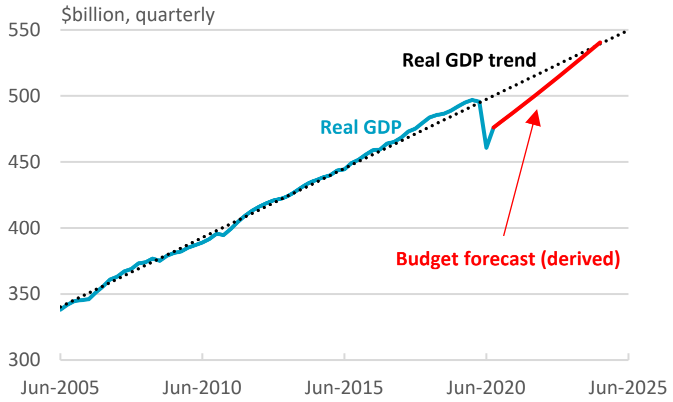
ASFA Economic Snapshot: week ending 4 December

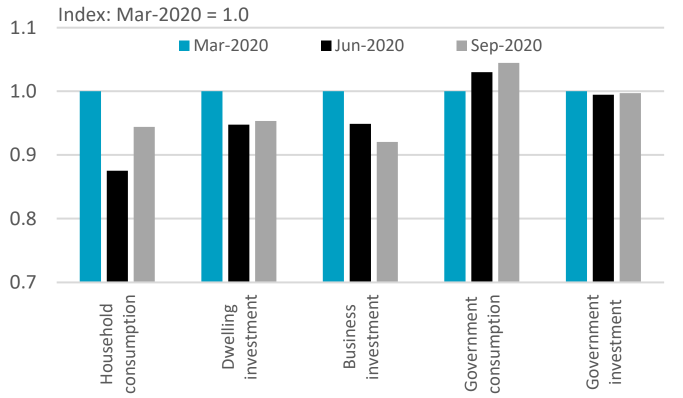
This is a weekly update on the impact of the COVID-19 pandemic on financial and economic conditions, in Australia and globally, and government policy measures to support economic activity and employment.

The long recovery begins …



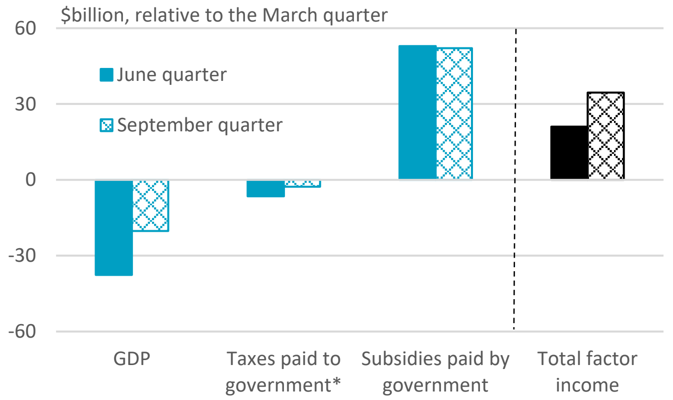
GDP (blue line) rose by 3.3% in the September quarter following a 7.0% drop in the June quarter. The chart also shows the expected trajectory for GDP – derived from the Government's Budget forecasts (red line). In broad terms, the forecasts imply that it will take until June 2024 for GDP to reach the level it otherwise would have been in the absence of the COVID crisis (assuming trend rates of growth – the black line).

… with uneven domestic demand



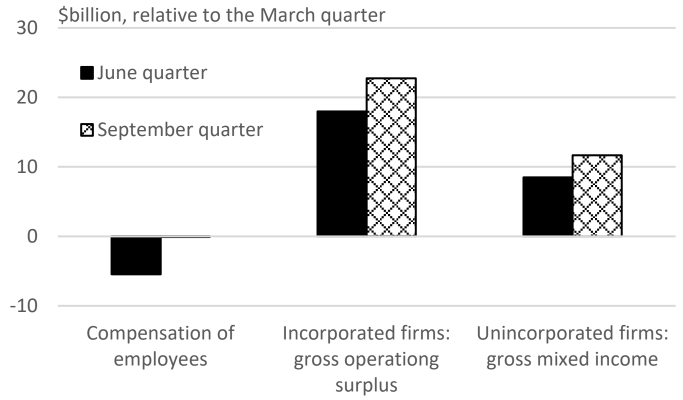
This chart shows the levels of key components of domestic demand (indexed). Household consumption has rebounded and will continue to rise as Victorians increase spending, while rising government consumption largely reflects higher health expenditure. Conversely, dwelling and business investment have taken a hit – with business investment expected to fall further (based on Budget forecasts).

Government subsidies has boosted income …



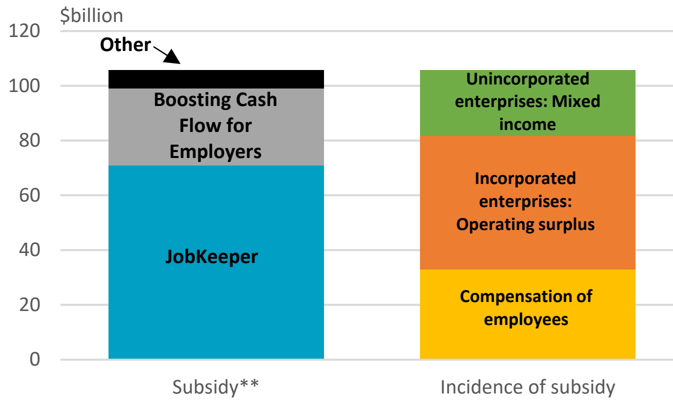
An alternative way to present GDP is in terms of total factor income (TFI). Compared with the March quarter, GDP was *lower* in both the June and September quarters (by a total of $58 billion for the 2 quarters combined), while TFI was *higher* (by a total of $56 billion). This divergence reflects the increase in subsidies paid by government to enterprises (for government, this is reflected in its budget position).

… which is reflected in income components …



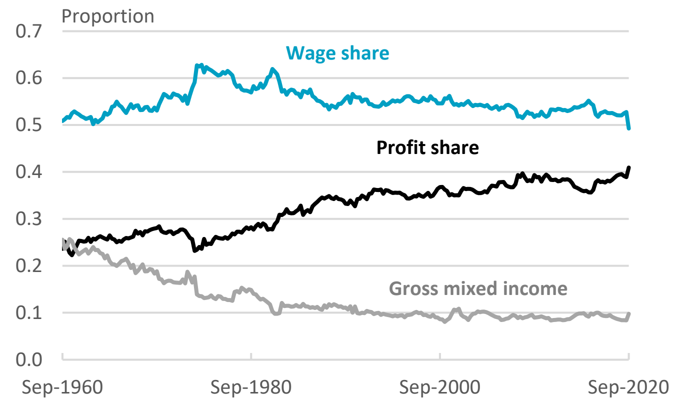
This chart disaggregates the boost to TFI. Compared to March, worker remuneration (i.e. wages and compulsory super contributions) was *lower* in both the June and September quarters by a combined total of $6 billion. For incorporated firms, operating surplus (i.e. profits) was $41 billion *higher*, and unincorporated-firm income was $20 billion *higher*. Without subsidies, each outcome would have been weaker.

… with the incidence of subsidies mainly to business



COVID-related subsidies in the June and September quarters total $106 billion. ASFA's estimate for the incidence of subsidies suggest that one-third has flowed-through to total worker remuneration (via the retention of employees, rather than higher wages). Of the remainder, the bulk has boosted the profits of incorporated firms.

Income shares continue to diverge



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

Sources for each panel: (1 to 6) ABS, *National Accounts*, September 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.