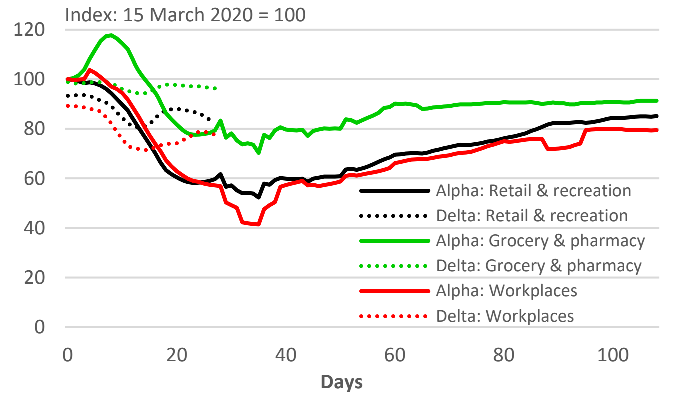
ASFA Economic Snapshot: week ending 23 July

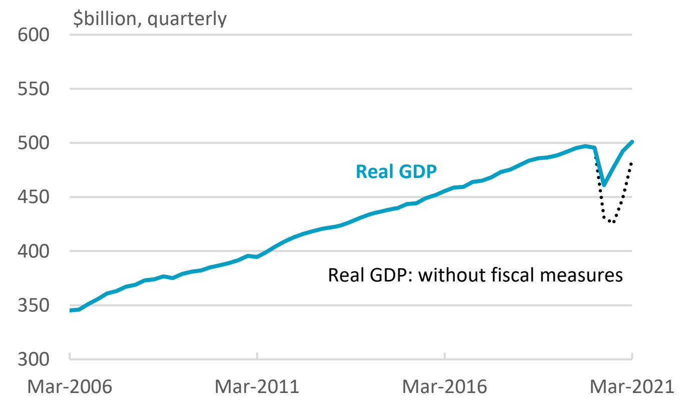
This is a weekly update on the impact of the COVID-19 pandemic on financial and economic conditions, in Australia and globally, and government policy measures to support economic activity and employment.

Impact of lockdowns less severe than initial shock (so far)



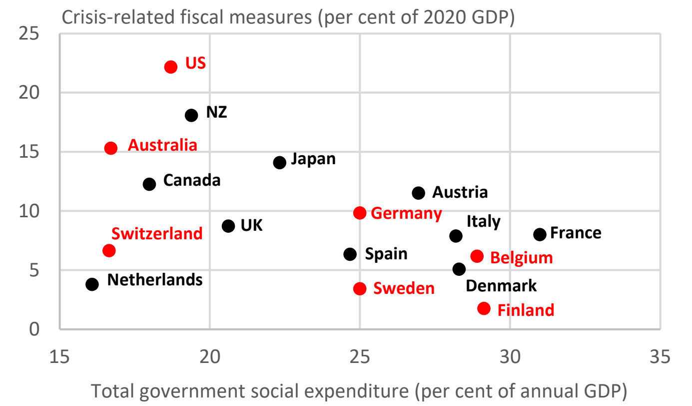
This shows aggregated metrics (for Australia) for visits/time-stayed by people following the March-2020 lockdowns (solid lines) and current lockdowns (dotted lines). The variation in current lockdowns across the nation is reflected in a lower (average) impact compared with the initial shock. However, the challenges in containing the Delta variant and still-low vaccination rates present risks of broader lockdowns.

A ramping up of fiscal support may be necessary



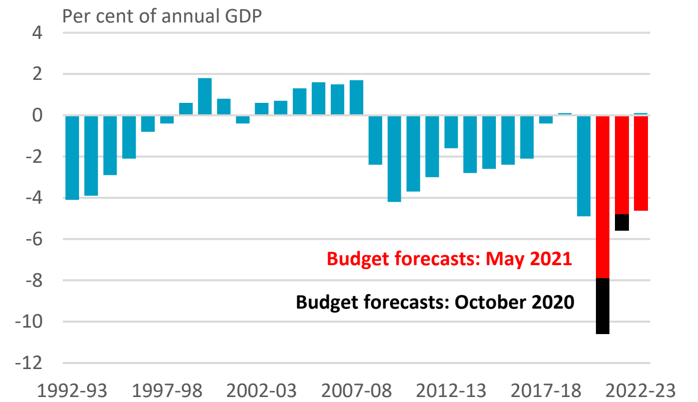
This shows actual GDP and a GDP estimate *in the absence of* discretionary fiscal action – about $190 billion to end-March 2021, or 10% of annual GDP. Looking ahead, current federal/state schemes imply lower *relative* fiscal support for a given shock (e.g. JobKeeper ended on 28 March). Given the risk of tougher/extended lockdowns and their potential impact, a ramp-up of support appears justified.

Australia requires relatively aggressive fiscal action



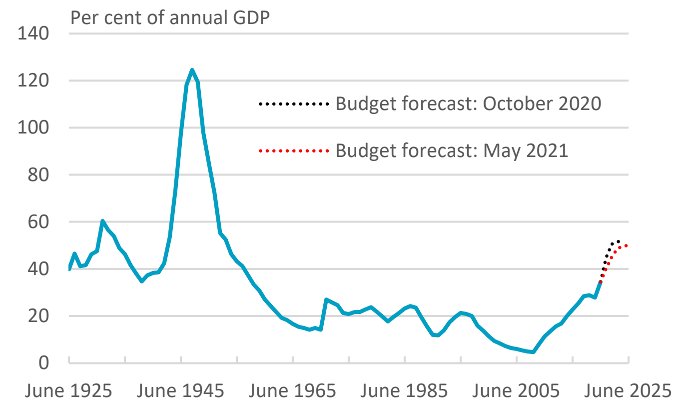
For selected countries, this shows the total fiscal response to the crisis (all years combined), compared with typical (or structural) social spending (e.g. pensions, unemployment benefits). While a country's response reflects many factors, this suggests that countries with lower structural social spending (e.g. Australia), and so a weaker 'automatic stabiliser' (Panel 4), needed to rely more on discretionary fiscal action.

Federal budget into deficit, but by less than expected



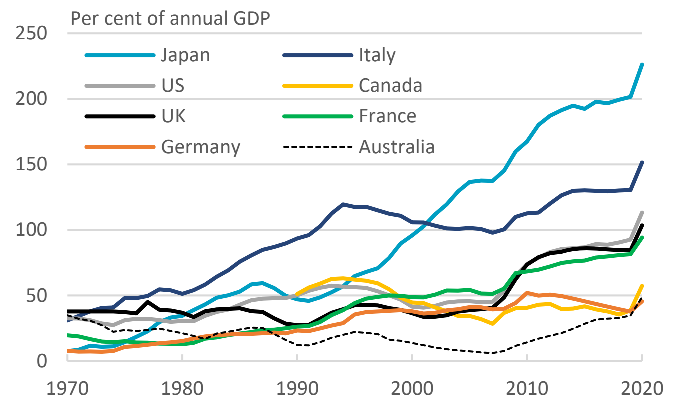
The Federal government's budget position has moved sharply into deficit – which reflects direct fiscal action, but also the impact of automatic adjustments to structural government spending (higher than otherwise) and tax receipts (lower than otherwise). That said, the latest Treasury forecasts (red) are for a smaller deficit than previously expected (black) – for 2020-21, 7.9 % of annual GDP rather than 10.6%.

Federal government has policy room …



While the forecast budget deficits will lead to higher gross federal government debt, the expected level (% of GDP) will not be remarkably high compared with previous periods. Together with record-low borrowing rates, this suggests that the federal government has significant additional capacity to use fiscal policy to boost demand.

… with relatively low debt levels



This shows the total debt of central (federal) governments of selected advanced economies.^ At around 40% of annual GDP (end of 2020), Australia's debt is relatively low (average for advanced economies is over 100%). This suggests that the federal government has far more fiscal capacity than many other advanced-economy governments.

Sources for each panel: (1) Google, *COVID-19 Community Mobility Reports* and ASFA calculations; (2) ABS, *National Accounts*, March 2021; Commonwealth of Australia, *Budget 2021-22*; and ASFA calculations; (3) OECD, *Social Expenditure Database*; IMF, *Fiscal Monitor*, April 2021 and ASFA calculations; (4) Commonwealth of Australia, *Budget 2021-22*; (5) The Treasury, *A History of Public Debt in Australia*, Economic Round-up 2009(1); Commonwealth of Australia, *Budget 2021-22* and ASFA calculations; (6) IMF, *Global Debt Database* and ASFA calculations. ^Central government debt is broader that the typically-quoted general government debt.