TE TAI ŌHANGA
THE TREASURY

Monthly Economic Indicators

New Zealand Government

March 2020

Executive Summary

- **Economic activity has fallen abruptly as the Government responds to the health risks posed by COVID-19**
- **Fiscal and monetary policy are helping ease the disruption to household and business income**
- **Across the world, lockdowns and physical distancing measures are becoming pervasive, bringing a broad swathe of global economic activity to a sudden stop, cutting incomes and disrupting financial markets**

In New Zealand, the COVID-19 virus is taking an increasing toll on people's health. The number of confirmed and probable COVID-19 cases is currently 1,160 and one death has been recorded. To curtail the virus' spread, the Government has declared a nationwide State of National Emergency and moved the nation to Level 4 of New Zealand's four level alert system. At this level, everyone is required to stay at home, except those providing essential services, and only make physical contact with those they live with. The Level 4 Alert is likely to stay in place for a number of weeks. The associated workplace closures and restrictions on activity have brought many areas of economic activity to a halt. The situation is changing rapidly and the degree of uncertainty surrounding the outlook is high.

The Government has implemented a range of financial support measures for households and businesses, including a wage subsidy scheme, a deferred mortgage scheme for home-owners affected by the virus, a short-term credit guarantee scheme to provide loans to small and medium-sized business, increases in welfare benefits, and business tax relief measures.

The Reserve Bank of New Zealand (RBNZ) has lowered the Official Cash Rate (OCR) to 0.25% from 1.00% and committed to keeping it there for at least the next year. The RBNZ also announced that, when required, further monetary stimulus will be provided through a $30 billion Large Scale Asset Purchase (LSAP) programme of NZ government bonds. It has also deployed a number of measures to provide additional liquidity to the business sector and support smooth financial market functioning, including a Term Auction Facility (TAF) that gives banks the ability to access term funding, with collateralised loans available out to a term of 12 months. Measures to increase bank capital requirements have been delayed for 12 months.

Globally, lockdowns and physical distancing measures are becoming pervasive, bringing a broad swathe of global economic activity to a sudden stop, cutting incomes and disrupting financial markets. Sharp falls in global activity are expected and global activity is likely to contract over 2020 as a whole. Central banks and governments are announcing new support measures daily. These measures will not stave off recession, but will help build resilience and underpin the recovery.

This month's Special Topic provides further analysis on how the COVID-19 pandemic is affecting economic activity.

In coming weeks, Treasury is also intending to publish its regular Weekly Economic Update.

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Analysis

The social and economic impacts of the COVID-19 pandemic are widespread. The nation moved to COVID-19 Alert Level 4[1], which means all people are required to stay home, except those providing essential services. All schools are closed, travel is severely limited and healthcare services are being reprioritised. Fiscal and monetary loosening will help shield households and businesses from the negative effects of lost income, but it will take some time for activity to recover to its earlier level.

In a rapidly changing environment, it is difficult to gauge the magnitude of the implications for economic activity. However, it is clear that GDP, household spending, business investment and services exports have declined sharply. How quickly economic activity returns to previous levels depends on the course of the virus and the economy's ability to adjust to conditions when the virus alert ends. The Treasury expects a substantial fall in GDP this year. Internationally, the virus is taking a heavy toll on people's health and increasingly stringent containment measures are being put in place, which entails significant declines in economic activity. How the global economy responds to these challenges will also be important to the recovery in New Zealand.

Economic activity is sharply lower

In response to the COVID-19 pandemic, the nation is in a State of National Emergency and operating under Alert Level 4. This is necessarily reducing economic activity, with far-reaching effects on income, credit and asset prices. The major domestic private banks expect double digit falls in June quarter GDP, followed by a rebound over the second half of the year. However, some sectors, notably tourism, are likely to take longer to recover, and the major banks expect real GDP to decline in 2020. The Treasury forecasts being prepared for Budget 2020 will reflect these developments.

The nature and degree of the fall in activity is highly uncertain. The evolution of the virus, the resilience of the economy and the international environment will be important in determining the duration of the downturn and the speed of the recovery.

Fiscal support to protect jobs and incomes

To assist businesses and households through the crisis, the Government has introduced a range of measures including wage subsidies, a business credit guarantee scheme for small and medium-sized businesses, a deferred mortgage scheme for home owners, increased health spending and higher welfare spending.

Monetary policy is also providing support…

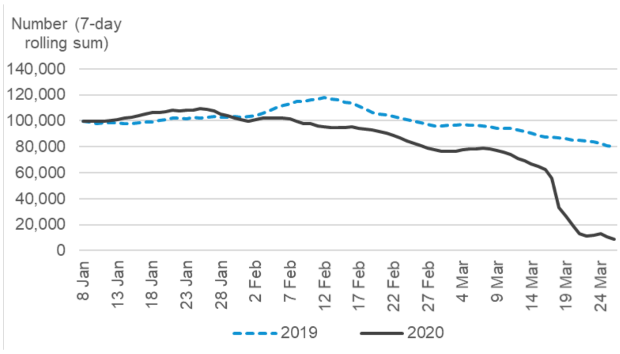
The Reserve Bank has cut its policy rate from 1.00% to 0.25% and committed to leave the rate at 0.25% for at least the next 12 months. The Bank announced additional stimulus will be provided by its Large Scale Asset Purchase programme (LSAP) of $30 billion of New Zealand government bonds when necessary. The Bank has also delayed the start date of the increased capital requirements for banks by 12 months.

Financial market liquidity has been strained as the markets factor in the implications of a severe domestic and global recession and rising credit risks. The announcement of the LSAP has helped soothe the government bond market, while further measures have been introduced in other markets. These include a Term Auction Facility (TAF) for banks, the provision of funding in FX swap markets and purchases of corporate and asset-backed securities.

Initial economic impacts evident…

Turning to the recent economic data, visitor arrival figures confirm international tourism has come to a standstill (Figure 1).

Figure 1: Total visitor arrivals (weekly)



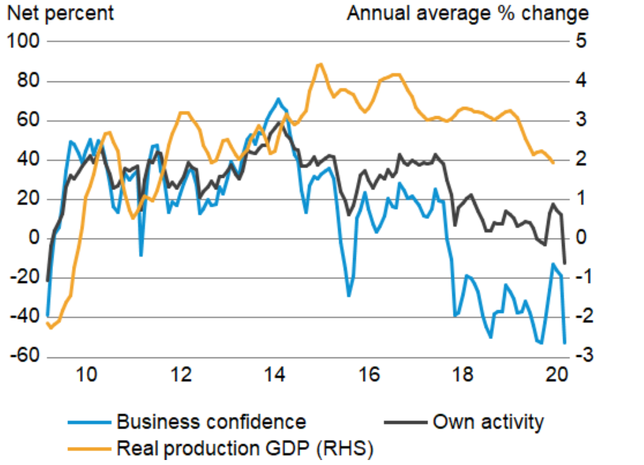
Source: Customs NZ

Preliminary data from the early-March ANZ Business Outlook Survey shows confidence is sharply lower and firms' own activity expectations at their lowest level since March 2009 (Figure 2). Export expectations were at their lowest ever level. These measures will deteriorate as more recent developments are captured in responses.

March's ANZ-Roy Morgan Consumer Confidence Index fell 16 points to 106, with the end of the interviewing period falling before the move to Alert Level 4.

[1] More information he COVID alert system is available at this link https://covid19.govt.nz/government-actions/covid-19-alert-level/

Figure 2: ANZ Business Outlook



Source: ANZ, Stats NZ

Goods trade is being impacted…

When the COVID-19 outbreak was at its peak in China during February, exporters across industries experienced delays in getting their products into the Chinese market, while demand fell in some sectors, notably forestry and seafood. Some exporters were able to re-direct their products to other markets, albeit at a reduced price.

February's trade data showed exports increased by $212m in February 2020 compared to the same month of 2019. Lower exports of logs and fish to China were offset by an increase in the value of dairy exports (mostly due to higher prices), while meat exports were diverted from China to the US.

Export earnings appear to have help up in March, but weakness is expected in coming months. For the period 1–18 March trade data shows a 2% ($63 million) fall in the value of NZ's goods exports compared to the corresponding period of 2019. Exports to China were around 21% ($185m) lower, while intended shipments to all other countries were up 5% ($122m).[2]

At a sectoral level, meat exports to China were down $41m over the 1-18 March period compared to 2019, forestry exports were down $101m, while dairy exports were $21m lower. In volume terms, meat exports to China fell by close to a third, while forestry volumes declined by 46%.

Importers have also been facing constraints in getting access to products, first due to the lockdown in China and now due to the stringent mobility restrictions put in place across Europe and the United States. According to Stats NZ, imports from all countries were down 9.9% ($475m) in February 2020 compared to the same period in 2019, with imports from China falling by 20%. Over the 1-18 March period, imports from all countries were down 14%.

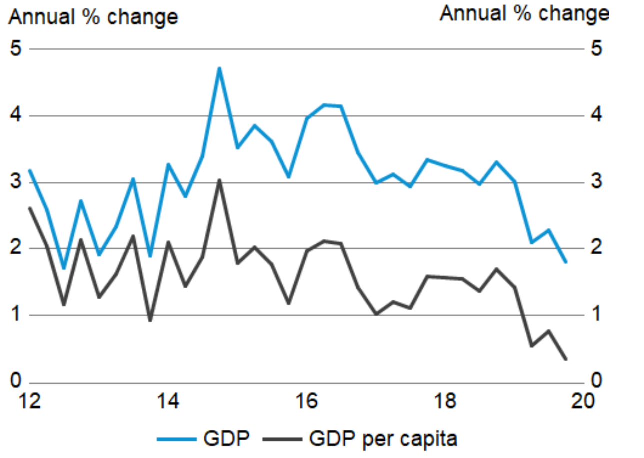
…putting downward pressure on the terms of trade

Commodity export prices are falling. World meat prices are down more than 20% from the end of 2019, while forestry prices have declined by more than 15%. Meanwhile, the GlobalDairyTrade (GDT) index – a forward-looking indicator for dairy export prices has declined by 8% this year. On the import side, oil prices have tumbled to below $25 a barrel, which should provide some offset to export price declines in the terms of trade.

Prior to the COVID-19 outbreak, GDP grew 2.3% in 2019…

Data covering the period prior to the COVID-19 outbreak showed economic growth slowed to an annual average pace of 2.3% in 2019 from 3.2% in 2018. GDP grew 0.5% in the December quarter, and GDP per capita grew 0.2%. The services industry led growth, rising 0.6% for the quarter. Primary industries grew 0.5% led by mining, and the goods-producing industries grew 0.1%. Household spending was up 0.3%. Compared to the same quarter a year ago, GDP grew 1.8%, and GDP per capita increased 0.8% (Figure 3).

Figure 3: Real GDP growth



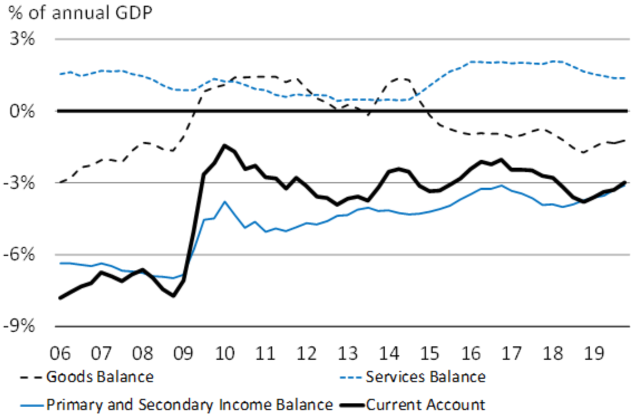
Source: Statistics New Zealand

[2] Note that this data is based on the intention to export, not actual exports, and given that Stats NZ has made this data available at a much shorter lag compared to their usual monthly trade data release, it could be prone to larger revisions than normal.

…and the current account deficit narrowed

The current account deficit in the December quarter narrowed to $9.2bn, or 3.0% of GDP (Figure 4). A sharp reduction in the services surplus and a marked widening in the current account deficit is likely in 2020.

Figure 4: Balance of payments



Source: Stats NZ

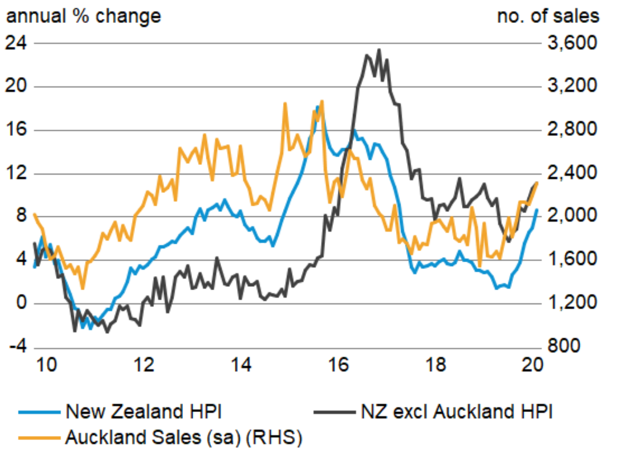
Consumer spending grew in February…

In other data releases covering February, there are few signs of COVID-19 impacts. Electronic card transactions were up 0.6% in February, with spending in core retail industries up 0.8%. Spending rose for consumables (up 2.4%) and durables (up 0.8%) but fell 0.8% in the hospitality industry, where further weakness is anticipated.

…and house prices rose

The REINZ national house price index rose 2.0% in February, to be up 8.7% over the year (Figure 5). Auckland house prices rose 6.9% while prices in areas outside Auckland rose 10.2%. Sales volumes in Auckland rose 5.2% in February and 41.6% over the year. Activity in this industry will fall heavily owing to the COVID-19 restrictions.

Figure 5: REINZ House Price Index (HPI) and sales



Source: REINZ

[3] See OECD updates G20

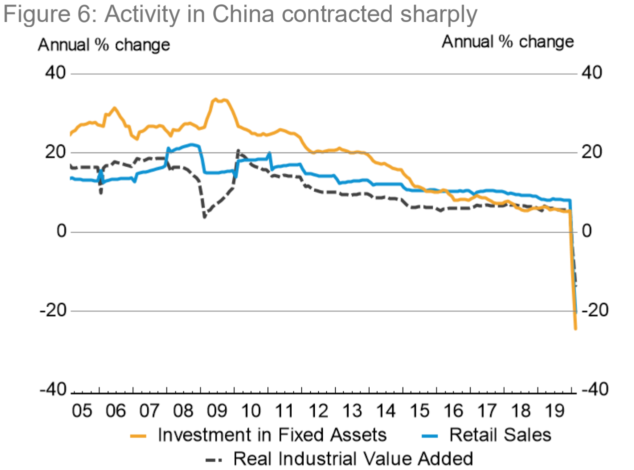
Global activity comes to a "sudden stop"

The continued spread of COVID-19 is likely to push the world into a deep recession. Lockdowns and physical distancing measures are becoming pervasive, bringing a broad swathe of global economic activity to a sudden stop, cutting incomes and disrupting financial markets. The OECD's assessment is that these measures could reduce output by between 25% and 33%.[3] These are the initial effects, the implications for annual GDP depend on the way the virus develops and how containment measures respond and the speed at which monetary and fiscal support take effect. Nevertheless, a contraction in global GDP is likely for the 2020 year.

China's experience …

A key issue for the outlook is gauging the depth and duration of the contraction in activity. The experience in China provides some insight into what might be expected. Measures of activity in China covering the January-February period (these two months straddle the Chinese New Year) show that, compared to the same two months last year, retail sales fell 20.5%, fixed asset investment fell 24.5% and industrial production fell 13.5% (Figure 6). Overall, analysts expect China's March quarter GDP contracted by 7% to 10% (Table 1).

Figure 6: Activity in China contracted sharply



Source: Haver

…suggests steep falls ahead…

Recent updates from the OECD and other international commentators show sharp declines in near-term activity are expected across many of the world's largest advanced economies and across New Zealand's major trading partners in Asia (Table 1).

Table 1 shows the magnitude of the declines anticipated. Commentators observe that these contractions are larger than experienced during the GFC. Further, the table shows the risk of a decline in global GDP for the 2020 year. Global GDP declined 1.9% in 2009, following the Global Financial Crisis.

…with risks weighted towards steeper falls

The initial fall expected in China is notably larger than in other countries. This may reflect assumptions that mobility and production were more severely restricted in China than is expected to be the case elsewhere. Alternatively, the stringency and spread of lockdown measures announced over the past week or so is yet to be fully reflected in the forecasts, suggesting much steeper declines in activity are a real risk. The latter would be more consistent with the OECD's view.

Table 1: International growth forecasts

Country/region	Forecasts*			
	Quarter % change		Ann. Avg. % change	
	Mar-20	Jun-20	2020Q4	2021Q4
Global (avg)	-2.5	0.5	0.3	4.2
(range)	-1.8 to -3.2	1.8 to -0.3	1.3 to -1.1	3.0 to 4.8
United States (avg)	-0.5	-3.0	-1.1	2.9
(range)	0.2 to -1.5	-0.3 to -6.0	1.4 to -3.8	1.9 to 4.1
China (avg)	-8.7	10.6	2.1	8.2
(range)	-7.1 to -10.5	4.9 to 15.8	1.0 to 3.7	6.4 to 9.8
Euro area (avg)	-1.1	-3.5	-2.6	3.0
(range)	-0.1 to -3.8	-0.2 to -5.9	-1.1 to -4.5	1.2 to 4.7
Japan (avg)	-0.9	-0.4	-1.4	1.7
(range)	-0.7 to -1.2	0.5 to -1.7	-0.8 to -2.0	1.4 to 1.9

*Average/range of forecasts from GoldmanSachs, JPMorgan, UBS, Citibank, Oxford Economics, as at 18 to 23 March.

The duration of the downturn is dependent on both the evolution of the virus and the success of government policies in limiting the economic and financial damage from the sudden drop in activity and incomes. The base case of the forecasts in Table 1 is that the outbreak fades and containment measures are relaxed by mid-year, and growth rebounds swiftly. Worse outcomes would be associated with a more persistent pandemic or a less stable financial system.

Economic activity in China is returning to normal…

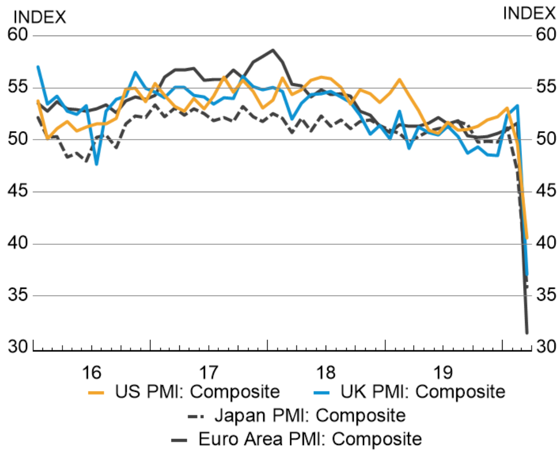
In China, the return to work is proceeding gradually, and a return to pre-virus levels of activity is expected in the second half of 2020. International forecasters expect annual average growth of between 1.1% and 3.7% for 2020 (compared to 6.0% or so prior to the onset of the virus), rising to between 6.9% and 9.8% in 2021.

Although COVID-19 appears to be largely under control in China, the fast spread of the virus outside of China, and the deteriorating growth outlook in other countries, may constrain how fast Chinese activity can rebound in the June quarter. At the same time, developments in China will be sensitive to the extent of further imported COVID-19 cases and avoidance of a second wave of the viral outbreak.

…but declining elsewhere

Indicators of the global economic impact are beginning to emerge. Measures of manufacturing and services sentiment across the major developed economies have declined sharply, driven by the services sector (Figure 7). The services sector has been particularly exposed to date as travel and physical interaction is discouraged.

Figure 7: Business sentiment declined sharply in advanced economies



Source: Haver

The contractions in these PMIs are on a par with those in China in February and are below GFC levels in the euro area and the UK. These early or "flash" estimates are likely to deteriorate as more recent experience is added, including the impact of tighter restrictions on manufacturing and construction activity.

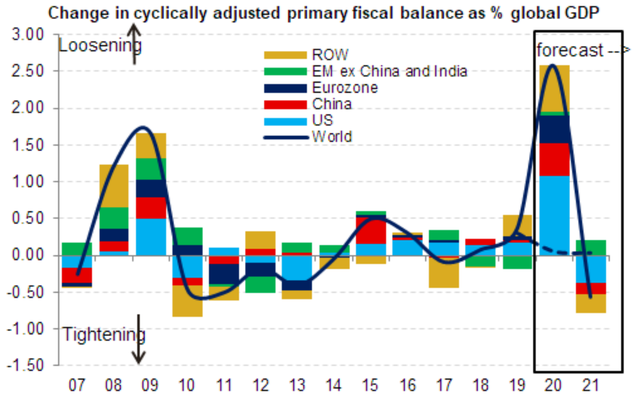
In the United States, activity is being severely disrupted by the coronavirus. Deteriorating sentiment indicators and rapidly rising jobless claims portend large falls in activity and sharply rising unemployment rates in the March month and beyond. In the quarter ending June 2020, forecasters anticipate a contraction in activity of around -3.0%, surpassing the post-1950 record fall of -2.5% recorded in 1958. The largest quarterly contraction during the GFC was -2.2%, and the total GFC contraction almost -4.0%. In coming months, the unemployment rate is forecast to rise to around 8.0%.

Fiscal support is increasing…

Fiscal policy is becoming more supportive. In the US a USD$2.2 trillion fiscal package (10% of GDP) is being implemented. The package includes loans and other support for small and large businesses, cash payments to households and enhanced unemployment insurance.

Elsewhere, the fiscal response now underway in many countries is likely to be the biggest in the post-war period. Global numbers continue to move. Fiscal data compiled by UBS shows the response is at 2.6% of global GDP, compared to 1.7% during the global financial crisis (Figure 8).

Figure 8: Fiscal support is in place



Source: UBS AG, "Global Fiscal Stimulus Tracker"

…but restrictions are limiting activity in many economies

Severe mobility restrictions are in place across the euro area. The lockdown may be in place until May, weighing heavily on growth. Forecasters expect annual average growth to contract by more than 1.6% in 2020. In Spain and Italy, commentators forecast contractions in GDP of 4% to 5% for 2020. A longer lockdown period, combined with more negative spillover effects, could lead to a significantly larger contraction. Emergency fiscal and monetary measures to support the economy have been announced.

In Japan, real GDP contracted sharply in the December quarter following a rise in consumption taxes. Social distancing measures and weakening external demand may drive a further contraction in the March quarter. A further quarterly contraction in the June quarter is a risk, as global containment measures escalate and further dampen demand. The postponement of the Summer Olympic Games will further weigh on growth, mostly through the confidence channel as most of the construction work is completed. A fiscal support package is being prepared.

In Australia, commentators see June quarter GDP falling by 7.0% to 10.0% owing to significant restrictions on activity, and the associated indirect income and demand effects. The unemployment rate is likely to spike higher, but government support measures may help maintain workplace connections, restraining the measured effect.

In Asia, the evolving COVID-19 situation is prompting more aggressive policy responses, both in terms of policy stimulus and in terms of restrictions on movement. Given the global context, these restrictions may be tightened further, as they were in India. Growth in the region will also be affected by the weakness in demand coming from China, the US and other economies. Growth in 2020 may contract significantly in each of Singapore, Thailand and Malaysia. Growth in the Philippines, Vietnam and Indonesia is likely to be the slowest since the Asian Financial Crisis in 1997/98. Much depends on how the restrictions evolve and their duration.

Monetary policy has loosened…

Monetary policy is also loosening sharply. Most advanced economy central banks quickly cut policy interest rates to the effective lower bound, and many have restarted or sharply upsized their broad Quantitative Easing programs. How much support this will provide is unclear. Interest rates were low to begin so, compared with the GFC, the cuts in rates are small, and the stimulus afforded by unconventional measures is hard to gauge. Nevertheless, easier policy settings appear to have helped underpin economic confidence.

Bond and money markets came under intense pressure and liquidity pressures have emerged over the past month. Government bond yields have risen and disrupted other markets reliant on their role as a financial benchmark. Only the highest quality borrowers have been able to access funding. To promote orderly operation, the US Federal Reserve has restarted most of its crisis-era liquidity facilities, and extended them to include purchases of investment-grade corporate bonds, asset-backed securities, and municipal bonds.

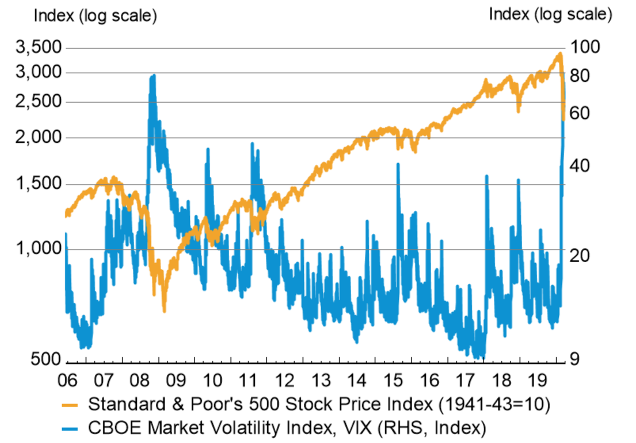
Other central banks have also stepped into uncharted territory, including the Reserve Bank of Australia. In mid-March, the RBA cut the cash rate to 0.25% and announced a 0.25% target for 3-year Australian Government bonds and a term funding facility for the banking system, with particular support for small and medium-sized businesses.

…amid financial market turbulence

Financial market volatility has been very high. Equity market indexes have declined, with many markets experiencing record moves up and down. Announcements of fiscal and monetary policy support have helped to calm markets. At the time of writing, the S&P 500 was down 24% from the end of

February, and 31% compared to the end of 2019. Volatility levels are elevated, as illustrated by the CBOE Market Volatility Index, or VIX, which is at levels last seen during the GFC (Figure 9).

Figure 9: Financial markets have been volatile

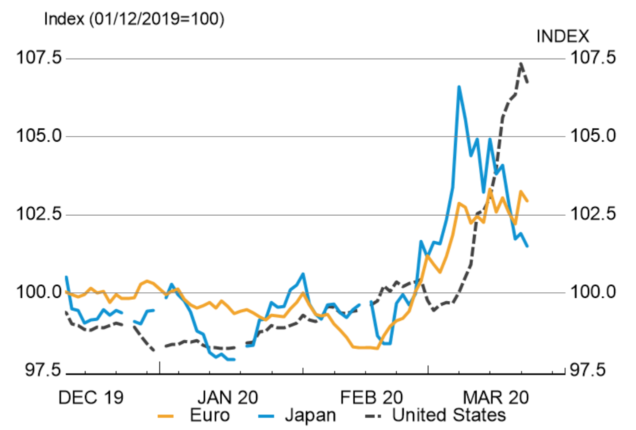


Source: Haver

…as investors seek 'safety'

Investors have fled to the perceived safety of the US dollar. Other currencies have fallen against the USD, including the NZD and AUD, falling below USD$0.6 to around GFC levels. Although weaker against the USD, the euro has risen against other currencies. Meanwhile, the JPY has lost considerable ground, particularly against the USD after reaching a 3-year high on 9 March (Figure 10).

Figure 10: Broad exchange rate indexes



Source: JPMorgan, Haver

The flight to safety has put downward pressure on emerging market currencies. This may pose challenges for those corporations and sovereigns with foreign currency debt.

Food prices resilient amid falls in other commodities

Oil prices have collapsed reflecting weak demand as global activity stalls and increased supply as OPEC and other major suppliers dispute measures to stabilise the price. The West Texas Intermediate crude price has declined 48% since the end of February (to $23 a barrel), and is down 62% from the end of 2019. Metals prices have also declined, with coal, copper, and zinc down by roughly 20% this year, while aluminium has declined by 12%. Global food prices have held up, partly due to supply shortages. Continued resilience in food prices will be important in limiting the loss in New Zealand's aggregate income.

Special Topic: COVID-19 impacts

With the onset of the global COVID-19 pandemic, the economic outlook has become increasingly uncertain. Despite the uncertainty, it is becoming more likely that New Zealand will see a deeper economic contraction in the June quarter than we have seen in our recorded history.

Global spread of COVID-19 has already severely curtailed activity in New Zealand's services export sectors. The move to Alert Level 4 in New Zealand put most of the country in lockdown for a number of weeks. This will have an unprecedented impact on economic activity. Government support, including wage subsidies, increases in welfare benefits, business tax relief measures, the business finance guarantee scheme and industry support packages will cushion the impacts on households and businesses.

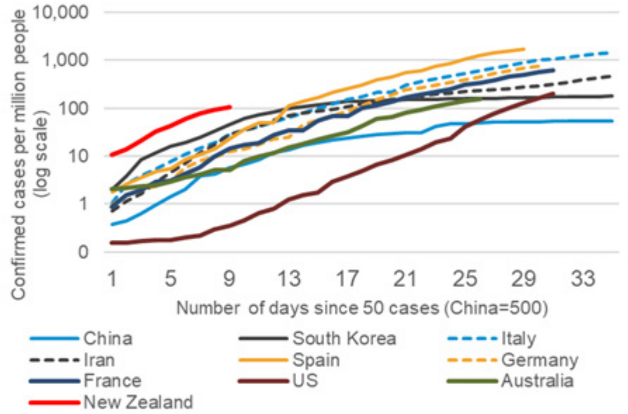
As restrictions are lifted, we expect economic activity in many sectors to bounce back quickly. Some though, including those exposed to international markets will take longer, possibly years, to recover. The recovery will also depend on the ability of the governments of our trading partners to limit the spread of the virus and restore the confidence in their economic outlook.

In this special topic we look at the possible impacts of COVID-19 on the New Zealand economy, describing the likely transmission channels and possible size of impacts we may see.

The situation is rapidly changing...

The number of COVID-19 cases globally is rising exponentially. It took around three months to reach the first 100,000 confirmed cases; the next 100,000 took twelve days, and the next just three days. On 19 March, the cumulative number of deaths registered in Italy exceeded deaths in China as the epicentre of the virus shifted from Asia to Europe and the United States. As of writing, there were 1,346,566 cases worldwide, and 74,697 deaths. The number of confirmed and probable cases in New Zealand stands at 1160 as of 7 April (Figure 11).

Figure 11: Confirmed cases per million people



Source: Johns Hopkins University

Activity will be weaker…

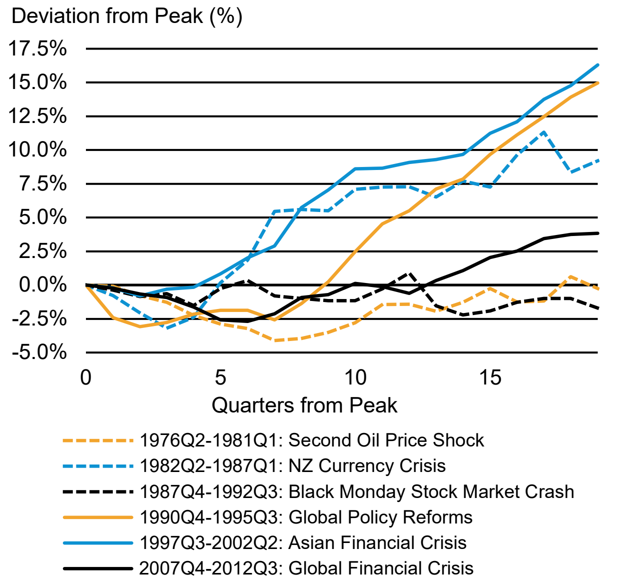
The move to Alert Level 4 in New Zealand put most of the country in lockdown for a number of weeks. Given the spread of the virus and the accompanying social distancing measures taken to save lives, the resulting shutdown of New Zealand businesses will constrain economic activity in a way never seen before. This analysis provides a rough guide based on our current understanding of essential services and the nature of COVID-19 transmission.

Under the current classification of “essential services”, “accommodation and food services”, “trade” and “construction” components of GDP are likely to be particularly affected, while the public (education, health, and central government agencies) and primary sectors will be less impacted.

Forecasting sharp downturns

Another way to assess the possible impact of COVID-19 is to look back at past recessions as a guide. What we learn from reviewing past recessions is that economic downturns are inherently difficult to forecast as the typical economic relationships may not hold. This makes forecasting models less useful, and increases the reliance on professional judgement. We also see that in past recessions annual growth typically declines by less than 5% and activity recovers to post-recession levels within eight to twelve quarters (Figure 12). The measures to combat the spread of COVID-19 will curtail activity more acutely than we have seen in the past.

Figure 12: Recession severity – Real Production GDP[4]



Source: Statistics New Zealand

Transmission channels of COVID-19

The pandemic is creating a combination of supply and demand shocks to the economy, with complex interactions between the two.

Demand shock

Demand shocks arise from global and domestic travel restrictions and social distancing measures, resulting in lower tourism and non-essential consumption of both goods and services. Higher consumer and investor uncertainty and weaker export demand abroad lower aggregate demand further through lower investment and consumption.

Social distancing measures will have direct impacts on activity in the short run, but if successful in limiting the spread of the virus, will have benefits in the long run. The more stringent the "social distancing" measures, the greater the impacts will be in the short-run, but also the lower the infection and death rates, lowering the adverse long-run effects of the pandemic on New Zealand's economic activity.

Weaker demand for New Zealand's exports of goods and services

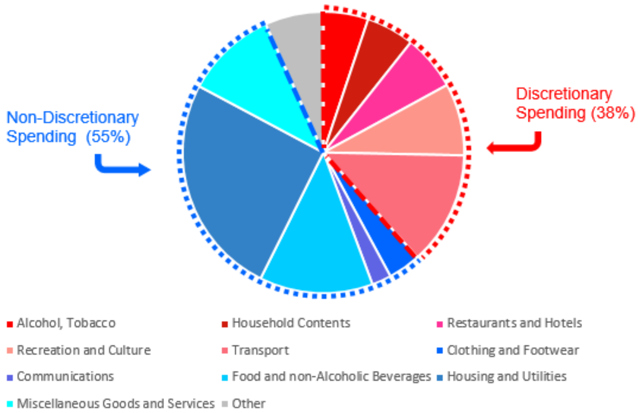
Recent data shows a sharp fall in tourist arrivals to New Zealand, while goods exports are expected to weaken in the face of falling international demand. Prices for many of the commodities New Zealand exports will also decline as demand weakens. It will take some time for this to turn around.

Lifting the border controls for tourists is unlikely to result in a quick resumption in arrivals as we may anticipate that travellers would be cautious about travelling abroad until the global pandemic has been controlled. The depreciation in the New Zealand dollar, as investors shift into safe haven commodities and currencies, will provide a partial offset.

Consumer confidence lowers private consumption

Discretionary spending, which includes non-essential purchases like restaurant meals, recreation and motor vehicles, is expected to fall sharply due to the ongoing measures to limit the spread of COVID-19. Discretionary spending makes up around 38% of private consumption (Figure 13). Non-discretionary spending, which includes essential purchases like food and housing, makes up around 55% of private consumption and is forecast to remain fairly stable.

Figure 13: Share of spending in private consumption



Source: Statistics New Zealand

Supply shock

Much of the decline in activity due to COVID-19 is likely to come from weaker demand. And the supply-side of the economy, including the effective labour force, will also be adversely affected.

The reduction in demand will directly flow into the labour market, particularly due to the near-total shutdown of the tourism sector in the near term. A high share of employees in the tourism sector tend to work on casual and temporary contracts.

The closure of non-essential businesses will also have direct impacts, although the wage support measures that have been announced will lessen the effect of weaker demand on unemployment. Forced work closures, sicknesses, and caring for others will result in fewer hours worked. If the labour market outlook remains weak for a long period, job hunters will leave the job market as they believe their chances of being hired are low as more job seekers chase fewer jobs. This will lower the labour force participation rate.

[4] Hall, V. B. & McDermott J C. (2016), Recessions and recoveries in New Zealand's post-Second World War business cycles. New Zealand Economic Papers, 50(3), 261-280.

Production in some sectors like agriculture and horticulture will continue, and won't be as adversely affected by the downturn in demand. Agricultural sector jobs, including primary manufacturing are considered essential, and will endure.

As more long-term and permanent migrants arrive into New Zealand than leave, restricting people's movement will result in lower net migration. Migrants are more attached to the labour market as they tend to be younger than the average Kiwi. A reduction in migration will therefore impact adversely on labour supply and lower demand, particularly in sectors like housing.

The policy response will mitigate the shock

The impact of the initial shock will be cushioned through monetary and fiscal policy, although this may have a limited impact on activity while social distancing measures remain in place. Supportive macroeconomic policy will play a significant role in influencing how the recovery period will play out.

Although interest rates are near zero, the Reserve Bank's quantitative easing programme will provide support to the economy through lowering long-term interest rates.

The New Zealand government's low net debt provides capacity to increase spending to mitigate the impacts of the pandemic on both the supply and demand sides of the New Zealand economy.

Highlighted in the recent fiscal stimulus packages are allocations of funding towards wage subsidies and provision of guarantees for working capital support. The measures are intended to decrease the likelihood of business failures, maintain household incomes and support attachment to the labour market. These are expected to lower the impact of the pandemic on business and consumer confidence and underpin a quicker recovery.

Monthly Economic Indicators is a regular report prepared by the Forecasting team of the Treasury.

Contact for enquiries:

The Treasury
PO Box 3724, Wellington
NEW ZEALAND

information@treasury.govt.nz
Tel: +64 4 472 2733
Fax: +64 4 473 0982

New Zealand Key Economic Data

Quarterly Indicators

		2018Q2	2018Q3	2018Q4	2019Q1	2019Q2	2019Q3	2019Q4
Gross Domestic Product (GDP)								
Real production GDP	qtr % chg[1]	0.9	0.6	1.0	0.4	0.0	0.8	0.5
	ann ave % chg	3.2	3.2	3.2	3.1	2.9	2.7	2.3
Real private consumption	qtr % chg[1]	0.8	0.9	0.8	0.7	0.3	0.8	0.3
	ann ave % chg	3.9	3.6	3.2	3.1	3.0	2.9	2.7
Real public consumption	qtr % chg[1]	1.8	0.2	1.1	0.9	1.0	1.4	2.1
	ann ave % chg	3.6	3.3	3.7	3.9	3.6	4.0	4.3
Real residential investment	qtr % chg[1]	0.3	0.3	1.2	3.1	-0.3	-0.4	1.8
	ann ave % chg	0.0	-0.1	0.1	1.4	2.2	3.3	4.3
Real non-residential investment	qtr % chg[1]	0.2	-1.6	1.6	1.9	-0.1	0.2	-1.2
	ann ave % chg	12.0	10.8	7.6	4.7	2.6	2.3	2.1
Export volumes	qtr % chg[1]	1.1	0.2	1.0	2.8	-1.1	-2.1	1.1
	ann ave % chg	3.9	3.5	2.6	2.8	2.9	2.7	2.4
Import volumes	qtr % chg[1]	1.1	-0.9	0.0	0.5	0.0	2.2	0.0
	ann ave % chg	8.0	7.8	5.8	3.9	1.8	1.2	1.5
Nominal GDP - expenditure basis	ann ave % chg	6.7	5.7	4.4	3.9	3.5	3.8	4.5
Real GDP per capita	ann ave % chg	1.5	1.5	1.5	1.5	1.3	1.1	0.8
Real Gross National Disposable Income	ann ave % chg	3.4	3.4	3.1	2.8	2.6	2.4	2.7
External Trade								
Current account balance (annual)	NZ$ millions	-9,331	-10,563	-11,438	-10,801	-10,165	-10,189	-9,233
	% of GDP	-3.2	-3.6	-3.8	-3.6	-3.4	-3.3	-3.0
Investment income balance (annual)	NZ$ millions	-11,197	-10,937	-10,591	-10,244	-9,854	-9,363	-8,663
Merchandise terms of trade	qtr % chg	0.4	-0.1	-3.2	1.0	1.4	1.7	2.6
	ann % chg	1.2	-0.3	-4.8	-1.9	-1.0	0.9	6.9
Prices								
CPI inflation	qtr % chg	0.4	0.9	0.1	0.1	0.6	0.7	0.5
	ann % chg	1.5	1.9	1.9	1.5	1.7	1.5	1.9
Tradable inflation	ann % chg	0.3	1.0	0.9	-0.4	0.1	-0.7	0.1
Non-tradable inflation	ann % chg	2.4	2.5	2.7	2.8	2.8	3.2	3.1
GDP deflator	ann % chg	2.1	1.3	0.0	1.1	1.9	2.4	3.6
Consumption deflator	ann % chg	1.2	1.8	1.5	1.4	1.6	1.3	1.8
Labour Market								
Employment (HLFS)	qtr % chg[1]	0.5	0.8	0.1	0.0	0.7	0.2	0.0
	ann % chg[1]	3.2	2.3	1.9	1.4	1.6	1.0	1
Unemployment rate	%[1]	4.5	4.0	4.3	4.1	4.0	4.1	4.0
Participation rate	%[1]	70.9	70.9	70.6	70.3	70.3	70.4	70.1
LCI salary & wage rates - total (adjusted)[5]	qtr % chg	0.5	0.5	0.5	0.4	0.7	0.8	0.7
	ann % chg	1.9	1.8	1.9	2.0	2.1	2.5	2.6
QES average hourly earnings - total[5]	qtr % chg	0.1	1.1	0.9	1.2	1.2	0.9	0.3
	ann % chg	3.0	2.9	3.1	3.4	4.4	4.2	3.60
Labour productivity[6]	ann ave % chg	-0.5	0.0	1.0	0.7	1.7	1.4	-0.8
Retail Sales								
Core retail sales volume	qtr % chg[1]	1.3	0.5	2.0	0.7	0.3	1.9	0.5
	ann % chg	4.5	3.7	5.0	3.9	3.6	5.4	3.3
Total retail sales volume	qtr % chg[1]	1.0	0.2	1.7	0.8	0.2	1.7	0.7
	ann % chg	3.1	2.7	3.5	3.3	2.9	4.5	3.3
Confidence Indicators/Surveys								
WMM - consumer confidence[3]	Index	109	104	109	104	104	103	110
QSBO - general business situation[4]	net %	-20.0	-30.4	-17.3	-28.8	-33.7	-39.6	-21.5
QSBO - own activity outlook[4]	net %	6.9	18.9	19.4	0.4	-12.3	8.4	10.9

Monthly Indicators

		2019M08	2019M09	2019M10	2019M11	2019M12	2020M01	2020M02
External Sector								
Merchandise trade - exports	mth % chg[1]	7.4	2.5	-3.1	6.8	-5.4	2.9	-1.4
	ann % chg	2.2	2.4	3.7	7.4	4.0	7.9	4.5
Merchandise trade - imports	mth % chg[1]	2.6	-1.2	-2.4	6.6	-9.5	3.2	-8.1
	ann % chg	2.9	-2.9	-1.5	2.4	-3.0	-3.3	-9.9
Merchandise trade balance (12 month total)	NZ$ million	-5591	-5321	-5055	-4837	-4467	-3946	-3258
Visitor arrivals	number[1]	326,760	324,800	324,860	323,300	324,680	322,870	...
Housing								
Dwelling consents - residential	mth % chg[1]	0.8	6.9	-1.3	-8.5	9.8	-2.0	...
	ann % chg	6.0	30.8	16.4	2.7	22.2	2.7	...
House sales - dwellings	mth % chg[1]	-5.9	2.2	9.9	-5.0	1.3	1.5	-1.8
	ann % chg	-3.4	8.3	-0.3	1.0	16.9	7.2	9.2
REINZ - house price index	mth % chg	1.1	0.8	0.9	1.5	1.2	0.6	2.0
	ann % chg	2.7	3.2	3.8	5.6	6.6	7.0	8.7
Private Consumption								
Electronic card transactions - total retail	mth % chg[1]	1.2	0.4	-0.5	2.7	-0.6	-0.2	0.6
	ann % chg	3.1	0.6	1.6	5.1	3.9	4.2	8.6
New car registrations	mth % chg[1]	-1.6	4.6	-3.7	0.8	-0.1	-4.6	4.5
	ann % chg	-5.2	4.7	-6.6	3.0	5.6	-3.5	-0.3
Migration								
Migrant arrivals	number[1]	12,130	12,030	12,660	12,490	13,100	13,990	...
Migrant departures	number[1]	7,210	7,270	7,310	8,220	7,700	7,500	...
Net migration (12 month total)	number	50,785	51,012	52,447	52,342	53,078	56,501	...
Commodity Prices								
Brent oil price	US$/Barrel	59.04	62.83	59.71	63.21	67.12	63.65	*55.70*
WTI oil price	US$/Barrel	54.82	56.96	53.98	56.95	59.81	57.53	*50.53*
ANZ NZ commodity price index	mth % chg	3.9	1.4	1.5	3.5	-6.1	-1.1	0.9
	ann % chg	3.7	6.5	9.7	18.8	12.2	8.2	7.1
ANZ world commodity price index	mth % chg	0.3	0.0	1.2	4.3	-3.4	-0.9	-2.1
	ann % chg	0.9	3.4	7.2	12.4	8.7	5.6	0.6
Financial Markets								
NZD/USD	$[2]	0.6436	0.6342	0.6335	0.6399	0.6585	0.6607	*0.6396*
NZD/AUD	$[2]	0.9503	0.9321	0.9326	0.9371	0.9580	0.9630	*0.9590*
Trade weighted index (TWI)	June 1979 = 100[2]	71.76	70.78	70.53	70.86	72.73	72.68	*71.37*
Official cash rate (OCR)	%	1.00	1.00	1.00	1.00	1.00	1.00	1.00
90 day bank bill rate	%[2]	1.25	1.15	1.06	1.18	1.23	1.27	*1.18*
10 year govt bond rate	%[2]	1.13	1.16	1.16	1.35	1.53	1.48	*1.28*
Confidence Indicators/Surveys								
ANZ - business confidence	net %	-52.3	-53.5	-42.4	-26.4	-13.2	...	-19.4
ANZ - activity outlook	net %	-0.5	-1.8	-3.5	12.9	17.2	...	12.0
ANZ-Roy Morgan - consumer confidence	net %	118.2	113.9	118.4	120.7	123.3	122.7	122.1
Performance of Manufacturing Index	Index	48.7	48.9	52.6	51.2	49.5	49.8	53.2
Performance of Services Index	Index	54.7	54.5	55.2	53.1	52.1	57.2	52.0

1 Seasonally adjusted

2 Average (11am)

3 Westpac McDermott Miller

4 NZIER Quarterly Survey of Business Opinion

5 Ordinary Time

6 Production GDP divided by HLFS hours worked

Sources: Stats NZ; Reserve Bank of NZ; NZIER; ANZ; Haver; Westpac McDermott Miller; ANZ-Roy Morgan; REINZ; BNZ-Business NZ