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Summary

We provide an overview of significant economic developments and statements in Australia this week:

- The National Cabinet agreed on 8 May to a three-step plan for easing COVID-related restrictions to bring Australia back to a "COVID-safe economy" by this July (media statement). States and territories will progress through the steps at their own pace.
- Changes to Corporations Act requirements will allow company AGMs to occur online.
- Australia's FTA with Indonesia will enter into force on 5 July.
- The Government and Qantas have established freight routes from South Australia and Queensland to markets in Asia for fresh produce, meat and seafood.
- The Government is promoting its Advancing Hydrogen Fund to develop a competitive hydrogen industry.
- Financial relief is being provided to tourism operators in Commonwealth National Parks.
- Agricultural Minister Littleproud has called for the extension of the existing 10-cent per litre levy on milk to support Australian farmers.
- Implementation of the Royal Banking Commission recommendations has been suspended for 6 months.
- This week a series of economic impact and outlook statements and statistics were unveiled by the Prime Minister, Treasurer Frydenberg and the Reserve Bank which note by June unemployment is expected to reach 10 percent, the economy will contract by 8 percent, and that for every week current COVID-19 restrictions remain, the Australian economy will lose A$4bn.
- Australia's net overseas migration levels are forecast to be more than 30 percent lower in the 2019-20 year than the 2018-19 and 85 percent lower the following year.
- The number of property sales in Australia fell 40 percent to its lowest levels in 30 years.
- The value of deferred loans by home owners and businesses has reached A$200bn; banks estimate up to one-quarter will turn bad over the next three years; three big banks have taken A$3.5bn in additional provisioning in anticipation of bad debts with the fourth big bank expected to increase the total amount to A$5bn next week.
- Over 12,000 SMEs have received funding under the 50:50 Government:lenders SME Coronavirus Guarantee scheme.

Report

Government announcements

- PM Morrison announced on 8 May that National Cabinet has agreed a **three-step plan for easing COVID-related restrictions** to bring Australia back to a "COVID-safe economy" by July this year (see media statement here). Individual states and territories will move at their own pace through the steps.

- Step 1 will focus on "carefully reopening the economy", giving Australians opportunities to return to work and social activities including gatherings of up to 10 people. It will include the re-opening of schools, retail, and small cafes/ restaurants, as well as local and some regional travel.
- Step 2 builds on this with gatherings of up to 20, and more businesses reopening including gyms, beauty services and entertainment venues such as cinemas
- Step 3 will see a transition to "COVID safe ways of living and working", with gatherings of up to 100 people permitted. It will be the "new normal" while the virus remains a threat. Most workers, by then, are expected to be back in the workplace. Interstate travel will likely resume. It may also involve resumption of trans-Tasman, Pacific and international student travel.

- The Government has announced changes to allow companies to convene annual general meetings, and other meetings prescribed under the **Corporations Act**, entirely online rather than face-to-face. The changes will also give businesses certainty that when company officers sign a document electronically, the document has been validly executed (see here).

- Australia's **free trade agreement with Indonesia** will enter into force on 5 July. Trade Minister Simon Birmingham said "This is the most comprehensive bilateral trade agreement Indonesia has ever signed, and will give a competitive edge to Australian exporters, particularly at a time when many are doing it tough as a result of the COVID-19 crisis" (see here).

- The Government has announced it has helped secure a **critical freight route** for Queensland's seafood industry. Under this new agreement, Qantas will commence a weekly Brisbane-Cairns-Hong Kong route, adding to its Sydney-Cairns-Hong Kong freight route already in operation (see here). The government has also promoted the commencement of a Singapore Airlines flight which will help distribute South Australian produce, seafood and meat **to Asian markets including Hong Kong, Thailand and China**. These flights are supported by the government's International Freight Assistance Mechanism.

- The Government has promoted its **Advancing Hydrogen Fund**. The new A$300 million fund will finance projects focused on growing a clean, innovative, and competitive hydrogen industry in Australia. It is the Government's first financing fund that is dedicated to hydrogen projects. Energy and Emissions Reduction Minister Angus Taylor noted that, according to Bloomberg New Energy Finance, this fund, along with the recently opened A$70 million Renewable Hydrogen Deployment Funding Round administrated by the Australian Renewable Energy Agency (ARENA), "is one of largest commitments to the hydrogen sector made by any government in the world" (see here).

- The Government announced **tourism businesses operating in Commonwealth National Parks** managed by Parks Australia will benefit from a financial relief package. It includes temporary relief from licence and permit charges for tourism businesses operating in Kakadu and Uluṟu-Kata Tjuṯa National Parks. Deputy Prime Minister McCormack said "This support provides immediate relief to businesses and will continue to help the sector open up again once travel restrictions are lifted" (see here).

- Agriculture Minister and deputy leader of the National Party David Littleproud has called for the **extension and expansion of the existing temporary 10-cent per litre levy on milk**, in order to further support dairy farmers who "have endured drought, fires and now they are dealing with increased uncertainty from the impacts of COVID-19." (see here) "It is only fair that retailers play their part in giving farmers a leg up during this difficult time. This is a way of making amends for damage to the industry during the years of A$1 milk [per litre] prices." He supported farmers' calls for supermarkets to raise the per litre price of milk to $1.50 and pass the increased revenue directly on to farmers, and also called for the levy to be applied to other dairy products. He noted that nearly 500 Australian dairy farmers left the industry in the last year "amid pressure from drought and market conditions".

- Treasurer Frydenberg announced on 8 May the decision to pause the implementation of the recommendations from the **Royal Commission into Banking** for six months to enable the financial services industry to focus on responding to the coronavirus economic downturn. Implementing the recommendations of the Royal Commission had previously dominated the Government's legislative agenda.

Macroeconomic impacts and outlook

- This week there have been a series of statements by Government around the economic impacts of COVID for Australia and predictions for the road ahead. **Treasurer Frydenberg** delivered a speech on 5 May (see here), the **Prime Minister** has referred to **Treasury data** in his press conferences, and the **Australian Bureau of Statistics** (ABS) has released survey data on the business impacts of COVID-19 (see here). Key points include:

  GDP
  - for every week current COVID-19 restrictions remain, the Australian economy will lose A$4bn;
  - Treasury predicted GDP to fall by "over 10 percent" in the June quarter;
  - this took into account an anticipated reduction of around one third in net overseas migration in the 2019-20 year.

  Employment and welfare
  - the unemployment rate is forecast to go up by around 5 per cent in three months to 10 percent;
  - getting kids back to school enables getting "people back into jobs";
  - Treasury estimate the first half of 2020 will see 708,000 jobs lost or impacted due to controls on industry and social distancing measures, a further 304,000 jobs due to schools being closed, and a further 516,000 jobs due to the slump in domestic and international demand;
  - employee jobs have decreased by 7.5 percent and total wages by 8.2 percent between 14 March and 18 April;
  - as at 5 May, 1 million people had lodged claims for the 'JobSeeker" welfare payment; 5 million people were registered for the JobKeeper wage subsidy scheme; more than 1 million people had accessed their superannuation savings totalling $10bn; and 384,000 businesses had accessed $7bn in cashflow assistance;
  - On 8 May PM Morrison said Treasury expected easing restrictions could see some 850,000 jobs restored by July; if this occurred, unemployment rates estimated by both the Treasury and Reserve Bank may be overstated.

  Sectors

- The accommodation and food services industry was the most impacted with around one in three jobs being lost in the month to mid-April. Data from the banks indicates spending on these services was down around 70 percent in late-April compared with the same period last year. Arts and recreational spending was down 60 percent over the same period.
- Agriculture, mining and construction have been able to adapt and in most cases continue to operate. An ABS survey showed 85 percent of mining businesses are still operating.

- The **Reserve Bank of Australia** (RBA) delivered a Statement on Monetary Policy on 8 May (full Statement here) which includes its Economic Outlook (here). The RBA modelled three scenarios depending on different levels/timing of restrictions for its Outlook and figures below are based on its baseline ("plausible path") scenario. Key points include:
  - the Australian economy will contract by 8 percent by June owing to reductions in consumption and business investment;
  - the economy will recover enough to be down 6 percent by the end of the year;
  - unemployment will increase to 10 percent in June, while year-end unemployment will hit 9 percent. By June next year it will still be 8.5 percent;
  - wage growth will be reduced slightly to 2 percent in June from the previous forecast of 2.2 percent, while year-end wage growth will be just 1.5 percent, down from the earlier forecast of 2.3 percent;
  - headline inflation is expected to be negative in the June quarter (in year-ended terms) for the first time since the early 1960s, largely due to the fall in oil prices and the introduction of temporarily free child care;
  - slower population growth is also expected to translate into less demand for new construction.

  Reserve Bank Governor Philip Lowe has also flagged a stronger than expected economic recovery if Australia's successful containment of the coronavirus allows more businesses to reopen earlier.

- The RBA released its regular "Chart Pack" with graphs on the Australian Economy and Financial Markets on 6 May, using data updated to 30 April (see here).

- Industry Super Australia's chief economist, Stephen Anthony, **forecasts net debt** will hit the current ceiling of $850bn, or 27 percent of GDP, by 2023.

- **Goldman Sachs** issued its first **more optimistic forecasts on the economy** due to further easing in restrictions: "Taking into account these dynamics, we have pulled forward slightly our forecast economic recovery… While we continue to look for a sharp 10 percent contraction in GDP in the June quarter 2020, we now expect a consumer-led recovery to commence one quarter earlier in the September quarter up 4.25 percent. Our recalibrated forecasts are closer to the "optimistic" scenario we described previously."

- Australia's **net overseas migration** (NOM) levels are forecast to be more than 30 percent lower in the 2019-20 year than the 2018-19 figure of 239,600. In 2020-21, NOM is forecast to be 85 percent lower than 2018-19 (i.e. less than 40,000), though that figure will depend heavily on how soon Australia's international borders can be reopened. Acting Immigration Minister Alan Tudge has confirmed that more than 300,000 temporary visa-holders have left Australia since the start of this year.

- The number of **property sales** in Australia fell 40 percent to its lowest levels in 30 years. Economists indicate that if transaction numbers remain low for several months it could be a significant drag on the economy - by as much as 1 percent.

<u>Australian banking sector</u>

- The Australian Banking Association (ABA) revealed on 8 May the value of **deferred loans** by home owners and businesses had reached A$200bn, up more than $20bn from the previous week. ABA Chief Executive Anna Bligh said the latest figures from the banks revealed a total of 643,000 loans had been deferred, including 392,000 home loans and 251,000 loans for business customers, personal loans, and credit cards. Just a few days ago, the Australian Prudential Regulation Authority released data showing consumers and business owners had sought between A$150bn and $160bn in loan deferrals amounting to 6 percent of all mortgages and 13 percent of SME loans.

- As backdated JobKeeper payments started flowing this week, some pressure may ease, but some banks estimate that almost one-quarter of these deferred loans, or A$45bn worth, will turn bad over the next three years. Banks have already taken **A$3.5bn in additional provisioning** in anticipation of bad debts once JobKeeper subsidies and loan repayment holidays end, with the number expected to rise to A$5bn next week.

- Major banks have indicated a 57 percent decline in cash profit to A$6.2bn from $14.5 the previous year.

- A 50-50 joint venture from the banks and the federal government featuring A$40bn of cheap funding aimed at keeping small businesses ticking over, known as the "**SME Coronavirus Guarantee**", has also gained traction. As of Friday, the value of loans backstopped by the government reached A$1.2bn, with 12,423 businesses receiving funding. The average size of each loan is about A$95,000 with the maximum loan size capped at A$250,000. The interest rate on the loans is about 4.5 percent – about half the rate banks would traditionally charge for unsecured lending to small businesses. Around 40 lenders have been approved to use this facility.

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