ECONOMIC OUTLOOK AND FORECASTS AMID COVID-19

BANKSA ECONOMICS

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CONTENTS

OVERVIEW

- The spread of and measures to contain COVID-19 has presented significant challenges for all of us.
- It is also an environment which is significantly uncertain, as to when the virus can be contained, and how long social distancing measures will last for. There is also the uncertainty over what other measures the Federal government and the Reserve Bank (RBA) could provide. As a result, it has made the job of forecasting the economy more variable than usual.
- In this pack, we provide our latest forecasts, while highlighting the risks, and present some information on past recessions for comparison.
- A recession in Australia is currently unfolding.
- The range of stimulus measures from the Federal government, Reserve Bank and State and territory governments will help in keeping otherwise viable businesses afloat during the crisis. However, these measures cannot prevent a recession from materialising.
- We are anticipating three consecutive quarters of falls in Australian GDP over the March quarter to the September quarter of 2020, before a recovery begins in the December quarter.
- Our central estimate is for the unemployment rate to be 9% in the June quarter of this year; previously, prior to the JobKeeper payment announcement on March 30, we expected the peak to be in the double digits. Our range of forecasts have a peak in the unemployment rate of 7.8 -14%.
- In making these forecasts, we are assuming that infections peak around the middle of this year; this is a very fluid forecast. There is a risk the peak in infections could come later and there is a risk of second and subsequent waves of COVID-19, including potential mutations to the virus during these additional waves.

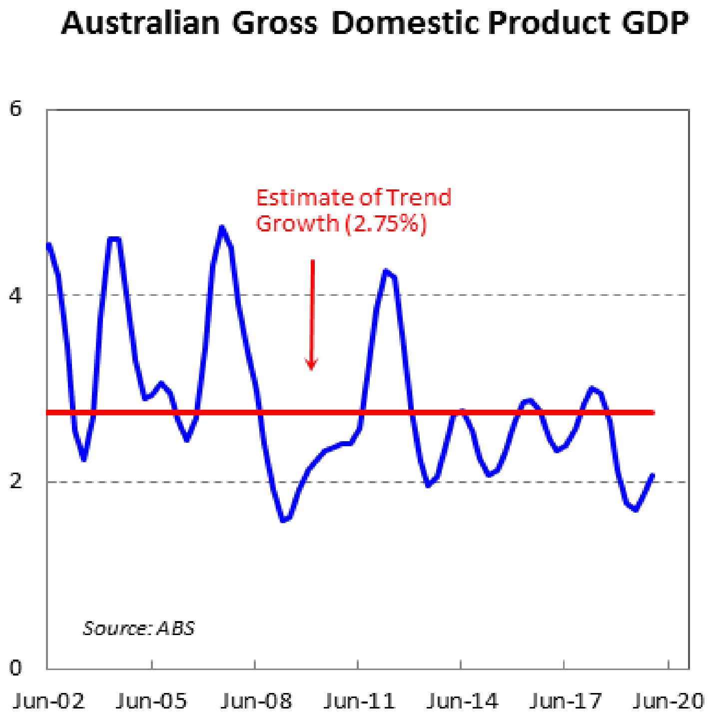
A BIT ABOUT FORECASTING

- As economists, part of our role involves analysing data and marrying anecdotes with the data in order to make predictions about the future economic landscape.
- The COVID-19 crisis the world and Australia is currently experiencing is an external shock and unprecedented in its nature.
- A high level of uncertainty is therefore accompanying the crisis.
- Further, the situation is still evolving with the number of confirmed infections around the world still rising and showing no signs yet of a peak approaching.
- There also remains a lot we still do not know about COVID-19.
- Given this backdrop, forecasting is an exercise fraught with a much greater degree of variability than usual.
- But as economists we must press on and continue forecasting.
- Not surprisingly, estimates from many economists are varying widely, more so than typically is the case.
- The idea of this pack is to provide businesses with some bones as to be able to help with their own planning of scenarios in the period ahead.
- It includes an examination of past recessions and downturns in Australia even though the nature of the current recession unfolding is driven by different factors and despite the Australian economy having changed considerably over the past few decades.
- Examinations of historical recessions and downturns still have a place in any analysis of the future, albeit a smaller place than usual.
- We published preliminary forecasts for key economic variables on March 20. Since then, the Federal government has announced two further stimulus packages on March 22 and March 30, respectively. The latest package is the government’s largest and includes the JobKeeper Payment (JKP) policy. Furthermore, since our last forecasts were published, further restrictions on social distancing have been implemented. The combination of these developments warrants a change to our forecasts.

ECONOMIC GROWTH (GDP) FORECASTS

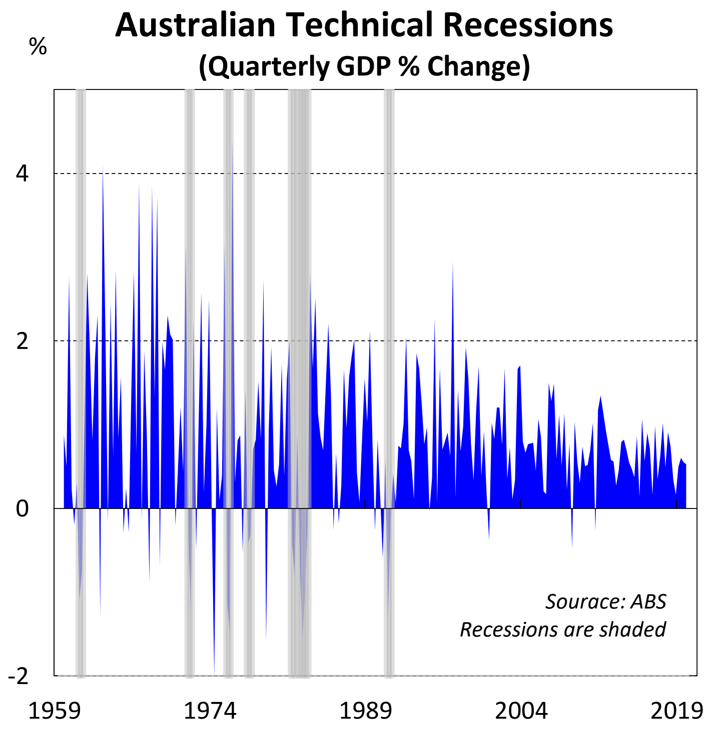
- Economic activity is measured by gross domestic product (GDP) in Australia.
- A technical recession is defined as two consecutive quarters or more of a contraction in activity.
- The last recession in Australia was in 1991, almost 30 years ago. Indeed, Australia’s run without a recession is its longest and also the longest in the world.
- During the global financial crisis (GFC), the Australian economy experienced a slowdown in economic activity with one contraction in economic activity recorded in Q4 2008 of 0.5%. As it was not 2 or more quarters, this slowdown was not classified as a recession.
- Ahead of the outbreak of COVID-19 in Australia, the latest GDP data revealed the Australian economy had started to turn a corner, underpinned by a recovery in housing and ongoing infrastructure spending.
- However, economic growth was still languishing well below the potential growth rate of 2.75%. Indeed, annual growth for the December quarter was 2.2%.
- The Australian jobs market was also characterised by an unemployment rate that was above the rate consistent with full employment of 4.5%. In December 2019, the unemployment rate was 5.1%.
- So ahead of the outbreak of COVID-19 we can say the Australian economy was on a weak footing.

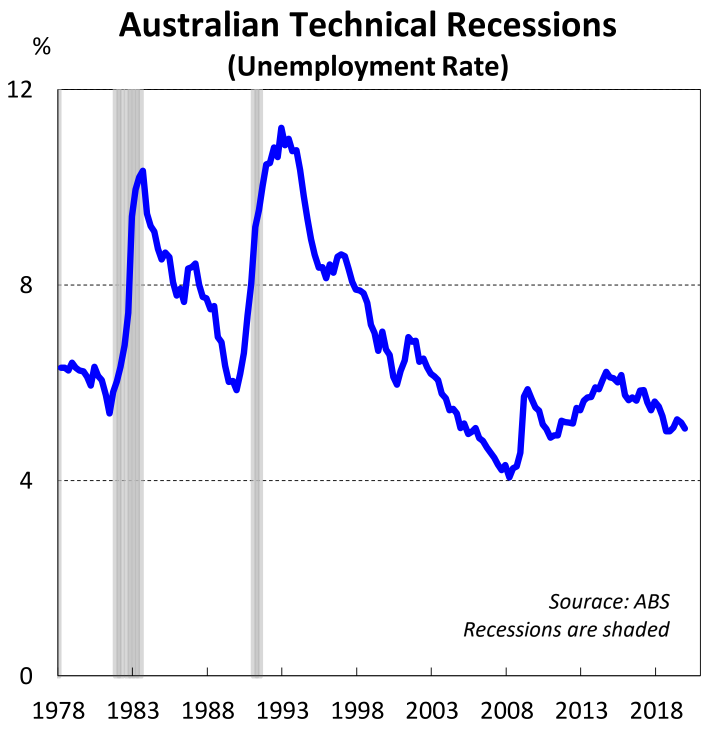
ECONOMIC GROWTH (GDP) FORECASTS continued



- With COVID-19 infections continuing to rise in Australia and with social-distancing restrictions tightening, we are now expecting a deeper contraction in economic activity.
- A recession is currently unfolding. The range of stimulus measures from the Federal government, Reserve Bank and State and territory governments will help in keeping otherwise viable businesses afloat during the crisis. However, these measures cannot prevent a recession from materialising.
- We are anticipating three consecutive quarters of falls in Australian GDP over the March quarter to the September quarter of 2020, before a recovery begins in the December quarter.
- In making these forecasts, we are assuming that infections peak around the middle of this year; this is a very fluid forecast. There is a risk the peak in infections could come later and there is a risk of second and subsequent waves of COVID-19, including potential mutations to the virus during these additional waves.
- <u>We expect GDP to show contractions of 0.7% in Q1, 8.5% in Q2 and 0.6% in Q3. A lift in GDP for Q4 is expected of 5.2%.</u>
- <u>Through 2020, we expect the economy to contract by 5.0%.</u>
- Please also refer to slide 4 where we highlight the risks around forecasting in the current economic environment.

PAST EXPERIENCES





- Prior to the early-1990s recession, Australia experienced technical recessions relatively frequently.
- They were typified by high unemployment, rapid falls in output and often were accompanied by high inflation.
- Australia has not experienced a technical recession since 1991.

AUSTRALIAN RECESSIONS THROUGHOUT RECENT HISTORY

Australian Recessions

(GDP, unemployment rate outcomes)

Start	End	Length, quarters	Cumulative GDP change, %	Unemployment rate trough, % (date)		Unemployment rate peak, % (date)	
Q2 1961	Q3 1961	2	-1.8				
Q4 1971	Q1 1972	2	-1.5	1.4	(Q3 1970)	3.1	(Q1 1973)
Q3 1975	Q4 1975	2	-2.6	1.8	(Q3 1973)	5.7	(Q3 1977)
Q3 1977	Q4 1977	2	-0.7	4.4	(Q2 1976)	6.6	(Q1 1978)
Q4 1981*	Q2 1983	7	-4.7	5.6	(Feb 1981)	10.5	(Jul 1983)
Q1 1991	Q2 1991	2	-1.4	5.8	(Nov 1989)	11.1	(Nov 1992)
Q4 2007**	Q2 2009	6	+3.7	4.0	(Feb 2008)	5.9	(Jun 2009)

Source: ABS. National ABS labour force survey began 1966. Labour force data before 1978 is quarterly, in original terms, not seasonally adjusted and is not strictly comparable with data after that period. It is intended to provide a guide. Unemployment rate peak and trough are for the cycle.

**The early 1980's recession included a contraction in 6 of the 7 quarters.*

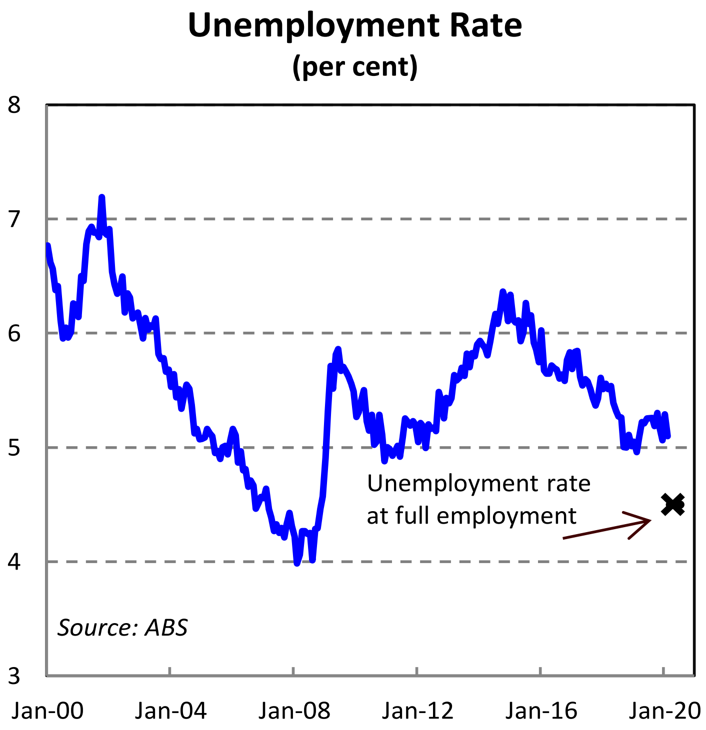
***Australia did not experience a technical recession during the GFC. The start and end dates listed are the official recession dates for the US.*

- Since 1959, recessions in Australia have seen an average cumulative fall in output of 2.1%.
- They have generally been short, but sharp, with the unemployment rate generally doubling.

NOW-AND-THEN

- Comparing historical recessions is useful to provide perspective on the scale of recessions in Australia.
- Comparisons over history should be done with caution: Australia's economy and society have evolved drastically over the years. A series of deep structural reforms mean that economy today is barely recognisable compared with its previous structure.
- Since the Australian Bureau of Statistics (ABS) began publishing national accounts data in 1959, Australia's economy has transitioned from one based largely on agriculture and manufacturing to minerals exports and services today.
- There were a series of significant economic and societal reforms between 1970-1990.
- Over this period, there has also been marked shifts in institutions, the structure of the labour market and the global economy as a whole.
- The modern Australian economy has a much more flexible labour market and is much more integrated in the global environment.
- A more liberalised currency has provided an additional "shock absorber" to the economy and the increase in global demand for resources such as iron ore and coal has added additional wealth to the economy.

UNEMPLOYMENT FORECASTS



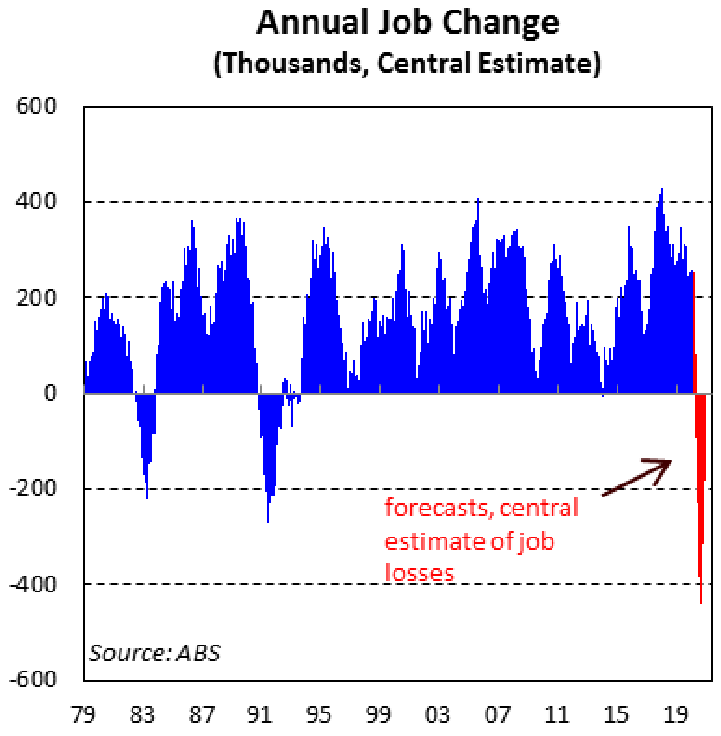
- The stimulus package announced by the Federal government on Monday 30 March was a game changer for the jobs market. This package launched a wage subsidy known as the JobKeeper payment.
- It is a game changer because without it we would expect the unemployment rate to peak at a higher rate – in the high teens.
- We have taken a bottom-up approach to forecasting the potential job losses over this crisis. That is, we have considered industry by industry.
- A recent business one-off survey published by the Australian Bureau of Statistics (ABS) gave us enhanced clarity around the industries most impacted by COVID-19. These included accommodation & food services, arts & recreation and retail trade.
- Businesses significantly impacted by the COVID-19 outbreak will be able to access a subsidy from the government to continue paying their employees.
- We now expect <u>the peak in the unemployment rate to be 9% in the June quarter of this year</u>; previously, prior to the JobKeeper payment announcement, we expected the peak to be in the double digits.
- However, as highlighted at the start of this pack, forecasts are subject to greater variability than usual.
- Therefore<u>, to help businesses plan, we have also estimated a range for the unemployment rate</u>. That is, a range that it is more likely to fall in with a greater certainty, although there is still a risk to fall outside of this range.

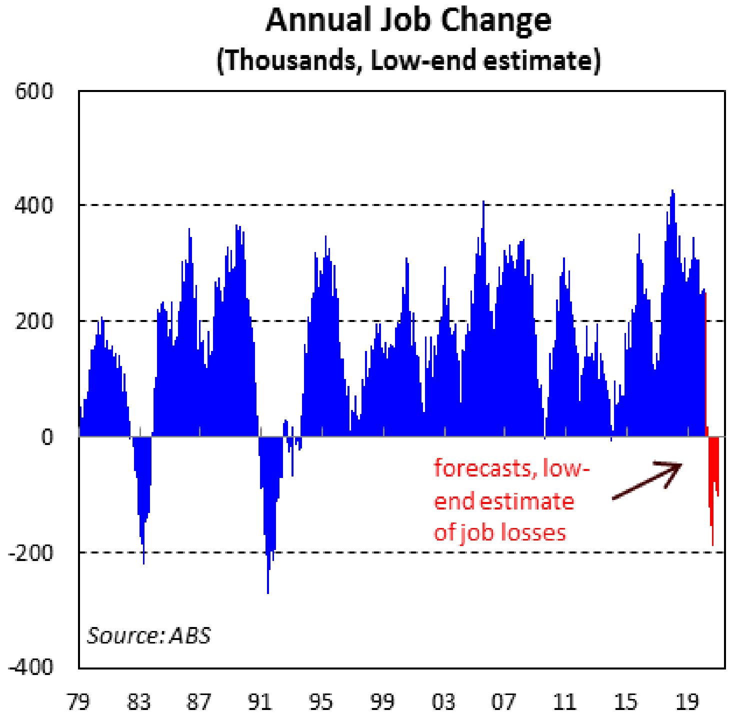
RANGE OF SCENARIOS FOR THE LABOUR MARKET

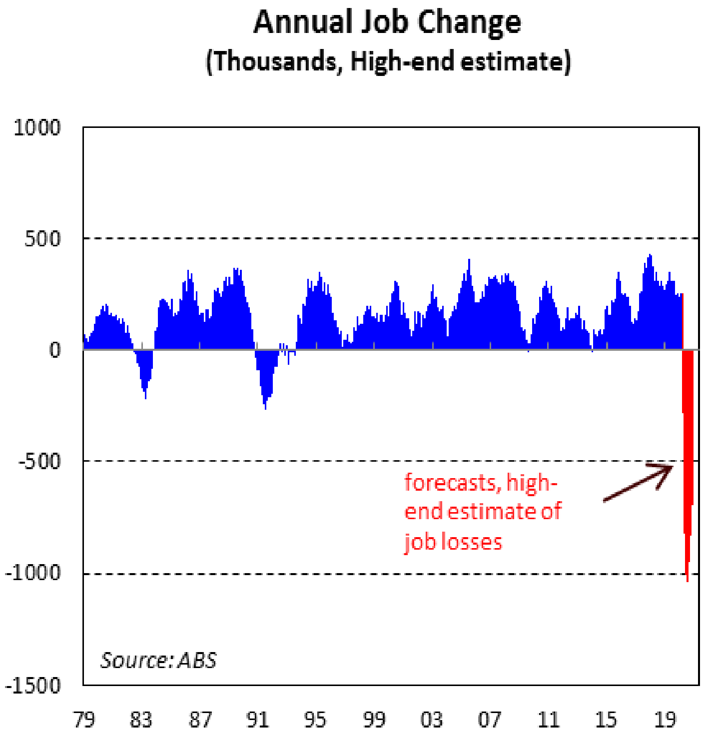
	Low-end Estimate	High-end Estimate
Total Estimated net jobs lost	300k	1.2 million
Peak in Unemployment Rate	7.8%	14.0%

- We estimate that the unemployment rate will peak within the range of 7.8 -14%.
- In the above scenarios we make the following assumptions:
  - Population growth will slow significantly, as migration is ground to a halt.
  - The bulk of job losses occur in the June quarter and only picks up partially over the December quarter.
- The range of estimates reflect the variability surrounding forecasts. It mostly depends on the level of take up of the government's job-keeper payment and the timeframe in which COVID-19 can be contained.
- The low-end estimate would entail job losses similar in scale to the 1990-91 recession, but at a faster pace.
- The high-end estimate would reflect employment losses of around 9% of those employed as at February 2020.
- In the current environment, we feel it is useful to also provide a range of forecasts.

SIZEABLE JOB LOSSES EXPECTED







- In the range of likely scenarios, job losses are expected to sharp, and extensive compared with past recessions.
- The government is providing significant support for those who have lost incomes due to COVID-19, but the loss of economic activity, lower incomes and less spending will feed through to job losses indirectly across the economy.

A GAME CHANGER – THE JOBKEEPER PAYMENT

- Under the JobKeeper payment, businesses significantly impacted by the coronavirus outbreak will be able to access a subsidy from the government to continue paying their employees.
- This assistance will help businesses to keep employees employed and/or on their books and re-start when the crisis is over.
- The JobKeeper Payment is a temporary scheme open to businesses impacted by the coronavirus.
- The JobKeeper Payment will also be available to the self-employed.
- The government will provide $1,500 per fortnight per employee for up to 6 months.
- The JobKeeper Payment will support employers to maintain their connection to their employees. These connections will enable business to reactivate their operations quickly – without having to rehire staff – when the crisis is over.
- The subsidy will start on 30 March 2020. The first payments to be received by employers in the first week of May.
- Employers (including non-for-profits) will be eligible for the subsidy if:
  - their business has a turnover of less than $1 billion and their turnover will be reduced by more than 30% relative to a comparable period a year ago (of at least a month); or
  - their business has a turnover of $1 billion or more and their turnover will be reduced by more than 50% relative to a comparable period a year ago (of at least a month); and
  - the business is not subject to the major bank levy.
- Eligible employers will receive the payment for each eligible employee that was on their books on 1 March 2020 and continues to be engaged by that employer – including full-time, part-time, long-term casuals and stood down employees. Casual employees eligible for the JobKeeper payment are those employees who have been with their employer on a regular basis for at least the previous 12 months as at 1 March 2020.
- For our comprehensive pack on the stimulus measures announced, please contact us.

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