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Westpac tips strong growth after vaccinations

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Bill Evans sees encouraging signs for the Australian economy despite coronavirus lockdowns.

While the magnitude and longevity of an expected recovery from a September-quarter slump depends on the economy reopening and staying open after restrictions are eased, Westpac's chief economist argues that the vaccines are the key.

"Consumer confidence has held up really well," Mr Evans said.

"People are looking ahead and I think the vaccine story is a game-changer."

Mr Evans will present his views at Flight Centre's annual event Illuminate next week.

He will discuss the impact that open borders will have on the economy, particularly from the perspective of consumer spending, and the impact on Australia's labour market. Other speakers at the event include Flight Centre CEO Graham Turner, Qantas CEO Alan Joyce, and Virgin Australia CEO Jayne Hrdlicka.

Westpac predicts the economy will grow by a massive 7.4 per cent in calendar 2022.

A recovery is expected to start this month after a 4 per cent contraction in the September quarter.

NSW eased some restrictions for vaccinated residents on Monday.

Considering that economic growth in the year to June 2020 was 9.4 per cent – despite intermittent lockdowns in Victoria after a broad reopening in the September quarter of 2020 – Mr Evans backed a strong rebound but said "it's going to take a little while" as the government dialled

back its stimulus.

"I'm really surprised by the government's decision to eliminate those disaster payments as soon as you get to an 80 per cent vaccination rate across the country," Mr Evans said.

"There will still be people who are missing their 20 hours. I would have thought that if you're missing 20 hours, it doesn't matter what's going on in terms of vaccination, you still should be supported.

"I would have thought the government maybe should have extended those payments for people that were still missing their 20 hours, until they got their money, but that hasn't happened.

"It will be a bit of a headwind, so it will be a sluggish recovery in the December quarter.

But as these people get placed – and we know from the job va-

cancy numbers that there is going to be excess demand for workers again, so they will get placed but it will just take a bit of time – the economy should really start to take off."

He noted "we are finally starting to see a bit of evidence" of solid pay rises in some areas.

"But to see solid wages growth you're going to need to see more

labour mobility – people being prepared to change jobs – once you start to see that, you will get more upward pressure on wages.

"We're expecting the unemployment rate to go below 4 per cent by the end of next year. That will be consistent with some upward pressure on wages."

But a slow reopening of the international and domestic borders is expected to cause "supply shocks" in the markets for goods and labour, putting some pressure on inflation.

Westpac expects the RBA to achieve its inflation target before its expectation of after 2024.

"Western Australia is probably the best example – they've got job shortages because people can't

get into the place – and then of course what we don't know is this condition that you need to be vaccinated to work in certain workplaces," Mr Evans said. "That will affect the supply of jobs."

He cautioned that there will be some workers who will be sidelined as a result.

"I'm optimistic that we will get 90 per cent vaccination on adults, but you're going to run into that hard core of people who don't want to be vaccinated, and they will affect the supply of labour.

"If you took 10 per cent out of the labour force, you would have a huge shortage." Combined with a strong rebound in consumer spending, a housing boom, residual vaccine hesitancy and a slow easing of travel restrictions are expected to cause labour shortages.

Mr Evans sees the unemployment rate falling below 4 per cent next year. That would be the lowest jobless rate the nation has achieved since the early 1970s.

"By mid-next year we expect to see a complete opening up of the country and a strong economy, underpinned by strong household savings and a booming housing market," Mr Evans said.

Westpac's consumer sentiment survey for September showed confidence among unvaccinated people who plan to get vaccinated – 27 per cent of respondents – was 123 points.

For the 17 per cent who were unvaccinated and planning to remain so, it was just 90 points.

"Those people are nervous about their future, but for other reasons have chosen not to be vaccinated, so I think the vaccination story is going to be a big factor," Mr Evans said.

The October reading of the Westpac Consumer Sentiment survey is due on Wednesday.



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WESTPAC CHIEF ECONOMIST



Bill Evans: 'Consumer confidence has held up really well. People are looking ahead and I think the vaccine story is a game-changer'

DANIEL POCKETT