

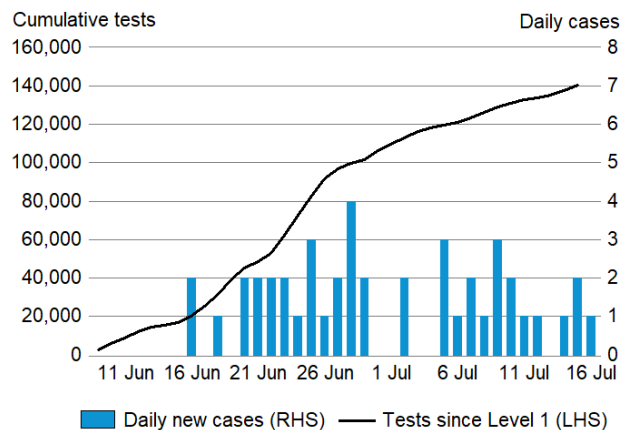
The New Zealand Activity Index (NZAC) showed a continuing recovery in June, though activity remained slightly below 2019 levels. The housing market rebounded and electronic card spending rose above 2019 levels, while business confidence continued to improve in a preliminary July survey. A recent Reserve Bank survey found that demand for credit has fallen as businesses review investment decisions. International arrivals reached a 60-year low in May, bringing estimated net migration close to zero. Annual consumer price inflation slowed to 1.5% in the June quarter, driven by lower prices for petrol and accommodation.

Increases in global COVID-19 cases continue to weigh on the global outlook, with most countries continuing to record activity well below pre-COVID levels, responding with increased fiscal stimulus. On a more positive note, GDP in China rebounded to be 3.2% higher than the June quarter 2019. Australian labour market data for June showed jobs growth returned together with an increase in labour force participation. The unemployment rate increased to 7.4% from 7.1% in May as people re-entered the labour force.

### Still no cases of community transmission...

More cases of COVID-19 have been reported in managed isolation facilities this week, though there is no evidence of community transmission. There are now 27 active cases in New Zealand, all of which recently returned from overseas and are in managed isolation. Over 140,000 tests have been conducted since we moved to Alert Level 1 (Fig 1).

**Figure 1: COVID-19 cases and testing at Alert Level 1**



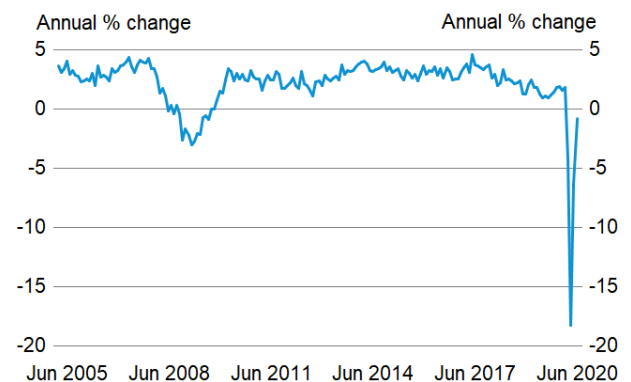
Source: Ministry of Health

### ...and activity recovered further in June...

Following an unprecedented drop in April and a strong rebound in May, the latest New Zealand Activity Indicator (NZAC) result shows that the economy continued to recover in June, although activity was still 0.9% down on the same month last year (Figure 2). The June recovery was mainly driven by electronic card spending and heavy traffic movements, which were 3.9% and 7.1% up on June last year, respectively.

Other contributing indicators, such as light traffic movements, business activity outlook and new job advertisements posted online, also saw a continuing uptick. However, the index was dragged down a little by the growing number of people receiving income support (Jobseeker and CIRP). The next update to NZAC is scheduled for Friday 14 August.

**Figure 2: New Zealand Activity Index**



Source: The Treasury, Stats NZ and RBNZ

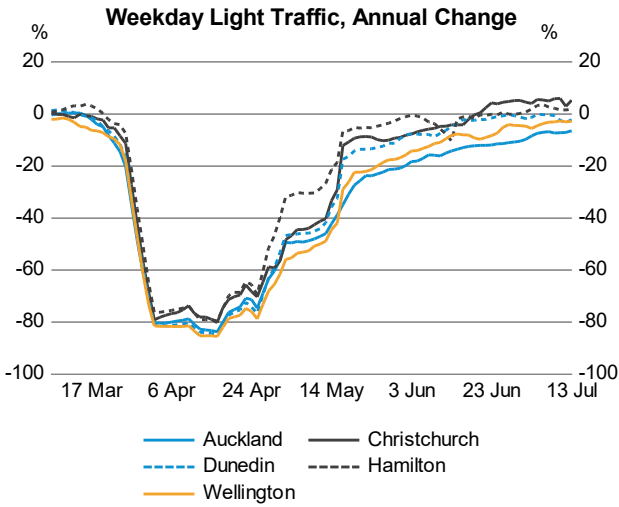
High-frequency activity indicators continued to hold steady during the second week of July. In the week ending 12 July, electricity demand was 6% above 2019 levels and weekly card spending was up 2% on last year. Heavy and light traffic were slightly below 2019 levels, with both down around 4%.

### ...though income support continues to rise

Around 16,500 people were receiving the COVID-19 Income Relief Payment (CIRP) as of 10 July, up 2,600 on the previous week. The number of Jobseeker Support recipients increased by nearly 700, even as more recipients transferred onto the CIRP. The total number of people receiving income support (Jobseeker and CIRP) was 208,500 – up 3,300 on the week prior and 64,000 since March.

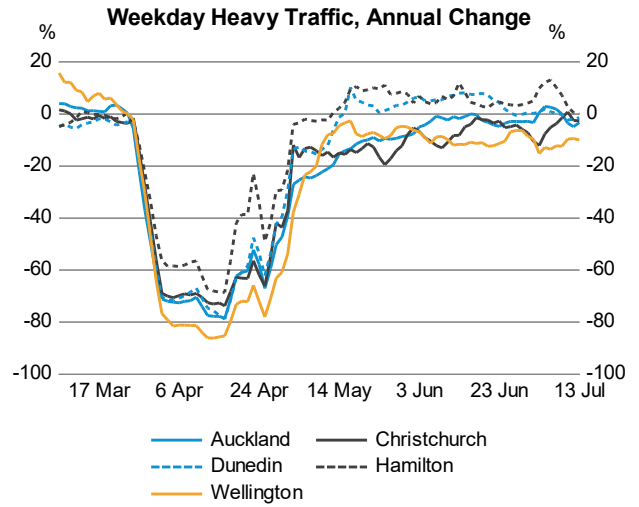
# High-Frequency Indicators

## Traffic Movement



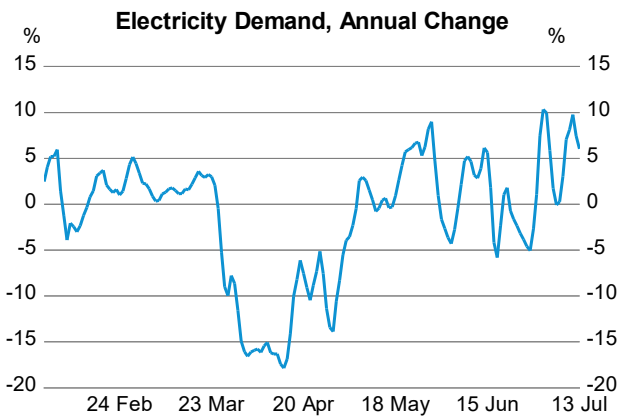
Source: Waka Kotahi NZ Transport Agency

## Freight Movement



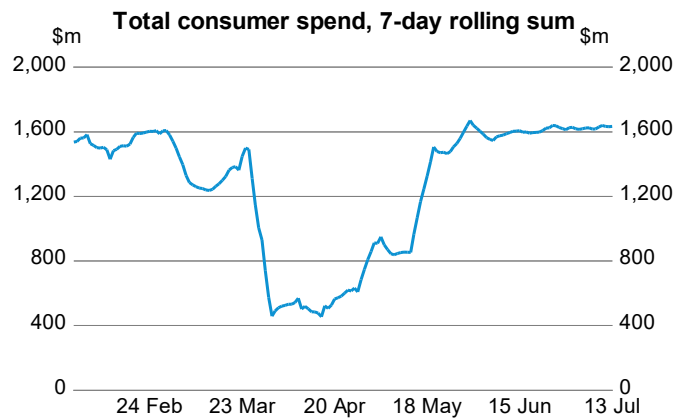
Source: Waka Kotahi NZ Transport Agency

## Electricity Demand



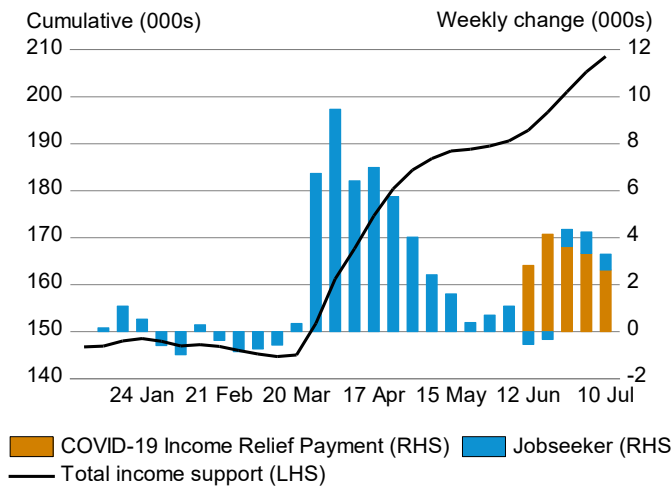
Source: Electricity Authority

## Retail Spending



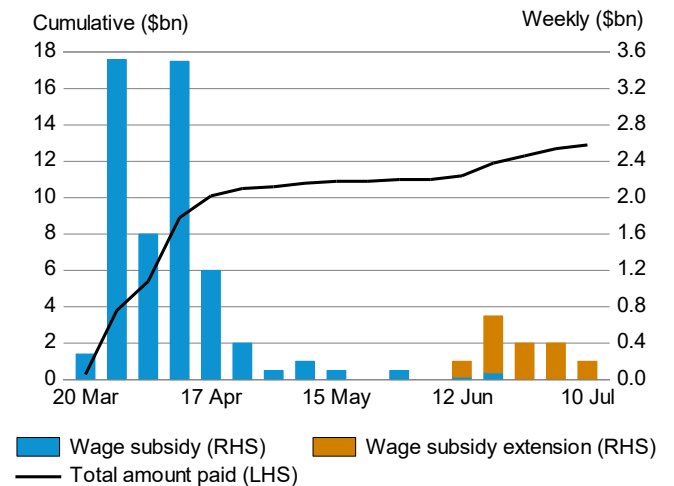
Source: Paymark and Verifone data via Data Ventures

## Jobseeker and Income Support Recipients



Source: MSD

## Fiscal Support: Wage Subsidy (paid)



Source: MSD

### Annual inflation slows to 1.5%

The consumers price index (CPI) fell 0.5% in the June 2020 quarter, following a 0.8% rise in the March quarter. This is the first fall in quarterly inflation since December 2015. The annual inflation rate slowed to 1.5%. The fall was driven by cheaper petrol and accommodation prices, and was broadly in line with market expectations.

Petrol prices fell 12% over the quarter, the largest fall since the December 2008 quarter, on the back of sharp falls in global crude oil prices. Passenger transport services fell 2.9% in the quarter, partly driven by the provision of free public transport throughout much of the quarter.

Accommodation prices fell 14% in the quarter, reflecting the lack of international tourists and campaigns to entice domestic tourism once non-essential travel resumed mid-May. Rents rose by 0.6% in the quarter, following a 1.2% rise in the March quarter. The slower price rise partly reflects the rent freeze announced in late March. Food prices rose 1.1%, driven by a 16% rise in vegetable prices.

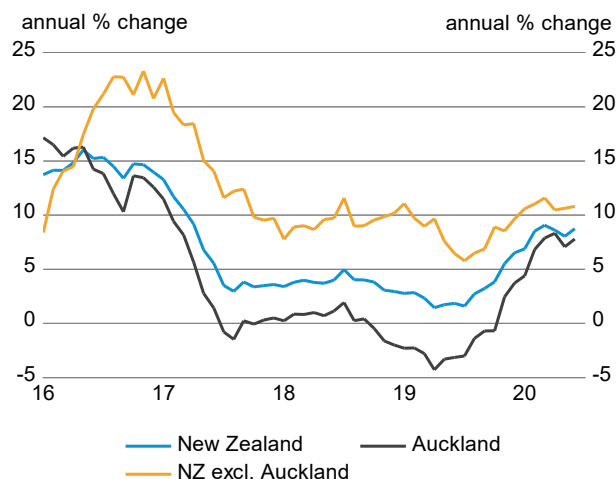
Weak global and domestic demand are expected to keep annual CPI inflation at lower levels in the year ahead.

### House prices and sales bounce back strongly...

House prices rose 1.0% in June to be up 8.6% from a year ago, and sales volumes are now back to where they were before the pandemic, according to the latest REINZ data (Figure 3). Pent up demand, easier monetary conditions, lower inventory levels and the removal of LVR restrictions may all be contributing to the rebound.

The wage subsidy and deferred loan repayments will also be providing support to house prices, but these come to an end this quarter. Furthermore, net migration is expected to remain weak until at least the end of the year and we expect downward pressure on house price growth in the second half of the year. However, if the momentum seen in June is maintained, there will be some upside risk to our house price forecasts.

Figure 3: House prices



Source: REINZ

### ...while spending remains resilient...

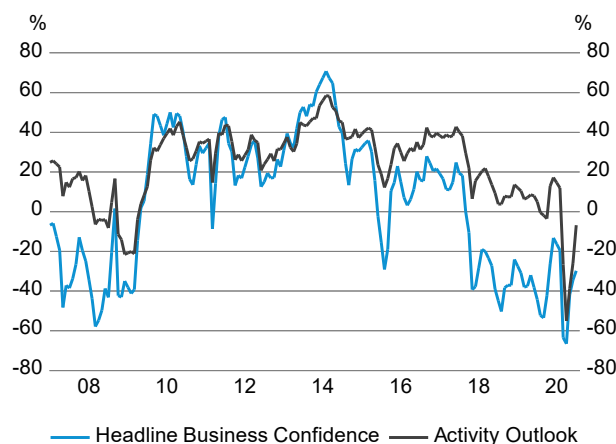
Electronic card spending rose 4.2% in June 2020 compared to June 2019. Spending rose in 5 of the 8 industries reported, and was particularly strong for durables (up 24.2%) and consumables (up 10.5%). Total electronic card spending rose in both the May and June months, by 80.4% and 19.1% respectively.

While much of this increase in spending likely reflects pent-up demand from lockdown, changing consumer behaviours due to a preference for electronic transactions compared to cash, may also be influencing these figures.

### ...and business confidence is still improving

Business confidence rose another 4.6 points to -29.8% in the preliminary July read of the ANZ Business Outlook survey. Firms' view of own activity lifted sharply, up 19.1 points to a net 6.8% of firms expecting lower activity for their firm in the year ahead (Figure 4).

Figure 4: Business Confidence



Source: ANZ

A net 4.5% of firms expect to reduce investment (an improvement of 16 points compared to June) and a net 26% expect lower profits (an improvement of 21 points compared to June). Near-term employment expectations have also improved significantly, with a net 15% expecting to cut jobs, compared to 35% last month. A net 21% of firms report having fewer staff than the same time last year compared to a net 37% in the June survey. ANZ cautioned that, despite the lift in forward-looking indicators, the brunt of the economic pain induced by the closed border has not yet hit.

### **Demand for credit fell over the first half of 2020**

The Reserve Bank conducted an out-of-cycle Credit Conditions Survey at the end of June to understand how domestic credit conditions have changed post-lockdown. The survey, which asks banks qualitative questions about changes in credit conditions, revealed that domestic credit developments post-lockdown have been predominantly demand-driven.

Banks saw a decline in demand for credit over the first half of 2020 and an increase in demand for loans for working capital from SMEs and corporates to meet fixed expenses, and from sheep and beef farmers experiencing drought conditions. Demand for credit for capital expenditure has fallen. Banks noted that low interest rates may support credit demand but many businesses were reviewing investment intentions. Recent tightening in lending standards relate to longer-run trends that preceded the pandemic as well as to new developments in sectors directly exposed to the shock from COVID-19.

### **International arrival numbers are still falling**

There were 5,600 arrivals in May 2020, down from 6,300 in April and the lowest for any month since May 1959. May was the second month of full border restrictions imposed in response to the pandemic. There were 10,200 departures in May compared to nearly 32,000 in April.

Net migration for the months of April and May 2020 were provisionally 0 and 400, respectively. Provisional migration estimates for the year ended May 2020 show annual net migration of 80,700. However, due to travel restrictions and unusual travel patterns, provisional migration estimates for recent months are subject to more uncertainty than usual and will be prone to subsequent revision.

### **Global new COVID-19 cases spike higher...**

New confirmed COVID-19 cases across the world spiked to 230,000 during the weekend. This saw the 7-day average rise to 210,000, well above the 7-day average of 190,000 in the previous week, according to the WHO.

In the United States, Florida, Texas and California — the three most populous states — have each seen spikes in new infections in recent weeks. Georgia and Arizona also reported large increases in infections. California's Governor reimposed several restrictions in the state, including shutting down bars and (indoor seating at) restaurants. Despite this, for now at least, US equity markets appear sanguine that the broader reopening process for the US economy will not be materially interrupted.

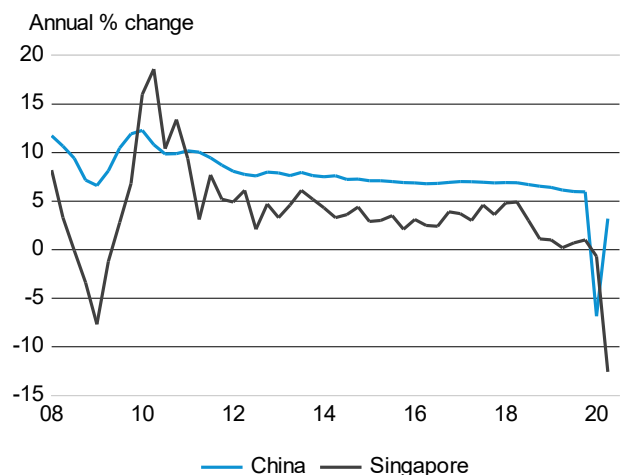
### **China's GDP bounces back...**

In China, June quarter GDP rebounded 11.5% from the March quarter's 10.0% fall, to be 3.2% higher than in the June 2019 quarter (Figure 5). Industrial production led the recovery, up 4.8% from a year ago. Retail sales and fixed asset investment also rebounded solidly, but remain below year-ago levels.

Expanded fiscal stimulus has supported a faster recovery in industrial sectors and is expected to underpin an investment led recovery over the second half of the year. The recovery in consumption will likely continue, albeit lagging industrial production and investment.

The June quarter GDP result was stronger than the median of analysts expectations. Consequently, some have revised up their expectations of 2020 growth, which were centred on 1.5% prior to the report.

**Figure 5: China and Singapore GDP growth**



Source: Haver

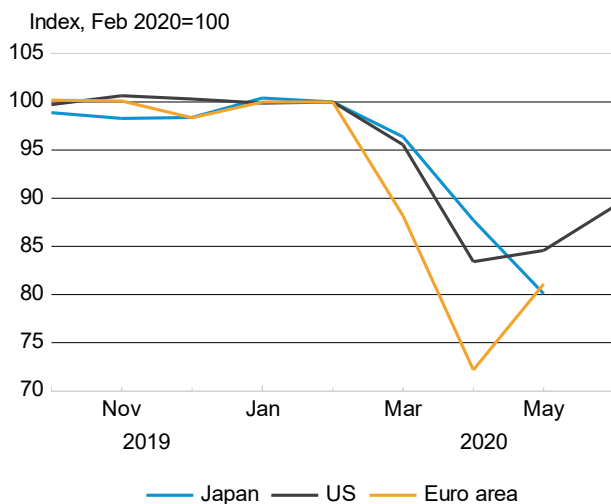
Annual headline CPI inflation came in at 2.5% in June, up from 2.4% in May, driven by a 11.1% increase in food prices. Pork prices rose 3.6% in June, following falls in the previous three months, likely reflecting more stringent meat import inspections. Vegetable price also saw a sizable increase, up 2.8% in the month, attributable to the disruptions from new COVID-19 clusters and flooding in southern China. Heavy rain has increased river levels and caused flood disasters in over 26 southern provinces since late May. Analysts expect inflation to hold up over the summer, but to ease towards the end of the year. Meanwhile, Produce Price Index (PPI) disinflation eased, partly owing to higher oil prices, while the domestic recovery drove higher prices for metals.

**...but remained weak elsewhere**

In Singapore, the advance June quarter GDP estimate was 12.6% lower than the same quarter last year, reflecting the effects of lockdown measures (Figure 5). Prior to the release, which was below market expectations, the consensus forecast was for GDP to contract 6% in the 2020 year.

In the euro area, manufacturing industrial production (IP) was 14.1% higher in May than in April, but remained more than 20% below its pre-virus level, similar to the experience in Japan and the US (Figure 6). In June, US IP rose 5.4% with strengthened consumer demand and diminishing inventories spurring more factory output, although activity is still down more than 10% from February and utilization still well below pre-COVID norms. The US Federal Reserve's latest Beige Book cited an increase in activity in "almost all districts", but still "well below" pre-COVID levels.

**Figure 6: Industrial production**



Source: Haver

Meanwhile, annual US core consumer price inflation was steady at 1.2% in June with prices up 0.23% in the month, following three consecutive monthly falls. A number of COVID-19 sensitive categories (including airfares, lodging and apparel) bounced back, while rent and 'owners' equivalent rent', which together comprise about 40% of the core index, eased. Annual headline inflation rose 0.7% from 0.1% in May. Elevated unemployment is expected to keep core CPI inflation low.

In the United Kingdom (UK), GDP was 1.8% higher in May than in April, and 19.1% lower in the three months to May than in the preceding three months.

Canadian employment rose 5.8% in June, led by sectors that began to reopen. The unemployment rate declined to 12.3% from 13.7% in May, alongside a rise in the participation rate, which has now retraced over half of its April decline.

**...and fiscal support increased further**

The UK Chancellor's Summer Statement included an additional 1% of GDP in stimulus spending. The UK's Office for Budget Responsibility now estimates that direct fiscal intervention this year (2020/21) will total around GBP 190bn, roughly 9.5% of GDP, with debt-to-GDP expected to edge closer to 105% at the end of this fiscal year. The government's fiscal strategy will be updated in its Autumn Budget.

In Canada, the federal government released an updated fiscal snapshot for the 2020 fiscal year showing federal deficit expectations at 16% of GDP. Canada's COVID-19 Economic Response Plan is estimated to have fiscal costs of 14% of GDP. Federal debt will rise close to 50% of GDP from around 30% previously. The economy is expected to contract 7% this year and rebound 5½% in 2021.

French President Macron announced a fiscal package worth 4.1% of GDP. Details of the package, which focuses on green public investments and employment of younger workers, will be released by late August.

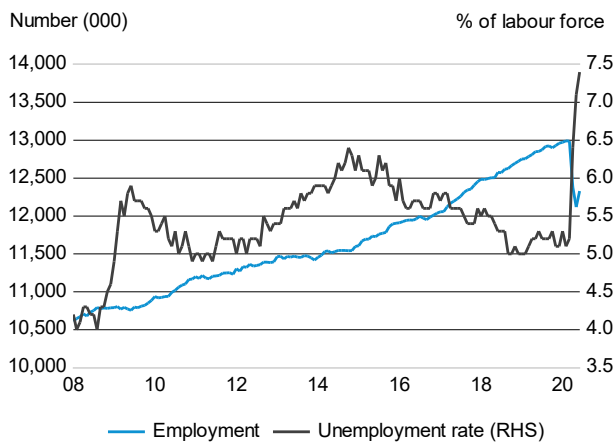
**Australian employment rises but outlook is uncertain...**

Employment increased 1.7% (211,000) in June according to the ABS's monthly labour force survey, partially reversing the 6% (870,000) fall over the prior three months (Figure 7).

The unemployment rate increased to 7.4% from 7.1% in May and the participation rate increased 1.3 percentage points to 64.0 as people re-entered the labour market. The lockdown in Victoria is

expected to lead to a fall in jobs in July and August, offsetting jobs growth elsewhere. The net impact is expected to see employment move broadly sideways.

**Figure 7: Australian labour market**

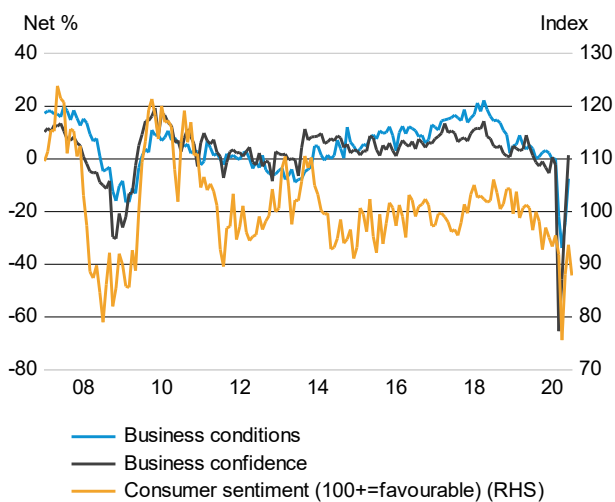


Source: Haver

**...as lockdown measures weigh on sentiment**

The Westpac/MI consumer sentiment index fell by 6.1% to 87.9 in July after two consecutive monthly gains. The period of the survey covered the week the lockdown was announced for Melbourne but before the news of a significant cluster in Sydney. Sentiment in Victoria fell by 10.4% in July versus milder falls in other states.

**Figure 8: Business and consumer sentiment**



Source: Haver

In contrast, Australia’s NAB business confidence survey returned to positive territory in June, climbing from -20 to +1. Business conditions also improved, but the index was still negative at -7 (from -24). The improvement was broad-based across employment, profitability and trading conditions, although all indicators remain at negative levels.

Importantly, the survey was conducted prior to the recent spike in COVID-19 case counts and the re-introduction of lockdown measures in parts of Victoria. The number of new cases in NSW is also rising, highlighting the risk that parts of the state may go into lockdown in coming weeks. The situation continues to evolve, but it is likely these developments will weigh on sentiment in upcoming releases.

Date	Key NZ Data	Previous
20 July	BNZ PSI	37.2
24 July	Overseas merchandise trade	\$1.3 billion

Quarterly Indicators		2019Q1	2019Q2	2019Q3	2019Q4	2020Q1	2020Q2
Real Production GDP (1)	qpc	0.4	0.1	0.8	0.5	-1.6	...
	aapc	3.1	2.9	2.7	2.3	1.5	...
Current account balance (annual)	%GDP	-3.6	-3.4	-3.3	-3.0	-2.7	...
Merchandise terms of trade	apc	-1.9	-1.0	0.9	7.1	5.3	...
CPI inflation	qpc	0.1	0.6	0.7	0.5	0.8	-0.5
	apc	1.5	1.7	1.5	1.9	2.5	1.5
Employment (HLFS) (1)	qpc	-0.1	0.6	0.2	0.1	0.7	...
Unemployment rate (1)	%	4.1	4.0	4.1	4.0	4.2	...
Participation rate (1)	%	70.3	70.3	70.4	70.1	70.4	...
LCI salary & wage rates - total (2)	apc	2.0	2.1	2.5	2.6	2.5	...
QES average hourly earnings - total (2)	apc	3.4	4.4	4.2	3.6	3.6	...
Core retail sales volume	apc	3.9	3.6	5.4	3.3	4.0	...
Total retail sales volume	apc	3.3	2.9	4.5	3.3	2.3	...
WMM - consumer confidence (3)	Index	103.8	103.5	103.1	109.9	104.2	97.2
QSBO - general business situation (1,4)	net%	-27.0	-30.7	-38.0	-28.6	-68.0	-58.8
QSBO - own activity outlook (1,4)	net%	5.3	-2.0	-0.2	4.1	-13.9	-24.8

Monthly Indicators		Jan 20	Feb 20	Mar 20	Apr 20	May 20	Jun 20
Merchandise trade balance (12 month total)	NZ\$m	-3927	-3283	-3383	-2405	-1327	...
Dwelling consents - residential	apc	2.7	6.0	-8.3	-16.8	-4.6	...
House sales - dwellings	apc	7.7	13.4	2.7	-77.2	-44.6	7.1
REINZ - house price index	apc	6.9	8.5	9.1	8.6	8.0	8.7
Estimated net migration (12 month total)	people	72706	78441	84897	83106	80709	...
ANZ NZ commodity price index	apc	7.7	6.6	5.8	0.9	-1.4	-1.5
ANZ world commodity price index	apc	5.1	0.1	-5.8	-9.2	-8.2	-5.2
ANZBO - business confidence	net%	...	-19	-64	-67	-42	-34
ANZBO - activity outlook	net%	...	12	-27	-55	-39	-26
ANZ-Roy Morgan - consumer confidence	net%	123	122	106	85	97	105

Daily Indicators		Wed 8/7/20	Thu 9/7/20	Fri 10/7/20	Mon 13/7/20	Tue 14/7/20	Wed 15/7/20
<b>NZ exchange and interest rates (5)</b>							
NZD/USD	\$	0.6546	0.6573	0.6565	0.6574	0.6533	0.6562
NZD/AUD	\$	0.9436	0.9420	0.9448	0.9440	0.9411	0.9363
Trade weighted index (TWI)	index	72.5	72.5	72.6	72.6	72.2	72.3
Official cash rate (OCR)	%	0.25	0.25	0.25	0.25	0.25	0.25
90 day bank bill rate	%	0.31	0.31	0.31	0.31	0.31	0.31
10 year govt bond rate	%	0.96	0.98	0.99	1.00	0.96	0.94
<b>Share markets (6)</b>							
Dow Jones	index	26067	25706	26075	26086	26643	26870
S&P 500	index	3170	3152	3185	3155	3198	3227
VIX volatility index	index	28.1	29.3	27.3	32.2	29.5	27.8
AU all ords	index	6034	6075	6036	6089	6046	6160
NZX 50	index	11707	11441	11395	11435	11494	11611
<b>US interest rates</b>							
3 month OIS	%	0.09	0.09	0.09	0.09	0.09	...
3 month Libor	%	0.27	0.27	0.27	0.28	0.27	...
10 year govt bond rate	%	0.67	0.62	0.65	0.64	0.63	0.64
<b>Commodity prices (6)</b>							
WTI oil	US\$/barrel	40.90	39.62	40.56	40.06	40.30	41.20
Gold	US\$/ounce	1811	1812	1803	1808	1802	1805
CRB Futures	index	363	364	363	364	366	...

(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		2019Q3	Jan 20	Feb 20	Mar 20	2019Q4	Apr 20	May 20	Jun 20	2020Q1	Jul 20
<b>United States</b> [9.6% share of total goods exports]	GDP (1)	qpc	0.5				0.5				-1.3	
	Industrial production (1)	mpc		-0.4	0.1	-4.4		-12.7	1.4	5.4		...
	CPI	apc		2.5	2.3	1.5		0.3	0.1	0.6		...
	Unemployment rate (1)	%		3.6	3.5	4.4		14.7	13.3	11.1		...
	Employment change (1)	000s		214.0	251.0	-1373.0		-20787.0	2699.0	4800.0		...
	Retail sales value	apc		4.9	4.5	-5.6		-19.9	-6.1	...		...
	House prices (2)	apc		3.1	3.5	3.9		4.0	...	...		...
<b>Japan</b> [6.1%]	PMI manufacturing (1)	index		50.9	50.1	49.1		41.5	43.1	52.6		...
	Consumer confidence (1)(3)	index		130.4	132.6	118.8		85.7	85.9	98.1		...
	GDP (1)	qpc	0.0				-1.9				-0.6	
	Industrial production (1)	mpc		1.9	-0.3	-3.7		-9.8	-8.9	...		...
<b>Euro area</b> [5.5%]	CPI	apc		0.6	0.5	0.4		0.2	0.0	...		...
	Unemployment rate (1)	%		2.4	2.4	2.5		2.6	2.9	...		...
	Retail sales value	apc		-0.4	1.6	-4.7		-13.9	-12.5	...		...
	PMI manufacturing (1)	index		48.8	47.8	44.8		41.9	38.4	40.1		...
	Consumer confidence (1)(4)	index		39.2	38.2	31.1		21.3	24.1	28.5		...
	GDP (1)	qpc	0.3				0.1					-3.6
	Industrial production (1)	mpc		1.7	0.0	-11.8		-18.2	12.4	...		...
<b>United Kingdom</b> [2.7%]	CPI	apc		1.4	1.2	0.7		0.3	0.1	...		...
	Unemployment rate (1)	%		7.4	7.2	7.1		7.3	7.4	...		...
	Retail sales volume	apc		2.2	2.6	-8.3		-19.6	-5.1	...		...
	PMI manufacturing (1)	index		47.9	49.2	44.5		33.4	39.4	47.4		...
	Consumer confidence (5)	index		-8.1	-6.6	-11.6		-22.0	-18.8	-14.7		...
	GDP (1)	qpc	0.5				-0.0					-2.2
	Industrial production (1)	mpc		0.2	0.3	-4.3		-20.3	6.0	...		...
<b>Australia</b> [15.8%]	CPI	apc		1.8	1.7	1.5		0.8	0.6	...		...
	Unemployment rate (1)	%		3.9	4.0	3.9		3.9	...	...		...
	Retail sales value	apc		0.9	0.0	-6.0		-22.7	-13.2	...		...
	House Prices (7)	apc		1.9	2.3	3.0		3.7	1.8	-0.1		...
	PMI manufacturing (1)	index		50.0	51.7	47.8		32.6	40.7	50.1		...
	Consumer confidence (1)(5)	index		-6.5	-6.2	-8.2		-22.7	-23.7	-21.0		...
	GDP (1)	qpc	0.6				0.5					-0.3
<b>China</b> [24.3%]	CPI	apc	1.7				1.8					2.2
	Unemployment rate (1)	%		5.3	5.1	5.2		6.4	7.1	...		...
	Retail sales value	apc		2.2	5.7	9.4		-8.9	5.5	...		...
	House Prices (7)	apc	-3.9				2.8					8.1
	PMI manufacturing (1)	index		45.4	44.3	53.7		35.8	41.6	51.5		...
<b>South Korea</b> [3.0%]	Consumer confidence (8)	index		93.4	95.5	91.9		75.6	88.1	93.7		87.9
	GDP (1)	apc	6.0				6.0					-6.8
	Industrial production	apc		-13.5	-13.5	-1.1		3.9	4.4	...		...
<b>South Korea</b> [3.0%]	CPI	apc		5.4	5.2	4.3		3.3	2.4	2.5		...
	PMI manufacturing (1)	index		50.0	35.7	52.0		50.8	50.6	50.9		...
<b>South Korea</b> [3.0%]	GDP (1)	qpc	0.4				1.3					-1.3
	Industrial production (1)	mpc		-1.5	-3.7	4.9		-6.7	-6.7	...		...
	CPI	apc		1.5	1.1	1.0		0.1	-0.3	-0.0		...

(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