

The Treasury

Advice on COVID-19 Response Information Release

December 2021

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Date: 19 August 2021

To: Minister of Finance (Hon Grant Robertson)

Deadline: Before Cabinet on 20 August

Review of Alert Levels: 20 August

Cabinet is reviewing the Alert Level settings on 20 August. This Aide Memoire sets out the key factors that we suggest you consider in making a decision on the Alert Level settings, alongside the advice of the Director-General of Health.

1. The nature of the public health risk

Key questions include:

- What is the minimum length of restrictions needed to manage or understand the public health risks?
- Are the public health risks best addressed through regional or national measures?

2. The aggregate impacts of the Alert Level restrictions

There is considerable uncertainty about the magnitude of impact of the Alert Level restrictions. A shorter period of heightened Alert Level restrictions is less likely to create permanent losses for the national economy (assuming this is sufficient to suppress the outbreak). This creates a strong imperative for an agile response, with a timely de-escalation path as soon as public health conditions permit.

The Treasury last updated its estimates of the GDP impacts of the Alert Level restrictions in its BEFU forecasts in April. These are set out below and are net figures relative to Alert Level 1. They include the offsetting effect of fiscal support.

Approximate economic impacts of the Alert Level restrictions (rounded to nearest \$10m)

Restrictions	Reduction in economic activity per week	
AL3 across all of NZ	\$520 million	8.7% of national GDP
AL4 in Auckland, AL3 rest of country	\$920 million	15.3% of national GDP
AL4 in Auckland and Waikato, AL3 rest of country ¹	\$1,000 million	16.6% of national GDP
AL4 in North Island, AL3 rest of country	\$1,280 million	21.4% of national GDP
AL4 across all of NZ	\$1,520 million	25.3% of national GDP

¹ Note that the aggregate nature of our model means we cannot explicitly include Coromandel. The impact of adding Coromandel would likely be limited.

It is important to note that some of these GDP losses will occur even without Alert Level restrictions, as people adjust their behaviour in response to perceived risk.

These estimates are derived from the observed impact previous Alert Level escalations have had on activity. The estimates will not account for any change that has occurred during this latest escalation (e.g. firms adapting their behaviour), or clarifications to the previous descriptions of essential services. There is also the possibility that the cumulative effect of extended periods at higher Alert Levels (or repeated instances of changing up and down Alert Levels) might result in impacts that are greater than estimated here.

3. The impact of Alert Level 4 versus Alert Level 3 restrictions on activity

Relative to Alert Level 3, restrictions at Alert Level 4 will have a significant impact on some industries. Essential industries such as the primary sector maintain much of their output at Alert Level 4, but industries that were previously classified as non-essential will see a material decline in activity. This emphasises the importance of a robust public health response to suppress the outbreak, that then allows for a de-escalation in Alert Levels as quickly as possible.

Reduction in activity by industry relative to Alert Level 1 (rounded to nearest 5%)

Industry	Alert Level 3	Alert Level 4
Primary sector	5%	15%
Manufacturing	5%	20%
Construction	15%	75%
Electricity and utilities	5%	10%
Wholesale trade	10%	40%
Retail trade	25%	40%
Accommodation and food services	20%	75%
Other services	10%	20%
Government (incl. education and health)	5%	10%

[34]

5. Modelling results

Modelling can help us understand the factors specific to an outbreak and identify the circumstances where it can be considered safe to de-escalate alert levels. The Treasury is exploring how modelling could help inform de-escalation decisions in the event of a longer escalation.

At this stage there is considerable uncertainty. As further information on cases arises, this will support better modelling of potential scenarios.

The experience in New South Wales and Victoria continues to underscore the importance of a swift public health response in reacting to outbreaks associated with the Delta variant.

Ken Tsang, Analyst, Economic Policy, ^[39]

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