



Economic outlook: 15 May 2020

The macroeconomic environment, COVID-19 and innovation

What is the current macroeconomic environment?

Global economic environment and assistance measures

COVID-19 is in 215 countries/territories with 4,260,000 **confirmed cases** and 294,000 confirmed deaths ([WHO, 15 May](#)).

- **Uncertainty continues** over the economic fallout resulting in high market volatility and withdrawn investment across all asset classes, large declines in equity prices and government bond yields, and pervasive restrictions across funding markets. **Heavily constrained private sector spending** means worsening financial conditions for the public sector.
- Global responses and **easing of restrictions** are varied based on national circumstances and capacity, with surveillance infrastructure, broad testing and tracing activities to prevent resurgence. Some countries that eased restrictions early have already experienced resurgence e.g. South Korea and Germany ([WHO, 11 May](#)).
- The **global economy is expected to shrink** by 3% this year compared to 0.1% for the GFC ([IMF, 14 April](#)).
- **First quarter** of 2020 results: The Eurozone's economy contracted by 3.8%p ([ECB, 30 April](#)), the US economy contracted by 4.8%p ([BEA, 29 April](#)) and the Chinese economy by 6.8% ([Business Insider, 17 April](#)).
- After their significant drop in April, **oil prices** have risen with the optimism in reopening of economies but lack of storage remains a problem and will keep a ceiling on oil prices for the near future, as will the lack of travel ([Goldman Sachs, 11 May](#)). Global oil demand is expected to fall by a record 8.6 million barrels per day year-on-year in 2020 ([IEA, 1 May](#)).
- Countries have approved more than US\$4.5 trillion worth of **emergency measures** ([IMF, 8 April](#)). For a comprehensive and current policy response tracker see [IMF, 15 May](#).
- **The IMF** has disbursed over \$18 billion for 50 out of 103 countries that have requested aid so far from their rapid credit facility which will meet up to \$100 billion in anticipated demand ([IMF, 7 May](#)).

- Countries with the **largest fiscal response packages** include European countries (aided by the European Union funding), then Japan (20% of GDP), US (14%), and Singapore and Qatar (13%) ([Ceyhun Elgin and BBC, 8 May](#)).
- **Interest rates:** ECB remains at 0%, PBOC at 3.85%, the FED at 0.25% and BOE to 0.1%.

Australian economic environment and assistance measures

6,975 confirmed cases and 98 confirmed deaths ([WHO, 15 May](#)).

- The 3-stage plan to lift restrictions could allow 850,000 people to go back to work, equating to \$9.4 billion increase in GDP each month ([Treasurer's Statement, 12 May](#)).
- More than 5.5 million people and 835,000 businesses have registered for JobKeeper ([Treasurer's Statement, 12 May](#)).
- A resurgence or second wave of the virus is estimated to cost \$4 billion per week ([Treasurer's Statement, 12 May](#)).
- The Australian Government's staged assistance packages total \$320 billion (16% of GDP) ([Treasurer's Statement, 12 May](#)).
- A cash deficit of \$143 billion is expected this financial year, \$132 billion in 2020-21, \$52 billion in 2021-22 and \$33 billion in 2022-23 ([AFR, 11 May](#)).
- In the June quarter, Australia's GDP is due to fall by more than 10% (approx. \$50 billion), unemployment is forecast to reach 10% or 1.4 million Australians ([Treasurer's Statement, 12 May](#)).
- The Australian interest rate remains at 0.25% since the rate reductions on 3 and 18 March ([RBA, 5 May](#)).

Macroeconomics, supply chain disruptions and innovation

One highly anticipated and increasingly observed impact of COVID-19 has been on supply chains.

Anticipated and observed impacts on supply chains

- Several Australian industries are expected to be impacted to a high degree by COVID-19 (based on their degree of exposure to trade and confidence), including forestry and fishing, coal mining, oil and gas extraction,

food manufacturing, TLCF manufacturing, retail trade, accommodation and food services, transport, and real estate ([IBISWorld, 5 May](#)).

- More than 80% of surveyed Australian businesses anticipate reduced demand for accommodation and food services, manufacturing, wholesale trade, and arts and recreation sectors. Businesses also anticipate supply chain uncertainty, particularly for wholesale trade, retail trade, manufacturing and construction ([ABS, 4 May](#)).
- Port and road freight volumes in March remained steady and rail operators experienced a spike caused by supermarket restocking and then steady but strong volumes (see for example [Victorian Department of Transport, 4 May](#)).



Port and road freight volumes remained steady

- Preliminary estimates indicate Australian exports in March 2020 increased compared to March 2019 and February 2020, but this increase came after declines in January and February. The increase was largely driven by an increase in the value of coal, gas, petroleum and iron ore to China and of non-monetary gold to Hong Kong and the UK. Imports were the same as for March 2019 but an increase from February 2020, largely driven by imports of consumer electronics ([ABS, 23 April](#)).
- Global trade for March and April was down in most regions compared to March/April 2019, including [Japan](#), the [US](#), the [UK](#), [South Korea](#) and [Germany](#), while [China](#) reported a fall in imports but a small rise in exports for April.

Policy responses to-date

- Most countries, including [Australia](#), have enacted travel restrictions but freight is usually exempt from these travel restrictions, and is only delayed by additional checks and cleaning requirements.

- However, maritime and air crew are subject to quarantine rules. A 14-day on board [quarantine rule](#) applies at all Australian ports. Similarly, [airline crew](#) who have been on international flights must self-isolate in their crew accommodation or home for 14 days after arrival, or until their next flight, whichever is shorter.
- In addition to travel restrictions, governments around the world, including [Australia](#), have enacted temporary trade measures to restrict exports and liberalise imports of medical supplies. A few developing countries have enacted restrictions on food products relating to food security (for a summary of temporary trade measures see [ITC, 15 May](#)).
- Despite these explicit restrictions on travel and medical supplies, and additional delays for checks and cleaning, the main impacts on Australia's trade and supply chain will be demand-driven, brought about by the temporary closure of whole sectors of the economy, including tourism, hospitality, and non-essential retail trade and manufacturing ([WTO, 8 April](#)).
- The Australian Government has introduced a \$100 million [International Freight Assistance Mechanism](#) and a \$50 million boost for [Export Market Development Grants](#) to support exporters and freight businesses.

Supply chain innovation

- **Digitisation, agility and online sales:** Travel restrictions have made paper-based operations and physical presence difficult/impossible. Businesses and governments now rely on online presence, agility and strong digital infrastructure.

- **Data privacy and sharing:** With the necessary increase in virtual interactions and digitisation (plus government tracking of the virus), technologies that help supply chain users share and protect data are also in high demand.
- **Visibility and traceability:** COVID-19 has highlighted the need for systems that manage supply chain risk, particularly around visibility and traceability. Australia's agricultural sector has been an early adopter and developer of [provenance and traceability systems](#) to demonstrate safety and authenticate links between the producer and end-user.

Conclusion

1. In the **short term**, innovation investment is focused on treating COVID-19 and slowing its spread as well as securing critical medical items and funding vaccine development and related science.
2. In the **long term**, focus on innovation should shift to science and technologies including those that support supply chain improvements as part of a transformative COVID-19 recovery and strengthening Australia's resilience for future shocks.

Disclaimer: This document contains general information only, and we are not, by means of this document, rendering professional advice or services. Before making any decision or taking any action that might affect your finances or business, you should consult a qualified professional advisor.

As Australia's national science agency and innovation catalyst, CSIRO is solving the greatest challenges through innovative science and technology.

CSIRO. Unlocking a better future for everyone.

Contact us

1300 363 400
+61 3 9545 2176
csiroenquiries@csiro.au
csiro.au

For further information

CSIRO Futures
Dr Katherine Wynn, Lead Economist
+61 4 1236 4696
Katherine.Wynn@csiro.au
www.csiro.au/CSIRO-Futures