

THE POST-PANDEMIC ECONOMY

PRESENTATION TO
THE SOUTH AUSTRALIAN CENTRE FOR ECONOMIC STUDIES

ADELAIDE, 13TH JULY 2021





* O R E D O H F R Q R P L F J U R Z W K V H H P V O L N H O \ W R V O
L Q G X F H G ¶ E R X Q F H . «

OECD real GDP growth forecasts

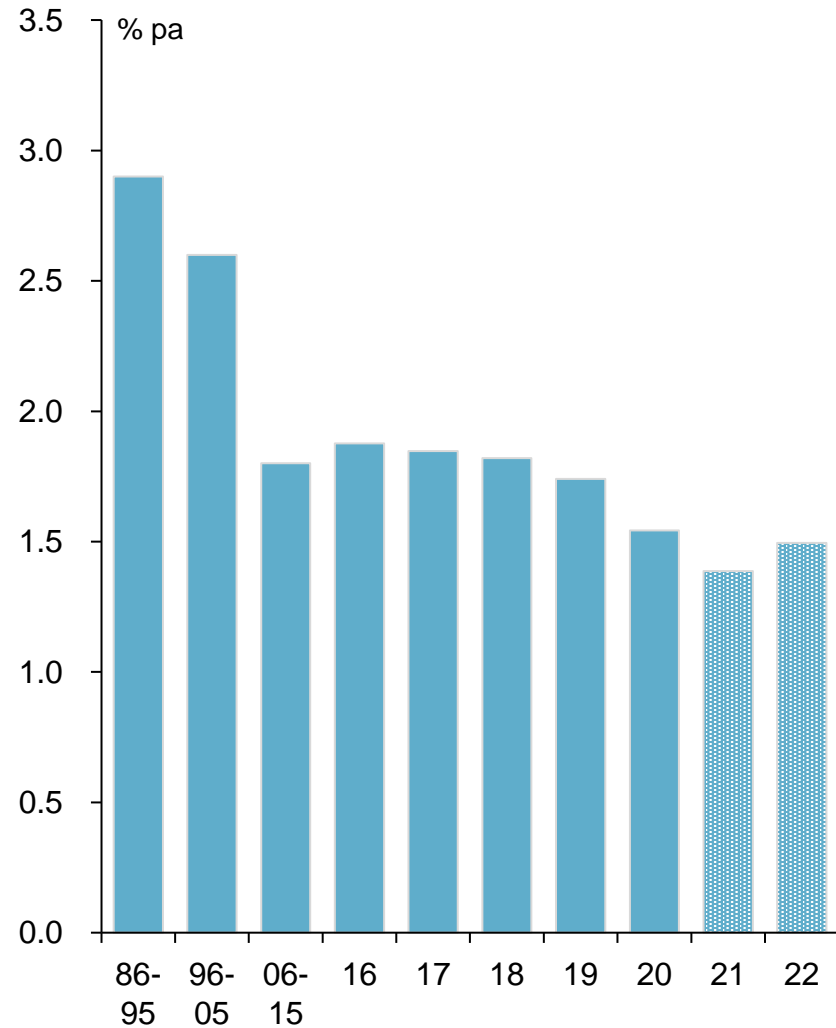
OECD unemployment rate forecasts

OECD, _____

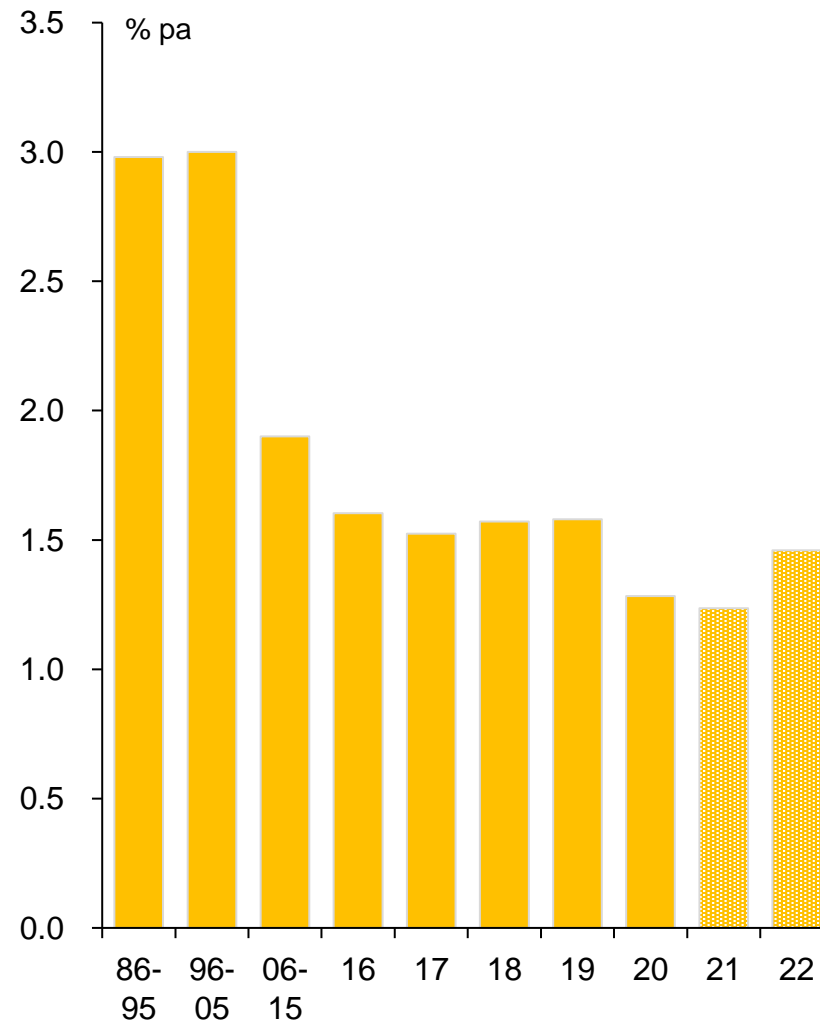


« EHFDXVH ZLWK WKH SDUWLDO H[FHSWLRQ RI W (or will be) to tackle long- VWDQLQJ VWUXFWXUDO. KHDG

OECD area potential GDP growth



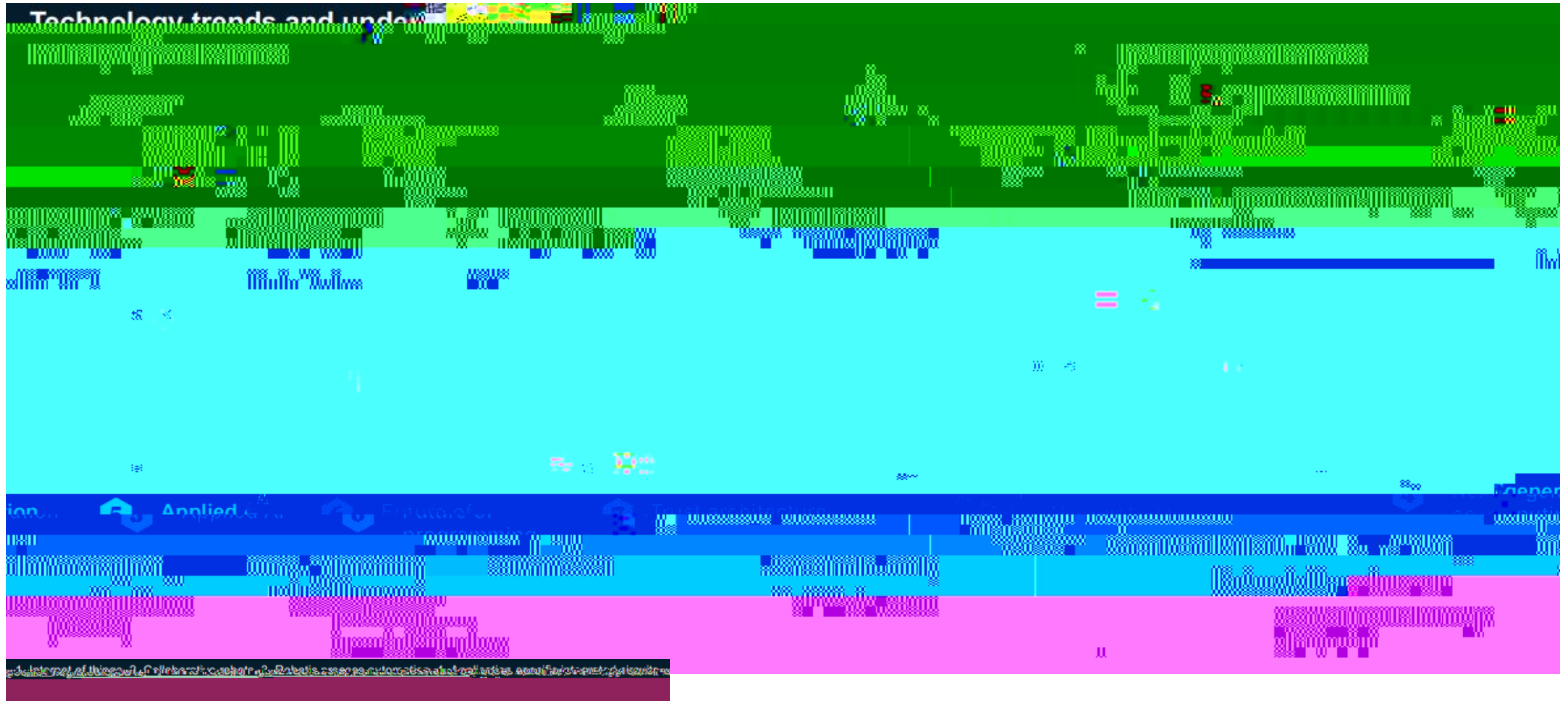
Growth in the OECD area productive capital stock



OECD area labour productivity growth



Technological change is likely to continue at a rapid pace. It is unclear whether or how much this will boost overall productivity growth.



8 S V W U H D P . S U L F H S U H V V X U H V K D Y H L Q W H Q V L I L H

Container freight costs



RI WKH LQFUHDTVH LQ WKH ¶FRUH. 86 & 3, RYHU



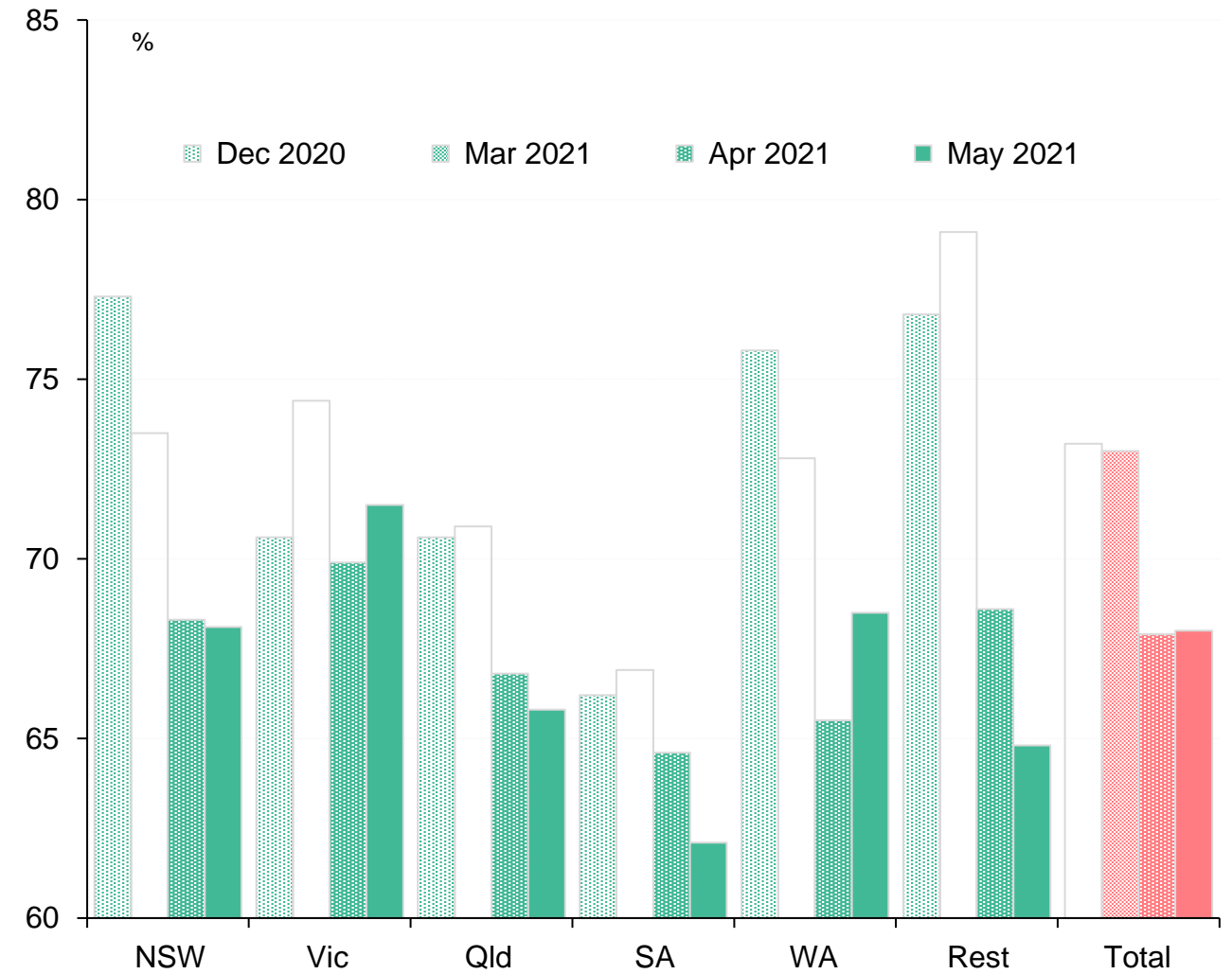
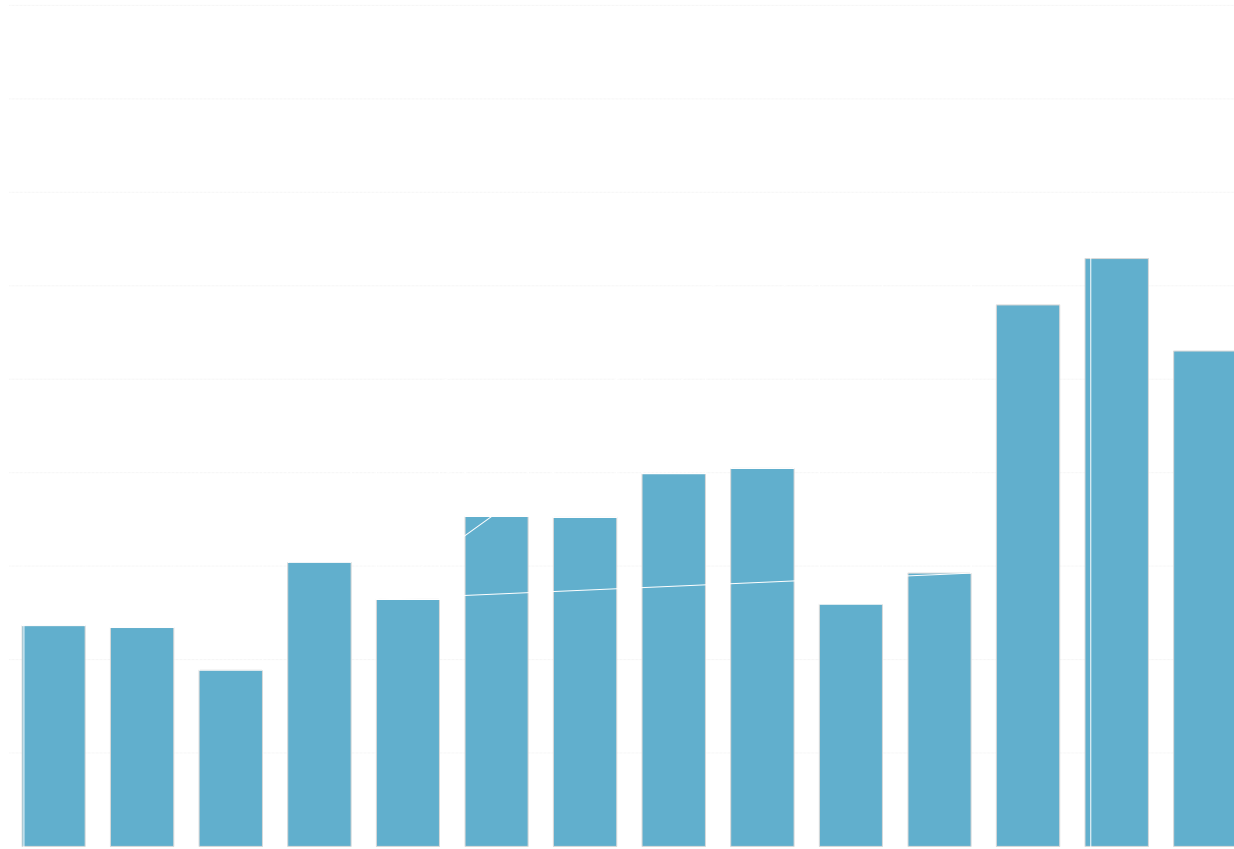
The Australian economy



UK and Australia has a vaccine when available

Covid-19 economies, June 2021

they would get a vaccine when available



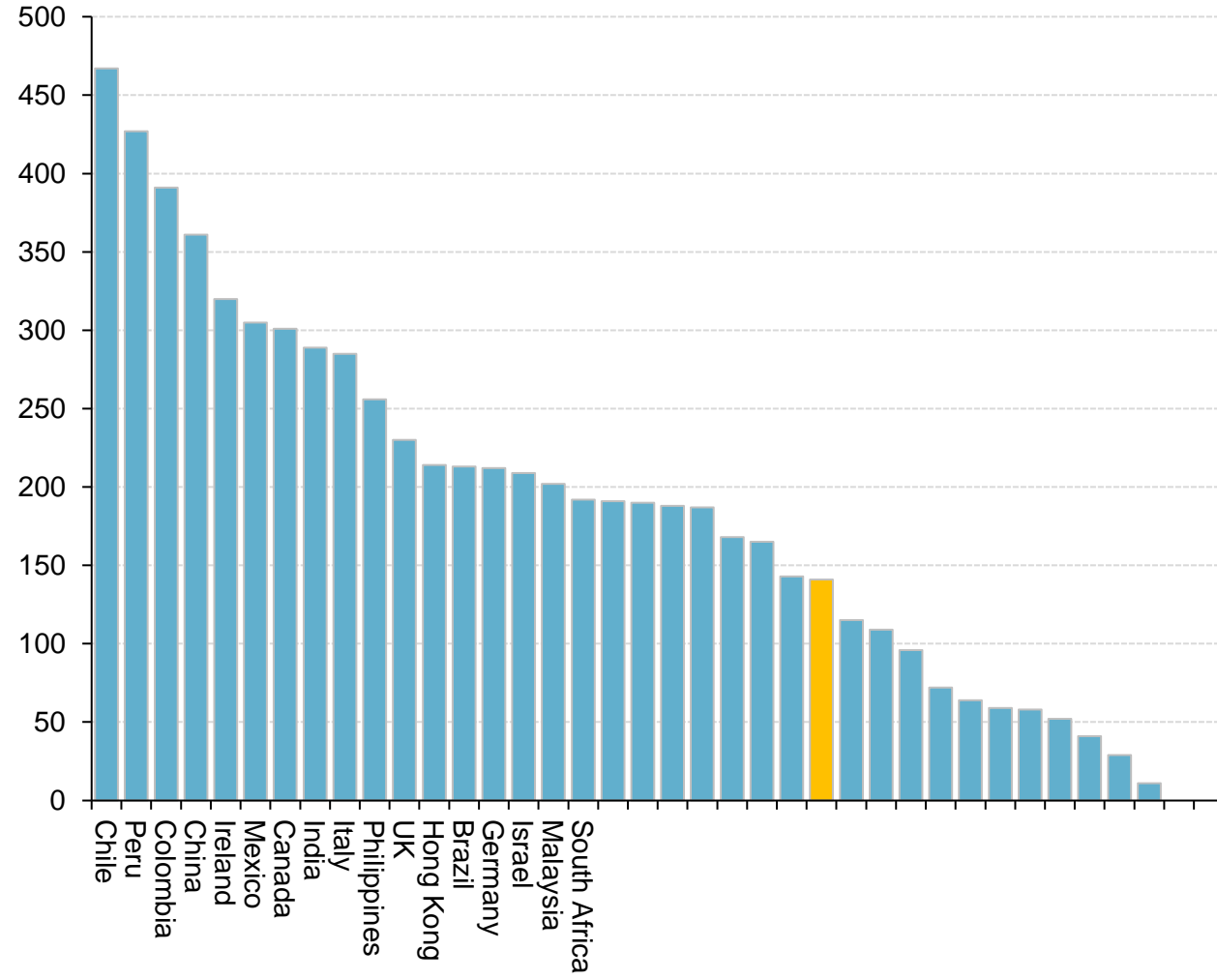
Results for UK and Canada are for May. June results for Australian states will be released on Wednesday 14 Imperial College London and YouGov, [Covid 19 Behaviour Tracker Data Hub](#)

th July.



\$ X V W U D O L D . V U H V W U L F W L R Q V D U H Q R Z R Q F H D J D
 R I ¶ D G Y D Q F H G . H F R Q R P L H V

Number of days for which the stringency of restrictions has been above 70 on the Oxford Index



The Oxford COVID -19 Government Response Tracker collects publicly available information on 11 indicators of government response including school and workplace closures, public events cancellations, restrictions on public gatherings, stay at home requirements, public transport closure s, domestic and international travel restrictions, public information campaigns, testing and contact tracing. [Blavatnik School of Government, Oxford University](#). Data up to 2nd - 7th July, except for Brazil, 21st June, South Africa, 24th June, and Indonesia, Malaysia and US, 28th June.



« EXW \$XVWUDOLD.V ERUGHU PHDVXUHV KDYH EH
other country (and certainly any democracy)

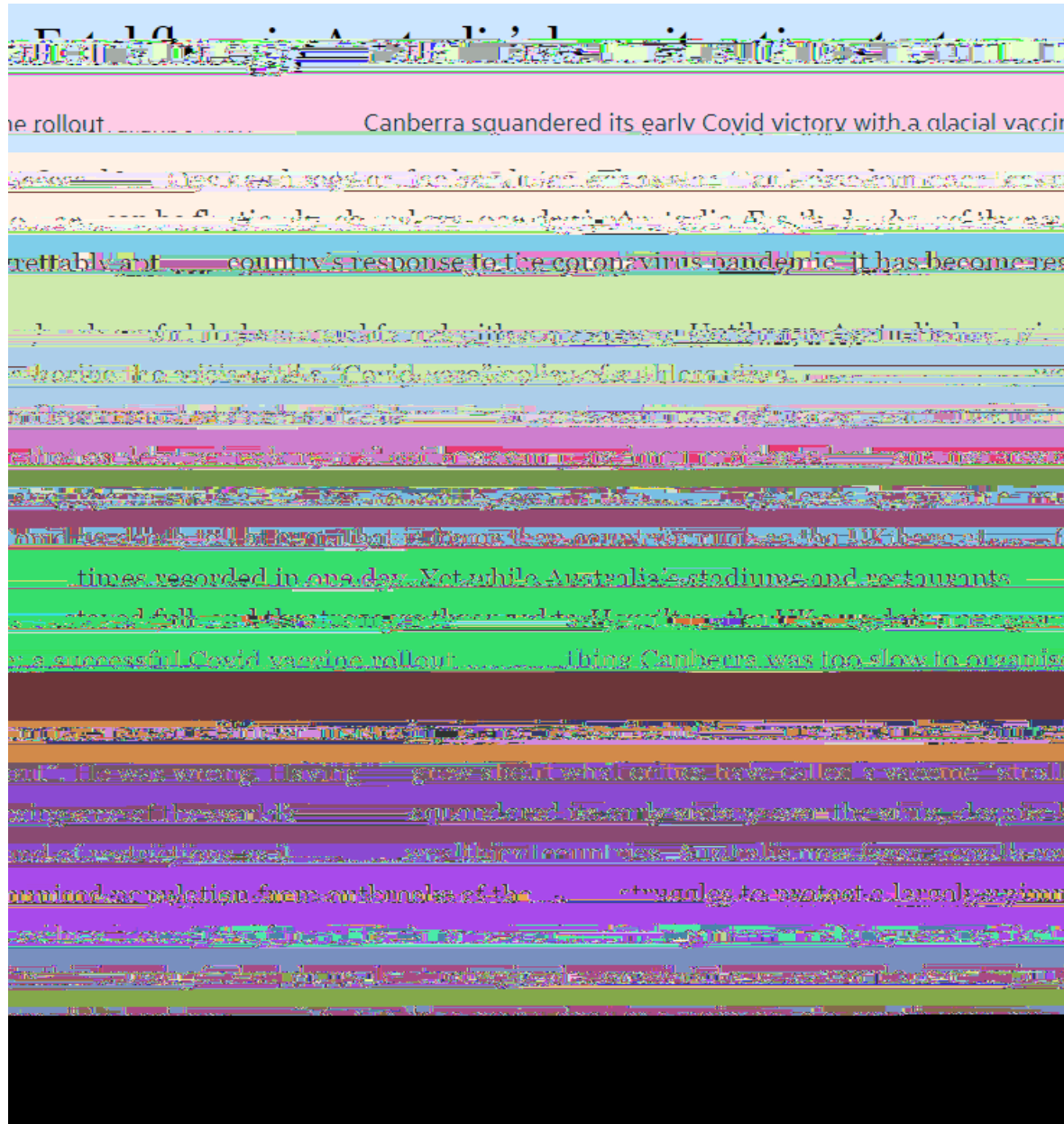
Article 12 of the United Nations [International Covenant on Civil and Political Rights](#) (which Australia signed in 1972, and which it ratified in 1980) says

- 'HYHU\RQH VKDOO EH IUHH WR OHDYH DQ\ FRXQW-one shall be arbitrarily deprived of life@gr R ZQ μ
HQWHU KLV >VLF@ RZQ FRXQWU\μ

Australia is [the only democracy in the world](#)



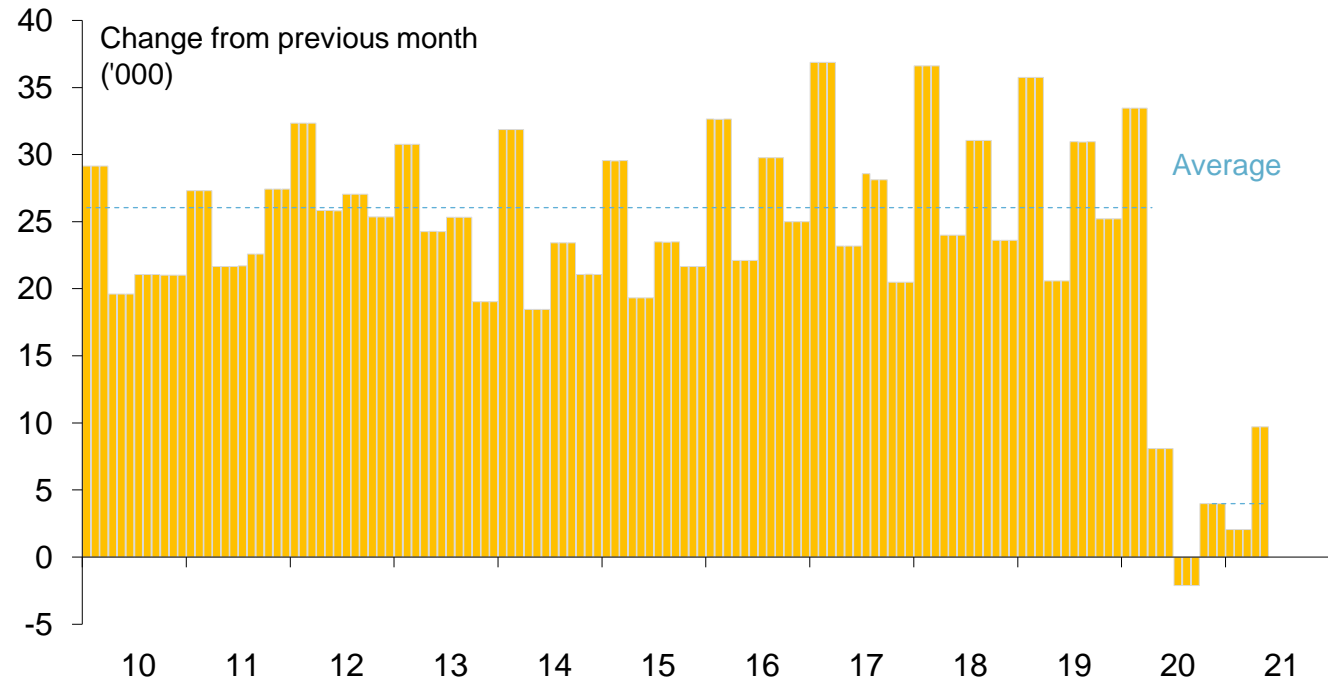
\$XVWUDOLD.V VWUDWHJ\ LV VWDUWLQJ WR DWWU



7KH FORVXUH RI \$XVWUDOLD·V ERUGHUV PHDQV V

unemployment for any given rate of jobs growth

Monthly growth in civilian working-age population



Over the decade prior to the onset of Covid-19, the civilian working-age population (people aged 15 and over) grew by an average of 26K a month ² meaning that 16½K new jobs a month, on average, were required to keep the unemployment rate constant (assuming an unchanged participation rate)

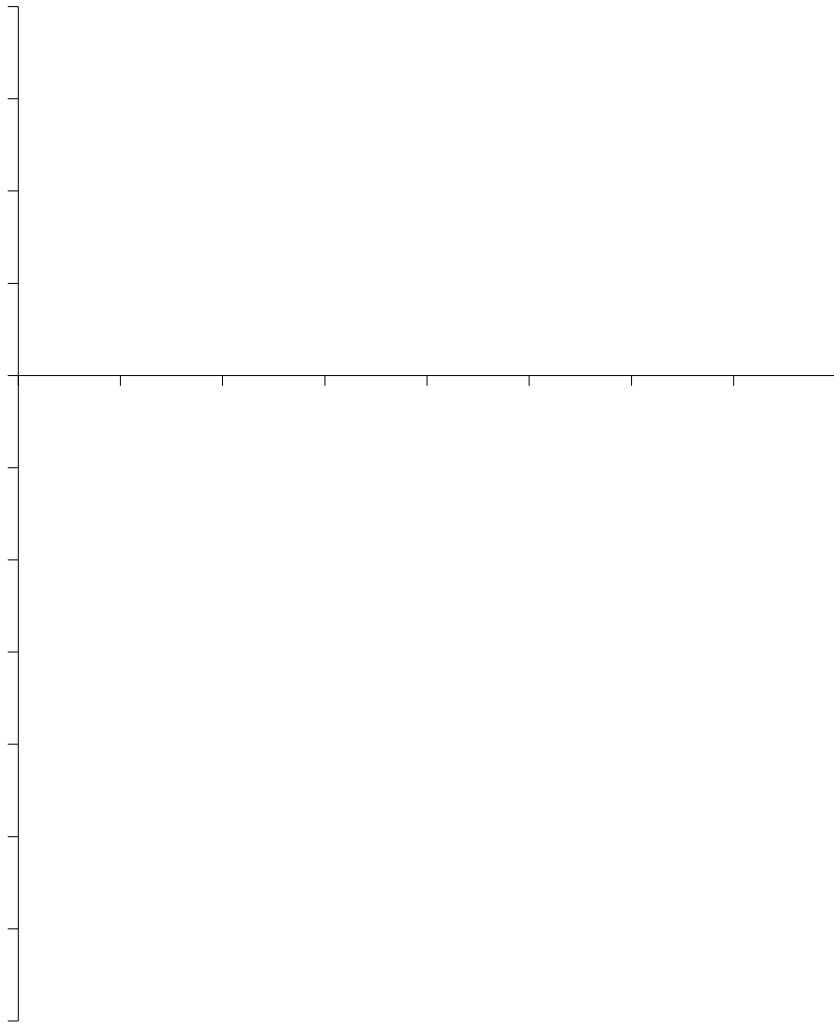
But since last October, the working-age population has risen by an average of less than 5K a month ² which means that anything more than 3K new jobs a month will result in a fall in the unemployment rate, all else being equal





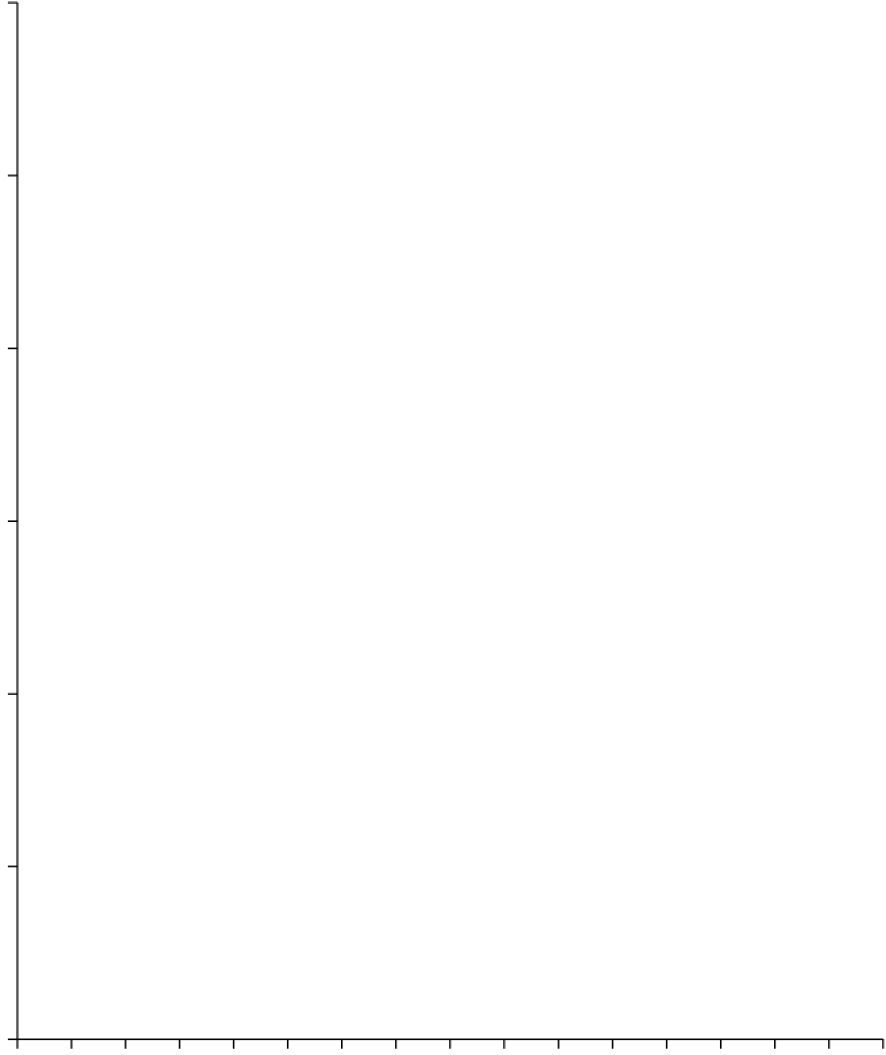
Business confidence was at a record high in May, but has fallen in the wake of lockdowns in four states during June

Business confidence

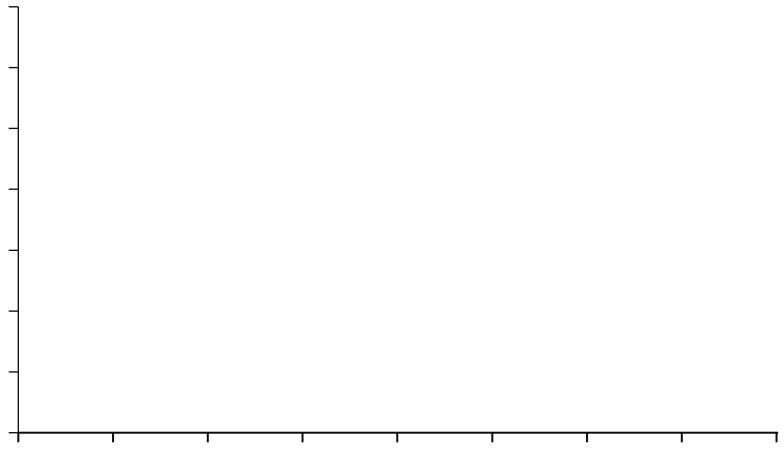


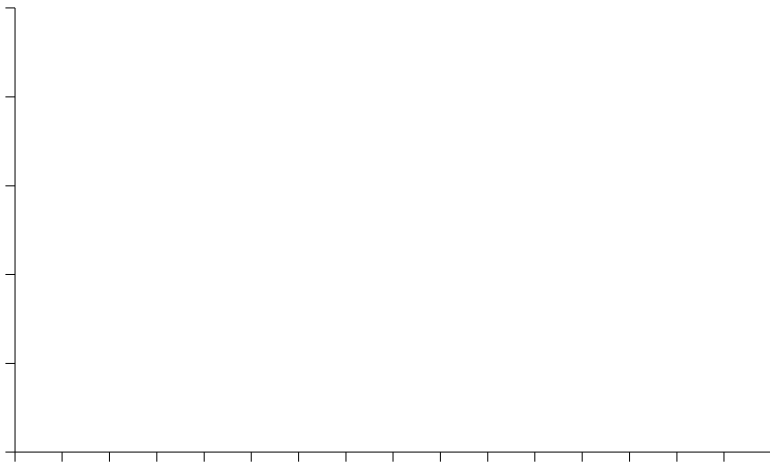
Business confidence, states and territories











What does all this mean for the Reserve Bank?

The Reserve Bank has repeatedly stipulated that it will keep its official cash rate at 0.1% pa until

–





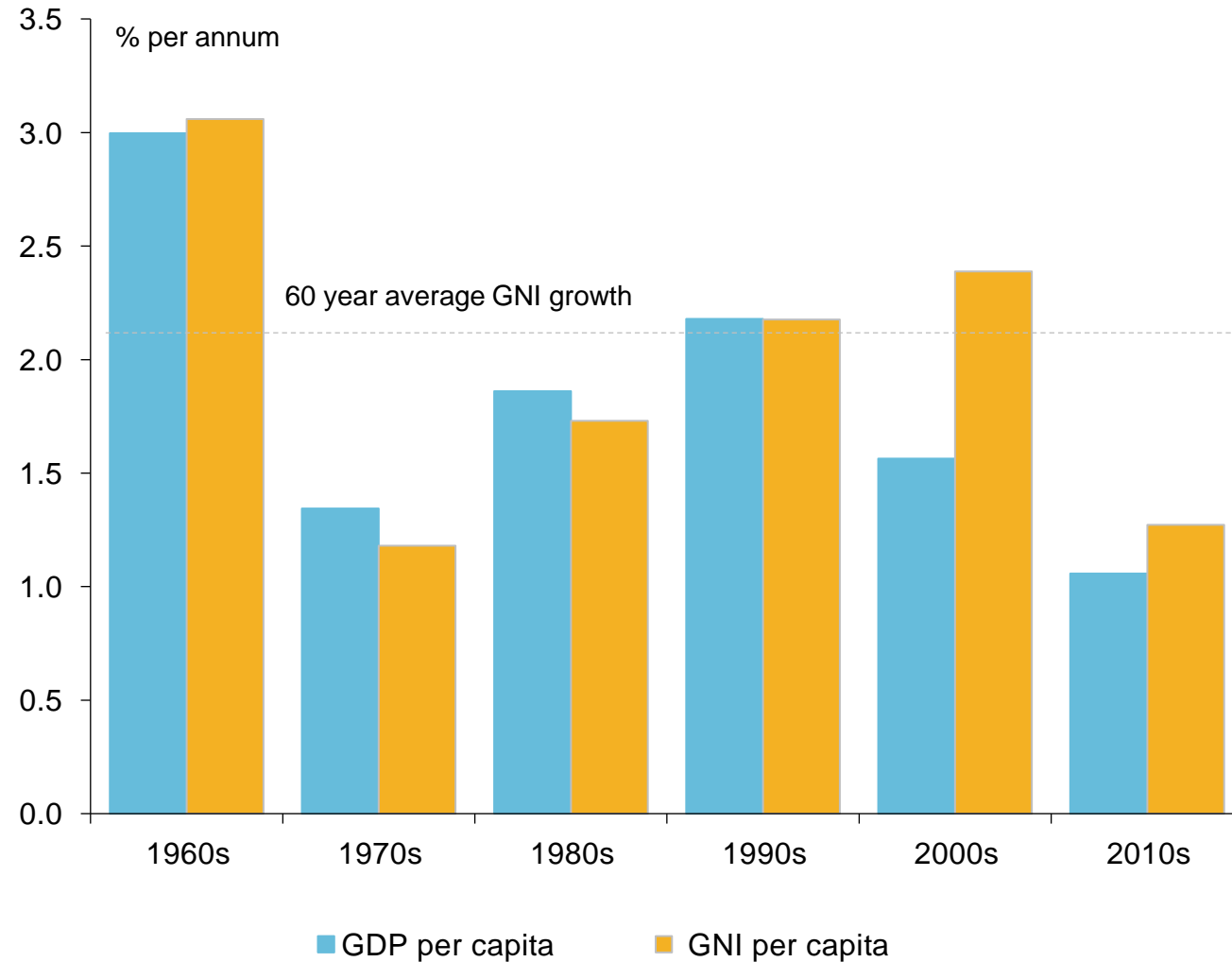
'XULQJ WKH ¶ROG SURWHFWLRQLVW HUD. \$XVWU
over 10% above those of the US to more than 25% below

Australia and New Zealand per capita GDP as a percentage of the United States

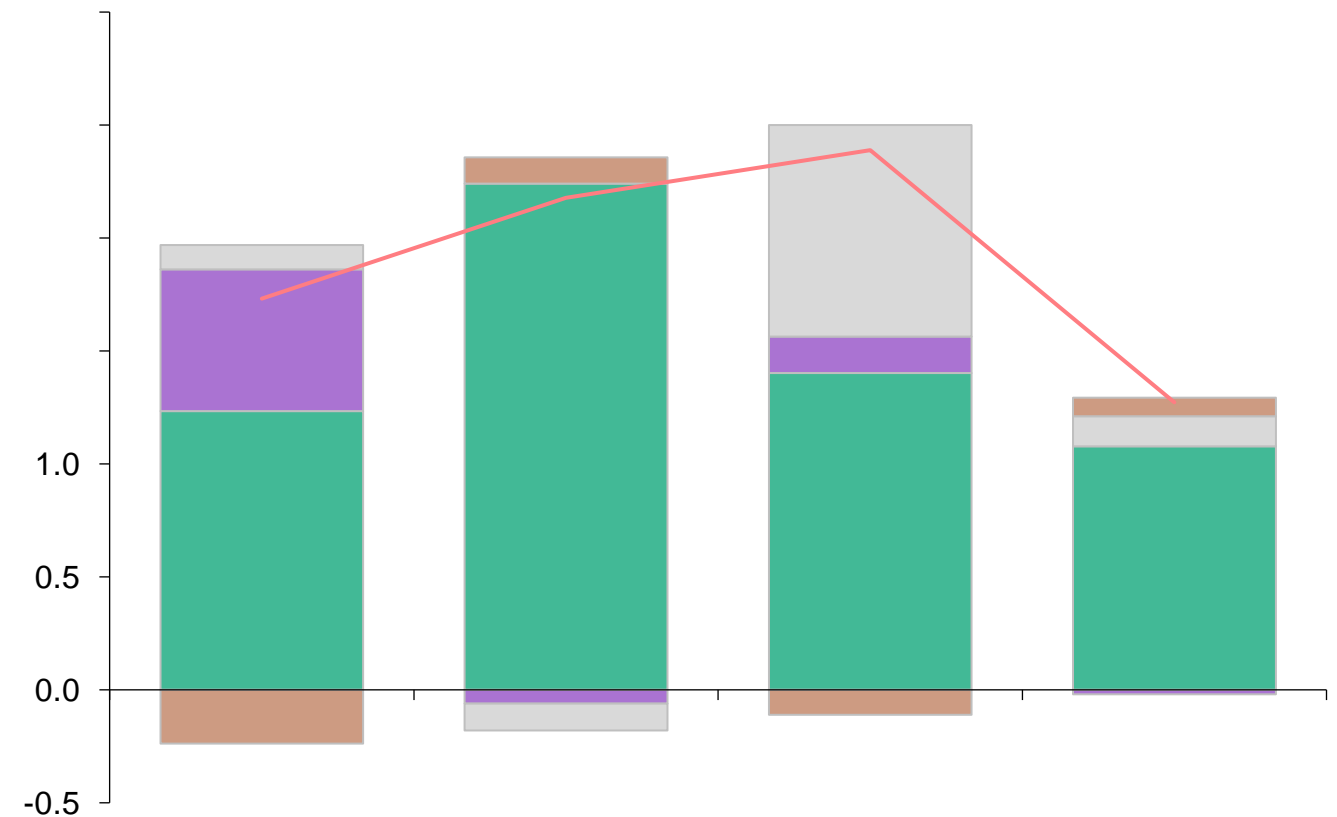


The slowdown in per capita income growth over the past decade is mainly due to slower productivity growth and the absence of terms of trade gains

Growth in real per capita gross domestic product (GDP) and gross national income (GNI)



Contributors to growth in real per capita gross national income (GNI)



"2010s" excludes 2019 -20. Gross national income is GDP plus the income arising from changes in the 'Terms of trade' (the ratio of export to import prices) and from 'net foreign income' (the income from foreign assets owned by Australians less the income paid to foreign owners of assets in Australia).

Productivity Commission, _____, 17th June.



\$Q RQJRLQJ ¶KH D G Z L Q G · I R U \$ X V W U D O L D · V H F R Q

deterioration in bilateral relations with our largest export market

\$XVWUDOLD·V PHUFKDQGLVH H[SRUWV WR & KLQD
& KLQD DFFRXQWHG IRU ô RI \$XVWUDOLD·V
FY 2019-20 (the largest proportion any country has since the mid-
V ZKHQ RI \$XVWUDOLD·V H[SRUWV ZHQ
– of which iron ore & concentrates accounts for 56%)
China also accounted for RI \$XVWUDOLD·V VHUYLF
2019 of which tourism & education accounted for over 90%)
China has no real alternatives to Australian iron ore in the near
term ²but it has been progressively expanding the range of other
\$XVWUDOLDQ SURGXFWV VXEMHFW WR GLVFL

¹ 'Wood' includes wood products; 'dairy' includes milk, cream, butter & cheese; 'sea food' includes crustaceans, fish and processed sea food; 'other' includes confidential items.

Australian Department of Foreign Affairs & Trade, [Trade Statistical Pivot Tables](#);

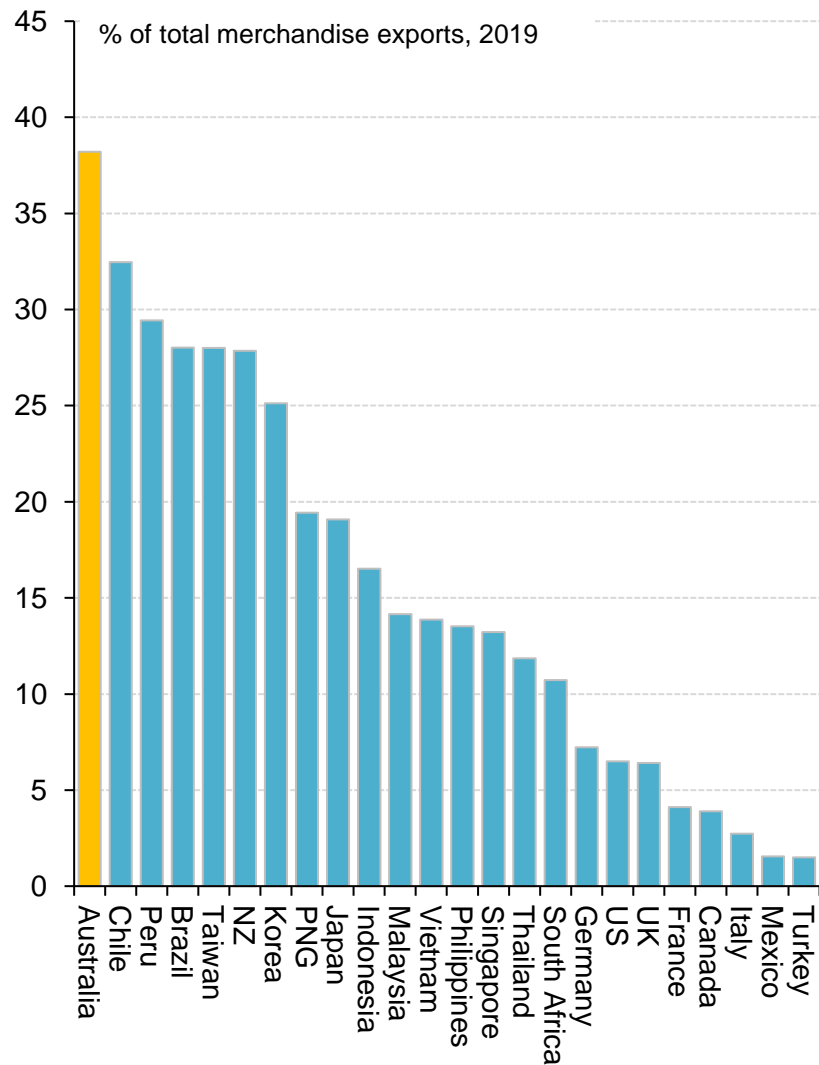




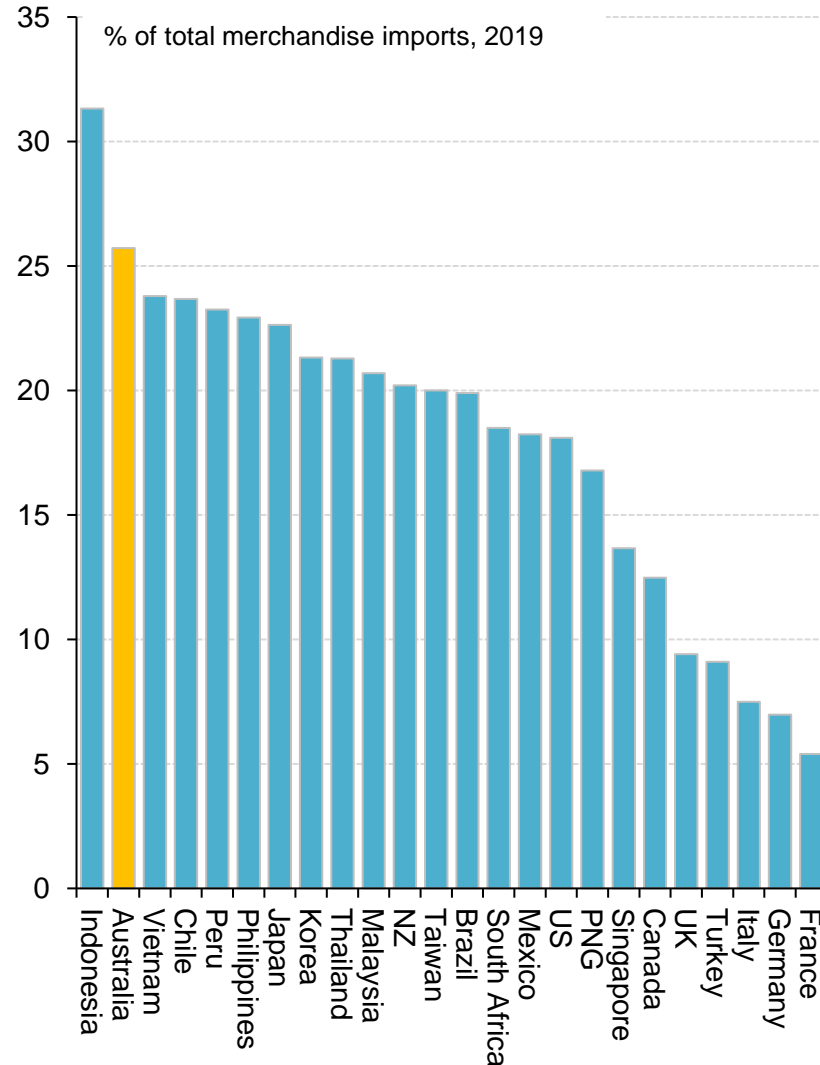
&KLQD FDQ FDXVH \$XVWUDOLD HFRQRPLF SDLQ E

on it, and are one of the few countries with whom China runs a deficit

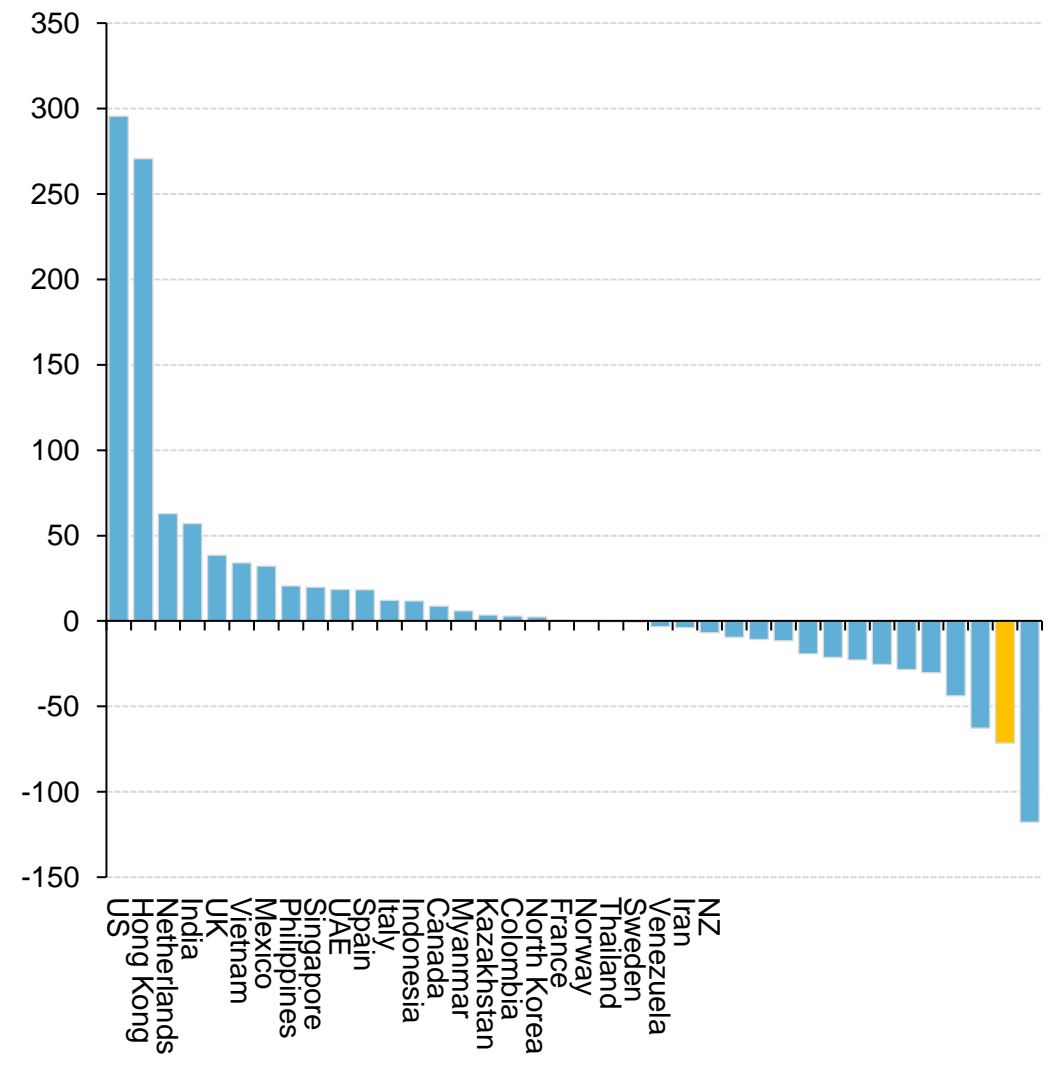
Merchandise exports to China as a pc of total



Merchandise imports from China as a pc of total



&KLQD·V ELODWHUDO PHUFKDBalances



A matter of importance for South Australia
(but not South Australia)

South Australia is more dependent on its share of GST revenues than any other jurisdiction except Tasmania and the Northern Territory

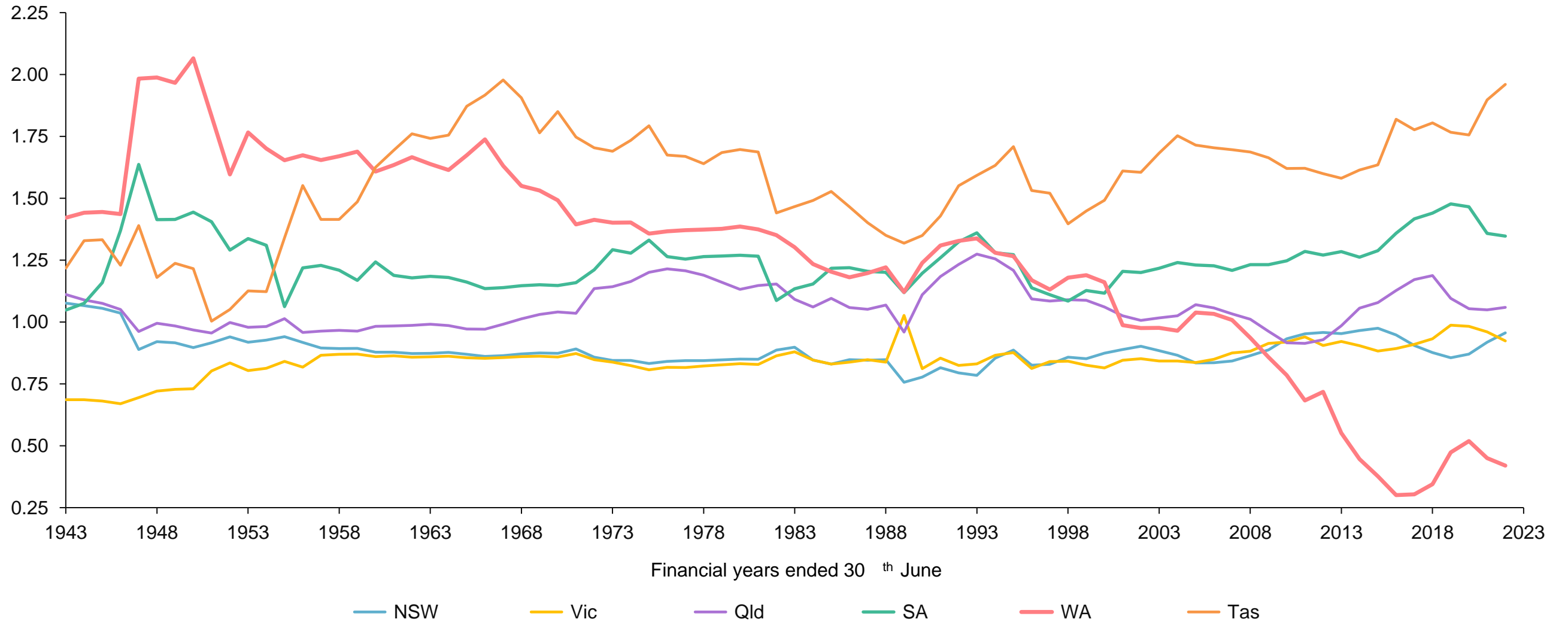


, Q WKH) HGHUDO * RYHUQPHQW ¶ FKDQJHG WK
sustained campaign from successive Western Australian governments

\$OWKRJK :HVWHUQ \$XVWUDOLD KDG EHHQ D EHQHILFLDU\ IRU DOPRVW \HDU
E\ WKH &RPPRQZHDWK *UDQWV &RPPLVLRQ RQFH WKH ¶UHVRXUFHV ERRP. KDG

: \$ EHQHILWHG IURP ¶KRUL]RQWDO ILVFD ¶out when DOL
WKH\ EHFDPH ULFK HQRXJK WR EH D ¶GRQRU. WKH

6WDWHV. VKDUHV RI WRWDO ¶JHQHUDO UHYHQXH JUDQWV. IURP WKH &RPPRO



16: DQG 9LFWRULD ZHUH QHYHU DV TULFK. RU KD
revenue, by as big a margin as WA has been in the past decade



: \$. V P L Q H U D O U R \ D O W \ U H Y H Q X H V K D Y H D J D L Q U L
R I R W K H U V W D W H V W K D Q N V W R - h i g h i n f o r m o r e p r i c e s F R Q G Z D Y



Western Australia's iron ore price assumptions are expressed inclusive of cost and freight ('CFR'), which adds around US\$10/t to the 'free on board' (fob) price assumption used more commonly in markets and in Commonwealth Budget Papers.

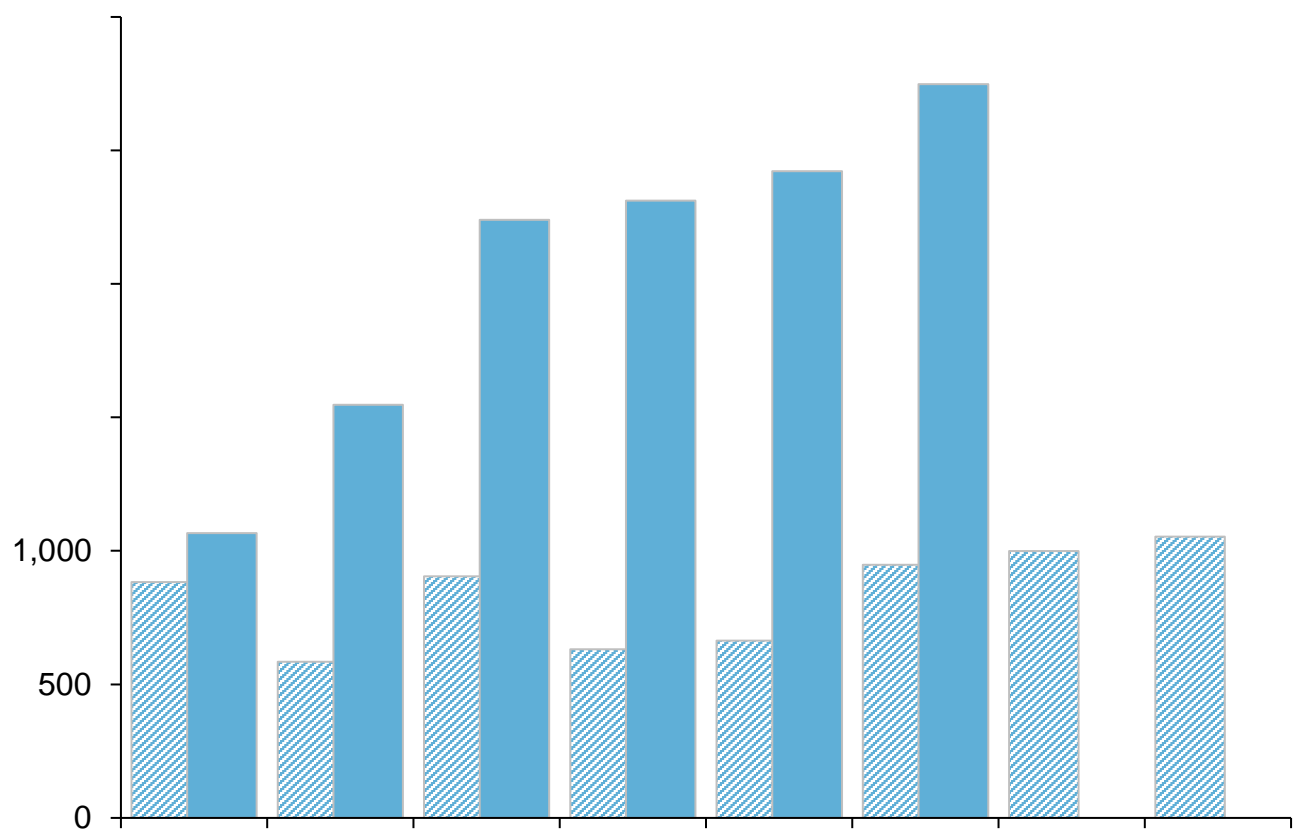




The cost of placating Western Australia has risen dramatically ² even

WKR XJK :\$.V EXGJHW DU \ SRVLWLRQ KDV LPSURYH

&RPPRQZHDOWK *RYHUQPHQW †KRULJRWDO \$XVWUDOLD.V †JHQHUDO JRY
 ILVFDO HTXDOLJDWLRQ +)(WUDQVLWLRQ SD\PHQWV.



Australian Treasury, [Government interim response to Productivity Commission inquiry into horizontal fiscal equalization](#), 5th July 2018, _____, 30th September 2020, and _____, 11th May 2021; Government of Western Australia, _____, 10th May 2018; _____, 8th February 2021; Corinna.



6 R X W K \$ X V W U D O L D Z L O O E H D E L J O R V H U I U R P W
 † W U D Q V L W L R Q D O J X D U D Q W H H . H [S L U H V L Q

9 L F W R U L D Q 7 U H D V X U \ H V W L P D W H V R I L P S D F W R Q V W D W H D Q G W H U U L W R U \
 † W U D Q V L W L R Q D O J X D U D Q W H H . W K D W † Q R V W D W H R U W H U U L W R U \ Z L O O E H
 expires in 2027-28



Figures are in \$mn. Source: Victorian Department of Treasury and Finance



Yet by comparison with what other States have had to say about this in their Budget Papers, SA has been surprisingly circumspect

9 L F W R U L D 2 2 V Budget Papers

The potential cost of the new system to other States is significantly greater than originally...

The modelling demonstrates that not continuing the no-worse-off guarantee after 2026-27...

4 X H H Q V O D Q Q 2 V Budget Papers

Under the Australian Government's changes, Western Australia will benefit from heightened...

In attempting to fix a perceived problem, the Australian Government's unilateral changes could...

1 H Z 6 R X W K : D O H V Budget Papers

[Redacted content]

6 R X W K \$ X V W U D 2 O B L D G E V Budget Papers

The CGO estimates that the transition to the new GST distribution system...

