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JUNE 2021 | EDITION 443

*the
extras*



Managing Director
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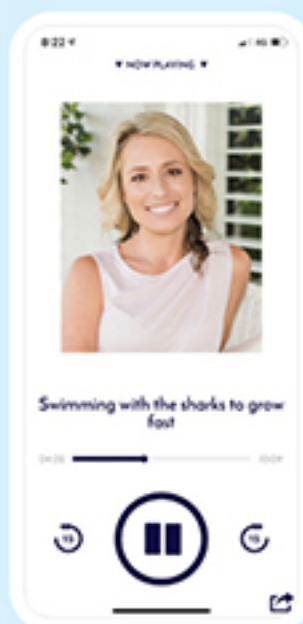
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Economic Predictions: Why CoVid Scenarios really matter, more than most may think

The May 11th Federal Budget (Bud21) DOES make explicit assumptions about the future progression of the pandemic. Bud21 does NOT provide or even acknowledge vital pandemic ALTERNATIVE SCENARIOS.

To look properly and professionally at economic predictions – and YOUR business outlook – we need to do this. I illustrate this below, for the economy and you, together with some business strategy tips.

- A. Bud 21 Pandemic Prognoses: contained local virus outbreaks, no state border closures, stay-safe measures continue and international borders open gradually from mid-2022 [Budget Paper No. 1, p.36]
- B. NRN Variant 1: Pandemic prolongs and persists right through 2021/22: with hotspots like India and Brazil being unresolved and media bombarding us with negatives through 2022
- C. NRN Variant 2: Vaccines and human actions kill off this pandemic, entirely, by the end of 2021

Selected Scenario-based Predictions for the Australian Economy

Key features to note: Our economy growth and business prospects are predictably weakened by scenario B and are made stronger and come back sooner under scenario C, but C is not all good news: terrific for international tourism, getting non-resident students back and people into the CBD. But the CoVid-gone scenario will test wages, inflation, then interest rates and asset prices, like housing, unless managing scenario C is really superb: mostly moderating any interest rate rises. Bud21 and commentators about it cover none of these pandemic variants. You should do them.

Variable	Bud 1 Prediction	NRN Comment	Scenario B -Bugger	Scen. C - Conquered
Economic Growth	4.25% up, then 2.5%	Credible	Won't exceed 2.5%	6% possible
Capex – non-mining	12.5% up fye 23	Credible but delicate	Hardly any growth	Could be 20% up
Unemployment %	5% then 4.75%	Credible	Stay at 5%	Less than 4%
Inflation	1.75% then 2.25%	Credible	2%– see wages	3-4% watch out!
Wages Growth	1.5% then 2.25%	Credible but watch	Same as for Bud21	4-5% or more!!!!
Peds in Melb CBD	None made*	55% of pre-Covid	45%	75-80%
House prices – Melb.	None made	8% up	Similar – 6% up	Depends – see rates
RBA Cash Rates	RBA: same to 2024	Risky to say this	Same as for A	Danger – see below
\$/A/\$US fye 22	None made	Stays in the high 70s	Mid-low 70s	Wow – see below

*Passionate Positive Mayor Sally Capp (translation: a former student!) says 41% of pre-CoVid right now.

Numbers for financial year ending (fye) 2022, unless stated otherwise

Scenario B effects are continued bad news for travel and tourism and recovery in entertainment and hospitality, largely because of the psychological effect deterring business-revenue recovery to pre-pandemic values

Scenario C is [obviously]mostly good, with international students, migrants and tourists surging back, and much because the confidence barrier doing so much damage to business at present would be leaving us. The pedestrian traffic data in CBDs show this prominently. Not all good news [no so obviously], if monetary management mucks up: a 5-6% growing economy with the RBA doggedly persisting with such low interest rates will keep house prices rocketing for a time, but the Bud21-assumed low wages growth will not be sustainable with labour and skill shortages intensifying. The RBA will need to swallow its predictions (promises?) of 'no rate rises until 2024'. The biggest risk is that if the RBA made huge rate uplifts, house price growth and much more (capex, especially) will grind to a halt. Then, the early end of the pandemic will NOT be all good news. FX rates with an interest-rate surge would go well into the 80s, for good or ill. See how the (alternative) pandemic scenarios really matter.

In the light of all this above, it's time to Ask Your accountant to:

- Do all your business (and personal) budgets using the 3 pandemic scenarios above. For some businesses this will make a huge difference, especially for pandemic-affected (either way) businesses.
- Advise directly on what the budget business tax initiatives will do to your profits, cashflow and tax liabilities.

Neville Norman (n.norman@unimelb.edu.au) 14th May, 2021

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