Australia: Economic Situation Update

Market Report

23
JULY
2020

# Prepared by the New Zealand High Commission in Canberra on 23 July 2020


## Summary

- Significant economic developments in Australia over the past week include:
- The Government today (23 July) announced a pre-budget economic update statement that revealed a budget deficit of nearly $90 billion for 2019-20 and forecast deficit of $190 billion for the 2020-21 financial year. This follows $289 billion in fiscal stimulus spending/balance sheet support and record falls in revenue and investment. Gross debt is forecast to surge to $850 billion by mid next year.
- The Government confirmed the official unemployment rate is 7.4 percent but highlighted the jobless rate at 11.3 percent being the real indicator. The official unemployment rate is expected to peak at 9.25 percent in the December 2020 quarter before falling to 8.75 percent in 2020-21.
- A six month extension to the JobKeeper wage subsidy scheme has been confirmed, extending it to 28 March 2021, 12 months from its launch. From 28 September 2020 the tapered subsidy will be halved for those working less than 20 hours per week.
- Treasury expect 2.1 million (of 3.5 million) workers will come off JobKeeper by the end of 2020.
- The COVID supplement for JobSeeker, the unemployment benefit, will be extended at a reduced rate to the end of the year (and likely beyond that) shifting the total benefit from A$1,100 to $800/fortnight. Asset testing including for stand-down periods as well as obligations to seek and accept jobs will be reinstated at the end of September. Individuals will be able to earn up to A$300 without impacting their payments.
- A broadened version of the Government's SME loan guarantee scheme will be extended to 30 June 2021. Loan sizes will increase to A$1 million and loan terms will increase to five years.
- The Location Incentive to encourage production of large budget international films in Australia has been extended to 2027 at a cost of $400 million.
- The Fair Work Commission has reassessed its position on paid pandemic leave for aged care workers following the Victorian outbreak and has issued a statement in support.
- Reserve Bank Governor Philip Lowe delivered a presentation (here) that noted an improvement in employment figures in June but warned of a "bumpy" road ahead. Lowe encouraged continued support measures by the government referencing Australia's manageable debt levels. He confirmed the Reserve Bank is not looking to change any of its own measures at this stage and once again indicated negative interest rates and unconventional monetary policy options were not necessary for Australia at this time.


## Report

Government Measures

**Wage subsidy extension**: The Government announced on 21 July (here) a six month extension to the current JobKeeper wage subsidy scheme that is set to conclude on 27 September 2020. To date, just over A$30 billion has been provided in support through JobKeeper to 960,000 businesses supporting around 3.5 million employees. The next phase of JobKeeper will run in two 3-month tranches until 28 March 2021 with new terms and at reduced rates but will remain agnostic to sector and location. Key details include:

| Date | Full rate per fortnight | Part-time rate per fortnight |
|---|---|---|
| 27 Mar 2020 – 27 Sept 2020 | A$1500 | |
| 28 Sept 2020 – 3 Jan 2021 | A$1200 | A$750 |
| 4 Jan 2021 – 28 Mar 2021 | A$1000 | A$650 |

- Introduction of a two tiered payment to provide reduced wage subsidies for employees that worked less than 20 hours per week on average in the 4 weeks before 1 March 2020.
- Businesses will need to reassess their eligibility for the payment to determine if they have met the relevant decline in actual turnover (30-50 percent for businesses; 15 percent for charities).
- Australian Treasury projections anticipate the number of workers on JobKeeper will reduce from the current 3.5 million to 1.4 million in the December Quarter, and will then reduce again to 1 million in the March 2021 Quarter, suggesting 2.1 million workers will come off JobKeeper towards the end of this year.
- The extension is expected to cost an additional A$16.6 billion bringing the expected overall cost of 12 months of wage subsidies to around A$86 billion.

**Unemployment benefit supplement extension:** At the same time the Government also announced an extension to its temporary COVID-19 supplementary payment to the JobSeeker unemployment benefit from 25 September to 31 December 2020. The supplement will fall from A$550 to $250 reducing the overall JobSeeker benefit from A$1,100 to $800 a fortnight. Key details:

- The revised JobSeeker program allows recipients to earn A$300 a fortnight (up from $106) before facing a reduction in payments.
- “Mutual obligations” will be reintroduced requiring recipients to engage with employment services and undertake four job searches a month with penalties for failing to meet requirements or turning down jobs offered through this process.
- The assets test and Liquid Assets Waiting Period will be reintroduced and the Payment Partner income test will increase.
- Permanent employees that have been “stood down”, sole traders, and the self-employed will continue to have access to the JobSeeker payment.
- JobSeeker will be reviewed again before the end of the year. The Prime Minister has indicated the likelihood it will be extended again in some form.
- The new JobSeeker arrangements are expected to cost an additional $3.8 billion bringing the total cost of the supplementary payment to $17 billion over 9 months.

**SME loan guarantee expansion and extension:** The Government announced on 20 July (here) an extension of its scheme until 30 June 2021 to guarantee 50 percent of new loans to SMEs in partnership with approved lenders that was set to conclude on 30 September. Key changes:

- the purpose of loans able to be provided will be expanded beyond working capital, so a wider range of investment can be funded;
- secured lending will be permitted (excluding commercial or residential property) as the scheme currently only applies to unsecured loans;
- the maximum loan size will be increased from A$250,000 to $1 million per borrower;
- the maximum loan term will be increased from three to five years;
- lenders will be allowed the discretion to offer a repayment holiday period.

With an eye to job creation, the Government has extended its **Location Incentive for the production of films and TV series in Australia** (announcement here). The existing support programme has been extended from three to seven years until 2026/27 at a cost of $400 million. This complements the existing Location Offset that provides an effective increase in the tax offset rate from 16.5 per cent to 30 per cent for eligible large budget international productions that film in Australia.

**The Fair Work Commission** announced a number of changes from 1 July as part of its Modern Award Review (here). On 22 July the Commission issued a statement (located here) to vary its 8 July decision by making "provisional" support for paid pandemic leave for aged care workers. The statement refers to a "significant change in circumstances" with developments in Victoria, and cites the emergence of COVID-19 cases in at least 40 of Victoria's aged care homes.

Macroeconomic outlook and responses

The Government today (23 July) announced Australia's biggest budget deficit since World War II in its pre-budget economic update statement that revealed figures for the 2019-20 and 2020-21 financial years. Key figures:

- The underlying cash balance is forecast to decrease from balance in 2018-19 to deficits of $85.8 billion in 2019-20 and $184.5 in 2020-21.
- Net debt is expected to be $488.2 billion (24.6 per cent of GDP) at 30 June 2020 and increase to $677.1 billion (35.7 per cent of GDP) at 30 June 2021. The Government and the Reserve Bank have indicated this level is manageable owing to low interest rates.
- Real GDP is forecast to fall by 3.75 percent this calendar year, reflecting a steep 7 percent decline in the June quarter. But from the September quarter real GDP is predicted to grow reflecting an increase in economic activity with 2.5 percent growth forecast for the 2020-21 year.
- Tax receipts have been written down by $33 billion in 2019-20 and $61 billion in 2020-21. Company tax receipts over the two years will fall by an expected $25 billion.
- The official unemployment rate is currently at 7.4 percent. This is expected to peak at 9.25 percent in the December quarter but labour market conditions are expected to strengthen beyond 2020. Australian Bureau of Statistics has recorded the current effective jobless rate at 11.3 percent, accounting for those who have left the workforce or are on zero hours.
- Treasury estimate unemployment figures would be 5 percent higher without the support measures put in place, accounting for around 700,000 jobs.
- The Government has committed $289 billion in fiscal stimulus/balance sheet support (the equivalent of 14.6 percent of GDP) with 99 percent of the stimulus to be spent by June 2021.
- Overall, COVID-19 is forecast to leave Australia with an $850 billion gross debt bill by June 2021.

**The Reserve Bank of Australia Governor** Philip Lowe delivered a presentation on 21 July on COVID-19, the Labour Market and Public Sector Balance Sheets. Some key points:

- Total hours worked fell by 10 percent within a few weeks of COVID-19, but in June hours worked increased by 4 percent and employment rose by 210,000 workers. Notwithstanding this, Lowe confirmed "the path ahead is expected to be bumpy" with some sectors seeing their pipeline of work dry up.
- The Reserve Bank's balance sheet has increased from around A$180 billon prior to the pandemic to around $280 billion and further increases are expected over coming months.
- To date, around $25 billion has been advanced under the RBA's low-cost funding scheme for the banking system. Further drawings are expected.
- The RBA's three-year-yield target is working well. It purchased $50 billion of government bonds in March, significantly scaled back purchases in April, and has not needed to purchase any bonds for some time.
- Lowe highlighted the need for government to continue with support measures to households and businesses. He added the government is well placed to spend with comparably low debt levels, and "the lowest borrowing costs since Federation" (1901).
- Media widely reported his comments that "monetary financing of fiscal policy is not an option under consideration in Australia, nor does it need to be" and "there is no such thing as free money… somebody always pays".
- Lowe noted the RBA Board have decided there is no need in adjusting its package of measures in the current environment but does not rule out future changes. Once again, he downplayed the value of cutting the 25 basis point interest rate further noting negative interest rates were "extraordinarily unlikely" in Australia.

- Lowe encouraged use of the government balance sheet to reduce the severity and long term damage of the downturn but noted when the time does come to address the build-up of debt, “the best way to do this will be through economic growth”.

## More reports

View full list of market reports from MFAT at www.mfat.govt.nz/market-reports

If you would like to request a topic for reporting please email exports@mfat.net

## To contact the Export Helpdesk

Email exports@mfat.net
Call 0800 824 605
Visit Tradebarriers.govt.nz

## Disclaimer