

Tuesday, 3 August 2021

Vaccine targets: when will we reopen?

Late on Friday, Prime Minister Morrison announced vaccine targets for the four-phase plan towards fully reopening the country.

The second stage of the reopening plan requires 70% of the eligible population (people 16 years of age and over) to be double dosed. The requirement is that this level is met both at a national level and across each of the states and territories. Once this stage is reached, some restrictions will be eased on vaccinated residents. Lockdowns will be less likely but still possible. Capped numbers of international students and economic visa holders will also be allowed into the country.

The third phase will be triggered when 80% of the eligible population is fully vaccinated. At this point, vaccinated residents will be exempt from all domestic restrictions and lockdowns, if any, will be highly targeted. The bubble for unrestricted international travel will be extended to additional countries.

Around 19% of the eligible population is currently fully vaccinated.

Morrison advised he expects Australia will reach the second phase by Christmas, although gave no time frame on when he expects to reach the third phase. However, if vaccinations continue at the current pace, we could reach the second phase as soon as November and the third phase around the end of the year. The increase in the supply of vaccines in the coming months will be important in helping Australia reach these thresholds.

Meanwhile, parts of Queensland were thrown back into lockdown on Saturday, with restrictions now extended to at least Sunday.

Plus, last week government support measures were boosted for households and businesses in New South Wales and Victoria on the back of the hit from lockdowns. Our pack 'Government Support Measures for Businesses' provides a detailed breakdown of the policies for businesses in NSW, Victoria and SA.

As we know, limiting lockdowns will be critical to avoiding further hits to the economy.

Reflecting the damage of lengthy lockdowns, last week we revised our forecasts after the New South Wales restrictions were extended by another four weeks. We now expect the national economy to contract 2.2% in the September quarter.

We expect the national economy to grow by 3.2% in 2021. Before the recent outbreaks, we had expected growth of nearly 5%. Next year, we anticipate growth of over 4% is likely.

Turning to the calendar this week, Reserve Bank (RBA) Governor Lowe has a busy schedule with the RBA Board meeting today. We expect the central bank will delay tapering bond purchases under its quantitative easing program on the back of the drastic deterioration in the near-term outlook. Plus, on Friday the RBA will be releasing an updated set of economic forecasts in its Statement on Monetary Policy. And the Governor will front up to Parliament for the RBA's semi-annual testimony to the House of Representatives.

At its July meeting, the RBA indicated it would reduce its bond purchases from \$5 billion per week to \$4 billion per week in September. But at this time the NSW lockdown was only expected to last two weeks. It is even possible the RBA will actually opt to increase the rate of bond purchases. However, the direct support from deferring, or modestly increasing, bond purchases would be modest.

Also, this week, a suite of housing market data is due to be released. Yesterday CoreLogic data showed dwelling prices rose 1.6% in July, shrugging off lockdowns in several states. In year-ended terms, dwelling prices have grown 16.1%, marking the fastest annual growth in more than 17 years.

This morning, housing finance approvals for June will be published. We expect a 2.0% increase amid a mix of competing factors. The unwind of HomeBuilder and pullback in first home buyer activity are likely to weigh on approvals, while at the same time investor activity is picking up.

We also will receive building approvals data for June. We expect a 5.0% decline as the HomeBuilder pull-forward continues to unwind. Approvals fell 7.1% in May, underpinned by the HomeBuilder effect, but still remained very elevated – up 52.7% over the year. Disruptions from lockdowns will also be in the mix in the coming months, with restrictions in NSW and Victoria likely to drive volatility, particularly through July and August.

Monthly retail sales data for June will be released this week. We expect a 1.8% decline in the month, in line with the preliminary data, where falls were led by NSW and Victoria on the back of COVID restrictions. Quarterly volumes and prices data will also be published for the June quarter. We forecast a 0.7% increase in sales volumes in the second quarter. Retailers had a bumpy first quarter with circuit-breaker lockdowns in a number of states and flooding on parts of the east coast.

It has been a rough patch for many Australians. But the arrival of more vaccines in the coming months and the announcements of a staged reopening of the economy once vaccine targets are met provide reassurance that a return to normality is on the horizon.

And that is very welcome news for the economy, businesses and, of course, all those cooped up in lockdown.

Matthew Bunny, Economist

Ph: 02-8254-0023

Forecasts

End Period:	2021			2022			
	Close (2 August)	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, %	0.02	0.04	0.07	0.10	0.15	0.20	0.40
3 Year Swap, %	0.35	0.50	0.55	0.70	0.80	0.95	1.10
10 Year Bond, %	1.18	1.55	1.80	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, %	1.18	1.60	1.80	1.95	2.00	2.05	2.10
USD Exchange Rates:							
AUD-USD	0.7361	0.75	0.78	0.80	0.82	0.82	0.82
USD-JPY	109.31	111	111	112	112	112	113
EUR-USD	1.1870	1.21	1.22	1.23	1.22	1.21	1.21
GBP-USD	1.3883	1.41	1.42	1.43	1.44	1.45	1.44
NZD-USD	0.6970	0.71	0.74	0.76	0.77	0.77	0.77
AUD Exchange Rates:							
AUD-USD	0.7361	0.75	0.78	0.80	0.82	0.82	0.82
AUD-EUR	0.6202	0.62	0.64	0.65	0.67	0.68	0.68
AUD-JPY	80.49	83.3	86.6	89.6	91.8	91.8	92.7
AUD-GBP	0.5303	0.53	0.55	0.56	0.57	0.57	0.57
AUD-NZD	1.0562	1.06	1.05	1.05	1.06	1.06	1.06

	2019	2020	2021 (f)	2022 (f)
GDP, %	2.1	-1.0	3.2	4.2
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	5.1	4.0
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.

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

The Detail

The information contained in this report ("the Information") is provided for, and is only to be used by, persons in Australia. The information may not comply with the laws of another jurisdiction. The Information is general in nature and does not take into account the particular investment objectives or financial situation of any potential reader. It does not constitute, and should not be relied on as, financial or investment advice or recommendations (expressed or implied) and is not an invitation to take up securities or other financial products or services. No decision should be made on the basis of the Information without first seeking expert financial advice. For persons with whom Bank of Melbourne has a contract to supply Information, the supply of the Information is made under that contract and Bank of Melbourne's agreed terms of supply apply. Bank of Melbourne does not represent or guarantee that the Information is accurate or free from errors or omissions and Bank of Melbourne disclaims any duty of care in relation to the Information and liability for any reliance on investment decisions made using the Information. The Information is subject to change. Terms, conditions and any fees apply to Bank of Melbourne products and details are available. Bank of Melbourne or its officers, agents or employees (including persons involved in preparation of the Information) may have financial interests in the markets discussed in the Information. Bank of Melbourne owns copyright in the information unless otherwise indicated. The Information should not be reproduced, distributed, linked or transmitted without the written consent of Bank of Melbourne.

Any unauthorised use or dissemination is prohibited. Neither Bank of Melbourne- A Division of Westpac Banking Corporation ABN 33 007 457 141 AFSL 233714 ACL 233714, nor any of Westpac's subsidiaries or affiliates shall be liable for the message if altered, changed or falsified.