Update on Economic Developments in Australia – Week ending 29 May 2020

Prepared by: New Zealand High Commission, Canberra

Summary

Significant economic developments in Australia over the past fortnight include:

- The government reported its JobKeeper wage subsidy scheme will be taken up by 3.5 million, not 6 million workers and will cost an estimated $70bn, not the announced $130bn, due to an accounting error.
- Provisions under the Corporations Act 2001 have been temporarily amended to enable companies to hold back from making forecasts and estimates.
- In a step toward the government's "Consumer Data Right" regime, the ACCC has launched the Consumer Data Right Register and Accreditation Application Platform.
- The Prime Minister has announced a plan for industrial relations reform.
- RBA Governor Lowe provided comments before the Senate Committee on the state of the economy, economic outlook and offered thoughts on government fiscal policy. He highlighted while the outlook was uncertain, unemployment and the economic downturn had not been as severe as anticipated.
- The Department of Finance released figures indicating a A$40bn budget deficit in the 10 months to April 30.
- Australia maintains its AAA credit rating but also its negative outlook.
- Workers in Victoria are required to continue working from home until at least July.

Report/findings

<u>Government announcements</u>

- The Australian Treasury Department and Tax Office reported on 22 May (here) that, due to an accounting error Australia's JobKeeper wage subsidy scheme, that had been priced at $130bn, was now only expected to cost $70bn. Treasury had previously expected the scheme would subsidise around 6.5 million workers, but this has now been revised down to 3.5 million workers. The Government has said it will not use the remaining $60bn to extend JobKeeper to groups that had previously missed out and reminded the public this was financed by debt, "not money waiting to be spent". The Treasurer has not ruled out extending JobKeeper beyond September for some "targeted" groups hardest hit by the pandemic.
- On 26 May the Government temporarily amended the continuous disclosure provisions under the Corporations Act 2001 enabling companies to hold back from making forecasts of future earnings or other forward-looking estimates. Companies and officers' will only be

liable if there has been “knowledge, recklessness or negligence” with respect to updates on price sensitive information to the market. This amendment will be in place for six months and acknowledged the uncertainty generated by the Coronavirus crisis, and the difficulty in releasing reliable forecasts (press release here).

- The Australian Competition and Consumer Commission (ACCC) launched the Consumer Data Right Register and Accreditation Application Platform (RAAP) on 26 May to allow banks and fintech businesses to become accredited data recipients. Treasurer Frydenberg announced this as a “major step towards the launch of the Government’s Consumer Data Right (CDR) regime” that would give consumers and small businesses “greater control over their personal information giving them the power to instruct businesses, such as banks and fintechs, to provide safe and secure access of their data to trusted third parties.”
- In his 26 May speech to the National Press Club, PM Morrison announced industrial relations as the first structural issue he is seeking to address (speech here). Five working groups will be established consisting of employers, union representatives, and individuals from a variety of backgrounds aimed at reaching agreement by September. The groups will be chaired by the Industrial Relations Minister Christian Porter.

Macroeconomic impacts and outlook

- Reserve Bank of Australia (RBA) Governor Philip Lowe appeared before the Australian Senate’s COVID-19 Select Committee on 28 May where he remarked that unemployment and the economic downturn had not been as severe as anticipated. He also noted:
    - RBA will maintain its expansionary monetary policies until progress is made towards full employment and it is confident on inflation
    - decline in jobs could now be 15 percent as opposed to 20 percent as first feared; will see a further decline in jobs in May but not as bad as April; there are signs of bottoming out in the labour market; has been some employment pickup in most affected industries
    - but the pipeline of existing work for some industries is “thinning out”
    - economic outlook continues to be incredibly uncertain
    - it will be a critical moment when the JobKeeper programme is withdrawn; if the economy has not recovered by September the programme may need to be extended
    - current cash rate at 25 basis points is effectively the lowest it can go; rates to stay this low for some years
    - negative interest rates are extraordinarily unlikely; doesn’t believe they work and come with a cost to financial system
    - Lowe considered if the RBA had to do more quantitative easing it could purchase more government bonds; no need for this at this point
    - banks have only borrowed A$5bn from the RBA under the loan scheme
    - the government must borrow from markets and not from the central bank
    - going forward fiscal policy will have to play a greater role; Lowe hoped that fiscal support will be around for a long time

    - tax system is not optimal for growth and needs reform
    - would want to see reasonable increase in hours worked in July and August
    - there is strong demand for Australian government debt
    - the government has the ability to borrow more and to find projects to invest in.
- Department of Finance figures released on 29 May showed the federal budget deficit was \$40bn in the 10 months to April 30 (versus the forecast in December of 7.6bn).
- On 22 May global rating agency, Fitch, reaffirmed Australia's AAA credit rating but continued to place it on a negative outlook saying they still expect a significant deterioration in the public finances that will add downward pressure on the sovereign rating. This was despite the report that the government's JobKeeper scheme will cost an estimated A\$70bn, not \$130bn.

<u>Easing of COVID-related restrictions</u>

- States and territories continue to slowly lift restrictions in accordance with the National Cabinet's three stage process but at various paces. While Victoria has also begun easing restrictions on eateries and will allow schools to fully return on 9 June, on 29 May Victoria's Premier Andrews announced that all workers that have been working from home may not return to working in their offices until at least July. Fines could be imposed on any employers that fail to support their employees to work from home. Industry leaders have been critical of the announcement.

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