



# Hibberd Lecture 2020

Professor Mark Crosby

# Outline

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**Where we are**

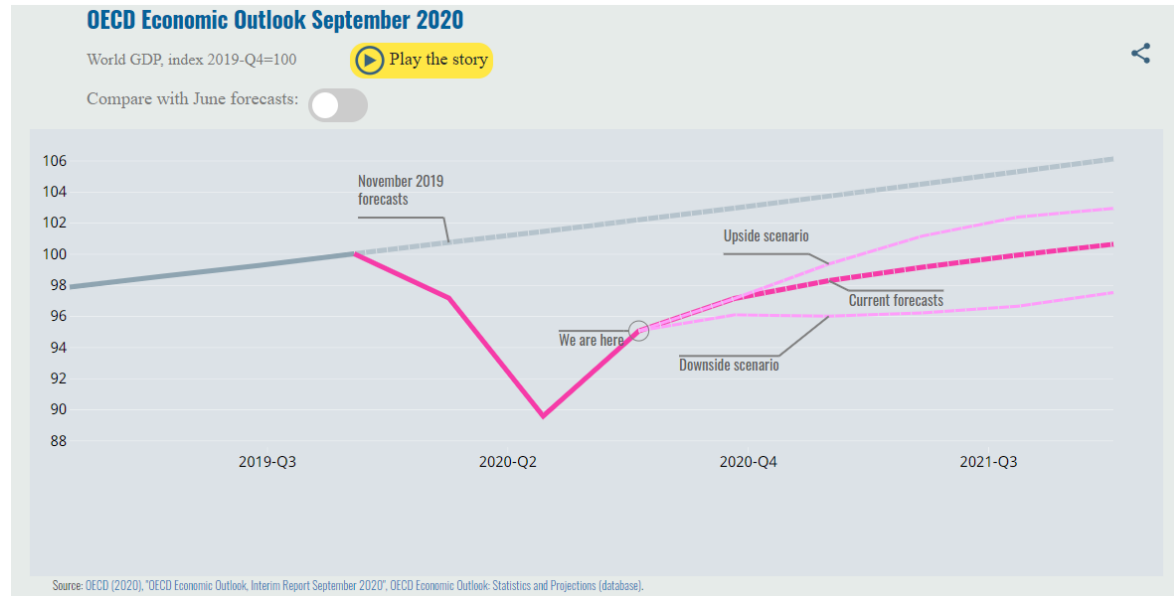
**Where we're going**

**Policy responses**

**Geopolitics and globalisation**

**Other issues**

# Where we are



## OECD outlook

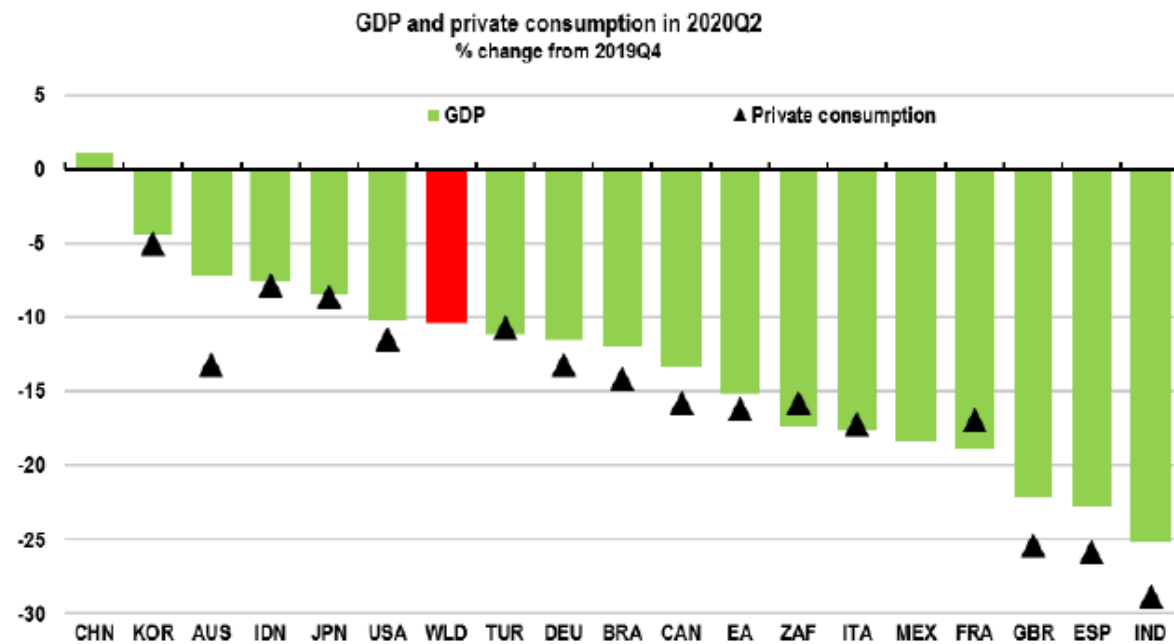
Global GDP has fallen about 10% in H1 2020

Q3 will see some recovery, but still well below trend

Forecasts see *growth* reverting to trend, but no V-shaped recovery, even in their upside scenario

# Where we are

Figure 1. Global output contracted sharply in the first half of 2020



## OECD outlook

Global GDP has fallen about 10% in H1 2020

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Forecasts see *growth* reverting to trend, but no V-shaped recovery, even in their upside scenario

# Where we are

## Real GDP Growth

%, year-on-year

Country	2019	2020	2021
Argentina	-2.1	-11.2	3.2
Australia	1.8	-4.1	2.5
Brazil	1.1	-6.5	3.6
Canada	1.7	-5.8	4.0
China	6.1	1.8	8.0
France	1.5	-9.5	5.8
Germany	0.6	-5.4	4.6
India	4.2	-10.2	10.7
Indonesia	5.0	-3.3	5.3
Italy	0.3	-10.5	5.4
Japan	0.7	-5.8	1.5
Korea	2.0	-1.0	3.1
Mexico	-0.3	-10.2	3.0
Russia	1.4	-7.3	5.0
Saudi Arabia	0.4	-6.8	3.2
South Africa	0.1	-11.5	1.4
Turkey	0.9	-2.9	3.9
United Kingdom	1.5	-10.1	7.6
United States	2.2	-3.8	4.0
World	2.6	-4.5	5.0
Euro area	1.3	-7.9	5.1
G20	2.9	-4.1	5.7

Forecasts are highlighted by the light grey background

Source: OECD (2020), "OECD Economic Outlook, Interim Report September 2020", OECD Economic Outlook: Statistics and Projections (database). - Created with Datawrapper

## Australia – no growth in two years

Most countries go backwards between Q4 2019 and Q4 2021

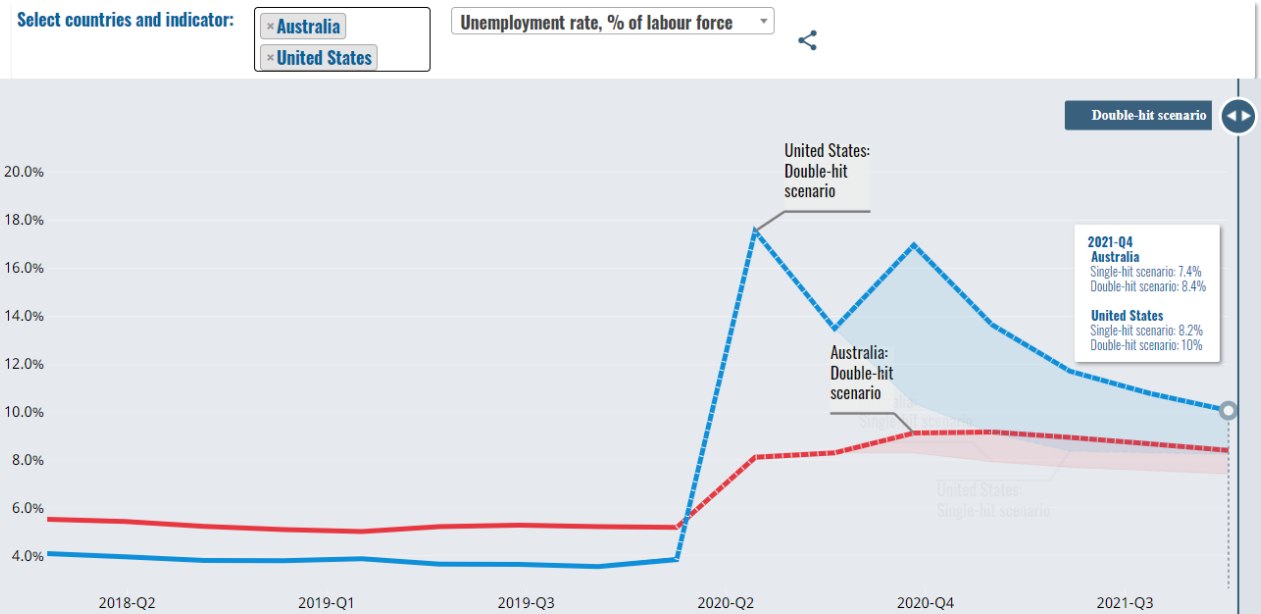
China one of few countries predicted to grow in 2020/2021

Australia sees modest recovery in 2021, but GDP remains around 5% below trend at end 2021 (implying unemployment around 8%)

# Where we are

## — Projections by country: **Two core scenarios**

The economic impact of strict and relatively lengthy lockdowns in Europe will be particularly harsh. Emerging economies face the challenge of strained health systems adding to difficulties caused by a collapse in commodity prices.



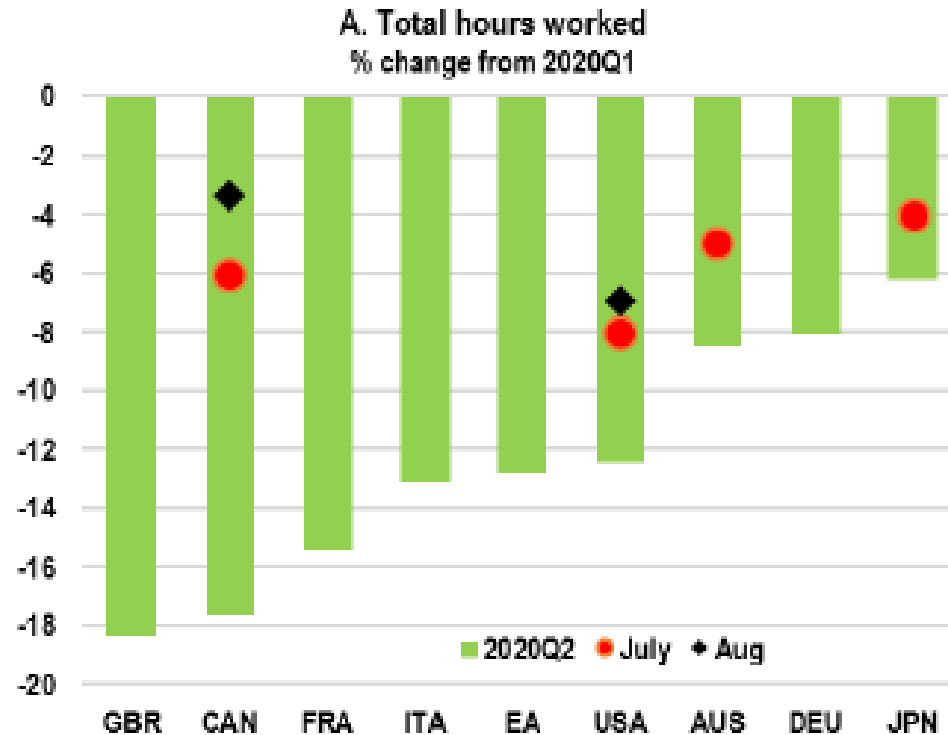
Source: OECD (2020), Real GDP forecast and Unemployment rate forecast (indicators). © OECD Terms & Conditions  
Divergences for 2019-Q4 are due to data revisions and changes in the base years in country national accounts.

## Unemployment hit not as bad as expected

US unemployment jumped to over 14 percent in April, but has declined to 8.4% in August. However 2 million persons have left the labour market.

Australia's unemployment rate has only risen to 6.8%, but in August hours worked were down 5.1% on a year previously. Don't read too much into the monthly numbers this year.

# Where we are

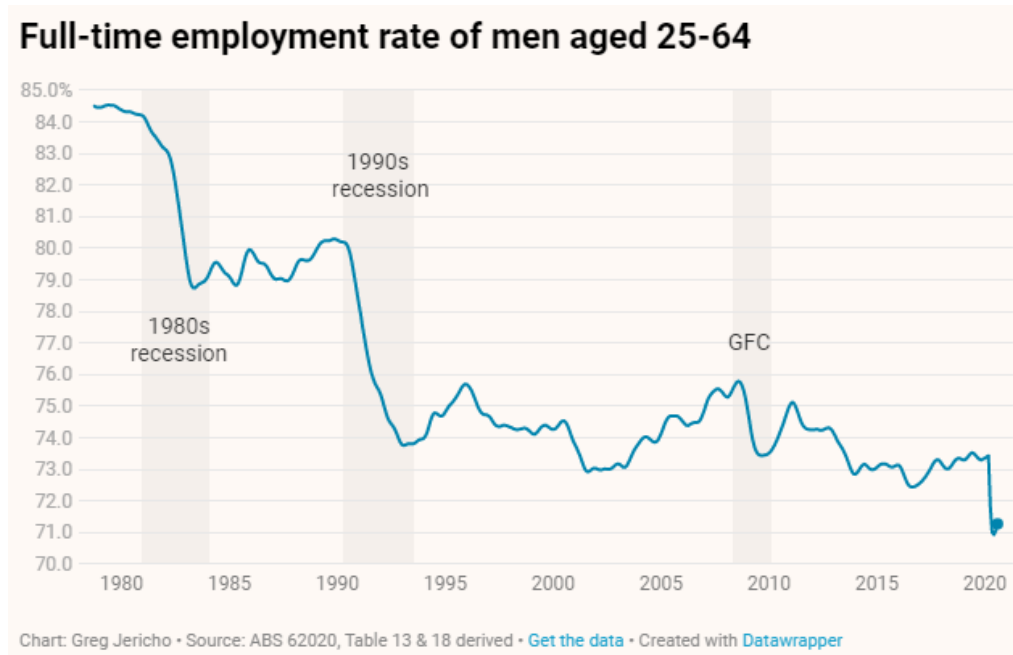


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# Where we are



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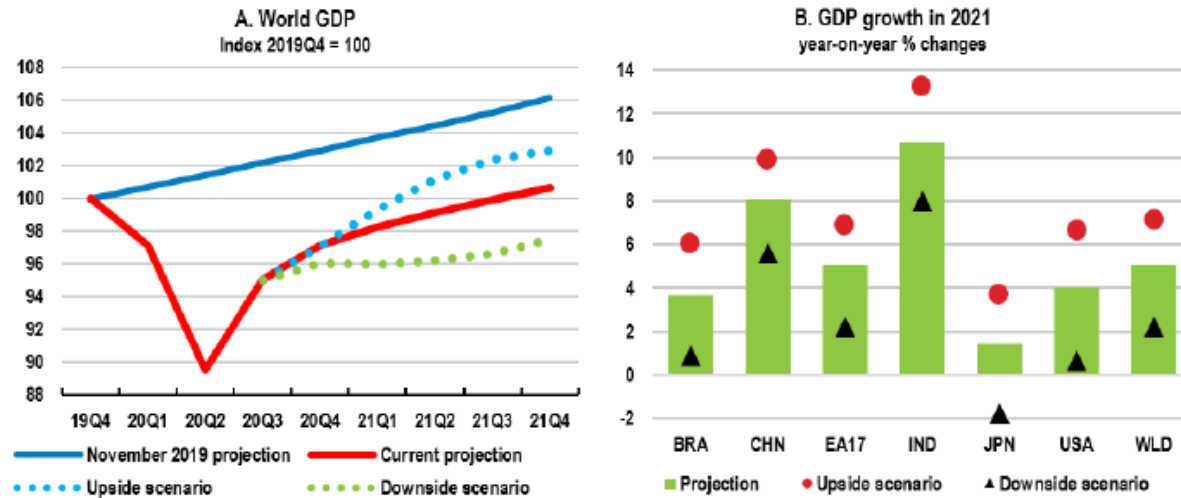
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# Where we are going

Figure 7. Considerable uncertainty surrounds the baseline projection



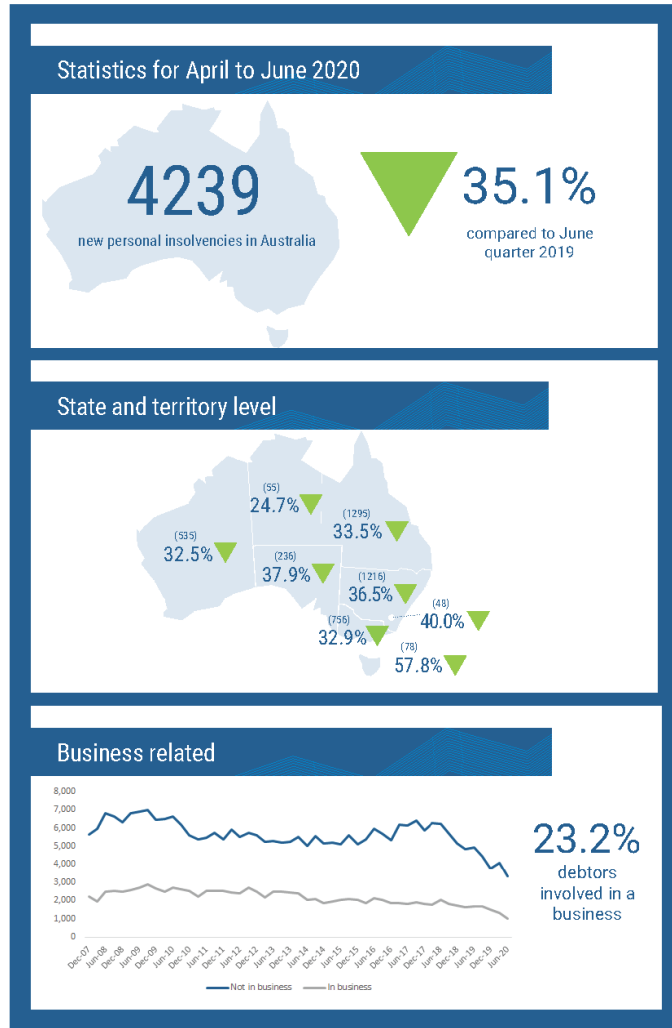
Note: See Box 1 for full details of the shocks applied in the upside and downside scenarios.  
Source: OECD Economic Outlook database; and OECD calculations using the NiGEM global macroeconomic model.

## Very uncertain 2021

It is simply very hard to know what 2021 looks like without knowing the course of Covid.

The bigger question is what economies look like at the end of 2021 and beyond.

# Where we are going



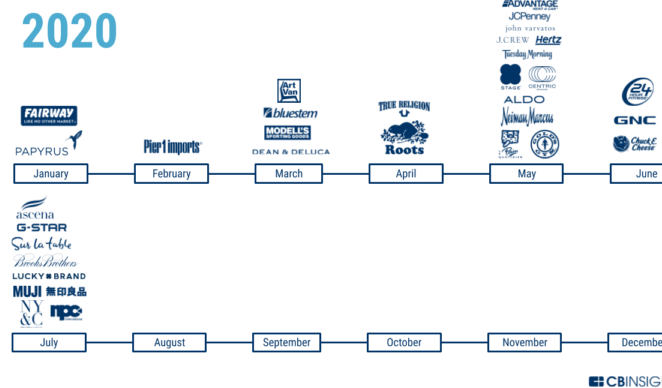
Source: Australian Financial Security Authority

## How many zombies are out there?

Mortgage deferrals and changes in insolvency rules are probably sensible, but potentially storing up a lot of problems in 2021

The big question is how many SMEs (and others) survive 2020 and what does this mean for jobs beyond 2021?

### US retail bankruptcies in 2020

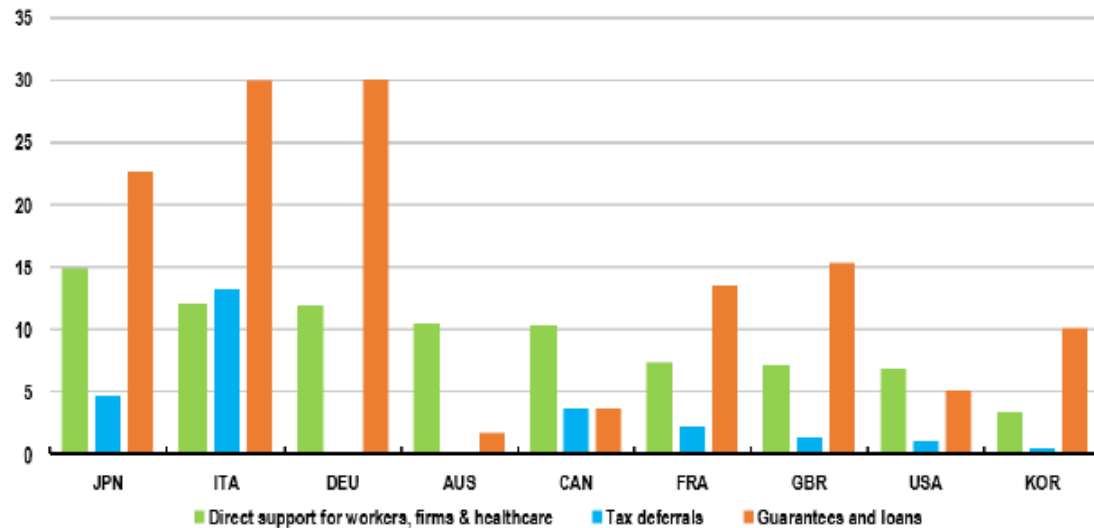


Source: CB insights

# Policy Responses

Figure 8. Substantial fiscal support has been announced since the pandemic began

Official estimates of fiscal support, % of 2019 GDP



**Fiscal support for economies has already been much greater than 2009**

Australia's response has been relatively small

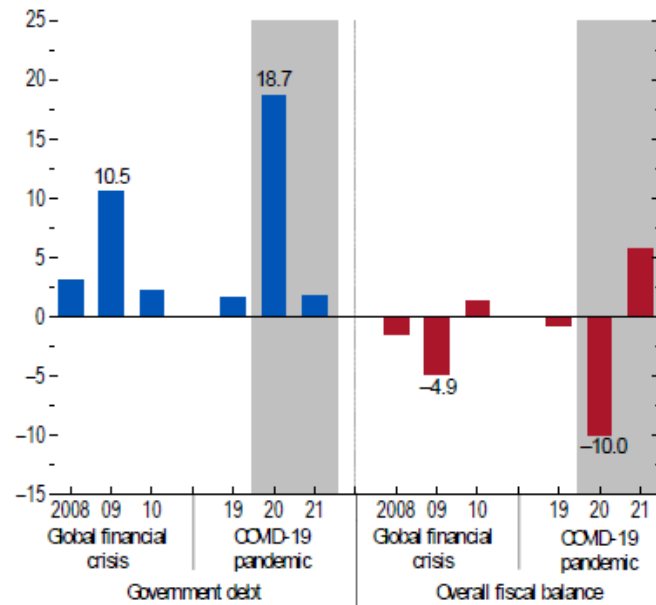
Countries that can least afford stimulus have gone wild!

The IMF expects advanced economy gross public debt to reach 132.3% of GDP at end 2021 (Australia 64.3%)

# Policy Responses

Annex Figure 2. Change in Global Government Debt and Overall Fiscal Balance  
(Percent of GDP)

Government debt and deficits are set to rise globally, more so than during 2008–10 following the global financial crisis.



Source: IMF staff estimates.

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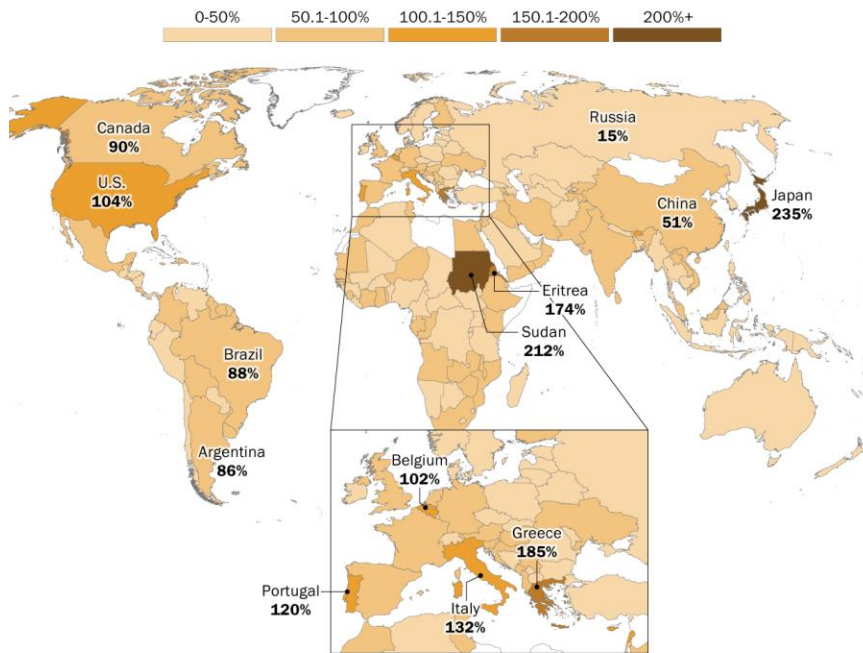
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# Policy Responses

## Japan, U.S. and Italy among major world economies where public debt exceeded GDP before coronavirus downturn

Gross government debt as a share of gross domestic product (most recent year available as of April 2020)



Source: International Monetary Fund, October 2019 World Economic Outlook (accessed April 2020).

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## The only certainty

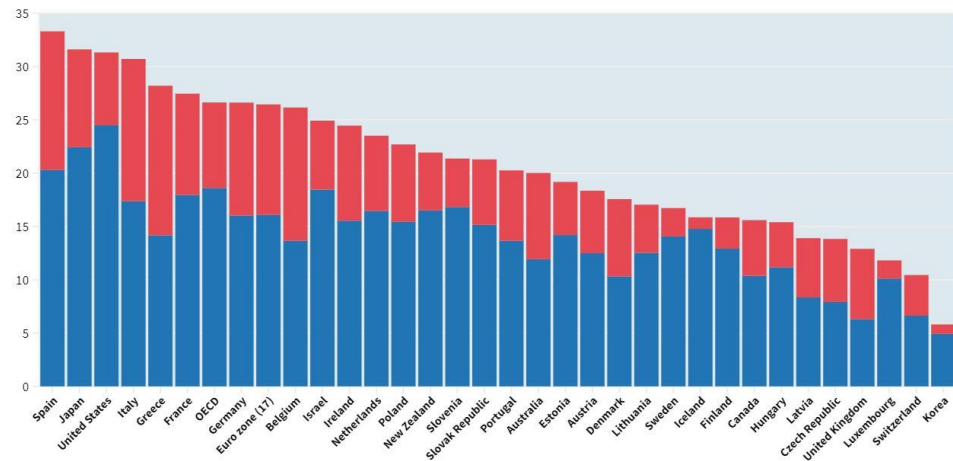
Significant increases in public debt by end 2021.

Many advanced economies look like Greece in 2009.

### Public debt projections, 2019-21

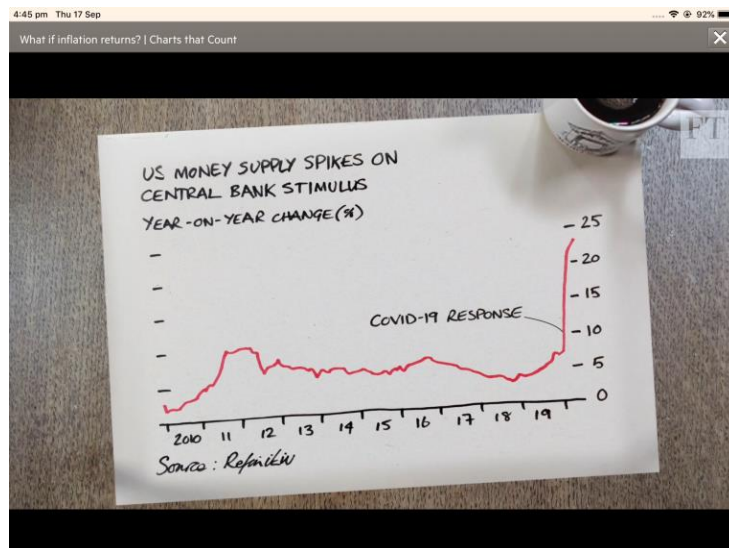
Change in % points of GDP

■ Single-hit scenario ■ Additional impact from double-hit scenario



Note: EU countries use the Maastricht definition of debt. • Source: OECD (2020), "OECD Economic Outlook - All editions", OECD Economic Outlook: Statistics and Projections (database). © OECD Terms & conditions

# Policy Responses



Source: Financial Times

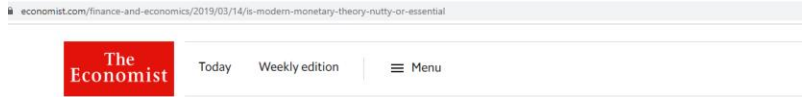
## The monetary response has been very significant

Countries have tried negative rates, QE, and other forms of monetary stimulus.

Despite significant monetary stimulus *expected* inflation remains *incredibly* low.

I don't expect any inflation in the next 2-3 years, but the expectation implied in the graph top left is extraordinary.

# Policy Responses

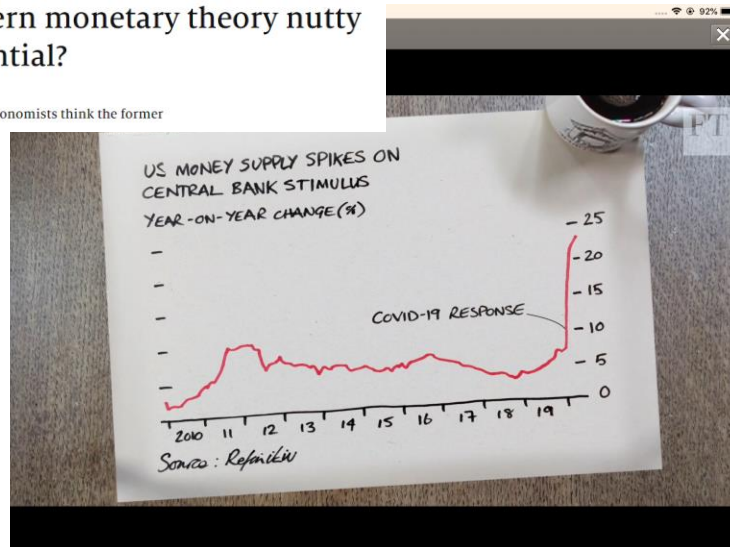


Finance & economics  
Mar 14th 2019 edition >

Free exchange

## Is modern monetary theory nutty or essential?

Some eminent economists think the former



## Modern Monetary Theory

The idea behind MMT is that the central bank buys public debt to allow the government to keep issuing debt until you reach full employment.

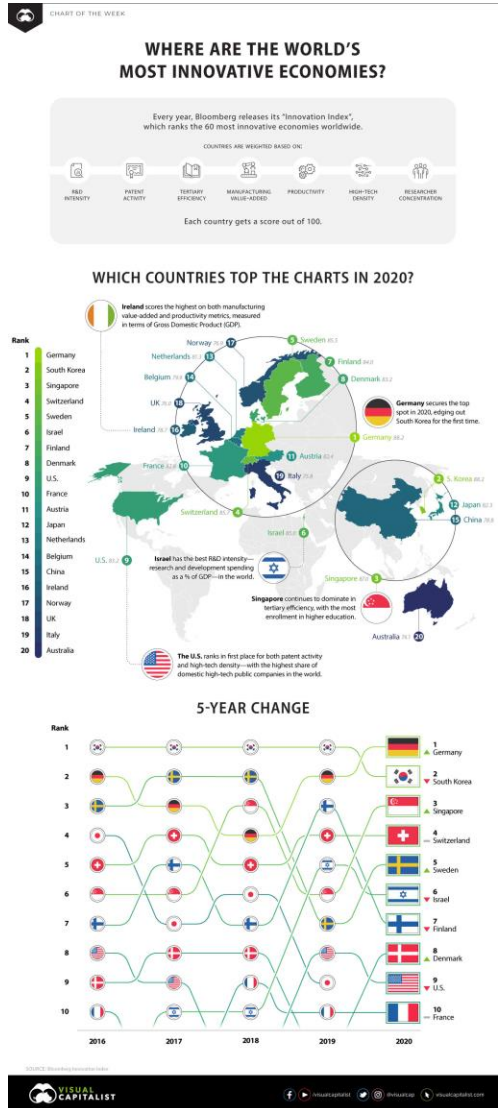
The risk is that the government abuses this lack of a constraint on bond issue, and money growth and inflation get out of control.

Note that we are already seeing a little of this with QE in some countries, but money growth remains relatively subdued.

Be suspicious of the free lunch implied by MMT.



# Policy Responses



## What will the recovery look like in Australia

The government still has plenty of fiscal ammunition to get through the next 2-3 years.

What else can the government do to support the economy into and beyond 2021?

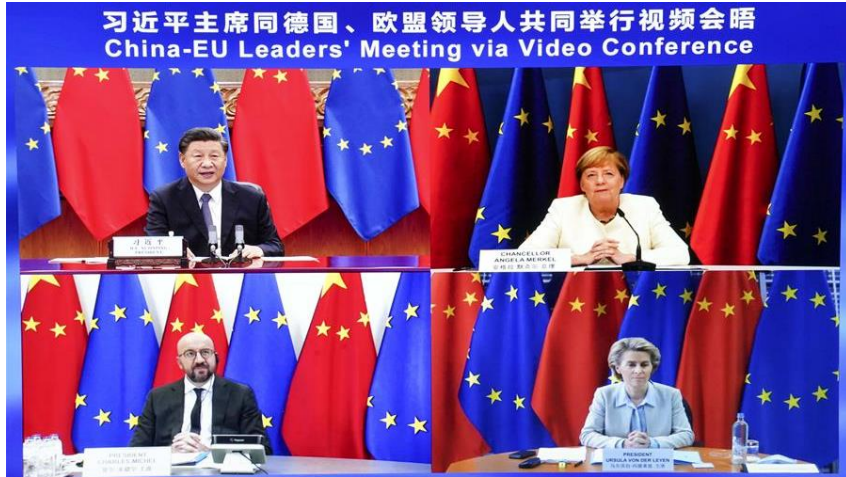
A chance to ignite the innovation agenda – Australia does poorly on commercialisation and a number of other dimensions relating to innovation.

Note that wealth creation and innovation do not depend on being a large country – Singapore, South Korea, Denmark, Switzerland.

Policy responses must focus on the SUPPLY side and not just the demand side (Mr Keating).



# Geopolitics and globalisation



## The fracturing of globalisation since 2016/18 has been accelerated by Covid

The backlash against globalisation has been significant since 2008.

The Trump – China disputes have raised the heat.

China's policies since 2012 under Xi Jinping have continued mercantilist tendencies (Made in China 2025).

China has sidelined Australia, the EU, US, Japan, Canada...

# Geopolitics and globalisation



## Understanding China's approach to globalisation

The Chinese Communist Party (CCP) have rejected any demands for democratic reforms, most notably in 1989 but again in 2011 during the Arab Spring.

Xi took power in 2012. Xi's policies have focused on strengthening CCP control

- More information control
- Values driven (the Chinese dream)
- Nationalist (less shy about ambition)
- More centralised controls, but CCP argues still market driven

But there is criticism of China's approach from groups including entrepreneurs and in recent days some back down from "Wolf Warrior" diplomacy.

# Geopolitics and globalisation

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## China's policies

Especially since 2018 Xi has been more authoritarian and aggressive in pursuing China's interests.

China's tactics are risky.

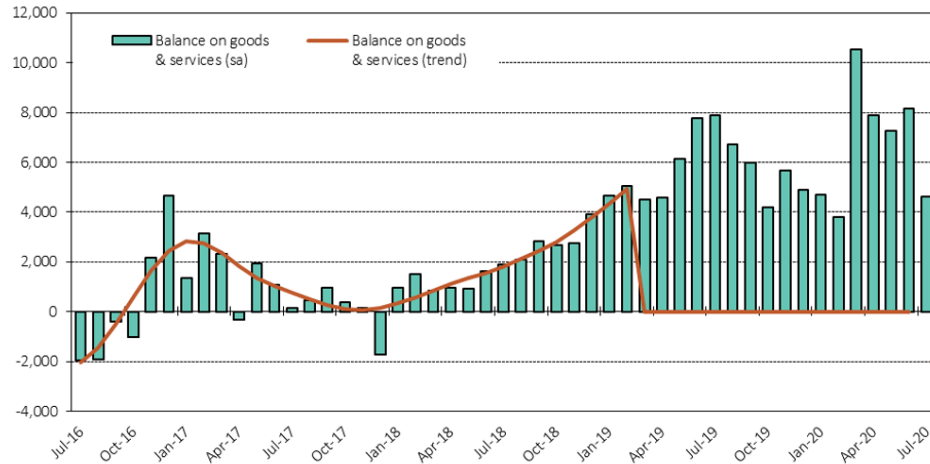
China has many problems – high debt, technological/military inferiority (?), inflation.

Interesting that China's isolationist policies were the root causes of China's "hundred years of humiliation".

Despite all of that it is dangerous to bet against China's continued economic and political rise.

# Geopolitics and globalisation

Chart 2: Trade balance  
seasonally-adjusted & trend, \$ million



## Implications for Australia

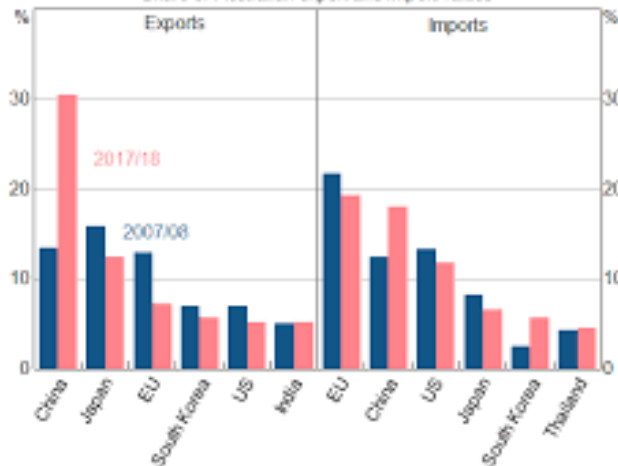
Australia has relied heavily on international trade...

and on China

Expect trade with China to become more difficult

But China needs Australian iron ore (for the moment) and Australia needs that market (80% of iron ore sales).

Australia – Key Trading Partners  
Share of Australian export and import values

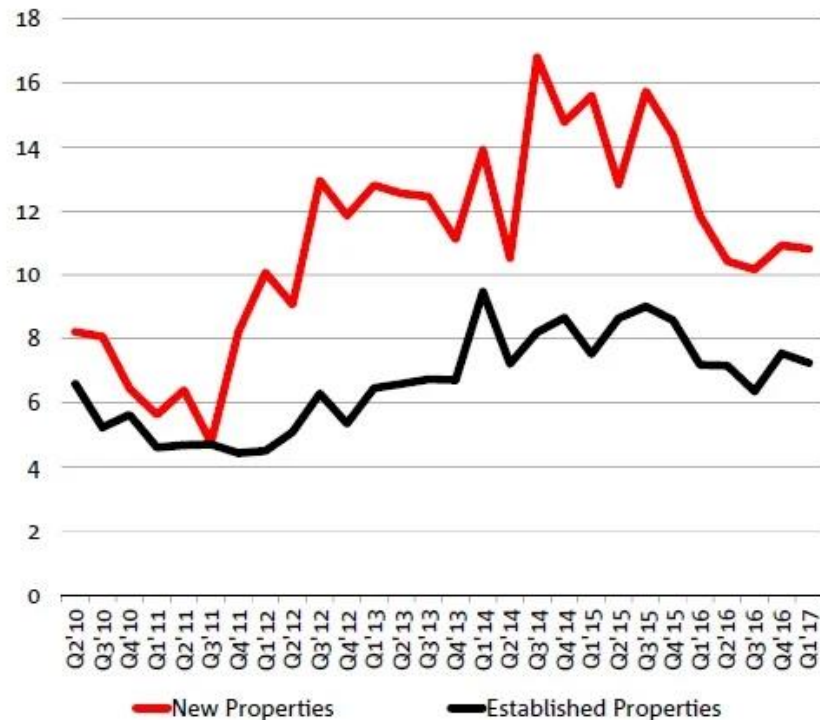




# Other issues

## DEMAND FOR PROPERTY FROM FOREIGN BUYERS (% OF TOTAL)

Foreign buying activity broadly steady in new and established markets...



Source: Business Insider

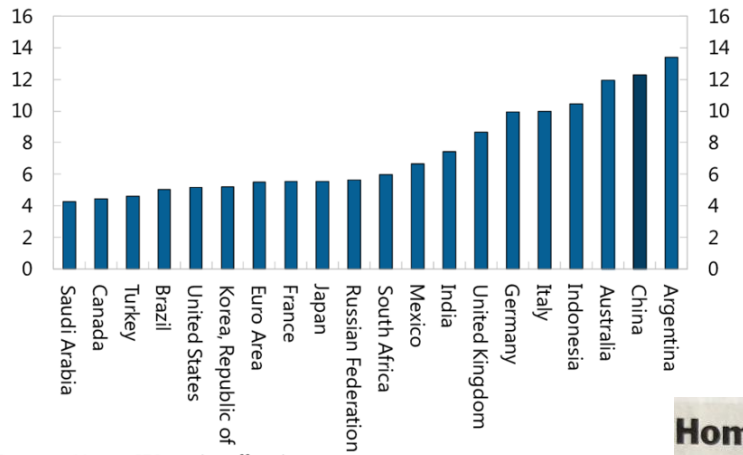
## Property markets

Immigration has been a major driver of property prices and construction activity in Australia

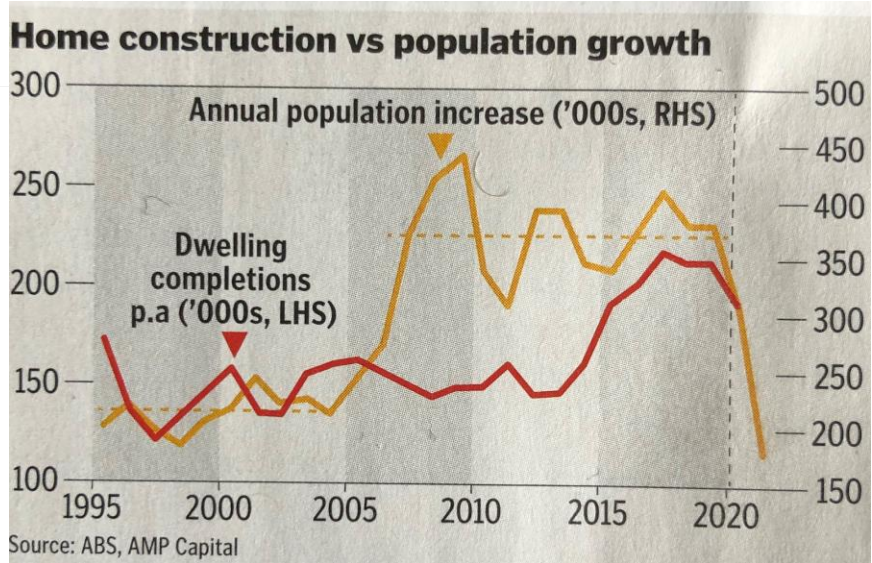
Construction normally about 9 percent of GDP and 13 percent of employment in Australia – high shares internationally.

Falling property demand are a big risk to prices and construction activity in 2021 and potentially beyond.

# Other issues



Sources: Haver, IFS, and staff estimates.



Source: ABS, AMP Capital

Source: Money Magazine, September 2020

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# Other issues

S&P 500 Index



## Equity markets

Driven by liquidity and QE

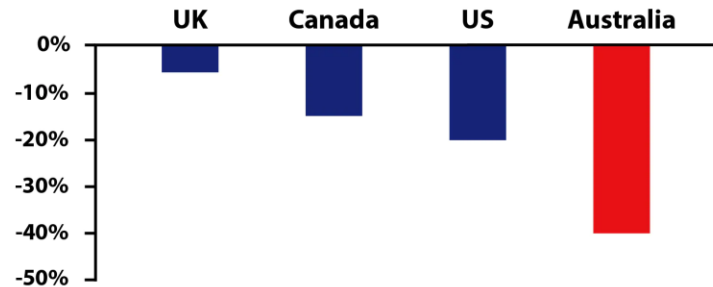
Low returns elsewhere

But P/E ratios historically high



# Conclusions

**Decline in small business start-ups  
between 2003-05 and 2012-14**



Source: Fraser Institute, IPA

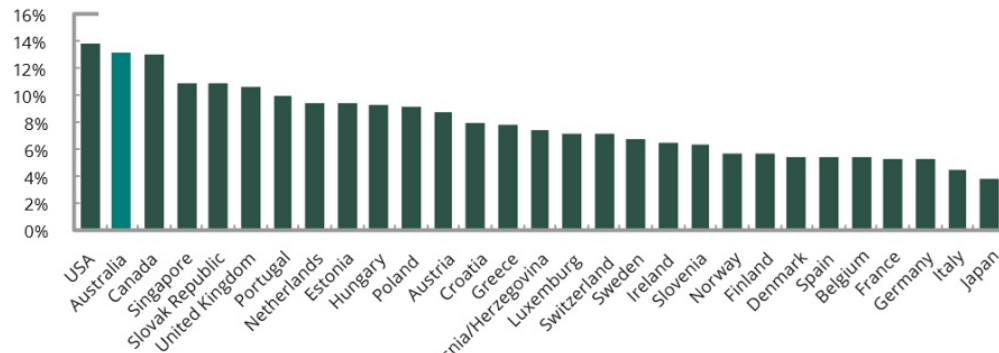
## A long recovery beginning 2021/2022

I am usually optimistic about Australia's economy. This time I am concerned

- Too much reliance on China
- Too much reliance on housing
- Policy can only do so much to support the economy

Going forward it is human capital, not physical capital that will propel us forward.

**Australians have a strong start up culture**  
Proportion of adult population starting or running a new business



Source: Business Insider, 2015