



Synergy's Economic Insights

PRODUCTIVITY

YOUR CONSIDERED BRIEFING ON
THE AUSTRALIAN NATIONAL ACCOUNTS
BROUGHT TO YOU BY SYNERGY'S
ADVANCED ECONOMIC MODELLING GROUP



AUSTRALIA'S NATIONAL ACCOUNTS – MARCH 2020

Our objective is to provide key insights and thought leadership on topical issues affecting the economy through considered analysis.

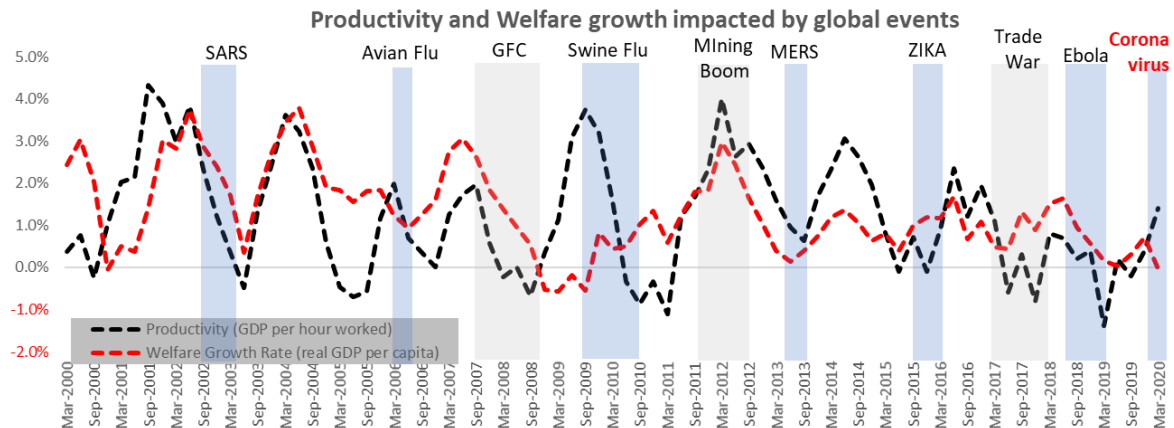
Key Questions about the Australian Economy

- » How do we kick-start economic recovery post-COVID19?
- » How do we uplift workforce skills and avoid high unemployment rate and economic recession?
- » How do we jump-start productivity to speed up economic recovery?
- » How do we avoid chronic economic recession?

Economic Overview – March 2020

- » An economic recession is a business cycle contraction when there is two consecutive decline in economic activity (measured in real GDP terms) quarterly.
- » Typically, recessions happen when there is a widespread demand waterfall which government needs to address or rectify through monetary or fiscal economic policies.
- » This recession is different to the Global Financial Crisis which could be addressed by governments through capital management (supporting the balance sheets of just a few banks by purchasing troubled assets).
- » The recession in Australia today, flagged in this quarters National Accounts, is associated with temporary severe hike in the unemployment rate and growing underemployment labour markets. This type of economic shock, and the recession that accompanies it, is far more severe than the GFC and more complicated to address.
- » Australia is a small open economy with a strong commodity export focus that is facing increasing risks from physical disruptions in global supply chains that started in mid-February 2020 when normal 15-30 days' worth of inventory was depleted.
- » The current impact of COVID-19 on China is a substantial contraction in GDP (-6.8% in the first quarter of 2020).
- » This contraction is led by reduced manufacturing activities across China and other trading partners. The interdependency of global supply chains will carry China's economic contraction across the world.
- » However, up to early June 2020, a faster-than-expected recovery in China supported by a considerable economic stimulus package has given hope of a global economic recovery. This has driven a strong demand for iron ore. Consequently, the Australian economy, which is heavily dependent on the mining sector, directly benefits from China's increased activity.
- » Australia's economic recovery is facing multiple challenges with the continued closure of international borders, internal shutdown restrictions, and growing global trade tensions.
- » This presents an opportunity for Australia to explore and strengthen its export connections with large regional economies such as India and Indonesia, which are respectively the second and fourth most populous nations on the planet.
- » Improvements in Australian productivity increases the confidence of business and industry for improved performance in the future. It also gives investors the confidence to continue investing in Australian projects. Australian consumer and business confidence are central, but hidden, contributors to the speed of Australia's economic recovery.

- » Consumer confidence is influenced by several factors but principally confidence in a growing job market in the long term. Welfare per person in Australia has fallen slightly this quarter. This is mostly driven by the more effective and smaller labour force.
- » Economic performance always lags the labour market reaction. We expect that June 2020 National Accounts will give us all clearer insight in the full COVID-19 impact on employment, unemployment, and the increasing, underemployment in the Australian labour market.



Source: ABS 5206.0, 6291.0.55.001, Synergy AMG's calculations

What to look for in the June 2020 National Accounts

- » Full COVID-19 impact (economic lockdown) will be presented in June quarter
- » June Quarterly GDP is anticipated to further contract – annual GDP loss up to 11% from OECD Economic Outlook
- » Welfare per person (measured by real GDP per capita) continues to decline until the economy is fully recovered and all restrictions are lifted
- » Effective working hours are expected to contract, implying labour productivity might contract if the economic growth is not falling faster than reduced working hours (due to Jobkeeper stimulus package)
- » More young workers (especially aged 15-19 and 20-24, usually working in hospitality industry) are struggling to secure a job, exiting the labour market, which will further dent the productivity in the next quarterly update
- » More senior workers (especially aged 60+) are permanently leaving the labour market and start to get access to pension earlier, which will further reduce working hours for the economy

What we do

Advanced Modelling Group (AMG), specialises in:

- Labour Market, Workforce and Demographic Modelling
- Macroeconomic Modelling and Economic Impact Analysis
- Circular Economy
- Energy Modelling and Forecasting
- Supply-Chain Modelling
- Cyber Security/Risk Economy
- Critical Infrastructure Modelling

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