



The economy continues to recover after the recession of 2020

Australian Real Gross Domestic Product (GDP) continued to increase in the June quarter 2021 – the fourth consecutive rise since June 2020. The economy has been in the recovery phase of the business cycle after the severe recession in 2020 caused by the Covid 19 pandemic. This was the first recession in Australia since the 1991 recession, ending 28 years of continuous growth – a feat no other country has achieved. The pandemic resulted in large decreases in private spending by both households and firms but government spending increased helping to reduce the severity of the recession.

Table 1	
Quarter	Real GDP (\$bn)
Jun-17	468.2
Sep-17	473.2
Dec-17	475.4
Mar-18	479.4
Jun-18	483.4
Sep-18	486.0
Dec-18	486.7
Mar-19	488.7
Jun-19	491.4
Sep-19	495.3
Dec-19	497.1
Mar-20	495.5
Jun-20	460.9
Sep-20	477.3
Dec-20	492.5
Mar-21	501.8
Jun-21	505.1

Table 2	Jun 2020 \$bn	Jun 2021 \$bn
Consumption	235	271
Investment	76	94
Government	128	135
Exports	106	103
Imports	84	98
Total GDP	?	?

Questions

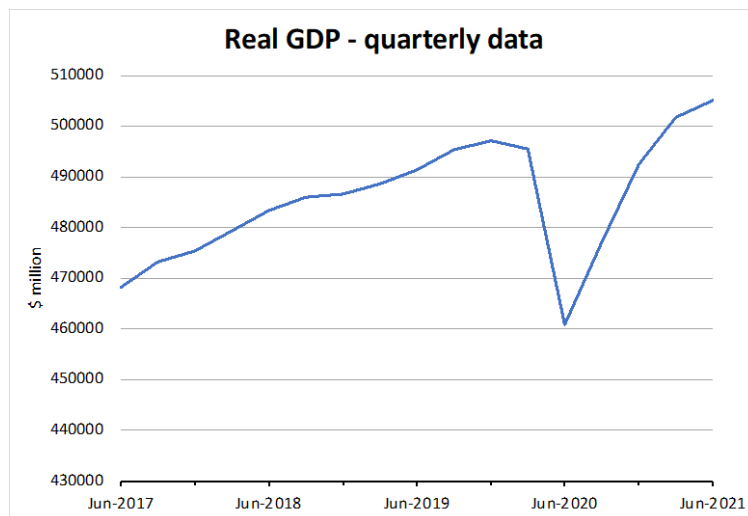
1. Define gross domestic product.
2. Explain why real GDP is used as a measure of the business cycle.
3. Use the data in Table 1 to construct a line graph.
4. What is a recession? In which period did the economy experience a recession?
5. Describe the effect of a recession on the following economic indicators:
 - the unemployment rate
 - the inflation rate
 - the labour force participation rate
 - share prices
 - government expenditure
6. Explain why the pandemic caused private spending to fall but government spending to rise.
7. Use the data in Table 2 to calculate total real GDP for June 2020 and June 2021.
8. Calculate the percentage share for each category of real GDP for the June qrt 2021. Which is the largest category of real GDP and which is the smallest?
9. Calculate the growth rate of real GDP between the March and June quarters of 2021.
10. Which category of real GDP increased the most between June 2020 and June 2021?



Answers

1. Gross domestic product measures the value of final goods and services produced in the economy over a period of time such as a quarter or a year. It excludes the value of intermediate goods and services.
2. Real GDP is used as a 'proxy' for the business cycle because it is a summary measure of all economic activity within the economy. It includes the value of production across all industries – both private and public sectors.

3.



4. A recession occurs when real GDP decreases for two or more consecutive quarters. This occurred in the March and June quarters of 2020.
5. The unemployment rate would increase; the inflation rate would decrease; the participation rate would decrease; share prices would decrease; government spending would increase.
6. The pandemic caused a significant decrease in both consumption and investment expenditure. Many people lost their job which reduced their income and reduced their spending on goods and services. Many firms experienced a decrease in their sales which reduced their spending on capital goods such as machinery, computers and motor vehicles. Government spending increased on welfare due to the higher unemployment rate and because the government introduced stimulus measures to help offset the effects of the recession.
7. June 2020: \$461 billion
June 2021: \$505 bn
8. Consumption = 53.7%
Investment = 18.6%
Government = 26.7%
Net exports (X - M) = 1%
Consumption is by far the largest category while net exports is the smallest.
9. 0.7% $[(505.1 - 501.8) / 501.8 \times 100]$
10. Investment increased by 24%