New Zealand

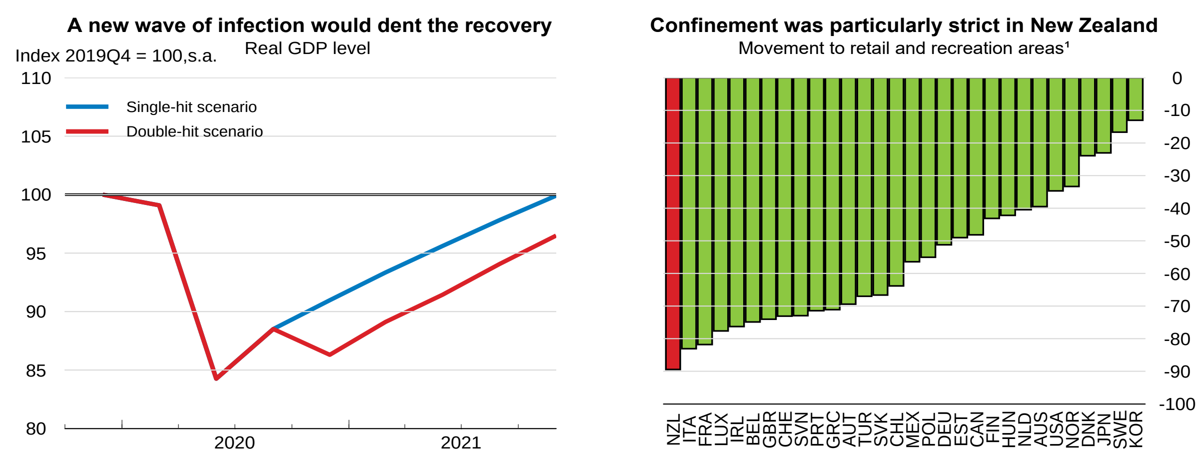
The swift and decisive response against COVID-19 successfully contained the virus outbreak, saving lives and allowing the economy to reopen faster. However, confinement brought a number of sectors to a sudden stop in the second quarter. The economic recovery will be supported by substantial fiscal and monetary stimulus, but will remain sluggish, as high unemployment and weak business confidence hold back domestic demand and export growth is stymied by the collapse of international tourism. Assuming that there are no further virus outbreaks (the single-hit scenario), GDP is projected to shrink by nearly 9% in 2020 and only return to the pre-crisis level by the end of 2021. Should there be a second global wave of infections in the fourth quarter of 2020 (the double-hit scenario), GDP is projected to shrink by 10% in 2020 and to remain 3.5% below the pre-crisis level by the end of 2021.

As the economy begins to recover, many workers will be jobless and numerous firms prone to insolvency. Fiscal measures to preserve jobs and prevent the bankruptcy of viable firms should remain in place until the recovery is firmly established, while fiscal and monetary policy should continue to support aggregate demand. Strengthening the capacity of the health sector to cope with a virus outbreak would also reduce the need for a shutdown in the event of another domestic virus wave.

Swift and strict measures contained the virus spread

New Zealand identified its first case of COVID-19 infection in late February and saw a rapid increase in cases a few weeks later, but had contained the virus spread by the end of April. The health system is easily accessible and the quality of care is high. Nevertheless, it has relatively few intensive care units with ventilators, making early intervention to stop the spread of the virus all the more important.

New Zealand



1. The decline in people's movility over 1-30 April relative to 3 January-5 February 2020 (i.e., before COVID-19 struck).

Source: OECD Economic Outlook 107 database; and Google mobility tracking data.

StatLink https://doi.org/10.1787/888934139784

New Zealand: Demand, output and prices (double-hit scenario)

New Zealand: double-hit scenario	2016	2017	2018	2019	2020	2021
	Current prices NZD billion	Percentage changes, volume (2009/2010 prices)				
GDP at market prices	265.9	3.8	3.2	2.2	-10.0	3.6
Private consumption	153.1	5.1	3.2	2.7	-9.8	4.5
Government consumption	48.6	2.9	3.7	4.3	5.8	2.8
Gross fixed capital formation	60.6	5.1	5.2	2.7	-12.0	2.4
Final domestic demand	262.4	4.7	3.7	3.0	-7.4	3.6
Stockbuilding[1]	0.7	0.3	0.3	-1.0	0.1	0.0
Total domestic demand	263.1	5.0	4.1	2.0	-7.2	3.6
Exports of goods and services	71.1	2.3	2.6	2.4	-17.2	4.5
Imports of goods and services	68.2	6.9	5.8	1.5	-7.4	4.5
Net exports[1]	2.9	-1.2	-0.8	0.2	-2.7	-0.1
Memorandum items						
GDP deflator	_	3.3	1.2	2.3	2.2	1.2
Consumer price index	_	1.9	1.6	1.6	1.5	0.5
Core inflation index[2]	_	1.4	1.2	1.8	1.4	0.5
Unemployment rate (% of labour force)	_	4.7	4.3	4.1	8.1	8.9
General government financial balance (% of GDP)	_	1.7	1.2	-3.6	-10.6	-12.1
General government gross debt (% of GDP)	_	35.7	34.1	36.5	51.6	58.4
Current account balance (% of GDP)	_	-2.7	-3.8	-3.0	-5.5	-5.6

1. Contributions to changes in real GDP, actual amount in the first column.
2. Consumer price index excluding food and energy.
Source: OECD Economic Outlook 107 database.

StatLink https://doi.org/10.1787/888934138435

Strict border and distancing measures were promptly implemented. From 20 March, the government banned non-citizens and non-permanent residents from entering the country. It also moved to the most stringent level of its containment system on 25 March, requiring people to stay home, closing schools, universities and non-essential businesses, and imposing severe travel restrictions. The containment system was relaxed on 28 April as the number of new cases fell near to zero, allowing businesses that do not require close person-to-person contact to reopen. Following a further relaxation on 14 May, most other businesses, including restaurants and cafés, were allowed to open subject to respecting distancing requirements. The Reserve Bank of New Zealand (RBNZ) estimates that at this restriction level, only 9% of economic activity is suppressed, compared with 37% at the strictest level.

The impact on the economy has been severe

The strict containment measures brought a number of sectors of the economy to a sudden stop. In the first half of April, New Zealanders cut back visits to retailers and recreational areas more than in any other OECD country with available data. The tourism sector, which accounted for about 10% of GDP and 20% of exports in 2019, was particularly hard hit, as both international and domestic demand evaporated. Both exports and imports have fallen sharply. By late April, employers were receiving wage subsidies for 1.7 million workers (two-thirds of private-sector employment) to preserve their jobs. Business confidence has plummeted to record lows although it started to recover in May.

New Zealand: Demand, output and prices (single-hit scenario)

New Zealand: single-hit scenario	2016	2017	2018	2019	2020	2021
	Current prices NZD billion	Percentage changes, volume (2009/2010 prices)				
GDP at market prices	265.9	3.8	3.2	2.2	-8.9	6.6
Private consumption	153.1	5.1	3.2	2.7	-9.0	8.1
Government consumption	48.6	2.9	3.7	4.3	5.8	2.3
Gross fixed capital formation	60.6	5.1	5.2	2.7	-11.5	4.0
Final domestic demand	262.4	4.7	3.7	3.0	-6.8	5.9
Stockbuilding[1]	0.7	0.3	0.3	-1.0	0.1	0.0
Total domestic demand	263.1	5.0	4.1	2.0	-6.6	5.9
Exports of goods and services	71.1	2.3	2.6	2.4	-14.7	8.5
Imports of goods and services	68.2	6.9	5.8	1.5	-7.0	6.0
Net exports[1]	2.9	-1.2	-0.8	0.2	-2.1	0.5
Memorandum items						
GDP deflator	_	3.3	1.2	2.3	2.2	1.1
Consumer price index	_	1.9	1.6	1.6	1.5	0.8
Core inflation index[2]	_	1.4	1.2	1.8	1.4	0.8
Unemployment rate (% of labour force)	_	4.7	4.3	4.1	7.9	7.2
General government financial balance (% of GDP)	_	1.7	1.2	-3.6	-10.0	-8.9
General government gross debt (% of GDP)	_	35.7	34.1	36.5	48.7	53.0
Current account balance (% of GDP)	_	-2.7	-3.8	-3.0	-4.8	-4.4

1. Contributions to changes in real GDP, actual amount in the first column.
2. Consumer price index excluding food and energy.
Source: OECD Economic Outlook 107 database.

StatLink https://doi.org/10.1787/888934138454

Massive fiscal and monetary supports are in place

The policy response to COVID-19 has been timely, substantial and well coordinated. The fiscal response package amounting to NZD 12.1 billion (4% of GDP) announced on 17 March was followed up by a NZD 50 billion fund announced in the May 2020 Budget, of which about NZD 30 billion has already been allocated. Major support measures include a large wage subsidy scheme (which was extended from June to September in a more targeted form), a loan guarantee scheme for SMEs, under which the government bears 80% of the credit risk, tax deferrals and reliefs, increased social benefits as well as increased support for the health-care and aviation sectors. A six-month interest and principal payment deferral scheme has also been established by banks for borrowers having debt-servicing difficulties. Legislation providing insolvency relief for companies and other entities has been passed. These measures are helping to preserve jobs and prevent viable firms from going bankrupt. Meanwhile, the RBNZ cut the policy rate by 75 basis points, to 0.25%, delayed implementation of planned increases in bank capital-adequacy requirements and began a Large Scale Asset Purchase Programme of central and local government bonds amounting to up to NZD 60 billion (20% of annual GDP) to reduce long-term interest rates.

The recovery will be gradual and vulnerable to the effects of new waves of infection

The economy has started to recover, but even in the absence of further virus outbreaks (single-hit scenario) will only regain the pre-crisis level of output by end-2021 owing to low activity in sectors recovering from strict distancing requirements. A surge in unemployment following the scaling back and subsequent termination of the wage subsidy scheme, together with a large reduction in net inward migration and a loss in housing wealth, will hold back private consumption. Business investment will remain subdued, reflecting weak business confidence and low capacity utilisation. Goods exports will increase on the back of strong global demand for food but tourism exports will be slow to recover because the border is likely to remain closed to foreign visitors until at least early 2021. In the event of a second global wave of infections (double-hit scenario), the economy will contract again and the unemployment rate will reach 10% in late 2020. The border would remain closed longer, further delaying the recovery of tourism exports and migration. In these circumstances, the government is assumed to increase fiscal stimulus by 2.5% of GDP. In both scenarios, slower recovery of the world economy, particularly in China, New Zealand's largest export market, would further delay the recovery. On the other hand, tourism and travel would get a substantial boost if travel between Australia and New Zealand is allowed before the more general opening of the border.

Further policy measures are needed to strengthen resilience and spur economic recovery

The government should expand testing, tracing and isolation of infected people until they are no longer a risk to others to keep the virus at bay without the need for costly distancing measures, notably another lockdown. This should be complemented by requirements for people to wear masks in crowded places, as well as investments in the health-care sector so that it is better prepared to cope with any future surge in infection rates, should it occur. Should the government need to restart the wage subsidy scheme, it should spread payments to ensure that they are made only if employees continue to be paid, and also increase the share of costs borne by employers over time to reduce the risk of workers being trapped in jobs that are no longer viable. Fiscal and monetary policy should remain expansionary to support the recovery, all the more so in a double-hit scenario. Swift implementation of the increase in infrastructure investment announced in January would strengthen demand and create jobs and, with a greater focus on green investment projects such as the development of recharging infrastructure for electric vehicles, would also have environmental benefits. Restarting the subsidy scheme for improving home insulation, which in the past contributed to better health outcomes, would also be an efficient means to stimulate demand and employment growth.

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