

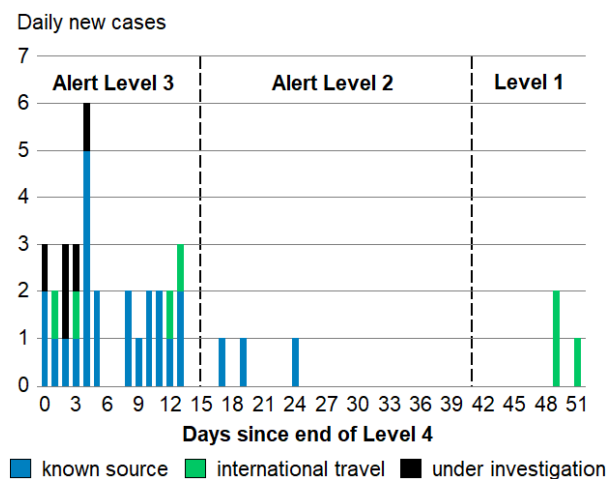
Three new cases of COVID-19 have been reported in NZ this week. A survey of firms receiving the Government wage subsidy suggested that businesses are retaining staff, and experimental data from Stats NZ show employment recovered in May. Performance in the manufacturing and services industries rebounded slightly in May, though activity indicators remain in contractionary territory. House prices eased slightly and consumer confidence was resilient in the June quarter. GDP fell by 1.6% in the March quarter, and the current account deficit narrowed to 2.7% of GDP.

Some solid economic data buoyed markets this week, including better-than-expected retail sales in the United States (US) for May. However, activity remains well below pre-pandemic levels. The slow recovery in China and the re-emergence of new COVID-19 cases in Beijing is a timely warning not to become complacent.

### Three new cases of COVID-19

After 24 consecutive days with no new cases of COVID-19, New Zealand recorded two new cases on 16 June (Figure 1). The two women arrived together from the UK on 7 June, and were permitted on compassionate grounds to leave managed isolation on 13 June. Compassionate exemptions will be temporarily suspended, and 320 people have been identified as close contacts of the new cases. One additional case was reported on 18 June, though the man arrived from overseas and has remained in managed isolation.

Figure 1: Daily COVID-19 cases by infection source



Source: Ministry of Health

### The wage subsidy supports employment...

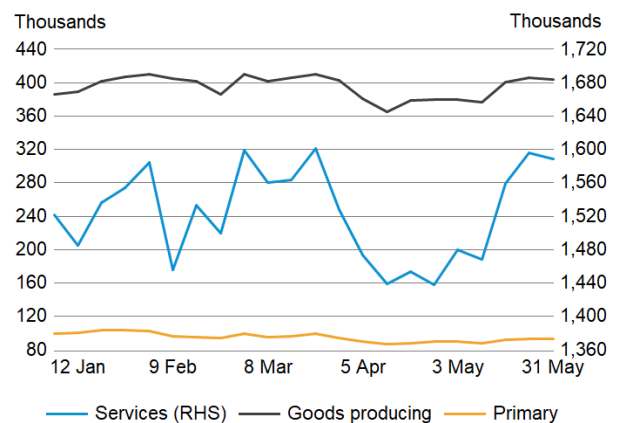
Between 15 and 25 May, 90,000 businesses who received the government wage subsidy completed a survey by the Ministry of Social Development. Of the participating businesses, 97% were sole traders or small businesses with fewer than 20 employees. Only 4% of businesses had made staff redundant; for small businesses, the figure was 3.1%. Half of businesses were intending to investigate the wage subsidy extension.

Two thirds of businesses reported a reduction in turnover of at least 50%. Loss of domestic customers was the main cause, though 22% of businesses said that the loss of overseas visitors was having a major negative impact. Although 27% of businesses reported closing during Alert Level 4, at Level 2 only 3% were still closed and more than half of businesses were operating at a similar or increased capacity compared to before COVID-19.

### ...and paid jobs recovered in May

Experimental employment data from Stats NZ show that the number of paid jobs in New Zealand rose in May, after falling significantly in April (Figure 2). The services industry saw the largest fluctuation. The data covers PAYE returns filed with Inland Revenue within 13 days after the end of each week, capturing around 93% of total paid jobs.

Figure 2: Weekly paid jobs

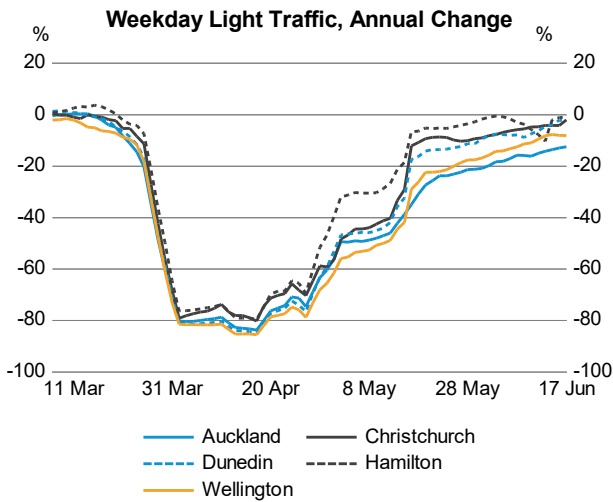


Source: Stats NZ

In the week ended 12 June, 2,816 people began to receive the COVID-19 Income Relief Payment, with 1,515 of these transferring from Jobseeker Support. Overall the number of people receiving Jobseeker Support fell by 548 over the week.

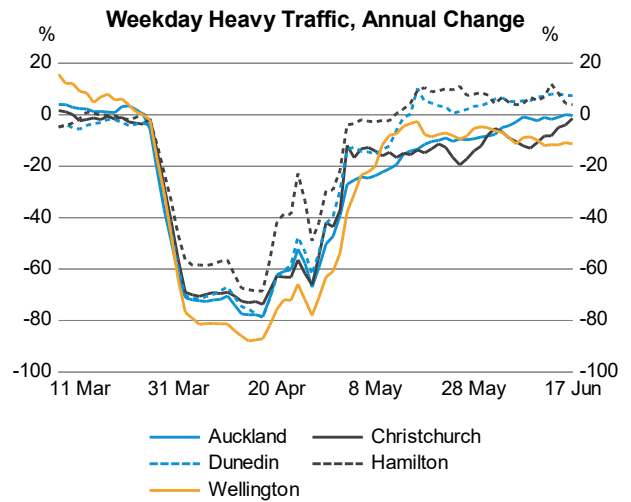
# High-Frequency Indicators

## Traffic Movement



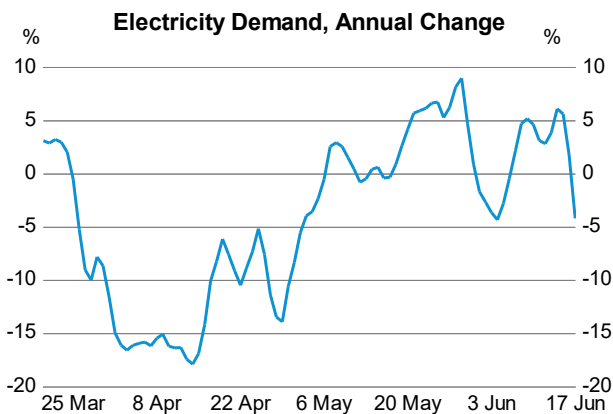
Source: Waka Kotahi NZ Transport Agency

## Freight Movement



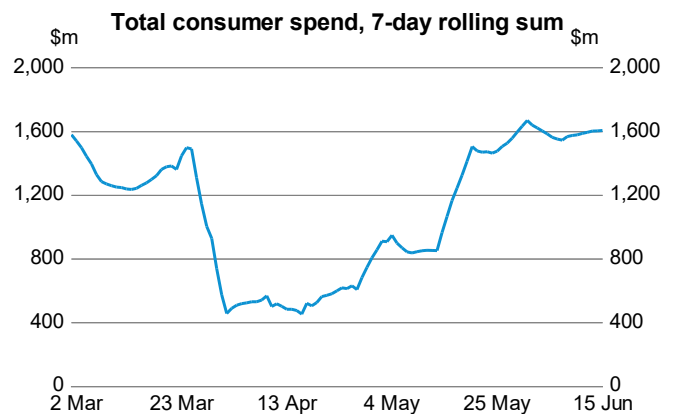
Source: Waka Kotahi NZ Transport Agency

## Electricity Demand



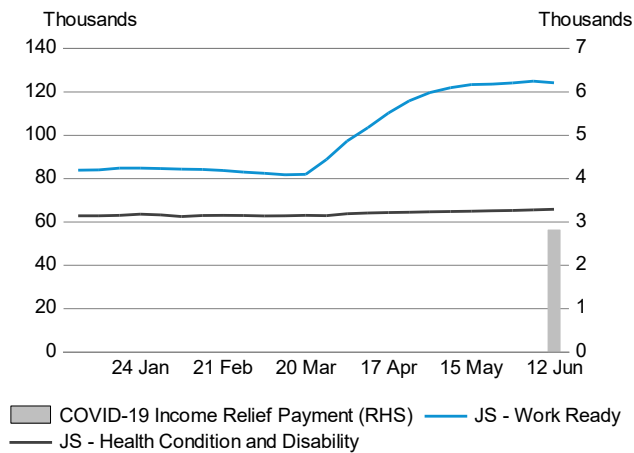
Source: Electricity Authority

## Retail Spending



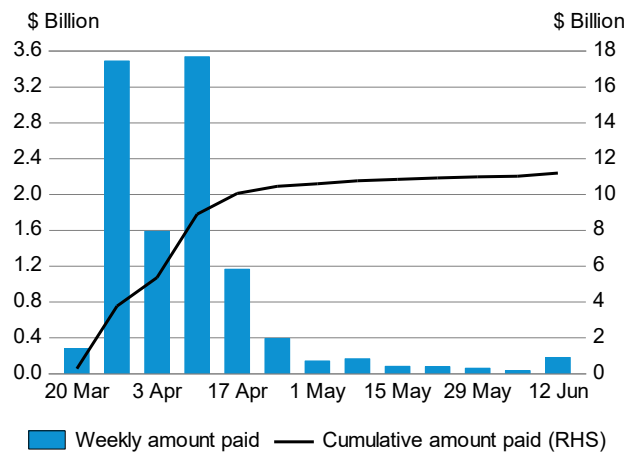
Source: Paymark and Verifone data via Data Ventures

## Jobseeker and Income Support



Source: MSD

## Fiscal Support: Wage Subsidy (paid)

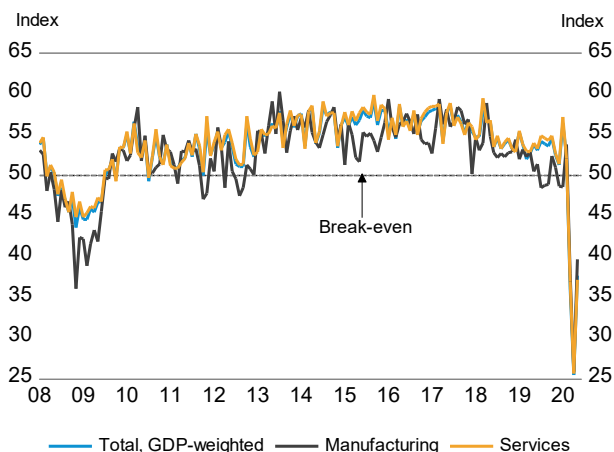


Source: MSD

### Activity indicators lift from record lows

The BNZ-BusinessNZ Combined index bounced back up to 37.7 in May from a record-low of 25.5 in April (Figure 3). Manufacturing and services reached lows of 25.9 and 25.7 respectively in April. The manufacturing index rose to 39.7 and services recovered to 37.2 in May, as lockdown restrictions eased. Both indexes remain below their 'break-even' level of 50, indicating that activity in both sectors were still declining.

Figure 3: BNZ-BusinessNZ Performance Indexes



Source: BNZ-BusinessNZ

### House sales bounce back...

House sales bounced back in May, but were still around 50% below levels typically recorded prior to the COVID-19 outbreak. House prices continued to ease, down 0.3% from April, but are still 7.9% higher than a year ago. Buyer interest has remained resilient so far, possibly reflecting a degree of pent-up demand from the period in which lockdown measures prevented much of the usual housing market activity. However, given the weak economic outlook, with unemployment forecast to increase and considerable uncertainty remaining prevalent, house prices are expected to fall further over the remainder of 2020.

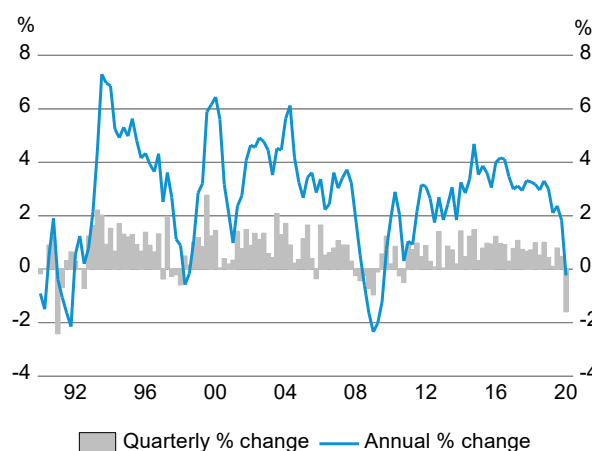
### ...and consumer confidence remains resilient

Consumer confidence fell 7 points in the June quarter in the Westpac McDermott Miller survey to 97.2. The fall is surprisingly moderate given the extent of the economic downturn, however, there remains a risk that consumer confidence will fall further in the September quarter as unemployment rises.

### GDP falls 1.6% in the March quarter...

GDP fell 1.6% in the March quarter (Figure 4), the largest quarterly fall in almost 30 years, as the effects of COVID-19 (compounded by the effects of droughts in many parts of the country) started to impact on economic activity. Service industries contributed the most to the drop in activity, led by the hospitality industry, which fell 7.8%. The construction industry fell 4.1% and the transport, postal and warehousing industry was down 5.2%. Household consumption expenditure fell only 0.3% as spending on groceries ahead of lockdown offset falls in durable and recreational spending. We expect GDP to contract significantly in the June quarter due to lockdown effects.

Figure 4: GDP growth



Source: Stats NZ

### ...and the current account deficit narrows

The annual current account deficit narrowed to \$8.5bn (2.7% of GDP) in the March 2020 quarter, driven by a narrowing merchandise trade balance. Goods exports improved due to higher commodity prices and volumes holding up. Imports fell sharply, driven by lower demand and global supply chain disruptions. The services balance fell by \$83m (7.8%) in the quarter due to travel restrictions and the subsequent border closure as well as lower international student arrivals. The net international investment position weakened by \$10.1bn as a result of declines in global equity markets.

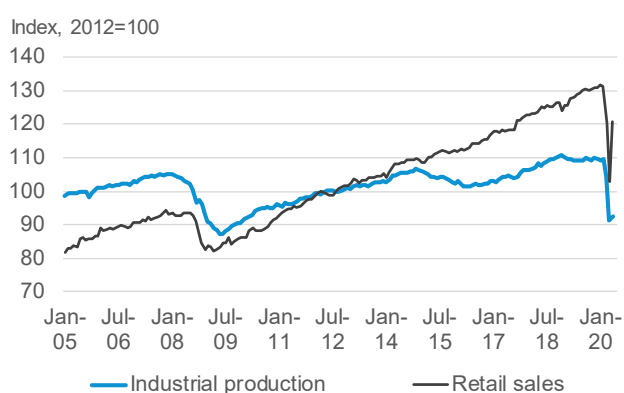
We expect the annual current account deficit to narrow over the coming quarters, driven by a sharp fall in goods imports. In the medium term, the deterioration in the global outlook will put pressure on our terms of trade, causing the current account deficit to start widening in the second half of 2020.

Dairy prices rose 1.9% at this week's GlobalDairyTrade auction, with WMP prices up 2.2% and SMP prices up 3.1%.

## US retail spending improve

Retail spending in the United States (US) rose by a record 17.7% in May, following record declines during March and April (Figure 5). The level of retail sales remains 6.1% lower than during the same period last year, but the increase in May was well above market expectations (8%). The improvement in May was driven by higher sales of motor vehicles and parts, which rose by 44%. Industrial production also rebounded in May, but the 1.4% increase was below market expectations and remained 15.4% below its pre-pandemic level in February. Manufacturing production rose by 3.8% in May, with most industries posting increases.

**Figure 5: US monthly activity indicators**



Source: US Census Bureau / Haver Analytics

## Australian employment falls further in May...

Seasonally adjusted employment declined by a further 227,700 people in May, bringing the total decline in April and May to 835,000 (a fall of around 6.4%). Unemployment increased by 85,700 people to 927,600, and the unemployment rate increased by 0.7 percentage points to 7.1%. As in April, the effect on the unemployment rate was moderated by a further decline in the labour force participation rate. Analysts now expect the unemployment rate to peak at around 8%, compared to previous expectations of 10%. Monthly hours worked fell by 0.7% in May and are down 10.2% since March. Payrolls data released earlier in the week showed that wages declined by a cumulative 8.3% between 14 March and 30 May, broadly consistent with the reported decline in employment.

## ...but consumers become more confident

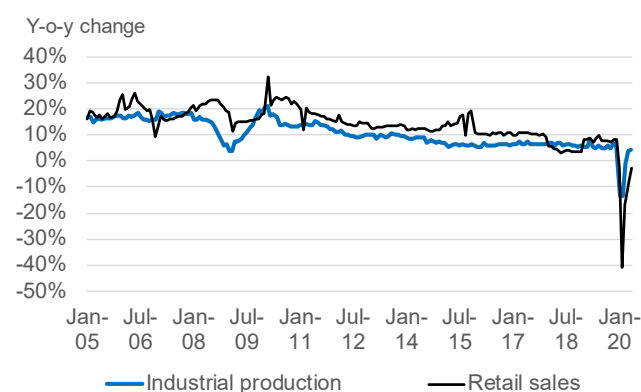
The ANZ-Roy Morgan Australian Consumer Confidence Index continued to improve in the week up to 14 June, rising by 0.5 pts to 97.5, still well below average. 'Time to buy a household item' rose by 1.3%, compared to a decline of 5.7% in the

previous reading. Overall, economic conditions continue to be mixed, with 'current economic conditions' gaining by 2.6%, while 'future economic conditions' declined by 2.6%.

## China recovery continues, but slowly

Industrial production increased in May, but was below market expectations, reflecting that the recovery may be slower than expected. Industrial production rose by 4.4% in annual terms (Figure 6). Retail sales fell by 3% over the year to May, compared to a 7.9% decline in the year to April, but were 0.8% higher than the previous month. Meanwhile, Chinese authorities have described the new outbreak of COVID-19 in Beijing as "very severe" and tightened controls, closing businesses and schools and cancelling more than a thousand flights in and out of the city.

**Figure 6: China monthly activity indicators**



Source: China National Bureau of Statistics / Haver Analytics

## Markets resume upward trend, despite jitters

Risk-on sentiment returned to financial markets this week on the back of some solid economic data and the US Federal Reserve's opening of its previously announced main street lending programme to buy the secondary debt of US corporates. Markets seemed initially unperturbed by a new outbreak of COVID-19 in Beijing, a resurgence in new cases in some southern US states, and an intensification of geopolitical tensions. However, sentiment turned on Wednesday due to continued increases in COVID-19 cases, and as Beijing's alert level was moved to its second-highest level.

Date	Key NZ Data	Previous
25 June	Employment Indicators	-1.7%
25 June	Merchandise Trade Balance	\$1.3 bn

Quarterly Indicators		2018Q4	2019Q1	2019Q2	2019Q3	2019Q4	2020Q1
Real Production GDP (1)	qpc	1.0	0.4	0.1	0.8	0.5	-1.6
	aapc	3.2	3.1	2.9	2.7	2.3	1.5
Current account balance (annual)	%GDP	-3.8	-3.6	-3.4	-3.3	-3.0	-2.7
Merchandise terms of trade	apc	-4.8	-1.9	-1.0	0.9	7.1	5.3
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	4.0
Total retail sales volume	apc	3.5	3.3	2.9	4.5	3.3	2.3
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		Dec 19	Jan 20	Feb 20	Mar 20	Apr 20	May 20
Merchandise trade balance (12 month total)	NZ\$m	-4467	-3927	-3300	-3403	-2496	...
Dwelling consents - residential	apc	24.1	2.7	6.0	-8.3	-16.8	...
House sales - dwellings	apc	16.9	7.7	13.4	2.7	-77.5	-46.6
REINZ - house price index	apc	6.5	6.9	8.5	9.1	8.6	7.9
Estimated net migration (12 month total)	people	63082	67107	72027	78185	76555	...
ANZ NZ commodity price index	apc	12.2	7.7	6.6	5.8	0.9	-2.6
ANZ world commodity price index	apc	8.7	5.1	0.1	-5.8	-9.2	-9.3
ANZBO - business confidence	net%	-13	...	-19	-64	-67	-42
ANZBO - activity outlook	net%	17	...	12	-27	-55	-39
ANZ-Roy Morgan - consumer confidence	net%	123	123	122	106	85	97

Daily Indicators		Wed 10/6/20	Thu 11/6/20	Fri 12/6/20	Mon 15/6/20	Tue 16/6/20	Wed 17/6/20
<b>NZ exchange and interest rates (5)</b>							
NZD/USD	\$	0.6513	0.6528	0.6410	0.6425	0.6483	0.6443
NZD/AUD	\$	0.9361	0.9354	0.9402	0.9397	0.9340	0.9383
Trade weighted index (TWI)	index	72.1	72.0	71.3	71.5	71.8	71.6
Official cash rate (OCR)	%	0.25	0.25	0.25	0.25	0.25	0.25
90 day bank bill rate	%	0.25	0.26	0.27	0.27	0.27	0.27
10 year govt bond rate	%	0.94	0.86	0.81	0.80	0.83	0.85
<b>Share markets (6)</b>							
Dow Jones	index	26990	25128	25606	25763	26290	26120
S&P 500	index	3190	3002	3041	3067	3125	3113
VIX volatility index	index	27.6	40.8	36.1	34.4	33.7	33.5
AU all ords	index	6269	6080	5960	5830	6058	6109
NZX 50	index	11261	11155	10906	10864	10954	11334
<b>US interest rates</b>							
3 month OIS	%	0.08	0.08	0.08	0.09	0.09	...
3 month Libor	%	0.32	0.31	0.32	0.30	0.31	...
10 year govt bond rate	%	0.75	0.66	0.71	0.71	0.75	0.74
<b>Commodity prices (6)</b>							
WTI oil	US\$/barrel	39.60	36.34	36.24	37.07	38.26	37.96
Gold	US\$/ounce	1722	1738	1734	1710	1720	1724
CRB Futures	index	368	367	366	364	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		Nov 19	Dec 19	2019Q4	Jan 20	Feb 20	Mar 20	2020Q1	Apr 20	May 20	Jun 20
<b>United States</b> [9.6% share of total goods exports]	GDP (1)	qpc			0.5				-1.3			
	Industrial production (1)	mpc	0.9	-0.4		-0.4	0.1	-4.6		-12.5	1.4	...
	CPI	apc	2.1	2.3		2.5	2.3	1.5		0.3	0.1	...
	Unemployment rate (1)	%	3.5	3.5		3.6	3.5	4.4		14.7	13.3	...
	Employment change (1)	000s	261.0	184.0		214.0	251.0	-1373.0		-20687.0	2509.0	...
	Retail sales value	apc	3.3	5.6		4.9	4.5	-5.6		-19.9	-6.1	...
	House prices (2)	apc	2.6	2.8		3.1	3.5	3.9		...	...	...
<b>Japan</b> [6.1%]	PMI manufacturing (1)	index	48.1	47.8		50.9	50.1	49.1		41.5	43.1	...
	Consumer confidence (1)(3)	index	126.8	128.2		130.4	132.6	118.8		85.7	86.6	...
	GDP (1)	qpc			-1.9				-0.6			
	Industrial production (1)	mpc	-0.6	0.2		1.9	-0.3	-3.7		-9.8	...	...
	CPI	apc	0.5	0.8		0.6	0.5	0.4		0.2	...	...
	Unemployment rate (1)	%	2.2	2.2		2.4	2.4	2.5		2.6	...	...
	Retail sales value	apc	-2.1	-2.6		-0.4	1.6	-4.7		-13.9	...	...
<b>Euro area</b> [5.5%]	PMI manufacturing (1)	index	48.9	48.4		48.8	47.8	44.8		41.9	38.4	...
	Consumer confidence (1)(4)	index	38.7	39.0		39.2	38.2	31.1		21.3	24.1	...
	GDP (1)	qpc			0.1				-3.6			
	Industrial production (1)	mpc	-0.5	-1.7		1.9	-0.1	-11.9		-17.1	...	...
	CPI	apc	1.0	1.3		1.4	1.2	0.7		0.3	0.1	...
	Unemployment rate (1)	%	7.4	7.3		7.3	7.2	7.1		7.3	...	...
	Retail sales volume	apc	2.5	1.9		2.2	2.6	-8.8		-19.6	...	...
<b>United Kingdom</b> [2.7%]	PMI manufacturing (1)	index	46.9	46.3		47.9	49.2	44.5		33.4	39.4	...
	Consumer confidence (5)	index	-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	-1.1	-0.2		-0.1	-0.1	-4.2		-20.3	...	...
	CPI	apc	1.4	1.3		1.8	1.7	1.5		0.8	0.6	...
	Unemployment rate (1)	%	3.8	3.8		3.9	4.0	3.9		3.9	...	...
	Retail sales volume	apc	0.7	0.6		0.9	0.2	-5.9		-22.6	...	...
<b>Australia</b> [15.8%]	House prices (6)	apc	0.8	1.4		1.9	2.3	3.0		3.7	1.8	...
	PMI manufacturing (1)	index	48.9	47.5		50.0	51.7	47.8		32.6	40.7	...
	Consumer confidence (1)(5)	index	-8.8	-7.1		-6.5	-6.2	-8.2		-22.7	-23.7	...
	GDP (1)	qpc			0.5				-0.3			
	CPI	apc			1.8				2.2			
	Unemployment rate (1)	%	5.1	5.1		5.3	5.1	5.2		6.4	7.1	...
	Retail sales value	apc	3.2	2.4		2.2	5.7	9.4		-8.9	...	...
<b>China</b> [24.3%]	House Prices (7)	apc			2.8				8.1			
	PMI manufacturing (1)	index	48.1	48.3		45.4	44.3	53.7		35.8	41.6	...
	Consumer confidence (8)	index	97.0	95.1		93.4	95.5	91.9		75.6	88.1	93.7
	GDP	apc			6.0				-6.8			
	Industrial production	apc	6.2	6.9		-13.5	-13.5	-1.1		3.9	4.4	...
	CPI	apc	4.5	4.5		5.4	5.2	4.3		3.3	2.4	...
	PMI manufacturing (1)	index	50.2	50.2		50.0	35.7	52.0		50.8	50.6	...
<b>South Korea</b> [3.0%]	GDP (1)	qpc			1.3				-1.3			
	Industrial production (1)	mpc	0.5	3.6		-1.5	-3.7	4.7		-6.0	...	...
	CPI	apc	0.2	0.7		1.5	1.1	1.0		0.1	-0.3	...

(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