

# THE ECONOMIC OUTLOOK FOR 2021

WEBINAR PRESENTATION

16<sup>TH</sup> DECEMBER 2020

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**SAUL ESLAKE**  
CORINNA ECONOMIC ADVISORY PTY LTD

# Agenda

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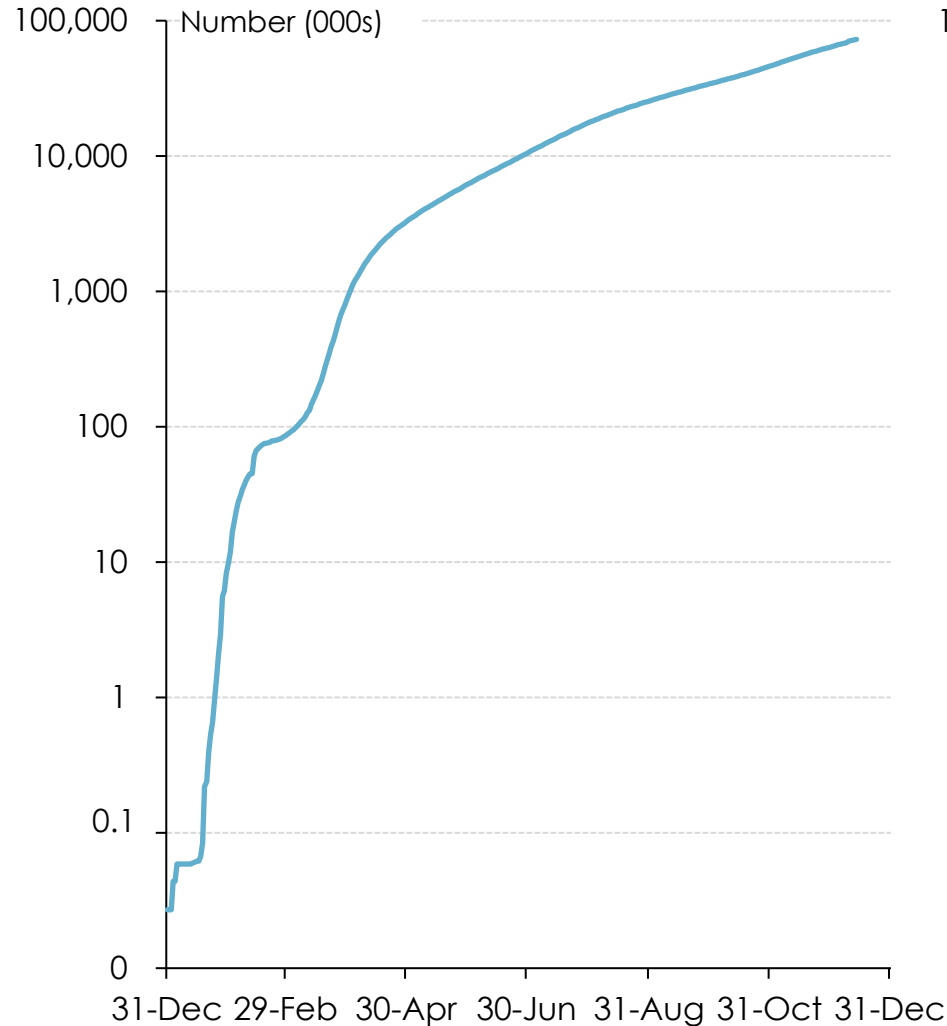
- ❑ The world economy
- ❑ The Australian economy
- ❑ Your questions
- ❑ What next?

Note: nothing in what follows constitutes investment advice, nor should it be construed as such!

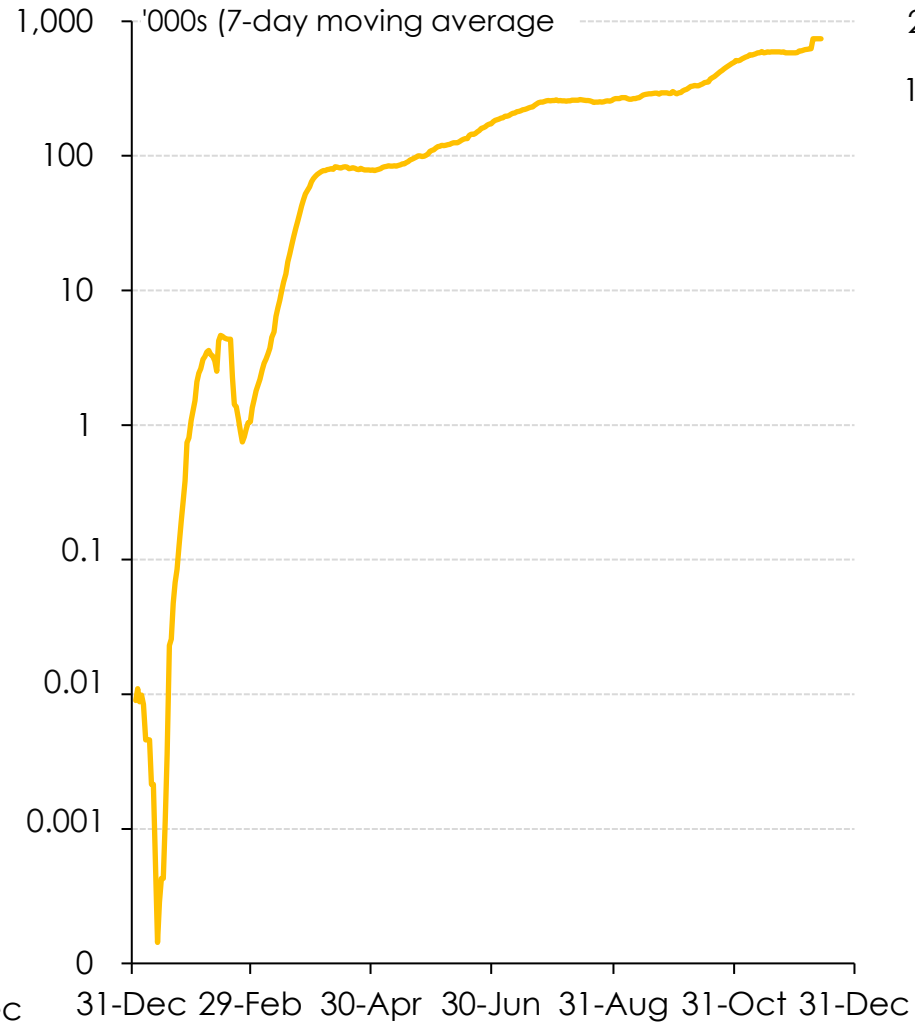
**The world**

# Globally, the virus is still out of control – infections and deaths have *not* peaked, although the virus is less often fatal than it used to be

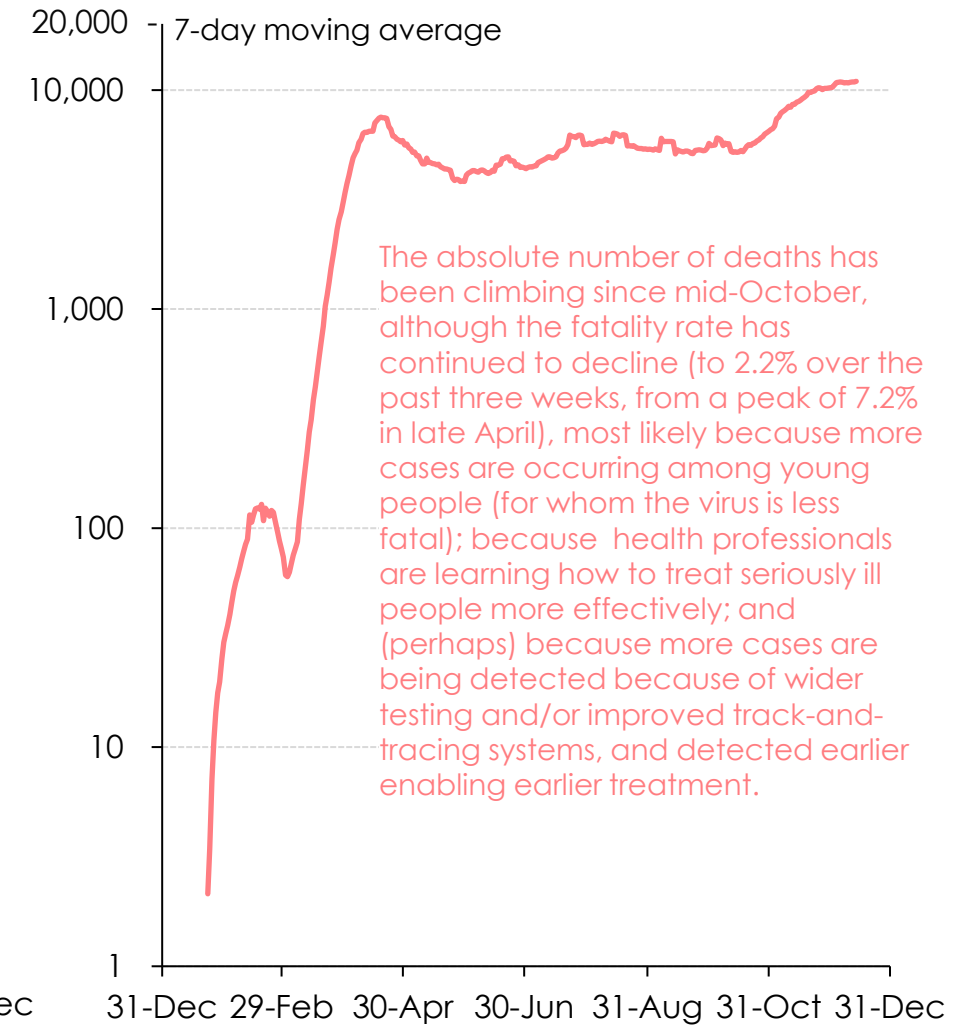
## Cumulative confirmed cases – global total



## New confirmed cases – global total



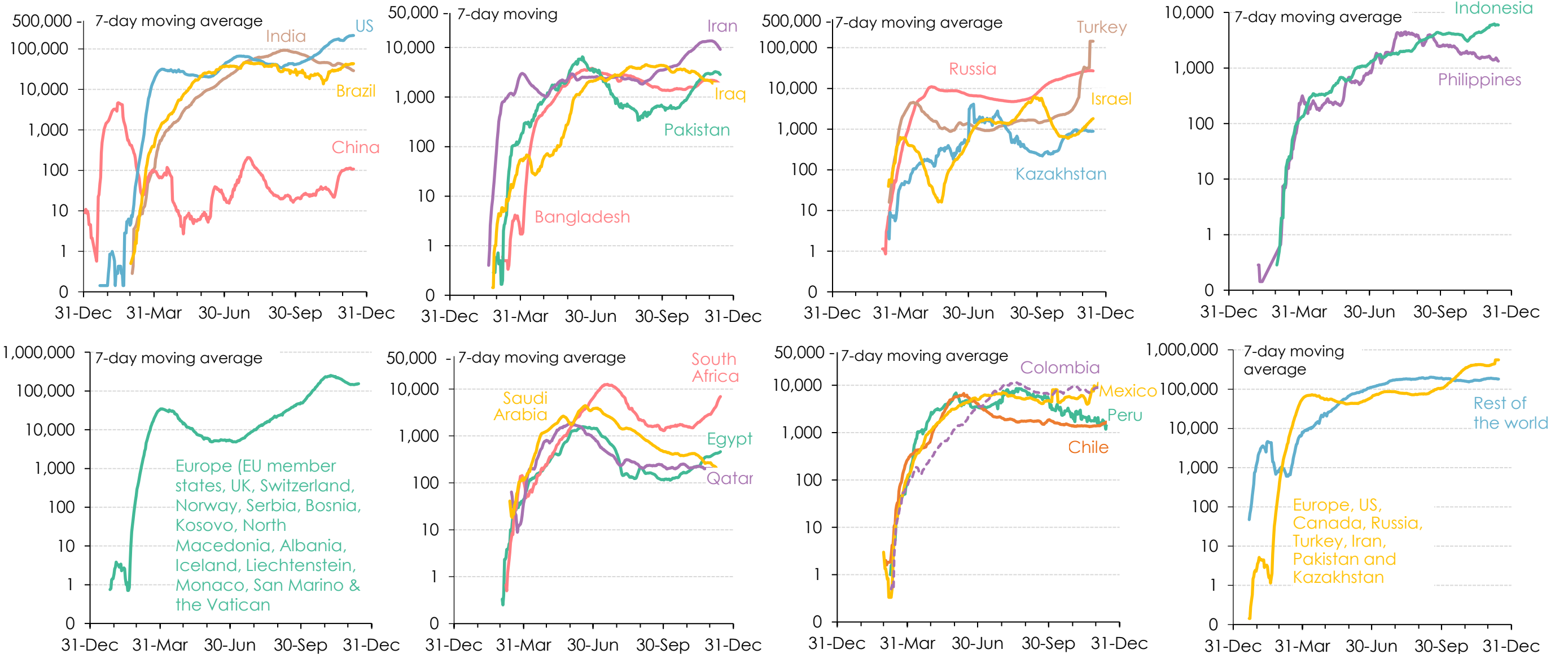
## New deaths – global total



Note: All charts are on logarithmic scales. Data up to 14<sup>th</sup> December. Source: University of Oxford, [Our World in Data](#). [Return to "What's New"](#).

# Infections are currently concentrated in North America, Europe, Latin America, the Middle East and India

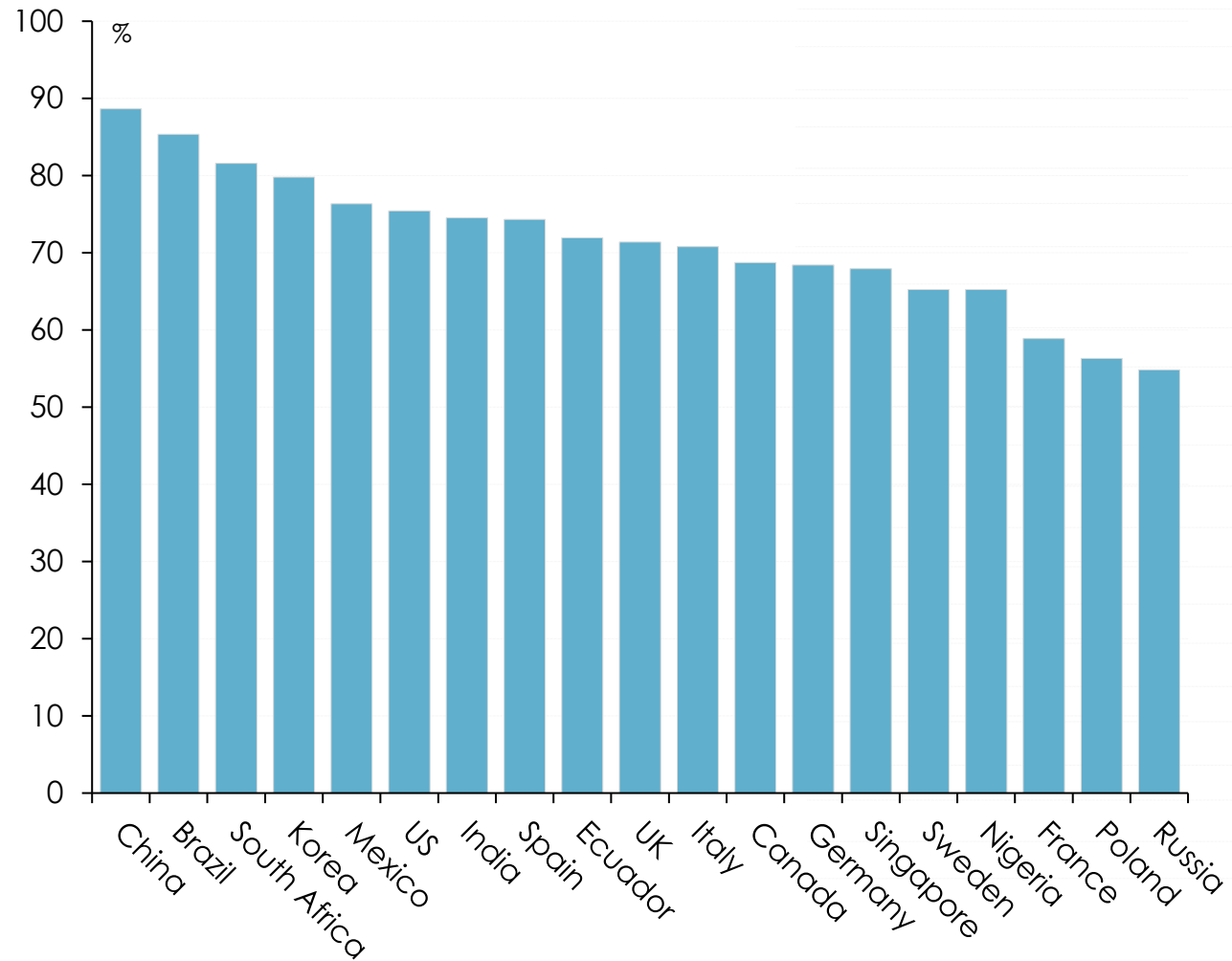
Daily new cases – selected countries with large populations and/or rapid growth in cases



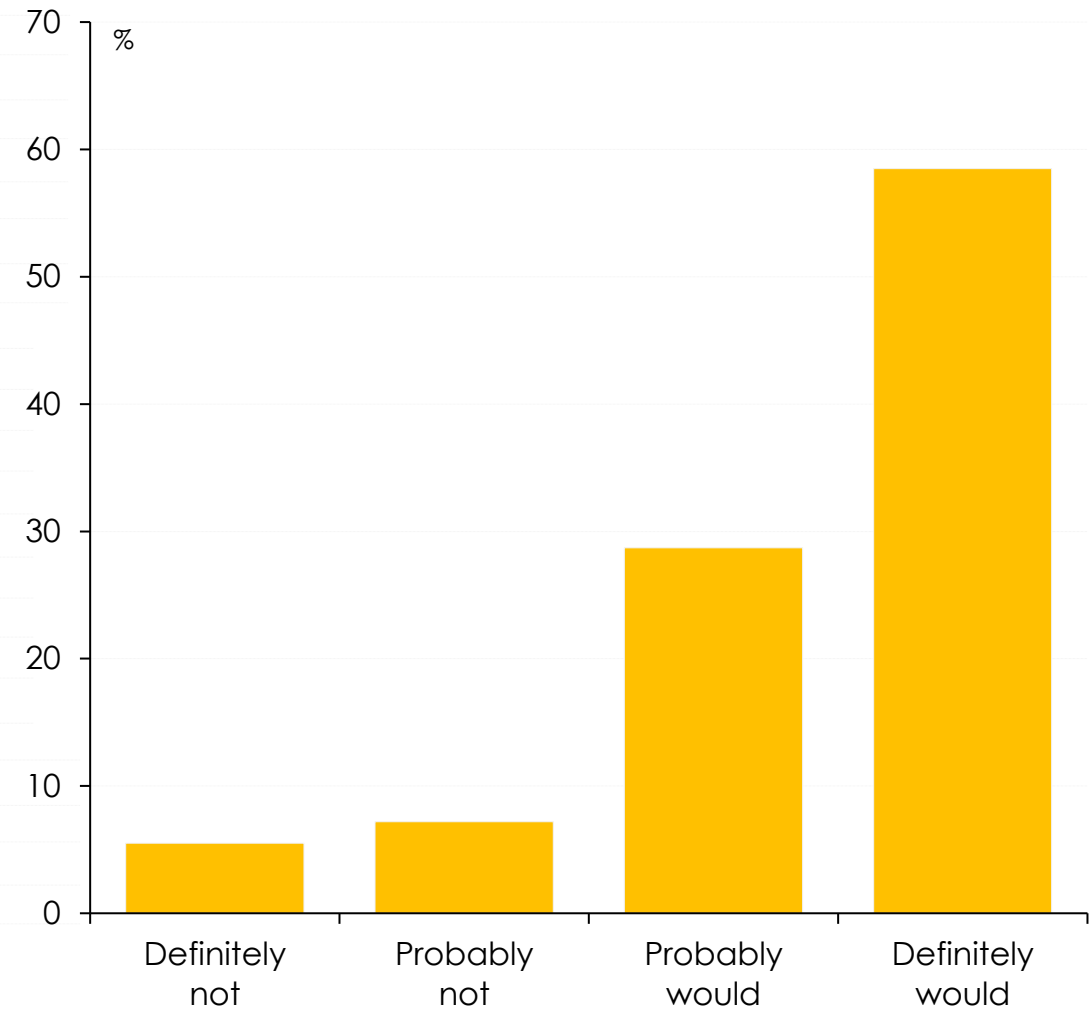
Note: All charts are on logarithmic scales. Data up to 14<sup>th</sup> December. Source: University of Oxford, [Our World in Data](#); Corinna.

# There has been good news regarding vaccines – but will enough people be prepared to take them?

## People's willingness to take a Covid-19 vaccine, by country



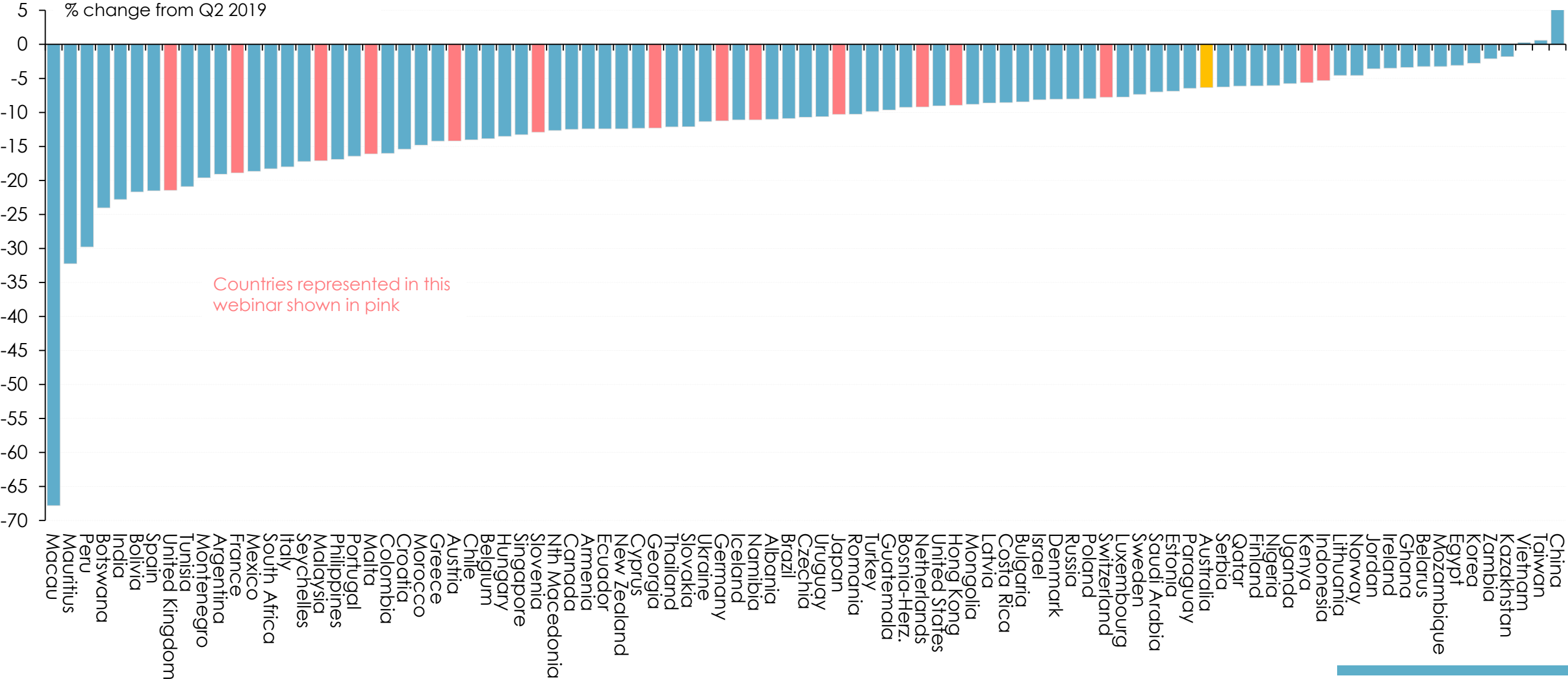
## Australians' willingness to take a Covid-19 vaccine



Sources: Jeffrey Lazarus, Scott Ratzan et al, [A global survey of potential acceptance of a COVID-19 vaccine](#), *Nature Medicine*, 20<sup>th</sup> October 2020; Ben Edwards, Nicholas Biddle, Matthew Gray & Kate Sollis, [COVID-19 vaccine hesitancy and resistance: Correlates in a nationally representative longitudinal survey of the Australian population](#), Australian National University Centre for Social Research and Methods, 16<sup>th</sup> November 2020.

# Only 2 out of 91 countries reported positive GDP growth over the year to Q2, with 9 reporting contractions of more than 20% and 39 of more than 10% ...

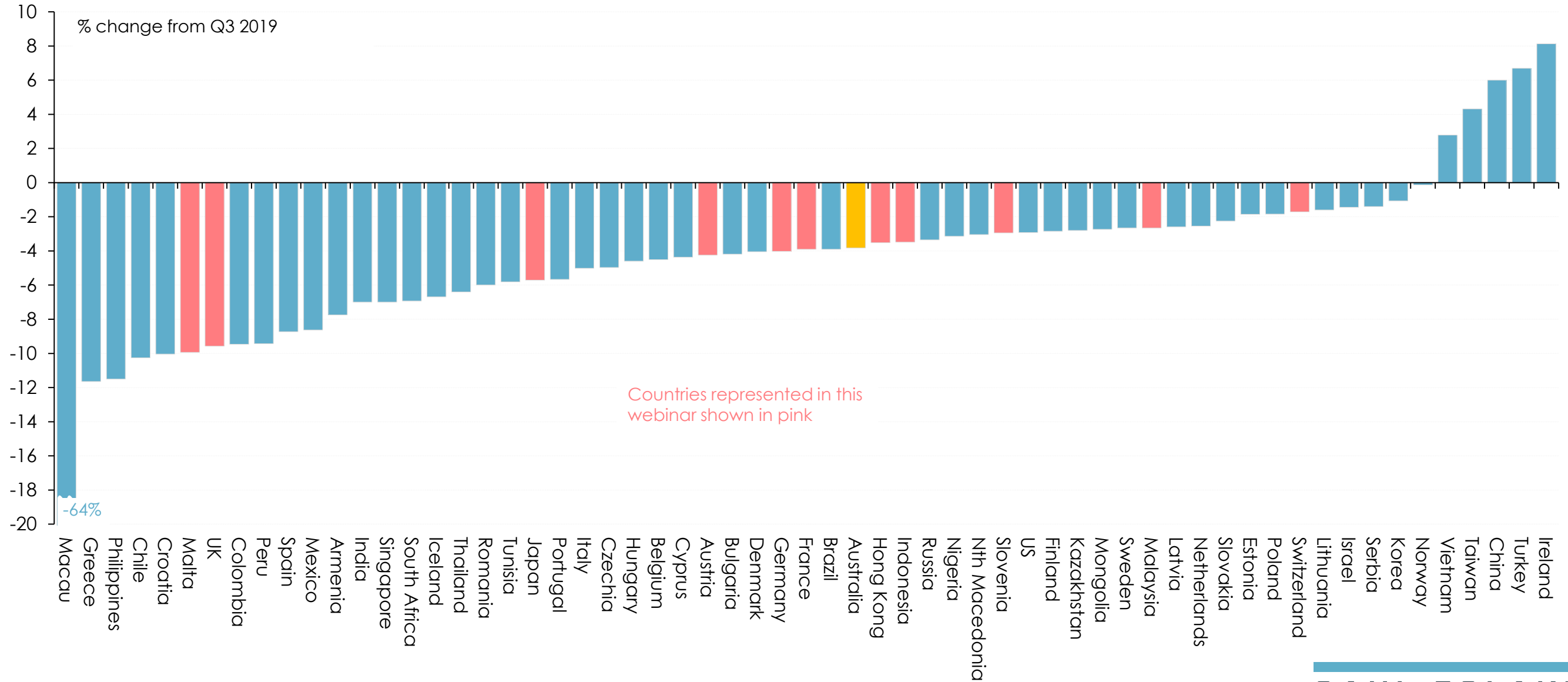
## Real GDP growth over the year to Q2 2020



Countries represented in this webinar shown in pink

# ... but of 61 countries which have now reported Q3 numbers, 5 have shown positive growth, while only 5 have contracted by 10% or more from Q3 2019

## Real GDP growth over the year to Q3 2020

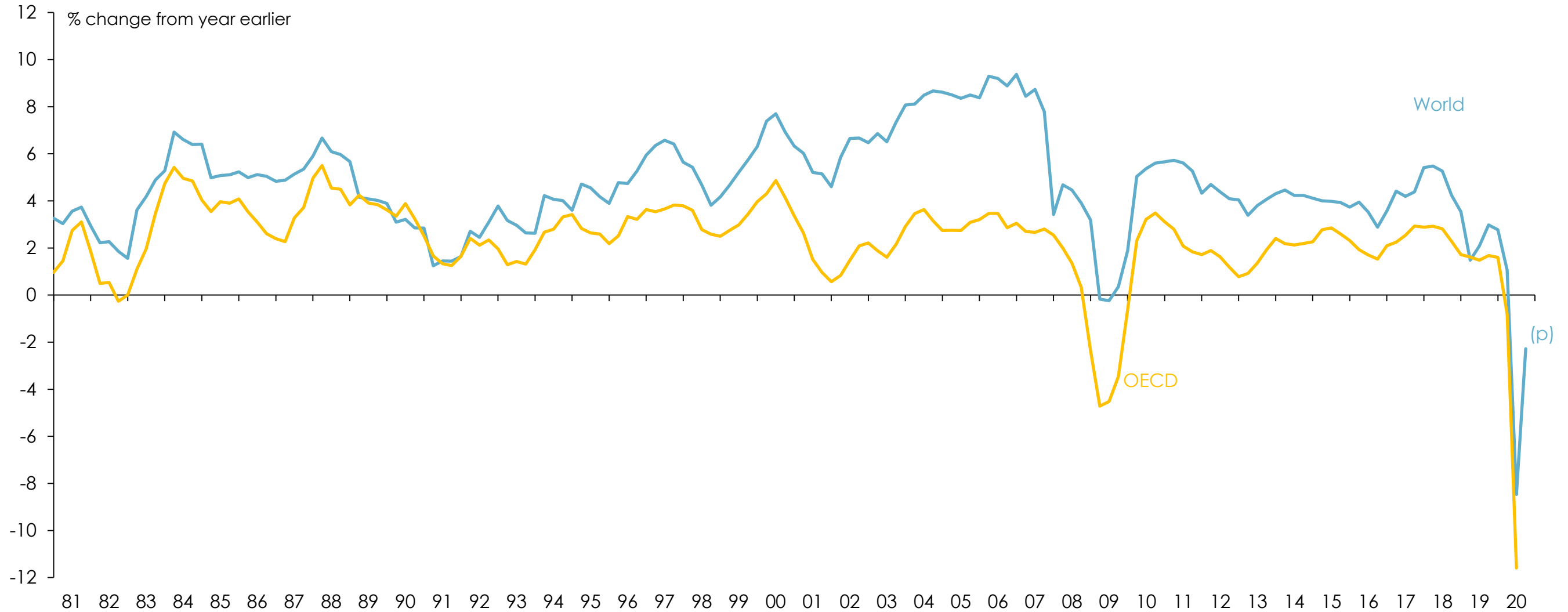


Sources: national statistical agencies and central banks; Refinitiv Datastream; Corinna.



# The world economy likely contracted by 2¼% over the year to Q3, a sharp improvement from the 8½% decline over the year to Q2

## World and OECD area real GDP growth

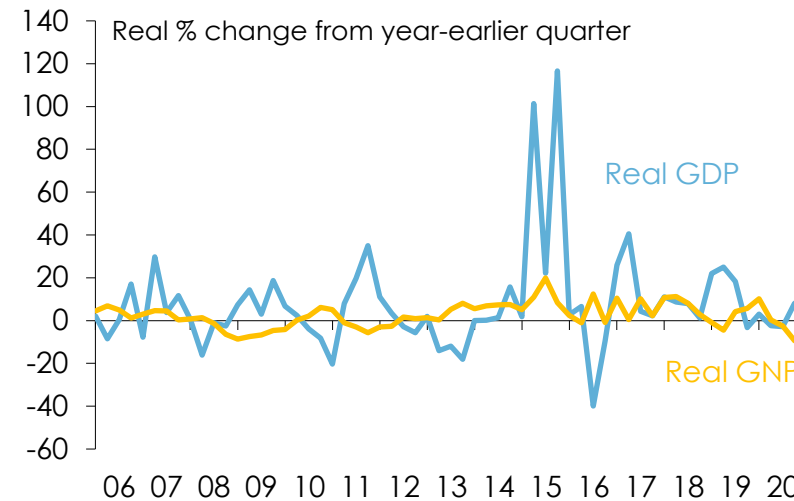


Note: Estimates of global GDP growth compiled by Corinna using data for 100 countries accounting for 94% of 2019 world GDP as measured by the IMF, weighted in accordance with each country's share of global GDP at purchasing power parities in 2019. ; excludes constituents of the former USSR before 1993, the former Czechoslovakia before 1995, and the former Yugoslavia before 1998. (p) Estimate for Q3 is a preliminary estimate based on published results for the 53 countries shown in the [previous slide](#). Sources: national statistical agencies and central banks; Eurostat; [OECD](#); IMF; Corinna. [Return to "What's New"](#).

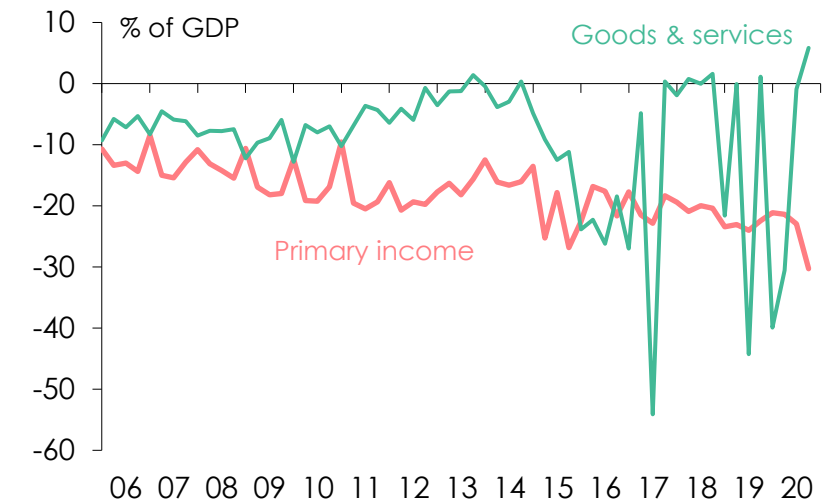
# Ireland's world-leading 8% real GDP growth over the year to Q3 is a little deceptive

- ❑ Ireland's real GDP grew by 21.3% in Q3 – to be 8.1% higher than a year earlier, the fastest growth rate in the world thus far reported – after a 19.1% decline in Q2
- ❑ However Irish GDP figures are highly volatile, and often a misleading indicator of 'underlying' economic growth
  - As Ireland's CSO [explains](#), they are distorted by large gross flows associated with the activities of multi-national enterprises and aircraft leasing companies located in Ireland
- ❑ These activities are captured in very large (and volatile) trade transactions and foreign income payments
  - real gross *national* product (GNP), which abstracts from net factor income payments abroad, is much more stable than real GDP – and it declined 9.3% over the year to Q3
- ❑ The CSO publishes an alternative measure called 'modified domestic demand', which fell 16.3% in Q2 and rebounded 13.9% in Q3 to be 4.1% below the level of Q3 2019
- ❑ Irish unemployment stood at 7.5% in November – up from 4.6% in April, and the highest since October 2016

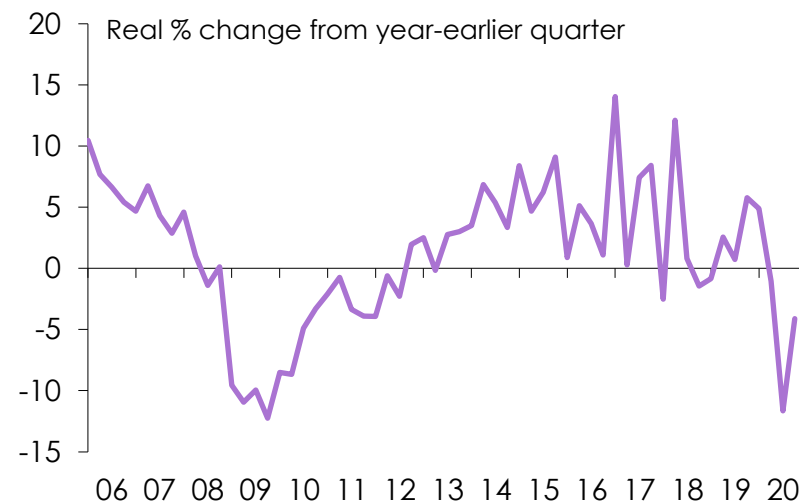
## Real GDP and GNP



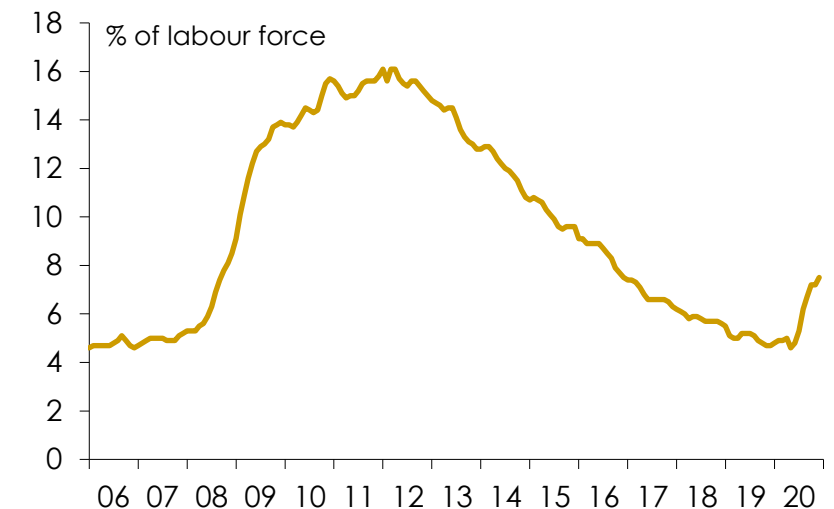
## Balance of payments



## 'Modified domestic demand'



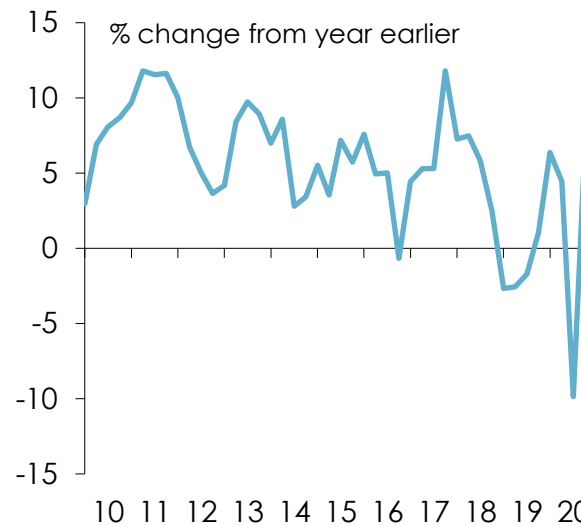
## Unemployment



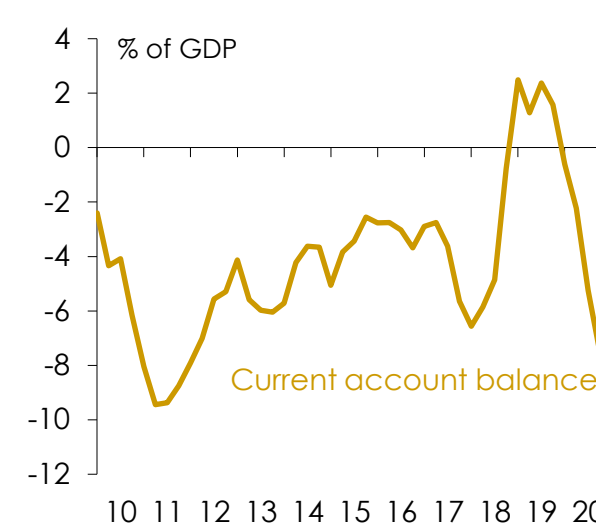
# Turkey's #2 ranking for real GDP growth over the year to Q3 is unlikely to be sustained

- ❑ The rapid rebound in the Turkish economy in Q3 was the result of a credit boom engineered by the Turkish central bank
  - policy interest rates dropped by almost 1600 basis points between July 2019 and June 2020, and the central bank made open-ended liquidity commitments to banks
  - credit growth exceeded 40% (30% in real terms) with growth in housing credit topping 100%
- ❑ As a result the current account deficit blew out to 7½% of GDP in Q3, putting renewed downward pressure on the Turkish lira (down 31% against the US\$ this year) ...
- ❑ ... which has in turn re-ignited inflation
- ❑ ... and forced the central bank to raise interest rates sharply (contrary to the previous strong preferences of President Erdoğan)
- ❑ Higher interest rates and the recent spike in Covid-19 cases will likely see growth slump in Q4

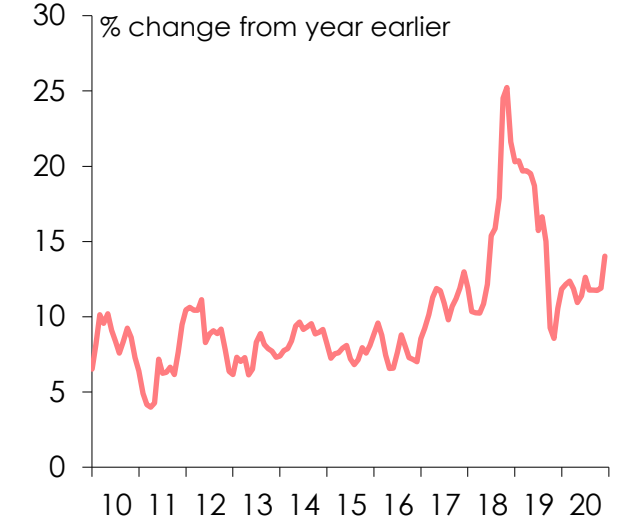
### Real GDP growth



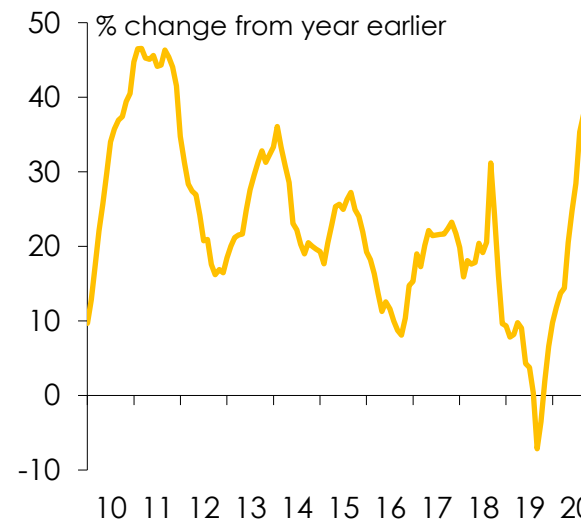
### Current account balance



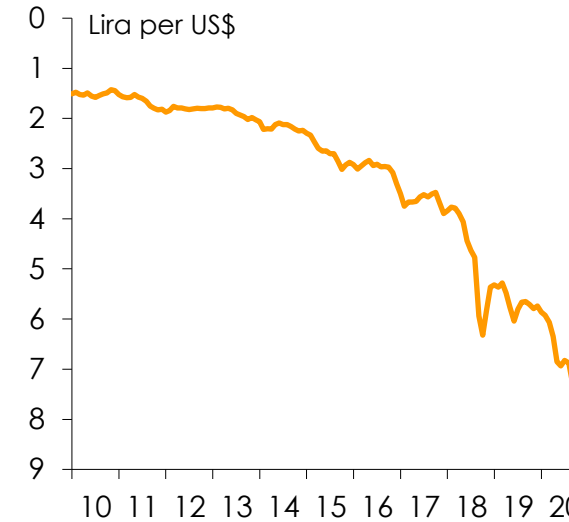
### Inflation



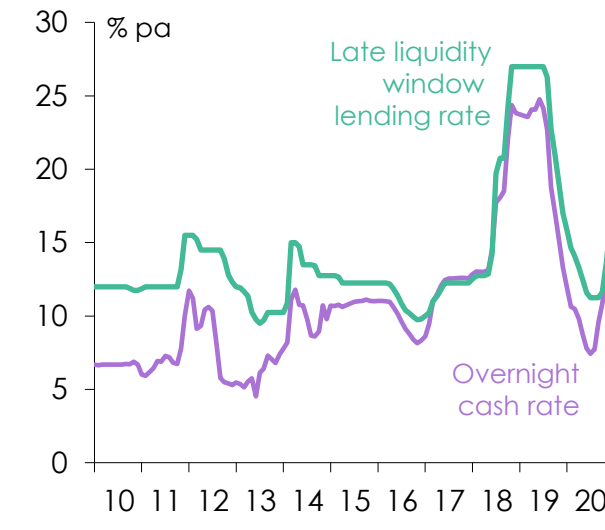
### Bank lending



### Turkish lira vs US\$



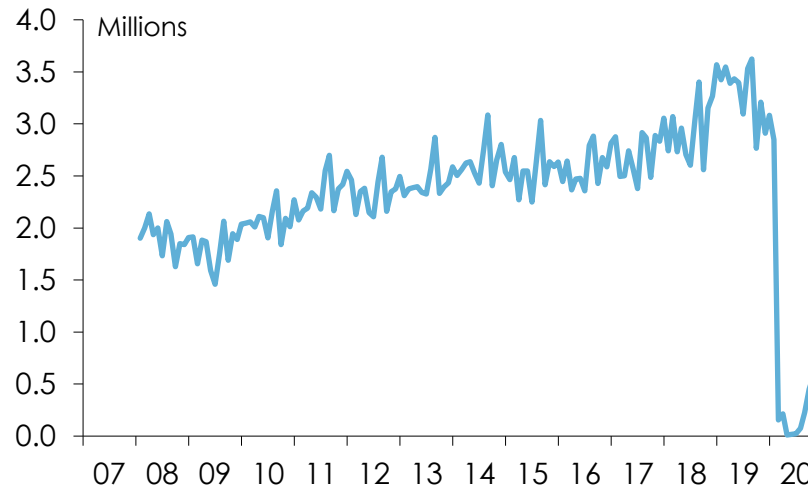
### Interest rates



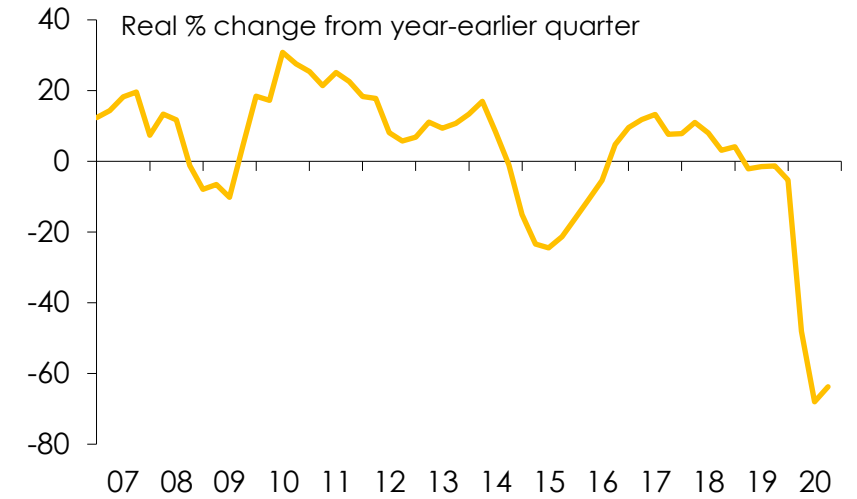
# At the other end of the spectrum, the world's worst recession has been in Macau

- ❑ **Macau (a 'Special Administrative Region' of China) has a very small population (680,000) and economy (US\$54bn in 2019)**
  - but in 2019 had the highest per capita GDP in the world (US\$121,64 at purchasing power parities – cf. US \$65,254)
- ❑ **'Gaming and junket activities' accounted for 51% of Macau's GDP in 2019 – with real estate activities, banking, retailing, hotels and restaurants accounting for a further 26%**
  - these industries have been dramatically affected by restrictions on travel and 'non-essential' activities
  - tourism and gambling began shutting down in February, and by Q2 had dropped to less than 5% of 2019 average levels
- ❑ **Real GDP dropped by 69% between Q4 2019 and Q2 2020**
  - and even with an 11% 'rebound' in Q3 was still 66% below the level of Q4 2019
- ❑ **Macau's economy is not expected to recover to pre-pandemic levels until 2024**

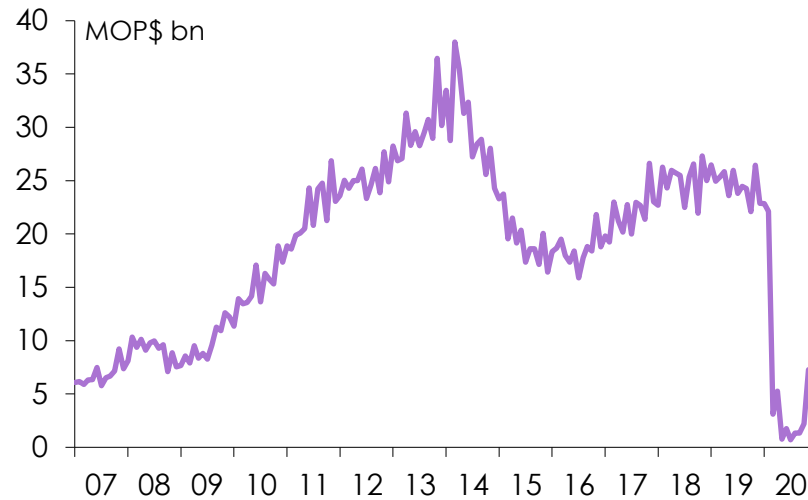
## Visitor numbers



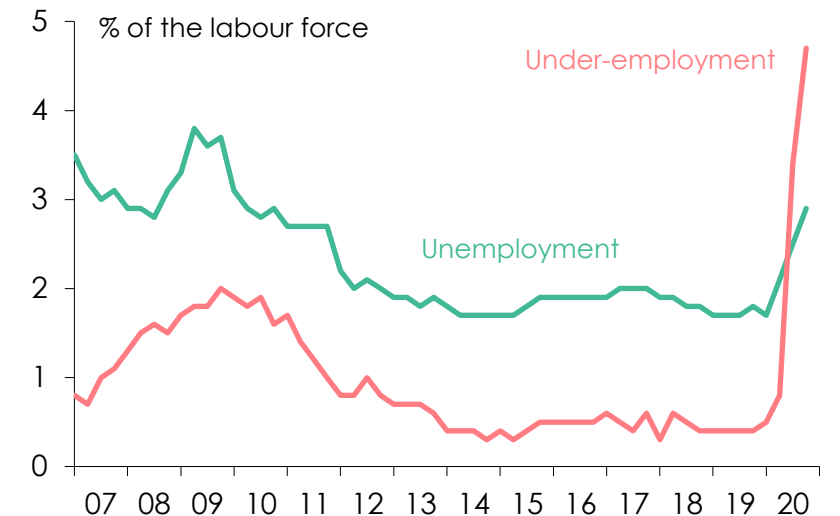
## Real GDP



## Gambling revenue



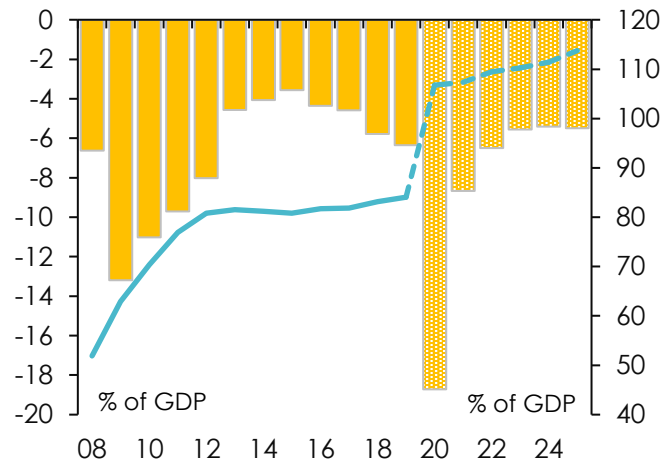
## Unemployment



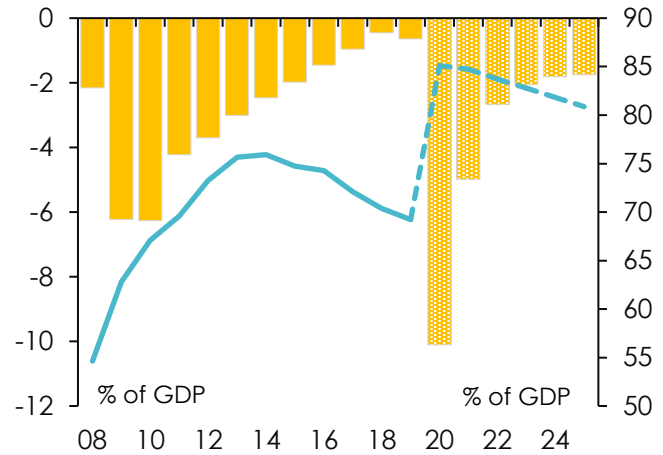
Note: 'Under-employment' counts people working fewer hours than they are willing and able to work. MOP\$ is the standard abbreviation for Macanese patacas (1 MOP = US13¢). Source: [Macau Statistics and Census Service](#).

# Every government is doing more by way of fiscal stimulus than during the financial crisis – and the US, Canada and the UK are doing more than most

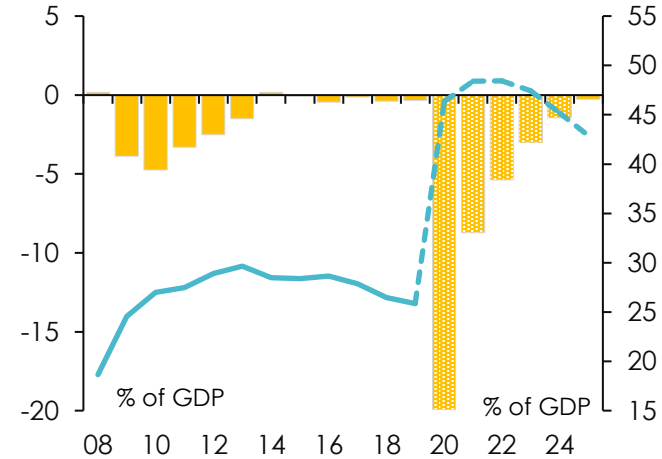
## United States



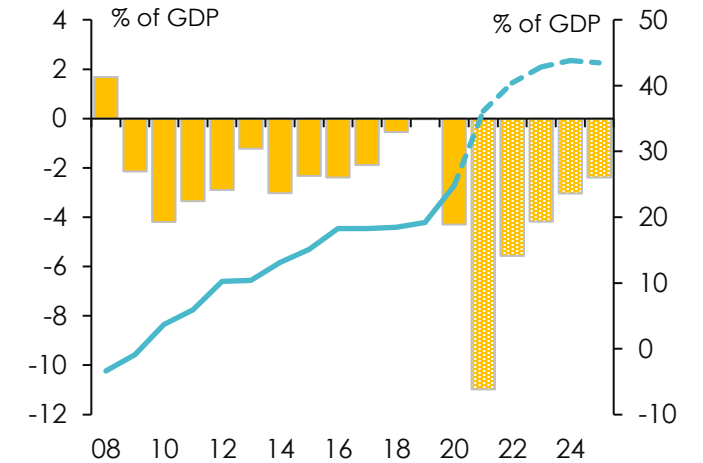
## Euro area



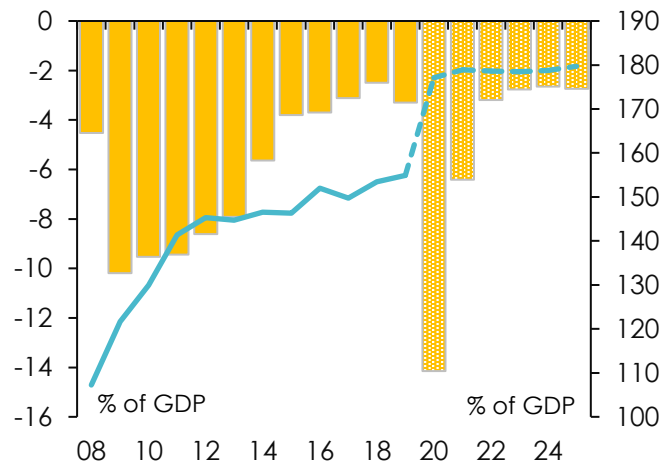
## Canada



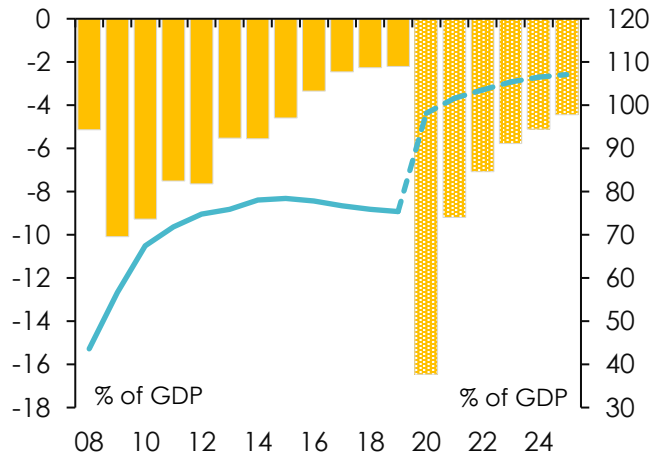
## Australia



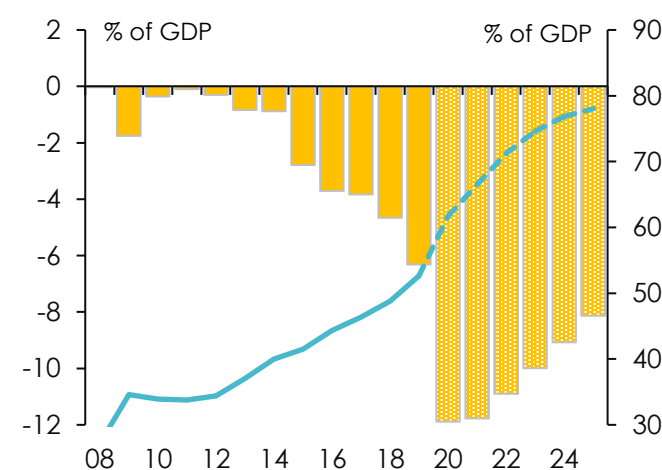
## Japan



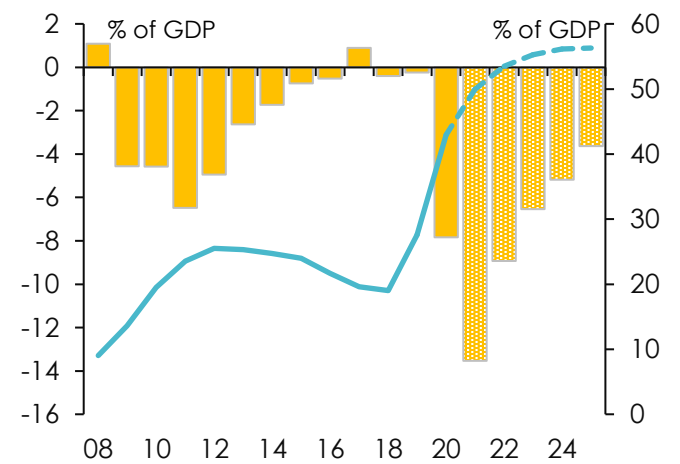
## United Kingdom



## China



## New Zealand



General government overall fiscal balance (left scale)

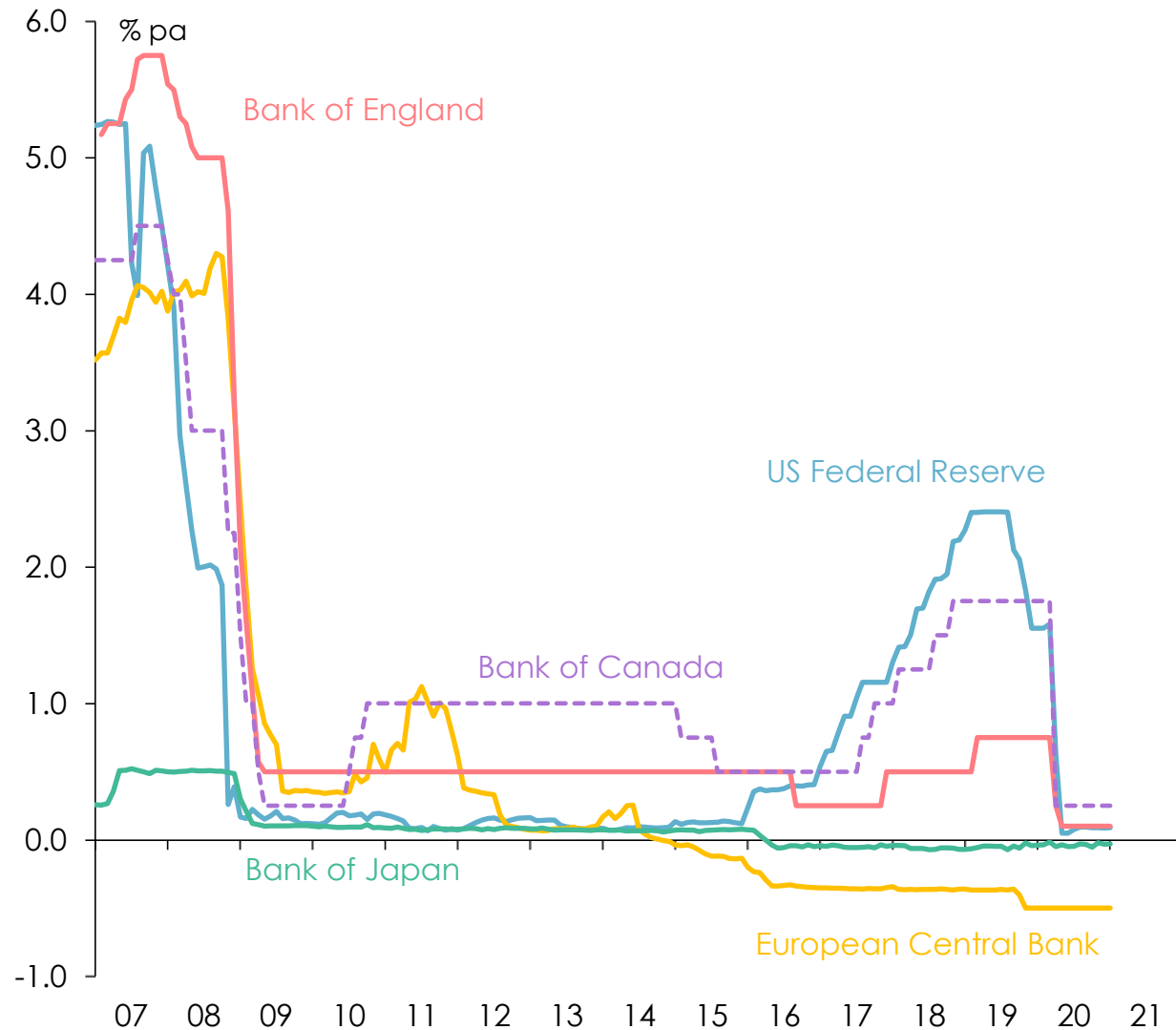


General government net debt (right scale)

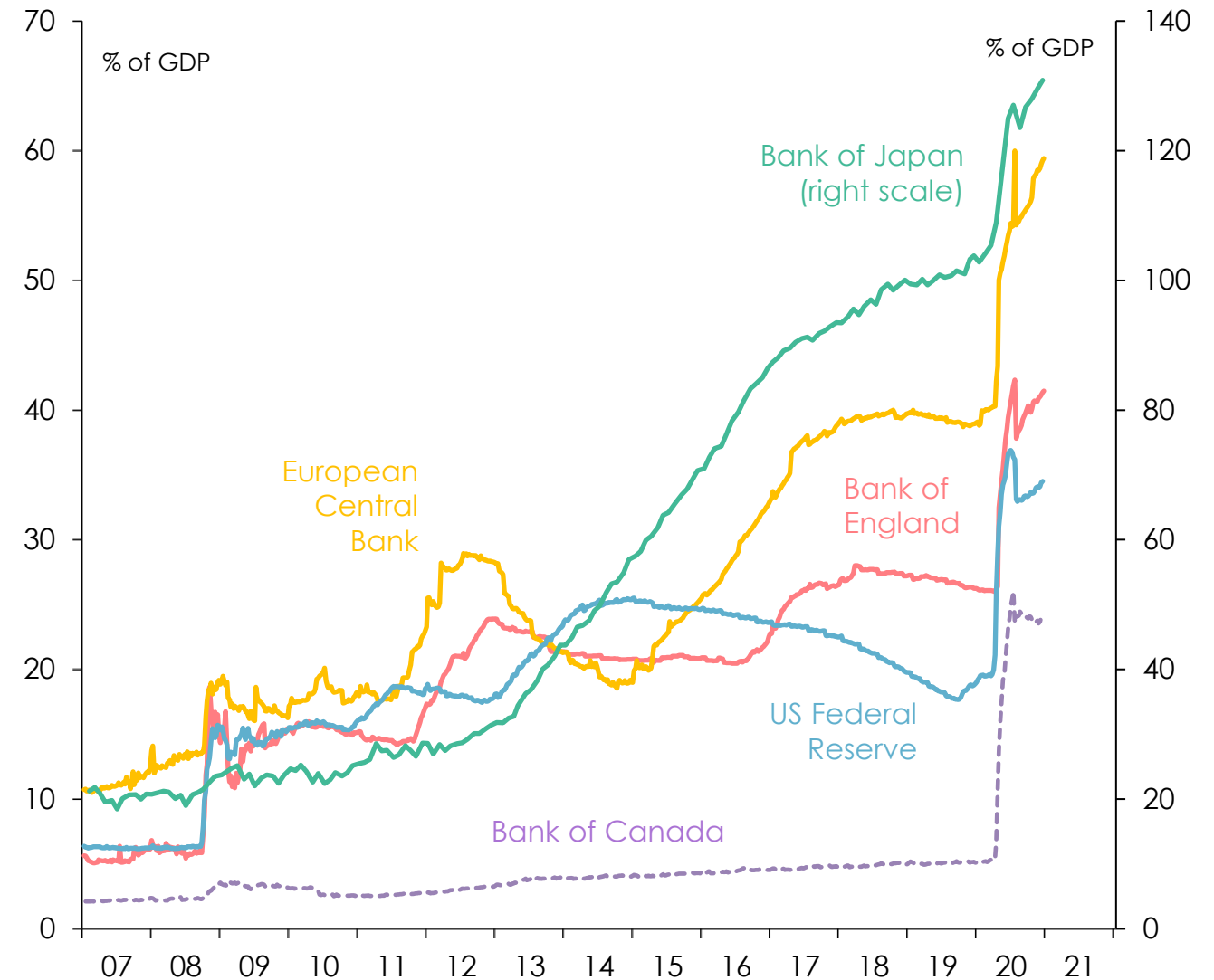
Note: China debt is gross debt, not net; Australian data are for the federal government only and are for fiscal years ended 30<sup>th</sup> June; NZ data are for fiscal years ended 31<sup>st</sup> March. Sources: International Monetary Fund, [Fiscal Monitor](#), and [World Economic Outlook](#), October 2020; Australian Government, 2020-21 [Budget Paper No. 1](#), October 2020; New Zealand Treasury, [Pre-Election Economic and Fiscal Update](#), September 2020. [Return to "What's New"](#)

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

## Major central bank policy interest rates



## Major central bank balance sheets

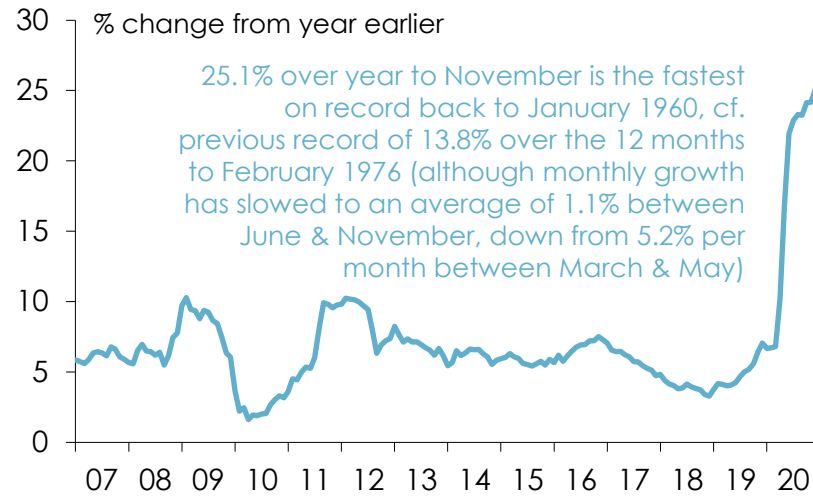


Note: estimates of central bank assets as a pc of GDP in Q2 2020 were inflated by the sharp drop in nominal GDP in that quarter: conversely, declines in estimates of central bank assets as a pc of GDP in Q3 are in large part due to rebounds in nominal GDP.

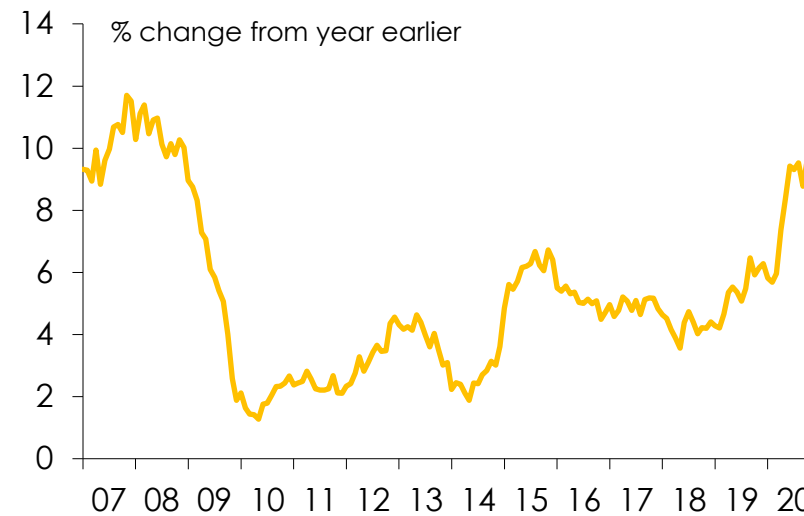
Sources: [US Federal Reserve](#); [European Central Bank](#); [Bank of Japan](#); [Bank of England](#); [Bank of Canada](#); national statistical agencies; Corinna.

# 'QE' has prompted a faster acceleration in money supply growth than it did during the GFC – except in Australia & NZ which didn't do QE in the GFC

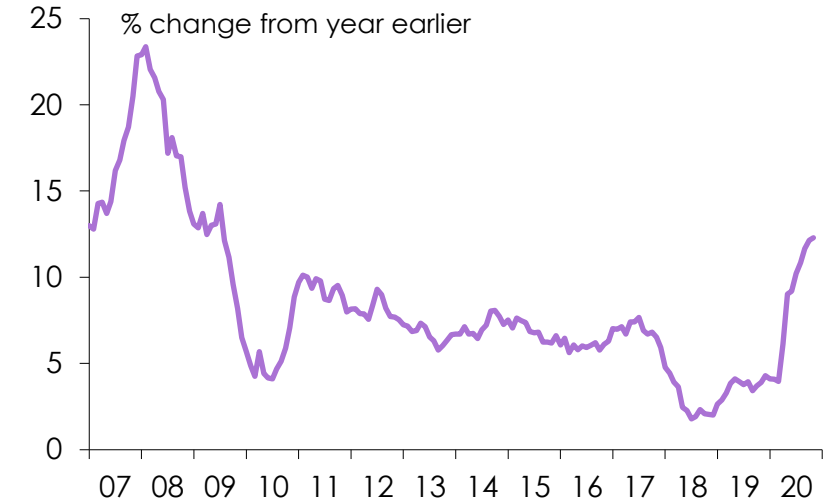
## US M2



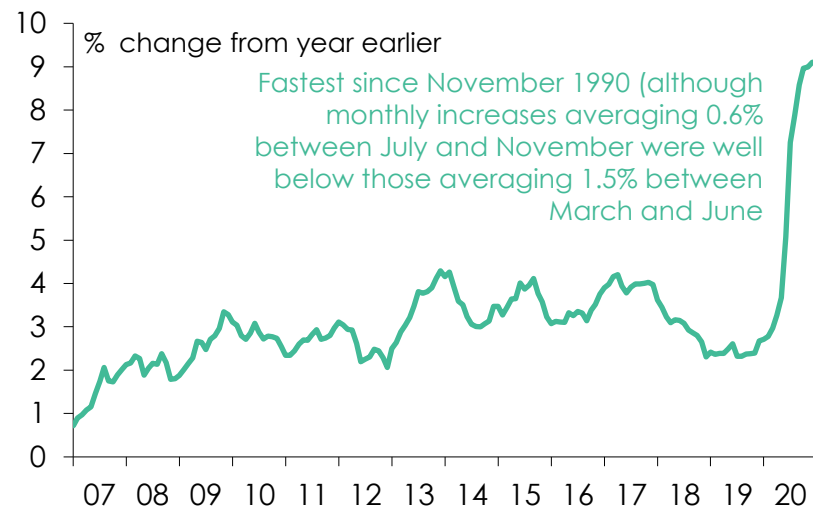
## Euro area M2



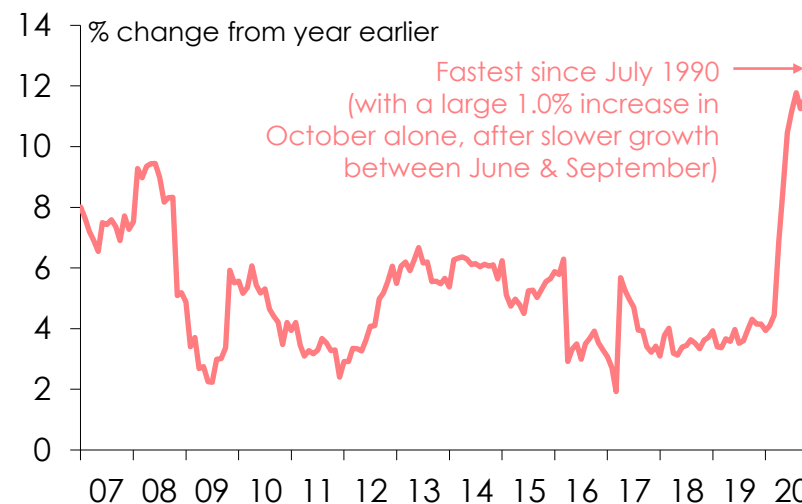
## Australia M3



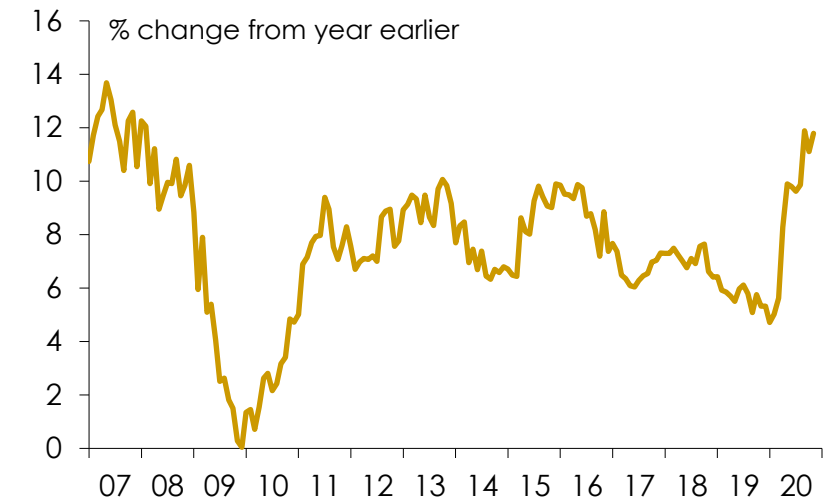
## Japan M2 + CDs



## UK M2

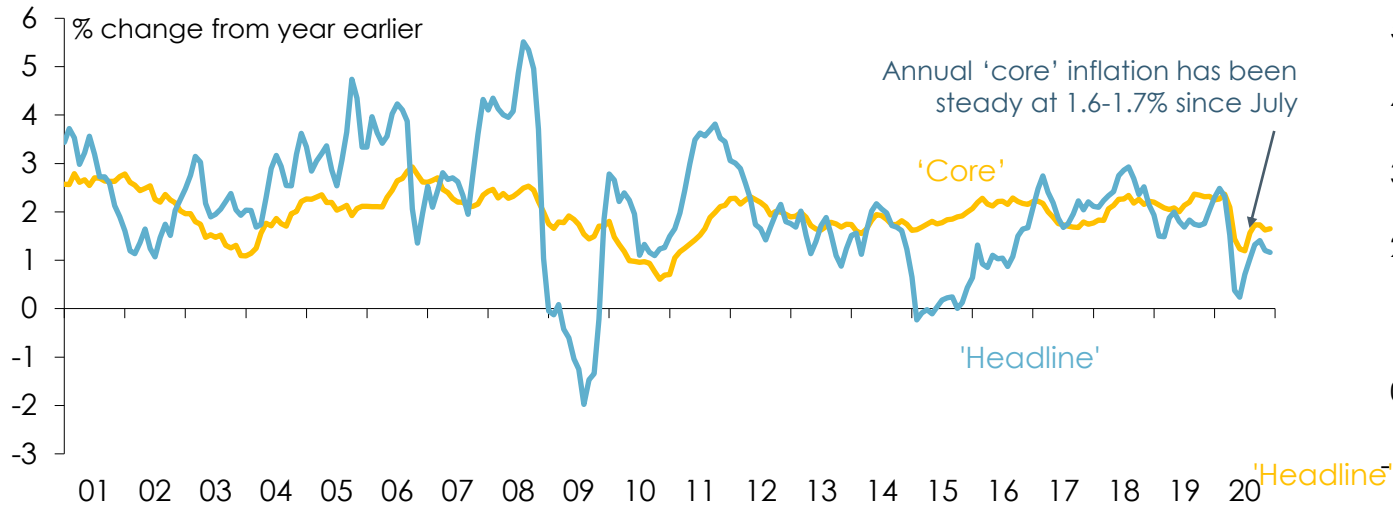


## New Zealand M3

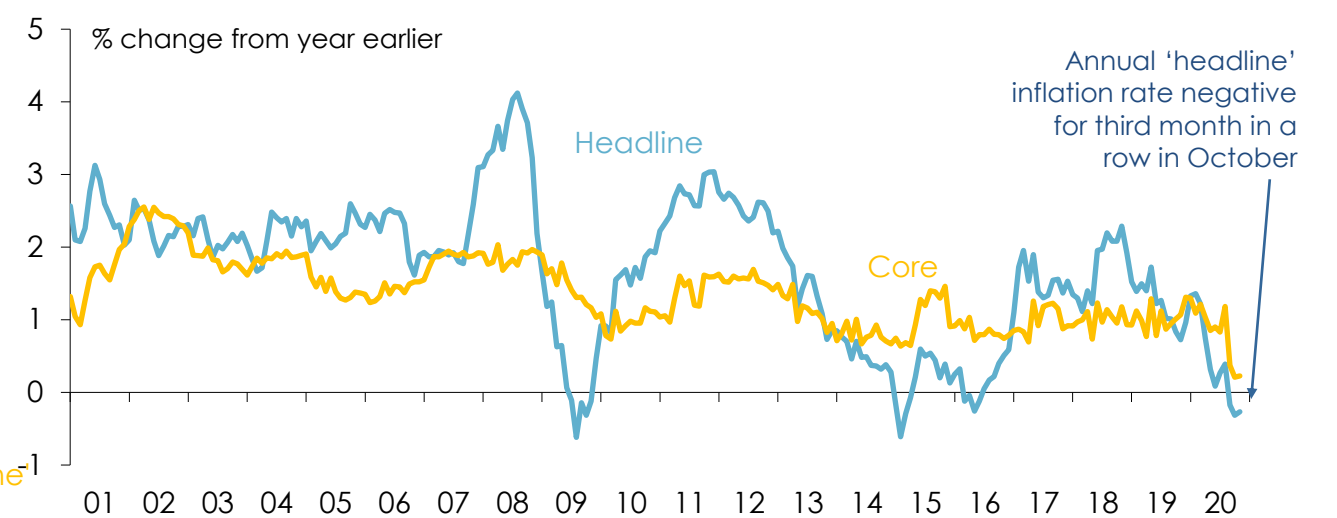


# So far at least, inflation has remained well below central bank targets

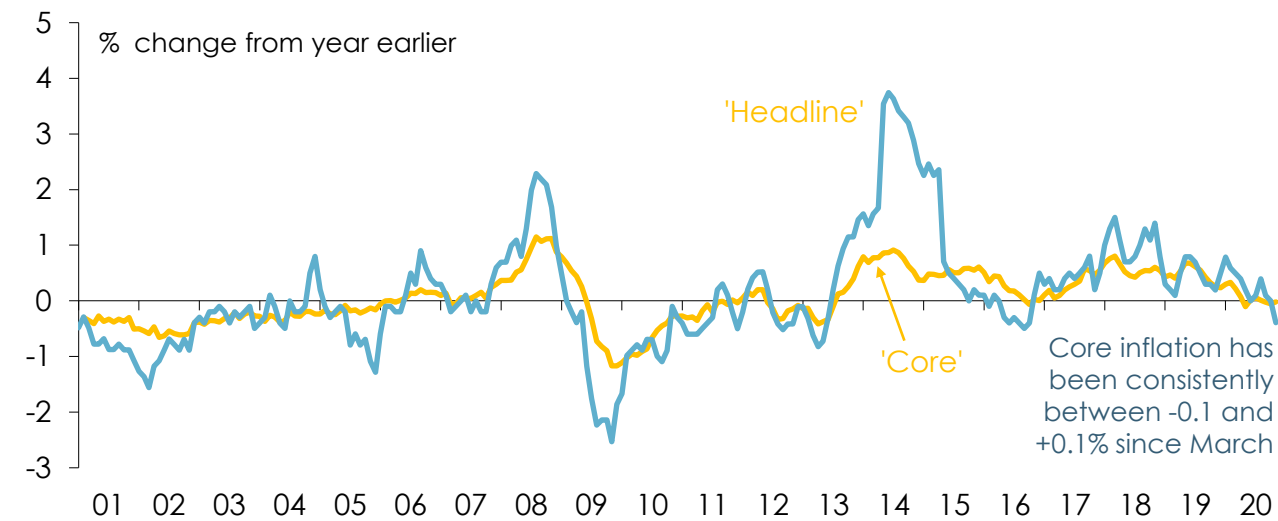
## 'Headline' and 'core' inflation - US



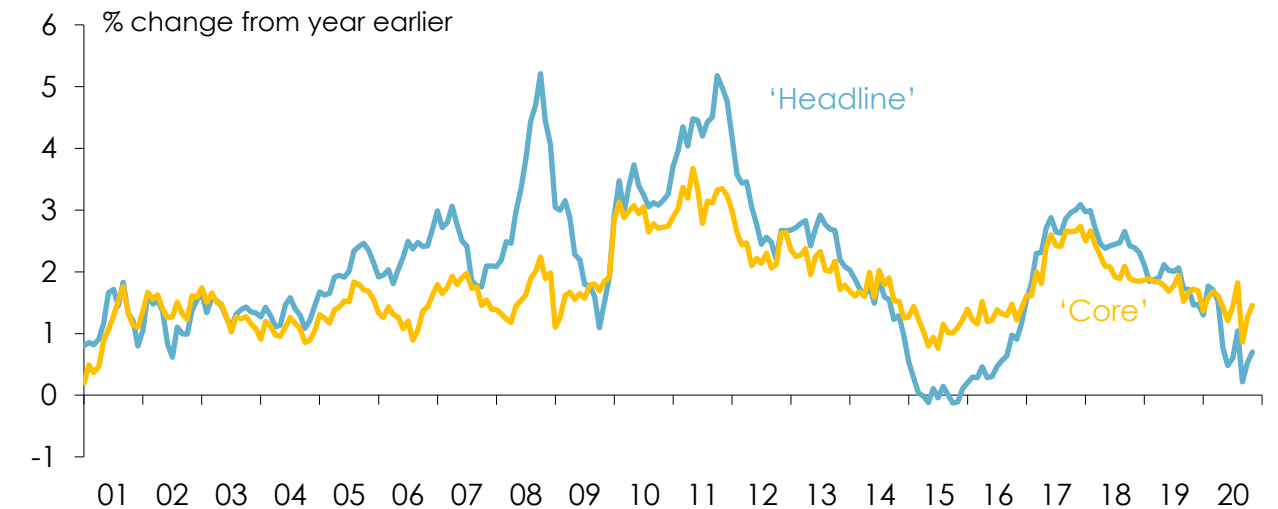
## 'Headline' and 'core' inflation – Euro area



## 'Headline' and 'core' inflation - Japan



## 'Headline' and 'core' inflation – UK



Note: 'Core' inflation is the CPI excluding food & energy in the US; excluding food, energy, alcohol & tobacco in the euro area; and excluding energy & seasonal foods in the UK. The 'core' inflation measure for Japan is the weighted median CPI calculated by the Bank of Japan.

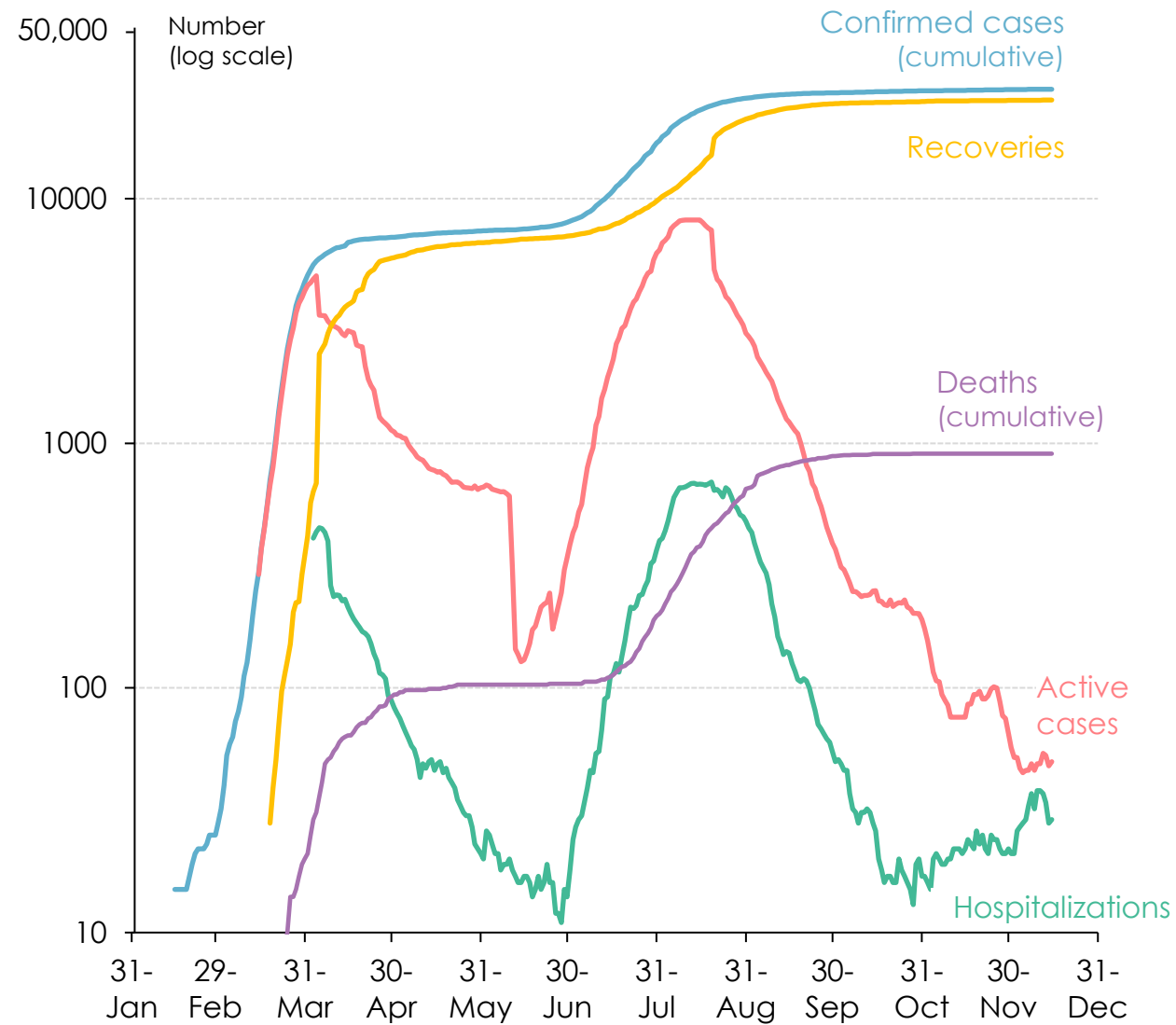
Sources: [US Bureau of Labor Statistics](#); [Eurostat](#); [Statistics Bureau of Japan](#); [Bank of Japan](#); [UK Office for National Statistics](#).



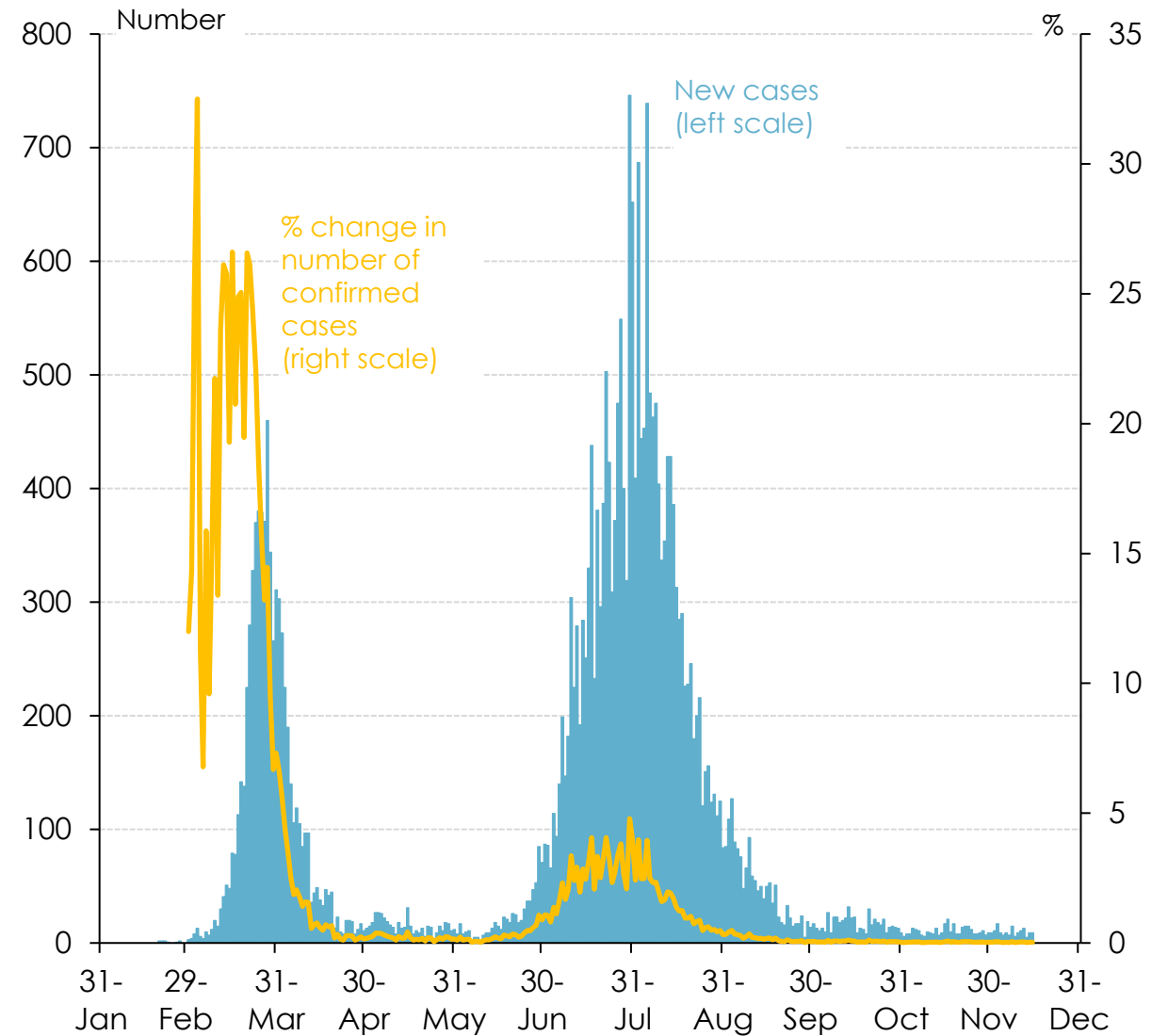
**Australia**

# Unlike the global picture in Australia the virus does now seem to be at bay

## Cases, recoveries, hospitalizations and deaths



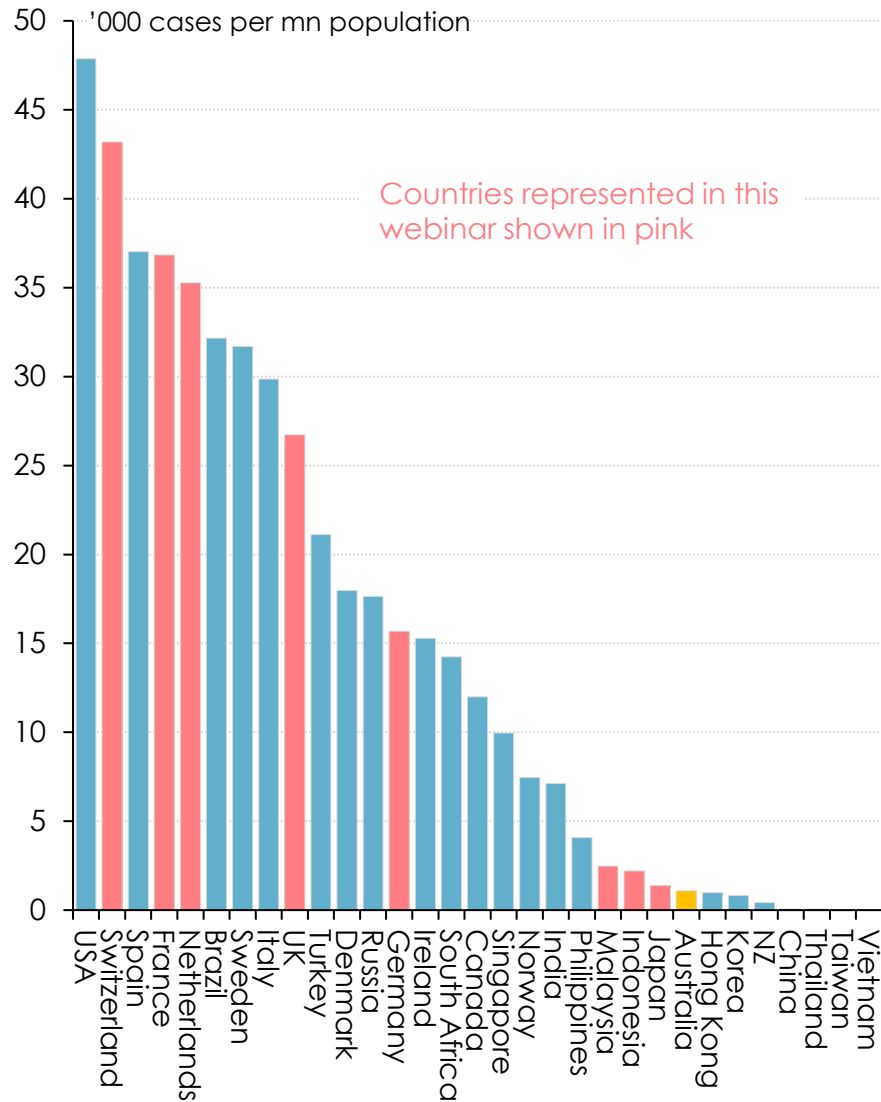
## New cases



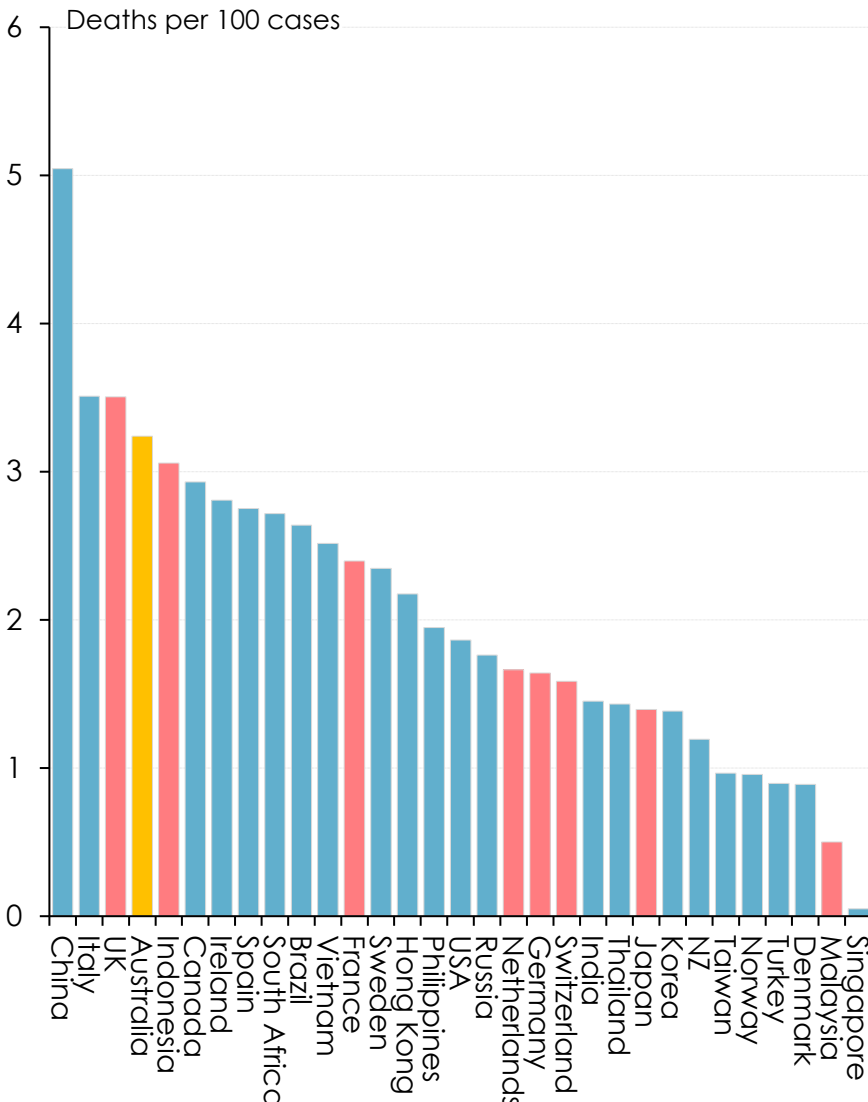
Note: Data up to 15<sup>th</sup> December. Source: [covid19data.com.au](https://covid19data.com.au).

# Australia's infection and death rates remain, along with NZ's and most East Asian countries', low by international standards

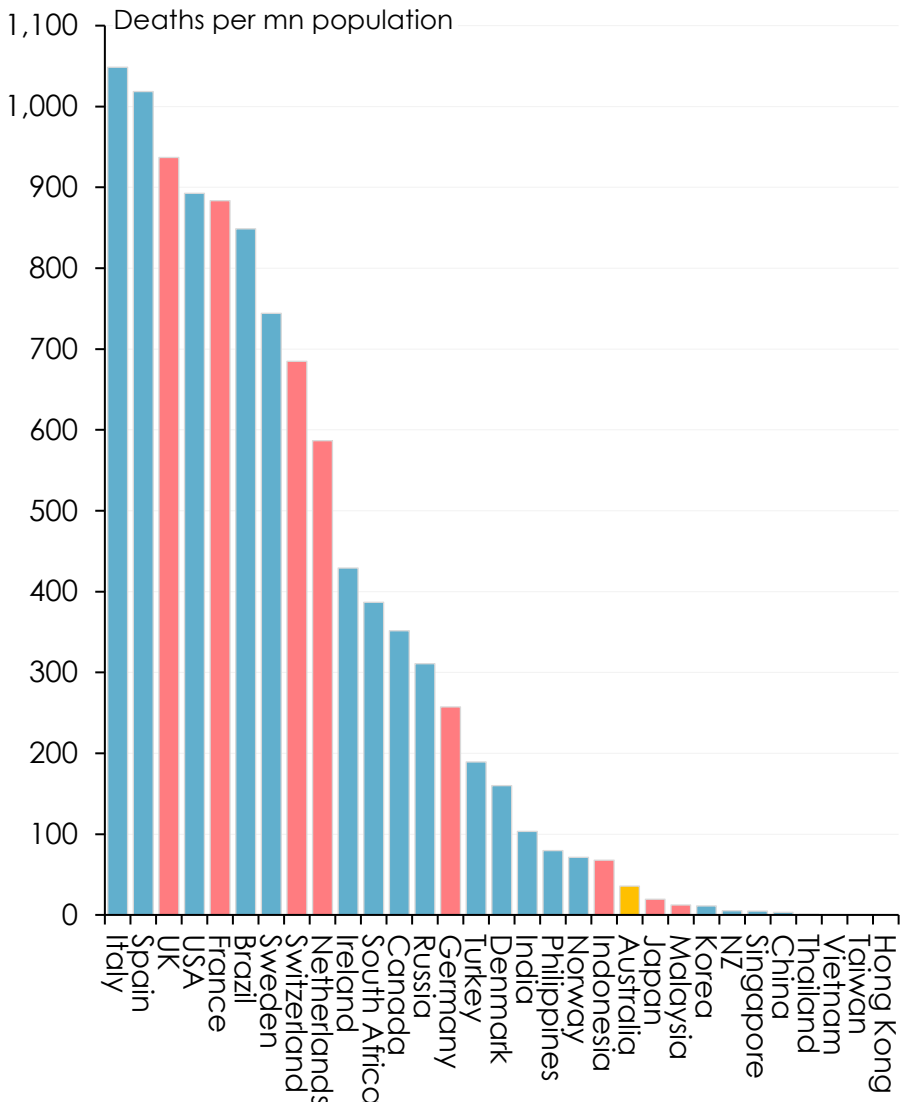
## Apparent infection rate



## Apparent fatality rate



## Death rate



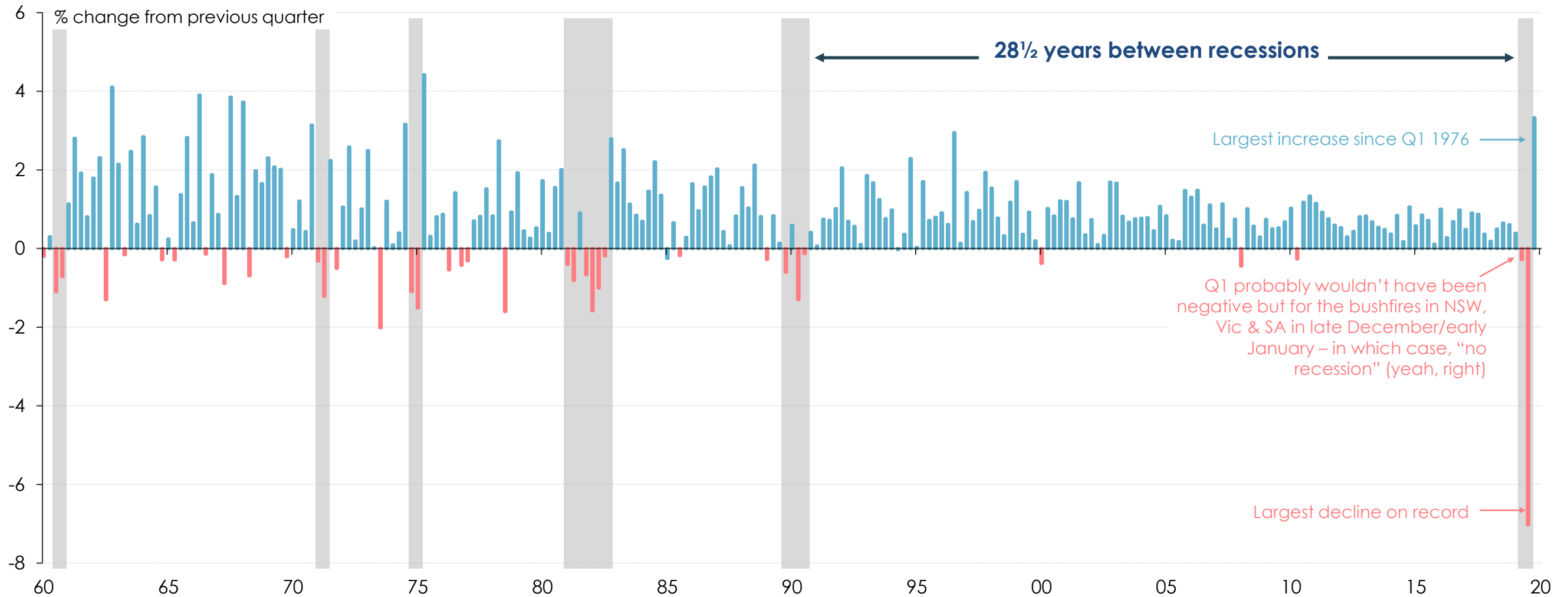
Note: Data up 10<sup>th</sup> December. Source: University of Oxford, [Our World in Data](#); Corinna.

# Reasons for optimism about the short-term outlook for the Australian economy

- ❑ **Australia has done very well in containing the virus (even allowing for Victoria's 'second wave')**
  - and the evidence from other countries is that unless the virus is contained, there can't be any sustainable economic recovery – either because governments will re-impose restrictions, or even if they don't, people will impose restrictions on themselves voluntarily (for fear of catching it)
- ❑ **Australia is now heading into the warmer months – in which our own experience and that of other 'advanced' economies tells us that the virus is likely to be less contagious during the colder parts of the year**
  - note this generalization doesn't apply in 'emerging economies' because people tend to stay inside during the hotter periods in poorer countries whereas in richer countries people tend to stay outside in warmer periods and inside during cooler ones
- ❑ **And the prospects for a vaccine seem to be improving**
  - it's even plausible that a vaccine could start to become widely available in Australia ahead of the Government's Budget assumption of 'second half of 2021'
- ❑ **So if we can keep the virus at bay until a vaccine arrives, the health risks to the economic outlook will have reduced substantially by mid-year**
- ❑ **In the meantime, the Australian economy has been doing better than expected**
  - the downturn was less severe, and didn't last as long, as initially anticipated
  - and the recovery has so far been stronger than expected (even allowing for the drag created by Victoria)
- ❑ **However continued support from fiscal and monetary policy will be required for some time to come**
  - the Government's fiscal policy strategy is heavily contingent on households responding positively to tax cuts, and businesses responding positively to incentives and subsidies – rather than direct, own-account spending (as per IMF/OECD advice)
- ❑ **There is also the challenge of transitioning from measures which support existing jobs and businesses, to measures which nurture new jobs and businesses which will be sustainable in the post-Covid world**

# Australia is 'officially' out of its first recession in nearly three decades, with real GDP increasing by 3.3% in the September quarter

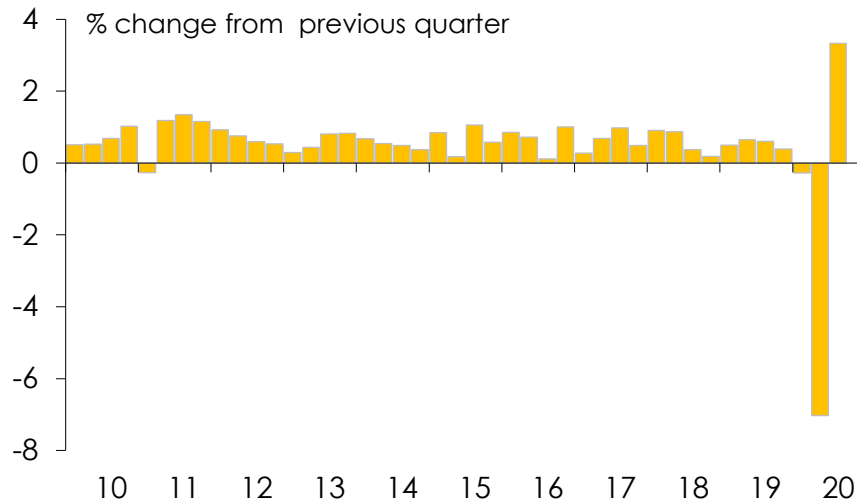
## Quarterly growth in Australian real GDP, 1960-2020



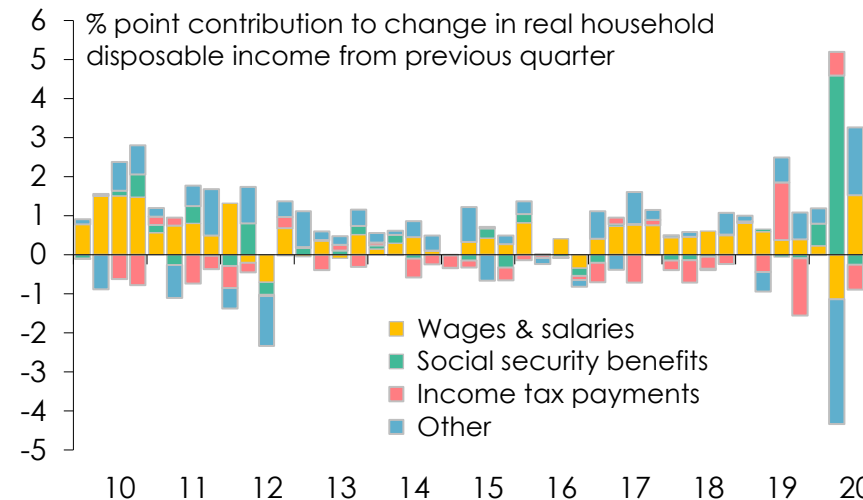
Note: Shaded areas denote recessions. Source: ABS, [Australian National Accounts: National Income, Expenditure and Product](#), September quarter 2020.

# The 3.3% rebound in Q3, after a 7.0% plunge in Q2, was almost entirely driven by consumer spending on health and discretionary items

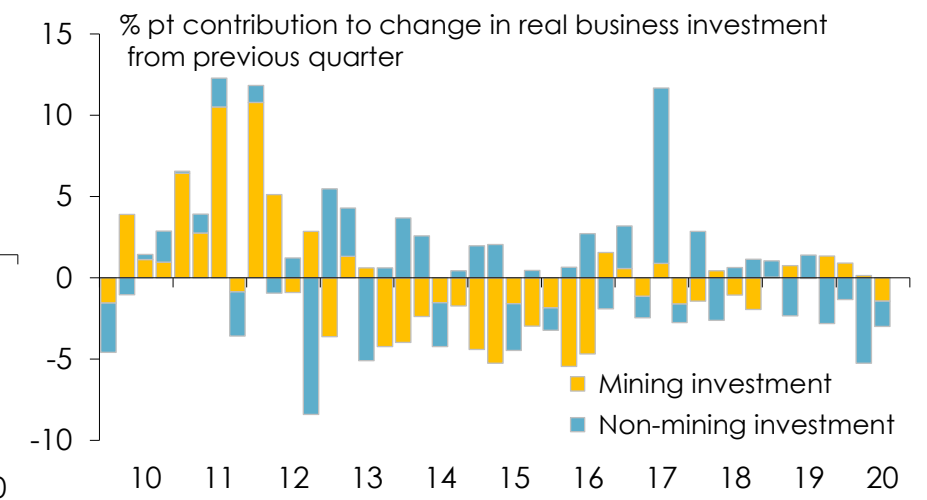
## Quarterly change in real GDP



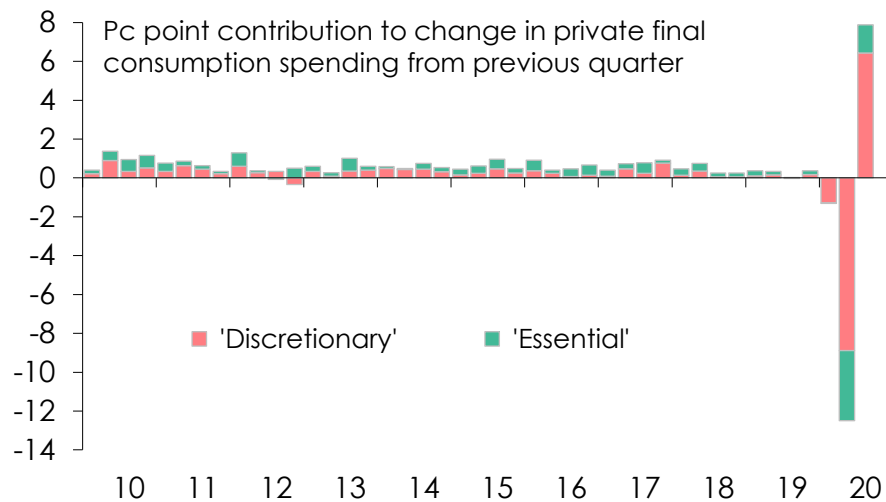
## Household disposable income



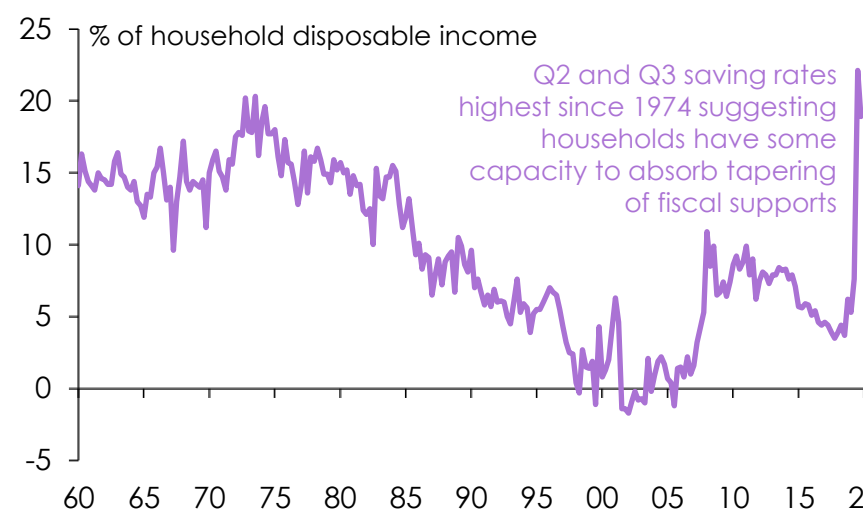
## Business investment expenditure



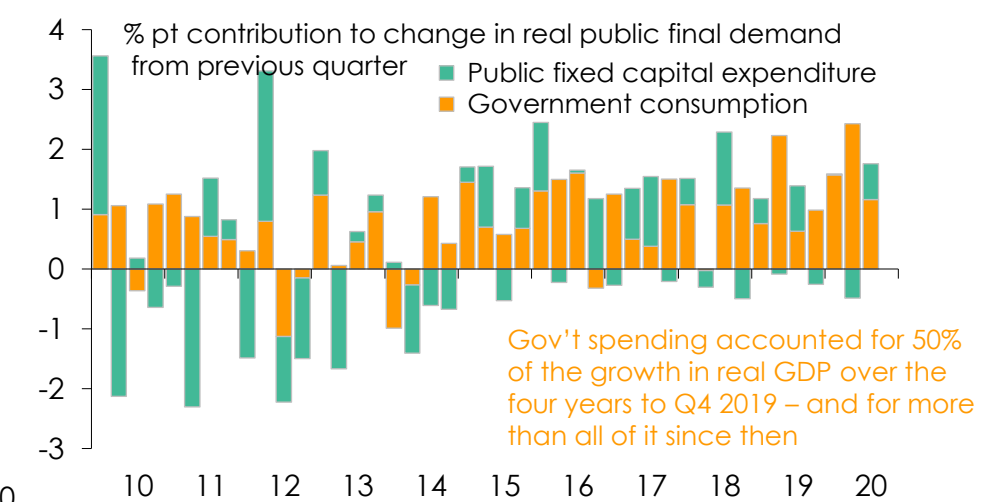
## Household consumption expenditure



## Household saving rate



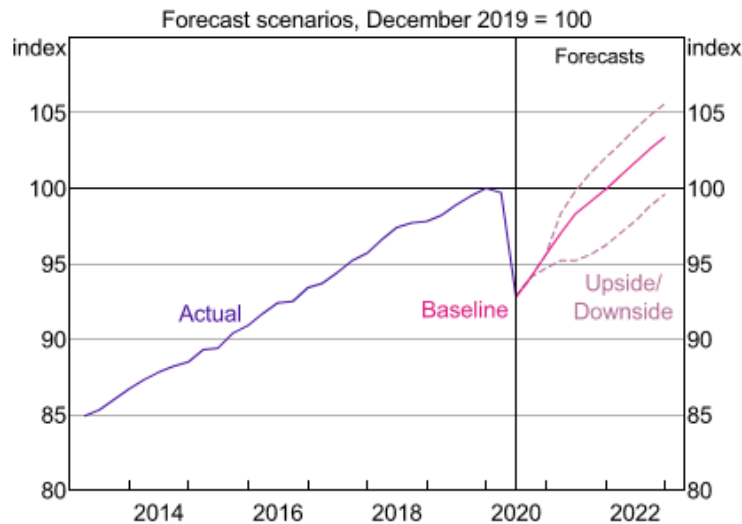
## Public expenditure



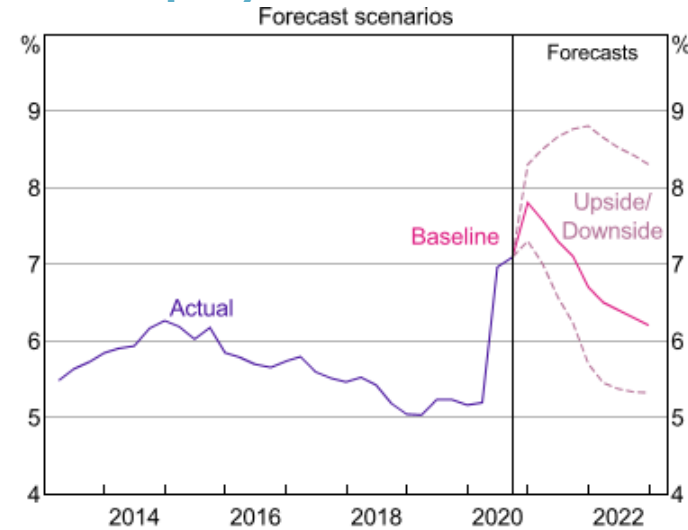
Note: 'Essential' household consumption expenditure comprises food; rent & other dwelling services; electricity, gas & other fuel; operation of vehicles; rail, bus & taxi services; communications; health; education; and insurance & other financial services. Components of household disposable income are deflated by the implicit price deflator of household final consumption expenditure. Source: [ABS](#).

# The near-term outlook is probably closer to the RBA's 'upside' scenario than its 'baseline' – although that still entails persistent unemployment

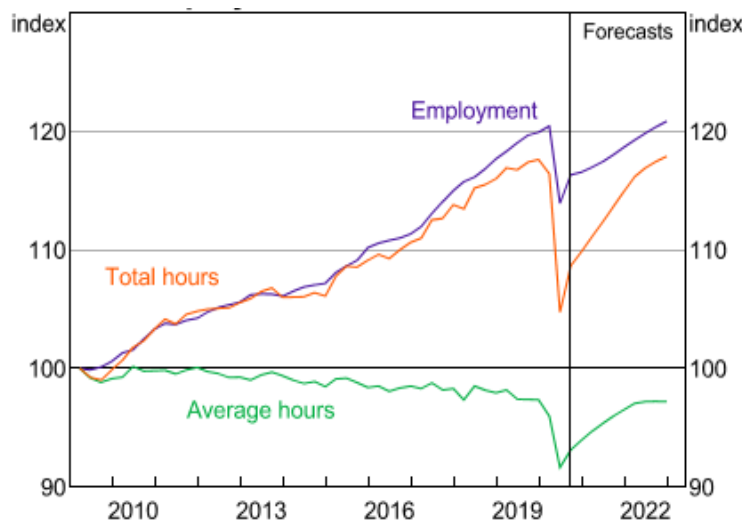
## GDP



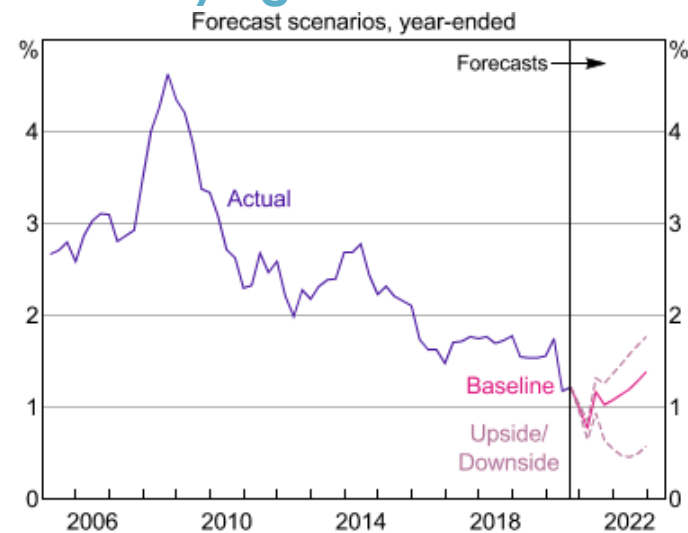
## Unemployment



## Employment



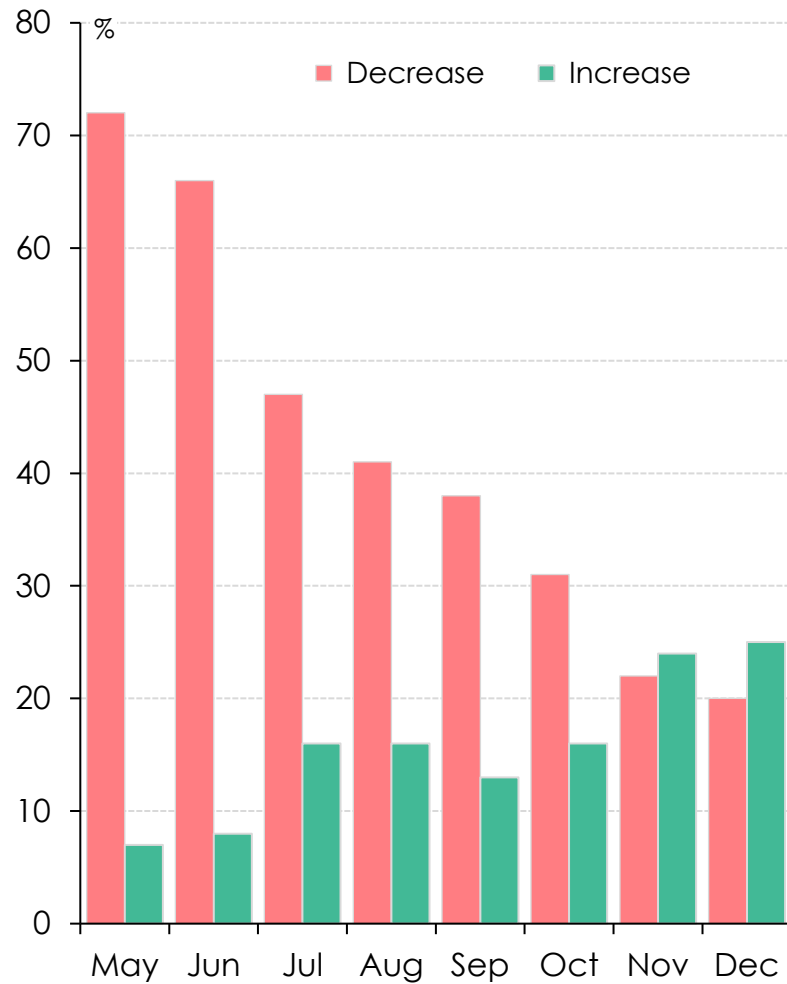
## 'Underlying' inflation



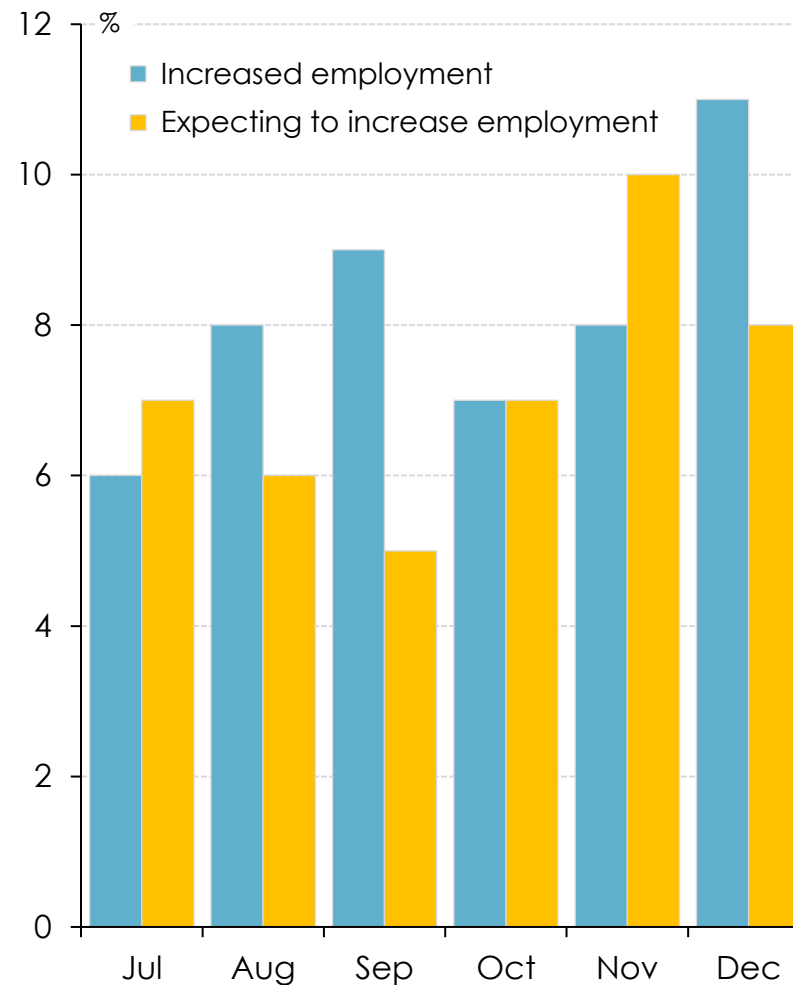
- ❑ The RBA's 'baseline' scenario assumes that there are no further virus outbreaks in Australia, and that current restrictions continue to be eased gradually (although restrictions on international travel remain until around the end of next year)
- ❑ In this scenario real GDP declines 4% over the course of 2020 (previously 6%) and then grows 5% over 2021 and 4% over 2022 (both unchanged), with unemployment peaking 'a little below 8%' this quarter and declining gradually to 6% by Q4 2022
- ❑ The RBA's 'downside' scenario assumes there are further outbreaks in Australia and abroad, resulting in renewed restrictions and later opening of borders – with unemployment peaking at 9% in late 2021
- ❑ The RBA's 'upside' scenario assumes 'enhanced control and management of the virus' (though not an earlier vaccine) allowing faster removal of restrictions and providing a boost to confidence
- ❑ Importantly 'underlying' inflation remains below the bottom end of the RBA's target in all scenarios

# Fewer businesses are reporting falls in revenue, and more are reporting increases: more businesses are also expecting to increase headcount

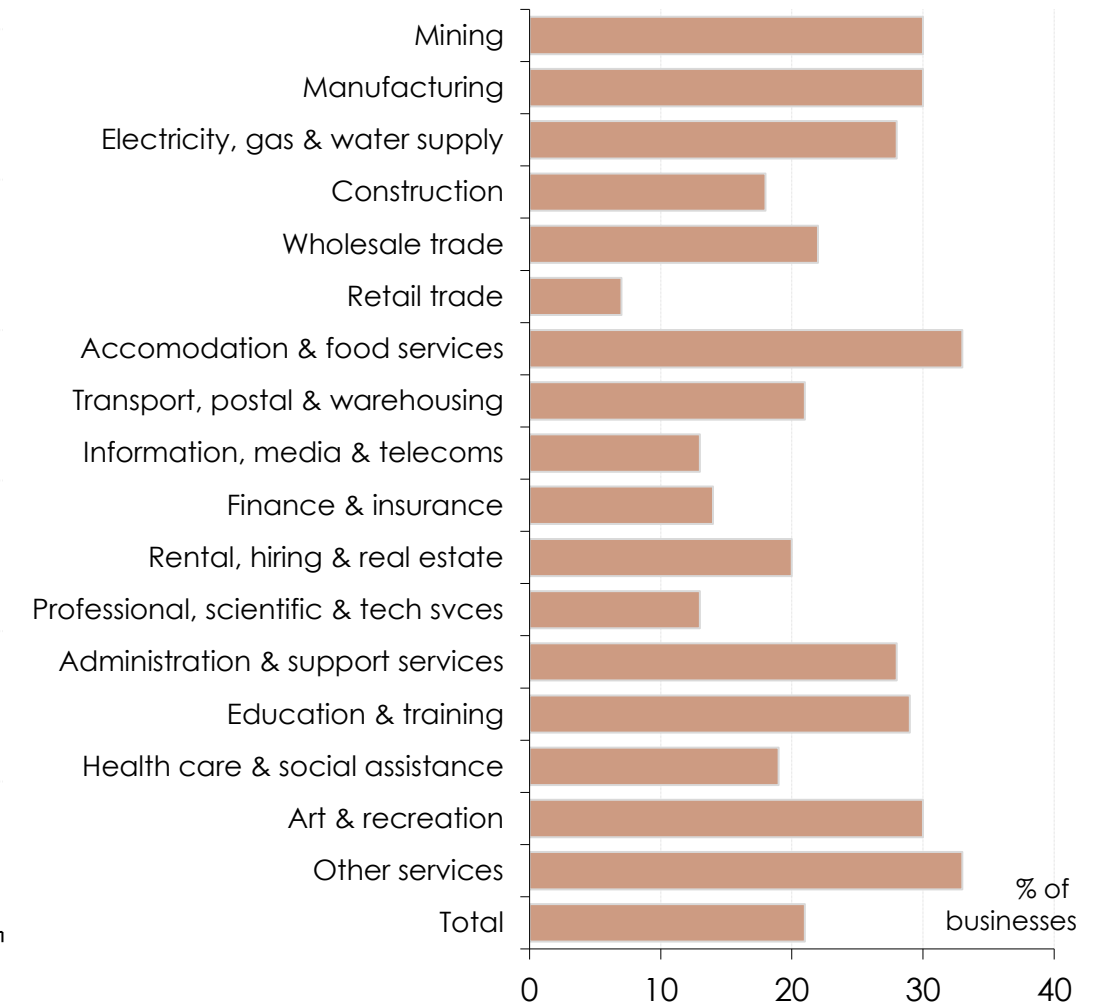
Proportion of businesses reporting decreases or increases in revenue



Proportion of businesses increasing and expecting to increase employee numbers



Proportion of businesses expecting to increase employee numbers, by industry, December 2020

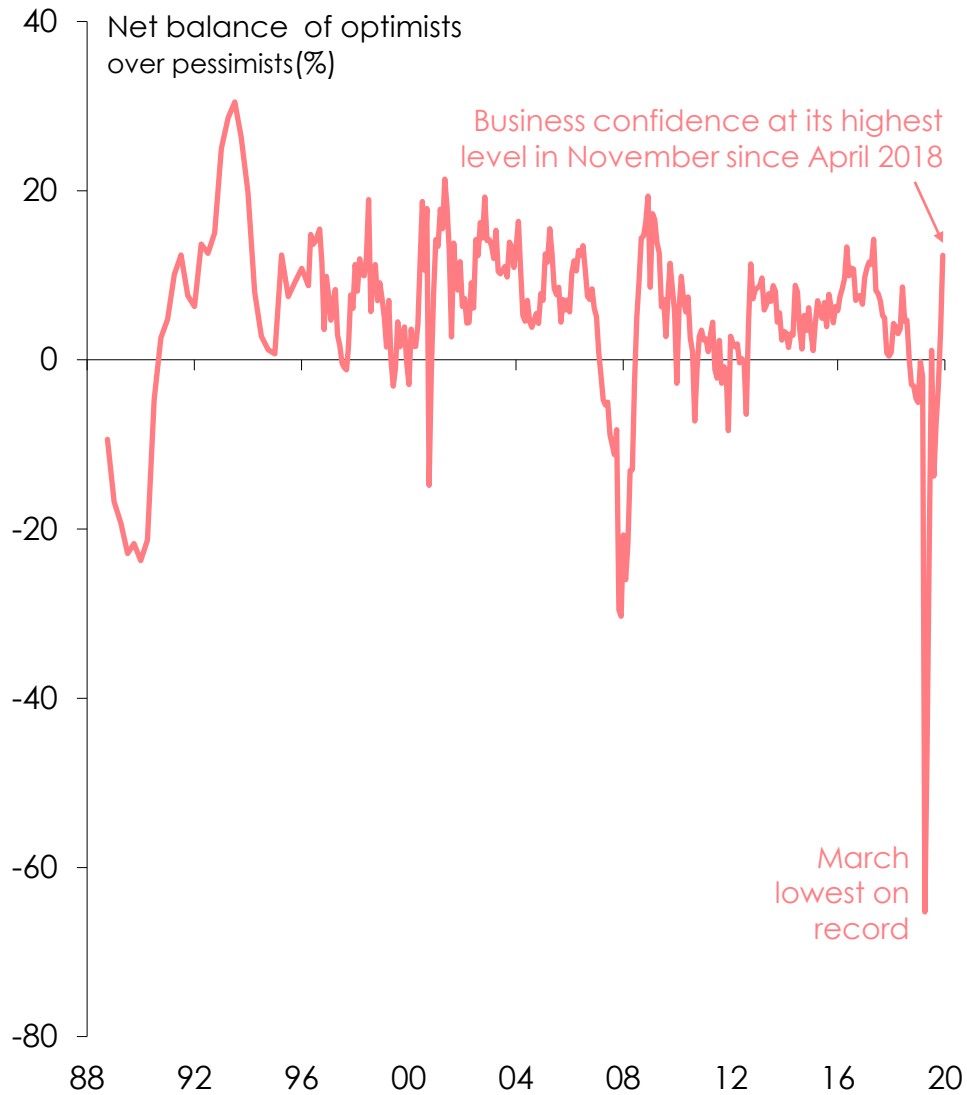


Source: ABS, [Business Impacts of Covid-19](#), December 2020.

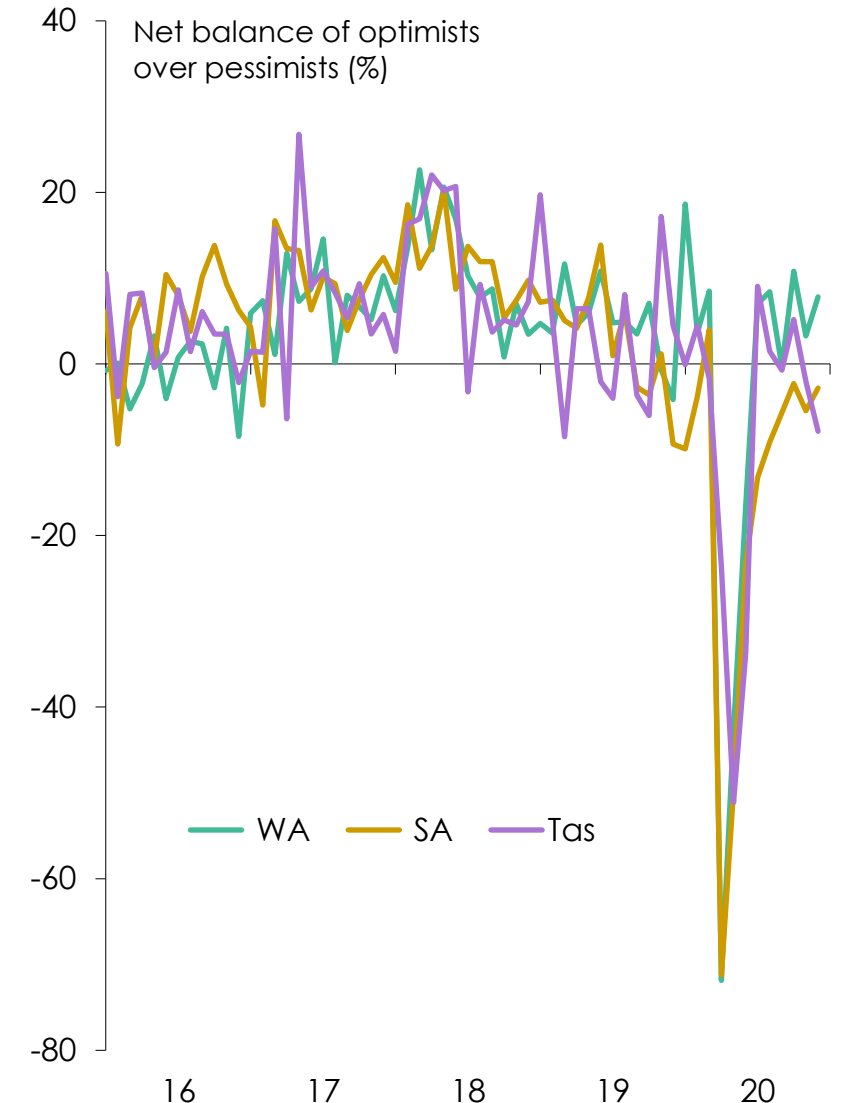
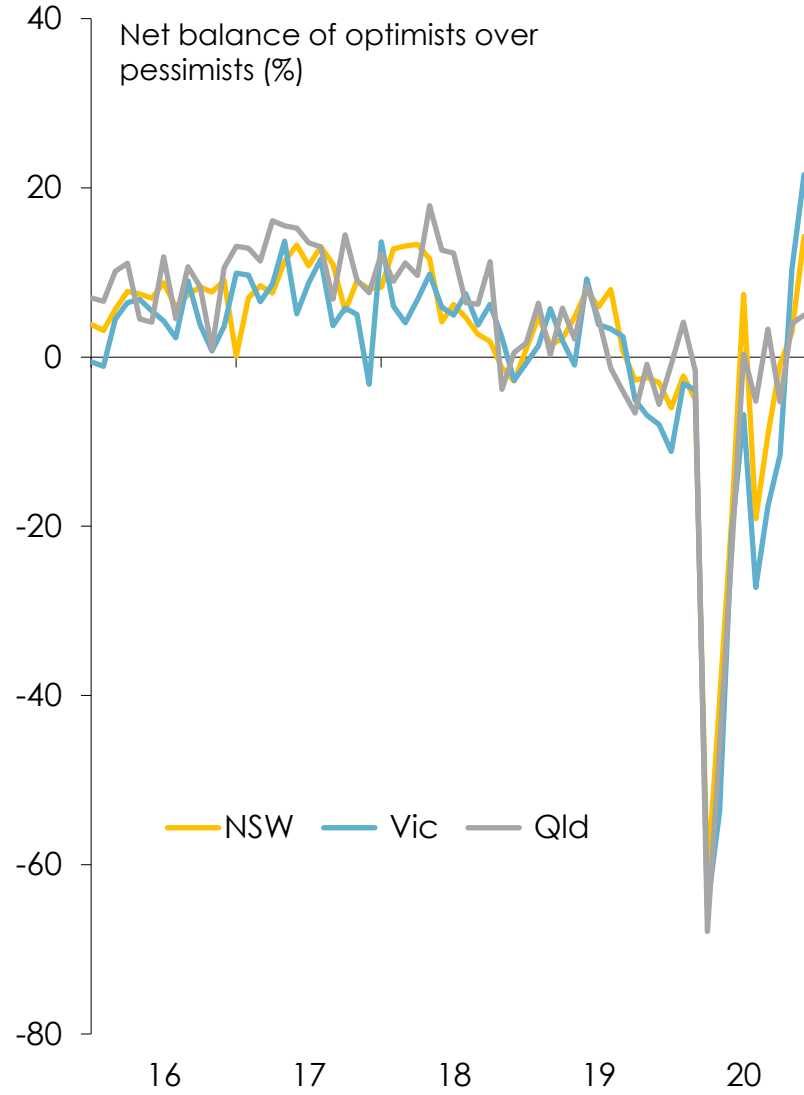


# Business confidence has risen strongly since October, partly in response to the Federal Budget, partly as Victoria has come out of lockdown

## Business confidence



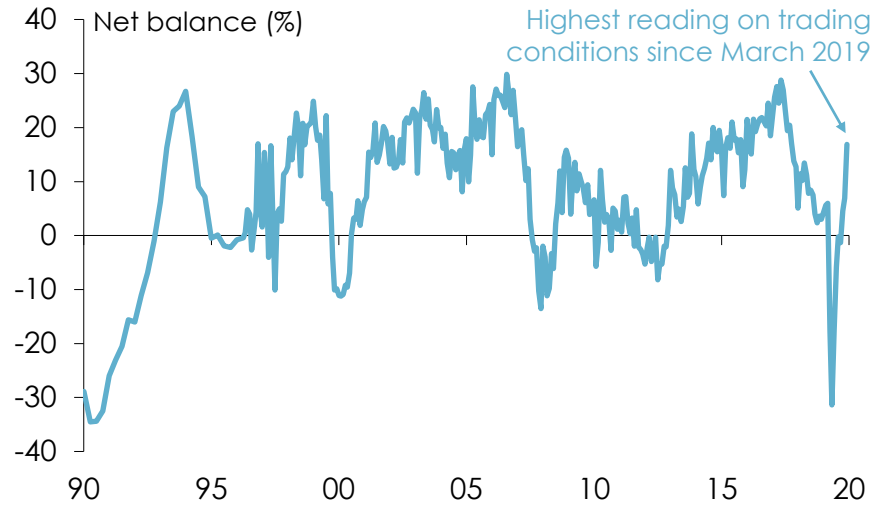
## Business confidence, states and territories



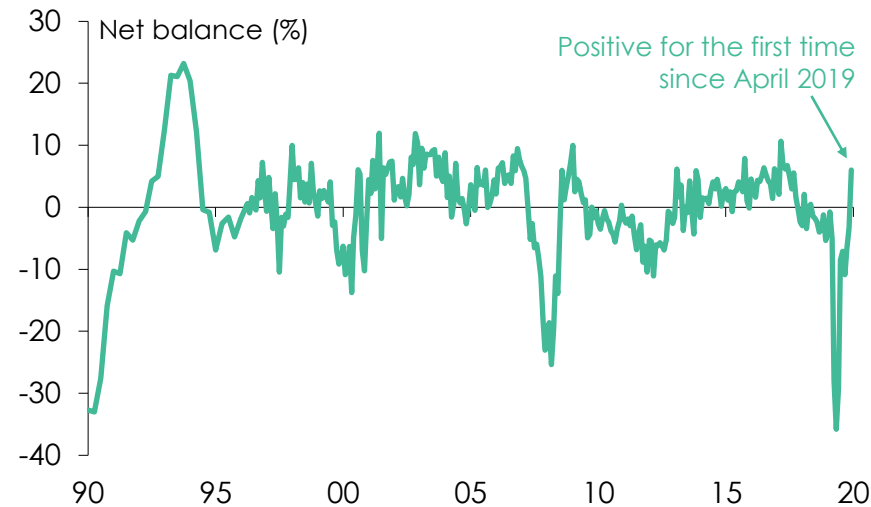
Sources: National Australia Bank.

# All but one of the components of the NAB business conditions index improved in November, though hiring and capex intentions are still negative

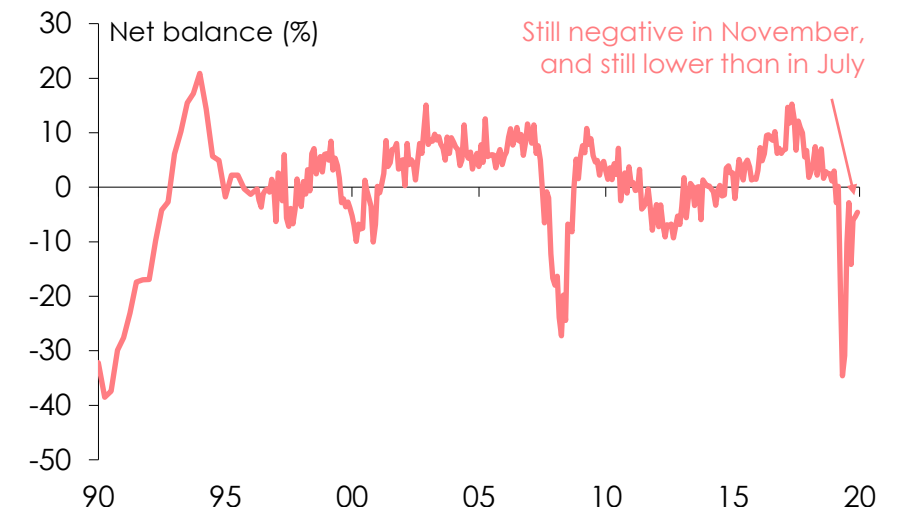
## Trading conditions



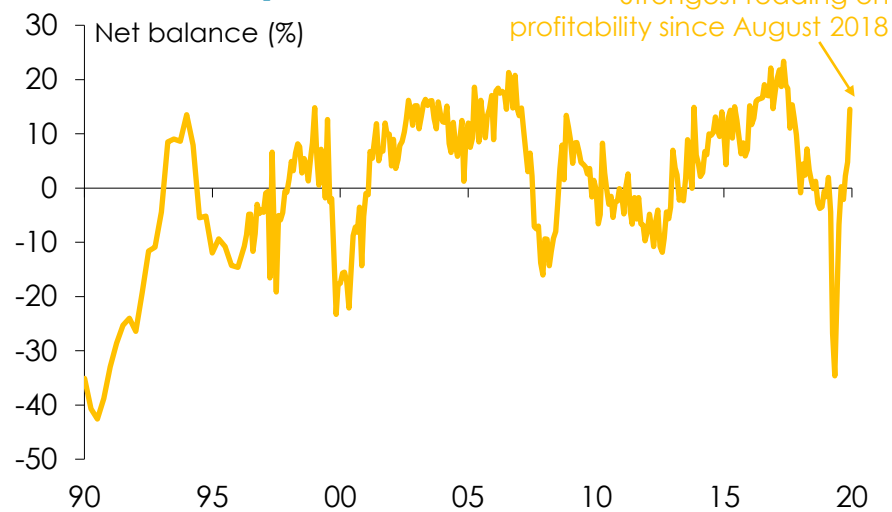
## Forward orders



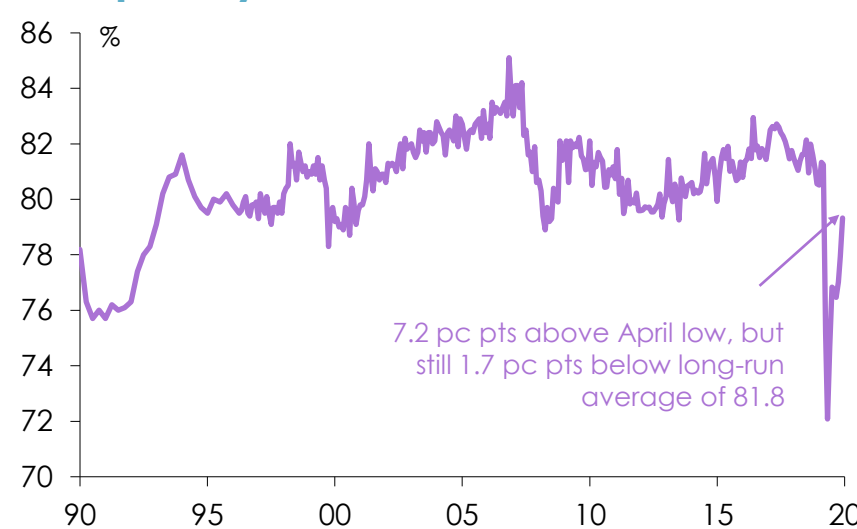
## Employee hiring intentions



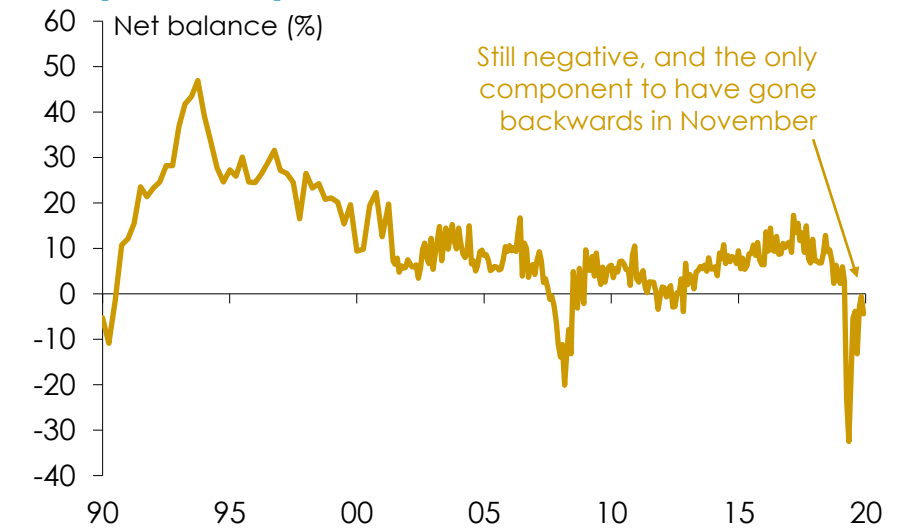
## Profitability



## Capacity utilization



## Capital expenditure intentions

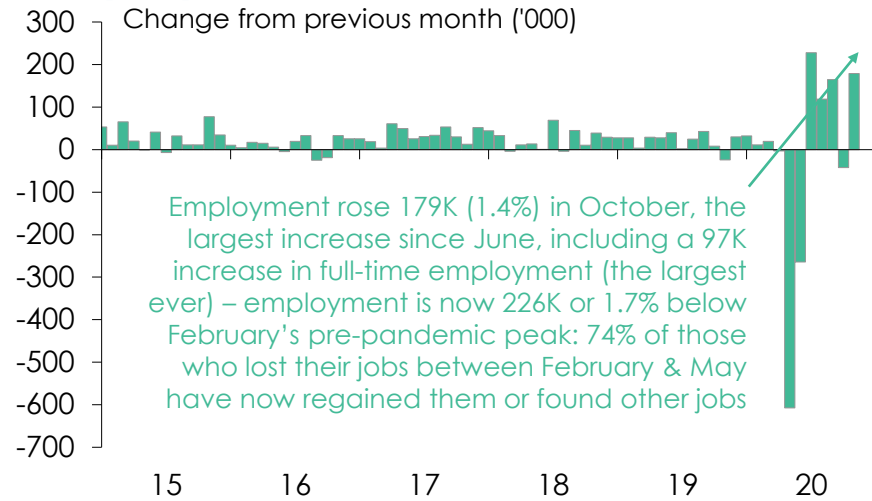


Note: Quarterly data up to March 1987 (May 2002 for capex intentions), monthly thereafter (latest data November 2020).

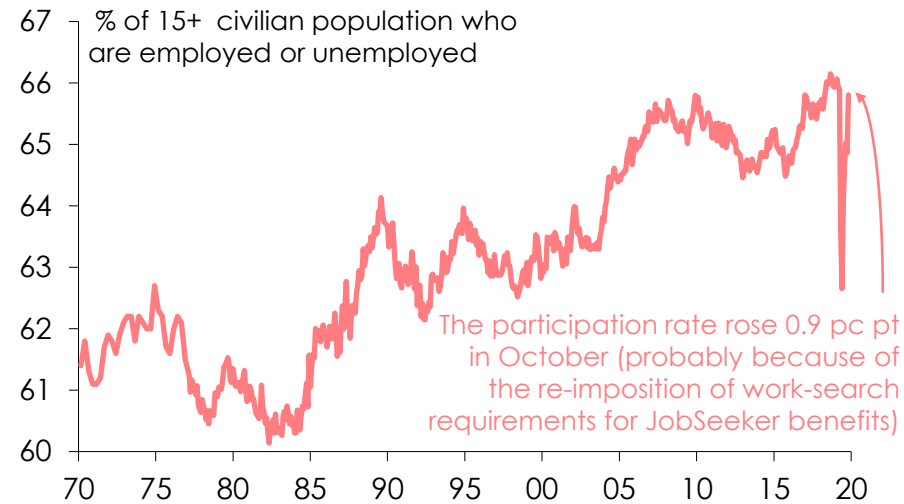
Source: National Australia Bank [Monthly Business Survey](#), November 2020.

# Three quarters of those who lost jobs between March and May have regained them (or found others) – but unemployment remains high

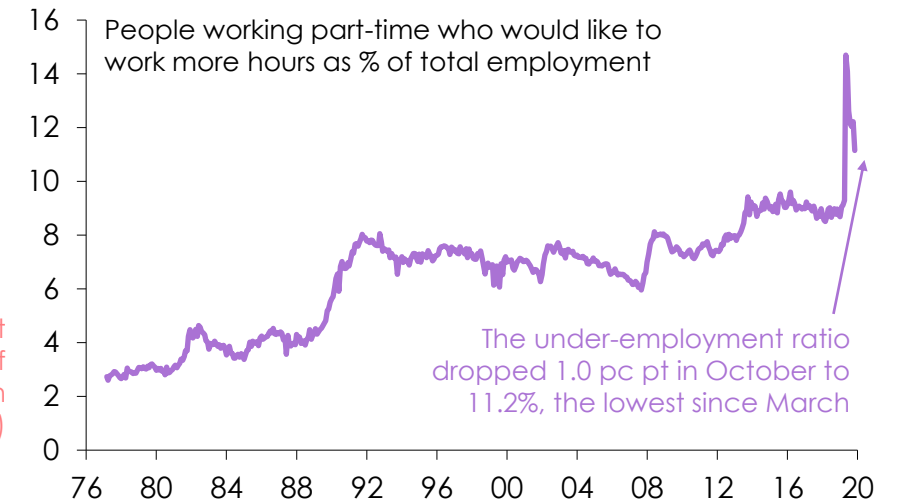
## Employment



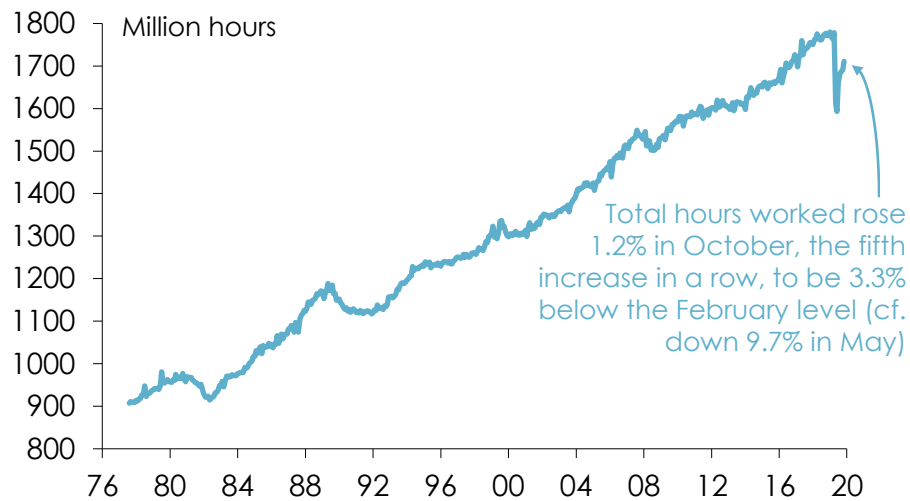
## Labour force participation rate



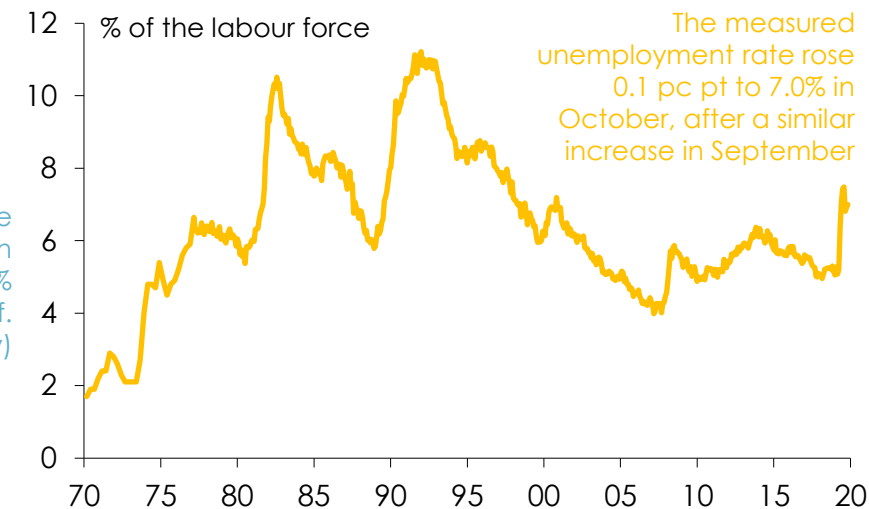
## Under-employment ratio



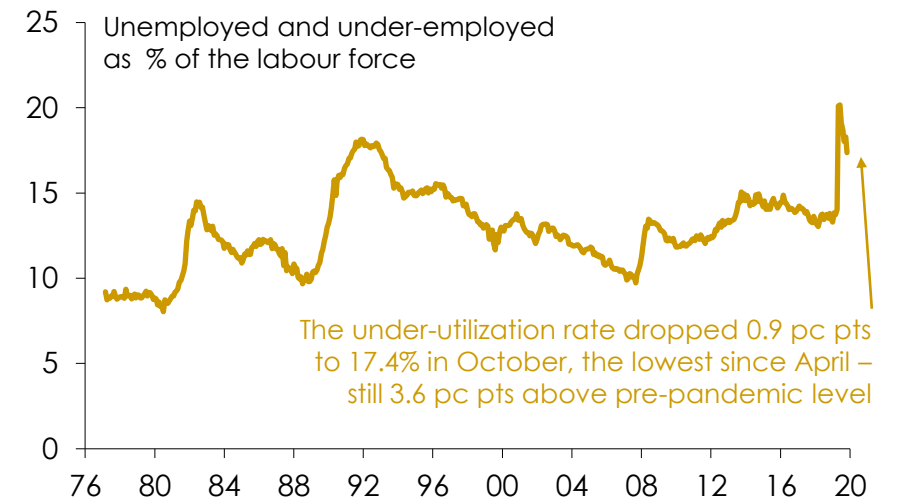
## Total hours worked



## Unemployment rate



## 'Under-utilization' rate

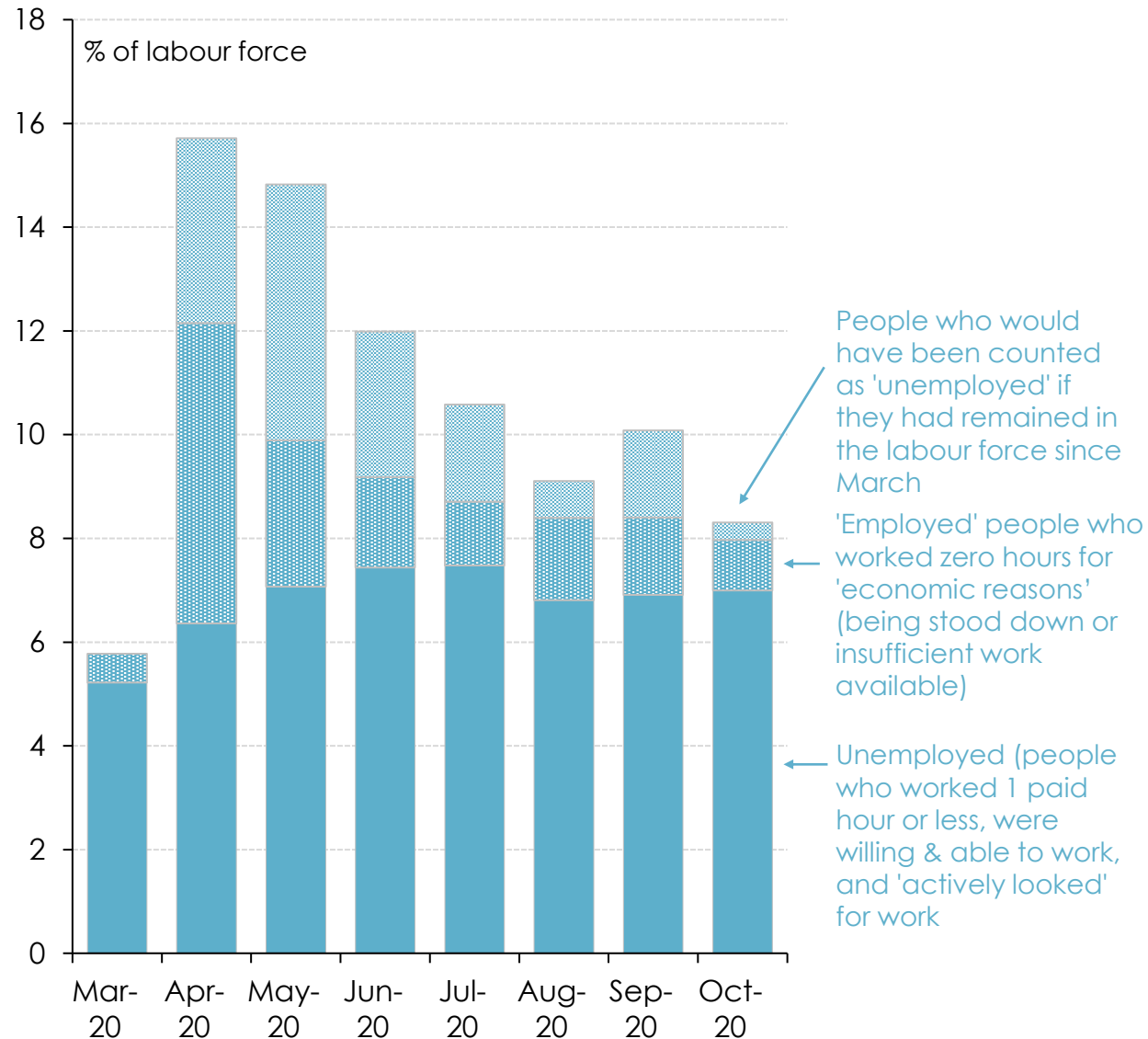


Note: The ABS classifies people on JobKeeper who worked zero hours in the survey week as 'employed'. Had it not done so, the unemployment rate in August would have been 7.9% (down from 11.8% in April) – see also next slide. The 'under-employment ratio' is the percentage of employed persons who are working fewer hours than they are willing and able to work. The 'under-utilization rate' is the proportion of the labour force who are unemployed or underemployed.

Source: ABS, [Labour Force, Australia](#).

# The 'effective' unemployment rate has fallen from a peak of 15.3% in April to 8.3% in October

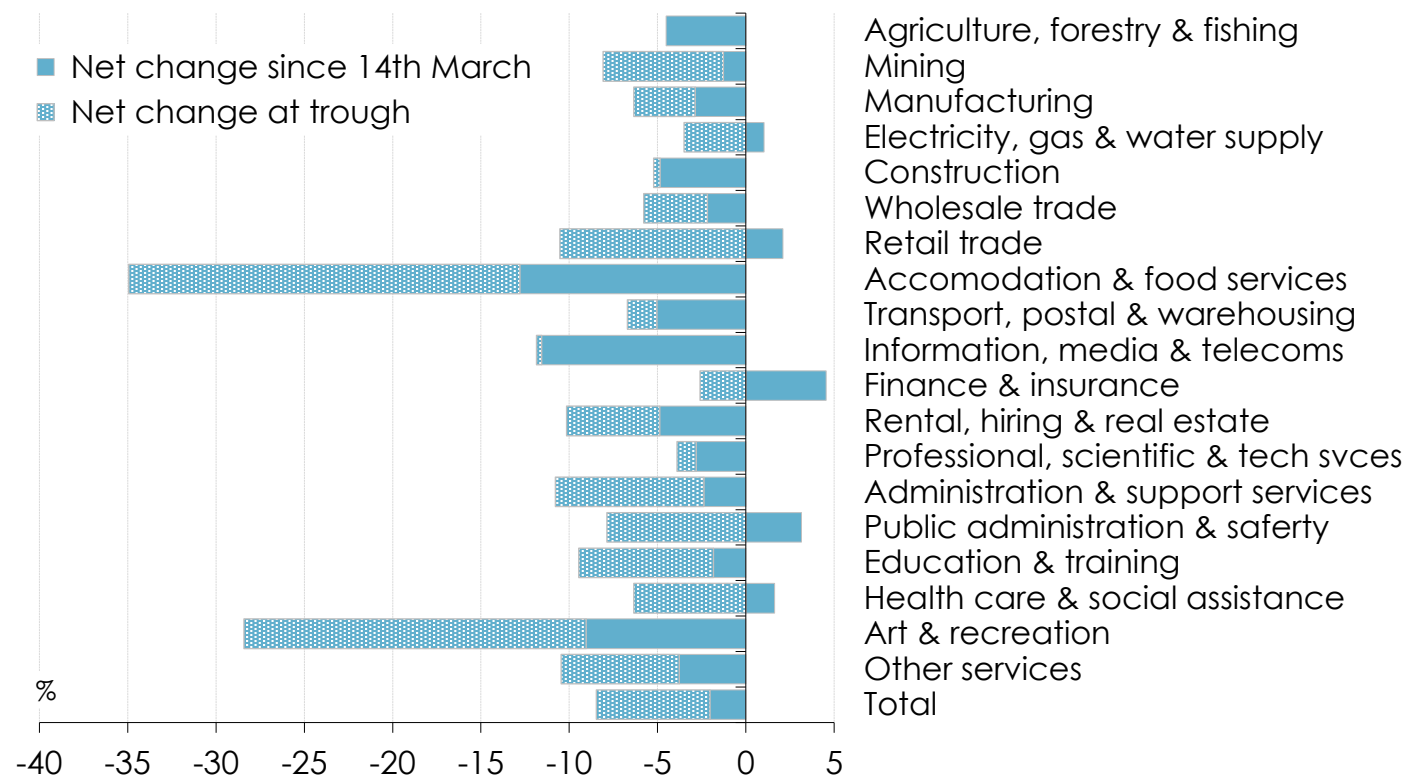
## Alternative measures of unemployment



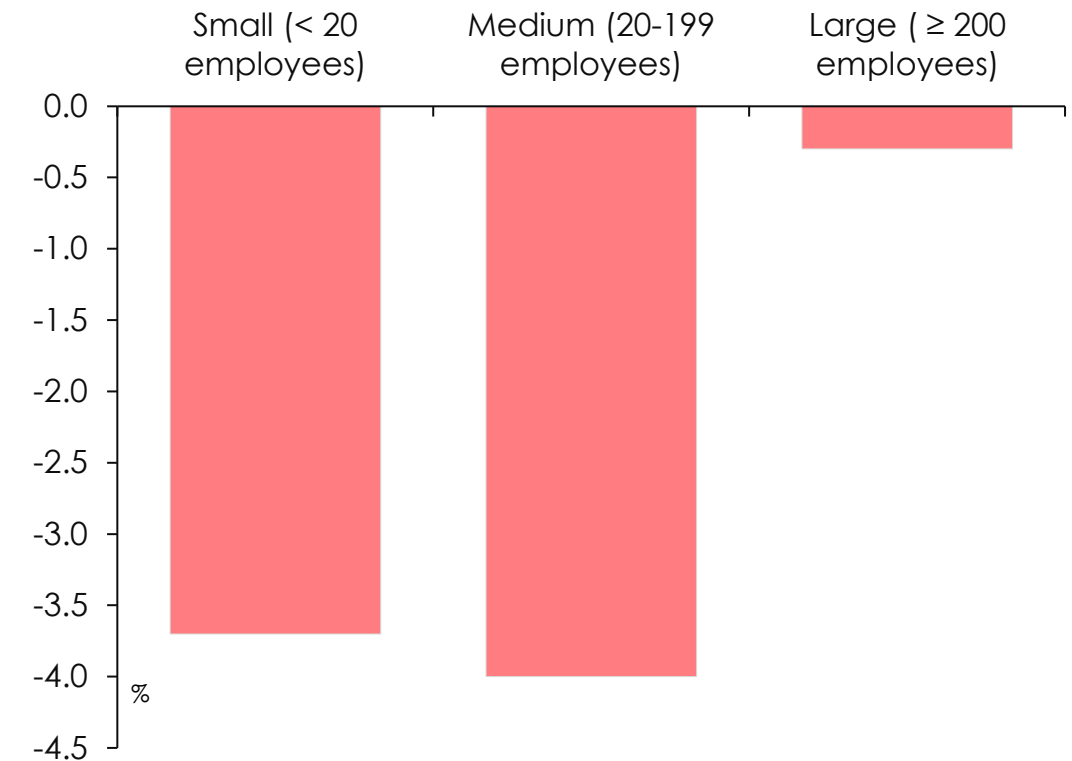
- ❑ The Government's JobKeeper program paid eligible employers a subsidy of \$1500 per fortnight for each eligible employee kept on the payroll between 30<sup>th</sup> March and 27<sup>th</sup> September (although payments didn't start until the beginning of May)
- ❑ From 28<sup>th</sup> September the JobKeeper payment reduced to \$1200 per fortnight, with a lower rate of \$750 per fortnight for employees who were working fewer than 20 hours per week in the four weeks prior to 1<sup>st</sup> March ...
- ❑ ... and will reduce further to \$1000 per fortnight (and \$650 per fortnight for those who had been working fewer than 20 hours per week) from 4<sup>th</sup> January until 28<sup>th</sup> March, when JobKeeper is currently scheduled to end
- ❑ Employers also needed to demonstrate that they still met the drop-in-turnover test in order to remain eligible for JobKeeper payments
- ❑ The number of people counted as 'employed' but working zero hours has fallen from 767K in April to 134K in October, while the number of 'hidden unemployed' has fallen from 676K in May to just 46K in October

# Job losses were initially greatest in tourism-exposed services sectors, though many of those have since been regained

Net change in payroll employment since week ended 14<sup>th</sup> March, by industry



Net change in payroll employment since week ended 14<sup>th</sup> March, by business size



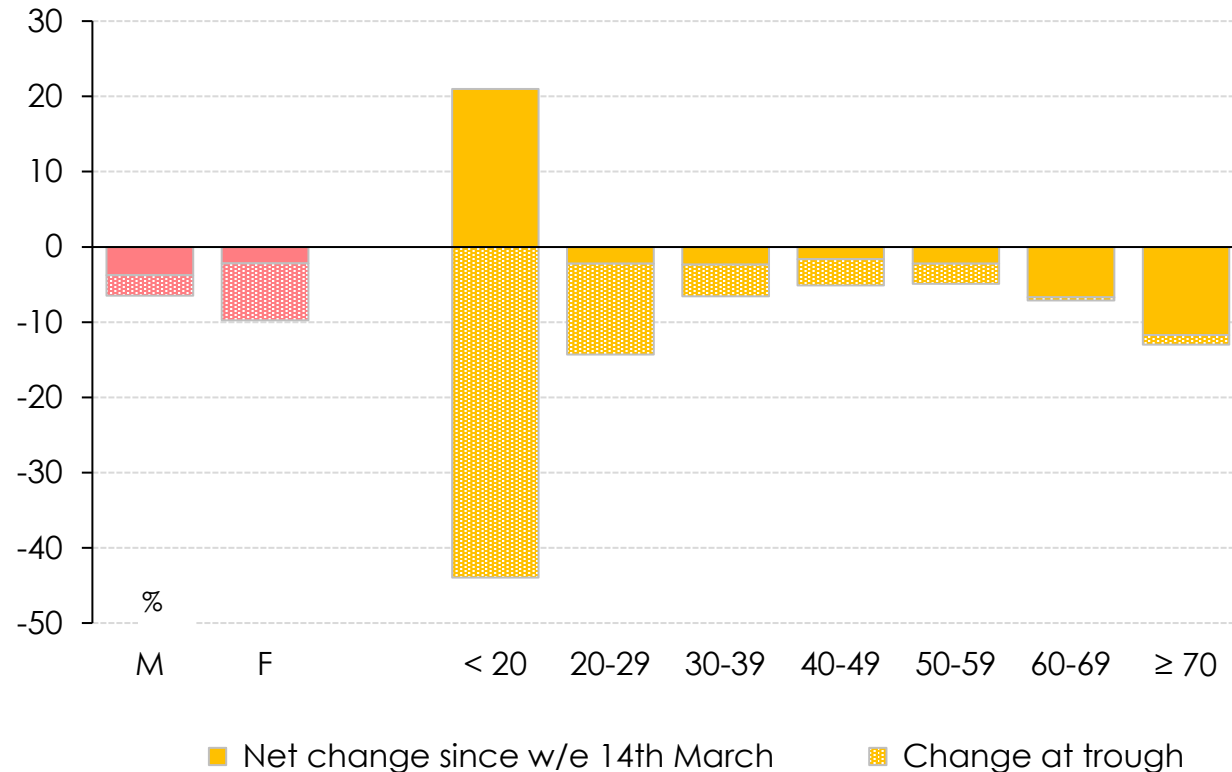
Services sectors – particularly those exposed to tourism – initially saw the greatest job losses, although many of those lost jobs were restored after the commencement of ‘JobKeeper’ – and in some sectors employment is now above March levels

Large businesses (many of whom were not eligible for JobKeeper) have lost far fewer jobs than small and medium-sized ones

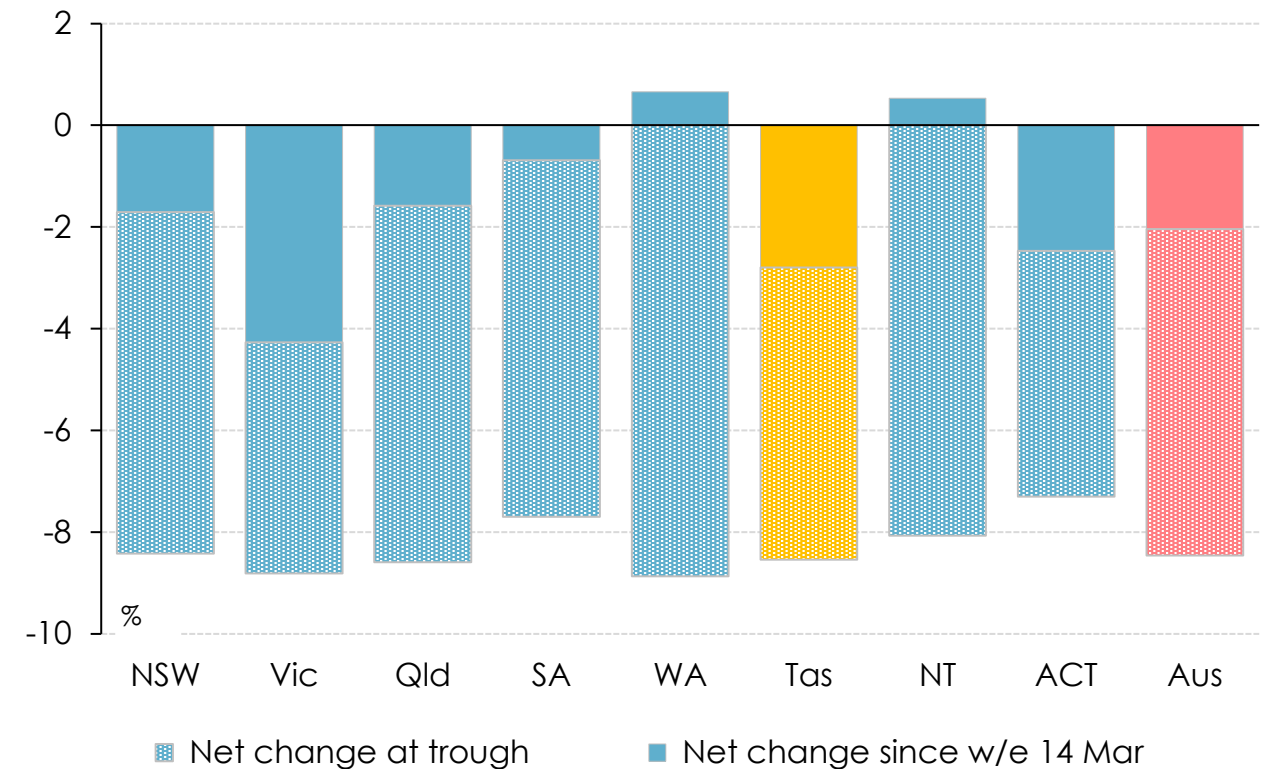
Note: ‘trough’ refers to the week in which payroll employment reached its lowest point, which for the economy as a whole and for most sectors was the week ended 18<sup>th</sup> April. Source: ABS, [Weekly Payroll Jobs and Wages in Australia](#) – which is derived from the Australian Taxation Office’s Single Touch Payroll system, used by most employers to make PAYG instalment deductions from their employees’ wages and salaries: note that this data is not seasonally adjusted.

# Job losses initially hit women and young people hardest, but JobKeeper has changed that – while Victoria has been the hardest hit state

Net change in payroll employment since week ended 14<sup>th</sup> March, by gender and age



Net change in payroll employment since week ended 14<sup>th</sup> March, by state and territory



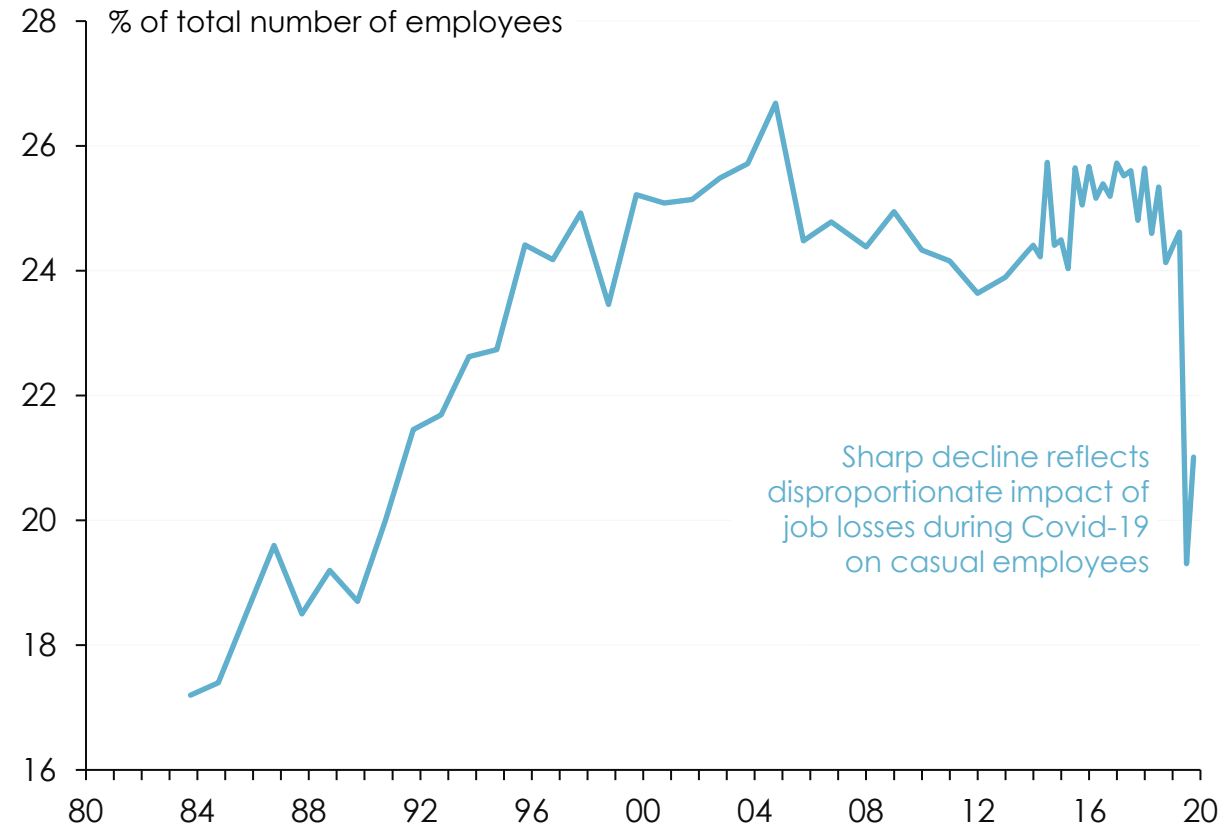
❑ **JobKeeper payments represent a higher proportion of women’s and young people’s (lower) wages and so have done more to reverse job losses among them than among men or older workers**

❑ **Victoria – the only state to have experienced a ‘second wave’ – has not surprisingly experienced the biggest job losses, while Western Australia has done best**

Note: ‘trough’ refers to the week in which payroll employment reached its lowest point, which for the economy as a whole and for most sectors was the week ended 18<sup>th</sup> April. Source: ABS, [Weekly Payroll Jobs and Wages in Australia](#) – which is derived from the Australian Taxation Office’s Single Touch Payroll system, used by most employers to make PAYG instalment deductions from their employees’ wages and salaries: note that this data is not seasonally adjusted.

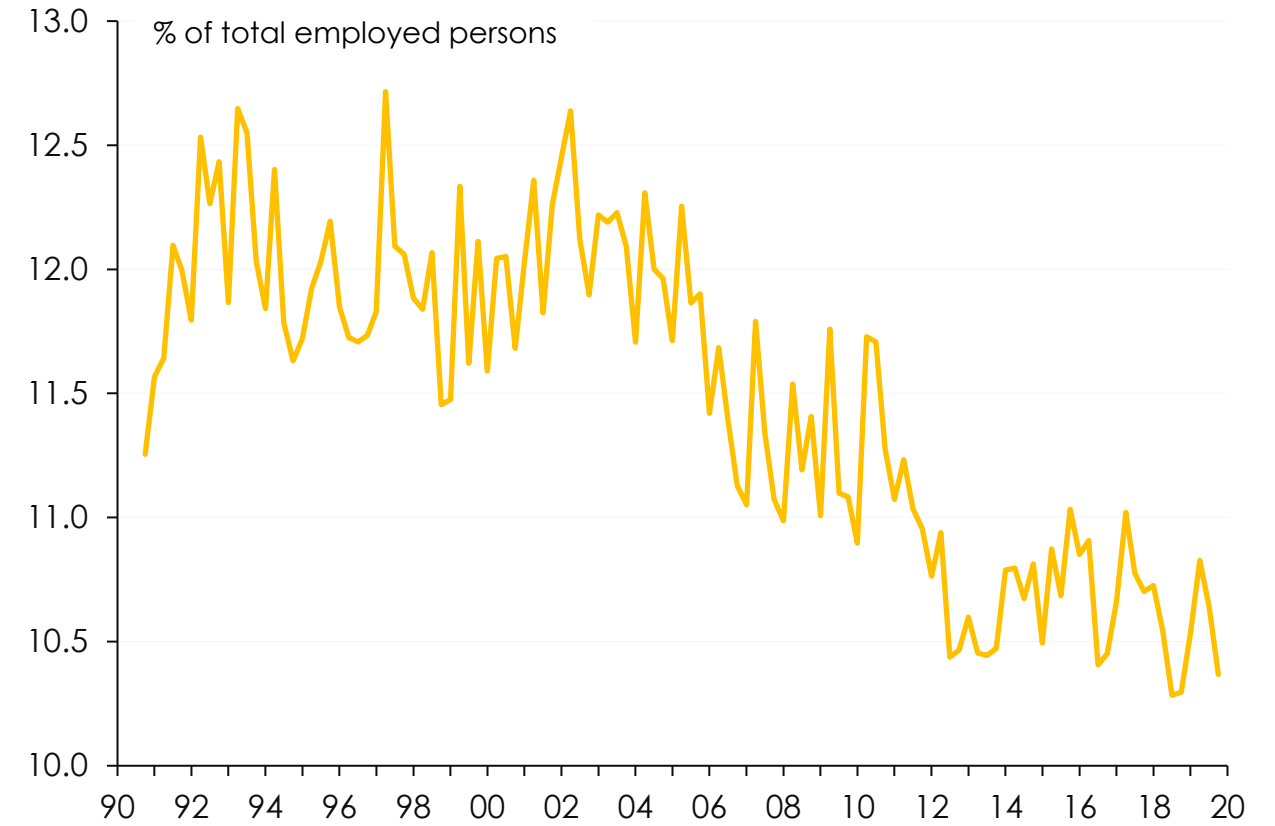
# Contrary to popular belief neither casual jobs nor 'gig economy' jobs have become more commonplace during the past two decades

## '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

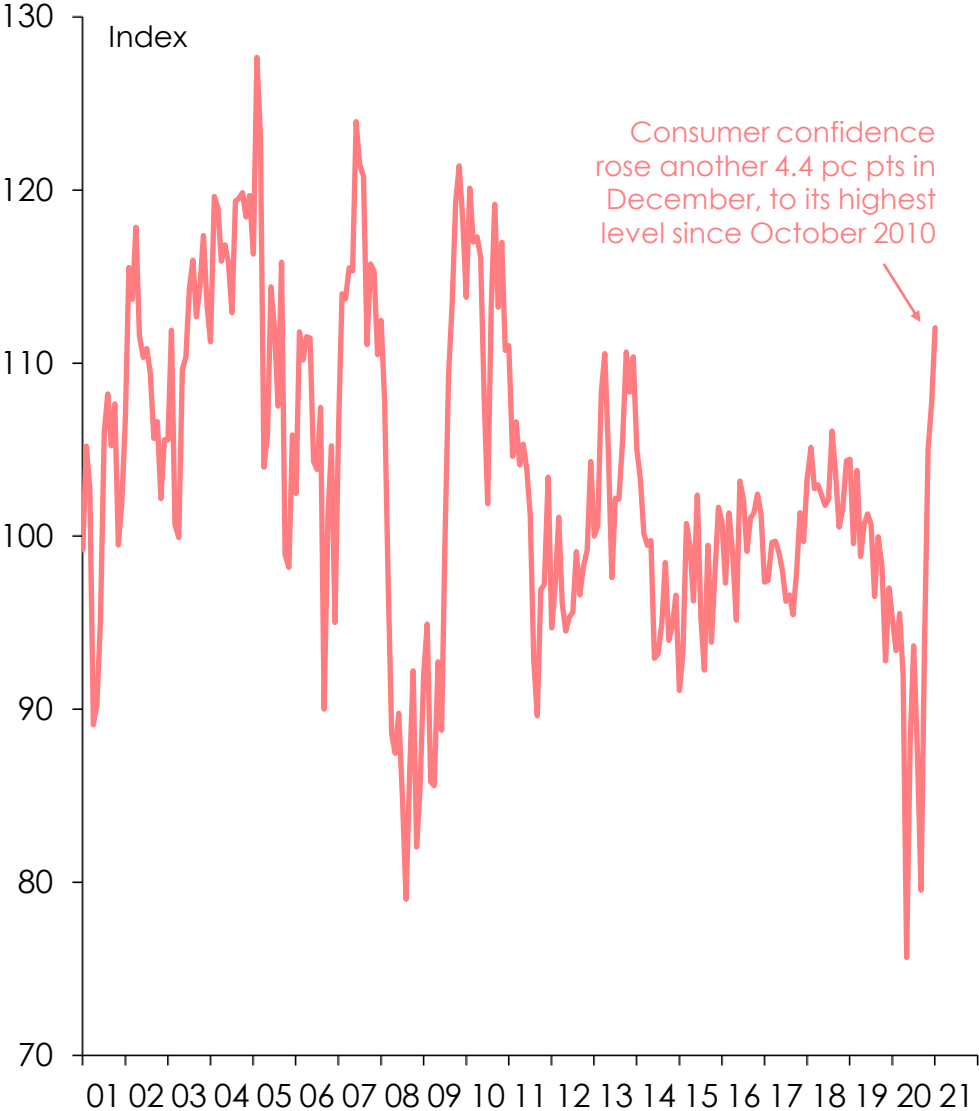


- ❑ 'Independent contractors' have actually declined as a share of the workforce since the early 2000s – had haven't increased during the current recession

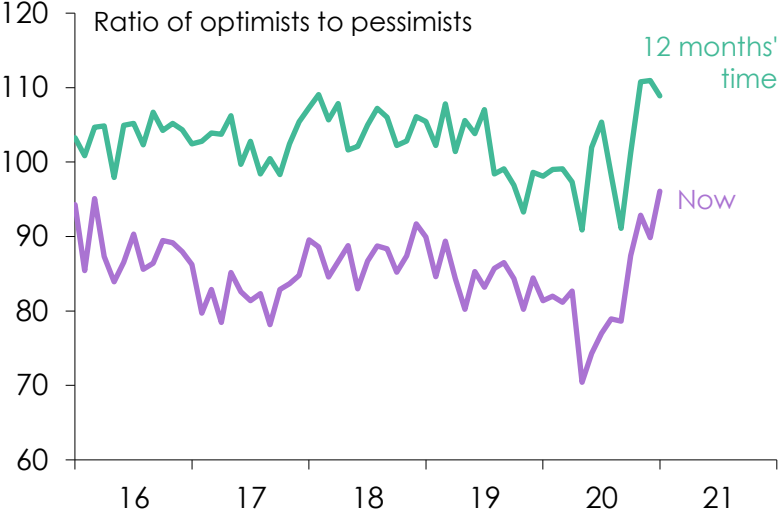
Note: data are for August in each year, except for 2008-13 when they were for November. Sources: ABS, [Characteristics of Employment, Australia](#), and earlier equivalents; [Labour Force, Australia, Detailed](#); and [Employee Earnings, Benefits and Trade Union Membership, Australia](#).

# Consumer confidence reached a 10-year high this month, buoyed by encouraging vaccine developments and good economic news

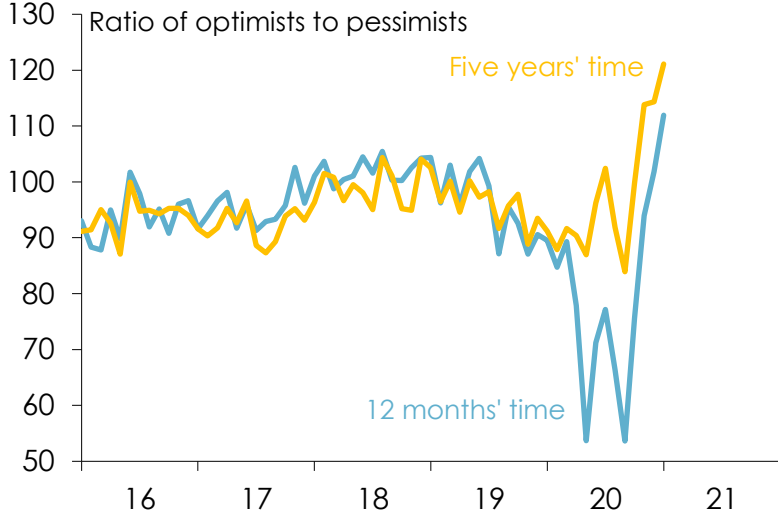
Consumer confidence index



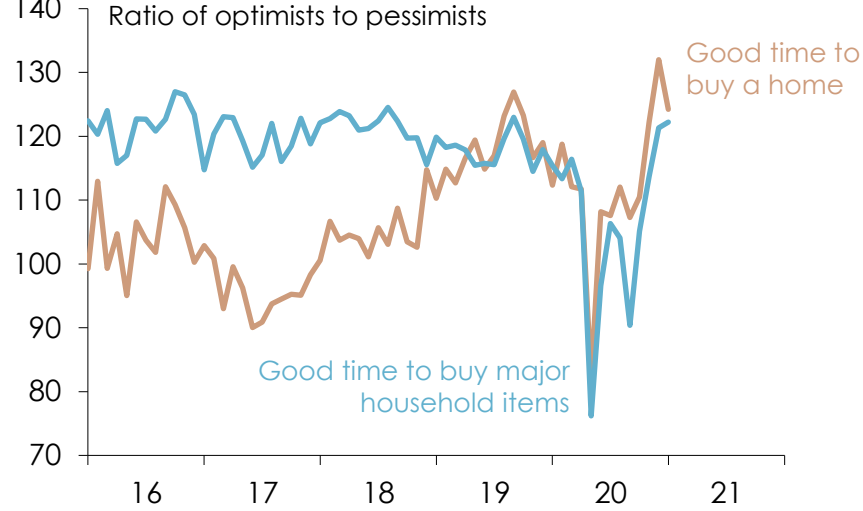
Household finances assessment



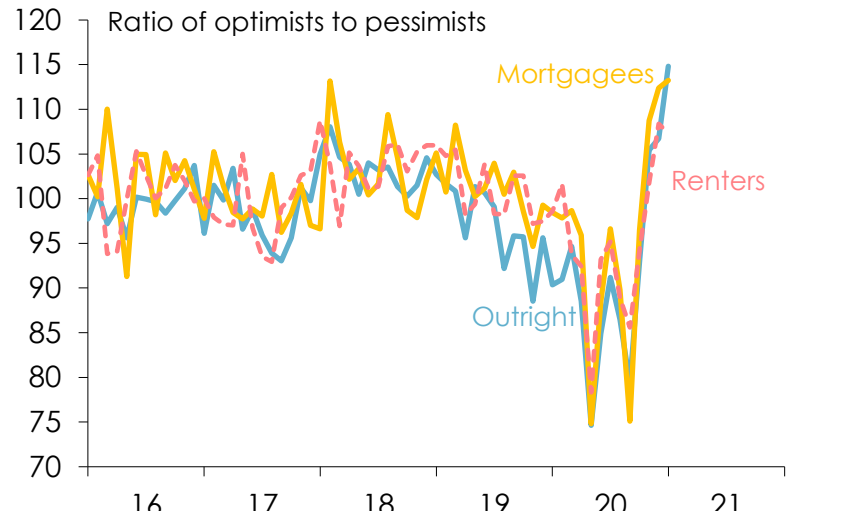
Economic conditions assessment



Buying conditions assessment



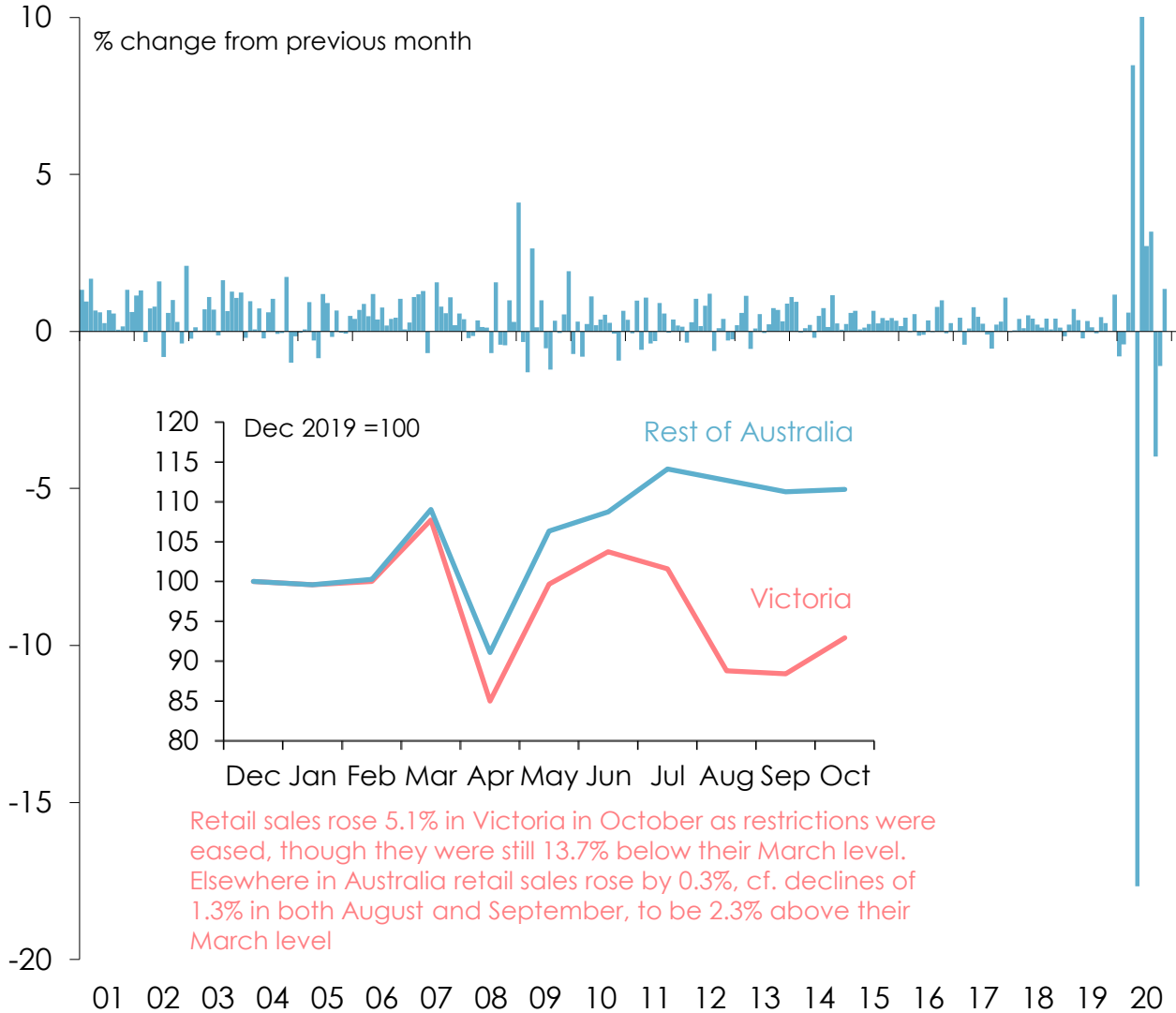
Confidence by housing tenure



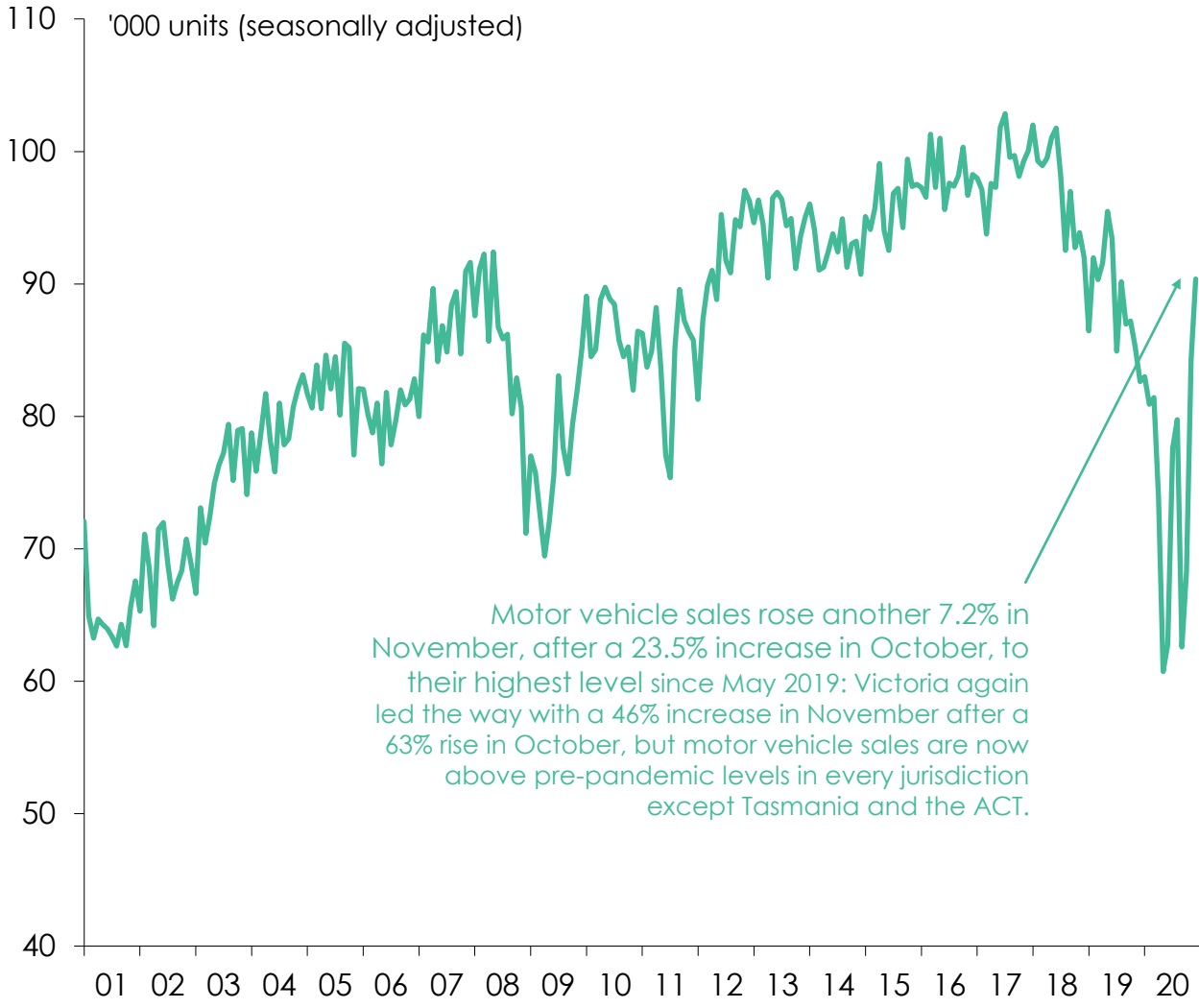


# And so consumer spending is recovering strongly

## Retail sales



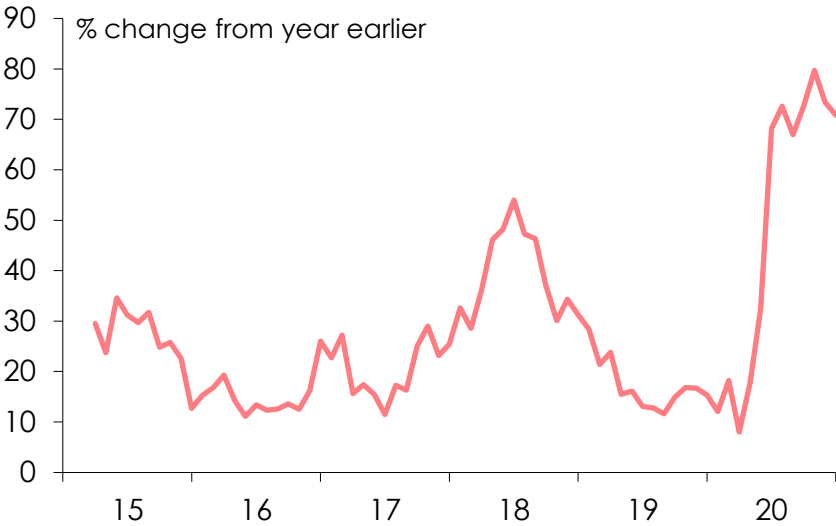
## Motor vehicle sales



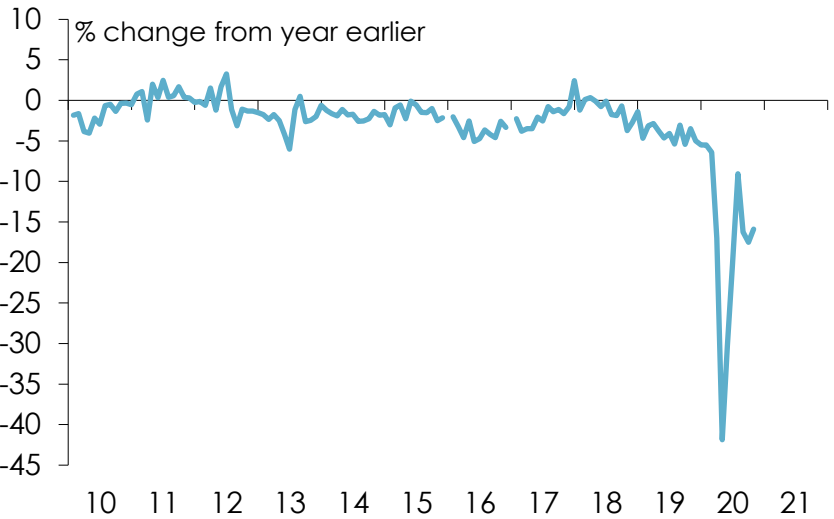
Sources: ABS, [Retail Trade, Australia](#); Federal Chamber of Automotive Industries [VFACTS](#) (seasonal adjustment of FCAI data by Corinna).

# The pandemic and lockdown prompted some dramatic changes in how Australians made payments, accelerating trends already under way

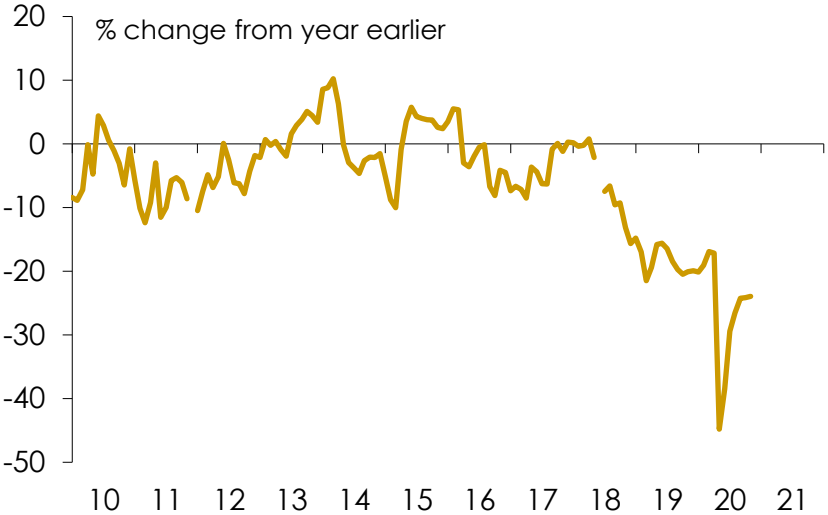
**Growth in online retail sales**



**ATM cash withdrawals**



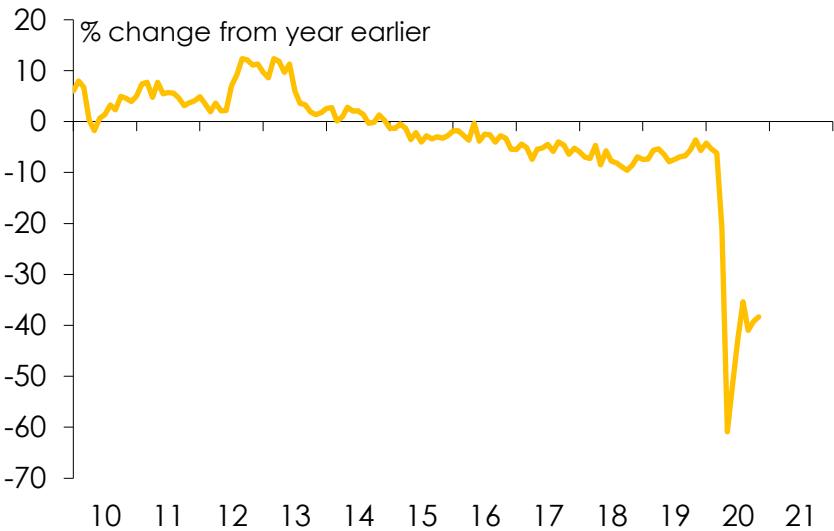
**Credit card cash advances**



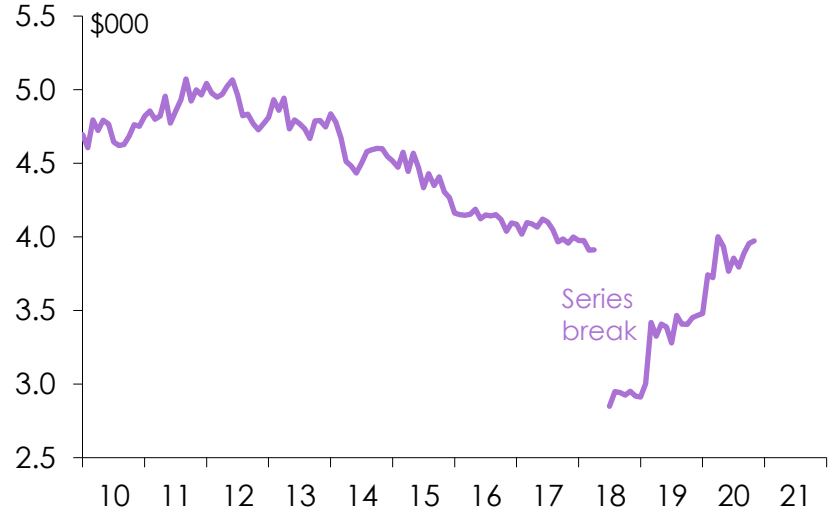
**Online retail 'market share'**



**Debit card cash-outs**



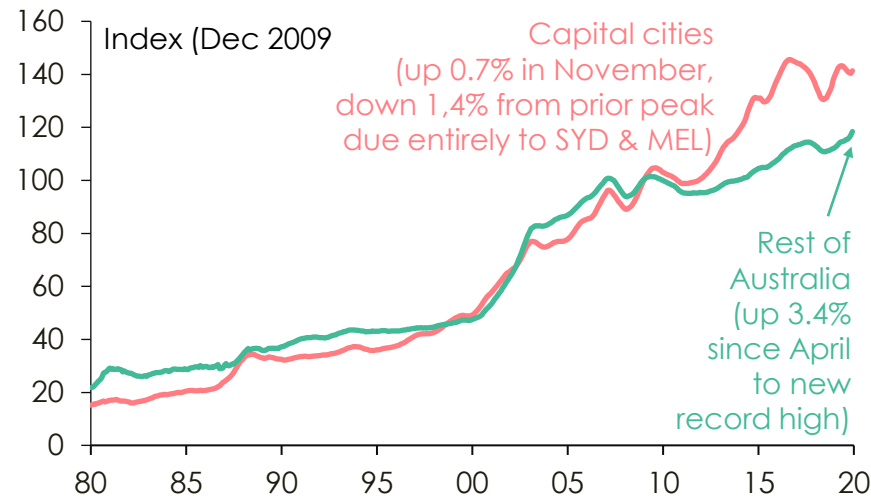
**Direct entry payments**



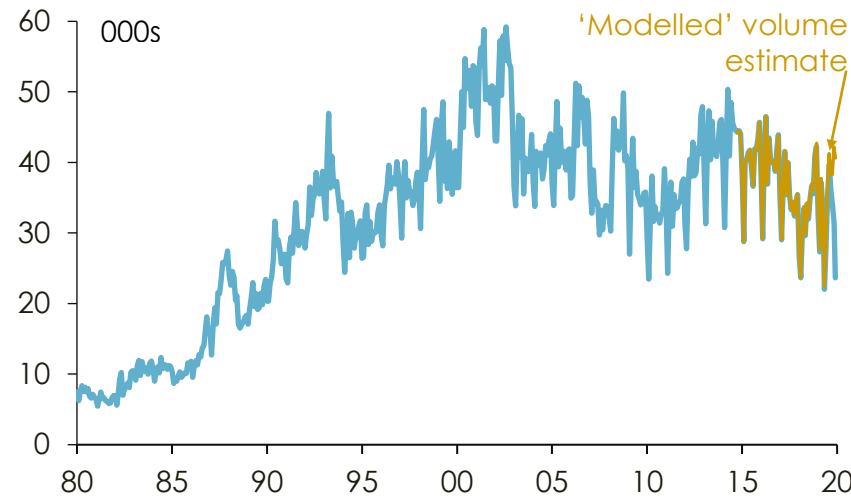
Sources: ABS, [Retail Trade, Australia](#); RBA, [Statistical Tables](#), C1, C2, C4 and C6. Latest data are for October.

# Contrary to initial expectations property prices haven't crashed – indeed apart from MEL and (much less) SYD they haven't fallen at all

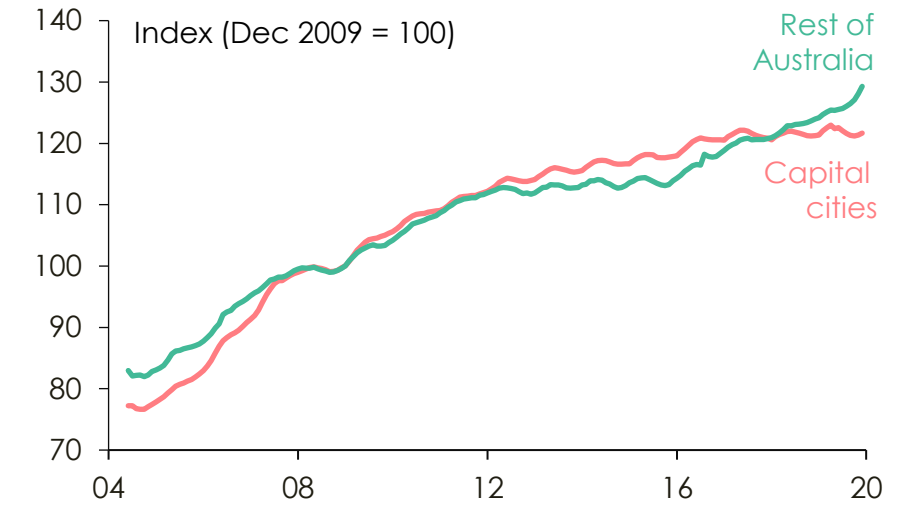
## Residential property prices



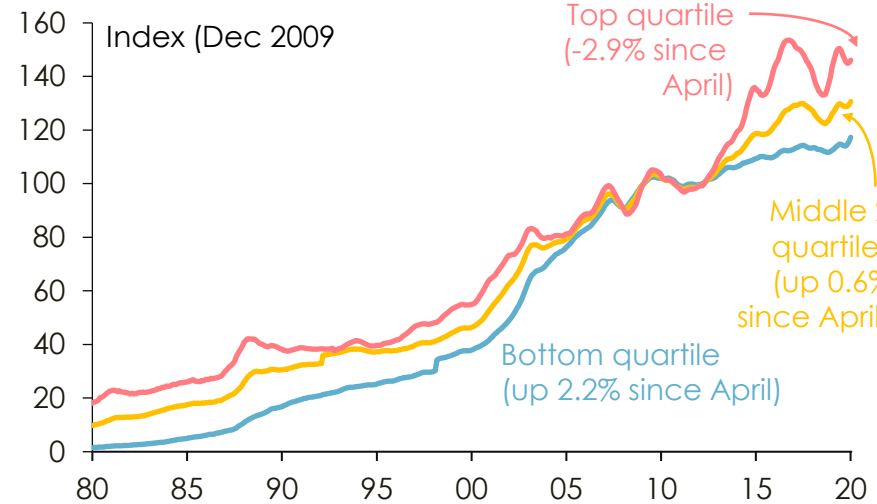
## Residential property sales volumes



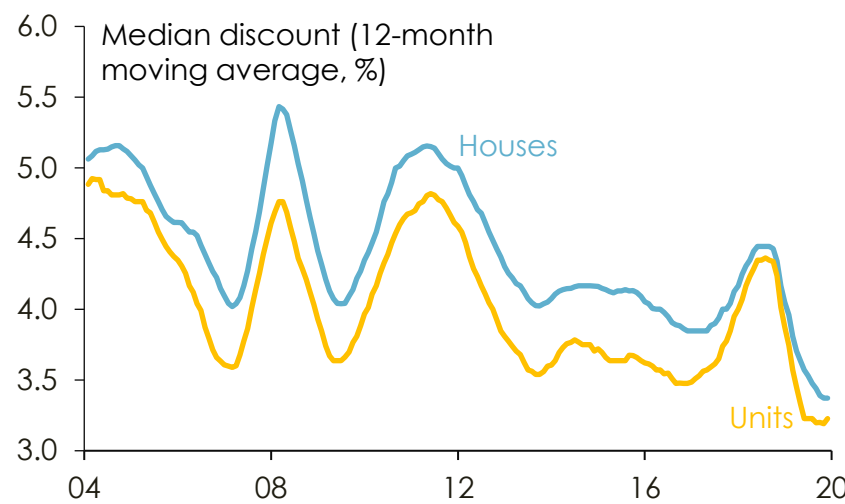
## Residential rents



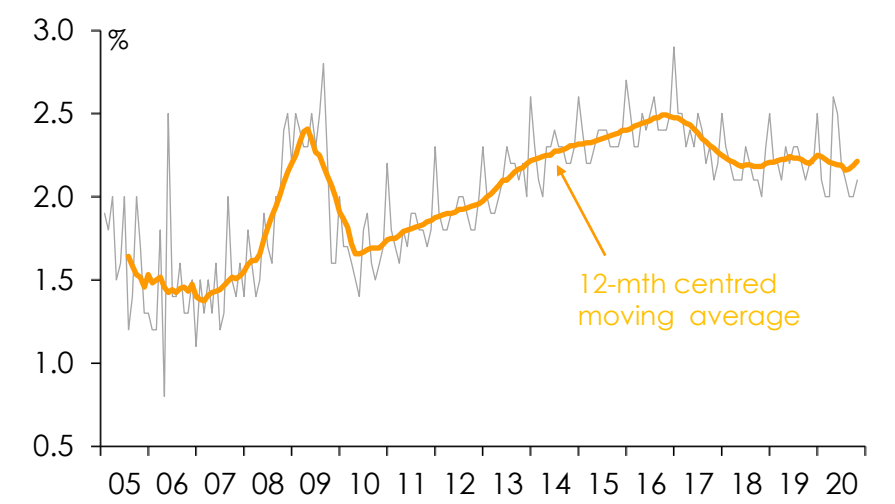
## Property prices by tier



## Vendor discounting



## Capital city rental vacancy rates

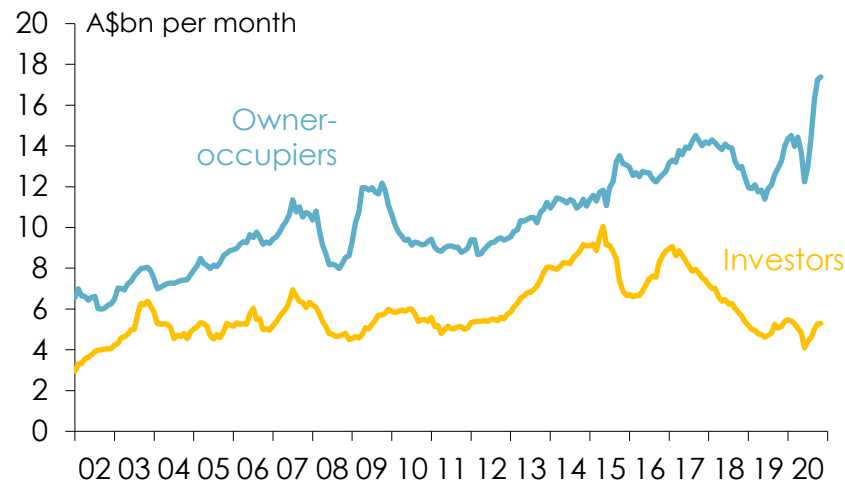


Note: The index of property prices measures the 'organic' change in underlying sales values by using a hedonic regression methodology that takes account of changes in the characteristics of properties being sold from month to month. Property price data are now seasonally adjusted. The index of residential 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 2020;

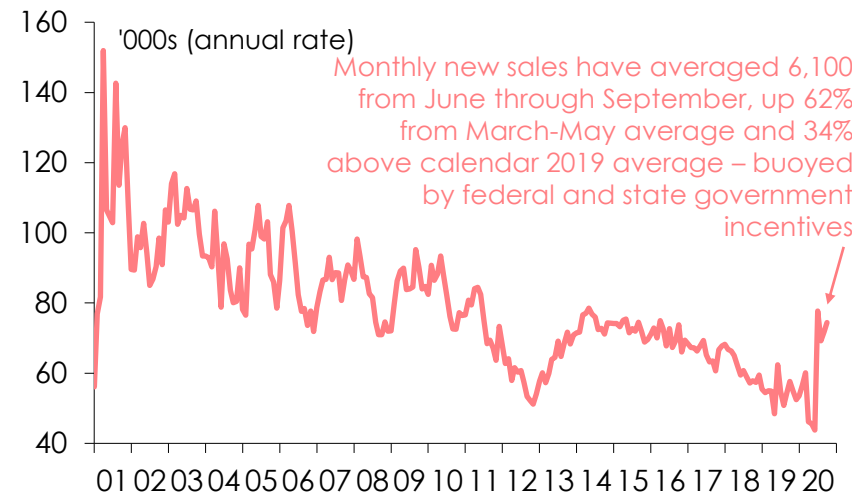
Sources: [CoreLogic](#); [SQM Research](#).

# And leading indicators of new housing activity have been surprisingly strong despite the absence of demand from migrants

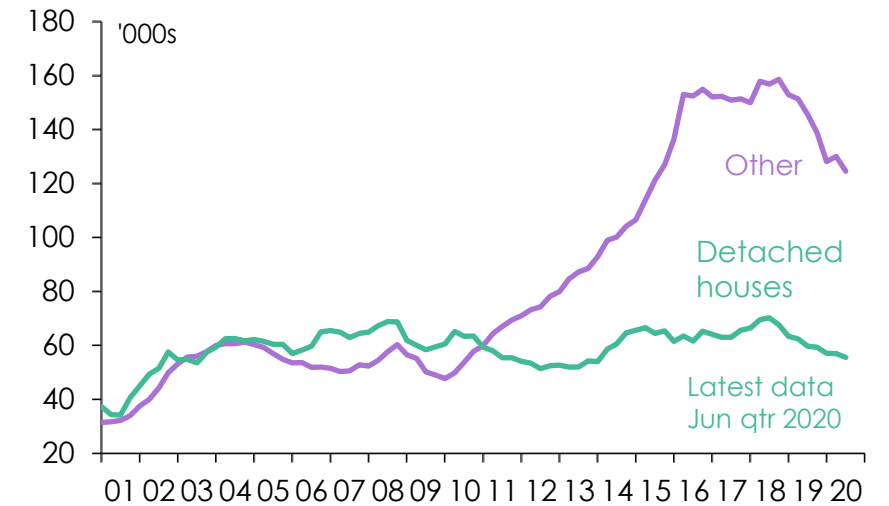
## Housing finance commitments



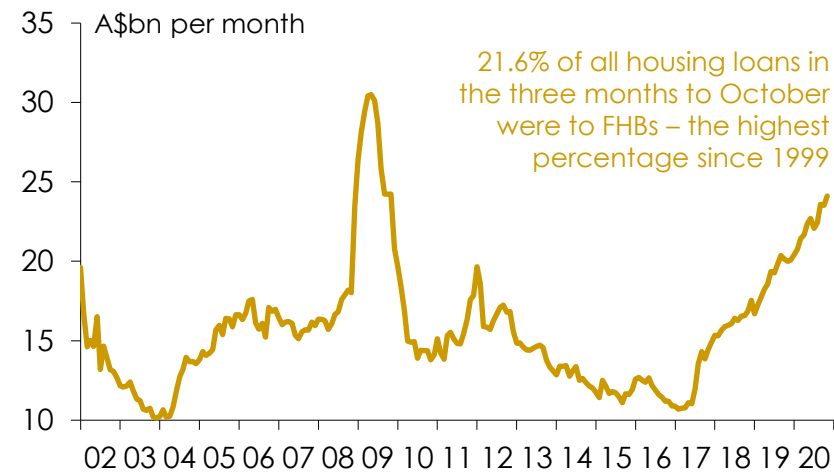
## Large builders' new home sales



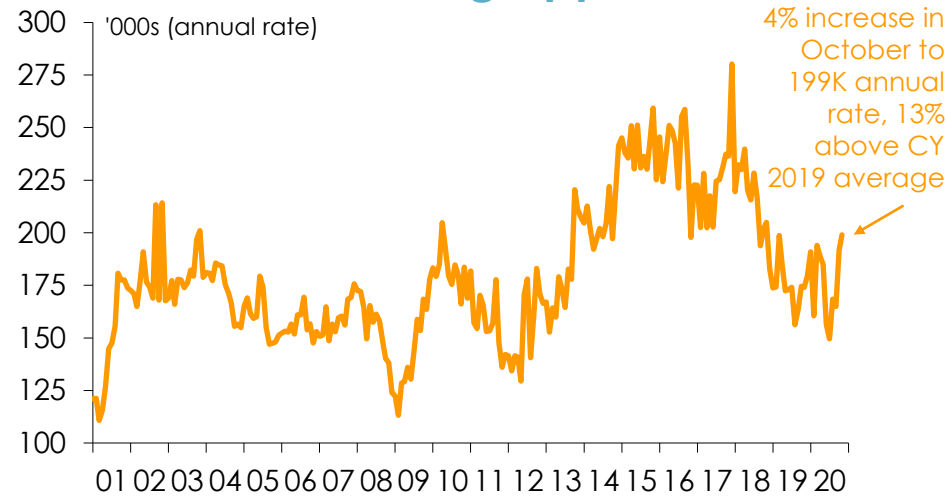
## Dwellings under construction



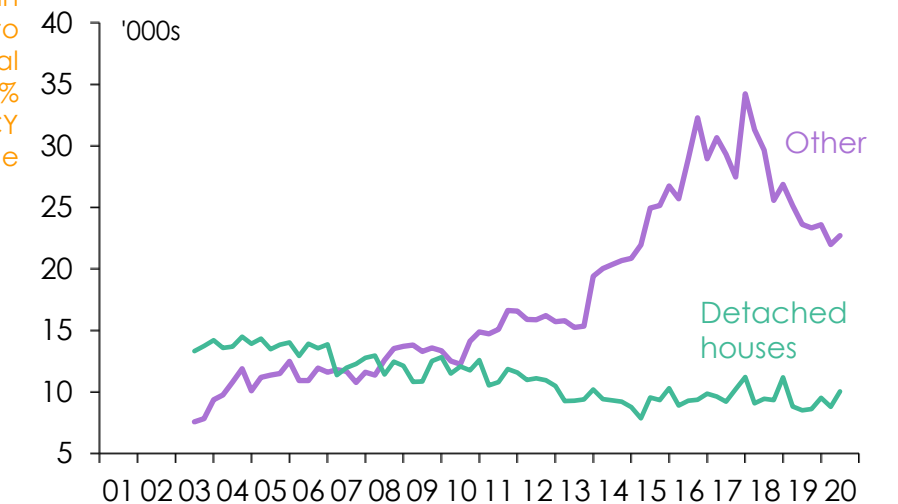
## Lending to first home buyers



## Residential building approvals



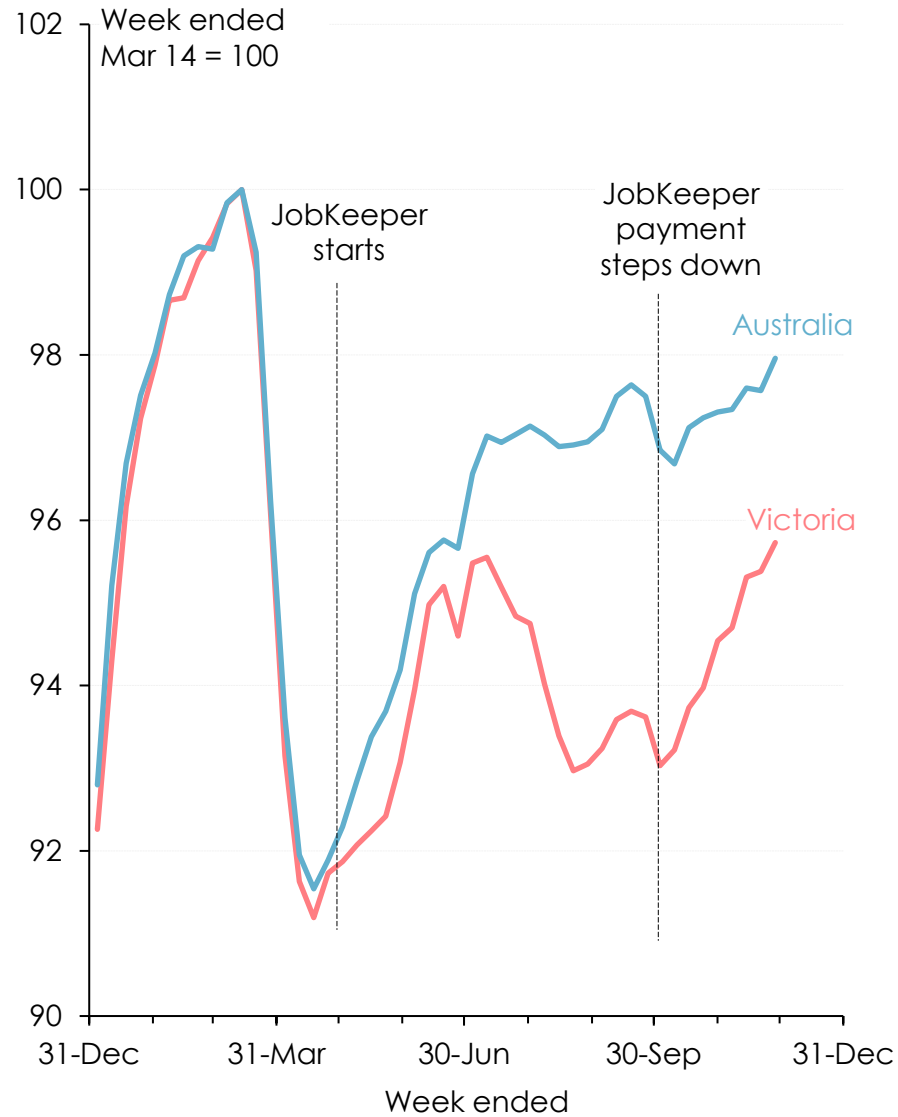
## 'Pipeline' of work yet to be done



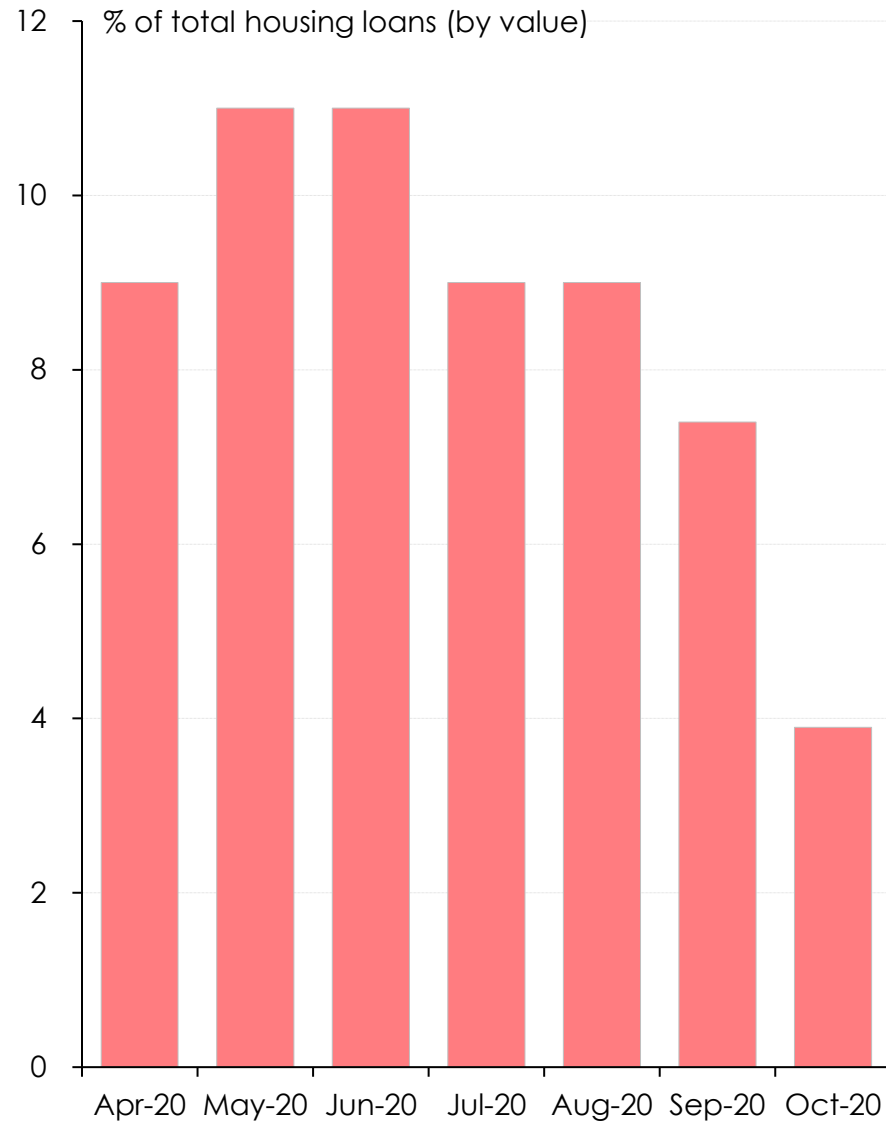
Note: 'New home sales' are of detached dwellings only and exclude small-scale builders. Sources: ABS; Housing Industry Association.

# The transitions away from 'emergency assistance' are so far being accomplished very smoothly

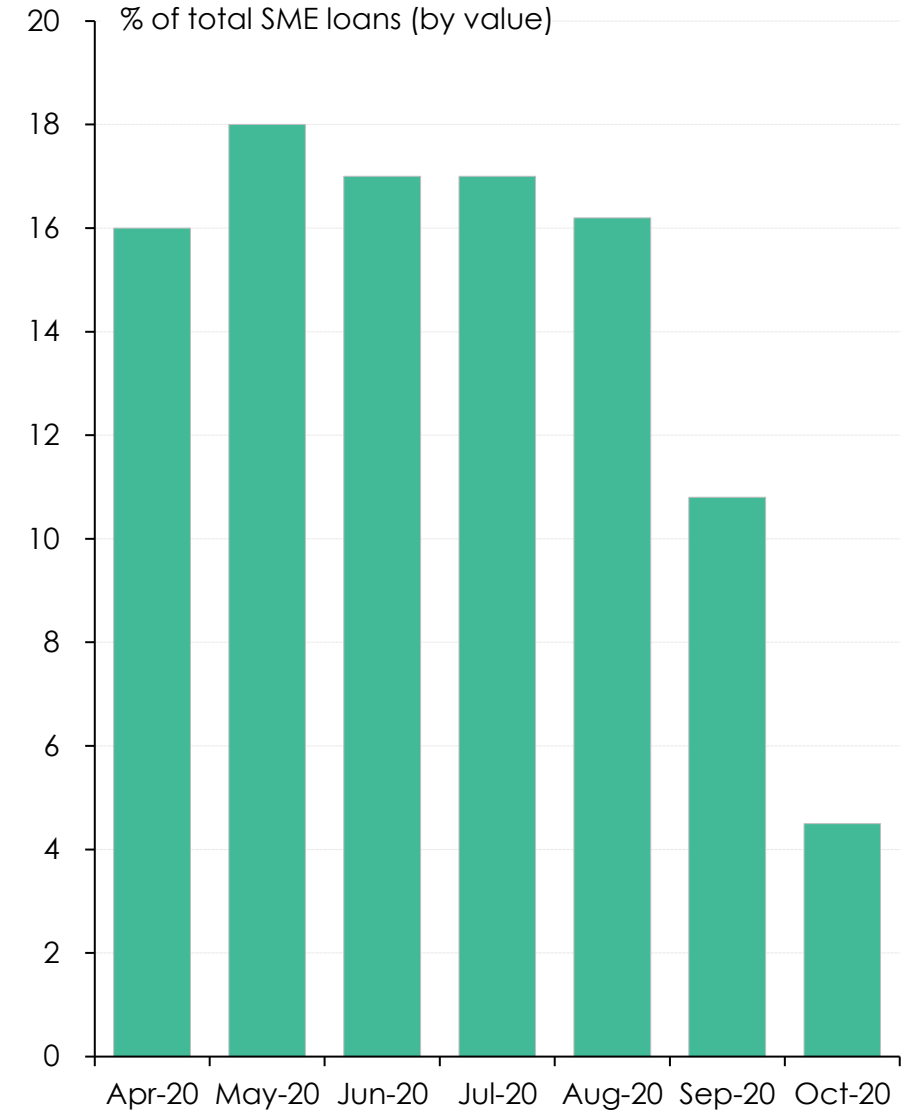
## Payroll employment & JobKeeper



## Mortgage repayment deferrals



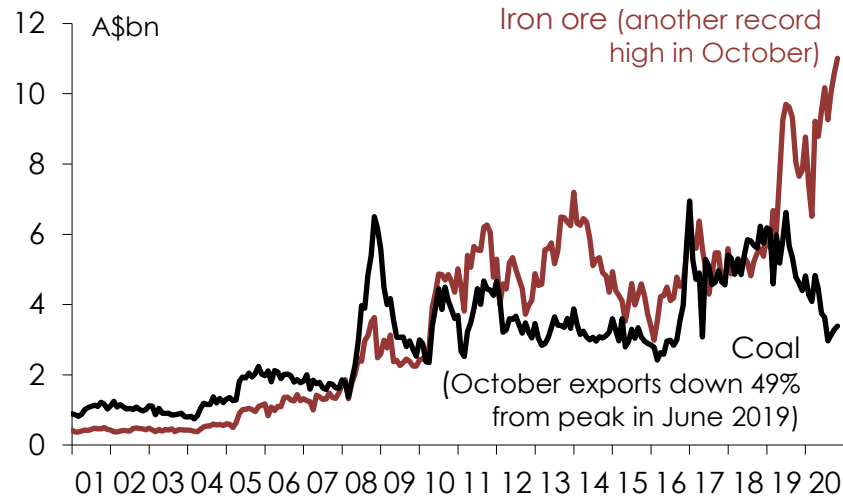
## SME loan repayment deferrals



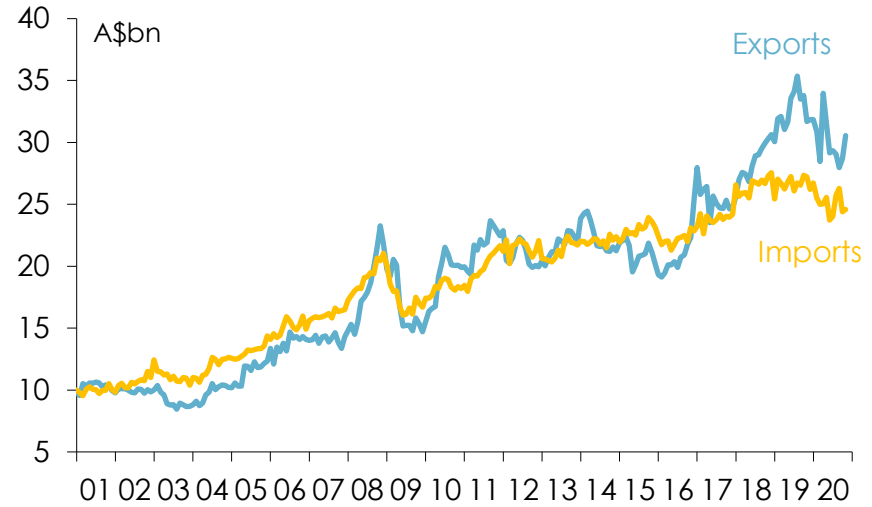
Sources: [ABS](#); [Australian Financial Security Authority](#); [Australian Prudential Regulatory Authority](#).

# Unlike many other countries Australia's exports have held up well – largely thanks to iron ore

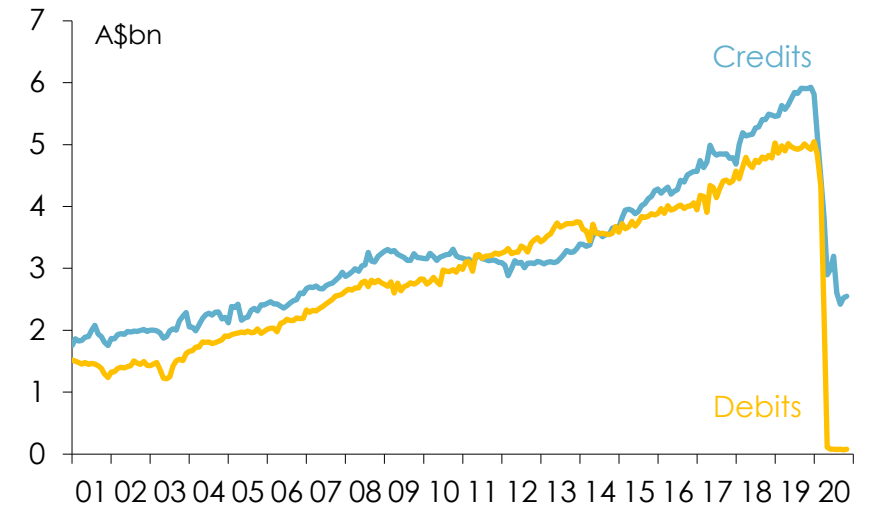
## Iron ore and coal exports



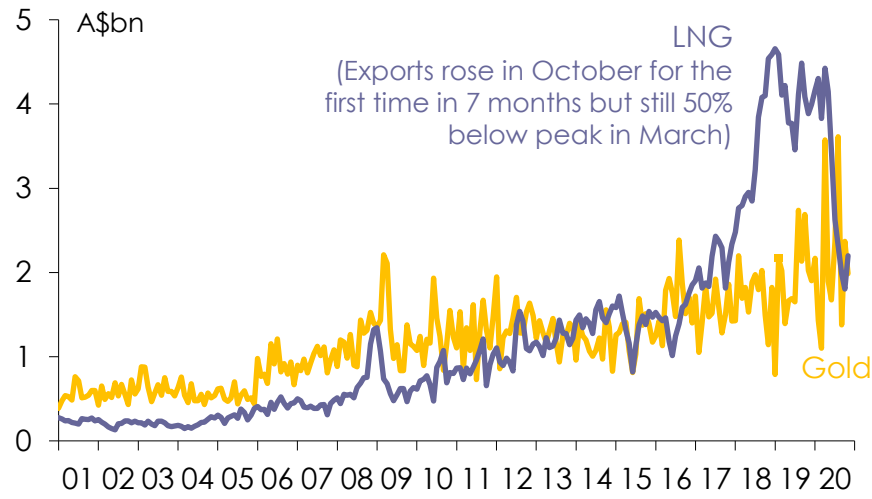
## Merchandise exports and imports



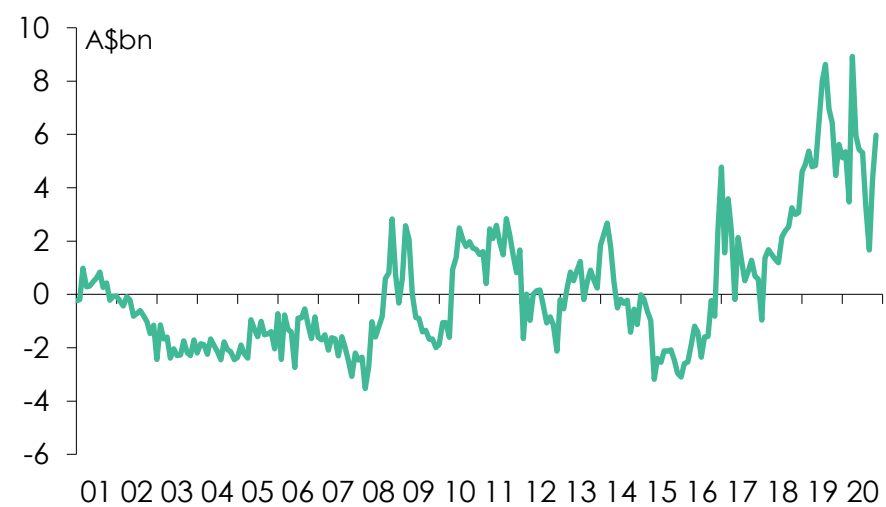
## Tourism-related services trade



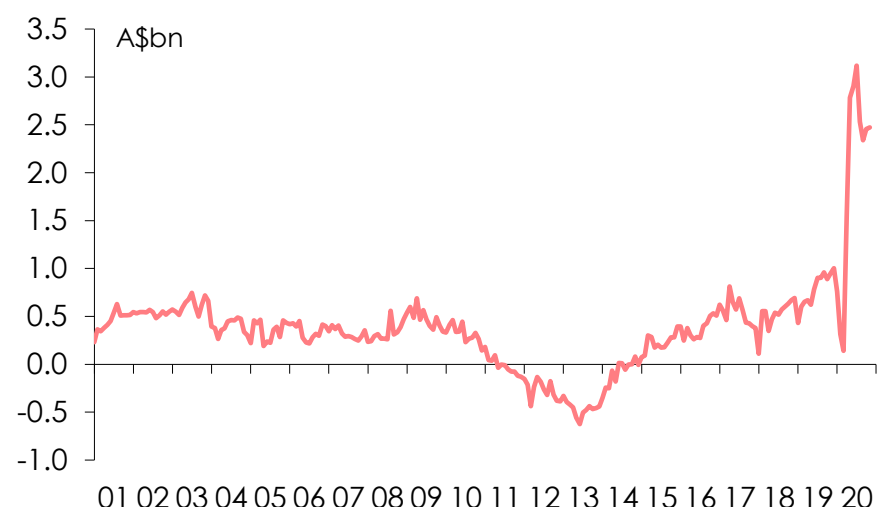
## LNG and gold exports



## Merchandise trade balance



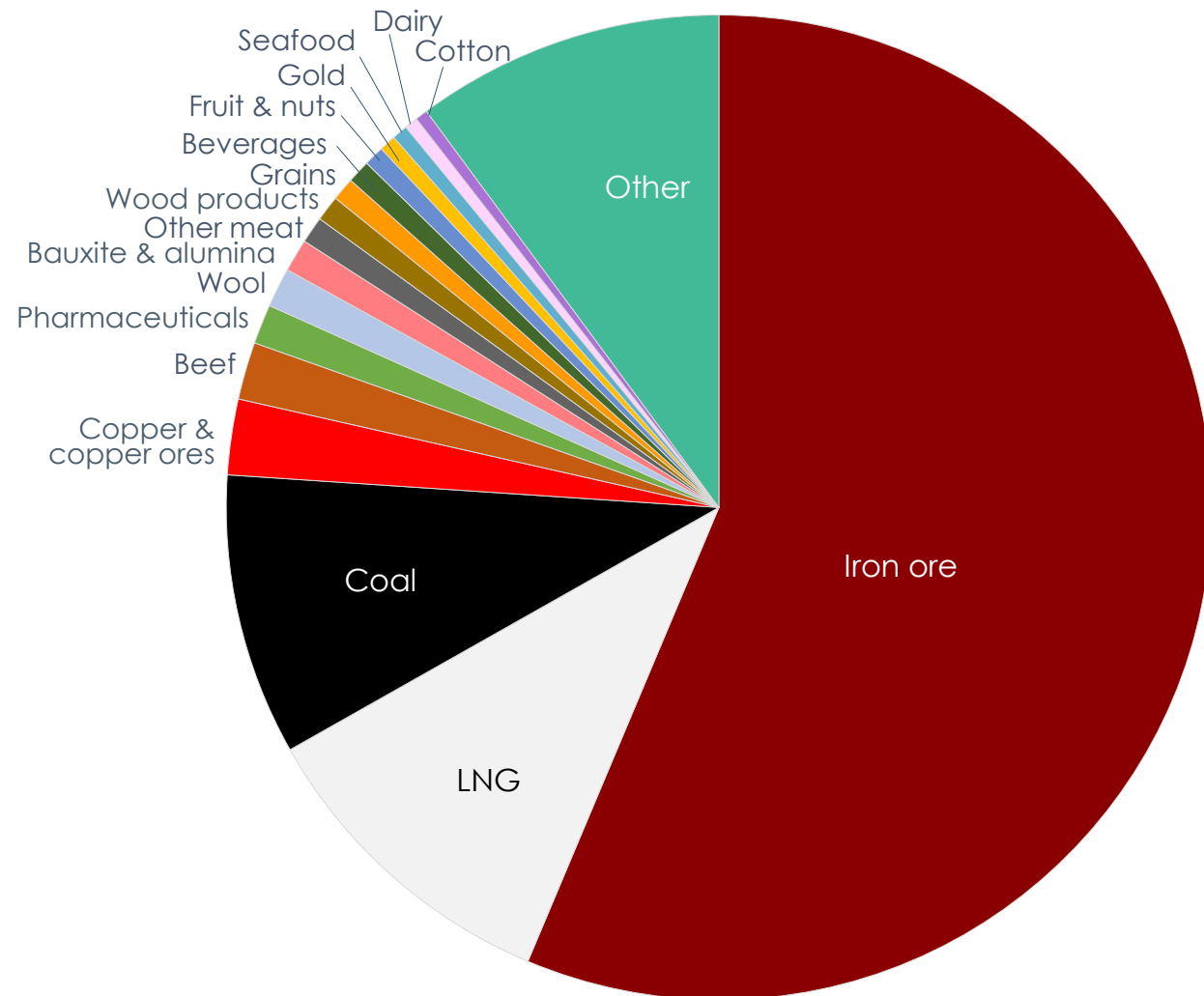
## Tourism services trade balance



Note: Latest data are for October. Source: ABS, [International Trade in Goods and Services, Australia](#).

# But the deteriorating bilateral political relationship with China will start to become apparent in trade figures from now on

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

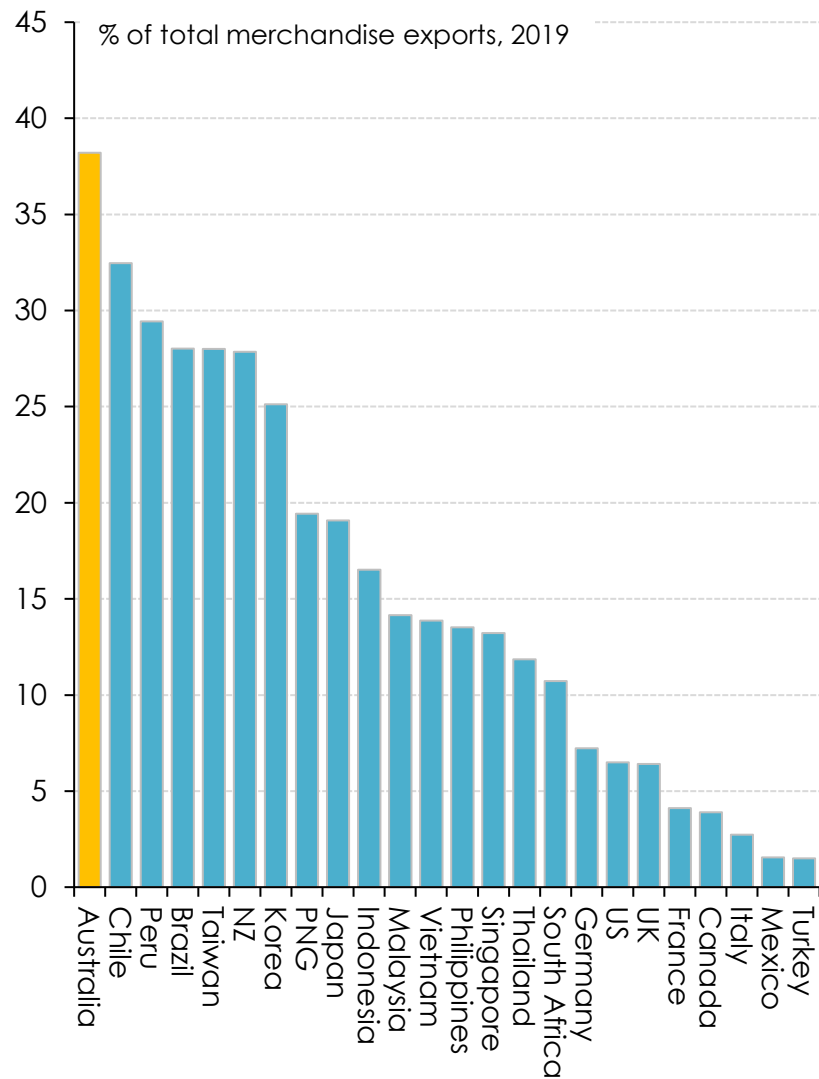


- ❑ China accounted for 39½% of Australia's merchandise exports in FY 2019-20 (the largest proportion any country has since the mid-1950s when 36% of Australia's exports went to the UK)
  - of which iron ore & concentrates accounts for 56%
- ❑ China also accounted for 19% of Australia's services exports in CY 2019
  - of which 'travel' (tourism & education) accounted for over 90%)
- ❑ China has no real alternatives to Australian iron ore
- ❑ But China 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 (most recently) coal – all products which China can readily source elsewhere, or simply do without
- ❑ Last month, officials from China's embassy in Canberra handed to journalists a list of **'14 grievances'** China claims to have against Australia ...
- ❑ ... of which only two (Australia being the first to call for an inquiry into the origins of Covid-19, and offensive questioning of Chinese-Australian citizens in Parliament by a senior Government backbencher) have any merit
- ❑ China appears to be seeking to 'make an example' of Australia as a warning to other countries in the region

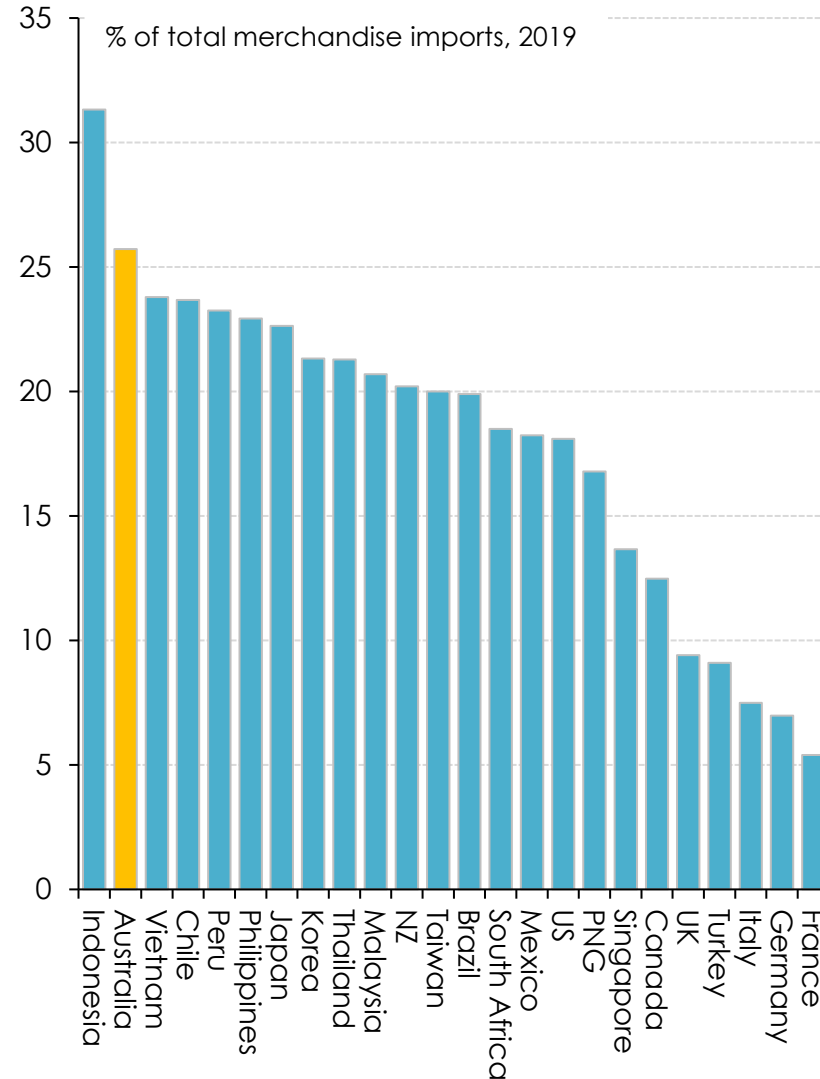
Note: 'Wood' includes wood products; 'dairy' includes milk, cream, butter & cheese; 'seafood' includes crustaceans, fish and processed seafood; 'other' includes confidential items.  
Sources: Department of Foreign Affairs & Trade, [Trade Statistical Pivot Tables](#); Corinna.  
[Return to "What's New"](#).

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

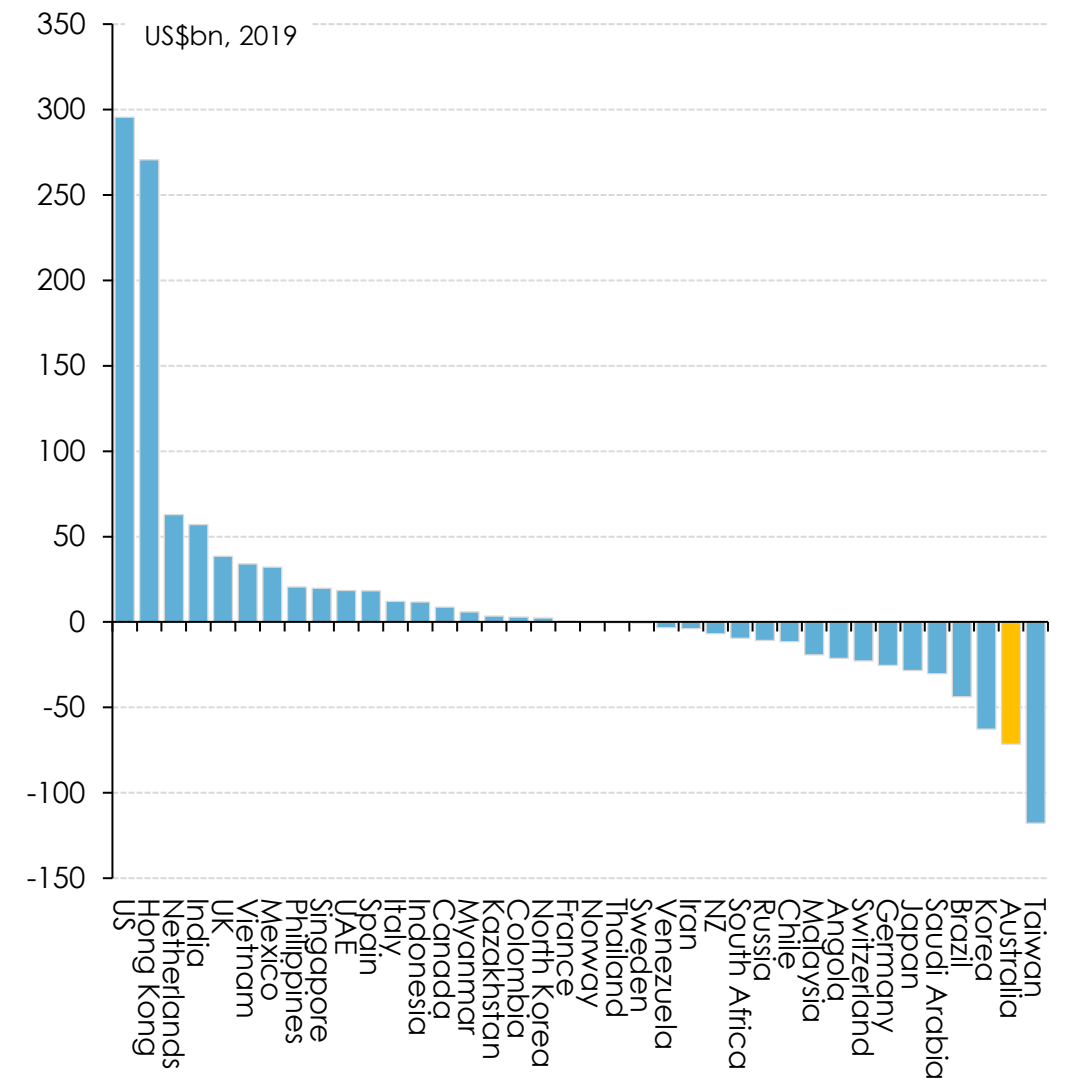
## Merchandise exports to China as a pc of total



## Merchandise imports from China as a pc of total



## China's bilateral merchandise trade balances

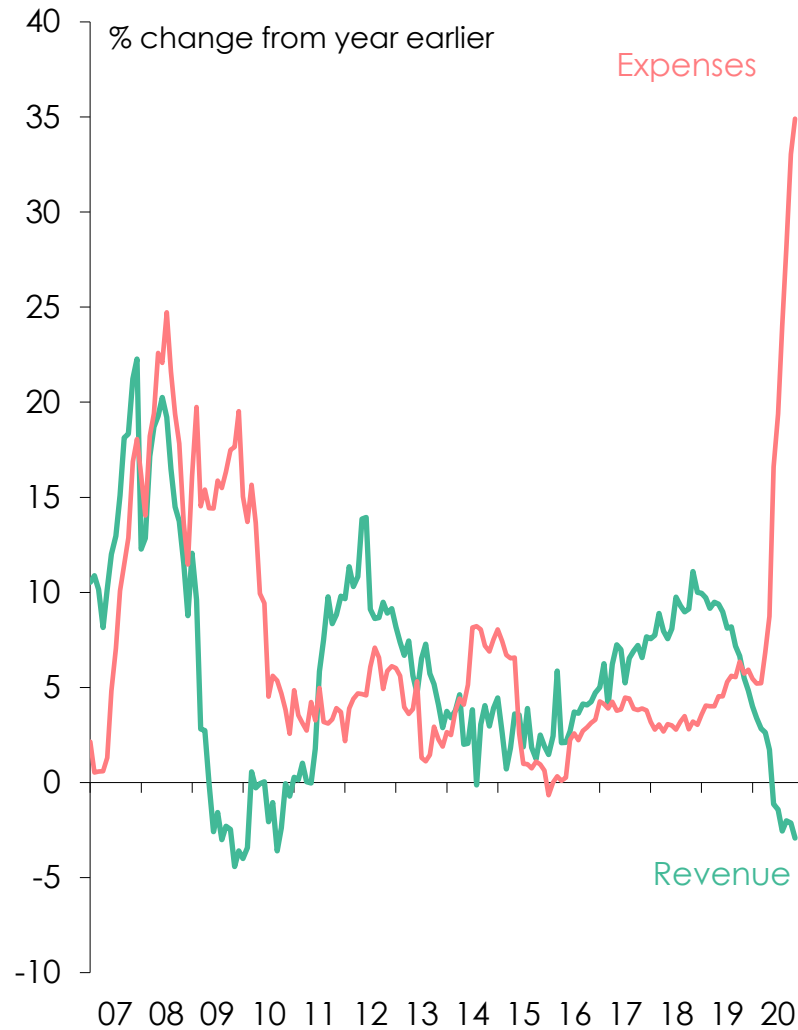


Sources: IMF, Direction of Trade Statistics; Taiwan Ministry of Economic Affairs, Bureau of Foreign Trade.

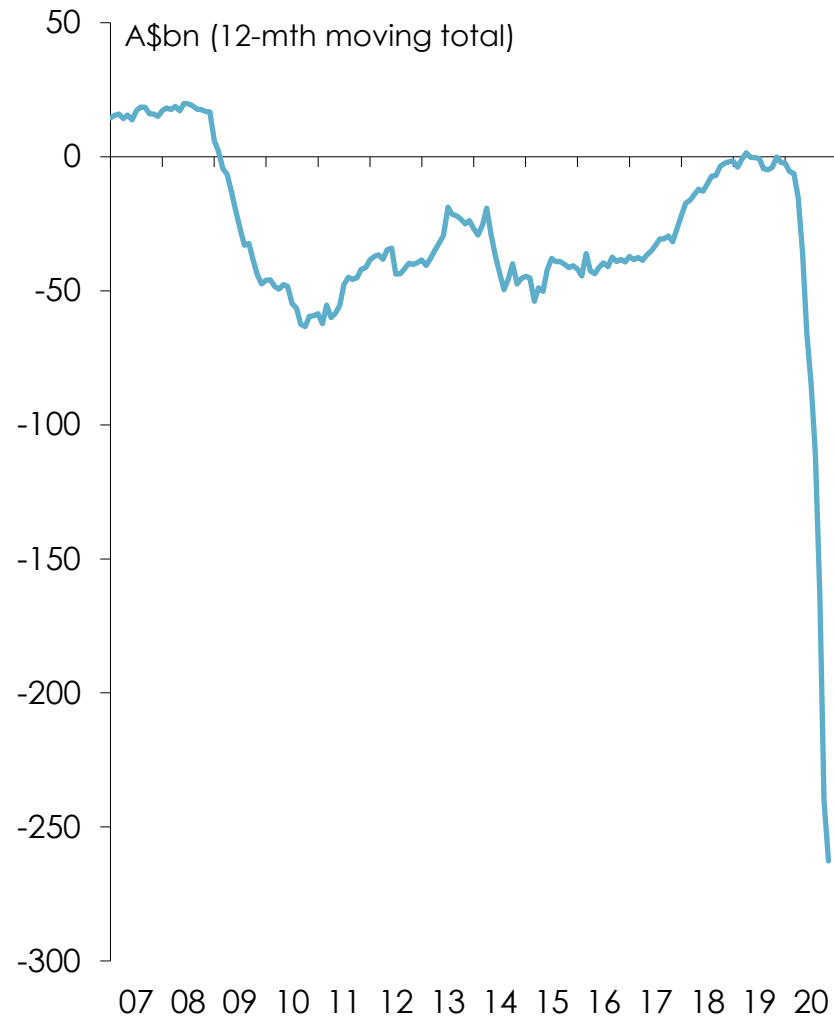


# The deficit for the 12 months to October was \$263mn, more than the Budget forecast for 2020-21 as a whole, while net debt reached \$602bn

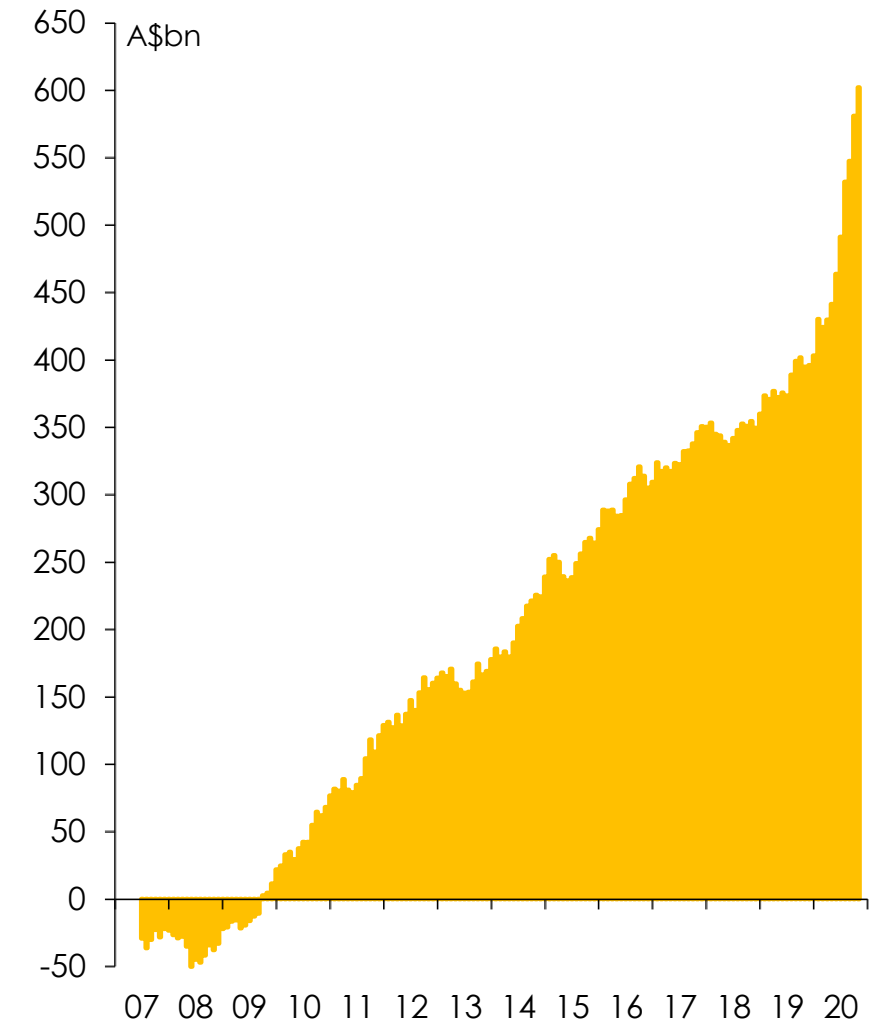
## Australian Government revenue and expenses



## Australian Government 'underlying' cash balance



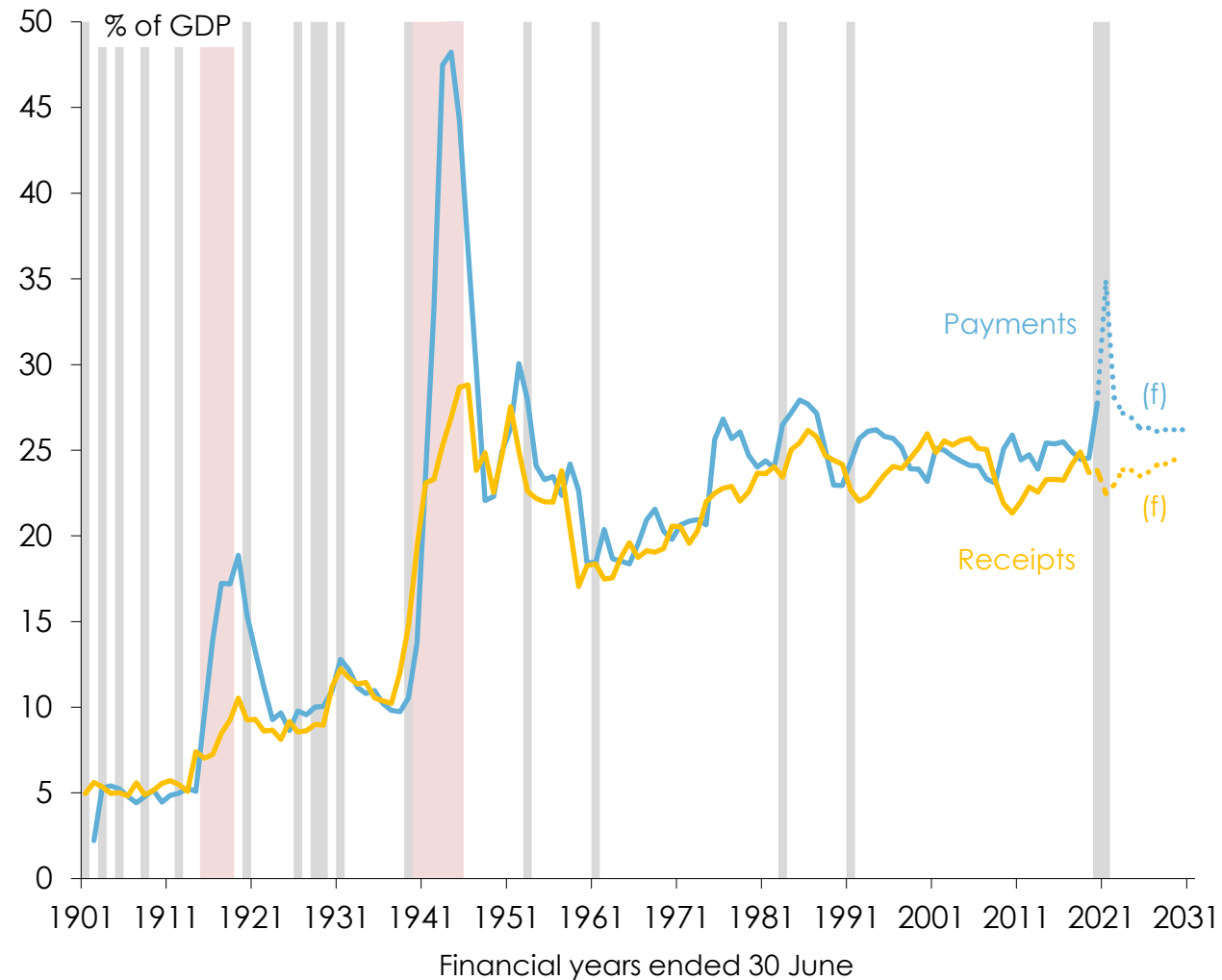
## Australian Government net debt



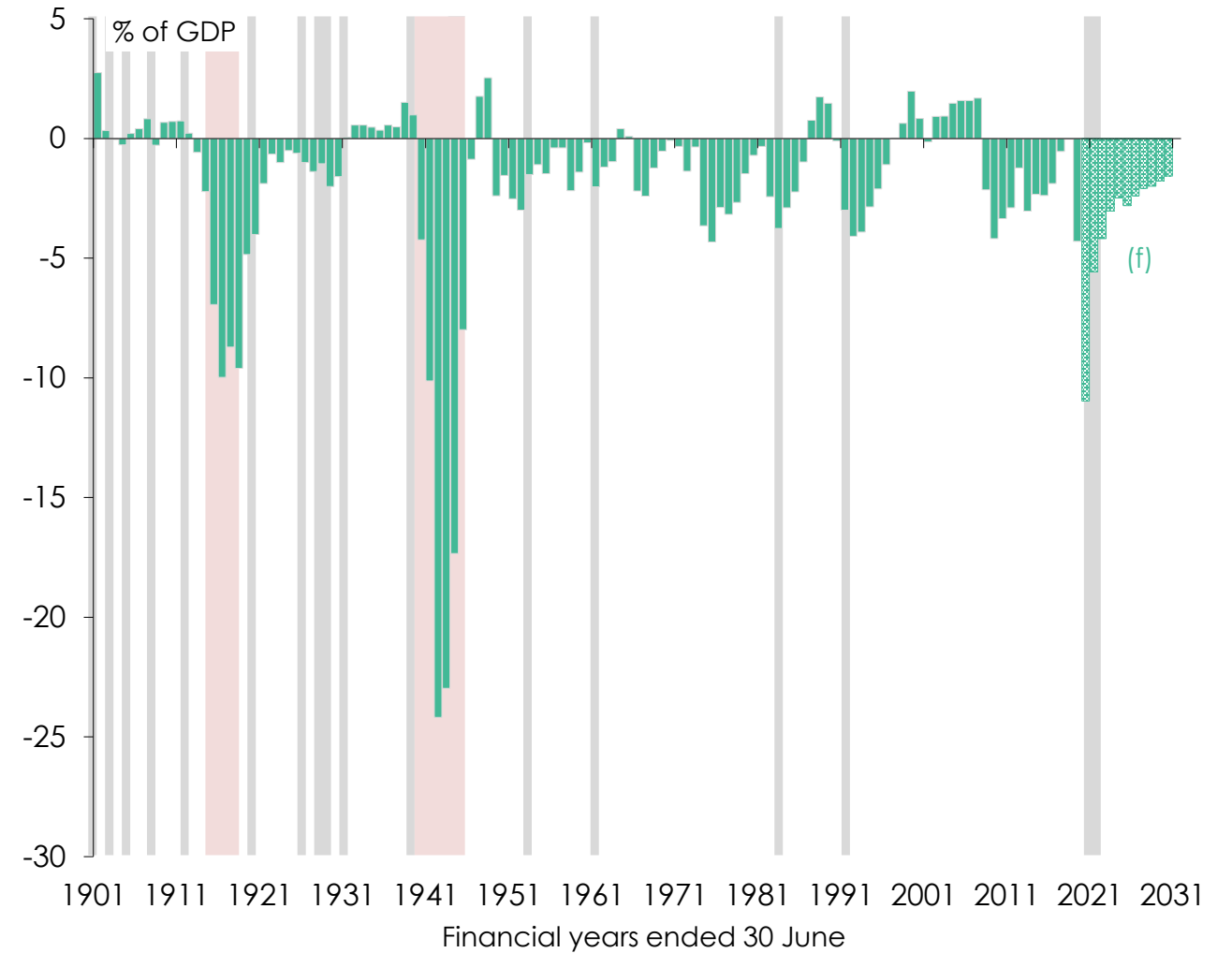
Note: Revenue and expenses are accrual accounting items. The 'underlying' cash balance is (cash) receipts minus payments, excluding transactions in financial assets for policy purposes and net earnings of the Future Fund. Net debt is total interest-bearing liabilities (government securities, deposits,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

# The 2020-21 deficit of \$214bn (11% of GDP) will be the biggest since 1944-45 – and (on current policies) deficits will persist for the rest of the decade

## Australian Government receipts and payments



## Australian Government budget deficit or surplus

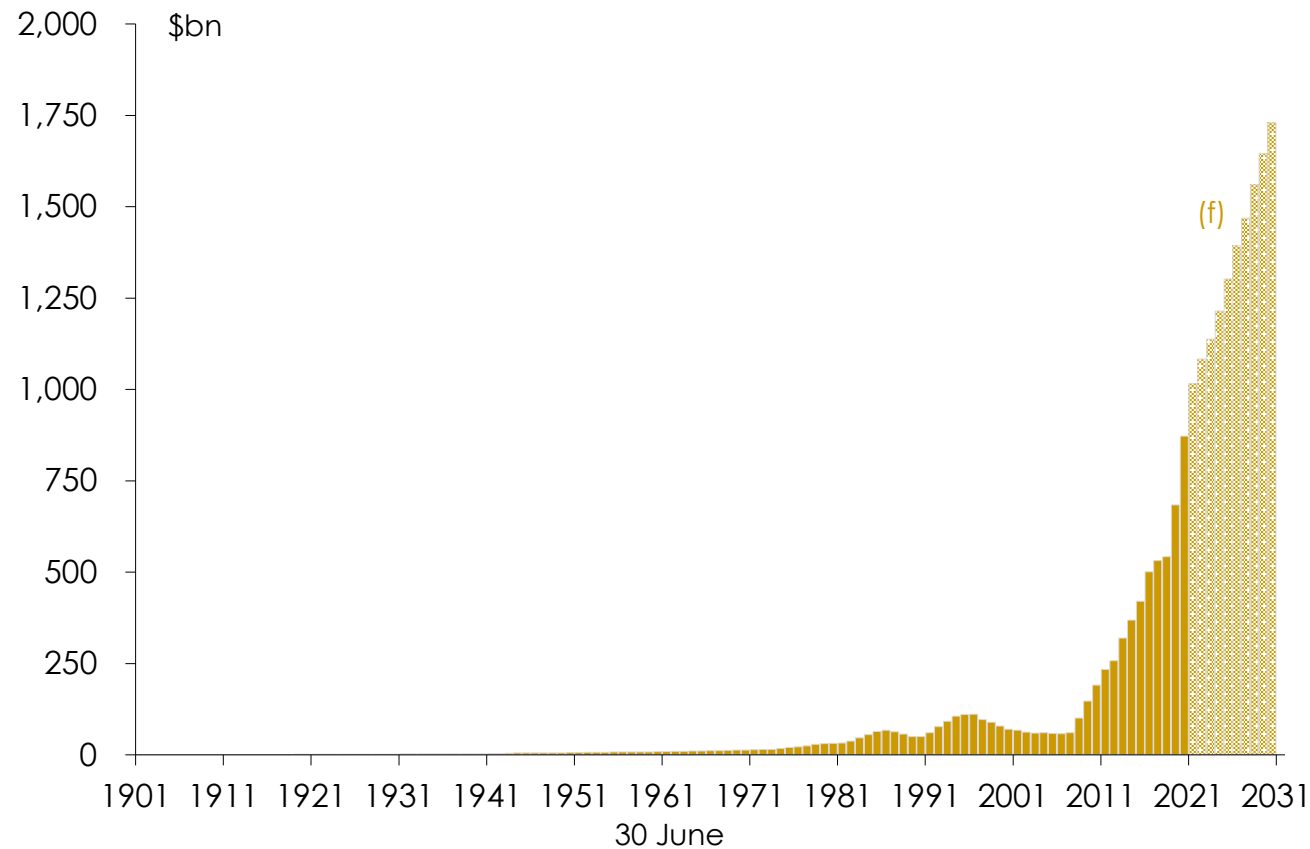


Note: Payments and the budget surplus or deficit are 'underlying' (that is, exclude 'net investments in financial assets for policy purposes') after 1989-90, when state governments became responsible for issuing their own debt, and 'headline' before that. Areas shaded in grey are fiscal years in which real GDP contracted; areas shaded in pink are World Wars I and II. (f) denotes forecasts or projections.

Sources: Global Financial Data; Australian Government, 2020-21 [Budget Paper No. 1, Statement No. 3](#).

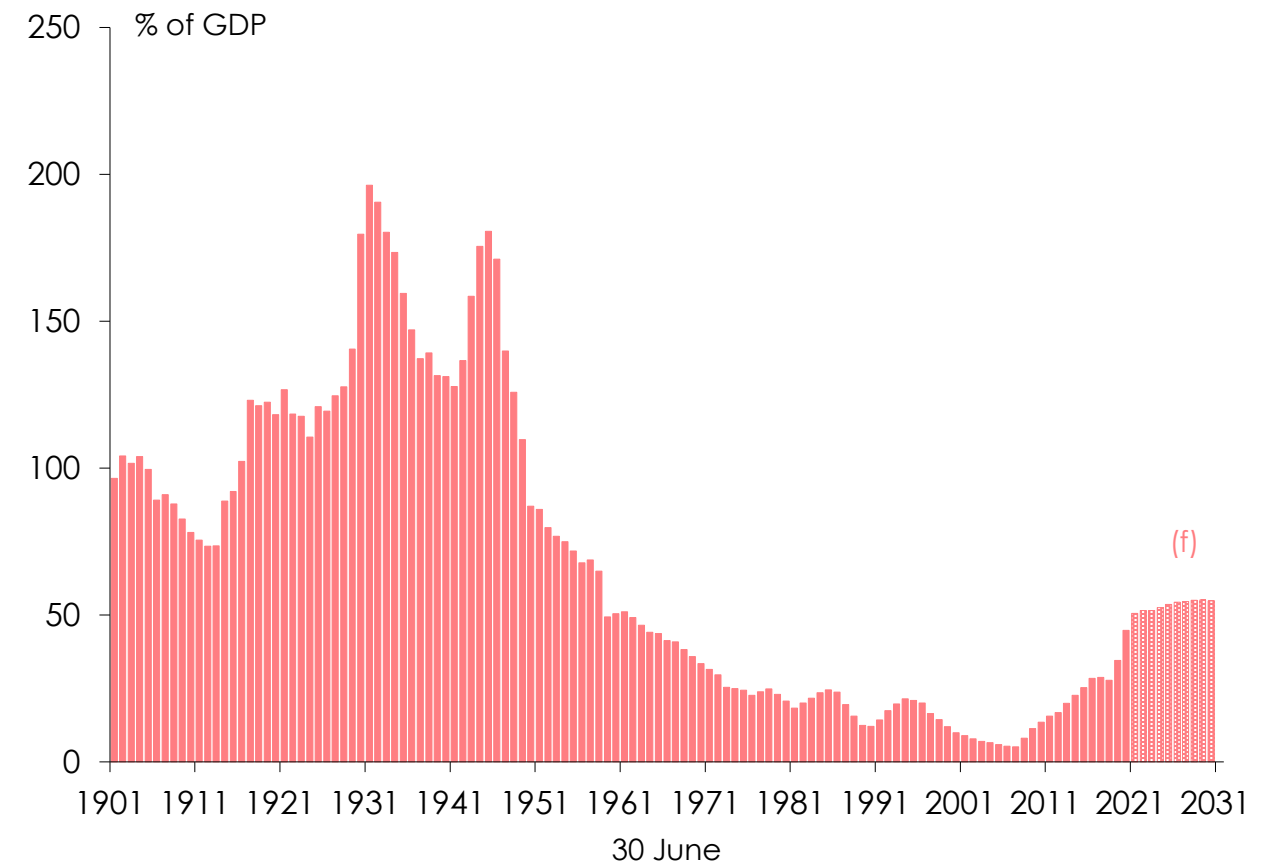
# However there's no need for undue alarm at the level of debt which will be incurred by the Australian Government

## Australian Government gross public debt in \$



- ❑ The Government's gross debt will top \$1 trillion during the 2021-22 financial year, and reach almost \$1¾ trillion by the end of the decade

## Australian Government gross debt as a pc of GDP

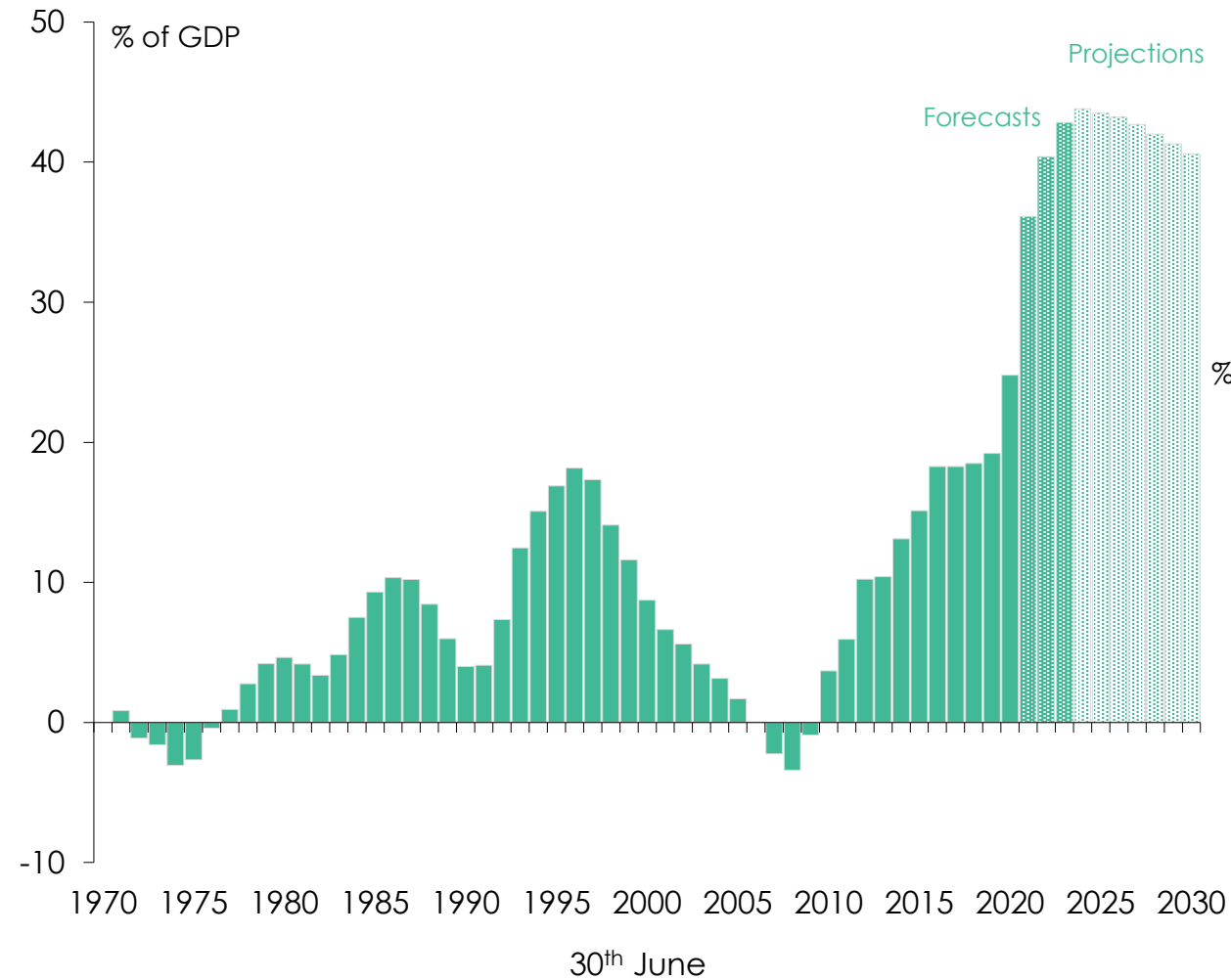


- ❑ However as a percentage of GDP, the Government's gross debt will still be less than it was in any of the first sixty years of Australia's existence as an independent nation

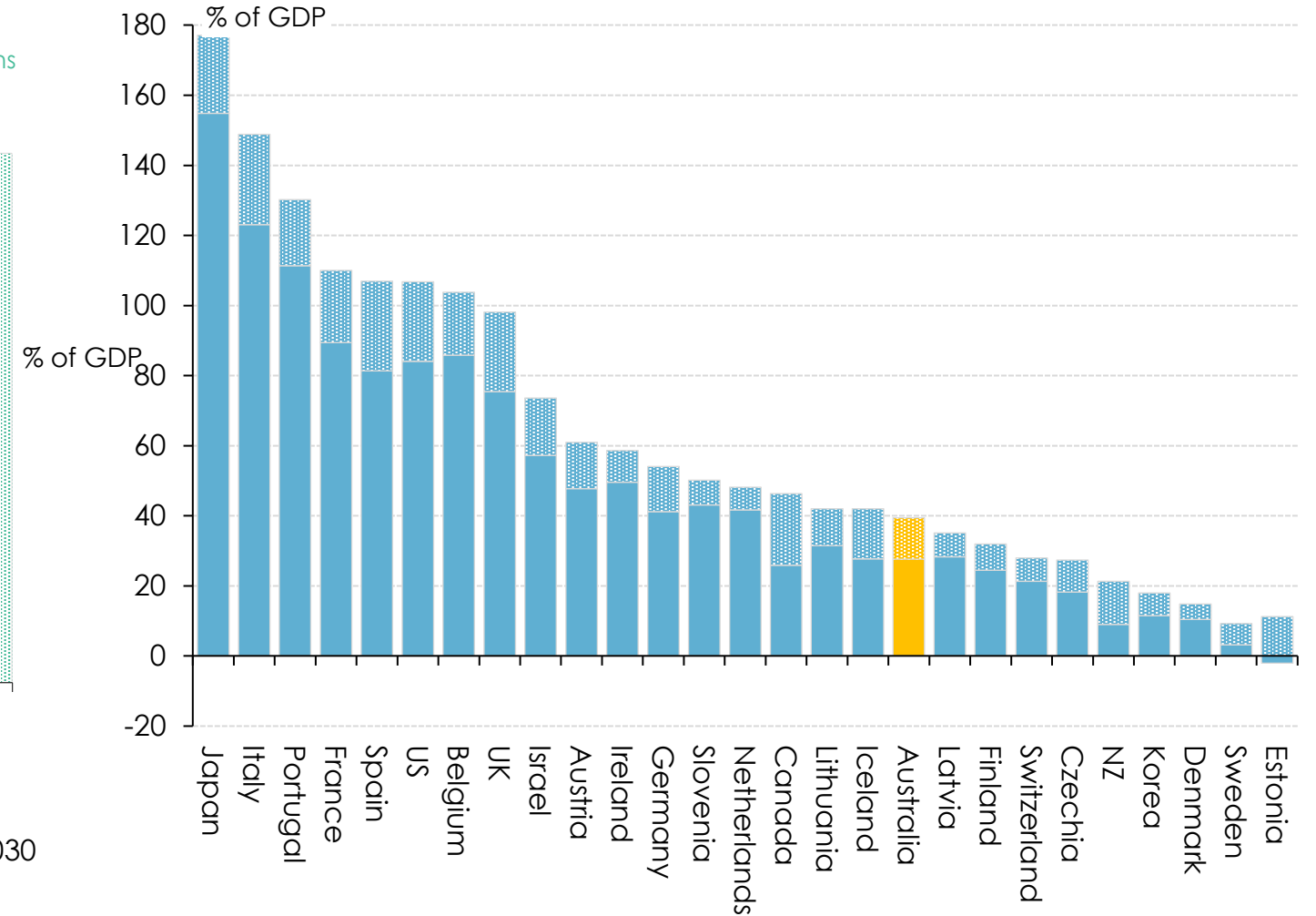
Note: (f) denotes forecasts and projections. Sources: Global Financial Data; Australian Government, 2020-21 [Budget Paper No. 1, Statement No. 3](#).

# Although Australia's government net debt will reach new record highs, it will still be relatively low by comparison with most 'advanced' economies

## Australian Government net debt as a percentage of GDP



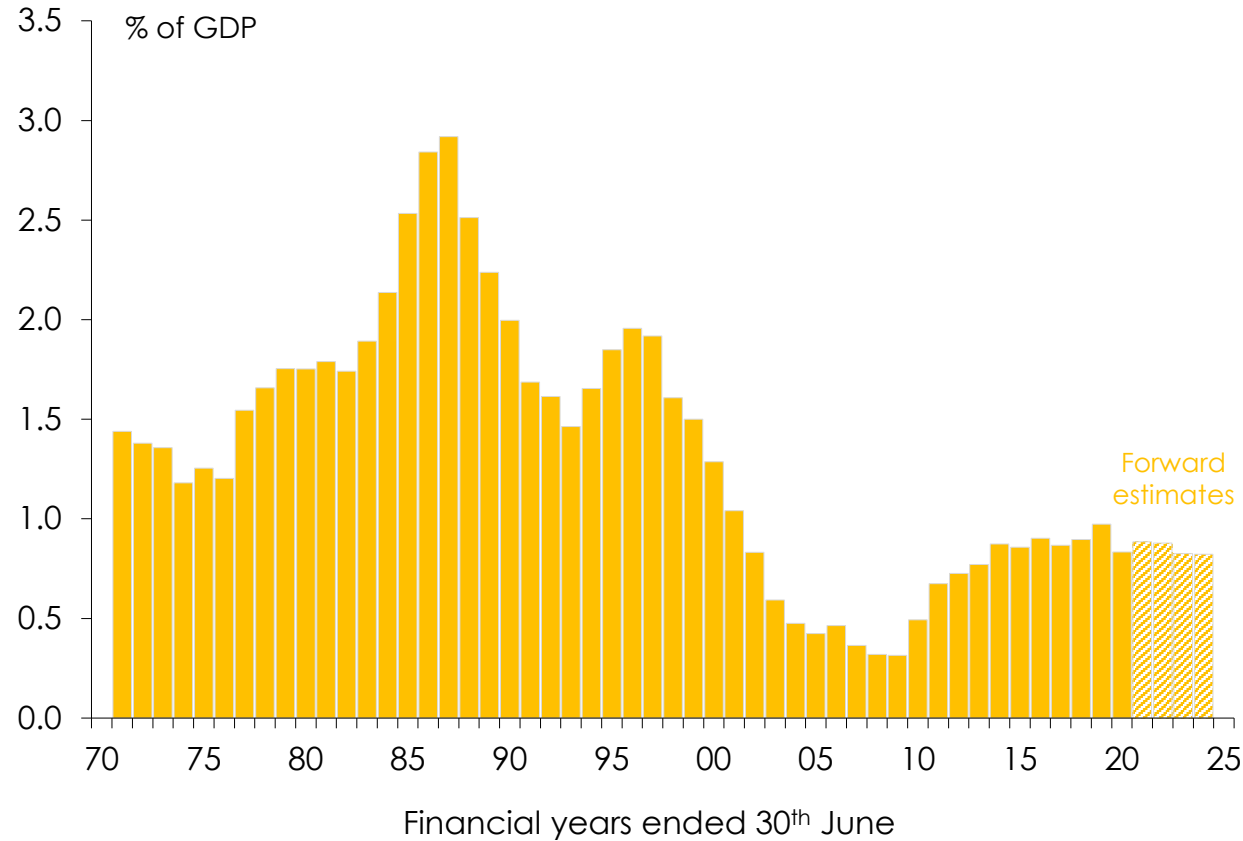
## Net debt of Australian and other 'advanced' economy governments as a pc of GDP, 2019 and projected 2022



Sources: Australian Government, 2020-21 [Budget Paper No. 1, Statement No. 11](#); New Zealand Treasury, [Pre-Election Economic and Fiscal Update](#), 16th September 2020; IMF, [Fiscal Monitor](#), October 2020.

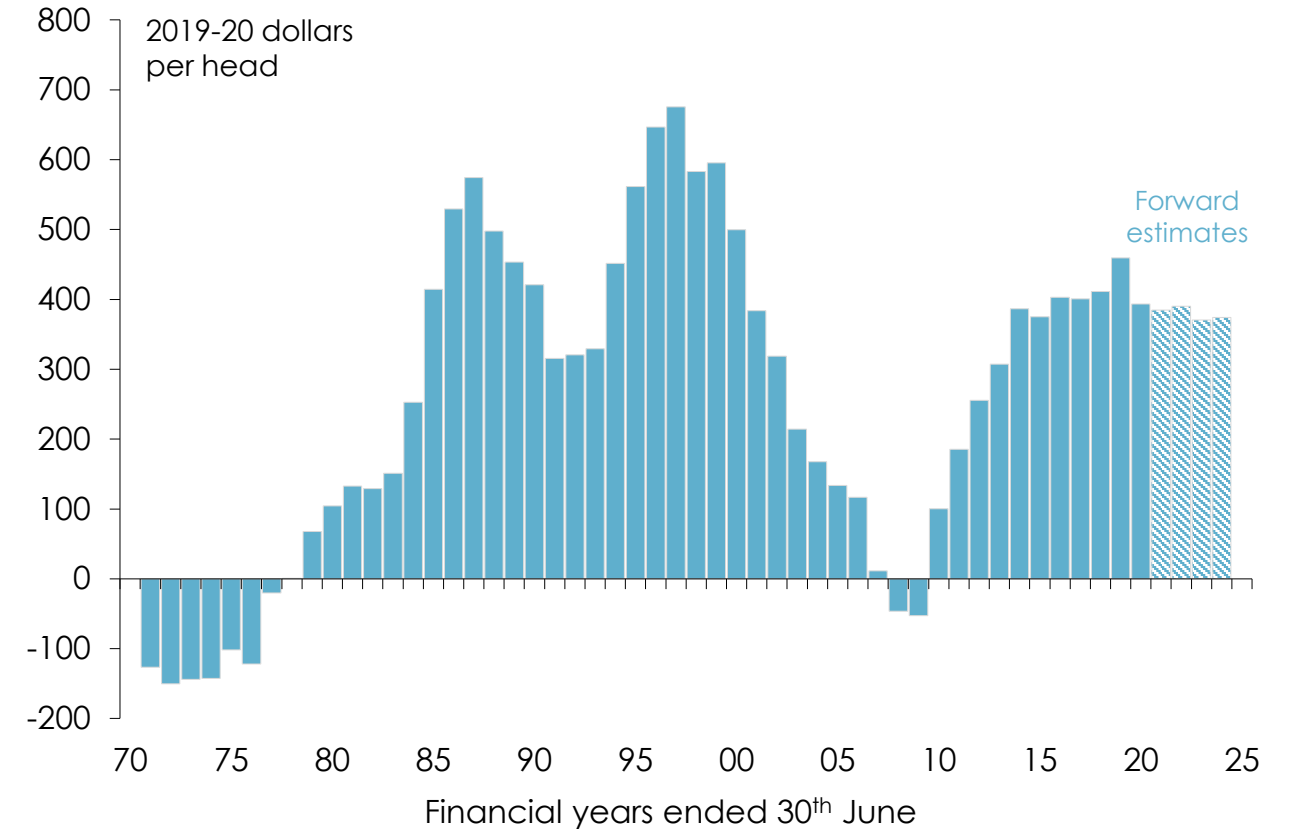
# Because interest rates are so low, the cost of servicing the debt which the Government is racking up will be low by historical standards

Australian Government interest payments as a percentage of GDP



❑ As a percentage of GDP, the Government's gross interest payments will be less than they were in the 1970s, 1980s and 1990s, and less than they were in 2017-18 or 2018-19

Australian Government net interest payments per head of population in 2019-20 dollars

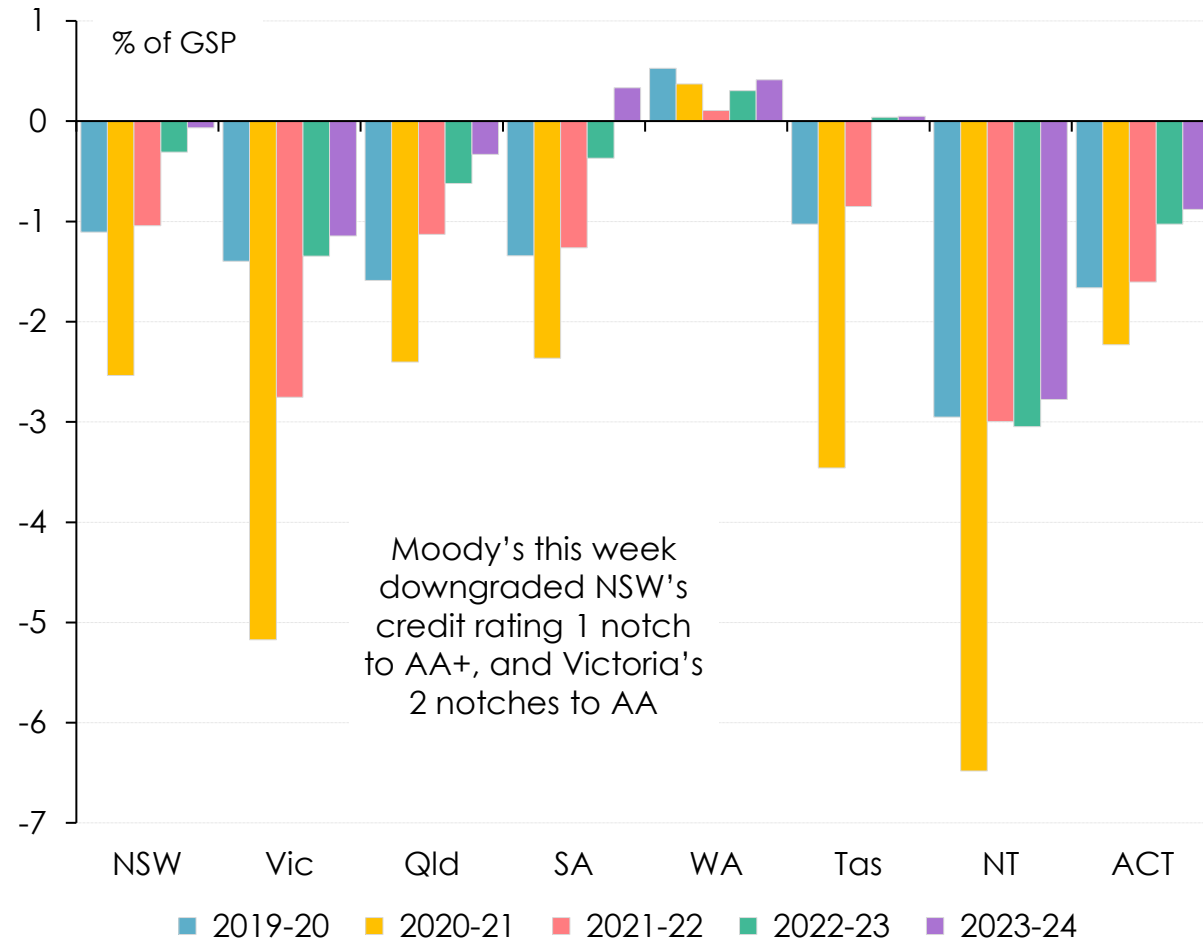


❑ Net interest payments per head of population will be less than they were in the second half of the 1980s, between 1993-94 and 1999-2000, or between 2015-16 and 2019-20

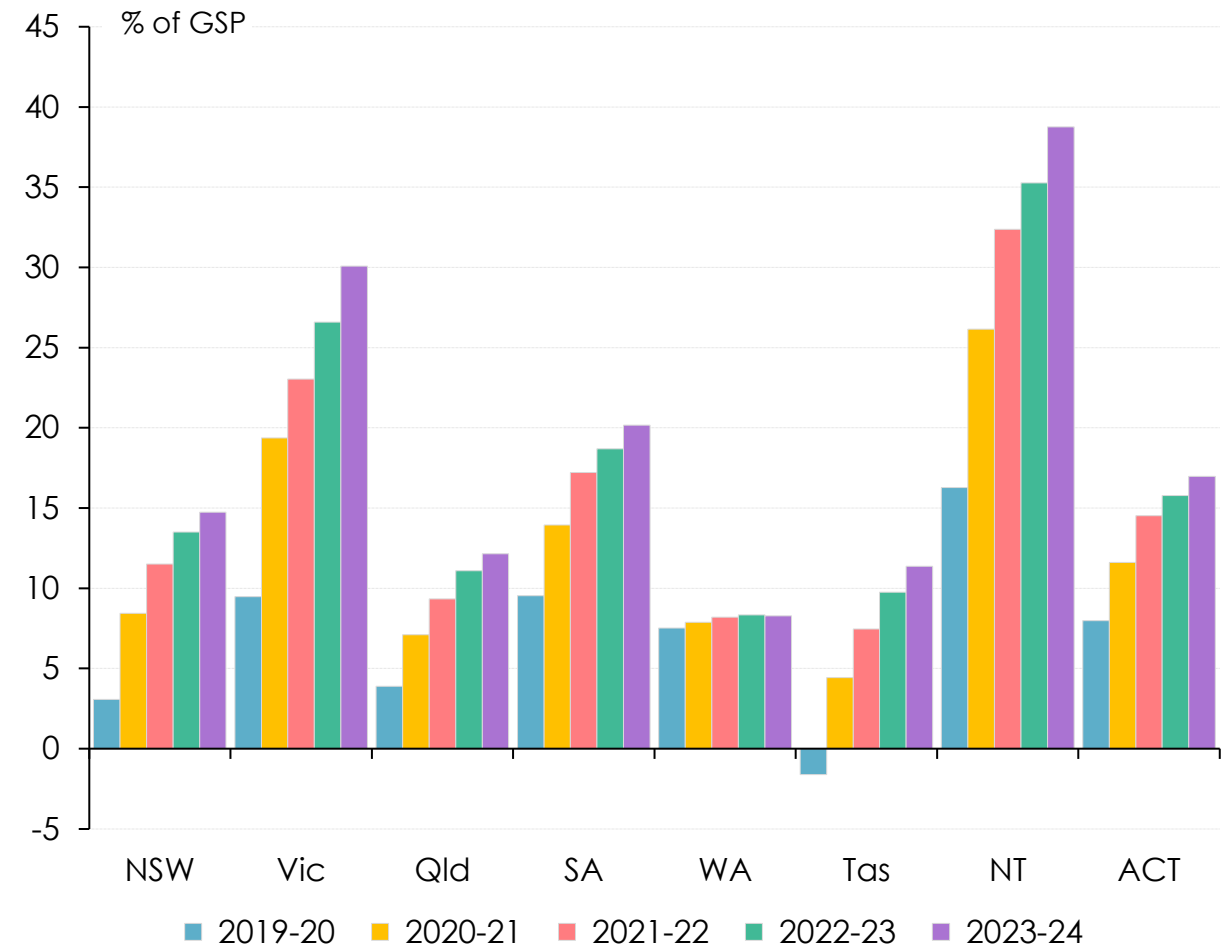
Note: (f) denotes forecasts. Sources: Global Financial Data; Australian Government, 2020-21 [Budget Paper No. 1, Statement No. 11](#); Corinna.

# Among Australia's states and territories, Victoria's and the Northern Territory's finances have deteriorated the most this year

## State & territory general government 'net operating balances' as a pc of gross state product



## State & territory general government net debt as a pc of gross state product



Note: No date has yet been set for ACT Budget. Estimates of gross state product (GSP) used to derive percentages shown in above charts are derived from state or territory Treasury forecasts of real GSP growth and Commonwealth Treasury forecasts of the GDP deflator for Australia as a whole; Tasmania's Treasury did not publish GSP growth forecasts for 2022-23 and 2023-24 and so it has been assumed Tasmania's GSP grows at the same rate as forecast for Australia as a whole in those years. For details of each state budget see the Weekly Chart pack for 5<sup>th</sup> December 2020. Sources: NSW, Vic Qld, SA, WA, Tas, and NT 2020-21 Budget Papers; ACT [Pre-Election Budget Update](#) (September 2020). [Return to "What's New"](#).

# The factors which helped us achieve almost 30 years of continuous economic growth may not be so helpful in the post-Covid environment

Australia's record-breaking run of almost 30 years without two or more consecutive quarters of negative real GDP growth owed a lot to four factors -

## ❑ Population growth

- Australia's population grew at an average annual rate of 1.5% pa over the 19 years to 2019, compared with 0.6% pa for all 'advanced' economies
- net immigration accounted for 58% of this growth – ie, in the absence of immigration Australia's population would have grown by only 0.7% per annum, on average, and would have aged more rapidly

## ❑ Our unusual (for an 'advanced' economy) economic relationship with China

- China's rapid economic growth, industrialization and urbanization significantly boosted both the volumes and prices of many of our commodity exports, under-wrote the post-GFC mining investment boom, pushed down the prices of many of the things which we import, and contributed significantly to the growth of our tourism and education sectors – in contrast to the experience of most other 'advanced' economies, which (unlike Australia) are also exporters of manufactures and importers of commodities
- that influence had already started to fade in the years immediately pre-Covid (though obscured in the case of iron ore by supply problems in Brazil)
- but the risks are now greatly enlarged by the sudden deterioration in the bilateral political relationship

## ❑ The 'housing boom'

- Australia's 'housing boom' started earlier (mid-1990s) and ended later (2017, rather than 2007-08) than in most other 'advanced' economies (some – such as Japan, Italy and France – didn't have a housing boom at all)
- the two-way interaction between rising house prices and rising household debt underwrote stronger growth in household consumption spending, for longer, than would have occurred otherwise

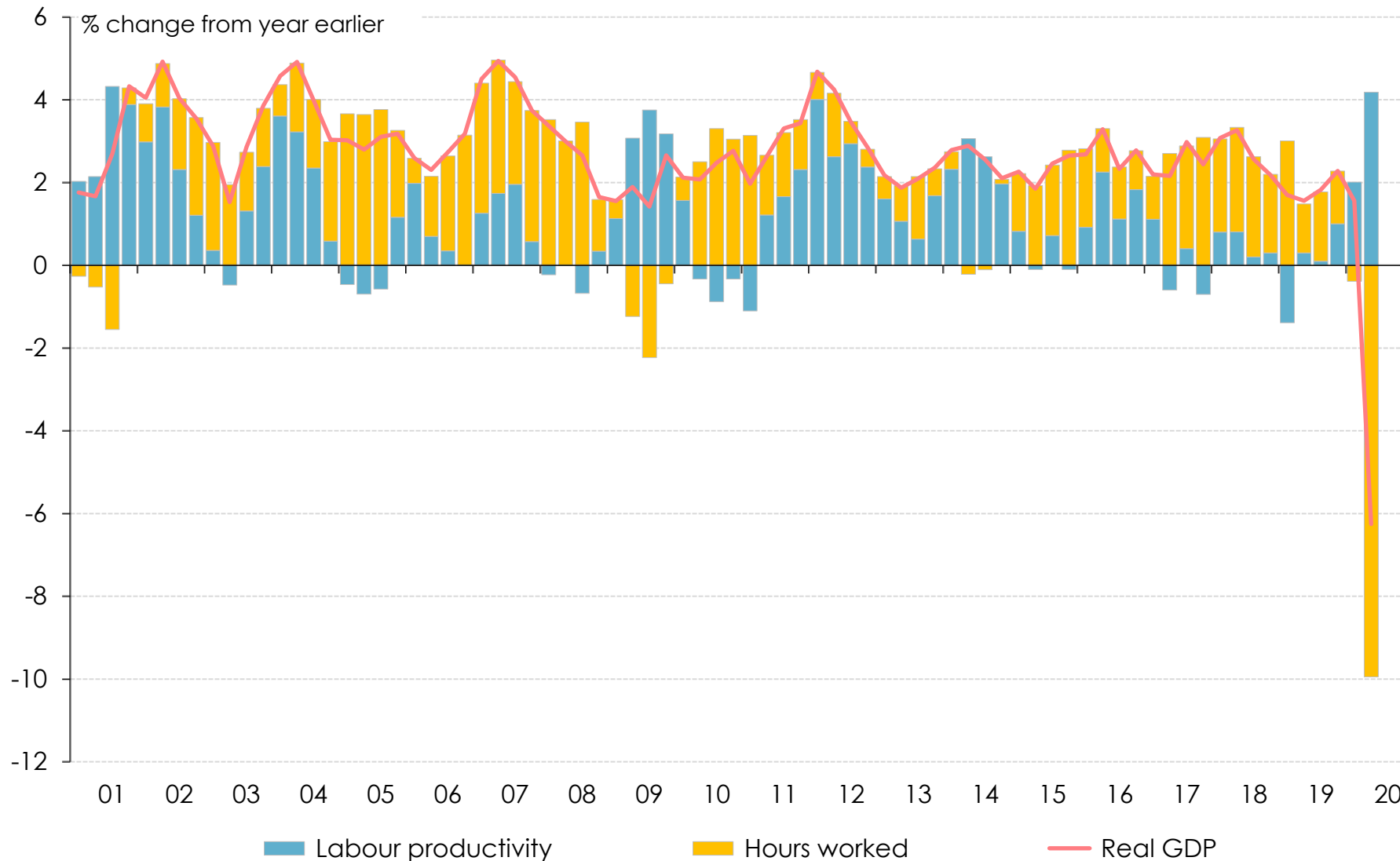
## ❑ (Mostly) good macro-economic policy – especially by comparison with other 'advanced' economies

- although we haven't done nearly as well as we once did on the micro-economic front

The first three of these are likely to be of less assistance from now on

# Longer-term, Australia will have to go back to the only source of sustainable growth – which is higher productivity

## Labour input and labour productivity contributions to Australian real GDP growth



- Over the five years between the end of the 'mining boom' and the onset of the Covid-19 pandemic, 72% of Australia's real GDP growth came from increased labour input, and only 28% from labour productivity growth
- By contrast, between the end of the early 1990s recession and the onset of the global financial crisis, 46% of Australia's real GDP growth came from increased labour input and 54% from productivity growth

Source: ABS, [Australian National Accounts: National Income, Expenditure and Product](#), June quarter 2020; Corinna.



# Some numerical forecasts for 2021

- ❑ **Assuming that a Covid-19 vaccine becomes widely available as the year unfolds (and people are willing to take it) the world economy should grow by about 4-4½% next year, compared with around -4¼% this year**
  - but note that's not a full recovery – the world economy won't be back to its pre-pandemic level of activity until some time in 2022, and it will remain below where it *would have been* without Covid-19 for a long time after that
- ❑ **On the same assumptions Australia's economy will grow by about 4% in 2021, after a contraction of 2½% in 2020**
  - economic activity (as measured by real GDP) should be back to its pre-recession (Q4 2019) level by Q2 2021 ...
- ❑ **... but unemployment will take longer to return to its 'full employment' level**
  - depending on how quickly people who've 'dropped out' of the workforce return to it, and on what happens to immigration, unemployment may still be close to 6% by the end of next year
- ❑ **Inflation will remain below the bottom end of the Reserve Bank's 2-3% target band**
- ❑ **Interest rates will remain at close to zero throughout 2021 ... and in all likelihood 2022 as well**
  - but the RBA will probably do more 'QE' (purchases of government bonds)
- ❑ **The budget deficit will probably be a bit less than the Budget forecasts of \$214bn for 2020-21 and \$112bn for 2021-22**
  - but even if it isn't, no-one should be unduly concerned
- ❑ **The A\$ may go higher (against the US\$) in the next few months (say, to US78¢) but should end next year below US70¢ (say, around US68¢) given lower commodity prices and a more stable US\$**
- ❑ **Australia's relations with China will remain fractious, and a source of downside economic risk**
- ❑ **A federal election could be held late next year, although in practice it could be held any time up until 21<sup>st</sup> May 2022**
  - WA has a state election on 13<sup>th</sup> March 2021, and Tasmania & SA elections are due in March 2022

Q & A

For a copy of the slides used today, or to see the session again

Go to [www.bettercallsaul.com.au](http://www.bettercallsaul.com.au) for details

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