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The Courier

Information and Advice for NSW Transport Operators

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Economic and Fiscal Update July 2020

Introduction

Yesterday, the Treasurer, Josh Frydenberg, and the Minister for Finance, Mathias Cormann, delivered the Economic and Fiscal Update, July 2020.

This Update provides an overview of the current state of the Australian economy and its outlook to 30 June 2021.

It will help set the framework for the 2020-21 budget to be released in October, five months later than normal.

Ministers Frydenberg and Cormann described the global COVID-19 pandemic as 'a once-in-a-century shock' which 'is placing immense pressure on health systems and economies all around the world'.

They said:

- The Federal Government has allocated \$289 billion, or around 14.6 per cent of 2019-20 GDP to assist households, keep businesses viable and keep Australians in jobs.
- This action, together with large declines in tax receipts, has seen a major deterioration in the budget position.
- Forecast budget deficits are \$85.8 billion in 2019-2020 and \$184.5 billion in 2020-21.
- The world is experiencing its most severe economic crisis since the Great Depression of the 1930s notwithstanding significant support provided by governments.
- Although Australia's real GDP is forecast to have experienced its sharpest fall on record in the June quarter, activity is expected to pick up in the September quarter and beyond, as restrictions ease in most parts of the country.
- The economy is forecast to recover faster than in past recessions due to the unwinding of restrictions but it will be a long road back.
- Unemployment will remain high for some time.
- The economic and fiscal (budget) outlook remains highly uncertain.

Economic Update

Australia's economic performance in 2018-19 and forecasts for 2019-2020 and 2020-21 are summarised in the attached table.

Economic Outlook

Global economic activity is expected to improve slowly as COVID-19 related containment measures are lifted, however recoveries in many economies are forecast to be protracted, with lingering effects on business and community confidence, balance sheets and the labour market.

Australia has outperformed most advanced economies in terms of both health and economic outcomes, thus providing the basis to begin easing restrictions in most states.

However, the recent COVID-19 outbreak in Victoria and the subsequent reintroduction of restrictions, including border closures, is a sobering reminder of the need to remain vigilant.

The pandemic and accompanying containment measures have led to record falls in business investment, household consumption, the labour market demand and trade activity since March.

There are signs that the subsequent unwinding of containment measures has led to a noticeable recovery in economic activity.

While GDP expected to start recovering from the September quarter, activity is expected to remain below its pre-COVID-19 levels for some time as the effects of the shutdown hamper labour market demand and business investment.

The unemployment rate is forecast to peak in the December quarter and will take some time to fall.

The economic outlook in Australia and overseas remains highly uncertain because the nature of the pandemic will shape the nature of the recovery.

Further outbreaks and cautionary behaviour by businesses and households threaten the economic outlook.

Global debt levels may lead to credit tightening and financial instability, thus also slowing the pace of recovery.

Population Growth

Australia's rate of population growth is expected to fall to 1.2 per cent in 2019-20.

Population growth is forecast at 0.6 per cent in 2020-21, the lowest annual rate of growth since 1916-17.

The deterioration in the rate of population growth is largely due falling immigration, however, birth rates are also expected to fall.

Comment from the Secretary/Treasurer

It is prudent for the government of the day to provide an update on the state of the economy and the short term outlook, no matter how robust its assumptions.

On this occasion, assumptions underpinning the economic outlook are more uncertain than normal because, as a community, we are dealing with a health crisis which is unpredictable and very profound in terms of impact.

The Federal Government assumes the Victorian outbreak will be controlled quickly and international borders will reopen on 1 January 2021.

If the Victorian outbreak is not controlled quickly, if similar outbreaks flare up elsewhere or if there is any delay in reopening international borders, this recession will be deeper than this Update suggests and the recovery from it will take longer.

Measures taken to shut down sectors of the economy affect the supply side of the economy more than the demand side.

If a business or the industry it is in shuts or is on life support, that adversely affects the demand for transport services.

At the same time, if consumers can't spend money on entertainment or overseas holidays, it is often redirected elsewhere as is transport demand.

Population growth underpins the demand for transport services because all of us need the essentials of life and more.

Because the rate of increase in population growth is falling the rate of increase in transport services driven by this will still be there but it will not be as great.

Let's hope the number of COVID-19 cases in Victoria and in NSW falls soon, leading to a more sustainable opening up of the economy.

Let's also hope further stimulus measures provided by governments are well-targeted to generate economic activity, grow demand for transport services and deliver better transport infrastructure where it is needed.

Australia's Economic Performance

Economic Indicator	Outcome 2018-19 (%)	Forecast 2019-2020 (%)	Forecast 2020-21 (%)
Real Gross Domestic Product	2.0	-0.25	-2.5
Household consumption	2.0	-2.5	-1.25
Business investment			
Mining	-9.4	4.0	9.5
Non-mining	1.8	-9.0	-19.5
Total business investment	-0.9	-6.0	-12.5
Final demand			
Private sector	1.0	-3.5	-4.0
Public sector	4.4	5.0	4.5
Gross national expenditure	1.6	-1.5	-1.75
Exports	4.0	-1.5	-6.5
Imports	0.3	-8.0	-6.0
Consumer Price Index	1.6	-0.25	1.25
Wage price index	2.3	1.75	1.25
Employment	2.5	-4.4	1.0
Unemployment rate	5.2	7.0	8.75