

First public release of Weekly Economic Update

Treasury's existing Weekly Economic Update...

This is the first public release of the Treasury's Weekly Economic Update (WEU) that includes additional high frequency indicators of economic activity. The Weekly Economic Update covers key data released in the previous week (both domestic and international), along with commentary on what these data mean for the New Zealand economy going forward.

The economic and social disruption caused by the COVID-19 outbreak has increased the appetite for more timely data that can help inform the extent of this disruption and our eventual path to recovery.

...will be expanded and published...

As a result, Treasury has decided to publish on our website an expanded version of the WEU, with an additional focus on key high frequency indicators that can help inform the current economic situation. The indicators presented in the WEU are a subset of those that will be presented in a companion "COVID-19 Economic Dashboard". Both will be published each Friday.

...in a consistent format

The expanded WEU will consist of four main parts:

- the first section will provide commentary on recent high frequency data that has been released, together with an accompanying chart-pack of key indicators
- the second section will provide regular commentary on recent regular data releases such as CPI, Building Consents etc
- the third section will provide information and commentary on key international developments, and
- the final section will contain standard tables containing data on key macro-economic variables for NZ and our major trading partners.

High frequency indicators being developed...

A range of high frequency indicators are continually being sought and assessed. Relevant indicators will be presented under a range of key themes:

- **people movement** – data from New Zealand Transport Agency provide measures of the movement of people within New Zealand, as a general indicator of economic and social activity
- **freight moment** – data from New Zealand Transport Agency on heavy freight vehicle volumes as an indicator of the level of general economic activity
- **border crossings** – data from Customs NZ on commercial air passenger arrivals and departures as an indicator of international activity including tourism
- **retail spending** – weekly data on electronic card spending to provide a perspective on the level and split of household consumption expenditure (to come)
- **unemployment** – data from the Ministry of Social Development on number of people registered for Jobseeker Support as a proxy for unemployment and labour market conditions, and
- **fiscal support** – Government spending on wage subsidies (and other spend data as it becomes available).

...and will be included as they are developed

It is likely that the set of indicators presented in the WEU will develop over time as new data becomes available.

New high frequency series will be included (as appropriate) embedded either in the WEU commentary or as part of the regular chart-pack. An expanded set of indicators will be available in the companion COVID-19 Economic Dashboard, which is intended for publication each Friday.

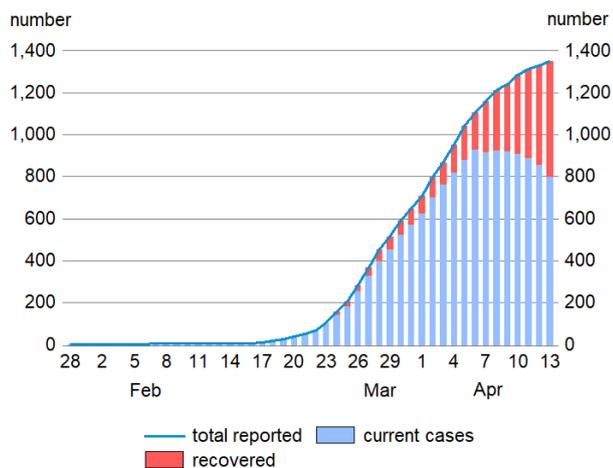
Overall summary

There are tentative signs that New Zealand's two weeks in lockdown are paying off in terms of containing cases of COVID-19, with the number of current cases falling for the first time on 7 April and continuing to fall on subsequent days. Road and airport traffic remain near a standstill, discretionary retail spending is well down, and indicators of declining consumer and business sentiment continue to emerge. The export sector is a bright spot, with commodity prices rising in NZ dollar terms and export volumes remaining high.

The curve is flattening...

On 7 April, day thirteen of the nationwide lockdown, new recoveries from COVID-19 exceeded new cases in NZ, meaning the number of current cases declined for the first time (Figure 1). In subsequent days, the number of current cases has continued to trend downwards. Epidemiologist Michael Baker has suggested that NZ may become the only Western country to eliminate the virus.

Figure 1: Cumulative COVID-19 Cases in NZ



Source: Ministry of Health

...as New Zealanders stay home...

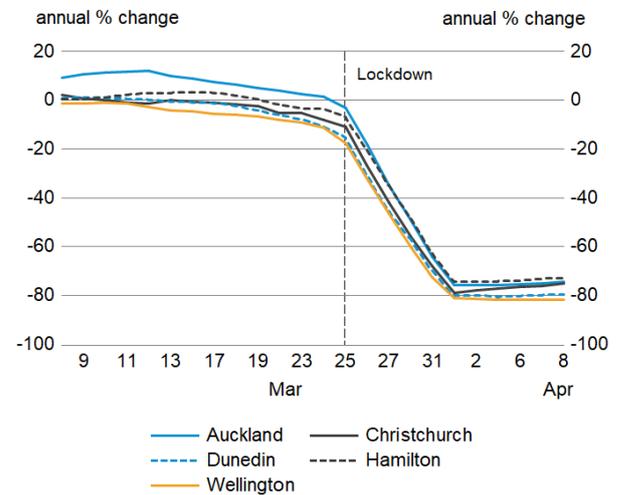
Road traffic in five of the country's main centres has been 70 – 80% lower since the start of April (Figure 2). Heavy vehicle traffic has held up relative to light vehicles, remaining around 60% below 2019 levels, due to the ongoing activity in our essential industries. Meanwhile, public transport patronage in Wellington and Auckland are down over 95%.

Non-essential businesses remain closed, though retailers may now sell essential non-food products online and by phone, provided they follow protocols to minimise the risk of COVID-19 spreading.

...while Government support payments surge

Job seeker support has jumped with nearly 100,000 on job seeker support work ready and nearly \$10 billion approved and/or paid in wage subsidies to businesses (covering more than one million workers) to date.

Figure 2: Weekday traffic volumes

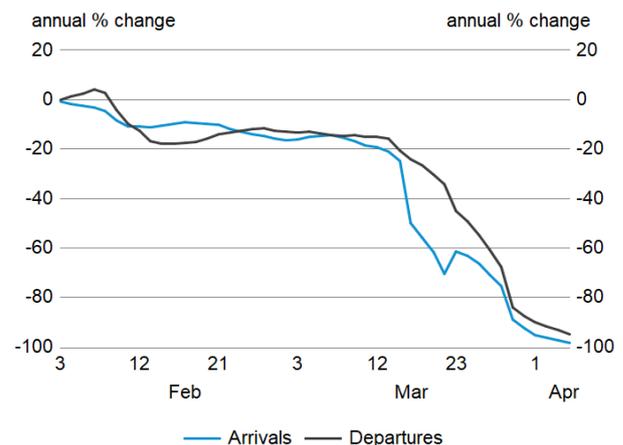


Source: Waka Kotahi NZ Transport Agency

Borders remain closed...

Commercial air traffic continues to fall, with international arrivals now down 99% compared with 2019 (Figure 3). International departures remain slightly higher, down 95% on last year, as foreign nationals return home.

Figure 3: Commercial air arrivals and departures



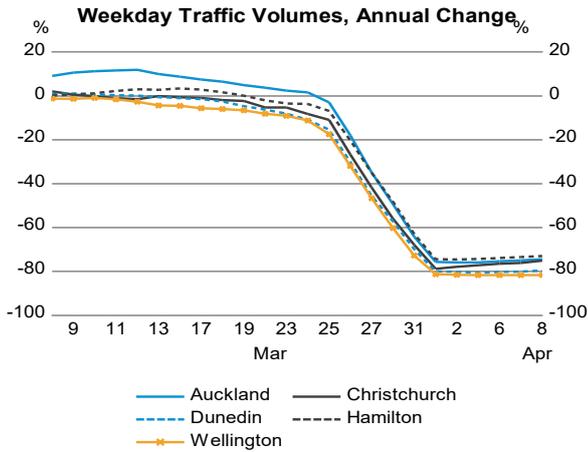
Source: NZ Customs Service

...and businesses fear for the future

A recent Auckland Chamber of Commerce survey of 1000 Auckland businesses found that 30% are not confident they will survive the COVID-19 pandemic. Around 80% of businesses had applied for the Government wage subsidy and only 9% had made employees redundant because of the pandemic.

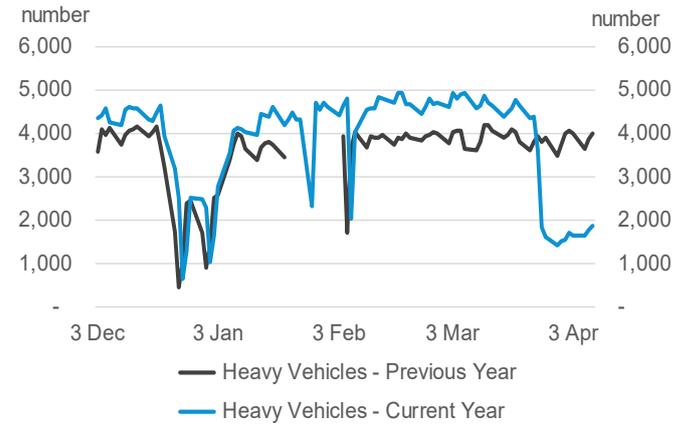
High-Frequency Indicators (under development)

Traffic Movement



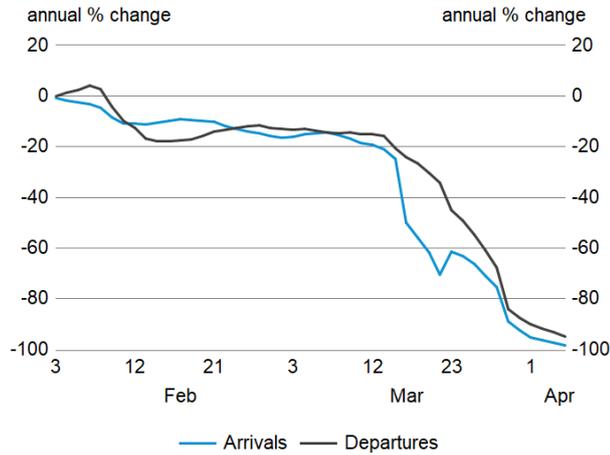
Source: Waka Kotahi NZ Transport Agency

Freight Movement (Auckland – daily)



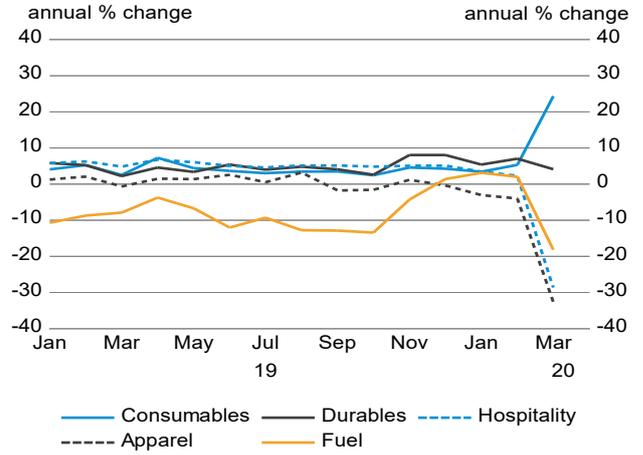
Source: Waka Kotahi NZ Transport Agency

Border Crossings



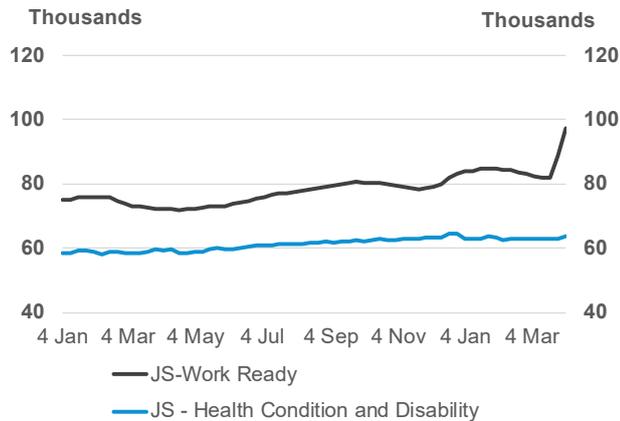
Source: Customs NZ

Retail Spending



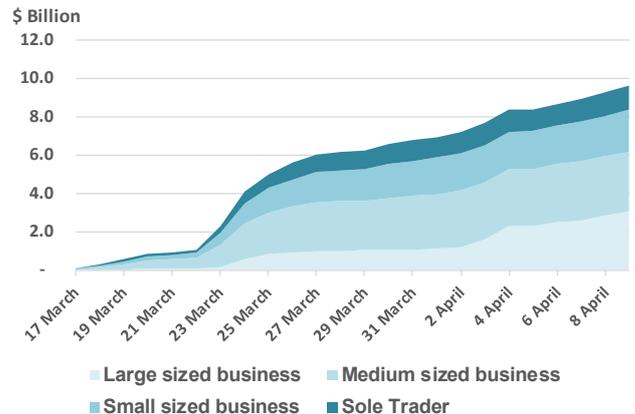
Source: Stats NZ

Job Seeker Support



Source: RBNZ, MSD

Fiscal Support – Wage Subsidy Payments

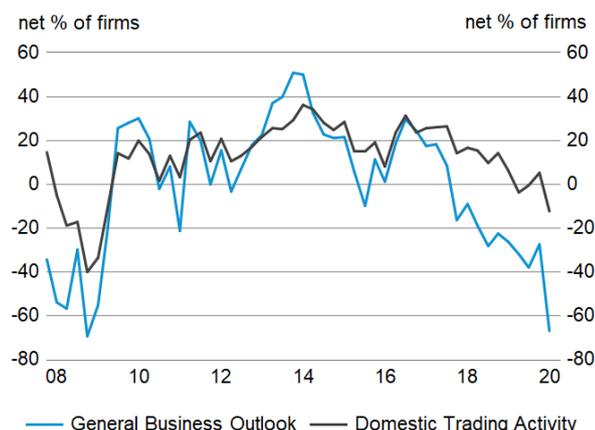


Source: MSD/Treasury

Business sentiment fell sharply...

The NZIER's Quarterly Survey of Business Opinion (QSBO) showed that sentiment among businesses deteriorated significantly in the March quarter as uncertainty around COVID-19 started to set in. A net 67% of respondents felt pessimistic, down from 28% in the December quarter (Figure 4).

Figure 4: Quarterly Survey of Business Opinion



Source: NZIER

Negative sentiment was broad-based, but especially significant in the services and manufacturing sectors. The activity outlook also deteriorated, with 13% expecting activity to be lower. Domestic trading activity fell through March, to a net 40% seeing lower activity in the final week of the survey (16-22 March). Investment intentions, pricing and cost indicators and expected profitability all fell. Since this survey closed, activity has continued to deteriorate as lockdown restrictions started taking their toll.

In the preliminary April read of the ANZ Business Outlook survey, business confidence fell 9 points to -73%, its lowest level on record. Expected own activity fell 34 points and a net 61% of firms now expect lower activity in the year ahead. A net 54% of firms expect to cut jobs while a net 50% expect to reduce investment. Both are record lows. Compared to the same month a year ago, a net 53% of firms report lower activity, and a net 28% report having fewer employees already. Pricing intentions dropped sharply into negative territory for the first time and inflation expectations fell from 1.5% to 1.3%.

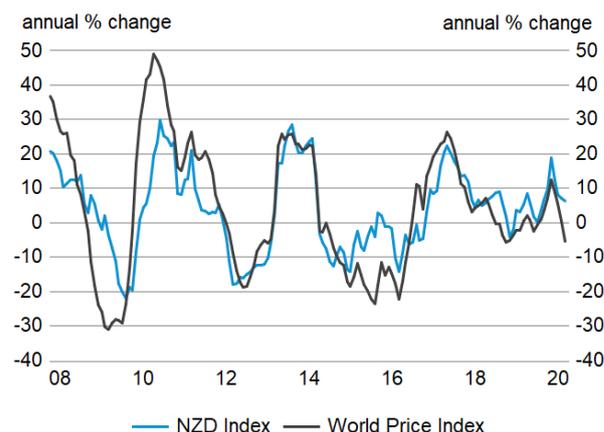
We expect business conditions to remain negative for much of 2020, and into 2021 for some sectors. It is also likely that activity indicators will fall further. The severity of the downturn will depend on many factors, including our success in eradicating COVID-19, how long the lockdown lasts and what restrictions remain in place beyond the lockdown period and for how

long. Consumer spending will remain suppressed in the short to medium term as job losses mount and uncertainty weighs on confidence. Total retail sales fell 3.9% in March, the biggest fall in both percentage and dollar terms on record. Spending on dining and accommodation fell by a third, while grocery sales hit a record-high.

...and world commodity prices slipped

The ANZ World Commodity Price Index fell 2.1% in the March month, to be down 5.4% on an annual basis. In local currency terms, the index rose 3.3% in the March month and 6.2% over the year, due to the fall in the NZD (Figure 5). The world meat and fibre index fell 2.0% in the month on the back of lower demand. Global dairy prices fell 3.4%, driven by lower prices for skim (SMP) and whole (WMP) milk powder. Supply disruptions associated with COVID-19 in Europe and North America might see prices hold up to some extent in coming months.

Figure 5: ANZ Commodity Price Index



Source: ANZ

At the *GlobalDairyTrade* auction this week, prices rose 1.2% in USD terms, led by higher prices for butter and WMP. New Zealand's commodity sector will be a key support for our economy through the next year as demand for our products is expected to remain strong. Daily goods trade data for the week ended 12 April compared with the equivalent week in 2019 shows that total exports to all countries were up 0.7% (\$12 million) while imports were down 48.4% (\$774 million).

The RBNZ expanded asset purchases

The Reserve Bank added \$3 billion of Local Government Funding Agency capacity to its Large Scale Asset Purchase programme, taking the total capacity of the programme to \$33 billion over 12 months.

Markets rise...

Financial markets steadied as signs emerged of a slowing in the rate of new COVID-19 infections globally. The economic data flow is starting to capture the impact of public health measures to prevent the spread of COVID-19. Oil prices remain volatile, as the means to reduce supply are unclear.

The S&P500 is up more than 10% from close on the Friday prior to Easter, Treasury yields are higher (US10y +15bps), and volatility has declined. “Commodity currencies” such as the NZD have appreciated, despite oil prices falling. The NZD closed on 9 April at around 0.6006. Brent crude oil had declined during the final week of March, but have since recovered to around \$33 per barrel, much higher (~33%) than the lows reached at the end of March.

Figure 6: S&P500 and volatility index



Source: Haver

...as growth in global infections slows...

Global infections grew 62% over the past week, slower than the 95% growth the previous week. Some governments are planning to reopen their economies while others, including Japan, are tightening public health measures. In Europe, Austria is the first to set out plans to ease its lockdown, with shops due to reopen as early as next week. Several other countries, including France and Spain, have established task forces to consider how to wind back restrictions on activity and movement.

...and despite worsening economic data

In the United States, non-farm payrolls fell by 701,000 in March, increasing the unemployment rate by almost 1%-age point to 4.4%. The number of applications for unemployment benefits now top 1.7 million since the US shutdowns began.

In the euro area, final PMI data showed declines from the flash estimates as economic conditions deteriorated as March progressed. Markit's composite PMI for the region fell to 29.7, consistent with an annualised contraction of 10% for GDP.

In Australia, both exports (-4.7%) and imports (-4.3%) fell in the month of February compared to January, with services exports down 9.7% on lower tourism inflows due to bans on arrivals from China. Travel bans have been extended and tourism inflows will shrink dramatically in March. Separately, ANZ job ads declined by more than 10% in March, the largest monthly fall since January 2009.

The Reserve Bank of Australia held both the cash rate and the target for 3-year Australian Government Bonds at 0.25%. Implementation of unconventional policy has gone smoothly to date. The 3-year yield fell to around target and the functioning of government bond markets improved.

In Japan, the Prime Minister declared a state of emergency for seven Japanese prefectures, including Tokyo, until 6 May due to a recent sharp rise in virus cases, and approved a stimulus package of 20% of GDP. These prefectures account for 47.5% of GDP and 44.3% of the population.

G20 Oil Ministers met on Friday and agreed to cut oil production in May and June, supporting an earlier OPEC agreement to cut oil production to 10 million barrels per day. This agreement should have a stabilising effect on oil prices and global confidence

In China, the PBoC said it will cut the Required Reserve Ratio (RRR) for targeted banks by 100bp, to be implemented in two steps: a 50bp cut effective from 15 April and a 50bp cut effective from 15 May 2020. The PBoC also announced it will lower the interest rate on excess reserves from 0.72% to 0.35% – the first cut since 2008.

Thailand, Singapore and Malaysia all announced enhancements to COVID-19 linked fiscal stimulus early this week. The packages in Singapore and Malaysia featured wage subsidies prominently – underlining the efforts of ASEAN governments to minimise the loss of economic capacity due to COVID-19 linked to restrictions on activity.

	Key NZ Data	Previous
15 April	Food Price Index	0.3%
15 April	Rental Price Index	0.3%

Quarterly Indicators		2018Q4	2019Q1	2019Q2	2019Q3	2019Q4	2020Q1
Real Production GDP ¹	qpc	1.0	0.4	0.0	0.8	0.5	...
	aapc	3.2	3.1	2.9	2.7	2.3	...
Current account balance (annual)	%GDP	-3.8	-3.6	-3.4	-3.3	-3.0	...
Merchandise terms of trade	apc	-4.8	-1.9	-1.0	0.9	6.9	...
CPI inflation	qpc	0.1	0.1	0.6	0.7	0.5	...
	apc	1.9	1.5	1.7	1.5	1.9	...
Employment (HLFS) ¹	qpc	0.1	0.0	0.7	0.2	0.0	...
Unemployment rate ¹	%	4.3	4.1	4.0	4.1	4.0	...
Participation rate ¹	%	70.6	70.3	70.3	70.4	70.1	...
LCI salary & wage rates – total ²	apc	1.9	2.0	2.1	2.5	2.6	...
QES average hourly earnings – total ²	apc	3.1	3.4	4.4	4.2	3.6	...
Core retail sales volume	apc	5.0	3.9	3.6	5.4	3.3	...
Total retail sales volume	apc	3.5	3.3	2.9	4.5	3.3	...
WMM – consumer confidence ³	Index	109.1	103.8	103.5	103.1	109.9	104.2
QSBO – general business situation ^{1,4}	net%	-22.6	-26.5	-32.0	-38.1	-27.7	-67.3
QSBO – own activity outlook ^{1,4}	net%	14.3	6.3	-3.7	-0.6	5.3	-12.7
Monthly Indicators		Oct 19	Nov 19	Dec 19	Jan 20	Feb 20	Mar 20
Merchandise trade balance (12 month total)	NZ\$m	-5055	-4837	-4467	-3946	-3258	...
Dwelling consents – residential	apc	16.6	3.8	24.1	2.7	6.0	...
House sales – dwellings	apc	-0.3	1.0	16.9	7.2	9.2	...
REINZ – house price index	apc	3.8	5.5	6.5	7.0	8.6	...
Estimated net migration (12 month total)	people	52447	52342	53078	56501	...	...
ANZ NZ commodity price index	apc	9.7	18.8	12.2	8.2	7.1	6.2
ANZ world commodity price index	apc	7.2	12.4	8.7	5.6	0.6	-5.5
ANZBO – business confidence	net%	-42	-26	-13	...	-19	-64
ANZBO – activity outlook	net%	-4	13	17	...	12	-27
ANZ-Roy Morgan – consumer confidence	net%	118	121	123	123	122	106
Daily Indicators		Thu 2/4/20	Fri 3/4/20	Mon 6/4/20	Tue 7/4/20	Wed 8/4/20	Thu 9/4/20
NZ exchange and interest rates⁵							
NZD/USD	\$	0.5931	0.5898	0.5877	0.5958	0.5951	0.6006
NZD/AUD	\$	0.9746	0.9749	0.9762	0.9733	0.9698	0.9657
Trade weighted index (TWI)	index	68.3	68.1	68.0	68.6	68.4	68.8
Official cash rate (OCR)	%	0.25	0.25	0.25	0.25	0.25	0.25
90 day bank bill rate	%	0.49	0.48	0.47	0.47	0.45	0.45
10 year govt bond rate	%	1.11	1.11	0.98	1.09	1.09	1.08
Share markets⁶							
Dow Jones	index	21413	21053	22680	22654	23434	23719
S&P 500	index	2527	2489	2664	2659	2750	2790
VIX volatility index	index	50.9	46.8	45.2	46.7	43.4	41.7
AU all ords	index	5189	5107	5324	5301	5259	5439
NZX 50	index	9871	9935	9764	9810	10032	9964
US interest rates							
3 month OIS	%	0.05	0.05	0.05	0.05	0.05	0.05
3 month Libor	%	1.37	1.39	1.35	1.32	1.31	1.22
10 year govt bond rate	%	0.63	0.62	0.67	0.75	0.77	0.73
Commodity prices⁶							
WTI oil	US\$/barrel	25.32	28.36	26.21	23.54	25.09	22.76
Gold	US\$/ounce	1617	1613	1648	1649	1648	1681
CRB Futures	index	363	363	363	363	363	362

Data in Italic font are provisional.
... Not available.

- (1) Seasonally Adjusted
(2) Ordinary time, all sectors
(3) Westpac Mcdermott Miller
(4) Quarterly Survey of Business Opinion
(5) Reserve Bank (11am)
(6) Daily close

Country	Indicator		Aug 19	Sep 19	2019Q3	Oct 19	Nov 19	Dec 19	2019Q4	Jan 20	Feb 20	Mar 20
United States [9.6% share of total goods exports]	GDP ¹	qpc			0.5				0.5			
	Industrial production ¹	mpc	0.7	-0.3		-0.4	0.9	-0.4		-0.5	0.6	...
	CPI	apc	1.7	1.7		1.8	2.1	2.3		2.5	2.3	...
	Unemployment rate ¹	%	3.7	3.5		3.6	3.5	3.5		3.6	3.5	4.4
	Employment change ¹	000s	207.0	208.0		185.0	261.0	184.0		214.0	275.0	-701.0
	Retail sales value	apc	4.4	4.0		3.1	3.3	5.4		5.0	4.3	...
	House prices ²	apc	2.0	2.1		2.2	2.6	2.8		3.1	...	...
	PMI manufacturing ¹	index	48.8	48.2		48.5	48.1	47.8		50.9	50.1	49.1
Consumer confidence ^{1,3}	index	134.2	126.3		126.1	126.8	128.2		130.4	132.6	120.0	
Japan [6.1%]	GDP ¹	qpc			0.0				-1.8			
	Industrial production ¹	mpc	-1.2	1.7		-4.5	-1.0	1.2		1.0	0.4	...
	CPI	apc	0.3	0.3		0.2	0.5	0.8		0.6	0.5	...
	Unemployment rate ¹	%	2.3	2.4		2.4	2.2	2.2		2.4	2.4	...
	Retail sales value	apc	1.8	9.2		-7.0	-2.1	-2.6		-0.4	1.7	...
	PMI manufacturing ¹	index	49.3	48.9		48.4	48.9	48.4		48.8	47.8	44.8
	Consumer confidence ^{1,4}	index	37.2	35.9		36.3	38.7	39.0		39.2	38.2	31.1
Euro area [5.5%]	GDP ¹	qpc			0.3				0.1			
	Industrial production ¹	mpc	0.3	0.0		-0.3	-0.6	-1.8		2.3	...	...
	CPI	apc	1.0	0.8		0.7	1.0	1.3		1.4	1.2	...
	Unemployment rate ¹	%	7.5	7.5		7.4	7.4	7.4		7.4	7.3	...
	Retail sales volume	apc	2.8	2.9		1.8	2.5	1.9		2.2	3.0	...
	PMI manufacturing ¹	index	47.0	45.7		45.9	46.9	46.3		47.9	49.2	44.5
	Consumer confidence ⁵	index	-7.1	-6.6		-7.6	-7.2	-8.1		-8.1	-6.6	-11.6
United Kingdom [2.7%]	GDP ¹	qpc			0.5				0.0			
	Industrial production ¹	mpc	-0.7	0.2		0.1	-1.2	0.1		-0.1	...	...
	CPI	apc	1.8	1.8		1.5	1.4	1.3		1.8	1.7	...
	Unemployment rate ¹	%	3.9	3.8		3.8	3.8	3.8		3.9	...	...
	Retail sales volume	apc	2.5	2.8		3.1	0.7	0.8		0.8	0.1	...
	House prices ⁶	apc	0.6	0.2		0.4	0.8	1.4		1.9	2.3	3.0
	PMI manufacturing ¹	index	47.4	48.3		49.6	48.9	47.5		50.0	51.7	47.8
	Consumer confidence ^{1,5}	index	-11.4	-9.8		-10.6	-8.8	-7.1		-6.5	-6.2	-8.2
Australia [15.8%]	GDP ¹	qpc			0.6				0.5			
	CPI	apc			1.7				1.8			
	Unemployment rate ¹	%	5.3	5.2		5.3	5.2	5.1		5.3	5.1	...
	Retail sales value	apc	2.9	2.0		2.7	3.2	2.4		2.2	5.7	...
	House Prices ⁷	apc			-3.9				2.8			
	PMI manufacturing ¹	index	53.1	54.7		51.6	48.1	48.3		45.4	44.3	53.7
	Consumer confidence ⁸	index	100.0	98.2		92.8	97.0	95.1		93.4	95.5	91.9
China [24.3%]	GDP	apc			6.0				6.0			
	Industrial production	apc	4.4	5.8		4.7	6.2	6.9		-13.5	-13.5	...
	CPI	apc	2.8	3.0		3.8	4.5	4.5		5.4	5.2	...
	PMI manufacturing ¹	index	49.5	49.8		49.3	50.2	50.2		50.0	35.7	52.0
South Korea [3.0%]	GDP ¹	qpc			0.4				1.3			
	Industrial production ¹	mpc	-1.3	1.7		-1.0	0.5	3.6		-1.3	-3.8	...
	CPI	apc	-0.0	-0.4		0.0	0.2	0.7		1.5	1.1	1.0

(1) Seasonally adjusted

(2) Case-Shiller Home Price Index 20 city

(3) The Conference Board Consumer Confidence Index

(4) Cabinet Office Japan

(5) European Commission

(6) Nationwide House Price Index

(7) Australian Bureau of Statistics

(8) Melbourne/Westpac Consumer Sentiment Index