

# The Coronavirus Pandemic and Its Consequences on the Australian Economy in 2020

Agnieszka Kandzia-Poździał

 <https://orcid.org/0000-0002-7025-0377>

Australia, New Zealand, Oceania Research Association

e-mail: [agnieszka.kandzia@onet.eu](mailto:agnieszka.kandzia@onet.eu)

## Abstract

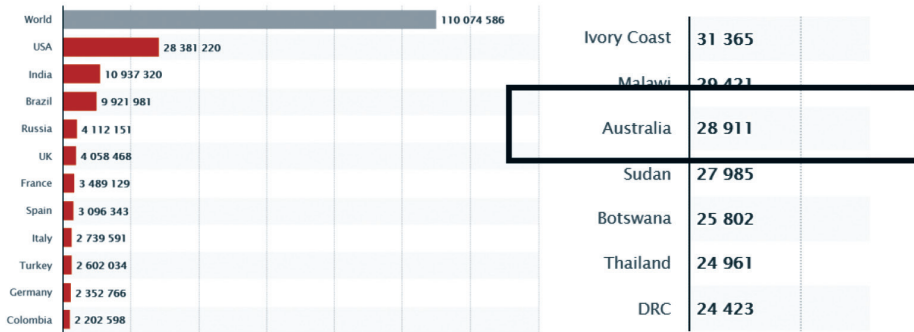
The fight against the Coronavirus continues around the world. The pandemic affects individuals and families and social groups, states, and economies. Like any other economy in the world, Australia's economy has to deal with the effects of a pandemic. Australia has chosen its own way of fighting the disease and its consequences. It was not possible to avoid an economic recession, but at the same time, political decisions, aid provided, and social behaviour can be assessed as very effective.

**Keywords:** Australia, pandemic, coronavirus, Australian economy, pandemic economic consequences

2020 was an extremely difficult year for Australia because the country has been hit very hard, twice as much. At the beginning of the year, bushfires ravaged more than 12 million hectares of land, tourism was devastated, and thousands of small businesses lost months of seasonal income. Australians were also affected by the global pandemic. The entire world was struggling with the outbreak of an epidemic that affected individual households and entire economies. Australia quickly closed its borders and imposed strict rules of social distancing, thereby avoiding the serious economic consequences of this pandemic. This article is devoted to the analysis of the country's economic situation after almost a year of fighting the global pandemic. The activities of the authorities and their impact on internal conditions and relations with other countries have been analysed.

## Authorities' first actions

The first case of Covid-19 was identified and confirmed on January 25, 2020 in Victoria. Chinese visitor showed symptoms and has been tested. Australia reacted almost immediately. The development of the situation began to be observed. On February 1, 2020 Australia introduced a compulsory quarantine for all citizens returning from China and additionally, the borders closed for all people travelling from China.



**Figure 1.** Number of Covid-19 cases in Australia and worldwide (as of February 17, 2021)

Source: Number of coronavirus (COVID-19) cases worldwide as of February 17, 2021, by country Web. February 18, 2021. <https://www.statista.com/statistics/1043366/novel-coronavirus-2019ncov-cases-worldwide-by-country/>

All of Australia's external borders were closed on March 20, 2020; people who were not residents of the country were not allowed to enter. Inner borders also were closed by some states. All residents returning to the country were subject to mandatory hotel quarantine. The pandemic seemed to have slowed down and new cases were sporadic. Unfortunately, there was an incident at the quarantine

hotel in Melbourne in May. The second, a much more severe wave of infections broke out in Victoria. Daniel Andrews, the Prime Minister of the state, labelled by newspapers “Dictator Dan”, reacted immediately, closing the state for three months (with masks, curfew, and travels no more than a few miles from home, and just one hour a day outdoors for exercise). Initially, these solutions seemed radical, but over time, the decisions were appreciated by society and the media and with 77% approval rating in Victoria for Andrews’ handling of the pandemic.

On March 25, 2020 the Prime Minister appointed the National COVID-19 Coordination Commission (NCCC). It was a new body tasked with advising on the fight against the pandemic. The main task of the NCCC is to prevent or mitigate any effects of the pandemic, including those of social and economic nature, and to do so collaboratively. As the Australian Prime Minister said, “There are, there are no blue teams or red teams or, there are no more unions or bosses. There are just Australians now; that’s all that matters. An Australian national interest and all Australians working together. And I thank all of those that are coming together in that spirit” (Morrison).

Throughout the crisis in Australia, cases of human-to-human transmission (Cockburn) of the virus in direct contact within the same state, city or even family were monitored very intensively and carefully. The observation of the families led to the most serious freezing of activity in the state of Victoria. In order to introduce all preventive measures and restrictions, the authorities very quickly decided to introduce a state of emergency and human biosecurity emergency.<sup>1</sup> The declaration of human biosecurity emergency gives the Minister for Health “expansive powers to issue directions and set requirements” in order to fight the pandemic. On the basis of these acts, the principles of social distancing, the obligation to wear masks and some further restrictions, e.g. numbers of permitted participants in different types of social gatherings were immediately introduced. These acts generally forbid Australians to leave the country. Borders and seaports have been closed, flights limited only to the most important purposes, e.g. related to defence force and security (*Maclean and Elphick*). Citizens were prepared for large-scale testing, social restrictions, cancellation of cultural and sports events and remote work where it was possible. Retired doctors were encouraged to go back to work. Campaigns on public health and safety were carried out. The action was conducted in different languages to reach most ethnic groups for whom English was a second language. In Australia, in total (as of March 2021) almost 29 thousands of people fell ill with coronavirus, 909 people died. Each week, an average of over 250 thousands tests

<sup>1</sup> State of emergency has been introduced by Daniel Andrews – premier of Victoria, at March 16, 2020 and in March 2021, the extension of the state of emergency until December is still under discussion in local parliament. Two days later after Committee meeting the human biosecurity emergency was declared in Australia by Governor General David Hurley (based on Section 475 of The Biosecurity Act 2015) first time in history.

were performed (with varying frequency in different states – most in Victoria and New South Wales).

With the introduction of social restrictions the Australian government decided to close non-essential services (e.g. pubs and clubs were closed), but many industries such as manufacturing, construction and retail have been still operating. But when the borders were closed, there were problems with deliveries to and from China (Australia's largest trade partner). Already in March 2020, PwC Australia published the first report on economic changes and forecasts. The first effects affected: domestic companies (mainly related to tourism, in particular student tourism) and companies exporting goods to China and importing from China. The closure of the borders caused business losses at the end of March. Over time, the accumulated stocks were exhausted, deliveries were not regular, the import of goods decreased and other companies (also not directly involved in the import or export of goods from and to China) felt the financial consequences of these changes. At the same time, commodity prices rose (the Chinese government was expected to stimulate their economy spending more on infrastructure), and as the number of confirmed coronavirus cases increased and China's economy slowed, the Australian Dollar depreciated against the United States Dollar to levels not seen since the global financial crisis (Thorpe et al. 2).

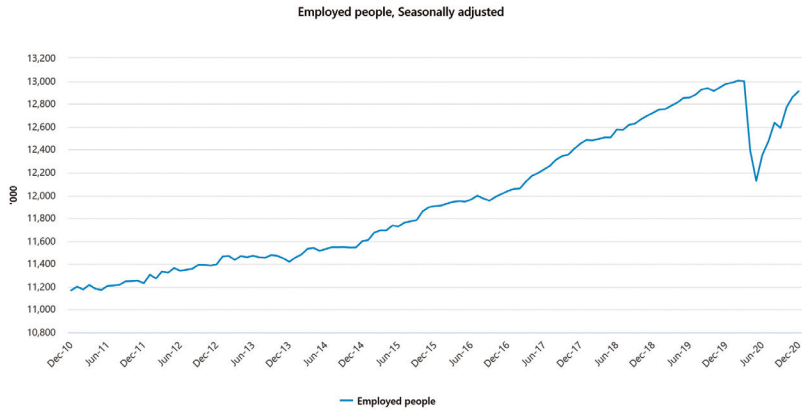
## Consumption and employment

All of this had its first consequences very quickly. Employment was immediately hit by the pandemic. In total, nearly one million people in Australia lost their jobs during that period. Infected people were unable to work for more than two weeks and some of the active workers died. In 2020 the unemployment rate in Australia seems to have been influenced by the coronavirus pandemic, reaching 7% in October of that year. The unemployment rate peaked in July when it reached 7.5%.

Global supply chains were also disrupted – mainly in terms of liquidity. International trade costs have increased significantly. Companies had to start using reserves, which caused them to deplete quickly. Trade was not possible at the same level as the year before. This applies not only to the import of goods but also to export. The pandemic has hit many industries in the Australian economy. The most affected areas were: gastronomy, electronics, tourism and recreation as well as education and culture:

The exclusion of international students and temporary visa holders from public financial support may have been partly to minimise the imposition on the Commonwealth budget, but it also played into a nationalistic 'Australia first' rhetoric that the prime minister employed for broader political reasons. Many multicultural groups, universities, churches and charities have, instead, provided financial support (O'Sullivan et al.).

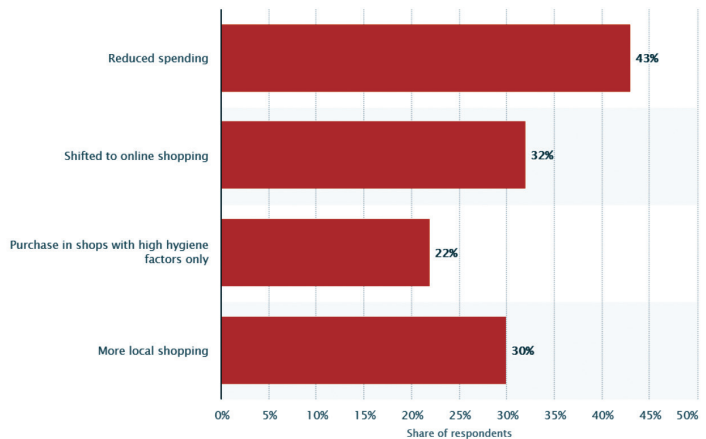
## The Coronavirus Pandemic and Its Consequences on the Australian Economy in 2020



**Figure 2.** Employed people in Australia in 2020

Source: Australian Bureau of Statistics (2021c), Labour Force as of December 2020. Web. February 20, 2021. <https://www.abs.gov.au/statistics/labour/employment-and-unemployment/labour-force-australia/dec-2020>

Household consumption decreased significantly. In June 2020, Australia recorded the largest GDP decline of around 7%: this was mainly due to a reduction in household spending by 12.5%. People started saving; more of their household budgets were set aside as savings. In times of crisis, consumers are more careful about spending their money. The direction in which money is spent is also changing – primarily on home, food and gambling (in Australia). Australians began to spend less and were more likely to shop online and in small local stores.



**Figure 3.** Consumer shopping behavior changes as a result of coronavirus (COVID-19) pandemic in Australia in 2020

Source: Consumer shopping behavior changes as a result of coronavirus (COVID-19) pandemic in Australia in 2020. Web. December 12, 2020. <https://www.statista.com/statistics/1192200/australia-consumer-shopping-behavior-changes-as-a-result-of-coronavirus-pandemic/>

Compared to other major economies in the world, the Australian government reacted remarkably quickly. In mid-March, the government introduced the first stimulus package of AUD 17.6 billion. The package was intended to secure jobs and protect the health of Australians. 10 days later, a second stimulus package of AUD 66 billion was announced. As part of this package, assistance was provided to:

- 1) Casuals and sole traders (coronavirus supplement of AUD 550 a fortnight for the next six months, help for jobseekers, tax-free assistance for small and medium-sized enterprises – AUD 10,000).
- 2) Households (assistance for seniors or people receiving benefits).
- 3) Pensioners (subsidy for pensions at an average of AUD 219 per year).
- 4) Employers who want to keep staff (AUD 100,000 for small businesses to maintain jobs) (Judd 2020).

On March 30, 2020 the largest economic support package – worth AUD 70 billion – was unveiled by the government. The “JobKeeper” program is aimed primarily at employers who can receive up to AUD 1,500 per two weeks both for full- and part-time employee (provided that the employee was associated with the company for one year before the pandemic began). Companies were very eager to use this program to keep jobs. Therefore, the government has decided to introduce further enhanced versions of “JobKeeper”. Other organisations were also eligible for assistance from the program. Australian Charities and Not-for-profits Commission registered charities were supposed to show a 15% decline (Australian Bureau of Statistics 2021b). Then they could apply for subsidies to operate and maintain jobs.

## JobKeeper 2.0

### EMPLOYER ELIGIBILITY

**JobKeeper 1.0**  
Currently 27 September 2020

**JobKeeper 2.0**  
Extended to 28 March 2021

**END DATE**

**Current JobKeeper 1.0 Basic Test**

- 30% decline in aggregated GST turnover (50% decline for businesses with aggregated turnover of more than \$1 billion)
- 15% decline if a registered charity

**JobKeeper 2.0**

No change to decline percentages (30%, 50%, 15%)

**TURNOVER DECLINE TESTING**

**To be eligible from 28 September 2020 to 3 January 2021:**

- Measure decline using actual GST turnover in both the June and September 2020 quarters to 3 January 2021, relative to comparable 2019 periods

**To be eligible from 4 January 2021 to 28 March 2021:**

- Measure decline using actual GST turnover in each of the June, September and December quarters 2020, relative to comparable 2019 periods

JobKeeper remains open to new recipients provided they meet the existing eligibility requirements and the additional turnover tests during the extension period

**OTHER INFORMATION**

### JOBKEEPER 2.0

Currently **\$1500 PER FORTNIGHT** for all eligible employees till 27 September 2020

WORKED 20 HOURS +	OTHERS
<b>\$1200 PER FORTNIGHT</b> from 28 September 2020	<b>\$750 PER FORTNIGHT</b> from 28 September 2020
<b>\$1000 PER FORTNIGHT</b> from 4 January 2021	<b>\$650 PER FORTNIGHT</b> from 4 January 2021

**STOP 28 March 2021**

### WORKER ELIGIBILITY

**20+ work hours test (look-back to February 2020)**

- From 28 September 2020, eligibility for “full rate” (Tier 1) JobKeeper depends on employee working in the four weeks of pay periods before 1 March 2020 for 20 hours or more on average
- ATO discretion to apply an alternative test if employee’s hours were not usual during February 2020 reference period
- Employer must nominate which payment rate is being claimed for each employee

**JobKeeper 1.0 eligibility rules for employees are unchanged**

**Apprentices and trainees in place on 1 July 2020**

- Wage subsidy of 50% of the apprentice or trainee’s wages paid until 31 March 2021.
- In addition to the existing support for small businesses, medium-sized businesses employing 199 people or fewer will now be eligible for the subsidy, for wages paid from 1 July 2020 to 31 March 2021.

JobKeeper eligibility continues for sole traders, a partner in a partnership, a beneficiary of a trust, a shareholder or director of a company

**20+ work hours test (look-back to February 2020)**

- The 20+ hour test (see above) also applies to sole traders and eligible business participants from 28 September 2020, calculated by reference to time spent “actively engaged in the business”

**SOLE TRADER AND ELIGIBLE BUSINESS PARTICIPANTS**

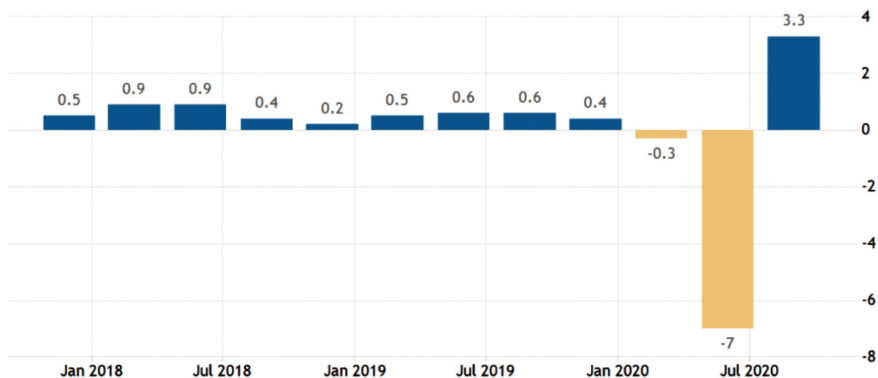
JobKeeper payments “relative to the compensation of employees (COE) were highest in Arts and Recreation Services (25.0%), down from 51.3% in the September quarter. Accommodation and Food Services (16.6%) recorded the second-highest share of JobKeeper relative to COE, down from 45.0% in the September quarter” (Australian Bureau of Statistics 2021b).

The government introduced numerous aid programs for companies, employees who lost their jobs or those who wanted to keep them. There was even a “Home-Builder” program that brought about a spectacular effect. “HomeBuilder” provides eligible owner-occupiers (including first home buyers) with a grant to build a new home or substantially renovate an existing home. In this way, the residents benefit, and so do construction and renovation companies. In total, Australian residents submitted over 93,000 applications for funding (Australian Government 2020). Thanks to this program and record low-interest rates spending on renovations increased by 5.2% and new home construction by 3.4% (Hutchens, Chalmers and Janda).

## Economic strength

Additionally, The Reserve Bank of Australia (RBA) cut interest rates to a record 0.25% at its extraordinary meeting in March, and then extended its low-cost loan facility to domestic lenders to keep the flow of cheap credit flowing in the economy.

Despite the introduction of many forms of aid, Australia recorded a GDP decline in the second quarter of the year, first by 0.3% and then by 7%. As the decline was recorded in two consecutive periods, we can speak of a recession (Samuelson and Nordhaus 99), which – it is worth emphasising – last occurred in 1991. Moreover, the 2020 recession was the deepest in over 30 years.



Source: Australia GDP Growth Rate, Trading Economics. Web. February 20, 2021. <https://tradingeconomics.com/australia/gdp-growth>

However, this was not just a pandemic effect. The tense political situation on the Canberra–Beijing line also contributed to the deterioration of the economy. Since Australian Prime Minister Scott Morrison began soliciting an independent investigation into the origins of the Coronavirus, Chinese authorities have threatened to boycott some Australian goods. In late April 2020, Australia publicly backed such an investigation. And a few days later, the Chinese government issued the first decisions. Australian companies: Kilcoy Pastoral Company, JBS's Beef City, Dinmore and Northern Cooperative Meat Company have been banned from exporting beef to China.<sup>2</sup> Formally, due to problems with labelling and health certificates; informally, it is a response to the Coronavirus investigation and to the fact that the Chinese concern Huawei was excluded from building a national 5G network. According to the Chinese Ministry of Trade, duties were imposed following an investigation since 2018 which showed that Australian barley was dumped in China to the detriment of domestic producers.<sup>3</sup> Significantly higher duties were also imposed on wine. In Australia, this conflict is described as “Australian–China trade war” (Grant, Dziedzic and Xiao). What is interesting, in the face of problems with the supply of iron ore from Brazil (where the pandemic is at an advanced stage), China must count on Australian raw material, and dealing with Australia seems to be both: a model of behavior and a warning to other countries that would like to start or support similarly investigation or impose their own trade conditions in the future.

The closure of borders and increased trade tensions with China caused exports to drop 3.2% in September, and about AUD 3 million in the end of the year, reflecting reduced demand for mining resources, tourism and education services, and the aforementioned food products (Bloomberg News 2021).

Already in September, the Australian economy showed its strength and began to rebound significantly. An increase of 3.3% was recorded, which has been much higher than expected. It may take another two years for a full recovery to the pre-pandemic state. Of course, if nothing wrong happens again. However, it is possible to draw first conclusions and make a preliminary summary of the economic situation during the pandemic.

The economic recovery we are witnessing today is Australia's largest GDP growth since 1976. In December 2020, another (second in a row) increase of 3.1% was recorded. However, the economy shrank by 1.1% in 2020 (Australian Bureau of Statistics 2021a). Commonwealth Bank economist Gareth Aird pointed out that owing to the pandemic as well as the “radical” government response 2020 would go down as “the most unique year to date in the history of the Australian economy” (Hutchens, Chalmers and Janda).

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<sup>2</sup> So far, these companies were responsible for approx. 20% beef exports to the PRC.

<sup>3</sup> Before the introduction of the duty, about 70 of total Australian barley exports was sent to China.



The good economic performance at the end 2020 shows that the Australian authorities have handled this difficult period quite well. There is a slow recovery from this complicated situation. After some restrictions have been eased, a marked increase in household spending can be observed. People started trading more intensively with cash that returned to the economy. Expenditure on goods and services increased much more than expected: “Spending by households rose 4.3% [last quarter of 2020], but remained 2.7 down through the year. Spending on goods rose 2.8% for the quarter and is up 6.2% through the year. Purchase of vehicles rose a record 31.8%, reflecting elevated household disposable income and shifting spending patterns with continued limitations on some expenditure items such as international travel. Spending on services rose 5.2%. This reflects a partial recovery with spending down 7.8% through the year. Recreation and culture, hotels, cafes and restaurants and health all continued to rebound as movement and trading restrictions eased” (Australian Bureau of Statistics 2021a).

## Conclusions

There are several conditions that contributed to this good economic performance. Australian authorities and health care dealt relatively quickly with the high viral threat. COVID-19 was not as common as it was in other countries. Large number of tests performed and rapid and radical restrictions prevented the spread of the disease. There are sometimes protests related to restrictions, social tiredness and frustration, but the majority of society trusts the actions of the authorities and supports the decisions made. As a consequence, quick control of the epidemic allowed for the lifting of restrictions wherever possible. Mentioned in this article aid programs and packages for the economy protected it against long recession. Fiscal and monetary support helped saving many jobs and businesses. This, in turn, increased public confidence in the state and federal authorities, increased employment and the mentioned revival in household spending. Private investment rose nationally, which also effected the overall GDP result. Climatic conditions are also important for the economy. Favourable weather conditions supported the agricultural and farming sectors and helped elevate national output.

Australian response to the coronavirus disease (COVID-19) pandemic has, thus far, been among the most successful in the world<sup>4</sup> and the government’s economic recovery plan has been working efficiently.

On the one hand, Australia may owe some of its success to geographic conditions. The island country can close its boundaries much easier and faster.

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<sup>4</sup> The USA economy contracted 9.5% between April and June 2020, while the UK economy contracted 20.4%, pushing it into recession as well. The economy of France fell by 13.8% and that of Japan by 7.6%.

On the other hand, we must not forget about the very effective activities implemented in this country. Past problems with bushfires have shown that Australia needs a strong and determined leadership. It seems to be successful during the pandemic. There was (or still is) effective action, effective policy and leadership, and collaboration between the public and private sectors. Even a slight increase of cases immediately has brought further restrictions. The vast majority of residents complied with the requirements set by the government and showed great trust in the state authorities. Even now, with the disease seemingly under control, the population is acting with caution. A temporary ceasefire between political parties allowed greater social trust to build in the proposed solutions. Decisions were made beyond divisions. Experts, not politicians, had the decisive vote on the pandemic. Flexible and constructive social and economic solutions were introduced. Fighting a pandemic is very costly, but as the case of Australia shows, it can be managed effectively. The OECD forecast shows that 2021 will be much better for the Australian economy, with economic growth estimated at 2.5%. Some sources forecast an even greater increase of 6%. However, it is important to remember that with the advent of new strains of the virus, further restrictions, changes and economic downturns may be inevitable. Still, the actions of the authorities may be so effective that the economy, despite the difficulties, will continue to grow at the level of a 3–4 percentage points.

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Agnieszka Kandzia-Poździał

**Agnieszka Kandzia-Poździał** – MA, graduate of the University of Silesia in Katowice in the field of political science. Member of the Australia, New Zealand and Oceania Research Association (ANZORA). Her research interests focus on Australian political, economic, social and cultural issues. She also explores the evolution of the republican movement in Australia. Australian policy commentator and author of numerous scientific articles on Australia and the Pacific. Co-editor of the book *Australia w XXI wieku. Polityka, historia, kultura* (2017).