

# Victorian Economic Update

## July 2020

### Overview

The coronavirus (COVID-19) pandemic represents the biggest economic shock the world and Victoria have experienced since the Great Depression.

New modelling shows that **real gross state product (GSP)** may fall by 5.25 per cent in calendar year 2020 and, in the September quarter, Victoria's **unemployment rate** could rise to 9 per cent with job losses peaking at around 200,000.

After peaking in September, the unemployment rate is estimated to remain high but recover to 7 per cent by June 2021, supported by an estimated rebound of 6.25 per cent real GSP growth in calendar year 2021.

The pandemic is also affecting government revenue. **Taxation revenue and GST grants** are expected to be around \$2.5 billion lower than the *2019-20 Budget Update* forecast in 2019-20, and around \$6 billion lower in 2020-21.

The Victorian Government has introduced measures to limit the economic damage from coronavirus (COVID-19). This includes over **\$9 billion in investments** to support jobs and businesses, deliver frontline health response, and provide extra education, transport and social support.

### Economic impacts to date

The Government is taking necessary actions to slow the spread of coronavirus (COVID-19) in the community and save lives – but these actions also have an economic impact:

- Stage 3 Stay at Home restrictions were in place from 30 March to 12 May, and have resumed for metropolitan Melbourne and Mitchell Shire from 9 July to at least 20 August. While necessary to protect the health and safety of the community, this has limited activity across a range of consumer service sectors.
- The threat of the virus has also led to a fall in consumer and business confidence in Victoria and across Australia.
- National borders have been closed since 20 March and are still some time away from reopening. This has curtailed Victoria's tourism and education exports. Additionally, a slowdown in the arrival of new migrants will mean lower population growth. This will affect residential construction and many parts of the economy that depend on consumer spending.

Around 160,000 Victorians lost work in the June quarter, among 710,000 people Australia-wide. The official unemployment rate for Victoria is 7.5 per cent for the month of June, and 7.4 per cent nationally. But many more people have left the workforce entirely and so are not counted as officially unemployed. When adjusted for a significant decline in labour force participation since March, the figure is much

higher, at 9.8 per cent for Victoria, and 10.0 per cent for Australia.

The worldwide recession is reducing demand for Victorian goods and services and disrupting supply chains that Victorian businesses depend on. The International Monetary Fund (IMF) and Organisation for Economic Cooperation and Development (OECD) both expect a deep global recession in 2020, forecasting **world output to decline** by between 4.9 per cent and 7.6 per cent.

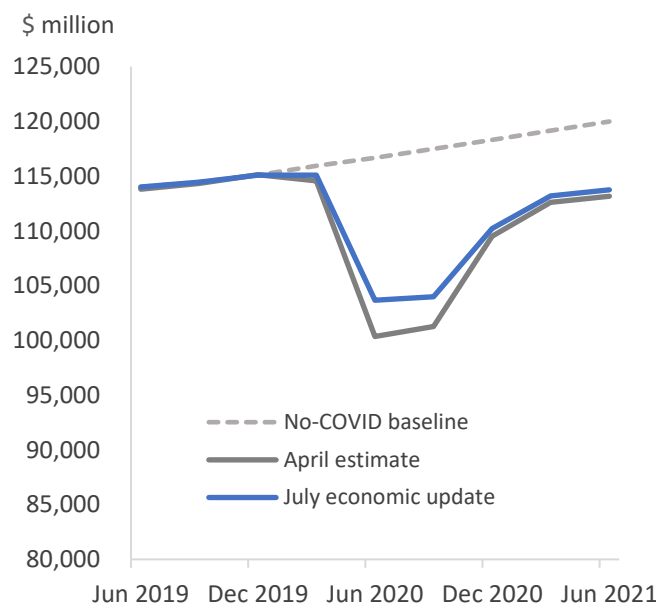
### Economic outlook

New modelling shows the dramatic impact the pandemic is having on the state's economy.

**Real GSP is estimated to be about 11 per cent lower** in the June and September quarters relative to forecasts in the *2019-20 Budget Update*, before starting to recover from the December quarter.

- These estimates are equivalent to a fall in real GSP in calendar year 2020 of 5.25 per cent, and a rebound of 6.25 per cent real GSP growth in calendar year 2021.

Chart 1: Estimated gross state product, Victoria



Source: Department of Treasury and Finance, Victoria

**Table 1: Real gross state product forecasts**

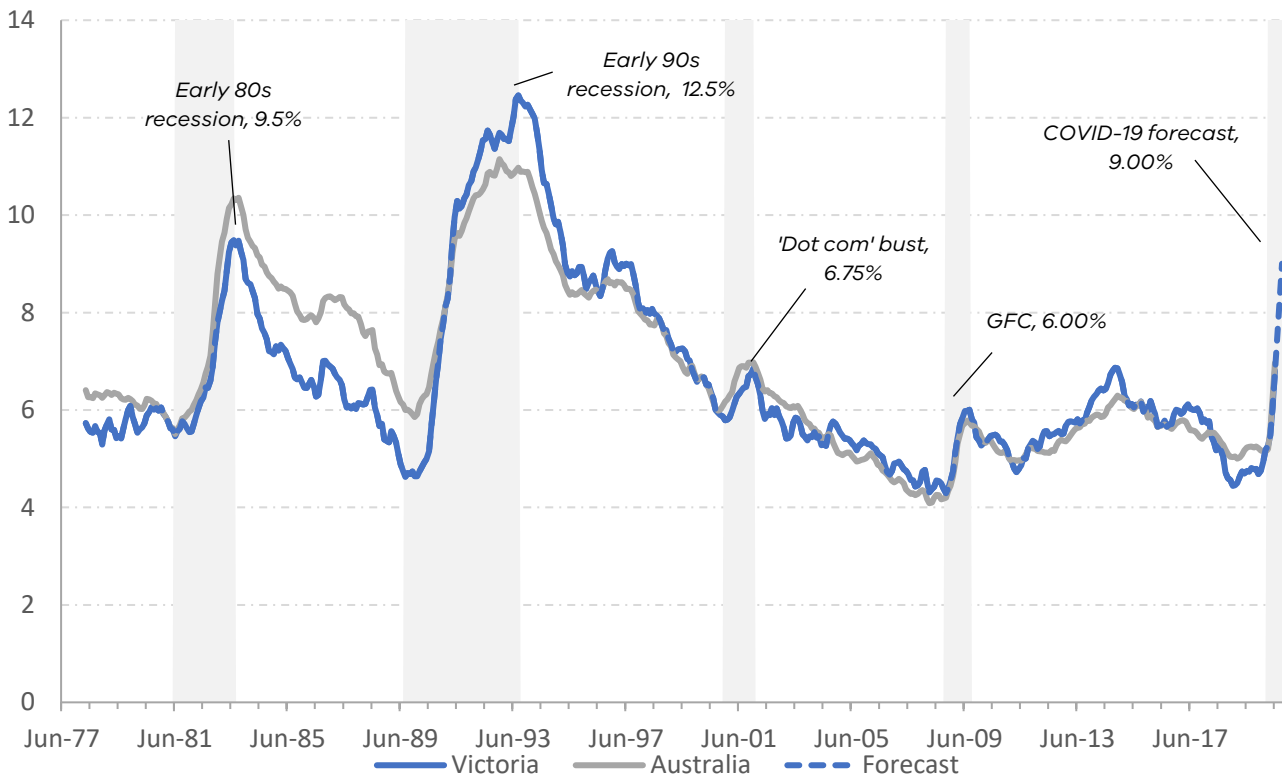
GSP growth		Peak-to-trough GSP decline
2020	2021	March to June 2020
-5.25%	6.25%	\$11.4 billion

Source: Department of Treasury and Finance, Victoria

Victoria’s **unemployment rate could rise to about 9 per cent** in the September quarter, and **job losses could peak at around 200,000** in that quarter.

- The potential unemployment rate peak has been revised down relative to the previous update in April, largely reflecting a smaller than expected decline in employment in the June quarter.
- The participation rate in the September quarter is expected to remain well below its March quarter level, constraining the increase in the unemployment rate.
- After peaking in the September quarter 2020, unemployment is estimated to remain high but recover to 7 per cent by June 2021.

**Chart 2: Unemployment rate, Victoria and Australia, per cent**



Sources: Australian Bureau of Statistics; Department of Treasury and Finance, Victoria

Note: Data are rolling 3-month average, seasonally adjusted. Peaks in unemployment rate are rounded to the nearest 25 basis points.

**Getting on top of coronavirus (COVID-19) is the key to long-term economic recovery.** Despite the economic cost of the restrictions that have been introduced to slow the spread of coronavirus (COVID-19), OECD and IMF forecasts indicate that jurisdictions that have been less successful or have taken a less interventionist approach to slowing the spread of the virus will experience greater economic damage.

**Table 2: Economic forecasts, selected countries, 2020**

	Real GDP growth 2020 per cent		Unemployment rate 2020 per cent	
	OECD	IMF	OECD	IMF
Australia	-5.0	-4.5	7.4	7.6*
United Kingdom	-11.5	-10.2	9.1	4.8*
United States	-7.3	-8.0	11.3	10.4*
Sweden	-6.7	-6.8*	10.0	10.1*

Sources: IMF World Economic Outlook, June 2020; OECD Economic Outlook, June 2020, 'single-hit scenario'; IMF World Economic Outlook, April 2020

\*Forecasts are from the IMF World Economic Outlook, April 2020.

### Revenue impact

The coronavirus (COVID-19) pandemic is having significant dampening effects on government revenue streams. **Taxation revenue and GST grants are expected to be around \$2.5 billion lower in 2019-20 and around \$6 billion lower in 2020-21** compared to the *2019-20 Budget Update* forecast.

Additional reductions in revenue are expected as a result of tax and other government concessions in response to the pandemic. These will be captured in the 2019-20 Financial Report.

The weaker revenue is a result of lower property and payroll tax collections, and reduced GST grants.

- Property sales and dwelling prices have been and are expected to continue to be impacted both by the restrictions placed on the real estate sector and because of weaker economic conditions. This will result in lower property tax collections. Property price forecasts are unchanged from the previous update in April, with a 9 per cent fall between March and December 2020.
- Payroll tax collections are negatively impacted by weakness in the Victorian labour market.
- GST grants in 2019-20 and 2020-21 are affected by a weakening in the Victorian and Australian economies. Victorian GST revenues are also affected by the outcome of the 2020 Methodology Review, which resulted in a redistribution of approximately \$1 billion per year of revenue away from Victoria to other states and territories from 2020-21.

### Government support for the economy

The Victorian Government is acting to support jobs and limit the economic damage from the coronavirus (COVID-19) pandemic. These efforts have been supported by additional Commonwealth Government programs such as JobKeeper and the JobSeeker coronavirus supplement.

Coronavirus (COVID-19) has presented Victoria with unprecedented challenges. The Government responded quickly and decisively with historic economic support measures representing an estimated 6 per cent of GSP in the June quarter alone.

The Government has already announced over \$9 billion, including:

- **\$3.4 billion in direct economic support** including \$2.7 billion for business support grants, payroll tax relief and to assist workers who have lost their jobs to find employment, \$500 million to support tenants and landlords and almost \$200 million to support Victoria's sport, tourism and creative industries.
- **\$2.7 billion** for the Building Works package that invests in infrastructure projects and is already rolling out to create jobs and stimulate the economy.
- **Almost \$2.0 billion for the statewide health response** including \$1.9 billion for hospital and public health preparedness and response, ICU investment, testing and personal protective equipment and almost \$80 million for a range of mental health supports.
- **\$746 million for education initiatives** including over \$260 million in additional support for skills and training, \$350 million to support Victorian universities and \$90 million in support for schools and early childhood education.

- **\$340 million to respond to the impact on Victoria's transport system**, including initiatives to reduce congestion.
- **\$218 million for initiatives to address the social impacts of coronavirus (COVID-19)**, including almost \$150 million to support our most vulnerable, including children, families, Indigenous communities, Victorians with disability and carers and \$56 million for emergency accommodation and homeless support.
- In addition, the Victorian Government has supported private business cashflow by accelerating the payment of supplier invoices.

In response to the devastating summer of bushfires, the Victorian Government has also committed around \$931 million for bushfire suppression and recovery initiatives.

### Fiscal impact

In 2019-20, around \$3 billion has been committed against the additional \$10 billion Treasurer's Advance appropriation. This funding will be used to respond to the immediate effects of the pandemic, including supporting jobs and businesses, delivering the frontline health response, addressing the impact on the Victorian education and transport sectors and providing additional social support for the vulnerable. The actual drawdown against the \$10 billion will be finalised and reported in the 2019-20 Financial Report.

Taking into account these new business and community support initiatives, along with the pandemic's impact on the State's revenues, the general government sector operating result in 2019-20 is expected to be a deficit of around \$7.5 billion. The State's final audited fiscal outcomes will be presented in the coming 2019-20 Financial Report expected to be released in October 2020.

Expenditure will continue to flow to benefit Victorians in 2020-21, and the 2020-21 Budget will provide updated estimates.

### Assumptions and methodology

The Department of Treasury and Finance has estimated the potential effects of coronavirus on the economy, including the estimated impacts of the pandemic to date, and the mitigating impacts of Victorian and Commonwealth Government support packages.

The modelling assumes:

- National borders largely remaining closed in 2020.
- Six weeks of Stage 3 restrictions for Melbourne and Mitchell Shire in the September quarter, and a gradual easing of restrictions thereafter.
- Continued Victorian and Commonwealth Government support for jobs and the economy.

These estimates are subject to a much higher than usual degree of uncertainty than economic forecasts in more normal times and will continue to be refined as more information becomes available. Key information and policy settings include domestic and international economic developments and changes in Victorian and Commonwealth policies.