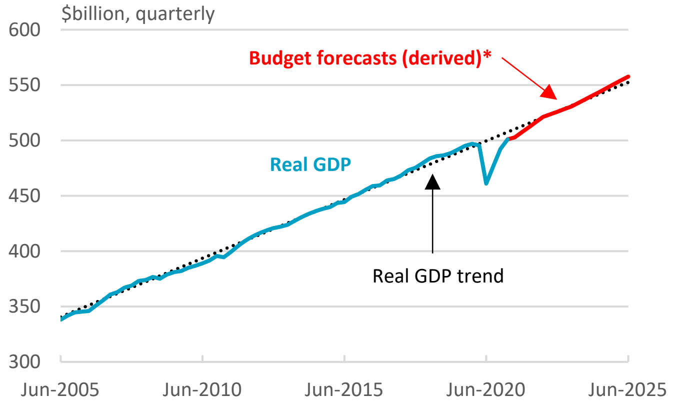
ASFA Economic Snapshot: week ending 4 June

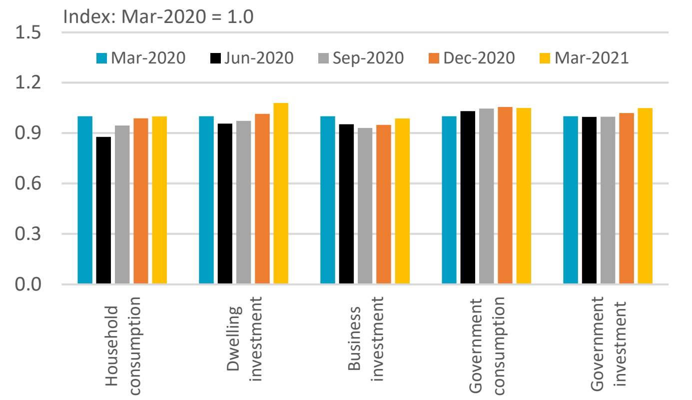
This is a weekly update on the impact of the COVID-19 pandemic on financial and economic conditions, in Australia and globally, and government policy measures to support economic activity and employment.

GDP stronger than expected in the March quarter …



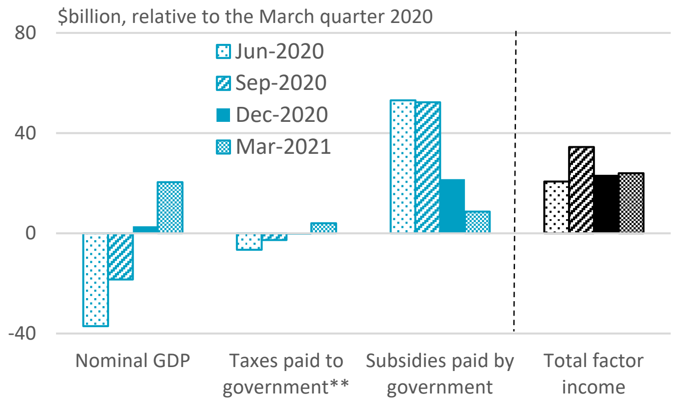
GDP rose by 1.8% in the March quarter and now exceeds pre-crisis levels (blue). The chart also shows the expected trajectory for GDP – derived from Budget forecasts. Together with the March outcome, the forecasts suggest that by mid-2022 GDP will reach the level it would have been in absence of the crisis – though as the renewed lock-down in Victoria shows, uncertainty around the outlook remains elevated.

… driven by private-sector investment



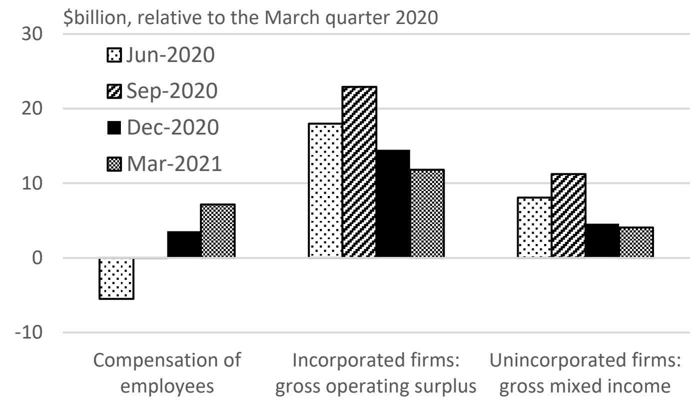
This chart shows components of domestic demand (indexed). The recovering labour market is supporting household consumption, while low interest rates and government grants have driven dwelling construction.^ The pick-up in business investment reflects equipment purchases – which are higher across most industries. Elevated government consumption partly reflects higher health spending.

Government subsidies (now ended) boosted incomes …



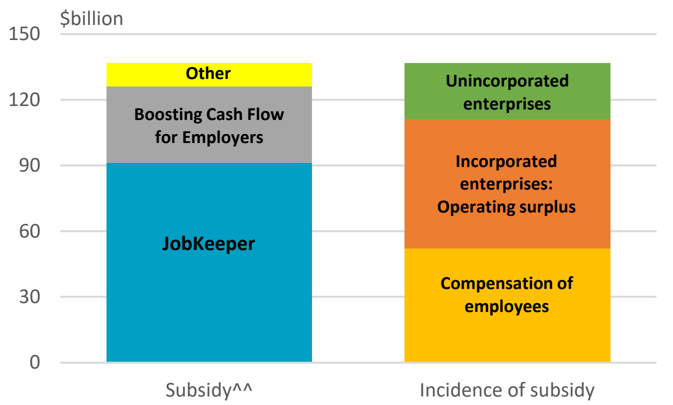
Total factor income (TFI) equals nominal GDP adjusted for taxes and subsidies.** For each series, this chart shows levels relative to March quarter 2020. In the June and September quarters 2020, while nominal GDP had taken a hit, COVID-subsidies (e.g. JobKeeper) paid to enterprises boosted TFI. In the March quarter 2021, nominal GDP had recovered and subsidies fell. All COVID-subsidies have now ended.

… reflected in the major income components …



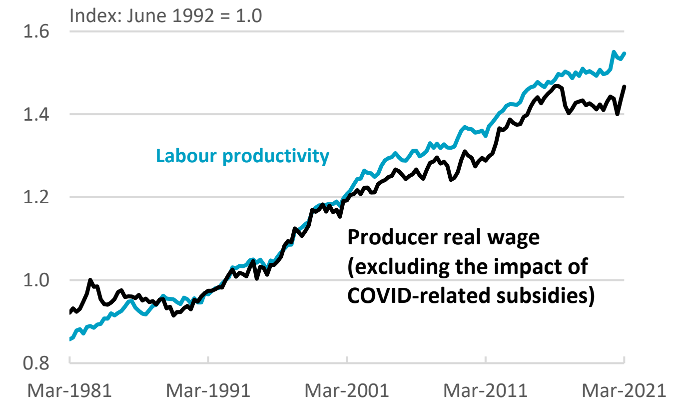
This chart disaggregates TFI. Relative to March quarter 2020, worker remuneration (i.e. wages and SG contributions) was *lower* in June quarter 2020, but *higher* in the past 2 quarters – to be $5 billion higher in total (accumulated). For incorporated firms, operating surplus (i.e. profits) was $67 billion *higher*, and unincorporated-firm income was $28 billion *higher*. Without subsidies, each would have been lower.

… with the incidence of subsidies mainly to business



COVID-subsidies paid to enterprises totalled around $135 billion. ASFA's estimates for the ultimate incidence of those subsidies suggest that around 40% ended up flowing through to worker remuneration (via the retention of employees, rather than higher wages). Of the remainder, the bulk 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 SG contributions (the impact of COVID-subsidies has been removed). Given that the latter tends to track the former over long time periods, the wedge suggests there is scope for future wage and SG increases.

Sources for each panel: (1 to 6) ABS, *National Accounts,* March 2021 and ASFA calculations. * Uses forecasts from the *2021-22 Commonwealth Budget*. ^ Applications for HomeBuilder closed on 14 April 2021. ** Taxes in this case refer only to taxes on production and imports. ^^ 'Boosting Cash Flow for Employers': eligible businesses and not-for-profit organisations who employed staff could receive between $20,000 to $100,000. 'Other': includes state government subsidy schemes.