



Monday, 12 July 2021

NSW Lockdown Extension Likely

We start this week with the unfortunate news that New South Wales recorded 112 new locally acquired COVID-19 cases yesterday.

NSW continues to battle with the latest outbreak of the Delta strain and the initial two-week lockdown has been extended to three weeks, scheduled to end this Friday, 16 July. However, with the case numbers increasing at this rate, it is likely that the lockdown will need to be extended further. A decision is yet to be made by the NSW government.

This outbreak has quickly surpassed other outbreaks in NSW in terms of case numbers. There have now been 678 cases of community transmission since 17 June, with no signs of case numbers slowing. In comparison, during the December and January period of the “Northern Beaches” outbreak, there were a bit over 200 cases of community transmission, which resulted in a three-week lockdown.

Victoria and South Australia are also on high alert with the news that a positive case travelled through the states while infectious. So far, no new restrictions have been announced.

While the economy tends to recover very quickly from short lockdowns, an extended lockdown of Greater Sydney and other parts of NSW has more potential to negatively impact business and consumer confidence. This is evidenced by a sharp drop in consumer confidence last week as lockdowns were in place across several states in Australia. The index dropped by 3.9%, to be at its lowest level since the first week of April.

Our estimates of the initial two-week lockdown were that economic activity would be reduced by around \$750 million per week, although it could be as high as \$1 billion a week. The economic fallout will be cushioned by pent-up spending when restrictions lift and government support. These estimates are broadly consistent with estimates from NSW Treasury. However, as the lockdown is extended and negatively impacts more businesses and households, the economic impacts may become larger.

Recognising the impacts on individuals, the federal government announced last week that it will waive the liquid assets test for the one-off COVID-19 Disaster Payment, which ranges from \$325 to \$500. This will enable people with liquid assets, for example, cash in the bank account, of over \$10,000 to access the payment.

This adds to the support that was announced by the NSW government for affected businesses at the beginning of the lockdown, including grants between \$5,000 and \$10,000. Additionally, financial institutions have announced various measures to support affected customers on a case-by-case basis, including repayment deferrals and fee waivers.

It is understood that the federal government is preparing to provide further financial support to NSW. However, in a blow to those who are hoping for a return of JobKeeper, the government has stated that it will not be reinstating the scheme. Instead, it has been reported the government will announce further assistance for NSW businesses.

The continued outbreak underscores the importance of increasing the number of people across the population who have been vaccinated. Currently, around 9% of people are fully vaccinated, with approximately 30% having had their first dose.

In a bid to increase vaccination numbers, the NSW government announced that people over 40 will now be able to get the AstraZeneca jab at vaccination clinics and centres, without seeking advice from their GP.

Looking at the week ahead, markets will be closely monitoring the release of the June labour force data, coming out on Thursday. We will get a read on how consumer sentiment has been affected by the latest round of lockdowns, with consumer sentiment data for July to be released on Wednesday. Business confidence and conditions numbers for June, prior to the latest round of lockdowns, will also be released on Tuesday.

The labour force data will provide an important assessment of the continued economic recovery across Australia. Last month's release showed a surge in jobs growth, with 115.2k jobs added in May, well above the consensus forecasts of 30.0k. The unemployment rate also fell 0.4 percentage points to 5.1%. The June release will largely exclude the impact from the NSW lockdown, which was imposed towards the end of June but will capture any potential impacts from the Victorian lockdowns in late-May, early-June.

We are expecting continued strong jobs growth, with 45k jobs added. We are also forecasting the unemployment rate to have fallen further to 5.0%, from 5.1% in May, and the participation rate to have edged up further to 66.3% from 66.2%.

In June, consumer sentiment declined 5.2% to 107.2, as the two-week lockdown in Victoria impacted sentiment across the country. However, this decline came off an 11-year high in April. We expect consumer sentiment to have taken another hit in July following the imposition of the lockdown in NSW, in addition to shorter lockdowns across Queensland, Western Australia and the Northern Territory. While sentiment will be impacted by lockdowns in the near term, over the longer term, consumer sentiment is expected to continue to be supported by the recovering economy and supportive monetary policy settings.

In May, business confidence and conditions rose to new highs, again. This added further evidence that the economic recovery is well underway and that conditions are conducive to continued jobs growth and business investment. The June release will also mostly precede any impact from the NSW lockdown, but it will capture the Victorian lockdown. The recent record highs seen in May might no longer be sustained. While the current lockdown situation is negatively impacting businesses, particularly those in NSW, the continued low interest rate environment and government tax incentives will continue to support business investment in the longer term.

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Forecasts

End Period:	2021			2022			
	Close (9 July)	Q3 (f)	Q4 (f)	Q1 (f)	Q2 (f)	Q3 (f)	Q4 (f)
Aust. Interest Rates:							
RBA Cash Rate, %	0.10	0.10	0.10	0.10	0.10	0.10	0.10
90 Day BBSW, %	0.03	0.04	0.07	0.10	0.15	0.20	0.40
3 Year Swap, %	0.42	0.50	0.55	0.70	0.80	0.95	1.10
10 Year Bond, %	1.34	1.70	1.90	1.95	2.00	2.05	2.10
US Interest Rates:							
Fed Funds Rate, %	0.125	0.125	0.125	0.125	0.125	0.125	0.375
US 10 Year Bond, %	1.33	1.70	1.90	1.95	2.00	2.05	2.10
USD Exchange Rates:							
AUD-USD	0.7418	0.78	0.80	0.82	0.85	0.85	0.84
USD-JPY	109.93	111	111	112	112	112	113
EUR-USD	1.1836	1.21	1.22	1.23	1.22	1.21	1.21
GBP-USD	1.3774	1.41	1.42	1.43	1.44	1.45	1.44
NZD-USD	0.6937	0.72	0.74	0.76	0.78	0.78	0.77
AUD Exchange Rates:							
AUD-USD	0.7418	0.78	0.80	0.82	0.85	0.85	0.84
AUD-EUR	0.6306	0.64	0.66	0.67	0.70	0.70	0.69
AUD-JPY	82.50	86.6	88.8	91.8	95.2	95.2	94.9
AUD-GBP	0.5385	0.55	0.56	0.57	0.59	0.59	0.58
AUD-NZD	1.0694	1.08	1.08	1.08	1.09	1.09	1.09

	2019	2020	2021 (f)	2022 (f)
GDP, %	2.1	-1.0	4.8	3.2
CPI (Headline), %	1.8	0.9	2.5	2.4
CPI (Trimmed mean), %	1.5	1.2	1.6	2.2
Unemployment Rate, %	5.2	6.8	4.4	3.8
Wages Growth, %	2.2	1.4	2.4	2.7

AUD cross exchange rates have been rounded.

Financial forecasts are quarter end.

GDP, CPI, employment and wage growth forecasts are year end.

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