Update on Economic Developments in Australia *Week ending 24 April 2020*

Prepared by: New Zealand High Commission, Canberra

We provide an overview of significant economic developments in Australia.

Summary

- Major airline, Virgin Australia, has been placed in voluntary administration.
- Westpac will waive interest payments on credit cards.
- The Government has spent $94m to buy and store oil in the US to boost fuel security while prices are low.
- The government announced a new network of 15 air freight service providers and freight forwarders to assist agricultural/fisheries exports.
- Agricultural Minister Littleproud calls for scrutiny of wildlife wet markets.
- The Government announced it will legislate a "mandatory code" to require platform giants such as Google and Facebook pay media for use of their content.
- Some problems hindering take-up of the JobKeeper wage subsidy scheme have been reported; major banks have agreed to provide bridging support for businesses ahead of government payments beginning in May.
- An industrial relations working group was established under the broader national coordination committee to help businesses put in place COVID-19-safe working practices to protect their employees and customers.
- Some Australian states/territories are beginning to roll out financial support packages for temporary visa-holders (including New Zealanders on non-protected special category visas who are unable to obtain JobKeeper).
- Reserve Bank of Australia Governor Lowe outlined the Economic Outlook for Australia: in the first half of 2020 it is expected that national output will fall by 10 percent; unemployment will reach 10 percent; inflation will significantly decline and stay below 2 percent for two years, but if restrictions other than international travel are mostly removed by the end of the year the economy will start to bounce back in the September quarter with strong 6-7 percent growth next year.

- PM Morrison flags a re-look of an earlier Productivity Commission report for ideas to help the economy but reveals little detail on the direction of anticipated tax reform. Treasurer Frydenberg has reiterated his view company tax rates are too high.

Report/findings

Major business developments

2 Australia's second major airline Virgin Australia was placed in voluntary administration this week with $5.3bn in borrowings on the books. Three weeks ago it was unsuccessful in obtaining a $1.4bn bailout from the Government. The airline began in Australia in 2000, a year before Ansett's collapse. Treasurer Frydenberg was quick to state "This is not liquidation. This is not Ansett. This is not the end of the airline." Asked why the government did not intervene, the Treasurer explained, "the government was not going to bail out five large foreign shareholders with deep pockets who, together, own 90 per cent of this airline."

3 Virgin's 10,000 employees will not be made redundant with Virgin continuing to operate its current bare-bones service while administrators court buyers. 8,000 employees that have already been "stood down" will receive JobKeeper payments.

4 Westpac, Australia's second largest bank, announced today (24 April) it will waive interest payments on credit cards for customers facing financial distress as part of a three-month support package. Westpac is the first Australian bank to announce a complete pause in interest payments, but other banks have announced a range of support packages for financially-distressed customers.

Government announcements

5 Australia will "boost its fuel security" and establish a "national oil reserve" by spending $94 million to buy oil at current low global prices, Minister for Energy and Emissions Reduction Angus Taylor announced (see here). The oil will be stored in the US for an initial period of 10 years due to a lack of storage capacity in Australia.

6 The Government announced a new network of 15 air freight service providers and freight forwarders to allow Australia's International Freight Assistance Mechanism to "ramp-up assistance to exporters and re-establish global supply chains" (see here). The announcement followed a tender process. In the first three weeks of the operation of the International Freight Assistance Mechanism, over 560 Australian businesses registered their interest in utilising it, and agreements for 55 freight flights have been secured. The Mechanism is designed to support Australian agricultural and fisheries producers export produce to priority markets.

7 At a virtual meeting of G20 Agriculture Ministers, Australia called for international experts to scrutinise wildlife wet markets. Agriculture Minister Littleproud said these markets are a "source of biosecurity and human health risks" and they need to be "scientifically investigated so the world can

have some confidence in their integrity" (see here). This followed Foreign Minister Payne's calls earlier in the week for an independent, internationally-agreed review into how the pandemic unfolded.

8 The Government announced this week they would be legislating a "mandatory code" that will require platforms such as Google and Facebook to pay media companies for the content they produce which is posted on their platforms (announcement here). Treasurer Frydenberg highlighted this would help address the bargaining power imbalance between digital giants and traditional media. The Australian Competition and Consumer Commission were originally tasked with developing a voluntary code by November, but have advised the Government reaching a voluntary agreement is "unlikely". Media companies are facing significant financial pressure with the sharp downturn of advertising revenue in the COVID-crisis. A draft mandatory code will be released for consultation by the end of July.

9 PM Morrison has been clear on his expectations that Australia's borders will be closed to foreign travellers and therefore international tourism for some time to come. He did however indicate in his Thursday press conference an openness to work with New Zealand on the future opening of trans-Tasman borders first, "if there is any country in the world with whom we can reconnect with first, undoubtedly that's New Zealand. And we have similar trajectories."

Employment and JobKeeper

10 Implementation and uptake of the JobKeeper wage subsidy scheme has been mixed with complaints that some employers have refused to apply for the scheme or are not passing the full amount on to their employees. And despite the scheme, job losses continue. For example, in response to airport ground operations company Swissport's announcement it would be cutting up to 80 percent of its staff, Treasurer Frydenberg urged the company to stand down staff and make use of the JobKeeper subsidy instead, noting "it doesn't make sense for a company to terminate their employees when the government will continue to support them staying on their books".

11 PM Morrison announced yesterday that Australia's major banks have agreed special bridging measures to help businesses pay their staff in the period before they begin receiving JobKeeper payments from the Australian Tax Office in the first week of May. JobKeeper payments will be backdated to the scheme's commencement on 30 March, but many businesses have reported an inability to cover wages, and to secure related bridging finance from banks, in the meantime. Each bank will now also establish a dedicated "hotline" and prioritise such bridging finance applications.

12 An "industrial relations working group" of the National COVID-19 Coordination Committee was established this week. The working group will liaise closely with unions and employer groups while it focuses on "helping employers put in place COVID-19 safe working practices to protect their businesses, their employees and customers, and to make sure they are prepared to respond quickly to any COVID-19 issues in their workplaces".

13 Calls for COVID-19-related financial support to be extended to temporary visa-holders have continued this week, especially from the Labor Party and migrant worker groups. Some states/territories have begun to roll out programmes specifically targeted at this group, which generally also apply to New Zealanders on non-protected special category visas.

Macroeconomic outlook and responses

14 Reserve Bank of Australia (RBA) Governor Philip Lowe delivered a speech on 21 April (here). The speech and subsequent comments outlined the RBA's economic outlook and action.

Key points:

- "over the first half of 2020, we are likely to experience the biggest contraction in national output and national income that we have witnessed since the 1930s."
- National output is expected to fall by around 10 percent over the first half of 2020 with most of the decline occurring in the June quarter.
- Total hours worked in Australia are likely to decline by around 20 per cent over the first half of 2020.
- Unemployment is likely to be around 10 percent by June, though Lowe expressed hope it might be lower than this if businesses were able to retain employees on lower hours. It would have been much higher if it hadn't been for the Government's JobKeeper scheme.
- The Government's "responsible fiscal policy" and commercial banks' "strong balance sheets" are enabling them to cushion the shock to those most affected – those measures have been welcome.
- A significant decline in inflation is expected and it is likely to remain below 2 percent over the next two years. The large fall in oil prices, introduction of free early child care, and deferral or reduction in some price increases will likely lead to a negative inflation rate in the June quarter.
- Forecasts are very difficult with such uncertainty relating to the virus, but if various restrictions are able to be progressively lessened, and are mostly removed by late in the year (except perhaps the restrictions on international travel), the RBA expected the economy would begin its bounce-back in the September quarter and for that bounce-back to strengthen from there. Based on that scenario, the economy could be expected to grow very strongly next year, with GDP growth of perhaps 6 7 percent, after a fall of around 6 percent this year.
- Wide-ranging policy reforms, including major reforms to tax and industrial relations, would be needed.
- Structural changes in the economy are likely as "we are all learning to work, shop, and travel differently"
- "The best way of dealing with these reverberations is to reinvigorate the country's growth and productivity agenda… A strong focus on making Australia a great place for businesses to expand, invest, innovate and hire people is the best way of extending the recovery into a new period of strong and sustainable growth and rising living standards for all Australians."

- The RBA will not be announcing a ban on bank dividends (as Lowe noted had been instituted in New Zealand). "[Banks] have the ability to pay dividends and some Australians rely on those dividends for their income so there's a balance to be struck."
- The RBA is not considering offering emergency liquidity funding to superannuation funds.
- The RBA will be scaling back its program of quantitative easing. Bond auctions will be scheduled for three days a week but that doesn't mean the RBA will purchase bonds on each of those days.

15 While PM Morrison and Treasurer Frydenberg have yet to provide Government plans for **post-COVID economic reforms**, they have flagged micro-reforms, from university fees to cutting council "red-tape", and noted that reports such as the Productivity Commission's 'Shifting The Dial ' will be looked at "with fresh eyes" to determine whether any recommendations would be fit for purpose in helping the Australian economy rebuild.

16 The RBA has insisted on the need for tax reform, but PM Morrison has not yet shed light on any plans other than to rule out putting a cap on franking credits (which would effectively provide a tax increase) – a point of much debate at the last election. On the company tax rate, Treasurer Frydenberg has reiterated his view that the rate is too high leading to media speculation the government may pursue company tax rate cuts for big businesses from 30 to 25 percent.

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