

# ACT Economic Notes

2021b

## ACT rides out Covid recession

The ACT economy continued to grow over the year to March 2021 (2.7 per cent), whereas the Australian economy declined (2.3 per cent) over the same period.

For both, consumption by the public sector increased substantially and boosted economic activity. In the ACT public sector consumption rose by 9.0 per cent, for Australia the increase was less, 6.7 per cent.

**Table 1: Components of final demand (Constant prices) \$m Australian Capital Territory and Australia**

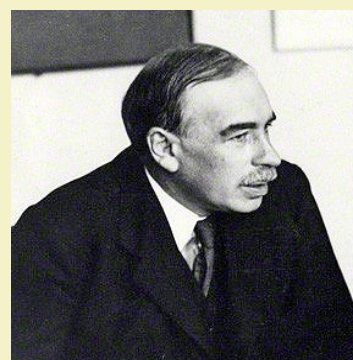
	Consumption-General Government	Consumption-Households	Public Investment	Private Investment	Final demand
<b>Australian Capital Territory</b>					
Year ending March 2020	24,627	19,771	3,453	5,957	53,808
Year ending March 2021	26,839	19,174	3,315	5,938	55,267
Percent change	9.0	-3.0	-4.0	-0.3	2.7
<b>Australia</b>					
Year ending March 2020	388,396	1,082,977	102,884	345,701	1,919,958
Year ending March 2021	414,330	1,022,278	104,283	335,186	1,876,077
Percent change	6.7	-5.6	1.4	-3.0	-2.3

Source: ABS 5206.0 Australian National Accounts

Private sector activity both in respect of consumption and investment declined over the period. While public investment in Australia increased by 1.4 per cent, there was a marked drop in such expenditure in the ACT of 4.0 per cent.



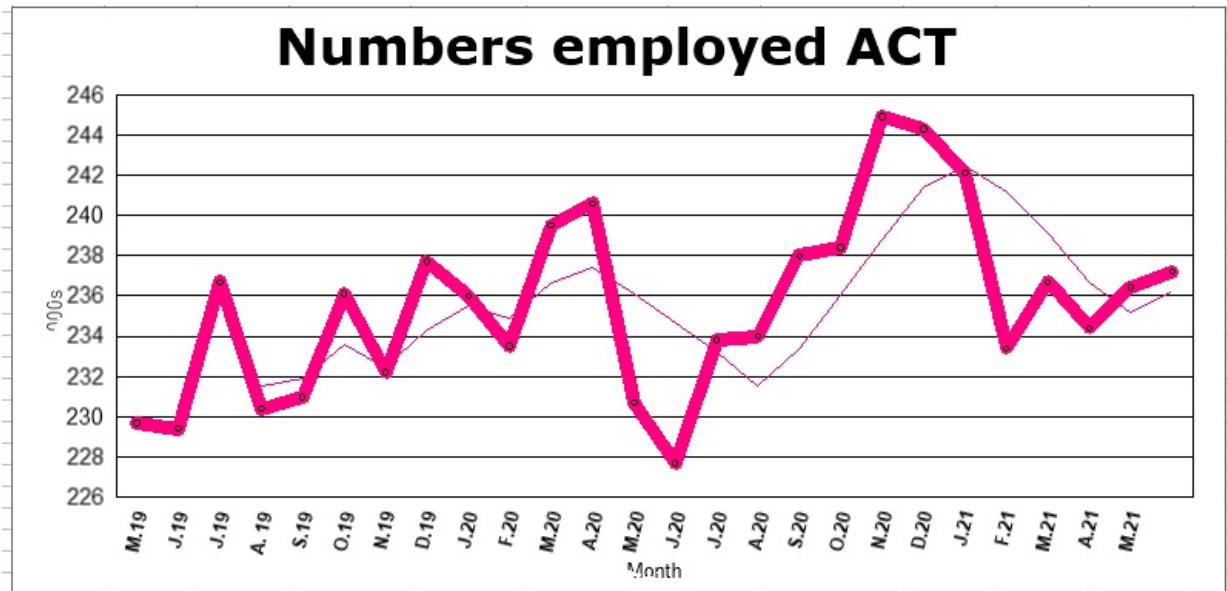
John Maynard Keynes was virtually the creator of macroeconomics and fiscal stimulation policy. His theories have been hotly disputed but proven effective since 1945 particularly in the Global Financial Crisis and Covid eras



The year ending March 2021 includes the all the months from April 2020 to March 2021 when the covid lockdowns were in force and when Australia banned most foreign travel. **Recent reports have suggested that the Australia economy has bounced back strongly but they are mostly based on the quarterly data comparing the March 2021 quarter with the December 2020 quarter using seasonally adjusted data.** Also they are for Gross Domestic Product (GDP) not final demand as shown in Table 1. Quarterly GDP data is not available for States and Territories.

### ACT employment reached pre covid levels only to drop off later

In the first half of 2021 ACT employment is still below immediate pre covid levels, even though it surpassed it in the latter part of 2020.



In March 2020 ACT employment was 240,900 but then declined to 227,700 by May 2020. From June to October numbers recovered strongly to 244,900 only to slump to 233,400 by January 2021. By May 2021 it had slowly edged back to 237,200. While higher than May 2020 it is still below that of March 2020. **Despite lower employment, unemployment has not surged in 2021.** For the first five months of 2020 unemployed numbers were 9,200 increasing to 10,000 for the same period in 2021. However, it should be noted that the data is derived from a sample survey and is subject to sampling error. The four period moving average curve (un bold red line) provides a more accurate picture of the trend.

### Beyond the ACT-what happened to Monetarism?

After the stagflation of the 1970s fiscal policy was discredited to some degree. Monetary policy became the favored macroeconomic management tool. Prior to the 1970s both fiscal and monetary policy was used. Fiscal policy operates through changing public expenditure and monetary policy is aimed at private expenditures. However the global financial crisis and the covid crisis have seen fiscal policy make a comeback.

Broad money supply is plotted in the table below. The average annual growth over the period 2013 to 2021 is 5.41 per cent. However, **annual growth accelerated over the last two years to around 12 per cent.** Traditional monetary theory would suggest that such growth would lead to economic growth and or inflation. But as Table 1 shows growth in final demand for Australia was negative, along with private investment and consumption The latter two being the very items that expansionary money supply should stimulate.

According to the Australian Bureau of Statistics (ABS), *Over the twelve months to the March 2021 quarter, the Consumer Price Index (CPI) rose 1.1 per cent.* Not quite an inflationary burst. Perhaps there are lags and inflation is just around the corner.

Although, sometimes you can see around corners. The ABS reports that:

The weighted average of the eight capital cities Residential Property Price Index:

- ◆ rose 5.4% this quarter (December 2021 to March 2021).
- ◆ rose 7.5% over the last twelve months to March 2021.

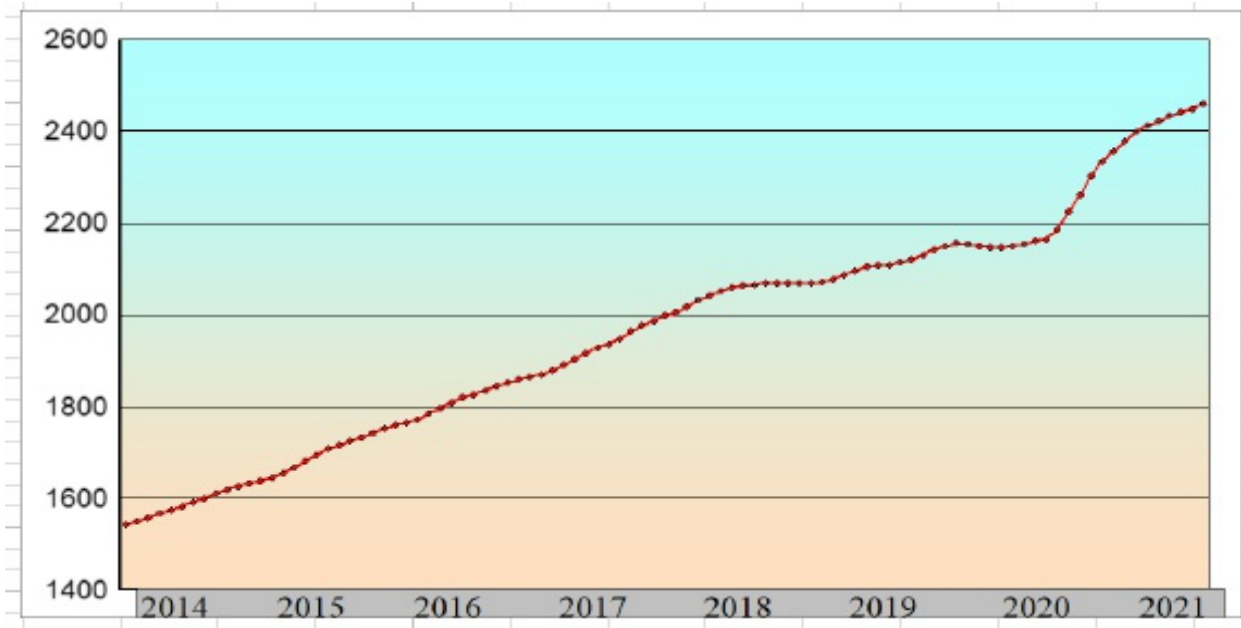
As well the share market as measured by the ASX all ordinaries index rose by 26.1 per cent from May 2020 to May 2021.

Australian Associated Press reports<sup>1</sup> that the value of classic cars is rising steadily in Australia, up to 40 per cent in recent times. Therefore, the money is going somewhere and pushing prices up in certain assets. Also it should be understood that for many items in the CPI such as white goods, cars, electronic equipment and clothing, free trade and mass production in low wage economies has put considerable downward pressure on their prices.



1970s Holden Kingswood - today one in good condition can return more than its original cost.

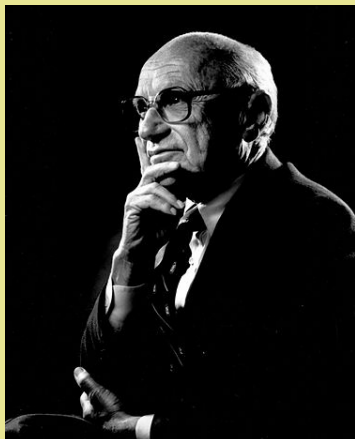
### Broad money supply Australia monthly \$b



Source: Reserve Bank of Australia on line statistics

Monetary settings are very expansionary all over the world at present. Interest rates being low or even negative in some countries. "The Board is committed to maintaining highly supportive monetary conditions to support a return to full employment in Australia and inflation consistent with the target. It will not increase the cash rate until actual inflation is

sustainably within the 2 to 3 per cent target range. For this to occur, the labour market will need to be tight enough to generate wages growth that is materially higher than it is currently. This is unlikely to be until 2024 at the earliest." (Statement by Philip Lowe, Governor: Monetary Policy Decision 1 June 2021)



US economist Milton Friedman, could be described as the father of monetarism.

A 2011 survey of economists commissioned by the *Econ Journal Watch* ranked Friedman as the second-most popular economist of the 20th century, following only John Maynard Keynes. Upon his death, *The Economist* described him as "the most influential economist of the second half of the 20th century ... possibly of all of it"

Terry Giesecke  
June 2021

1. Classic car market booming in Australia AAP (and many newspapers) 20/6/21