Editor-in-Chief's Welcome

Welcome to FinConomics, a series of editorials providing the latest news happening around Australia and the world!

- Ashutosh Dandagi

Editors

Matthew Kanizay

Matthew Mutavdzija

Sachitha Dissanayake

The COVID-19 Update

Ashutosh Dandagi

The coronavirus has plagued the world at large, but for us here in Australia we have seemed to have managed it quite well with clubs and bars reopening and CBD offices urging staff to fill in empty office spaces. Here are just a few initiatives taken to help us achieve a higher level of normalcy.

Melbourne's New Chairman of the Night

In a bid to boost Melbourne's Nightlife, the City of Melbourne have endorsed the creation of a Night-time Economy Advisory Committee to come up with ways to encourage people back into the city after seeing the very significant declining pedestrian activity from approximately 60% to 70% compared to December 2019.

The City Council has appointed James Young (Hall 2021) to lead the efforts to revitalise the Melbourne Night-life economy that was estimated to be valued at $3.5 billion (License & Edwards 2019) before the pandemic hit. The committee, consisting of leading individuals of Melbourne's hospitality, performing arts and entertainment sectors, will help the city of Melbourne by suggesting new ideas to reinvigorate Melbourne's night-time economy through business grants, marketing campaigns as well as sponsoring more events (Wear 2021). These initiatives and more are to be further discussed in the weeks ahead and implementations will hopefully bring more activity into the Melbourne CBD.

Vaccine Rollout

To further support a sense of COVID-Normal the Australian Government has attempted to expedite the rollout of the COVID vaccine. However, delays due to incidents linking blood clots to the AstraZeneca Vaccine as well as supply chain issues have resulted in changes to Australia's rollout plan (Cherney 2021). In Australia, approximately 183,126 Australians have been fully vaccinated and over 1.7 million people have been administered their first dosage (The Age 2021). Of those figures, 45,559 Victorian's have been fully vaccinated, and 421,772 Victorians have had their first jab (The Age 2021). While a COVID vaccine rollout has been laid out in phases, the goal of everyone in Australia having their first dose of a vaccine by October 2021 is slowly diminishing (ABC News 2021). It is currently unclear as to when Australia will be fully vaccinated against COVID-19, let alone when the country will meet the World Health Organisation's goal of having more than 60% of the country's population vaccinated to achieve herd immunity through vaccination (Gupta-Smith 2020).

Travel bubbles

On the 19th of April, the Trans-Tasman Bubble opened the doors to a quarantine-free travel corridor between Australia and New Zealand, allowing a glimpse into international travel after marking 400 days since the closure of international borders.

On the first day alone, almost 2000 Australians crossed the ditch and landed in New Zealand (ABC News 2021). While there are strict procedures in place, the travel bubble established between the two countries has allowed for families to be reunited, and an opportunity to assess the travel bubble framework and provide insights that can be implemented in future arrangements. So far Singapore has been singled out by Dan Tehan as a possible destination for a travel bubble (Tehan 2021), and Hong Kong has reportedly suggested that their travel bubble with Singapore may also be extended to travel to Australia and New Zealand (Flynn 2021). Although these talks are speculated, the travel bubble framework is more than likely to be the reality for international travel for a few years as more and more countries are vaccinating their populations and the spread of the virus is declining.

However, risks such as the fatal second wave in India are a continuing threat to the global population and must be monitored very carefully. As travel bubble arrangements are becoming increasingly popular, the Australian Government have also imposed strict penalties to individuals who see the travel corridor as an opportunity to flock to other nations.

How Australia is coping overall

Following Australia's first recession in almost 30 years, combined with the global pandemic, economists were uncertain about Australia's economic progress and the figures published were very conservative. However, figures published in February suggest that Australia's recovery is "well underway" (RBA 2021). The report outlines that the labour market in the December quarter outperformed the predictions where the unemployment rate fell to 6.6% (RBA 2021). It is anticipated that consumption will have recovered back to pre-pandemic levels around the end of 2021.

Interestingly, dwelling investment is expected to reach pre-pandemic levels as early as mid-2021 with the RBA citing that building approvals for detached housing and renovations increased sharply in the second half of 2020. However, the same could not be said for high-density residential and business investments. Construction for high-density residential complexes is expected to remain weak consistent with the low level of building approvals and applications. Similar to high-density projects, non-mining business investments are slowly expected to return to normal levels by the end of 2022 (RBA 2021). The end of 2022 will also see the anticipation of Australia's exports return to levels before the pandemic, with an acceleration forecasted alongside the availability of vaccines creating a pathway for boosted education and tourism exports.

Overall, Australia is on the path to economic recovery from the coronavirus pandemic in the near future, however, only time will tell how Australia's economy has fared.

Electric Vehicles in Australia - Going green or going nowhere?

Matthew Kanizay

Elon Musk, Tesla, Fuel-less; three common words that come to mind when thinking of electric vehicles (EV). On the other hand, maybe you haven't heard of these words and their connotation to EV. As an Australian, I wouldn't be surprised.

Australians have always loved their cars, from the days of the Ford v Holden, to the rise of Toyota in Australia. However, the recent demand for electric vehicles as a form of motor car would disagree with this statement, with less than 1% of new car sales being EVs.

Australia lags behind in the implementation of electric vehicles on its roads, and its primarily due to a lack of government policy that welcomes electric vehicles. While the market value on most electric vehicles is higher relative to normal fuel-based vehicles, there is no government subsidy or incentive for consumers to 'go green' and switch to a zero-emission vehicle. Incentives effectively under lie the foundations of economics, and consumers will respond to positive or negative incentives through their material purchasing power.

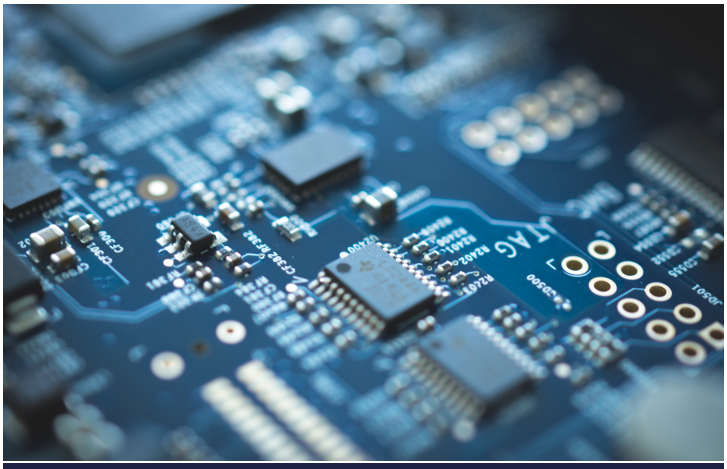
A Technology Investment Roadmap published by Prime Minister Scott Morrison and the government in 2020 gave a "watching brief" on battery, hybrid and plug-in hybrid cars, with little optimism and a lack of confidence on the future of electric vehicles in Australia. Subsequently in February 2021, Energy Minister, Angus Taylor and the Australian federal government released a Future Fuels Strategy discussion paper, detailing how new technologies and electric, zero-emission vehicles were a chance to cut emissions within Australia. However, this report dismissed consumer subsidies for electric-vehicles, instead targeting the private sector as its primary market, with the everyday-consumer being pushed into a secondary market, purchasing second-hand EVs. In 2020, 40% of light vehicles and EVs were sold to businesses and commercial-based organisations.

It's not just the Australian Federal Government acting as a disincentive for people looking to purchase EVs. The Victorian Labor Government introduced a bill to Parliament in March 2021 to tax electric vehicles and other zero-emissions vehicles, backed by Treasurer Tim Pallas. The bill outlines a tax from July 2021 that will tax EVs and zero-emissions vehicles at 2.5 cent/km, and a 2.0 cent/km tax that will apply to plug-in hybrid-electric vehicles. Statistics from BudgetDirect collected in April 2020 showed that the average Australian drives 13,301km a year, meaning the tax would equate to $332.53 a year for the average Australian EV driver. The Victorian government argues that the bill is about ensuring all drivers and road-users pay their fair share in tax, as EVs are exempt from other taxes, such as the fuel excise tax including GST on petrol payments. Treasurer Tim Pallas also noted that the Victorian Government is taking increased action to install and maintain EV charging stations.

Additionally, there have been calls that Australia is becoming a "Third World dumping ground in terms of automotive technology", where there is a lack of supply of EVs with increased demand. Beyhad Jafari, CEO of the Electric Vehicle Council, claims that "Australia looks weird" in respect to its position on EVs and other zero-emission vehicles compared to many European and Asian countries. Battery-powered vehicles accounted for only 0.7% of new car sales in 2020, compared to UK and the European Union (EU) where the figure rose to 10% of new car sales. Michael Bartsch, GM of Volkswagen Group Australia, attributes the absence of Volkswagen EVs in Australia to the weak environmental protection laws that Australia has. The European Union has strict carbon emission and CO2 targets, and if these aren't adhered to by car and vehicle manufacturers, they are fined.

The EU's current target is 95 grams of CO2 per kilometre, where companies are fined approximately $150 for each gram of CO2 per kilometre beyond a nominated target. An example of this is a Volkswagen Golf in the EU, which produces about 120 grams of CO2 per kilometre, so for every petrol-powered Volkswagen Golf sold, Volkswagen Group has to pay approximately AUD$3,750 in tax. However, car manufacturers are allowed to offset their emissions of their CO2 emitting vehicles with the "super credits" gained from selling EVs and zero-emission vehicles. From a business perspective, this is an excellent incentive to supply EVs and zero-emission vehicles to the market, compared to Australia's disincentive policies.

Will the EV and zero-emission vehicle market take-off in Australia, or will both state and federal governments continue to push back against them? It is evident that there is a climate crisis happening in both a domestic and global setting. In addition, current markets do not make it financially viable to purchase an EV, with a steep purchase price and government disincentives. However, it is up to government policy to alleviate the effects, and instead promote the use of sustainable technologies.

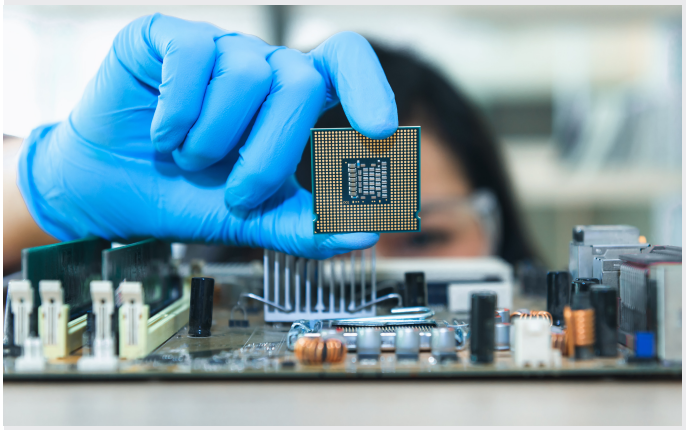


The global shortage of computer chips and semiconductors, and what it means for consumers

Matthew Mutavdzija

Consumers are facing global price rises from key electronic products such as mobile phones, TVs, game consoles and computer hardware due to a massive global shortage of semiconductors. This shortage in components has been steadily growing since last year where there was a temporary delay in deliveries in early 2019 due to foundries being shut down by the pandemic.

However, the supply of semiconductors was only briefly disrupted during this time and for almost the entirety of 2020, foundries and factories have been producing semiconductors, computer chips, CPUs and GPUs at a higher rate than ever. The main issue, currently, is the unprecedented demand driven by the consumers change in daily habits, which is causing a level of demand within the markets that has become unsustainable for almost every single company that produces these products (Sweney, 2021).



This means that with such little supply for an increase in demand, there is massive upward pressure within the market causing prices to rise. Other factors for increased demand are from car manufacturers investing in electric vehicles, which in themselves have significantly more electronic components compared to combustion engines. Some automakers have had to halt production on assembly lines because they can't access enough computer chips to go in their cars (Ewig and E. Boudette, 2021). This was exacerbated by most automakers forecasting lower demand at the start of last year and subsequently, reduced their orders for semiconductor components.

However, once demand came roaring back, the time slots for fabrication of these components had already been sold to someone else, forcing automakers to wait for another time slot, reducing overall production within the industry.

Additionally, the launch of new game consoles, 5G enabled phones and overall massive consumption within the global electronic market has also significantly contributed to this supply and demand crisis (Leswig, 2021). The large surge in cryptocurrency has also brought with it massive demand for graphics cards as crypto currency mining further drives the demand for computer hardware. This can be seen within the secondary market as well with used computer hardware being sold for almost double the price of what it was prior to the shortage.

To make matters worse, enterprises have had to heavily invest in their cloud services to sustain the large adoption of software such as Zoom and Microsoft Teams as people transition into an online environment. This increase in demand for data centres also requires the same, or similar components to what is needed in consumer electronic products.

This shortage is likely to persist for some time, as demand does not look like it is decreasing anytime soon. Due to the fact that creating operational semiconductor production factories can take up to two years, manufacturers may be forced to raise prices in order to combat the overwhelming demand.

The Economic Crisis Looming Post-Ship Blockage

Sachitha Dissanayake

Following 2020's devastating impact upon global supply chains, a disruption can no longer be considered novel. However, the global economy was in for one more surprise in the form of a 400-Meter-long cargo ship blocking a narrow passage that happens to be one of the world's busiest waterways (Al Jazeera 2021). Whilst a world so accustomed to economic meltdowns decided to view the calamity from a humorous perspective on social media; the question arises as to how damaging to the global economy this event would turn out to be.

The Ever Given's Windy Travels

The gargantuan cargo ship lost control whilst on the narrow waterway of Suez Canal due to poor visibility and high winds causing it to be stuck for just over a week until salvage teams succeeded in pulling the ship out of trouble. The Suez Canal succeeds in being so imperative towards maximising transportation efficiency as it removes the need to circumvent the African continent.

Therefore, as the Ever Given blocked the Suez Canal, global supply chains were halted as 367 vessels waited for the famous waterway to be cleared, costing $10 billion in delayed trade (The Suez Canal situation: What happened 2021).

The Economic After Effects

The economic impact arises from the delay in the transportation of essential commodities from one part of the world to another. One of the commodities transported in large volumes when the canal is operating as normal is Crude oil with approximately 200 containers carrying the commodity through the canal on a daily basis. As a result, the blockage meant that the prices of Crude Oil have shot up by about 2% (Al Jazeera 2021)) as supply dried up, bringing the basic forces of demand and supply into play (Zerodha 2021).

Other goods that were stuck on ships that failed to get through the Suez Canal area were inclusive of consumer goods ranging from coffee, oil, car parts and toilet paper alongside live animals onboard. The long-term ripple effects meant that multiple ships that had to be rerouted are now expected to reach their destinations weeks/months later. As a result, consumers in multiple countries can now expect to experience a shortage of vital consumer goods whilst paying higher prices on the few stocks remaining in their respective countries; a phenomenon that was experienced just an year ago due to Covid19.

The global ocean freight industry that reflects an oligopolistic structure has responded to the crisis by extrapolating their prices to record highs as companies and countries scamper to prevent shortages; thus, further adding to the potential incremental change in prices to be experienced by final consumers.

From a macroeconomic perspective, economists fear that global inflation rates may increase causing further difficulty to citizens that have already had to endure a recession through most of 2020 and 2021 (Steigrad 2021).

Further, the difficulty in delivering consumer goods has resulted in many firms suffering massive losses with famous companies such as Ikea and Caterpillar bearing the brunt of the crisis.

The increasing popularity of e-commerce websites would also lead to many deliveries being stuck at the waterway where customers have been given the option to obtain their goods at a higher delivery expense by opting for delivery via longer routes. Thereby, it can be deduced that many of the losses from the crisis follow a common route in being passed down to the final consumer (Zerodha 2021).

The Final Victim

In viewing the situation from a timeline where the Ever Given has been removed from its precarious position, it can be deduced that the final impact of blocking the Suez Canal has, thus far, been less calamitous than initially anticipated; thanks to the heroic efforts of the salvage teams. The long-term impacts, however, are yet to materialize and in the present day, underestimating the impact of such an event would be done so at one's own peril. Therefore, the only conclusion that we can arrive at currently would be the fact that whilst large corporations and governments may suffer their fair share of losses, it will be the final consumers that experience the greatest damage.

UPCOMING EVENTS

MAY 3 Marketing Q&A

Are you studying marketing and wanting to learn how to make your mark in the industry? We're hosting a Virtual Marketing Q&A where you will get the opportunity to talk directly to professionals in the field!

Register here to attend.

MAY 6 Finance and Accounting Panel

The Finance and Economics division of the DCS is hosting a Webinar discussing careers and opportunities students have in the Finance, Economics and Financial Planning sectors. Register here.

Keen for more DCS in your life?

Keep your eyes peeled on our Facebook, Instagram and LinkedIn to be the first to find out about events and ways to get involved.

References

- Cherney M, 2021, "Australia Expects Big Delays to Covid-19 Vaccine Rollout", The Wall Street Journal, April 2021,<https://www.wsj.com/articles/australia-expects-big-delays-to-vaccine-rollout-11618233473> Retrieved 25 April 2021.

- Cosenza E et all, "thousand of Aussies risking jail, huge fines by trans-Tasman travel bubble overseas escape route, April 26 2021, <https://www.escape.com.au/news/thousands-of-aussies-risking-jail-huge-fines-by-using-transtasman-travel-bubble-as-overseas-escape-route/news-story/21e9f7e8738529435522195c9f08ce3b>, retrieved April 26 2021.

- Flynn D, 2021, "Hong Kong flags travel bubble with Australia", Executive Traveller, 26 April 2021, <https://www.executivetraveller.com/news/hong-kong-flags-travel-bubble-with-australia> Retrieved 27 April 2021.

- Gupta-Smith V (host) (28 August 2020) 'Herd Immunity [podcast]', World Health Organisation, Retrieved 25 April 2021.
- Hall B, 2021 "Chairman of the night' leads push to revive Melbourne's $3.5b night economy", The Age April 2021, <https://www.theage.com.au/national/victoria/chairman-of-the-night-leads-push-to-revive-melbourne-s-3-5b-night-economy-20210422-p57ldn.html> Retrieved 24 April 2021.

- Ingenium Research, Measuring the Australian Night Time Economy 2018, A report prepared for the Council of Capital City Lord Mayors, September 2019 <https://www.lordmayors.org/?page_id=1226>. Retrieved 24 April 2021.

- Maclean & Elphick 2020, "COVID-19 Legislative response—Human Biosecurity Emergency Declaration Explainer", 19 March 2020, Parliament of Australia, <https://www.aph.gov.au/About_Parliament/Parliamentary_Departments/Parliamentary_Library/FlagPost/2020/March/COVID-19_Biosecurity_Emergency_Declaration>, retreieved on 25 April 2021.

- Reserve Bank of Australia 2021, "Statement on Monetary Policy – February 2021", Reserve Bank of Australia 2021, February 2021 <https://www.rba.gov.au/publications/smp/2021/feb/economic-outlook.html>, retrieved on 24 April 2021

- Tehan D, 2021, "Interview with ABC News Breakfast", Minister for Trade, Tourism and Investment, 07 April 2021 <https://www.trademinister.gov.au/minister/dan-tehan/transcript/interview-abc-news-breakfast> Retrieved 25 April 2021.

- Wear A, Melbourne City Council 2021, Report to the Future Melbourne Committee, February 2021 <https://www.melbourne.vic.gov.au/about-council/committees-meetings/meeting-archive/MeetingAgendaItemAttachments/928/16475/FEB21%20FMC1%20AGENDA%20ITEM%206.4.pdf> Retrieved 24 April 2021.

References

- Abc.net.au. 2021. Users say electric vehicle tax is a 'disincentive' to go green, retrieved 26 April 2021, <https://www.abc.net.au/news/2021-03-18/electric-vehicle-tax-a-disincentive-to-go-green/13258232>

- Harris, R., 2021. Government rules out subsidies in electric vehicle strategy The Age, retrieved 26 April 2021, <https://www.theage.com.au/politics/federal/morrison-government-rules-out-subsidies-in-electric-vehicle-strategy-20210204-p56zju.html>

- Insurance, C., Statistics, R. and Australia, A., 2021. Average KM driven per year/day in Australia 2020 — Budget Direct, Budget Direct, retrieved 26 April 2021, <https://www.budgetdirect.com.au/car-insurance/research/average-kilometers-driven.html>

- Kurmelovs, R., 2021. Australia lags the world on electric vehicle choice and it's hurting take-up, industry says, The Guardian, retrieved 26 April 2021, <https://www.theguardian.com/australia-news/2021/mar/06/australia-lags-the-world-on-electric-vehicle-choice-and-its-hurting-take-up-industry-says>

- Purtill, J., 2021. Australians want electric vehicles, but car makers won't ship them here. Here's why. Abc.net.au, retrieved 26 April 2021, <https://www.abc.net.au/news/science/2021-04-20/australians-want-to-buy-electric-cars-what-is-stopping-us/100071550>

- Whitley, A. and McKay, G., 2021. Not even Tesla can overcome Australia’s hostility to electric cars, The Age, retrieved 26 April 2021, <https://www.theage.com.au/business/companies/not-even-tesla-can-overcome-australia-s-hostility-to-electric-cars-20210414-p57izn.html>

- Ewig, J. And E. Boudette, N., 2021. A Tiny Part’s Big Ripple: Global Chip Shortage Hobbles the Auto Industry. [online] nytimes.com. Available at: https://www.nytimes.com/2021/04/23/business/auto-semiconductors-general-motors-mercedes.html.

- Leswig, K., 2021. Why there’s a chip shortage that’s hurting everything from the PlayStation 5 to the Chevy Malibu. [online] CNBC. Available at: https://www.cnbc.com/amp/2021/02/10/whats-causing-the-chip-shortage-affecting-ps5-cars-and-more.html.

- Sweney, M., 2021. Global shortage in computer chips ‘reaches crisis point’. [online] The Guardian. Available at: https://amp.theguardian.com/business/2021/mar/21/global-shortage-in-computer-chips-reaches-crisis-point.

References

- Al Jazeera 2021, Five things to know about the Suez Canal gridlock, Al Jazeera, retrieved 24 April 2021, <https://www.aljazeera.com/news/2021/3/24/what-is-the-significance-of-the-suez-canal>

- Steigrad, A 2021, Giant ship blocking Suez Canal freed, but economic impact looms, New York Post, retrieved 24 April 2021, <https://nypost.com/2021/03/29/giant-ship-blocking-suez-canal-freed-but-economic-impact-looms/>

- The Suez Canal situation: What happened 2021, video, Money Talks News

- Zerodha, B 2021, The economic outcomes of the Suez Canal crisis, Startup Talky, retrieved 23 April 2021, <https://startuptalky.com/economic-outcomes-suez-canal-crisis/>

Submission Guidelines

The following are the submission guidelines set by the Deakin Commerce Society relating to submissions for 'The DCS FinConomics'. All guidelines are to be strictly followed at all times, in order to uphold integrity, accuracy, fairness, privacy and avoidance of harm.

The General Guidelines are as follows:

- DCS accepts articles and opinion-pieces for its editorial 'The DCS FinConomics'. If necessary, articles must state that their references are the opinion of the original author. Opinion pieces must state that they are the opinion of the author.
- We only accept submissions sent as emails to admin@deakincommercesociety.com.au. All other submissions will not be considered.
- Please name the document of your submission as Full Name_Student ID_Name of Article/piece.
- We do not accept submissions that have been used for assignments, research or published elsewhere. Likewise, we do not accept submissions which are planned to be used for future assignments, research or other uses.
- You must be a Deakin student to submit an article/piece.
- All pieces should be size 12 and Times New Roman font.
- Pieces should be approximately 500 words, with a 15% leeway.
- All submissions should be in .doc or .docx format (Microsoft Word).
- For more information, you can view Deakin's Copyright and Intellectual Property guidelines by navigating the following links.
- All work must have full Harvard referencing, for more information on Harvard referencing, please view the following link: Harvard Referencing.

The DCS FinConomics Professional Code of Conduct is as follows:

- Accuracy of reporting and submissions must be prioritised.
- Zero tolerance for misrepresentation of any sort.
- Conflicts of Interest must be declared.
- Personal gain, bribery or any other forms of manipulation are unacceptable.
- No tolerance for harassment, bullying or any other form of harm in submissions.
- Do not bring the reputation of the Deakin Commerce Society into disrepute.
- Respect confidences and sensitivities at all times.
- Familiarise yourself with the guidelines before submitting.