

Antipodean Economics

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Economics

Vaccination acceleration; re-integration trepidation

- ◆ COVID-19 vaccination rates have ramped up sharply down-under, after a slow start. Australia and New Zealand both look set to reach 70% full vaccination by November, from respective rates of 3% and 8% in mid-June. New South Wales (NSW) is on track to hit 70% by mid-October and then begin re-opening. The Victorian government yesterday set out a plan for a more constrained re-opening from late-October. New Zealand is still successfully pursuing 'elimination' and with cases falling, we expect full domestic re-opening by late October. However, even at high vaccination rates, Australia's large states, which are now set to be 'living with' the virus, are likely to need some suppression measures to manage the virus, which is expected to weigh on the strength of the recovery. Western Australia and Queensland, and New Zealand, still have zero tolerance, elimination strategies, but are likely to need to make the transition to 'living with' the virus at some point, with the risk of a bumpy economic ride when this happens.

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On Saturday, Australia surpassed a key milestone in its vaccine rollout, with over 70% of Australian's over 16 population now having had their first dose (Chart 1). This is a rapid ramp up, from a first dose vaccination rate of just 25% in mid-June. Given the guidance by the authorities on gaps between first and second dose, this suggests that Australia could hit a national 70% full vaccination rate around the beginning of November. This is at the upper edge of the estimates we had put together and a few weeks earlier than our central case.

The ramp up has been helped along by reduced supply issues, the fear from the Delta outbreak, lockdowns and increased vaccine mandating.

New South Wales, which has been the epicentre of the Delta outbreak, has been a real outperformer having just passed 80% on first doses and being on track for 70% full vaccination by mid-October (Chart 2). However, there are some signs that vaccine hesitancy has now slowed the rollout in NSW in recent weeks, with daily new first jabs over the past 7 days in NSW down near 0.5% of the population, from 1.2% of the population just a month ago (Chart 3). We had expected this effect to kick in at lower vaccination rates, as it had in the US and Canada, nonetheless, the rollout does seem to be slowing above 80% in NSW.

The states with no cases or lockdowns are also tracking more slowly on the rollout. Western Australia and Queensland, which are both still using elimination strategies, have closed borders and near-zero cases, are not set to reach 70% until late November, at their current weekly rollout pace (Chart 4).

The Federal government has a plan that once the 70% threshold is reached, state borders should be re-opened and lockdowns should become less frequent. At 80%, the Federal plan calls for open international borders, particularly for vaccinated Australians, with only highly targeted lockdowns.

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NSW is expected to adhere to the Federal plans. With the NSW government planning that re-opening is likely in mid-October, and schools are set to re-open for in-person learning on 25 October. A plan for re-opening NSW to more freedom of movement internationally when 80% is reached is due to be set out soon. Trial at home quarantining is set to get underway in a few weeks' time. Major airlines are starting to schedule flights from 17 December.

However, at this stage, there is no commitment from authorities about how international travellers can return to Australia, aside from getting in the queue for 14-day quarantine hotel stays, which may hinder people's willingness to make bookings.

On Sunday, Victoria announced that it is set to gradually re-open in three stages, at various vaccination rate thresholds, although with still quite stringent density limits. Through October, schools are set to gradually re-open, and outdoor social activities will be increasingly permitted. At 80% full vaccination, which is expected in November, hospitality, retail, entertainment and places of worship will be allowed to re-open but with strict density limits.

Other states, including Western Australia and Queensland, have not yet committed to opening their state borders at the Federally guided vaccination threshold rates of 70% or 80%. These elimination, zero-tolerance states and territories have their borders closed to NSW, Victoria and ACT, which have shifted to the 'living with' the virus strategy.

All of these policy moves aside, the evidence from other countries that are highly vaccinated, including Singapore, shows that even at high vaccination rates, outbreaks may still need to be managed using suppression measures and lockdowns. Given Australia's hitherto very low tolerance for infections, severe illness and fatalities, the transition to 'living with' the virus is likely to mean suppression measures will still be used for some time yet, as Victoria's plan shows. As a result, we expect only a gradual recovery from the current downturn.

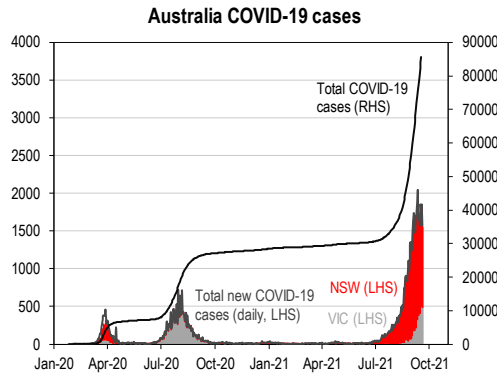
For New Zealand, the rapid stringent lockdown in the face of the Delta outbreak, appears to have worked, with daily cases declining in recent weeks (Chart 5). We expect the economy to fully re-open domestically by late October/November, supporting another 'V-shaped' bounce back. New Zealand's key economic challenge is increasingly the pick-up in inflation in a fully employed economy, where a closed border is constraining labour supply.

Notably, unlike Australia, New Zealand's government has not set out a specific plan with any vaccine thresholds (Chart 6). Following Delta, given New Zealand's low case numbers, and low tolerance for infections, severe illness and fatalities, this suggests the closed border may be more difficult to re-open, with a risk that this policy move is pushed out beyond Q1 2022.

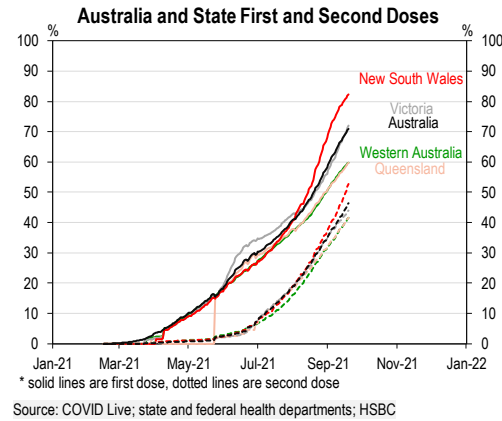
For New Zealand and those Australian states that still have zero cases and elimination strategies, economic conditions are clearly stronger. However, at some point it is likely that these jurisdictions will need to transition from elimination strategies to 'living with' the virus. The timing of this is very difficult to forecast, but when it happens it is expected to be economically disruptive. Nonetheless, getting to high vaccination rates before this happens, as is on track, is clearly a strong positive for health and economic outcomes.

This is an abridged version of a report by the same title published on 20-Sep-21. Please contact your HSBC representative or email AskResearch@hsbc.com for more information.

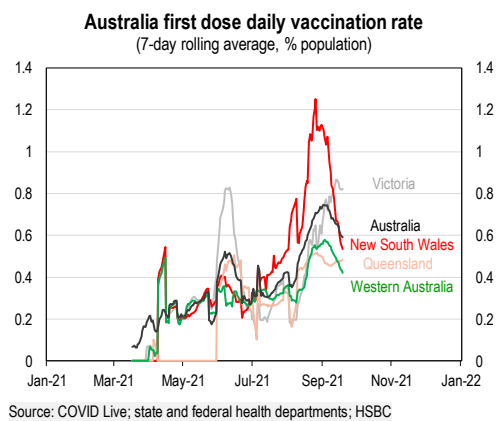
1. Delta has pushed daily case numbers to new record-highs in Australia...



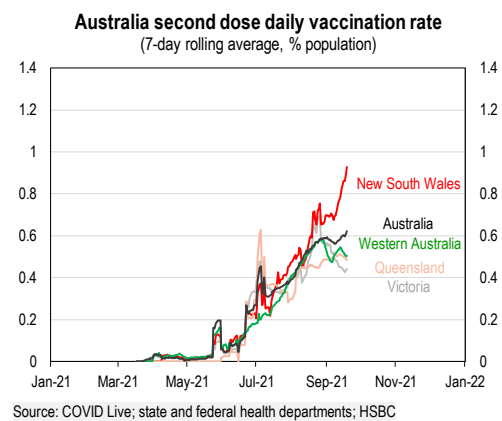
2. ... but has added urgency to the national vaccine rollout



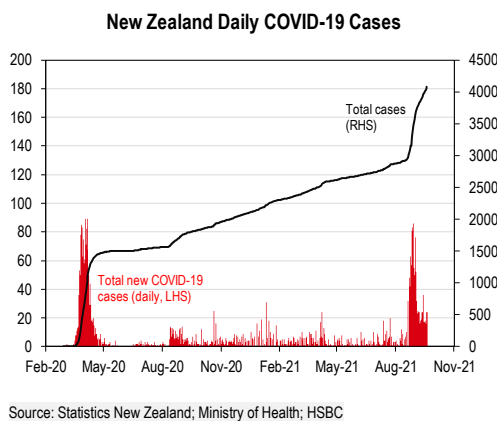
3. Australia's vaccine rollout has shown signs of a slowdown recently...



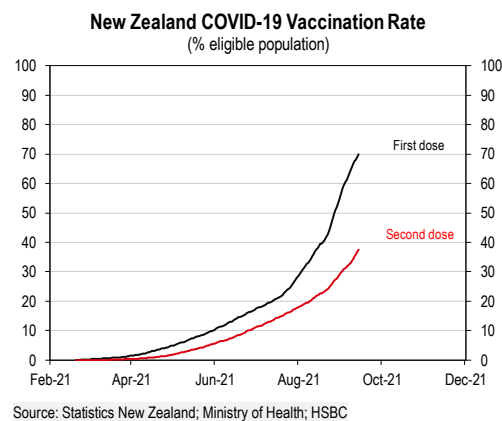
4. ... though the ramp in first-doses will translate through the second doses



5. New Zealand has had around 4000 total cases over the whole pandemic...



6. ... though Delta onshore has added urgency to the vaccine rollout too



Disclosure appendix

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