

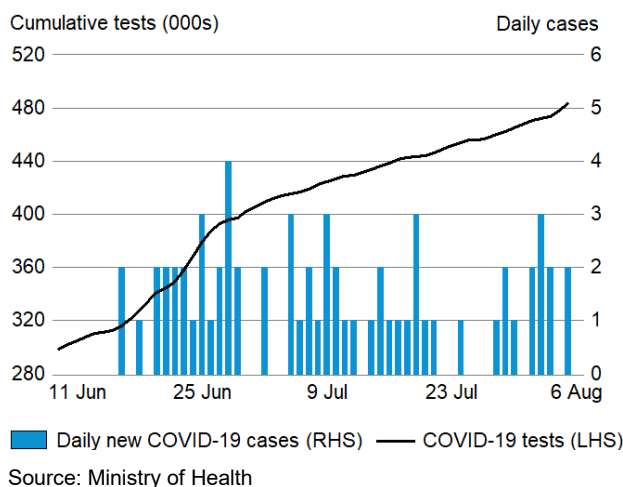
In a surprise result, the headline unemployment rate fell to 4.0% for the June quarter, although the underutilisation rate rose to 12.0% as hours worked plummeted. Weekly estimates based on subsets of the survey saw the unemployment rate trending up to average nearly 5% during the final weeks at Alert Level 1. Concerns over job security appear to be abating and household confidence remains steady. Strong dairy prices over the past month unwound slightly in the latest *GlobalDairyTrade* auction.

The release of June quarter GDP data across the globe has begun to provide more concrete evidence of the scale of the current crisis, though with substantial divergence across economies. The global manufacturing PMI moved into expansionary territory in July for the first time since January, but there are concerns about how sustainable and strong the recovery will be, particularly given the constant threat of additional waves of COVID-19 infection.

Still no cases of community transmission

Nearly 100 days have passed since the last case of COVID-19 was locally acquired in New Zealand from an unknown source. There are now 23 active cases in the country, all of which were intercepted at the border. Total COVID-19 tests in New Zealand now exceed 480,000 (Figure 1), with over 20,000 tests in the last week.

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

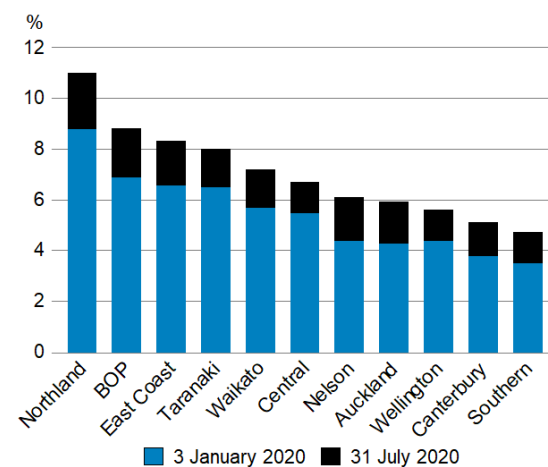


Increases in Jobseeker support widespread...

Data from the Ministry of Social Development (MSD) show that increases in the number of people receiving Jobseeker support have been widespread

across the country (Figure 2). Between 3 January and 31 July, all eleven work and income regions experienced increases in the percentage of the working-age population receiving Jobseeker support. The largest increases were in the Bay of Plenty and Northland regions, which also had the two highest proportions of Jobseeker support in January.

Figure 2: Percentage of working-age population receiving Jobseeker support, by region



...and income support continues to rise...

Around 21,000 people were receiving the COVID-19 Income Relief Payment (CIRP) as of 31 July, an increase of 1,000 on the previous week. The number of Jobseeker Support recipients increased only slightly, although 50 more recipients transferred onto the CIRP. The total number of people receiving income support (Jobseeker and CIRP) was 213,400 – up 1,000 on the week prior. The weekly increase in income support numbers has slowed in each of the last five weeks.

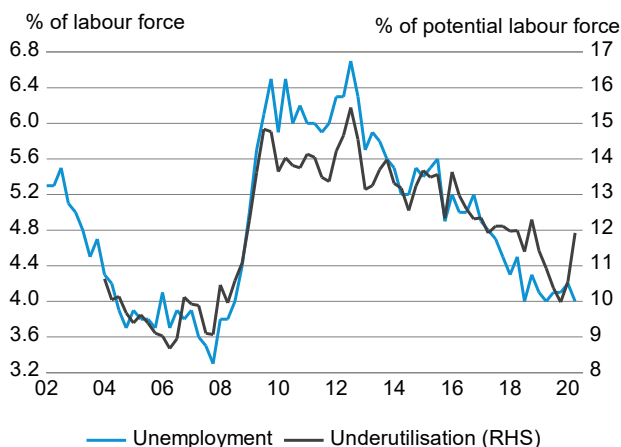
...however the unemployment rate surprised...

The unemployment rate fell to 4.0% in the June quarter, down from the 4.2% in the March quarter. The impacts of COVID-19 on measurement are readily apparent on the June quarter numbers, with an “extended” measure of unemployment rising to 4.6%. This extended measure covers both official unemployed and those who did not meet the classification requirements for official unemployment for reasons related to COVID-19.

...but underutilisation measures grew...

The number of people employed fell by 0.4% in the June quarter, while the number of people recorded as being “Not in the Labour Force” rose by 37,000, resulting in the labour force participation rate falling to 69.7% (from 70.5% in the March quarter). The underutilisation rate (a broader measure of the amount of slack in the labour market) increased to 12.0% in the June quarter from 10.4% in the March quarter (Figure 3).

Figure 3: Unemployment and underutilisation

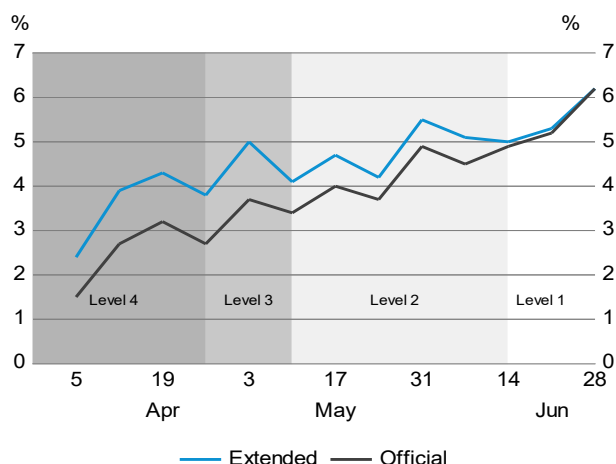


Source: Stats NZ

...and the within-quarter picture is telling

Stats NZ also released a break-down of the unemployment rates observed within the reference weeks making up the quarter, which showed the extended and official unemployment rate trending upwards, to both end up averaging nearly 5% during the final weeks at Alert Level 1 (Figure 4).

Figure 4: Unemployment rates by reference week



Source: Stats NZ

While these weekly estimates are prone to considerable sample error, there is clear signal that over the course of the quarter, the unemployment rate was tending well towards prior market expectations.

Hours worked fell by a record amount

Hours worked fell by a record 10.3% in the June quarter, with the retail, accommodation and food service industries most affected. This contrasts with the 3.4% fall in the number of hours paid from the QES, with hours paid supported by the \$12 billion in wage subsidies paid out over the June quarter.

Wage growth was relatively flat, with the LCI rising 0.2% in the June quarter, supported by the 1 April minimum wage increase. QES average wages increased 0.6% in the quarter, driven by reductions in hours worked in lower-paid industries such as retail, accommodation and food service.

Short-term job security is improving...

The RBNZ are running a monthly ‘income concerns’ survey as an add-on to their regular quarterly household expectations survey. Results for July show that concern over job security in the short term has eased but is still very much there. The percentage of people ‘not at all worried’ about losing their job in the next 3 months has risen from 41% in May to 49% in July. The proportion of mortgage holders ‘not at all worried’ about missing a mortgage payment in the next 3 months has been steadily rising since May, from 54% in May to 65% in July. However, while the proportion of renters not worried about missing a rent payment in the next 3 months initially rose from 39% in May to 47% in June, it fell again in July, to 42%.

...but consumer confidence is levelling off

Consumer confidence remained unchanged from June at 104.3 in the July ANZ-Roy Morgan Consumer Confidence survey, still well below its historical average. As with the ANZ Business Outlook survey, it looks as if the rebound may have levelled off. Household incomes will come under pressure in coming weeks as the wage subsidies come to an end. Consumers’ perceptions of their current financial situation fell 2 points and a net 31% of consumers expect to be better off financially this time next year. Perceptions regarding next year’s economic outlook lifted 4 points but remains very low at -33%.

Dairy prices drive commodity prices higher

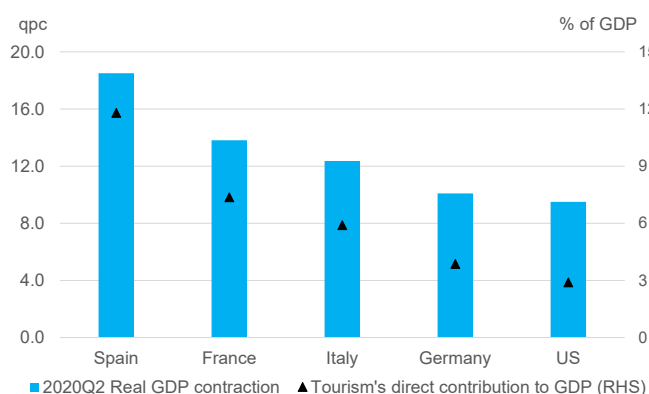
The ANZ World Commodity Price Index rose 2.3% in July, driven by strength in dairy prices. However, in local currency terms, the index fell 0.3% owing to the strengthening NZD. Dairy prices fell 5.1% in the latest *GlobalDairyTrade* auction, driven by a fall in whole milk powder prices (-7.5%).

Large June quarter GDP contractions...

The release of June quarter GDP data across the globe has begun to provide more concrete evidence of the scale of the current crisis. These estimates are only preliminary flash releases that will be subject to revisions – quite possibly more so than would have been the case in ‘normal’ times. Nevertheless, the severity of the contraction is clearly dependent on a number of key factors: the restrictiveness and duration of lockdowns, changes in people’s behaviours, ability to control the spread of COVID-19, and the extent of exposure to the external sector, particularly tourism.

In Europe, there has been considerable divergence across countries. Spain has experienced one of the worst contractions so far, with its June quarter GDP falling by 18.5% in qpc terms. Spain was one of the countries hardest hit by the pandemic, had a very strict and long lockdown, and is very dependent on tourism for revenues (Figure 5). This severe contraction in Spain’s GDP has wiped out all the gains achieved since the global financial crisis, while more than a million people have lost their jobs. While a recovery is expected in the September quarter, there are concerns that it will be tempered by a renewed wave of infections. Double-digit GDP declines were also seen in a number of other European countries, and the Euro Area as a whole contracted by 12.1%.

Figure 5: GDP contraction and importance of tourism



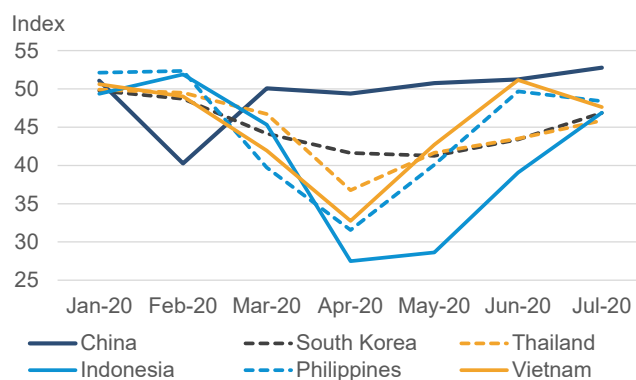
Source: Haver, OECD

Meanwhile, the United States (US) recorded a relatively mild contraction in June quarter GDP in comparison with the European countries, although it was still the largest contraction since the Second World War. Exports declined by 24.6% in qpc terms, personal consumption by 10.1%, and investment by 15.5%. This was partially offset by a 25.8% decline in imports and 0.7% growth in public consumption.

...and concerns about strength of recovery

The US manufacturing ISM came in above expectations in July at 54.2, its highest level since March 2019, with new orders rising from 56.4 to 61.5. However, the employment index remained in contractionary territory at 44.3, up slightly from 42.1. In China, the manufacturing PMI improved to a better-than-expected 52.8, the highest level since January 2011. Elsewhere in Asia, the pace of the recovery is progressing more slowly, with PMIs in Thailand, South Korea, Philippines and Indonesia all remaining in contractionary territory (Figure 6). In Vietnam, manufacturing output and new orders dropped in July after having returned to growth in June, raising concerns about the strength and sustainability of the September quarter rebound.

Figure 6: Asia manufacturing PMIs



Source: Haver

Given the way that PMIs are constructed and the severity of the current downturn, PMI values in the low-50s may be associated with lower output levels than was the case prior to the pandemic. Overall, the global manufacturing PMI moved into expansionary territory in July for the first time since January. However, the new orders component remained lower than the output component, which is usually an indication of a slowdown in growth. Moreover, the continued under-performance of the employment component risks the strength of the demand recovery.

Fitch puts US rating on negative outlook

Last Friday, Fitch Ratings put the US’s “AAA” sovereign credit rating on a negative outlook due to the deterioration in the outlook for public finances and the lack of a credible fiscal consolidation plan. The negative outlook already takes into account the fact that the US has a higher level of debt tolerance than other “AAA”-rated sovereigns. Fitch forecasts a general government fiscal deficit of more than 20% of GDP in the 2020 calendar year, and

expects general government debt to exceed 130% of GDP by 2021. S&P Global Ratings had already lowered the US's "AAA" rating in 2011.

Fitch's rating review had little impact on markets, with more focus placed on the expiration of expanded unemployment benefits as Republicans and Democrats failed to reach an agreement on Friday. Democrats want the expanded benefits to be extended, while Republicans want to lower it from \$600 a week to \$200, since they believe it will incentivise people to return to work. A recent study by the University of Chicago found that 68% of unemployed workers received more in benefits than they did while working in their previous jobs.

RBA keeps targets unchanged...

The Reserve Bank of Australia (RBA) kept its policy rate targets unchanged this week. The targets for the cash rate and the yield on 3-year Australian Government Securities (AGS) therefore remain at 25 bps. However, it was announced that, since current yields have been a little higher than 25 bps in recent weeks, bond-buying on the secondary market will be resumed to bring them back to target. It was noted that, although the current downturn is the worst since the 1930s, it is not as severe as earlier feared and a recovery is under way in most of the country, though it is expected to be "uneven and bumpy". In the Reserve Bank Board's baseline scenario, real GDP falls by 6% in the 2020 calendar year before growing by 5% in 2021. The unemployment rate is expected to reach 10% later this year due to additional job losses in Victoria, and to gradually decline to 7%. Due to the uncertain nature of the outlook, the Board also considered alternative scenarios. A stronger recovery would be possible if there is progress in containing the virus in the near future. However, in the event of further lockdowns in Australia or abroad, the recovery would be slower. CPI inflation is expected to remain below 2% in the next few years in all of the scenarios.

...as restrictions tighten in Victoria

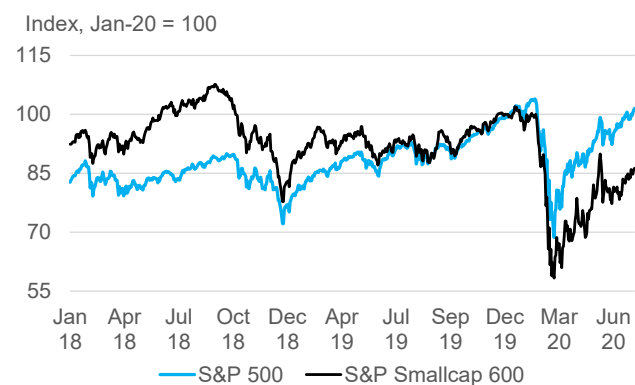
Amid a rise in COVID-19 infections, a state of disaster was declared in Victoria on Sunday and additional restrictions placed on households and businesses that are set to last for six weeks until 13 September. Some non-essential Melbourne businesses have been shut down or operations scaled back. Household mobility in Melbourne, which accounts for 20% of Australia's population, has been restricted further, including an 8pm-5am

curfew, limits on the duration of exercise, and a rule that shopping and exercising must take place within a 5km radius from one's home.

Equities continue upward trend, but small companies under-perform

Gold has continued its rally, breaking through \$2,000/ounce, supported by safe haven demand. The US 10-year Treasury Note yield continued its downward trend, reaching a fresh low of 0.52% on Tuesday, while the 10-year expected inflation rate has increased to 1.6%. Equity markets have been steady, supported by some good economic data and solid company earnings reports. However, the performance of big tech companies in the US is masking weakness in the broader economy. The S&P Smallcap index, which is arguably more representative of the US economy, fell more sharply than the S&P500 in March, has recovered more slowly, and has been more volatile (Figure 7).

Figure 7: S&P500 and Smallcap 600



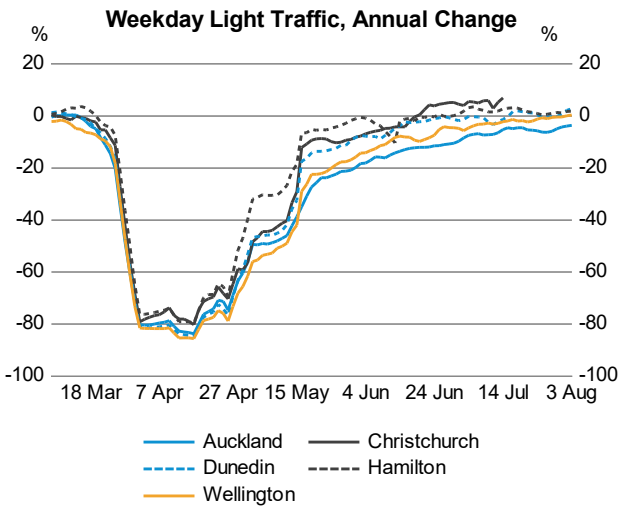
Source: Haver

Markets have also been buoyed by a reduction in the daily number of new COVID-19 cases in the US to below 50,000, the smallest daily increase since early July. Still, total global cases have now surpassed 18 million, while France's top scientific body warned that a second wave of infections in their autumn or winter is "highly likely", and that it could lose control over the spread of the virus "at any moment".

Date	Key NZ Data	Previous (apc)
11 August	Electronic card transactions	+ 8.0%
12 August	International migration	- 88%
13 August	Food Price Index	+ 4.1%

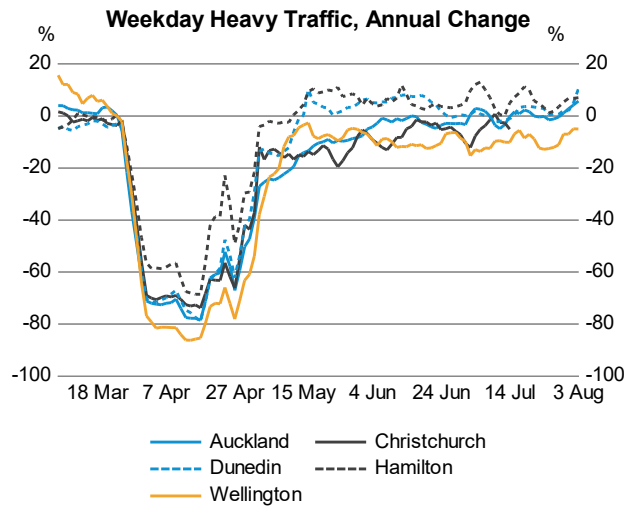
High-Frequency Indicators (Domestic)

Traffic Movement



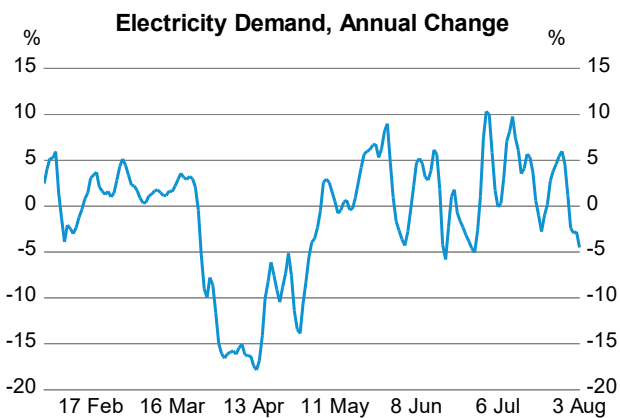
Source: Waka Kotahi NZ Transport Agency

Freight Movement



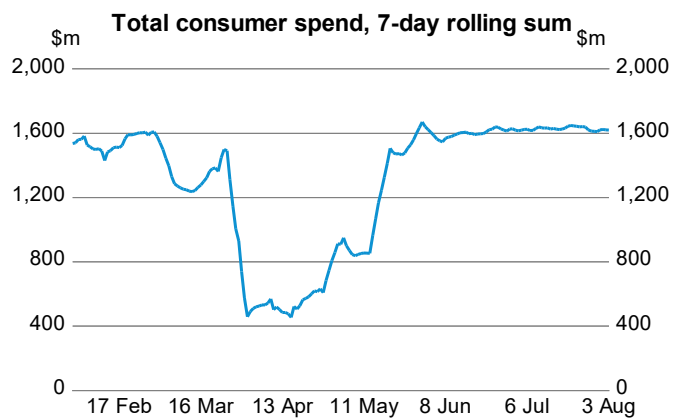
Source: Waka Kotahi NZ Transport Agency

Electricity Demand



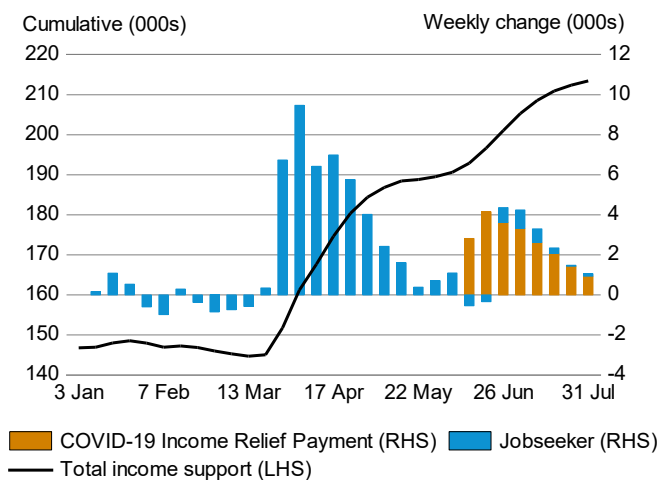
Source: Electricity Authority

Retail Spending



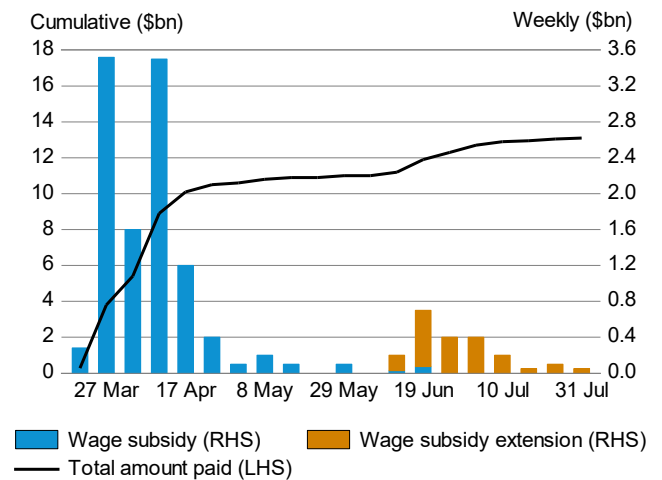
Source: Paymark and Verifone data via Data Ventures

Jobseeker and Income Support Recipients



Source: MSD

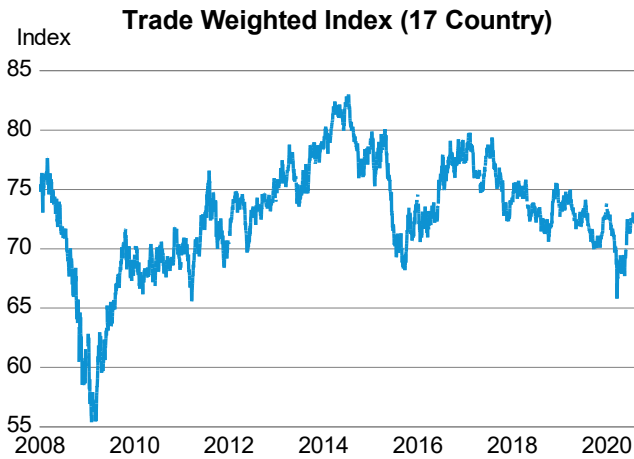
Fiscal Support: Wage Subsidy (paid)



Source: MSD

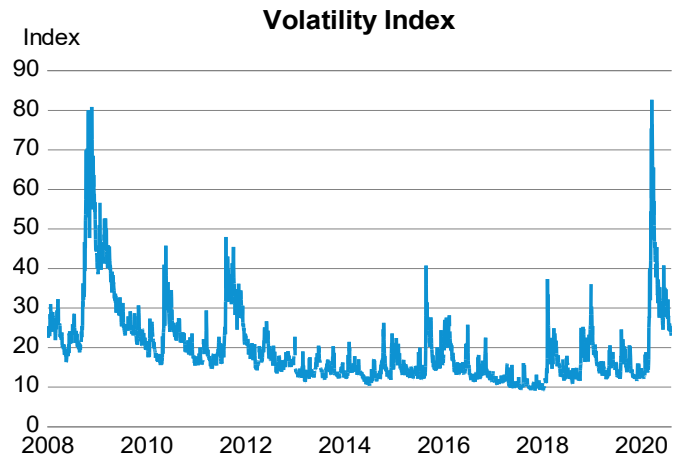
High-Frequency Indicators (Global)

Trade Weighted Index



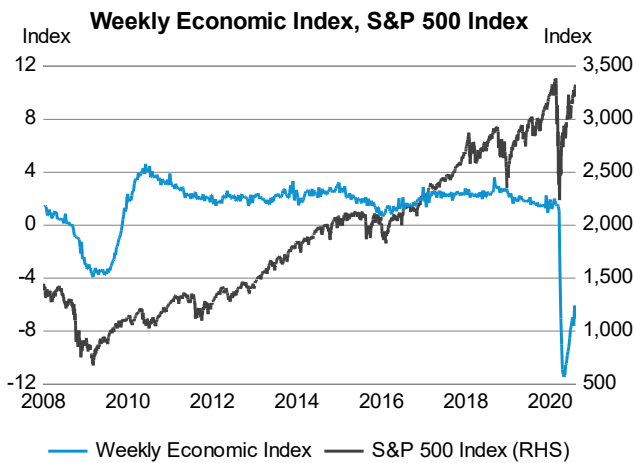
Source: RBNZ

Volatility Index



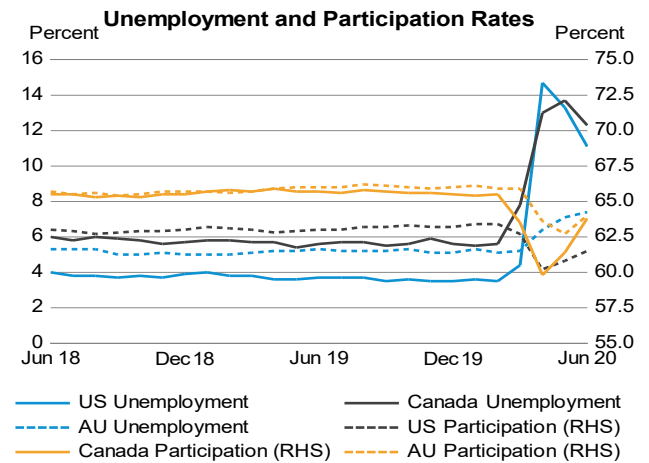
Source: Haver

US Activity and Equities



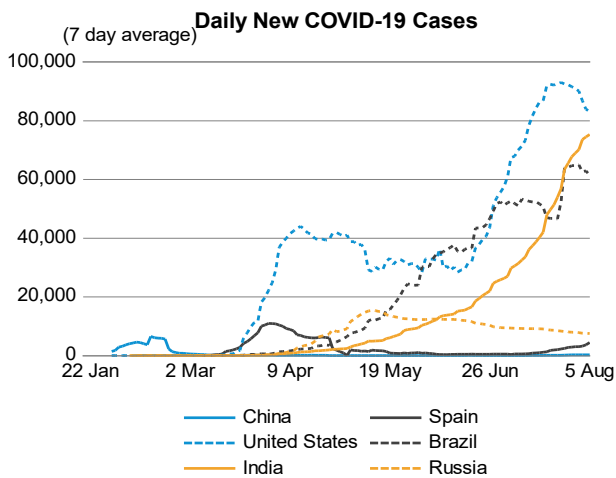
Sources: Federal Reserve Bank of New York, Haver

Labour Markets



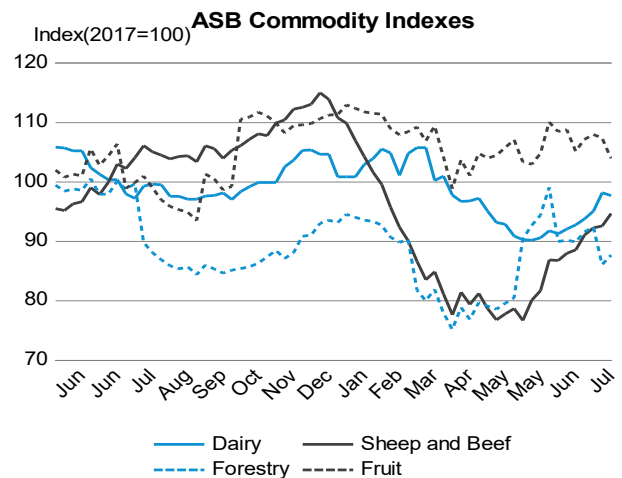
Source: Haver

COVID Cases



Sources: World Health Organisation/Haver

World Commodity Prices



Source: ASB

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	-0.2	0.6	0.4	0.2	1.0	-0.4
Unemployment rate (1)	%	4.1	4.0	4.1	4.1	4.2	4.0
Participation rate (1)	%	70.3	70.3	70.4	70.1	70.5	69.7
LCI salary & wage rates - total (2)	apc	2.0	2.1	2.5	2.6	2.5	2.1
QES average hourly earnings - total (2)	apc	3.4	4.4	4.2	3.6	3.6	3.0
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		Feb 20	Mar 20	Apr 20	May 20	Jun 20	Jul 20
Merchandise trade balance (12 month total)	NZ\$m	-3283	-3382	-2403	-1292	-1196	...
Dwelling consents - residential	apc	6.0	-8.3	-16.5	-4.4	20.4	...
House sales - dwellings	apc	13.4	2.7	-77.2	-44.6	7.1	...
REINZ - house price index	apc	8.5	9.1	8.6	8.0	8.7	...
Estimated net migration (12 month total)	people	78441	84897	83106	80709
ANZ NZ commodity price index	apc	6.6	5.8	0.9	-1.4	-1.5	...
ANZ world commodity price index	apc	0.1	-5.8	-9.2	-8.2	-5.2	...
ANZBO - business confidence	net%	-19	-64	-67	-42	-34	-32
ANZBO - activity outlook	net%	12	-27	-55	-39	-26	-9
ANZ-Roy Morgan - consumer confidence	net%	122	106	85	97	105	104
Daily Indicators		Wed 29/7/20	Thu 30/7/20	Fri 31/7/20	Mon 3/8/20	Tue 4/8/20	Wed 5/8/20
NZ exchange and interest rates (5)							
NZD/USD	\$	0.6657	0.6654	0.6701	0.6633	0.6613	0.6636
NZD/AUD	\$	0.9290	0.9273	0.9281	0.9297	0.9287	0.9245
Trade weighted index (TWI)	index	72.6	72.5	72.7	72.3	72.1	72.1
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	0.30	0.30	0.30
10 year govt bond rate	%	0.81	0.82	0.77	0.74	0.74	0.72
Share markets (6)							
Dow Jones	index	26540	26314	26428	26664	26828	27202
S&P 500	index	3258	3246	3271	3295	3307	3328
VIX volatility index	index	24.1	24.8	24.5	24.3	23.8	23.0
AU all ords	index	6128	6177	6058	6054	6166	6136
NZX 50	index	11599	11692	11728	11666	11772	11758
US interest rates							
3 month OIS	%	0.10	0.10	0.10	0.10	0.10	...
3 month Libor	%	0.26	0.25	0.25	0.25	0.25	...
10 year govt bond rate	%	0.58	0.55	0.55	0.56	0.52	0.55
Commodity prices (6)							
WTI oil	US\$/barrel	41.27	39.92	40.10	40.83	41.67	...
Gold	US\$/ounce	1951	1958	1965	1959	1978	...
CRB Futures	index	377	378	378	378	375	...

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		2019Q4	Jan 20	Feb 20	Mar 20	2020Q1	Apr 20	May 20	Jun 20	2020Q2	Jul 20
United States [9.6% share of total goods exports]	GDP (1)	qpc	0.6				-1.3				-9.5	
	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	-5.6	1.1		...
	House prices (2)	apc		3.1	3.5	3.9		3.9	3.7
	PMI manufacturing (1)	index		50.9	50.1	49.1		41.5	43.1	52.6		54.2
Consumer confidence (1)(3)	index		130.4	132.6	118.8		85.7	85.9	98.3		92.6	
Japan [6.1%]	GDP (1)	qpc	-1.9				-0.6				...	
	Industrial production (1)	mpc		1.9	-0.3	-3.7		-9.8	-8.9	2.7		...
	CPI	apc		0.6	0.5	0.4		0.2	0.0	0.1		...
	Unemployment rate (1)	%		2.4	2.4	2.5		2.6	2.9	2.8		...
	Retail sales value	apc		-0.4	1.6	-4.7		-13.9	-12.5	-1.2		...
	PMI manufacturing (1)	index		48.8	47.8	44.8		41.9	38.4	40.1		45.2
	Consumer confidence (1)(4)	index		39.2	38.2	31.1		21.3	24.1	28.5		29.5
Euro area [5.5%]	GDP (1)	qpc	0.0				-3.6				-12.1	
	Industrial production (1)	mpc		1.7	0.0	-11.8		-18.2	12.4
	CPI	apc		1.4	1.2	0.7		0.3	0.1	0.3		...
	Unemployment rate (1)	%		7.4	7.2	7.2		7.5	7.7	7.8		...
	Retail sales volume	apc		2.3	2.6	-8.2		-19.4	-3.1	1.3		...
	PMI manufacturing (1)	index		47.9	49.2	44.5		33.4	39.4	47.4		51.8
	Consumer confidence (5)	index		-8.1	-6.6	-11.6		-22.0	-18.8	-14.7		-15.0
United Kingdom [2.7%]	GDP (1)	qpc	-0.0				-2.2				...	
	Industrial production (1)	mpc		0.2	0.3	-4.3		-20.3	6.0
	CPI	apc		1.8	1.7	1.5		0.8	0.6	0.6		...
	Unemployment rate (1)	%		3.9	4.0	3.9		3.9	3.9
	Retail sales volume	apc		0.8	0.0	-6.1		-22.8	-13.0	-1.7		...
	House prices (6)	apc		1.9	2.3	3.0		3.7	1.8	-0.1		1.5
	PMI manufacturing (1)	index		50.0	51.7	47.8		32.6	40.7	50.1		53.3
Consumer confidence (1)(5)	index		-6.5	-6.2	-8.2		-22.7	-23.7	-21.0		-16.6	
Australia [15.8%]	GDP (1)	qpc	0.5				-0.3				...	
	CPI	apc	1.8				2.2				-0.3	
	Unemployment rate (1)	%		5.3	5.1	5.2		6.4	7.1	7.4		...
	Retail sales value	apc		2.2	5.7	9.4		-8.9	5.5	8.6		...
	House Prices (7)	apc	2.8				8.1				...	
	PMI manufacturing (1)	index		45.4	44.3	53.7		35.8	41.6	51.5		53.5
Consumer confidence (8)	index		93.4	95.5	91.9		75.6	88.1	93.7		87.9	
China [24.3%]	GDP	apc	6.0				-6.8				3.2	
	Industrial production	apc		-13.5	-13.5	-1.1		3.9	4.4	4.8		...
	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		51.1
South Korea [3.0%]	GDP (1)	qpc	1.3				-1.3				-3.3	
	Industrial production (1)	mpc		-1.5	-3.7	4.9		-6.6	-7.0	7.2		...
	CPI	apc		1.5	1.1	1.0		0.1	-0.3	-0.0		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