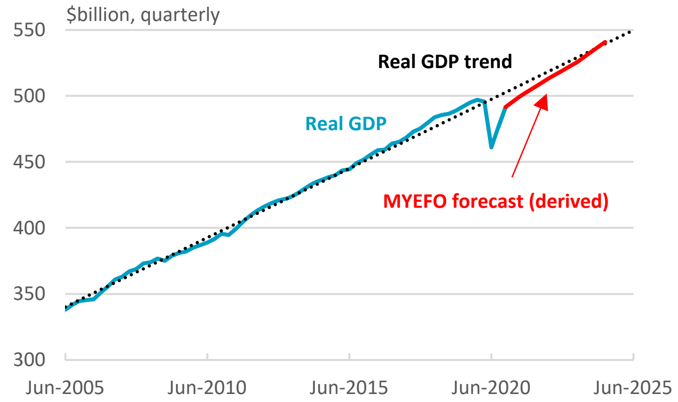
ASFA Economic Snapshot: week ending 5 March

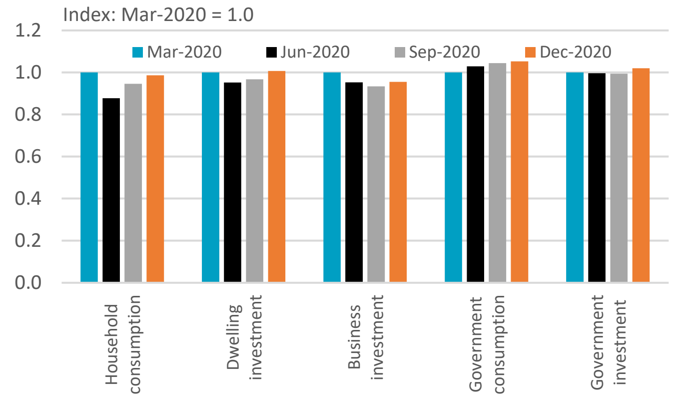
This is a weekly update on the impact of the COVID-19 pandemic on financial and economic conditions, in Australia and globally, and government policy measures to support economic activity and employment.

The economic recovery continues …



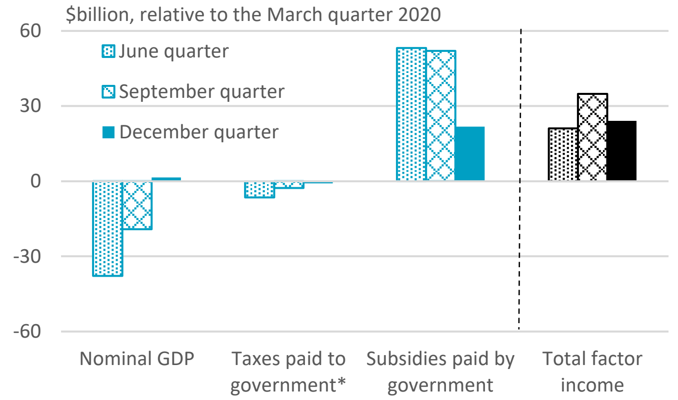
Real GDP (blue line) rose by 3.1% in the December quarter following a 3.4% rise in the September quarter. The chart also shows the expected trajectory for GDP – derived from the Government's MYEFO forecasts (red line). In broad terms, the forecasts imply that it will take until June 2024 for GDP to reach the level it otherwise would have been in the absence of the crisis (assuming trend rates of growth – the black line).

… supported by the household sector



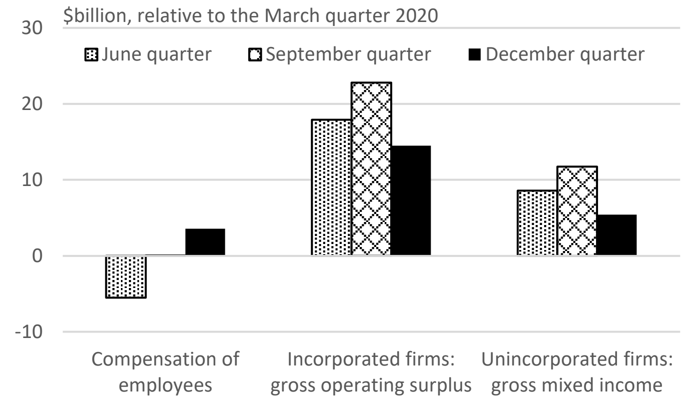
This chart shows levels of components of domestic demand. The recovering labour market is supporting a rebound in household consumption, while low interest rates and grants for homebuilders are driving rising dwelling investment. Higher government consumption partly reflects health spending. Business investment is below pre-crisis levels – mainly due to weaker commercial building construction.

Government subsidies have boosted incomes …



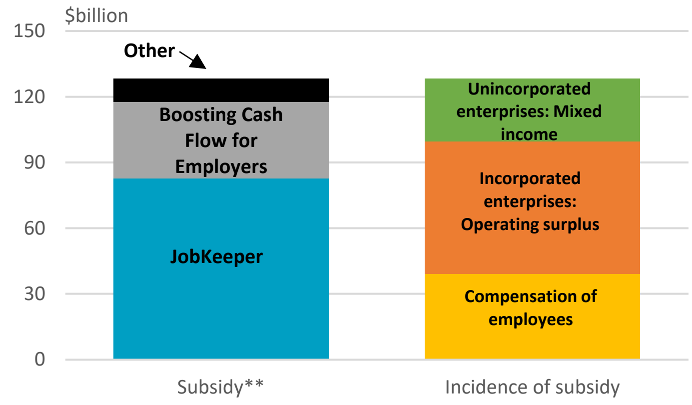
Total factor income (TFI) is equivalent to nominal GDP adjusted for taxes and subsidies.* Relative to the March quarter, Nominal GDP was *lower* in the June and September quarters, and around the same level in the December quarter, while TFI has been consistently *higher*. The divergence reflects COVID-related subsidies paid by government to enterprises (for government, this is reflected in its budget position).

… reflected in the major income components …



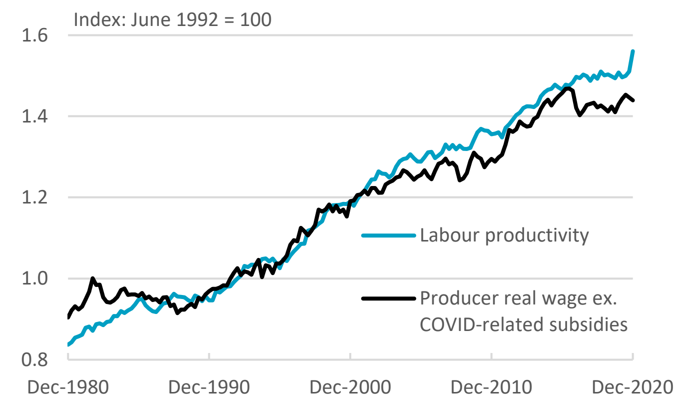
This chart disaggregates the boost to TFI. Relative to March quarter, worker remuneration (i.e. wages and compulsory super contributions) was *lower* in June but *higher* in December, to be $2 billion lower in total. For incorporated firms, operating surplus (i.e. profits) was $55 billion *higher* in total, and unincorporated-firm income was $26 billion *higher*. Without subsidies, each outcome would have been weaker.

… with the incidence of subsidies mainly to business



COVID-related subsidies in the last three quarters have totalled $128 billion. ASFA's estimate for the incidence of subsidies suggests that around 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.

After the crisis, real wages will be lagging productivity



Labour productivity is GDP per hour worked by employees. The producer wage is the real hourly cost of labour for firms including compulsory super contributions (the impact of COVID-subsidies has been removed). Given that the latter tends to track the former, the gap suggests there is scope for future wage and SG increases.

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