Trading restrictions are switching in the United Kingdom and Australia

There have been many pivotal moments throughout the duration of this pandemic and mid-2021 is emerging as another point where its course takes a turn. This shift is being driven by changing momentum around trading restrictions that small businesses are facing across different countries. Nations that have been heavily impacted by COVID-19 infections over the past 18 months are now moving to dramatically ease restrictions for their higher vaccinated populations. In contrast, countries that, to date, had managed to limit infection rates are struggling to contain new outbreaks amongst their lower vaccinated communities.

This contrast is most stark when comparing the United Kingdom with Australia. In Australia, many small businesses have returned to the type of restrictions seen back in March 2020, meanwhile Britain has removed almost all trading restrictions and social distancing regulations.

Tighter restrictions return to major Australian cities

The emergence of the Delta variant of COVID-19 amongst a low vaccinated population has seen a return to trading restrictions for small businesses, particularly in Australia's major cities of Sydney and Melbourne.

Victorians returned to stricter trading restrictions in late May, with Melbourne under the strictest regime for two weeks. Just as conditions improved there, the virus re-emerged in New South Wales and Greater Sydney has been living under stay-at-home orders since June 26 and will remain so until at least July 30. After a few weeks of easing restrictions, Victorians returned to stay-at-home orders on July 15th and South Australia joined them on July 21. This put over half of the Australian population in lockdown.

The return of restrictions has already been reflected in the Xero Small Business Index, especially the state breakdowns. Using an annualised two-year growth rate, to smooth out the impact of the pandemic, overall Australian sales rose 10.7% y/y in June while Victorian sales were slower, although still healthy, at 9.3% y/y. Victoria also recorded the slowest annualised two-year jobs growth results, at 2.8% y/y compared to a national result of 4.3% y/y.
It is early to see the impact of the NSW restrictions in the Xero Small Business Index but weekly credit card data from the Commonwealth Bank of Australia provides an early reading on what will be at least a month long stay-at-home period. The CBA Weekly Card Spend series shows that for the week ending July 9 card spending in NSW was only 2.1% above 2019 levels (to adjust for the pandemic impacts) compared to being 9.9% higher in the week prior and 11.1% a fortnight ago. This data is an early indication of the potential drag on the Australian economy that the latest lockdowns are having.

**UK moves to remove most restrictions**

The story is very different in the United Kingdom.

Small businesses in the UK have had a very tough 2021, spending the first three to four months back under similar restrictions to those of March and April 2020. After a few months of easing, most of the UK lifted almost all remaining trading constraints on July 19th. Social distancing requirements and patron and visitor limits have all been removed and fully vaccinated Britons can travel internationally to some countries without the need to quarantine on return.

**Implications for second half outlooks**

The easing of restrictions points to some upside potential for the UK economy in the coming months. The United Kingdom's Small Business Index has been trading between 80-90 points since August 2020. The removal of the final restrictions, however, suggest there is greater upside potential to the outlook for small businesses in the UK than at any other time since last summer.

In contrast, the recovery to date has been strong in Australia with the Xero Small Business Index recording a record 144 points in June. Jobs growth (measured as annualised two-year to adjust for the pandemic swings) has been above 4% y/y for the past four months and sales grew a remarkable 10.7% y/y (adjusted) in June. But the extent of the stay-at-home orders in place, which at times have covered around half of the Australian population, will make it more challenging for the current strong pace of recovery to continue.