

Market Update – 1 April 2020 including 30 March support package

This article covers the Government's third support package, a further \$130 billion of spending announced by the Prime Minister on Monday 30th March, plus an update on financial markets.

Overview of the Support Package

Following on from the first and second economic stimulus packages of \$83.7 billion (combined), the third package is a wage subsidy program (known as the JobKeeper Payment scheme) designed to help businesses affected by the coronavirus to cover the costs of employees' wages, so that more employees can retain their job and continue to earn an income.

The Government believes that keeping Australians in work and businesses operational will lay the foundations for a stronger economic recovery once the coronavirus crisis ends.

Relevant Details of the JobKeeper Payment scheme

The following is a summary of what we know about the JobKeeper Payment scheme:

- Under the JobKeeper Payment scheme, businesses significantly impacted by the coronavirus outbreak will be able to access a temporary subsidy from the Government to continue paying their employees. This includes the self-employed.
- The subsidy payable by the Government will be \$1,500 per fortnight per employee for a period of up to 6 months.
- To be eligible, employers (including not-for-profit businesses) must:
 - have a turnover of less than \$1 billion and their turnover be reduced by more than 30% relative to a comparable period a year ago (of at least a month); or
 - have a turnover of \$1 billion or more and their turnover will be reduced by more than 50% relative to a comparable period a year ago (of at least a month); and
 - the business is not subject to the Major Bank Levy.
- Employers must elect to participate in the scheme via an application to the Australian Taxation Office (ATO) and provide supporting information demonstrating a downturn in their business. Employers must also report the number of eligible employees employed by the business on a monthly basis.

- Eligible employers will receive the payment for each eligible employee that was on their books on 1 March 2020 who continues to be engaged by that employer – including full-time, part-time, long-term casuals and stood down employees (aged 16 years and over).

Eligible employers who have stood down their employees before the commencement of this scheme will be able to participate. Employees that are re-engaged by a business that was their employer on 1 March 2020 will also be eligible.

Where employees have multiple employers – only one employer will be eligible to receive the payment. The employee will need to notify their primary employer to claim the JobKeeper Payment on their behalf. The claiming of the tax-free threshold will in most cases be enough notification that an employer is the employee's primary employer.

- Where employers participate in the scheme, their employees will receive this payment as follows:
 - If an employee ordinarily receives \$1,500 or more in income per fortnight before tax, they will continue to receive their regular income according to their prevailing workplace arrangements. The JobKeeper Payment will assist their employer to continue operating by subsidising all or part of the income of their employee(s).
 - If an employee ordinarily receives less than \$1,500 in income per fortnight before tax, their employer must pay their employee, at a minimum, \$1,500 per fortnight, before tax.
 - If an employee has been stood down, their employer must pay their employee, at a minimum, \$1,500 per fortnight, before tax.
 - If an employee was employed on 1 March 2020, subsequently ceased employment with their employer, and then has been re-engaged by the same eligible employer, the employee will receive, at a minimum, \$1,500 per fortnight, before tax.
- While employers must continue to pay superannuation guarantee amounts on regular wages, it is up to the employer if they want to pay superannuation on any additional wages paid because of the JobKeeper Payment.
- Payments will be made to the employer monthly in arrears by the ATO.
- The subsidy will start on 30 March 2020, with the first payments to be received by employers in the first week of May. Businesses will be able to register their interest in participating in the Payment from 30 March 2020 on the ATO website

Analysis: This is a generous measure for businesses and Charities. There is still much detail to be worked out, but the passing of legislation should provide answers to many questions.

The JobKeeper Payment of \$1,500 per fortnight for each eligible worker is about 70% of the national median wage and \$400 a fortnight more than the \$1,100 JobSeeker payment (formerly Newstart), including the coronavirus supplement for those out of work. A person receiving the JobKeeper payment cannot receive the JobSeeker payment.

In association with this announcement, eligibility for JobSeeker payments has been expanded so that people will be eligible for this payment unless their partner earns \$79,762 or more per annum. This upper limit was previously \$48,000 per annum.

Combined with the two earlier payments, stimulus measures now total more than \$210 billion. This amounts to approximately 10.6% of Gross Domestic Product. These payments are expected to create a budget deficit of up to \$200 billion and analysts are now asking how the government will pay for its massive stimulus plan.

Action:

- ***Initially employers should register their interest in applying for the JobKeeper Payment with the ATO at <https://www.ato.gov.au/Job-keeper-payment/> to receive updates as this measure develops. An online application will be provided to employers in due course, with the first payments expected to commence in the first week of May. Employers will be required to identify eligible employees and provide monthly updates to the ATO.***

Self-employed individuals should also register their interest in the JobSeeker Payment as above and will be required to provide monthly updates to the ATO.

Market Update, Opportunities and Conclusion

Over the last week, investment markets have recovered some of the recent falls with the ASX closing on 1 April 2020 at its highest level in two weeks. Recent moves have been fueled by central banks bond purchase programs and the announcement of unprecedented stimulus measures. The recent passing of a US\$2.2 trillion dollar package on 30 March by the US Congress was the largest emergency aid package in US history.

While hopeful signs have emerged – including rapid testing and advances toward a vaccine – it is unclear how long the coronavirus will shake – and shape – the world. The coronavirus has now led the global economy into a recession, according to the International Monetary Fund.

From a market perspective, we expect the recent rough ride to continue and a market rebound will ultimately depend on the type of recovery that occurs.

Some predict a V-shaped recovery which could bring the global economy roaring back from its coronavirus-inflicted slump. While the US and global economic output may actually exhibit a slower, U-shaped recovery, as activity takes several quarters to normalize, gross-domestic-product growth and profits could surge to previous highs much faster.

Recent economic activity data out of China points to a quick GDP rebound. The country's March purchasing managers' index reading jumped 9.8 points, to 50.1, after a 10.8-point decline in February, notching a rapid upswing from lows seen during times of strict containment measures.

Though there are good reasons to be sceptical that other countries will tread China's normalisation path, the early data suggests economic growth can bounce back relatively quickly if virus cases fade and economic activity can resume.

To all, stay safe and well.

Please note that the information above is general in nature and does not take into account your personal circumstances, financial needs or objectives. Before acting on this information, you should consider its appropriateness having regard to your objectives, financial situation and needs. In particular, you should speak to your adviser on (03) 9899 2671 prior to acting upon this information.