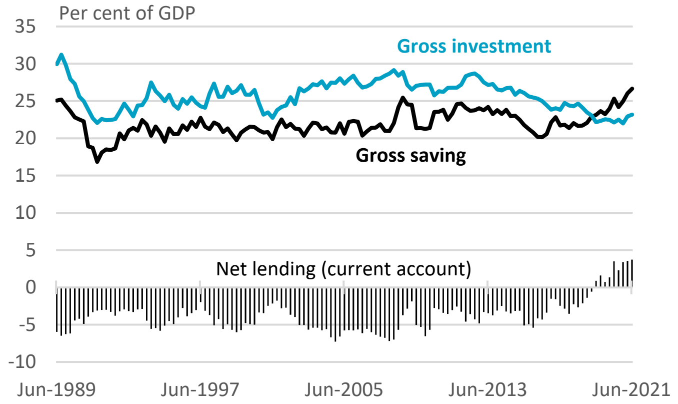
ASFA Economic Snapshot: week ending 24 September 2021

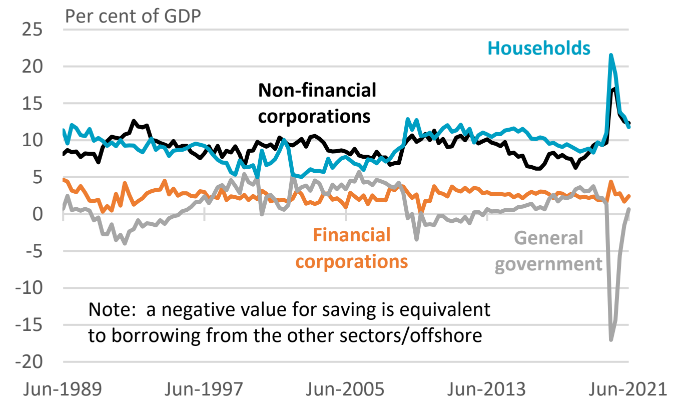
This is a weekly update on the impact of the COVID-19 pandemic on financial and economic conditions, in Australia and globally, and government policy measures to support economic activity and employment.

The current account reflects flows of saving and investment



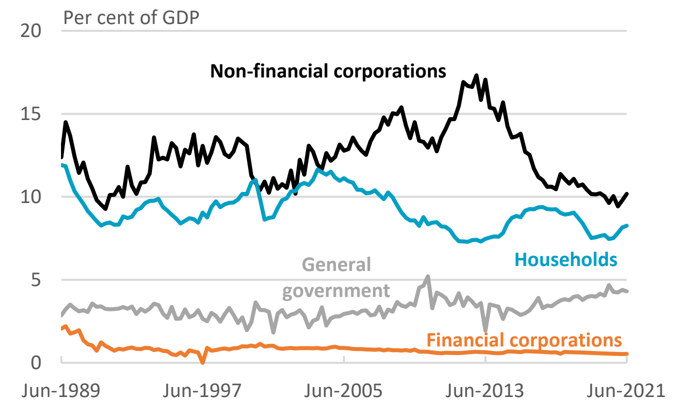
For the whole economy, *gross saving* is total income less total consumption (of goods and services), while *gross investment* is new capital investment. The difference is the amount Australia borrows from (lends to) the rest of the world, which is equivalent to the current account deficit (surplus). 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 …



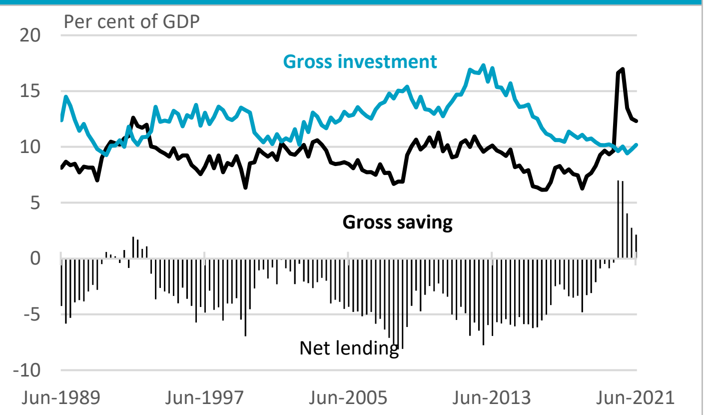
This shows *gross saving* by sector (% of GDP). The 2020-COVID shock saw a sharp rise in saving by households and non-financial corporates. Households cut spending, while incomes for both sectors were boosted by subsidies (a key driver of the drop in government saving). While saving patterns were normalising by mid-2021, the Delta-COVID shock will see similar (but smaller) impacts in next quarter's data.

… and weaker corporate investment



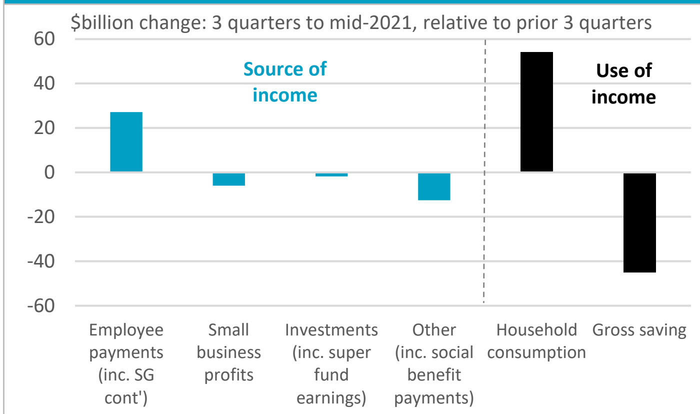
Gross investment by sector shows that the level of non-financial corporate investment (% of GDP) was trending down prior to the crisis (following the end of the long mining boom), and weakened further in early 2020. In contrast, household investment (dwellings) picked up – although is still around near-record lows. The trend rise in general government investment is driven by state infrastructure spending.

Corporate investment will be crucial for Australia's recovery



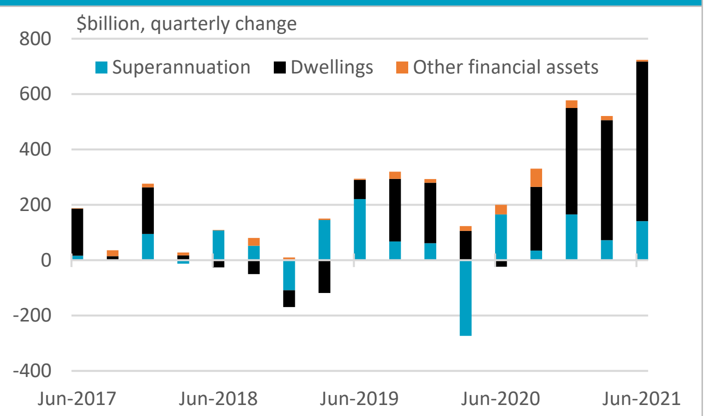
For the non-financial corporate sector this chart shows gross saving and investment. Typically, the sector has been a *net* borrower of funds (from other sectors/offshore). However, even before the crisis, falling investment (as % of GDP) had reduced *net* borrowing to near zero. Looking ahead, the strength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

Household consumption has bounced-back



For households, this shows changes in sources/uses of income – the last 3 quarters relative to the 2020-COVID shock period.* Total income rose as employment bounced back, while subsidies fell. In terms of uses of income, consumption rose, while the amount saved declined. The next quarter's data is likley to show a softening of these trends.

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 a total of $580b to mid-2021). Rising house prices since mid-2020 has driven an increase in housing wealth.

Sources for each panel: (1 to 6) ABS, *National Accounts: Finance and Wealth,* June 2021 and ABS, *National Accounts,* June 2021. *That is, the three-quarter period from December quarter 2020 to June quarter 2021 inclusive, relative to the three-quarter period from March 2020 to September 2020 inclusive.