




**AXIS**  
FINANCIAL GROUP

# ECONOMIC INDICATORS

*Edition 4*





*“Statistics are like a bikini. What they reveal is suggestive, but what they conceal is vital.”*

AARON LEVENSTEIN 1911–86

## ECONOMIC MANAGEMENT

In this edition of our Economic Indicators publication, we take a look at some aspects of economic management which may not be ordinarily considered and invite you to form your own opinions.

Politicians are in charge of a lot of money but just how well are they actually managing it?

## COVID-19 DEBT

In a report titled “How are governments paying for COVID-19 debt?” published by ABC News Australia, Alan Kohler affirms that since the start of the pandemic in March 2020 the approximate cost of COVID-19 to the government (federal & state) adds up to around \$310 billion.

Interestingly, it is also reported that the total amount of government bonds (federal & state), which the Reserve Bank of Australia (RBA) has purchased over the past 18 months via the enactment of unconventional monetary policy (i.e. printing money), amounts to around \$310 billion as well.<sup>1</sup>

Federal & State Government COVID-19 Debt	RBA Bonds Purchased from Federal & State Government
\$310 billion	\$310 billion

## Why is this interesting?

In Edition 3 of our Economic Indicators publication, we discussed in detail the separation of policy ownership between the government and the RBA.

The government is responsible for Fiscal Policy and the RBA is responsible for Monetary Policy and these 2 areas are supposed to operate independently of each other.

## Fiscal Policy

Economic Objective	Methods Used
<ul style="list-style-type: none"><li>• Stabilising fluctuations in economic activity.</li><li>• Ensuring long-term sustainability of budget and capacity to meet future challenges (i.e. ageing population).</li><li>• Increase long-term growth potential of economy (via investments in infrastructure and education).</li></ul>	<ul style="list-style-type: none"><li>• Changes in level and composition of government spending.</li><li>• Level and types of taxes levied.</li><li>• Level and form of government borrowing.</li></ul>

## Monetary Policy (Conventional)

Economic Objective	Methods Used
<ul style="list-style-type: none"><li>• Low and stable inflation (i.e. consumer price inflation kept to 2% - 3% on average over the medium term).</li><li>• Full employment.</li><li>• Economic prosperity and welfare of the Australian people.</li></ul>	<ul style="list-style-type: none"><li>• Setting of the interest rate (i.e. Cash Rate) on overnight loans within the money market.</li></ul>

According to the RBA, the COVID-19 pandemic triggered the largest peacetime contraction in the Australian economy since the Great Depression of the 1930s and required an unprecedented monetary policy response.

With the Cash Rate already at near its lowest point (before the pandemic), the RBA could not meet their economic objectives using conventional monetary policy alone. In March 2020 unconventional monetary policy, including the use of quantitative easing (QE) to purchase government bonds, was introduced (for the first time) into the Australian economy. <sup>2</sup>

## Government Bonds

How does the process for selling and buying government bonds work?

In an article titled “The RBA has begun ‘quantitative easing’. What is it, and how does it work?” published by ABC News Australia, Gareth Hutchens reports that “The Australian Office of Financial Management (AOFM) sells bonds on behalf of the Federal Government (via Treasury).

The bonds are sold to institutional investors (large foreign and local banks) with the promise of making regular interest payments to whoever buys them, along with a repayment of the principal at a set future date.

Those institutional investors then create their own markets for those bonds (called “secondary markets”), by on-selling them to other investors such as pension funds and super funds, hedge funds, insurance companies, private banks and central banks, which want to hold interest-bearing assets in their portfolios.

When the RBA buys Australian Government bonds, it buys them from that secondary market. It is important to point out that the bond purchases by the RBA will have to be repaid by the Government at maturity.”<sup>3</sup>

## Economic Outcomes

In summary, \$230bn of the federal and state government COVID-19 debt has been saved or used to pay off debt. So, effectively the federal government borrowed the money, the RBA printed the money and the Australian citizens who received the money paid off personal debt and saved.

The total government debt in Australia (both federal and state) is \$1.5 trillion. Federal government debt amounts to \$850bn and 30% of that is owed to the RBA which is owned by the Federal Government.

Australia is not alone in this approach to funding pandemic debt. Japan, the UK and the US have enacted similar unconventional monetary policies. None of those central banks would admit to funding the government. Even to pay for the pandemic. The central banks say they are doing it to keep long term interest rates down, along with the cash rate, which they directly control. Consequently, this has also pushed the prices of houses up.<sup>1</sup>

## Economic Risks & Consequences

In an article recently published by the United Nations, Department of Economic and Social Affairs, it is noted that there is growing evidence that beyond the immediate crisis period, asset purchase programs (aka quantitative easing) do little to stimulate economic activity. “They carry macroeconomic risks and have significant distributional consequences.

For one, they appear to have contributed to an under-pricing of risk, supporting the formation of asset price bubbles and fostering a disconnect between financial markets and the real economy.

These programs may also do more harm than good if they de-anchor inflation expectations – a risk that is more pronounced for central banks with lower institutional credibility.

And finally, large-scale asset purchases by central banks tend to disproportionately benefit rich households, thus exacerbating wealth inequality.”<sup>4</sup>

## ECONOMIC INDICATORS

Monetary Policy Indicators <sup>5</sup>	As at 7 Oct 2021
Inflation	3.8%
Unemployment	4.5%

Employment Indicators – Labour Force, Australia <sup>6</sup>				
Seasonally Adjusted Estimates	Aug 2020	Aug 2021	Annual Change (As reported by ABS)	Annual Change % (As reported by ABS)
Employed	12,583,400	13,022,600	396,100	3.1%
Unemployed	921,800	617,100	-298,000	-32.6%
UnemploymentRate	6.8%	4.5%	-2.2pts	n/a
UnderemploymentRate	11.2%	9.3%	-2.0pts	n/a
Participation Rate	64.8%	65.2%	0.2pts	n/a
Monthly Hours Worked in All Jobs	1,683 million	1,714 million	27 million	1.6%

## Changes to Reporting Methodology

According to the ABS, “there has been a range of composite measures produced from ABS Labour Force data to explore aggregate changes in the labour market during the pandemic.

For example, the Commonwealth Treasury has produced a composite measure, referred to as the ‘effective unemployment rate’, which includes unemployed people, plus any unseasonal increase in employed people who still had a job but worked zero hours for ‘economic’ or ‘other reasons’, plus the net change in people in the labour force (compared with a fixed base period), as a proportion of the labour force in the fixed base period.

When calculating the effective unemployment rate for Australia, Commonwealth Treasury are currently using May 2021 as the base month, which was before the lockdowns related to the Delta variant.”<sup>6</sup>

## Employment Sector Analysis – Labour Force, Australia, Detailed<sup>7</sup>

Employment Sector	Aug-20 (000's)	Aug-21 (000's)	Annual Change (000's)
Agriculture, Forestry and Fishing	366	314	-52
Mining	244	268	24
Manufacturing	888	1,002	114
Electricity, Gas, Water and Waste Services	151	144	-7
Construction	1,164	1,125	-38
Wholesale Trade	395	349	-47
Retail Trade	1,253	1,258	5
Accommodation and Food Services	789	818	29
Transport, Postal and Warehousing	611	633	22
Information Media and Telecommunications	197	187	-10
Financial and Insurance Services	486	523	36
Rental, Hiring and Real Estate Services	226	241	15
Professional, Scientific and Technical Services	1,122	1,200	78
Administrative and Support Services	396	406	10
Public Administration and Safety	883	908	25
Education and Training	1,086	1,098	12
Health Care and Social Assistance	1,777	1,875	99
Arts and Recreation Services	211	206	-5
Other Services	443	539	96
<b>Employed Total (As per ABS Data)</b>	<b>12,615</b>	<b>13,014</b>	<b>398</b>

### Observations

Sectors that reported a significant annual change increase:

- Manufacturing
- Health Care and Social Assistance
- Other Services

The Australian Performance of Manufacturing Index (APMI) reports that June 2021 was the highest monthly index result (63.2 points) since the inception of the index in 1992. Results above 50 points indicate expansion, with higher results indicating a faster rate of expansion.

- The food & beverages, machinery & equipment, chemicals and building materials sectors all recorded record highs in June (trend).
- Respondents attributed surging demand to ongoing strong demand particularly from the construction and agricultural industries, government stimulus measures such as the instant asset tax write-off for new machinery and equipment purchases, some supply improvements and a reduction in competition from offshore producers.<sup>8</sup>

It is interesting to note the Australian Performance of Manufacturing Index report the increase in manufacturing being attributed to the surging demand coming from construction and agricultural industries however the ABS reported decreases in the annual labour force within these industries by -3% and -14% respectively.

Since the April 2020 release of Labour Force, Australia statistics, and given the extent of change in Labour Force time series due to COVID-19, the ABS notes that it has temporarily suspended trend series and moved to using forward factors for seasonal adjustment.<sup>7</sup>

## CONTACT AXIS

As super specialists, we have a keen awareness of key economic indicators and have been assisting individuals with growing and protecting their super for over 25 years.

Give us a call on **1800 111 299** or email [super@axisfg.com.au](mailto:super@axisfg.com.au)

## REFERENCES

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