

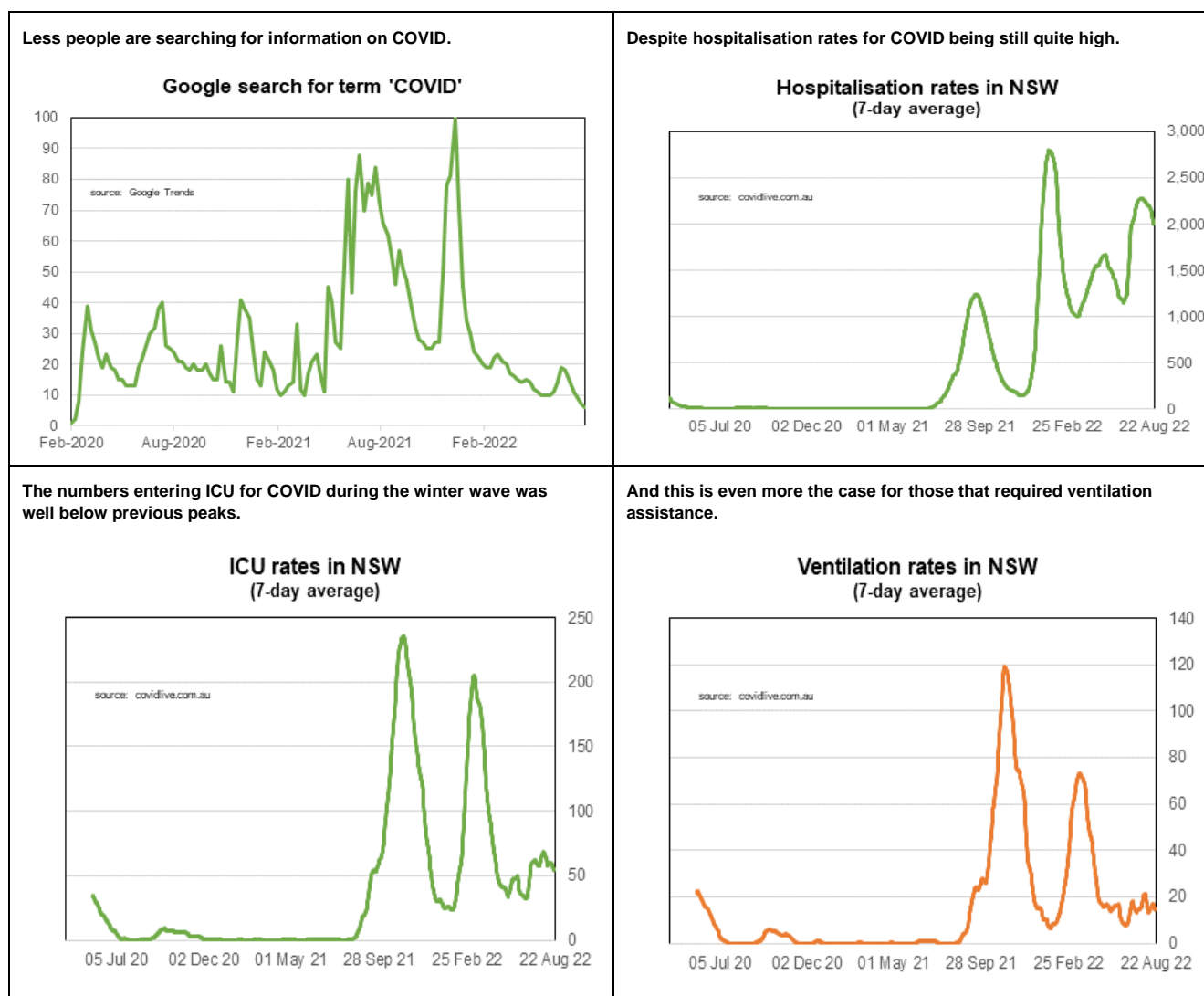
Key points

- **Concerns about COVID in the community have declined substantially;**
- **The result has been increased mobility and spending on services;**
- **COVID (as well as colds and flus) are currently having a substantial impact on the workforce;**
- **While the emergence of a more dangerous variant is a risk, history suggests that won't be the case.**

There is less concern about COVID

While COVID is still around it is getting a lot less attention these days. What was once front page news is now lucky to make any page in the newspaper. This gels with the views of the general population where searches for COVID on Google are now at their lowest level since COVID entered Australia. All of this despite hospitalisation rates for COVID still being at a high level.

One reason for this is that COVID has become an everyday phenomena. These days virtually everyone has either had COVID, or some of their close friends or family have. Another is that while the COVID case numbers are high the number that are seriously ill (those in ICU or on ventilators) is substantially lower (although still clearly above zero).



ECONOMIC UPDATE

PETER MUNCKTON – CHIEF ECONOMIST
WEEK ENDING 26 AUGUST 2022

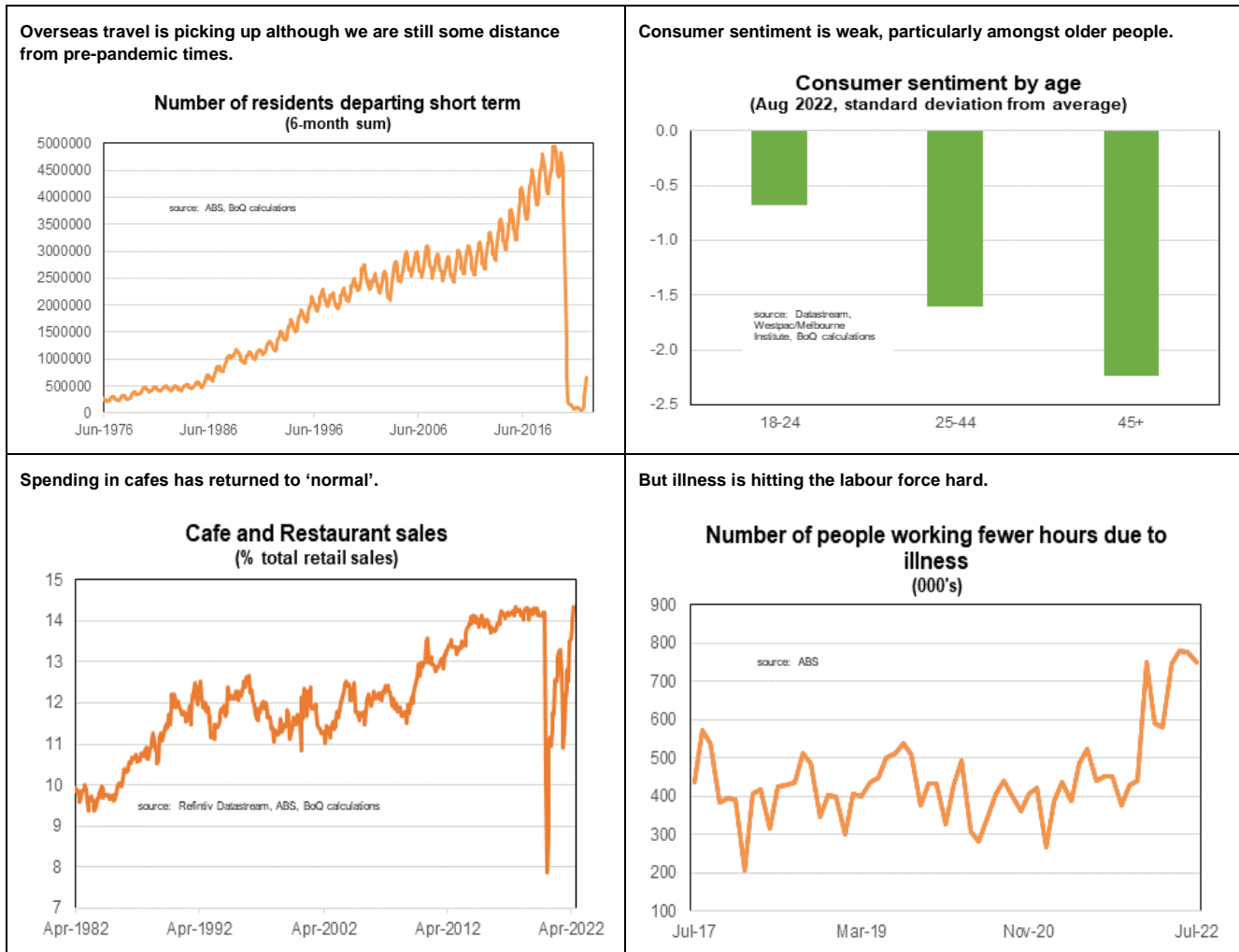


What is happening has happened at the end of all pandemics. The virus (almost always) doesn't go away but people's concerns about the virus decline over time. Mostly that is because over time the health impacts of the virus declines as more people gain immunity. Historically that happened after a larger enough proportion of the population caught the disease. This time that process got accelerated through a widespread vaccination program. The health system has also got increasingly efficient in dealing with the virus, including through the development of more effective medications.

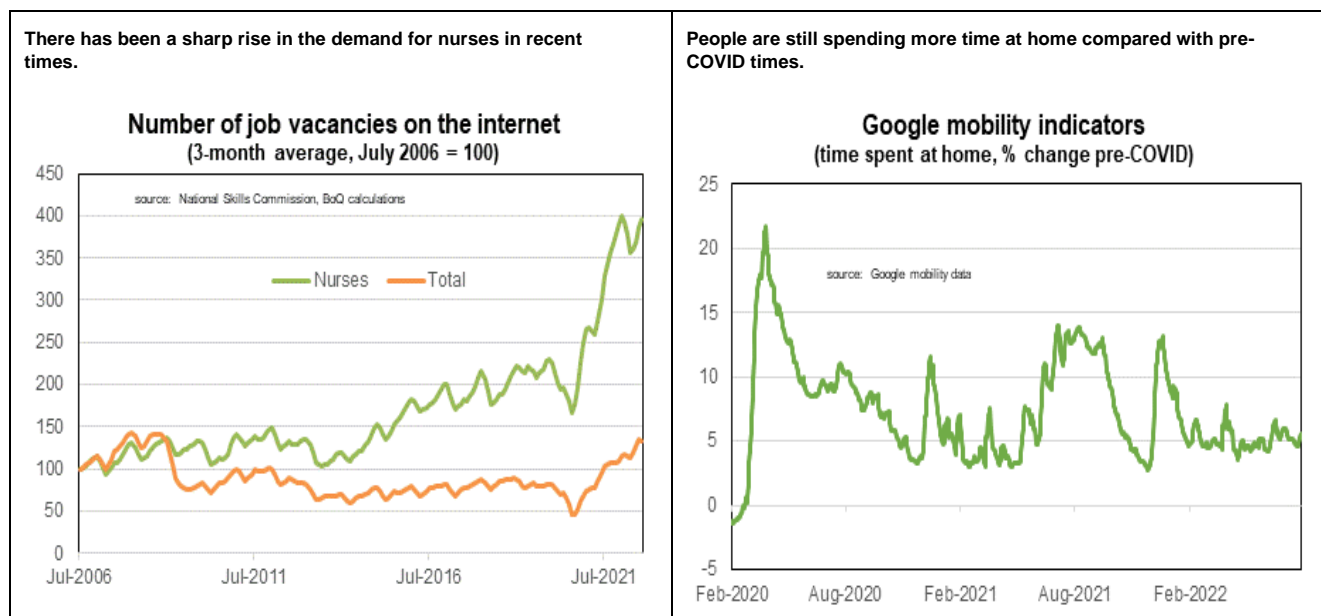
This increased confidence can be seen in what people are doing. The proportion of spending on retail sales going to restaurants has passed its pre-pandemic peak. Footy grounds are again being packed out. Overseas holidays are back on the agenda although there is some way to go before the same numbers of Australians travel overseas as they did before COVID.

But while COVID has had a substantially less impact on the economy there is still some impact. Consumer sentiment is weaker across the board, but is notably weaker amongst older people. Higher inflation no doubt is playing some role (it particularly impacts those on fixed incomes, such as pensioners). But concerns about COVID may also be important.

More importantly almost twice as many workers have been away from their jobs than usual in recent months reflecting the recent Omicron wave as well as the large number of people with colds and flu's. Increased sensitivity about the spread of viruses and the ability for more workers to be able to work from home also means more people are willing to stay home if they are ill. Less of us nowadays are feeling the need to 'soldier on'. The amount of sickness in the workforce should decline as the latest COVID wave subsides and the flu season comes to an end.



COVID has led to sustained pressure on the health system. The result has been both a huge rise in the demand for nurses as well as a significant increase in the turnover of the health workers. Another result of COVID has been the increased acceptance of not having to working in the office is that a greater proportion of households' time is being spent at home relative to pre-COVID times. The reduced need to commute as regularly into CBD's has meant that there remains a substantially lower demand for public transport.

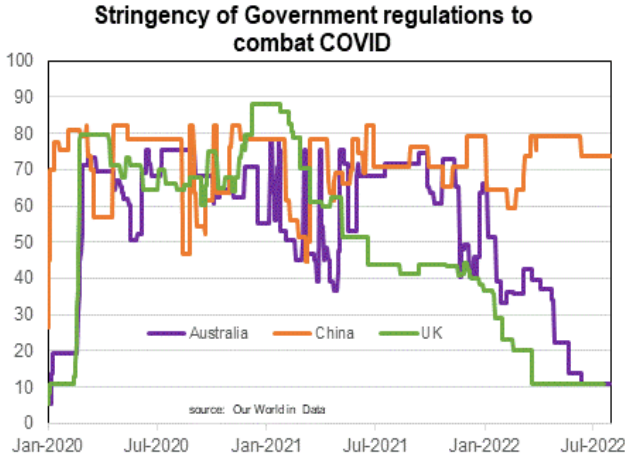


Increased community acceptance of COVID can also be seen through changes in Government policy. According to a measure from 'Our World in Data', the stringency of Government regulations to fight COVID in Australia (and the UK) is at its lowest level since the early COVID days and are mainly now down to mask wearing in certain settings. Even during the recent Omicron spike there was no change in Government policy, apart from a couple of recommendations about improving hygiene and social distancing. Indeed, the Federal Government actually lifted border restrictions in early July.

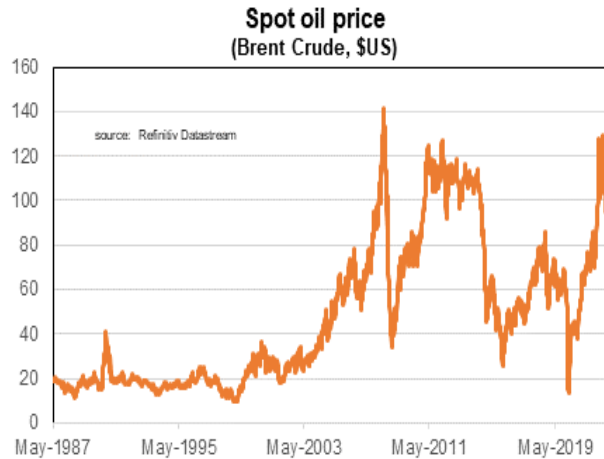
The impact of government COVID regulations on most economies has dramatically declined over the past year. One exception though is China where restrictions to fight the virus remain very tight. The potential for ongoing disruptions to the Chinese economy while the Government continues to follow the zero-COVID strategy is high. This means that while disruptions are generally declining in the US and Europe any supply-chain involving China may well be disrupted further in coming months. And given that China is the world's biggest importer of commodities and is the world's largest exporter of manufacturer's that is quite a lot of the supply chains.

The COVID lockdowns are also causing a problem in the Chinese economy at the same time as their Government is attempting to deleverage its residential construction sector. The result has been weaker Chinese economic growth. That has had one positive outcome. There has been some decline in commodity prices from their peaks and this has reduced some of the inflationary pressure in the economy.

Regulations to fight COVID have declined dramatically in most places, apart from China.



Weaker global growth (including in China) has led to some decline in commodity prices.

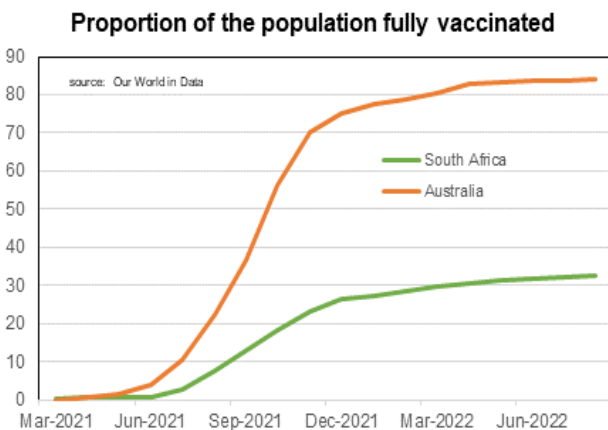


The risk remains that a nasty version of the virus develops leading to a return of tighter government regulations and greater consumer caution. One possibility is that the low vaccination rates in a number of countries (notably in Africa) could allow the virus to continue to spread and evolve.

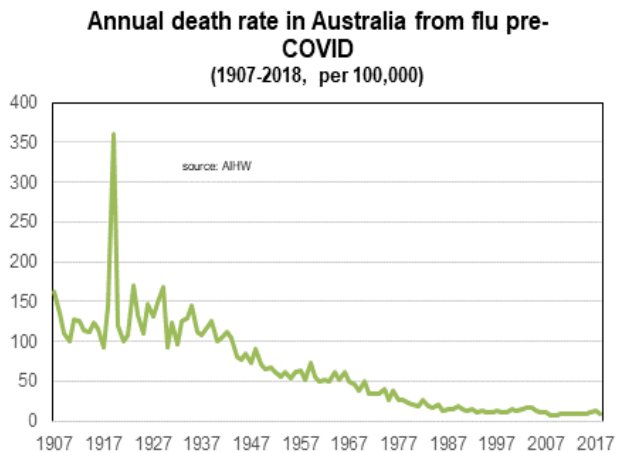
While there is a first time for everything history would say that scenario is unlikely. Over the past three hundred years flu pandemics have typically lasted for between 2-4 years. Australia only had a couple of really bad years (defined as the number of deaths) during the peak period of the Spanish Flu. There were a few subsequent bad flu years (1923-24, 1926-29, 1935) albeit nowhere near as severe as the peak of the virus outbreak.

As an aside it is interesting to note the dramatic decline in deaths from the flu that has taken place in Australia since the Second World War. Undoubtedly this has reflected a variety of factors, including improvements in the understanding of the flu as well as improvements in the health system more generally. The spike in deaths that occurred around the 1957 and 1968 flu pandemics were modest by pre-war standards.

Vaccination rates are substantially lower in many developing countries.



There were a couple of bad years at the peak of the Spanish Flu, although there were some subsequent bad flu seasons.



COVID has had a major impact on the economy and people's lives over the past couple of years. It looks increasingly likely that its impact will continue to diminish in coming years although its mark on some things (such as working from home) are likely to last longer. But while the focus on COVID is diminishing, worries about the

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weather and geo-politics is rising. It certainly appears that the 'new normal' is going to be very different from the 'old normal'.

We live in interesting times.

Regards

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