12 May 2020

Ministerial Statement on the Economy, Parliament House, Canberra

The economic impact of the crisis

Australia finds itself at war against a faceless and flagless enemy.

The coronavirus has created a one in a hundred year event.

A health and economic shock the likes of which the world has never seen.

So many of our fellow Australians, through no fault of their own, are struggling and doing it tough.

Be they battling the virus, separated from friends and family or worried about their job security and economic future.

Tragically, 97 Australians have lost their lives with many more people, including in this Parliament, directly affected.

Our thoughts are with the Member for Cooper and all the other families across the country who have lost loved ones.

Many of the things we take for granted, visiting grandparents, taking the kids to weekend sport or having a beer at the pub, have been disrupted.

The Australian way of life has been put on hold.

But once again, Australia and its people are showing remarkable resilience and character.

Having withstood flood, fire and drought, there is a unity and purpose that should make us all proud.

Through strong and decisive action led by the Prime Minister, together with State Premiers and Chief Ministers, Australia has avoided the fate of many other nations.

Globally, more than 4 million people have contracted the virus.

More than 280,000 have died and much of the world has gone into lockdown.

In the United States, 80,000 have died.

In the United Kingdom over 31,000, with Italy, Spain and France not far behind.

In contrast Australia’s mortality rate is one of the lowest in the OECD.

Early border restrictions, comprehensive and coordinated action by the National Cabinet and a world class health system have contributed to this result.

The pandemic is not just an enormous health challenge but an economic one as well.

The IMF is forecasting the world economy to contract by 3 per cent this year.

In contrast, during the GFC, the global economy shrank by just 0.1 per cent in 2009.

China's GDP fell in the March quarter by 9.8 per cent, their first quarterly fall on record.

Italy, France and Spain all experienced their largest quarterly falls on record.

In the United States, 33 million jobless claims have been made in the last seven weeks, with the unemployment rate rising to 14.7 per cent.

In Australia, Treasury is forecasting GDP to fall by over 10 per cent in the June quarter which would represent our biggest fall on record.

At $50 billion, this is a loss equivalent to the total combined quarterly production of South Australia, Tasmania, the Northern Territory and the ACT.

Treasury is forecasting the unemployment rate to reach around 10 per cent, or 1.4 million unemployed, in the June quarter.

This 5 percentage point increase in the unemployment rate is expected to occur over three months compared to the three years it took the unemployment rate to rise by the same amount in that devastating period of the early 1990s.

Household consumption and business and dwelling investment are all forecast by Treasury to fall sharply in the June quarter.

The combination of social distancing, lower incomes and increased uncertainty are weighing heavily on aggregate demand and flowing through to reduced cash flow.

Household consumption is expected to be around 16 per cent lower.

Business investment is expected to be around 18 per cent lower with falls concentrated in the non-mining sector.

Dwelling investment is also expected to be around 18 per cent lower.

Over the same period, household savings are expected to increase as a result of the restrictions that have been imposed and an understandably cautious approach by households to discretionary spending.

Overall, the economic data has been sobering.

In March, business and consumer confidence saw the largest declines on record.

The ASX200 lost more than a third of its value in just over four weeks.

In April, surveys showed that job ads halved and activity in the construction, manufacturing and the services sector had their largest ever monthly falls.

New motor vehicle sales fell by 48 per cent through the year, their largest ever fall.

House sales fell by 40 per cent.

Domestic and international air travel is down by more than 97 per cent, with nearly 40,000 passengers moving through Brisbane airport on Easter Sunday last year, compared to just 31 passengers this year.

Against this backdrop, between the 14th of March and the 18th of April the number of jobs decreased by 7.5 per cent and the wages bill paid by businesses decreased by 8.2 per cent.

During this period, accommodation and food services saw the largest fall in jobs at 33.4 percent, followed by the arts and recreation sector at 27 per cent.

The scale of the economic shock is hitting the budget bottom line.

The monthly financial statements for March provide the most recent report on the Budget position.

To the end of March, the underlying cash deficit was $22.4 billion, $9.9 billion higher than forecast in MYEFO.

Tax receipts were $11.3 billion lower than forecast in MYEFO.

While payments to the end of March were still $1.4 billion lower than in the MYEFO profile, this will change from the next statement onwards as the measures we have implemented continue to ramp up.

Since MYEFO, the total face value of Australian Government Securities on issue has increased by more than $50 billion from $560 billion to $618 billion as of 8 May 2020.

An updated economic and fiscal outlook will be provided in June, following the release of the March quarter National Accounts with the Budget to be delivered in October.

In accordance with the requirements of the Charter of Budget Honesty I am tabling this Ministerial Statement to set out the reason for the increase in borrowings.

The unprecedented speed and scale of the Government's economic response has driven a rapid increase in borrowings.

While there will be a significant increase in Government debt which will take many years to repay, our measures have been designed in a way that protect the structural integrity of the budget.

Australians know there is no money tree.

What we borrow today, we must repay in the future.

Temporary and targeted, the new spending measures were not designed to go forever but to build a bridge to the recovery phase.

As Standard & Poor's stated less than four weeks ago, while the Government's fiscal measures will "weigh heavily on public finances in the immediate future, they won't structurally weaken Australia's fiscal position."

With $320 billion, or 16.4 per cent of GDP in financial support, our focus is getting the country through the crisis and positioning the economy to recover on the other side.

This has only been possible because of the position of strength from which we entered the crisis.

Growth had risen from 1.8 per cent to 2.2 per cent in the December quarter and the IMF was forecasting the Australian economy to grow faster than the United States, United Kingdom, Japan, France and Germany in both 2020 and 2021.

The unemployment rate fell in February to 5.1 per cent, with the participation rate at near record highs against the backdrop of 1.5 million new jobs being created over the last six years.

After inheriting a budget deficit of $48.5 billion, the budget was back in balance for the first time in 11 years and despite the adverse economic impacts from the global trade tensions, fires, floods and drought, we were on track for the first surplus in 12 years.

Our ability to handle this crisis has once again reminded Australians of the importance of a strong and stable financial position which must always be a primary responsibility of government.

The proven path for paying back debt is not through higher taxes, which curtails aspiration and investment, but by growing the economy through productivity enhancing reforms.

Our focus will be on practical solutions to the most significant challenges which will be front and centre in the post-crisis world.

Reskilling and upskilling the workforce, maintaining our $100 billion, ten-year infrastructure pipeline, cutting red tape to reduce the cost burden on businesses and the economy and tax and industrial relations reform as a means of increasing our competitiveness.

The values and principles that have guided Coalition reforms in the past must guide us again in the future: encouraging personal responsibility; maximising personal choice; rewarding effort; and risk taking whilst ensuring a safety net which is underpinned by a sense of decency and fairness.

Unleashing the power of dynamic, innovative, and open markets must be central to the recovery, with the private sector leading job creation, not government.

We know that a strong economy is the foundation for everything else, and only with a strong economy can you provide the health, education, and essential services that Australians rely on.

The economic response to the crisis

Conscious of the extraordinary health and economic shock created by the coronavirus, the Government was determined to act quickly and decisively.

We were in a race against time to replenish our personal protective equipment stocks, increase the capacity of our Intensive Care Units and secure a sufficient number of ventilators to deal with the expected surge in demand.

We provided additional funding to our scientists and medical researchers who are participating in a global mission to find a vaccine.

We entered into an equal cost sharing arrangement with the states and territories to meet the extra burden on public hospitals.

Non-urgent elective surgeries were suspended and we guaranteed the viability of private and not-for-profit hospitals to ensure over 30,000 beds and 105,000 healthcare professionals were available.

We allocated more than $850 million to the aged care sector to provide additional support and services at this difficult time.

On the economic front, in less than a three week period, we announced three separate support packages, each complementary and building on the other.

Combined, they represent the largest fiscal response in Australia's history.

Over $25 billion of support has already flowed to households and businesses in recent weeks, with more than $30 billion to flow in the next month.

This is the largest and fastest injection of economic support the country has ever seen.

Our economic measures fall into three categories: support for households; support for business and employment; and support for the financial system.

For households, our actions are designed to “cushion the blow” from the income shock and support consumption across the economy.

Given the level of uncertainty, our economic measures provide more than financial relief.

They provide a psychological boost as well.

There are so many stories from across the nation about how our measures provided an economic lifeline to people in their hour of need.

Like Luke, the owner of a local restaurant and bar in Chapel Hill, Brisbane, who said JobKeeper “saved our bacon” and Adrian, owner of an auto business in Moonah, Hobart, who said JobKeeper has “turned out to be a saviour.”

We effectively doubled unemployment benefits with the introduction of a temporary $550 coronavirus supplement for jobseekers.

We waived the waiting period, adjusted mutual obligation requirements and expanded the partner income test to ensure it reached those in need.

With over 1.4 million Australians now receiving the payment, it is providing critical support.

We announced two $750 cash payments, the first payment totalling $5.2 billion went out from 31 March to more than 7 million income support recipients including pensioners, carers, veterans, those receiving family tax benefits and Commonwealth Seniors Health Card holders.

We provided tax free early access to superannuation of up to $10,000 this financial year and up to $10,000 next financial year.

To date, 1.29 million early release of super applications have been released by the ATO, equating to about $10.6 billion, with an average withdrawal of $8,000.

We reduced the pension deeming rates, both the lower and upper levels, to 0.25 per cent and 2.25 per cent, at a cost of $876 million.

We reduced the superannuation minimum drawdown rates by 50 per cent for 2019-20 and 2020-21 to give those in retirement more control over their savings.

We worked with the banks and the prudential regulator to ensure households could get much needed temporary relief from loan repayments.

With repayments on $200 billion of loans deferred, the majority of which are residential mortgages, the financial pressure on many households has been lowered.

An early childhood and education relief package of over $1.6 billion will see over one million families receiving free childcare.

This has allowed our childcare sector to remain open to support working families and vulnerable children through the pandemic.

The second set of economic measures has been directed at business and employment.

The motivation has been to encourage investment, boost cash flow, maintain the connection between employer and employee and provide a regulatory shield and more workplace flexibility while preserving as much capacity across the economy as we build a bridge to the recovery phase.

At $130 billion the JobKeeper program provides for a fortnightly $1500 payment to part-time and full-time employees, long term casuals, sole traders and those working in the Not-for-Profit sector.

The payment is equivalent to 70 per cent of the median wage and is close to a replacement wage for many working in those sectors most affected like hospitality and retail.

Payments began last week for the period beginning the 30th March, which was the date the program was announced.

There are now more than 835,000 businesses employing more than 5.5 million workers who are formally enrolled in the program.

This is in addition to temporary cash flow support to help small and medium-sized businesses keep operating, pay their bills and retain staff.

Over 450,000 small and medium sized businesses have now received over $8 billion under our cash flow boost program.

Linked to the size of the payroll this program will provide between $20,000 and $100,000 to SMEs to help them retain staff and meet their fixed costs.

This measure uses the existing payroll systems, so that no new forms need to be filled in, businesses do not need to apply and payments are made automatically in the most efficient way possible.

We also introduced a separate 50 per cent wage subsidy for 117,000 apprentices, helping to keep the local apprentice baker and hairdresser in work.

In addition to the financial support we have provided business, we amended the bankruptcy and solvency laws to provide temporary protection for distressed businesses during this period.

In the first package we announced two measures to support business investment.

An extended instant asset write off of up to $150,000 which can be used any number of times for any eligible asset and a 50 per cent accelerated depreciation allowance for businesses up to $500 million in turnover.

Other measures included a $500 million loan facility to support exporters recapturing market share and a $1 billion Relief and Recovery Fund with over $500 million has already been committed.

This fund is supporting regional airlines and airports, air freight for essential agriculture, levy relief for commonwealth fisheries, supporting tourism businesses in commonwealth national parks, a funding boost for Australia’s zoos and aquariums and support for Indigenous and regional arts programs.

To assist commercial tenants with rent relief during this difficult period we worked with the states and territories on a mandatory code of conduct to govern their relationship with landlords.

In total, there has been more than 80 regulatory changes that the Federal Government has made to provide greater flexibility and support to those affected by this crisis.

This includes significant temporary industrial relations changes to allow employees and employers to vary work arrangements in order to keep people employed.

A great strength of the Australian economy during this crisis has been the resilience of our financial system which has benefited from many reforms under this Government, commencing with the Financial Systems Inquiry which led to our banks being required to hold more capital so as to be "unquestionably strong."

Global and domestic markets have experienced significant stress during this period and the Government moved quickly to inject liquidity into the system.

The Reserve Bank of Australia and the Australian Office of Financial Management have made $105 billion available to support lending to businesses from both bank and non-bank lenders.

Government has also partnered with the banks in a $40 billion SME loan guarantee scheme which to date has already seen over $1 billion in loans approved to more than 11,000 businesses.

Regulatory relief has included the clarification of responsible lending laws to help credit flow faster to SMEs, as well as changes made to facilitate the rapid recapitalisation of ASX listed companies.

In recognition of the unprecedented and volatile market environment the Government has also temporarily reduced the FIRB assessment thresholds to zero to safeguard the national interest and to ensure confidence in the Foreign Investment framework is maintained.

It has been encouraging that through the combination of our economic measures and flattening the curve, we have seen gradual signs of improvement in sentiment.

Consumer confidence has risen for six consecutive weeks and key sectors like mining, agriculture and manufacturing have continued to be resilient and contributed to a record trade surplus of $10.6 billion in the month of March.

Significant product innovation, market diversification strategies and the accelerated uptake of digital transformation opportunities have also been pursued by many businesses in their effort to adapt to the difficult circumstances they are in.

This innovation will assist these businesses on the other side.

Lifting of restrictions

Last week the Prime Minister summarised the Government's five point plan in response to this crisis.

First, we made real progress in fighting the virus, buying time to increase our health capacity.

Second, we put in place our economic response to cushion the blow and build a bridge to recovery.

Third, we have begun lifting restrictions, with a clear plan and framework mapping out the road ahead.

Fourth, with restrictions starting to lift it will be paramount to build confidence and momentum to consolidate these gains.

Fifth, continue to grow the economy, create more jobs, guarantee the essential services Australians rely on and keep Australians safe.

Last Friday was a significant point on our pathway back, with National Cabinet agreeing to a three step framework to achieve a COVID-safe Australia and the lifting of restrictions by July.

Treasury estimates that with the restrictions lifted under the three separate stages, 850,000 people will be back at work.

More than half of those workers will come from three sectors.

With 338,000 jobs in accommodation and food services; 76,000 jobs in arts and recreation; and 71,000 jobs in transport, postal and warehousing.

Construction with 45,000 jobs and manufacturing with 20,000 jobs will also be significant contributors.

Treasury estimate that as a result of easing the restrictions in line with stages 1, 2 and 3, GDP will increase by $9.4 billion each month.

The lifting of restrictions will see Australians move around more freely. Of the $9.4 billion, increasing demand, including in retail, will contribute $2.9 billion.

The opening of cafes, pubs, clubs, entertainment venues, health and fitness gymnasiums will contribute $2.4 billion.

While the opening of schools will contribute nearly $2.2 billion and other industry sectors, like local government, museums, and parks a further $1.2 billion.

The relaxation of travel restrictions is expected to contribute around $700 million.

The speed at which restrictions are lifted may differ in each state.

So too the impact on jobs and GDP from the implementation of each stage.

Treasury estimates that the benefits of just stage one being lifted will lead to more than 250,000 people going back to work and more than $3 billion in additional GDP.

This includes 83,000 jobs and $1 billion a month in New South Wales; 64,000 jobs and over $715 million in Victoria; 51,000 jobs and $610 million in Queensland; 25,000 jobs and $435 million in Western Australia; 17,000 jobs and $178 million in South Australia; 5,000 jobs and $50 million in Tasmania; 4,000 jobs and $60 million in the ACT; 3,000 jobs and $40 million in the Northern Territory.

However, these improvements in the economy depend on us continuing to follow the health advice.

Failing to do so could see restrictions re-imposed at a loss of more than $4 billion per week to the economy.

If our largest state, New South Wales, had to re-impose restrictions equivalent to those in place before the 8 May National Cabinet meeting, it would cost its economy around $1.4 billion per week.

For Victoria, the cost would be around $1 billion, in Queensland $800 million, in Western Australia $500 million, in South Australia $200 million, in Tasmania $100 million, in the ACT $100 million and in the Northern Territory $40 million per week.

This is the economic cost we will all bear if we fail to act.

Conclusion

Before concluding, I want to thank the Prime Minister, the Deputy Prime Minister, the Health Minister, my good friend and colleague, the Minister for Finance, for their leadership throughout this period and the many agencies of government that have worked so tirelessly behind the scenes.

Australians know that as a consequence of the actions we have taken, we are better placed than most but there is still a long way to go.

There will be more coronavirus cases and it is vital we remain vigilant.

The economic benefits from lifting the restrictions will only be realised if Australians continue to follow the health advice and download the COVIDSafe app.

On the economic front, we have put in place a comprehensive range of measures designed to keep people in jobs and to build a bridge to recovery.

Our measures are working, protecting lives and livelihoods.

We can be confident about our future.

This virus will not defeat us.

We must stay strong.

We must stay together.

We must maintain our resolve.

The fighting Australian spirit will see us come through stronger than ever.