

# Uncertainty & The Economy

## CEDA Economic & Political Outlook

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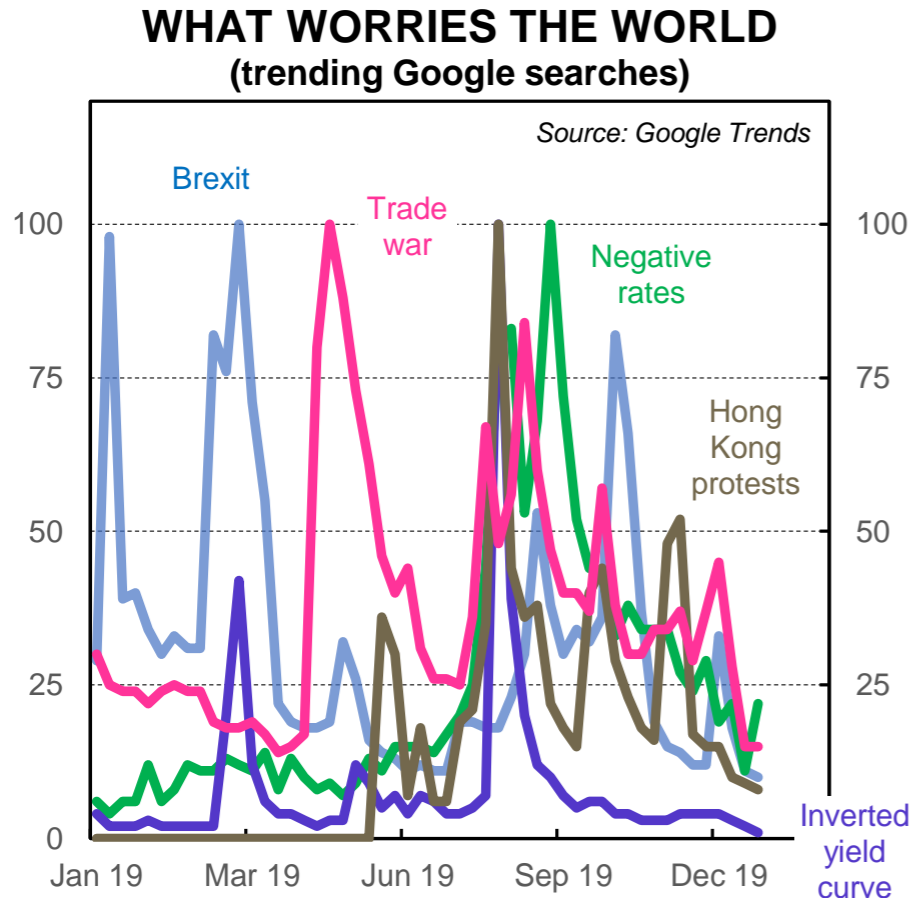


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# The Global Backdrop: Uncertainty

What worries the world?



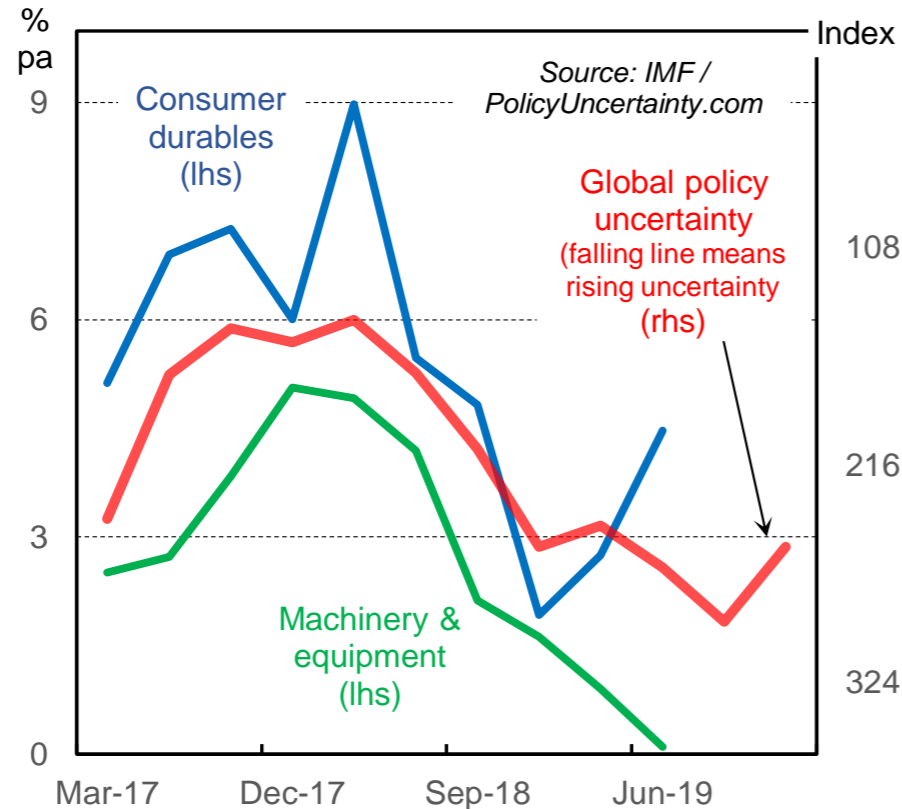
- There are many concerns – some have proved persistent – some have been short lived.
- They include obvious topics like the trade war, Brexit, geopolitics and the China slowdown. But economists and financial markets also worried about more exotic topics like negative bond yields and inverted yield curves.
- In the end, though, all these themes are really a reflection of elevated concern about a global recession.



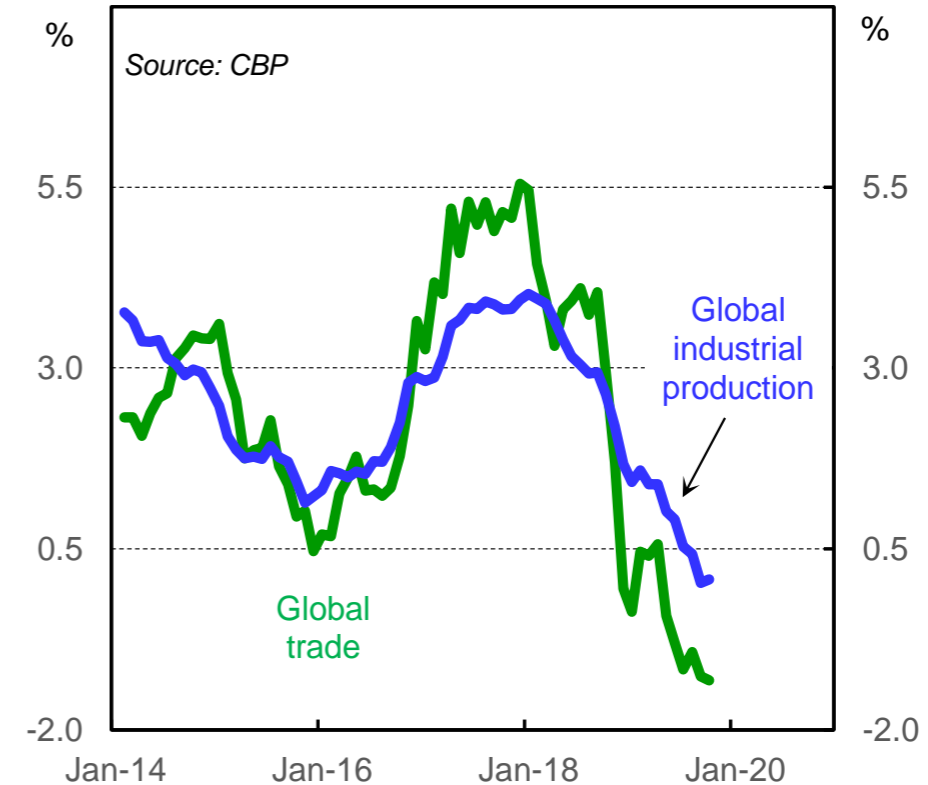
# Uncertainty & Activity

Less certainty, less spending, less production & less trade

## SPENDING & UNCERTAINTY



## TRADE & PRODUCTION (annual % change)

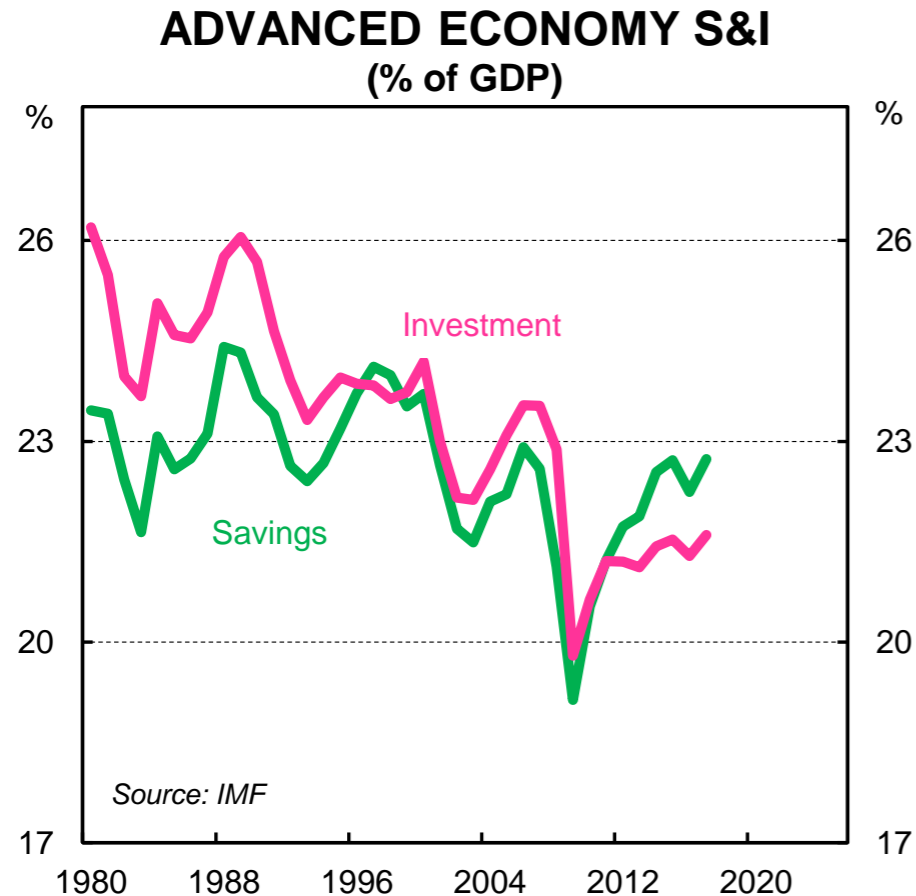


- In an uncertain environment businesses defer investment plans and consumers put off purchases of big ticket items.
- Less demand for capital goods and consumer durables means less industrial production and less global trade.



# Uncertainty & Financial Markets

Low interest rates to stay

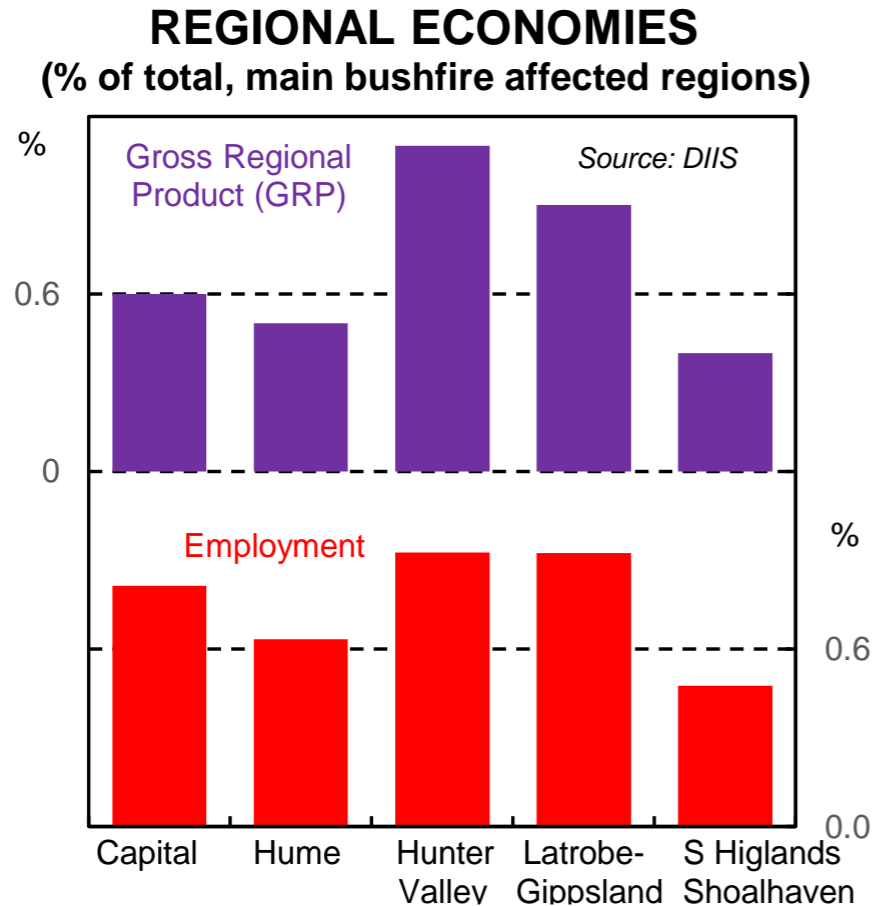


- Shifting savings / investment dynamics in the major economies favour low interest rates.
- A range of uncertainties is encouraging savings and discouraging investment.
- The supply of funds exceed the demand for those funds. The price of money – or interest rate – has to adjust lower.
- Low interest rates encourage the pursuit of yield and capital gains, taking on more risk in the process.
- Market volatility is likely to be a persistent theme.



# The Starting Point For 2020

## The Bushfires – quantifying the impact

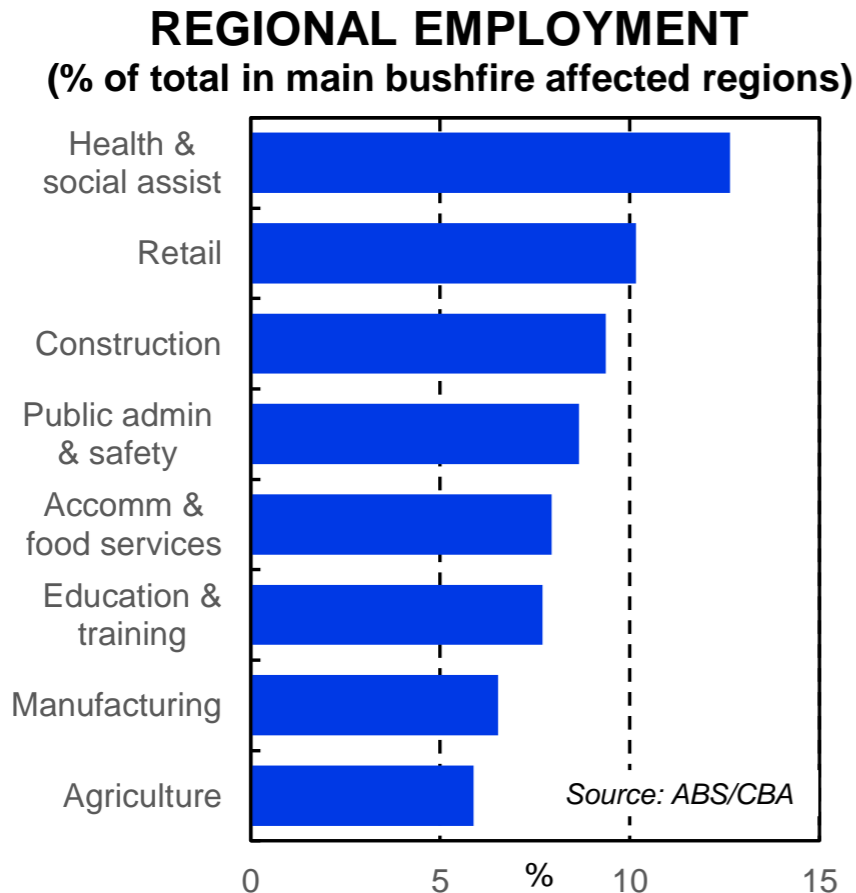


- The bushfires and coronavirus are new risks that could boost uncertainty again.
- Storms and floods are more common natural disasters than bushfires and epidemics.
- Droughts are the most costly natural disaster.
- The main bushfire affected regions (SA4 basis) are Hume, Central, Latrobe-Gippsland, Southern Highlands & Shoalhaven and Hunter Valley.
- The selected regions account for 3.5% of GDP and 3.8% of employment.
- From a sensitivity perspective, a 10% drop in Gross Regional Product would detract around 0.3ppts from Australian GDP growth:
  - the impact would be spread over at least two quarters so it is unlikely the bushfires would drag quarterly GDP growth into negative territory.



# The Starting Point For 2020

## The Bushfires – some offsets

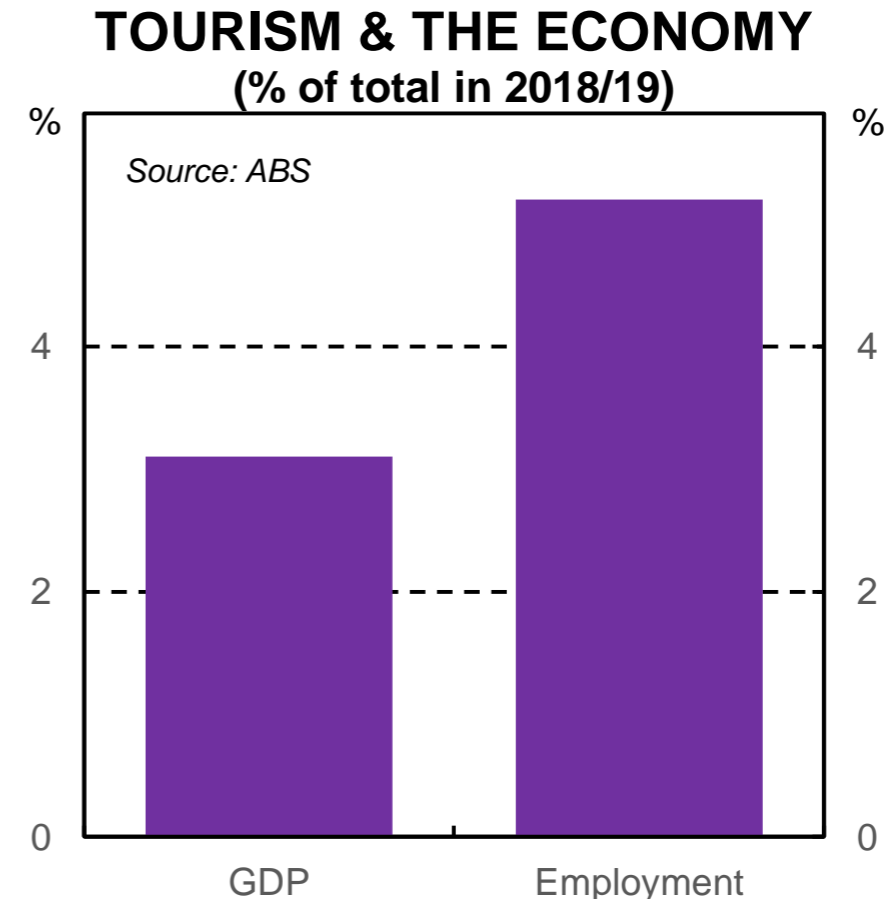
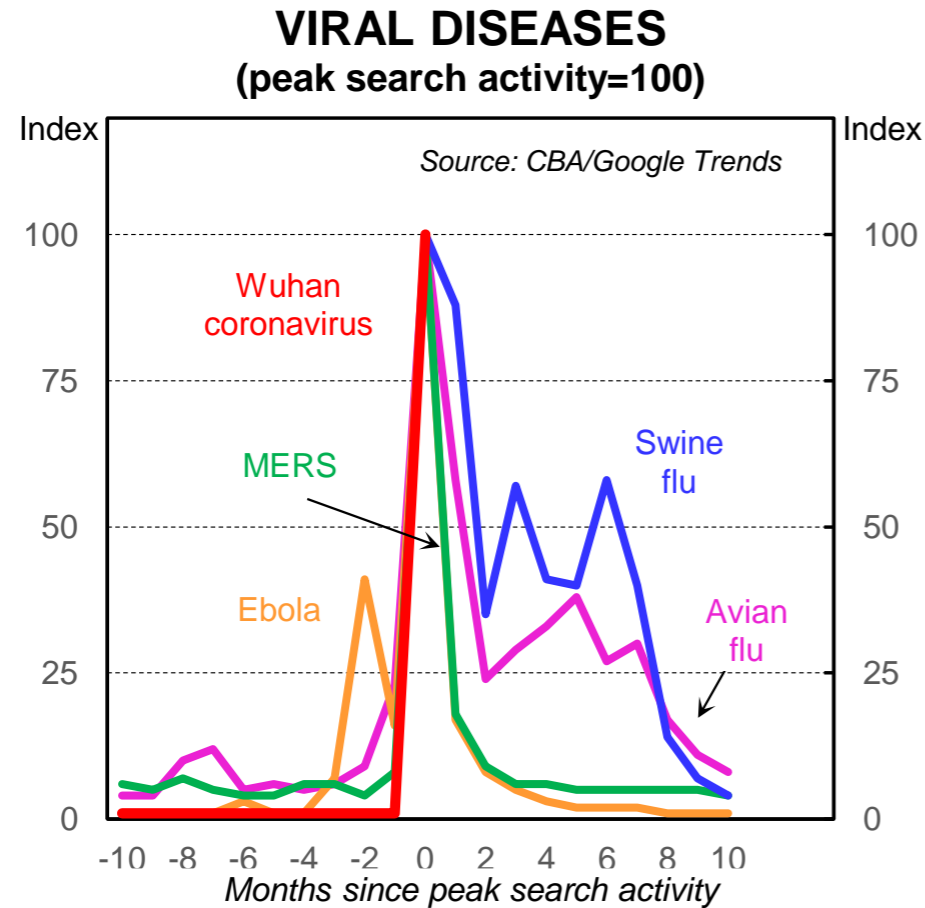


- Employment gives an idea of the economic structure in the regions.
- The employment structure will help reduce the impact:
  - About 31% of employment is in public-sector-related areas such as health care & social assistance, public administration & safety and education & training. Job losses are unlikely in these areas.
  - More than 9% of employment is in the construction sector. This group should benefit from the eventual rebuild.
  - Sectors exposed to tourism in some fashion such as retail trade and accommodation & food services account for nearly 20% of jobs. Job losses seem probable in these areas.



# The Starting Point For 2020

## Coronavirus – the tourism channel



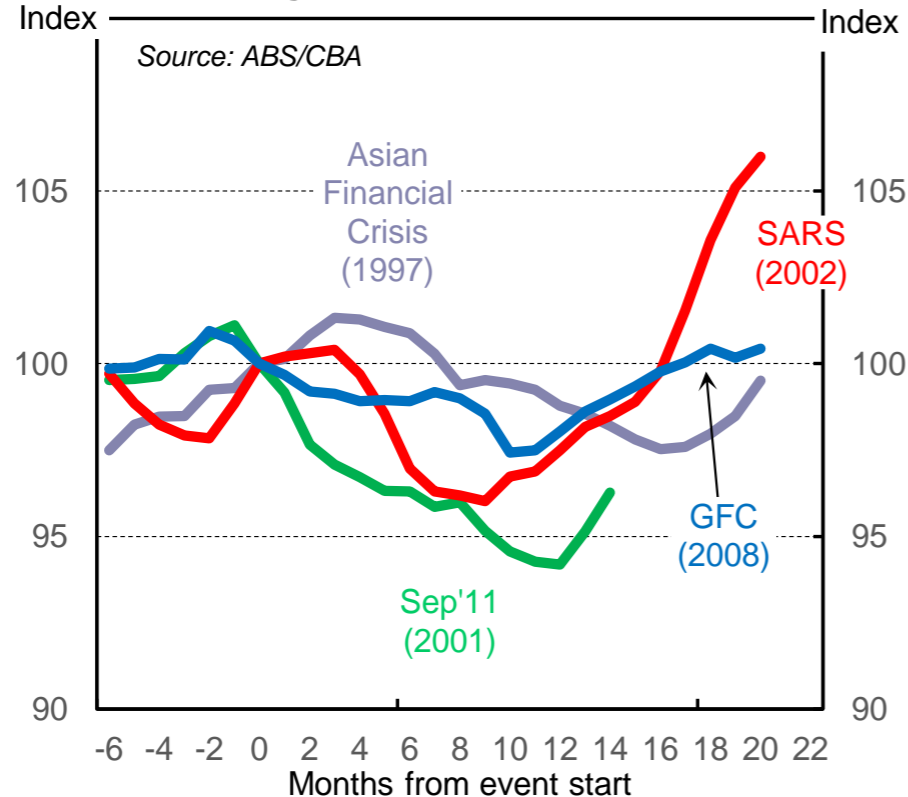
- Tourism accounts for 3.1% of GDP and 5.0% of employment.
- The transmission channels run via reduced spending as consumers become more cautious and avoid social interaction, the impact on confidence (the WHO talks of an “infodemic”), higher costs associated with disease treatment and prevention, the disruption to global supply chains and lower commodity prices.



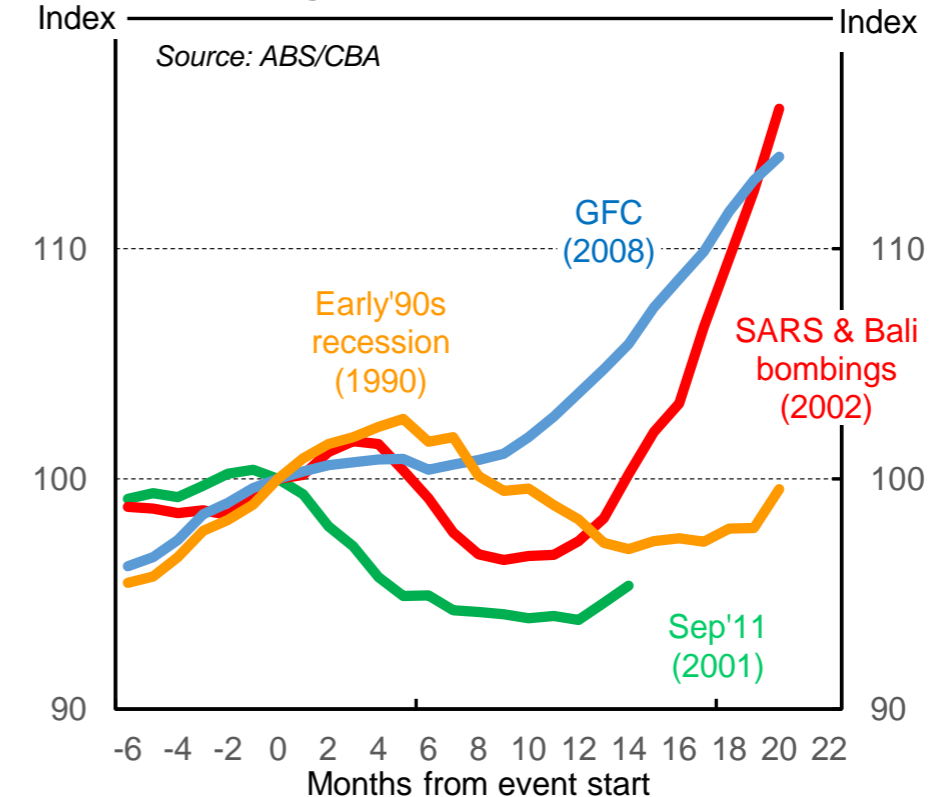
# Tourism & The Economy

## Coronavirus – outflows as well as inflows

### TOURIST ARRIVALS & MAJOR EVENTS (rolling annual, event start=100)



### RESIDENT RETURNS & MAJOR EVENTS (rolling annual, event start=100)



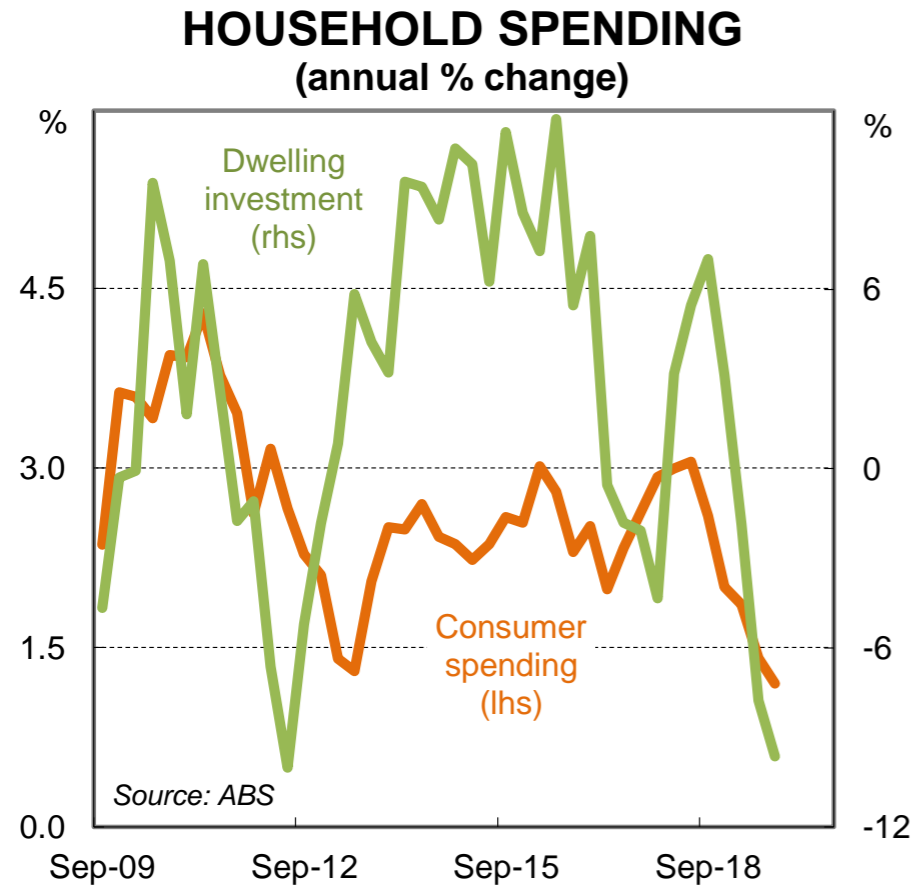
- Major global events, be they economic, geopolitical or geomedical, have a significant impact on tourism flows – in both directions.
- More Australians holiday overseas than foreigners visit Australia.
- Less outbound tourism and more domestic holidays would be a powerful offset.





# The Constrained Consumer

## The main domestic risk

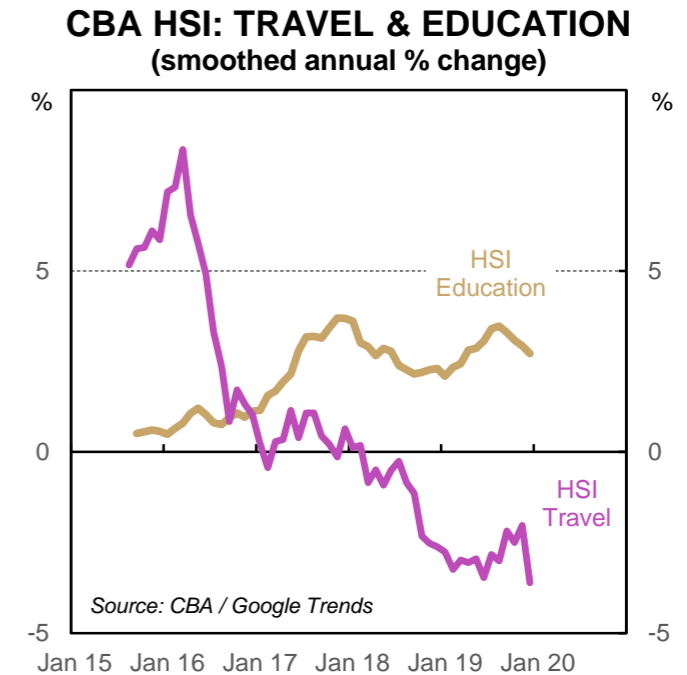
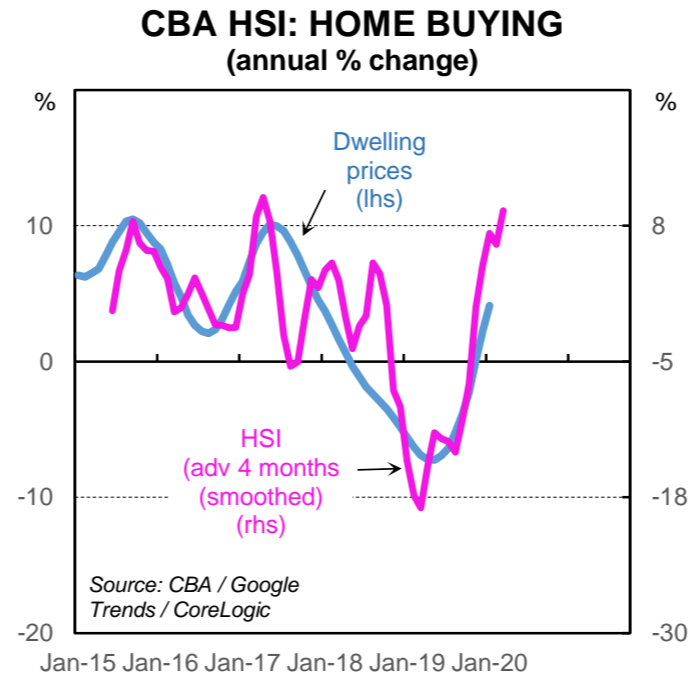
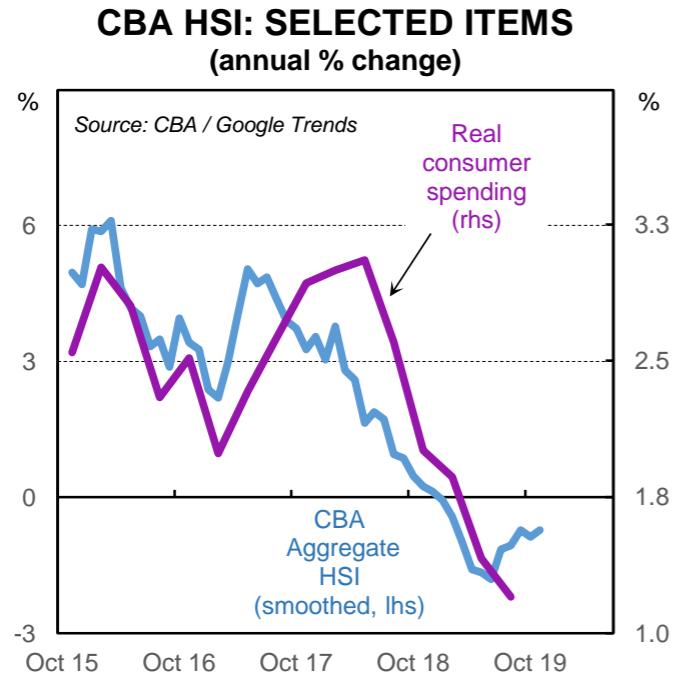


- The more persistent drags on the *domestic* economy are falling residential construction and the constrained consumer.
- The consumer is constrained by weak income growth, job security fears, perceived household budget pressures and stretched balance sheets.
- Falling residential construction follows a record building boom.
- Interest rate cuts and income tax rebates are designed to support household activity.



# The Message From The HSI

## An uneven policy response



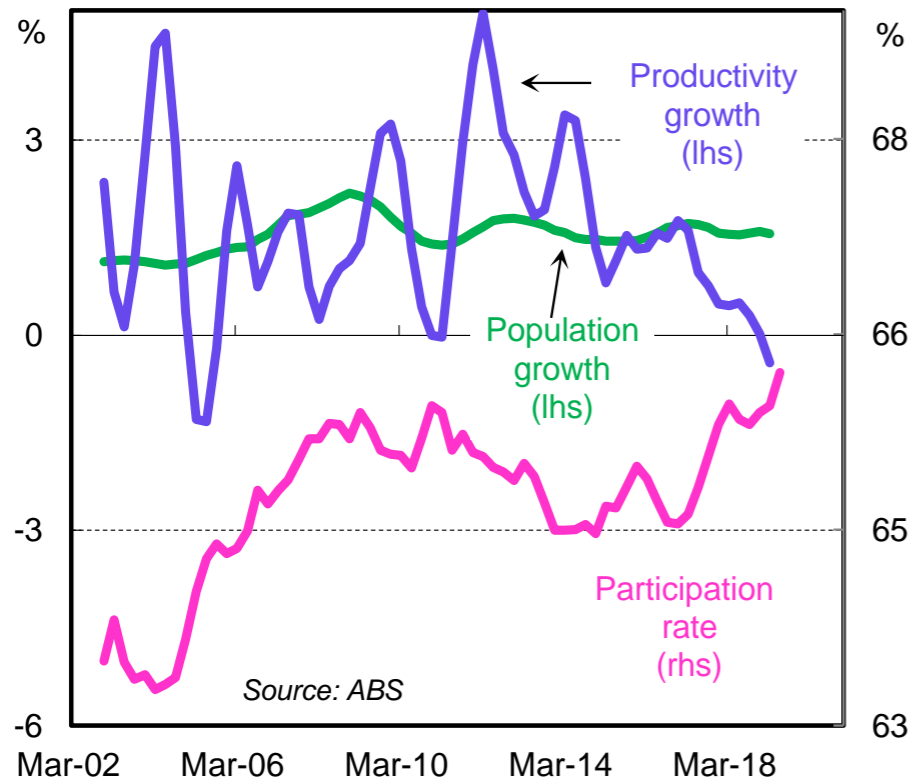
- The *consumer* message from the HSI is that spending intentions edged higher from mid 2019. But it is a fairly limp improvement.
- The improvement in Home Buying Intentions points to further house price gains and a positive wealth effect on consumer spending.
- Travel and education spending intentions are showing early signs of impact from the fires and the virus.



# Where To For Policy Makers From Here?

## Productivity the key

### AUSTRALIA & THE 3Ps

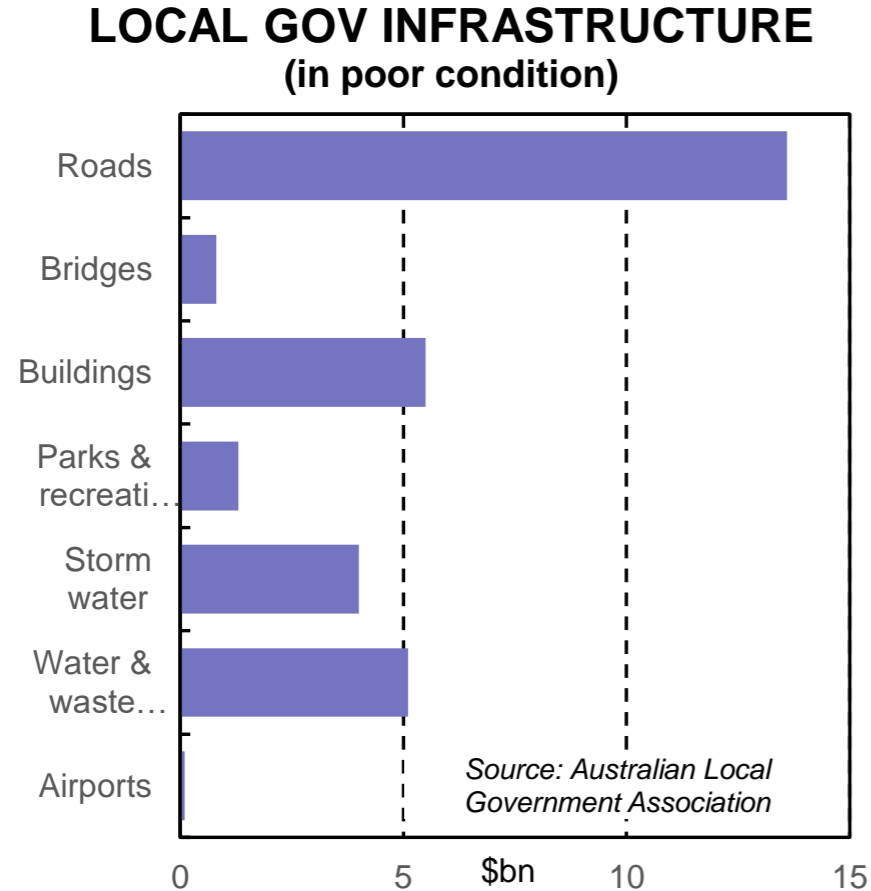


- The pace of economic reform slowed post financial crisis.
- Productivity growth has slowed as a result.
- Better productivity outcomes are necessary to:
  - sustain Australia's potential growth rate over the medium term;
  - promote medium-term income growth and fiscal sustainability in the face of an aging population;
  - provide a source of sustainable growth in real wages.
- The Productivity Commission suggests that key areas for reform are abolishing stamp duty, replacing fuel excise with congestion charging, axing the "better off overall" test in workplace agreements, overhaul of vocational education, energy policy and health service delivery.



# Where To For Policy Makers From Here?

## Infrastructure: go small

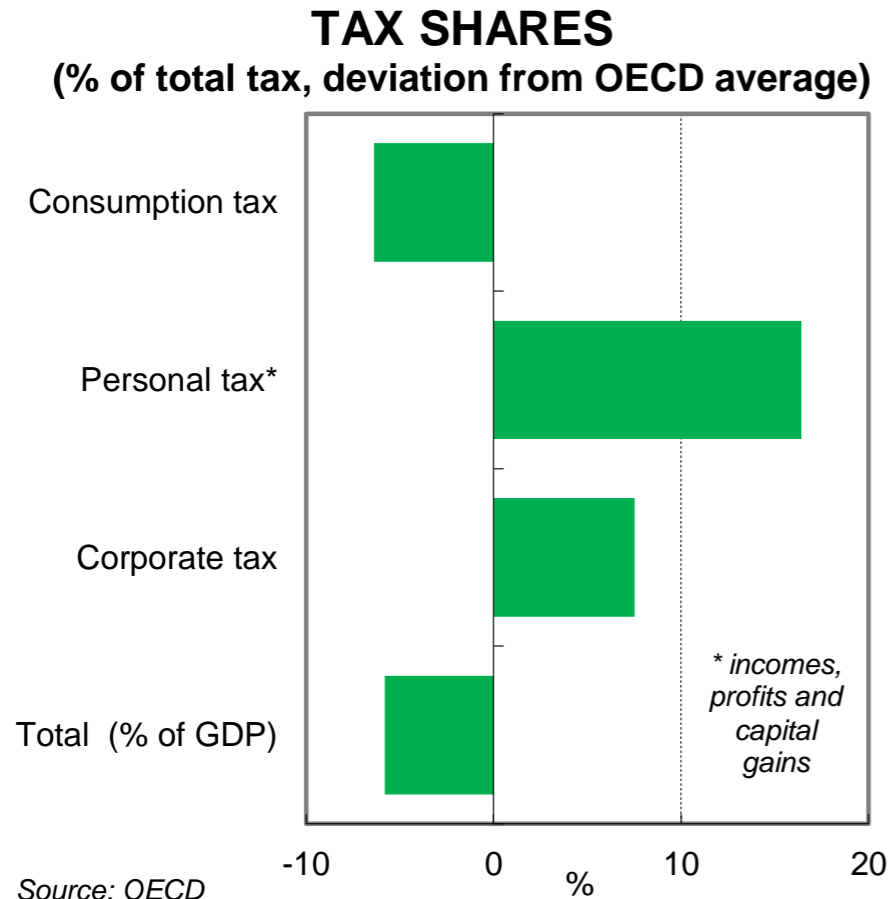


- Capacity constraints (labour, materials) mean that the ability to ramp up “big” infrastructure projects is limited.
- But there is a significant backlog of smaller local government infrastructure assets in need of repair or expansion.
- The Australian Local Government Association estimates of infrastructure asset requirements shows:
  - \$30bn are in “poor” condition;
  - \$24bn need upgrading to meet safety, compliance, social, environmental targets;
  - \$24bn need augmentation to support demand and growth trends.
- Many of these assets are in regional areas.



# Where To For Policy Makers From Here?

## Dealing with the surplus “fetish”

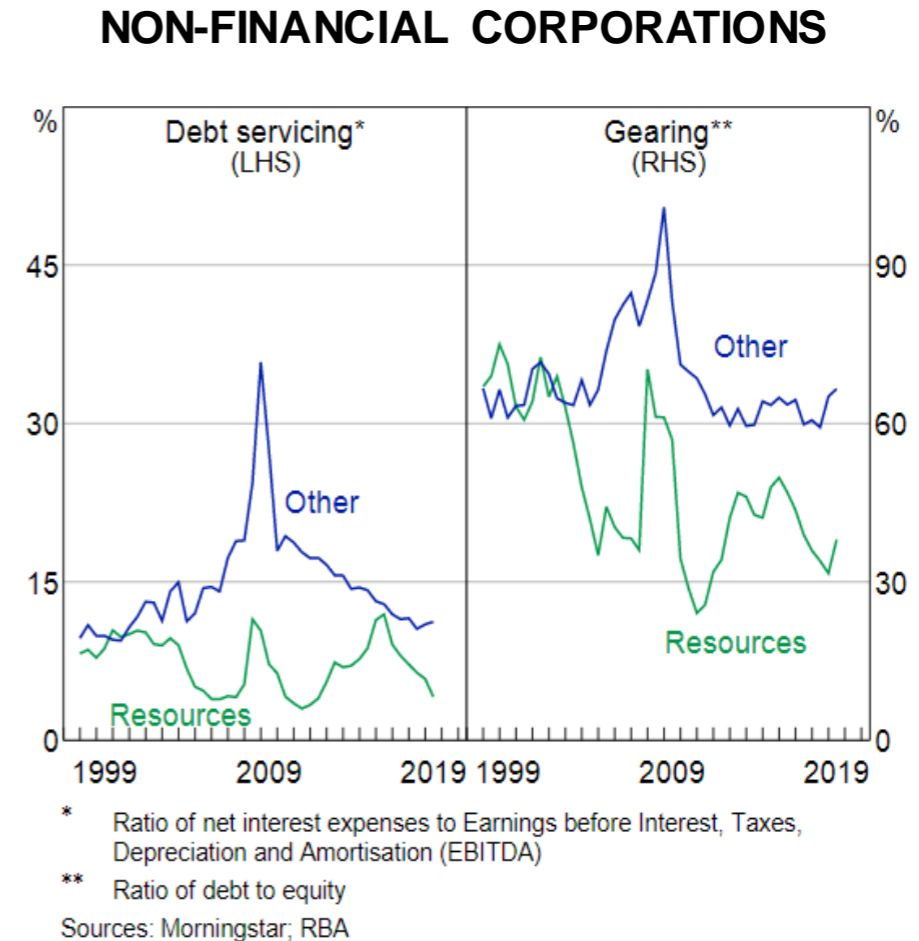
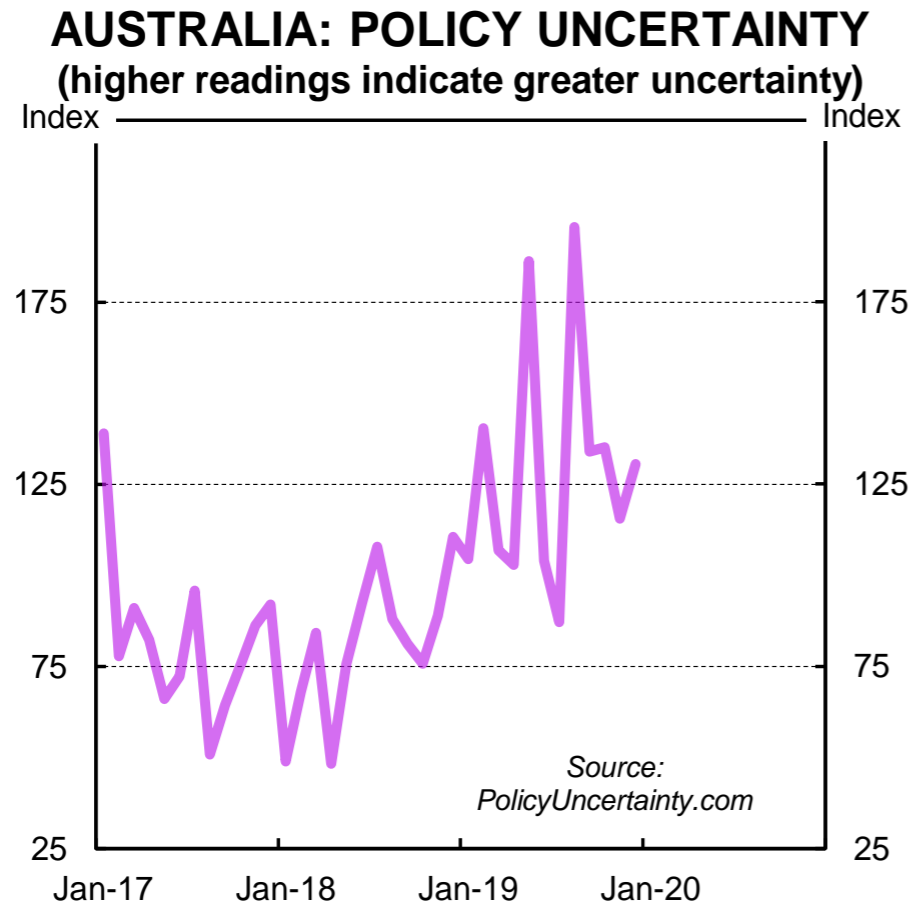


- Conventional fiscal policy is preferable to unconventional monetary policy.
- Public sector balance sheets are in good shape and should be used – income tax cuts the preferred option.
- Relative to the OECD average, Australian tax collections are “overweight” personal income and company taxes and “underweight” consumption taxes.
- The mix of spending and taxing could be shifted in a growth friendly way while leaving the budget bottom line unchanged.
- Company tax and stamp duties impose the largest cost on living standards over time.
- The company tax debate needs to be restarted.



# Where To For Policy Makers From Here?

A role for business as well



- Some policy certainty would help (eg energy, climate change).
- Business response to uncertainty is understandable. But a recovery in risk appetite is needed. And justified by the fundamentals.



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