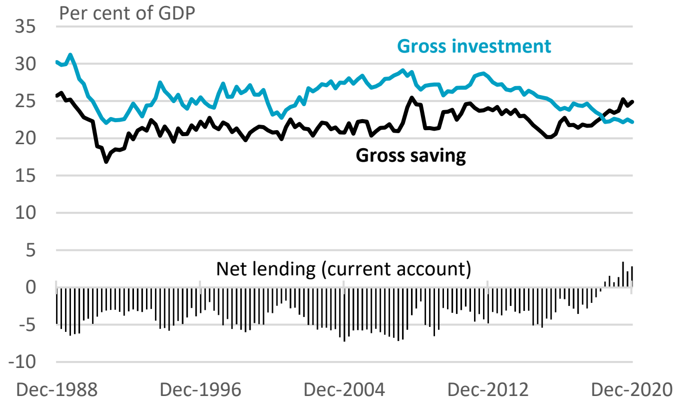
ASFA Economic Snapshot: week ending 1 April 2021

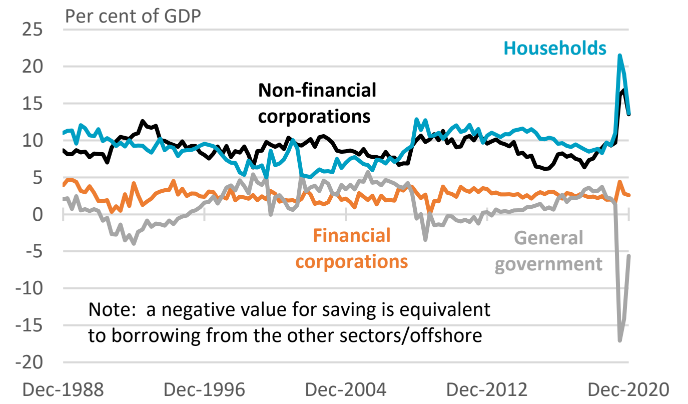
This is a weekly update on the impact of the COVID-19 pandemic on financial and economic conditions, in Australia and globally, and government policy measures to support economic activity and employment.

The current account reflects flows of saving and investment



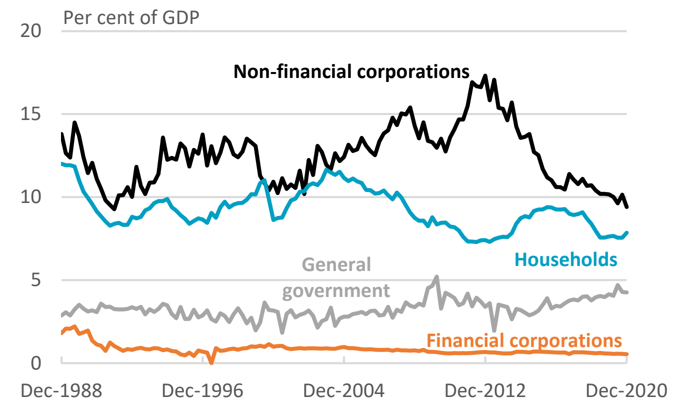
For the whole economy, *gross saving* is total income less total consumption (of goods and services), while *gross investment* is new capital investment. The difference is the amount Australia borrows from (lends to) the rest of the world, which is equivalent to the current account deficit (surplus). During the crisis the current account moved further into surplus, as investment fell and saving rose (as % of GDP).

The crisis led to a surge in private saving …



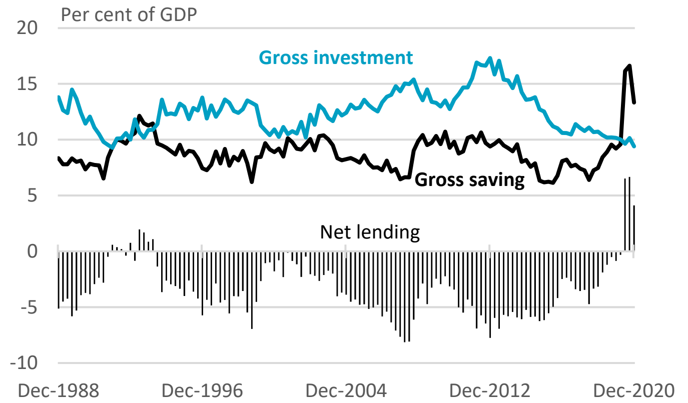
This chart shows *gross saving* by sector (as % of GDP). The crisis saw a sharp rise in saving by households and non-financial corporates. Households cut spending (Panel 5), while incomes for both sectors were affected by government subsidies (Panels 4 & 5). Subsidies were also the key driver of the drop in government saving. With key subsidy programs now ended, their impact on sectoral saving will unwind.

… and weaker corporate investment



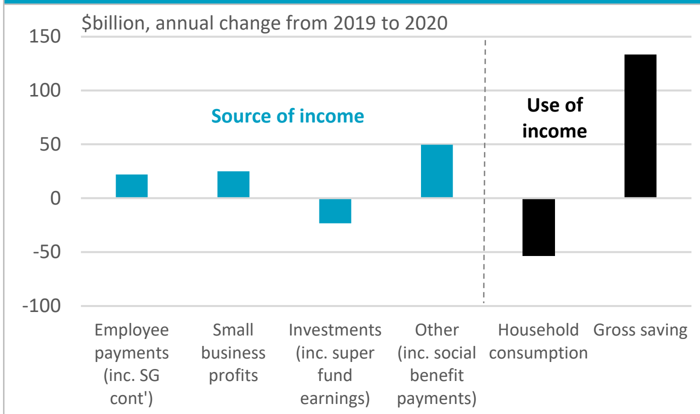
Gross investment by sector shows that prior to the crisis the level of non-financial corporate investment (as % of GDP) was trending down following the end of the long mining boom – and fell further during the crisis. Household investment (dwellings) increased slightly during the crisis, but is still around near-record lows. The trend rise in general government investment is driven by state infrastructure spending.

Corporate investment will be crucial for Australia's recovery



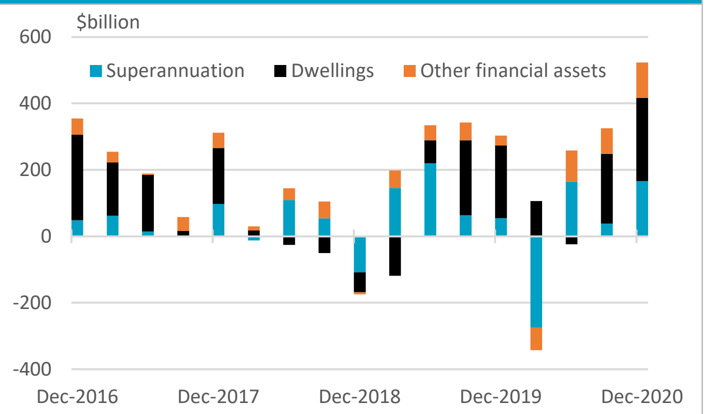
For the non-financial corporate sector this chart shows gross saving and investment. Typically, the sector has been a *net* borrower of funds (from other sectors/offshore). However, even before the crisis, falling investment (as % of GDP) had reduced *net* borrowing to near zero. Looking ahead, the strength and sustainability of Australia's recovery will depend, in large part, on the trajectory of corporate investment.

Household consumption at risk from the end of JobKeeper



For households, this chart shows the annual change in sources/uses of income, where income is consumed or saved. Total income was higher in 2020 than 2019 (with subsidies affecting employee payments and small business profits), while consumption was lower. Looking ahead, the key risk for consumption is the impact of the end of JobKeeper.

Household wealth has recovered



Household wealth fluctuated in 2020. Falls across financial markets in early 2020 drove a drop in superannuation wealth (down $270b in the March quarter), which has since rebounded due to recovering markets and ongoing contributions (up $370b for rest of 2020). Rising house prices in the second half of 2020 drove an increase in housing wealth.

Sources for each panel: (1 to 4) ABS, *National Accounts: Finance and Wealth,* December 2020; (5) ABS, *National Accounts: Finance and Wealth,* December 2020 and ABS, *National Accounts,* December 2020; (6) ABS, *National Accounts: Finance and Wealth,* December 2020.