

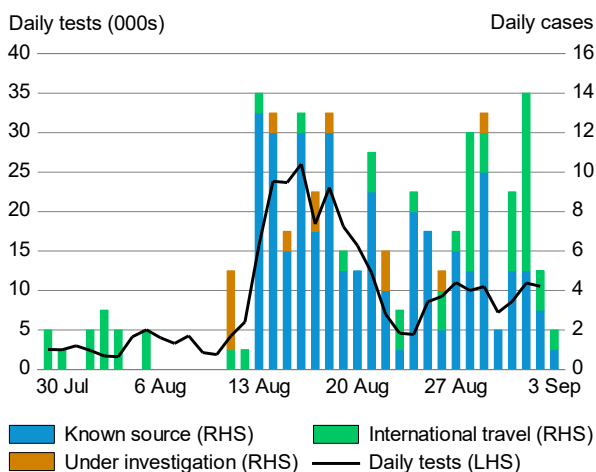
Auckland joined the rest of New Zealand at Alert Level 2 on 31 August, and Cabinet will review current restrictions on 4 September. High-frequency data suggest that the impacts of August Alert Level restrictions differed from previous impacts, though the implications for overall economic activity are unclear. Business and consumer confidence both weakened in August, reflecting the impacts of the higher alert levels. The merchandise terms of trade reached a record high in the June quarter as export prices rose, though spending by overseas visitors fell heavily.

Australia's GDP fell 7.0% in the June quarter from the previous quarter, while India's output fell by a quarter – the sharpest decline among major economies so far. Meanwhile, the September quarter recovery has continued, although Purchasing Manager's Indices (PMI) have shown mixed results. The United States' central bank confirmed it would be switching to a flexible average inflation targeting regime.

Auckland joins the rest of NZ at Alert Level 2

Auckland joined the rest of the country at Alert Level 2 on Monday 31 August, although with additional limits on gatherings. Cabinet will review the current Alert Level 2 restrictions on 4 September. There are 79 active COVID-19 cases which are linked to the Auckland August cluster and 36 active cases in managed isolation at the border. Over 285,000 tests have been taken since 12 August, bringing the total to around 790,000.

Figure 1: Daily COVID-19 tests and cases by source

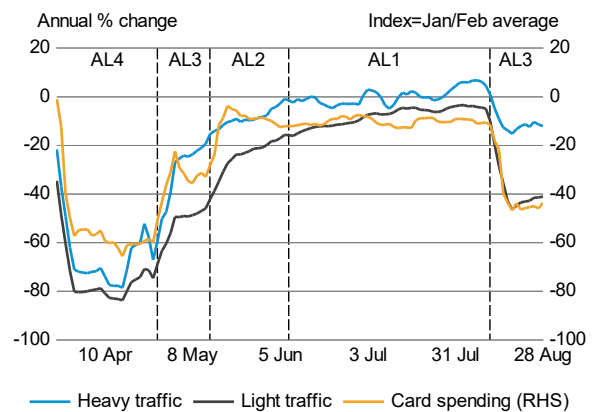


Source: Ministry of Health

Second Alert Level impacts appear different

High-frequency data suggest that the impact on Auckland activity from Alert Level 3 restrictions in August differed from the impact of Level 3 in April/May (Figure 2). Although card spending fell by more in August, the reductions in light and heavy traffic volumes were smaller.

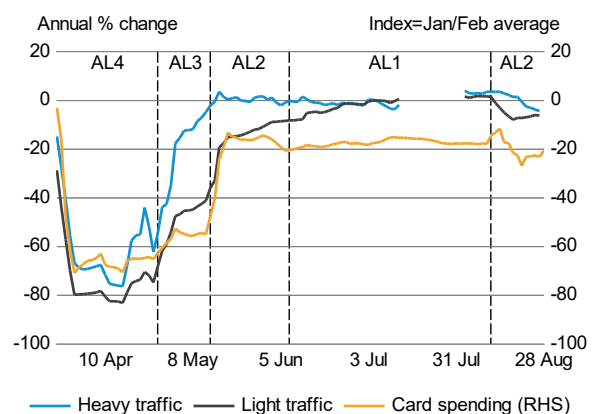
Figure 2: Auckland Alert Level impacts



Sources: NZTA, Paymark and Verifone data via Data Ventures

Meanwhile, the impact of August's Alert Level 2 restrictions in the rest of NZ was similar to the impact of Level 2 in May/June (Figure 3). Although light traffic fell by less, the levels of heavy traffic and card spending were slightly lower.

Figure 3: NZ excluding Auckland Alert Level impacts



Sources: NZTA, Paymark and Verifone data via Data Ventures

Income support continues to rise

Around 24,800 people were receiving the COVID-19 Income Relief Payment (CIRP) as of 28 August, up 800 on the previous week. The total number of people receiving income support (Jobseeker and CIRP) was 222,000 – up 2,500 on the week prior.

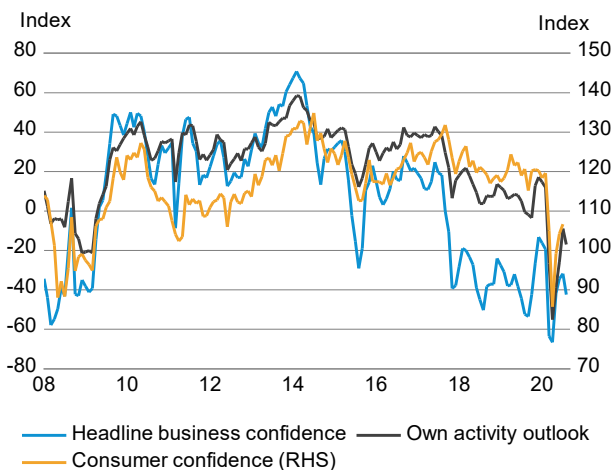
Consumer confidence eases again...

Consumer confidence fell 4 points to 100.2 in August in the ANZ-Roy Morgan Consumer Confidence Survey, well below its historical average of 120, and around the 2009 average (Figure 4). Consumer spending picked up strongly following the easing of alert levels earlier this year, but the high-frequency card data suggest the pace of growth has slowed.

...and business confidence remains weak...

The August ANZ Business Outlook Survey showed headline business confidence was little-changed from the preliminary read with a net 41.8% of businesses expecting conditions to deteriorate (Figure 4). Expectations of firm's own activity was at -17.5%, down from -17.0% in the preliminary August read. Both indicators are weaker than in July. The August survey showed that Auckland businesses were more downbeat than elsewhere as a result of higher alert levels.

Figure 4: Business and consumer confidence



Source: ANZ, ANZ Roy-Morgan

...as building consents fall

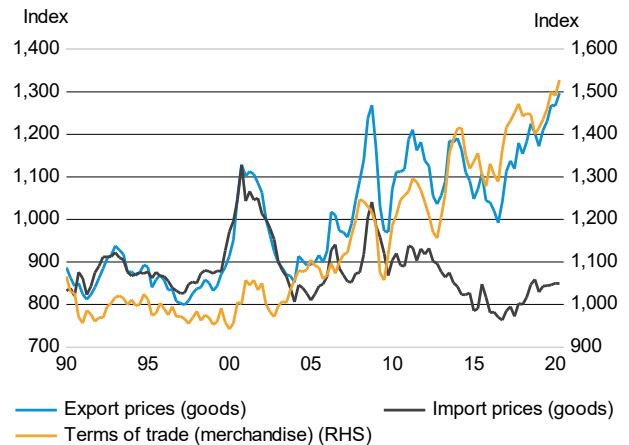
Residential building consents fell 4.5% in July after a 0.7% rise in June. Consents bounced back strongly in May when restrictions were eased. The decline in consents in July was driven by weaker consent numbers for both standalone dwellings and multi-unit dwellings, which fell 3.9% and 5.3% respectively.

Annual consent issuance remains near the 45-year high recorded in February 2020 but we expect building consents to ease in coming months as income growth slows and unemployment rises.

The terms of trade rises to a record high...

The merchandise terms of trade rose by 2.5% to a record high in the June quarter as goods export prices rose 2.4% over the quarter, with gains seen in dairy, fruit and forestry, while goods import prices were broadly flat (Figure 5).

Figure 5: Terms of trade



Source: Stats NZ

Spending by overseas visitors and students fell by half in the June 2020 quarter compared to the same period in 2019 to \$1.8 billion. Although New Zealand's borders have been closed to international visitors and students since March, a large number of travellers were already in the country and may have remained for longer than they otherwise would have, preventing a larger fall.

...but export prices are easing

The ANZ Commodity Price Index showed world prices for New Zealand exports fell 0.9% in August. Lower dairy prices were partly offset by stronger meat and aluminium prices. In local currency terms, the index fell 0.2% owing to a weaker NZD.

Meanwhile, the *GlobalDairyTrade* (GDT) index fell for the fourth consecutive time in this week's auction (down 1.0%), as the pandemic continues to weigh on prices. Whole milk powder prices fell 2.0%, butter prices were down 1.2% and skim milk powder prices rose 1.8%. The GDT index is down about 7.5% from the same month a year ago.

We expect that relatively weak global demand will put downward pressure on export prices in the second half of the year. Combined with an expected recovery in imports, this is expected to widen the trade deficit.

Shift in Federal Reserve's monetary policy strategy...

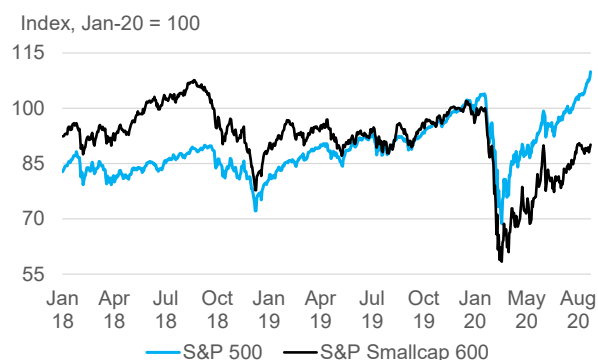
Last week, the United States (US) Federal Reserve Bank (Fed) confirmed it would be switching to a flexible form of 'average' inflation targeting. This means that, rather than targeting consumer price inflation of around 2%, the Fed will instead aim to achieve an inflation rate that averages 2% over time. If inflation is therefore persistently below 2%, monetary policy will aim to achieve inflation in excess of 2% for some (unspecified) time. This policy change came at the conclusion of the Fed's 1½-year review of its monetary policy framework. The other major change to the strategy was with regard to the labour market: the Fed will no longer tighten monetary policy pre-emptively if unemployment is at relatively low levels unless if it was resulting in a sustained increase in inflation to above 2%. The implications of these changes will become clearer following the Fed's monetary policy committee meeting in mid-September.

Other central bank governors have echoed these sentiments. The Bank of England's Andrew Bailey stressed that the bank is "not out of firepower by any means", and the European Central Bank noted that it was ready to do more if needed.

...boosting equities and lowering USD

Although the change in the Fed's policy was in line with market expectations, it has led to a rise in inflation expectations and a further weakening in the US dollar. The S&P500 had its best August since 1984, but smaller companies (which better reflect the underlying health of the economy) have under-performed (Figure 6).

Figure 6: US equities



Source: Haver

Recent US economic data has generally been positive. The US Institute of Supply Management (ISM) manufacturing Purchasing Manager's Index (PMI) for August rose 1.8 points to 56.0. While the

new orders component is now at its highest level since 2004, the employment component remains in contractionary territory.

GDP declines in Australia...

June quarter GDP fell by 7.0% compared to the previous quarter, the steepest fall since records began in 1959. Following the 0.3% GDP decline in the March quarter, this is Australia's first technical recession since 1991. Household final consumption expenditure declined by 12.1%, with spending on services falling by 17.6% (Table 1). The household saving to income ratio rose from 6.0% to 19.8%, the highest rate since June 1974. Net exports made a 1.0 percentage point contribution to real GDP growth in the quarter.

Table 1: Key aggregates

	2020Q1	2020Q2
<i>Quarterly change in seasonally adjusted measures</i>		
Real GDP	-0.3	-7.0
Household final consumption	-1.2	-12.1
Gross fixed capital formation		
Private	-0.5	-6.5
Public	-0.9	1.0
Exports of goods and services	-4.4	-6.7
Imports of goods and services	-6.7	-12.9

Source: Australian Bureau of Statistics

The current account surplus rose to a record \$17.7 billion in seasonally adjusted terms in the June quarter, compared to \$9.0 billion in the March quarter. This was mostly due to the balance on goods and services rising from \$19.1 billion to \$23.9 billion, with imports falling by more than exports.

The Reserve Bank of Australia (RBA) decided to expand and extend its term funding facility after its policy decision meeting on Tuesday. The total amount available under the facility was increased to around \$200 billion, and will be available until the end of June 2021. The targets for the cash rate and the yield on 3-year Australian government bonds were maintained at 25bps. The Bank stated that it will maintain accommodative policy settings for as long as necessary, and that it "continues to consider how further monetary measures could support the recovery".

...and India

India's June quarter GDP declined by an estimated 23.9% compared to a year earlier (and by 25.6% compared to the previous quarter), the steepest

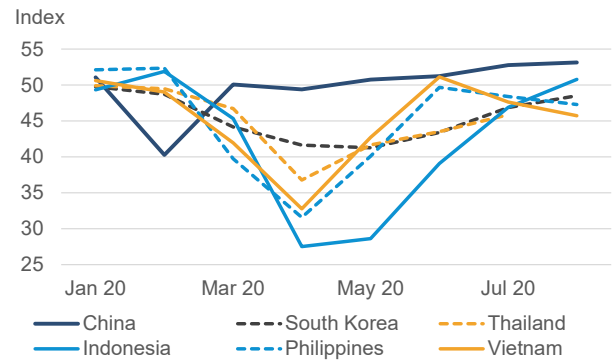
contraction reported so far in the quarter by a major economy, reflecting the severity of India's lockdown. The hardest hit sectors were trade & transport services and manufacturing, which contracted by 47% and 39% compared to year-ago levels, respectively. There are concerns about the pace of the recovery, with the country continuing to record a large number of new COVID-19 infections on a daily basis, and some regions having remained in lockdowns during July and August.

...while the rest of Asia continues to recover

China's official manufacturing PMI slipped marginally to 51.0 in August from 51.1 the previous month due to heavy flooding in the south of the country. The official services PMI increased by more than expected to 55.2 from 54.2 in July. Furthermore, the Caixin/IHS Markit manufacturing PMI for China rose from 52.8 in July to 53.1 in August, the highest level since January 2011. Firms reported their first increase in export sales in 2020 to date. While the employment index was in contractionary territory for the eighth consecutive month, the pace of the decline has moderated.

Elsewhere, Indonesia's manufacturing PMI moved into expansionary territory (above 50) in August for the first time since February. South Korea's manufacturing PMI improved in August but remained below 50, while there were further deteriorations in Vietnam and the Philippines (Figure 7).

Figure 7: Asian manufacturing PMIs

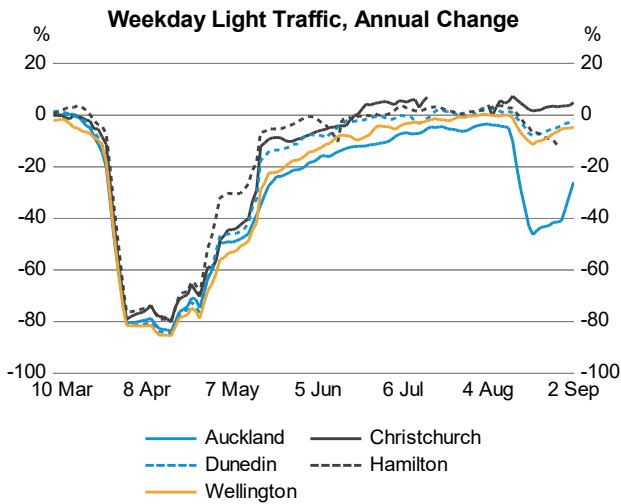


Source: Haver, IHS Markit

Date	Key NZ Data	Previous
4 Sept	Building work put in place (volume), June quarter	-5.7%
9 Sept	Manufacturing and wholesale trade, June quarter	n/a

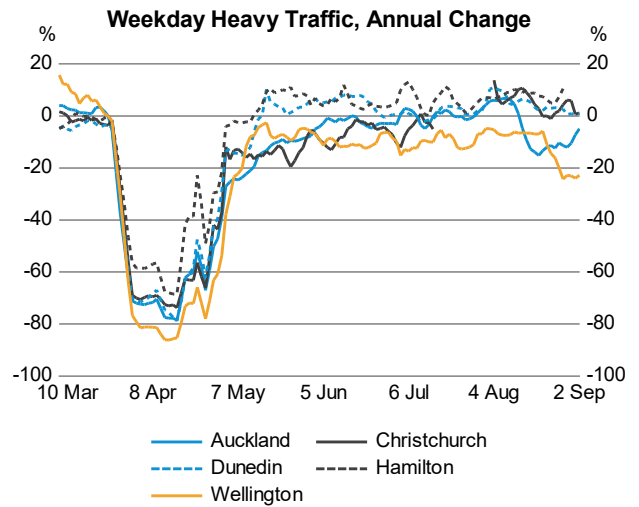
High-Frequency Indicators (Domestic)

Traffic Movement



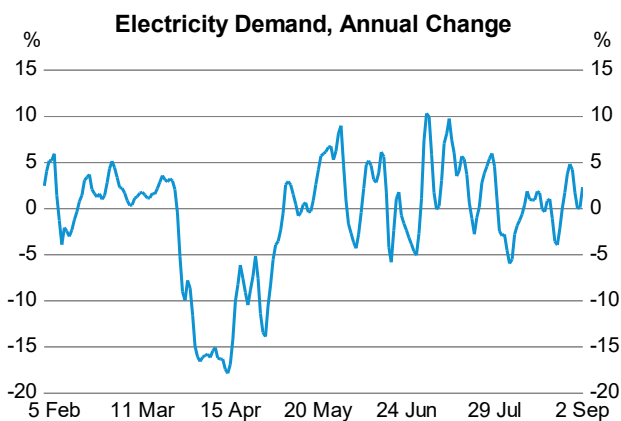
Source: Waka Kotahi NZ Transport Agency

Freight Movement



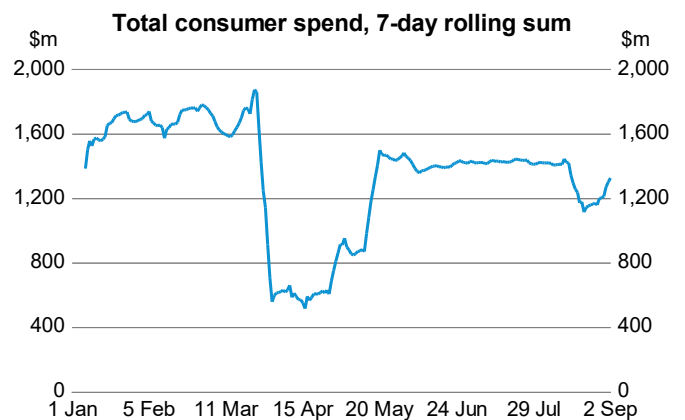
Source: Waka Kotahi NZ Transport Agency

Electricity Demand



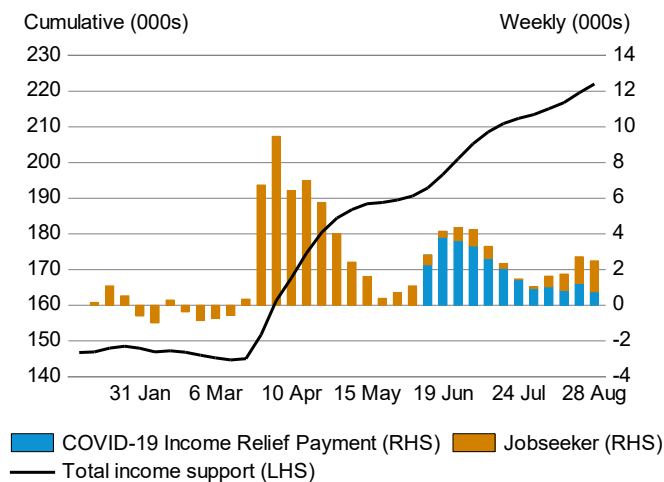
Source: Electricity Authority

Retail Spending



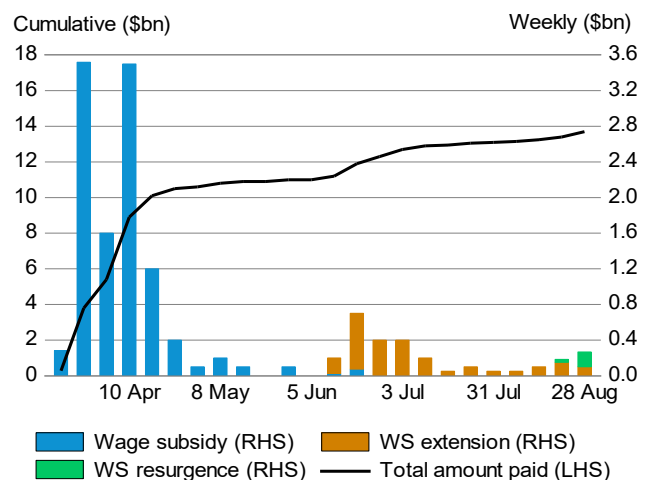
Source: Paymark and Verifone data via Data Ventures

Jobseeker and Income Support Recipients



Source: MSD

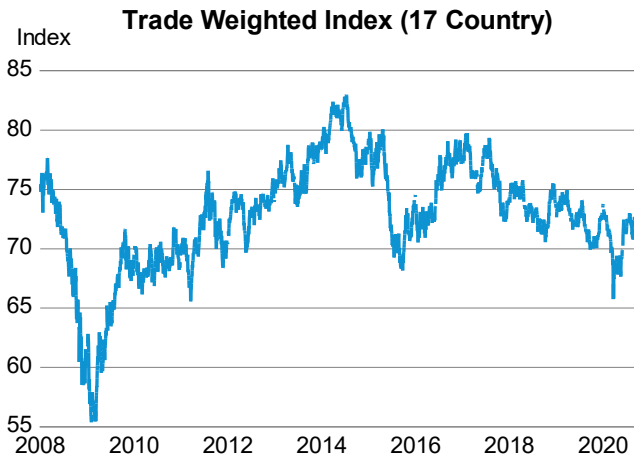
Fiscal Support: Wage Subsidy (paid)



Source: MSD

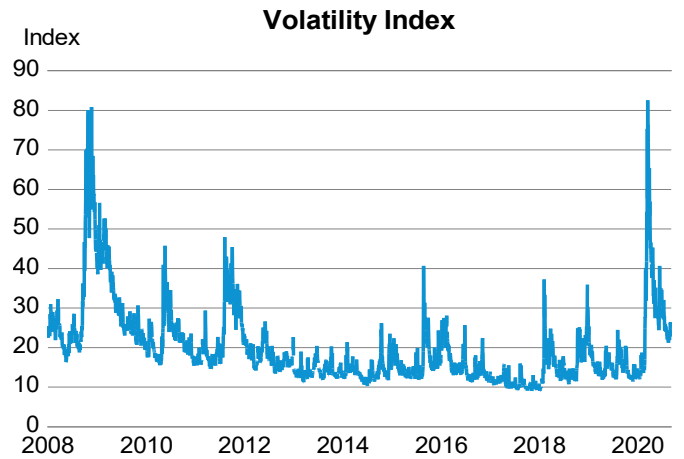
High-Frequency Indicators (Global)

Trade Weighted Index



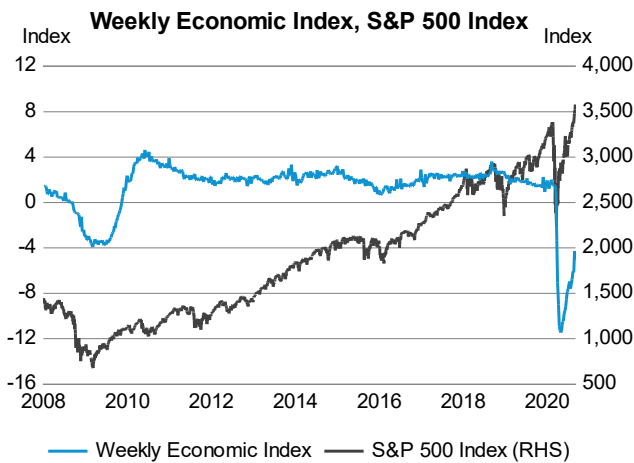
Source: RBNZ

Volatility Index



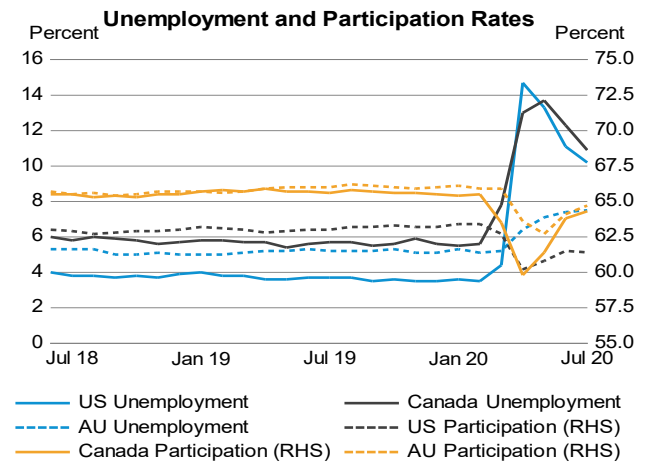
Source: Haver

US Activity and Equities



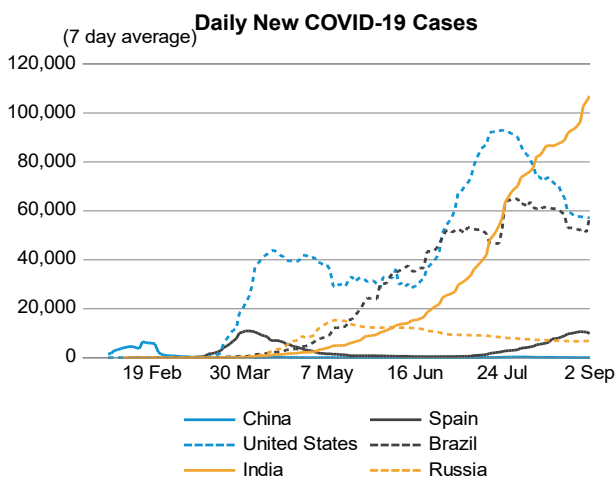
Sources: Federal Reserve Bank of New York, Haver

Labour Markets



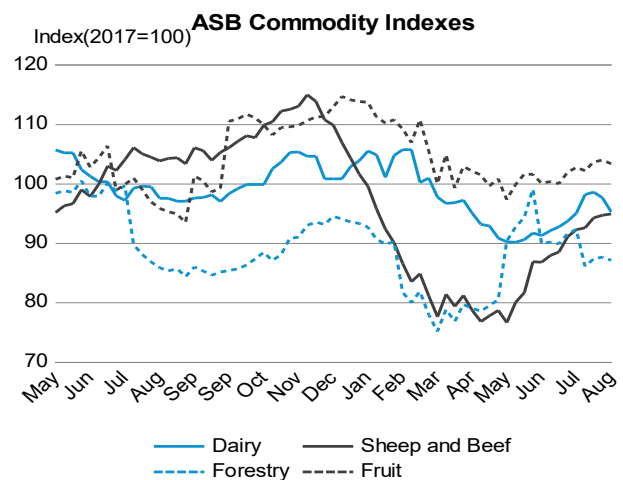
Source: Haver

COVID-19 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	5.4	6.5
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	-11.7
Total retail sales volume	apc	3.3	2.9	4.5	3.3	2.3	-14.2
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		Mar 20	Apr 20	May 20	Jun 20	Jul 20	Aug 20
Merchandise trade balance (12 month)	NZ\$m	-3,382	-2,393	-1,274	-1,129	-115	...
Dwelling consents - residential	apc	-8.3	-16.5	-4.4	20.4	-0.8	...
House sales - dwellings	apc	2.7	-77.2	-44.3	10.9	24.6	...
REINZ - house price index	apc	9.0	8.6	7.0	7.7	9.4	...
Estimated net migration (12 month total)	people	86,404	84,517	82,084	79,424	...	...
ANZ NZ commodity price index	apc	5.8	0.9	-1.4	-2.5	-0.1	...
ANZ world commodity price index	apc	-5.8	-9.2	-8.2	-5.3	-1.7	...
ANZBO - business confidence	net%	-63.5	-66.6	-41.8	-34.4	-31.8	-41.8
ANZBO - activity outlook	net%	-26.7	-55.1	-38.7	-25.9	-8.9	-17.5
ANZ-Roy Morgan - consumer confidence	net%	106.3	84.8	97.3	104.5	104.3	100.2
Weekly Benefit Numbers		24 Jul	31 Jul	7 Aug	14 Aug	21 Aug	28 Aug
Jobseeker Support	number	192,374	192,488	193,094	193,997	195,495	197,227
Work Ready	number	124,618	124,443	124,679	125,076	126,225	127,615
Health Condition and Disability	number	67,756	68,045	68,415	68,921	69,270	69,612
COVID-19 Income Relief Payment	number	20,023	20,957	21,988	22,834	24,053	24,811
Full-time	number	18,077	18,863	19,745	20,518	21,528	22,221
Part-time	number	1,946	2,094	2,243	2,316	2,525	2,590
Daily Indicators		Wed 26/8/20	Thu 27/8/20	Fri 28/8/20	Mon 31/8/20	Tue 1/9/20	Wed 2/9/20
NZ exchange and interest rates (5)							
NZD/USD	\$	0.6560	0.6632	0.6649	0.6739	0.6758	0.6769
NZD/AUD	\$	0.9109	0.9169	0.9145	0.9146	0.9133	0.9215
Trade weighted index (TWI)	index	71.1	71.7	71.9	72.4	72.4	72.7
Official cash rate (OCR)	%	0.25	0.25	0.25	0.25	0.25	0.25
90 day bank bill rate	%	0.28	0.28	0.29	0.29	0.30	0.30
10 year govt bond rate	%	0.55	0.58	0.59	0.61	0.63	0.59
Share markets (6)							
Dow Jones	index	28,332	28,492	28,654	28,430	28,646	29,101
S&P 500	index	3,479	3,485	3,508	3,500	3,527	3,581
VIX volatility index	index	23.3	24.5	23.0	26.4	26.1	26.6
AU all ords	index	6,294	6,311	6,261	6,246	6,143	6,252
NZX 50	index	12,032	12,053	12,094	11,938	11,793	11,903
US interest rates							
3 month OIS	%	0.09	0.08	0.09	0.09	0.09	...
3 month Libor	%	0.26	0.25	0.24	...	0.25	...
10 year govt bond rate	%	0.69	0.74	0.74	0.72	0.68	0.66
Commodity prices (6)							
WTI oil	US\$/barrel	43.39	43.04	42.96	42.61	42.76	41.51
Gold	US\$/ounce	1,933	1,923.85	1,957.35	...	1,972.35	1,947.05
CRB Futures	index	391	391.14	393.10	394.76	394.12	396.10

(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			Jan 20	Feb 20	Mar 20	2020Q1 Apr 20	May 20	Jun 20	2020Q2 Jul 20	Aug 20
United States [9.6%]	GDP (1)	qpc				-1.3			-9.1	
	Industrial production (1)	mpc	-0.4	0.1	-4.3	-12.8	0.9	5.7	3.0	...
	CPI	apc	2.5	2.3	1.5	0.3	0.1	0.6	1.0	...
	Unemployment rate (1)	%	3.6	3.5	4.4	14.7	13.3	11.1	10.2	...
	share of total goods exports				1373.	20787		4791.	1763.	...
	Employment change (1)	000s	214.0	251.0	0	.0	2725.0	0	0	...
	Retail sales value	apc	4.9	4.5	-5.6	-19.9	-5.6	2.1	2.7	...
House prices (2)	apc	3.1	3.5	3.9	3.9	3.6	3.5	...	...
PMI manufacturing (1)	index	50.9	50.1	49.1	41.5	43.1	52.6	54.2	56.0	
Consumer confidence (1)(3)	index	130.4	132.6	118.8	85.7	85.9	98.3	91.7	84.8	
Japan [6.1%]	GDP (1)	qpc				-0.6			-7.8	
	Industrial production (1)	mpc	1.9	-0.3	-3.7	-9.8	-8.9	1.9	8.0	...
	CPI	apc	0.6	0.5	0.4	0.2	0.0	0.1	0.4	...
	Unemployment rate (1)	%	2.4	2.4	2.5	2.6	2.9	2.8	2.9	...
	Retail sales value	apc	-0.4	1.6	-4.7	-13.9	-12.5	-1.3	-2.8	...
	PMI manufacturing (1)	index	48.8	47.8	44.8	41.9	38.4	40.1	45.2	47.2
	Consumer confidence (1)(4)	index	39.2	38.2	31.1	21.3	24.1	28.5	29.5	29.3
Euro area [5.5%]	GDP (1)	qpc				-3.6			-12.1	
	Industrial production (1)	mpc	1.9	-0.1	-11.8	-18.0	12.3	9.1	...	...
	CPI	apc	1.4	1.2	0.7	0.3	0.1	0.3	0.4	...
	Unemployment rate (1)	%	7.4	7.3	7.2	7.4	7.5	7.7	7.9	...
	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	51.7
	Consumer confidence (5)	index	-8.1	-6.6	-11.6	-22.0	-18.8	-14.7	-15.0	-14.7
United Kingdom [2.7%]	GDP (1)	qpc				-2.2			-20.4	
	Industrial production (1)	mpc	0.2	0.3	-4.3	-20.4	6.2	9.4	...	...
	CPI	apc	1.8	1.7	1.5	0.8	0.6	0.6	1.1	...
	Unemployment rate (1)	%	3.9	4.0	3.9	3.9	3.9	3.9	...	...
	Retail sales volume	apc	0.8	-0.1	-6.1	-22.7	-12.9	-1.6	1.4	...
	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	55.2
Consumer confidence (1)(5)	index	-6.5	-6.2	-8.2	-22.7	-23.7	-21.0	-16.6	-16.6	
Australia [15.8%]	GDP (1)	qpc				-0.3			-7.0	
	CPI	apc				2.2			-0.3	
	Unemployment rate (1)	%	5.3	5.1	5.2	6.4	7.1	7.4	7.5	...
	Retail sales value	apc	2.2	5.7	9.4	-8.9	5.5	8.6	...	...
	House Prices (7)	apc				8.1			...	...
	PMI manufacturing (1)	index	45.4	44.3	53.7	35.8	41.6	51.5	53.5	49.3
	Consumer confidence (8)	index	93.4	95.5	91.9	75.6	88.1	93.7	87.9	79.5
China [24.3%]	GDP	apc				-6.8			3.2	
	Industrial production	apc	-13.5	-13.5	-1.1	3.9	4.4	4.8	4.8	...
	CPI	apc	5.4	5.2	4.3	3.3	2.4	2.5	2.7	...
	PMI manufacturing (1)	index	50.0	35.7	52.0	50.8	50.6	50.9	51.1	51.0
South Korea [3.0%]	GDP (1)	qpc				-1.3			-3.2	
	Industrial production (1)	mpc	-1.5	-3.7	4.9	-6.6	-7.0	7.2	1.6	...
	CPI	apc	1.5	1.1	1.0	0.1	-0.3	-0.0	0.3	0.7

(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