

NATION SUCCESSFULLY SKIRTS ECONOMIC ARMAGEDDON

KPMG Board Leadership Centre event

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Frydenberg told an exclusive KPMG Board Leadership Centre event he threw ideology out of the window to drag Australia back from the brink.

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JOSH FRYDENBERG
FEDERAL TREASURER

Federal Treasurer Josh Frydenberg remains sanguine about the nation's economy, although he admitted Australia confronted “economic armageddon” last year as the global COVID-19 pandemic ravaged the world.

In a wide-ranging and exclusive conversation with KPMG Chairman Alison Kitchen as part of KPMG's Board Leadership Centre event series, Frydenberg suggested Australia was over the initial shock of the pandemic and there were a number of significant green shoots in the economy despite our current challenges.

One significant positive is the most recent Labour force statistics showing unemployment sitting at a 10-year low of 4.6 per cent. For Frydenberg, “it's quite remarkable” as is our economy, which is currently “bigger today than it was going into this pandemic.”

“No other advanced economy has seen that economic performance,” he said.

He highlighted that consumer spending remains strong as is consumer confidence and while the economy is set to contract further, he said the “economic shock we face right now is not as severe.”

Another reason for his quiet confidence is he believes the federal government's initial response was well-timed and importantly “we threw everything at it.”

Harking back to the darkest days of the pandemic early last year, when the world was in a complete state of flux, Frydenberg recounted a private conversation with former prime minister John Howard who counselled that “at times of national crises, there are no ideological constraints.”

“And that was the approach we took, where we used every weapon in our arsenal,” Frydenberg said.

Despite the Treasurer's confident rhetoric, KPMG Chief Economist Brendan Rynne maintains Australia is back in recession.

Commenting on the BLC event, Rynne said regardless of the technical definition that you've got to have two quarters of negative growth, we're in a recession and “what we're seeing is a marked decline in economic activity.”

He warned the marked decline in economic activity is going to flow through to lower employment and increased unemployment, “so you'll see many of the gains we've achieved from an economic sense are going to be lost during this second expansive phase of COVID in Australia.”

For Rynne, the only way to move out of a recession is to get on top of the virus especially as it's mutating quickly.

“What we need to be doing is getting ahead of the (mutation) rate through either vaccinations or effective containment measures. The reality is this virus mutation is getting so complex that effective containment measures are becoming less effective.”

BRENDAN RYNNE
KPMG CHIEF ECONOMIST

He said the way to way to get “coverage” or protection from the virus is for people be infected and - as long as they don’t die – “they’ll have some coverage.”

“Or you get vaccinated and then a percentage of the population is either partially vaccinated or fully vaccinated,” he said.

“The problem is as the virus surges again and only a percentage of the population is vaccinated; the surge is coming in those places where there are low vaccination rates or in the people who are not vaccinated.”

Rynne said that is what is happening Israel as well as the UK and US where the surge in infections is heavily skewed to the unvaccinated despite vaccination rates being high.

“This concept of it now becoming a pandemic for the unvaccinated is absolutely true,” he said.

Frydenberg told the BLC the future economic cost of the pandemic is strongly tied to vaccination rates.

“Treasury’s analysis was that at 50 per cent vaccination rates, you’re looking at a cost to the economy of about \$570 million a year whereas a 60 per cent vaccination rate, the cost is about \$430 million a year.”

The numbers drop appreciably at 70 per cent with the economic cost coming down to \$200 million and further drops as we head towards full vaccination coverage, the Treasurer said.

With the latest Australian Bureau of Statistics (ABS) Overseas Arrivals and Departures figures indicating continuing savage drops in visitor numbers, Frydenberg acknowledged the nation faced looming skills shortages in a number of areas.

He said border closures have meant “we haven’t been having those skilled workers from overseas come in and hence you’ve seen real competition for labour.”

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Crosshead: Skilled worker exodus

In response to the Treasurer’s remarks in relation to skills shortages and the ABS figures, Rynne said we’re now seeing lockdowns not only “curtailing the free flow of new skilled migrants into the country but we’re also now seeing an exodus of previous skilled migrants to the country.”

Moreover, he said we’re now seeing the circumstances around migration and skilled migration changing again as lockdown measures are being widened and deepened, “which is also going to have further effects on the recovery of the Australian economy.”

For the Treasurer, initiatives such as the Boosting Apprenticeship scheme have been “very successful” in addressing skills shortfalls, as have a number of other programs designed to create jobs in areas of need.

“We want to work more around what the National Skills Commission can do to help co-ordinate and link up the needs of business with what our educational institutions are producing.

“Sometimes I don’t think that co-ordination is as good as it can be, so that’s where I think our focus should be,” Frydenberg said.

He said the government’s reform agenda continued as evidenced by the “very significant” recent permanent changes to the continuous disclosure laws which passed both houses of parliament with the support of the crossbench.

On the productivity front, he said there was no silver bullet and there were a number of factors determining how we achieve productivity gains including industrial relations and workplace flexibility as well as ensuring we have the right infrastructure in place and a fit-for-purpose taxation system that “creates the incentives for business to invest.”

Obviously, the global economy is being transformed by digital technology and he hinted Australia was well-placed to flourish in the future and cited particular

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industries that are already ahead of the game such as the mining and resources sector who are “leading of the rest of the world in how they operate, and that goes to multifactor productivity”

Crosshead: Silver linings

For KPMG’s Rynne, one of the silver linings associated with the pandemic is a large number of elements associated with the way we work, live and play have been transformed using digital technologies.

“For example, there has been a push to implement telehealth in Australia for numbers of years, and it really took the pandemic to make that happen out of necessity. Now it’s a critical part of the delivery of health services in Australia,” Rynne said.

In the workplace generally he said while technology such as video conferencing was basically forced on us all last year, “what we’ve done is adopted them quickly and adopted them to our benefit”

As for Frydenberg’s key message to KPMG BLC members, it was “don’t lose the faith” despite what are trying times and he urged business leaders to be very confident about “your and Australia’s future”

He reassured BLC members that despite record low interest rates and continuing stimulus from governments and central banks, that inflation pressure is not the main challenge or “the genie that got out of the bottle for previous treasurers”

And with interest rates at historical global lows, he hoped business is “taking advantage of the opportunity to go out and invest, and upgrade their plant and equipment, and to plan for the future”

“The federal government working with state governments will continue to provide the economic support and the banks are also leaning in with their relief as is the tax office.

“We’re trying to galvanize as much broad-based support for business, customers, and households through what are going to be a trying few weeks as we continue to get those vaccination numbers up.”

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