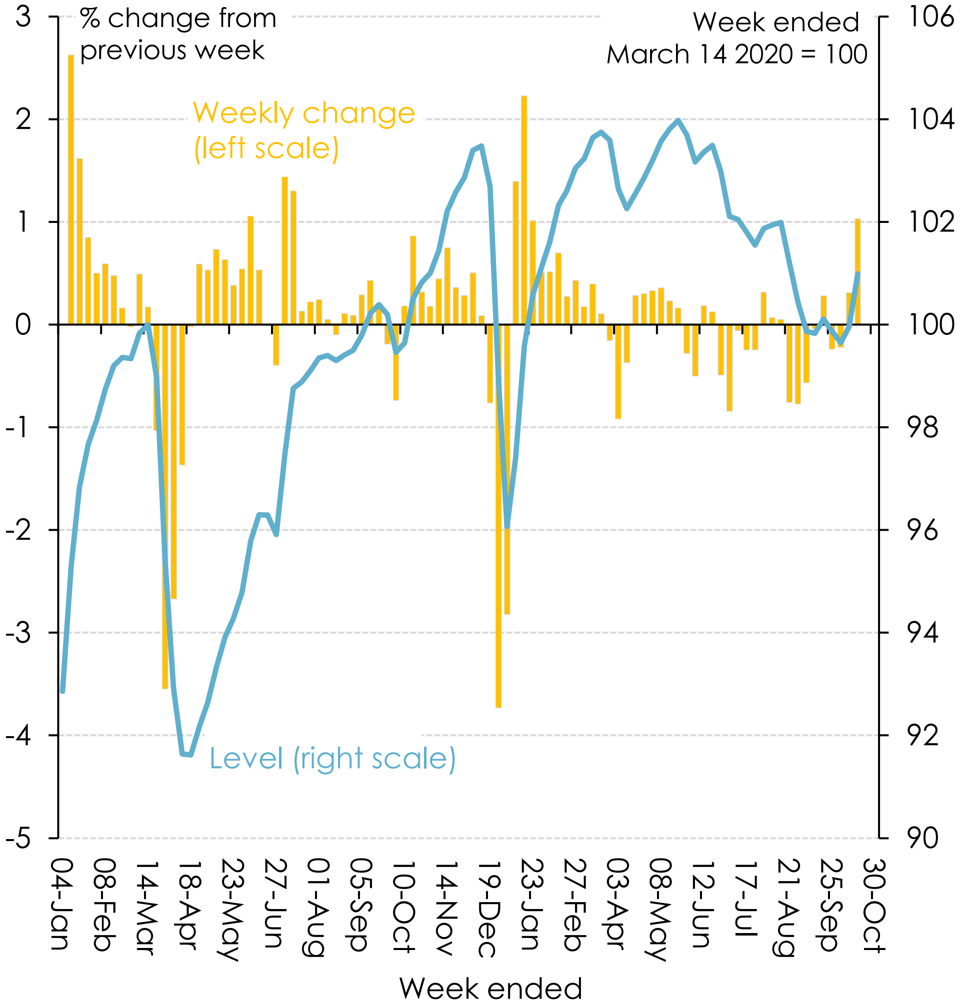
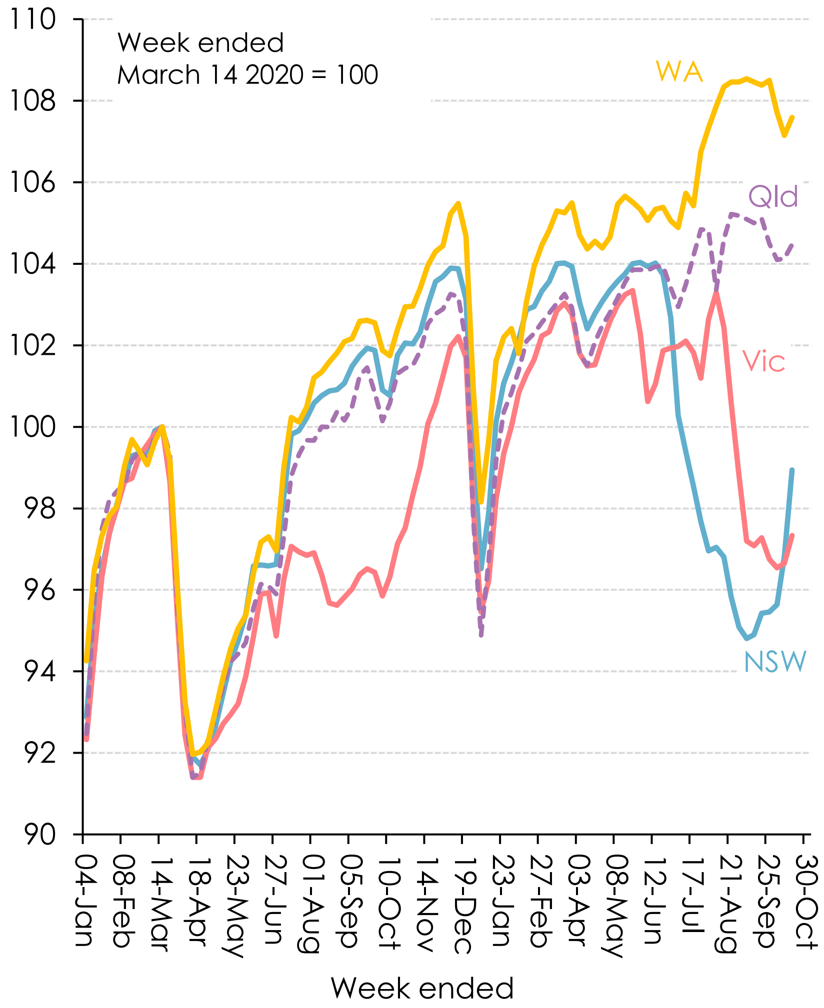
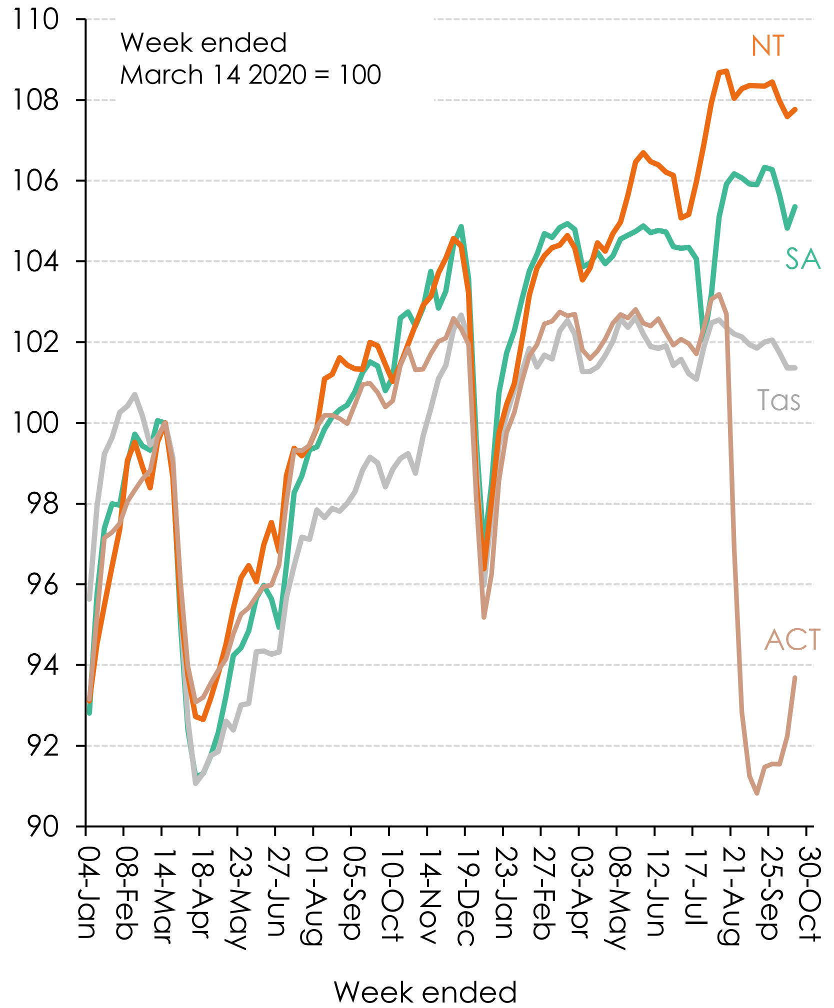
Payroll jobs rose by 1.3% over the first two weeks of October, reversing more than half the job losses during the previous 15 weeks of lockdown

Level and weekly change in the number of payroll jobs



Payroll jobs by State & Territory





Source: ABS, Weekly Payroll Jobs and Wages in Australia. Data refers to the number of payroll jobs at businesses participating in the Australian Taxation Office's Single Touch Payroll system, which covers 99% of employers with 20 or more employees and about 71% of smaller employees. People with two or more jobs (about 6% of the total) are double-counted; employers and the self-employed are not included. Data are not seasonally adjusted (so at least some of the week-to-week variations could be due to 'normal' seasonal factors): and the two most recent weeks are subject to (what have often been large) revisions. Return to "What's New".

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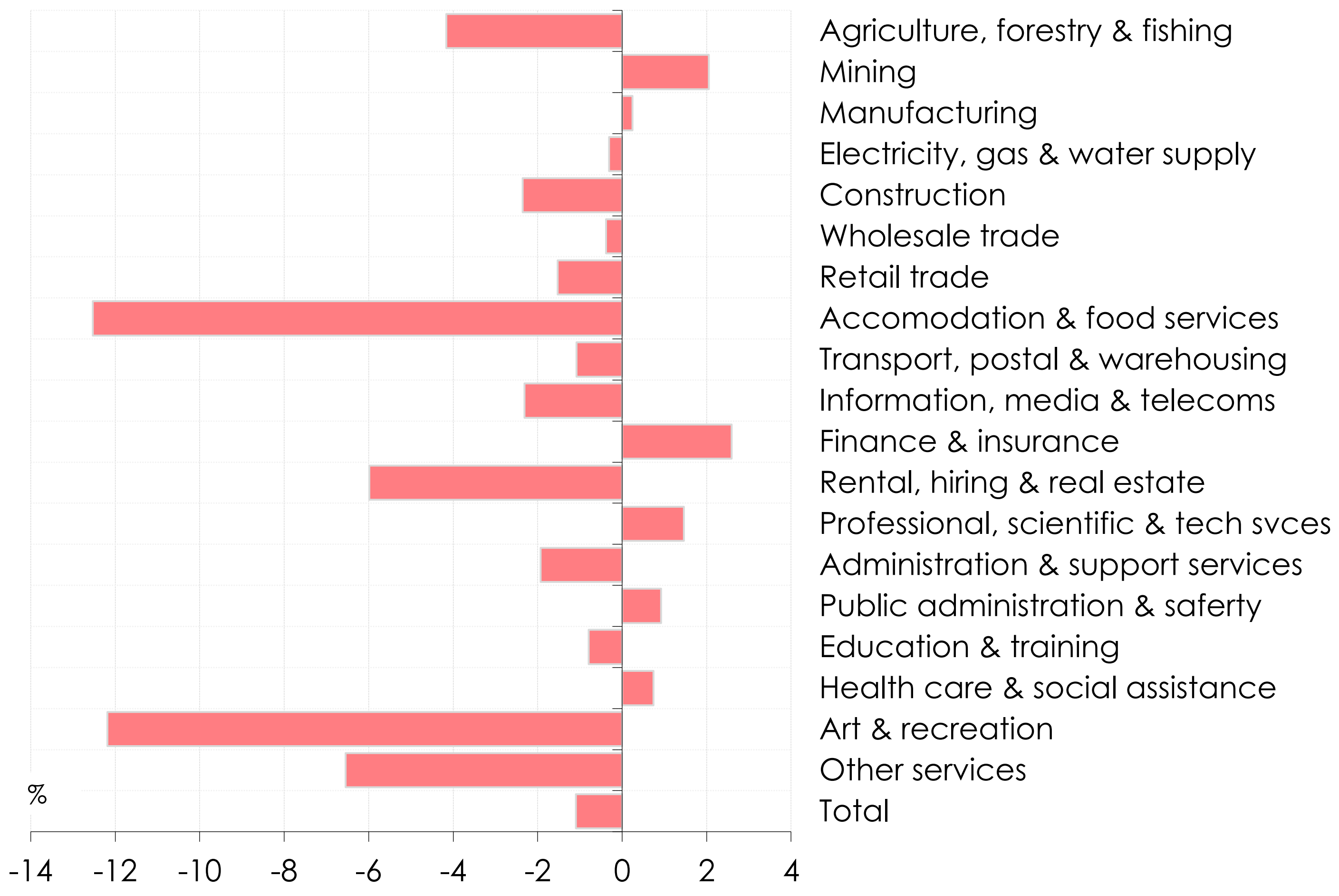
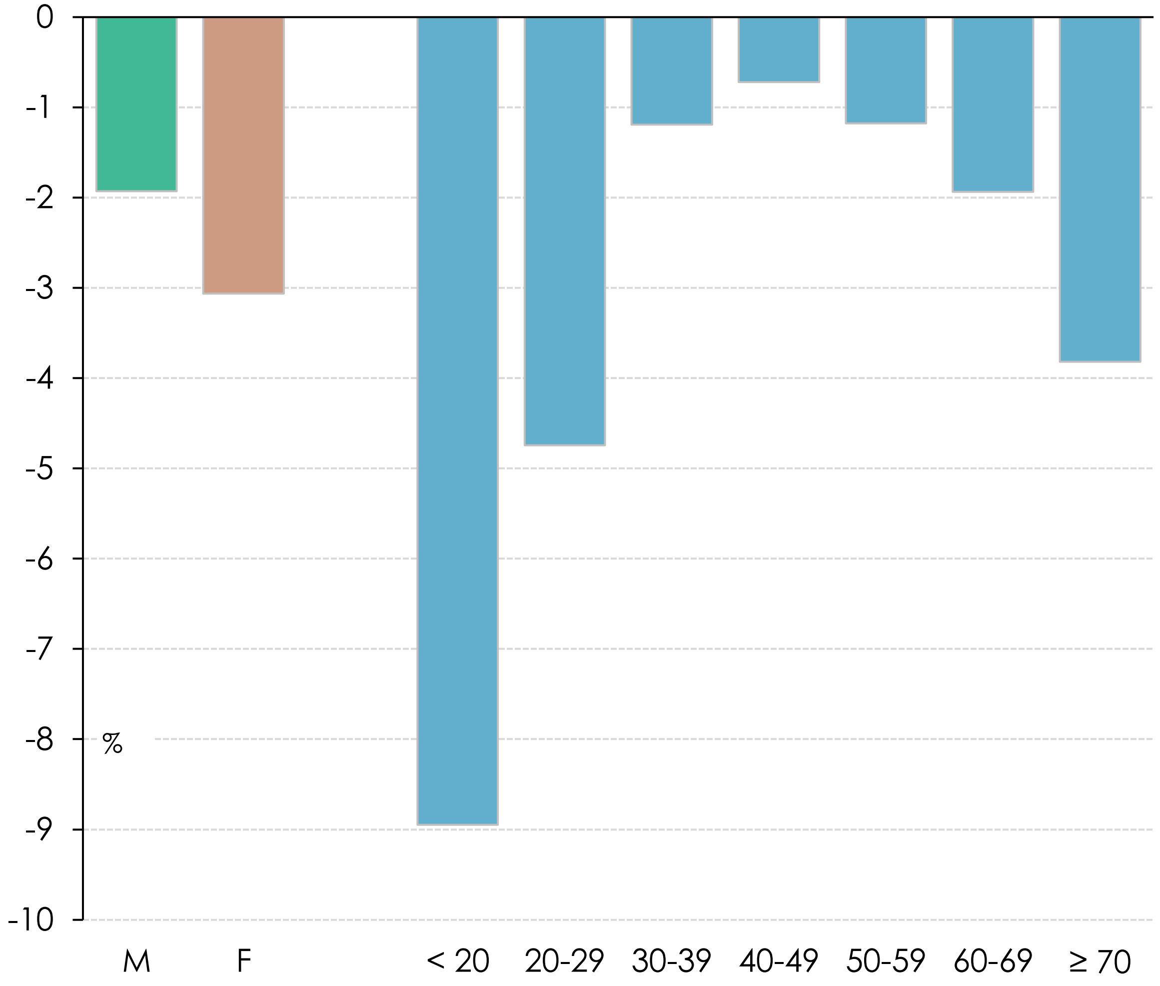
The same sectors, and the same groups, that were hardest hit in last year's lockdowns have been hardest hit in the latest one (plus agriculture)

Net change in payroll jobs between week ended 3rd July and week ended 16th October

By industry



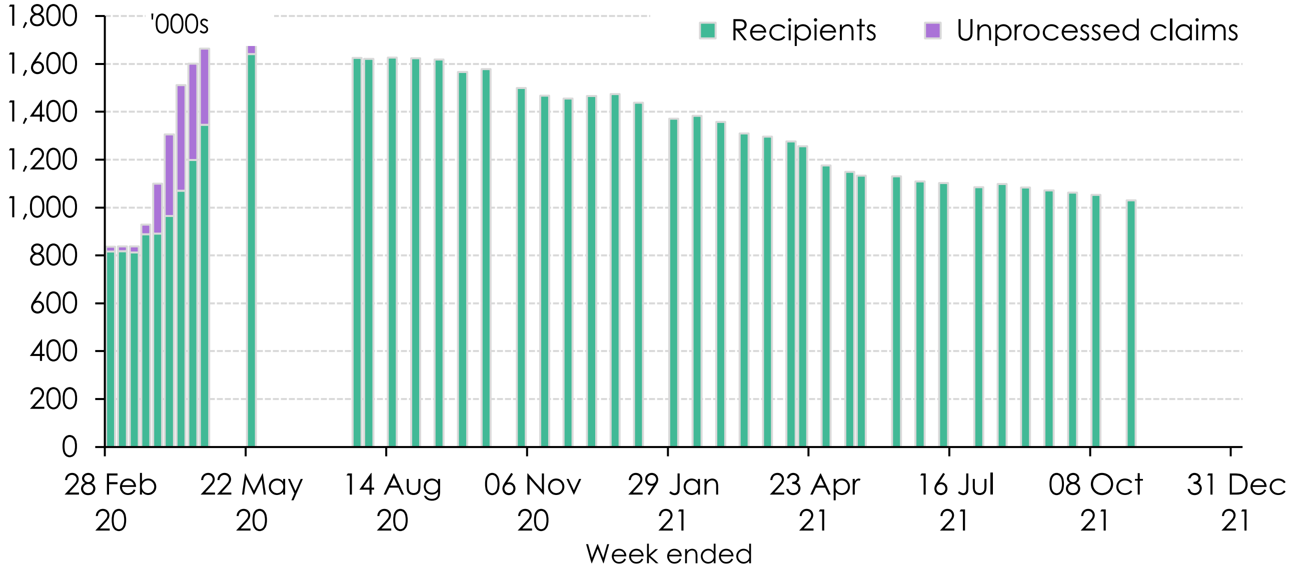
By gender and age



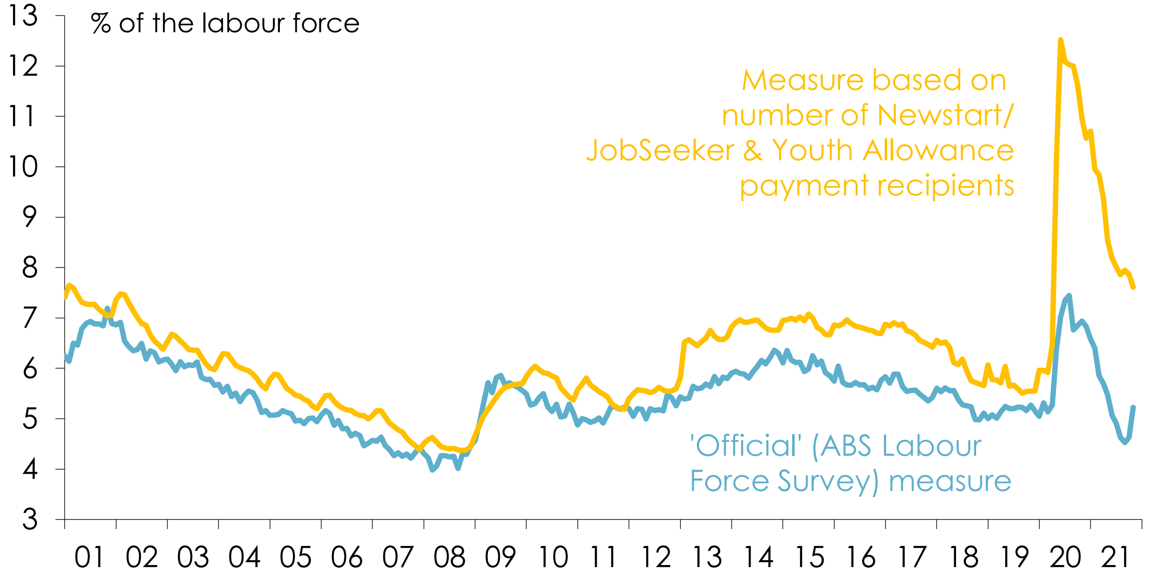
Source: ABS, Weekly Payroll Jobs and Wages in Australia. Data refers to the number of payroll jobs at businesses participating in the Australian Taxation Office's Single Touch Payroll system, which covers 99% of employers with 20 or more employees and about 71% of smaller employees. People with two or 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 have continued to decline through the recent 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 (roughly) 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 22,105 (2.1%) over the three weeks to 29th October – to its lowest level since the week ended 20th March last year – with about 9,600 of that decline being in NSW, 5,700 in Victoria, and 3,600 in Queensland**
- **People displaced from employment as a result of recent lockdowns have been entitled to receive a range of other payments from the Federal or state governments, though these have now tapered off as vaccination rates reach national targets and restrictions are eased**

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

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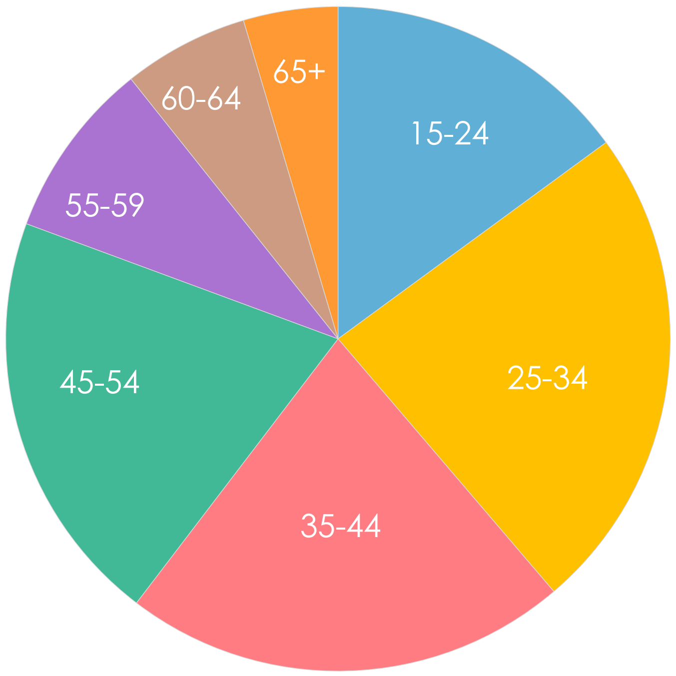
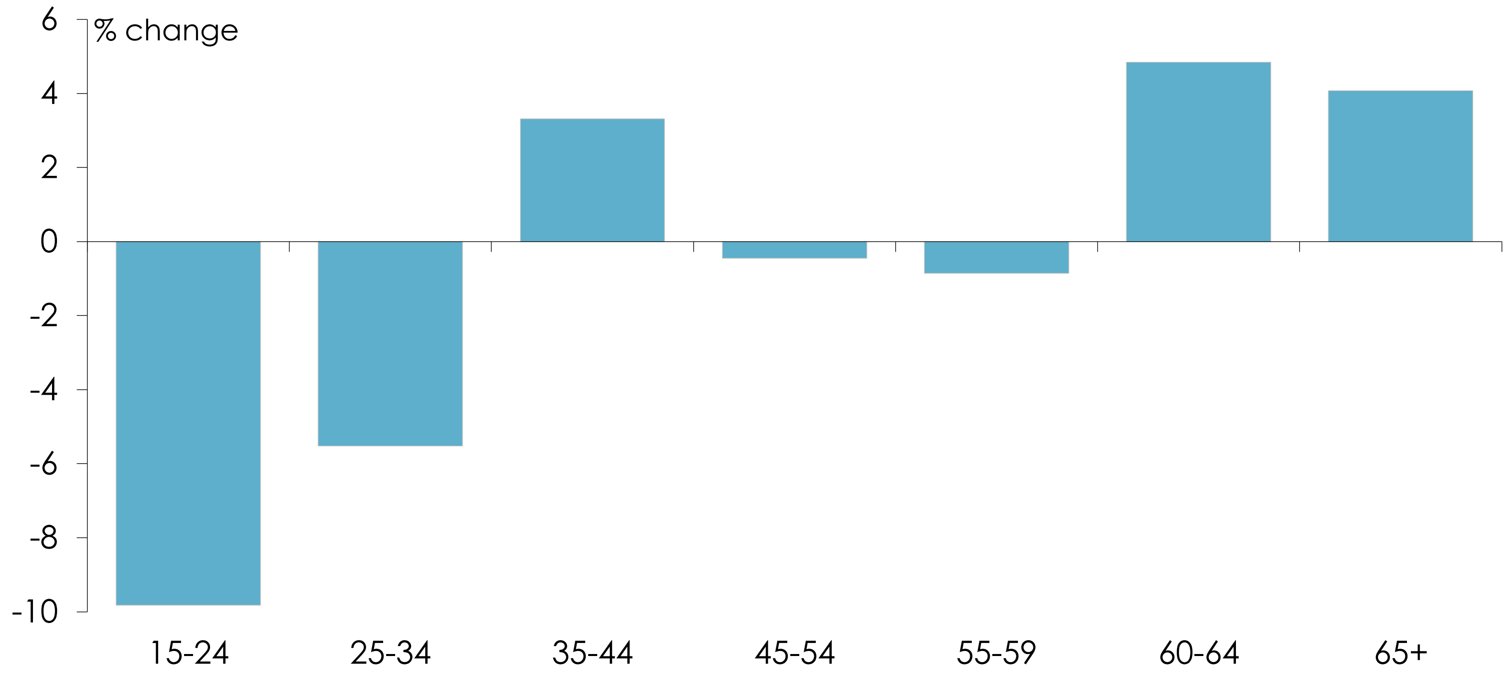
Younger workers bore the brunt of job losses during the early stages of the pandemic and have had a more difficult time regaining jobs

Composition of employment by age group, February 2020



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

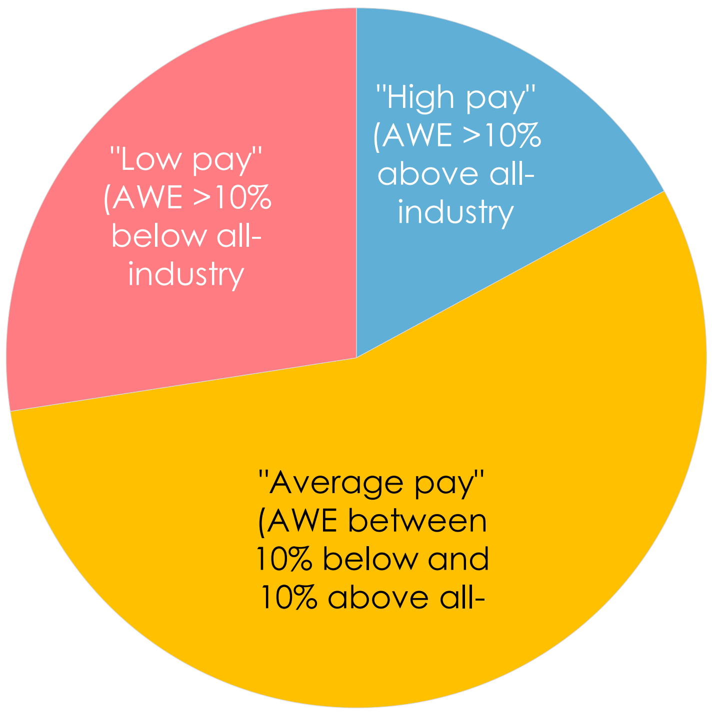


- **People aged 15-24 accounted for 15% of pre-covid employment but experienced 39% of all job losses between February and May last year – and 46% of all job losses between June and October this year – their employment is down 9.8% from the pre-pandemic peak in February last year**
- **Likewise 25-34 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 5.5% 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, October 2021: November data will be released on 23rd December. Return to "What's New".

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

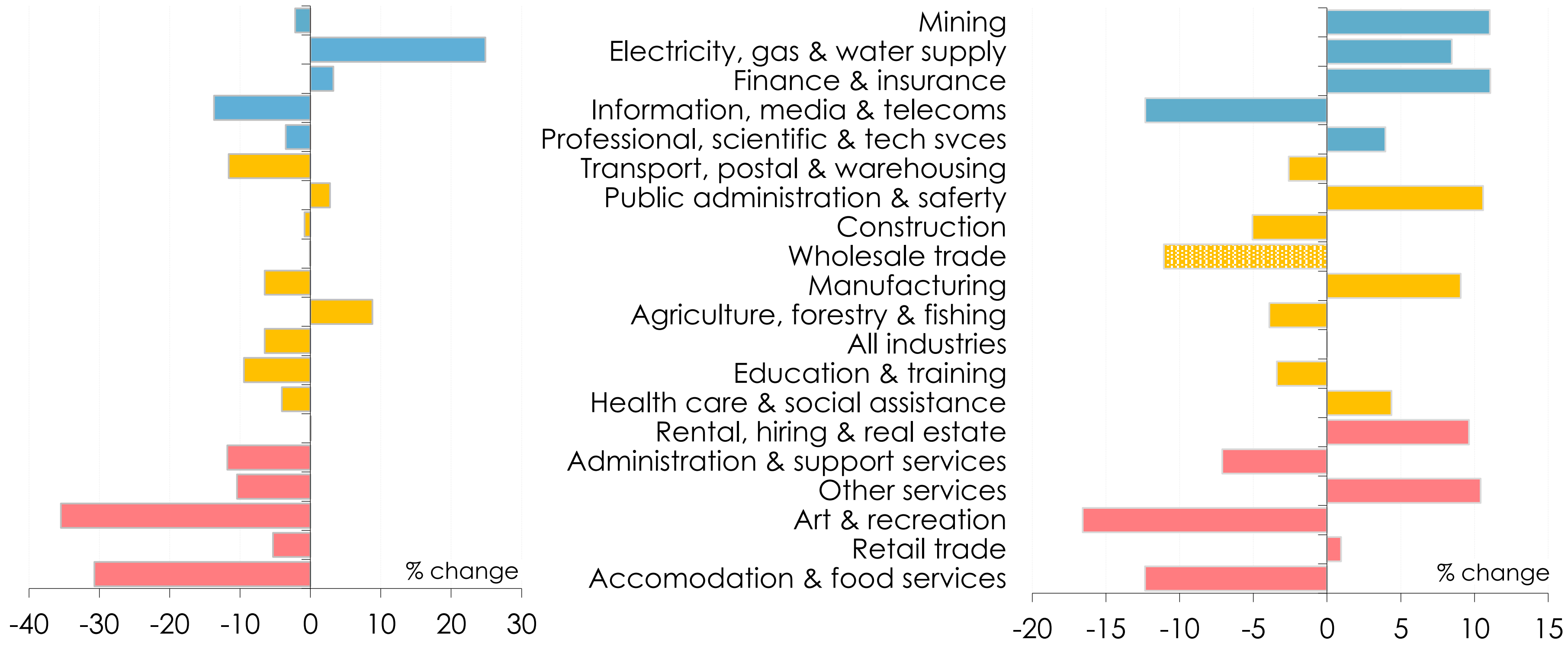
Composition of employment by industry ranked by average weekly earnings, February 2020



Change in employment by industry

February-May 2020

February 2020 – August 2021



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

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

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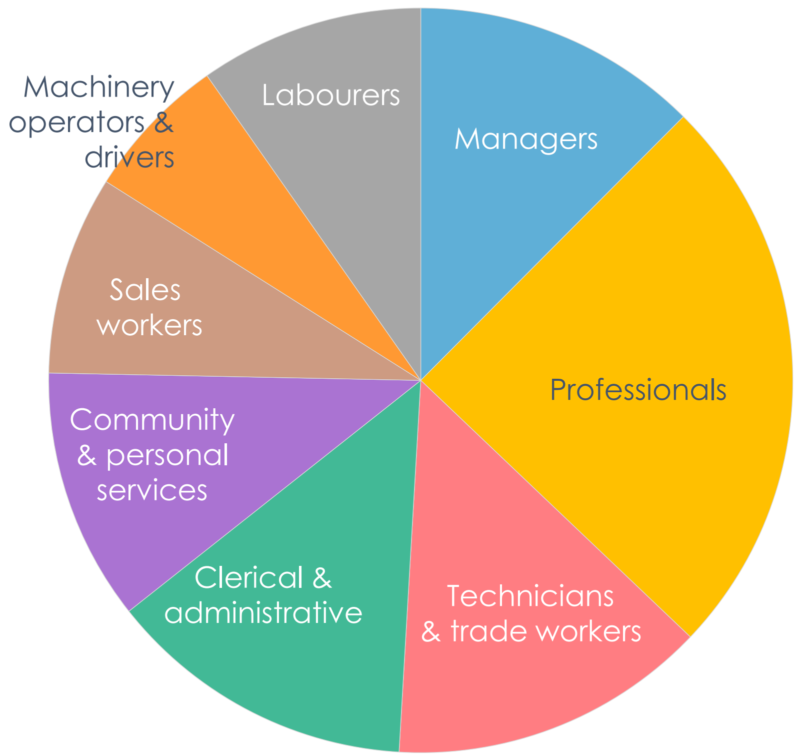
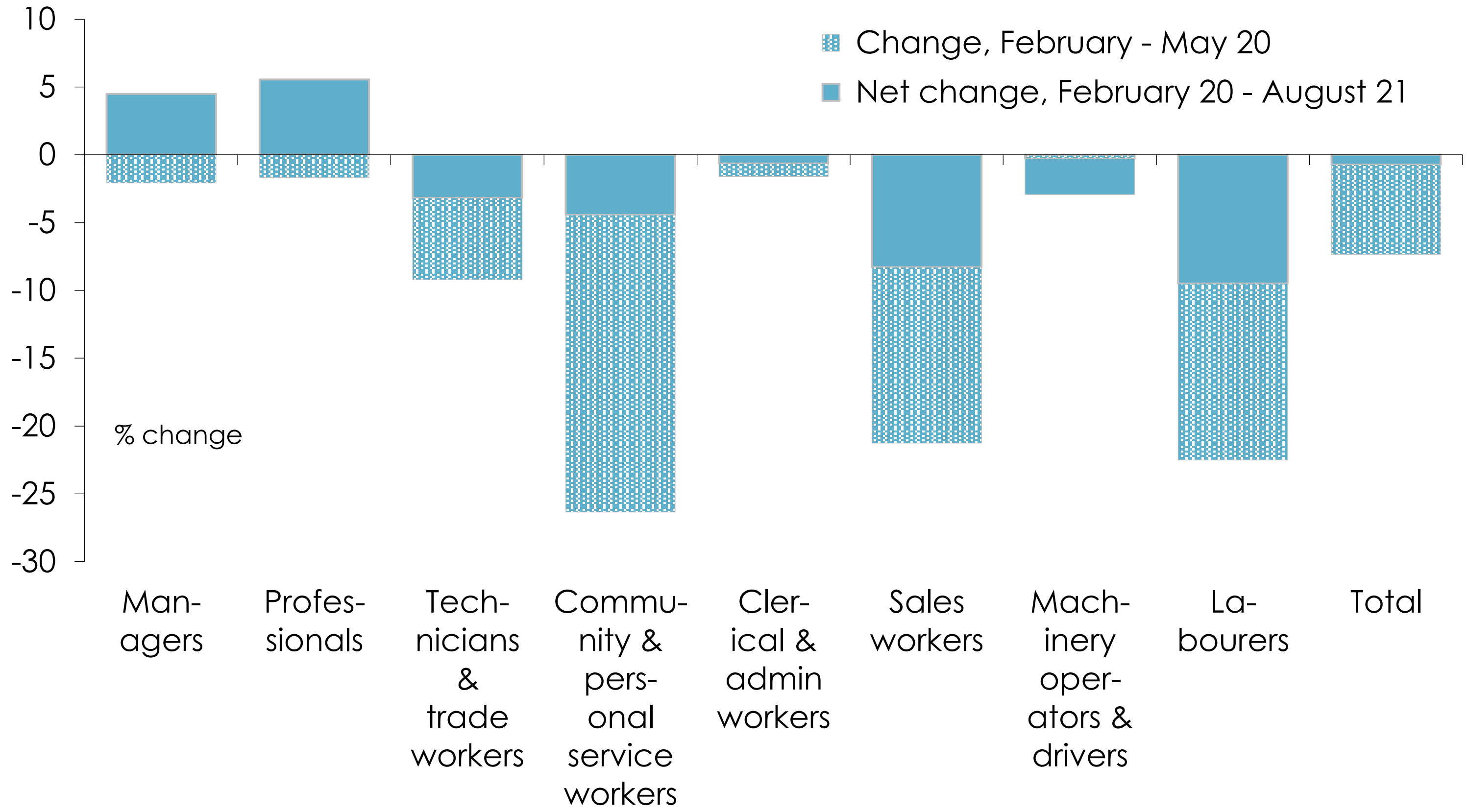
Community & personal service workers, sales workers and labourers have borne the brunt of job losses since the onset of the pandemic

Employment by major occupation category, February 2020



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



- **Community & personal services workers, sales workers and labourers accounted for 29% of the pre-covid work force, but experienced 73% of the job losses between February and May last year – and for 73% (again) of job losses between May and August this year – and there were 7.2% fewer of them in August than in February last year**
- **… whereas there are 5.2% more employed managers and professionals than there were in February last year**

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

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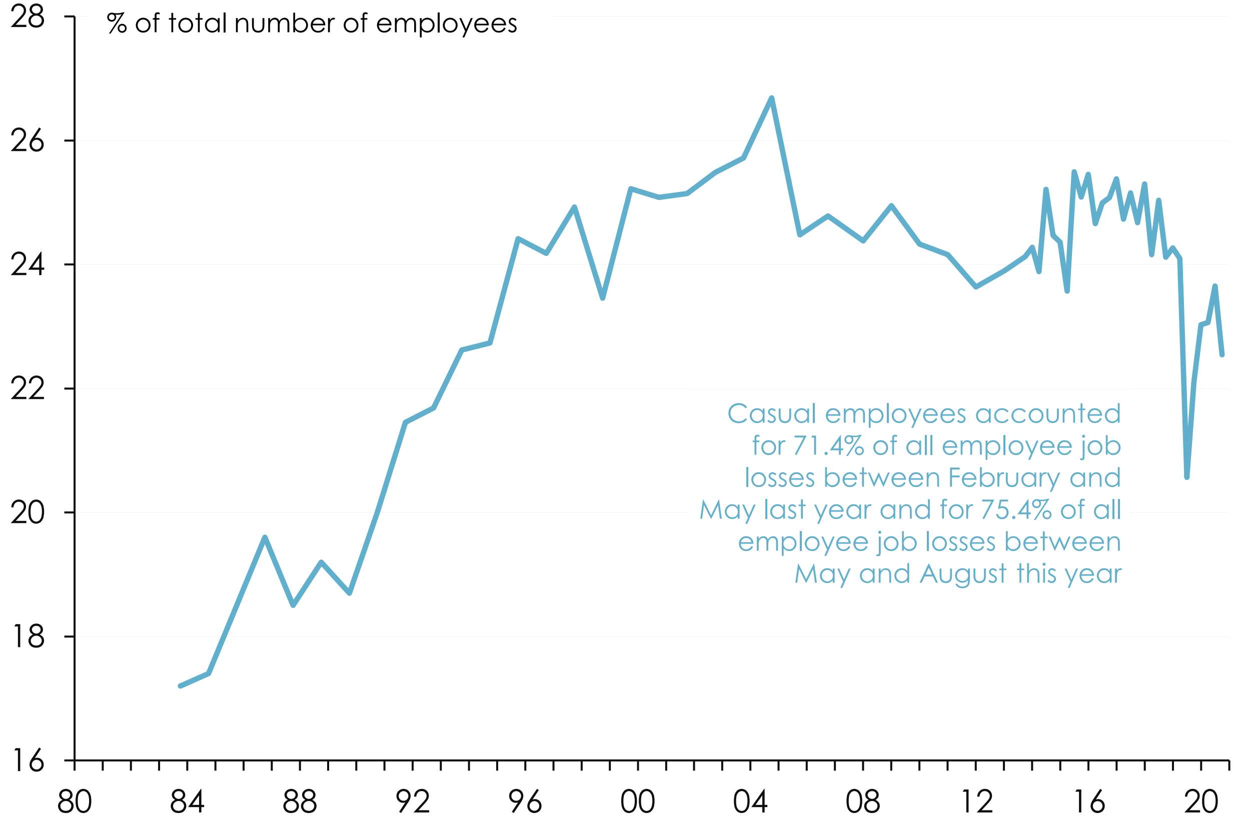
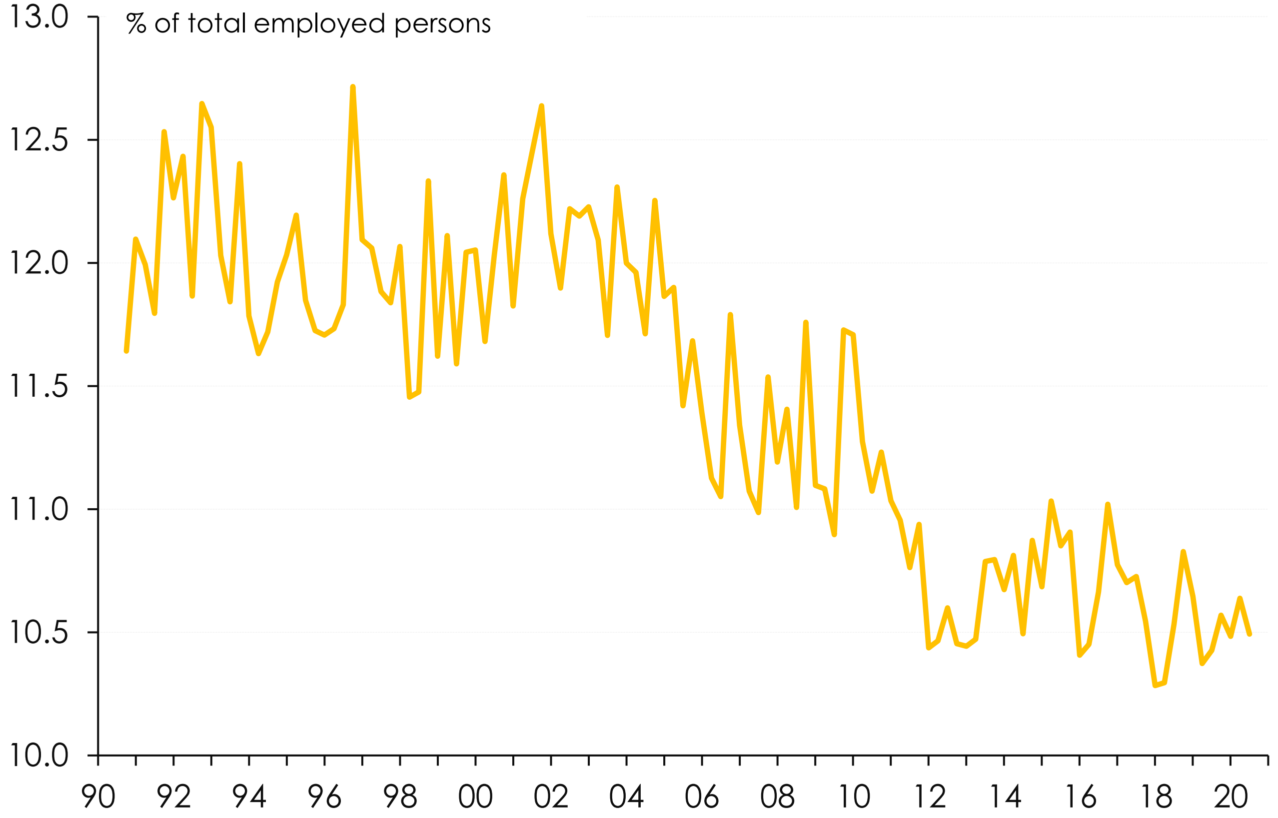
Contrary to popular belief neither casual jobs nor ‘gig economy’ jobs have become more commonplace during the past two decades

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



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



- **Casual employment increased significantly as a share of the total during the 1980s, 1990s and early 2000s but has not changed significantly since then – except for a sharp drop during the current recession**
- **‘Independent contractors’ have actually declined as a share of the workforce since the early 2000s – had haven’t increased during the current recession**

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

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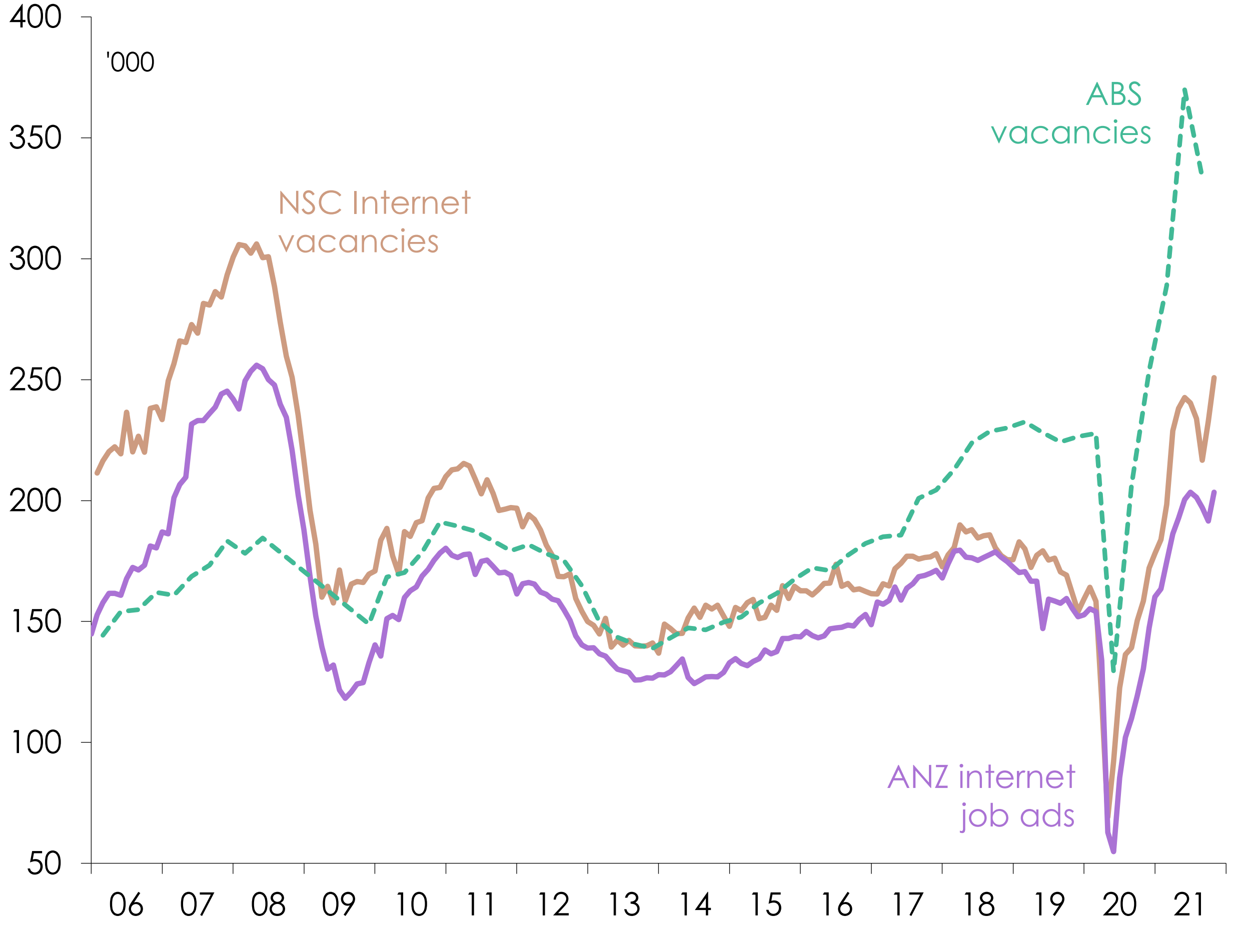
Job vacancies have rebounded swiftly from their recession lows – there are now fewer than two jobseekers for every vacancy, a record low

Measures of job vacancies



- Job advertisements and vacancies fell only slightly during the NSW and Victorian lockdowns, and have rebounded strongly in October

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

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

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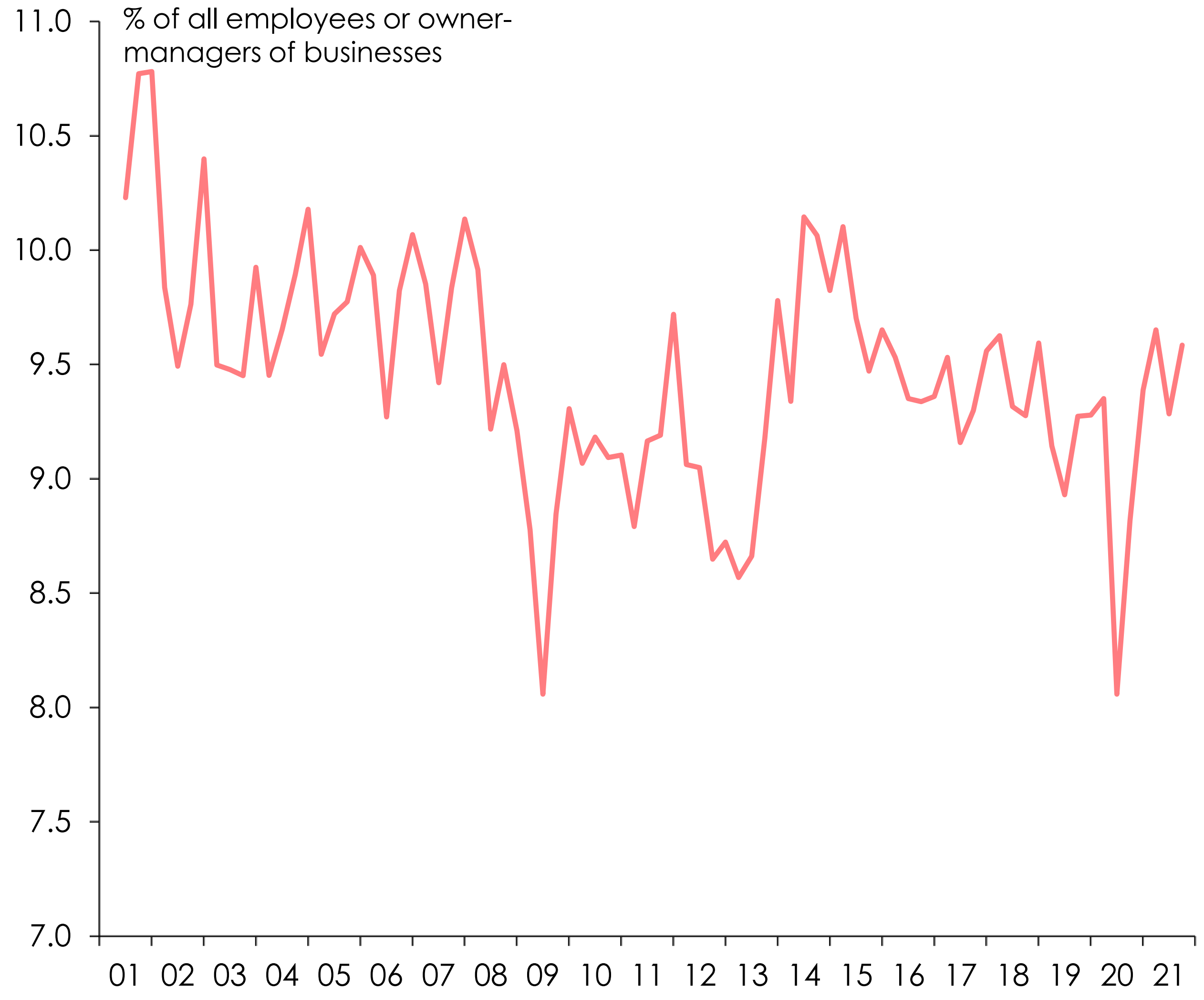
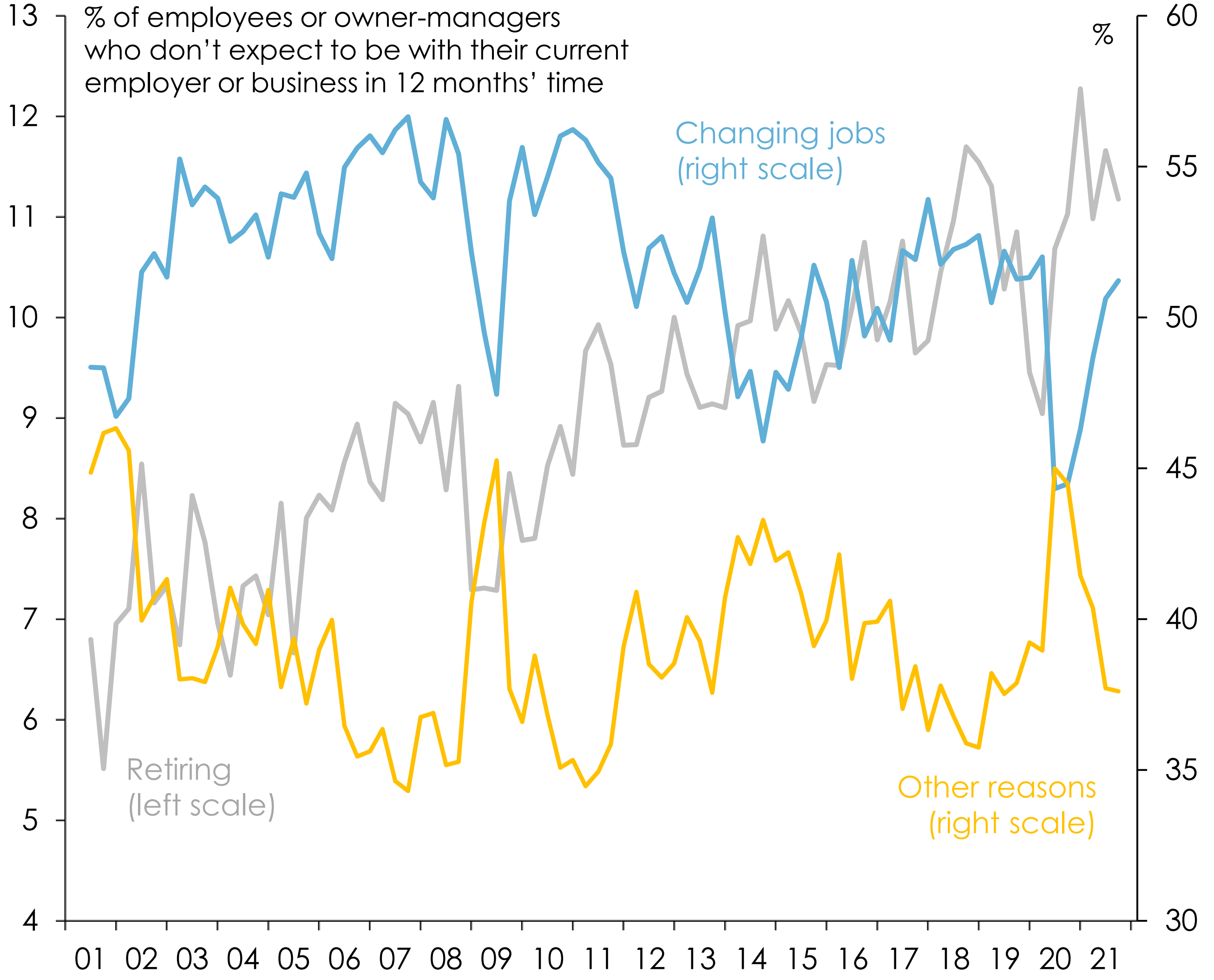
There's no evidence of a US-style 'Great Resignation' in Australia – especially when allowance is made for retirements

Proportion of employees who don't expect to be with their current employer or business in 12 months' time



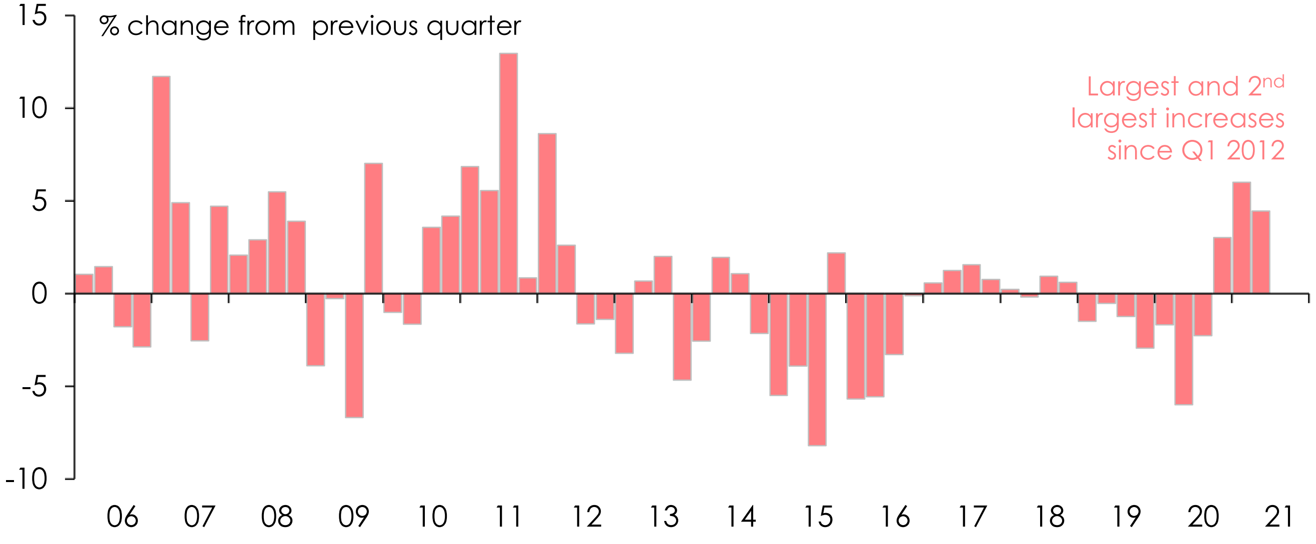
Reasons for not expecting to be with their current employer or business in 12 months' time



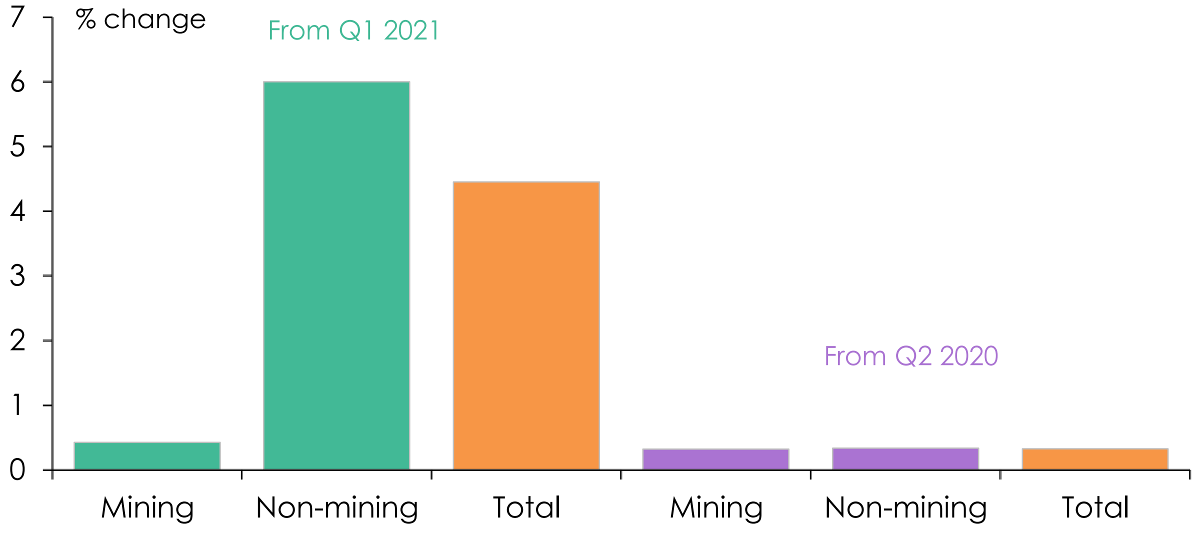
Note: 'other reasons' for not expecting to be with current employer or business in 12 months' time include employer closing or down-sizing; study, travel or family reasons; and the seasonal, casual or temporary characteristics of current employment. *Source:* ABS, Labour Force, Australia, Detailed, Table 17, August 2021.

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

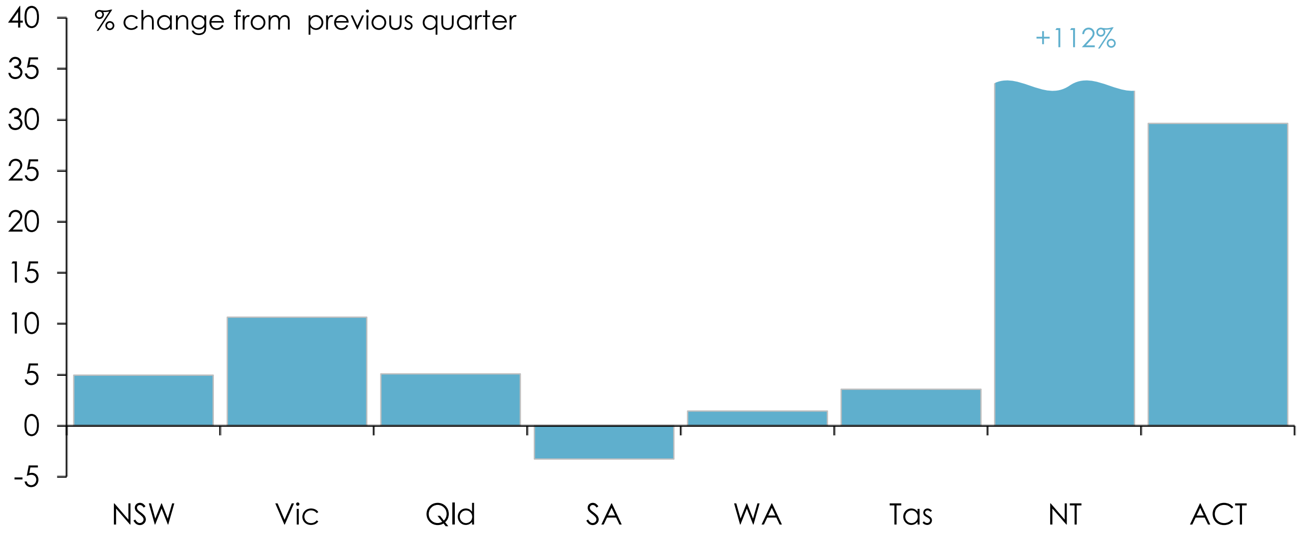
Real business new fixed capital expenditure



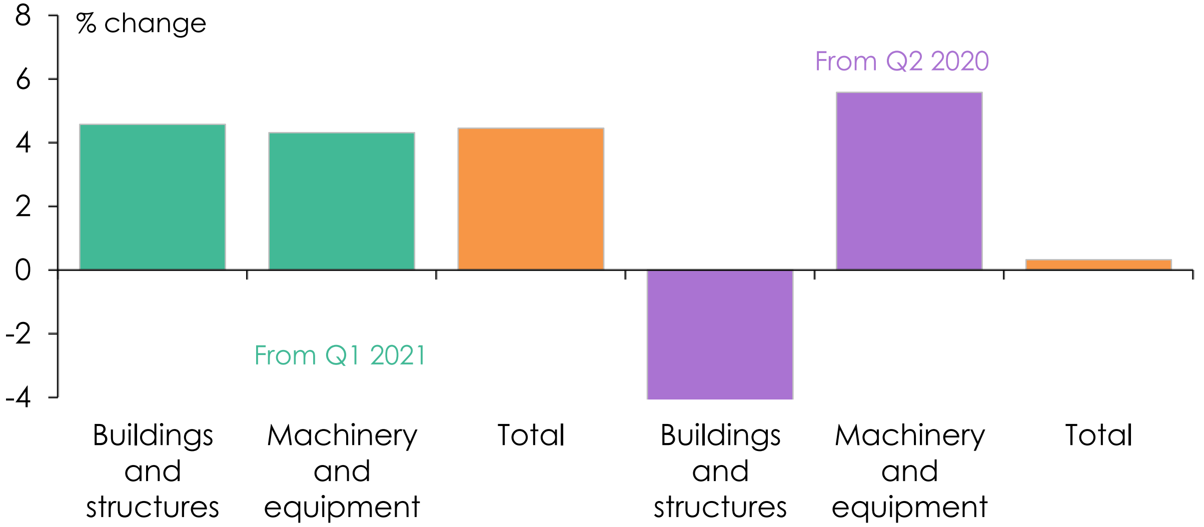
Real business new fixed capex, by industry, Q1



Real business new fixed capex, by state, Q2 2021



Real business new fixed capex, by asset, Q1



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

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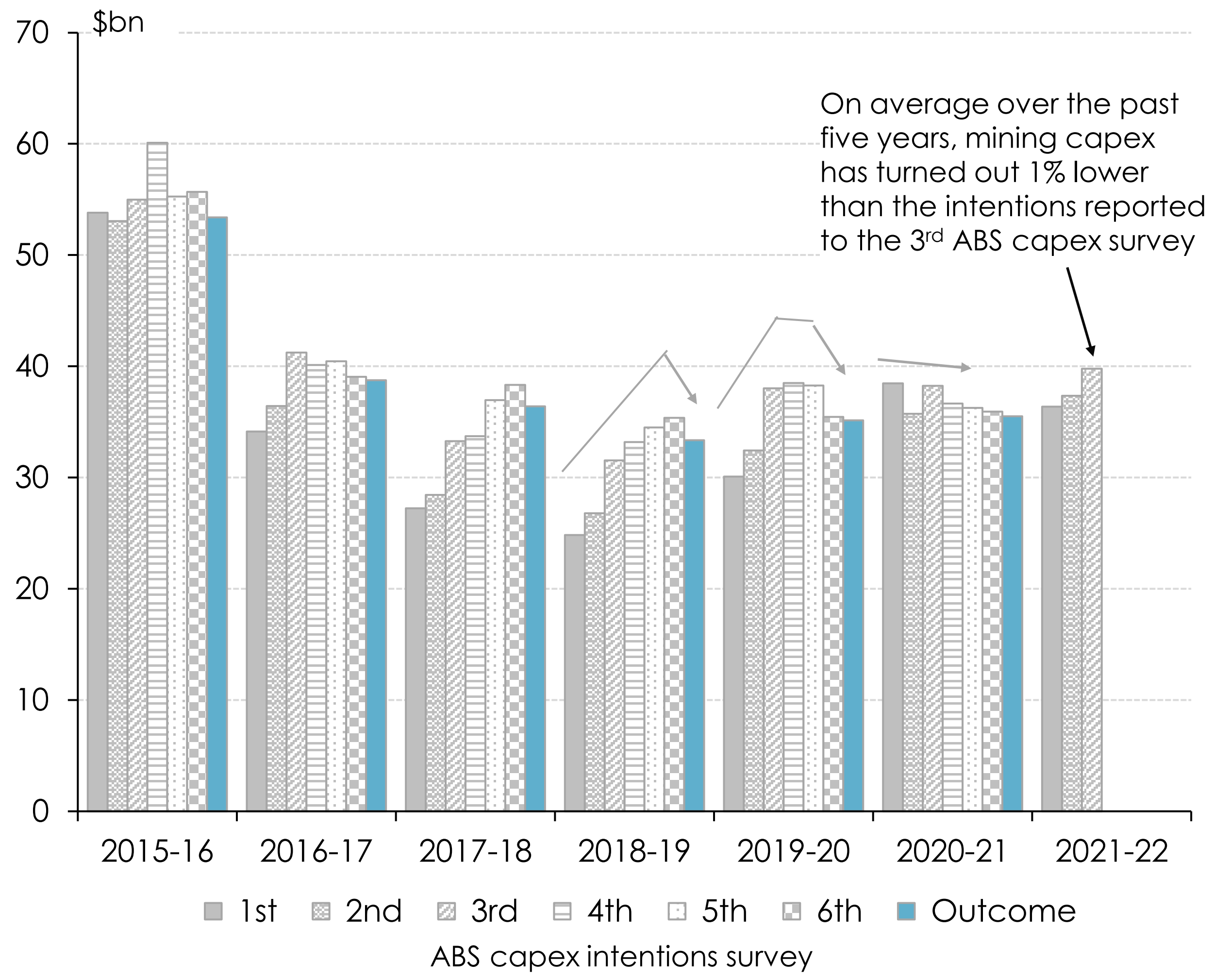
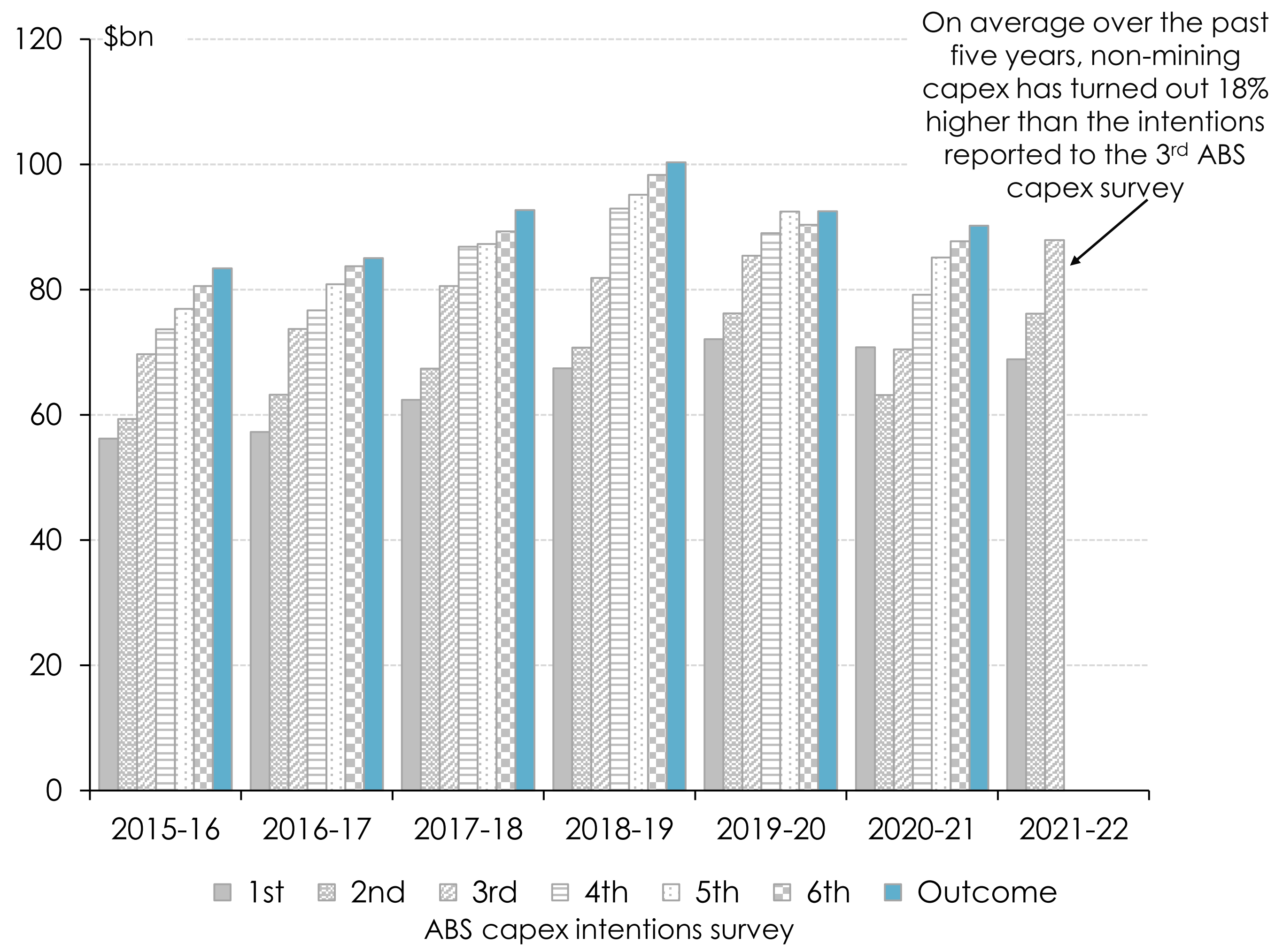
Business capex fell by 1.5% in 2021-22 and is expected to increase by 13½% in 2021-22 according to the latest capex intentions survey

Capital expenditure intentions - mining



Capital expenditure intentions – non-mining



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

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

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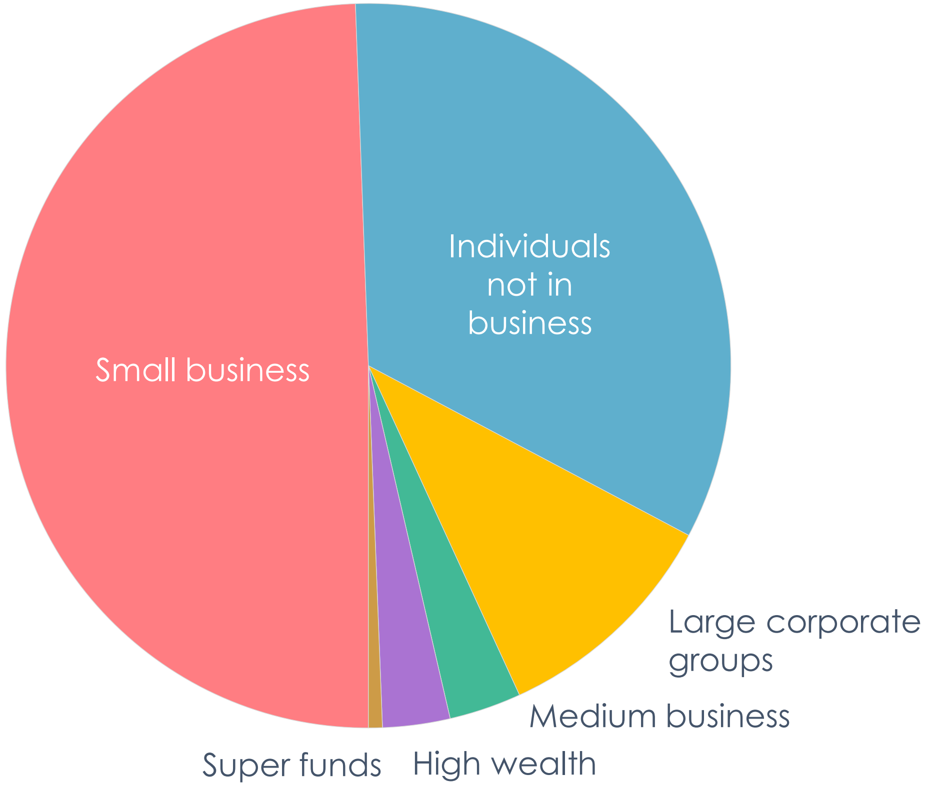
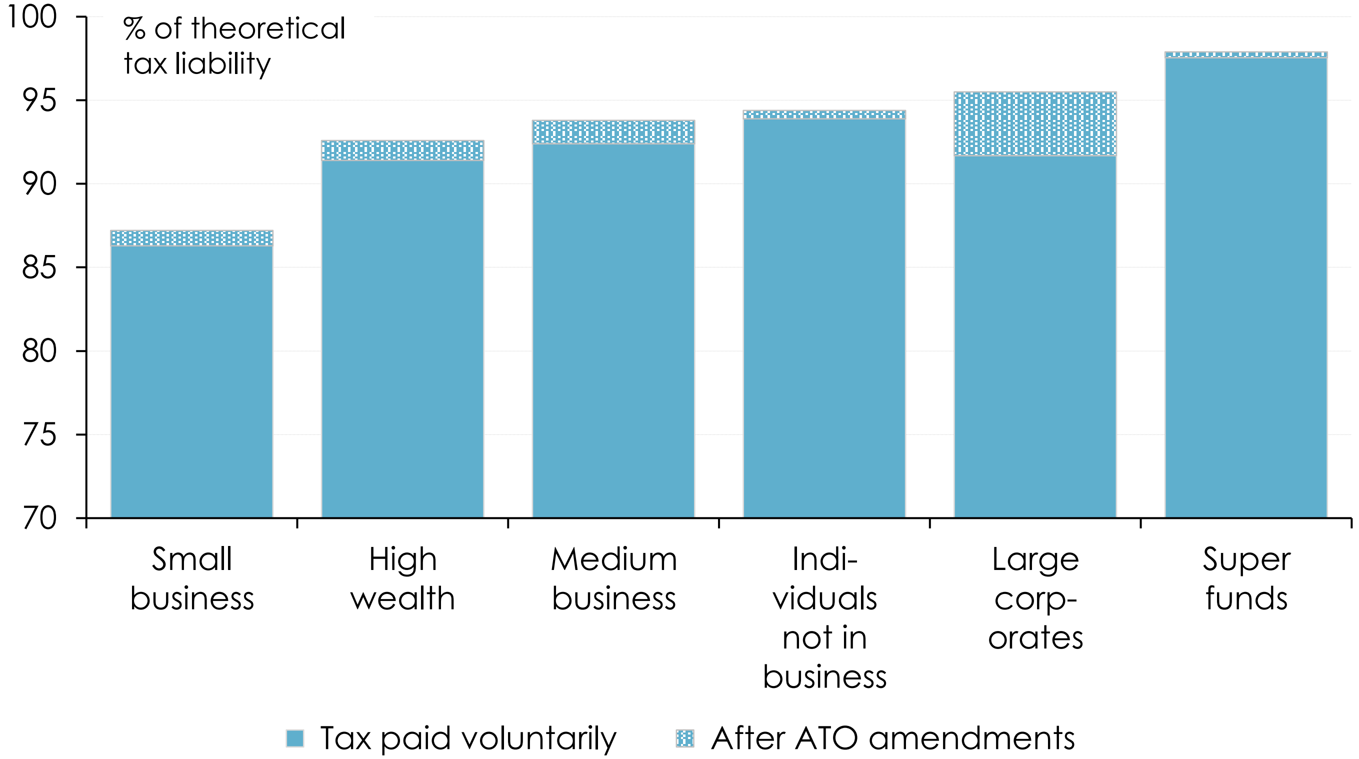
The Tax Office's latest 'tax gap' estimates again show that small businesses, not big ones or rich families, that are the least compliant with the tax law

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



Share of theoretical tax liability paid voluntarily and after ATO amendments, 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%**
- **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**

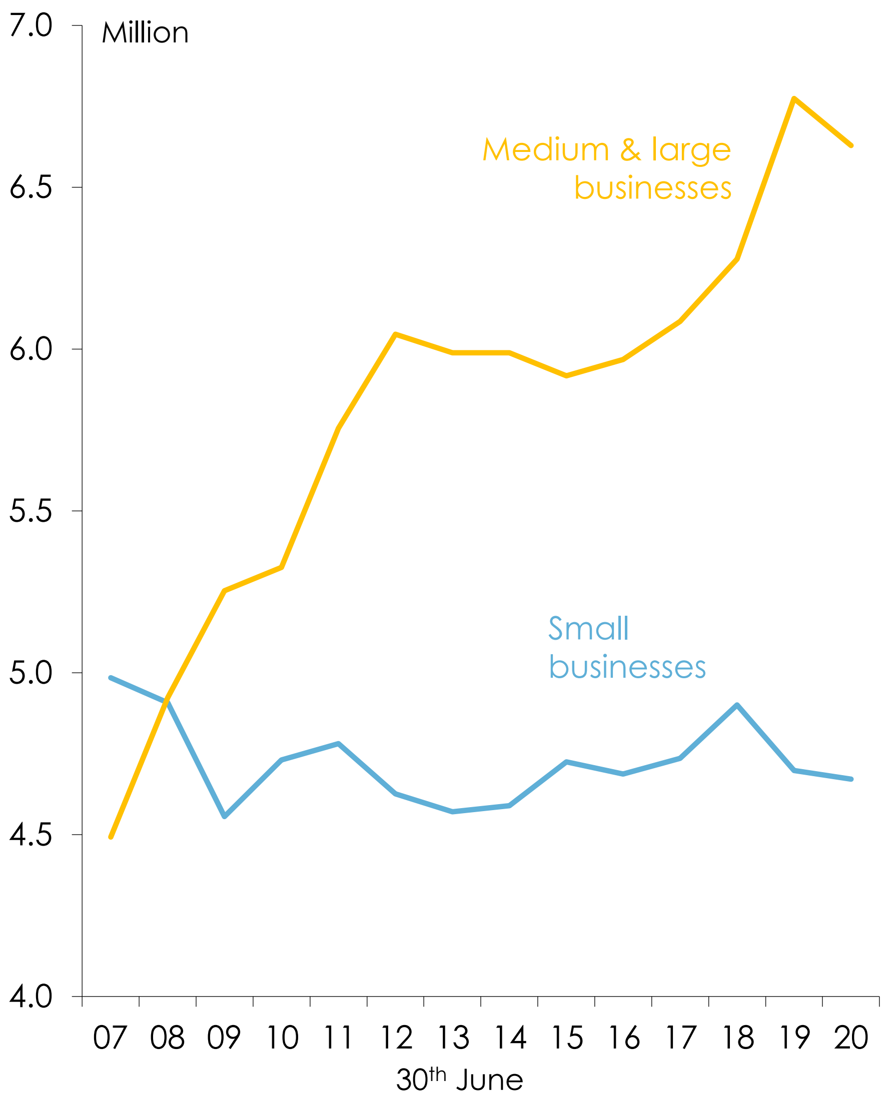
Note: 'small' businesses are those with income of up to \$10mn; medium businesses are those with income of up to \$250mn; and large corporates those with income of over \$250mn. 'High wealth' individuals are those who (with associates) control wealth of more than \$50mn. *Source:* Australian Taxation 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.

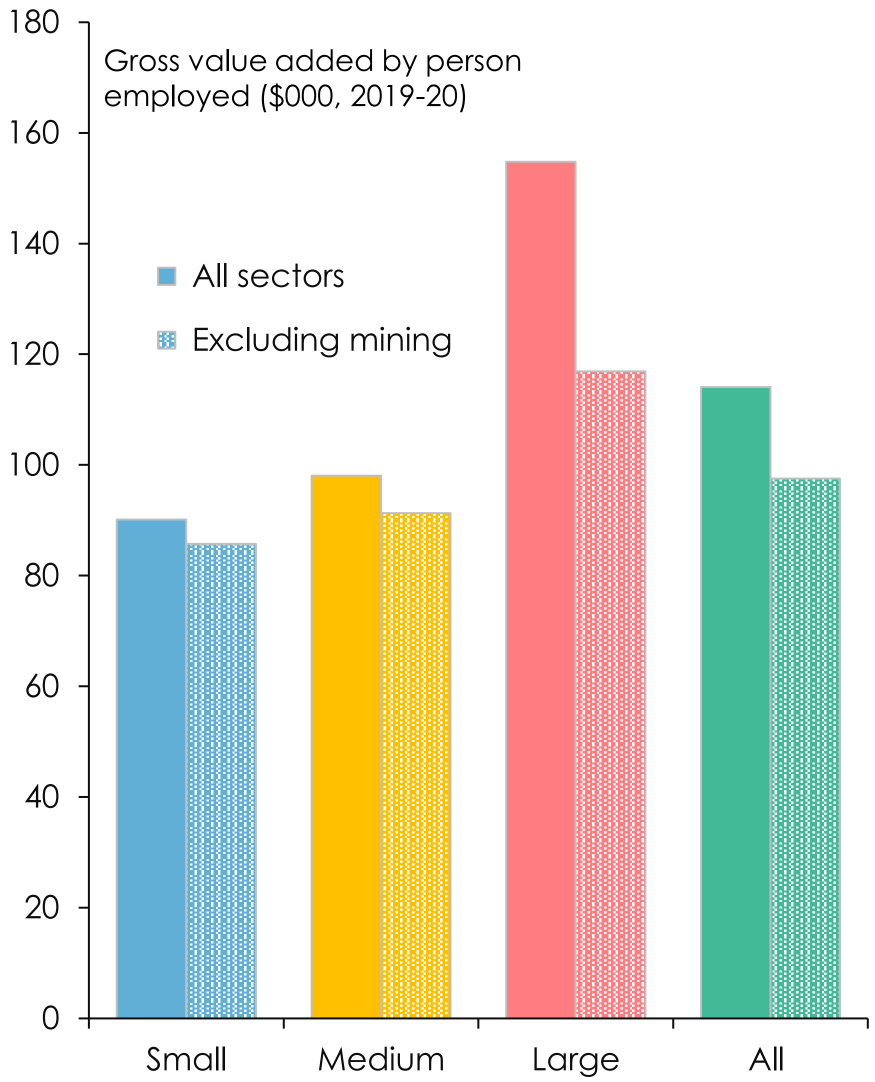
Return to "What's New".

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

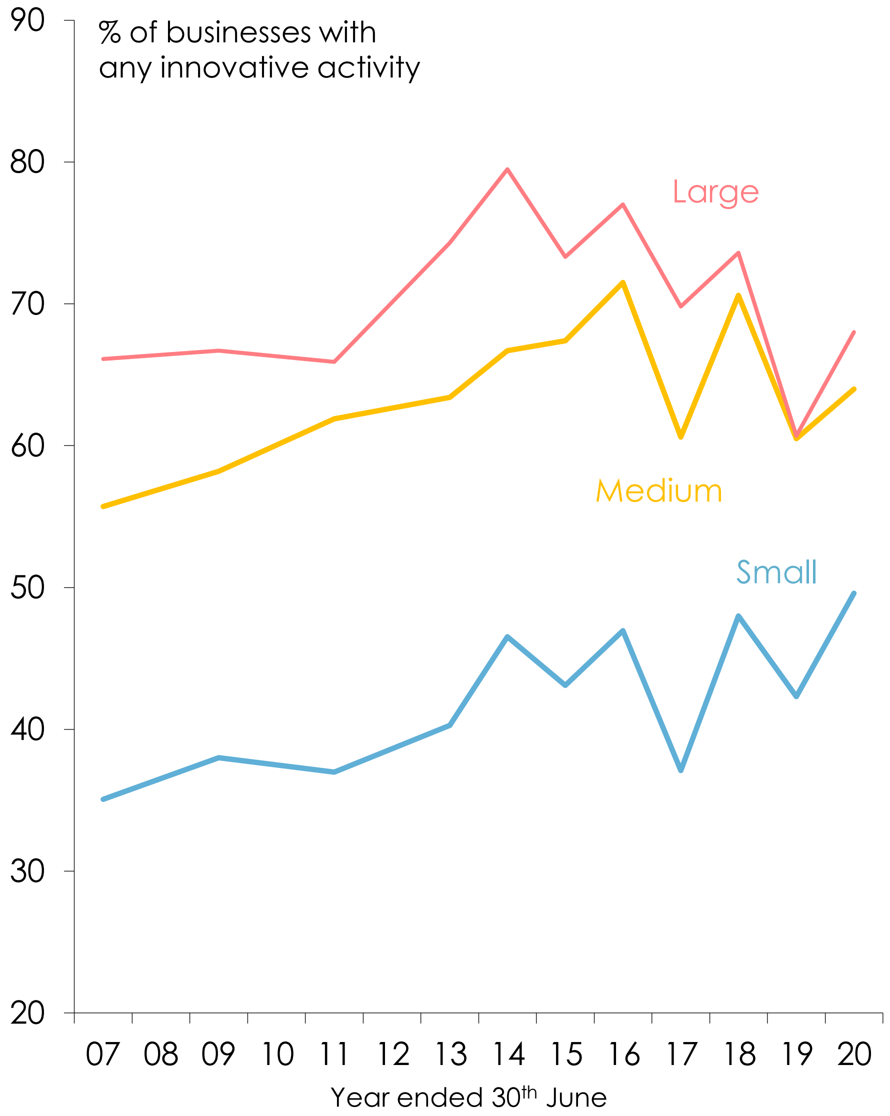
Employment by size of business



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.

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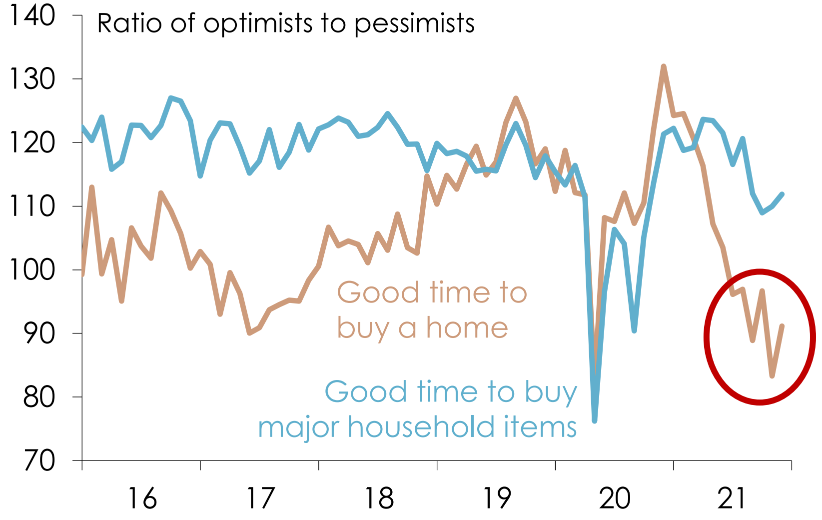
Consumer confidence rose 0.7 pc pt in November, after a 1.6 pc pt fall in October, and remains below where it was just before the recent lockdowns

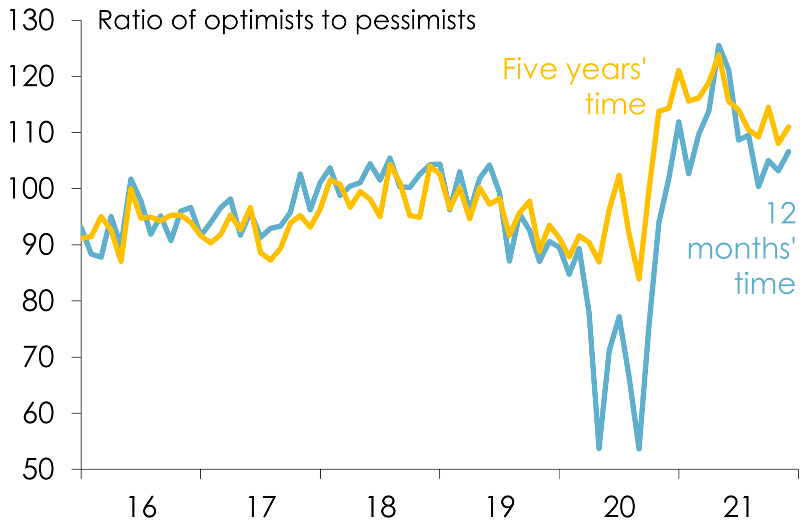
Consumer confidence index

Household finances assessment

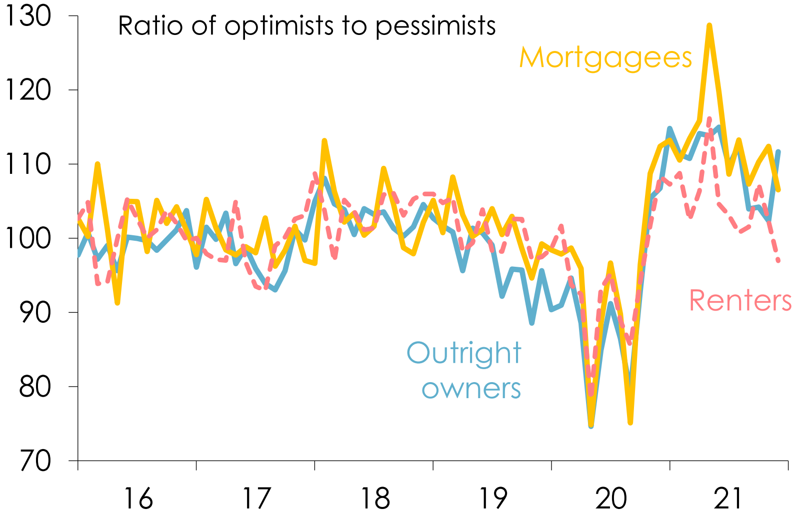
Buying conditions assessment



Economic conditions assessment



Confidence by housing tenure



Source: Westpac Banking Corporation. December consumer confidence will be released on 9th December . Return to "What's New".

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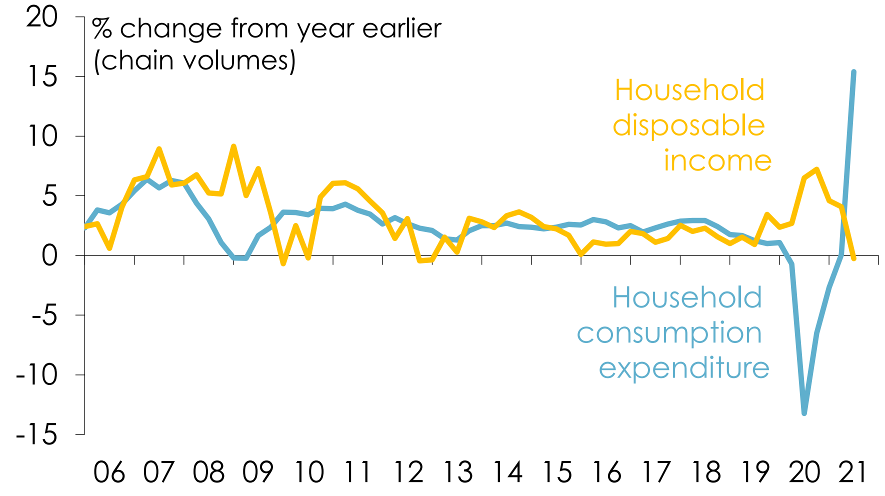
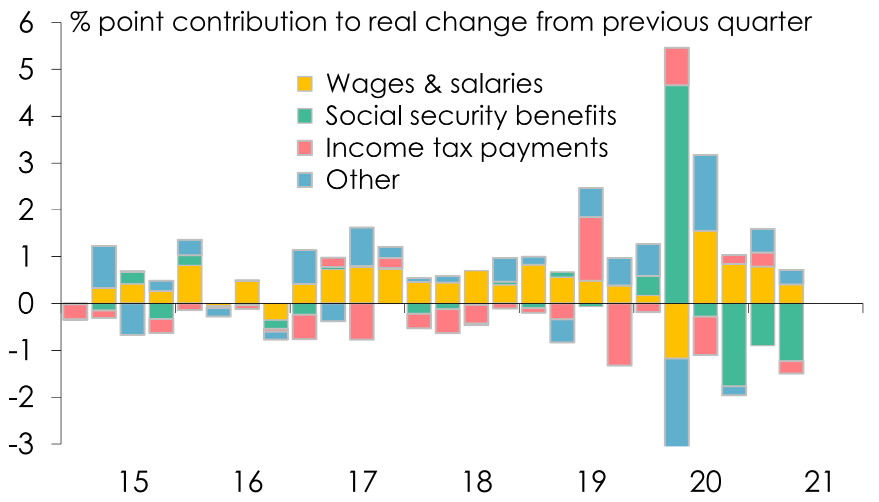
Household incomes have been supported by government payments, but spending has been curtailed, so households have lots of savings to spend

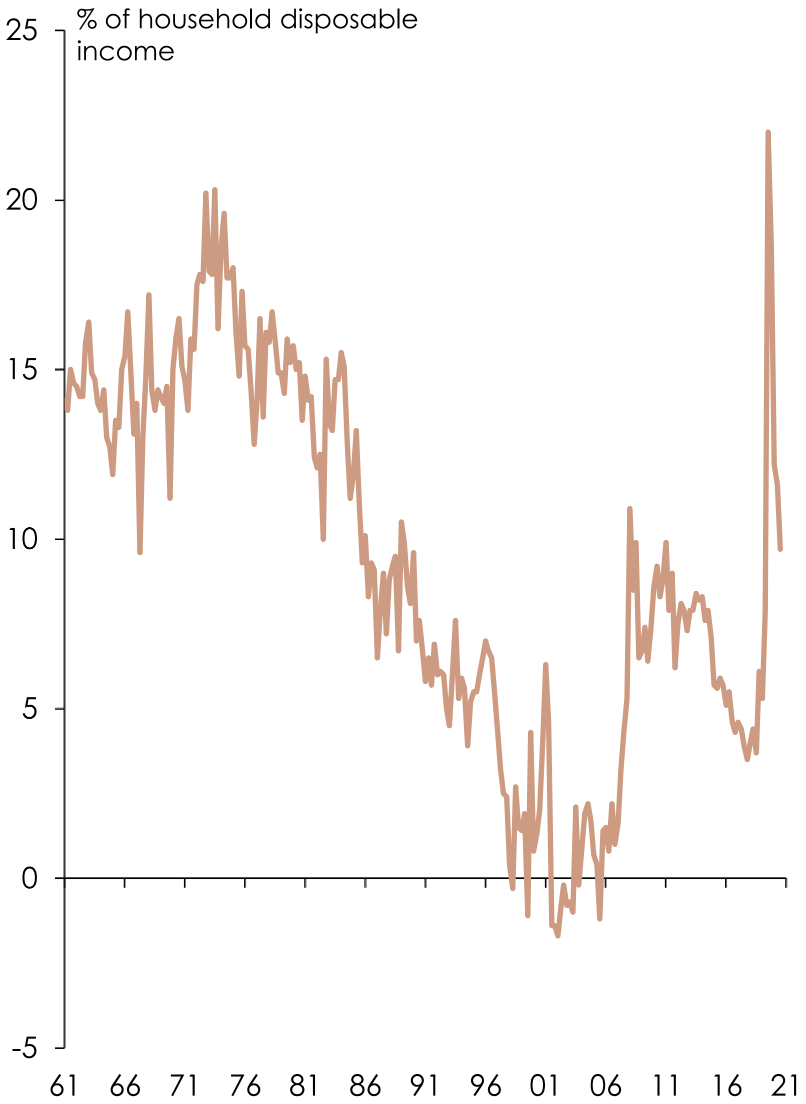
Household income and spending



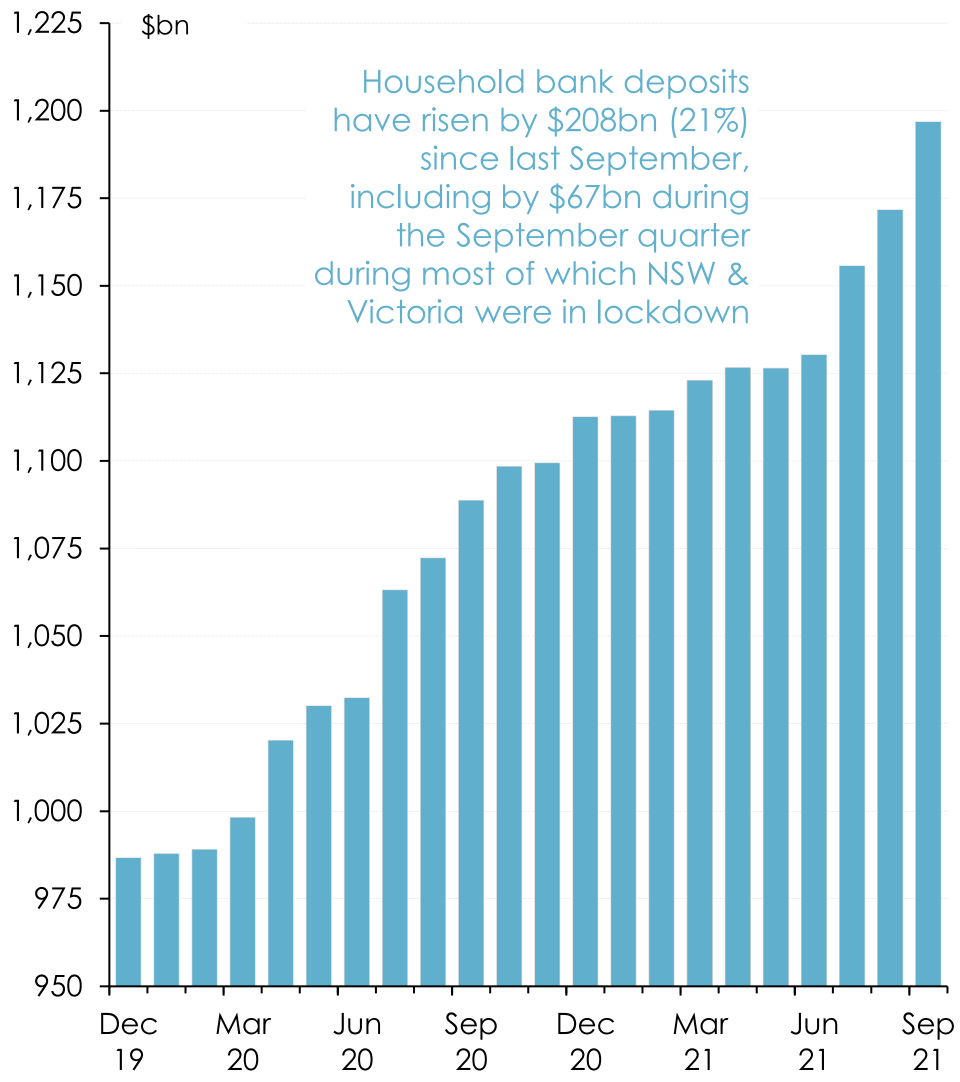
Sources of household income



Household saving ratio



Household bank deposits



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

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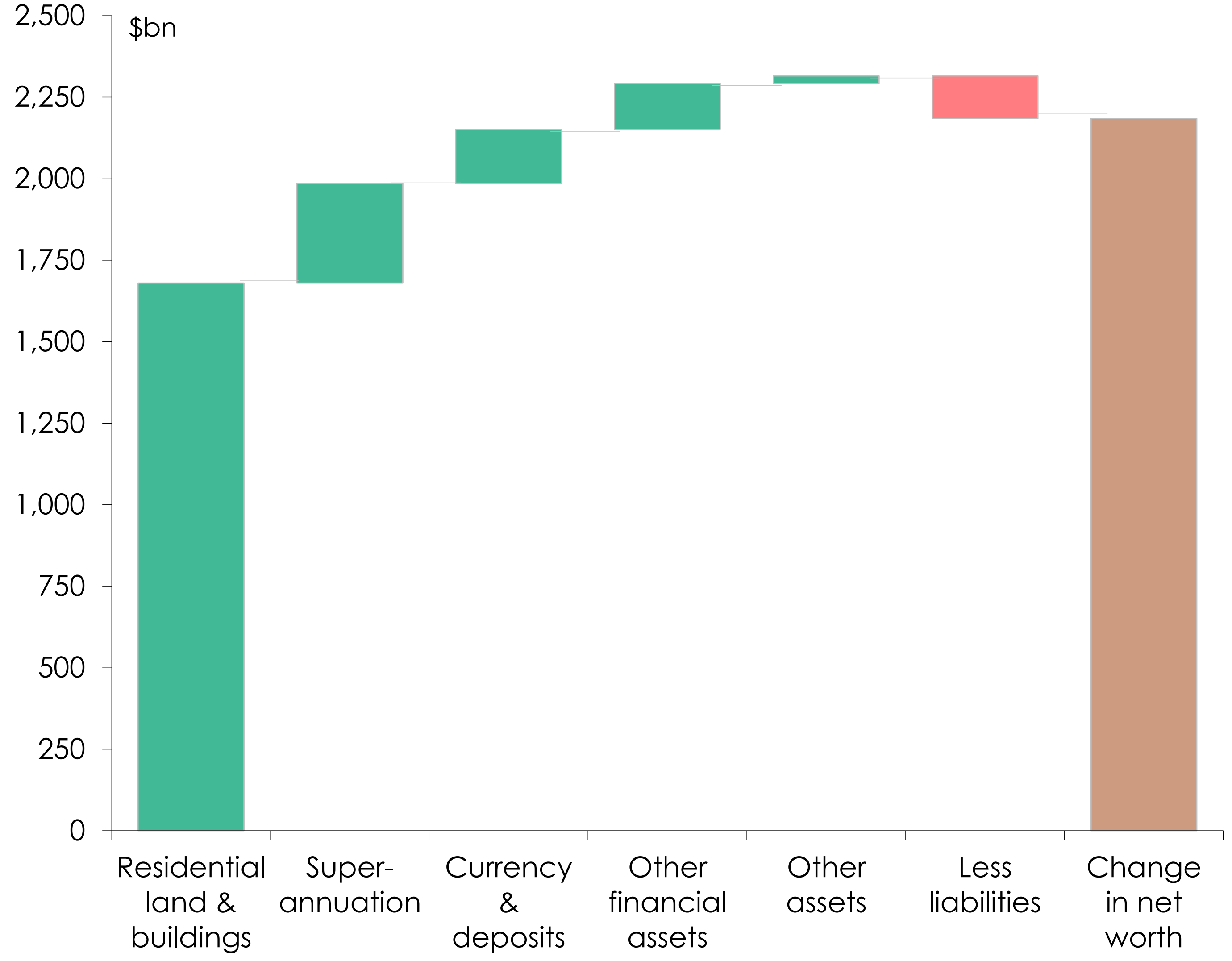
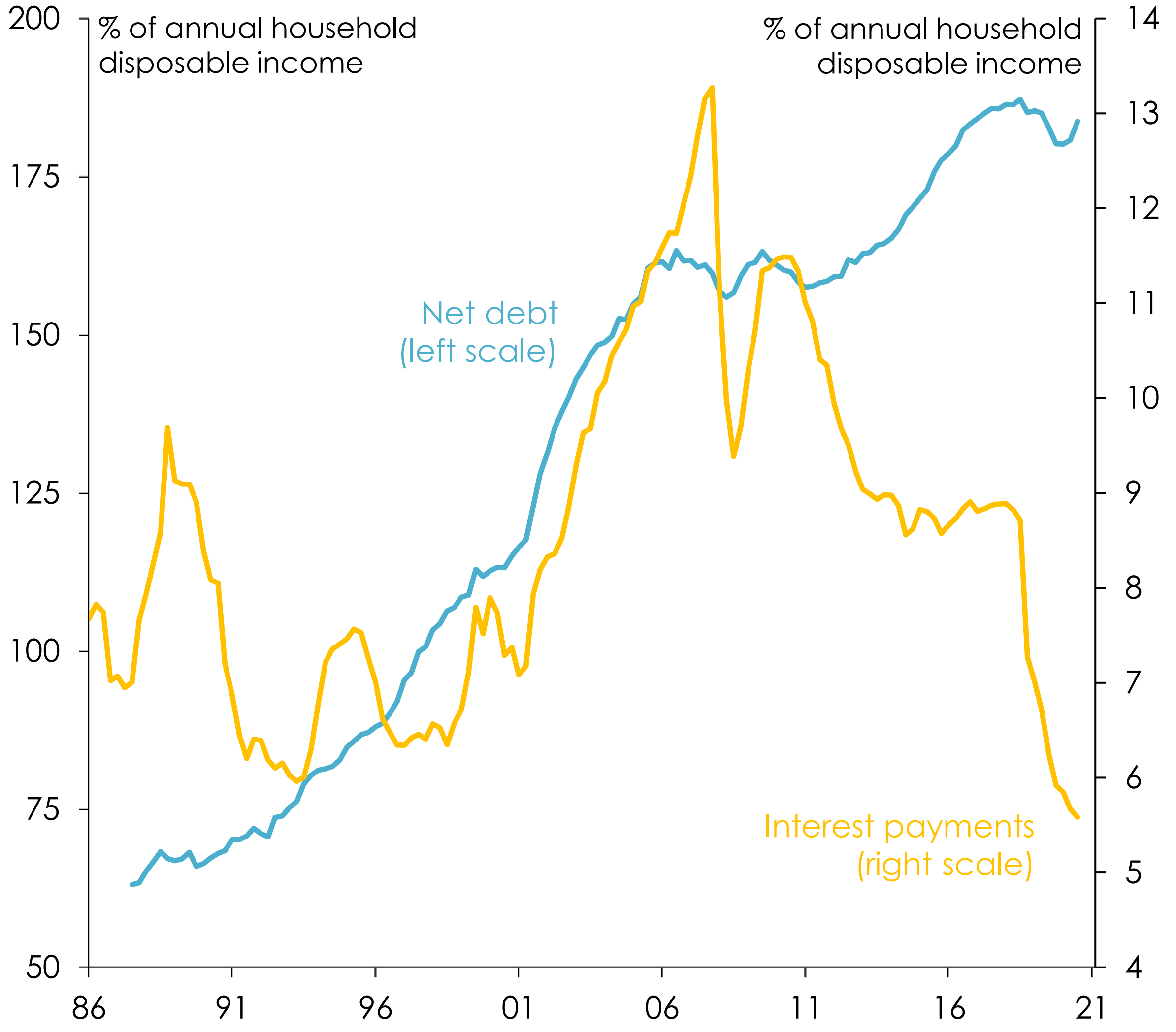
Household net worth has risen by $2.2trn (19½%) since the end of 2019, while debt service payments have fallen as a pc of income

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



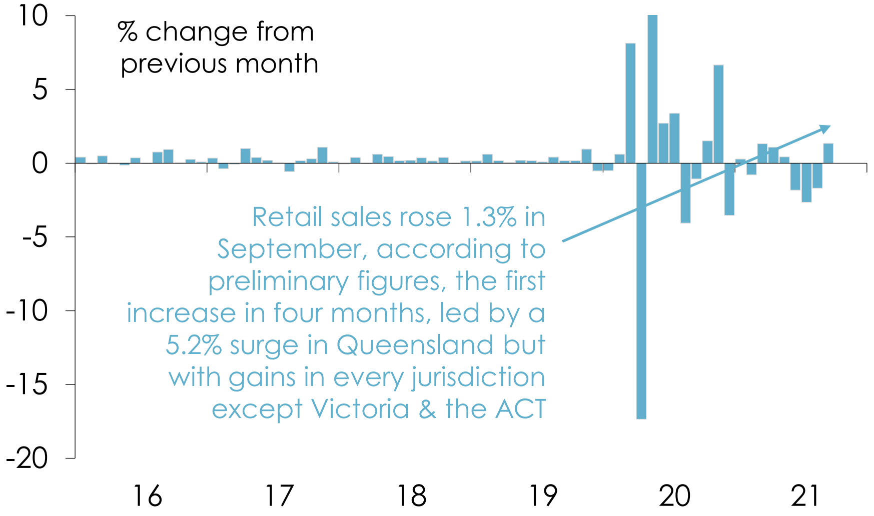
Household net debt and interest payments as a percentage of disposable income



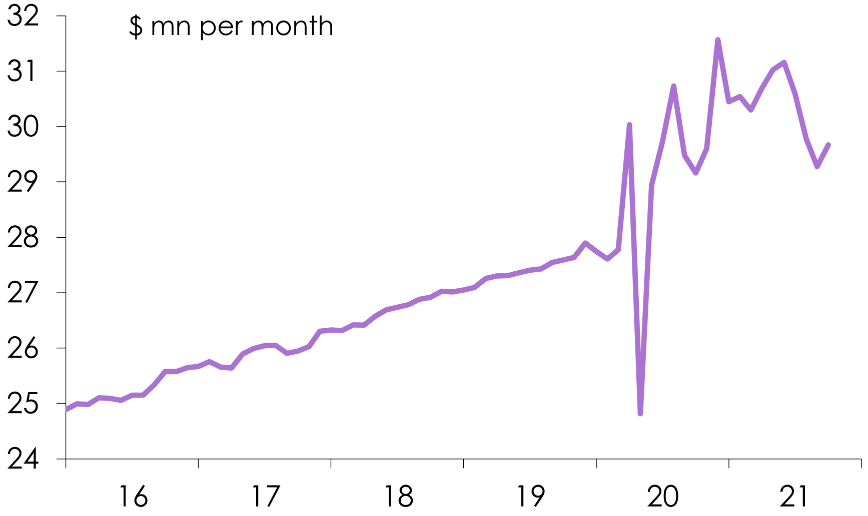
Sources: ABS, *Finance and Wealth Accounts*, June quarter 2021; RBA, *Statistical Tables* E1 & E2. September quarter data will be released on 16th December.
Return to "What's New".

Retail sales volumes fell more in Q3 than they did in Q2 last year – even though only half the country was locked down

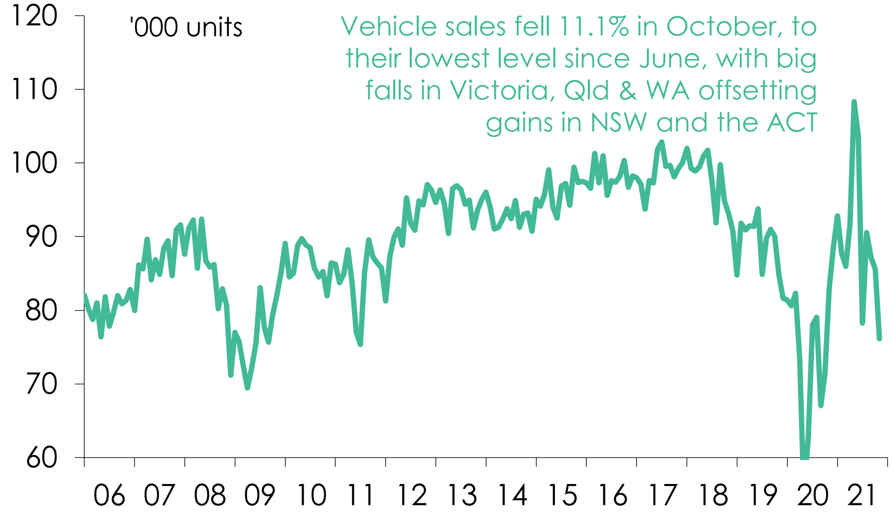
Monthly retail sales



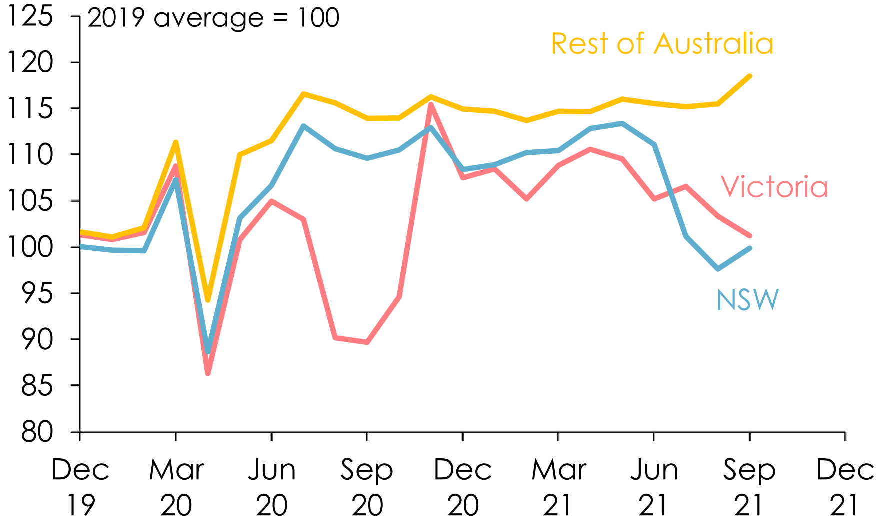
Level of retail sales



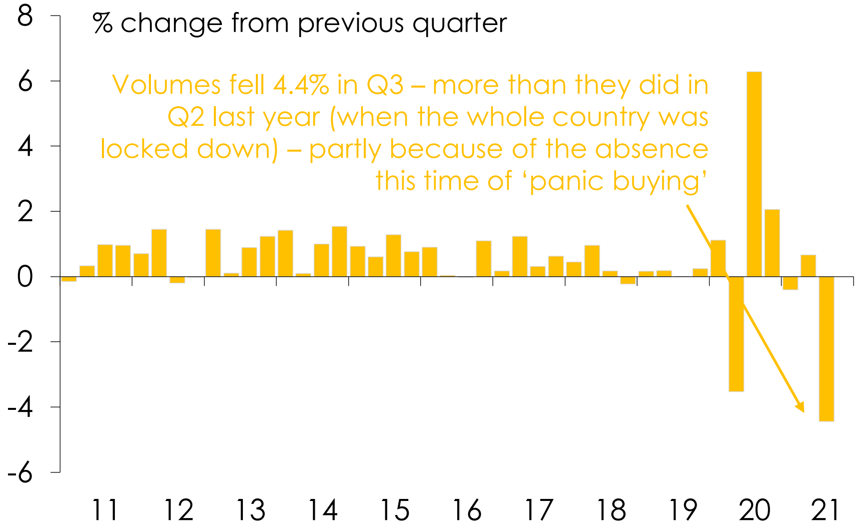
New motor vehicle sales



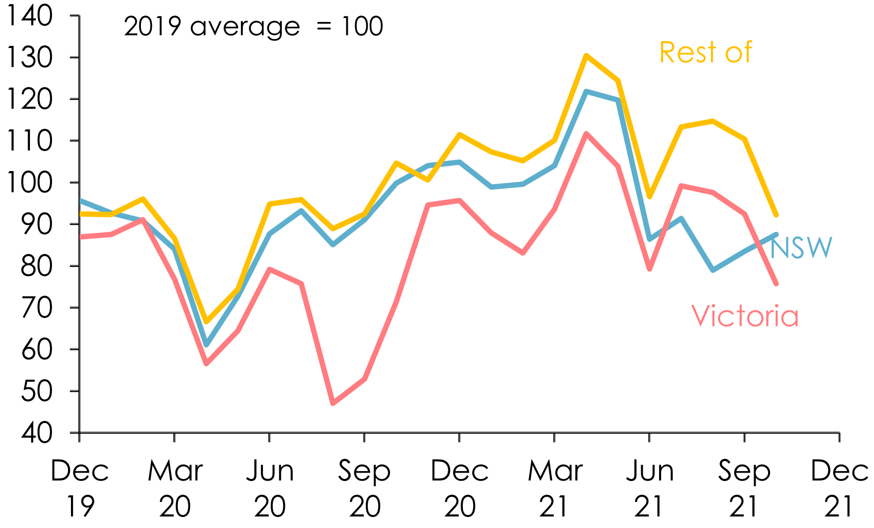
Retail sales – NSW, Vic & the rest



Quarterly retail sales volumes



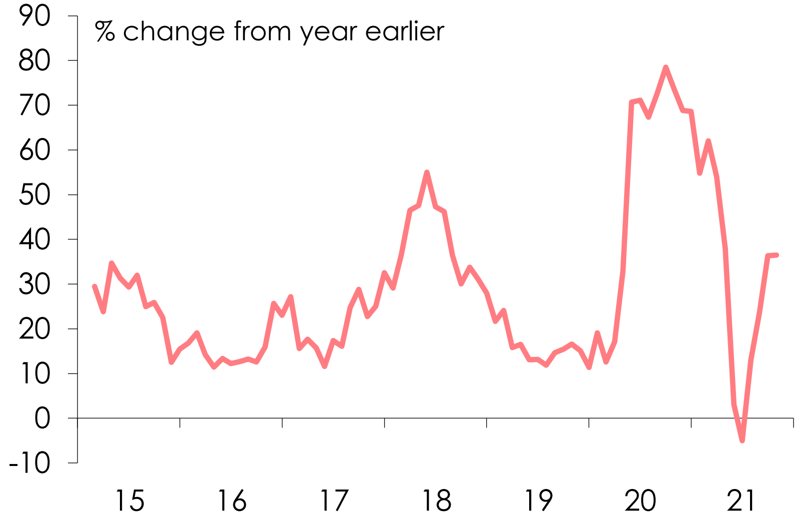
Vehicle sales – NSW, Vic & the rest



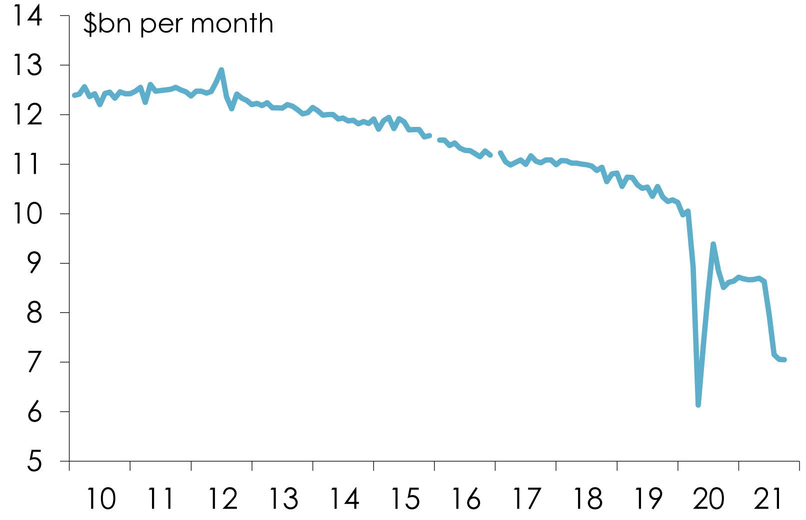
Note: see also slide 100 for more detail on the composition of retail sales since the onset of the pandemic. *Sources:* ABS, *Retail Trade, Australia*; Federal Chamber of Automotive Industries *VFACTS* (seasonal adjustment of FCAI data by Corinna). October retail sales data will be released on 26th November; November motor vehicle sales data will be released in the second week of December. 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

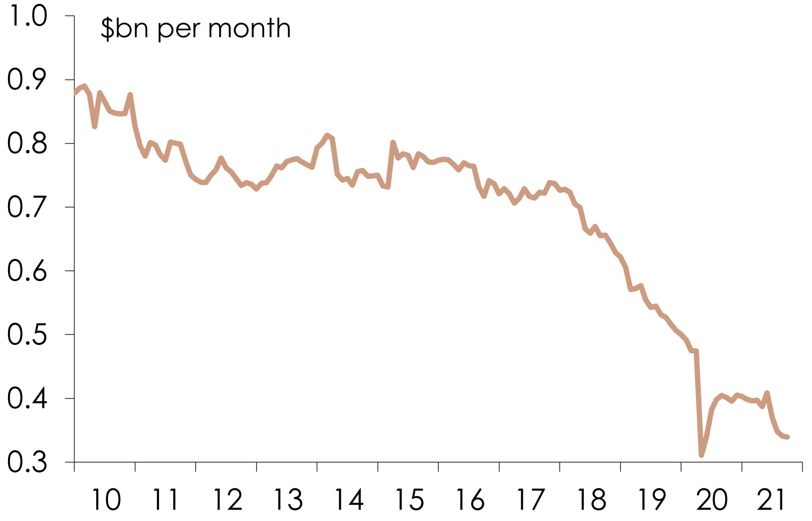
Growth in online retail sales



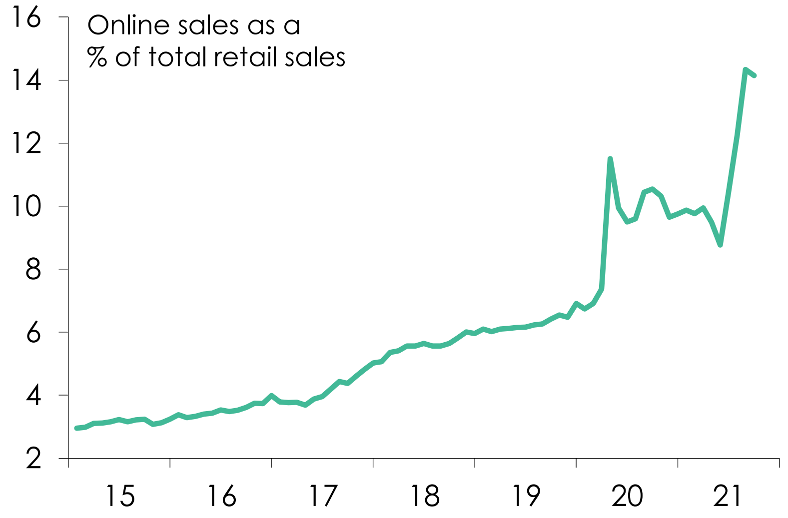
ATM cash withdrawals



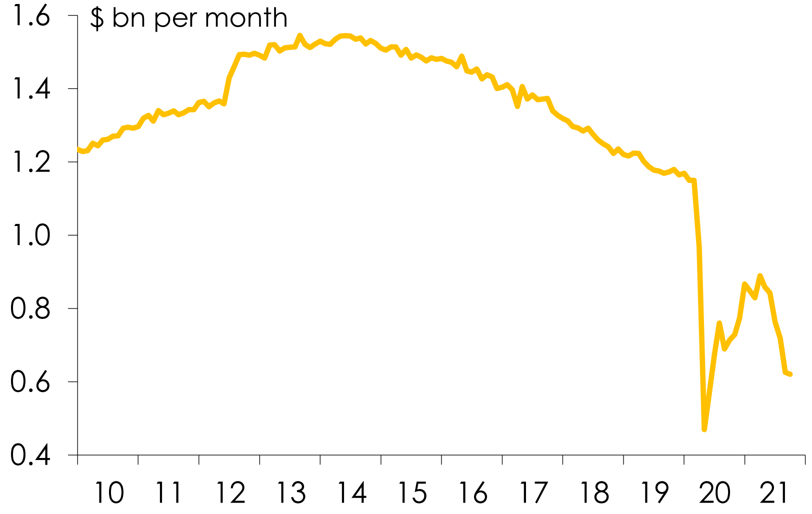
Credit card cash advances



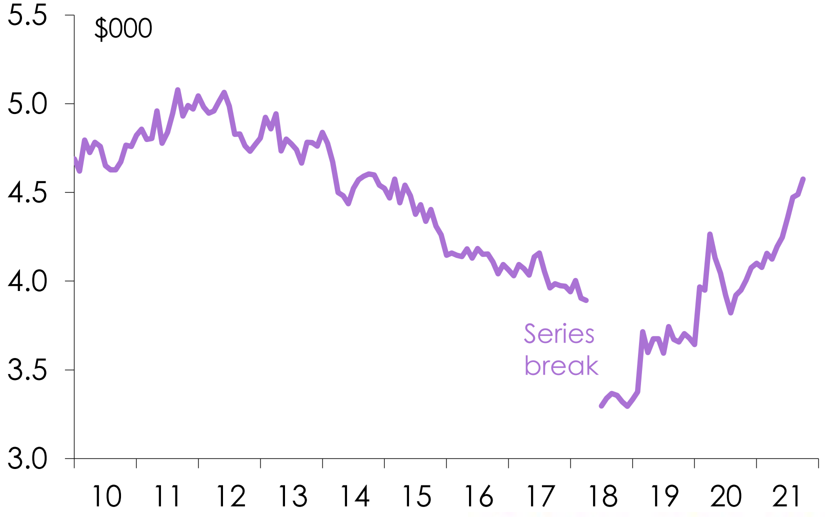
Online retail 'market share'



Debit card cash-outs



Direct entry payments

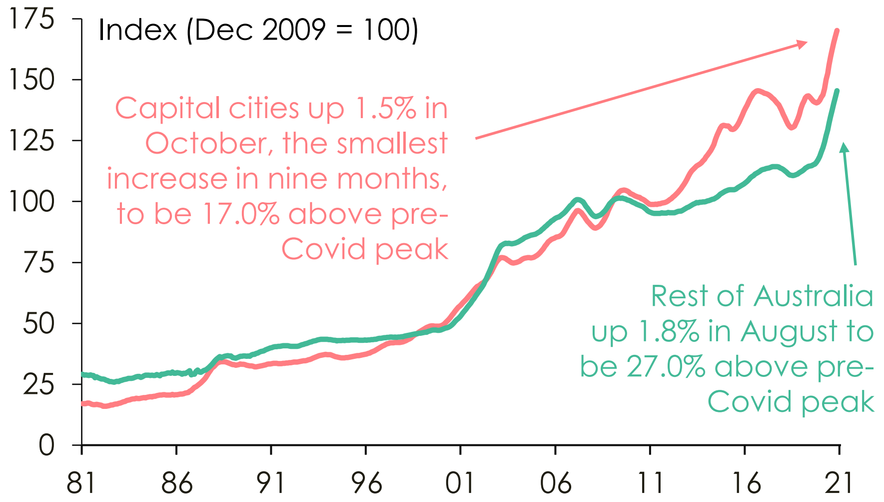


Sources: ABS, Retail Trade, Australia; RBA, Statistical Tables, C1, C2, C4 and C6. Latest data are for August: October online retail sales data will be published on 2nd December; while September payments system data will be released on 8th December. Return to "What's New".

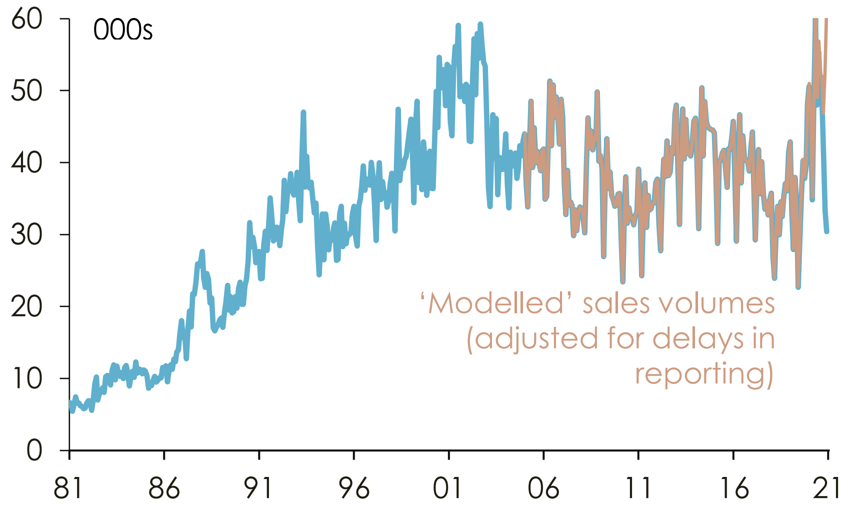
SAUL ESLAKE
CORINNA ECONOMIC ADVISORY
INDEPENDENT ECONOMICS

Property prices rose another 1.5% in October, the smallest increase since January, to be 19¾% above their pre-covid peak

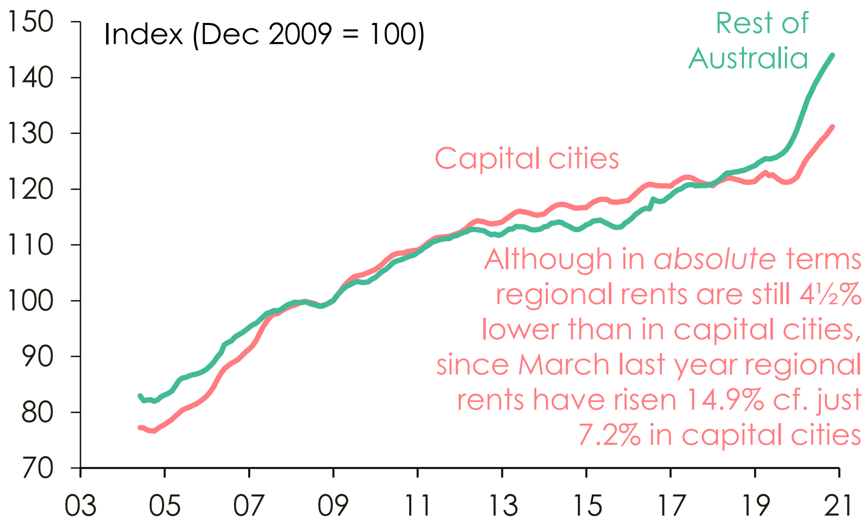
Residential property prices



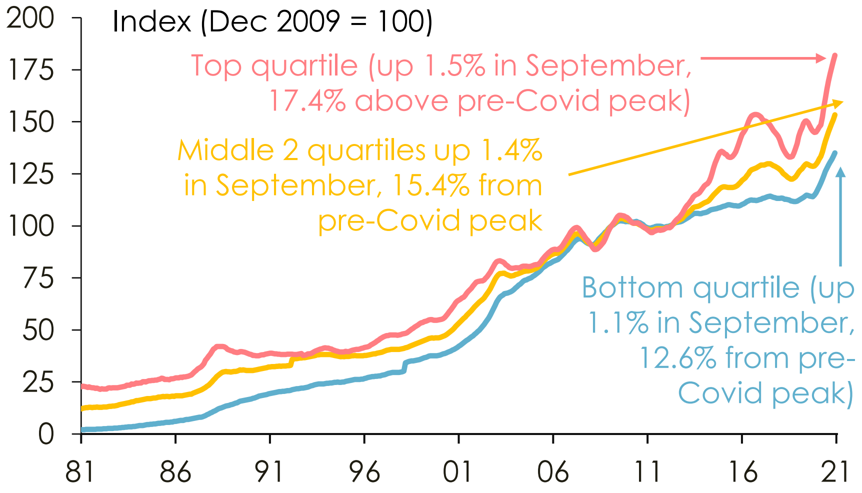
Residential property sales volumes



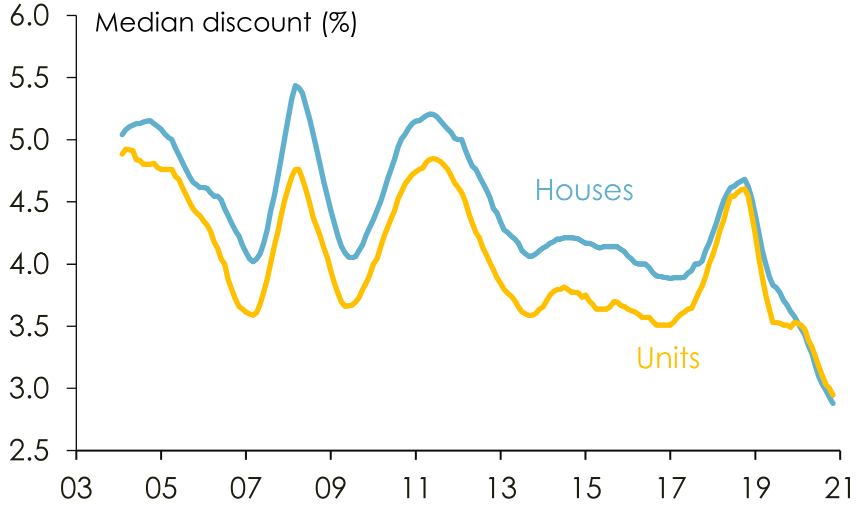
Residential rents



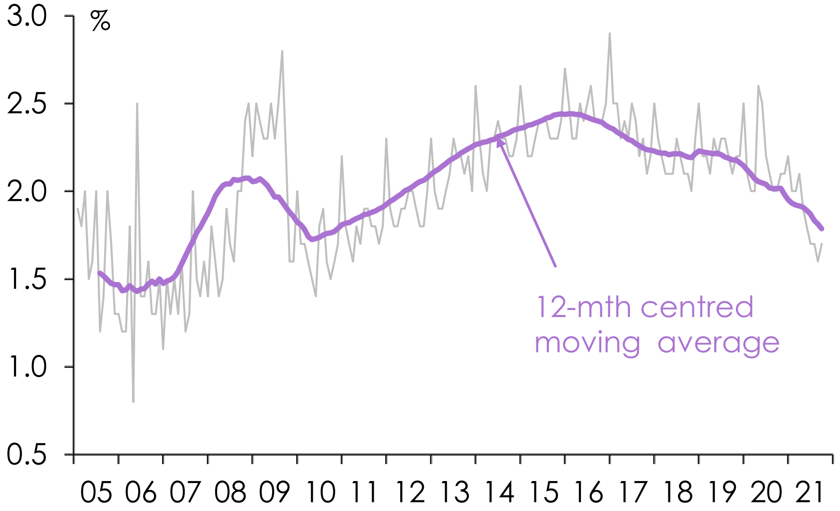
Property prices by tier



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 September). November prices, sales volumes and rents data will be released on 1st December. *Sources:* CoreLogic; SQM Research. Return to "What's New".

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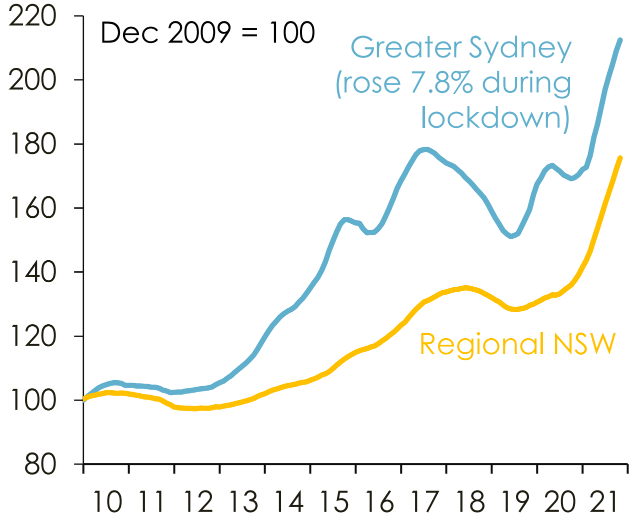
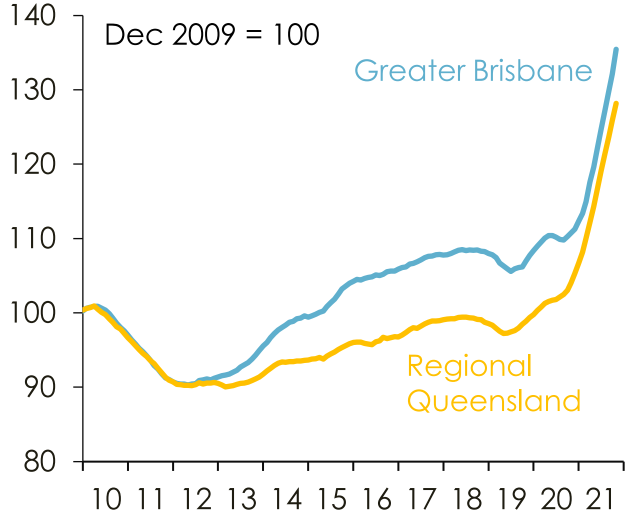
Prices in Adelaide, Canberra and Hobart, and regional NSW, Victoria, Qld and Tasmania are all more than 20% above their pre-pandemic peaks

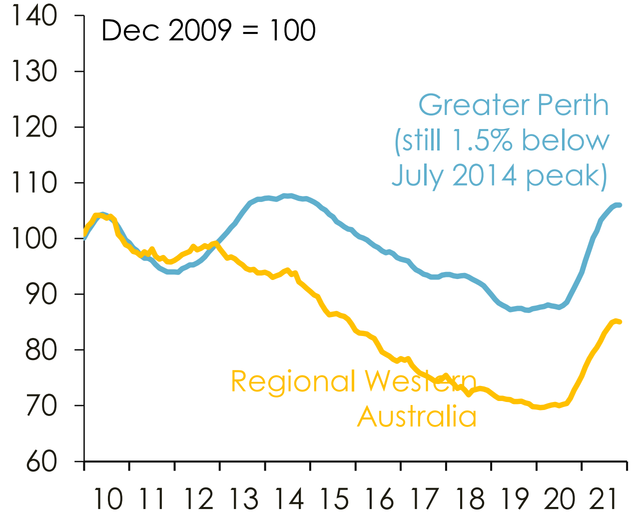
New South Wales



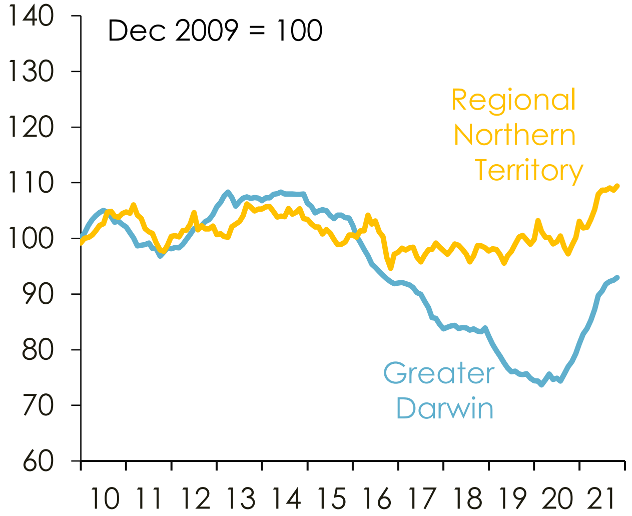
Queensland



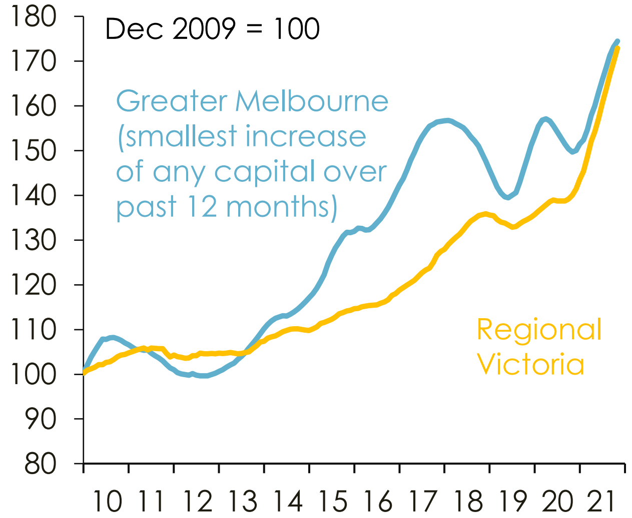
Western Australia



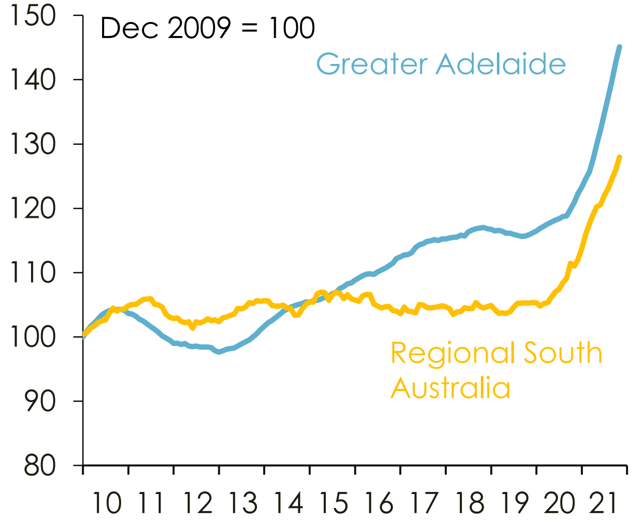
Northern Territory



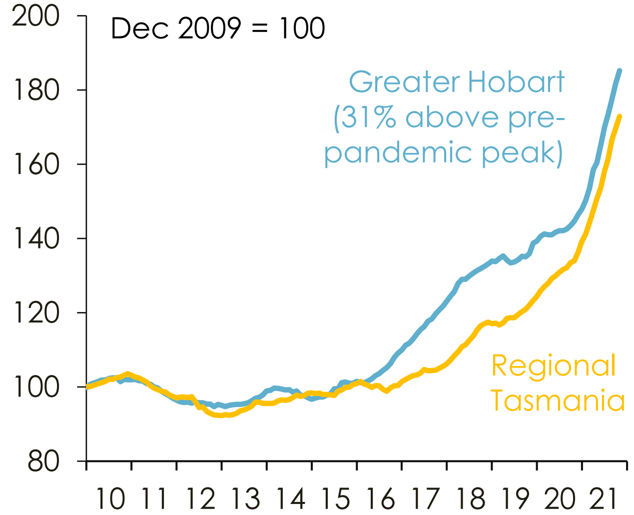
Victoria



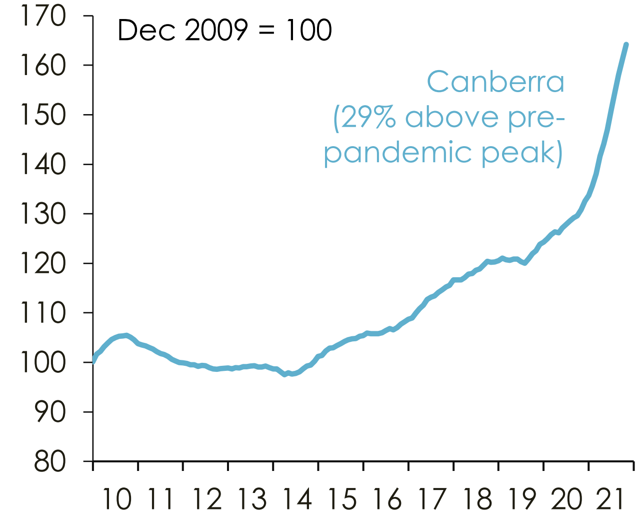
South Australia



Tasmania



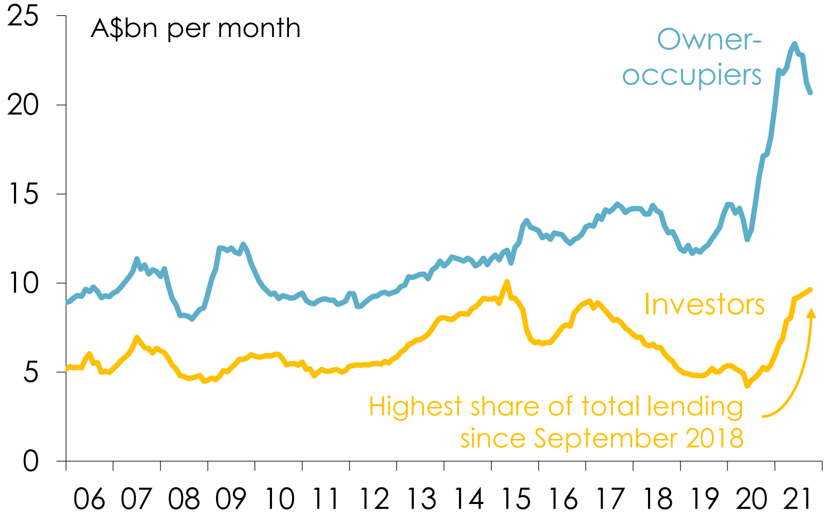
Australian Capital Territory



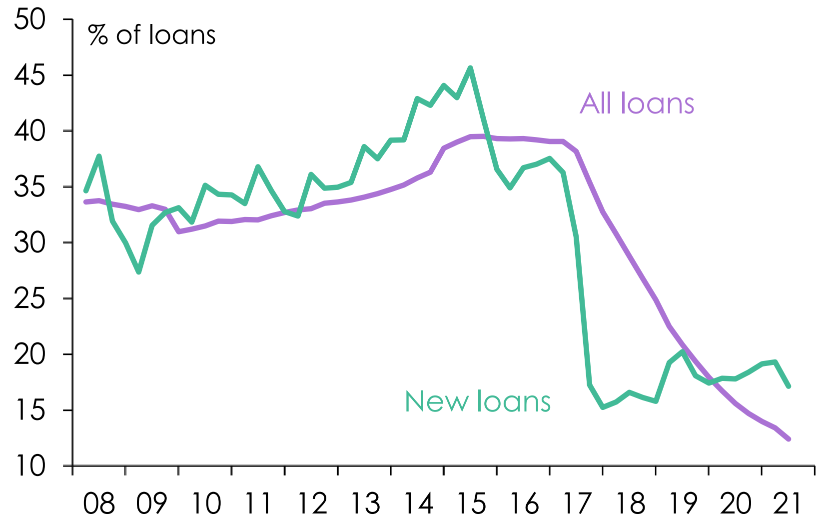
Note: The index of property prices measures the 'organic' change in underlying sales values by using a hedonic regression methodology that takes account of changes in the characteristics of properties being sold from month to month. Property price data are seasonally adjusted. Latest data are October; November data will be released on 1st December. *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’

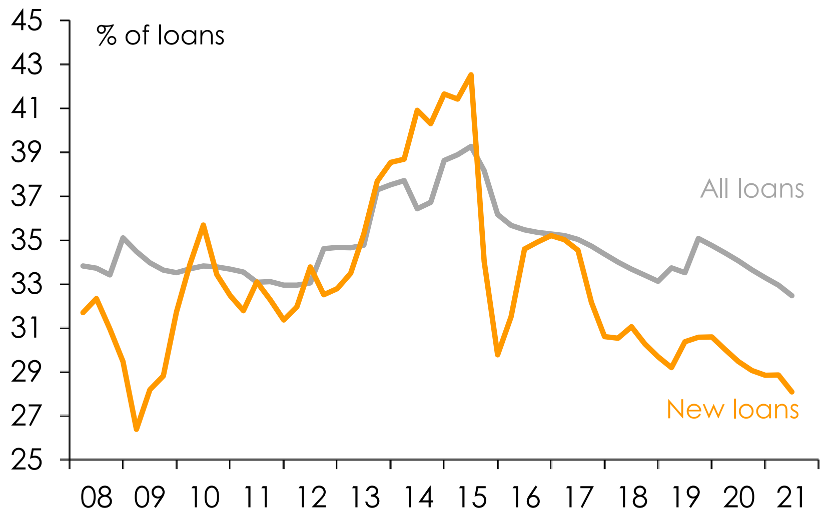
Housing finance commitments



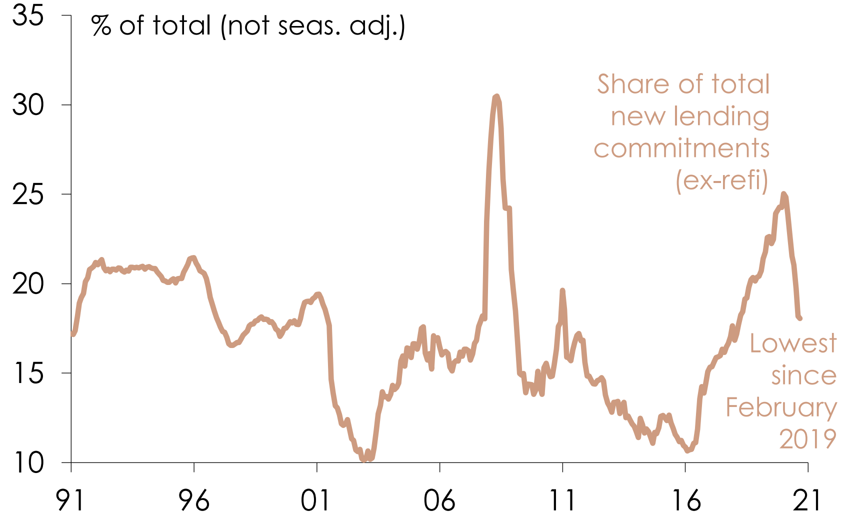
Interest-only loans as pc of total



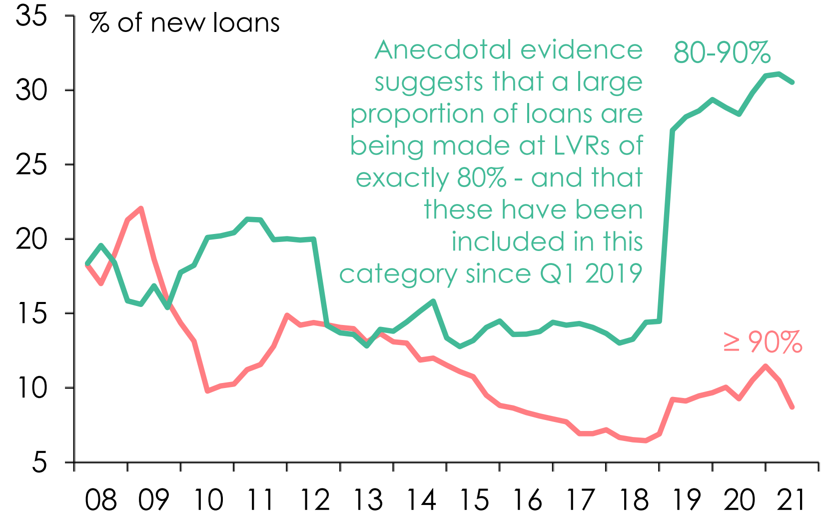
Loans to investors as a pc of total



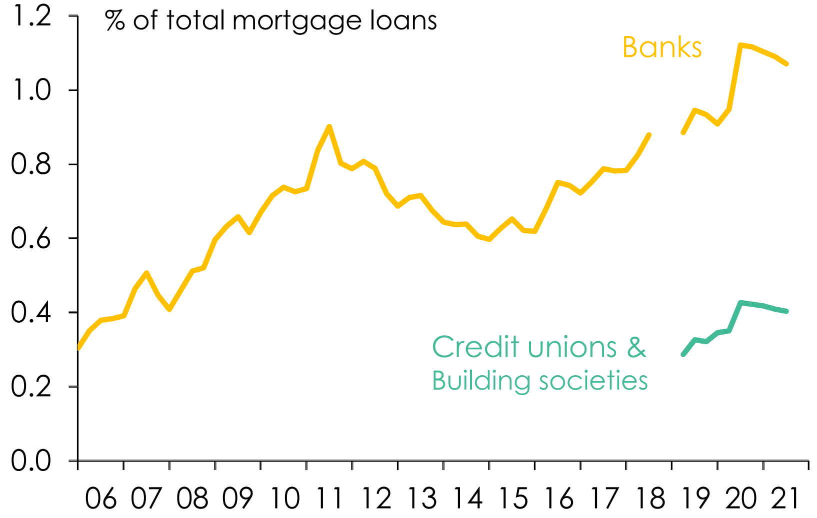
Lending to first home buyers



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. October housing finance data will be released on 2nd December; APRA data on ADI property exposures for the September quarter will be released on 7th December. Return to "What's New".

SAUL ESLAKE
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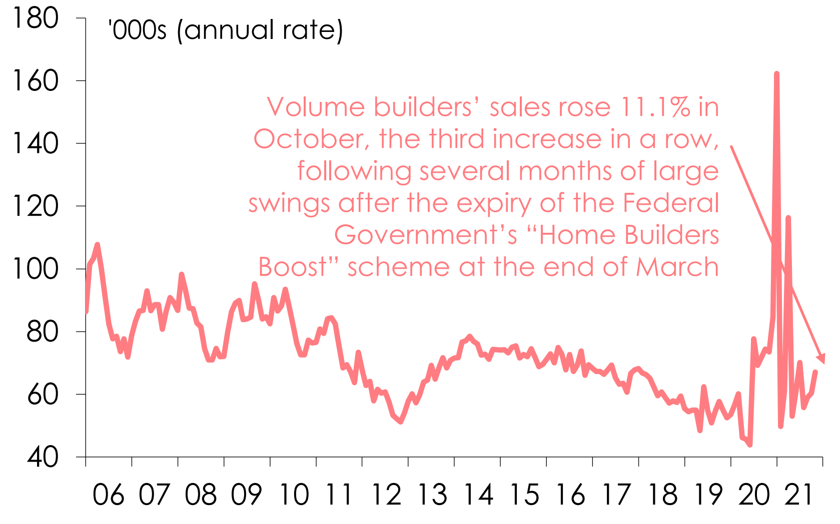
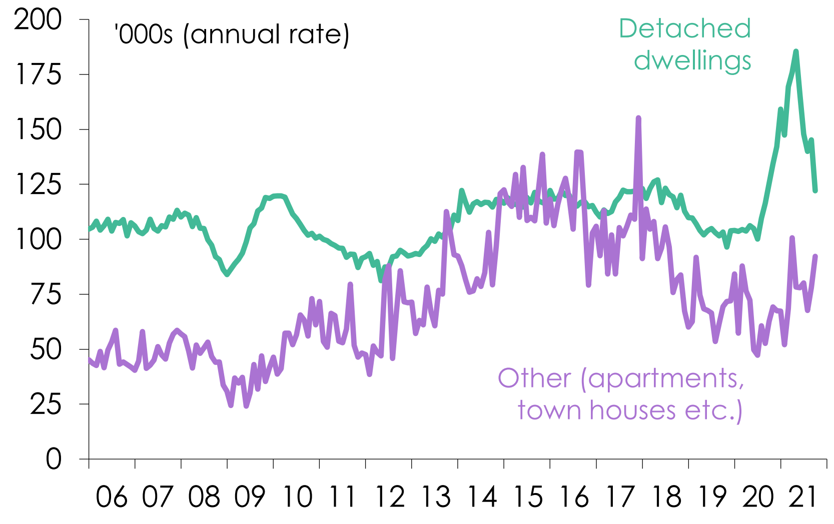
INDEPENDENT ECONOMICS

Residential building approvals fell 4¼% in September, with a 16% fall in approvals of detached dwellings to the lowest level since last August

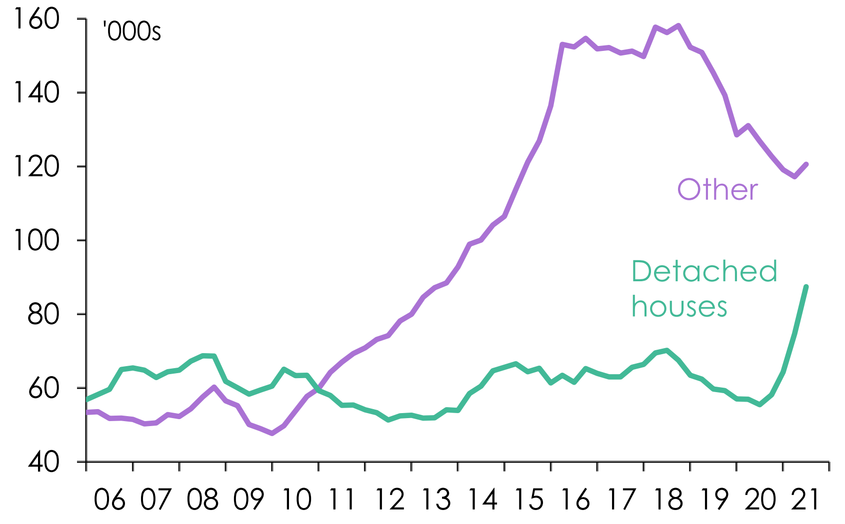
Large builders’ new home sales



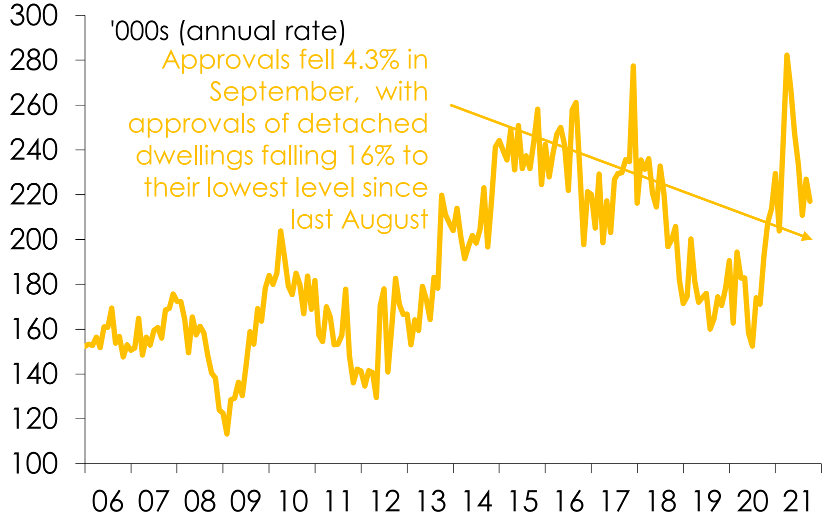
Building approvals, by type



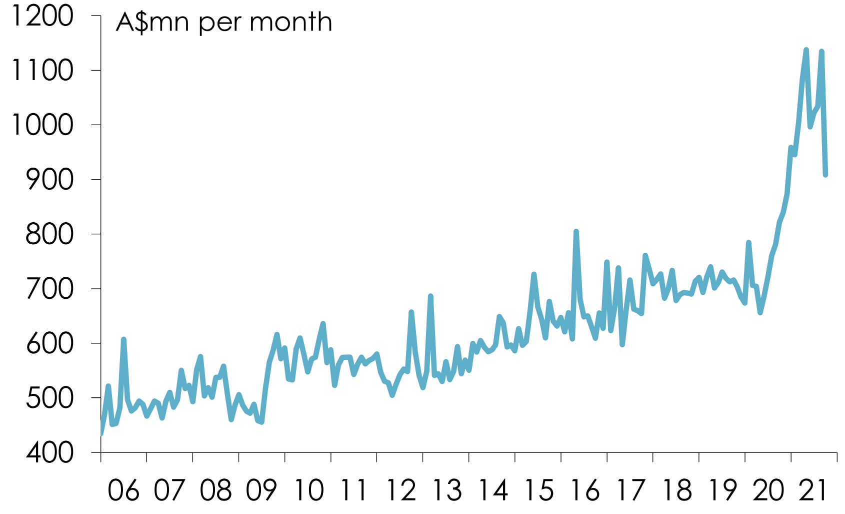
Dwellings under construction



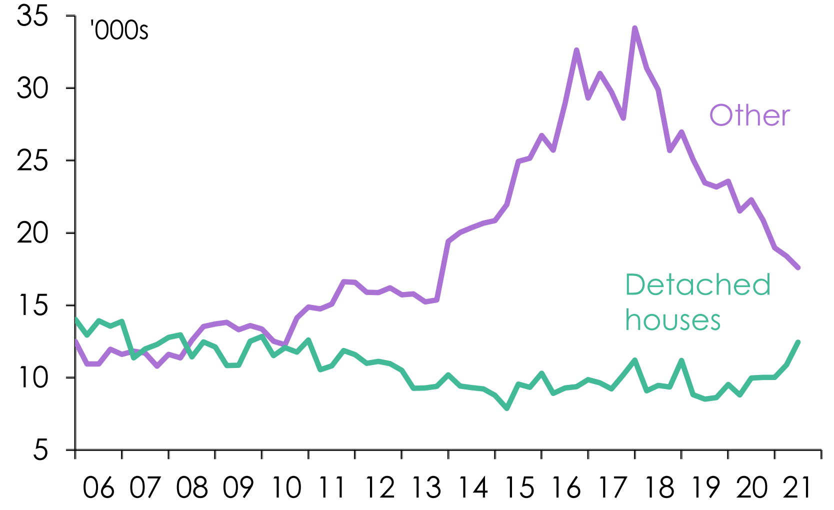
Residential building approvals



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. October building approvals data will be released on 30th November; September quarter dwellings under construction and ‘pipeline’ data on 19th January. Return to "What's New“.

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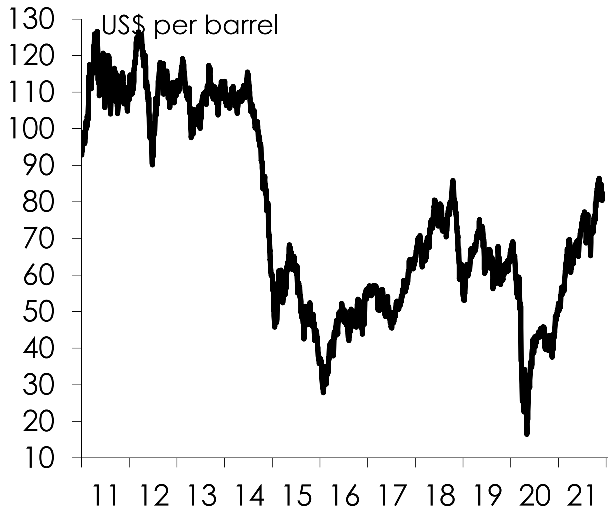
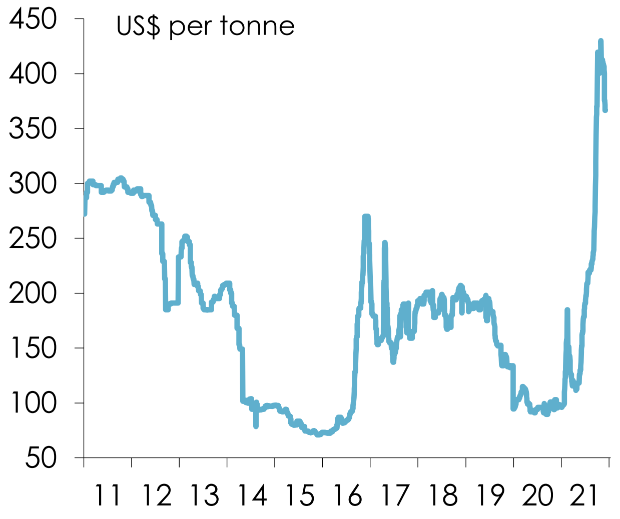
INDEPENDENT ECONOMICS

Iron ore, thermal coal and base metal prices steadied this week after big losses over the previous few weeks, but coking coal fell 8½%

Brent crude oil

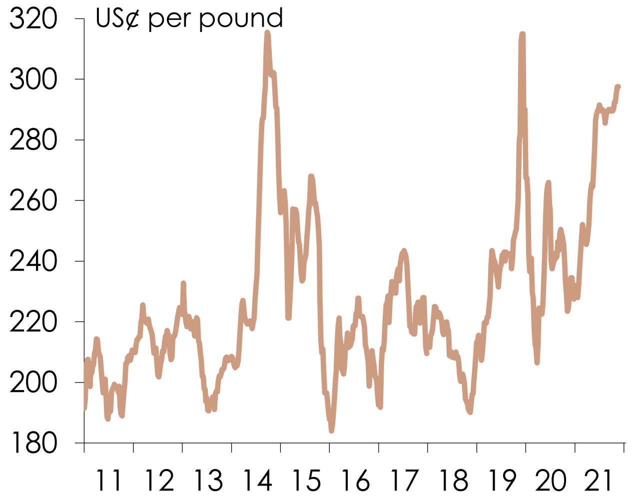


Metallurgical coal

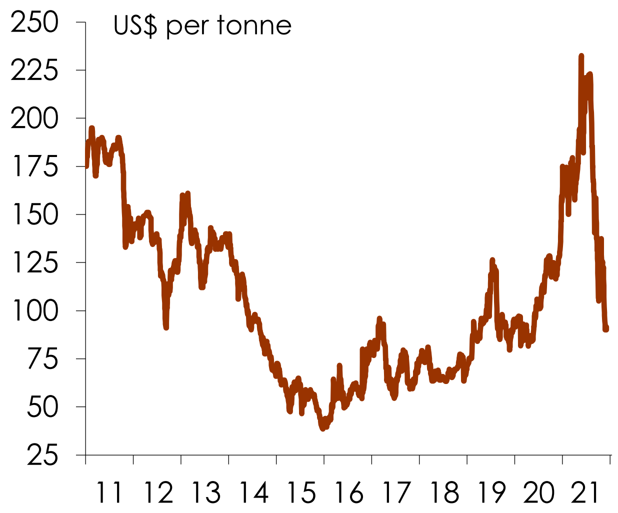


Aluminium

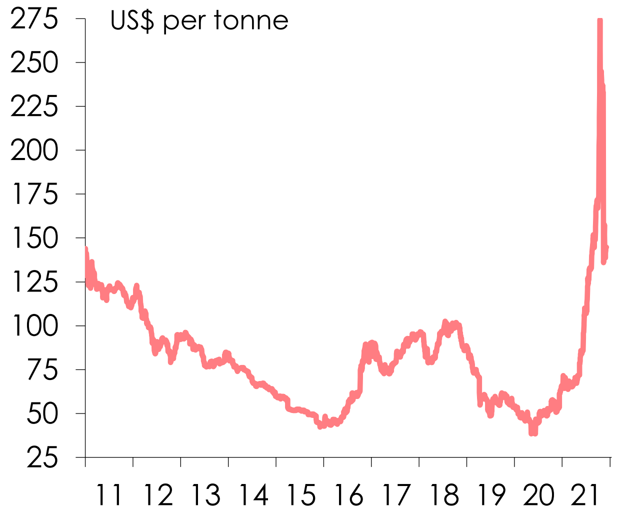
Beef



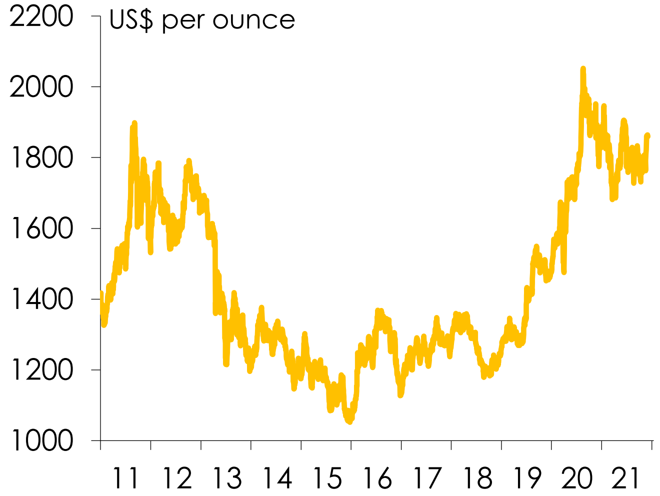
Iron ore



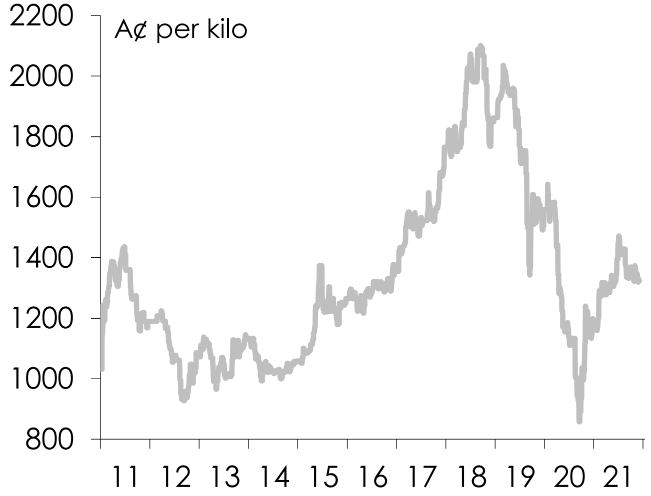
Thermal coal



Gold



Wool



Sources: Refinitiv Datastream; Meat & Livestock Australia; Australian Wool Innovation. Data up to 19th November. Return to "What's New".

SAUL ESLAKE
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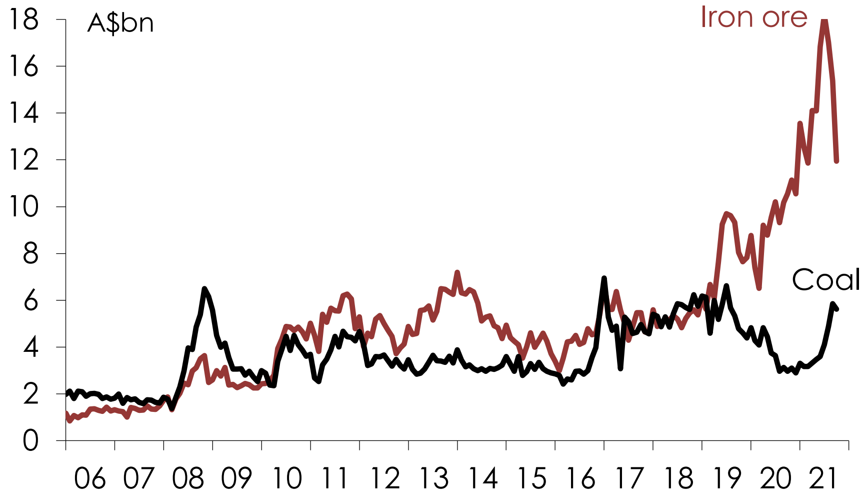
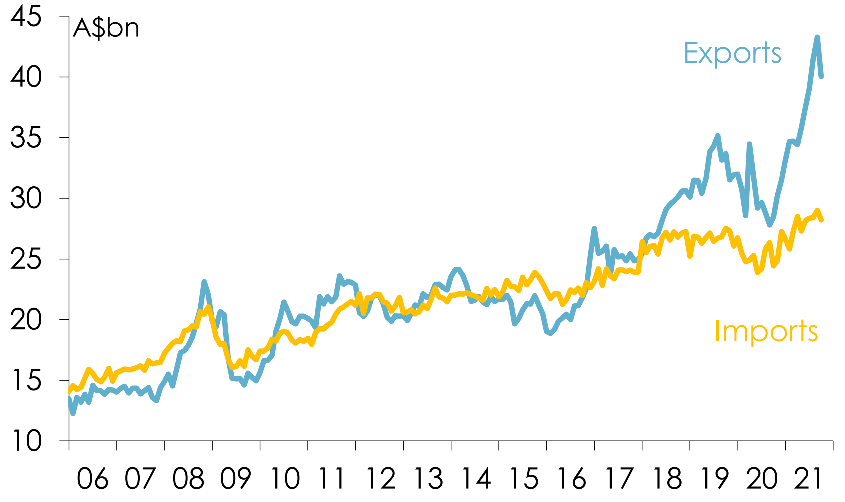
INDEPENDENT ECONOMICS

Australia's trade surplus shrank by $2½bn to a still large $12¼bn in September, largely due to a 22½% fall in the value of iron ore exports

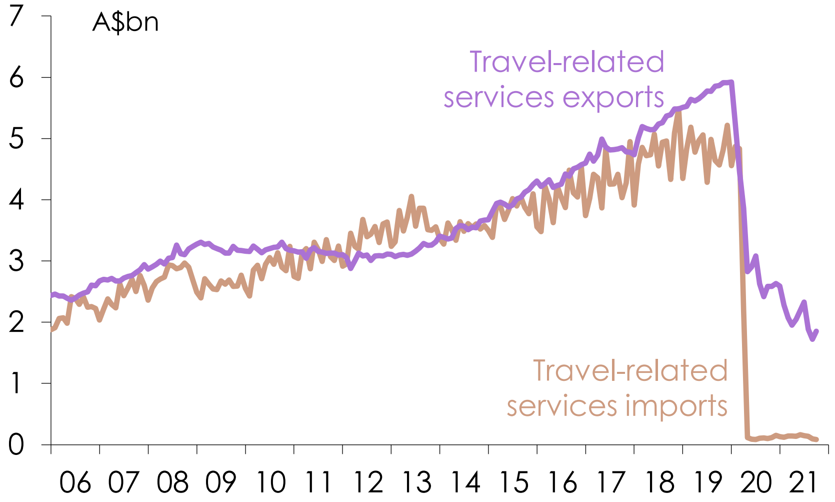
Iron ore and coal exports



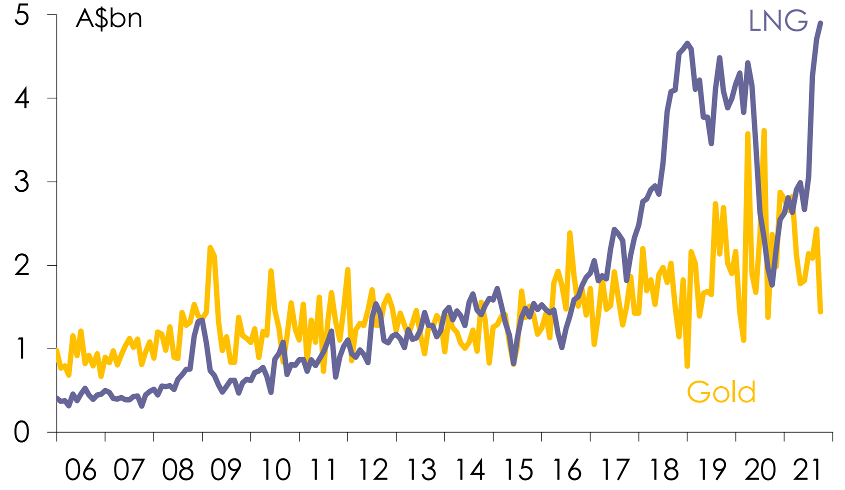
Merchandise exports and imports



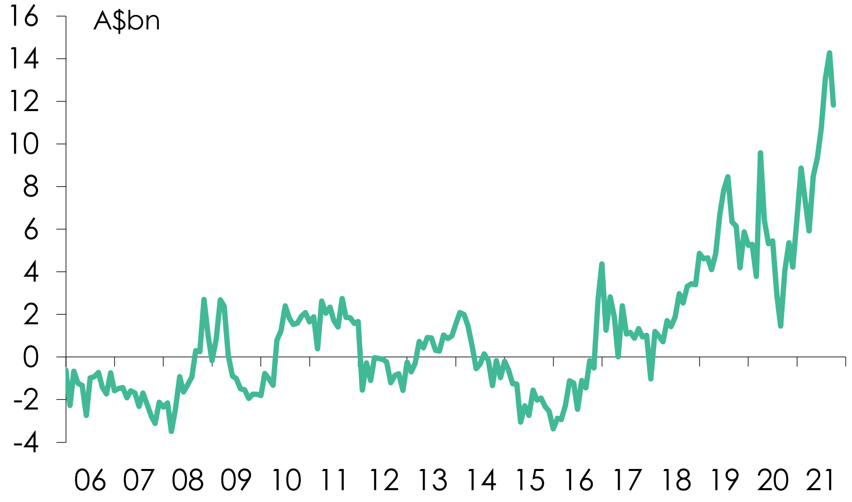
Tourism-related services trade



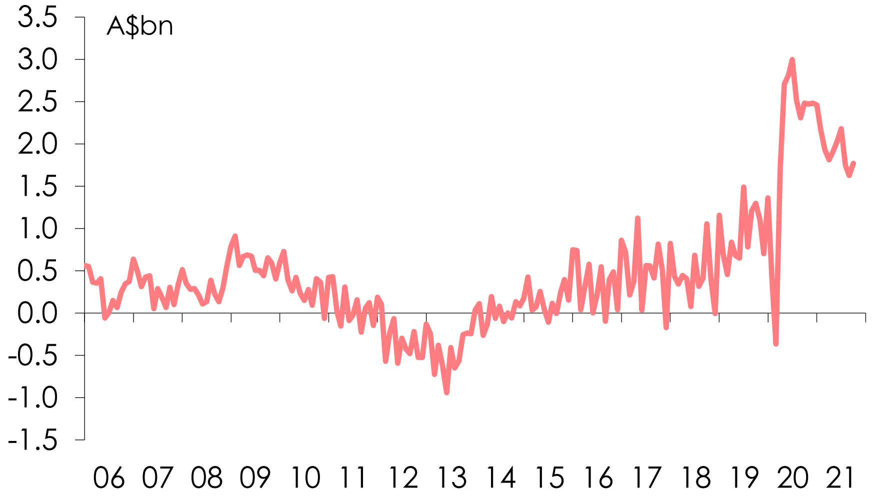
LNG and gold exports



Merchandise trade balance



Tourism services trade balance



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

SAUL ESLAKE
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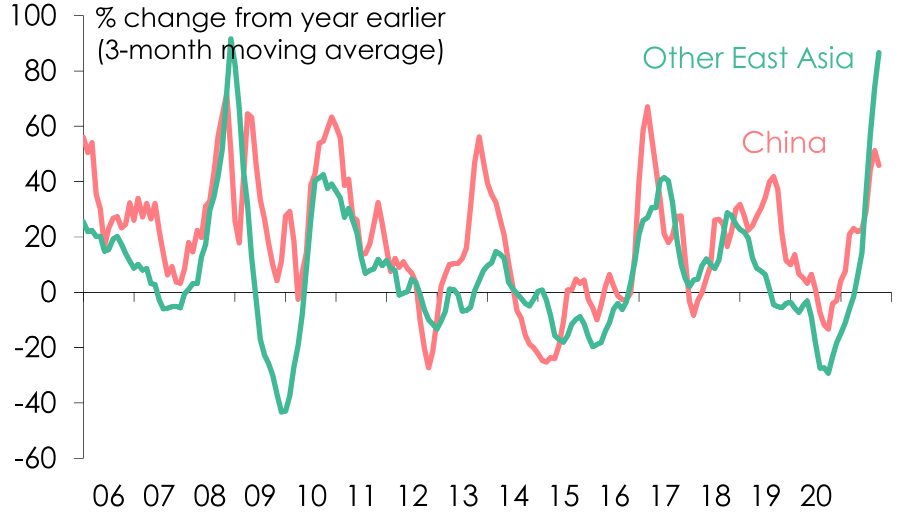
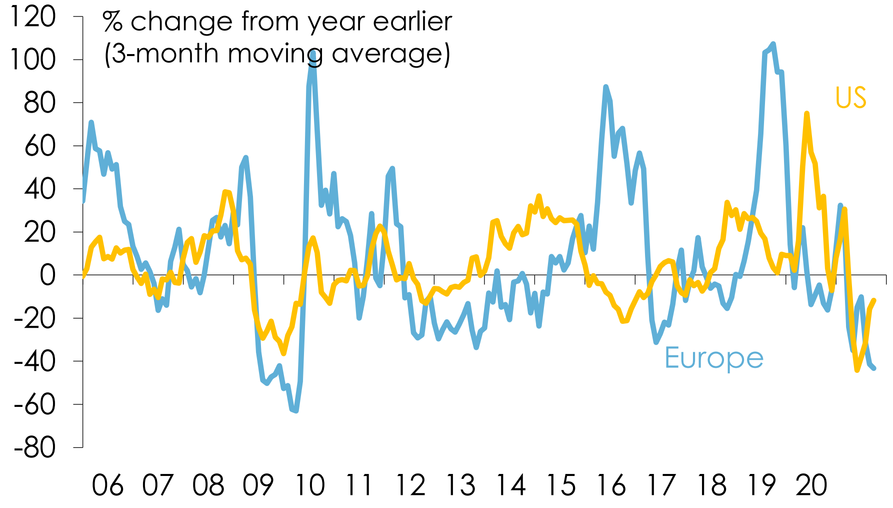
INDEPENDENT ECONOMICS

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

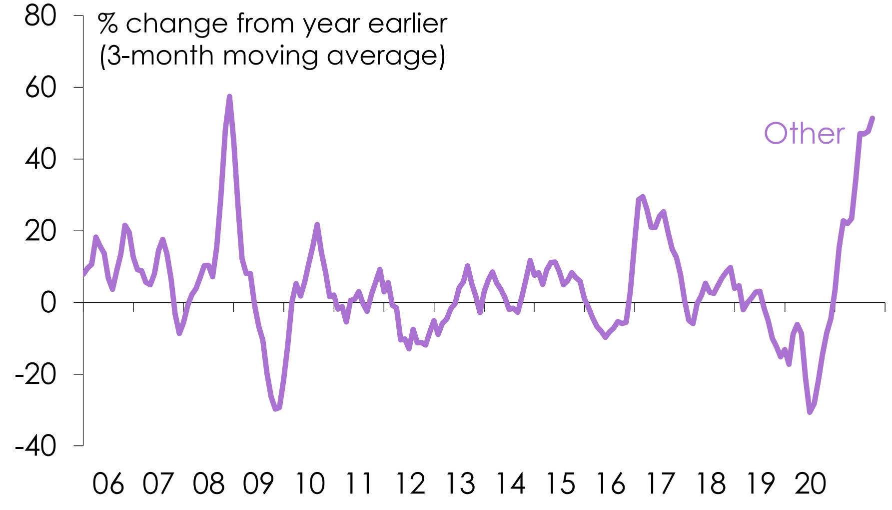
Merchandise exports – East Asia



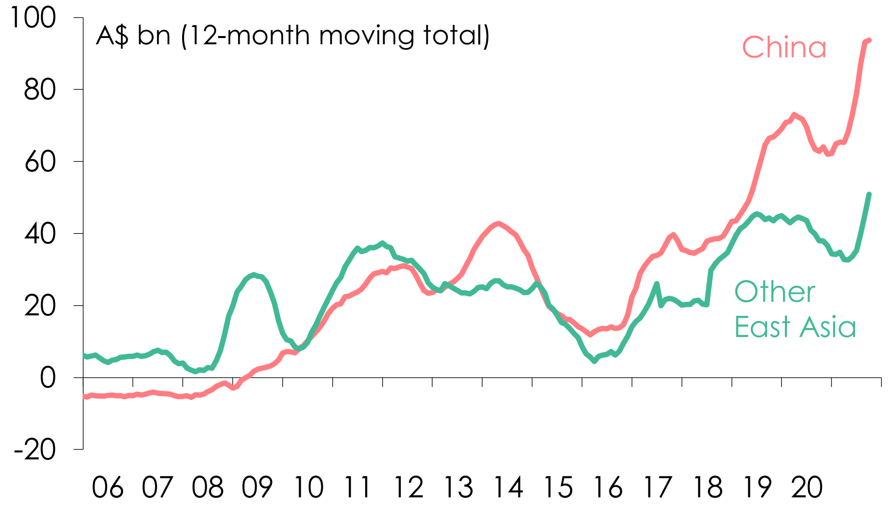
Merchandise exports – US & Europe



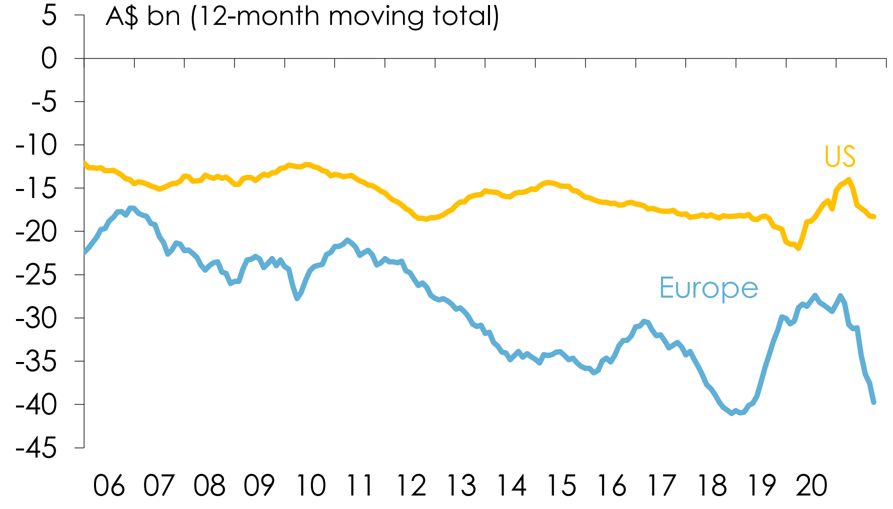
Merchandise exports – other



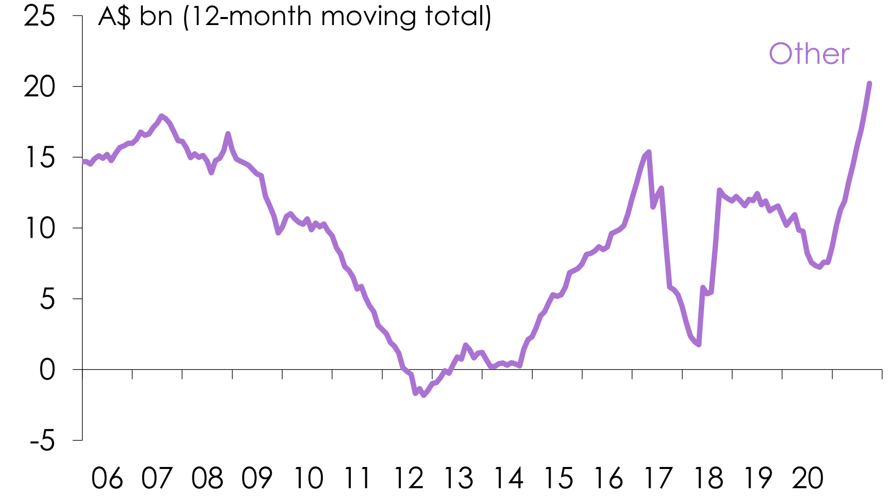
Goods trade balance – East Asia



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*, September 2021. October data will be released on 2nd December. Return to "What's New".

SAUL ESLAKE
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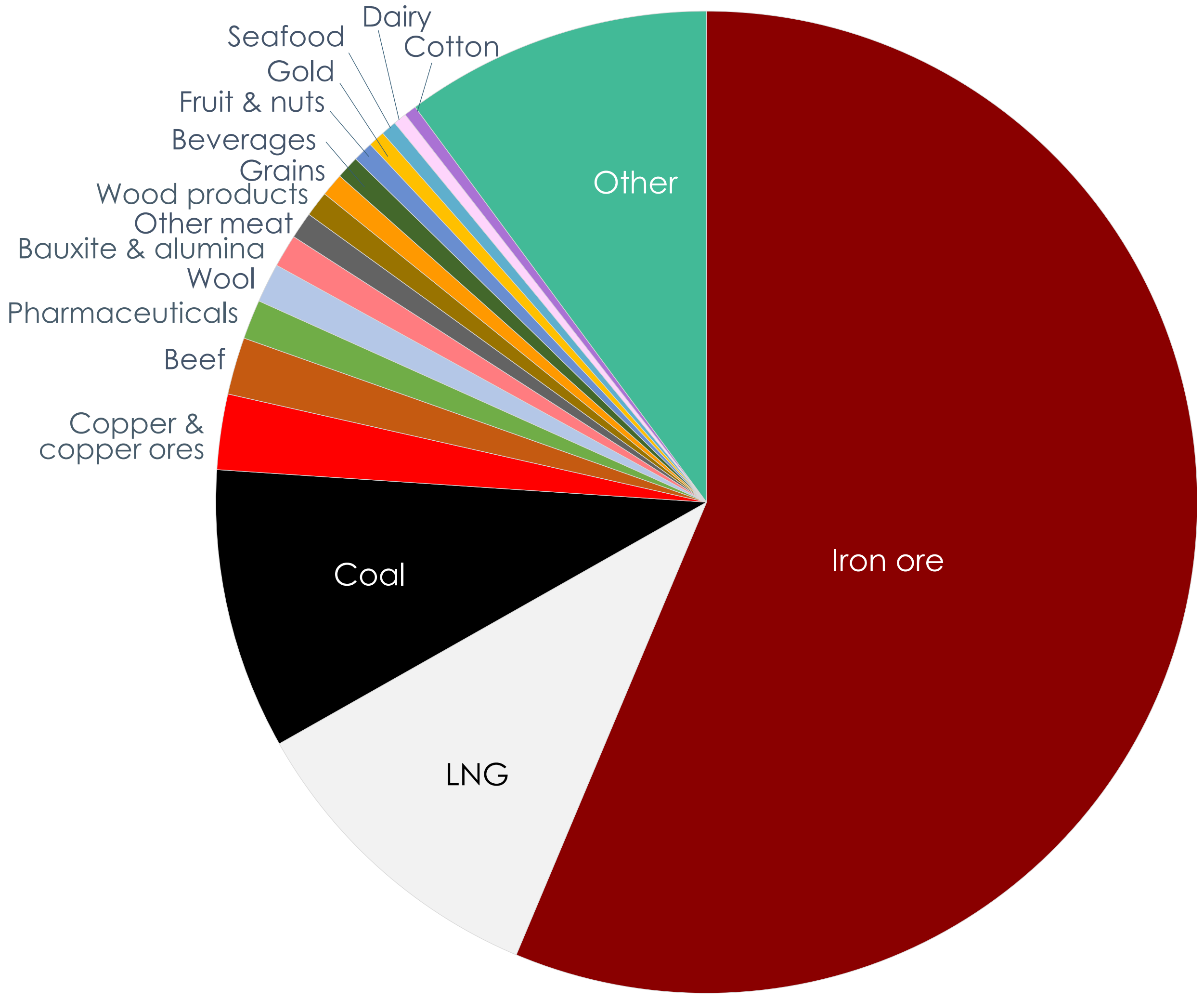
INDEPENDENT ECONOMICS

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

Australia's merchandise exports to China, 2019-20

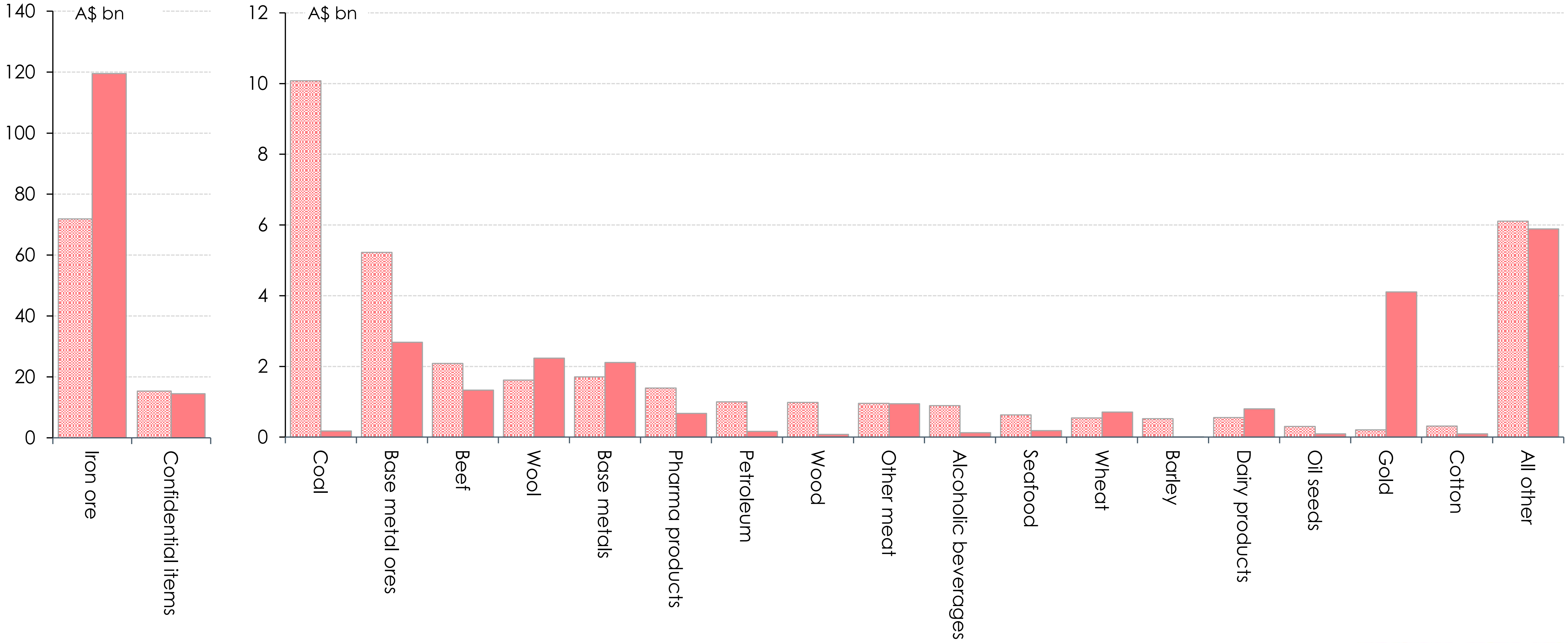


Note: 'Wood' includes wood products; 'dairy' includes milk, cream, butter & cheese; 'seafood' includes crustaceans, fish and processed seafood; 'other' includes confidential items.
Sources: Australian Department of Foreign Affairs & Trade, Trade Statistical Pivot Tables; Corinna. Return to "What's New".

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

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

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



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

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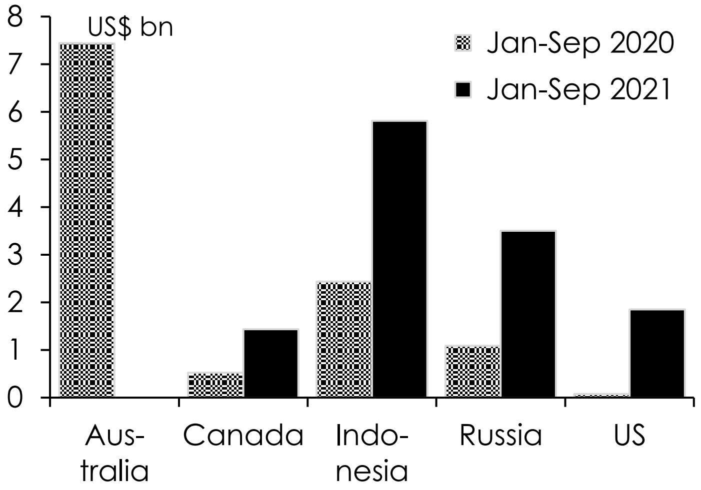
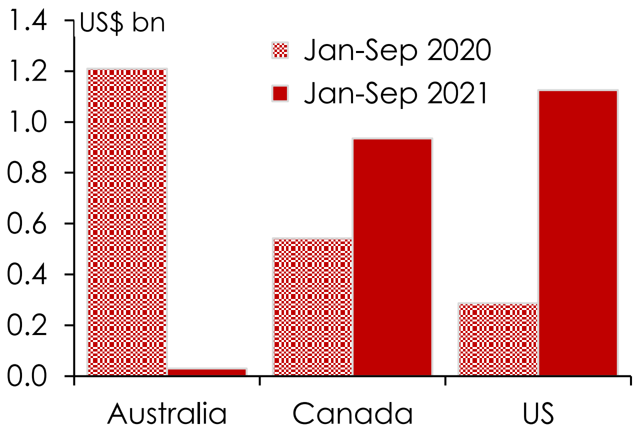
"With friends like these …" – how Australia's 'allies' have been 'cutting our lunch' in trade with China

China's imports of selected products, by origin – first nine months of 2021 cf. first nine months of 2020

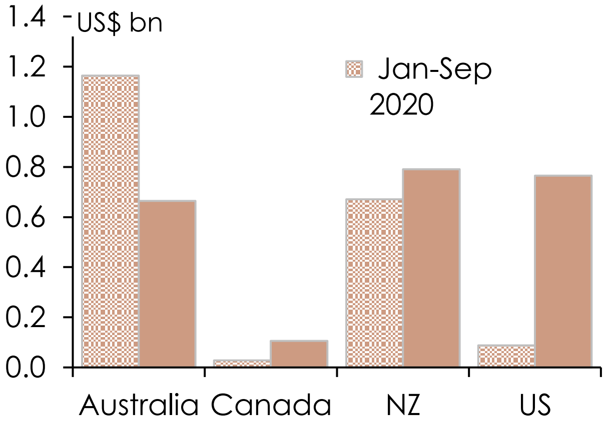
Coal



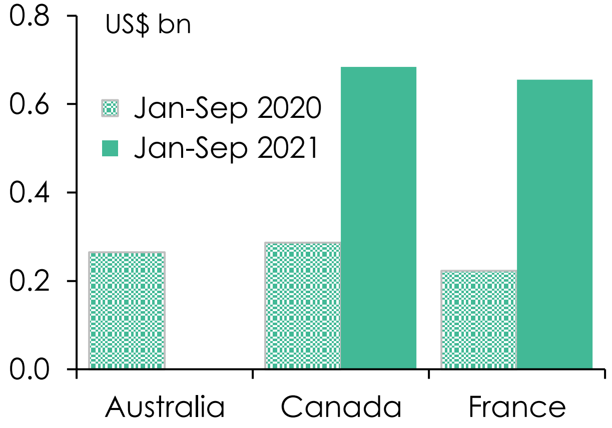
Copper ores



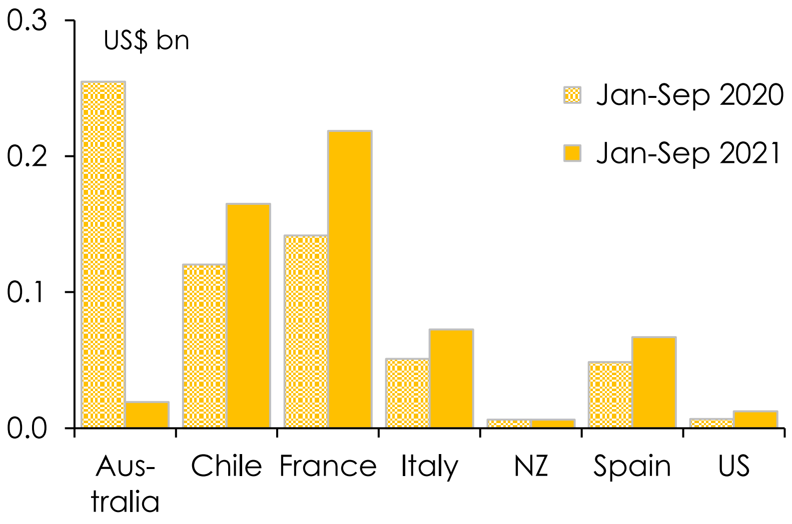
Beef



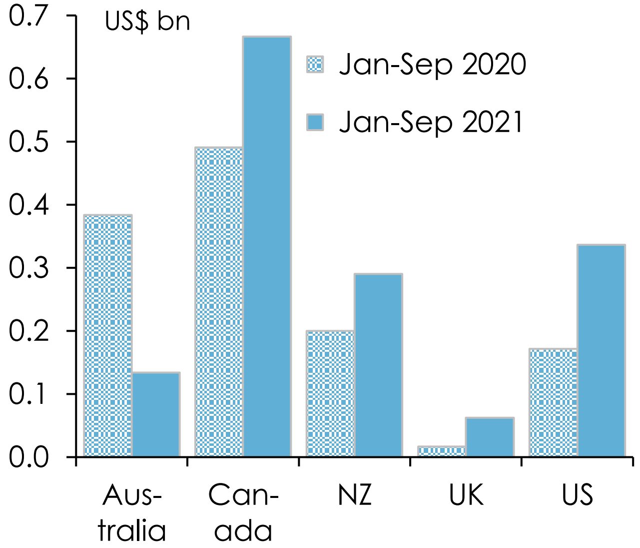
Barley



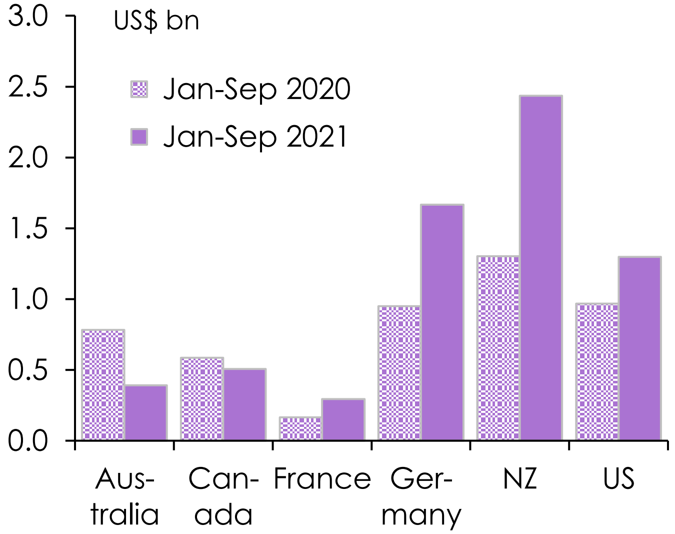
Wine



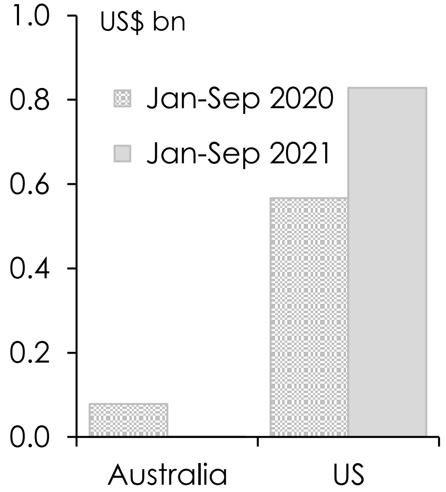
Fish and crustaceans



Wood & wood products



Cotton



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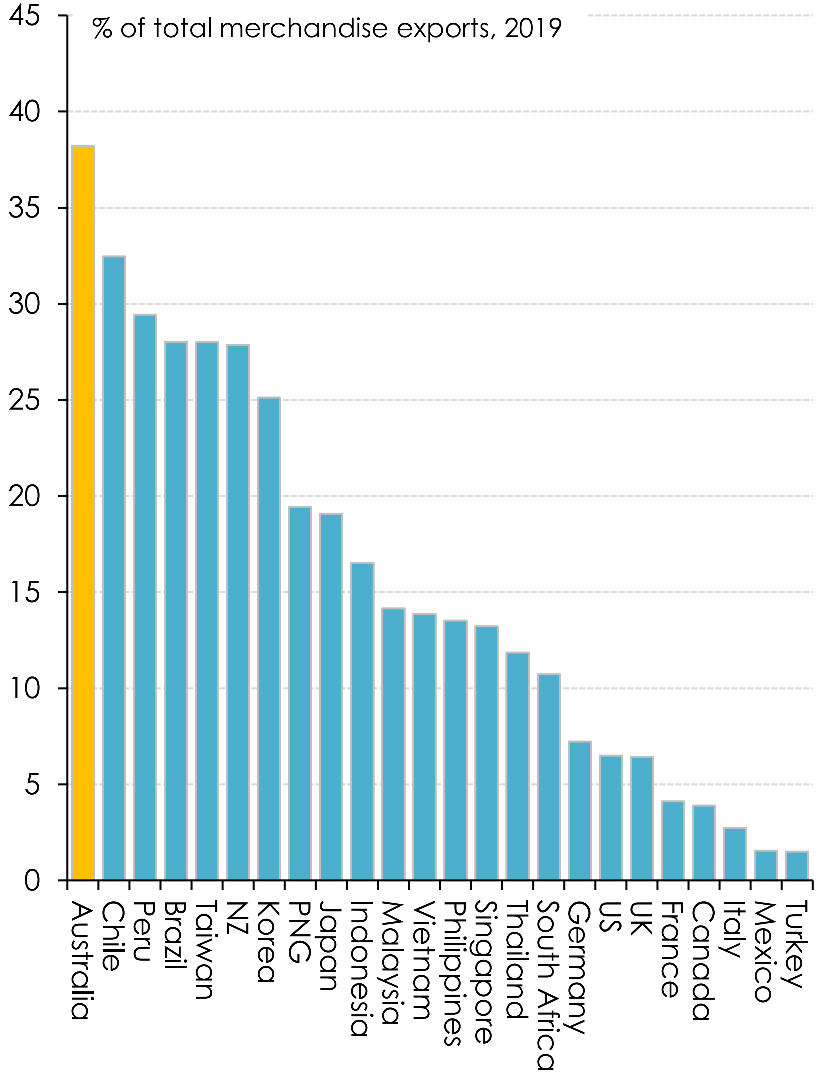
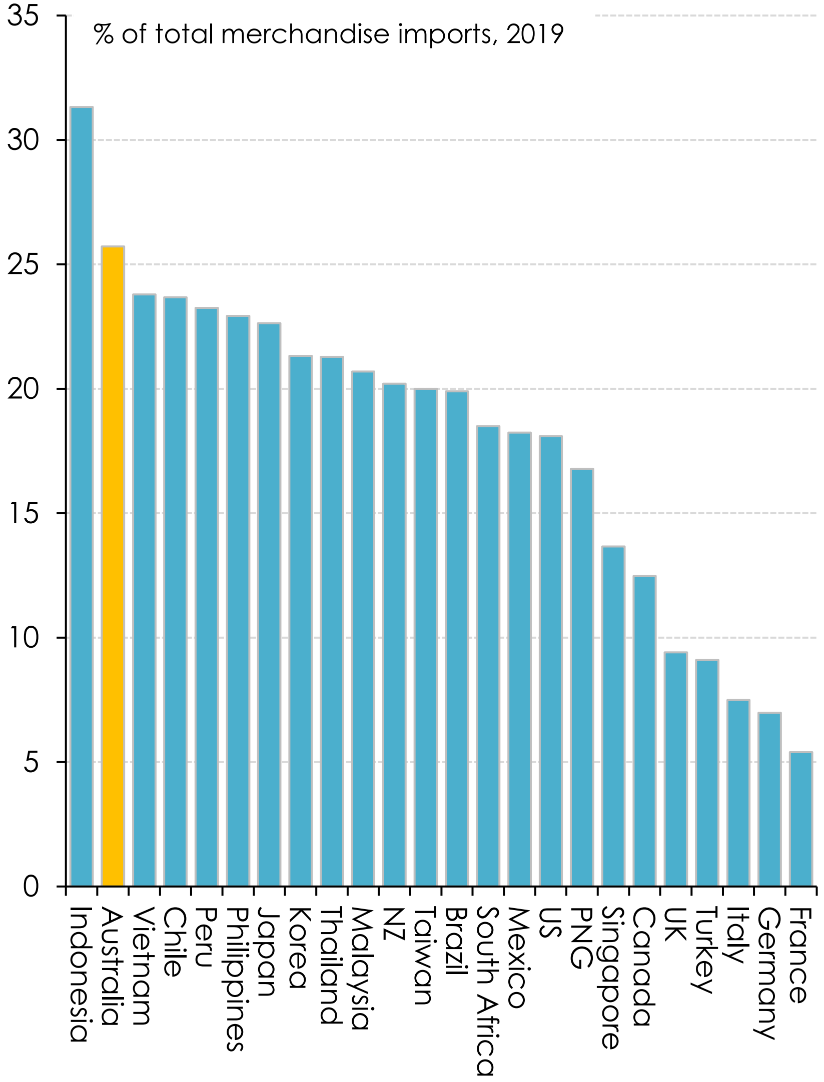
Source: China General Administration of Customs; Corinna. Return to "What's New".

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

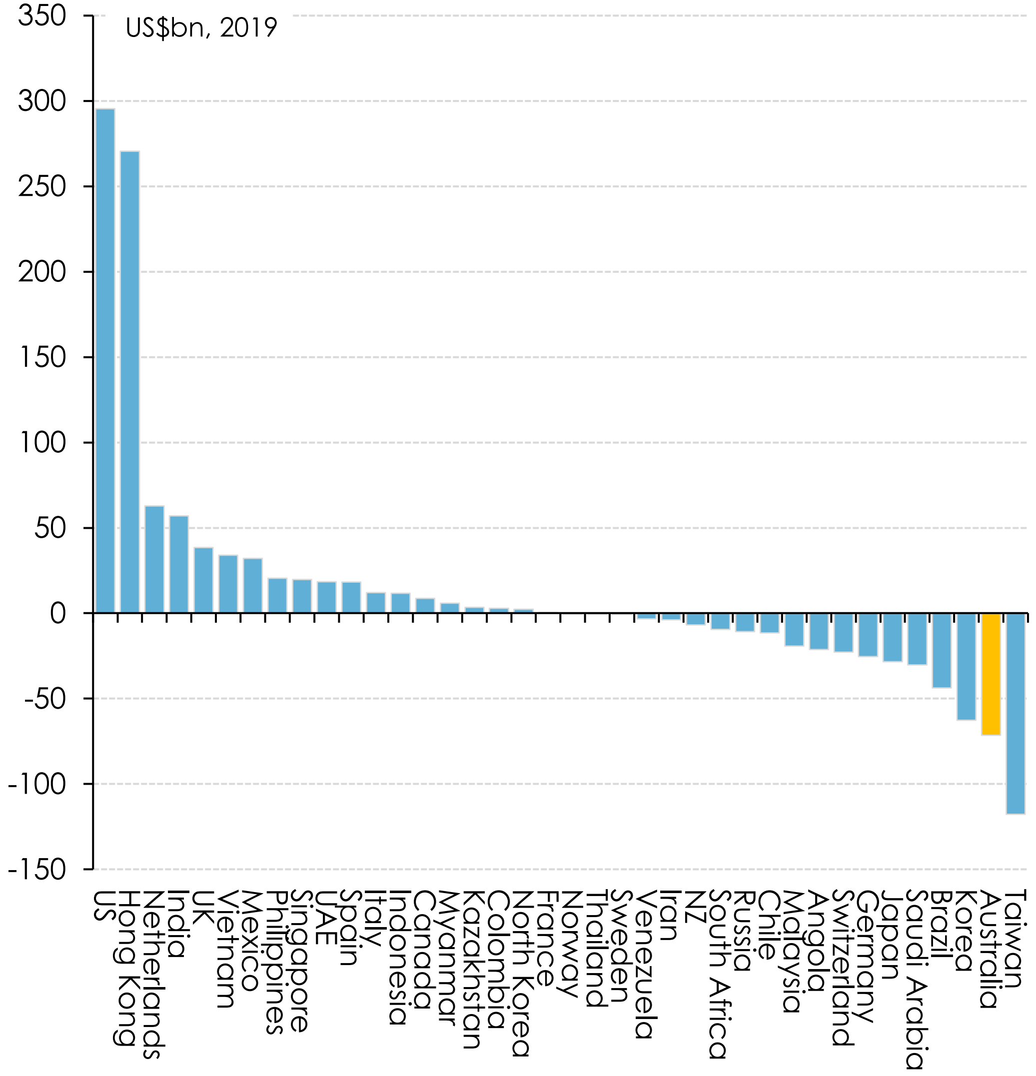
Merchandise exports to China as a pc of total



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".

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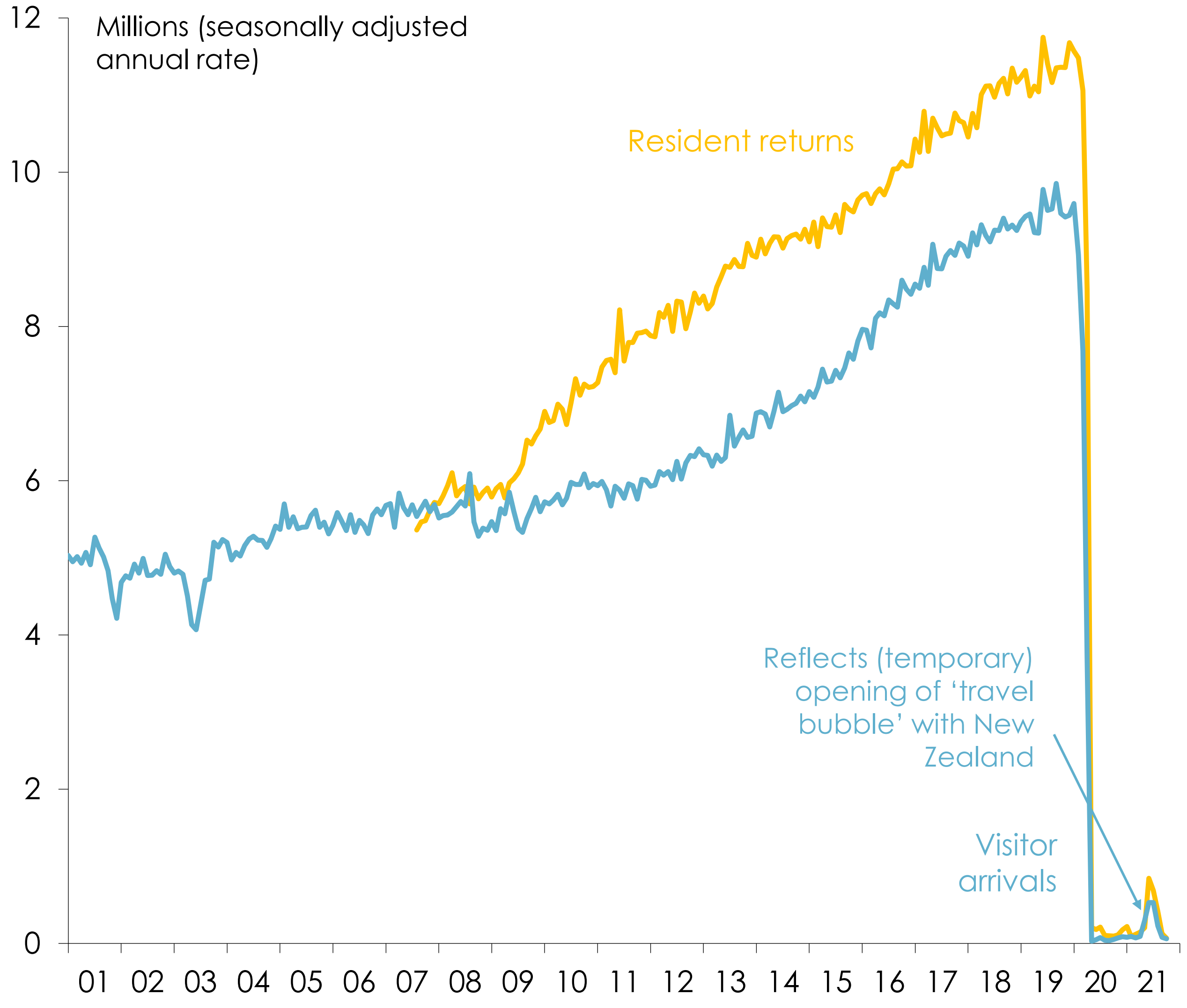
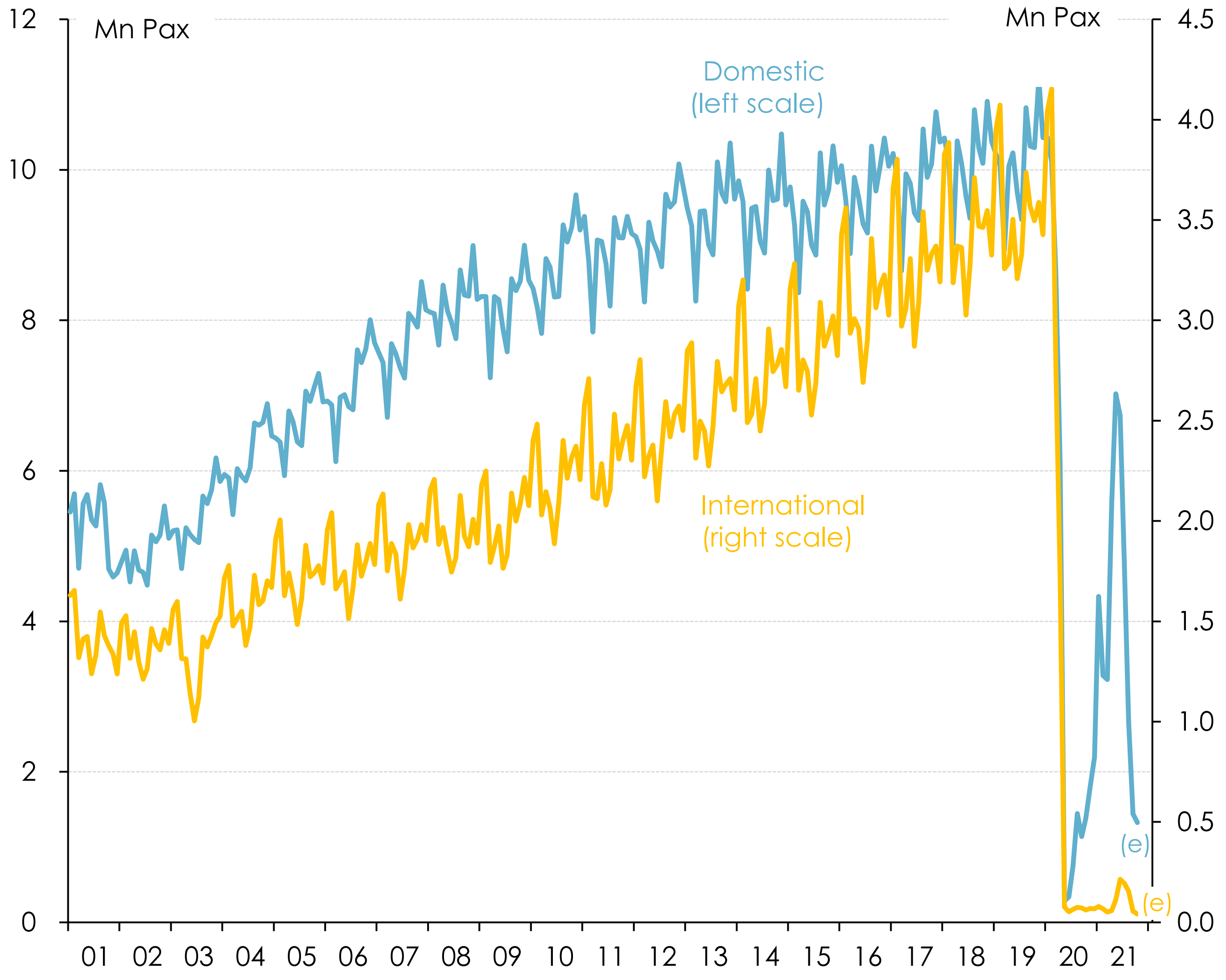
Domestic aviation picked up strongly between last November and May – but has since slumped with the lockdowns and tighter arrivals caps

Short-term visitor arrivals and resident returns



Airport passenger movements



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

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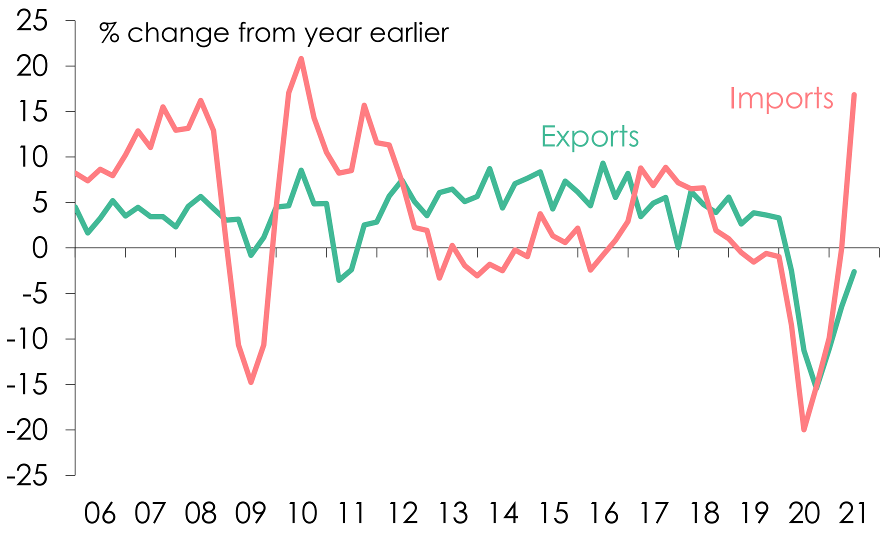
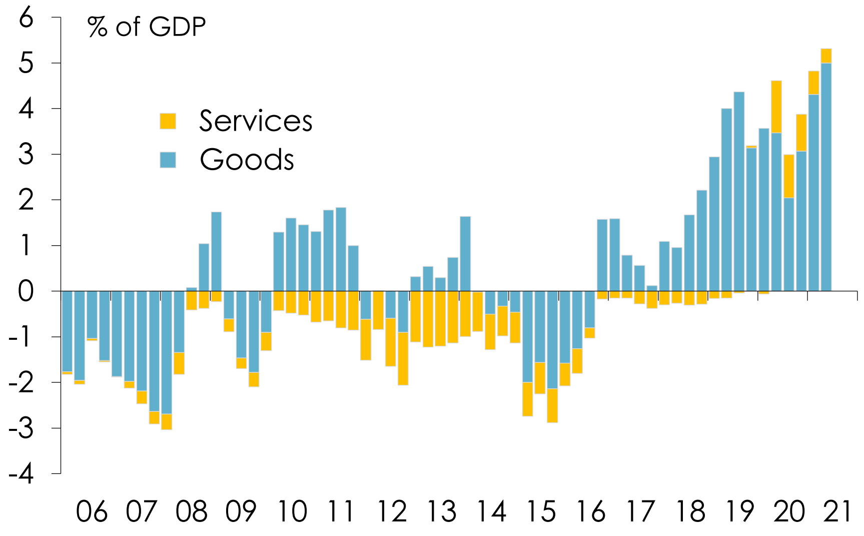
Australia recorded another record current account surplus in the June quarter, thanks to another large gain in export prices

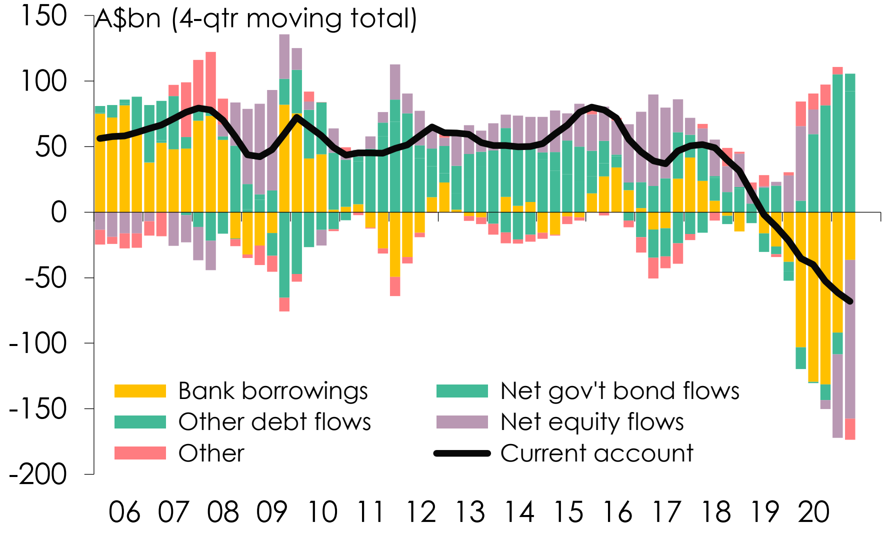
Export and import volumes



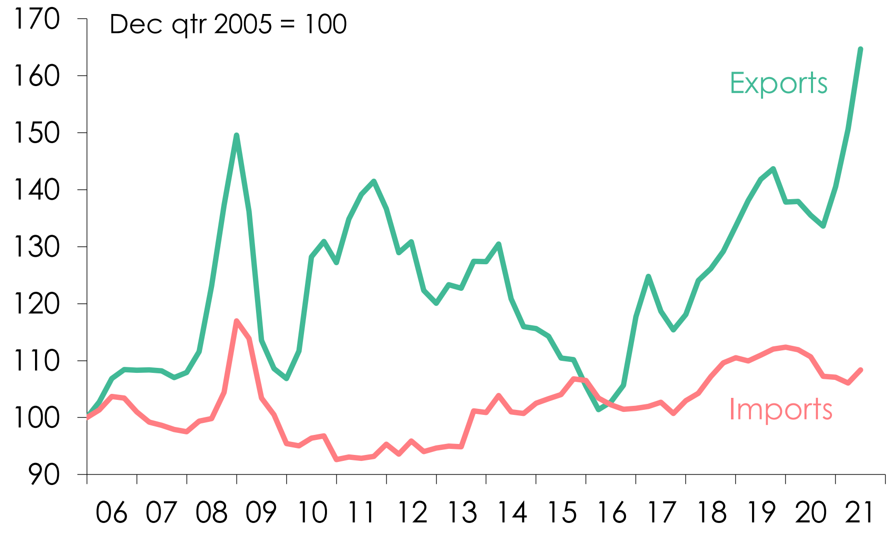
Goods & services trade balances



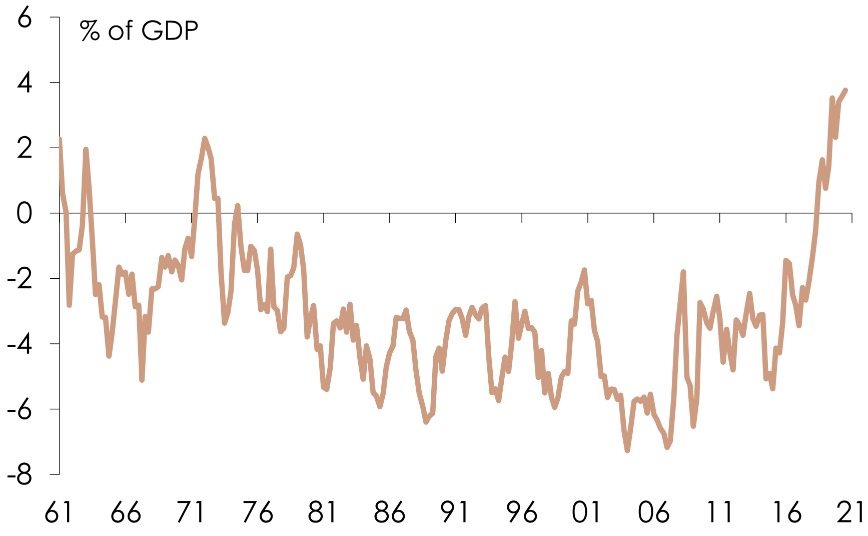
Capital flows



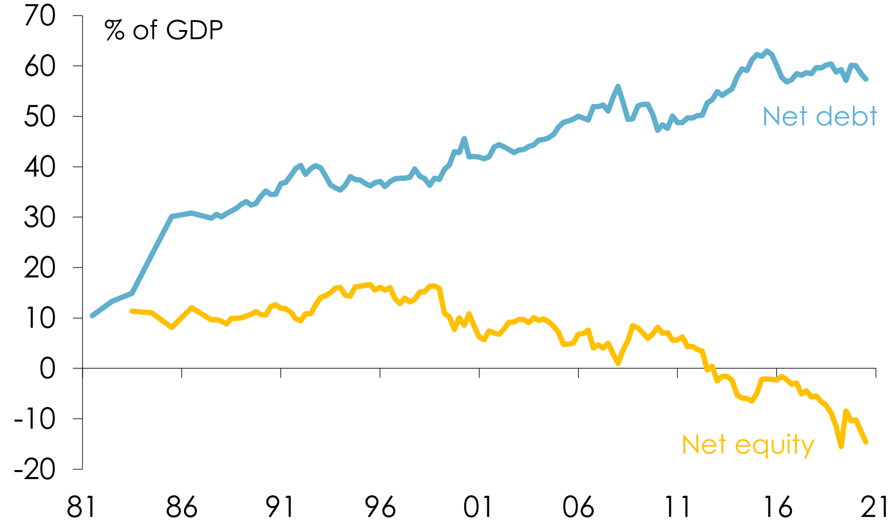
Export and import prices



Current account balance



Net international investment position



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

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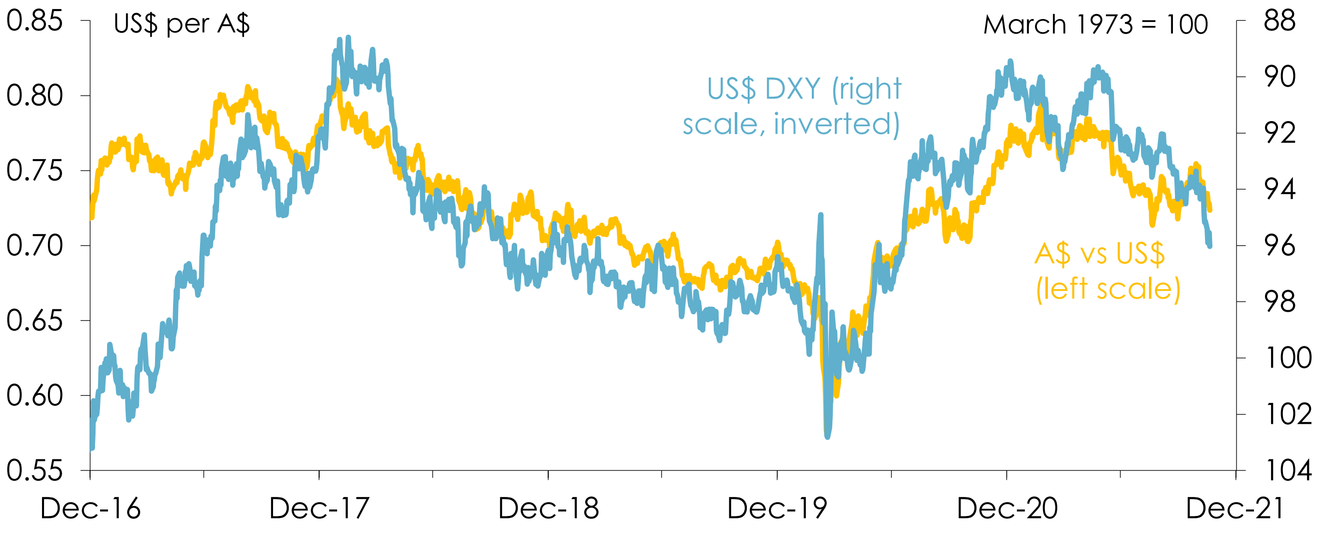
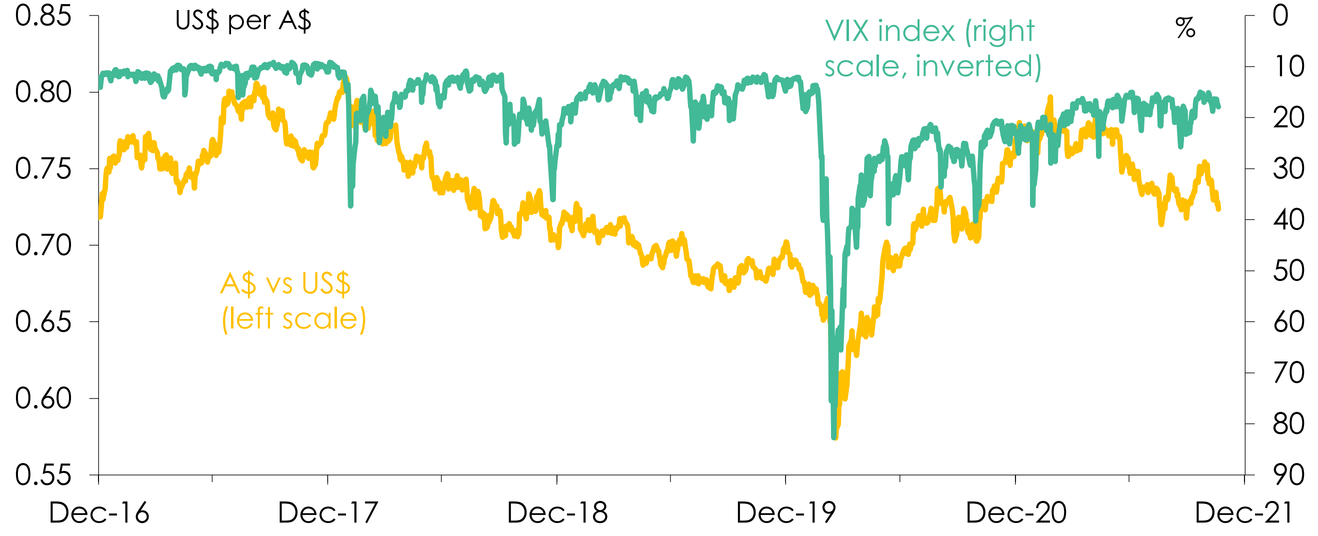
The A$ dropped below US72½¢ this week against a stronger US$, the recent falls in the iron ore price and in Australian bond yields also contributing

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

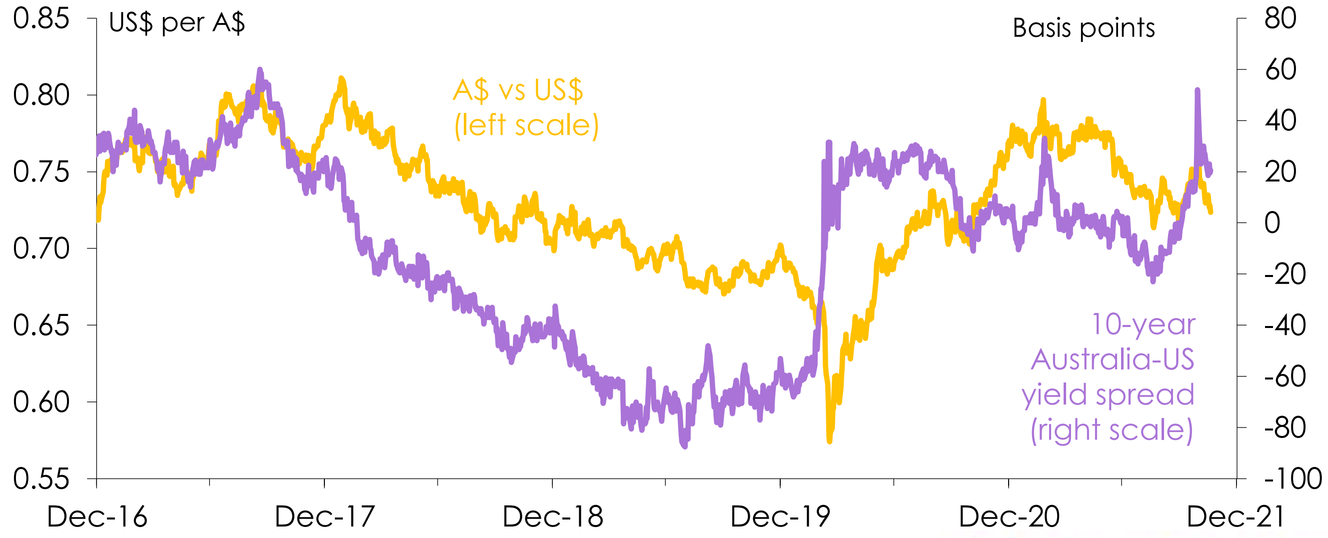


A$-US$ and US equity market volatility



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 19th November. Return to "What's New".

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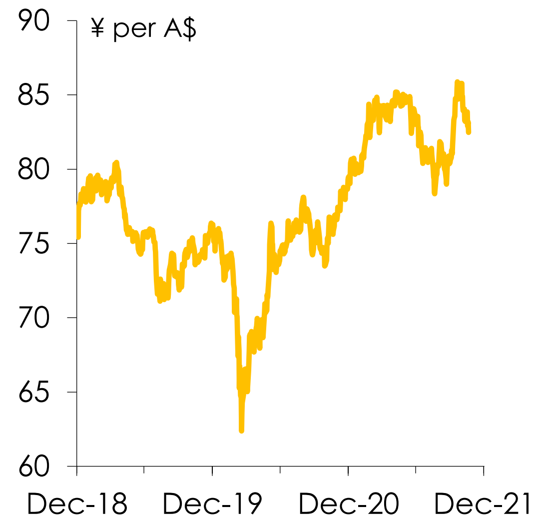
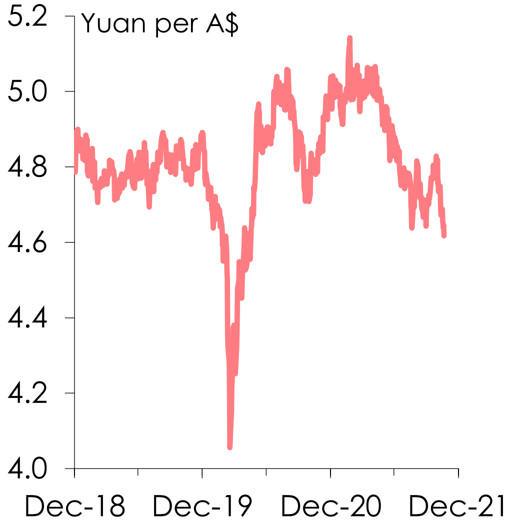
The A$ also fell against third currencies, particularly sterling (↓1.6%), the yuan (↓1.5%), and the yen (↓1.2%)

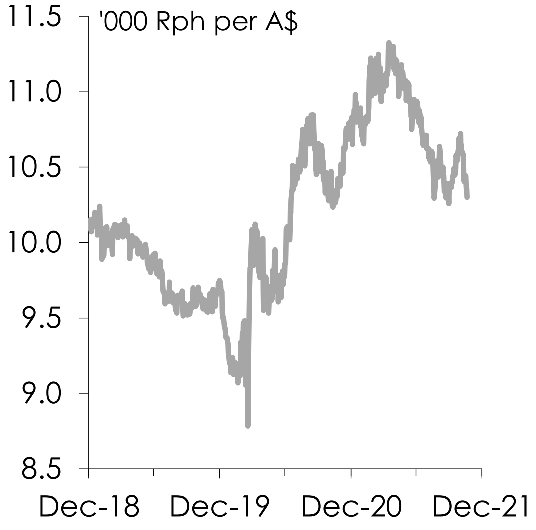
A$ vs Japanese yen



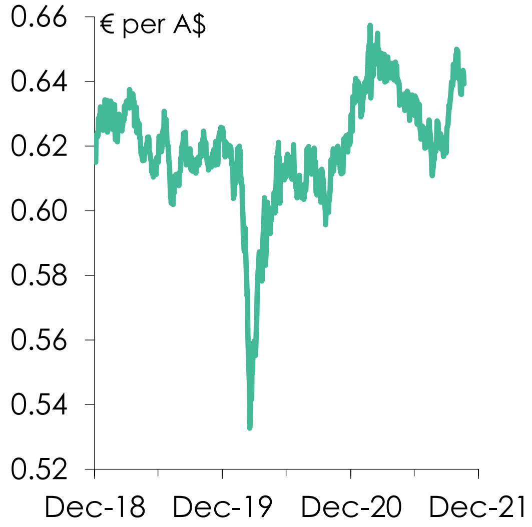
A$ vs Chinese yuan



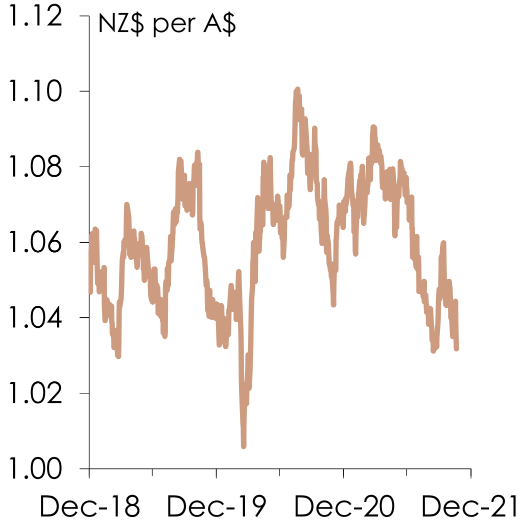
A$ vs Indo rupiah



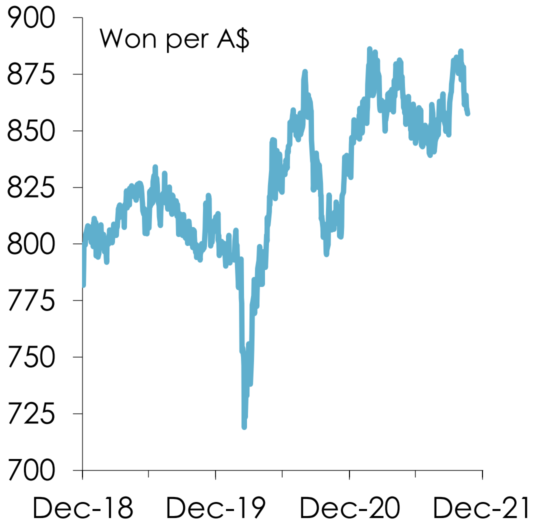
A$ vs Euro



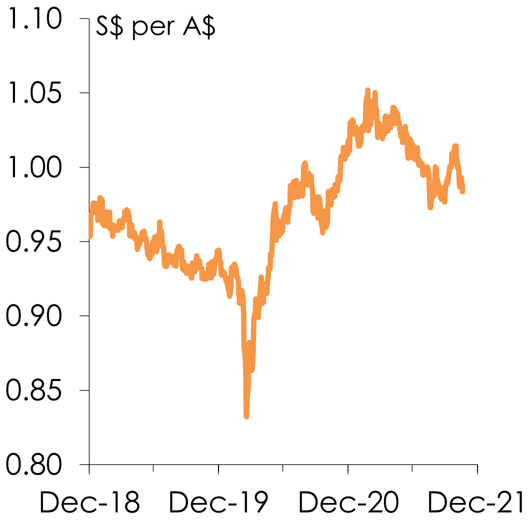
A$ vs NZ$



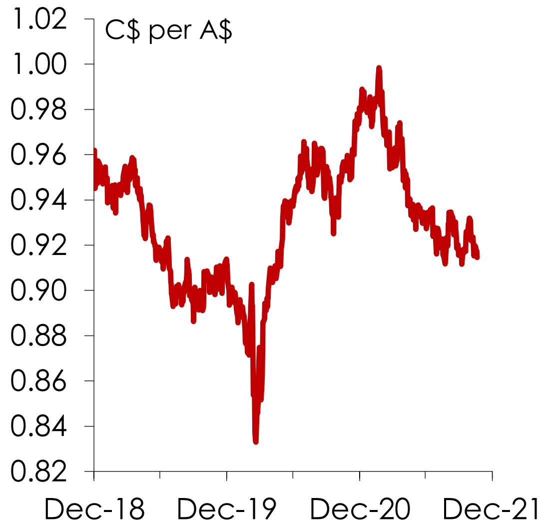
A$ vs Korean won



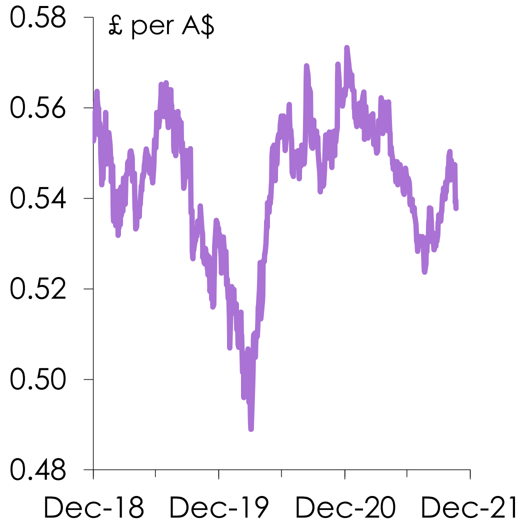
A$ vs Singapore $



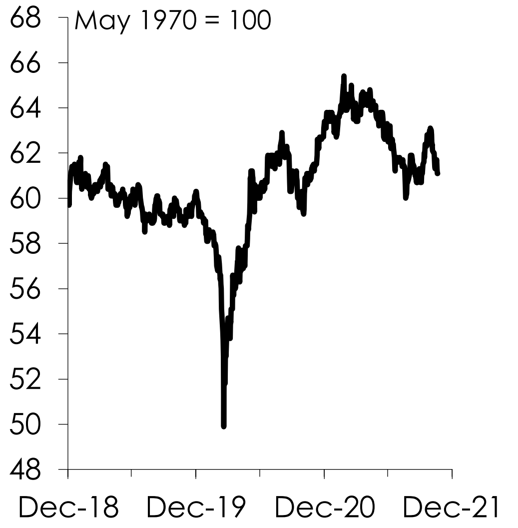
A$ vs Canadian $



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 19th November. Return to "What's New".

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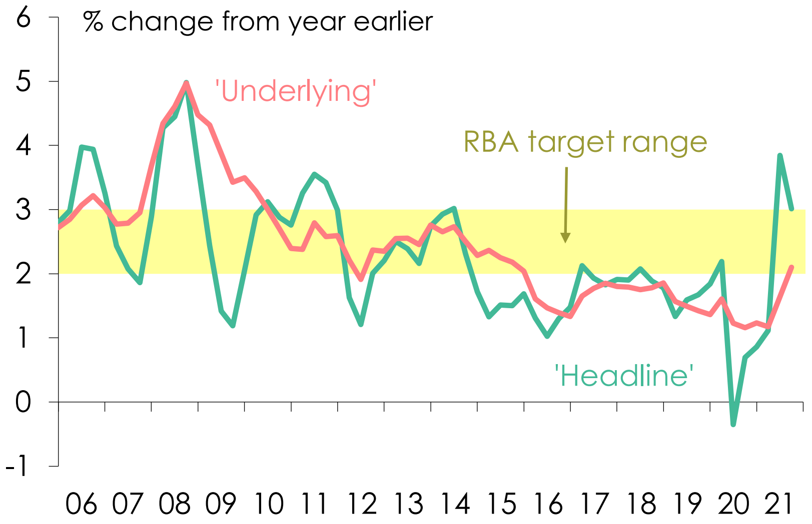
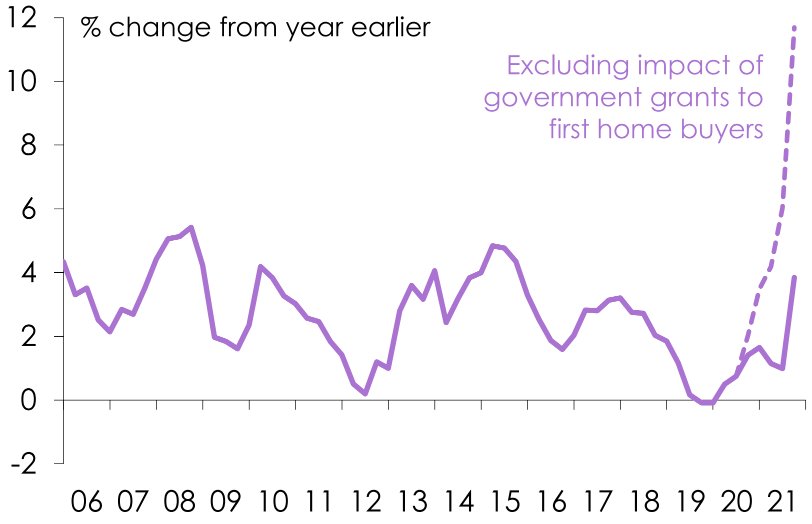
The 'headline' CPI rose 0.8% in Q3, as expected, but 'underlying' inflation surprised rising 0.7%, pushing the annual rate above 2%

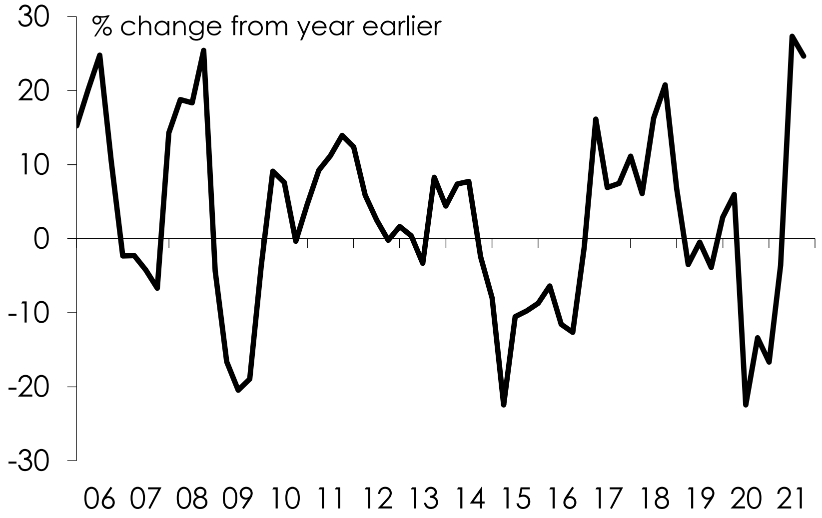
Consumer prices



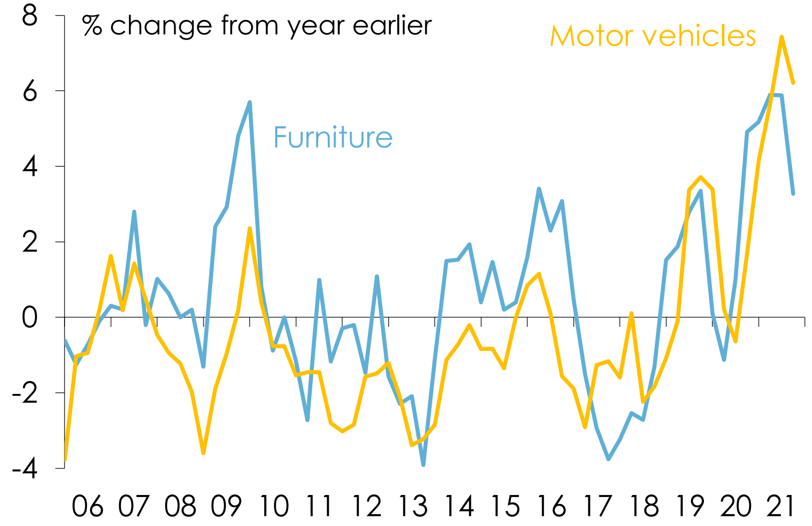
New dwelling purchase costs



Automotive fuel prices



Supply-chain affected prices

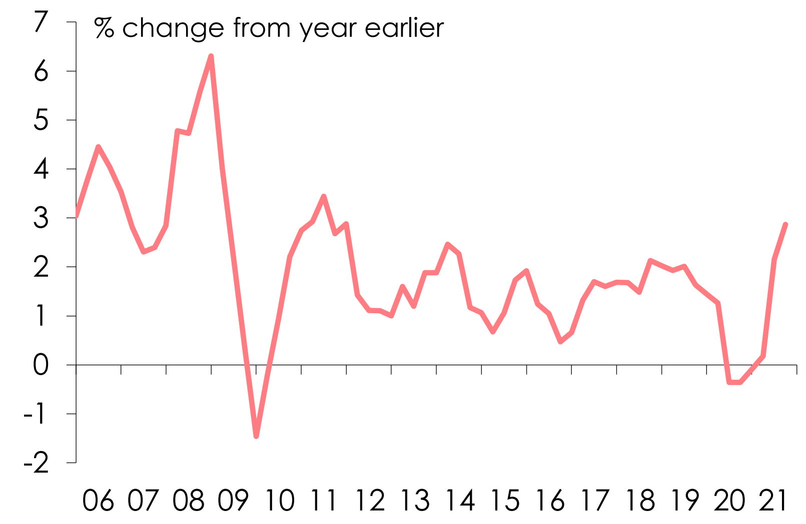


- **The CPI rose 0.8%, as expected, in Q3, with the annual rate (which had been inflated in Q2 by 'base effects' especially from free child care in Q2 last year) falling from 3.8% to 3.0%**
- **But the statistical measures of 'underlying' rose a larger-than-expected 0.7%, the biggest quarterly increase 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**
- **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**

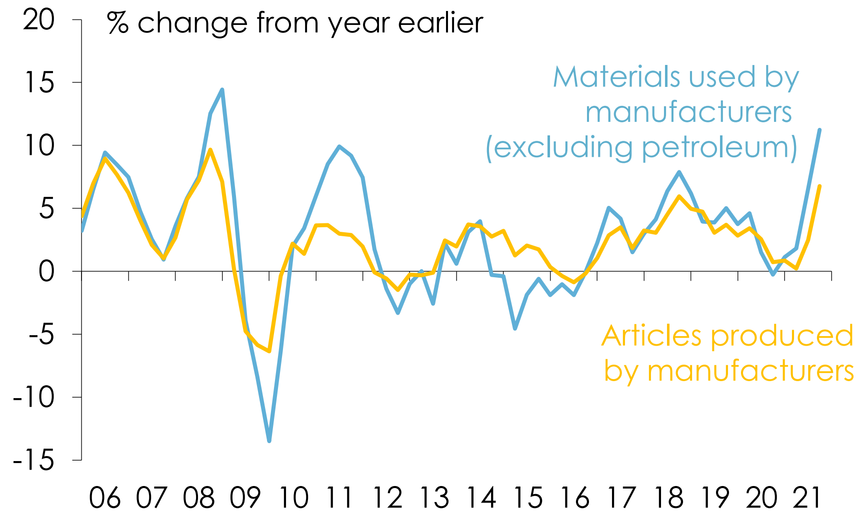
Note: 'Underlying' inflation is the average of the weighted median and trimmed mean CPIs. Wage price indices exclude bonuses.
Sources: ABS, Consumer Price Index, Australia. The December quarter (Q4) CPI will be released on 25th January. Return to "What's New".

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

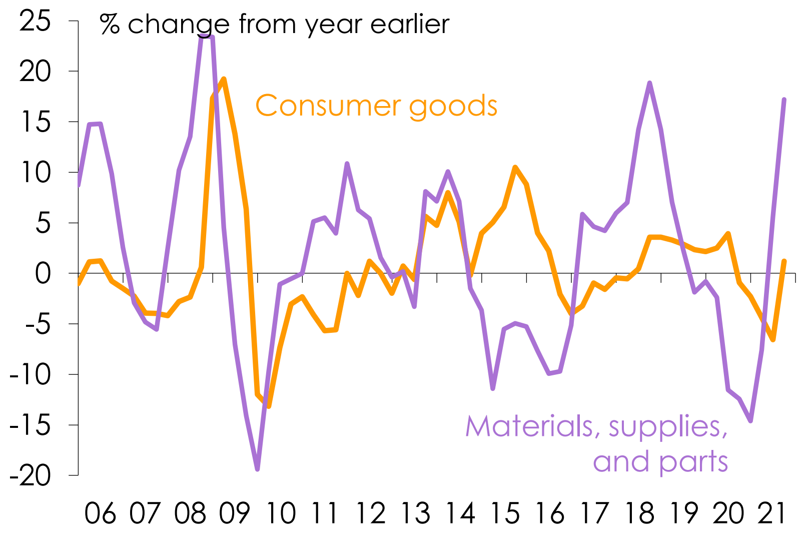
Producer price index



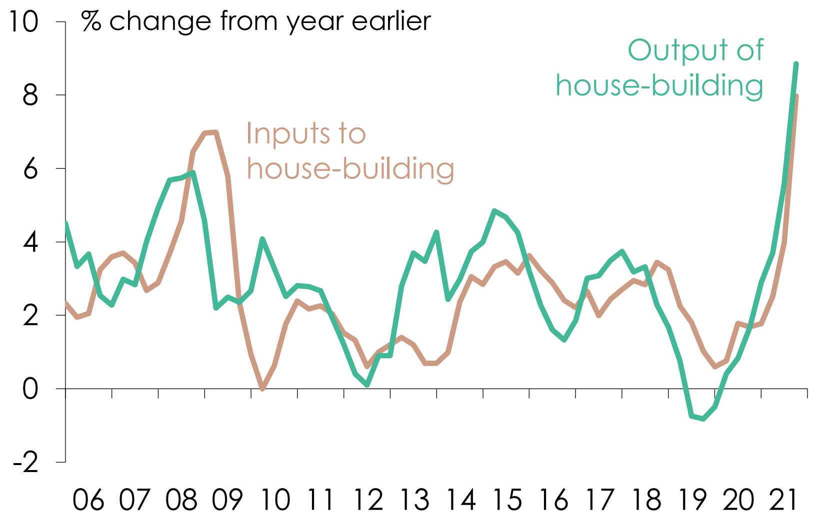
Manufacturing input & output prices



Imported consumer goods prices



Construction input & output prices

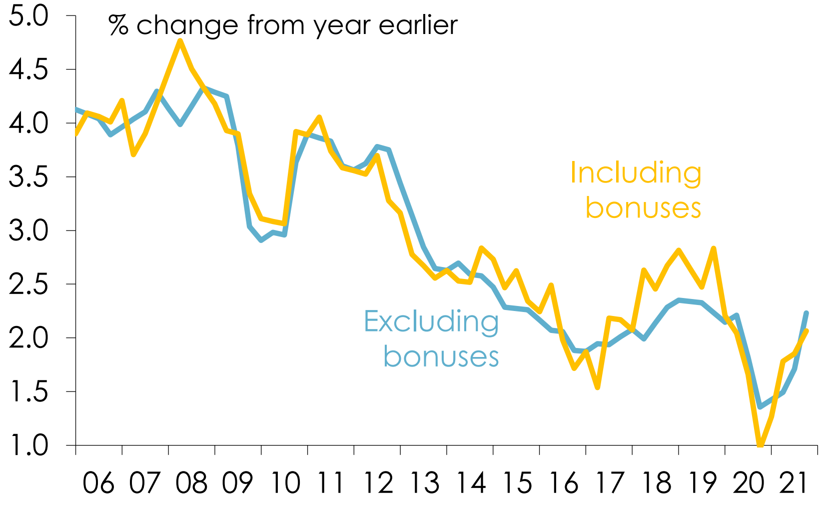


- **Until the September quarter there had been very little evidence in Australia of the ‘upstream’ inflation pressure apparent in many other economies – with the exception of the construction sector**
- **However the producer price index (which in Australia includes a range of services sectors, but excludes 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

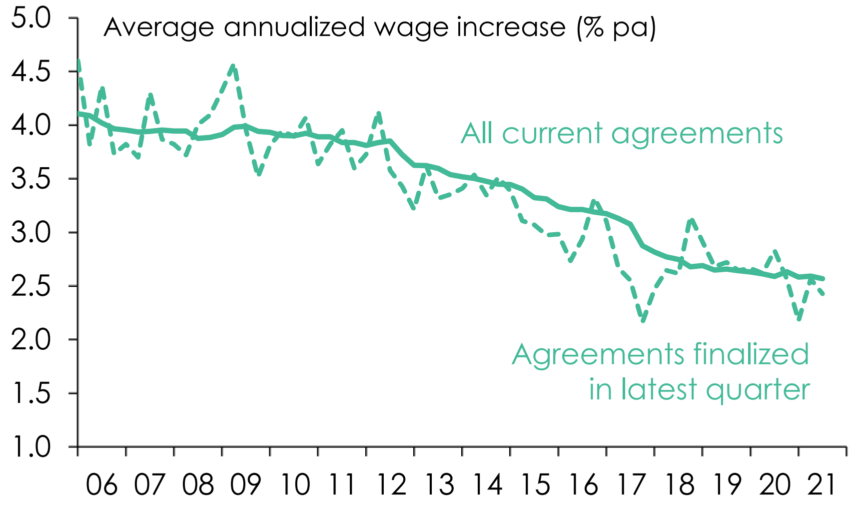
Sources: ABS, *Producer Price Indexes, Australia* and International Trade Price Indexes, Australia, September quarter 2021.
Return to "What's New“.

Wages growth is (as of Q3) back to where it had been pre-Covid, but is still well below what the RBA regards as consistent with its 2-3% target

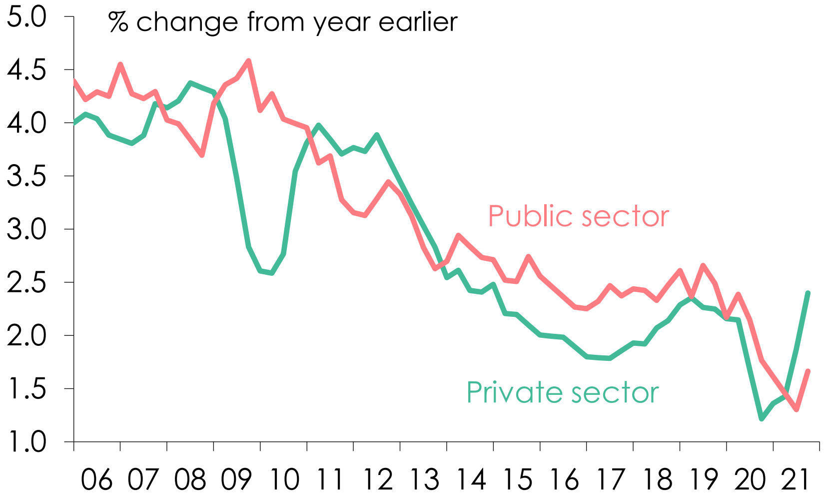
Wage price index – all sectors



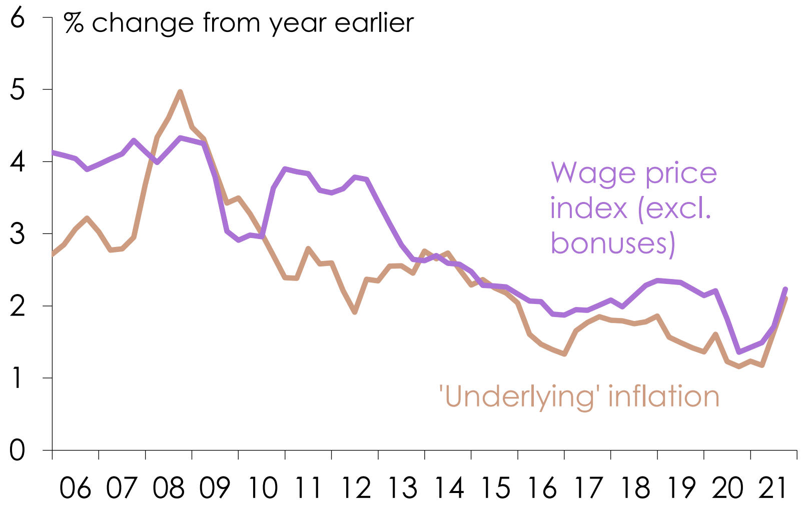
Enterprise bargaining agreements



WPI – private vs public sectors



WPI and 'underlying' CPI inflation



- **The wage price index (excl. bonuses) rose 0.6% in Q3, up from 0.4% in Q2 but in line with Q1 and Q4 last year, pushing the annual rate back up to 2.2%, where it was in Q1 last year**
- **In other words, wages growth has now reverted to its (fairly weak) pre-Covid trend**
  - **it remains well short of the "3 point something percent" which RBA Governor Philip Lowe this week again identified as "likely will need to be growing at 3 point something per cent to sustain inflation around the middle of the target band"**
- **The main contributors to the Q3 increase were an end to 'wage freezes' in parts of the public sector, pay rises averaging more than 1% in a small number of sectors experiencing labour shortages, and partial implementation of the most recent increase in the minimum wage awarded by the Fair Work Commission in June**

Sources: ABS, *Wage Price Index, Australia* Attorney-General's Department, *Trends in Federal Enterprise Bargaining*; December quarter WPI data will released on 22nd February 2022. Return to "What's New".

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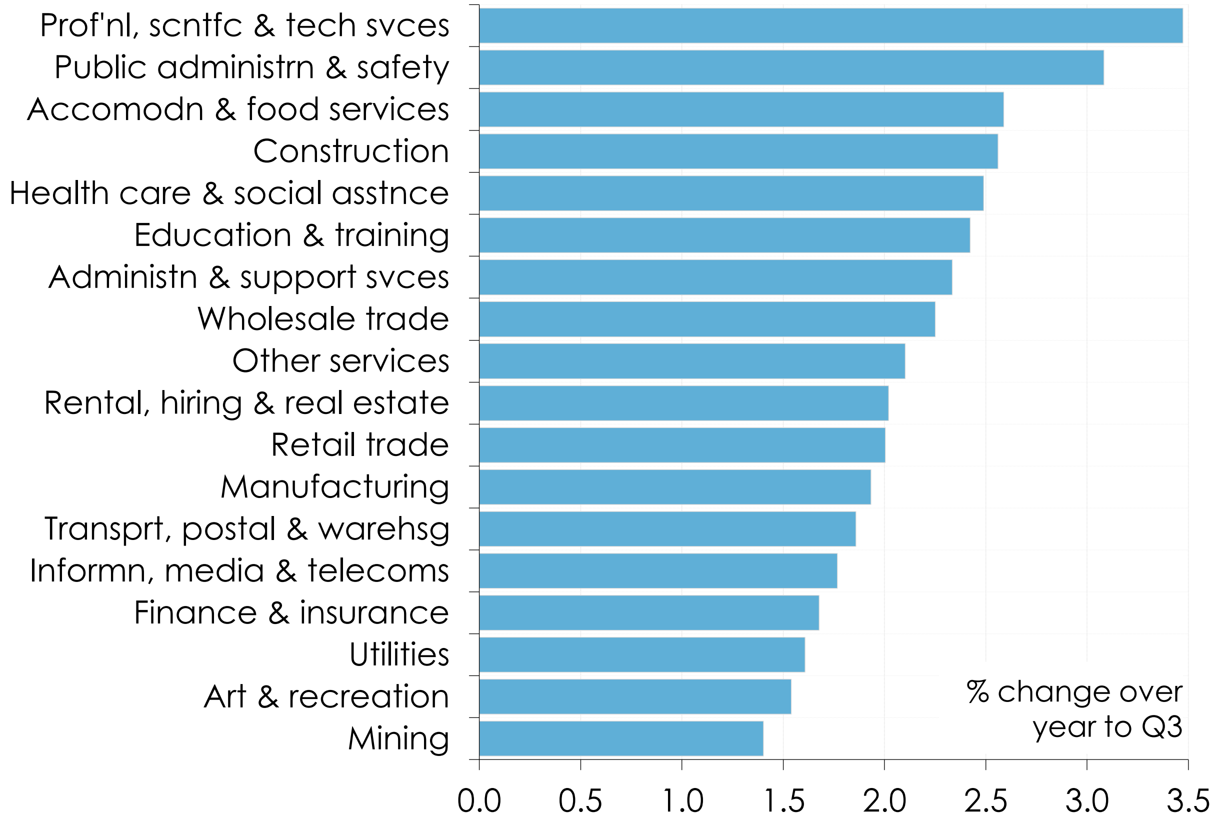
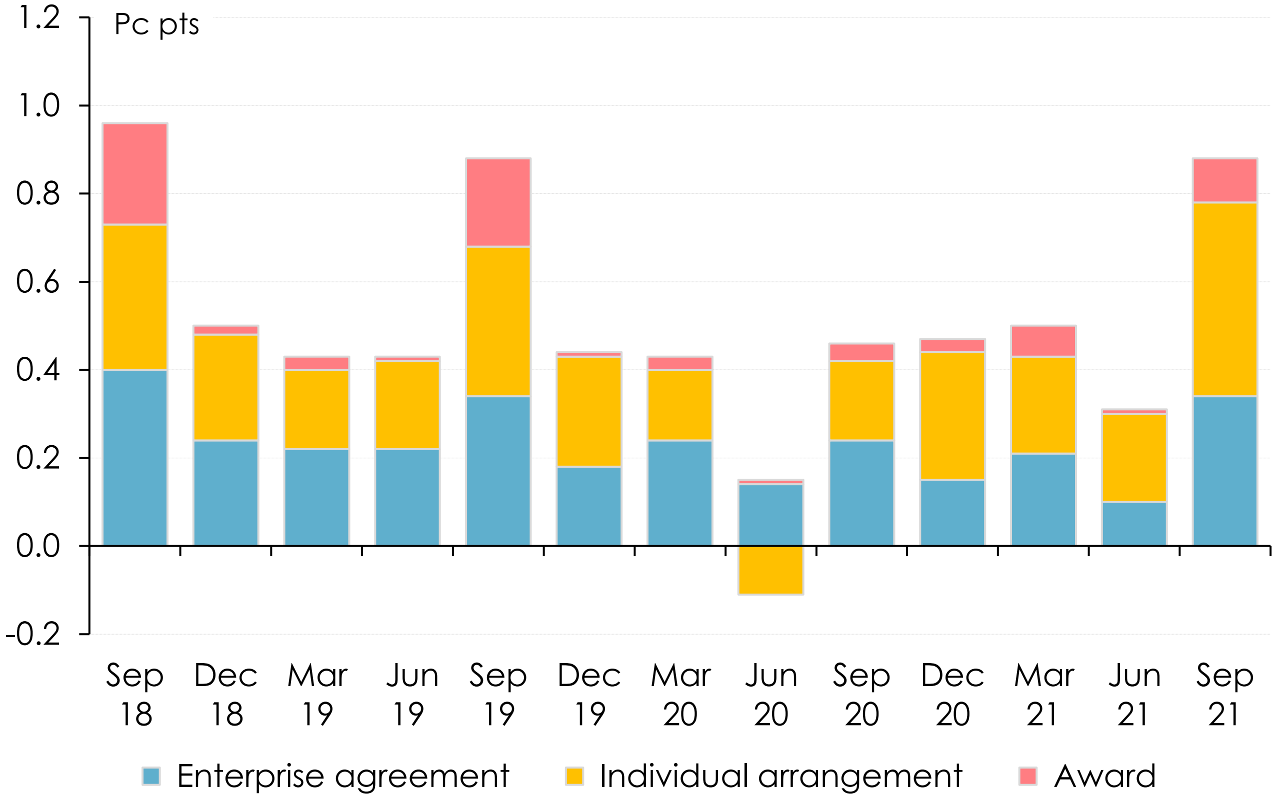
The slight pick up in wages growth in Q3 largely reflects individual agreements in a few sectors, plus an end to public sector 'wage freezes'

Increase in wage price index over year to Q3 by sector



- To date, wages growth has only picked up in a few sectors – professional, scientific & technical services, and public administration & defence

Contribution to quarterly changes in wage price index, by method of setting pay



- Pay settings by individual arrangements (which are more sensitive to labour market conditions) made a larger contribution to wages growth in Q3

Sources: ABS, *Wage Price Index, Australia*, September 2021; December quarter WPI data will released on 22nd February 2022. Return to "What's New".

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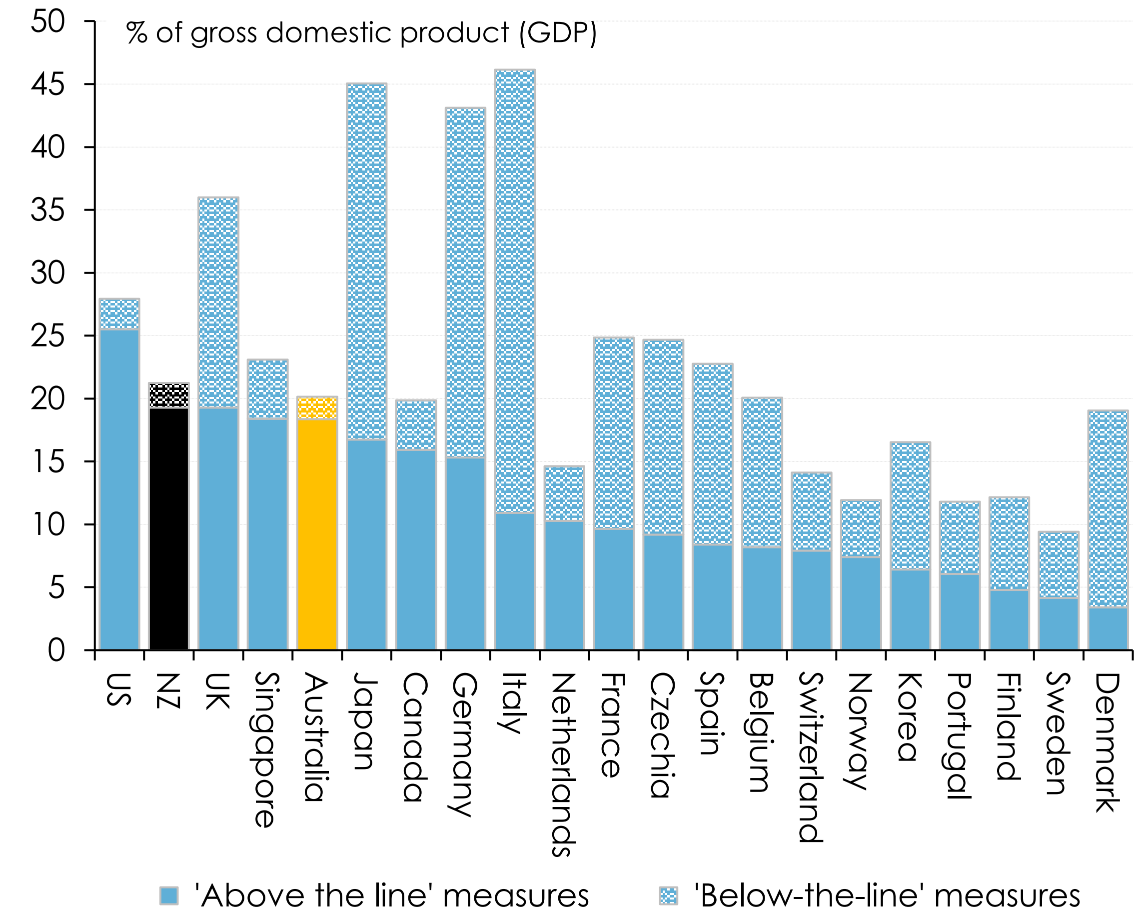
Australia’s fiscal and monetary policy settings

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

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



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

- **Policy measures announced by the Australian and state/territory governments in response to Covid-19 (up to end-September this year) have been equivalent to more than 18% of GDP – the fifth highest of any 'advanced' economy, according to new IMF estimates released last month**
- **In response to the protracted lockdowns in NSW, Victoria and the ACT (and shorter ones in the NT, Queensland, South Australia and Tasmania), the Federal Government paid out just under \$13bn to almost 2½mn people displaced from employment by restrictions, or forced into quarantine or self-isolation**
  - of which \$7.5bn was paid to people in NSW, \$4.4bn to people in Victoria, and \$344mn to people in the ACT
  - state and territory governments also made payments to businesses and individuals affected by health restrictions
- **These payments have now largely ceased**
  - only \$274mn has been paid over the first two weeks of November, cf. \$3.2bn in October, \$4.4bn in September and \$5.1bn in July-August

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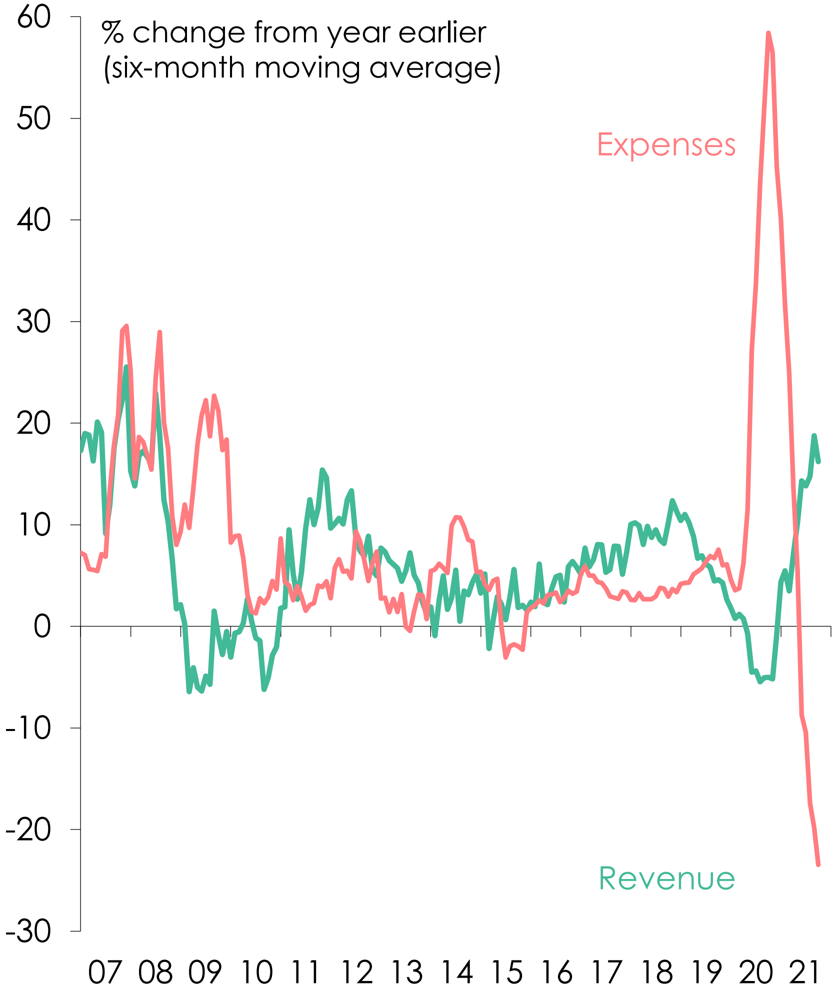
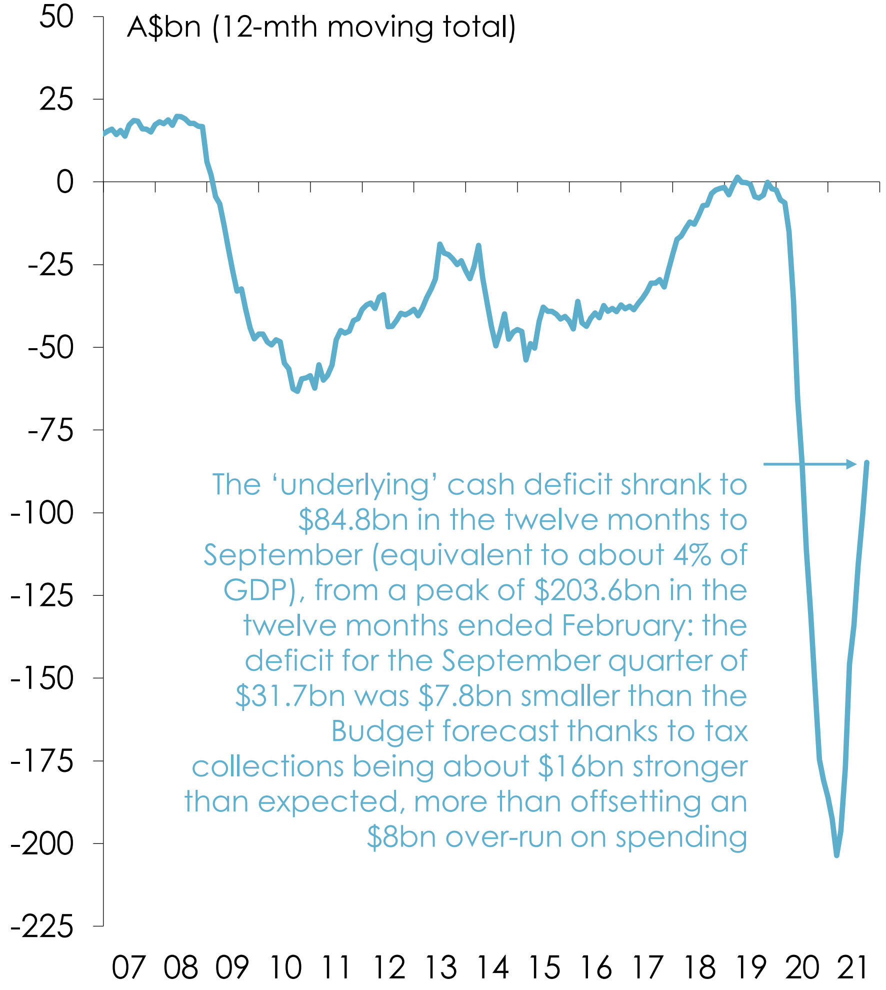
The budget deficit is declining rapidly despite the additional payments to people affected by lockdowns, thanks to buoyant tax revenues

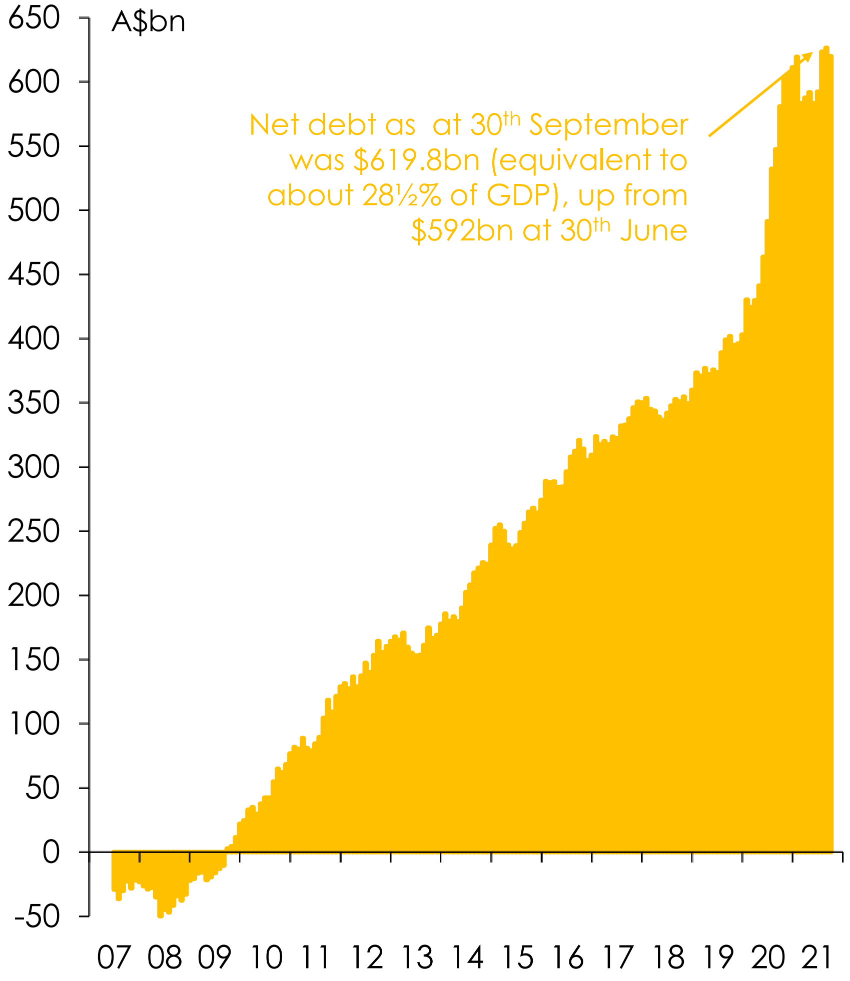
Australian Government revenue and expenses



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".

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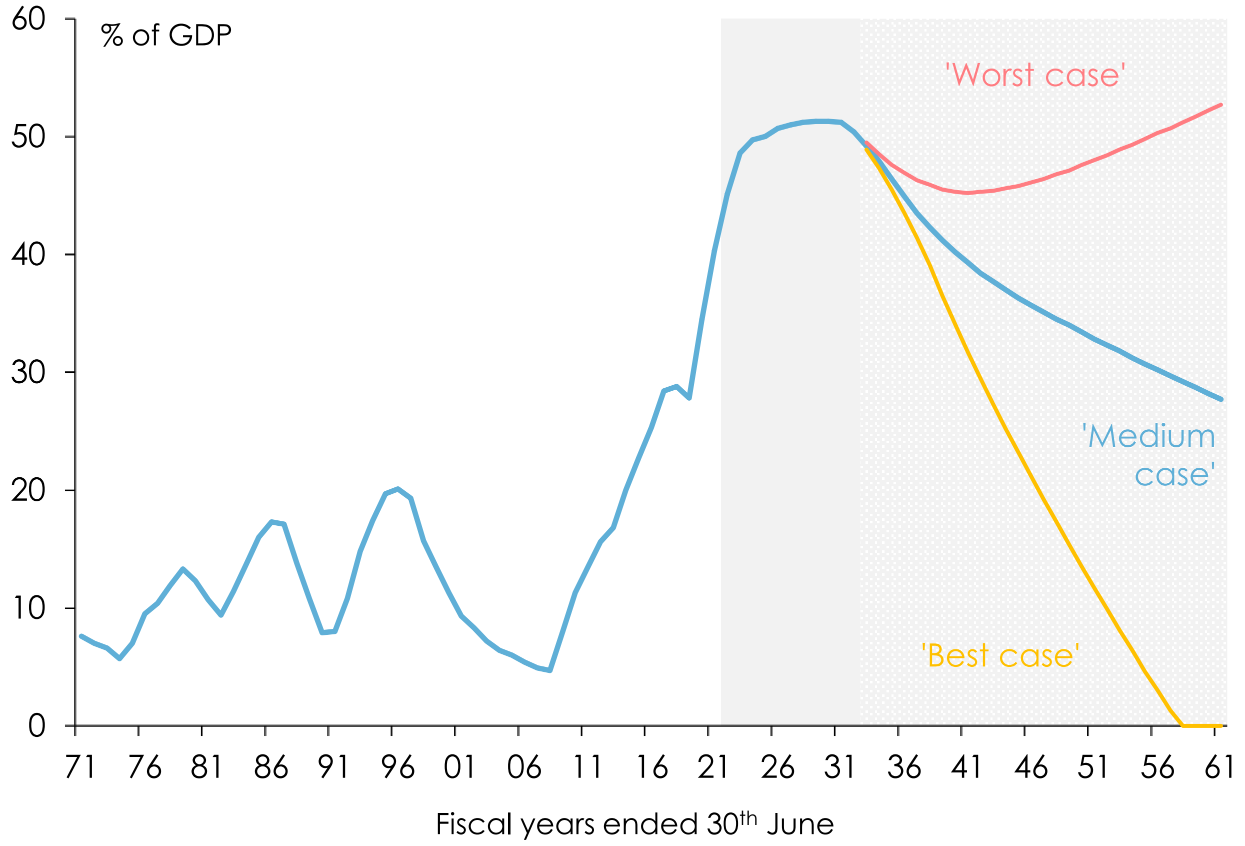
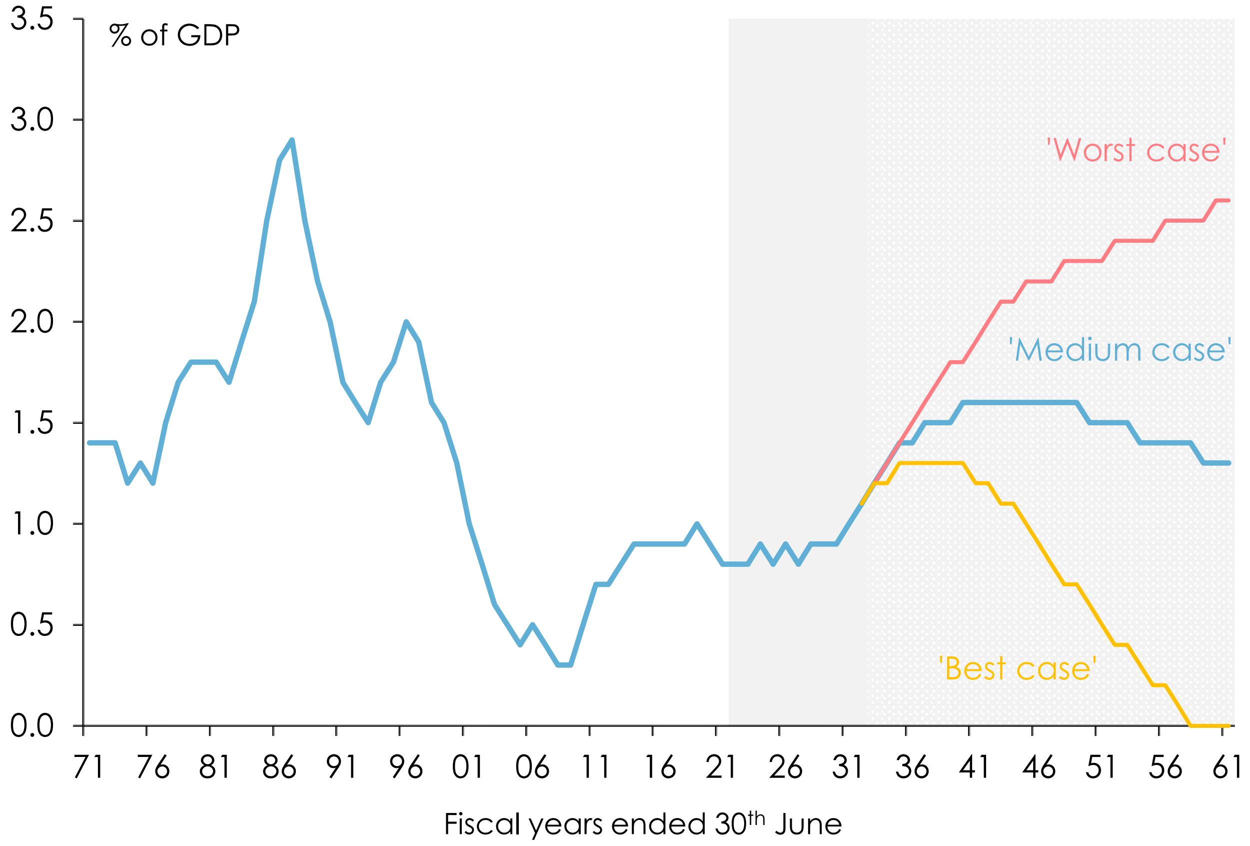
Analysis by the Parliamentary Budget Office suggests the debt which the Government has incurred *is* sustainable under a wide range of scenarios

PBO projections of Commonwealth Government gross debt



PBO projections of Commonwealth Government interest payments



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

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

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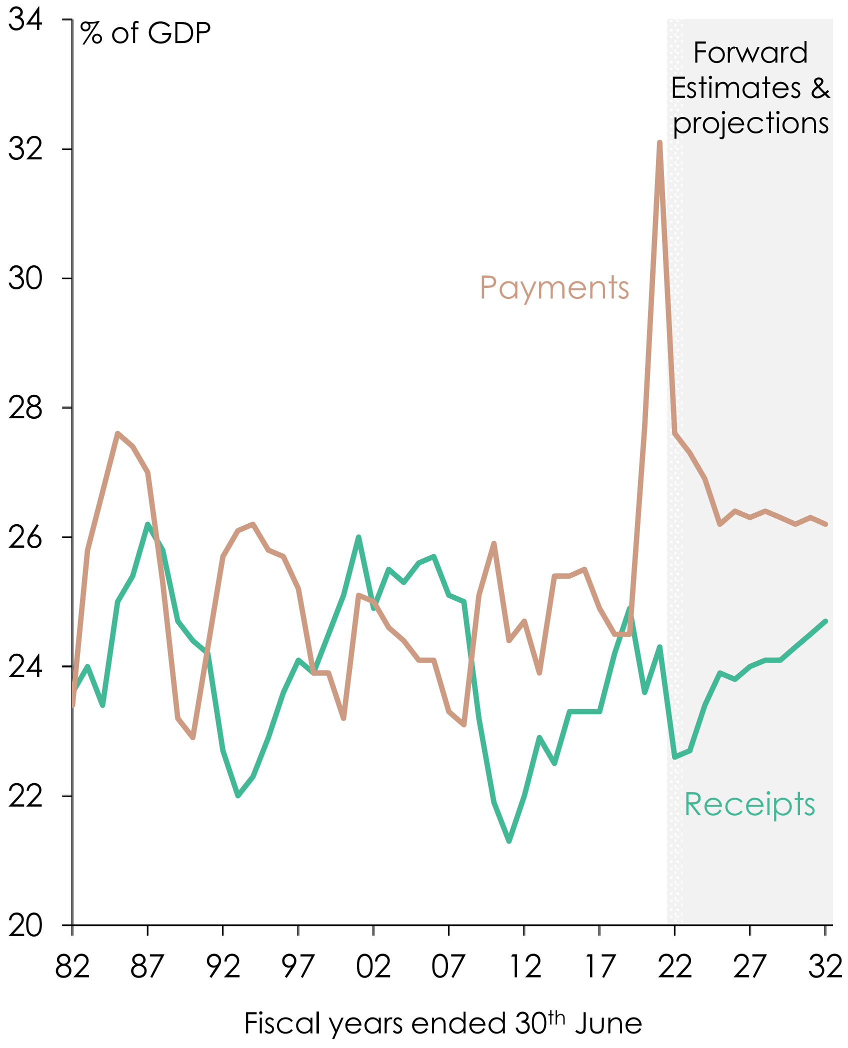
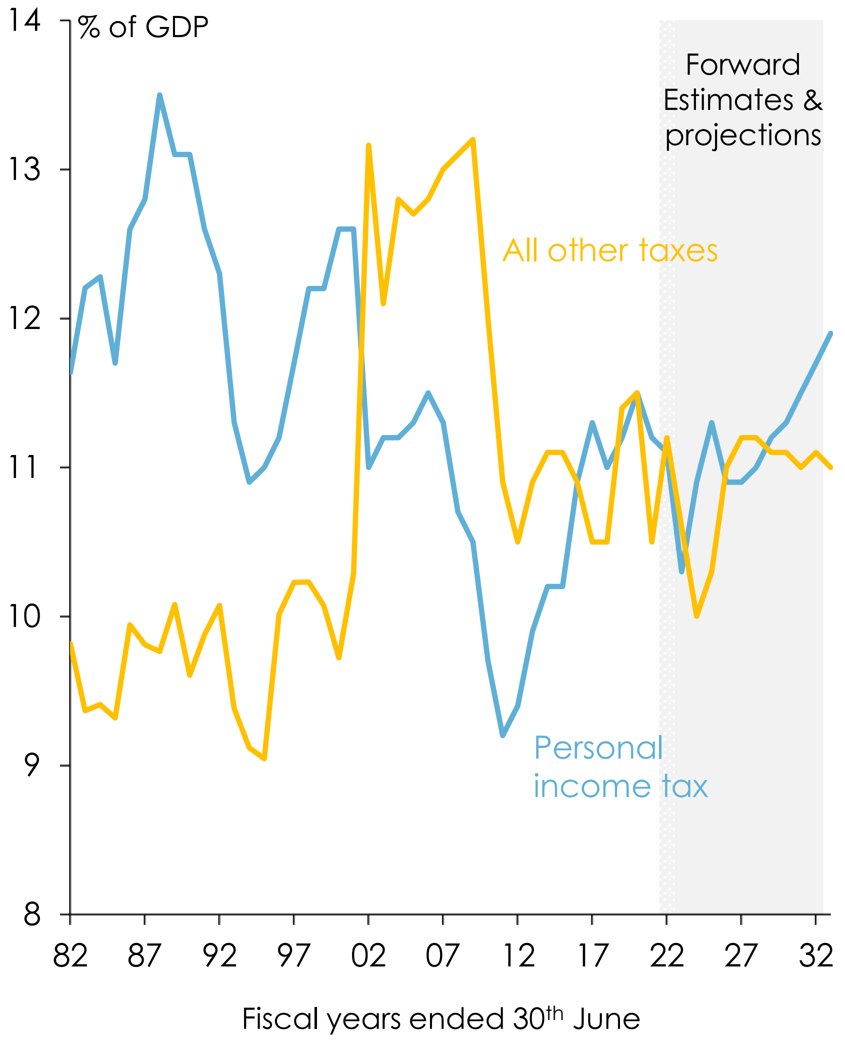
Australia's problem is that the Government will be relying solely on rising personal income tax collections to keep the deficit on a declining path

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

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

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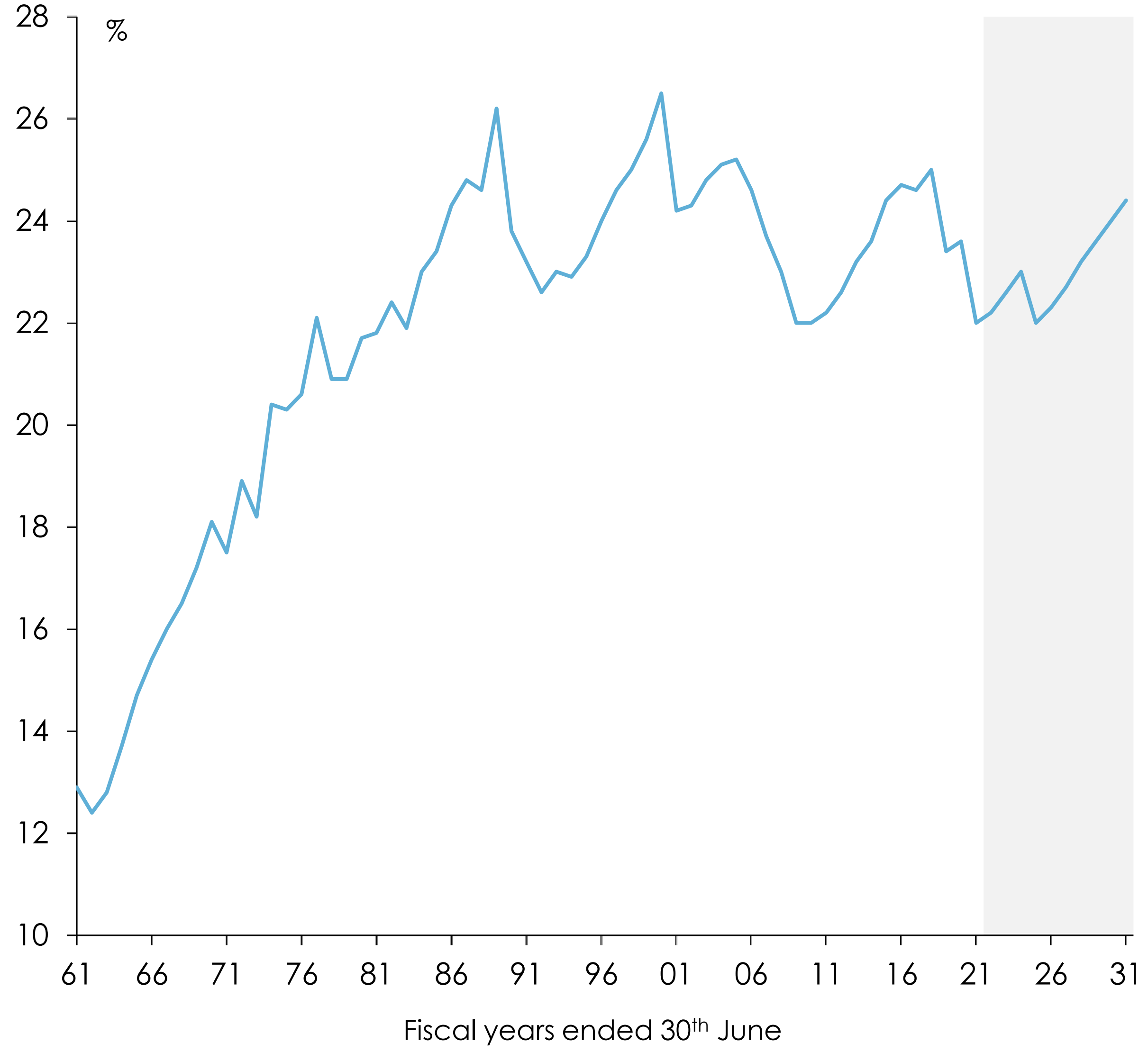
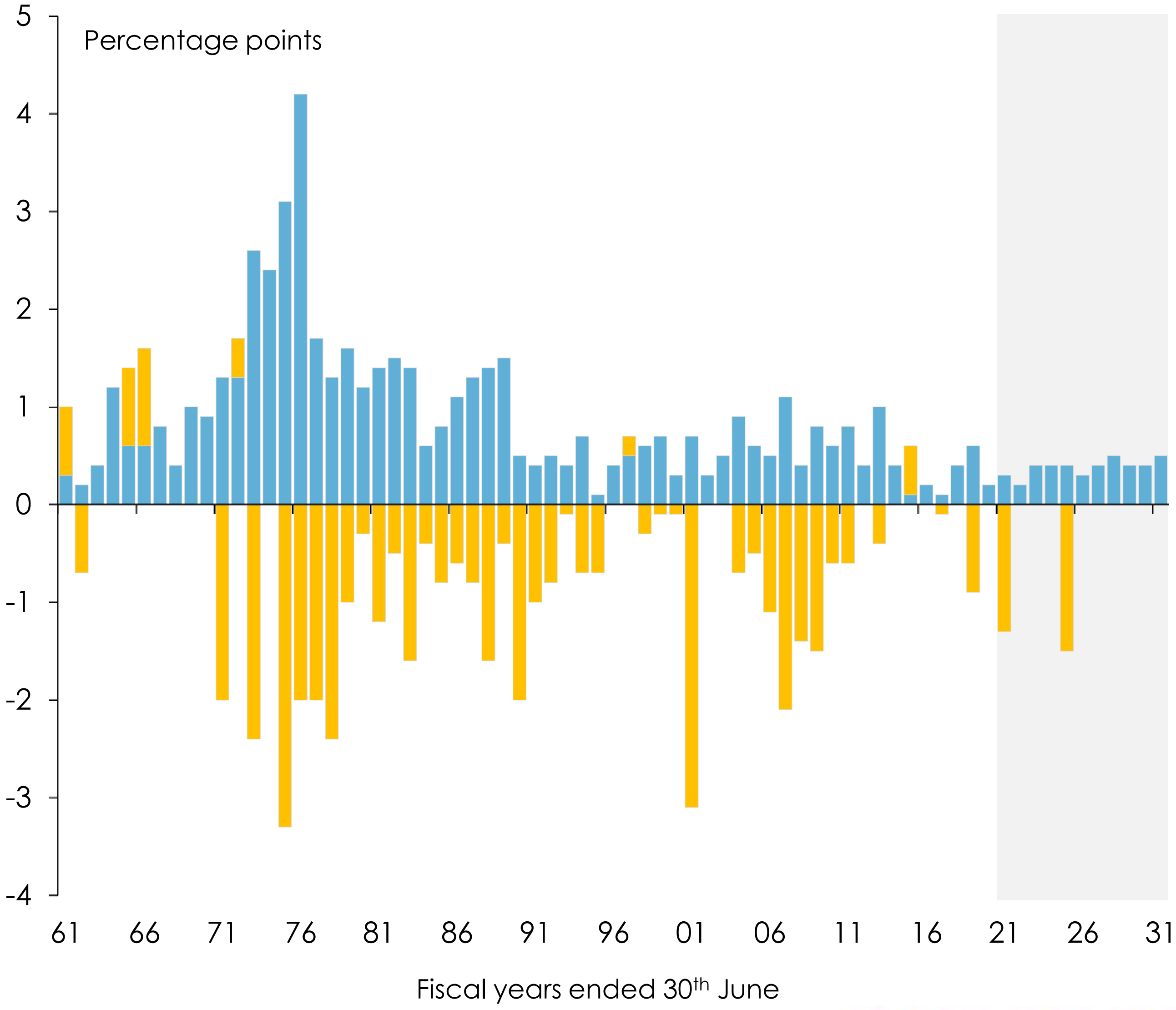
And the prospective increase in personal income tax collections *isn't* the result of a conscious policy decision, but is rather due to 'bracket creep'

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".

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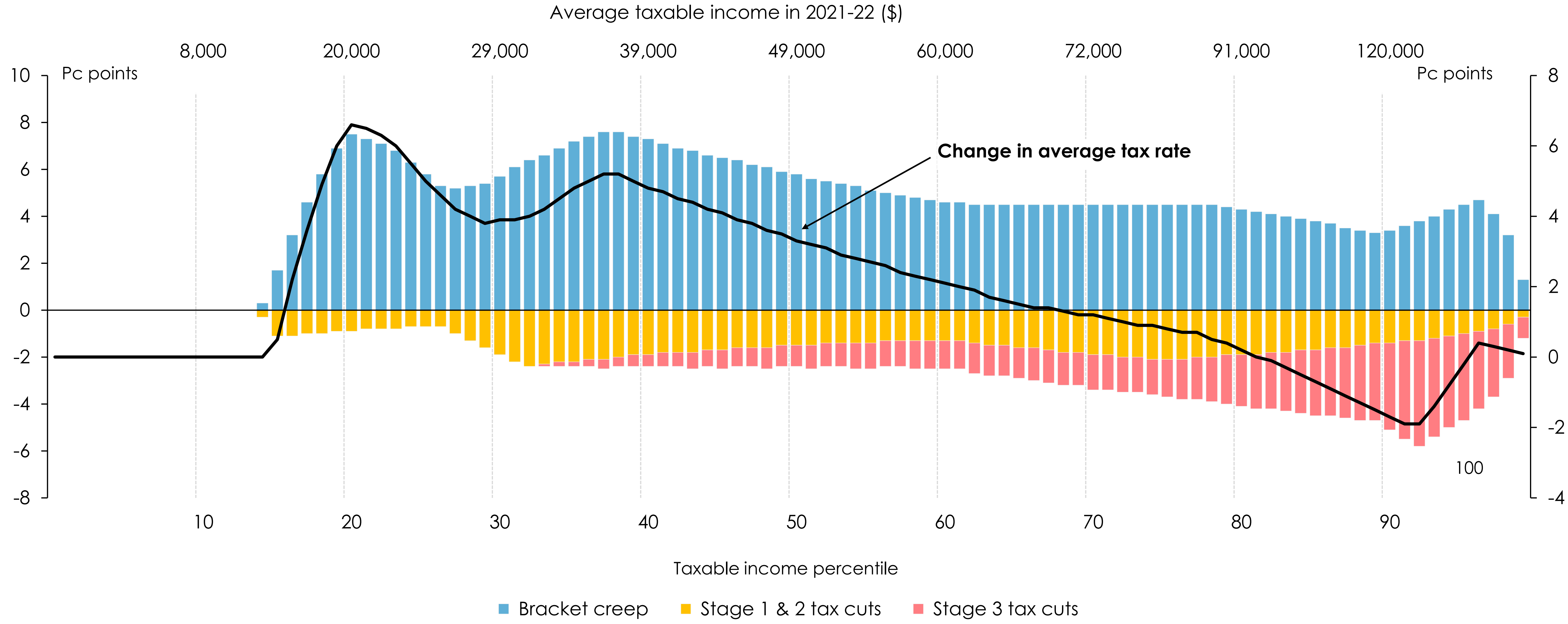
'Bracket creep' disproportionately impacts taxpayers with incomes of between $20,000 and $50,000 per annum

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



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

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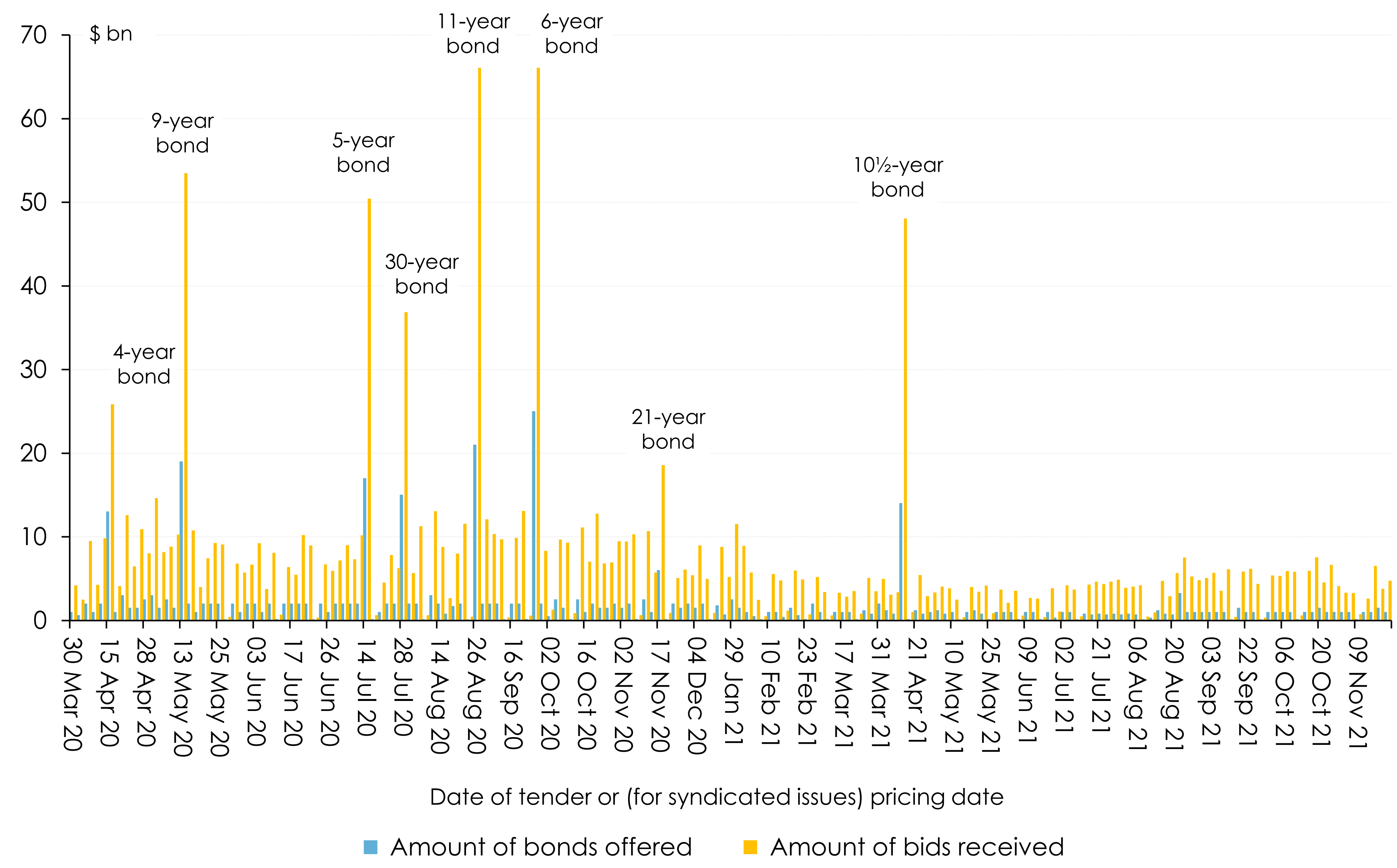
The Government continues to find a ready appetite for its bond issuance – so far this fiscal year it's received $189bn of bids for $40bn of bonds

Australian government bond issuance since March 2020



- Since 30th March 2020, the Australian Office of Financial Management has issued $337bn of Treasury bonds – based on the volume of bids received it could have borrowed more than $1.27 trn with yields at most 4 bp (0.04 of a pc point) above the highest yields actually accepted
- This week the AOFM sold $1.5bn of 10½-year bonds at an average yield of 1.91%, and $1bn of 3-year bonds at an average yield of 0.96%
  - it received bids totalling $8.5bn for these bonds
- So far this financial year, the AOFM has received bids totalling almost $189bn for the $40bn of bonds it has offered for sale – a 'coverage ratio' of 4.7 times, cf. 3¾ times during the 2020-21 financial year

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

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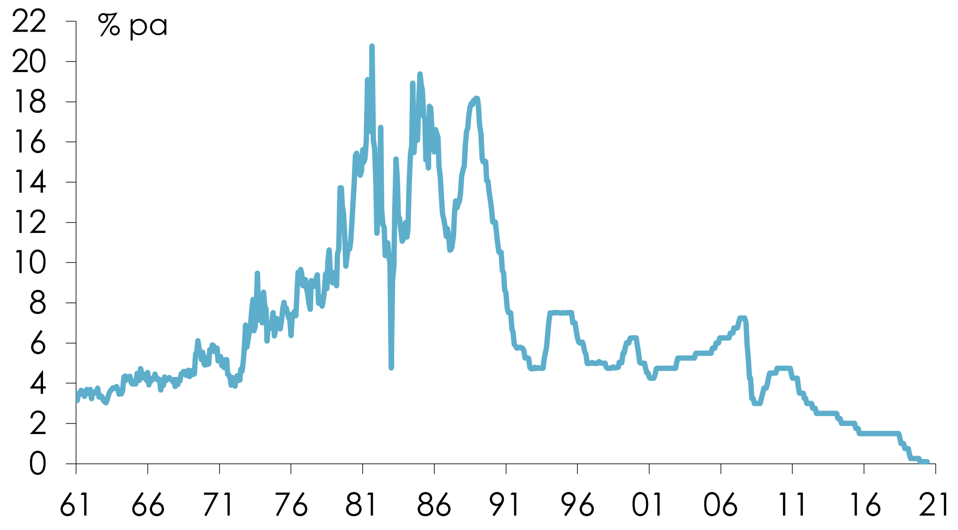
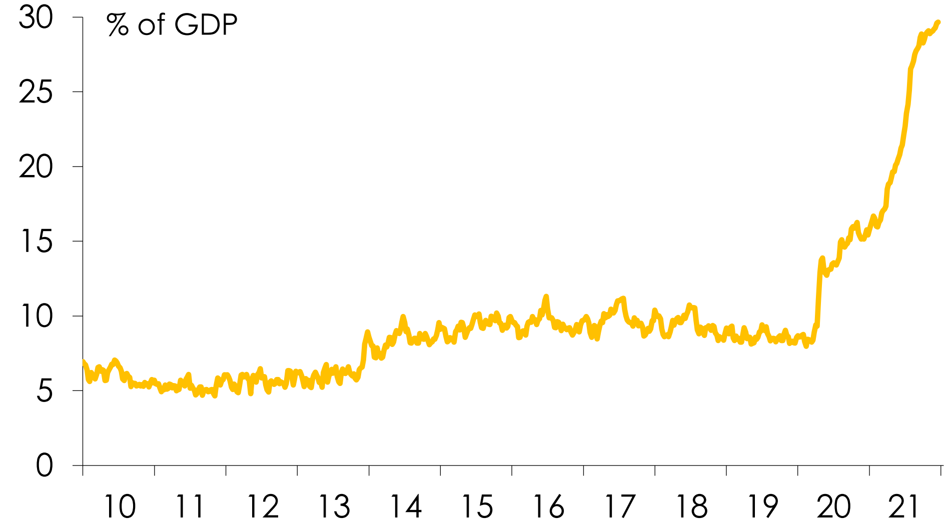
The RBA Governor this week again acknowledged it was possible rates could rise in 2023, but that an increase in 2022 "wasn't warranted"

Reserve Bank cash rate



Reserve Bank assets as a pc of GDP

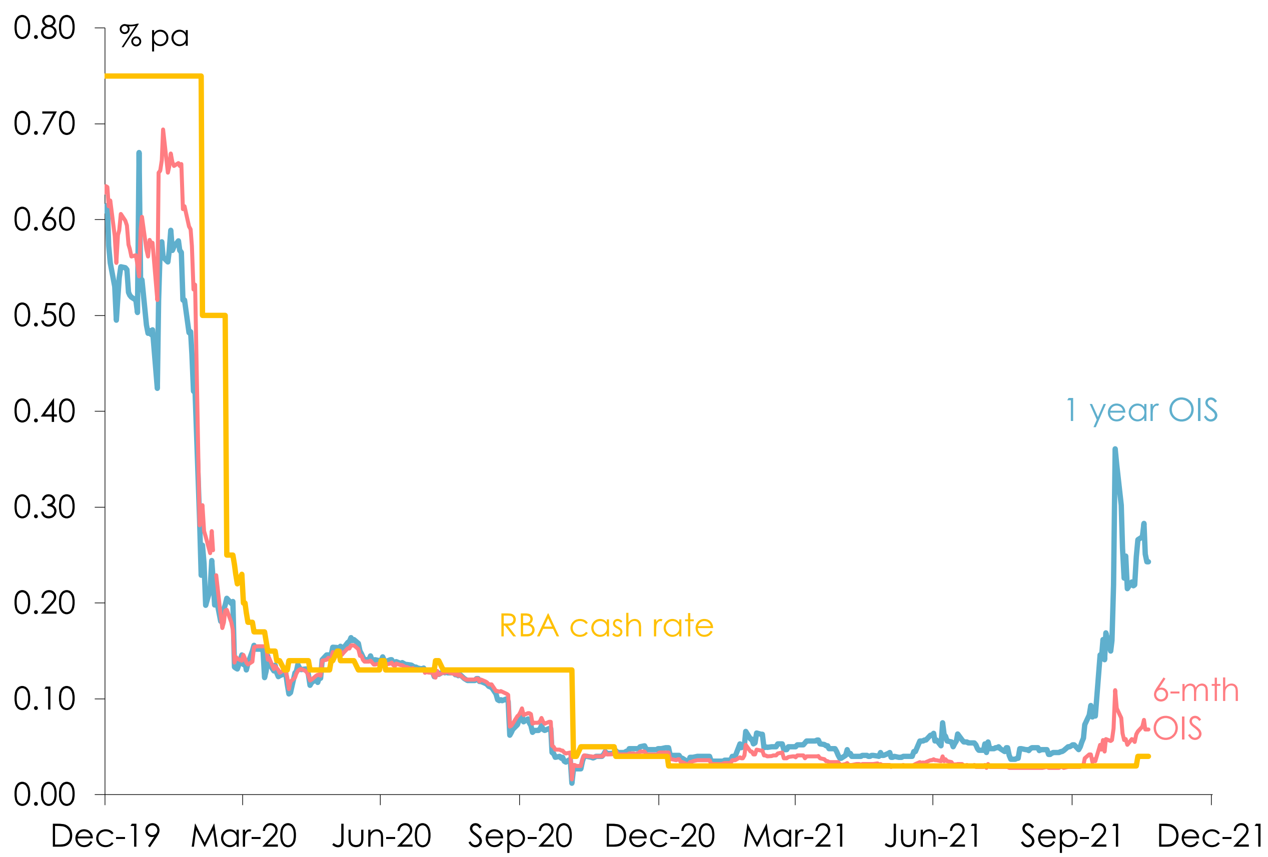


Source: Reserve Bank of Australia, *Statistical Tables* A3 and F1.1.
Return to "What's New".

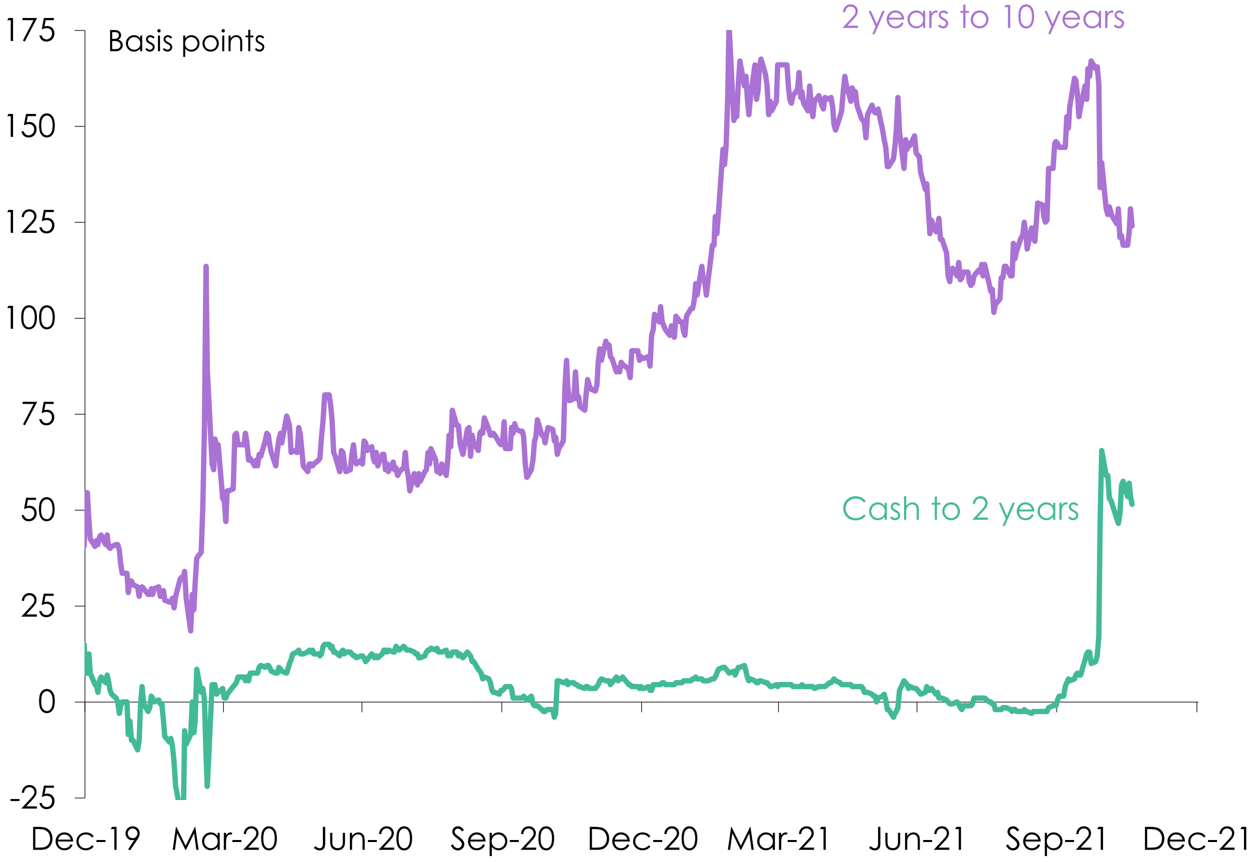
- **At its November Board meeting the RBA left the cash rate at 0.10% and maintained its bond purchase program at $4bn per week until "at least mid-February 2022" – but formally abandoned its 0.10% target for the April 2024 bond**
- **While the RBA sees its latest forecasts (published in the November Statement on Monetary Policy and summarized in slide 97) – including upward revisions to its forecasts for inflation – as still being consistent with the first increase in the cash rate being in 2024, it now also acknowledges that "it is also possible that an earlier move will be appropriate"**
- **In a speech to financial market economists this week, RBA Governor Phillip Lowe again sought to emphasize that although Australia "has experienced a lift in inflation", it has been "less pronounced than in many other countries"**
  - he emphasized that energy prices in Australia "have been trending lower for a number of years", largely as a result of falling wholesale electricity prices, in contrast to the "large increases" experienced in the US and Europe
  - and "a more important difference", that there is "a degree of inertia" in the wage-setting process in Australia (as a result of the multi-year wage agreements which have become common place over the past two or three decades as well as the annual minimum wage adjustment) which isn't present in other countries
- **Governor Lowe once again re-iterated that "the latest data and forecasts do not warrant an increase in the cash rate in 2022"**

Money and bond markets are still pricing at least one increase in the RBA's cash rate next year, despite the RBA's view that it's "not warranted"

Overnight index swap rates



Yield curves



- **Short-term money markets are still pricing at least one increase in the RBA cash rate next year, despite the RBA's insistence that such a move "isn't warranted" (slide 97) – but they're no longer giving much credence to the chance of two rate increases (as they were at the end of October)**

- **However 2-year bond yield pricing suggests that markets expect that there will be at least one further rate increase in 2023, after the one priced for next year**

Source: Reserve Bank of Australia; Refinitiv Datastream. Data up to 19th November. Return to "What's New".`

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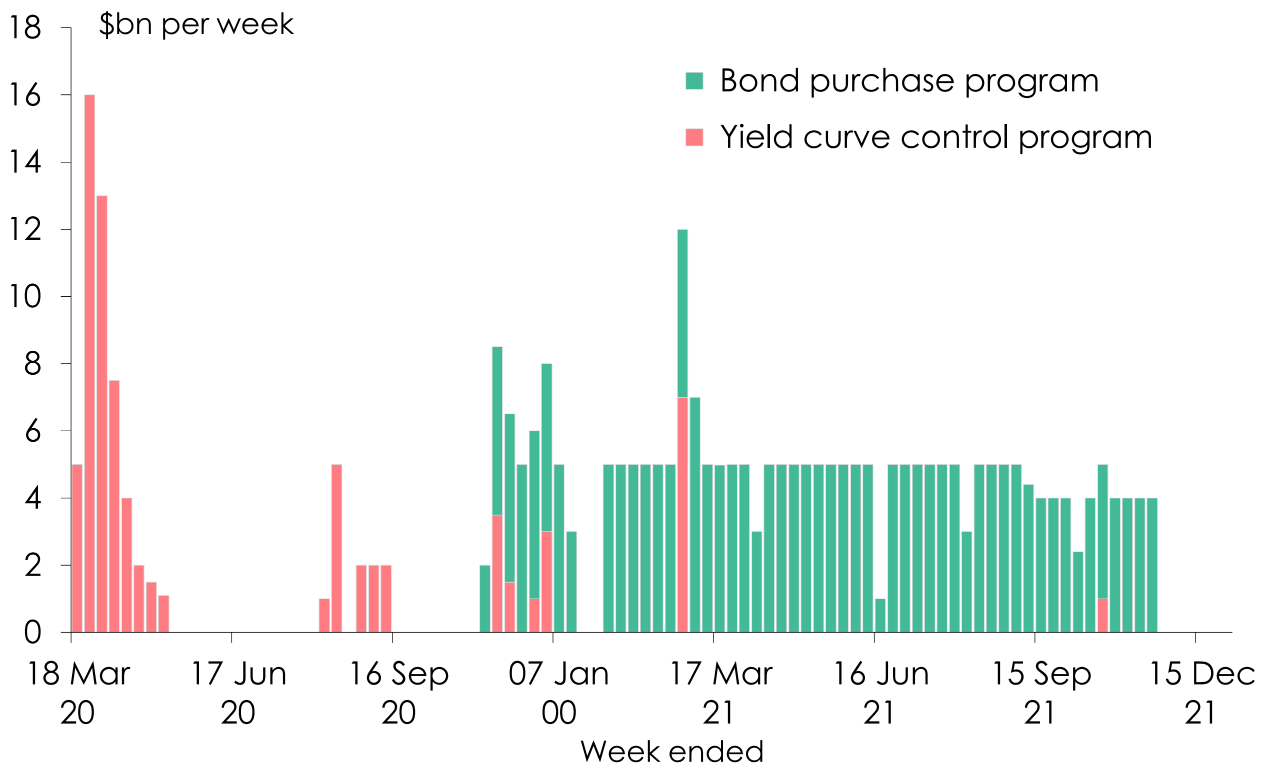
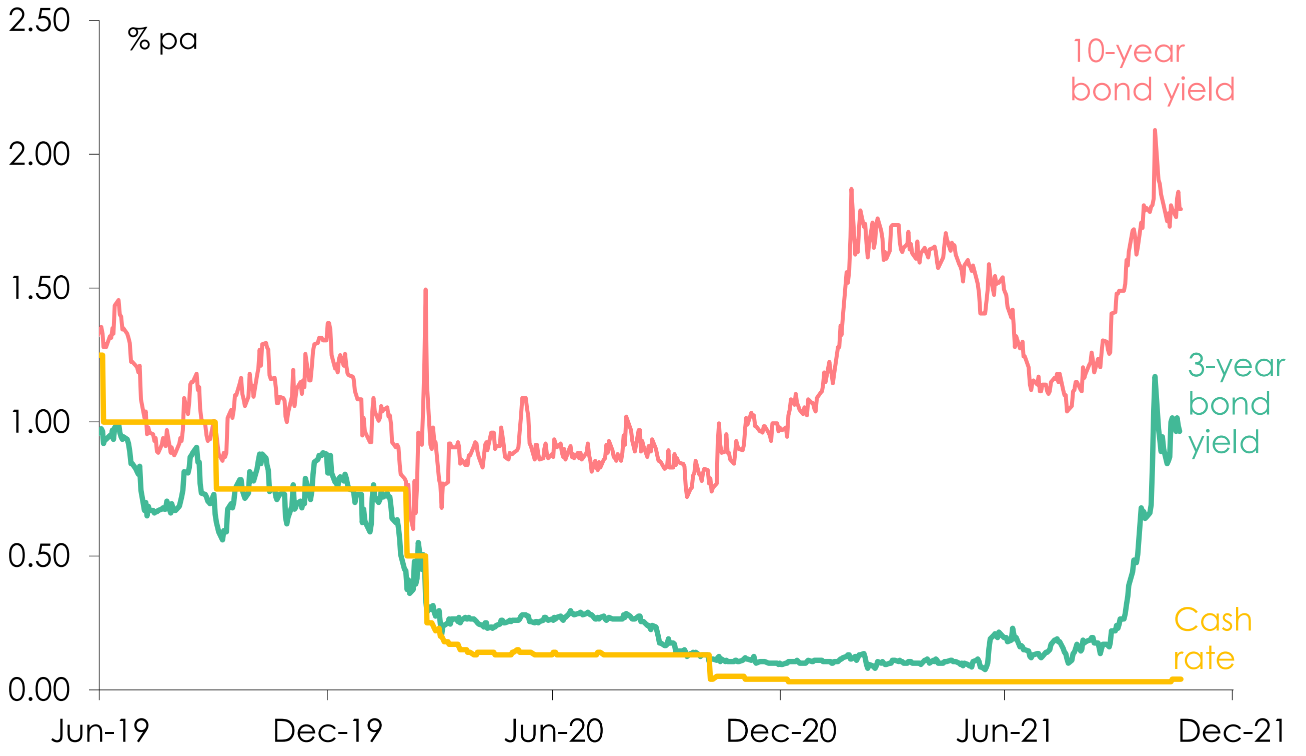
Australian bond yields rose further over the first half of the week but then eased in line with global trends over the last two days

RBA open market bond purchases



Interest rates



- **Australian bond yields continued rising over the first half of this week, with the 10-year yield touching 1.86% on Wednesday, but then eased over the last two days in line with global trends, for the 10-year to finish unchanged from last Friday at 1.80% and the 5-year down 6bp at 1.38%**
- **The RBA again bought $4bn of bonds under its Bond Purchase Program – bringing its cumulative purchases to just under $242bn (or $320bn including purchases under the 3-year yield target program which the RBA formally abandoned at its Board meeting earlier this month)**

Source: Reserve Bank of Australia, *Statistical Tables* A3 and F2. Data up to 19th November. Return to "What's New".`

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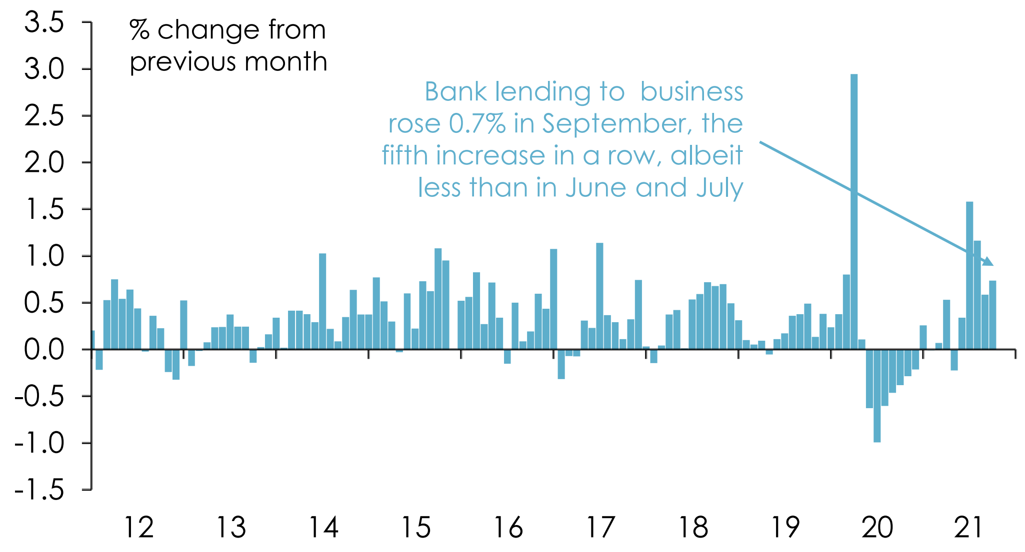
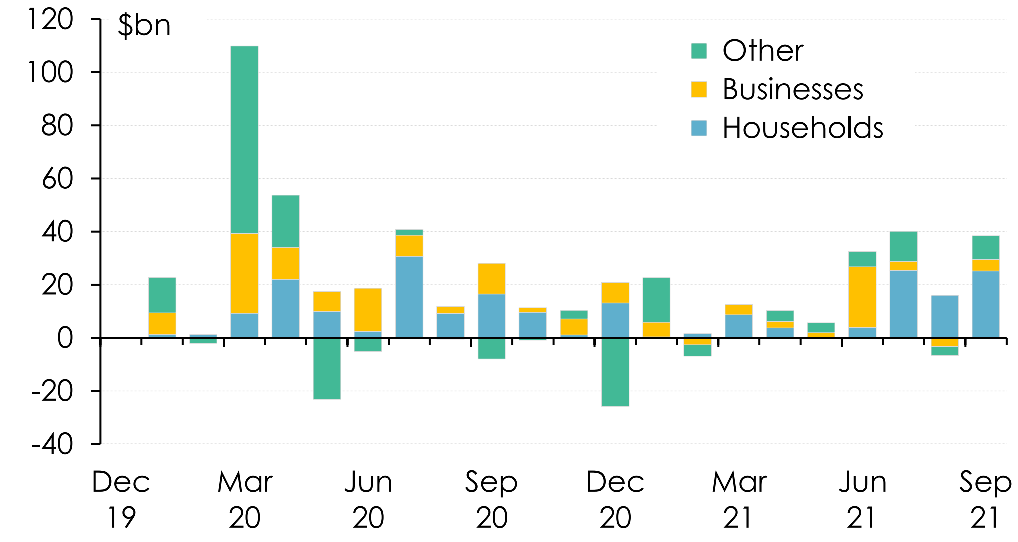
Banks have played an important role in assisting borrowers cope with shutdowns, and have been swamped with deposits

Business credit outstanding



Monthly change in bank deposits



- 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%)

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

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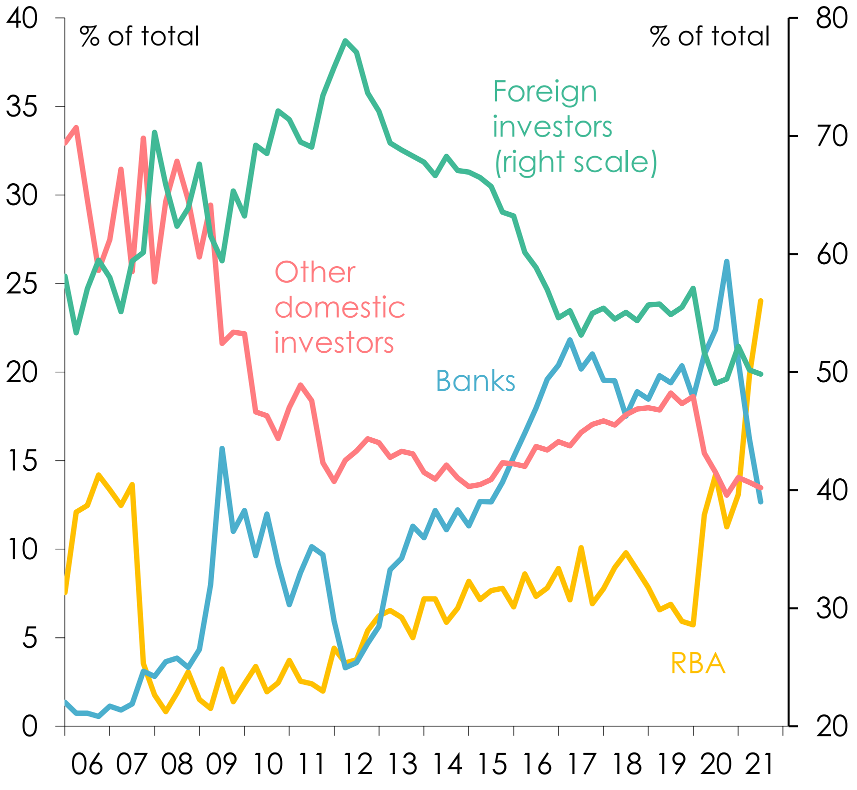
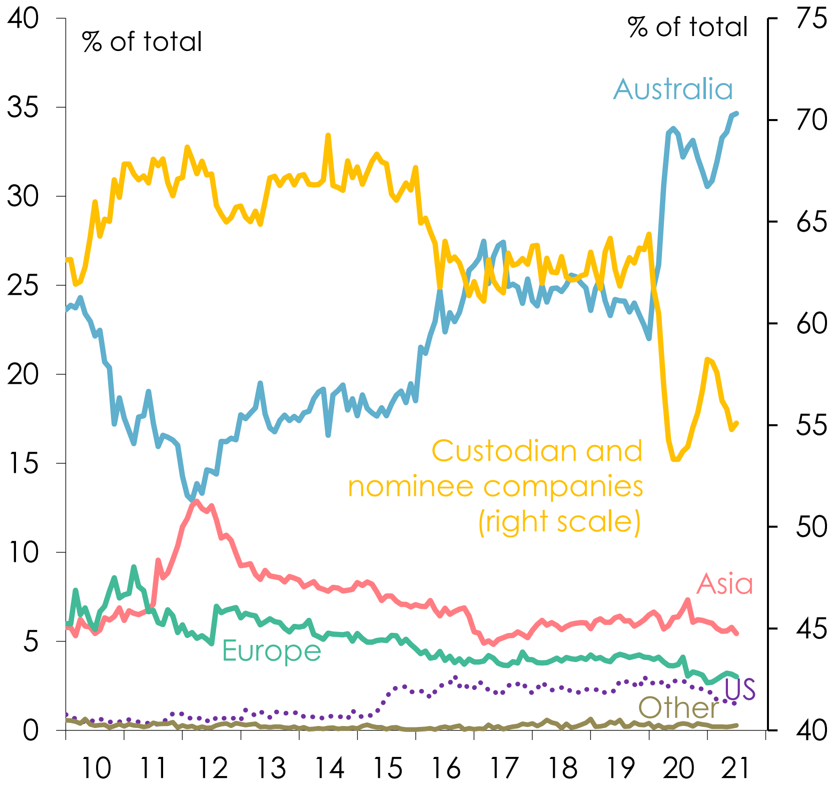
The RBA has (indirectly) absorbed almost two-thirds of the increase in government debt since the end of 2019, banks 2% and foreigners 31%

Holders of Australian Government bonds



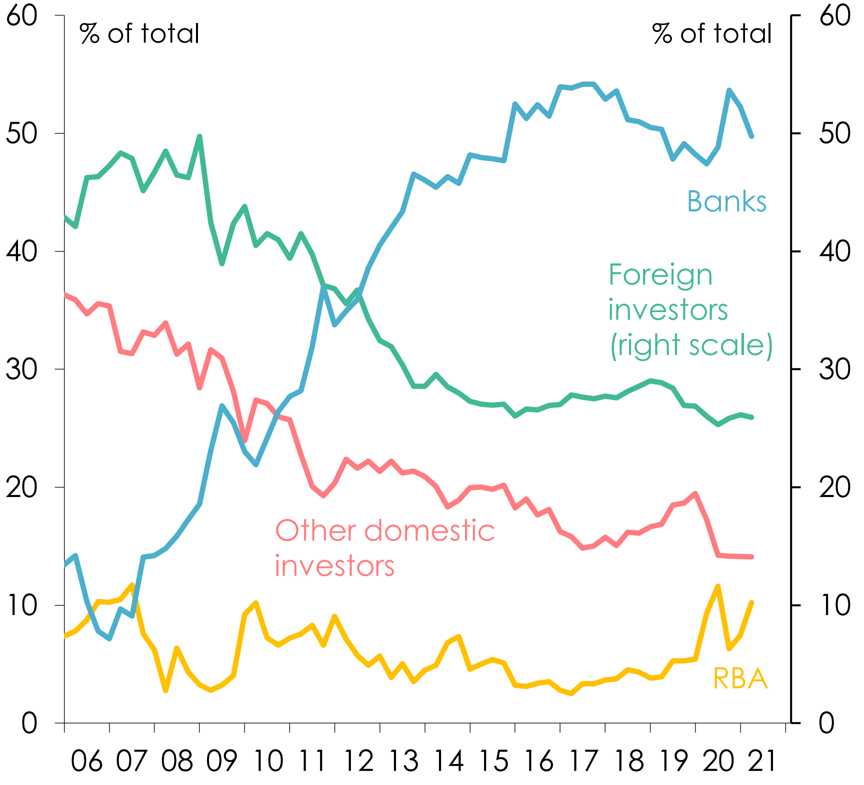
Australian Gov't bonds on issue have increased by $237bn since the end of 2019 – of which $173bn (73%) have been absorbed by the RBA, and $72bn by foreigners, while banks have reduced their holdings by $7bn

Nationality of Australian Government bond holders



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

Holders of State and Territory Government bonds



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

Sources: ABS, *Finance and Wealth Accounts*; Australian Office of Financial Management. September quarter data will be released on 16th December.
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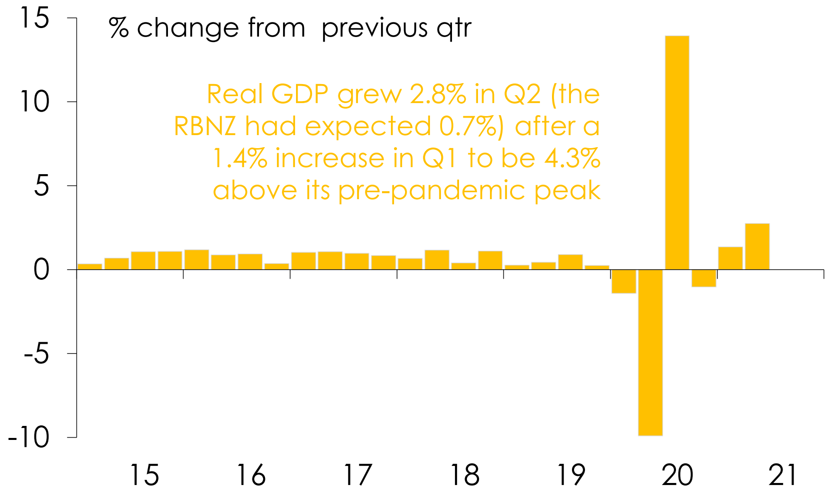
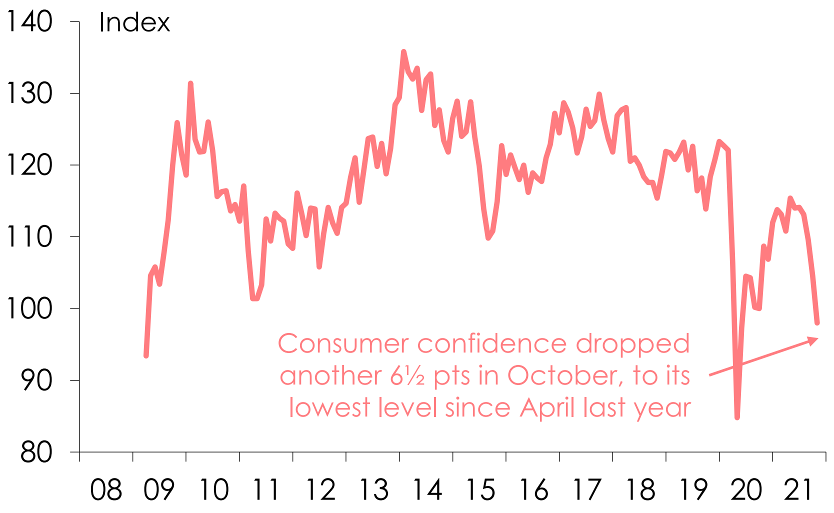
New Zealand

Business and consumer confidence have fallen after last month's rate hike, the sharp rise in inflation in Q3, and NZ's protracted lockdown

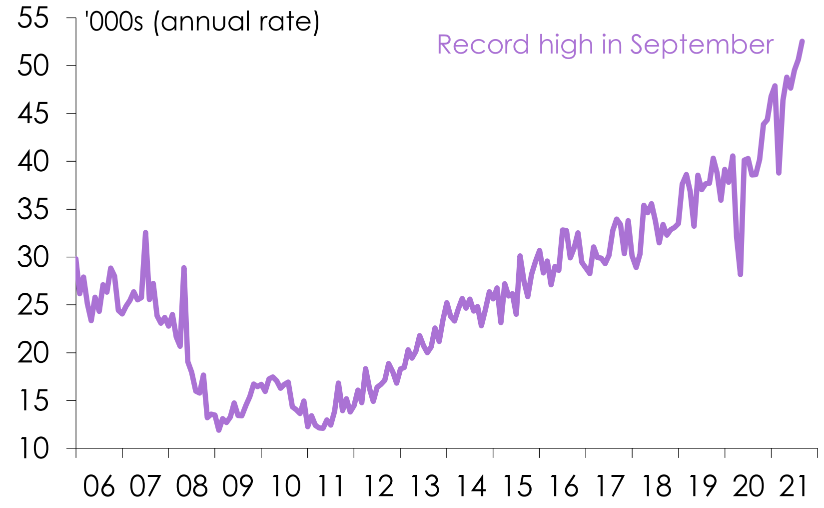
Real GDP



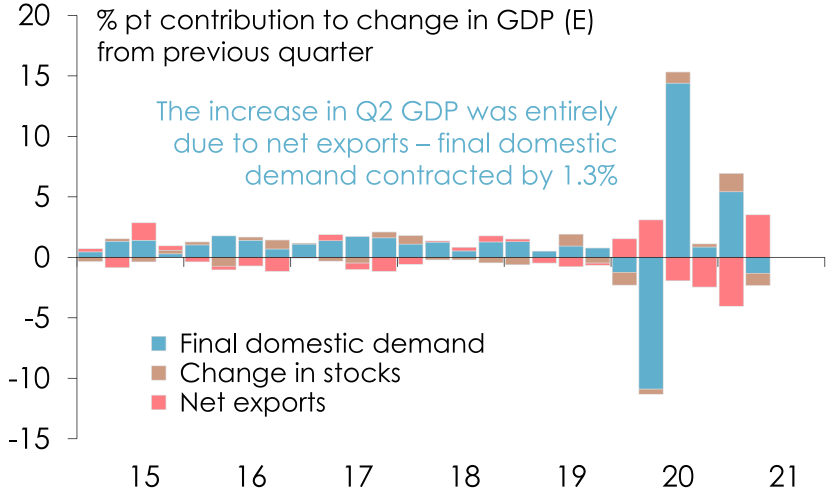
Consumer confidence



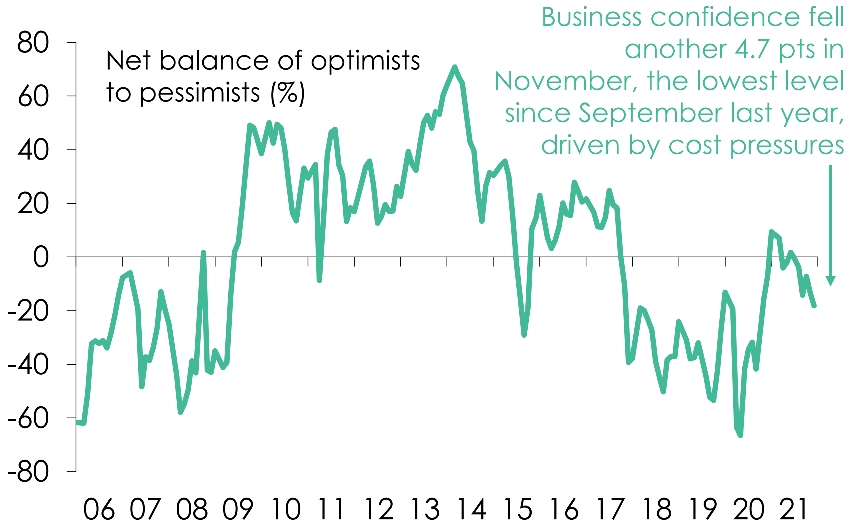
Dwelling 'consents' (permits)



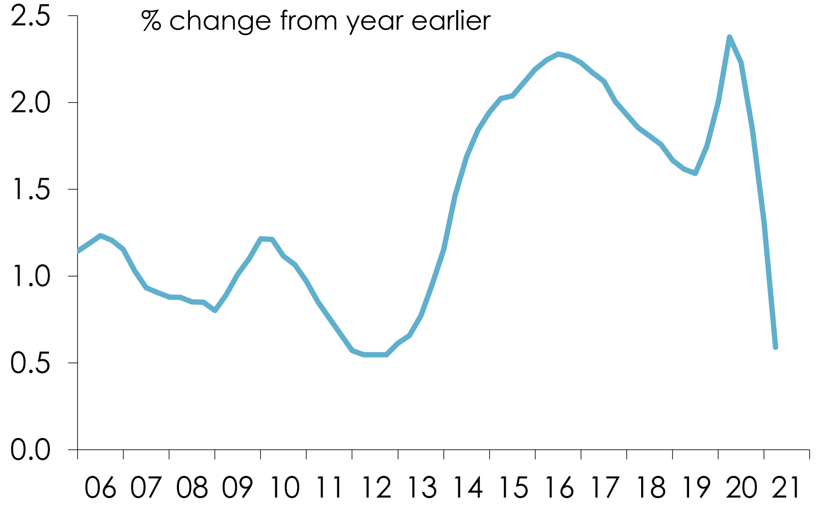
Contributions to GDP growth



Business confidence



Population growth



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

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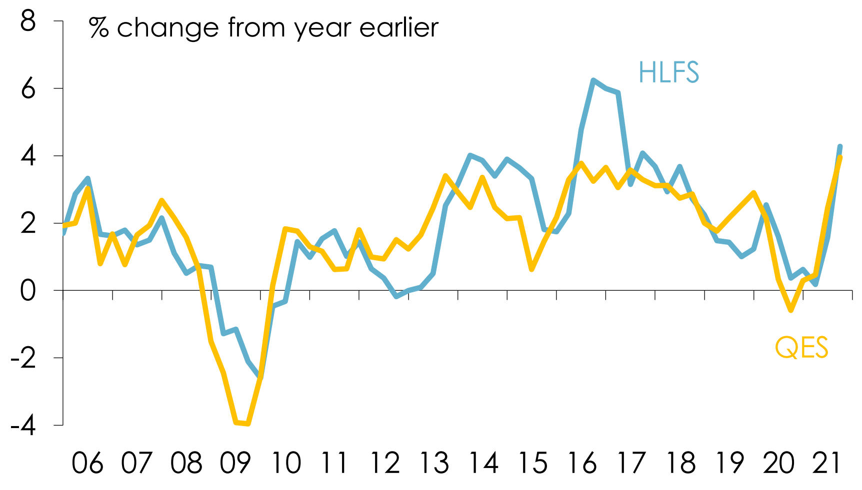
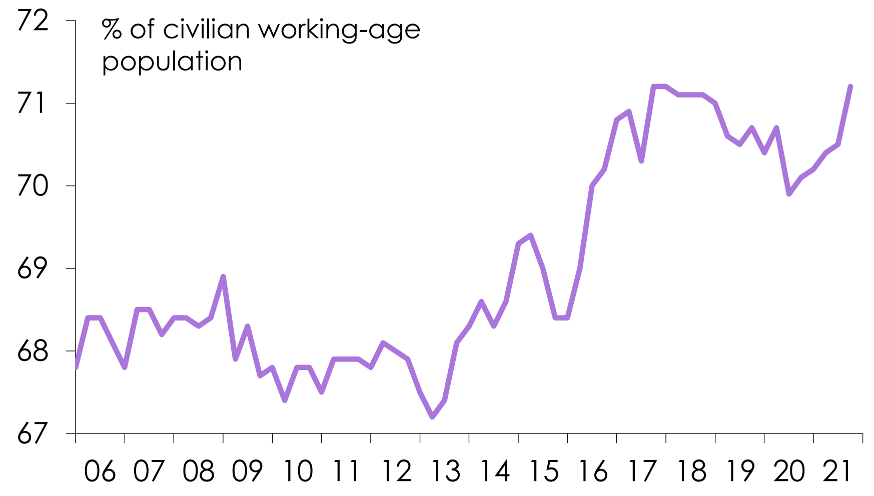
Employment rose another 2.0% in Q3, to be 3.2% above its pre-pandemic peak, cutting the unemployment rate to 3.4%, the lowest since Q4 2007

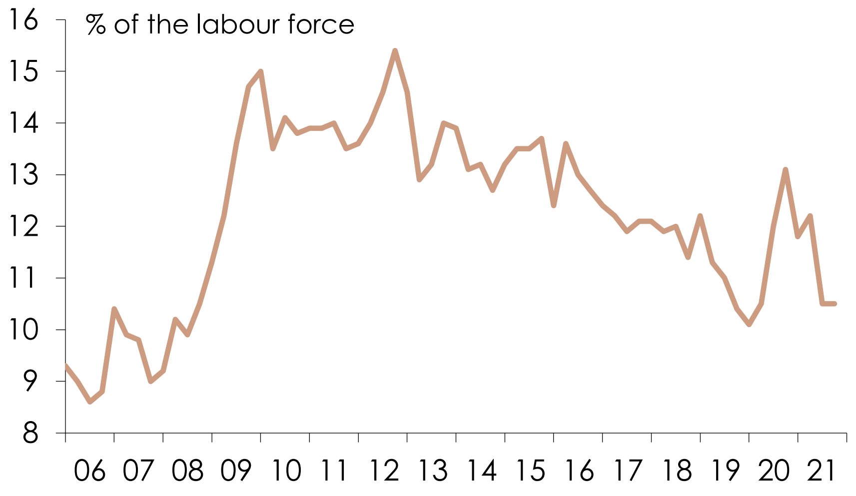
Employment



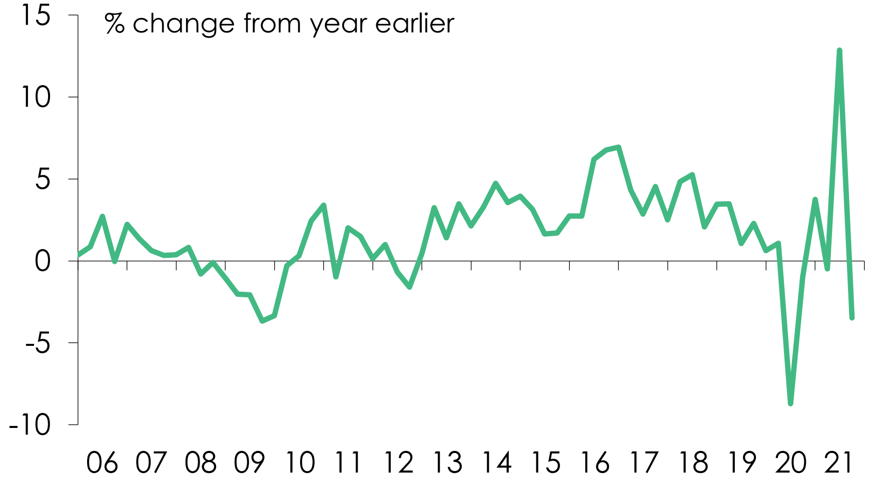
Labour force participation rate



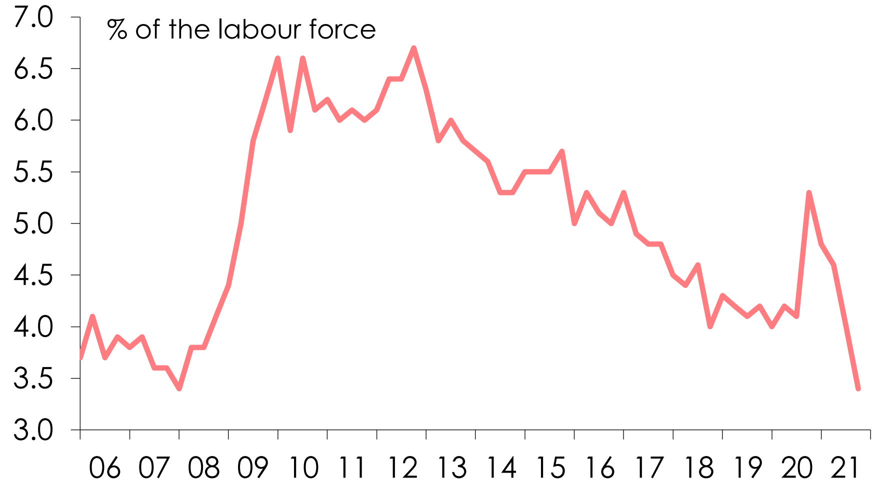
Labour force under-utilization rate



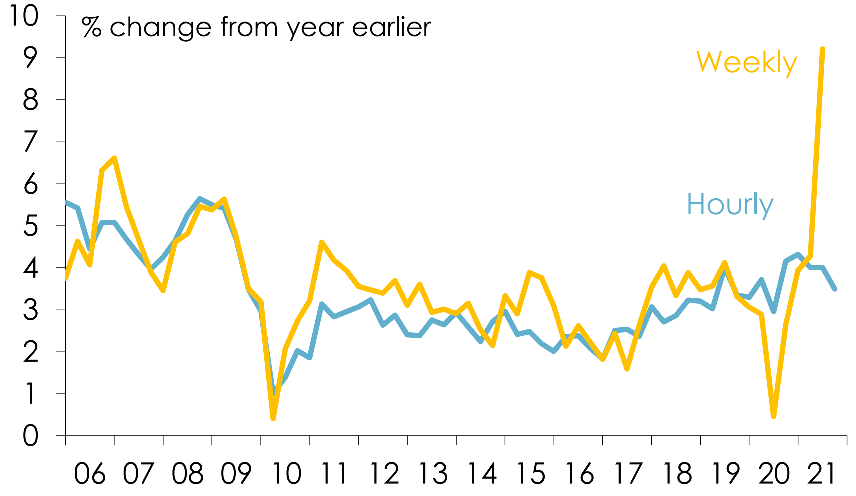
Hours worked



Unemployment rate



Average weekly earnings



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

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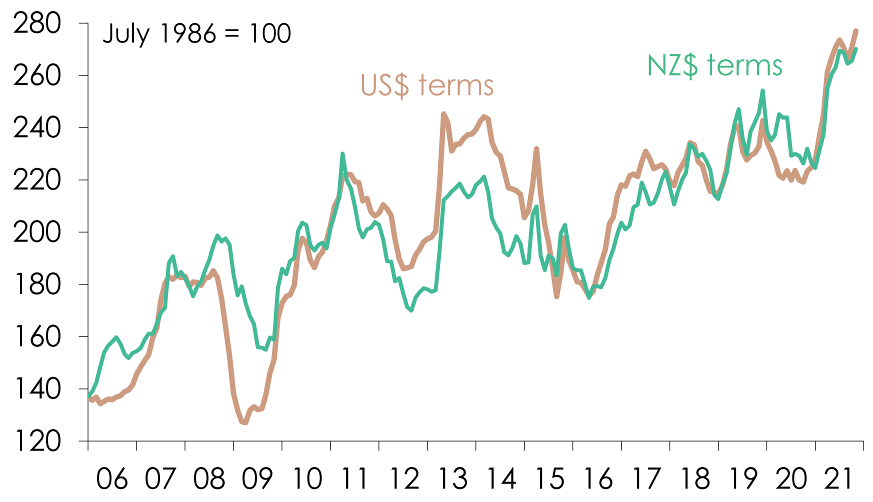
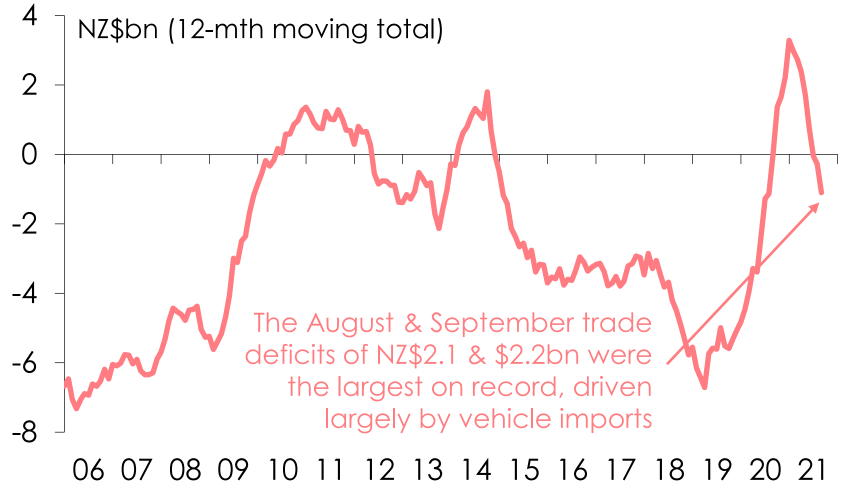
Although New Zealand's export commodity prices are at a record high, unlike Australia its current account has remained in deficit

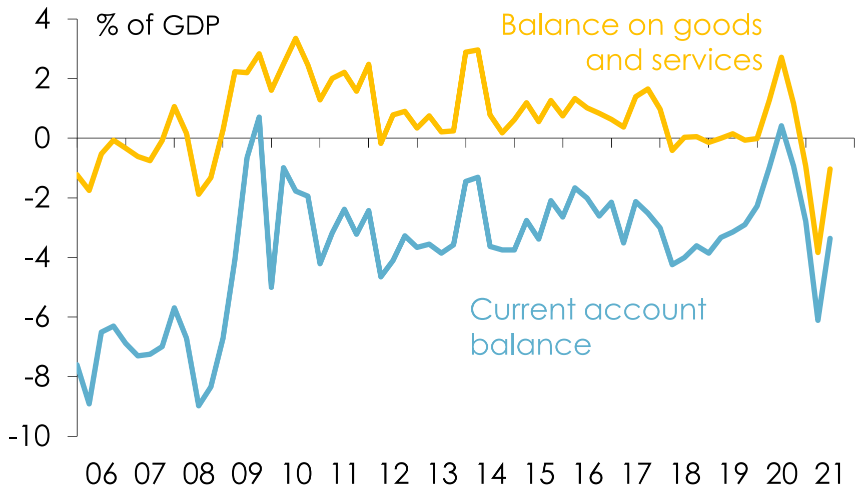
Export commodity prices



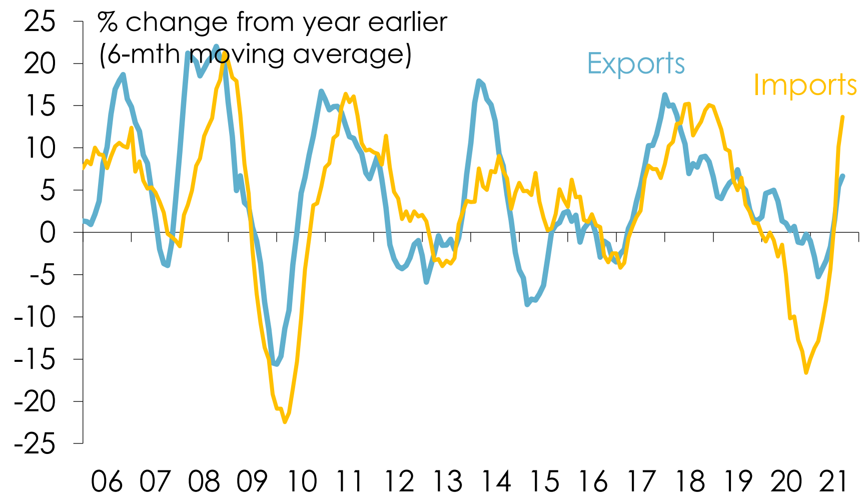
Merchandise trade balance



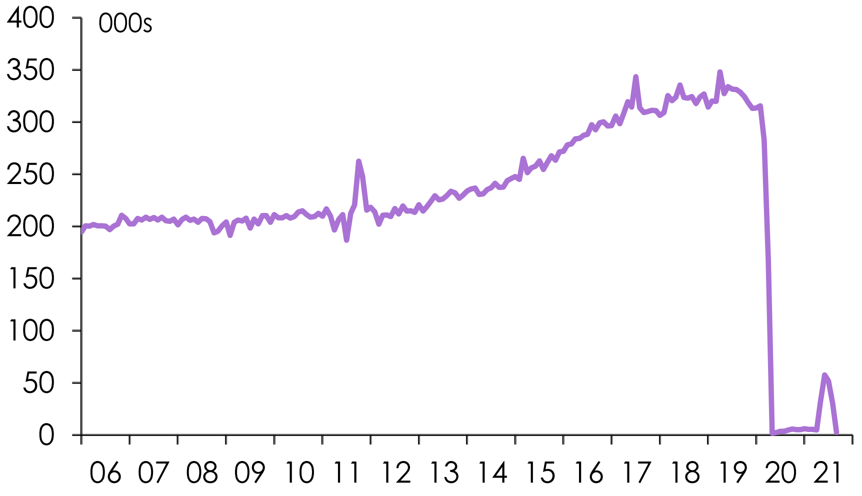
Balance of payments



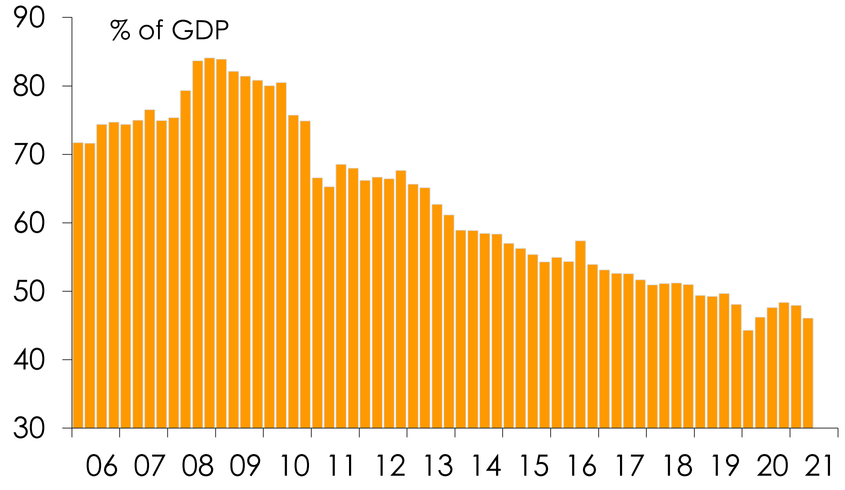
Merchandise exports and imports



Overseas visitor arrivals



Net foreign debt



Note: latest merchandise trade data is for September: October data will be released on 25th November; latest balance of payments and net foreign debt data is for the March quarter; September quarter data will be released on 15th December. *Sources:* ANZ Bank; Statistics New Zealand. Return to "What's New".

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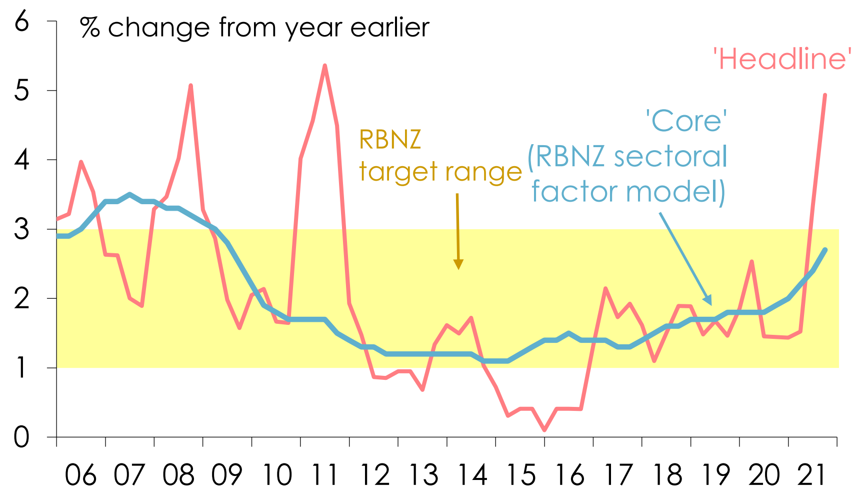
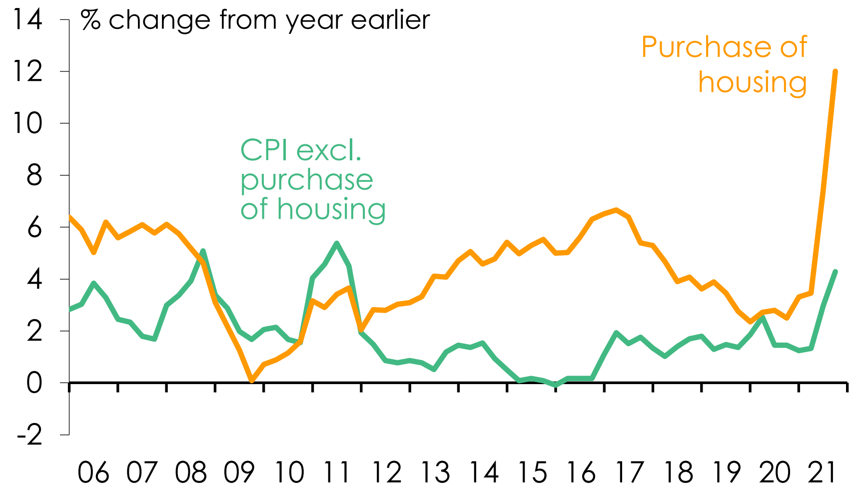
The Q3 CPI was a 'shocker', rising 2.2% (cf. the RBNZ's expectation of 1.4%), pushing the annual 'headline' inflation rate to 4.9%

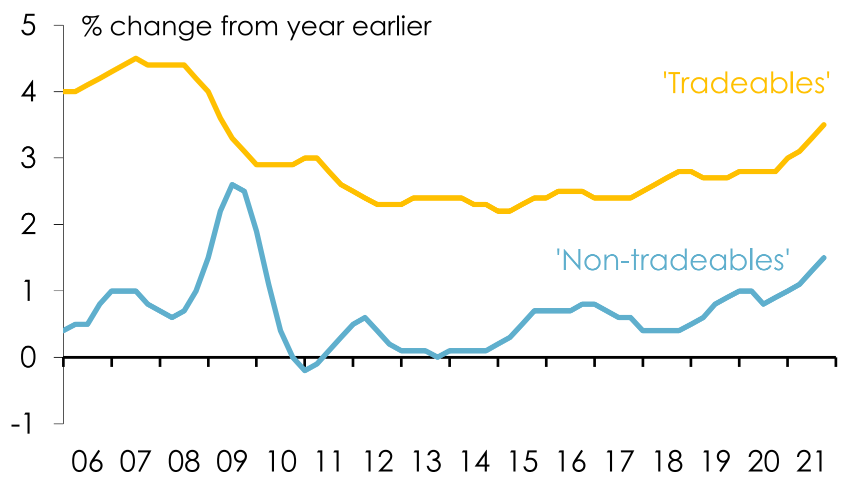
Consumer prices



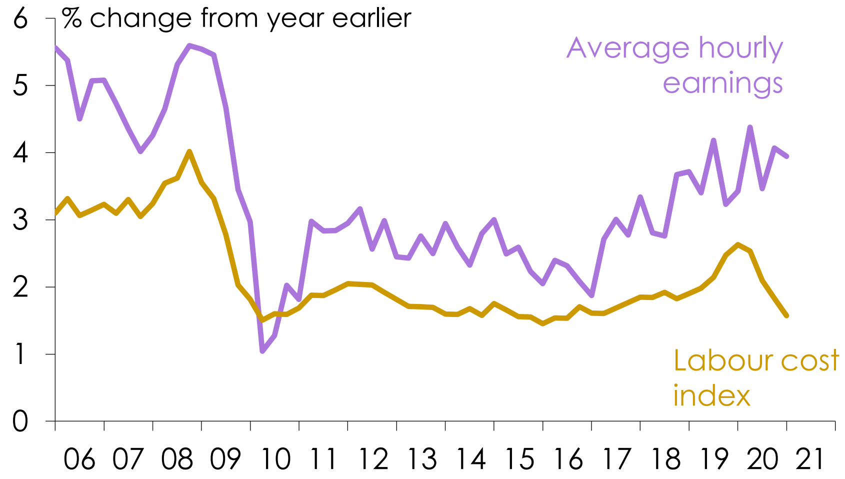
Housing costs in the CPI



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**

Sources: Statistics NZ ; Reserve Bank of New Zealand. December quarter CPI will be released on 27th January 2022.
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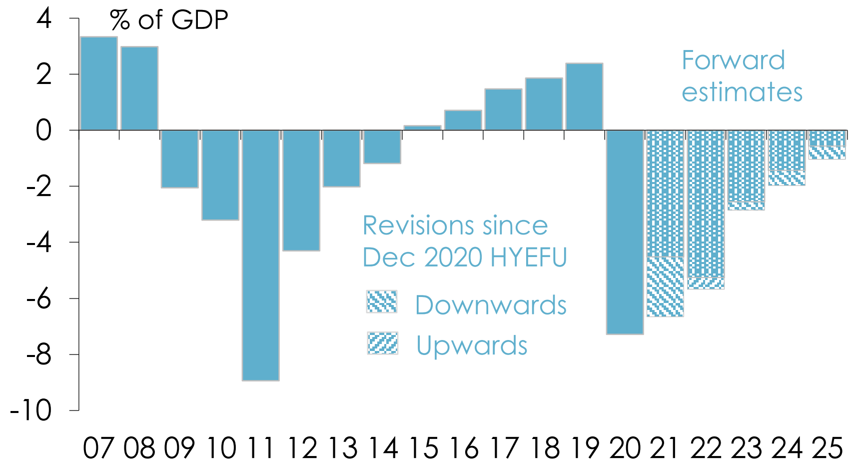
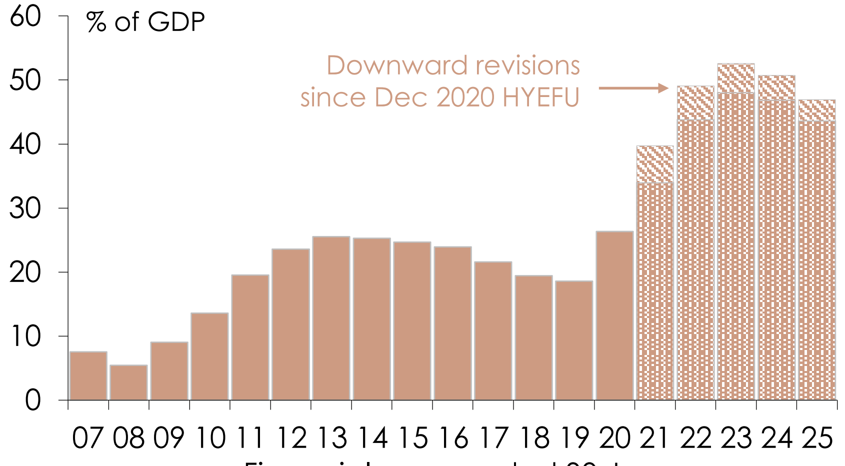
The 2021 NZ Budget uses gains from an improved economic outlook to fund additional spending as well as a slightly improved 'bottom line'

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



NZ 'core Crown debt'

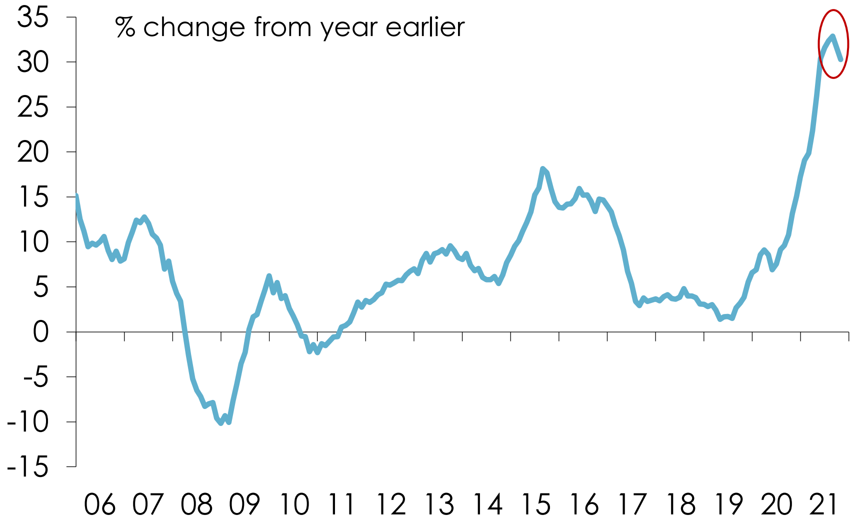


- **As was also the case in Australia, the 2021-22 New Zealand Budget presented by Finance Minister Grant Robertson in May benefited from a much stronger economic performance than had been anticipated in last year's Budget, or in last December's Half-Year Economic & Fiscal Update (HYEFU)**
  - Treasury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

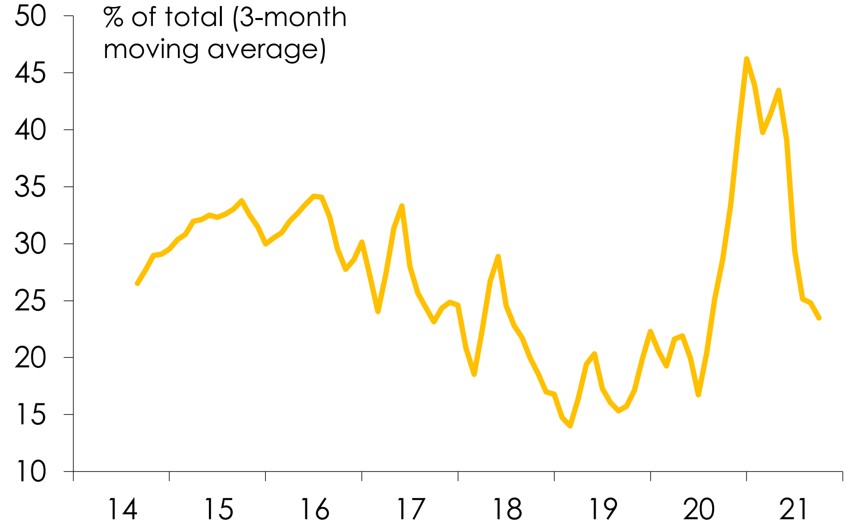
Note: The measure of the NZ Government budget balance is 'OBEGAL', which stands for 'operating balance excluding gains and losses' (an accrual accounting measure). Net 'core Crown debt' excludes assets of the NZ Super Fund, student loans and other advances, and financial assets held for public policy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

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

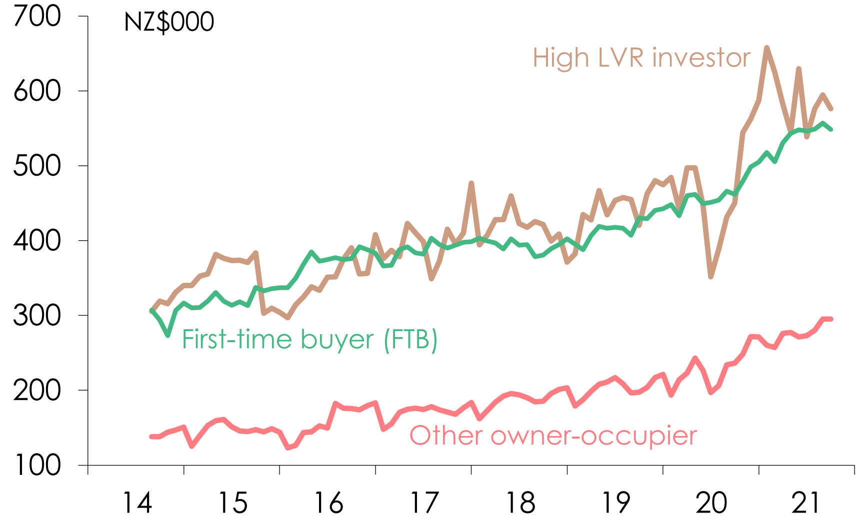
House price inflation



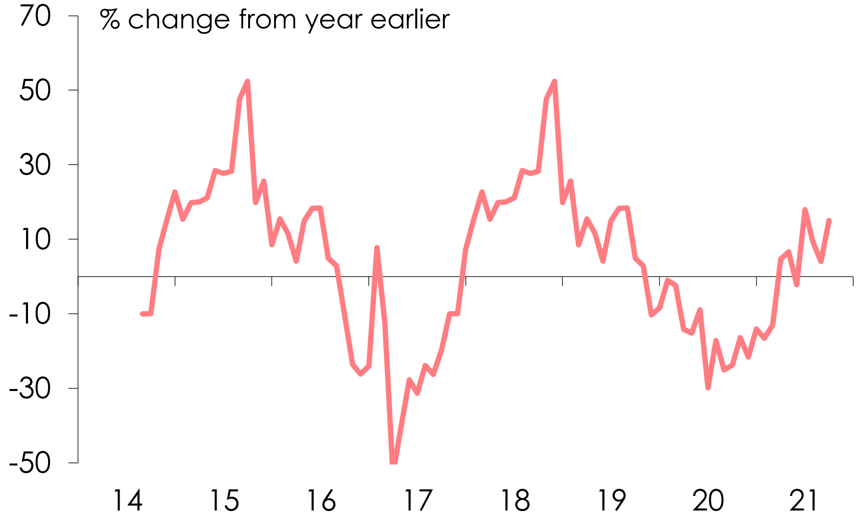
Lending to investors as pc of total



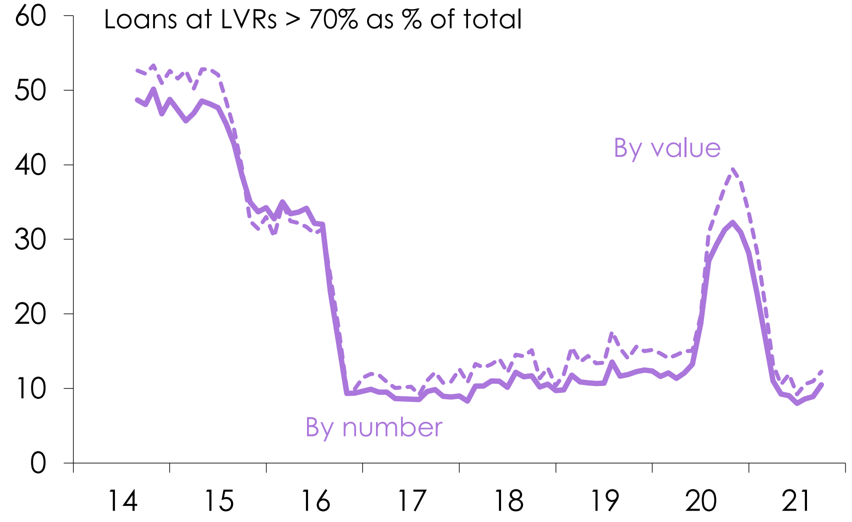
Average new mortgage



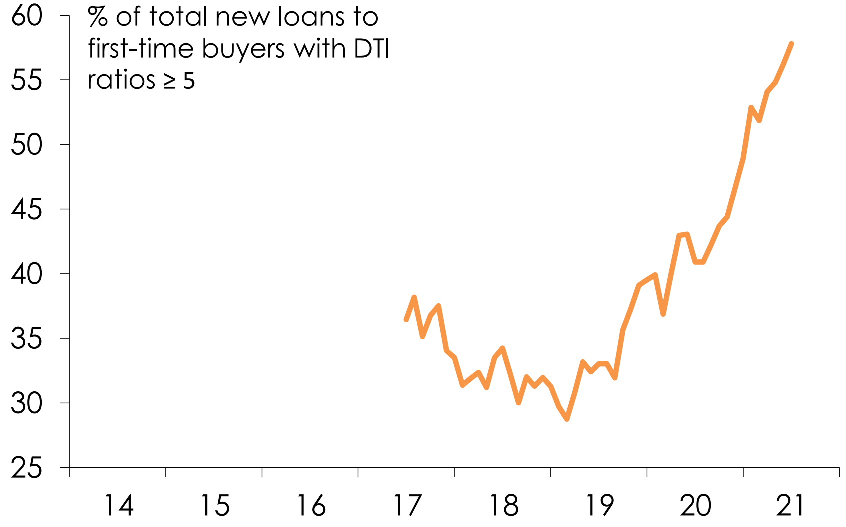
Mortgage lending growth



High-LVR loans to investors



Loans to FTBs at over 5 times income



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

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The RBNZ raised its official cash rate by 25 bp at last month's Monetary Policy Committee meeting and is expected to do so again this week

- **The RBNZ raised its official cash rate by 25 basis points, to 0.50%, at its Monetary Policy Committee meeting on 6th October**
  - the MPC was going to raise the OCR at its previous meeting on 18th August, but stayed its hand following the announcement of a nationwide lockdown the day before
  - however at its latest 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"**
  - the next Monetary Policy Committee meeting is on 24th November

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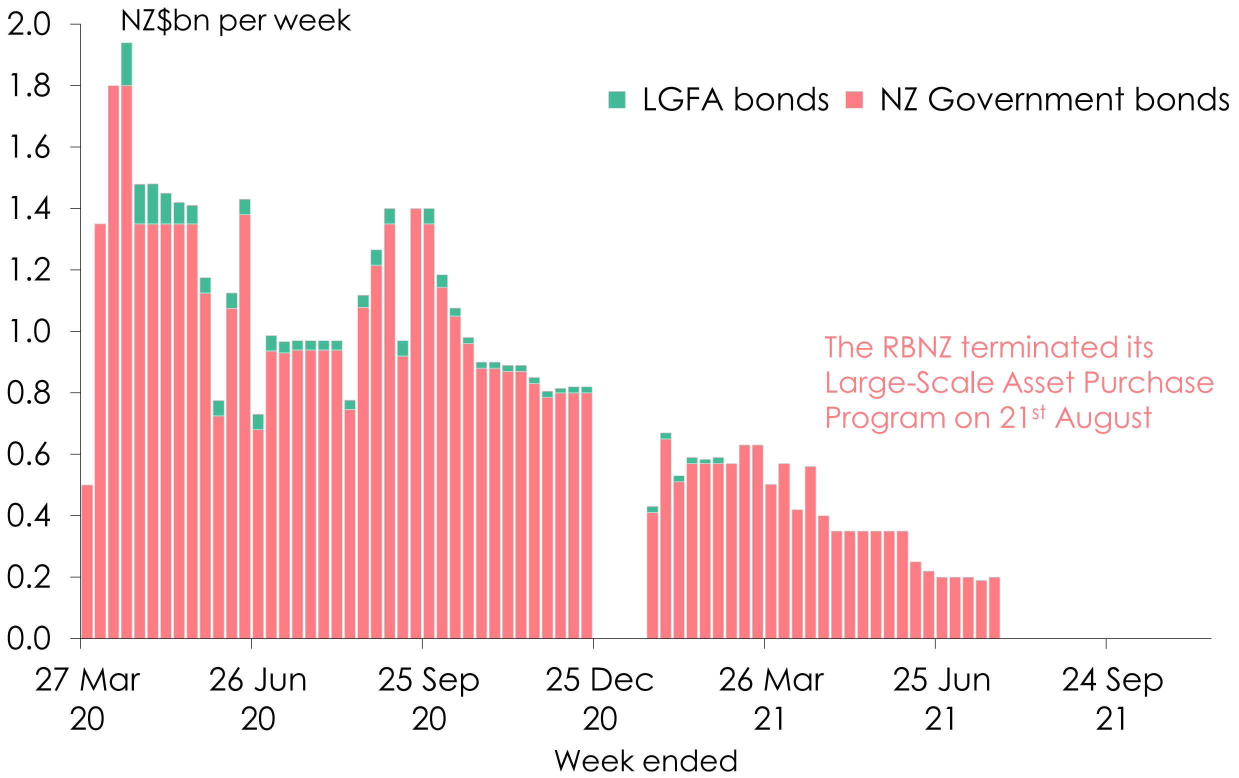
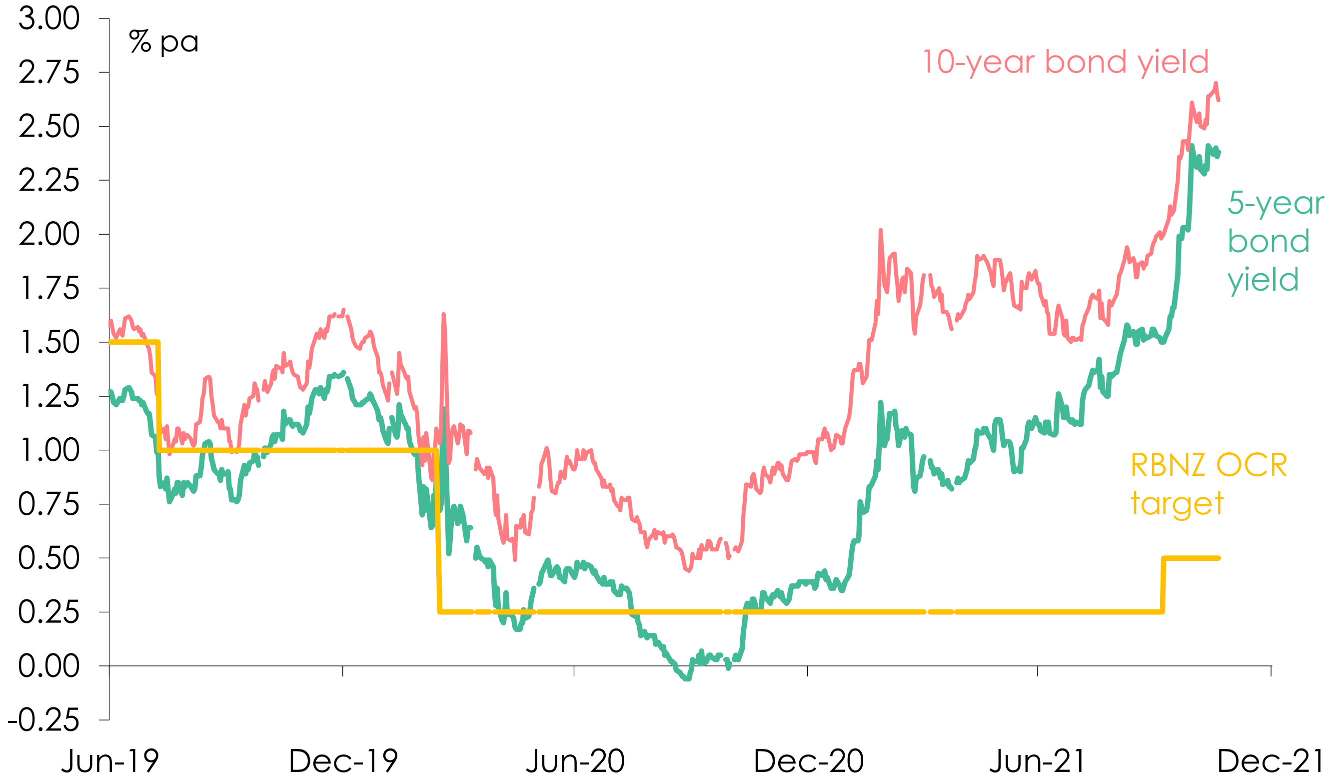
New Zealand bond yields rose further in the first half of this week but then eased a little, ahead of the RBNZ meeting this coming Wednesday

RBNZ open market bond purchases



New Zealand interest rates



- **New Zealand bond yields rose further in the first half of this week, with the 10-year yield reaching 2.70% (the highest in almost exactly three years) on Wednesday, but then eased in line with global trends over the last two days of the week, with the 10-year finishing at 2.62% and the 5-year at 2.38%**
- **A second 25 bp hike in the official cash rate at this coming Wednesday's RBNZ Monetary Policy Committee meeting is fully priced, with some prospect of a larger rise**

Note: LGFA = Local Government Financing Authority. *Source:* Reserve Bank of New Zealand, *Statistics* Tables B2 and D3. Data up to 19th November.

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Important information

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