[Questions due to Committee by Thursday, 9 September 2021]

House of Representatives Standing Committee on Economics
Questions in Writing – 9 September 2021

RBA30QW
Asked by Dr Mulino
Reference: Written

DR MULINO:

At the public hearing on 6 August 2021 (Hansard, p. 12) Dr Ellis said**:**

> I take your point that some things will be different, in particular the shift to online sales. There'll be reduced business travel and we'll all be doing videoconferencing. There are some things that have changed in an ongoing way—I completely agree with that. The major element of the economic impact and the thing that causes people to lose jobs is that lockdowns prevent people from spending on ordinary consumption activities that they would like to do again. People will start going back to restaurants, they'll start seeing their friends and they'll start going to shops again—so retail spending—and we've seen this multiple times.
>
> I can see that there's a risk as long as incomes aren't maintained. The lesson from the first lockdown last year, the Victorian lockdown last year and all of the subsequent lockdowns around the country has been that spending on retail items goes back very quickly. When I said that forecasting was an exercise in future humility, we haven't been looking at Phil's coffee mug; we've been consistently too pessimistic about how quickly things have bounced back. If we go back to the forecast we published ahead of our last appearance in February, we were still expecting unemployment to be well above what it is now, or what it was in June.

(a) In reference to Dr. Ellis's comment that 'the lesson from the first lockdown last year, the Victorian lockdown last year and all of the subsequent lockdowns around the country has been that spending on retail items goes back very quickly', to what extent was the speed and scale of the economic recovery following the easing of restrictions in 2020 and early 2021 driven by the assistance provided through fiscal policy to households, specifically JobKeeper and other federal government supports?

(b) In reference to Dr. Ellis's comment that 'there's a risk as long as incomes aren't maintained', how will the absence of JobKeeper during this current set of restrictions and stay-at-home orders across multiple states impact economic activity once those restrictions ease?

(c) Does the RBA anticipate that the pace of recovery following the easing of current restrictions on activity will be slower compared with previous lockdowns, because household balance sheets are weaker?

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Answer:

a) Fiscal support has been an important and necessary element ensuring a swift bounce-back in spending once health-related restrictions ease. The package of measures used last year, including JobKeeper and other support to households and businesses, resulted in both household incomes and business profits actually increasing during the period of greatest restrictions. While this certainly enabled a swift bounce-back in spending, the timing was primarily determined by the health situation and the scope to ease restrictions on activity. In other countries where the fiscal support did not more than compensate for the loss of income, household spending has also recovered quickly.

b) In the current outbreaks, incomes are being supported by disaster payments to households and various business support packages. While this combination is somewhat less generous than the fiscal support available last year, it is broadly offsetting of the income losses stemming from health-related restrictions. International experience suggests that this should be sufficient to support a recovery in spending once health-related restrictions on domestic spending can be eased.

c) The pace of recovery in spending will mostly depend on how quickly restrictions can be safely eased. Household balance sheets have not weakened in aggregate; the combination of higher incomes and lower spending opportunities over much of 2020 resulted in the household saving ratio increasing considerably. The savings so accumulated have not been disbursed and can support spending during the recovery.