

## OPINION

### *Spoiler alert: we're in a recession, even if it's not 'official'*

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One of the sillier games played by the Australian media is our frenzied – if strangely reverent – discussion about whether or not we can officially declare our economy to be “in recession”.

The rule of thumb journos have applied since I joined the game in 2005 is that we only get to use the dreaded “R” word if our Bureau of Statistics releases figures showing “two consecutive quarters of negative GDP growth”.

Let's unpack that.

What is “GDP”? It's “gross domestic product”, or the total value of all goods and services produced by Australians with a period.

What's a “quarter”? Three months.

What's “GDP growth”. The percentage change in the total value of goods and services produced in one period compared to the next period.

So, what's that definition of a recession again? A period of time in which the total value of goods and services produced in one three-month period shrinks, compared with the previous three months. And then that happens again in the next three-month period.



You don't need to follow the technical definition to know Australia is in a recession. *JANIE BARRETT*

Righto.

So, where exactly did we get this definition from?

Economist Saul Eslake has the most prodigious memory of any Australian economist alive today – possibly ever.

He tells me the “consecutive quarters of negative growth” concept was first espoused by Julius Shiskin, a then commissioner of the US Bureau of Labor Statistics in an interview with Leonard Silk, the then economics editor of *The New York Times*, which appeared on August 28, 1974.

“It’s a silly rule and it’s a lazy rule in my view,” Eslake says.

And while Aussies have embraced it, “that so-called ‘rule’ has absolutely zero standing in the US”, he adds.

Instead, US recessions are officially pronounced by a “Business Cycle Dating Committee” of the National Bureau of Economic Research, which, Eslake notes, has nothing to do with Tinder or eHarmony.

But Australians, it seems, like simple rules we can follow. So, here we are.

Last year, Aussie journos got to officially declare our first recession in nearly three decades, when GDP figures released for both the March and June quarters revealed back-to-back contractions in output.

When lockdowns eased, the economy bounced back, of course.

But on Wednesday, the game starts again, with the release of the latest June quarter national accounts at 11.30am.

If they are even slightly negative, expect to hear much talk of “recession”. Because even though we won’t see the September quarter figures for three months – the data is released with a huge lag – they are sure to show a large contraction due to the latest COVID outbreak and lockdowns.

But to show you how silly the game is, imagine this: What if growth is slightly positive for the June quarter, followed by September’s large negative, followed by a slight positive in the December quarter, assuming lockdowns are eased.

Will we have escaped recession? Hardly. Make no mistake, Australia today is in a recession.

You don't need to wait for a gaggle of journalists to tell you that. Look around. More than half our citizens are confined to their homes. Jobs have vapourised. Businesses are shutting.

If you've ever wondered what it would be like to live in a recession, well, this is it.

Michael Blythe was the chief economist at Commonwealth Bank for 20 years before leaving the bank last year. Today he is chief economist and co-founder of data and analytics firm PinPoint Macro Analytics.

He's got a pretty long memory, too, and he agrees with Eslake that we're in recession.

"I think most people wouldn't be surprised if you called it a recession, as such, or a pretty savage blow to the economy," says Blythe.

His yardstick? "It's the old 'if it looks like a duck, walks like a duck, then it's probably a duck.'"

If you want to get more technical, Blythe likes the rule of thumb of a period when the jobless rate rises by 1 percentage point within a 12-month period.

However, that rule is a little harder to apply this time around. Why? Because both the government's JobKeeper and JobSaver schemes have changed people's perceptions of whether or not they are "employed" – and, critically, what they end up telling the Bureau of Statistics when it asks them if they're jobless.

While the official jobless rate has fallen this year, Eslake has been creating his own data series to see Australia's "effective rate of unemployment".

Essentially, he adds back in all the people who say they are "employed" but working zero hours and all the people who have simply given up looking for work because it is not available (to be counted in the official jobless rate, you need to be both available for and actively looking for work).

On Eslake's measure, Australia's effective jobless rate jumped from 5.7 per cent in May to 8 per cent in July.

Australia, concludes Eslake, is clearly in a recession.

Is it the same recession as last year? No, according to Eslake.

"Last year's recession was that kind, as Keating famously phrased it, which we truly 'had to have'. When we knew as little as we did about what the virus would do to people ... there was no alternative."

But Eslake is scathing in his blame for this year's recession, which he attributes to the Berejiklian government failing to both mandate masks in airport drivers and lockdown hard enough and the Morrison government's obsession with a domestically produced vaccine and resultant failure to secure enough doses of foreign ones, along with a failure to combat fears about the homegrown one.

"The recession we are now in is unlike last year's, which we had to have, and is one that's the direct result of bad choices by both the Morrison and Berejiklian governments."

Quack.