

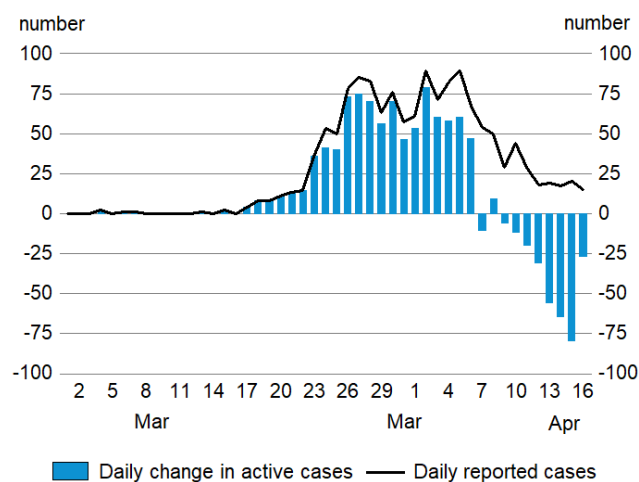
NZ appears to be beyond the peak of the COVID-19 curve, with the number of active cases falling steadily since 9 April. The Government clarified the restrictions that will be in place under Alert Level 3, with the emphasis shifting from essential to safe activity, and announced further business support measures. Economic scenarios released by the Treasury indicate a substantial contraction in the June quarter is likely. Visitor arrivals saw a record fall in February and have dropped to zero currently under the border closure. The housing market is beginning to show signs of decline. Some large companies have announced redundancies and plans for pay cuts.

The International Monetary Fund forecasts a much worse contraction in the global economy in 2020 than during the global financial crisis. Growth in active global cases of COVID-19 continues to slow, and some European countries are preparing to come out of lockdown. However, economic activity remains weak, with a large degree of uncertainty about the pace of the eventual recovery. China's GDP figures to be released on Friday are expected to show that quarterly output declined by 10% or more in the March quarter.

The peak in active COVID-19 cases behind us...

On 16 April, the number of new COVID-19 cases in New Zealand was the lowest in over three weeks, and the number of active cases continues to fall (Figure 1).

Figure 1: Daily COVID-19 cases in New Zealand



Source: Ministry of Health

Although testing was lower over Easter, the percentage of positive tests remained consistent at just over 1%. Director-General of Health Dr Ashley

Bloomfield stated that NZ has clearly passed the peak of daily infections. More people have now recovered from COVID-19 in NZ than are currently infected.

...as the Government plans for Alert Level 3...

The Government announced that most businesses will be able to open under Alert Level 3 if their workers cannot work from home. Face-to-face transactions remain off limits however, meaning non-essential retail and hospitality premises must stay closed except for drive-through and delivery services. Cabinet ministers will decide on Monday whether (and when) to move out of Alert Level 4.

...with further support for small businesses...

On 15 April the Government announced new measures to support small and medium-sized businesses, as well as tertiary students. Among the measures is a tax loss carry-back scheme, estimated at \$3.1 billion, which allows businesses to claim cash payments against tax previously paid on profits. Full-time tertiary students will also have access to an additional \$1000 in student loans.

...as job losses loom...

Air New Zealand announced plans to lay off 1,460 cabin crew, with at least one third of the company's 12,500 staff at risk of redundancy. The owners of the Burger King franchise in NZ are in receivership, owing more than \$65 million. New Zealand Media and Entertainment announced 200 redundancies.

The number of Jobseeker Support beneficiaries has jumped sharply. Total wage subsidies payments reached \$8.9 billion on 9 April, benefitting 1.4 million people. The Government announced a further stimulus package is in development to provide support through the next phase of the response.

Forecasters grow more pessimistic...

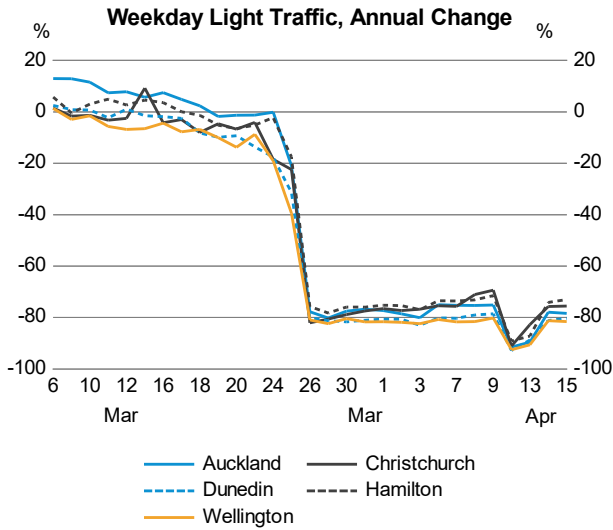
Two of NZ's major banks downgraded their economic forecasts this week. The general view from bank forecasters is that GDP will contract by around 15% in the June quarter, with unemployment rising to around 9% in September.

...as activity indicators remain stagnant

High-frequency indicators including traffic volumes and retail spending continue to show activity well below 2019 levels (Page 2), indicating that people generally complied with the rules of Alert Level 4 over the Easter weekend.

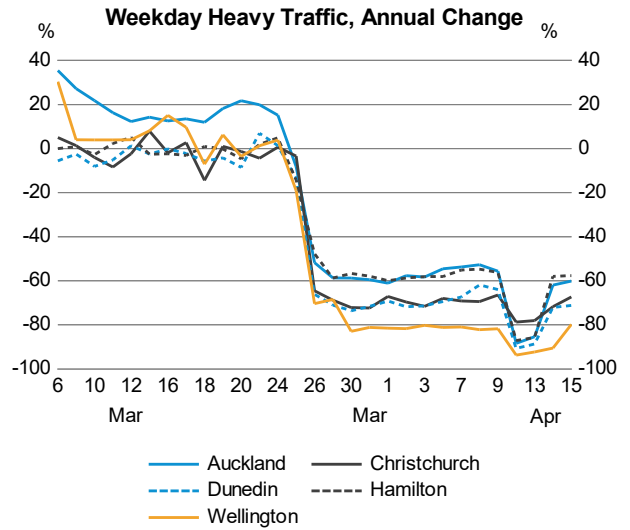
High-Frequency Indicators (under development)

Traffic Movement



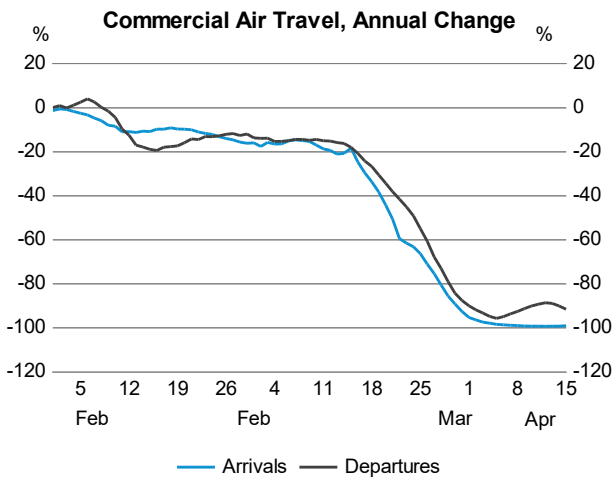
Source: Waka Kotahi NZ Transport Agency

Freight Movement



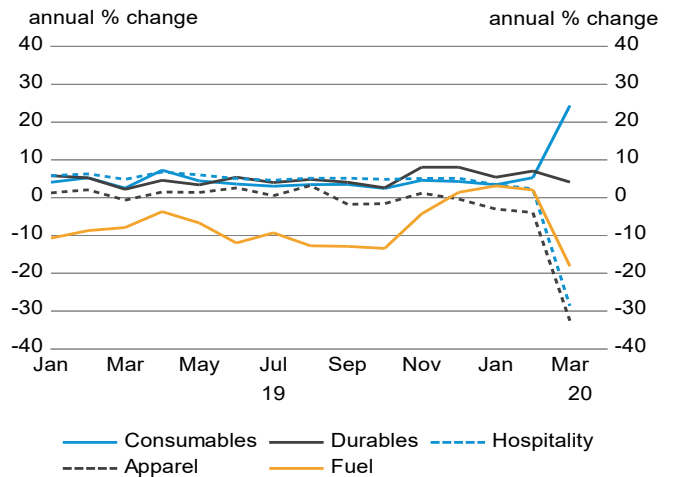
Source: Waka Kotahi NZ Transport Agency

Border Crossings



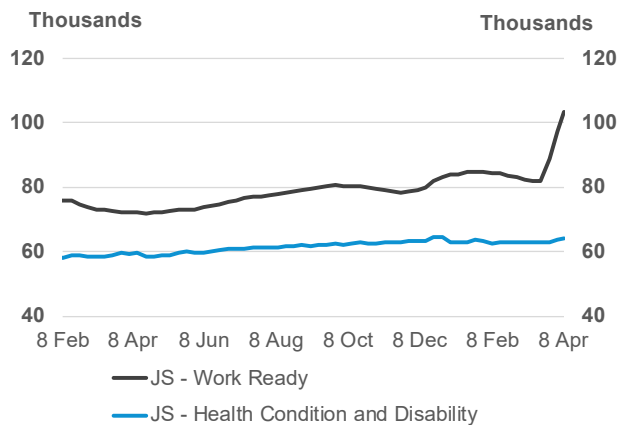
Source: Customs NZ

Retail Spending



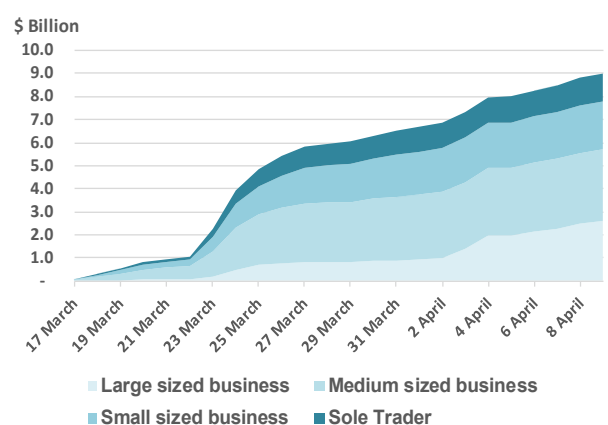
Source: Stats NZ

Job Seeker Support



Source: MSD

Fiscal Support: Wage Subsidy (paid)

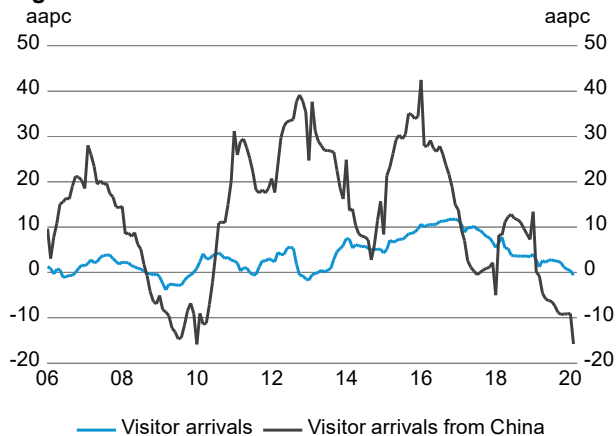


Source: MSD

Visitor arrivals fell sharply

International visitor arrivals dropped by a record 45,200 in February to 372,700, down 11% compared with the same period last year. This is the biggest fall in arrival numbers in a February month on record. The fall was driven by a 90% drop in visitor arrivals from China after restrictions on travellers from China were imposed (Figure 2).

Figure 2: Short-term visitor arrivals



Source: Stats NZ

China was New Zealand's second-largest source of visitors behind Australia prior to the introduction of restrictions. On 19 March, New Zealand closed our borders to all travellers. Provisional figures from Stats NZ show that arrivals for the four weeks ending 19 March were down almost 30% compared with the same period last year, however, Stats NZ cautioned that the figures are provisional and may be subject to understatement. More timely data from Customs NZ data on commercial air travel arrivals similarly shows arrivals into New Zealand falling to close to zero.

International student arrivals in February fell by 29% compared to February 2019, to 15,000. This drop was also driven by a fall in the number of Chinese students.

With our border closure likely to remain in place for some time, the impact on the travel and tourism sector will be significant and long-lasting. Domestic tourism is unlikely to cushion the blow significantly so long as social distancing measures and restrictions on movement remain in place.

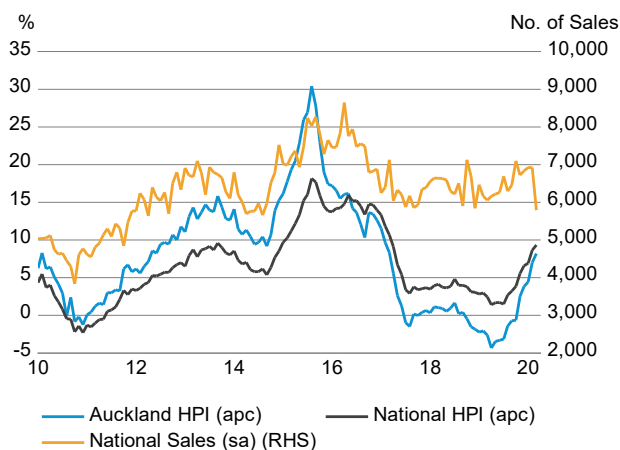
Provisional estimates for the year ended February 2020 indicated 65,200 more migrants arrived than departed, the highest on record. However, Stats NZ cautioned that these estimates are more uncertain than usual as travel restrictions mean many people who arrived may not have been able to return home yet,

thus inflating this figure. COVID-19 may also have caused more New Zealanders to return home than leave for the first time on record. Annual net migration of NZ citizens in the year to February was 800.

House sales fall but prices hold up...

While house prices were still solid in March, sales activity fell significantly. Prices rose 0.3% in March, to be up 9.3% in the year. Although the lockdown began late in the month, seasonally adjusted national house sales still fell 16.3% (Figure 3), the weakest number of March sales since 2011. The median number of days to sell rose slightly to 33 after trending downwards from June last year. This may be an early indication of increased reluctance from buyers entering the market alongside a reduction in the number of properties for sale.

Figure 3: REINZ house prices and sales



Source: REINZ

Commentators expect house prices to fall by between 5% and 15% over the coming year as heightened uncertainty and lower household incomes weigh on demand.

...as food and rental prices rise

Food prices rose 0.7% in March. Vegetable prices rose 7.4%, but this was partly offset by lower meat prices.

The stock measure of rental property prices rose 0.3% in March, to be up 3.4% compared with March 2019. Restrictions on rent price increases will limit movements in this measure over the next six months.

IMF cuts global growth forecasts

The International Monetary Fund (IMF) forecasts a 3% contraction in the global economy in 2020, much worse than during the global financial crisis (Table 1). Their baseline scenario assumes the COVID-19 pandemic globally starts fading in the second half of 2020, which will allow restrictive measures on economic activity to

be lifted gradually. As economic activity normalises and is helped by policy support, the global economy is forecast to rebound strongly in 2021.

Table 1: IMF real GDP growth forecasts

Real GDP growth	2019	2020	2021
World	2.9	-3.0	5.8
Advanced Economies	1.7	-6.1	4.5
United States	2.3	-5.9	4.7
Euro Area	1.2	-7.5	4.7
Japan	0.7	-5.2	3.0
United Kingdom	1.4	-6.5	4.0
Australia	1.8	-6.7	6.1
New Zealand	2.2	-7.2	5.9
Emerging Market and Developing Countries	3.7	-1.0	6.6
China	6.1	1.2	9.2
India	4.2	1.9	7.4

Source: IMF World Economic Outlook, April 2020

OPEC agrees to cut oil production

On Sunday, OPEC and its allies agreed to cut oil production by 9.7 million barrels a day in May and June, equivalent to 10% of global supply. This would be more than twice the size of cuts made during the global financial crisis. Although oil prices jumped by close to 9% after the deal was announced, they have since fallen back. Some traders are doubtful that actual cuts to production will be as large as announced, and view them as unlikely to compensate for the sharp expected drop in demand caused by COVID-19.

Growth in global infections continues to slow

Global active cases of COVID-19 grew by 32% in the seven days ending 14 April, compared to 71% growth in the previous 7-day period. Some countries in Europe are already in the process of re-opening their economies. Austria, the Czech Republic, Norway and Denmark will be among the first to gradually loosen their restrictions on businesses, schools, and social interactions. France on the other hand has extended their lockdown for another month. The World Health Organization (WHO) has warned against the premature lifting of restrictions, saying it could result in a “deadly resurgence”.

...and China trade data better than expected

China’s exports declined by less than expected in March. Exports were 6.6% lower than a year ago, an improvement from the 17.2% decline in Jan-Feb. Imports declined by 0.9%, compared to a 4% fall in Jan-Feb. The IMF forecasts China’s real GDP growth at only 1.2% for this year. We take a more in-depth look at China’s outlook below.

...supporting global markets

The S&P500 rose by 3% on Tuesday on the back of better than expected China trade data and an improvement in risk sentiment. On Wednesday, however, most of these gains were reversed following the release of US retail sales for March that showed an 8.3% decline from February’s report. The US Federal Reserve took a number of measures late last week aimed at improving the flow of credit to businesses (an additional \$2.3trn in support).

...although activity remains weak

New US jobless claims climbed by another 6.6 million in the week ending April 4, bringing the total for the past three weeks to more than 15 million. Retail sales fell by 8.7% in March, the deepest fall on record, and worse than market expectations. All segments except online retail and grocery outlets declined sharply.

Business and consumer confidence in Australia have declined sharply. The Westpac-Melbourne Institute consumer sentiment index fell from 91.9 in March to 75.6 in April, and March business confidence fell to -66, its lowest level on record, according to the National Australia Bank (NAB) business survey. NAB economists expect GDP to fall 7% in the June 2020 quarter, and 4% over the year, stronger than the IMF’s expected fall of 6.7% this year. The unemployment rate increased from 5.1% in February to 5.2% in March, contrary to expectations of a large increase. Employment increased by 6,000, against expectations of a large fall. The survey responses occurred in the first half of March, before lockdown measures were put in place. The Australian Treasury expects unemployment to reach 10% in the June quarter.

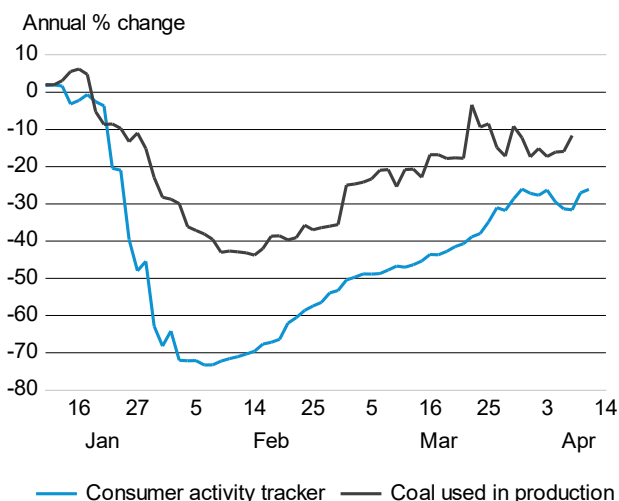
China's GDP data is released this week ...

Analysts expect Friday's GDP data to show a very considerable contraction in the March quarter. Very large declines in activity occurred over January and February followed by a partial rebound in March as mobility restrictions were eased.

In Jan-Feb, growth in industrial production, fixed asset investment and industrial profits plunged -13.5%, -24.5% and -38.3% respectively, from the same months a year ago. Retail sales fell -20.5%.

Activity data for March will be published alongside the March quarter GDP report. Indicators of March's activity, including coal consumption and consumer activity, showed some recovery as people returned home and businesses reopened, but this process is incomplete and uneven (Figure 4). Generally, goods production is recovering faster than services.

Figure 4: China activity indicators



Source: Goldman Sachs

...a sharp decline is expected...

The deep, broad-based decline in activity and only partial recovery underpins expectations in a recent Bloomberg survey that GDP in the March 2020 quarter may be 6% lower than a year ago (or over 10% less than the December 2019 quarter).

Based on ongoing containment of the virus in China, most economists are forecasting a very large quarterly swing in Chinese growth between Q1 and Q2 with further but more moderate gains thereafter.

An initial increase in activity is expected when lockdown measures are eased, but the recovery may run into constraints if consumers and firms remain nervous and demand from abroad is weak with much of the rest of the world under lockdown. The pattern of recovery could also be thrown off-track if a second wave of the virus were to eventuate.

The IMF projects growth in 2020 of just 1.2%, followed by 9.2% in 2021. This compares with expectations of growth around 6% per year before the pandemic. On balance, economic activity is not likely to regain its pre-COVID-19 path until sometime in 2021, at the earliest.

...and further policy support is likely

The Chinese government has not revised its official growth and social targets yet, but the decline in March quarter activity makes achieving existing targets difficult (GDP growth of about 5.6% in 2020 is needed to achieve the Party's goal of doubling the size of the economy between 2010 and 2020). The most likely timing for any change to official targets is at the National People's Congress (NPC), the timing of which has not been announced, although it is possible the Party may choose not to set a new GDP growth target.

The Chinese Communist Party's Politburo, China's top decision-making body, met on 27 March and signalled it would increase fiscal and monetary stimulus, while also emphasizing the importance of controlling the spread of the coronavirus. Subsequent announcements from the State Council have started to lay out the details. There have been additional fiscal announcements and monetary policy easing from the People's Bank of China. Commentators expect further measures in the period ahead.

Date	Key NZ Data	Previous
20 April	Consumers Price Index	1.9%

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	7.7	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 8/4/20	Thu 9/4/20	Fri 10/4/20	Mon 13/4/20	Tue 14/4/20	Wed 15/4/20
NZ exchange and interest rates⁵							
NZD/USD	\$	0.5951	0.6006	...	...	0.6128	0.6079
NZD/AUD	\$	0.9698	0.9657	...	...	0.9533	0.9463
Trade weighted index (TWI)	index	68.4	68.8	...	...	69.5	68.9
Official cash rate (OCR)	%	0.25	0.25	0.25	0.25	0.25	0.25
90 day bank bill rate	%	0.45	0.45	...	...	0.44	0.44
10 year govt bond rate	%	1.09	1.08	...	...	0.91	0.96
Share markets⁶							
Dow Jones	index	23434	23719	...	23391	23950	23504
S&P 500	index	2750	2790	...	2762	2846	2783
VIX volatility index	index	43.4	41.7	...	41.2	37.8	40.8
AU all ords	index	5259	5439	...	...	5542	5523
NZX 50	index	10032	9964	...	...	10162	10410
US interest rates							
3 month OIS	%	0.05	0.05	0.05	0.05	0.05	...
3 month Libor	%	1.31	1.22	...	...	1.18	...
10 year govt bond rate	%	0.77	0.73	...	0.76	0.76	0.63
Commodity prices⁶							
WTI oil	US\$/barrel	25.09	22.76	...	22.36	20.15	19.87
Gold	US\$/ounce	1648	1681	...	...	1742	1719
CRB Futures	index	363	362	...	354	354	351

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