

**Overview**

Australian GDP plunged by a seasonally-adjusted 7.0% in Q2 2020, slightly more than the 6.0% expected by market participants. This was the second consecutive fall, confirming a technical recession in Australia.

This was the sharpest quarterly fall on record (since Q4 1959). The previous record decline was 2.0% in Q2 1974.

Through the year, GDP dropped by a record 6.3%, with GDP down 0.2% for the entirety of 2019-20 compared to 2018-19.

| Seasonally Adjusted Chain Volume | QoQ   | YoY   |
|----------------------------------|-------|-------|
| Real GDP                         | -7.0% | -6.3% |
| GDP (Expenditure)                | -6.8% | -6.0% |
| GDP (Production)                 | -7.1% | -6.4% |
| GDP (Income)                     | -7.2% | -6.4% |
| Real Gross Domestic Income       | -7.0% | -6.7% |
| Nominal GDP                      | -7.6% | -5.9% |
| Terms of Trade                   | 0.2%  | -1.8% |
| GDP Deflator                     | -0.6% | 0.4%  |

**Expenditure**

The drop in GDP was led primarily by a 12.1% plunge in household consumption due to the pandemic.

Spending for clothing, health, hospitality services and transport saw the largest declines on record. The drop in other goods and services was also the largest ever and resulted from fee-free child care for households.

The large falls for most household expenditure categories were partly offset by record increases in spending for alcohol, furniture and household equipment.

Private investment posted a broad-based 6.5% decline across almost all categories, with investment in machinery and equipment (mostly mining investment) a notable exception. Dwelling investment fell by 6.8%.

The drop in domestic private demand was partly offset by a 1.0 percentage point contribution from [net exports](#) as well as government spending.

**Production**

Drop in production was recorded in all sectors but mining, finance, public administration and safety as well as education. Half of industries saw the largest plunges on record, led by the hospitality industry.

**Working Hours, Productivity and Unit Labour Costs**

The fall in hours worked related to pandemic containment measures accelerated to a record 9.8% from 0.9% in Q1. As a result, GDP per hour worked, a measure of labour productivity, surged by an

unprecedented 3.1% and unit labour costs posted record falls, both in nominal and real terms.

**Income**

Gross national income dropped by 7.0%, which was caused primarily by taxes less subsidies turning negative thanks to an unprecedented rise in subsidies amid JobKeeper and Boosting Cash Flow schemes.

The JobKeeper scheme cushioned the fall in employee compensation, yet at 2.5% it was still the largest decline on record. It was more than offset by a 41.6% surge in social benefits which, along with the drop in spending, drove the household savings ratio to 19.8%, the highest since Q2 1974.

An 8.2% surge in non-financial company profits was another effect of the JobKeeper scheme.

**Real Income**

Real net national disposable income, an economic wellbeing measure adjusting real gross domestic income for income flows with the rest of the world and the consumption of fixed capital, dropped by 7.8% in Q2. In per capita terms, it plummeted by 8.0%.

**State Final Demand**

State final demand posted record declines across all Australian states. The largest drop in demand was recorded in states most affected by the pandemic (New South Wales and Victoria), which saw around 8.5% declines. Other mainland states, including Western Australia, saw a drop of about 6.0%.

| Seasonally Adjusted Chain Volume | QoQ   | YoY   |
|----------------------------------|-------|-------|
| Western Australia                | -6.0% | -4.0% |
| New South Wales                  | -8.6% | -9.1% |
| Victoria                         | -8.5% | -8.3% |
| Queensland                       | -5.9% | -5.2% |
| South Australia                  | -5.8% | -6.7% |
| Tasmania                         | -7.4% | -6.8% |

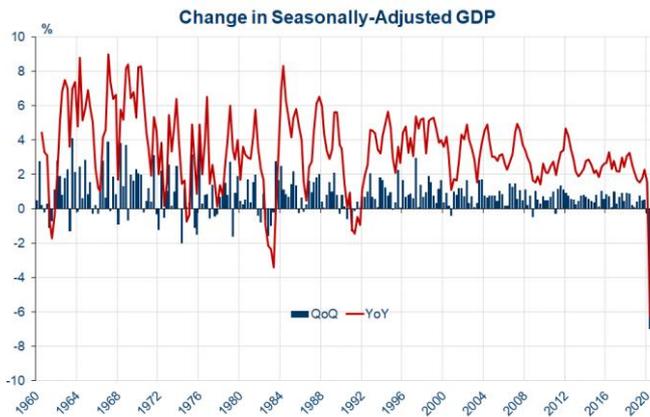
**Comment**

While Q2 drop in GDP is sobering, it is still way better than first feared, mainly thanks to successful containment of the pandemic in most Australian states. It is also the smallest decline of all G20 advanced economies but South Korea.

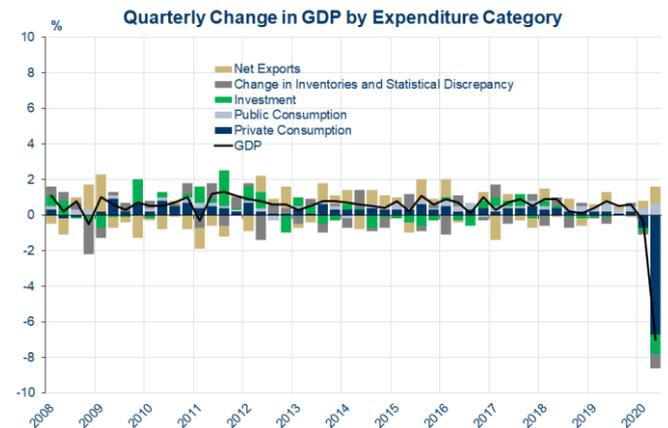
However, according to the RBA, it will take at least two years to restore the output loss from this pandemic, with heightened volatility in output on the way. There are also many downside risks, related mainly with the pandemic at home and abroad.

**2 SEPTEMBER 2020**

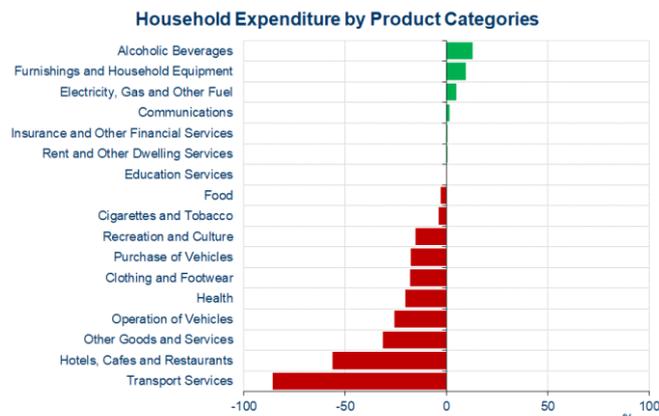
Real GDP posted the largest drop on record in Q2...



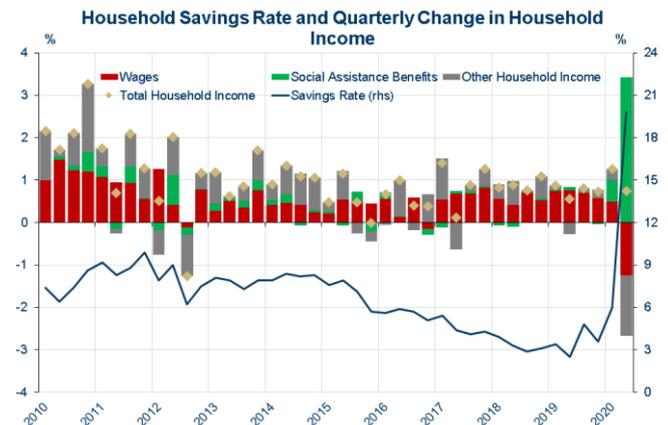
... dragged down mainly by a plunge in household consumption...



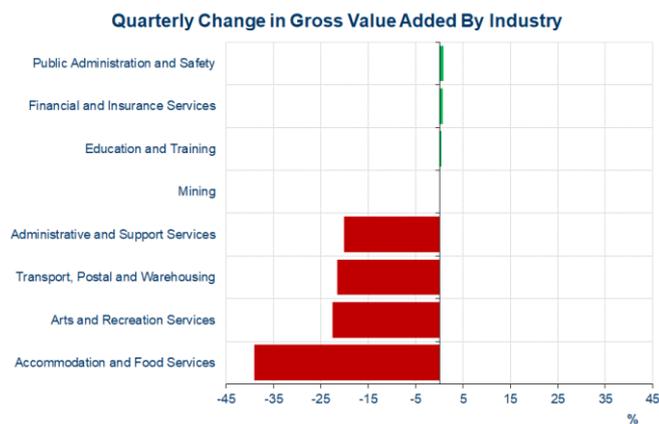
... related to COVID-19 containment measures.



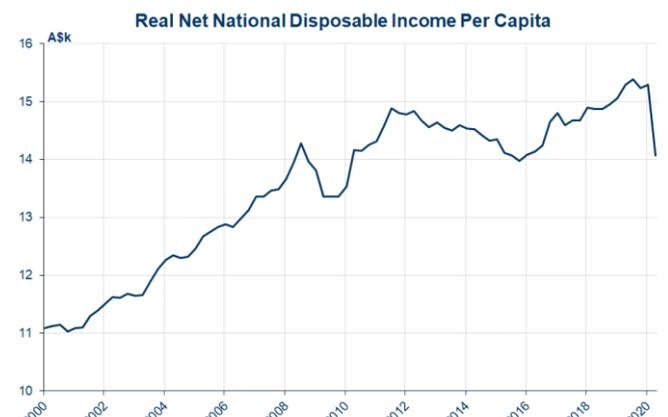
Social benefits have helped cushion the fall in wages.



Only very few sectors saw a rise in activity.



It will take a long time to restore the output loss.



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