

Key points

- Gradually society is becoming used to living with COVID;
- But we have not yet returned to 'normal', as highlighted by the rise of cases in the Northern Hemisphere;
- Surveys indicate that consumer confidence is on the rise, although inflation is a worry;
- Airline travel is one indicator to watch for when consumer spending has reverted back to pre-COVID norms.

Summary

Gradually there is less interest in COVID. That might be that after 18 months we are just tired of the topic. This would be the case for those in Sydney, Canberra and (especially) Melbourne that have spent far too much time cooped up at home. Outside of the South East, most Australians have been less impacted by COVID.

There was a line of thinking that opening up in Sydney and Melbourne would lead to another spike in cases. But cases have to date continued on a downtrend in both cities. There are good reasons to think that COVID will in time become a treatable disease like others that are already circulating in the community. But we have not yet crossed the COVID finishing line. Case numbers have started to rise again in a number of countries, mainly reflecting a relatively large proportion of the population that are still unvaccinated. The coming Northern Winter could see other countries confronted with another virus wave.

Domestically, business confidence has bounced back very strongly post lockdowns as order books again start to thicken. Sky-high job vacancies point to a high level of business confidence about the future. The biggest problems firms are facing is trying to source the right materials and labour, and the high prices they are having to pay to do so.

Consumer confidence in Australia has improved as the economy has re-opened. Households have noted a bit of a decline in their current financial situation, likely a result of higher inflation (notably petrol prices). Confidence has risen by more amongst young adults, the segment of the population most constrained by the lockdowns.

At first glance the October labour market numbers appear to be telling a more disappointing story compared to the confidence data. I find it very difficult to get concerned about the jobs market. There are plenty of jobs advertised and employers are screaming they can't find enough workers. Households are indicating few concerns about unemployment. The November report will almost certainly be a cheerier one.

One spending indicator I am watching is airline travel. The virus has led to a dramatic decline of capacity in the industry globally. That is starting to change, notably in Europe and North America. Plane occupancy has been lowest in Asia and Oceania, the regions that has had the toughest (and most successful) restrictions to fight the virus. Interest in getting on a plane is starting to perk up again in Australia. As state borders re-open domestic plane travel should pickup quite quickly. The pickup of international travel will likely be on a slower track.

The increase in cases in other countries is a reminder that COVID is still around. But high vaccination rates, the booster program and the discovery of medication to reduce the severity of the virus should mean that 2022 will be the year of moving COVID from its pandemic to endemic stage. The Australian economy is ending the year on a good note. The probability of better health outcomes should mean that 2022 will be an even better one.

COVID is making less headlines

Gradually there is less interest in COVID. There has been a big drop in the number of Australians typing 'COVID' on Google search over the past couple of months. That might be that after 18 months we are just tired of the topic. This would be the case for those in Sydney, Canberra and (especially) Melbourne that have spent far too much time cooped up at home. Booming vaccination rates mean people in those states and territories have become less concerned about health outcomes. Outside of the South East, most Australians have been less impacted by COVID.

There was a line of thinking that opening up in Sydney and Melbourne would lead to another spike in cases. But cases have to date continued on a downtrend in both cities. High vaccination rates and ongoing restrictions (notably on mask use) has helped keep numbers lower than had been feared. The vaccine booster program is beginning. There has been the discovery of pills that can help mitigate the seriousness of COVID (providing they are taken early enough). So there are good reasons to think that COVID will in time become a treatable disease like others that are already circulating in the community.

Less concern about health outcomes is leading to more economic activity. Households in Sydney, Melbourne and Canberra are giving their debit/credit cards a workout at the shops. The proportion of the population spending time at home has fallen to be almost at pre-COVID times. More workers are drifting back to the Office (although occupancy rates in Sydney and Melbourne are still very low). There are even more people taking trips on the bus and the train.

We have not yet hit the finishing line

So there are good reasons to think that the race against COVID is coming to an end. But we have not yet crossed the finishing line. Case numbers have started to rise again in a number of countries, including Denmark, Germany, Austria, Switzerland and Eastern Europe (notably Russia). In the case of many of those countries rising cases reflects a relatively large proportion of the population that are still unvaccinated. Vaccination rates in Denmark are near world best level. Their problem is more likely the need for booster shots to overcome the waning effectiveness of the vaccines that take place over time. The same thing happened in Israel. The coming Northern Winter could see other countries confronted with another virus wave.

As expected widespread vaccination has reduced the death rate compared to what occurred during previous virus waves. But deaths in countries with increasing case numbers are still rising. This has prompted a debate in Denmark and Germany about the need for tighter government restrictions. In Moscow people aged over 60 have been ordered to stay home. Singapore only now is looking to allow five fully vaccinated people from the same household the ability to be able to dine-out together. The UK Government has so far restrained from tightening restrictions despite a still high number of cases.

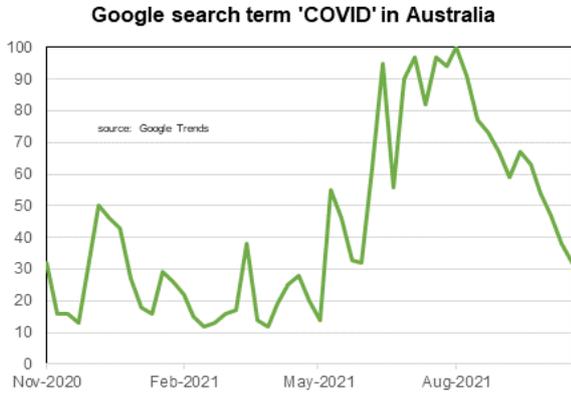
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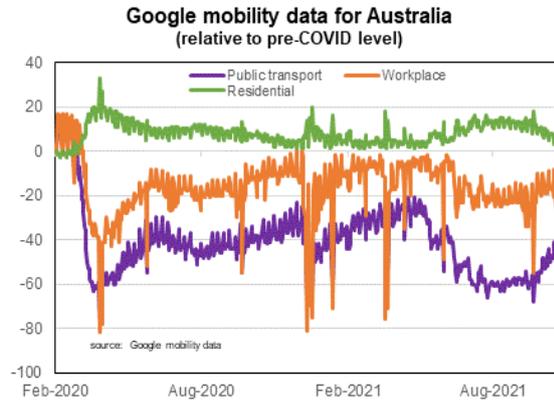
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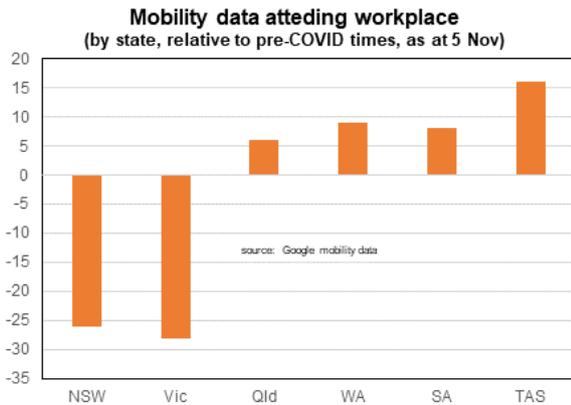
Australians are becoming less interested in COVID.



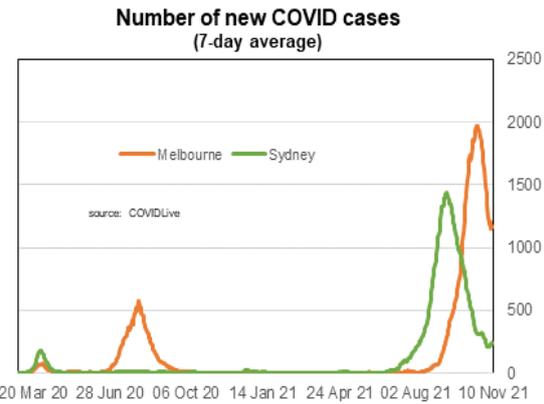
More people are getting out of the house.



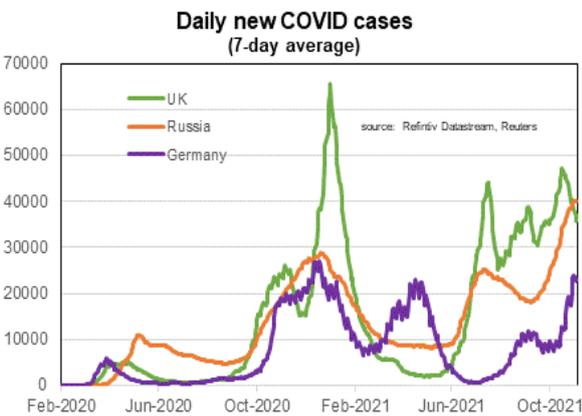
That has been the case outside of NSW and Victoria for some time.



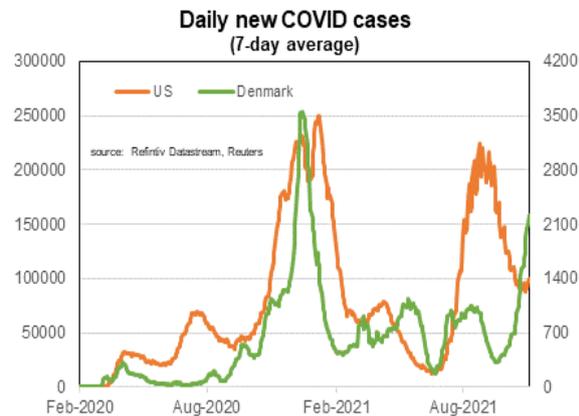
Case numbers have been declining in NSW and Victoria.

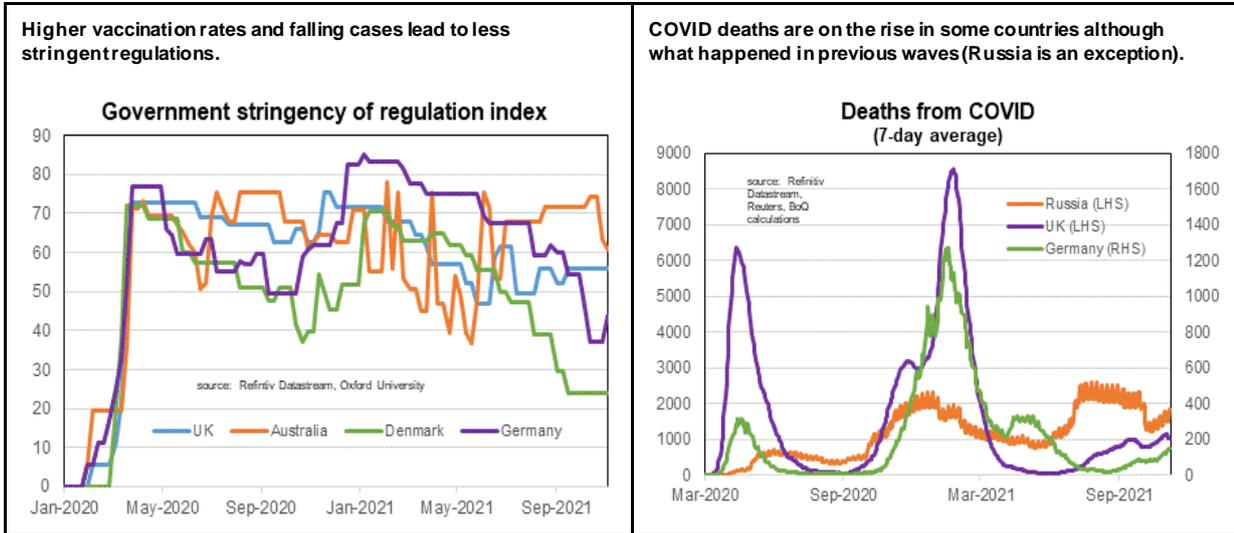


But they are on the rise in a number of European countries.



US cases have been falling over the past couple of months.





Consumer confidence is the key

Government decisions have a major impact on the direction of the economy. Also important is the confidence of consumers' and businesses about the health and economic outlook. Domestically, business confidence has bounced back very strongly post lockdowns as order books again start to thicken. Sky-high job vacancies point to a high level of business confidence about the future. The biggest problems firms are facing is trying to source the right materials and labour, and the high prices they are having to pay to do so.

Consumer confidence in Australia has improved as the economy has re-opened. Households have noted a bit of a decline in their current financial situation, likely a result of higher inflation (notably petrol prices). Confidence has risen by more amongst young adults, the segment of the population most constrained by the lockdowns.

In the US and Germany it is noteworthy that confidence is also highest amongst younger people. In the case of those countries it likely reflects their view that they are less likely to have health issues from COVID. In both countries consumer confidence has dipped a little over the past couple of months. Rising inflation has undoubtedly played a role. But so has the number of COVID cases for the older age groups.

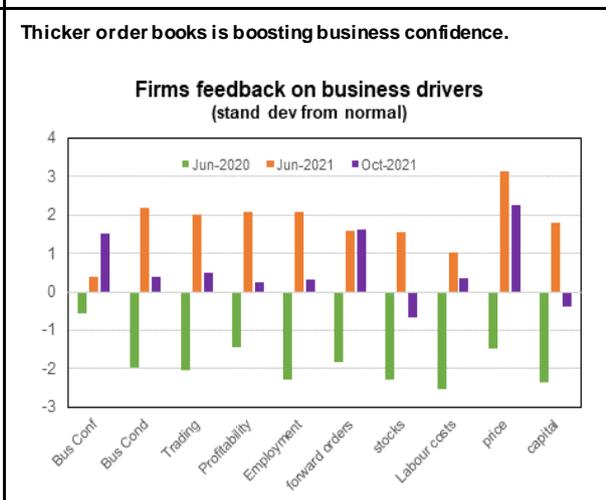
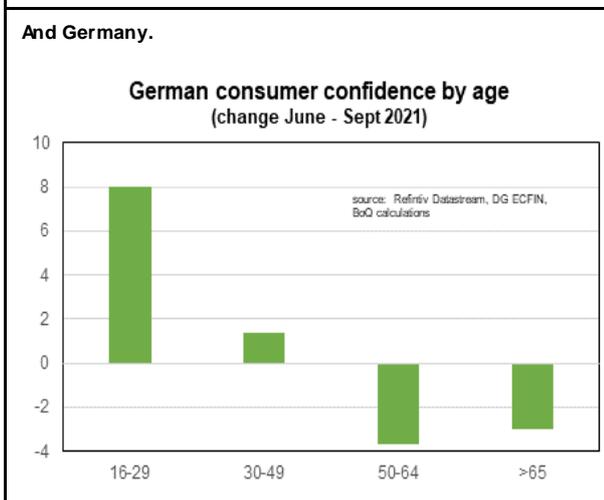
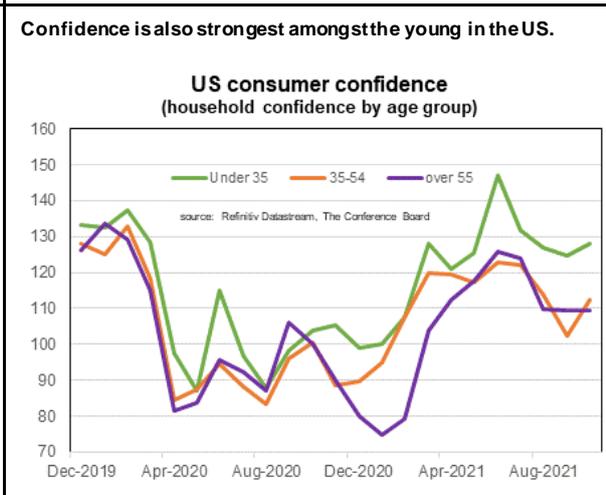
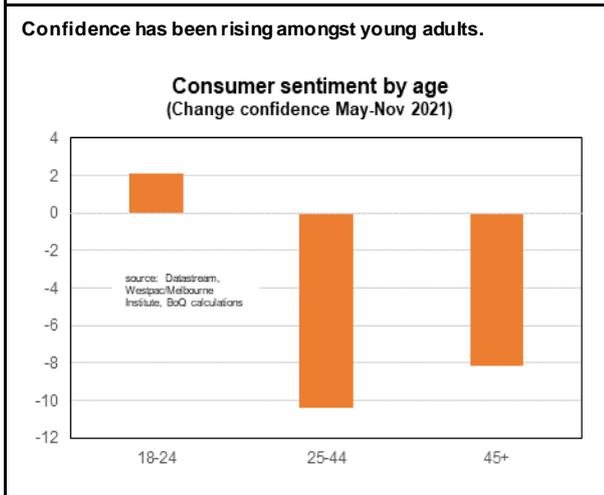
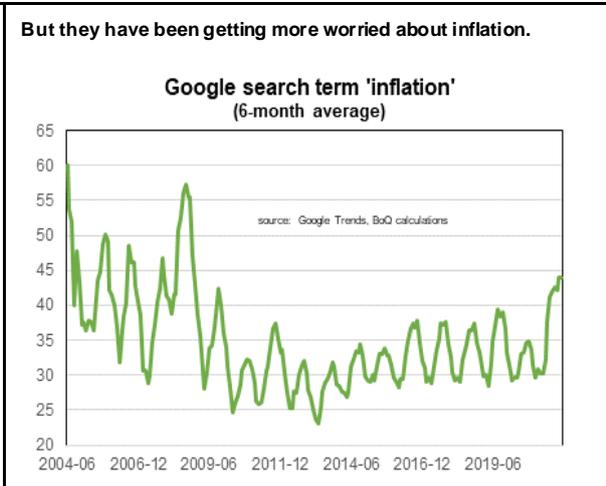
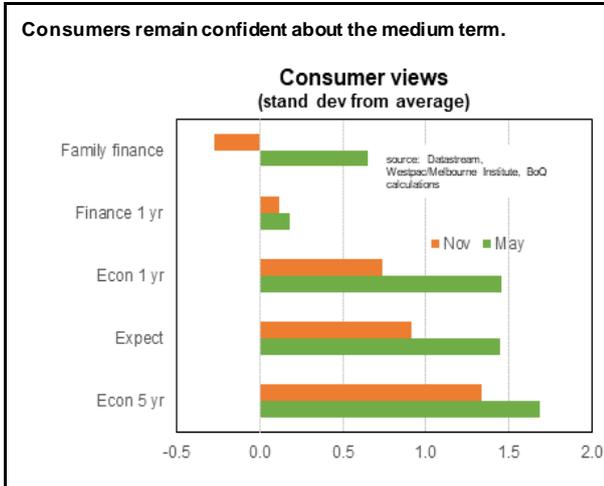
At first glance the October labour market numbers appear to be telling a different story to the confidence data. A surprising drop in jobs (mostly full-time), a big rise in the unemployment (and underutilisation) rates. The one bit of good news was the participation rate notched higher.

I find it very difficult to get concerned about the jobs market. There are plenty of jobs advertised and employers are screaming they can't find enough workers. Households are indicating few concerns about unemployment. The October numbers picked up the full extent of the Victorian shutdown and only the initial opening up of the NSW and ACT economies. Supposedly jobs fell in WA, Queensland and Tasmania, three of the state economies that have done best (WA has an unemployment rate of 3.9%!). The November report will almost certainly be a cheerier.

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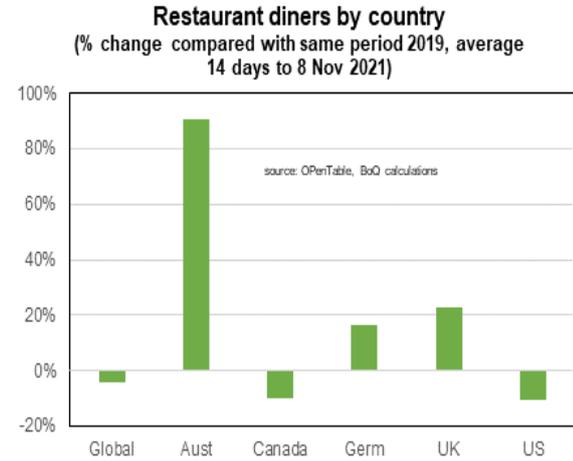
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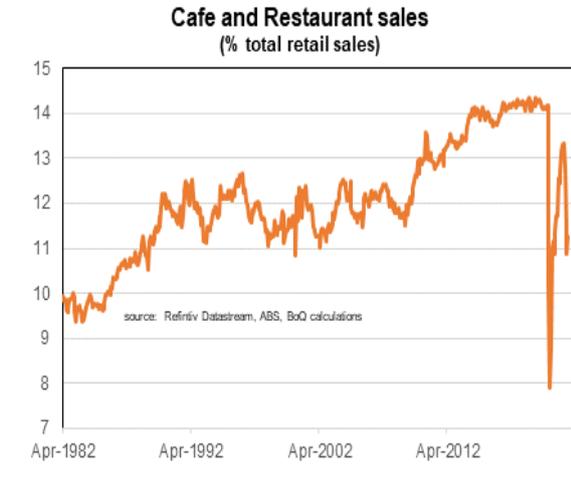
Hard evidence of consumer spending

Surveys tell us what people think (or at least what they want to tell other people what they are thinking!). A more indicator is to what they do. One indicator I am watching is spending in restaurants and cafes, an area hit hard by the East Coast lockdowns. Data from OpenTable indicates that Australians (particularly those in Sydney, Melbourne and Canberra) have been very keen in recent weeks to get out and meet friends at a restaurant.

There has been a big jump in the number of people meeting up with friends for a meal.



This followed a period of very weak spending.

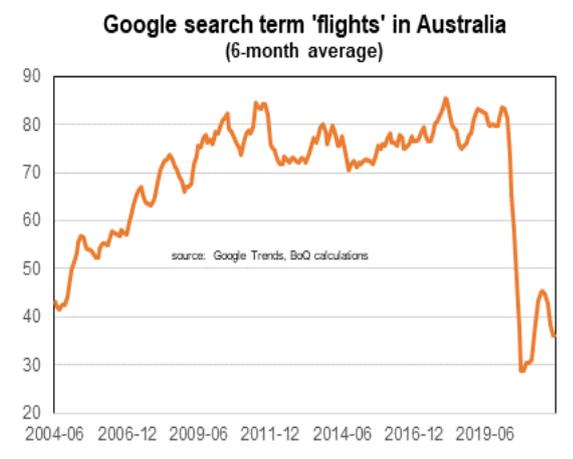


The other indicator is airline travel, the sector hardest hit by COVID. The virus has led to a dramatic decline of capacity in the industry globally as a result of government restrictions and substantial consumer caution. This has been particularly the case for international travel. But that is starting to change, most notably in Europe and North America. Plane occupancy has been lowest in Asia and Oceania, the regions that have had the toughest (and most successful) restrictions to fight the virus.

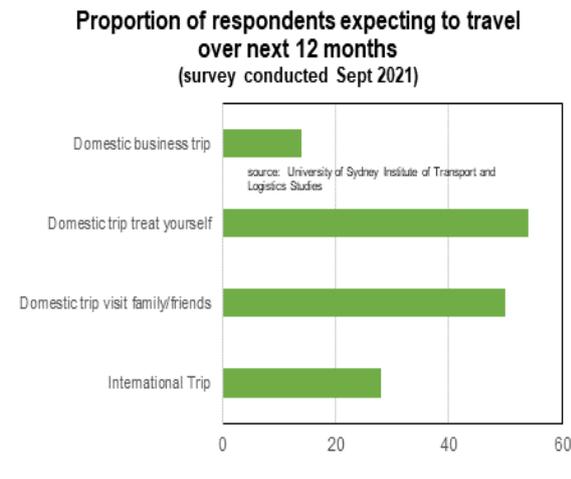
Interest in getting on a plane is starting to perk up again in Australia. As state borders re-open domestic plane travel should pick up quite quickly. The pickup of international travel will likely be on a slower track. Certainly people will travel to see family or urgent business. But the increased fuss about getting through customs for many destinations and concerns about the virus may initially keep international travel to the most determined.

This is consistent with a recent survey conducted by the University of Sydney. About half of the respondents said they would travel domestically over the next 12 months to either see family and friends or as a treat. The numbers are likely weighed down a little by either lingering fear of COVID or concerns about potential border closures. The proportion expecting to travel internationally is lower (it always is) at a bit under 30%. Both proportions will rise over time as fears about COVID recede and travel across borders again becomes more seamless.

Searching for flights has not been a priority for many Australians.



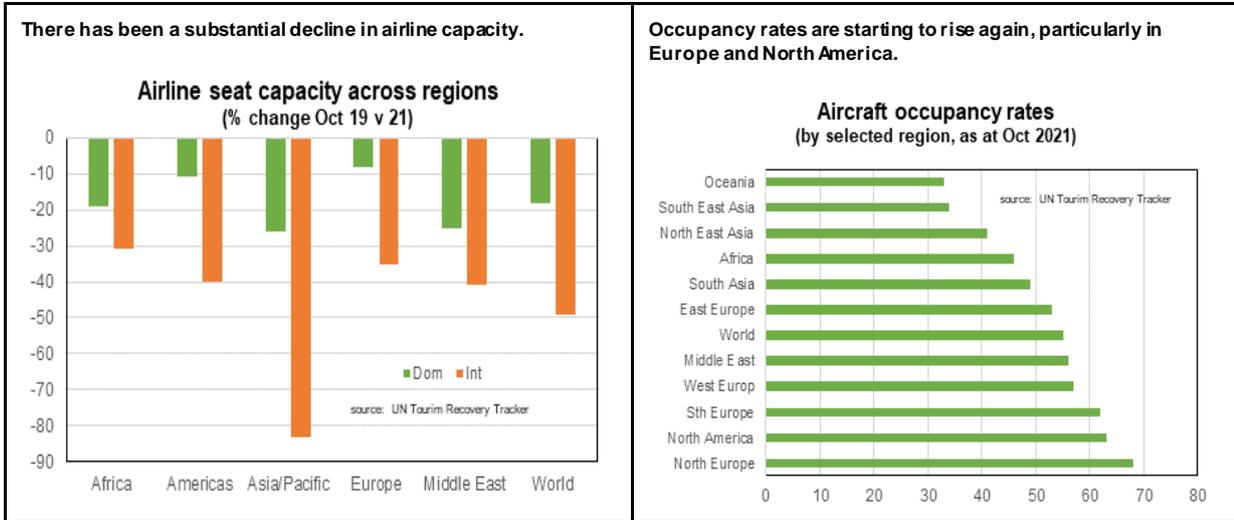
But surveys suggest that is about to change.



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The increase in cases in other countries is a reminder that COVID is still around. But high vaccination rates, the booster program and the discovery of medication to reduce the severity of the virus should mean that 2022 will be the year of moving COVID from its pandemic to endemic stage. The Australian economy is ending the year on a good note. The probability of better health outcomes should mean that 2022 will be an even better one.

We live in interesting times.

Regards

Peter Munckton
Chief Economist
Bank of Queensland