

# The economy strikes back – but its future depends on you!

After the deepest recession in living memory has come our sharpest six-month jump in GDP growth ever recorded by the ABS. This dramatic V-shaped recovery is very much a case of the sunshine after the rain, but can the sun keep shining or is it destined to quickly disappear once again?

An “intentional” recession, followed immediately by a record expansion, shouldn’t surprise us all that much given the scale of the fiscal support provided. However, it has been the speed and relatively short-lived nature of both - a calendar year - which has most certainly surprised.

All things considered, the Australian economy is in remarkable shape.

A significant V-shaped recovery in employment numbers, business confidence and retail trade - and economic output of a magnitude not witnessed since the 1940s - is in full swing. Household spending is on the rise. Residential property is booming - again. Agricultural production and exports are also strongly bouncing back, in parallel with another unique aspect of this recovery: it’s even stronger in regional Australia.

So, does this mean we’re out of the woods? Not quite.

Despite two consecutive quarters of more than three percent GDP growth - a first in the more than 60-year history of Australia’s National Accounts - the future of our economic recovery remains finely balanced.

There is no doubt Australian policy makers have been rewarded for the implementation of decisive, evidence-based policies over the last 12 months, but having navigated the crisis far better than most, it’s the recovery which will now need careful management.

With health and economic outcomes inextricably linked since the very start of this pandemic, it’s clear that while the fundamentals of the economic recovery are broadly sound, its longer-term fate now rests on a timely, popular and effective rollout of the COVID-19 vaccination program.

Put bluntly, there is every chance our V-shaped recovery could quickly morph into a W if there is any hesitancy or pushback on the vaccination program.

To avoid this, we will all need (or at least the vast majority) to enthusiastically embrace the vaccine program because ultimately, it is the only tool which will allow us to simultaneously protect the vulnerable, increase mobility and sustainably grow our economy.

We could declare victory over this wretched virus by year’s end, but to do so will require a level of public buy-in on a par with that seen across the country during the national lockdowns. Otherwise, we risk sabotaging the incredible progress made in the second half of 2020, and plunging the country back into recession.

In the interim, budgetary repair will need to wait, consistent with the RBA’s commitment to keep official interest rates (and QE) supportive for ‘as long as is necessary’. Fiscal policy requires the same commitment, given the RBA estimate it will take at least three more years to reach its employment and inflation targets.

But, with financial markets confident inflation will rise more quickly than that - resulting in sooner than expected interest rate hikes by the RBA - the knock-on effect of volatile stock markets and exchange rates may change the rules of the game and have profound implications for the ongoing property boom.

It’s a high stakes game, the success or failure of which may decide our economic fate for a generation, or more. But, the good news is we can all play a part in shaping our future by listening to the medical experts, and rolling up our sleeves.



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