

# ECONOMIC IMPACT OF THE CORONAVIRUS PANDEMIC

18<sup>TH</sup> DECEMBER 2021

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CORINNA ECONOMIC ADVISORY  
INDEPENDENT ECONOMICS

# What's new?

## The world

- ❑ There were just under 4.4mn new Covid-19 cases this week, the ninth consecutive increase ([slide 4](#)), with Europe accounting for just under half that number, but infections also rising in the US and Canada, South Africa and Vietnam ([slide 5](#))
- ❑ The 'supply side' of China's economy may have begun a gradual upturn, with annual growth in industrial production picking up in November for the second month in a row, probably reflecting the ongoing strength in China's exports ([slide 46](#)) - but the 'demand side' remains soft, with November retail sales growth the slowest since August last year ([slide 47](#))
- ❑ US producer prices rose by 9.7% over the year to November, the fastest pace since July 2008 ([slide 38](#)), but the proportion of manufacturing businesses paying and receiving higher prices fell sharply in December according to the Philadelphia Fed's December survey ([slide 75](#))
- ❑ US housing starts rose 11¾% in November to an 8-month high, while industrial production rose for a second successive month but remains 1¾% below its pre-pandemic peak ([slide 64](#))
- ❑ The US Federal Reserve sped up the rate at which it will taper its QE, finishing in March rather than June next year, and after that looks likely to raise the funds rate three times in 2022 ([slide 32](#))
- ❑ The Bank of England raised its Bank Rate 15bp ([slide 33](#)), the ECB will cease its 'emergency' asset purchases at the end of March and start raising rates 'shortly' thereafter ([slide 34](#))
- ❑ Three Asian central banks left policy settings unchanged ([slide 60](#)) but others in Eastern Europe and Latin America tightened further ([slides 82-84](#)) while Turkey's cut rates again ([slide 85](#))

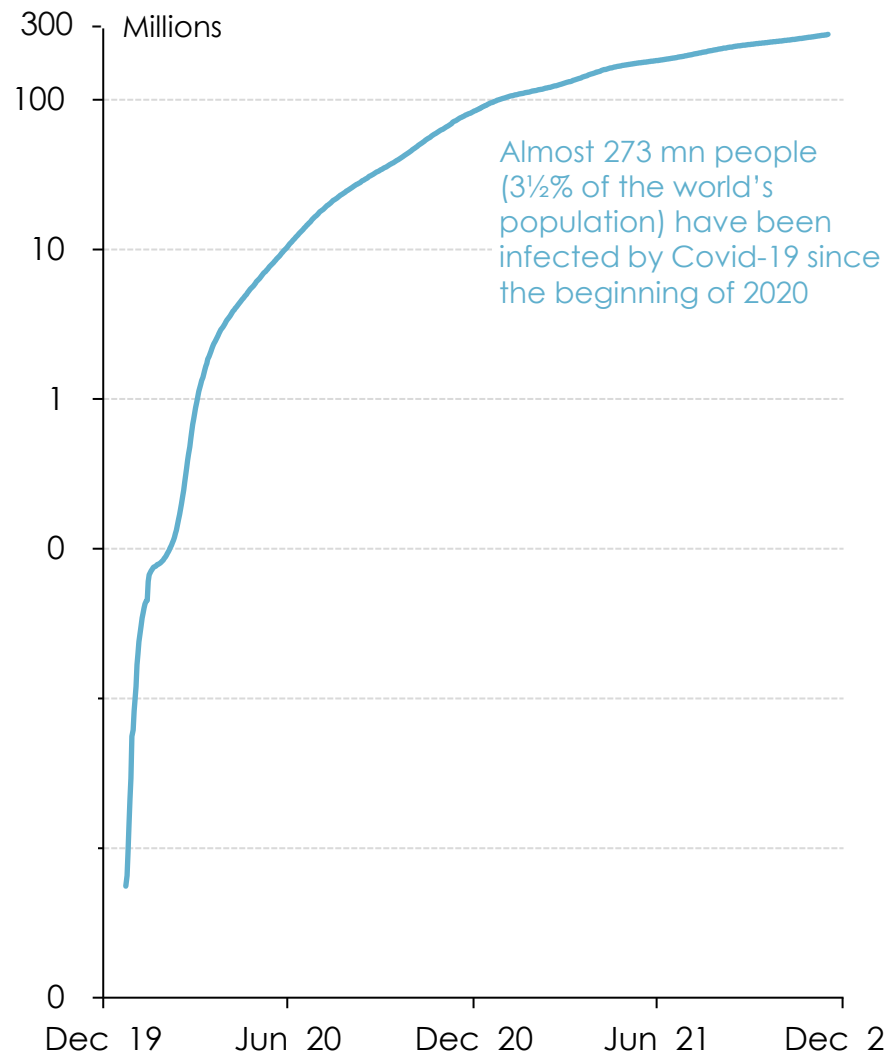
## Australia and New Zealand

- ❑ Australia recorded 17,130 new infections this week, the highest ever ([slide 14](#)) reflecting a surge in NSW and continued high numbers in Victoria – although hospitalization rates remain low ([slide 15](#))
- ❑ Business conditions improved in November with forward orders, capacity utilization and hiring intentions all up strongly ([slide 96](#)), despite which business confidence eased 8.4 pts reflecting falls in NSW and Victoria – though it remains high by historical standards ([slide 97](#))
- ❑ Employment rose by a record 366,000 (2.9%) in November as NSW, Victoria & the ACT emerged from their protracted lockdowns, pushing the official unemployment rate down from 5.2% to 4.6% ([slides 98-99](#)), while the 'effective' unemployment rate fell from 10.3% to 5.9% ([slide 100](#))
- ❑ Consumer confidence fell marginally in December, reflecting concerns over deteriorating housing affordability, but remains well above the average for the pre-Covid decade ([slide 112](#))
- ❑ In this week's Mid-Year Economic & Fiscal Outlook, Federal Treasury lowered its forecast for real GDP in 2021-22 by ½ pc pt to 3¾%, but raised the 2022-23 forecast by 1 pc pt to 3½%, significantly raised its forecasts for nominal GDP growth in both years, and slightly raised its forecasts for wages growth ([slides 94-95](#))
- ❑ MYEFO showed only a marginal narrowing in the budget deficits in prospect for the next four years (and an increase in prospective deficits after that), with windfall revenue gains being absorbed by increased spending ([slides 140-142](#))
- ❑ New Zealand's real GDP shrank by 3.7% in Q3, much less than had been expected given the protracted lockdown ([slide 151](#))
- ❑ Upward revisions to nominal GDP growth in the Half-Year Update have resulted in a significant improvement in NZ's fiscal position ([slide 155](#))

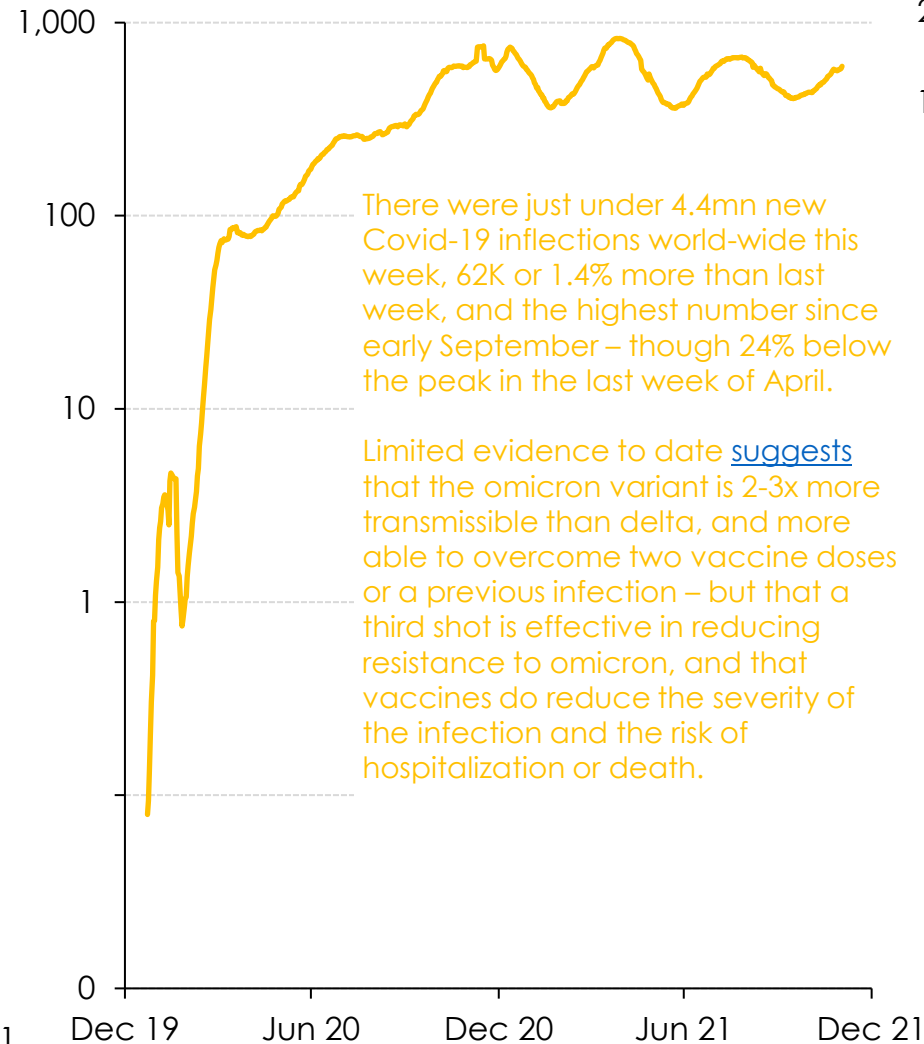
**The virus**

# New Covid-19 case numbers have been rising for the past seven weeks, now including the 'omicron variant', but the death toll has remained steady

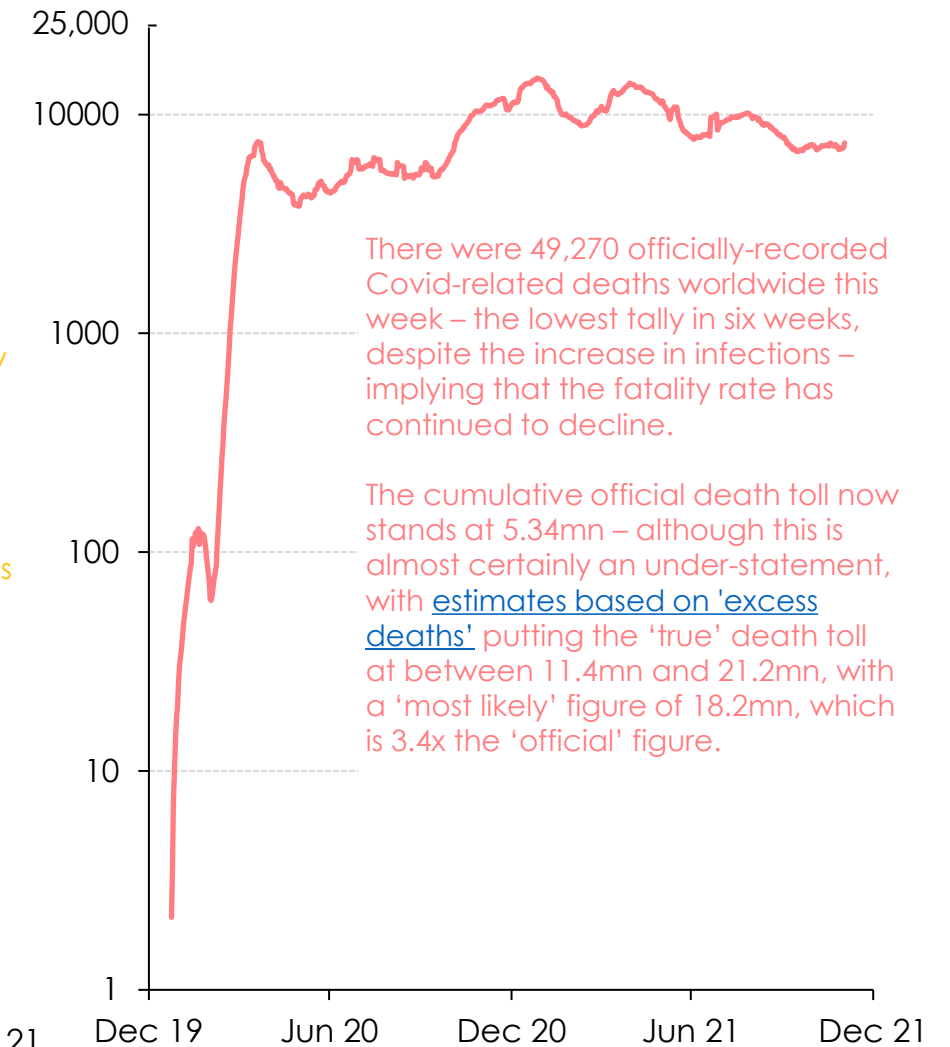
## Cumulative confirmed cases – global total



## New confirmed cases – global total



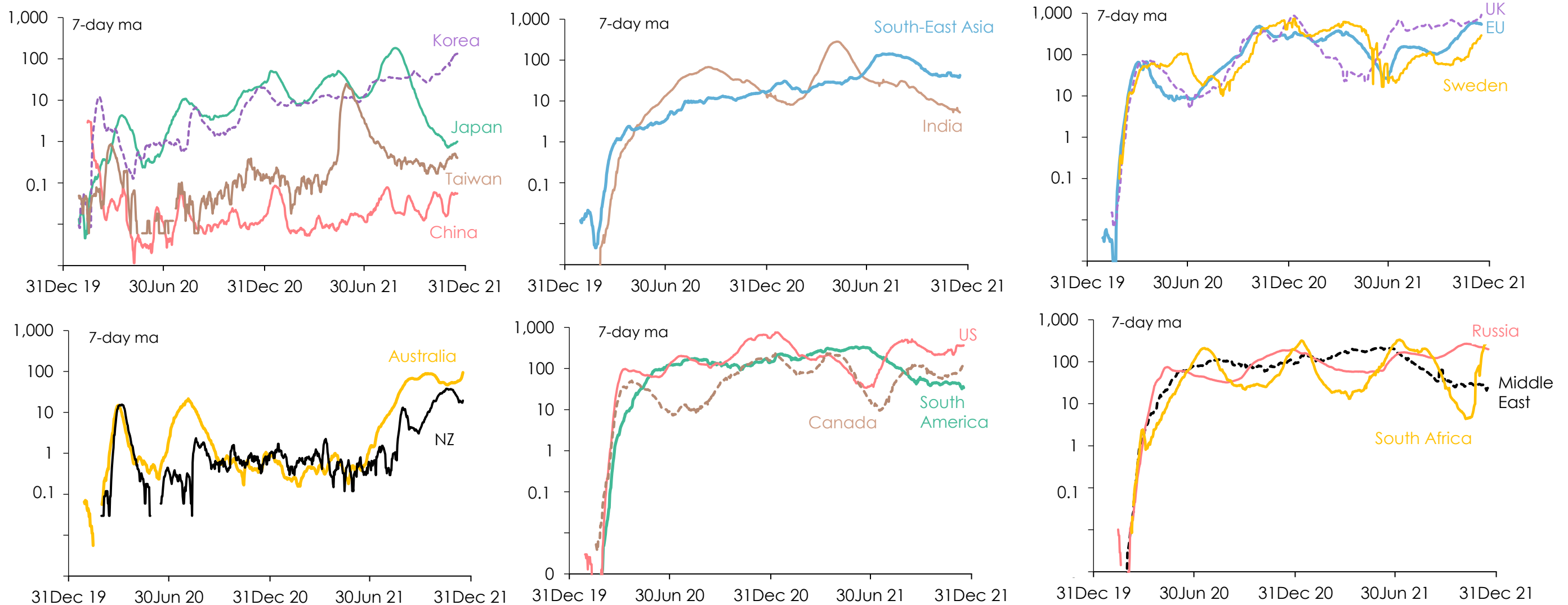
## New deaths – global total



Note: All charts are on logarithmic scales. Data up to 16<sup>th</sup> December. Source: University of Oxford, [Our World in Data](#). [Return to "What's New"](#).

# The increase in infections over the past week was largely in the UK, South Africa, Spain, Italy, the US, Vietnam, France and Canada

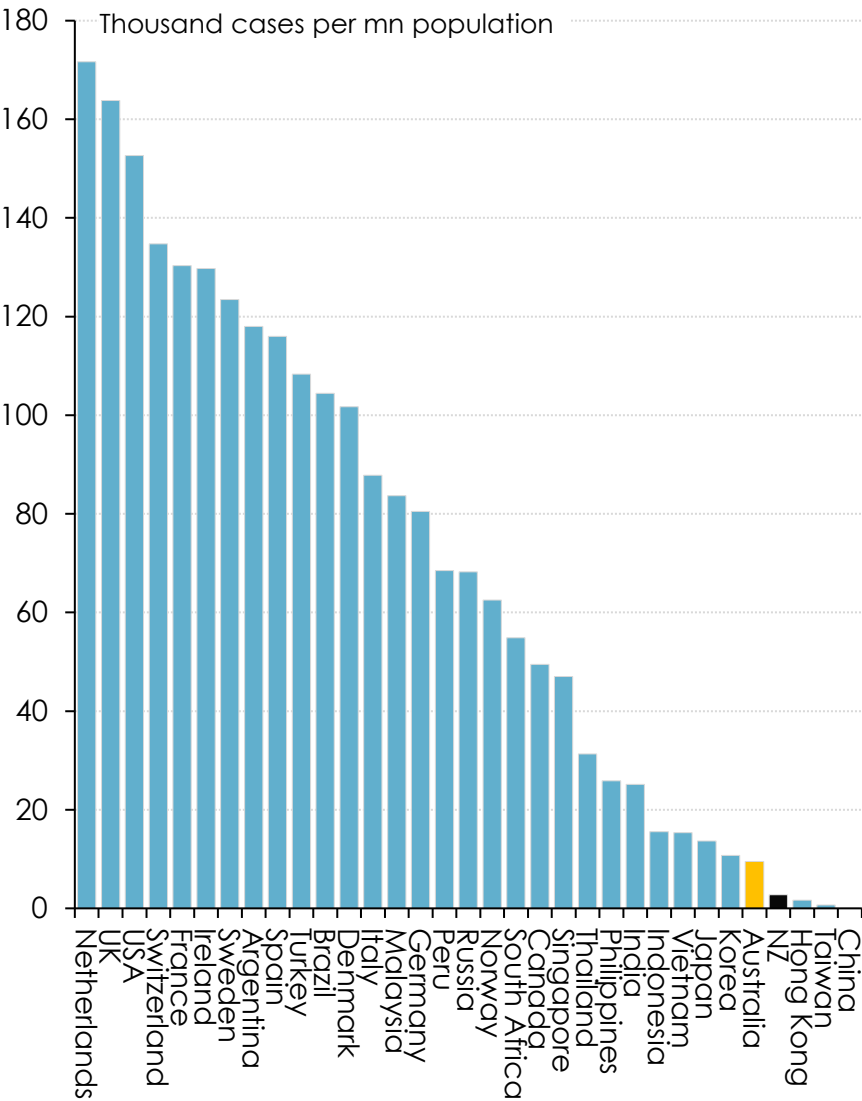
## Daily new cases per million population – major countries and regions



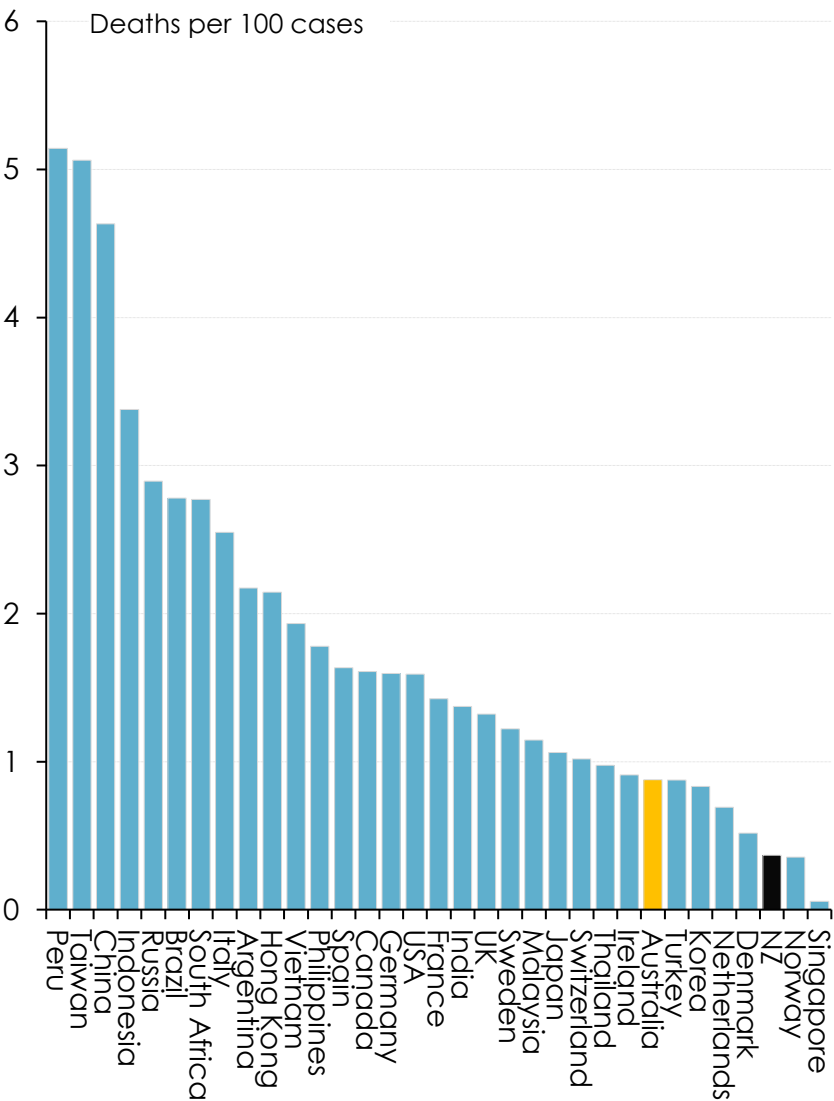
❑ The EU accounted for 39% of all new cases this week, the US 19½%, the UK 10%, Africa 5¾%, the Middle East 5¼%, South-East Asia and Russia each 4½%, and South America 2¼%

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

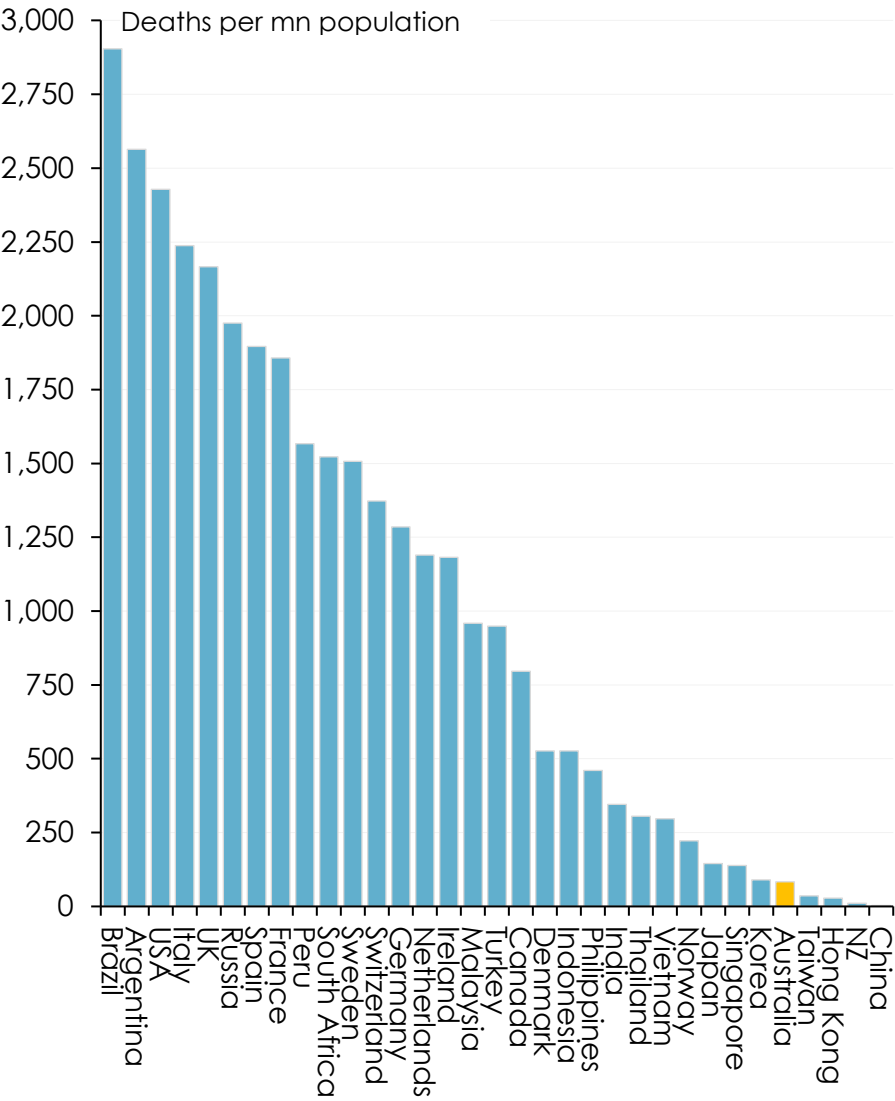
Apparent infection rate



Apparent fatality rate



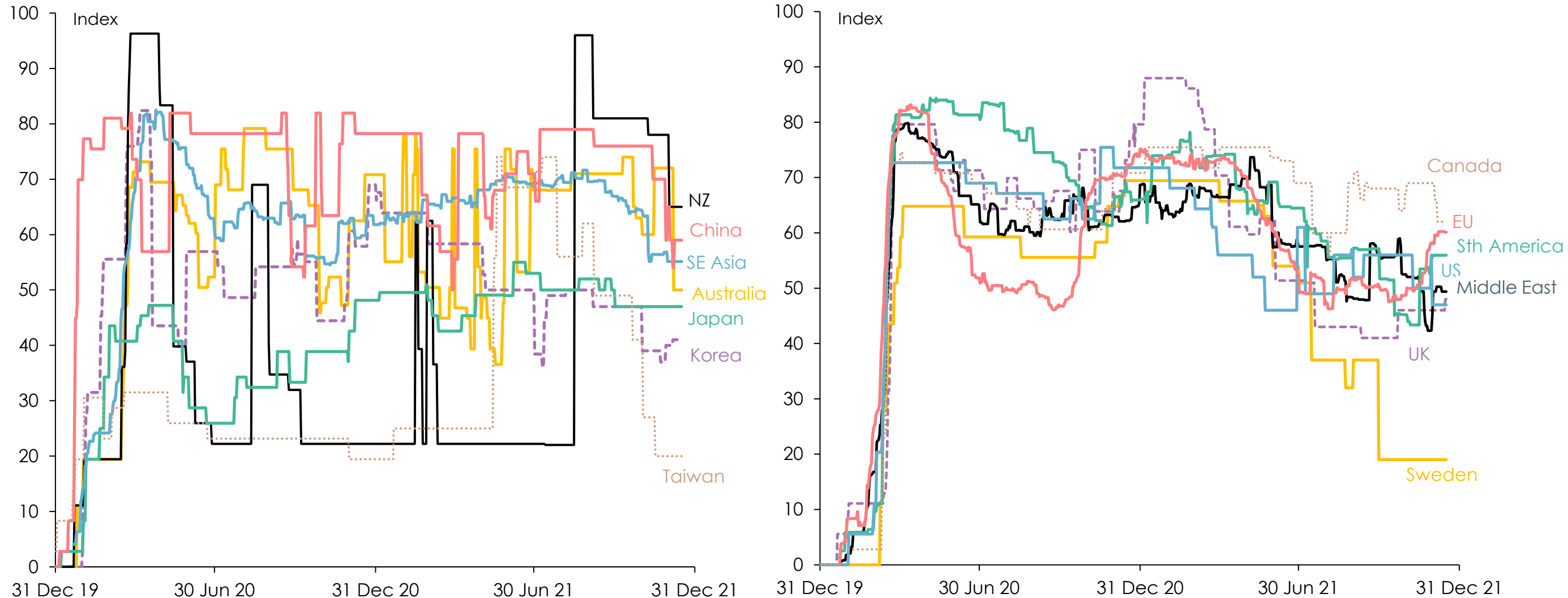
Death rate



Note: Data up to 16<sup>th</sup> December. Sources: University of Oxford, [Our World in Data](#); Corinna. [Return to "What's New"](#).

# Restrictions have been eased this month in Canada, Taiwan, Australia and NZ, but tightened in the UK, Germany, Italy, Norway, Ireland and Turkey

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

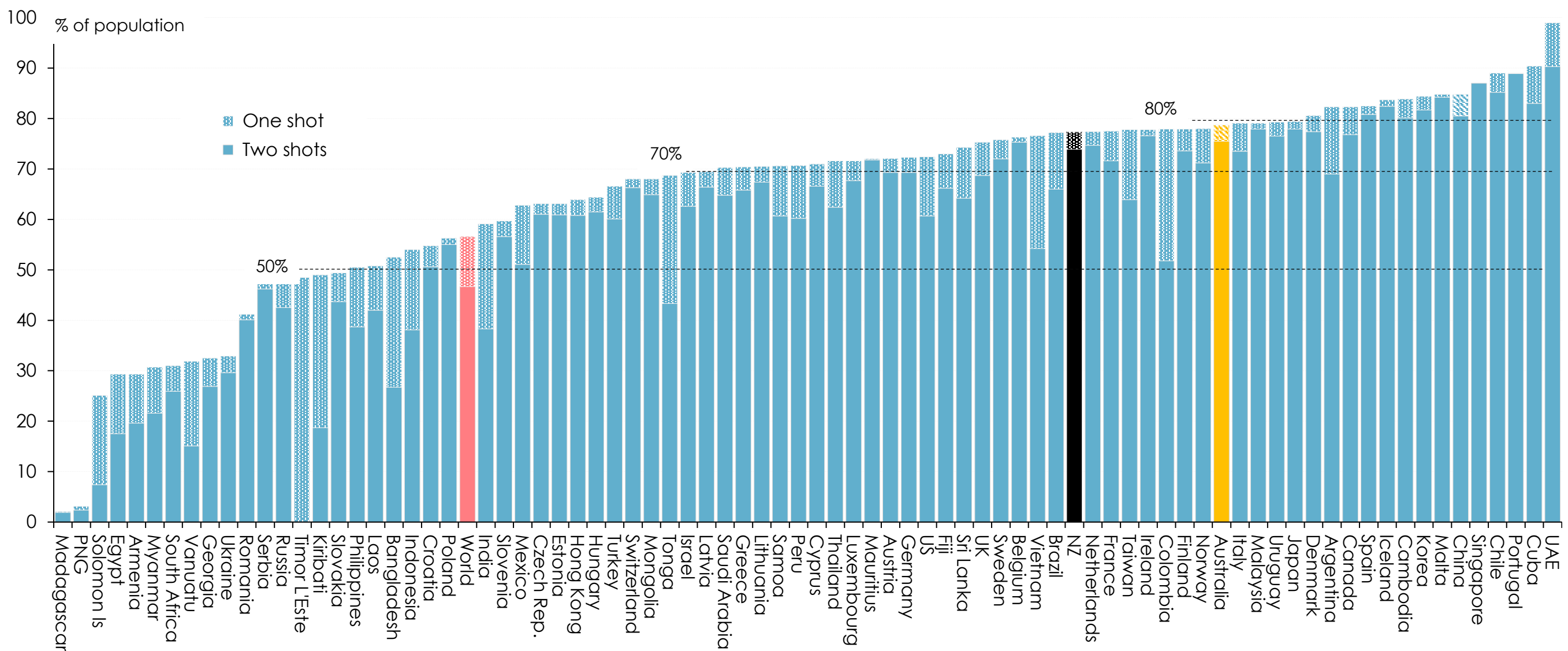


The Oxford COVID-19 Government Response Tracker collects publicly available information on 11 indicators of government response including school & workplace closures, public events cancellations, restrictions on public gatherings, stay at home requirements, public transport closures, domestic & international 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 16<sup>th</sup> December. [Return to "What's New"](#).



# 27 countries have now fully vaccinated more than 70% of their population, another 12 are close to that threshold, and 21 more are over 50%

Percentage of population who have had at least one vaccination shot as at 14<sup>th</sup> – 16<sup>th</sup> December



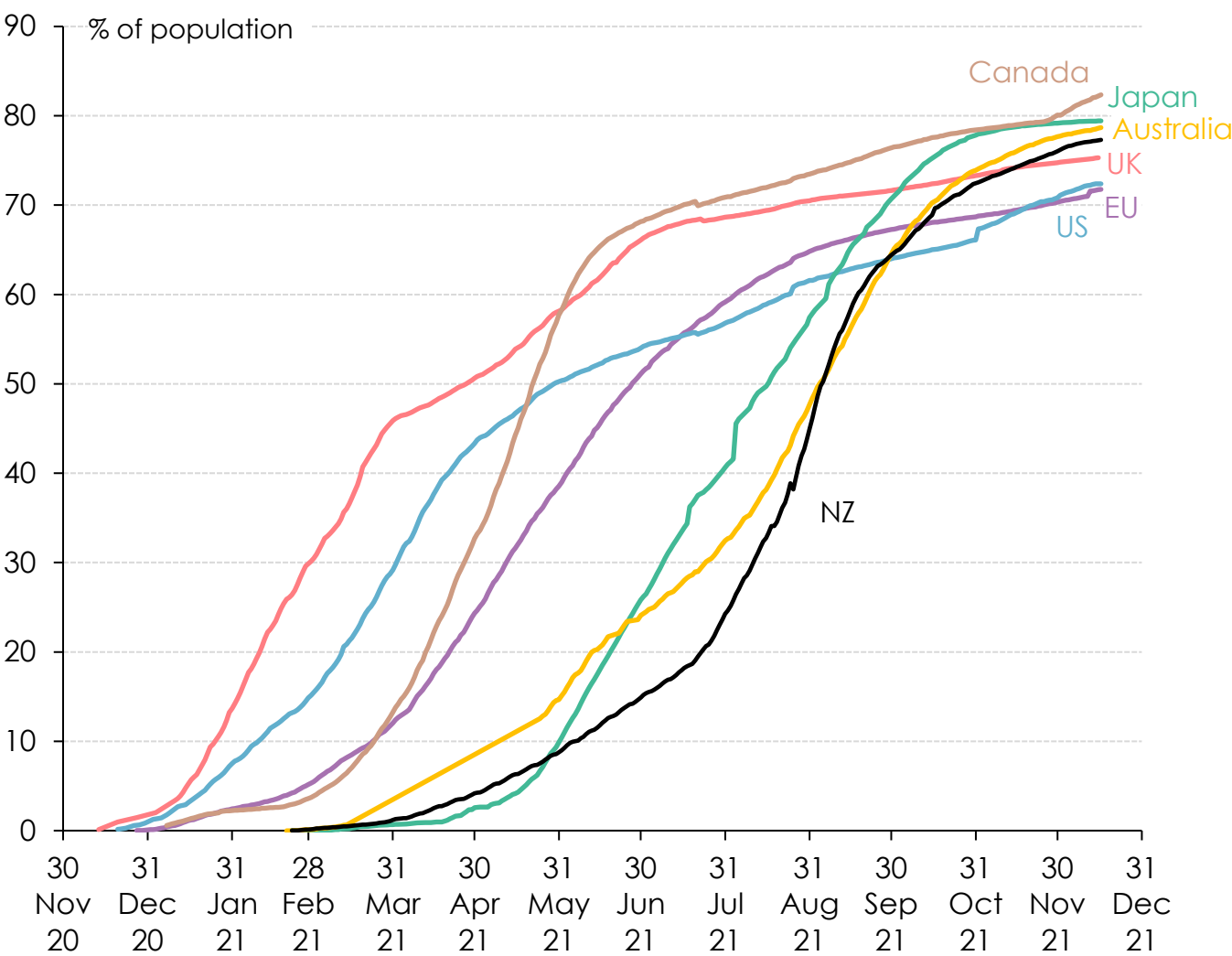
Note: Data for Laos and Mauritius are as at 23<sup>rd</sup> November; Kiribati and Myanmar, 30<sup>th</sup> November; Singapore, 3<sup>rd</sup> December; Madagascar and Tonga, 6<sup>th</sup> December; Timor L'Este, 7<sup>th</sup> December; China, 10<sup>th</sup> December; Armenia and Romania, 12<sup>th</sup> December; Fiji, Papua New Guinea, Samoa, Solomon Islands and Vanuatu, 13<sup>th</sup> December.

Source: Our World in Data, [Coronavirus \(COVID-19\) Vaccinations](#). [Return to "What's New"](#).

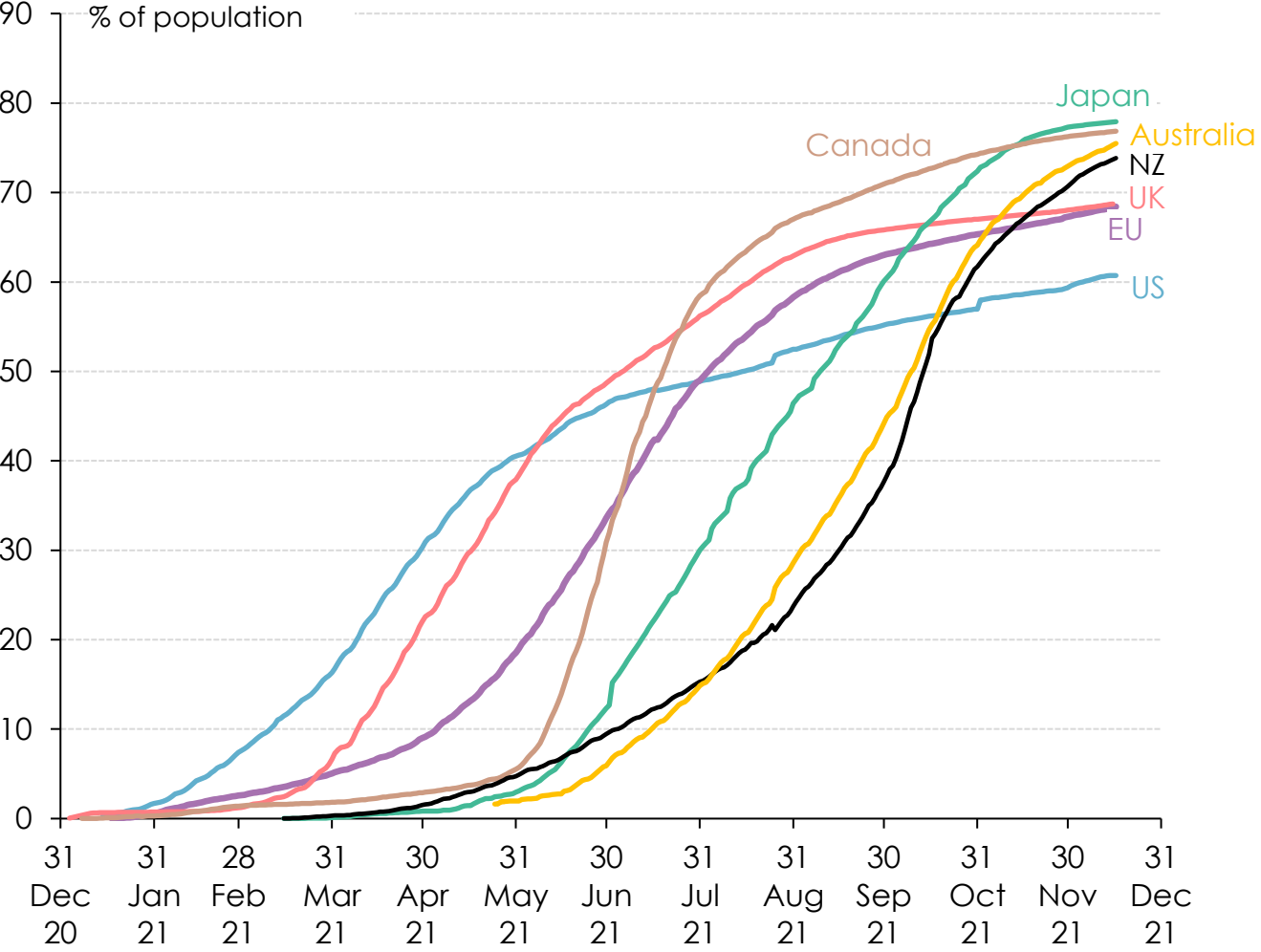


# Japan, Canada, Australia and New Zealand have fully vaccinated a higher proportion of their populations than the UK, the EU or the US

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



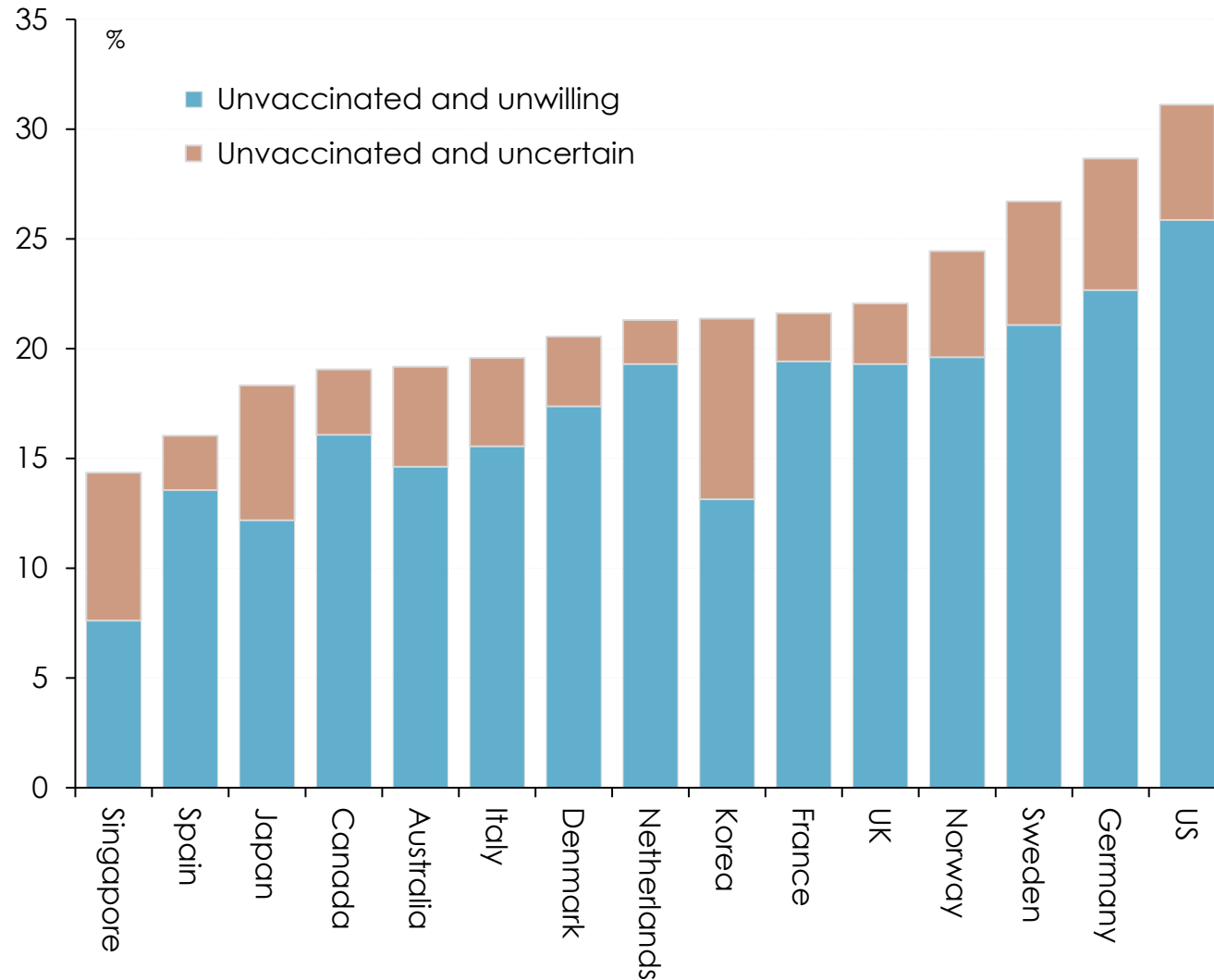
Percentage of major 'advanced' economies' populations who have had two shots



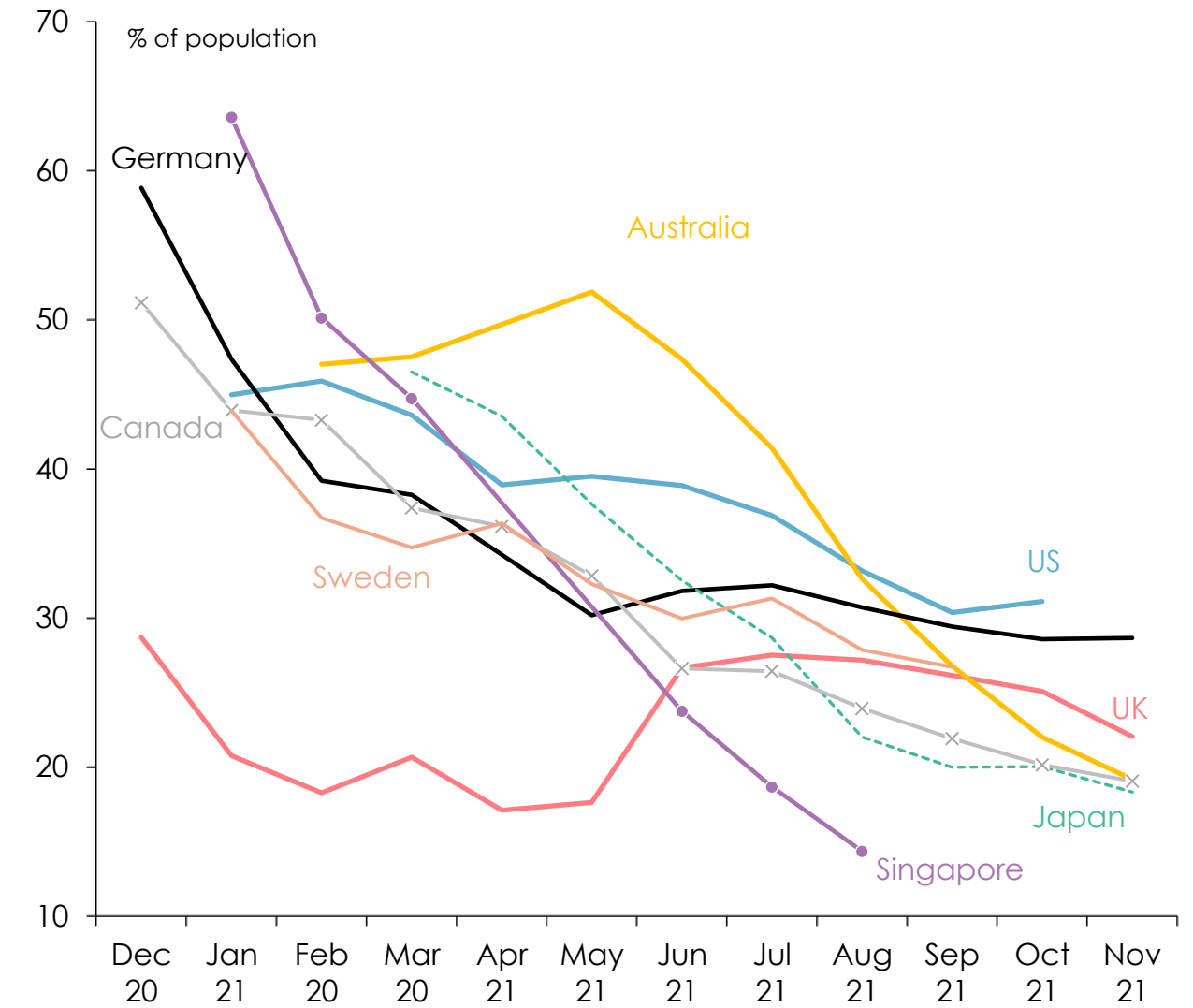
Note: Data up to 16<sup>th</sup> December, except for UK, 15<sup>th</sup> December. Source: [Our World in Data](#); [Coronavirus \(COVID-19\) Vaccinations](#). [Return to "What's New"](#).

# 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, November 2021



Percentage of populations unvaccinated and unwilling or uncertain about getting vaccinated

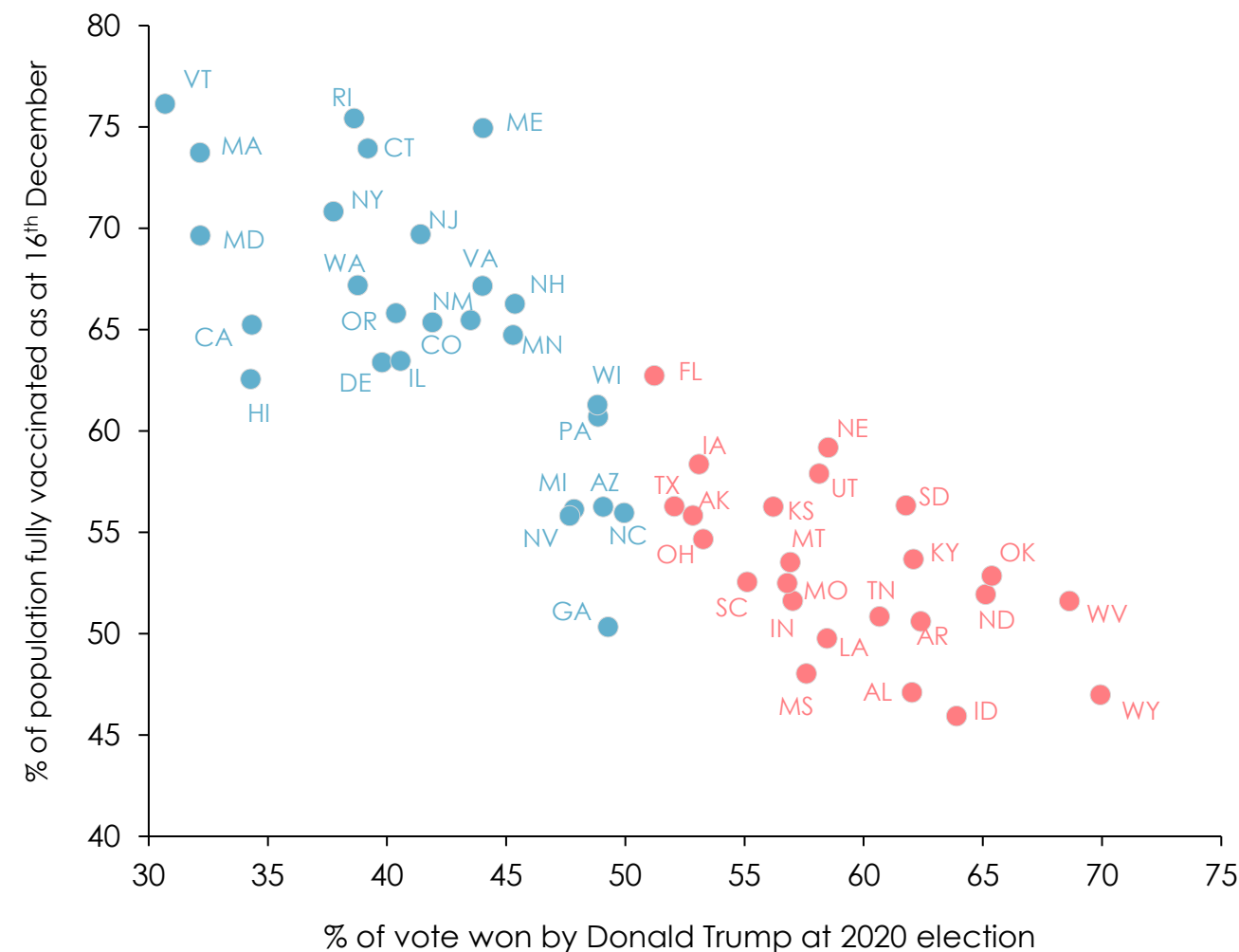


Note: Data for Singapore and Norway are for August; data for Korea and Sweden are for September; data for the US are for October.

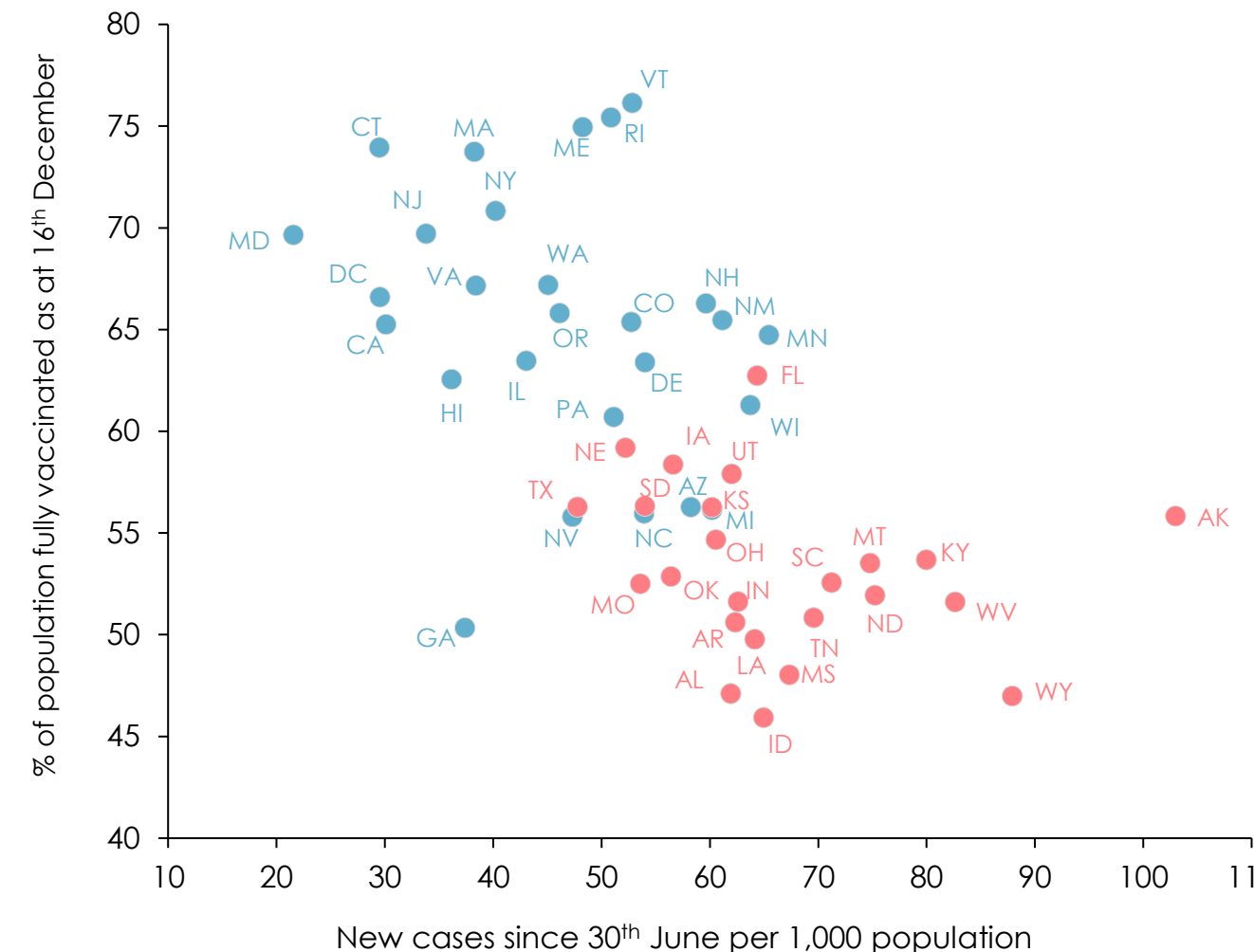
Source: Imperial College London and YouGov, [Covid 19 Behaviour Tracker Data Hub](#). [Return to "What's New"](#).

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

Vaccination rates vs Trump vote at 2020 elections, by state



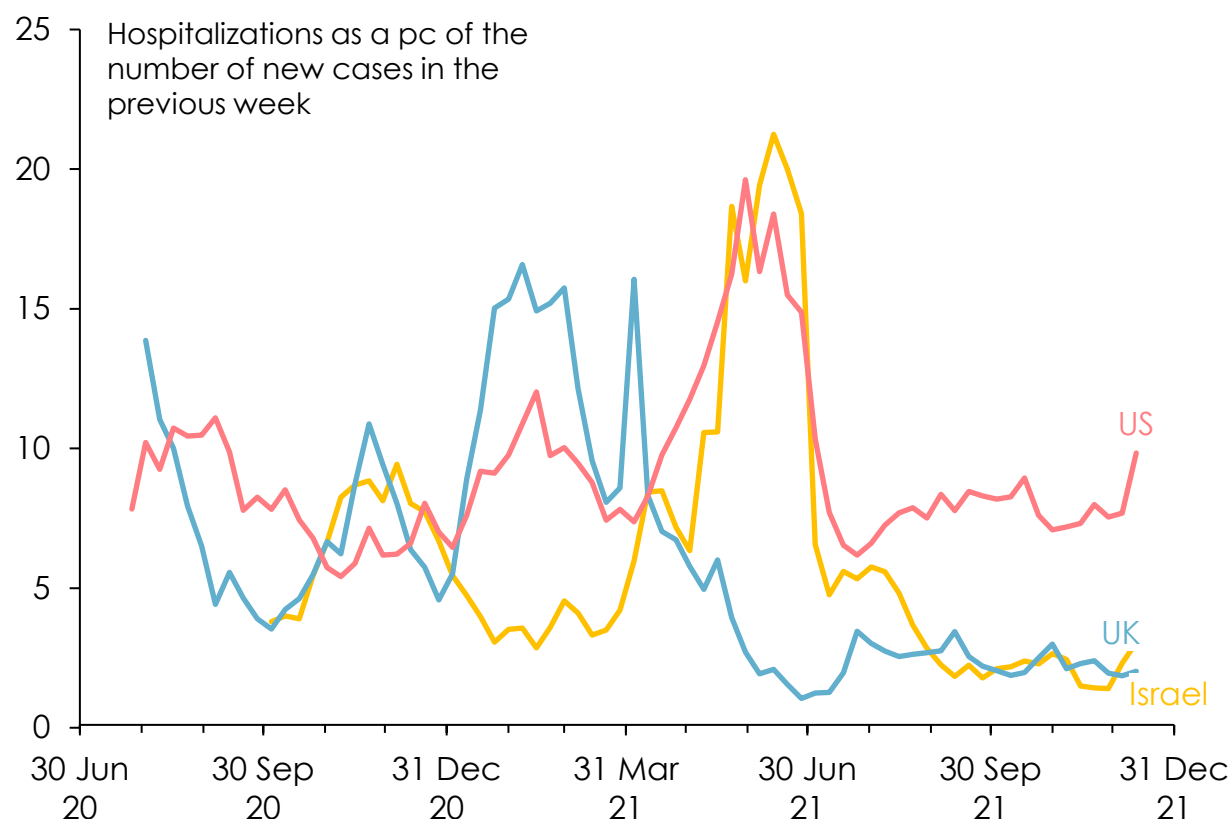
Vaccination rates vs infection rates since 30th June, by state



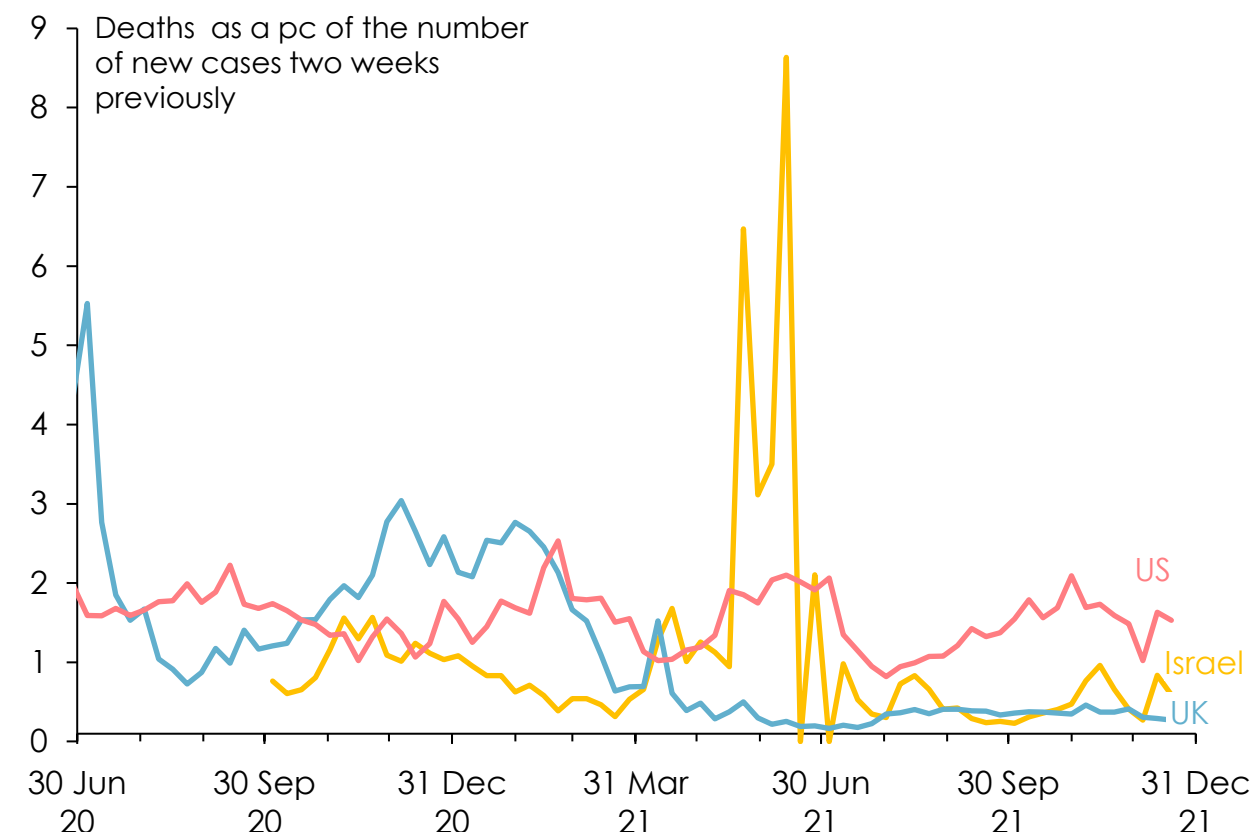
Note: Data as at 16th December . Sources: [The Cook Political Report](#); [Our World in Data](#); [USA Facts](#); Corinna. [Return to "What's New"](#).

# The available evidence tentatively suggests that although the omicron variant is more infectious, vaccines still prevent more serious illness or death

## Hospitalization rates



## Fatality rates

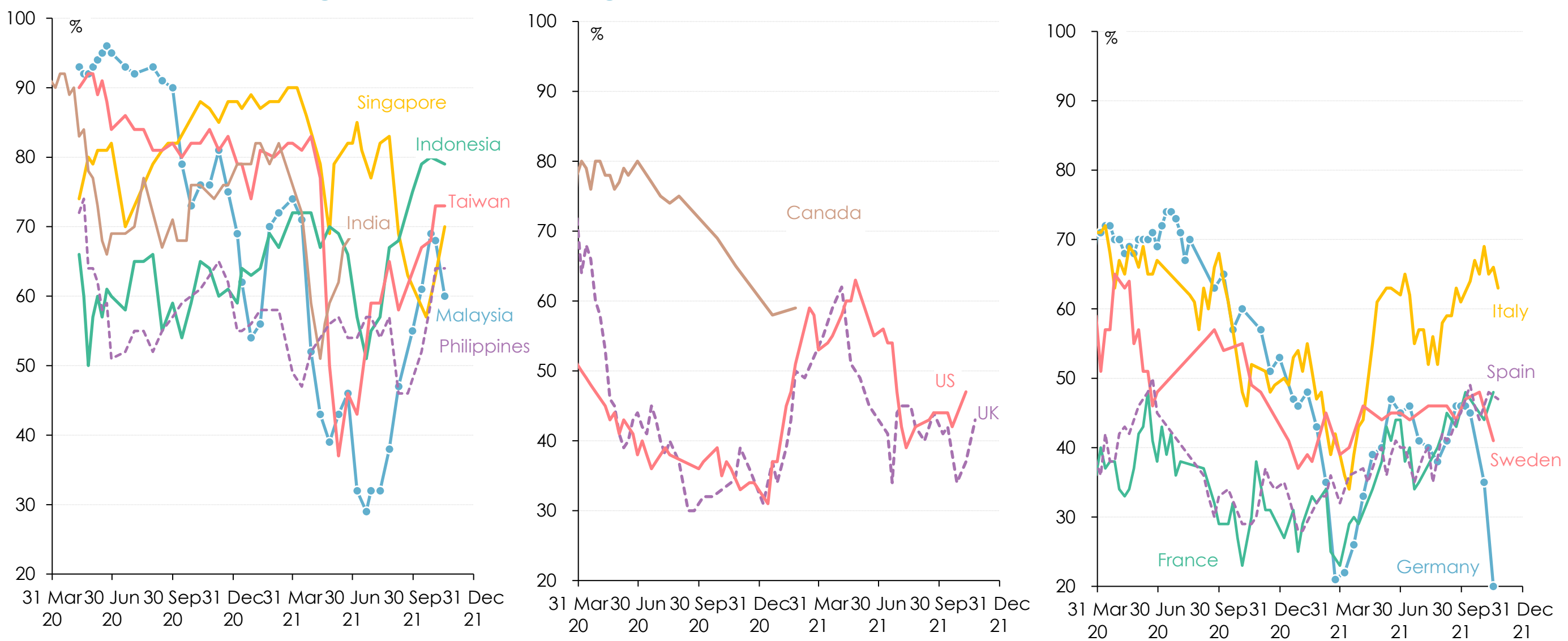


- ❑ Israel, the UK and the US all experienced a surge in the number of 'delta variant' cases after 'opening up'
- ❑ In the US, the increase in cases is concentrated in states and counties where vaccination rates are well below the national average (see previous slide)
- ❑ In Israel, the UK and those 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 16<sup>th</sup> December. Source: [Our World in Data](#). [Return to "What's New"](#).

# Voter approval of governments' handling of Covid has improved in Asia (except for Singapore) but has cratered in Germany

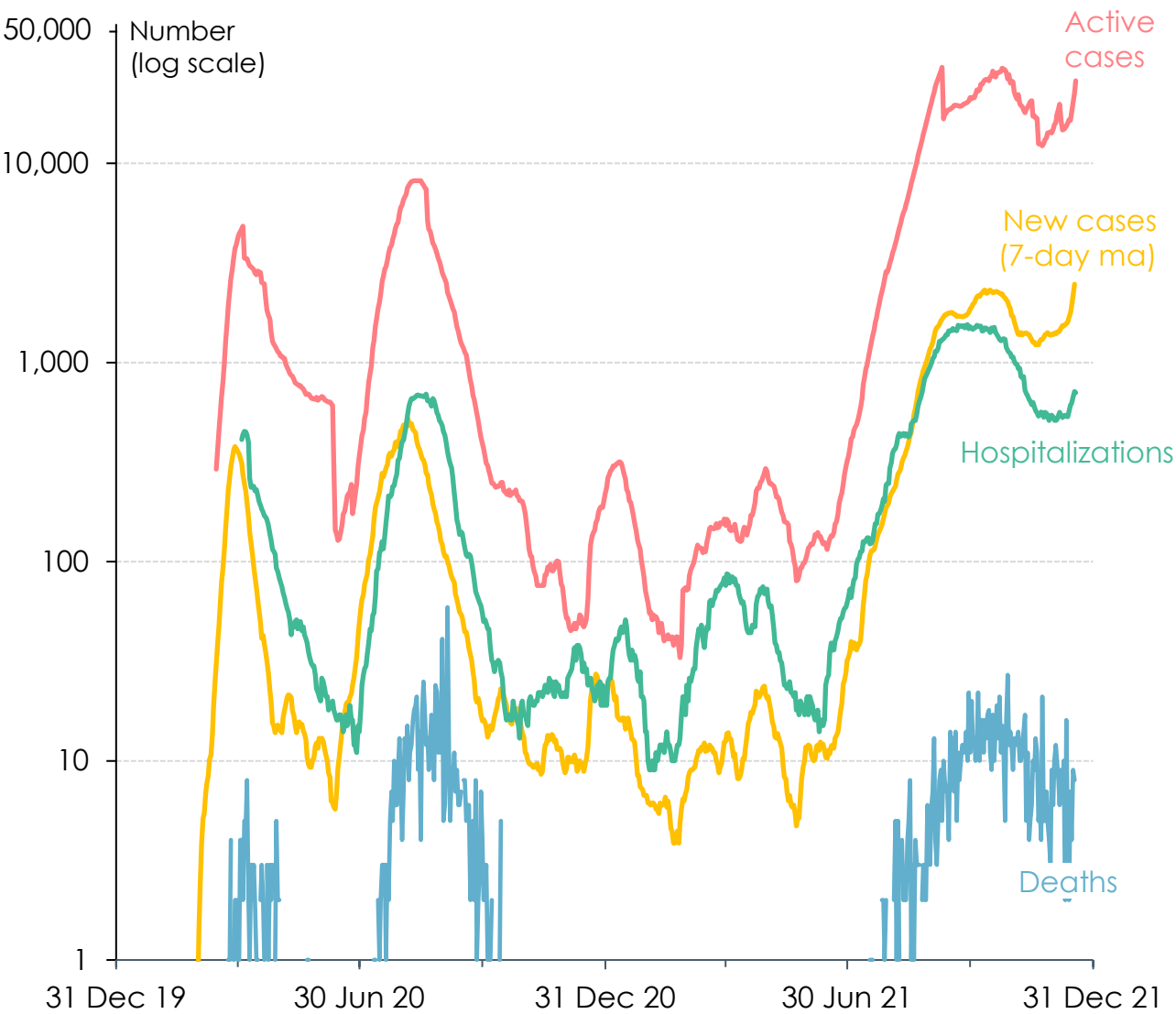
Voter approval of their government's handling of the coronavirus pandemic



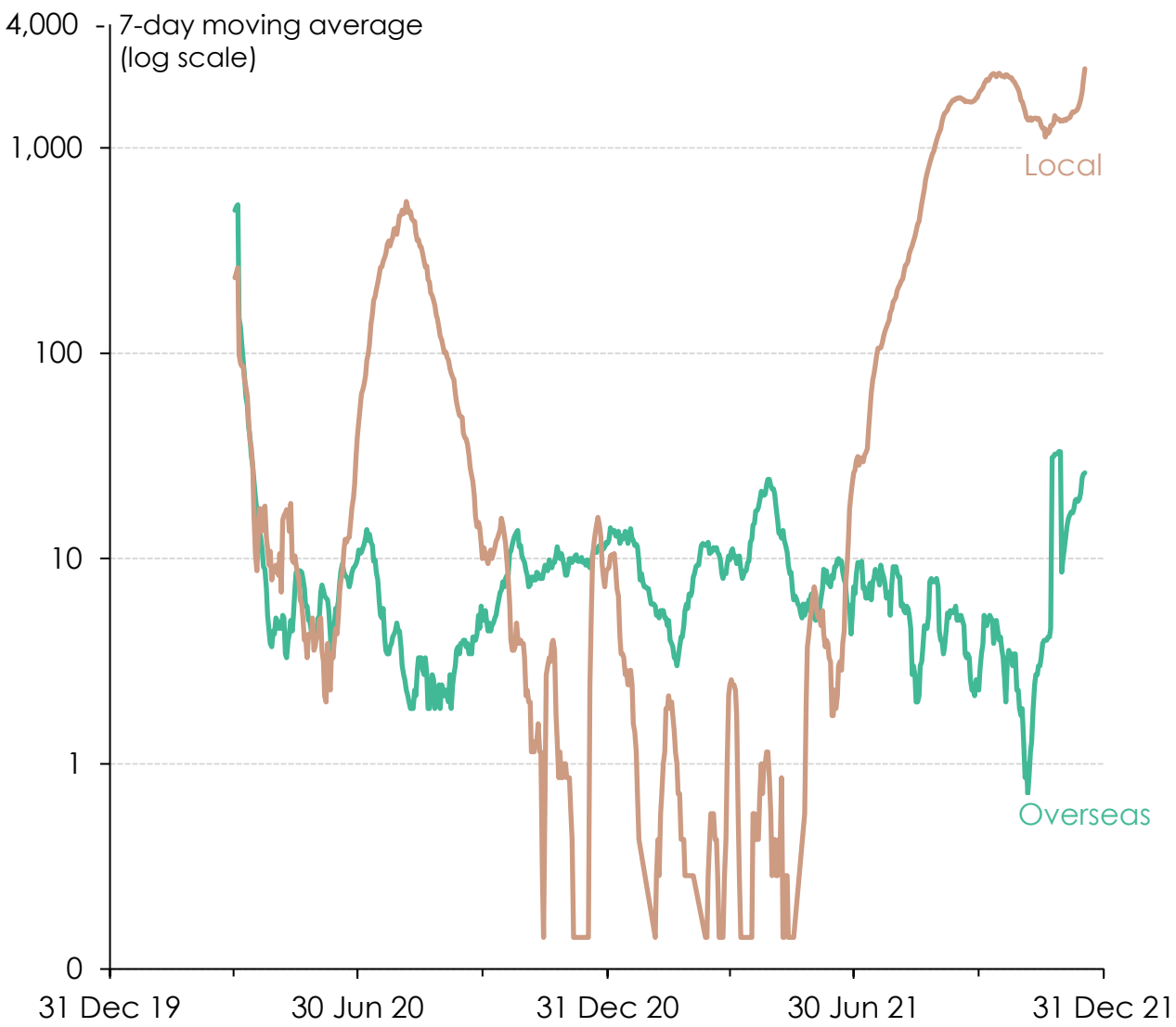
Note: There have been no new polls published in the past two weeks. Source: YouGov, [Covid-19 tracker: government handling](#). [Return to "What's New"](#).

# Australia recorded 17,130 new cases this week, the highest number since the onset of the pandemic – but a much smaller rise in hospitalizations

Cases, recoveries, hospitalizations and deaths



New cases, by source

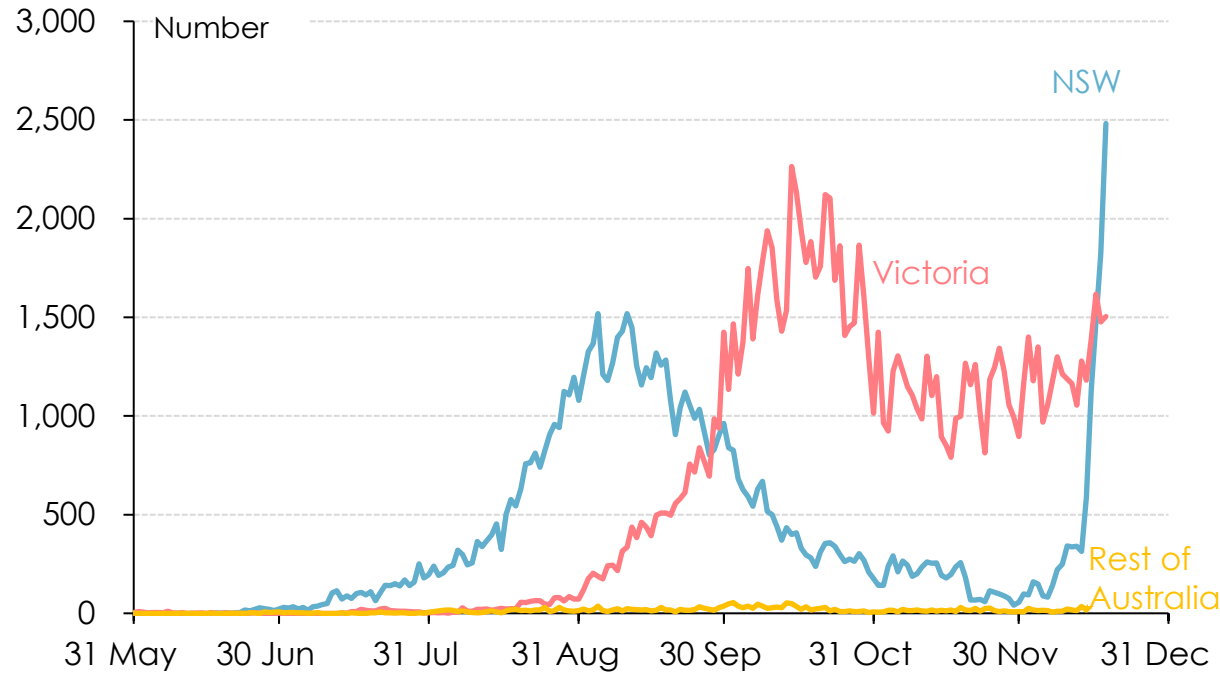


Note: Data up to 17<sup>th</sup> December. The sharp decline in 'active cases' on 10<sup>th</sup> September is entirely attributable to a 13,949 drop in the number of active cases reported in NSW (the reasons for which are not clear). Source: [covid19data.com.au](https://covid19data.com.au). [Return to "What's New"](#).

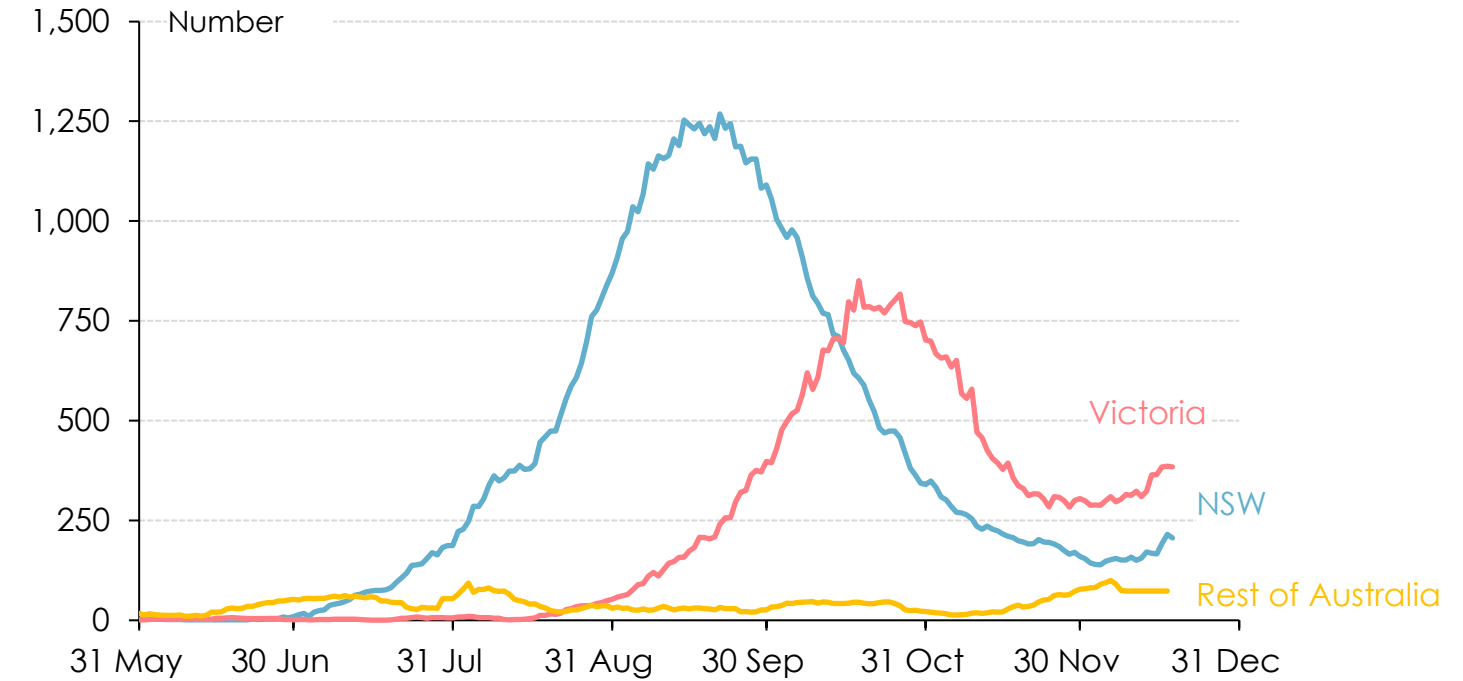


# New case numbers rose sharply in NSW this week, following the loosening of restrictions earlier this month, and remained high in Victoria

## New cases



## Hospitalizations

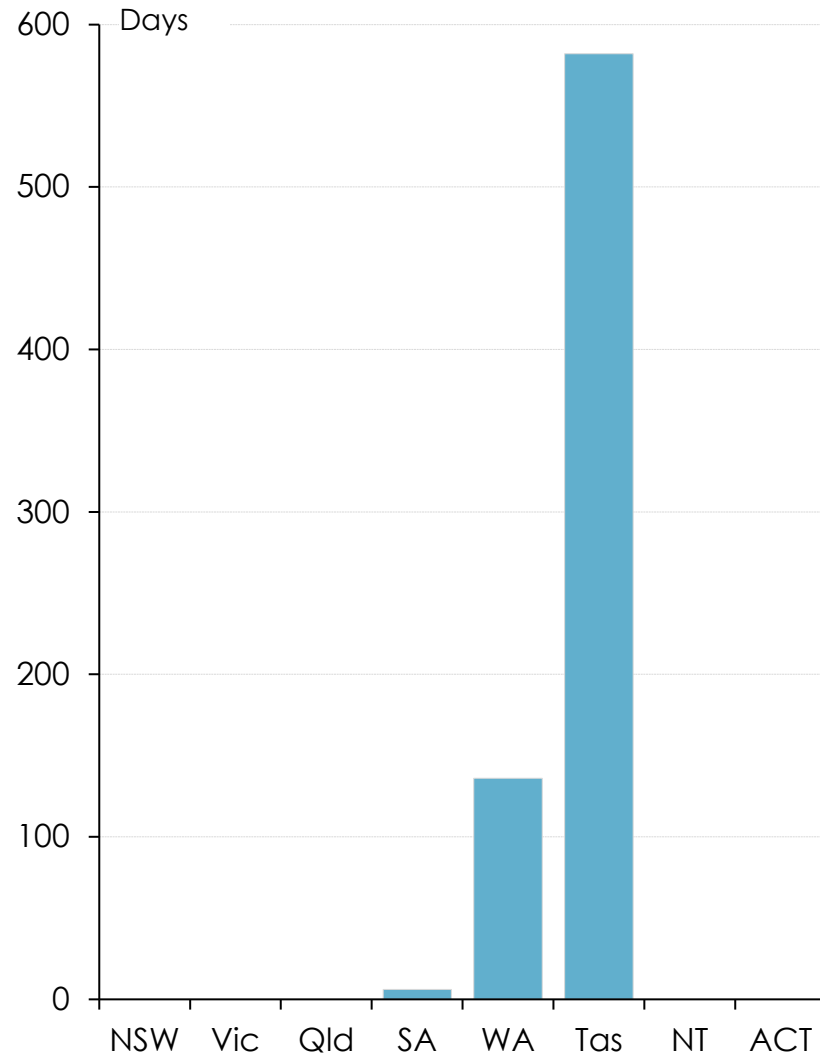


- ❑ **NSW recorded over 7,600 new cases this week, the highest number since mid-September, as a result of a surge in the last three days of the week – although the number of cases requiring hospital treatment rose only slightly and remains well below previous highs**
- ❑ **Victorian new case numbers – the daily average of which have remained above 1,000 a day since September – also rose (though nowhere near as sharply as in NSW) in the second half of this week**
- ❑ **The increase in hospitalizations in other parts of Australia is principally attributable to the Northern Territory and Queensland**
- ❑ **Queensland, Tasmania and the Northern Territory re-opened their borders to other parts of Australia this week – while Western Australia closed its borders to every other state and territory, despite also committing to re-open on 5<sup>th</sup> February**

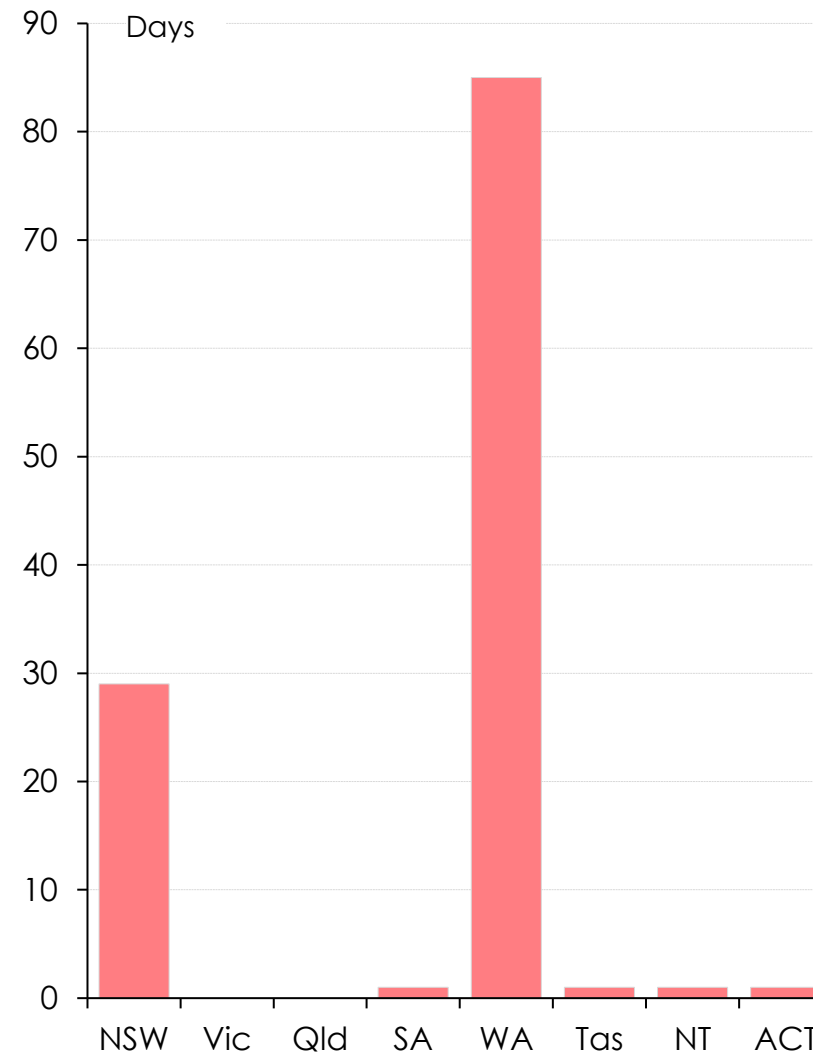


# The smaller states and territories have kept the virus out through border closures – although that may now be more difficult with borders re-opened

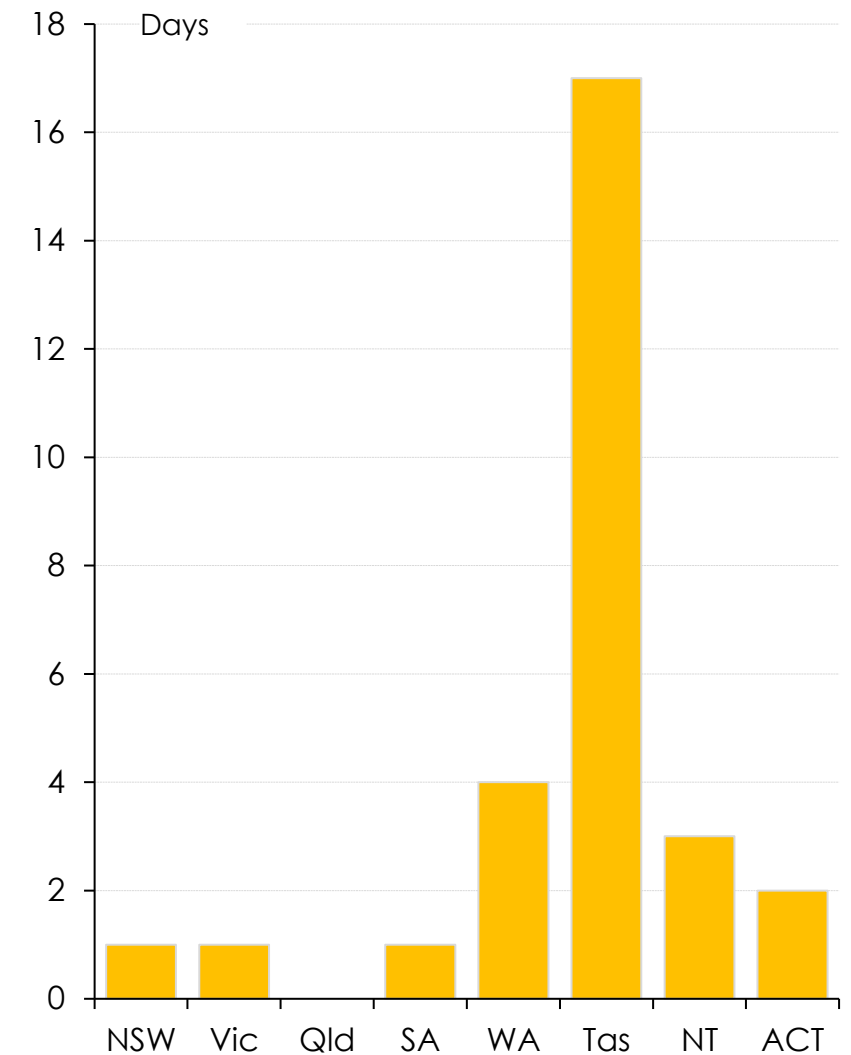
Days since last new locally-acquired case



Days since the last interstate-acquired case



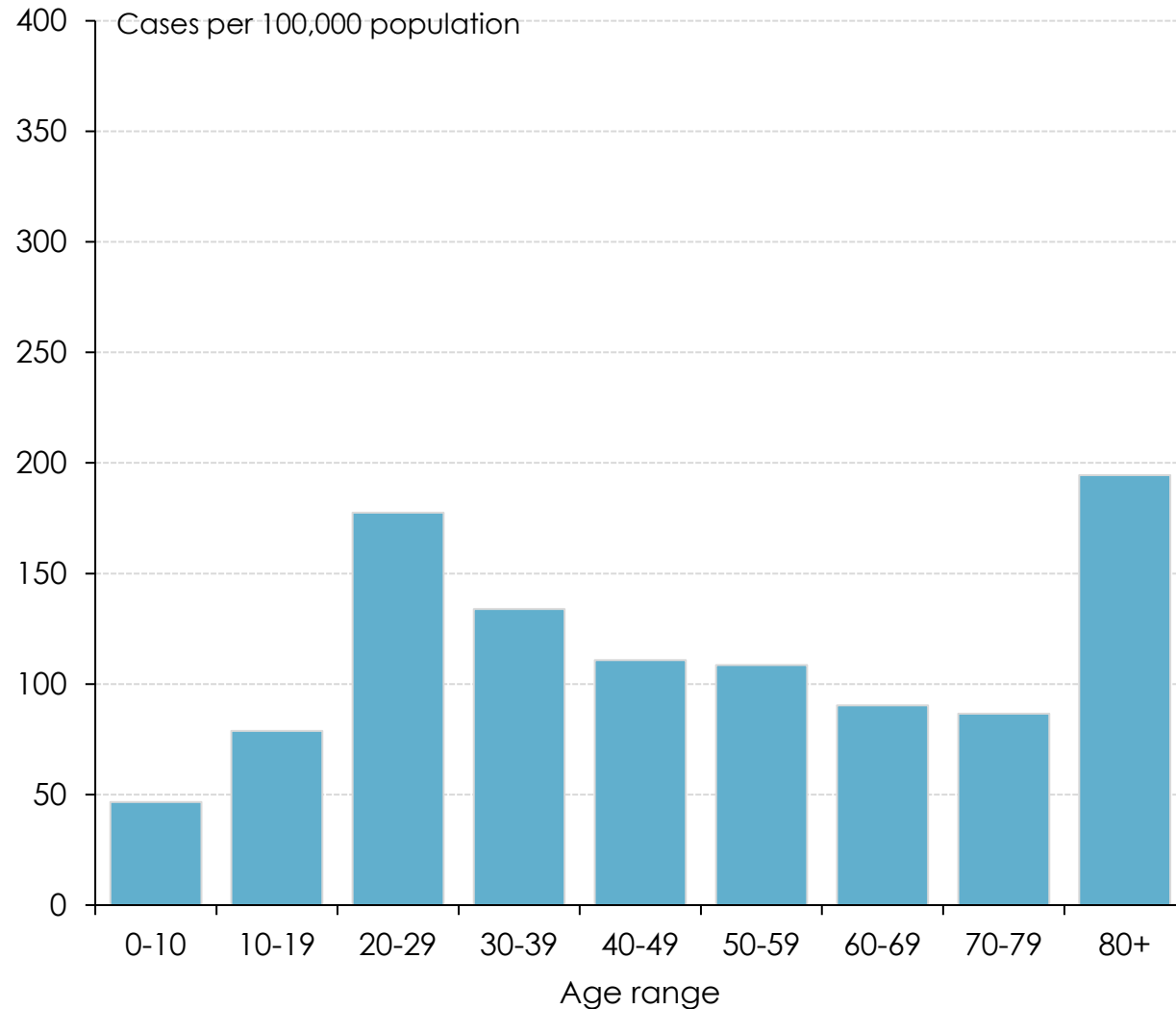
Days since last new overseas-acquired case



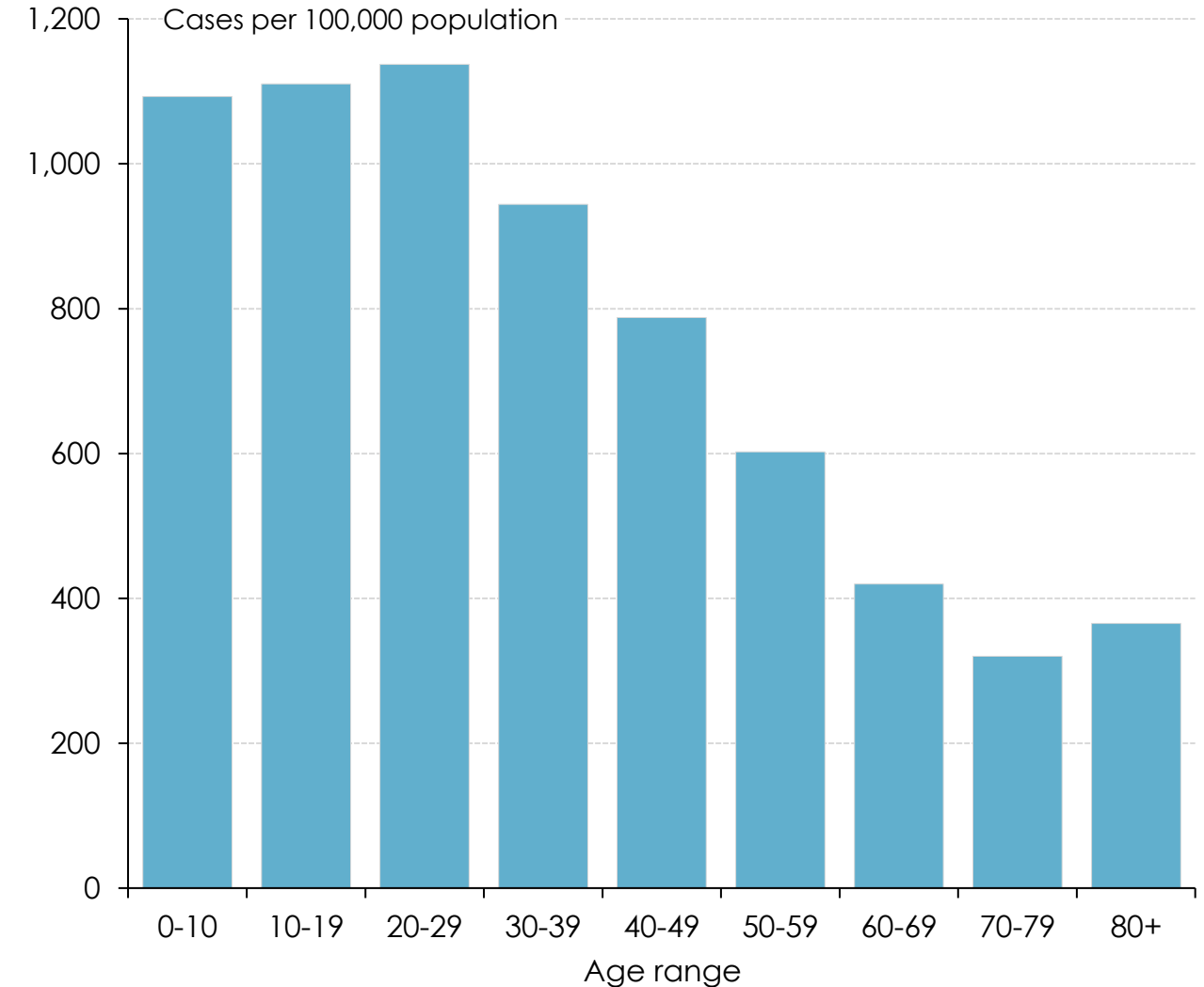
Note: Data are for 18<sup>th</sup> December. Source: [covid19data.com.au](https://covid19data.com.au). [Return to "What's New"](#).

# People aged under 40 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

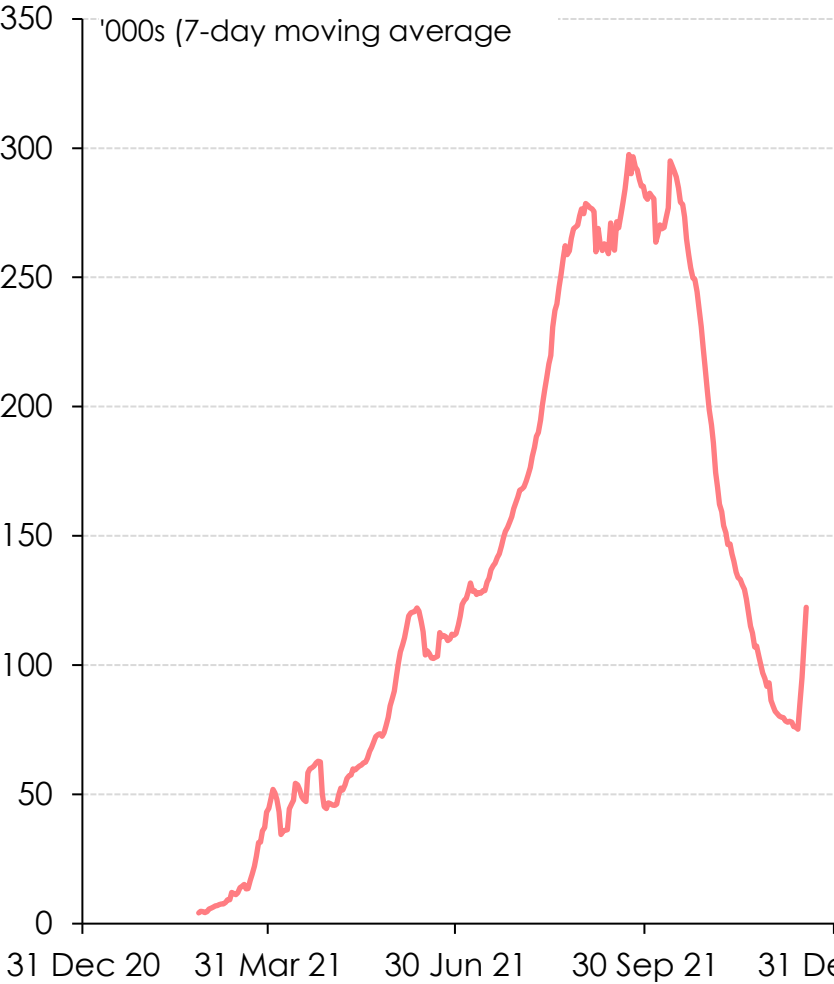


Cumulative confirmed cases per 100,000 population, by age group – 2021 to date

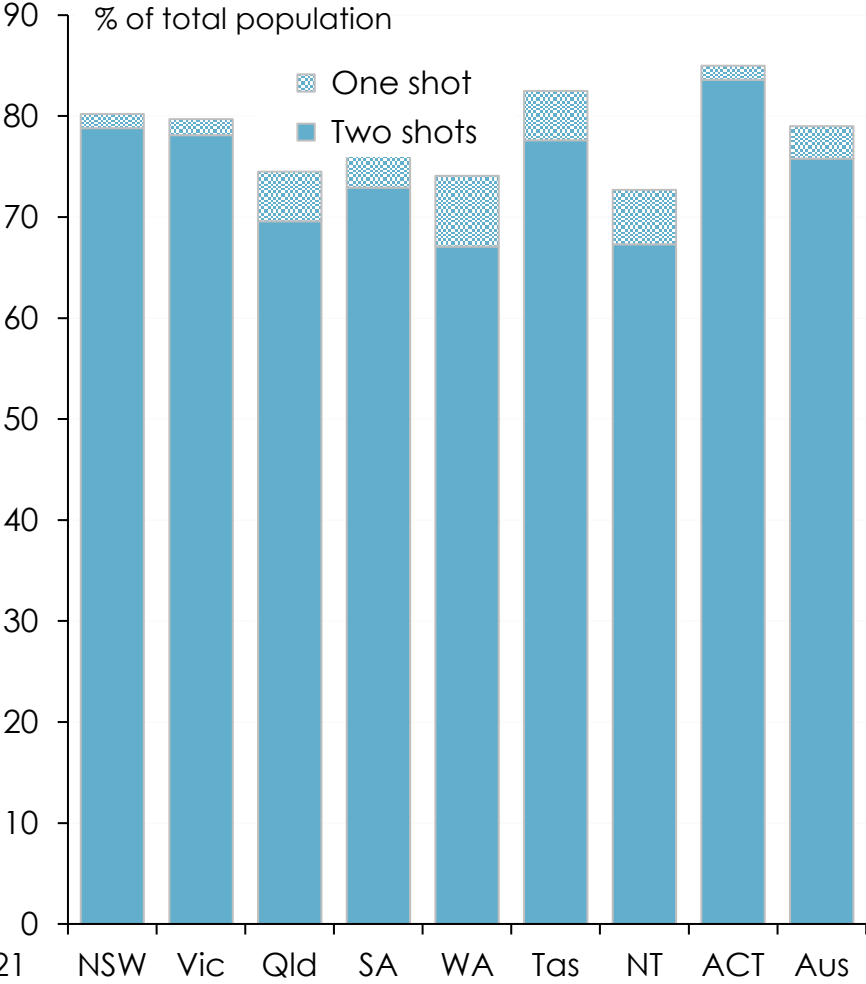


# Vaccinations picked up this week as people became eligible for 'booster' shots

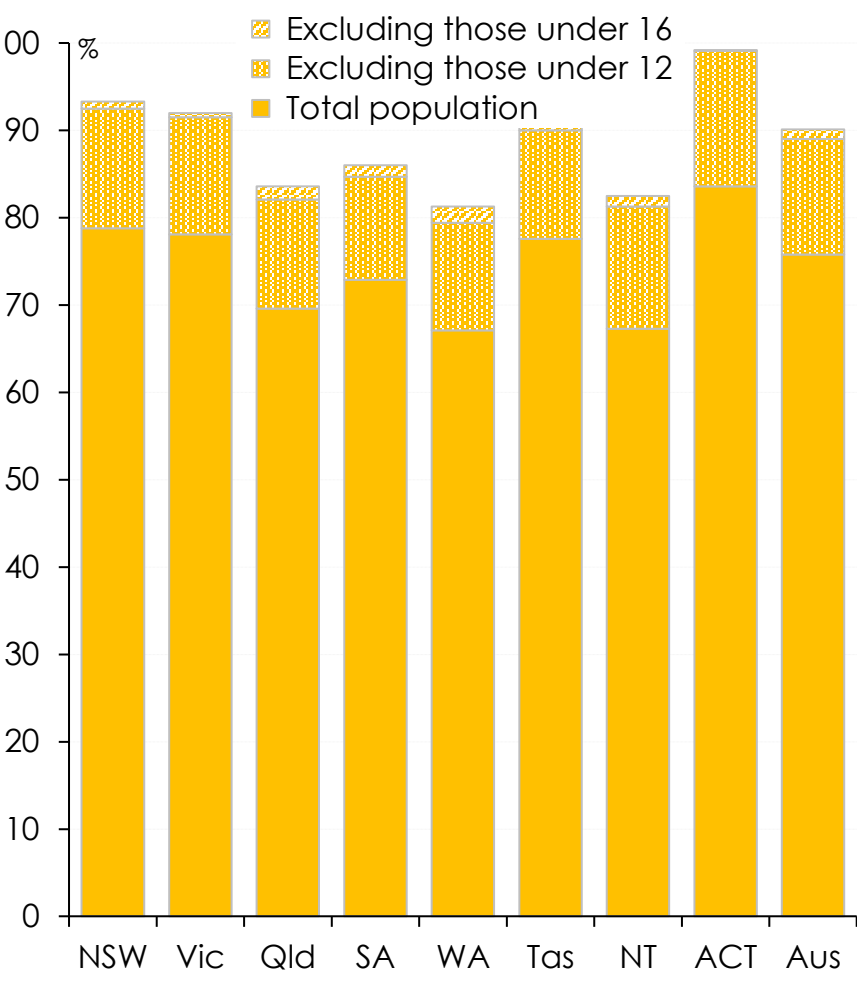
Daily number of vaccines administered



Percentage of total population vaccinated, states and territories



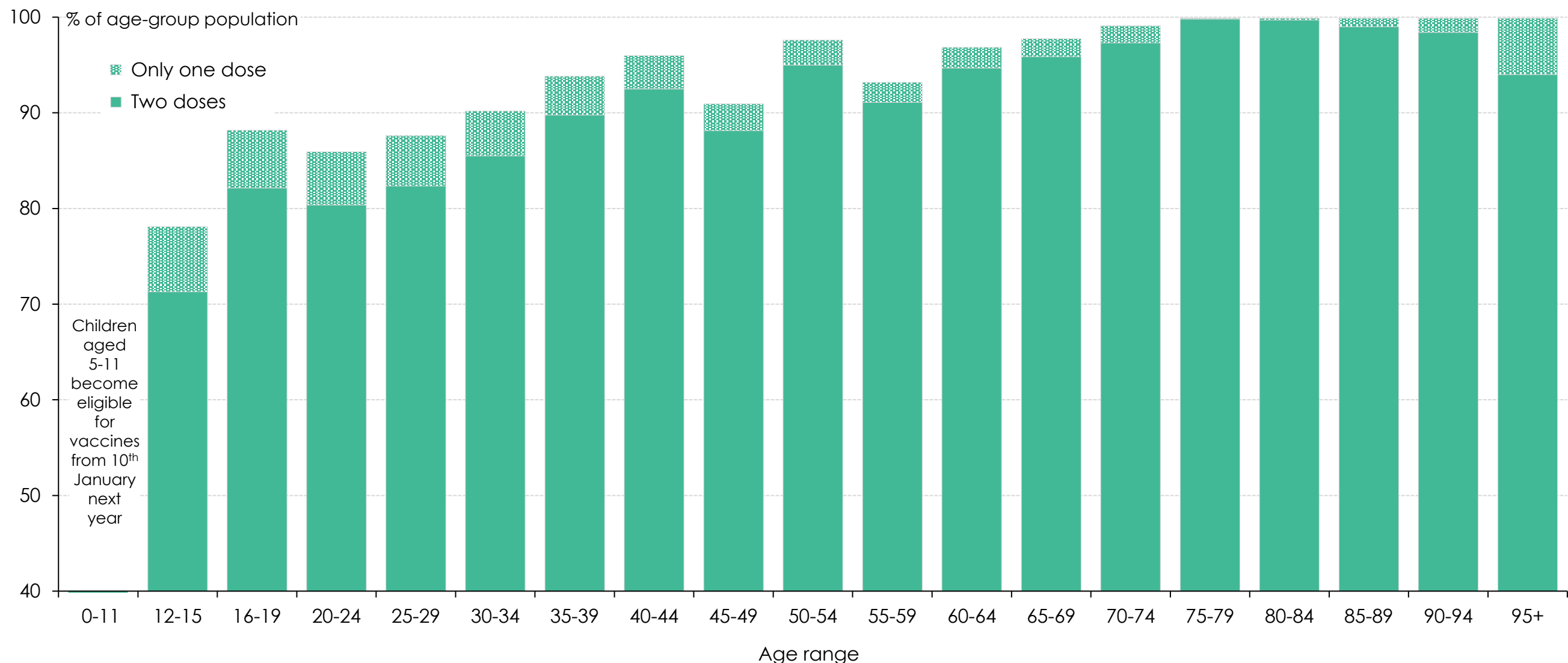
Percentage of populations double-vaccinated, states and territories



Note: Data up to 17<sup>th</sup> December. The Federal and State Governments usually cite vaccination rates as percentages of the population aged 16 and over (even though children aged 12-15 are 'eligible' for vaccinations; 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"](#).

# Vaccination rates among teenagers and younger adults appear to have slowed in recent weeks, but nearly all older Australians are fully vaxxed

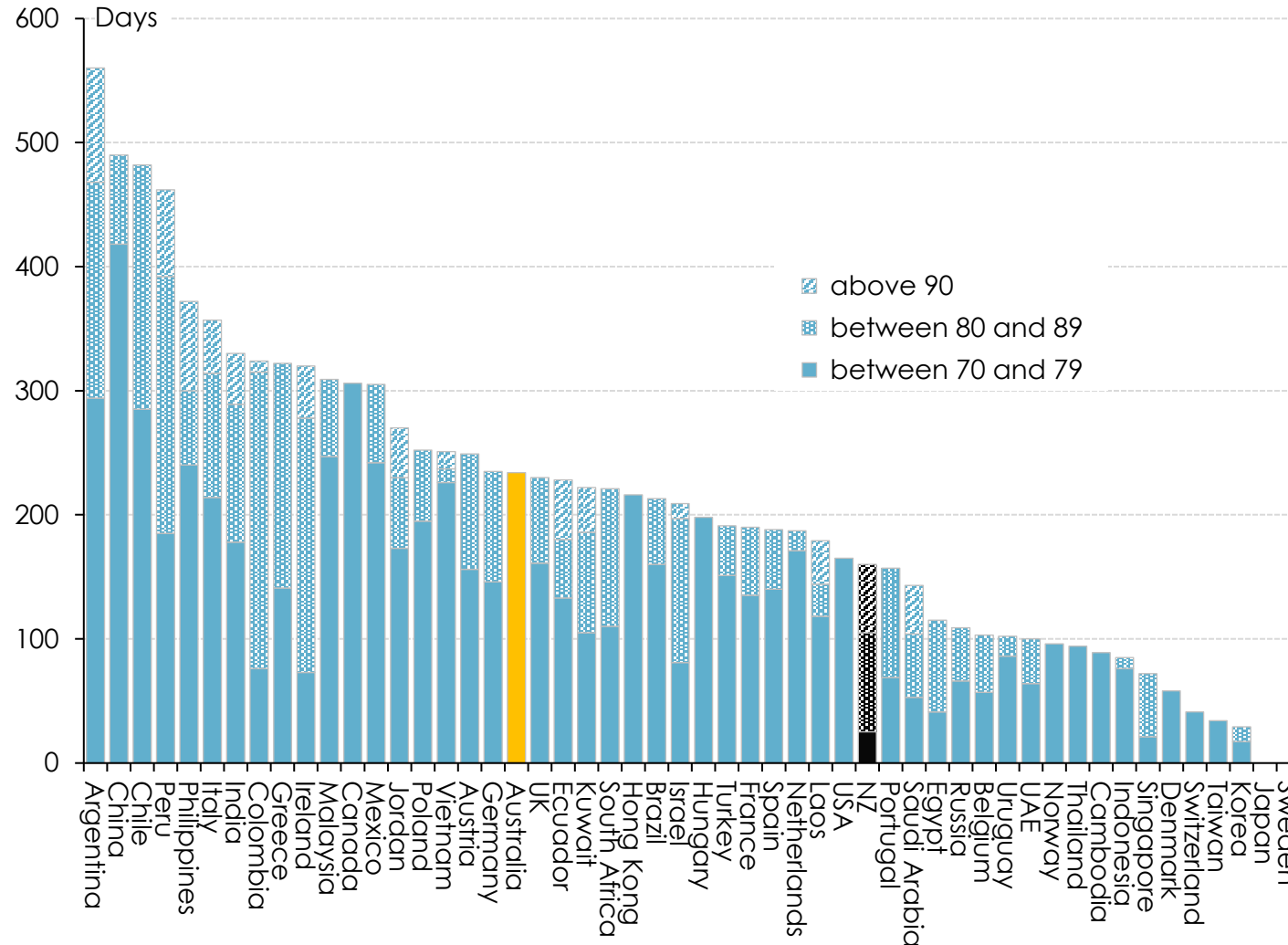
Vaccination rates by age group as at 17<sup>th</sup> December



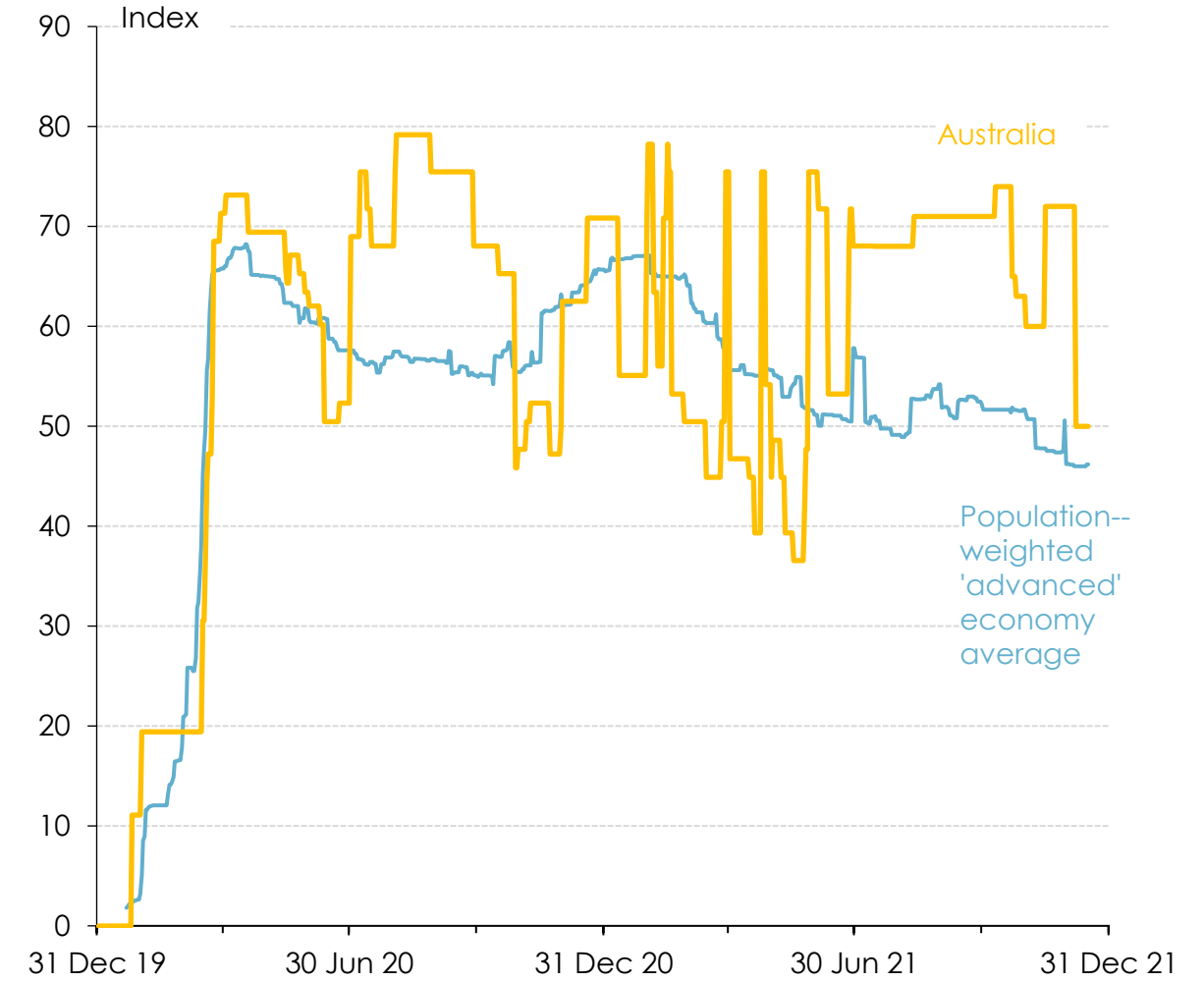
Note: For data on infections by age group see [slide 17](#).  
Source: Commonwealth Department of Health, [Covid-19 Vaccine Roll-out update](#), 10<sup>th</sup> December 2021. [Return to "What's New"](#).

# 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



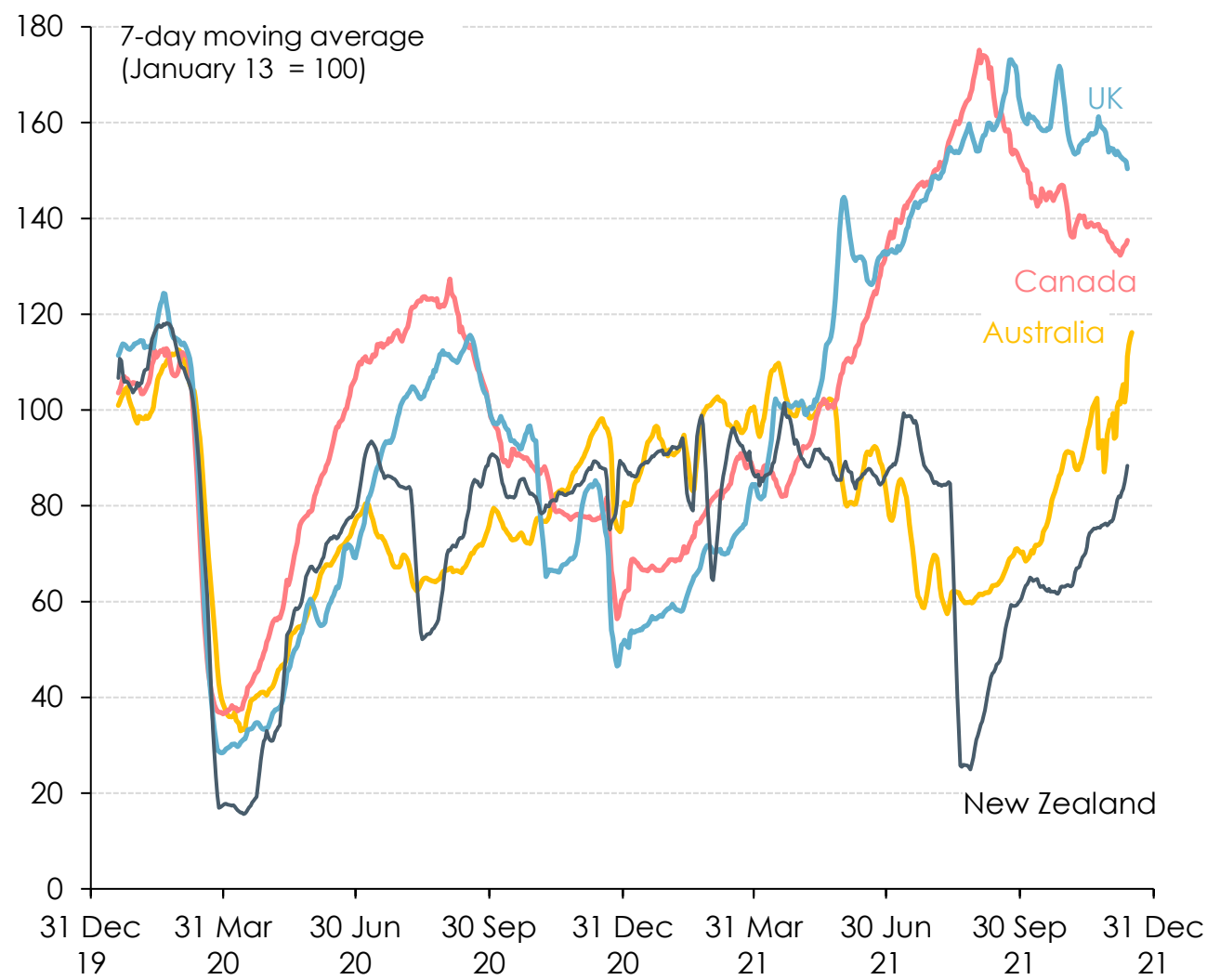
## Stringency of Australia's restrictions compared with an average of other 'advanced' economies



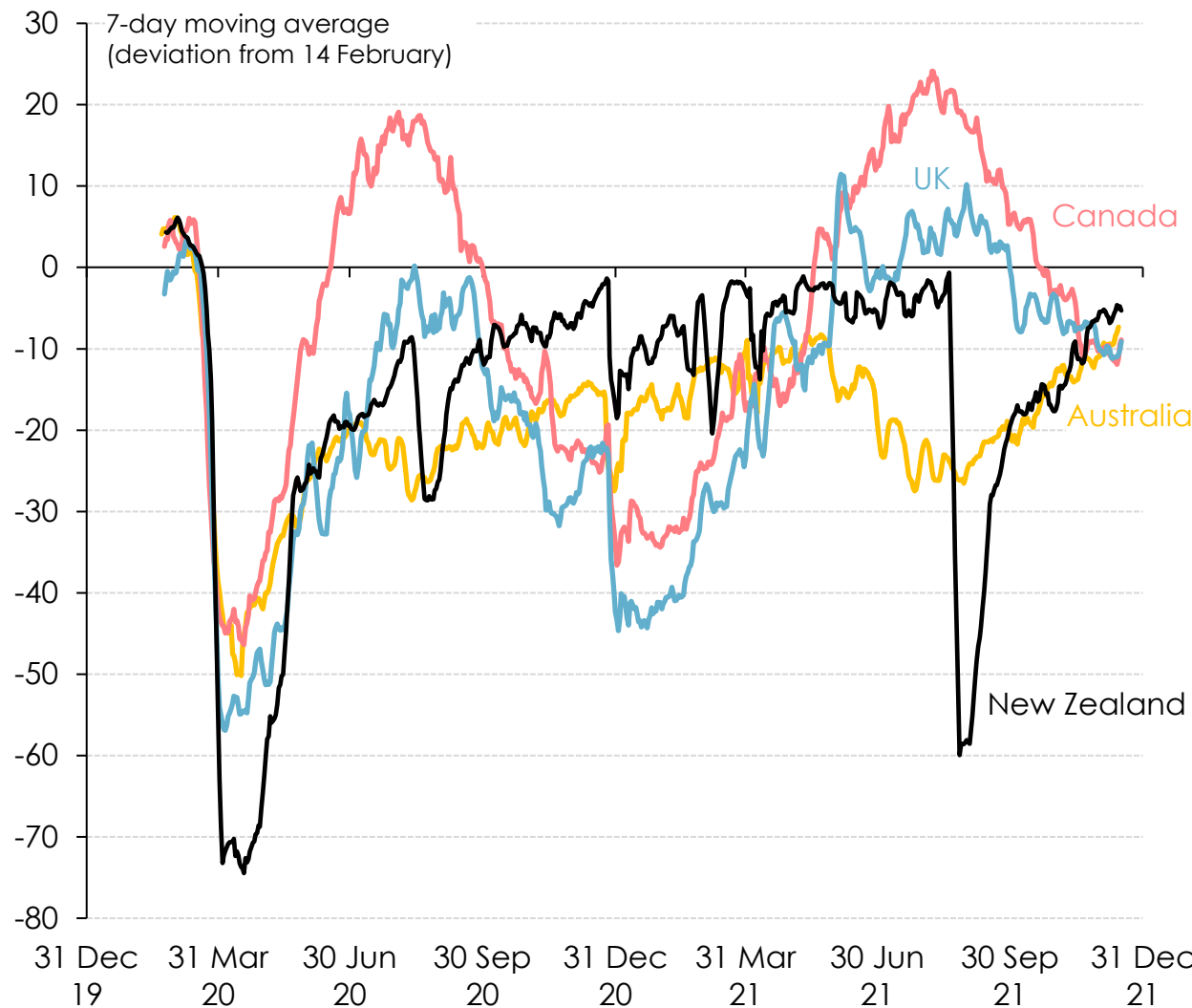
The Oxford COVID-19 Government Response Tracker collects publicly available information on 11 indicators of government response including school and workplace closures, public events cancellations, restrictions on public gatherings, stay at home requirements, public transport closures, domestic and international travel restrictions, public information campaigns, testing and contact tracing. Source: [Blavatnik School of Government, Oxford University](#). Data up to 16<sup>th</sup> December. [Return to "What's New"](#).

# 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



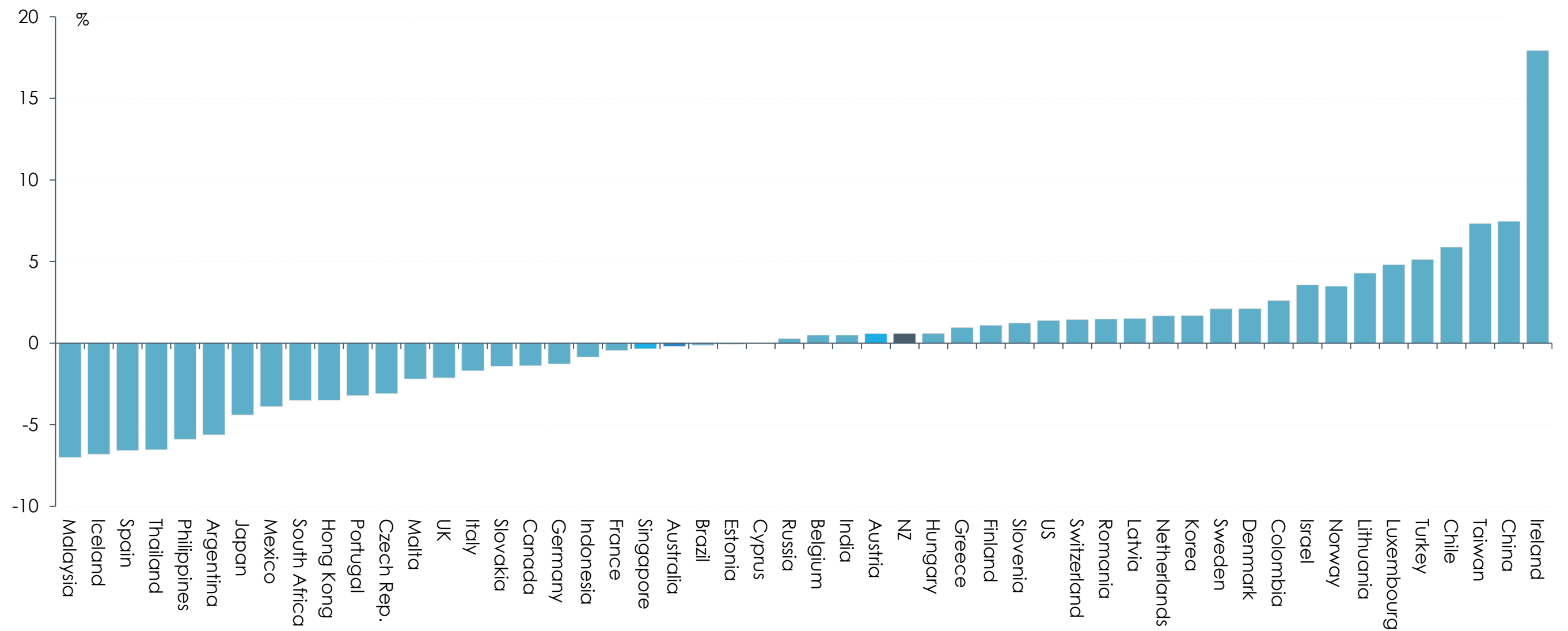
Note: 'Apple mobility indicator' is the average of three separate indicators for driving, use of transit and walking (data up to 16<sup>th</sup> December). Google 'non-residential activities' indicator is the average of separate indicators for workplaces, retail and recreation, groceries and pharmaceuticals, transit and parks (data up to 14<sup>th</sup> December).  
Sources: Apple, [Mobility Trends Reports](#); Google, [Covid-19 Community Mobility Reports](#); Corinna Economic Advisory. [Return to "What's New"](#).

**The world**



# 27 countries (out of 52 for which seasonally-adjusted Q3 GDP estimates are available) have surpassed their pre-pandemic peaks

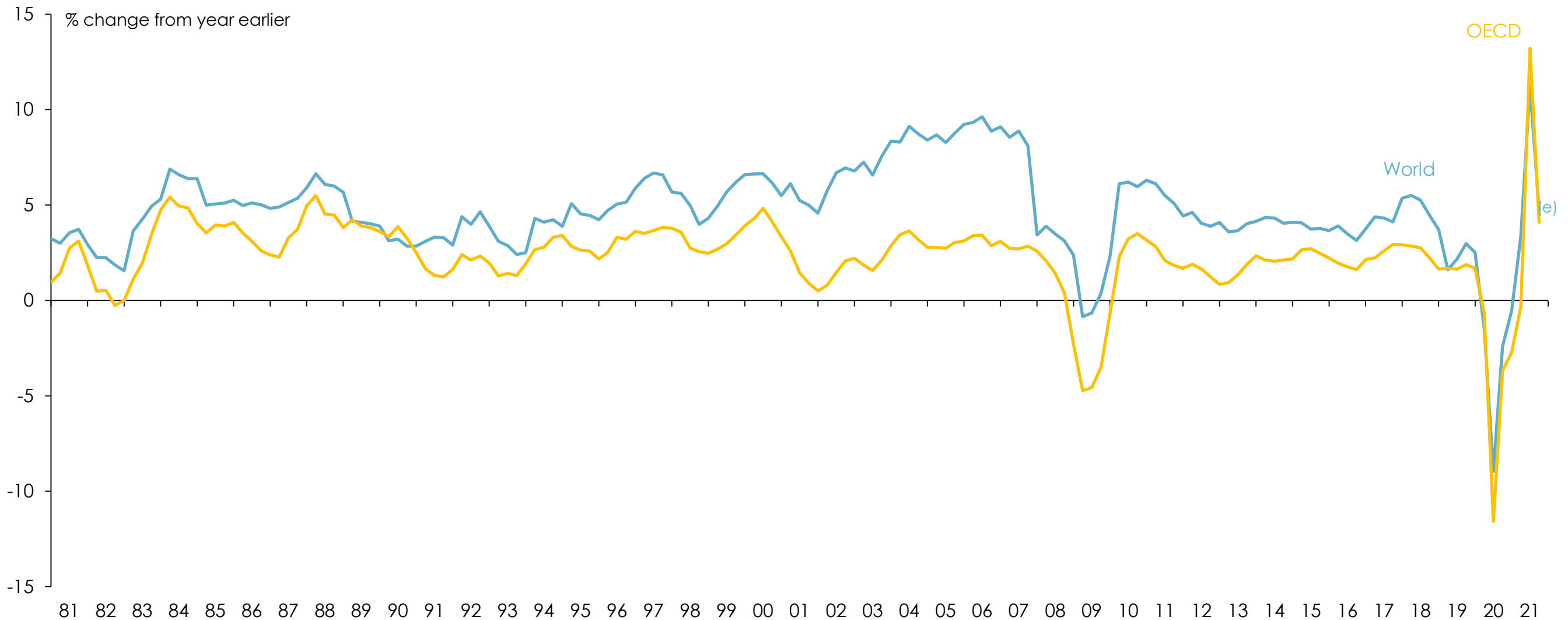
Q3 2021 real GDP compared with pre-recession peak



Estimate for China derived from quarterly growth rates published by China NBS; estimates for India and Indonesia are seasonally adjusted by the OECD. Source: National statistical agencies and central banks. [Return to "What's New"](#).

# The world economy grew by about 4<sup>3</sup>/<sub>4</sub>% over the year to Q3 – down from 11<sup>1</sup>/<sub>4</sub>% over the year to Q2 which was flattered by comparison with Q2 2020

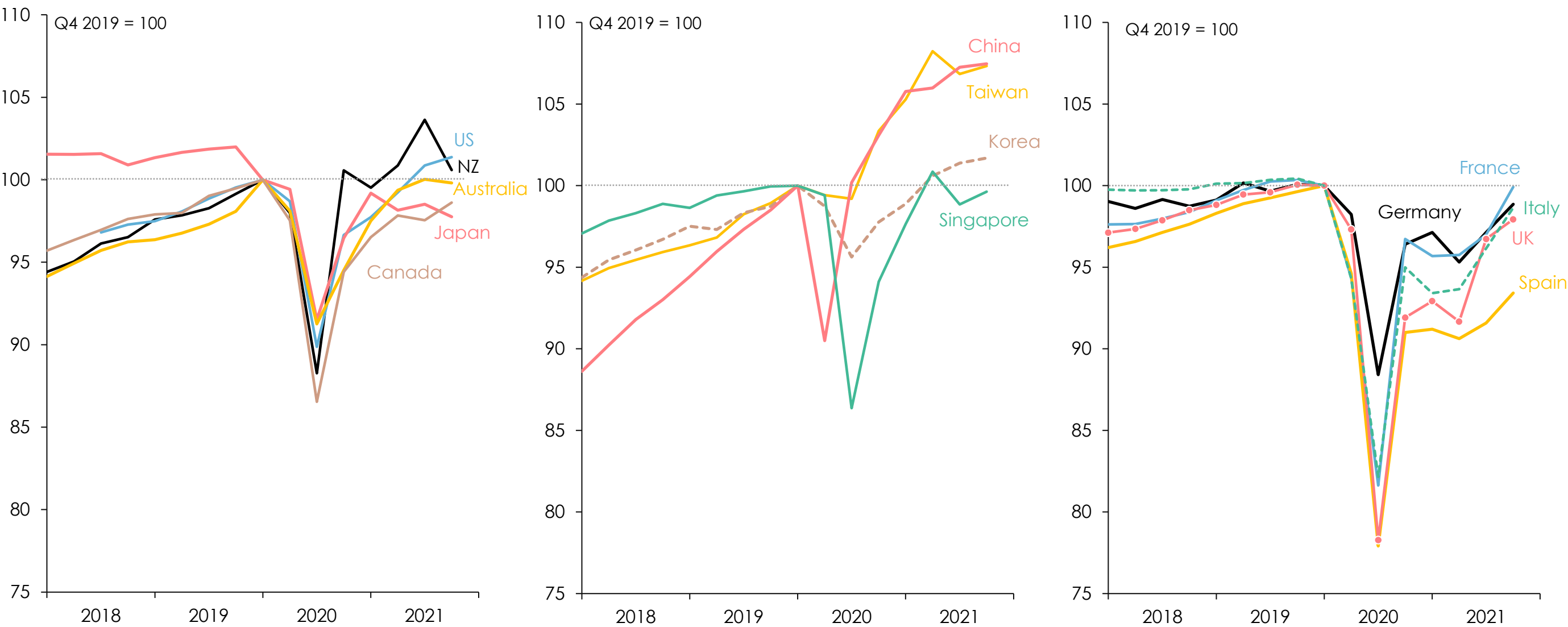
## World and OECD area real GDP growth



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 Q3 2021 is based on results for about 60 economies. Sources: national statistical agencies and central banks; Eurostat; [OECD](#); IMF; Corinna. [Return to "What's New"](#).

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

Levels of real GDP indexed to Q4 2019 = 100



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

# The OECD's latest *Economic Outlook* left its forecasts for global growth unchanged but raised its forecasts for inflation

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

	Actual		IMF			OECD			World Bank		Australian/NZ Treasury	
	2019	2020	2021	2022	2023	2021	2022	2023	2021	2022	2022	2023
US	2.2	-3.5	6.0	5.2	2.2	5.6	3.7	2.4	6.8	4.2	4.3	2.3
China	5.8	2.3	8.0	5.6	5.3	8.1	5.1	5.1	7.7	5.3	5.0	5.3
Euro area	1.3	-6.6	5.0	4.3	2.0	5.2	4.3	2.5	4.2	4.4	4.3	2.0
India	4.0	-8.0	9.5	8.5	6.6	9.4	8.1	5.5	8.3	7.5	8.5	6.5
Japan	0.3	-4.8	2.4	3.2	1.4	1.8	3.4	1.1	2.9	2.6	3.3	1.0
UK	1.4	-9.9	6.8	5.0	1.9	6.9	4.7	2.1	na	na	na	na
Australia	1.9	-2.4	3.5	4.1	2.6	3.8	4.1	3.0	na	na	3.5*	2.3*
New Zealand	2.2	-3.0	5.1	3.3	1.7	4.7	3.9	2.6	na	na	4.9 <sup>†</sup>	2.2 <sup>†</sup>
World	2.8	-3.3	5.9	4.9	3.6	5.6	4.5	3.2	5.6	4.3	4.5	3.5
World trade	0.9	-8.5	9.7	6.7	4.5	9.3	4.9	4.5	8.3	6.3	na	na
World inflation	3.5	3.2	4.3	3.8	3.3	3.5	4.2	3.0	na	na	na	na

Note: \* Forecasts for fiscal years beginning 1<sup>st</sup> July (and finishing 30<sup>th</sup> June following year) † Forecasts by New Zealand Treasury for fiscal years beginning 1<sup>st</sup> July  
Sources : International Monetary Fund (IMF), [World Economic Outlook](#), 12<sup>th</sup> October 2021; The World Bank, [Global Economic Prospects](#), 8<sup>th</sup> June 2021;  
Organization for Economic Co-operation & Development (OECD), [Economic Outlook](#), 1<sup>st</sup> December 2021, ; Australian Treasury, 2021-22 [Mid-Year Economic and Fiscal Outlook](#), 16<sup>th</sup> December 2021; New Zealand Treasury, [Half Year Economic and Fiscal Update 2021](#), 15<sup>th</sup> December 2021. [Return to "What's New"](#).

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

## OECD real GDP growth forecasts

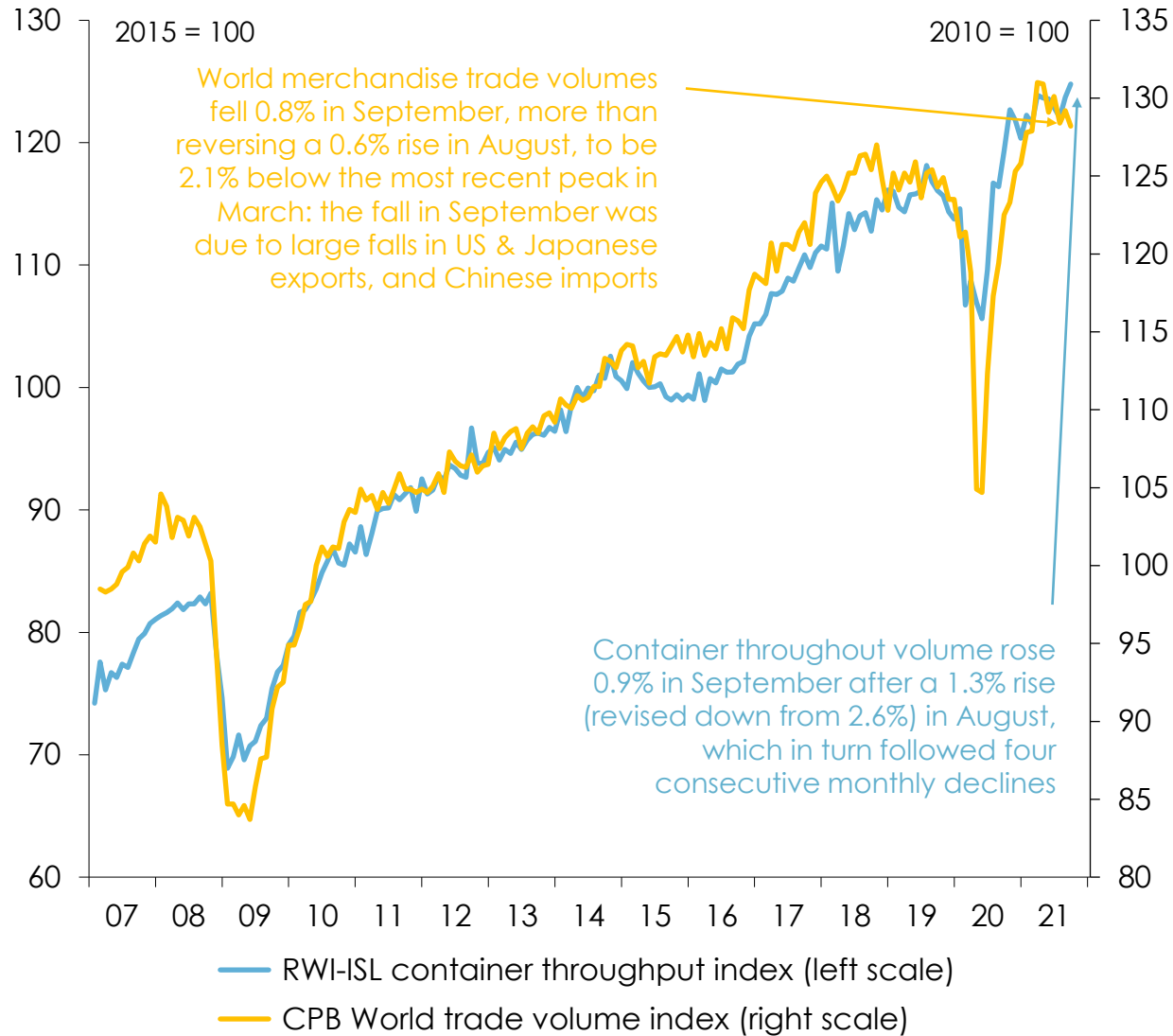
	December forecast (%)		Revision from September (pc pts)	
	2021	2022	2021	2022
<b>Advanced economies</b>				
US	5.6	3.7	-0.4	-0.2
Euro zone	5.2	4.3	+0.9	-0.3
Japan	1.8	3.4	-0.7	+1.3
UK	6.9	4.7	+0.2	-0.5
Australia	3.8	4.1	-0.2	+0.8
New Zealand	4.7	3.9	+1.2	+0.1
<b>Emerging economies</b>				
China	8.1	5.1	-0.4	-0.7
India	9.4	8.1	+2.7	-1.8
Brazil	5.0	1.4	-0.2	-0.9
Russia	4.3	2.7	+1.6	-0.7
<b>World</b>	5.6	4.5	-0.1	0.0
<b>OECD area inflation</b>	3.5	4.2	+0.8	+1.8

- ❑ The OECD's most recent [Economic Outlook](#), published at the beginning of December, depicts the recovery in the global economy as having “lost momentum and becoming increasingly imbalanced”
  - “persisting supply bottlenecks, rising input costs and the continued effects of the pandemic” are sapping the momentum from the strong rebound after re-opening
  - while “stronger and longer-lasting inflation pressures have emerged in all economies at an unusually early stage of the cycle”, with “labour shortages emerging even though employment and hours worked are yet to recover fully”
- ❑ The OECD expects that “supply-side constraints and shortages should wane gradually through 2022-23”
  - with consumer price inflation in OECD countries “projected to peak by the end of 2021” at close to 5%, falling to around 3½% by end-2022 and 3% in 2023
  - while global growth is expected to “moderate over time”, from 5.6% in 2021 to 4½% in 2022 and 3¼% in 2023
  - Covid-19 should become “progressively less of a factor in global economic outcomes over coming years”, unless “new, more dangerous variants of the virus emerge”
- ❑ The OECD notes that business investment has been “recovering quickly”, and that “changes in business practices in many firms” triggered by the pandemic may have had a positive net effect on firms’ productivity
- ❑ It recommends that central banks in major advanced economies should become “less accommodative”, initially by tapering asset purchases and then by raising policy interest rates – while abrupt withdrawals of fiscal policy support “should be avoided whilst the near-term outlook is still uncertain”

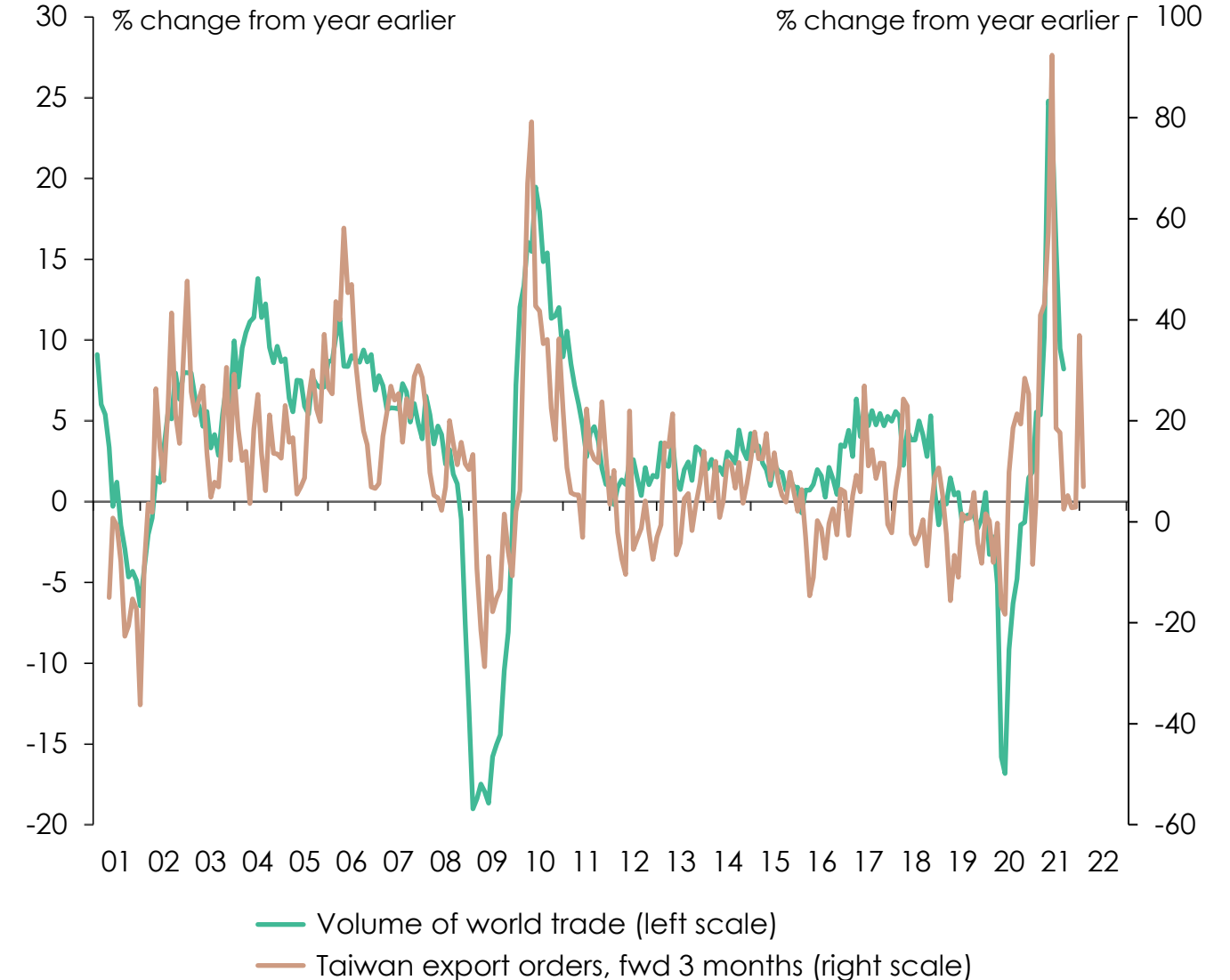
Source: OECD, [Economic Outlook](#), Volume 2021 Issue 2, 1<sup>st</sup> December 2021. [Return to "What's New"](#).

# World trade volumes fell 0.8% in September, after a 0.6% increase in August, but should pick up gradually over the next few months

## World trade volumes and container throughput



## Taiwan export orders and world trade volumes

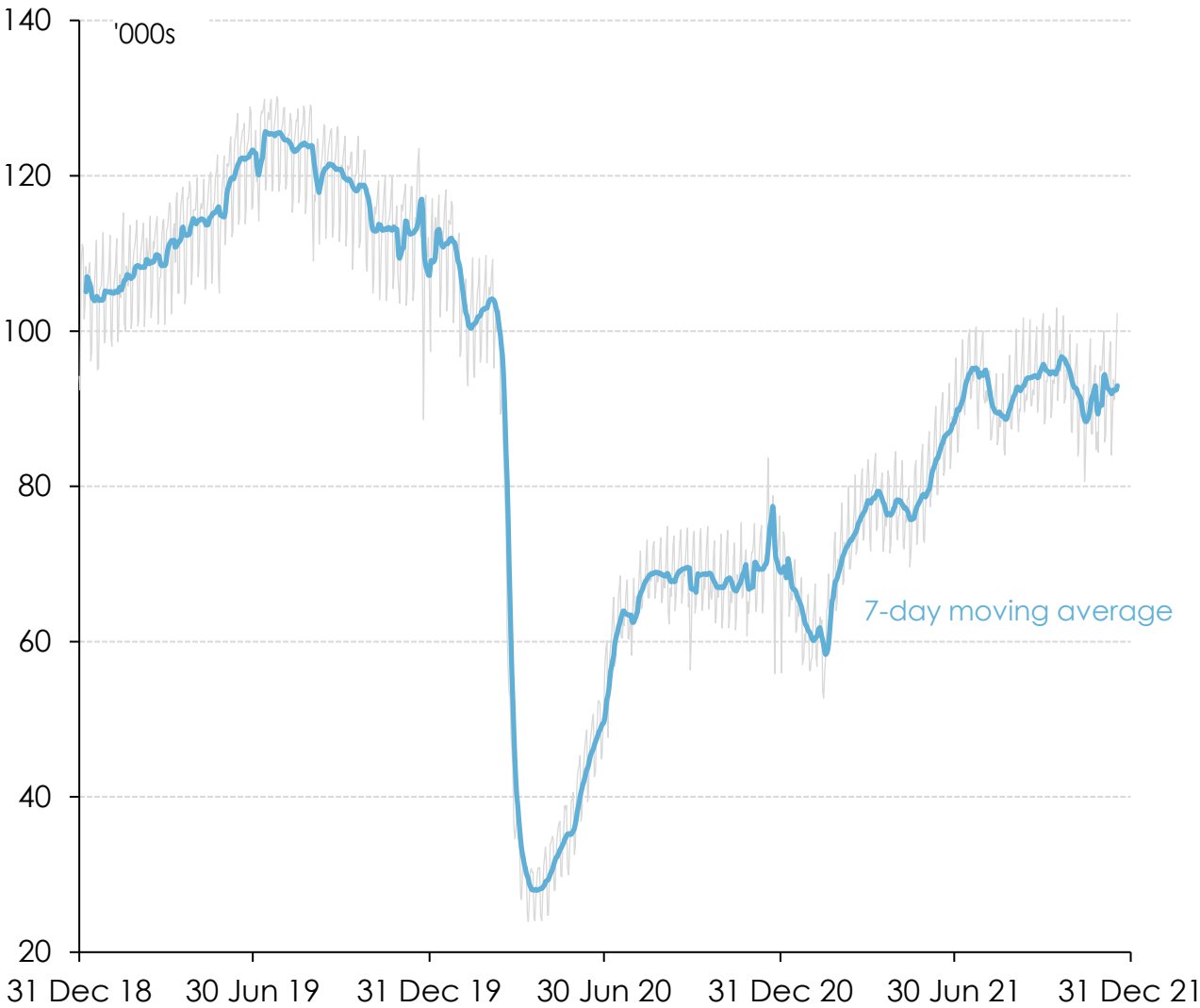


Note: The shipping container throughput index is based on reports from 91 ports around the world handling over 60% of global container shipping.  
Sources: CPB Netherlands Economic Planning Bureau, [World Trade Monitor](#) (October data to be released on 24<sup>th</sup> December); Institute of Shipping Economics & Logistics (ISL) and RWI Leibniz-Institut für Wirtschaftsforschung (RWI) [Container Throughput Index](#); Taiwan [Ministry of Economic Affairs](#). [Return to "What's New"](#).

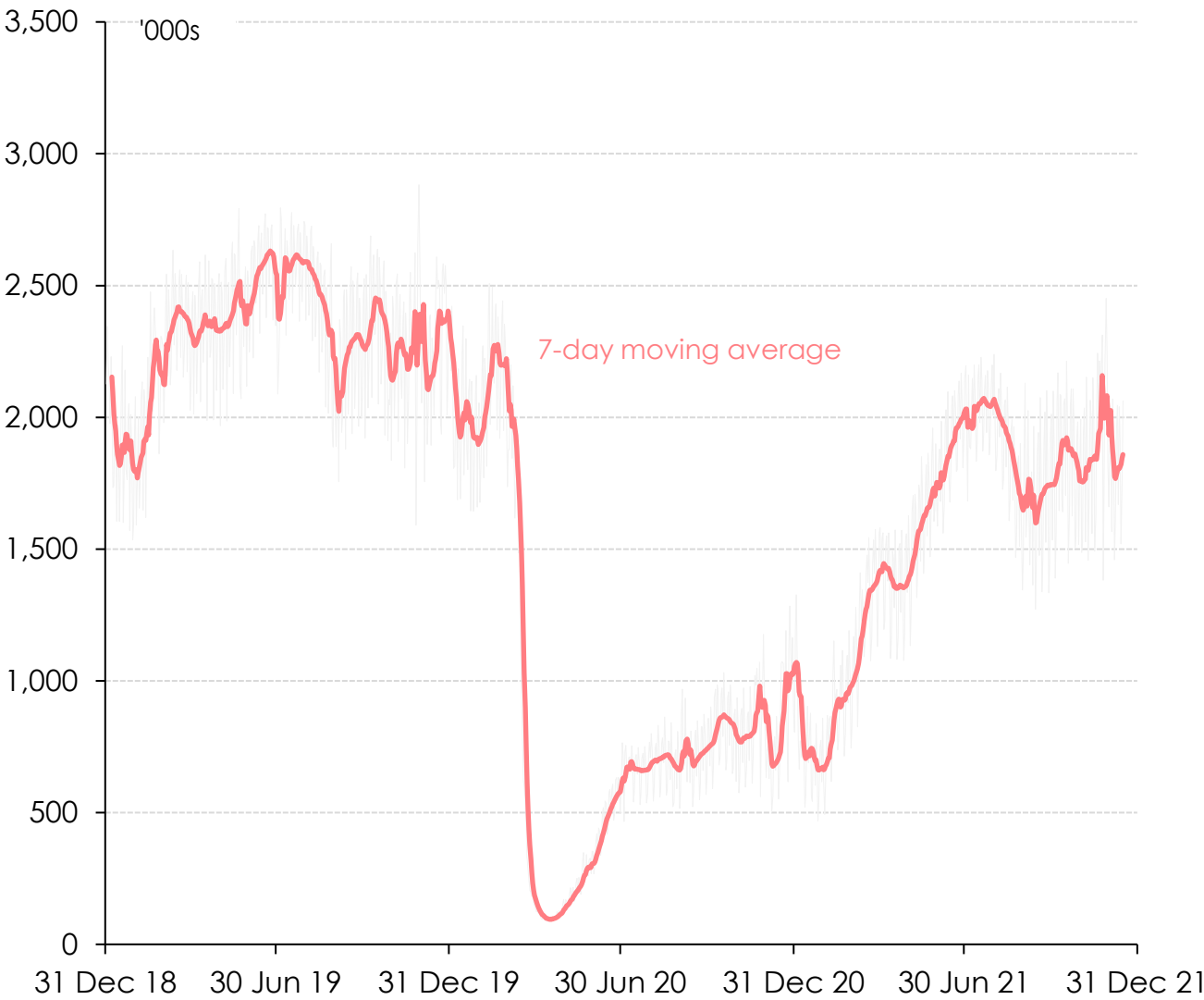


# Global aviation traffic remains well below pre-pandemic levels

Daily commercial flights worldwide



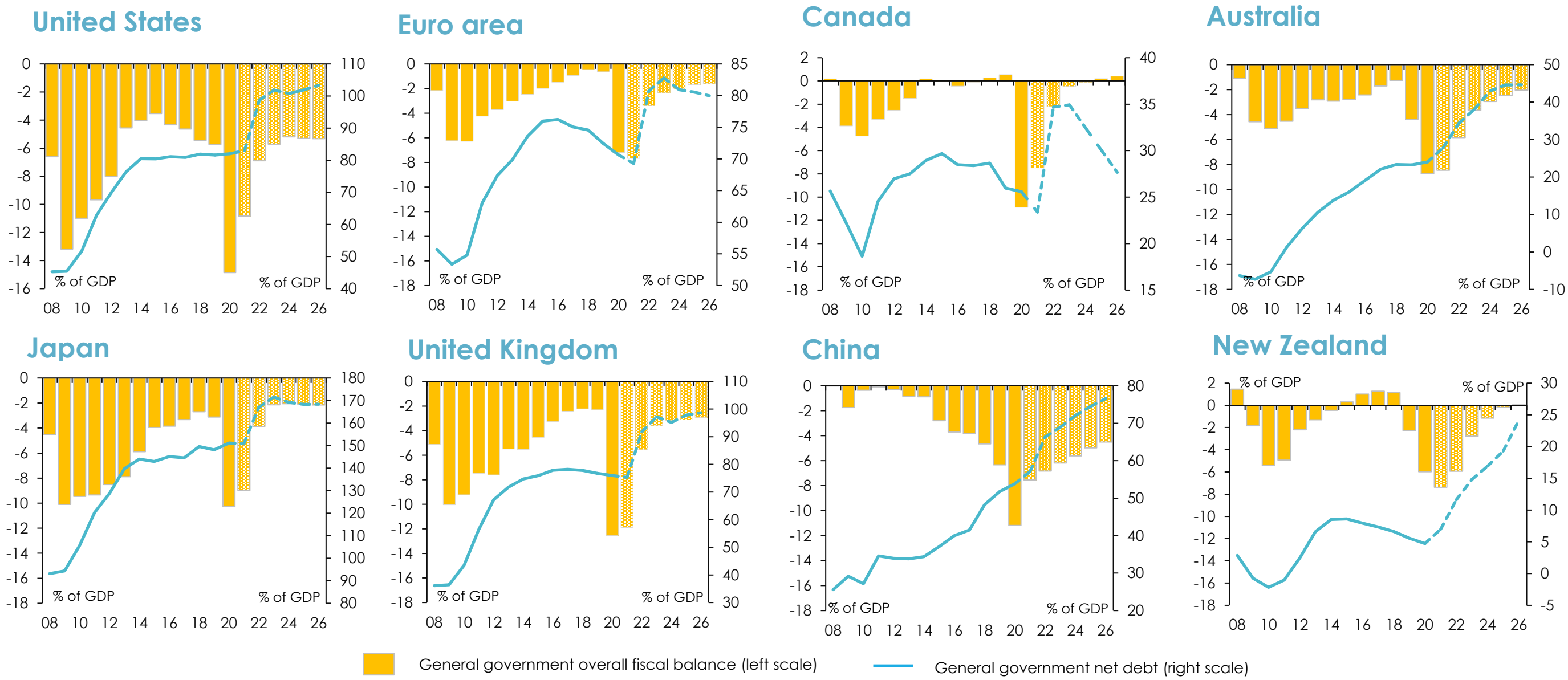
Daily US TSA 'security' checks



Note: Commercial flights include commercial passenger flights, cargo flights, charter flights, and some business jet flights. Daily flights data are up to 17<sup>th</sup> December and TSA checks up to 16<sup>th</sup> December. Thicker coloured lines are 7-day centred moving averages of daily data plotted in thin grey lines. Sources: [Flightradar24.com](https://www.flightradar24.com); [US Transport Safety Administration](https://www.transportation.gov) (at last, something useful produced by aviation 'security'!!!). [Return to "What's New"](#).



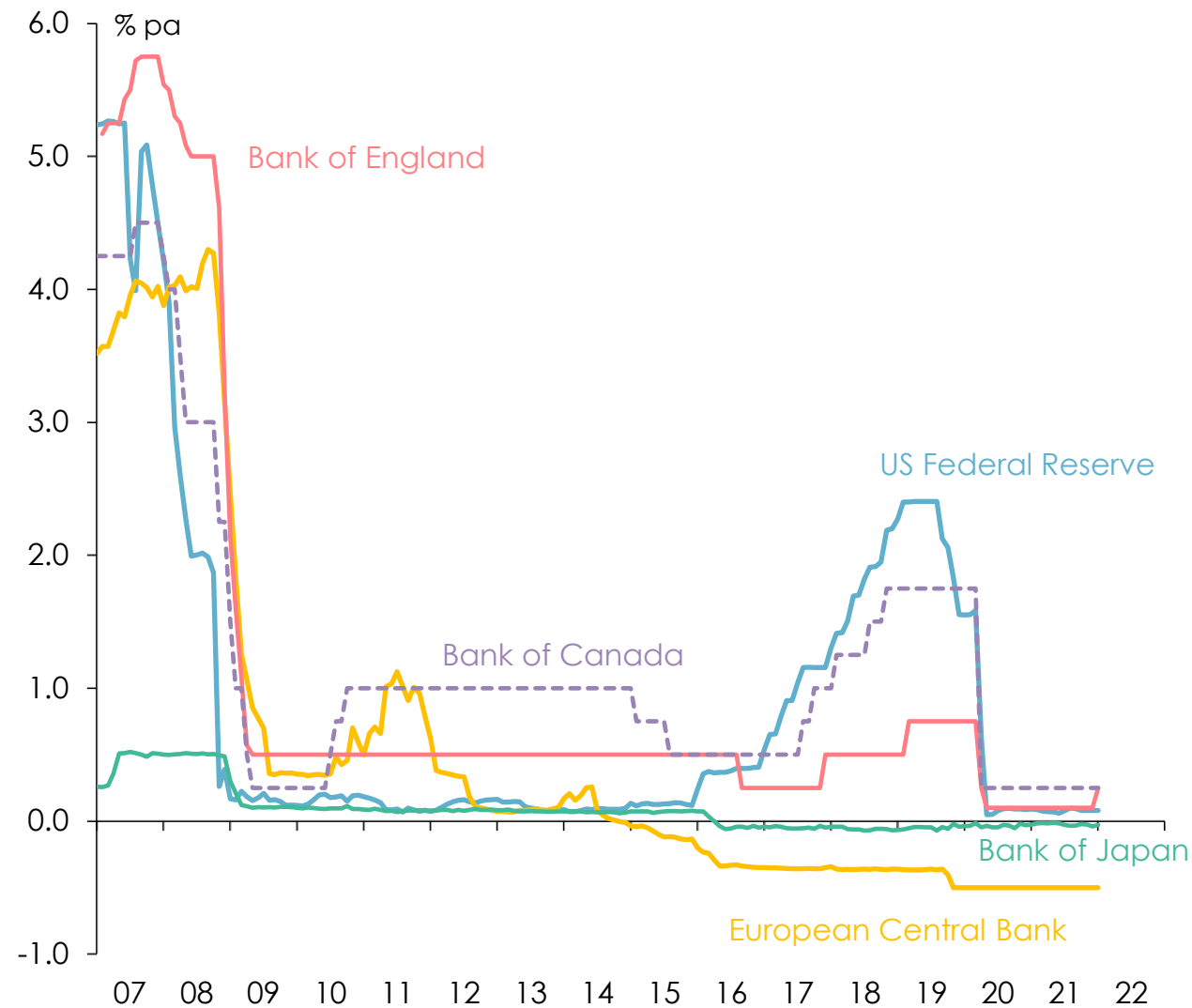
# Fiscal policy in almost all major economies is set to tighten significantly in 2022



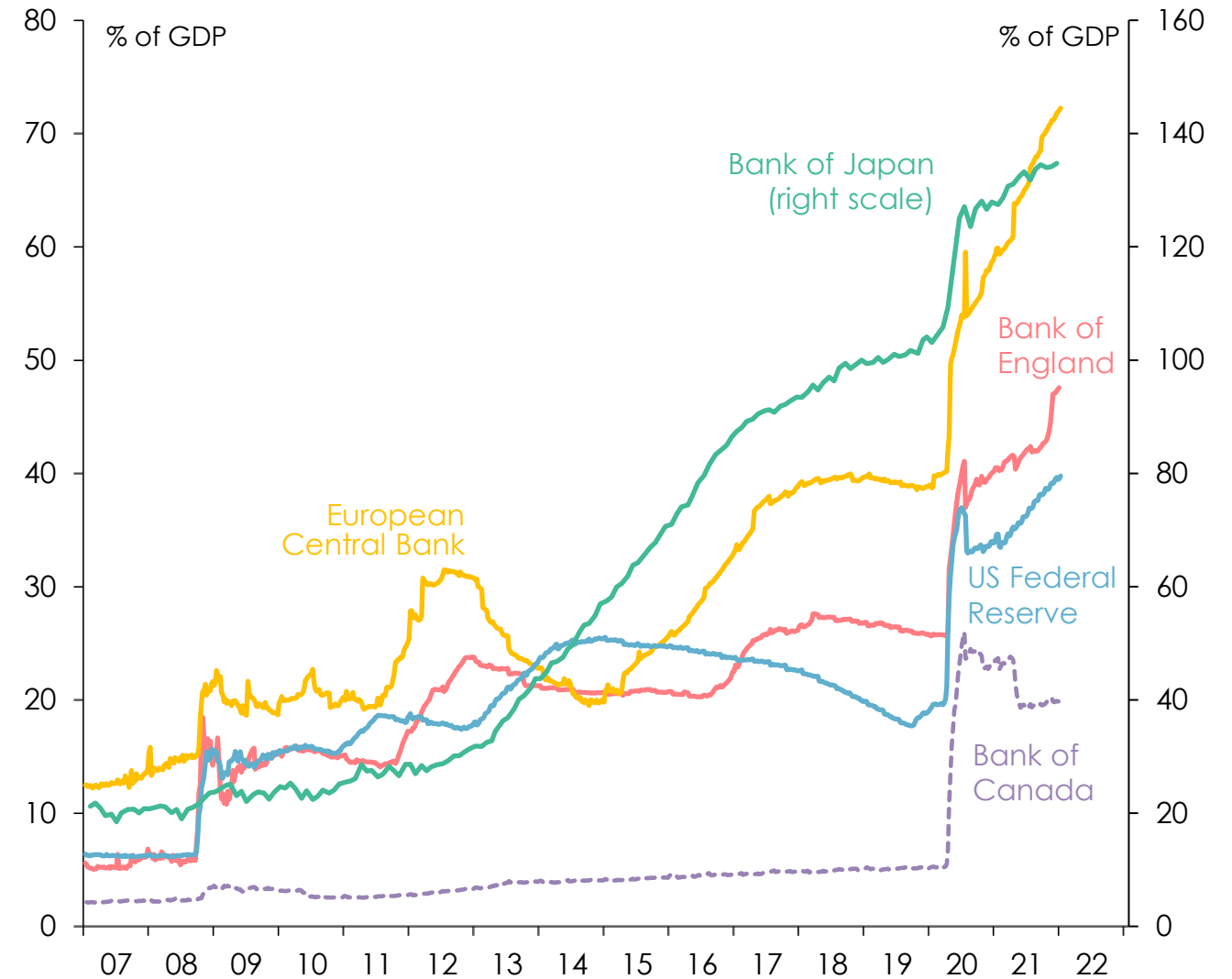
Note: China debt is gross debt, not net. Sources: International Monetary Fund, [Fiscal Monitor](#), and [World Economic Outlook](#), October 2021. [Return to "What's New"](#)

# The Bank of England this week became the first major economy central bank to raise rates since the onset of the pandemic

## Major central bank policy interest rates



## Major central bank balance sheets



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

# The US Federal Reserve this week accelerated the ‘tapering’ of its QE and foreshadowed at least 2, and perhaps 3, interest rate hikes next year

- ❑ The US Federal Reserve’s [Federal Open Market Committee](#) decided to accelerate the ‘tapering’ of its asset purchases at this week’s two-day meeting
  - it will now reduce its purchases of US Treasuries and mortgage-backed securities by US\$20bn and \$10bn a month, respectively, implying that purchases would cease by mid-March, three months sooner than previously foreshadowed
- ❑ Given that the Fed has previously insisted that it wouldn’t start raising rates before ending its ‘QE’, this decision clears the way for interest rates to begin sooner than previously signalled
  - a prospect which was clearly reflected in [Board members’ and regional Presidents’ projections](#) of the ‘appropriate path’ for the Fed funds rate, the median of which for end-2022 was revised up to 0.9% (cf. 0.3% in September), for end-2023 to 1.6% (from 1.0%) and for end-2024 to 2.1% (from 1.8%)
- ❑ In his [post-meeting press conference](#) Fed Chair Jerome Powell noted that inflation had “exceeded 2% for some time”, with price increases having now “spread to a broader range of goods and services”, and that all FOMC members now expected that “labour market conditions consistent with ... maximum employment” (the Fed’s other ‘test’ for beginning to raise interest rates) “will be met next year”
  - the median projection for ‘core’ PCE inflation at end-2022 was raised to 4.4% (from 3.7%) and for end-2022 to 2.6% (from 2.2%), while the median projection for unemployment at the end of this year was lowered to 3.7% (from 4.4%) and for the end of next year to 3.5% (from 3.8%), at which it is then expected to remain through 2023
- ❑ While observing that “wage growth has not been a major contributor to the elevated levels of inflation”, he also indicated that the Fed was “attentive to the risks that persistent real wage growth in excess of productivity could put upward pressure on inflation”
  - and emphasized that the Fed would “use [its] tools to prevent higher inflation from becoming entrenched”

# The Bank of England this week raised its Bank Rate for the first time since the onset of the pandemic, while Norges Bank raised its rate for the second time

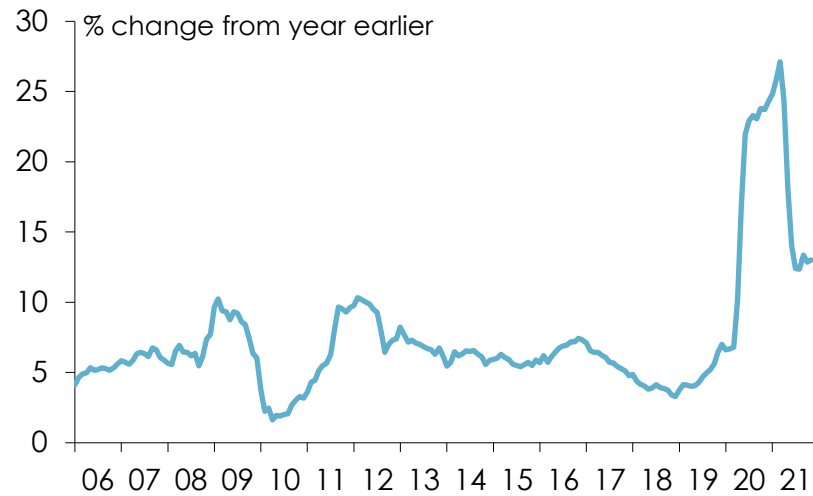
- ❑ The Bank of England's Monetary Policy Committee raised its Bank Rate by 15 basis points, to 0.25%, at its meeting on Wednesday – the first major 'advanced' economy central bank to begin tightening monetary policy
  - the MPC also decided, in effect, to halt its QE program, keeping the target for the total stock of asset purchases at £895bn which is only £2bn above the stock held by the BoE's Asset Purchase Facility as at 15<sup>th</sup> December
- ❑ The BoE's MPC **judged** that an increase in [the] Bank Rate was “warranted” given that “the labour market is tight and has continued to tighten” (notwithstanding the termination of the UK Government's furlough scheme at the end of September) and that “there are some signs of greater persistence in domestic cost and price pressures”
  - BoE staff expect inflation “to peak at around 6% in April 2022” (with the further increase from 5.1% over the year to November largely the result of hikes in natural gas prices), 1 pc pt higher than forecast in the BoE's November *Inflation Report*
  - while the MPC recognized that the omicron variant could have a dampening impact on economic activity in the short term, it also considered that (in contrast to the initial impact of the virus on inflation), a wide spread of the new variant could result in higher inflation (via supply-chain effects)
- ❑ The MPC also foreshadowed that “some [further] modest tightening of monetary policy is likely to be necessary” over the forecast period “to meet the 2% inflation target sustainably”
- ❑ Norges Bank (Norway's central bank) raised its policy rate by 25 basis points, to 0.50%, at its Monetary Policy and Financial Stability Committee meeting on Wednesday (having previously lifted it from 0 to 0.25% in September)
  - the MPFSC **assessed** that although ‘core’ inflation (at 1.3% over the year to November) was still below the target, given the elevated level of ‘headline’ inflation (5.0% over the year to November) as a result of hikes in electricity prices, and “continued high employment”, “the objective of stabilizing inflation around the target ... suggests that the policy rate should be raised towards a more normal level” and that “higher interest rates will also help to counter a build-up of financial imbalance”
  - Governor Øystein Olsen also foreshadowed that “the policy rate will most likely be raised in March”

# The ECB will terminate its QE at the end of March and may start raising rates “shortly” thereafter, while the BoJ kept its policy settings on hold

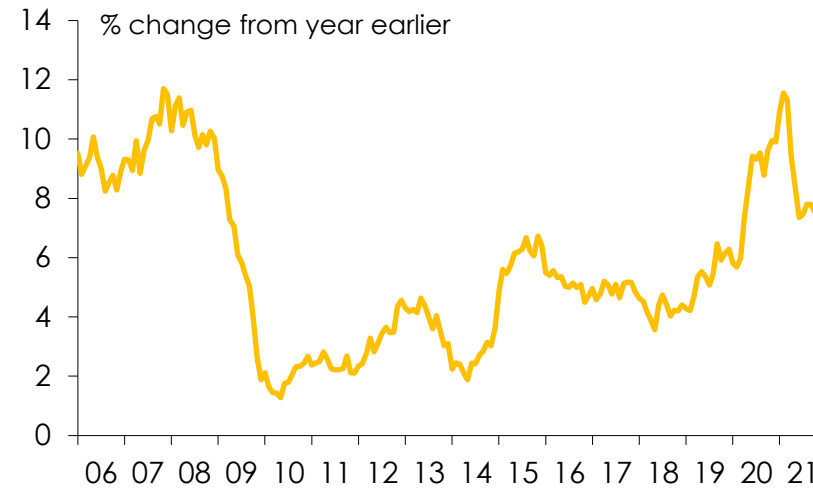
- ❑ The [European Central Bank](#) decided to terminate its asset purchase program at the end of March next year, but kept its policy interest rates unchanged, at this week’s Governing Council meeting
  - the ECB will conduct net asset purchases under its Pandemic Emergency Purchase Program (PEPP) in Q1 next year “at a lower pace than in the previous quarter” and discontinue them at the end of March (whilst re-investing maturities “until at least the end of 2024”
- ❑ Speaking after the meeting, ECB President Christine Lagarde twice [indicated](#) that the ECB would “start raising interest rates ... clearly shortly after we finish purchasing assets”
  - although the ECB staff expect growth has moderated during Q4 and that “this slower growth is likely to extend into the early part of next year” (due to the omicron variant), activity is expected to “pick up again strongly in the course of next year”
  - the ECB [staff projections](#) for inflation have been revised “significantly higher” for 2022, to 3.2% (from 1.7% in September), falling to 1.8% (previously 1.5%), with the 2022 forecast for wage inflation also revised up to 3.8% (from 2.9%) – in part reflecting a tighter labour market, with unemployment forecast to fall to 7.3% (previously 7.7%) in 2022 and 6.9% (previously 7.3%) in 2024
- ❑ The MPC also foreshadowed that “some [further] modest tightening of monetary policy is likely to be necessary” over the forecast period “to meet the 2% inflation target sustainably”
- ❑ Meanwhile the [Bank of Japan](#) kept its policy rate at -0.1% and maintained its yield-curve control target for 10-year JGBs at 0%, but its purchases of commercial paper and corporate bonds will revert to their pre-pandemic levels from the end of March
  - however the BoJ will extend its program of support to financial institutions for lending to SMEs for another six months until the end of September
  - in its [post-meeting statement](#) the BoJ forecast ‘core’ inflation to “increase moderately in positive territory in the short run, reflecting higher energy prices”, and thereafter “increase gradually as a trend” on the back of “improvement in the output gap and a rise in medium- to long-term inflation expectations”

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

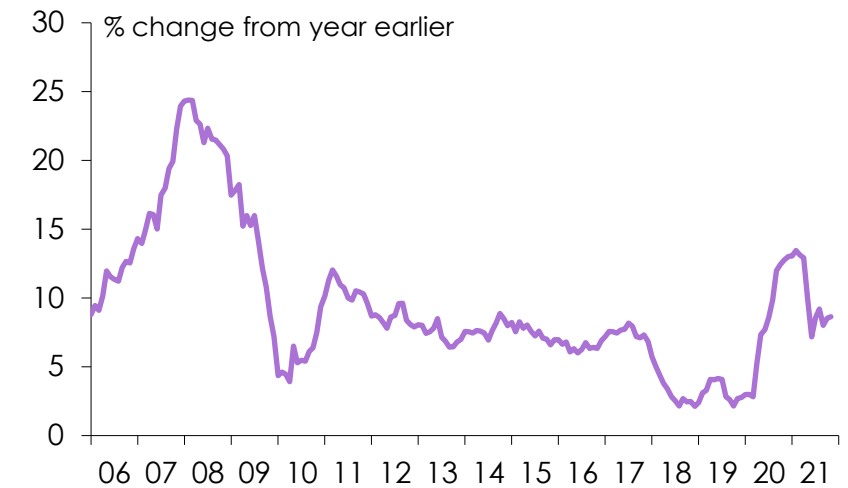
## US M2



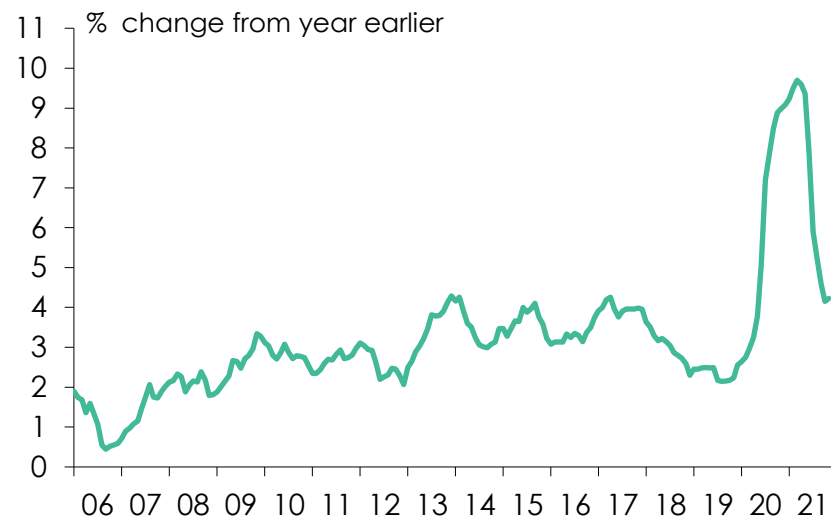
## Euro area M2



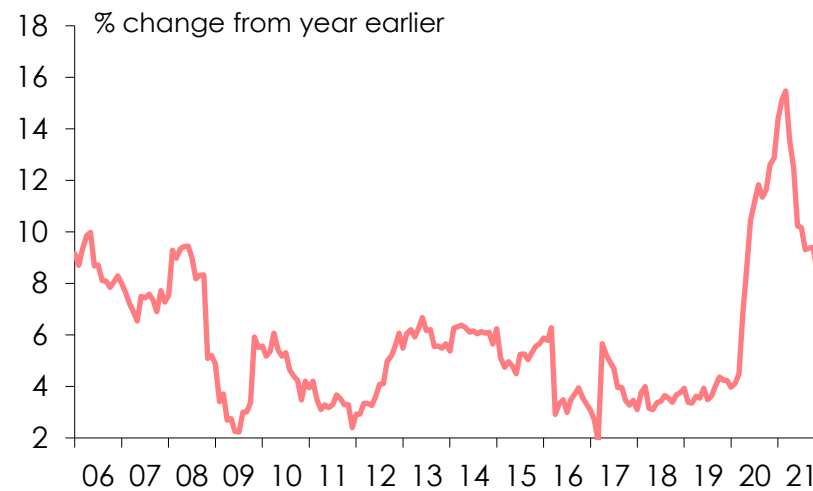
## Australia M3



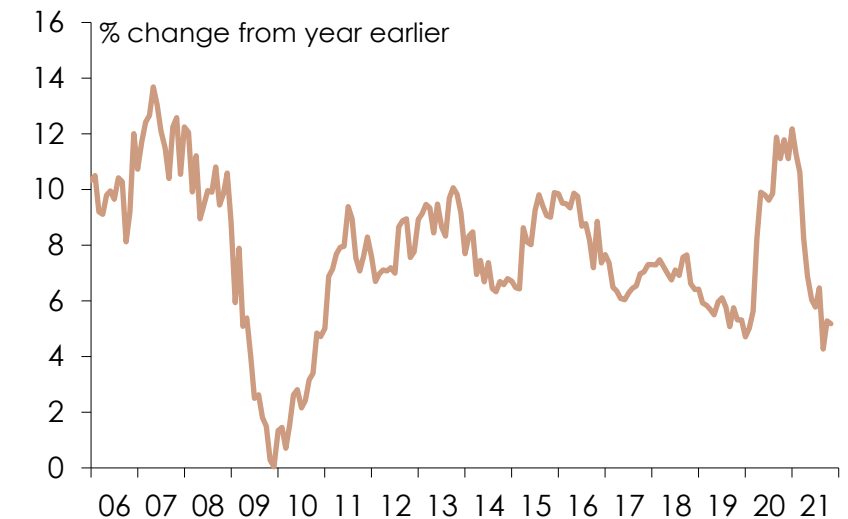
## Japan M2 + CDs



## UK M2



## New Zealand M3

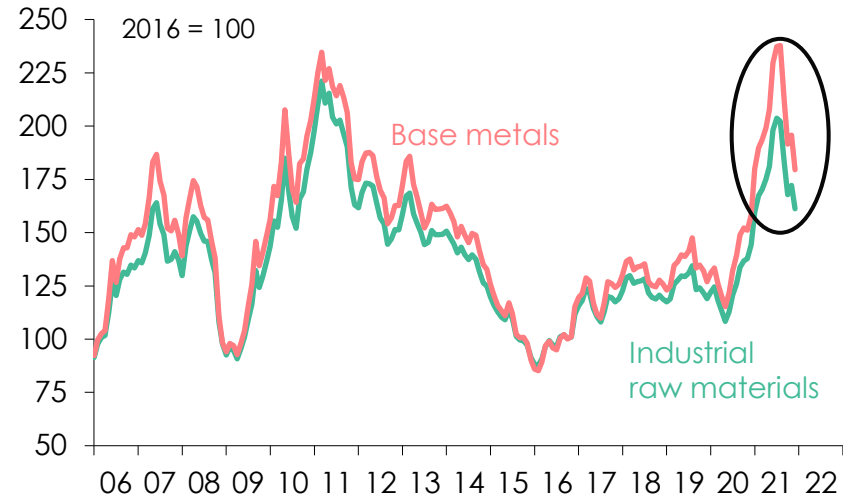


Sources: US Federal Reserve; European Central Bank; Bank of Japan; Bank of England; RBA; RBNZ. [Return to "What's New"](#).

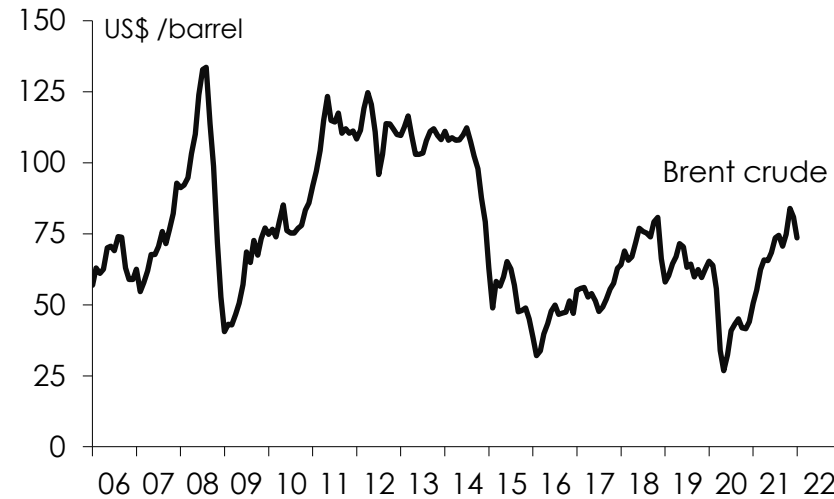


# Except for energy, the global factors which have contributed to 'upstream' price pressures in recent months seem to have peaked (at least for now)

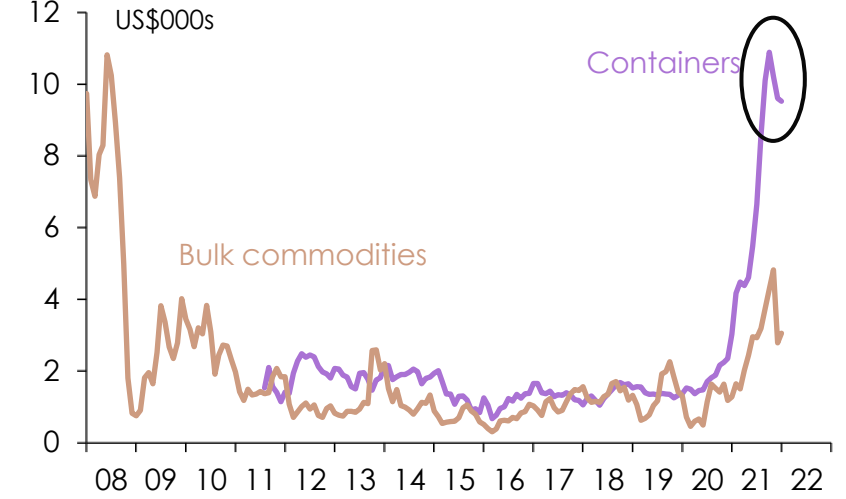
## 'Hard' commodity prices



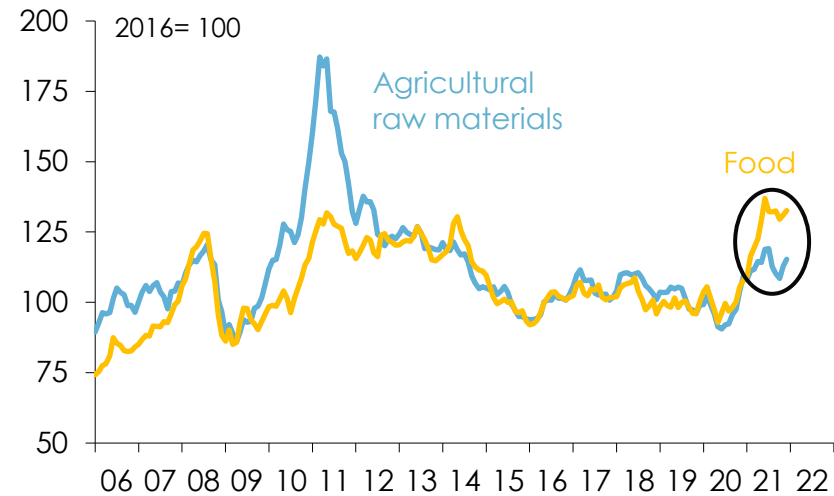
## Crude oil price



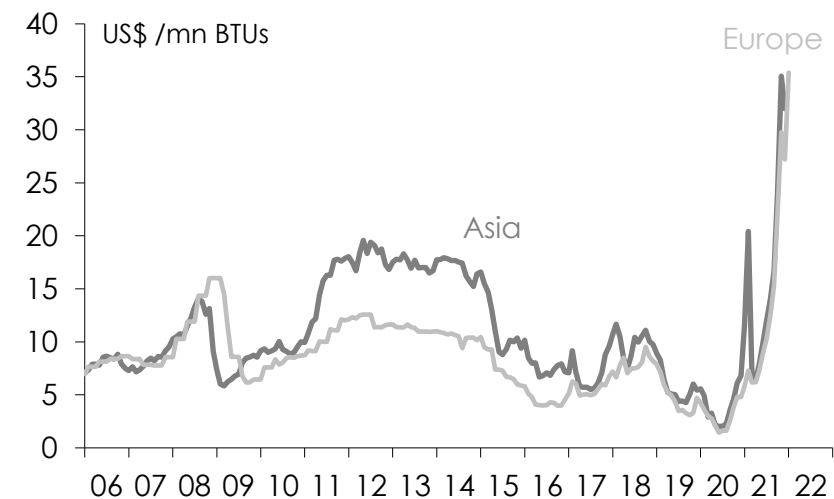
## Shipping freight costs



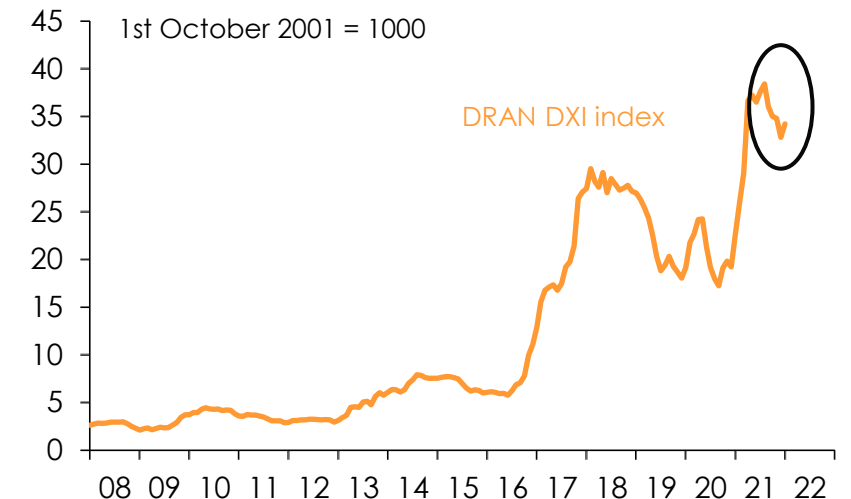
## 'Soft' commodity prices



## Natural gas prices



## Semiconductor chip prices

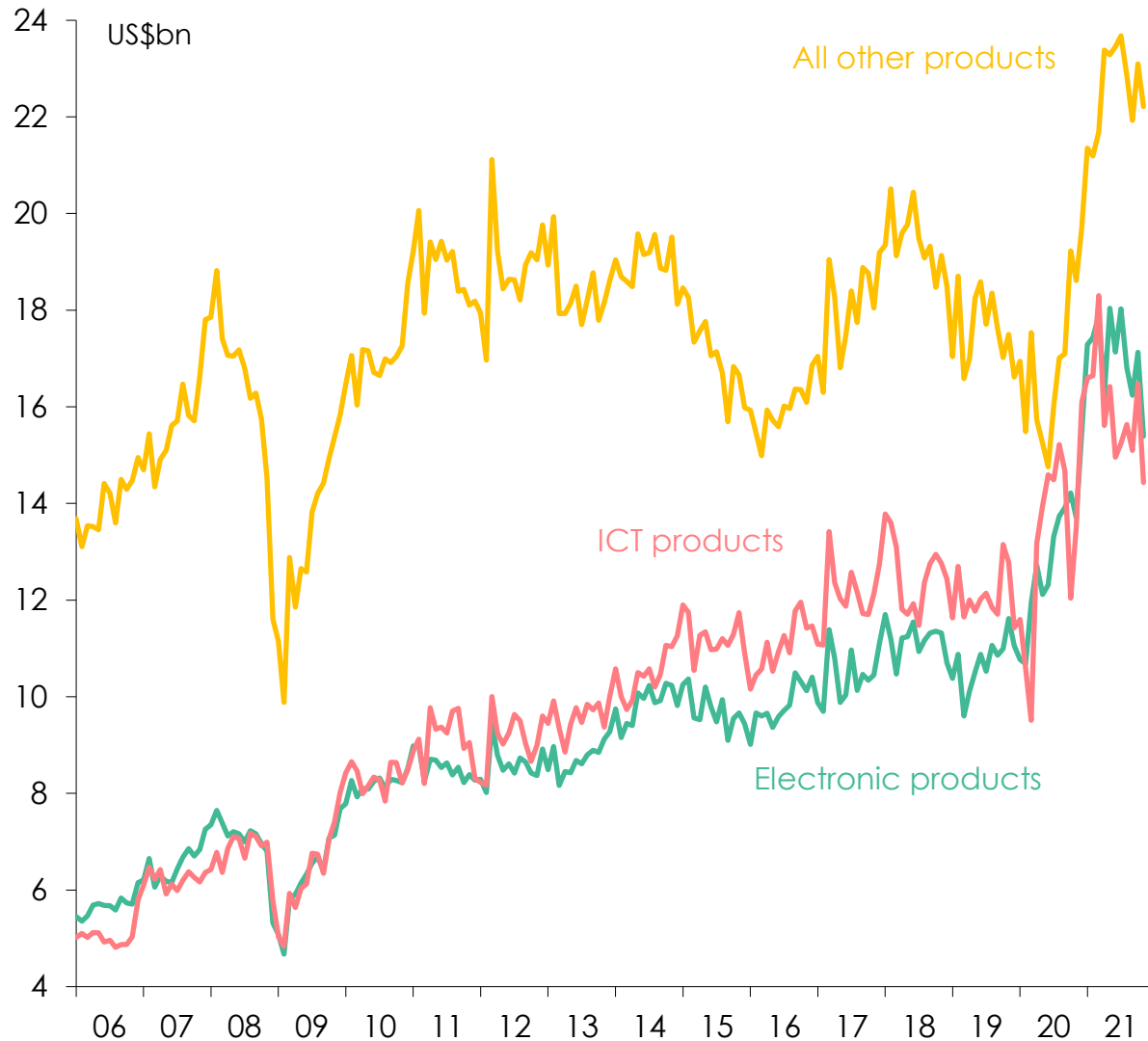


Note: The IMF commodity price indices were re-based to 2016 = 100 (previously 2005) in October. The European natural gas price is the Netherlands TTF forward day ahead price, up to October; the November & December readings are derived by adjusting the October value for subsequent movements in the UK 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.



# Export orders for Taiwanese ICT products fell in October suggesting semi-conductor industry supply chain problems aren't yet fully resolved

Taiwan export orders, by product

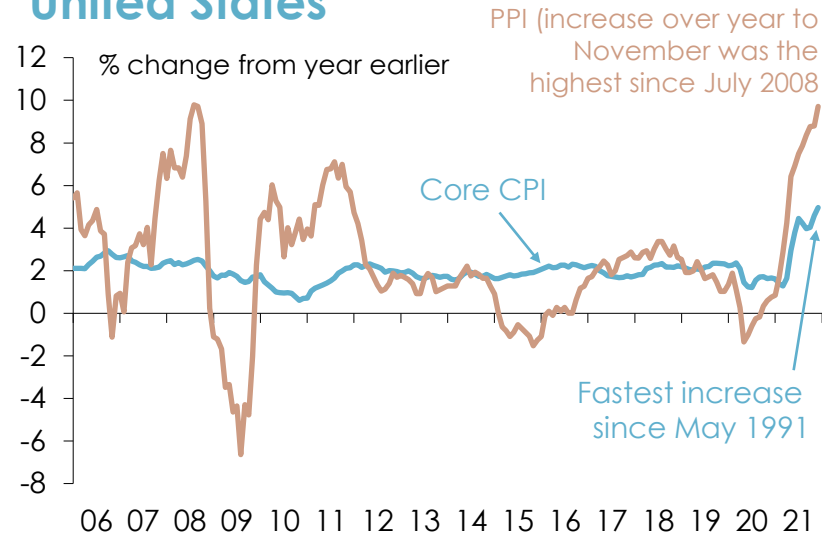


Note: Data have been seasonally adjusted by Corinna using Refinitiv Datastream. Latest data are for October. Source: Taiwan [Ministry of Economic Affairs](#). [Return to "What's New"](#).

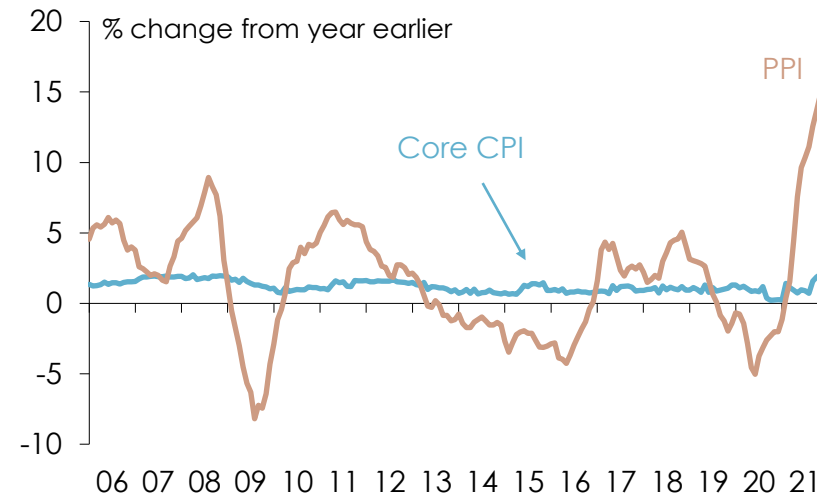
- ❑ Taiwan accounts for 63% of the US\$85bn global semi-conductor chip market (followed by Korea 18% and China 6%)
  - one Taiwanese company, Taiwan Semiconductor Manufacturing Co (TSMC) has 54% of the world market, and United Microelectronics Co (UMC) a further 7% (Samsung accounts for Korea's 18%)
- ❑ 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)
- ❑ Foreign orders for Taiwanese ICT products fell 12.4% in October, while orders for other electronic products fell 10.1%, more than reversing increases of 9.2% and 5.5%, respectively, in September
  - October orders were affected by "a lack of raw materials for some products" according to Taiwan's Ministry for Economic Affairs

# 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

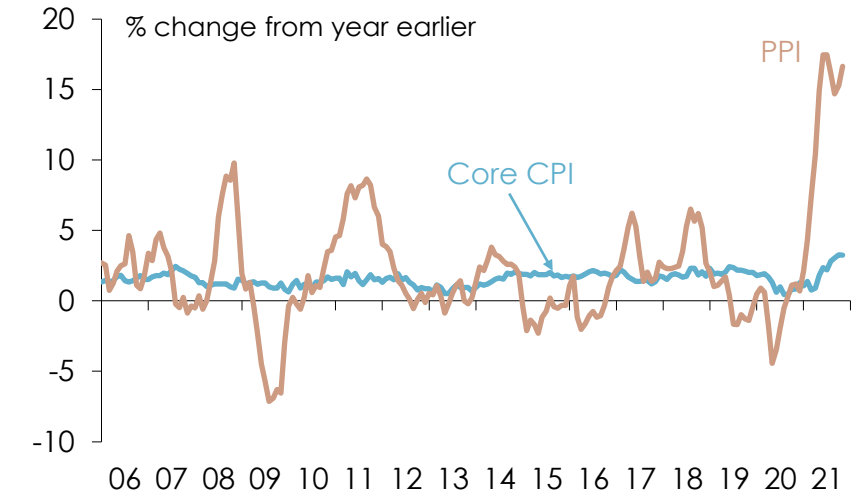
## United States



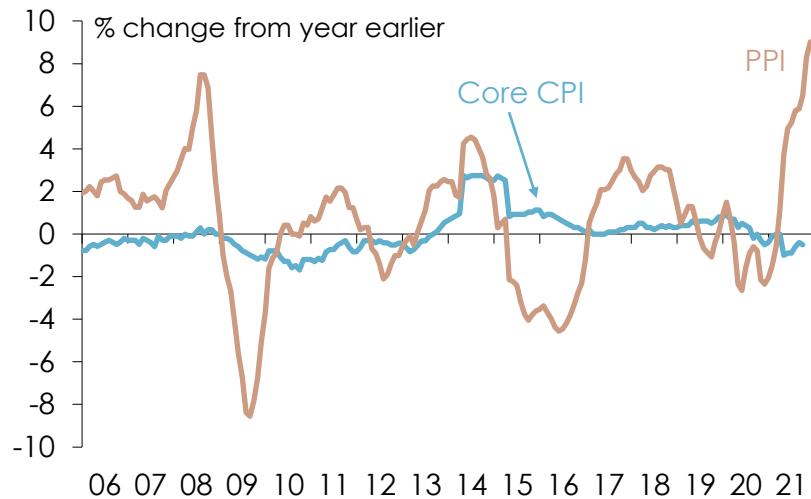
## Euro area



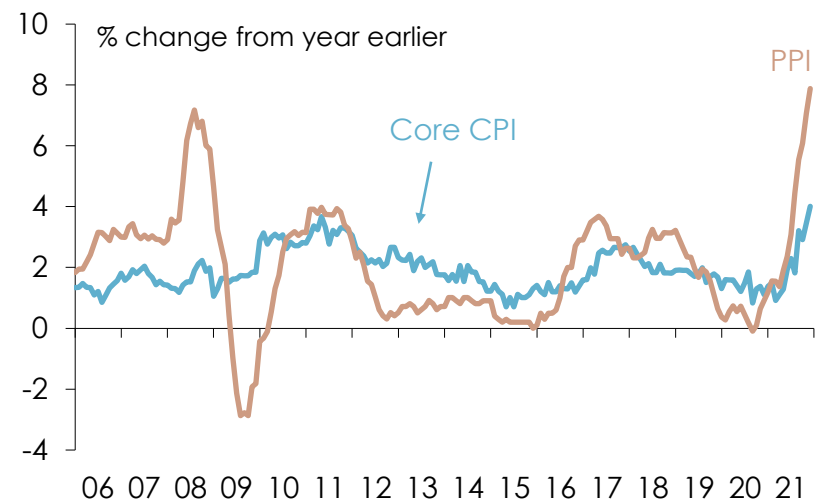
## Canada



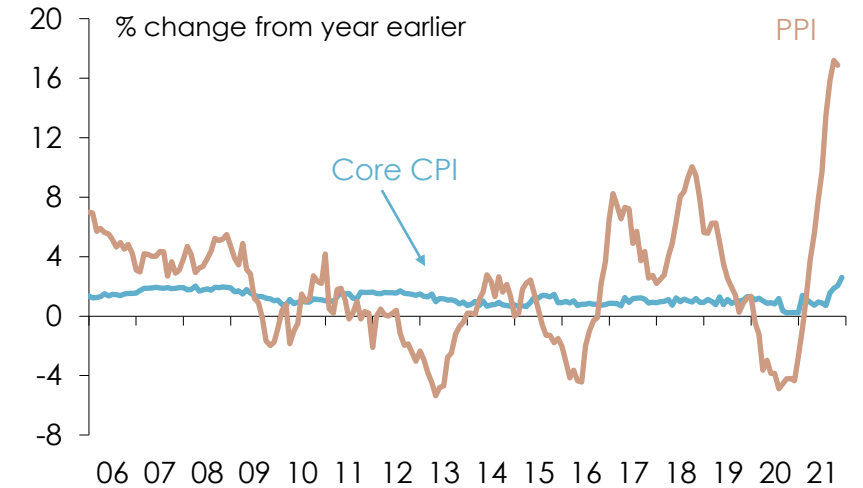
## Japan



## United Kingdom



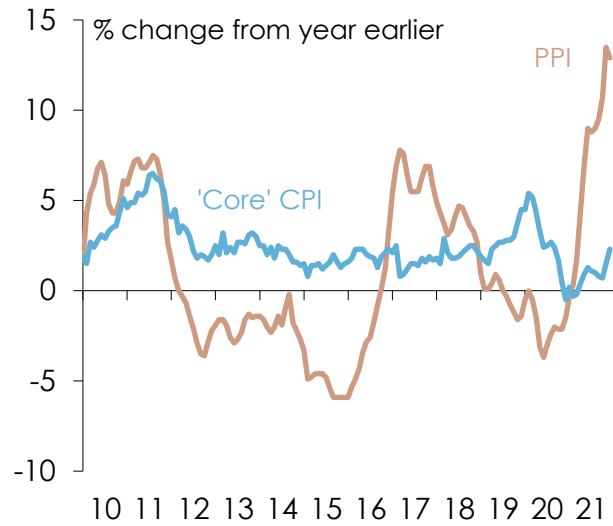
## Sweden



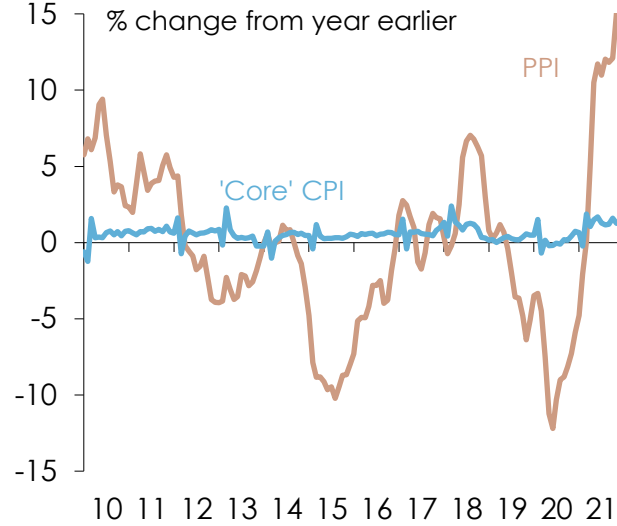
For a more detailed analysis of recent US inflation data see [slides 71-75](#). Sources: [US Bureau of Labor Statistics](#); [Statistics Bureau of Japan](#); [Eurostat](#); [UK Office for National Statistics](#); [Statistics Canada](#); [Statistics Sweden](#). [Return to "What's New"](#).

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

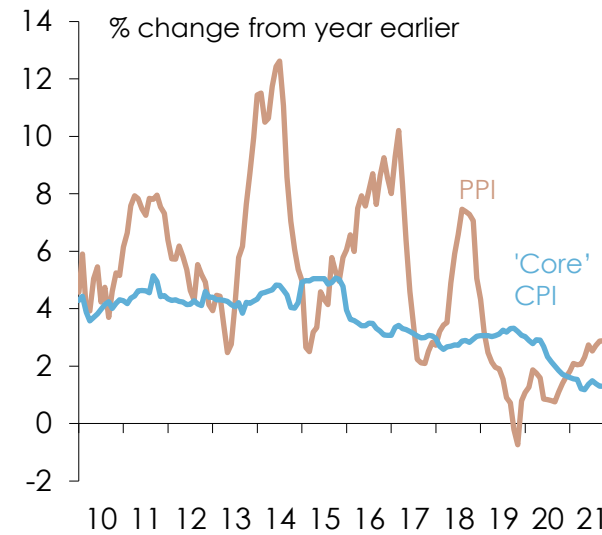
## China



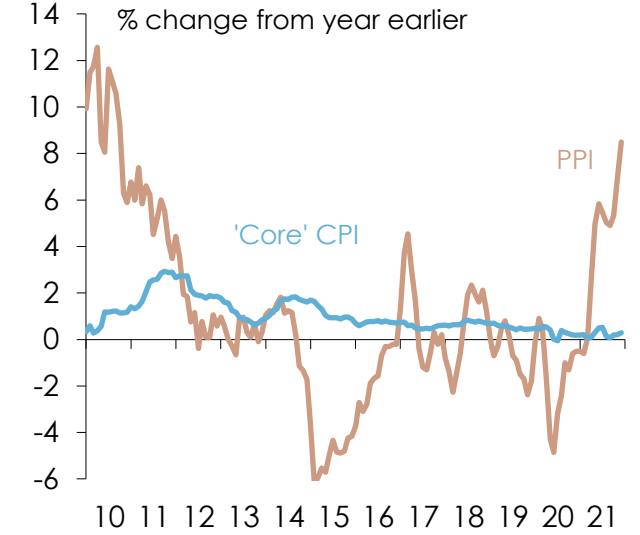
## Taiwan



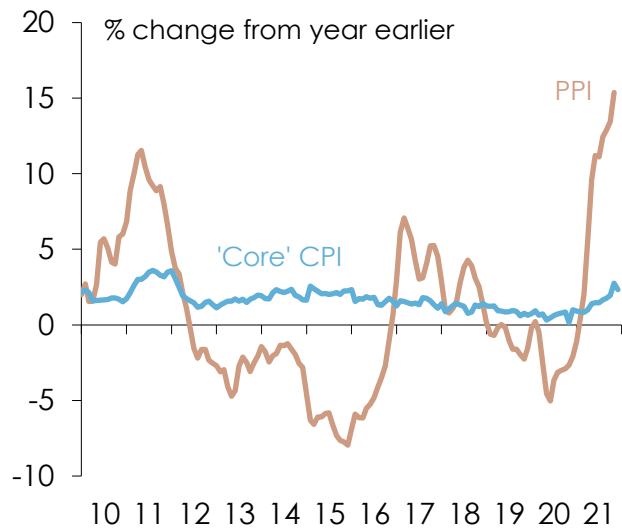
## Indonesia



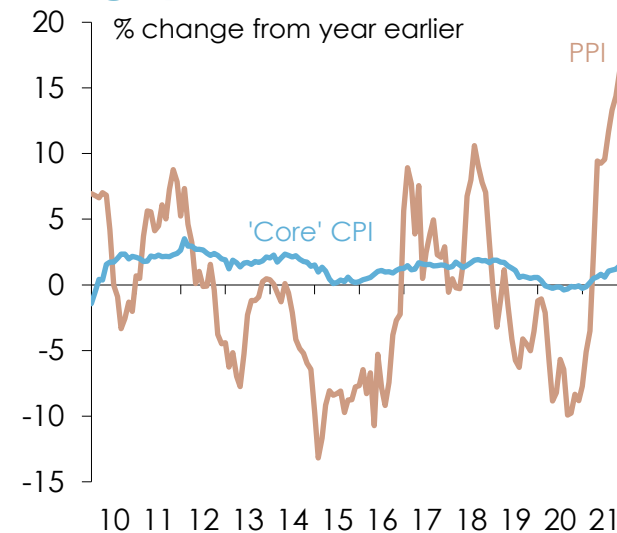
## Thailand



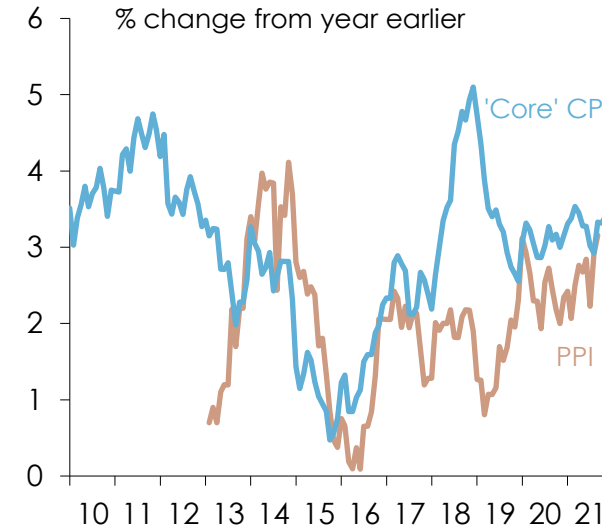
## Korea



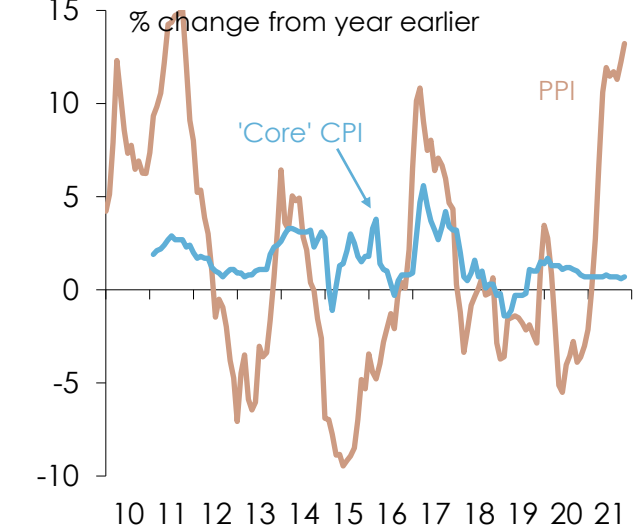
## Singapore



## Philippines



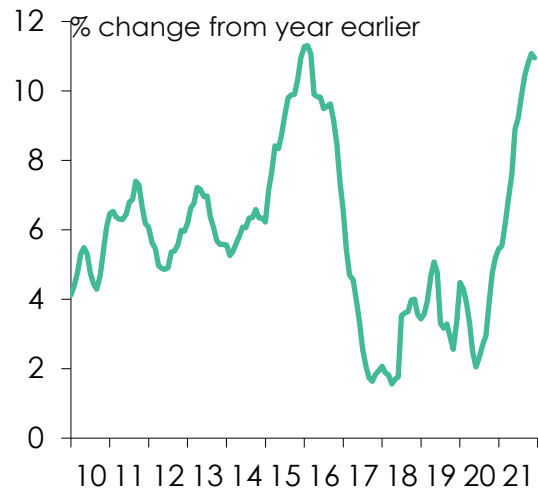
## Malaysia



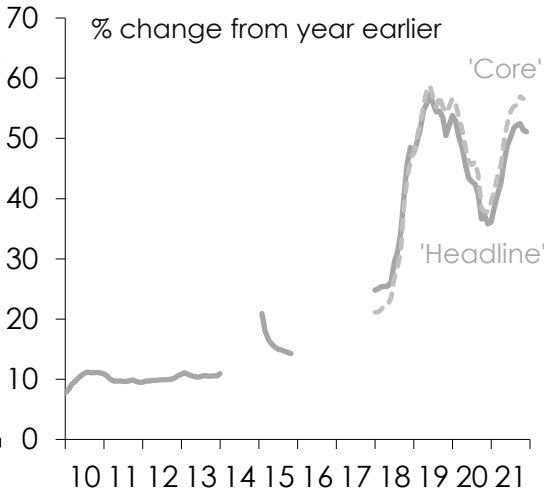
Note: 'Core' CPIs measure different things in different Asian economies – see footnotes to [slide 54](#). Sources: [China National Bureau of Statistics](#); [Statistics Korea](#); [Bank of Korea](#); [Taiwan Statistical Bureau](#); [Singstat](#); [Monetary Authority of Singapore](#); [Statistics Indonesia](#); [Philippine Statistics Authority](#); [Thailand Bureau of Trade and Economic Indices](#); [Department of Statistics Malaysia](#). [Return to "What's New"](#).

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

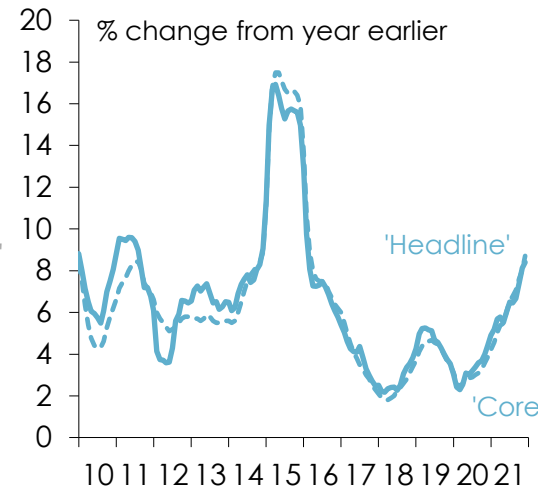
Brazil



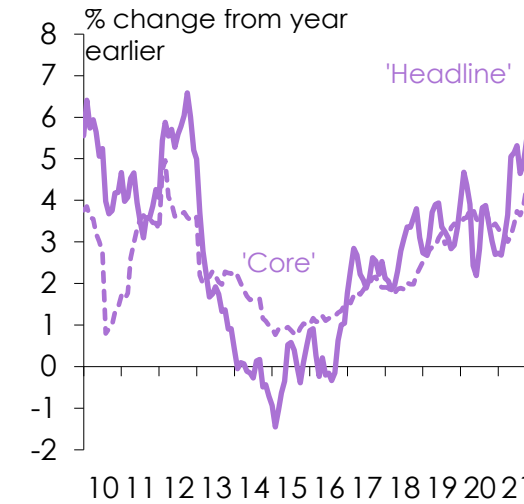
Argentina



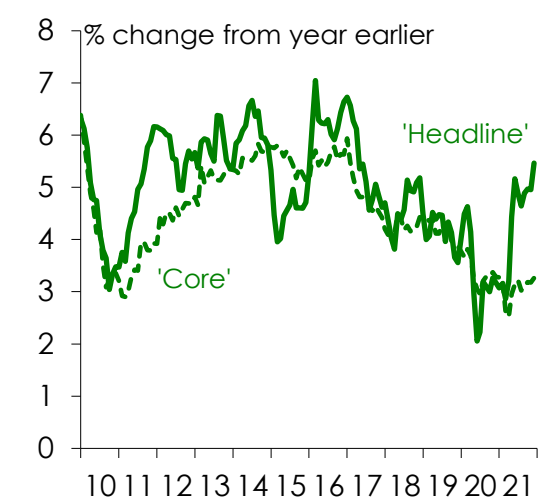
Russia



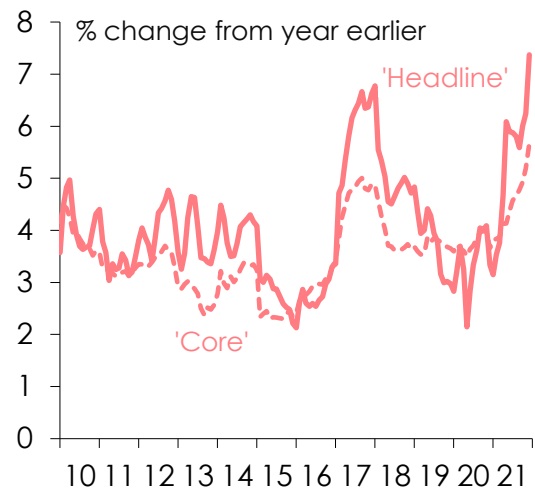
Hungary



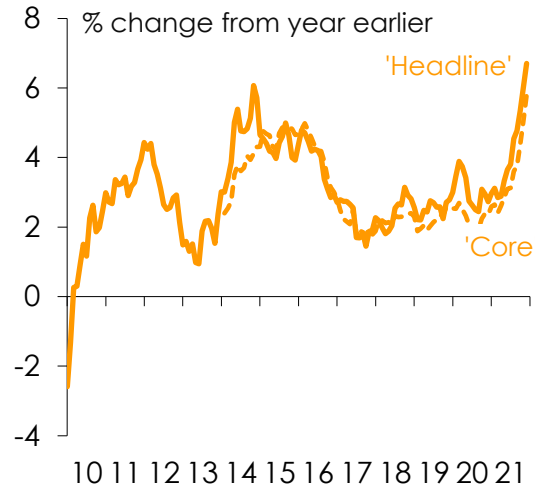
South Africa



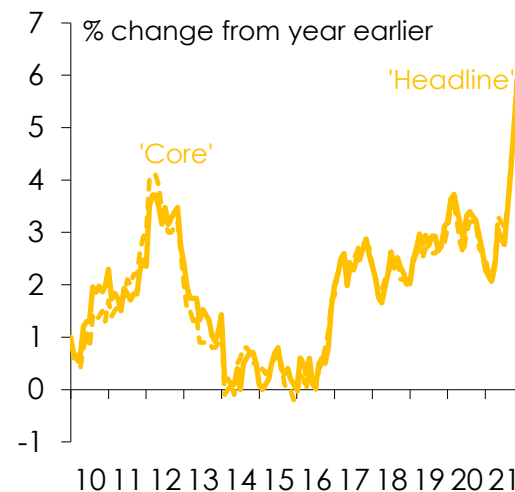
Mexico



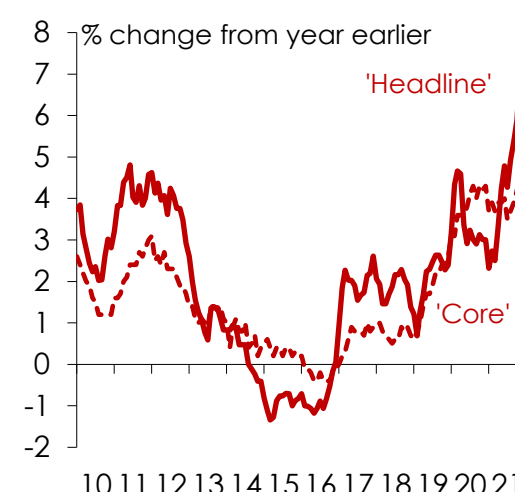
Chile



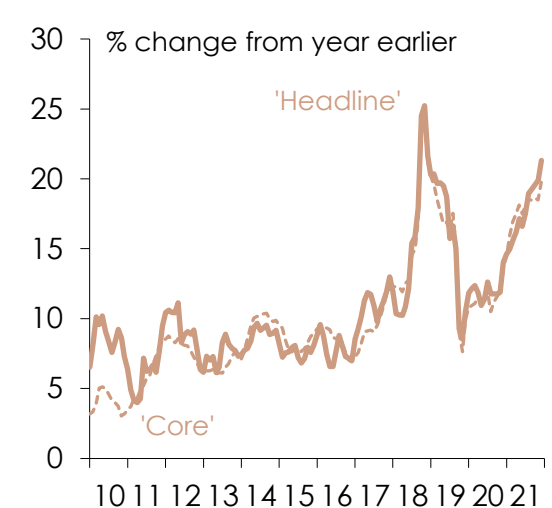
Czech Republic



Poland



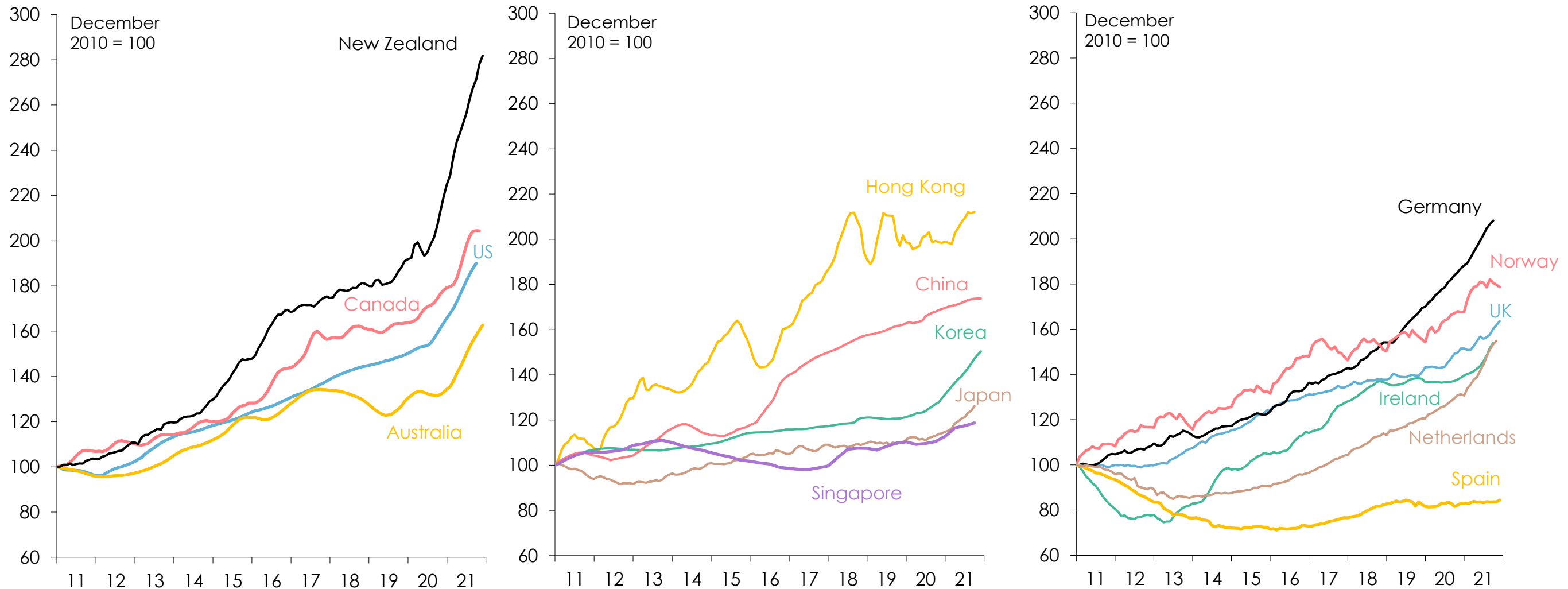
Turkey



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

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

## House price indices

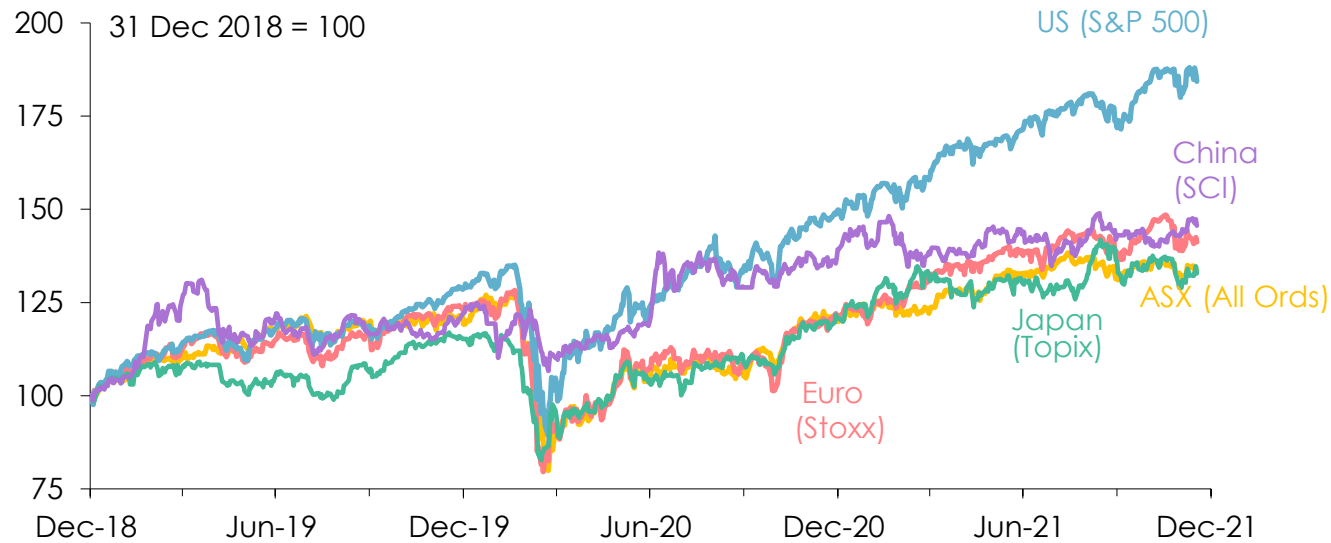


Note: House price indices shown in these charts are those published by [S&P-CoreLogic Case Shiller national](#) (United States); [Teranet-National Bank](#) (Canada); [CoreLogic](#) (Australia); [Real Estate Institute of New Zealand](#); [China Index Academy](#); [Japan Real Estate Institute](#) (Tokyo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

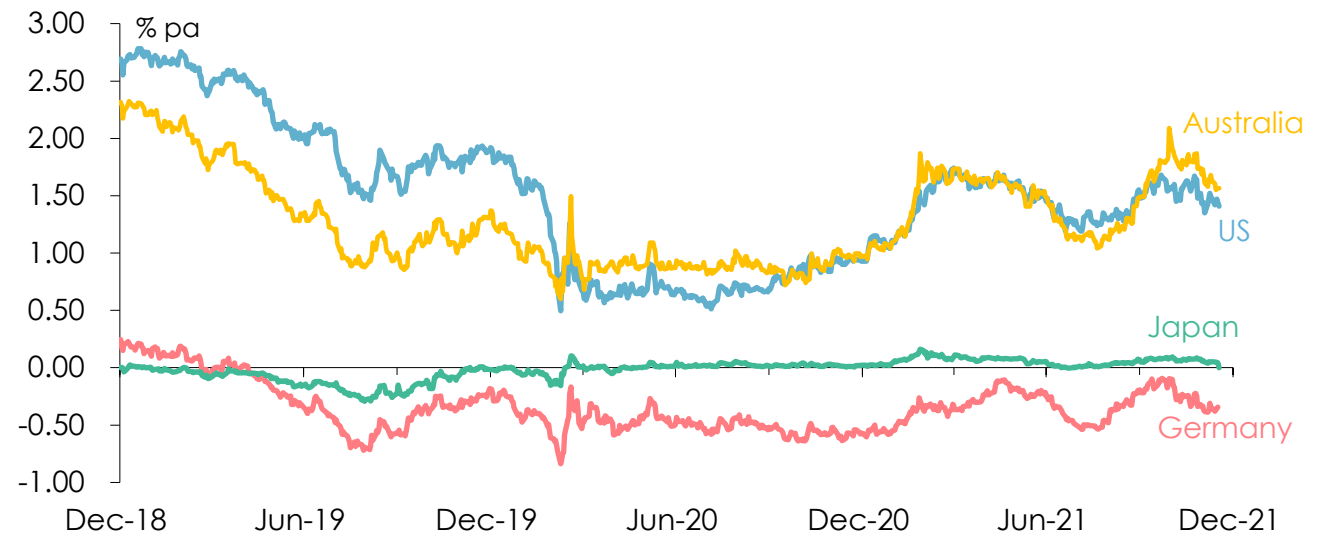


# Investors turned cautious again this week as covid cases increased, with stocks and bond yields mostly lower, and the US\$ up

## Stock markets



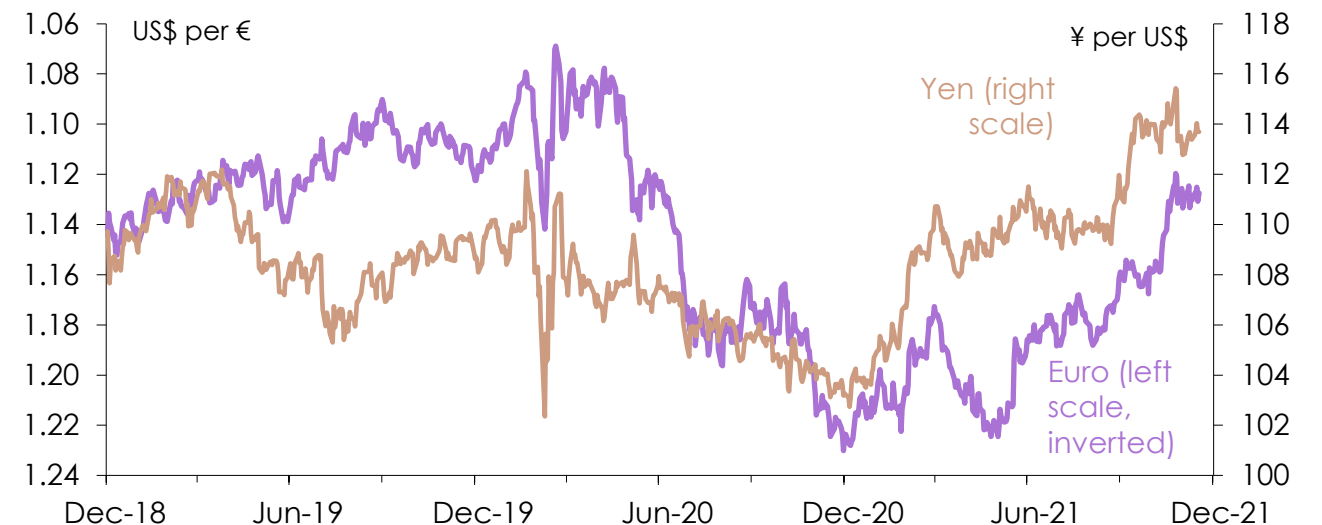
## 10-year bond yields



## Measures of market volatility

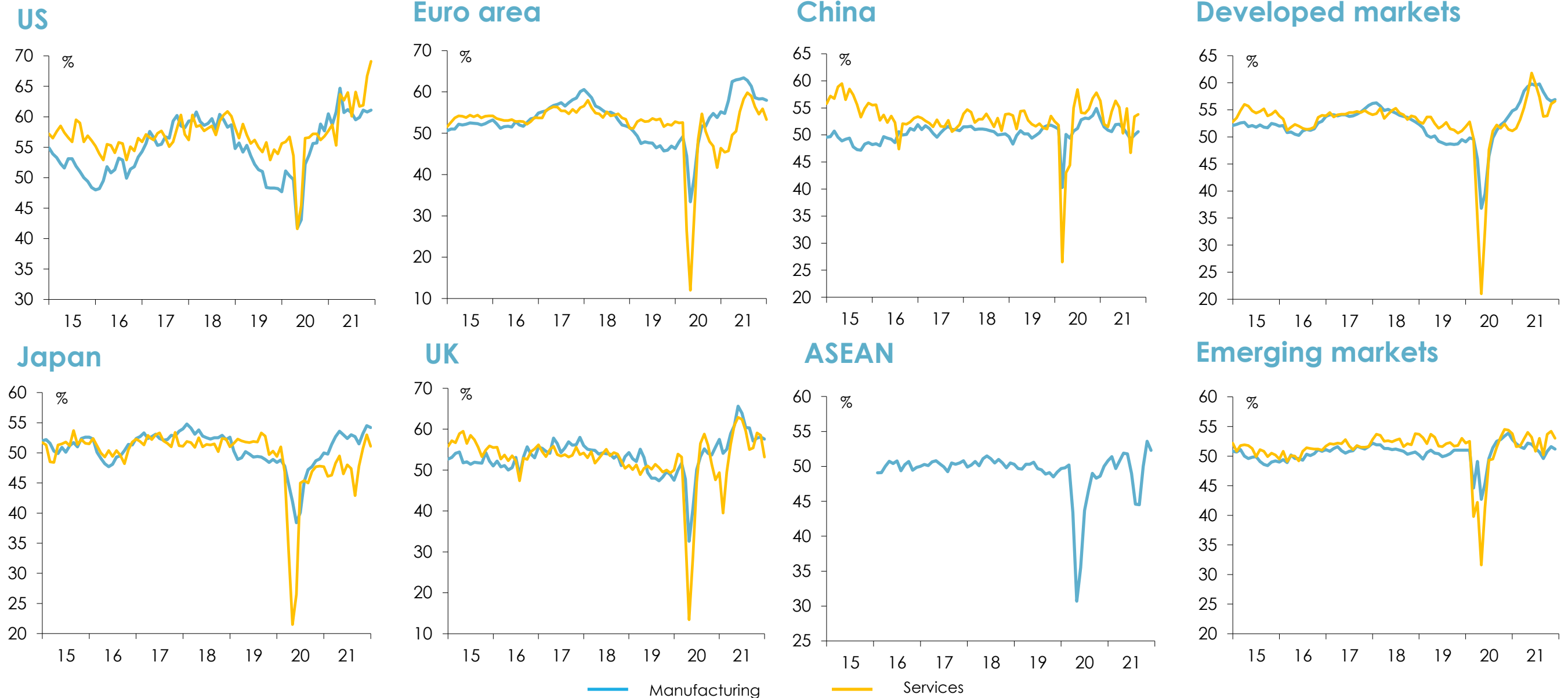


## US dollar vs euro and yen



Source: Refinitiv Datastream. Data up to 17<sup>th</sup> December. [Return to "What's New"](#).

# 'Flash' PMIs suggest a softening of services activity in Japan and Europe in December but continued strength in manufacturing

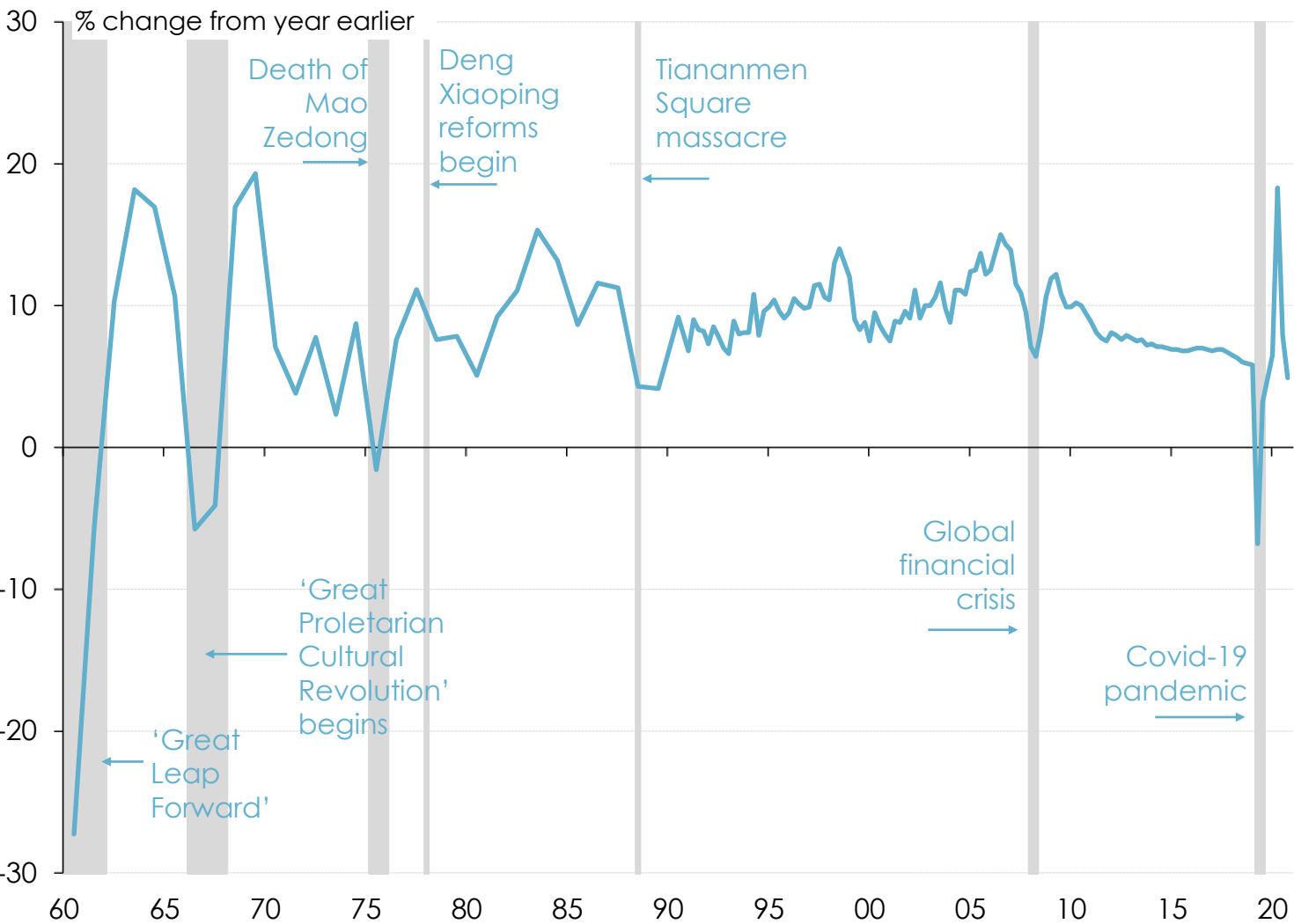


Note: Purchasing Managers' Indexes (PMIs) are derived from surveys of senior executives, who are asked to report whether various dimensions of business activity recorded an increase, decrease or no change compared with the previous month. Latest data for Japan, the euro area and the UK are 'flash' estimates for December; all others are for November. 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 53](#). Sources: [US Institute for Supply Management](#); [IHS Markit](#); JP Morgan; [Caixin](#); Refinitiv Datastream. [Return to "What's New"](#).

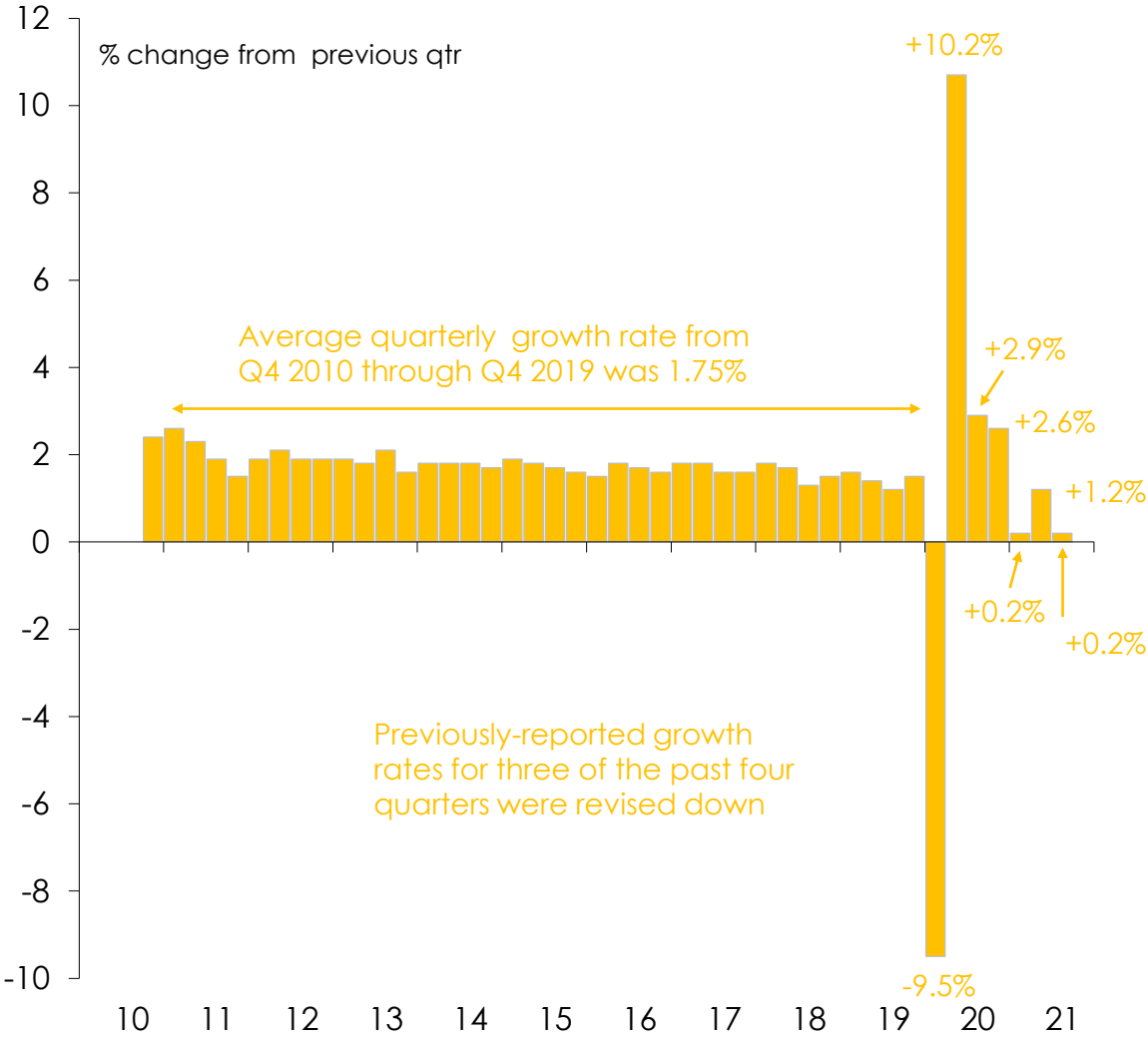


# China's real GDP grew by only 0.2% in Q3, cutting the annual growth rate to just 4.9%, the slowest in at least 30 years except for last year

Real GDP growth, from year earlier, 1961-2021



Quarterly real GDP growth, 2010-2021



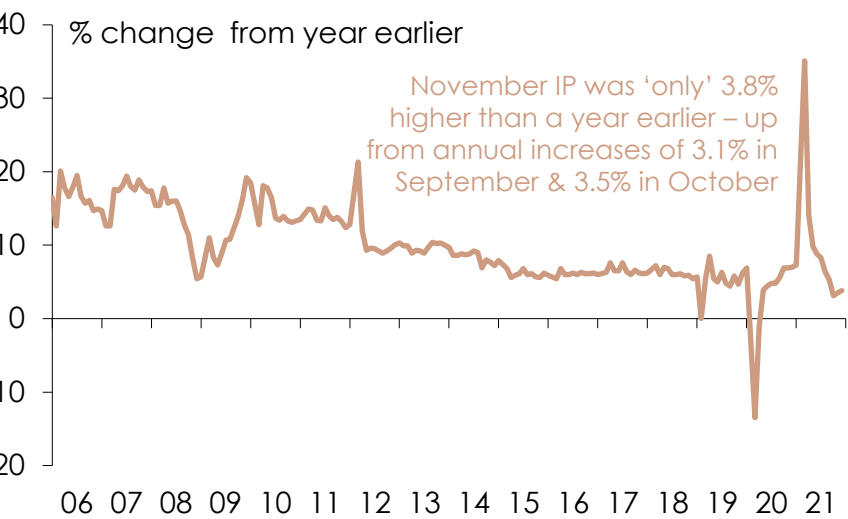
Note: In the left-hand chart, GDP growth rates are annual averages up to the December quarter of 1991, and then quarter-on-corresponding-quarter-of- previous-year thereafter. Source: [China National Bureau of Statistics](#). [Return to "What's New"](#).

# China's economic policy-makers are beginning to respond to the slowdown in economic growth – while Evergrande is now widely seen as in default

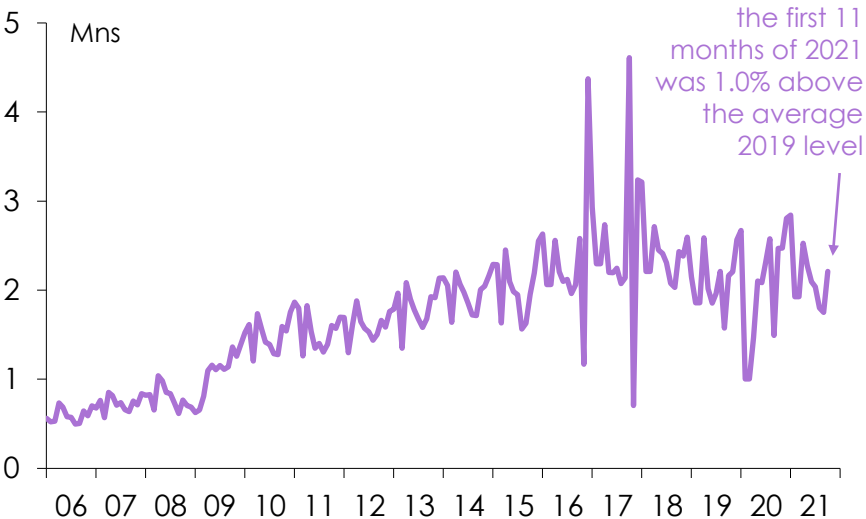
- ❑ China's economy has slowed significantly this year (and would have slowed by more but for the unexpected strength in Chinese exports) – but until the past week there has been very little indication of any response from Chinese economic policy-makers
- ❑ Last week, however, the [People's Bank of China](#) announced a cut its reserve ratio requirements (RRRs) by 0.5 pc pt to 8.5% for small banks and 11.5% for large banks, effective 15<sup>th</sup> December, in order to “support the development of [the] real economy and steadily bring down overall financing costs” (see [slide 48](#))
- ❑ Further measures are likely to be forthcoming after last week's Central Economic Work Conference (presided over by President Xi Jinping)
  - according to [Chinese press reports](#) the meeting agreed that “economic work should prioritize stability” in the face of “three pressures” facing the Chinese economy, namely, “demand contraction, supply shock and weakening expectations”
  - the readout of the meeting committed to “implement a proactive fiscal policy and a prudent monetary policy”
  - foreshadowed fiscal policy measures included commitments “to implement the new tax reduction and fee reduction policy, strengthen support for small and medium-sized enterprises, individual industrial and commercial households, manufacturing industry, risk mitigation, etc., and carry out infrastructure investment moderately ahead of schedule”
  - “prudent” monetary policy should be “flexible and moderate, and keep liquidity reasonable and abundant”
- ❑ The CEWC also committed to “adhere to the positioning that houses are for living in, not for speculation”
  - under which heading it committed to (inter alia) “speed up the development of long-term rental market, promote the construction of affordable housing” and to “promote the virtuous circle and healthy development of the real estate industry”
- ❑ It's unclear whether this presages any easing of the regulatory squeeze on the property development industry
- ❑ All three major credit ratings have now classified property developer China Evergrande as being in ‘default’ after it failed to meet US\$82.5mn of interest payments when a 30-day ‘grace period’ expired earlier this month
  - although it seems probable that authorities in Guangdong and Beijing will attempt to ‘manage’ the resolution of the company's difficulties

# Growth in China's industrial production has picked up a little since the low in September but remains sluggish by the standards of the past 20 years

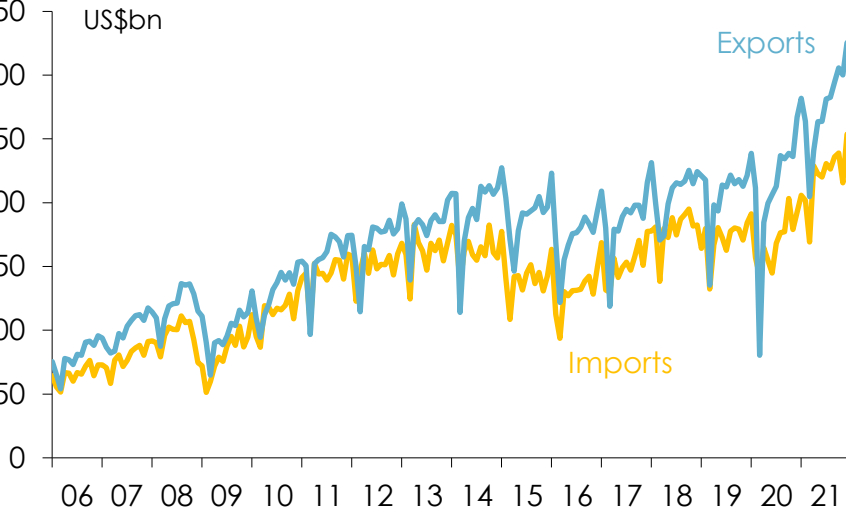
## Industrial production



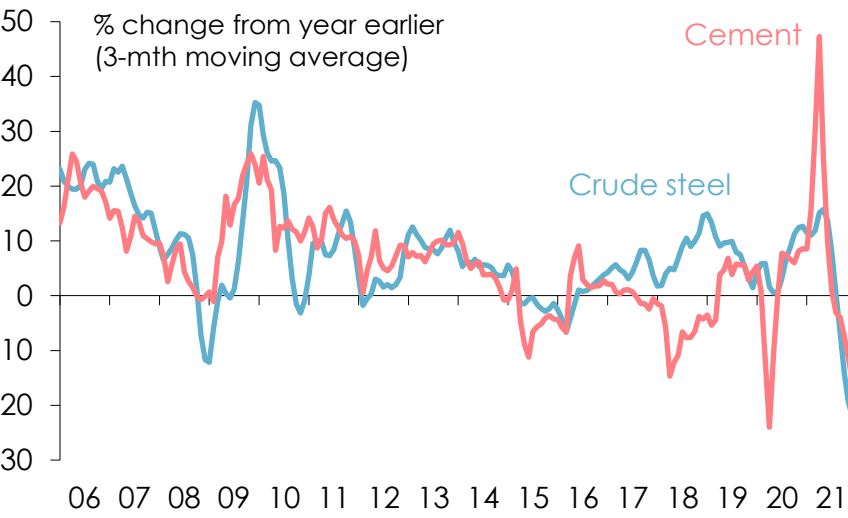
## Motor vehicle production



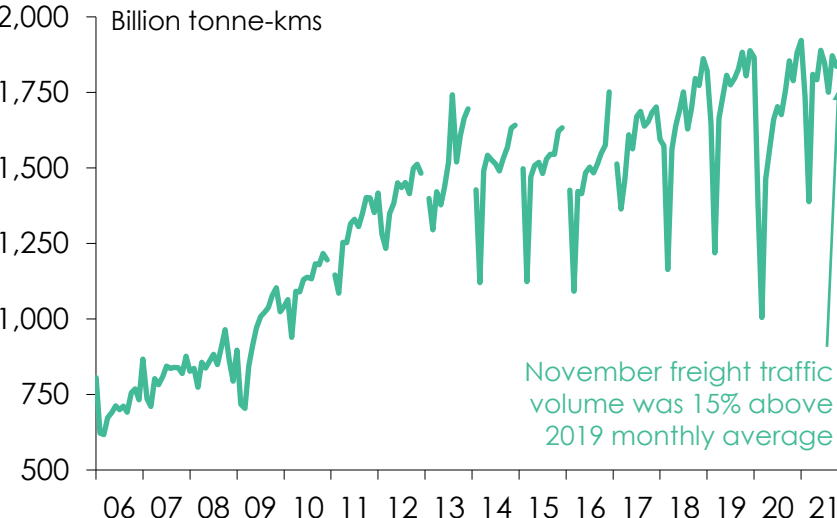
## Merchandise trade



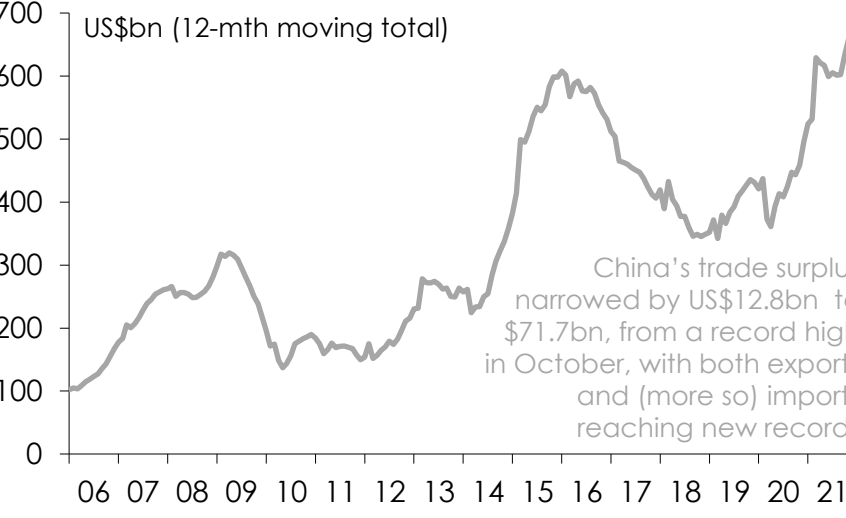
## Steel and cement production



## Freight traffic volumes



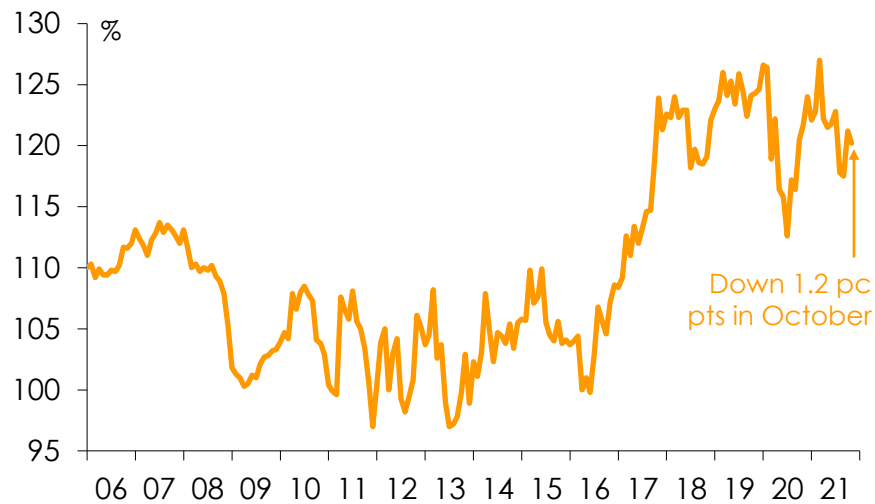
## Merchandise trade balance



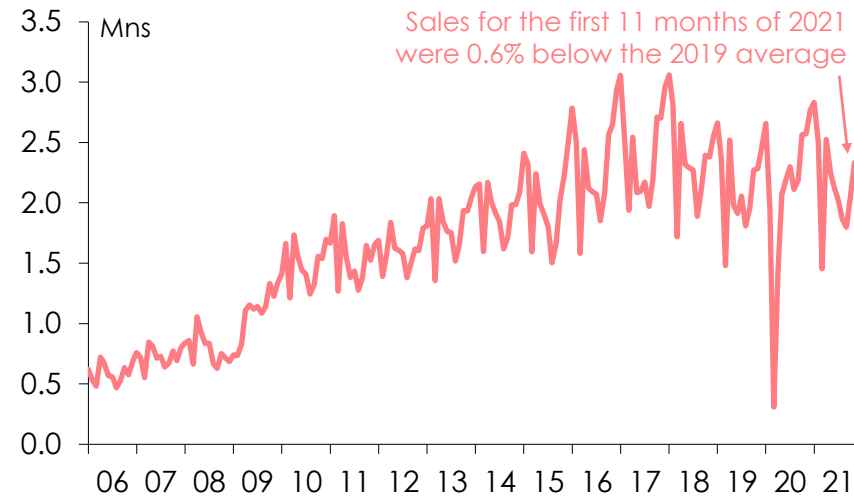
Note: Latest data are for November. Sources: [China National Bureau of Statistics](#); [China Association of Automobile Manufacturers](#); [China General Administration of Customs](#). [Return to "What's New"](#).

# The 'demand' side of China's economy – and in particular the property construction sector – continued to look soft in November

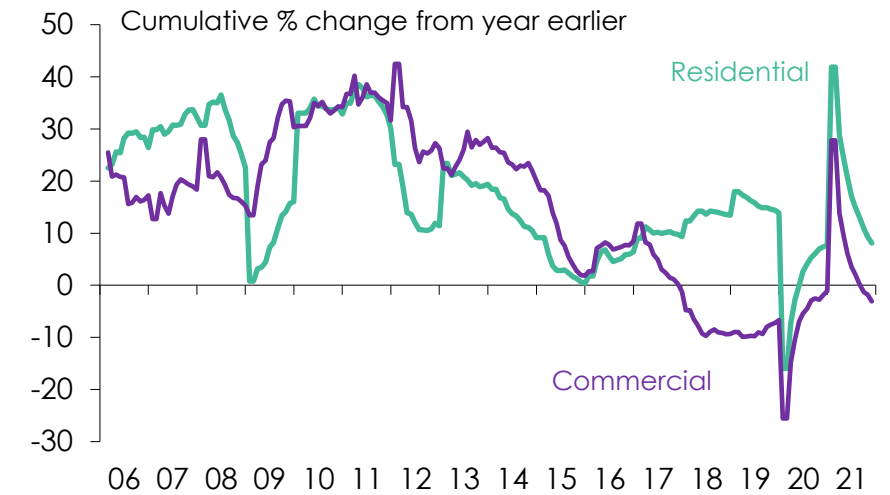
## Consumer sentiment



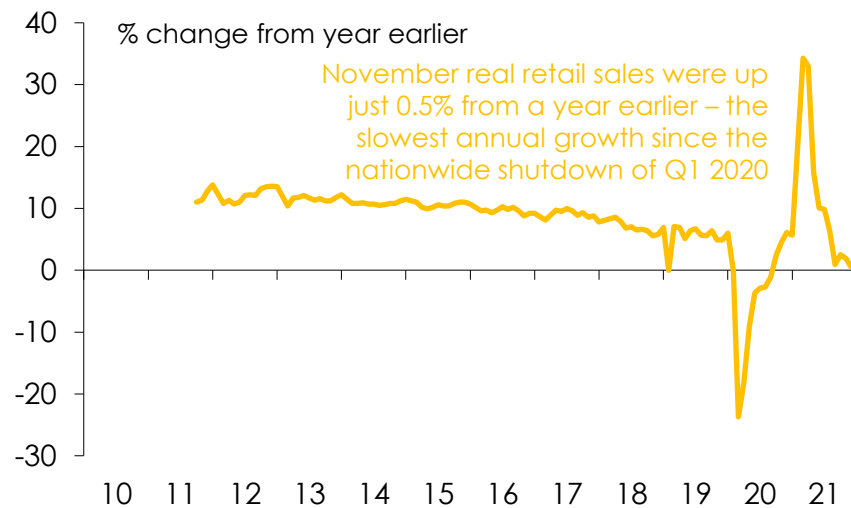
## Motor vehicle sales



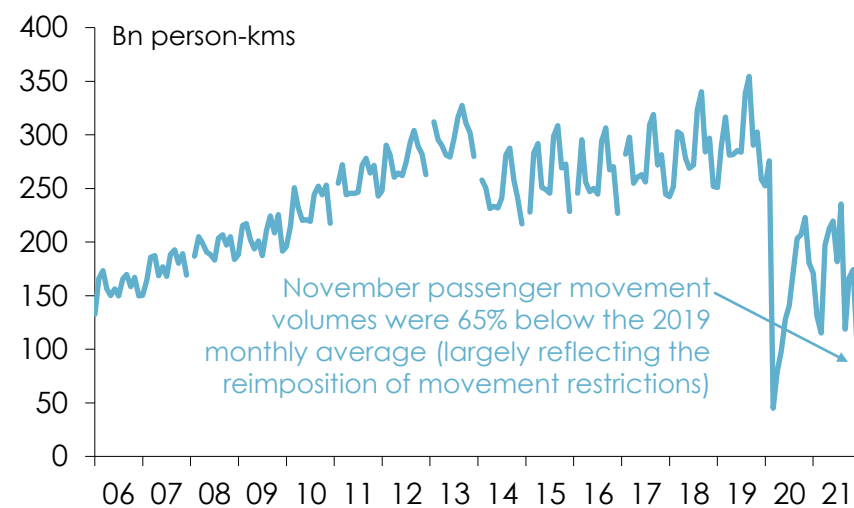
## Real estate investment



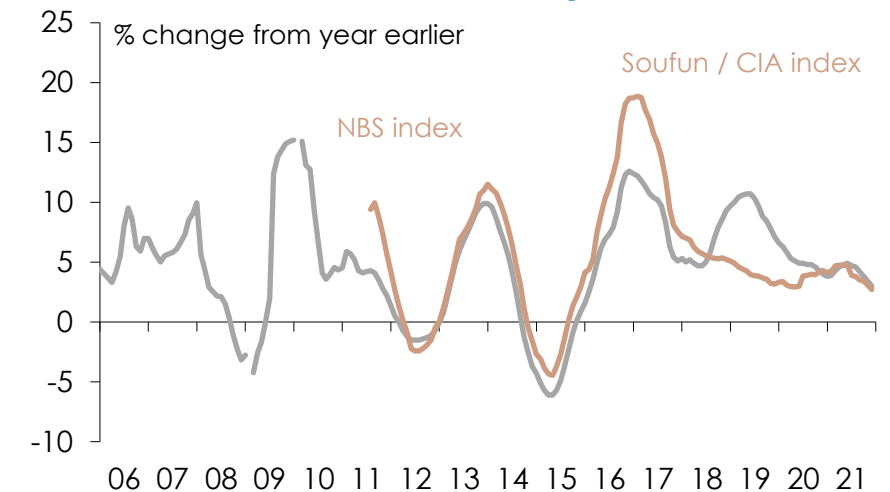
## Volume of retail sales



## Passenger traffic volumes



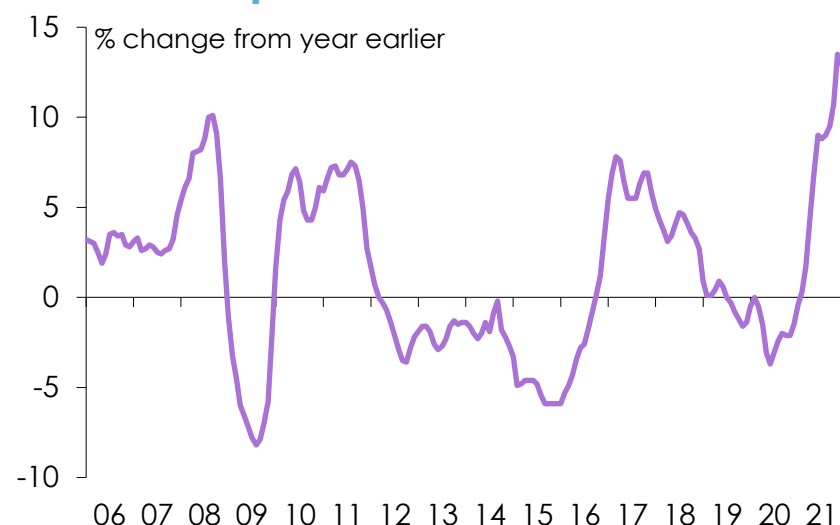
## Residential real estate prices



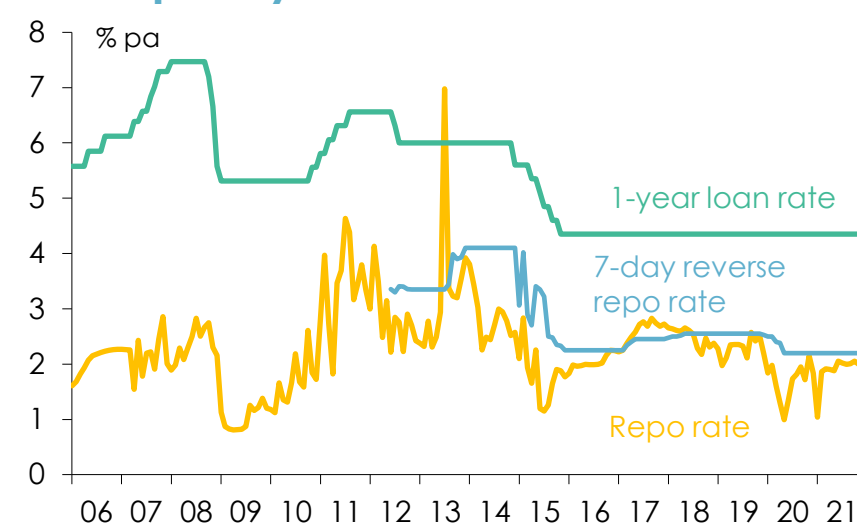
Sources: [China National Bureau of Statistics](#); [China Association of Automobile Manufacturers](#); [China Index Academy](#) (CIA). Latest data are for November.  
[Return to "What's New"](#).

# The PBoC cut bank reserve requirements last week, the first response to the slowdown in growth – while ‘upstream’ inflation may have peaked

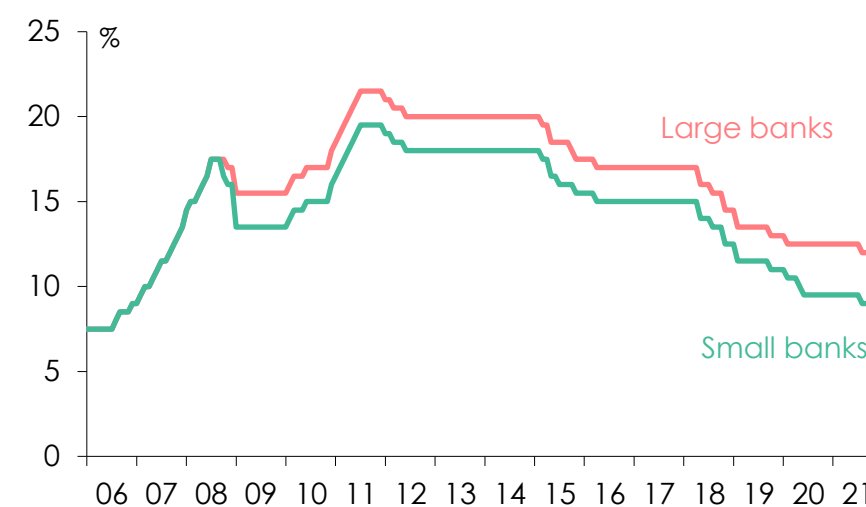
## Producer prices



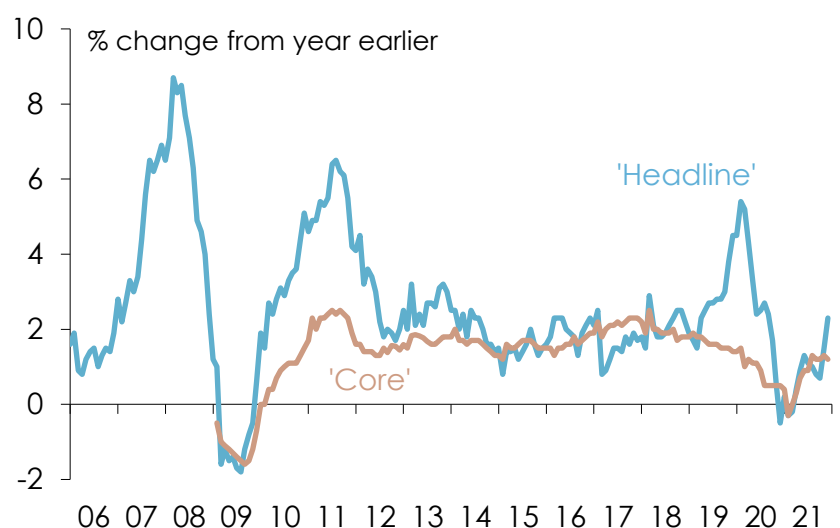
## PBoC policy interest rates



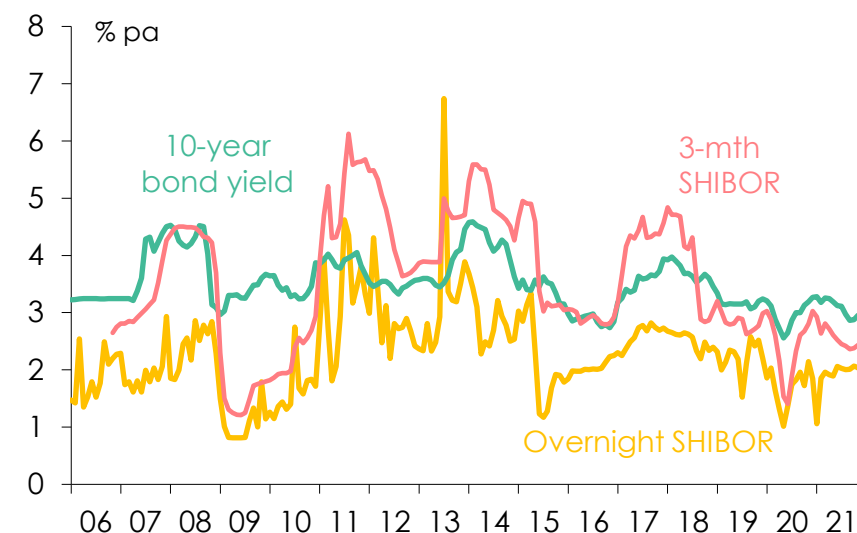
## Bank reserve requirement ratios



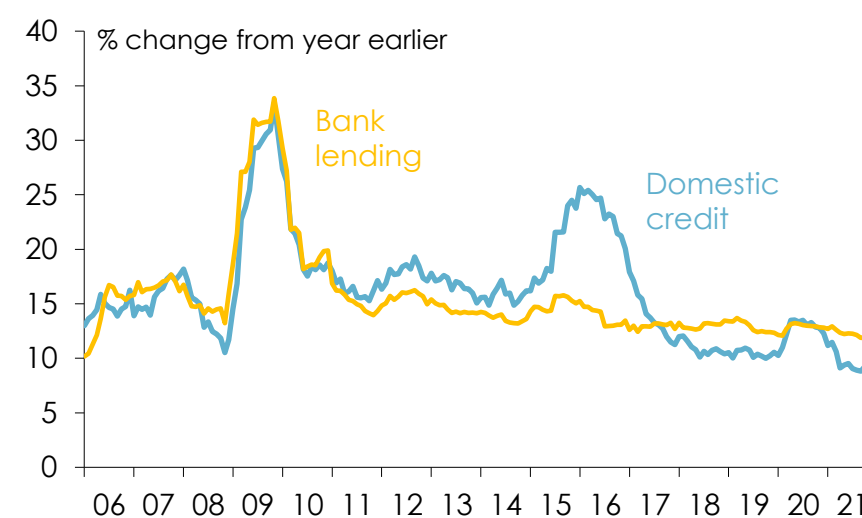
## Consumer prices



## Market interest rates



## Credit growth

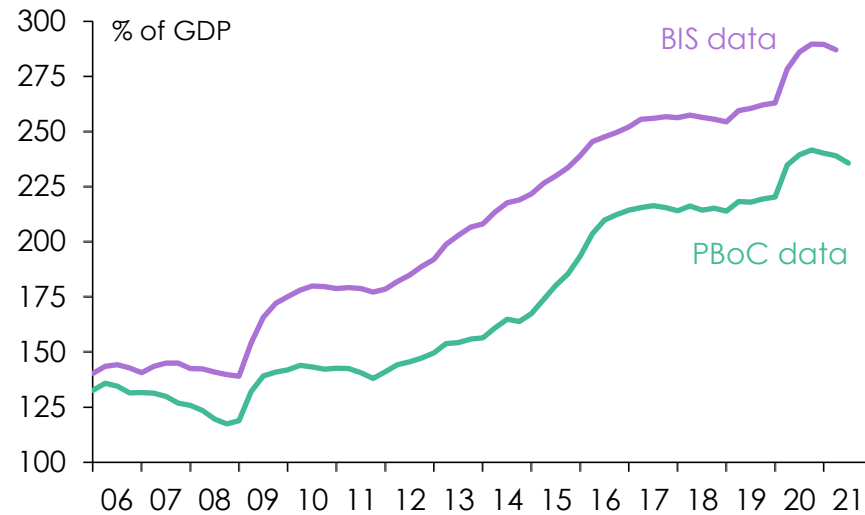


Note: 'SHIBOR' is the Shanghai Inter-Bank Offered Rate. Latest inflation, money and credit data are for November.

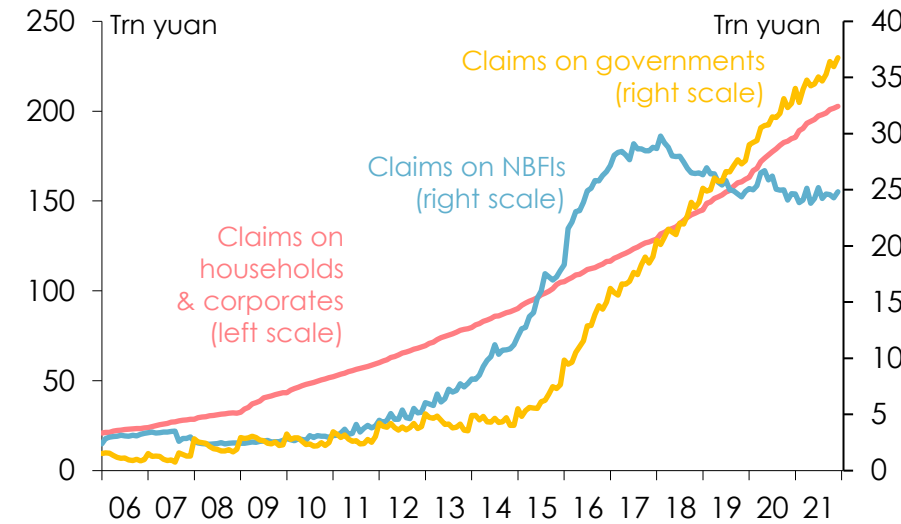
Sources: [China National Bureau of Statistics](#); Refinitiv Datastream; [People's Bank of China](#). [Return to "What's New"](#).

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

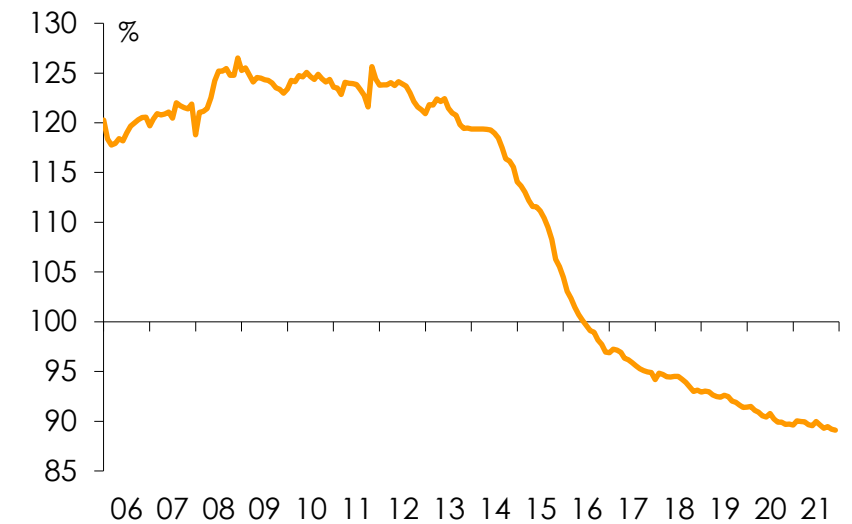
## Credit outstanding as a pc of GDP



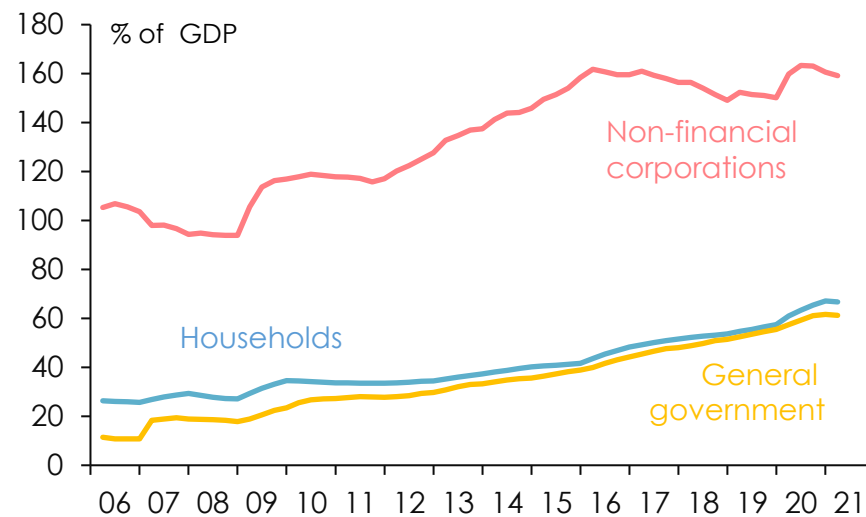
## Banks' assets



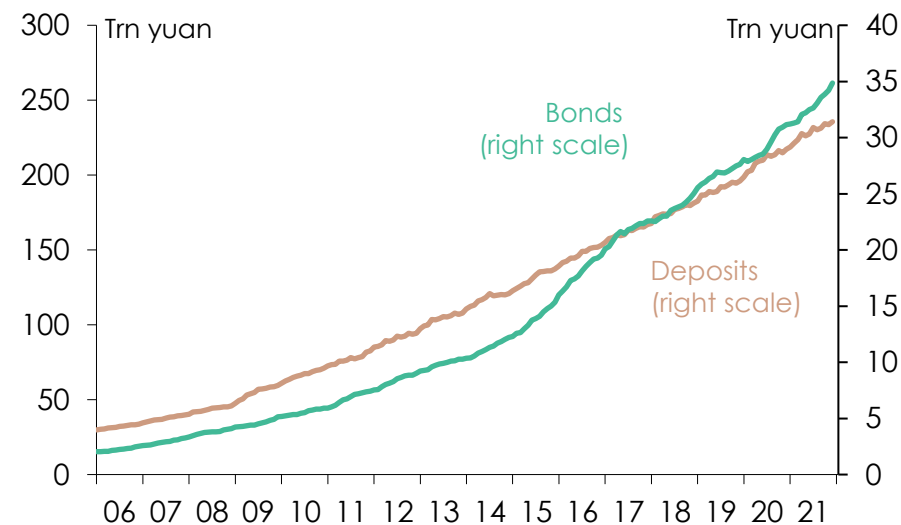
## Banks' deposits-to-loans ratio



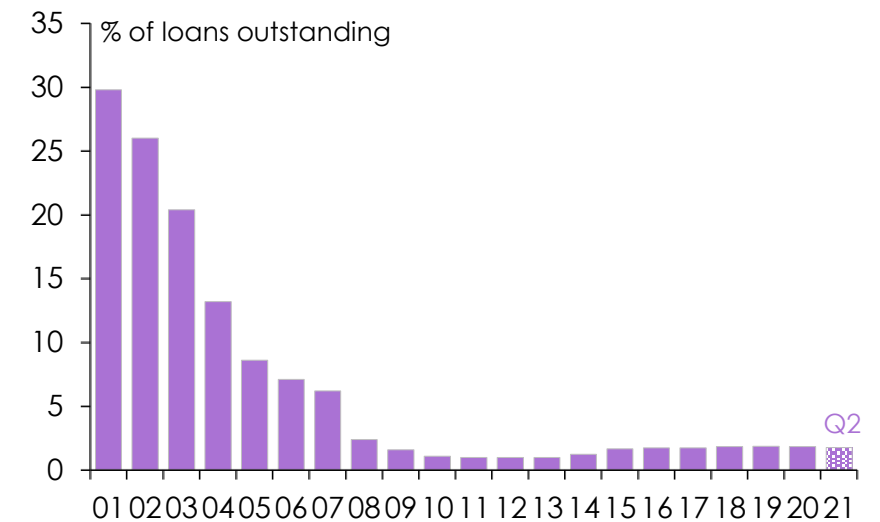
## Credit outstanding by sector



## Banks' liabilities



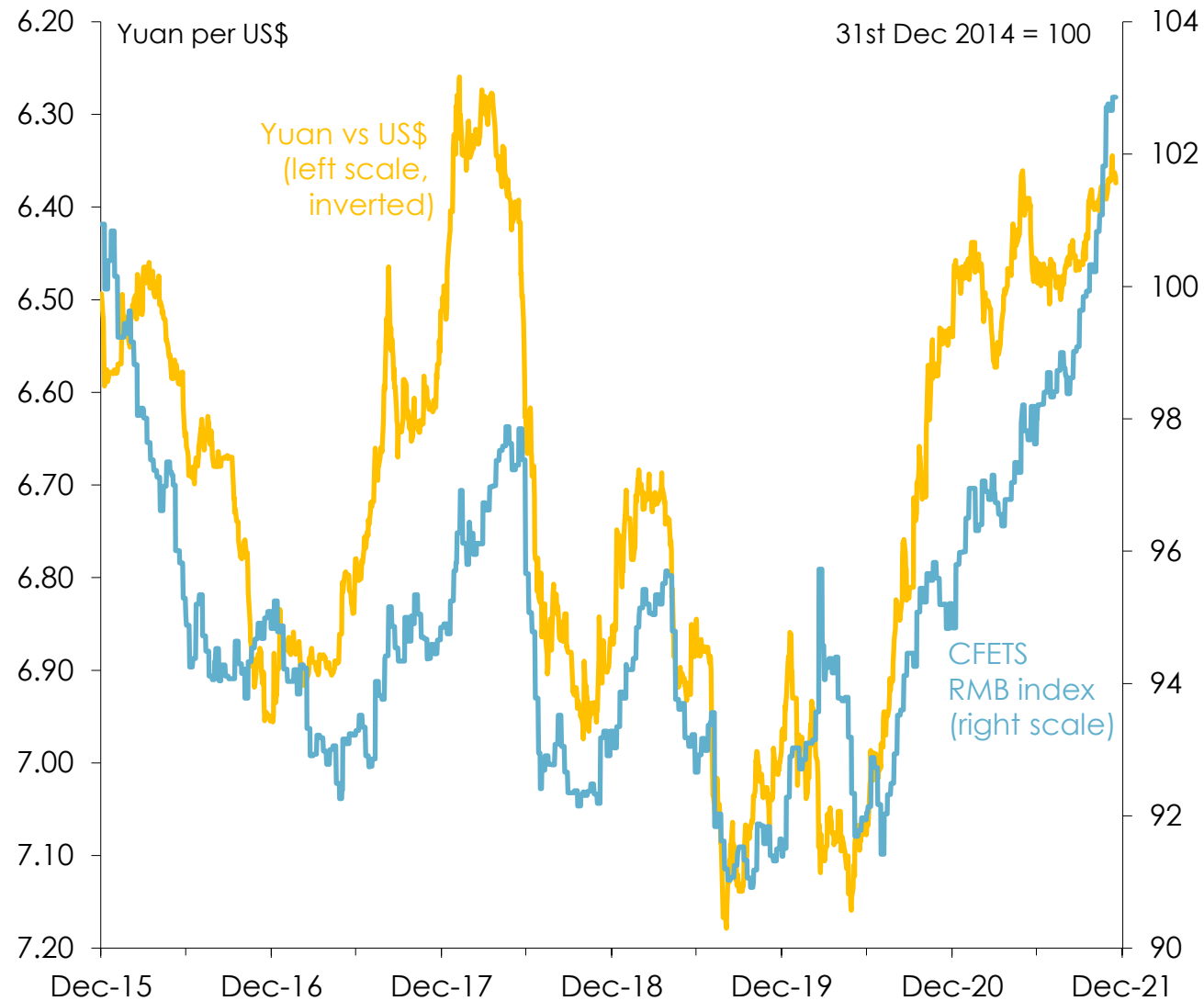
## Banks NPLs – official estimates



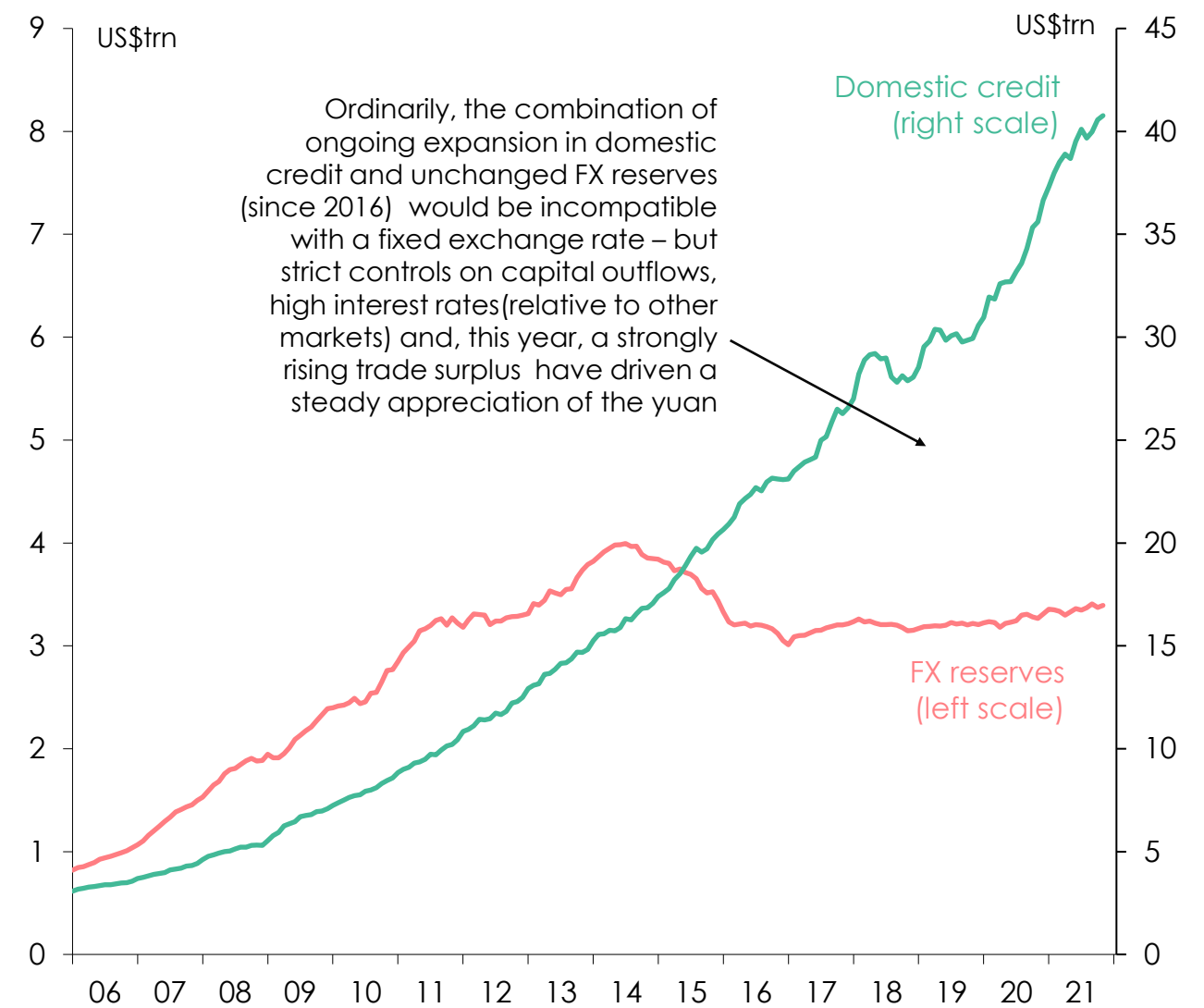


# The yuan fell marginally against the US dollar this week but rose 0.2% in trade-weighted terms (for a year-to-date gain of 8½%)

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



## FX reserves and domestic credit

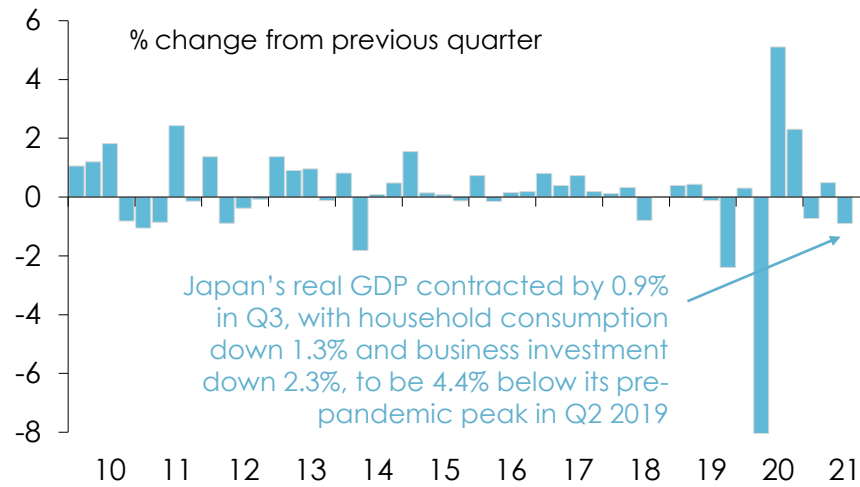


Sources: Refinitiv Datastream; China Foreign Exchange Trading System; People's Bank of China. Exchange rates up to 17<sup>th</sup> December; FX reserves and domestic credit data are up to November. [Return to "What's New"](#).

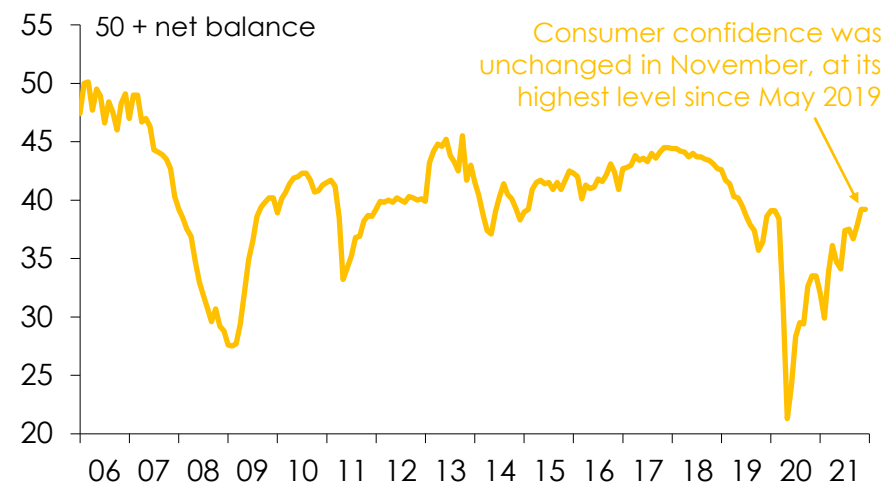


# Business sentiment in Japan improved in Q4, among both large and small enterprises, according to the BoJ's *Tankan* survey

## Real GDP



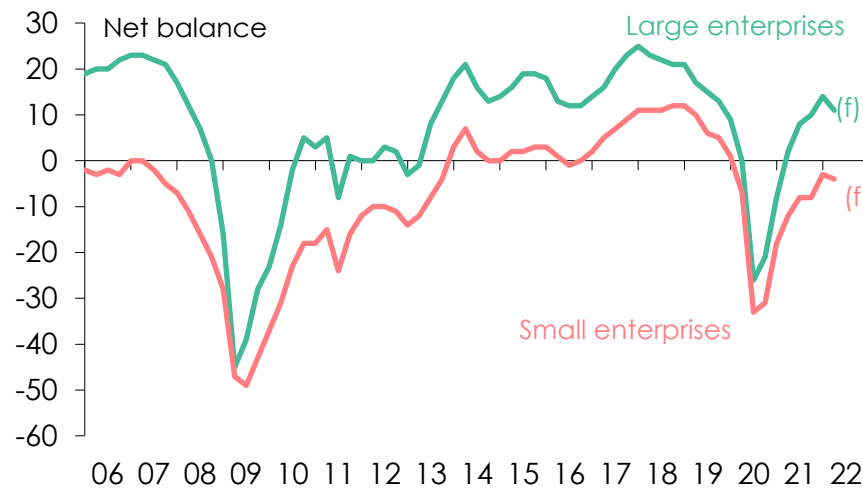
## Consumer confidence



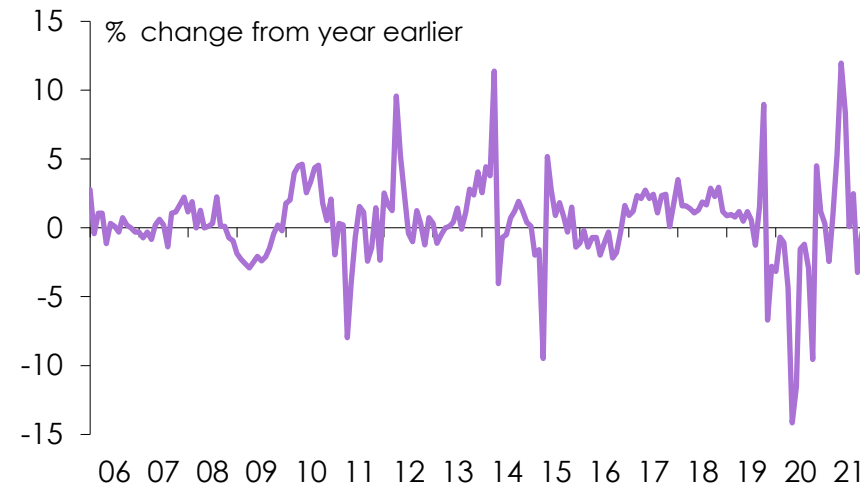
## Unemployment



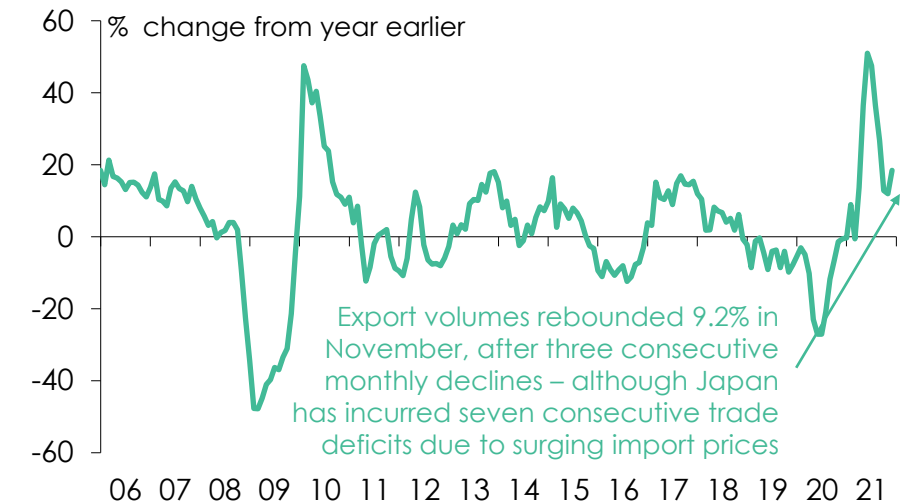
## BoJ *Tankan* business conditions



## Value of retail sales

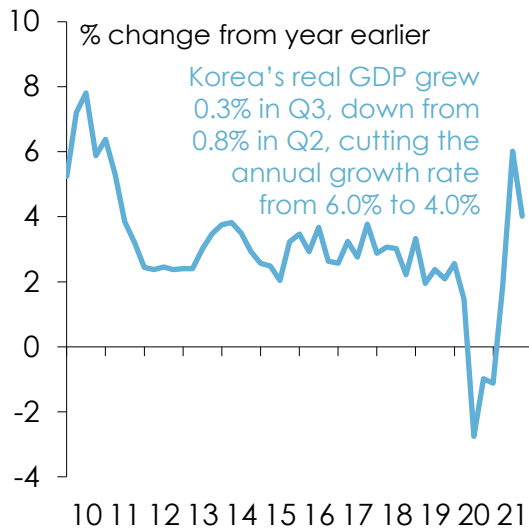


## Merchandise export volumes

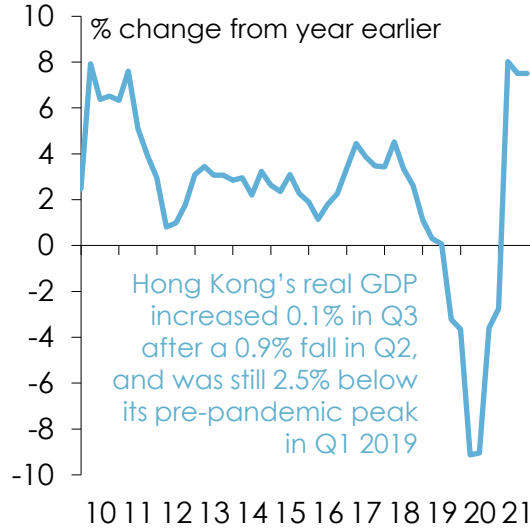


# India's economy rebounded 12.7% in Q3 from an 11.6% contraction in Q2, to surpass its pre-pandemic peak by 0.5%

## Korea



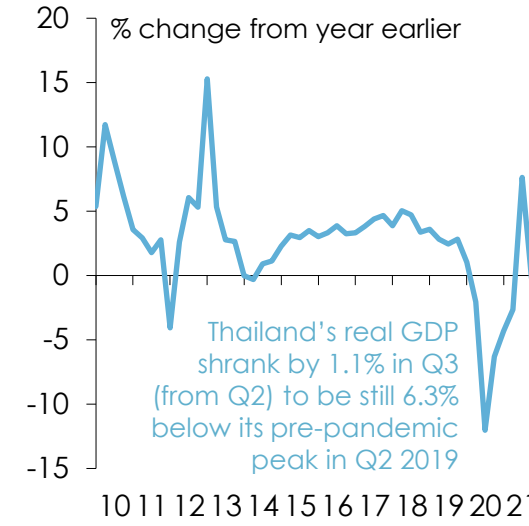
## Hong Kong



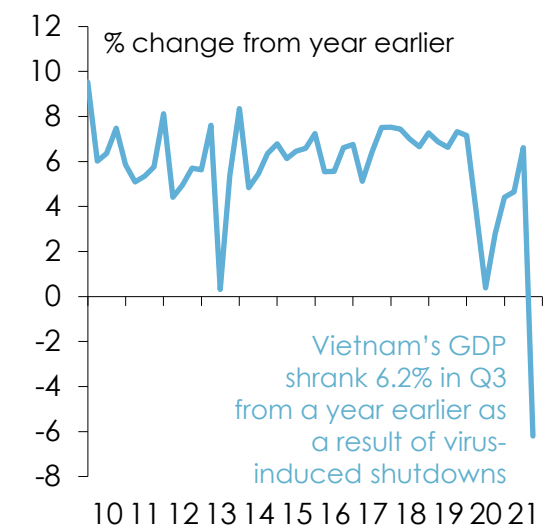
## Indonesia



## Thailand



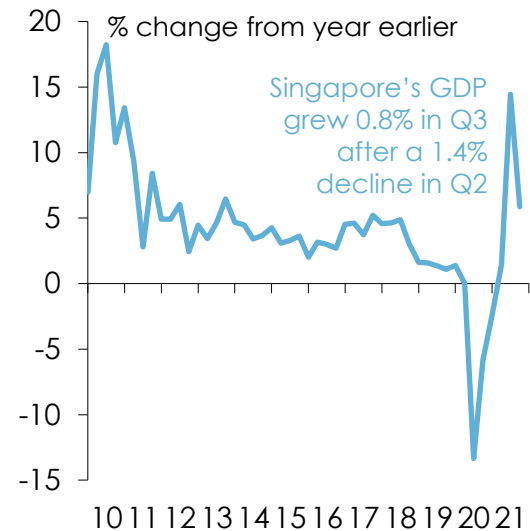
## Vietnam



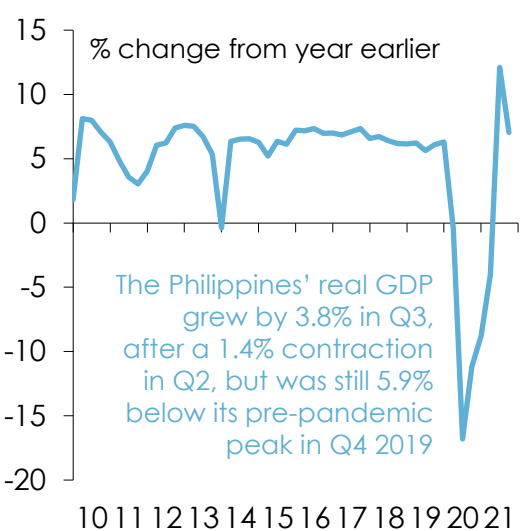
## Taiwan



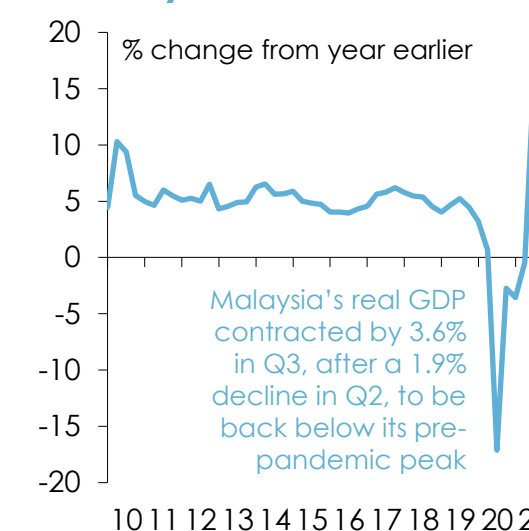
## Singapore



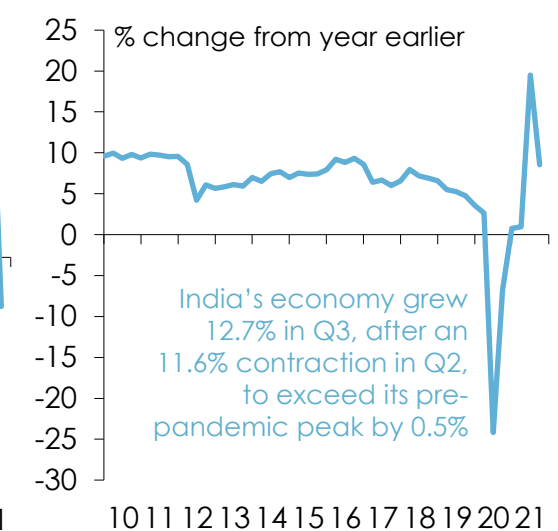
## Philippines



## Malaysia

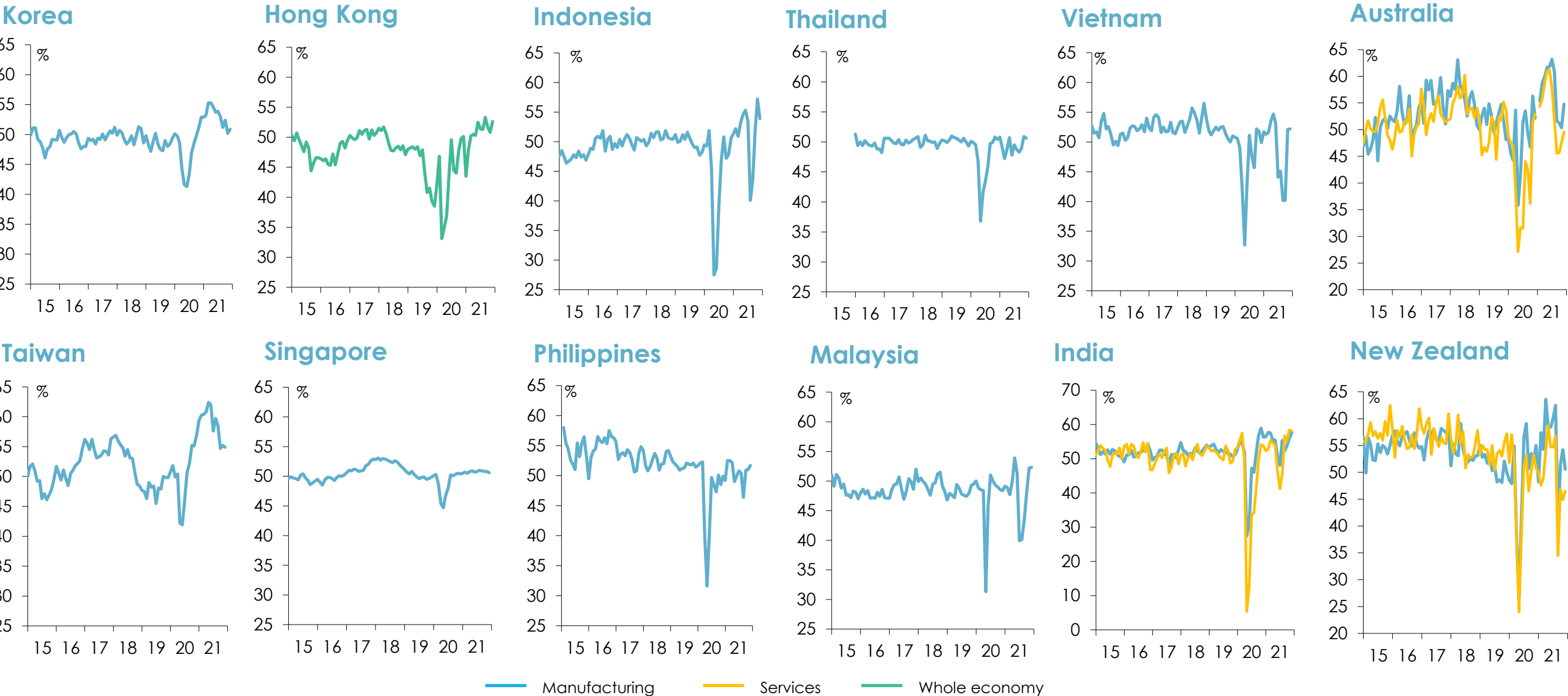


## India



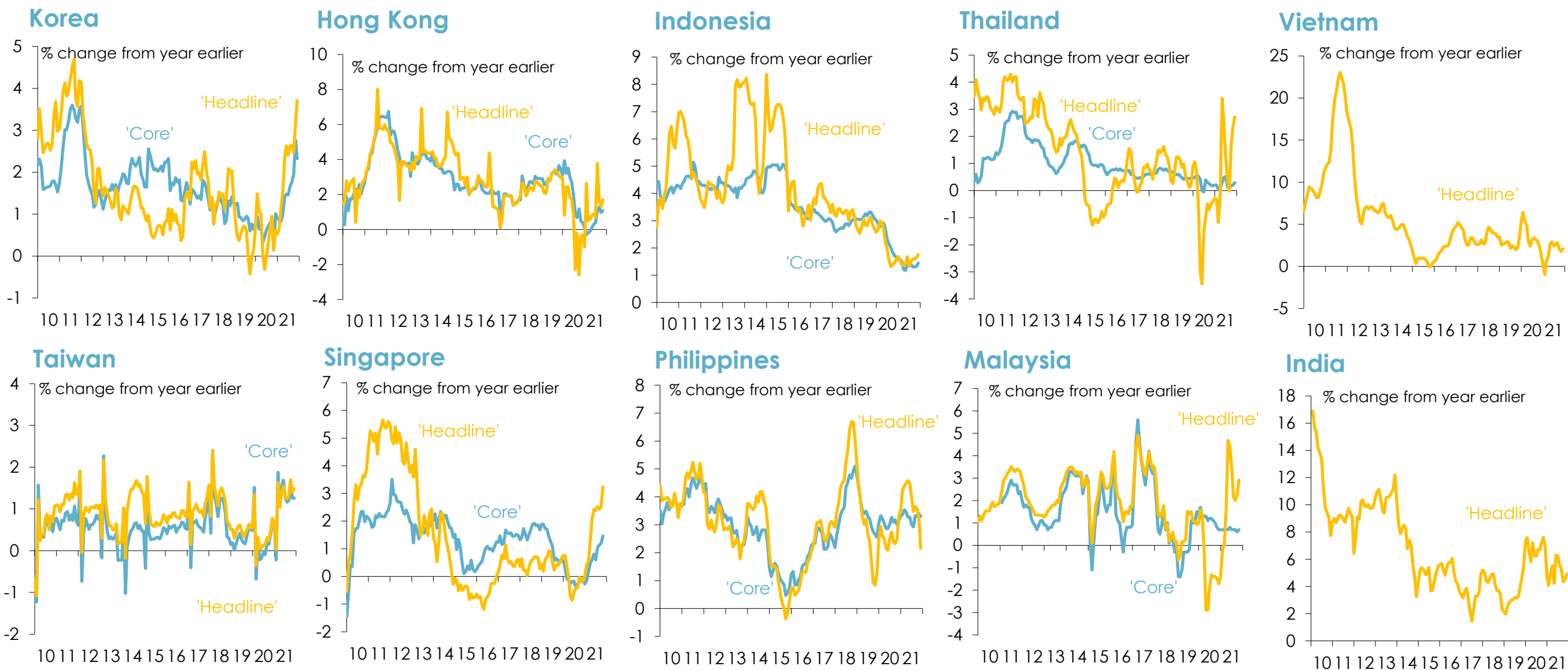
Sources: Bank of Korea; Taiwan Directorate-General of Budget, Accounting & Statistics; Hong Kong Census & Statistics Department; Singapore Ministry of Trade and Industry; Department of Statistics Malaysia; Office of the National Economic & Social Development Council of Thailand; Statistics Indonesia;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

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

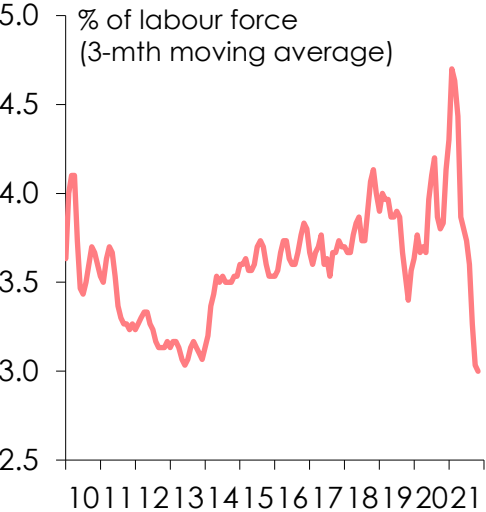
# Some (though not all) Asian economies are experiencing temporary upward pressure on inflation as in North America and Europe



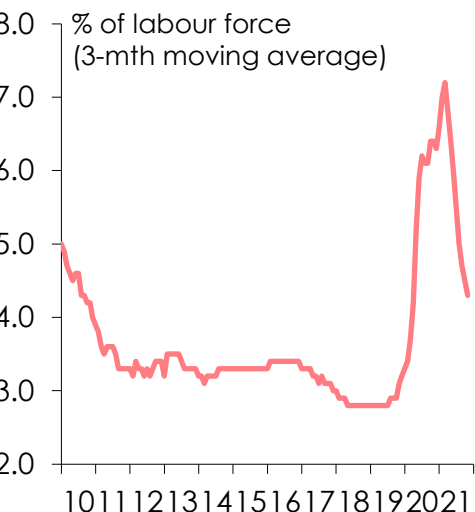
Note: 'Core' inflation in Korea excludes agricultural products and oil; in Taiwan it excludes fresh fruit, vegetables and energy; in Singapore it excludes accommodation and private transport; and in Hong Kong it excludes the effect of 'one-off government relief measures'. 'Core' inflation in Indonesia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

# Unemployment rose sharply in most Asian economies last year but is now falling in most of them – with the conspicuous exception of Thailand

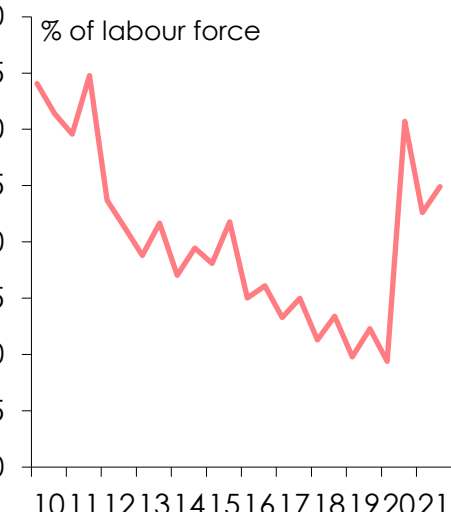
**Korea**



**Hong Kong**



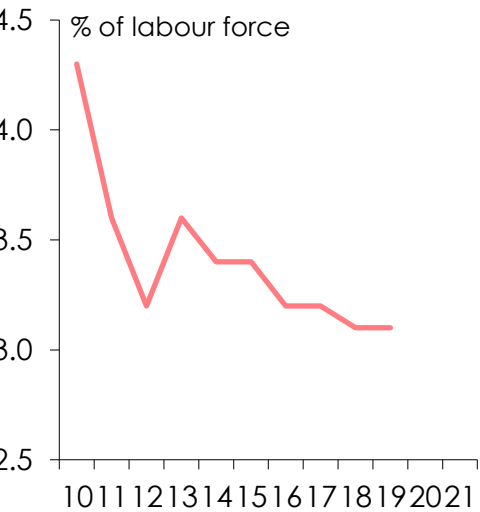
**Indonesia**



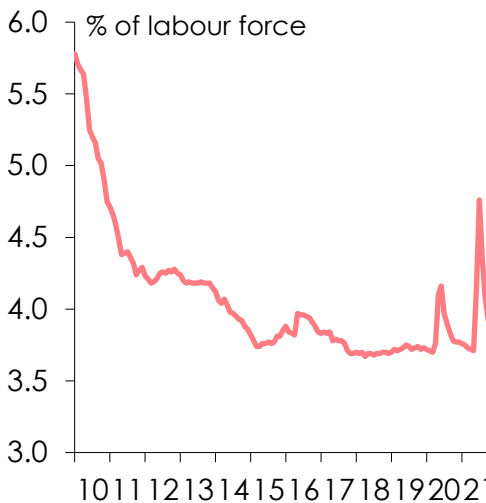
**Thailand**



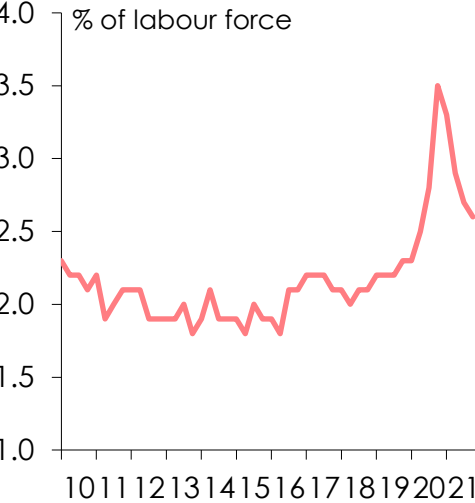
**Vietnam**



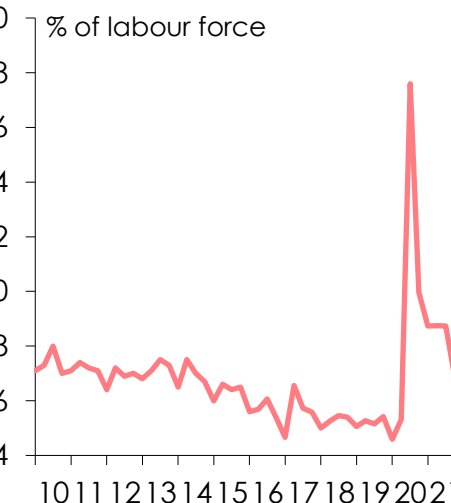
**Taiwan**



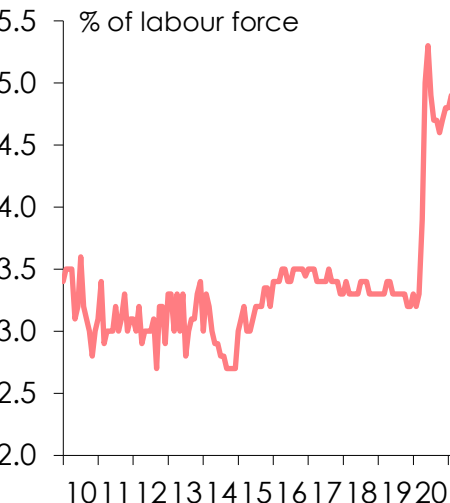
**Singapore**



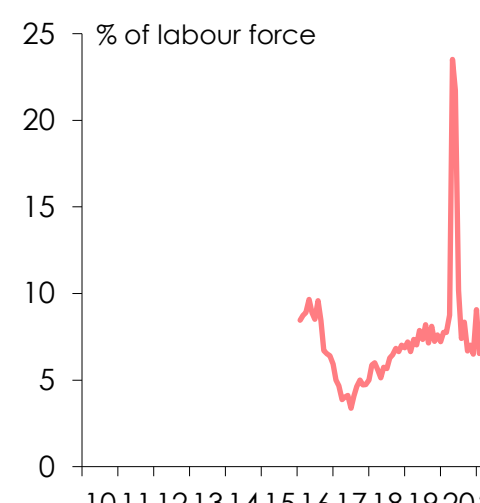
**Philippines**



**Malaysia**



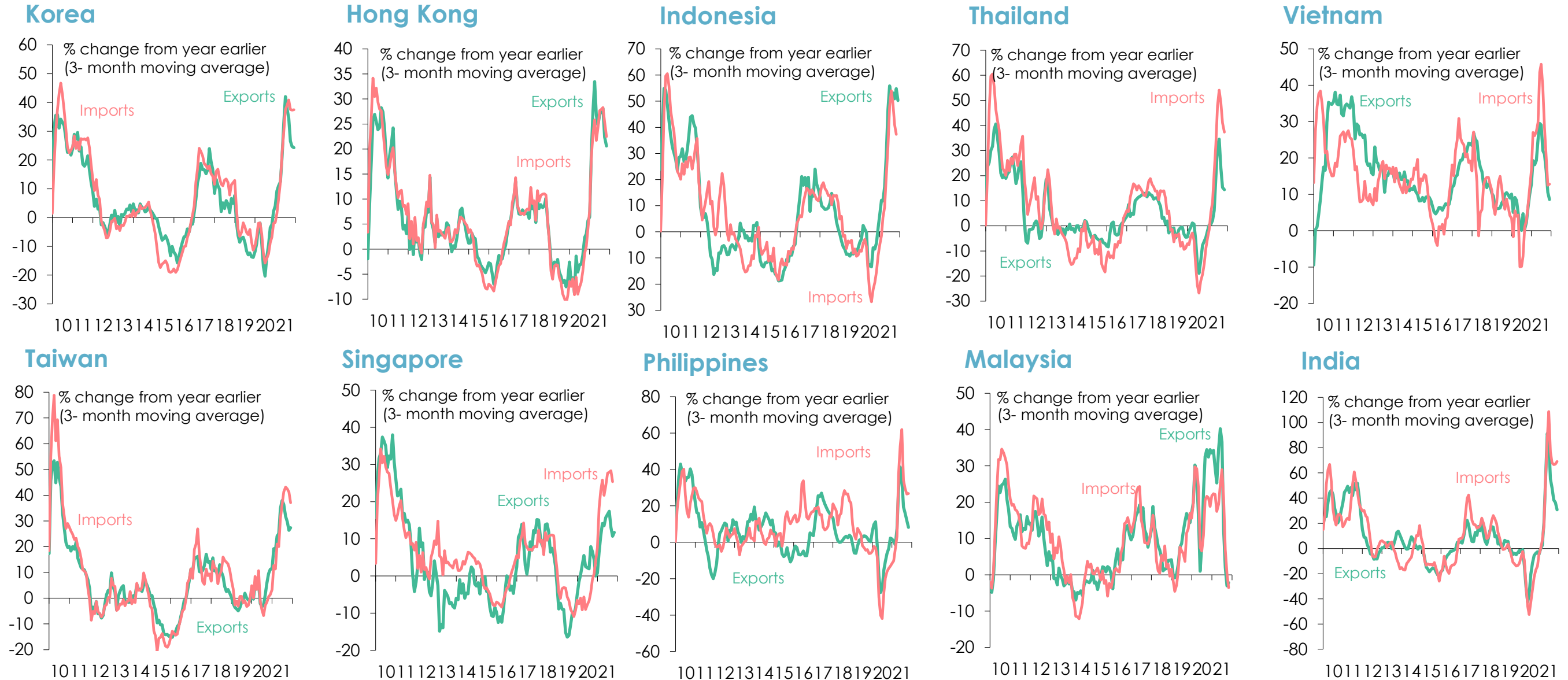
**India**



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



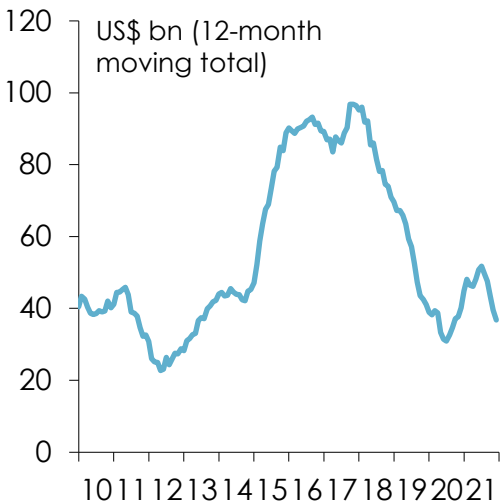
# Asian exports are recovering from the Covid-induced slump – although ‘base effects’ from this time last year are inflating the growth



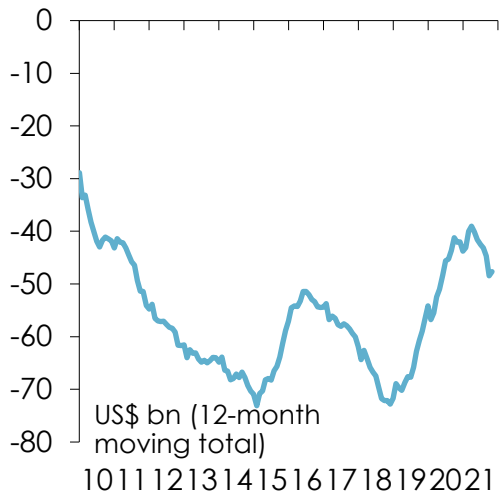
Note: Data for Hong Kong, Singapore and Malaysia are published in national currencies and converted to US dollars by Corinna using month-average exchange rates.  
Sources: national statistical agencies and central banks. [Return to "What's New"](#).

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

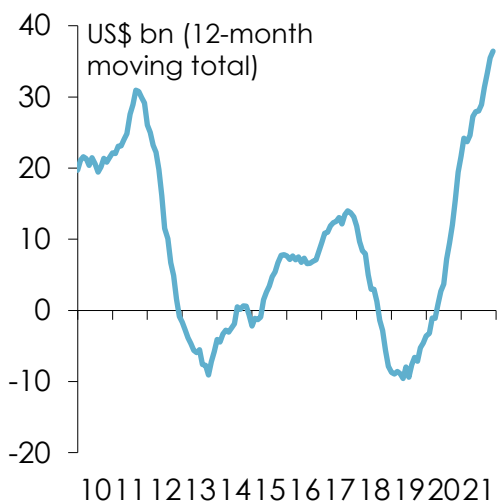
Korea



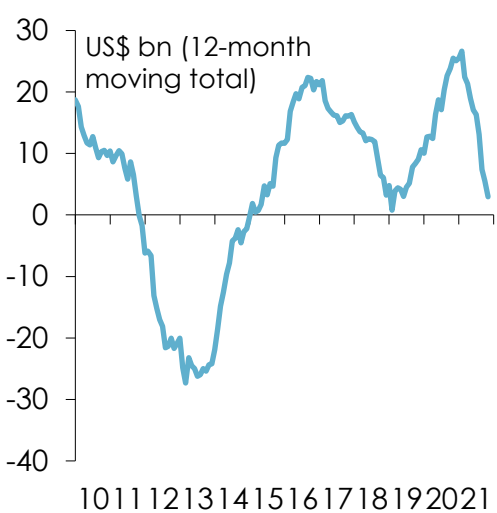
Hong Kong



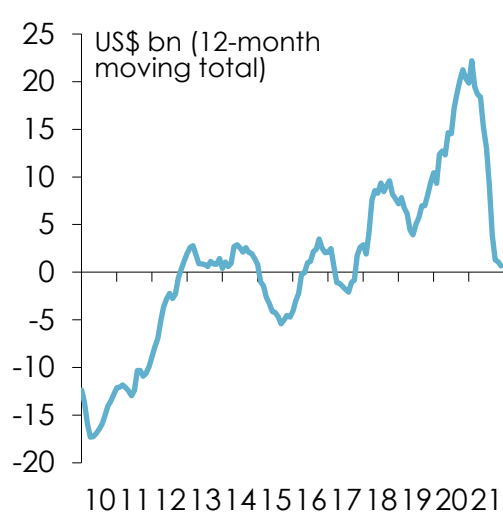
Indonesia



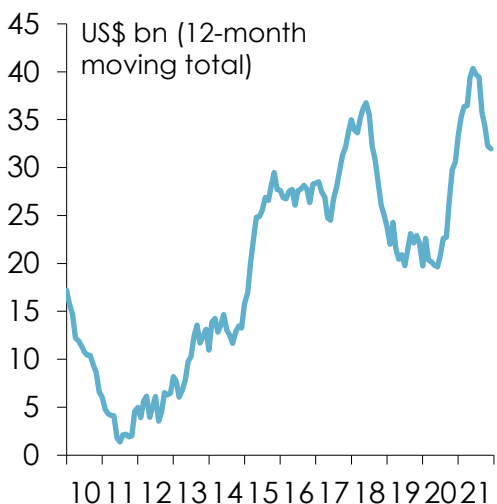
Thailand



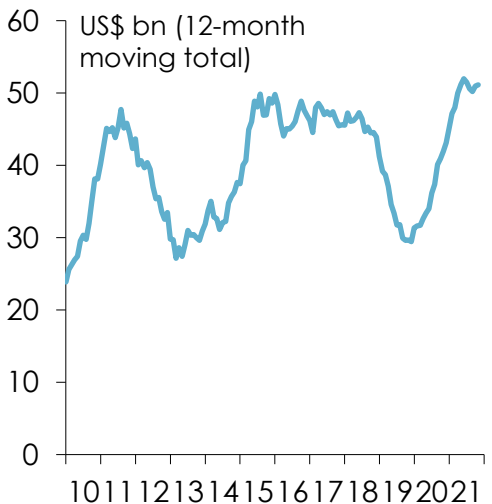
Vietnam



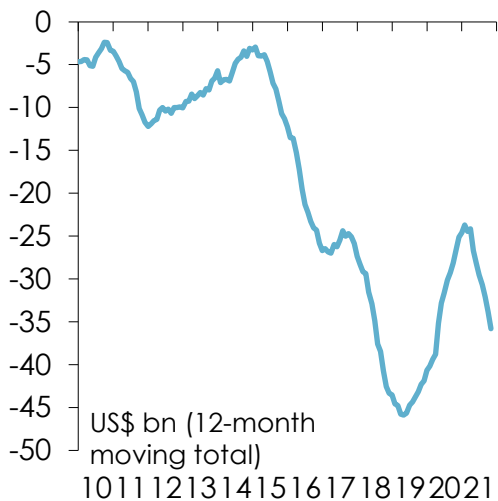
Taiwan



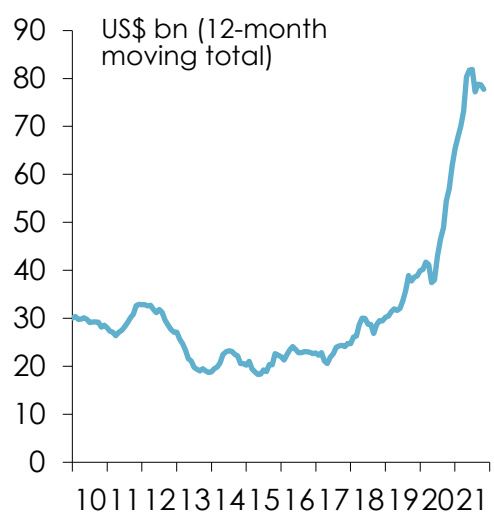
Singapore



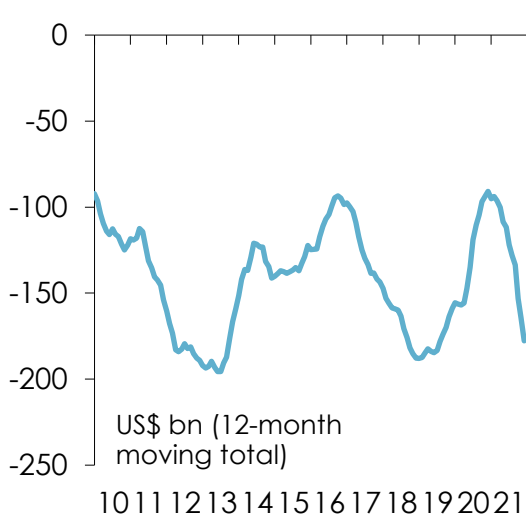
Philippines



Malaysia



India

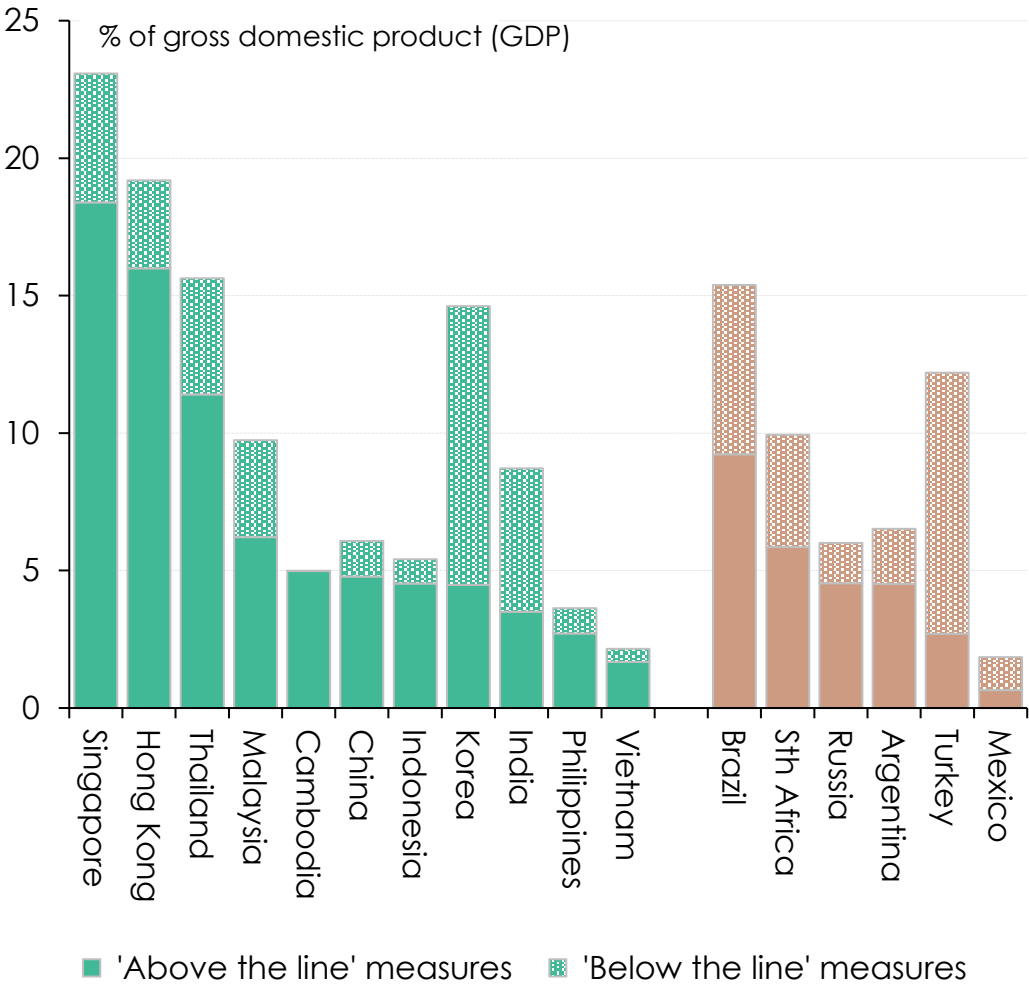


Note: Data for Hong Kong, Singapore and Malaysia are published in national currencies and converted to US dollars by Corinna using month-average exchange rates.  
Sources: national statistical agencies and central banks. [Return to "What's New"](#).

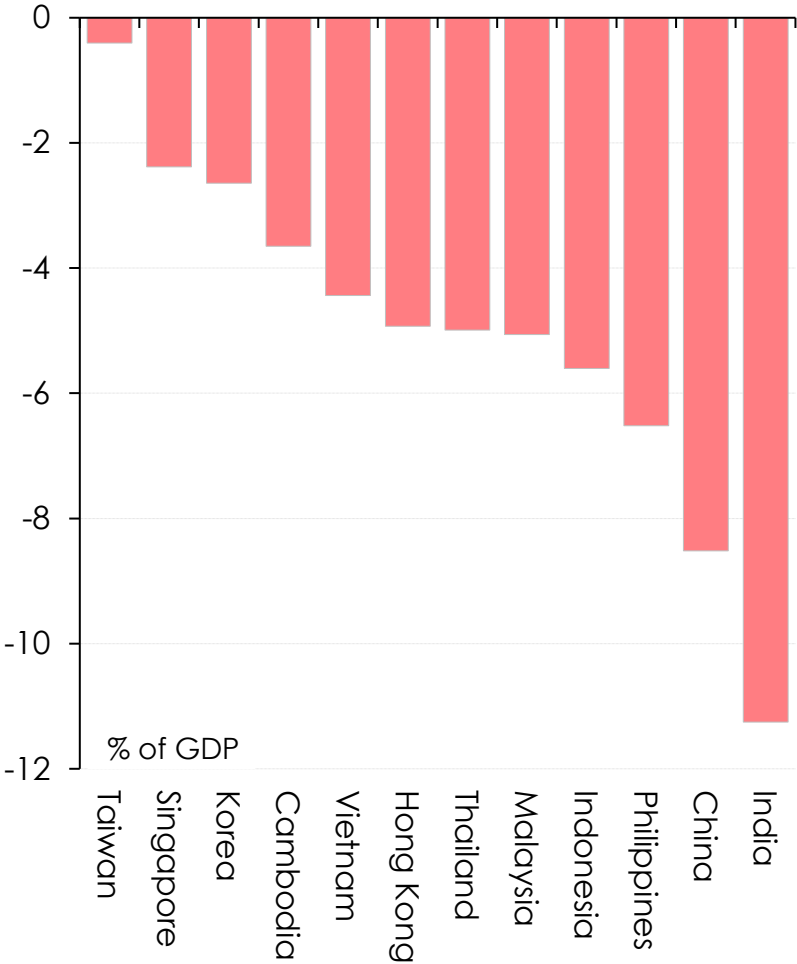


# Apart from Singapore, Hong Kong and Thailand, Asian governments' discretionary fiscal responses to Covid-19 have been relatively modest

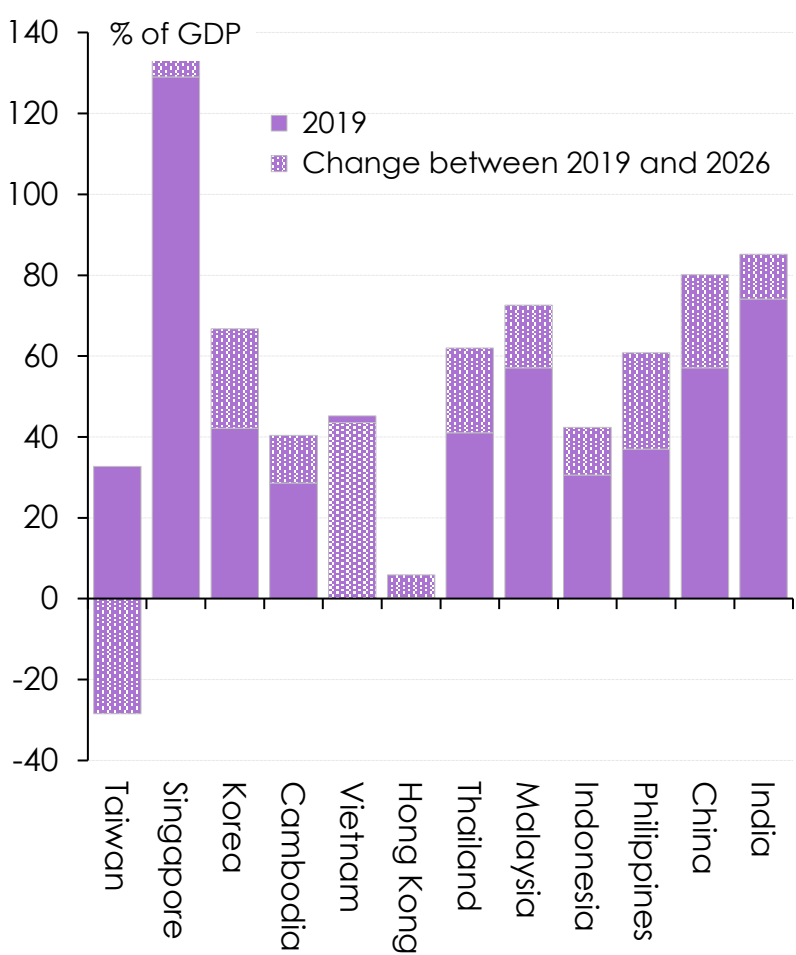
Fiscal policy responses to Covid-19 – Asian & other selected emerging market economies



Budget balances – Asian economies 2020-2022

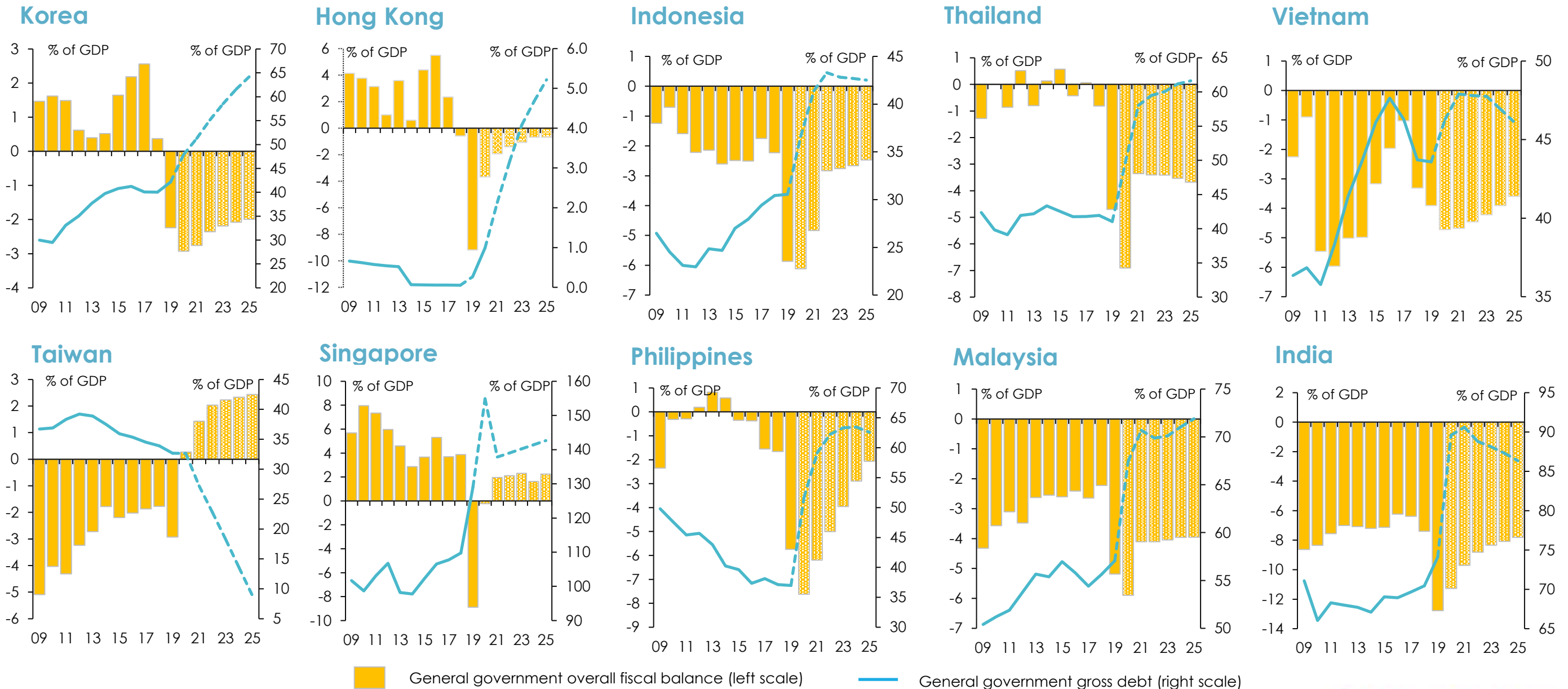


Gross government debt – Asian economies 2019-26



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

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

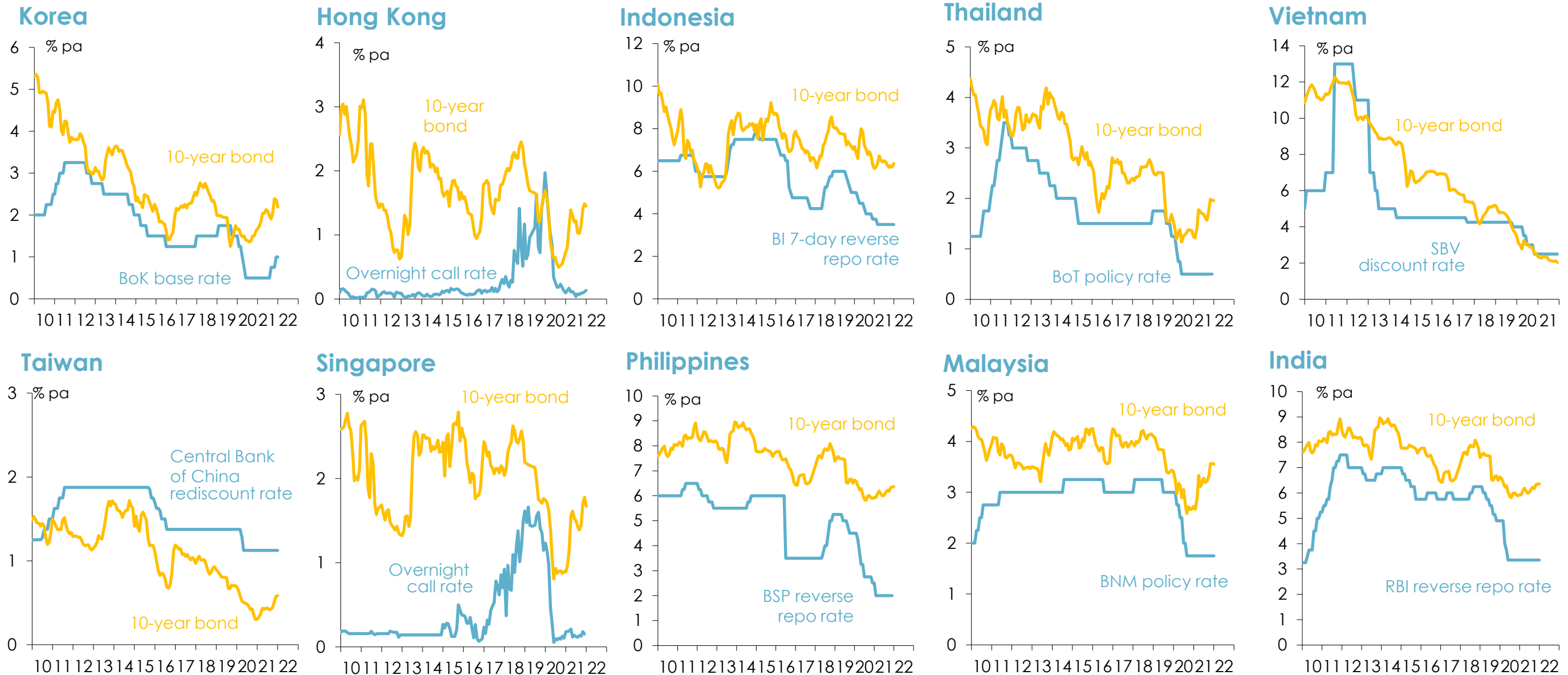


Source: International Monetary Fund, [Fiscal Monitor](#), and [World Economic Outlook](#), October 2021. [Return to "What's New"](#)

# Central banks in Indonesia, the Philippines and Taiwan left interest rates unchanged this week, but Pakistan's central bank raised rates 100bp

- ❑ **Bank Indonesia** left its 7-day repo rate unchanged at 3.50% at this week's Governing Council meeting
  - BI Governor Perry Wijoyo foreshadowed after the meeting that BI would start reducing “excess liquidity” next year, but was at pains to emphasize that its decisions “will be determined by inflation and economic growth” and warned against “the conclusion that if the fed funds rate rises, BI rate will do too ... that is not true”
  - Indonesia's ‘headline’ and ‘core’ inflation rates of 1.7% and 1.4% over the twelve months to November are well below BI's target of 2-4%, leaving ample scope for monetary policy to “maintain exchange rate stability ... and efforts to support economic growth”
- ❑ **Bangko Sentral ng Pilipinas** maintained its overnight reverse repo rate unchanged at 2.0%, at Thursday's Monetary Board meeting
  - BSP noted that the projected path for inflation “remains within the target band of 2-4% over the policy horizon” and that “inflation expectations ... continue to be anchored to the target level” – allowing monetary policy to “help sustain the economy's momentum over the next few quarters” given the “downside risks” from “the emergence of new Covid-19 variants as well as the potential tightening of global monetary conditions”
- ❑ **Taiwan's central bank** kept its discount rate unchanged at 1.125% at its Thursday Board meeting
  - in its post-meeting statement the Board observed that “price increases in Taiwan have not been as significant as those in European economies or the US ... mainly because Taiwan has broadly kept the pandemic situation under control and has experienced little supply chain bottlenecks ... and the domestic labour market did not face capacity constraints”
  - however the Board further tightened ‘macro-prudential’ controls on mortgage lending, for the fourth time since last December
- ❑ **The State Bank of Pakistan** raised its monetary policy rate by 100bp, to 9.75%, at its Monetary Policy Committee meeting on Tuesday, in order to “counter inflationary pressures and ensure that growth remains sustainable”
  - this was the third increase this year, following previous rises of 75bp in September and 100bp in November
  - however it also indicated that it expected “monetary policy settings to remain broadly unchanged in the near term” as its objective of “mildly positive interest rates on a forward-looking basis was now close to being achieved”

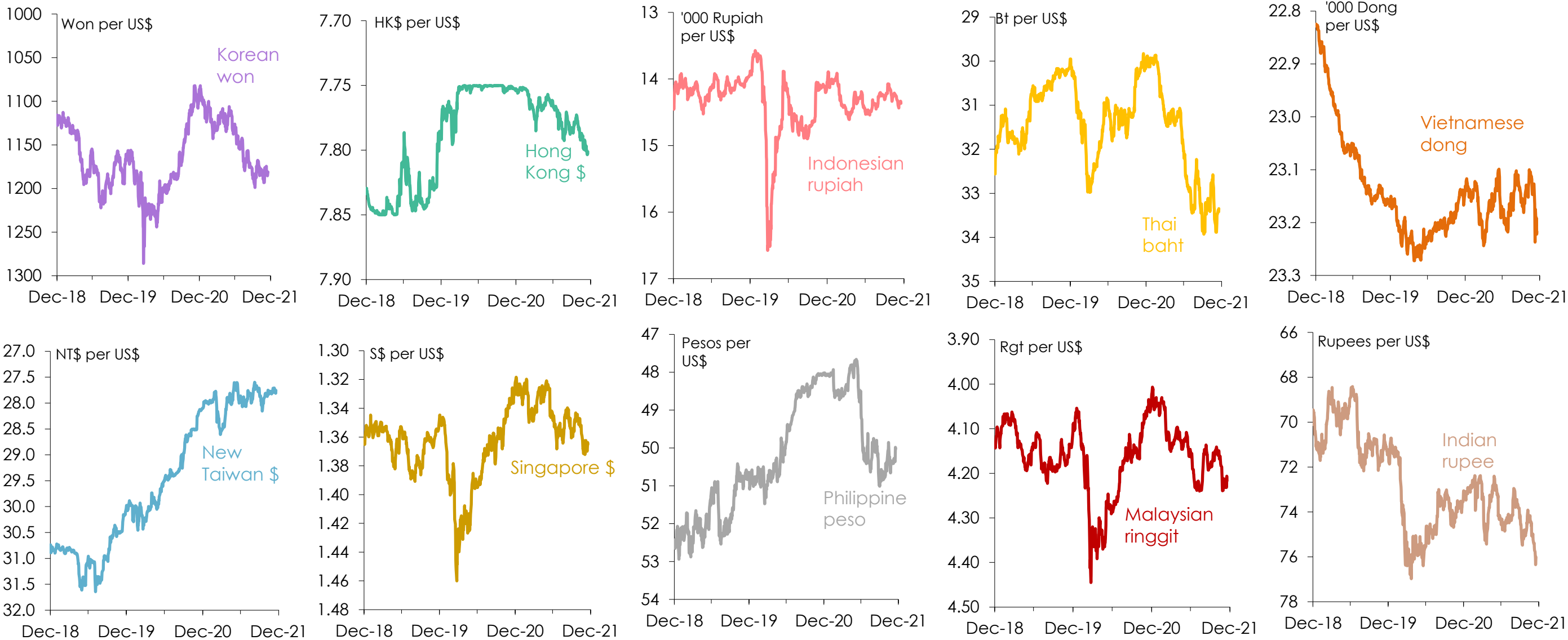
# The Bank of Korea is the only Asian central bank to have raised rates this year – and it did so a second time last month



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 17<sup>th</sup> December 2021. Sources: national central banks; Refinitiv Datastream. [Return to "What's New"](#).

# Asian currencies were mixed against the US\$ this week with the peso up 0.6% and the baht up 0.4%, while most others fell 0.1-0.2%

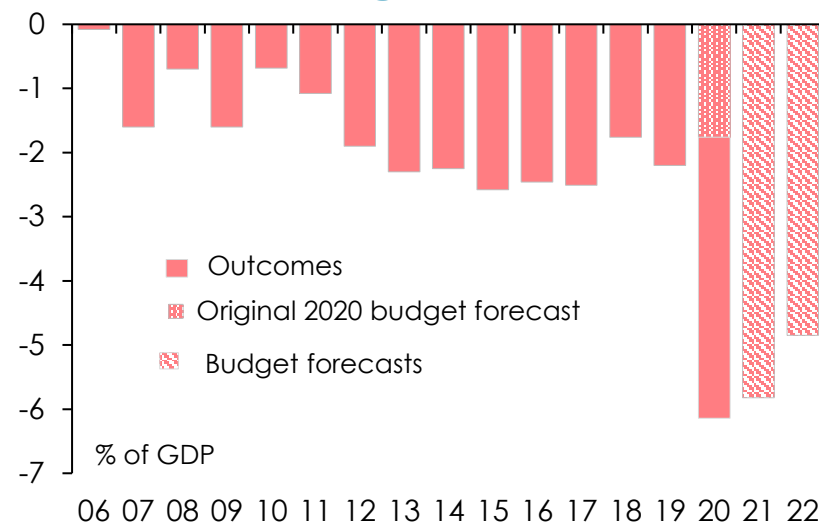
## Asian currency exchange rates vs US dollar



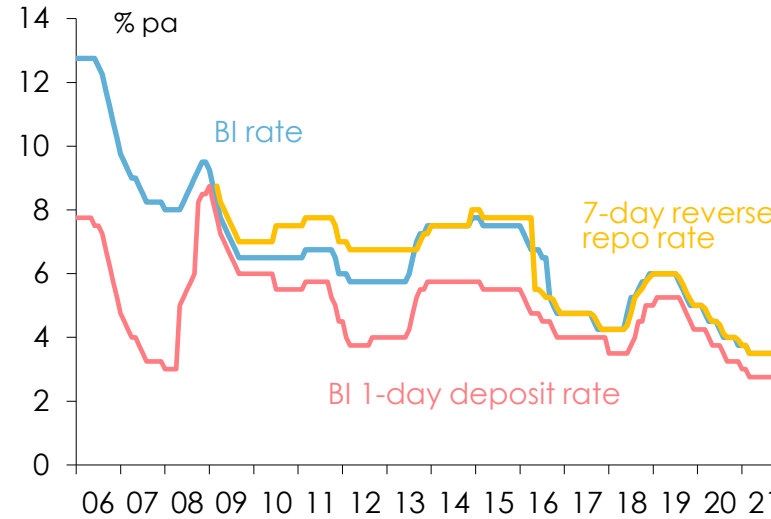


# Bank Indonesia's monetary policy settings have been on hold since January although it has continued with its 'synergistic monetary expansion'

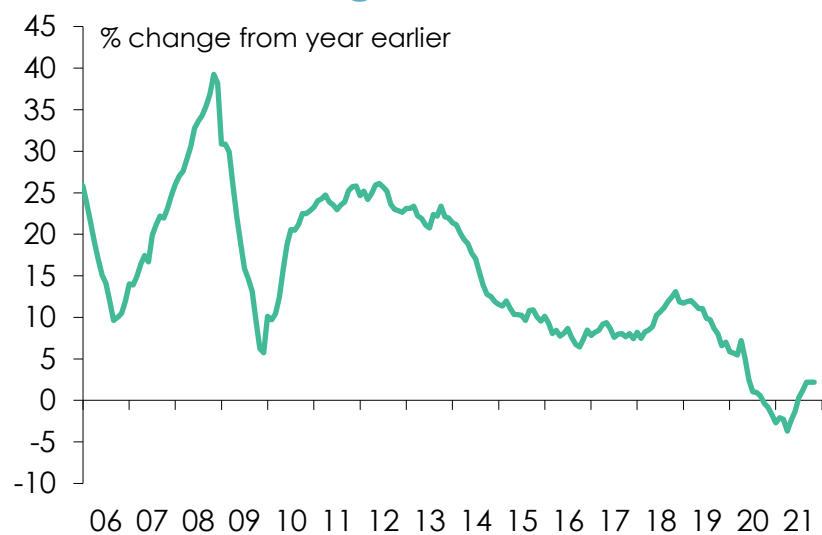
## Indonesia budget deficit



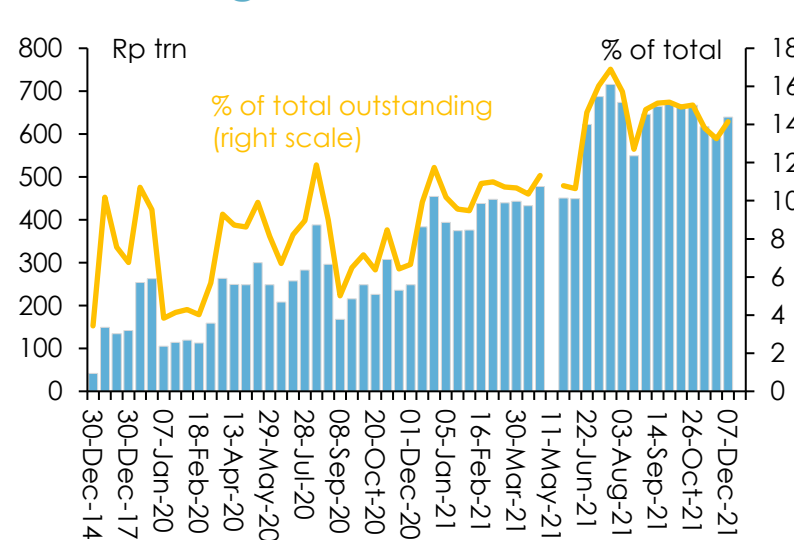
## BI monetary policy rates



## Bank lending



## BI holdings of tradeable SBNs

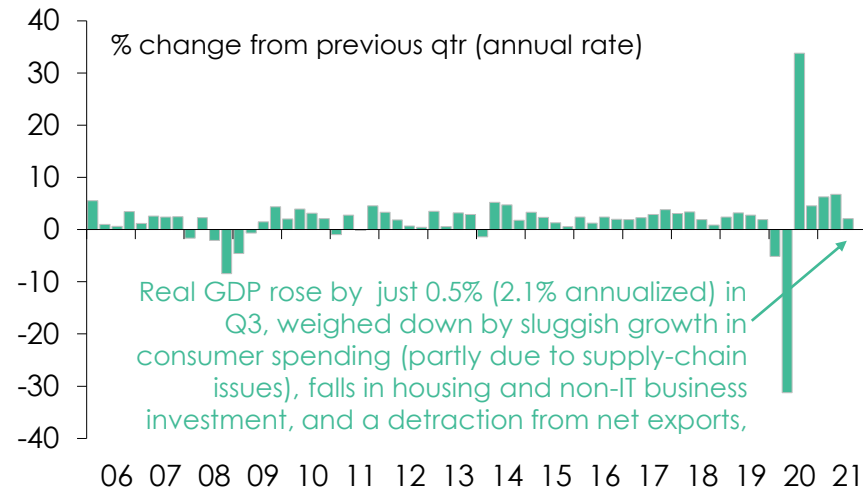


- ❑ In April 2020, the Indonesian Government and Bank Indonesia (BI) agreed to a 'burden-sharing' scheme under which BI will directly purchase bonds equivalent to 25% of this year's budget financing requirement, as well as subsidizing interest payments on other bonds
  - BI calls this 'synergistic monetary expansion'
  - up to 14<sup>th</sup> December BI has purchased Rp 143trn of SBN in the primary market (cf. Rp 473trn in 2020) and Rp58trn through private placements
  - 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 tripled (from Rp113trn to Rp640trn) since the onset of the pandemic, although they are down from a peak of Rp716trn in mid-July
  - BI has absorbed 28½% of the increase in the total stock of SBNs 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 1.4% in November is well below BI's target of 2-4% (slide 54) and BI expects it to remain within target in 2021 and 2022
- ❑ BI again left its policy settings unchanged at this week's final Governing Council meeting for the year (see slide 60)

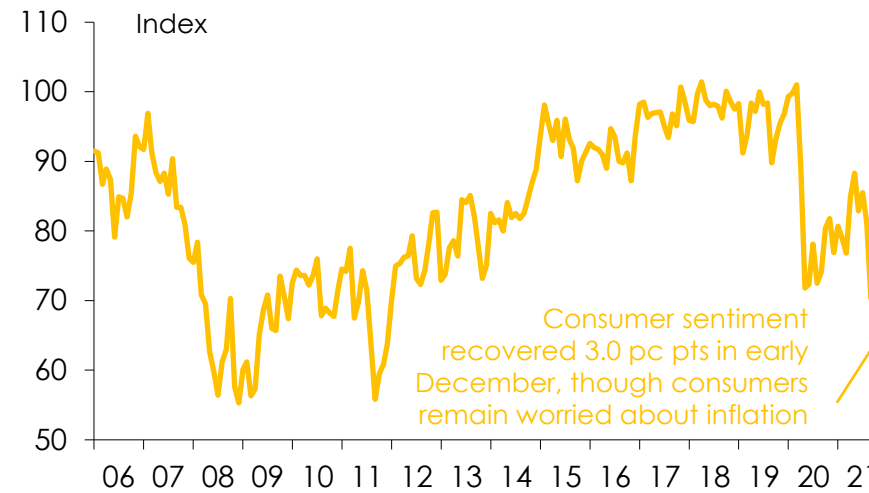
Sources: [Indonesia Ministry of Finance \(Kementerian Keuangan\)](#); [Directorate of Government Debt Securities](#); Bank Indonesia. [Return to "What's New"](#).

# US housing starts rose 11¾% in November to their highest level since March, while industrial production rose another ½% but is still 1¾% from prior peak

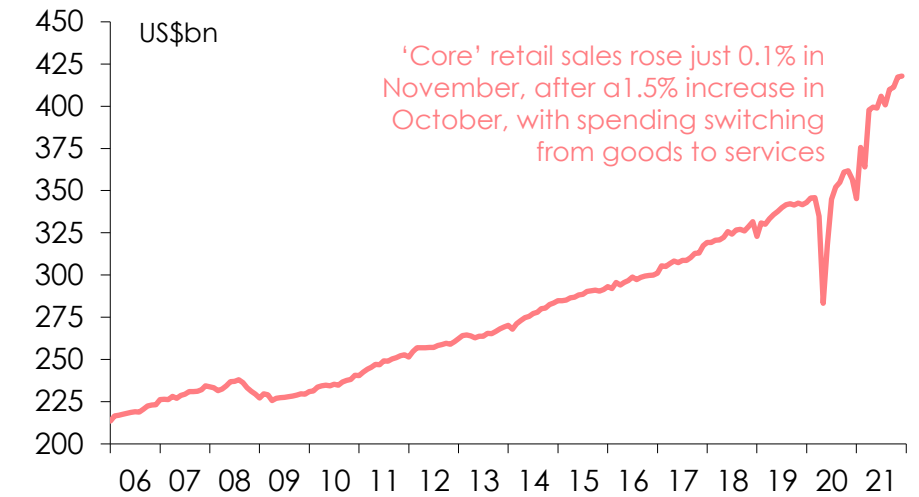
## Real GDP



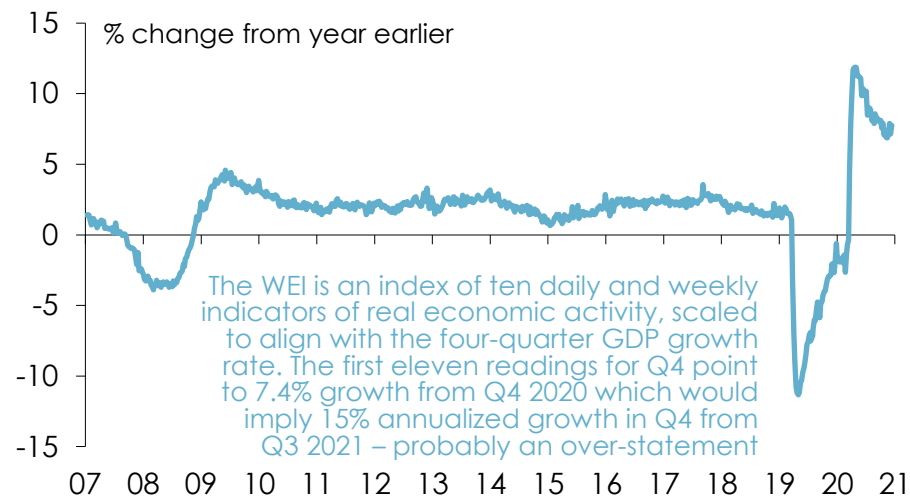
## Consumer sentiment



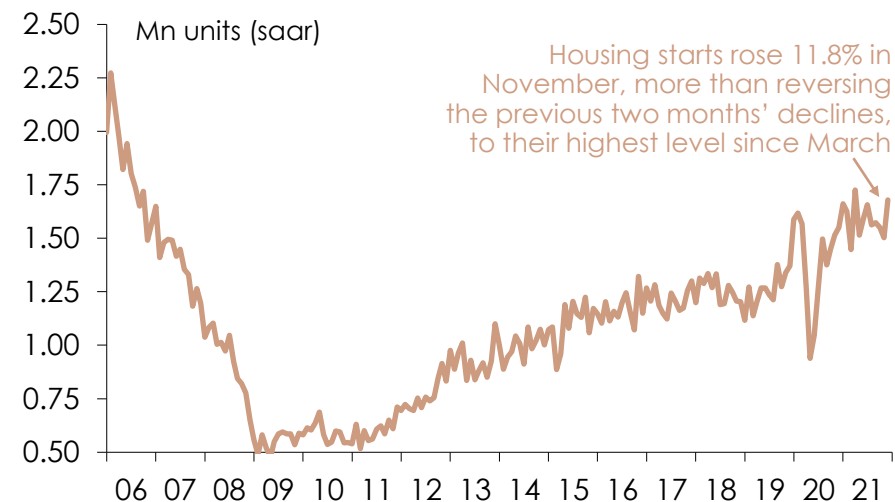
## 'Core' retail sales



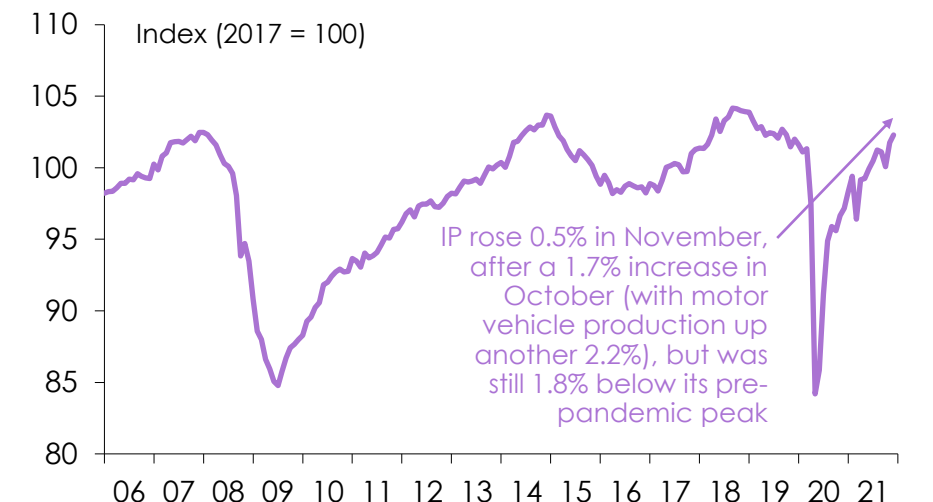
## NY Fed weekly economic index



## Housing starts



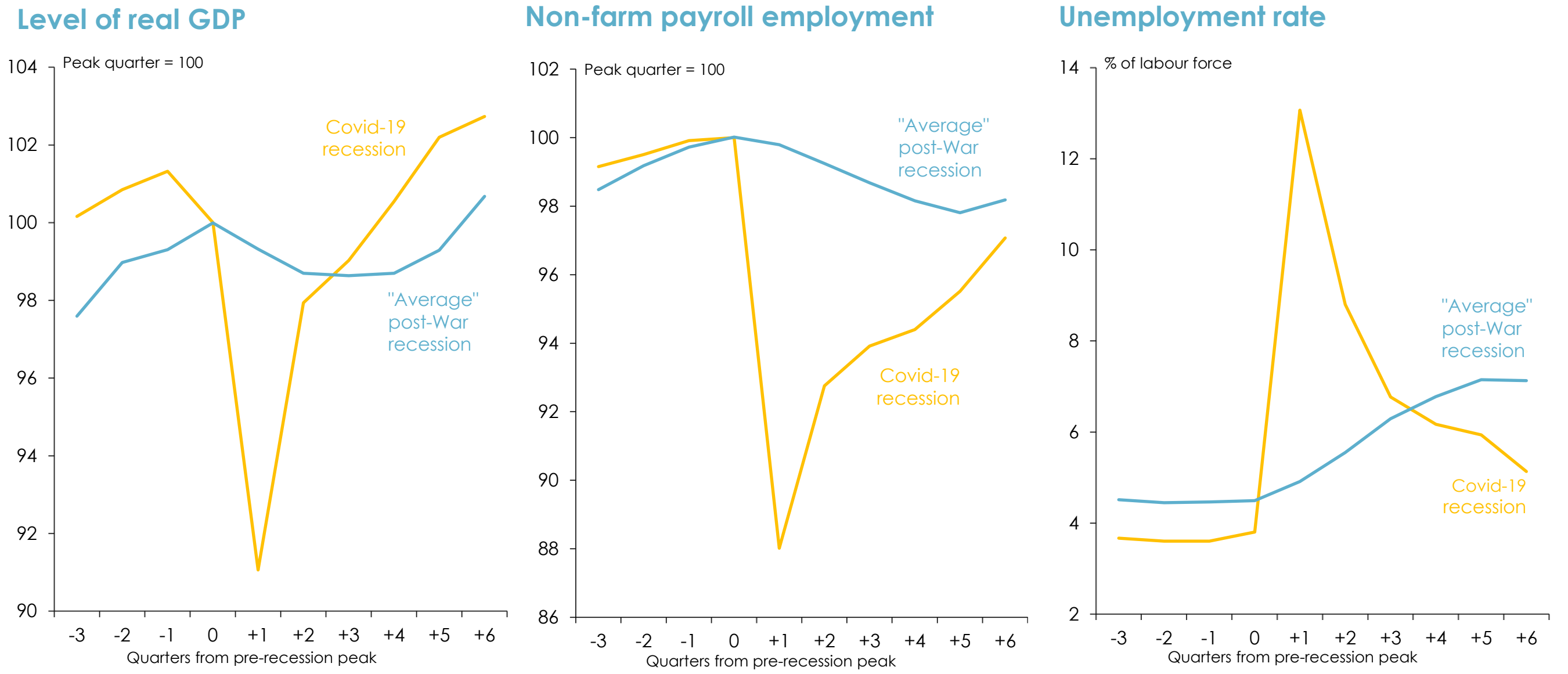
## Industrial production



Note: 'Core' retail sales excludes motor vehicles, petrol stations and building materials stores. 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"](#).



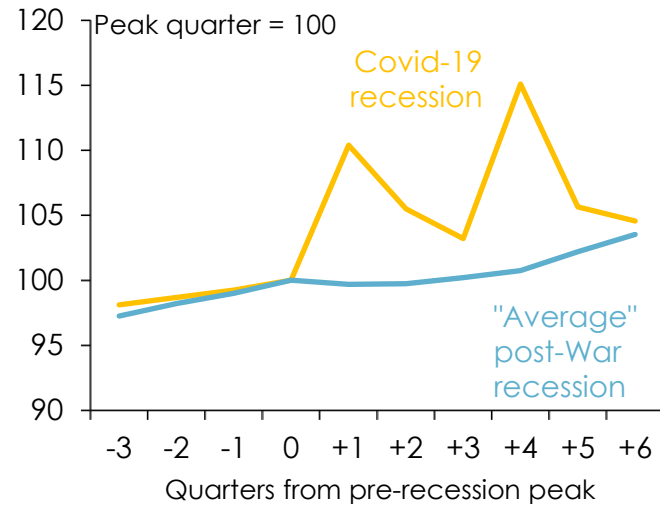
# The Covid-19 recession has been quite unlike any other of the recessions the US has experienced since the end of World War II



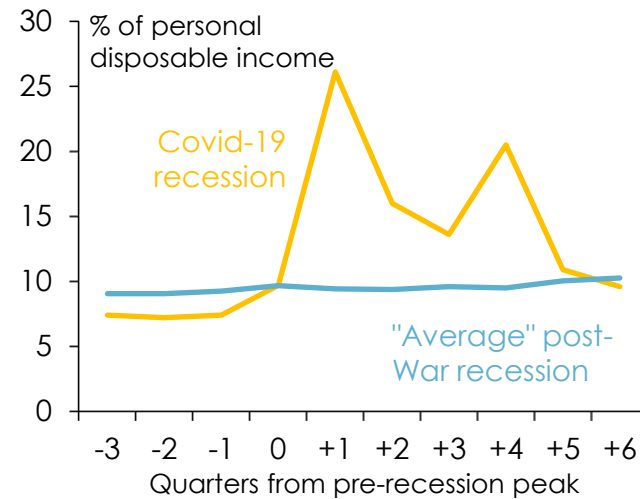
Note: 'average post-war recession' is the average of figures for each of the eleven post-war US recessions as designated by the [National Bureau of Economic Research Business Cycle Dating Committee](#), with the exception of the recession of January-July 1980 (which was too short, and too close to the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

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

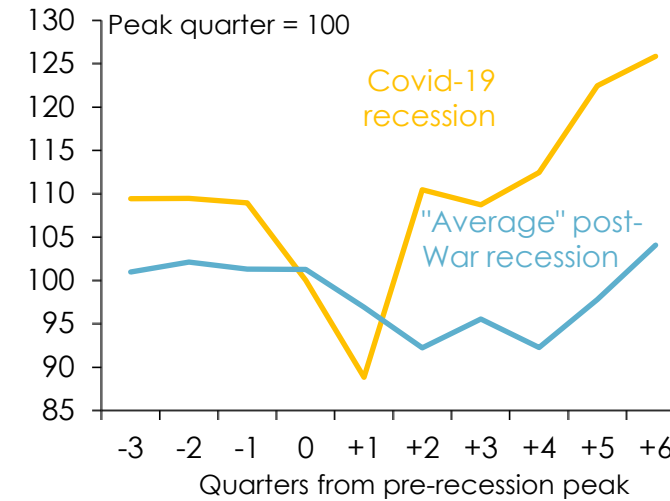
## Personal disposable income



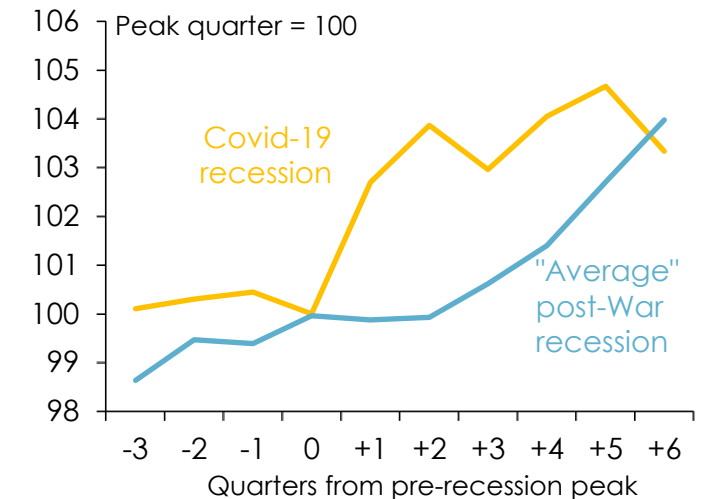
## Personal saving rate



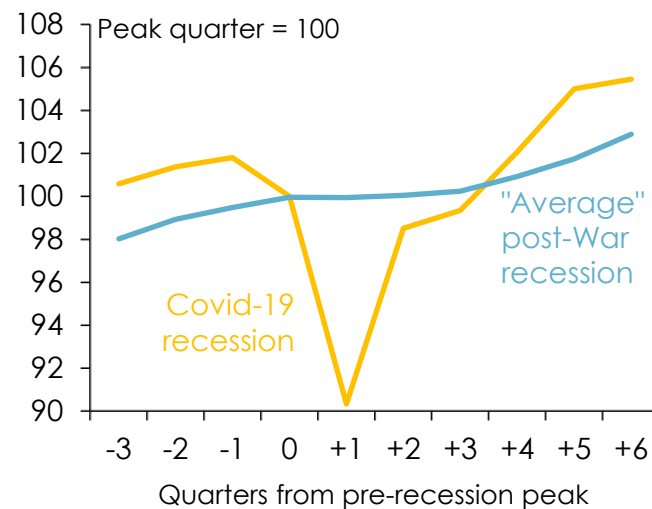
## After-tax corporate profits



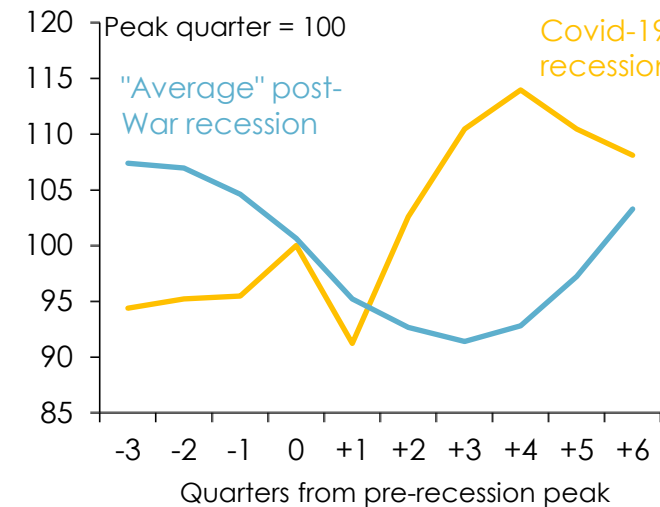
## Labour productivity



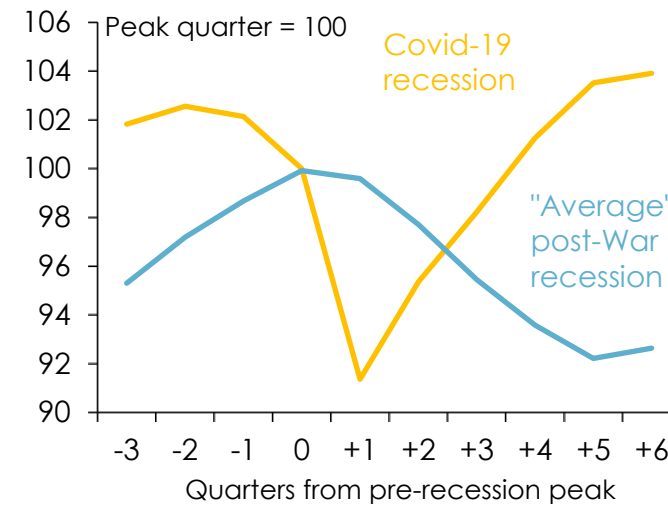
## Personal consumption



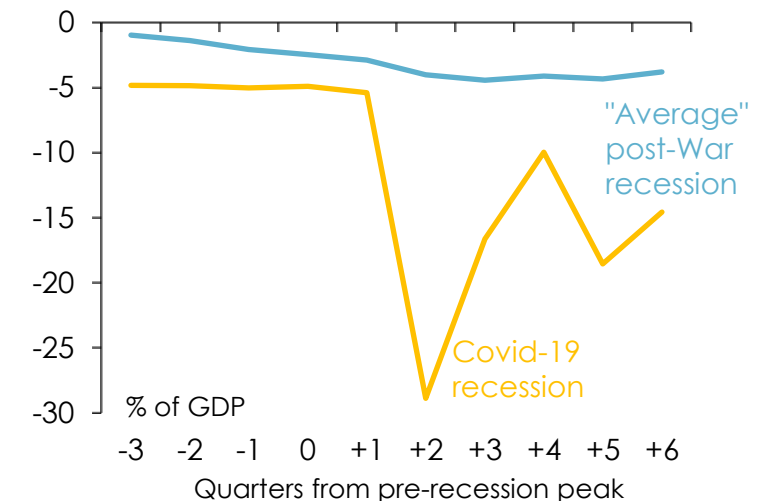
## Residential investment



## Business investment



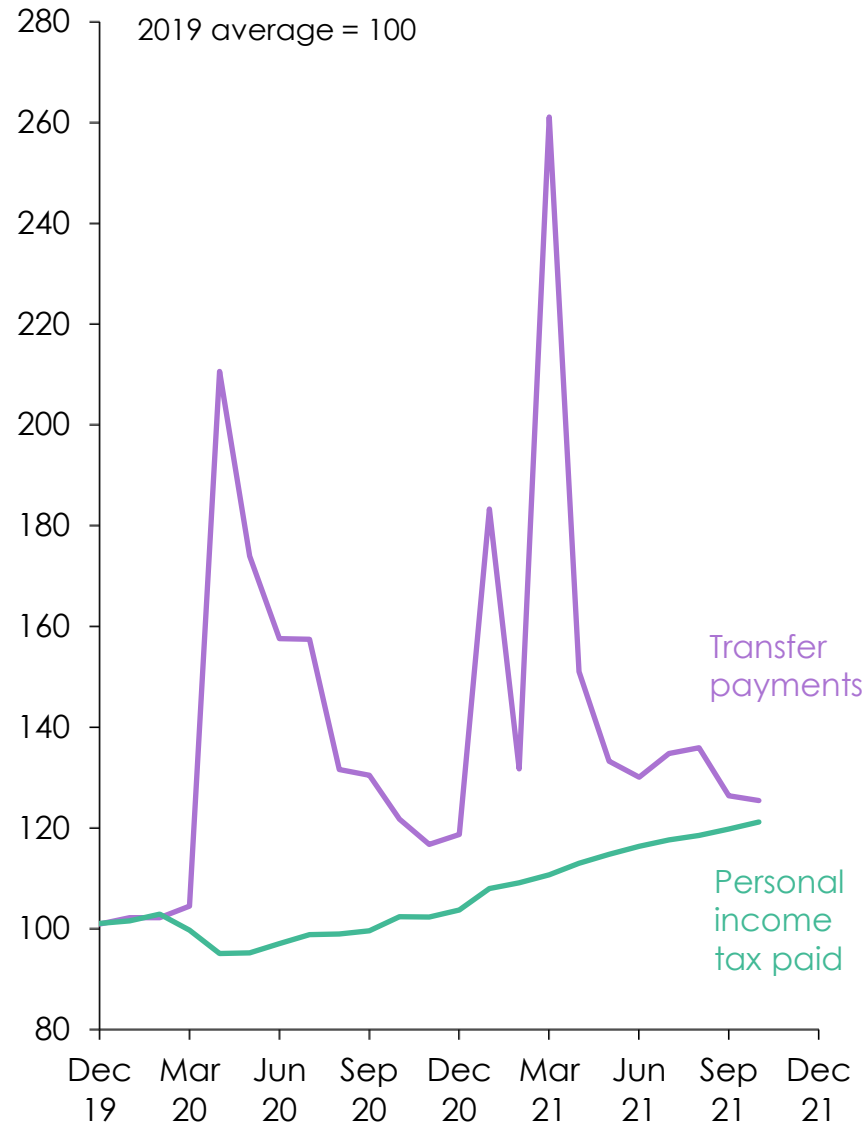
## Federal budget balance



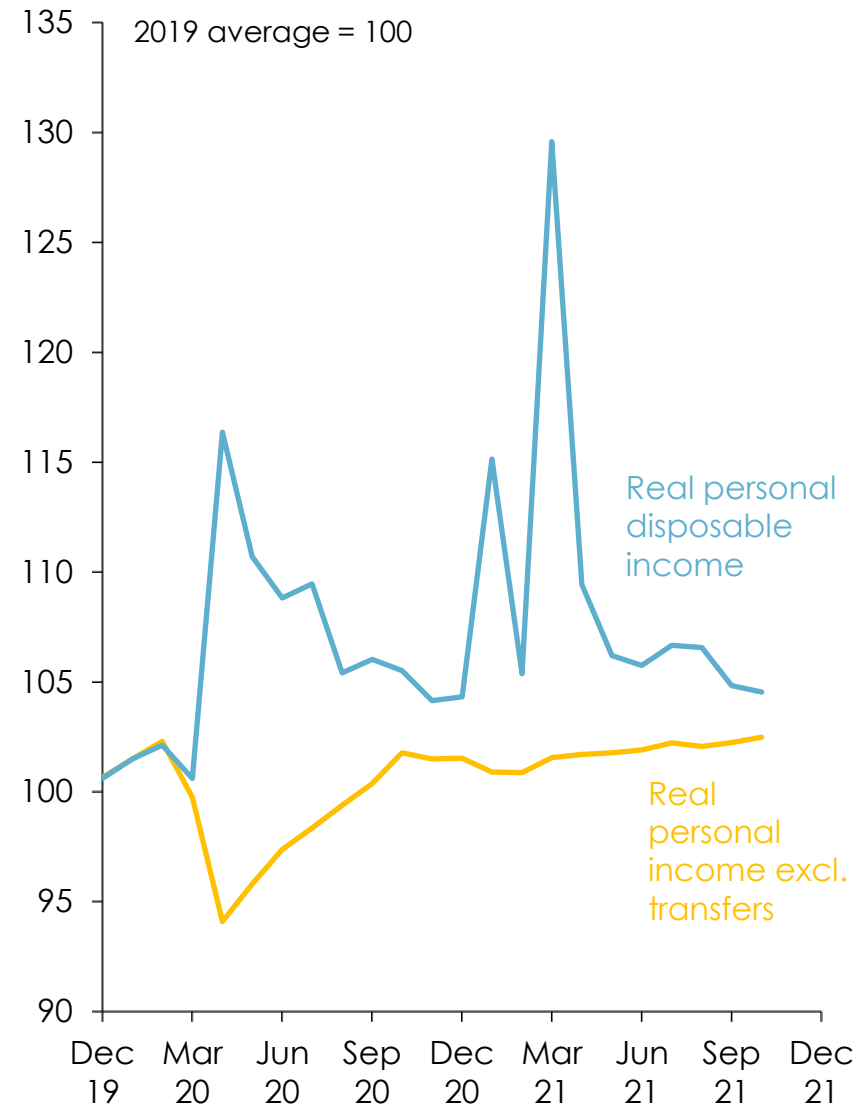
Note: 'average post-war recession' is the average of figures for each of the eleven post-war US recessions as designated by the [National Bureau of Economic Research Business Cycle Dating Committee](#), with the exception of the recession of January-July 1980; 'peak quarter' is the quarter in which real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

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

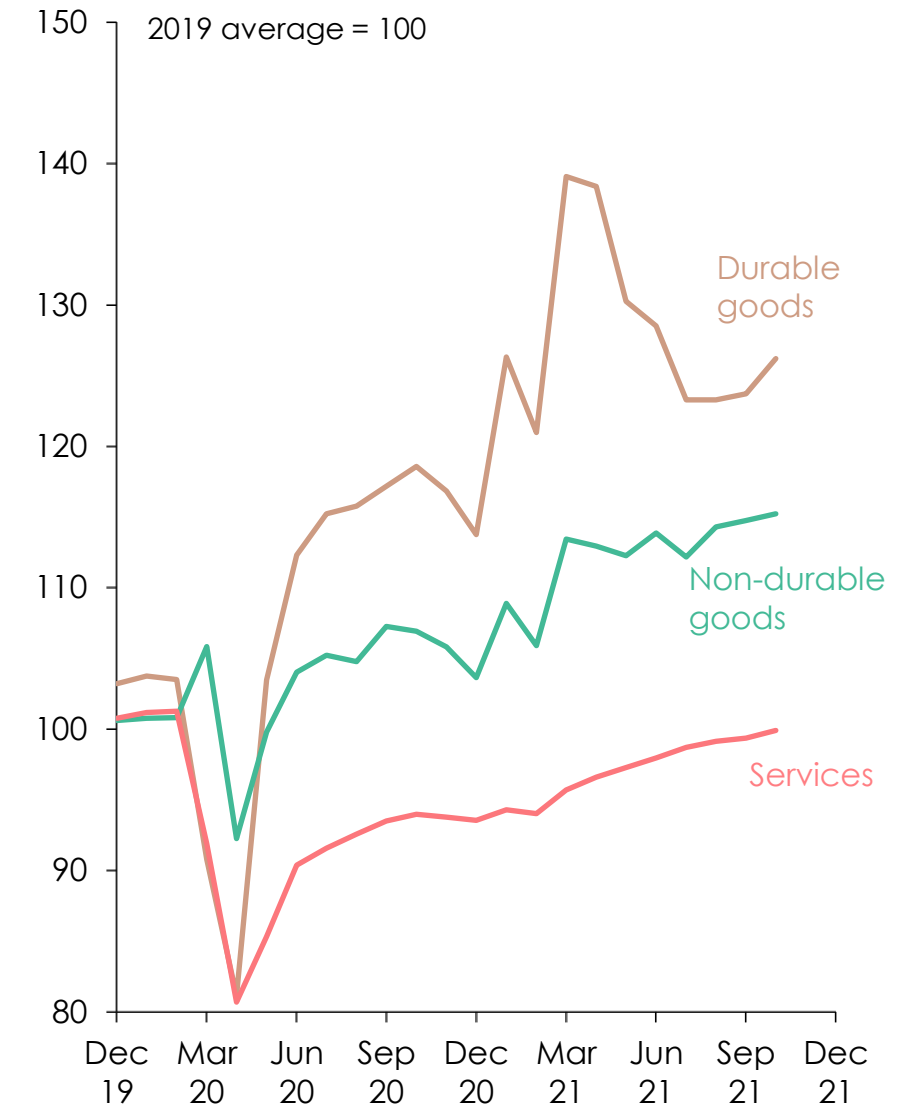
## Tax and transfer payments



## Real personal income

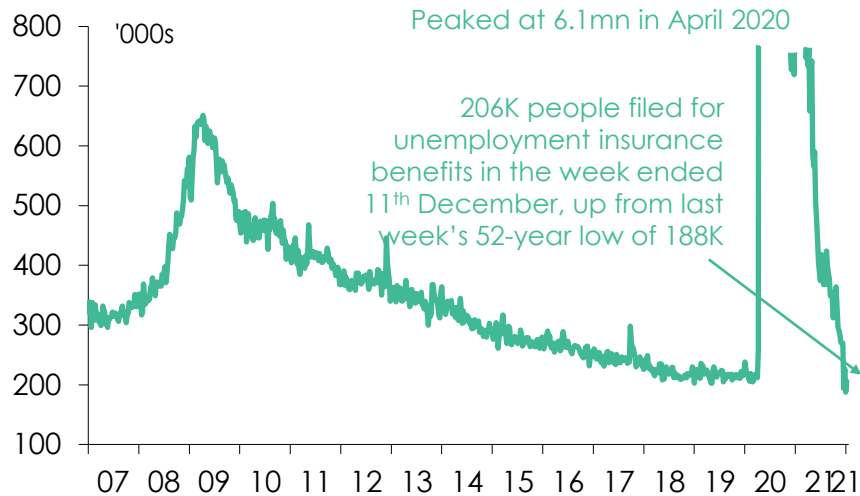


## Real consumption expenditure

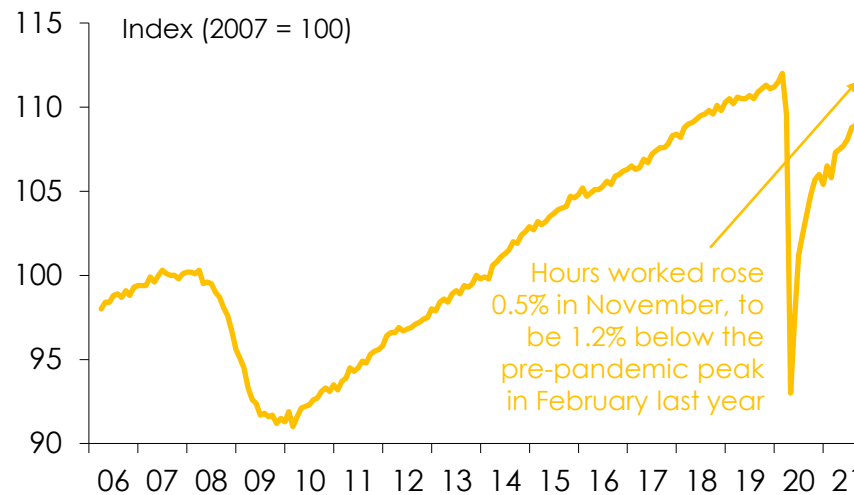


# US non-farm payrolls rose by only 210K (0.1%) in November, although the unemployment rate dropped to 4.2%

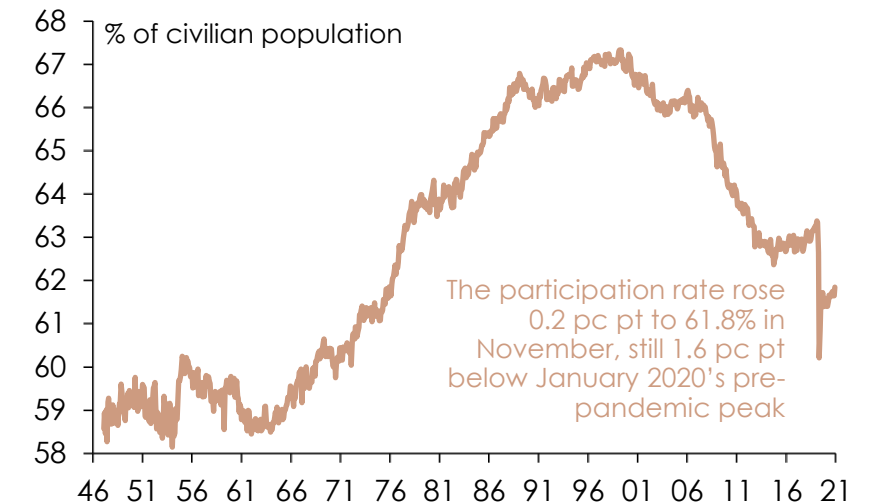
## Unemployment benefit claims



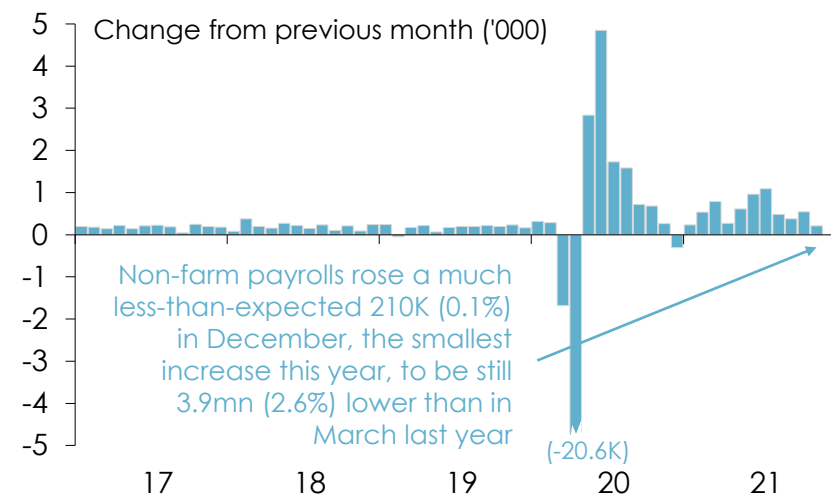
## Hours worked (private sector)



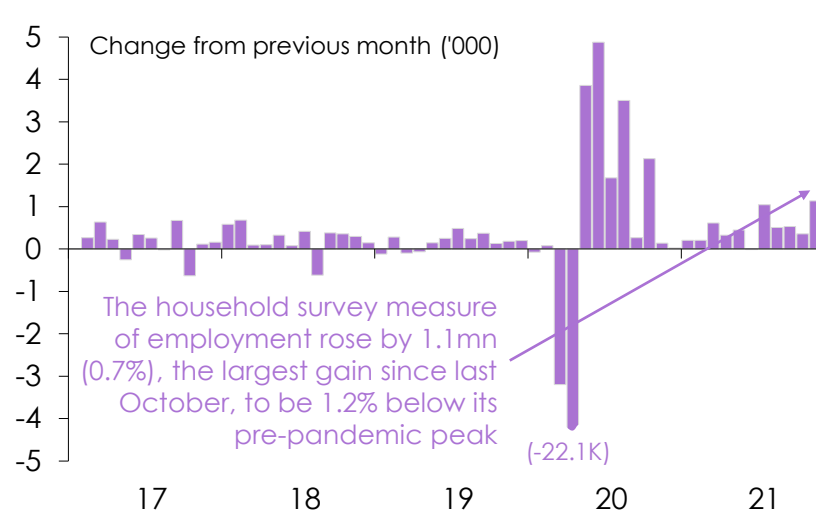
## Labour force participation rate



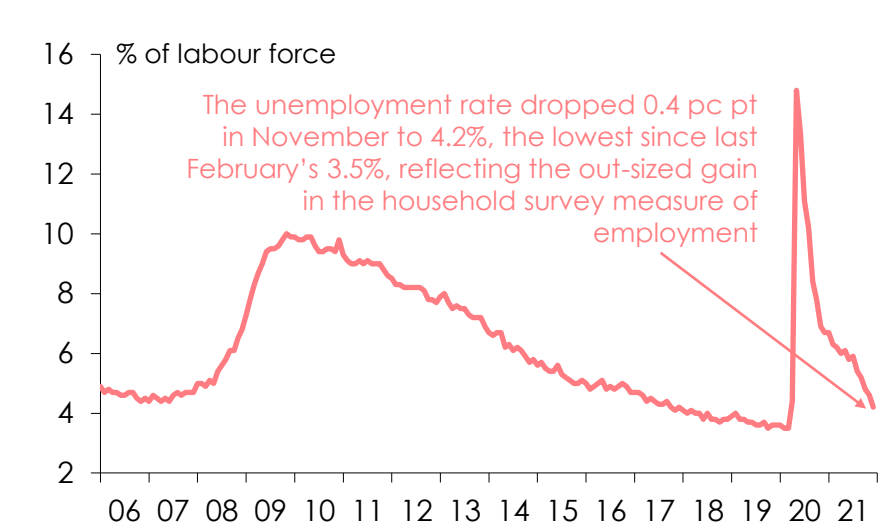
## Non-farm payroll employment



## Household survey employment

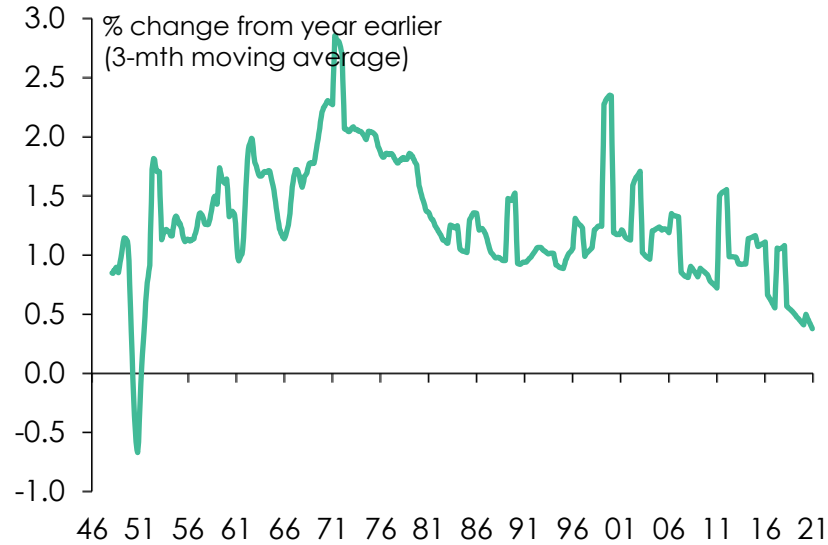


## Unemployment rate

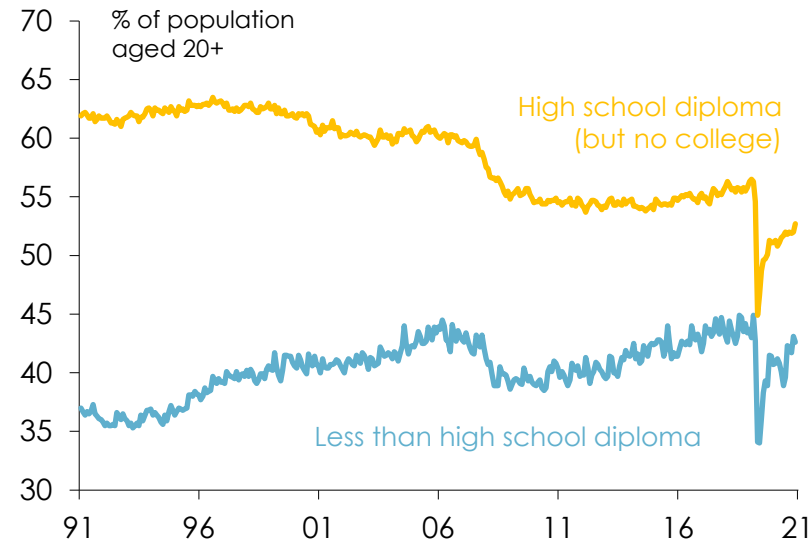


# US labour market tightness owes a lot to restrictions on immigration, and to barriers to the return to the labour market of specific groups

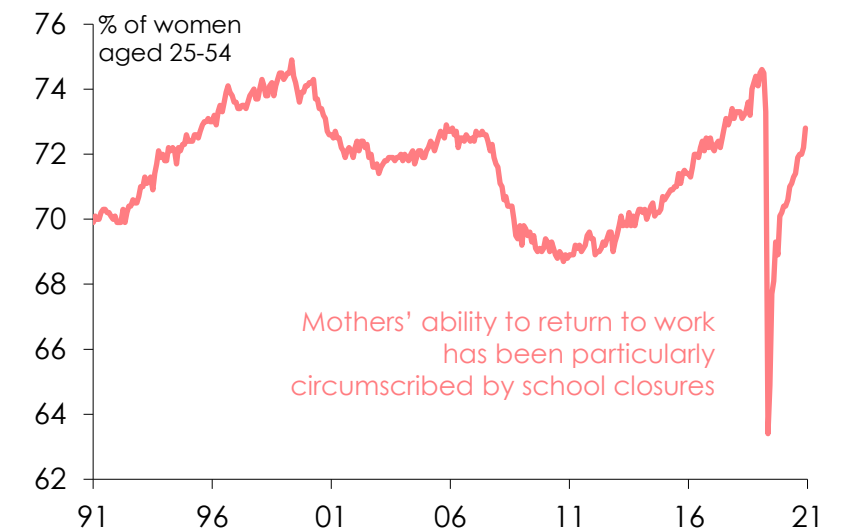
## Civilian working age population



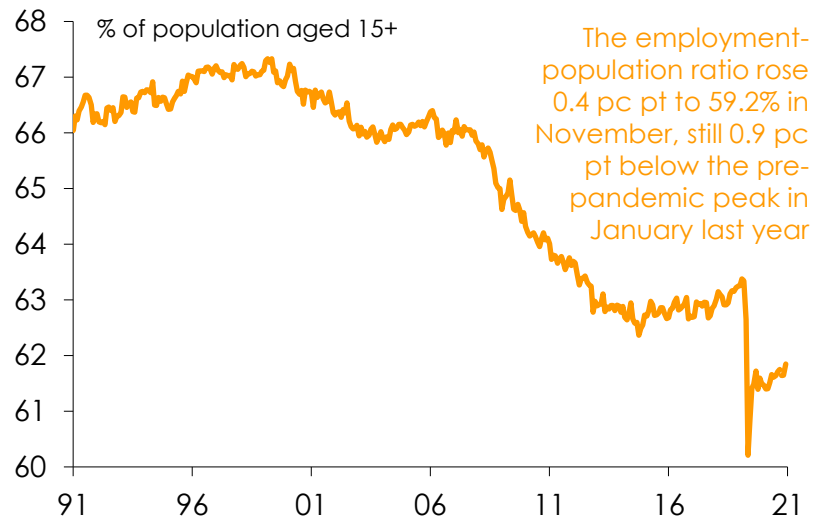
## 'E-pop' ratio – by education



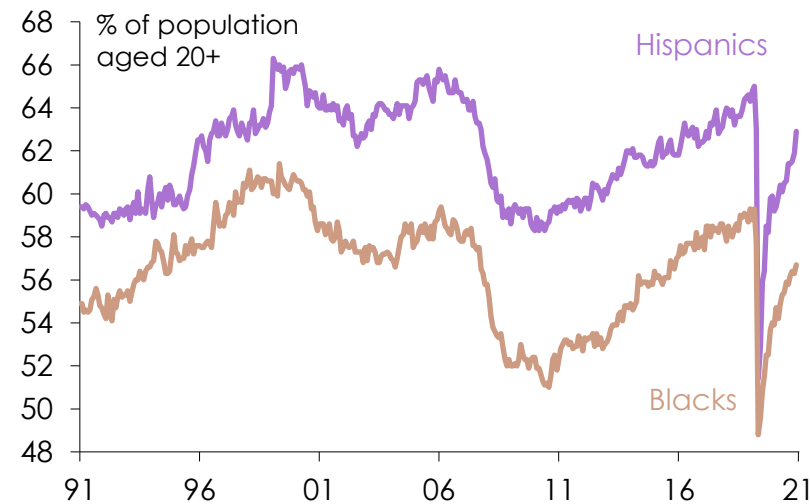
## 'E-pop' ratio – women 25-54



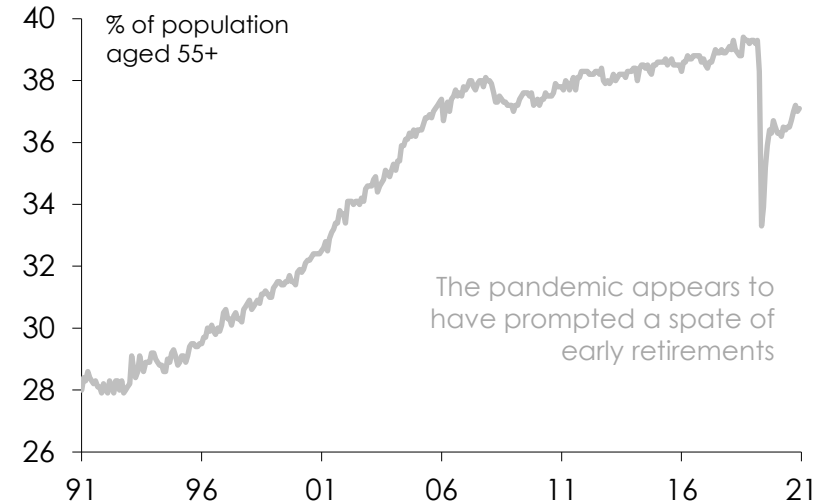
## Employment-to-population ratio



## 'E-Pop' ratio – Blacks & Hispanics



## 'E-pop' ratio – people 55 & over

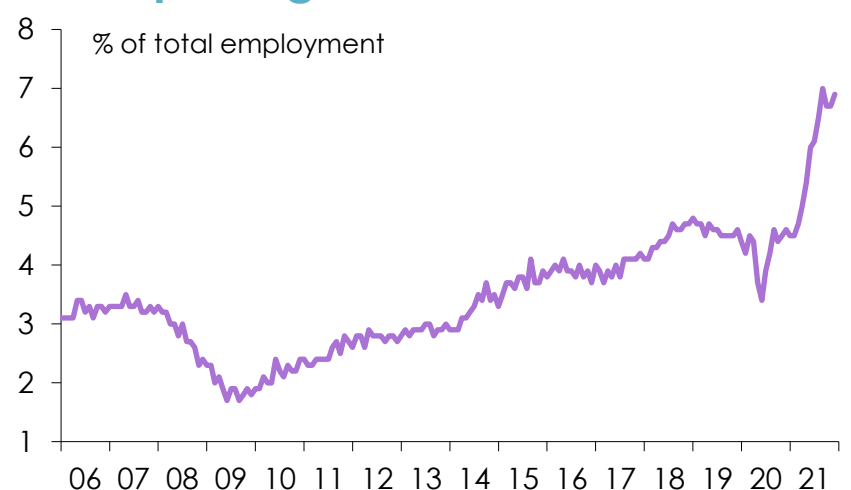


Source: US Bureau of Labor Statistics, [Current Employment Statistics](#).

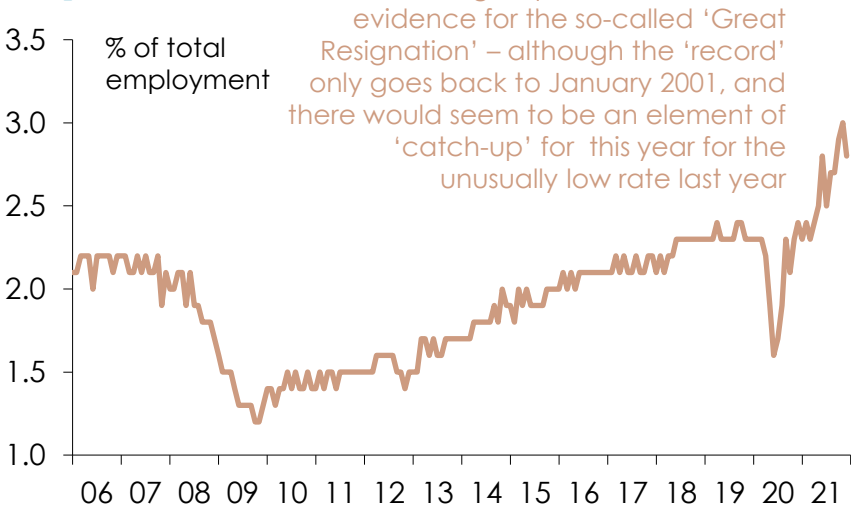


# The so-called 'Great Resignation' may mean the non-accelerating inflation rate of unemployment ('NAIRU') is higher than the Fed thinks

Job openings



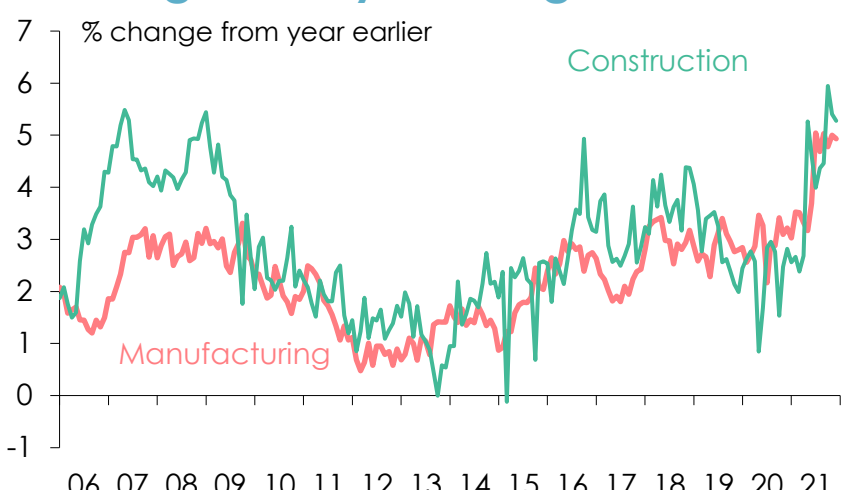
Quit rate



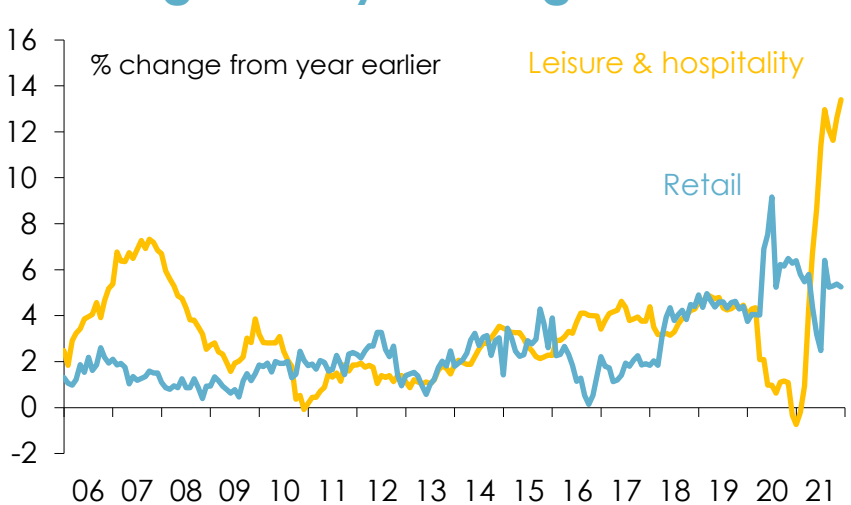
The record high 'quit rate' is the main evidence for the so-called 'Great Resignation' – although the 'record' only goes back to January 2001, and there would seem to be an element of 'catch-up' for this year for the unusually low rate last year

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

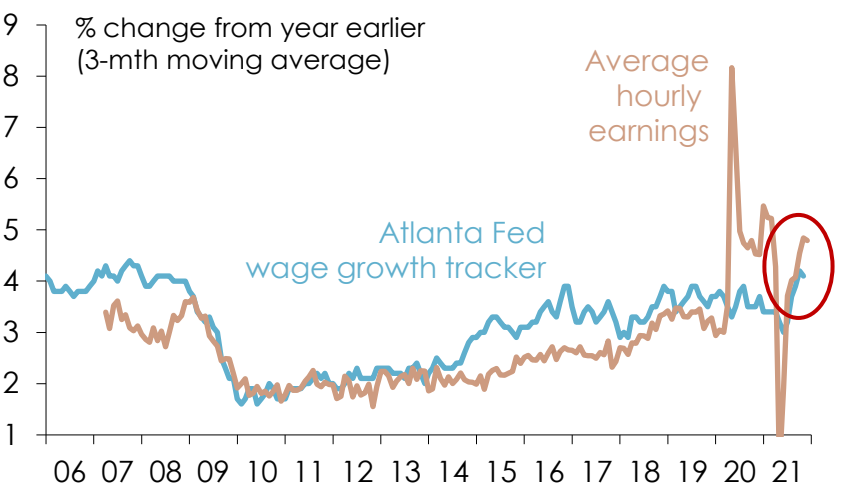
Average hourly earnings



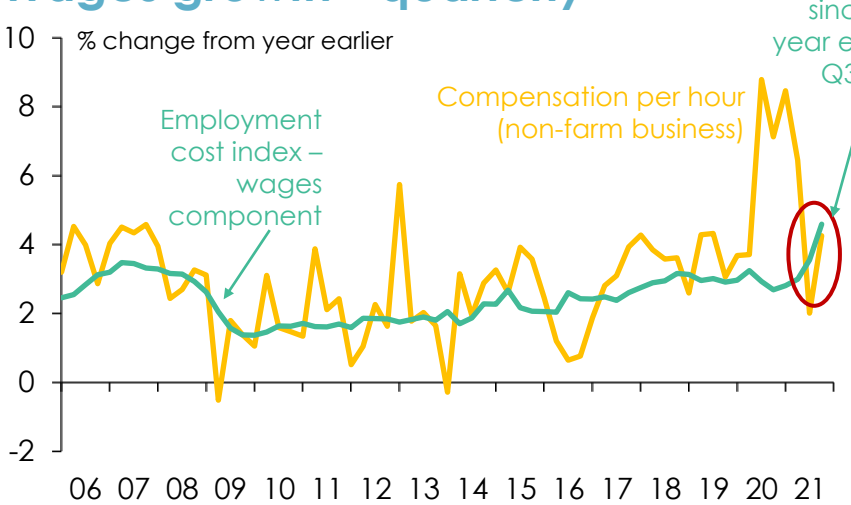
Average hourly earnings



Overall wages growth - monthly



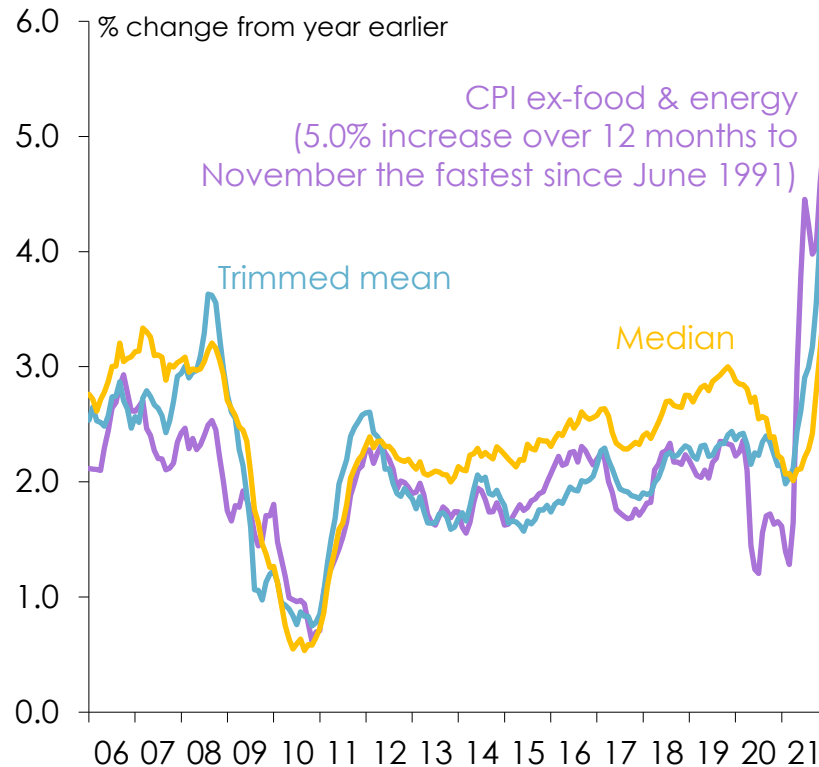
Wages growth - quarterly





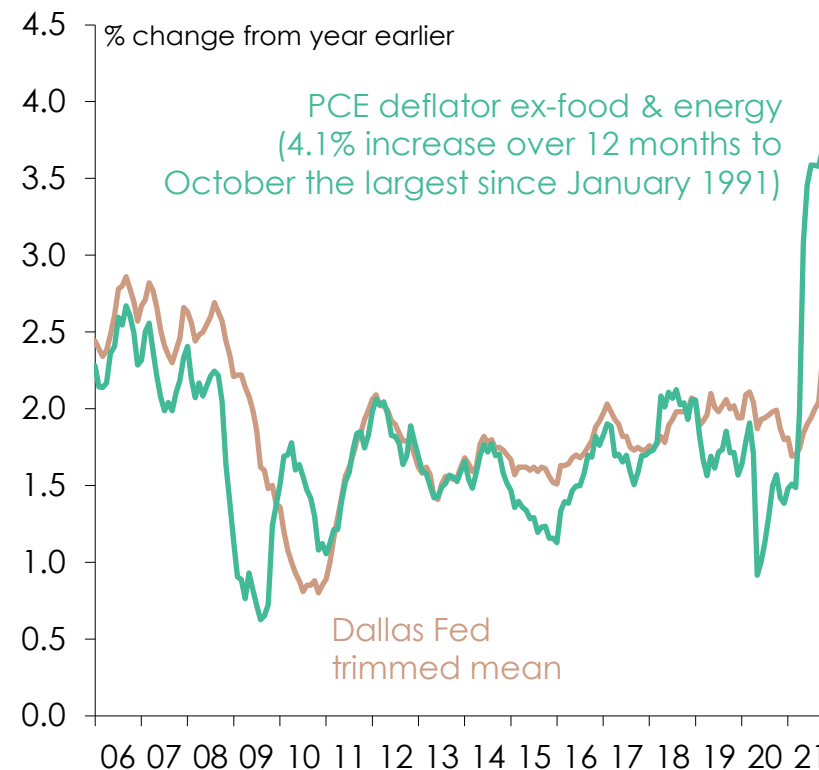
# 'Headline' and 'core' US inflation have accelerated significantly this year – although longer-term inflation expectations remain 'well anchored'

## Alternative measures of US 'core' CPI inflation



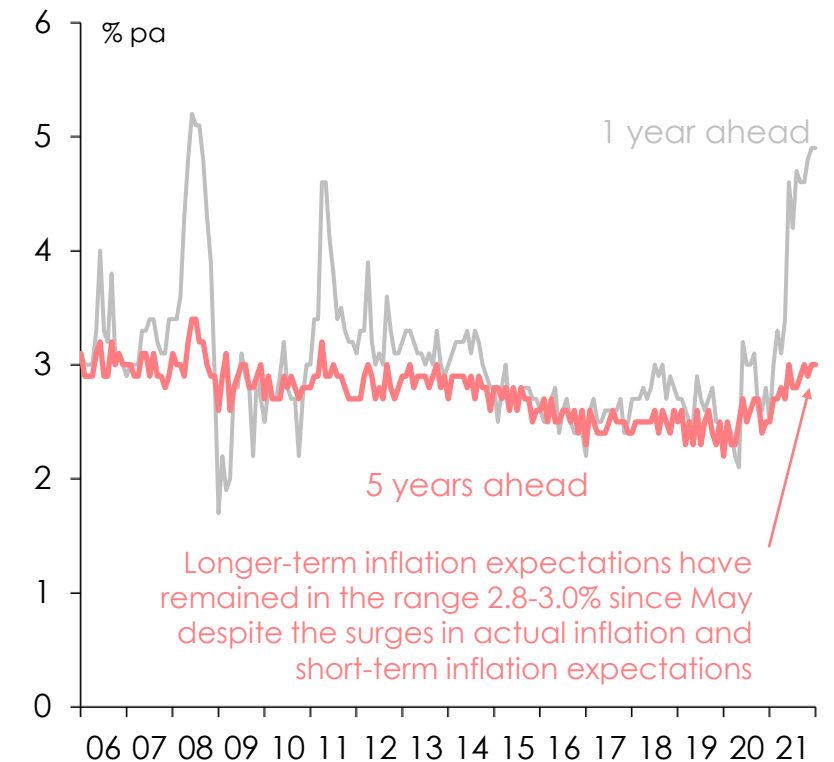
- ❑ Statistical measures of 'underlying' CPI inflation are now rising more rapidly – the 4.6% annual 'trimmed mean' inflation rate in October was the highest since May 1991

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



- ❑ The trimmed mean measure of 'underlying' PCE deflator inflation has also picked up in recent months (although not nearly as much as the trimmed mean CPI)

## Household inflationary expectations

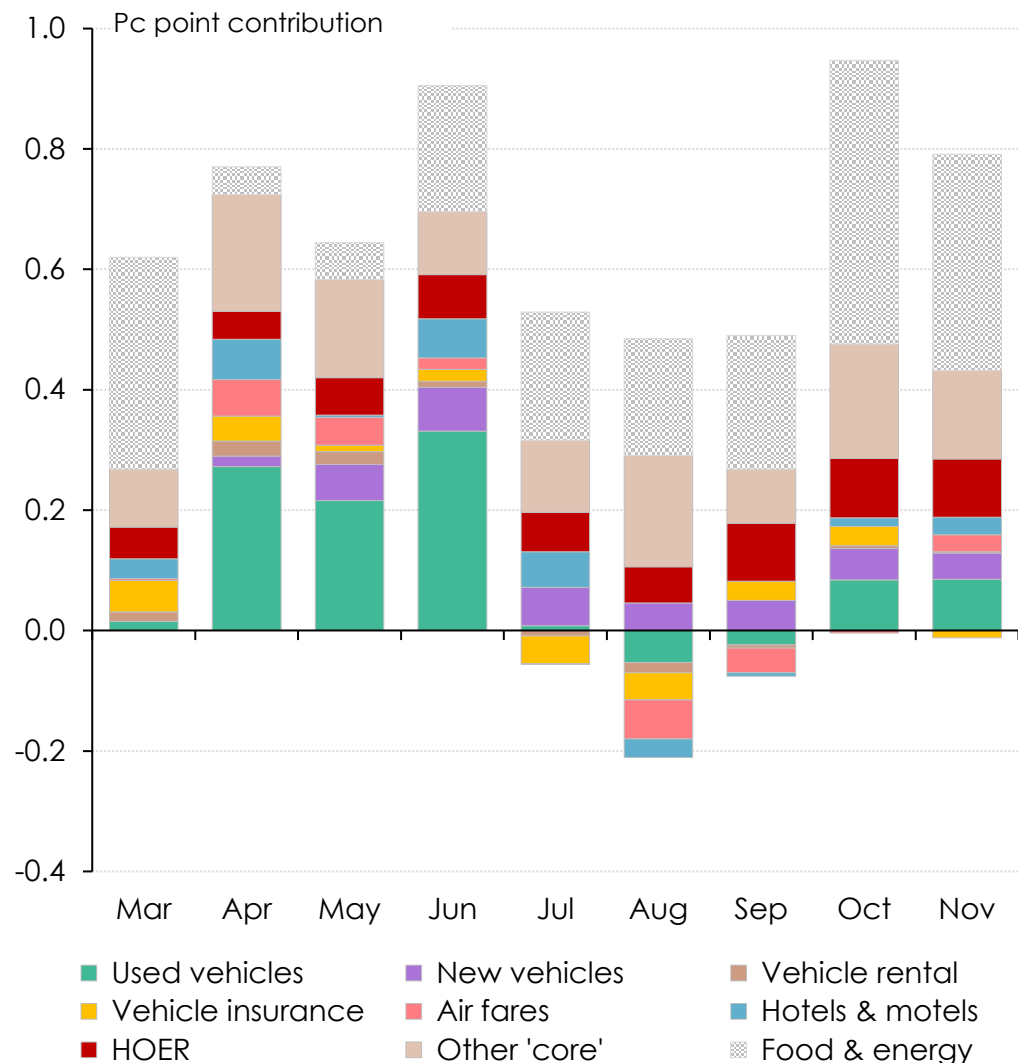


- ❑ Short-term household inflation expectations have risen sharply, but the Fed will draw some comfort from the fact that longer-term expectations remain "well-anchored"

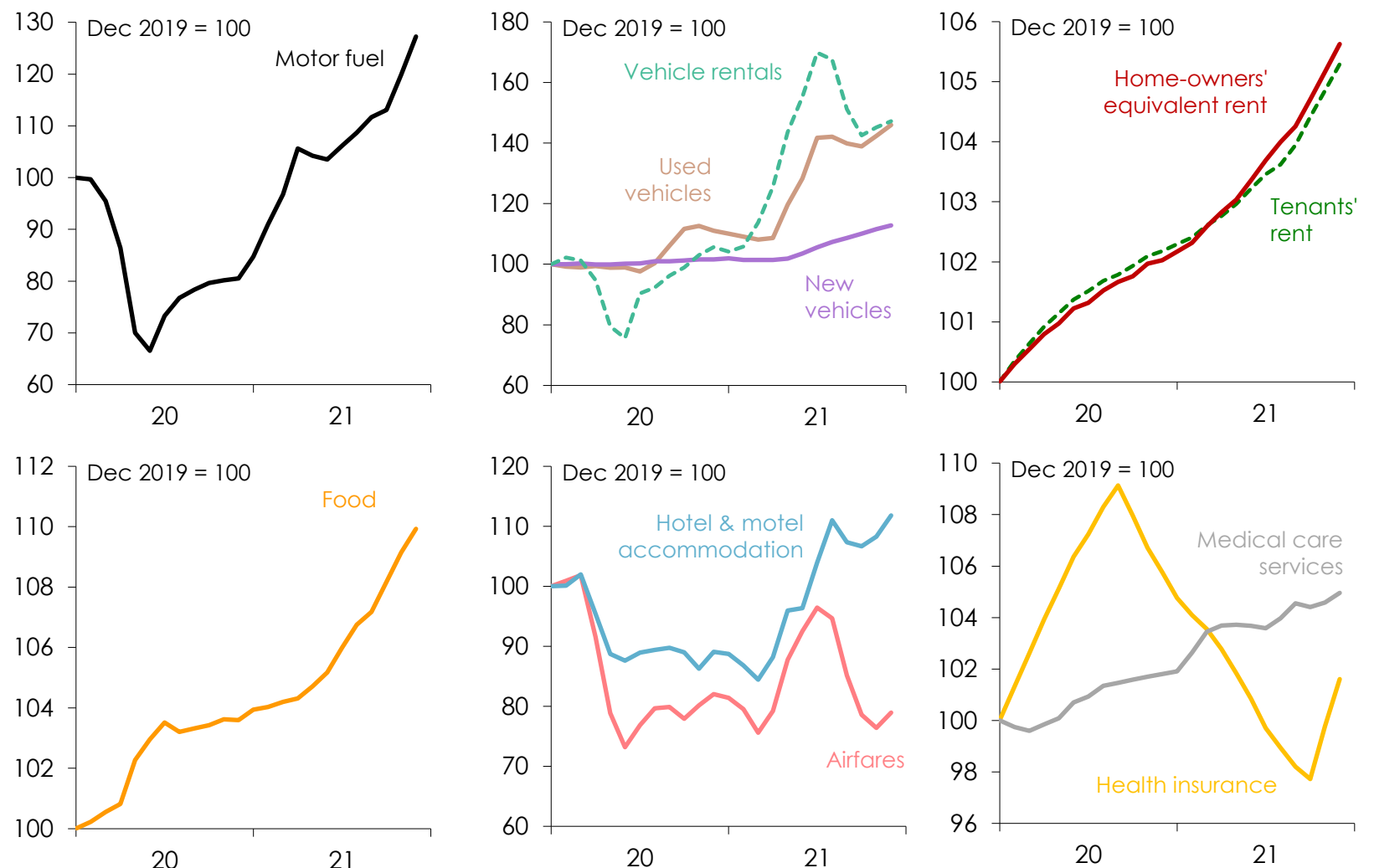
Note: The 'trimmed mean' CPI inflation rate excludes the components of the CPI whose weights fall in the top and bottom 8% of the distribution of price changes; the median is the component whose price change is in the middle of the distribution of price changes. The 'trimmed mean' of the PCE deflator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

# Food, energy, cars and 'home-owners equivalent rent' accounted for three-quarters of the increase in the US CPI in October and November

Contributions to recent monthly changes in CPI excluding food and energy



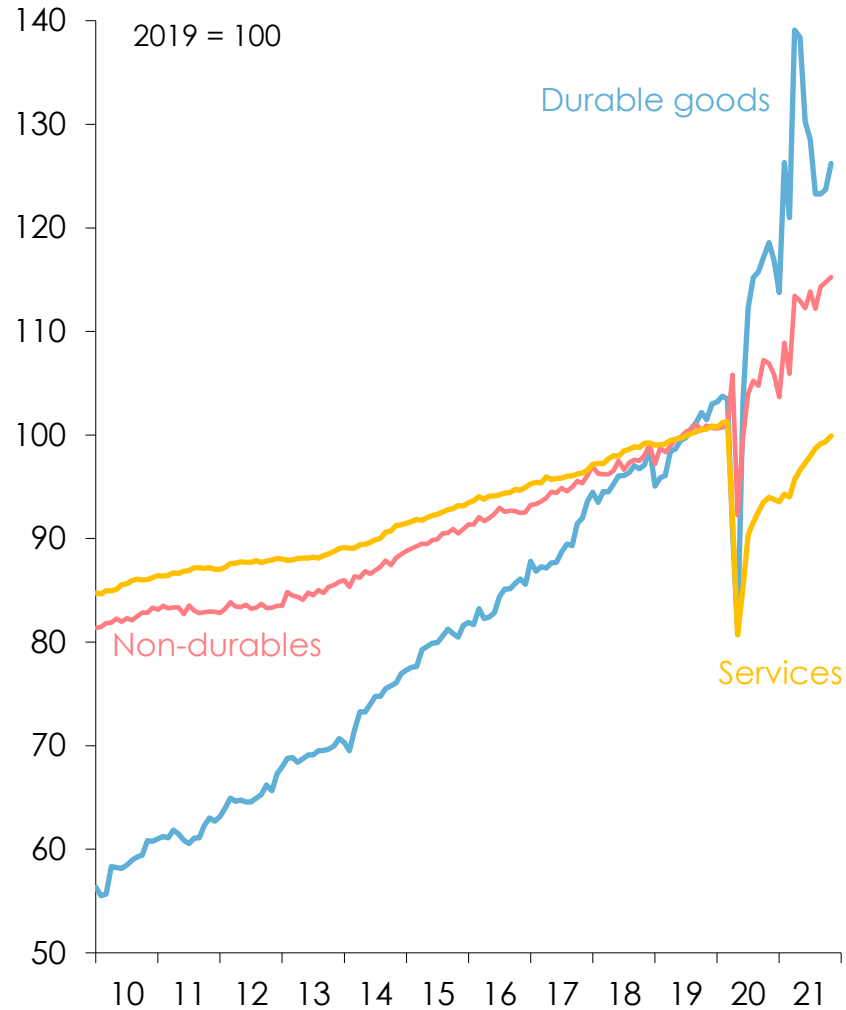
Price indices for items which have contributed most to recent monthly changes in the 'core' US CPI (rebased to December 2019 = 100)



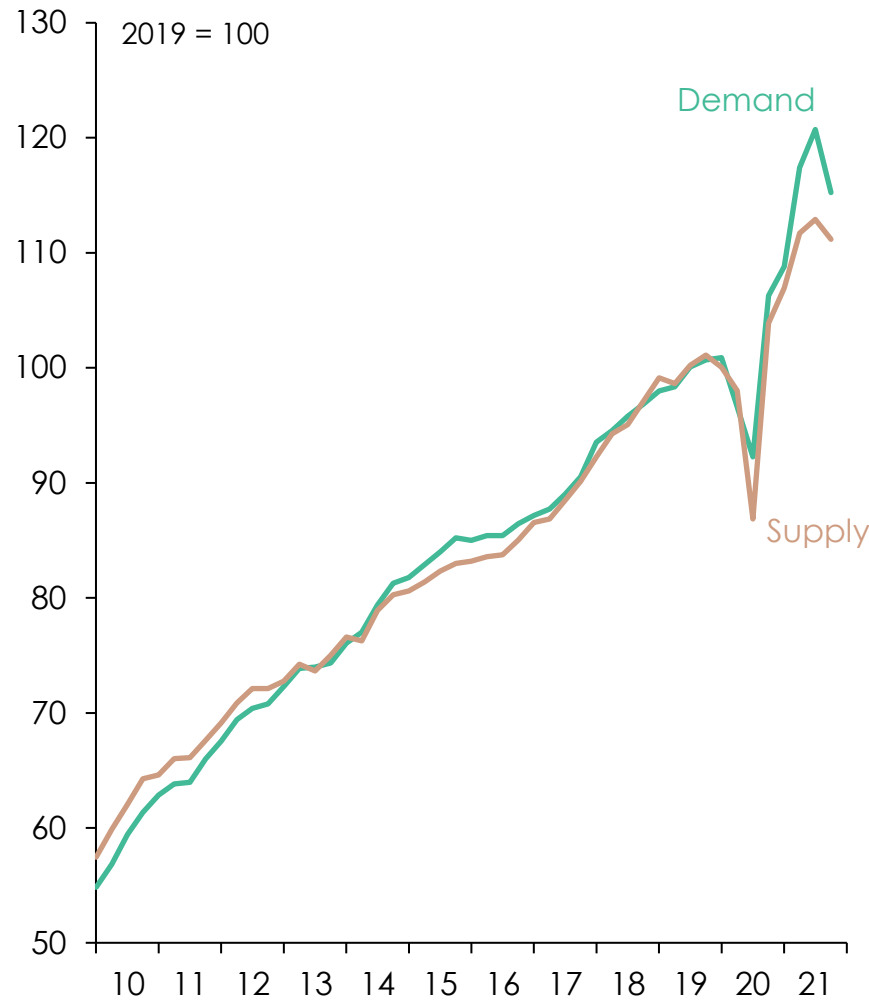
Note: 'HOER' = home-owners' equivalent rent (a measure of the 'imputed rent' notionally paid by owner-occupiers to themselves), and which accounts for (an uncommonly large, by international standards) 28½% of the CPI excluding food and energy.  
Source: US [Bureau of Labor Statistics](#), Consumer Price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

# The rise in inflation as measured by the PCE deflator is largely attributable to the imbalance between demand for and supply of durable goods

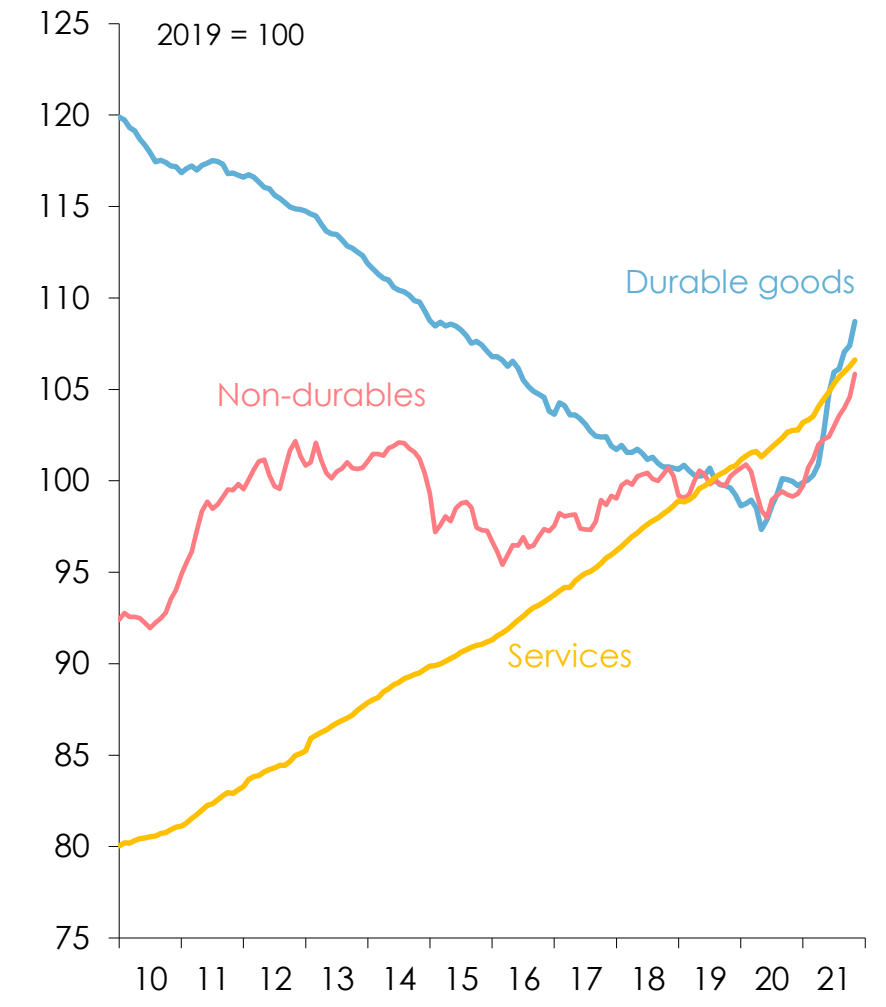
## Composition of personal consumption expenditures



## Aggregate demand for and supply of durable goods



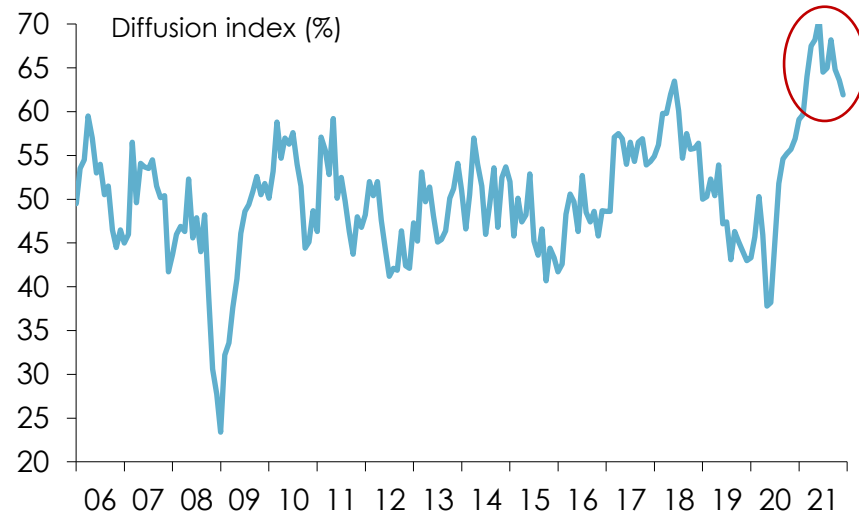
## Implicit price deflators of personal consumption



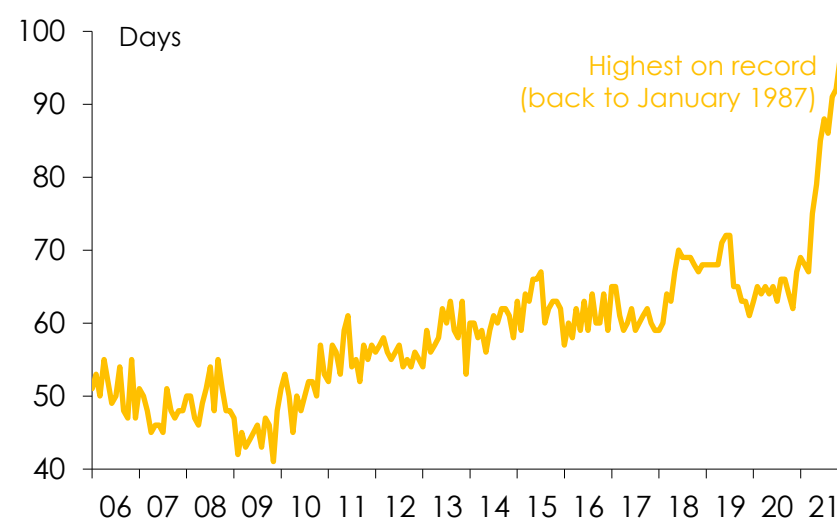
Note: 'Aggregate demand' for durable goods comprises personal consumption of durable goods plus business investment in equipment. 'Aggregate supply' of durable goods comprises gross domestic product (final sales plus change in inventories) plus net imports of durable goods. Sources: US Bureau of Economic Analysis, [National Income and Product Accounts](#), Tables 2.8.3-5, 1.1.6, 1.2.6 and 4.2.6. [Return to "What's New"](#).

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

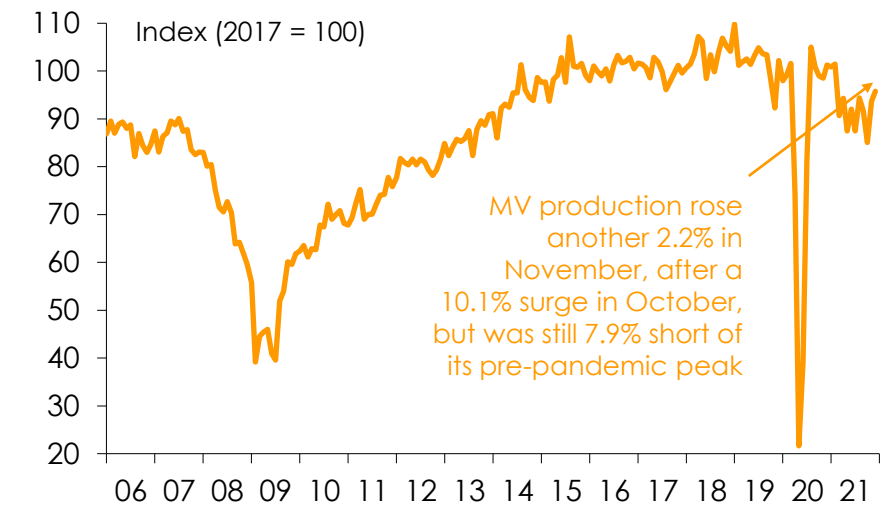
## Manufacturers' order backlogs



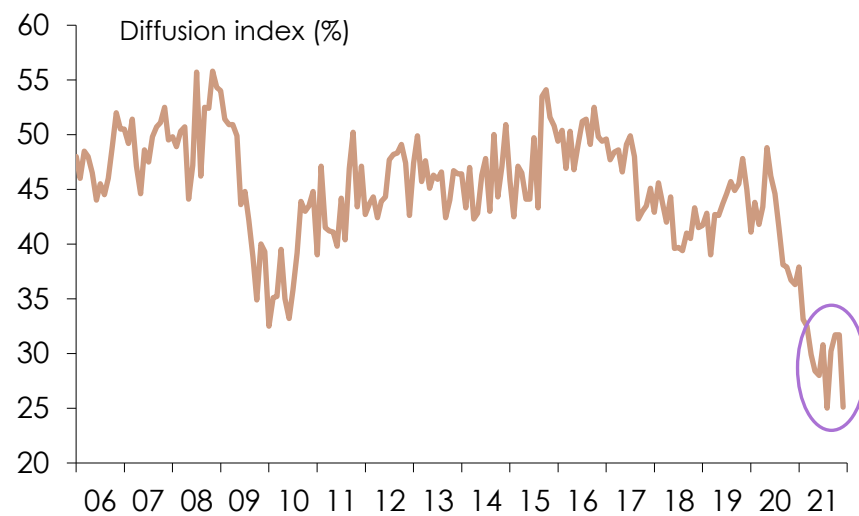
## Lead-time for production materials



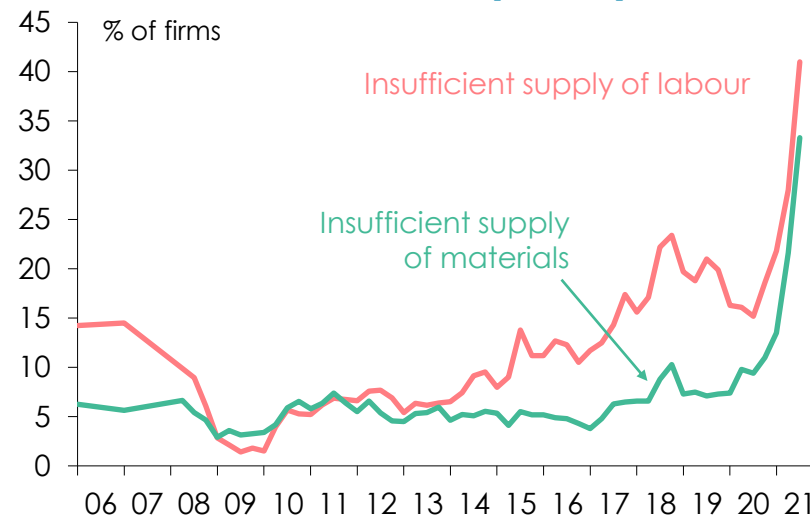
## Motor vehicles & parts production



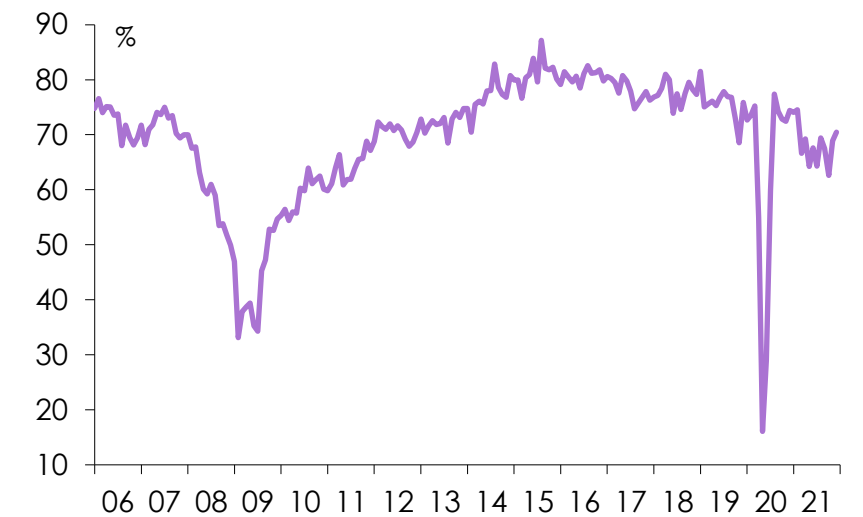
## Manufacturers' customer inventories



## Reasons for < full capacity



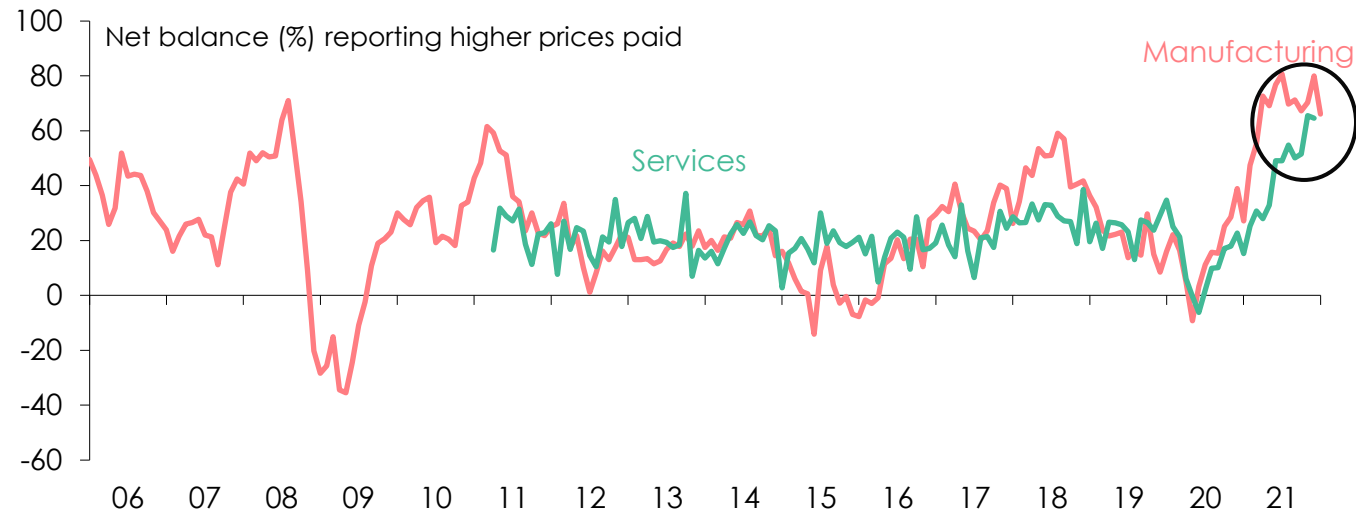
## Auto industry capacity utilization



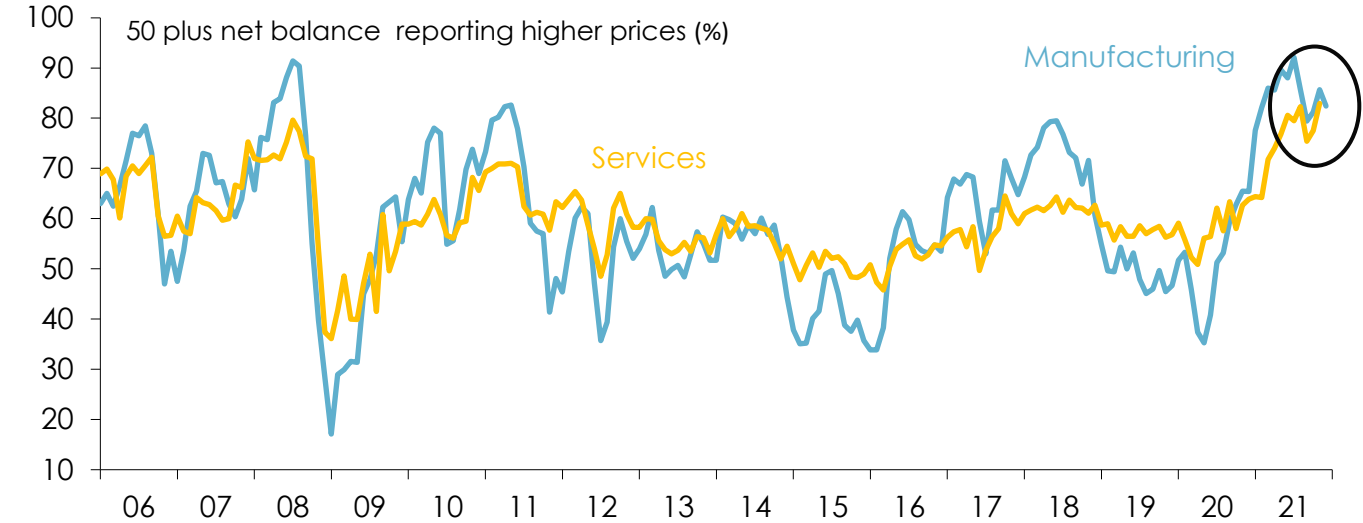
Note: The diffusion index of order backlogs is 50 plus the percentage of respondents reporting longer backlogs minus the percentage reporting shorter backlogs (and similarly for customer inventories). 'Reasons for < full capacity' means reasons for operating at less than full capacity. Sources: Institute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

# The December Philadelphia Fed survey showed a sharp drop in prices paid and received by manufacturing businesses

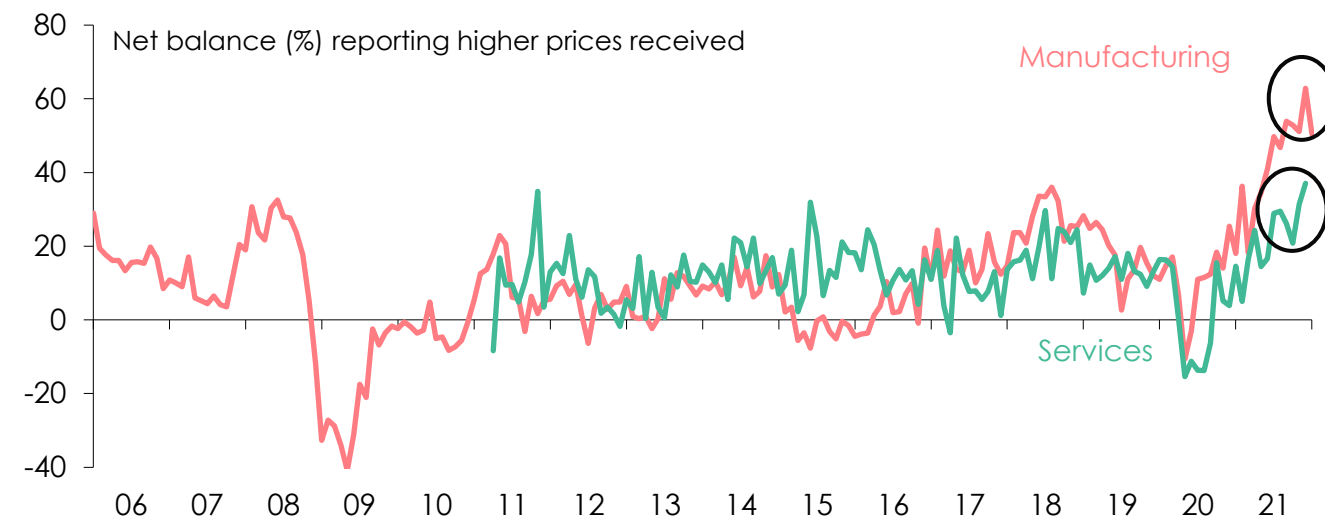
## Philadelphia Fed survey – prices



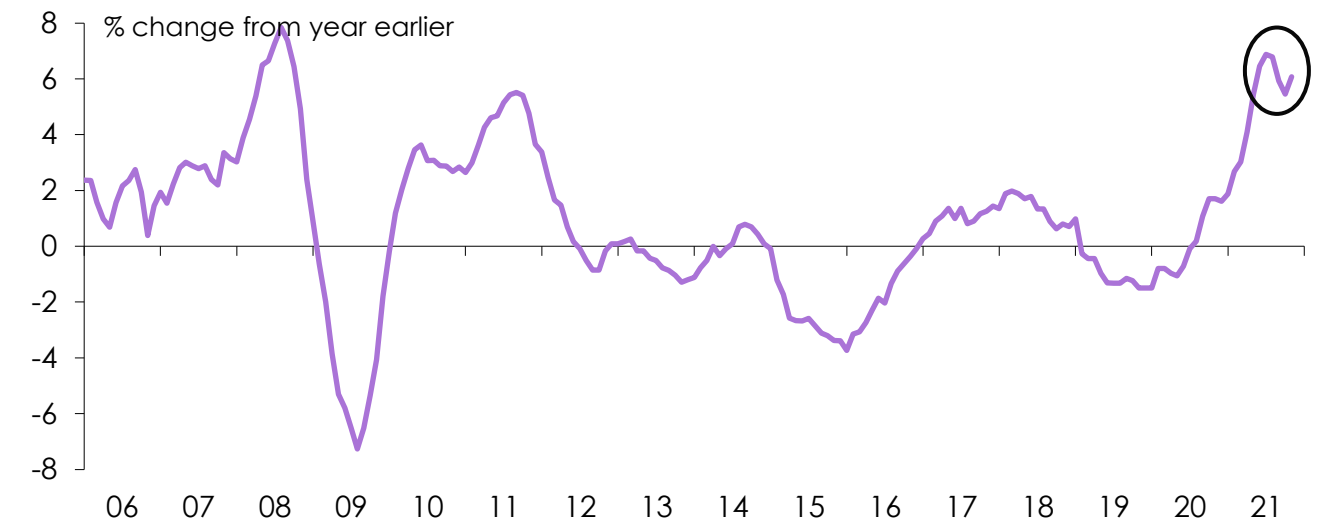
## ISM survey – prices paid



## Philadelphia Fed survey – prices received



## Import prices (excluding petroleum)

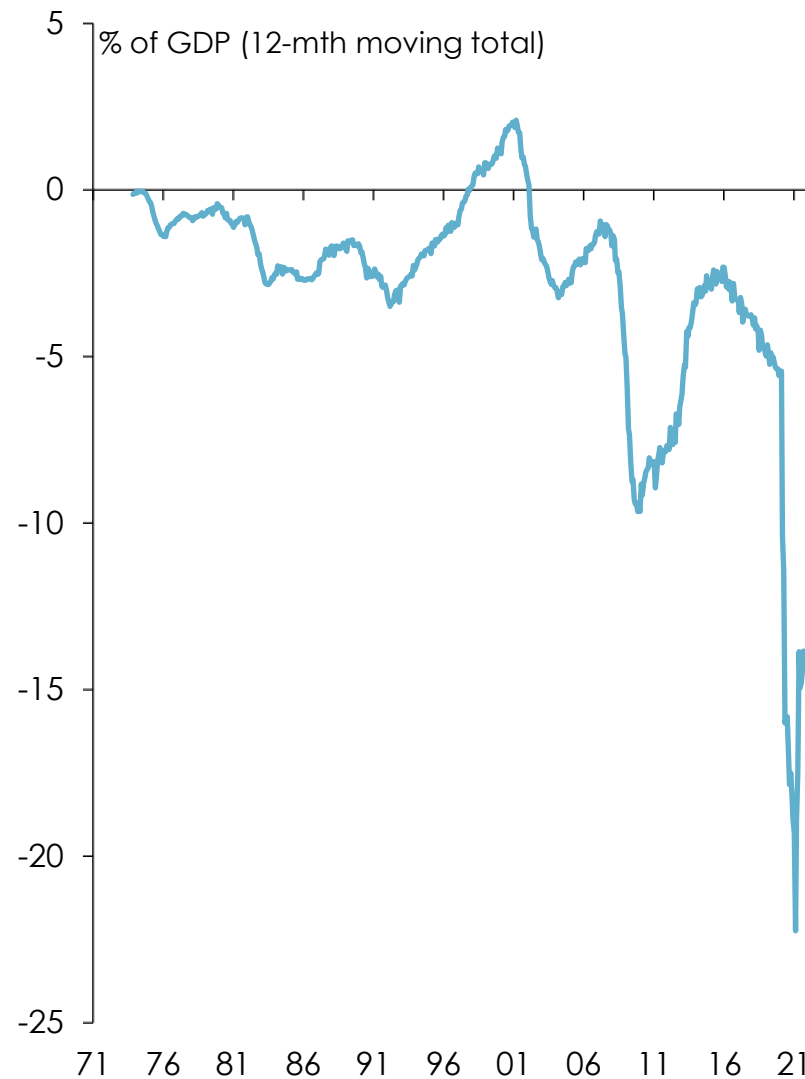


Note: The usefulness of the Business Outlook surveys conducted by the Federal Reserve Bank of Philadelphia is that the area which it covers (eastern and central Pennsylvania, southern New Jersey and Delaware) is a reasonable proxy for the broader US economy. Sources: [Federal Reserve Bank of Philadelphia](#);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

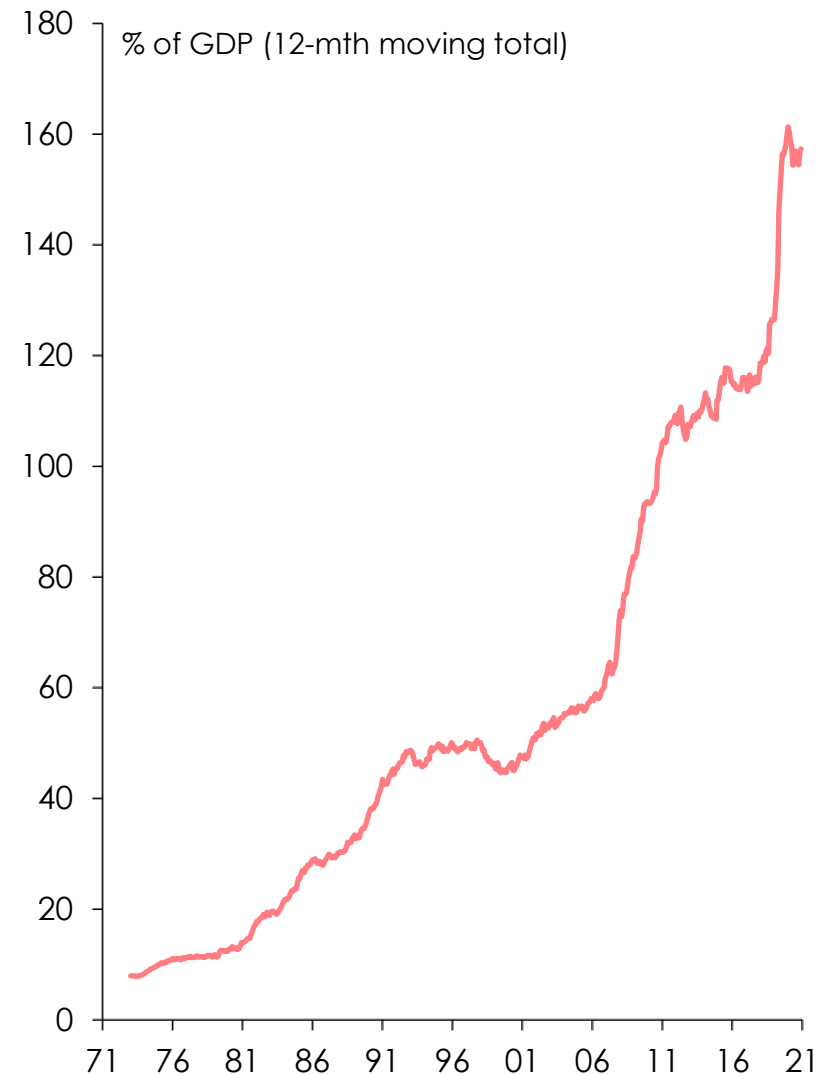


# Congress this week raised the debt ceiling ahead of the 15<sup>th</sup> December deadline, but deferred a vote on the Administration's big spending plan

## US Federal budget deficit



## US gross Federal debt



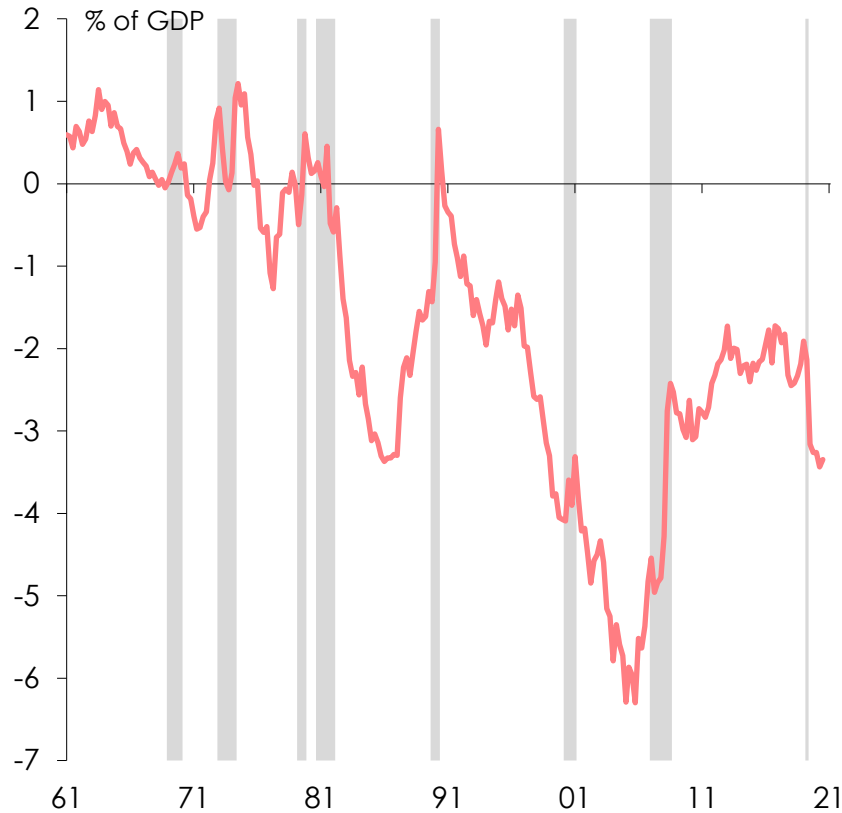
- ❑ The US Federal Government budget deficit widened by US\$26bn to \$191bn in November, to be also \$46bn larger than in November last year - largely because of shifts in the timing of benefit payments
- ❑ For the 12 months ended November the budget deficit totalled \$2.70 trn (14.1% of GDP), down from a peak of \$4.1 trn (22.2% of GDP) in the 12 months ended June
- ❑ A temporary government shut-down was again averted earlier this month when Congress passed a 'continuing resolution' ensuring funding through to 18<sup>th</sup> February 2022
- ❑ Congress this week approved a US\$2.5trn increase in the 'debt ceiling', ahead of its scheduled expiry on Wednesday, after Senate Republicans agreed to allow it to be passed with a simple majority
- ❑ However the Administration has had to defer a vote on its 'Build Back Better' bill until next year
  - maverick West Virginia Democrat Senator continues to baulk at anything costing more than \$1¾trn over ten years

Note: The measure of US gross federal debt is at market value. Sources: [US Treasury Department](#); [Federal Reserve Bank of Dallas](#); US Bureau of Economic Analysis; [US Congressional Budget Office](#); Corinna. [Return to "What's New"](#).



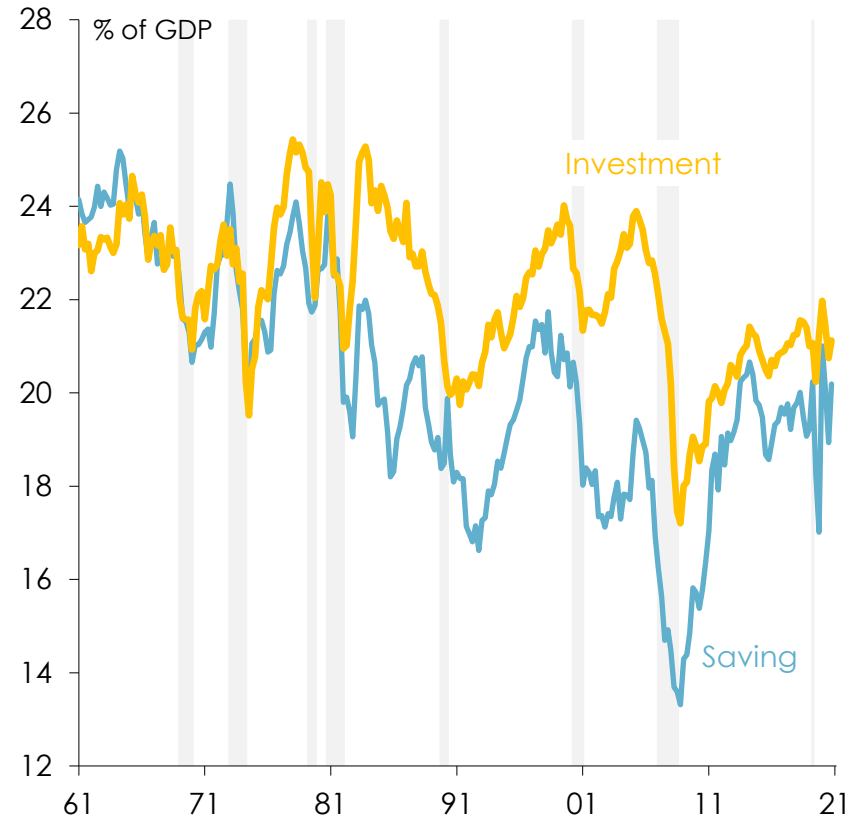
# Any 'excess demand' resulting from 'excessive' stimulus is more likely to show up in the US current account deficit than in sustained higher inflation

## US current account balance



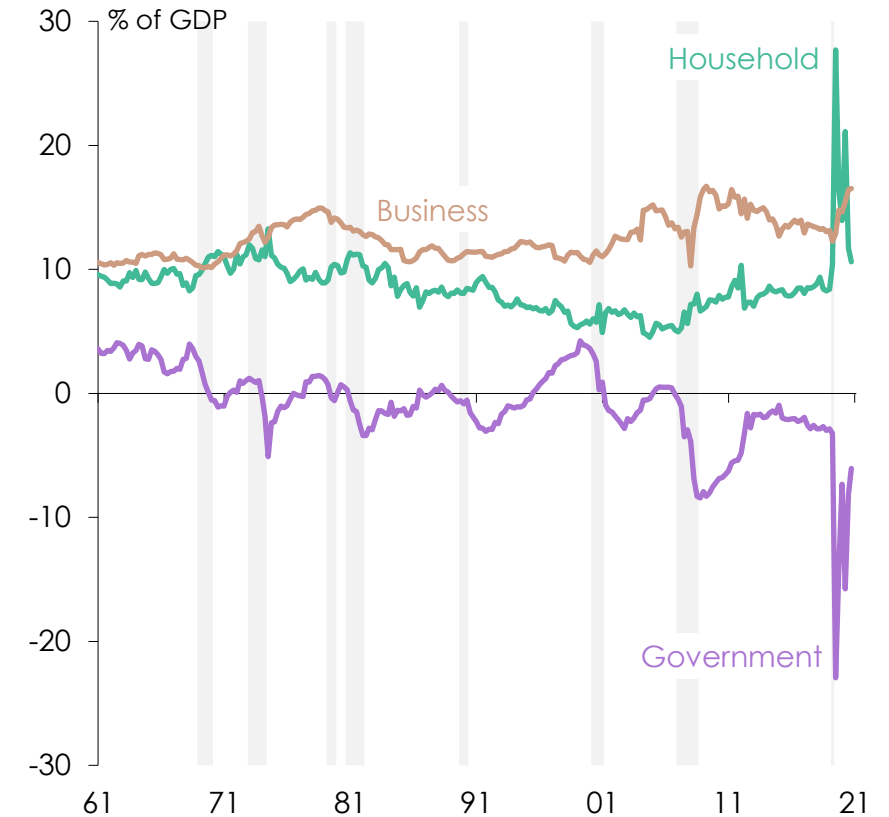
The US current account has *widened* since the recession that began last year – and in the first half of this year has been larger (as a pc of GDP) than at any time since the financial crisis

## Gross saving and investment



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

## Gross saving by sector



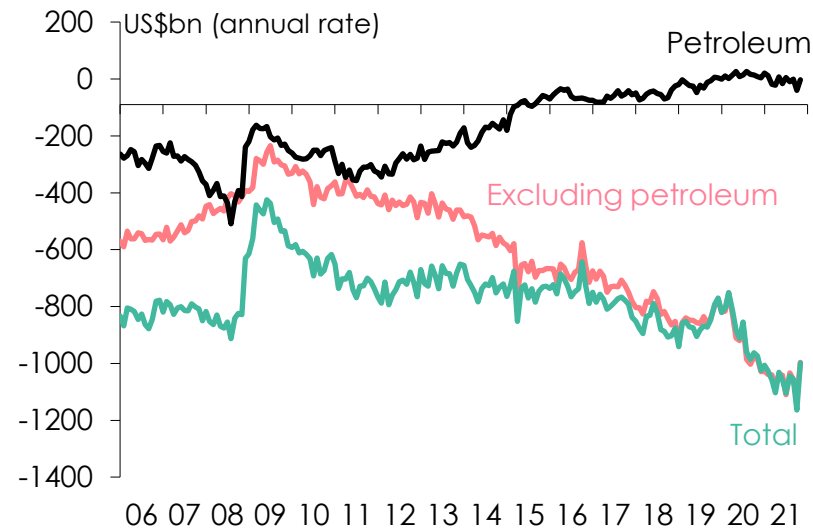
The dramatic increase in the budget deficit has been largely (but not totally) offset by an increase in household saving

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

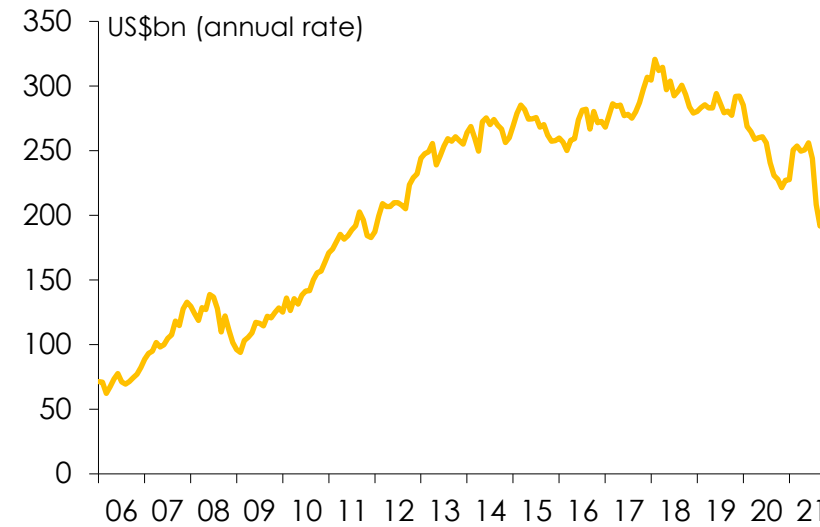
Source: US [Bureau of Economic Analysis](#). [Return to "What's New"](#).

# The US trade deficit narrowed by US\$14¼bn in October, from September's record, but the 2021 total seems likely to top 2006's record \$755bn

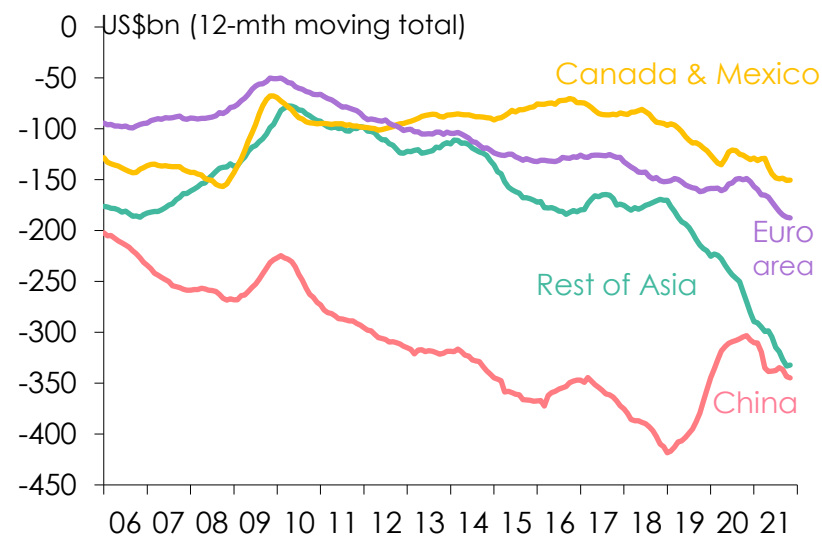
## US goods trade balance



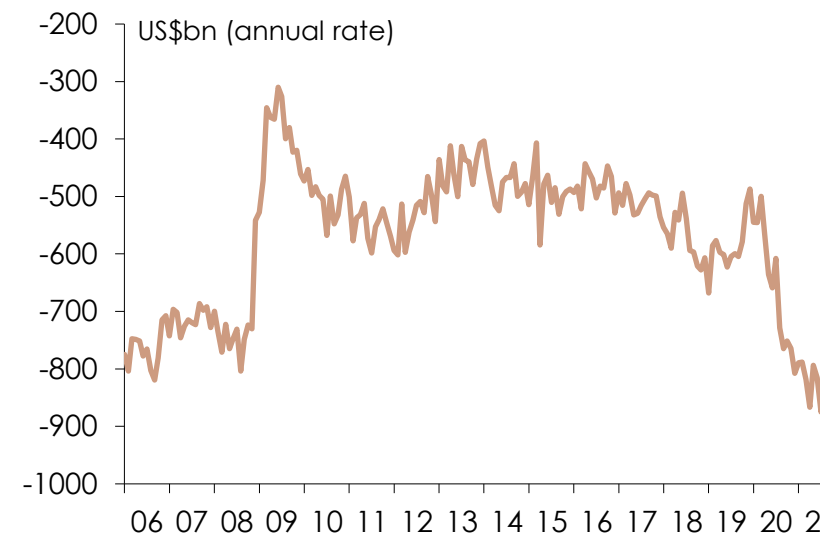
## US services trade balance



## US bilateral goods trade balances



## US goods & services trade balance

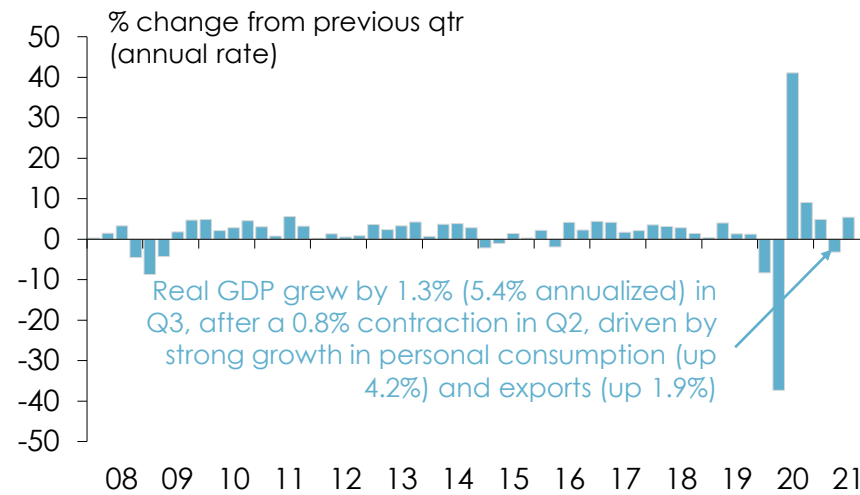


- As foreshadowed by the 'advance' estimates, the US goods trade deficit narrowed from September's record US\$98 bn to \$83.9bn in October
  - exports rebounded by 11.1%, from a 4.7% fall in September, driven largely by a 12½% increase in exports of industrial materials and supplies (the largest category of US exports) after a 10% fall in September, a 7¼% increase in capital goods exports and a 14% rise in auto exports
  - by contrast imports only rose 0.7%
- The services surplus widened by \$0.3bn to \$16.8bn in September
  - the last three services surpluses have been the smallest since January 2012
- October's combined goods and services deficit of \$67.1bn was the smallest since April, and down \$14.3bn from September's record
  - for the first ten months of 2021 the goods and services deficit was \$705bn, up from \$544bn in the corresponding period of 2020
  - the deficit for 2021 as a whole seems likely to exceed 2006's record of \$755bn

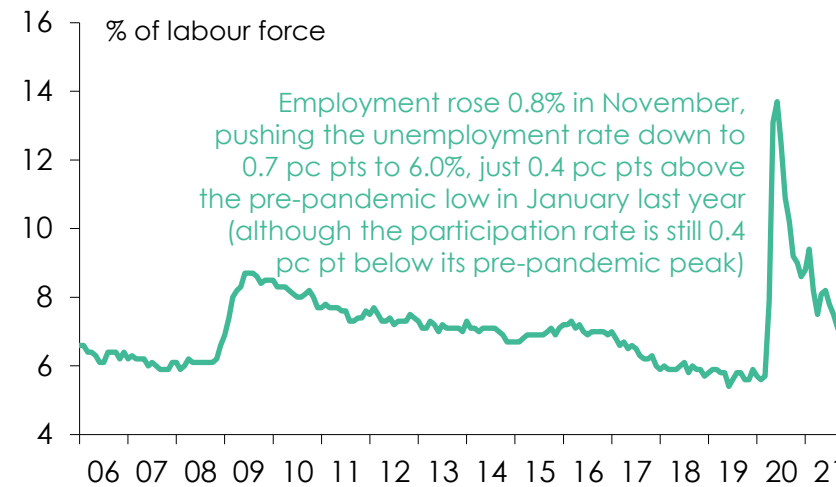
Source: US [Census Bureau](#). [Return to "What's New"](#).

# Canada's economy grew 1.3% in Q3 after a 0.8% contraction in Q2, but remains 1.4% shy of its pre-pandemic peak

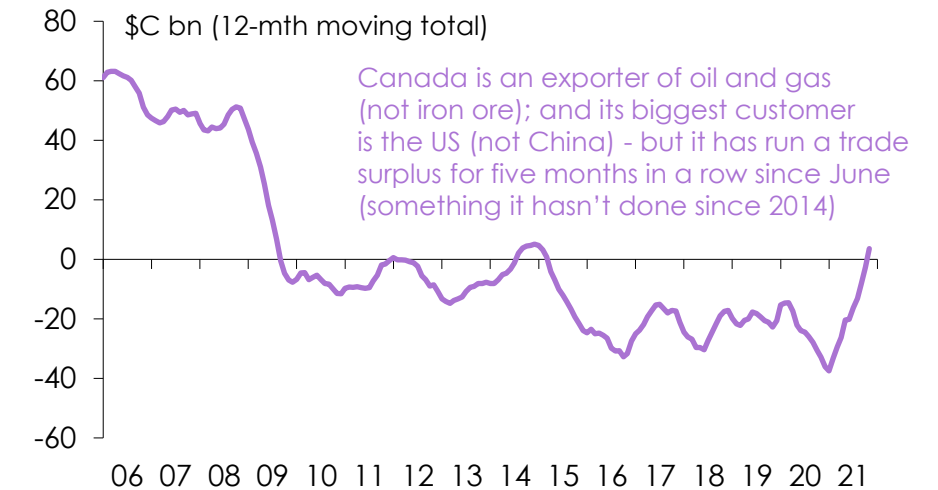
## Real GDP



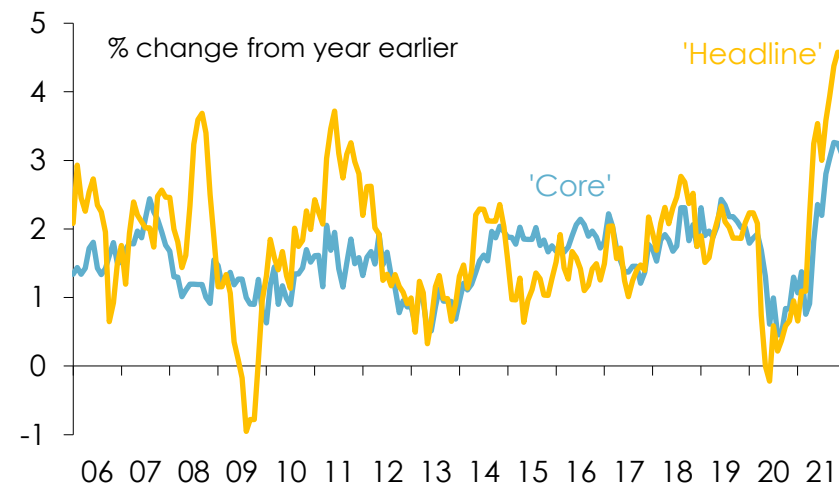
## Unemployment rate



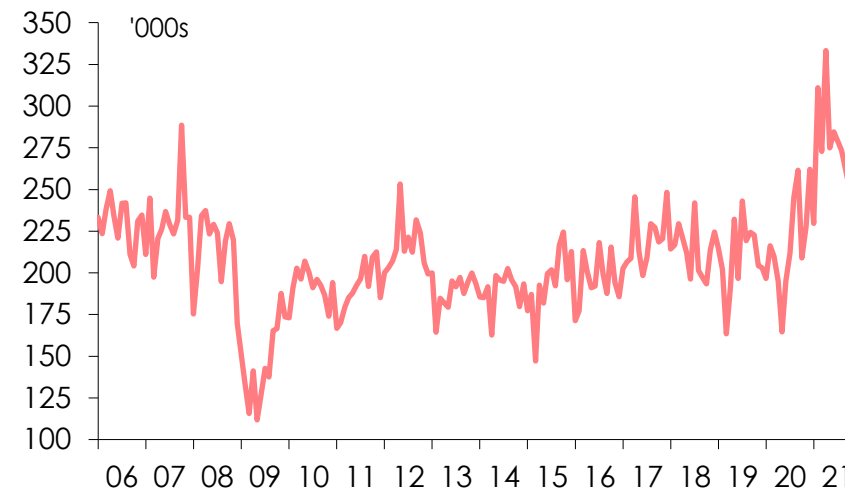
## Merchandise trade balance



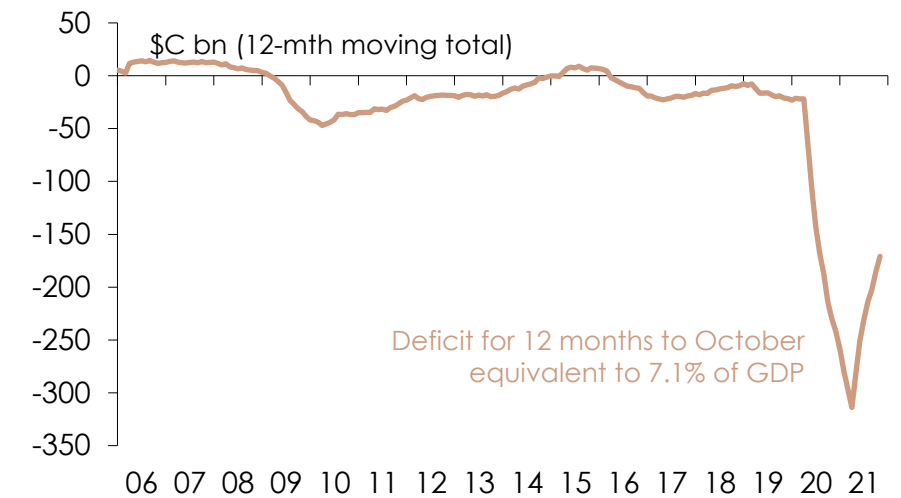
## Consumer prices



## Housing starts

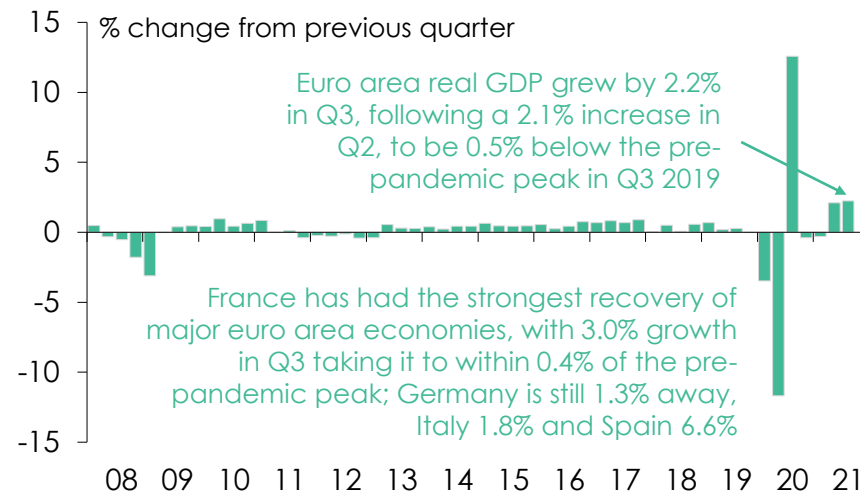


## Federal budget balance

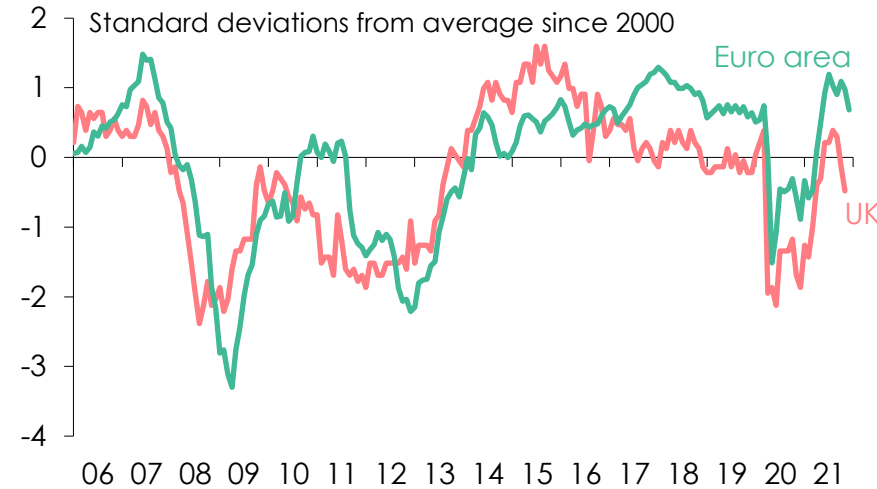


# Euro area unemployment fell 0.1 pc pt to 7.3% in October, just 0.2 pc pt above its pre-pandemic low

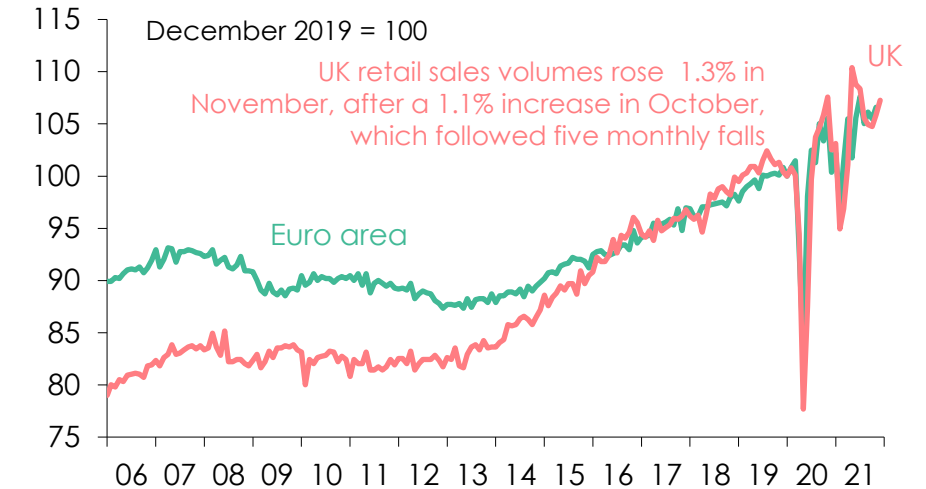
## Euro area real GDP



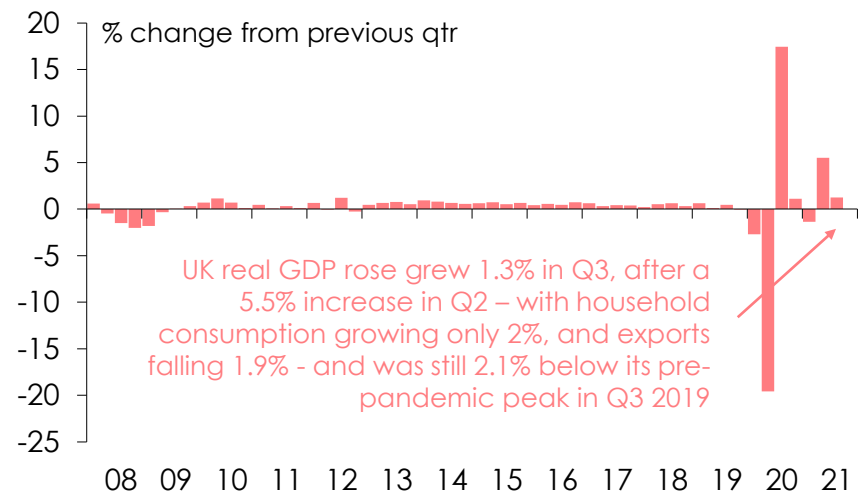
## Consumer confidence



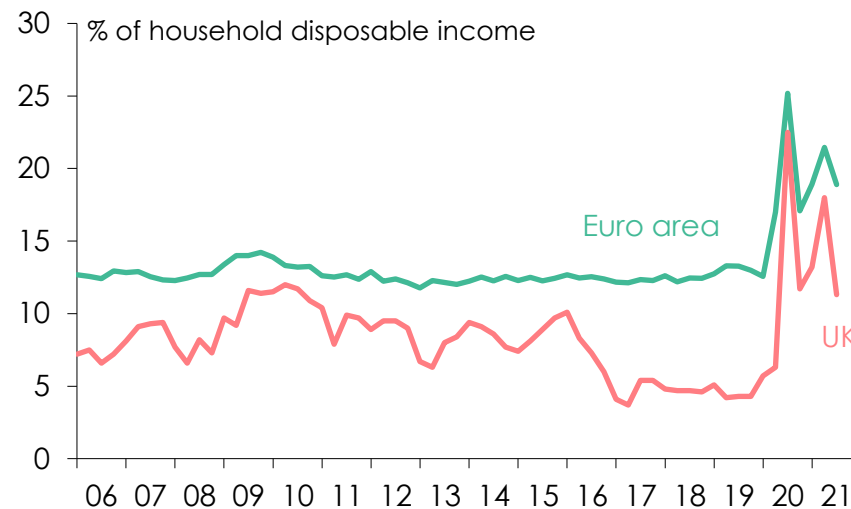
## Retail sales volume



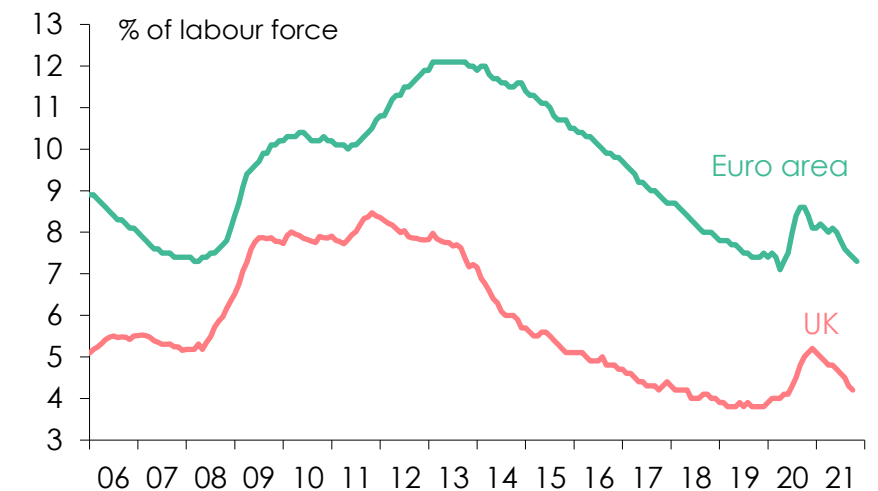
## UK real GDP



## Household saving ratio



## Unemployment

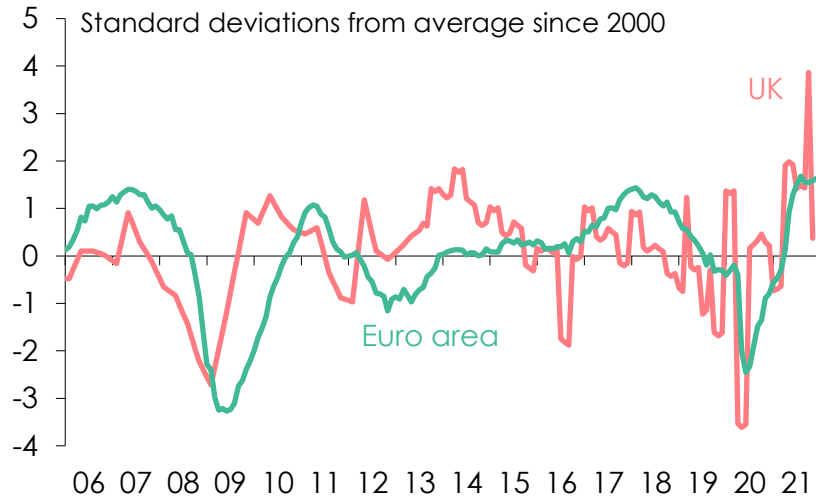


Sources: Eurostat; UK Office for National Statistics; GfK. The UK unemployment rate is published as a 3-month moving average.

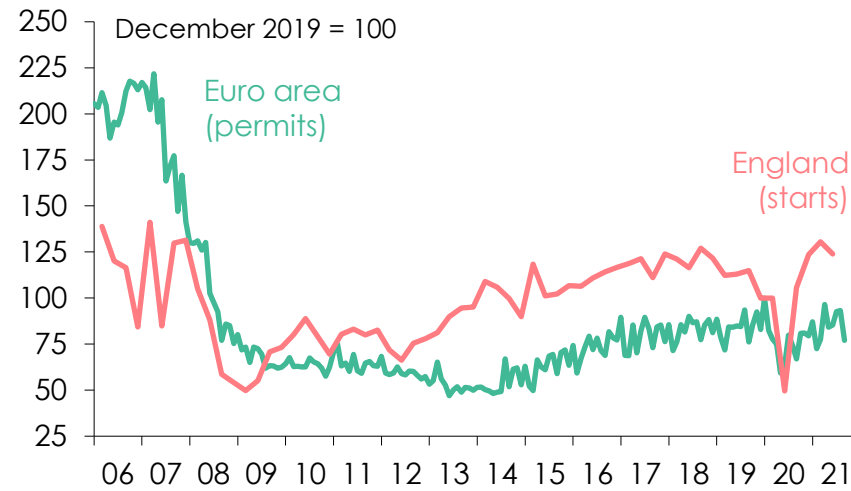
[Return to "What's New".](#)

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

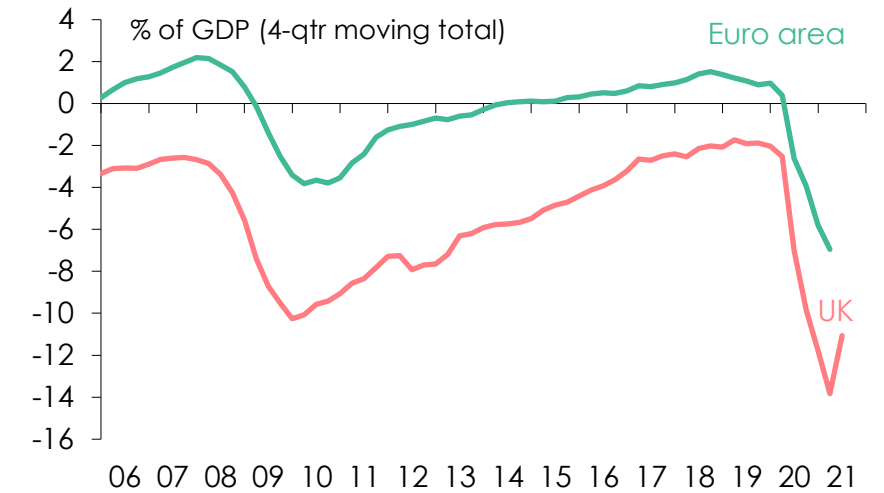
## Business confidence



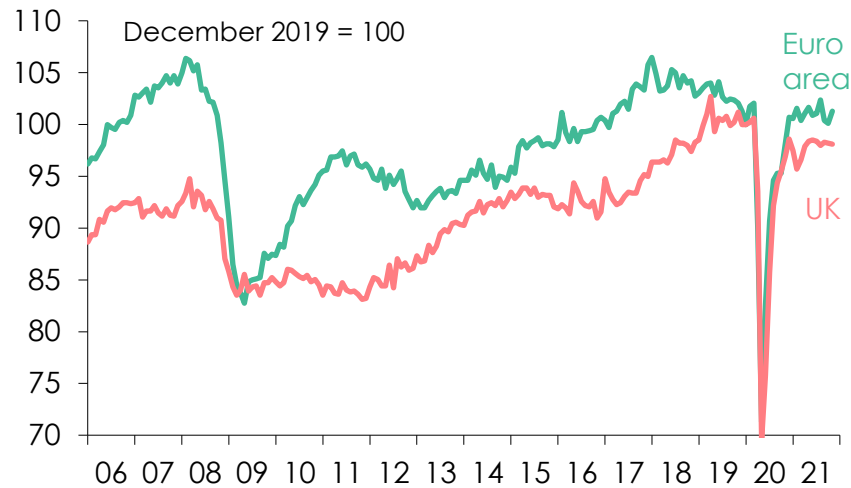
## Housing activity



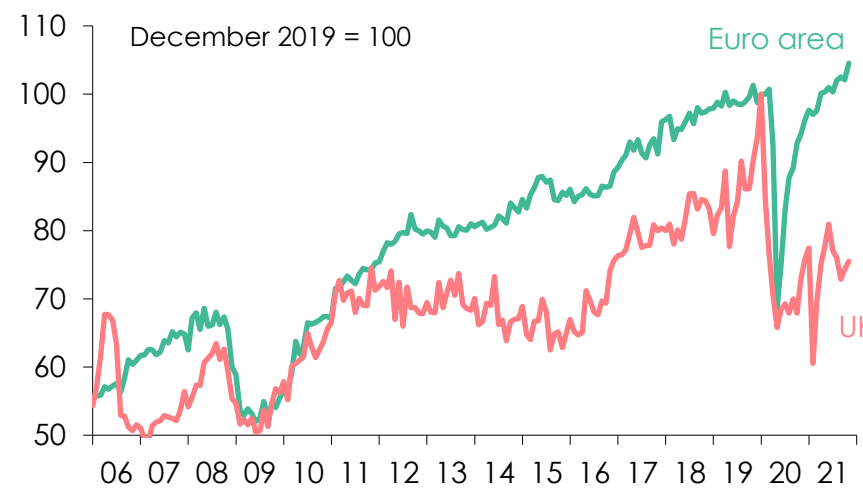
## Government fiscal balance



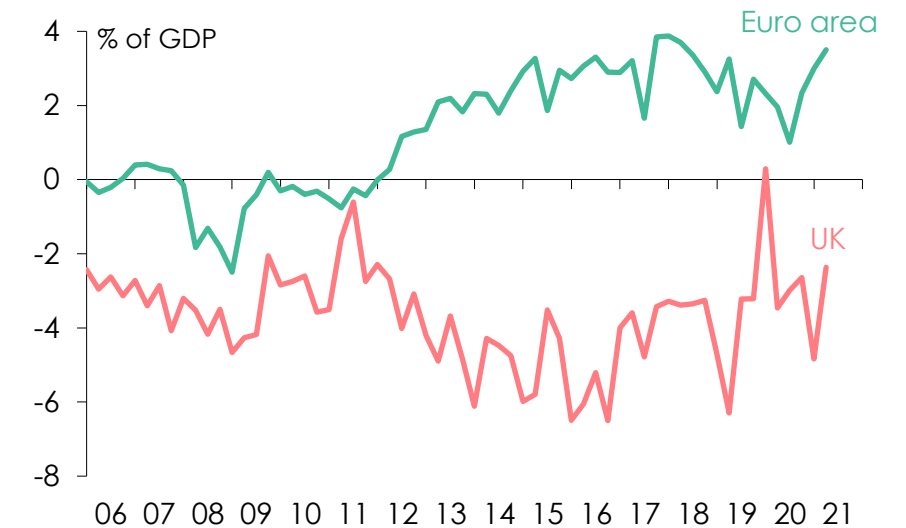
## Manufacturing production



## Merchandise exports



## Current account balance





# Several more Eastern European and Latin American central banks raised rates again this week – but Turkey's central bank cut rates again

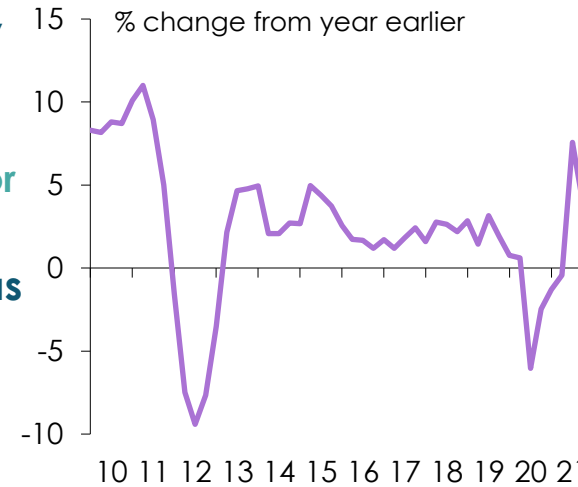
- ❑ The [Central Bank of Russia](#) raised its key rate another 100bp, to 8.50%, at its Board of Directors meeting on Friday – the seventh increase this year, bringing the cumulative increase to 425bp, with a further rate increase likely at the next meeting in February (see [slide 83](#))
- ❑ [Magyar Nemzeti Bank](#) (Hungary's central bank) raised its base rate by another 30bp, to 2.40%, at its Monetary Council meeting on Tuesday – the seventh increase this year, for a total of 180bp – and also terminated its purchases of government and corporate bonds
  - [explaining its decision](#) the Monetary Council said it was continuing to tighten monetary policy “in order to avoid second-round inflationary effects and to properly anchor inflation expectations”, given that, in its assessment, “the risks to inflation continue to be on the upside”, and foreshadowed that it will “continue the cycle of interest rate hikes until the outlook for inflation stabilizes around the central bank target in a sustainable manner”
- ❑ The [Central Bank of Armenia](#) raised its refinancing another 50 bp to 7.75% at its Board meeting on Tuesday – the seventh such increase this year – “in view of the upsurge in inflationary impacts from the external sector, as well as the estimated developments in inflation expectations”
- ❑ [Banco Central de Chile](#) raised its policy interest rate by 125bp, to 4%, on Tuesday, the fifth increase this year for a cumulative total of 350bp
  - In its [post-meeting statement](#) the BCC Board foreshadowed that the policy rate “will be further increased in the short term, to exceed its neutral level” in order to “help the economy resolve its cumulative imbalances, which have contributed to the fast increase in inflation” (to 6.7% in November)
- ❑ [Banco de México](#) raised its overnight interbank funding rate by 50 bp, to 5.50%, at this week's Governing Board meeting – the fifth (and largest) increase this year, for a total of 150 bp
  - in its [post-meeting statement](#) the Governing Board referenced upward revisions to its inflation forecasts, to 7.1% through 2021 and 3.5% through 2022 (from 6.3% and 3.3% previously), with the balance of risks having “deteriorated further and remain[ing] biased to the upside”



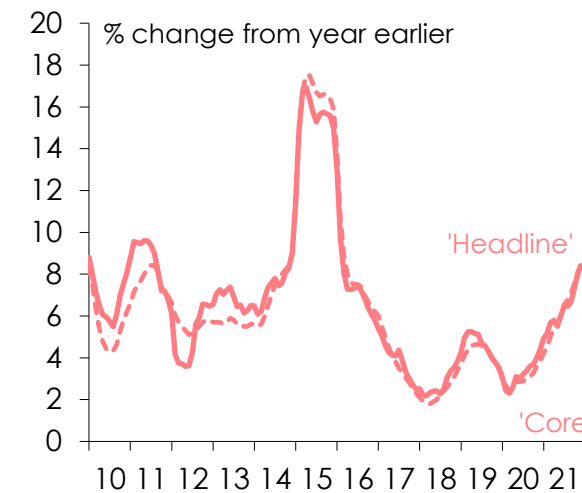
# Russia's central bank raised its key rate another 100 bp, to 8.50%, on Friday, bringing the cumulative increase this year to 425 bp

- ❑ The **Central Bank of Russia** raised its key rate another 100bp, to 8.50%, at its Board of Directors meeting on Friday
  - this is the seventh increase this year, for a cumulative total of 425bp
- ❑ The CBR **explained** that this increase was in order to “limit the risk” of “a more substantial and prolonged upward deviation of inflation” from its 4% target given “faster growth in demand relative to output expansion capacity” and “rising inflation expectations” which “remain high and unanchored”
- ❑ CBR also noted that “inflationary pressure from the labour market has intensified”, with unemployment at a record low and job vacancies at a record high
- ❑ With current monetary settings “still estimated as neutral”, CBR “held open” the “prospect of further key rate increase at its upcoming meetings”

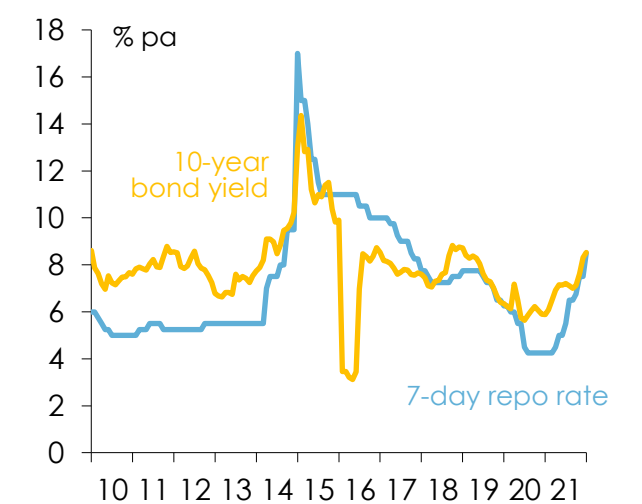
## Real GDP growth



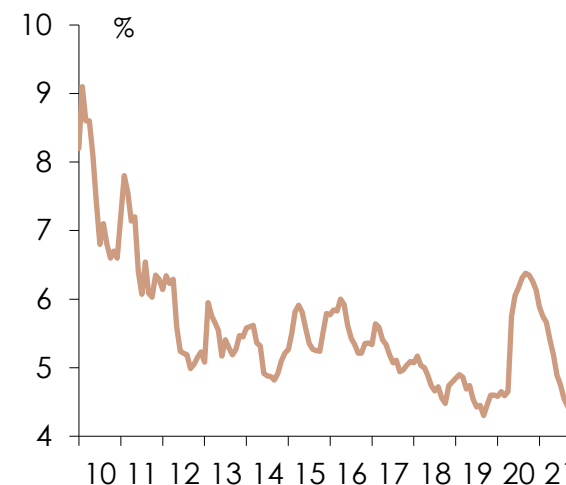
## Inflation



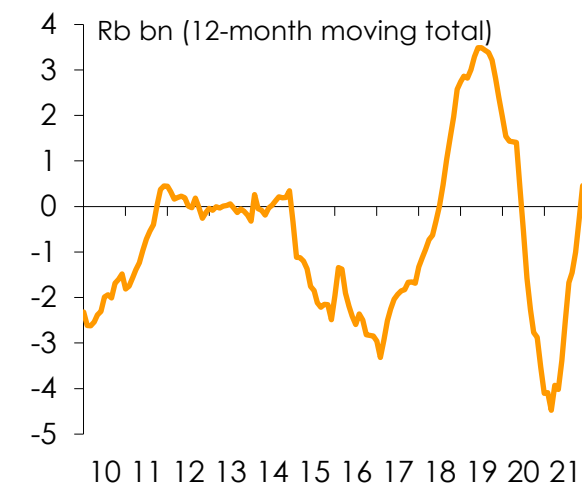
## Interest rates



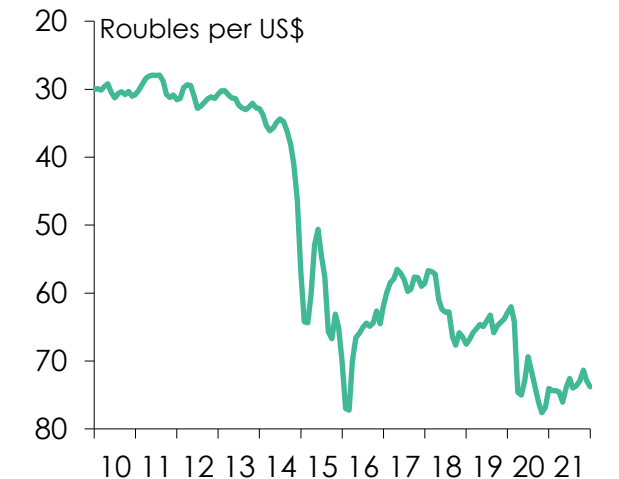
## Unemployment



## Budget balance

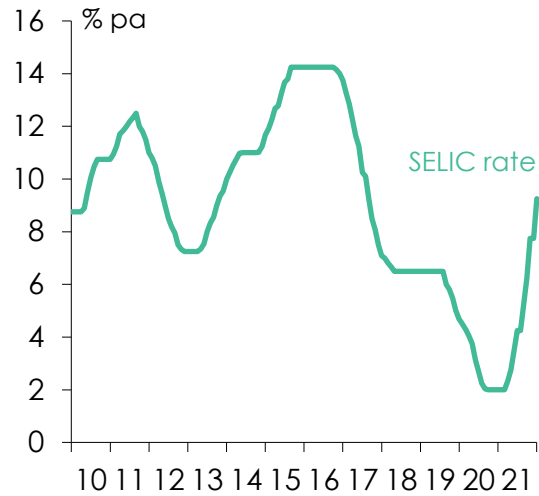


## Rouble vs US\$

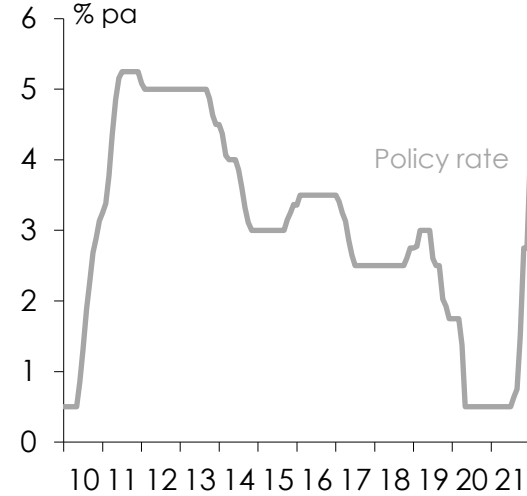


# A growing number of 'emerging' market central banks have begun tightening monetary policy

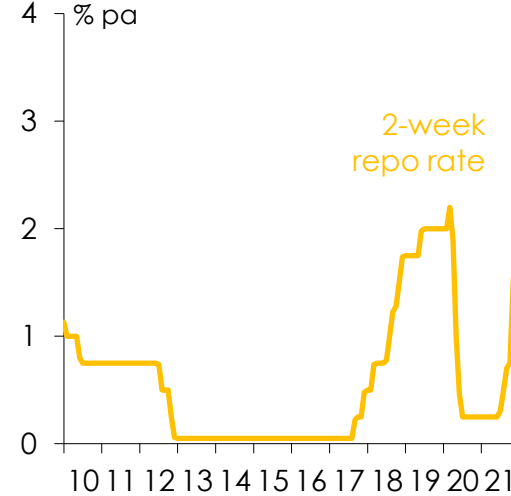
Brazil



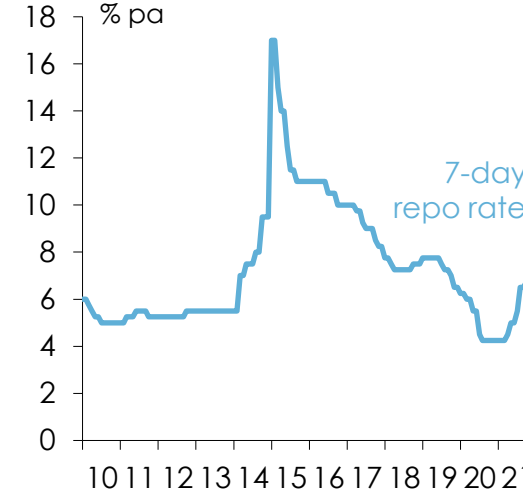
Chile



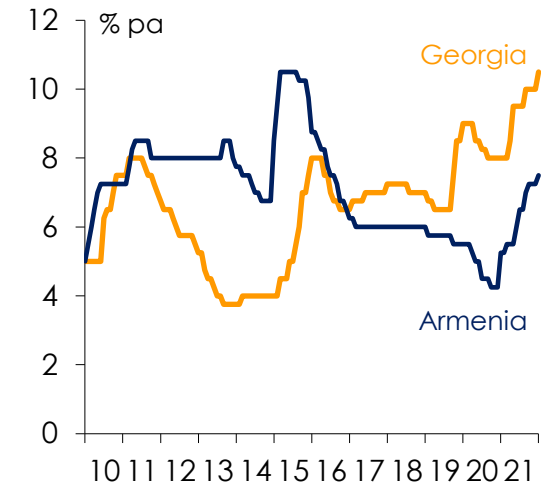
Czech Republic



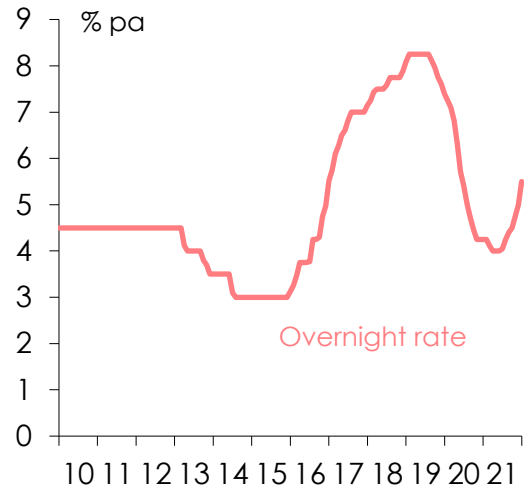
Russia



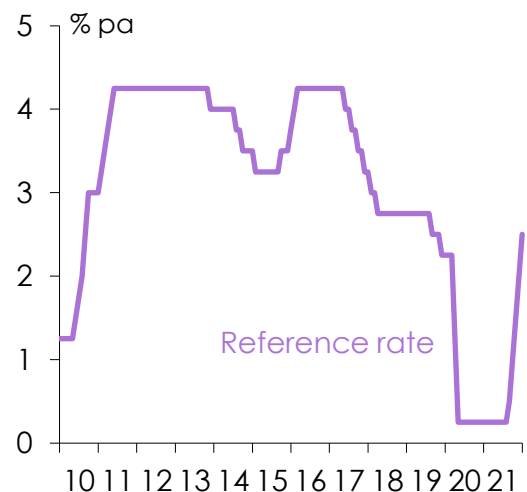
Georgia & Armenia



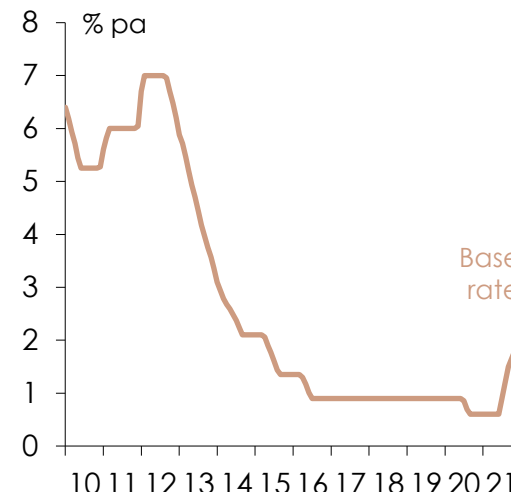
Mexico



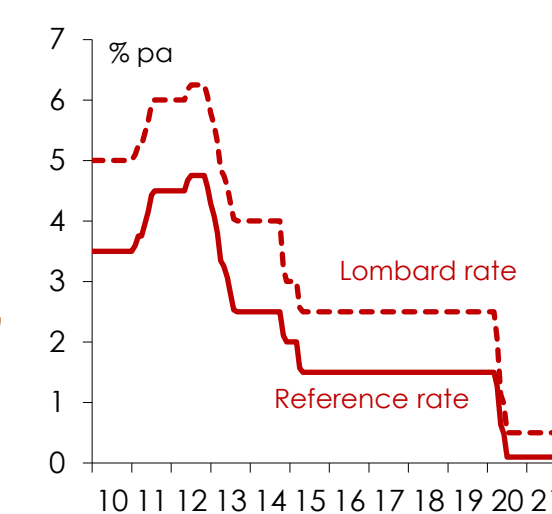
Peru



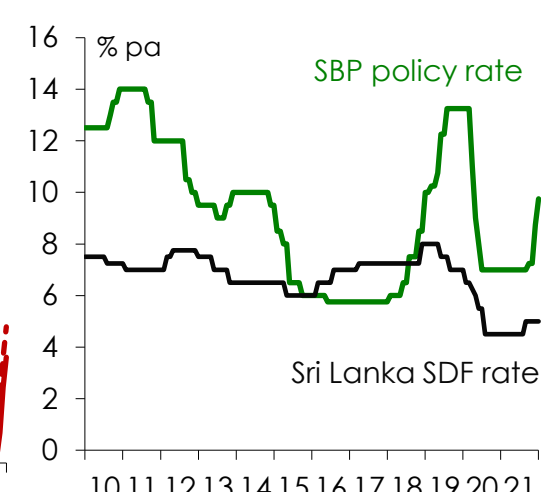
Hungary



Poland



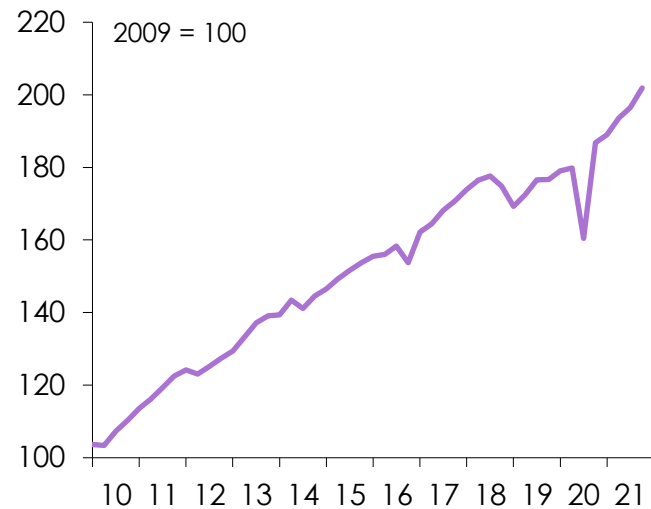
Pakistan & Sri Lanka



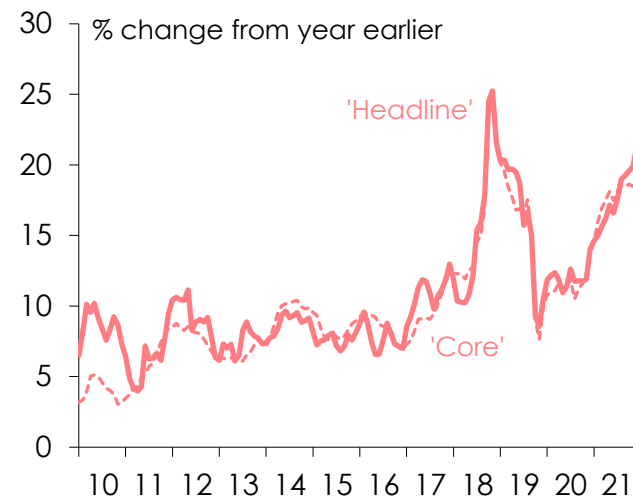
Sources: [Banco Central do Brasil](#); [Banco de México](#); [Banco Central de Chile](#); [Banco Central de Reserva del Perú](#); [Česká národní banka](#); [Magyar Nemzeti Bank](#); [Bank Rossii](#); [Narodowy Bank Polski](#); [Sakartvelos Erovnuli Bank'i](#); [Hayastani Kentronakan Bank](#); [State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

# Turkey's central bank has cut interest rates by 500 bp since September, despite inflation of over 21% - and the lira has dropped by 45%

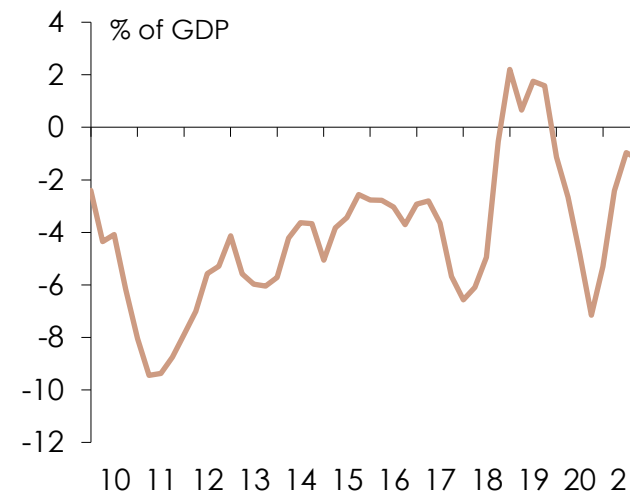
## Real GDP



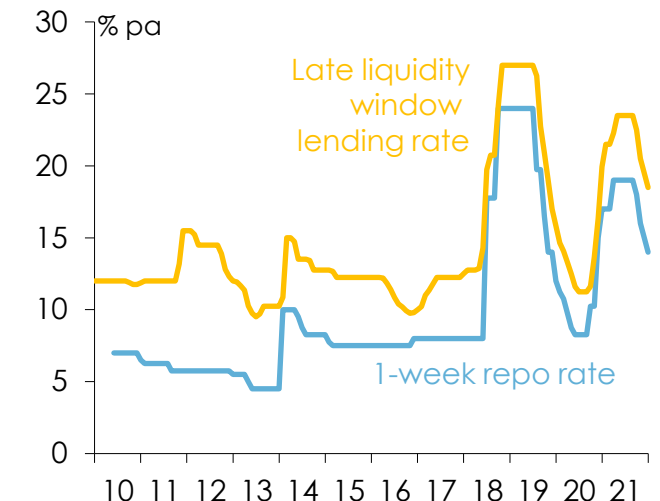
## Inflation



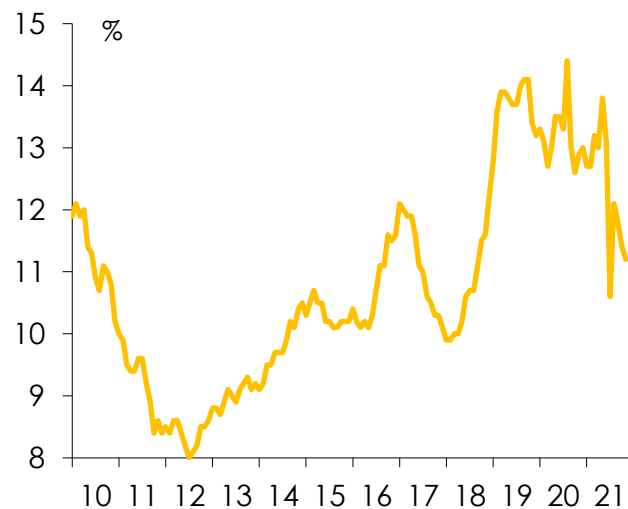
## Current account balance



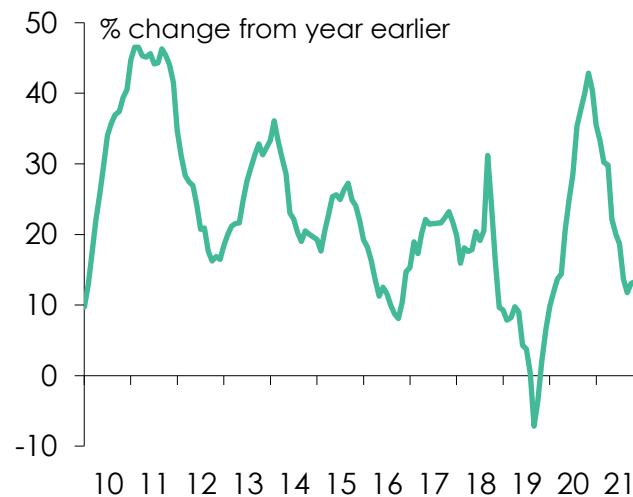
## Interest rates



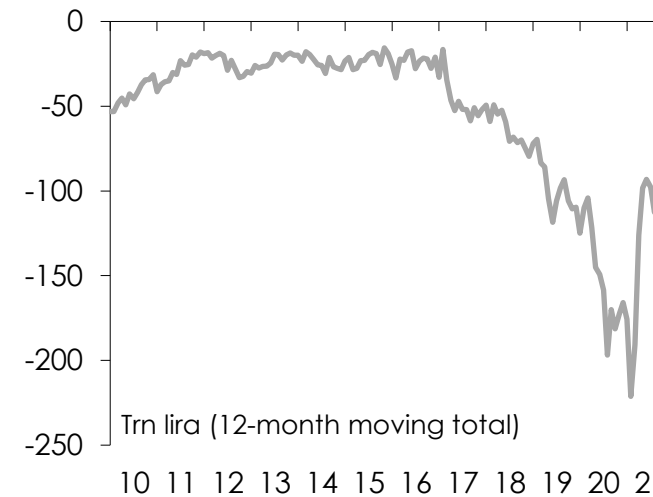
## Unemployment rate



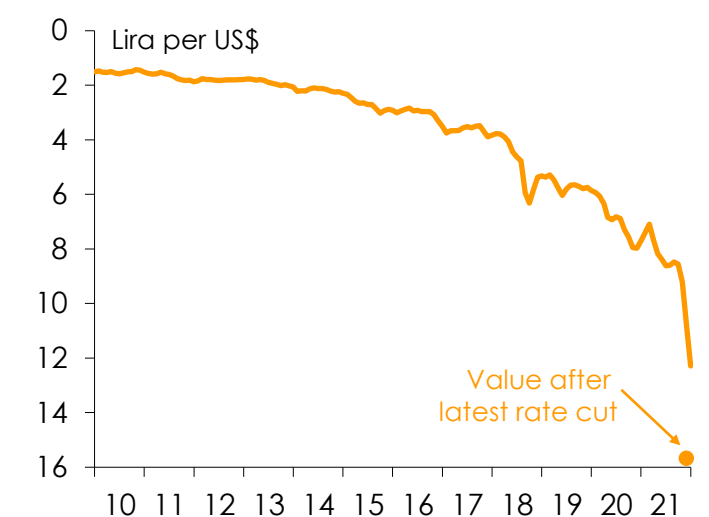
## Bank lending



## Budget balance



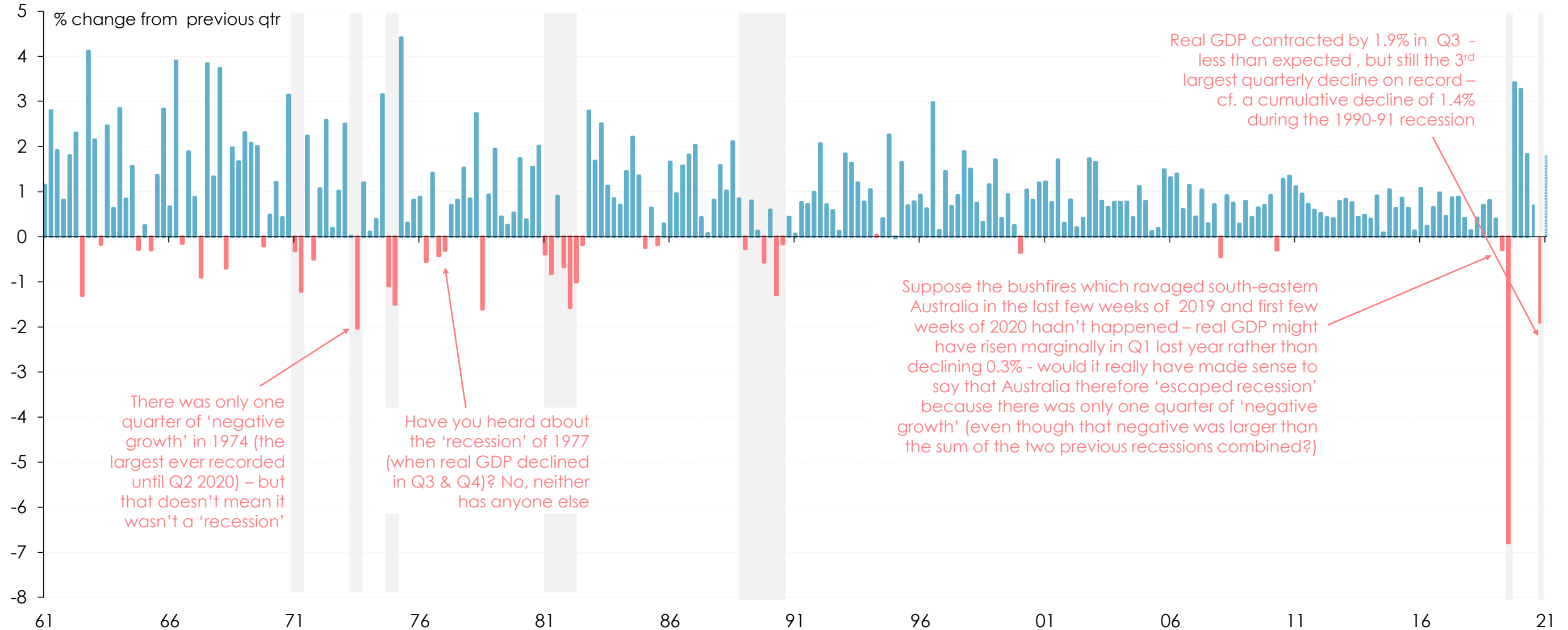
## Turkish lira vs US\$



**Australia**

# Australia's real GDP contracted by 1.9% in Q3 – less than expected, but still more than it did in the 1990-91 recession – but should rebound in Q4

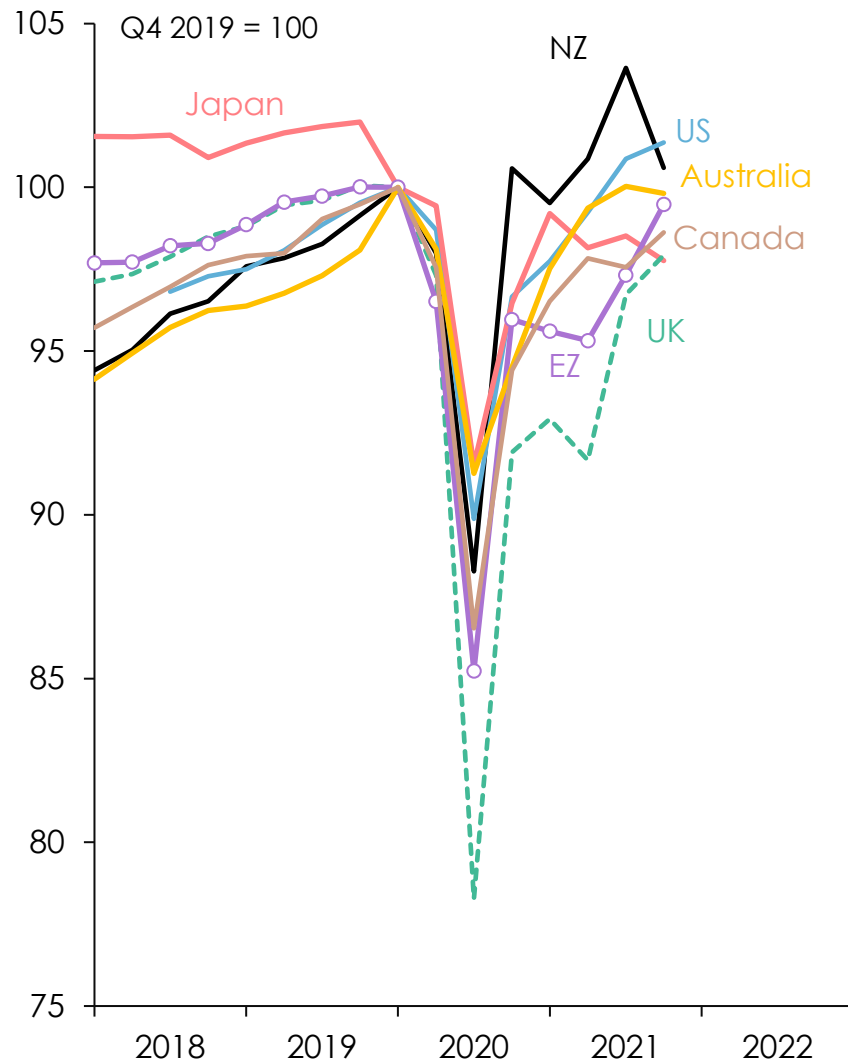
## Quarterly growth in Australian real GDP, 1961-2021



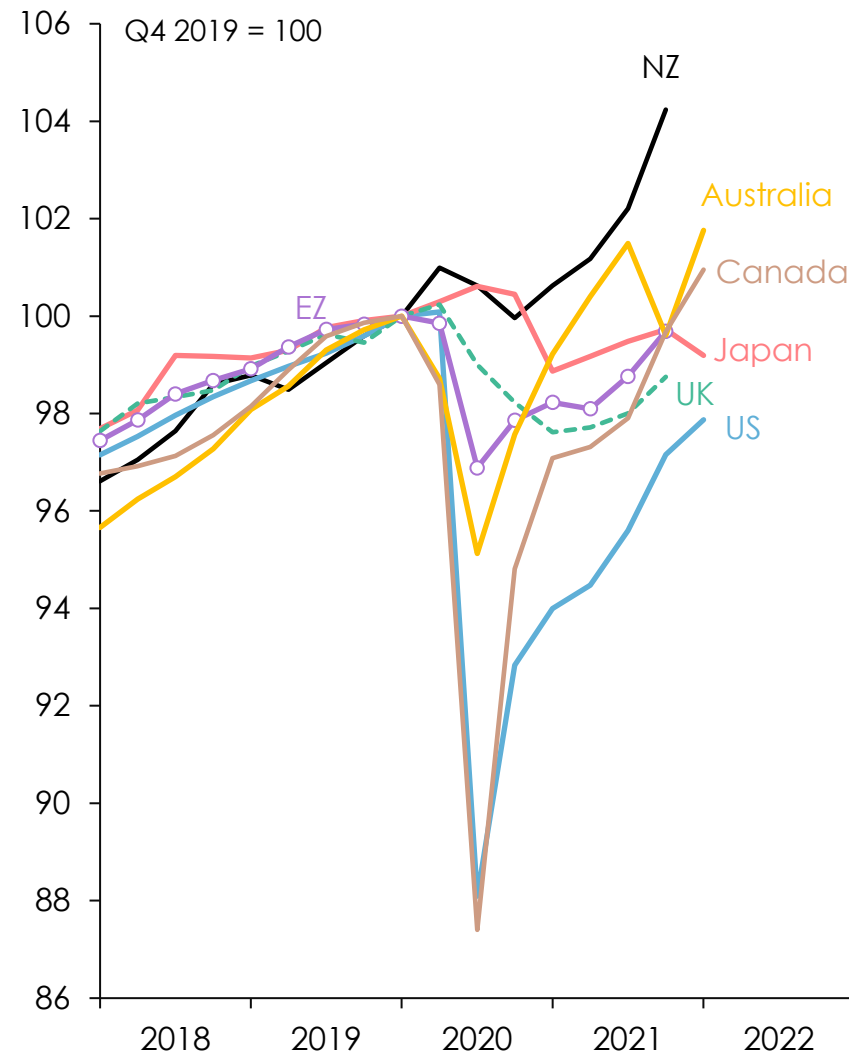
Note: Shaded areas denote recessions. Source: ABS, [Australian National Accounts: National Income, Expenditure and Product](#), September quarter 2021. December quarter GDP will be released on 2<sup>nd</sup> March 2022. [Return to "What's New"](#).

# Australia's 'Covid' recession wasn't as severe as, and its recovery has been stronger than, most other 'advanced' economies

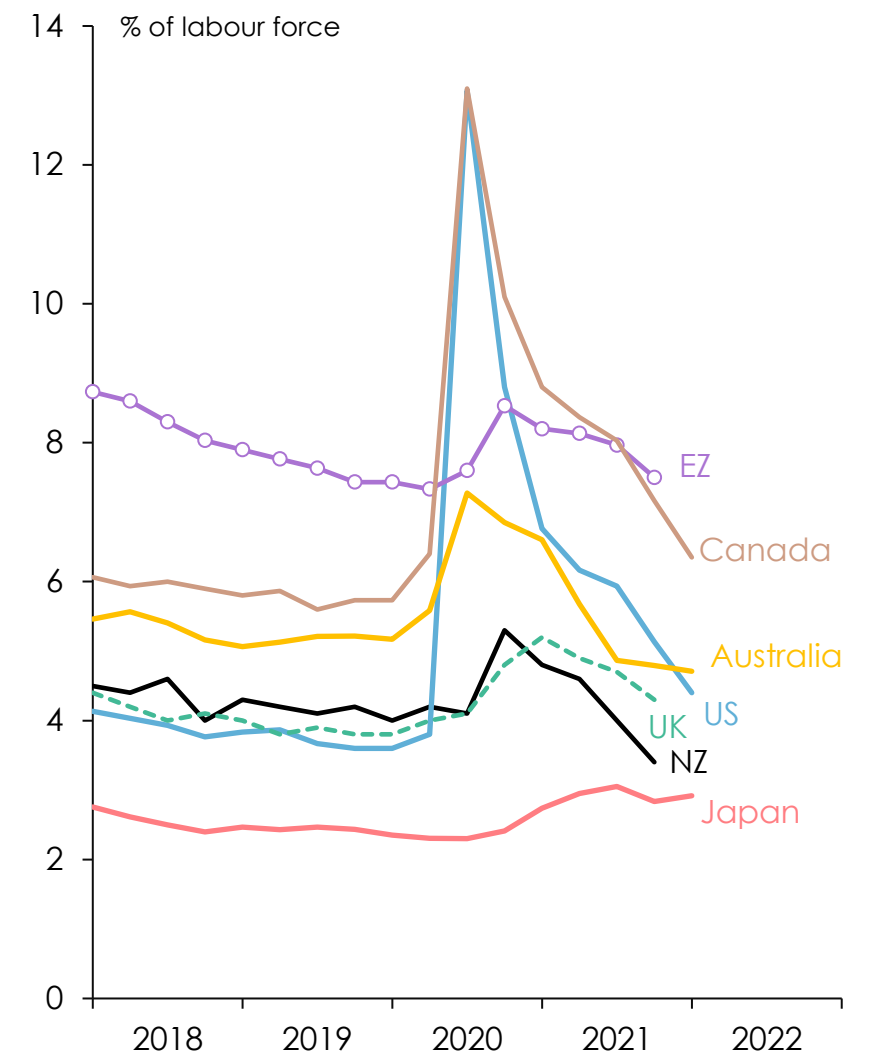
## Level of real GDP



## Employment



## Unemployment

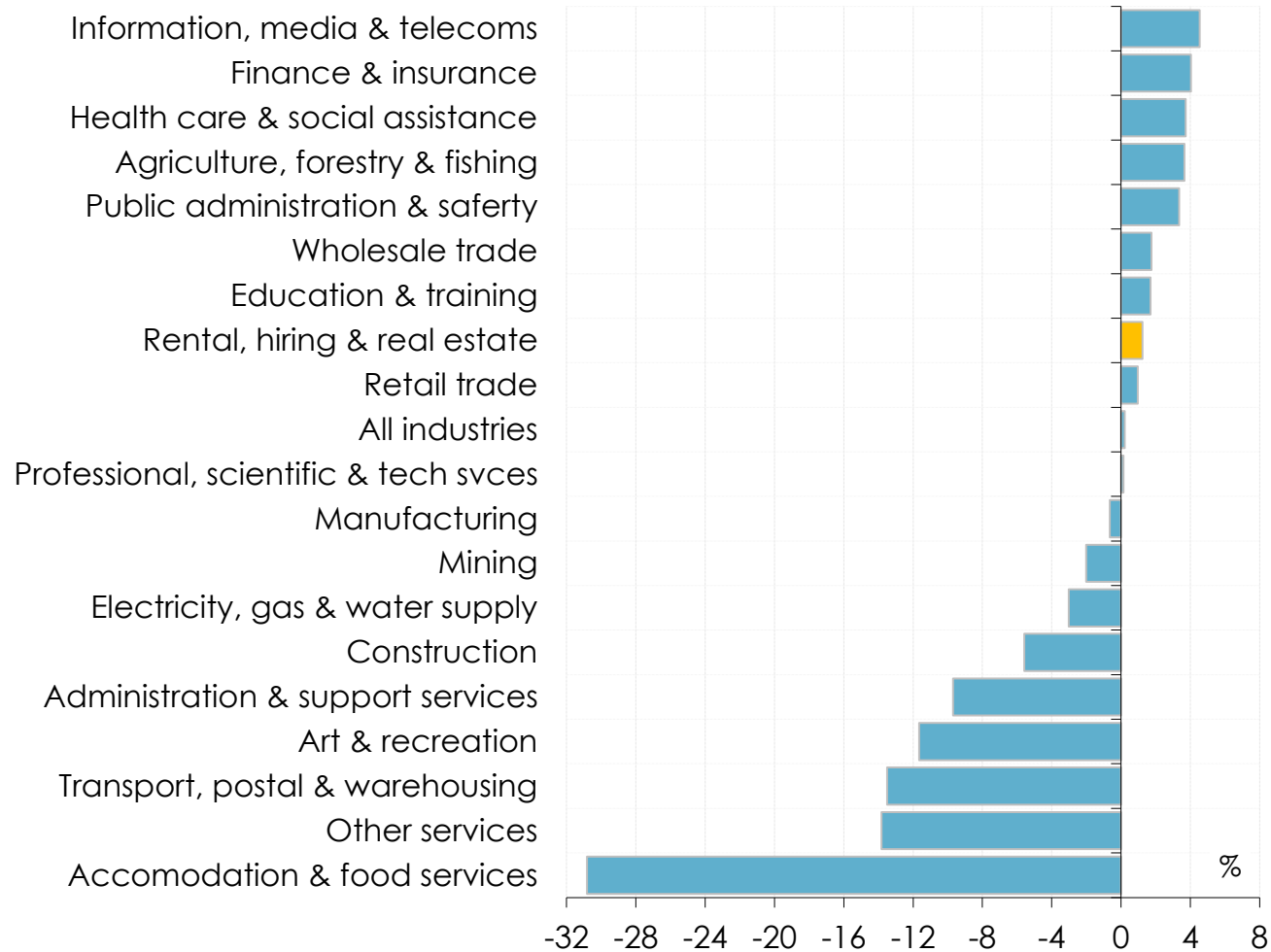


Note: Q4 2021 employment and unemployment data for Australia, the US and Canada are averages for October and November; Japan and Euro zone are October data. Sources: [ABS](#) ; [Statistics NZ](#) ; US [Bureau of Economic Analysis](#) and [Bureau of Labor Statistics](#); Japan [Cabinet Office](#) and [Statistics Bureau of Japan](#); [Eurostat](#); UK [Office for National Statistics](#); and [Statistics Canada](#); Corinna.



# Some sectors of the economy have been much more severely affected by public health restrictions and border closures than others

Q3 2021 real gross value added by industry – change from pre-pandemic peak



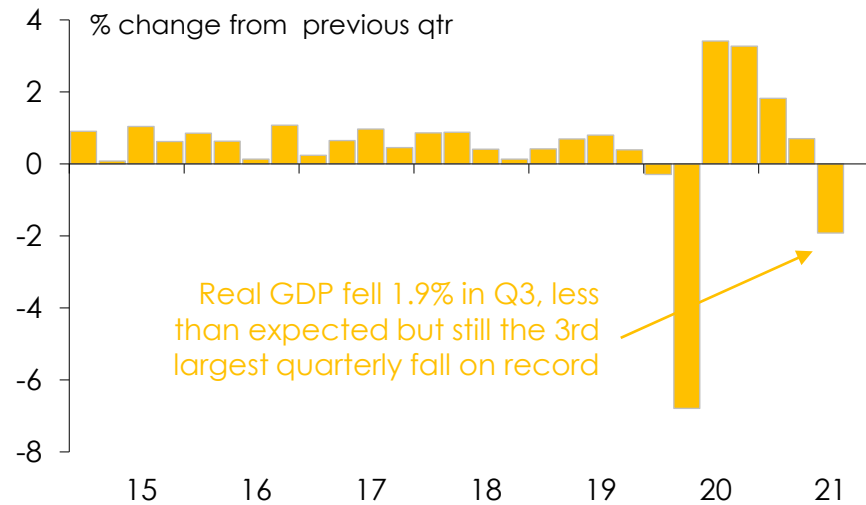
Q3 2021 employment by industry – change from pre-pandemic peak



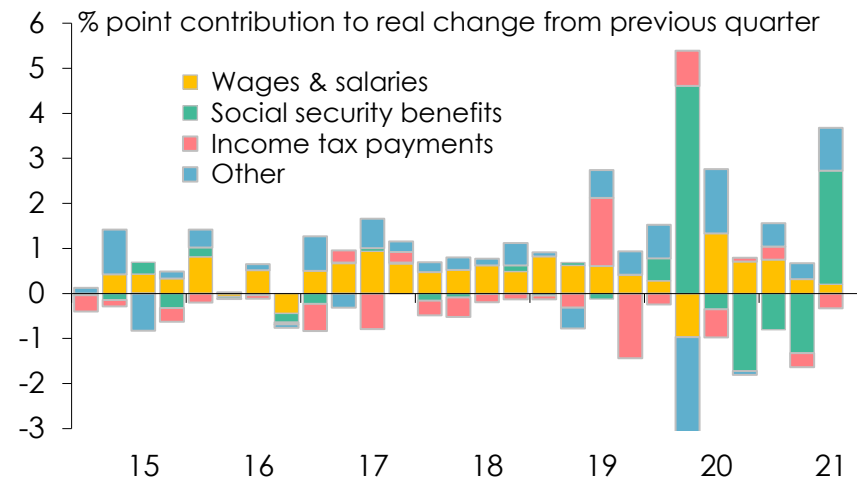
Sources: ABS, [Australian National Accounts: National Income, Expenditure and Product](#), September quarter 2021; and [Labour Force, Australia, Detailed](#), August 2021.

# Household spending fell 4.8% in Q3 due to lockdowns, but a 3.3% rise in public spending limited the fall in real GDP to 1.9%

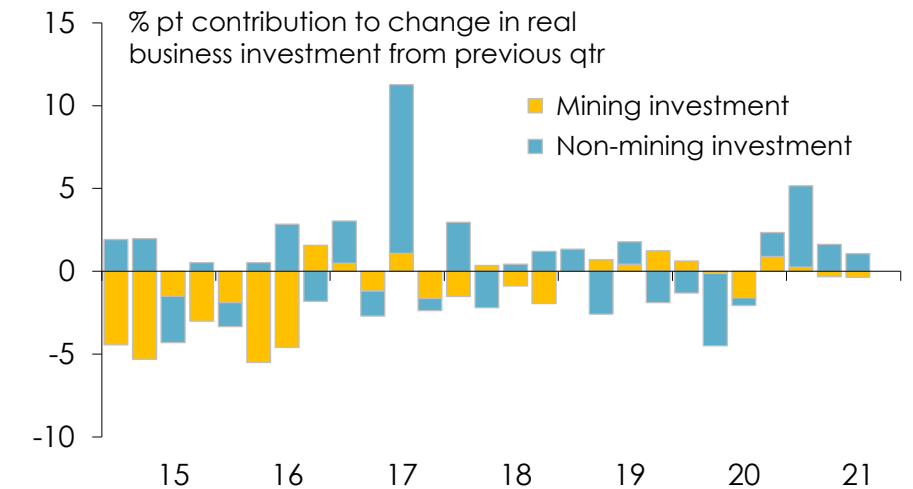
## Quarterly change in real GDP



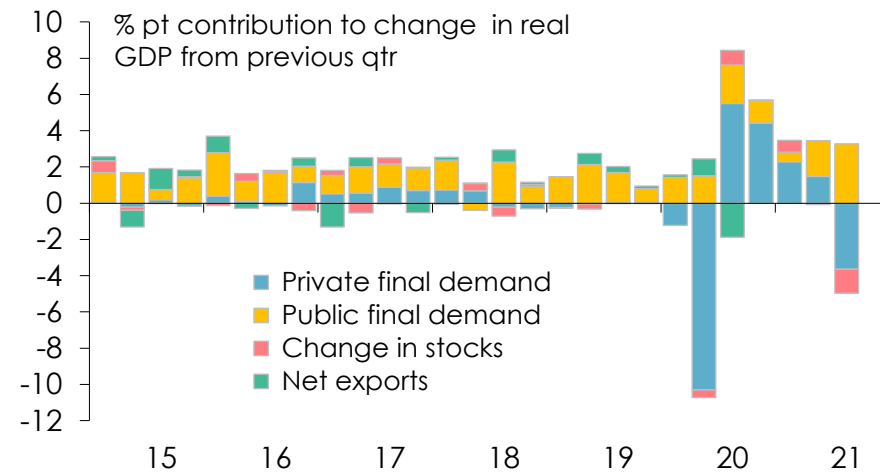
## Household disposable income



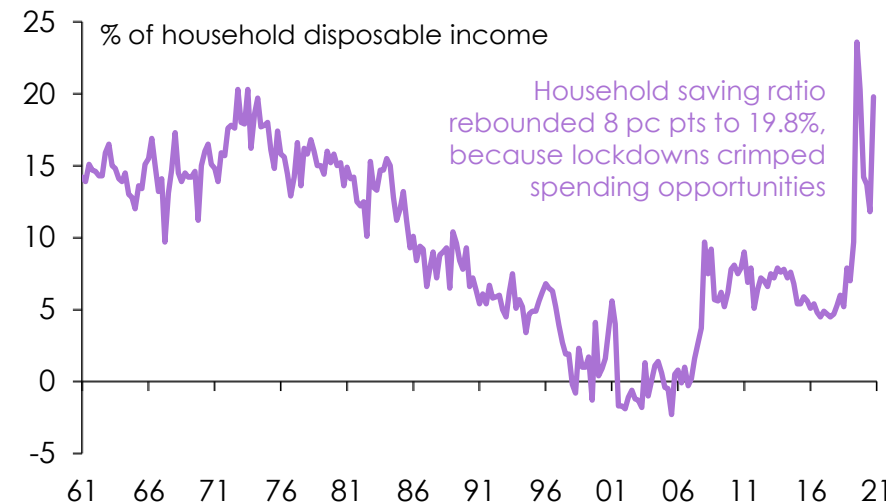
## Business investment expenditure



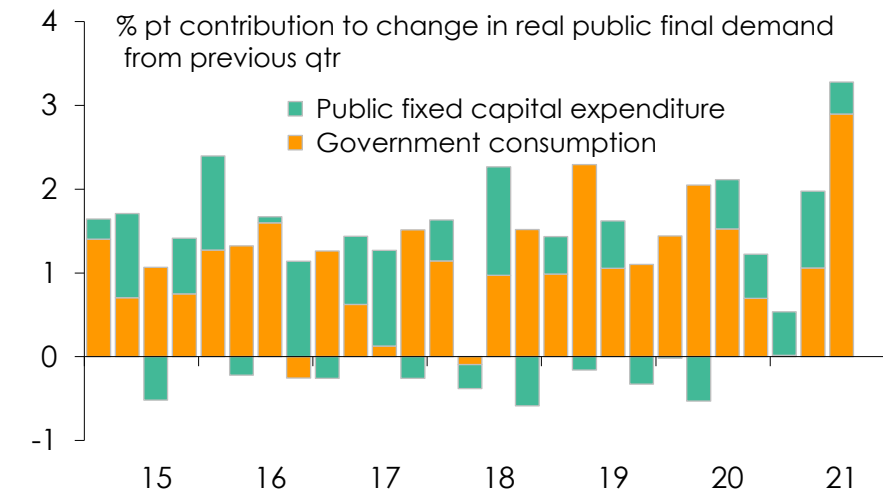
## Contributions to quarterly GDP growth



## Household saving rate



## Public expenditure

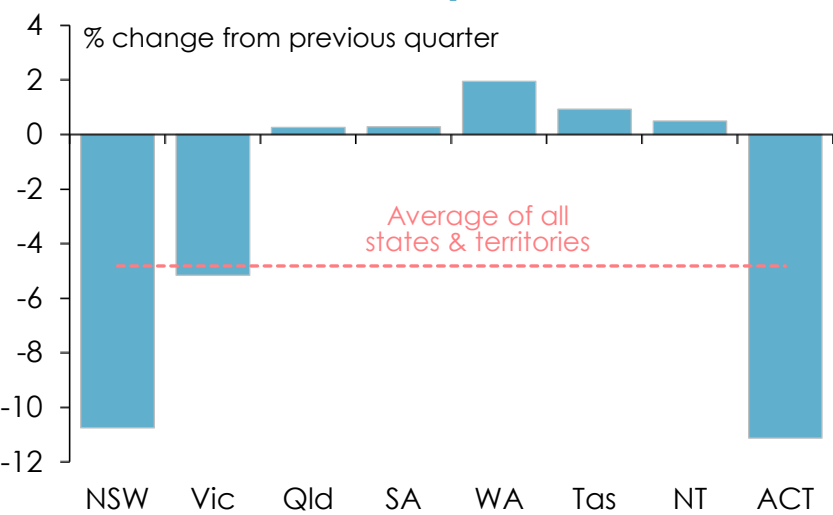


Note: Components of household disposable income are deflated by the implicit price deflator of household final consumption expenditure.

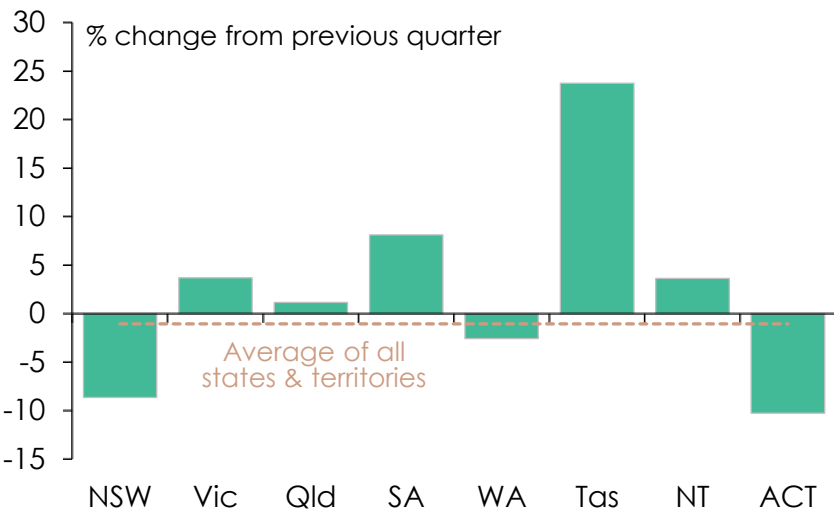
Source: ABS, [Australian National Accounts: National Income, Expenditure and Product](#), September quarter 2021. December quarter national accounts will be released on 2<sup>nd</sup> March 2022. [Return to "What's New"](#).

# The contraction in Q3 was due to sharp downturns in private sector spending in NSW, the ACT and Victoria during their lockdowns

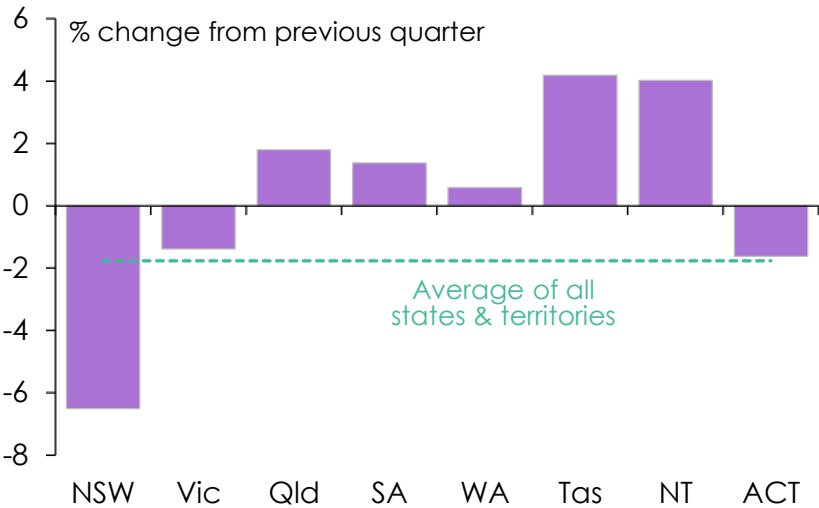
## Household consumption



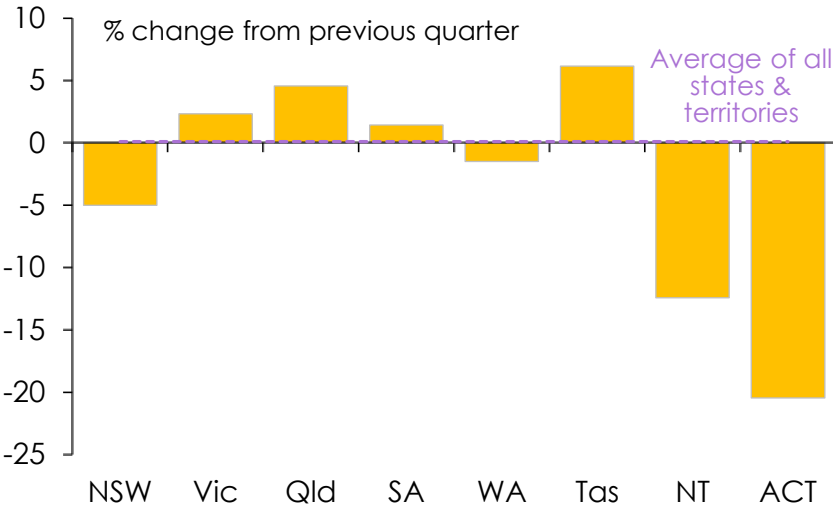
## Business investment



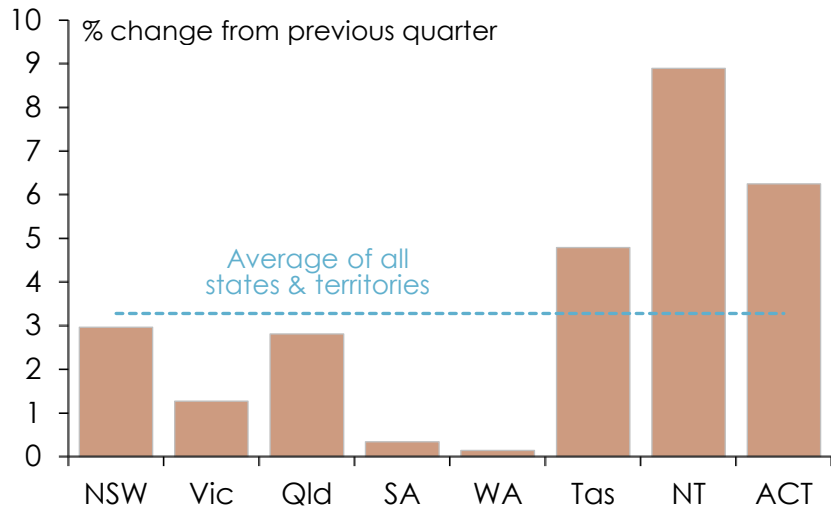
## State final demand



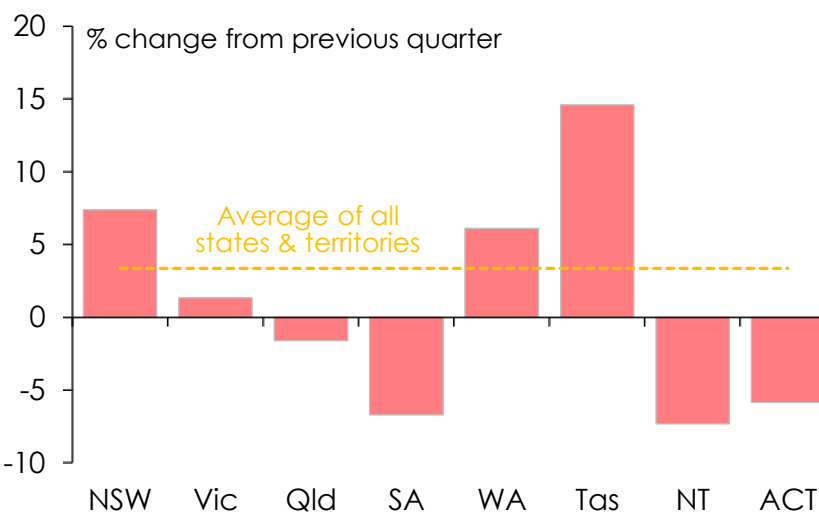
## Dwelling investment



## Public spending



## International exports

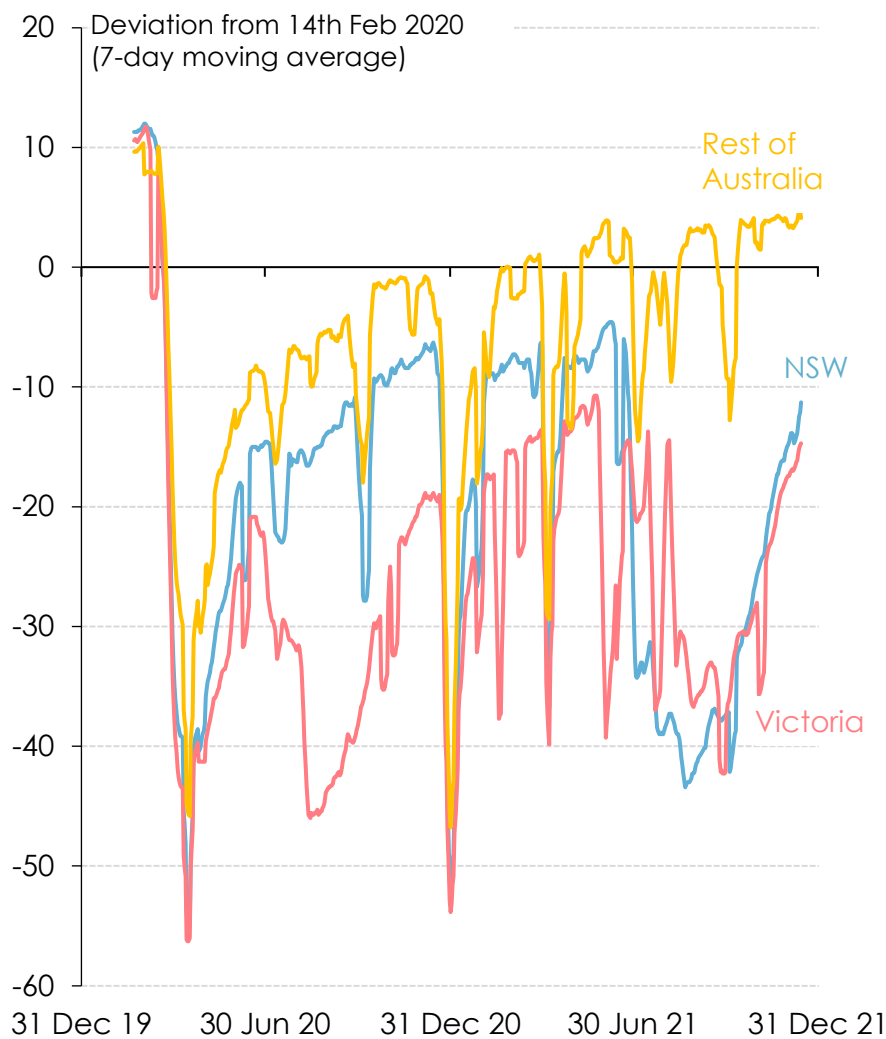


Note: all data in chain-volume terms. Business investment and public spending exclude transactions in second-hand public sector assets. Sources: ABS, [Australian National Accounts: National Income, Expenditure and Product](#), September quarter 2021; [Balance of Payments and International Investment Position, Australia](#), September quarter 2021.

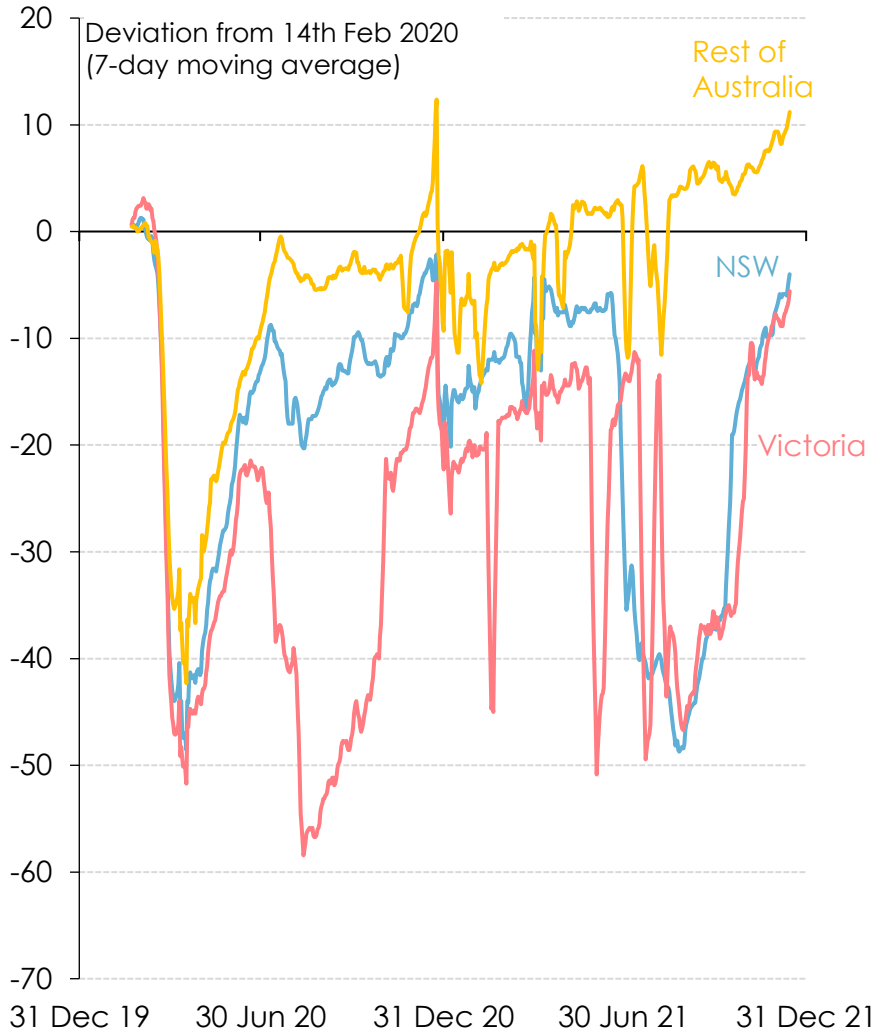
# 'Mobility indicators' illustrate how NSW and Victoria have begun returning to 'normal' as restrictions have been eased

## Google mobility indicators

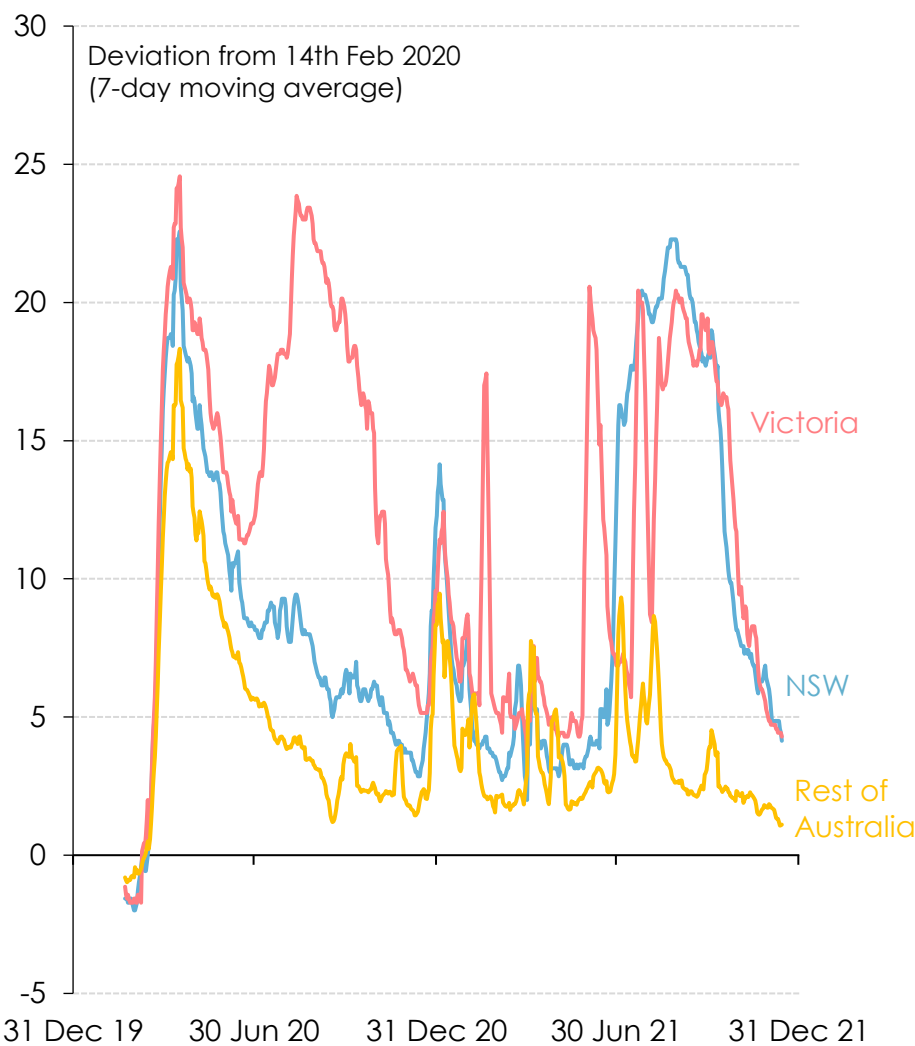
### Workplaces



### Retail and recreation



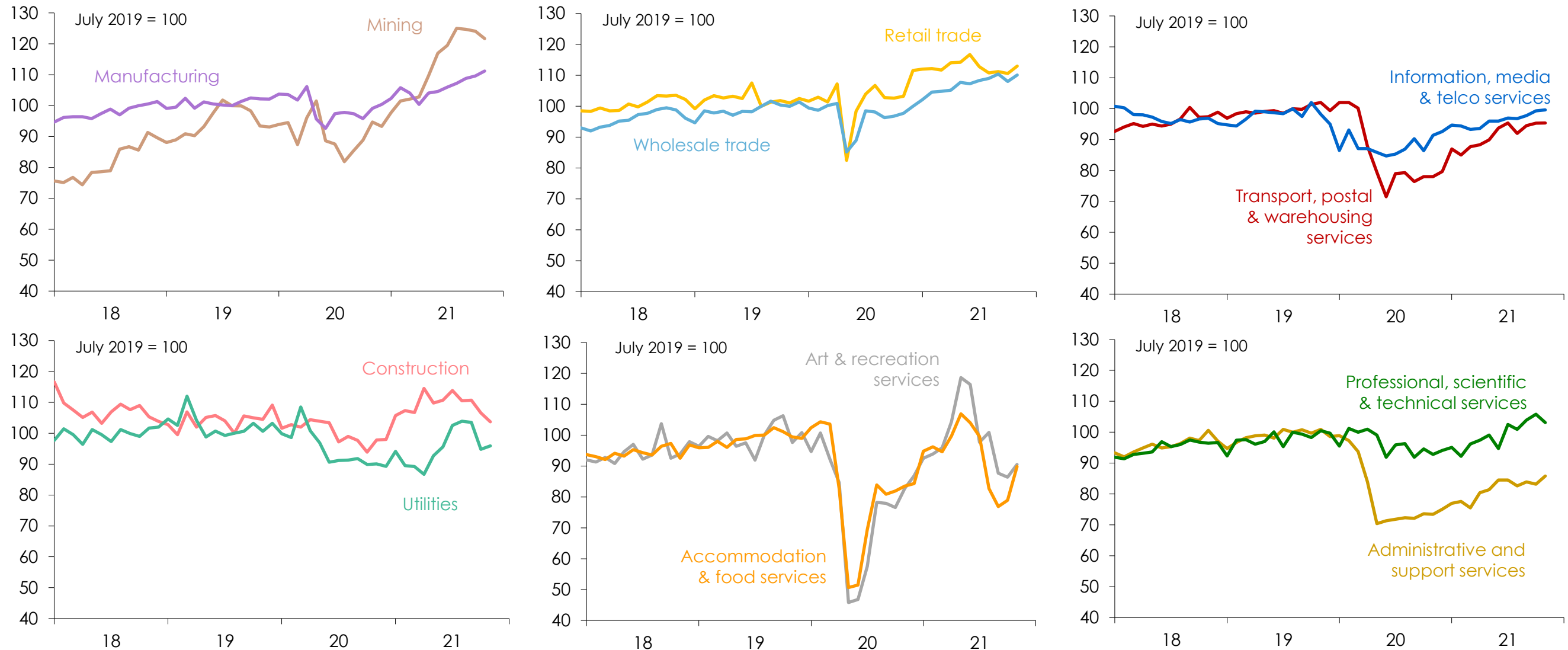
### Residences



Note: data up to 14<sup>th</sup> December. Sources: [Google Community Mobility Reports](#); Corinna. [Return to "What's New"](#).

# 9 out of 13 sectors experienced a rise in turnover in October – with the largest gains in accommodation & food services, and arts & recreation

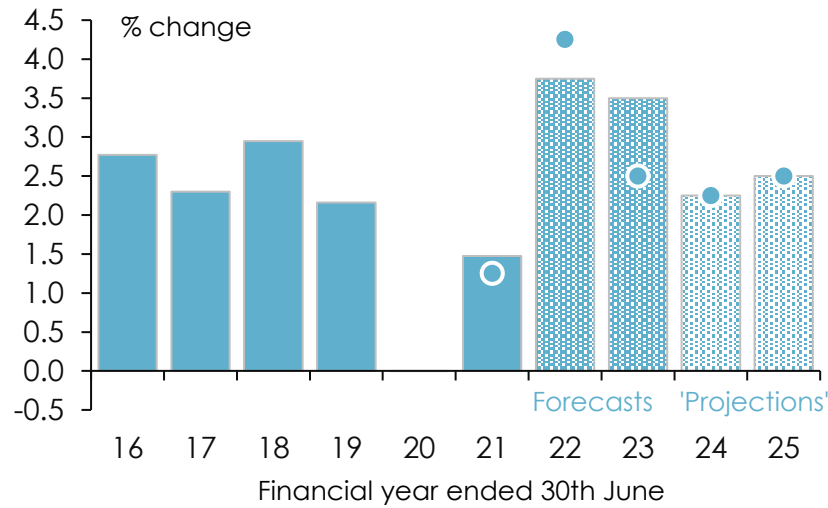
## Indicators of business turnover, by industry



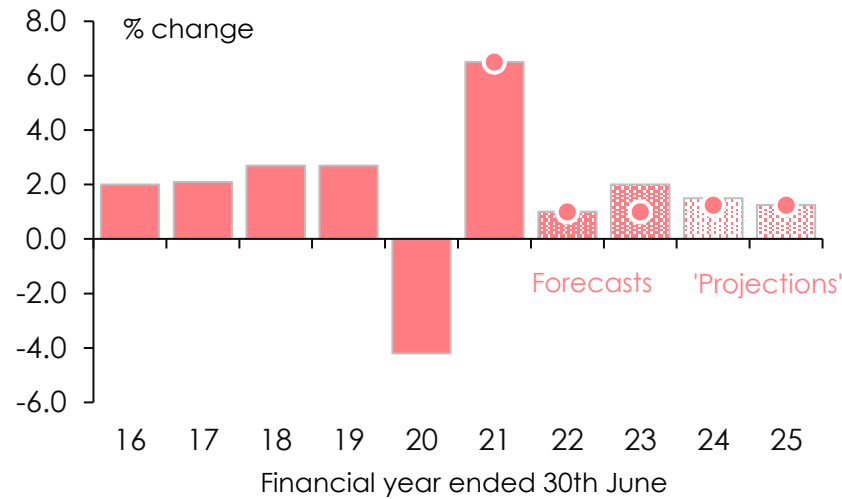
Note: The turnover indicators are derived from the Business Activity Statements submitted to the Australian Taxation Office by all businesses with an annual GST turnover of \$20mn or more (together with a proportion of smaller businesses which voluntarily report monthly). Source: ABS, [Monthly Business Turnover Indicator](#), October 2021. October data will be released on 21<sup>st</sup> January 2022. [Return to "What's New"](#).

# Treasury revised up its forecasts for economic and employment growth in 2022-23, and for wages growth through 2024-25, in this week's MYEFO

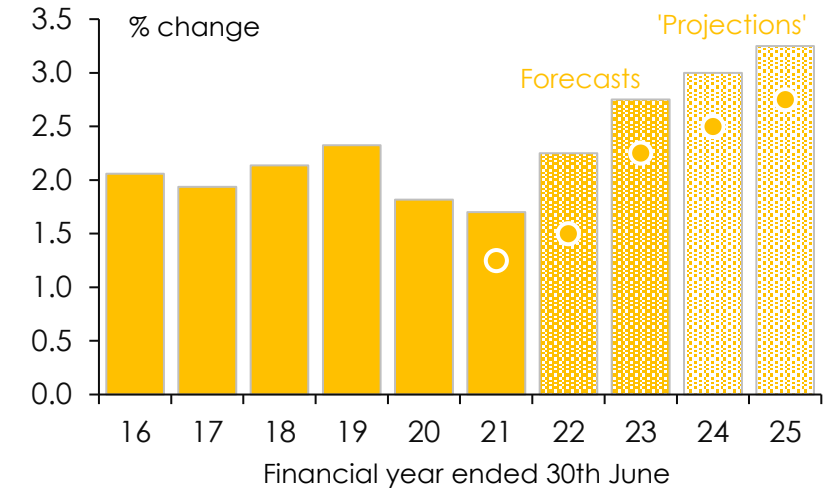
## Real GDP



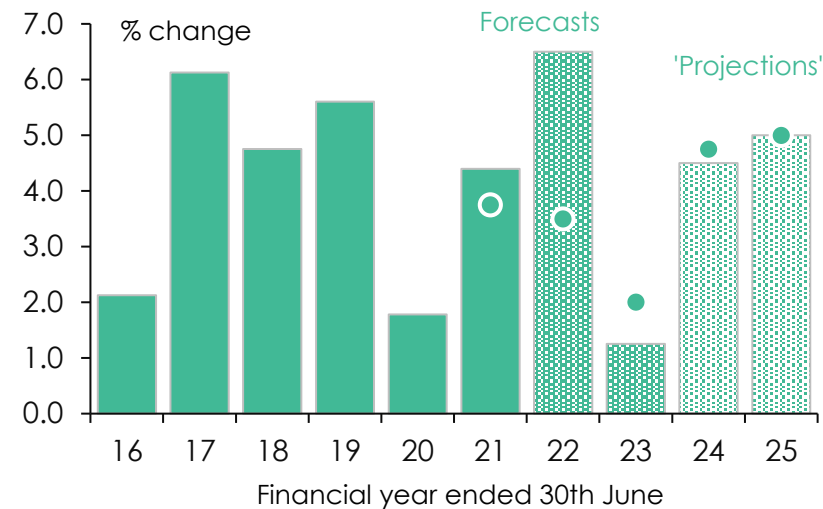
## Employment



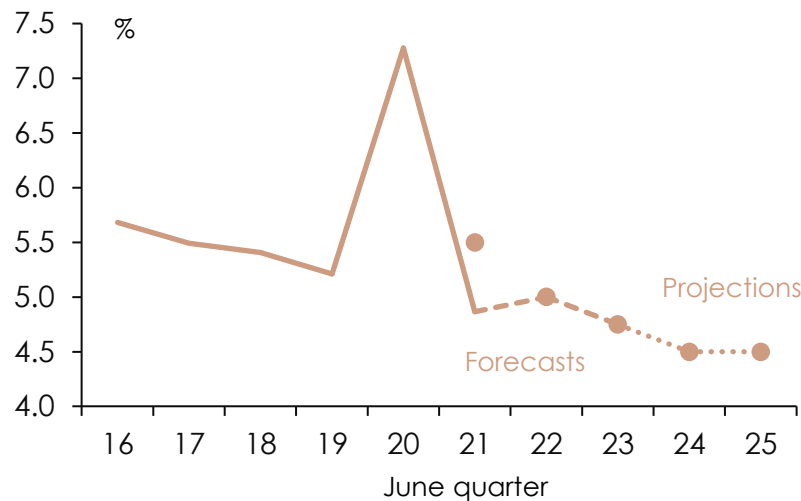
## Wages



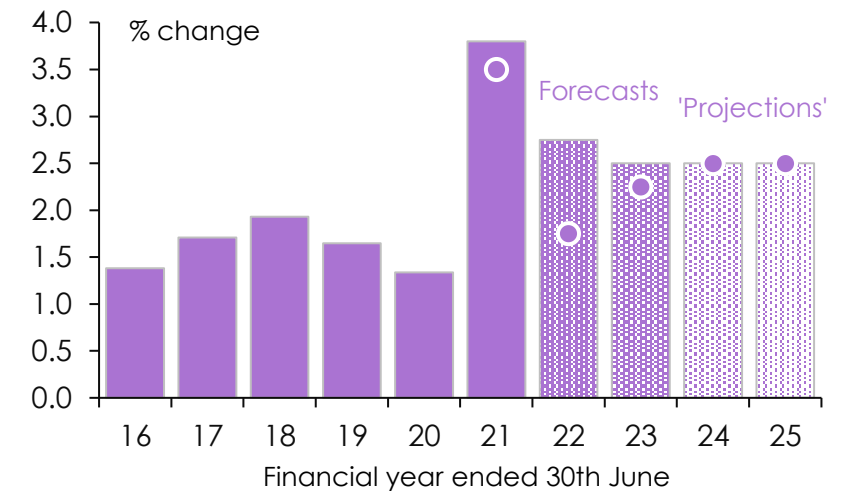
## Nominal GDP



## Unemployment rate



## Consumer prices

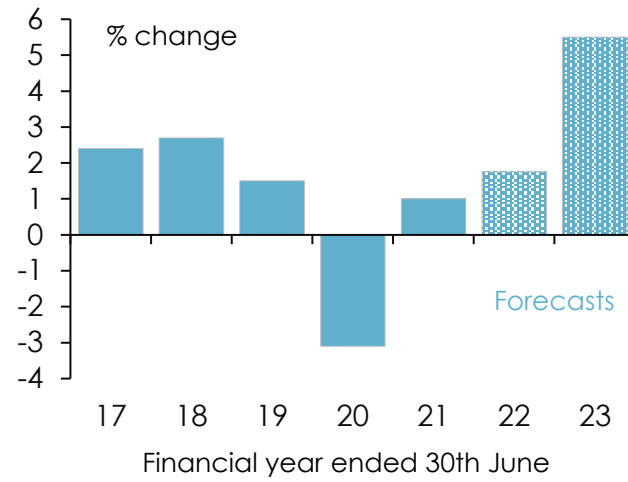


Note: Dots represent forecasts/projections in the 2021-22 Budget presented in May. Employment growth is June quarter on June quarter; unemployment rate is June quarter; all other figures are for financial years. The omicron variant is assumed to have no significant impact on 're-opening plans' or require a reimposition of widespread restrictions. Net overseas migration assumed to be -41K in 2021-22, +180K in 2022-23, +213K in 2023-24 and +235K in 2024-25; iron ore price falling to US\$55/t FoB by Q2 2022; metallurgical and thermal coal prices falling to US\$130/t and \$60/t respectively by Q2 2022; Tapis oil prices remaining at around US\$83/bbl; and the A\$ remaining at around US75¢. Sources: ABS; Australian Government, 2021-22 [Mid-Year Economic and Fiscal Outlook](#), 16<sup>th</sup> December 2021. [Return to "What's New"](#).

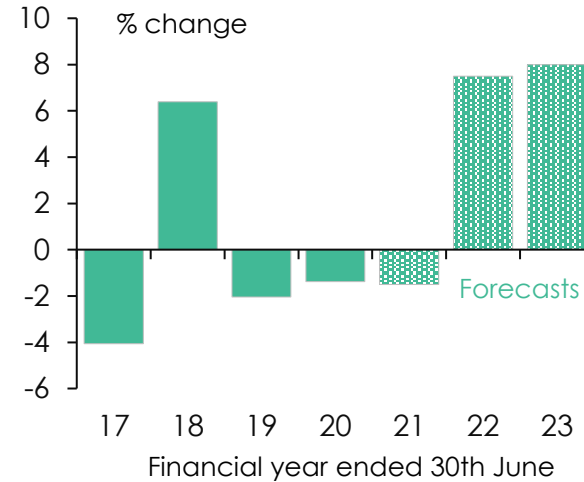


# Treasury expects economic growth to be driven by private consumption and business investment offsetting weaker net exports

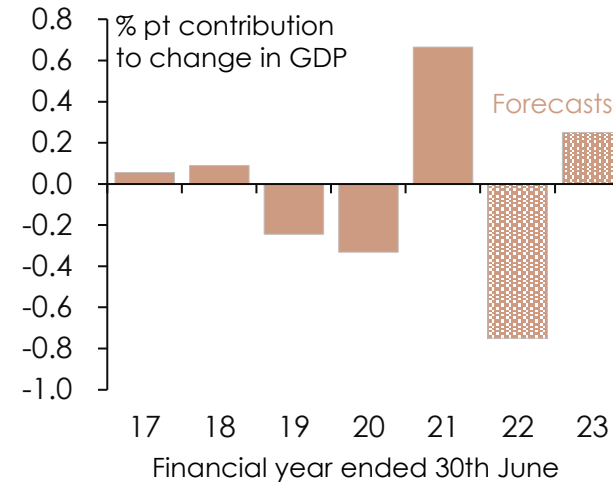
## Household consumption



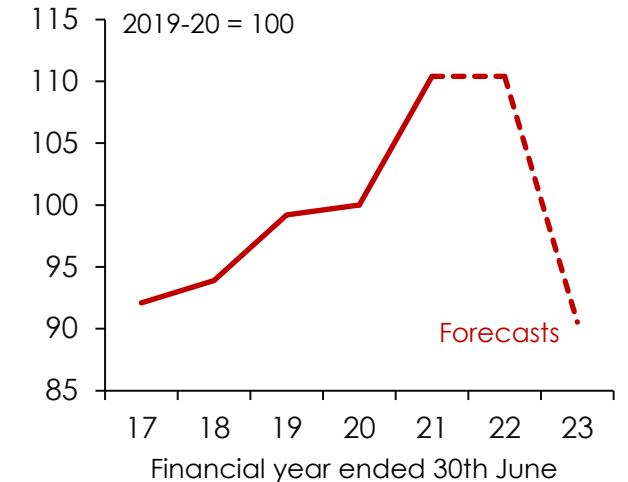
## Business investment



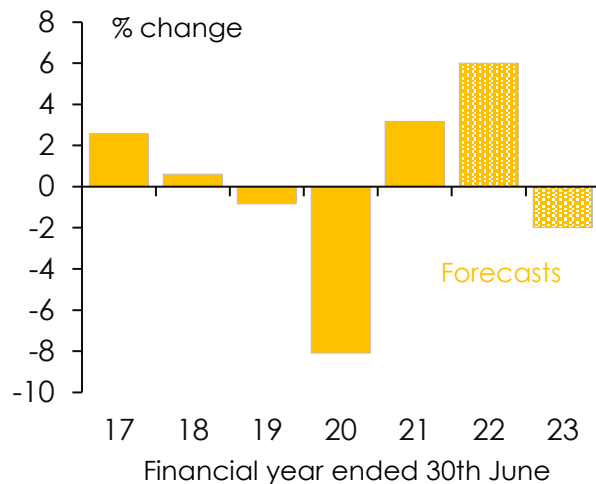
## Change in inventories



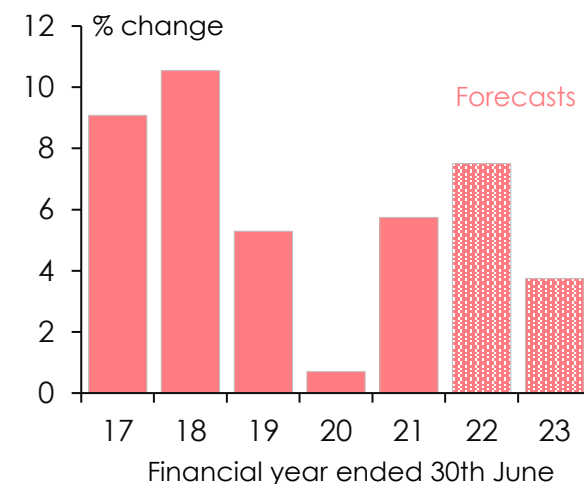
## Terms of trade



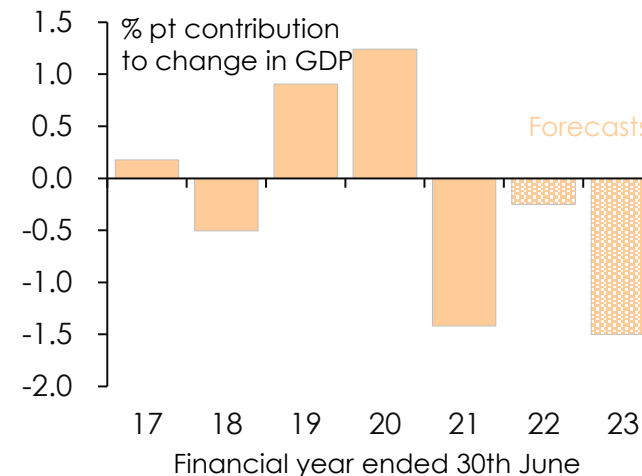
## Dwelling investment



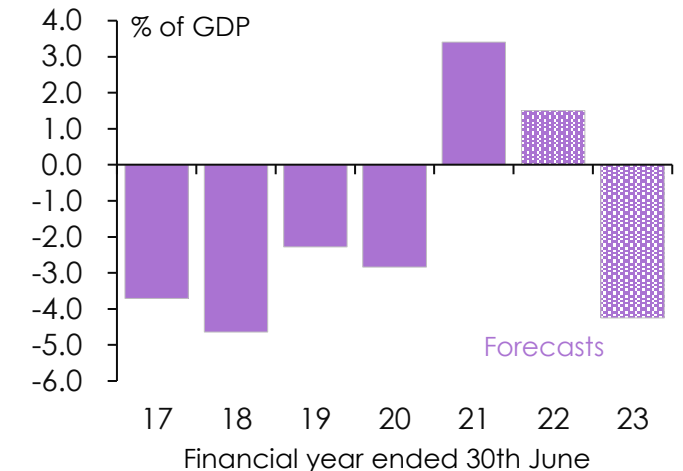
## Public spending



## Net exports



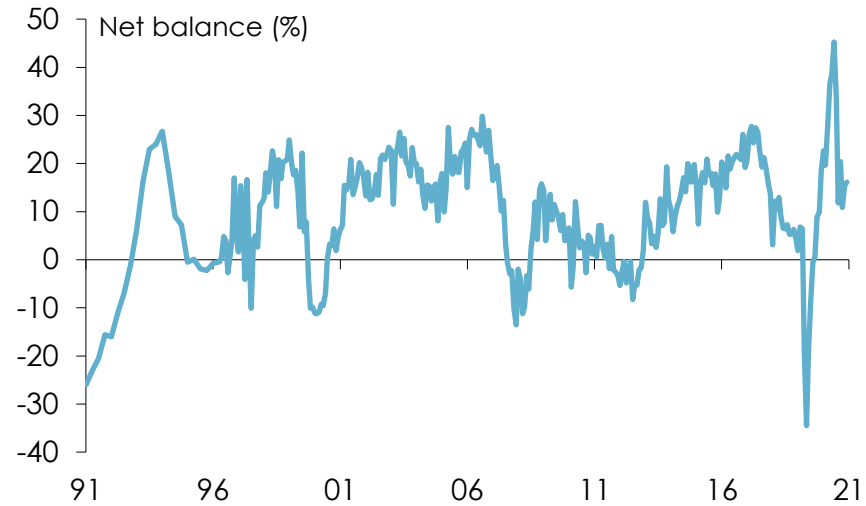
## Current account balance



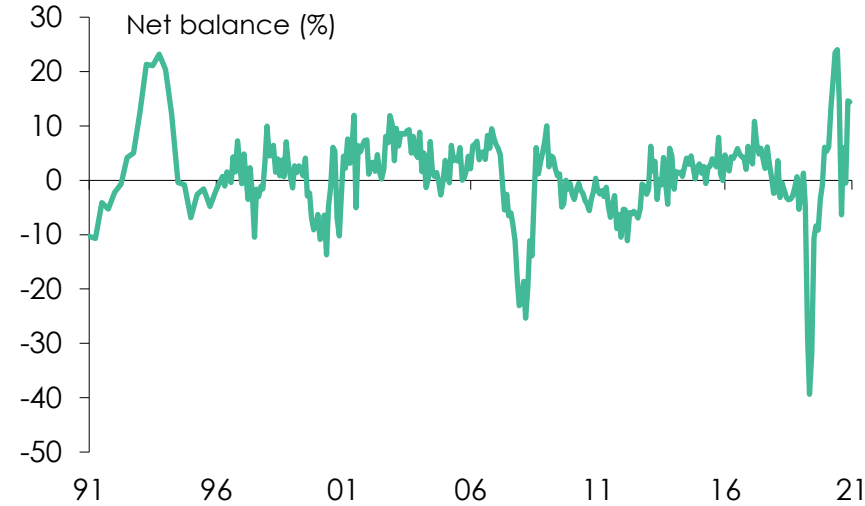
Note: Business investment and public spending exclude transactions in second-hand assets. The omicron variant is assumed to have no significant impact on 're-opening plans' or require a reimposition of widespread restrictions. Net overseas migration assumed to be -41K in 2021-22, and +180K in 2022-23; iron ore price falling to US\$55/t FoB by Q2 2022; metallurgical and thermal coal prices falling to US\$130/t and \$60/t respectively by Q2 2022; Tapis oil prices remaining at around US\$83/bbl; and the A\$ remaining at around US75¢. Sources: ABS; Australian Government, 2021-22 [Mid-Year Economic and Fiscal Outlook](#), 16<sup>th</sup> December 2021. [Return to "What's New"](#).

# Business conditions improved slightly in November, with both hiring and capex intentions picking up ...

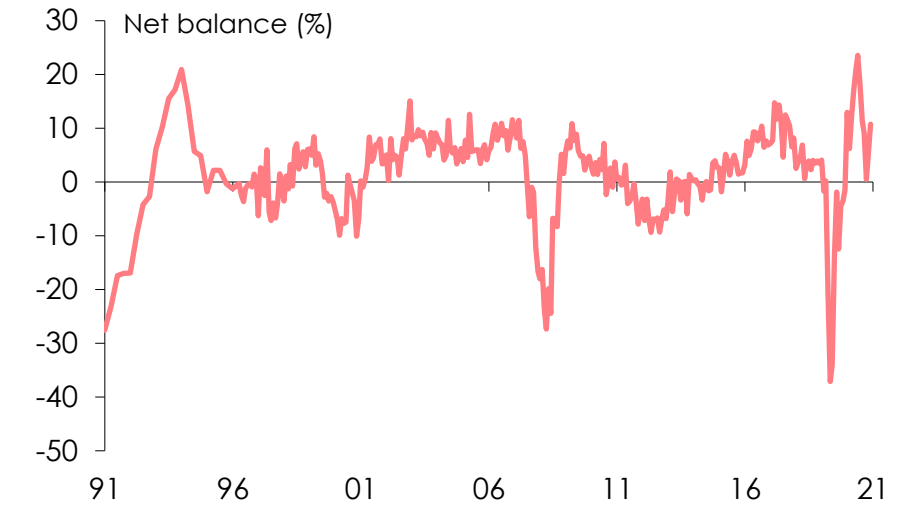
## Trading conditions



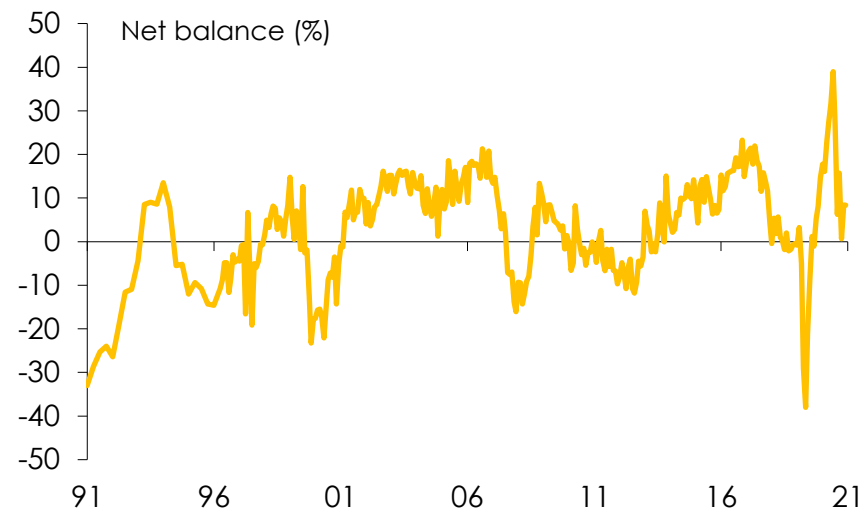
## Forward orders



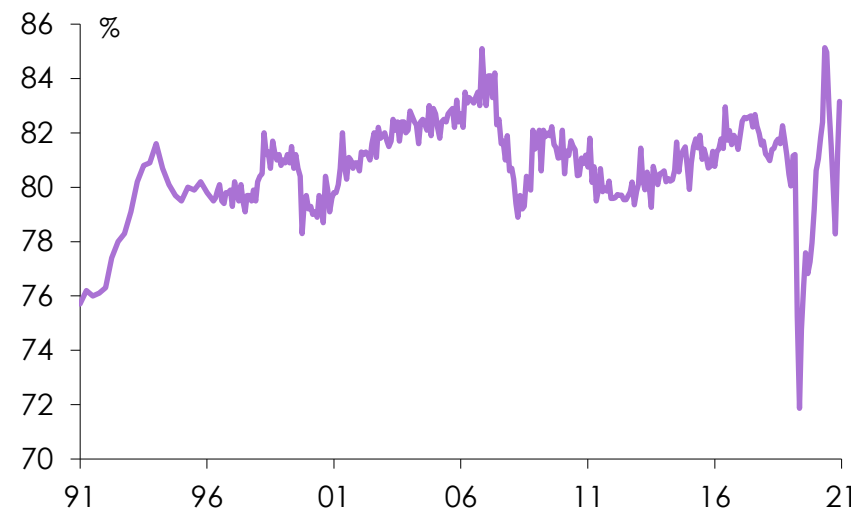
## Employee hiring intentions



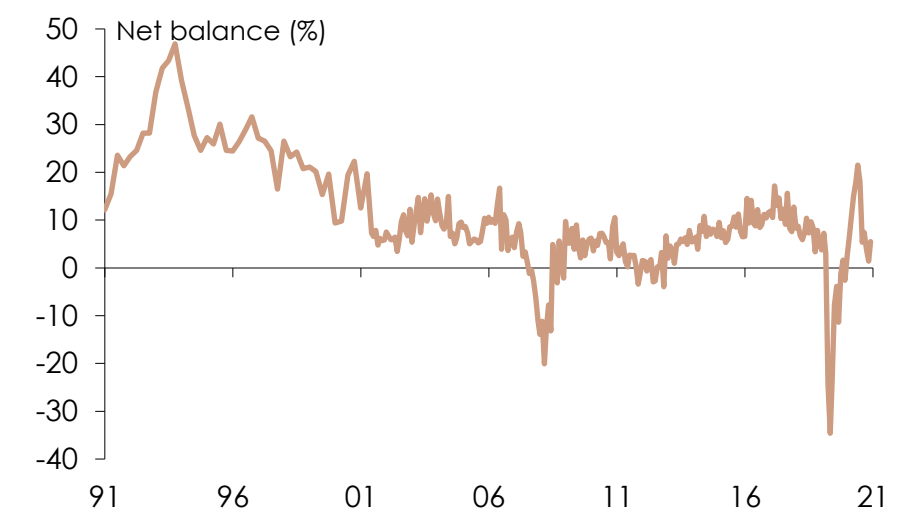
## Profitability



## Capacity utilization



## Capital expenditure intentions

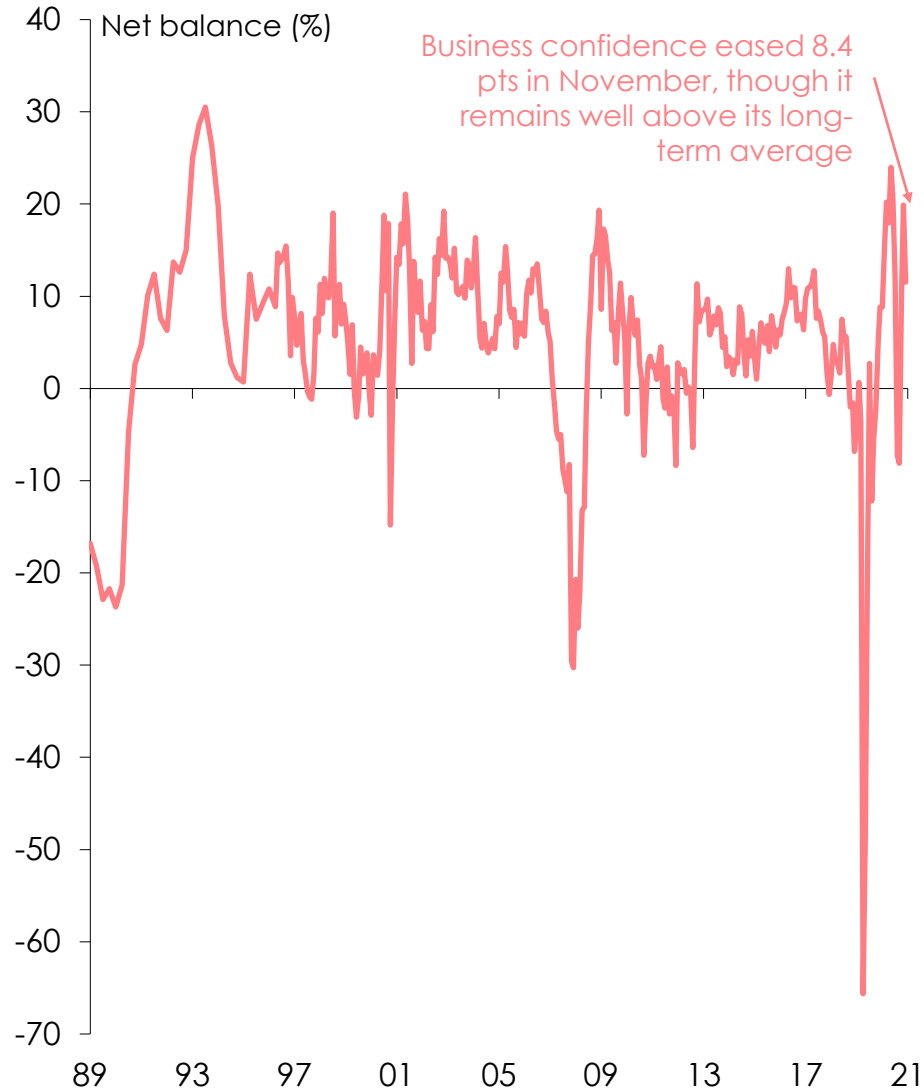


Note: Quarterly data up to March 1997 (May 2002 for capex intentions), monthly thereafter.

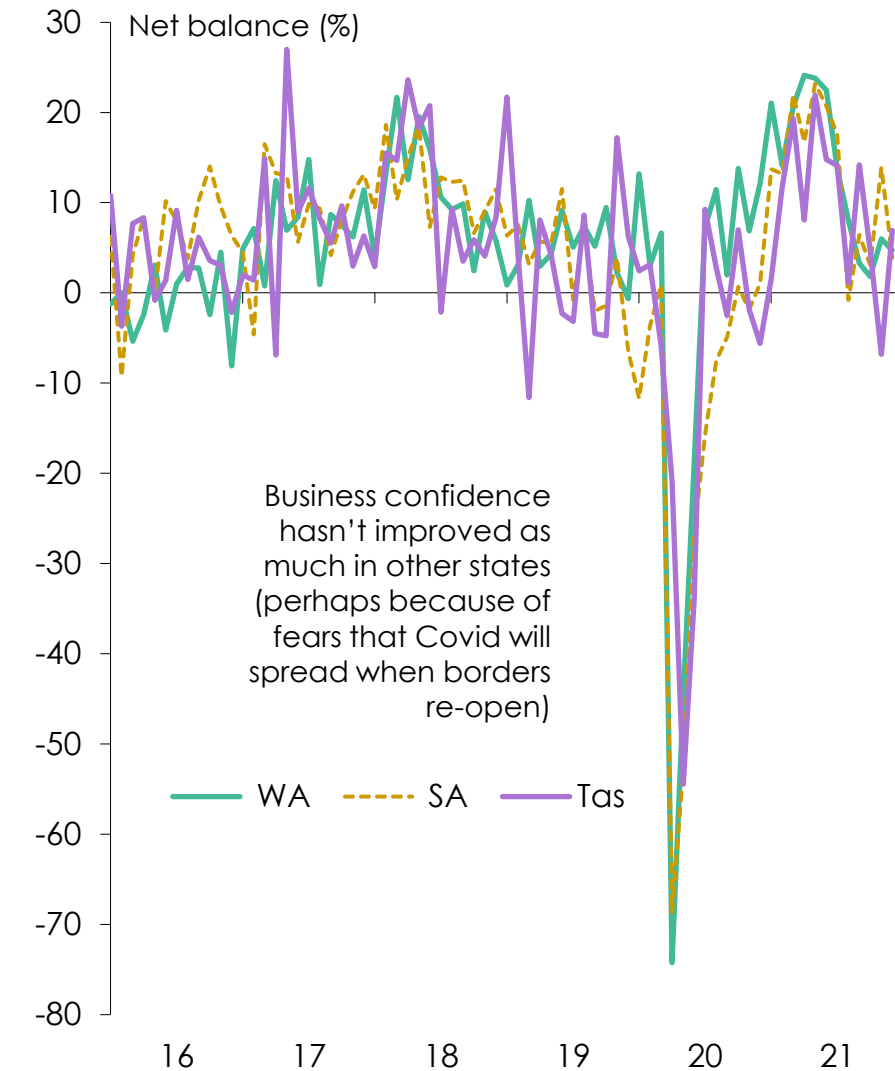
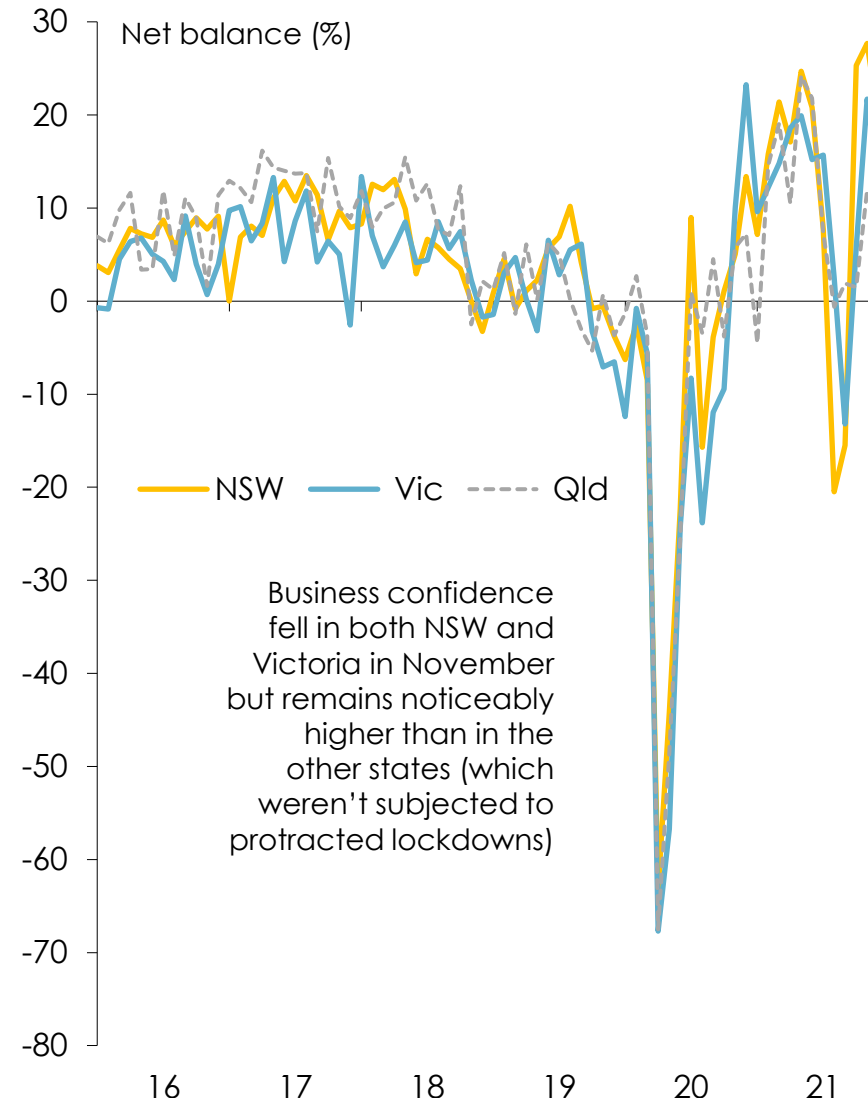
Source: National Australia Bank [Monthly Business Survey](#), November 2021; December survey results will be released on 18<sup>th</sup> January 2022. [Return to "What's New"](#).

# ... despite which, business confidence eased in November reflecting falls in NSW and Victoria – although it remains high by historical standards

## Business confidence

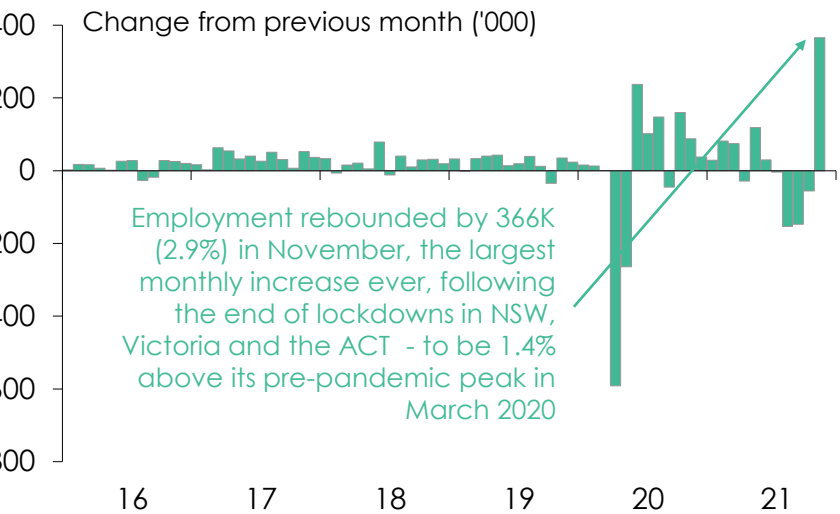


## Business confidence, states and territories

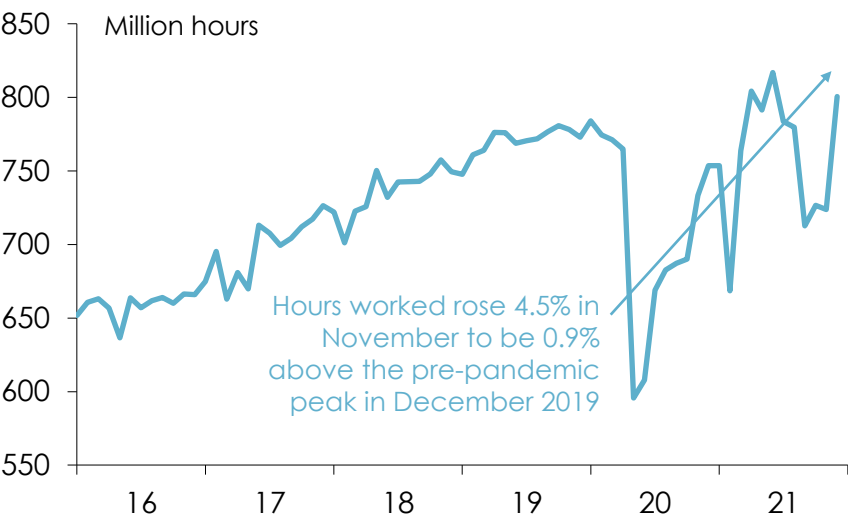


# Employment rebounded by 2.9% in November following the end of the lockdowns in NSW, Victoria and the ACT, and unemployment fell to 4.6%

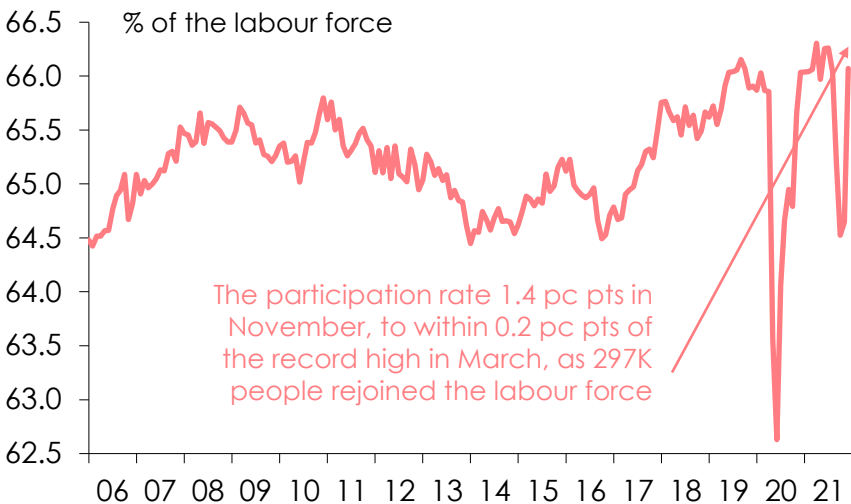
## Employment



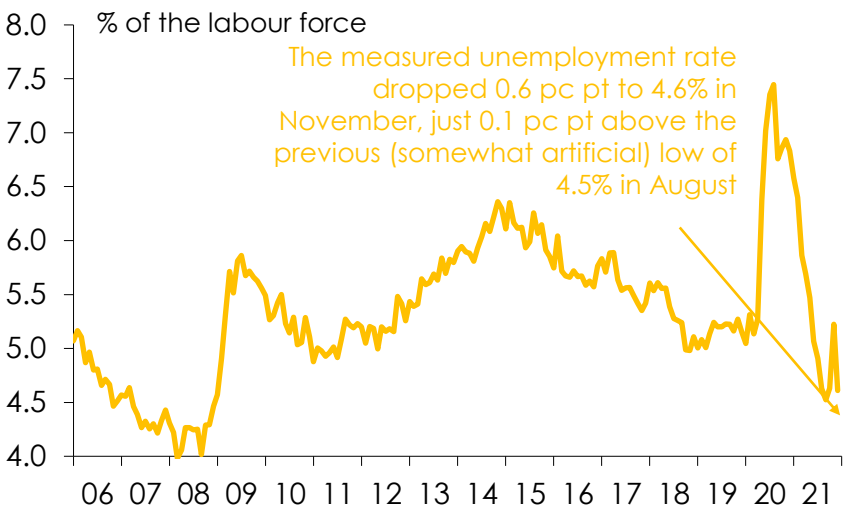
## Total hours worked



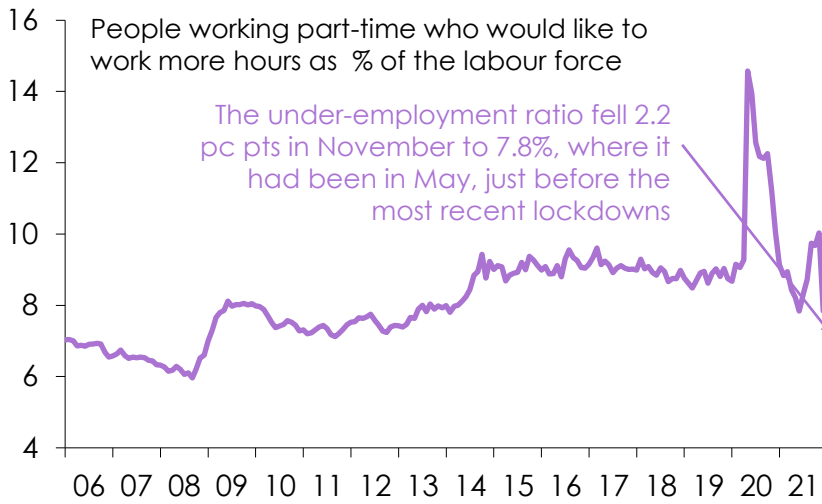
## Labour force participation rate



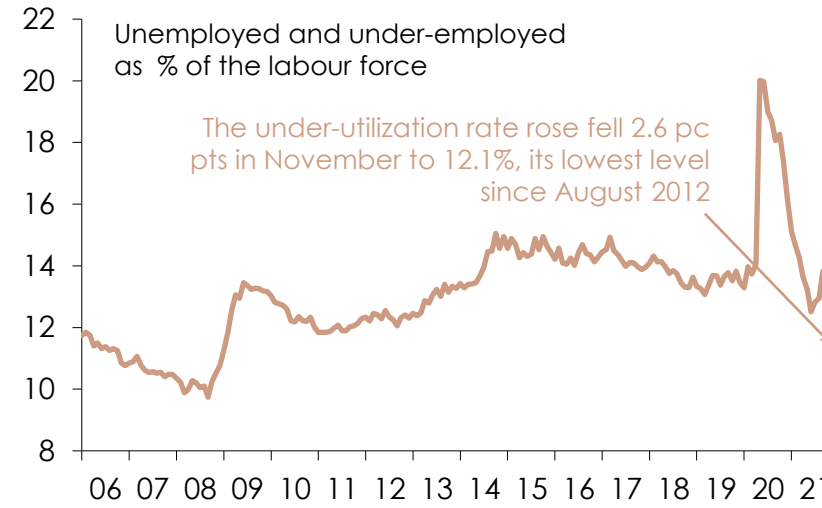
## Unemployment rate



## Under-employment ratio

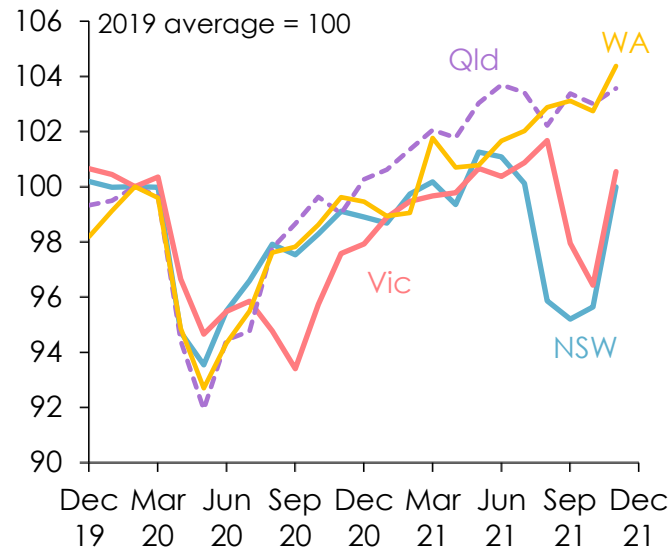


## 'Under-utilization' rate

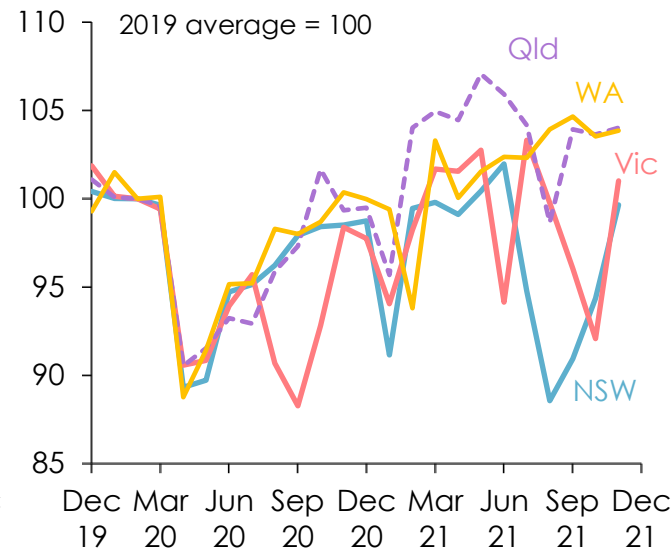


# Employment and hours worked rose strongly, and unemployment fell, in November, in the previously locked-down NSW, Victoria and ACT

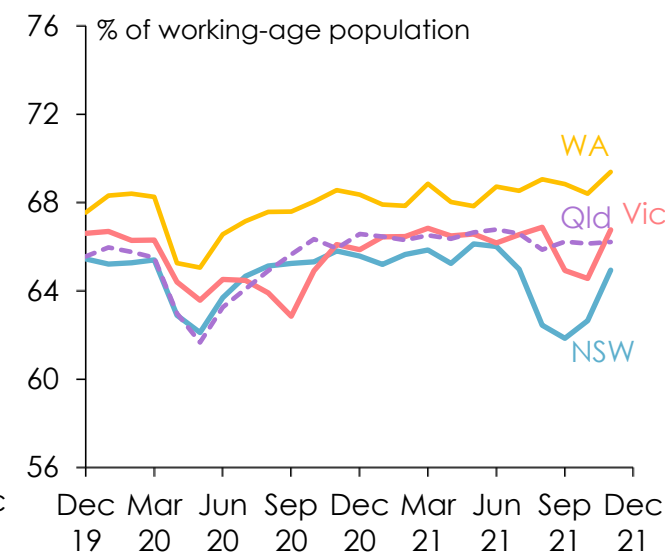
## Employment



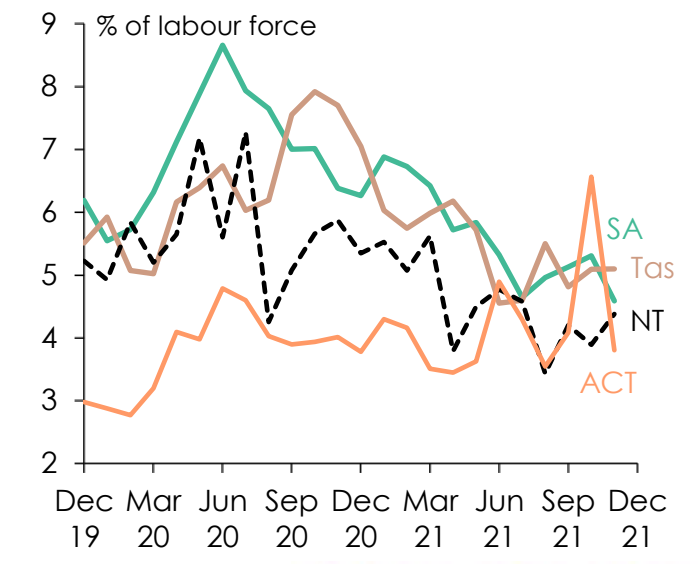
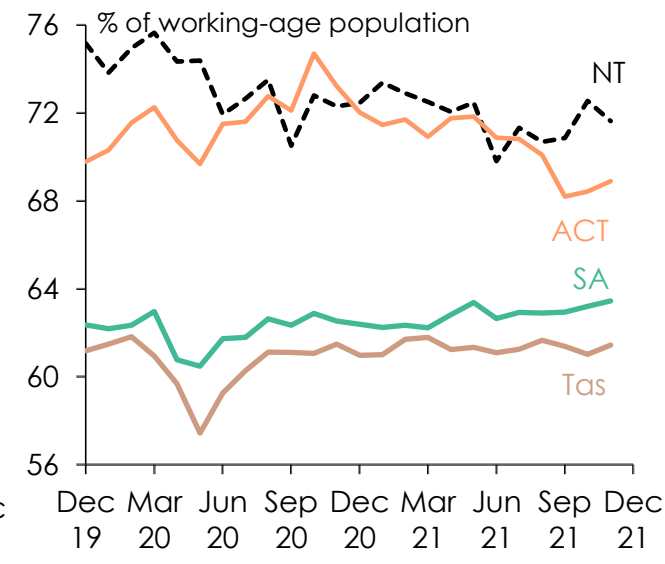
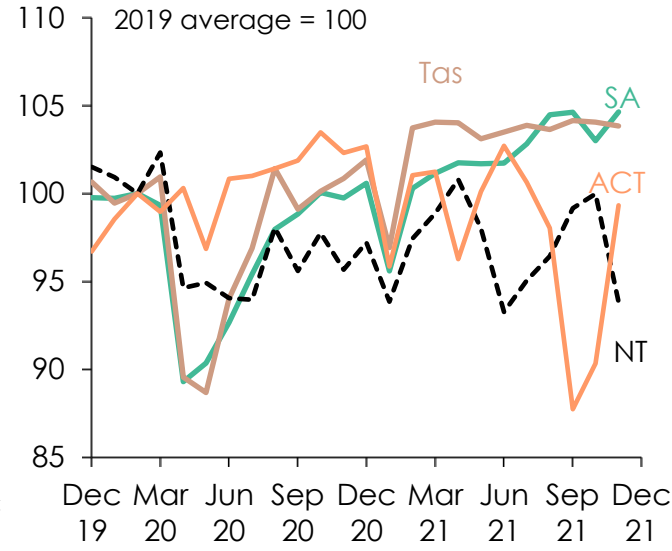
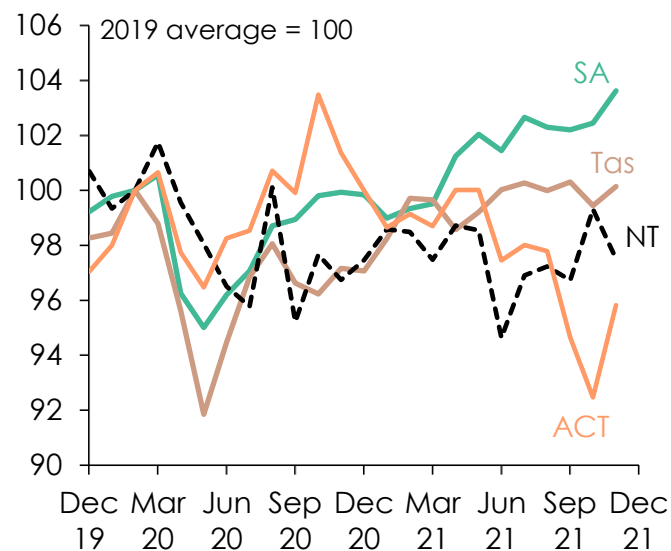
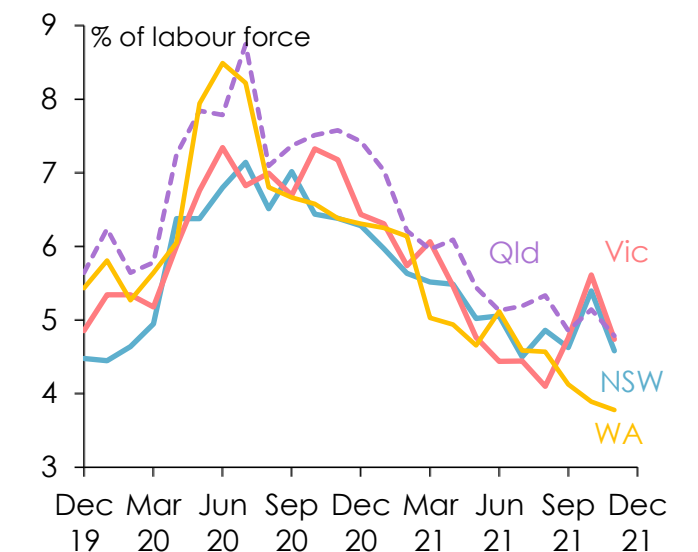
## Hours worked



## Participation rates



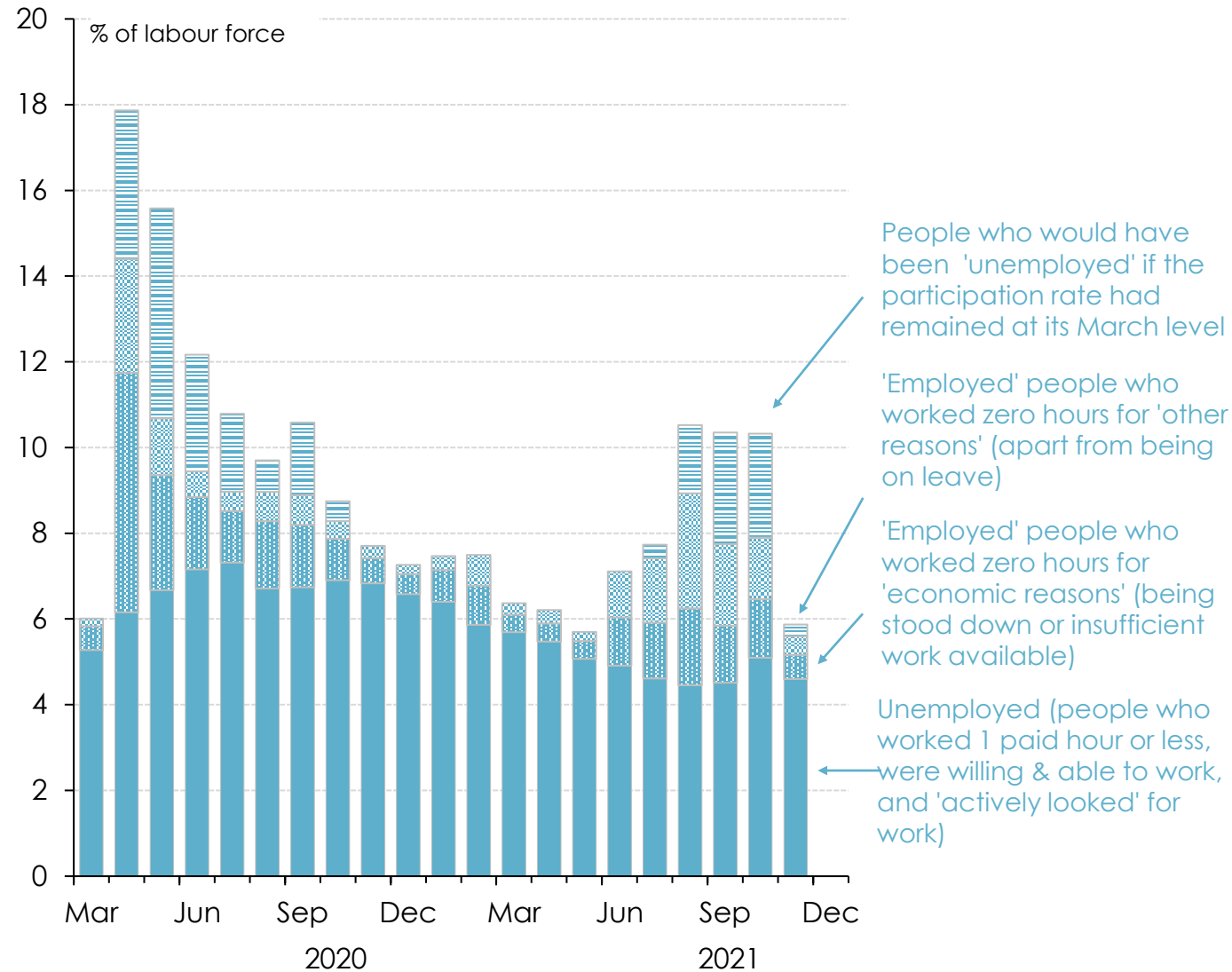
## Unemployment rates





# The 'effective' unemployment rate dropped back to 5.9% in November, from over 10% in the each of the previous three months

## Alternative measures of unemployment



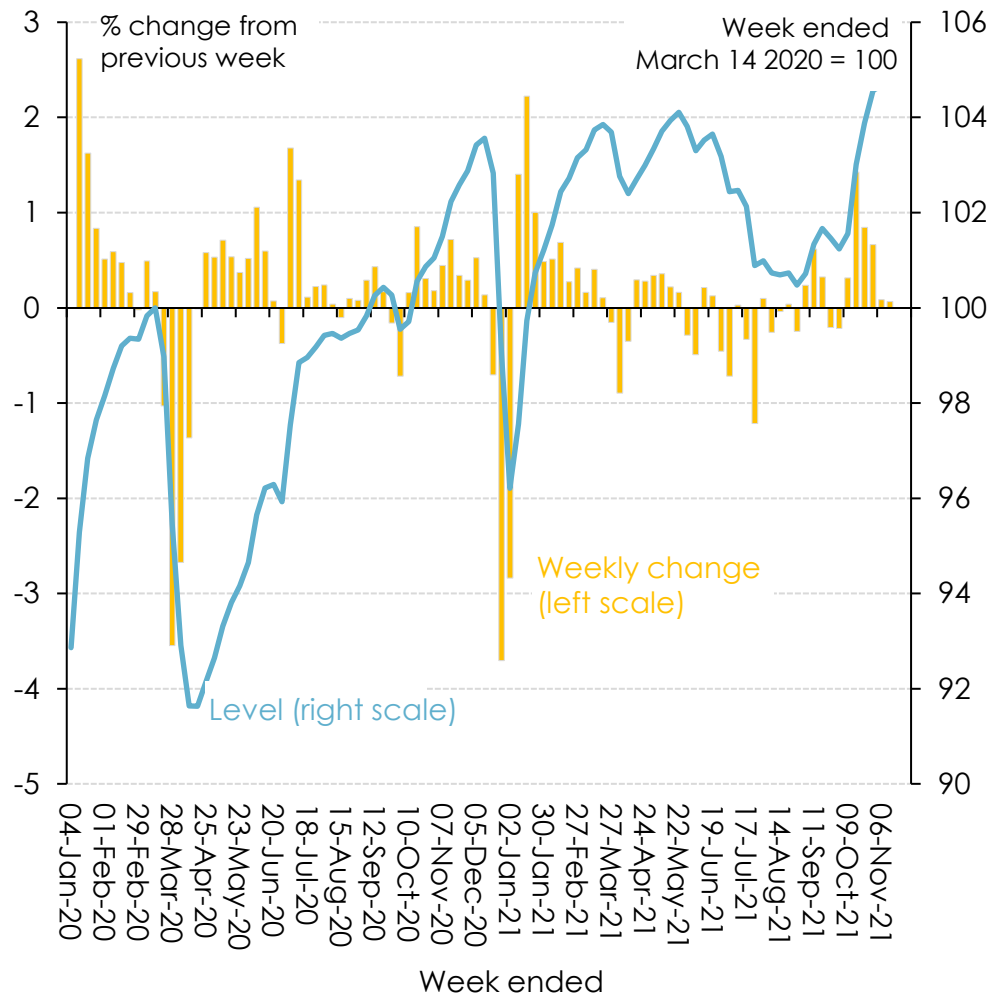
- ❑ The number of people counted as 'employed' but who worked zero hours for 'economic reasons' (no or insufficient work, or 'stood down') fell by 110K to 78.5K in November, the lowest level since May
- ❑ The number of people counted as 'employed' but who worked zero hours for 'other reasons' (apart from being leave) fell by 139K to 60K in November, again the lowest since May
- ❑ Of the more than 360K people who had apparently 'dropped out' of the work force during September, of whom 336K remained out of the work force in October, only 38K remained in November
- ❑ The 'effective' unemployment rate – which adds back people in the above three groups to the 'official' rate – which had risen from 5.7% in May to 10.5% in August, and remained above 10% in September and October – fell back to 5.9% in November
  - and will likely fall further in December

Source: ABS, [Labour Force, Australia](#), November 2021. December data will be released on 23<sup>rd</sup> January 2022. [Return to "What's New"](#).

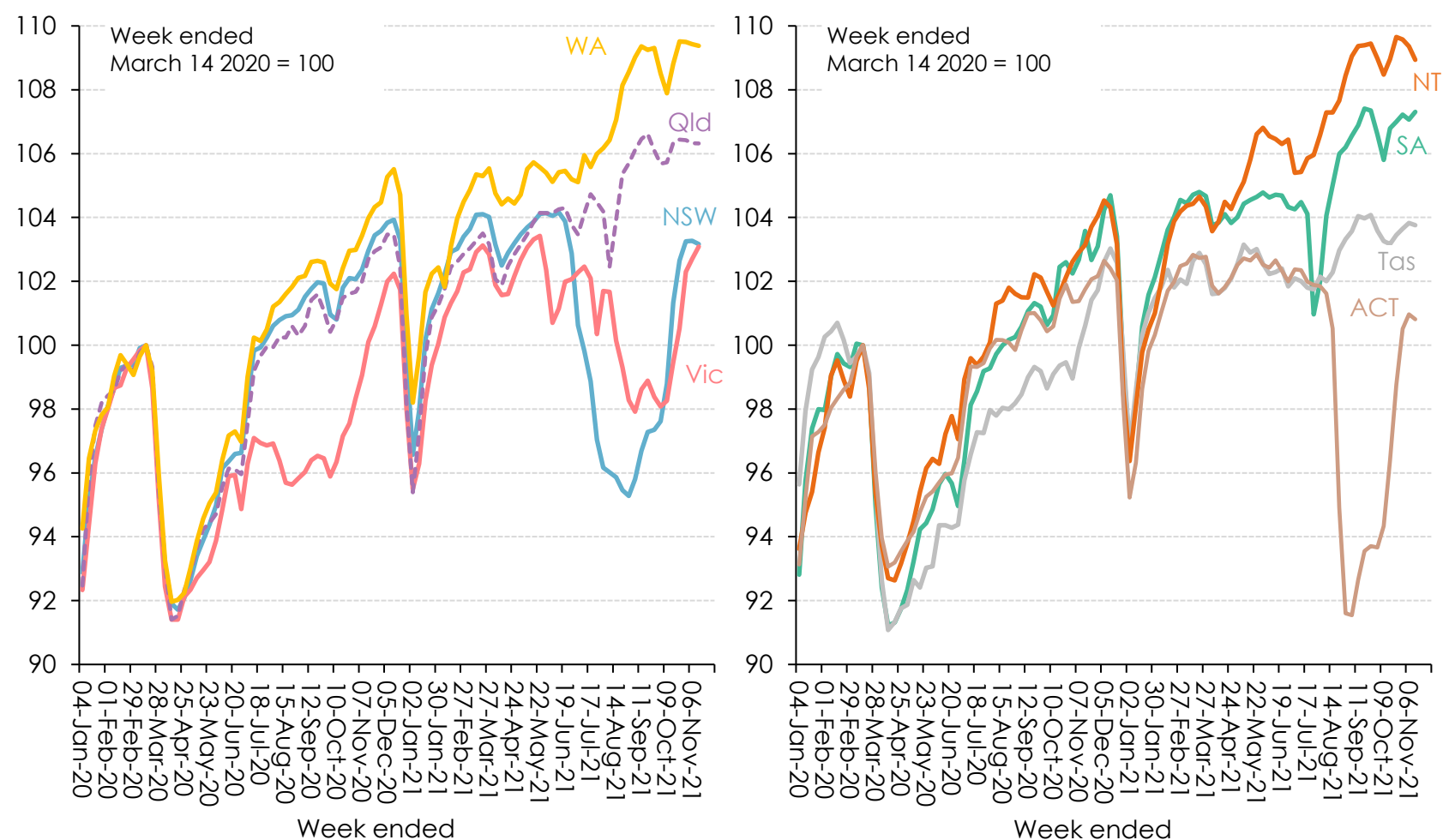


# Payroll jobs rose by 0.2% over the first two weeks of November, cf. 1.3% over the last two weeks of October, to be 0.6% above the previous peak

Level and weekly change in the number of payroll jobs



Payroll jobs by State & Territory

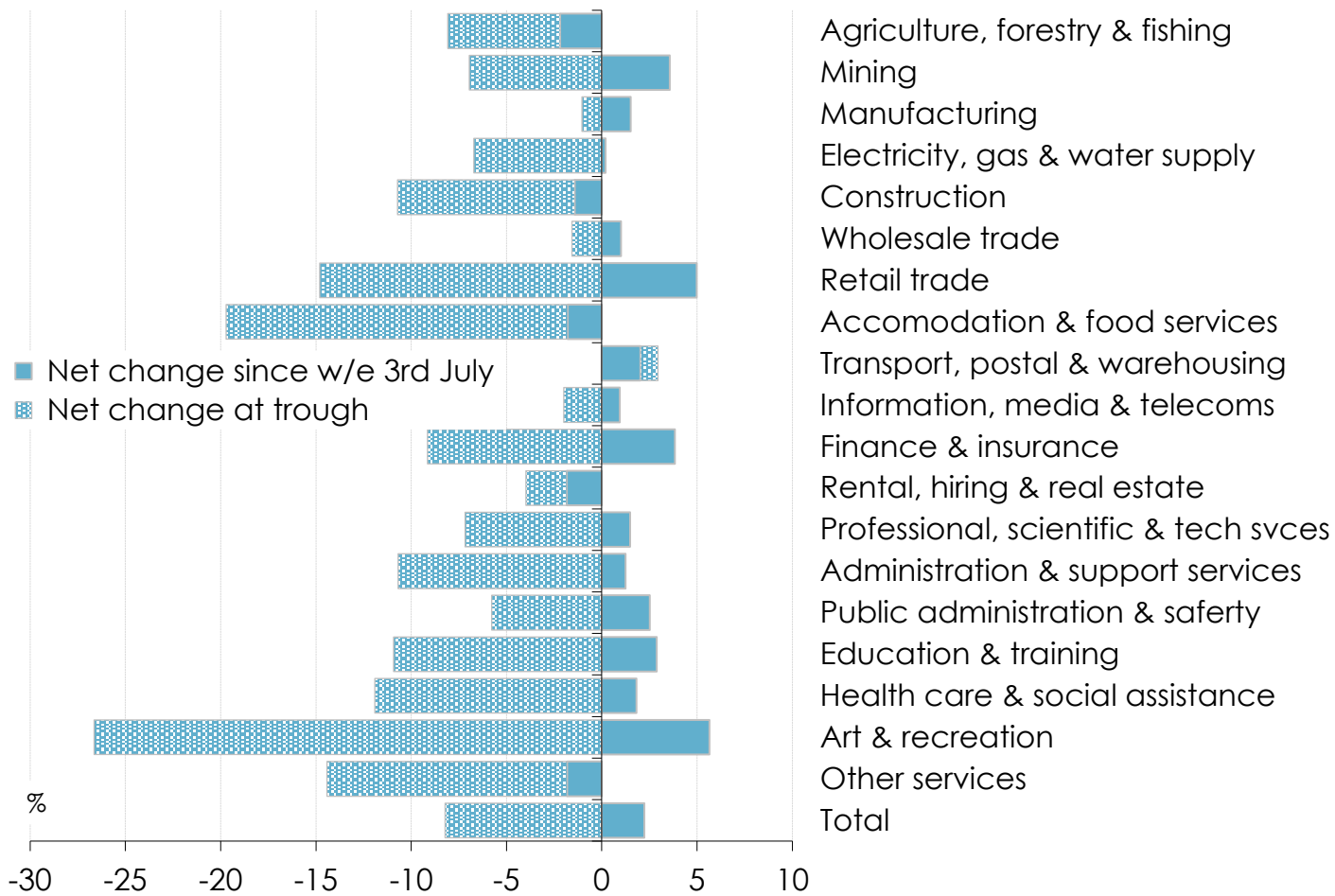


Source: ABS, [Weekly Payroll Jobs and Wages in Australia](#). Data refers to the number of payroll jobs at businesses participating in the Australian Taxation Office's Single Touch Payroll system, which covers 99% of employers with 20 or more employees and about 71% of smaller employees. People with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

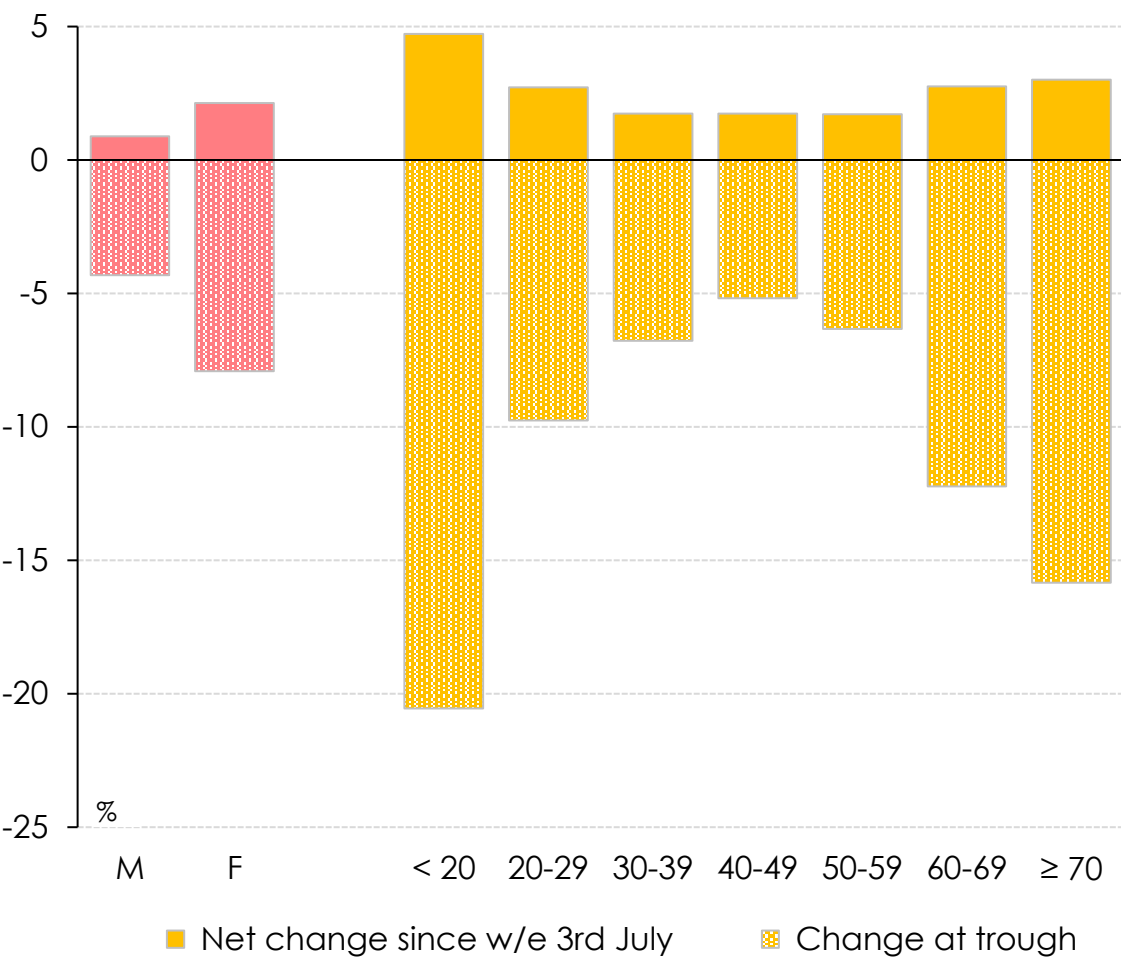
# The same sectors, and the same groups, that were hardest hit in last year's lockdowns have been hardest hit in the latest one (plus agriculture)

Net change in payroll jobs between week ended 3<sup>rd</sup> July and week ended 13<sup>th</sup> November

By industry



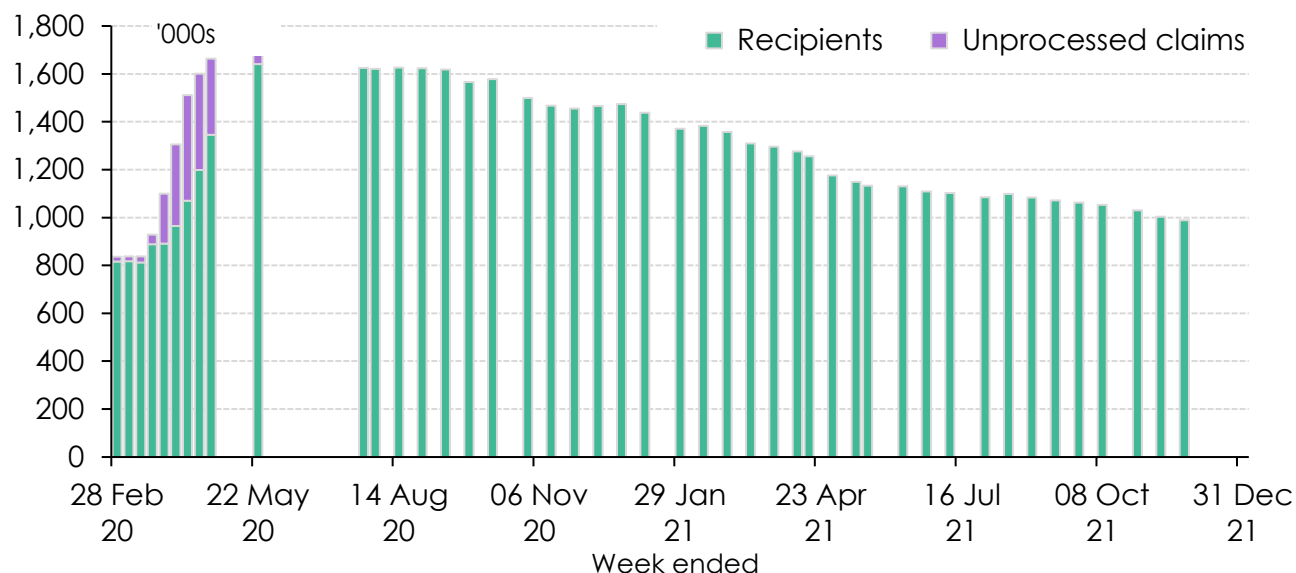
By gender and age



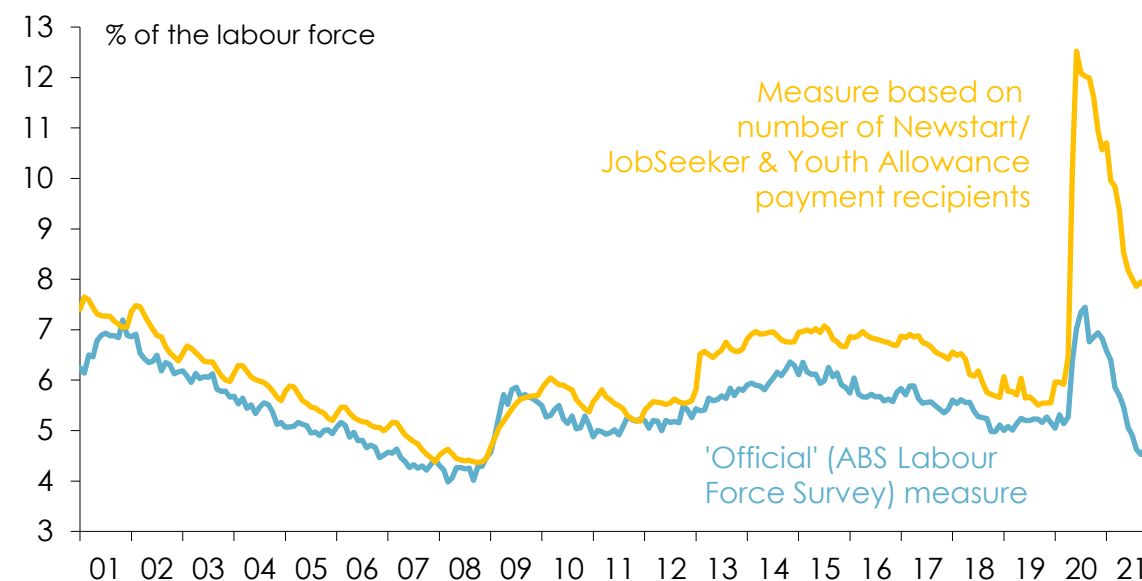
Source: ABS, [Weekly Payroll Jobs and Wages in Australia](#). Data refers to the number of payroll jobs at businesses participating in the Australian Taxation Office's Single Touch Payroll system, which covers 99% of employers with 20 or more employees and about 71% of smaller employees. People with 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 joblessness-related income support payments has as of late November fallen to its lowest level since last March

## 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

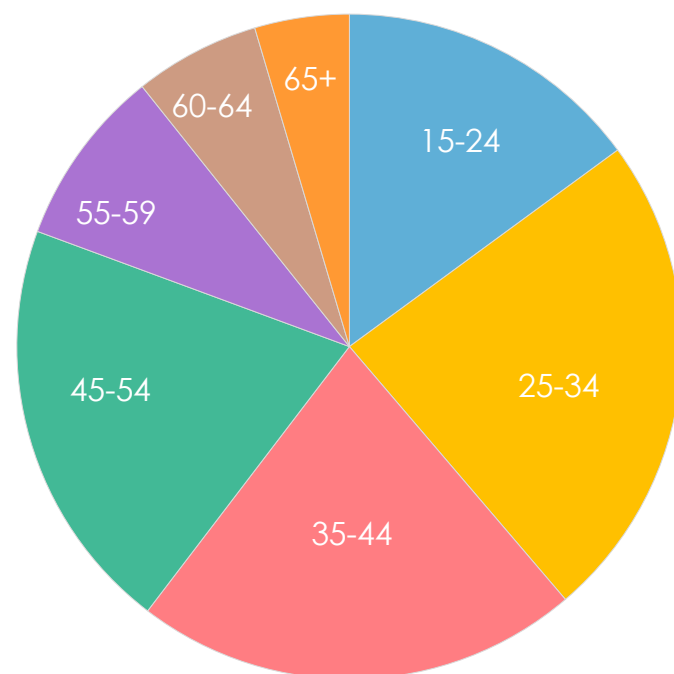


- ❑ Ministers receive weekly data on the number of people on JobSeeker and Youth Allowance (Other) benefits – which since late July last year the Department of Social Services has made this available (roughly) every second week to the Senate Select Committee examining the Government's responses to Covid-19
- ❑ The number of people receiving JobSeeker or Youth Allowance (Other) payments fell by another 14,534 (1.4%) over the two weeks to 26<sup>th</sup> November, to just under 990,000 – the first time this number has been less than 1mn since the week ended 27<sup>th</sup> March last year
- ❑ People displaced from employment during recent lockdowns were entitled to receive a range of other payments from the Federal or state governments, though these have now ceased with vaccination targets having been reached and lockdowns ended (see [slide 138](#))

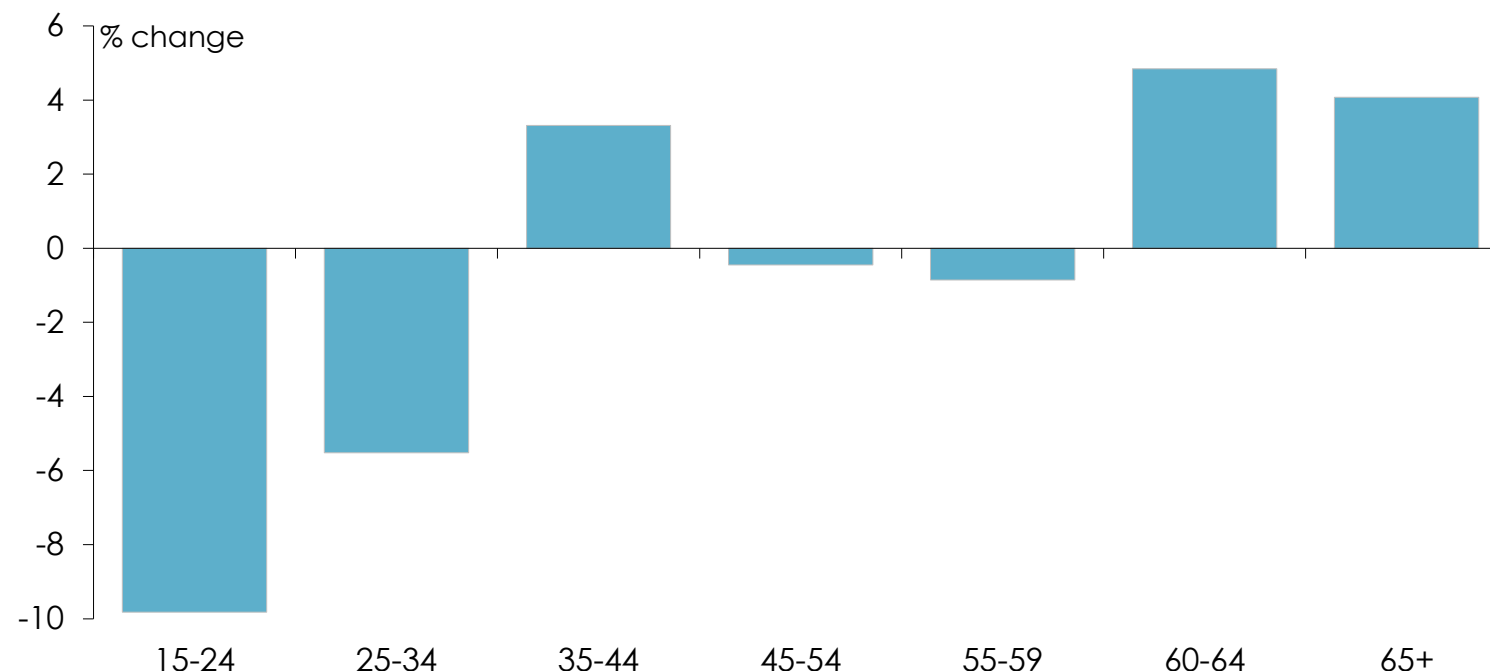
Sources: Department of Social Services, [JobSeeker Payment and Youth Allowance Recipients - monthly profile](#), ABS; Senate Select Committee on Covid-19, [Additional documents](#). [Return to "What's New"](#).

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

Composition of employment by age group, February 2020



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

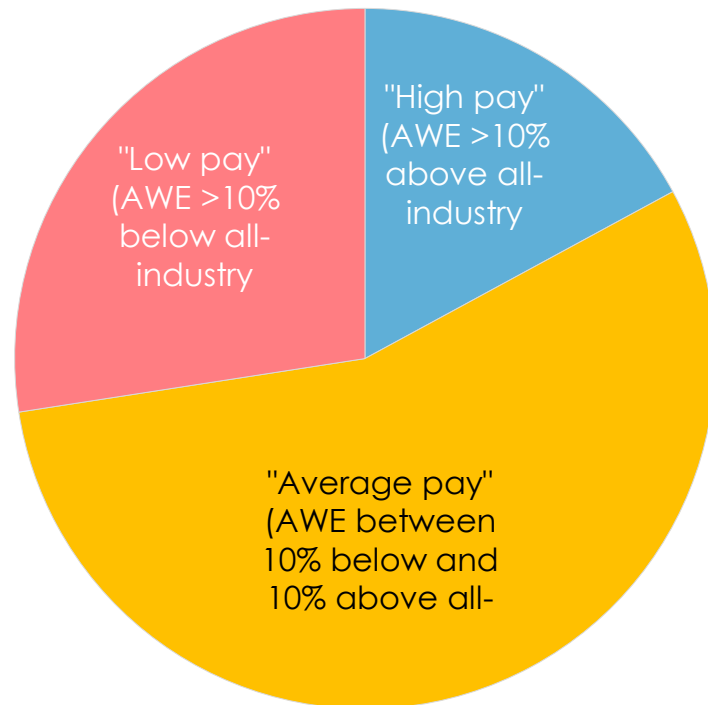


- ❑ People aged 15-24 accounted for 15% of pre-covid employment but experienced 39% of all job losses between February and May last year – and 46% of all job losses between June and October this year – their employment is down 9.8% from the pre-pandemic peak in February last year
- ❑ Likewise 25-34 year-olds 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

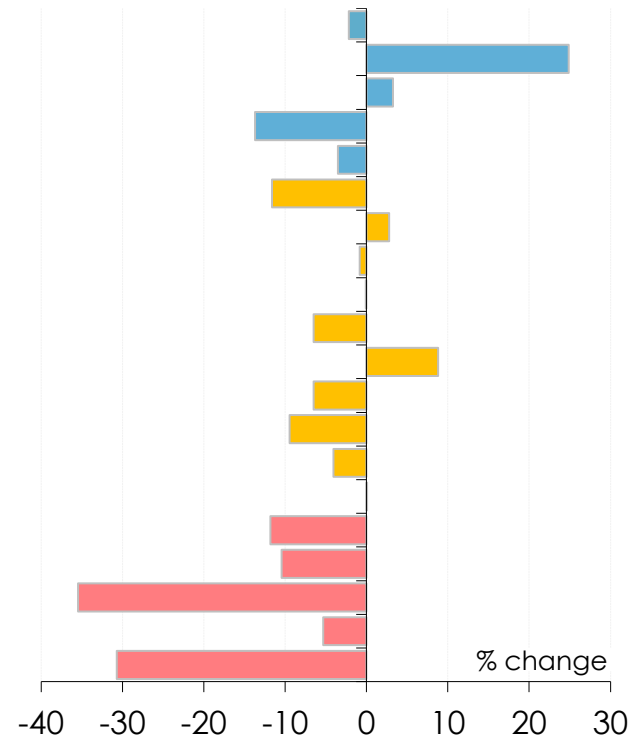
Note: data on employment by age group is not seasonally adjusted. Source: ABS, [Labour Force, Australia, Detailed](#), October 2021: November data will be released on 23<sup>rd</sup> December. [Return to "What's New"](#).

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

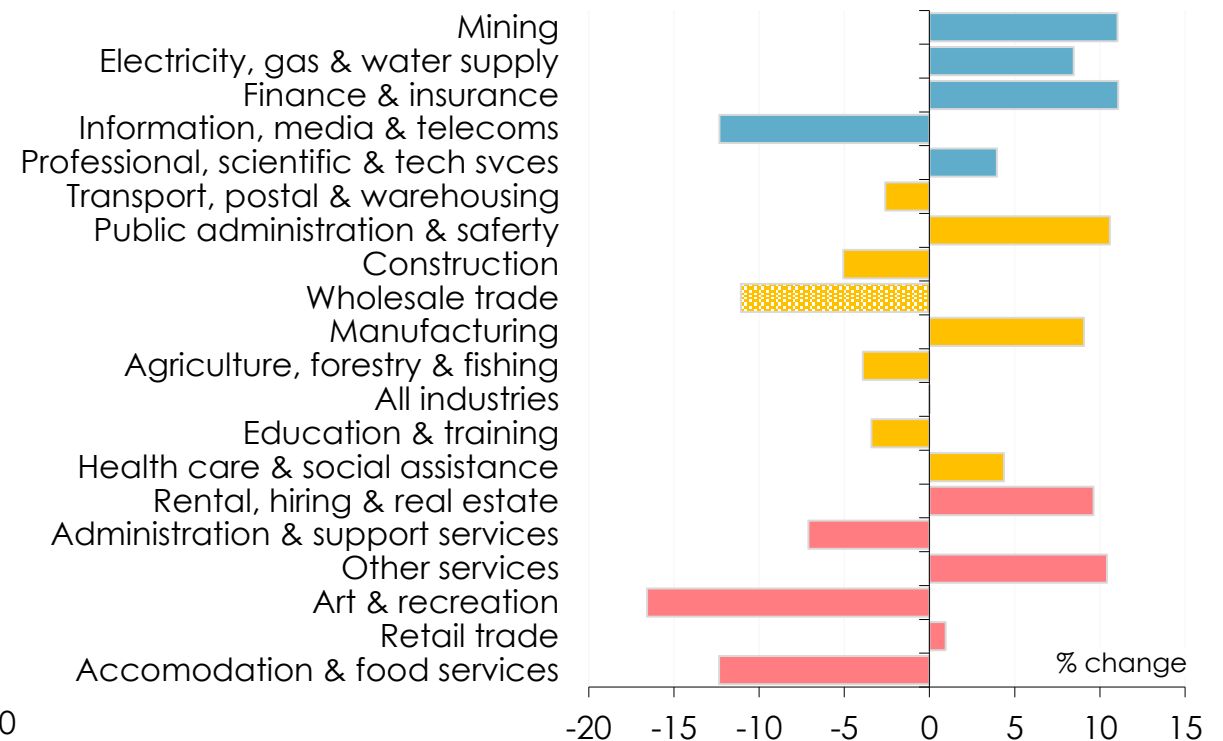
Composition of employment by industry ranked by average weekly earnings, February 2020



Change in employment by industry  
February-May 2020



February 2020 – August 2021

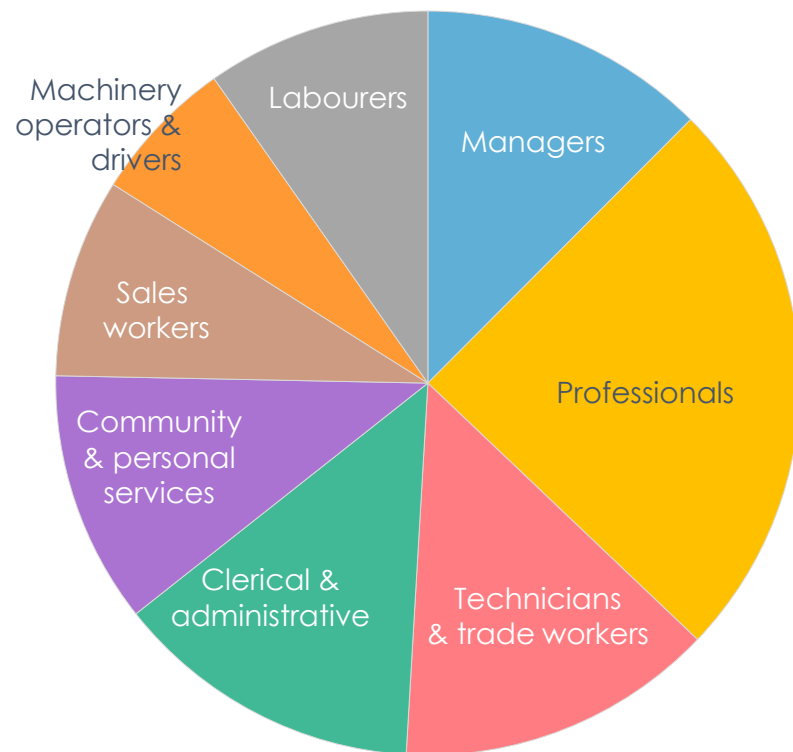


- ❑ Industries with average earnings which are 10% or more below average accounted for 27½% of the pre-pandemic workforce, but experienced 64% of the job losses between February and May last year – and 89% of job losses between May and August this year – employment in these industries was down 2.9% between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

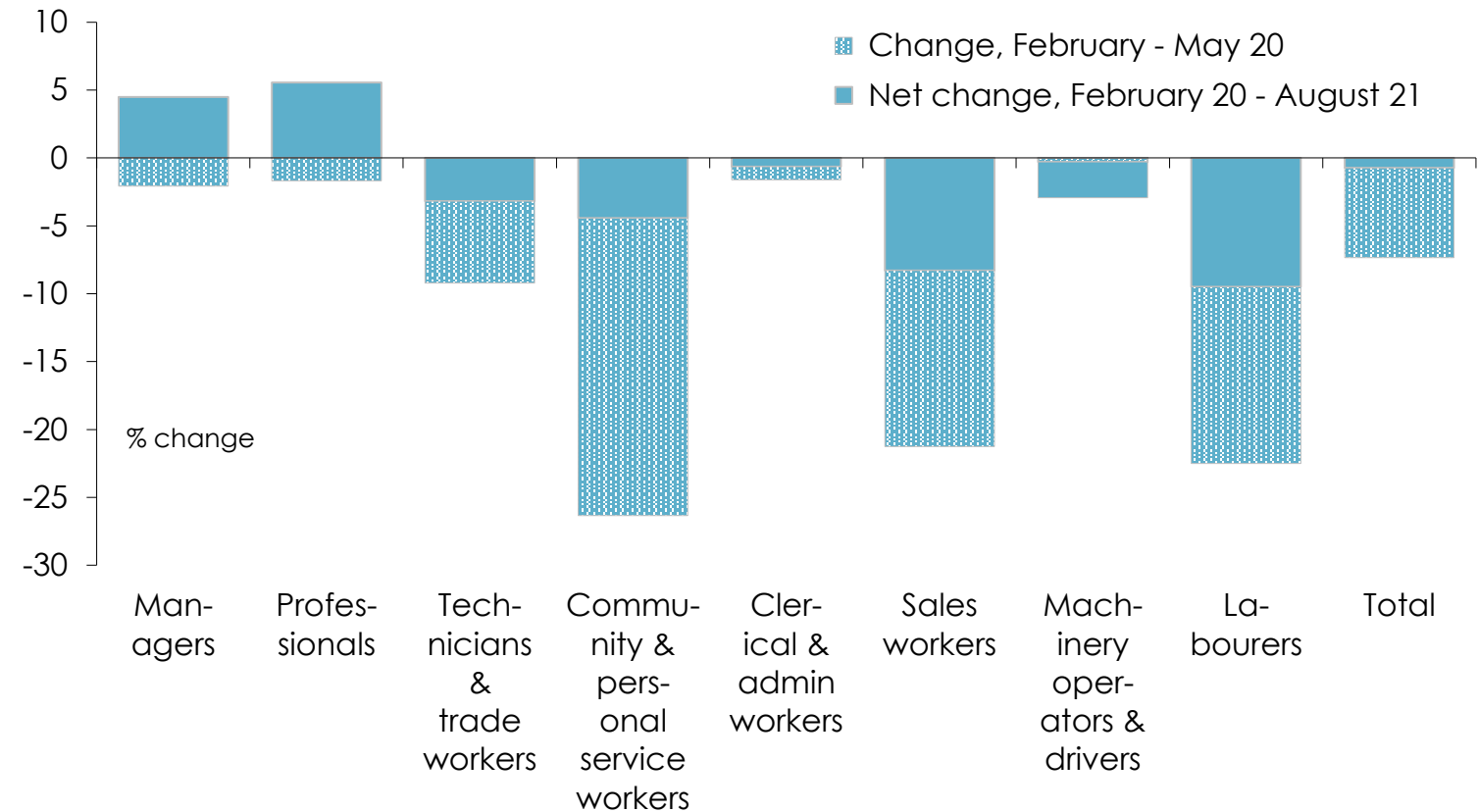
Source: ABS, [Labour Force, Australia, Detailed](#), August 2021 and [Average Weekly Earnings, Australia](#), November 2019. Labour force survey data on employment by occupation are available only for the middle month of each quarter: November data will be released on 23<sup>rd</sup> December. [Return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

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

Employment by major occupation category, February 2020



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



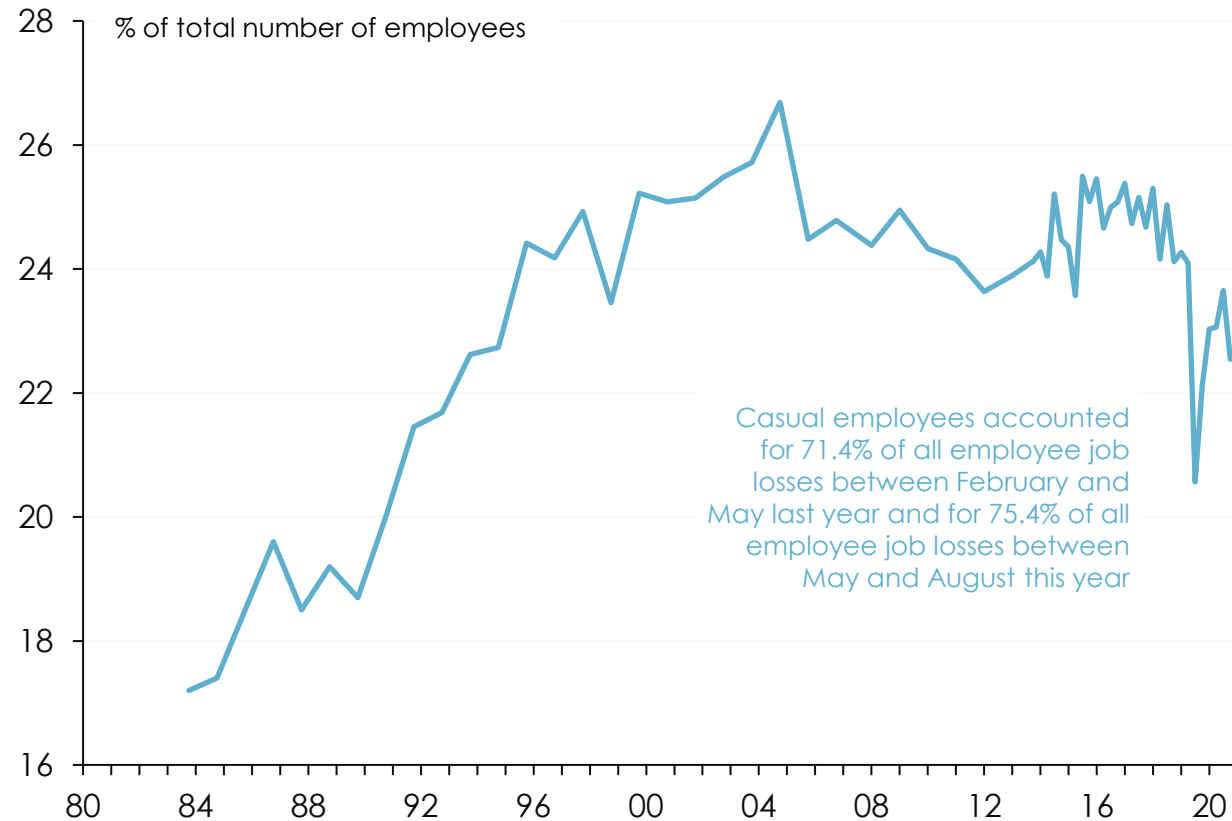
- ❑ Community & personal services workers, sales workers and labourers accounted for 29% of the pre-covid work force, but experienced 73% of the job losses between February and May last year – and for 73% (again) of job losses between May and August this year – and there were 7.2% fewer of them in August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

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



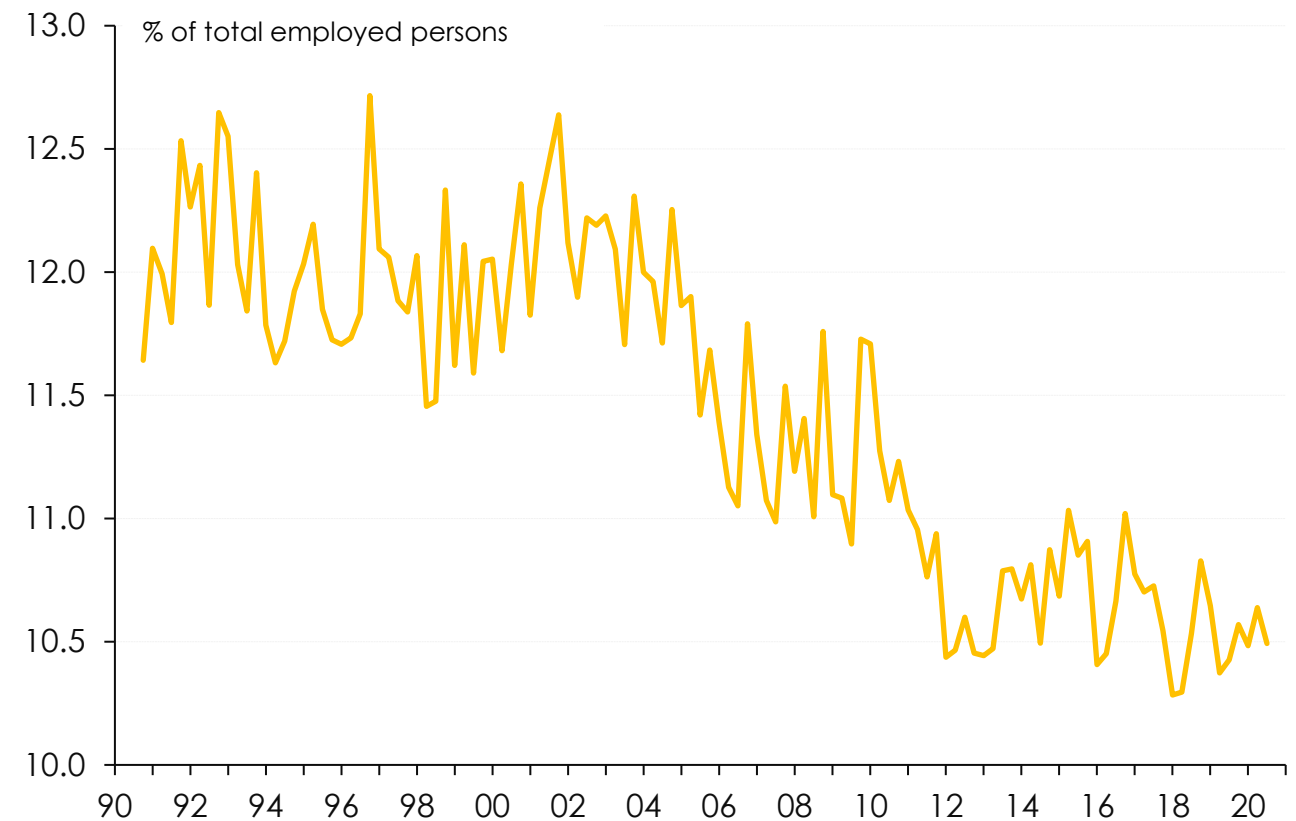
# Contrary to popular belief neither casual jobs nor 'gig economy' jobs have become more commonplace during the past two decades

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



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

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

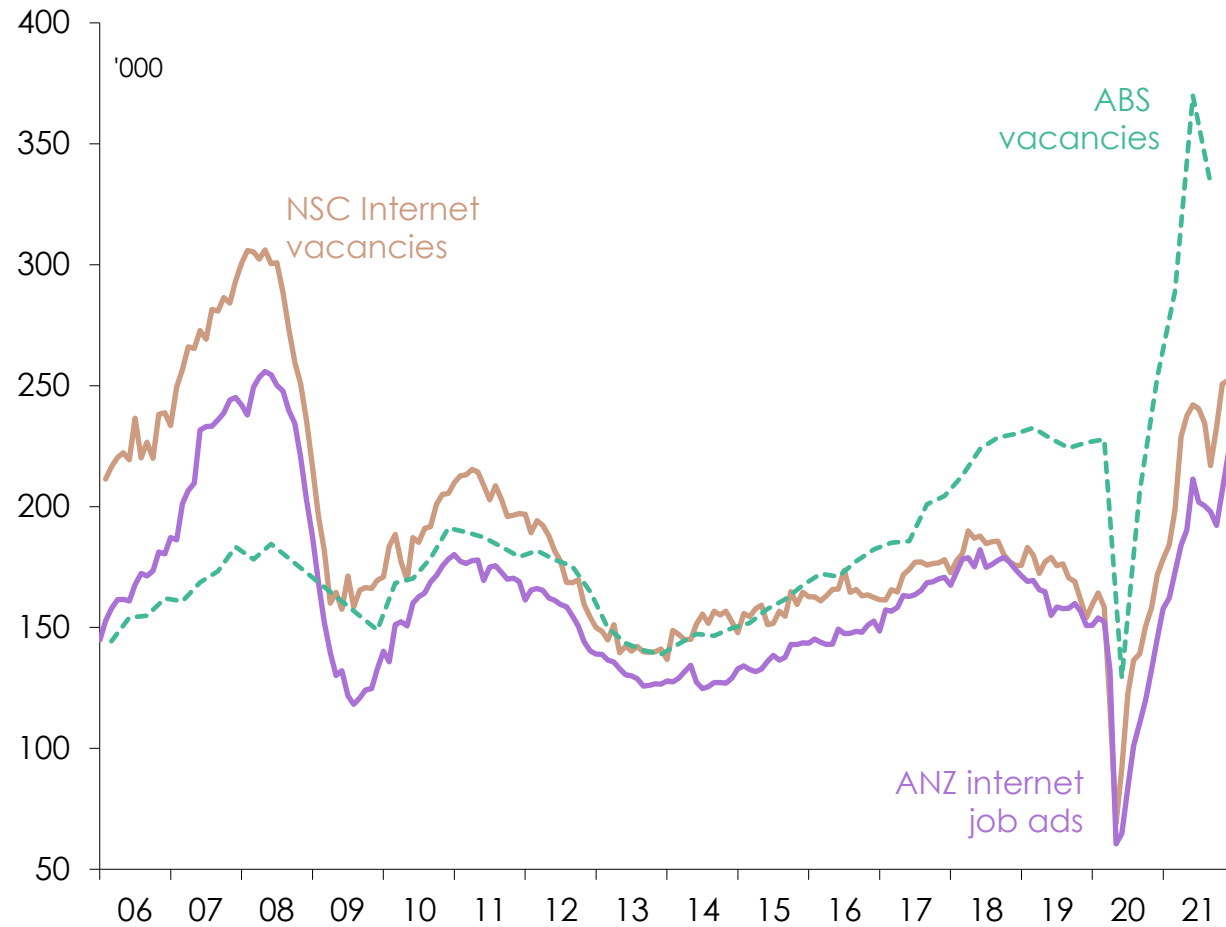


- ❑ 'Independent contractors' have actually declined as a share of the workforce since the early 2000s – had haven't increased during the current recession

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

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

## Measures of job vacancies



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

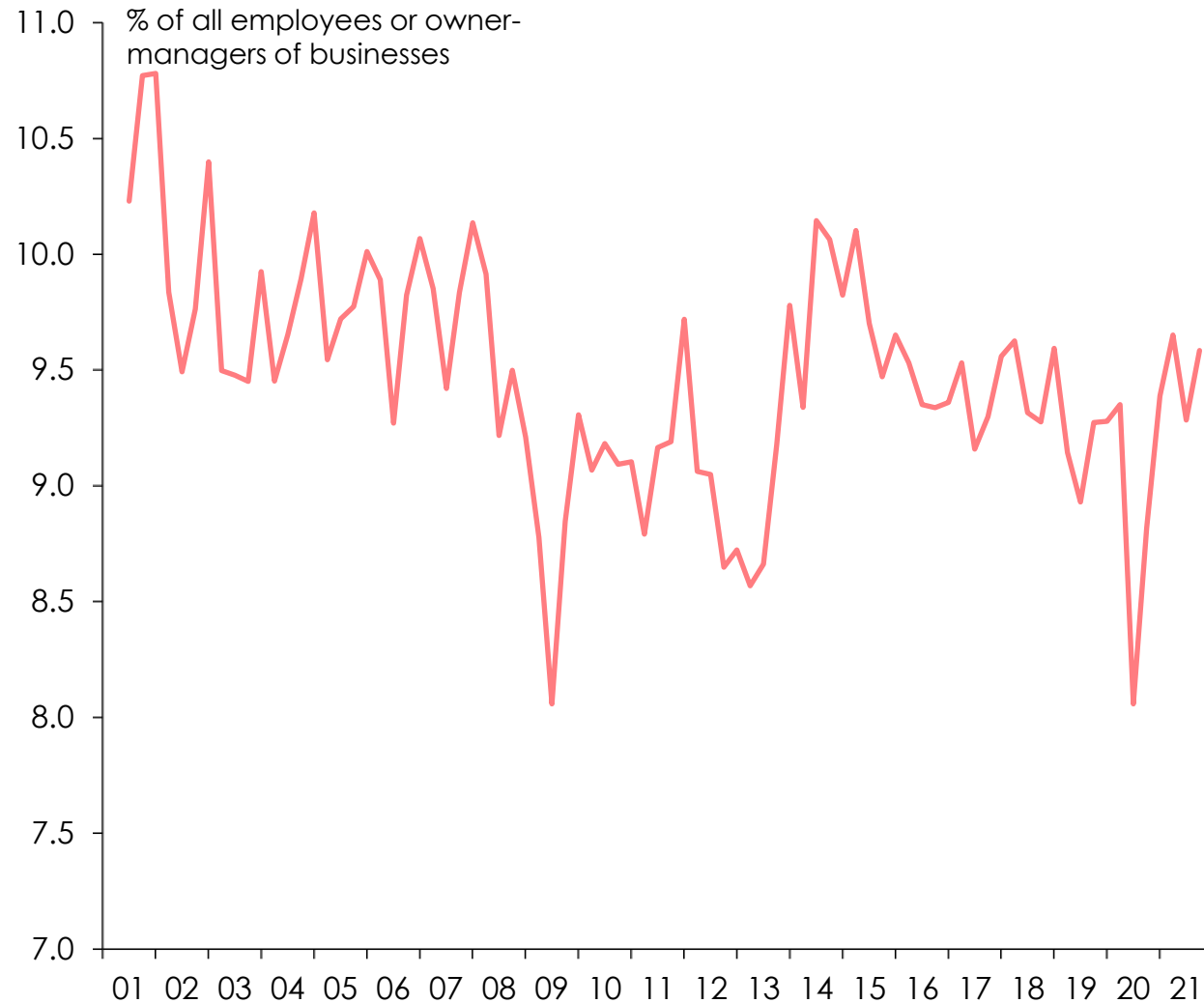
## Ratio of unemployed people to job vacancies



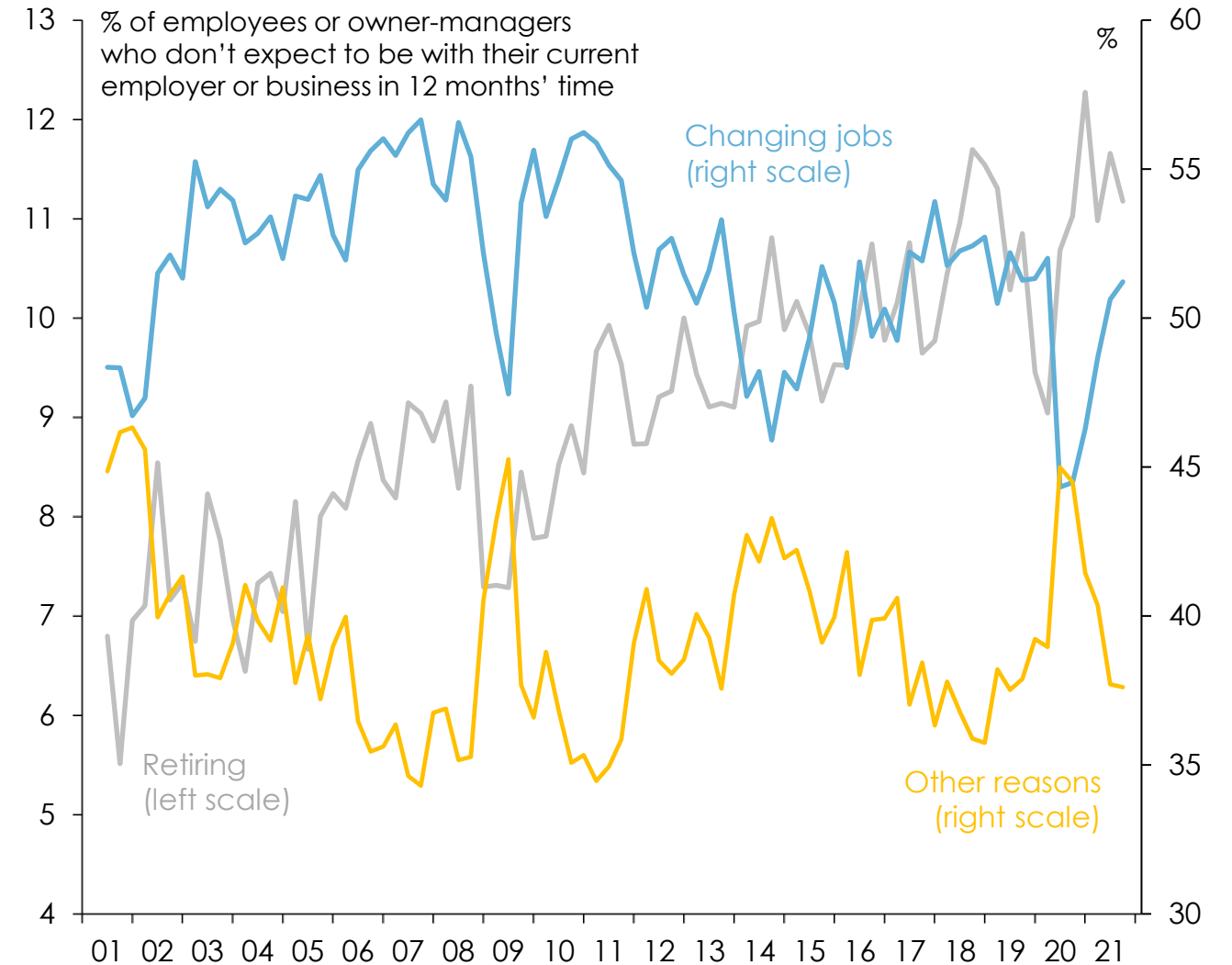
- ❑ The ratio of unemployed people to the number of job vacancies remain close to a record low in August

# 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



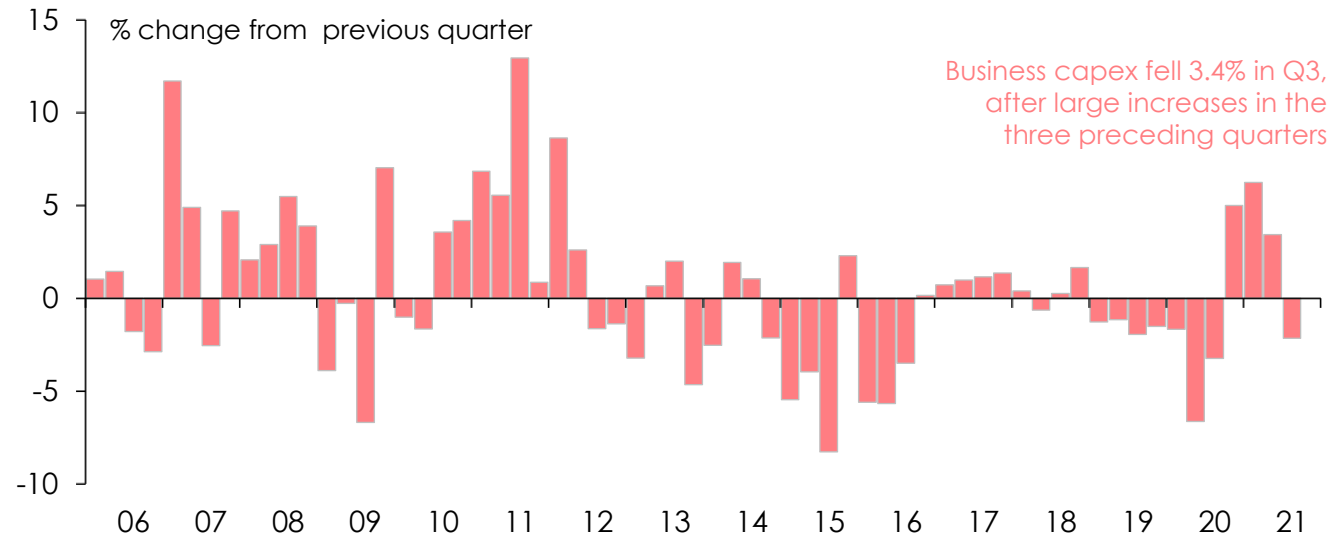
## Reasons for not expecting to be with their current employer or business in 12 months' time



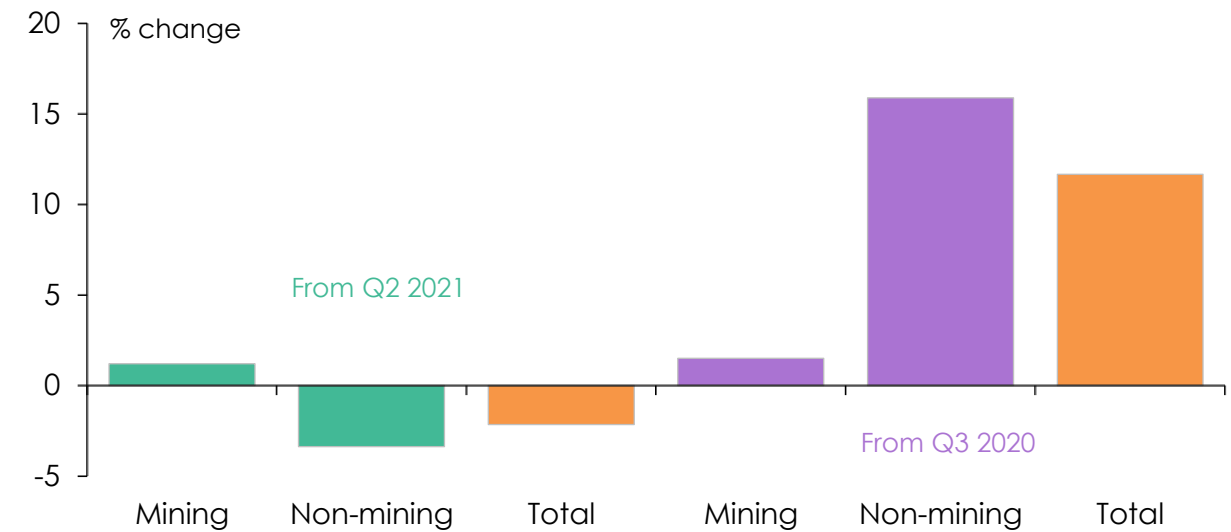
Note: 'other reasons' for not expecting to be with current employer or business in 12 months' time include employer closing or down-sizing; study, travel or family reasons; and the seasonal, casual or temporary characteristics of current employment. Source: ABS, [Labour Force, Australia, Detailed, Table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

# Business capex declined by 3.4% in Q3, after large increases in the three preceding quarters, mainly due to falls in NSW, Victoria and the ACT

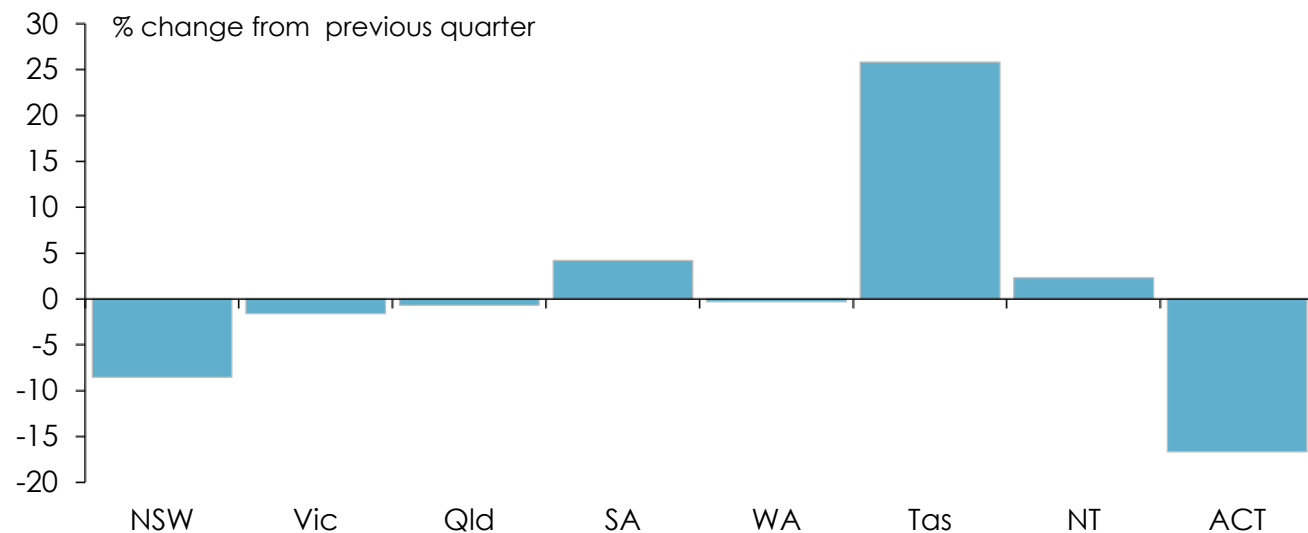
## Real business new fixed capital expenditure



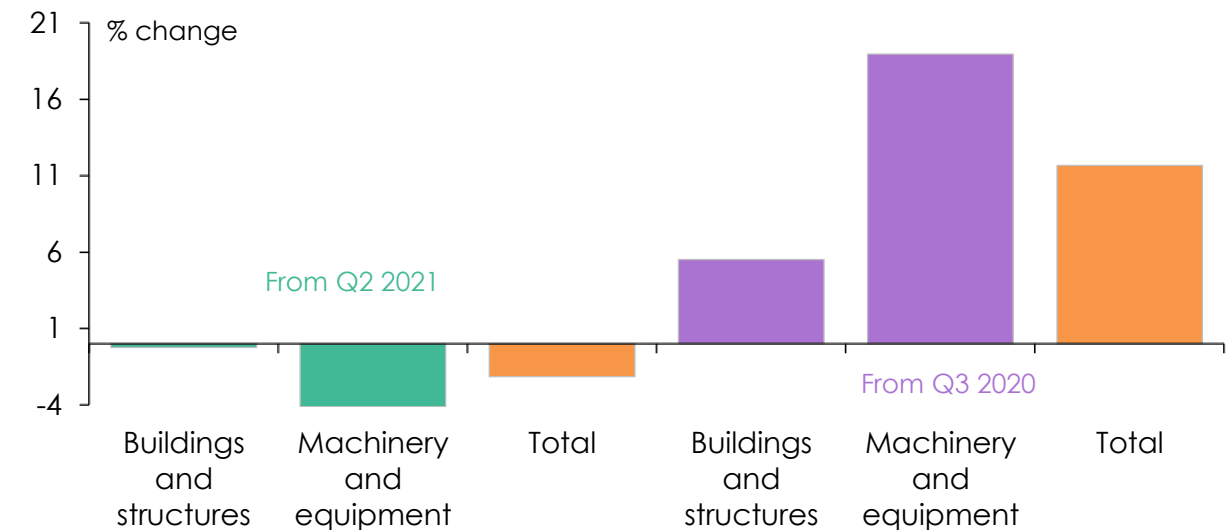
## Real business new fixed capex, by industry, Q3



## Real business new fixed capex, by state, Q3 2021



## Real business new fixed capex, by asset, Q3

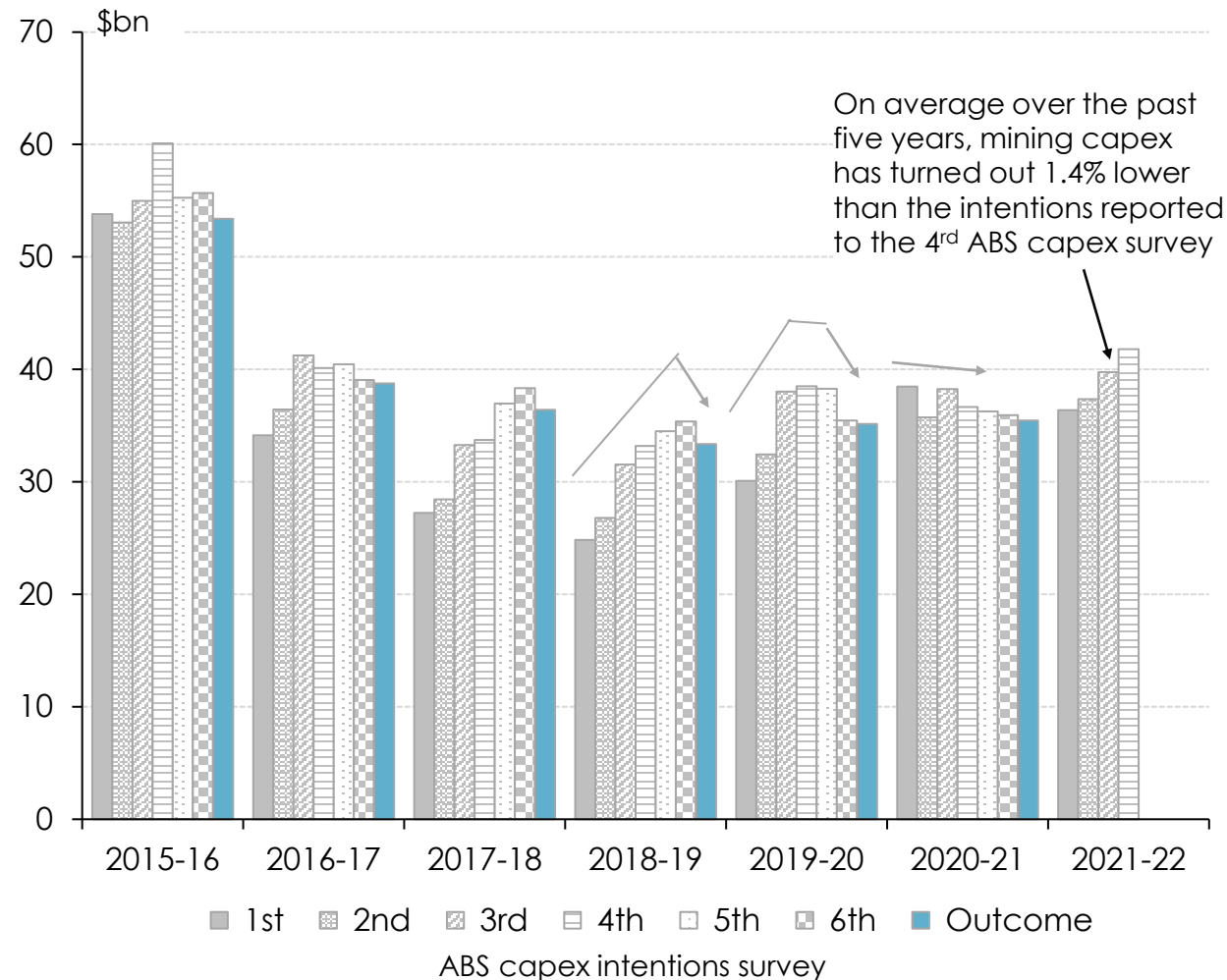


Note: the ABS Survey of New Capital Expenditure excludes the agriculture, forestry & fishing, and public administration & defence sectors, and superannuation funds.

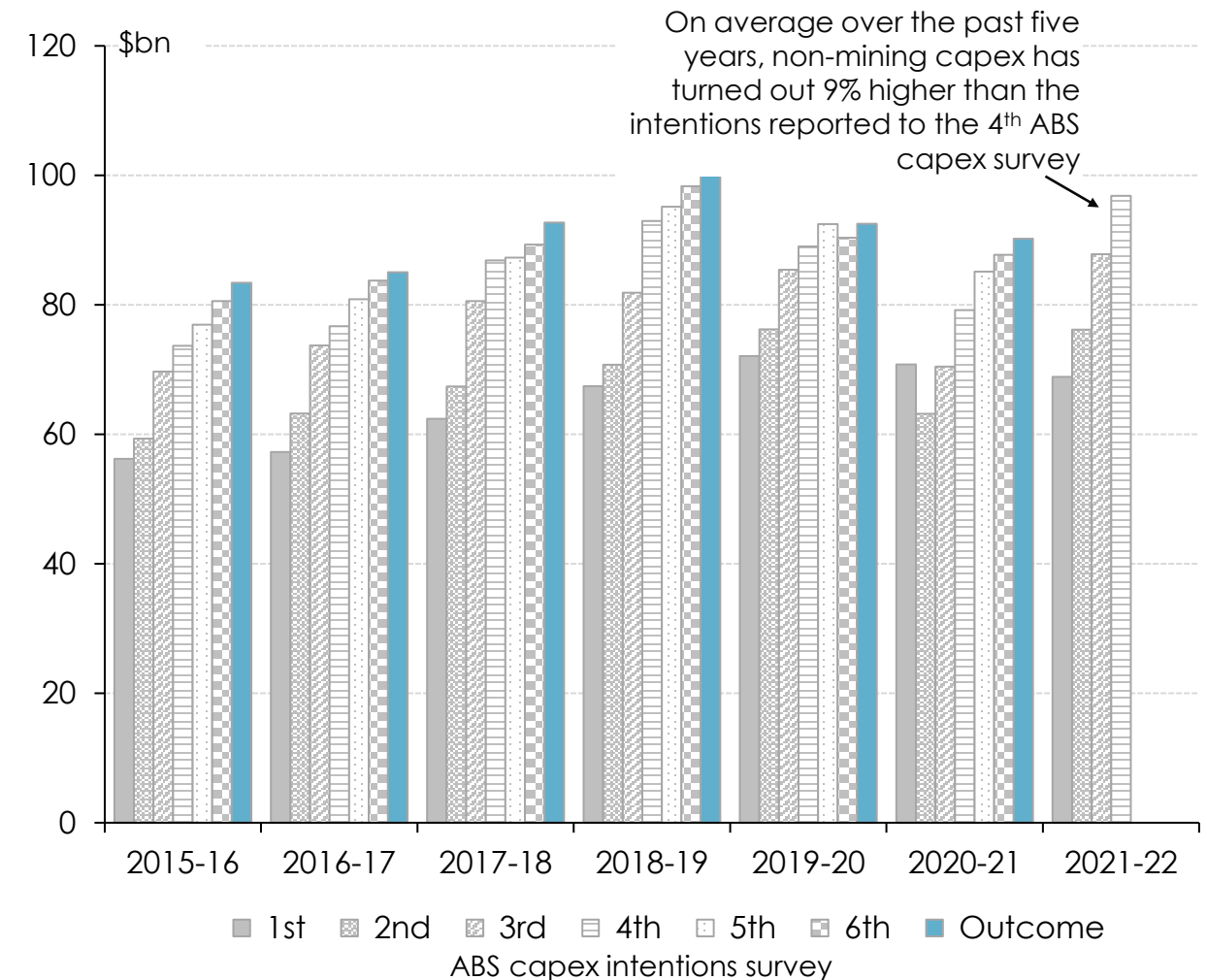
Source: ABS, [Private New Capital Expenditure and Expected Expenditure, Australia](#); December quarter data will be released on 24<sup>th</sup> February 2022. [Return to "What's New"](#).

# However businesses have again revised up their capex intentions for 2021-22 which if realized as in recent years points to an increase of 16½%

## Capital expenditure intentions - mining



## Capital expenditure intentions – non-mining

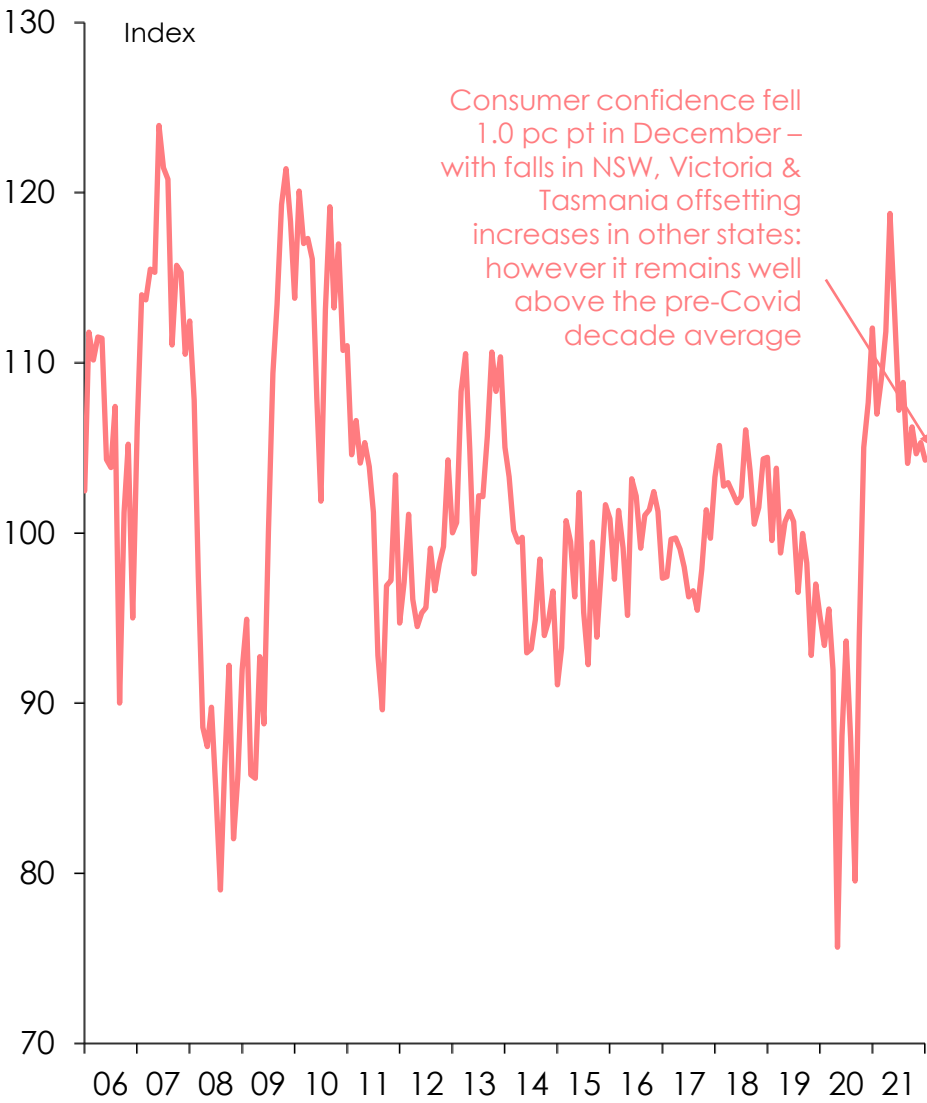


Note: The ABS conducts six surveys of business' capital expenditure intentions in respect of each financial year. The first is conducted in January & February prior to the commencement of the financial year, the second in May & June, the third in July & August of the financial year, the fourth in October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

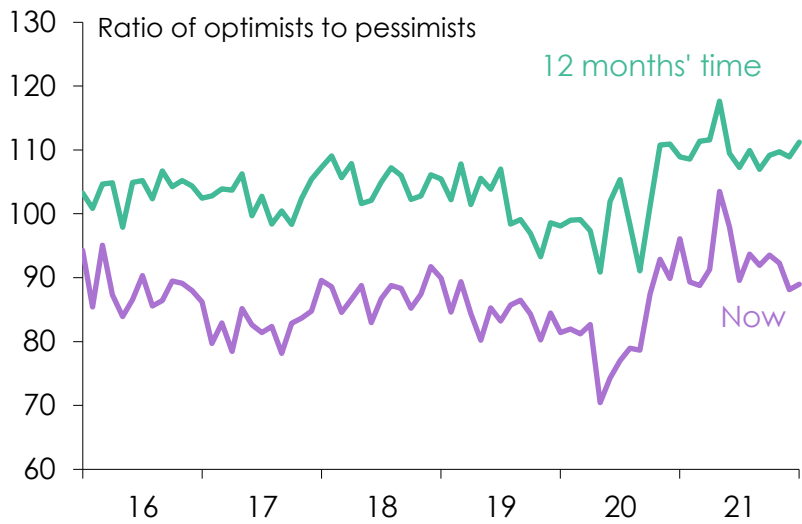
Source: ABS, [Private New Capital Expenditure and Expected Expenditure, Australia](#) (next update is released on 24<sup>th</sup> February 2022). [Return to "What's New"](#).

# Consumer confidence fell 1 pc pt in December, largely reflecting concerns over deteriorating housing affordability

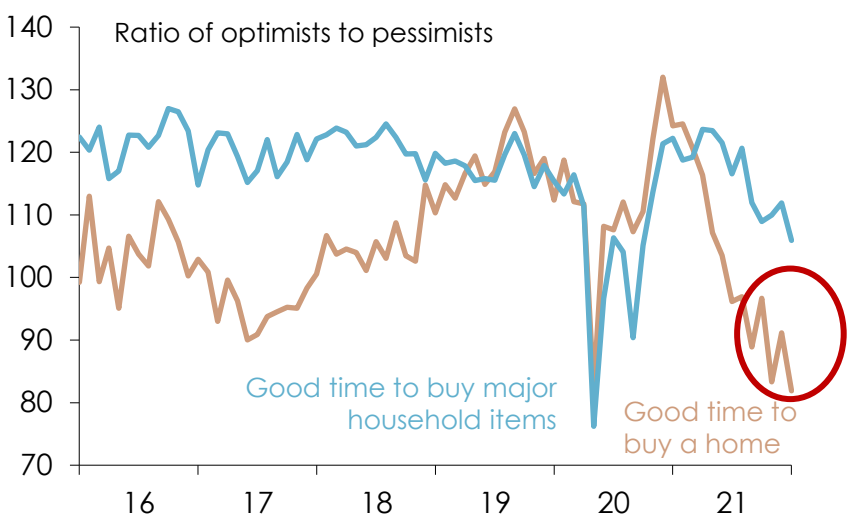
Consumer confidence index



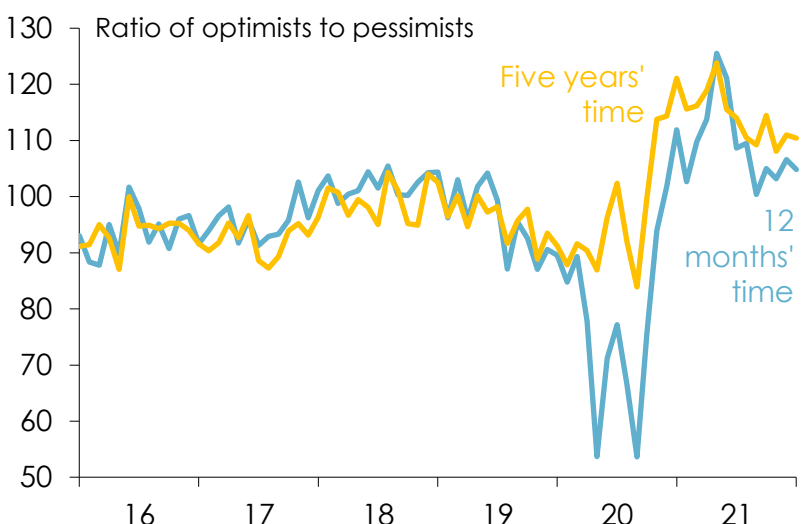
Household finances assessment



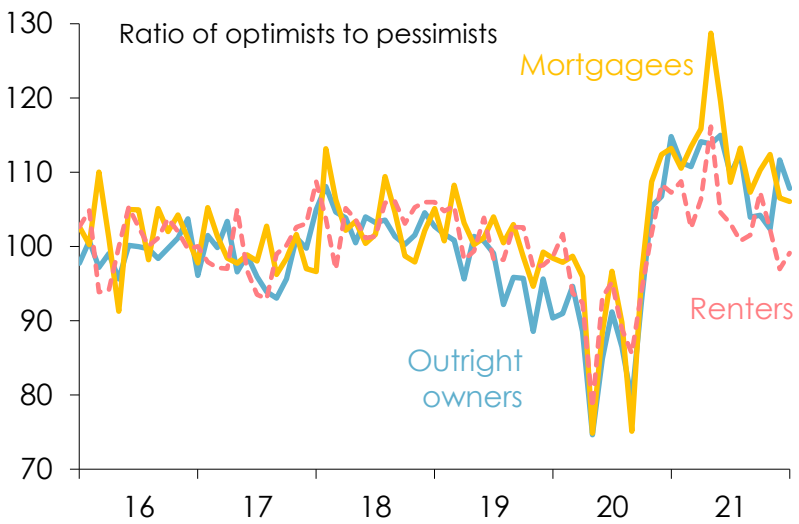
Buying conditions assessment



Economic conditions assessment



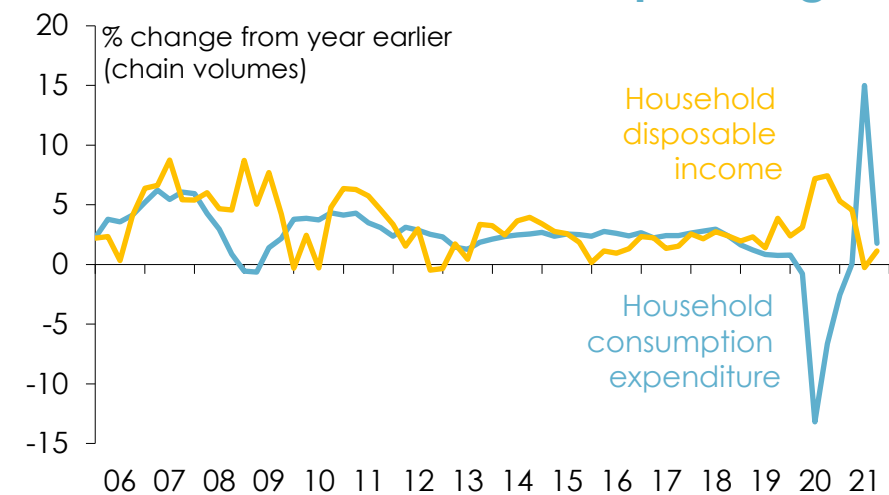
Confidence by housing tenure



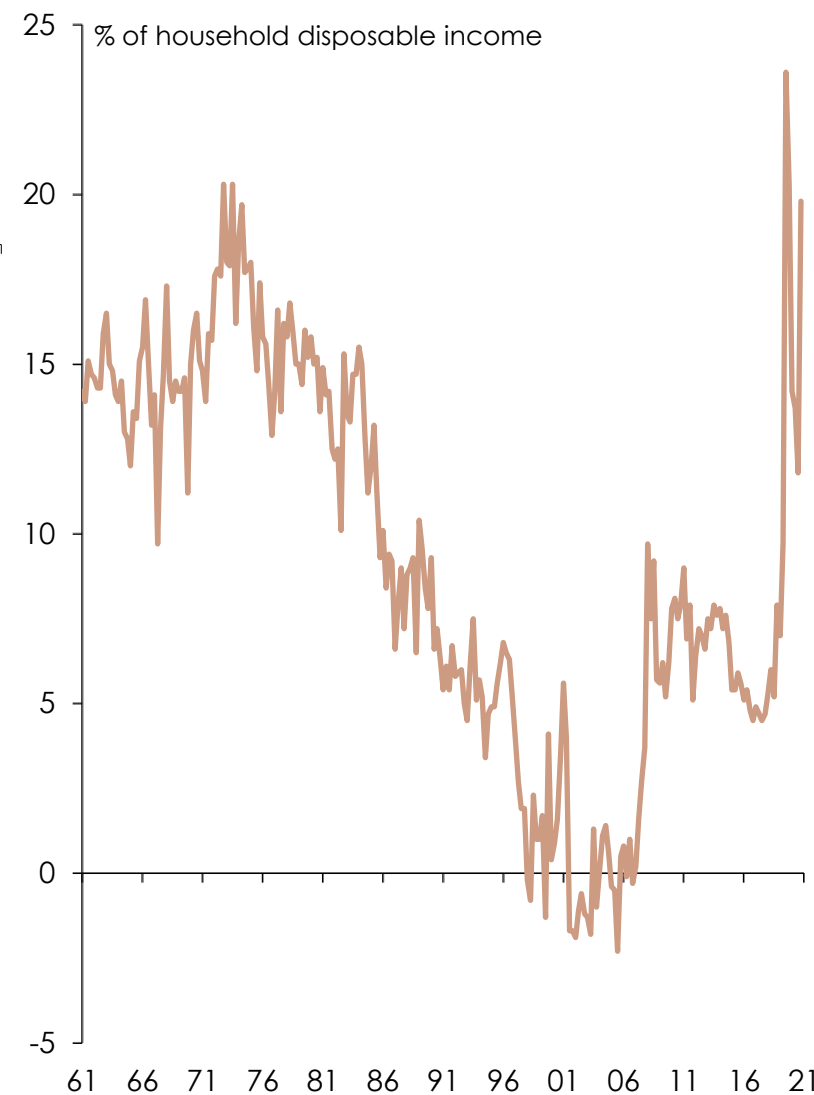


# Household incomes have been supported by government payments, but spending has been curtailed, so households have lots of savings to spend

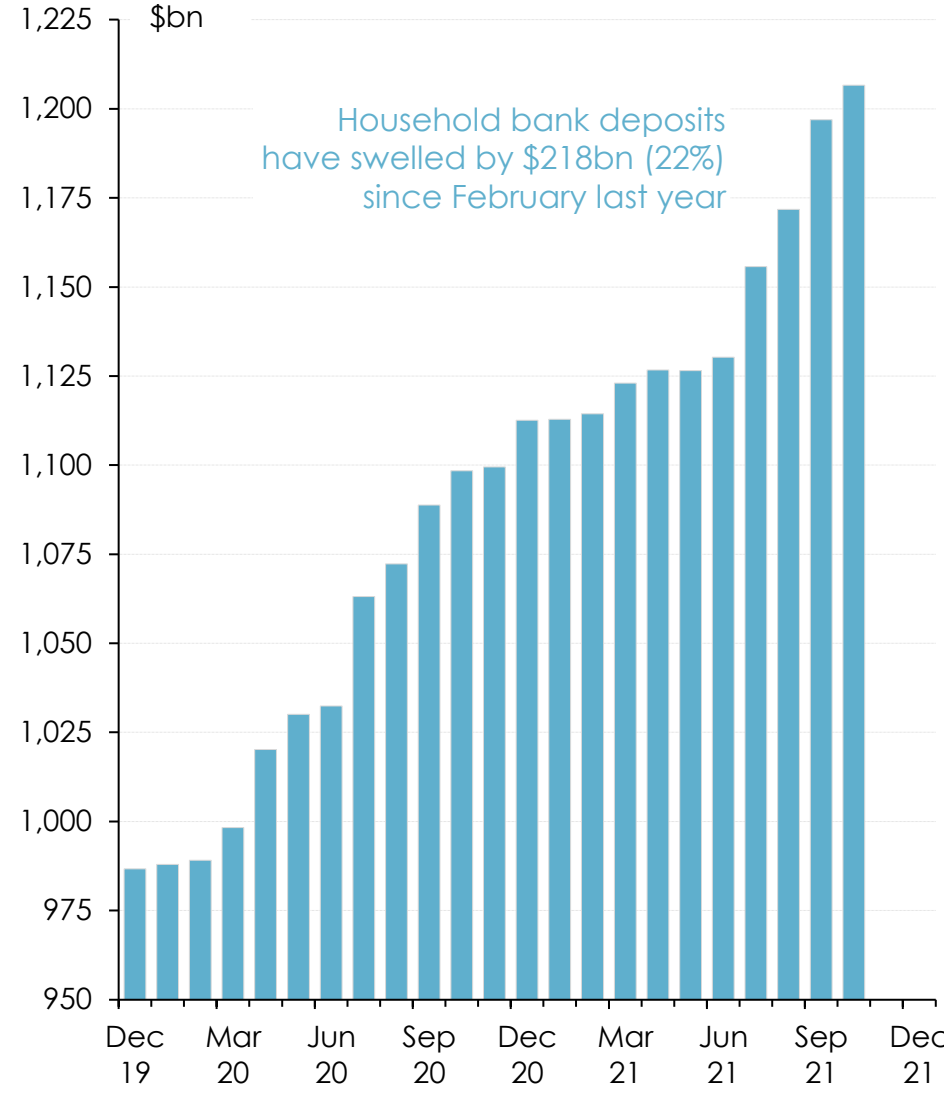
Household income and spending



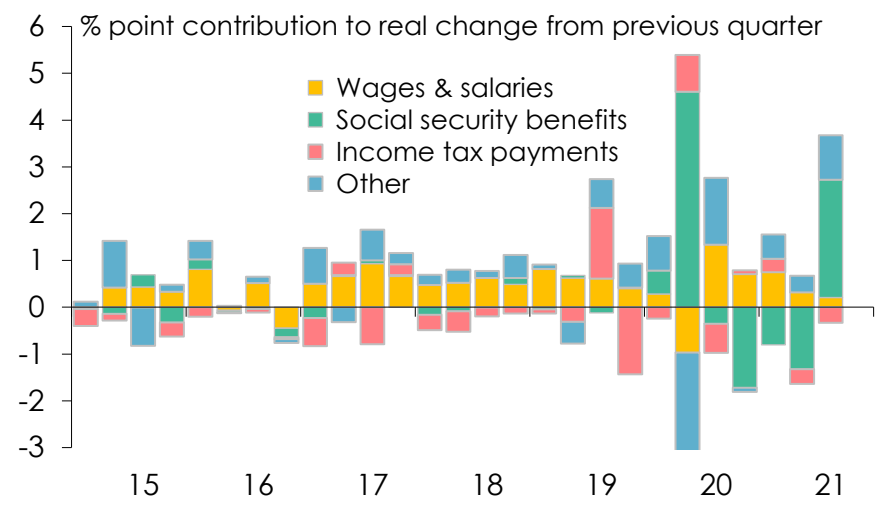
Household saving ratio



Household bank deposits

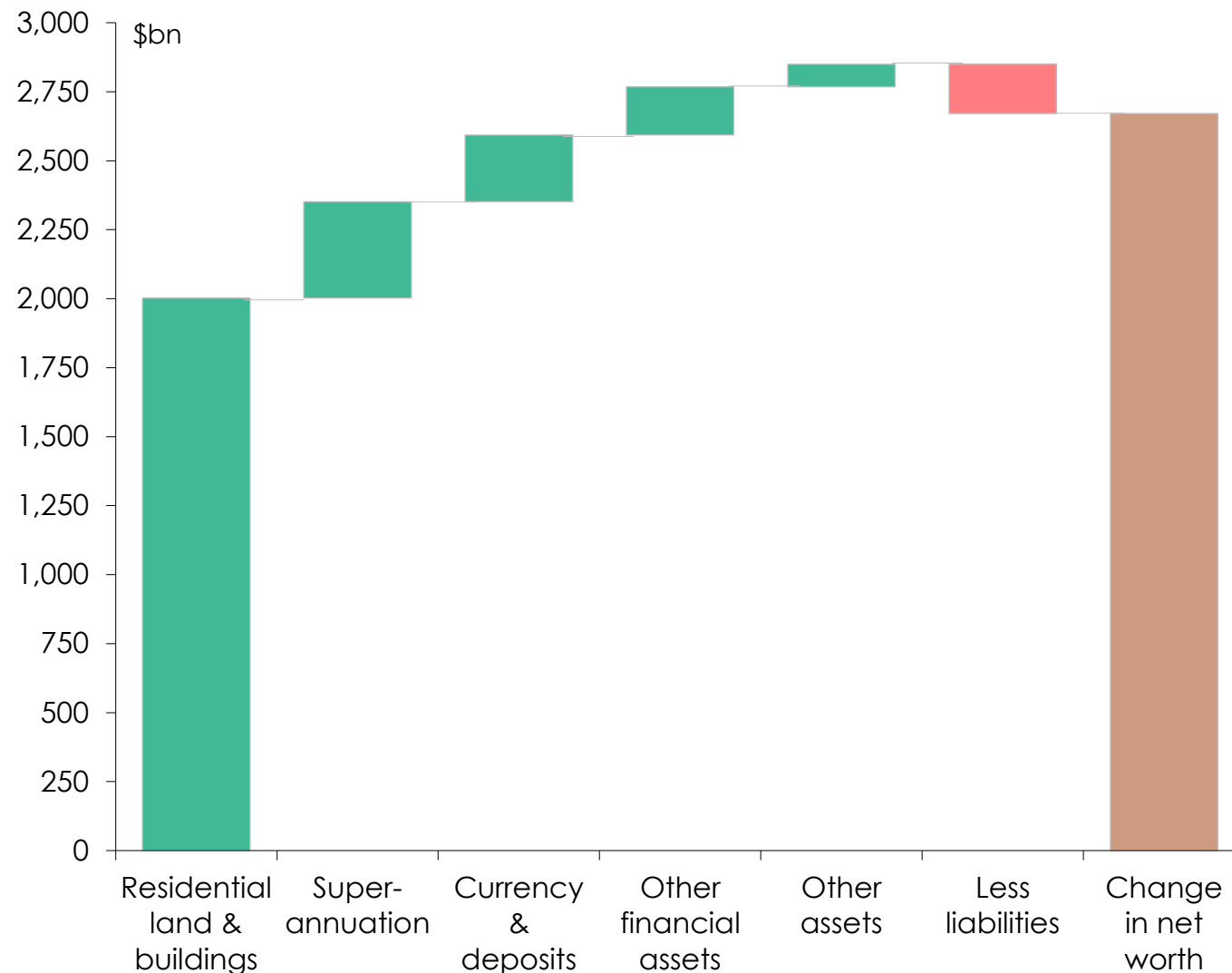


Sources of household income

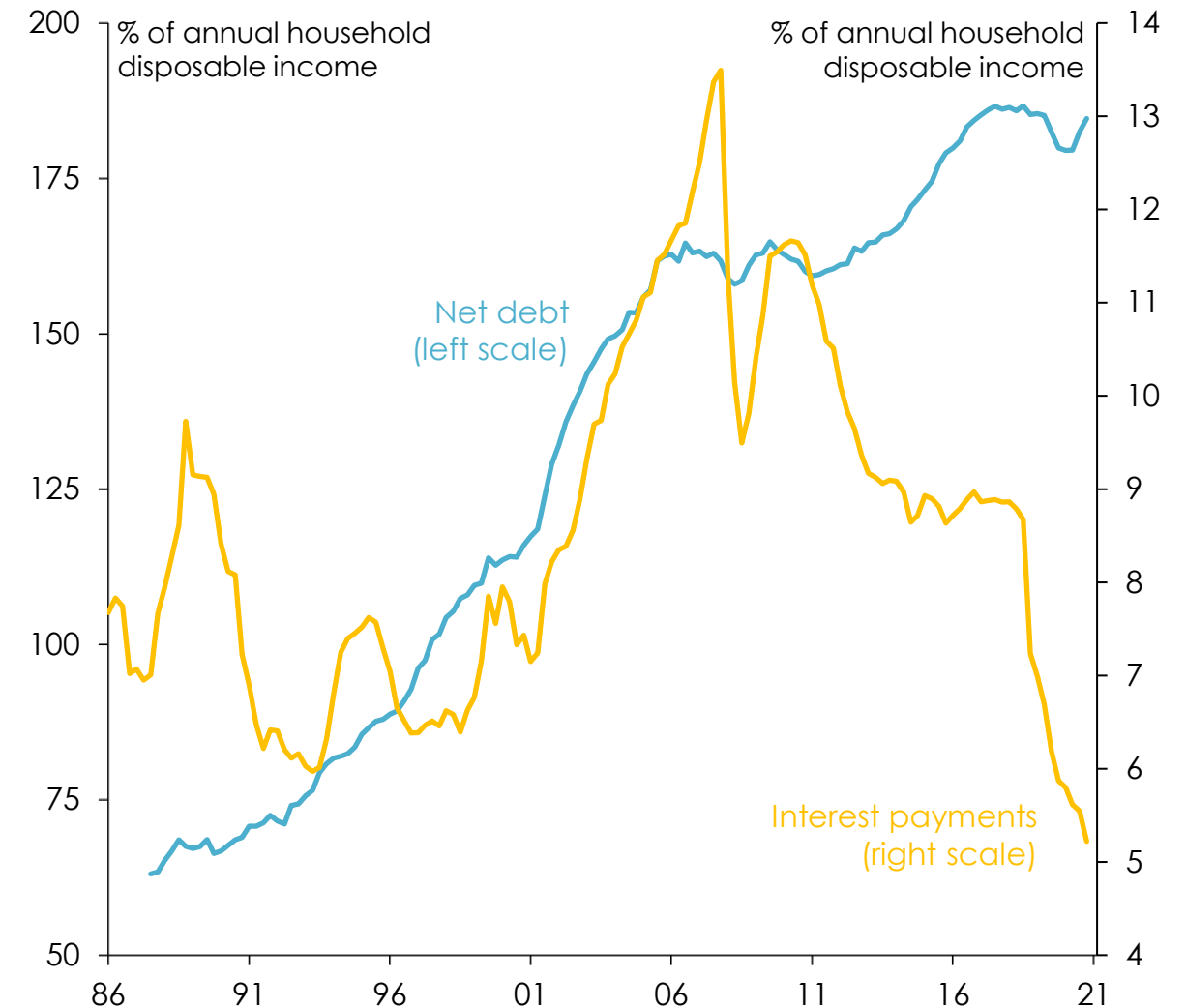


# Household net worth has risen by \$2.7trn (23¾%) since the end of 2019, while debt service payments have fallen as a pc of income

## Sources of gains in household net worth, Q4 2019 to Q3 2021



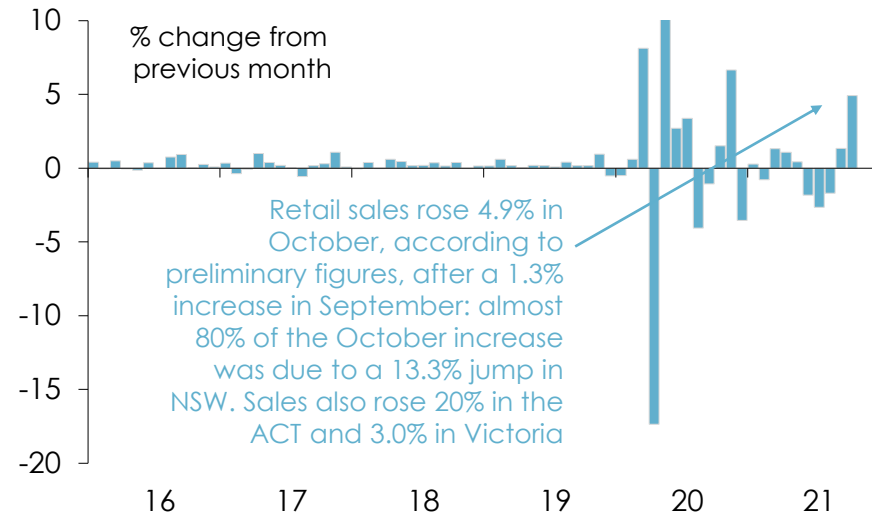
## Household net debt and interest payments as a percentage of disposable income



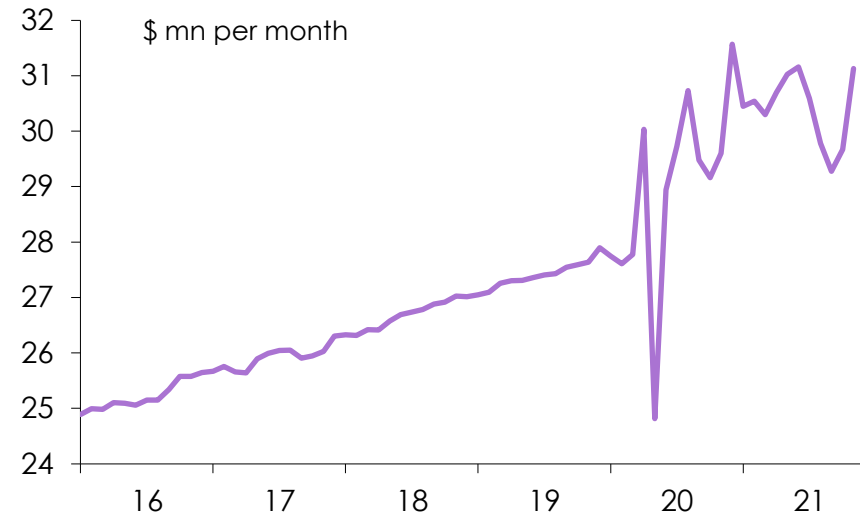
Sources: ABS, [Finance and Wealth Accounts](#), September quarter 2021; RBA, [Statistical Tables](#) E1 & E2. September quarter data will be released on 31<sup>st</sup> March 2022.  
[Return to "What's New"](#).

# New motor vehicle sales fell another 0.4% in November, after an 11% drop in October, with only NSW and the two territories registering increases

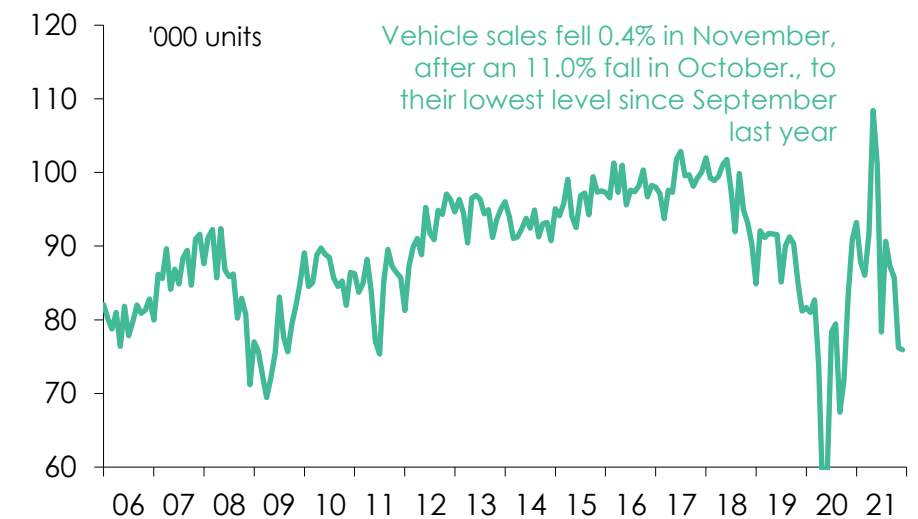
## Monthly retail sales



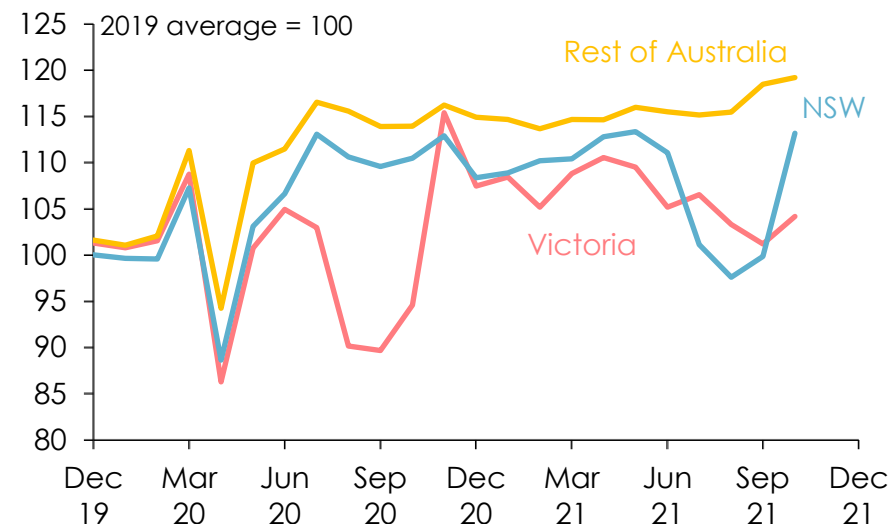
## Level of retail sales



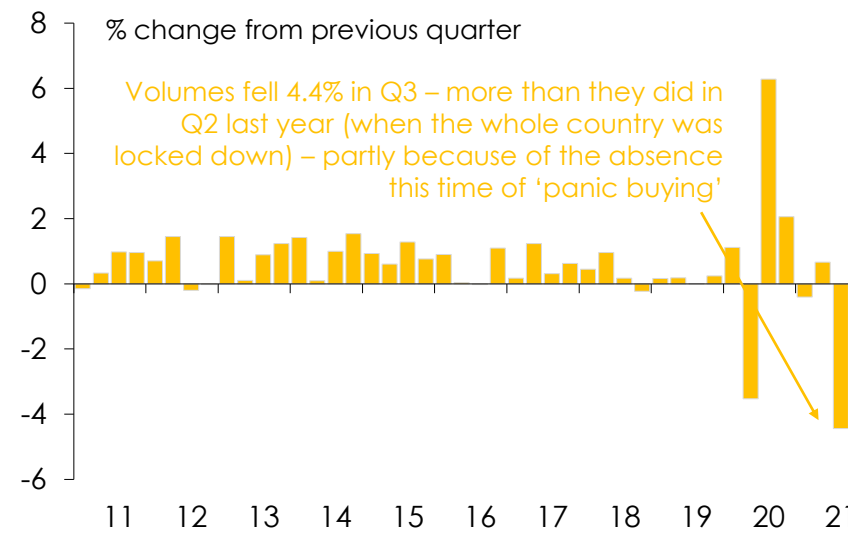
## New motor vehicle sales



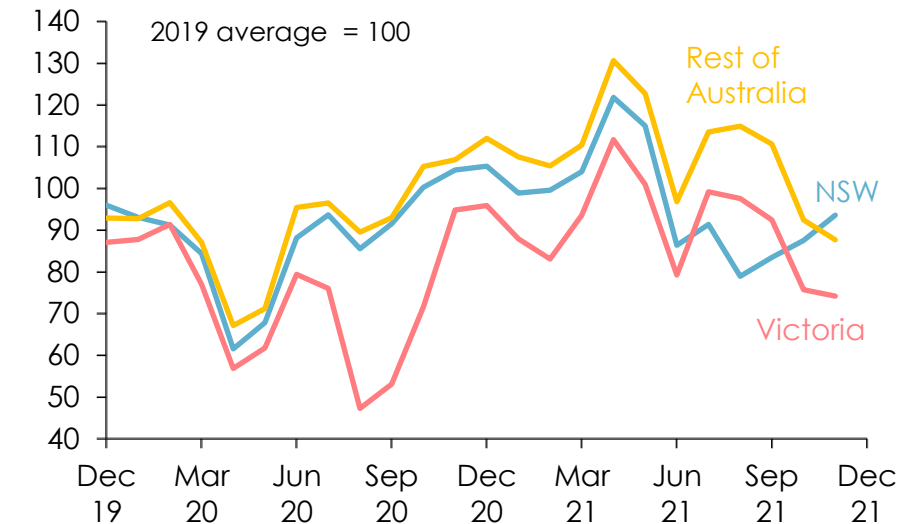
## Retail sales – NSW, Vic & the rest



## Quarterly retail sales volumes



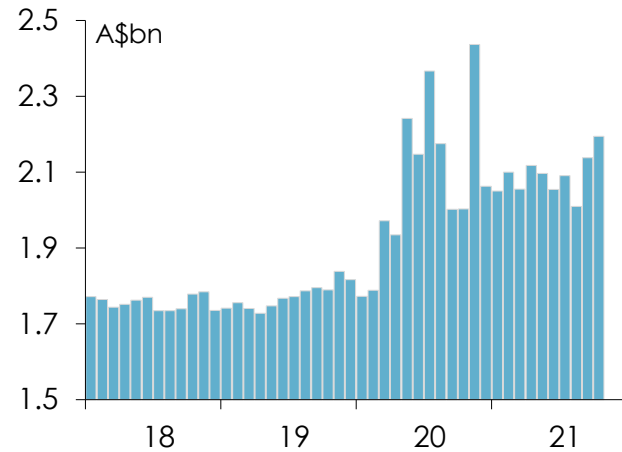
## Vehicle sales – NSW, Vic & the rest



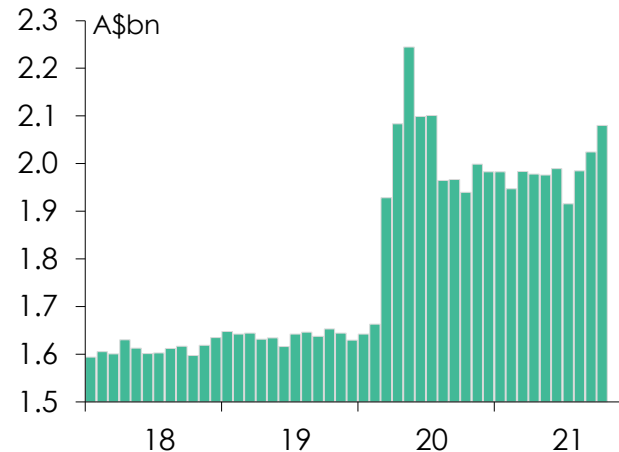
Note: see also [slide 116](#) for more detail on the composition of retail sales since the onset of the pandemic. Sources: ABS, [Retail Trade, Australia](#); Federal Chamber of Automotive Industries [VFACTS](#) (seasonal adjustment of FCAI data by Corinna). November retail sales data will be released on 11<sup>th</sup> January 2022; December motor vehicle sales data will be released in the second week of January. [Return to "What's New"](#).

# Australians have splurged on durable goods – and on alcohol! – to make up for not being allowed to spend on services (including overseas travel)

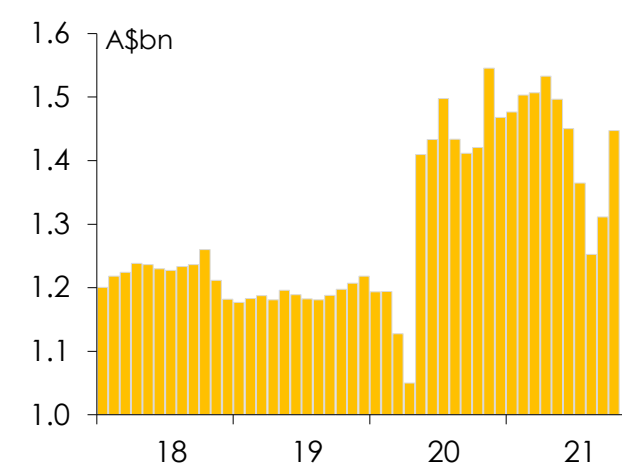
## Electronic & electrical goods



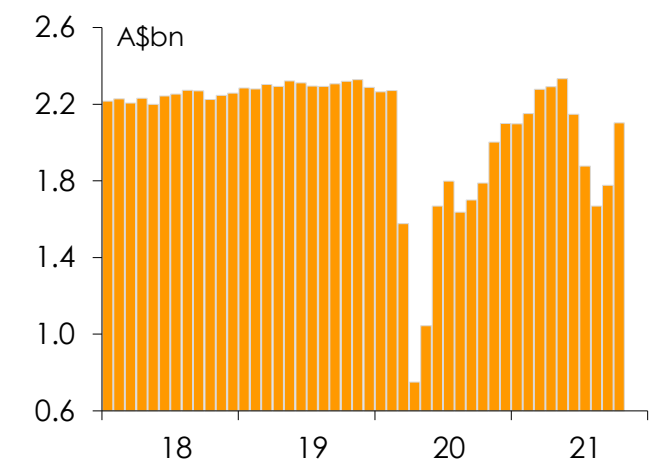
## Hardware, building & garden supplies



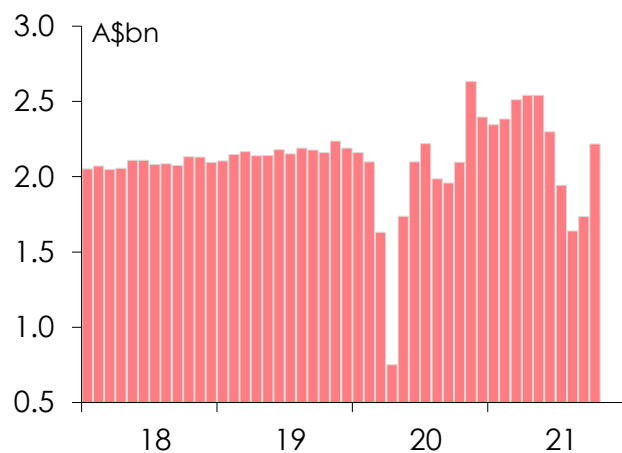
## Floor coverings, furniture, housewares etc



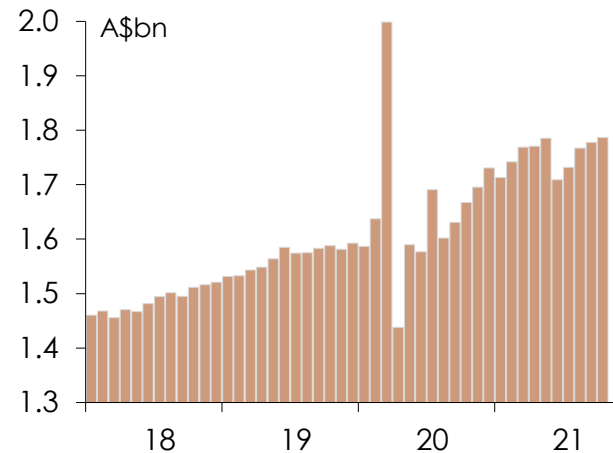
## Cafes and restaurants



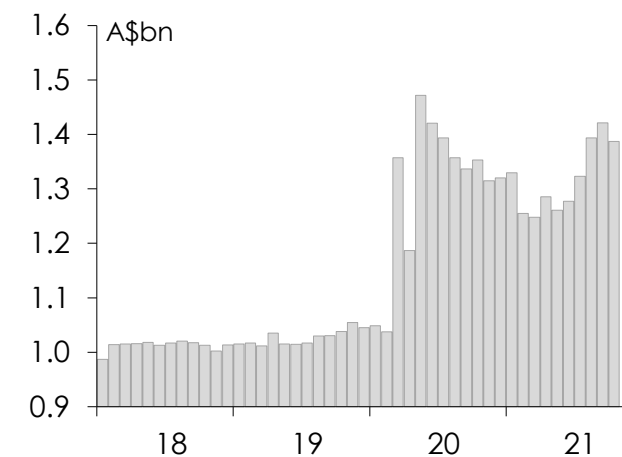
## Clothing, footwear & personal accessories



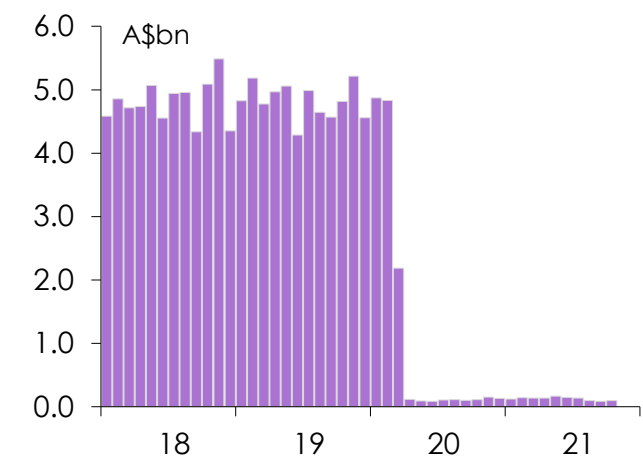
## Pharmaceuticals, cosmetics & toiletries



## Alcoholic beverages



## Overseas travel



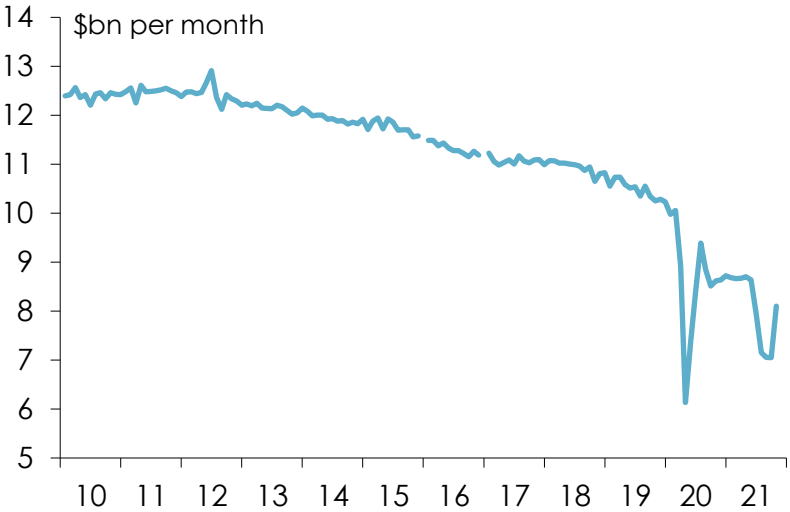
Sources: ABS, [Retail Trade, Australia](#), October 2021 (November data will be released on 11<sup>th</sup> January 2022); and [International Trade in Goods and Services, Australia](#), September 2021. [Return to "What's New"](#).

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

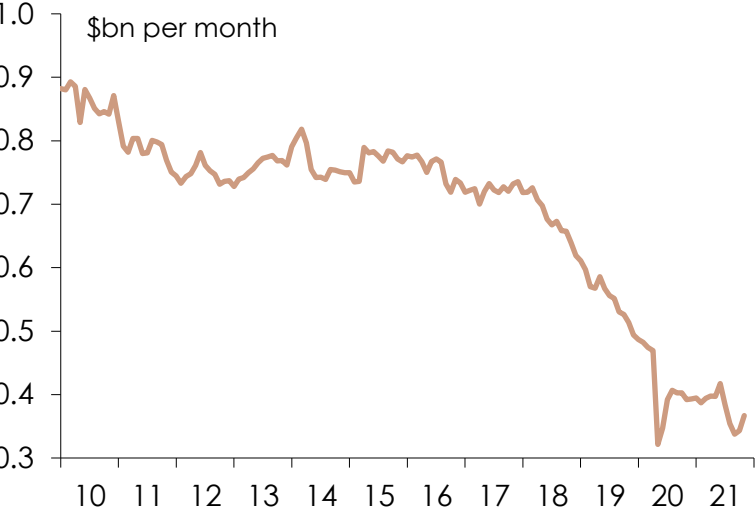
Growth in online retail sales



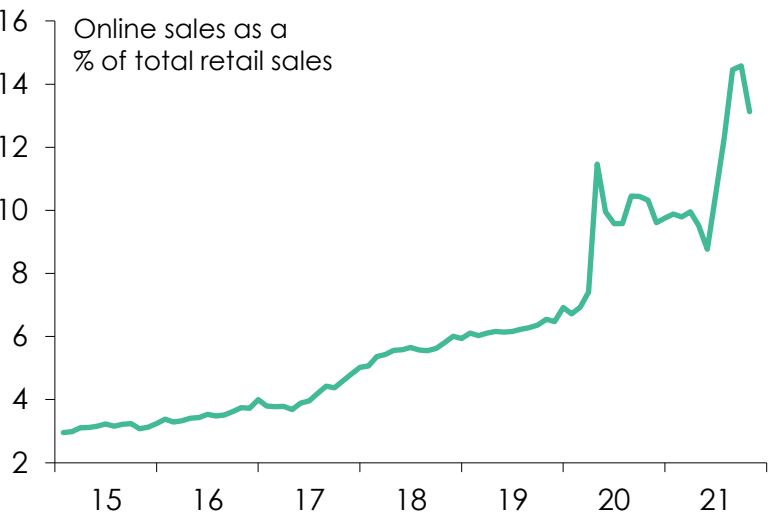
ATM cash withdrawals



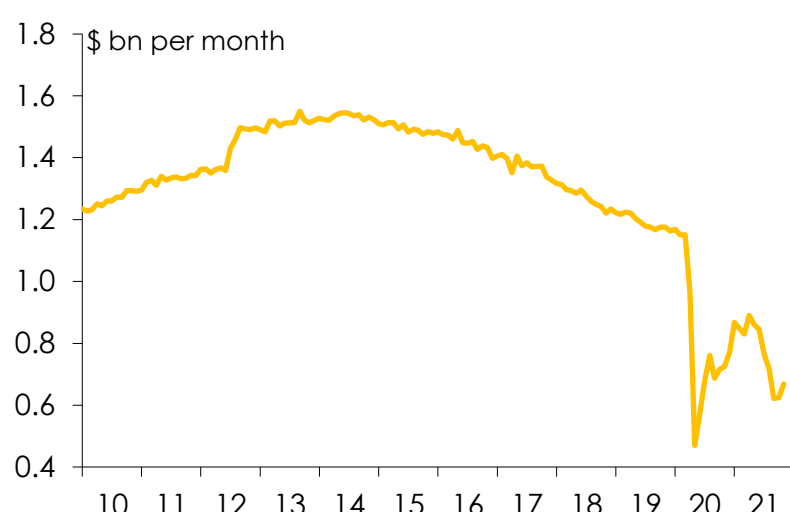
Credit card cash advances



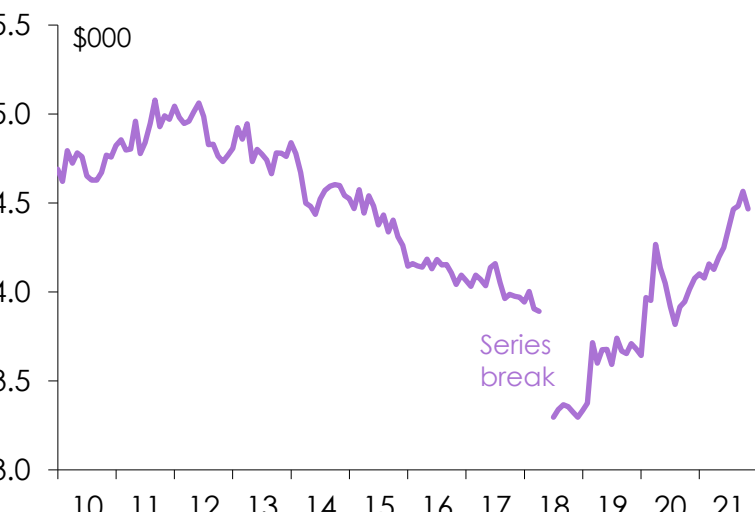
Online retail 'market share'



Debit card cash-outs



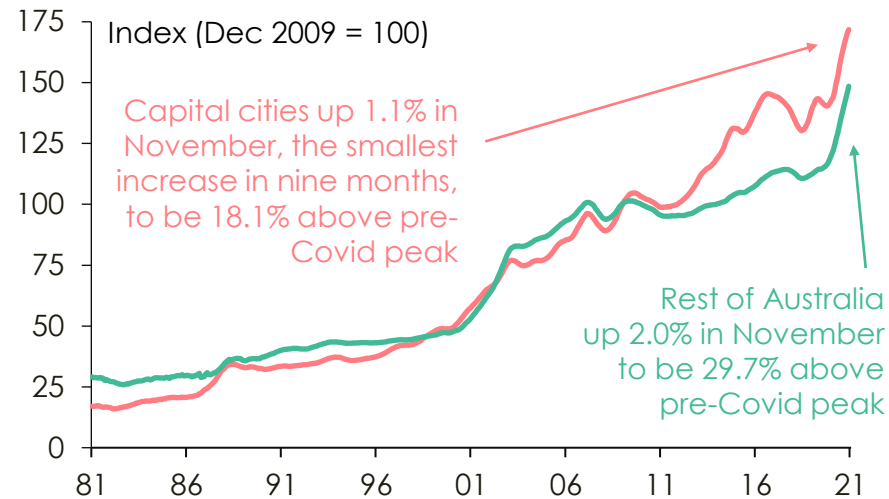
Direct entry payments



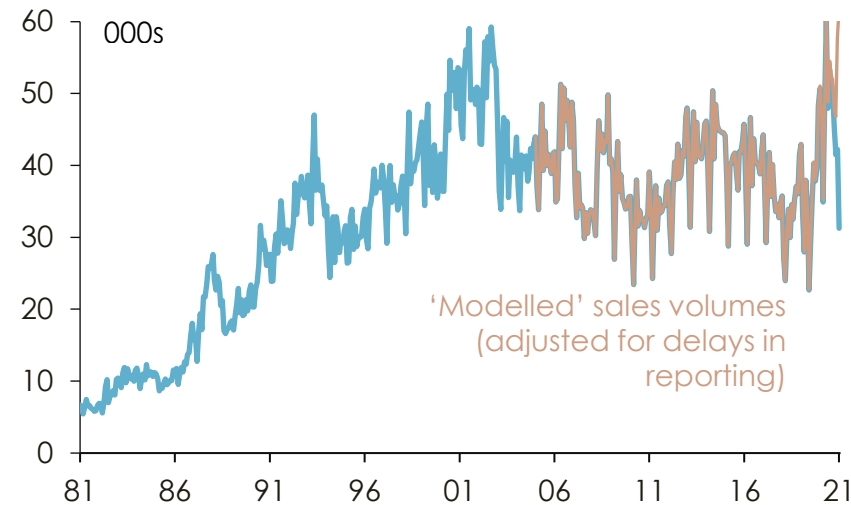
Sources: ABS, [Retail Trade, Australia](#); RBA, [Statistical Tables](#), C1, C2, C4 and C6. Latest data are for October (November online retail sales data will be published on 11<sup>th</sup> January 2022 and payments system data will be released on 12<sup>th</sup> January). [Return to "What's New"](#).

# Property price momentum is gradually slowing, with prices up 1.1% in November, the smallest monthly increase since January

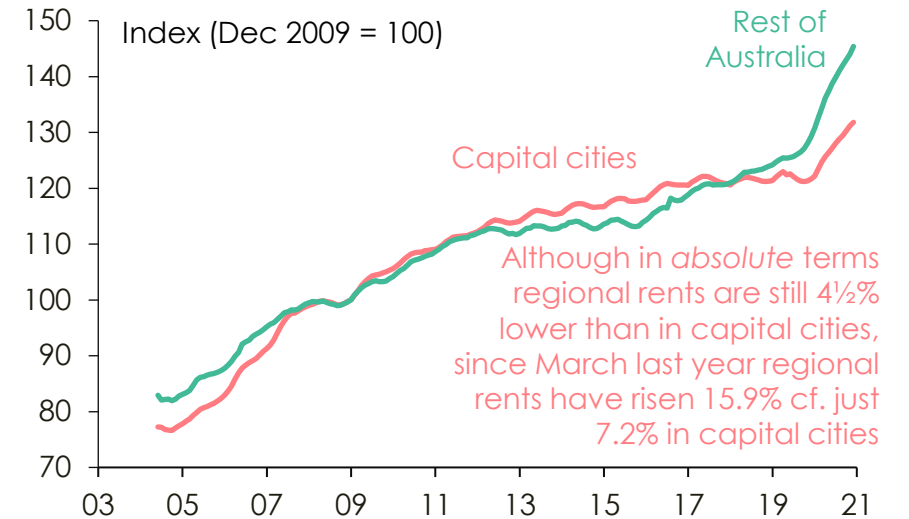
## Residential property prices



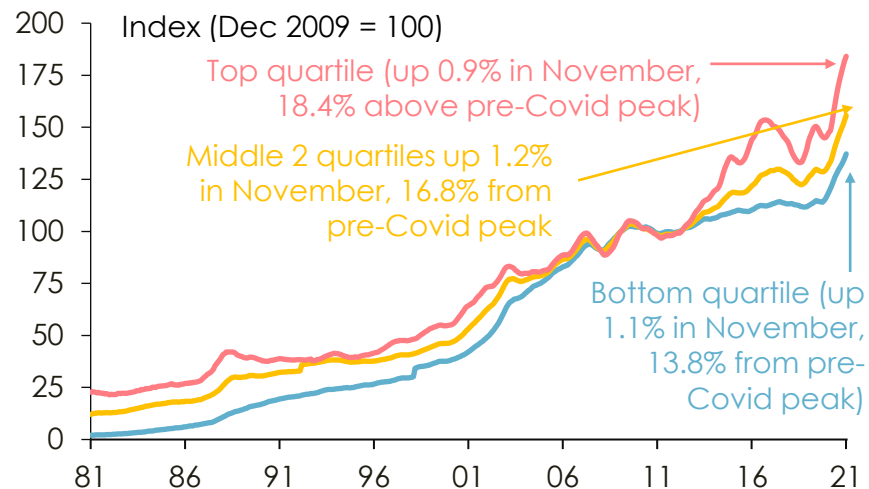
## Residential property sales volumes



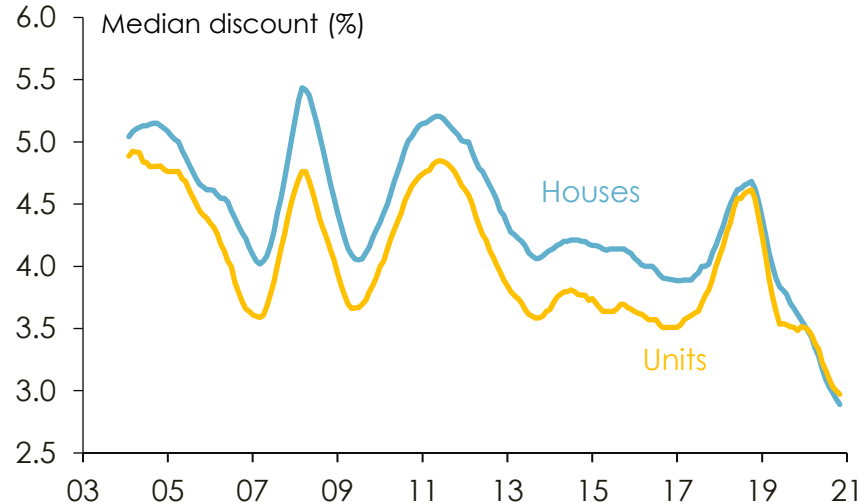
## Residential rents



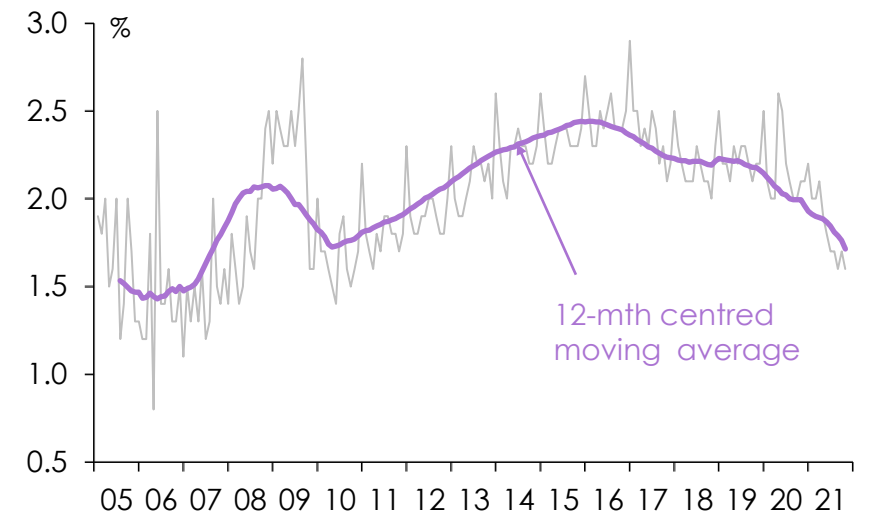
## Property prices by tier



## Vendor discounting



## Capital city rental vacancy rates

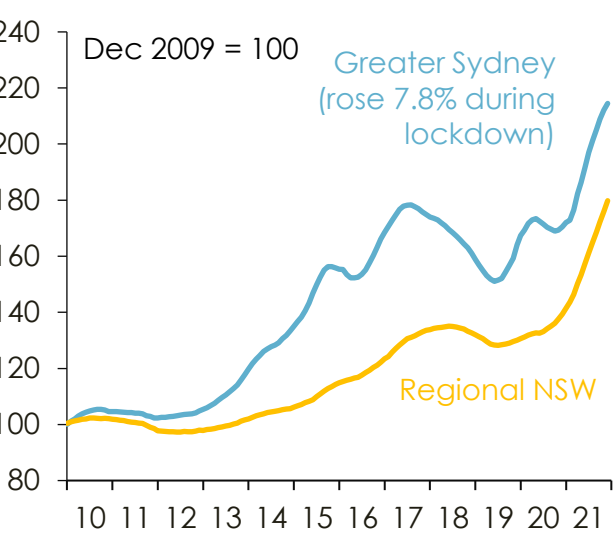


Note: The index of property prices measures the 'organic' change in underlying sales values by using a hedonic regression methodology that takes account of changes in the characteristics of properties being sold from month to month. Property price data shown here are seasonally adjusted. The index of 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 November (except for vacancy rates which is October). December prices, sales volumes and rents data will be released on 4<sup>th</sup> January 2022. Sources: [CoreLogic](#); [SQM Research](#). [Return to "What's New"](#).

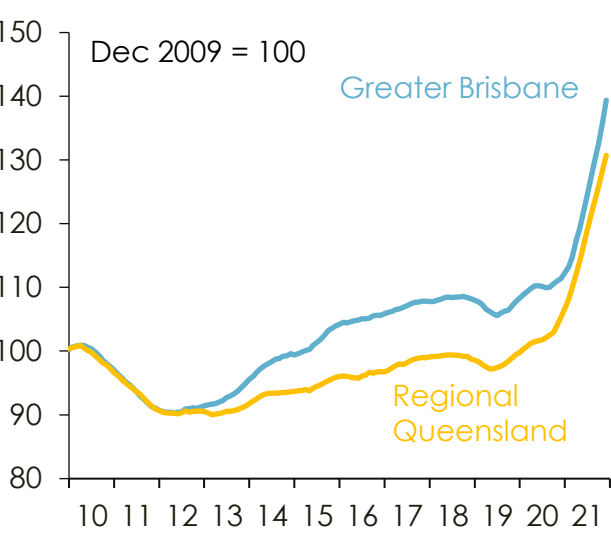


# Prices in Adelaide, Canberra and Hobart, and regional NSW, Victoria, Qld and Tasmania are all more than 20% above their pre-pandemic peaks

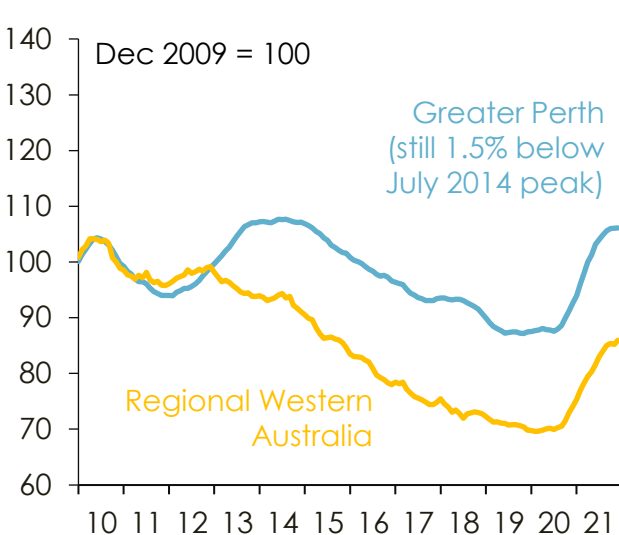
## New South Wales



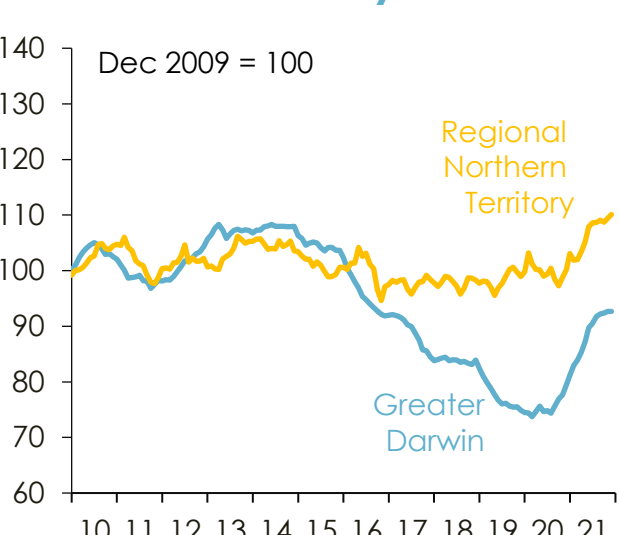
## Queensland



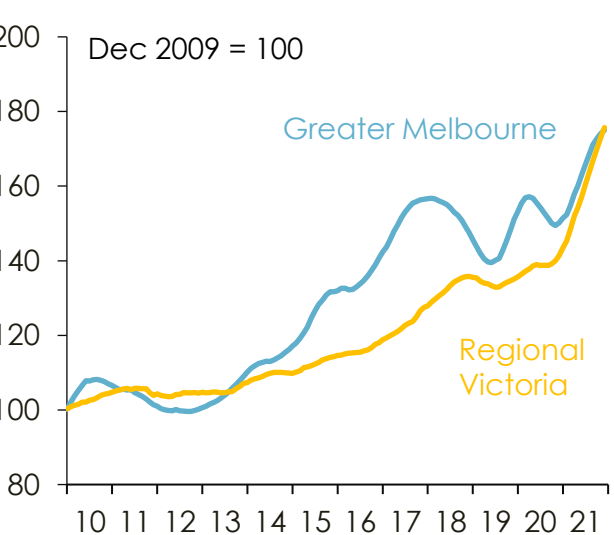
## Western Australia



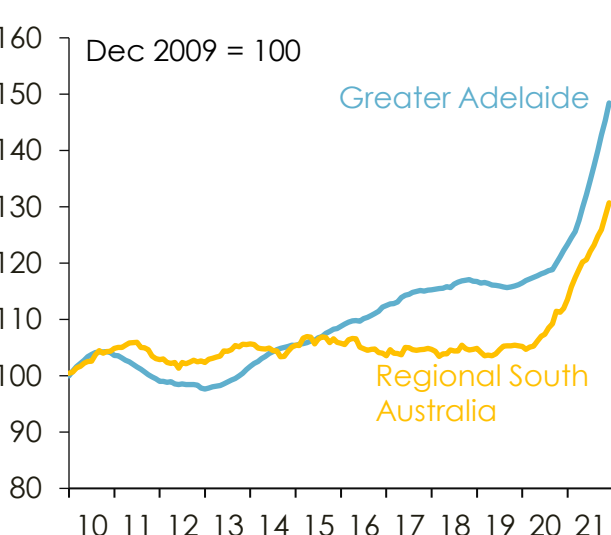
## Northern Territory



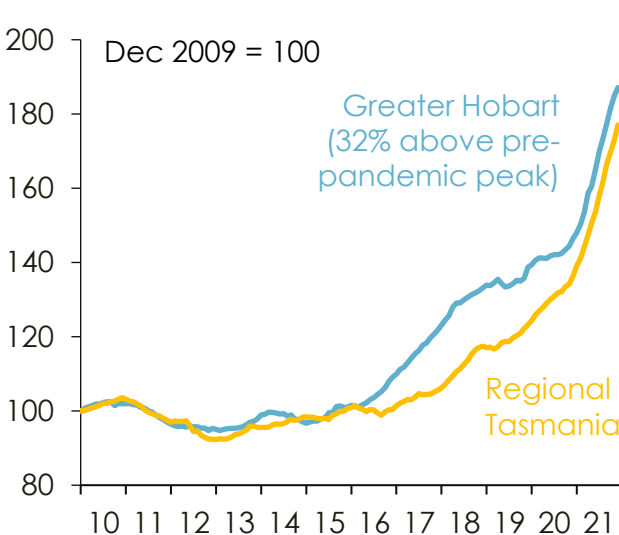
## Victoria



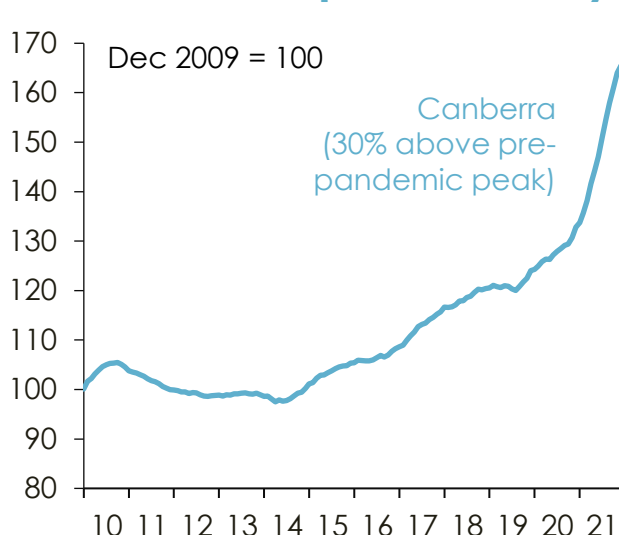
## South Australia



## Tasmania



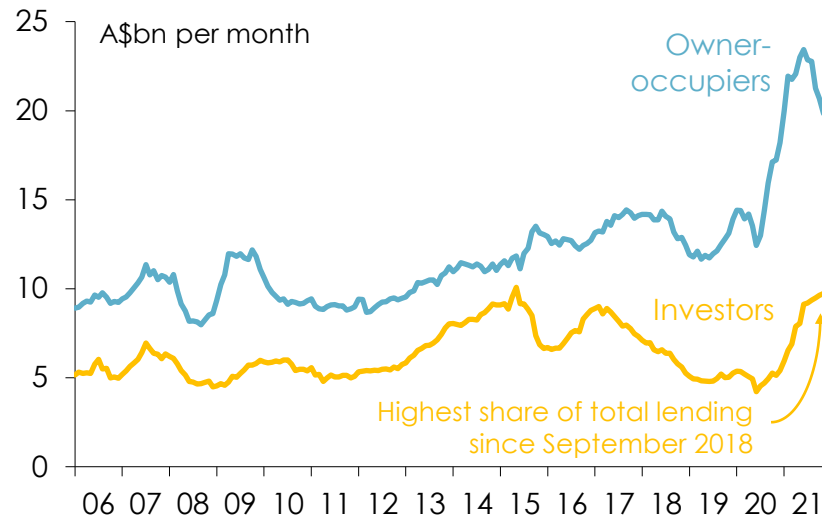
## Australian Capital Territory



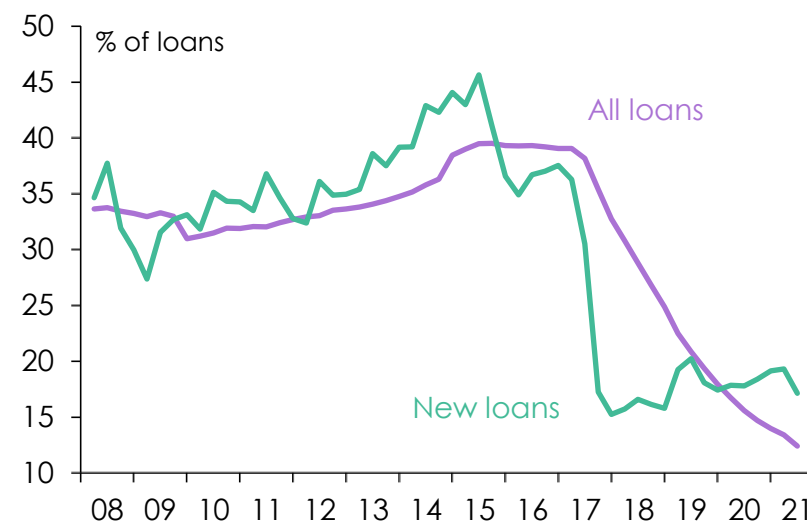
Note: The index of property prices measures the 'organic' change in underlying sales values by using a hedonic regression methodology that takes account of changes in the characteristics of properties being sold from month to month. Property price data are seasonally adjusted. Latest data are November; December data will be released on 4th January 2022. 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'

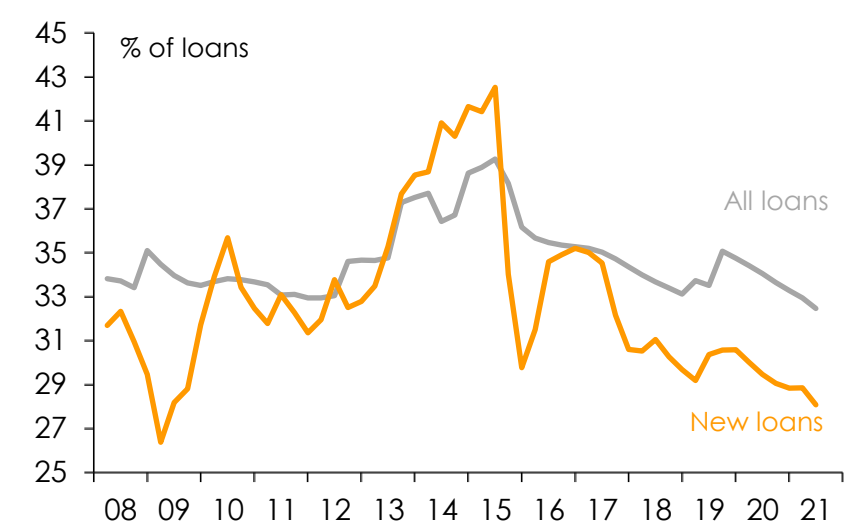
## Housing finance commitments



## Interest-only loans as pc of total



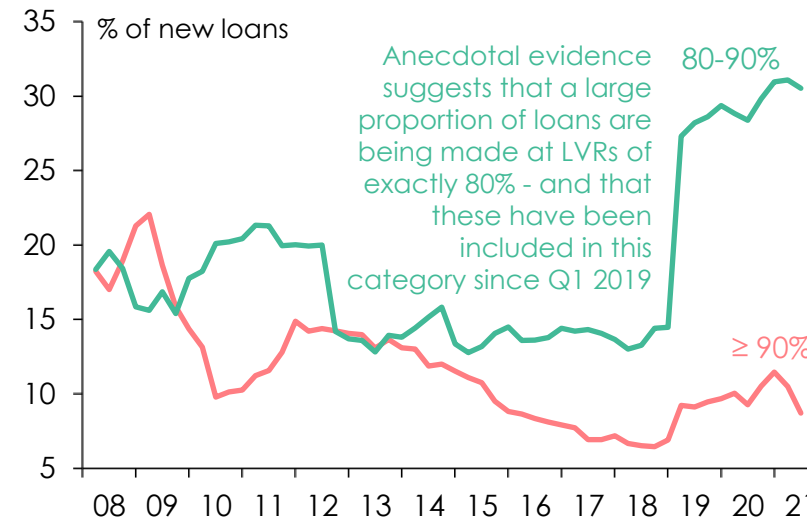
## Loans to investors as a pc of total



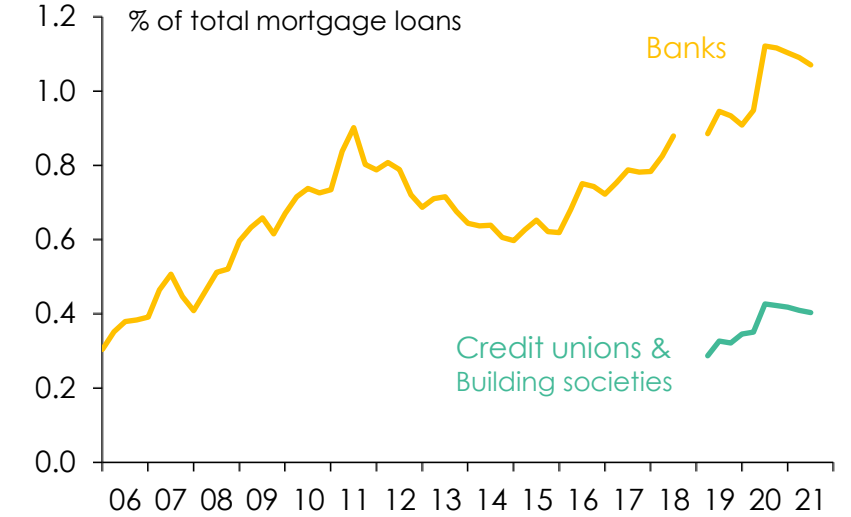
## Lending to first home buyers



## High LVR loans as a pc of total



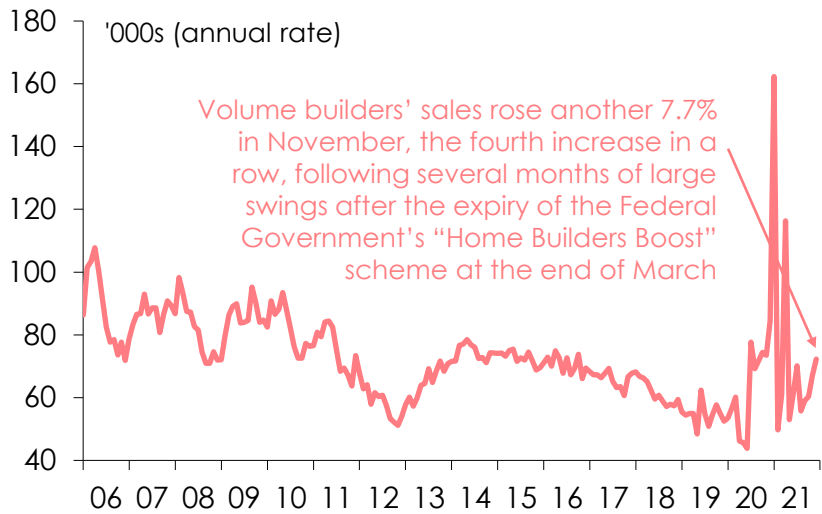
## Non-performing mortgage loans



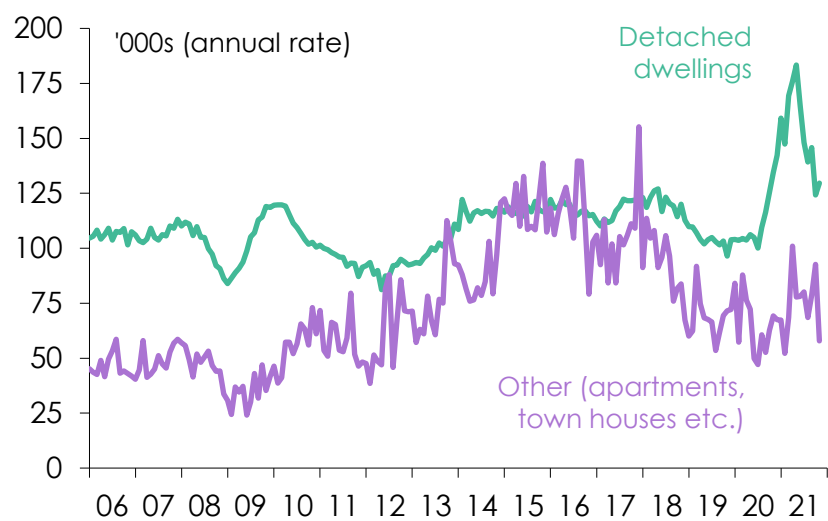
Sources: ABS, [Lending Indicators](#); Australian Prudential Regulation Authority (APRA), [Quarterly authorised deposit-taking institution statistics](#). November housing finance data will be released on 14<sup>th</sup> January 2022; December; APRA data on ADI property exposures for the September quarter will be released on 7<sup>th</sup> December. [Return to "What's New"](#).

# Residential building approvals fell 13% in October, to their lowest level since August last year, with multi-unit approvals falling by 38%

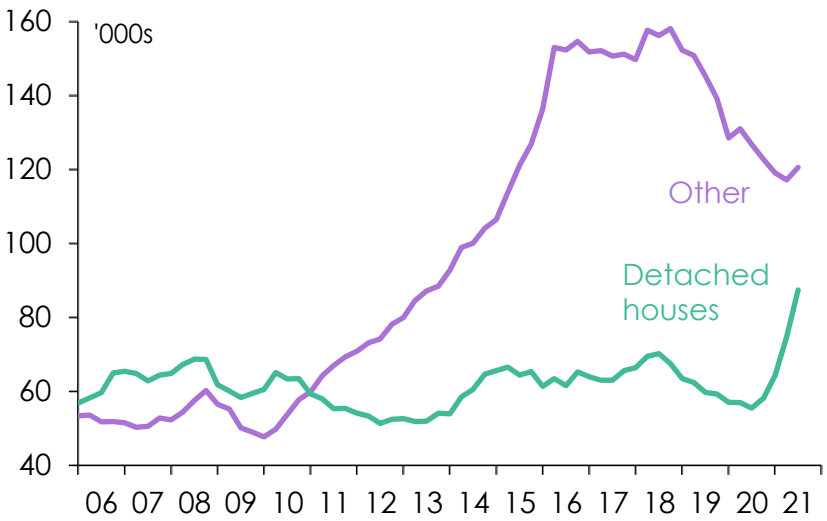
Large builders' new home sales



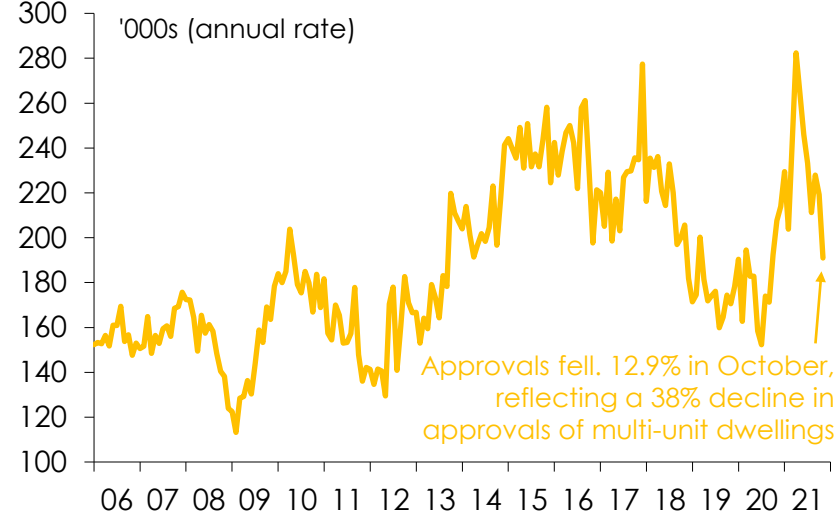
Building approvals, by type



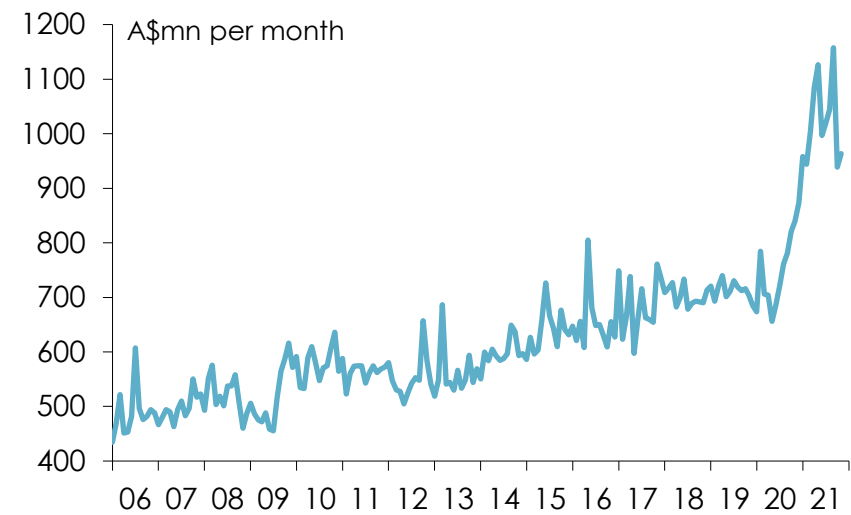
Dwellings under construction



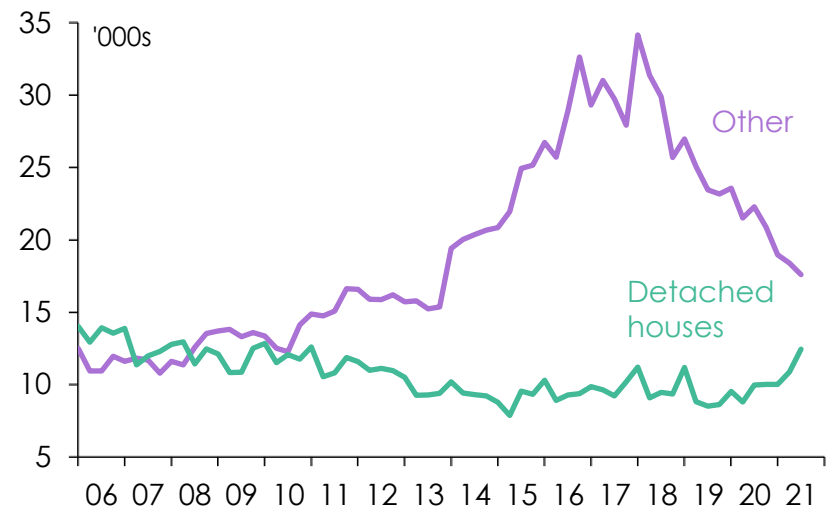
Residential building approvals



Alterations & additions approved



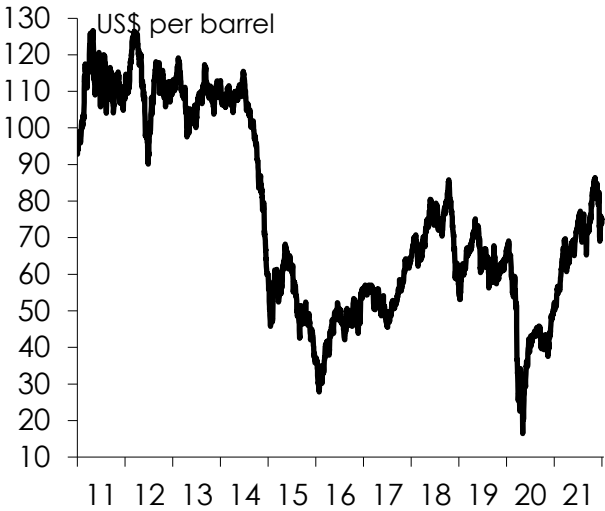
'Pipeline' of work yet to be started



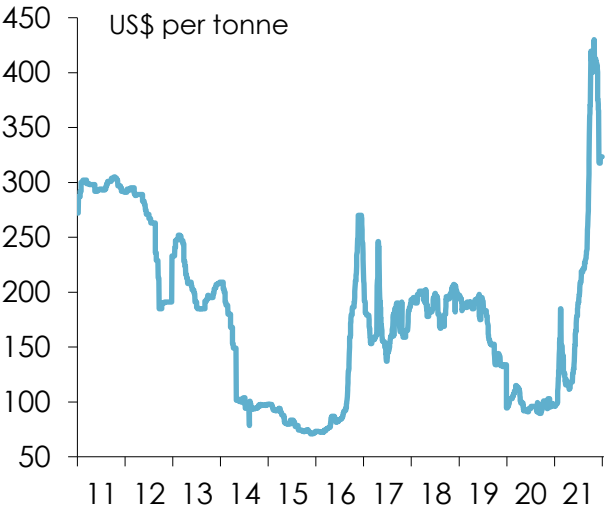
Note: 'New home sales' are of detached dwellings only and exclude small-scale builders. Sources: ABS, [Building Approvals](#); Housing Industry Association. November building approvals data will be released on 10<sup>th</sup> January 2022; September quarter dwellings under construction and 'pipeline' data on 19<sup>th</sup> January 2022. [Return to "What's New"](#).

# The iron ore price continued its recovery this week, rising another 11%, while thermal coal rose 8½% after an 11% gain last week

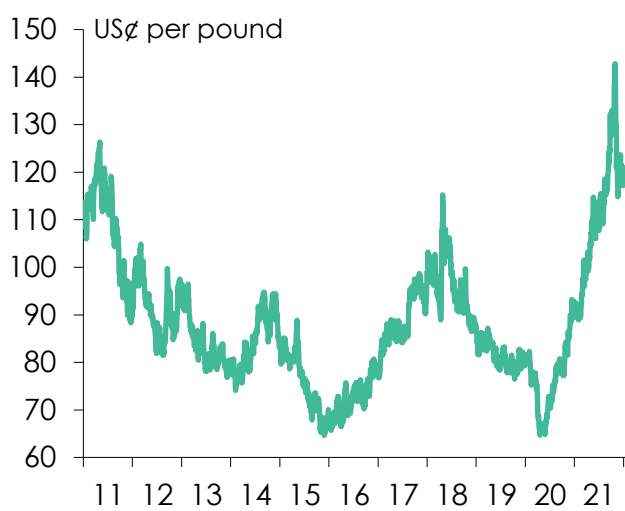
Brent crude oil



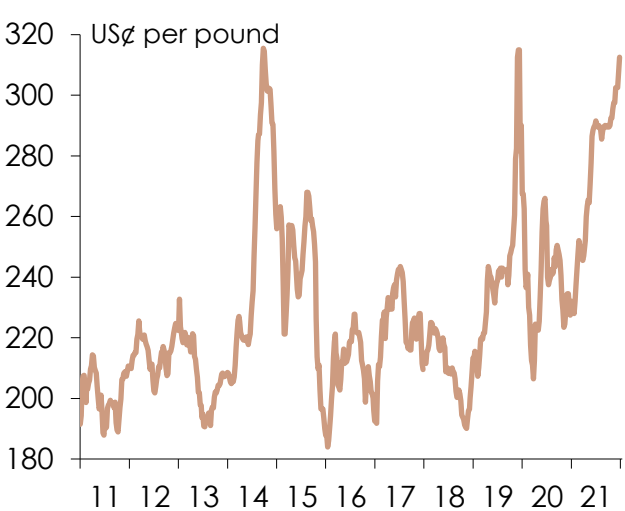
Metallurgical coal



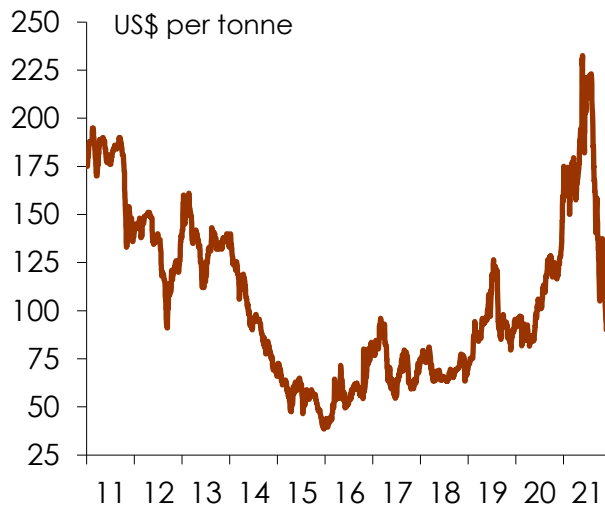
Aluminium



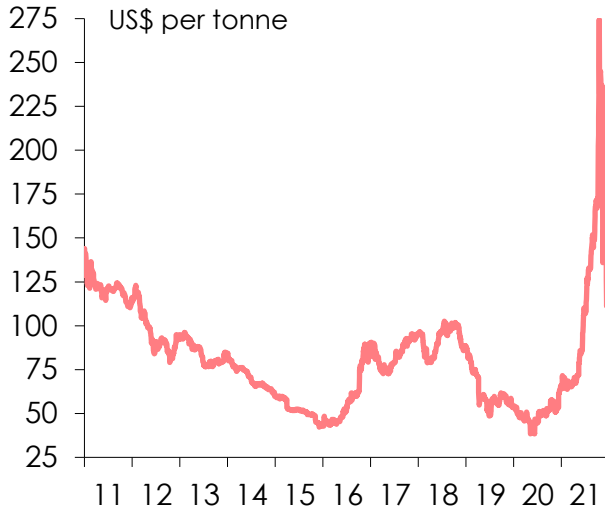
Beef



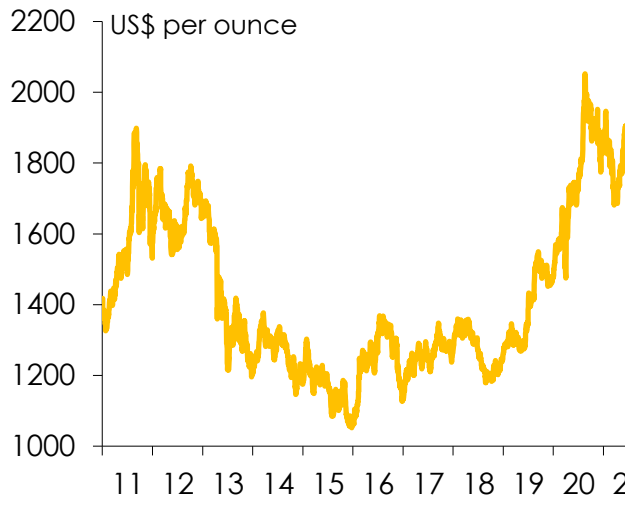
Iron ore



Thermal coal



Gold

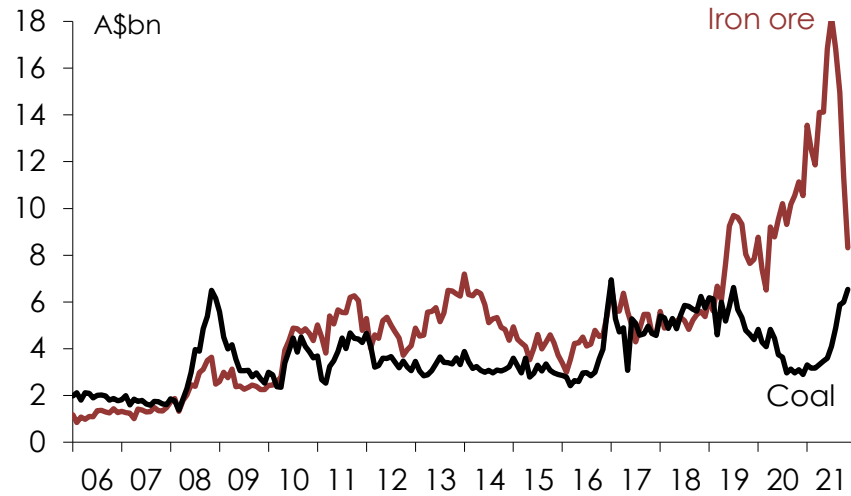


Wool

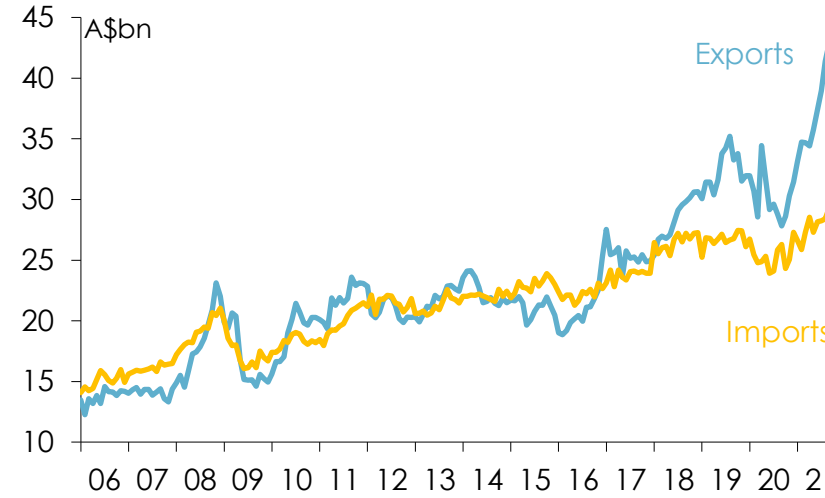


# Australia's trade surplus narrowed by \$600mn, to \$11.2bn, in October, with exports down 3.3% (largely due to iron ore prices) and imports down 2.7%

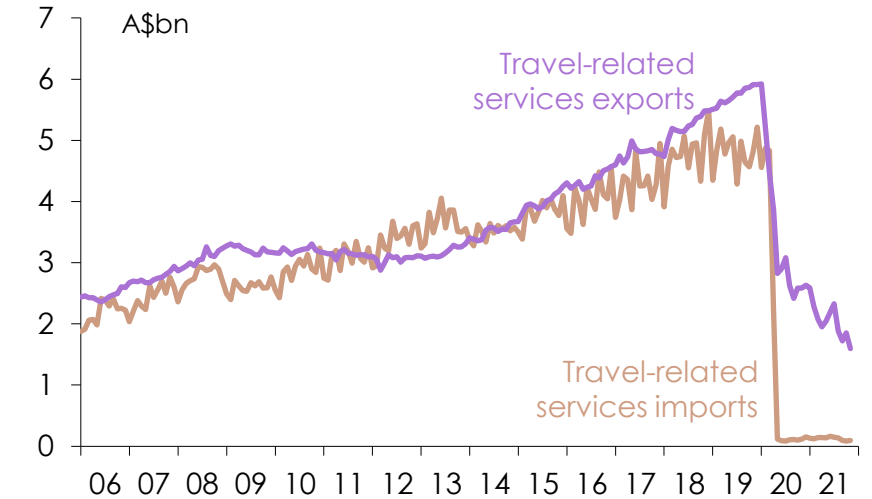
## Iron ore and coal exports



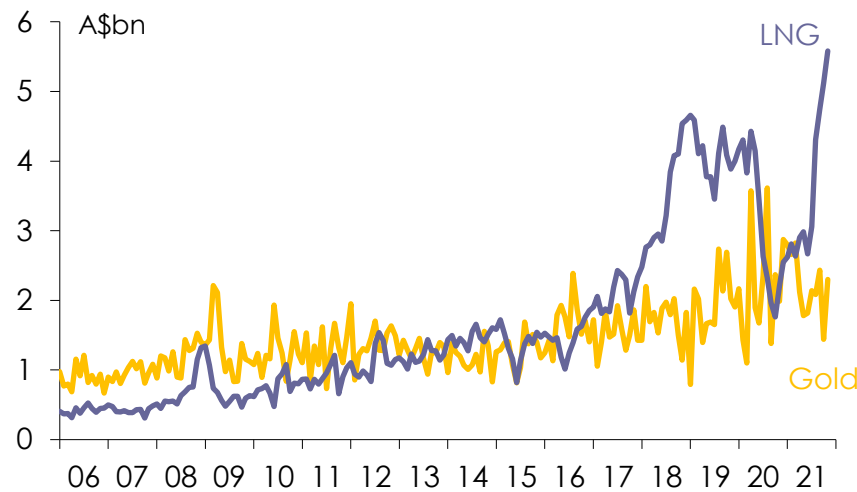
## Merchandise exports and imports



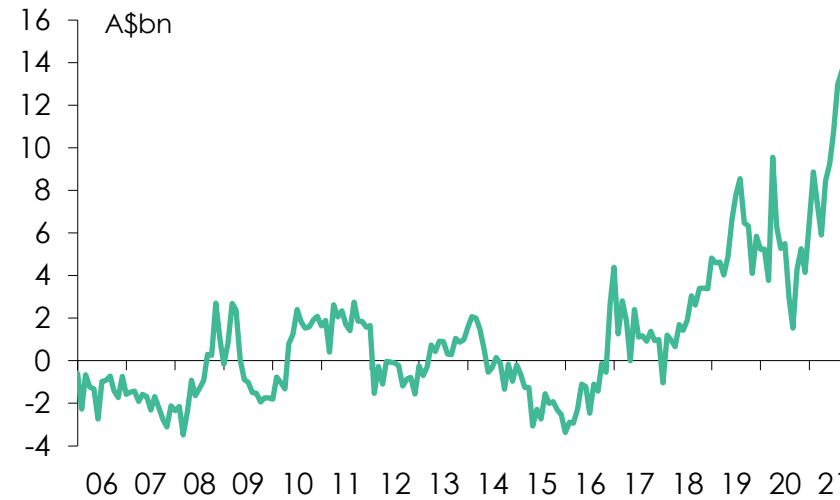
## Tourism-related services trade



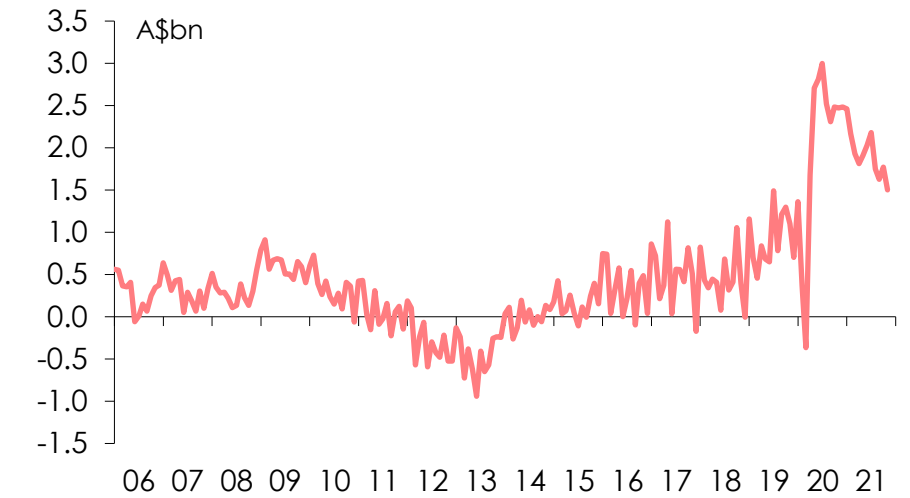
## LNG and gold exports



## Merchandise trade balance



## Tourism services trade balance

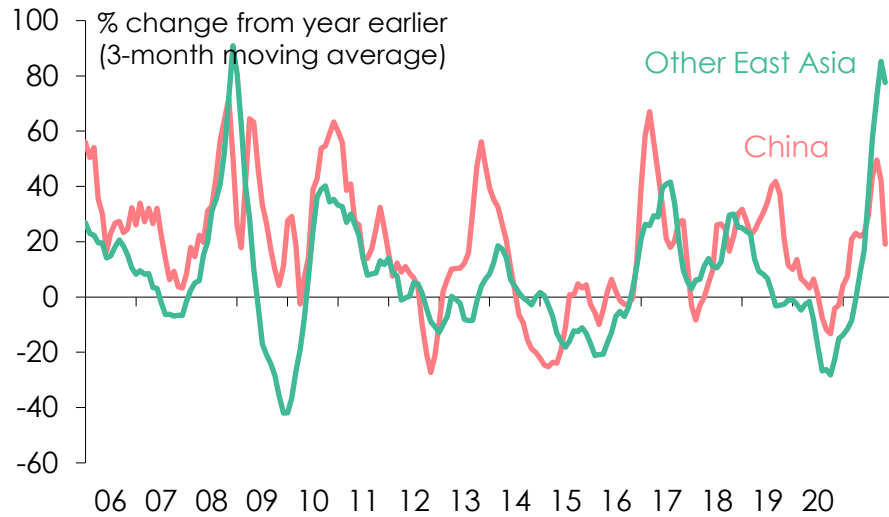


Source: ABS, [International Trade in Goods and Services, Australia](#), October 2021. November data will be released on 11<sup>th</sup> January 2022. [Return to "What's New"](#).

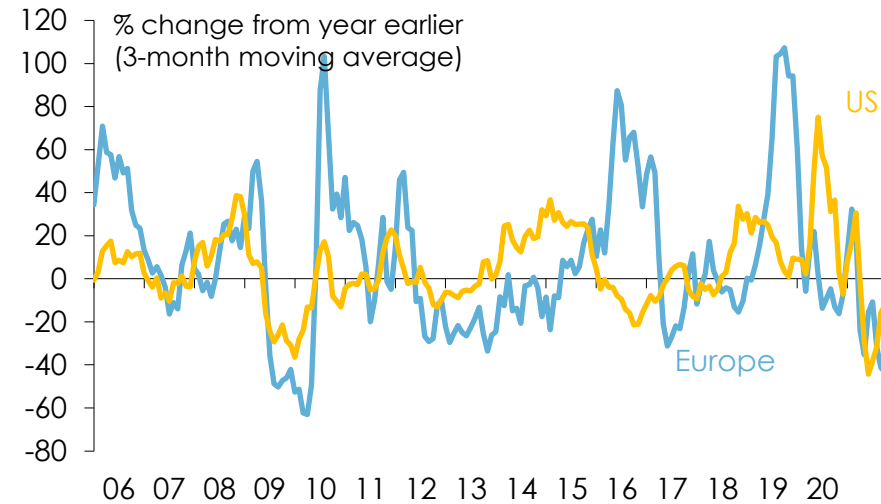


# Australia's trade surplus with China has peaked as iron ore prices have eased, but surpluses with other Asian countries have increased

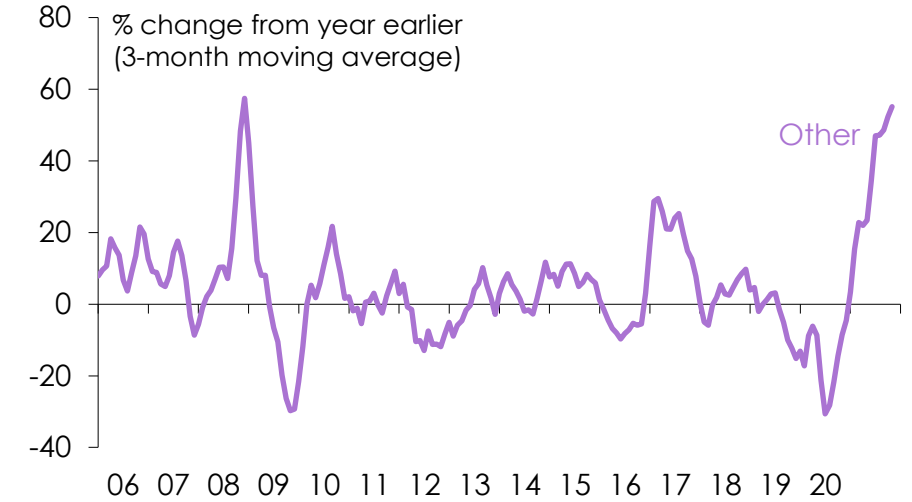
## Merchandise exports – East Asia



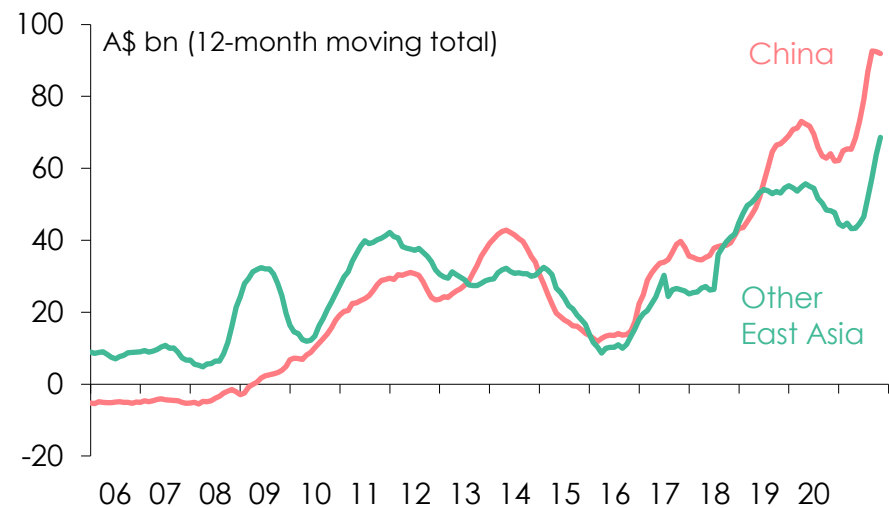
## Merchandise exports – US & Europe



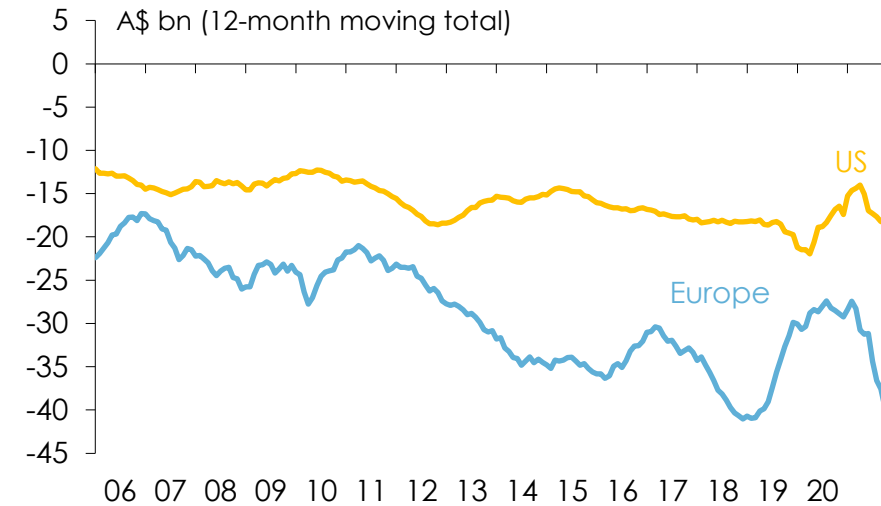
## Merchandise exports – other



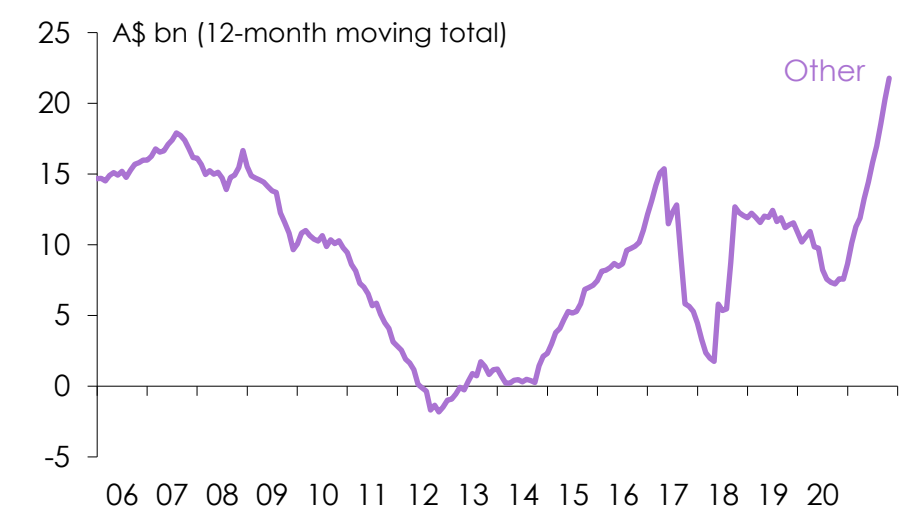
## Goods trade balance – East Asia



## Goods trade balance – US & Europe



## Goods trade balance – other

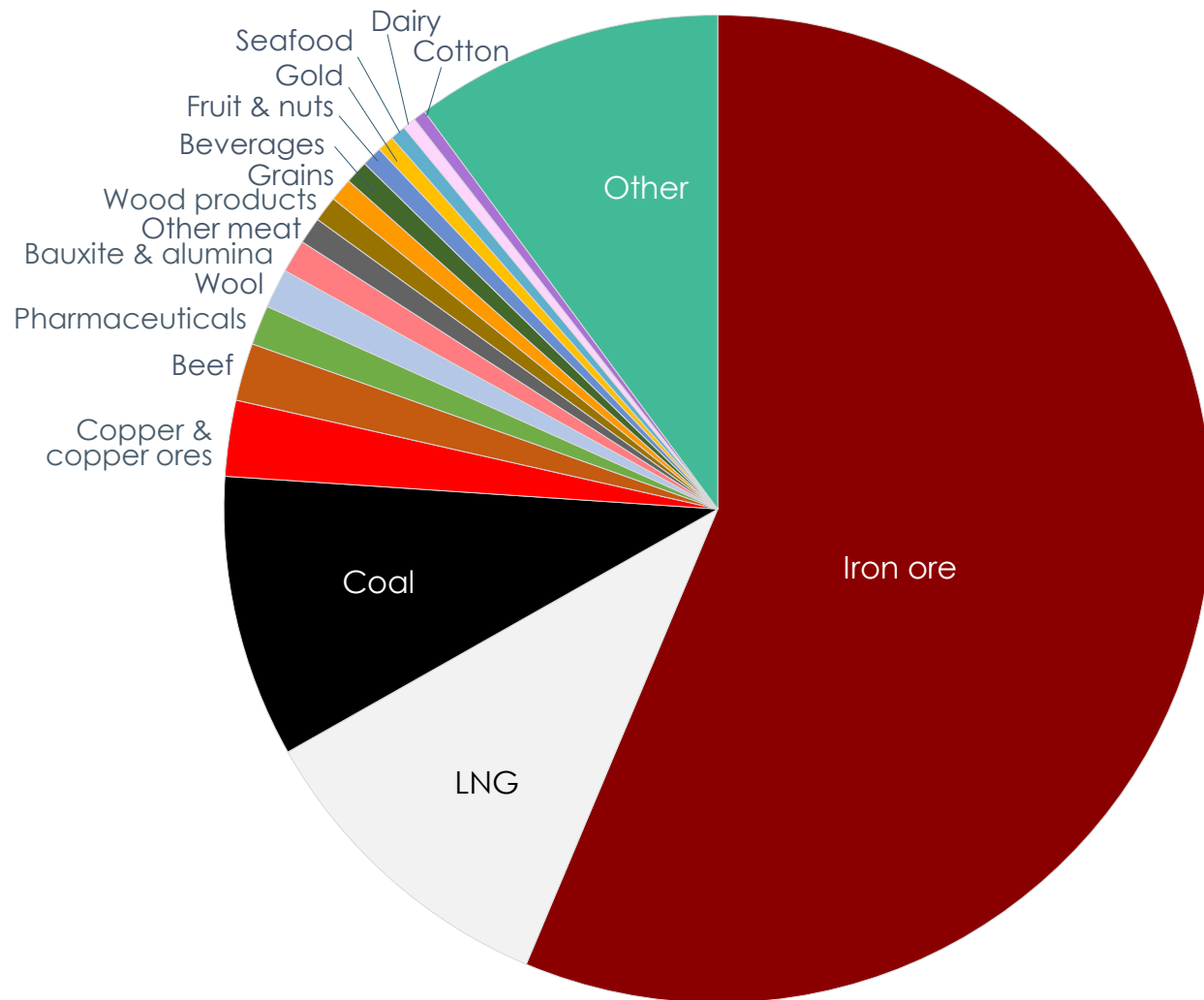


Note: 'Other East Asia' includes Japan, Korea, Taiwan, Hong Kong and ASEAN. 'Europe' includes the EU, UK and Switzerland. 'Other' includes India, New Zealand and the Pacific, Canada, Latin America, Africa, the Middle East and others not included in the foregoing. Latest data are for August. Source: ABS, [International Trade in Goods and Services, Australia](#), October 2021. November data will be released on 11<sup>th</sup> January 2022. [Return to "What's New"](#).



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

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



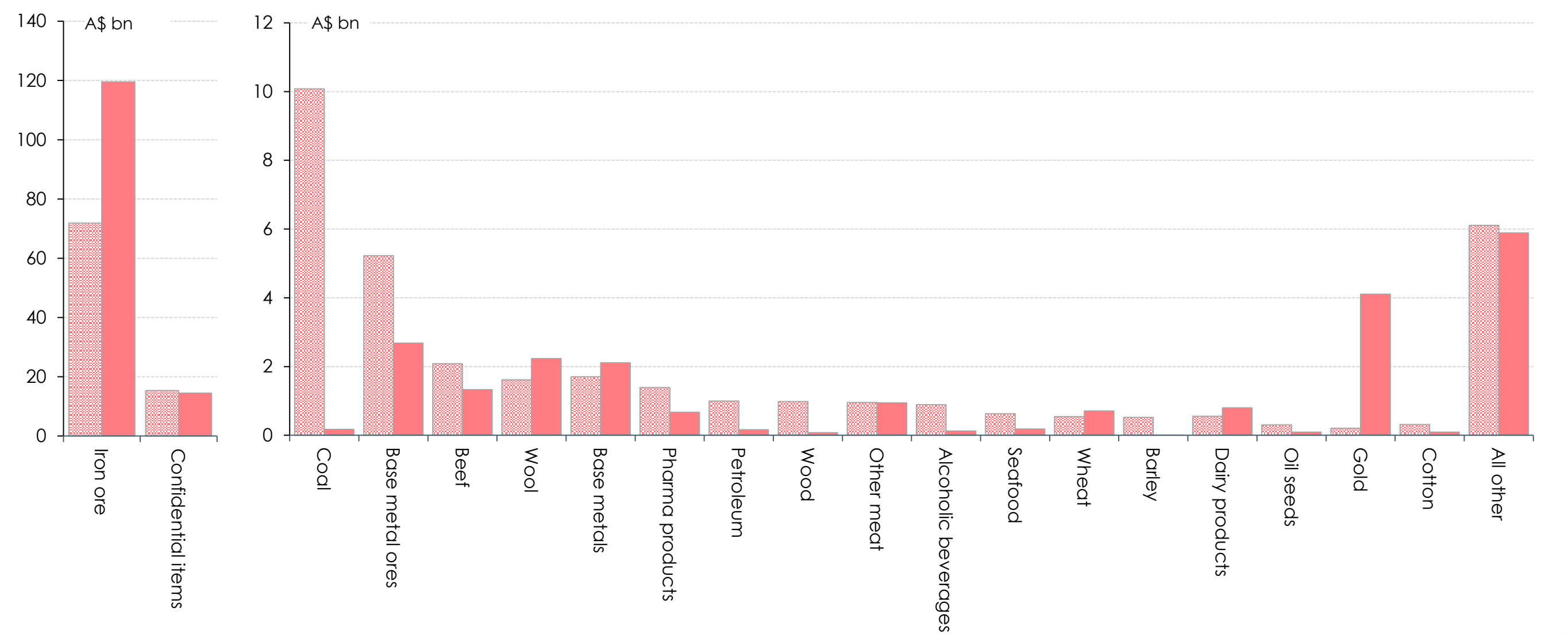
- ❑ China accounted for 39½% of Australia's merchandise exports in FY 2019-20 (the largest proportion any country has since the mid-1950s when 36% of Australia's exports went to the UK)
  - of which iron ore & concentrates accounts for 56%
- ❑ China also accounted for 19% of Australia's services exports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

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

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

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

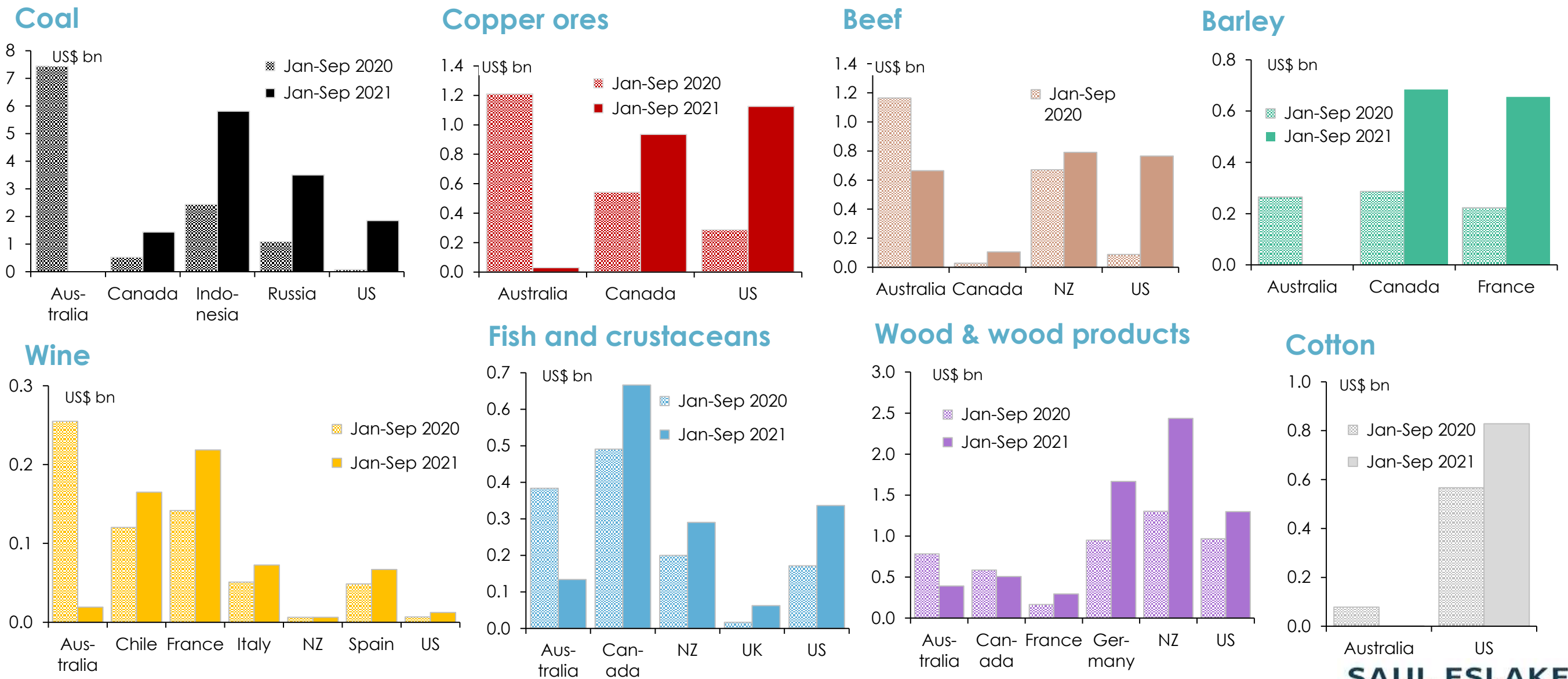
Australian exports to China, ten months to August 2021 compared with ten months to August 2020



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

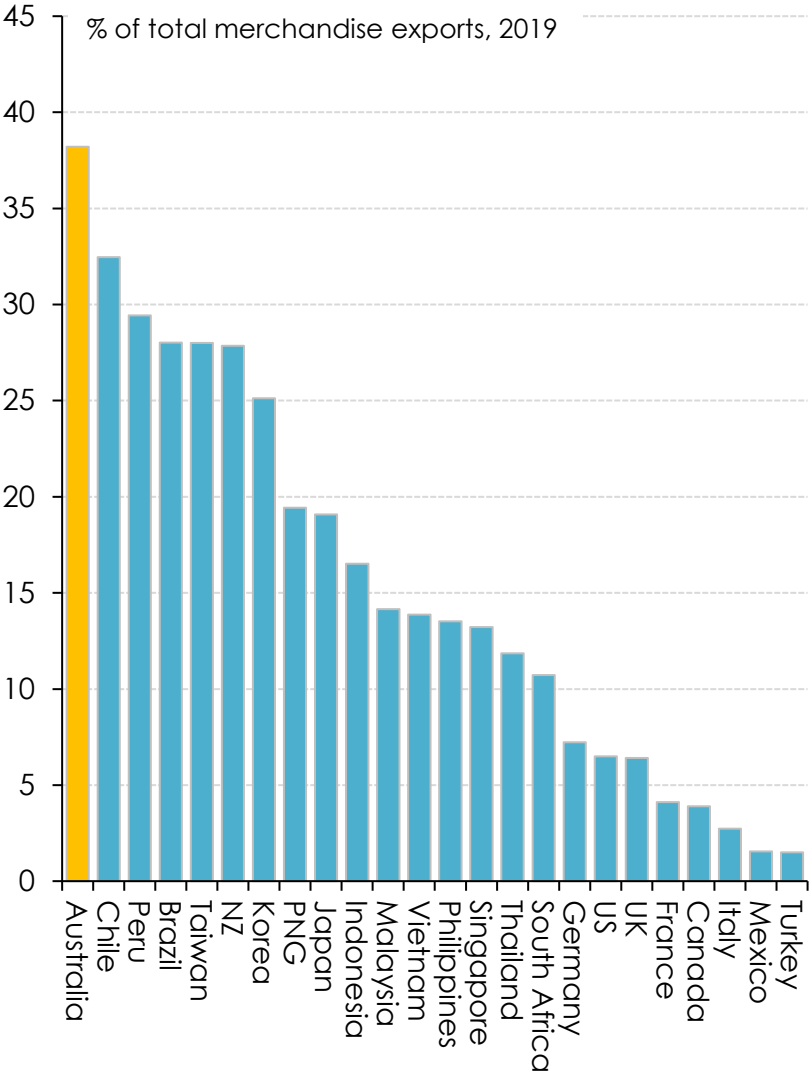
# “With friends like these ...” – how Australia’s ‘allies’ have been ‘cutting our lunch’ in trade with China

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

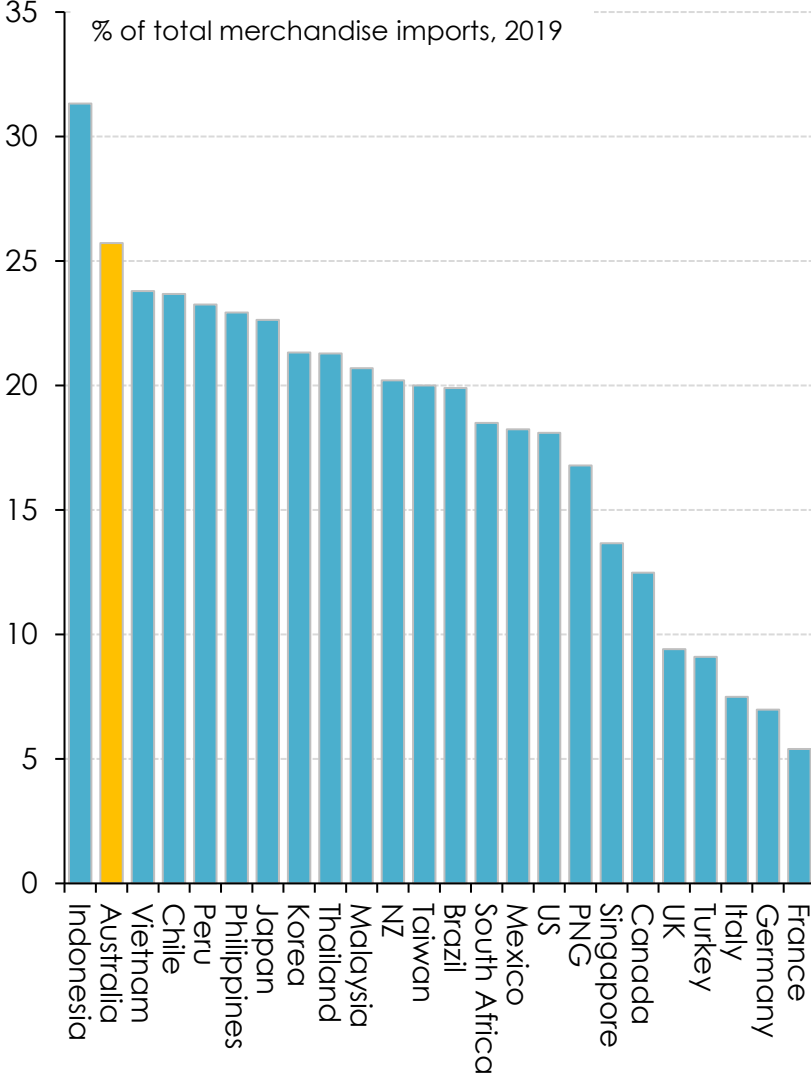


# China can cause Australia economic pain because we're very dependent on it, and are one of the few countries with whom China runs a deficit

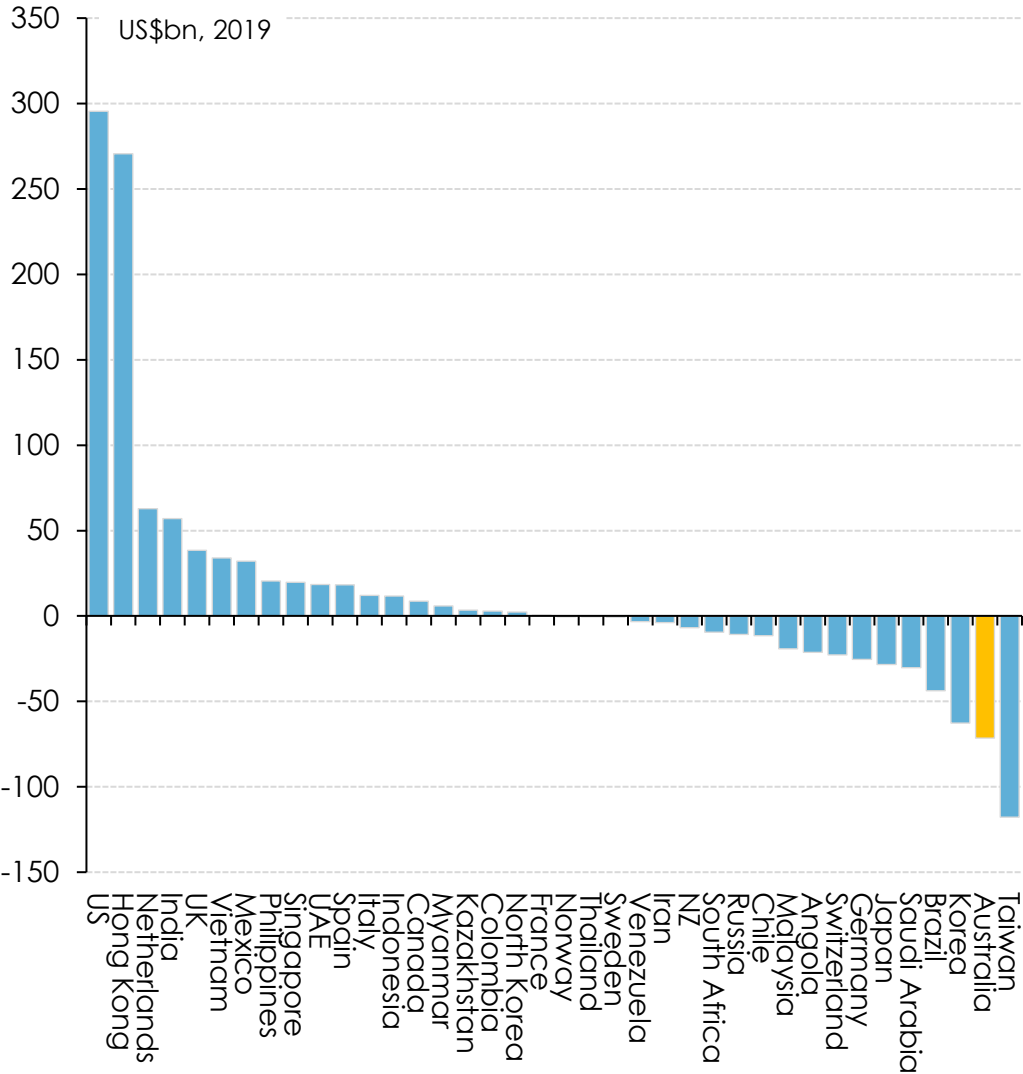
Merchandise exports to China as a pc of total



Merchandise imports from China as a pc of total



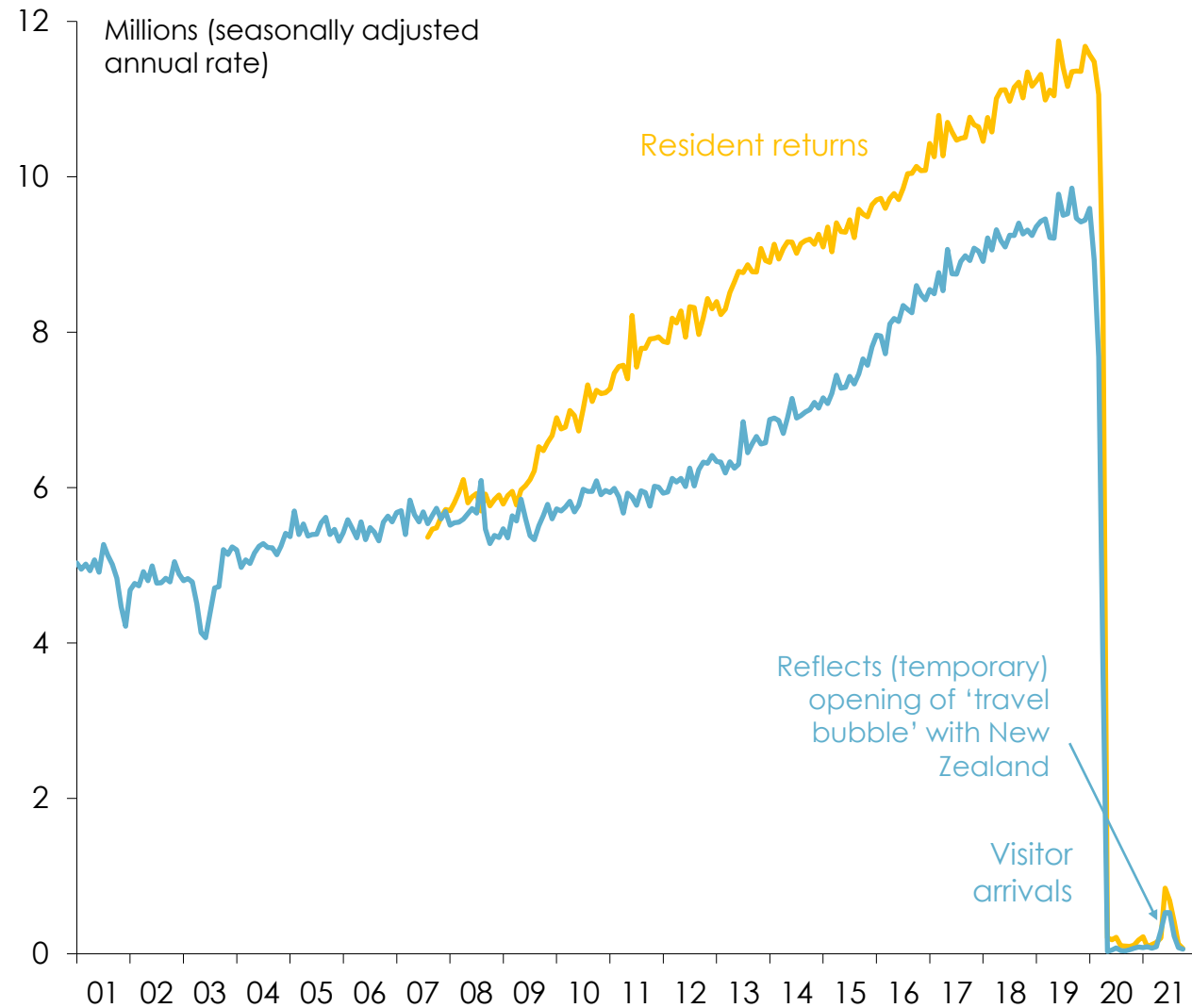
China's bilateral merchandise trade balances



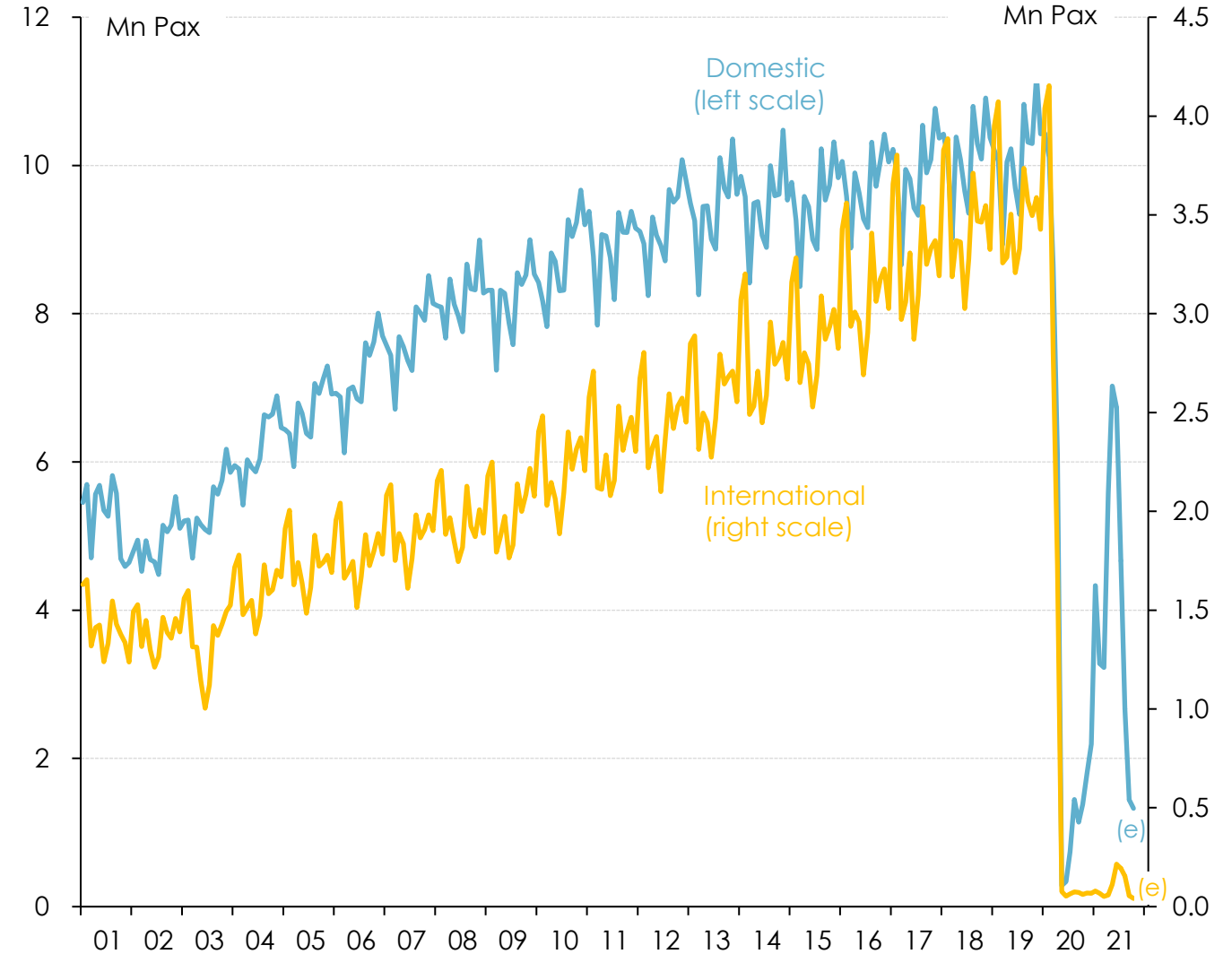
Sources: IMF, Direction of Trade Statistics; Taiwan Ministry of Economic Affairs, Bureau of Foreign Trade. [Return to "What's New"](#).

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

## Short-term visitor arrivals and resident returns



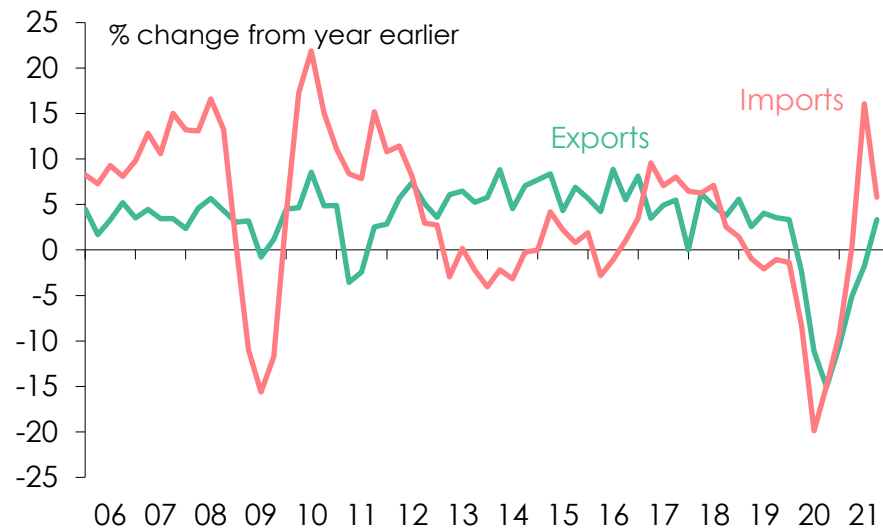
## Airport passenger movements



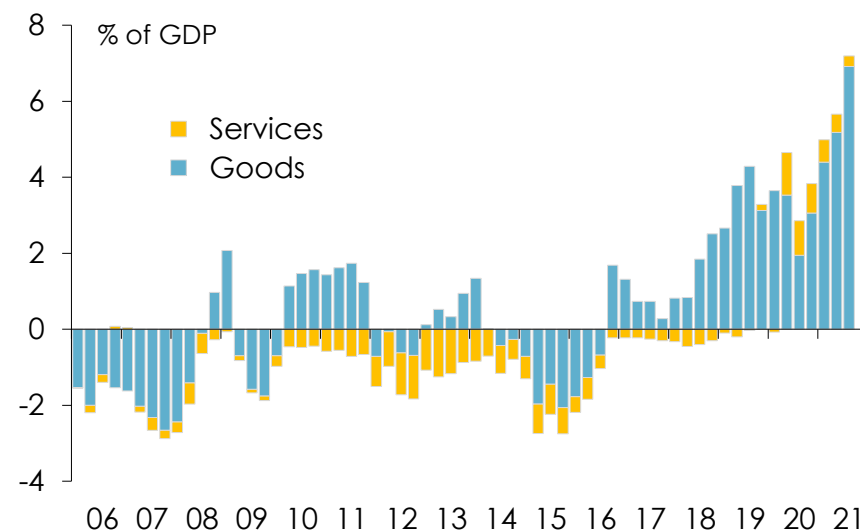
Note: The ABS has suspended publication of seasonally adjusted estimates of short-term visitor arrivals and resident returns, so published original estimates for April 2020 (and beyond) have been seasonally adjusted by Corinna using the same seasonal factors as for the corresponding month of 2019. Latest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

# Australia posted another record current account surplus in the Q3, thanks to another large gain in export prices – but that's probably the peak

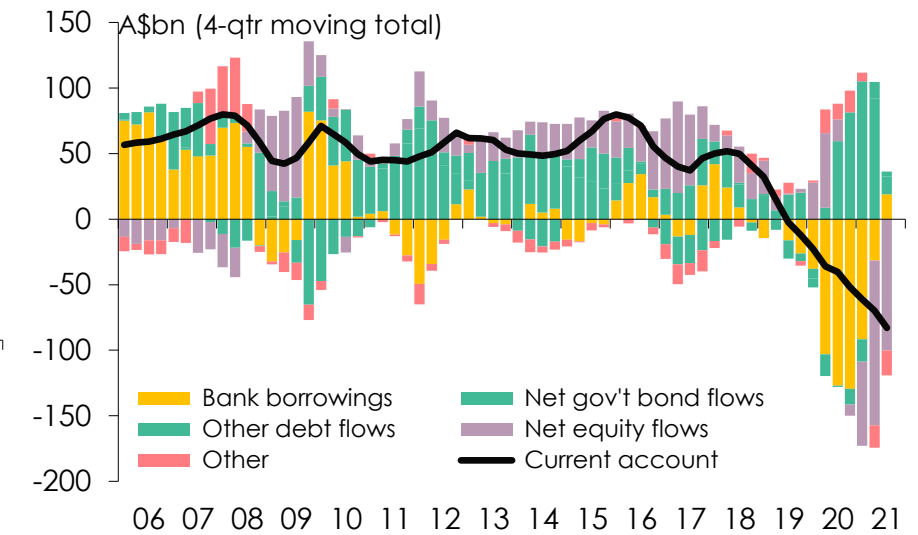
## Export and import volumes



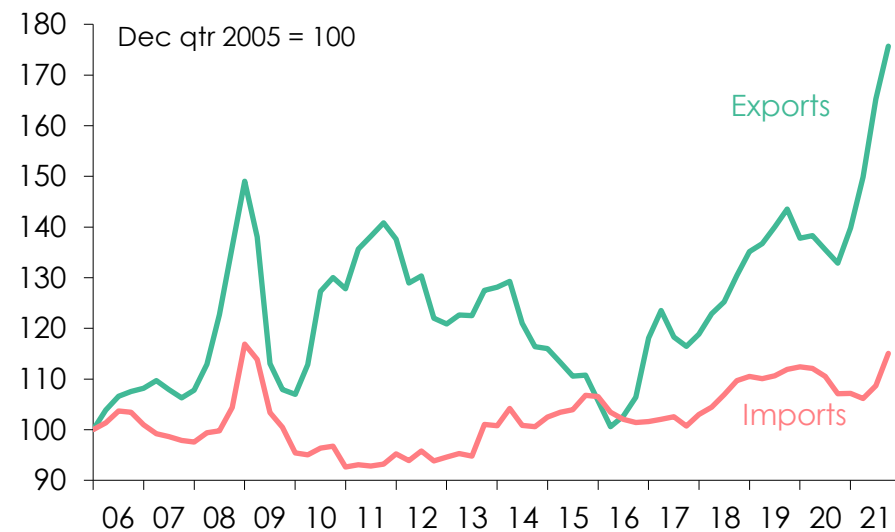
## Goods & services trade balances



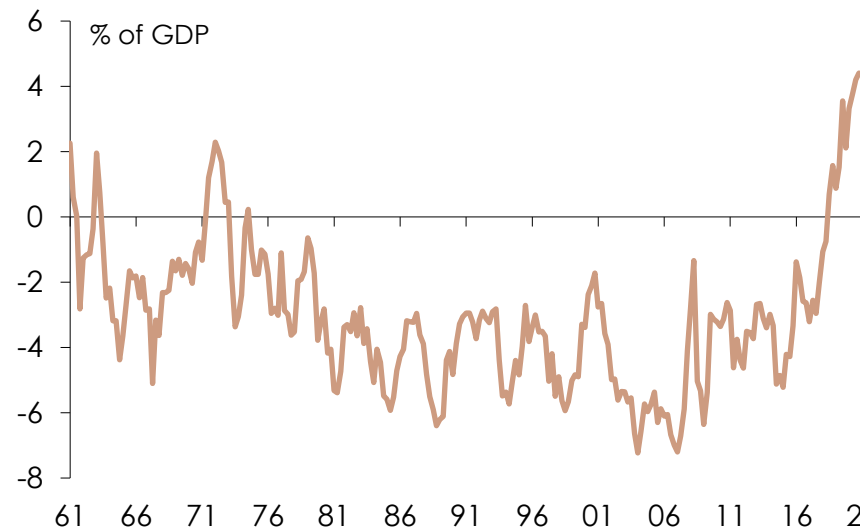
## Capital flows



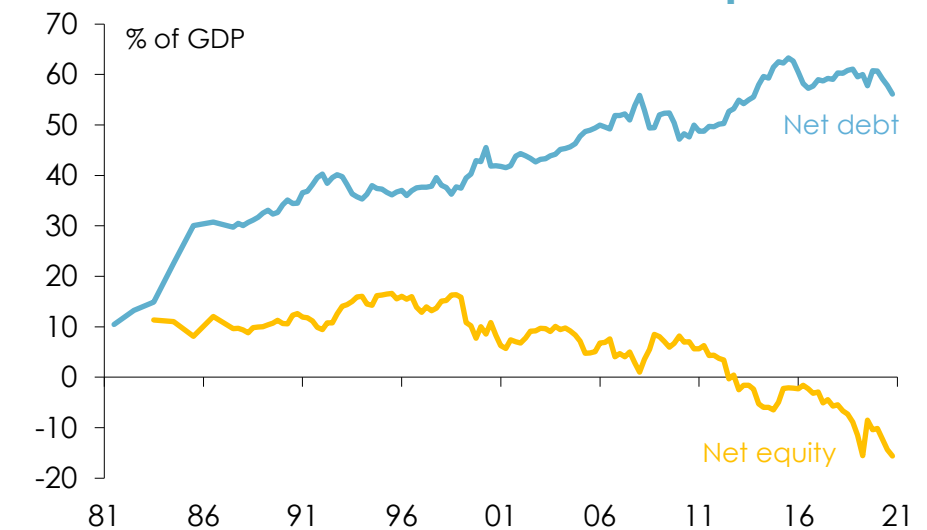
## Export and import prices



## 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 September quarter 2021; December quarter data will be released on 1<sup>st</sup> March 2022. Source: ABS, [Balance of Payments and International Investment Position, Australia](#). [Return to "What's New"](#).

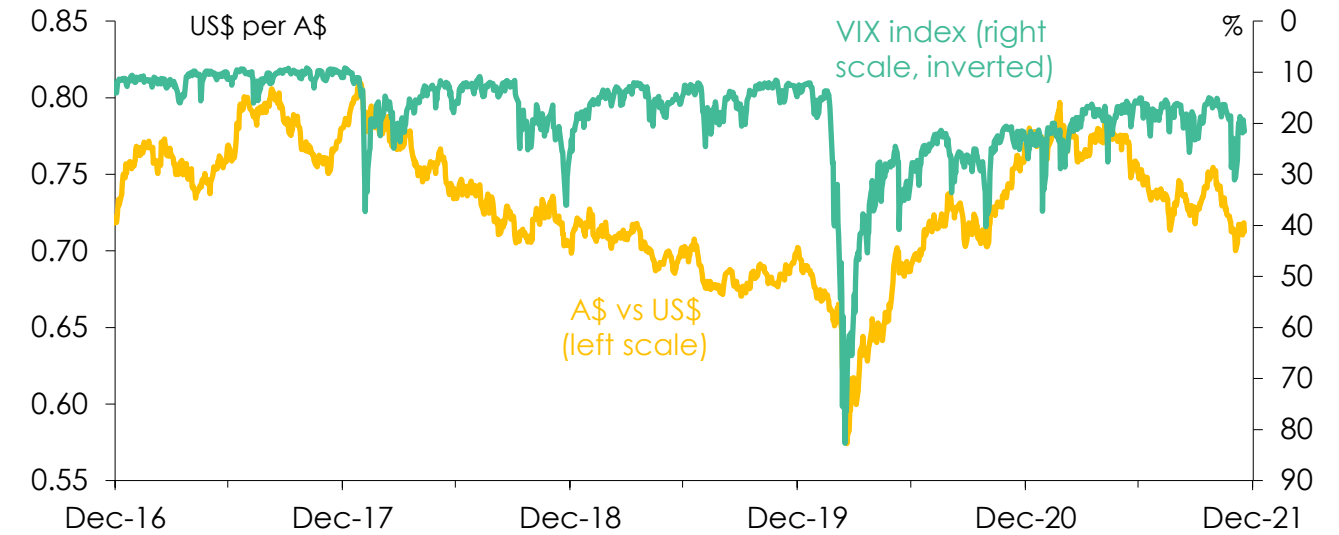


# The A\$ dropped back to US71.25¢ this week, despite a higher iron ore price, which was offset by a stronger US\$ and weaker investor risk appetites

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



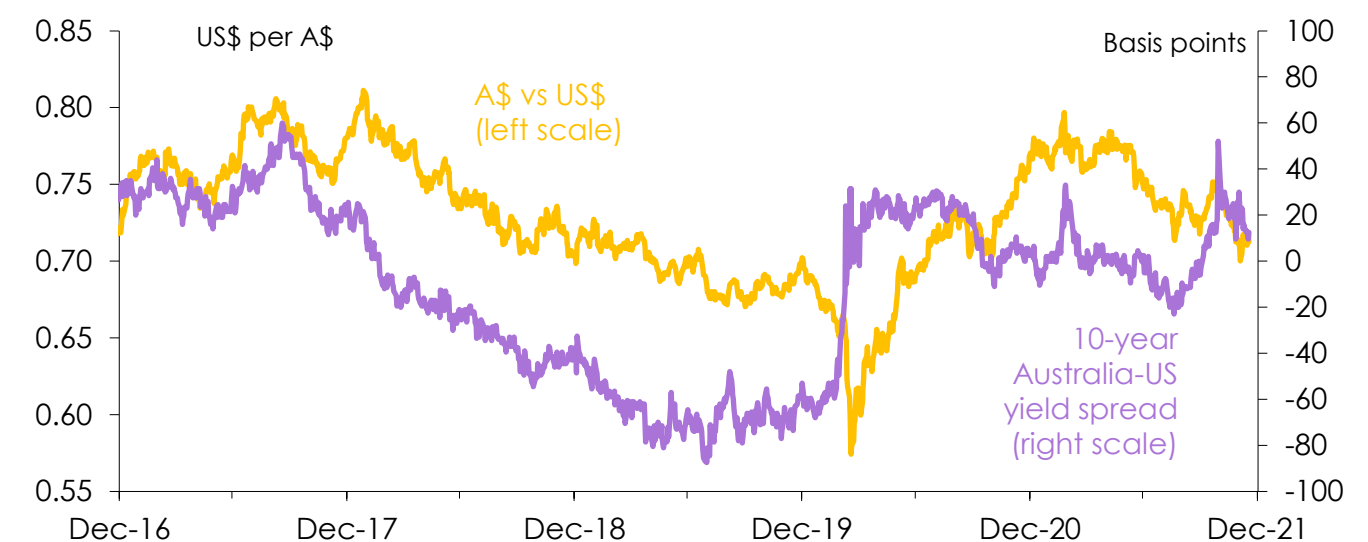
## A\$-US\$ and US equity market volatility



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



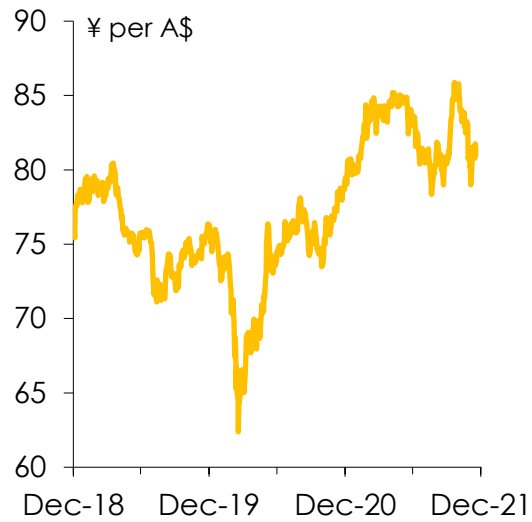
## A\$-US\$ and Australia-US 10-year bond yield spread



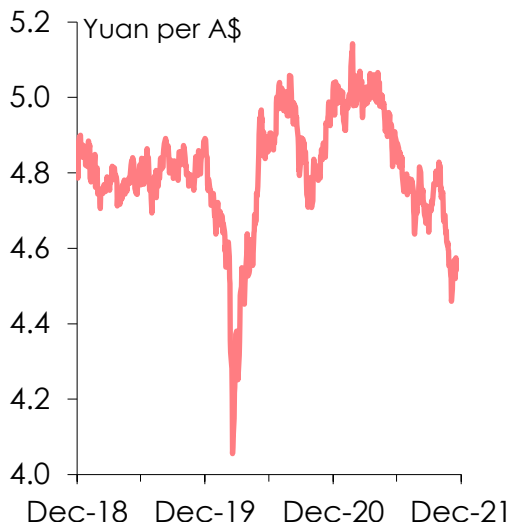
Note: The DXY is an index of the value of the US dollar against 6 other currencies (the euro, yen, pound, Canadian dollar, Swedish krona and Swiss franc). The VIX index is a measure of the implied volatility of S&P500 options and is widely interpreted as an indicator of investor risk appetite or aversion. Source: Refinitiv Datastream. Data up to 17<sup>th</sup> December. [Return to "What's New"](#).

# The A\$ also fell against most third currencies (except the C\$ and NZ\$), losing 0.7% vs the won, and 0.4% vs the euro and yen

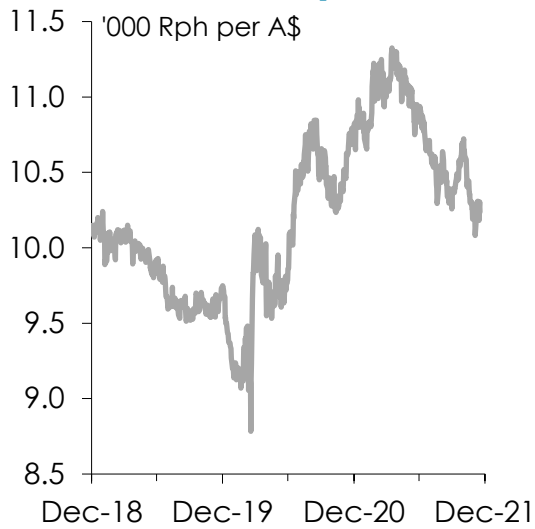
## A\$ vs Japanese yen



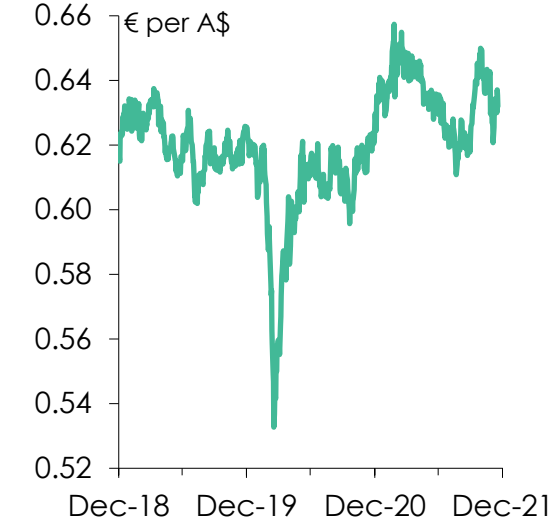
## A\$ vs Chinese yuan



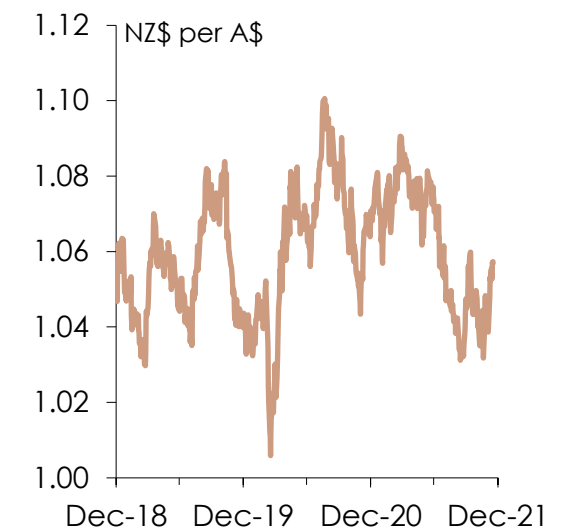
## A\$ vs Indo rupiah



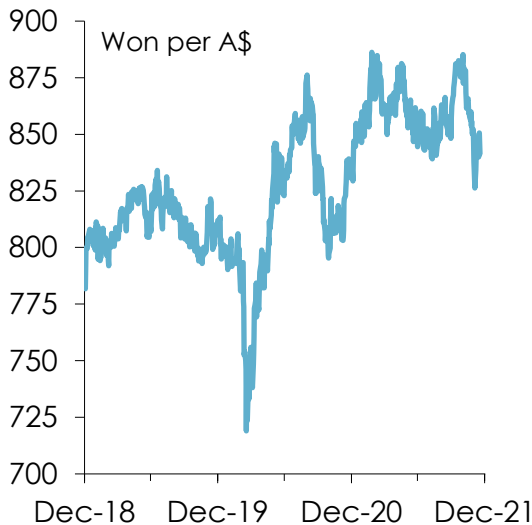
## A\$ vs Euro



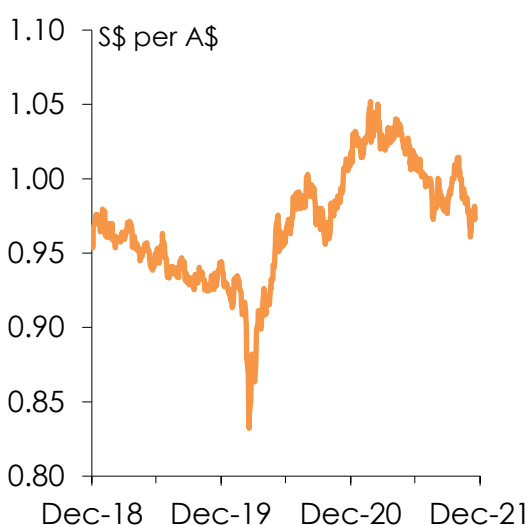
## A\$ vs NZ\$



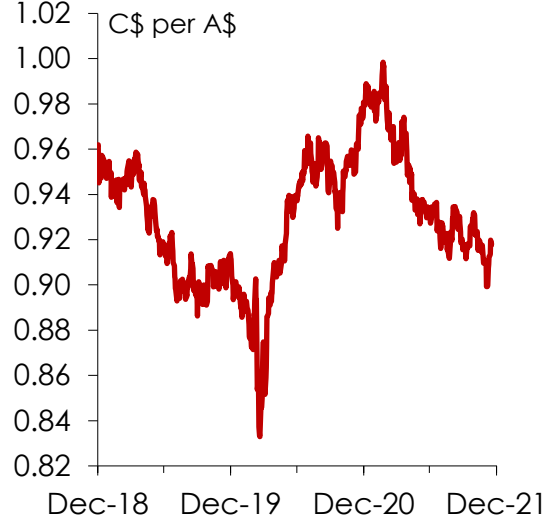
## A\$ vs Korean won



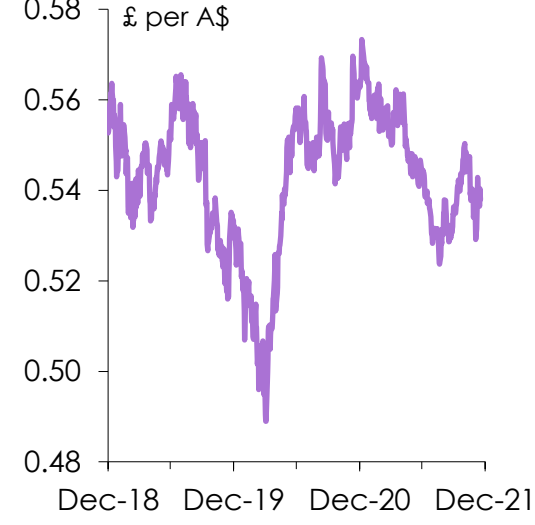
## A\$ vs Singapore \$



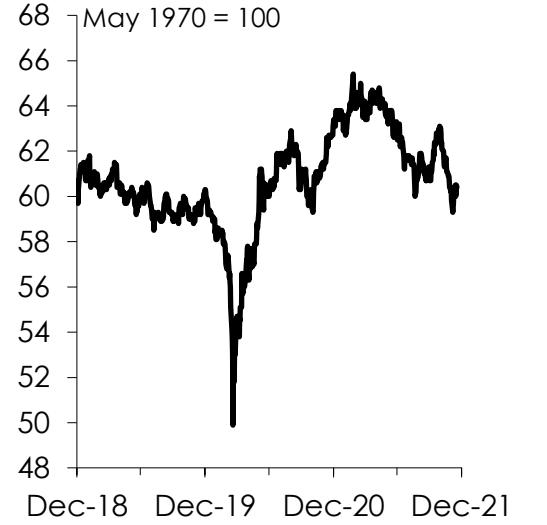
## A\$ vs Canadian \$



## A\$ vs British pound



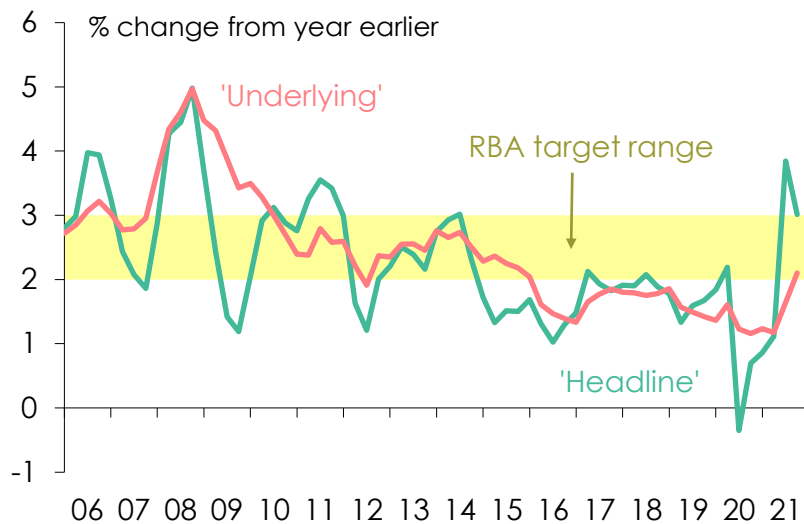
## A\$ TWI



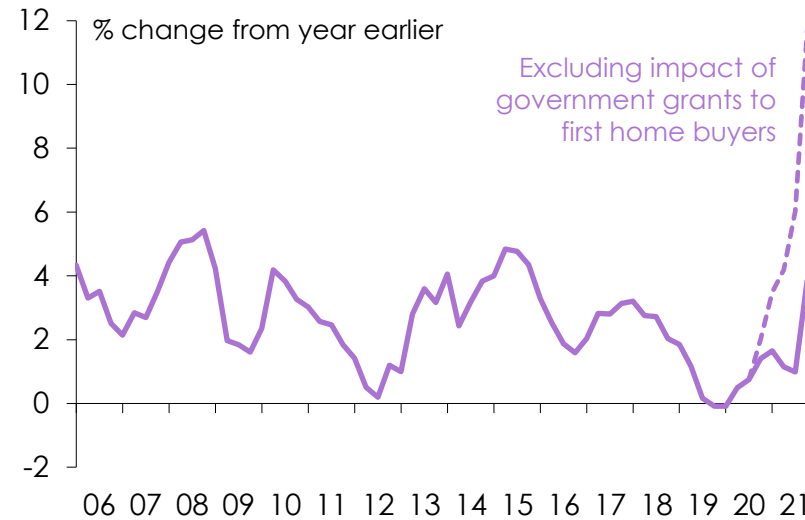
Note: The 'TWI' is the RBA's [trade-weighted index](#) of the A\$. Source: Refinitiv Datastream. Data up to 17<sup>th</sup> December. [Return to "What's New"](#).

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

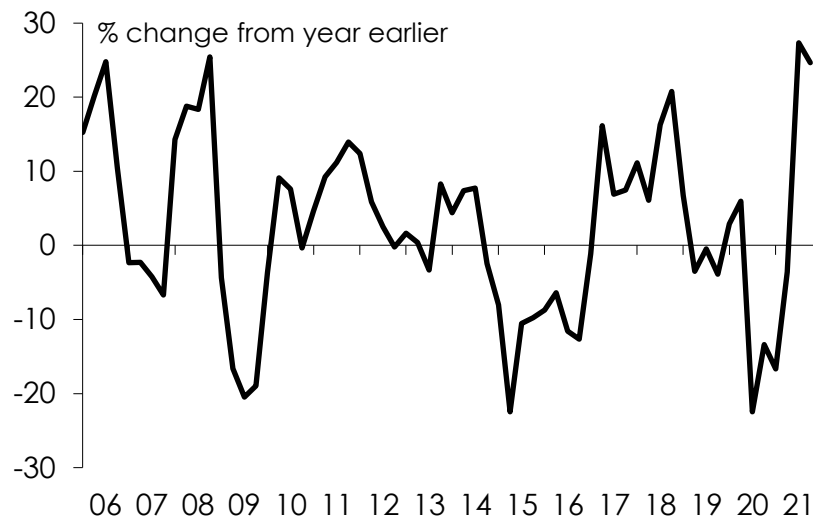
## Consumer prices



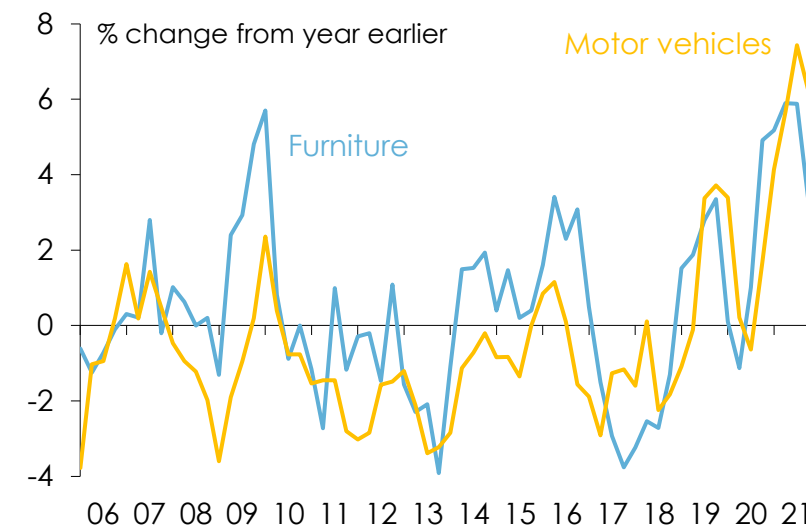
## New dwelling purchase costs



## Automotive fuel prices



## Supply-chain affected prices

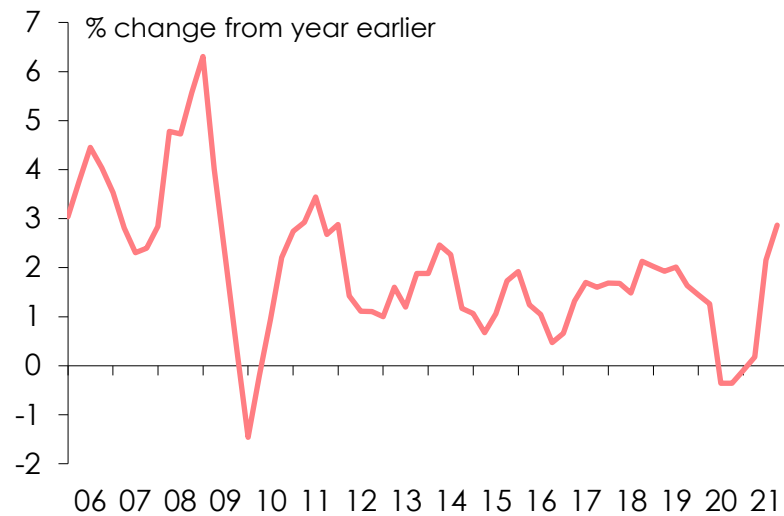


- ❑ The CPI rose 0.8%, as expected, in Q3, with the annual rate (which had been inflated in Q2 by 'base effects' especially from free child care in Q2 last year) falling from 3.8% to 3.0%
- ❑ But the statistical measures of 'underlying' rose a larger-than-expected 0.7%, the biggest quarterly increase since Q4 2013, pushing the annual 'underlying' inflation rate to 2.1%, the first time it has been inside the RBA's target band since Q4 2015
- ❑ 0.28 pc pts (or 37%) of the 0.8% rise in the CPI in Q3 came from a 3.3% increase in new dwelling purchase costs (would have been 6.5% but for the impact of government grants)
- ❑ 0.25 pc pts (33%) of the Q3 increase came from a 24.6% increase in petrol prices, 0.09 pc pts (12%) from increased prices for meals out and take-away foods, and 0.08 pc pts (11%) from supply-chain affected items such as furniture and cars
- ❑ The larger-than-expected rise in measures of 'underlying' inflation (which exclude these 'outliers') is partly due to an unusually small number of items experiencing price falls

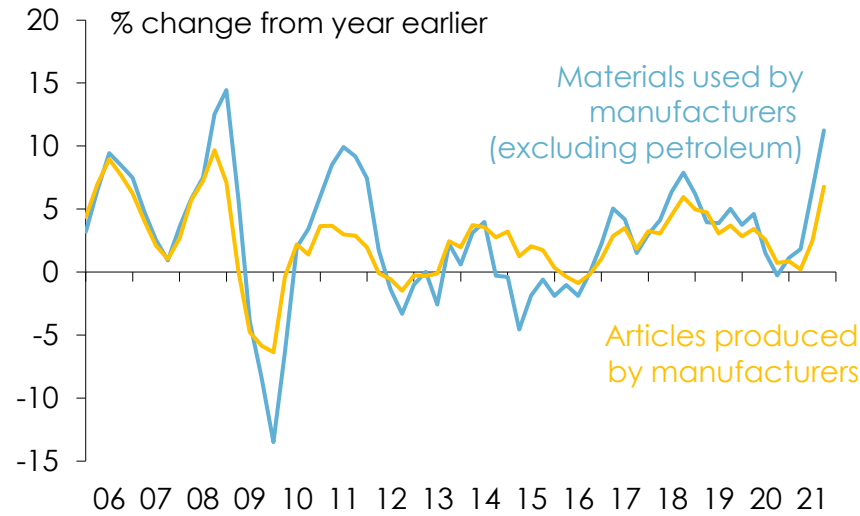
Note: 'Underlying' inflation is the average of the weighted median and trimmed mean CPIs. Wage price indices exclude bonuses.  
Sources: ABS, [Consumer Price Index, Australia](#). The December quarter (Q4) CPI will be released on 25<sup>th</sup> January. [Return to "What's New"](#).

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

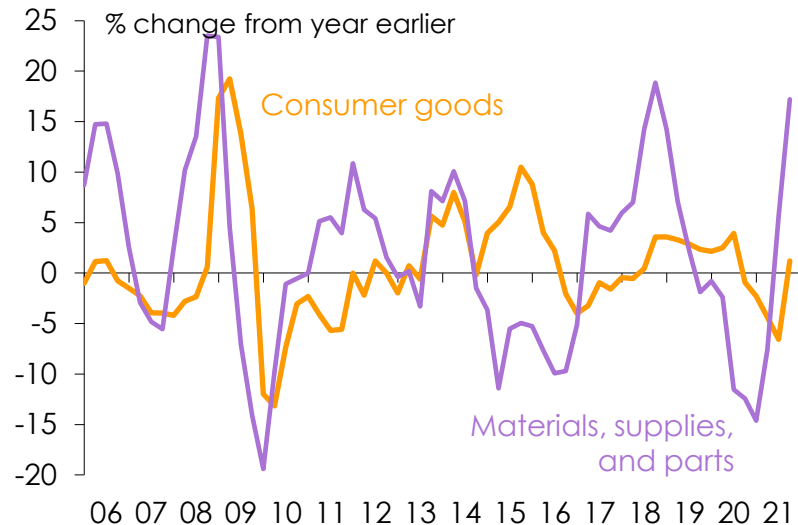
## Producer price index



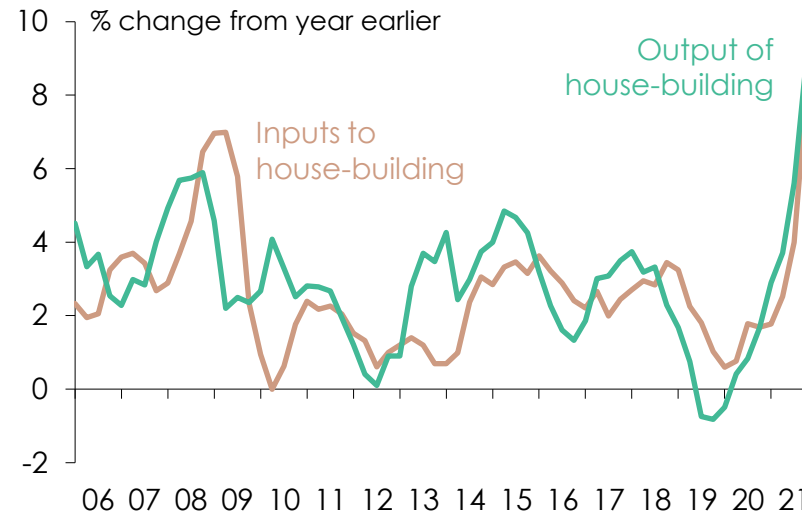
## Manufacturing input & output prices



## Imported consumer goods prices



## Construction input & output prices

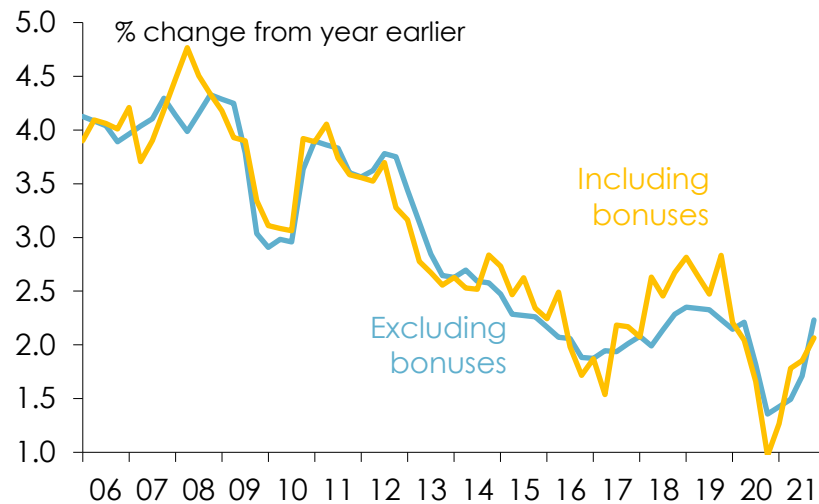


- Until the September quarter there had been very little evidence in Australia of the 'upstream' inflation pressure apparent in many other economies – with the exception of the construction sector
- However the producer price index (which in Australia includes a range of services sectors, but excludes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

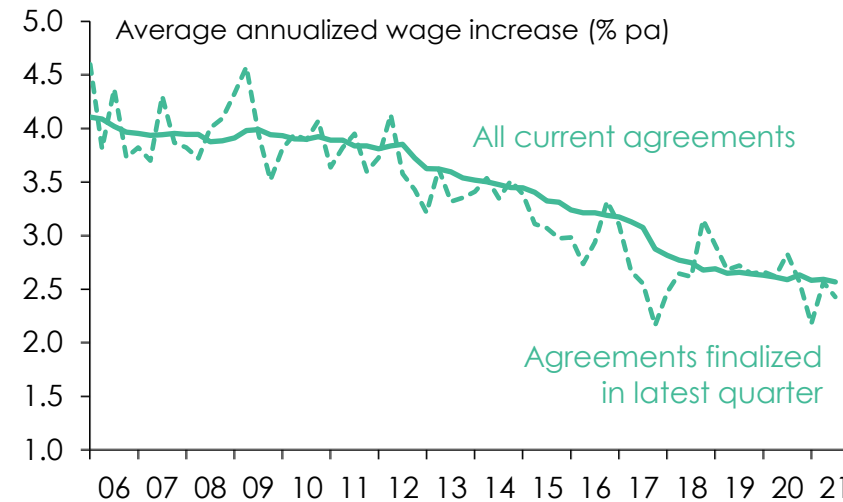
Sources: ABS, [Producer Price Indexes, Australia](#) and [International Trade Price Indexes, Australia](#), September quarter 2021.  
[Return to "What's New"](#).

# 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

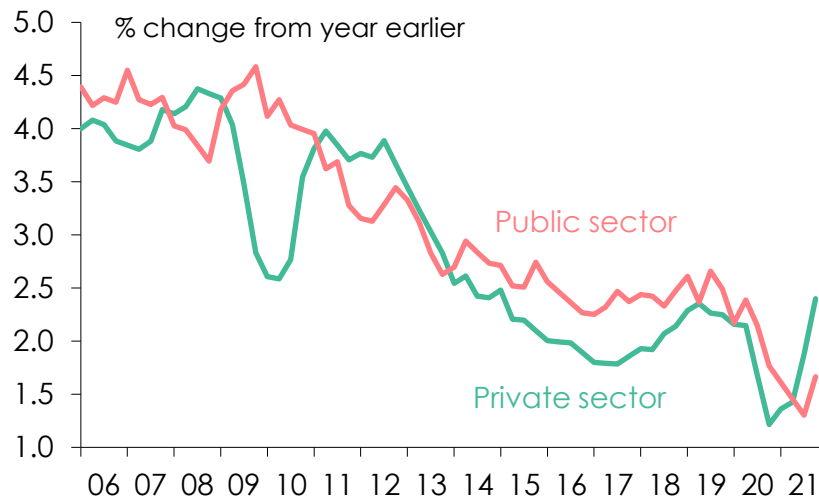
## Wage price index – all sectors



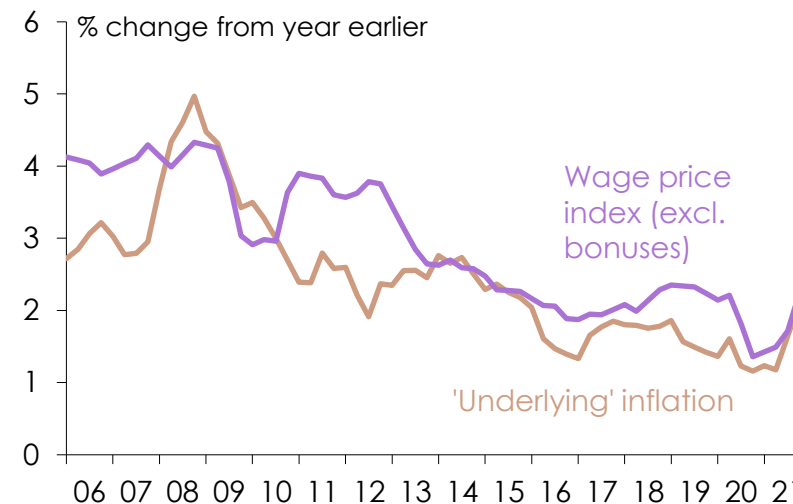
## Enterprise bargaining agreements



## WPI – private vs public sectors



## WPI and 'underlying' CPI inflation

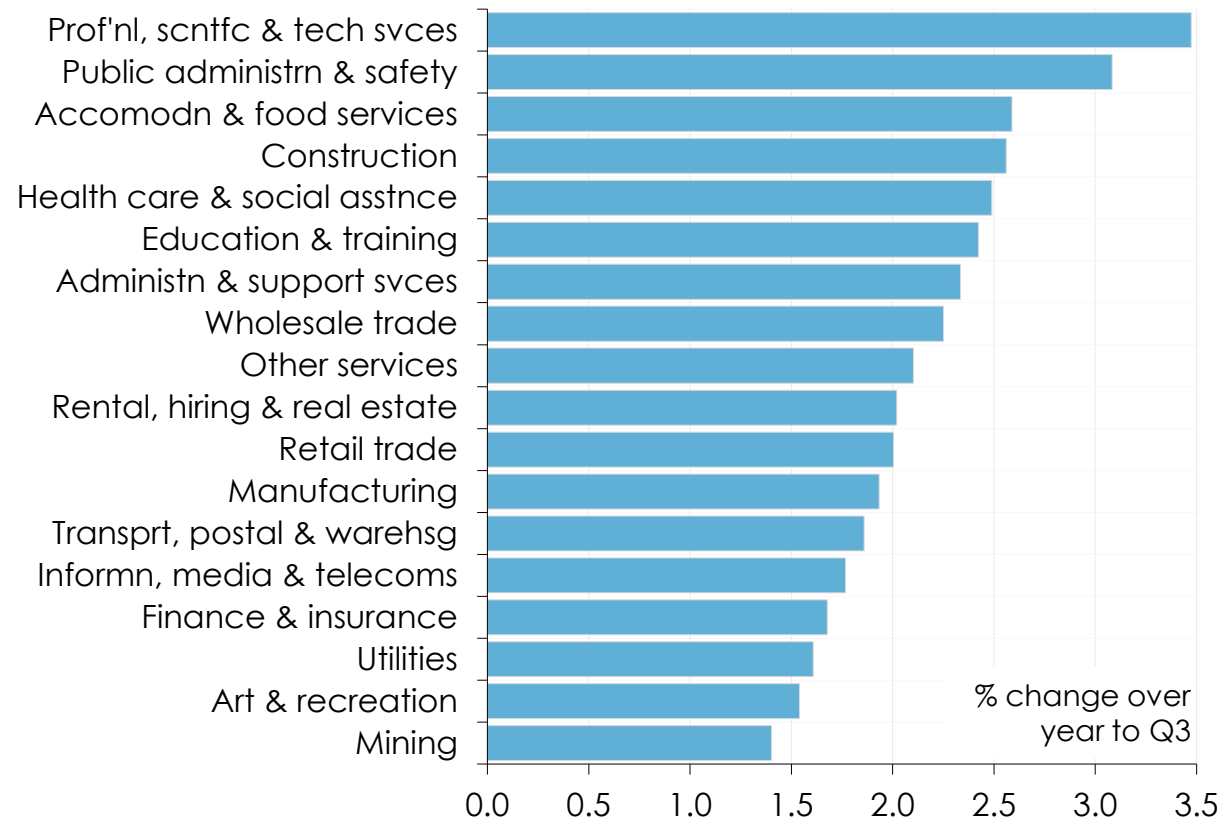


- ❑ The wage price index (excl. bonuses) rose 0.6% in Q3, up from 0.4% in Q2 but in line with Q1 and Q4 last year, pushing the annual rate back up to 2.2%, where it was in Q1 last year
- ❑ In other words, wages growth has now reverted to its (fairly weak) pre-Covid trend
  - it remains well short of the “3 point something percent” which RBA Governor Philip Lowe last month 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



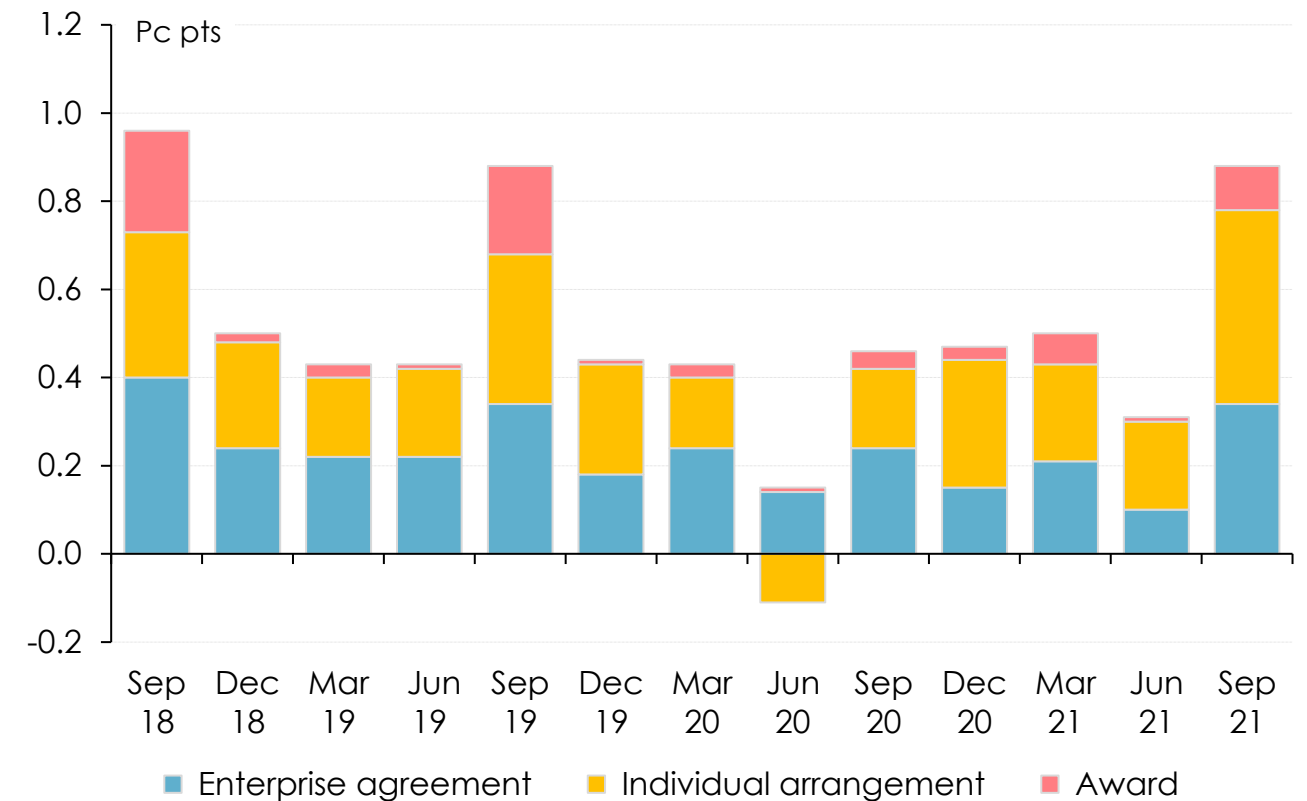
# The slight pick up in wages growth in Q3 largely reflects individual agreements in a few sectors, plus an end to public sector 'wage freezes'

## 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



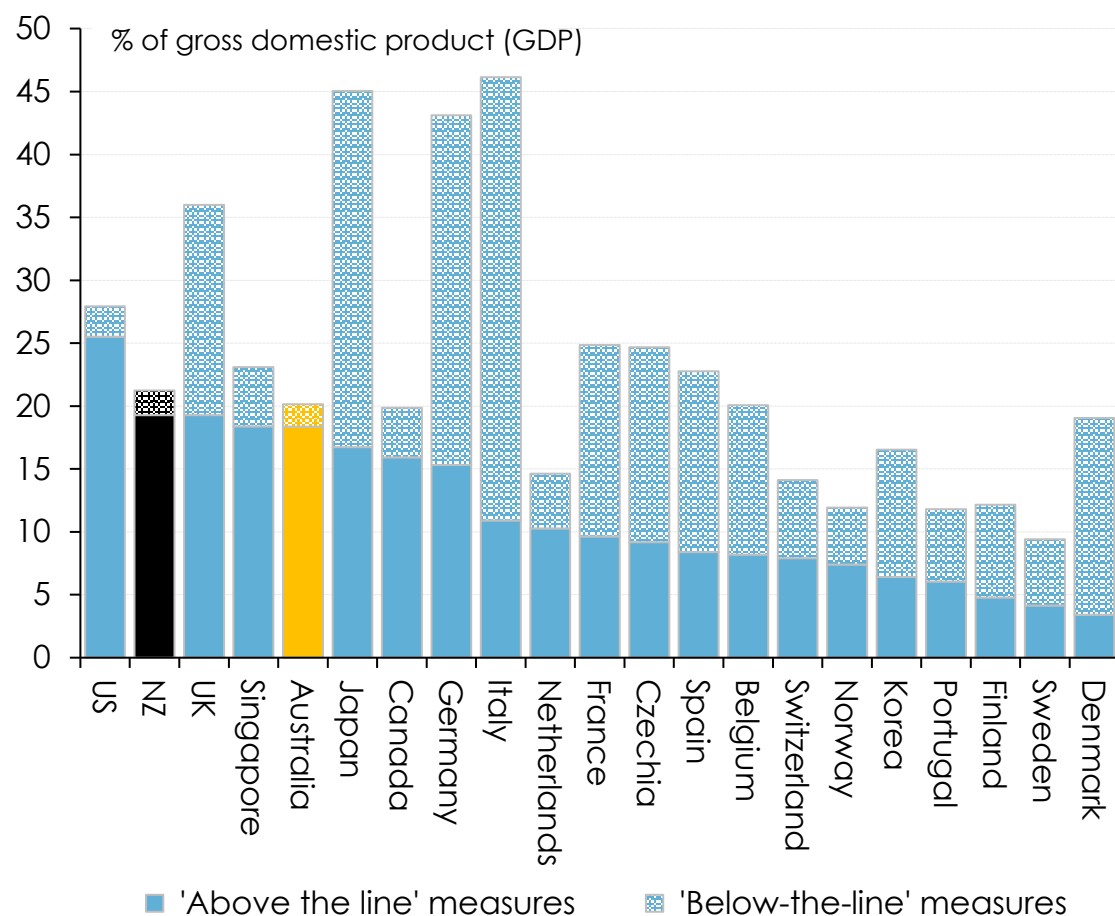
- ❑ Pay settings by individual arrangements (which are more sensitive to labour market conditions) made a larger contribution to wages growth in Q3



# 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

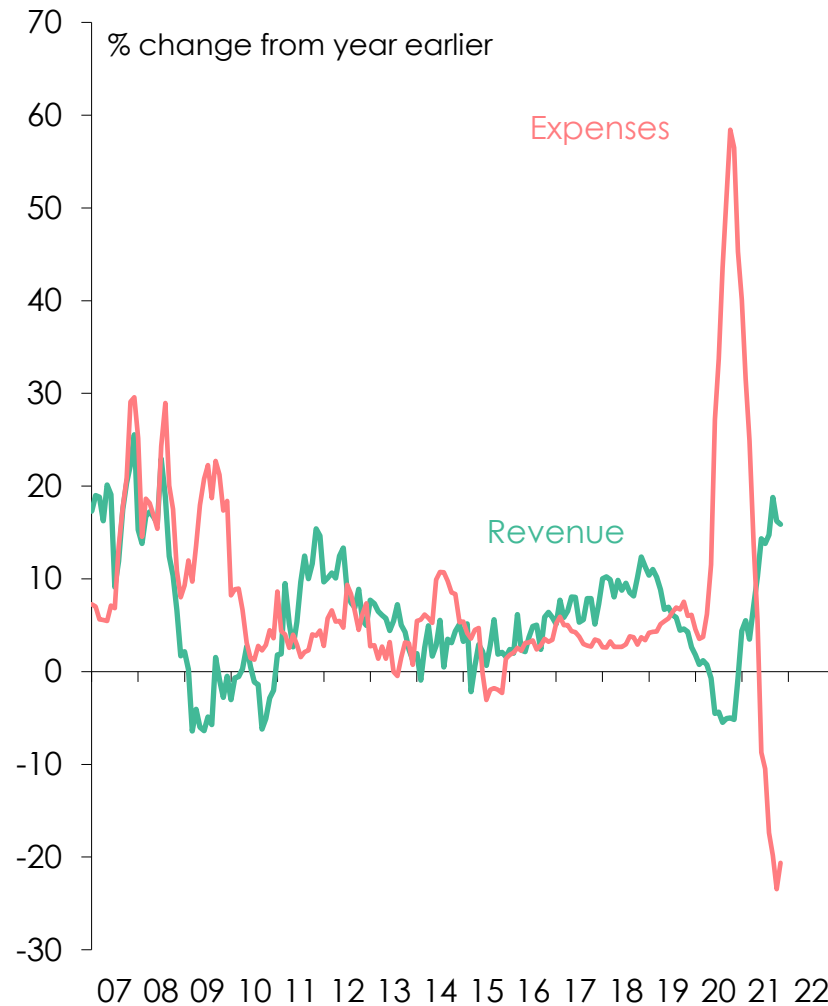


Note: 'Above the line' measures comprise additional or accelerated spending and deferred or foregone revenue. 'Below the line' measures comprise equity injections, loans, asset purchases and debt assumptions, but do not include loan guarantees or other contingent liabilities. 'DMs' means 'developed markets'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

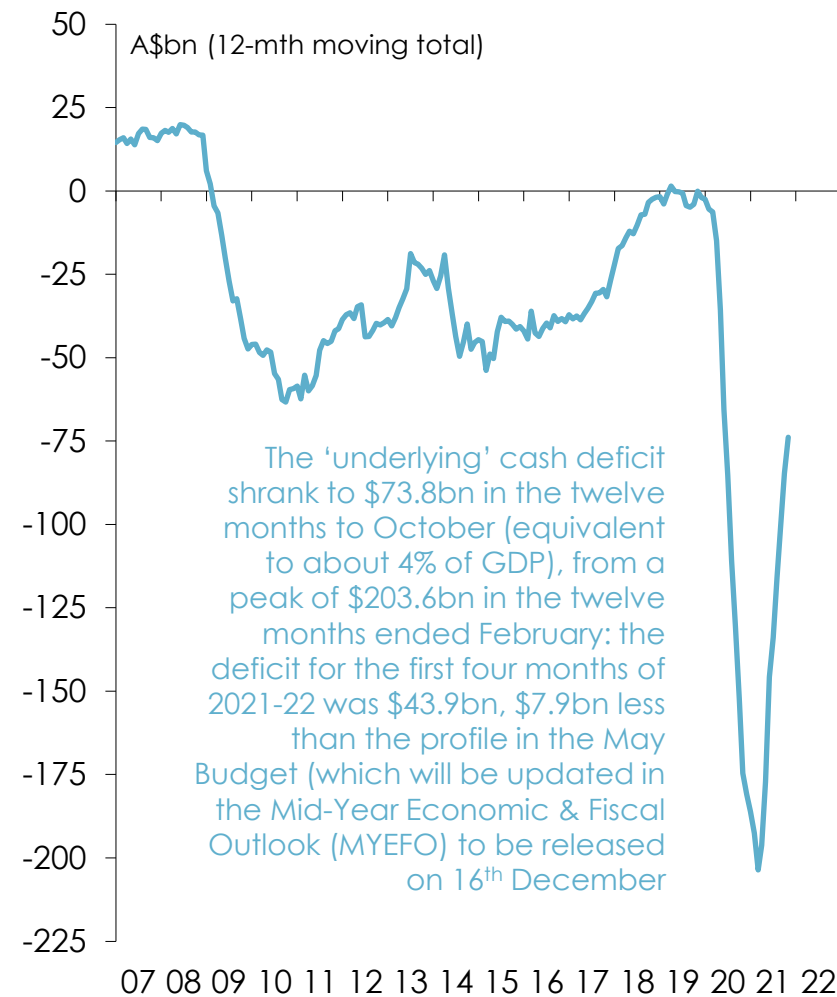
- ❑ Policy measures announced by the Australian and state/territory governments in response to Covid-19 (up to end-September this year) have been equivalent to more than 18% of GDP – the fifth highest of any 'advanced' economy, according to IMF estimates released in October
  - this week's Mid-Year Economic & Fiscal Outlook put total federal government measures since the onset of the pandemic at \$337bn (16.3% of GDP)
- ❑ 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 \$13.1bn to 2.4mn people displaced from employment by restrictions, or forced into quarantine or self-isolation
  - of which \$7.48bn was paid to people in NSW, \$4.45bn to people in Victoria, and \$345mn 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 \$390mn was paid out in November, cf. \$3.2bn in October, \$4.4bn in September and \$5.1bn in July-August

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

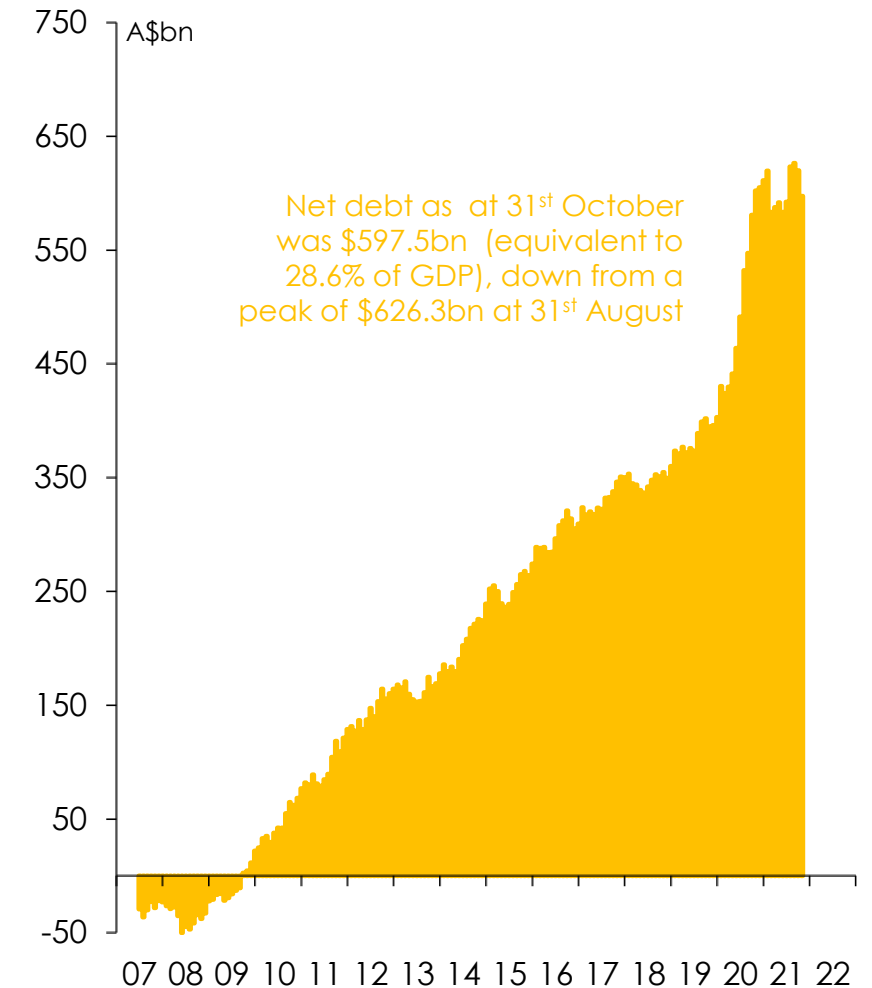
## Australian Government revenue and expenses



## Australian Government 'underlying' cash balance



## Australian Government net debt

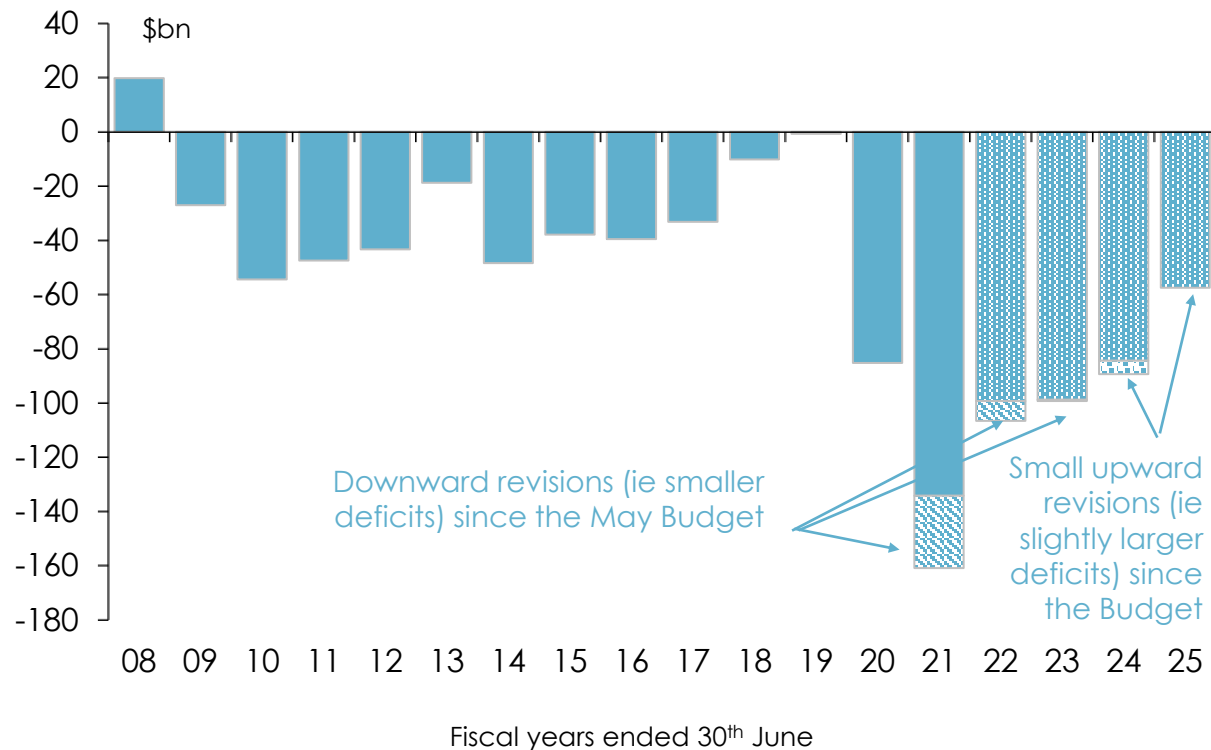


Note: Revenue and expenses are accrual accounting items. The 'underlying' cash balance is (cash) receipts minus payments, excluding transactions in financial assets for policy purposes and net earnings of the Future Fund. Net debt is total interest-bearing liabilities (government securities, deposits,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

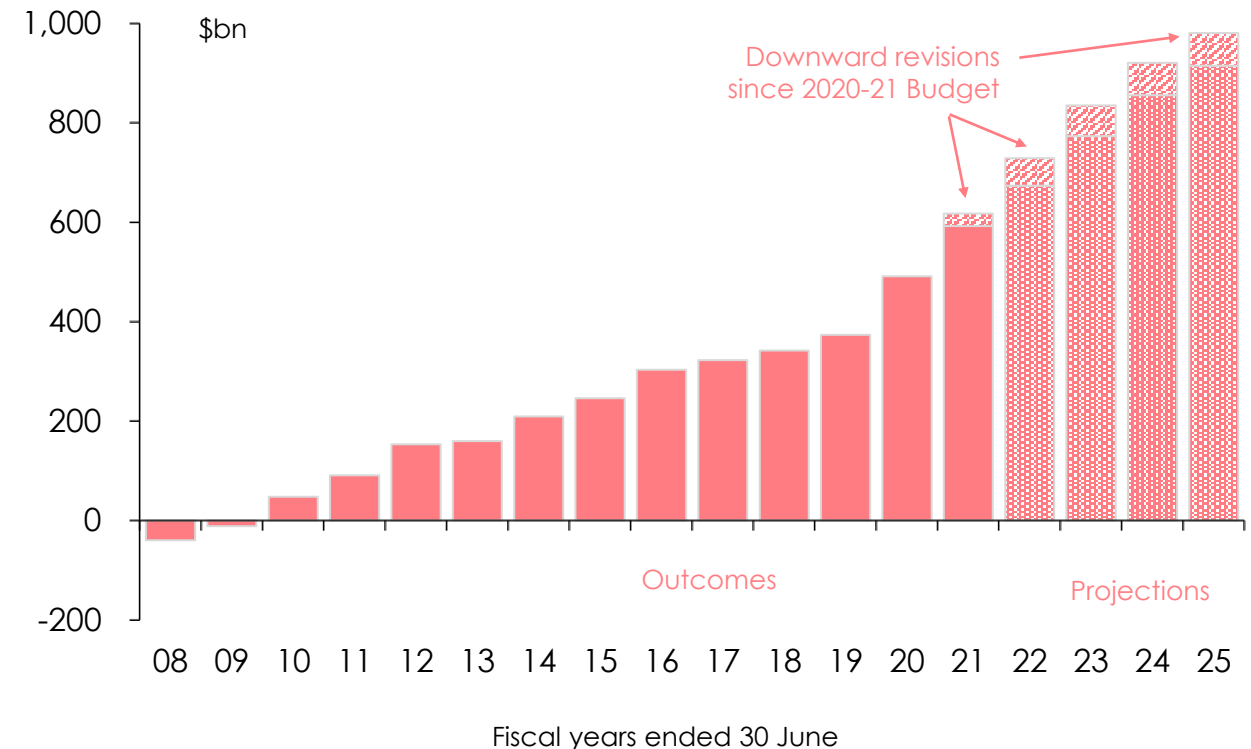
# This week's Mid-Year Economic & Fiscal Outlook lowered the forecast deficits for 2021-22 and 2022-23 but raised them for 2023-24 and 2024-25

## 2021-22 MYEFO forward estimates of the 'underlying' cash balance and net debt

### 'Underlying' cash balance



### Net debt

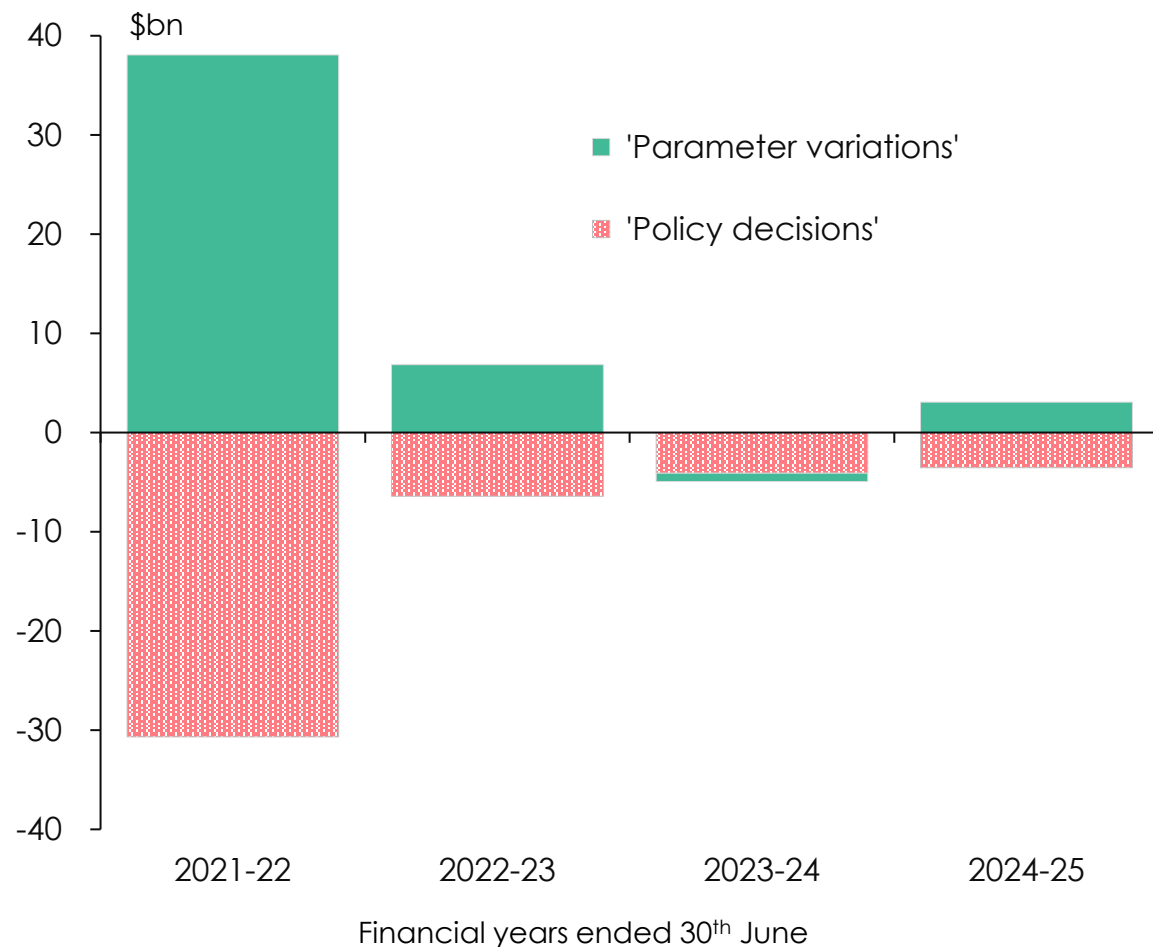


- ❑ The deficit for 2020-21 of \$134.2bn (6.5% of GDP) was \$27bn less than had been forecast in the May Budget – the deficits for 2021-22 and 2022-23 were revised down by \$7.4bn and \$0.4bn, respectively, while the deficits for 2023-24 and 2024-25 were revised up by \$5bn and \$0.5bn

- ❑ Net debt as at 30th June 2021 was \$25bn less than had been forecast in May – and the forecast for net debt as at 30th June 2025 has been revised down by \$66bn, to \$915bn (37.4% of GDP)

# The Government spent almost all of the \$47bn net 'windfall gain' to the budget since May, leaving a net improvement in the deficit of just \$2¼bn

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



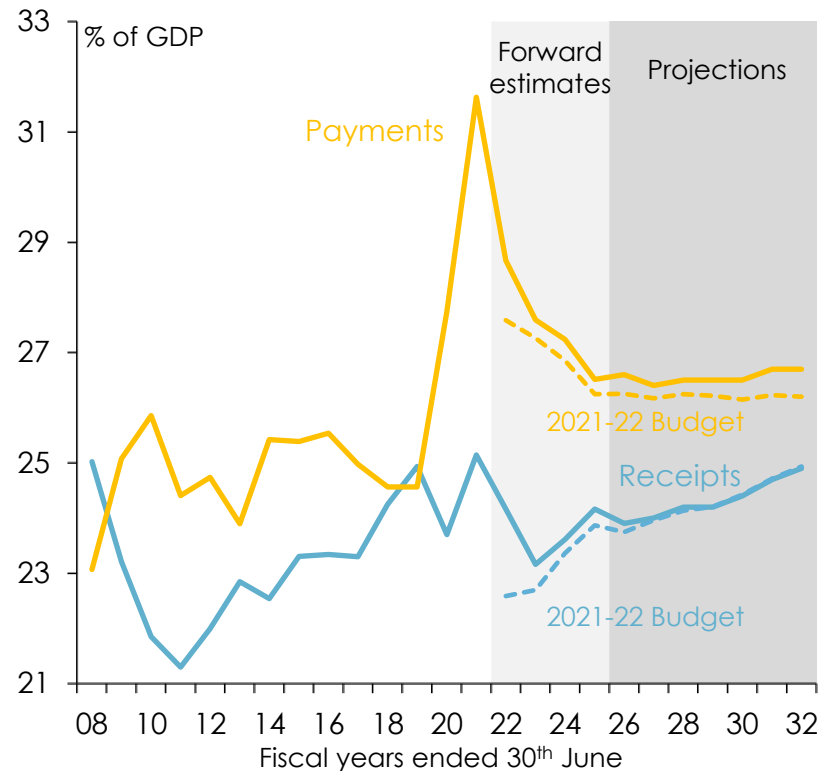
- ❑ 'Parameter variations' – revisions to projections of receipts and payments due to changes in economic and other forecasting assumptions – since the May Budget improved the projected budget 'bottom line' by a total of \$47bn over the four years to 2024-25
  - upward revisions to forward estimates of receipts totalling \$106bn (mostly higher personal and company income tax collections) were partly offset by upward revisions to forward estimates of payments totalling \$59bn (of which more than half, \$26bn, was due to increased National Disability Insurance Scheme costs)
- ❑ However 'policy decisions' taken since the Budget absorbed \$45bn of those 'windfall gains'
  - spending decisions added \$48bn to forecast cash deficits – of which \$20bn was for payments to individuals and businesses affected by recent lockdowns – while revenue decisions reduced forecast deficits by \$3bn
  - 'policy decisions' also include \$16bn of spending decisions 'taken but not yet announced', which includes 'commercial-in-confidence' vaccine deals but also suggests a significant 'war-chest' for pre-election announcements
- ❑ As a result, the net improvement in the budget deficit over the four years to 2024-25 is a mere \$2.3bn

Source: Australian Government, 2021-22 [Mid-Year Economic and Fiscal Outlook](#), 16<sup>th</sup> December 2021. [Return to "What's New"](#).

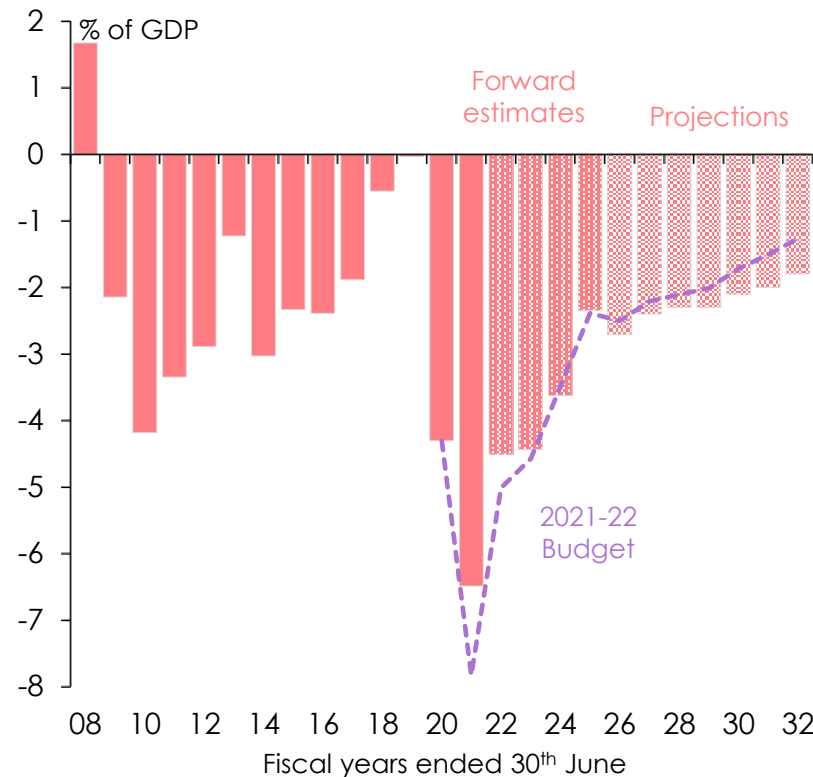
# Longer-term MYEFO projections suggest higher spending and revenues with surpluses nowhere in sight for as long as revenues are arbitrarily 'capped'

## 2021-22 Budget and MYEFO Forward estimates and medium-term projections compared

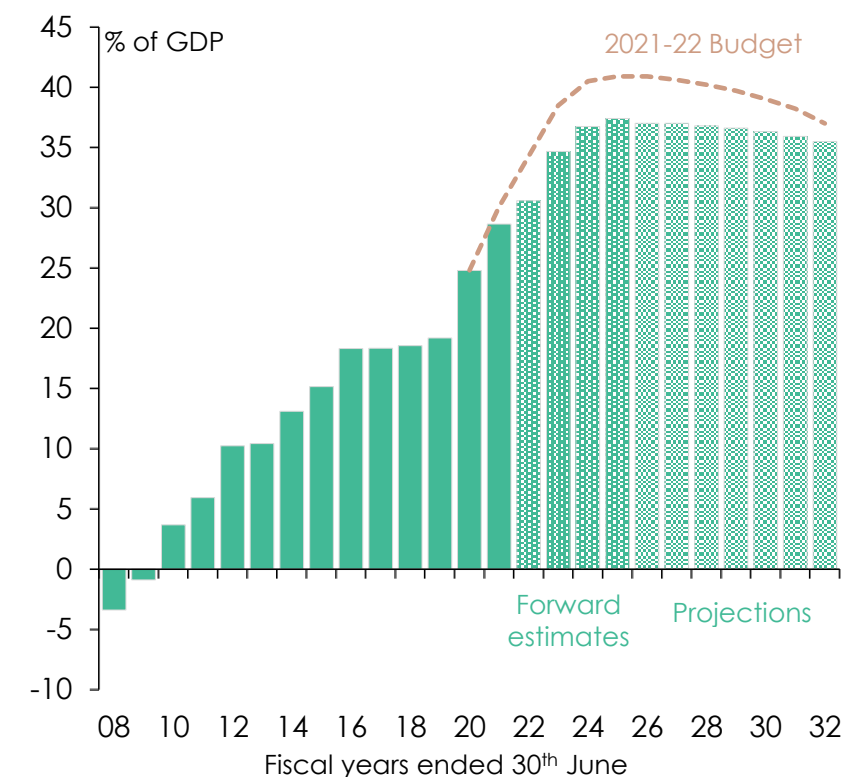
### Receipts & payments



### 'Underlying' cash deficit



### Net debt

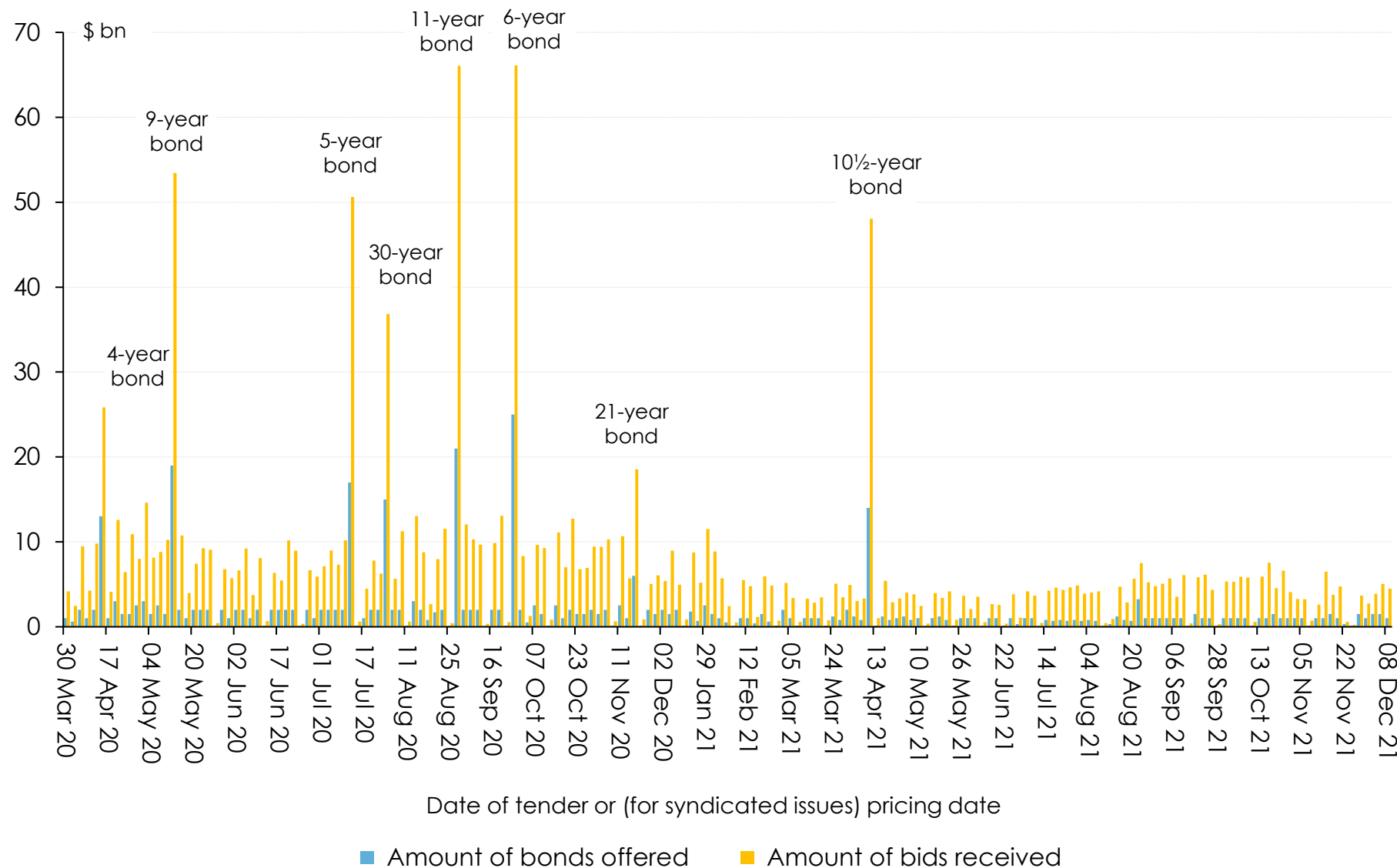


- ❑ MYEFO projects higher spending and revenues over the medium term than in the May Budget (and in the case of spending, significantly higher than in the pre-Covid era) – leading to persistent budget deficits (higher over the medium term than projected in the May Budget) – unless the quite arbitrary 23.9% of GDP 'cap' on tax revenues is amended or abandoned
- ❑ While interest rates remain low by historical standards the government can 'afford' to run deficits averaging 2¼% of GDP – but at the expense of not building 'buffers' to use in response to the next 'shock', whenever it comes



# The Government continues to find a ready appetite for its bond issuance – so far this fiscal year it's received \$210bn of bids for \$47½bn of bonds

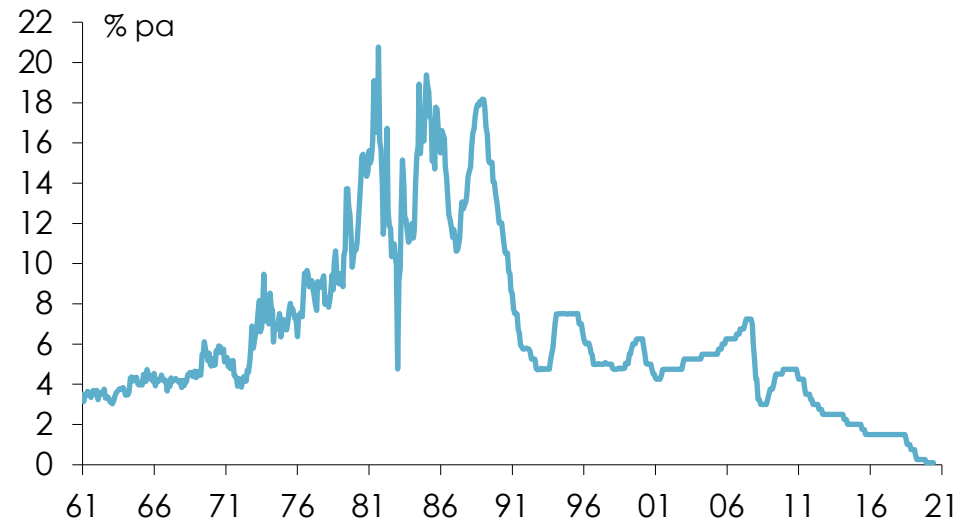
## Australian government bond issuance since March 2020



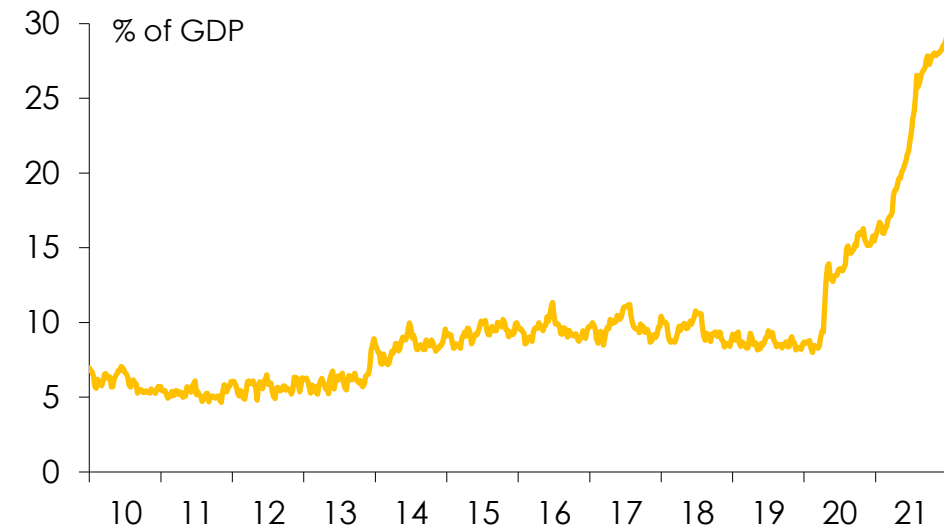
- Since 30<sup>th</sup> March 2020, the Australian Office of Financial Management has issued \$344.2bn of Treasury bonds – based on the volume of bids received it could have borrowed \$1.298 trn with yields at most 4 bp (0.04 of a pc point) above the highest yields actually accepted
- The AOFM didn't conduct any bond tenders this week, and won't until early next year
  - it will provide an update on issuance plans for the second half of FY 2021-22 on 7<sup>th</sup> January
- So far this financial year, the AOFM has received bids totalling almost \$209.6bn for the \$47.4bn of bonds it has offered for sale – a 'coverage ratio' of 4.4 times, cf. 3¾ times during the 2020-21 financial year

# The RBA left rates on hold at its last meeting for 2021, as expected, and for the first time didn't nominate a date for when it would raise the cash rate

## Reserve Bank cash rate



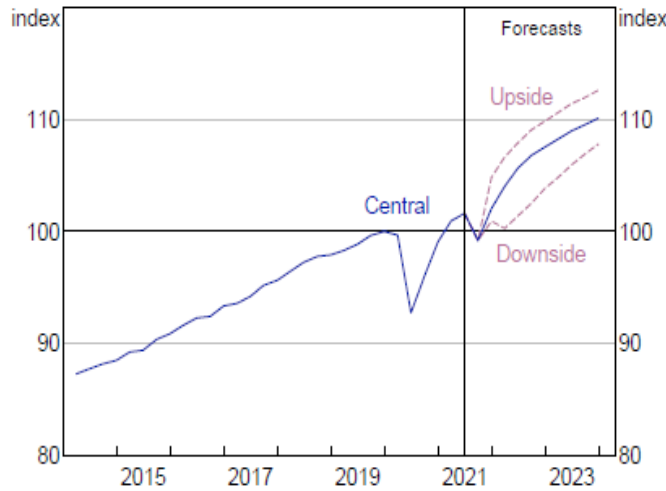
## Reserve Bank assets as a pc of GDP



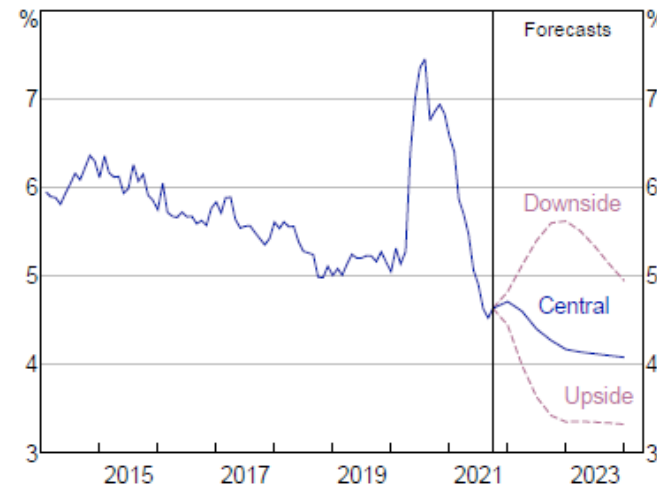
- ❑ The RBA again left the cash rate at 0.10% and maintained its bond purchase program at \$4bn per week until “at least mid-February 2022”, at its final Board meeting for 2021
- ❑ In his [post-meeting statement](#) Governor Phillip Lowe expressed confidence that the ‘omicron strain’ was “not expected to derail the recovery” from recent lockdowns, with the economy “expected to return to its pre-delta path in the first half of 2022”
- ❑ Governor Lowe noted that inflation had “only returned to the relatively low rates prevailing before the pandemic” and that the further pick-up that was expected would be “only gradual”, with the mid-point of the 2-3% target band not being reached until 2023
- ❑ The Board will consider the future of its bond purchase program at its next meeting on 1<sup>st</sup> February
  - Its decision on whether to continue the program will be guided by “the actions of other central banks”, “how the Australian bond market is functioning”, and “most importantly, actual and expected progress towards the goals of full employment and inflation consistent with the target”
  - which would suggest that the Board is likely to terminate the program then
- ❑ For the first time since last February, the post-meeting statement did *not* put a date on when the RBA might increase the cash rate, instead merely saying that it “is likely to take some time” for “the labour market to be tight enough to generate wages growth that is materially higher than it is currently”, and that the Board is “prepared to be patient”

# 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

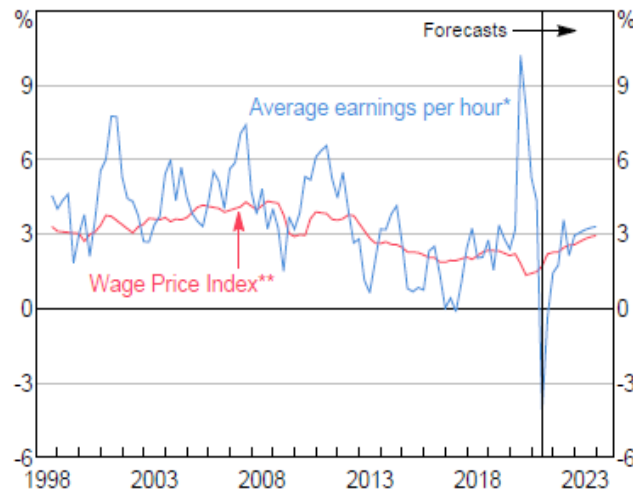
## GDP



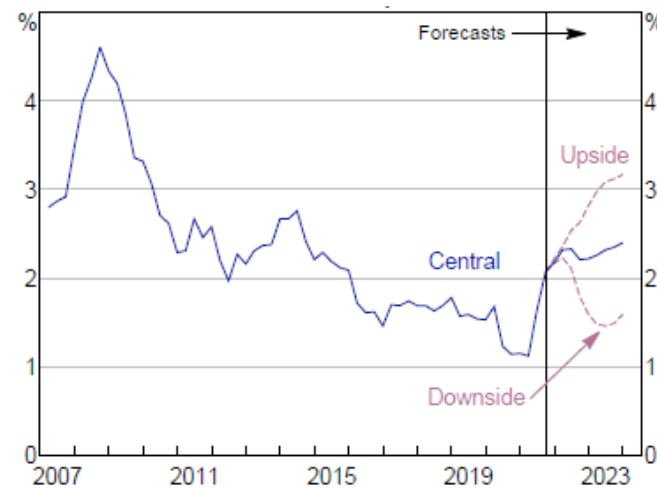
## Unemployment



## Wages



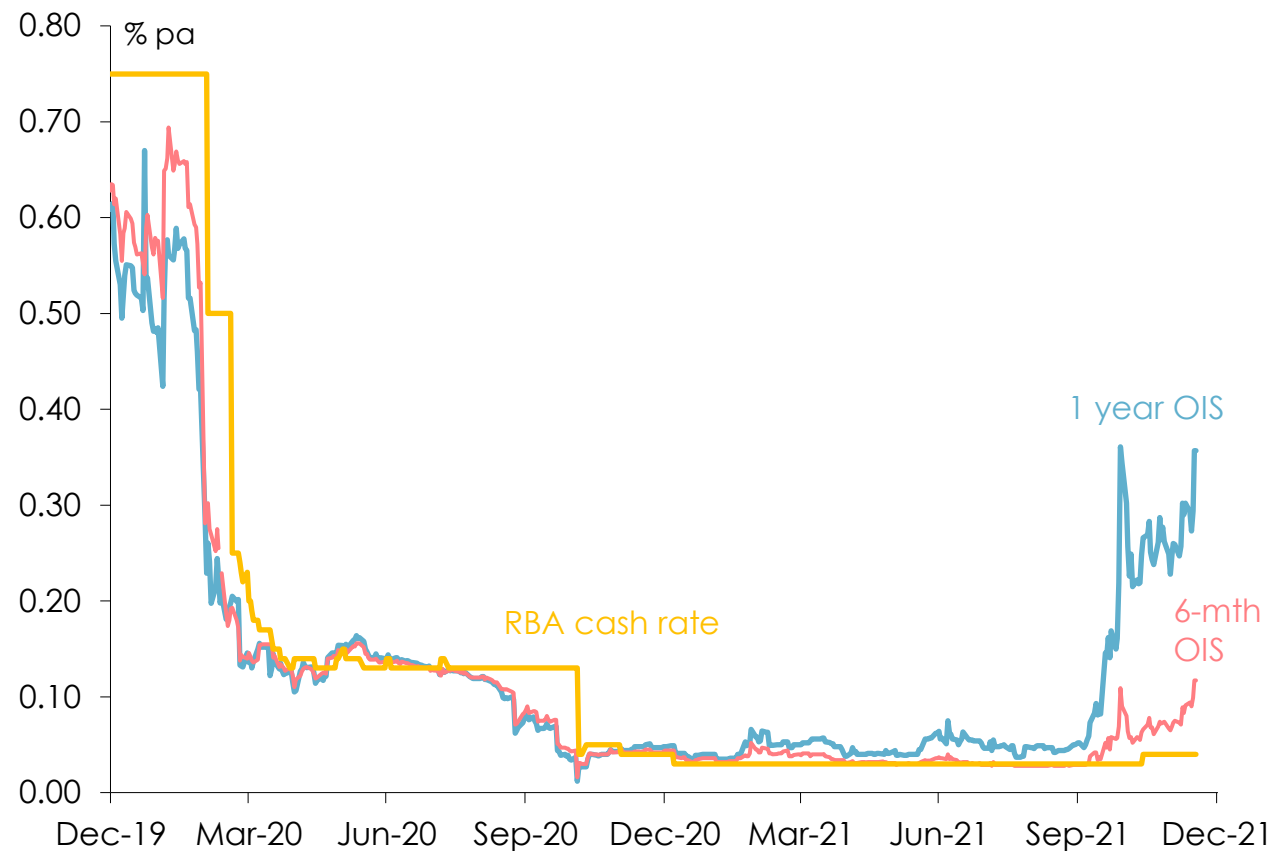
## ‘Underlying’ inflation



- ❑ In its November [Statement on Monetary Policy](#) RBA foreshadowed a “rapid bounce back” in Q4 and in Q1 next year (after the contraction in Q3) 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

# 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



- ❑ 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 145](#)) – but they're no longer giving much credence to the chance of two rate increases (as they were at the end of October)

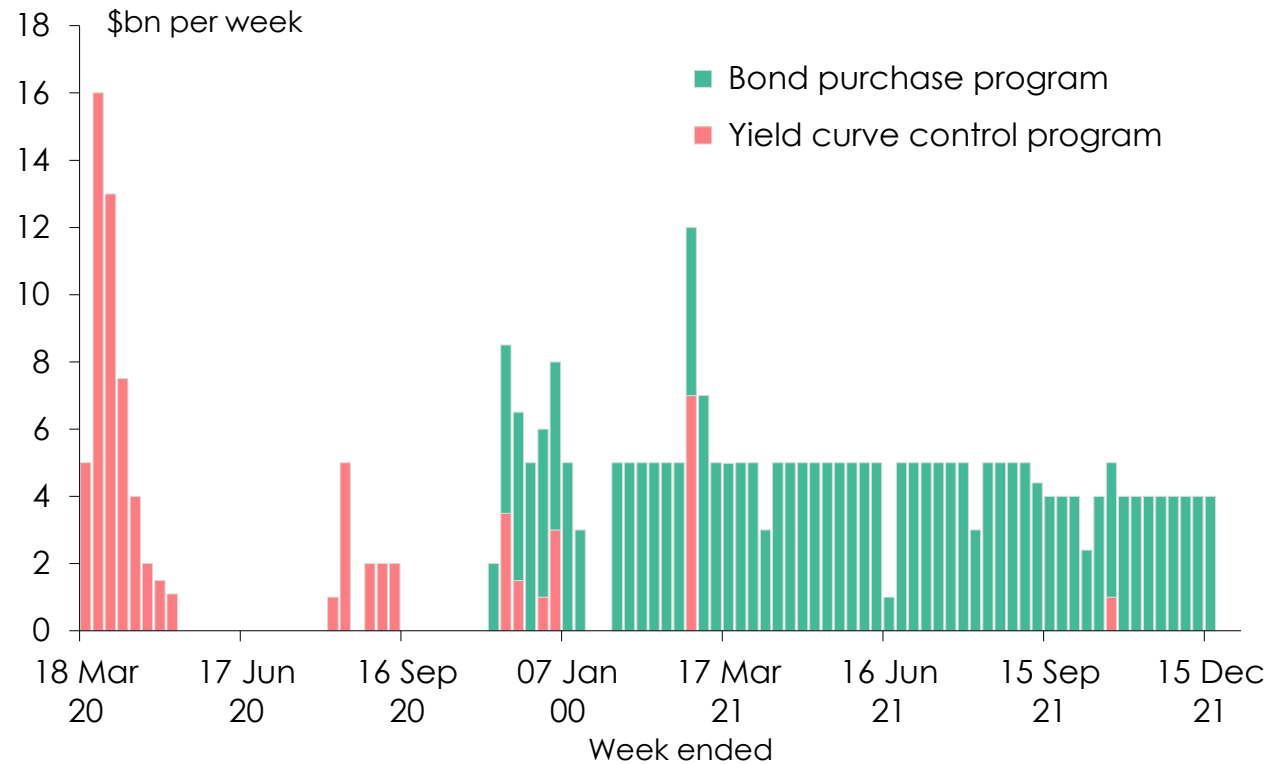
## Yield curves



- ❑ 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

# Shorter-term bond yields edged up this week on continued expectations of rate hikes next year, while longer-term yields declined

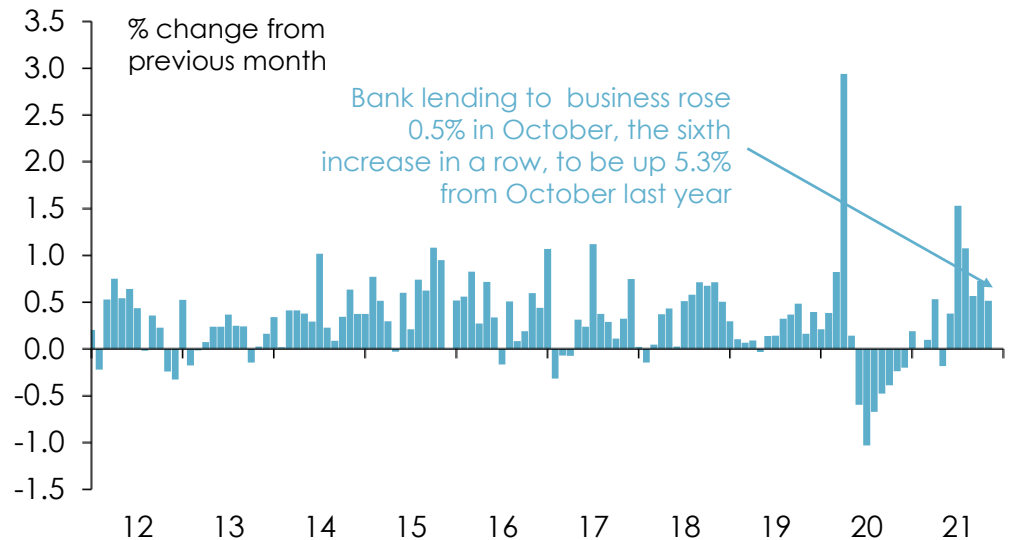
## RBA open market bond purchases



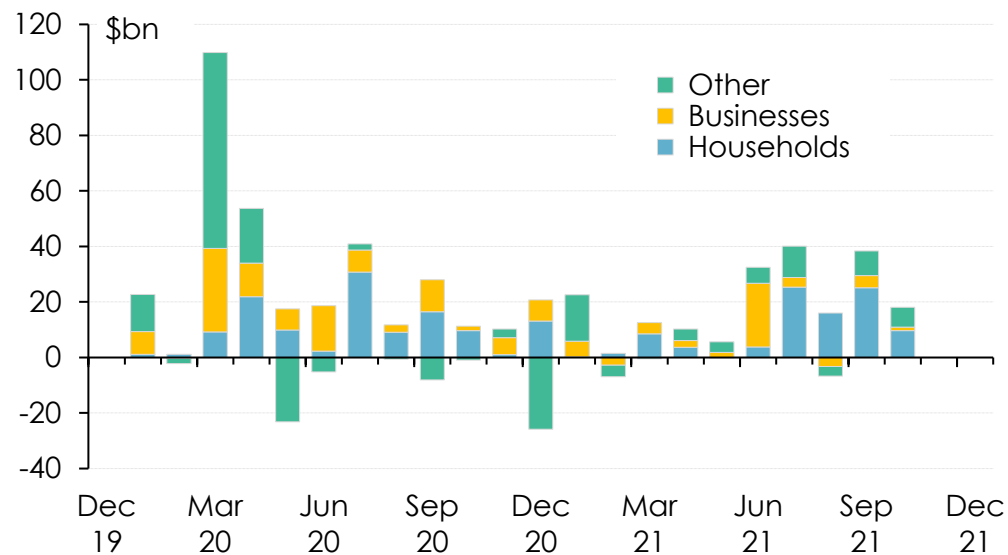


# Banks have played an important role in assisting borrowers cope with shutdowns, and have been swamped with deposits

## Business credit outstanding



## Monthly change in bank deposits

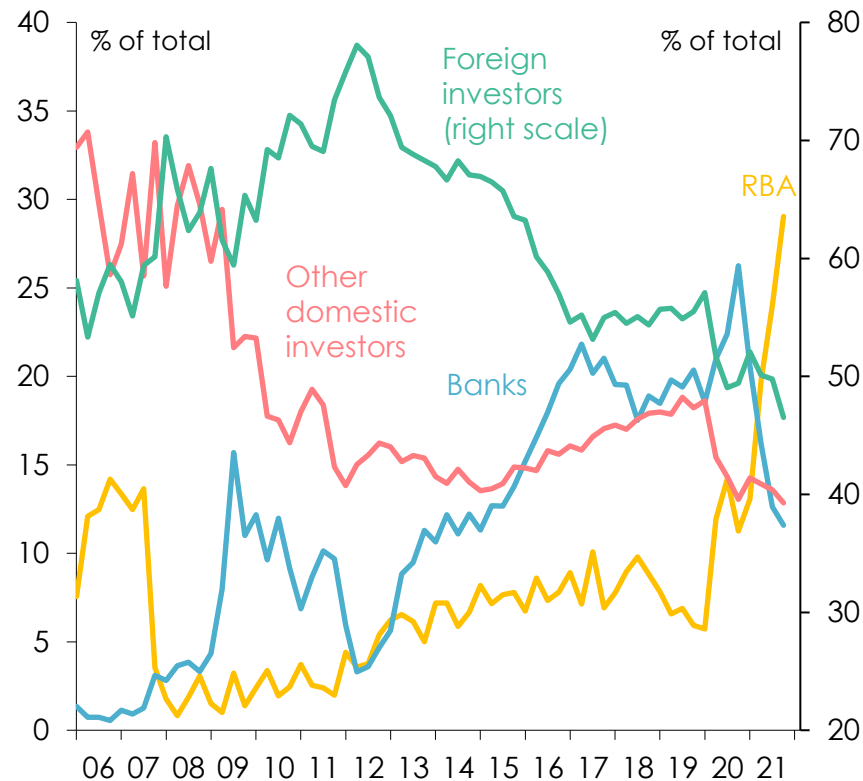


- ❑ Banks have cut interest rates on small business loans by more than the official cash rate since June 2019 (when the RBA started cutting rates again)
- ❑ Banks have made credit readily available when needed – in the early stages of the pandemic and during the most recent lockdowns
- ❑ Banks extended ‘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 \$442bn (21%) 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 \$218bn (22%) 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 \$143bn (24%)



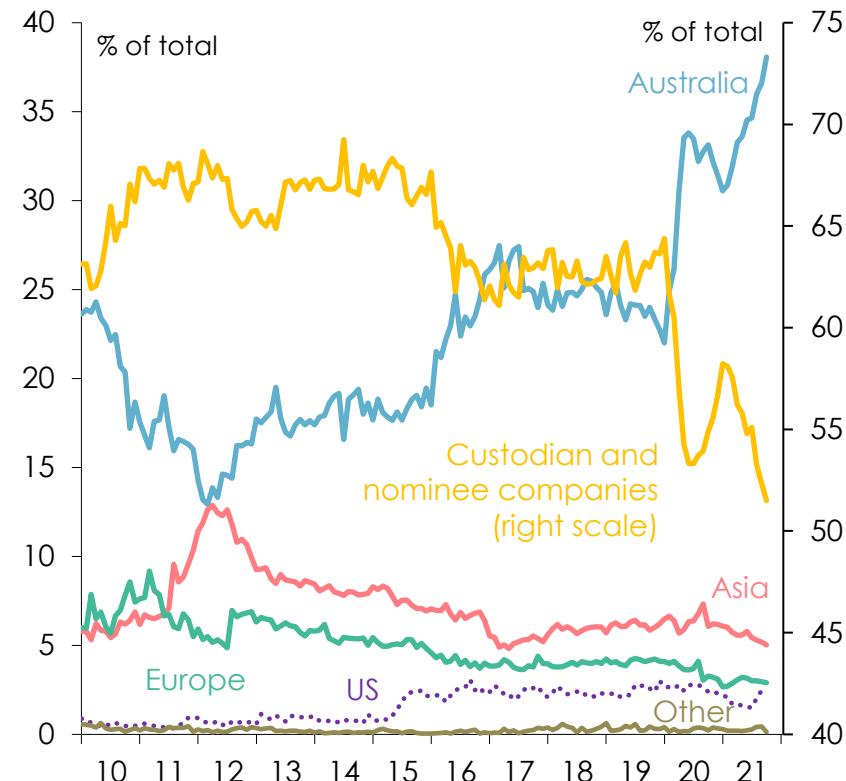
# The RBA has (indirectly) absorbed 70% of the increase in government debt since the end of 2019, foreign investors 24% and banks 7%

## Holder of Australian Government bonds



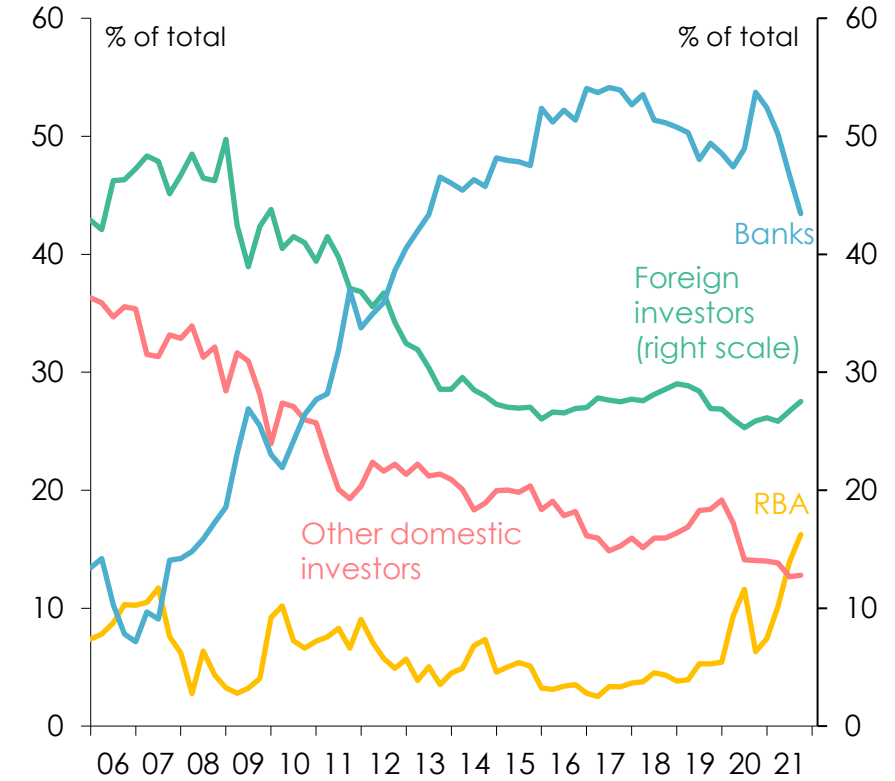
Australian Gov't bonds on issue have increased by \$266bn since the end of 2019 – of which \$225bn (85%) have been absorbed by the RBA, and \$56bn by foreigners, while banks have reduced their holdings by \$13bn

## Nationality of Australian Government bond holders



Domestic holdings of Australian Gov't bonds (including RBA) rose by \$53bn over the 12 months to September while identified foreign holdings fell \$8½bn – and unidentified holdings (which include many foreigners) fell by \$9bn

## Holder of State and Territory Government bonds

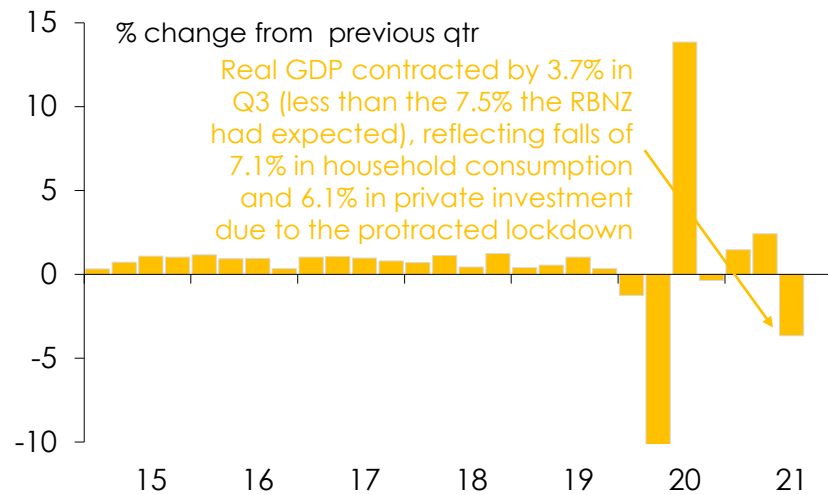


State & Territory Gov't bonds on issue increased have increased by \$129bn since the end of 2019, of which \$53bn have been absorbed by the RBA, \$41bn by banks and \$37bn by foreigners

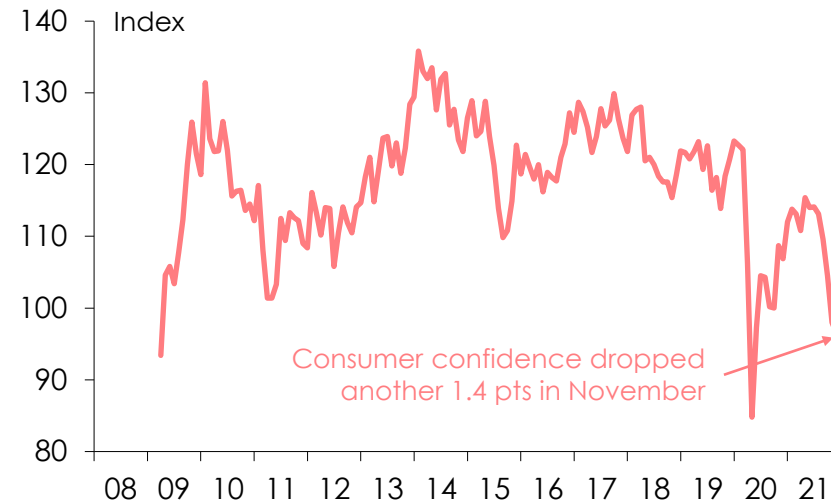
**New Zealand**

# New Zealand's real GDP shrank by (a smaller-than-expected) 3.7% in Q3, as a result of the protracted lockdown induced by delta

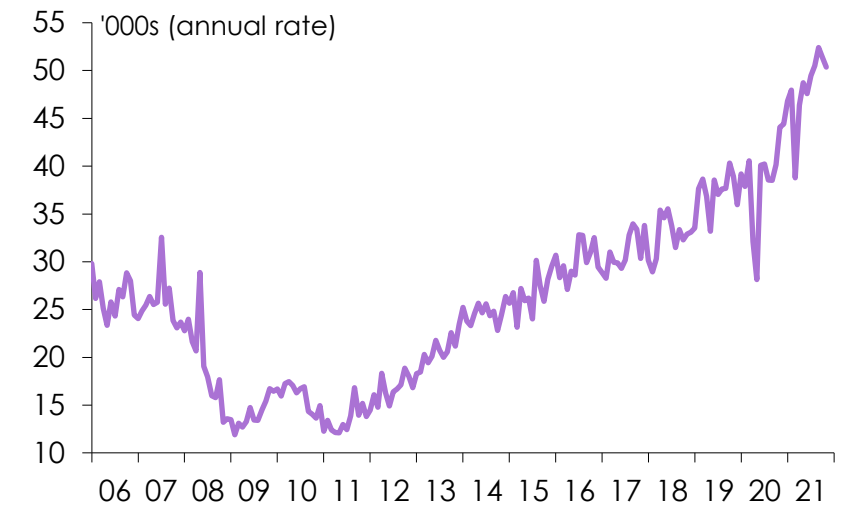
## Real GDP



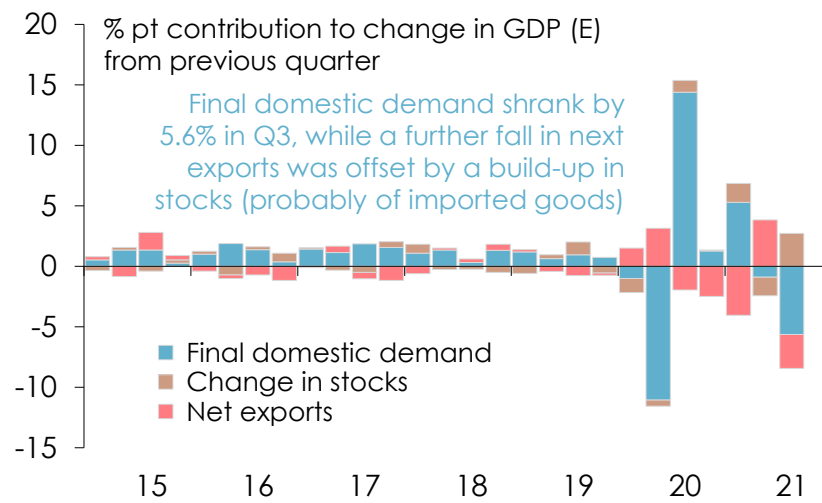
## Consumer confidence



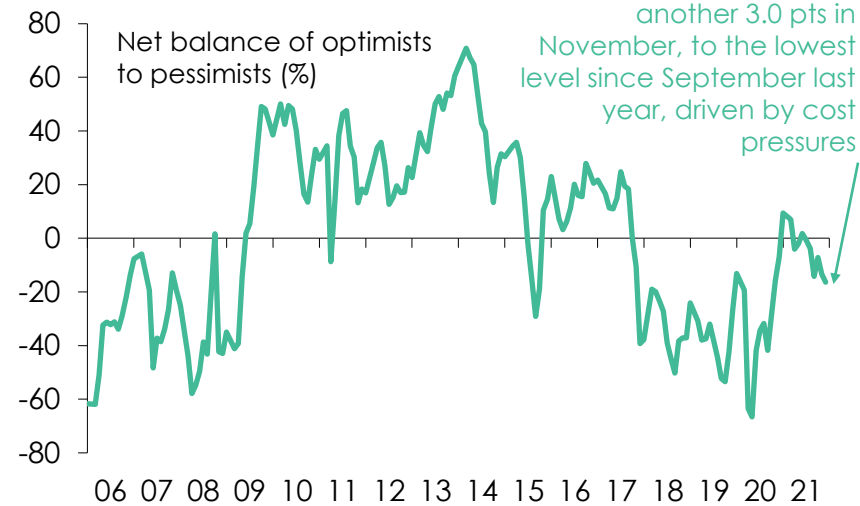
## Dwelling 'consents' (permits)



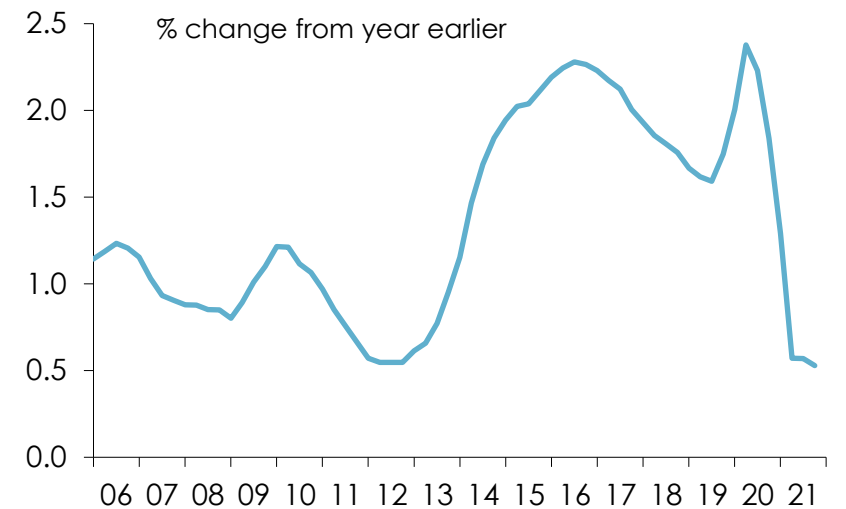
## Contributions to GDP growth



## Business confidence



## Population growth

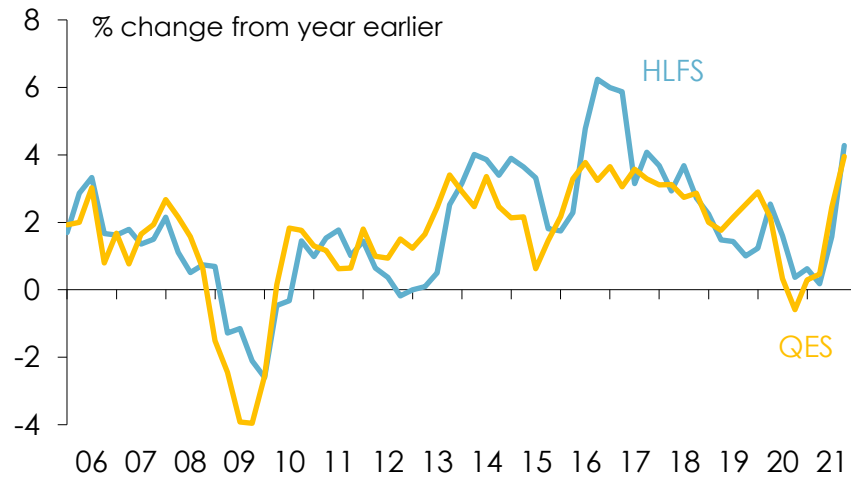


Note: New Zealand uses GDP(P) as its preferred measure of GDP. December quarter GDP data will be released on 17<sup>th</sup> March 2022.

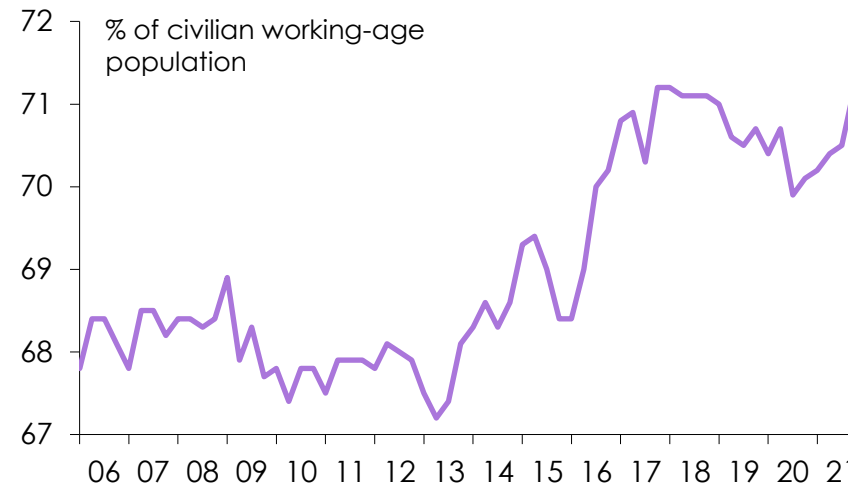
Sources: [Statistics NZ](#); ANZ-Roy Morgan; [ANZ Bank NZ](#). [Return to "What's New"](#).

# 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

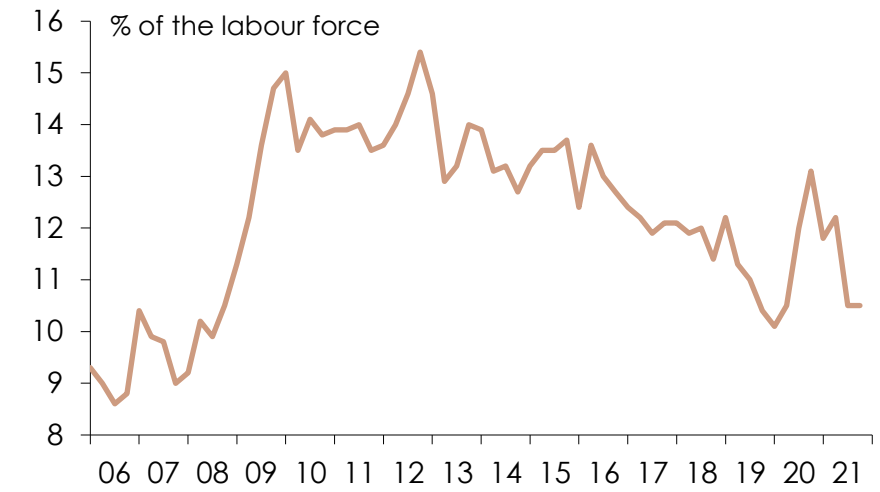
## Employment



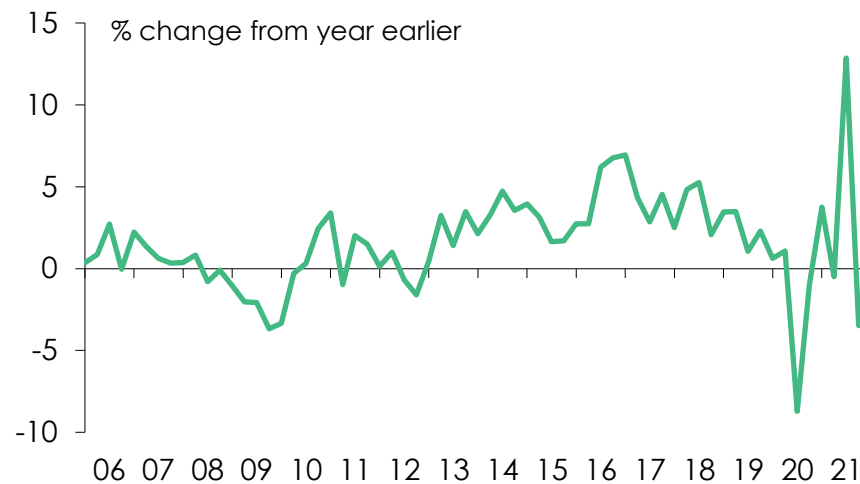
## Labour force participation rate



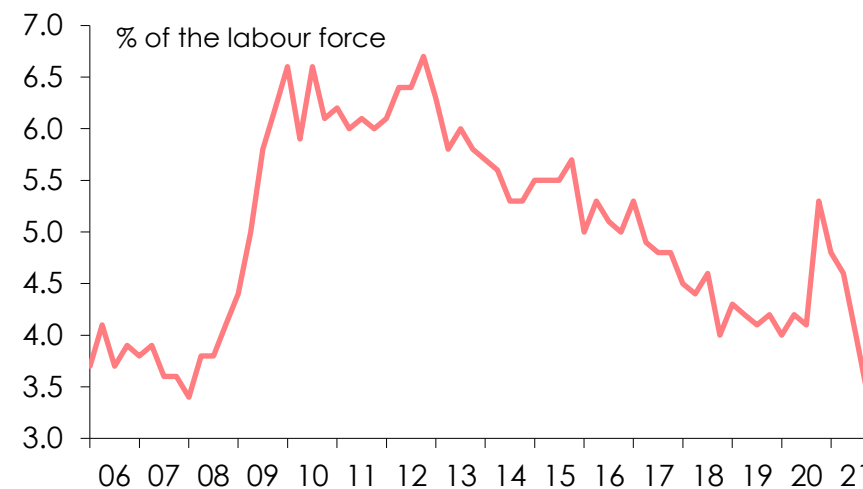
## Labour force under-utilization rate



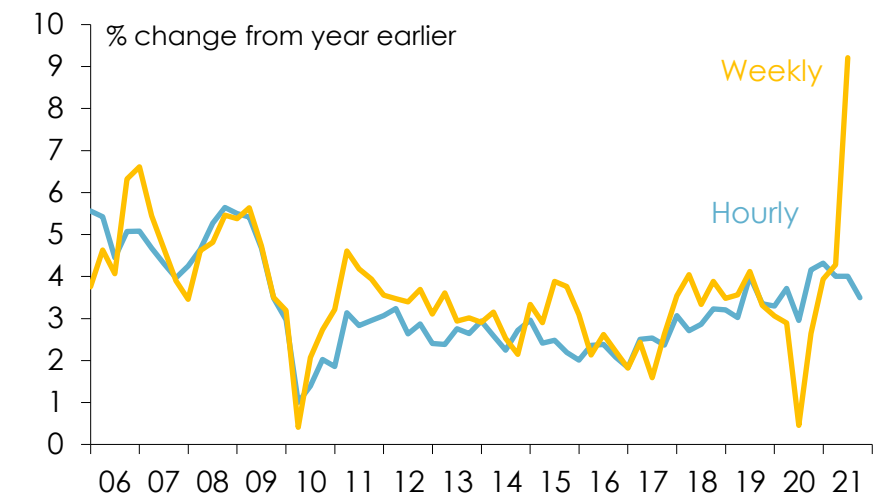
## Hours worked



## Unemployment rate



## Average weekly earnings

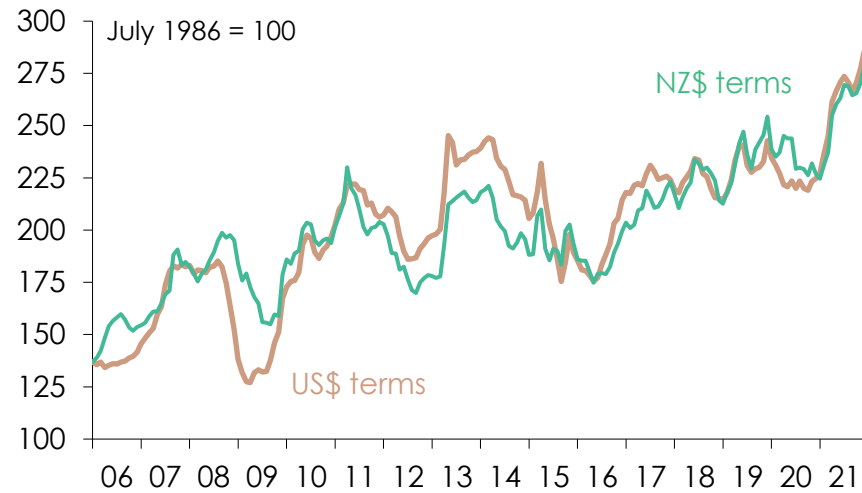


Note: New Zealand labour force data are only published quarterly. There are two 'headline' series on employment – the household labour force survey (HLFS) which counts the number of people in employment during the quarter; and the quarterly employment survey (QES), which counts the number of 'filled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

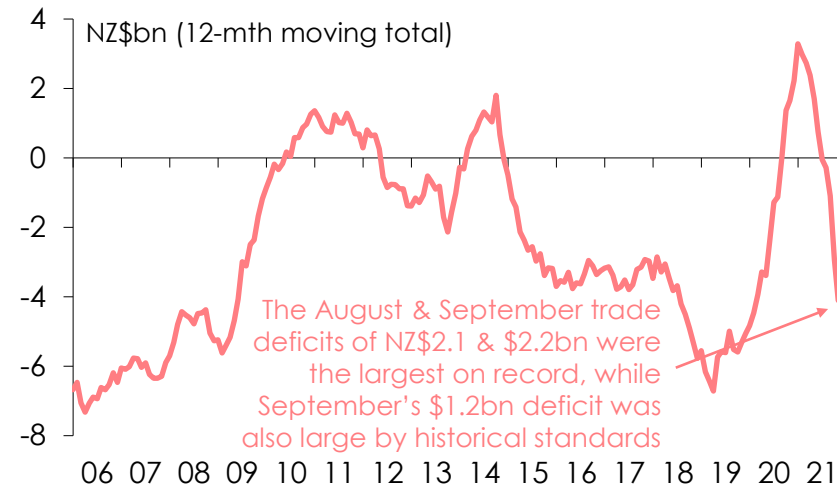
Source: [Statistics NZ](https://www.stats.govt.nz/). September quarter data will be released on 3<sup>rd</sup> November. [Return to "What's New"](#).

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

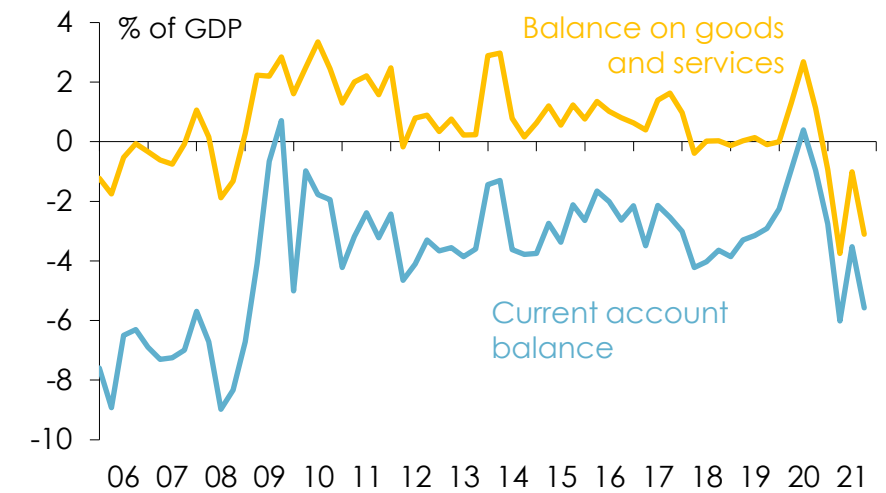
## Export commodity prices



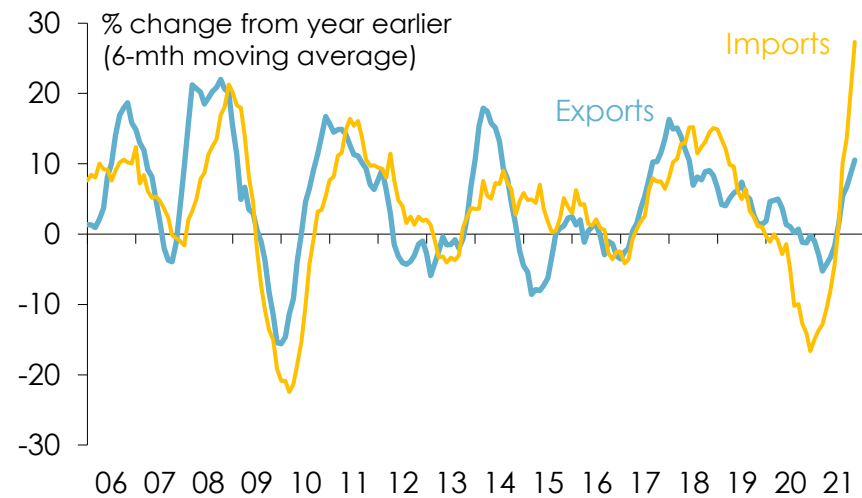
## Merchandise trade balance



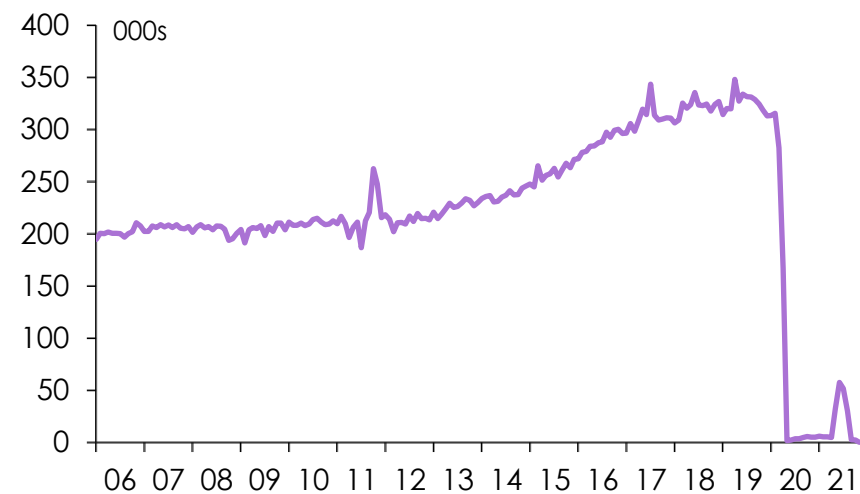
## Balance of payments



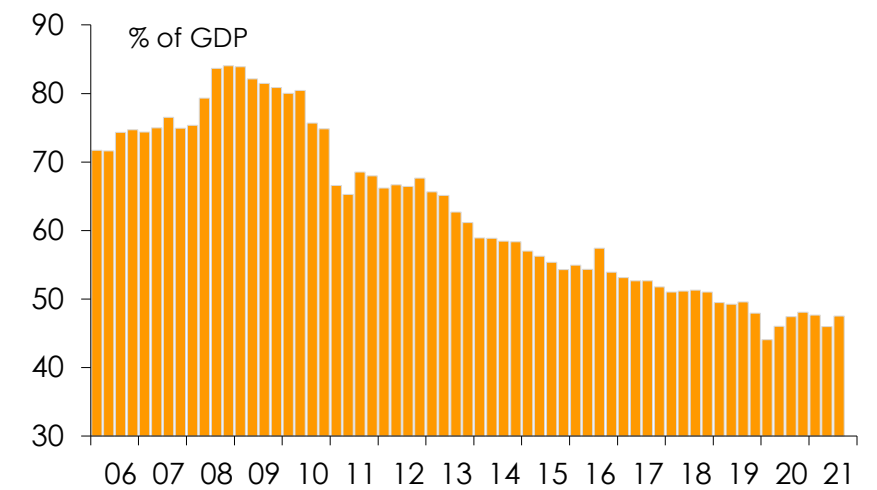
## Merchandise exports and imports



## Overseas visitor arrivals



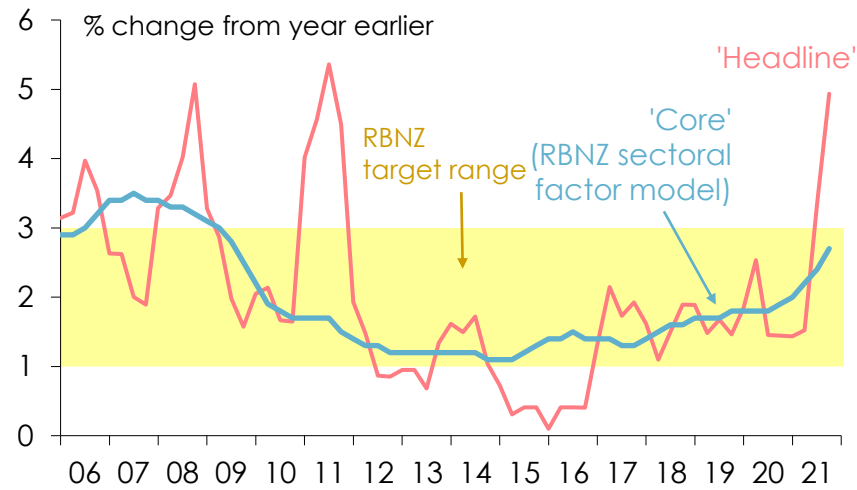
## Net foreign debt



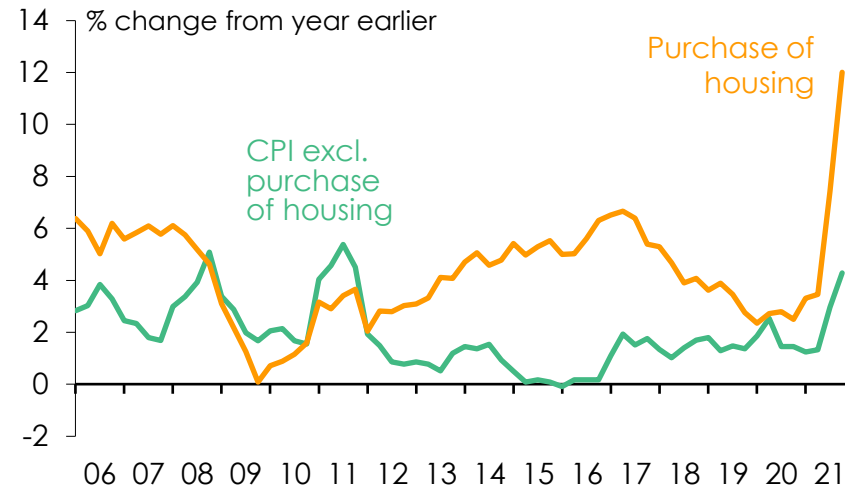
Note: latest merchandise trade data is for October: November data will be released on 20<sup>th</sup> December; latest balance of payments and net foreign debt data is for the March quarter; December quarter data will be released on 16<sup>th</sup> March 2022. Sources: [ANZ Bank](#); [Statistics New Zealand](#). [Return to "What's New"](#).

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

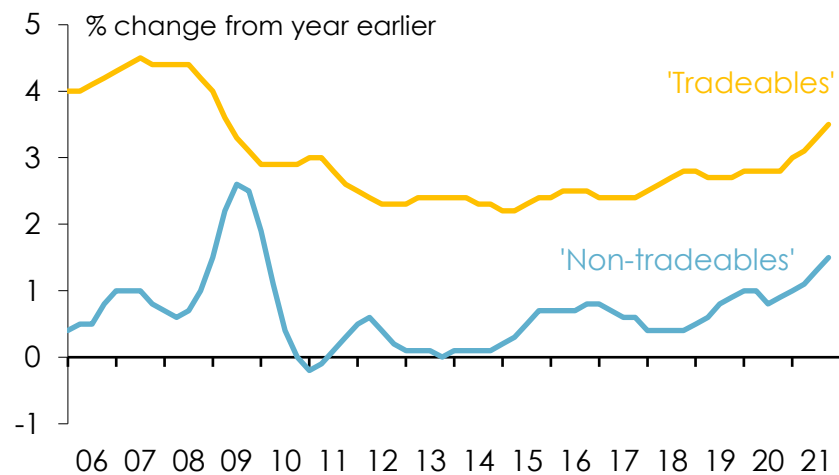
## Consumer prices



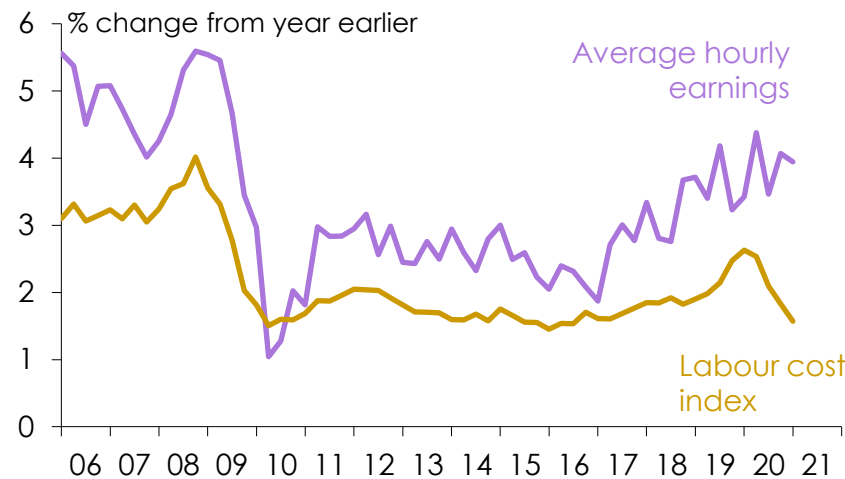
## Housing costs in the CPI



## Components of 'core' inflation



## Labour costs

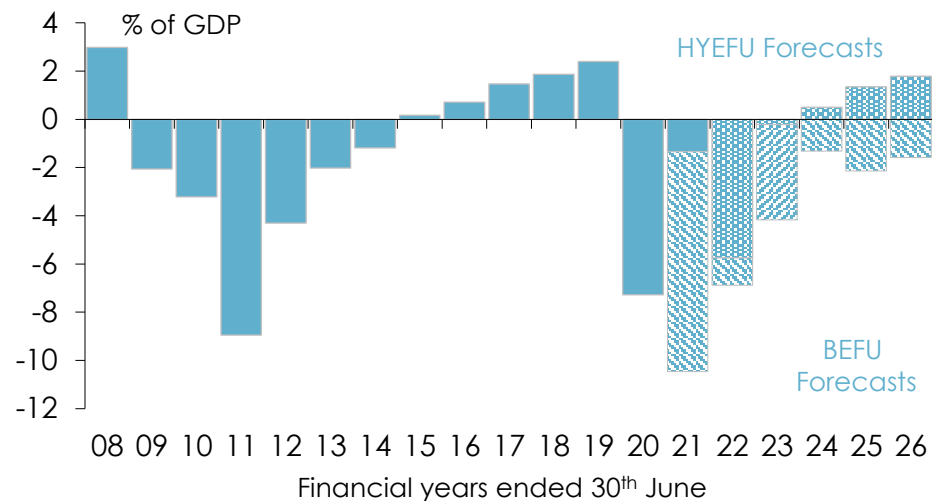


- ❑ The CPI rose 2.2% in Q3, the largest q-o-q increase since Q1 2011, after a 1.3% increase in Q2, pushing the annual 'headline' inflation rate up to 4.9%, the highest since Q2 2011 (after GST was raised from 12½% to 15%)
- ❑ Six components representing 18¼% of the CPI basket accounted for 66% of the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

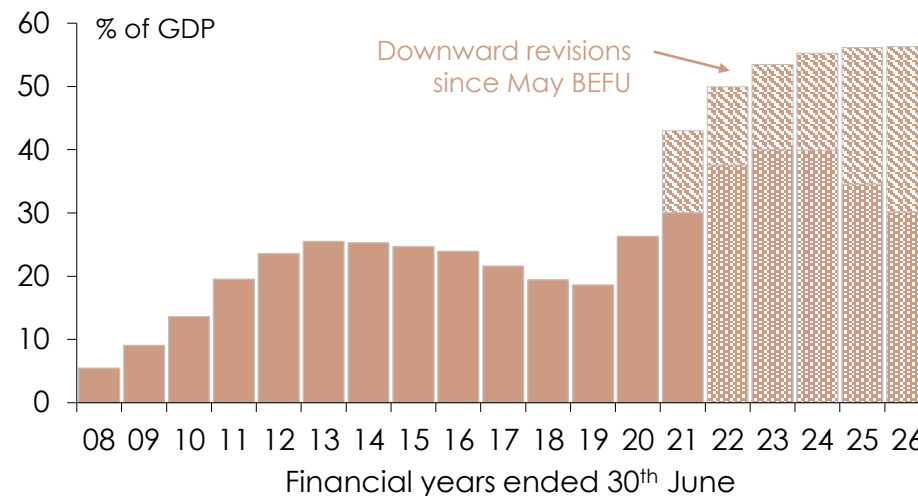


# New Zealand's Half-Yearly Economic and Fiscal Update released this week presents a much improved fiscal outlook compared with the May Budget

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



## NZ 'core Crown debt'



- New Zealand's Half-Year Economic and Fiscal Update (HYEFU) projects a strong rebound in economic activity in 2022-23 after a weaker-than-previously forecast 2021-22 due to the protracted lockdown brought on by delta
  - Treasury now expects real GDP growth of just 0.8% in 2021-22 (down from 3.2% expected in the May Budget) – but forecasts a 4.9% rebound in 2022-23 (up from 4.4% previously) and then 2.2 and 2.3% in 2022-23 and 2023-24
  - unemployment is expected to fall to 3.2% by Q2 next year (cf. 5.0% in May) and remain below 4% until 2026
  - higher inflation implies much faster growth in nominal GDP – which drives revenues – averaging 6% per annum over the five years to 2025-26
- As a result of faster nominal GDP growth, tax revenues are higher than forecast in the May Budget by an average of 2 pc pts of GDP over the five years to 2025-26- while expenses, despite being about \$9bn per annum higher than forecast in May are nonetheless about 1 pc pt of GDP smaller
- The 'operating balance excluding gains & losses' (OEBGAL) is this now forecast to return to surplus in 2023-24, rather than remaining in deficit into the mid-2030s as projected in the May Budget
  - the cash balance is also now forecast to return to surplus in 2024-25
- This has in turn resulted in substantial downward revisions to projections of 'core Crown' net debt
  - net debt is now expected to peak at 40.1% of GDP in June 2023, and fall to 30.2% of GDP by June 2026 (and thereafter to 19.3% of GDP in 2036), compared with the May forecast of net debt peaking at 56.3% of GDP in June 2026

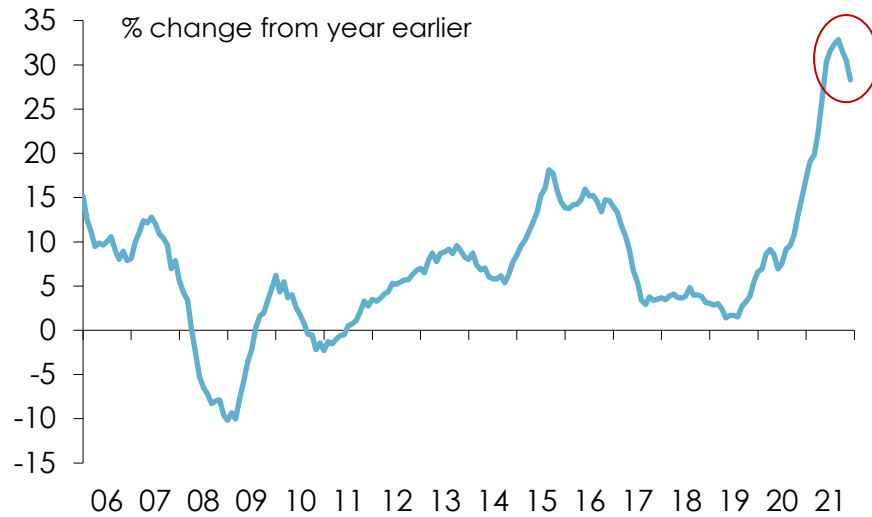
Note: The measure of the NZ Government budget balance is 'OEBGAL', which stands for 'operating balance excluding gains and losses' (an accrual accounting measure).

Net 'core Crown debt' excludes assets of the NZ Super Fund, student loans and other advances, and financial assets held for public policy purposes.

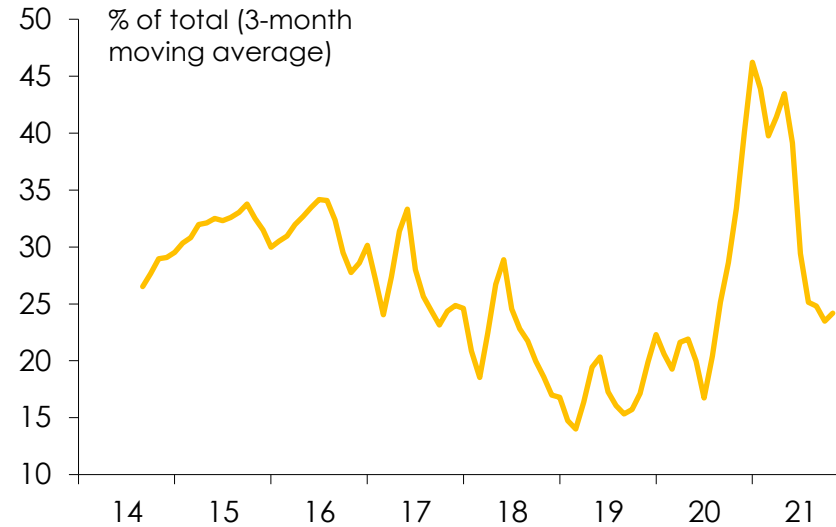
Source: NZ Treasury, [Half Year Economic and Fiscal Update 2021](#), 15<sup>th</sup> December 2021. [Return to "What's New"](#).

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

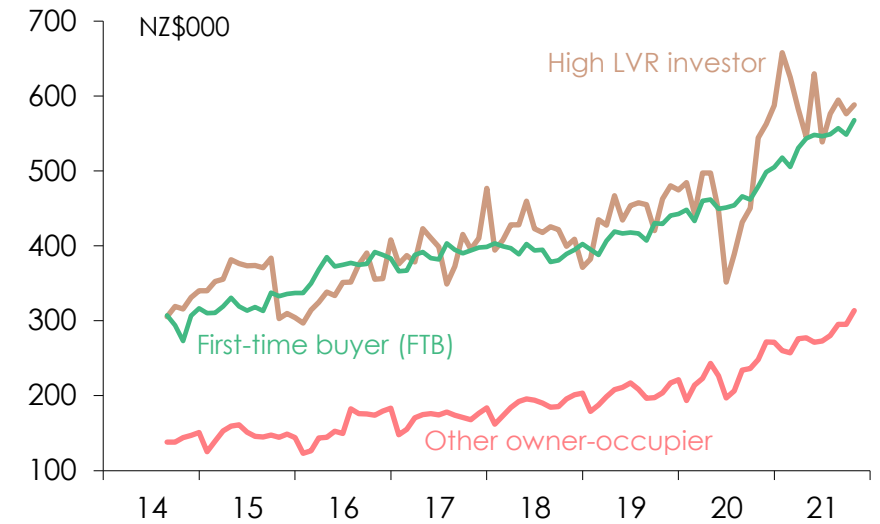
## House price inflation



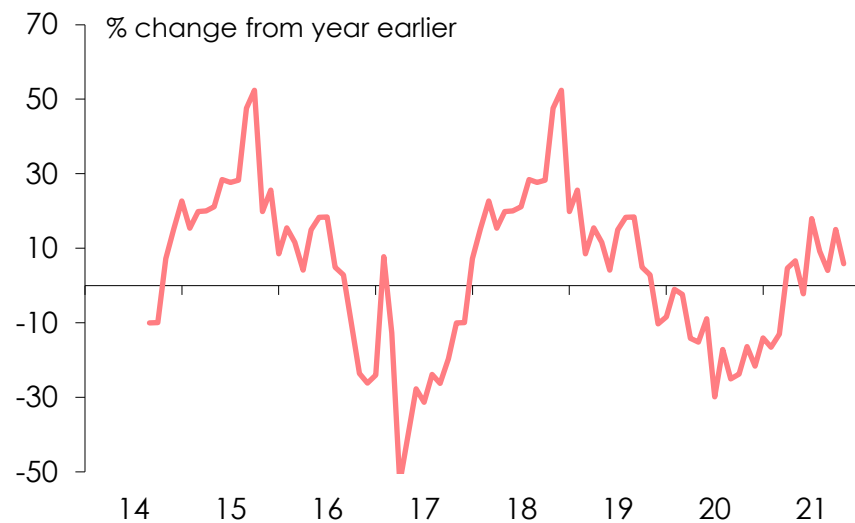
## Lending to investors as pc of total



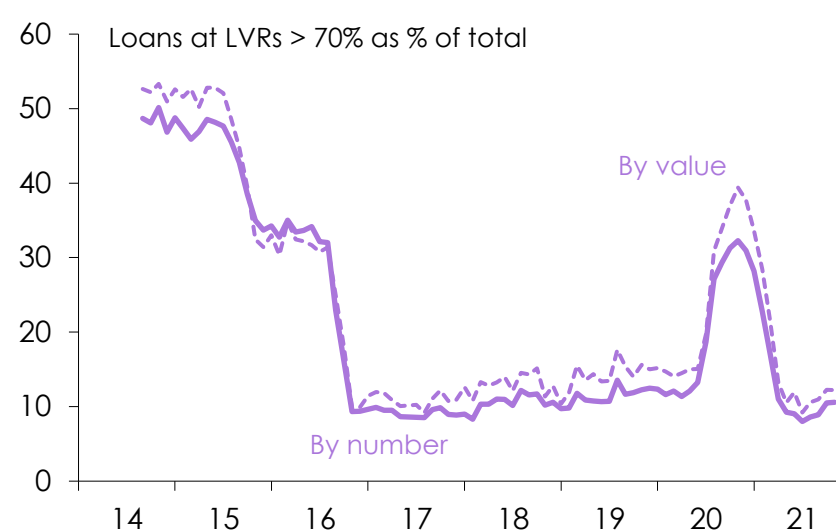
## Average new mortgage



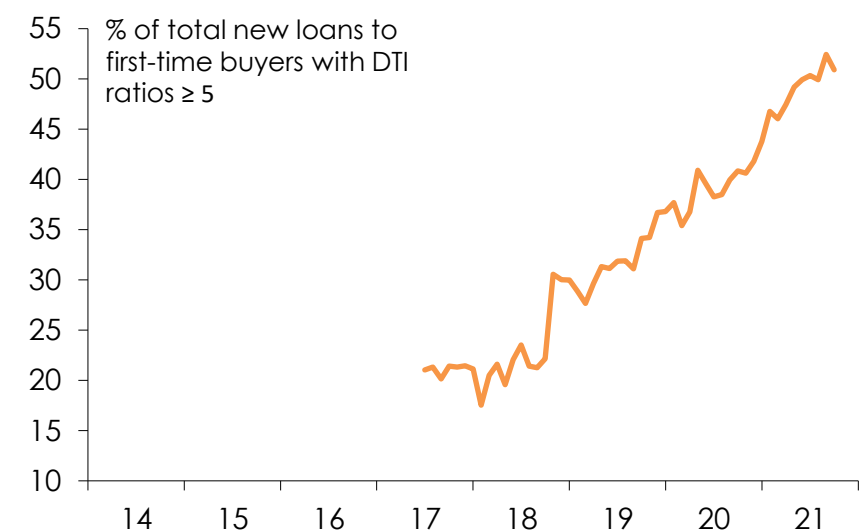
## Mortgage lending growth



## High-LVR loans to investors



## Loans to FTBs at over 5 times income



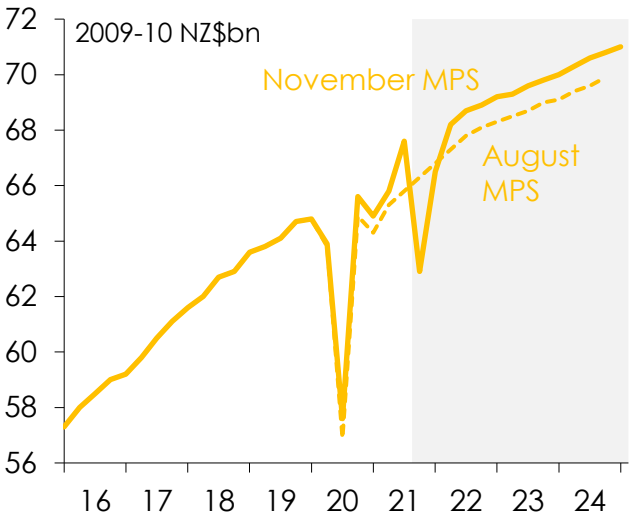
Sources: [Real Estate Institute of NZ](#); Reserve Bank of New Zealand (Tables [C30](#), [C31](#) and [C40](#)). [Return to "What's New"](#).

# As fully expected, the RBNZ raised its cash rate another 25 bp to 0.75% last month, and foreshadowed it rising to 2.5% by Q3 2023

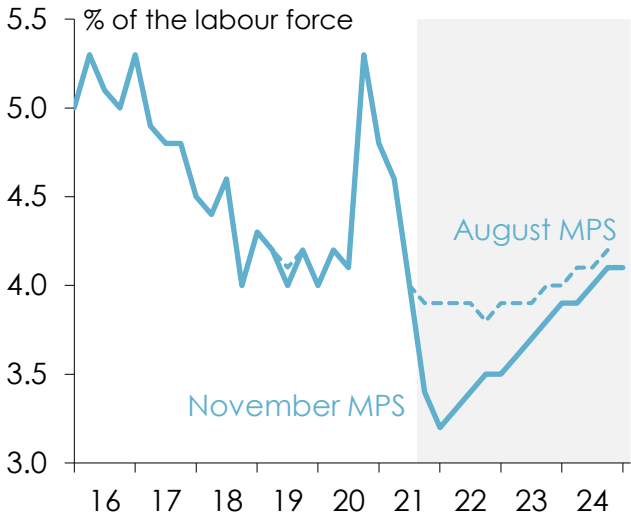
- ❑ The RBNZ raised its official cash rate (OCR) by another 25 basis points, to 0.75%, at its Monetary Policy Committee meeting on Wednesday, the second such increase after the first on 6<sup>th</sup> October
  - the MPC noted that “employment is now ... above its maximum sustainable level” and that “capacity pressures in the economy have continued to tighten” (despite recent lockdowns) which has “led to an increase in domestic inflation”
  - in its view, “the near-term risks to inflation are skewed to the upside”
- ❑ 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 are [sic] unsustainable”
  - but noted that “higher mortgage interest rates, continued strong home building, tighter lending rules and changes in tax settings should all act to moderate house prices over the medium term” and that “continued increases in the OCR are expected to support more sustainable house prices”
- ❑ The RBNZ foreshadowed further tightening of monetary policy, indicating that “the OCR would need to be progressively increased and, conditional on the economy evolving as expected, the OCR would likely need to be raised above its neutral rate”
  - although it also “expressed uncertainty” about “the resilience of consumer spending and business investment” and that “high levels of household debt, and a large share of fixed-rate mortgages re-pricing in coming months, could increase the sensitivity of consumer spending to these interest rate increases”

# The RBNZ raised its forecasts for GDP growth, inflation, the current account deficit and interest rates in its November Monetary Policy Statement

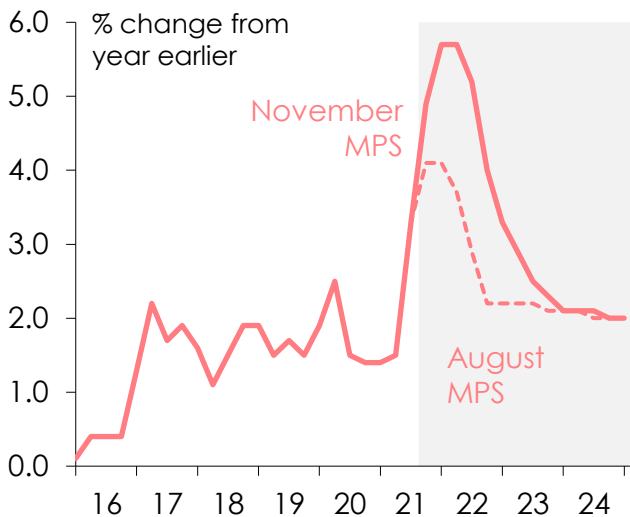
## GDP



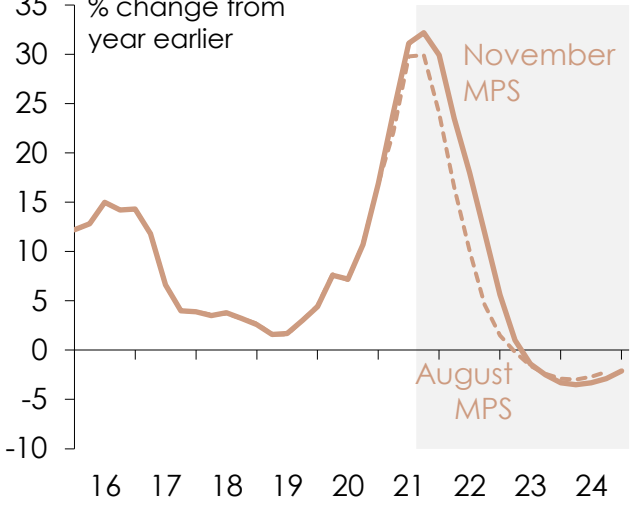
## Unemployment



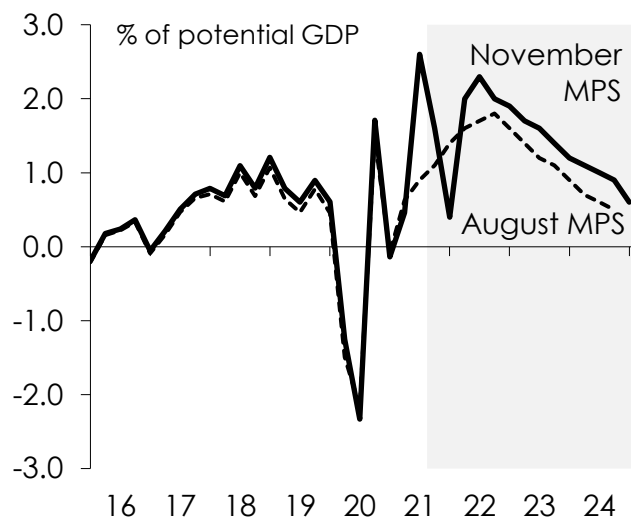
## CPI inflation



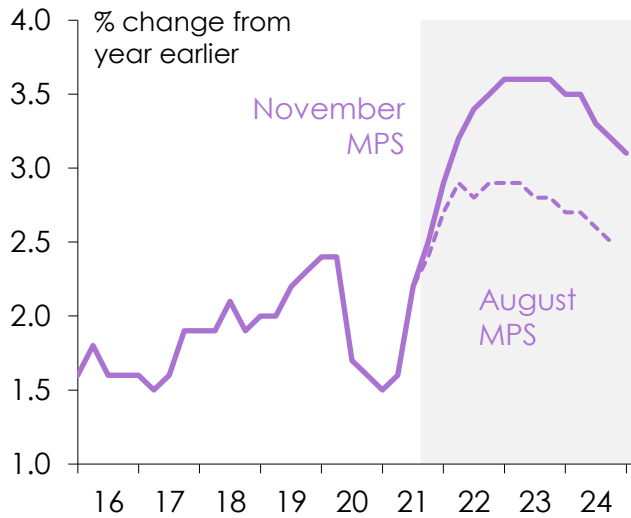
## House price inflation



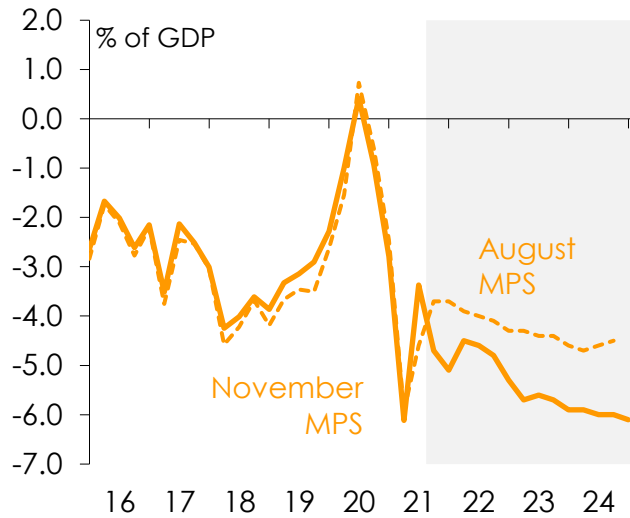
## Output gap



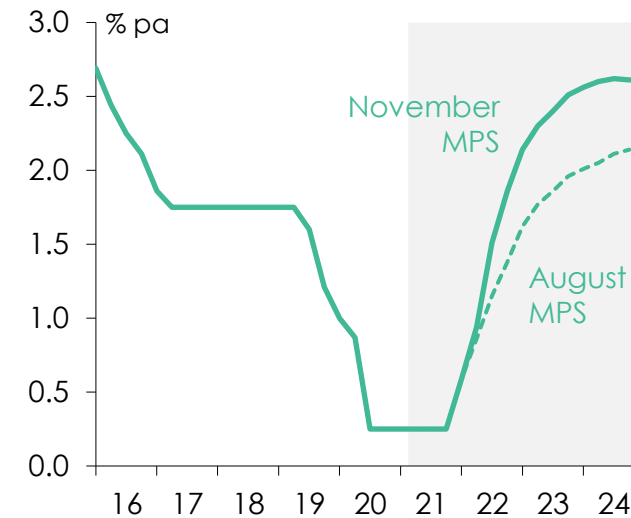
## Private sector labour costs



## Current account balance

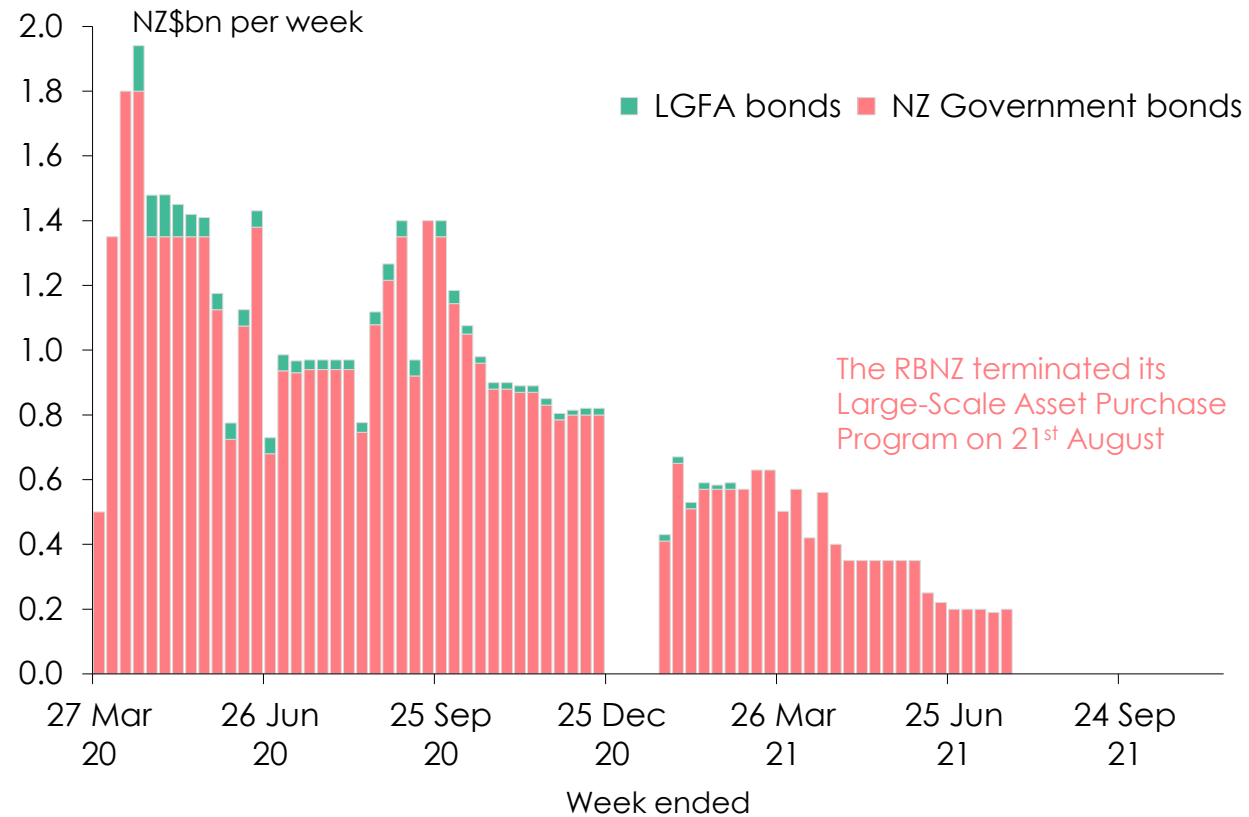


## Official cash rate



# New Zealand bond yields declined this week, driven by global trends and the improved fiscal position unveiled in the HYEUFU

## RBNZ open market bond purchases



## New Zealand interest rates



- ❑ New Zealand bond yields fell this week, the 2-year dropping 4 bp to 2.00% and the 10-year falling 15 basis points to 2.31%, partly reflecting falling yields in major overseas markets but also in response to sharply lower prospective new debt issuance flowing from the improved fiscal position foreshadowed in this week's Half-Yearly Fiscal and Economic Update ([slide 155](#))



## Important information

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