

ECONOMIC IMPACTS OF COVID-19 ON THE CITY OF MELBOURNE



CITY OF MELBOURNE

Acknowledgement of Traditional Custodians

The City of Melbourne respectfully acknowledges the Traditional Custodians of the land, the Bunurong Boon Wurrung and Wurundjeri Woi Wurrung peoples of the Eastern Kulin Nation and pays respect to their Elders past, present and emerging. We are committed to our reconciliation journey, because at its heart, reconciliation is about strengthening relationships between Aboriginal and non-Aboriginal peoples, for the benefit of all Victorians.

ECONOMIC IMPACTS OF COVID-19 ON THE CITY OF MELBOURNE

The COVID-19 led recession is sharper and deeper than any other in living memory and is having a disproportionate effect on Melbourne's economy.

To begin planning the local economy's recovery, the City of Melbourne sought data on the substantial impact of COVID-19.

PricewaterhouseCoopers (PWC) was engaged to complete economic modelling on the impacts of COVID-19 on the City of Melbourne and Victoria. The modelling forecasts the economic impact of COVID-19 over a five year period. Understanding the likely depth and duration of the economic downturn will help guide our ongoing efforts in Melbourne's recovery.

The modelling accounts for Stage 3 and 4 restrictions and assumes a slow economic recovery with prolonged public health measures in place into 2021.

This prolonged recovery, marked by a greater awareness of public health risks and fewer employees returning to workplaces, will have a protracted impact.

The modelling shows that this recession will largely be a central city recession. As Figure 1 shows, the City of Melbourne will bear the brunt.

This recession is forecast to be sharper and deeper than any observed since Australia has collected consistent economic data.

The data shows that, compared to pre-COVID19 forecasts, the City of Melbourne economy will be up to \$23.5 billion - or 22 per cent - smaller in 2020.

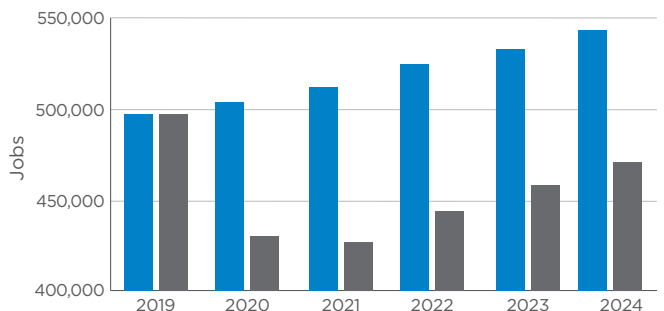
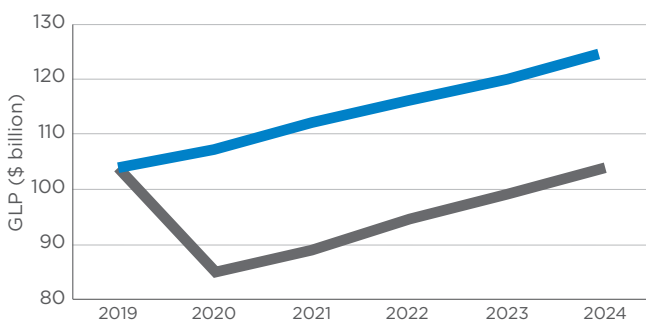
As Figure 2 shows, there will be a cumulative reduction of up to \$110 billion in municipal economic output compared to pre-COVID estimates over the next five years.

Over five years, there will be up to 79,000 fewer jobs than pre-COVID forecasts as an annual average.

Figure 1. Economic output and jobs impacts in 2020 in the City of Melbourne compared to the rest of Victoria.



Figure 2. City of Melbourne economic output and employment projections, pre COVID-19 and post COVID-19



Key ■ City of Melbourne predicted, pre COVID-19 ■ City of Melbourne possible impact, post COVID-19

Source: PwC analysis

Much is at stake when investigating how quickly the local economy can recover, given Melbourne's global reputation as a preferred destination for investors, visitors and students – indeed as a gateway for the state and the nation.

Prior to COVID-19, the City of Melbourne made up 24 per cent of Victoria's economy, so the impacts of the economic downturn will be felt across the whole of Victoria and Australia.

The modelling shows it may take until at least 2024 for the city economy to return to its 2019 level.

Response and recovery

Fiscal stimulus will accelerate recovery. A significant investment from all three tiers of government is in the best interests of all working towards our nation's recovery.

A focus on regenerating the City of Melbourne's economy and encouraging people to return to workplaces when safe, must be a priority to minimise the economic fallout across Victoria.

The City of Melbourne has provided \$50 million in funding to support businesses and has lobbied successfully for \$20 million from the Victorian Government in dedicated funding for city businesses – part of a \$534 million Victorian Government package.

However, the scale of economic devastation being experienced means the city is likely to require billions of dollars in further support over a number of years to invest in job creating projects that will stimulate our economy.

The City of Melbourne has identified a range of opportunities for partnerships with the Australian and Victorian Governments to boost economic recovery by investing in infrastructure, support for specific sectors and city economy activation and events.

Recession

- This COVID-led recession is comparable to the impacts from the concurrence of WWI and the Spanish Flu pandemic.
- The City of Melbourne and Victoria as a whole are significantly impacted by COVID-19, with monthly job losses threefold higher than those of the 1990s recession.
- Victoria lost 128,000 jobs in April 2020, compared to 38,000 jobs in March 1991 (the largest single month job reduction in Victoria in the 1990s recession).

A prosperous, liveable Melbourne - before the pandemic

Prior to March 2020, the City of Melbourne's economy was recognised as one of the world's most competitive and resilient, with a record Gross Local Product (GLP) of \$104 billion in 2019.

This equated to 37 per cent of the Greater Melbourne economy; 24 per cent of the Victorian economy; and 7 per cent of the Australian economy.

The municipality acts as Victoria's transport, tourism, and employment hub, connecting businesses and individuals to goods and services across the State's regional cities.

The municipality was home to 497,000 jobs. The sectors employing most workers included business and financial services, professional services and research institutes.

The municipality's economy is supported by close to 17,000 businesses, including local, national and international companies, peak bodies, and government and non-government agencies.

The municipality is home to nearly 180,000 residents, and at its busiest, one million people travelled into and around the city each day.

Significantly, the City of Melbourne was the fastest-growing municipality in Australia according to numerous economic measures. It is crucial that the city's economic success, social cohesion and global reputation are renewed as quickly as possible, to rebuild a once-robust economy.



The findings

The City of Melbourne is critical to leading Victoria out of the COVID-19 recession

When compared to other Australian jurisdictions, Victoria's economy has been hardest hit by COVID-19.

The City of Melbourne has borne the brunt of several stages of restrictions. These restrictions - a necessary response to ongoing public health concerns - had the consequence of holding the city back from reopening businesses and workplaces. Given our city's unique circumstances when compared to other Australian capital cities, a concerted effort from all levels of government to address the economic fallout is essential.

Table 1

SECTOR	JOB LOSSES (DIFFERENCE BETWEEN 2019 AND 2020)	DROP IN ECONOMIC OUTPUT (DIFFERENCE BETWEEN 2019 AND 2020)
Accommodation and food services	22,900	\$1.990 billion
Education and training	6800	\$1.517 billion
Financial and insurance services	8000	\$3.915 billion
Arts and recreation services	5300	\$756 million
Professional, scientific and technical services	7400	\$2.955 billion
Retail trade	2300	\$254 million

Melbourne's traditionally strong sectors have been severely impacted by COVID-19, as shown in Table 1.

Education

The City of Melbourne is home to several world-class tertiary institutions, including the University of Melbourne and RMIT University.

For every dollar lost in university tuition fees, another \$1.15 is lost in the broader economy due to a reduction in student spending.

For more than a decade, international education has been Victoria's largest services export industry, generating \$12.6 billion in export revenue for Victoria in 2018-19, and attracting more than 250,000 international students.

The modelling shows 6800 jobs will be lost in the education sector this year, a 25 per cent reduction.

Tourism

In the year to March 2020, Victoria welcomed 95.5 million visitors, including international and domestic overnight visitors, and those visiting the state for a daytrip only.

Tourism expenditure for these visitors was \$31.3 billion, which equates to spending of approximately \$85.6 million per day in the state.

With the exception of visitors from China, the top source markets by overnight visitor spend were visitors from Victoria, New South Wales, Queensland, and South Australia, highlighting the significance of Victoria as a domestic travel destination.

The Greater Melbourne region drew 39.6 per cent of these visitors to Victoria. For international tourists, who make up only 3 per cent of visitors to Victoria but 26 per cent of tourism expenditure, Melbourne provides a gateway for visitors to explore the rest of the state.

Retail

The modelling shows 2300 jobs will be lost in the retail sector this year.

The recession has forced the closure or temporary cease in trading of hundreds of smaller discretionary retail businesses without an online presence.

This has prompted some retailers to consider the permanent closure of physical stores as leases expire over the coming year.

Accommodation and food services

The Accommodation and Food Services sector has been one of the most impacted industries in all parts of Australia. However, the City of Melbourne is particularly impacted because of a reliance on footfall.

The modelling shows 22,900 jobs will be lost in accommodation and food services this year. This compares to an anticipated decline of 34 per cent in the whole of Victoria.

Office space

While occupancy rates for commercial buildings are still high, suggesting many employers may be taking a 'wait and see' approach before making any significant adjustments to their workplaces, many anticipate reduced rents.

Some market commentators expect falls to asking rents to be between 10 and 40 per cent in Melbourne.

Evidence of this trend is beginning to surface. Analysis by CBRE indicates that sublease vacancies (representing vacant office space made available by firms reducing their footprint) in Melbourne's CBD were at historic highs by the end of June 2020.

Stage 4 lockdowns are expected to have led to further increases in office space vacancies and reductions in net effective rents, however data beyond June 2020 is not yet available.

Melbourne's CBD office vacancy rate is at 5.8 per cent, up from a historically low 3.2 per cent in February 2020.

These trends in vacancies and asking rents are likely to put downward pressure on property valuations for commercial and retail properties. Critically, reduced valuations would impact the City of Melbourne's rateable income, limiting its capacity to support the city through the pandemic and reactivate it once lockdowns are lifted.

City of Melbourne's response

In response to the pandemic, the City of Melbourne moved swiftly to support business and continue delivering essential services. Council has invested \$188 million in rapid response initiatives designed to support ratepayers, strengthen the community and rebuild the local economy.

- These initiatives include: **\$50 million COVID-19 Economic Support Package** including a zero net increase in rates this year.
- **our Business Concierge Service** has had more than 11,000 contacts with small businesses helping them access COVID-19 grants and advice
- **\$5.5 million in financial support for small to medium sized businesses** to invest in online and e-commerce capabilities, take part in training and professional development, and undertake capital works projects
- **a \$175.8 million capital works budget**, including the Queen Victoria Market renewal project, climate action initiatives and community and cycling infrastructure
- **free temporary parking permits** for up to 15,000 frontline workers
- **fast-tracking the delivery of 40 kilometres of protected bike lanes** to help people travel safely into the city once restrictions allow
- **150,000 new trees and shrubs planted throughout the municipality**, as part of our Greening the City program, which has created 64 jobs
- **cleaning** to improve public hygiene, including a focus on sanitisation, cleaning surfaces that are touched often, removing litter and increasing street sweeping
- **\$17 million** investment in arts grants and arts organisations
- **extended hours for construction activity** to fast-track the completion of projects and protect jobs.

These substantial investments provide solid foundations for the city's recovery, and we are proud of our hard work. However, local government is facing an unprecedented task. Stimulating a broad and enduring recovery in a major capital city will require support from and partnerships with all levels of government.

If we jointly accelerate the economic recovery, Melbourne will again be one of the world's most prosperous and liveable cities.

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