

## Australian 2Q20 GDP falls 7.0%QoQ

We have revised our full-year 2020 forecast down to -4.2%



Source: istock

**-7.0%** 2Q20 GDP  
-6.3% YoY

Worse than expected

### Victoria shutdown has cost at least 2pp for growth - probably more

The 7.0%QoQ decline in Australian GDP in the second quarter follows a much smaller (0.3%) decline in the first quarter and leaves the Australian economy around 7.3 pp weaker than it was at the end of 4Q19.

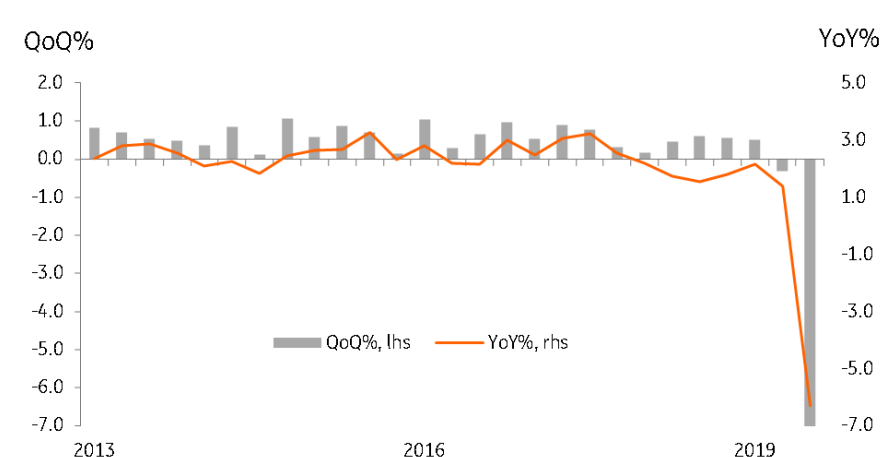
A little over a month ago, we weren't looking for a particularly big hit to Australian GDP from Covid-19. The initial wave of the disease had hit Australia late compared to the rest of Asia and been dealt with swiftly. The outbreak in Victoria was just beginning and didn't appear to be as big a deal as it turned out to be. A modest 2Q decline was expected to be followed by something not far off business as usual in 3Q and 4Q. That would have left full-year GDP down by only about 1% - basically flat in Covid-19 terms.

In the end, the Victoria, outbreak has turned out to be a much bigger deal than it appeared back then, and fear of transmission has kept social distancing and internal travel restrictions high in other states too. The Reserve Bank of Australia reckons the cost of this Victoria second wave will have been at least 2pp of GDP for the full-year figures. We wouldn't disagree that a 2% hit would

be at the lower end of what will actually turn out to have been the case and are now looking for GDP to decline 4.2% for the full year.

3Q and 4Q growth will still be marred by the Victoria outbreak, with the lockdown still currently in place, albeit with indications that it may be eased in the coming one or two weeks. 4Q will also likely reflect a much more cautious approach to re-opening than would otherwise have been the case and the RBA's 2pp hit seems conservative to us.

## Australian GDP QoQ% and YoY%



Source: CEIC

Australian GDP Growth

## Limited policy implications

Despite looking bad, this is still a relatively strong outcome for Australia, when compared against the rest of the Asia-Pacific group, and with New Zealand still to report 2Q GDP, there is a good chance that Australia ends up in the "less negative" half of the table as far as the cumulative loss to GDP since 4Q19 goes, a little ahead of Japan, but behind North Asian economies, China, Korea and Taiwan.

We don't believe there is much of a policy response likely following today's GDP report, which is maybe why the AUD has not reacted more. Recent comments from RBA Governor, Philip Lowe, don't go as far as ruling out negative rates in Australia in response to weak data like this, but they do suggest that negative rates would do more harm than good (which is roughly the same thing surely?), so means that any policy response that follows this is likely to be just a tweak on existing yield curve control and QE policies.

The immediate response of the AUD to today's figures has been to sell off from just below 0.7380 to around 0.7340, so not a big drop. Even if Governor Lowe doesn't intend to follow through on it, opening the door a little wider to negative rates might at least provide some more support through a weaker AUD, and it doesn't look as if any AUD correction will come through domestic channels at the current juncture.

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