

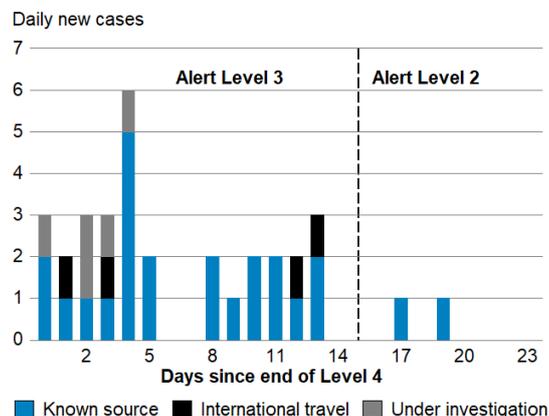
New COVID-19 cases remain low after the first week in Alert Level 2, and high-frequency indicators of activity continue to recover, but remain materially below pre-COVID-19 levels. Card spending data show retail sales are recovering. Performance indicators in the services and manufacturing industries fell to record lows in April, and provisional data show export volumes beginning to drop in May. House sales in April were down nearly 80% compared to March, though prices dropped only slightly.

The economic impact of COVID-19 is becoming clearer globally, with March quarter GDP declines reported in Germany, Japan, and Thailand, and record declines in industrial production and retail sales in the United States (US). Australia's April labour force and retail sales releases supported analysts' views that GDP will fall by about 10% in the June quarter. Meanwhile, in China activity continued to improve in April, although retail spending lagged the broader recovery.

### Daily COVID-19 cases remain low...

There have been just two new cases of COVID-19 in New Zealand since the country moved to Alert Level 2, both of which were linked to known clusters (Figure 1). There are 30 known active cases remaining in New Zealand, with 97% of recorded cases now recovered. Total tests reached 245,000 on 20 May, which is around 4.9% of the total population. Over 92,000 users downloaded the new NZ Covid Tracer app on its release day.

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



Source: Ministry of Health

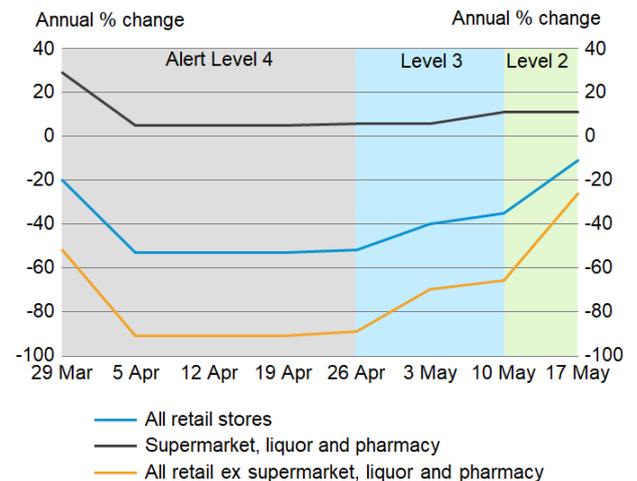
### ...as NZ slowly returns to 'normal'

Economic activity continued to increase during the first week of Alert Level 2, with bars and clubs reopening on Thursday. Cabinet will meet on Monday to assess the current restrictions. The Prime Minister stated that additional activity will continue to be 'phased in' under Alert Level 2 when it is considered safe to do so.

### Retail card spending picks up

Data from Paymark show retail card spending jumped after Alert Level 4 ended, and again when the country moved to Alert Level 2 (Figure 2). While supermarket, liquor and pharmacy spending has remained above 2019 levels throughout April and May, other retail spending fell to around 90% below 2019 levels during Level 4 before subsequently rebounding. Total retail spending during the week of 17 May, which included three days of Alert Level 3 and four days of Level 2, was 11% below 2019 levels.

**Figure 2: Retail card spending, weekly values**

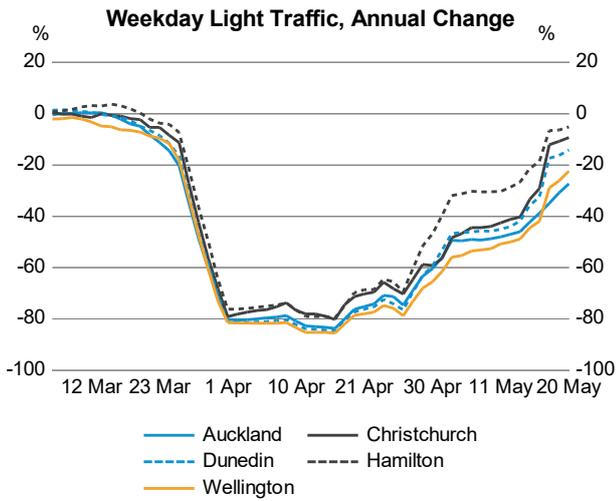


Source: Paymark

On 15 May, the total number of Jobseeker Support (JS) benefit recipients reached 188,000 (around 6.3% of the estimated working-age population), an increase of 1,600 from the week prior. While the number of JS recipients is still growing, the rate of growth has slowed since the peak number of new recipients recorded over the week ended 3 May.

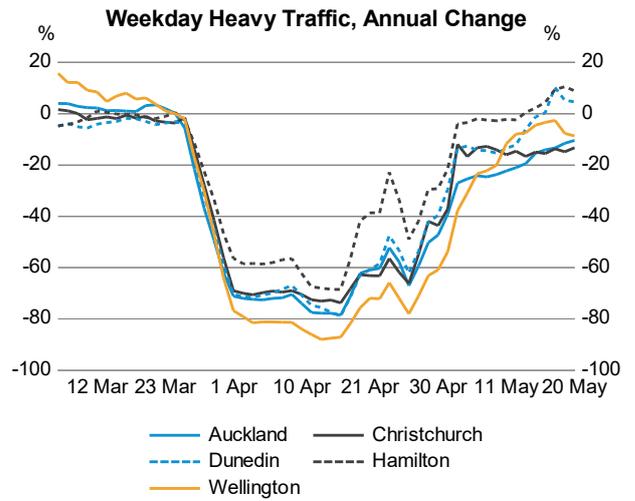
# High-Frequency Indicators (under development)

## Traffic Movement



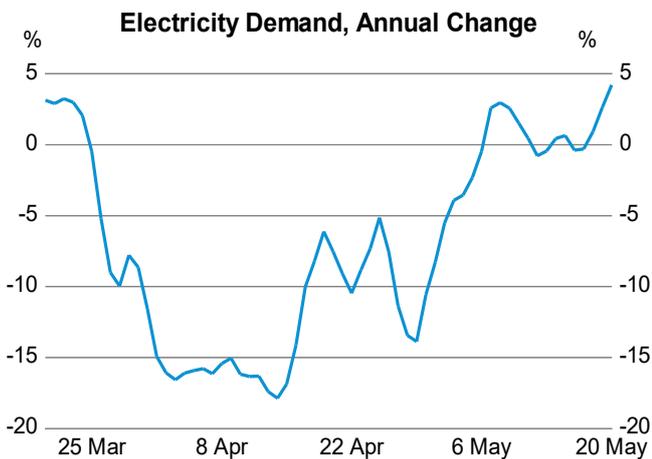
Source: Waka Kotahi NZ Transport Agency

## Freight Movement



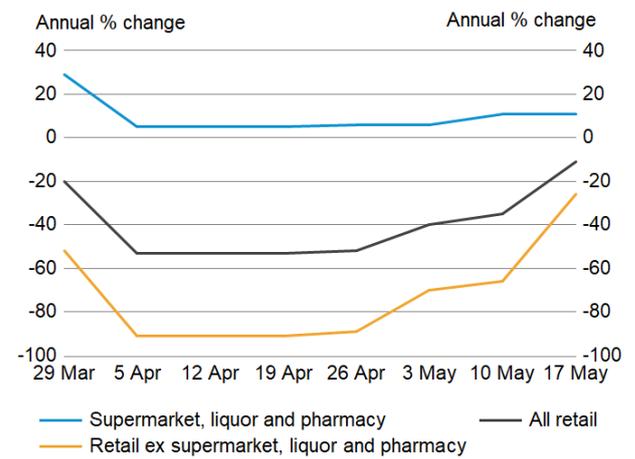
Source: Waka Kotahi NZ Transport Agency

## Electricity Demand



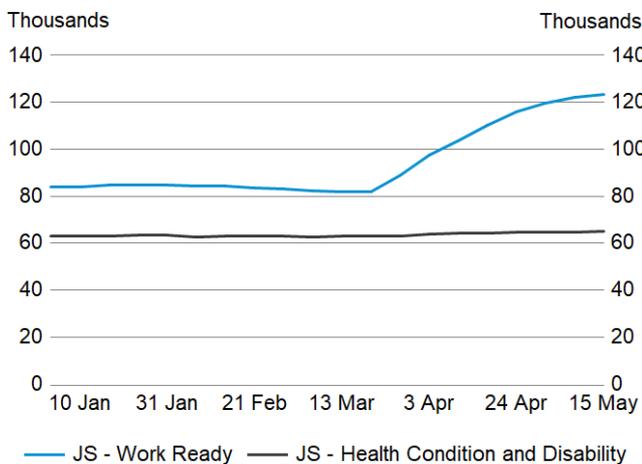
Source: Electricity Authority

## Retail Spending



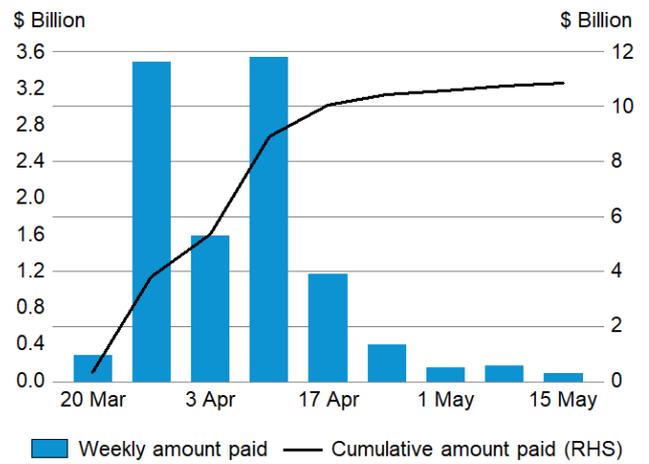
Source: Paymark

## Job Seeker Support



Source: MSD

## Fiscal Support: Wage Subsidy (paid)

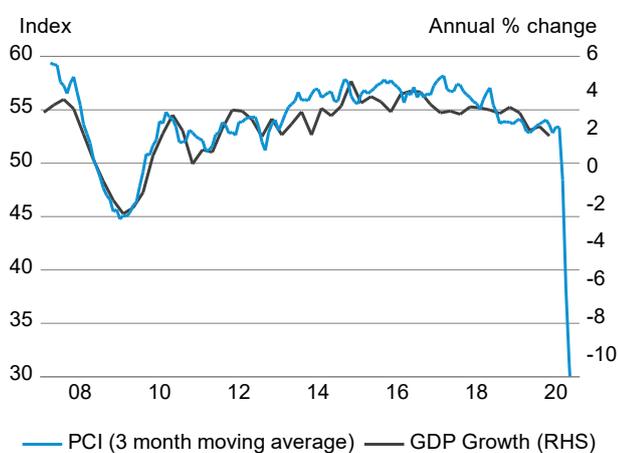


Source: MSD

### Services and manufacturing fall sharply...

The BNZ-BusinessNZ Performance of Composite Index (PCI) fell 10.8 points to 25.7 in April (Figure 3), following a 15.9 point fall in March. The Performance of Manufacturing Index (PMI) fell 11.9 points to 26.1, while the Performance of Services Index (PSI) was down 11.4 points to 25.9. As expected, new orders and sales activity fell sharply during lockdown, but encouragingly employment held up well, suggesting the wage subsidy helped to limit job losses in April. The employment index dropped from 51.0 in February to 41.8 in April and was reasonably consistent across the PMI and PSI. We expect that GDP is likely to fall by around one-quarter in the June 2020 quarter.

**Figure 3: PCI and GDP growth**



Source: BNZ-BusinessNZ, Stats NZ

...and producer prices start turning down

Producer output prices rose 0.1% in the March quarter while costs faced by businesses fell 0.3%. The drop in input prices was driven by a fall in the electricity and gas prices, down 4.9%. Output prices rose as a result of small price increases across a range of industries but these were largely offset by a sharp fall in prices for meat and grain products. The combined effect of dry conditions in many parts of New Zealand and the fall in demand due to the COVID-19 pandemic drove prices for sheep, beef and grain down 11.5%. Prices received by petroleum and coal product manufacturers also fell 9.3%, owing to lower international demand for crude and refined oil.

Dairy prices rose at this week's *GlobalDairyTrade* event, up 1.0% in USD terms (0.4% in NZD terms), led by a 6.7% rise in SMP. WMP fell 0.5%. Overall prices have fallen 13% since the start of the year. Fonterra's milk price forecast range for the 2020-21 season is \$5.40-6.90 kg/MS. The large range

reflects the massive uncertainty in the current environment. Their current season forecast range narrowed to \$7.10-\$7.30 kg/MS.

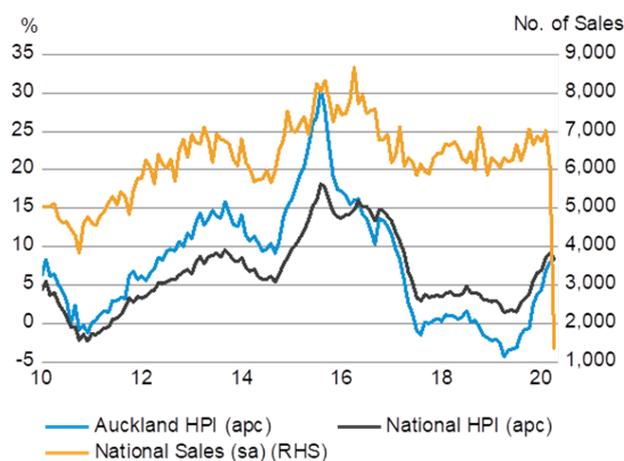
Provisional trade data for the week ended 13 May compared with the equivalent week in 2019 shows total exports were down 9.7% while exports to China were down 13%. Total imports were 13% higher but imports from China were down 4.2%.

New vehicle registrations fell by 87% in April, following a 32% fall in March.

### House sales plummet

National house sales plummeted in April, down nearly 80% on the previous month (Figure 4).

**Figure 4: REINZ house prices and sales**



Source: REINZ

House prices fell slightly, down 1.1% but are still 8.5% higher than a year ago. Consumer confidence fell 21 points in April, reaching the lows last seen during the Global Financial Crisis in 2008. House prices fell at that time, declining by as much as 9% year on year in the QV house price index. We expect a similar pattern in the current environment, with house prices forecast to fall 11% between March 2020 and 2021. Higher unemployment, lower income levels and reduced population growth are expected to lead to a decline in demand for housing, although lower interest rates will provide some offset.

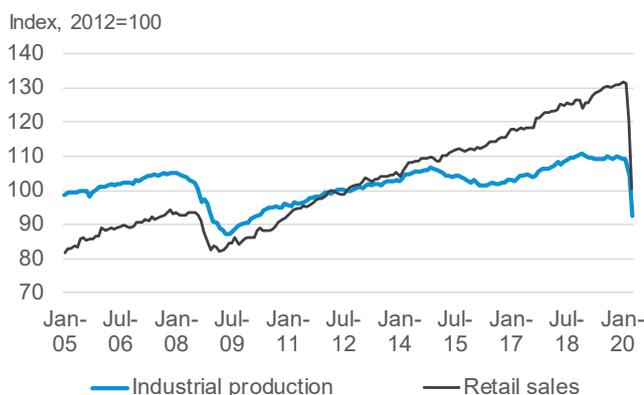
### The population reaches 5 million

New Zealand's population reached 5 million in March 2020, boosted by New Zealand citizens returning home or being unable to leave as a result of the COVID-19 pandemic.

### Record declines in US activity

Industrial production (IP) was 11.2% lower in April than in March, the largest monthly drop in the 101-year history of the index (Figure 5). This came on top of a 4.5% decline in March. Manufacturing output declined by 13.7%, with motor vehicles and parts down 70%, and other industries declining by 10.3%. Meanwhile, April retail sales posted a record monthly decline of 16.4%. With the exception of e-commerce, all retail segments declined, including food & beverage stores (-13.1%). Durable item sales were down over 50% and restaurant sales fell almost 30%.

**Figure 5: US industrial production and retail sales**



Source: US Census Bureau, Federal Reserve Board, Haver

### UK unemployment benefit claims rise...

Employment in the United Kingdom (UK) increased 0.6% in the March quarter, and the unemployment rate edged up 0.1%-points to 3.9%. Total hours worked declined by 1.2% compared to the same period last year, the largest decrease in 10 years. This period covered only one week of the lockdown. In April, unemployment benefit claims rose by close to 70% from March.

### German economy contracts further...

The German economy contracted by 2.2% in the March quarter from the previous quarter, less than -3.8% for the euro area as a whole. This is the second consecutive quarterly decline in Germany and the largest decline since the global financial crisis. GDP figures for the second quarter are likely to be much worse.

The German wage subsidy scheme (*Kurzarbeit*) has so far received 10 million applications, compared to around 1.5 million during the peak of the global financial crisis.

### ...putting pressure on tax revenues

The German finance ministry has lowered its forecast for tax revenues in 2020 by almost €100bn (3% of GDP) compared to its previous estimate in October 2019. Tax revenues in 2021 are expected to be €50bn (1.5% of GDP) lower and a shortfall of 1.2% of GDP persists until the end of the forecast in 2024. The finance ministry is planning to launch a fiscal stimulus package in early June to aid the economy's recovery.

### China's recovery continues...

In China, activity continued to recover in April (Table 1). Industrial production (IP) activity rose 1.6% from March to be 3.9% higher than April 2019. Infrastructure spending rose 2.3% annually (apc), leading the recovery in fixed asset investment (0.8% apc). Retail spending lagged the broader recovery (-7.5% apc), with consumer spending in the restaurants and catering category remaining particularly weak (-31.1% apc), but improving from -46.8% apc in March.

**Table 1: China economic activity indicators**

	Jan-Feb 20	Mar-20	Apr-20
<b>Real industrial production</b>			
Annual % change	-13.5	-1.1	3.9
Monthly % change	-13.5	33	2.3
<b>Fixed asset investment (value)</b>			
Annual % change	-24.5	-9.3	0.8
Monthly % change	-11.8	6.1	6.2
<b>Retail Sales (value)</b>			
Annual % change	-21.2	-15.8	-7.5
Monthly % change	-6	0.4	0.3

Source: Haver Analytics

The policy response to the crisis is likely to become clearer following China's National People's Congress, which begins 22 May. This body determines the government's priorities over the year ahead, including the growth target and fiscal policy. Given the uncertainty around the outlook, analysts expect economic and social stability to be the primary objective, de-emphasising targets for economic growth. Further fiscal support is anticipated following the 6.8% contraction in March quarter GDP and the weak global backdrop.

### ...as GDP contracts in Japan and Thailand...

In Japan, GDP contracted 0.9% in the March quarter, a second consecutive quarter of negative growth. Economic activity, especially private consumption (-0.7%) and exports (-6.0%), slowed due to the COVID-19 pandemic, along with the

prolonged impact of October's consumption tax hike. However, the pandemic only partially affected activity in the quarter, pointing to a further contraction in the June quarter.

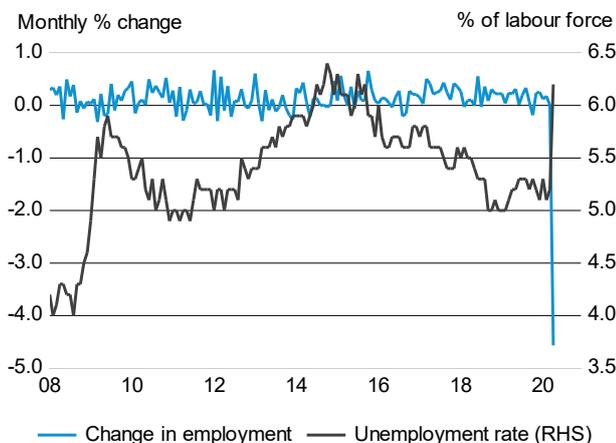
In Thailand, March quarter GDP fell 2.2% from the December quarter and 1.8% from the March 2019 quarter. Services exports fell 31.5% in the quarter as tourism stopped, leading net exports to subtract 4.8%-points from growth. The outlook is for a deeper contraction in the June quarter, reflecting the full extent of the government's lockdown measures, implemented in late March. Consensus expectations are for growth of -4.6%, among the weakest in the region.

**...and virus impacts become clearer in Australia**

Australia's April labour force survey and retail sales offered initial insights into how the economy has responded to measures in place since mid-March to contain the spread of COVID-19. Both releases were in line with analysts' views that GDP will fall about 10% in the June quarter.

In the labour market, the measure that best captures the dramatic impact of COVID-19 is probably hours worked, which fell 9.2% – double the fall in employment of 4.6% (Figure 6). This reflects the degree of support provided by the government's JobKeeper wage subsidy. The unemployment rate rose from 5.2% to 6.2% (an increase of 104,500 people) alongside a 2.5%-point fall in the participation rate. The Australian Bureau of Statistics (ABS) observed that if participation had been steady, the unemployment rate would have increased to almost 10% (1.3 million).

**Figure 6: Australian labour market**



Source: Haver Analytics

Separately, the ABS' fortnightly payrolls data update showed the number of jobs was 7.3% lower than on 14 March, but the pace of job losses

slowed to just 0.2% over the two weeks to 2 May, pointing to a stabilisation in employment. The aggregate wages bill rose 1.4% in the same two weeks, as the JobKeeper subsidy payments began, to be 5.4% lower than pre-virus.

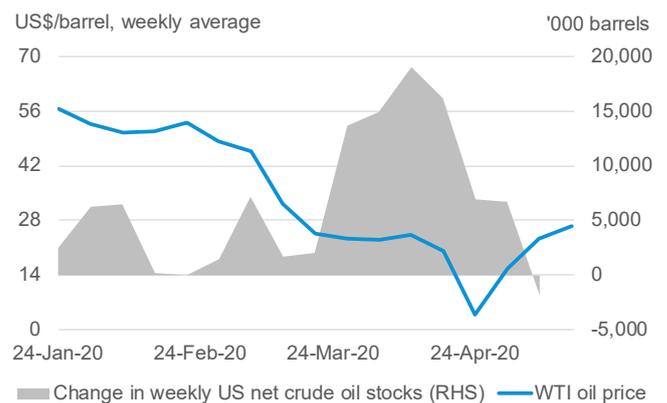
Retail sales fell 18% in April, following a panic buying driven 8.5% rise in March, to be 9.4% lower than April 2019. The ABS noted that there were particularly large falls in eating out, apparel and department store sales.

Meanwhile, China announced anti-dumping and anti-subsidy duties of 80.5% on Australian barley imports for the next five years, effective immediately. The barley trade with China was worth around AU\$600 million in 2019.

**Markets buoyed by vaccine news**

Global stock markets had their best day in weeks on Monday on the back of optimism about a potential COVID-19 vaccine, the gradual re-opening of a number of economies, and progress in the Germany-France led €500bn European recovery fund proposal. Under this initiative, the European Commission would borrow money on behalf of the European Union in order to support (in the form of grants) the most affected sectors and regions. Commodity prices have also increased, supported by a decline in US weekly net crude oil stocks (Figure 7).

**Figure 7: US crude oil price and net stocks**



Source: US Energy Information Administration, Haver Analytics

Date	Key NZ Data	Previous
26 May	Merchandise Trade	\$672 million (surplus)

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	13.4	1.6	-78.5
REINZ - house price index	apc	5.5	6.5	6.9	8.5	9.1	8.5
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 13/5/20	Thu 14/5/20	Fri 15/5/20	Mon 18/5/20	Tue 19/5/20	Wed 20/5/20
<b>NZ exchange and interest rates (5)</b>							
NZD/USD	\$	0.6075	0.5970	0.5998	0.5952	0.6039	0.6108
NZD/AUD	\$	0.9392	0.9293	0.9278	0.9238	0.9254	0.9318
Trade weighted index (TWI)	index	68.9	67.9	68.1	67.7	68.4	69.1
Official cash rate (OCR)	%	0.25	0.25	0.25	0.25	0.25	0.25
90 day bank bill rate	%	0.26	0.28	0.27	0.25	0.25	0.25
10 year govt bond rate	%	0.58	0.49	0.65	0.64	0.68	0.65
<b>Share markets (6)</b>							
Dow Jones	index	23248	23625	23685	24597	24207	24576
S&P 500	index	2820	2853	2864	2954	2923	2972
VIX volatility index	index	35.3	32.6	31.9	29.3	30.5	28.0
AU all ords	index	5514	5418	5493	5558	5659	5680
NZX 50	index	10788	10745	10731	10758	10790	10788
<b>US interest rates</b>							
3 month OIS	%	0.05	0.05	0.05	0.05	0.05	...
3 month Libor	%	0.39	0.39	0.38	0.38	0.37	...
10 year govt bond rate	%	0.64	0.63	0.64	0.73	0.70	0.68
<b>Commodity prices (6)</b>							
WTI oil	US\$/barrel	25.29	27.56	29.44	31.83	32.30	33.49
Gold	US\$/ounce	1708	1732	1735	1735	1738	1748
CRB Futures	index	363	364	363	365	368	...

(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
<b>United States</b> [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	0.1	-4.5		-11.2	...
	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	-5.7		-21.6	...
	House prices (2)	apc	2.2	2.6	2.8		3.1	3.5	...		...	...
<b>Japan</b> [6.1%]	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	...
	GDP (1)	qpc				-1.9				-0.9		
	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	-4.7		...	...
<b>Euro area</b> [5.5%]	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		0.3	...
	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		...	...
<b>United Kingdom</b> [2.7%]	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		-22.0	-18.8
	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		0.8	...
	Unemployment rate (1)	%	3.8	3.8	3.8		3.9	4.0	3.9		...	...
	Retail sales volume	apc	3.3	0.6	0.6		0.9	0.0	-5.9		...	...
<b>Australia</b> [15.8%]	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	...
	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		6.2	...
	Retail sales value	apc	2.7	3.2	2.4		2.2	5.7	9.4		...	...
<b>China</b> [24.3%]	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	apc				6.0				-6.8		
<b>South Korea</b> [3.0%]	Industrial production (1)	mpc	4.7	6.2	6.9		-13.5	-13.5	-1.1		3.9	...
	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	...
<b>South Korea</b> [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