

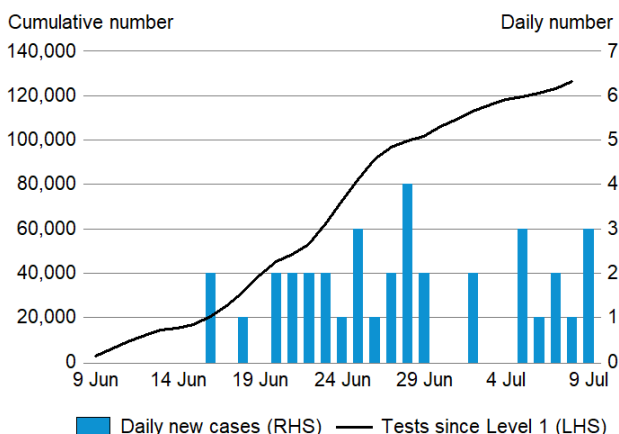
One month after domestic restrictions were lifted in New Zealand, high-frequency indicators of economic activity continue to recover or remain steady at around normal levels. Business confidence lifted slightly in the June quarter but remains very weak, with construction firms particularly pessimistic. Household bank account deposits continued to grow in May, while consumer loans partially recovered after falling in April. Commodity prices eased in June, with a stronger NZD contributing to a sharper fall in domestic currency terms.

In a relatively light data week, global stock markets continued their upward trend and have seemingly become de-sensitised to bad news on the COVID-19 front. New confirmed cases in the US continue to trend higher, while there are also new waves of infection emerging across the world. In Australia, the border between New South Wales and Victoria was closed for the first time in more than 100 years.

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 24 active cases in New Zealand, all of which recently returned from overseas and are in managed isolation. Over 125,000 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

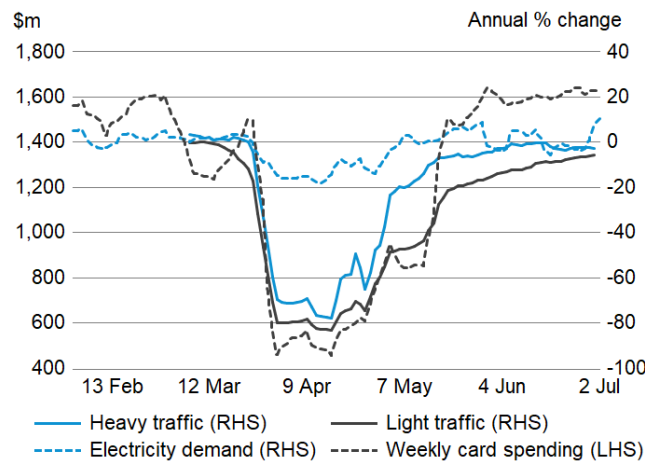


Source: Ministry of Health

...and activity indicators remain steady...

In the month since domestic restrictions were lifted in New Zealand, high-frequency indicators of economic activity continued to recover or remained steady at around normal levels (Figure 2). Heavy traffic levels have been steady and were 2.7% below 2019 levels on 1 July. Light traffic levels have continued to recover, and were 5.8% below 2019 levels on 1 July. Electricity demand has fluctuated, but has mostly remained within 5% of 2019 levels. Electronic card spending has also held up, and remained around normal levels throughout June.

Figure 2: High-frequency activity indicators



Source: Waka Kotahi NZ Transport Agency, Electricity Authority, Paymark and Verifone data via Data Ventures

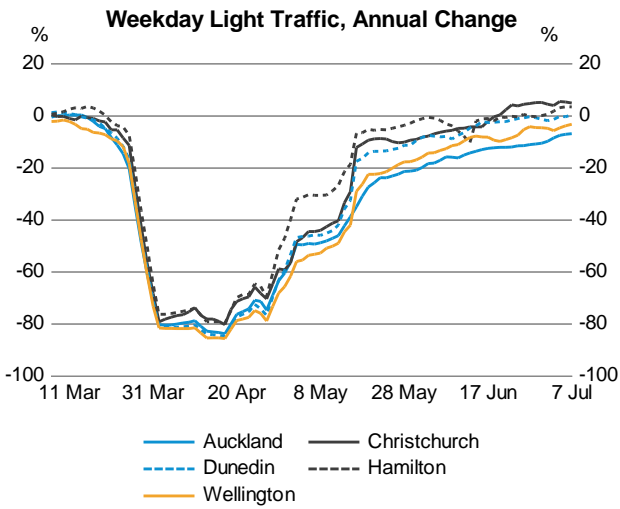
Data from Paymark suggest that card spending has been broad-based across store types. When excluding spending at supermarkets, liquor stores and pharmacies (which continues to be elevated), retail card spending in the week to 5 July was 1% higher than the same week last year. This is the first time such spending has exceeded 2019 levels since before Alert Level 4, during which it was around 90% below the same time last year.

...though income support continues to rise

Nearly 14,000 people were receiving the COVID-19 Income Relief Payment (CIRP) as of 3 July, up 3,300 on the previous week. The number of Jobseeker Support recipients increased by 900, even as more recipients transferred onto the CIRP. The total number of people receiving income support (Jobseeker and CIRP) was 205,000 – up 4,200 on the previous week.

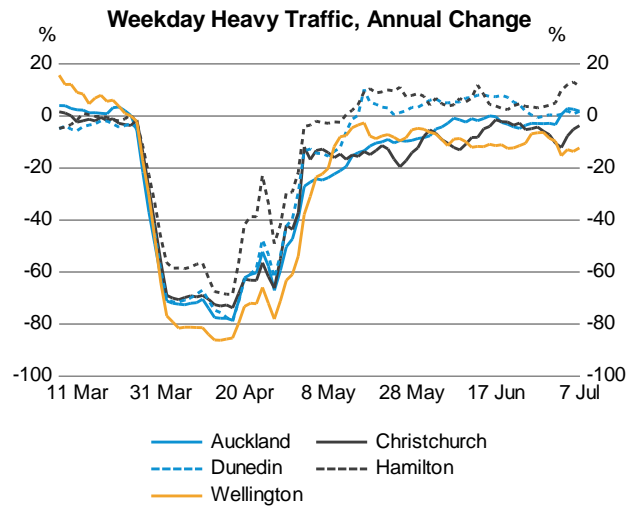
High-Frequency Indicators

Traffic Movement



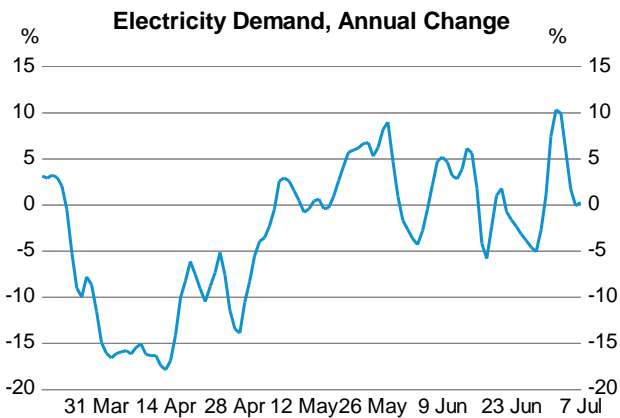
Source: Waka Kotahi NZ Transport Agency

Freight Movement



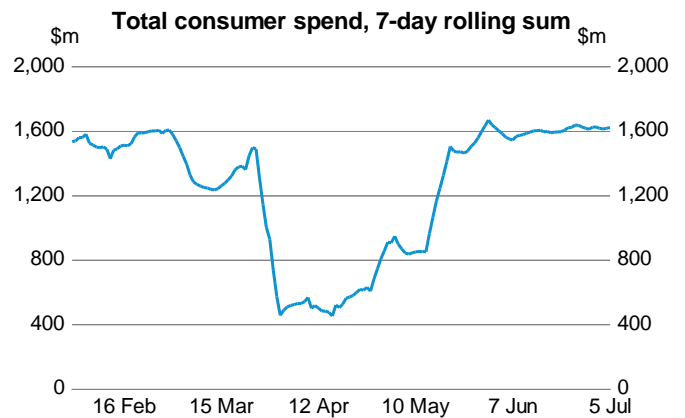
Source: Waka Kotahi NZ Transport Agency

Electricity Demand



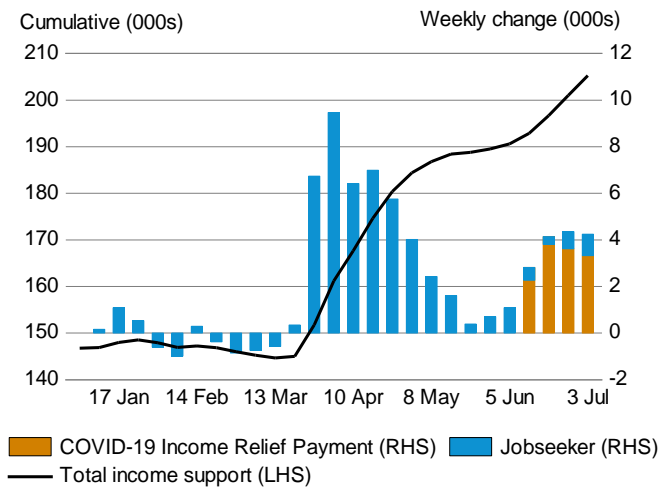
Source: Electricity Authority

Retail Spending



Source: Paymark and Verifone data via Data Ventures

Jobseeker and Income Support Recipients



Source: MSD

Fiscal Support: Wage Subsidy (paid)

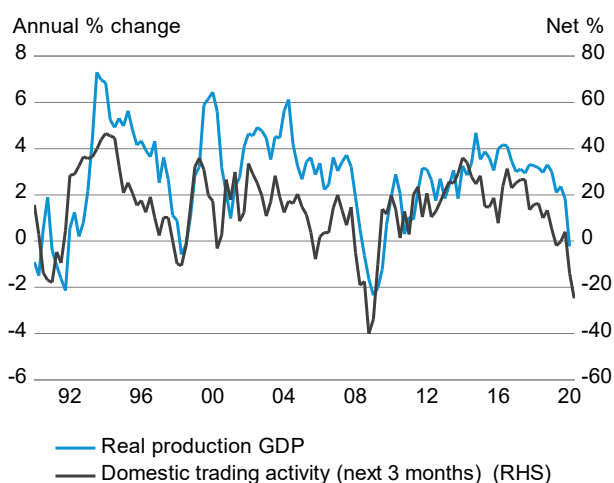


Source: MSD

Business sentiment remains very negative...

The NZIER Quarterly Survey of Business Opinion (QSBO) shows that business sentiment remained very negative in the June quarter, despite a small improvement from the March quarter. Headline business confidence rose from -68% to -59% in the June quarter. A net 37% of businesses reported a decline in own trading activity in the June quarter and a net 25% of businesses are expecting weaker trading conditions in the next quarter (Figure 3). The sharp decline in own activity observed in the QSBO is consistent with the sharp contraction in activity expected by most commentators in the June quarter.

Figure 3: Domestic trading activity



Source: NZIER, Stats NZ

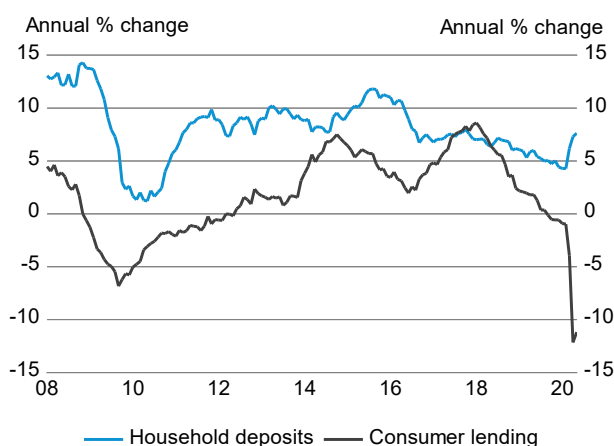
A net 19% of businesses reduced staff numbers in the June quarter and 28% say they expect to cut staff over the next quarter. This is the lowest level since March 2009. Firms reported that they are having less difficulty finding both skilled and unskilled staff. A net 36% of businesses are planning to reduce investment in both buildings and plant and machinery over the coming year.

The construction sector was most pessimistic, with a net 75% of building sector firms expecting a deterioration in economic conditions over the coming months. Manufacturing firms were also pessimistic as weakening domestic and global demand puts pressure on prices and profitability. The retail sector was more positive and is able to pass higher costs on by raising prices, despite weaker demand. The services sector is now one of the least pessimistic sectors, though a net 61% still expect a deterioration in economic activity in coming months.

...as household deposits rise

Reserve Bank statistics show that household deposits have been rising at an increasing rate since March, growing by 8% in the year to May 2020 (Figure 4). While the growth in deposits initially would have been partly driven by a reduced ability to spend due to the lockdown, the increasing rate of growth as lockdown restrictions have eased suggests that households are building up precautionary savings in the face of heightened uncertainty. Growth in deposits has been concentrated in savings and transaction accounts while annual growth in household term deposits dropped into negative territory from April. A combination of the low interest rate environment, and higher levels of uncertainty, is most likely driving household preference for cash-on-hand.

Figure 4: Household deposits and consumer lending



Source: RBNZ

Personal consumer lending fell by 12% in the year to April, but recovered slightly in May to be down 11% in the year to May. We expect annual growth in private consumption to remain negative until the June 2021 quarter, only reaching pre-COVID-19 levels in the September 2021 quarter.

Commodities prices are mixed

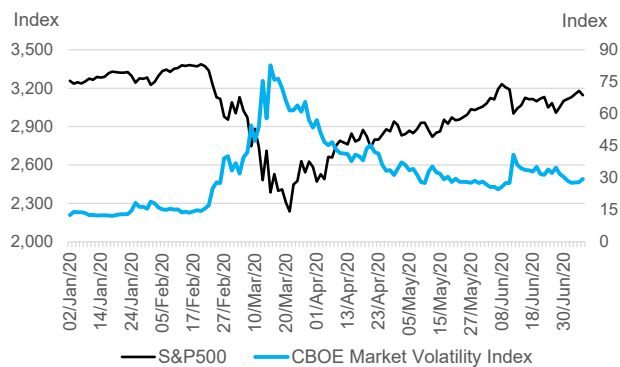
The ANZ World Commodity Price Index fell 0.7% in June, driven by falling log and lamb prices. In local currency terms, the index fell 4.5% as a result of a stronger NZD. Dairy prices rose as higher milk powder prices offset weaker prices for cheese and butter. Meat and fibre fell 4.1%, led by weaker lamb prices, down 11.2%. The horticulture index rose 7.5%, boosted by overseas demand, particularly from Asia. Dairy prices rose 8.3% at the *GlobalDairyTrade* auction this week.

WMP prices rose 14.0% and SMP were up by 3.5%. The prices of most other dairy products rose as well. In NZD terms, prices rose by 6.8%.

Stock markets continue upward trend...

In a relatively light data week, global stock markets continued their upward trend and have seemingly become de-sensitised to bad news on the COVID-19 front. In China, the CSI300 index surged by 5.7% on Monday, its biggest increase since 2015. This was partly in response to a front-page editorial in Chinese state media that hinted at the prospect of a healthy bull market and the consequent positive wealth effects. Chinese stocks are now at their highest level in five years, and technical indicators suggest they are in overbought territory. The surge in Chinese stocks supported the global equity market rally (Figure 5) on Monday, though some of the gains were reversed on Tuesday.

Figure 5: S&P500 and market volatility



Source: Haver Analytics

...with stronger data providing some support...

The US non-manufacturing Institute for Supply Management (ISM) index increased by 12 pts to 57.1 in June, a four-month high, and above expectations of 50.2. However, the employment index remained in contractionary territory for the fourth month in a row, after increasing 11.3 pts to 43.1. Only three out of 14 industries reported an increase in employment in June, namely agriculture, accommodation & food service, and construction. A figure of above 50 implies there was growth since the previous month. While the expansion in the overall index in June was quicker than expected, some high-frequency indicators suggest that the pace of the recovery will slow in July.

Meanwhile the final reads on June services PMIs were revised higher compared to the flash estimates. There were marginal increases for the Euro area, the UK, and Japan. China's Caixin

services PMI rose by a better-than-expected 3.4 pts in June, which means it expanded at the quickest pace in over a decade. However, the employment sub-index continued shrinking, and has now been in contractionary territory for five consecutive months.

Retail sales in the Euro zone rebounded sharply by 17.8% in May, which means that around two thirds of the February-April slump has now been regained. There is a lot of variation between countries though, with Germany rising above February levels, while sales in France and Spain still remain below. Although consumption in the Euro area is rebounding strongly, the industrial sector is taking longer to recover. This is in contrast to the trend in China, where industrial production has risen to pre-crisis levels while consumers remain cautious. In Japan, household spending declined by a record 16.2% over the year to May, following the 11.1% decline in the year to April and above market expectations for a 12.2% fall.

...and negative COVID-19 news flow still largely ignored

Negative news flows on the COVID-19 front continue to have little impact on markets. New confirmed cases in the US continue to trend higher, while hospitals in Texas and Florida are reportedly nearing full capacity. There are also new waves of infection emerging across the world, including in Australia, Spain, Japan, Iran, and Israel.

Victoria/NSW border closed as cases spike...

Victoria recorded 191 new COVID-19 cases on Tuesday, a new daily record. On Tuesday at midnight, the border between New South Wales and Victoria closed for the first time in more than 100 years, which involves the monitoring of more than 55 border crossings. The last time the border was closed was during the Spanish flu pandemic of 1919. The border closure and the increase in new COVID-19 cases will tend to slow the recovery in Victoria relative to other states, while the recovery in domestic tourism for the country as a whole will be negatively affected. Consumer confidence continued to decline last week, and is now at an eight-week low. Low confidence levels are holding households back from making big purchases, with 'time to buy a major household item' falling considerably for a second week running.

...and RBA leaves policy settings unchanged

The Reserve Bank of Australia (RBA) decided to maintain its current policy settings, as expected.

The cash rate target therefore remains at 0.25% and the target for three-year bond yields at 0.25%. Forward guidance continued to be that the bank “will not increase the cash rate target until progress is being made towards full employment and it is confident that inflation will be sustainably within the 2% – 3% target band.”

While noting that economic conditions have stabilised and that the downturn was less severe than previously feared, the bank stressed that the

economy remains heavily dependent on policy support, and noted the likelihood that “fiscal and monetary support will be required for some time.”

Date	Key NZ Data	Previous
13 July	Food Price Index	-0.8% (m/m)
13 July	Rental Price Indexes	+0.3% (m/m)
16 July	Consumer Price Indexes	+2.5% (apc)
17 July	BNZ PMI	39.7

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	...
	apc	1.5	1.7	1.5	1.9	2.5	...
Employment (HLFS) (1)	qpc	-0.1	0.6	0.2	0.1	0.7	...
Unemployment rate (1)	%	4.1	4.0	4.1	4.0	4.2	...
Participation rate (1)	%	70.3	70.3	70.4	70.1	70.4	...
LCI salary & wage rates - total (2)	apc	2.0	2.1	2.5	2.6	2.5	...
QES average hourly earnings - total (2)	apc	3.4	4.4	4.2	3.6	3.6	...
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		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	-1.4	-1.5
ANZ world commodity price index	apc	5.1	0.1	-5.8	-9.2	-8.2	-5.2
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 1/7/20	Thu 2/7/20	Fri 3/7/20	Mon 6/7/20	Tue 7/7/20	Wed 8/7/20
NZ exchange and interest rates (5)							
NZD/USD	\$	0.6462	0.6483	0.6513	0.6550	0.6561	0.6546
NZD/AUD	\$	0.9353	0.9385	0.9411	0.9415	0.9411	0.9436
Trade weighted index (TWI)	index	71.7	72.0	72.3	72.6	72.5	72.5
Official cash rate (OCR)	%	0.25	0.25	0.25	0.25	0.25	0.25
90 day bank bill rate	%	0.30	0.31	0.31	0.31	0.31	0.31
10 year govt bond rate	%	0.93	1.00	0.96	0.96	1.00	0.96
Share markets (6)							
Dow Jones	index	25735	25827	...	26287	25890	26067
S&P 500	index	3116	3130	...	3180	3145	3170
VIX volatility index	index	28.6	27.7	...	27.9	29.4	28.1
AU all ords	index	6041	6142	6164	6126	6127	6034
NZX 50	index	11350	11503	11559	11656	11744	11707
US interest rates							
3 month OIS	%	0.08	0.09	0.09	0.09	0.09	...
3 month Libor	%	0.30	0.30	0.28	0.28	0.27	...
10 year govt bond rate	%	0.69	0.68	...	0.69	0.65	0.67
Commodity prices (6)							
WTI oil	US\$/barrel	39.82	40.65	...	40.51	40.59	...
Gold	US\$/ounce	1771	1777	1773	1788	1790	...
CRB Futures	index	363	361	...	362	362	...

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	11.1
	Employment change (1)	000s	261.0	184.0		214.0	251.0	-1373.0		-20787.0	2699.0	4800.0
	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	...	...
	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
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	-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
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		7.4	7.2	7.1		7.3	7.4	...
	Retail sales volume	apc	2.5	1.9		2.2	2.6	-8.3		-19.6	-5.1	...
	PMI manufacturing (1)	index	46.9	46.3		47.9	49.2	44.5		33.4	39.4	47.4
	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				-2.2			
[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	-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	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	5.5	...
	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
	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	50.9
South Korea	GDP (1)	qpc			1.3				-1.3			
[3.0%]	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	-0.0

(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