

ASSIGNMENT NUMBER 9

Economic recession is a mandatory component of markets globally. There is no country that had not been bouncing back and forth facing economic growth and recession or vice versa. The term economic recession refers to the time period in which economic activities are declining. These period declines often comprise of several years or sometimes several decades since short period of decline are not considered as an economic recession.

When it comes to understanding the sources of recession, most economists find it important to carry out a detailed reason pertaining to economic trends, causes, market behavior and various factors that could affect the overall outcome, to draw a subtle conclusion. Often times an economic recession is brought up by a quick change in prices that indirectly affects the cost of overall products and services. For example, a rise in oil prices can indicate a coming recession. When oil becomes expensive so does most of the products, causing a decline in aggregate demand. Besides that, a recession can also be a result of a country's monetary and fiscal policies over a large period of time (Kose, 2009).

Whenever there is a recession in economy the overall businesses and services are affected by it. This is defined as the Business Cycle. The business cycle is defined as either an economic expansion or economic contraction relative to the trend rate of economic growth (R. Glenn Hubbard, 2015). Whenever there is decline in economy researchers move towards evaluating the reason behind it. In simpler picture there are two reasons that lead to an economic recession i) Supply Shock and ii) Demand Shock.

- **Supply Shock:** it is a sudden rise or decline in events that results in the supply of the product in a community. This shock in supply consequently brings a change in price. Supply shocks may be negative, leading in a decreased supply, or positive, contributing in an increased supply; although, they are always negative. For instance, if aggregate demand remains unchanged, a negative supply shock will cause a product's price to increase whereas a positive supply shock will cause a product price to decrease (TARVER, 2019).
- **Demand shock:** as the name suggests these shocks are a result of a quick rise or decline in the demand of a particular product or a service. This change in economy is more often than not temporary. A positive demand shock is a rapid rise in demand, whereas a negative demand shock is a drop in demand. Both a positive demand shock and a negative demand shock can have an influence on the costs of goods and services (BARONE, 2020).

Australia has proved to be an economically flexible country in the past 3 decades. Australia has gone through various economic recession and growth phases including the enormous financial crisis of 1887-98 and the global crisis of 2008-09 as well as one of the largest trade cycles from the mid-2000s to mid-2010s. Since then Australia has been able to bounce back towards a stable economic state resulting due to a series of macro-economic and micro-economic initiatives by various state and federal governments that have taken place in the last 40 years or so (Laura Berger-Thomson, 2018).

Considering the recent condition of the world due to pandemic Covid-19, whole world has witnessed an economic recession that is blowing businesses and jobs all over. Since today's world deals with economics that are tightly woven around the world so a market collapse in a single part of the world

that too in the major economic centre such as China has affected people globally. China being the second largest economic power in the world forms strong ties in respect of external trade with almost all the countries. Countries are experiencing economic recession due to both supply shock as well as demand shock (Mahmud, 2020).

Australia is one of those countries which have faced severe blow to its economy not only because of corona outbreak but the recent bushfires which has proven detrimental for the condition of the country. Since a major portion of country's economy depends on tourism, the social distancing and ban on traveling internationally has proved as a demand shock to the economy. The country is experiencing lowest or even zero tourist activities causing the airline fares to drop significantly as well as other hotel accommodation and charges.



Figure 1 Australia Weekly Total domestic seat capacity

Figure 1 shows the data for Australia Weekly domestic seat capacity. According to CAPA Membership Schedule Analysis reports, the level of domestic airline availability in Australia appears to be relatively cheap-. The chart above is drawn from the current weekly flight schedules submitted with OAG using the aircraft model details contained in the CAPA Fleet database to generate the Schedule Analysis software. According to predictions, the capacity is likely to decline further in the following weeks (CAPA, 2020). The reason behind this decline is a clear drop in demand which has led to a lower price. In this case the indicator is the consumer ratio. Since the consumer ratio has dropped it directly affects the economy and growth of the particular sector.

Not only this, Australia's some major and minor companies are also experiencing huge crisis amidst of pandemic Covid-19. According to data, several big companies such as Qantas has not paid its 20 to 30k workers due to this recession. Another famous name Virgin has provided a leave without pay to the staff. Since the supply of revenues to these companies has considerably decreased due to this economic blow, and the number of consumers had remained unchanged, the companies are facing deficit (Butler, 2020).

Figure 2 shows a graphical representation the economic recession for Australia pertaining to Coronavirus outbreak as well as the bush fire earlier this year. the graph shows changes in aggravated demands from a time period of 2016 -2020. Australia's private sector market operation decreased in February due to adverse weather conditions and coronavirus outbreaks, according to flash PMI results. Demand deteriorated, with new orders declining at a record-breaking pace, led by decreased export volumes. Firms have also cut back on jobs (Aw, 2020).

Demand conditions weaken amid bushfires and coronavirus outbreak

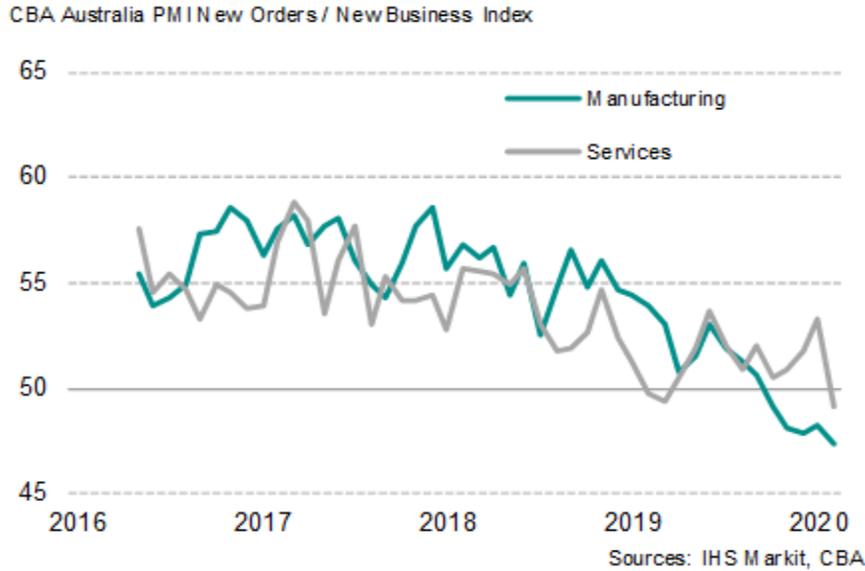


Figure 2 Demand Conditions for Australia.

To have a reflection of this economic recession on Australia's economy the most significant economic indicator is its Stock Market Performance. The stock exchange is a key predictor. It's also the predictor that most people look at first, even though it's not the most significant predictor. Stock values are largely dependent on what firms are projected to receive. Since an Economic Indicator lets a company decide the future and direction of the country's economy and also allows economists to devise fiscal policies and monetary solutions needed to fight the adverse conditions of economy. The figure below shows the trend in stock market of Australia recently. The S&P / ASX 200 index finished up 45 points or 0.9 per cent lower at 5.207 on Wednesday, matching its earlier losses, after S&P cut its forecast for Australia's AAA rating to negative from positive in expectation of a substantial deterioration of the government's debt status by launching a broad fiscal stimulus package to blunt the effect of the coronavirus pandemic.

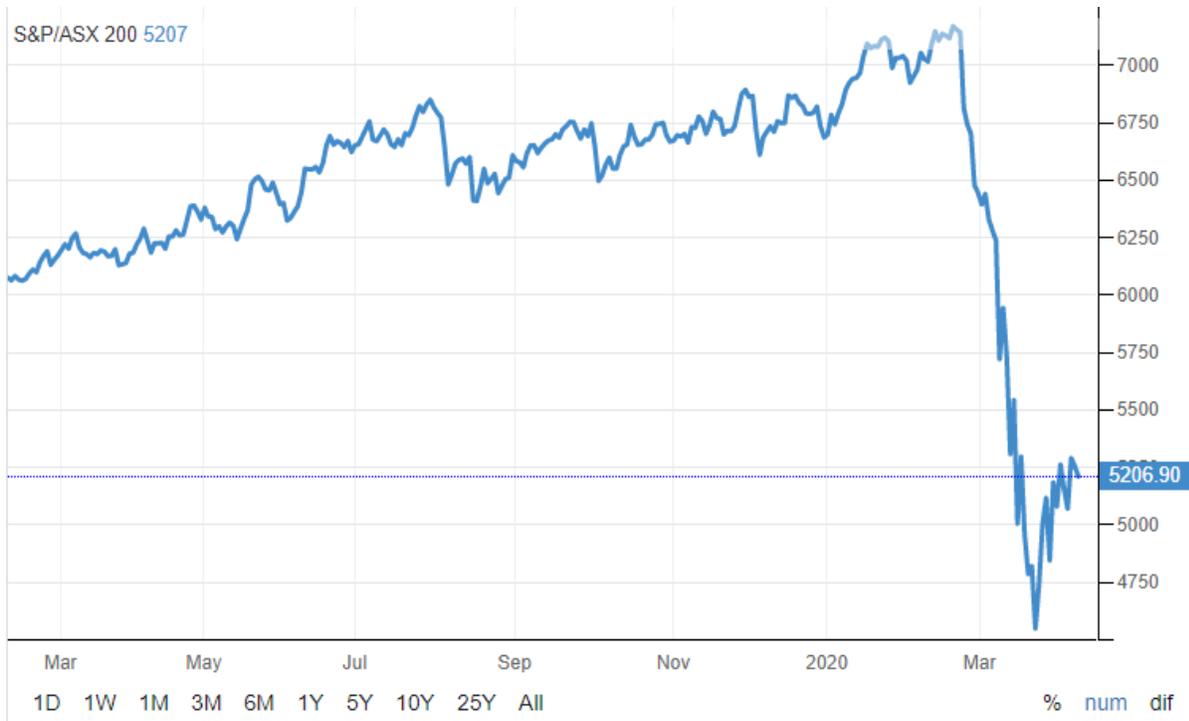


Figure 3 Source: [Stock Market trend for Australia](#)

References

1. Aw, B., 2020. *Flash Australia PMI signals deeper downturn amid adverse weather, coronavirus*. [Online]
Available at: <https://ihsmarkit.com/research-analysis/flash-australia-pmi-signals-deeper-downturn-amid-adverse-weather-coronavirus.html>
[Accessed 08 April 2020].
2. BARONE, A., 2020. *Demand Shock*. [Online]
Available at: <https://www.investopedia.com/terms/d/demandshock.asp>
[Accessed 8 April 2020].
3. Butler, B., 2020. *Coronavirus has delivered a hammer blow to Australia's economy. What happens next?*. [Online]
Available at: <https://www.theguardian.com/business/2020/mar/21/coronavirus-has-delivered-a-hammer-blow-to-australias-economy-what-happens-next>
[Accessed 8 April 2020].
4. CAPA, 2020. *COVID-19: Forward indicators for Australia aviation & travel*. [Online]
Available at: <https://centreforaviation.com/analysis/reports/covid-19-looking-ahead-for-australia-aviation--travel-519512>
[Accessed 08 April 2020].
5. Kose, S. C. a. M. A., 2009. *What Is a Recession?*, s.l.: Finance and Development.
6. Laura Berger-Thomson, J. B. a. L. L., 2018. *AUSTRALIA'S EXPERIENCE WITH ECONOMIC REFORM*, s.l.: Treasury Working Paper.
7. Mahmud, S., 2020. *Impact of Corona Virus on the Global Economy*, s.l.: Shahjalal University of Science and Technology.
8. R. Glenn Hubbard, A. M. G. P. L. A. O., 2015. *Essentials of Economics, 4th Edition*. s.l.:s.n.
9. TARVER, E., 2019. *Supply Shock*. [Online]
Available at: <https://www.investopedia.com/terms/s/supplyshock.asp>
[Accessed 8 April 2020].