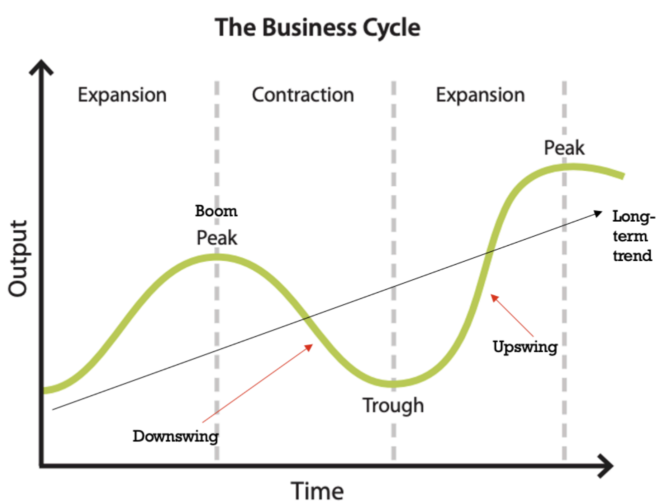
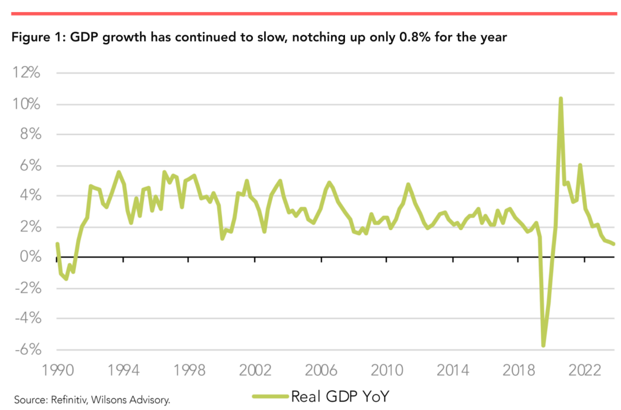
29. the impact of events on the business cycle in Australia over the last five years

- ***Important Note: The business cycle does not flow in a perfect and predictable cycle in the real world. While the concept of the business cycle suggests a pattern of alternating periods of expansion and contraction, in reality the business cycle can be irregular, uneven, and subject to unexpected shifts.***
- ***Economic forecasting and analysis are important tools to understand and respond to these fluctuations, but they cannot predict the exact timing and magnitude of each phase of the business cycle with precision.***

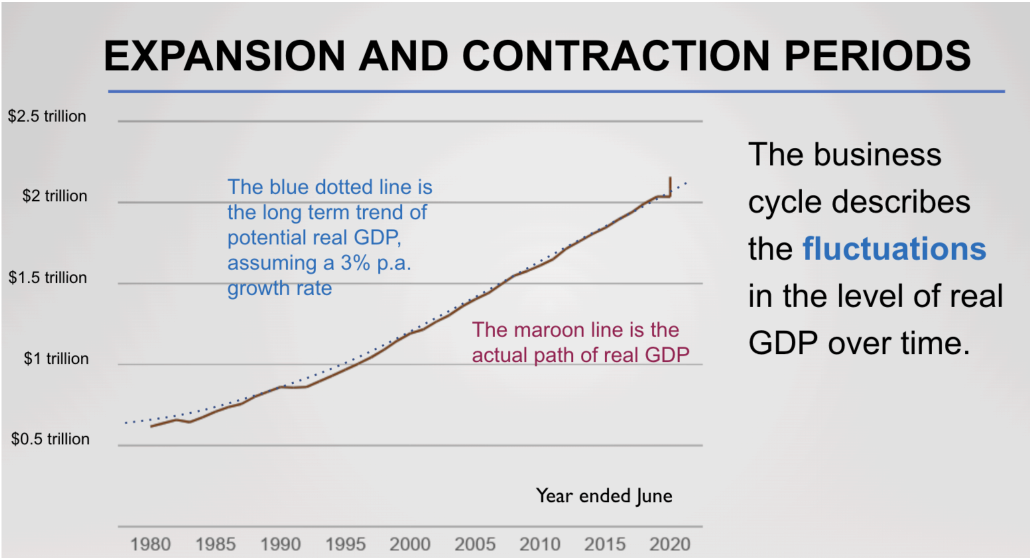
THEORY v REALITY



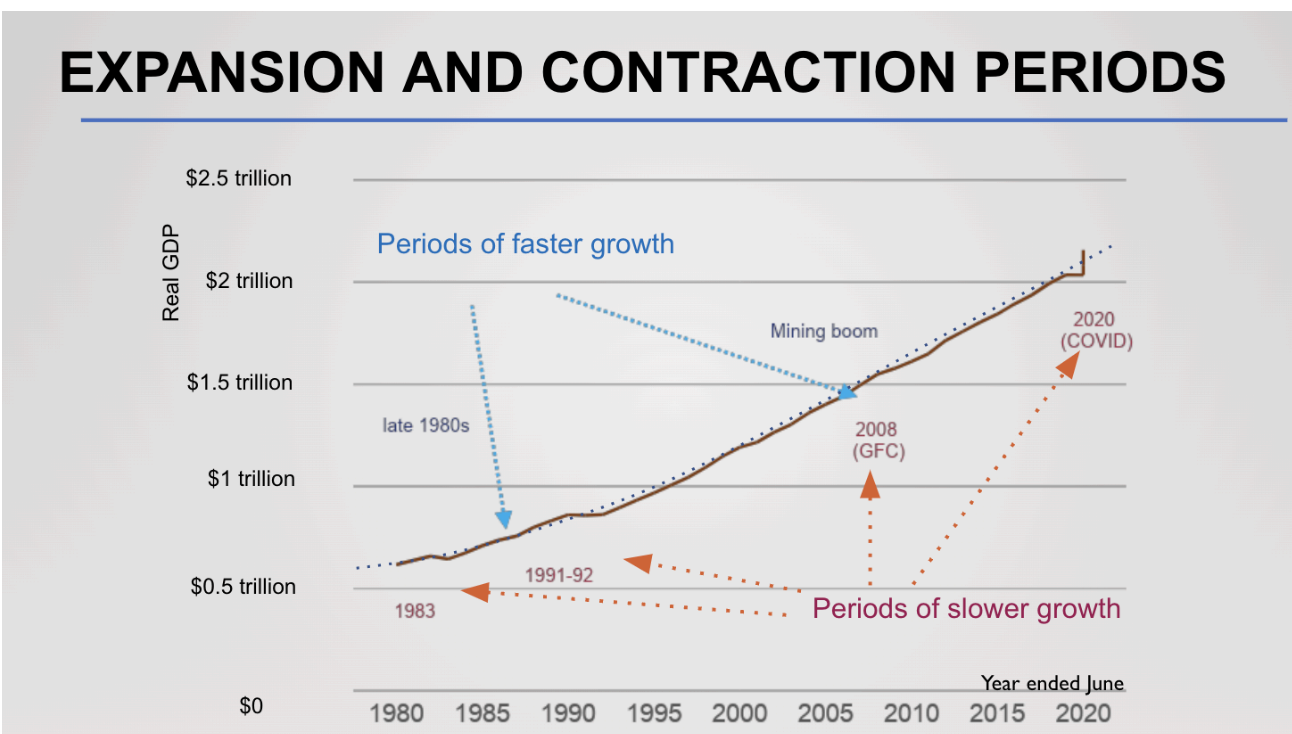


Australia's Business Cycle last 5 years

- The diagram shows the level of Australia's quarterly real GDP between Dec 2017 – Dec 2022.
- Expansions typically last longer than contractions
- The recession in 2020 and the contraction in 2021 were related to the Covid pandemic



- The blue line is calculated, using a 3% compound growth rate in real GDP from 1980. It has a slight upward curve due to the compounding effect of growth.
- The maroon line is the actual path of real GDP over the period.



📉 1. Recession – March to June 2020

- Australia entered its first recession in nearly 30 years: GDP fell 0.3% in Q1 2020 and a **record 7% in Q2 2020**, the sharpest quarterly drop since 1959
- This severe downturn was triggered by COVID-19 lockdowns, bushfires, and global disruptions

📈 2. V-shaped Recovery – Sept–Dec 2020 to end 2021

- The rebound was fast and strong: GDP surged 3.4% in Q3 2020 and 3.1% in Q4 2020
- By the end of 2021, real GDP had fully recovered, supported by fiscal measures like JobKeeper, and Australia avoided a depression

3. Post-pandemic Expansion – 2022

- Continued economic growth: FY 2021–22 saw strong GDP growth, boosted by commodity demand and stimulus.
- By mid-2022, inflation peaked (~7.5–8%), prompting the RBA to raise cash rates aggressively from 0.1% to 4.35% by late 2023
- Growth slowed but remained expansionary.

4. Slowing & Weak Expansion – 2023

- GDP growth decelerated: just **1.0% in Q2 2023**, with per-capita GDP contracting for six straight quarters—weakest performance excluding pandemic since early 1990s
- High interest rates weighed on private investment and household spending, though government spending partially offset weakness

🔄 5. Transition & Risk of Contraction – Late 2023 – 2025

- Inflation eased to 2.4–2.8% by late 2024, enabling the RBA to start cutting rates (first cut to 4.10% in February 2025)
- GDP growth subdued (~1.3% in 2024), with household incomes stagnating and productivity weak
- Structural concerns around productivity, migration pressures, and global headwinds suggest the economy may be flirting with another downturn or prolonged low-growth phase .

Figure 1: GDP growth has continued to slow, notching up only 0.8% for the year

Source: Refinitiv, Wilsons Advisory.