



Economic Insights: COVID-19 and the NZ Economy

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Agenda:

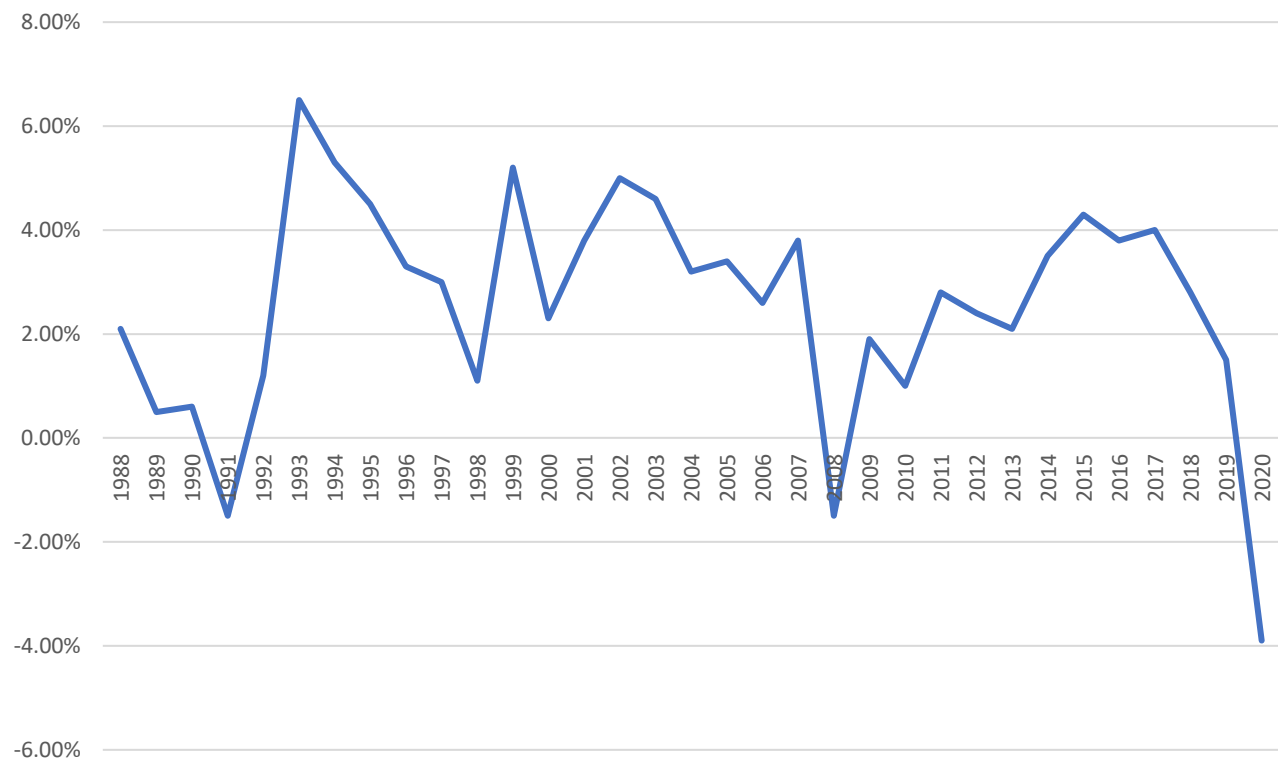
- Macroeconomic update
- Most exposed industries
- International trade
- Government response



Macroeconomic Update

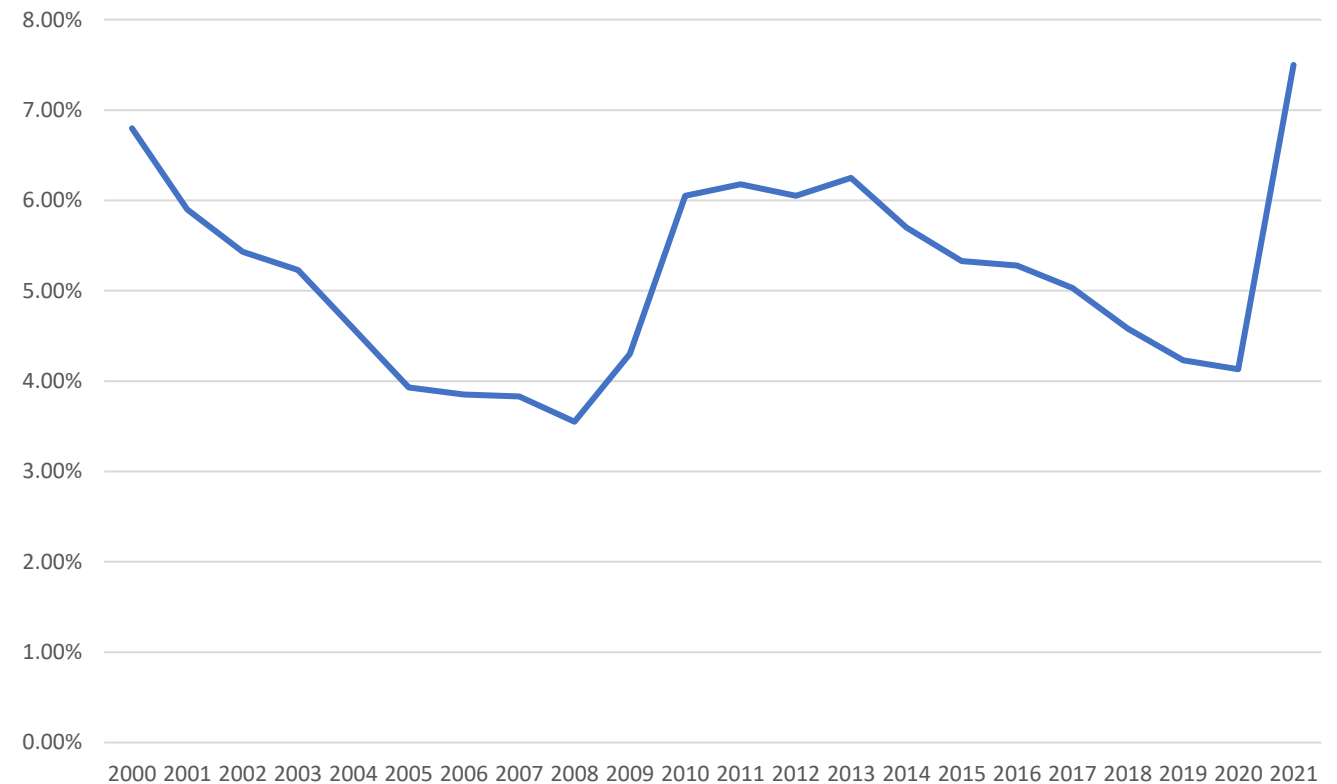
New Zealand GDP growth

- 2019-20 GDP growth: **1.5%** (2.0% pre-COVID)
- 2020-21 GDP growth: **-3.9%** (2.3% forecast before COVID)
- Assumed 6-month period of lockdown and disruption. Growth from Jan 2021
- Recession expected end of September Quarter



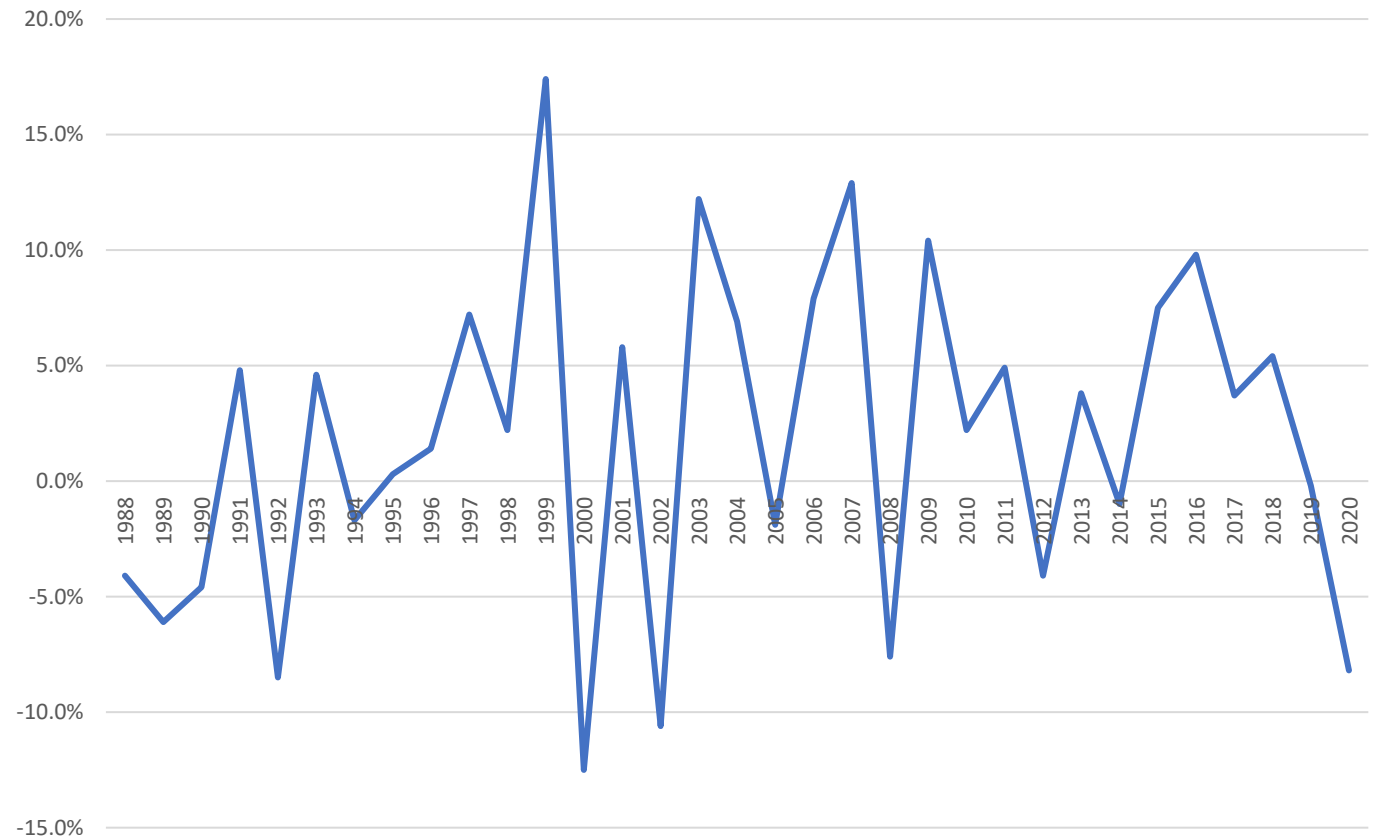
Unemployment rate

- Rise from **4.1%** in 2019-20 to 7.5% in 2020-21.
- Annual average of monthly results, which understates the peak
- Peak unemployment of 9.5% (in June Quarter)
- Partially contained by the Government's Wage Subsidy



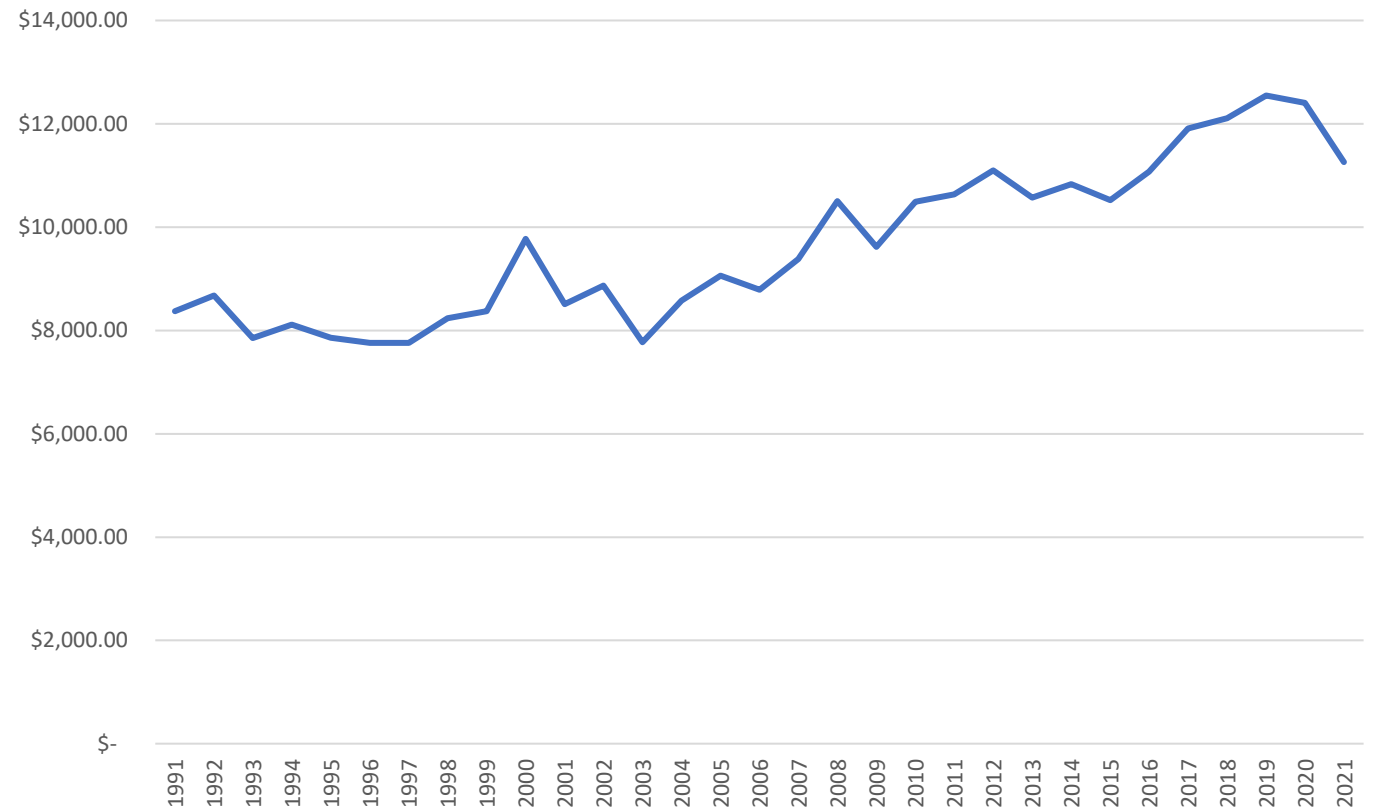
Household discretionary income

- 2019-20: **-0.2% decline**
- 2020-21: **-8.2% decline**
- and insurance costs rising.
- Weak wage growth was already limiting consumer spending power.



Per capita discretionary income

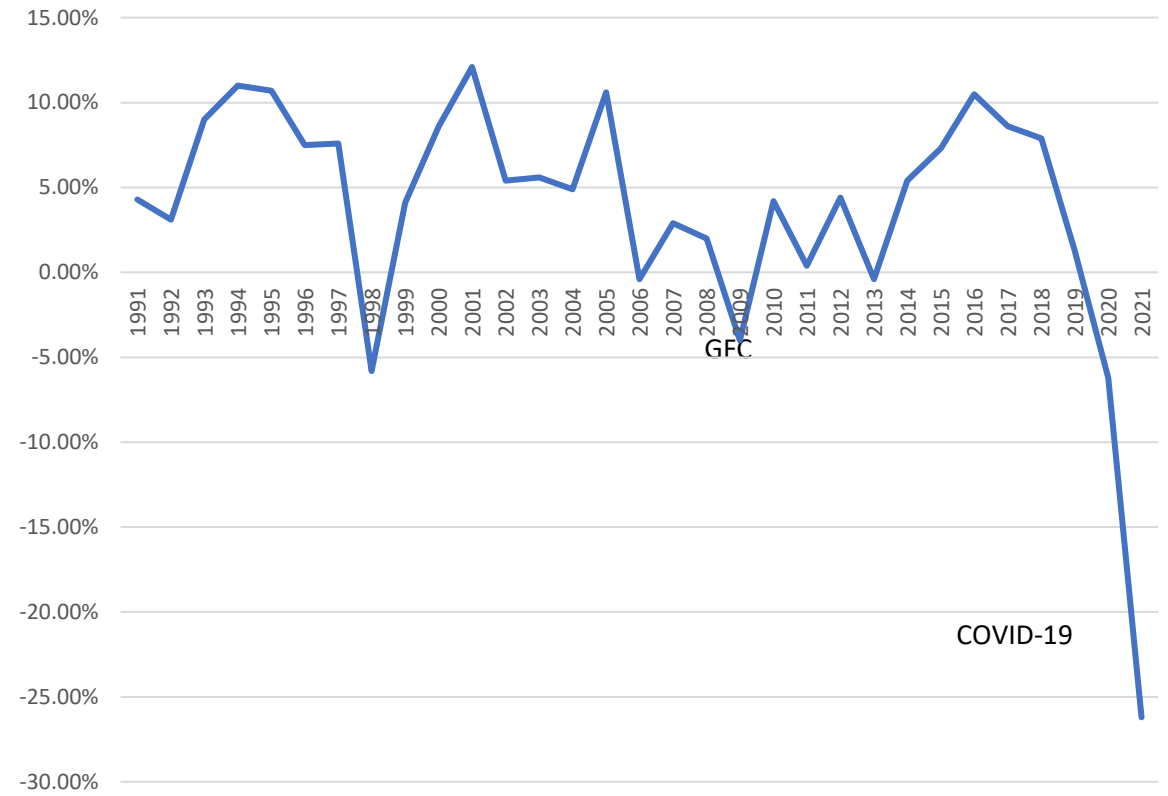
- 2019-20: \$ 12,409.33
- 2020-21: \$ 11,261.48
- Historically takes between 4 and 8 years to recover.
- Circular affect on the economy



Tourism & Hospitality

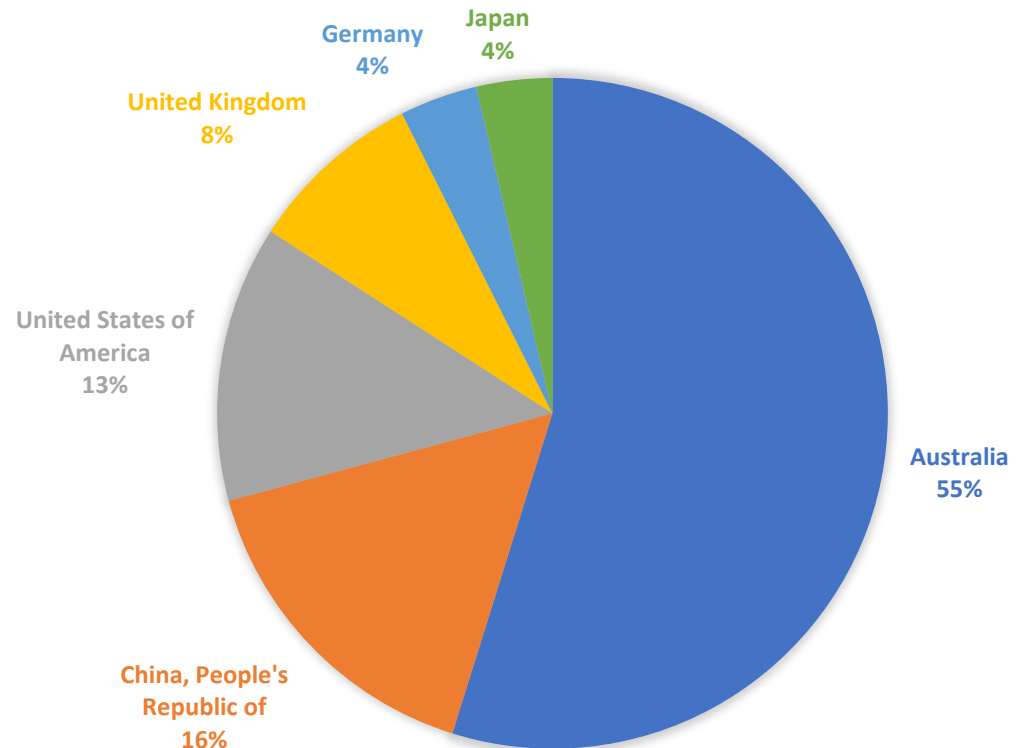
International travel to New Zealand

- Strongest fall since the GFC outbreak (-4%)
- Factors:
 - Border Closures
 - Deterioration of Global Economy
 - Trans-Tasman Bubble
- International travel by New Zealanders is also expected to fall
- Both inbound and outbound tourism expected to rebound strongly in 2021-22



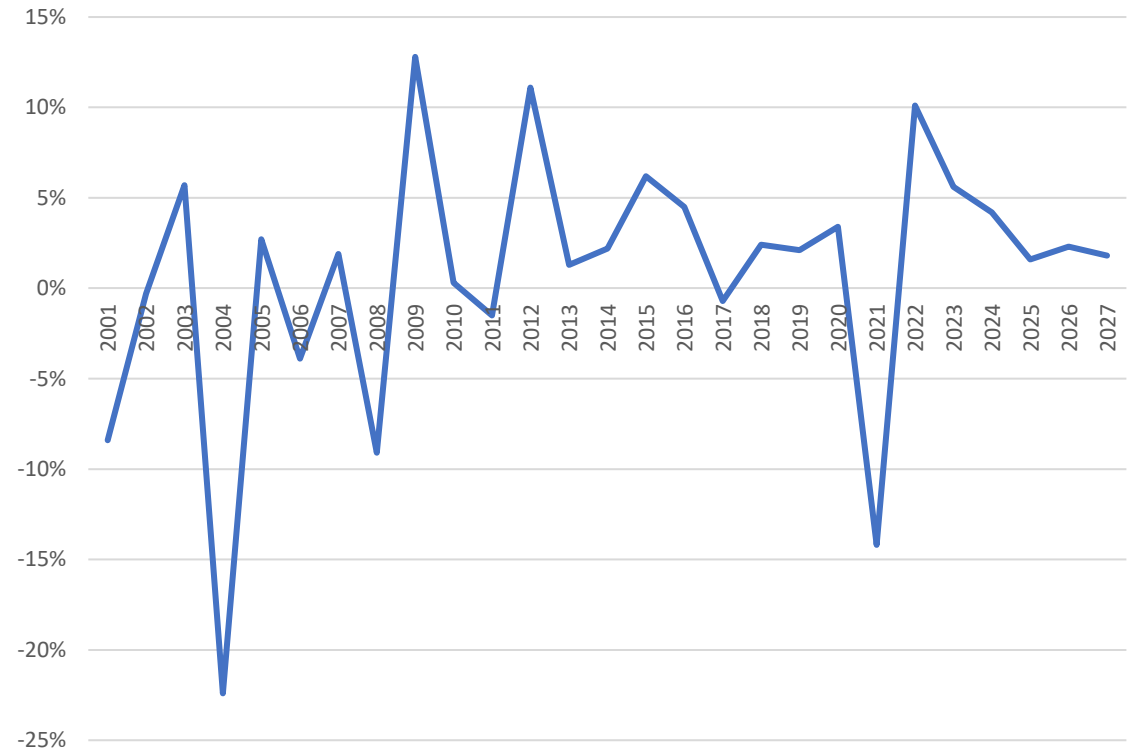
Weak demand

- Australia is the largest market in terms of tourism expenditure
- The travel ban has put pressure on tourism businesses across Australia
- High impact:
 - Airlines
 - Accommodation providers
 - Travel agencies
- IBISWorld expects that rev + profit will fall for all these three industries in 2020-21.
- Moderate impact:
 - Restaurants/food-service
 - Recreational and cultural sites
 - Local transport services



Domestic Demand

- Domestic tourism worth approximately \$23 billion in 2018-19.
- Expected to decline by 14.2% in the current year, recovering in 2023-24.



Weak demand

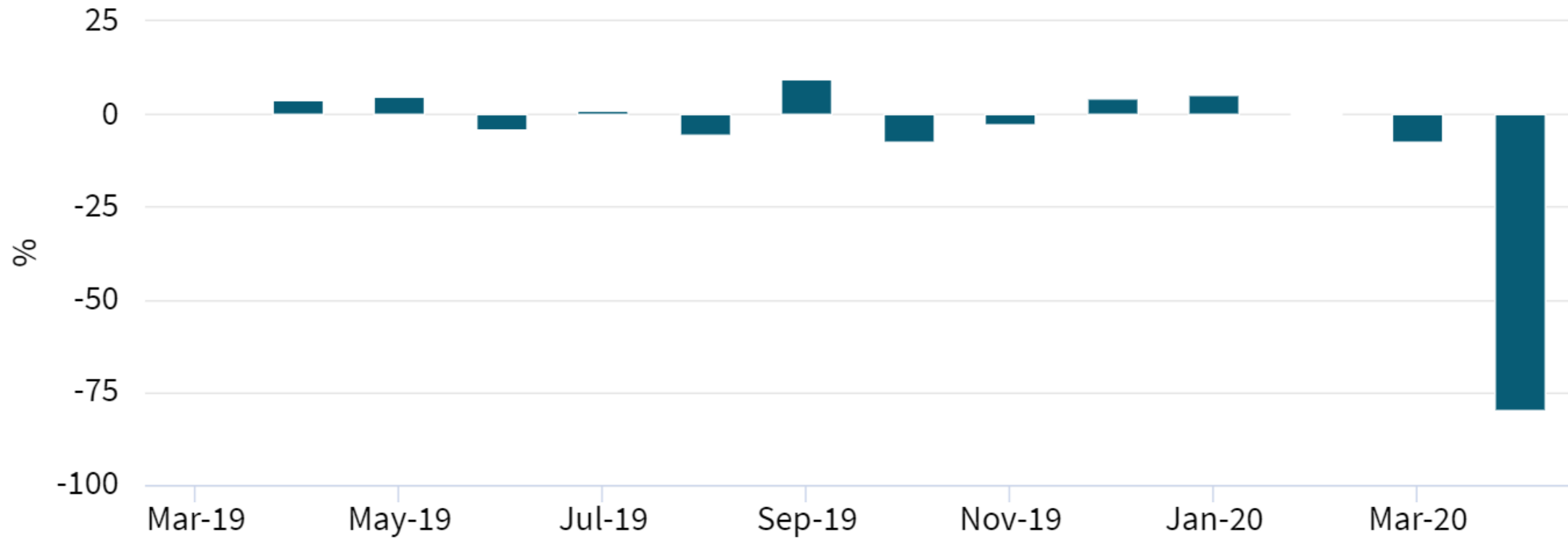
Industry	Rev Change 2020-21 (f)	Growth, pre-COVID-19
I4900NZ Airlines	-35.00%	2.30%
H4401NZ Hotels and Resorts	-13.80%	0.60%
H4409NZ Motels, Hostels and Holidays Parks	-18.0%	-1.30%

Hospitality

- Most severe revenue declines could be similar to airlines in 2020-21 (20%+)
 - Pubs, bars, nightclubs – 47.8%
 - Restaurants and Café's – 25.1%
- IBISWorld expects that rev + profit will fall for all hospitality industries in 2020-21.
- Delivery services
 - Double edged sword

Retail

Monthly retail spend compared to previous year



Supermarkets

- Supermarket store traffic surged during the rush to stockpile (mid-march)
 - Drove growth in industry revenue in 2019-20 FY
- Forecast decline of 2.3% in current year

Postal Services

- Growth in online shopping is expected to lead to a surge in parcel's requiring delivery.
- Forecast growth of 2.4%, revised upwards from -0.3%

International Trade

Exports: Country of Destination

- Highly exposed to China
- Australia has had some success in ‘flattening the curve.’
 - Tourism expected to limit decline in exports.
- United States and European Union
 - Struggling to contain the outbreak
- Overall: Highly exposed with a sustained downturn predicted.

Country of final destination	2019 (NZ\$ Millions)	Share
TOTAL	77,961	
China, Peoples Republic of	15,329	19.7%
Australia	13,852	17.8%
European Union (including United Kingdom)	8,835	11.3%
United States of America	8,517	10.0%
Japan	4,167	5.3%
Korea, Republic of	2,122	2.7%
India	1,862	2.4%
Singapore	1,615	2.1%
Hong Kong, SAR	1,584	2.0%
Other	20,080	25.8%

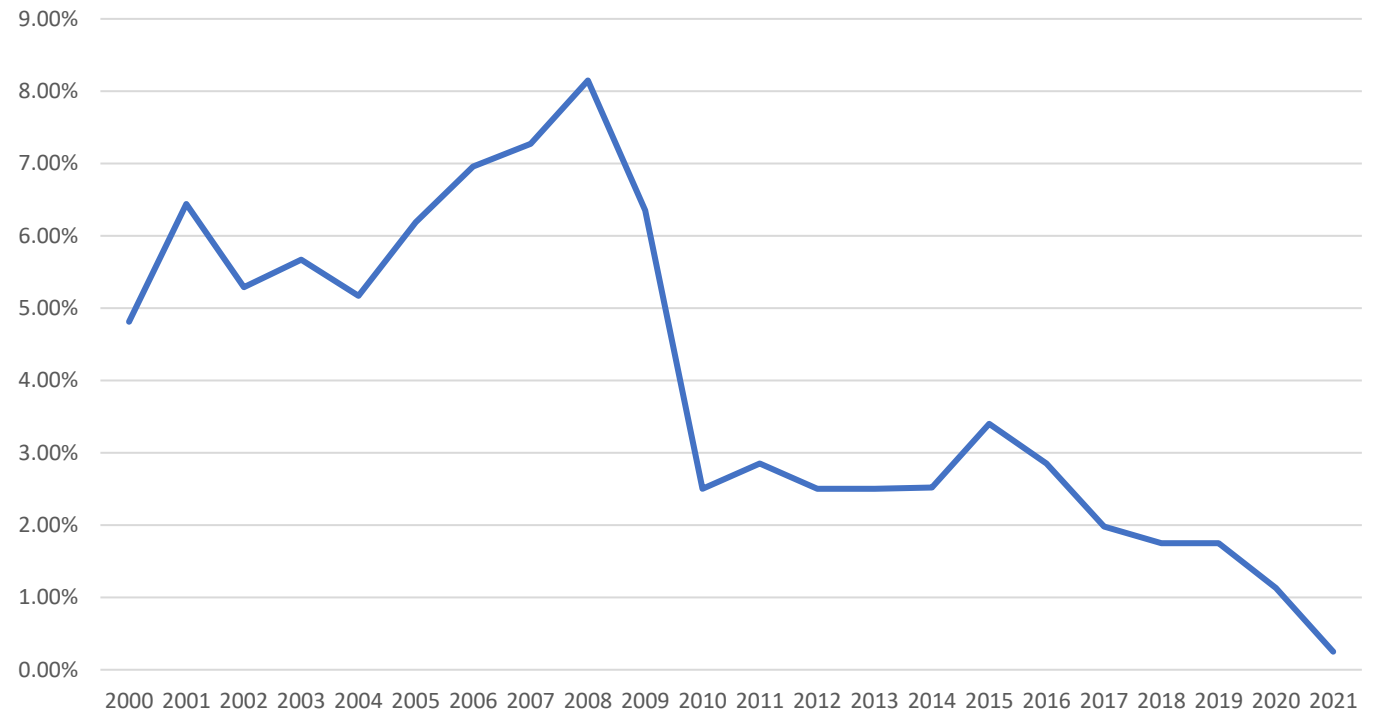
Government response

Wage Subsidy Scheme

- Initial cost of \$12 billion
- Payment rates
 - \$585.80 (gross) per week for full-time employees, where full-time is 20 hours or more per week.
 - \$350.00 (gross) per week for part-time employees, where part-time is less than 20 hours per week.
- Estimated to save 140,00 jobs – limiting the decline in unemployment.

Cash rate

- Currently: **0.25%**
- Quantitative Easing
- Factors:
 - Soft economic growth
 - Below-target inflation (potential deflation from 2021)
 - Rising unemployment
 - Weak wage growth
 - Negative consumer sentiment
 - **COVID-19**



Thank you!