

Question 1 (answer all parts)

Text A – Australia Avoids Recession for Now

- ① The Australian economy grew by 0.7% in the June quarter, with growth already slowing in the months before the Delta strain spread uncontrollably in New South Wales and Victoria. The result, announced by the Australian Bureau of Statistics on Wednesday, means Australia has avoided a technical recession for now, before an expected massive contraction in the September quarter due to lockdowns in its two largest states by population. At the end of 2020 and start of 2021, Australia's economy rebounded strongly from the initial phase of the Covid-19 pandemic, recording **economic growth** of 3.1% in the December quarter and 1.8% in March.
- ② This result, stronger than expected, pre-dated the most recent series of lockdowns that has shutdown NSW, Victoria and the ACT with devastating economic impacts. Across the year to June 2021, the economy has grown by 9.6%, and is now 1.6% larger than at the start of the pandemic – reflecting the severity of the slump in the June quarter of 2020. Despite the 0.7% increase in gross domestic product, in GDP per capita terms Australia's economy grew by just 0.4% in the June quarter of 2021.
- ③ The rise in GDP was driven by a one percentage point increase in private-sector demand, consisting of 0.6 percentage points from household spending and 0.3 points from private-sector investment. Household consumption added 0.6 percentage points. There was a lift of 1.3 per cent in spending on services due to relaxed restrictions. Australians spent a record amount on clothes and footwear while expenditure on furnishings such as home office equipment is now 11.3 per cent higher than its pre-virus peak. Consumer spending, which accounts for almost 60 per cent of economic activity, has now grown by 15.4 per cent or \$36 billion since last year's nationwide lockdowns.
- ④ Private investment rose by 2 per cent and contributed 0.3 percentage points to growth. Dwelling investment increased for the fourth consecutive quarter, rising 1.7% on the back of strong demand, caused by low interest rates. Inventories cut another 0.2 percentage points while non-dwelling investment reduced growth by 0.1 percentage point.
- ⑤ Government expenditure added 0.7 percentage points to growth on the back of continuing state and federal government infrastructure projects. Spending on rail, roads, health and education continue to climb. Growth was reduced, however, by net exports which took 1 percentage point from growth.
- ⑥ Deloitte Access Economics partner Stephen Smith said the June quarter was "the eye of the storm, with just 7% of the population locked down on any given day across the period". "Since then, that share has averaged close to 45%, and we're seeing the impacts of that flow through to businesses and jobs," he said. As things currently stand, that suggests we could see the economy shrink in the September quarter by more than 4%. Westpac senior economist Andrew Hanlan said avoiding

a negative quarter of growth in the June quarter was important for overall confidence. “With the September quarter certain to print a negative under the weight of lockdowns in both NSW, Victoria and ACT the announcement, in December, of two consecutive negatives would have signalled that Australia had fallen back into recession,” he said.

Text B – Lockdowns Wipe out Jobs in NSW & VIC.

① Pandemic-related lockdowns have wiped half a million people from NSW’s jobs market, with Victoria next in line to have its employment prospects up-ended by restrictions imposed to stop the spread of COVID-19. Despite a 146,000 drop in the number of people in work around the country, the Australian Bureau of Statistics on Thursday reported the official jobless rate fell by 0.1 percentage points to 4.5 per cent last month. It is the lowest jobless rate since November 2008.

② The data hid the real impact of lockdowns, especially across NSW, which in August had a jobless rate of 4.9 per cent, a 0.3 percentage point increase on July. Since the Berejiklian government started locking down parts of Sydney, then the metropolitan area and finally the entire state, the number of people with a job in NSW has fallen by 219,200. The state’s labour force has shrunk by 237,900 and the number of hours worked has slumped 11.7 per cent.

③ EY chief economist Jo Masters said if NSW’s participation rate had remained where it was in May rather than tumbling as people left the jobs market, unemployment in the state would be 10 per cent. Last month, the Victorian jobless rate fell to its lowest level on record at 4.1 per cent. But that concealed a sharp rise in the **underemployment** rate, which reached 9.1 per cent with more than 166,000 Victorians working zero hours.

④ Nationally, there were more than 620,000 people working zero hours for economic or related reasons last month, an increase of almost 233,000 on July. This does not include people on annual leave. BIS Oxford Economics’ chief Australia economist, Sarah Hunter, said the September jobs report would show a further slip in employment as the full impact of lockdowns in Victoria and the ACT became apparent. “Despite the lockdown only impacting the lower east coast states and territories, the degree of dislocation in economic activity means that GDP is likely to fall by around 4 per cent in the September quarter.”

Table 1

Australian Consumer Price Index Quarterly Data 2020-2021

Year	March	June	September	December
2020	116.6	114.4	116.2	117.2
2021	117.9	118.8	119.7	

Table 2

Australian Labour Force ABS Data 2021

Month 2021	Employed Persons	Unemployed Persons	Working Age Population
August	13 022 600	617 100	20 919 785
September	12 884 600	626 000	20 946 666

(Question 2 continued)

(a)

- (i) Define the term *economic growth* indicated in bold (Text A, paragraph ①). [2]
- (ii) Define the term *underemployment* indicated in bold (Text B, paragraph ③). [2]

(b)

- (i) Using information from Table 1, calculate the inflation rate between the March and June quarters in 2020. [3]
- (ii) Using information from Table 2, calculate the unemployment rate in August 2021. [3]
- (iii) Draw a demand and supply diagram to show the effect of low interest rates on the Australian Housing market (Text A, paragraph ④). [2]

- (c) Explain why growth in GDP *per capita* is a better measure of living standards than growth in GDP (Text A, paragraph ②). [4]

- (d) Using a production possibilities frontier diagram (PPF), explain how greater state and federal government spending on infrastructure will affect Australia's production possibilities (Text A, paragraph ⑤). [4]

- (e) Using an AD/AS diagram, explain the effect on the Australian economy of a decline in net exports (Text A, paragraph ⑤). [4]

- (f) Using information from **Text B**, explain how Australia's current unemployment rate may not be accurate. [4]

Note there would normally be a 15 mark question at the end (g).

References

Text A:

<https://www.theguardian.com/australia-news/2021/sep/01/australia-avoids-recession-for-now-but-economic-growth-already-slowing-before-delta-hit>

<https://www.smh.com.au/politics/federal/recession-fears-recede-as-economy-expands-more-than-expected-20210901-p58nqv.html>

Text B:

<https://www.smh.com.au/politics/federal/unemployment-rate-falls-as-huge-numbers-of-people-drop-out-of-jobs-market-20210916-p58s56.html>

Table 1

<https://www.ato.gov.au/Rates/Consumer-price-index/>

Table 2

<https://www.abs.gov.au/statistics/economy/national-accounts/australian-national-accounts-national-income-expenditure-and-product/latest-release>.