



Economic insights: COVID-19

Tom Youl – Senior Industry Analyst





Agenda:

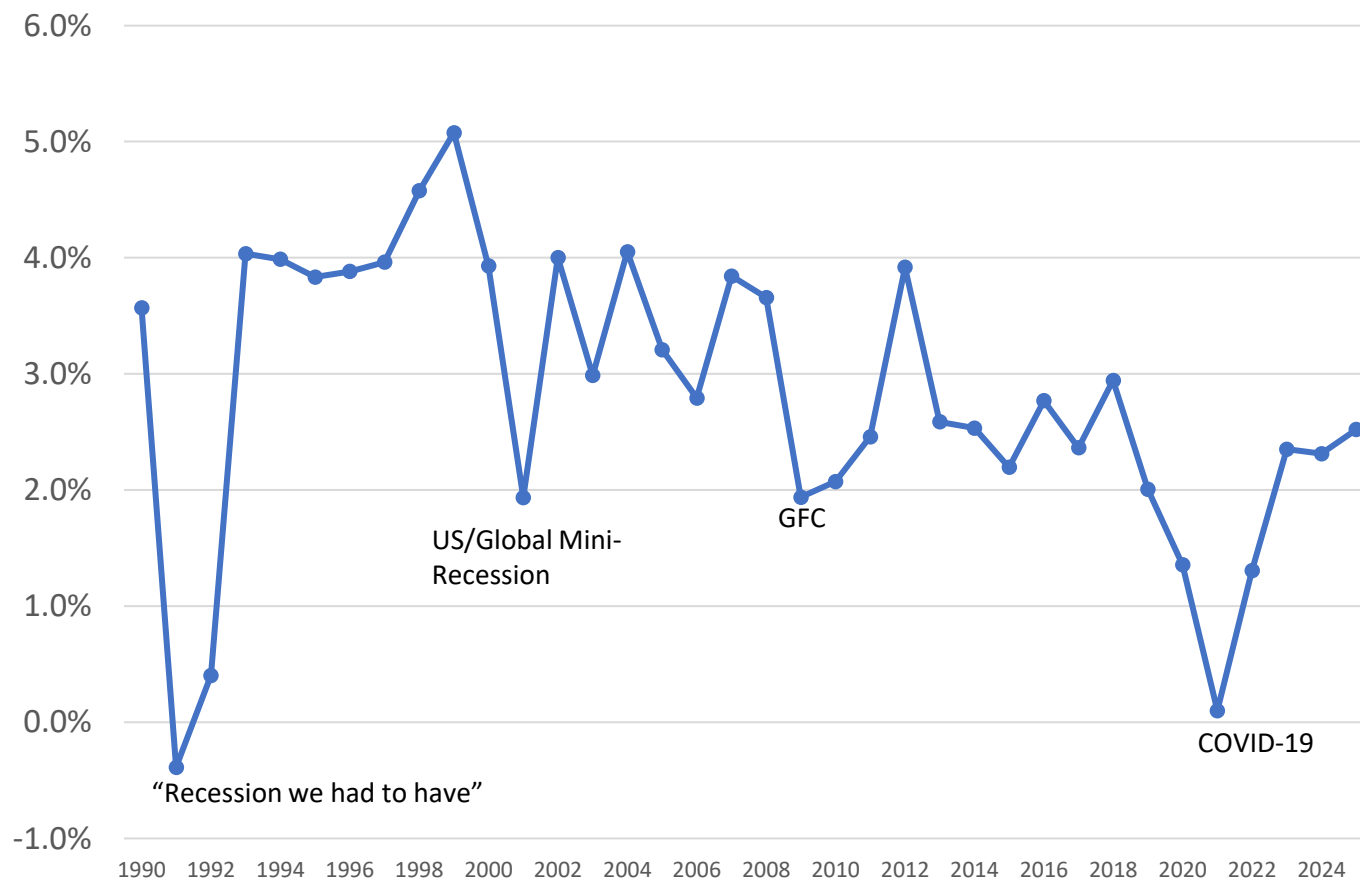
- Economic Overview
- Tourism
- Food & Beverage (Ag)
- International Trade
- Thriving Industries



Economic indicators

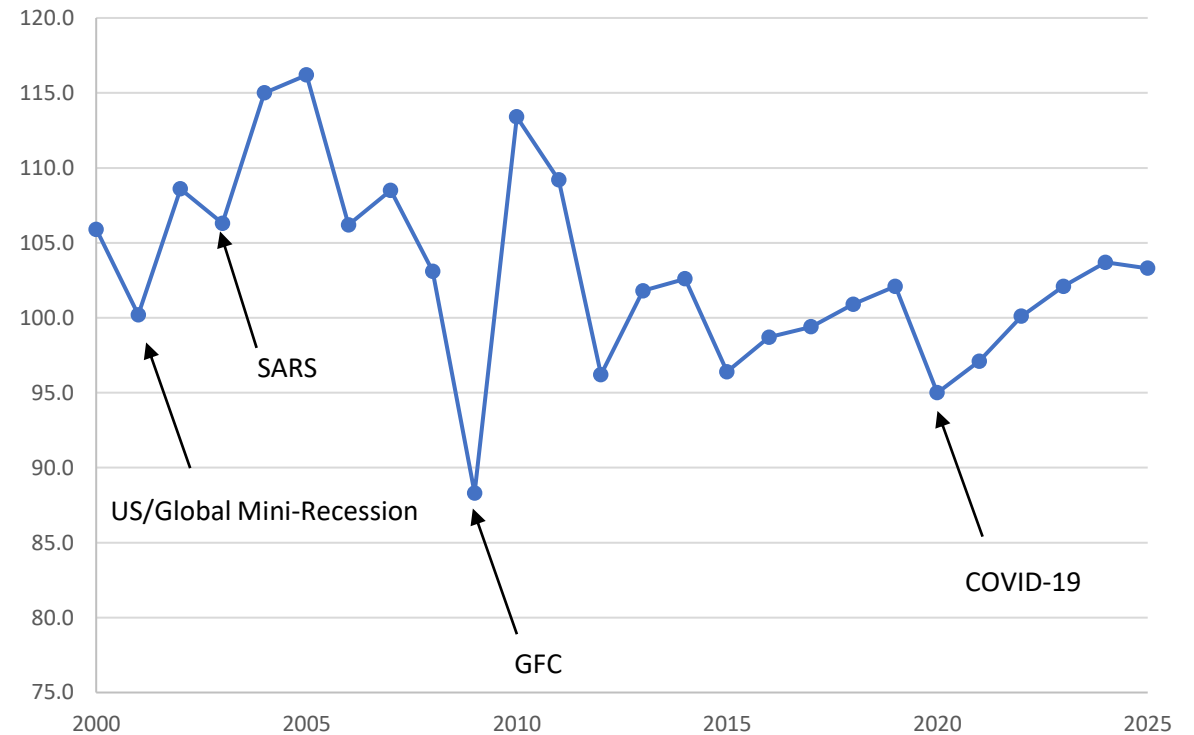
Australian GDP growth

- 2019-20 GDP growth: **1.4%** (2.0% pre-COVID but post bushfires)
- 2020-21 GDP growth: **0.2%** (2.4% without COVID)
- Assumed 6-month period of lockdown and disruption. Growth from Jan 2021
- Recession expected end of June qtr



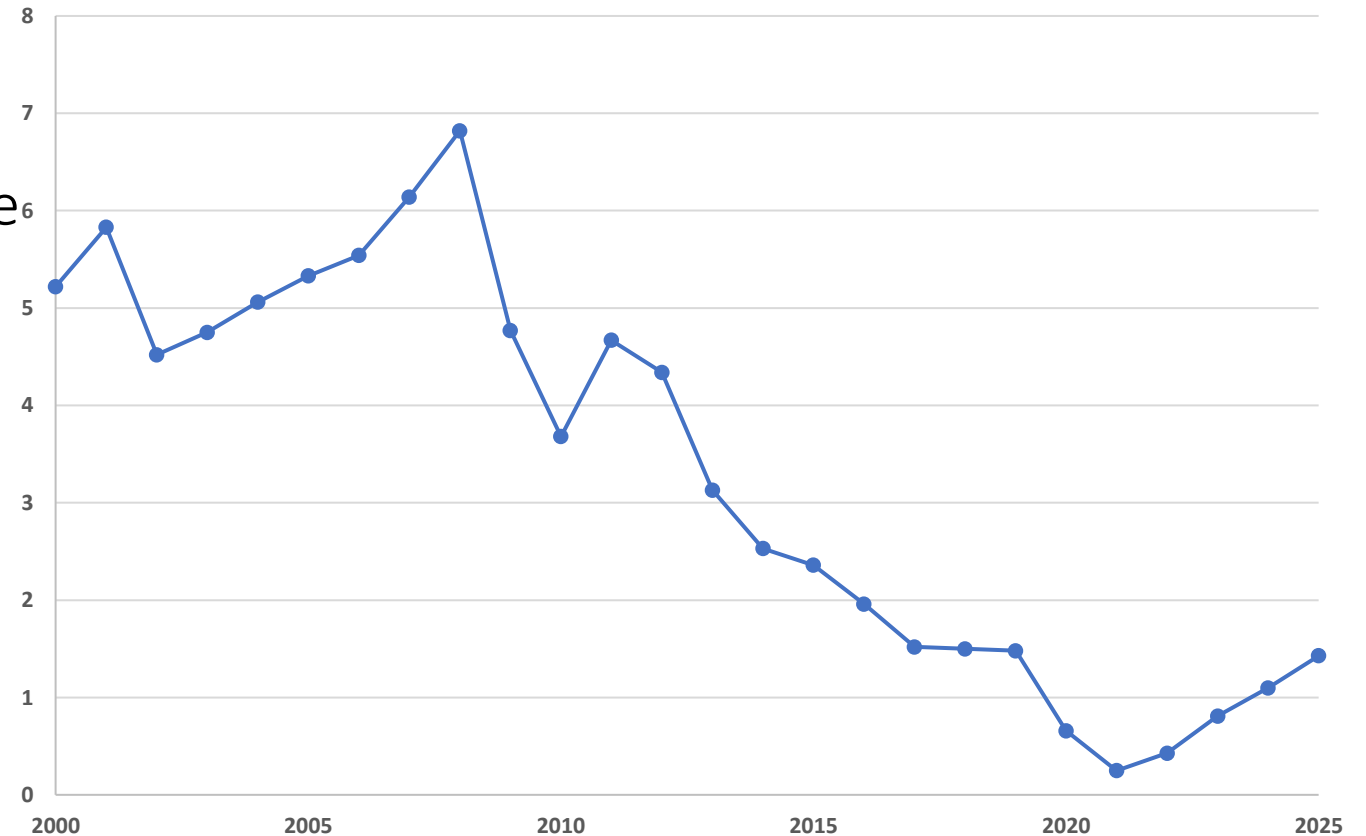
Consumer sentiment index

- 2019-20: **94.0** index points
- 2020-21: **97.1** index points
- Expected to be negative for 11 of 12 months
- SARS outbreak
 - 2002-03: 106.3 index points



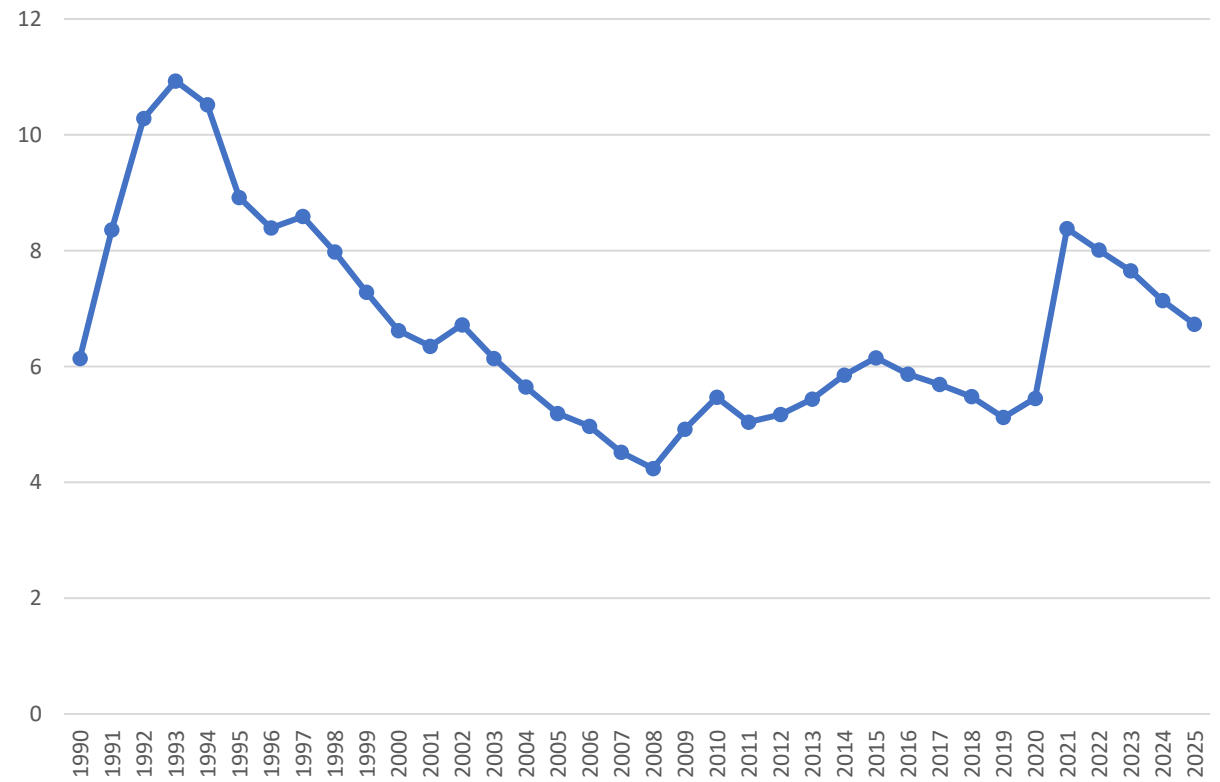
Cash rate

- Currently: **0.25%**
- Further cut to 0.25% later on in the year
- Factors:
 - Soft economic growth
 - Below-target inflation
 - Rising unemployment
 - Weak wage growth
 - Negative consumer sentiment
 - **COVID-19**



Unemployment rate

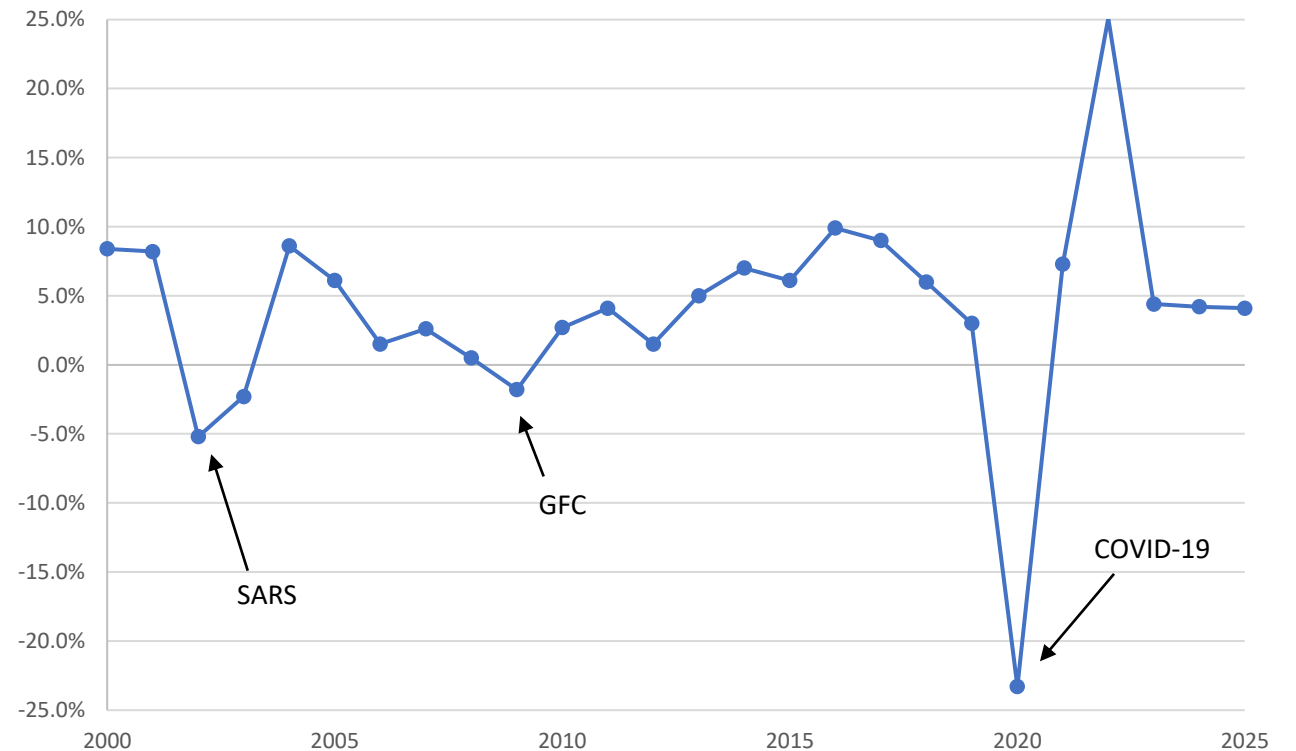
- Rise from **5.3%** in 2019-20 to **8.4%** in 2020-21.
- Annual average of monthly results, which understates the peak
- Peak unemployment of 9.5%
- Partially contained by JobKeeper Payment scheme.



Tourism & Hospitality

International travel to Australia

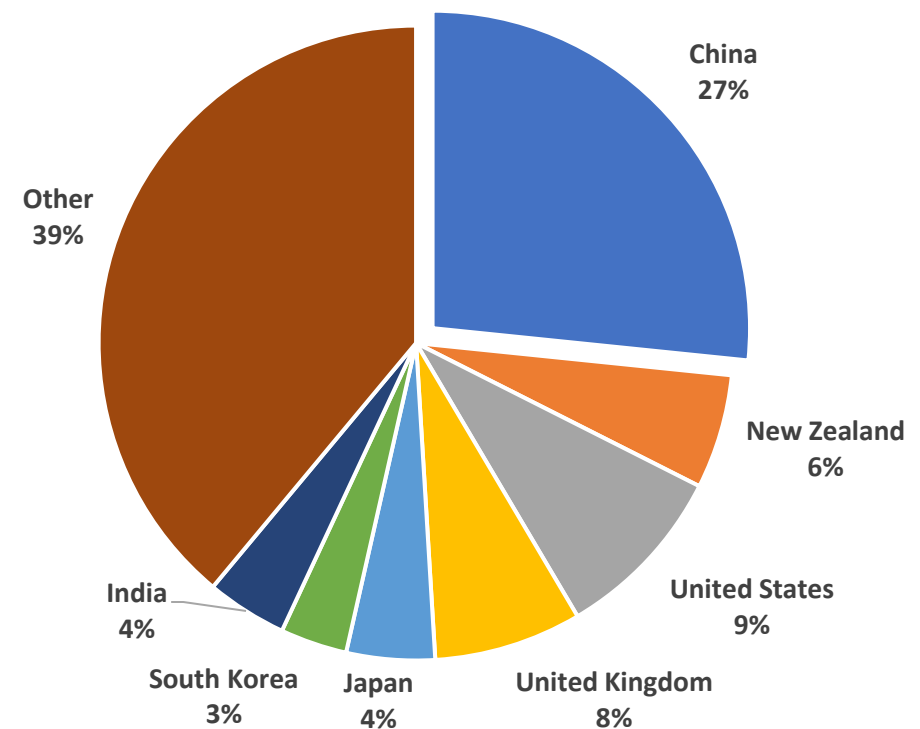
- Strongest fall since the SARS outbreak (-5%)
- Factors:
 - Severe bushfires earlier in FY
 - US-China trade war
 - COVID-19
 - **Travel bans**
- International travel by Australians also expected to fall
 - **2019-20: 25% decline**
 - **2020-21: 1.1% growth**
 - Not much from a low base – full recovery in 2021-22



Weak demand

- China is the largest market in terms of tourism expenditure
- The travel ban has put pressure on tourism businesses across Australia
- High impact:
 - Airlines
 - Accommodation providers
 - Travel agencies
- IBISWorld expects that rev + profit will fall for all these three industries in 2019-20.
- Moderate impact:
 - Restaurants/food-service
 - Recreational and cultural sites
 - Local transport services

Inbound Tourism Expenditure 2018-19
\$45 billion



Weak demand

Industry	Rev Change 2019-20 (f)	Growth, pre-COVID-19
I4901 International Airlines	-32.00%	4.50%
I4902 Domestic Airlines	-24.30%	-0.20%*
H4401 Hotels and Resorts	-10.70%	1.70%
H4404 Serviced Apartments	-9.8%	1.10%
X0003 - Tourism	-15.7%	2.00%

Hospitality

- Most severe revenue declines could be similar to airlines in 2019-20 (20%+)
 - Pubs, bars, nightclubs
- IBISWorld expects that rev + profit will fall for all hospitality industries in 2019-20.
- Government stimulus highly helpful to the hospitality sector:
 - Keep as many employees as possible, aiding the recovery and shortening the downturn
- Delivery services will aid some – restaurants and fast food

Hospitality

- Upcoming updates in April:
 - Pubs, Bars and Nightclubs
 - Social Clubs
 - Caravan Parks, Holiday Houses and Other Accommodation
 - Motels
 - Scenic and Sightseeing Transport in Australia
 - Airport Operations in Australia

Food & Beverage

Domestic conditions: Food

- Supermarket store traffic surged during the rush to stockpile (mid-march)
 - Supermarkets have stopped discounting
 - Drought & bushfires are a factor
- ACCC has relaxed a number of competition guidelines to help supermarkets ensure grocery supply
- Coles and Woolworths intend to hire 32,000 new staff
- Dark stores:
 - 41 supermarkets operating as online supply hubs
- Woolworths: Partnership with Australia Post and DHL

Revenue Growth

Year	Revenue \$ million	Growth %
2006-07	502.2	0.0
2007-08	576.7	14.8
2008-09	652.4	13.1
2009-10	734.8	12.6
2010-11	770.6	4.9
2011-12	845.7	9.7
2012-13	982.8	16.2
2013-14	1,278.5	30.1
2014-15	1,566.5	22.5
2015-16	1,924.9	22.9
2016-17	2,341.8	21.7
2017-18	2,931.6	25.2
2018-19	3,688.4	25.8
2019-20	5,754.8	56.0

Domestic conditions: Alcohol

- According to CBA, spending on alcohol surged by 86%
- (Very generous) limits on alcohol purchases
- Jimmy Brings:
 - 23% increase in customers
 - 800% increase in job applications
 - Extras sales:
 - Condoms: 29% increase
 - Panadol or Nurofen: 34% increase



Ag & food manufacturing exports

- Fresh food reliant on airfreight
 - 90% of airfreight is carried in cargo of commercial flights
- Highly affected sectors:
 - Red meat (supply chain, domestic production)
 - Seafood (supply chain)
 - Wine (weak demand)
- Total agriculture exports are likely to fall for the third financial year in a row
- Exposed to demand trends within Asia

Country of final destination	2018-19	Share
Total	49,079,819,942	
China	14,032,896,002	28.6%
Japan	5,260,493,562	10.7%
United States of America	4,348,775,227	8.9%
Korea, Republic of	2,846,686,330	5.8%
Indonesia	2,122,164,936	4.3%
Vietnam	1,806,326,235	3.7%
New Zealand	1,784,503,441	3.6%
Hong Kong (SAR of China)	1,372,773,114	2.8%
No Country Details	1,317,450,819	2.7%
Singapore	1,172,241,198	2.4%

International Trade

Exports: Country of Destination

- Highly exposed to China and Japan
- China and South Korea: Have reported significant 'flattening of the curve'
- Japan and Singapore: Slow growth, world-leading management (some doubt regarding Japan's strategy but curve looks positive)
- India and Taiwan: Too early to tell
- United States: Major concern
- Overall: Exposed and a downturn is expected but could be worse, low exposure to Europe and UK

Country of final destination	2018-19	Share
TOTAL	372,621,991,832	
China	134,157,738,372	36.0%
Japan	58,143,145,133	15.6%
Korea, Republic of	25,103,789,368	6.7%
India	16,095,412,100	4.3%
United States of America	14,327,067,136	3.8%
Taiwan	12,305,641,452	3.3%
Singapore	10,559,472,927	2.8%
New Zealand	9,892,298,531	2.7%
Malaysia	8,839,024,285	2.4%
Hong Kong (SAR of China)	7,879,844,242	2.1%

Exports to China

- Mining is expected to see a moderate demand decline across the board
- China account for almost 30% of agriculture exports
 - Initial concerns have abated, demand from China has been resilient
 - Staple goods have been performing well, premium products struggling
- NZ monthly results Feb 2020: strong growth in ag commodity exports.
 - Milk powder exports up 28% in February.
- Can companies (food & beverage) adapt their product mix?

Industry (mining excluded)	Exports to China	Total Revenue	Exp. China Revenue Share
Sum of confidential items not more specifically classified	20,988	N/A	
Other Basic Non-Ferrous Metal Manufacturing (includes Gold)	5,080	25,352	20.0%
Meat Processing	2,877	22,564	12.7%
Sheep Farming (Specialised)	2,849	4,589	62.1%
Copper, Silver, Lead and Zinc Smelting and Refining	2,439	3,306	73.8%
Human Pharmaceutical and Medicinal Product Manufacturing	1,755	10,683	16.4%
Wine and Other Alcoholic Beverage Manufacturing	1,077	7,422	14.5%
Grain Mill Product Manufacturing	1,076	3,469	31.0%
Other Grain Growing	1,036	11,901	8.7%
Wood Chipping	976	1,462	66.8%
Cotton Ginning	918	3,160	29.1%
Seafood Processing	729	1,148	63.5%
Logging	608	4,876	12.5%
Leather Tanning, Fur Dressing and Leather Product Manuf.	586	430	136.2%
Other Food Product Manufacturing n.e.c.	551	7,585	7.3%
Cheese and Other Dairy Product Manufacturing	507	11,138	4.6%
Beef Cattle Farming (Specialised)	302	17,945	1.7%
Pulp, Paper and Paperboard Manufacturing	277	3,116	8.9%
Medical and Surgical Equipment Manufacturing	235	4,350	5.4%
Other Fruit and Tree Nut Growing	222	4,514	4.9%
Grape Growing	220	1,491	14.8%

Thriving Industries

Silver Linings

- Food Retailing
 - Online grocery Stores industry: forecast 56% revenue growth in 2019-20
- Online Retail
 - Weaker growth but will increase as share of total retail sales
- Consumer Electronics
 - Short-term boost (hoarding / lock-down-related) but the next 12 months looks bleak
- Media
 - Viewership up strong but advertising down
 - Overall decline for the industry
 - Strong growth among streaming service providers
- Fuel Retailing
 - Revenue down but profit up
- Book Stores:
 - Home-schooling and increase in reading
- Medical Manufacturing
- Health Insurance
 - Revenue growth moderated due to rate freezes but increased profit from temporary ban on elective surgeries
- Sporting Goods & Clothing Retailing

Thank you!