

Coronavirus economic impact

Covid-19 ends Australia's 28-year run without a recession

Economy contracts a record 7% in the second quarter



A surge in cases meant Melbourne had to be locked down again © Bloomberg

Jamie Smyth in Sydney SEPTEMBER 2 2020

Australia has entered its first recession in almost three decades after Covid-19 battered the economy, which [shrank](#) a record 7 per cent in the June quarter.

The decline in gross domestic product follows a fall of 0.3 per cent in the March quarter, marking two consecutive quarters of contraction — the technical definition of recession — according to the Australian Bureau of Statistics.

“The global pandemic and associated containment policies led to a 7 per cent fall in GDP for the June quarter. This is, by a wide margin, the largest fall in quarterly GDP since records began in 1959,” said Michael Smedes, ABS head of national accounts.

The economic [contraction](#) was worse than expected, with economists forecasting a 6 per cent fall in the second quarter and a decline of just over 5 per cent on an annual basis. The ABS figures revealed that GDP fell 6.3 per cent in the 12 months to the end of June.

A 12 per cent decline in household consumption and a 17 per cent fall in spending on services, particularly transport, hotels, cafés and restaurants, dented economic output.

We expect it to take until early 2022 for activity to return to pre-pandemic levels

Sarah Hunter, BIS Oxford Economics

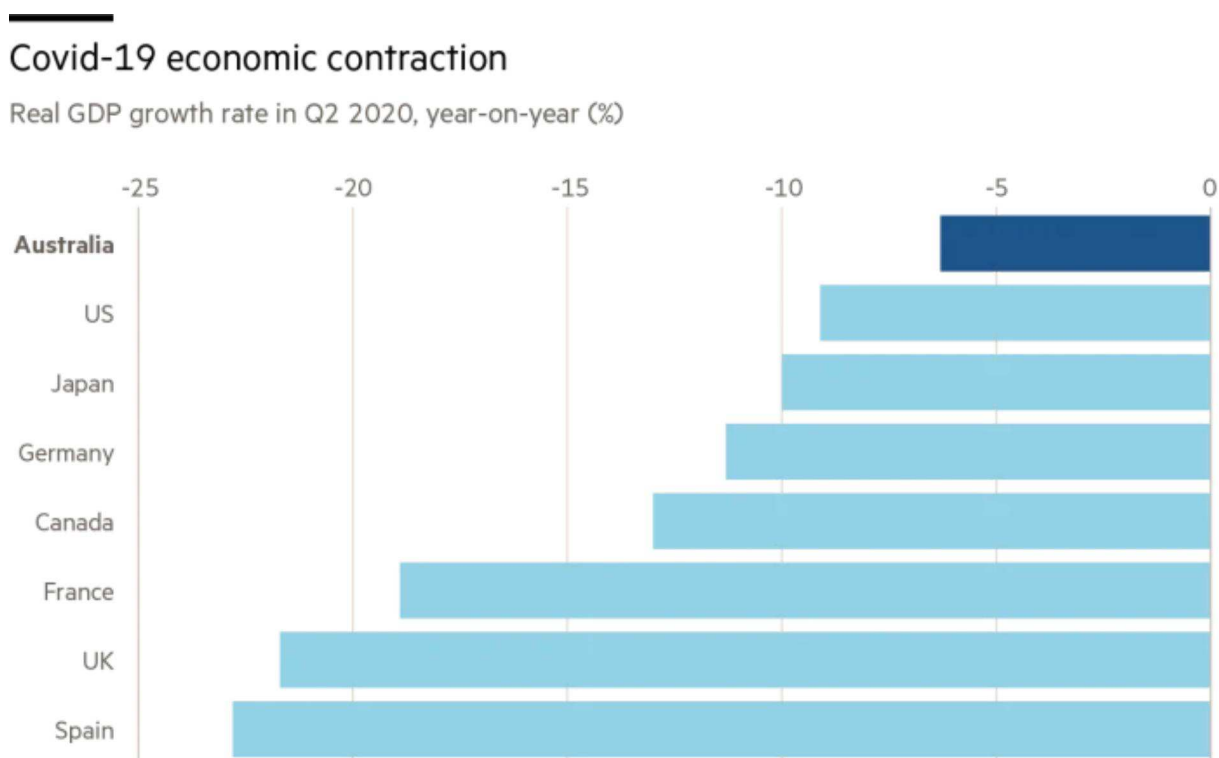
A big drop in imports, particularly travel services owing to border closures and travel bans, and robust goods exports helped to cushion the downturn somewhat.

The contraction brings to an end Australia's record-breaking run of 28 years without a recession.

But the downturn, which is the worst since the second world war, is not as severe as those facing most other developed nations. The UK and US have reported equivalent falls in GDP of 20.4 per cent and 9.5 per cent respectively in the June quarter.

Saul Eslake, an economist and fellow at the University of Tasmania, said continuing [strong demand from China](#) for raw materials, particularly iron ore, had helped to shore up the Australian economy.

A strong fiscal response from Canberra in the form of wage support and stimulus programmes, and reduced imports had helped the economy perform better than many of its peers, he said.

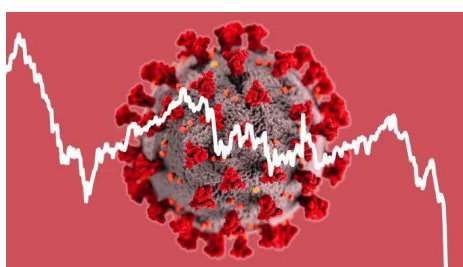


Source: Saul Eslake
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Australia's relative success in suppressing the spread of Covid-19 enabled many states to begin reopening their economies in May following April lockdowns. But a second wave of infections in Melbourne — the nation's second most populous city — has led to the reimposition of lockdowns in Victoria, which are expected to dent the economy in the third quarter.

Josh Frydenberg, Australia's treasurer, said Covid-19 had wreaked havoc on the economy but insisted that "there is hope, and there is a road out".

Coronavirus business update



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Sarah Hunter, chief economist at BIS Oxford Economics, said the path back from Australia's Covid-19 recession would be long and hard.

"Growth in the September quarter will be weighed down by the lockdown in Victoria, and beyond this continued health concerns, ongoing restrictions and the dialling back of income support will all weigh on the economy," she said.

"We expect it to take until early 2022 for activity to return to pre-pandemic levels."