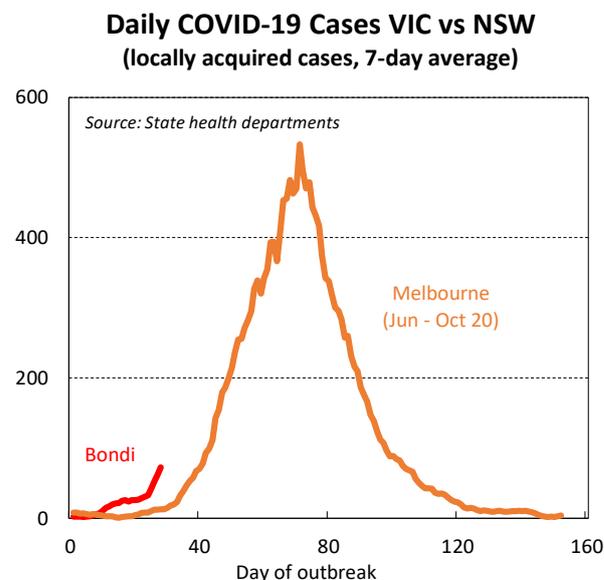
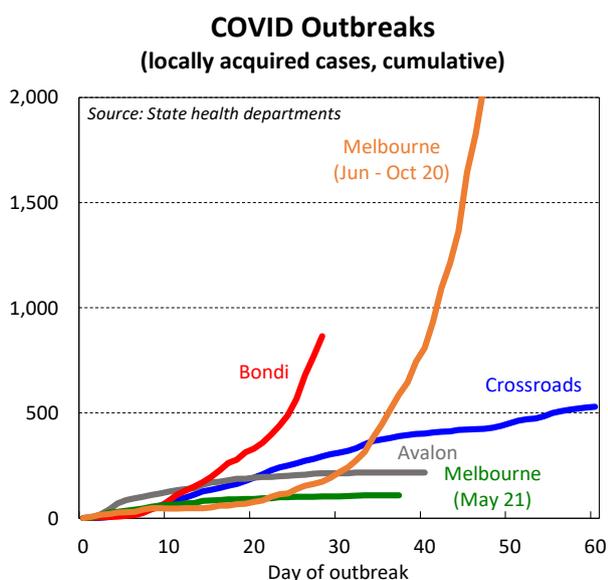


Thursday, 15 July 2021

NSW Lockdown Extended

“JobKeeper Lite” amongst new support unveiled

- The Delta variant is spreading much faster than other variants we have faced. It is currently day 28 of the NSW outbreak and there have been 865 cases of community transmission. For comparison, on day 28 of the second wave in Victoria there had been a total of 174 cases of community transmission – and this outbreak led to a 112-day lockdown.
- In response to the severity of the outbreak, additional fiscal support from the NSW and Federal governments was announced yesterday for households and businesses.
- A version of JobKeeper has returned – “JobKeeper Lite”. It is a wage subsidy for businesses of up to \$10,000 per week. A range of grants and tax relief measures have also been deployed.
- These support measures follow the Federal government’s disaster support payment; individuals who lose work due to the current outbreak can access up to \$600 per week.
- These measures appear less extensive than the support businesses and households received at the height of the pandemic through the middle of 2020. However, the wage subsidy notably offers employers more flexibility than JobKeeper.
- There remains a lot of uncertainty around how long lockdown will last in NSW. We cannot rule out a more extensive lockdown which is extended beyond what has already been announced.



Virus spreading much faster

The delta variant of COVID-19 has proven to spread much faster than other variants we have faced. It is currently day 28 of the NSW outbreak and there have been 865 cases of community transmission. The lockdown across parts of NSW began on 26 June.

For comparison, on day 28 of the second wave in Victoria there were 174 cases of community transmission – and this outbreak led to a 112-day lockdown.

Yesterday, Victoria reported that 8 new locally-acquired cases are linked to cases originating in Sydney. This takes the total number of cases in Victoria linked to the NSW outbreak to 11. There is a growing risk that Victoria too will need to lock down.

As we outlined in our note “Lockdowns to Drag on Recovery” on 30 June, we estimate the restrictions in NSW will reduce economic activity by around \$750 million per week, although this figure could be as high as \$1 billion a week. The economic impact is likely to be greater the longer the lockdown lasts. Our estimates are broadly in line with government agencies. The NSW Treasury estimated the impact of the lockdown at \$850 million a week while the Commonwealth Treasury has projected a cost of \$700 million a week.

On the upside, in the past the Australian economy has rebounded quickly following short lockdowns. The length of the lockdown and the extent of government support will be a key factor in how quickly the economy bounces back once restrictions lift.

Fresh government support

Reflecting the severity of the outbreak, yesterday the Federal and NSW state governments jointly announced further support for businesses and households in NSW. The NSW government has reported that the package will provide up to \$5.1 billion of support, with the costs to be shared by both governments.

These support packages are intended to assist those who have been negatively impacted by the current lockdown. They are also intended to encourage compliance with restrictions by providing individuals with more financial security.

Support for businesses

The **Saving Jobs** support payment will be available to businesses with an annual turnover between \$75,000 and \$50 million who can demonstrate a 30% decline in turnover. The payments are between \$1,500 and \$10,000 per week and are based on payroll levels, covering up to 40% of payroll expenses. In an effort to keep people in jobs, eligible businesses will need to maintain their staffing levels as of 13 July 2021 to receive the payment, similar to JobKeeper. The government has committed up to \$2 billion to the program.

For non-employing businesses, such as sole traders, payments will be set at \$1,000 per week.

The **COVID-19 business grant** has been expanded to offer grants between \$7,500 and \$15,000 to businesses with a wage bill up to \$10 million. This will provide up to \$2.1 billion in support.

A **micro business grant** constituting a \$1,500 fortnightly payment will be available to entities with a turnover between \$30,000 and \$75,000.

Various **tax relief** measures have also been provided to affected businesses. This includes payroll tax waivers of 25% for businesses with Australian wages between \$1.2 million and \$10 million that have experienced a 30% decline in turnover. The package includes waivers of land tax liabilities for landlords who provide rent reductions to financially distressed tenants (commercial and residential). Hotels and clubs will also be given tax relief, including deferrals of gaming tax

liabilities.

Support for households

The existing **COVID-19 Disaster Payment** will be further expanded and increased. From week four of a lockdown, hotspots declared by the Federal government will see payments increase from \$500 to \$600 per week if a person has lost 20 or more hours of work a week. It lifts from \$325 to \$375 per week if a person has lost between eight and 20 hours of work a week. The same support will also be offered to any other state or territory that experiences an extended lockdown in the future.

In NSW from July 18, the payment will be made available to those outside Commonwealth declared hotspots and will be funded by the NSW state government. This will provide support to those in areas which might not be in lockdown but have still lost work in relation to the pandemic, for example parts of regional NSW reliant on tourism.

Additional elements include the reintroduction of moratoriums on evictions for tenants who are unable to pay their rent due to the lockdown. Moreover, as mentioned above, landlords will be offered land tax relief if they reduce rent to support impacted tenants.

How does this compare to previous measures?

One of the key reasons why Australia rebounded so rapidly from the pandemic in 2020 was the unprecedented level of fiscal support. As the economy recovered, a number of these key support measures have been unwound – notably JobKeeper 1.0 and 2.0 and the cash flow boost for employers.

So how does the current round of support stack up?

For individuals, the assistance payments are similar in magnitude to the support provided by JobKeeper in the December quarter. This included payments up to \$600 per week for employees who worked more than 20 hours each week – akin to the \$600 per week under the COVID-19 Disaster Payment.

However, this is less generous than JobKeeper payments during Victoria's extended second lockdown when the JobKeeper rate was \$750 per week (this rate was reduced in late September).

For businesses, the Saving Jobs wage subsidy, which has been referred to as "JobKeeper Lite", has been implemented to minimise layoffs and keep employees connected to their employers, similar to the original JobKeeper scheme. This will speed up the recovery once restrictions are lifted as the costs of employees looking for work and employers looking for labour are minimised.

However, the Saving Jobs program is more flexible. JobKeeper was paid to businesses on a per-employee basis, which they were required to provide to each worker at a fixed rate, regardless of the hours they worked. The Saving Jobs program will give businesses a wages subsidy which they can use however best suits their needs, as long as they don't reduce headcount.

On the other hand, while the NSW government has announced several grants for businesses, they appear to be subject to stricter eligibility requirements than the cash flow boost for employers. The cash flow boost provided significant support in 2020 at a time when businesses, especially small businesses, were anxious about the outlook for their future revenues.

How long will the lockdown last?

The Premier announced yesterday that the lockdown will be extended for 'at least' a further two weeks, until 30 July. Reports suggest the recently announced support package assumed another four weeks of lockdown (until mid-August). There is considerable uncertainty around how long the

lockdown will last – it is currently in its third week. A five-week lockdown is now in the bag following the announcement of the two-week extension. We cannot rule out the lockdown extending to as long as 6-8 weeks. The spread of the outbreak to other states remains a key risk. As mentioned, yesterday Victoria recorded 8 new cases with links to NSW. If case numbers grow, Victoria could also be facing another lockdown.

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