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National Australia Bank

HOUSE OF REPRESENTATIVES STANDING COMMITTEE ON ECONOMICS

REVIEW OF THE FOUR MAJOR BANKS

NAB

NAB53QON:

Mr SIMMONDS: …I share your passion for ensuring that we can find a way to live and work better with COVID. Just to extend the theme that you were talking about in your opening statement: has the bank done any modelling around the economic impact of internal border closures at the moment?
Mr McEwan: We haven't, but the impact you're seeing on the border closures flows through into our economic numbers, which show a minus 7.8 per cent GDP drop this year. The only thing we can do is say: if the borders opened tomorrow, what would that do? Of course it would mean the loss was less, but to what extent I don't know. We'd have to get our economics team to run that through. If you want, I'm happy to get Alan Oster's team to see if they can run that through: if, for example, the borders stayed closed till March of next year, what the impact would be on what we were hoping would be a lift in GDP. I think you'd find it would be reasonably severe.
Mr Dooley: I think it's important to recognise that all of our economies are interdependent, so any restriction on that interdependency is going to be negative on the economy and a delay in opening up the borders will show our economic recovery. It certainly would take a couple of percentage points off GDP and it would increase the unemployment rate as well.
Mr McEwan: I'm happy for the committee to see if Alan Oster, our chief economist, could give you some numbers—if, for example, the borders didn't open up as anticipated at the end of this year, what that impact would be on next year's GDP.
Mr SIMMONDS: I'd be grateful for both scenarios, if you wouldn't mind providing it to the committee.

Answer:

Advice from NAB Group's Chief Economist Alan Oster: A complete assessment of the economic impact of state border closures is very difficult. Available economic models are not set up to ask these questions and because there is no prior experience of state border closures, econometric models will be unable to accurately identify the impact of border closures on aggregate economic activity. Also, while borders are largely closed to passengers, other services trade is still able to flow between states and goods trade has continued relatively unhindered. That said, border closures do impact activity by raising uncertainty, potentially impacting productivity and impacting some industries such as tourism disproportionately. There will also be second round impacts on other industries from the effective shut down in tourism.

As an alternative, NAB Economics have put together a methodology that tries to give some possible guidance of the possible impacts on tourism from internal border closures based on available measured tourism spend in the economy and a set of assumptions. In these cases, it is assumed that international travel is also closed in the period of state border closures.

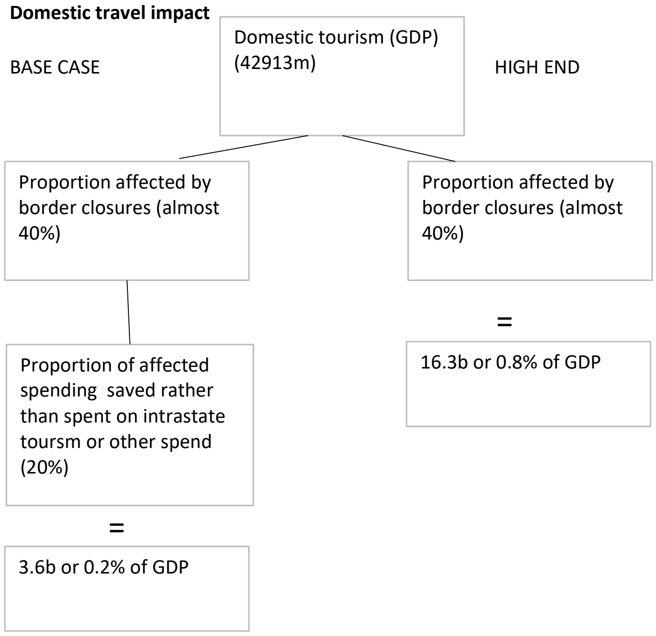
There are two obvious impacts to be covered by the methodology. First, the loss of interstate travel and secondly, the lost opportunity for previously overseas travel spending by Australian residents to be spent domestically (the 'international' impact). As such it is not an estimate of the impact of international border closures, which will be having a significant impact on growth and productivity.

Below shows possible base and high cases of each of these impacts.

In brief on the domestic tourism impact we have taken the level of domestic tourism and applied an estimate of the proportion affected by interstate border closures. For the base case we have then allowed for a proportion of spending that could be expected to be diverted elsewhere – for example transferred to intrastate travel or spending on other goods

As shown below this gives potential **direct impacts of around 0.2% and an upper case 0.8%** per annum.

Domestic tourism impact:



Turning to the cost of the international again there is a high case and base case direct estimate.

That takes account of the proportion of spend that locals desire to redirect to local tourism (assumed to be 80%), the proportion affected by state border closures (around 40%), the proportion of affected expenditure then saved (with the balance spent elsewhere such as intra state travel or other purchases) and an allowance for extra imports resulting from previously overseas expenditure being spent domestically.

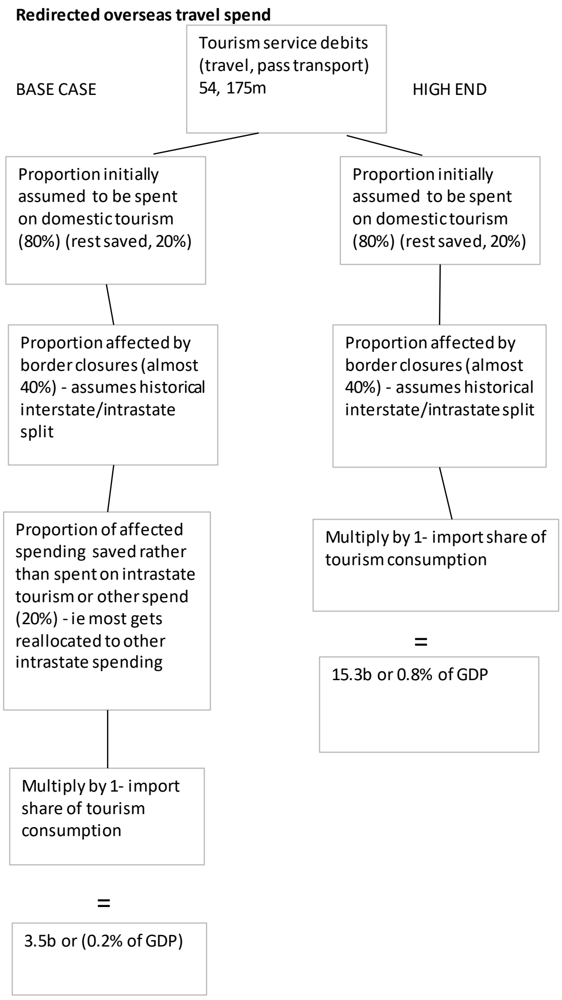
Again, the losses range from 0.2% to around 0.8% per annum.

The big difference between the base case and high-end estimates is what happens to desired spending on interstate tourism that is affected by border closures. The high end assumes (implicitly) it is all 'saved' – i.e. a reduction in domestic demand (and in the case of international travellers that they want to fully switch their spending to domestic tourism); the base case assumes the savings rate is 20%. For both estimates there is considerable uncertainty around the appropriate values for some of the key assumptions.

NAB Economics believe that the base case impacts are more credible. The high case makes more extreme assumptions with the intention of providing an upper bound estimate.

It is however important to note that the above calculations refer to direct impacts and not indirect effects. Important here are things such as supply chain disruptions to other industries because of border closures and the impact of those closures on business confidence. Of note is that in NAB's August Monthly Business survey there were surprisingly large falls in business conditions in all states where border restrictions are currently in place (Qld, SA, WA and Tasmania). Obviously in level terms conditions were worse in Victoria. While these indirect effects are significant it is almost impossible to quantify them. That said a rough rule from many years of forecasting is that often indirect effects are around the same magnitude as direct effects.

Redirect overseas travel spend:



Taking all the above together NAB Economics estimate that current state border restrictions might detract around 0.8% from GDP, concentrated in initial quarters following the closures. By way of contrast, the estimate of around 0.2 percentage points per quarter is in the same order of magnitude as that caused by recent bushfires on a quarterly basis. Obviously a great deal of judgment necessarily attaches to such estimates but NAB Economics believes that they are significant.