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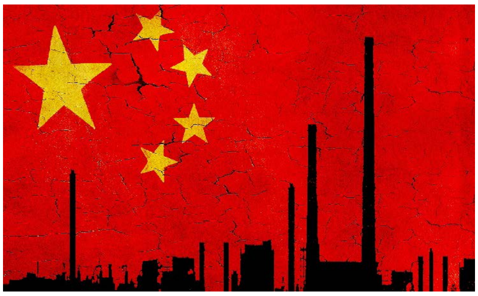

Australia's exposure to a Chinese economic hard landing

The cause of a Chinese hard landing could be external, such as a trade war launched by the Trump Administration. Alternatively it could be internal, such as a debt meltdown in the shadow banking system. In April a Deloitte report provided detailed insights around a scenario in which China's GDP growth slowed from a targeted 6.5 percent this year to less than three percent.[1] Even with the Australian dollar depreciating and the Reserve Bank of Australia cutting interest rates, the forecasts remain sobering.

1. The cost to employment, peaking in the first half of 2019, would be 550,000 fewer Australians with jobs than would otherwise have been the case. This is equal to 4.6 percent of current total employment.[2] Slightly more than half would become officially unemployed, while the remainder would give up actively seeking a job.

This fact sheet was prepared by James Laurenceson, Deputy Director, Australia-China Relations Institute, University of Technology Sydney.

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During Australia's last recession in the early 1990s, employment fell by 330,000, or 4.1 percent of total employment.

2. The construction sector would be hardest hit with 200,000 fewer jobs and 25 percent lower output. Other sectors of the Australian economy suffering output losses greater than 10 percent would include mining and finance.

3. Job losses exceeding five percent of total employment would be seen in Victoria, Queensland, Western Australia and the Northern Territory.

4. The cost to Australian household wealth would be $900 billion. Two-thirds of this would come from lower housing prices, expected to fall by nine percent, while the other third would come from losses in the stockmarket, down by 17 percent.

5. The cost to national income would be seven percent. This means that Australian households, businesses and governments would earn $140 billion less than without a China slump.

6. The cost to the average Australian business would be sales eight percent lower than otherwise and profits down by 19 percent.

7. In the long run, Australia's economy would be two percent smaller than had the Chinese hard landing not occurred.

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1 'What's over the horizon? Recognising opportunity in uncertainty', Deloitte, April 2017 <https://www2.deloitte.com/au/en/pages/building-lucky-country/articles/whats-over-horizon.html>. The Deloitte model is a large scale structural econometric model of the Australian economy with more than 800 equations and identities. Consistent with most macroeconomic models, it contains Keynesian dynamics in the short run, while conforming to theoretically consistent equilibrium values in the long run. The primary shock implemented in the modelling was a Chinese hard-landing growth scenario playing out over 12-18 months, followed by a gradual recovery thereafter.

2 'Labour Force, Australia, Jul 2017', Australian Bureau of Statistics, August 17 2017 <http://www.abs.gov.au/ausstats/abs@.nsf/mf/6202.0>.