



Monday, 26 July 2021

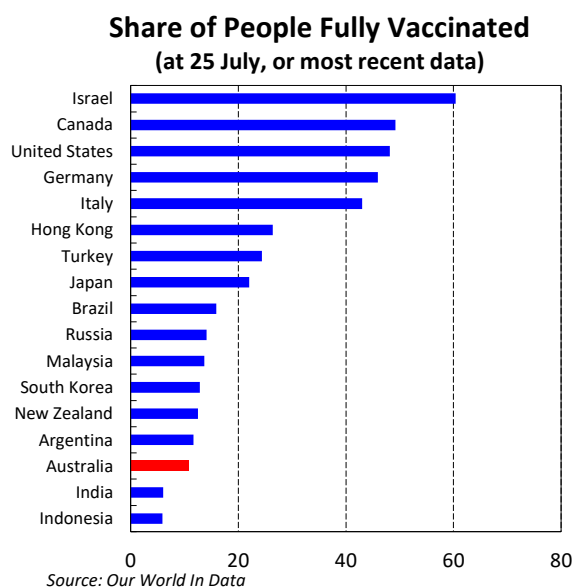
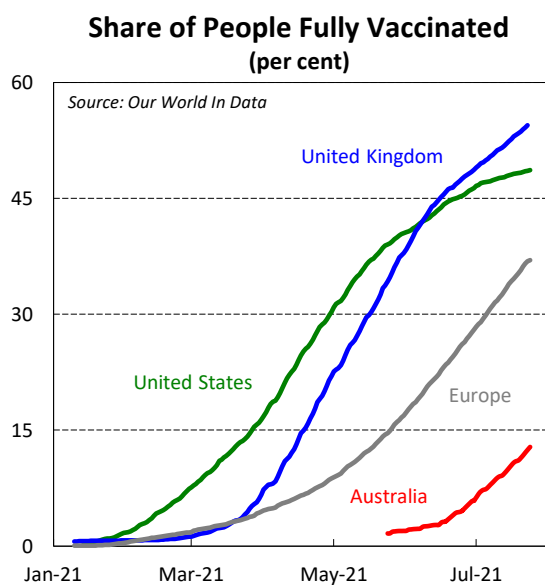
## Vaccines Key to Averting Future Lockdowns

The spread of the delta variant across the country and its impact on the economy continues to dominate the headlines.

NSW recorded 145 locally acquired COVID-19 cases yesterday, 51 of which were infectious in the community. There have now been over 2,200 cases of community transmissions in NSW since the beginning of the latest outbreak. There have now been eight deaths from the NSW outbreak. Victoria recorded 11 new cases, taking the total in this outbreak to around 180, and South Australia recorded 2 new cases.

The Federal government will seek to increase vaccine supply in NSW where possible, with 50,000 additional previously unallocated Pfizer doses from the national stockpile being sent to NSW. This would be enough to provide around 1% of the population of NSW their first dose. However, the government will not alter the vaccination program to redirect doses already earmarked for other states. To distribute doses of the Pfizer vaccine more quickly in NSW, the time between the first and second dose will be increased from three weeks to six weeks.

The Australian Technical Advisory Group on Immunisation (ATAGI) changed its advice on AstraZeneca for adults in Greater Sydney. ATAGI now advises that all adults should ‘strongly consider’ getting vaccinated with any vaccine, including AstraZeneca, due to the increased risk from the delta variant. This marks a significant shift in the official health advice around the AstraZeneca vaccine.



The lockdowns demonstrate the importance of the vaccine rollout and ensuring a sufficient proportion of the population is vaccinated for restrictions to lift and remain lifted in the future. As at 24 July, 30.6% of the population had received at least one jab and 12.9% of the population was

fully vaccinated. Currently, around 1 million doses are being administered per week.

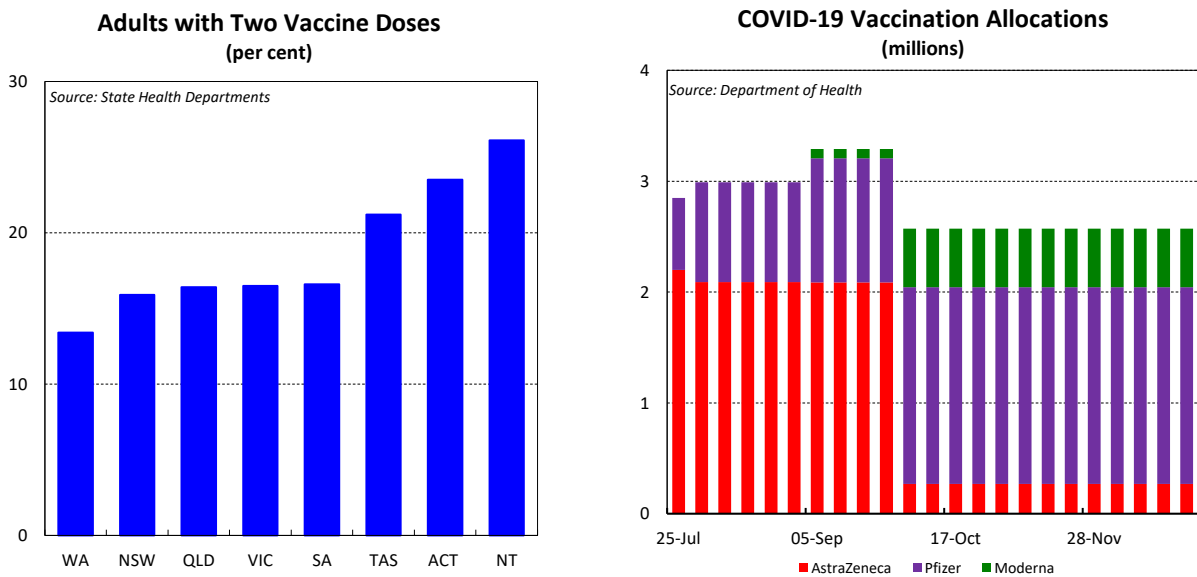
However, Australia still significantly lags international peers. Australia currently has the lowest share of its population fully vaccinated of all OECD countries. The US has fully vaccinated almost 50% of its population, the UK and several European neighbours are now over 50% and many other countries are quickly closing in on that number. Australia still has a long way to catch up to its peers.

The NT, ACT and Tasmania are the standout states and territories, each with more than 20% of their adult population now fully vaccinated. Around 15% of the adult population are now fully vaccinated in the other states, including NSW and Victoria.

One issue that has slowed the rollout of vaccinations in Australia is the supply of doses. The supply of vaccines is expected to increase, with 4.5 million doses of the Pfizer vaccine that were expected to arrive in September are now expected to arrive in August. Pfizer has stated that it was committed to delivering the 40 million doses it has been contracted to provide during 2021. The Federal government has also ordered vaccines from Moderna. These vaccines have yet to be approved by the Therapeutic Goods Administration but are approved in other countries like the United States. If approved, Moderna is expected to supply 25 million doses from late 2021.

If the current pace of around 1 million doses per week is maintained, a high share of Australia’s population could be fully vaccinated by early 2022. If doses increased to be more than 1 million per week, then that high share could be achieved by the end of 2021. A quicker pace of vaccinations should lead to a decrease in restrictions in the future and enable governments to move away from using lockdowns to manage outbreaks.

The Federal government’s vaccination strategy includes an expected expansion in the number of doses allocated across the country to around 3 million per week to late August. This is expected to be met using a combination of AstraZeneca and Pfizer vaccines. From September, doses allocated are expected to increase to over 3 million per week, before reducing to over 2 million per week from October. This is expected to be met through a combination of Pfizer, Moderna and AstraZeneca vaccines. Note, this is not the same as the number of doses administered.



The severity of the lockdowns across NSW and Victoria have led us to revise down our forecasts for economic growth for the September quarter 2021.

We flagged early on in the outbreak that the national economy could contract in the September quarter. As this lockdown has progressed, we have become more convinced that GDP will shrink in the September quarter. Our updated view is that the economy will contract by 0.7% in the September quarter 2021, assuming the current lockdown in NSW does not last much beyond 8 weeks and Victoria's lockdown is relatively short lived. Prior to the outbreak and lockdowns, we expected GDP growth of nearly 1% in the September quarter. The decline in economic activity in the September quarter means annual growth will be closer to 4% rather than 5%. This annual rate is still very solid and well above the long-run average of 2.6%.

History has shown the economy tends to recover quickly as restrictions lift. The severity of the impact and the strength of the recovery will also be supported by Federal and State government support packages for businesses and consumers. These have been announced by a number of states over the past week or so and will provide considerable support during this difficult time. Subsequently, we expect economic activity will rebound in the December quarter as the restrictions ease. However, much depends on how long the lockdown lasts and how long it takes to contain the virus. The longer it takes, the bigger and longer the impact on economic activity. It remains a situation that is evolving.

The situation will place pressure on the Reserve Bank (RBA) to hold off tapering bond purchases under its quantitative easing program. The RBA had announced at its July meeting that it intends to reduce bond purchases from \$5 billion per week to \$4 billion per week from September. We now expect the RBA to hold off tapering in September and maintain bond purchases at the existing level of \$5 billion per week.

Looking to the week ahead, we will get a read on inflation in the June quarter Consumer Price Index (CPI), to be released on Wednesday. In the US and other countries, inflation is beginning to rise from its previous low levels. Economies are experiencing inflationary pressures as they reopen and hit against supply constraints and labour shortages in certain industries.

In the March quarter, the widely anticipated increase in inflationary pressures didn't emerge. Headline inflation rose 0.6% in the quarter, to be 1.1% higher over the year. Underlying inflation or trimmed mean inflation, which is the measure the RBA targets, increased by 0.3% in the quarter and 1.1% over the year. It was the slowest annual pace of underlying inflation since the data goes back.

We expect inflation in the June quarter of 0.9%. Through the year inflation is expected to lift to 4.0%, reflecting the unwinding of temporary COVID-19 support measures on the inflation series a year ago. While this may imply that inflation is moving outside of the Reserve Bank's 2-3% band, these are only temporary effects which will subside in future quarters.

We will also get a read on credit growth across the economy with private sector credit data for June to be released on Friday. We expect total credit growth of 0.4% in June, following 0.4% growth in May.

The recovery in credit growth has so far been driven by growth in housing credit. Since December, business credit growth has turned a corner as businesses become more confident about the economic recovery and make greater use of government tax incentives to increase investment. We expect housing credit to have continued to grow strongly. The evolving lockdown situation across parts of the country may impact businesses willingness to borrow and invest in the short term. There is a risk business credit might be on pause in NSW and Victoria whilst the lockdowns continue.

Markets will be closely watching the outcomes of the two-day meeting of the US Federal Open

Market Committee (FOMC) from Tuesday night. The Fed isn't expected to make any new announcements at this meeting but any suggestions to changes in the timing of future policy decisions will be key as inflation pressures continue to mount.

**Jarek Kowcza, Senior Economist**

Ph: 0481 476 436

## Forecasts

End Period:	Close (23 July)	Q3 (f)	Q4 (f)	Q1 (f)	Q2 (f)	Q3 (f)	Q4 (f)
<b>Aust. Interest Rates:</b>							
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, %	0.38	0.50	0.55	0.70	0.80	0.95	1.10
10 Year Bond, %	1.19	1.55	1.80	1.95	2.00	2.05	2.10
<b>US Interest Rates:</b>							
Fed Funds Rate, %	0.125	0.125	0.125	0.125	0.125	0.125	0.375
US 10 Year Bond, %	1.28	1.60	1.80	1.95	2.00	2.05	2.10
<b>USD Exchange Rates:</b>							
AUD-USD	0.7370	0.75	0.78	0.80	0.82	0.82	0.82
USD-JPY	110.27	111	111	112	112	112	113
EUR-USD	1.1768	1.21	1.22	1.23	1.22	1.21	1.21
GBP-USD	1.3758	1.41	1.42	1.43	1.44	1.45	1.44
NZD-USD	0.6971	0.71	0.74	0.76	0.77	0.77	0.77
<b>AUD Exchange Rates:</b>							
AUD-USD	0.7370	0.75	0.78	0.80	0.82	0.82	0.82
AUD-EUR	0.6254	0.62	0.64	0.65	0.67	0.68	0.68
AUD-JPY	81.44	83.3	86.6	89.6	91.8	91.8	92.7
AUD-GBP	0.5358	0.53	0.55	0.56	0.57	0.57	0.57
AUD-NZD	1.0573	1.06	1.05	1.05	1.06	1.06	1.06

	2019	2020	2021 (f)	2022 (f)
GDP, %	2.1	-1.0	4.4	3.2
CPI (Headline), %	1.8	0.9	2.6	2.4
CPI (Trimmed mean), %	1.5	1.2	1.7	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.

Unemployment forecasts are under review

## Contact Listing

**Chief Economist**

Besa Deda  
dedab@bankofmelbourne.com.au  
(02) 8254 3251

**Economist**

Matthew Bunny  
matthew.bunny@bankofmelbourne.com.au  
(02) 8254 0023

**Senior Economist**

Jarek Kowcza  
jarek.kowcza@bankofmelbourne.com.au  
0481 476 436

**Research Assistant (Secondment)**

Sonali Patel  
sonali.patel@bankofmelbourne.com.au  
(02) 8254 0030

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