

# Australian Economic Comment

Free to View  
Economics

## A 'V-shaped' recovery may be less likely this time

Australia

- ♦ Australia's economic recovery following the initial COVID-19 shock was a highly impressive 'V'-shaped bounce back. However, the arrival of the Delta variant in Sydney in late June has markedly changed the Australian story, pushing the economy into another downturn. Many forecasters, including the RBA, are expecting that the subsequent rebound will be similarly 'V-shaped'. But it is worth considering that the next recovery could be different, partly because, this time, the case numbers are unlikely to fall back to zero. Adjusting to 'living with the virus' may mean the recovery is more drawn out and gradual than the snapback from the initial shock.

**Paul Bloxham**  
Chief Economist, Australia,  
New Zealand & Global  
Commodities  
HSBC Bank Australia Limited

As is by now well understood, the main approach used in Australia (and New Zealand) to manage the COVID-19 pandemic has, so far, been to enforce a hard border to keep the virus out and then respond to any outbreaks using testing, tracing, quarantining and region-specific lockdowns. This approach had worked well, such that, after the initial shock and nationwide lockdowns in early 2020, COVID-19 cases fell to near-zero levels, the economies were re-opened domestically, and a 'V'-shaped economic bounce back ensued. In Australia's case, GDP and employment had both regained their pre-pandemic levels by Q1 2021.

However, as we have noted for some time now, the benefits of this strategy for managing the COVID-19 pandemic were likely to come up-front, while the costs were likely to come later.

First, this is because we expected that the significant costs of having a closed border were set to mount over time, particularly due to stalled migration and thus population growth. How and when the international border will re-open is still highly uncertain.

Second, there was the risk that if and when the virus finally arrived in the community, the adjustment 'living with the virus' would be a bumpy ride, particularly given a sluggish vaccine rollout.

The Delta outbreak in Sydney, which began in late June 2021, has marked a turning point in this strategy, and for the economic outlook. This partly reflects the significantly greater transmissibility of the Delta variant, which has challenged testing, tracing and quarantining systems. For New Zealand, it is still too early to know if the recent Delta outbreak in Auckland, which began last week, will be a turning point for that country too.

*This is an abridged version of a report by the same title published on 23-Aug-21. Please contact your HSBC representative or email [AskResearch@hsbc.com](mailto:AskResearch@hsbc.com) for more information.*

**Disclosures & Disclaimer:** This report must be read with the disclosures and the analyst certifications in the Disclosure appendix, and with the Disclaimer, which forms part of it.

**Issuer of report:** HSBC Bank Australia Limited

**View HSBC Global Research at:** <https://www.research.hsbc.com>

For Australia, just over two weeks ago, the RBA's official statement had forecasts suggesting that, after an expected contraction in GDP in Q3, there would be a strong 'V-shaped' bounce back in Q4, surpassing the Q2 level and kicking off a monotonic recovery.

But what if this time is different? What if the recovery is not 'V-shaped'?

There are good reasons to believe it might not be.

First, unlike Australia's own previous experiences in the earlier stages of the pandemic, case numbers are now not likely to fall back to zero in New South Wales (NSW). Instead, the state will need to 'live with' the virus. The primary focus is on rapid deployment of the vaccines. But even when 70 or 80% of the population is vaccinated, the virus will need to be managed, which is a sharp contrast to earlier in the pandemic when the case numbers had fallen back to zero. This may blunt the re-opening of the NSW economy, even after much of the population is vaccinated.

Second, most of the other state and territories are still running elimination, zero-tolerance strategies. While this remains the case, the borders with NSW will need to remain largely closed to people movement. Maintaining this strategy is also likely to mean periodic lockdowns when cases get through, which will clearly disrupt economic activity.

If and when these jurisdictions eventually shift, or are forced to shift, to 'living with' the virus, the adjustment from no cases, to some cases and the protocols it entails is likely to be economically disruptive. Again, it seems unlikely that the transition from zero cases and low vaccine rates, to high vaccine rates and some cases will see a sharp bounce back the same as was seen earlier in the pandemic in Australia when cases fell back to zero.

Third, some observers might argue that other countries, for example the UK and US, have had strong bounce backs once the vaccination rates rose to higher levels and these economies could be re-opened. Australia may be a bit different though. In those countries the worst of conditions was during the earlier stages of the pandemic and the rollout of the vaccine saw much improved conditions. In Australia, rising vaccination rates will protect health outcomes, but overall health conditions (and therefore economic conditions) are likely to still prove to be worse, even after the vaccine has rolled out, than they were when there were zero, or near-zero cases.

In mid-July, after the initial Delta outbreak, we revised our growth forecast down to 2.5% over the year to Q4 2021 (from 3.9% previously). This is markedly weaker than the RBA's own forecast from its more recent official statement of 4.0% over the same period, as the RBA was assuming a 'V-shaped bounce back in Q4.

We see recent developments as a further downside risk to our own forecasts. These include the recent announcement of an extension of the NSW lockdown from 30 August, to 30 September, Victoria's extended lockdown and the clear statement from policymakers in NSW that cases are not expected to fall back to zero. This last factor means that a snap, broad-based re-opening of the NSW economy at some vaccination rate threshold seems less likely and that the borders of the remaining states and territories with NSW are set to remain heavily constrained for an extended period.

We think all of this means that there is a risk that the RBA will choose to defer its plans to taper its QE programme (currently set for September), given that it had left the door open to this possible policy shift at its last meeting.

We expect an economic recovery to get going more fervently in 2022, when we expect the national vaccination rate to be above 70%. However, even for 2022, we remain sceptical that there will be a strong 'V-shaped' bounce back, as the dynamics of the pandemic effect, as discussed above, and other headwinds, weigh on growth.

# Disclosure appendix

## Analyst certification

The following analyst(s), who is(are) primarily responsible for this document, certifies(y) that the opinion(s), views or forecasts expressed herein accurately reflect their personal view(s) and that no part of their compensation was, is or will be directly or indirectly related to the specific recommendation(s) or views contained in this research report: Paul Bloxham

This document has been prepared and is being distributed by the Research Department of HSBC and is not for publication to other persons, whether through the press or by other means.

This document does not provide individually tailored investment advice and should not be construed as an offer or the solicitation of an offer to buy or sell any securities or to participate in any trading strategy. The information contained within this document is believed to be reliable but we do not guarantee its completeness or accuracy. Any opinions expressed herein are subject to change without notice. HSBC may hold a position in, buy or sell on a principal basis or act as a market maker in any financial instrument discussed herein.

HSBC and its affiliates will from time to time sell to and buy from customers the securities/instruments (including derivatives) of companies covered in HSBC Research on a principal or agency basis.

Analyst(s) are paid in part by reference to the profitability of HSBC which includes investment banking revenues.

## Additional disclosures

- 1 This report is dated as at 23 August 2021.
- 2 All market data included in this report are dated as at close 22 August 2021, unless a different date and/or a specific time of day is indicated in the report.
- 3 HSBC has procedures in place to identify and manage any potential conflicts of interest that arise in connection with its Research business. HSBC's analysts and its other staff who are involved in the preparation and dissemination of Research operate and have a management reporting line independent of HSBC's Investment Banking business. Information Barrier procedures are in place between the Investment Banking, Principal Trading, and Research businesses to ensure that any confidential and/or price sensitive information is handled in an appropriate manner.
- 4 You are not permitted to use, for reference, any data in this document for the purpose of (i) determining the interest payable, or other sums due, under loan agreements or under other financial contracts or instruments, (ii) determining the price at which a financial instrument may be bought or sold or traded or redeemed, or the value of a financial instrument, and/or (iii) measuring the performance of a financial instrument or of an investment fund.

# Disclaimer

## Legal entities as at 1 December 2020

'UAE' HSBC Bank Middle East Limited, DIFC; HSBC Bank Middle East Limited, Dubai; 'HK' The Hongkong and Shanghai Banking Corporation Limited, Hong Kong; 'TW' HSBC Securities (Taiwan) Corporation Limited; 'CA' HSBC Securities (Canada) Inc.; 'France' HSBC Continental Europe; 'Spain' HSBC Continental Europe, Sucursal en España; 'Italy' HSBC Continental Europe, Italy; 'Sweden' HSBC Continental Europe Bank, Sweden Filial; 'DE' HSBC Trinkaus & Burkhardt AG, Düsseldorf; '000' HSBC Bank (RR), Moscow; 'IN' HSBC Securities and Capital Markets (India) Private Limited, Mumbai; 'JP' HSBC Securities (Japan) Limited, Tokyo; 'EG' HSBC Securities Egypt SAE, Cairo; 'CN' HSBC Investment Bank Asia Limited, Beijing Representative Office; The Hongkong and Shanghai Banking Corporation Limited, Singapore Branch; The Hongkong and Shanghai Banking Corporation Limited, Seoul Securities Branch; The Hongkong and Shanghai Banking Corporation Limited, Seoul Branch; HSBC Securities (South Africa) (Pty) Ltd, Johannesburg; HSBC Bank plc, London, Tel Aviv; 'US' HSBC Securities (USA) Inc, New York; HSBC Yatirim Menkul Degerler AS, Istanbul; HSBC México, SA, Institución de Banca Múltiple, Grupo Financiero HSBC; HSBC Bank Australia Limited; HSBC Bank Argentina SA; HSBC Saudi Arabia Limited; The Hongkong and Shanghai Banking Corporation Limited, New Zealand Branch incorporated in Hong Kong SAR; The Hongkong and Shanghai Banking Corporation Limited, Bangkok Branch; PT Bank HSBC Indonesia; HSBC Qianhai Securities Limited; Banco HSBC S.A.

## Issuer of report

**HSBC Bank Australia Limited**  
 Level 38  
 Tower 1, International Towers Sydney  
 100 Barangaroo Avenue  
 Sydney NSW 2000  
 Australia  
 Telephone: +61 2 9006 5888  
 Fax: +61 2 9255 2205  
 Website: [www.research.hsbc.com](http://www.research.hsbc.com)

In Australia, this publication has been distributed by The Hongkong and Shanghai Banking Corporation Limited (ABN 65 117 925 970, AFSL 301737) for the general information of its "wholesale" customers (as defined in the Corporations Act 2001). Where distributed to retail customers, this research is distributed by HSBC Bank Australia Limited (ABN 48 006 434 162 AFSL No. 232595). These respective entities make no representations that the products or services mentioned in this document are available to persons in Australia or are necessarily suitable for any particular person or appropriate in accordance with local law. No consideration has been given to the particular investment objectives, financial situation or particular needs of any recipient. In the UK, this publication is distributed by HSBC Bank plc for the information of its Clients (as defined in the Rules of FCA) and those of its affiliates only. Nothing herein excludes or restricts any duty or liability to a customer which HSBC Bank plc has under the Financial Services and Markets Act 2000 or under the Rules of FCA and PRA. A recipient who chooses to deal with any person who is not a representative of HSBC Bank plc in the UK will not enjoy the protections afforded by the UK regulatory regime. HSBC Bank plc is regulated by the Financial Conduct Authority and the Prudential Regulation Authority. If this research is received by a customer of an affiliate of HSBC, its provision to the recipient is subject to the terms of business in place between the recipient and such affiliate. This publication is distributed in New Zealand by The Hongkong and Shanghai Banking Corporation Limited, New Zealand Branch incorporated in Hong Kong SAR. This material is distributed in Japan by HSBC Securities (Japan) Limited. HSBC Securities (USA) Inc. accepts responsibility for the content of this research report prepared by its non-US foreign affiliate. The information contained herein is under no circumstances to be construed as investment advice and is not tailored to the needs of the recipient. All US persons receiving and/or accessing this report and intending to effect transactions in any security discussed herein should do so with HSBC Securities (USA) Inc. in the United States and not with its non-US foreign affiliate, the issuer of this report. In Korea, this publication is distributed by either The Hongkong and Shanghai Banking Corporation Limited, Seoul Securities Branch ("HBAP SLS") or The Hongkong and Shanghai Banking Corporation Limited, Seoul Branch ("HBAP SEL") for the general information of professional investors specified in Article 9 of the Financial Investment Services and Capital Markets Act ("FSCMA"). This publication is not a prospectus as defined in the FSCMA. It may not be further distributed in whole or in part for any purpose. Both HBAP SLS and HBAP SEL are regulated by the Financial Services Commission and the Financial Supervisory Service of Korea. In Singapore, this publication is distributed by The Hongkong and Shanghai Banking Corporation Limited, Singapore Branch for the general information of institutional investors or other persons specified in Sections 274 and 304 of the Securities and Futures Act (Chapter 289) ("SFA") and accredited investors and other persons in accordance with the conditions specified in Sections 275 and 305 of the SFA. Only Economics or Currencies reports are intended for distribution to a person who is not an Accredited Investor, Expert Investor or Institutional Investor as defined in SFA. The Hongkong and Shanghai Banking Corporation Limited, Singapore Branch accepts legal responsibility for the contents of reports pursuant to Regulation 32C(1)(d) of the Financial Advisers Regulations. This publication is not a prospectus as defined in the SFA. This publication is not a prospectus as defined in the SFA. It may not be further distributed in whole or in part for any purpose. The Hongkong and Shanghai Banking Corporation Limited Singapore Branch is regulated by the Monetary Authority of Singapore. Recipients in Singapore should contact a "Hongkong and Shanghai Banking Corporation Limited, Singapore Branch" representative in respect of any matters arising from, or in connection with this report. Please refer to The Hongkong and Shanghai Banking Corporation Limited Singapore Branch's website at [www.business.hsbc.com.sg](http://www.business.hsbc.com.sg) for contact details. HSBC México, S.A., Institución de Banca Múltiple, Grupo Financiero HSBC is authorized and regulated by Secretaría de Hacienda y Crédito Público and Comisión Nacional Bancaria y de Valores (CNBV). In the European Economic Area, this publication has been distributed by HSBC Continental Europe or by such other HSBC affiliate from which the recipient receives relevant services. In Canada, this document has been distributed by HSBC Securities (Canada) Inc. (member IIROC), and/or its affiliates. The information contained herein is under no circumstances to be construed as investment advice in any province or territory of Canada and is not tailored to the needs of the recipient. No securities commission or similar regulatory authority in Canada has reviewed or in any way passed judgment upon these materials, the information contained herein or the merits of the securities described herein, and any representation to the contrary is an offense. In Brazil, this document has been distributed by Banco HSBC S.A. ("HSBC Brazil"), and/or its affiliates. As required by Instruction No. 598/18 of the Securities and Exchange Commission of Brazil (Comissão de Valores Mobiliários), potential conflicts of interest concerning (i) HSBC Brazil and/or its affiliates; and (ii) the analyst(s) responsible for authoring this report are stated on the chart above labelled "HSBC & Analyst Disclosures".

This material is not and should not be construed as an offer to sell or the solicitation of an offer to purchase or subscribe for any investment. This document has been prepared without taking account of the objectives, financial situation or needs of any specific person who may receive this document. Any such person should, before acting on the information in this document, consider the appropriateness of the information, having regard to the personal objectives, financial situation and needs. In all cases, anyone proposing to rely on or use the information in this document should independently verify and check its accuracy, completeness, reliability and suitability and should obtain independent and specific advice from appropriate professionals or experts. HSBC has based this document on information obtained from sources it believes to be reliable but which it has not independently verified; HSBC makes no guarantee, representation or warranty and accepts no responsibility or liability as to its accuracy or completeness. Expressions of opinion are those of HSBC only and are subject to change without notice. From time to time research analysts conduct site visits of covered issuers. HSBC policies prohibit research analysts from accepting payment or reimbursement for travel expenses from the issuer for such visits. HSBC and its affiliates and/or their officers, directors and employees may have positions in any securities mentioned in this document (or in any related investment) and may from time to time add to or dispose of any such securities (or investment). HSBC and its affiliates may act as market maker or have assumed an underwriting commitment in the securities of any companies discussed in this document (or in related investments), may sell them to or buy them from customers on a principal basis and may also perform or seek to perform banking or underwriting services for or relating to those companies. This material may not be further distributed in whole or in part for any purpose. No consideration has been given to the particular investment objectives, financial situation or particular needs of any recipient. (070905)

If you are an HSBC Private Banking ("PB") customer with approval for receipt of relevant research publications by an applicable HSBC legal entity, you are eligible to receive this publication. To be eligible to receive such publications, you must have agreed to the applicable HSBC entity's terms and conditions for accessing research and the terms and conditions of any other internet banking service offered by that HSBC entity through which you will access research publications ("the Terms"). Distribution of this publication is the sole responsibility of the HSBC entity with whom you have agreed the Terms. If you do not meet the aforementioned eligibility requirements please disregard this publication and, if you are a customer of PB, please notify your Relationship Manager. Receipt of research publications is strictly subject to the Terms and any other conditions or disclaimers applicable to the provision of the publications that may be advised by PB.

© Copyright 2021, HSBC Bank Australia Ltd, ALL RIGHTS RESERVED. No part of this publication may be reproduced, stored in a retrieval system, or transmitted, in any form or by any means, electronic, mechanical, photocopying, recording, or otherwise, without the prior written permission of HSBC Bank Australia Limited. MCI (P) 028/02/2021, MCI (P) 087/10/2020

[1177056]