

Friday, 7 August 2020

Victorian Lockdown Delays Recovery

- Since the COVID-19 pandemic began, we have been highlighting the difficulty in assessing the economic outlook as it depends significantly on the evolution of the virus.
- The developments in Victoria highlight this uncertainty. The Stage 4 lockdown measures imposed in Metropolitan Melbourne and Stage 3 restrictions for the rest of Victoria has lowered our economic growth expectations for this year.
- The hit to Victorian economic activity is expected to be substantial. It points to a further contraction in the Victorian economy in the September quarter after a sizeable fall in activity over the June quarter.
- The retail sector has been deeply impacted by this latest round of restrictions, but so too has output in administration and manufacturing. Construction activity will also be dented as the number of on-site workers will be constrained. Weaker demand will also weigh on the outlook more broadly as orders diminish.
- Prime Minister Scott Morrison has indicated 250,000 to 400,000 jobs could be stood down due to the Stage 3 and 4 restrictions in Victoria. Treasury and the RBA are estimating that the unemployment rate will peak at 10%.
- With the Victorian economy accounting for a bit under a quarter of the Australian economy, positive economic growth nationwide is not expected to return until the December quarter of this year.
- Our economic growth forecasts for 2020 have been downgraded to a contraction of 4.7% from 4.2% previously. However, there continues to be significant uncertainty for the outlook.
- The outlook will continue to depend on the rate of infections and lockdown measures imposed. It will also be influenced by the implementation of policy support, in particular, by the Federal and State governments.
- New policy support has included a \$10,000 grant to employing businesses in Metropolitan Melbourne and the Mitchell Shire region and a \$5,000 grant to employing businesses in other regions in Victoria. The stricter eligibility requirements for JobKeeper beyond September have recently been eased after amendments were announced late last month. We hope for further policy support from Federal and State Governments.

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The most recently announced measures in Victoria point to a further contraction in the Victorian economy in the September quarter after a sizeable fall in activity over the June quarter. With the Victorian economy accounting for a bit under a quarter of the Australian economy, positive economic growth nationwide is not expected to return until the December quarter of this year.

The downturn in Victoria comes at a time when other States are benefiting from the lifting of restrictions imposed in late March and April. That said, there continues to be the risk of infections escalating, especially in NSW. Additional restrictions would dent the recovery further. Moreover, the loss of confidence due to the increasing number of new cases will weigh on economic activity, as people refrain from going out.

Who is Most Impacted?

Under Stage 4 restrictions, on-site work for retail, education & training, some manufacturing and administration are required to close.

Meat processing, warehousing and construction industries are still allowed to operate but with significantly less staff on site. It would have the impact of reducing output in these sectors. Weaker incomes will also hit demand more broadly.

These sectors account for a significant chunk of employment. Retail, construction and manufacturing combined comprise nearly 30% of Victoria's workforce.

It follows the Stage 3 restrictions which have already significantly impacted industries such as accommodation & food services, arts & recreation, and healthcare services. Indeed, all industries are impacted by the loss of demand and weaker incomes and will all be required to develop COVID safe plans.

Prime Minister Scott Morrison has said 250,000 to 400,000 people could lose their jobs as a result of the Stage 3 and Stage 4 lockdowns. It has again heightened the risk that the unemployment rate will hit the double-digits. Treasury and the Reserve Bank (RBA) now estimate that the unemployment rate will hit 10%.

Uncertainty Continues

There are two major factors shaping the economic outlook, both of which are highly uncertain.

Firstly, the outlook will depend highly on the rate of infections. The high level of infections in Victoria is a source of significant uncertainty on the duration of lockdown measures which in turn affects the economic outlook. The risk of infections rising in NSW also continues to highlight the possibility of restrictions being imposed in the State, although new cases daily have been relatively well contained.

Secondly, the outlook will be influenced by the implementation of policy support, in particular by the Federal and State governments.

The Victorian Government is providing one-off grants through a Business Support Fund, which provides \$10,000 to employing businesses in metropolitan Melbourne and Mitchell Shire. A payment of \$5,000 is being provided to other regions in Victoria.

An extension of JobKeeper and the Coronavirus Supplement beyond September is also an

encouraging development and has alleviated concerns of a support cliff in late September. However, both schemes will become less generous after September. The Federal Government also tightened the eligibility for the wage subsidy but these criteria have subsequently been relaxed after the latest tightening of restrictions in Victoria.

We hope that the government will provide some additional support. Indeed, the persistence of COVID-19 and the impact of restrictions on businesses and jobs will likely place pressure on the government to provide more assistance through this period.

The Federal Budget is due to be handed down on October 6. Media reports have hinted that policy measures that could be announced include bringing forward tax cuts or incentives for businesses to invest. With interest rates near zero and the RBA limited to providing further support through unconventional policies, there is further pressure on the government to do more.

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