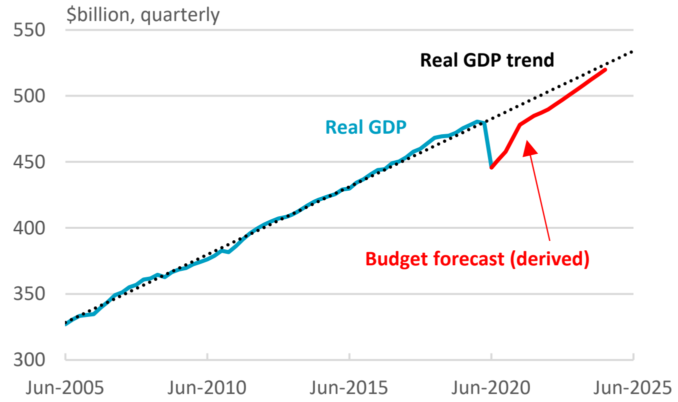
ASFA Economic Snapshot: Federal Budget 2020-21

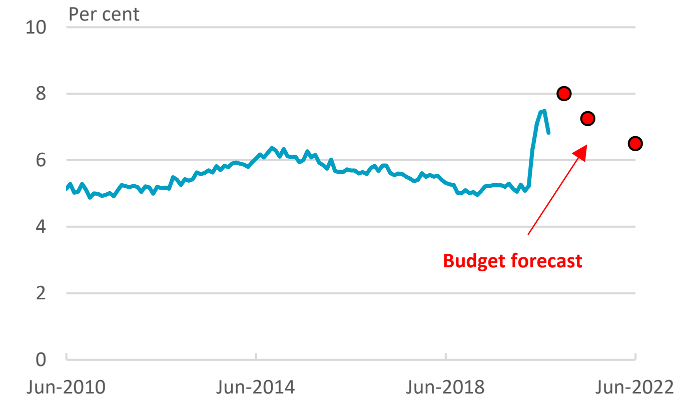
This is a weekly update on the impact of the COVID-19 pandemic on financial and economic conditions, in Australia and globally, and government policy measures to support economic activity and employment.

An economy in recovery



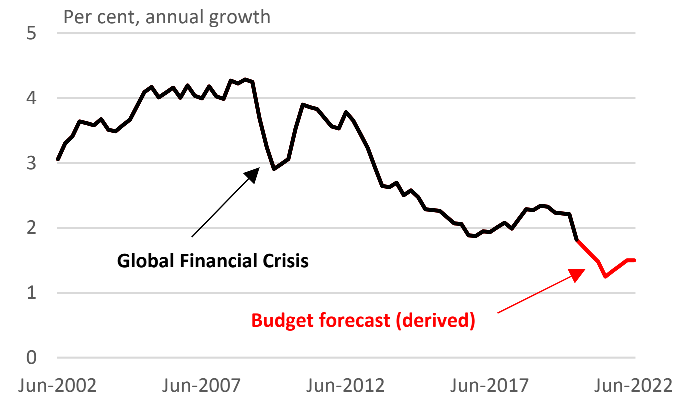
This chart shows the expected trajectory for real GDP, which is derived from the Budget forecasts. In broad terms, the forecasts imply that GDP will increase by an average of 1% each quarter to the end of June 2024 (supported by additional fiscal stimulus – Panel 4). If so, GDP will be just shy of the level it otherwise would have been in the absence of the COVID crisis (assuming trend rates of economic growth).

The labour market will improve slowly …



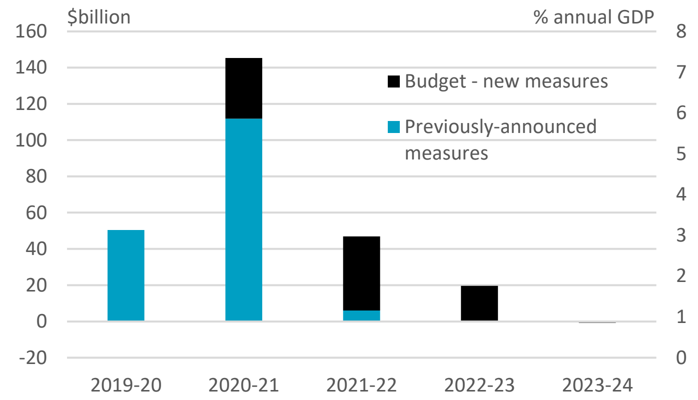
The unemployment rate is yet to peak. A feature of the crisis has been that many people who lost their job, decided not to look for work – and so have not been counted as unemployed. As economic activity picks-up, those who resume job-hunting will be deemed as unemployed – which will push-up the headline rate. After reaching 8% at the end of 2020, the unemployment rate is forecast to slowly fall.

… and wage growth will remain weak



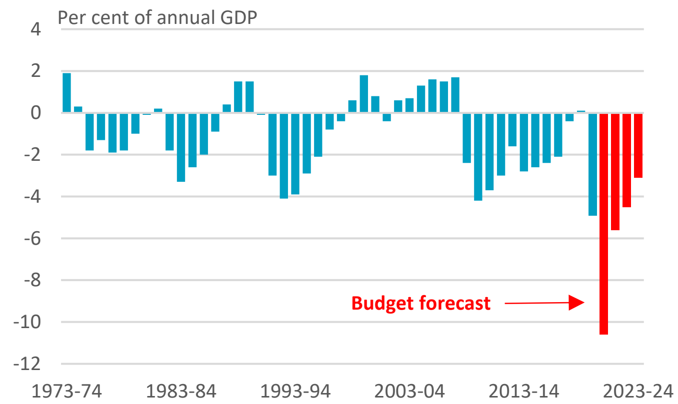
The Wage Price Index (above chart) reflects changes in the underlying demand for, and supply of, labour. As noted in Panel 2, it will take time for spare capacity in the labour market to diminish. This will ensure that wage growth will remain weak for the next few years. For the year to June 2022, growth in the WPI is forecast to be just 1.5%.

Additional fiscal stimulus to boost demand



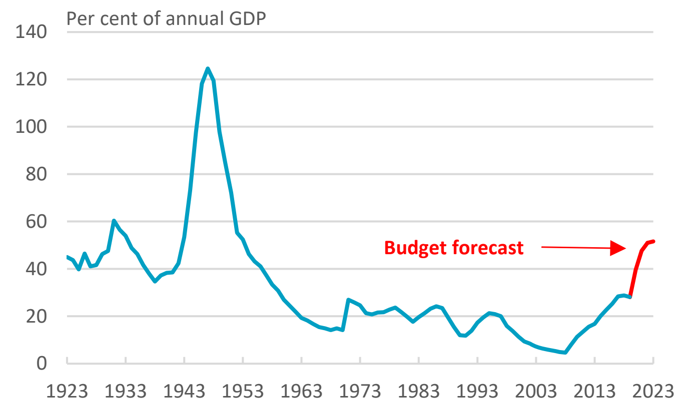
New fiscal measures in the Budget total $93 billion (or 4.7% of GDP) over 4 years to 2023-24, on top of previously-announced measures worth $164 billion (or 8.6% of GDP). Treasury estimates that these, and other indirect measures (e.g. loan guarantees), will mean a 4% higher level of GDP for 2021-22 (than otherwise would be the case).

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 2020-21 the fiscal deficit is expected to reach $206 billion (or 10.6% of GDP), but thereafter diminish as the economy recovers.

… but fiscal space remains



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

Sources for each panel: (1 to 6) The Commonwealth of Australia, *Budget 2020-21* and the ABS; (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-foreconomic-history/source-papers-in-economic-history/).