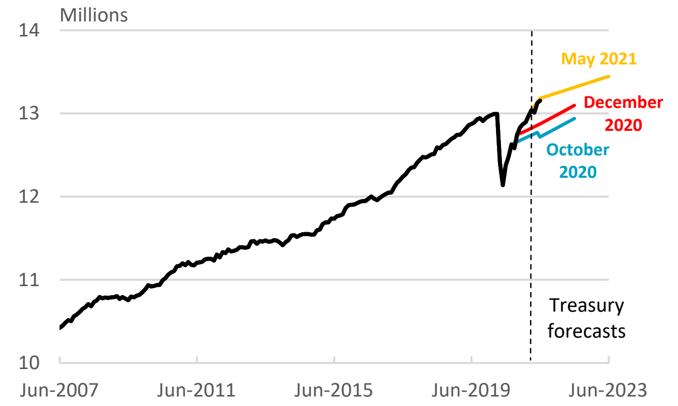
ASFA Economic Snapshot: week ending 16 July

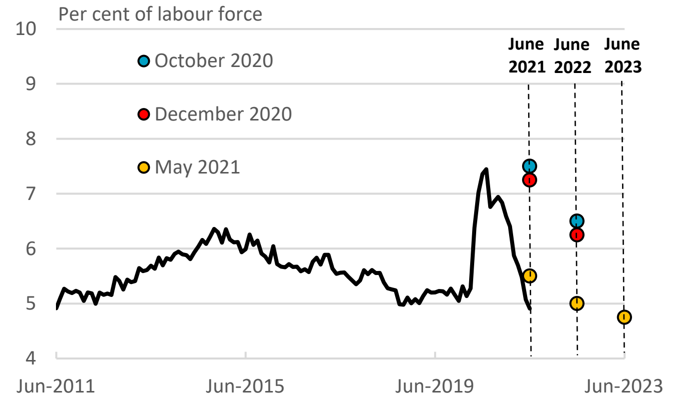
This is a weekly update on the impact of the COVID-19 pandemic on financial and economic conditions, in Australia and globally, and government policy measures to support economic activity and employment.

New lockdowns follow a strong economic recovery …



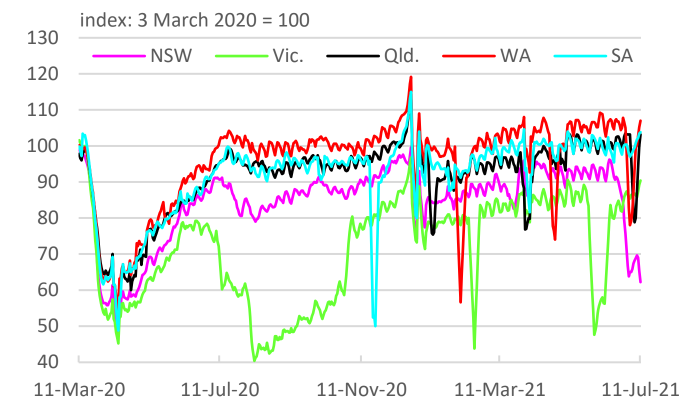
Fresh lockdowns in response to COVID-Delta cases follow a phase when the impact of the 2020 COVID-crisis had been largely reversed – employment is now above pre-crisis levels. Looking ahead, prudent restrictions and government financial support should see the economy track broadly as expected, despite the significant short-term shock.

… with unemployment at low levels



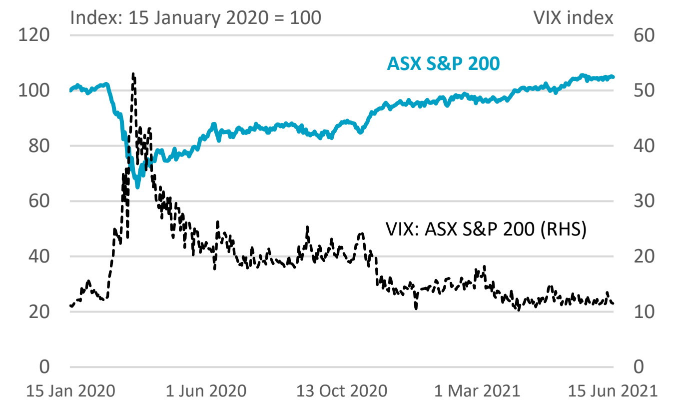
This shows the unemployment rate, and the last three iterations of Treasury forecasts. The strong recovery has seen unemployment drop to 4.9% in June 2021. This is lower than Treasury expected in October 2020 (blue) and December 2020 (red), and even in May 2021 (yellow). Indeed, the current rate is lower than the latest forecast for June 2022.

NSW lockdowns have been extended



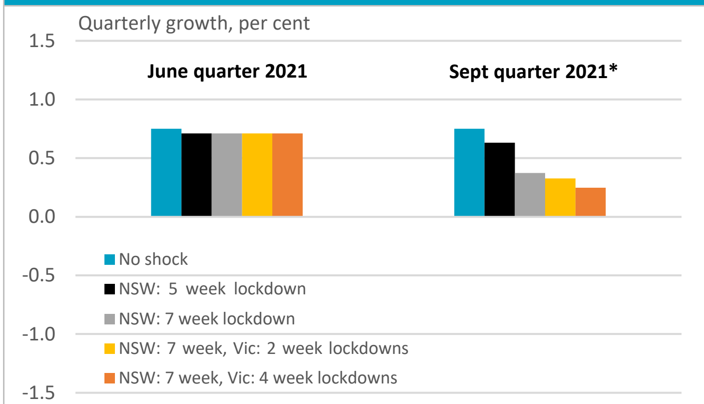
This shows aggregated metrics for visits/time-stayed by people at retail/recreation facilities (ex. supermarkets). On 26 June, lockdown restrictions were imposed for Greater Sydney. This has led to a 30% fall in (average) NSW activity and a 50% fall for Sydney. Restrictions will continue until 30 July at least (5 weeks overall), with snap lockdowns expected elsewhere (Victoria just

Investors remain optimistic



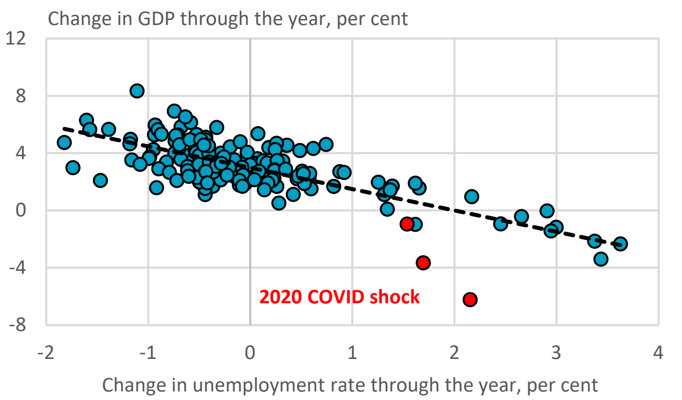
Thus far, the NSW lockdown (and the prospect of lockdowns elsewhere) have had a limited impact on financial markets. Since 26 June, the ASX 200 has been broadly flat, and volatility has remained relatively low. While immediate economic impacts are expected from the lockdowns (Panel 5), investors appear confident of a quick bounce-back and no significant long-term effects on business.

Lockdowns will impact near-term GDP growth …



This shows estimates of the impact of lockdowns on national GDP growth, relative to implied Treasury forecasts (blue). For NSW, it is estimated that lockdown (from 26 June) will cut economic activity by about $1 billion per week,^ which includes the cushioning impact of announced Commonwealth/state government support. Similar lockdowns (now introduced in Victoria), will further reduce GDP

… with government support crucial



This is a version of Okun's Law: an empirical relationship between GDP growth and cyclical changes in unemployment. On average, a 1% fall in GDP is associated with a 0.6% rise in the unemployment rate. For the initial 2020 COVID shock (red), the data points to the important role of government schemes that encouraged firms to retain staff – which limited unemployment (i.e. less than implied by falls in GDP).

Sources for each panel: (1 & 2) ABS, *Labour Force*, June 2021; Commonwealth Government, *Budget 2021-22*; and ASFA calculations. (3) Google, *COVID-19 Community Mobility Reports*. (4) Yahoo Finance. (5) ABS, *National Accounts*, March 2021; Commonwealth Government, *Budget 2021-22*; and ASFA calculations. (6) ABS, *National Accounts*, March 2021; ABS, *Labour Force*, June 2021; Commonwealth Government, *Budget 2021-22*; and ASFA calculations. ^Based on Treasury estimates. *This assumes a (variable) bounce-back in GDP within the quarter.