

How Bad Is The Corona-recession?

So far in Australia, we're in 'just' a recession - our GDP growth has gone backwards by over 7% (anything over -10% is depression). The UK has gone backwards by 20% and India by a massive 30%.

Those of us who remember the Global Financial Crisis of 2008/09, or the mid 1970s recession, or the early 1980s or the early 1990s recessions, the economic effects of this COVID-recession are much, much worse. Check out the graphs from the Australian Bureau of Statistics.

Understandably, people tend to reduce spending when times are tough - which means household savings increase. And there we have the 'Paradox of Thrift': the more we save, the less we spend, and the slower economic growth rates are. It's all normal human responses. What do people do when their confidence in the future is shattered? They cut spending. Savings have gone from 2% to 20%, a huge increase - and household consumption has dived. Who is spending? The Government.

Let's get some economic growth going - but where from? Most of Australia's growth comes from increased population, and most of that comes from migration - but with borders closed, our population isn't growing, so no help there. The government's budget is shovelling money into the economy fast. Net government debt will peak at about \$1 trillion in a few years.

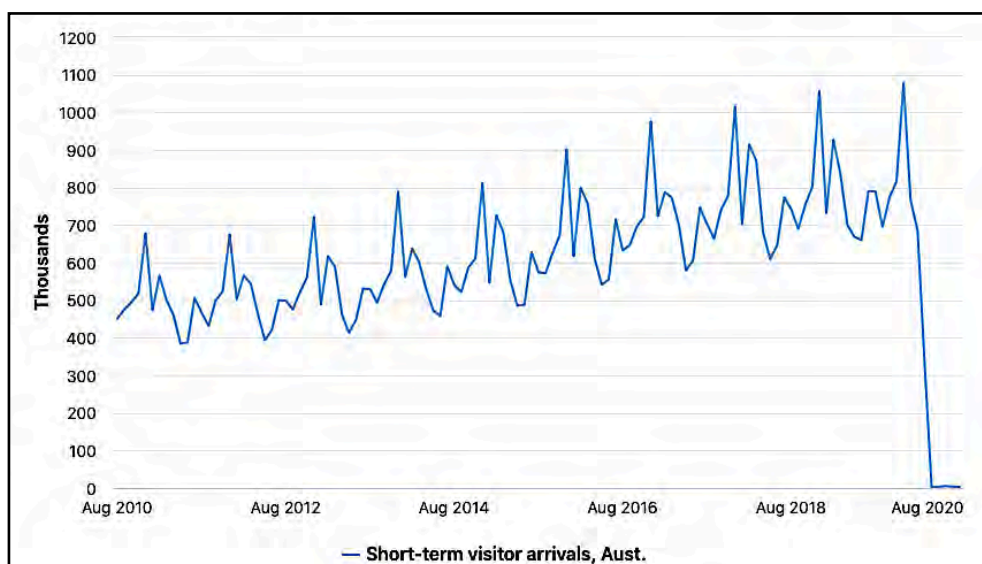
It sounds a lot - but it isn't really in comparison. Our economy is \$2.2 trillion in size, so debt to GDP will rise from 17% (pre-COVID) and peak at 45%; compare that with *pre-COVID* debt (they're all *much* higher now) in Germany of 40%, UK 75%, USA 80%, France 90% and Japan 150%. Australia's debt will be one of the lowest of all advanced economies, due mainly to good economic governance from both sides of politics.

House prices? Money is being pumped into the building sector, so lots more houses, but less demand for houses because of no population growth. 'Supply and demand' will determine price changes...

Then there's the zombies! Yes, zombies do exist. Many businesses are dead - but being kept alive by JobKeeper alone, so when that goes, a lot of businesses will go, and jobs with them. Travel firms, cafes, restaurants, motels, tourist operators, etc; many will shed jobs and/or close down due to no foreign tourists (look at the graph below). Do you want a job in Australia's 4th biggest export industry, the tourism sector? Did I hear "No" ?

Victoria... oh, dear, those poor bastards! Victoria makes up 25% of the Australian economy, so when they go bad, we all go bad. It's improving for our Victorian friends now, a lot better here in NSW, and quite rosy in Queensland and the other states/territories. The worst is behind us, things can only get better, right?

The June quarter's economic growth figures for Australia, due out in early December, probably won't be pretty; if they are -3% or thereabouts, then we're in 'depression'. At least this time (not like the awful depression of the early 1930's, when unemployment hit 30%, with no gov't stimulus) the government now is spending up big, and that's a very, very good thing. From your Economics Correspondent :)



These graphs are from the Australian Bureau of Statistics. They all show 60 years, from 1960 to 2020. Still not sure about the severity of our corona-recession?

