



Coronavirus continues to cause havoc globally and in Australia – but here are five reasons for optimism

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Key points

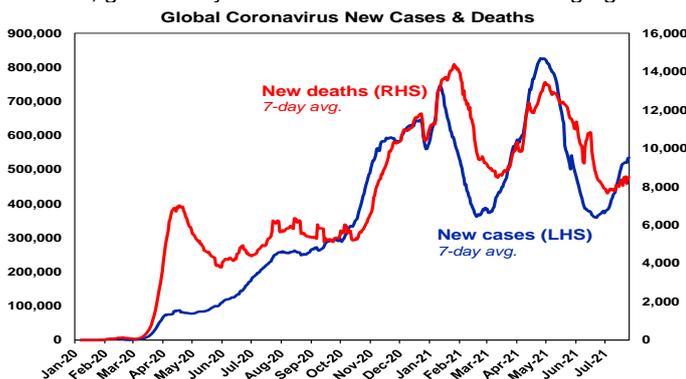
- > The news on coronavirus has been bleak again lately – with rising cases globally & the ongoing NSW lockdown.
- > However, there are five reasons for optimism: lockdowns still work against Delta (eg, in SA & Victoria); vaccines are working; once lockdowns end economic activity rebounds quickly; the threat posed by Delta will keep fiscal & monetary policy easier for longer; and vaccinations are ramping up in Australia.

Introduction

It seems the bad news on coronavirus doesn't let up. The lockdown in NSW looks like going longer. There is endless debate about whether governments are doing the right thing, whether the vaccines will work and when we can reopen. And coronavirus cases are on the rise again, globally posing risks to the economic recovery. But there remains light at the end of the tunnel. This note looks at five reasons for optimism.

But first, the bad news

- First, global daily new coronavirus cases are rising again.



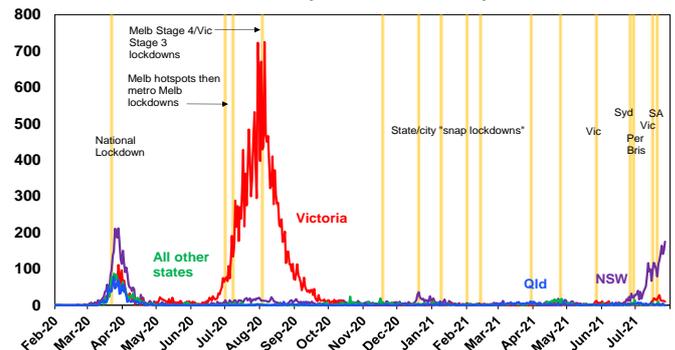
Source: ourworldindata.org, AMP Capital

- This has left impacted lowly vaccinated countries little choice but to tighten restrictions & enter lockdowns (to avoid overwhelming healthcare systems). This includes Asian countries that managed coronavirus well last year.
- Much of the latest upswing is occurring in relatively highly vaccinated developed countries – notably in the UK, Europe and the US – where it's particularly affecting unvaccinated younger people, but also some vaccinated people. With only 50% or so of the population fully vaccinated that still leaves these countries vulnerable should new cases rise rapidly, causing a surge in hospitalisations. Some lowly vaccinated US states are at high risk, eg, Texas is running out of ICU

beds. This in turn is seeing debate about a return to some restrictions, with some doing so – eg Singapore and the return of mask mandates in some US states.

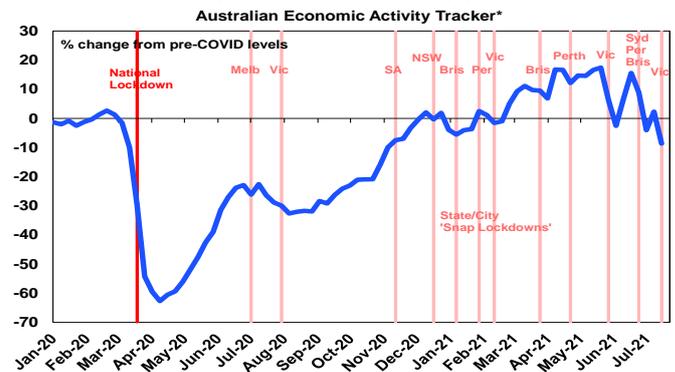
- The Delta variant of coronavirus responsible for much of the recent surge in cases is 2-3 times more transmissible than the original version with a shorter incubation period.
- Partly reflecting this, after more than four weeks in lockdown the number of new cases in NSW has continued to trend up, albeit being very low by global standards.

Australia: New Daily Coronavirus Cases by State



Source: Covid19data.com.au, AMP Capital

- The lockdowns seen since May and in NSW (assuming the NSW lockdown goes into August) are estimated to cost \$12bn, resulting in a contraction in Australian September quarter GDP of around -0.7%, and risking a return to recession. Our Australian Economic Activity Tracker which combines weekly data has fallen sharply this month.



* Components of the tracker include: Credit card data, Job ads, Traffic index, Retail foot traffic, Restaurant performance, Consumer confidence, Apple & Google Mobility Indices and Hotel bookings.

Source: AMP Capital

- Only 14% of the global population has been vaccinated with two doses, & in Australia its only 13%. Which means there is a long way to go to reach herd immunity – which may require 80% to be fully vaccinated given the Delta variant.

Percentage of population that's been vaccinated

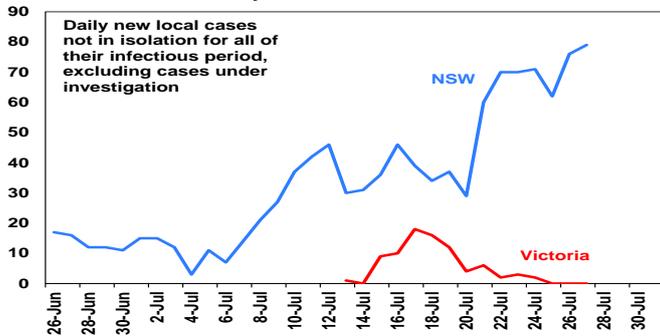
	% one dose	% two doses
Global	28	14
Emerging countries	31	12
Poor countries	8	4
Canada	72	56
Singapore	75	54
UK	70	56
US	58	50
Europe	57	46
Australia	31	13

Source: ourworldindata.org, AMP Capital

Five reasons for optimism

First, lockdowns still work against the Delta variant. This is being seen in various Asian countries and in Australia, with Victoria, Queensland, WA & SA all managing Delta outbreaks with short lockdowns and able to reopen again without getting everyone vaccinated. The key difference versus NSW was that they started earlier in terms of the new daily case load (1-10 a day v nearly 30 in NSW) & went harder up front. SA has ended its snap lockdown & Victoria has announced the end of its.

New Daily Local Cases Not In Isolation

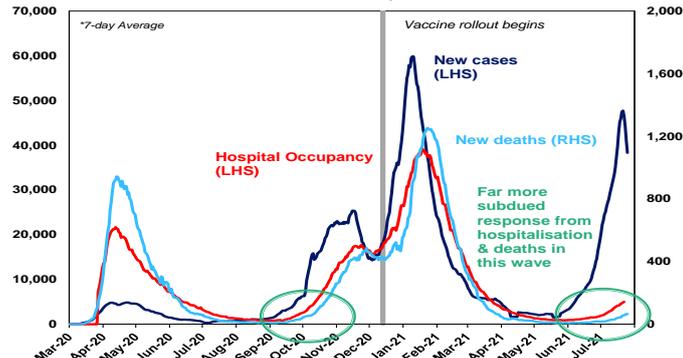


Source: Covid19data.com.au, AMP Capital

And while it may take longer in NSW because it started later, new cases are not exploding despite the Delta variant. In fact, the rate of increase is slower than seen in the Victorian wave from mid-last year. This suggests the NSW lockdown is helping – it started earlier than Victoria's did last year. And having had 3.5 million vaccines already administered in NSW may also be helping. So, while the lockdown is taking longer than expected and may have to be tightened – it does appear to be helping & the experience of other states tells us they still work. They just need to start earlier and harder if we want them to be short.

Second, vaccines are working. While the UK, US and Europe have seen a rise in new cases, hospitalisations and new deaths are more subdued this time around. This is clear in the UK – which has also seen new cases fall in the last week (vaccines helping slow the spread or it could just be an aberration?)

UK: New Coronavirus Cases, Hospitalisation and Deaths



Source: ourworldindata.org, AMP Capital

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This is all consistent with vaccines being 90% plus effective in preventing the need for hospitalisation and deaths, even though they're less effective in preventing infection (61% for AstraZeneca and 82% for Pfizer/Moderna with respect to Delta) & only 47% effective in preventing onwards transmission based on UK data. The success of the vaccines can also be seen in the US with per capita new cases and hospitalisations in the top quartile of vaccinated states up to 25% below that in the bottom quartile of unvaccinated states. Ideally, these countries should be waiting till they reach 80% or so vaccinated before fully reopening (as Singapore is) to reduce the risk of problems with overwhelmed hospitals. But with older and more at-risk people close to being fully vaccinated this should be manageable with restrictions (like masks & distancing) rather than hard lockdowns. And so, the recovery should be able to continue.

Third, the experience of the last year has demonstrated repeatedly that once lockdowns end economic activity rebounds rapidly propelled in part by pent up demand. We are starting to see this in Europe where confidence and business conditions have rebounded above that in Australia and the US thanks to its reopening (after a double dip recession in the December and March quarters). It has been seen repeatedly in Australia after the numerous lockdowns (including the 3-4 month Victorian lockdown last year). Ramped up Government support points to the same happening again in NSW through the December quarter serving to get the recovery back on track.

Fourth, the threat posed by Delta will add to pressure for more fiscal stimulus and easier for longer monetary policy. It will increase pressure in the US to pass President Biden's \$4 trillion eight-year American Jobs and Families Plans and will help keep the Fed dovish. Pressure for more stimulus (back to JobKeeper) is also ramping up in Australia and it will likely see the RBA delay its decision to reduce bond buying.

Finally, the pace of vaccination in Australia is ramping up rapidly. Last week was the first with over 1 million vaccinations. At the rate of 1 million vaccines a week Australia will hit 60% vaccinated by around year end and 80% by mid-March. If we ramp it up to 1.5 million doses a week as global vaccine production ramps up, it will be 60% by mid-November and 80% by early January. Beyond around 80% fully vaccinated we should (new mutations aside) be able to start to live with coronavirus in the community without overwhelming the health care system and keeping deaths down. This is the only way to end the snap lockdowns in a way that does not risk Australians' health and the economy. Because as we saw last year, countries that were lax in controlling coronavirus and allowed deaths to surge saw a bigger hit to their economies.

Implications for investors

The renewed surge in coronavirus cases poses a short-term risk to share markets and other cyclical trades like the Australian dollar. However, there is a danger in over emphasising this as we remain of the view that the economic recovery globally and in Australia will continue as lockdowns end in the short term and increased vaccination allows a more sustained reopening over the next 12 months. Share markets have proven relatively resilient so far because there is now more evidence of the ability of science & medicine to control the virus, the Delta variant is seen as driving easier for longer fiscal and monetary policy and US June quarter earnings results are again coming in far stronger than expected.

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