

# COVID recovery 2.0

Victorian economic update and outlook

Presentation for FinPro - 24 February 2022

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Economies recover but inflationary risks emerge

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Too many scenarios



# Global Outlook

Economies recover but inflationary risks emerge





# Mixed fortunes for many countries

Meanwhile Australia was back above pre-COVID on an annual basis in June 2021



- Well above pre-COVID levels and potentially back on trend



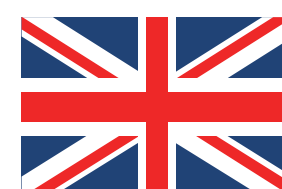
- Above pre-COVID levels for some time



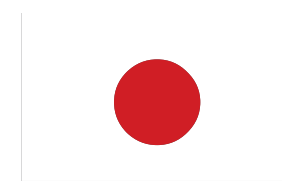
- Back above pre-COVID mid 2021



- Soared back above pre-COVID levels late 2021 with strongest growth for 52 years



- Just back above pre-COVID prior to Omicron outbreak



- Almost recovered to pre-COVID levels



- Still below pre-COVID levels and lagging other regions in Europe



- Still well below pre-COVID levels

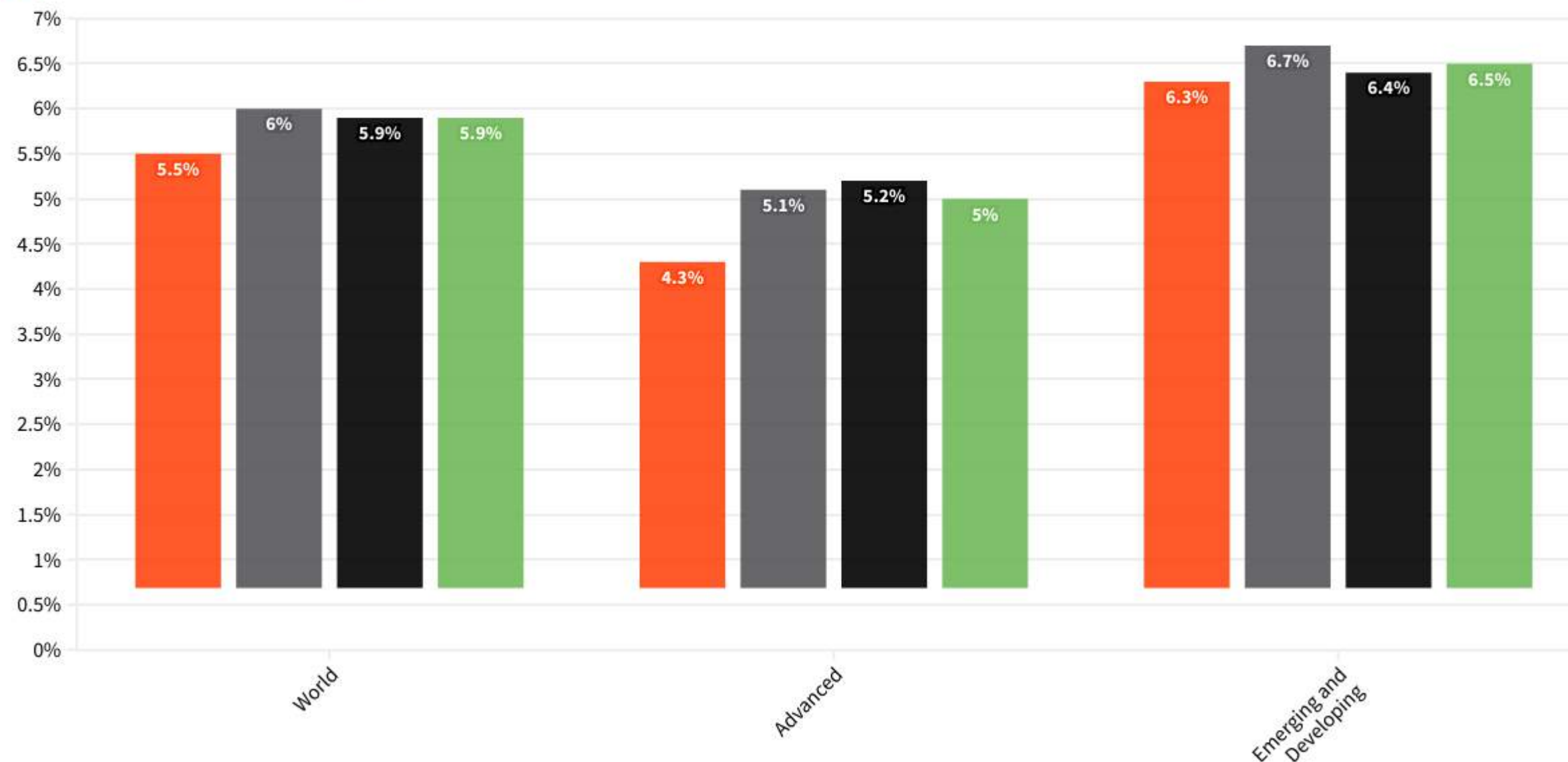
# Global forecasts have been downgraded slightly

Omicron variant slowed recovery and inflationary pressures weakening demand

## IMF World Outlook Forecasts

2021 ▾

Jan 2021 April 2021 Oct 2021 Jan 2022



Source: IMF 2022

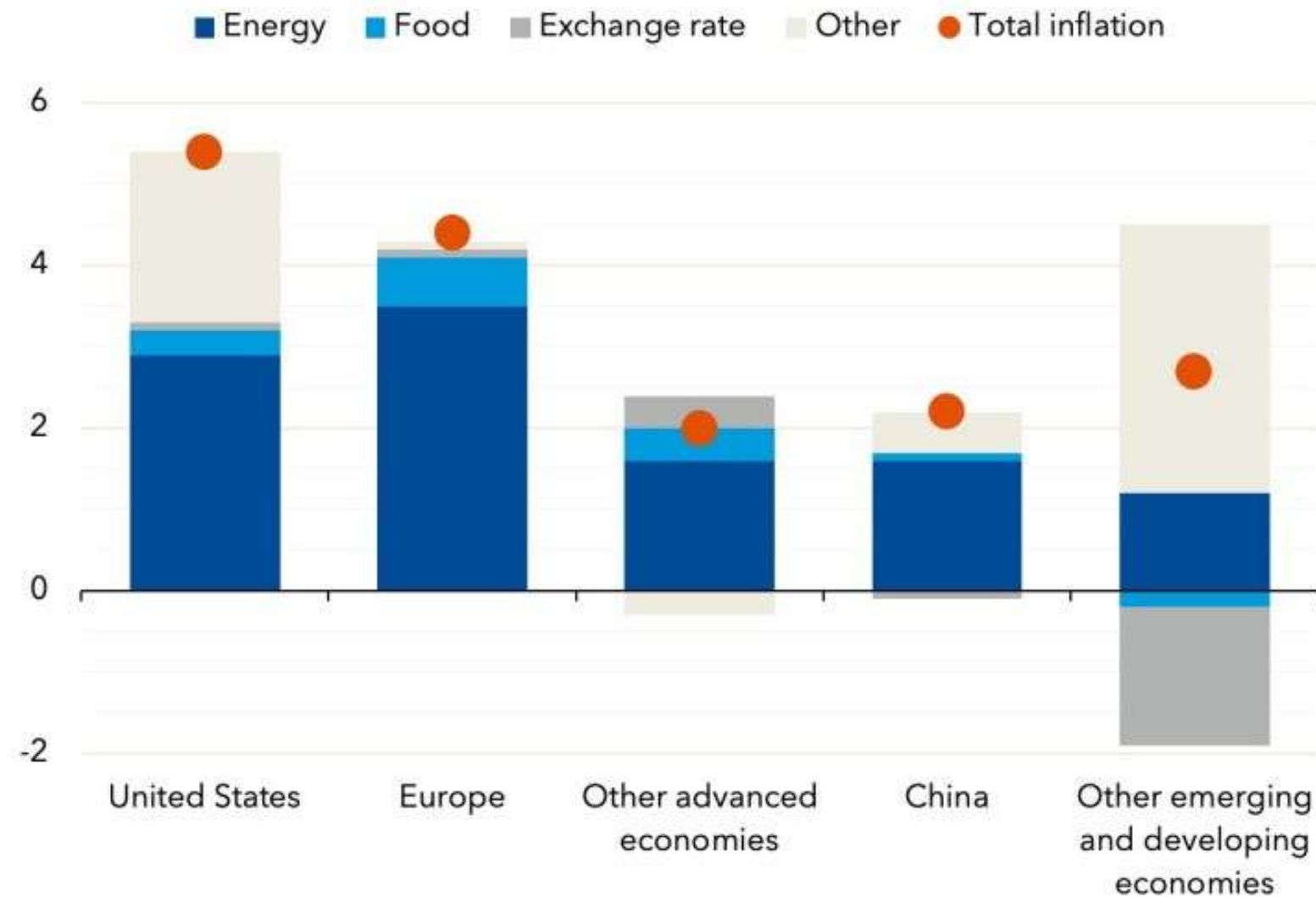
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- Forecasts for global growth increased as 2021 went on, before falling in recent estimates.
- Effects of omicron causing delays to recovery and inflationary pressures impacting spending.

## Price pressures

Inflation has risen throughout the second half of 2021, driven by several factors of varying importance across regions.

(change in inflation, Dec 2020-latest, percentage points)



Sources: Haver Analytics; and IMF staff calculations.

Note: Inflation refers to the year-over-year change in consumer prices from Dec 2020 through the latest data. Exchange rate refers to short-term depreciation-induced inflation using estimates by Carrière-Swallow and others (2021). Sample includes countries with all components available. Purchasing-power-parity weights are used for aggregation.

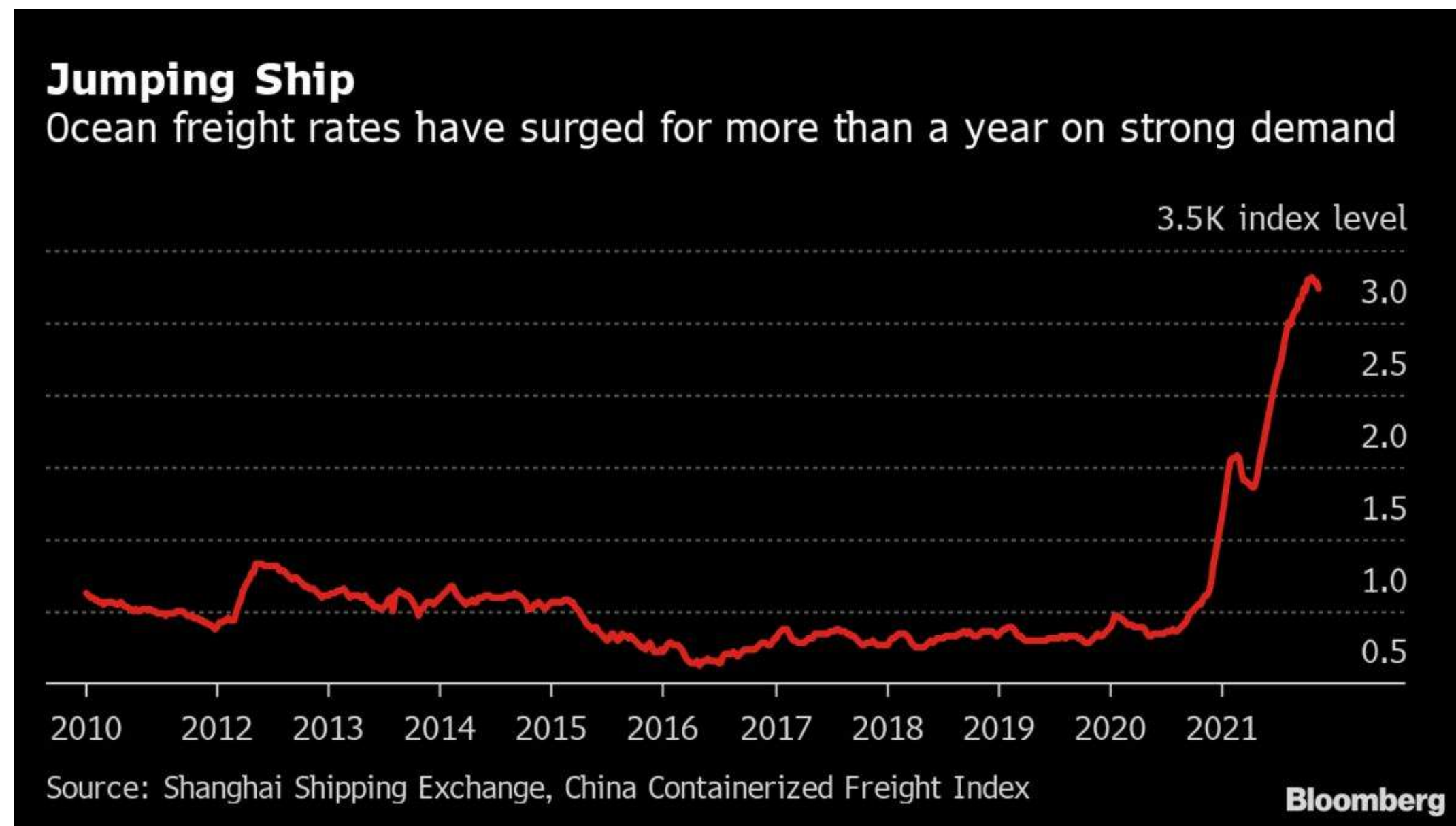
IMF

## Inflation in Europe and US at record levels

- Europe inflation reached 5.1% YoY to January 2022, US hit 7.5% - the steepest year-over-year increase since February 1982.
- Energy prices have risen 28.6% YoY in Europe
- Oil prices have spiked as the global economy recovers
- Natural gas prices have surged in Europe because of depleted winter reserves, lower supplies from Russia and fears of a renewed military move by Moscow against Ukraine
- In the US, shortages of supplies and workers, federal aid, ultra-low interest rates and robust consumer spending have also contributed

# Some relief in site for importers but supply shortages still remain

- Spot rates for shipping began to fall in late 2021
- However, still delays in key production markets such especially China, and some supply problems such as the shortage of computer chips aren't likely to recover until 2023 or 2024





# National Picture

September quarter lockdowns weighed on growth but strong rebound until Omicron uncertainty



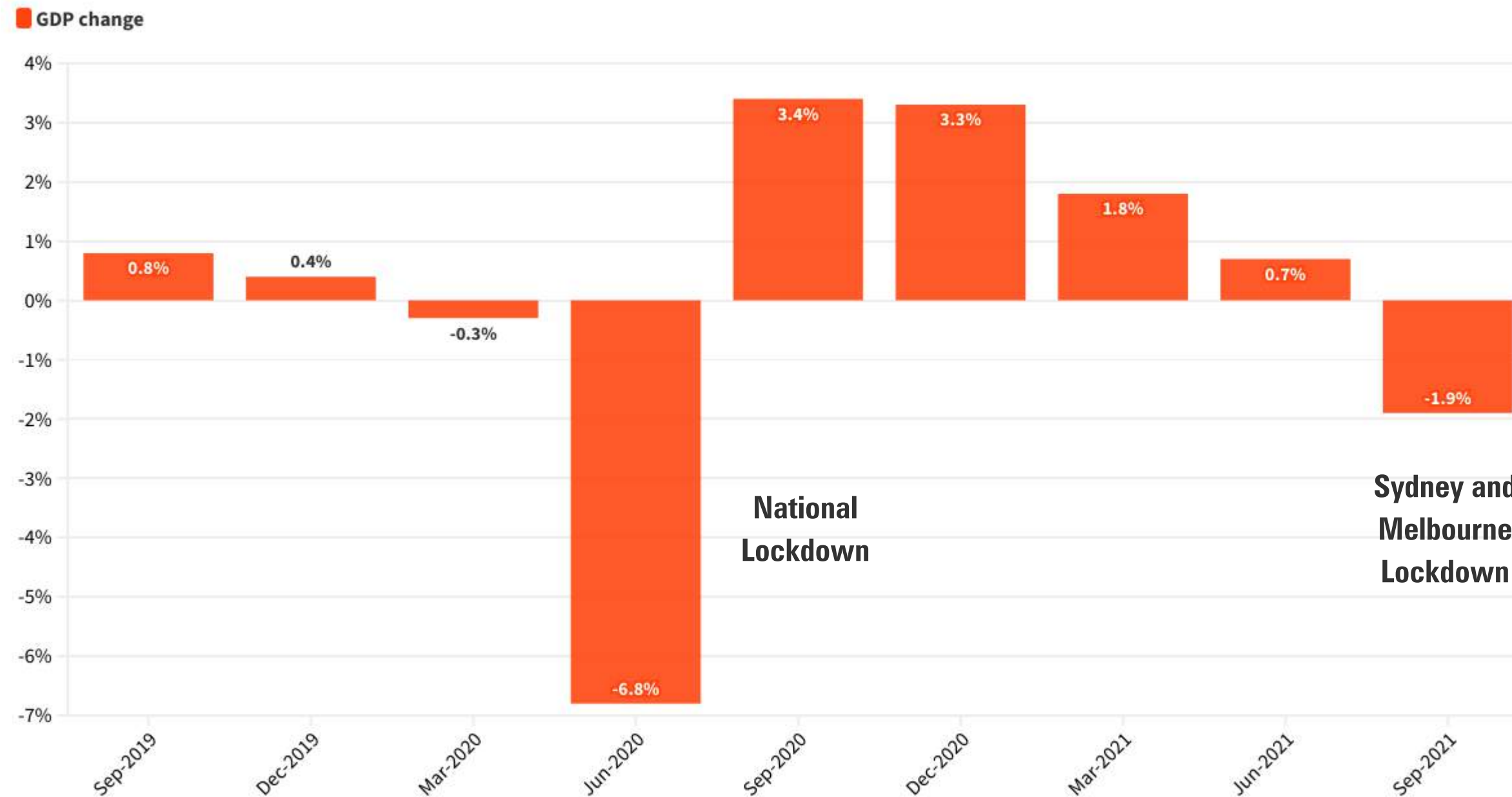


# Lockdowns in major cities led to another negative quarter

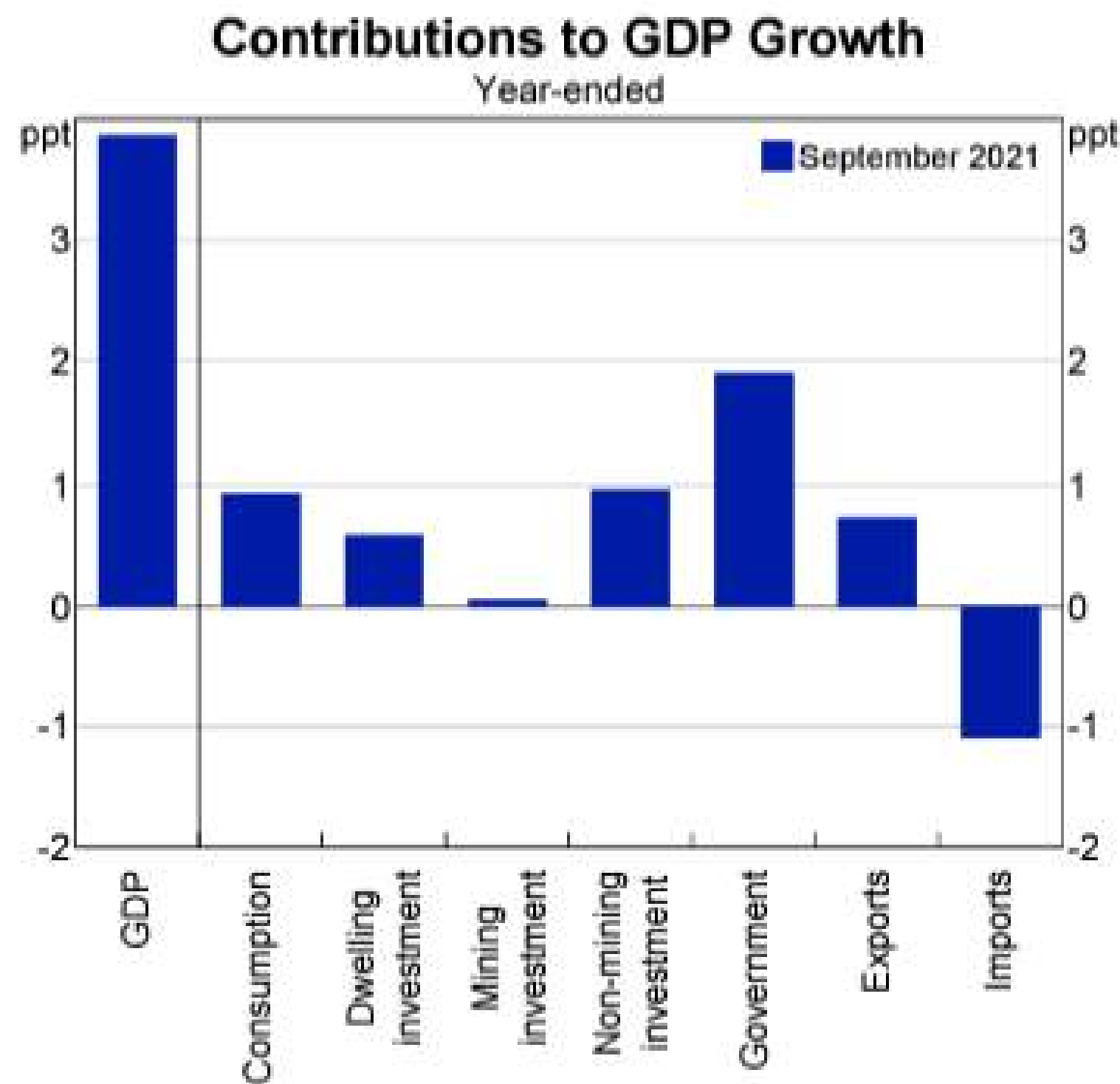
Recovery had begun to slow before outbreaks in Sydney, Melbourne and Canberra saw a return to mass restrictions

- Double dip recession unlikely due to relaxing of restrictions and late 2021 spending bounce

Gross Domestic Product - Quarterly Change



Source: ABS 2021



Sources: ABS, RBA

## Government contributed half of GDP growth in the last year

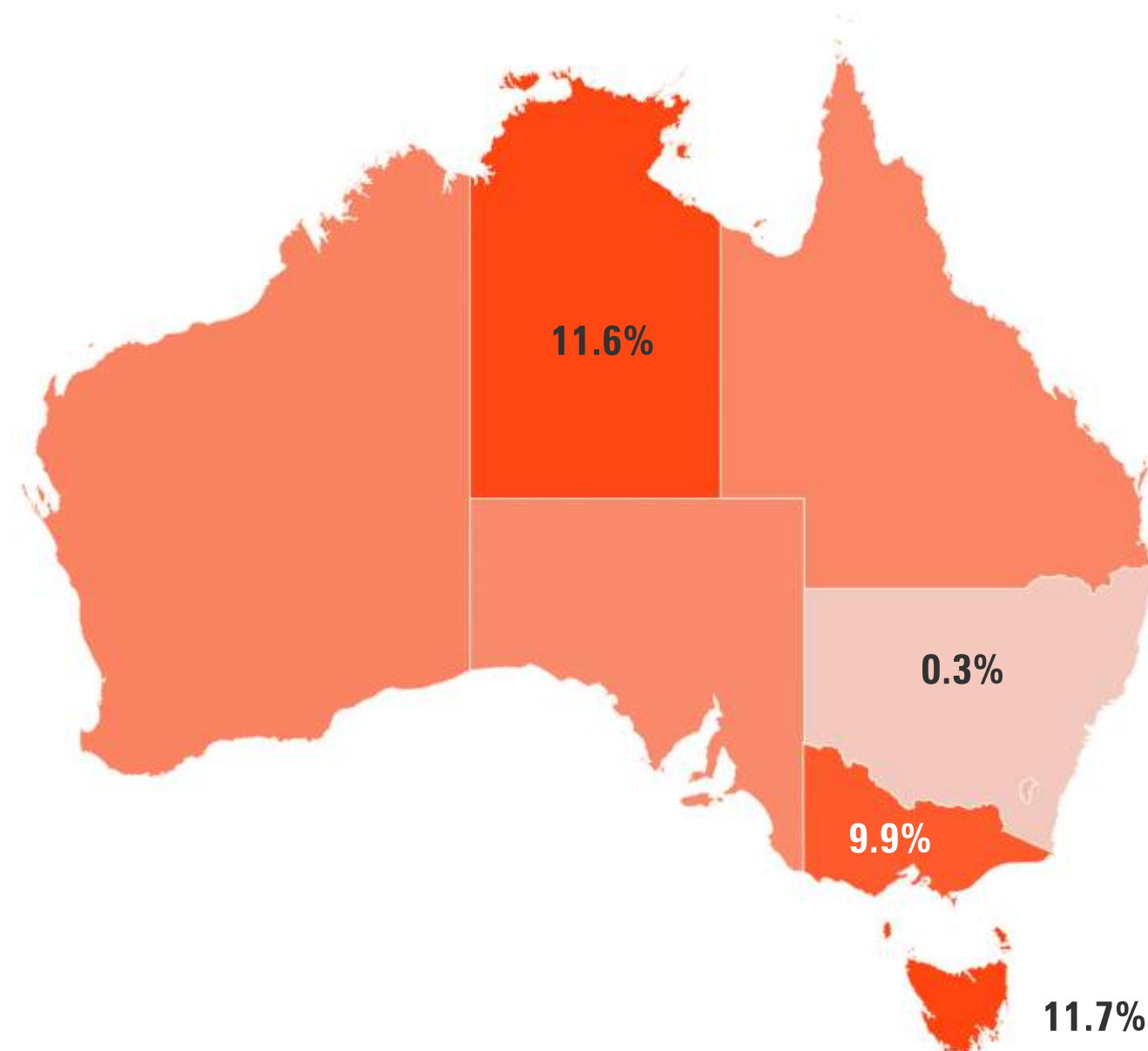
- Government spending and investment contributed 1.9% of Australia's 3.9% economic growth in the year to Sept 2021
- Non-Mining investment (1%) was the second strongest contributor, however 0.2% of this was due to instant asset write off incentives.
- Dwelling investment was also strong, but Homebuilder supported this increase. Almost 0.4% was due to growth in renovations.

# All states up on year before

However, NSW's larger lock down bit strongly

## Change in State Final Demand, YoY to Sept 2021

0.3% 11.7%



Source: [ABS 2021](#)

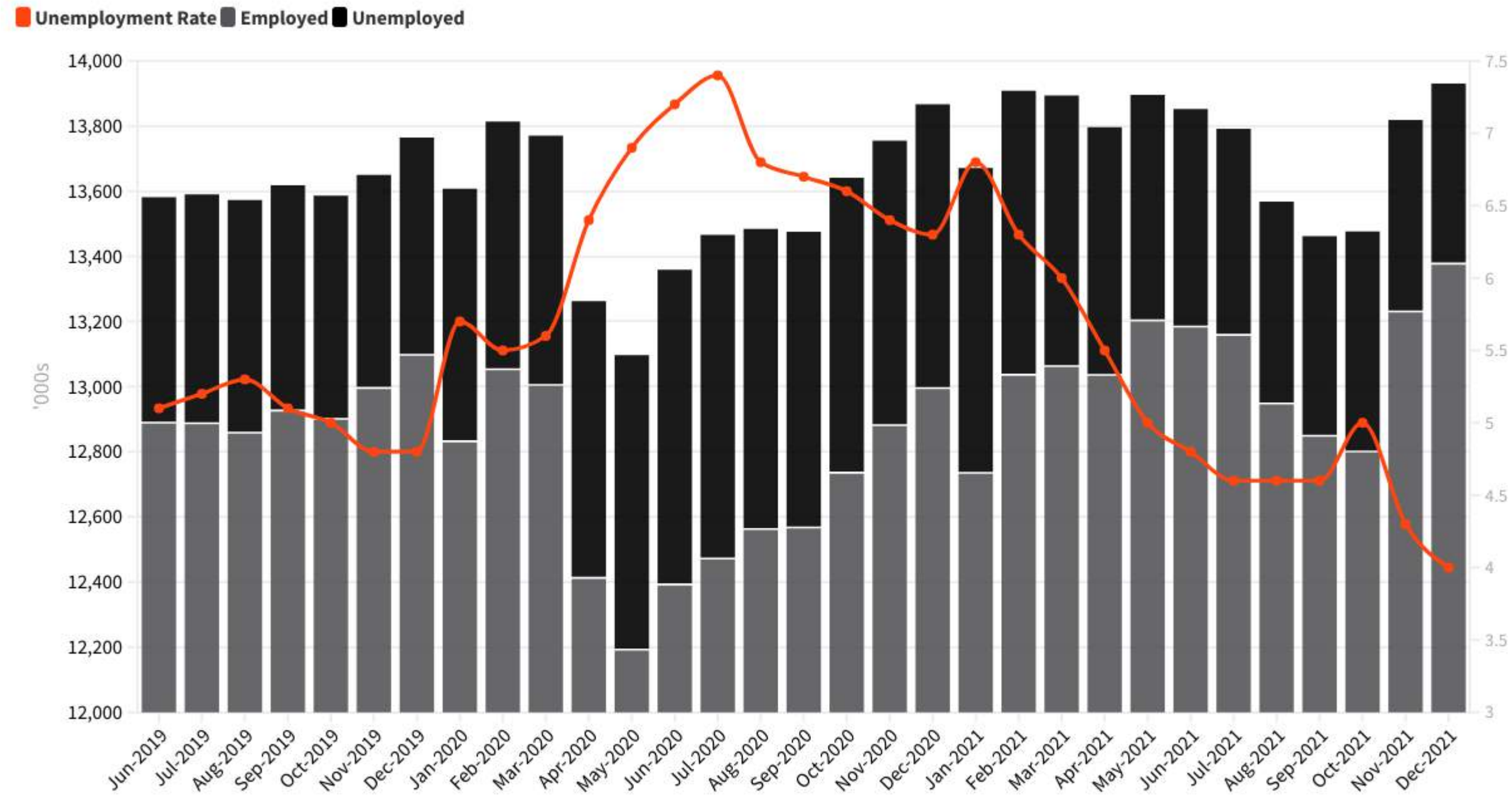
- The NT and Tasmania led the country with growth but NT is still below its 2018 peak whereas Tasmania is booming with a huge rise in machinery and equipment investment
- Victoria's had the third largest growth, however it was in comparison to a larger lockdown experienced in Sept 2020.



# Unemployment Rate at historically low levels

Number employed estimated to be above pre-COVID levels

## Labour Force Status - Australia



Source: ABS 2022

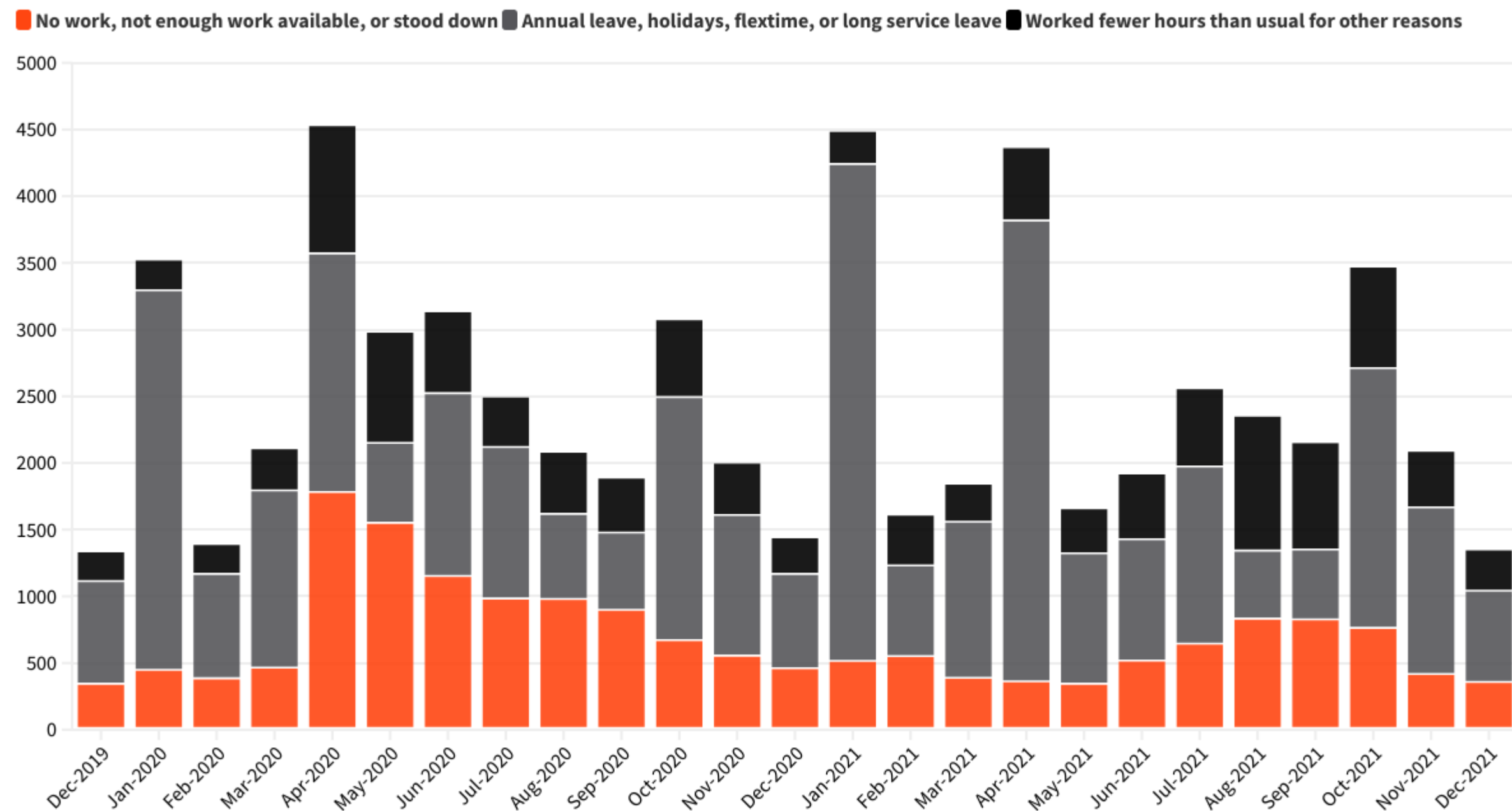
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- The national labour force dipped below 13.5M in Sept-Oct 2021 and number employed fell to 12.8M
- However, December 2021 estimated to be back above the level experienced in February 2020

# Employment connections maintained, but hours lost

Unemployment hides the fact that many working zero hours

## Employed persons who worked fewer hours than usual



Source: [ABS 2022](#)

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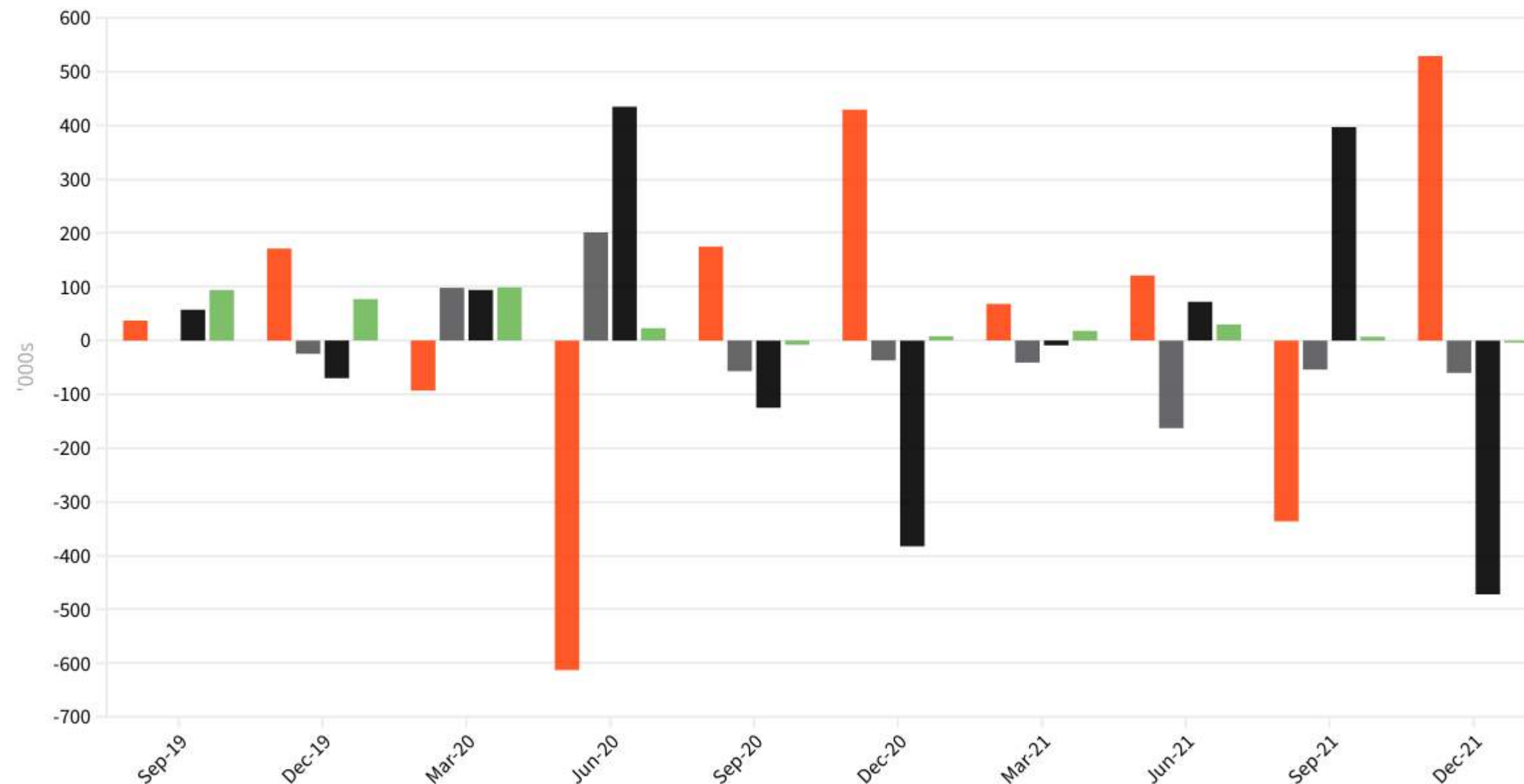
- Over a million more Australians were working fewer hours in Aug-Sept 2021 compared to the pre-COVID average, many working zero hours.
- 100-200,000 more people took leave in Oct-Nov 2021 compared to the year before.

# Working age population is half a million less than under BAU

The churn in the labour market has also been profound

## Labour Force Status - Australia

Employed Unemployed Not in Labour Force Working Age Population



Source: ABS 2022

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- If international restrictions had not occurred, there would have been approx 550,000 extra working age residents in Australia by Dec 2021
- This would have meant unemployment would have obviously been much higher.



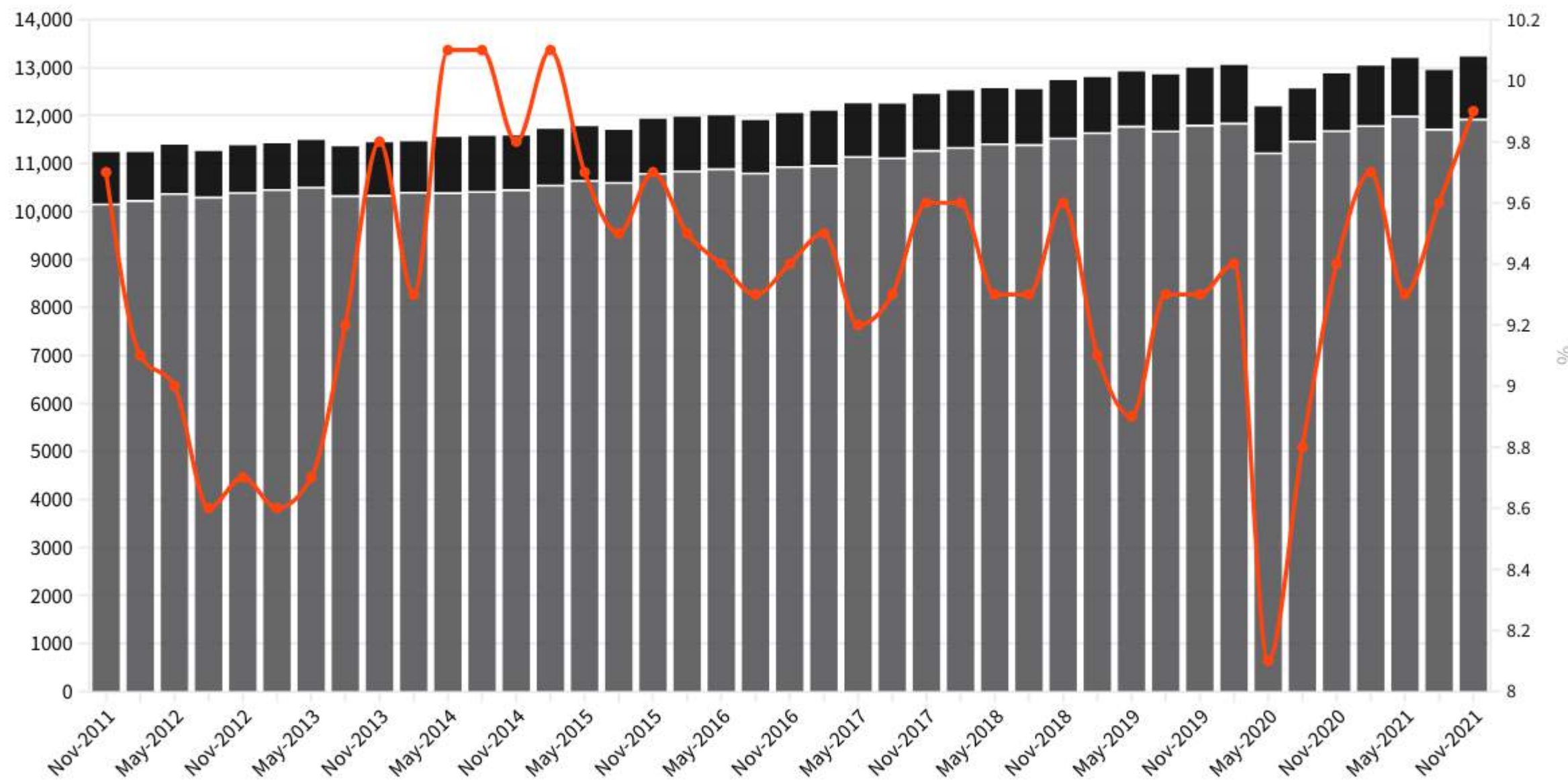
# Great resignation, or catch-up?

Yes many are looking to leave, but many had to put plans on hold until now

## Employee expectations to leave

Number and share of employed who don't expect to be with current employer in 12 months

■ Share of employed ■ Expects to be with current employer in 12 months ■ Does not expect to be with current employer in 12 months



Source: ABS 2022

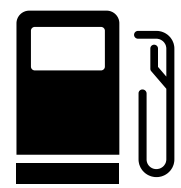
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- 1.3 million, or 9.9% of employed, don't expect to be in their current job in 12 months
- However, this is not the highest rate on record and follows a period of very low job mobility similar to the period almost a decade ago
- In 2014, the share of employed who were 'underemployed' rose by over a 1%

# What about inflation?

Fuel costs have risen substantially in Australia too

## % change YoY to Dec Qtr 2021



**Automotive Fuel +32.3%**



**International Holidays +20.7**



**Motor Vehicles +18.6%**



**Beef and Veal +8.1%**



**New Dwellings +7.5%**

- Inflation rose 3.5% in the year to December 2021, higher than recent years but not record breaking like overseas jurisdictions.
- However, petrol prices have start to hurt other industries.
- Housing costs starting to hit, with new dwelling prices rising 7.6% in half a year and repair/maintenance costs by 3.9%
- Beef driven up by increased demand abroad as well as farmers restocking reducing supply
- Hobart the city most impacted by housing and fuel costs
- Low food prices (except beef) and declines in clothing costs keeping inflation lower than otherwise expected

# Dwelling commencements slowing as constraints emerge

However, June 2021 was a record quarter for commencements especially houses

**Residential Building Approvals and Commencements**



Source: ABS 2022

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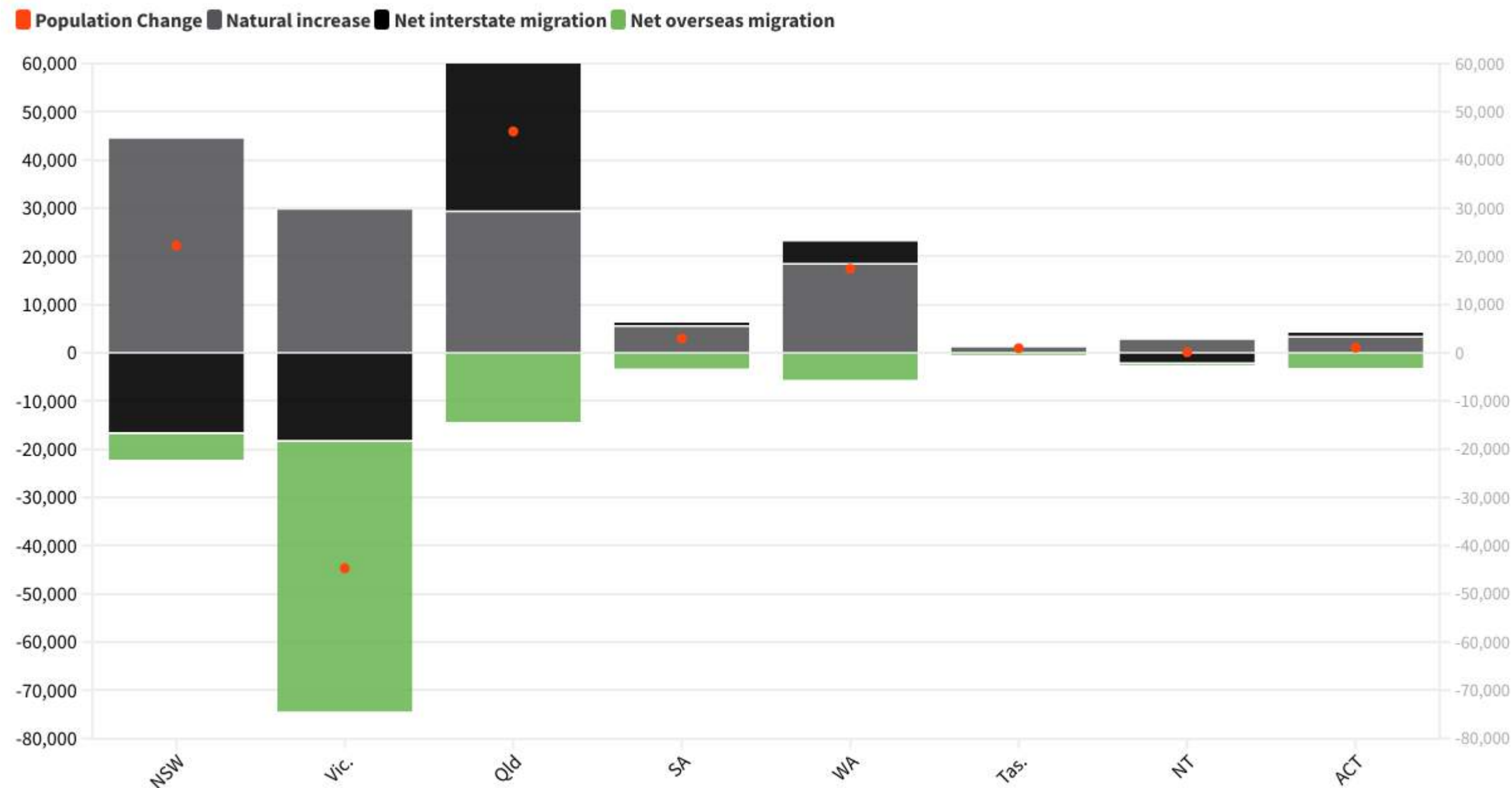
- The market is slowing for new residential buildings
- Growth was driven by housing - In Sept 2021, 63% of commencements were houses, in March 2016 it was 46%
- Dwelling commencements fell by greater than what would have been expected in September given normal lags



# Victoria has gone from top of the states to the bottom

After having the largest population increase for 35 out of the 40 quarters to March 2020, the state experienced its first decline since 1993

**State Population Change, Year to June 2021**



Source: [ABS 2021](#)

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- Victoria experienced a decline of 44,700 residents in the year to June 2021
- However, this was largely driven by overseas migration
- Victoria had roughly the same amount of overseas departures as NSW but only a third of its arrivals due to the extensive 2020 Lockdown restrictions on airport movements.

# Omicron weighed on national confidence at the start of 2022

Business and consumer confidence plummeted after strong figures in late 2021

## Business and Consumer Confidence Rating - Australia

Rating < 100: mostly not confident; >100: mostly confident



Source: ANZ-Roy Morgan, 2022

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- Businesses and consumers were overall quite positive about the future in 2021
- There was an obvious fall with the mid year lockdowns but a strong rise after as vaccine targets were met and we opened up
- Omicron case spikes and staff isolation challenges caused a substantial relapse to low confidence



# State Focus

Another bumpy year with variances across the state



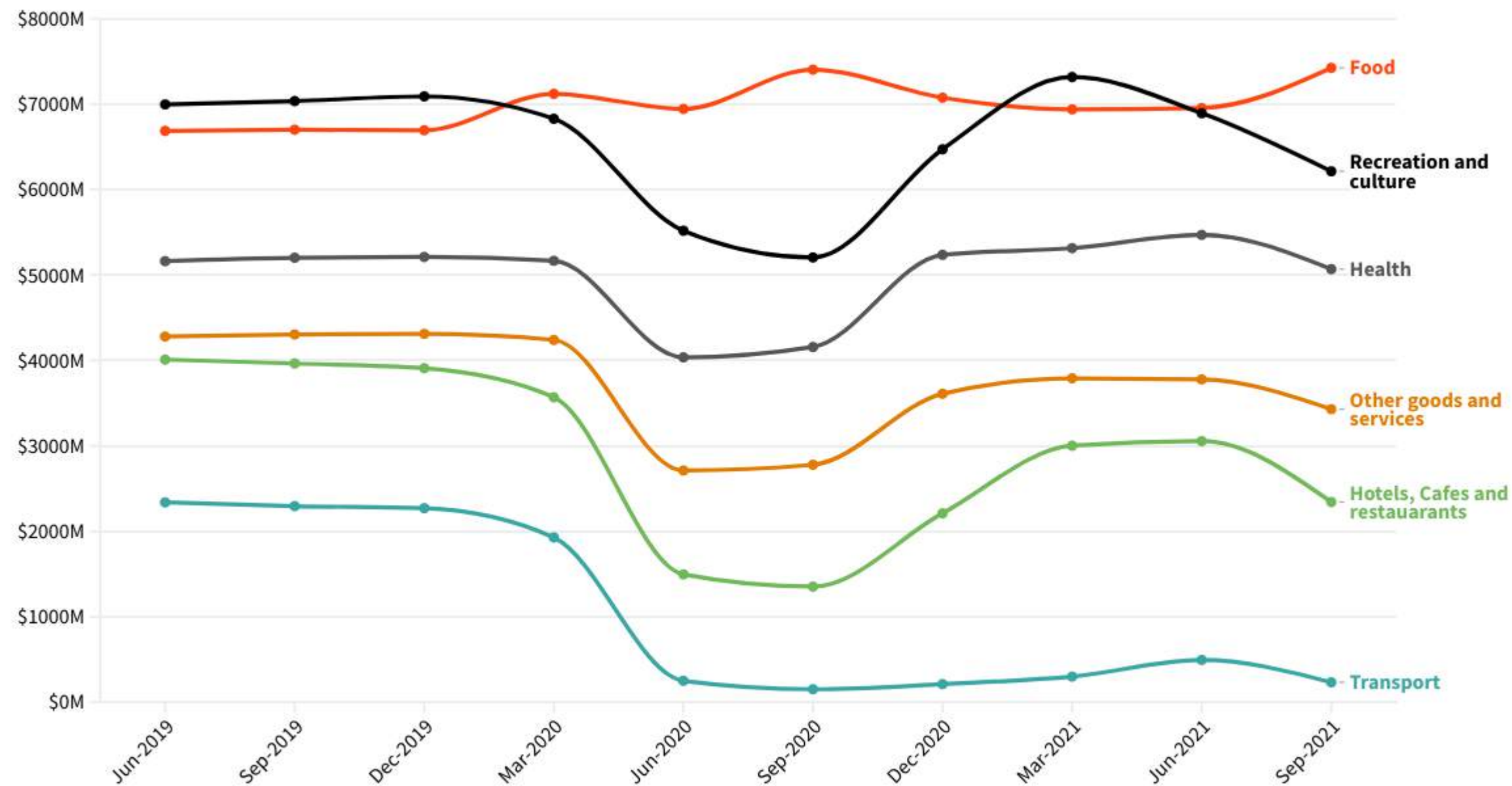


# Household consumption rode the waves of lockdowns

Expenditure on essentials was maintained

## Households Consumption Expenditure - Victoria

Selected items



Source: ABS 2022

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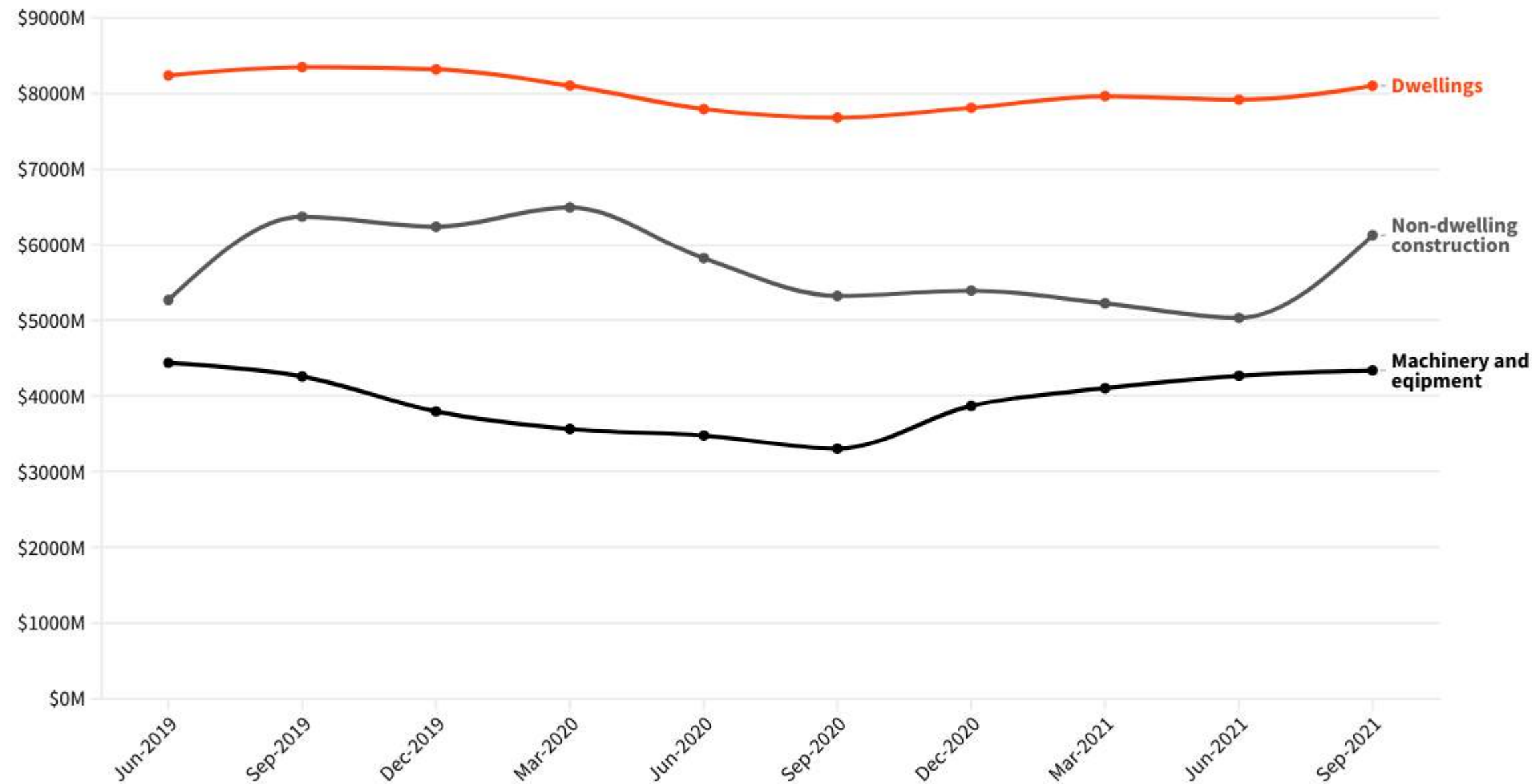
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# Business investment looking up

Incentives and better outlook supporting confidence

## Private Investment - Victoria

Selected items



Source: ABS 2022

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- Number and value of dwellings has increased led by houses
- Government incentives drove machinery and equipment investment
- Non-dwelling construction bounced back strongly in September quarter

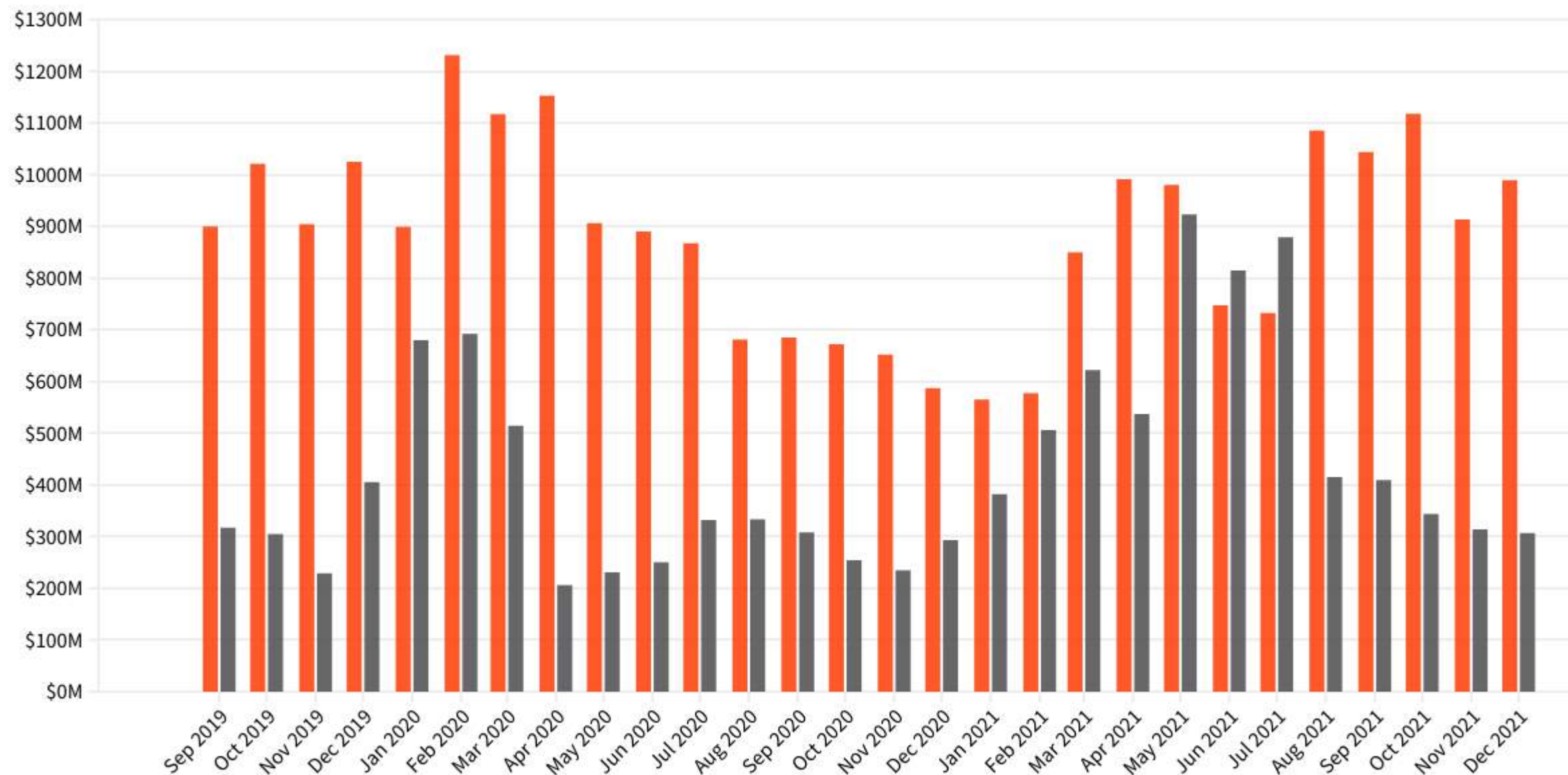
# Private Sector building approvals have come back strongly

Investment in commercial and industrial facilities

## Non-Residential Building Approvals - Victoria

Rolling 3 month average

Private Sector Public Sector



Source: ABS, 2022

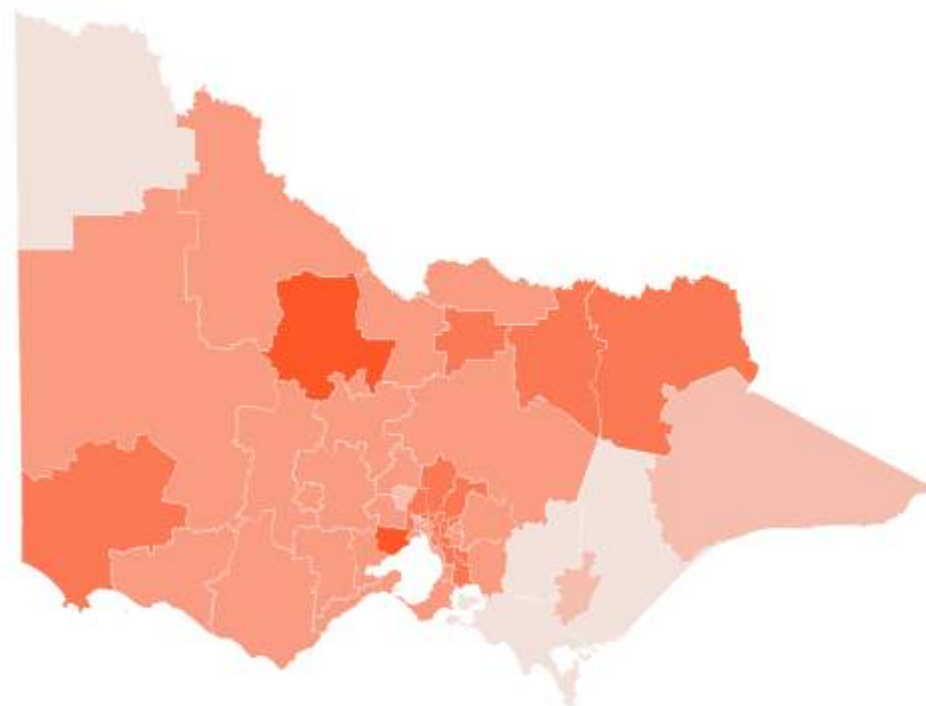
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- Most of 2021 saw private non-residential approvals back to pre-COVID levels
- Mid 2021 also saw record public sector non-residential approvals buoyed by projects such as the new \$1.5B Footscray Hospital



## Average Payroll Jobs Index, 2 months to mid Dec 2021

97.8 100 102.5 105.3



Source: [ABS, 2022](#)

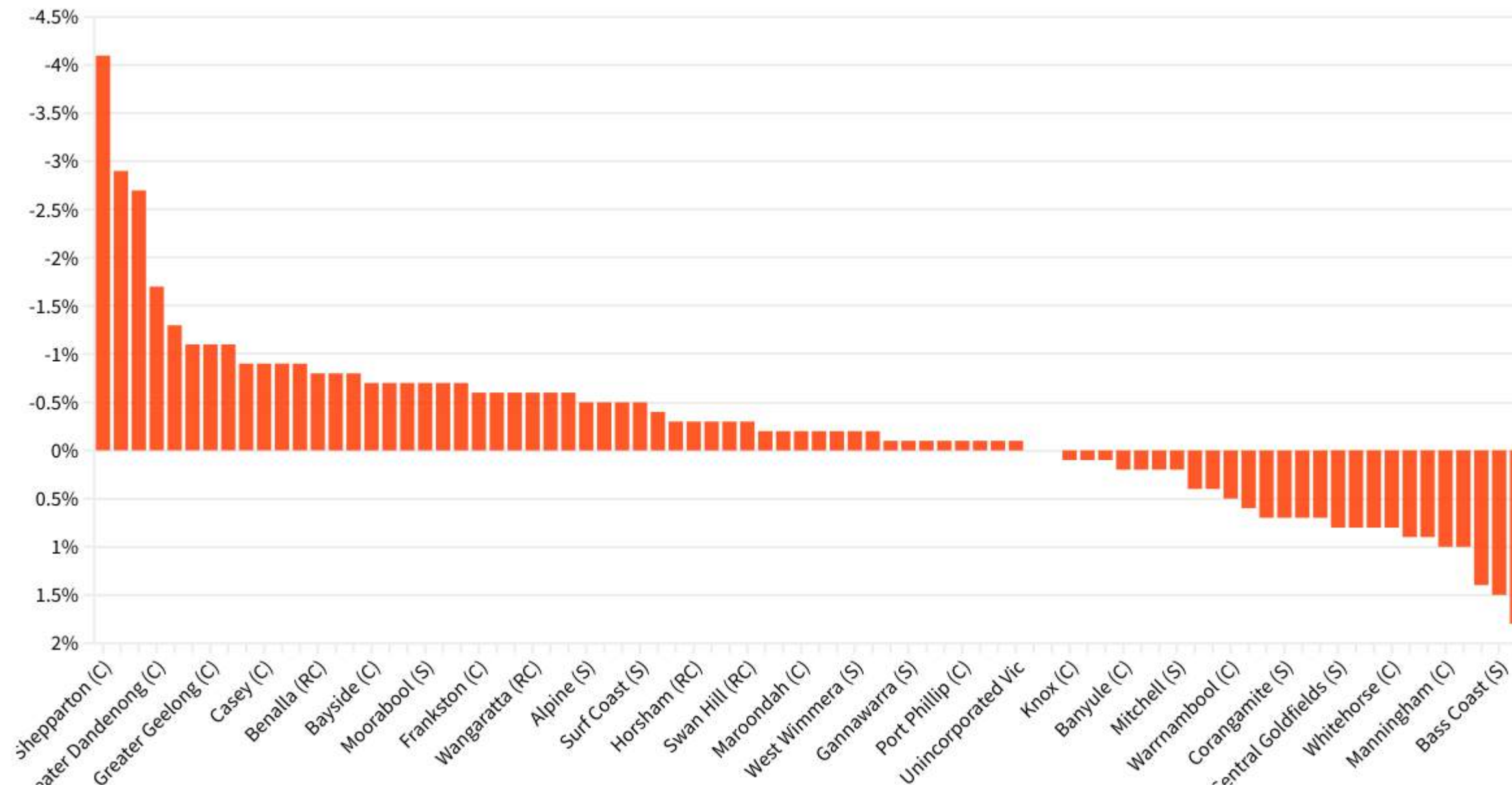
## Most places have bounced back in employment

- In late 2021, most regions had payroll job numbers above pre-COVID
- However, this doesn't account for the reduced working age population growth. Under normal circumstances job numbers would be a lot higher.
- Latrobe-East Gippsland area a noticeable exception from growth seen in other regions.

# Unemployment generally lower but very different experiences across the state

## Change in Unemployment - Year to Sept 2021

Percentage Points



Source: SALM, 2022

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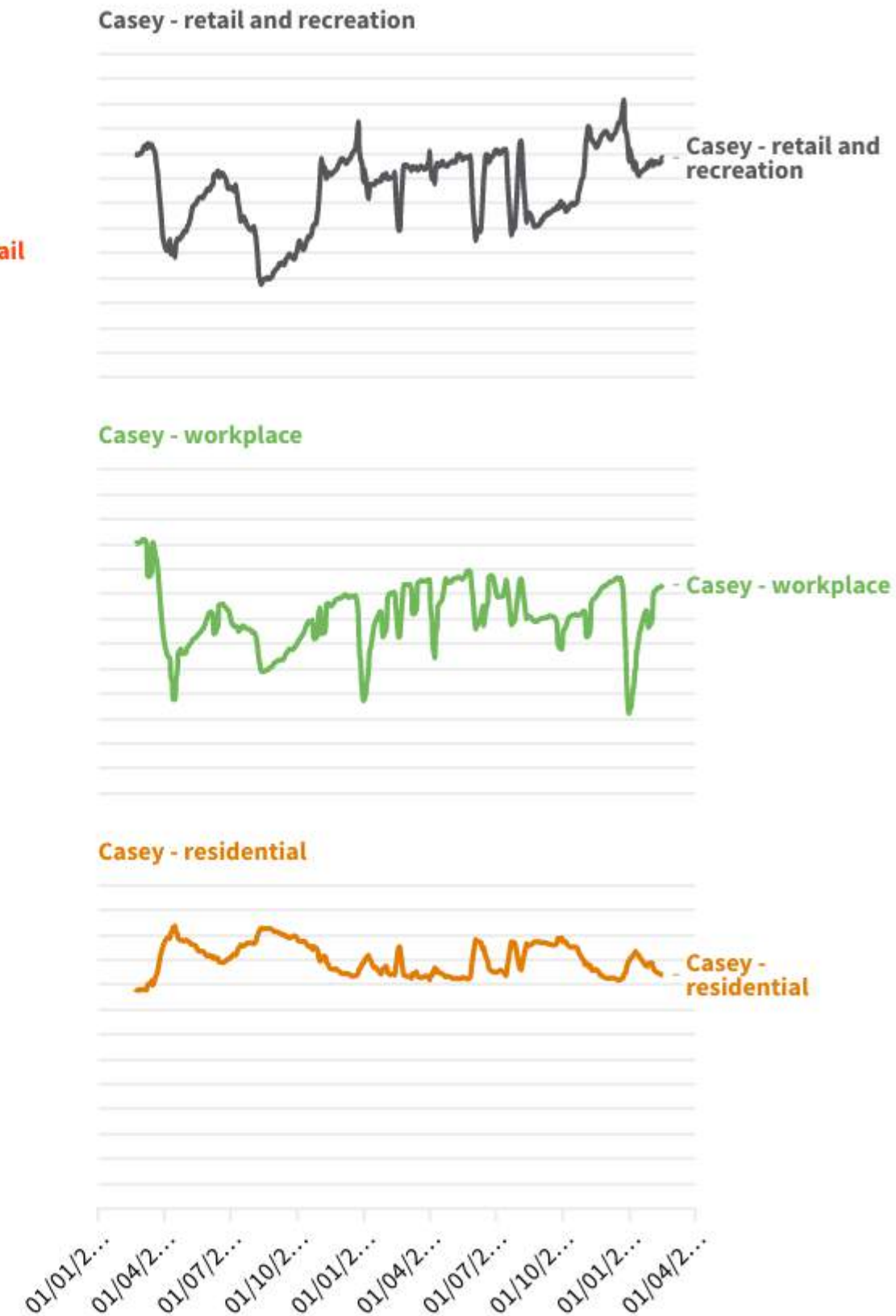
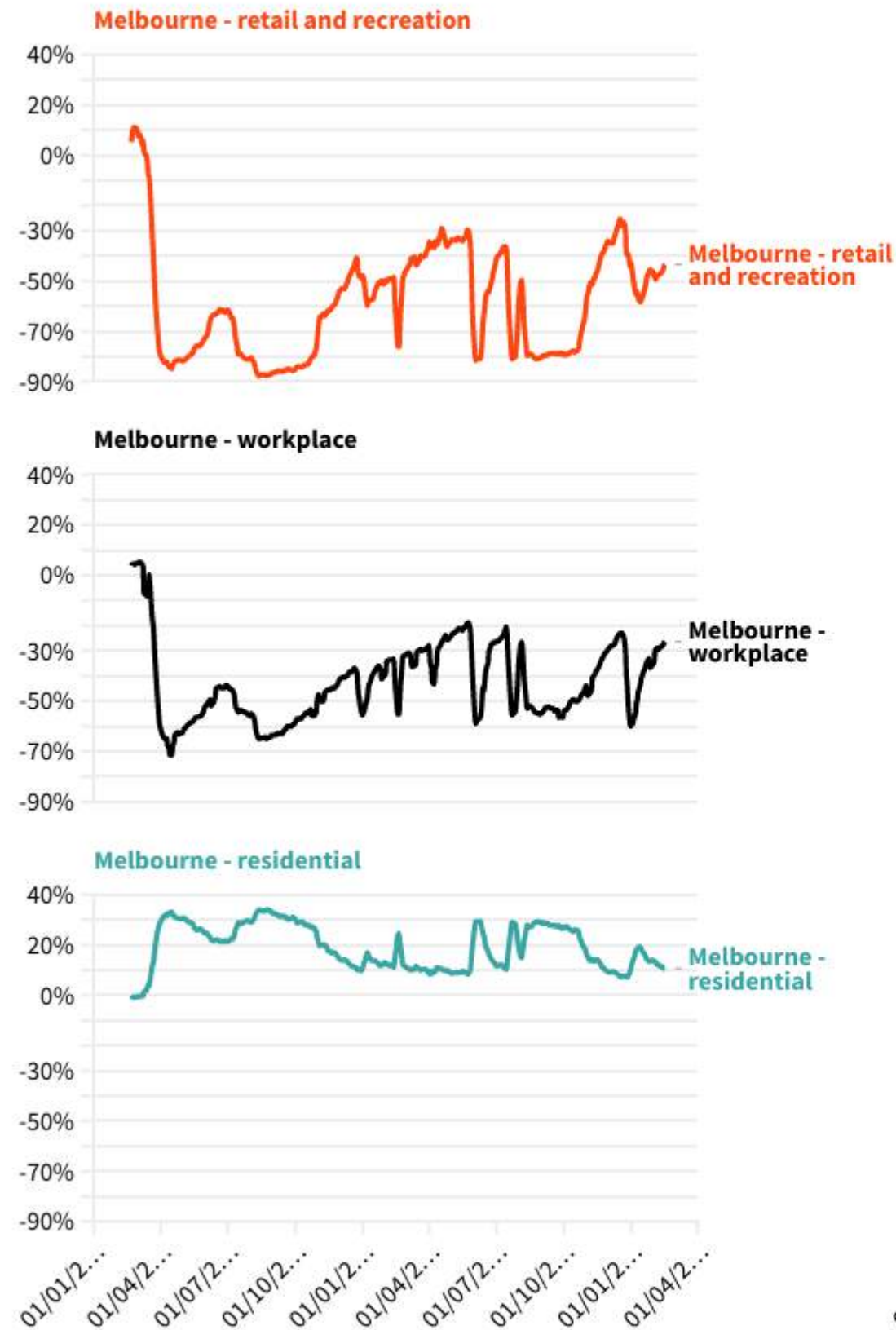
- Shepparton saw a 4% fall in unemployment due to large scale construction projects
- Latrobe, Bass Coast and East Gippsland all saw unemployment rates increase by over 1%
- According to ABS Labour Force Survey, that broader region had falls in Manufacturing and Construction industries and Machinery Operators and Drivers for occupations.

## **Regional areas have seen a large uplift in new housing approvals**

- Metro growth area Melton - Bacchus Marsh saw largest number increase of +2,046 houses approved in 2020/21 compared to year before. However, Geelong and Bendigo were 2nd and 3rd highest change.
- Many regional areas saw % uplift in new housing approved of >50%

## Resident Movements - Google Mobility Data

Change from baseline, 5 weeks Jan-Feb 2020



Source: [Google](#), 2022

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## CBD still lagging

Different experiences for different councils

- Pre-Xmas, workplace and retail/recreation trips in the City of Melbourne still 25% below pre-COVID baseline
- In contrast, City of Casey workplace trips only down 3.4% and retail and recreation up 21%!
- Combination of different type of jobs and also population movements.

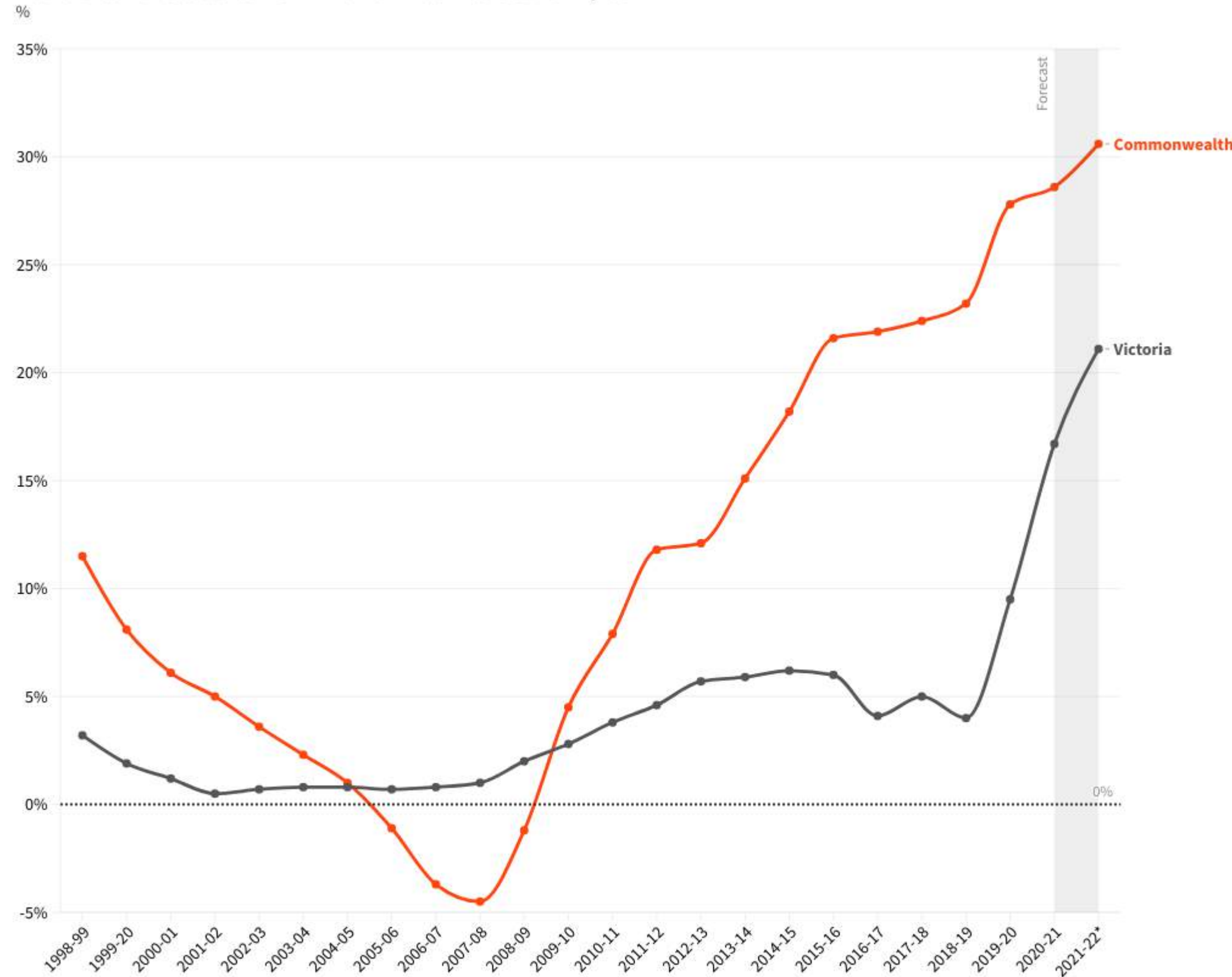


# Looking forward

Too many scenarios



## Federal and State Government - Net Debt to GDP/GSP



Source: ABS, 2022, Federal Mid-Year Outlook, Victoria State Government Budget Outlook

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# Tightening govt. purse strings?

Govt Debt has risen substantially due to COVID support

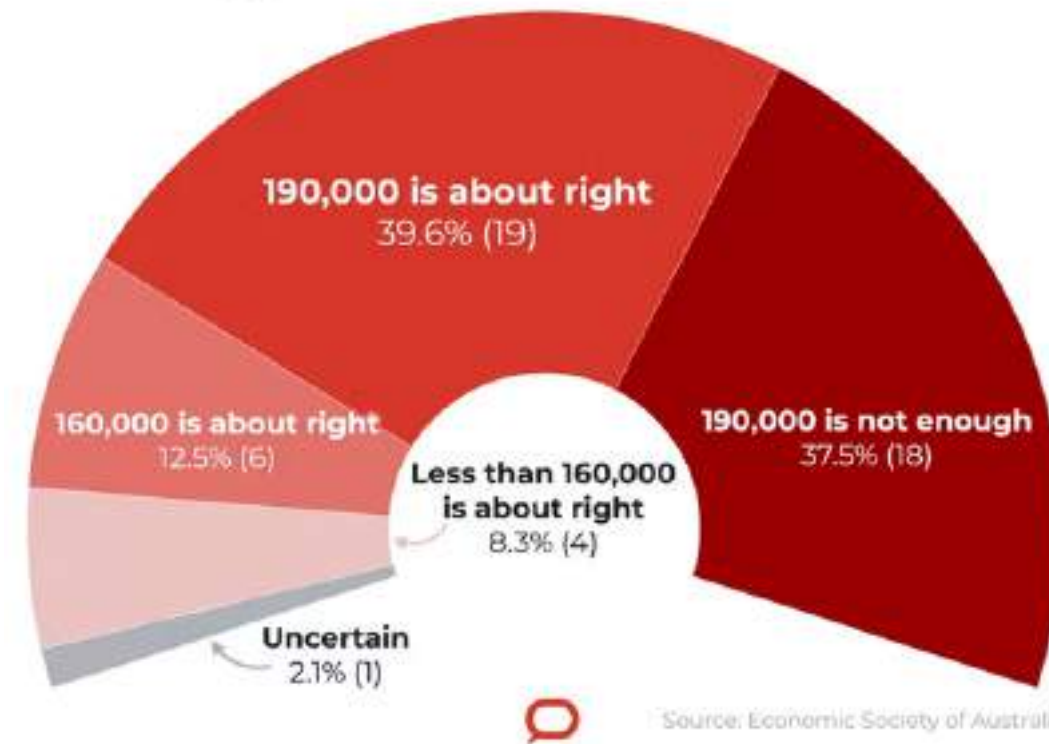
- Pre-COVID, the federal government had ambitions for a surplus. Now forward estimates suggests deficits for the foreseeable future due in part to additional funding to support NDIS. A deficit of 1.8% of GDP is even forecast for 2031/32
- State Government positions have changed substantially, especially Victoria and NSW.
- Two-thirds of local government executives fear that either their local authority or others in Victoria will experience serious financial difficulties in the next 10 years (PwC, 2021)
- In 2021, small shires and metro shires adjusted underlying results worsened

## Interest rates?

"The Board judged that it is too early to conclude that inflation is sustainably in the target range. Underlying inflation has just reached the midpoint of the target range for the first time in over seven years. Consequently, the Board is prepared to be patient as it monitors how the various factors affecting inflation in Australia evolve."

Responses from 49 economists to the question:

"What do you think the intake of permanent migrants should be in coming years?"

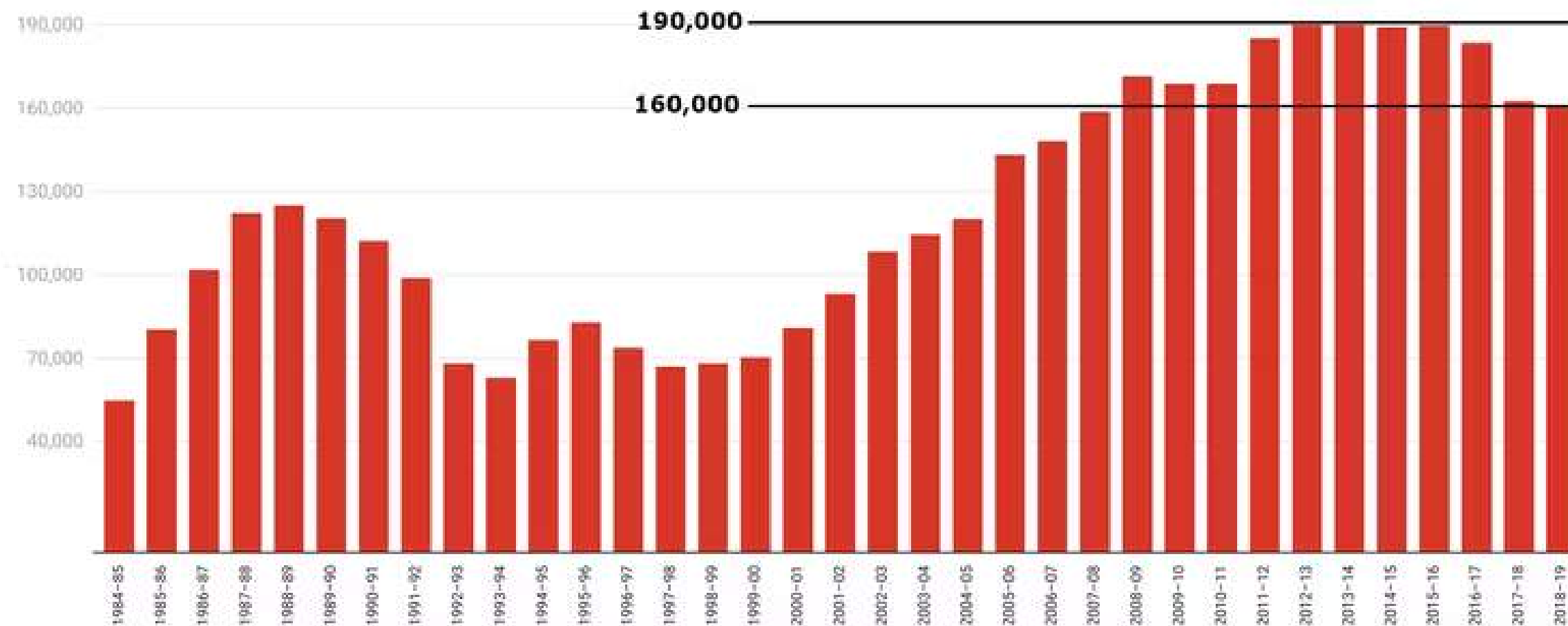


Source: The Conversation, 2022, *When we open up, let's open up big: top economists say we need more migrants*

# A return to 'Big Australia'?

Do we boost migration intakes?

- Australia's biggest cities were struggling to keep up with infrastructure needs, pre-COVID
- High immigration actually reduced GDP/capita
- Should we favour skilled migration and humanitarian visas?
- Will a boost to immigration compensate for ageing population?

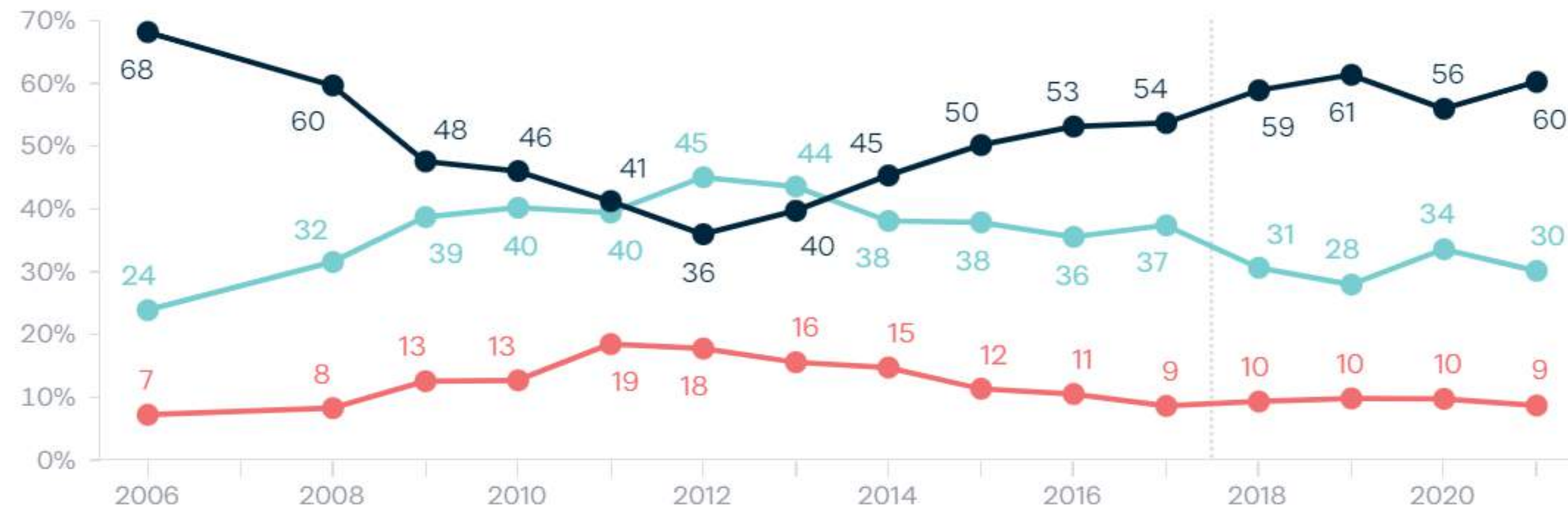




## ATTITUDES TO GLOBAL WARMING

LOWY INSTITUTE  
POLL 2021

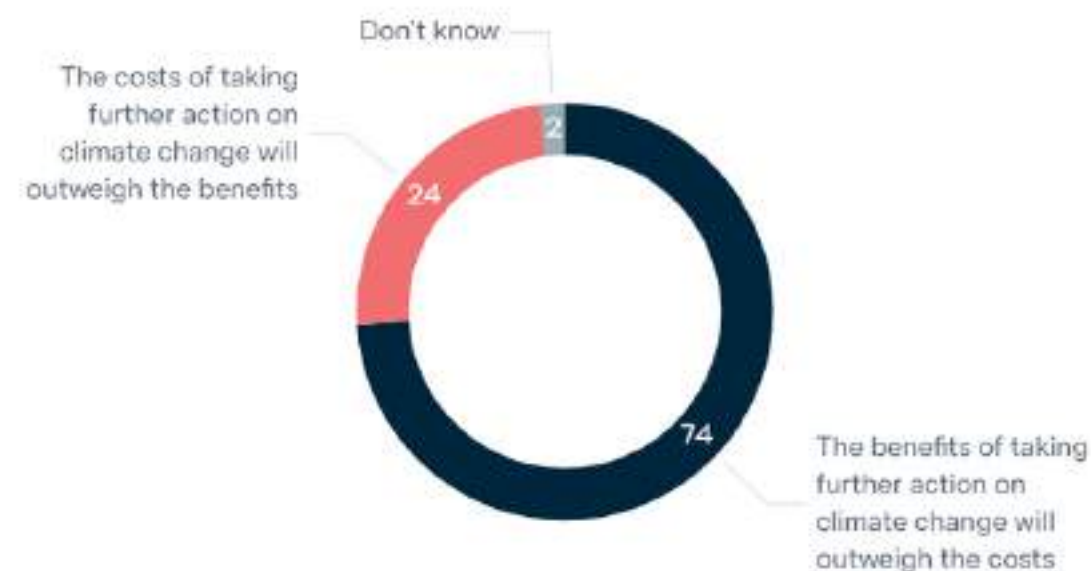
There is a controversy over what the countries of the world, including Australia, should do about the problem of global warming. Please tell me which statement comes closest to your own point of view?



### COSTS AND BENEFITS OF CLIMATE CHANGE ACTION

Which statement is closest to your personal view on further action on climate change?

LOWY INSTITUTE  
POLL 2021



# What is Australia's emissions reduction position?

- COP26 saw pledges and targets that could limit the global temperature rise to 1.8 degrees
- Federal Government's statements have been long term targets without any details
- Importantly though, businesses and other levels of government are already leading the way as consumer expectations increase
- Modelling suggests economic impacts are worse if we don't reach net zero

## Upside potential

- **COVID moves into endemic phase and is relatively manageable in most countries with vaccines and new medicines**
- **Government stimulus wanes, but households tap into savings from last two years to drive consumption**
- **A return of immigration into Australia fills skills gaps and drives increased demand**
- **Opening borders leads to increases transport movements and lowering costs of supply chains**

## Downside risks

- **New variant emerges that proves as contagious as Omicron and damaging as Delta**
- **Inflation continues to increase and spreads across multiple regions leading to broad tightening of monetary policy**
- **Increase in geopolitical tensions creates investment uncertainty**
- **Severe and prolonged downturn in the real estate sector in China impacts broader economy**

# Some considerations for local government

## Long-term sustainability

COVID-19 gave rise to a number of targeted and broad grant programs and funding. Some of these may continue, but should not be relied on in the future.

## Leveraging and maintaining trust

COVID-19 crisis raised trust in governments substantially, this is common during crises/disasters. However, trust can be lost just as quickly.

## Increasing role in economic development

COVID-19 has seen more local governments increase their role in supporting businesses and local spending

## Role in National Discussions

Will National Federation Reform Council continue, and/or in what shape? Is their room for a real local government voice at the table?

## Managing housing affordability and new residents

Rising prices in regions can impact their attractiveness and affect long term rental residents.  
New residents can bring different demands for services and expectations

## Circular economy initiatives on the rise

Local governments are considering their role as key players in waste management but also how to generate local business opportunities.



# Final Words

- Australia and Victoria went through another year of substantial economic fluctuations
- Recovery 2.0 is in sight but lingering potential for variants, inflationary challenges and geopolitical uncertainty remain as risks
- As with last year, the story differs greatly depending on what country, state, or region you live in
- Australia and Victoria still poised to return to the past once opened up and rely on quick economic solution that high immigration provides
- For local governments, financial sustainability is a big pressure point. Long term solutions need to be found.
- Trust in service provision and community support is high but communicating transition in changes to the type of services and method of delivery will be key to maintaining it
- Local governments are taking a stronger role in a number of focus areas (digital services, smart cities, circular economy, sustainability goals), but is this recognised enough on the national stage?

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Economic and demographic profiles



Economic and population forecasts



Housing needs and affordability analysis



Community liveability insights



Economic and population forecast monitoring



Industry analysis



Economic impact analysis and benefit cost assessment



Economic health checks

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