

Weekly Economic Outlook

Monday, 23 August 2021

‘Learning to Live’ with the Virus

The Greater Sydney lockdown was extended to the end of September last week as case numbers continue to climb and hit new daily records. We expect the lockdown of Greater Sydney to be extended until the end of October. Meanwhile, the lockdown in Victoria is due to run until early September, although case numbers have continued to grow. Cases across the ACT have been stabilising in recent days.

With case numbers across NSW currently showing no convincing sign of a peak, and other states dealing with their own outbreaks, it is very unlikely that cases across Australia will be able to be driven back down to zero. This also reflects the more infectious nature of the delta variant.

The Prime Minister has recently made these points and emphasised the strategy that was agreed to by national cabinet. The strategy is that restrictions would ease and lockdowns would be less likely once 70% of the eligible population is vaccinated. Once 80% of the eligible population is fully vaccinated, lockdowns would again become less likely as a tool used to manage outbreaks of the virus. International borders are also expected to reopen gradually as these targets are met.

Once these vaccination benchmarks are met, as Prime Minister Morrison noted over the weekend, the key metrics of focus for governments in assessing the need for containment restrictions will not be the daily number of cases, but the number of serious illnesses, hospitalisations and deaths.

Prime Minister Morrison underscored that we will need to ‘learn to live’ with the virus, in similar ways to other infectious diseases.

International experience in countries such as the UK and Israel has shown that high rates of vaccination across the community can reduce the incidence of serious illness, despite a resurgence in the number of cases.

Encouragingly, vaccination rates continue to accelerate across the country, particularly in NSW. Nationally, more than half of the eligible population (those 16 years of age and older) have received the first dose of a vaccine and 30% are fully vaccinated. NSW is ahead of the national average, with over 31% of those eligible being fully vaccinated. The Pfizer vaccine will become available for all people from 16 to 39 years of age from 30 August. The supply of Pfizer is expected to increase soon. Additionally, Australia is expected to receive its first doses of the Moderna vaccine over coming months.

At the August board meeting, the RBA surprised the market by sticking its plan of tapering bond purchases from September, as announced at its July meeting, despite the drastic deterioration in the near-term outlook. In its statement following the decision and in the minutes that were released last week, the RBA noted that any additional bond purchases would have their maximum effect in 2022, when the economy was expected to already be recovering from the lockdowns. Additionally, it noted that fiscal policy was more appropriate in responding to the shock.

However, the RBA did leave the door open for adjusting its monetary policy settings if the shock to economic activity became more significant. The board will next meet on 7 September. Since it last

met, the health situation has continued to deteriorate in NSW. Outbreaks have also spread to other parts of the country, with Victoria extending its sixth lockdown.

Looking forward, on Wednesday, data on the value of construction work that was done over the June quarter will be published. Over the March quarter, construction work rose by 2.4%. Residential work done continued to increase. We expect construction work increased by 0.9% in the June quarter, driven by a large pipeline of home building projects. This follows robust demand underpinned by low interest rates, shifting consumer preferences towards more spending on housing, and the strong take-up of government incentives, including HomeBuilder. While applications for HomeBuilder closed in April, residential work done will be supported by the program for an extended period as dwellings move through the construction phase. Public construction work, driven by government stimulus spending, is also expected to increase.

On Thursday, capital expenditure for the June quarter will be published, an important measure of the strength of business investment. Capital expenditure has been recovering since late-2020. This was driven by businesses becoming more confident about the strength of the economic recovery, elevated capacity utilisation and the take up of generous government tax incentives. We expect further increases in capital expenditure of 0.8% in the June quarter. This is expected to be driven by increases in equipment spending. Falls in approvals are expected to flow through into weaker investment in buildings and structures. However, the recovery in business investment has likely since been disrupted by lockdowns.

On Friday, retail sales figures for the month of July will be published. June retail turnover fell by 1.8% as lockdowns of various lengths across NSW, Victoria, Queensland, WA and the NT impacted consumer spending. We expect the July numbers to show further weakness, with a 2.0% fall in retail spending. NSW was in lockdown for the entire period and other states and territories were impacted by lockdowns to varying degrees, including Victoria.

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Forecasts

Forecasts are currently under review.

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