Economics, policy and politics of the COVID recovery
Financial Standard Chief Economists Forum

Danielle Wood
CEO, Grattan Institute
March 2021

Economics, policy and politics of the COVID recovery

Recovery has surprised on the upside

- Health performance underpinned recovery
- Lockdown bounce back and high level of government supports have seen activity and jobs recover faster than most expected

But not out of the woods yet

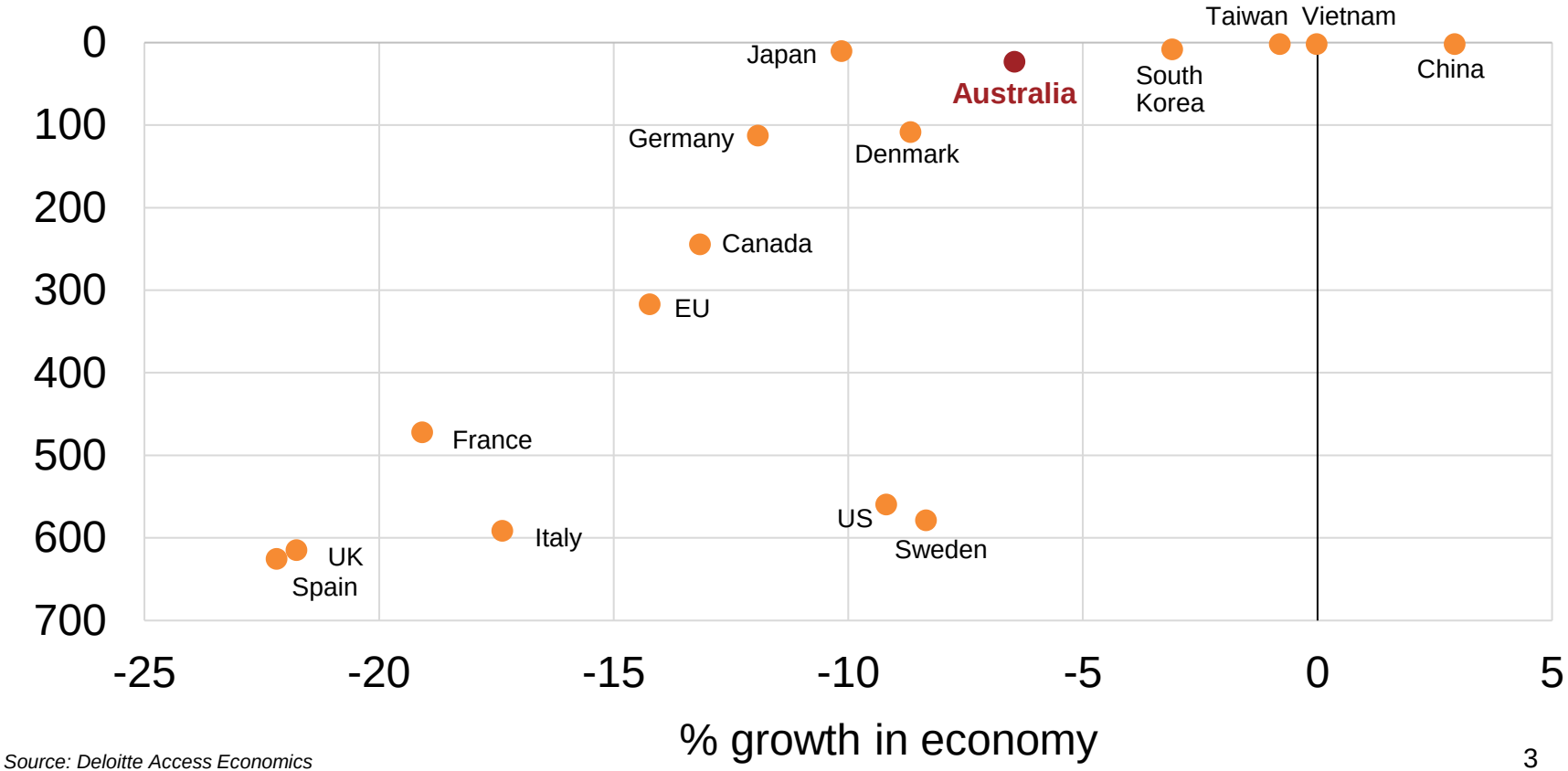
- Biggest risks are around vaccine rollout, pre-mature withdrawal of government supports and geo-political risks

Big policy conversations in 2021

- Health, the economy, aged care and mental health, relationship with China and climate change are biggest policy issues in a possible election year

Australian recovery supported by health outcomes

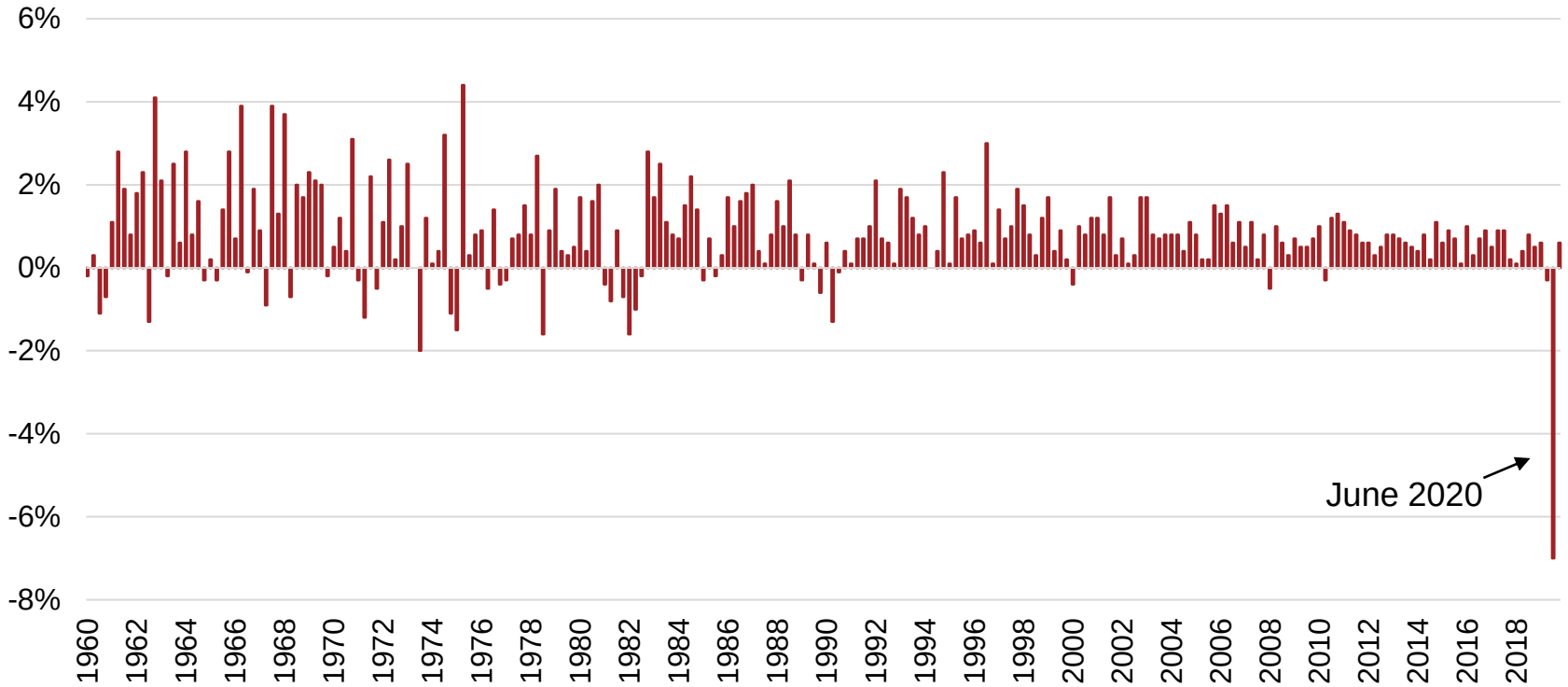
Cumulative deaths per million



Source: Deloitte Access Economics

Biggest quarterly hit to growth since records began (largest annual hit since 1930)

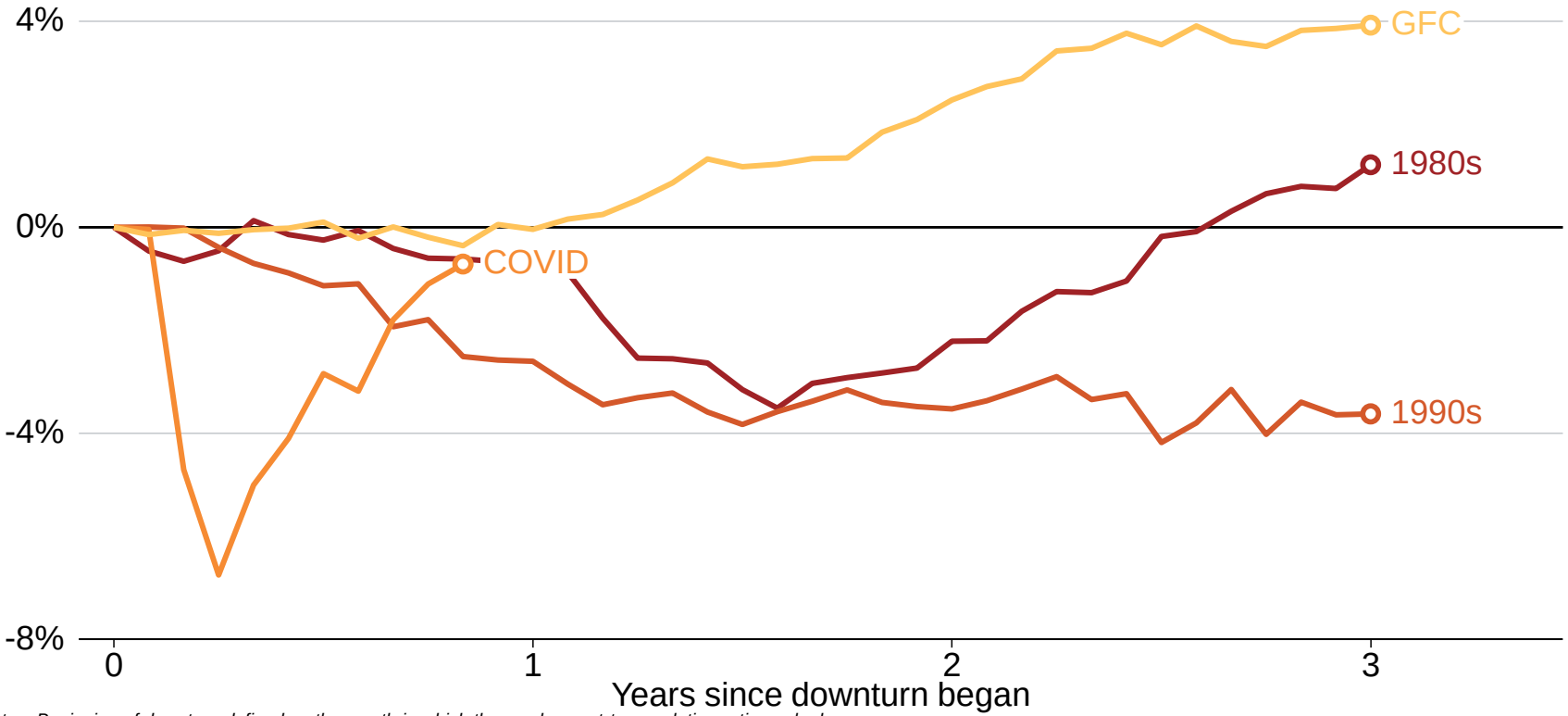
Percentage change in GDP, quarterly, December 1959 – September 2020



Source: ABS Cat 52060.0

But the labour market has bounced back quickly from the COVID shock

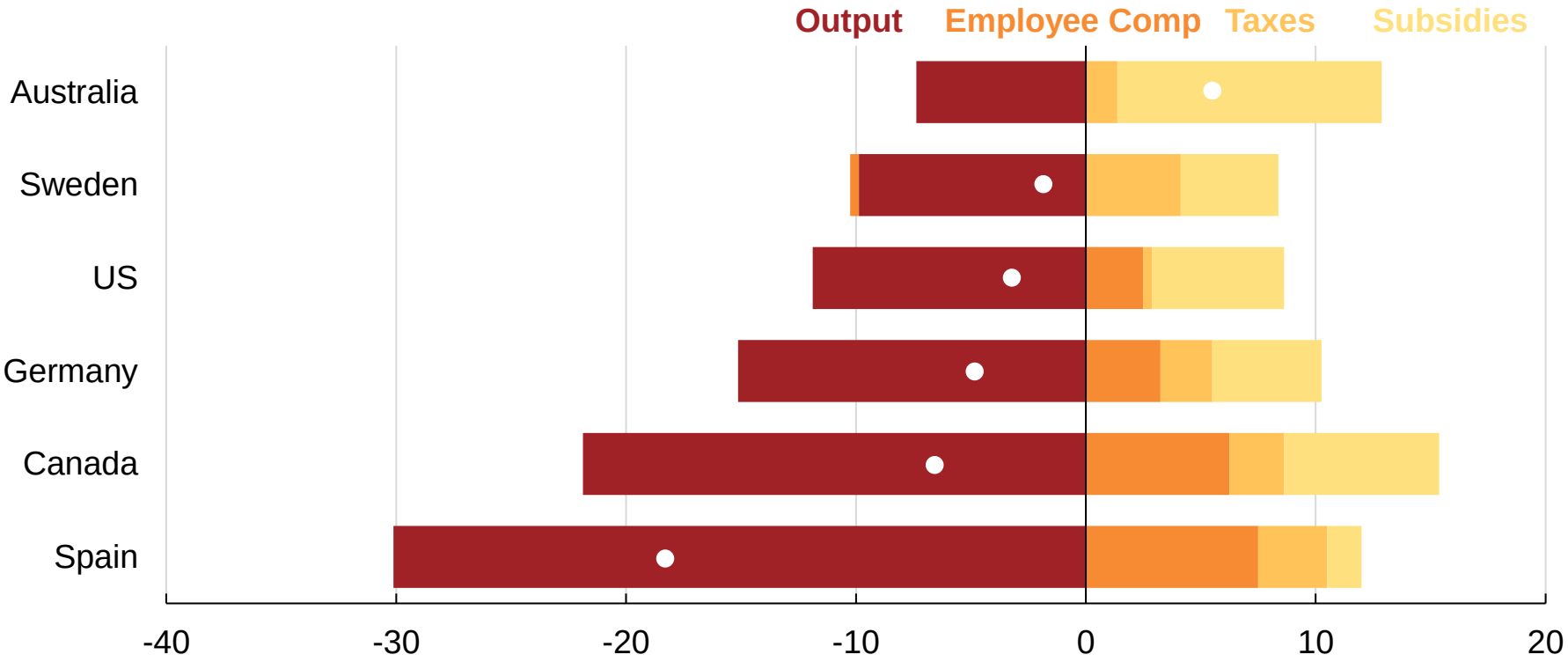
Cumulative employment growth since downturn began



Notes: Beginning of downturn defined as the month in which the employment-to-population ratio peaked.
Source: ABS Labour Force.

Government supports have actually boosted business profits

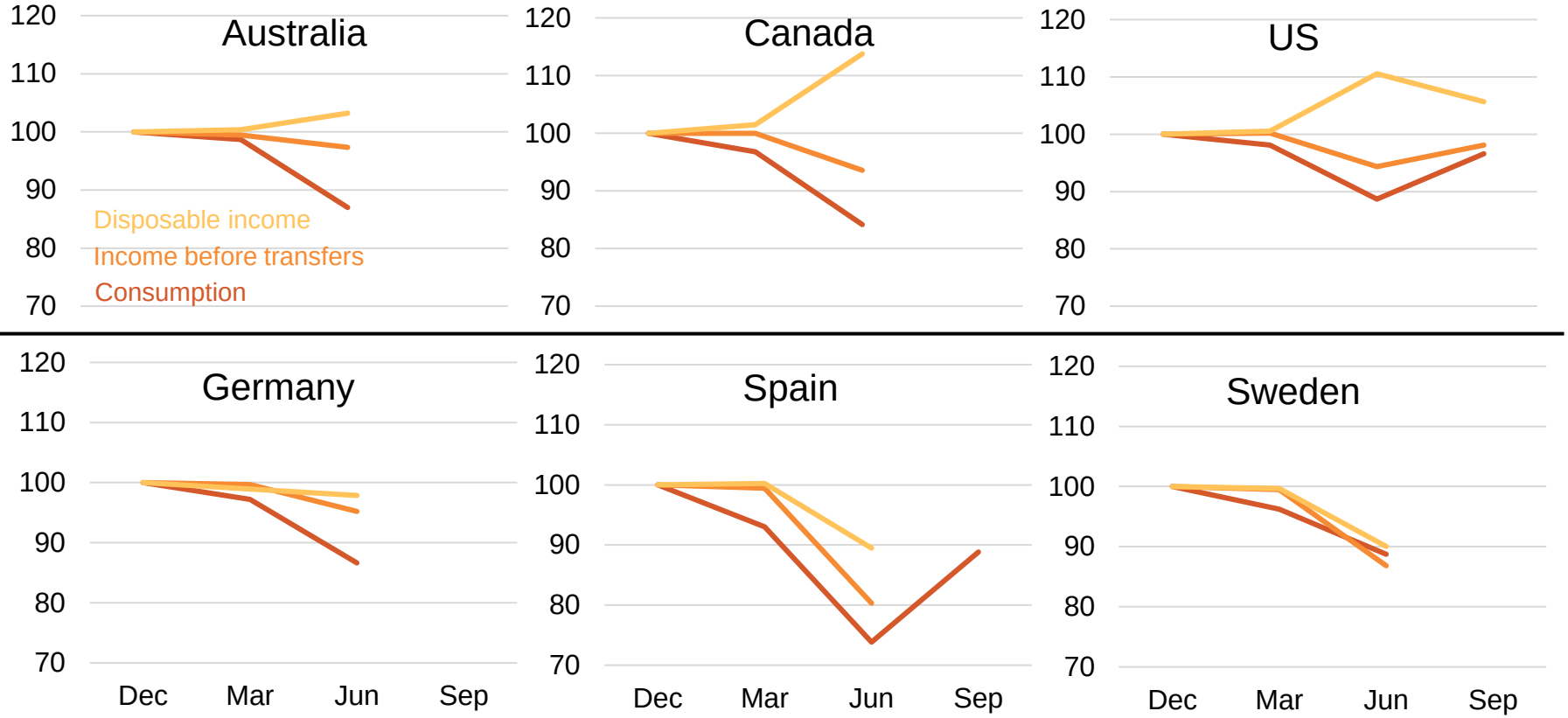
Business profits and contributions in first half of 2020 compared to second half of 2019



Notes: White dots show business profits, which include gross operating surplus and mixed income
Sources: ABS; OECD; RBA.

And disposable income (although consumption still fallen)

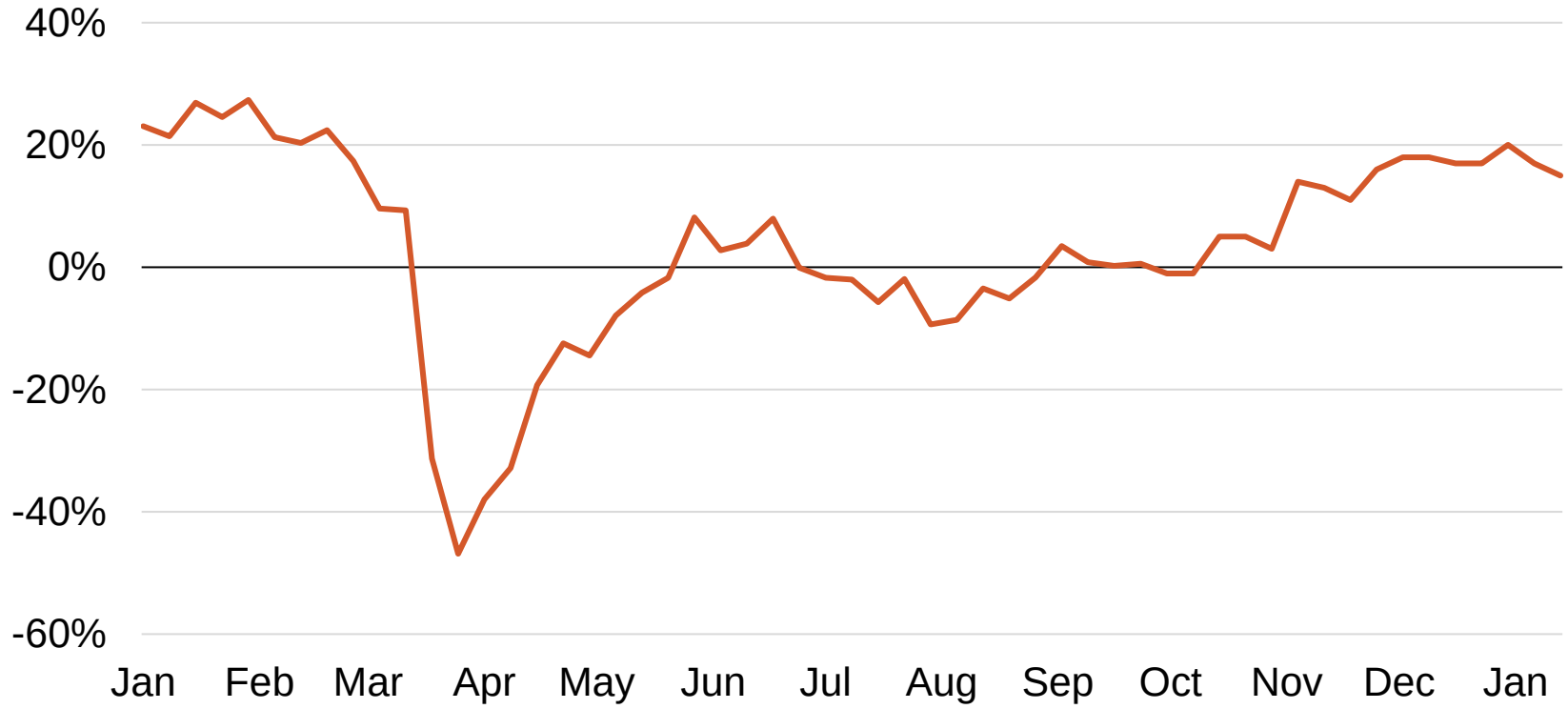
Real household income and consumption, Dec quarter 2019 = 100



Sources: national sources; OECD; RBA; Refinitiv

And spending intentions at a ten-month high

ANZ-Roy Morgan Consumer Confidence rating, weekly, 2020, ‘Time to buy a household item’

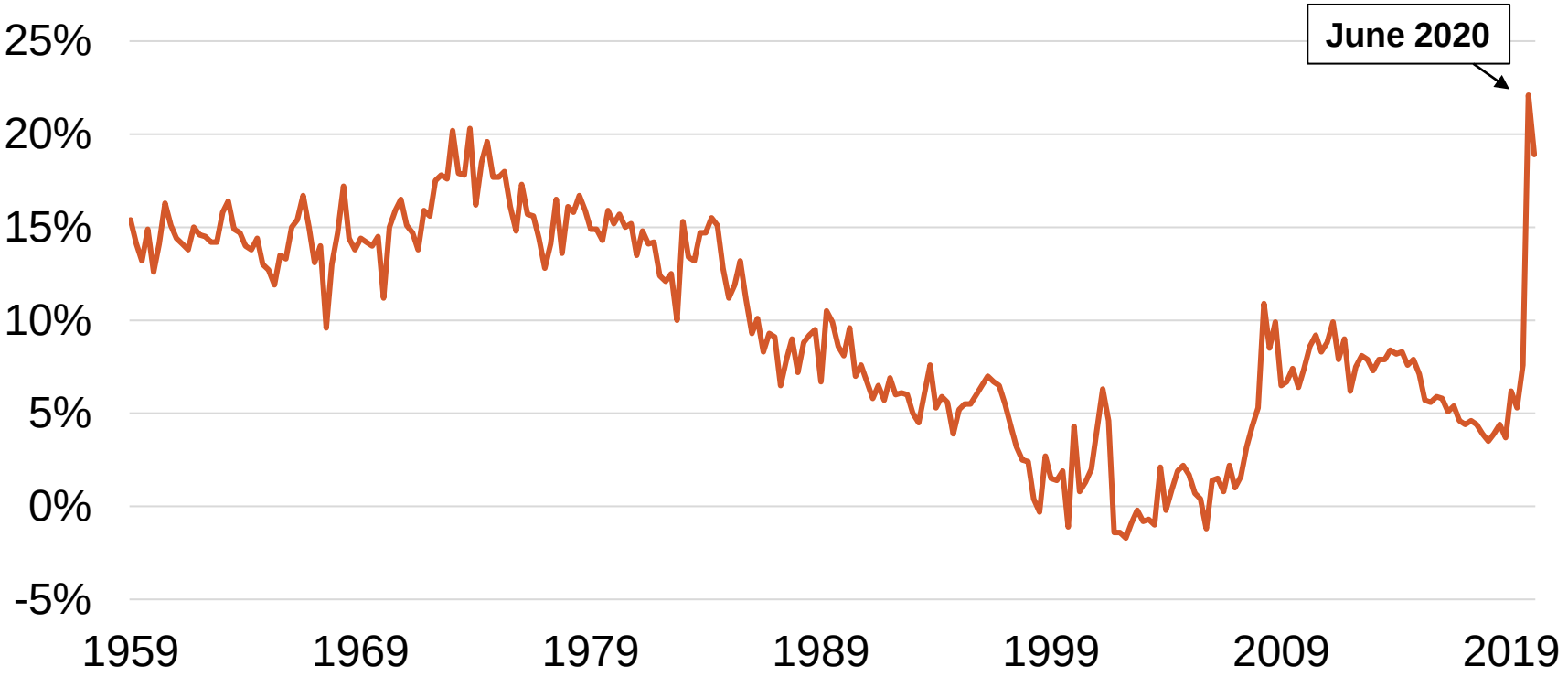


Source: Roy Morgan Research, CommSec

When will the $200 billion in additional savings hit the economy?

GRATTAN Institute

Household saving ratio, seasonally adjusted



Economics, policy and politics of the COVID recovery

Recovery has surprised on the upside

- Health performance underpinned recovery
- Lockdown bounce back and high level of government supports have seen jobs recover faster than most expected

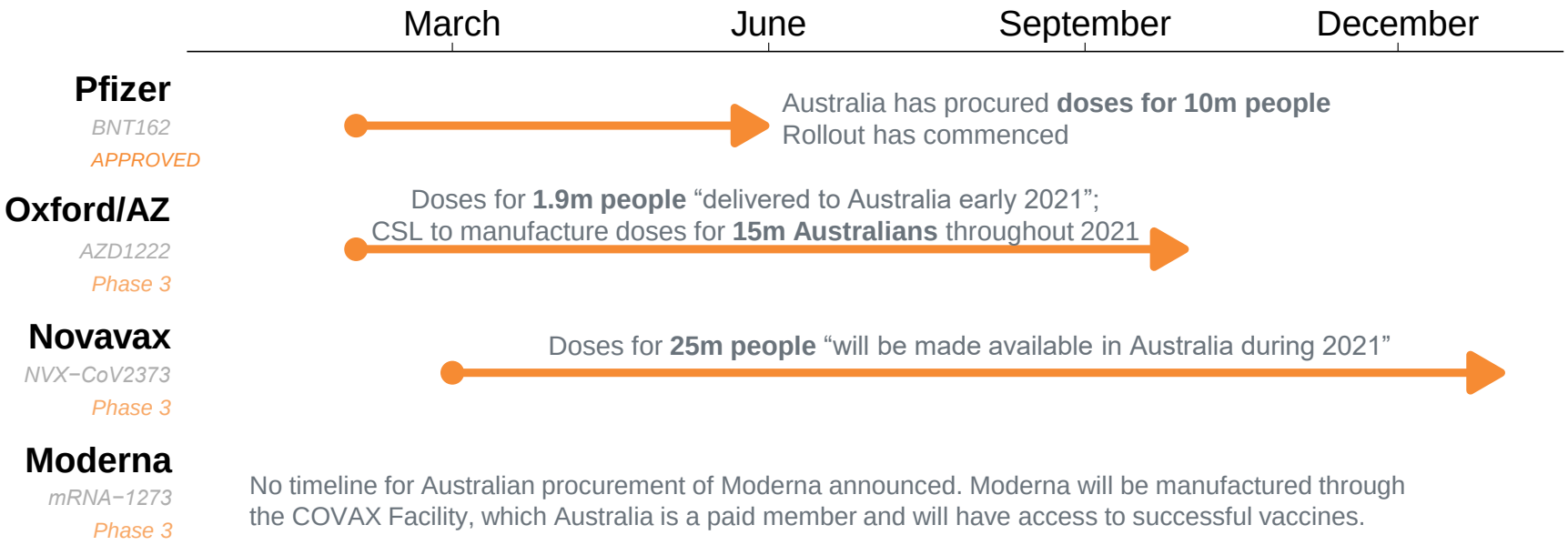
But not out of the woods yet

- Biggest risks are around vaccine rollout, pre-mature withdrawal of government supports and geo-political risks

Big policy conversations in 2021

- Health, the economy, aged care and mental health, relationship with China and climate change are biggest policy issues in a possible election year

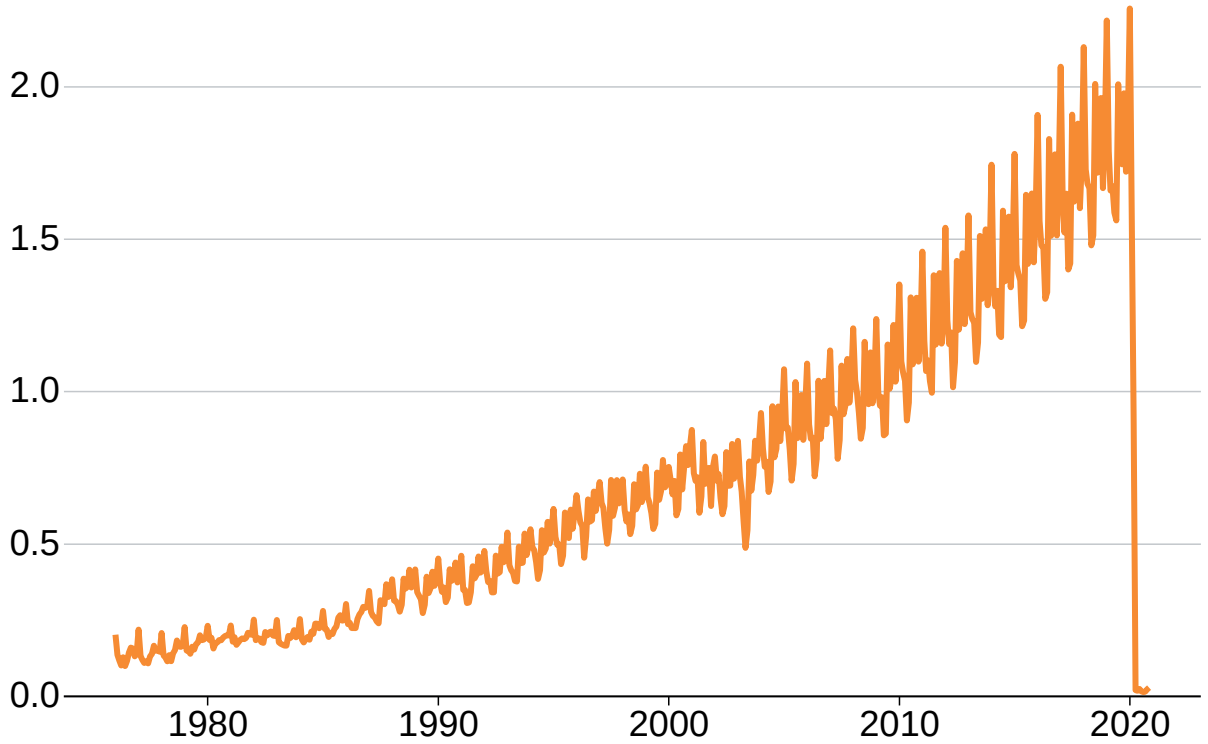
Risk 1: another wave - Full vaccine roll out not expected until October, won't achieve herd immunity by winter



Notes: timeline and quotes from announcements by the Commonwealth Department of Health, last updated on November 5. "Early 2021" shown as February. There are 51 vaccines in development. The four most progressed and relevant to Australia are shown here. Sources: Department of Health (2020); RAPS (2020).

Risk 2: Issues with vaccine roll out (logistics, hesitancy, new strains) impacts border re-openings

Total monthly arrivals to Australia, millions

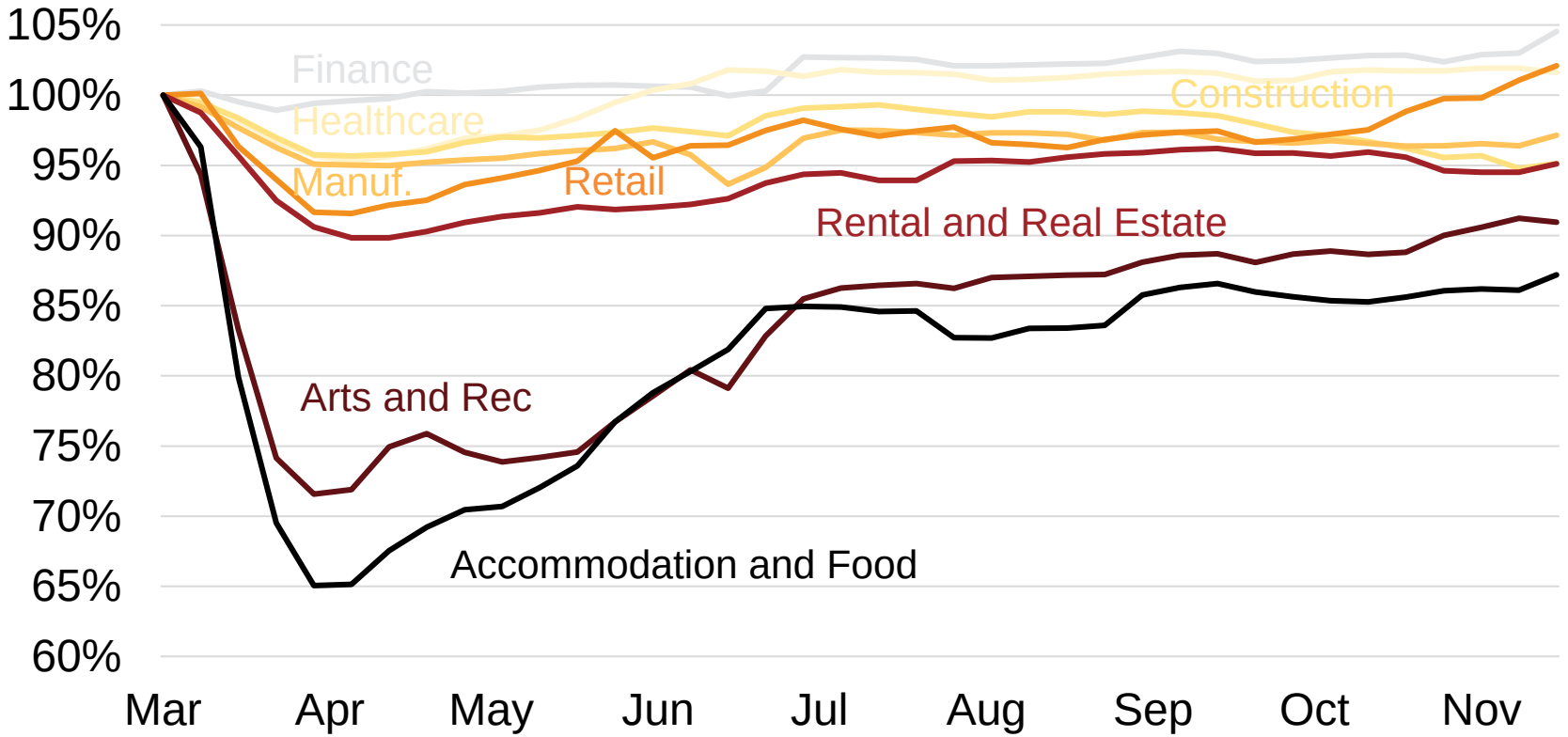


I think we'll go most of this year with substantial border restrictions. Even if we have a lot of the population vaccinated we don't know whether that will prevent transmission of the virus and it's likely that quarantine will continue for some time.

Notes: Arrivals statistics record the number of movements of travellers across Australia's border, not the number of individual travellers. Total arrivals includes both residents returning and visitors arriving.
Source: ABS, Overseas Arrivals and Departures, November 2020.

And continuing border closures and social distancing restrictions would extend the 'long-tail' for certain sectors

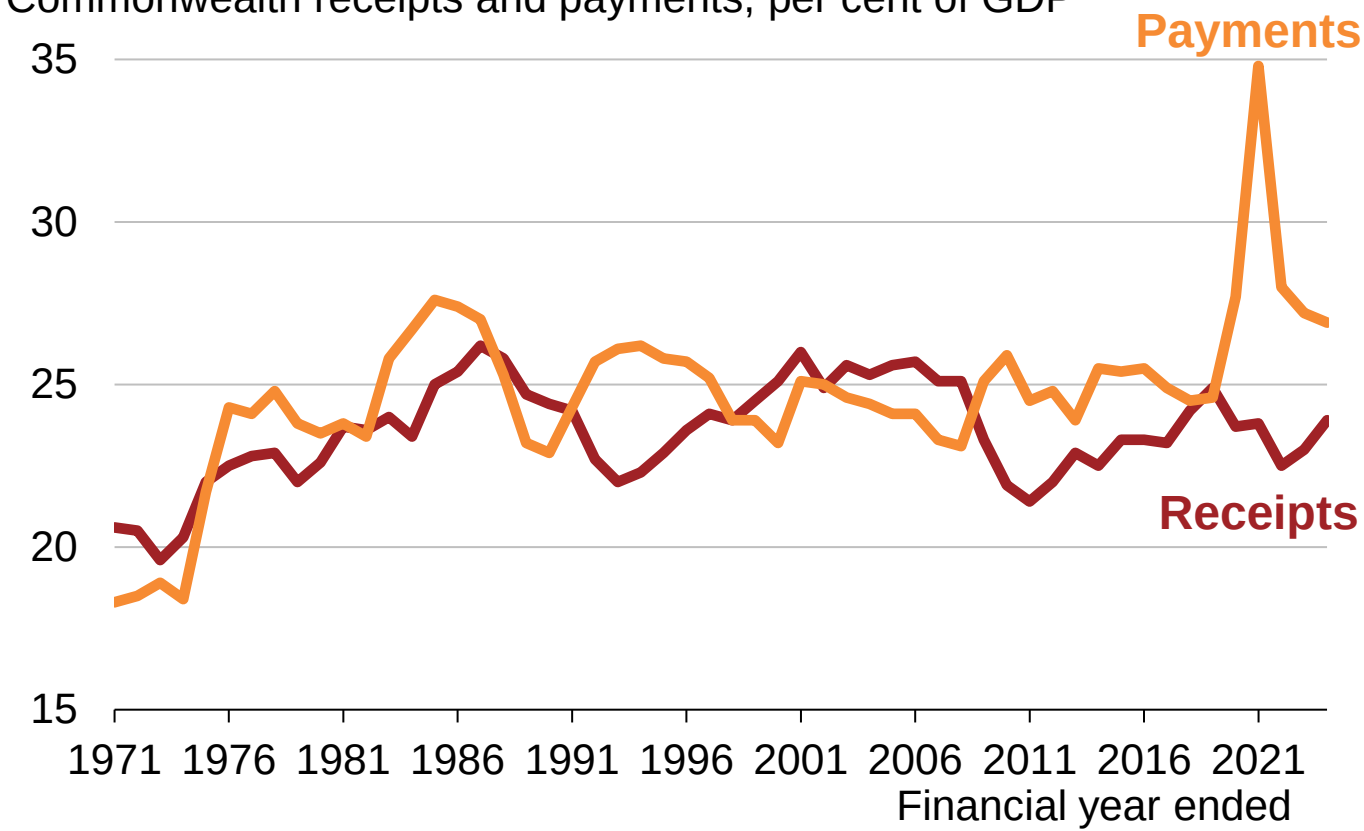
Weekly Payroll Jobs, Australia, Mar-Nov 2020, as % of jobs on 14 March



Source: Weekly Payroll Jobs and Wages in Australia – Payroll jobs index

Risk 3: stimulus is withdrawn too soon – ‘flick switch to austerity’

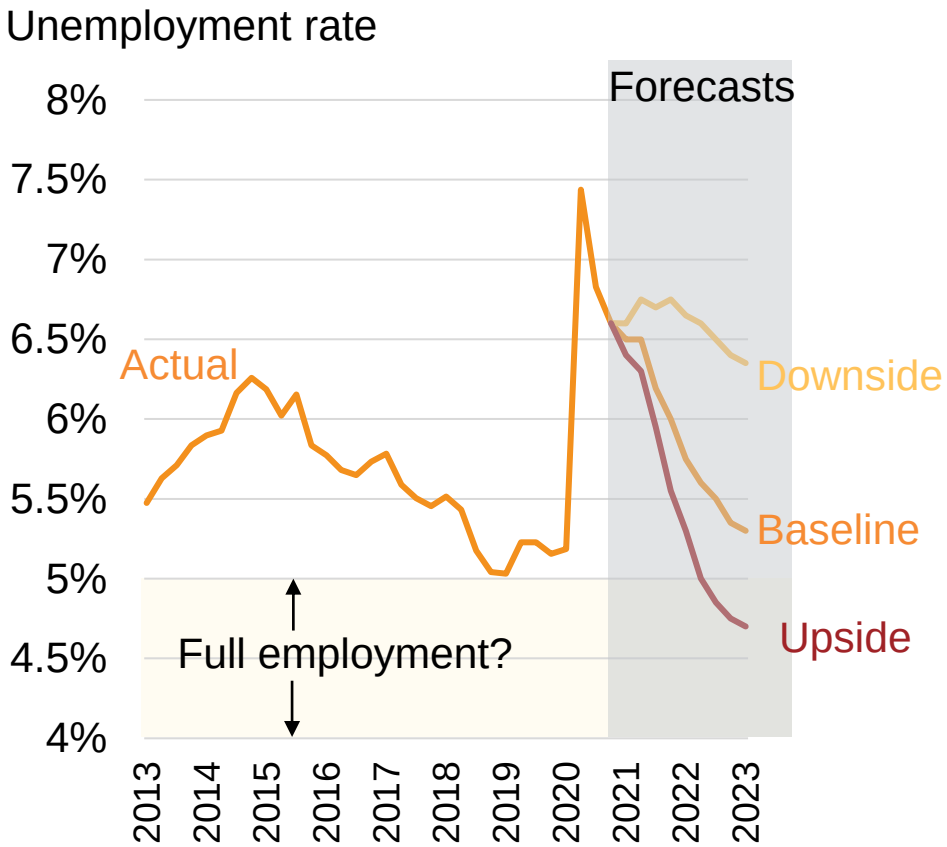
Commonwealth receipts and payments, per cent of GDP



Our task now is to…ensure that we do not overburden future generations and continue to spend taxpayers’ money wisely.
We are not running a blank cheque budget.

Source: *Budget 2020-21.*

But hardest will be the last mile

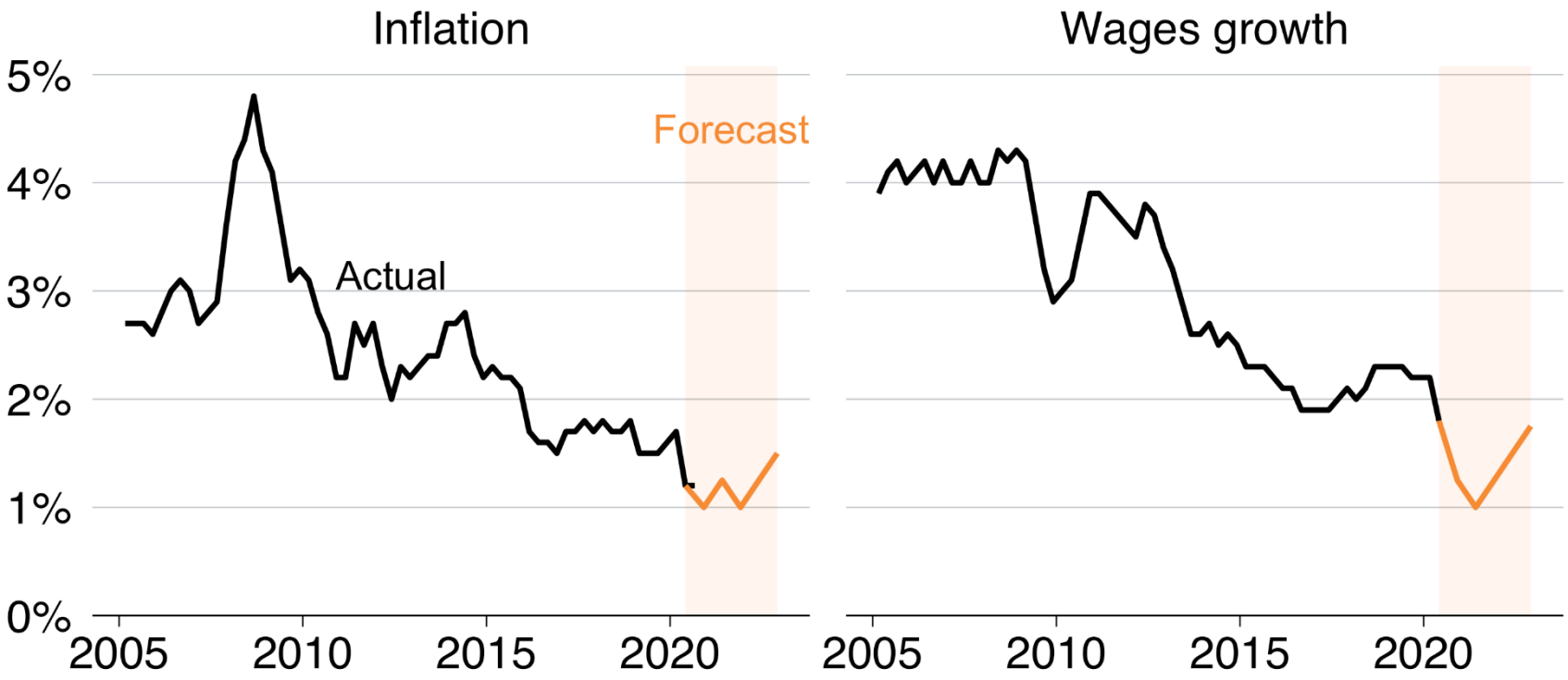


Source: RBA, ABS.

..we need to recognise that the pandemic has inflicted significant damage on our economy. It will take time to repair that damage and it is highly likely that the recovery will be uneven and drawn out. In particular, we face the prospect of a longer period of higher unemployment and underemployment than we have become used to.

And inflation and wage growth too low

Annual inflation (trimmed mean) and wages growth (WPI), actual and forecast



Sources: ABS Wage Price Index; ABS Consumer Price Index; RBA Statement on Monetary Policy November 2020

Alternative: maintain support until you find full employment ‘jumpstart the economy’

GRATTAN Institute

Neither the president-elect, nor I, propose this relief package without an appreciation for the country’s debt burden. But right now, with interest rates at historic lows, the smartest thing we can do is act big. In the long run, I believe the benefits will far outweigh the costs, especially if we care about helping people who have been struggling for a very long time.

Janet Yellen,
new Treasury Secretary

The costs of inaction are far higher than the costs of acting too aggressively. We should not wait years for the economy to return to full employment and get the economy back to pre-pandemic expectations.

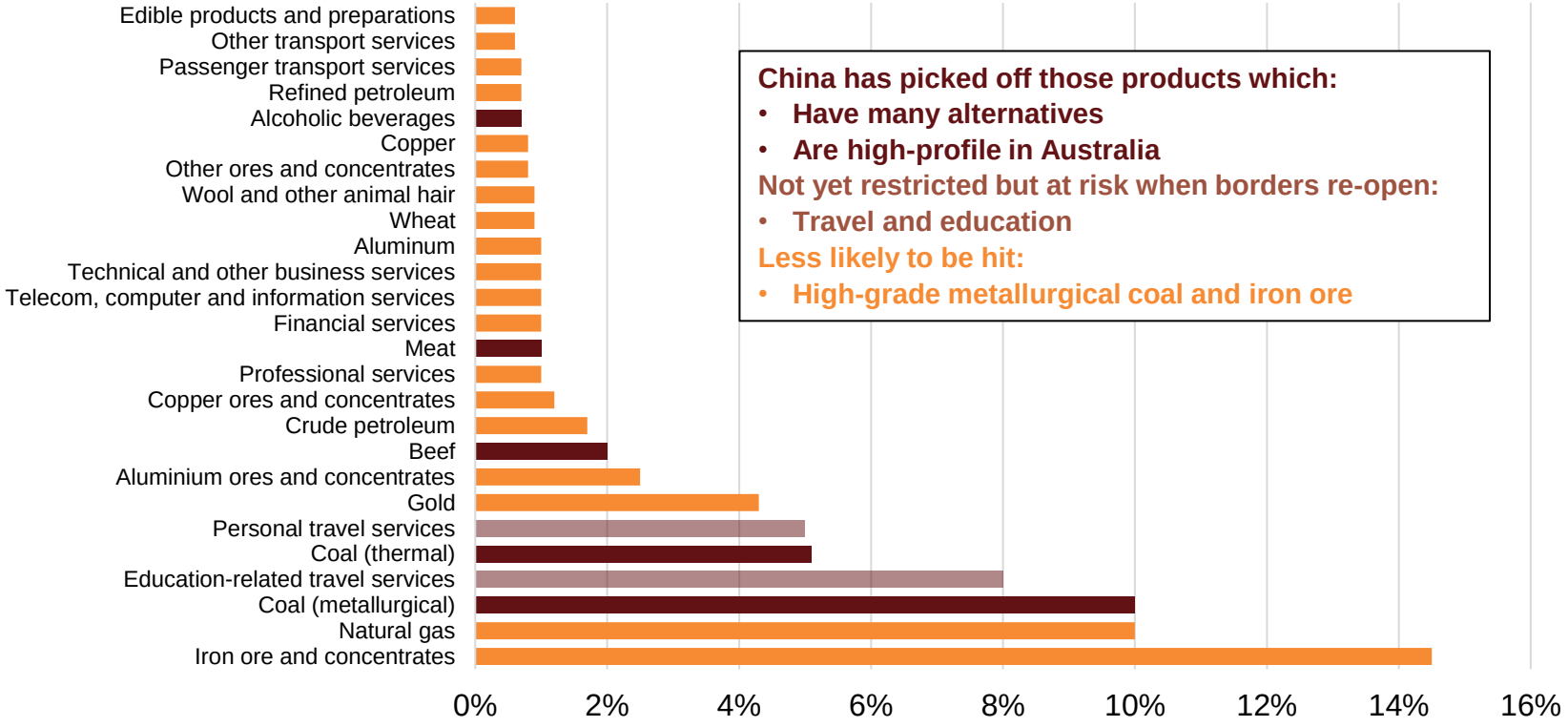
Joe Biden’s
economic team

Too little support would lead to a weak recovery, creating unnecessary hardship for households and businesses… by contrast, the risks of overdoing it seem, for now, to be smaller

Jerome Powell,
Fed Chairman

Risk 4: China trade tension ramp up

Australian exports by % of total export value, type, key risks



Economics, policy and politics of the COVID recovery

Recovery has surprised on the upside

- Health performance underpinned recovery
- Lockdown bounce back and high level of government supports have seen jobs recover faster than most expected

But not out of the woods yet

- Biggest risks are around vaccine rollout, pre-mature withdrawal of government supports and geo-political risks

Big policy conversations in 2021

- Health, the economy, aged care and mental health, relationship with China and climate change are biggest policy issues in a possible election year

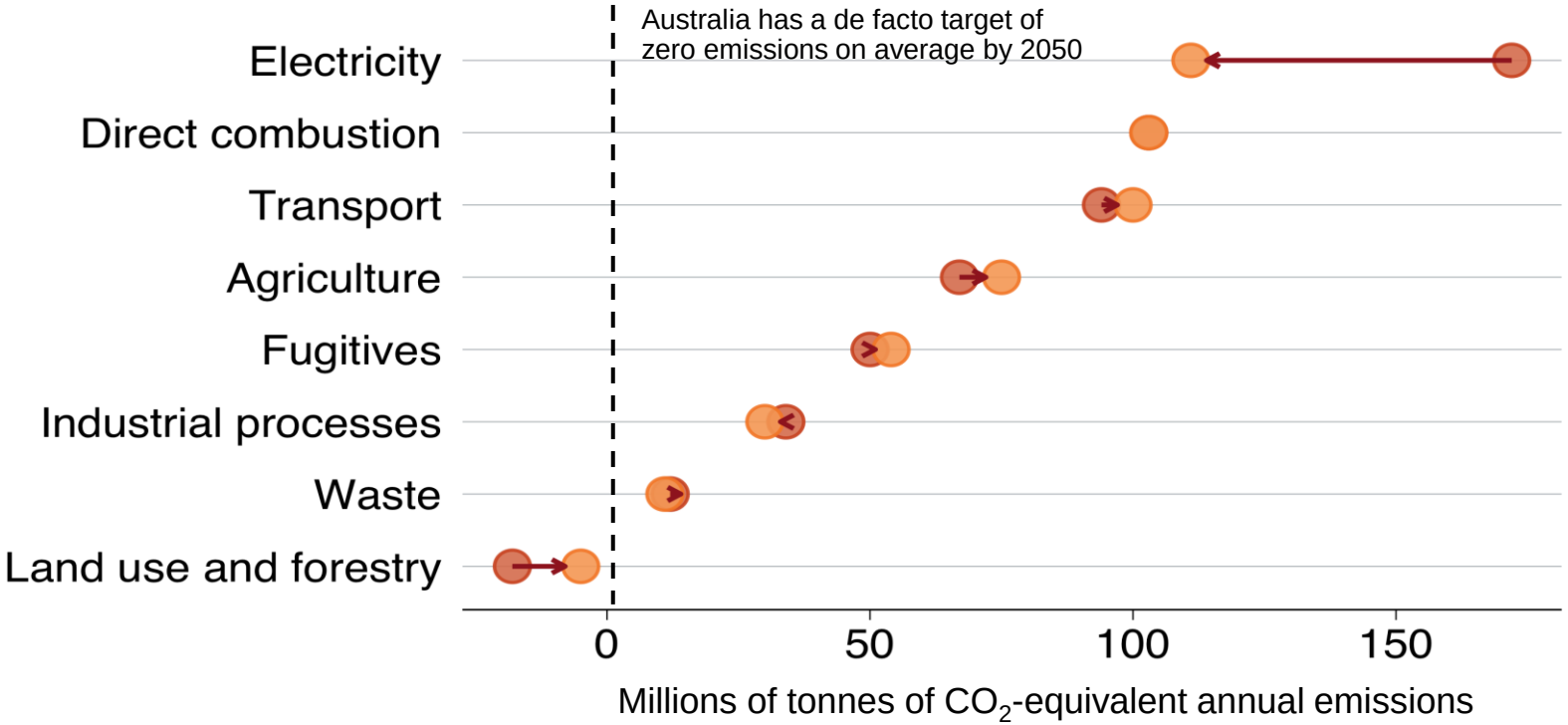
Key policy issues for 2021

1. Suppress the virus and **deliver the vaccine**
2. Cement our **economic recovery** to create jobs and more jobs
3. To continue to guarantee the **essential services** that Australians rely on
4. Protect and secure **Australians' interests** in a challenging world
5. **Care for our Country**

Electricity is becoming cleaner, but no progress is expected in the next four largest emission sources

GRATTAN Institute

Emissions in 2020 and projected emissions in 2030



Notes: Direct combustion is the burning of fuels to make heat, steam, or pressure for a reason other than transport or electricity, such as cooking with natural gas stovetops. Fugitive emissions are greenhouse gases such as methane that escape during the extracting, processing, and delivery of fossil fuels.
Source: Grattan analysis of Australia's emissions projections 2020, Department of the Environment and Energy (2020).

Is this the year of real climate action? A perfect storm of pressures

Countries committed to **net-zero emissions by 2050** – the EU, Japan, South Korea, UK, New Zealand, Canada, Chile, Fiji

China committed to **net zero by 2060**

Biden election means Australia isolated as laggard

Heading into COP 26 (Glasgow, November) building discussion of trade sanctions

- France only wants an EU-Australia trade deal if Australia demonstrates its commitment to the Paris agreement
- The European Union considering a carbon border tax
- US Climate leadership Council proposed similar border adjustment tax

Business united in calls for policy certainty and not just the usual suspects (BCA, BHP, Woodside…)

- Prudential regulators increasingly demanding that business factor in climate risk

Our goal is to reach net zero emissions as soon as possible, and preferably by 2050

Is there a way through?

Australia's best hope of achieving meaningful progress in the near-term is a combination of sector-based, technology-driven, third-best policies that will deliver progress in the right direction

- **Electricity:** state-based renewable support already driving the sector to very low emissions. Governments' focus should be on addressing grid integration barriers
- **Early-stage technologies:** ARENA funding to develop the most prospective low-emissions technologies
- **Industrial emissions:** Ramp-up the safeguard mechanism to become progressively binding by reducing baselines consistent with net zero
- **Transport:** remove barriers to adoption and address issues such as congestion charging
- **Agriculture and waste:** The Climate Solutions Fund demonstrates there are many low-cost options

Providing solutions to Australia's most pressing policy issues

GRATTAN Institute