

Weekly Economic Update

8 May 2020

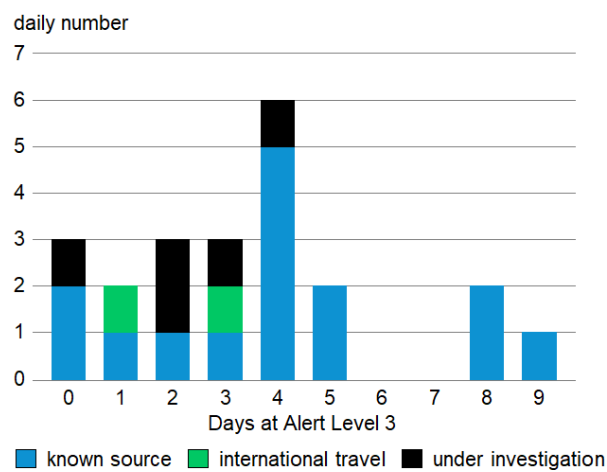
New COVID-19 cases remain low after more than a week in Alert Level 3, and high-frequency indicators show economic activity continuing to recover. However, consumer confidence has fallen to levels not seen since the Global Financial Crisis, however, and commodity prices continue to slip. Unemployment rose only slightly in the March quarter, though the effect of the COVID-19 pandemic will not yet be fully reflected.

Globally, economic activity data continue to paint a grim picture, with large GDP declines in the euro area and in a number of Asian countries. Weak April manufacturing PMIs across Asia are a reminder that the worst is yet to come. Meanwhile, global financial markets have stabilised. Commodity prices have declined, but food products have been more resilient.

Daily COVID-19 cases remain low...

On 4 and 5 May, New Zealand reported no new cases of COVID-19 for the first time since 16 March (Figure 1). Director-General of Health Dr Ashley Bloomfield stated that the 'real test' will come towards the end of this week, once the incubation period of the virus has run its course. Of the 22 new cases since Alert Level 3 began, 17 were linked to international travel or to a known source.

Figure 1: New confirmed and probable COVID-19 cases in NZ during Alert Level 3, by infection source



New recoveries from COVID-19 continue to outpace new infections, with 89% of known cases now recovered. Total tests number 168,000 or 3.4% of the total population.

...as Cabinet considers Alert Level 2...

Cabinet will decide on 11 May whether to move Alert Levels. Under Level 2, business premises and public venues can reopen under certain conditions. These include physical distancing and contact tracing requirements, and both indoor and outdoor gatherings are limited to 100 people. People will no longer be restricted to their bubbles and inter-regional travel will be allowed. We estimate that economic activity will gradually increase to around 10-15% below normal levels.

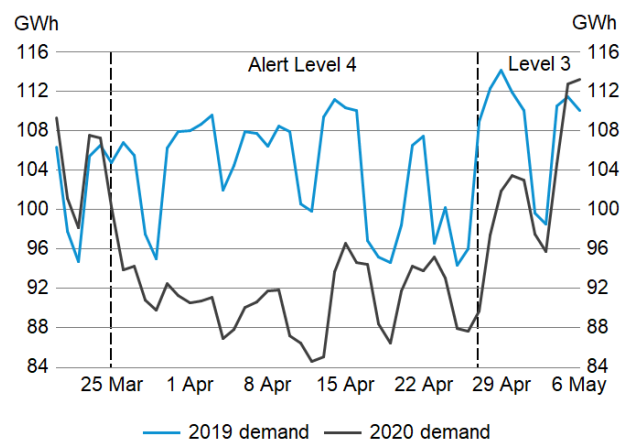
...and New Zealand looks to the future

Microsoft's plans to establish a datacentre region for cloud services in New Zealand was welcomed by the Prime Minister, who saw it as a vote of confidence in New Zealand's economy. The Prime Minister has also agreed with the Australian Prime Minister to ease travel restrictions between the two countries 'as soon as it is safe to do so', providing some hope for the future of NZ's tourism sector.

Economic activity continues to pick up

Data from the Electricity Authority show that electrical grid demand on 5 and 6 May surpassed 2019 levels for the first time since before Alert Level 4 began (Figure 2). Overall economic activity will still be below normal levels, however.

Figure 2: Electrical grid demand

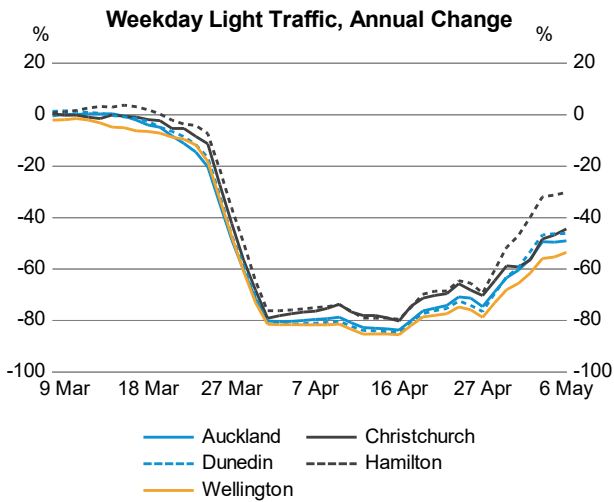


Source: Electricity Authority

On 1 May the number of Jobseeker Support beneficiaries reached 184,000, around 6% of the estimated working-age population. Total wage subsidy payments reached \$10.6 billion, benefitting 1.7 million people.

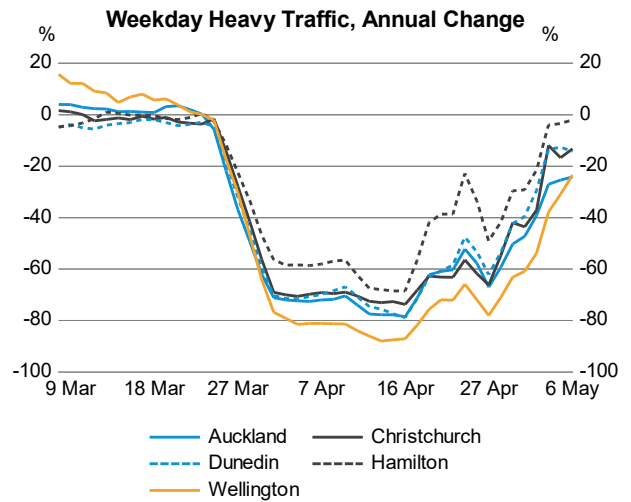
High-Frequency Indicators (under development)

Traffic Movement



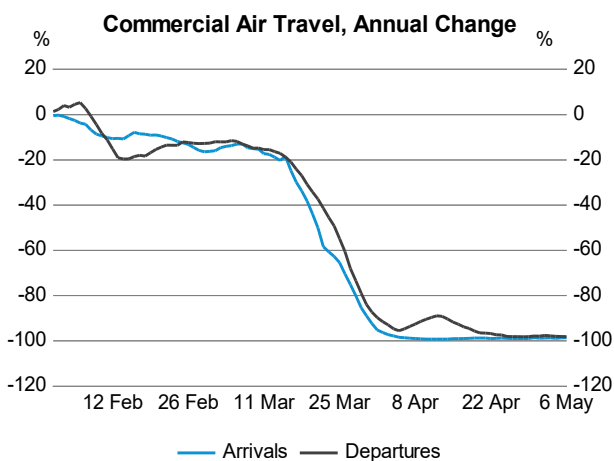
Source: Waka Kotahi NZ Transport Agency

Freight Movement



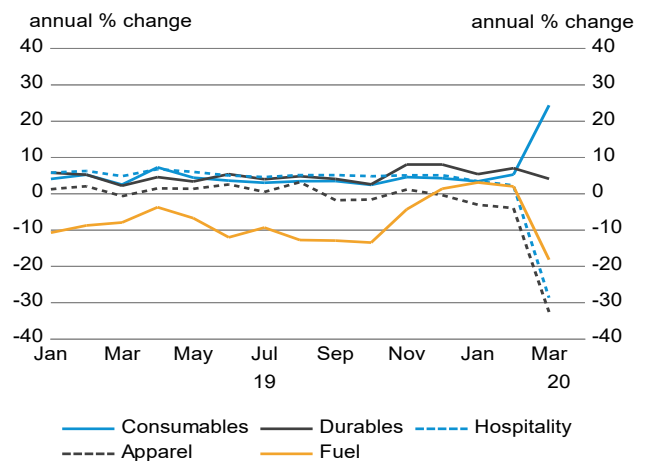
Source: Waka Kotahi NZ Transport Agency

Border Crossings



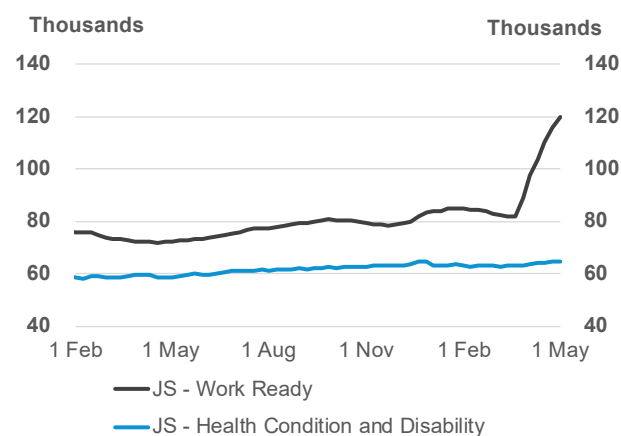
Source: Customs NZ

Retail Spending



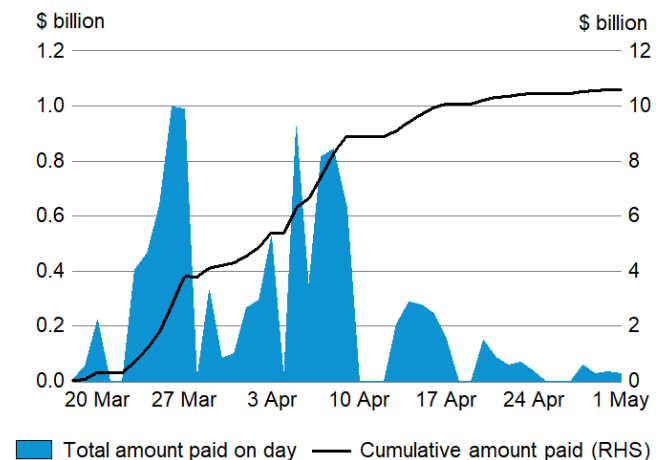
Source: Stats NZ

Job Seeker Support



Source: MSD

Fiscal Support: Wage Subsidy (paid)

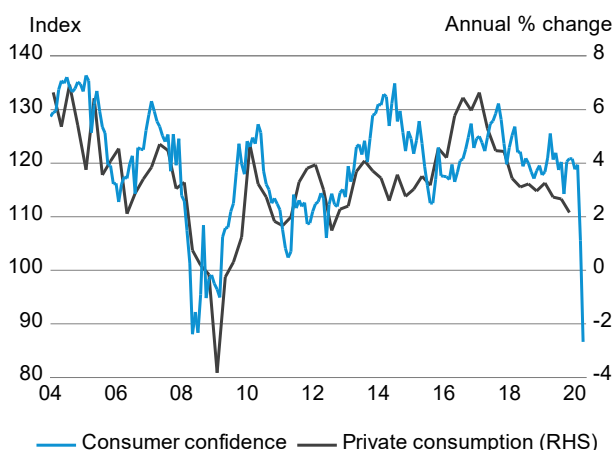


Source: MSD

Consumer confidence drops sharply...

Consumer confidence fell 21 points in April to 84.8 (or 87 seasonally adjusted), about the trough the index reached in the Global Financial Crisis (GFC). During the GFC, annual consumption growth reached a low of -3.6% about 6 months later (Figure 3). The most recent drop in consumer confidence suggests a similar fall in private consumption in the second half of the year. Confidence may fall further in coming months as reduced incomes, business failures and unemployment weigh on sentiment.

Figure 3: Consumer confidence and consumption



Source: ANZ-Roy Morgan, Stats NZ

...and commodity prices dip further

The ANZ World Commodity Price Index fell 1.1% in April and has now fallen 9% in the past year. In local currency terms, the index fell 0.6% due to the weaker NZD at the time. Shipping costs fell in April on the back of lower oil prices and reduced trade volumes. Dairy prices fell 1.6% and are now 10% lower than a year ago. The meat and fibre index fell 0.6%. Although the outbreak of COVID-19 has caused food prices to decline, they have been more resilient than other commodities.

Prices fell less than markets expected in this week's *GlobalDairyTrade* auction, with the index down 0.8%. Our key export, whole milk powder, rose 0.1%, as did skim milk powder. Butter and cheese, which are extensively used in the hospitality sector, saw their prices fall by 5.8% and 6.8%, respectively. Volumes were light, reflecting lower milk production. Prices fell 2.4% in NZ dollar terms due to the recent recovery in the NZD.

Lower consents expected to slow recovery

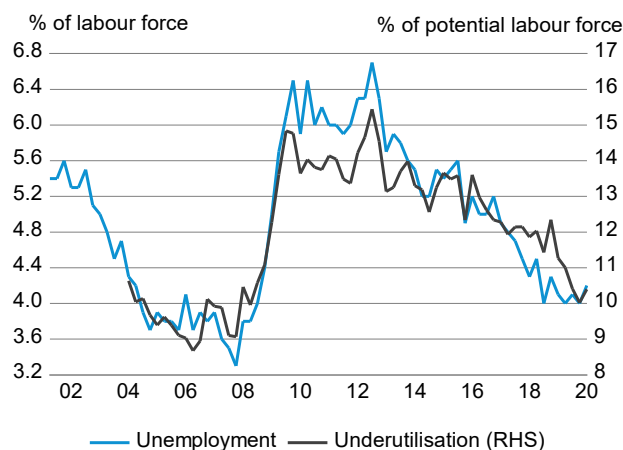
Building consents fell 21.3% in March with both housing and multiunit dwellings experiencing large

falls. This may be partly attributed to councils experiencing difficulties in processing applications as the country went into lockdown at the end of March. Construction activity is expected to rebound temporarily as the restrictions on activity in response to the COVID-19 outbreak are eased, taking advantage of the high number of consents issued in the past year. However, heightened uncertainty and reduced demand from a combination of lower incomes and net migration may keep consents issuance at lower levels for the remainder of the year, limiting the pipeline of future work.

March quarter unemployment rose slightly

The unemployment rate rose only slightly in the March quarter to 4.2% from 4.0% in the December quarter (Figure 4). Employment rose by 0.7% and the labour force participation rate remained steady at 70.4%. Wage growth remained strong with Quarterly Employment Survey (QES) average ordinary time hourly earnings increasing 3.5% in the year to March 2020, while the Labour Cost Index (which adjusts for changes in pay due to changes in labour quality) rose 2.5% over the year. The effect of the COVID-19 pandemic is not yet evident in this release.

Figure 4: Unemployment and underutilisation rates



Source: Stats NZ

Data from the Ministry of Social Development on the number of people registered for Job-Seeker Support benefits show an additional 38,000 people registered on 1 May compared with 3 January – a 26% increase. We expect to see unemployment rise to levels above those reached during the Global Financial Crisis, although Government initiatives, including the wage subsidy scheme, are expected to mitigate the severity of the rise.

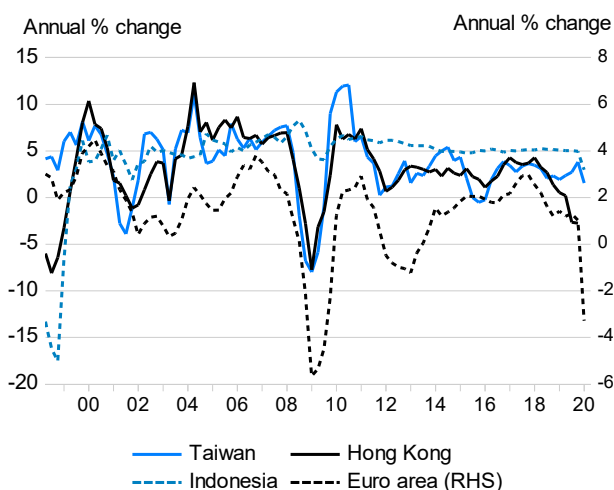
US – China tensions rise

Global stock markets have been mixed, falling early in the week as new tensions arose between the US and China over President Donald Trump's remarks on the origin of COVID-19. Announcements that more countries will ease restrictions this month subsequently buoyed markets.

Dire March quarter GDP results, worse to come

In the euro area, March quarter GDP fell 3.8% from the previous quarter, and -3.3% from a year ago. Data published separately for France, Spain and Italy — three of the bloc's four biggest economies — showed record quarterly contractions of -5.8%, -5.2% and -4.8% respectively. Contractions in smaller euro area economies were less severe but sizeable. The outlook for the June quarter is even bleaker owing to protracted lockdown measures, and commentators expect 2020 growth in the area to be around -7.0%.

Figure 5: GDP growth



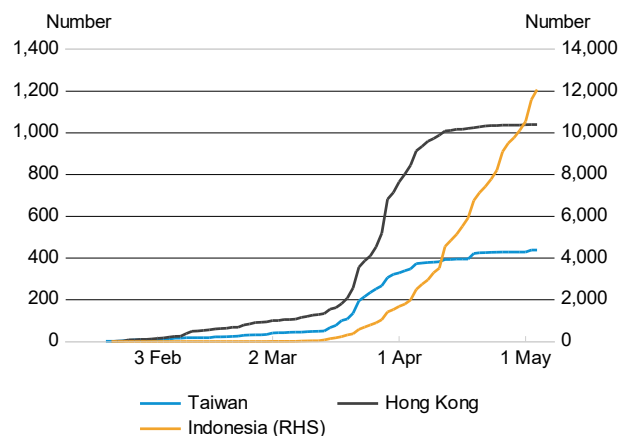
Source: Haver

In Asia, March quarter GDP fell in Taiwan, Hong Kong and Indonesia. In Taiwan, GDP fell 1.5% from the previous quarter, and annual growth slowed to 1.6% (Figure 5), as private consumption fell, chiefly owing to voluntary social distancing behaviour. New COVID-19 cases have been in the single digits since 25 April (Figure 6). Consensus expectations are for growth of -0.3% in 2020, down from 2.7% in 2019.

In Hong Kong, GDP contracted for the third consecutive quarter, down 5.3% from the December quarter, to be 8.9% lower than a year ago. Compared to a year ago, private consumption fell 10.2% and travel services exports fell almost 40%. New COVID 19 cases have slowed over the past month. Official forecasts are for growth of -7% this year, weaker than consensus forecasts of -4%.

Indonesia's GDP fell 0.8% in the March quarter from the previous quarter, the weakest since the Asian Financial Crisis in 1998. Annual growth slowed to 3.0% from 5.0% in December. Private consumption and construction were the main drivers of the fall. This result preceded large-scale social distancing measures imposed in April as COVID-19 cases increased, suggesting that activity will weaken further in the current quarter.

Figure 6: COVID-19 cases in selected Asian countries



Source: Johns Hopkins University.

Meanwhile, April manufacturing PMIs across Asia have been dire. Headline PMIs hit record lows in India, Indonesia, Malaysia, the Philippines and Thailand. New export orders in the region, and globally, are especially weak. China's NBS PMIs are an exception; the manufacturing PMI weakened in April but remained in expansionary territory, and the non-manufacturing PMI strengthened, likely reflecting increased infrastructure construction.

Australia discuss lifting restrictions

In Australia, Prime Minister Scott Morrison and state and territory leaders met to discuss lifting restrictions on Friday 6 May with the aim of establishing "a sustainable COVID-19 safe economy in July 2020". Each state will move at its own pace towards this goal.

Treasurer Josh Frydenburg provided an update on the economy noting that the Treasury expected GDP to fall by over 10% in the June quarter and the unemployment rate to double to over 10%, in line with forecasts from the Reserve Bank of Australia (RBA). The Treasury also forecast that unemployment could have risen to 15% in the absence of the JobKeeper package. JobKeeper payments started flowing to employers this week.

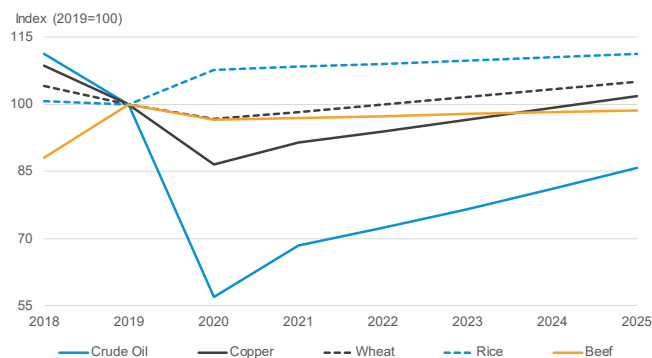
The number of jobs in Australia shrunk 7.5% (around 1 million jobs) over the six weeks ending April 11 and total wage payments fell 8.2%, according to weekly payrolls data from the Australian Bureau of Statistics. Jobs in the accommodation and food services industry have fallen by about one third.

Meanwhile, the RBA held the cash rate and 3-year yield target steady at 0.25%. It also expanded eligible collateral from its market operations to include investment-grade securities, as other countries have done. The RBA's economic forecasts will be released on Friday 6 May.

Commodity prices have declined...

The World Bank recently published their bi-annual Commodity Markets Outlook, including a special focus on the impact of COVID-19 (Figure 7). Commodity prices have declined sharply since 20 January, the date of the first confirmed human-to-human transmission of COVID-19. The outbreak of COVID-19 has resulted in substantial falls in both demand and supply across the globe. Due to the impact being concentrated on travel, oil has led the decline, falling by 60%. Base metals such as aluminium and copper, which are used in industrial production and are particularly sensitive to declines in economic activity, have declined by around 20%. The price of gold, a safe-have asset, has increased by 9%.

Figure 7: Commodity price outlook



Source: World Bank Commodity Markets Outlook, April 2020

...but food holding steady...

Although food prices have not been immune, they have been much more stable. According to the World Bank's data, prices for grains have declined by around 9% and beef prices have fallen by 11%. Beef's decline has however come off a very high base, which in turn came about due to the increase in demand in China due to African Swine Fever. Compared to April 2019, beef prices are down 5%.

It is not unusual for food prices to do relatively well in times of crises, since their income elasticities are generally lower than other commodities.

Dairy prices, which are not included in the World Bank's database, have declined by around 5% this year according to the ANZ Commodity World Commodity Price Index. Production levels in major dairy producing countries increased by 3% in the March quarter compared to last year. The outlook for dairy prices over the next year is dependent on to what extent production will continue to grow, as well as how long global demand will take to recover. Many analysts are of the view that global demand in the hospitality sector will remain depressed for a number of months.

Currently, global production levels and stocks-to-use ratios are near-record highs for most key food commodities, which is positive for food security. However, there are concerns about the effects that supply chain disruptions may have on food supply networks due to the increased difficulty of sourcing inputs and movement restrictions on migrant workers.

The outlook for base metals this year is negative due to the sharp expected fall in demand. The World Bank forecasts that aluminium prices will decline by 10.8% in 2020 and copper by 13.5%. Global car demand has weakened sharply, and most auto manufacturers in China, Europe and the United States have shut down temporarily.

...and financial markets have stabilised

Although volatility levels remain higher than normal, global financial market conditions have improved over the last month. This reflects two factors: a slowdown in infection rates globally, and substantial stimulus measures provided by fiscal and monetary authorities. The US 10-year Treasury Note yield has been stable over the past few weeks at around 0.6% – close to a historic low. The OFR Financial Stress Index is back to levels seen in early March. Oil prices have risen over the past week, with Brent crude reaching \$30 per barrel for the first time since mid-April, on hopes that the re-opening of economies will boost demand, while at the same time production has declined.

Date	Key NZ Data	Previous
11 May	Card Transactions	- 8.7%
14 May	Visitor Arrivals	372,700 (Feb)

Quarterly Indicators		2018Q4	2019Q1	2019Q2	2019Q3	2019Q4	2020Q1
Real Production GDP (1)	qpc	1.0	0.4	0.0	0.8	0.5	...
	aapc	3.2	3.1	2.9	2.7	2.3	...
Current account balance (annual)	%GDP	-3.8	-3.6	-3.4	-3.3	-3.0	...
Merchandise terms of trade	apc	-4.8	-1.9	-1.0	0.9	6.9	...
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	...
Total retail sales volume	apc	3.5	3.3	2.9	4.5	3.3	...
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		Nov 19	Dec 19	Jan 20	Feb 20	Mar 20	Apr 20
Merchandise trade balance (12 month total)	NZ\$m	-4837	-4467	-3927	-3302	-3456	...
Dwelling consents - residential	apc	3.8	24.1	2.7	6.0	-8.7	...
House sales - dwellings	apc	1.0	16.9	7.7	12.6	-4.8	...
REINZ - house price index	apc	5.5	6.5	6.9	8.6	9.3	...
Estimated net migration (12 month total)	people	55543	57259	61053	65211
ANZ NZ commodity price index	apc	18.8	12.2	7.7	6.6	5.8	0.9
ANZ world commodity price index	apc	12.4	8.7	5.1	0.1	-5.8	-9.2
ANZBO - business confidence	net%	-26	-13	...	-19	-64	-67
ANZBO - activity outlook	net%	13	17	...	12	-27	-55
ANZ-Roy Morgan - consumer confidence	net%	121	123	123	122	106	85

Daily Indicators		Wed 29/4/20	Thu 30/4/20	Fri 1/5/20	Mon 4/5/20	Tue 5/5/20	Wed 6/5/20
NZ exchange and interest rates (5)							
NZD/USD	\$	0.6097	0.6126	0.6102	0.6029	0.6061	0.6054
NZD/AUD	\$	0.9352	0.9360	0.9422	0.9432	0.9404	0.9413
Trade weighted index (TWI)	index	69.0	69.2	69.0	68.4	68.7	68.7
Official cash rate (OCR)	%	0.25	0.25	0.25	0.25	0.25	0.25
90 day bank bill rate	%	0.26	0.27	0.26	0.26	0.27	0.26
10 year govt bond rate	%	0.70	0.79	0.68	0.59	0.57	0.60
Share markets (6)							
Dow Jones	index	24634	24346	23724	23750	23883	23665
S&P 500	index	2940	2912	2831	2843	2868	2848
VIX volatility index	index	31.2	34.2	37.2	36.0	33.6	34.1
AU all ords	index	5464	5598	5325	5389	5478	5465
NZX 50	index	10666	10532	10449	10476	10491	10573
US interest rates							
3 month OIS	%	0.04	0.05	0.05	0.05	0.05	...
3 month Libor	%	0.69	0.56	0.54	0.50	0.47	...
10 year govt bond rate	%	0.63	0.64	0.64	0.64	0.66	0.72
Commodity prices (6)							
WTI oil	US\$/barrel	15.06	18.84	19.72	20.47	24.56	...
Gold	US\$/ounce	1703	1703	1686	1709	1700	1692
CRB Futures	index	351	353	352	351	351	...

(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	Oct 19	Nov 19	Dec 19	2019Q4	Jan 20	Feb 20	Mar 20	2020Q1	Apr 20
United States [9.6% share of total goods exports]	GDP (1)	qpc	0.5				0.5				-1.2	
	Industrial production (1)	mpc		-0.4	0.9	-0.4		-0.5	0.5	-5.4		...
	CPI	apc		1.8	2.1	2.3		2.5	2.3	1.5		...
	Unemployment rate (1)	%		3.6	3.5	3.5		3.6	3.5	4.4		...
	Employment change (1)	000s		185.0	261.0	184.0		214.0	275.0	-701.0		...
	Retail sales value	apc		3.3	3.3	5.6		4.9	4.5	-5.8		...
	House prices (2)	apc		2.2	2.6	2.8		3.1	3.5
Japan [6.1%]	PMI manufacturing (1)	index		48.5	48.1	47.8		50.9	50.1	49.1		41.5
	Consumer confidence (1)(3)	index		126.1	126.8	128.2		130.4	132.6	118.8		86.9
	GDP (1)	qpc	0.0				-1.8				...	
	Industrial production (1)	mpc		-4.0	-0.6	0.2		1.9	-0.3	-3.7		...
	CPI	apc		0.2	0.5	0.8		0.6	0.5	0.4		...
	Unemployment rate (1)	%		2.4	2.2	2.2		2.4	2.4	2.5		...
	Retail sales value	apc		-7.0	-2.1	-2.6		-0.4	1.6	-4.6		...
Euro area [5.5%]	PMI manufacturing (1)	index		48.4	48.9	48.4		48.8	47.8	44.8		41.9
	Consumer confidence (1)(4)	index		36.3	38.7	39.0		39.2	38.2	31.1		21.3
	GDP (1)	qpc	0.3				0.1				-3.8	
	Industrial production (1)	mpc		-0.3	-0.6	-1.8		2.3	-0.1
	CPI	apc		0.7	1.0	1.3		1.4	1.2	0.7		...
	Unemployment rate (1)	%		7.4	7.4	7.3		7.3	7.3	7.4		...
	Retail sales volume	apc		1.8	2.4	1.8		2.3	2.5	-9.2		...
United Kingdom [2.7%]	PMI manufacturing (1)	index		45.9	46.9	46.3		47.9	49.2	44.5		33.4
	Consumer confidence (5)	index		-7.6	-7.2	-8.1		-8.1	-6.6	-11.6		-22.7
	GDP (1)	qpc	0.5				0.0				...	
	Industrial production (1)	mpc		0.2	-1.1	-0.2		0.3	0.1
	CPI	apc		1.5	1.4	1.3		1.8	1.7	1.5		...
	Unemployment rate (1)	%		3.8	3.8	3.8		3.9	4.0
	Retail sales volume	apc		3.3	0.6	0.6		0.9	0.0	-5.9		...
Australia [15.8%]	House prices (6)	apc		0.4	0.8	1.4		1.9	2.3	3.0		3.7
	PMI manufacturing (1)	index		49.6	48.9	47.5		50.0	51.7	47.8		32.6
	Consumer confidence (1)(5)	index		-10.6	-8.8	-7.1		-6.5	-6.2	-8.2		-22.7
	GDP (1)	qpc	0.6				0.5				...	
	CPI	apc	1.7				1.8				2.2	
	Unemployment rate (1)	%		5.3	5.2	5.1		5.3	5.1	5.2		...
	Retail sales value	apc		2.7	3.2	2.4		2.2	5.7	9.4		...
China [24.3%]	House Prices (7)	apc	-3.9				2.8				...	
	PMI manufacturing (1)	index		51.6	48.1	48.3		45.4	44.3	53.7		35.8
	Consumer confidence (8)	index		92.8	97.0	95.1		93.4	95.5	91.9		75.6
	GDP	apc	6.0				6.0				-6.8	
	Industrial production	apc		4.7	6.2	6.9		-13.5	-13.5	-1.1		...
	CPI	apc		3.8	4.5	4.5		5.4	5.2	4.3		...
	PMI manufacturing (1)	index		49.3	50.2	50.2		50.0	35.7	52.0		50.8
South Korea [3.0%]	GDP (1)	qpc	0.4				1.3				-1.4	
	Industrial production (1)	mpc		-1.0	0.5	3.6		-1.5	-3.8	4.6		...
	CPI	apc		0.0	0.2	0.7		1.5	1.1	1.0		0.1

(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