

The path out of the current downturn will be more gradual than the path into it was

- ❑ **‘Social distancing’ requirements will be relaxed gradually rather than ‘all at once’**
 - new health and safety regulations will likely limit the number of employees and customers who can be ‘on premises’ (which may make it uneconomic for some businesses to re-open until restrictions are relaxed)
 - and many people may remain wary of exercising all of their newly-regained ‘freedoms’ (see slide 83)
- ❑ **‘At least some businesses won’t have survived the shutdown period, and many of those which do will not immediately return to pre-outbreak levels of employment**
 - so employment will remain below pre-outbreak levels for some time rather than ‘snapping back’ quickly
 - and those returning to work may work reduced hours (compared with pre-outbreak) for some time
- ❑ **The recovery in household spending is likely to be gradual, rather than rapid**
 - if the recovery in employment is only gradual, so too will be the recovery in household disposable income
 - most households will have run down discretionary savings to at least some extent, as well as having their superannuation balances depleted by market movements and/or withdrawals – and so will likely want to rebuild savings
 - households with mortgages who have deferred repayments will face higher or longer mortgage repayments, constraining their spending capacity to some extent
 - household spending may also be affected by ‘negative wealth effects’ from lower property prices
- ❑ **There is some risk of a ‘setback’ when government support programs come to an end (nearly all of them at the end of September), or if restrictions on the movement or gathering of people have to be re-imposed**
- ❑ **International borders (except with NZ) will likely remain closed until a vaccine is widely available – which is in turn likely to be at least 12 months away**
 - implying that there will be no near-term recovery in international tourism or international education
- ❑ **Businesses are likely to be very hesitant about investment spending for an extended period (with some exceptions)**

The factors which helped us achieve almost 30 years of continuous economic growth may not be so helpful in the post-Covid environment

Australia's record-breaking run of almost 30 years without two or more consecutive quarters of negative real GDP growth owed a lot to four factors -

❑ Population growth

- Australia's population grew at an average annual rate of 1.5% pa over the 19 years to 2019, compared with 0.6% pa for all 'advanced' economies
- net immigration accounted for 58% of this growth – ie, in the absence of immigration Australia's population would have grown by only 0.7% per annum, on average, and would have aged more rapidly

❑ Our unusual (for an 'advanced' economy) economic relationship with China

- China's rapid economic growth, industrialization and urbanization significantly boosted both the volumes and prices of many of our commodity exports, under-wrote the post-GFC mining investment boom, pushed down the prices of many of the things which we import, and contributed significantly to the growth of our tourism and education sectors
- By contrast, China's rapid economic growth undermined the competitiveness of manufacturing industries which account for a much larger share of most other 'advanced' economies, put downward pressure on the prices of their exports and put upward pressure on the prices of commodities which they import

❑ The 'housing boom'

- Australia's 'housing boom' started earlier (mid-1990s) and ended later (2017, rather than 2007-08) than in most other 'advanced' economies (some – such as Japan, Italy and France – didn't have a housing boom at all)
- the two-way interaction between rising house prices and rising household debt underwrote stronger growth in household consumption spending, for longer, than would have occurred otherwise

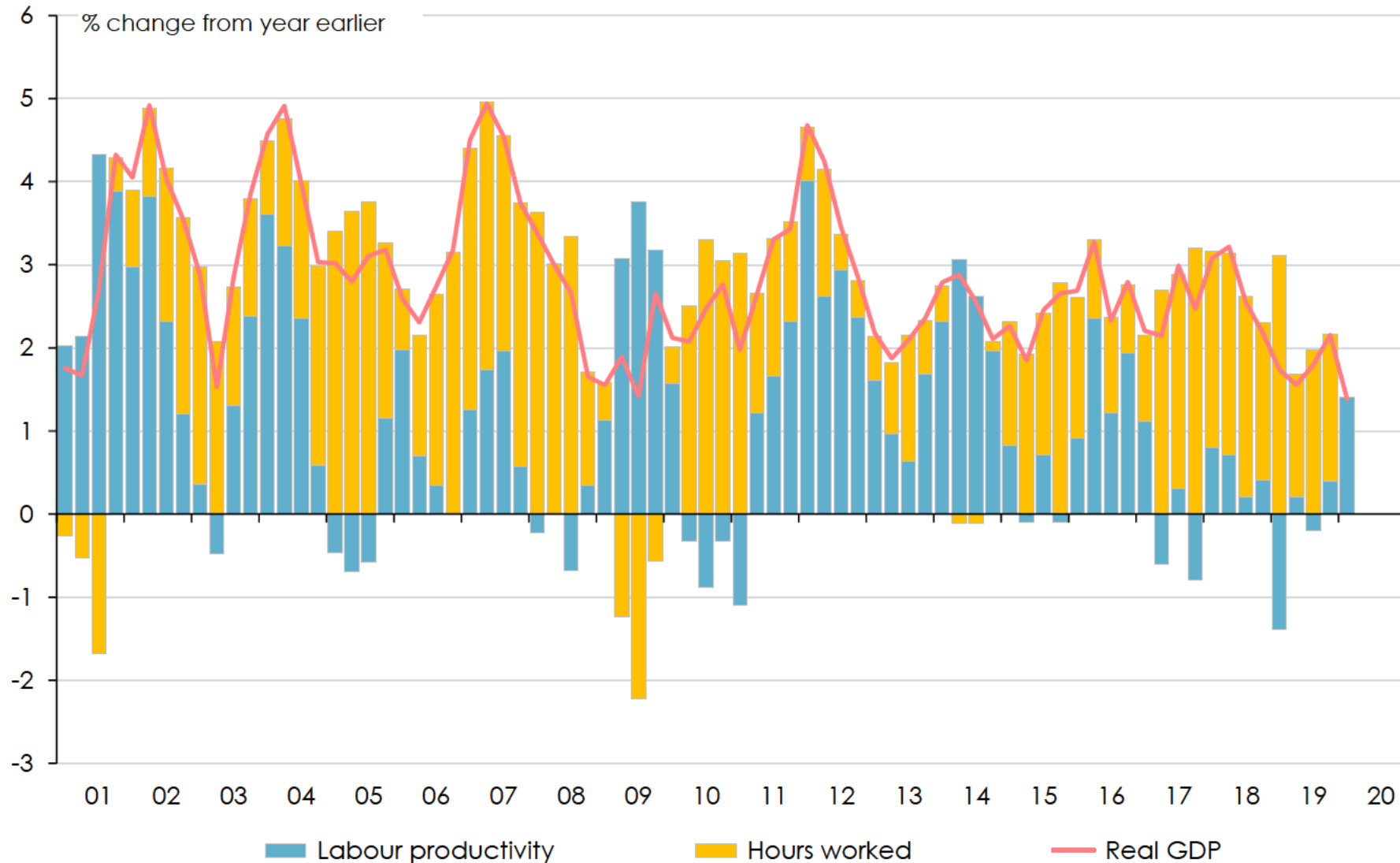
❑ (Mostly) good macro-economic policy – especially by comparison with other 'advanced' economies

- although we haven't done nearly as well as we once did on the micro-economic front (especially with regard to productivity)

The first three of these are likely to be of less assistance from now on

Australia has come to rely much more heavily on increased labour input to drive economic growth in recent years

Labour input and labour productivity contributions to Australian real GDP growth



- ❑ Over the past five years, 72% of Australia's real GDP growth has come from increased labour input, and only 28% from labour productivity growth
- ❑ By contrast, between the end of the early 1990s recession and the onset of the global financial crisis, 46% of Australia's real GDP growth came from increased labour input and 54% from productivity growth