

Economic assessment of Australia Post's activities during COVID-19

The **key findings** of the analysis are:

- Australia Post's delivery activities facilitated an additional **\$2.4 billion** in e-commerce during the COVID-19 crisis to date, including **\$560 million** for regional and remote areas across Australia – helping businesses trade at a time two-thirds of all businesses reported revenue declines
- Some **23,000 extra small business** customers used the MyPost delivery service during COVID-19 each month, on average; and existing customers will have sold higher volumes, on average, either directly or through other distributors or retailers
- Australia Post helped facilitate an extra **26 million transactions** that may not have occurred through in-store visits because of lockdowns – helping businesses, helping customers
- Australia Post's total economic contribution to GDP over the three months to May 2020 was **\$1.8 billion**, contributing **58,800 jobs** (in full-time equivalent terms), which is 12% higher in real terms than a typical three-month period in 2016-17 when the economic contribution was last calculated

1 Scope of work

Deloitte Access Economics has prepared this note to provide Australia Post with high level analysis of the value to the economy of changes in its activities to assist businesses during the COVID-19 crisis. This analysis is based on Australia Post and industry data available in late June and focuses on the benefit from increased parcel delivery activity. It is not a full assessment of the impacts of changes to performance delivery standards granted to Australia Post until June 2021.

2 Context

The COVID-19 crisis has caused the greatest economic downturn since the Great Depression – in Australia and around the world. Businesses and individuals have had to adapt drastically to a changing climate. With many stores closed or having limited physical operations, consumers have shifted to online purchases, resulting in changes to delivery networks. Overall, the ABS has found two-thirds of all businesses have reported revenue declines during COVID-19 compared to the same time last year.¹

2.1 Retail spending

COVID-19 lockdowns have meant that bricks and mortar stores, especially in retail, have suffered significantly. This is both because of store closures, and, for stores that have been open, because of lower

¹ Australian Bureau of Statistics, *Business Indicators, Business Impacts of COVID-19* (June 2020) cat. 5676.0.55.003

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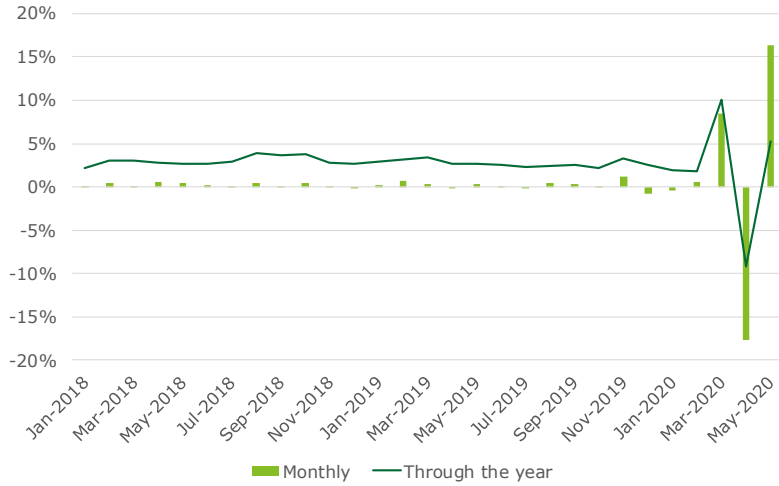
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consumer foot-traffic and spending. Some consumers have been concerned about health risks, others affected by lower confidence or loss of employment.

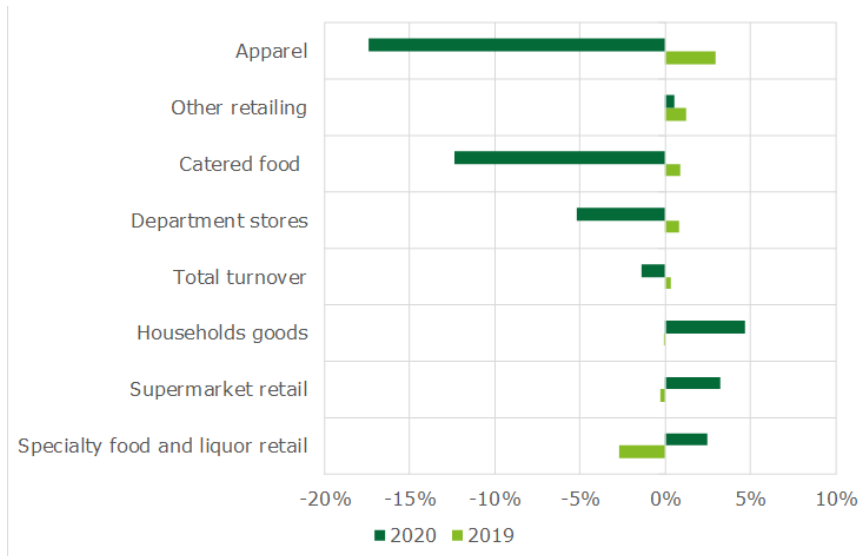
Chart 1: Retail turnover, current prices, seasonally adjusted, percentage change



Source: Australian Bureau of Statistics²

There have been three phases for retail spending in recent months in 2020. March saw a large increase of retail turnover as individuals stockpiled and panic-purchased essential items. In April, Australia saw a large slump in retail spending by 17.7 per cent as households entered lockdowns. Spending rebounded by 16.3 per cent in May as restrictions began to ease and many shops re-opened.

Chart 2: Real retail spending by sector, percentage change



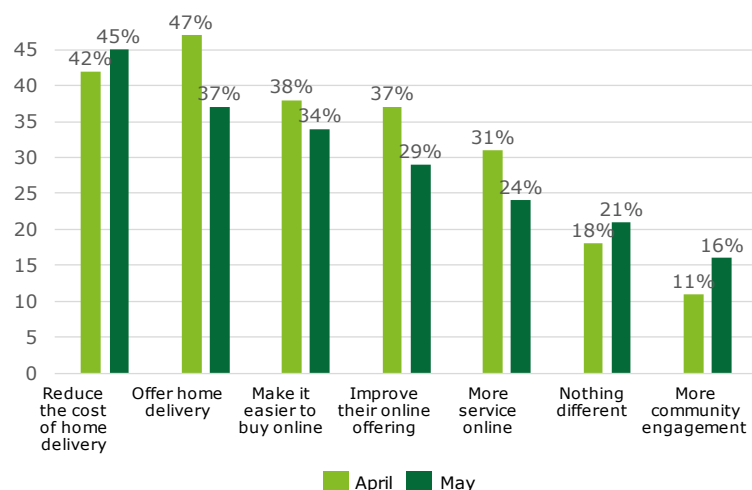
Source: Australian Bureau of Statistics³

² Australian Bureau of Statistics, *Retail Trade* (April 2020) cat. 8501.0

³ Australian Bureau of Statistics, *Retail Trade* (April 2020) cat. 8501.0

Consumer behaviour has also changed as a result of the health crisis. Price, quality and brand were all still important purchase drivers, but April and May saw a surge in ease of purchase and delivery options as being important for customers. Further, 42 per cent of consumers said retailers should reduce the cost of home delivery and 47 per cent think retailers should offer home delivery.

Chart 4: What do you think that Australian retailers should be doing in the context of COVID-19?



Source: Deloitte Insights

3 Supporting e-commerce and businesses

The three months to the end of May 2020 saw a shift in how Australians purchase products. Lockdowns and restrictions on physical shopping resulted in significant increases in retail online spending. According to the Australian Bureau of Statistics, between March and May, there was an increase of \$2.9 billion from the same time last year.⁴ Australia Post's activities supported a significant portion of this e-commerce delivery. Based on previous research, approximately 82 per cent of Australia's e-commerce by value is going through Australia Post's delivery network.⁵ We estimate Australia Post's activities facilitated an additional **\$2.4 billion**⁶ in e-commerce during the COVID-19 crisis. This figure was derived using the increase in retail online spending during recent months and Australia Post's approximate contribution to e-commerce.

Table 1: Retail online spending (million)

| | 2019 | 2020 | Percentage change |
|-------------------|---------|----------|-------------------|
| March | \$1,518 | \$2,069 | 36% |
| April | \$1,486 | \$2,616 | 76% |
| May | \$1,645 | \$2,871* | 75% |
| Total (March-May) | \$4,649 | \$7,555 | 63% |

⁴ Australian Bureau of Statistics, *Experimental estimates of online retail turnover* (April 2020) cat. 8501.0

⁵ Wiggins, J. 'StarTrack says talk of Amazon's arrival has created an online shopping spree' *Australian Financial Review*, 24 May 2017, <<http://www.afr.com/business/startrack-says-talk-of-amazons-arrival-has-created-anonline-shopping-spre-20170523-gwb2ud>>.

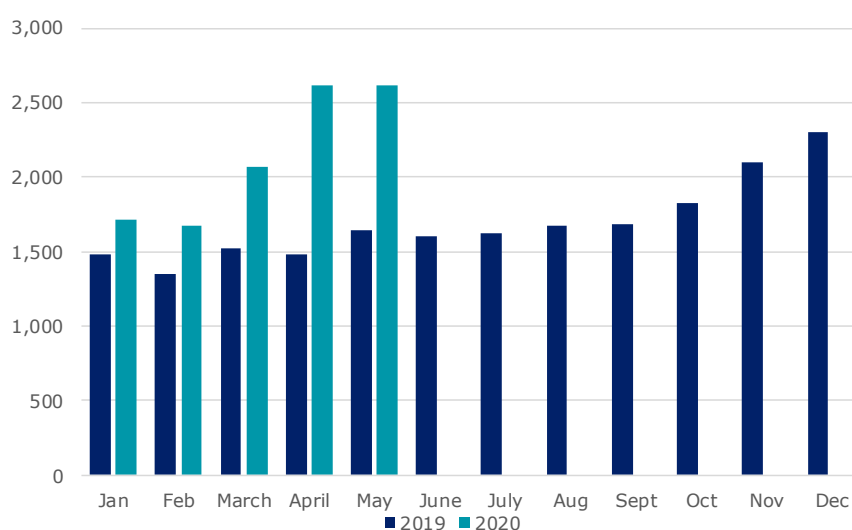
⁶ This figure is revenue, it is not measured in terms of value added (Gross Domestic Product, of GDP). We assume domestic parcels shipped by Australia Post are of similar value and that Australia Post's share of all online sales is the same across sectors.

Source: Australian Bureau of Statistics⁷

Note: *ABS figure for May has not yet been released, this figure has been derived using Australia Post's parcel revenue growth rate between that period

Prior to the COVID-19 crisis, Australia Post played a role in supporting households during the Christmas period, as individuals purchase more online and send and receive more parcels. As shown in Chart 5, during October to November 2019, retail online spending increased on average, 11 per cent over the three-month period. Australia Post's activities supported this growth.

Chart 5: Retail online spending, calendar year (million)



Source: Australian Bureau of Statistics⁸

We note that in general in Australia e-commerce is rising overtime. The calculations are based just on higher volumes during COVID but do not separate out what growth might have occurred anyway.

Deloitte's previous research found Australia Post enables residents in Regional and Remote areas to make e-commerce purchases. Previous survey results indicate that approximately half (49%) of regional Australians are frequent online shoppers, who make an online purchase requiring delivery at least once a month. The limited availability of alternatives for the fast and reliable delivery of parcels between regional and remote areas means that for many businesses operating outside of metropolitan cities, Australia Post's delivery infrastructure is essential for maintaining a high-quality experience for customers residing in other regional communities.⁹

During the COVID-19 crisis, Australia Post facilitated an additional \$560 million in e-commerce for regional and remote areas across Australia. Between this period (March to May), there has been a greater percentage increase in parcel deliveries to regional and remote areas, compared to metropolitan areas.

Australia Post's activities also supported the growth of certain sectors. April saw large increases in the number of parcel deliveries for items such as Food and Liquor (159.5 per cent increase from the previous year). Homewares and Appliances parcel deliveries increased by 93.5 per cent from the previous year.

⁷ Australian Bureau of Statistics, *Experimental estimates of online retail turnover* (April 2020) cat. 8501.0

⁸ Australian Bureau of Statistics, *Experimental estimates of online retail turnover* (April 2020) cat. 8501.0

⁹ Deloitte Access Economics, *Economic and Social Value of Australia Post in Regional, Rural and Remote Communities* (2020) https://auspost.com.au/content/dam/auspost_corp/media/documents/australia-post-in-regional-rural-and-remote-communities.pdf

Table 2: Parcel and express packages by industry, volume growth year-on-year, 2019-2020

| Industry | March | April | May |
|--------------------------|-------|--------|--------|
| Food and Liquor | 46.5% | 159.5% | 110.2% |
| Homewares and Appliances | 14.8% | 93.5% | 92.9% |
| Variety Stores | 36.7% | 169.0% | 129.0% |
| Fashion | -4.3% | 41.5% | 82.9% |
| Finance and Government | 1.1% | -1.0% | -13.0% |

Source: Client provided data (30 June 2020)

E-commerce will have been especially important to businesses during COVID-19, at a time when for most businesses, overall revenue was in decline. Sectors hardest hit by store closures such as apparel, catered food and department stores, are also sectors supported by more home delivery.

3.1 Supporting small businesses

We also note that Australia Post data shows an increase in non-charge account parcel post deliveries (an average of 33 per cent over March to May, from the same period last year). While some activity will be for households, it is likely that this represents new activity by small and micro businesses shifting online to conduct their business operations during COVID-19. One illustration of this comes from MyPost Business customer numbers – smaller customers that do not necessarily hold an account but are able to transact online (i.e. pay online and print parcel label to lodge parcels). The number of businesses using this service was, on average, 23,165 higher per month during March-May 2020 compared with the previous year.

Table 3: My Post Business Customers

| | 2020 | | | 2019 | | |
|--|--------|--------|--------|--------|--------|--------|
| | March | April | May | March | April | May |
| | 53,902 | 59,466 | 65,935 | 33,213 | 37,961 | 38,634 |

3.2 Supporting consumers

Table 4 shows higher parcel volume during COVID-19. As businesses were unable to physically trade and individuals had unwillingness or inability to venture out and visit brick and mortar stores, online transactions assisted communities. Australia Post helped facilitate 26 million transactions for consumers that may have not occurred through in-store visits because of local lockdowns.

Table 4: Parcel volume, by type, 2020 (million)

| | 2019 | 2020 |
|-----------------------------|------|-------|
| Parcel post | 45.5 | 68.8 |
| Express post | 13.2 | 15.4 |
| StarTrack, Courier & Growth | 20.8 | 21.3 |
| Total Domestic Parcels | 79.4 | 105.5 |

Source: Client provided data (30 June 2020)

4 Economic contribution

Economic contribution modelling examines the economic footprint resulting from production in a particular sector or by a particular firm. Deloitte Access Economics has estimated the economic contribution of Australia Post over three months to the end of May 2020 using input-output (I-O) modelling, which captures the interlinkages between Australia Post's operations and other parts of the Australian economy.

The modelling captures two components:

1. Direct contribution to the economy, through Australia Post's operations (i.e. the difference between the value of the output generated and the cost of inputs required to create those outputs)
2. Indirect contribution (i.e. the flow-on economic activity), generated through Australia Post's spending on intermediate inputs, such as transport, telecommunications and property service etc.

The economic contribution outputs are shown in terms of value added¹⁰ and employment.

4.1 Method

Deloitte Access Economics received data from Australia Post from its profit and loss statement over the three months to May 2020. This includes data on its revenue, labour costs, expenditure on intermediate items, profits and the number of people employed.

These were used as inputs into Deloitte Access Economics' Regional Input-Output table. Input-Output tables are used to account for the intermediate flows between industries. These tables measure the direct economic activity of every industry in the economy at the national level. Importantly, these tables allow intermediate inputs to be further broken down by source. These detailed intermediate flows can be used to derive the total change in economic activity associated with a given direct change in activity for a given industry.

Deloitte Access Economics' Regional Input-Output table is derived from the Australian Bureau of Statistics' 2016-17 Input-Output tables, which is the most up-to-date view of the production structure of the Australian economy.¹¹

4.2 Key findings

Over the three months to May 2020, Australia Post directly contributed **\$1,008 million in value added**. Over the same period, Australia Post directly employed an average of **34,200 full-time equivalent (FTE) jobs each month**. In headcount terms, Australia Post employed an average of 36,600 persons each month. This includes Australia Post permanent employees and external contractors.

In addition to its direct contribution, Australia Post also supports indirect flow-on activity in other sectors of the economy, including in postal and courier services, which includes contractors that support mail services operations, and road transportation, which are inputs for mail and parcel delivery.

Over the three months to May 2020, Australia Post contributed \$751 million in indirect value added, and indirectly supported an average of 24,500 FTE jobs per month. For every-one FTE job created by Australia Post, 0.72 other FTE jobs were supported elsewhere in other businesses and industries through flow-on economic activity.

The total economic contribution of Australia Post was therefore \$1,759 million over the three months to May. It supported an average 58,800 FTE jobs per month over the same period. Compared to a typical

¹⁰ Note: The sum of value added across all entities in the Australian economy, plus net taxes on products, equals Australia's gross domestic product (GDP).

¹¹ Australian Bureau of Statistics, *Australian National Accounts: Input-Output Tables* (June 2020) cat. 5209.0.55.001

three-month period in 2016-17, Australia Post's total contribution to value added (real terms) is higher by 11 per cent, and employment is higher by 12 per cent.¹² The key results are shown in Table 5.

Table 5: Economic contribution of Australia Post over the three months to May, 2020

| | Value added (\$m) | Employment per month (FTE) |
|--|-------------------|----------------------------|
| Direct contribution | 1,008 | 34,244 |
| Indirect contribution | 751 | 24,528 |
| Total contribution | 1,759 | 58,771 |
| Comparison with typical three-month period in 2016-17 | +11% | +12% |

Source: Australia Post internal data, Deloitte Access Economics.

4.3 Key assumptions and limitations

The contribution analysis is based on the Australia Post activity over the three months to May. It may not be representative of activity in other quarters of the year, particularly given the uplift in activity resultant from the COVID-19 crisis. Consequently, results should not be extrapolated to estimate the economic contribution over the full year. The results are also less comparable to other results and benchmarks.

4.4 Limitations of economic contribution modelling

While describing the geographic origin of production inputs may be a guide to a firm's linkages with the local economy, it should be recognised that these are the type of normal industry linkages that characterise all economic activities.

Unless there is unused capacity in the economy (such as unemployed labour) there may not be a strong relationship between a firm's economic contribution as measured by value added (or other static aggregates) and the welfare or living standard of the community. During the COVID-19 crisis, there is likely to be an above average level of unused capacity in the economy, and this could contribute to higher welfare impacts.

The use of labour and capital by demand created from the industry comes at an opportunity cost as it may reduce the amount of resources available to spend on other economic activities.

In a fundamental sense, economic contribution studies are simply historical accounting exercises. No 'what-if', or counterfactual inferences – such as 'what would happen to living standards if the firm disappeared?' – should be drawn from them.

The I-O framework and the derivation of the multipliers also assume that the relevant economic activity takes place within an unconstrained environment. That is, an increase in economic activity in one area of the economy does not increase prices and subsequently crowd out economic activity in another area of the economy. As a result, the modelled total and indirect contribution can be regarded as an upper-bound estimate of the contribution made by the supply of intermediate inputs.

Similarly, the I-O framework does not account for further flow-on benefits as captured in a more dynamic modelling environment like a Computable General Equilibrium (CGE) model.

¹² Deloitte Access Economics, *Economic and Social Value of Australia Post* (report commissioned by Australia Post, 2018) <<https://www2.deloitte.com/content/dam/Deloitte/au/Documents/Economics/deloitte-au-economics-value-australia-post-150818.pdf>>.

Note: Assumes economic contribution in 2016-17 is equally split across the quarters

Limitation of our work

General use restriction

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