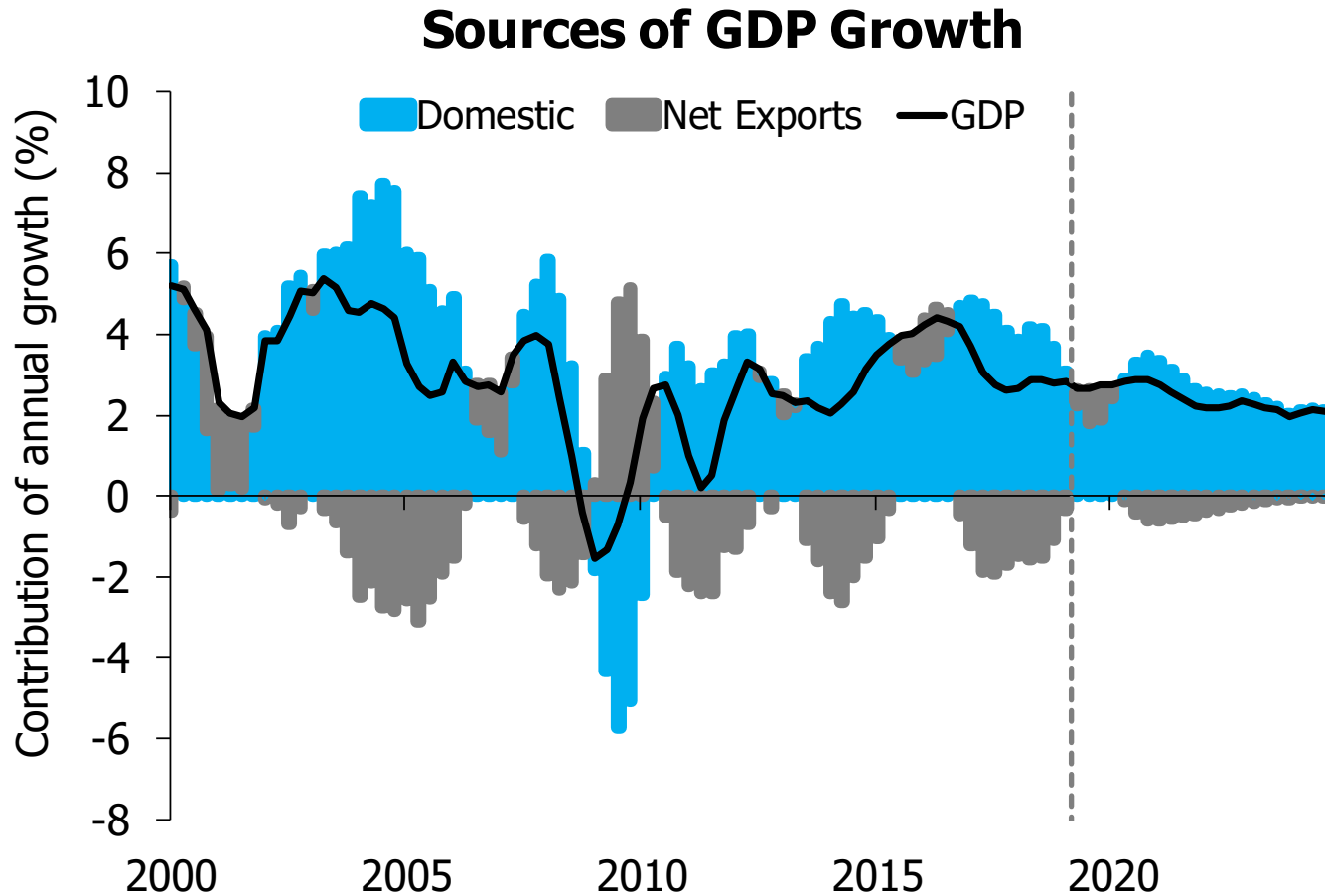




What a difference a year makes

Peter Wilson
Fiji New Zealand Business Council Annual Meeting
30 October 2020

Do you remember this slide?



Source: Stats NZ, NZIER

We were wrong

Unite
against
COVID-19

New Zealand Government

THE ECONOMICS OF COVID-19

The **economics** of Covid-19

- Ignore “I’m not an epidemiologist, but...”
- Covid-19 has introduced a new cost into certain types of economic activity: the risk of contracting a potentially deadly disease
- A range of possible responses:
 - Avoid the risk (stay home, close the business)
 - Mitigate the risk (physical distancing, wear a mask)
 - Accept the risk (carry on)
- Because people have different risk profiles, there is an **externality**
 - If I carry on, I can infect you *against your will*
- Regulatory response needed due to externality

The regulatory response

- Decision-making under extreme uncertainty
 - A new disease
 - No known treatment or cure
- With irreversibility
 - You can re-open the economy
 - But you can't reverse the effects of the illness or resurrect the dead
- “No regrets” approach needed
 - Buy time
 - Ramp-up public health capacity
 - Learn from experience
- Hindsight is always 20/20

Not health v. economy

- Not responding to Covid-19 has a large health **and** economic cost
 - Health system overloaded
 - Continuing waves of infection
 - Voluntary shut-down of economic activity
 - Reduced trust in institutions
 - Tourists don't come because it isn't safe
- Policy response has a lower health **and** economic cost
 - Low infection rate, fewer deaths
 - Level 1 allows 90% of economy to reopen
 - New Zealand seen as safe and well-governed

The impact of Covid-19

- Covid-19 is a largest negative economic shock to the world since the Great Depression
- The net economic effect is a combination of three things:
 - Behaviour of individuals
 - Avoid risk
 - Mitigate risk
 - Accept risk, but infect others
 - Government-imposed restrictions (correcting externality)
 - Government stimulus

Consumer adaptations

- Consuming more day-to-day products
- Supporting local producers
- Buying online
- Baking bread
- Having a domestic holiday

Producer adaptations

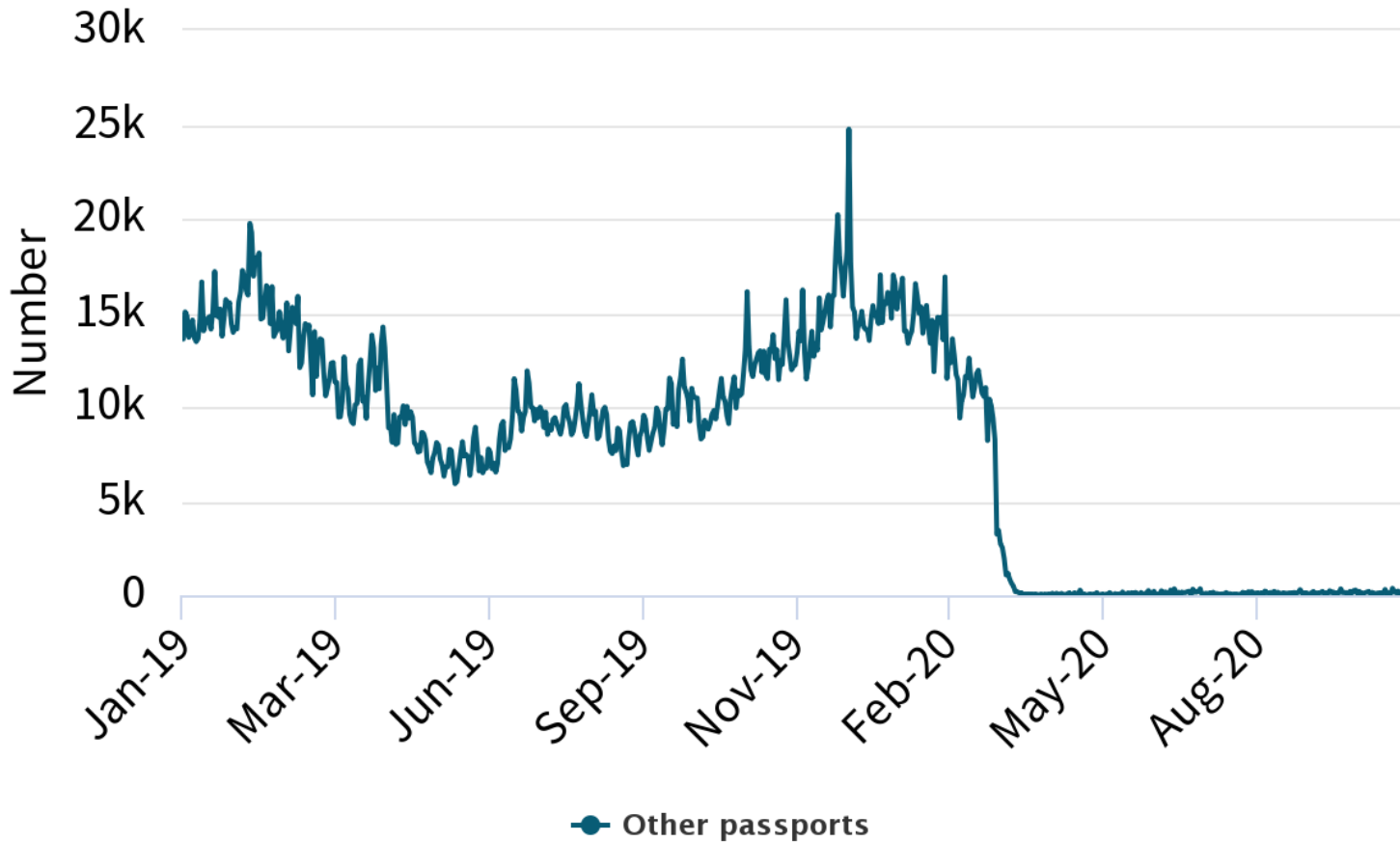
- Going online
- Moth-balling capital – Air New Zealand's long-haul planes
- Switch target markets
- Innovation

WHAT IS HAPPENING HERE?

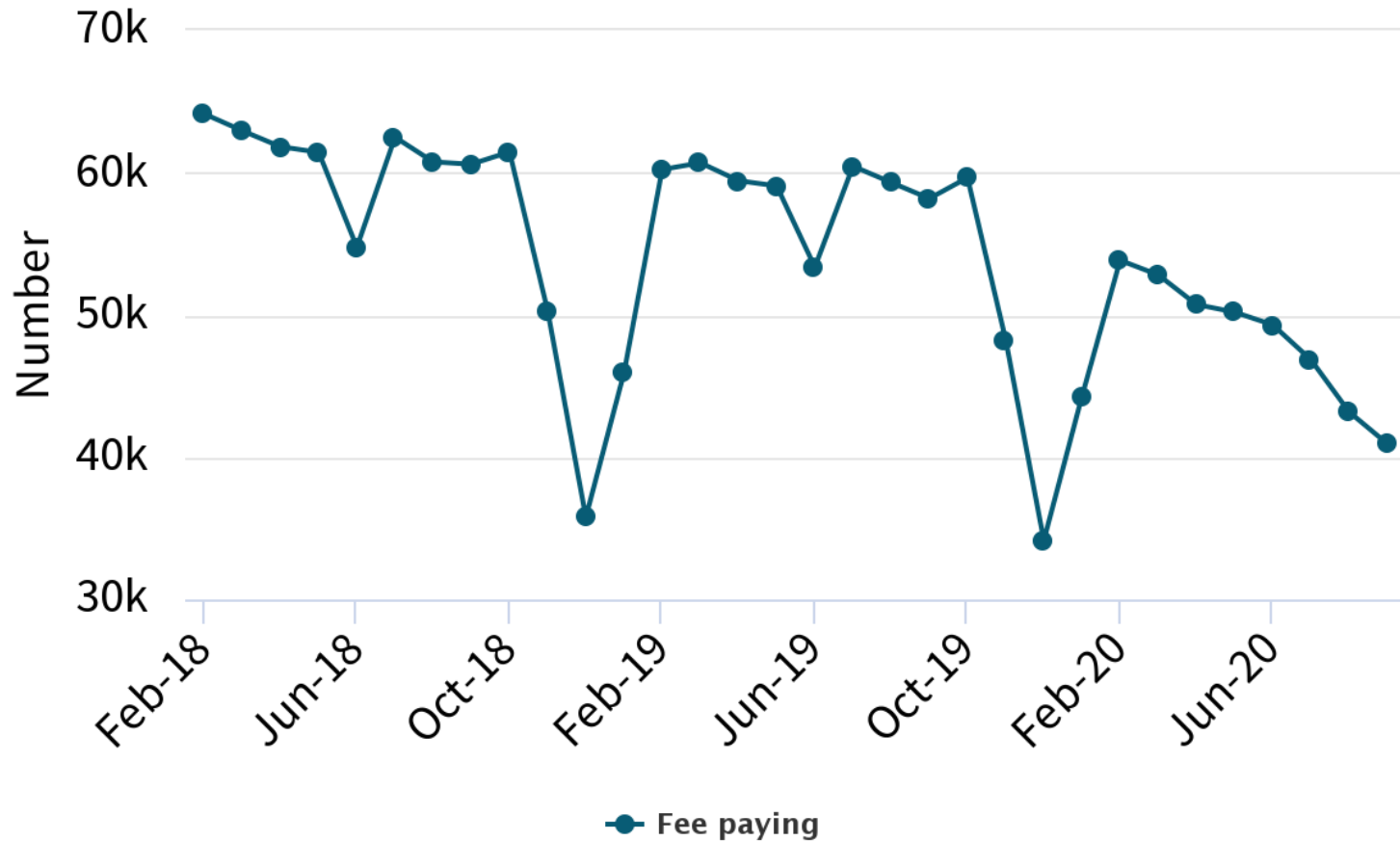
The big picture

- The health impacts of Covid-19 in **New Zealand** *to date* have been moderate
 - Few cases
 - Few deaths in under 65 group
- Physical capital has not been damaged
- Unprecedented level of fiscal stimulus
- Conventional and unconventional monetary support
- Goods exports have remained robust
- The “team of five million” are on board and have adapted

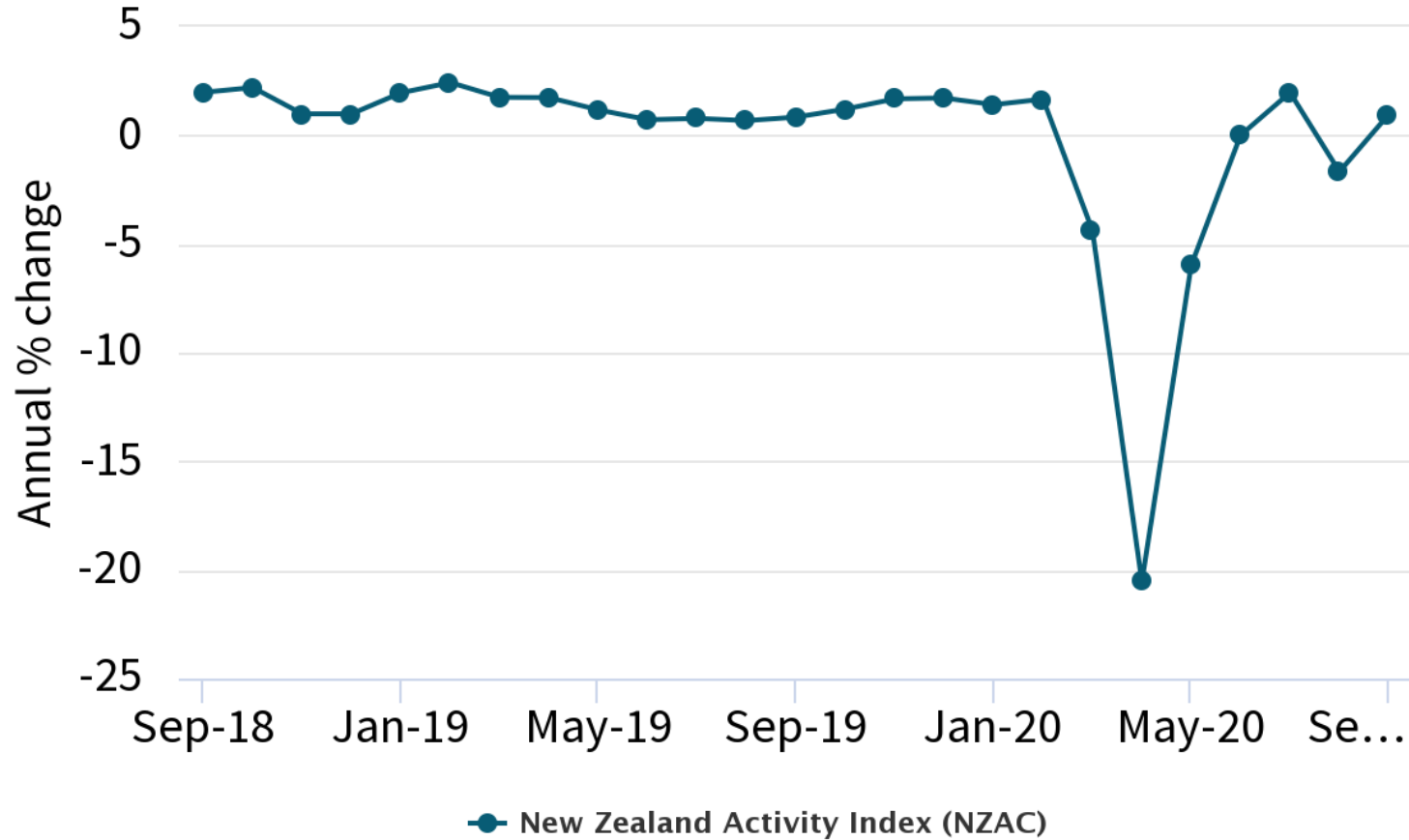
The border is effectively closed



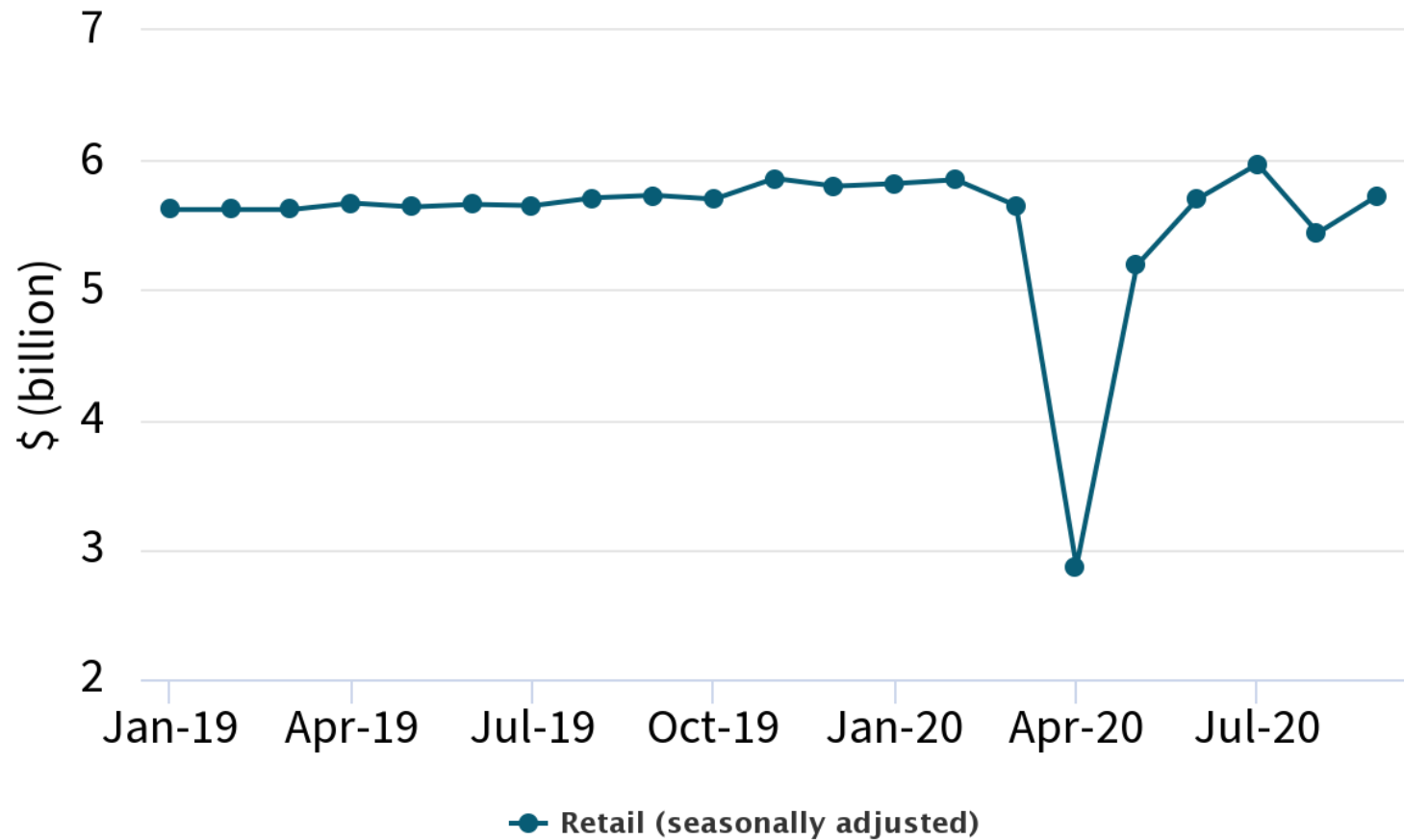
Export education hit hard



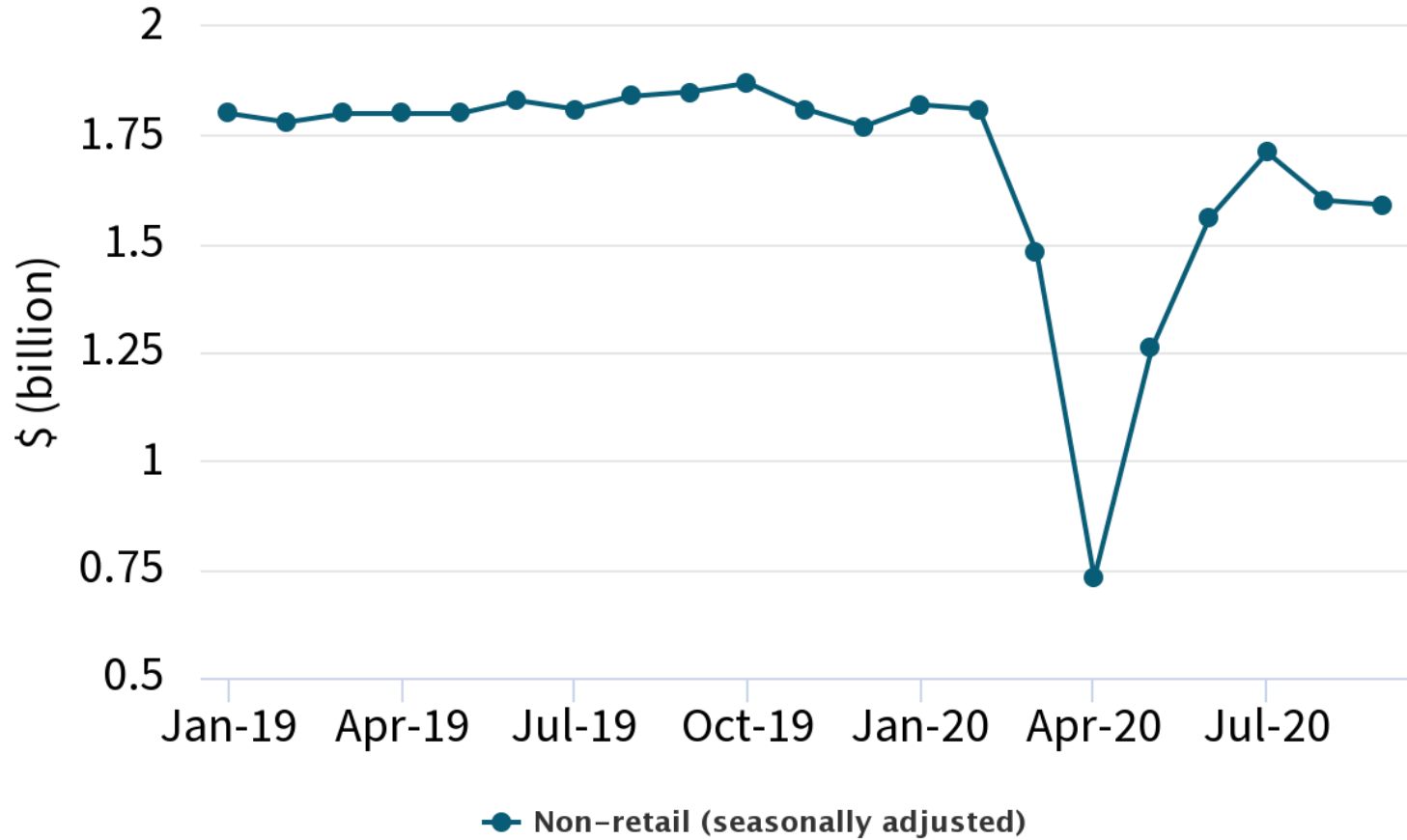
But the economy overall is resilient



Retail doing OK



All other spending feeling impact



THE PACIFIC PICTURE

Before Covid

“Growth is projected at 1.8 percent in 2020 underpinned by resilient tourism and remittances, more supportive financial conditions, and recovered business confidence. Australia and New Zealand are the main sources of tourism earnings and employment of Fijians abroad, and both economies are projected to grow faster in 2020 than in 2019.”

IMF Staff Report on Fiji, March 2020

Few cases in the Pacific

Country	Total	Days since last travel case	Days since last community acquired case
Fiji	32	39	179
French Polynesia	3,251	0	0
Guam	3,341	0	0
Northern Mariana Islands	77	4	57
New Caledonia	27	19	194
Solomon Islands	2	3	
American Samoa, Cook Islands, Kiribati, Nauru, Niue, Palau, Samoa, Tokelau, Tonga, Tuvalu, Vanuatu, Wallis and Futuna	Nil		

The policy response

“While island states have difficulties in the area of development, whether it is the local climate or vulnerabilities to ocean storms or distance from markets, there is definitely an advantage of islands to control epidemic diseases. You ought to be essentially at near-zero transmission.”

Jeffery Sachs
Professor of Economics, Columbia University
29/10/2020

WHAT DOES THE FUTURE HOLD?

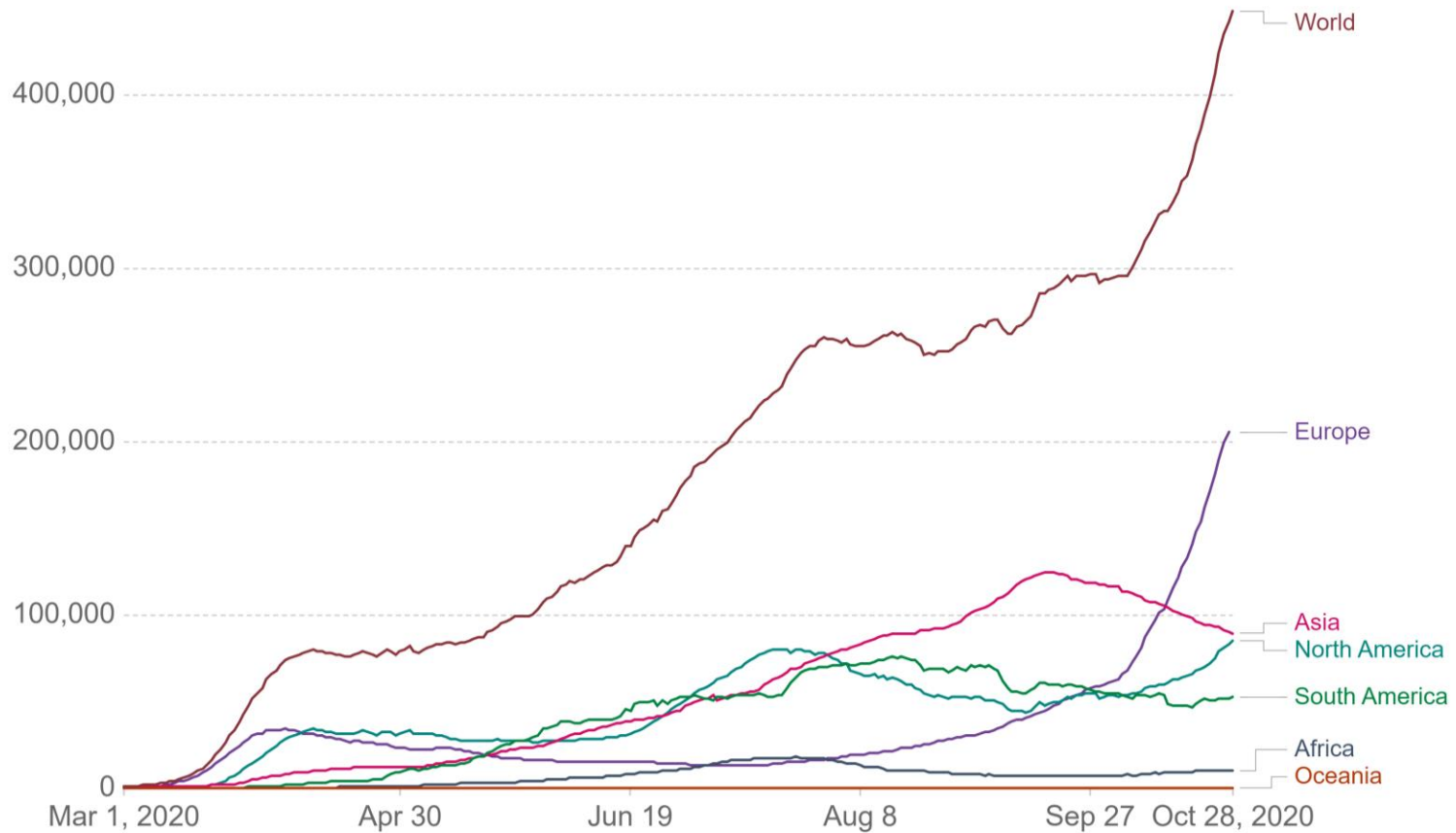


Prediction is very difficult, especially if it's about the future.

Niels Bohr, winner of the 1922 Nobel prize in Physics

This isn't over yet

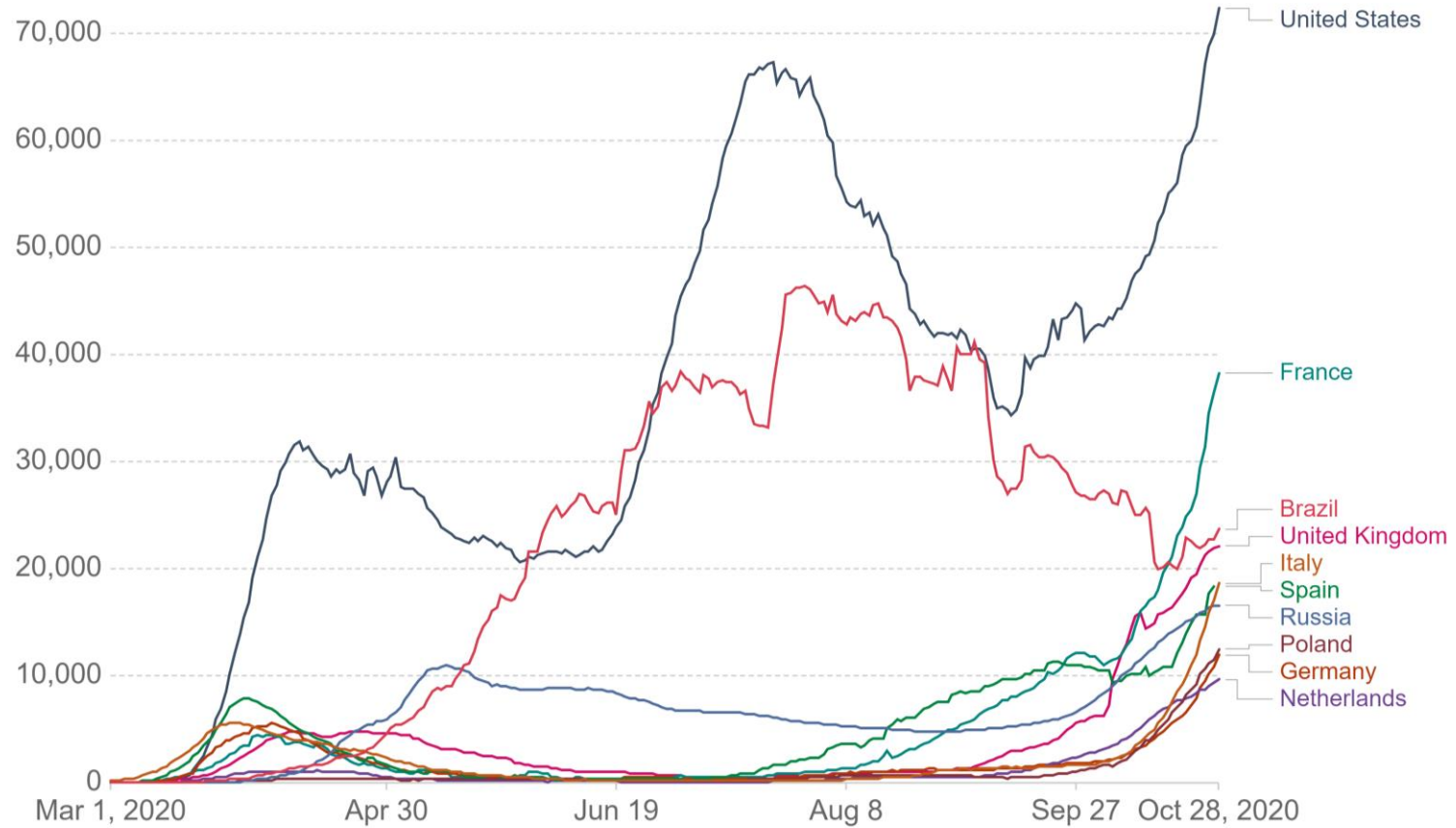
Daily confirmed cases



Source: European CDC – Situation Update Worldwide – Last updated 28 October, 11:35 (London time)

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Second and third waves



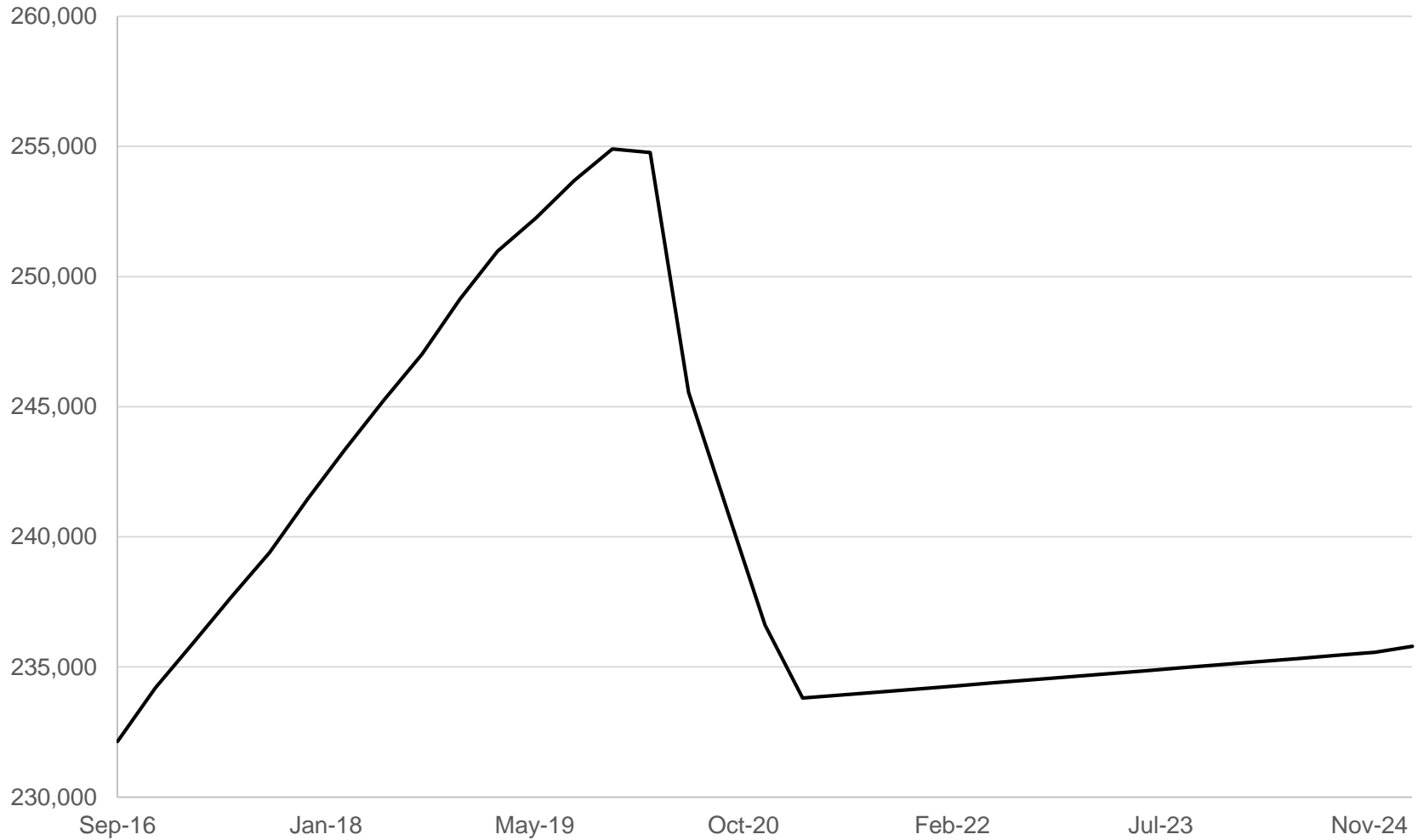
Source: European CDC – Situation Update Worldwide – Last updated 28 October, 11:35 (London time)

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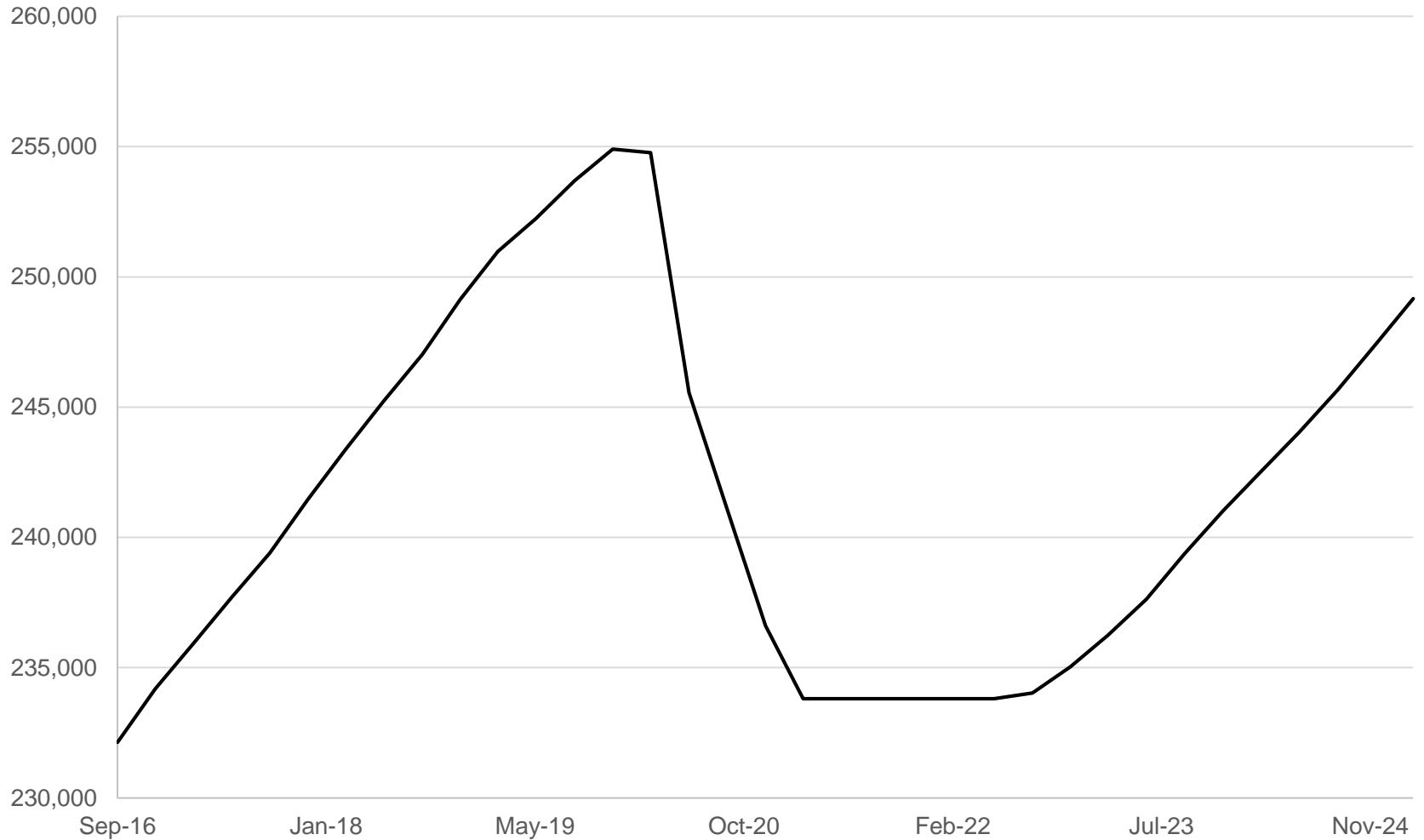
The alphabet soup of recoveries

- “L”: permanent effect; economic activity dips and never recovers
- “U”: long, sustained shock; economic activity dips, stays low for a while, and then returns to previous levels
- “V”: short sharp shock, economic activity dips and then returns to previous levels
- “W”: down, up, down again
- “K”: different effects for different groups; V shaped for some, L for others.

L-shaped recovery



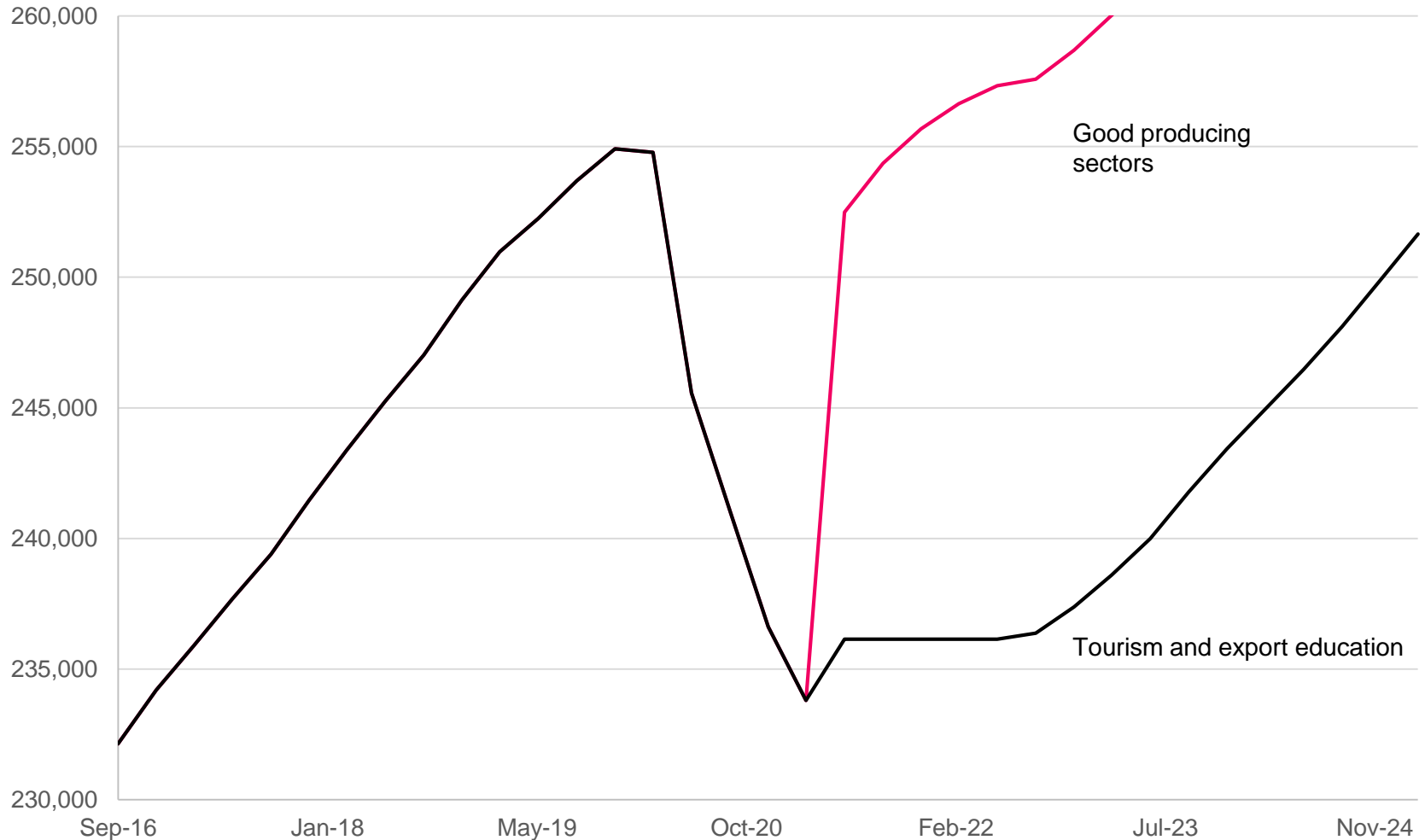
U-shaped recovery



A W-shaped recovery



A K-shaped recovery



NZIER forecasts a "V" shaped recovery

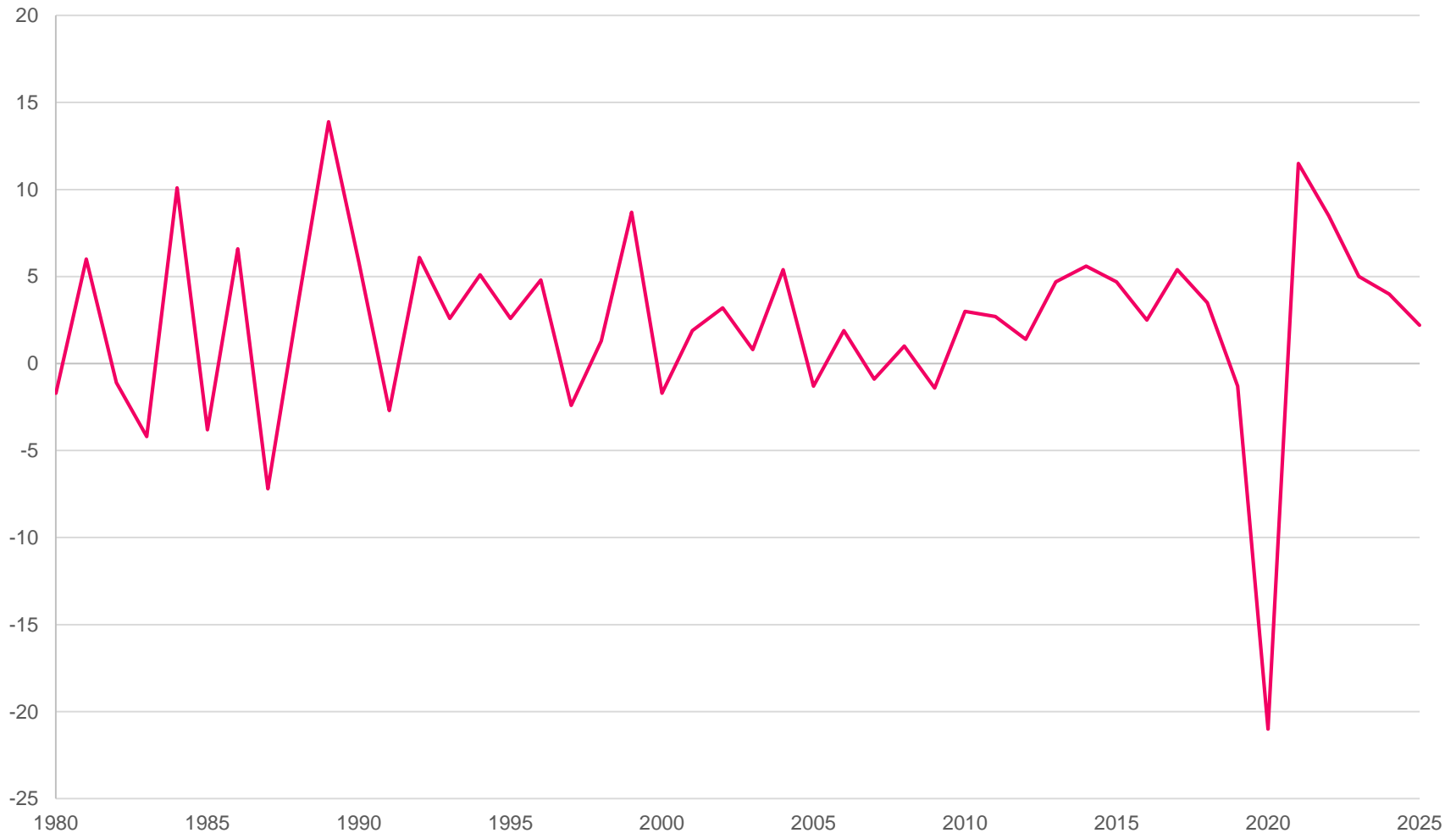


Why a “V”

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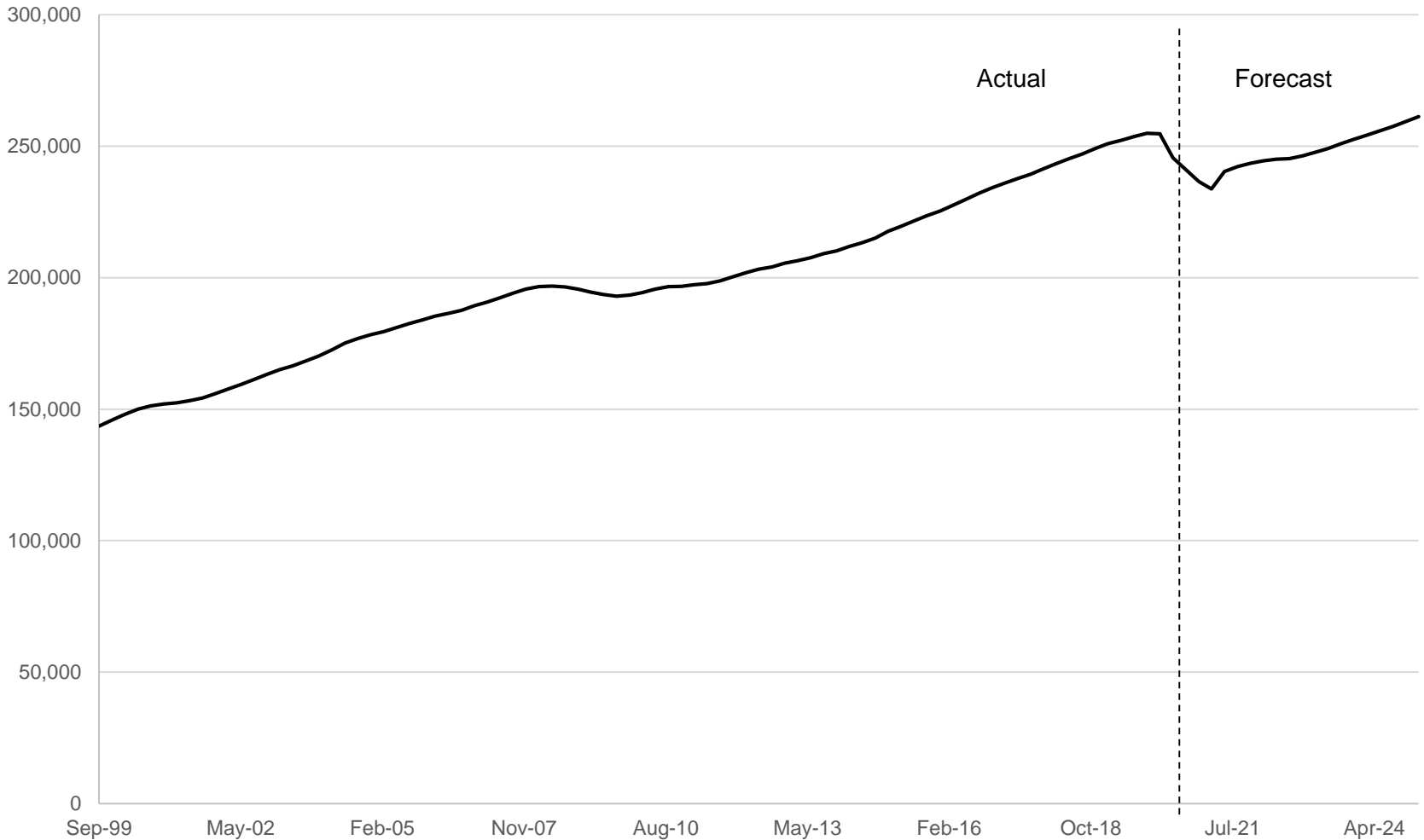
The IMF: a V shaped recovery in FIJI

Annual change in GDP



But we have been wrong before!

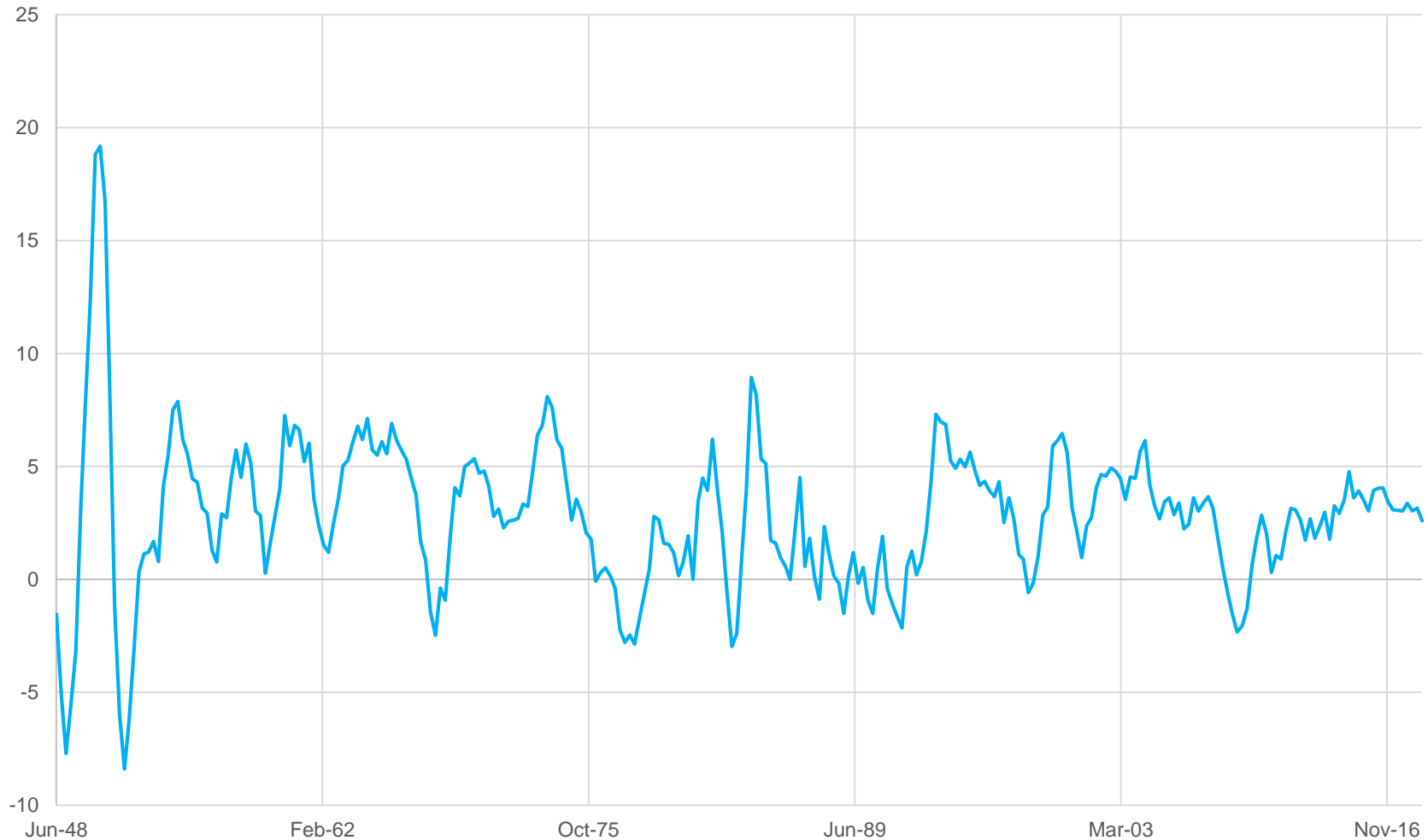
Real annual GDP



WHEN WILL WE RETURN TO NORMAL?

There has never been a normal

New Zealand's average annual change in GDP

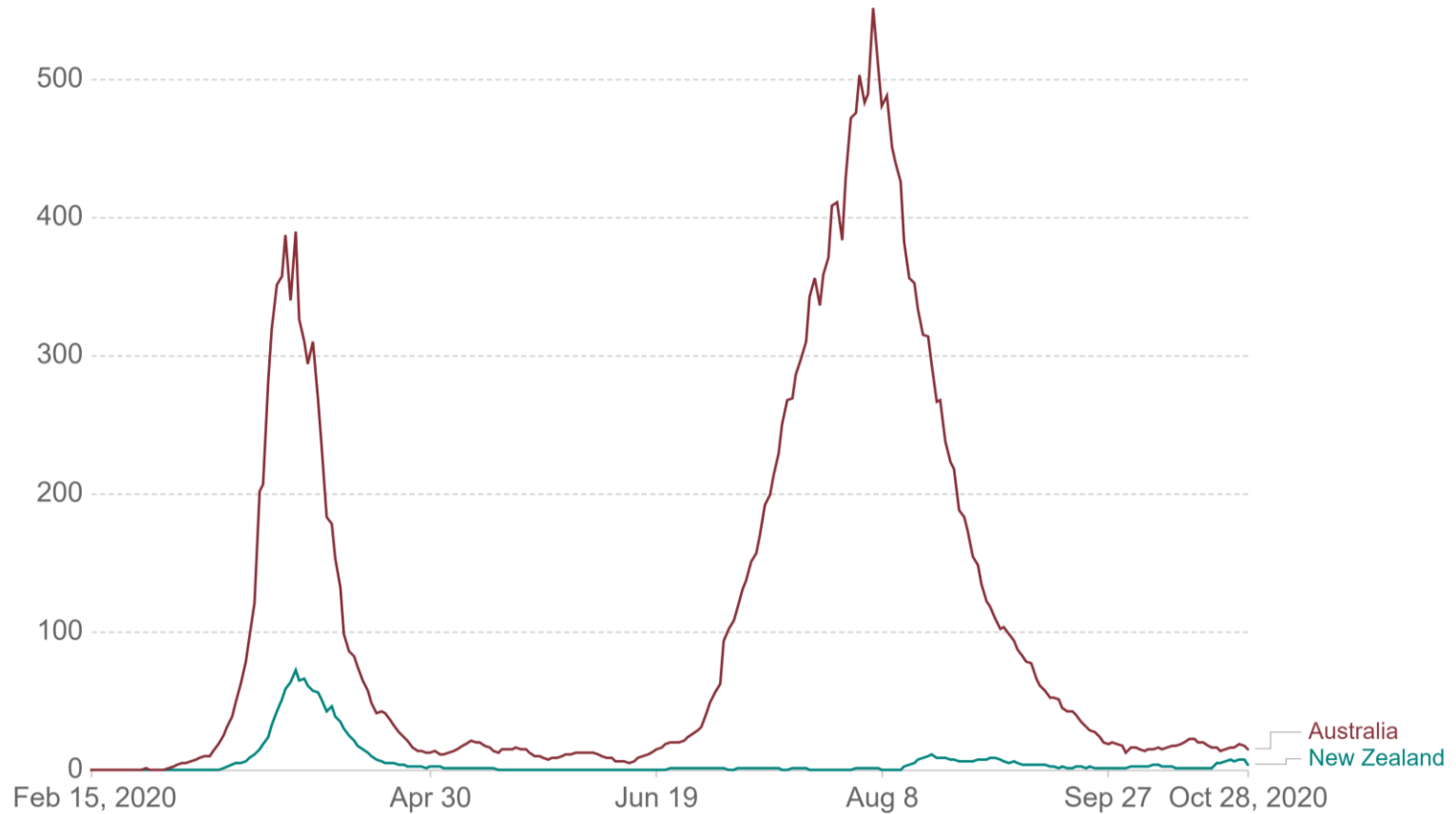


When will the border re-open?

- When the risk of community spread is tolerable
 - New Zealanders appear to be very intolerant of incursions
 - Extent of spread and control overseas
 - Ability to track and trace community cases in NZ
 - Capacity of ICUs
- When an effective vaccine or treatment is developed
 - “if you are looking for a magic wand, you won’t find one in vaccines”

Dr. William Schaffner
Vanderbilt University Medical Center

What we want to avoid



Source: European CDC – Situation Update Worldwide – Last updated 28 October, 11:35 (London time)

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What are people doing?

- Ports of Auckland – requiring quarantine in excess of regulations
- Elton John's Auckland concert – 2023
- Qantas CEO: operations to Europe and North America up by potentially the end of 2021, if there is a vaccine
- "We believe a full recovery could well take longer than three years ... And we believe that we will see quarantine-free travel both ways across the Tasman and to the Pacific Islands earlier"
Auckland International Airport Chair, 28/10/20

What to do?

- Stay positive: 5,000 years of economic history say we will get through this
- Plan for the worst, hope for the best
- Look for “no regrets” options
- Watch closely what other people do, not what they say
- Be kind to one another

THANK YOU