

New COVID-19 cases remain low after more than two weeks since the move to Alert Level 3, and some high-frequency indicators of activity are getting close to pre-COVID-19 levels. Electronic card spending nearly halved in April, while forecasts for the June quarter remain dire.

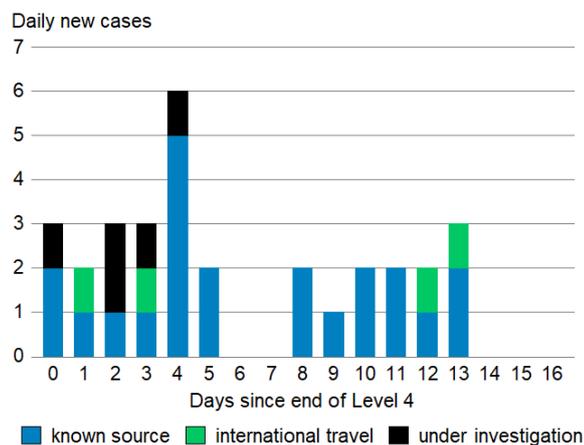
Business confidence recovered slightly in early May (but remains firmly negative), and the RBNZ announced an expansion of their asset purchases. The Government unveiled its Budget for 2020 – ‘Rebuilding Together’.

Globally, economic activity data continue to paint a grim picture, with the unemployment rate in the United States (US) reaching a record high and March quarter GDP declines in the Philippines, Malaysia and the United Kingdom (UK). Governments in the UK and Australia announced plans to ease COVID-19 restrictions in coming weeks. Meanwhile, Australia-China trade tensions resurfaced as China’s government suddenly halted meat imports from several Australian suppliers.

New Zealand is on the right path...

On 14 May, over two weeks after New Zealand moved to Alert Level 3, the country recorded no new cases of COVID-19 for the third consecutive day (Figure 1). Director-General of Health Dr Ashley Bloomfield stated that these figures show New Zealand is ‘on the right path’, but must remain vigilant. All new cases since 2 May have been linked to international travel or to a known source.

Figure 1: New confirmed and probable COVID-19 cases since end of Level 4, by infection source



Source: Ministry of Health

There are just 65 known active cases of COVID-19 left in New Zealand, with 94% of recorded cases now recovered. Total tests reached the milestone of 200,000 on Tuesday, which is just over 4% of the population.

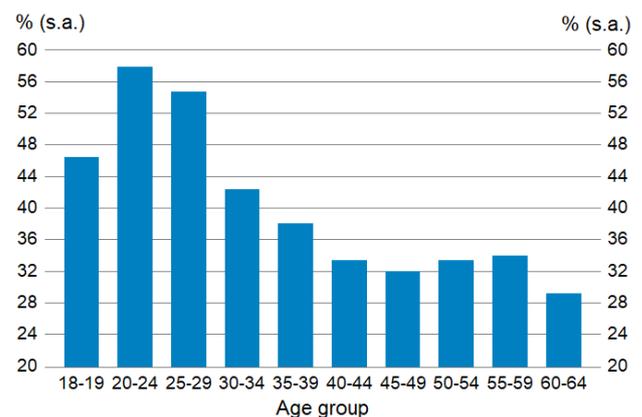
...as the Government plans to rebuild

The Government unveiled 2020’s ‘once in a generation’ Budget, with a \$50 billion COVID-19 Response and Recovery Fund at the centre. The Budget lays out the first \$15.9 billion of investment including a targeted wage subsidy extension, training and apprenticeships, and an 8,000 public house building programme.

Younger age groups hardest hit by lockdown

Seasonally-adjusted data from the Ministry of Social Development show that 20-29 year olds were the most likely to become unemployed during Alert Level 4, with growth in Jobseeker Support recipients exceeding 50% in that age group since February (Figure 2). Regionally, the Queenstown Lakes district has seen the largest growth, with almost a ten-fold increase from February.

Figure 2: Growth from February to April in Jobseeker Support – Work Ready recipients, by age group

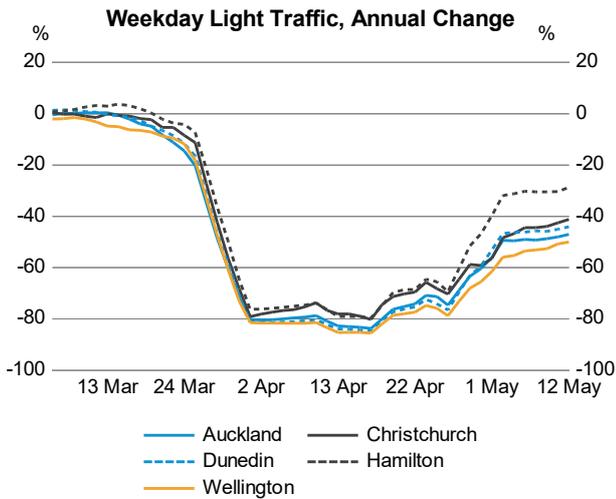


Source: Ministry of Social Development

On 8 May, the total number of Jobseeker Support beneficiaries reached 193,000, around 6% of the estimated working-age population. Growth in the number of Jobseeker Support recipients has slowed substantially since Alert Level 4 ended, and was down to an average of around 450 per day in the week to 8 May, from the peak of 1,700 per day in the week to 10 April. Growth remains well above normal levels, however.

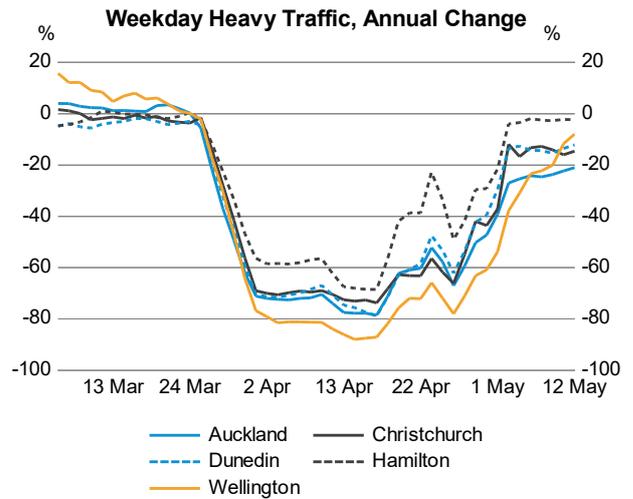
High-Frequency Indicators (under development)

Traffic Movement



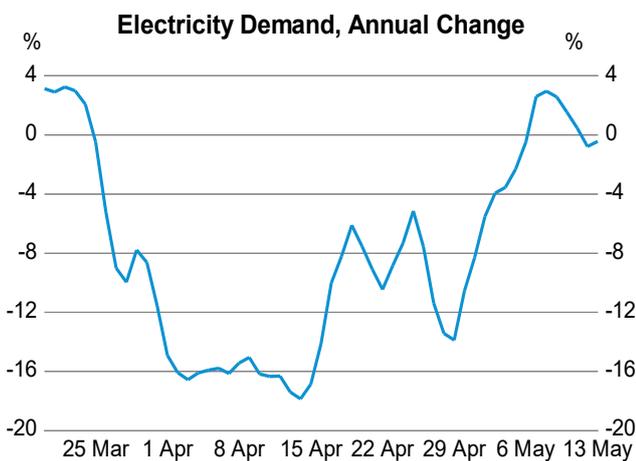
Source: Waka Kotahi NZ Transport Agency

Freight Movement



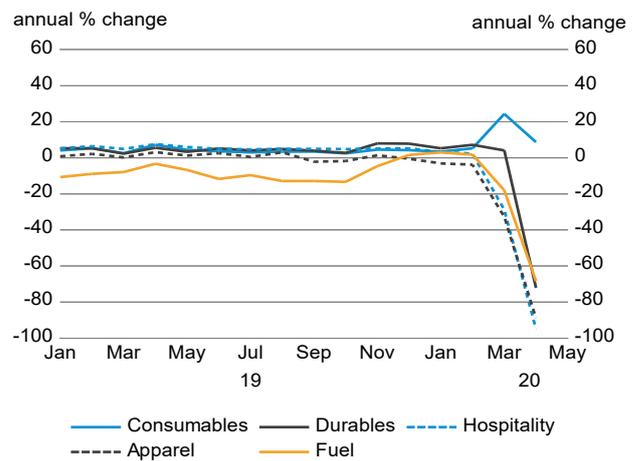
Source: Waka Kotahi NZ Transport Agency

Electricity Demand



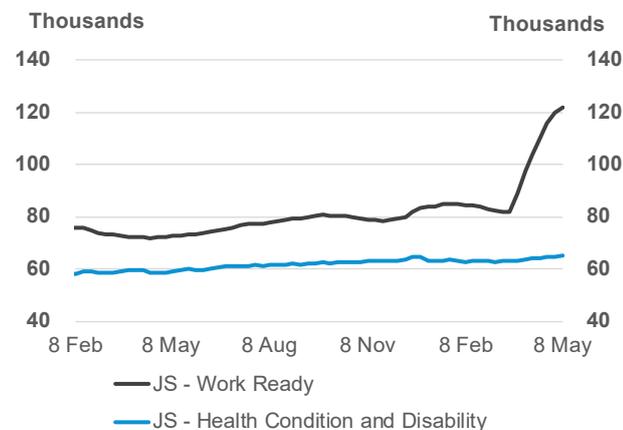
Source: Electricity Authority

Retail Spending



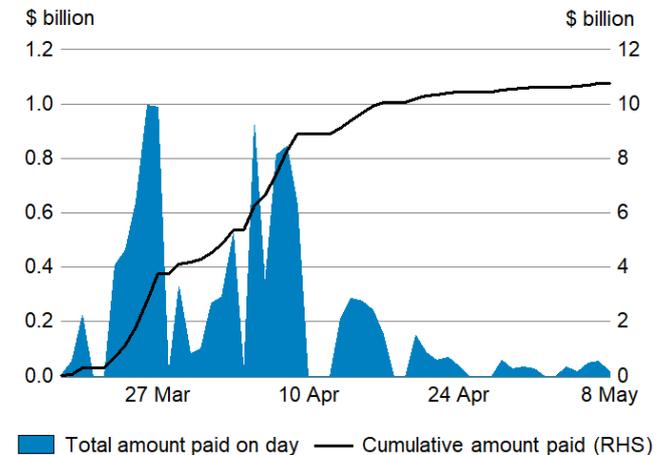
Source: Stats NZ

Job Seeker Support



Source: MSD

Fiscal Support: Wage Subsidy (paid)

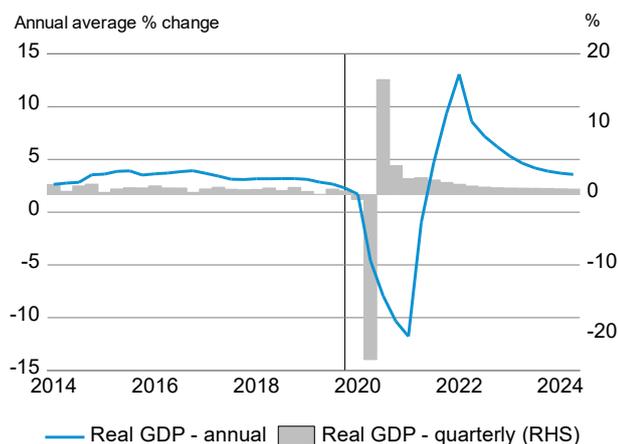


Source: MSD

The Budget shows the impact from COVID-19

New Zealand's real GDP growth rate is forecast to decline from 2.8% in the year ending June 2019 to -4.6% in the year ending June 2020, driven by an expected quarterly decline in GDP of over 20% in the June 2020 quarter. Annual average real GDP growth is forecast to become positive from the year ending September 2021 onwards (Figure 3).

Figure 3: Real GDP growth



Source: Stats NZ, the Treasury

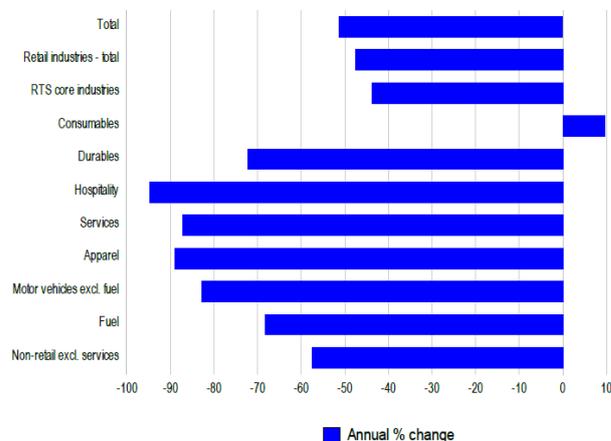
While government support will help to cushion the impact on employment, the unemployment rate is forecast to reach almost 10% by September 2020 before easing gradually to around 6% by early 2022. The economic impact of the COVID-19 pandemic and the Government's response will have a significant impact on the Government's fiscal position. The Government has made \$62.1bn available to support the COVID-19 response and economic recovery, which consists of the \$12.1bn Economic Recovery Package and \$50bn COVID-19 Response and Recovery Fund (CRRF). The level of core Crown expenses is forecast to peak at just under \$120bn in 2021/22 while tax revenue is expected to fall in the first two years of the forecast period, owing to the economic slowdown and tax policy changes. Net core Crown debt is expected to reach 53.6% of GDP in the year ended June 2023.

Spending drops sharply...

Retail card spending in April 2020, when the country was in lockdown, was 48% lower than in April 2019 (Figure 4). Spending fell in all categories with the largest falls recorded in hospitality, apparel and services. Hospitality spending was down 95% on the same time last year, while spending on consumables remained resilient, up almost 10% on the same time last year, following on from a sharp

rise in spending on consumables in March as people stocked up in advance of the lockdown measures.

Figure 4: Electronic card spending by industry



Source: Stats NZ

While spending will lift as alert levels drop, weak demand may persist for some time due to rising unemployment and lower confidence levels.

...but business confidence bounces back

Business confidence improved 21 points to -46% in the preliminary May read of the ANZ Business Outlook survey. Own activity lifted 13 points to a net 42% of firms expecting lower activity for their firm in the year ahead. A net 45% of firms expect to cut jobs while a net 38% expect to reduce investment. A net 60% of firms expect lower profits. Backward-looking indicators continue to deteriorate with a net 61% of firms reporting lower activity and a net 36% already reporting having fewer employees compared to a year ago. Pricing and cost indicators remain weak. One-year inflation expectations are at a record low of 1.28%.

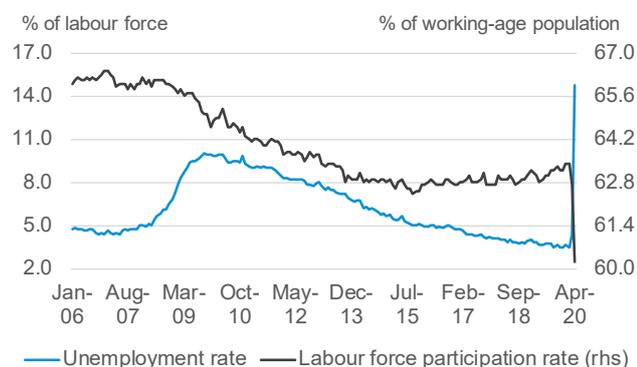
The RBNZ expands the large scale asset purchase programme

The RBNZ announced that they will expand their Large Scale Asset Purchase (LSAP) programme potential to \$60bn, up from the previous \$33bn limit. The expansion of the LSAP programme aims to continue to reduce the cost of borrowing quickly and sharply. The RBNZ expects to see retail interest rates decline further as lower wholesale borrowing costs are passed through to retail customers. The OCR is being held at 0.25% as indicated on 16 March. They also indicated that they are prepared to use additional monetary policy tools if needed.

US unemployment rate reaches record high...

The official unemployment rate in the US increased to 14.7% of the labour force in April, compared to 4.4% in March (Figure 5). This is the largest monthly increase as well as the highest unemployment rate in the history of the series (which goes back to 1948). There was also a spike in the number of people classified as employed but who were absent from work; accounting these people would push the unemployment rate to close to 20%. Employment fell by more than 22 million, while the labour force participation rate declined from 62.7% to 60.2%. The services sector accounted for the majority of job losses. There was little reaction from markets, for two reasons. Firstly, the increase was widely expected and even slightly better than anticipated. Secondly, a silver lining was that 78% of unemployed workers said that their layoff was temporary, which raised hopes that there will be a quick recovery. However, judging by jobless claims figures, the unemployment rate will likely deteriorate further in the May survey month.

Figure 5: US unemployment and labour force participation rates



Source: Bureau of Labor Statistics / Haver Analytics

United Kingdom GDP declines in first quarter...

UK GDP contracted by 5.8% in March compared to February. In the first quarter, GDP fell by 2.0% compared to the December quarter, better than market expectations of a 2.6% fall. The Bank of England said last week they expect GDP to decline by 25% in the second quarter and by 14% in 2020 as a whole.

...as government plans phased exit ...

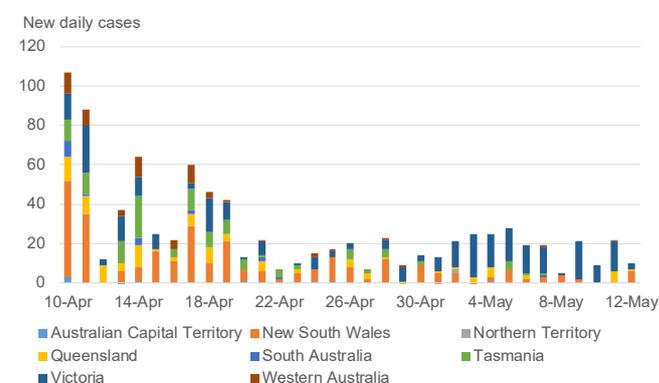
Governments in the UK and Australia announced plans to ease COVID-19 restrictions in coming weeks. The UK plan foresees a move from phase 1 (widespread lockdown) to phase 2 (smarter controls) in three steps, conditional on the re-

infection rate (r-number) remaining below 1. The first step, on 13 May in England, encourages a return to work by those unable to work from home, and who work in sectors that are not closed. Second, no earlier than 1 June, will be the reopening of non-essential retail and a limited reopening of schools. Third, no earlier than 4 July, a limited reopening of personal care and other social consumption sectors. The Government emphasises that there will be no 'quick return to normality', with the only feasible long-term solution a vaccine or effective therapeutic treatment. This is likely to be several months away, which implies some impairment to supply and increases the prospect of long-lasting changes in consumer behaviour – away from some types of services.

...and Australia proceeds in steps...

In Australia, the government has outlined a three-step framework to ease restrictions. Step 1, schools, restaurants and most shops will be allowed to open, more people are allowed to return to work, non-work gatherings of up to 10 people are allowed, and domestic and regional travel is permitted. Most entertainment venues (such as cinemas) remain closed. Step 2 allows for slightly larger gatherings and for entertainment venues to have up to 20 visitors, but pubs and nightclubs remain closed. Under Step 3, most restrictions are lifted, but gatherings are still limited to up to 100 people. International student travel may also be reopened at Step 3. States and territories will implement these changes based on their own COVID-19 conditions.

Figure 6: Daily new COVID-19 cases by state in Australia



Source: Johns Hopkins University

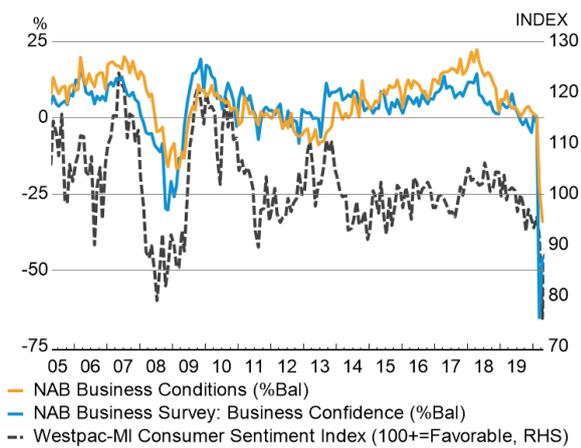
The National Cabinet will review progress on a regular basis to assess the impact of the easing in restrictions, considering the spread of the disease, the health system's capacity to detect, isolate and

treat cases, and how well people are abiding by the rules. Prime Minister Morrison has stated that he hopes Step 3 could be achieved by July.

...supporting sentiment...

The timing of the government’s announcements coincided with the May Westpac/MI consumer confidence survey, which rose sharply, unwinding most of April’s fall, but remaining well below the 100 level separating optimists from pessimists (Figure 7).

Figure 7: Business and consumer confidence



Source: Haver

The National Australia Bank’s (NAB) April Business Survey showed business confidence remained weak at -46 points in April, but it did improve 18 points from March, amid talk of restrictions easing. Business conditions fell a further 12 points to -34, with mining the only industry with a positive outlook. NAB economists warned that declines in the forward orders component of the survey raised the risk of a further deterioration in conditions.

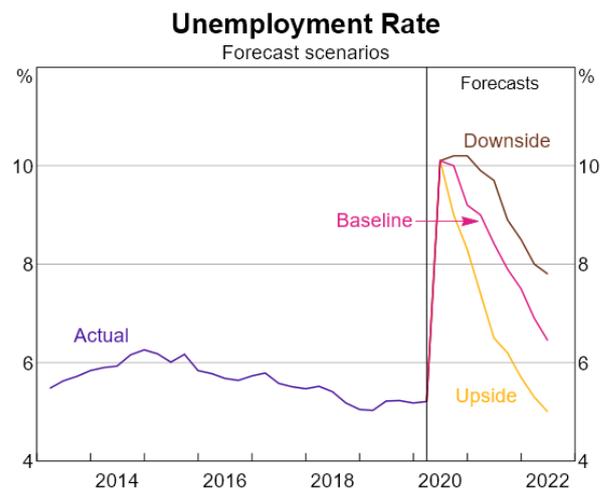
...as costs of lockdown become clearer...

The Australian Treasurer estimates that both households and businesses will have received around AU\$55bn (3% of GDP) worth of fiscal stimulus by the end of June. The monthly financial statements for the fiscal year to March showed an underlying cash deficit of AU\$22.4bn, AU\$10bn higher than forecast in December, driven by a AU\$11.3bn drop in tax receipts. The Treasury will release an updated economic outlook in June, followed by the Budget in October.

The Reserve Bank of Australia’s (RBA) May *Statement on Monetary Policy* featured three economic scenarios; a baseline, upside and downside (Figure 8). The baseline forecast is for GDP to contract sharply in the June quarter,

unemployment to rise to 10% and a recovery starting in the September quarter as health restrictions are eased. Annual average GDP growth of -5% is forecast in the year ending December 2020, rising to 4% in 2021, similar to market expectations. The unemployment rate is forecast to remain above 6% until end-2022, indicating persistent excess capacity and weak inflation. Underlying consumer price inflation is forecast to be around 1.5% by June 2022, below the RBA’s 2%-3% target.

Figure 8: RBA unemployment forecast scenarios



Source: RBA

Meanwhile, trade tensions emerged as China halted meat imports from several Australian suppliers that did not meet required standards. This comes amid reports that China is considering whether to impose anti-dumping duties on imports of Australian barley.

GDP contract in Philippines and Malaysia

In the Philippines, March quarter GDP fell 5.1% from the previous quarter, and -0.2% annually. Lockdown measures in place since mid-March contributed to annual household spending growth slowing to 0.2%, compared to its recent average of 6%.

In Malaysia, March quarter GDP fell 2.0% from the previous quarter and annual growth slumped to 0.7% from 3.6% in the December quarter.

Date	Key NZ Data	Previous
19 May	Producer Prices	+ 0.4%
20 May	Food Prices	+ 0.2% (sa)
22 May	Retail Trade	+ 0.7% (sa)

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	-0.1	0.6	0.2	0.1	0.7
Unemployment rate (1)	%	4.3	4.1	4.0	4.1	4.0	4.2
Participation rate (1)	%	70.7	70.3	70.3	70.4	70.1	70.4
LCI salary & wage rates - total (2)	apc	1.9	2.0	2.1	2.5	2.6	2.5
QES average hourly earnings - total (2)	apc	3.1	3.4	4.4	4.2	3.6	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		Nov 19	Dec 19	Jan 20	Feb 20	Mar 20	Apr 20
Merchandise trade balance (12 month total)	NZ\$m	-4837	-4467	-3927	-3302	-3456	...
Dwelling consents - residential	apc	3.8	24.1	2.7	6.0	-8.7	...
House sales - dwellings	apc	1.0	16.9	7.7	12.6	-4.8	...
REINZ - house price index	apc	5.5	6.5	6.9	8.6	9.3	...
Estimated net migration (12 month total)	people	55940	58556	62177	66515	71456	...
ANZ NZ commodity price index	apc	18.8	12.2	7.7	6.6	5.8	0.9
ANZ world commodity price index	apc	12.4	8.7	5.1	0.1	-5.8	-9.2
ANZBO - business confidence	net%	-26	-13	...	-19	-64	-67
ANZBO - activity outlook	net%	13	17	...	12	-27	-55
ANZ-Roy Morgan - consumer confidence	net%	121	123	123	122	106	85

Daily Indicators		Wed 6/5/20	Thu 7/5/20	Fri 8/5/20	Mon 11/5/20	Tue 12/5/20	Wed 13/5/20
NZ exchange and interest rates (5)							
NZD/USD	\$	0.6054	0.6013	0.6122	0.6151	0.6061	0.6075
NZD/AUD	\$	0.9413	0.9387	0.9367	0.9384	0.9405	0.9392
Trade weighted index (TWI)	index	68.7	68.4	69.2	69.5	68.9	68.9
Official cash rate (OCR)	%	0.25	0.25	0.25	0.25	0.25	0.25
90 day bank bill rate	%	0.26	0.26	0.26	0.26	0.26	0.26
10 year govt bond rate	%	0.60	0.70	0.59	0.58	0.59	0.58
Share markets (6)							
Dow Jones	index	23665	23876	24331	24222	23765	23248
S&P 500	index	2848	2881	2930	2930	2870	2820
VIX volatility index	index	34.1	31.4	28.0	27.6	33.0	35.3
AU all ords	index	5465	5450	5488	5559	5497	5514
NZX 50	index	10573	10649	10696	10760	10819	10788
US interest rates							
3 month OIS	%	0.05	0.05	0.05	0.05	0.05	...
3 month Libor	%	0.45	0.43	...	0.43	0.42	...
10 year govt bond rate	%	0.72	0.63	0.69	0.73	0.69	0.64
Commodity prices (6)							
WTI oil	US\$/barrel	23.99	23.55	24.73	24.02	25.76	25.29
Gold	US\$/ounce	1692	1704	...	1703	1702	1708
CRB Futures	index	354	358	361	362	362	363

(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

Data in Italic font are provisional

... Not available

Country	Indicator		Oct 19	Nov 19	Dec 19	2019Q4	Jan 20	Feb 20	Mar 20	2020Q1	Apr 20	May 20
United States [9.6% share of total goods exports]	GDP (1)	qpc				0.5				-1.2		
	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		0.3	...
	Unemployment rate (1)	%	3.6	3.5	3.5		3.6	3.5	4.4		14.7	...
	Employment change (1)	000s	185.0	261.0	184.0		214.0	251.0	-881.0		-20537.0	...
	Retail sales value	apc	3.3	3.3	5.6		4.9	4.5	-5.8		...	...
	House prices (2)	apc	2.2	2.6	2.8		3.1	3.5	...		...	...
	PMI manufacturing (1)	index	48.5	48.1	47.8		50.9	50.1	49.1		41.5	...
Consumer confidence (1)(3)	index	126.1	126.8	128.2		130.4	132.6	118.8		86.9	...	
Japan [6.1%]	GDP (1)	qpc				-1.8				...		
	Industrial production (1)	mpc	-4.0	-0.6	0.2		1.9	-0.3	-3.7		...	...
	CPI	apc	0.2	0.5	0.8		0.6	0.5	0.4		...	...
	Unemployment rate (1)	%	2.4	2.2	2.2		2.4	2.4	2.5		...	...
	Retail sales value	apc	-7.0	-2.1	-2.6		-0.4	1.6	-4.6		...	...
	PMI manufacturing (1)	index	48.4	48.9	48.4		48.8	47.8	44.8		41.9	...
	Consumer confidence (1)(4)	index	36.3	38.7	39.0		39.2	38.2	31.1		21.3	...
	GDP (1)	qpc				0.1					-3.8	
Industrial production (1)	mpc	-0.4	-0.5	-1.6		1.9	-0.1	-11.3		...	...
CPI	apc	0.7	1.0	1.3		1.4	1.2	0.7		...	...
Unemployment rate (1)	%	7.4	7.4	7.3		7.3	7.3	7.4		...	...
Retail sales volume	apc	1.8	2.4	1.8		2.3	2.5	-9.2		...	...
PMI manufacturing (1)	index	45.9	46.9	46.3		47.9	49.2	44.5		33.4	...	
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				0.0				-2.0		
	Industrial production (1)	mpc	0.2	-1.1	-0.2		-0.1	-0.1	-4.2		...	...
	CPI	apc	1.5	1.4	1.3		1.8	1.7	1.5		...	...
	Unemployment rate (1)	%	3.8	3.8	3.8		3.9	4.0	...		...	...
	Retail sales volume	apc	3.3	0.6	0.6		0.9	0.0	-5.9		...	...
	House prices (6)	apc	0.4	0.8	1.4		1.9	2.3	3.0		3.7	...
	PMI manufacturing (1)	index	49.6	48.9	47.5		50.0	51.7	47.8		32.6	...
	Consumer confidence (1)(5)	index	-10.6	-8.8	-7.1		-6.5	-6.2	-8.2		-22.7	...
Australia [15.8%]	GDP (1)	qpc				0.5				...		
	CPI	apc				1.8				2.2		
	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	9.4		...	...
	House Prices (7)	apc				2.8					...	...
	PMI manufacturing (1)	index	51.6	48.1	48.3		45.4	44.3	53.7		35.8	...
	Consumer confidence (8)	index	92.8	97.0	95.1		93.4	95.5	91.9		75.6	88.1
	GDP (1)	apc				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		3.3	...	
PMI manufacturing (1)	index	49.3	50.2	50.2		50.0	35.7	52.0		50.8	...	
South Korea [3.0%]	GDP (1)	qpc				1.3				-1.4		
	Industrial production (1)	mpc	-1.0	0.5	3.6		-1.5	-3.8	4.6		...	...
	CPI	apc	0.0	0.2	0.7		1.5	1.1	1.0		0.1	...

(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