

Economic Note

COVID-19 thoughts

8 June 2020

COVID-19 thoughts, observations – and being grateful

- NZ to date is doing well in getting on top of the COVID pandemic – but not without cost.
- The economic toll itself will cause substantial health costs, which increasingly need to be taken into account.
- Preserving jobs and setting up conditions for reimagining NZ's economy are the task for the team of 5 million.

Summary and Implications

NZ has dodged a catastrophic COVID-19 death toll through its actions to contain its spread. However, COVID-19 will still take a toll on health outcomes via its impacts on the economy. Moving forward, the Government will increasingly need to balance the potential toll from COVID-19 illness and deaths against the range of health costs that come from long-term economic damage. It is an unenviable job to do and has potentially been made more difficult – ironically – by NZ's success to date in eliminating COVID.

The long-term impacts on New Zealanders' welfare mean getting the economy functioning is a high priority. Policy actions to preserve as many viable jobs as possible are important. Longer term, NZ will need to reimagine itself in a changed world, in which picking winners will be challenging – particularly by committee. Unleashing the team of 5 million to shape the economic future at the coalface is one option to help NZ regenerate itself.

NZ is financially a poorer country as a result of the COVID outbreak, as are many countries. Behaviours and priorities will also have changed. It is going to be important to resist the temptation to rush ahead with long-held plans, as they may no longer be relevant or the best use of funds in these straitened times. It is also a time to be grateful for what we still have and appreciate what is important to us as individuals and as a society.

The Government's decisions will have far-reaching impacts

In terms of the impact on the economy, the lockdown is likely the biggest decision a NZ government has taken outside of a declaration of war. The impact will be felt for generations, and the COVID downturn could be NZ's biggest in a history of data going back to 1870. Much of NZ would have been heavily impacted one way or another. But government decisions are, and will continue, to influence the extent of the impact and where the impact falls within NZ. Everything the Government has done and will do over the next year or two have significant implications for health and economic outcomes.

The lockdown decisions were made in a period of needing to make fast decisions with little concrete information available. We can see from countries in less fortunate positions the potential costs in lives of not getting on top of COVID-19 early on. For NZ, various permutations of the epidemiological model in common use suggested COVID-19 could cause anywhere from 7 deaths (if stringent actions were taken) to 14,400 (if we didn't use interventions such as contact tracing and isolation).

Equally, there was no assessment at the time of the broader long-term health impacts from hitting the pause button on the economy. But the costs of the global pandemic response are substantial in a financial sense. In turn that will compound other health costs over a long period of time. Increasingly, these costs need to be better known and taken account of for any future decisions around NZ's COVID-19 responses.

It's not health vs. the economy – the economy is our health as well

Locking down countries is not a choice between our health and the economy. It is a more complex choice between different health outcomes, both in the present and over the next generation of New Zealanders. The economic fallout from COVID will have huge health impacts, including from reducing our future living standards, with the lockdown also influencing the impacts. Some of the various costs of the economic recession are:

- Impacts on life expectancy: a [UK study](#) (pgs 31-33) suggests that a 6.4% economic contraction would reduce life expectancy by 3 months. We expect a recession for NZ of similar magnitude. A similar life expectancy outcome in NZ would be equivalent to a loss of 1.25 million life years (or 15,300 people living a full life of 81.66 years).
- Increased incidence of mental health problems, including suicide, as a result of lost jobs and business failures. A NZ [study](#) indicates unemployed people are 2-3 times more likely than employed people to commit suicide. We expect nearly 200,000 fewer jobs in 2020 as a result of the recession NZ has plunged into.
- Increased poverty as more families face financial hardship and with reduced scope for fiscal support given the impact of COVID-19.
- Delayed critical healthcare during the lockdown to create capacity to deal with a potential COVID pandemic.
- A smaller future tax revenue base out of which to fund healthcare. Money may not buy you happiness, but it can generally buy a better standard of healthcare – and that prolongs lives. There is a reason why NZ's life expectancy is so much higher than Zimbabwe's, for example.
- Over the longer term we may not be able to fund as much medical treatment as we otherwise would have, because of the lower tax base and weaker state of the fiscal accounts. We already can't afford the same extent of life-saving yet expensive treatment that Australia (a much wealthier nation) can.
- Lost opportunities for people leaving education over the next few years. At a time when hundreds of thousands of people are losing jobs, school and university graduates may not be able to get the high-paying jobs they banked on getting. Instead they may need to start their working lives in jobs with much lower lifetime earnings. That means a lower standard of living than otherwise for them, and for their kids.

Just to be clear, many of these impacts will have occurred to varying degrees regardless of the specific actions that governments (including our own) have taken. But the sheer number of impacts highlight the incredibly hard choices governments have to make.

The costs also highlight why it is important to resuscitate the economy as effectively as possible and to ensure that future decisions around responding to COVID-19 take these broader impacts into account. Responses that maximise the effectiveness of containing/eradicating COVID-19 at the least economic impact will be best at maximising the best health outcomes now and in the future.

“Stay at home you say, but all I got to say to you is time and time again I say, No! No! No!”¹

Preventing or combating a pandemic requires human beings to do something unnatural to our species: stop socialising. For many people that has also meant stopping work, along with all the resultant financial pain. In NZ people were already starting to distance themselves, even prior to the Government imposing ever-stricter conditions.

¹ Big apology to Twisted Sister

Fear is a powerful motivator of self-preservation, with or without government edict.

But we are a democracy, which limits the ability of a government to impose constraints on our freedom. Fear of thousands of deaths had NZ willingly go onto hibernation. Those actions have measurably reduced our death rate, but for many the novelty of enforced isolation is wearing thin and the fear has reduced, potentially threatening our hard-fought gains. The War on COVID has shifted from a World War 2 atmosphere of stoicism and grim shared purpose to one where authority is starting to be questioned, like at the time of the Vietnam War. If you can join mass protests that flout government restrictions without any comeback or need to self-isolate, how should we treat businesses that also flout restrictions? And, as anybody venturing out in public can quickly conclude, people are adhering less stringently to social distancing requirements.

Increasingly, the Government will not be able to rely on unquestioning adherence to future restrictions, particularly now that the economic toll of responding to COVID-19 becomes increasingly clear. Accordingly, to boost compliance the Government will also need to be transparent around the rationales for any actions it takes. It would likely be challenging now for a government to reimpose Level 4 restrictions without a lot of pushback and high potential for non-compliance. And the economic cost of renewed restrictions would come at a very high cost given the current fragilities. Under Level 4 and 3 NZ imposed conditions that resulted in more shutting down of normal economic activity than most countries (very similar outcomes to Italy, which has suffered some the most devastating COVID death rates).

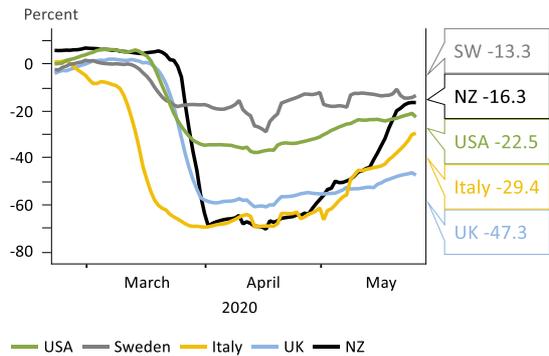
This is why world-leading track and trace capability and high levels of testing matter for stamping out the virus. And we need it now. Other countries have shown the way through applying cutting-edge technology for tracking contacts and screening people's temperatures before admission to premises. Meanwhile, we are relying on people to handwrite their life history in venues and keep a diary of their movements, along with scanning QR codes if they exist. We need to make the tracking/recording capability as automated and user-friendly as possible if we are going to ensure we can get on top of any future outbreaks, backed up by rapid tracking.

Give me certainty in a time of extreme uncertainty!

Uncertainty is a big crippler of confidence, and we were highly uncertain when COVID-19 hit. The shift down Alert levels has helped to alleviate fears, but the outlook remains highly uncertain. Planning for the future is extremely difficult and important decision-making can be hampered by a lack of clarity.

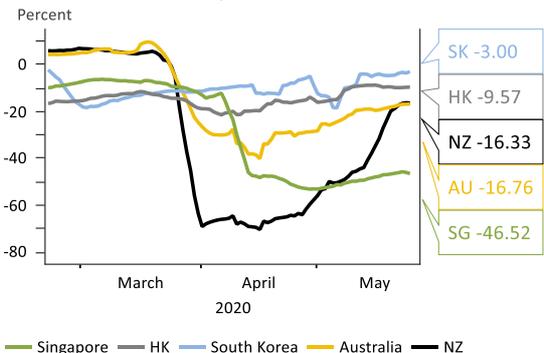
The Government can't magically make every uncertainty vanish. But it can lay out its broad strategy and vision for the country, and how it would respond to different COVID scenarios. This latter point is really important right now for businesses, including those that are still closed that need to decide whether or not to open up. If a return at any point to Level 4 trading conditions remains a possibility, that may deter some businesses from reopening as early as otherwise or limit what they do for fear of financially over-extending. Many businesses would struggle to restart a second time out of Level 4, and some may prefer to close for good. This would be a heart-breaking decision for many

Google Mobility Data - Average of Workplaces, Grocery, Pharmacy, Retail & Recreation



Source: Macrobond, ASB

Google Mobility Data- Average of Workplaces, Grocery, Pharmacy, Retail & Recreation



Source: Macrobond, ASB

businesses, but COVID-19 has reaffirmed the importance of being able to deal with unknown events the best you can.

Government support: timely, targeted and temporary

Our mantra for direct government financial support is for it to be: timely, targeted and temporary. We want policies to take effect quickly, we want to ensure that the help goes to those that need it. And we should avoid baking in permanent costs that will be borne by future generations from policies primarily intended to restart the economy.

Job preservation is also going to be critical over the next 2-3 months. Businesses are now emerging into the 'moment of truth' of finding out where demand for their offerings will settle, all whilst being in a financially-vulnerable position. Many of those firms would otherwise be viable in normal times, but a number may not have the financial resources to either reopen or keep trading until revenues reach a financially-sustainable level. Government has an important role in helping businesses over this challenging period. The wage subsidy and IRD small business loan schemes are examples of this.

Apply the team of 5 million to the economic crisis, too

Picking winners is challenging in this sort of environment, and the Government is unlikely to prove to be better at it than anyone else. There are so many uncertainties ahead (one of the perennial challenges with the future!) that it will be harder than ever to know right now what the right horses to back are. And, as the cliché goes, a camel is a horse designed by a committee.

One way forward for the Government is to effectively unleash the 'team of 5 million'. As NZ moves out of survival mode, NZ businesses will need to adapt in a time of continued uncertainty and reimagine itself. Increasingly the Government's role can fall back to incentivising and enabling businesses to regather and grow. The Government can offer carrots, such as temporary acceleration of capital expenditure depreciation, to encourage investment. The Government's underwrite of bank lending to businesses for new lending should be suitable for this longer-term purpose. The Government can work on making business easier to do, by removing unnecessary red tape. It can facilitate developing the right skills through a responsive education and training sector.

Having said that, technology uptake must surely be the closest we can come to picking a 'winner'. There is immense capacity for technology to keep revolutionising our workplace choice and work/life balance, influence how we shop and interact, even affect our choices on where to live. It is also something that would assist in closing NZ's productivity gap with countries such as Australia and the US, as well as reducing the impact of NZ's physical distance from its export markets. This is an area that the Government can look hard at pushing, including collaboration with the private sector in a way that produces thoroughbreds not camels.

But if the policy response is do what we always intended to do, are we asking the right question?

We rightly need the Government to be playing a key role in shaping NZ's future – that is what governments are elected to do. Equally, we require the Government to consider our collective interests, including the interests of future generations.

The saying is to never let a good crisis go to waste. Crises can provide a catalyst to significant and beneficial changes that reset the economy and society into a much better place. They can also give people a rationale to do exactly what they have spent their life yearning to do. And for politicians, those two things can often seem to be the same thing!

But what looked like the 'right' policy or project to politicians before the crisis may not be the right one now. We need to ensure that the Government applies the right solutions to the right challenges. Unfortunately, there will be uncertain shifts in pre-existing challenges, and new challenges will arise in short order. It will be harder to get things right. If the Government (and businesses) simply plan to do what they previously intended, then they need to make sure they have gone back and completely reassessed that the business case remains strong. Behaviours, priorities,

and affordability have all changed – actions need to be well aligned with this new reality.

The infrastructure conundrum

Infrastructure is a challenging one to get right. Infrastructure is expensive, it is a sunk cost once spent, and the costs (and benefits) fall on future as well as existing generations. NZ has a chequered history with expensive projects that seemed like a good idea at the time but left a lasting financial hangover – we need to think smart rather than “Think Big”.

Some infrastructure projects will be easier than others to get a sense of being ‘right’. Sorting out our chronically-high cost of housing – particularly the role of central and local regulation – remains a clear ‘right’. Projects such as the [Drury](#) development that central and local government have helped facilitate show what private/public collaboration can achieve.

But what about other infrastructure, particularly for commuter transport? The urban transport infrastructure focus has increasingly been on reducing congestion and improving the environment, a push towards public transport and bikes and away from cars. But do we really know how commuters’ preferences will change? Even assuming we eradicate the virus and public transport doesn’t require distancing, will CBD commuting be as commonplace now that people have a taste for working from home? If COVID-19 or related strains turn out to be enduring and a vaccine is elusive, what will our appetite be for using public transport versus some form of private transport in our own bubble? What would be the long-term cost structure of public transport in a 2-metre world, bearing in mind it is already heavily subsidised?

And how does all of this now interface with the net zero carbon goal? Less commuting would likely be a win-win. But if individuals face a choice between saving the future of the planet by using public transport vs. the more immediate existential threat from a lethal virus, burning fossil fuel in the safety of a car may be where some people vote. That might swing commuters’ preference towards a greater share of private transport of some form, even within possible lower overall commuter numbers.

Looking at specific transport projects, how has the cost/benefit of light rail from central Auckland to the airport changed, given the highly-uncertain long-term future of air travel, Auckland Airport’s commercial decision to cancel building a second runway, and Air New Zealand’s huge downsizing? The benefits, to the extent they were already understood, surely haven’t got more favourable! Moreover, the costs are unlikely to have gone down.

Infrastructure in general takes a while to spool up even if it is ‘shovel ready’, and it is not an immediate way to soak up unemployment. And we still need to make sure we deliver value. We should be redoing our assessments of projects to ensure the ones we prioritise are the most beneficial ones – we owe it to future generations who will be picking up part of the tab.

A final thought: be grateful

The signature phrase from the Prime Minister has been “be kind”. But another thing is to “be grateful”. We should be grateful NZ has (so far at least) avoided the waves of deaths that have overwhelmed better-equipped health care sectors in countries that are wealthier than NZ. Tough as the economic side is going to be, NZ’s outcome could have been a lot worse. Be grateful for the people, experiences and things in your life that bring happiness. Be grateful for the existence of your local café, bar, restaurant, takeaway outlet, favourite shop and do what you can to support them. In the new COVID world we can’t take any of these things for granted anymore. This is the time when we reassess what is really important to us as individuals and as a society.

ASB Economics & Research

Chief Economist
Senior Economist
Senior Economist
Senior Economist
Senior Economist, Wealth
Data & Publication Manager

Nick Tuffley
Mark Smith
Jane Turner
Mike Jones
Chris Tennent-Brown
Judith Pinto

nick.tuffley@asb.co.nz
mark.smith4@asb.co.nz
jane.turner@asb.co.nz
mike.jones@asb.co.nz
chris.tennent-brown@asb.co.nz
judith.pinto@asb.co.nz

Phone

(649) 301 5659
(649) 301 5957
(649) 301 5853
(649) 301 5661
(649) 301 5915
(649) 301 5660

www.asb.co.nz/economics

 [@ASBMarkets](https://twitter.com/ASBMarkets)

Disclaimer

This document is published solely for informational purposes. It has been prepared without taking account of your objectives, financial situation, or needs. Before acting on the information in this document, you should consider the appropriateness and suitability of the information, having regard to your objectives, financial situation and needs, and, if necessary seek appropriate professional or financial advice.

We believe that the information in this document is correct and any opinions, conclusions or recommendations are reasonably held or made, based on the information available at the time of its compilation, but no representation or warranty, either expressed or implied, is made or provided as to accuracy, reliability or completeness of any statement made in this document. Any opinions, conclusions or recommendations set forth in this document are subject to change without notice and may differ or be contrary to the opinions, conclusions or recommendations expressed elsewhere by ASB Bank Limited. We are under no obligation to, and do not, update or keep current the information contained in this document. Neither ASB nor any person involved in the preparation of this document accepts any liability for any loss or damage arising out of the use of all or any part of this document.

Any valuations, projections and forecasts contained in this document are based on a number of assumptions and estimates and are subject to contingencies and uncertainties. Different assumptions and estimates could result in materially different results. ASB does not represent or warrant that any of these valuations, projections or forecasts, or any of the underlying assumptions or estimates, will be met.