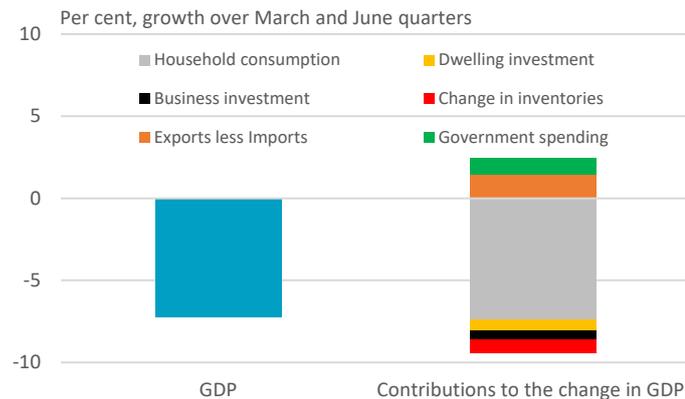


ASFA Economic Snapshot: week ending 4 September

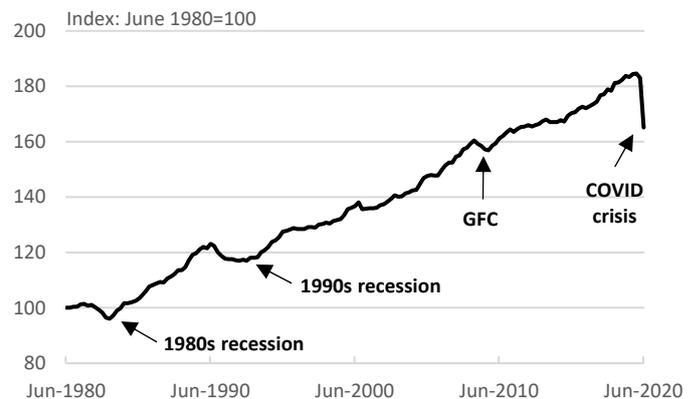
This is a weekly update on the impact of the COVID-19 pandemic on financial and economic conditions, in Australia and globally, and government policy measures to support economic activity and employment.

Australia is in recession ...



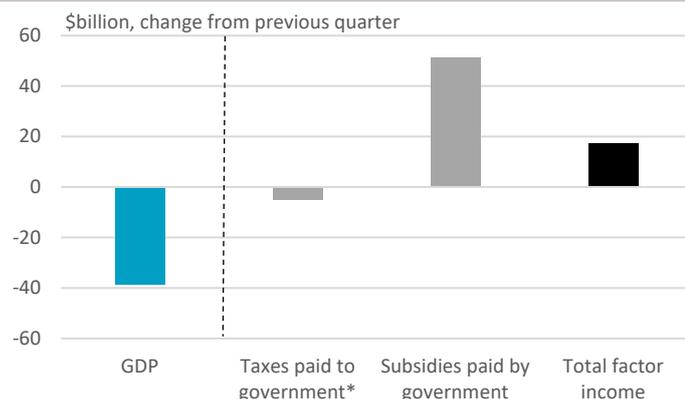
This chart shows the cumulative decline in GDP in the first half 2020. GDP fell by 0.2% and 7% in the March and June quarters respectively. In terms of contributions to the fall in GDP (in effect, weighted growth rates) household consumption was by far the largest, followed by dwelling and business investment. Government spending (purchases of goods and services, and capital investment) provided a minor offset.

... with total hours worked dropping sharply



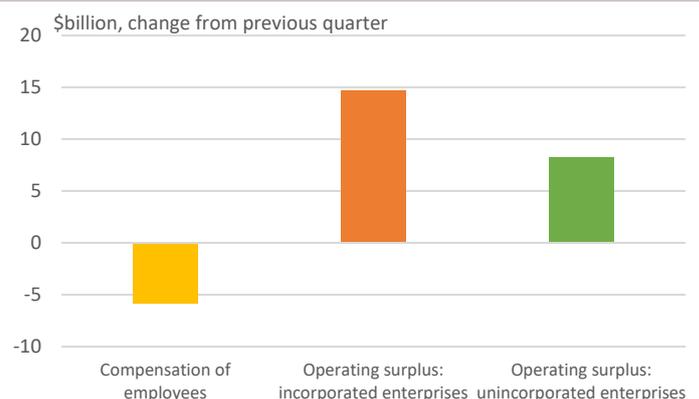
The total amount of hours worked in the economy (shown in this chart as an index) fell by a cumulative 11% in the March and June quarters (other ABS data suggests that hours worked stabilised in July). This decline is far greater than during previous recessions – from peak to trough, the falls in hours worked during the 1980s recession, the 1990s recession and the GFC were 5.3%, 4.8% and 2.2% respectively.

Government subsidies boosted total income ...



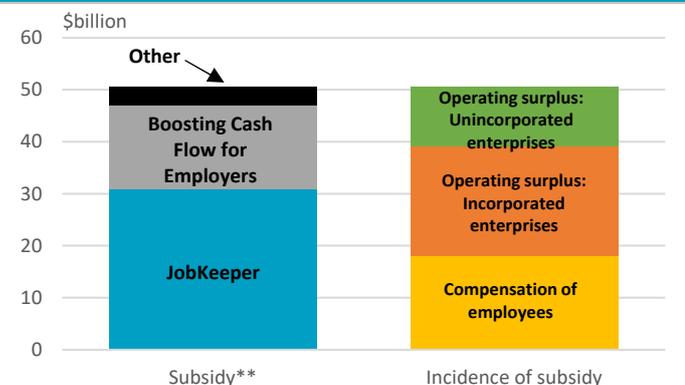
An alternative way to present GDP is in terms of total income earned in the economy (total factor income, or TFI). Typically, GDP and TFI move in tandem. However, in the June quarter, GDP fell by \$38 billion while TFI rose by \$17 billion. The difference reflects the huge increase in subsidies paid by government directly to enterprises (for government, the rise in subsidies is reflected in its budget position).

... which is reflected in each income component ...



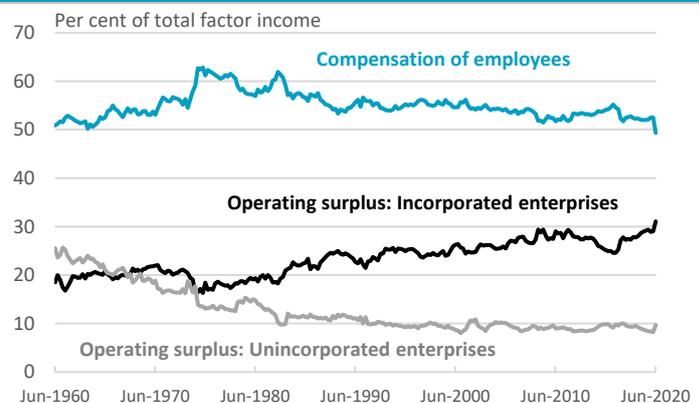
This chart shows a break-down of the change in TFI. Compensation of employees (wages, as well as compulsory super contributions) fell by \$6 billion. For incorporated enterprises, operating surplus (a proxy for profits) rose by \$15 billion, while for unincorporated enterprises operating surplus rose by \$8 billion. In the absence of subsidies, outcomes for each component would have been much weaker.

... but incidence of subsidies mainly to business



COVID-related subsidies paid in the June quarter totalled \$50.6 billion (with JobKeeper the largest program). Estimates for the ultimate incidence of subsidies suggest that about one-third of the total flowed through to employee pay in the quarter. Of the remainder, the bulk boosted the operating surplus of incorporated enterprises.

Income shares continue to diverge



The changes in the income components (in Panel 4 above) in the June quarter are reflected in their shares of TFI. As a proportion of TFI, the operating surplus of incorporated enterprises (or profit share) reached a record high in the June quarter. Conversely, the share for compensation of employees (or wage share) reached a record low.

Sources for each panel: (1 to 6) ABS, *National Accounts*, June and ASFA calculations. *Note for Panel 3: Taxes in the chart refer only to taxes on production and imports. **Note for Panel 5: 'Boosting Cash Flow for Employers' provides eligible businesses and not-for-profit (NFP) organisations who employ staff receive between \$20,000 to \$100,000.