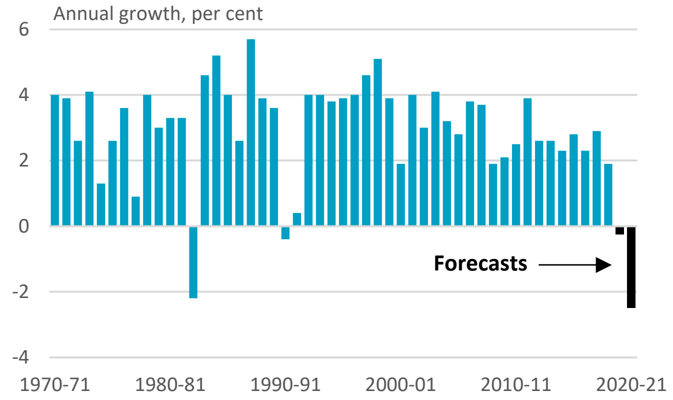
# ASFA Economic Snapshot: week ending 24 July

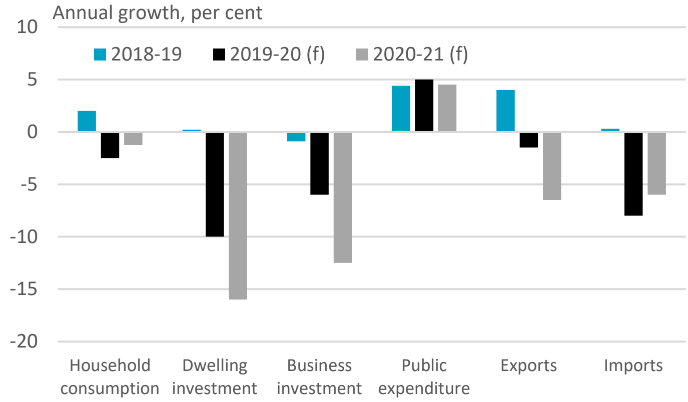
This is a weekly update on the impact of the COVID-19 pandemic on financial and economic conditions, in Australia and globally, and government policy measures to support economic activity and employment.

## GDP to fall sharply ...



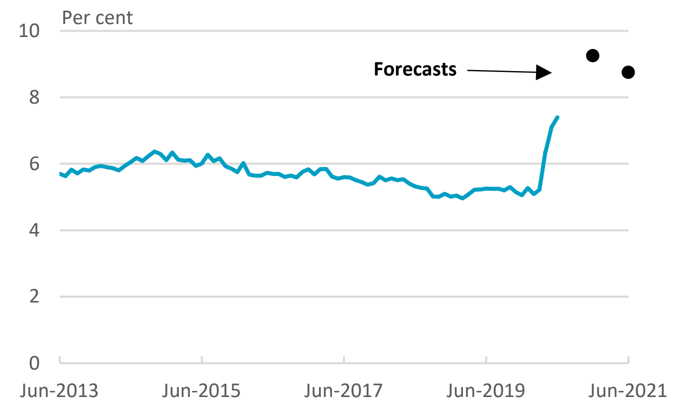

Treasury forecasts GDP to fall by 0.25% in 2019-20, and by a further 2.5% in 2020-21. In calendar-year terms, GDP is expected to decrease by 3.75% in 2020. This will be the largest economic shock since 1930-31, when GDP fell by about 15%. The forecasts imply that GDP (and employment) will not reach pre-crisis levels until well after June 2021.

## ... driven by a collapse in investment



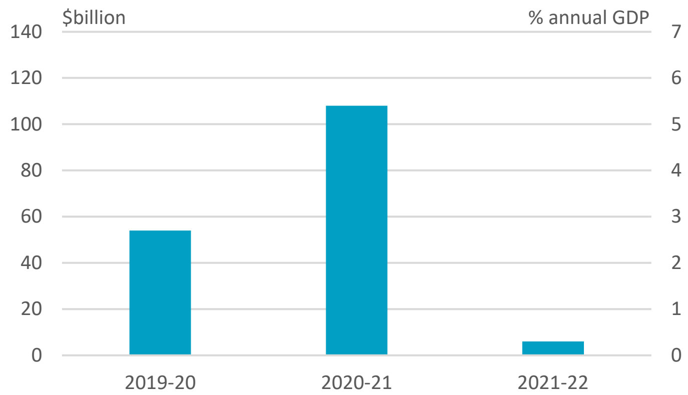

Uncertainty about the economic outlook, which is resulting in project delays and cancellations, is behind the forecast falls in dwelling and business investment. Household consumption, while weak, will continue to be supported by government payments (below). Growth in public spending reflects outlays for transport projects and health.

## ... and unemployment will continue to climb



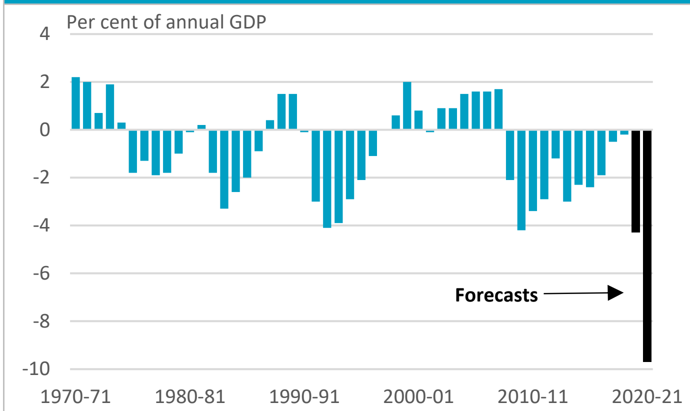

The unemployment rate is forecast to peak at 9.25% in December 2020. However, effective unemployment– which includes people who lost their job but are not looking for work, and those who are working less hours – will be higher. Treasury estimates that the effective rate is currently around 11%, compared with 7.4% for the 'measured' rate.

## Fiscal support is having an impact



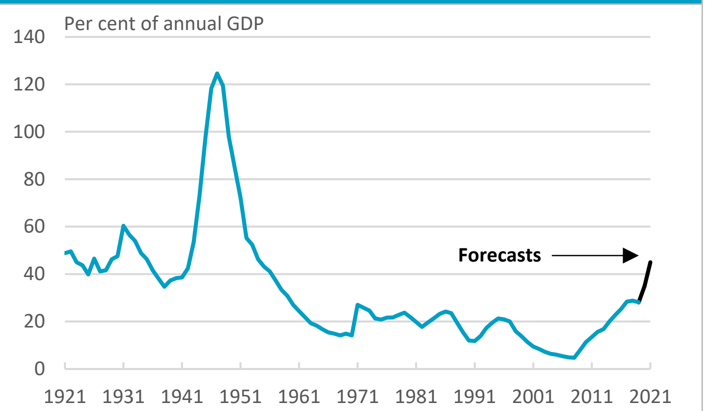

Previously-announced direct fiscal measures amount to $162 billion for 2019-20 and 2020-21 (or about 8% of GDP). Treasury estimates that these, and other indirect measures (e.g. loan guarantees), will mean a 4% higher level of GDP for 2020-21 (than otherwise), and a lower peak unemployment rate of around 5 percentage points.

## The budget deficit will increase sharply ...




The increase in the budget deficit reflects the government's fiscal response to the crisis, as outlined above, but also the impact of automatic adjustments to structural government spending (higher than otherwise) and tax receipts (lower than otherwise). For 2019-20 the deficit is expected to be $86 billion (or 4.3% of GDP), compared with just 0.2% of GDP for the previous year. A further sharp increase in the deficit is forecast for 2020-21 – to $185 billion (or 9.7% of GDP).

## ... but fiscal space remains




While the forecast budget deficits will lead to an increase in gross federal government debt, the expected level (as a share of GDP) will not be remarkably high compared with previous periods, and will be well below that of most other advanced economies – for whom, on average, debt will soon exceed 100% of GDP. Together with record-low borrowing rates, this suggests that the Australian government has significant additional capacity to use fiscal policy to boost demand.

Sources for each panel: (1 to 6) The Commonwealth of Australia, Economic and Fiscal Update, July 2020; (6) The Treasury, *A History of Public Debt in Australia*, Economic Round-up 2009(1), and Barnard, A. *Commonwealth Government Finances 1901-82*, Source Papers in Economic History (https://www.rse.anu.edu.au/research/centres-projects/centre-for-economic-history/source-papers-in-economic-history/).