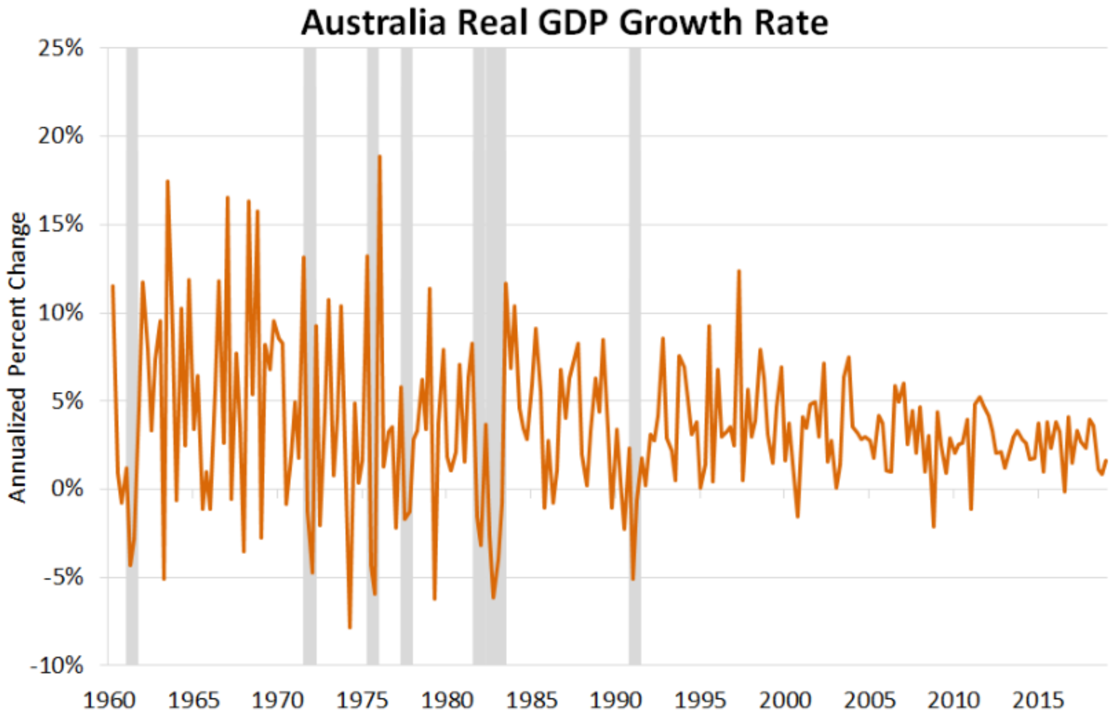
Analysis of Australian Economy & recessions (1973 – 2022)

A recession is defined as a lengthy period of low or negative real GDP (output) growth, as well as a noticeably elevated unemployment rate. The GDP growth rate for Australia is shown in the figure below, with recessions being represented by the grey shading. (In this context, a recession is considered to have happened when two or more consecutive quarters of GDP growth were negative.)



NOTE: The gray bars indciate recessions, which are defined here as two or more consecutive quarters of negative growth.
SOURCES: Organization for Economic Cooperation and Development, Haver Analytics and authors' calculations.

As reported by the Parliament of Australia, Between the years of 1970 and the beginning of 2023, Australia had a total of four different recessions, they took place in

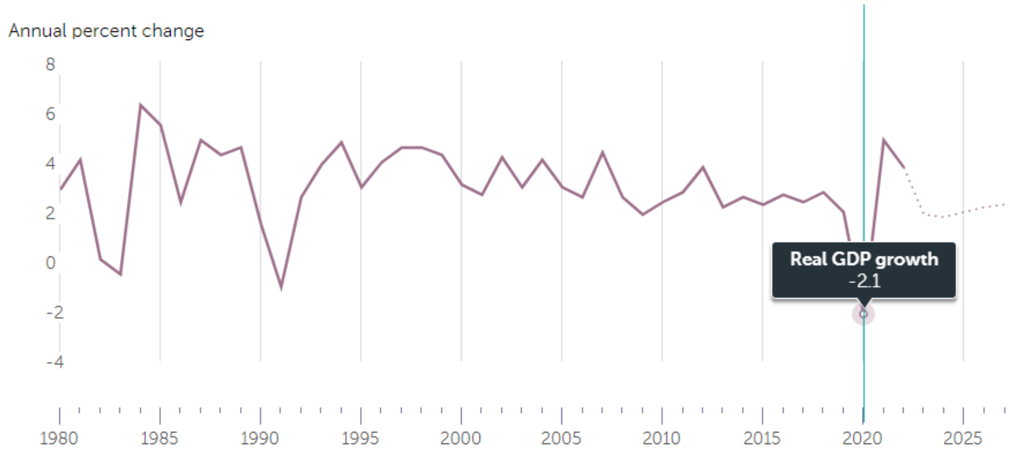
- 1974–1975,
- 1982–1983,
- 1990–1991 and
- the most recent coronavirus-caused recession which was in 2020.

The causes of these recessions

Recession	Causes	Additional Factors
1974-1975	• Oil Embargo – created a global oil price shock • Economic downturn in the US • Stagflation (Inflation at 18%) and high unemployment (5.5%) in Australia (Reserve Bank of Australia, 2020) • Reduced consumer spending and business activity due to significant increases in the costs of production (Reserve Bank of Australia, 2020) • Government backed big wage rises • Lower global demand for Aussie exports	• Global economic slowdown due to global food shortages • Increased taxes • Uncertainty caused by the Watergate scandal in the United States
1982-1983	• Severe droughts. • Tighter monetary policies to reduce high inflation (Battellino, 2010) • Weak global demand • Reduction in government spending and public investment • Increase in unemployment • High wage growth and inflation	• Devaluation of the Australian dollar • End of the mining boom (Battellino, 2010) • The high rates of inflation Around the world. (Battellino, 2010)
1990-1991	• Resulted from attempts to restrict domestic demand, commercial property market price speculation, and inflation. (Reserve Bank of Australia, 2020) • Cutbacks in public services • High interest rates (17.5%)	• Collapse of the savings and loan industry in the United States, • End of the asset price bubble in the Australian property market
2019 - 2020 (The Covid-19 Recession)	• Widespread economic disruption caused by the Covid-19 pandemic including lockdowns and other measures to contain the virus led to sharp decline in consumer spending and business activities. • Unemployment rates increased • Decrease in international trade and travel, Supply chain disruptions • Reduced consumer and business confidence.	• Pandemic caused a significant increase in government debt as the government implemented large fiscal stimulus packages to mitigate the impact of the pandemic

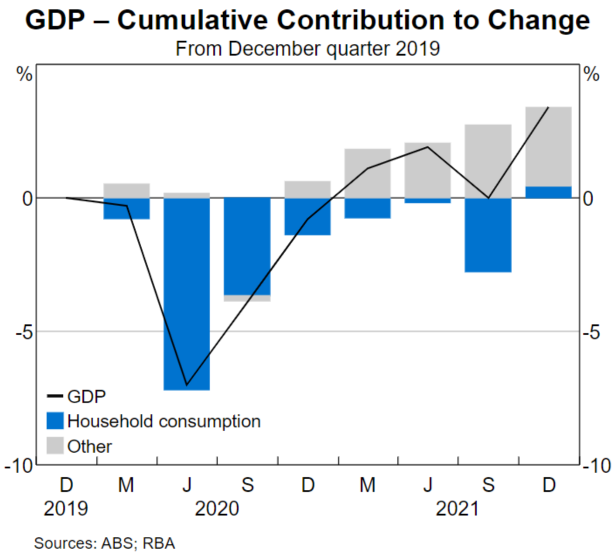
Economic indicators in the last two recessions

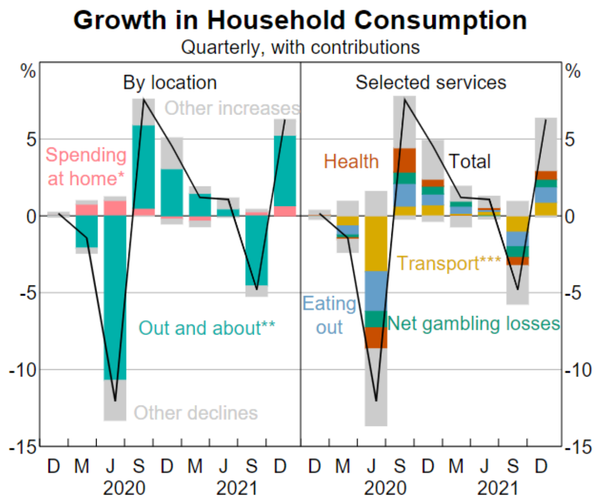
The Covid-19 Recession in 2019 - 2020



Australia's economy experienced significant contractions as a result of the pandemic brought on by COVID-19 in 2020. Many business activities had to be immediately halted in order to address the public health issue. The economic indicators listed below demonstrate the severity of the recession's impacts.

GDP quarterly performance





(Retrieved from Reserve Bank of Australia Annual Report, 2020)

During the 2020 recession caused by the COVID-19 pandemic, GDP fell by 7% in the June quarter following Q1's much softer 0.3% decrease driven by a 12% decline in household consumption and services by 17.6%, the largest fall on record. This decline in GDP was a result of the lockdowns and other measures to contain the virus, which led to a sharp decline in consumer spending and suspension of business activities. By August, the economy and job industry were starting to get better in all states excluding Victoria, which was impacted by a 2nd COVID-19 wave and a lockdown.

GDP components

Figure 4. General government consumption, actual and pre-COVID-19 trajectory, chain volume measures, seasonally adjusted

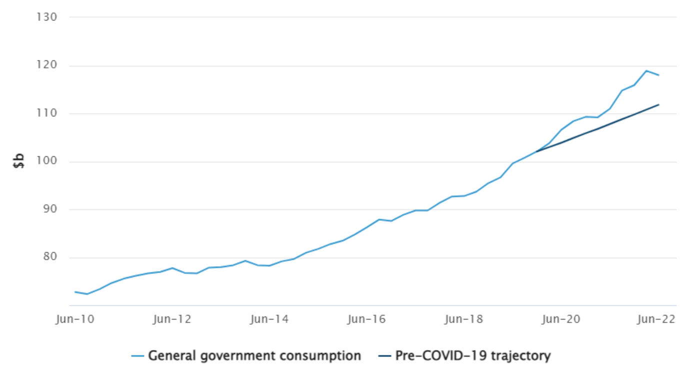
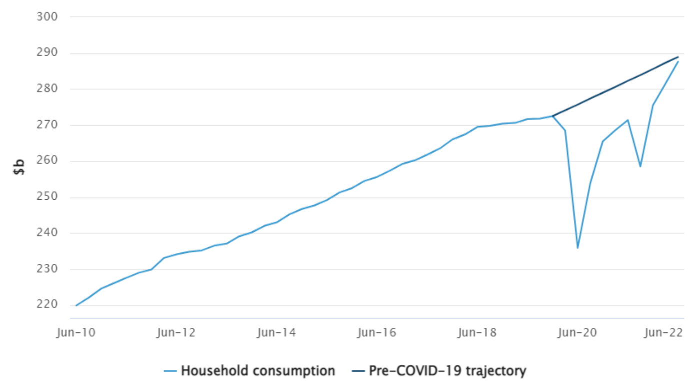
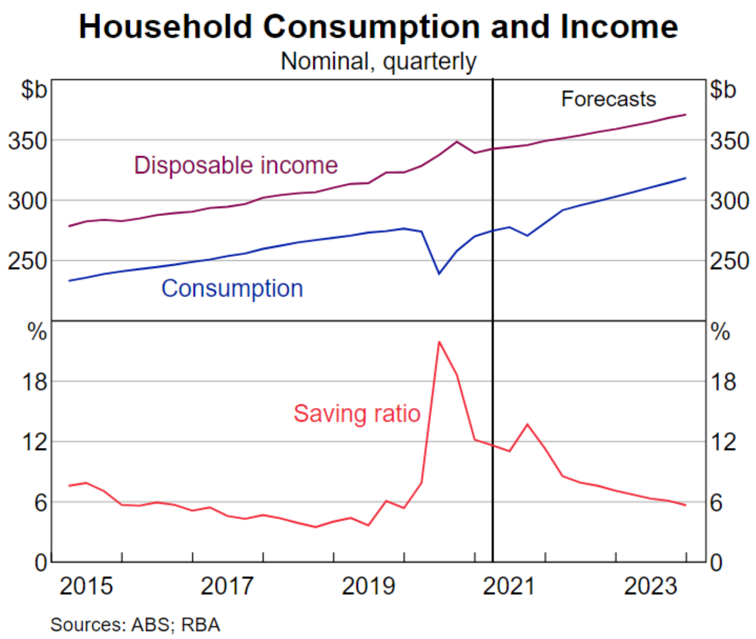


Figure 2. Household consumption, actual and pre-COVID-19 trajectory, chain volume measures, seasonally adjusted



(Government Consumption) (Household Consumption)

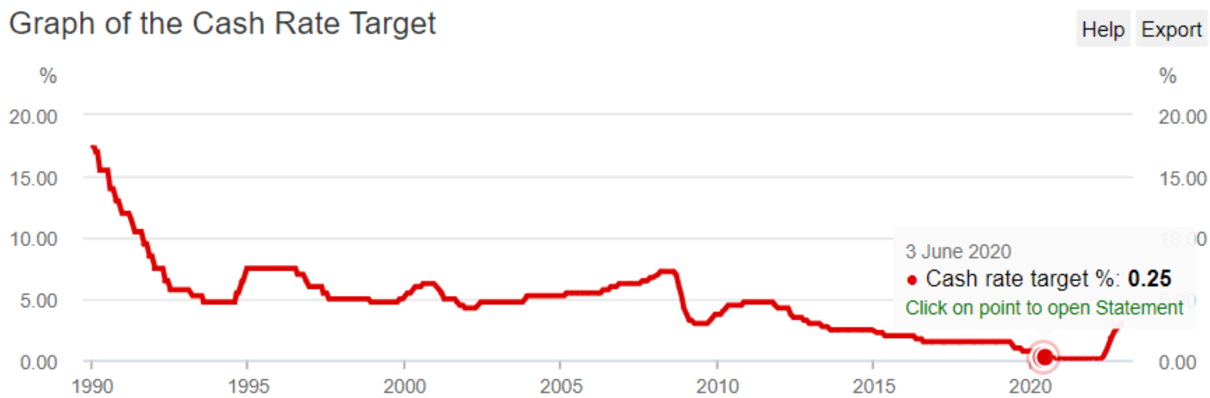


(Retrieved from Reserve Bank of Australia Annual Report, 2020)

The major contributors to the decline in 7% of GDP in the June 2020 quarter were due to reduced household consumption expenditure, declined private gross fixed capital formation, and increased government consumption expenditure. As lockdowns and other measures were implemented to contain the virus, consumer spending and business activity decreased, leading to the decline in consumption.

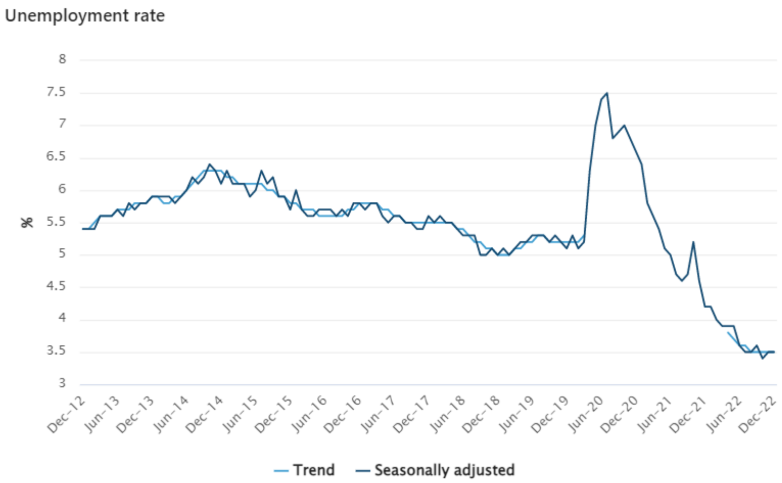
(Exports Retrieved from Reserve Bank of Australia Annual Report, 2020)

In Q3 2020, metal ore and mineral exports, mostly iron ore, rose 4%. Due to Brazil's supply constraints and China's strong industrial demand, iron ore exports reached a record of $100 billion in 2019-20. China's fiscal stimulus of CNY3.75 trillion (4% of 2019 GDP) is equivalent to the infrastructural push delivered during the 2008-09 global financial crisis. During a prolonged era of low foreign travel and consumer export headwinds, metal ores exports have been crucial for the economy (Australian Bureau of Statistics, 2021).



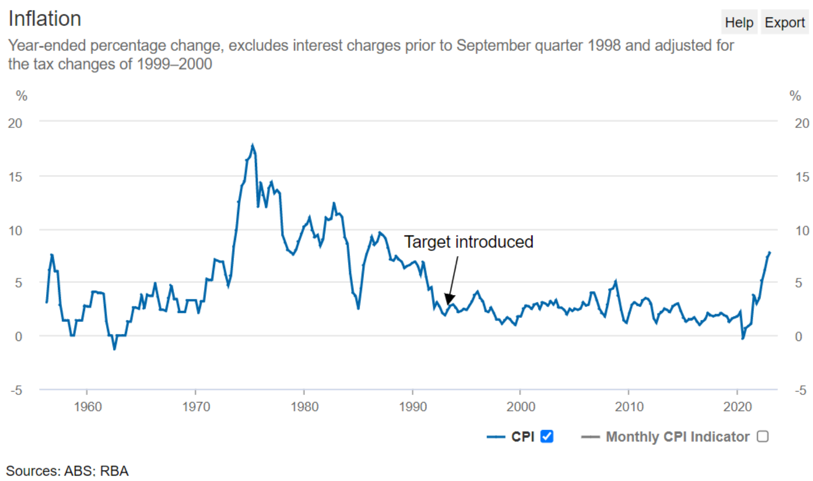
The Bank decreased its policy interest rate to almost zero in 2020–21, lowered the March 2020-introduced threshold for the yield on three-year government bonds, improved its future guidance, initiated a program to buy bonds from governments, and gave the banking sector long-term, low-cost capital (Australian Bureau of Statistics, 2021).

Unemployment rate



As per the data from ABS, the unemployment rate increased to 7.5% in July 2020, up from 5.3% in March 2020 (Australian Bureau of Statistics, 2020). This increase in unemployment was a result of the decline in economic activity caused by the pandemic including the shutting of businesses and closing of state and international borders, which led to a reduction in job opportunities and an increase in layoffs. More than a million of Australians were unemployed in July (Australian Bureau of Statistics, 2020).

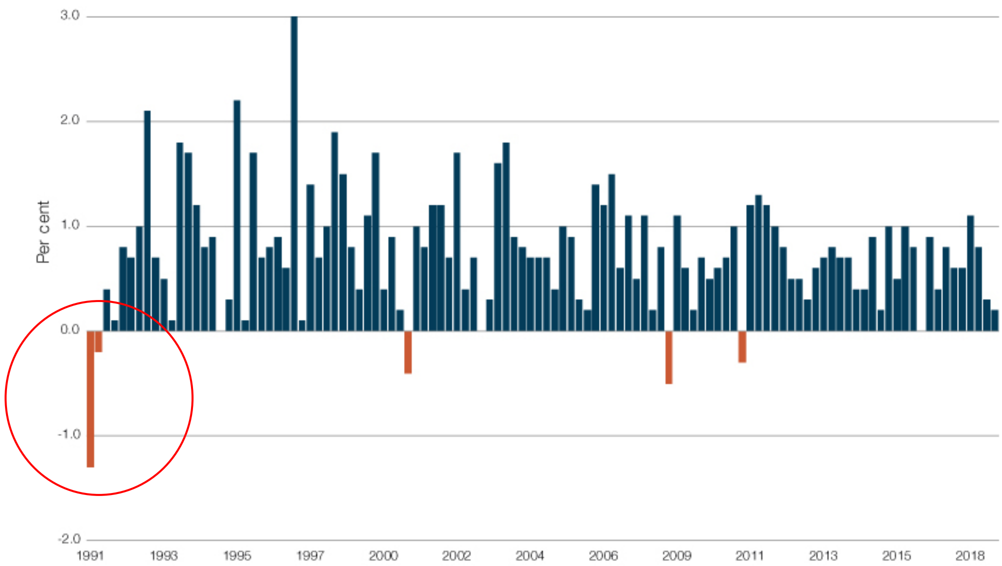
(iv) Inflation:



In the June 2020 quarter, The Consumer Price Index (CPI) fell by 1.9%. The biggest reasons for the drop in the June quarter were free child care (-95.0%), a big drop in the price of gasoline (-19.3%), and a drop in pre-school and primary education. Some sections of the CPI saw big price increases because people were spending more money: cleaning and maintenance products (+6.2%), other non-durable household products, like toilet paper (+4.5%), furniture (+3.8%), major household appliances (+3.0%). The annual inflation rate in the year leading up to the June 2020 quarter was -0.3%(Australian Bureau of Statistics, 2021). Inflation in the housing market also went up a little bit in the December quarter (Reserve Bank of Australia, 2021). This was because more people wanted detached houses, which was helped by government grants, and some temporary rent cuts went away. Between 2019 and 2020, the average inflation rate for the dollar was 0.87% per year (Prices rose by a total of 0.87%) (Australian Bureau of Statistics, 2021).

1990 - 1991 Recession (The recession that Australia had to have)

Figure 1: quarterly GDP growth, Australia, 1991 to 2018

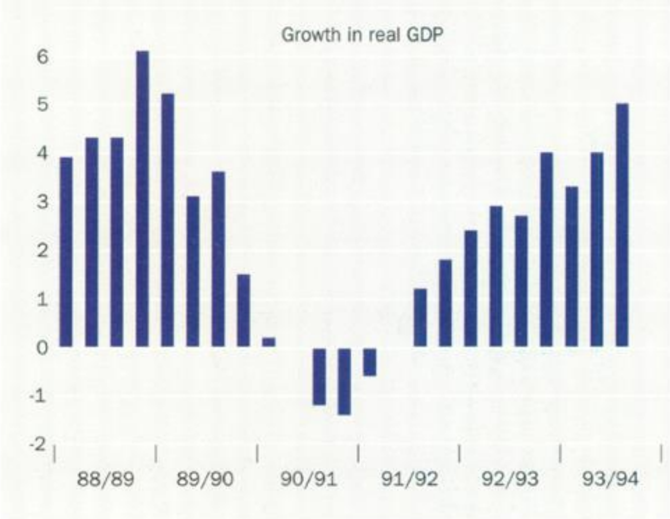


Source: Australian Bureau of Statistics (ABS), *Australian National Accounts: National Income, Expenditure and Product, Dec 2018*, cat. no. 5206.0.

In 1990, Australia's Treasurer Paul Keating acknowledged the country is in a recession. In November of 1990, he made the following statement: "The most significant thing about it is that this is a recession that Australia had to have." The comment that this was the "recession we had to have" became as famous as Keating's earlier warning that Australia would become a "banana republic." The primary cause of Australia's economic downturn in the beginning of the 1990s was the nation's attempts to manage excessive domestic demand, speculative behavior in commercial real estate markets, and control inflation. Because the implementation of the tighter monetary policy took longer than planned to exert downward pressure on demand and inflation, interest rates were raised to a very high level. At the same time, nations in other regions of the world, most notably the United States, also experienced recession, which compounded the impact of Australia's stricter monetary policy. (The unemployment rate peaked nearly at 11%)

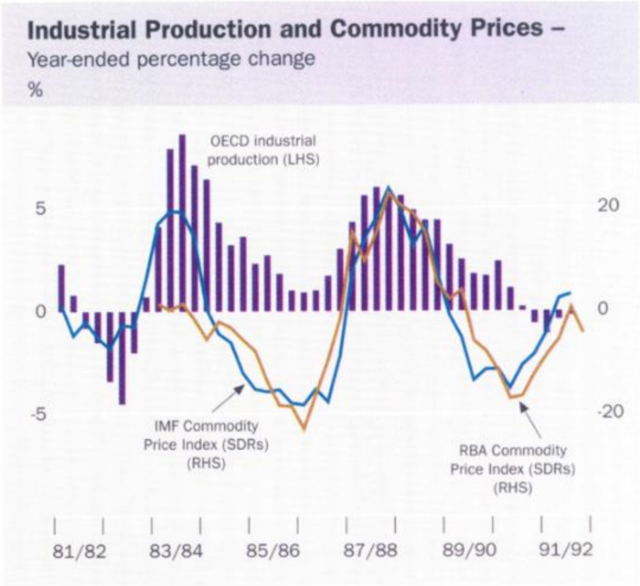
The recession in the early 1990s was a classic case of a boom followed by a bust. Even though a increase in the investment share of GDP was a good thing, it is now clear that too much of it went to the property sector and that too much of it was based on hopes that asset prices would go up rather than on efforts to make the economy more productive. The fast rise in demand made it hard to make progress on bringing inflation down.

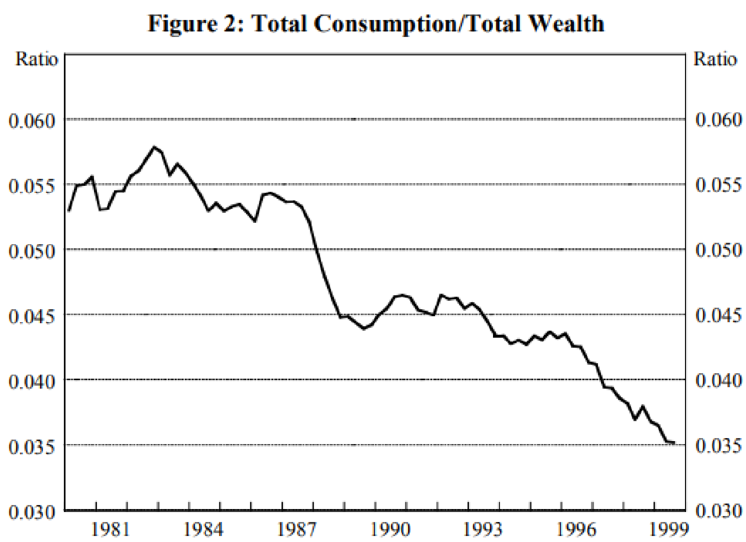
(i) GDP quarterly performance:



Real GDP stalled in the first half of 1990 before beginning to decrease in the second half. During this recession, GDP fell by 1.7%. The recovery began in the September quarter of 1991 but was initially slow. The government made a number of changes to the economy to make it more productive and competitive. These changes included deregulation of the financial sector, tax reform, and changes to the labor market (Reserve Bank of Australia, 2000).

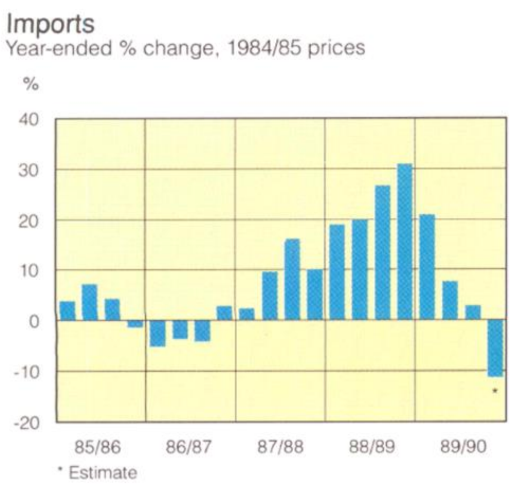
(ii) GDP components:

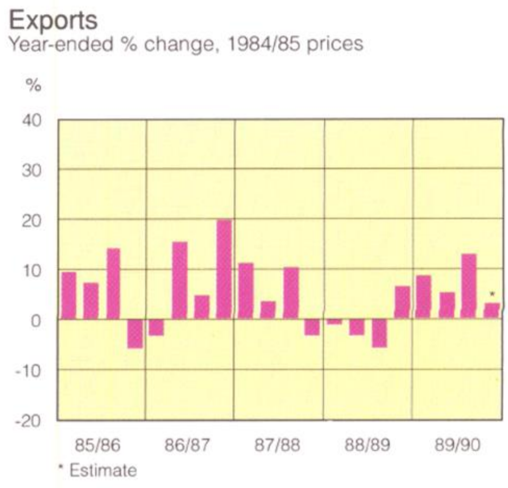




(Retrieved from Reserve Bank of Australia Annual Report, 1992)

The main contributors to the decline in GDP during the 1990 recession were private gross fixed capital formation and household consumption expenditure. The fall in property prices, decline in business and consumer confidence, reduction in government spending, and increase in interest rates led to a decrease in private investment and consumer spending.

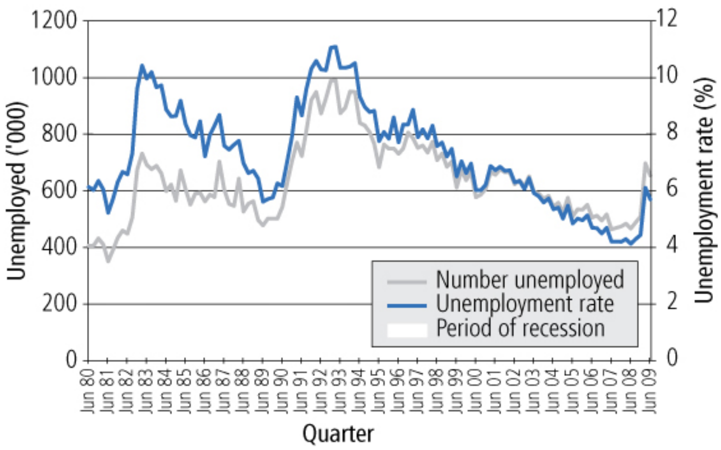


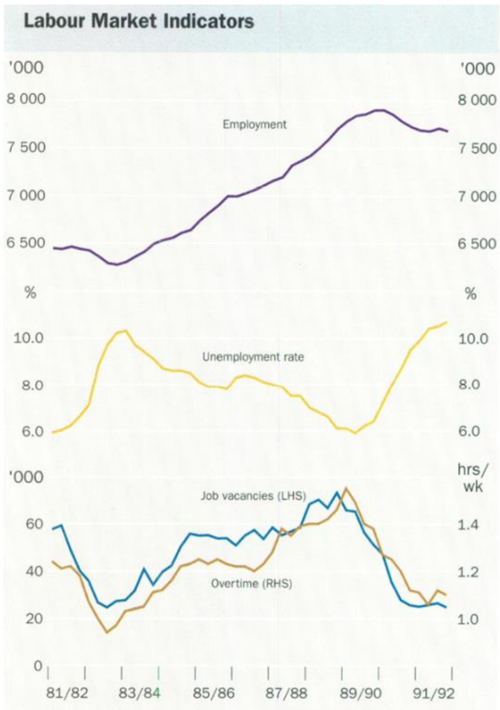


(Retrieved from Reserve Bank of Australia Annual Report, 1990)

Prices of Australia's exports were strong initially, but they fell in the second half of the year. Imports slowed down a lot, but exports kept growing at a reasonable rate, so net exports made a positive contribution to GDP growth (Reserve Bank of Australia, 2000).

(iii) Unemployment rate:

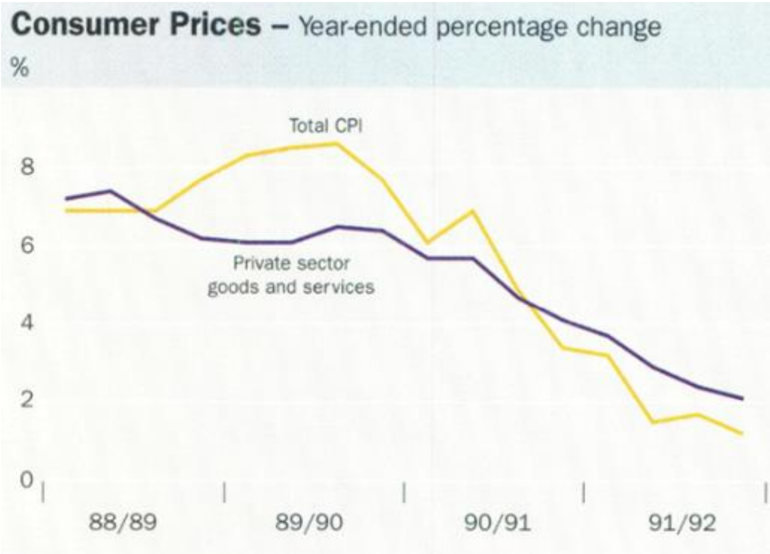




(Retrieved from Reserve Bank of Australia Annual Report, 1992)

The unemployment rate peaked at 10.9% in December 1992, up from 5.8% in June 1990. Midway through 1990, the unemployment rate was around 6.4 %, but it increased rapidly the following year and stayed high until late 1992. During that time, people were very pessimistic about the future of the Australian economy, particularly in regard to unemployment. (The Age, 2006).

(iv) Inflation:



By 1990, inflation had begun to decline as the economy had slowed and entered a recession. Eventually, 1990s, inflation fell below the target for a few years (Gruen and Stevens, 1990). It had dropped to 4% by mid-1991. 18 months later, by the end of 1992, it had stabilized at 2% in fundamental terms, where it remained for two years until a brief increase in 1995 and 1996. That increase was halted and eventually reversed due to the quick response of monetary policy under the inflation-targeting system, which was implemented in 1993.

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