



Economic outlook: 5 June 2020

The macroeconomic environment, COVID-19, and science and technology innovation

What is the current macroeconomic environment?

Global economic environment and assistance measures

COVID-19 is in 216 countries/territories with 6,417,000 **confirmed cases** and 383,000 confirmed deaths ([WHO, 5 June](#)).

- **Restrictions on movement are shifting** from blanket restrictions towards gradual easing of restrictions involving mandatory quarantine, medical screening and provision of medical certificates, as the reported case numbers continue to increase globally and the COVID-19 epicentre shifts to the Americas ([IOM, 1 June](#)).
- **Trade figures for major global markets** have not changed since the 15 May Outlook. They were down for March/April in most regions compared to March/April 2019, including April figures for [Japan](#), [South Korea](#) and [China](#) (the latter reporting a fall in imports but a small rise in exports), and March figures for the [US](#), [UK](#), and [Germany](#).
- Similarly, while we await Q2 2020 results, a **recap on Q1 results** include the Eurozone economy contraction of 3.8% ([ECB, 30 April](#)), the US economy of 4.8% ([BEA, 29 April](#)) and Chinese economy of 6.8% ([Business Insider, 17 April](#)).
- The IMF has indicated their [April](#) projection of a **3% global GDP contraction may need to be revised** as more recent data suggests the contraction may be worse than originally thought ([IMF, 28 May](#)). Oxford Economics projects global GDP to contract by 4.8% in 2020 ([Oxford Economics, 15 May](#)).
- **Global financial markets** are improving but remain fragile. Volatility has declined and credit markets opened but bond rates remain historically low ([RBA, 2 June](#)).
- **Global fiscal support** currently stands at US\$9 trillion, including \$4.4 trillion in direct budget support and \$4.6 trillion in additional public sector loans, equity and guarantees ([IMF, 20 May](#)). For country-specific responses see ([IMF, 5 June](#)).
- Interest rates: [Eurozone](#) remains at 0%, [China](#) at 3.85%, [Japan](#) at -0.1%, the [US](#) at 0.25%, and the [UK](#) at 0.1%.

Australian economic environment and assistance measures

7,229 confirmed cases and 102 confirmed deaths (WHO, 5 June).

- The Australian Government has established a [3-Step Framework](#) for easing restrictions and state and territory governments are imposing [different restrictions](#) depending on their circumstances.
- The Australian economy contracted by 0.3% in Q1, driven by falls in household expenditure (and an unprecedented fall in household spending on services) and private business investment, with increased government expenditure partly offsetting the fall. At the industry level, the highest falls were seen in accommodation and food services, transport, postal and warehousing, and recreation and culture. Manufacturing, wholesale trade and retail trade recorded increases associated with increased demand for food, chemical products and home office equipment. Q1 imports and exports fell, driven by travel ban impacts on the import and export of travel services. (ABS, 3 June).
- In April, more than 600,000 Australians lost their jobs with many more working zero hours. The unemployment rate reached 6.2% (823,000 Australians) and underemployment reached 13.7% (ABS, 14 May).
- Treasury is forecasting a worse Q2 with GDP to fall by more than 10% (approx. \$50 billion) and unemployment forecast to reach 10% (1.4 million Australians) (Treasurer's Statement, 12 May).
- According to the RBA, the "substantial, coordinated and unprecedented easing of fiscal and monetary policy in Australia is helping the economy through this difficult period. It is likely that this fiscal and monetary support will be required for some time" (RBA, 2 June).
- The Australian Government's staged assistance packages are [now](#) estimated at \$259 billion (13% of GDP), down from the [May](#) \$320 billion estimate following a [reporting error](#) in estimates of employees likely to access JobKeeper program.
- Interest rate remains at 0.25% since the rate reductions on 3 and 18 March (RBA, 2 June).

Macroeconomics, the agriculture and food sector, and innovation

A brief look at COVID-19, macroeconomic impacts on the agriculture and food sector, and opportunities for innovation.

Anticipated and observed impacts on agriculture and food

- Despite concerns around drought and temporary shortages of some items in supermarkets, Australia continues to be one of the most **food secure** countries in the world, where we produce substantially more food than we consume and export approximately 71% of what we produce (ABARES, 8 May).
- However, Australia's forestry, fishing, food manufacturing, and food and beverage services sectors are expected to experience '**very high**' impacts from **COVID-19**; while our agriculture and beverage manufacturing sectors are expected to experience 'high' impacts; and our aquaculture, agriculture support services and food retailing sectors are expected to experience 'moderate' impacts (IBISWorld, 20 May).



Australia's agriculture sector is expected to experience high impacts

- Australian's agriculture and food sector also relies on **global markets and supply chains** for many of its inputs, particularly migrant labour and packaging, and the supply of these inputs has been significantly disrupted. The Australian Government announced [temporary visa arrangements](#) aimed to support the supply of migrant labour for agriculture.
- Domestic road and rail transport have continued to operate without significant disruptions. There has been some disruption to airfreight given a substantial share of airfreight travels of passenger flights. But airfreight

represents only 3% of the value of Australia's exports and has been supported by the Australian Government's \$110 million [International Freight Assistance Mechanism](#). There were [concerns](#) in April of a disruption to shipping, with a reduction in inbound shipping containers potentially limiting the availability for outboard exports, but these concerns seem to have subsided.

- As mentioned on the preceding page, ABS figures show **falls in gross value added** in accommodation and food services, transport, postal and warehousing; and increases in manufacturing, wholesale trade and retail trade ([ABS, 3 June](#)).
- ABS **trade figures for Q1** show while the volumes were down, the value of rural goods exports was up 1% on Q4 2019, driven by higher prices for wool, meat and cereals. However, the value of services exports, which represents high employment sectors such as the food services sector, was 13% down ([ABS, 2 June](#)).
- 92% of Australian accommodation and food services businesses and 88% of manufacturing businesses report they are **operating under modified conditions** and more than three quarters of these businesses also reported they have made changes to employee arrangements due to COVID-19 ([ABS, 28 May](#)).

Science and technology innovation in agriculture and food

While Australian agriculture continues to be dependent on world commodity markets of which we have very little influence, we can **leverage science and technology to unlock value-adding growth opportunities** and support **economic recovery and resilience**. COVID-19 is driving increasing consumer focus on health and wellbeing, as well as a caution and selectiveness towards brands that demonstrate purpose and transparency and that align with their values ([Euromonitor, 26 May](#)).

- **Health and wellbeing products:** Key opportunities [identified](#) and [sized](#) by CSIRO, such as free-from and natural foods, fortified and functional products, and alternative proteins are likely to continue to be sources of industry growth.

- **Sustainable solutions:** Economic uncertainty is driving caution around expenditure and while consumers seek foods that are ethically and sustainably sourced, businesses also seek ways to improve resource efficiency and achieve circularity.
- **Provenance and traceability:** COVID-19 heightens Australia's opportunity to leverage our reputation for safe, healthy and quality food, and capture value by demonstrating safety and authenticating links across the supply chain.



Australia has an opportunity to leverage our reputation for safe, healthy and quality food

- **Digitisation and agility:** Travel restrictions continue to limit paper-based operations and physical presence. Businesses and consumers now rely on online presence, agility and strong digital infrastructure.

Conclusion

1. In the **short term**, innovation investment remains focused on treating COVID-19, slowing its spread, securing critical medical items, and funding vaccine development and related science.
2. In the **medium and long term**, innovation investment should extend to science and technologies that support a transformative COVID-19 economic recovery and strengthen Australia's resilience to future shocks.

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