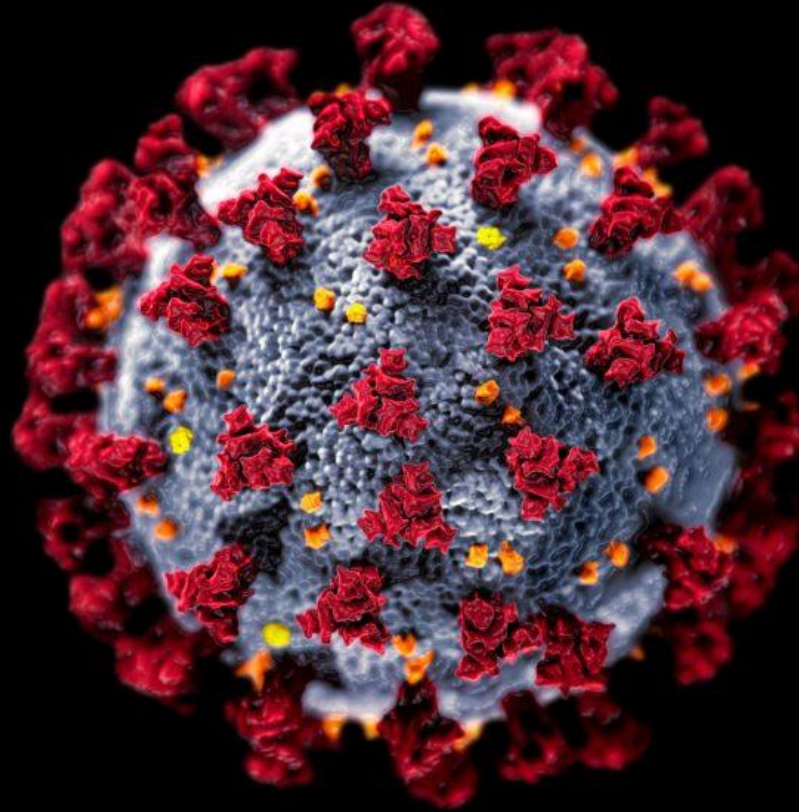


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Beyond the crisis: The long road back.

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Economic snapshot

The past few months have demonstrated the significant economic downturn seen, but are now also showing a recovery path for some parts of the economy

Australia is experiencing rapid economic deterioration...

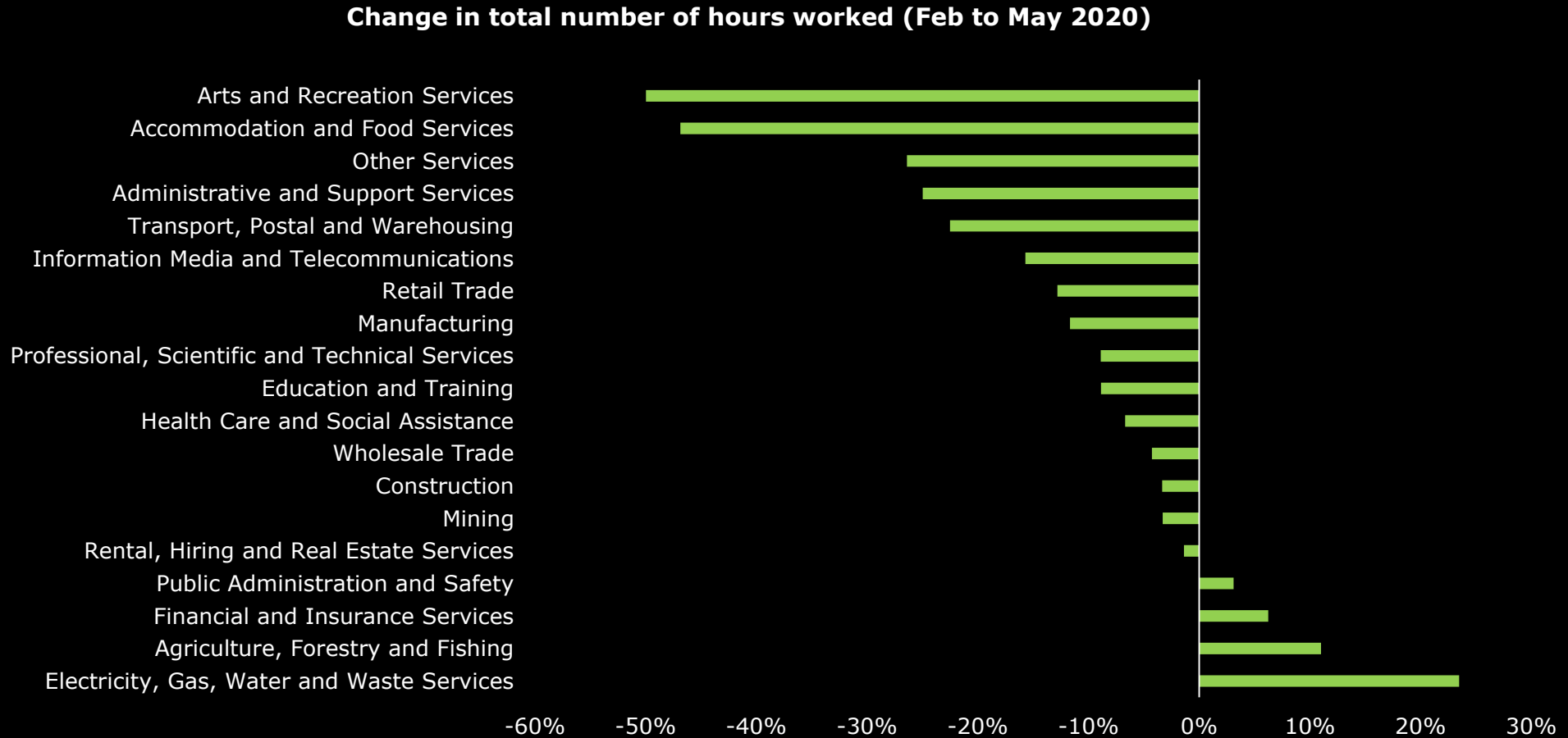
- National Accounts data showed the Australian economy contracted during the March quarter
- Real time indicators suggest the brunt of economic deterioration will occur in the June quarter
- The national unemployment rate has lifted from 5.2% to 7.1%, while the employment/population ratio has slipped from 62.5% to 58.4%
- Further difficulties lie ahead for many businesses as government support is rolled back and weaker underlying income bites

...and the future remains uncertain but there is light ahead

- Retail spending slumped 17.7% in April before rebounding by 16.3% in May as many shops re-opened
- Consumer confidence has significantly improved since late March (by 49%)
- The Australian sharemarket and \$A (against the \$US) have both picked up substantially from their March low points (by 31% and 21% respectively)
- While consumers are expecting a slow return to normal for their lives, attitudes toward expenditure are increasingly positive

Jobs exit stage left

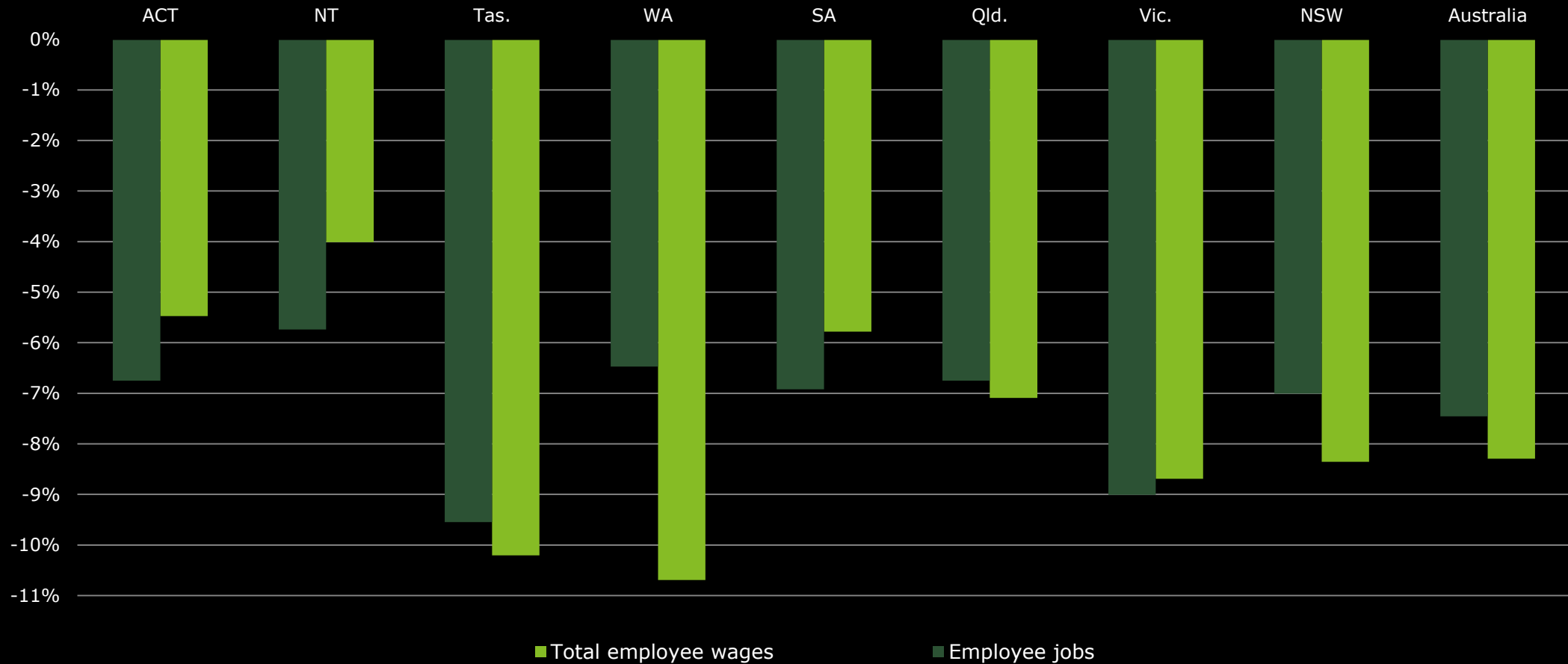
Job losses are significant, but masked by JobKeeper, with the loss of hours worked showing a dramatic slide for many sectors



Jobs and wages impact by State – ABS payroll report

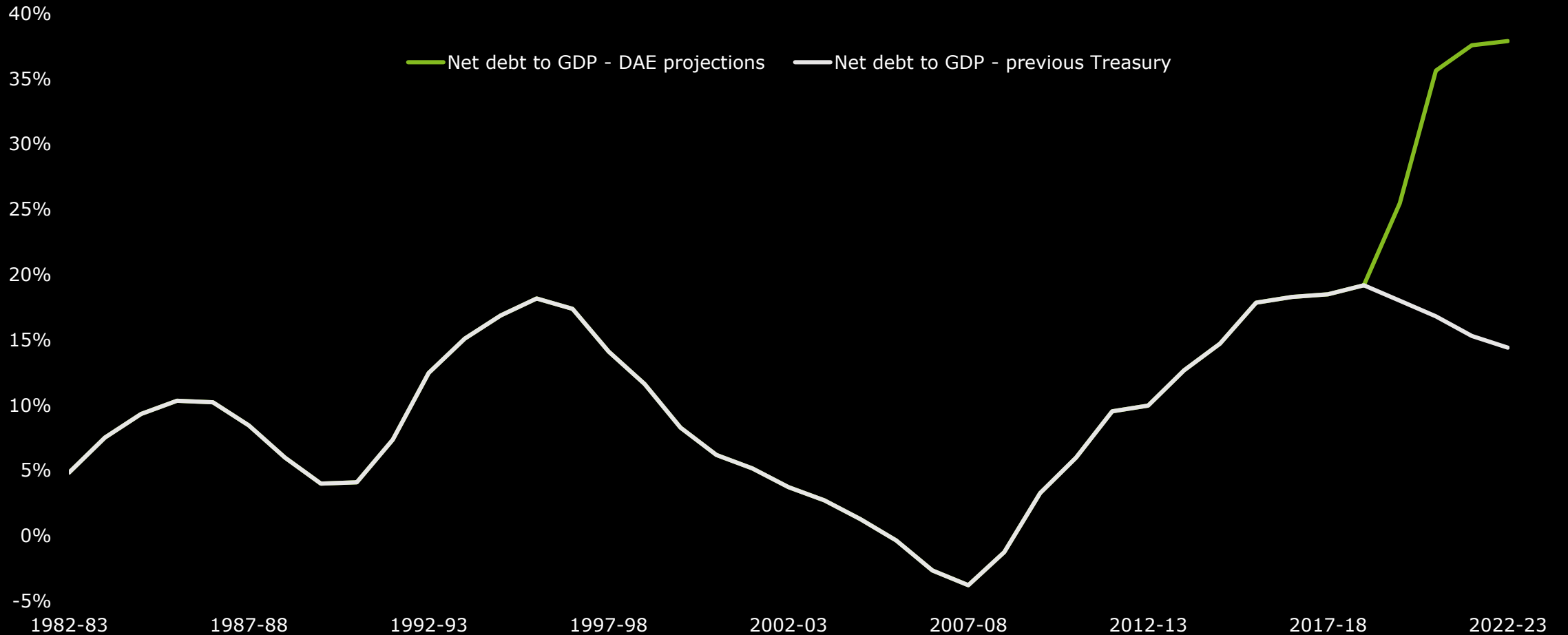
The economic hit is seen across all States, with sharper jobs hits in Victoria and Tasmania, and a bigger wage hit in WA

% change in jobs and wages, between 14 March and 30 May



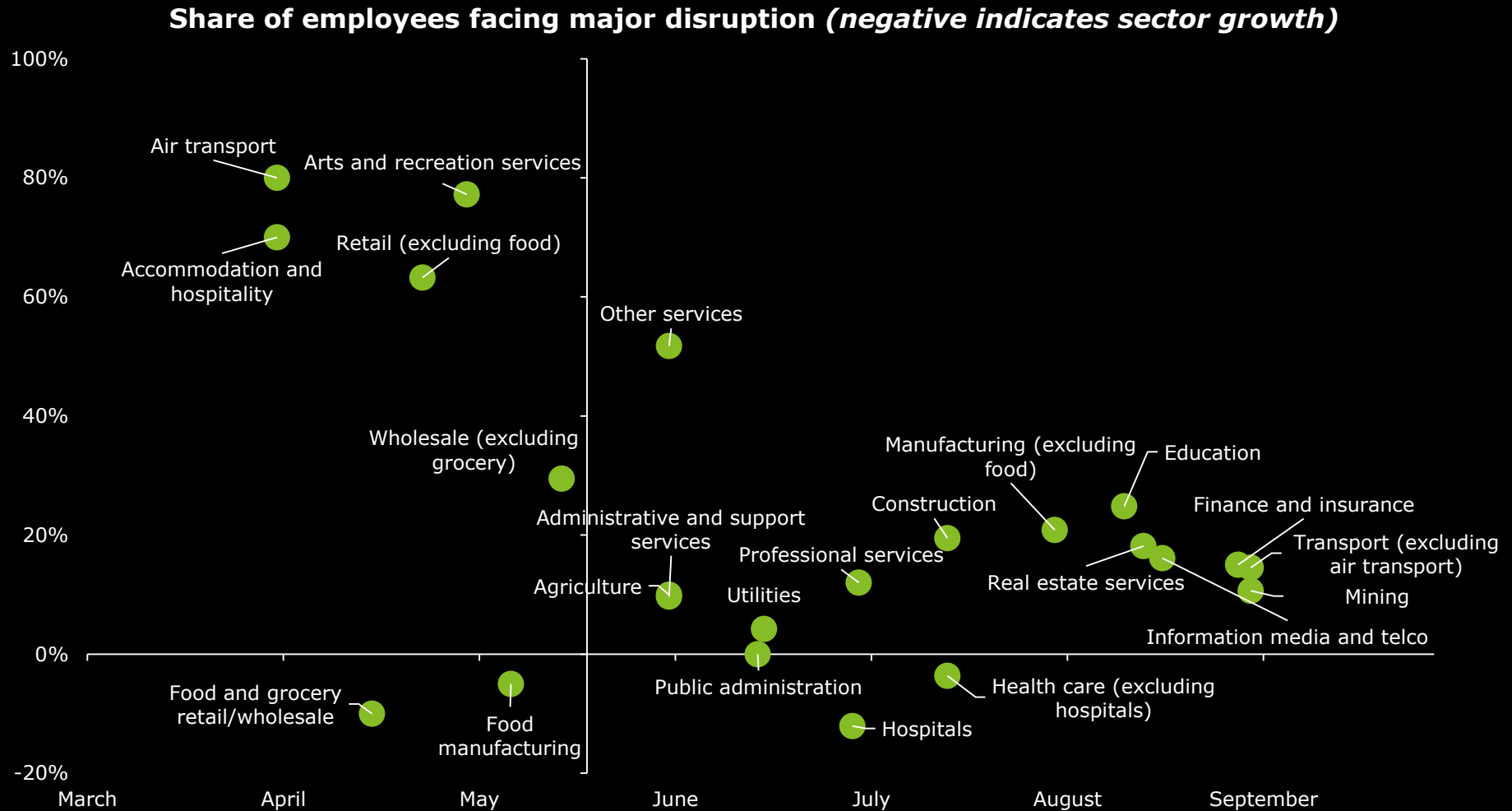
Federal Budget focus – the virus sprint and the recovery marathon

The Budget is taking a series of staggering blows – because it has to. Focus is switching to supporting recovery and reducing unemployment.



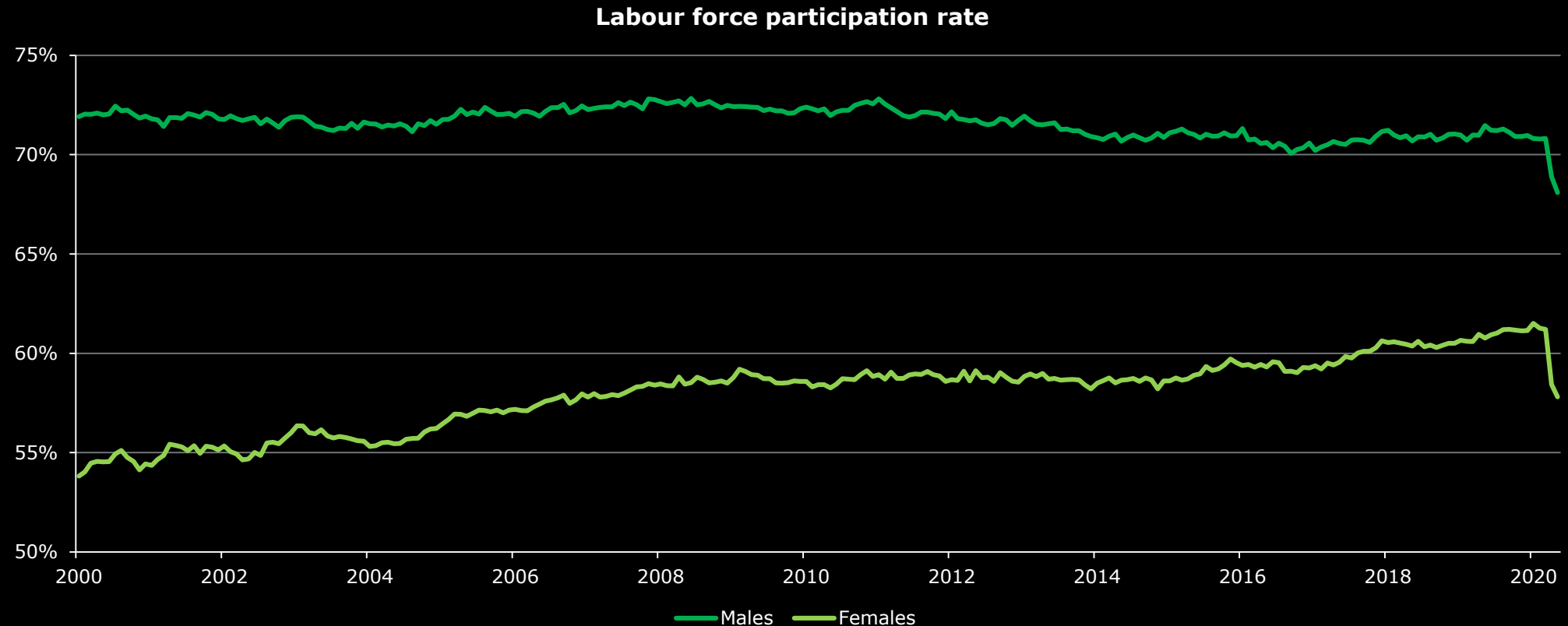
Industry stress map – watch out for the economic second wave

The hardest hit sectors will start to recover, but a peak impact is yet to be seen across other sectors



Labour force participation has dropped – but we may have stumbled on to the solution

Flexibility and greater support for childcare could not only regain previous losses in female participation, but drive a move to higher levels



Can we also get a productivity boost on return?

Necessity has led to innovation during the shutdown



- During the shutdown businesses have been forced to overcome previous barriers by investing in technologies and rapidly developing new work methods.
- In some cases, digital transformations that were planned to take years have been enacted in weeks.
- Lockdown has forced us to sideline some of the boring, repetitive work we have been doing. Making those gains permanent can mean a direct productivity boost, and a more engaged workforce.
- There have however been some missing elements – harnessing human skills like customer service, sales and resolving conflicts has been more difficult in some cases
- The innovation that comes from interaction and collaboration will get a spark on a return to the office environment. Social distancing restrictions will limit office capacities in the short term. However, employers and employees recognise the advantages of in person collaboration and the wellbeing benefits of social interaction with colleagues more generally – that may see a productivity boost on return to the office.

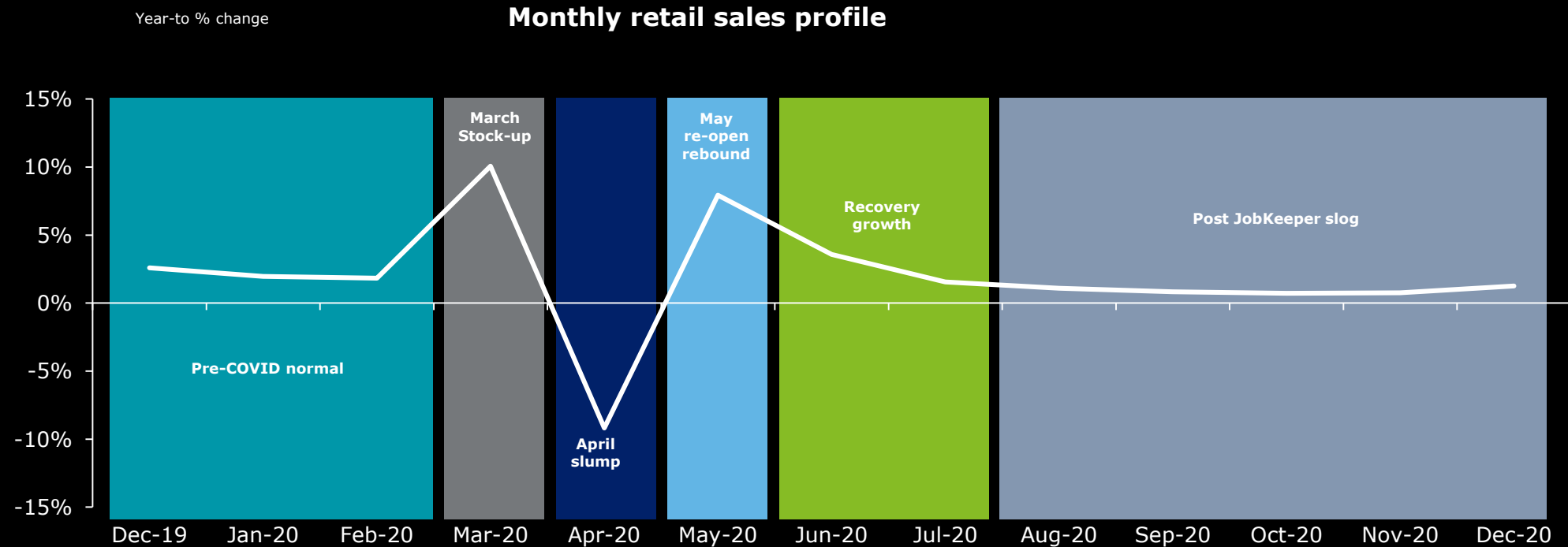
Globally, consumers are concerned across multiple dimensions

Compared to the world, Australians are relatively more concerned about job security

	Health		Employment	Financial	
	Concern for physical well-being	Concern for health of my family	Concern over losing my job	Concern about making upcoming payments	Delaying large purchases
Country Average	51%	61%	38%	26%	40%
Australia	45%	53%	39%	24%	43%
United States	50%	60%	36%	28%	41%
Canada	54%	62%	35%	25%	44%
UK	44%	60%	34%	19%	40%
Germany	36%	49%	26%	22%	29%
France	41%	64%	29%	23%	42%
Italy	44%	58%	38%	33%	50%
Spain	69%	72%	55%	40%	41%
Netherlands	28%	37%	23%	13%	27%
China	85%	86%	33%	38%	56%
India	76%	80%	57%	45%	63%
Japan	46%	57%	29%	13%	26%
South Korea	42%	57%	54%	21%	23%

Six degrees of shopping in 2020

There are likely to be six phases for retail in 2020 – including a hard slog as JobKeeper unwinds



Source: ABS, DAE

Consumer behaviour – a tale of three paths

While many consumers are feeling financially less nervous in May than in April, the needing are here to stay

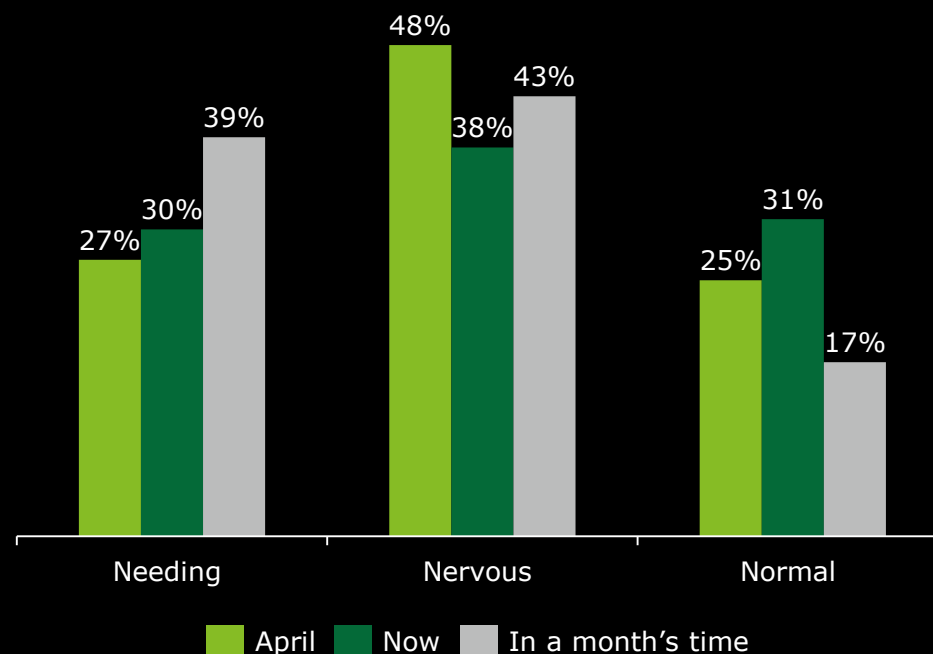
The Needing – have borrowed, withdrawn from super or applied for government payments. This group increased from **27%** in April to **30%** May.

The Nervous – have increased savings or reduced debt. Retailers have made progress on assuaging the nervous. The proportion of people in this category has gone from **48%** to **38%**. However, this may just be delaying the second wave, as this group is anticipated to increase again to **43%** next month.

The Normal – they haven't taken any financial action at all as a result of COVID-19. A large proportion of the Nervous consumers in April moved into the normal category in May.

40% of respondents feel their household is financially worse off compared to this time last year – down from **44% in April**

Consumers' expected change in personal financial situation: now versus a month's time



Purchase drivers – the new normal

Price, quality and brand are regaining importance as purchase drivers, while ease of purchase and delivery options are sustaining elevated importance

Price, Quality and Brand are staging a comeback

34% of respondents ranked price as their top purchase driver, compared to **28% in April**

Increased importance of Ease of Purchase and Delivery Options suggest entrenched changes to consumer behaviour.

30% of respondents have increased their use of delivery services

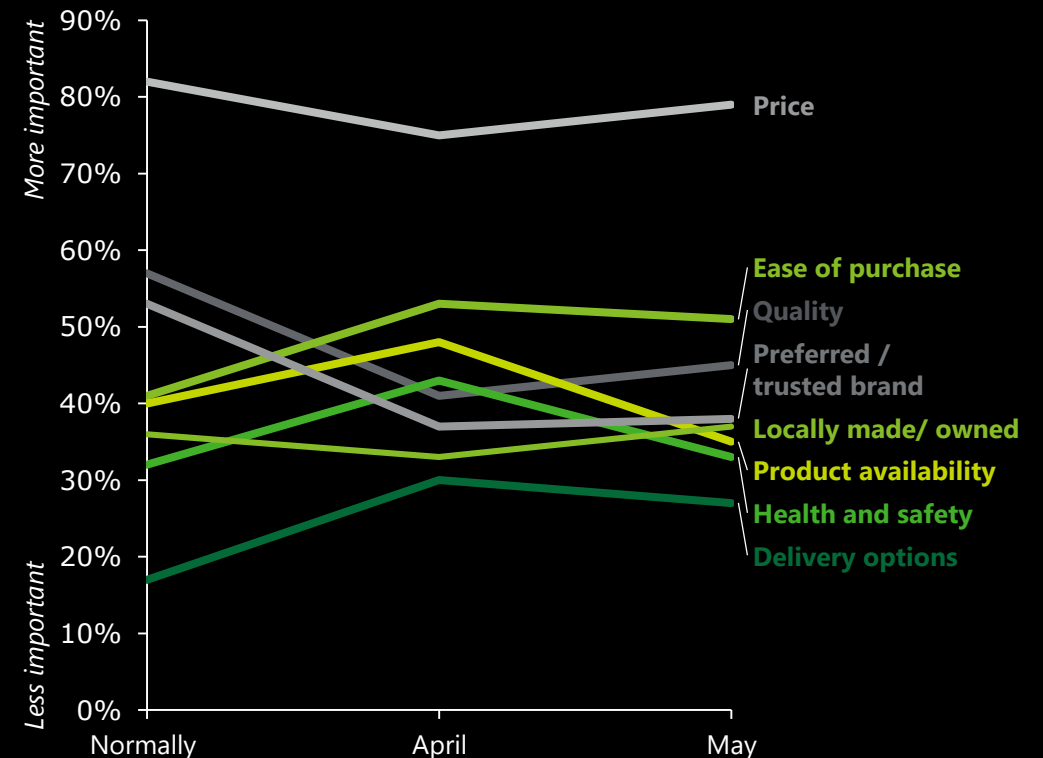
19% of respondents have increased their use of click and collect

Health and safety has almost returned to normal, however:

56% of respondents believe retailers should be cleaning more frequently

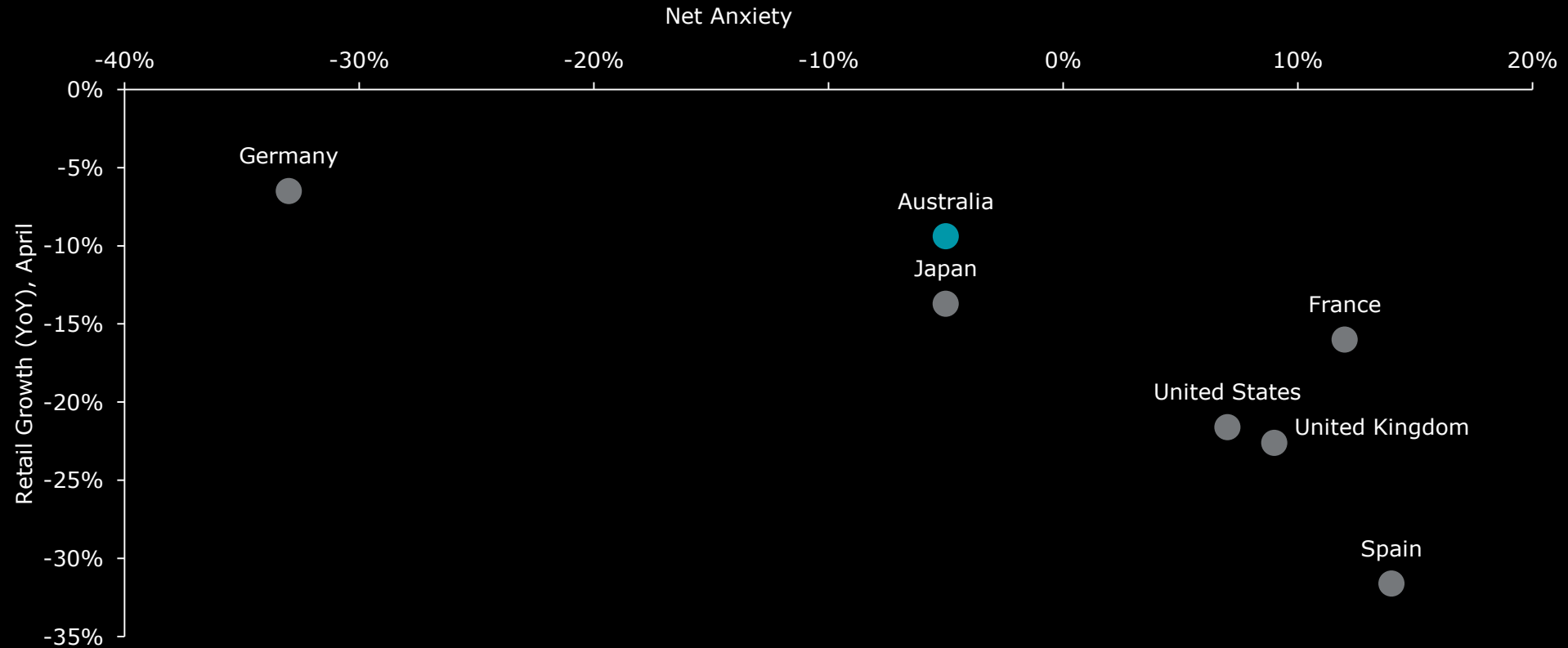
53% of respondents believe retailers should provide hand sanitiser

Importance of key purchase drivers, pre-COVID and current



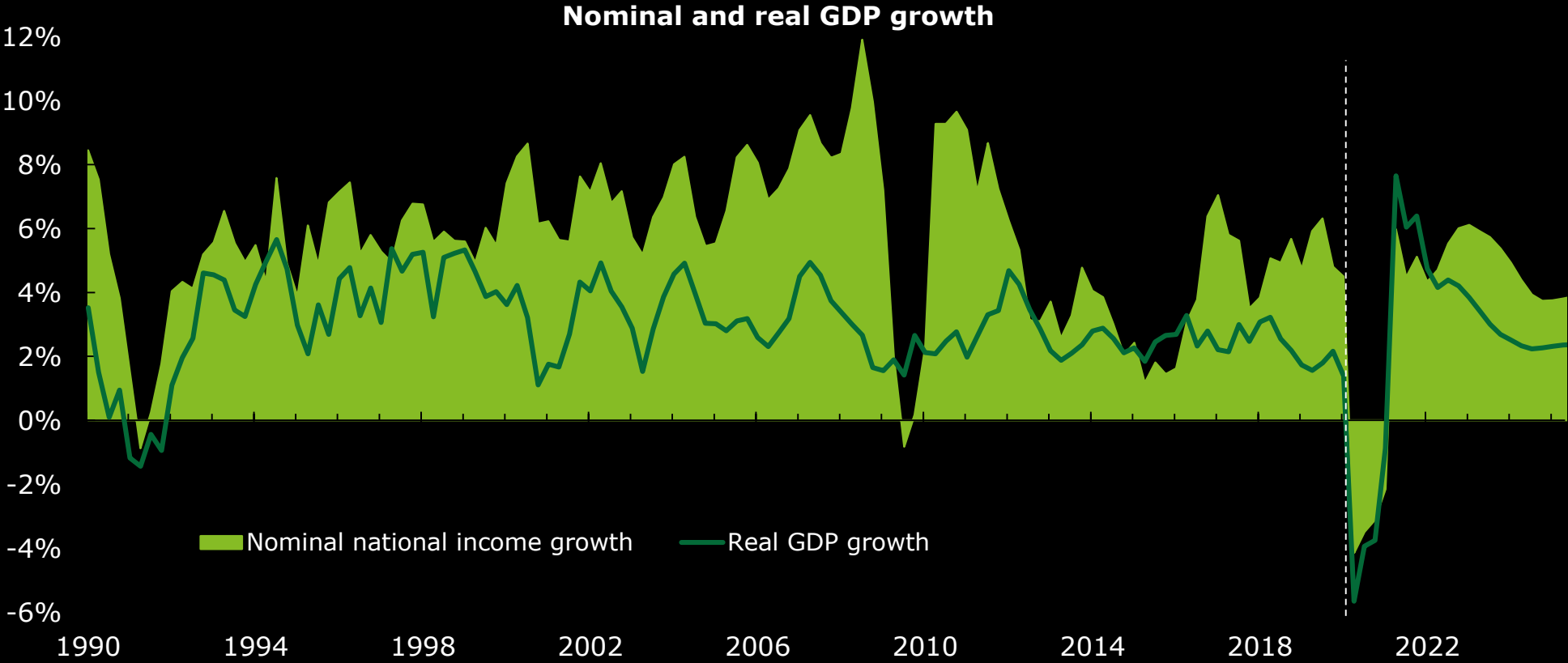
Australia is performing better than most countries on retail spending

Relatively lower levels of health anxiety has supported retail spending in Australia compared to other countries



Australia is entering a recession for the first time since the early 1990s

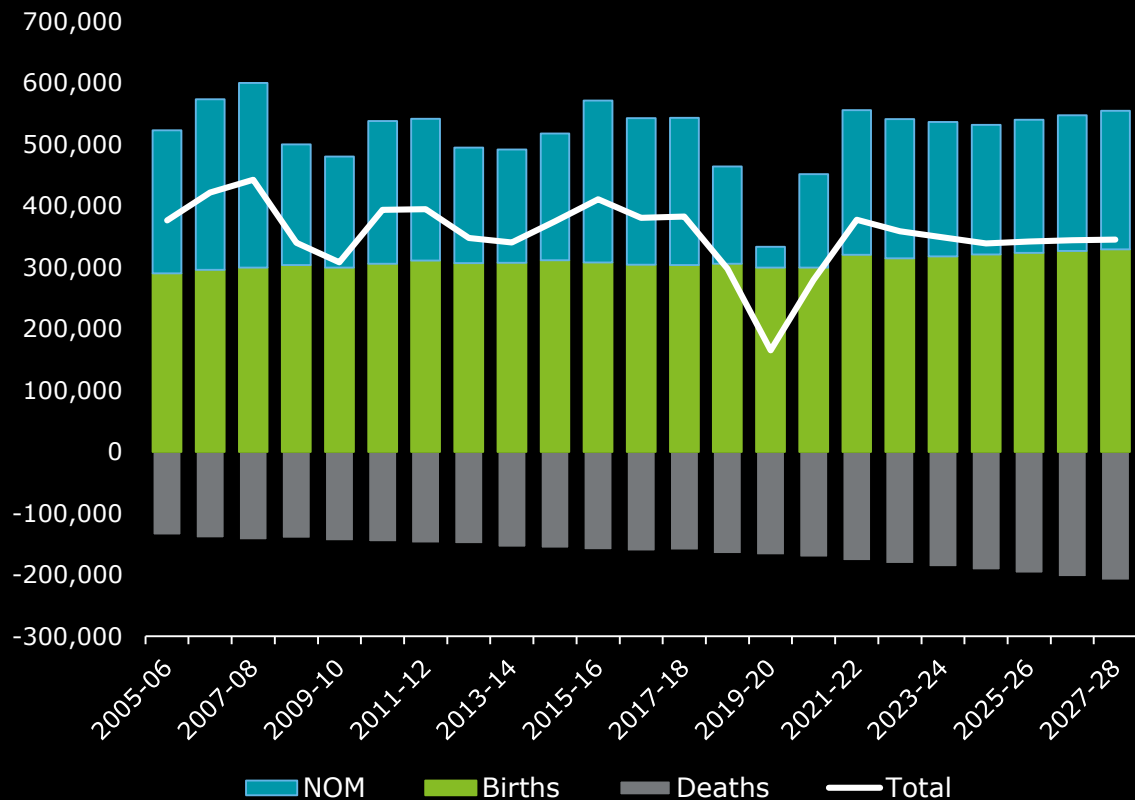
The economic hit will be hardest in the June quarter



A blow for future economic performance comes from deceleration of population growth

Net Overseas Migration may fall to just 36,000 in 2020-21, well down on the average net inflow of 240,000 per annum

Population growth components



Source: ABS, DAE

Births



Fertility rates are already declining sharply – in line with trends we are seeing in other western economies - and are set to slide further due to the impacts of the pandemic. There may be a very slight post-pandemic lift in birth rates, but the current projection is that population growth from local births is moderating.

Deaths



The impacts of COVID-19 on death levels have been very minor. But longer term trends in Australia show that the ageing of the population and the echo of the post-Second World War baby boom mean that deaths will begin to rise steadily in future years.

However, the peak year for baby-boomer deaths will not actually occur until the 2040s.

Local population growth lifted from 2005 to 2015, but otherwise is remarkably stable.

Migration



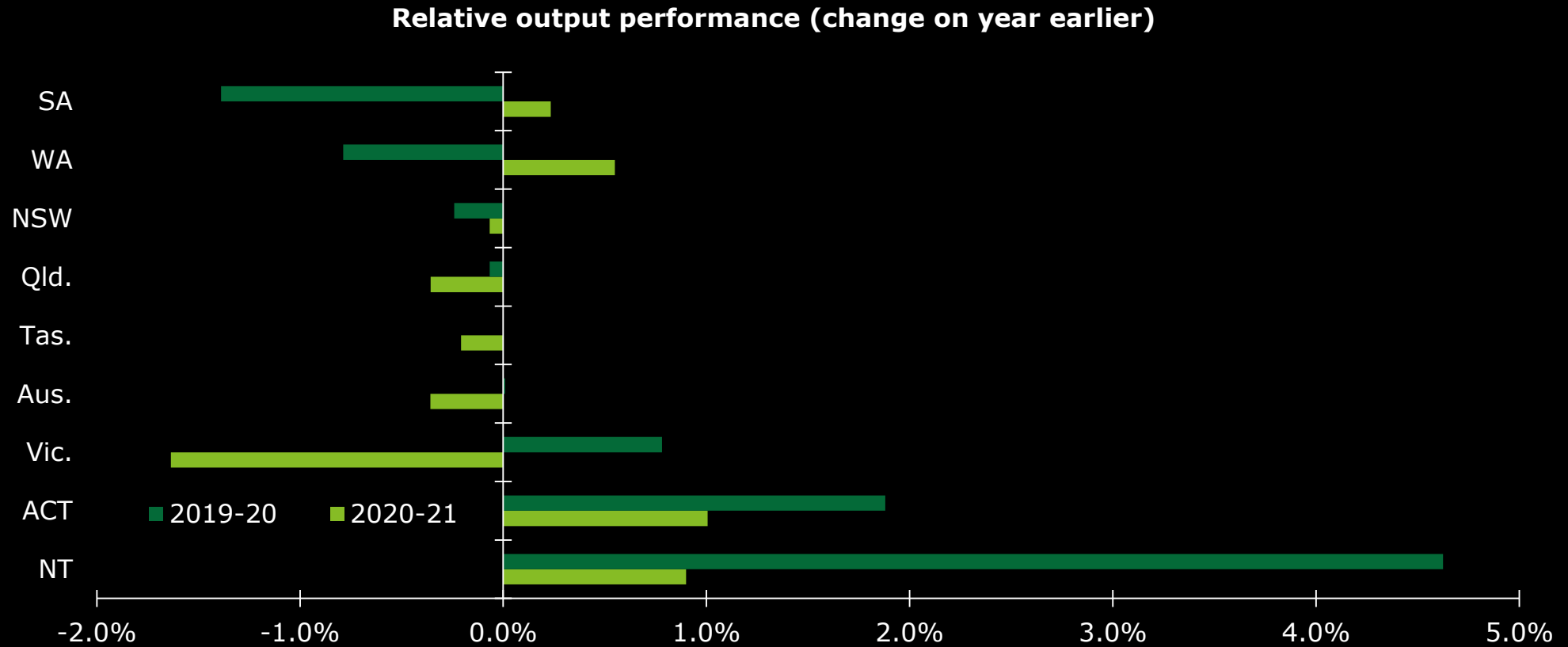
Births and deaths are usually driven by long running trends – it is migration that largely determines the pace of population growth in Australia.

The coming downswing in migration will be unprecedented in modern times – any further deterioration in the outlook could well drive net migration levels negative.

The current dip takes migration back to 1980s levels.

Business Outlook – State outlook

Victoria is expected to be the worst performing state in 2020-21 given further restrictions and being harder hit by the lack of events



Business Outlook – implications for policy

The best and fastest way to repair the economy is to keep the virus at bay so that we can rapidly open up

- We don't need to raise taxes and cut spending to fix the budget. The emergency measures are temporary. So, as Treasury notes, if we can repair the economy, then we'll repair the budget.
- Yet borders will remain closed for a time, so 'opening up' can only get us so far. And the Reserve Bank is tapped out, so the task of repairing Australia falls more on governments than it's ever done before.
- That says more dollars are needed. How much depends on our success against the virus and in opening up.
- Some new types of spending will be needed, building on the recent infrastructure and HomeBuilder packages.
- We'll need to smooth transition timing and dollars: too much support ends at the same time. In some cases that may mean an earlier end, but in most cases it'll be later. And we should phase support out where we can.
- Some type of ongoing wage subsidy may well be needed too, limited to a rather smaller range of businesses (for example, those tied to international borders). And the dollars per person may need to be less too.
- But wage subsidies gradually become less helpful the longer they're used as emergency support. There's rising costs in simply keeping zombie jobs alive. That doesn't say pull back overall spending support, but it does say this particular type of support should gradually fade in importance in our defence against the virus.



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