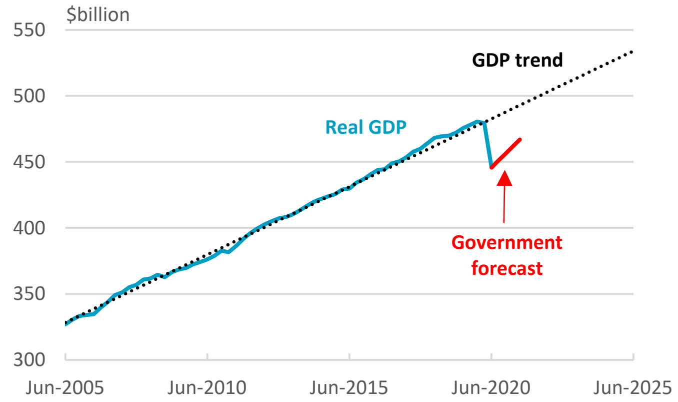
ASFA Economic Snapshot: week ending 11 September

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.

GDP is expected to increase …



Last week's National Accounts for the June quarter (and FY2019-20) were broadly in-line with the most recent government forecasts (published in July). For the year ahead (FY2020-21), the July forecasts imply that GDP will rise by about 1% each quarter. The government will publish updated forecasts on 6 October, which will capture the impact of the protracted COVID restrictions on the Victorian economy.

… but with weakness in private investment

Average (implied) growth rate per quarter in 2020-21

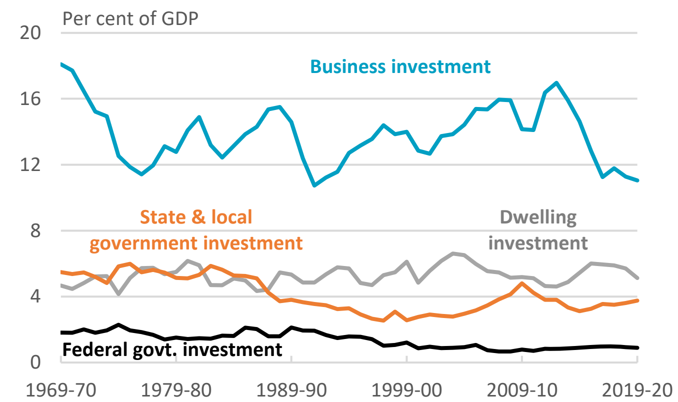
Estimates are rounded to the nearest whole number

Household consumption	3%
Dwelling investment	-4%
Business investment	-4%
Government spending (purchases of goods & services, and investment)	1%
Exports	1%
Imports	3%
GDP	**1%**

Note: average quarterly growth rates are derived from annual growth forecasts.

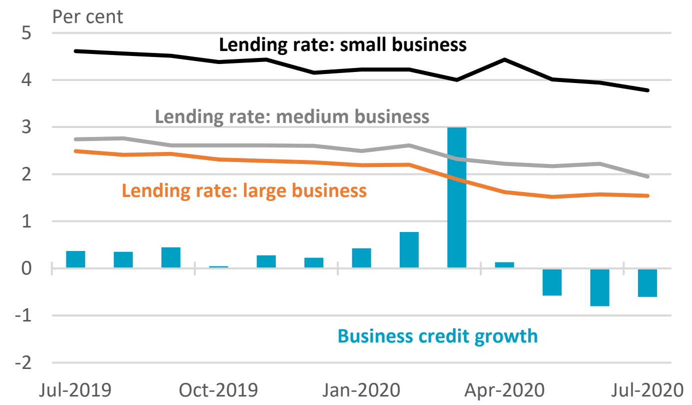
With respect to the (July) forecasts for GDP components, this table shows the implied average quarterly growth rates for 2020-21. The pick-up in GDP in 2020-21 largely relies on a recovery in household consumption. In contrast, private investment (business and dwelling) is forecast to weaken. The updated government forecasts may show an even softer outlook for business investment for 2020-21.

The investment share of GDP is likely to fall …



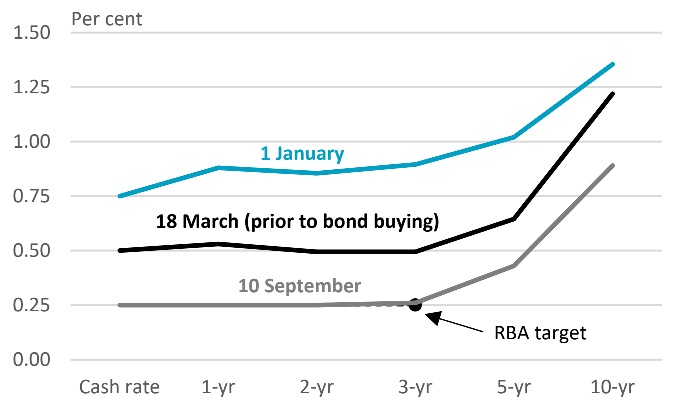
As a share of GDP, business investment is currently at its lowest level since the 1990s recession. For FY2020-21, the government's (July) forecasts imply that this share will fall by about 2 percentage points (and could fall by more in the updated forecasts). For (total) government investment, the July forecasts imply a steady GDP share.

… despite record-low interest rates



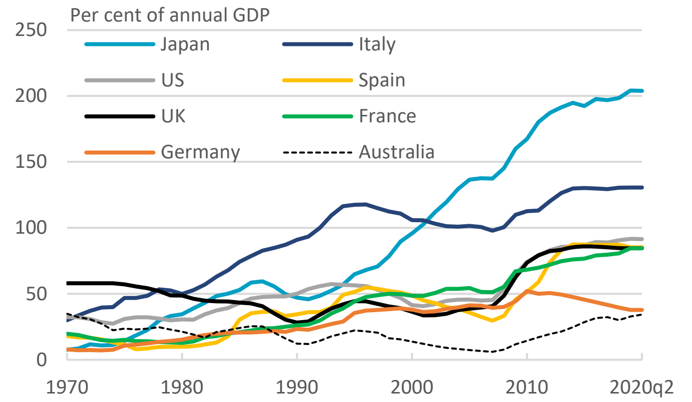
The expected deterioration in business investment coincides with record-low interest rates (rates in this chart are for new loans). Policy action by the RBA to reduce market rates (see Panel 5) has flowed-through to rates on bank lending (and other forms of debt). While total business credit spiked early in the year, it has since contracted.

Monetary policy has reached a limit …



After cutting the cash rate to near-zero, the RBA has been buying government bonds (in the secondary market) across the yield curve to reduce bond rates (out to 3 years). While the RBA's expansionary policy has led to lower rates for households and business, its success in boosting credit and real activity appears mixed. In effect, the RBA has reached the limit of what traditional monetary policy can achieve.

… while fiscal policy has not



This chart shows the debt of central (federal) governments of selected advanced economies. At around 35% of annual GDP, Australia's level of central government debt is relatively low (the average for advanced economies is approaching 100% of annual GDP). This suggests that the Australian government has far more capacity than other advanced-economy governments to use fiscal policy to boost demand.

Sources for each panel: (1 & 2) ABS, *National Accounts,* June; The Commonwealth of Australia, *Economic and Fiscal Update*, July 2020; and ASFA calculations; (3) ABS, *National Accounts,* June; (4) RBA, *Statistical Tables*, D1 and F7; (5) RBA, *Statistical tables*, F1 and F2; (6) IMF, *Government Finance Statistics* and FRED database.