

Monday, 13 September 2021

A Light at the End of the Lockdown Tunnel

Last week the New South Wales Government revealed its roadmap to reopening for adults who are fully vaccinated (having received both doses of a COVID-19 vaccine). Stay-at-home orders for fully vaccinated adults will be lifted from the Monday after the state hits its 70% double-dosed target.

Currently, over 78% of the eligible population in NSW (people aged 16+) have received one dose of a vaccine and around 46% are fully vaccinated. Based on the current rate of vaccinations, NSW should hit the 70% double dosed target by mid October and the 80% target by late October.

Vaccinated residents will be able to gather in their homes and outdoor spaces. Hospitality venues, retail shops and gyms will be allowed to reopen, subject to capacity limits and social-distancing requirements. Stadiums, theatres and outdoor recreation facilities will reopen. Weddings and funerals will be able to have more guests and places of worship will also reopen, subject to social-distancing requirements. For those people who have been going stir-crazy being stuck in their homes, domestic travel will be allowed, meaning regional areas will get a much-needed boost after being starved of tourists.

In an effort to encourage more people to become vaccinated, those who are not fully vaccinated or who don't have medical exemptions will remain subject to the current range of restrictions.

Following previous lockdowns, we saw a sharp rebound in consumer spending and business and consumer confidence as people resumed their normal activities. We expect another recovery in consumer spending following the lifting of restrictions. This will provide a much-needed boost to the economy and those businesses who have been forced to close during the lockdown. However, this boost is unlikely to be of a similar magnitude to what we have seen in the past.

NSW is likely to be opening with a relatively high number of cases, which may dampen consumers' enthusiasm to get back to their normal routine as soon as possible. Trailing restrictions will mean that things won't quite get back to normal, at least not initially. Importantly, with 70% of the eligible population vaccinated, there will still be almost 2 million adults that will not be fully vaccinated and remain subject to restrictions.

Additionally, there are around 1.5 million kids in NSW under the age of 16, most of whom don't have access to vaccines as none are approved for children under 12. The Therapeutic Goods Administration (TGA) has provisionally approved the use of the Pfizer and Moderna vaccines for people aged 12 and over. As a result, vaccinating 70% of the eligible population leads to around 55% of the total population being vaccinated. An 80% vaccination rate for the eligible population translates to around 65% of the total population being vaccinated.

Victoria has already announced minor easing of restrictions when 70% of the eligible population receive their first dose and restrictions have recently eased in regional areas. However, the state has yet to put out a detailed reopening plan similar to NSW. Premier Andrews has stated that a plan is expected to be announced "in about a week's time."

As noted in our update last week, we expect the lockdowns across NSW, Victoria and other parts of the country to lead to a contraction in the economy of 4.0% over the September quarter. Activity is expected to recover in the December quarter as the economy reopens. However, in recognition of a likely slower rebound than in the past, our expectations are that the economy will grow by 1.6% in the December quarter.

Last week, the Reserve Bank (RBA) Board met and re-affirmed its plan to taper bond purchases from \$5 billion per week to \$4 billion per week from early September. The market was split on whether the RBA would continue its taper or defer the plans given the significant deterioration in the economy since the board last met. However, in recognition of the economic deterioration, the RBA said that it will hold the pace of bond purchases at \$4 billion a week until February next year. This is a change from its previous plan to review the pace of purchases at its November 2021 meeting. Other monetary policy settings remained unchanged, as widely expected.

Looking to the week ahead, on Tuesday, business confidence and conditions data for the month of August will be published. These measures had been recovering strongly since the depths of the pandemic in mid 2020. However, both have fallen sharply as businesses are impacted by lockdowns. Confidence plummeted in July to negative territory and well below the long-run average. Conditions also fell significantly but remained above the long-run average. In August, businesses in NSW continued to be impacted by the lockdown. Victoria entered its sixth lockdown towards the beginning of the month. ACT and the NT were also impacted by lockdowns during the period. We expect another fall in conditions and confidence due to the continuation and expansion of lockdowns across the country.

On Wednesday, there is September's Westpac-Melbourne Institute consumer sentiment index. Consumer sentiment took a hit in August as large parts of the country were in lockdown. However, consumers appear to have remained resilient. Despite lockdowns, the index has remained above 100, indicating that optimists still outweigh pessimists. The weekly Roy Morgan consumer confidence survey has also been stabilising around the neutral level in recent weeks. The vaccine rollout has been gathering pace and governments have provided some guidance around how and when states will emerge from lockdowns. While continuing lockdowns will weigh on confidence, these factors are likely to provide a positive offset. As a result, there is a possibility of further falls being arrested and the index stabilising.

On Thursday, August labour force statistics will be published. While we expect most of the adjustment to lockdowns will occur through falls in hours worked, job losses will still rise. We expect employment to have fallen by 150k in August. There is a lot of uncertainty around August's number, reflected in the wide range of forecasts: -300k to +2k. We expect this loss in jobs to have led to an increase in the unemployment rate to 5.0%, up from a 12-year low of 4.6% in July. The increase in the unemployment rate will be somewhat tempered by a fall in the participation rate, as people exit the workforce temporarily due to inability to seek work while in lockdown and due to caring responsibilities. We expect the unemployment rate to continue to tick up over the next few months due to the economic impacts from lockdowns. It is likely to peak around the high 5s before falling towards the end of 2021 as the economy reopens.

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Forecasts

End Period:	Close (10 Sep)	2021	2022		2023		
		Q4 (f)	Q1 (f)	Q2 (f)	Q3 (f)	Q4 (f)	Q1 (f)
Aust. Interest Rates:							
RBA Cash Rate, %	0.10	0.10	0.10	0.10	0.10	0.10	0.25
90 Day BBSW, %	0.01	0.07	0.10	0.15	0.20	0.40	0.65
3 Year Swap, %	0.43	0.55	0.70	0.80	0.95	1.10	1.20
10 Year Bond, %	1.22	1.55	1.70	1.80	1.90	2.00	2.05
US Interest Rates:							
Fed Funds Rate, %	0.125	0.125	0.125	0.125	0.125	0.375	0.625
US 10 Year Bond, %	1.34	1.60	1.70	1.80	1.90	2.00	2.05
USD Exchange Rates:							
AUD-USD	0.7356	0.75	0.76	0.77	0.78	0.78	0.79
USD-JPY	109.94	111	112	112	112	113	113
EUR-USD	1.1814	1.21	1.23	1.22	1.21	1.21	1.21
GBP-USD	1.3839	1.41	1.43	1.44	1.45	1.44	1.44
NZD-USD	0.7113	0.71	0.72	0.73	0.74	0.74	0.74
AUD Exchange Rates:							
AUD-USD	0.7356	0.75	0.76	0.77	0.78	0.78	0.79
AUD-EUR	0.6226	0.62	0.62	0.63	0.64	0.64	0.65
AUD-JPY	80.84	83.3	85.1	86.2	87.4	88.1	89.3
AUD-GBP	0.5315	0.53	0.53	0.53	0.54	0.54	0.55
AUD-NZD	1.0344	1.06	1.06	1.05	1.05	1.05	1.07

	2019	2020	2021 (f)	2022 (f)
GDP, %	2.1	-0.9	0.0	7.4
CPI (Headline), %	1.8	0.9	2.6	2.4
CPI (Trimmed mean), %	1.6	1.2	1.9	2.6
Unemployment Rate, %	5.2	6.8	5.7	4.0
Wages Growth, %	2.2	1.4	2.1	2.6

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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