



ARTICLE

COVID-19 and the resilience of the Australian economy

The health emergency triggered by the rising number of coronavirus cases in Australia is resulting in an unprecedented reorganisation of work and leisure. Understandably, the community is concerned about what the future might hold for its health and the economy. Much has been written on the potential macro-economic consequences, including our own commentary on [supply-chain implications](#). In this article, we highlight the high level changes that have occurred in the Australian economy over the last decade which have improved its resilience and positioned it to better deal with the current health emergency.

Faced with the current circumstance, consumers are dramatically adjusting their household budgets. Households are buying more groceries, health and personal care products and spending less on entertainment. While this is largely a rebalancing of household budgets, there is also a demand shock – as more households engage in precautionary saving, and some households' income is significantly cut due to a loss of work (e.g. casuals in the hospitality sector). Such a rapid change in consumer expenditure is a boon for those gaining sales as a result of the shift (e.g. supermarkets) and extremely challenging for those losing out (e.g. entertainment and restaurants). Those sectors that have seen either an upturn or downturn may face the opposite impact later as consumers have deferred or brought forward expenditures.

Employment

As demand shifts so too will employment as jobs will move across sectors. This will appear initially in casual

employment, being the most flexible form of employment, and then to more longer-term employment arrangements. The workforce in those sectors (like supermarkets) experiencing an increase in demand will also need to expand. Here is a potential resilience point for the economy. The changes in labour hire and recruitment through IT platforms have lowered the transactions costs for employees looking for work. A more rapid flow of labour between sectors has been facilitated by online recruitment. Of course, this will not mean that everyone displaced from a declining sector will find work in a sector undergoing a temporary boom, but it will help those who can.

Cafés and restaurants

Cafés and restaurants could also be more resilient in the face of dramatic demand shifts. While these sectors have been savaged by the loss of demand from overseas visitors, social distancing, and now regulatory impacts, this may have been more widely catastrophic a decade ago compared to today. The growth of the gig economy

through online orders and home delivery has enabled restaurants and cafes to reach customers who prefer to dine at home. Provided a safe delivery mechanism can be found, it is likely housebound consumers will increase demand for delivered meals (or pre-prepared meals). Opportunities exist for enterprising businesses to take advantage of this opportunity.

There could also be a long-term structural change for the restaurant and café sectors. Many businesses will not survive a long shutdown. Those that do might pivot towards a delivery-only model. It could also provide such an increased level of demand for delivery services that greater competition emerges, reducing fees charged by these services – benefiting restaurants and consumers.

Information and communications technology (ICT)

We will also witness real time testing of business continuity. The continued deployment of advances in ICT enables many businesses in the service sector – accounting for well over half of the economy – to maintain output. This would have been much more challenging a decade ago.

Transport

Even the transport system has more resilience from structural and policy changes brought about through improvements in ICT. A decade ago, a sudden drop in demand for transport would have seriously impacted personal transport options like taxis, putting extreme pressure on licence holders who needed to operate their capital intensely to generate a return. Today, ridesharing allows for more flexible entry and exit from the market. Even though demand for ridesharing (like taxis) has plummeted, this more flexible business model allows supply to adjust to a lower level of demand (while placing short-term pressure on operators) and ridesharers to re-enter the market when demand returns.

Flexible working

We could also see challenges to traditional thinking about business organisation. For example, a sustained shift in working arrangements for professional services sector employees. From what was traditionally a flexible working arrangement to encourage agile working within the workplace, the necessity of working from home could shift organisational working arrangement preferences in such a way that long-term demand for office space falls.

This article shows that today's economy is better placed to adjust to the changes of a major health emergency than as little as a decade ago. While not diminishing the depth and severity of the challenges the Australian economy is now facing, it does point to some important, future considerations for government and business:

- The importance of maintaining a regulatory system that encourages innovation and minimising rules and red tape in favour of clear and attainable outcomes – consistent with the Prime Minister's announced intention to reform regulatory burden in 2019.
- How adaptable the Government is – for example, the assumptions and market analysis which underpin government transport and capital master plans will be quickly out of date and should be assessed.
- The need for government assistance packages to be targeted. The complexity and resilience of the economy in 2020 means that we don't know who will be able to adapt to the new conditions.
- The need for business to review their short and long-term plans, such as re-evaluating office and floor space requirements. Landlords could adapt and optimise their use of space, shifting towards a gig economy model to encourage short-term leases or as needed basis on office spaces.

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