Economic Impacts of COVID-19 on the Marlborough District – Revised Estimates

for Marlborough District Council

November 2020

Infometrics

Economics put simply

Authorship

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Executive Summary

The COVID-19 pandemic brought about the sharpest decline in economic activity in history. Nationally, GDP in the June 2020 quarter declined by 12.4% compared to the June 2019 quarter.

In Marlborough, GDP in the June 2020 quarter is estimated to have declined by 14.4% compared to the June 2019 quarter. In the September 2020 quarter, as the country moved to COVID-19 Alert Level 1 and activity in most industries resumed, the District's economy rebounded, ending up 1.4% larger than in the September 2019 quarter.

Contrary to initial expectations, Marlborough appears to have created more jobs than have been lost over the year to September 2020, with a net increase in filled jobs in the District of 575 jobs.

This figure can in part be attributed to an increase in population. In the year to March 2020, Marlborough's population increased by 1.6%, or approximately 800 individuals. More than 95% of this growth was the result of inward migration. The growth in filled jobs also correlates to the ongoing tightness in the labour market, with the unemployment rate for the year to September 2020 estimated at 2.6%.

This job growth figure is somewhat at odds with the increase in Jobseeker Support and COVID Income Relief Payment (CIRP) benefit recipients. Over the course of 2020, the combined number of Jobseeker and CIRP recipients in Marlborough increased by more than 70%, from 950 individuals in December 2019 to a high of 1,633 individuals in August 2020.

The end of the CIRP benefit has not resulted in an immediate corresponding increase in Jobseeker support recipients in Marlborough. This can partly be ascribed to a projected decline in labour participation rates.

Table 1 – Key indicators

Indicator	Marlborough District	New Zealand
Historic		
Est. GDP % change (Jun 2020 quarter compared to same period 2019)	-14.4%	-12.4%
Est. GDP % change (Sept 2020 quarter compared to same period 2019)	1.4%	-3.2%
Change in consumer spending (week ending 01 Nov 2020 compared to same period 2019)	-11.8%	-2.9%
Change in filled jobs (year to Sept 2020)	575	-53,966
Change in Jobseeker Support & CIRP recipients (Jan - Oct 2020)	515	64,884
Forecast		
GDP % change - Apr 2020 to Mar 2021	-5.0%	-4.1%
GDP % change - Apr 2021 to Mar 2022	1.2%	1.0%
Job losses, Apr 2020 to Mar 2022	-1,528	-137,002
Unemployment rate, Mar 2022	4.9%	8.5%
Loss in total earnings, Apr 2020 to Mar 2022 ($m)	-$72.8	-$6,956.9
Residential construction % change, Apr 2020 to Mar 2022	-40.6%	-14.1%
Non-residential construction % change, Apr 2020 to Mar 2022	-7.2%	-12.3%

Marlborough's diverse economy provides a solid basis for further recovery. Strong local and international demand for New Zealand's primary and manufactured food products is likely to stand the District in good stead. On the downside, the lack of international tourism will be most acutely felt over the upcoming two quarters.

A potential dark cloud on the international trade horizon is the resurgence of COVID-19 in several of New Zealand's key international markets, which may negatively impact Marlborough's wine exports.

At the same time, the medium-term outlook for global demand for Marlborough wine remains largely positive.

We forecast that over the year to March 2021, the Marlborough economy will contract by 5%. Over the year to March 2022, growth is forecast to swing marginally back into positive territory, with Marlborough's GDP growing by 1.2% and New Zealand's by 1%.

Employment will remain under pressure, with more than 1,500 jobs forecast to be lost over the two years to March 2022. These job losses are likely to be concentrated in low-skilled roles, and in hospitality-related industries. This will push the District's unemployment rate to 4.9% in the March 2022 quarter.

Close to $73m in earnings is expected to be lost due to job losses in Marlborough over the period to March 2022.

Construction is set to slow over the two years to March 2022, as unemployment increases, net migration slows, and some of the drivers of building activity soften. Residential activity is expected to remain relatively flat from 2022 onward, as additional housing stock becomes available and demand tails off.[1] In the non-residential segment, the inception of several large projects is expected to drive activity levels upward. Overall construction activity is forecast to recover in the year to March 2023.

[1] This forecast excludes any planned or proposed residential developments that as of September 2020, have yet to reach the stage of resource consent application.

Introduction

This report provides an updated overview of the economic effects of the COVID-19 recession on the Marlborough District.

It includes an assessment of the headline impacts of the recession as of September / October 2020, and an overview of forecast changes to economic activity, employment, and earnings in the District over the period to March 2022. The report also includes the outlook for construction activity in the District.

The forecast analysis presented in this report draws on a suite of economic models maintained by Infometrics. Models are only as good as the assumptions they are based on, and we include an update to our key assumptions in Appendix I.

The report is intended to provide evidenced-based information and analysis to Marlborough District Council and its key stakeholders, and to support annual and long-term planning activities in the District.

The story so far – Marlborough took a substantial hit, but rebounded well

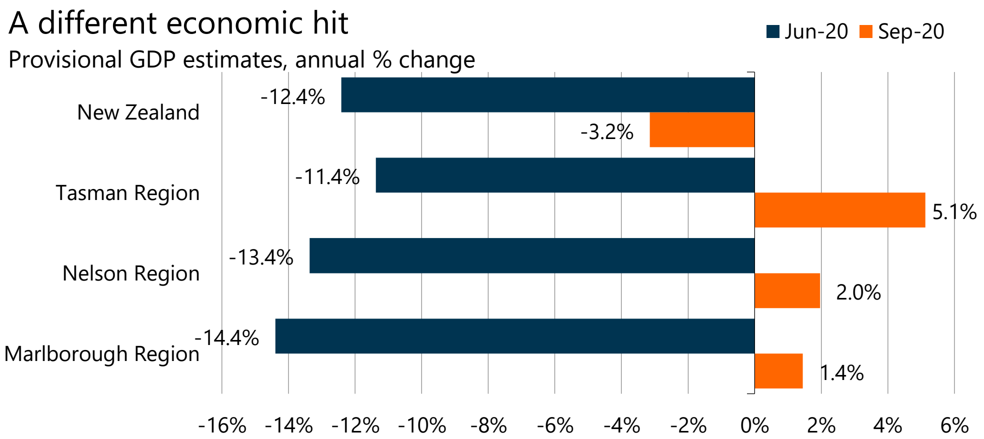
GDP declined, then rebounded

In the June 2020 quarter, GDP in Marlborough is estimated to have declined by 14.4% compared to the June 2019 quarter. This decline is larger than the corresponding national figure of 12.4%.

In the September 2020 quarter, as the country moved to COVID-19 Alert Level 1 and activity in most industries resumed, the District's economy rebounded, ending up 1.4% larger than in the September 2019 quarter. This is a considerably better performance than the national economy, which shrank by a further 3.2% compared to September 2019.

For the year to September 2020, Marlborough's decline in economic activity was 2.2%, compared to 3.3% in the national economy.

Graph 1



Data on GDP changes by industry over the past two quarters, is currently not available at regional or district level. Given the makeup of Marlborough's economy, however, it is likely that the declines in local GDP were concentrated in tourism-related industries such as accommodation and food services, and transport, postal and warehousing services.

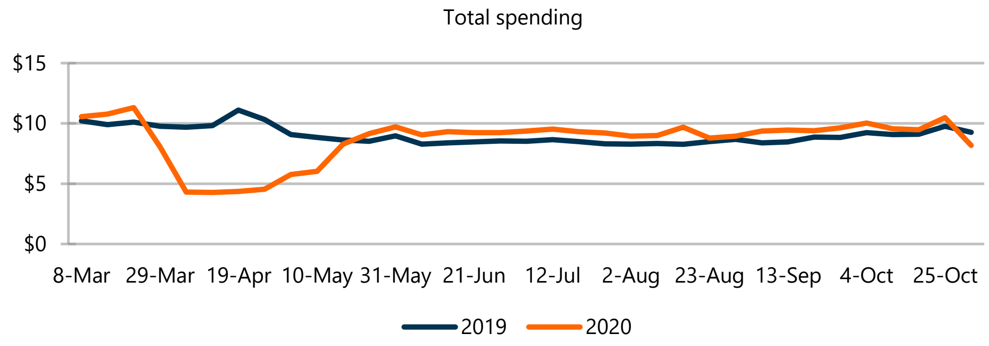
Consumer spending has recovered

Consumer spending in Marlborough has broadly recovered to above 2019 levels, following the Level 3 and 4 lockdowns in April / May 2020. Spending does however appear to have slowed somewhat during October 2020, in line with an emerging national trend.

Graph 2

Spending back to pre-lockdown levels

Consumer spending, weekly total, $m

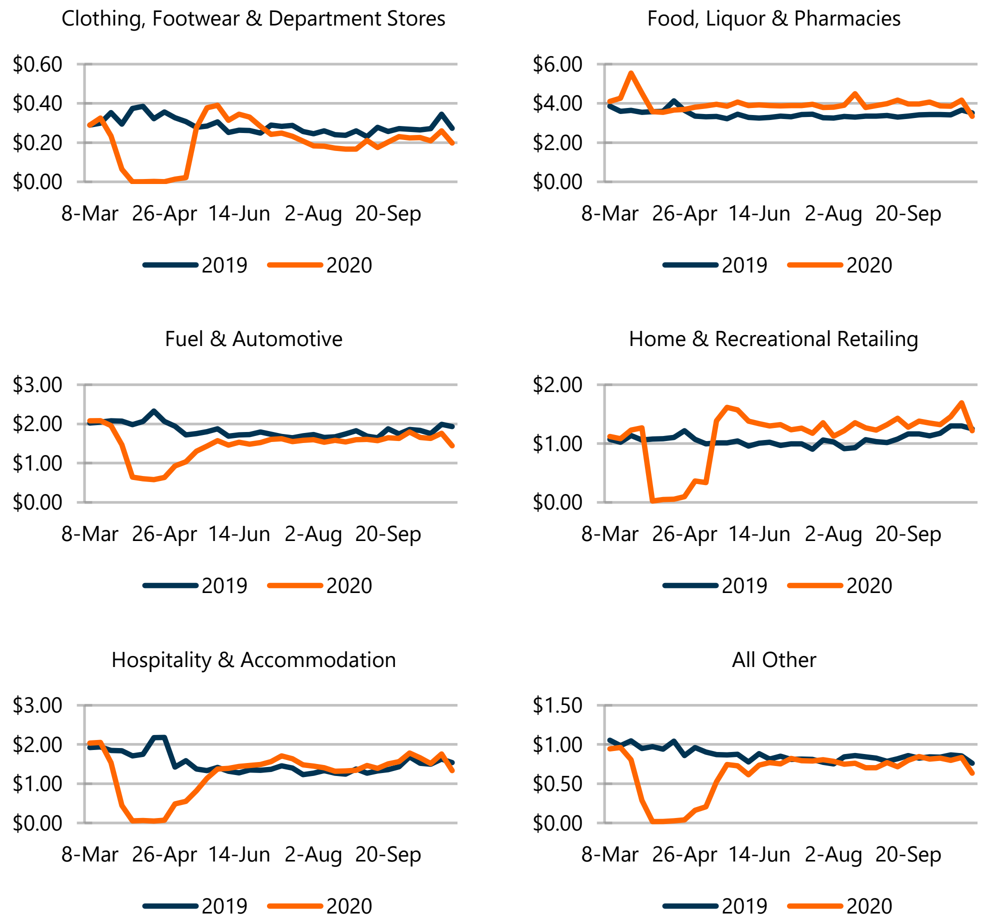


Spending in certain categories, such as Food, liquor and pharmacies, and Home and recreational retailing, have consistently remained above 2019 levels. This is potentially an indication of changing patterns in consumer spending.

Graph 3

Food and home improvement lead the way

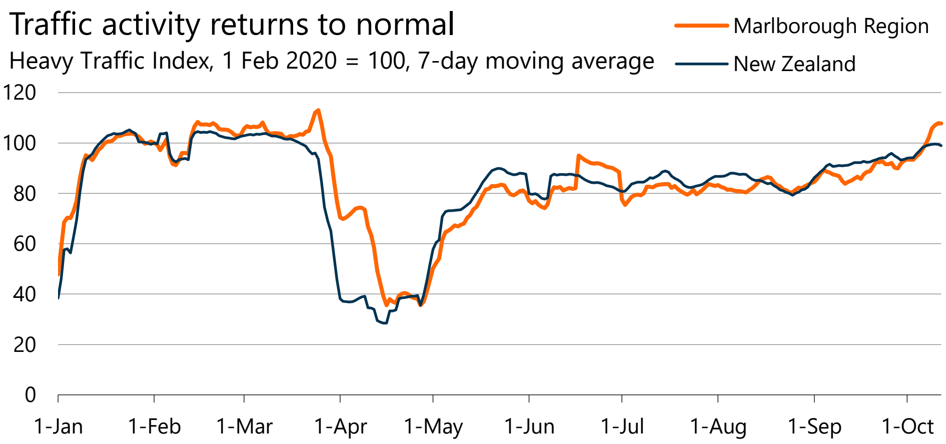
Consumer spending by category, weekly total, $m



Traffic flows have returned to normal

Traffic flows in Marlborough have returned to more normal levels after lockdown. According to NZTA Data, traffic flows in September and October increased steadily, to close to pre-lockdown levels.

Graph 4



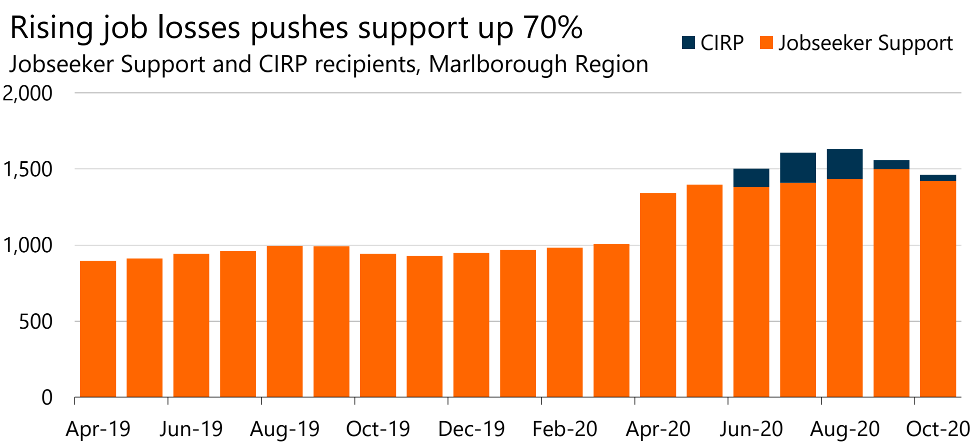
For the year to September 2020, traffic flows in Marlborough declined by 7.5%, compared to a decrease of 10.5% across New Zealand.

Jobseeker and CIRP recipients grew by 70%

Over the course of 2020, the combined number of recipients for the Jobseeker Work Ready and COVID Income Relief Payment (CIRP) benefits in the District increased by more than 70%, from 950 individuals in December 2019 to a high of 1,633 individuals in August 2020.

These numbers declined somewhat in September and October, as some jobs were created or re-established, and CIRP recipients began to reach the end of their 12-week eligibility period. At the end of October, the combined number of Jobseeker Support and CIRP recipients in the District stood at 1,462 individuals.

Graph 5



Much like the rest of New Zealand, the end of the twelve-week CIRP benefit has not resulted in an immediate corresponding increase in Jobseeker support recipients in Marlborough. This trend can partly be ascribed to a projected decline in labour participation rates, as individuals exit the labour force, for example to pursue vocational or tertiary education opportunities, or access other categories of the benefit system.

Some jobs have been lost, but more have been created

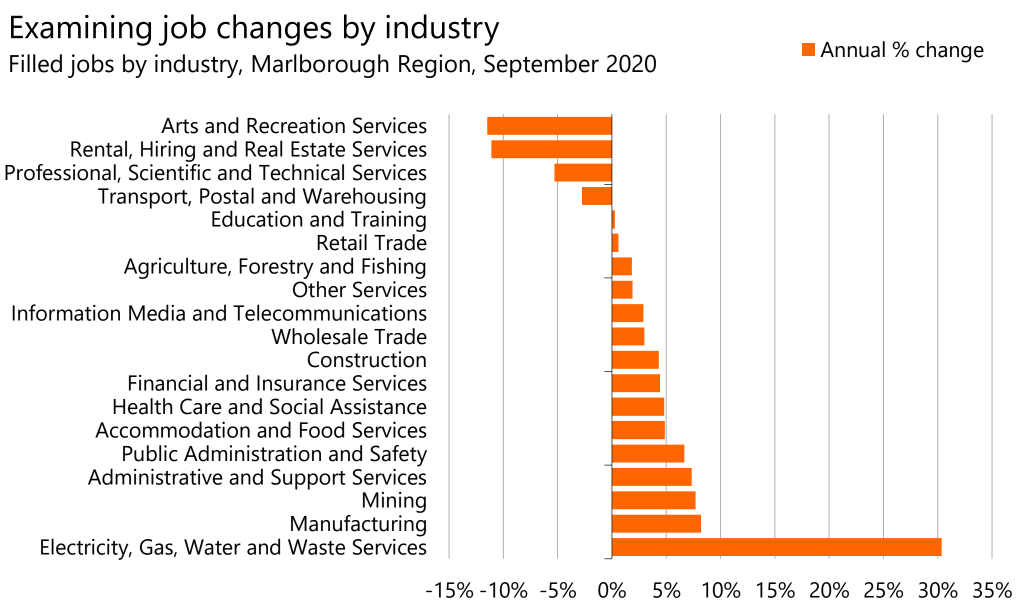
Contrary to initial expectations, Marlborough appears to have created more jobs than have been lost over the year to September 2020, with the net increase in filled jobs in the District being 575 jobs. This figure is of course somewhat at odds with the increase in Jobseeker and CIRP benefit recipients noted above.

The growth in filled jobs in Marlborough can in part be attributed to an increase in population. In the year to March 2020, Marlborough's population increased by 1.6%, or around 800 individuals. More than 95% of this growth was due to inward migration.

This growth in filled jobs also correlates to the ongoing tightness in the labour market, with the unemployment rate for the year to September 2020 estimated at 2.6%.

Jobs have been lost in the arts and recreation, rental, hiring and real estate, professional, scientific and technical services, and transport postal and warehousing industries. These job losses have however been offset by job creation in industries such as manufacturing (winemaking) and health care and social assistance.

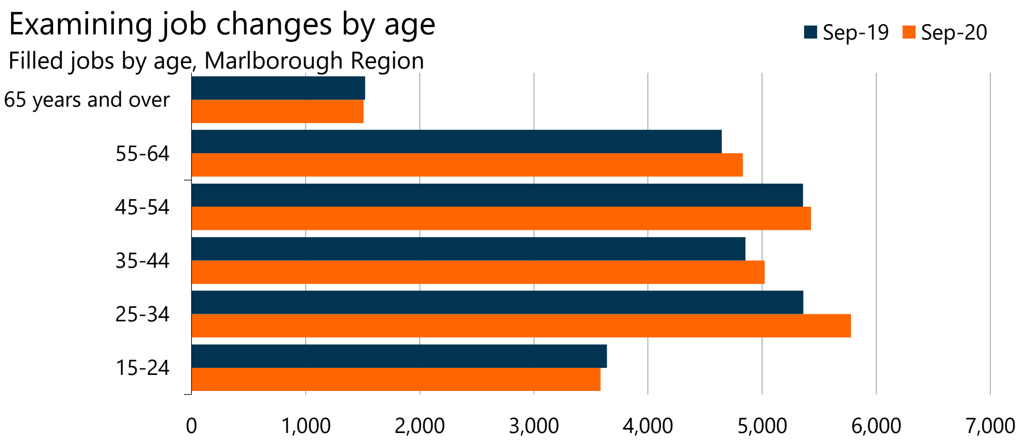
Graph 6



Job losses have hit young people the hardest

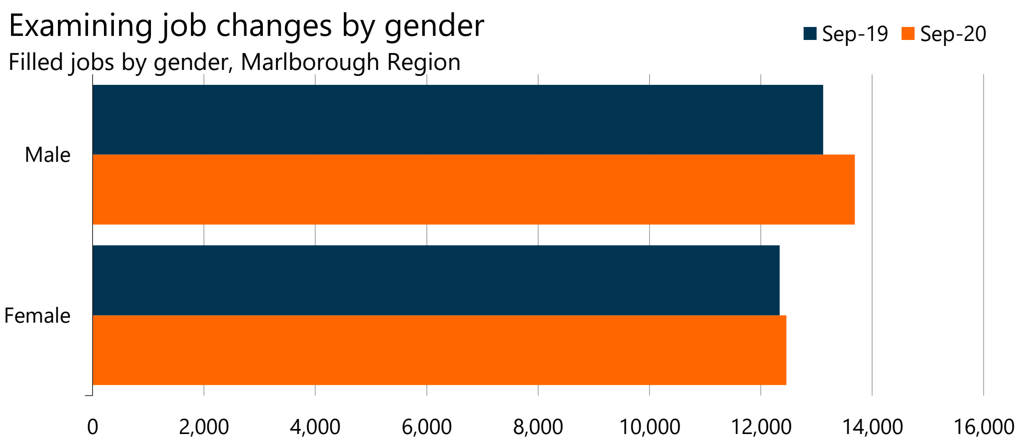
Job losses in Marlborough have been concentrated in the 15-24 year age group. Apart from those aged 65 and above, this is the only age group to have experienced a net decline in employment over the past year.

Graph 7



In terms of job changes by gender, male employees made up approximately 51.5% of Marlborough's employed workforce in September 2019. However over the year to September 2020, the net job gain amongst male employees was almost five times higher than amongst female employees.

Graph 8



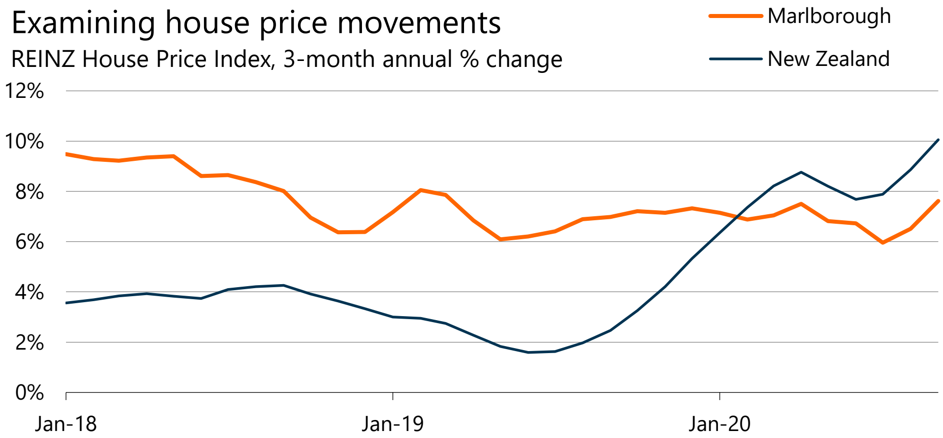
The housing market – hot and getting hotter

As mentioned, one of the most unexpected aspects of the COVID-19 recession has been the resilience of the New Zealand housing market.

Apart from various national factors contributing to the heat in the housing market, the increase in house prices in Marlborough is likely due in part due to the relatively small size of the local housing market, and the reduced stock of houses for sale. Over the year to September 2020, the number of house sales in Marlborough declined by 10.9%.

According to the Real Estate Institute of New Zealand's (REINZ) House Price Index, average house prices in Marlborough over the three months to September 2020 were 7.6% higher than in the same period of 2019. This compares to a 10% increase over the same period for New Zealand.

Graph 9



Construction activity has been steady

Residential construction activity in Marlborough has remained consistent over the course of 2020, with around 60 residential building consents approved in each of the past three quarters. The residential construction industry appears to be operating at or close to maximum capacity, as firms attempt to make up for the delays to ongoing projects caused by the Level 3 and 4 lockdowns in the June quarter.

The value of non-residential consents approved dropped sharply in the June 2020 quarter, but recovered to a record quarterly level in the September quarter. This was to a large extent due to the consenting of the new Blenheim library and art gallery.

Government has promised support

Marlborough has benefitted from commitments by central government of financial support for a number of local projects, most notably the new Blenheim library and art gallery ($11m from the COVID-19 Response and Recovery Fund), the Picton to Kaikoura Whale Trail ($18m from the Provincial Growth Fund), and the New Zealand Wine Centre ($3.8m from the Provincial Growth Fund). Government has also announced the fast-tracking of the upgrade to the Picton Ferry Terminal, with this project scheduled to commence in 2021.

Public procurement processes for the Marlborough Schools Project, which will see the co-location of Marlborough Boys' and Girls' Colleges, are also progressing, with requests for Registrations of Interest being issued by the Ministry of Education in August 2020.

In addition to these projects, Marlborough District Council has committed significant financial resources to infrastructure development over the next several years.

These and other projects will provide considerable support for the region's economic recovery.

The potential for headwinds remains

All districts and regions of New Zealand will continue to be affected by COVID-19 for the foreseeable future. Border restrictions and the lack of international tourism and international education will have knock-on effects on industries sectors such as hospitality, accommodation and retail trade.

Marlborough's diverse economy provides a solid basis for further recovery. Strong local and international demand for New Zealand's primary and manufactured food products is likely to stand the District in good stead. On the downside, the lack of international tourism will be most acutely felt over the upcoming two quarters.

A few factors will determine how the local economy performs.

Primary exports continue to hold up

New Zealand's exports of food products continue to hold up reasonably well, with meat, fruit and dairy export volumes all up on 2019 levels.

Agriculture, forestry, and fishing is Marlborough's largest employer, with close to 18% of the local workforce and contributing almost 20% to the local economy in 2019. Continued export activity is industries such as forestry and aquaculture is therefore likely to support the District's economic recovery.

Food production will continue

Apart from international demand for New Zealand's primary production, the recovery in consumer spending levels after lockdown suggest that demand for local produce remains healthy.

While initial data suggests a suggest a switch from off-premises restaurant consumption to in-home consumption, it remains to be seen whether this change in consumer behaviour will become more permanent, both globally and in New Zealand. Our impression is that for countries other than New Zealand, this will very much depend on effectiveness of their responses to COVID-19, and the time horizon for the availability of an effective vaccine for the pandemic.

Drop in export demand may be bad news for Marlborough

A potential dark cloud on the international trade horizon is the resurgence of COVID-19 in several of New Zealand's key international markets. A return to varying levels of lockdown in these countries may limit demand, even for food-based products. Such a situation might for example have a negative effect on Marlborough's wine exports.

At the same time, the medium-term outlook for global demand for Marlborough wine remains largely positive. Manufacturers who can transition from bottled to bulk exports, or from on-premises to off-premises sales, are likely to show more resilience in the face of forecast economic downturns in key export markets.

According to the latest forecast from the World Trade Organisation (WTO), world merchandise trade volumes are expected to decline by 9.2% in 2020. It is accordingly unrealistic to assume that Marlborough's export sectors will remain unaffected by this decline.

International tourism remains off the table

The lack of international tourism over the summer months will weigh increasingly heavily on Marlborough's economy. In 2019, tourism was the third-largest contributor to both GDP (7.3%) and employment (12.1%) in the District. More than 30% of tourism spending came from international tourists. While domestic tourism activity increased after lockdown, this is highly unlikely to make up for the loss of foreign revenue.

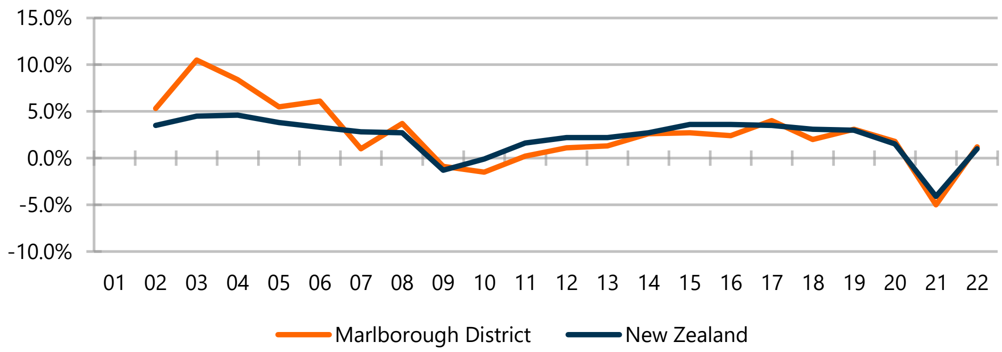
Marlborough's economy will contract by 5%

Our revised forecast is for Marlborough District's GDP to shrink by 5% over the year to March 2021, compared with a 4.1% contraction in the national economy. Over the year to March 2022, growth is forecast to swing back into positive territory, with GDP in Marlborough growing by 1.2%, marginally higher than the national growth rate of 1%.

Graph 10

GDP decline and recovery

GDP growth to March 2022, average annual % change



Manufacturing and hospitality will take the biggest hit

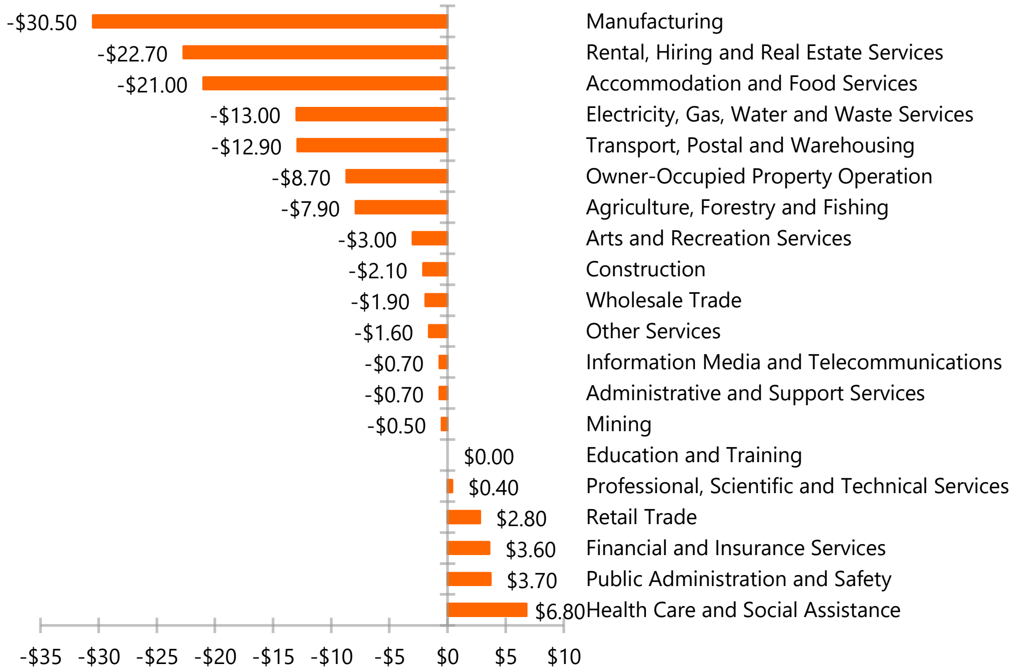
The largest declines in the Marlborough District will take place in the manufacturing industry (which is dominated by winemaking), and in hospitality-related industries such as rental, hiring and real estate and accommodation and food services.

Increases in economic activity are forecast in a number of industries including health care and social assistance and public administration and safety.

Graph 11

Manufacturing decline dwarfs growth in other industries

GDP change by industry to March 2022, $m



Employment will decline into 2022

Employment in Marlborough is projected to decline by 3.2%, or close to 900 jobs, in the year to March 2021. In the year to March 2022, this employment decline is forecast to slow slightly to 2.3%, equating to a further loss of approximately 630 jobs.

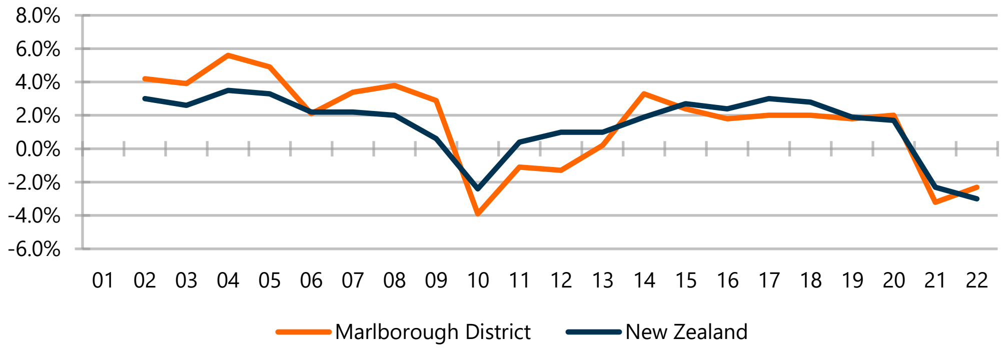
In the national economy, employment is forecast to decline by 2.3% in the year to March 2021, and by 3% in the year to March 2022.

This level of employment decline appears to be at odds with the net increase in filled jobs observed for the year September 2020. However it is consistent with our forecast of declining economic activity, both nationally and in Marlborough. While we do not anticipate any further major shocks to the economy, such as the one experienced in the June 2020 quarter, we do expect the current recovery to run out of momentum, as local and international factors drag on the economy over the next several quarters.

Graph 12

Employment decline slows in 2022

Employment change to March 2022, average annual % change

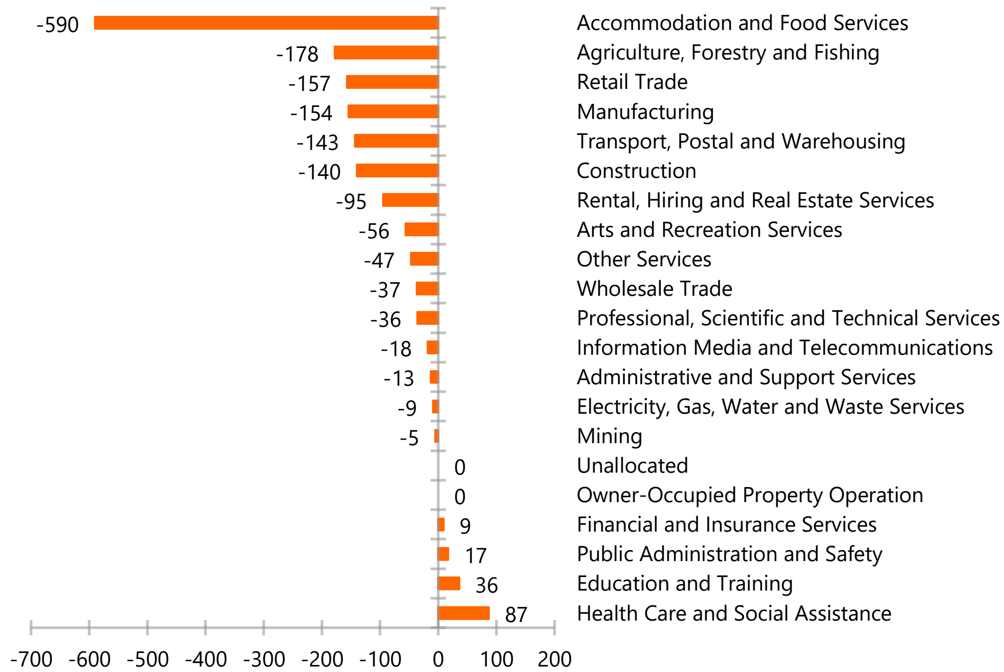


The bulk of job losses are forecast to take place in the accommodation and food services, agriculture, forestry, and fishing, retail trade and manufacturing industries.

Graph 13

Hospitality and primary jobs hit hardest

Employment change to March 2022, by ANZSIC Level 1 industry



In the positive column, jobs are forecast to be created in the health care and social assistance, education and training, public administration and safety, and financial and insurance services industries.

Hospitality and retail jobs will be hit

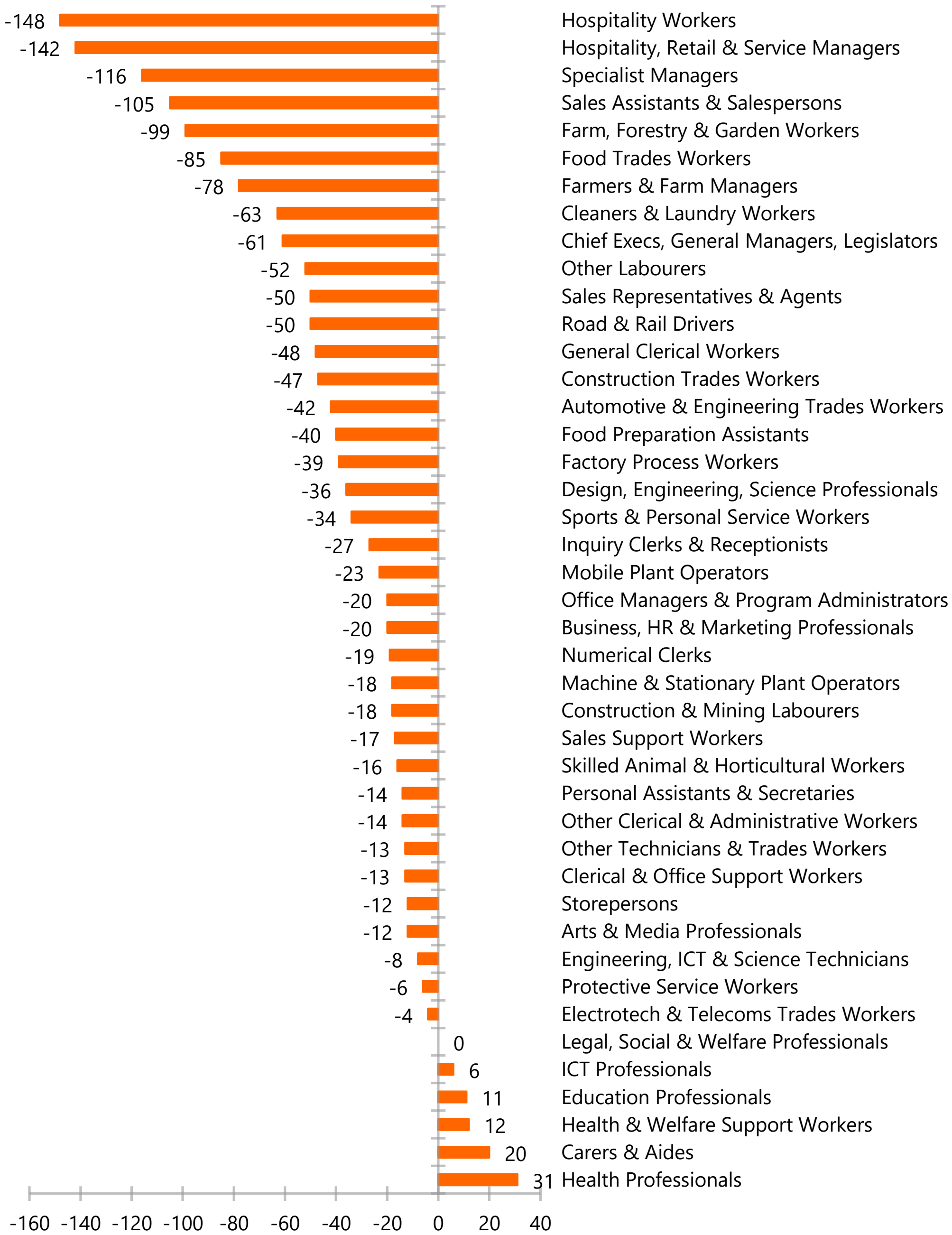
In terms of the forecast job declines by occupation, the highest levels of job losses are projected for hospitality workers, hospitality, retail and service managers, specialist managers, sales assistants and salespersons, and farm, forestry and garden workers.

Job growth is forecast to take place mainly in various health-related occupations.

Graph 14

Hospitality and retail jobs in the firing line

Employment change to March 2022, by ANZSCO Level 2 occupation

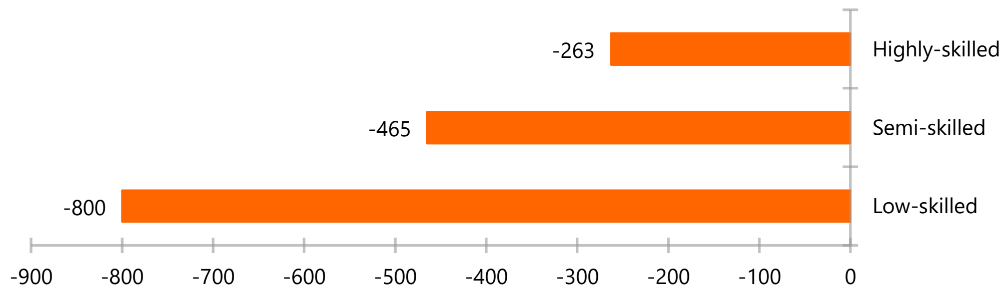


Unsurprisingly, these job losses are likely to be concentrated in low-skilled roles.

Graph 15

Low-skilled jobs disappearing

Employment change to March 2022, by skill level



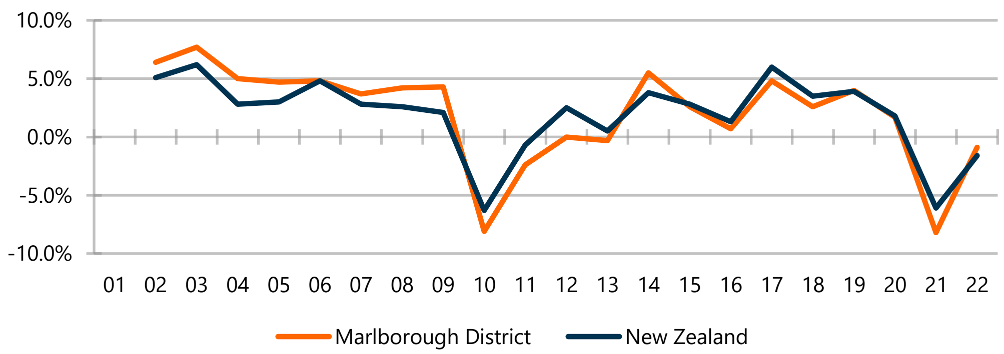
Māori employment will be hard hit

Job losses amongst Māori in Marlborough District are expected to be higher than in the population overall. Māori employment is forecast to decline by 8.2% in the year March 2021. However in the year to March 2022, the decline in employment amongst Māori is forecast to slow to 0.9%.

Graph 16

Māori employment recovers slightly better

Māori employment change to March 2022, annual % change

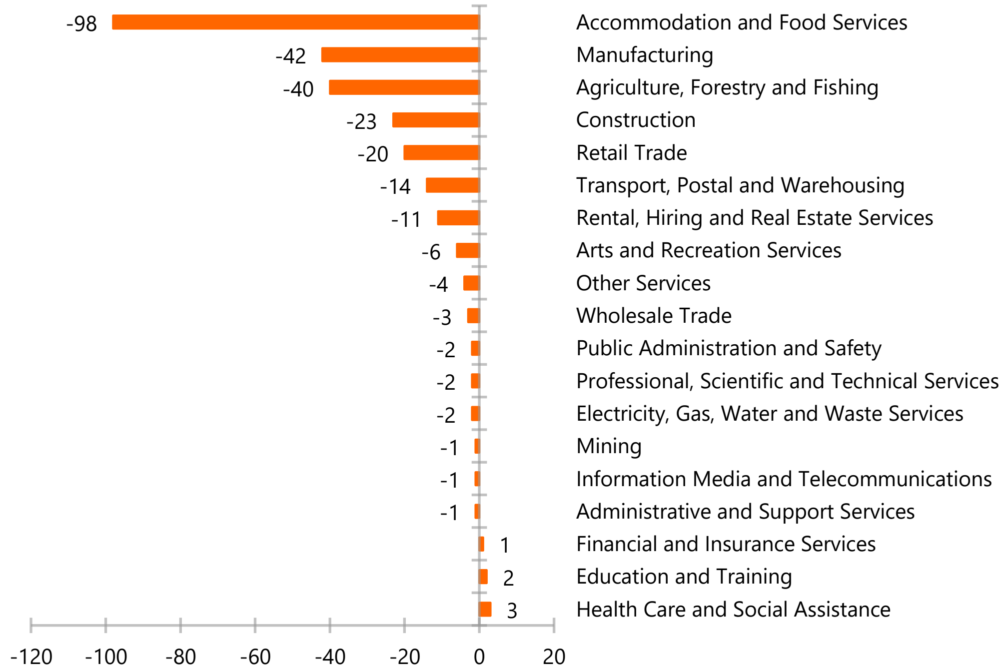


The principal impacts on Māori employment in Marlborough District are forecast to take place in the accommodation and food services, manufacturing and agriculture, forestry and fishing industries.

Graph 17

Hospitality jobs in the firing line

Māori employment change to March 2022, by ANZSIC Level 1 industry

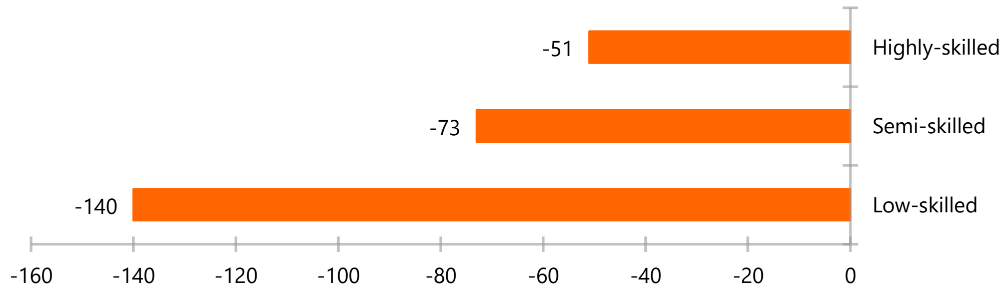


The forecast loss of low-skill jobs amongst Māori in Marlborough is close to double that of semi-skilled Māori workers, and nearly three times that of Māori employees classified as highly-skilled.

Graph 18

Low-skilled jobs disappearing

Māori Employment change to March 2022, by skill level

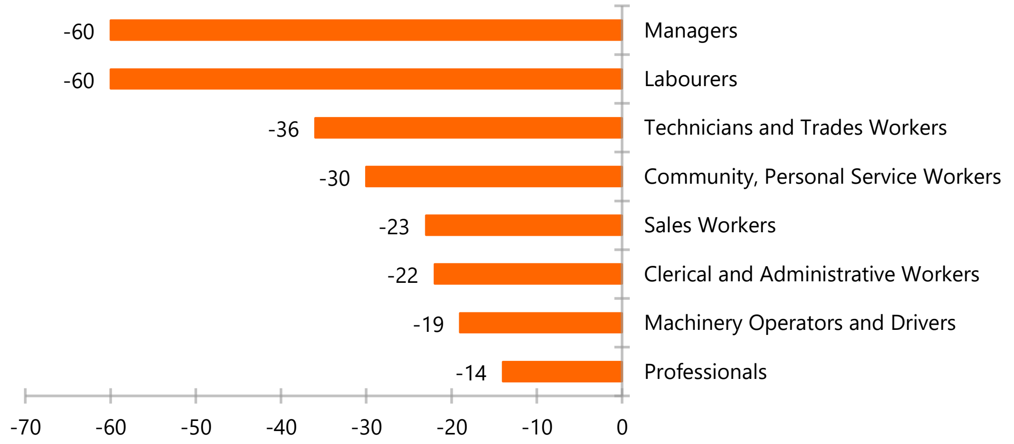


In terms of employment by occupation, the largest job losses for Māori in Marlborough is forecast to take place amongst managers and labourers.

Graph 19

Non-specialist jobs disappearing

Māori Employment change to March 2022, by skill level



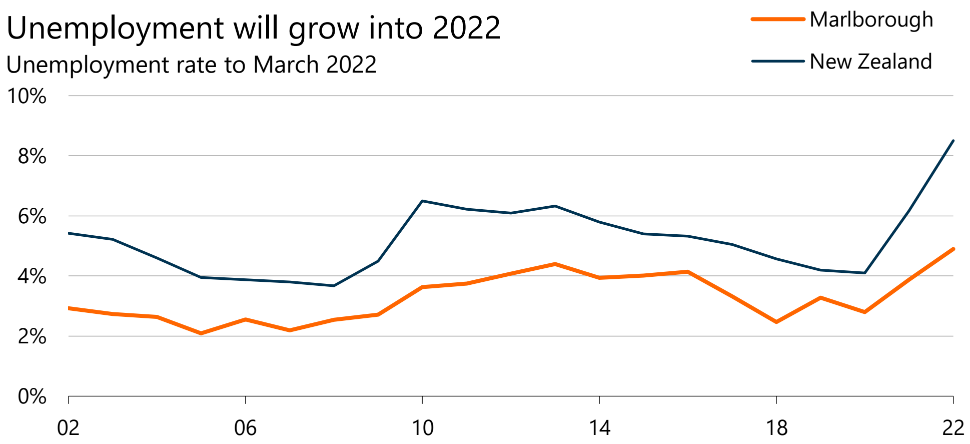
Unemployment will reach 4.9%

Marlborough District's overall unemployment level is forecast to rise to 4.9% in March 2022. The forecast national unemployment rate in March 2022 is 8.5%.

Graph 20

Unemployment will grow into 2022

Unemployment rate to March 2022



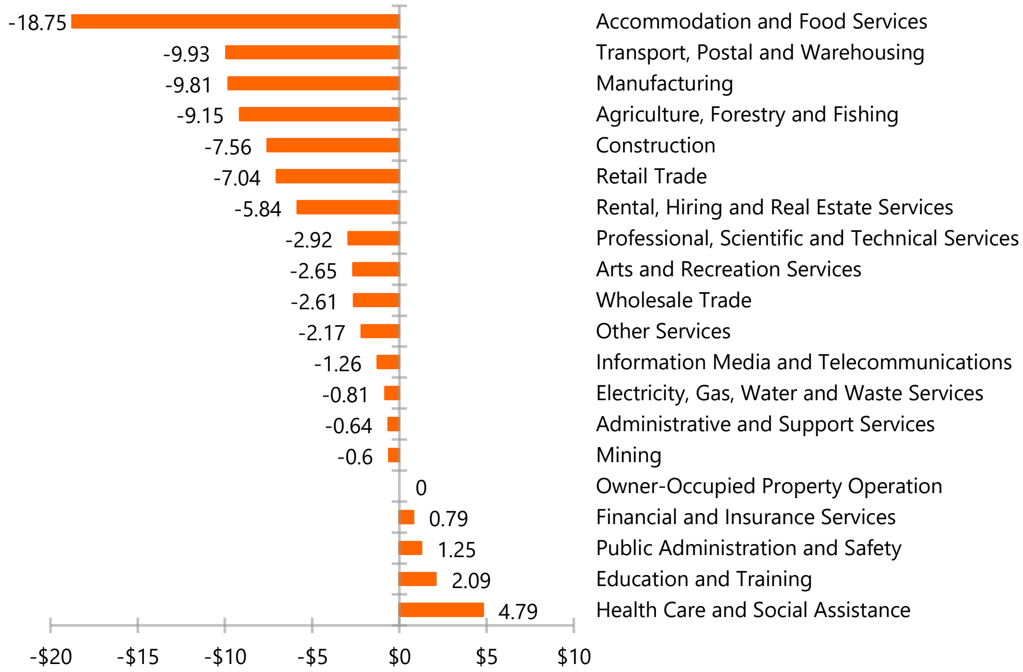
And result in lost earnings of close to $73m

Earnings across the Marlborough District economy are forecast to decline by $72.8m over the two years to March 2022. The largest declines are expected to occur in the accommodation and food services, transport, postal and warehousing, and manufacturing industries.

Graph 21

Hospitality earnings under pressure

Earnings changes to March 2022, by ANZSIC Level 1 industry, $m



Construction levels will decline and then recover

According to the Infometrics Regional Construction Outlook, construction in Marlborough is set to slow to 2022, as unemployment increases, net migration slows, and some of the drivers of building activity soften. Residential activity is expected to remain relatively flat from 2022 onward, as additional housing stock becomes available and demand tails off.[2]

In the non-residential segment, the inception of large projects such as the new Blenheim library and art gallery, the Marlborough Schools Project and the reconfiguration of the Picton ferry terminal, is expected to drive activity levels upward.

Overall construction activity is forecast to recover in the year to March 2023.

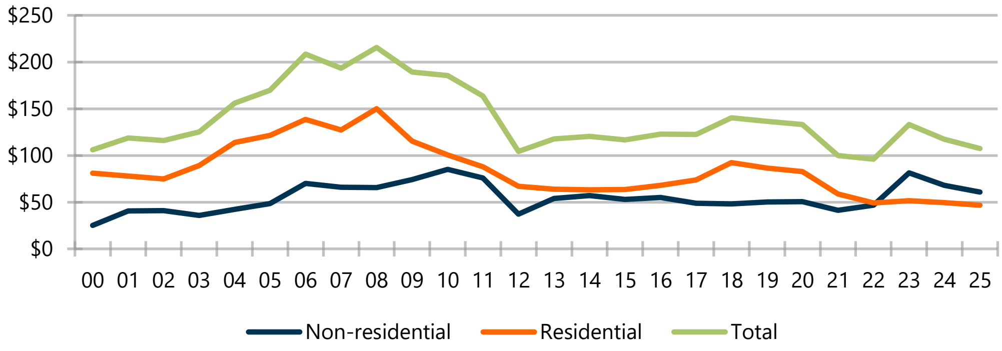
Infrastructure construction is not included in the graph below, but this segment is also expected to be a consistent driver of drive construction activity in Marlborough.

[2] This forecast excludes any planned or proposed residential developments that as of September 2020, have yet to reach the stage of resource consent application.

Graph 22

Construction slowing down into 2022

Construction work put in place, real $m (2009/10 prices), annual totals



Further thoughts on recovery

COVID-19 has already brought about some fundamental changes to New Zealand's society and economy. Some of these changes may be reversed in the future – for example we will at some point see a resumption of activity in the international tourism and international education sectors. However other changes, such as the trend of increased working from home, may prove more enduring.

Below we detail some of the major trends arising from COVD-19, and the actions that Councils, EDAs and their stakeholders might in effectively addressing these.

Consumption patterns are changing

COVID-19 has already brought about wide-ranging changes in consumption patterns in New Zealand. Apart from the increases in consumer spending following lockdown, as described above, the increase incidence of working from home means that both the location and magnitude of consumer spending has changed.

As an example, people commuting into a town centre office might be inclined to discretionary spending, for example on lunches or take-away coffees. They might also be inclined to shop at stores close to their offices for groceries, clothing and other necessities. By contrast, when working from home, these consumers are far less likely to make such discretionary purchases, and will for the most part do their grocery and other shopping in locations close to home.

This trend has already become clearly apparent in the shift of spending from Auckland and Wellington city centres to outlying suburban centres. It remains to be seen whether the same trend will hold true on a smaller scale in regional centres.

Local action will support recovery

The past several months have seen economic resilience and recovery partnerships created in many districts and regions across New Zealand. These entities haven taken on a variety of forms and involve a range of stakeholders including Councils, EDAs, Chambers of Commerce, industry bodies, employers' organisations, community organisations and local representatives of central government departments such as MBIE and MSD.

These partnerships will play a critical role over the next several years in shaping local economic recovery strategies, promoting new industries and enhancing the competitiveness of existing ones, determining skills needs and identifying training and employment opportunities for local school leavers.

The ability for targeted action in regional labour markets has also been enhanced by the establishment of interim Regional Skills Leadership Groups (iRSLGs). These Groups are a key element of the government's Reform of Vocational Education (RoVE) process. However in the short term, their principal roles will be to assist employees who lose jobs in the current recession to get back into employment, and to source workers for industries facing immediate shortages of appropriately skilled employees, for example due to the closure of New Zealand's borders to seasonal foreign workers.

More focus on skills development

The government has provided early signals of its intention to support skills development as part of the recovery process. Measures put in place over the past several months include the Targeted Training and Apprenticeship Fund (TTAF), which complements existing programmes such as programmes such as Mana in Mahi and Fees Free study.

In addition, various skills development and education to employment programmes are being established at a local level, often with the support of local representatives of central government departments such as MBIE and MSD.

While these measures provide an excellent starting point for addressing the skills shortage in some key industries, we see opportunities for the implementation of similar programmes in other industries facing critical skills shortages, such as health care, education and training, and professional, scientific and technical services.

Economic recovery partnerships will need to work closely with their local RSLGs, and with secondary and tertiary education providers, to develop effective skills development pathways that will address current and future skills needs in their local economies.

The RoVE process will see the establishment of six Workforce Development Councils (WDCs) that will take over many of the functions currently performed by Industry Training Organisations (ITOs). Regional representatives of these WDCs will similarly need to be involved in the implementation of skills development initiatives at a local level.

Affordability and connectivity remain assets

One of the direct effects of the increased trend of working from home, is an increase in the attractiveness of regional centres.

Once again, this trend is becoming increasingly apparent in domestic migration patterns, based on preliminary data received from Stats NZ.

A combination of (relatively) affordable property prices, high quality communications infrastructure and reasonable travel connectivity to major centres, is likely to provide regions with a competitive advantage in attracting domestic migrants, or the much-discussed and seemingly growing group of returning New Zealanders.

Build build build

Initiatives such as the New Zealand Upgrade Programme, along with central government financial support for regional infrastructure development projects, will play a key role in stimulating the recovery of local economies.

Councils and EDAs will need to collaborate with their local construction industries, to accelerate to implementation of infrastructure development programmes, and ensure optimum allocation of available resources across different projects and different construction types.

In the residential construction sector, we see opportunities for local government interventions on the supply side of the housing market, for example through increasing the availability of land for residential construction, consenting residential development and providing the necessary infrastructure. These processes will once again need to be planned and implemented in collaboration with relevant stakeholders such as local property developers, and local residential and non-residential construction firms.

Austerity is a non-starter

The 2008 Global Financial Crisis provided some stark lessons regarding the negative consequences that can arise from increased austerity on the part of central and local governments, in the face of declining employment and earnings. Thus far, New Zealand's approach to the COVID-19 recession suggests that these lessons have been absorbed. Government spending on direct support measures such as the wage subsidy and CIRP has proven effective in minimising some of the worst effects of the recession. More indirect measures such as the Funding for Lending Programme are likely to rein in the cost of private sector debt, despite contributing to rising house prices.

In this environment, we would reiterate the need for local governments to, wherever possible, continue providing impetus to local economic activity through their planned operational and capital expenditure programmes.

We also maintain that a balanced approach between rates increases and the maintenance of services on the one hand, and consideration of increasing financial stress in the community on the other, will provide the best chance for Councils and their communities to recover from the recession.

A focus on exports

Given the consistent performance of New Zealand's primary food-based exports, we see the opportunity for Councils, EDAs and local economic recovery partnerships to play a proactive role in promoting exports that originate within their regions.

Such collaboration activities might take place across a number of districts that share common export products, or between districts that participate in the same value chain for a particular export product. For example, districts in which an export commodity is produced, might benefit from collaboration with districts in which that product is processed or packaged for export.

Collaboration will also be increasingly important in the face of potential supply chain disruptions, which may result in shortages of imported inputs into production processes, or in a reduced ability to transport products to overseas markets.

We would equally see opportunities for regions producing primary export commodities, to explore the possibilities for adding value to these products in New Zealand. As a rule, high-value exports result in high-value jobs and increased earnings in local communities.

Finally, we would encourage Councils, EDAs and their partners to investigate the opportunities that might exist for the export of services, or of product and service combinations, for example in sectors such as agricultural technology, where regional economies might possess a competitive advantage.

Wellbeing will come back into focus

As local economies begin to recover from the COVID-19 recession, issues of community wellbeing are likely to reappear on the radar of national and local government. The mental health toll of the Level 3 and 4 lockdowns, as well as of job losses, reduced earnings, business closures and reduced future employment opportunities is yet to become clearly visible in our communities. Similarly, declining housing and rental affordability is likely to result in negative wellbeing outcomes in almost all regions.

We therefore foresee a need for central and local government, DHBs and their community development partners, to allocate resources towards effectively addressing these and other wellbeing issues, that are likely to emerge or be worsened as a result of COVID-19.

Appendix I. New Zealand's economy – the big picture

A rocky path through 2020

Economic activity crashed and rebounded

GDP figures for the June 2020 quarter confirm that the COVID-19 pandemic brought about the sharpest decline in economic activity in history. Nationally, GDP declined by 12.4% from the June 2019 quarter.

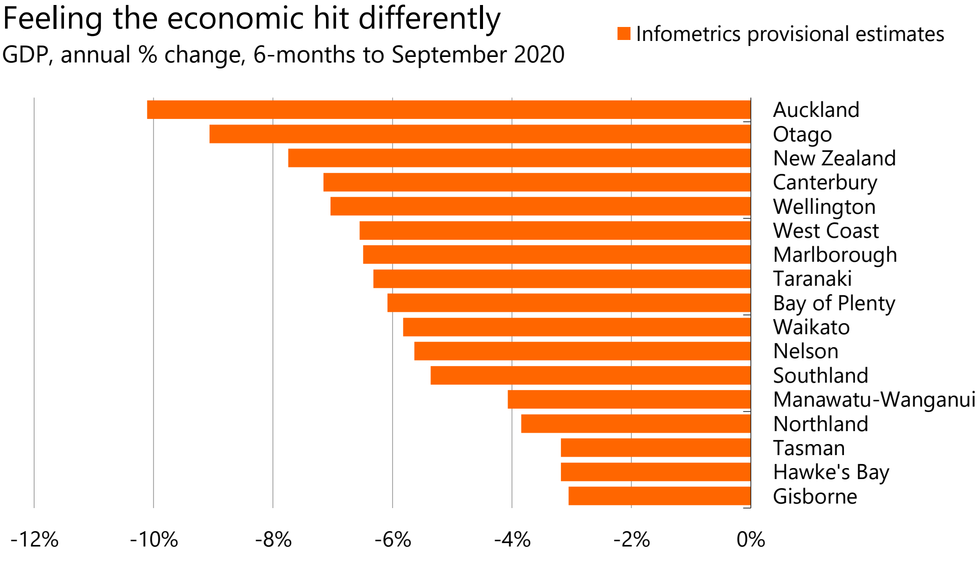
The previous largest quarterly fall in economic activity experienced in the New Zealand economy took place following the Global Financial Crisis of 2008. In the March 2009 quarter, GDP declined by 2.8% compared to the March 2008 quarter.

As expected, this downturn in economic activity was unevenly spread across New Zealand's regions. Districts with a high reliance on international tourism, such as Queenstown-Lakes and Mackenzie, experienced contractions of more than 20% compared to the June 2019 quarter. By contrast, districts with large food-based primary sectors fared much better – GDP in the Wairoa, Tararua and Carterton Districts declined by less than 5% compared to June 2019.

Graph 23

Feeling the economic hit differently

GDP, annual % change, 6-months to September 2020



Economic activity rebounded in the September 2020 quarter, as the national lockdown ended and the country returned to more normal levels of activity. GDP for the quarter was 3.2% lower than in the September 2019 quarter.

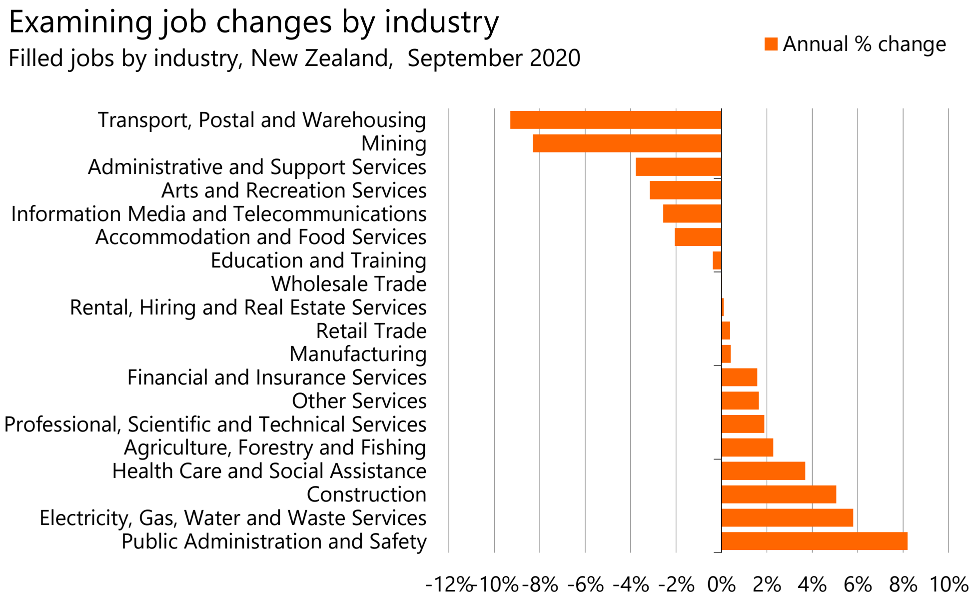
Over the year to September 2020, activity across the national economy declined by 3.3%.

Jobs have been lost – although fewer than initially feared

The recession has understandably had a negative effect on employment. Our estimate is that in September 2020, over the year to September 2020, the monthly total number of employment-related benefit recipients (Jobseeker Work Ready +CIRP) has increased by more than 74,000 individuals.

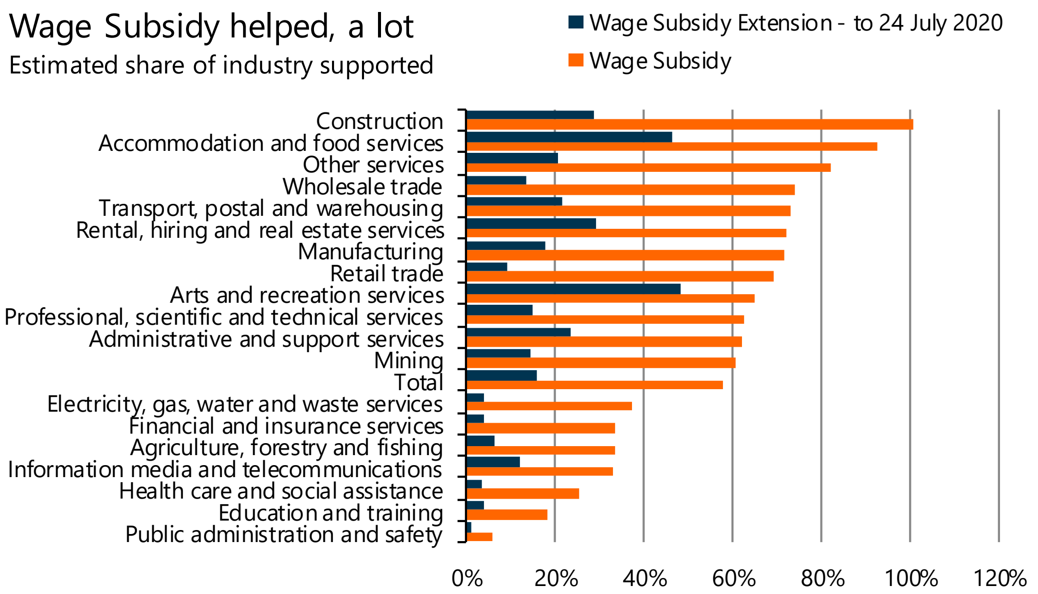
On a percentage basis, these job losses have been concentrated in the transport, postal and warehousing (for the most part Air New Zealand), mining and administrative and support services industries. In absolute terms, the largest numbers of jobs have been shed in the following industries – transport, postal and warehousing, accommodation and food services, administrative and support services and arts and recreation services.

Graph 24



While the effects of these job losses will ripple through New Zealand's communities over the next several years, the level of job losses is likely to be well below the figure of 120,000 initially forecast for the year to March 2021. The various financial measures implemented by the government, most notably the wage subsidy and small business loan scheme, have had the intended outcome of reducing immediate job losses and allowing employers to recover from lockdown.

Graph 25



A number of industries have also begun to create jobs, as the economy recovers from the shock of lockdown and activity resumes (see Graph 2 above). In particular, the public administration and safety, construction, health care and social assistance and professional, scientific and technical services have each created several thousand jobs over the past year. Our estimate is that approximately 20,000 jobs have been created or re-established, mainly in the September 2020 quarter.

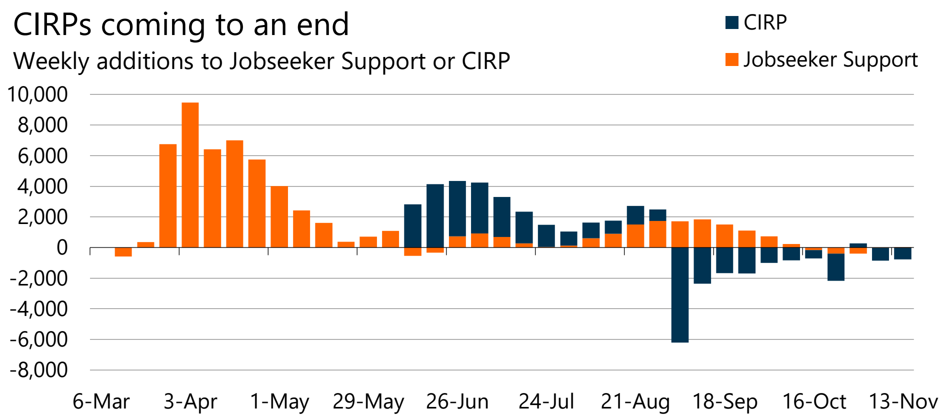
Preliminary data indicates that while job losses at the scale initially feared have been avoided, the nature of some employment has changed. In many instances, employees have been compelled to accept pay cuts, or have seen their working hours reduced, as employers seek to reduce costs and maintain the financial viability of their businesses. This trend seems to be particularly prevalent in tourism-dependent industries such as accommodation and food services, and in service-based sector such as arts and recreation, and administrative and support services.

Government support has helped

The 12-week COVID Income Relief Payment (CIRP) helped to stabilise the economy during and immediately after the lockdown period. At the height of its uptake, in August 2020, the CIRP was supporting close to 25,000 individuals in total.

Interestingly, as CIRP recipients have reached the end of their eligibility period, we have not yet seen a corresponding increase in the number of Jobseeker Support recipients. At the same time, the rates of job creation or job re-establishment in the economy do not appear sufficient to accommodate all these previous CIRP recipients. This suggest that unemployment might be higher than the official unemployment rate suggests, or that the decline in the labour participation rate in the economy might be larger than estimated.

Graph 26



The housing market is heating up

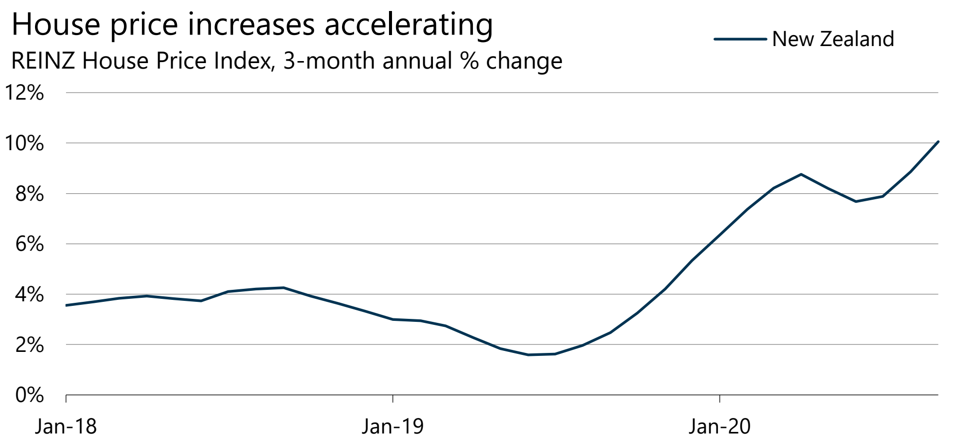
Another significant intervention in the economy during the June 2020 quarter, involved the negotiation between government and the commercial banking sector of six-month mortgage holiday scheme. This scheme was designed to prevent homeowners from being forced to sell their homes in the event of losing their jobs as a result of COVID-19.

One of the potential unintended consequences of this measure has been an increase in consumer spending, as funds that might normally be used to service a mortgage became available for other uses. Another outcome appears to have been a reduction in short-term household debt, as consumers have become somewhat less confident of their job security and future employment prospects.

The COVID-19 lockdown, along with the mortgage holiday and subsequent uncertainty amongst homeowners, resulted in a reduction in the stock of existing houses available for sale. This, along with historically low interest rates and the removal of loan-to-value restrictions, has contributed to an unanticipated boom in house prices over the September 2020 quarter.

Following a decline between April and June 2020, the Real Estate Institute of New Zealand's (REINZ) House Price Index, which tracks annual percentage changes in house prices over a rolling three-month period, turned positive in July, before accelerating sharply in August and September. Over the three months to September 2020, house prices across the country were more than 10% higher than in the corresponding period of 2019.

Graph 27



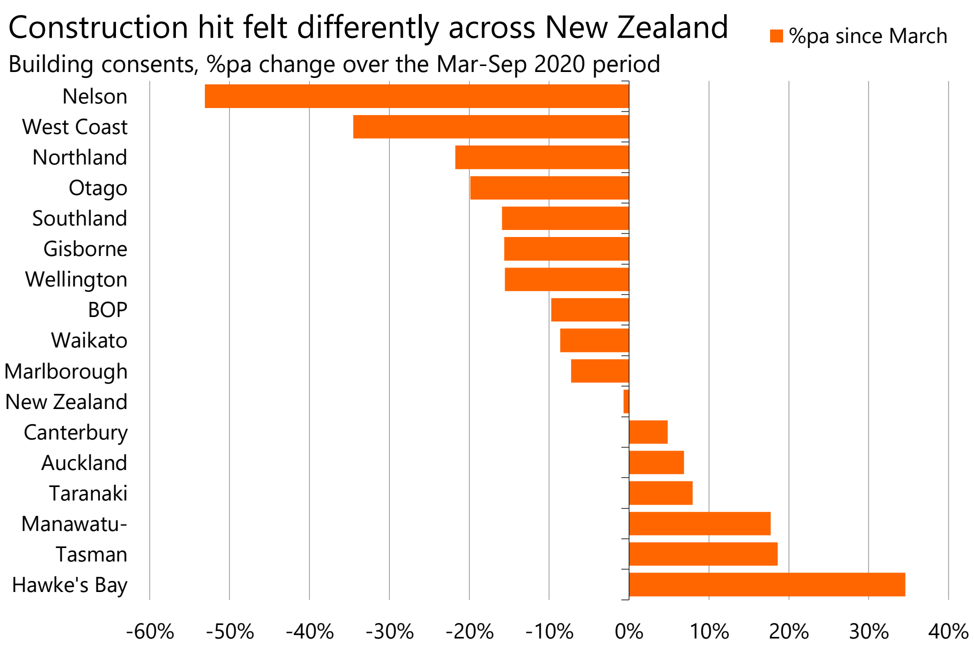
Construction is a mixed bag

Construction activity across the country has also not declined to the extent that we initially anticipated. One possible reason for this appears to be the delays caused by the Level 3 and 4 lockdowns to construction projects that were already underway. The long lead times that exist in some regions, due to capacity constraints in the local industry, are also helping to keep activity going.

Many Councils across the country were able to continue issuing building consents during lockdown. It is therefore perhaps not surprising that the number of residential consents issued nationally increased by 8% over the year to June 2020, and by 3.5% for the year to September.

By contrast, the value of non-residential consents declined by 8.6% over the year to June 2020 and by 7.6% for the September year. This appears to be consistent with the sharp reduction in business confidence during and immediately after lockdown.

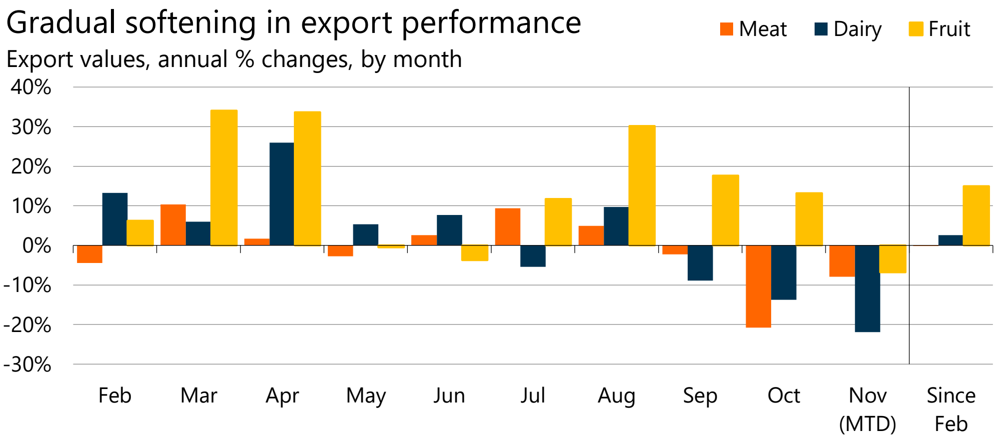
Graph 28



Exports keep going

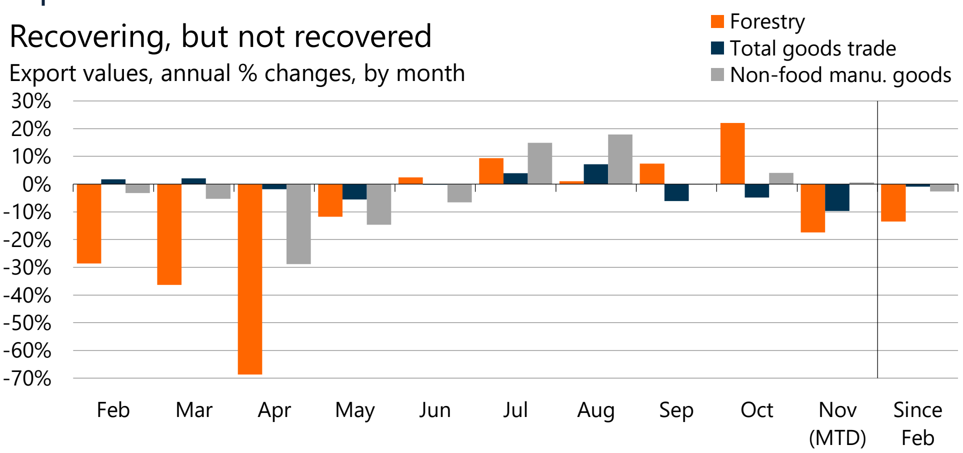
Food-based primary exports have performed well, as foreign consumers have been increasingly attracted to New Zealand's produce due to its reputation for high quality and food safety standards. However, over the past two months, export values have begun to decline, as international supply chains and shipping routes remain disrupted, and COVID-19 infection rates have again begun to climb sharply in Europe and the USA.

Graph 29



The picture is similar for non-food primary and manufactured exports. In the case of wood and forestry products, New Zealand has been faced with a global oversupply and a Chinese processing sector that has been somewhat slow in getting back to pre-lockdown activity levels. A lack of overseas processing activity has also reduced demand for some local mining outputs.

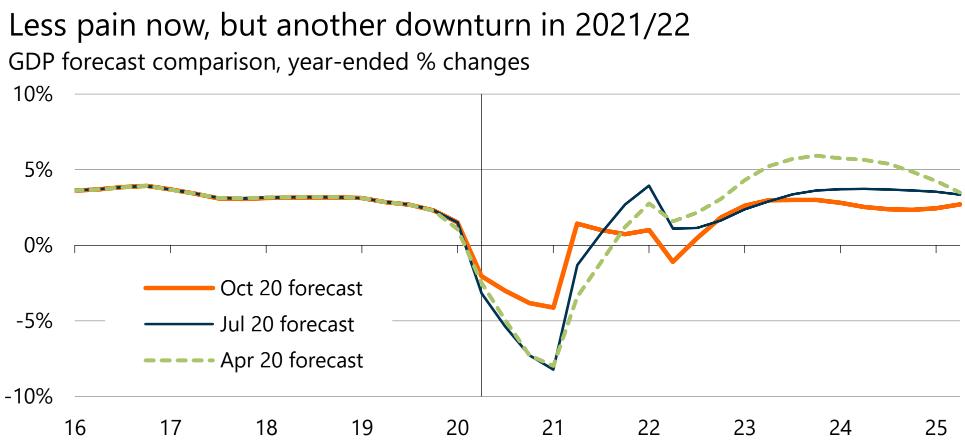
Graph 30



But is the worst yet to come?

The latest Infometrics macro-economic forecast, released in October 2020, confirms that the economy's immediate bounce back from the initial COVID-19 lockdown has been better than expected. Labour market indicators, the housing market, construction activity, and household spending have all defied expectations of an immediate and sharp downturn. Despite this good news, we're worried that the worst is yet to come, and we now expect more fallout to hit the New Zealand economy next year. We are now forecasting the second half of a double-dip recession to occur in 2021.

Graph 31



It all hangs on the labour market

Credit must be given to the government's wage subsidy for limiting the immediate rush of job losses from the border closures, lockdown, and collapse in business confidence. Weekly additions to the number of Jobseeker Support beneficiaries averaged 7,160 during April amid a wave of reactionary redundancies from businesses. But since tailing off in mid-May, additions to the jobseeker queue have stayed relatively low, averaging just 784 per week.[3]

We estimate that the September unemployment rate was 6.5%.

We believe that we are now at a crossroads for the New Zealand economy. If we can somehow avoid another substantial wave of job losses, then the negative flow-on effects for other key pillars such as the housing market and spending activity will also be muted. Alternatively, if the government's wage subsidy and its various extensions have only delayed job losses, rather than prevented them, then we would expect to start seeing things unravel as businesses plan for the year ahead.

Crunch time for employment

The next four months will be a crunch time for many businesses and their employees. Summer will be a key bellwether of fortunes. Retailers will be hoping that the post-

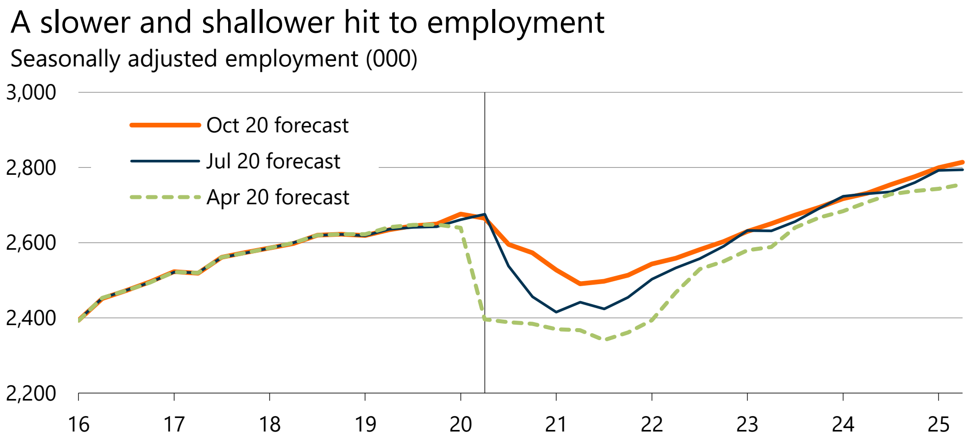
[3] Trends in Jobseeker Support numbers are muddied somewhat by the COVID-19 Income Relief Payment. However, there has been a relatively small number of people moving onto Jobseeker Support after their Relief Payment entitlement has run out, suggesting many of these people are not eligible for Jobseeker Support.

lockdown buoyancy in spending can be sustained through into the Christmas period. For tourism operators, the absence of foreign tourists during the peak summer months could have a negative effect on their revenue three times as large as it did during winter. And other businesses will be weighing up trading conditions in the lead-up to Christmas, deciding whether it is worthwhile retaining staff and having to pay them through the holiday period if demand is going to stay soft into 2021.

We are not confident that further job losses can be avoided. Our updated forecasts predict a 6.5% decline in employment over the year to June 2021, implying a total fall in job numbers of 6.9% from its March 2020 peak (see **Graph**).

Our forecast loss of 186,000 jobs from peak to trough is a significant improvement from the 253,000 decline we were predicting in July or the 307,000 we anticipated in April. As previously noted, the government's support has proven to be very important for the labour market, while job losses have also been limited by the New Zealand economy's successful elimination of COVID-19 and quick bounce back out of lockdown.

Graph 32



Labour market squeeze to hit household spending

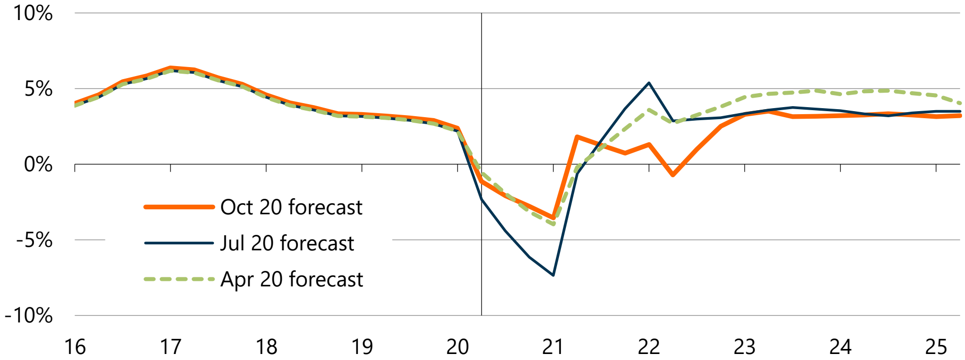
Declines in employment have a clear and dramatic effect on the spending power of consumers. But reductions in hours worked and a lack of wage inflation also have negative implications for household budgets.

Indicators to date suggest an immediate bounce back in household spending following lockdown, with private consumption in the September quarter likely to be similar to its pre-COVID level. However, **Graph 33** shows that we expect 2021 to be much less positive as the labour market's deterioration affects spending activity. We forecast a 3.2% fall in private consumption between December 2020 and September 2021, with household spending not surpassing its pre-COVID peak until the second half of 2022.

Graph 33

Household spending still vulnerable to job losses

Private consumption comparison, year-ended % changes



The housing market's remarkable resilience

Alongside household spending, the other important facet of the economy being buoyed by the labour market's resilience is the housing market. Our previous forecasts of house price falls were premised on jobs being lost and people being unable to meet their mortgage payments, along with a collapse in population growth due to border closures.

Instead, we have so far been spared the worst of the job losses and, since our last forecasts were published in July, the government has extended its mortgage holiday scheme until March next year. No one is under pressure to sell their property, so the increasing pool of interested buyers is fighting over a limited number of houses available to purchase. House prices have defied expectations from six months ago and have actually gathered more upwards momentum.

It's worthwhile outlining the contributors to this pick-up in demand for housing to better understand how long it might continue.

- Population growth unexpectedly spiked in late 2019 and early 2020. The pandemic created a pool of foreigners that have stayed in New Zealand longer than originally intended, due to border closures, reduced air connectivity and visa extensions. There was also an influx of returning Kiwis in early 2020 who chose to come back to live in New Zealand as conditions deteriorated offshore. Even if they are not homeowners, many of these people have needed somewhere to live. Also, many of the working Kiwis returning at short notice from overseas will have been cashed up and keen to buy a house.

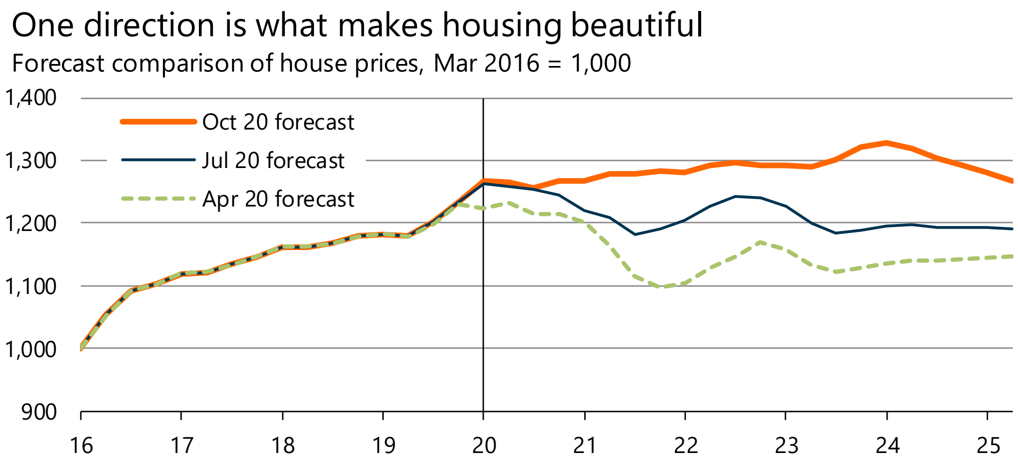
- Very low interest rates have proven effective in enticing buyers into the market. First-home buyers have been particularly active, with new lending over the three months to August up 31% from the same period in 2019. As well as the boost to demand from lower mortgage servicing costs, parents are more likely to be helping their adult children get onto the property ladder, given the lack of return on their term deposits.

- Investor demand for property has picked up, with lending growth over the three months to August sitting at 25%pa. The removal of the Reserve Bank's loan-to-value restrictions effectively reduced the deposit requirement for investors from 30% to 20% (the latter requirement has generally been imposed by the banks themselves since the pandemic began). The lack of returns available from other investments such as term deposits has also driven up investor demand for property and shares.

- Where job losses have occurred, those people affected are on average more likely to be renters than homeowners. This uneven nature of the downturn so far has limited the negative effects on the housing market.

Add in the fact that neither the Reserve Bank nor the government want to see house prices fall, and it is becoming increasingly difficult to envisage a decline in property values in the near term. We still expect house price growth to slow in coming quarters in response to lower net migration and a weakening labour market, in combination with the significant continuing supply of new residential building activity in the pipeline. However, house price inflation holding between 0% and 2%pa between March 2021 and March 2023 is a much "better" outcome than the falls of 11% we were predicting back in April at the height of lockdown (see **Graph 34**).

Graph 34



We still see scope for downward pressure on house prices over the longer term as interest rates start lifting from their record lows and the market absorbs the big increase in supply that is currently being constructed. We have factored in modest falls in house prices during 2024 and 2025.

Uncertainty the enemy of growth

Auckland's community outbreak in August was an unwelcome reminder that COVID-19 and its associated restrictions on business activity and freedom of movement can reappear at any time. From both a business and household point of view, this incredible level of uncertainty makes it very difficult to make major decisions or commit to significant future plans. Although businesses have shown increasing flexibility and agility in how they operate, we expect uncertainty to remain a constraining factor on spending and investment throughout the next year.

The on-again, off-again nature of the possible Trans-Tasman and Pacific travel bubbles has also made it difficult to reliably assess prospects for the tourism industry. For this set of forecasts, we have maintained a conservative assumption that travel bubbles start to open up from the second quarter of 2021. However, the recent move to allow New

Zealand travellers into New South Wales and the Northern Territory without having to quarantine suggests that things might progress sooner.

Timelines for a COVID-19 vaccine also seem to be highly variable. Our forecasts have been prepared on the basis that a vaccine becomes readily available late next year. However, the roll-out of the vaccine will not necessarily be uniform around the world, and we can envisage some restrictions persisting throughout 2022 and limiting travel.

The globe is a mess

COVID-19 is not going away any time soon. Global daily new case numbers reached an all-time high of 385,848 on October 9, almost four times the highest daily total recorded in April. However, it's important to note that this increase in case numbers reflects much more widespread testing than there was capacity for six months ago. Global deaths averaged 6,306 per day in April; the corresponding number for September was 5,406.

Lockdown fatigue means that countries are reluctant to continue or reimpose significant restrictions on economic activity and people's freedoms. But it is also clear that the ongoing threat of the virus is acting as a constraint on activity anyway. Even without lockdowns, people are more reluctant to venture out and about than they were pre-pandemic, and this hole in demand will have a lasting effect on economic outcomes. The latest Consensus forecasts show that by June 2022, Spain, Italy, the UK, Japan, and France are all likely to still have smaller GDPs than in the September 2019 quarter.

Aside from the prospects of prolonged weakness in the world economy, which could extend for longer than most forecasters are predicting, the pandemic is also affecting people's consumption patterns. Reduced spending on travel and associated goods and services is an obvious change, but our exporters are also being affected by lower levels of restaurant and hospitality activity that are hitting demand for higher-value foodstuffs. This trend is likely to show through in reduced incomes for meat and wine producers, for example, as they are forced to settle for lower prices from international consumers with a reduced willingness or ability to pay top dollar.

Concerns about international supply chains also remain on the radar. Imports of a range of manufactured products are well down from a year ago. Some of this decline reflects weaker demand, particularly related to business investment spending. But there are ongoing anecdotes about shortages of electronics and other manufactured consumer goods.

At this stage, we remain reluctant to predict a pick-up in domestic manufacturing activity on the back of these issues. However, supply chain disruptions have the potential to constrain economic growth if they persist or become more acute in coming months.

An economy regaining momentum

It's undeniable that the New Zealand economy has regained momentum following the chaos of early 2020. The effects of the pandemic on the economy to date have been less severe than we originally feared. But this downturn is still the most severe in living memory, and the path ahead remains highly uncertain.

We still expect the ramifications for the economy of the lockdown and border closures to persist for an extended period. Caution remains a key feature of our forecast outlook. One of the biggest risks is that New Zealand's better-than-expected economic performance is not matched by a rebounding global economy.

Appendix II. Forecast assumptions

We have revised the macro-economic assumptions used in modelling the effects of COVID-19 on the New Zealand economy as follows:

- **No further lockdowns** – we have not modelled further nationwide lockdowns in the remainder of the year to March 2021 or the following year.
- **Global demand for food products holds up, but non-food exports decline** – our forecast of a 16% contraction in non-food manufacturing exports volumes over the year to March 2021 remains unchanged, while the forecast for the year to March 2022 is revised to a decline of 8.1%.
- **Foreign tourism remains off the table** – the ongoing closure of New Zealand's border to all but returning citizens and residents, essential workers and a limited number of exemption holders, mean that we have revised our estimates of the reduction in foreign tourism demand to 99% for the year to March 2021, and 91% for the year to March 2022.
- **Domestic tourism spending increases** – continued constraints on the ability of New Zealanders to travel internationally, along with the strong demand for domestic travel, have led us to revise our estimate of 21% decline in domestic tourism spending, to a 3.3% increase in this spending category in the year to March 2021, and a 12.3% increase in the following year.
- **International education revenue halves** – we retain our forecast of a 49% reduction in international education revenue in both the year to March 2021 and the year to March 2022.
- **Domestic education demand increases** – we have estimated the increase in domestic demand for tertiary education at 8.3% for the year to March 2021, and 4.4% for the year to March 2022.
- **House prices growth will continue** – the combination of government support measures and market forces has caused us to revise our assumption of an 11% decline in average house prices by the end of 2021. Instead, following the sharp price increases of the past two quarters, our forecast is for house price inflation of between 0% and 2%pa for the two years to March 2023.
- **Construction gets a boost** – the heat in the housing market will have a buoyant effect on residential construction, counteracting the effects of the sharp decline in international net migration. We have therefore revised our estimate of a 35% decline in new dwelling construction, to a 16% decline in the year to March 2021 and an 8% decline in the following year. Non-residential construction is likely to be boosted by the New Zealand Upgrade Programme, COVID Response and Recovery Fund (CRRF), and the acceleration of various projects earmarked for funding from the Provincial Growth Fund.
- **Government comes to the party** – our modelling includes the wage subsidy and its subsequent extension, the COVID-19 Income Relief Payment and increase social welfare benefits. Collectively these benefits have injected close to $20 billion into the national economy in the current financial year.