

The Big Read **Australia**

Australia: has the 'lucky country' run out of luck?

The pandemic is set to end the world's longest run of growth just as Canberra falls out with China, its key trade partner

Jamie Smyth in Katoomba, Blue Mountains MAY 24 2020

It is eerily quiet on the viewing platform at Scenic World, one of Australia's most popular tourist attractions nestled high up in the Blue Mountains. Normally, tourists would be excitedly chatting away in multiple languages as they wait to board cable cars that glide over the Jamison Valley, taking in breathtaking views of sandstone rock formations and temperate rainforest. But since social distancing rules were introduced on March 23 the family business has closed and been forced to furlough 180 employees.

"When we had a global financial crisis in 2008, Sars or the September 11 2001 attacks, they took out certain segments of our market but this pandemic has taken out everything," says David Hammon, a director of Hammons Holdings, which has operated Scenic World in New South Wales for 75 years. "This is one of only a handful of occasions when our family has had to completely close the business."

Scenic World is one of thousands of tourism businesses that have shut their doors in a sector that contributed A\$61bn (\$40bn) to the [Australian economy](#) last year. A third of people working in accommodation and food services have already lost their jobs due to the government's policy of putting businesses into "hibernation" following the [coronavirus](#) outbreak. And even as Canberra begins to [lift elements of its lockdown](#), following its success in reducing the rate of new infections to just a handful per day, some businesses will struggle to reopen as tourist travel bans threaten to kill demand for months and possibly years to come.

Australia — dubbed the "lucky country" — has enjoyed a record period of uninterrupted economic growth that is unprecedented among developed nations. But economists forecast the pandemic will do what no crisis has done in three decades: plunge [Australia's economy](#) into recession.

The added complication for Australia is that the downturn is hitting as relations with China — a key commodity export market over the past decade — are deteriorating, limiting its ability to escape the downturn.



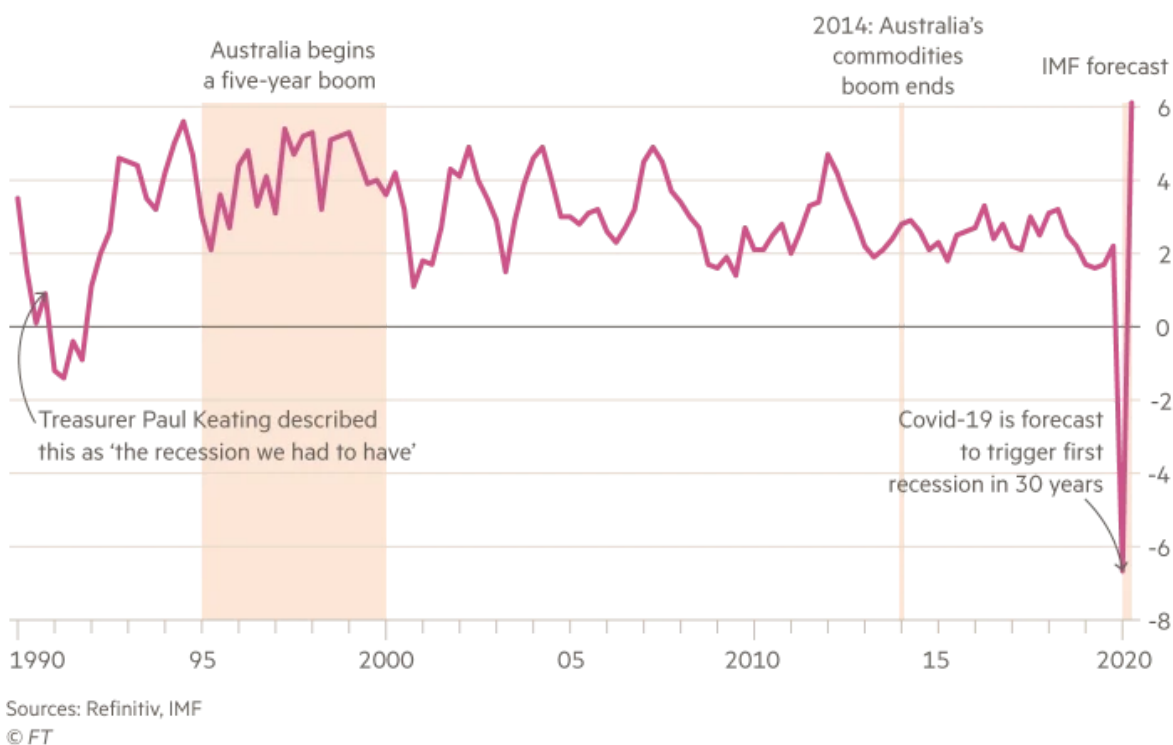
David Hammon: 'This pandemic has taken out everything' © Jamie Smyth/FT

More than 1m people have lost their jobs over the past six weeks and unemployment is expected to double to 10 per cent by the end of June, according to government forecasts. International migration, which includes students and both skilled and temporary workers — a key driver of growth, has ground to a halt and housing investment is forecast to fall 9.6 per cent in 2020. Overall Australia's A\$2tn economy is forecast to shrink by 10 per cent in the second quarter, ushering in a recession that is expected to be formally declared in economic figures published in September.

Australia entered the crisis in better shape than most developed nations with a net-debt-to-gross domestic product ratio below 20 per cent, which has enabled it to unleash A\$200bn in direct financial support for businesses and furloughed workers. But a [decade-long house price boom](#) has left many people shackled to costly mortgages. The rate of [household debt](#) to income stands at more than 200 per cent, one of the highest levels in the developed world, and is a key vulnerability as the nation faces its worst economic crisis in almost a century.

Coronavirus set to end Australia's three decades of growth

Annual % change in GDP



Diplomatic relations with China, Australia's largest trade partner with two-way trade worth \$235bn in the year to the end of June 2019, have sunk to a modern-era low following Canberra's call for an [independent inquiry](#) into the origins of the coronavirus, which was first detected in the [Chinese city of Wuhan](#). Beijing has responded by accusing the Conservative government of teaming up with Washington in "a political campaign against China". It has slapped an import ban on beef and applied punitive tariffs on barley.

"Australia is very [dependent on China](#) and benefited enormously following the 2008 global financial crisis from Beijing's stimulus which drove up commodity prices," says Saul Eslake, an economist and fellow at Tasmania university. "We won't get that uplift this time and may even suffer an economic backlash."



Warning signs ask the public to stay out of a lookout area at Echo Point in Katoomba © Getty Images

Cost of intervention

The scale of the challenge facing Australia is immense. When coronavirus began to spread in late January the nation was battling hundreds of bushfires that killed 34 people, destroyed thousands of homes and cost at least A\$5bn. This disaster, which followed a debilitating three-year drought, left deep psychological scars in affected communities. It also undermined public trust in Scott Morrison, Australia's prime minister, although his handling of the pandemic has helped his approval ratings to recover.

Within weeks of putting out the wildfires, authorities faced a new threat when Covid-19 began spreading rapidly in early March. Federal and state governments closed borders, shut [large swaths of the economy](#) and established efficient testing and tracing systems. The health response has so far proved effective, with just over 100 deaths reported and the total number of cases limited to about 7,000.

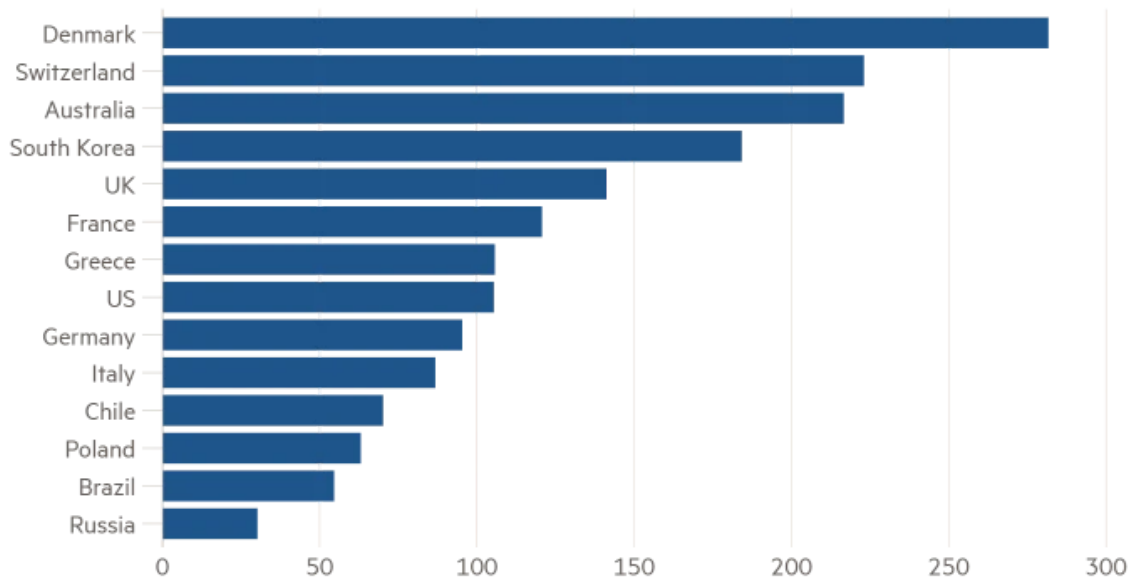
But the decisive health intervention has come at a heavy economic cost. A generation of workers with no experience of mass unemployment have either lost their jobs or been furloughed by their employers. Young people have been hit hardest, with almost one in five of those aged under 20 being made redundant. The economic carnage would be worse if it were not for a [A\\$70bn government financed "Jobkeeper scheme"](#), which is paying the wages of more than 3.5m furloughed workers — a quarter of the country's workforce — until the end of September.

"The whole experience has been very stressful," says Racheal Wellman, who lost her café job in Melbourne when social distancing was introduced in March. It took almost three weeks to complete her application for benefits and so far her efforts to secure another job have failed, leaving her in dire financial straits.

“I have been forced to borrow money from my parents and a friend just to get enough money to eat,” says the 23-year-old. “I’ve never felt so much shame in my life.”

Australian households are among the most indebted

Household debt in developed countries as a % of net disposable income (2019)



Source: OECD

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Australia’s economy last suffered a recession in 1991. Its resilience since has allowed it to sidestep several global downturns due to high levels of immigration, which adds on average about 1 percentage point to annual growth, sound economic policy and an export boom fuelled by China’s rise as an economic superpower.

Critics warn that the record-breaking streak has led to a sense of complacency that has left Australia vulnerable to this type of external shock. “The more time since the last serious downturn, the less focus there is on what can go wrong,” says Richard Yetsenga, chief economist with ANZ Bank.

“It’s difficult to believe household debt would be 200 per cent of income if the last recession had come more recently. Also this pandemic has dialled up the risk profile of the economy because the most indebted sector — households — no longer have the buffer provided by future interest rate cuts.”

In an attempt to boost weak employment and inflation data, the Reserve Bank of Australia slashed interest rates to a record low of 0.75 per cent in October, before the bushfire and coronavirus crises struck. In March the central bank delivered two further rate cuts and began buying government bonds as the pandemic caused financial turmoil and wild swings in the [local currency](#). The RBA intervention has calmed markets but has not resolved the mortgage debt problems facing workers who are losing jobs.

Australian banks have deferred payments on 429,000 mortgages under a scheme that provides people with up to six months' leeway on home loans. In total, banks have deferred for six months 703,000 home and business loans worth A\$200bn due to the pandemic. But they have warned that there is a limit to their generosity and Morgan Stanley has forecast the banking sector's loan losses could top A\$35bn over the next three years.

A 'bumpy ride'

In the Blue Mountains many businesses were already struggling due to the devastating bushfires that delivered a A\$650m hit to the area's tourism-based economy. The impact of Covid-19 will be much greater and potentially longer lasting making it difficult for some businesses to turn a profit even when they reopen.

About 60 per cent of Scenic World's 1.1m annual visitors are international tourists and social distancing in its cable cars and railway attractions presents complex challenges for management. Mr Hammon says the business will initially depend on the domestic market and possibly New Zealand, which may form a "[trans-Tasman travel bubble](#)" with Australia. But he says the government should extend its Jobkeeper scheme for companies that depend on international and interstate tourism beyond September.



Work has started on a phased reopening of heritage-listed Hydro Majestic in the Blue Mountains © Hydro Majestic

“This is a balance sheet stress test that everyone is sitting now,” says Mr Hammon, who estimates the business can survive a shutdown for 14 months with the continued support of its banks. But he says his biggest fear is a second wave of infections as winter begins, which would delay reopening and deal a sickening blow to staff morale.

At the Hydro Majestic, a heritage-listed hotel in the Blue Mountains, work is already starting on a [phased reopening](#) with a coffee takeaway service up and running and deep cleaning of the facility beginning. But there are concerns about customer demand and the damaging impact a renewed lockdown would have on the tourism sector.

“What worries us most is the mindset of the public: are they ready to begin travelling again and do they have the economic confidence to spend money,” says Huong Nguyen, a director of the Escarpment Group, which owns several luxury properties in the region.

The government has set an ambitious goal of 850,000 people returning to work by July, when it plans to ease most social distancing restrictions, except international travel and large gatherings of more than 100 people. Although the mining and building sectors have been allowed to continue during the lockdown — providing important tax income — Canberra estimates that weekly economic activity has fallen A\$4bn, based on a combination of reduced workforce participation, productivity and consumption, since the restrictions were imposed.

Economists say any return to work and economic recovery are likely to be a “bumpy ride”, and depend on controlling the spread of the virus.

“If this isn’t possible and we have to reimpose the majority of the restrictions then activity would very likely slip again. Not only would the rules be tighter, but this outcome would also signal that it’s not really possible to relax restrictions and contain the disease, which would have a significant negative impact on confidence and spending decisions,” says Sarah Hunter, chief economist at BIS Oxford Economics.



A drover herds cattle in Oodnadatta. Beijing has suspended imports of beef from some Australian meat processors © Quinn Rooney/Getty

Chinese dependence

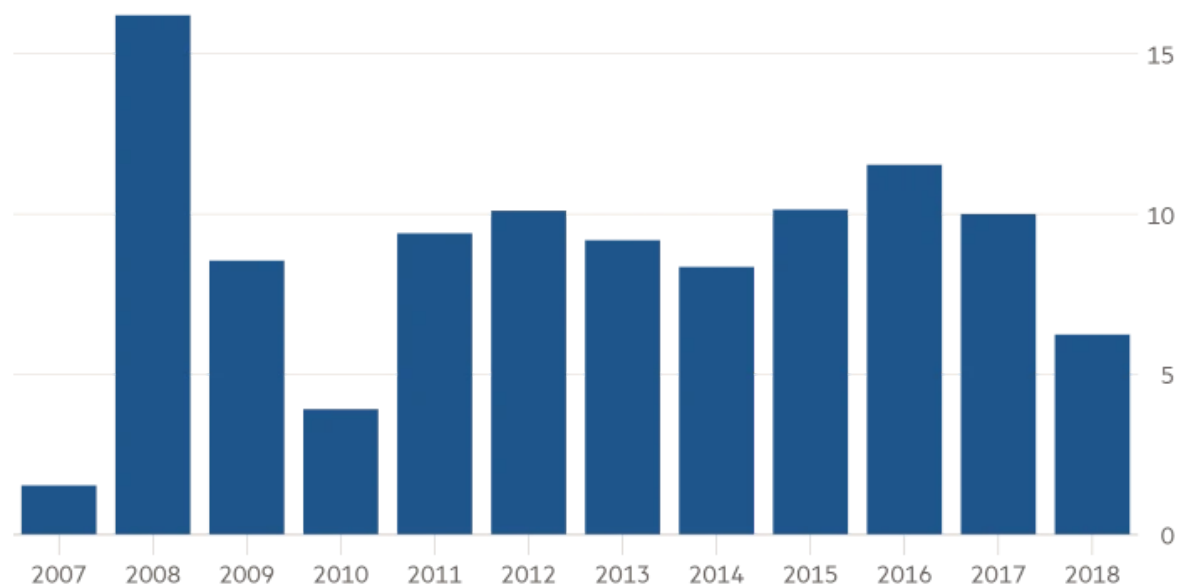
The last time Australia’s economy faced a major external shock, during the 2008 financial crisis, it benefited from Beijing’s Rmb4tn stimulus (A\$857bn). This led to a dramatic rise in iron and coal exports to China and ushered in a [decade-long investment boom](#) that strengthened business and political ties between the nations and cemented a free trade deal in 2015.

Critics say this has also left the country overdependent on Beijing. China has so far failed to unleash a stimulus in response to coronavirus. Business leaders also warn a sharp deterioration in diplomatic relations — fuelled by [Canberra’s ban on Huawei’s participation](#) in Australia’s 5G network rollout and new [foreign interference laws](#) aimed mainly at Beijing — have hurt relations and sapped investment.

Approvals for Chinese investment in Australia halved to A\$13.1bn in the year to the end of June 2019, government data shows, amid growing concern over purchases of land and other strategic infrastructure resources and [allegations of spying](#). This follows Beijing’s increasingly aggressive behaviour in the South China Sea, where it has militarised artificial islands as it lays claim to contested waters.

Chinese investment in Australia has declined

Direct investment (\$bn)



Sources: KPMG, Sydney University database

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“Chinese companies are increasingly questioning whether or not they are welcome here,” says Warwick Smith, a former executive director of Macquarie Bank and politician.

He warns that Canberra is coming under “more and more pressure” from Washington to [choose the US over China](#) and business is concerned that government’s actions are causing unnecessary damage to relations with Beijing.

“Diplomacy has to triumph over hysteria,” says Mr Smith, who in March resigned as chairman of the National Foundation for Australian China Relations, a government agency aimed at improving bilateral ties, when he became disillusioned that it was not receiving enough government support.



The Sydney Opera House, which is usually packed with tourists, last week © AFP via Getty Images

Andrew Forrest, billionaire founder of mining company Fortescue, and Kerry Stokes, a media mogul who made a fortune selling Caterpillar trucks, have led a chorus of business leaders calling for calm.

But Beijing has suspended imports of beef from some Australian meat processors and last week slapped tariffs of up to 80 per cent on its [barley imports](#). Far from rescuing Canberra from its difficulties, there is growing concern that Beijing may look to exploit the country's vulnerability by targeting other important trade sectors.

“If we’re going to go into the biggest debt we’ve had in our life and then simultaneously poke our biggest provider of income in the eye, it’s not necessarily the smartest thing you can do,” says Mr Stokes. “If Beijing's anger is not quelled it could have catastrophic consequences for the economy.”

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