

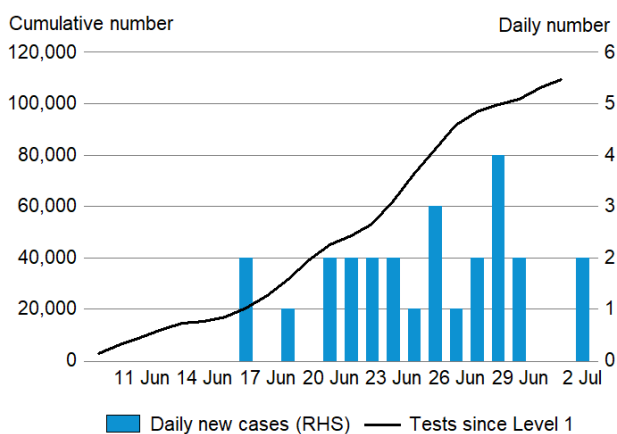
New cases of COVID-19 continue to be reported in managed isolation facilities, with no evidence of community transmission. A new index of economic activity shows a partial recovery in May, though income support continues to increase. Consumer and business confidence lifted in June, but remain well below their historical averages. The total number of filled jobs partially recovered in May following significant losses in April, and building consents rebounded.

In the United States, the pace of the recovery continued to surprise markets and in China, the pace of expansion quickened. Elsewhere, the data were less positive, with large falls in industrial production in Japan and Korea as global demand for new cars slumped, and renewed lockdown measures imposed in parts of Melbourne, Australia.

Still no cases of community transmission...

More cases of COVID-19 have been reported in managed isolation facilities this week, though there remains no evidence of community transmission. There are now 18 active cases in New Zealand, all of which recently returned from overseas and are in managed isolation. Over 100,000 tests have been carried out since the country moved to Alert Level 1 (Figure 1).

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



Source: Ministry of Health

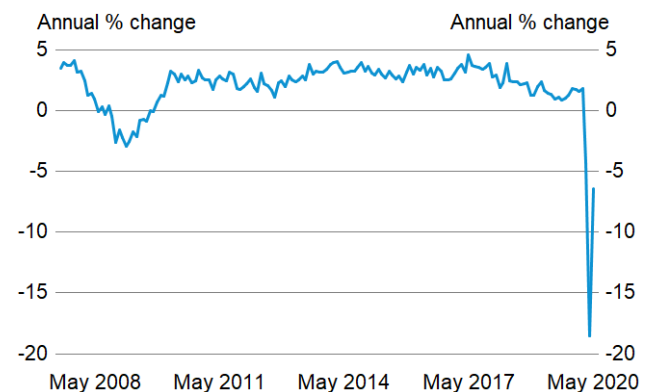
...and a new activity index shows a partial recovery in May...

The NZ Activity Index (NZAC), developed by staff at the Treasury, Stats NZ and RBNZ, was launched on Tuesday (Figure 2). The index summarises changes in eight monthly indicators – including card spending, traffic movements, unemployment and business confidence – to provide a timely signal of activity in the economy. The data used in the index is available on the Stats NZ COVID-19 data portal.

Though not intended to be an estimate of GDP, NZAC provides a timelier read on movements in the economy than official statistics, and will be updated monthly. A simple plot of NZAC against GDP shows that they do correlate well for long periods of time, but they also diverge from each other at times.

In April, the index was down 19% compared to the same month last year. In May, the index partially bounced back but remained 6.5% below its 2019 level. The rebound was largely driven by recoveries in card spending and traffic movements, which all increased more than 80% from their April lows.

Figure 2: NZ Activity Index



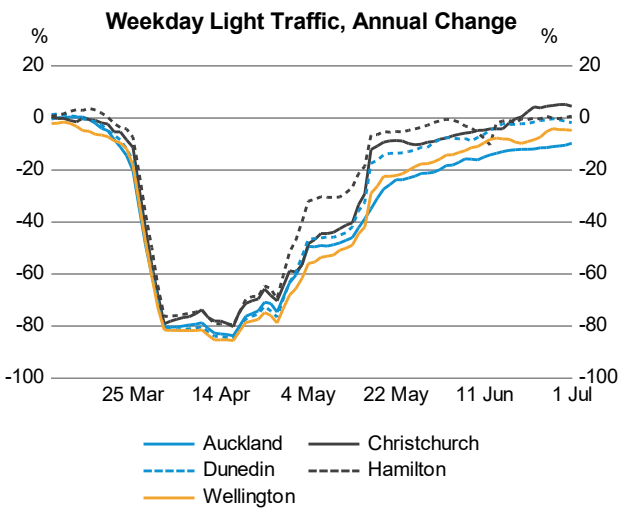
Source: Treasury, Stats NZ and RBNZ

...though income support continues to rise

Just over 10,000 people were receiving the COVID-19 Income Relief Payment (CIRP) as of 26 June, up 3,600 on the previous week. The number of Jobseeker Support recipients increased by 700, even as more people transferred onto the CIRP. The total number of people receiving income support (Jobseeker and CIRP) is now 201,000 – up 4,300 on the previous week and more than 50,000 since March.

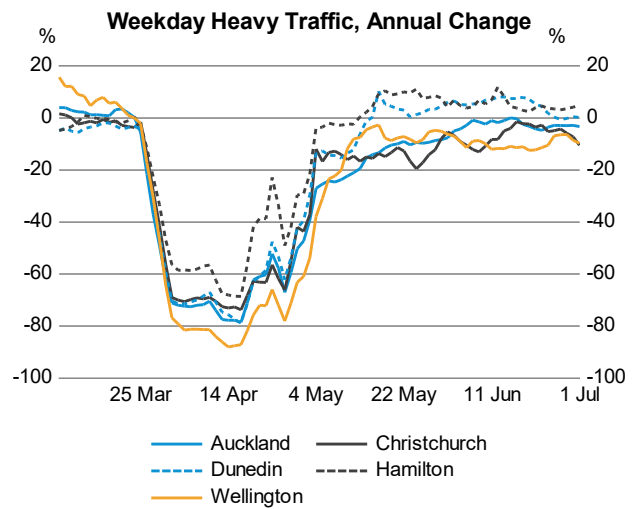
High-Frequency Indicators

Traffic Movement



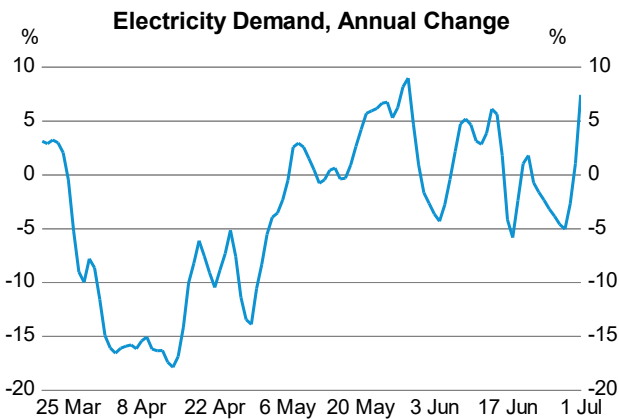
Source: Waka Kotahi NZ Transport Agency

Freight Movement



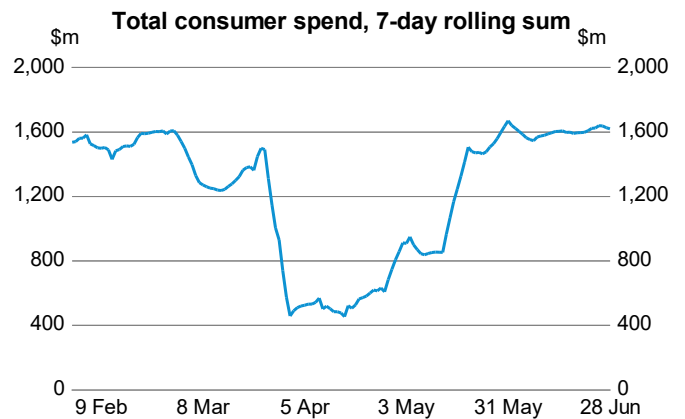
Source: Waka Kotahi NZ Transport Agency

Electricity Demand



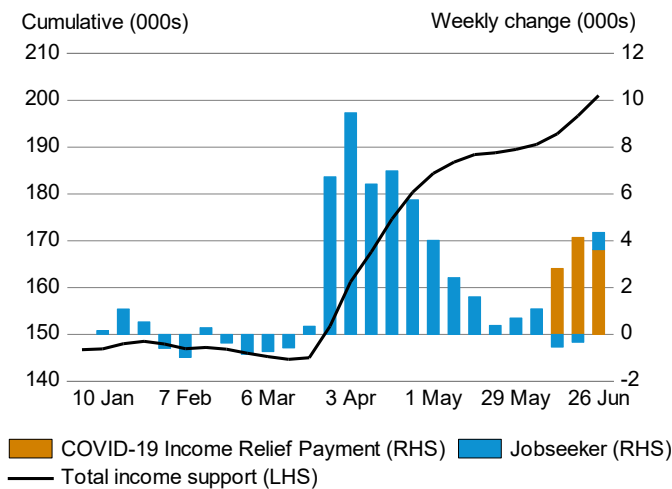
Source: Electricity Authority

Retail Spending



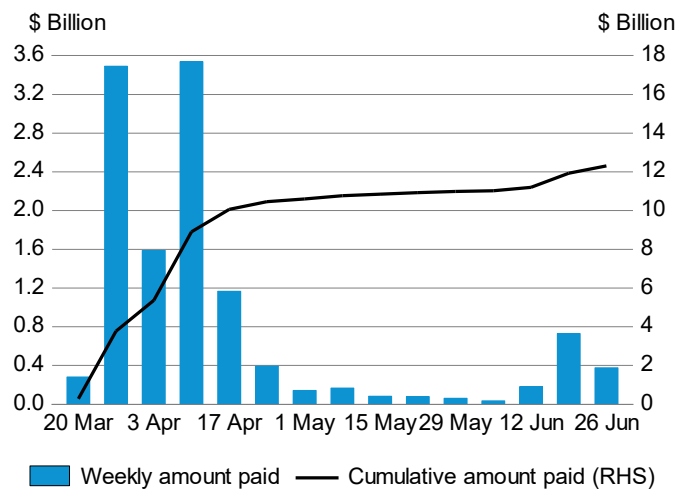
Source: Paymark and Verifone data via Data Ventures

Jobseeker and Income Support Recipients



Source: MSD

Fiscal Support: Wage Subsidy (paid)

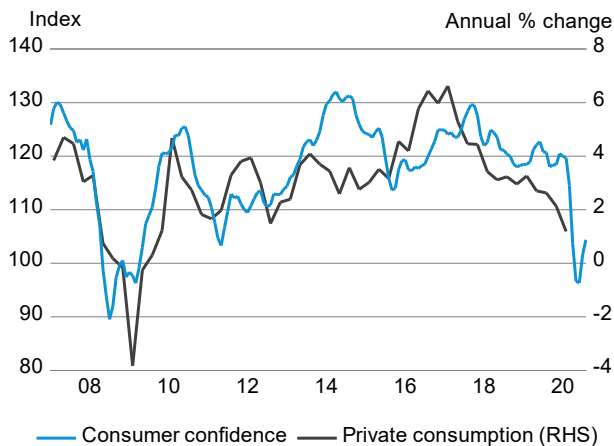


Source: MSD

Further improvement in consumer confidence...

Consumer confidence rose another 8 points, in June to 104.5 (Figure 3) in the ANZ-Roy Morgan Consumer Confidence Survey, but remains well below its historical average.

Figure 3: Confidence and private consumption



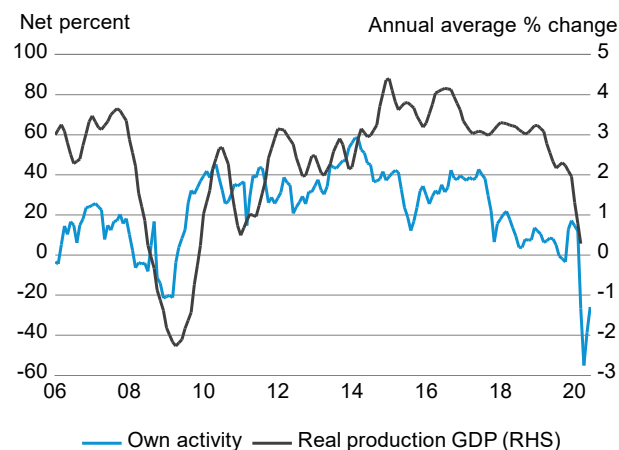
Source: ANZ, Stats NZ

Consumers' perceptions about their current financial situation lifted 4 points with a net 32% of consumers now reporting they are better off financially than this time last year. Perceptions regarding next year's economic outlook rose 9 points but remains low at -37%. The 5-year outlook fell 5 points to 19%. Expectations around house price inflation rose to 0.9% however remain negative in the South Island reflecting its tourism exposure. General inflation expectations were unchanged at 2.9%. We expect rising unemployment and lower household incomes to limit the pace of recovery in confidence in the next few quarters.

...and business confidence remains stable

In the ANZ Business Outlook Survey, headline business confidence remained largely unchanged from the preliminary June read at -34%, an improvement from -42% in May. Firms' views of their own activity rose as well, with a net 26% expecting conditions to deteriorate, compared to 39% in the May reading (Figure 4). Expected activity rose most in the retail sector and is most negative in the construction sector. While the improvement is significant, the outlook remains at levels typically seen in a recession. Nearly half of respondents intend to reduce staff numbers and a similar proportion have already reduced numbers over the past year.

Figure 4: ANZ Business Outlook and GDP



Source: ANZ, Stats NZ

Investment intentions are recovering more quickly than employment intentions although profitability expectations remain very weak across all sectors.

Filled jobs recover partially...

The total number of filled jobs rose 0.8% in May, following a 1.6% fall in April. People in the 15-24-year-old age group were most severely impacted by job losses in April and have recovered more slowly in May than other age brackets. The rise in filled jobs is consistent with the improvement in other activity indicators, reflecting the move to less restrictive alert levels. However, the wage subsidy scheme will still be insulating the labour market from what would otherwise have been greater job losses, and as the scheme phases out, further job losses are expected. We expect the unemployment rate to peak in the September quarter.

...and building consents rebound

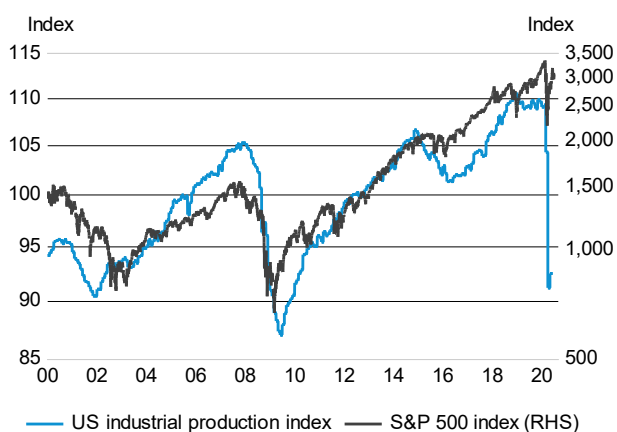
The number of new homes consented rose 36% in May, following a 9.9% fall in April, but the number of consents issued annually eased further from the 45-year high recorded in February. Consents for stand-alone houses rose just over 16% while multi-unit dwelling consents rose by 67% from April. However, it should be noted that these increases come after a very weak period due to lockdown measures. Furthermore, processing delays relating to lockdown measures mean that some of this month's numbers could reflect consents submitted weeks or months ago, so at this stage it is unclear how much of the bounce back is attributable to timing. We expect that heightened uncertainty levels and reduced demand from a combination of lower incomes and net migration should see consent issuance ease to a lower level over the year ahead.

Equities continue to rise...

At a time where the global economy is in the worst recession in living memory, equities in the S&P500 index had their best quarter since 1998. The third quarter has commenced with further rises in equities. On the economic side, the latest data confirm that the worst is behind. The J.P. Morgan global manufacturing PMI rose 5.4 points in June, pointing to additional momentum for the ongoing rebound in global activity – even as the level, at 47.8, would historically suggest a modest contraction in global industrial production for June.

Nevertheless, a large gap has emerged between equities and fundamentals and whether it closes through higher production or a correction in equities is unclear (Figure 5).

Figure 5: Equities and industrial production



Source: Haver

...buoyed by better data in the US...

In the United States (US), the ISM Performance of Manufacturing Index (PMI) returned to an expansionary reading of 50 in June, a month after moves by states to reopen nonessential activity. June's 9.5 point rise was the largest since August 1980 and a fair bit above the consensus (49.8). It was also in keeping with Citigroup's US economic surprise index, which has surged recently to a record high, reflecting the positive run of data as economists have been overly pessimistic about the rebound in activity indicators post-lockdown.

However, Fed Chair Jerome Powell observed there were further challenges ahead "notably, the need to keep the virus in check". Anthony Fauci, director of the US National Institute of Allergy and Infectious Diseases, warned US virus cases could reach 100,000 per day, with media reports of hospitals in parts of Texas and Arizona operating at near-full capacity.

...and China

China has recovered earlier than the rest of the global economy, and the latest PMI data for China point to further expansion as the June NBS manufacturing output PMI rose another 0.7-pts to 53.9. The improvement signals a further rebound in domestic activity, backed by policy supports, and the non-manufacturing PMI gained 0.8-pts to 54.4. Meanwhile, external sector drags have eased as the manufacturing new export orders PMI leapt 7.3-pts to 42.6 in June. However, labour market normalization appears to be more gradual as the employment component dipped 0.3-pts to 49.1 for manufacturing and rose 0.2-pts to 48.7 for non-manufacturing.

But production slumps in Japan, Korea...

In Japan, industrial production dropped -8.4% from May (April: -9.8%), the first four-month run of lower output since the global financial crisis (October 2008 – February 2009), reflecting a plunge in exports due to lockdowns in major US and European cities and constraints on supply under the Japanese government's emergency declaration (7 April to 25 May). Industrial production in South Korea also plunged, down 6.7% from April, with auto production particularly hard-hit.

In the euro zone, the manufacturing PMI was revised up to 47.4 (vs 46.9 in the flash estimate), rising by 8pts since May but remaining below the expansionary threshold of 50. Although France was the strongest at 52.3 (Germany the weakest at 45.2), Finance Minister Bruno Le Maire said that the French economy is set to contract 11% this year due to the coronavirus crisis instead of the 8% assumption used in the previous budget.

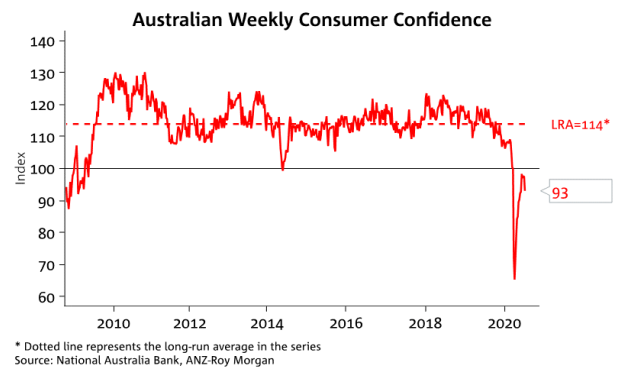
...and lockdowns reinstated in Victoria, Australia

Victoria reinstated Stage 3 restrictions on 10 postcodes in Melbourne's north and northwest (encompassing more than 300,000 people), until 29 July. The state reported 64 cases on Tuesday, after 75 cases on Monday. Cafes and restaurants in hotspot suburbs will be only takeaway, with Victoria offering affected businesses a AUD\$5000 grant. Victoria will divert all international flights for two weeks to fix issues with hotel quarantine, after a genomics study revealed strong links between recent spread and outbreaks amongst security guards. SA and WA will hold off on reopening borders, while Queensland will reopen to all states except Victoria on 10 July.

Australia's relative success in containing the virus to date, along with large government assistance had seen a relatively sharp recovery in consumer and business confidence.

However, recently confidence has dipped (Figure 6), most likely reflecting the impact from the recent rise in the virus in Victoria. A further deterioration seems likely, but it is unclear whether the rise in infections will have a more lasting impact on confidence in Victoria. In the short-run, the virus pickup and renewed restrictions will see Victoria lag the recovery in other states and, with some interstate borders likely to remain closed for longer, slowing a recovery in domestic tourism. Victoria contributes around 25% of total Australian GDP.

Figure 6: Consumer Confidence



Meanwhile, dwelling prices fell by 0.8% across the eight capital cities in June and annual growth eased to 8.9%. Weekly ABS payrolls data show a 1% rise in payroll jobs over the four weeks to mid-June, with almost one in three of the jobs lost having recovered over the past two months.

Date	Key NZ Data	Previous
6 July	ANZ Commodity Prices	-0.1% (mpc)
7 July	Quarterly Survey of Business Opinion	-67% (net)
10 July	Electronic Card Transactions	- 13% (apc)

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		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	-77.5	-46.6	...
REINZ - house price index	apc	6.9	8.5	9.1	8.6	7.9	...
Estimated net migration (12 month total)	people	67107	72027	78185	76555	...	...
ANZ NZ commodity price index	apc	7.7	6.6	5.8	0.9	-2.6	...
ANZ world commodity price index	apc	5.1	0.1	-5.8	-9.2	-9.3	...
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 24/6/20	Thu 25/6/20	Fri 26/6/20	Mon 29/6/20	Tue 30/6/20	Wed 1/7/20
NZ exchange and interest rates (5)							
NZD/USD	\$	0.6477	0.6415	0.6432	0.6431	0.6426	0.6462
NZD/AUD	\$	0.9330	0.9344	0.9342	0.9354	0.9340	0.9353
Trade weighted index (TWI)	index	71.7	71.3	71.4	71.5	71.4	71.7
Official cash rate (OCR)	%	0.25	0.25	0.25	0.25	0.25	0.25
90 day bank bill rate	%	0.30	0.30	0.30	0.31	0.30	0.30
10 year govt bond rate	%	0.97	0.94	0.95	0.91	0.91	0.93
Share markets (6)							
Dow Jones	index	25446	25746	25016	25596	25813	25735
S&P 500	index	3050	3084	3009	3053	3100	3116
VIX volatility index	index	33.8	32.2	34.7	31.8	30.4	28.6
AU all ords	index	6082	5928	6012	5916	6001	6041
NZX 50	index	11259	11124	11129	11253	11451	11350
US interest rates							
3 month OIS	%	0.08	0.08	0.08	0.08	0.08	...
3 month Libor	%	0.28	0.31	0.31	0.30	0.30	...
10 year govt bond rate	%	0.69	0.68	0.64	0.64	0.66	0.69
Commodity prices (6)							
WTI oil	US\$/barrel	38.01	38.72	38.53	39.67	39.27	39.82
Gold	US\$/ounce	1766	1757	1748	1772	1768	...
CRB Futures	index	361	362	359	359	360	...

(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
United States [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		4.0	...	...
Japan [6.1%]	PMI manufacturing (1)	index	48.1	47.8		50.9	50.1	49.1		41.5	43.1	52.6
	Consumer confidence (1)(3)	index	126.8	128.2		130.4	132.6	118.8		85.7	85.9	98.1
	GDP (1)	qpc			-1.9				-0.6			
Euro area [5.5%]	Industrial production (1)	mpc	-0.6	0.2		1.9	-0.3	-3.7		-9.8	-8.4	...
	CPI	apc	0.5	0.8		0.6	0.5	0.4		0.2	0.0	...
	Unemployment rate (1)	%	2.2	2.2		2.4	2.4	2.5		2.6	2.9	...
	Retail sales value	apc	-2.1	-2.6		-0.4	1.6	-4.7		-13.9	-12.3	...
	PMI manufacturing (1)	index	48.9	48.4		48.8	47.8	44.8		41.9	38.4	40.1
	Consumer confidence (1)(4)	index	38.7	39.0		39.2	38.2	31.1		21.3	24.1	28.5
	GDP (1)	qpc			0.1				-3.6			
United Kingdom [2.7%]	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	...	...
	House prices (6)	apc	0.8	1.4		1.9	2.3	3.0		3.7	1.8	-0.1
	PMI manufacturing (1)	index	48.9	47.5		50.0	51.7	47.8		32.6	40.7	50.1
	Consumer confidence (1)(5)	index	-8.8	-7.1		-6.5	-6.2	-8.2		-22.7	-23.7	-21.0
Australia [15.8%]	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	...	...
	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	51.5
China [24.3%]	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	...
South Korea [3.0%]	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	50.9
	GDP (1)	qpc			1.3				-1.3			
	Industrial production (1)	mpc	0.5	3.6		-1.5	-3.7	4.9		-6.7	-6.7	...
	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