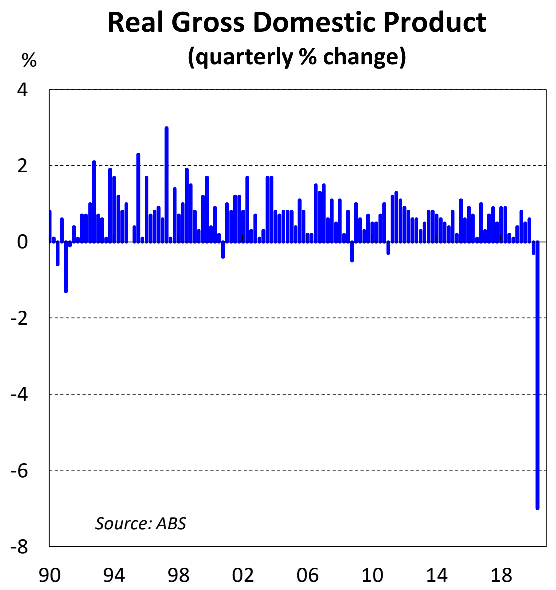
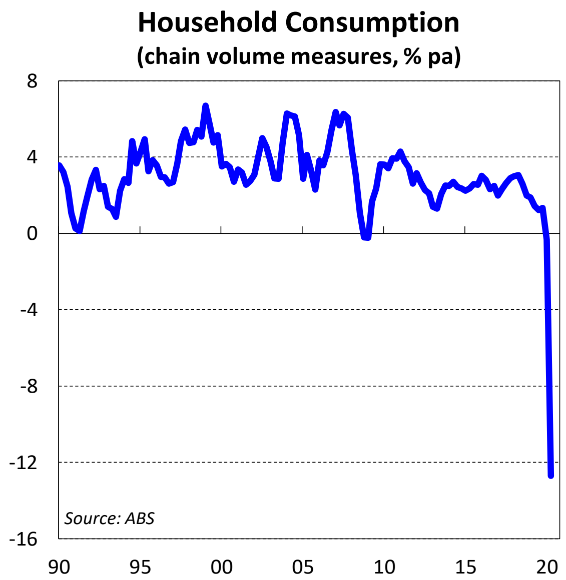
Data Snapshot

Wednesday, 2 September 2020

National Accounts - GDP
The COVID Recession Hits Home

- **The Australian economy contracted 7.0% over the June quarter. It was the largest in the history of the series, which began in 1959.**
- **The sizeable contraction in the quarter followed a 0.3% contraction in the March quarter, which confirms that the Australian economy was in recession over the first half of 2020. It is the first recession since the early 90s.**
- **As anticipated, household spending was curtailed significantly as the restrictions prevented consumers from eating out and travelling. Business investment was also weaker, as firms shifted their priorities to preserving cash and adjusting to new social distancing rules.**
- **We also saw the significance of government assistance in preventing a fall in household incomes and providing support to businesses. These support measures will help the economy to a faster recovery as concerns regarding the pandemic subsides. These outcomes highlight the importance of further government support while restrictions remain in place in parts of the country and confidence remains weak while COVID-19 cases remain within the community.**
- **Given the lift in COVID-19 cases in NSW and Victoria over the September quarter, and the restrictions imposed in Victoria, economic growth may not return until the December quarter of the year. The recovery path will be uncertain and uneven.**





Key Themes & Summary:

With the nation under tight restrictions to stem the spread of COVID-19 in late March to mid-May, we had anticipated a sharp contraction in the economy over the June quarter. The 7.0% decline in GDP over the June quarter, was the largest in the history of the series, which began in 1959.

It took the annual rate from 1.6% in the March quarter to -6.3% in the June quarter, also the largest annual decline in the history of the series.

The sizeable contraction in the quarter followed a 0.3% contraction in the March quarter, which confirms that the Australian economy was in recession over the first half of 2020. It was the first recession since the early 90s.

There were major shifts in economic activity due to restrictions on movement and the large hit to confidence. As anticipated, household spending was curtailed significantly as the restrictions prevented consumers from eating out and travelling. Business investment was also weaker, as firms shifted their priorities to preserving cash and adjusting to new social distancing rules.

We also saw the significance of government assistance in preventing a bigger fall in household incomes and providing support to businesses. These support measures will help the economy to a faster recovery when concerns regarding the pandemic subsides.

These outcomes highlight the importance of ongoing government support, given that COVID-19 cases remain in the community, particularly in NSW and Victoria. New infections in the community are bringing the threat of further restrictions and are having a negative impact on confidence.

The lift in COVID-19 cases in Victoria and the associated restrictions could delay a recovery in activity across the country, even though economic activity is recovering in other States. As such, economic growth may not return until the December quarter of this year.

There remains significant uncertainty about the outlook. While we expect a modest recovery over the course of next year, we do not expect that the level of economic activity will return to pre-pandemic levels, as some forms of social distancing are likely to remain in place, and international borders are likely to remain restricted.

In the above scenario, we are assuming that new COVID-19 cases will remain under control. There continues to be a risk that cases rise once again and bring with it the threat of new restrictions and another dent to confidence. Alternatively, advances in treatments and vaccines could be promising and improved contact tracing and testing capabilities could also result in a faster-than-expected recovery in confidence and economic activity.

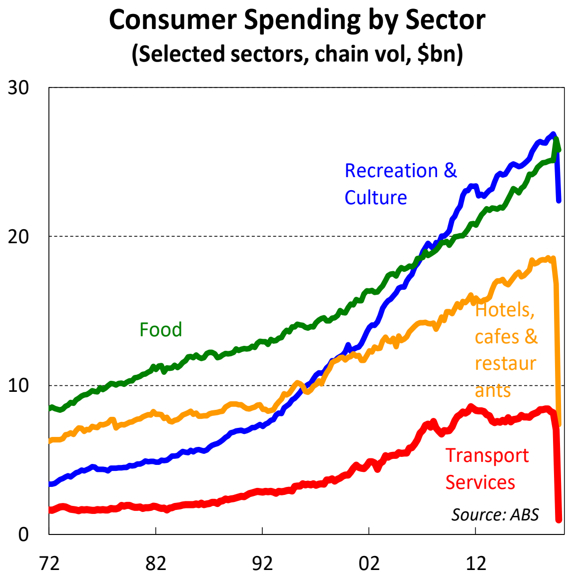
GDP Expenditure Measure:

The economic cost of COVID-19 was starkly shown in today’s national accounts. Restrictions on movement and business operations flowed through to sharp declines in household spending, business investment and investment in dwellings during the June quarter. While government spending rose, it was insufficient to outweigh the decline in private sector spending.

Household consumption fell 12.1% in the quarter, the largest quarterly decline since the series began in 1959. Household consumption fell 2.6% over the course of 2019-20 the first annual decline in the history of the series.

Spending on discretionary items fell 25.0%, as consumers faced massive uncertainty while spending on essential items fell a ‘modest’ 4.2%. These are tough times for many.

Services were hit the hardest, declining 17.6% in the quarter. Meanwhile, consumption of goods fell 2.8%.



Given the range of restrictions on activity it is not surprising the largest declines in spending were in the areas of transport services (-85.9%) and hotels, cafes and restaurants (-56.1%). Spending on recreation and cultural activities fell 15.3%. These were also record-sized declines.

There were increases in spending on alcoholic beverages (13.0%) possibly reflecting rising stress in the community while spending on furnishings and household equipment rose 9.5% in the quarter as people set up to work from home.

Uncertainty with regards to the outlook continued to negatively impact **business spending**. Total private business investment fell a further 4.8% in the quarter to be down 6.2% over the year. According to the survey recently published by the Australian Bureau of Statistics (ABS) capex spending plans for 2020-21 remain weak with a 4.9% decline expected.

New dwelling investment declined a further 7.3% in the June quarter after falling 2.5% in the March quarter. The decline in the June quarter was the largest since the December quarter of 2000 and reflects both the COVID-19 restrictions as well as the high level of uncertainty regarding the wider economic outlook.

Government consumption spending rose a solid 2.9% in the quarter but was never going to counterbalance the record drop of 12.1% in household spending. As a result, overall consumption spending fell 8.1% to be down -7.5% over the year.

As in the March quarter, government consumption spending was boosted by its response to COVID-19. Government consumption spending in the June quarter was strongest in Queensland (4.6%), the ACT (4.4%) and Western Australia (3.5%).

As suggested above, overall, demand in the economy weakened significantly. **Domestic demand** fell 7.4% in the June quarter, the largest fall since the series began in 1959. These are very serious numbers!

Selected Expenditure Items on GDP, Chain Volume Measures

	Quarterly % Change
Household Consumption	-12.1
Public Consumption	2.9
Dwelling Investment	-6.8
Private Business Investment	-4.8
Public Investment	1.0
	Contribution to GDP ppt
Inventories	-0.6
Net Exports	1.1

Net exports leant against the storm of declines and contributed 1.0 percentage point to 'growth' in the quarter. This reflected imports falling significantly more than exports. There was a 2.4% decline in the import of goods and a 50.5% decline in the imports of services. Travel and tourism have been badly hit by the restrictions on movement.

Exports of goods and services fell 6.7% in the June quarter.

GDP Income Measure:

When excluding the impact of prices, GDP based on the incomes measure fell 7.2% in the June quarter.

Nominal GDP growth, as measured by incomes fell 7.5%, the largest decline on record. The annual rate fell from 3.1% in the March quarter to -5.8% in the June quarter, also the weakest on record, and the first annual decline in nominal incomes since 1991.

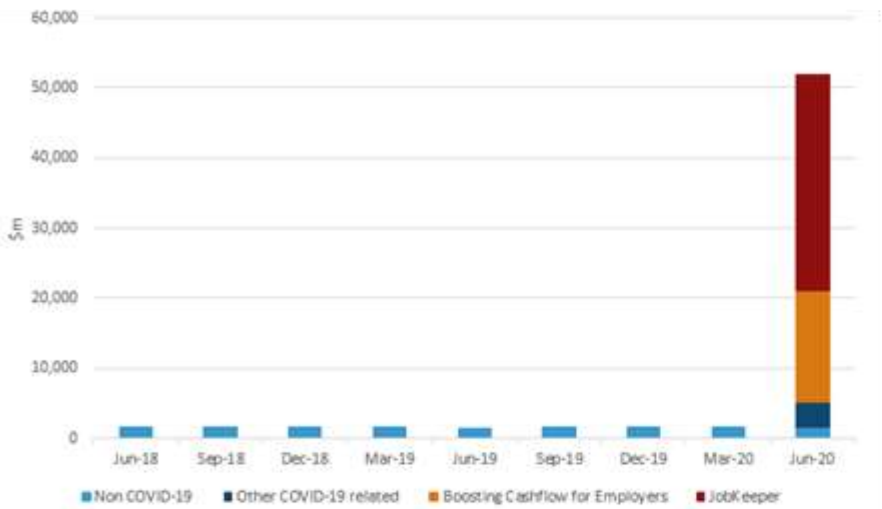
The large-scale fall in incomes was expected given the major pullback in demand over the quarter.

Employee wages (compensation of employees) were down 2.3% in the quarter. It was the largest decline on record, but it was a muted fall considering the major loss of employment in the quarter. An indication of how much work was lost in the quarter is provided by the hours worked measure, which fell by a whopping 9.8% in the June quarter. It highlights the significant impact of JobKeeper and other government measures in supporting household incomes.

Government support also boosted company incomes through subsidies, with profits from private non-financial corporations lifting 15.3% in the quarter. The increase in profits was driven by the construction, retail and professional, scientific and technical services sectors.

Nonetheless, the "increase" in company profits was offset by a 112% fall in taxes less subsidies on production and imports. Subsidies paid out to firms was more than the tax intake over the quarter for the first time on record.

Government Support for Business in Response to COVID-19



Source: ABS

The increase in government assistance was substantial. A total of $52 billion was spent in government support for businesses in the quarter, which included $31 billion for the JobKeeper wage subsidy and $16.0 billion boosting Cashflow for Employers' policy.

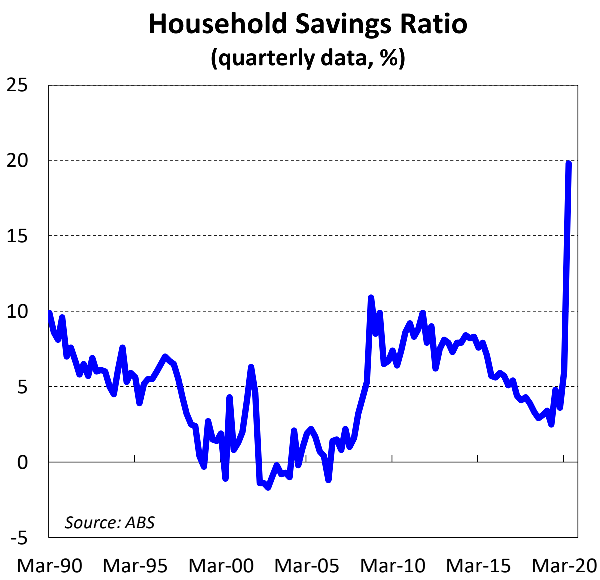
With household incomes being boosted by social assistance, and consumers pulling back on spending significantly, household incomes have fallen much less than consumption. Consequently, household savings has jumped significantly. The **household savings ratio** jumped from 6.0% in the March quarter to 19.8% in the June quarter and is the highest since the June quarter of 1974. The 13.8 percentage point jump over the June quarter dwarfs the jump in household savings witnessed during the GFC, when it rose 9.3 percentage points over 2008. There was also additional income being boosted by the initiative for early access to superannuation.

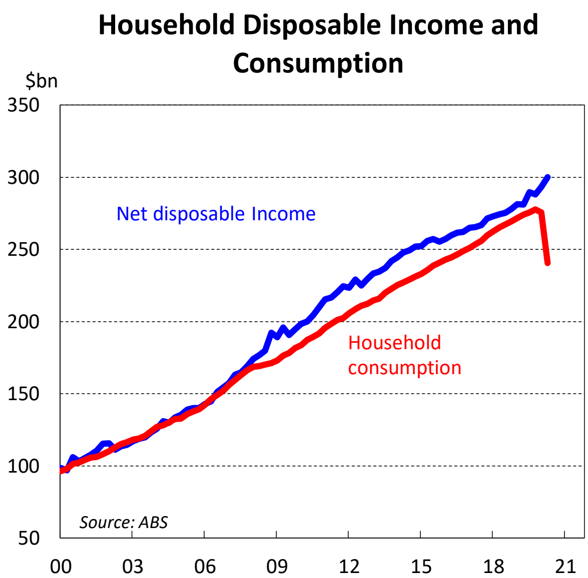
The Australian Bureau of Statistics (ABS) further highlights the importance of government support in supporting incomes during this pandemic. It reports that if COVID-19-related government support payments were excluded, the household savings ratio would have fallen to 4.6%, assuming household consumption was unchanged.

The boost to the household savings ratio will be important in shaping the economic recovery. While social distancing restrictions remain in place and confidence remains subdued with COVID-19 cases within the community, spending is likely to remain below par. However, when concerns regarding the pandemic subsides, the support to incomes will encourage a faster recovery and bring down unemployment quicker.

The **terms of trade** (or the ratio of export prices to import prices) edged up 0.2% in the June quarter. Commodity prices did weaken through April as lockdown measures were imposed across the world, but then recovered in subsequent months. Prices of iron ore have been especially resilient and have risen to around US$124 a tonne, the highest since 2014.

A strong V-shaped recovery in China and spending on infrastructure has been extremely supportive for demand of commodities, particularly for iron ore.





State Final Demand:

All States and Territories saw final demand decline during the June quarter. Government consumption spending made positive contributions in most cases, but cuts to household consumption spending were experienced across the nation. COVID-19 did not spare any of the States or Territories.

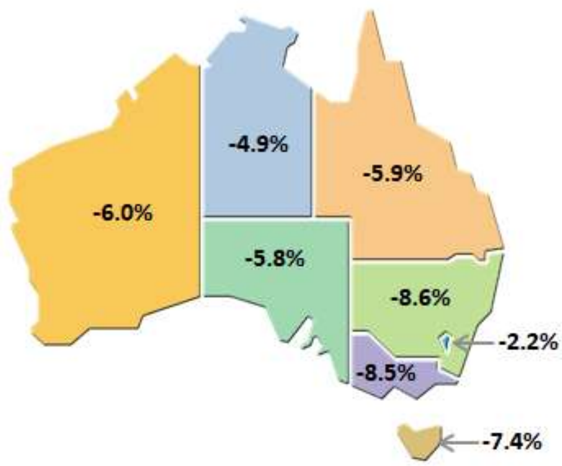
New South Wales (-8.6%) recorded the largest fall. Household consumption in the State fell by 13.3%, as consumers decreased expenditure on recreation & culture, transport and on hotels, cafes & restaurants. COVID-19 restrictions impacted heavily upon each these industries. There was a 2.9% lift in government consumption spending but this rise paled by comparison to the decline in private spending. Contributing towards the weakness of demand in NSW was a 7.6% decline in dwelling investment and a 12.4% fall in investment in machinery and equipment in the transport and construction industries.

There were also significant declines in aggregate demand in Victoria (-8.5%) and Tasmania (-7.4%). Like NSW, Victoria saw a serious, 13.7% decline in household spending which could not be offset by a 1.6% increase in government consumption expenditure. The COVID-19 restriction heavily impacted on Victorian hotels, cafes and restaurants.

Tasmania's weakness followed a similar pattern to the other States. Household spending was down 12.5%, partially offset by a 3.1% lift in government spending. Tasmanian hotels, cafes and restaurants suffered from a 62.7% decline in activity while spending on transport was down 69.9% in the quarter. Private investment in dwellings was down 3.4%, but the ABS noted that the existing level of work on new houses remains high.

Western Australia saw State final demand decline 6.0% in the June quarter. The pattern by sector was similar to other States with a 10.6% decline in transport services, recreation and culture and hotels, cafes & restaurants. WA did see a 3.5% increase in investment in machinery and equipment via the mining sector and was also assisted by a 3.5% increase in government consumption spending on COVID-19 related items.

State Final Demand
(quarterly % change, June quarter 2020)



Source: ABS

Queensland recorded a 5.9% decline in State final demand with household consumption 9.6% lower in the June quarter while private investment fell 7.6%. Investment in dwelling construction fell 7.1% with weakness in demand due to general economic uncertainty and the COVID-19 restrictions.

South Australia's State final demand fell 5.8% in the quarter driven by a 9.9% decline in household spending and a 3.1% fall in private capital formation, part of which was due to a decline in construction activity in aged care and accommodation projects. Restrictions on auctions and open houses saw a reduction in spending associated with home purchases.

State final demand fell 4.9% in the Northern Territory. In comparison to other States and

Territories, its decline in private household consumption spending was 'mild' but still painfully significant at 7.5%. Interestingly, government consumption spending fell (-0.3%) in the Territory while it rose in in all other States and Territories. The ABS noted that activity in the Northern Territory was assisted by a 20.4% increase in dwelling investment driven by an increase in alterations and additions due by territory recovery policies.

While State final demand fell 2.2% in the ACT it was the 'mildest' decline. That said, household consumption fell 11.6% counterbalanced in part by a 4.4% increase in government consumption expenditure associated with employee expenses in response to the COVID-19 pandemic.

On an annual basis, State final demand in several States and Territories was the weakest on record. Over the year, NSW (-9.1%), Victoria (-8.3%), Tasmania (-6.8%), South Australia (-6.7%) and Queensland (-5.2%) have never seen demand this weak. Western Australia (-4.0%) and the Northern Territory (-6.3%) while seeing significant weakness, have both experienced weaker annual outcomes, mostly associated with volatility in the resources sector. The ACT saw state final demand rise 2.0% over the year.

Industry Break Down:

Industry Gross Value Added, Chain Volume Measures

Ranked by Quarterly % Change

By Industry Sector	Quarterly % Change	Annual % Change
Public admin & safety	0.9	5.4
Financial & insurance services	0.7	3.0
Education & training	0.4	2.0
Mining	0.2	1.1
Electricity, gas, water & waste services	-1.5	-3.8
Agriculture, forestry & fishing	-1.9	-6.3
Retail Trade	-4.5	-2.8
Wholesale trade	-5.9	-4.8
Professional, scientific & technical services	-6.2	-3.6
Healthcare & social assistance	-7.9	-4.1
Construction	-8.2	-10.3
Info, media & telco	-8.7	-7.5
Manufacturing	-9.6	-6.1
Rental, hiring & real estate services	-15.9	-14.7
Other services	-18.5	-22.3
Administrative & support services	-20.1	-23.2
Transport, postal & warehousing	-21.5	-23.7
Arts & recreation services	-22.6	-24.5
Accommodation & food services	-39.0	-43.3

Source: ABS

Fifteen out of the 19 industries contracted over the quarter. The headwinds from COVID-19 and the lockdown during the June quarter weighed heavily on these sectors.

The most deeply affected sector was accommodation and food services, which contracted by a record-sized 39.0% in the quarter and 43.3% in the year to the June quarter. Arts & recreation services were also hit hard, falling by a record-sized 22.6% in the quarter and by 24.5% in the year to the June quarter.

Other sectors that had declines of 15% or more in the June quarter included rental, hiring & real estate services, other services, administration & support services and transport, postal & warehousing. These sectors have been most sensitive to the lockdown during the June quarter, social-distancing and/or immigration flows.

The most resilient sector was public administration & safety, which rose by 0.9% in the quarter and by 5.4% on a year ago. Financial & insurance services, education & training and mining where also relatively resilient, and gained in the quarter.

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