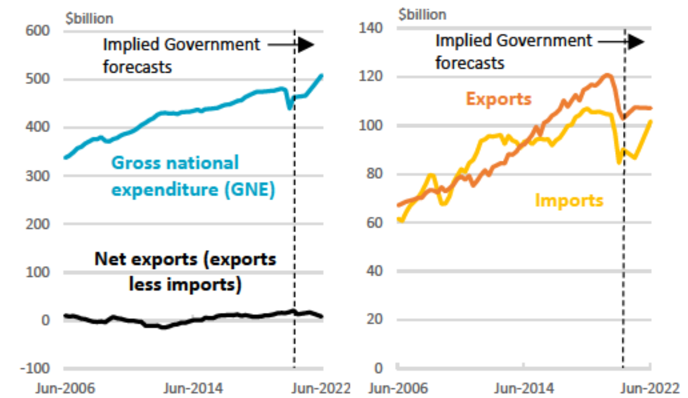
ASFA Economic Snapshot: week ending 11 December

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.

Domestic spending is recovering, but exports are flat ...



As shown in last week's note, GDP bounced-back in the September quarter – marking the start of the recovery. GDP can be disaggregated into total spending by domestic entities (GNE) and net exports. The above charts also show expected trajectories derived from the Government's forecasts. GNE is expected to recover by mid-2022 (driving the rise in imports), but exports are expected to remain weak.

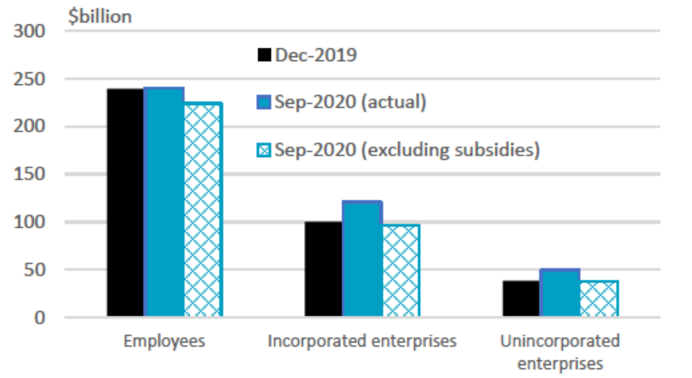
... and risks are weighted to the downside

Average (implied) growth rate per quarter	2020-21	2021-22
Gross national expenditure (GNE)		
Household consumption	1.1%	1.8%
Dwelling investment	-4.8%	1.8%
Business investment	-1.6%	1.5%
Government spending (goods and services, and investment)	1.2%	0.6%
Net exports		
Exports	1.5%	0.5%
Imports	-1.3%	2.1%
GDP	**0.5%**	**1.2%**

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

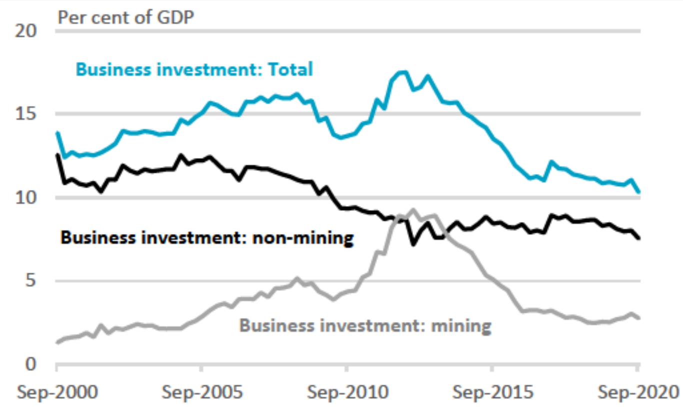
Combining the latest data and the Government's forecasts, this table shows implied growth rates out to mid-2022. The pick-up in GNE in 2020-21 largely relies on a recovery in household consumption. In contrast, private investment (business and dwelling) is forecast to fall further, before rising in 2021-22. There are significant downside risks to the outlook for domestic spending as well as for exports (below).

For consumption, government support will matter ...



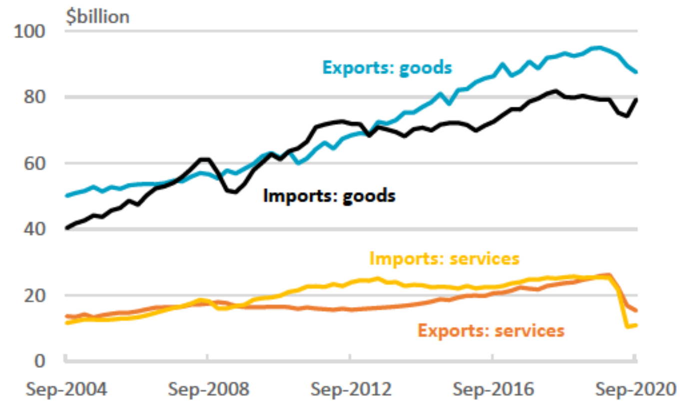
Last week's note showed the effect of COVID-related subsidies on incomes. This chart shows actual incomes for the September quarter, and ASFA estimates excluding subsidies. Compared to the December quarter, the estimates suggest that the largest (direct) risk to growth from removing the subsidies too early relates to consumption. Timing the phase-out with labour market improvements will be crucial.*

... and this will flow-through to investment



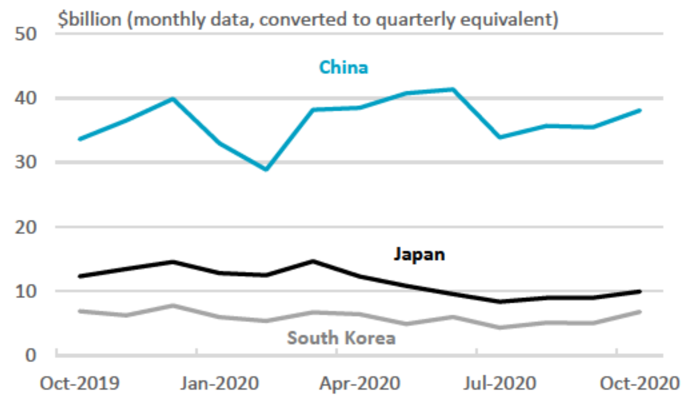
As a share of GDP, mining investment has held-up during the crisis period. In contrast, for non-mining investment the pipeline of work has continued to diminish. The Government's forecasts imply that non-mining investment will fall by another 1 per cent (as a share of GDP) to mid-2021. Confidence among firms that consumption will improve will be crucial for a pick-up in investment in the non-mining sector.

Exports will remain under pressure ...



This chart shows the components of Australia's trade. The drop in service exports reflects the impact of travel restrictions on tourism and education – recovery will depend on global progress on virus control. For goods exports, the recent decline reflects reduced global demand for our commodities and China's restrictions on Australian goods.

... as China ramps-up restrictions



This chart shows Australia's goods trade by destination (the top 3). In May, China imposed tariffs on Australian barley and restrictions on beef from some Australian abattoirs. Other measures, announced in November, target a broader range of Australian goods including coal, cotton and wine – which will push exports to China even lower.

Sources for each panel: (1 & 2) ABS, *National Accounts*, September; The Commonwealth of Australia, *Budget 2020-21*; and ASFA calculations; (3) ABS, *National Accounts*, September and ASFA estimates; (4) ABS, *National Accounts*, September; (5) ABS, *Balance of Payments*, September; (6) ABS, *International Trade in Goods and Services*, October. * For example, the JobKeeper subsidy is due to be phased-out by 28 March 2021.