

Weekly Economic Update

24 April 2020

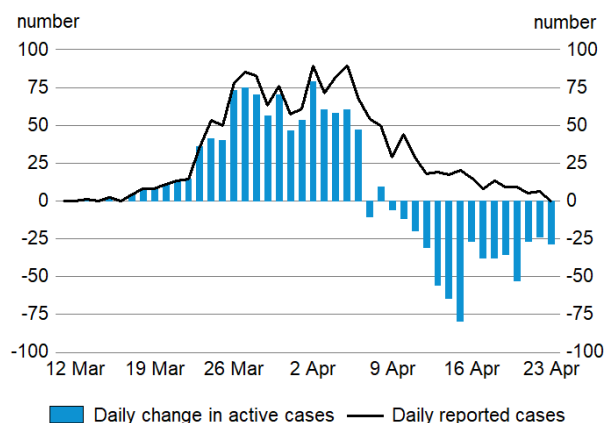
High-frequency indicators show that economic activity continues to run at much lower levels than normal under Alert Level 4. New Zealand will move to Alert Level 3 from 28 April, where it will remain for at least two weeks. Businesses will be able to resume operations if they are contactless, and a substantial part of the workforce will be able to resume work, but economic activity is expected to run around 25% below normal levels at Alert Level 3. Numbers of Jobseeker Support recipients have risen sharply, and while inflation reached a 9-year high in March, it is set to decline substantially this year. Global dairy prices have fallen.

Global growth in active cases of COVID-19 continues to slow, which has prompted some European countries to come out of lockdown. High-frequency indicators suggest US economic output is 11% lower than last year. China's GDP was 6.8% lower in the March quarter than the same quarter a year ago. US oil prices went into negative territory this week for the first time in history due to excess supplies and insufficient physical storage capacity. Governments around the world continue to provide further monetary and fiscal stimulus.

With the chain of transmission now broken...

On 20 April, the Prime Minister announced that New Zealand has successfully broken the chain of transmission of COVID-19. New cases on 23 April numbered just three, and active cases have declined for two weeks (Figure 1). Seventy percent of COVID-19 cases in New Zealand have now recovered.

Figure 1: Daily COVID-19 cases in New Zealand



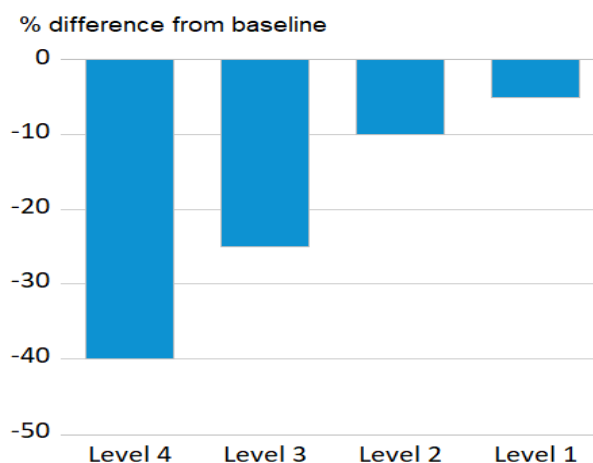
Source: Ministry of Health

...businesses can prepare for Alert Level 3...

With lockdown restrictions set to ease, the Government has allowed businesses to re-enter their premises to prepare to re-open safely if they can under Alert Level 3. Only businesses that can introduce physical distancing and contactless transactions will be able to open next week.

Around half a million people are expected to be able to return to their workplaces in the coming weeks. Treasury estimates that economic activity will run approximately 25% below normal levels during Alert Level 3, higher than under Alert Level 4 (Figure 2). Some retail and hospitality activity will resume, but many businesses will remain closed. A recent survey conducted by the NZ Restaurant Association found that only one third of hospitality businesses plan to reopen.

Figure 2: Estimated economic activity at Alert Levels



Source: The Treasury

...but the lockdown is not over yet

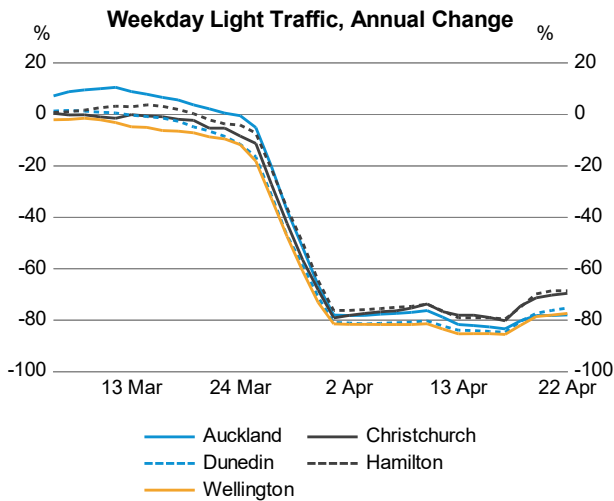
Light and heavy traffic in New Zealand's main centres remain well below 2019 levels (Page 2). Although volumes appeared to tick up over the weekend, this is relative to Easter weekend in 2019, which came a week later. On 22 April, no international passengers arrived in New Zealand for the first time in decades.

On 17 April the number of Jobseeker Support beneficiaries reached 175,000, around 5.8% of the working-age population, up 1 percentage point since 20 March. Total wage subsidy payments totalled \$10.1 billion, benefitting 1.6 million people.

High-Frequency Indicators (under development)

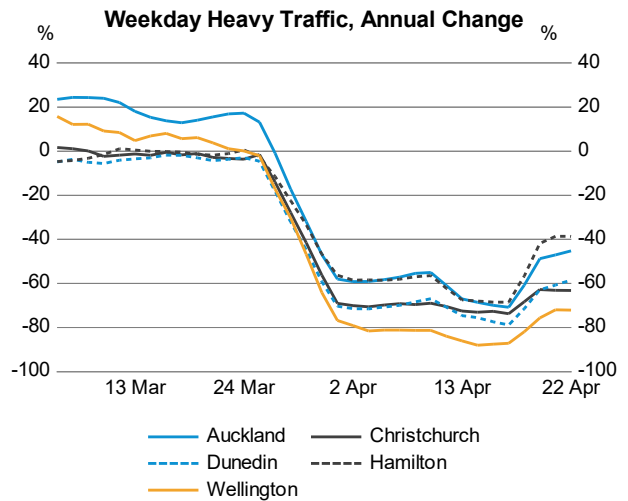
Statistics NZ has recently released a portal where people can download a range of high-frequency indicator series. This portal can be accessed at: <https://www.stats.govt.nz/experimental/covid-19-data-portal>

Traffic Movement



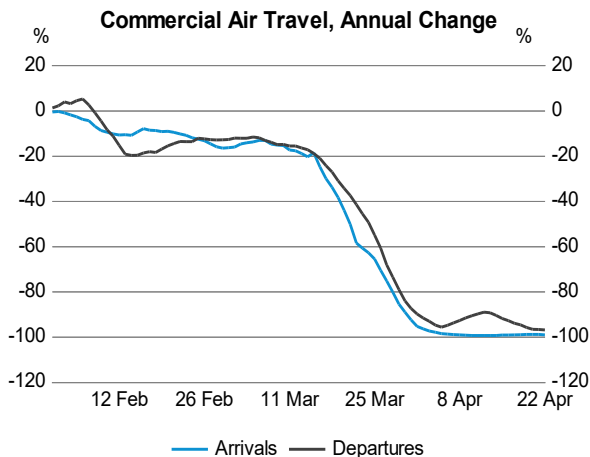
Source: Waka Kotahi NZ Transport Agency

Freight Movement



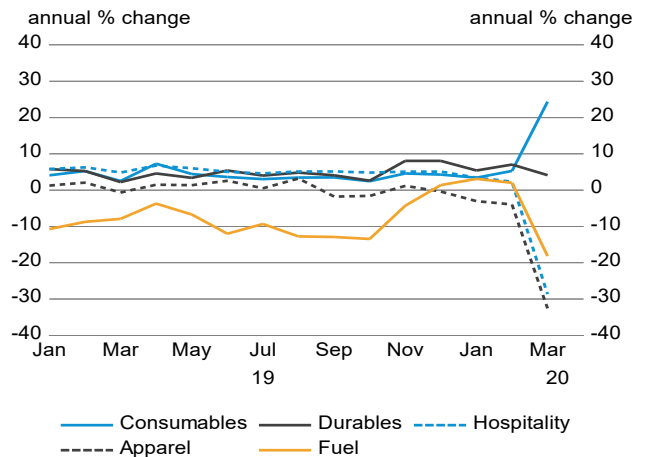
Source: Waka Kotahi NZ Transport Agency

Border Crossings



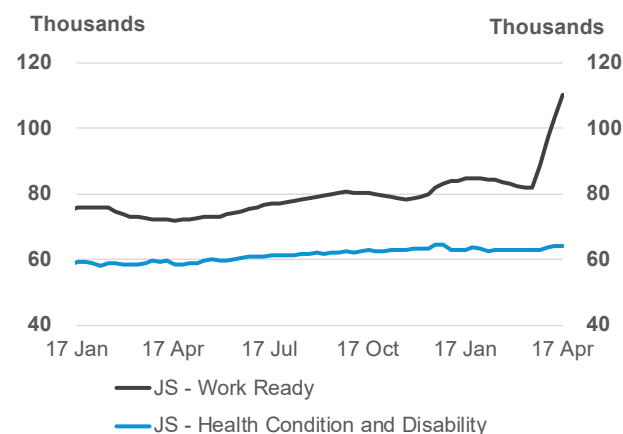
Source: Customs NZ

Retail Spending



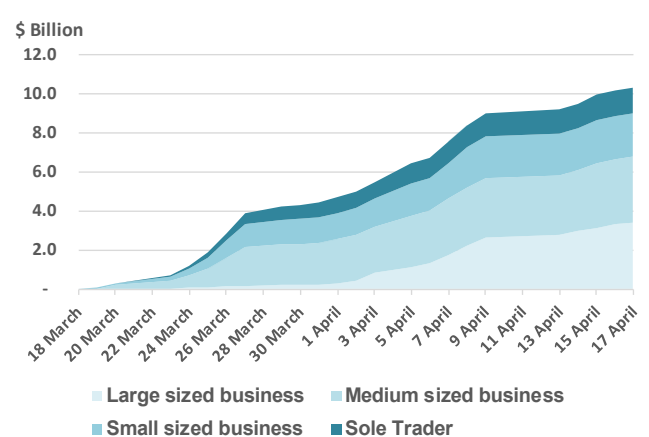
Source: Stats NZ

Job Seeker Support



Source: MSD

Fiscal Support: Wage Subsidy (paid)

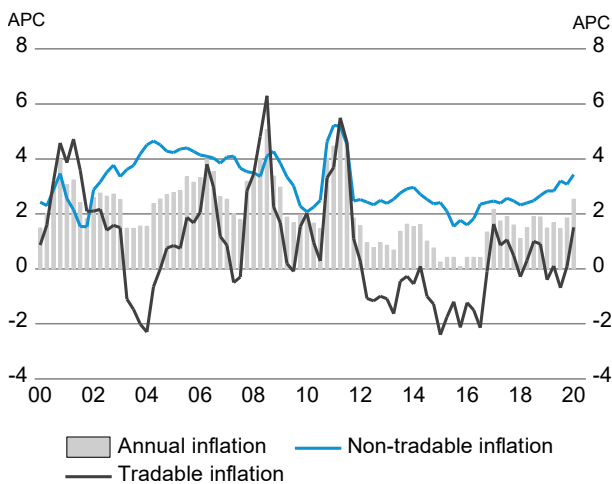


Source: MSD

Inflation reached its highest rate since 2011...

Annual inflation in the March quarter was above expectations at 2.5%, up from 1.9% in the December quarter, reaching its highest annual rate since 2011 (Figure 3). Quarterly inflation was 0.8%, driven by a 1.4% rise in non-tradables prices. Non-tradables inflation reached a 9-year annual high of 3.4%. The increase was driven by higher housing rents and cigarette and tobacco prices, which contributed 0.4 and 0.3 percentage points respectively to headline inflation. Tradables prices rose 0.1% in the quarter, to be up 1.5% annually. Higher prices for grocery goods and fruit and vegetables were partly offset by lower transport costs, particularly petrol. With weak oil prices expected to persist, tradables inflation is expected to ease next quarter.

Figure 3: Annual Inflation

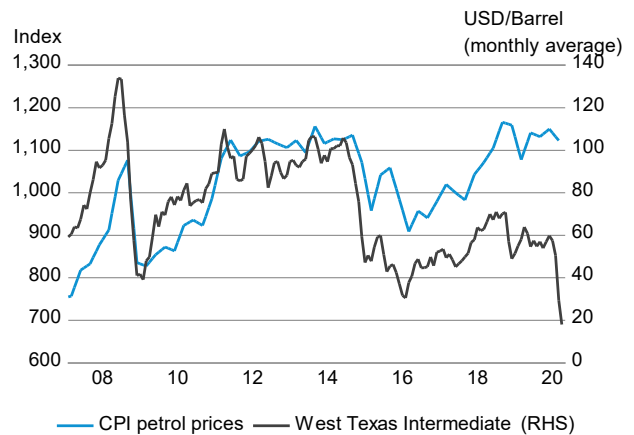


Source: Stats NZ

The latest inflation reading is above the Reserve Bank's target mid-point of 2.0%. However, the measures that have been put in place to contain the spread of COVID-19, including closing our border to international travellers, freezing housing rents for six months from March, and only allowing essential business activity for most of April, will lower economic activity and reduce demand. Wage cuts and job losses as a result of COVID-19 are also expected to contribute to a reduction in spending and an increase in precautionary saving for some time.

Prices have also been impacted by international developments. World oil prices have reached historical lows, with WTI in negative territory for the first time in its history (Figure 4). While lower oil prices would usually translate to lower domestic fuel prices, there will be a limit to how low they can go given the sort-run nature of the reasons for the sharp price drop.

Figure 4: WTI and domestic petrol prices

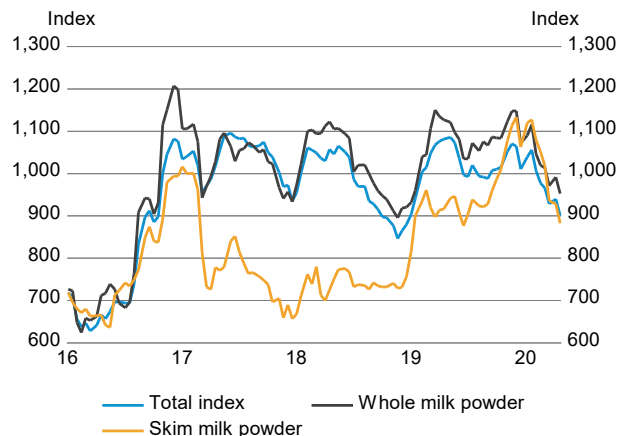


Source: Haver, Stats NZ

...but dairy prices fell in this week's auction

Prices fell 4.2% in USD terms and 3.8% in NZD terms in the *GlobalDairyTrade* auction this week (Figure 5). The prices of most products fell with Whole Milk Powder down 3.9% and Skim Milk Powder down 4.9%. Dairy prices are now down 11% since the start of 2020 and 17% annually.

Figure 5: GlobalDairyTrade auction



Source: Haver

The Reserve Bank proposes removing LVR restrictions

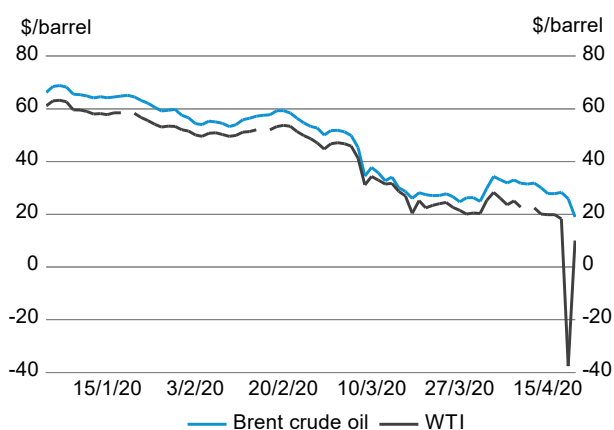
The Reserve Bank is proposing removing mortgage loan-to-value ratio (LVR) restrictions to enable banks to further support customers as the effects of COVID-19 unfold. The proposal is open to consultation for seven days and a decision is expected to be made soon thereafter. If the removal of LVR restrictions goes ahead, the RBNZ will not reinstate LVR restrictions for at least a year as they monitor lending activity and feedback from retail banks over the next 12 months.

Oil prices go negative

The price for the May futures contract for West Texas Intermediate (WTI) oil that expired on Tuesday traded as low as -US\$40/barrel on Monday, before recovering some lost ground (Figure 6).

Fundamentally, there is an excess supply of oil driven by the sudden COVID-19-related fall in demand, and there is insufficient physical storage capacity across the US for the excess supply. On the technical side, traders who had taken long positions on oil were forced to close out their positions to avoid having to take physical delivery of the oil. As a result, sellers far exceeded buyers for the May contract. The price for the June contract halved to around US\$10/barrel. The weakness in the WTI market spread into broader oil markets on Tuesday, with Brent crude oil falling to its lowest level in 18 years. Saudi Arabian producers are considering whether to bring forward oil production cuts scheduled to start in May.

Figure 6: Oil prices



Source: Haver

Growth in global infections continues to slow...

Global active cases of COVID-19 grew by 24% in the seven days ending 21 April, compared to 36% in the previous 7-day period. The US accounted for more than half of the growth in global active cases over this period.

...and some countries are preparing to come out of lockdown

Despite fears of a second wave of infections, a number of European countries have started easing their restrictions on movement and businesses (Table 1). Denmark, Germany, Switzerland, and Austria have been among the first to do so, as their infection rates have consistently declined in recent weeks. However, despite restrictions on movements being relaxed, some media reports suggest that many people are still voluntarily staying home due to the fear of becoming infected. Meanwhile, lockdowns

in France and the UK are continuing, as their infection rates remain quite high. Across the Atlantic, some southern US states have started re-opening, while in Canada there are no plans yet to remove restrictions.

Table 1: COVID-19 Lockdown statuses in selected countries

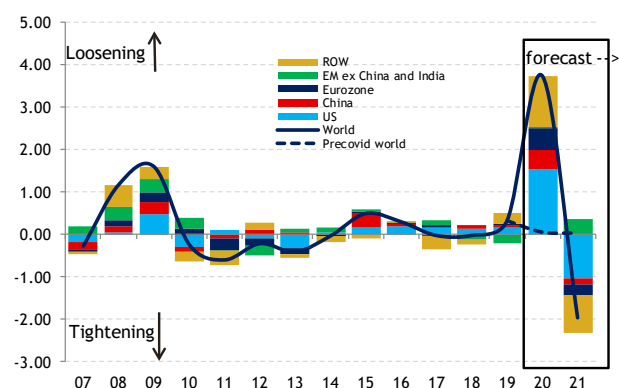
Country	Lockdown status
Denmark	Restrictions eased gradually from 14 April
Austria	Restrictions eased gradually from 14 April
Norway	Restrictions eased gradually from 20 April
Germany	Lockdown to end on 3 May. Some shops allowed to open from 20 April
Switzerland	Approved list of businesses to open on 27 April, others to follow on 11 May
Italy	Plan to end lockdown to be presented this week
France	Lockdown extended until 11 May
UK	No plan to ease lockdown at this stage
US	Lockdown measures eased in some southern states in response to protests
Canada	No plan to ease lockdown at this stage

Source: World Economic Forum, Various news reports

Policymakers attempt to cushion the blow...

Policymakers around the world have continued to try to soften the economic impact of the lockdowns by providing large amounts of fiscal and monetary stimulus. At a global level, the amount of fiscal stimulus so far is more than twice as large (at 3.7% of global GDP) than seen during the global financial crisis (Figure 7). Job retention schemes account for about a quarter of total stimulus measures, business loans and grants account for 13%, tax relief for 17%, and direct cash transfers for 11%. UBS projects that the global fiscal deficit will increase from 3.2% of GDP to 11.2% of GDP in 2020, with the largest increases expected in the US, Japan, the UK, Australia, and Italy. In the absence of fiscal stimulus, UBS estimates that global growth would have been weaker by close to 5%.

Figure 7: Change in fiscally adjusted primary fiscal balance as percentage of global GDP



Source: UBS

...as activity remains weak

US jobless claims have topped 22 million in the four weeks since the start of its lockdown, equivalent to a decade's worth of job creation. The New York Federal Reserve's weekly economic index suggests that activity is down 11% compared to a year ago. The index is composed of 10 indicators, including jobless claims, retail sales, and electricity output. Meanwhile, the Chicago Federal Reserve's National Activity Index fell to -4.2 in March, which suggests output in the US contracted soon after lockdown measures were introduced.

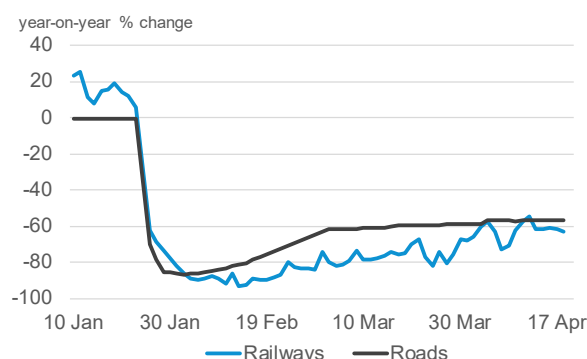
The Reserve Bank of Australia (RBA) Governor said in a speech that the central bank expects the economy to contract by around 10% in the first half of this year, and the unemployment rate to reach 10% by the June quarter. Minutes of the RBA's April meeting confirmed it would keep policy extremely loose until the economy recovers. Preliminary figures from the ABS showed that retail sales were up 8.2% in March, the largest monthly rise on record, driven by panic buying – monthly turnover doubled for products such as toilet and tissue paper, flour, rice and pasta between February and March – while the effect on GDP should be neutral due to the concurrent run-down in inventories.

China's GDP contracted sharply in Q1...

China's GDP fell by 6.8% in Q1 compared to the same period last year – the first contraction since the country started publishing GDP figures in the early 1990s. Industrial production fell by 8.4% in Q1 on a year-on-year basis, fixed-asset investment by 16.1%, and retail sales by 19%. March activity indicators improved across the board compared to Jan-Feb, with investment returning to growth and exports performing better than expected. Daily

activity trackers suggest that this recovery is likely to continue into Q2, supported by pent-up consumer demand. However, the pace of the recovery may be hampered by the global recession, supply chain disruptions, and lingering concerns about a second wave of the virus. Data from China's transport ministry show that railway and road transport volumes remain substantially below the same period last year (Figure 8).

Figure 8: China passenger transport volume



Source: China Ministry of Transport

...prompting more stimulus

Fiscal stimulus measures announced to date in China amount to a comparatively low 1.2% of GDP. Following the release of Q1's GDP data, the authorities delivered further monetary stimulus, with the People's Bank of China cutting its benchmark policy rate – the one-year loan prime rate (LPR) – by 20 bps to 3.85%, and the finance ministry announced a further release of special local government bonds. Some analysts expect additional fiscal easing will be announced soon, potentially with a focus on infrastructure projects.

Date	Key NZ Data	Previous
29 April	Merchandise Trade	+ \$594 million

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	0.8
	apc	1.9	1.5	1.7	1.5	1.9	2.5
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	7.7	12.6	-4.8
REINZ - house price index	apc	3.8	5.5	6.5	6.9	8.6	9.3
Estimated net migration (12 month total)	people	55025	55543	57259	61053	65211	...
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		Wed 15/4/20	Thu 16/4/20	Fri 17/4/20	Mon 20/4/20	Tue 21/4/20	Wed 22/4/20
NZ exchange and interest rates (5)							
NZD/USD	\$	0.6079	0.5948	0.6015	0.6021	0.5997	0.5963
NZD/AUD	\$	0.9463	0.9478	0.9433	0.9481	0.9515	0.9474
Trade weighted index (TWI)	index	68.9	68.0	68.4	68.6	68.5	68.2
Official cash rate (OCR)	%	0.25	0.25	0.25	0.25	0.25	0.25
90 day bank bill rate	%	0.44	0.42	0.39	0.38	0.35	0.33
10 year govt bond rate	%	0.96	0.94	0.92	0.91	0.89	0.89
Share markets (6)							
Dow Jones	index	23504	23538	24242	23650	23019	23476
S&P 500	index	2783	2800	2875	2823	2737	2799
VIX volatility index	index	40.8	40.1	38.2	43.8	45.4	42.0
AU all ords	index	5523	5468	5545	5415	5279	5274
NZX 50	index	10410	10473	10779	10763	10536	10418
US interest rates							
3 month OIS	%	0.05	0.05	0.05	0.05	0.05	...
3 month Libor	%	1.13	1.14	1.11	1.10	1.04	...
10 year govt bond rate	%	0.63	0.61	0.65	0.63	0.58	0.63
Commodity prices (6)							
WTI oil	US\$/barrel	19.87	19.87	18.31	-36.98	8.91	...
Gold	US\$/ounce	1719	1730	1693	1686	1682	...
CRB Futures	index	351	351	351	351	349	...

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		2019Q3	Oct 19	Nov 19	Dec 19	2019Q4	Jan 20	Feb 20	Mar 20	2020Q1	Apr 20
United States [9.6% share of total goods exports]	GDP (1)	qpc	0.5				0.5				...	
	Industrial production (1)	mpc		-0.4	0.9	-0.4		-0.5	0.5	-5.4		...
	CPI	apc		1.8	2.1	2.3		2.5	2.3	1.5		...
	Unemployment rate (1)	%		3.6	3.5	3.5		3.6	3.5	4.4		...
	Employment change (1)	000s		185.0	261.0	184.0		214.0	275.0	-701.0		...
	Retail sales value	apc		3.1	3.3	5.4		5.1	4.6	-6.2		...
	House prices (2)	apc		2.2	2.6	2.8		3.1
	PMI manufacturing (1)	index		48.5	48.1	47.8		50.9	50.1	49.1		...
	Consumer confidence (1)(3)	index		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		-4.0	-0.6	0.2		1.9	-0.3
	CPI	apc		0.2	0.5	0.8		0.6	0.5
	Unemployment rate (1)	%		2.4	2.2	2.2		2.4	2.4
	Retail sales value	apc		-7.0	-2.1	-2.6		-0.4	1.6
	PMI manufacturing (1)	index		48.4	48.9	48.4		48.8	47.8	44.8		...
	Consumer confidence (1)(4)	index		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	-0.6	-1.8		2.3	-0.1
	CPI	apc		0.7	1.0	1.3		1.4	1.2	0.7		...
	Unemployment rate (1)	%		7.4	7.4	7.4		7.4	7.3
	Retail sales volume	apc		1.8	2.5	1.9		2.2	3.0
	PMI manufacturing (1)	index		45.9	46.9	46.3		47.9	49.2	44.5		...
	Consumer confidence (5)	index		-7.6	-7.2	-8.1		-8.1	-6.6	-11.6		-22.7
United Kingdom [2.7%]	GDP (1)	qpc	0.5				0.0				...	
	Industrial production (1)	mpc		0.2	-1.1	-0.2		0.3	0.1
	CPI	apc		1.5	1.4	1.3		1.8	1.7
	Unemployment rate (1)	%		3.8	3.8	3.8		3.9	4.0
	Retail sales volume	apc		3.1	0.7	0.8		0.8	0.1
	House prices (6)	apc		0.4	0.8	1.4		1.9	2.3	3.0		...
	PMI manufacturing (1)	index		49.6	48.9	47.5		50.0	51.7	47.8		...
	Consumer confidence (1)(5)	index		-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	5.1		5.3	5.1	5.2		...
	Retail sales value	apc		2.7	3.2	2.4		2.2	5.7
	House Prices (7)	apc	-3.9				2.8			
	PMI manufacturing (1)	index		51.6	48.1	48.3		45.4	44.3	53.7		...
	Consumer confidence (8)	index		92.8	97.0	95.1		93.4	95.5	91.9		75.6
China [24.3%]	GDP	apc	6.0				6.0				-6.8	
	Industrial production	apc		4.7	6.2	6.9		-13.5	-13.5	-1.1		...
	CPI	apc		3.8	4.5	4.5		5.4	5.2	4.3		...
	PMI manufacturing (1)	index		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		-1.0	0.5	3.6		-1.3	-3.8
	CPI	apc		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