

In a relatively light week in terms of data releases, the Reserve Bank left the Official Cash Rate (OCR) unchanged at 0.25% and signalled willingness to provide additional stimulus as necessary.

Global flash PMIs improved notably in June for major economies, although they remain in contractionary territory for most, and employment continued to fall. The broadly positive PMI numbers buoyed market sentiment, as they seem to confirm that the recovery from the lockdown might proceed more quickly than expected.

Special topics

As a special topic this week, we provide an update on the developments that have taken place since the *Budget Economic and Fiscal Update* and how these have influenced the economic outlook.

Looking across the domestic and international developments, recent changes appear to be broadly offsetting, with near-term domestic developments that suggest a less severe contraction in output and employment offset by a weaker global outlook.

Next week's release will include a special topic containing details of a (monthly) composite indicator of activity that we have developed in collaboration with the Reserve Bank of New Zealand and Statistics NZ. This indicator uses a range of high frequency indicators to provide a view of monthly activity, and is planned for initial release early next week.

Monetary policy easing continues...

The RBNZ announced that they will continue with the Large Scale Asset Purchase (LSAP) programme, aimed at keeping interest rates low for the foreseeable future. The assets included are NZ Government Bonds, Local Government Funding Agency Bonds and NZ Government Inflation-Indexed Bonds. The value of the purchase program remains at \$60 billion. The RBNZ said that although domestic economic activity has been able to resume more quickly than expected at their May MPS, significant global economic disruption remains, leading to lower economic activity, employment and inflation. They also highlighted continued economic disruption as a result of international border restrictions and the pressure on export earnings from the strengthening NZD.

The balance of risks remain to the downside and they are prepared to provide additional stimulus as necessary. The official cash rate (OCR) remains at 0.25%.

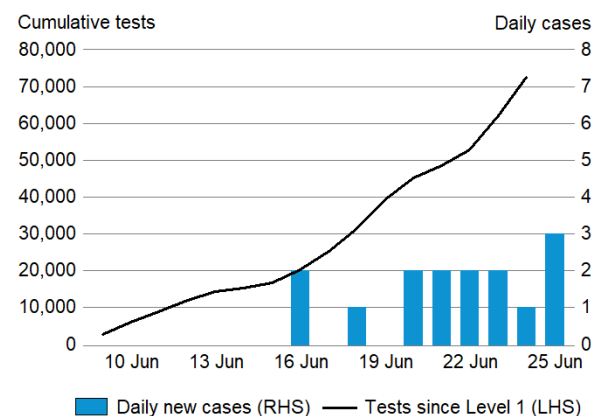
...and lower imports tighten the trade balance

The annual trade deficit of \$1.3 billion for the year ended May 2020 is the lowest deficit in almost 6 years, down from a \$2.4 billion deficit in the year to April, as the gap between imports and exports narrowed further. Monthly imports fell substantially, down 25.6% compared to May 2019, driven by motor vehicles and parts and petroleum and products. Total exports fell by 6.1% compared to May 2019, with log exports driving the fall, down 12.3% from May last year. However, log exports show signs of recovering, up substantially on April.

More COVID-19 cases in managed isolation

Fifteen new cases of COVID-19 have now been reported since NZ moved to Alert Level 1, all of which arrived from overseas (Figure 1). Since the first cases at Level 1 were reported on 16 June, 55,000 tests have been conducted with the only positive results being within managed isolation.

Figure 1: COVID-19 cases and tests in Alert Level 1



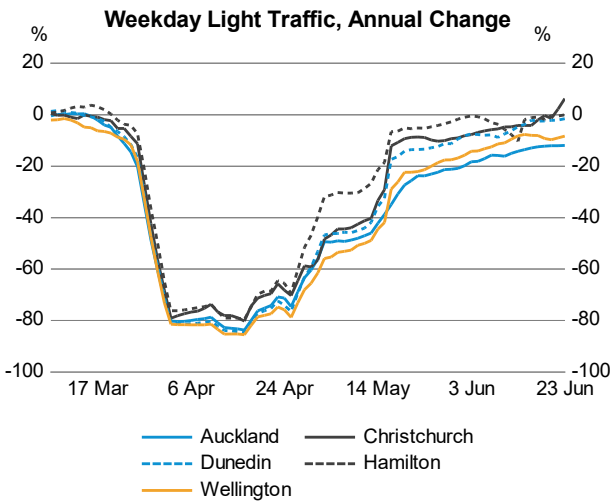
Source: Ministry of Health

Income support is on the rise

Since the beginning of the COVID-19 Income Relief Payment (CIRP) on 8 June, 6,960 people have begun receiving the payment, up 4,144 on last week. The number of Jobseeker Support recipients fell for a second week, caused by people transferring onto the CIRP. The total number of people receiving income support (Jobseeker and CIRP) is now 196,700 – up 3,800 on last week.

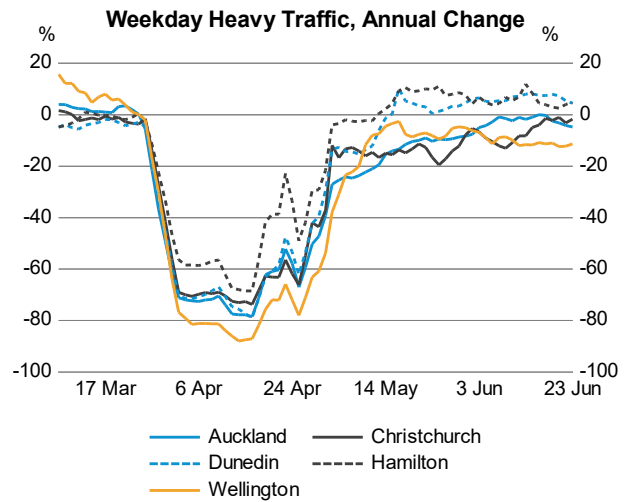
High-Frequency Indicators

Traffic Movement



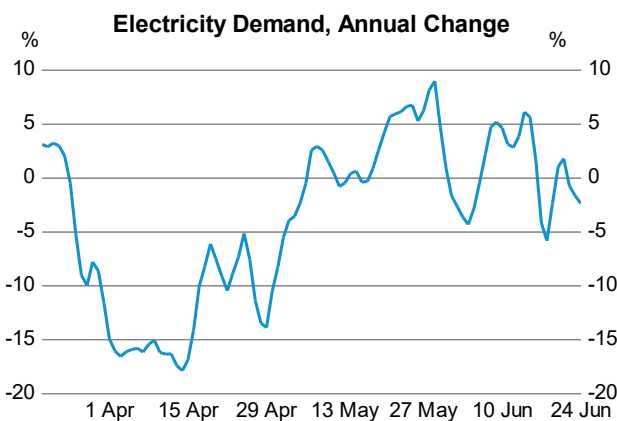
Source: Waka Kotahi NZ Transport Agency

Freight Movement



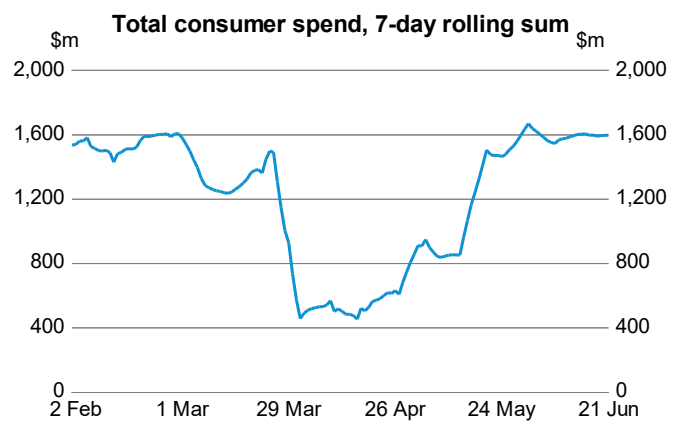
Source: Waka Kotahi NZ Transport Agency

Electricity Demand



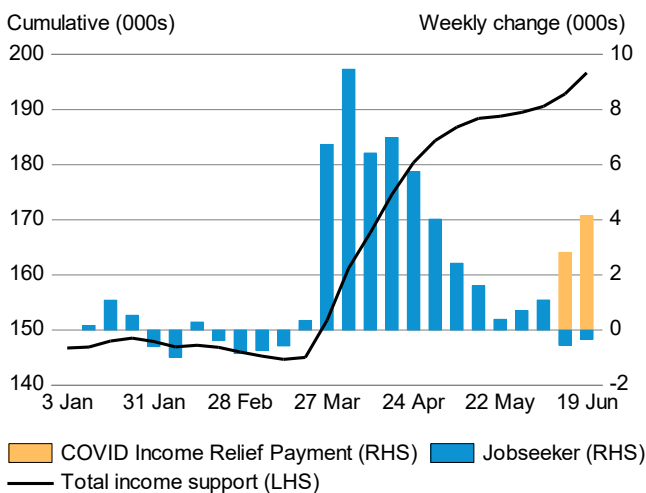
Source: Electricity Authority

Retail Spending



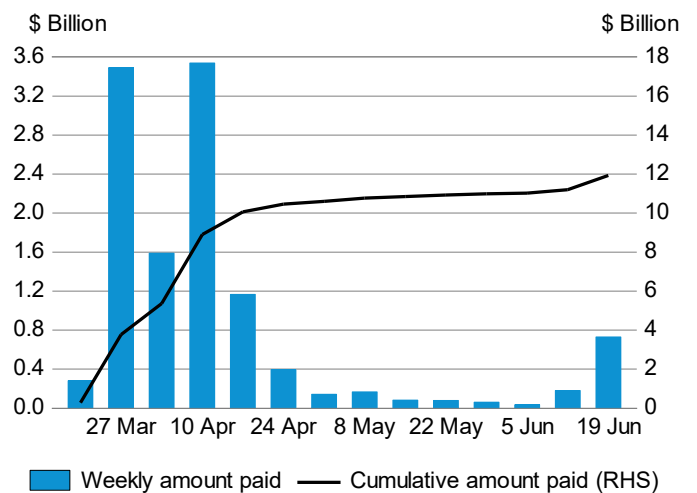
Source: Paymark and Verifone data via Data Ventures

Jobseeker and Income Support Recipients



Source: MSD

Fiscal Support: Wage Subsidy (paid)



Source: MSD

Global flash PMIs improve in June

Global flash Purchasing Managers Indexes (PMIs) improved notably in June for major countries, although they remain in contractionary territory for most, and employment continued to fall. In Australia, the composite PMI improved markedly from 28.1 in May to 52.6 in June, which means that it is now back in expansionary territory for the first time since January. The improvement was driven by the services component, which rose from 26.9 to 53.2, while the manufacturing PMI increased only marginally from 44.0 to 49.8. Employment fell for the fifth month in a row, although the rate of decline moderated.

Table 1: Global PMIs in May and June

	Composite Output		Manufacturing		Services	
	May 2020 (final)	June 2020 (flash)	May 2020 (final)	June 2020 (flash)	May 2020 (final)	June 2020 (flash)
Australia	28.1	52.6	44.0	49.8	26.9	53.2
Euro area	31.9	47.5	39.4	46.9	30.5	47.3
France	32.1	51.3	40.6	52.1	31.1	50.3
Germany	32.3	45.8	36.6	44.6	32.6	45.8
Japan	27.8	37.9	38.4	37.8	26.5	42.3
United Kingdom	30.0	47.6	35.0	50.8	29.0	47.0
United States	37.0	46.8	39.8	49.6	37.5	46.7

Source: IHS Markit / Haver Analytics

The composite PMI for the euro area improved to 47.5 in June from 31.9 in May. In France, the index reached expansionary territory, gaining 19.2 pts to reach 51.3. In the US, the composite index increased from 37.0 to 46.8, with manufacturing up 9.8pts to 49.6 and services up 9.2pts to 46.7. New orders and the future output index gained, but employment continued to decline. There was also strong housing data from the US, with new family home sales jumping by 16.6% in May, though April was revised downward. Overall, the broadly positive PMI numbers buoyed market sentiment, as they seem to confirm that the recovery from the lockdown might proceed more quickly than expected.

UK records biggest monthly GDP fall on record

The United Kingdom's monthly measure of GDP declined by 20.4% in April, after falling by 5.8% in March. This is the biggest monthly fall since the series began in 1997. Manufacturing declined by 24.3% in April, construction by 40.1%, and agriculture by 5.5%. GDP is down 10.4% in the three months to April.

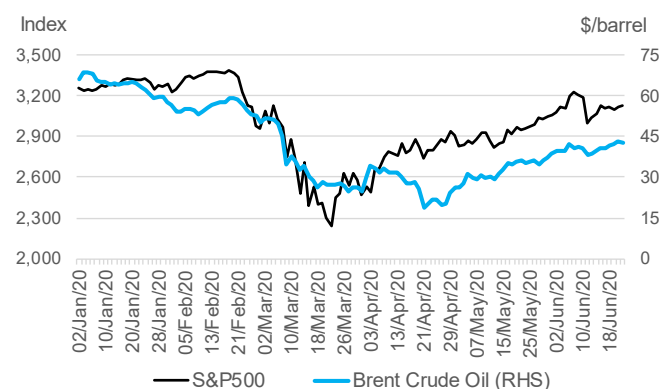
Consumer confidence improves in the euro zone

Consumer confidence in the euro zone improved for the second month in a row in June, rising from -18.8 to -14.7. Despite the improvement, consumer confidence still averaged only -18.5 in the June quarter, and we are likely to see a substantial drop in household consumption. In the March quarter, consumer confidence averaged -8.8 and household consumption declined by 4.7% on a qpc basis.

Markets continue upward trend, despite virus worries

Equity and commodity markets have continued to rise over the past week, supported by stronger than expected increases in PMIs in June and the continued relaxation of social distancing requirements. The Brent crude oil price reached its highest level since early March, despite a steady increase in US net crude oil stocks and ongoing concerns about global oil demand (Figure 2). Markets seem to be looking past the negative news, including that COVID-19 infection rates have continued to rise in a number of regions in the US, well as in the developing world. On Tuesday, California recorded its largest daily increase in infections. On a positive note, the director of infectious disease at the US National Institute of Allergy and Infectious Diseases, Anthony Fauci, said on Tuesday that he is hopeful a vaccine will be available by the end of this year.

Figure 2: S&P500 and Brent crude oil



Source: Haver Analytics

Date	Key NZ Data	Previous
29 June	Employment Indicators	-1.7%
30 June	ANZ Business Outlook	-42%
1 July	Building Consents	-6.3%

Special Topic: Economic developments since Budget

There have been several significant developments in the period since the Budget Economic and Fiscal Update (BEFU) scenarios were finalised that affect the economic outlook. Domestically, successful containment of the virus has enabled lockdown measures to ease earlier than assumed in the BEFU and measures of economic activity have generally improved from their lows in April. In the labour market, Jobseeker numbers have risen substantially and the Government's wage subsidy scheme is providing considerable support for labour market incomes. This scheme has been extended for a further 8 weeks, contributing to a larger increase in government spending than assumed in the BEFU. These developments suggest the downturn may be shallower than earlier assumed, although of course it is still early days.

In contrast, the global outlook is considerably worse. In many countries, the negative effects of stringent lockdown measures have been greater than initially assumed and in some countries, the virus is yet to be brought under control. In other countries where the virus has been contained, the risk of a second wave of infection continues to dampen activity. It will likely be some time before global activity and employment return to pre-virus levels. For New Zealand, and the global economy generally, the deep and prolonged effects of the global pandemic poses considerable risks to the economic outlook over the medium-term.

The Treasury will continue to monitor developments and refine its views on the impacts of the pandemic ahead of the *Pre-Election Economic and Fiscal Update*, which is scheduled for release in August.

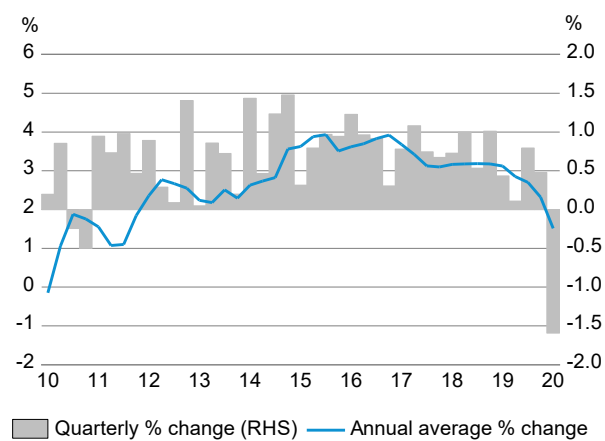
Domestic conditions are extremely challenging...

Domestically, the economy is facing very challenging conditions. GDP fell 1.6% in the March quarter, primarily owing to the onset of COVID-19 related restrictions, with drought having a smaller negative influence. This was the largest quarterly fall in almost 30 years, with real GDP slightly lower than in the March quarter of 2019. Annual average growth slowed to 1.5% (figure 3). GDP fell by more than the BEFU forecast of a 0.7% quarterly decline, although nominal GDP was close to forecast.

Relatedly, core Crown tax revenue for the ten months ended 30 April, was also close to forecast. Revenue from GST held up better than the Treasury expected, but will weaken considerably in coming months as more of the effects of the lockdown become apparent. Core Crown expenses and the fiscal deficit (\$12.8 billion) were also close to forecast.

In the GDP details, the industries with the largest declines were construction (-4.0%), manufacturing (-2.4%) and transport, postal and warehousing (-5.2%). Household consumption expenditure fell 0.3% as increased pre-lockdown spending on groceries partially offset falls in transport and hospitality spending. Residential building investment fell 5.5% and non-residential business dropped 4.9%.

Figure 3: Real GDP (production) growth



Source: Stats NZ

Total export volumes fell 2.1% in the quarter, driven by lower services exports (down 7.6%), particularly travel services (down 8.5%), reflecting the halt to international tourism. In contrast, exports of goods (up 0.5%) have so far been resilient to the deterioration in the global outlook and the impact of drought.

With weak domestic demand and people unable to undertake international travel, imports were down across the main categories, and net exports made a positive contribution to growth.

In the external accounts, the balance of payments deficit narrowed to 2.7% of GDP in the year ending March 2020, chiefly owing to the sharp fall in goods imports. Looking forward, the current account deficit is expected to widen as closure of the borders reduces the services surplus and lower goods prices widens the goods deficit.

The net international liability position, which rose 3 percentage points to 58% of GDP in the year ended March, is expected to increase further, although it remains lower than the peak of 84.2% of GDP during the global financial crisis.

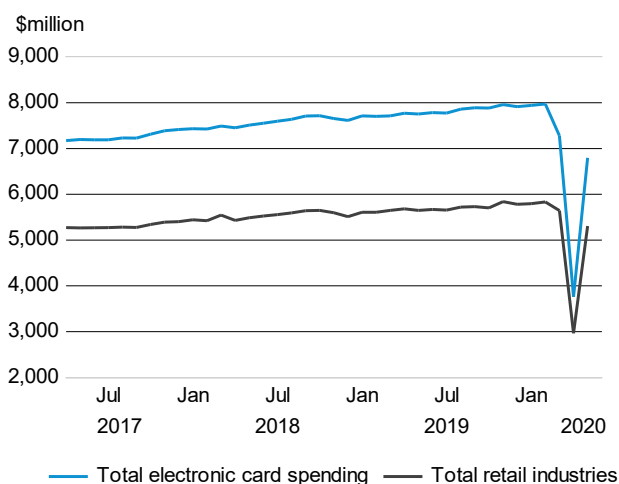
...but indicators of activity have lifted from their lows...

Higher-frequency indicators, including those we track in the *Weekly Economic Update*, show very large falls in activity in late March and through April.

New car registrations in April were down 90% on the same month last year but recovered in May to be 25% below year ago levels. In the housing market, existing house sales in April were nearly 80% down on the same month a year ago. National house sales increased in May, but remained 50% lower than a year ago. National house prices fell 0.3% in May to be about 2% below their March peak, but 7.9% higher than May 2019. In the new housing market, the number of building consents in April was 17% lower than a year ago. May dwelling consents data are scheduled for release on 1 July.

Electronic card spending in April was almost 50% lower than in March, led by lower spending on durables and hospitality (Figure 4). A substantial recovery in retail spending occurred in May, leaving total retail sales 6% lower than a year ago, but in the hospitality industry, the value of transactions in May was about 40% lower than the same month last year. More timely data shows that retail spending levelled off in June. These indicators need to be interpreted with caution, because of the switch away from cash payment (which typically accounts for around 20% of retail sales) towards cards and online payment in the retail sector during the lockdown period.

Figure 4: Electronic card transactions

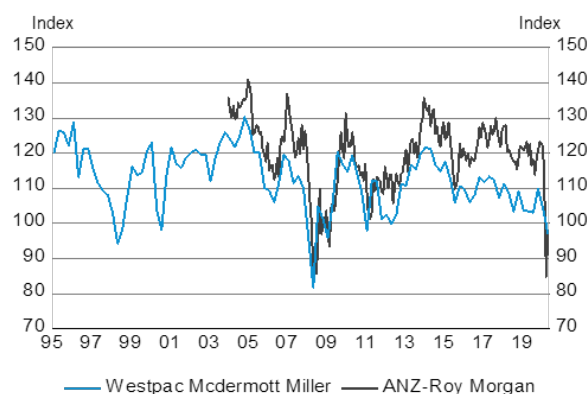


Source: Stats NZ

Measures of consumer and business sentiment have also lifted from their lows. The BNZ-BusinessNZ manufacturing and services indexes rose to 39.7 and 37.2 in May respectively, indicating activity continued to contract, but up from lows of 25.9 and 25.7 respectively in April. The manufacturing index rose to 39.7 and services recovered to 37.2 in May, as lockdown restrictions eased. June's preliminary ANZ Business outlook showed sentiment had improved further, but remains very weak. Nearly half of firms surveyed reported having fewer staff than a year ago.

Consumer confidence fell 7 points to 97.2 in the June quarter according to the Westpac McDermott Miller survey, while the ANZ Roy Morgan measure rose to 97.3 in May, still very low (Figure 5).

Figure 5: Consumer confidence



Sources: Westpac McDermott Miller, ANZ-Roy Morgan

...and there are signs of stabilisation in the labour market...

In the labour market, Jobseeker numbers rose by 40,000 in April, roughly matching the decline in filled jobs, and many more people worked significantly fewer or zero hours. Meanwhile, the number of Jobseeker Support recipients reached 190,600 on 5 June, but the pace of increase has slowed. Jobseeker numbers fell in the latest data as some recipients transitioned to the Government's COVID-19 Income Relief Payment. Experimental data from Stats NZ show the number of paid jobs rose in May, after falling significantly in April. The services industry saw the largest fluctuation.

The wage subsidy scheme and measures to support businesses are preventing a more severe fall in employment and income. To date, the wage subsidy scheme has paid out almost \$12 billion, covering 1.66 million workers (63% of total employment). A Ministry of Social Development survey in May of businesses receiving the subsidy showed that only 4% had made staff redundant. The survey also revealed that 27% of businesses reported closing

during alert level 4, but at level 2 only 3% were still closed. More than half of businesses reported operating at a similar or increased capacity compared to before COVID-19.

Other high-frequency indicators of economic activity – including energy usage and traffic volumes – have all lifted markedly from their April lows.

Underpinned by easing alert levels...

Overall, incoming data are moving in a direction that suggests the contraction in the June quarter may not be as severe as expected in the BEFU. One reason for this is the relatively quick easing in pandemic alert levels. In the BEFU, we assumed that alert levels three and two would be in place for a longer period than was the case. Mechanically, bringing these assumptions into line with experience reduces the expected contraction in June 2020 quarter GDP by about 3 percentage points to -20%.

In the BEFU, the economy was assumed to operate under some mix of level 2 and level 1 until the end of the March 2021 quarter. Assuming alert level 1 is in place for the entire period raises output over this period by around 1½ percentage points compared to the BEFU.

However, our alert level impairment assumptions are highly uncertain. We assume that under alert level 1 there are few restrictions on economic activity but tight controls on international travel remain in place until the end of March 2021. Under alert level 1, output is assumed to be about 7½% lower than normal, unchanged from the BEFU.

This impairment assumption reflects the impact of international tourism on activity, which Stats NZ estimated to be about 5% of GDP¹, as well as impacts from other aggregate demand reductions. It is too early to tell how well this reflects the actual experience but we are reviewing our assumptions as information becomes available.

The higher level of output expected in the June quarter and better than expected labour market outcomes to date suggest a less severe rise in unemployment than we anticipated in our BEFU forecasts. Our most recent estimate is for the unemployment rate to rise to from 4.2% in the March quarter to around 7½% in the June quarter, and to peak at about 9% in the September quarter, down from 10% in the BEFU.

...and increased policy support

Fiscal spending has increased relative to the assumptions in the BEFU's main forecast scenario. The main scenario assumed total COVID-19 related fiscal spending of approximately \$35 billion, spread over three years. Since then, an additional \$6 billion in spending decisions have been taken, increasing fiscal support for the economy over the year ahead, and extending support into the medium-term. We estimate that the increase in fiscal support in 2021 raises real GDP by about one-quarter of one percentage point relative to our BEFU forecasts (Figure 8).

The Government made provision for further increases in fiscal spending through the establishment of the \$50 billion COVID-19 Response and Recovery Fund in Budget 2020, but has yet to allocate all available funding. The Treasury's BEFU scenarios show that increasing spending to the full amount of the Fund might contribute to a faster recovery in activity and reduce unemployment, and the fiscal accounts reflect the implications for the budget balance and public debt.

The possibility of trans-Tasman travel resuming later this year has the potential to support New Zealand's economic recovery. In the year ending March 2020, Australian tourism generated almost \$3 billion in export receipts (1% of GDP), although it would likely be some time before spending returned to this level. In Australia, as elsewhere, the pandemic is having a severe impact on households and business. The resultant high levels of uncertainty around future income, and caution around a second wave of infection, are likely to weigh on discretionary travel spending for some time.

In the other direction, the value of New Zealanders spending on travel to Australia has averaged around \$2.3 billion in recent years. The net direct impact of trans-Tasman tourism on GDP may also be lower than the travel services balance to the extent that some portion of the income gains generated by inbound tourists may flow offshore. It is likely that the gains from trans-Tasman travel will be greatest when it spurs an increase in household spending in both countries, bearing in mind that the Australian market for New Zealand tourism is much larger than the converse.

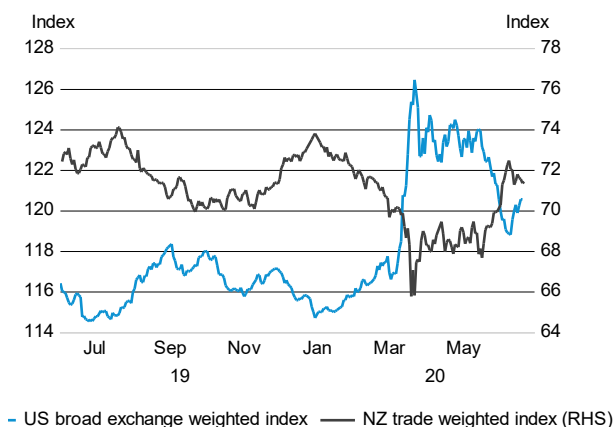
¹ See Tourism Satellite Account, Stats NZ.

Financial market conditions have improved...

The minutes of the Reserve Bank of New Zealand's June Board meeting noted that financial markets are functioning well and that its Large Scale Asset Programme (LSAP) had reduced the cost of borrowing in New Zealand. However, it was not yet clear whether the stimulus to date would be sufficient to return the economy to full employment and meet its inflation objective. The Board agreed to continue with the LSAP.

The New Zealand dollar has strengthened in recent weeks, partly reflecting increased risk appetite from global investors. The broad US dollar index has eased following a sharp rise in March as investors sought safety amidst severe financial market stress. In contrast, New Zealand's trade weighted exchange rate index (TWI) fell sharply to around 66 in late March but has recovered to be around 72 in recent days, above our BEFU assumption of an average close to 65 over the second half of the year (Figure 6). Should the TWI remain at its current level, it will likely dampen expectations of income growth in the goods export sector and put downward pressure on inflation.

Figure 6: Trade-weighted exchange rates



Source: Haver

...but the outlook is extremely uncertain

While welcome, there are several reasons to be cautious in generalising the improvement in the activity indicators to the wider economy or assuming that they will persist. First, they are not a complete or necessarily balanced representation of national economic output and incomes (as used in the national accounts), or unemployment as measured in the Household Labour Force Survey. Second, some portion of the recovery may reflect pent-up demand arising under earlier restrictions and might not be sustained. Third, there is a very considerable fiscal policy stimulus supporting employment and businesses across the economy.

The full extent of the rise in unemployment will not be apparent until the wage subsidy extension scheme ends later this year and other forms of business support are withdrawn. We continue to expect unemployment to rise considerably this year and anticipate that it will remain above its pre-pandemic level for some time, which will weigh on household income and spending.

In sum, the nature, extent and duration of the improvement in underlying economic conditions remains unclear. In addition, much depends on the path of the virus globally and the confidence that households and businesses have that their futures are secure.

Global downturn expected to be deeper...

Data available when the economic forecasts for the Budget Economic and Fiscal Update 2020 (BEFU) were finalised indicated the global economy would experience a very severe contraction over the first half of 2020.

The pandemic has continued its global spread in the period since the BEFU forecasts in late April, causing enormous human suffering and economic hardship. In many economies, prolonged social distancing measures are helping contain the virus, but the disruption to activity is proving more severe than first thought. In other economies, the virus is yet to be brought under control, and the costs are continuing to mount. Elsewhere, the risk of a second wave of infections is weighing on the recovery.

In many countries, stringent lockdown measures were the primary cause of record declines in March quarter GDP. Further, much larger, declines are anticipated in the June quarter, alongside sharp rises in unemployment. How the outlook unfolds after that is extremely uncertain but it will likely be some time before global output and employment return to pre-virus levels, which poses considerable risks to the economic outlook over the medium term.

...and the IMF and OECD have cut their global growth forecasts

The IMF's *World Economic Update* forecasts global growth at nearly -5% in 2020 and 5½% in 2021, down from -3% and 6% respectively at the time of its April forecasts. The OECD's forecasts, released earlier in June, suggest weaker outcomes are possible, particularly in China (Table 2).

Table 2: Global growth projections

	2019	Projections			
		2020		2021	
		IMF	OECD*	IMF	OECD*
World	2.8	-4.9	-5.9	5.4	5.5
OECD/Advanced economies	1.7	-8.0	-7.8	4.8	5.0
United States	2.3	-8.0	-6.3	4.5	4.2
Euro area	1.2	-10.2	-10.3	4.5	7.5
Japan	0.7	-5.8	-7.0	2.4	1.0
China	6.1	1.0	-2.9	8.2	6.7
India	4.8	-4.5	-2.3	6.0	9.0
Brazil	1.1	-9.1	-6.9	3.6	3.7

* Single-hit scenario

Sources: IMF World Economic Outlook, June 2020 Update;
OECD Economic Outlook, June 2020.

The downgrade to the IMF's main forecasts reflects additional disruption to activity from social distancing measures persisting into the second half of 2020 and greater scarring (damage to supply potential) from the damage occurring from shutdowns in the first half of the year.

Both the IMF and the OECD updates contain scenarios of a second wave of infection that are even more dire than those in the single wave scenario. In the OECD forecasts, the single-hit and double-hit (or second wave) scenarios are viewed as equally likely.

In the IMF's baseline projection, world output troughs in the June quarter and recovers to its pre-pandemic level by the end of 2020, driven by a strengthening recovery in China. However, in the advanced economies, output is expected to remain below its pre-virus level until at least 2022.

China's economy is growing...

China is in the process of recovery, having been hit by the COVID-19 pandemic earlier than other countries. Output contracted by nearly 10% in the March quarter as a whole but industrial production has staged a substantial recovery from its February low. Retail spending has been slower to recover, even as containment measures have eased, suggesting that post-lockdown, households have been slow to venture out and resume earlier spending patterns.

Despite strengthening growth in China, the IMF expects output elsewhere in the region to contract, and forecasts ASEAN² growth at -2% in 2020.

...but very substantial declines are anticipated elsewhere...

Amongst the major advanced economies, March quarter output declined more sharply in the euro area than in the United States and Japan, reflecting the earlier and more stringent lockdown measures implemented in many European countries and weaker underlying growth momentum prior to the shutdowns.

In these economies, and many others, the most intense phase of the contraction is likely to occur in the June quarter. While the exact size of the contraction is still uncertain, recent consensus forecasts point to declines of around 10% in the United States and the euro area. In the UK, June quarter GDP is expected to decline by around 15% and by around 5% in Japan. Similarly large declines are anticipated in other major economies including India and Brazil, although the crisis is yet to reach its peak in these countries and others in these regions. In the United States, there is also evidence of rising case numbers in some states. Whether these increases will prompt a tightening of public health restrictions is unclear, but ongoing fear of infection is likely to keep private sector behaviour cautious and slow the pace at which economic activity returns to normal.

IMF and OECD forecasts are not available for all of New Zealand's main trading partners, but based on the countries that they do forecast, growth in New Zealand's main trading partners could contract by 3½% in 2020 and recover 5½% in 2021. This compares to the BEFU trading partner growth forecasts of -2% and 7% in 2020 and 2021 respectively. Among other international forecasters, the consensus across all 16 of New Zealand's main trading partners is for growth to fall about 3% in 2020 and to rise 5½% in 2021. We expect the weaker world outlook will weigh on the speed of New Zealand's recovery.

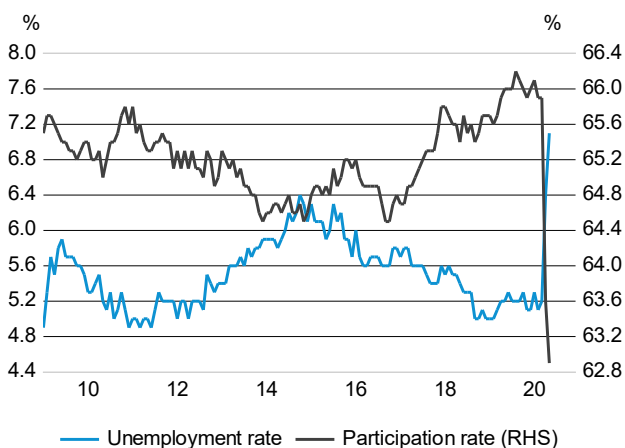
² Indonesia, Malaysia, Philippines, Thailand, Vietnam.

...although the impacts on Australia may not be as severe as earlier thought

In Australia, real GDP for the three months ending March declined 0.3%, led by a 1.1% decline in household consumption expenditure, the largest quarterly fall since 1986. More timely indicators show economic activity fell very sharply in late March and April as strict social distancing measures were introduced and that a recovery began in May as they were relaxed.

The impact on the labour market has been substantial. Employment fell by 835,000 (about 6.4%) over April and May. The number of people unemployed has increased by 240,000 and the unemployment rate has increased to 7.1% of the labour force from 5.1% in February. A declining share of the working age population in the labour force has cushioned the rise in unemployment (Figure 7). Total hours worked fell 9% in April and a further 1% in May. The smaller fall in May is consistent with other data sources that suggest the pace of job losses has stabilised.

Figure 7: Australian labour market



Source: Haver

The fall in labour market incomes is being significantly offset by the Australian Government’s policy support measures, including its JobKeeper programme and increased JobSeeker payments.

In May, the Reserve Bank of Australia (RBA) forecast GDP to contract by 10% over the first half of the year and total hours worked to contract by 20%. The GDP forecast for the year ended December 2020 was -5%. In recent weeks, the RBA and the Australian Treasury have both reported that it is likely the downturn will be shallower than previously thought. In the IMF’s latest forecasts, Australia’s growth in 2020 was revised to -4.5%, 2.2 percentage points above its April forecast. Australia was the only developed country to have its growth outlook revised up.

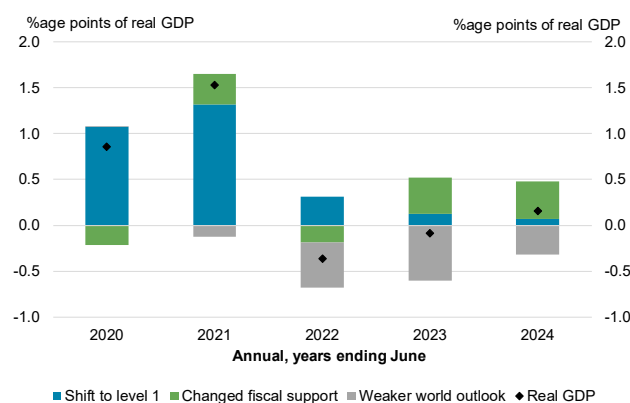
Recent developments in the New Zealand economy and abroad are acting in opposite directions, and appear to be offsetting

The outlook remains exceptionally uncertain, particularly as the virus continues to spread around the world and a readily available vaccine remains some way off. Globally, risks remain skewed towards more negative outcomes, particularly in the event of a second wave of infection in New Zealand’s main trading partners.

Looking across the domestic and international economies, recent developments appear to be positive in the near-term owing to domestic developments and broadly offsetting (Figure 8) over the medium-term owing to the weaker global outlook. Risks, particularly to the world outlook, remain skewed towards further weakness.

In the period leading up to the *Pre-Election Economic and Fiscal Update*, the Treasury will review its assumptions around the impacts of alert level 1 on economic activity and incorporate additional information on activity and employment. The medium-term implications of the pandemic for a range of key assumptions including household and business behaviour, pricing, and longer-term productivity implications are extremely uncertain, and we will continue to monitor the incoming evidence as the basis for any changes.

Figure 8: Contributions to the change in GDP from selected factors



Source: Treasury

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		Dec 19	Jan 20	Feb 20	Mar 20	Apr 20	May 20
Merchandise trade balance (12 month total)	NZ\$m	-4467	-3927	-3283	-3383	-2405	-1327
Dwelling consents - residential	apc	24.1	2.7	6.0	-8.3	-16.8	...
House sales - dwellings	apc	16.9	7.7	13.4	2.7	-77.5	-46.6
REINZ - house price index	apc	6.5	6.9	8.5	9.1	8.6	7.9
Estimated net migration (12 month total)	people	63082	67107	72027	78185	76555	...
ANZ NZ commodity price index	apc	12.2	7.7	6.6	5.8	0.9	-2.6
ANZ world commodity price index	apc	8.7	5.1	0.1	-5.8	-9.2	-9.3
ANZBO - business confidence	net%	-13	...	-19	-64	-67	-42
ANZBO - activity outlook	net%	17	...	12	-27	-55	-39
ANZ-Roy Morgan - consumer confidence	net%	123	123	122	106	85	97
Daily Indicators		Wed 17/6/20	Thu 18/6/20	Fri 19/6/20	Mon 22/6/20	Tue 23/6/20	Wed 24/6/20
NZ exchange and interest rates (5)							
NZD/USD	\$	0.6443	0.6434	0.6413	0.6416	0.6468	0.6477
NZD/AUD	\$	0.9383	0.9387	0.9355	0.9376	0.9357	0.9330
Trade weighted index (TWI)	index	71.6	71.6	71.4	71.4	71.8	71.7
Official cash rate (OCR)	%	0.25	0.25	0.25	0.25	0.25	0.25
90 day bank bill rate	%	0.27	0.28	0.29	0.30	0.30	0.30
10 year govt bond rate	%	0.85	0.85	0.90	0.87	0.92	0.97
Share markets (6)							
Dow Jones	index	26120	26080	25871	26025	26156	25446
S&P 500	index	3113	3115	3098	3118	3131	3050
VIX volatility index	index	33.5	32.9	35.1	31.8	31.4	33.8
AU all ords	index	6109	6052	6062	6058	6069	6082
NZX 50	index	11334	11225	11255	11158	11133	11259
US interest rates							
3 month OIS	%	0.09	0.09	0.09	0.08	0.08	...
3 month Libor	%	0.32	0.31	0.31	0.30	0.30	...
10 year govt bond rate	%	0.74	0.71	0.70	0.71	0.72	0.69
Commodity prices (6)							
WTI oil	US\$/barrel	37.96	38.84	39.72	40.60	40.40	38.01
Gold	US\$/ounce	1724	1720	1735	1762	1769	1766
CRB Futures	index	364	364	363	363	363	...

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		Nov 19	Dec 19	2019Q4	Jan 20	Feb 20	Mar 20	2020Q1	Apr 20	May 20	Jun 20
United States	GDP (1)	qpc			0.5				-1.3			
[9.6% share of total goods exports]	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		...	...	...
	PMI manufacturing (1)	index	48.1	47.8		50.9	50.1	49.1		41.5	43.1	...
	Consumer confidence (1)(3)	index	126.8	128.2		130.4	132.6	118.8		85.7	86.6	...
Japan	GDP (1)	qpc			-1.9				-0.6			
[6.1%]	Industrial production (1)	mpc	-0.6	0.2		1.9	-0.3	-3.7		-9.8	...	...
	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	...	...
	Retail sales value	apc	-2.1	-2.6		-0.4	1.6	-4.7		-13.9	...	...
	PMI manufacturing (1)	index	48.9	48.4		48.8	47.8	44.8		41.9	38.4	...
	Consumer confidence (1)(4)	index	38.7	39.0		39.2	38.2	31.1		21.3	24.1	...
Euro area	GDP (1)	qpc			0.1				-3.6			
[5.5%]	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	...	...
	PMI manufacturing (1)	index	46.9	46.3		47.9	49.2	44.5		33.4	39.4	...
	Consumer confidence (5)	index	-7.2	-8.1		-8.1	-6.6	-11.6		-22.0	-18.8	-14.7
United Kingdom	GDP (1)	qpc			0.0				-2.0			
[2.7%]	Industrial production (1)	mpc	-1.1	-0.2		-0.1	-0.1	-4.2		-20.3	...	...
	CPI	apc	1.4	1.3		1.8	1.7	1.5		0.8	0.6	...
	Unemployment rate (1)	%	3.8	3.8		3.9	4.0	3.9		3.9	...	...
	Retail sales volume	apc	0.6	0.7		0.9	0.0	-6.0		-22.7	-13.2	...
	House prices (6)	apc	0.8	1.4		1.9	2.3	3.0		3.7	1.8	...
	PMI manufacturing (1)	index	48.9	47.5		50.0	51.7	47.8		32.6	40.7	...
	Consumer confidence (1)(5)	index	-8.8	-7.1		-6.5	-6.2	-8.2		-22.7	-23.7	...
Australia	GDP (1)	qpc			0.5				-0.3			
[15.8%]	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	...
	Consumer confidence (8)	index	97.0	95.1		93.4	95.5	91.9		75.6	88.1	93.7
China	GDP	apc			6.0				-6.8			
[24.3%]	Industrial production	apc	6.2	6.9		-13.5	-13.5	-1.1		3.9	4.4	...
	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	...
South Korea	GDP (1)	qpc			1.3				-1.3			
[3.0%]	Industrial production (1)	mpc	0.5	3.6		-1.5	-3.7	4.7		-6.0	...	...
	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