

Dr Steven Kennedy PSM
Senate Select Committee on COVID-19 Opening Statement
Tuesday 28 April 2020

Thank you for the opportunity to make a brief opening statement.

The COVID-19 pandemic is having an unprecedented impact on economies worldwide.

Chinese GDP fell by 9.8 per cent in the March quarter. A record fall by a wide margin.

US jobless claims have risen by 26 million people over the past few weeks.

In April, the Eurozone experienced its sharpest monthly fall in surveyed business activity and employment on record.

To put these outcomes in context, GDP in advanced economies fell by around 4 per cent in 2009 during the global financial crisis.

In Australia, new real-time ABS data show that in accommodation and food, and arts and recreation services, the number of jobs fell by 25.6 per cent and 18.7 per cent respectively, over the three weeks between 14 March and 4 April.

In the June quarter we expect to see the unemployment rate rise to around 10 per cent.

Unemployment rose to higher levels in the Great Depression but it did that over the course of a couple of years, these movements are happening in just a couple of months.

We have never seen an economic shock of this speed, magnitude and shape, reflecting that this is both a significant supply and demand shock.

The supply of goods and services has been badly disrupted by the necessary social distancing measures. Demand, in turn, is being reduced by the associated loss in incomes and profits and loss of confidence.

Australian Governments have substantially lessened the economic impact of the social distancing measures by acting decisively and early. They have collectively taken a balanced approach to preventing activities likely to spread the virus while allowing other activities to continue where possible.

This has meant that in Australia we have been able to continue a wider range of economic activities, such as construction, manufacturing and mining. For some countries, they have not had a choice but to act more aggressively.

In addition, Australia has benefited from a strong starting point including highly effective federal and state public services and institutions, a well-capitalised banking sector, and a sound fiscal position.

The Government has announced \$320 billion in fiscal and balance sheet support designed to:

- support the community through an enhanced safety net,
- preserve the relationship between employers and employees,
- support employment,
- maintain organisational capital through support for cash flow and the availability of credit,
- enhance firm survival by modifying business and labour regulations,
- unblock disrupted supply chains,
- and importantly, enhance business and consumer confidence.

The direct fiscal measures are equivalent to around 10 per cent of GDP – and are larger than any support package provided by Government in the past 50 years. Around \$10 billion of support has been distributed over the past 3 weeks, with around 3 times that amount expected over the next month.

This support has already had a material impact on confidence. And it has significantly improved our prospects of recovering well from this pandemic.

The final shape of this shock remains hard to predict because it depends on how the virus' transmission unfolds in the face of efforts to suppress it – both in Australia and overseas. Over time, the uncertainty around the progression of the virus will diminish and more economic activity will return.

But new challenges will have emerged. Some jobs and businesses will have been lost permanently.

The Treasury will increasingly turn to these challenges, continuing to advise on policy settings and reforms that will enable our country to prosper in a world that in many ways will look largely the same, but may have also changed in some important and sustained ways.