

BUSINESS

Bank St.
Whangarei CBD
level 4 lockdown.
Photo / Michael Cunningham



ANZ
economist
Miles Workman
Photo / Supplied

How much left in the tank?

Govt finances are still strong. But businesses, not so much, write **Liam Dann** and **Hamish Rutherford**

“These lockdowns don’t affect everyone the same way,” says ANZ senior economist Miles Workman.

“Some businesses really, really struggle and they don’t make it back on the other side”.

Workman is talking the *Weekend Herald* through the state of the Crown accounts – effectively how much money Finance Minister Grant Robertson has available to support the economy through this latest lockdown.

But he wants to make the point that the strength of New Zealand’s macro-economic position can mask the real pain going on at the coal face for many businesses.

For all that, his calculations around our fiscal position are heart-

ening.

Robertson has been coy about putting an exact figure on what he still has on hand to support the economy.

But Workman has crunched the numbers and says it is probably somewhere between \$15 billion and \$20b.

The starting point for that estimate is the \$5b that the Government still has on call from the original \$62b Covid fund.

“But they’ve also signalled that there were previous funds assigned to different initiatives where there has been an underspend,” he says.

“The minister is being quite vague about it”.

But Workman estimates that could be another \$2b to \$3b.

“What the Government can also do, before it has to borrow any more

money, is it can take a good hard look at other spending initiatives that it’s already made decisions on and it could say: ‘actually, given what’s happened that’s no longer a priority’.

“We’d call that a reallocation”.

How much could be reallocated is a “how long is a piece of string” scenario, Workman says.

It would be quite political, but “they might squeeze a billion out of that possibly”.

Then Robertson has his trump card – the fact that the economy has so emphatically outperformed Treasury expectations.

“The coffers are in better shape than they thought they’d be in. So that is higher tax revenue coming in, lower expenses going out,” Workman says.

“I reckon there could be up to another \$10b or so just on the positive

economic surprises alone.

“So what we can say is, depending on decisions that could include reallocating money from somewhere else, there’s \$15b-\$20b potentially available before the Government actually needs to go out and borrow more.”

The costs of lockdowns are also better understood now, he says.

Workman says calculations based on lost GDP output are pretty meaningless.

That raw number is something like a \$1.5b economic cost per week for a nationwide Level 4 lockdown.

“The economy is too complex,” he says.

“You go into lockdown and we know spending is going to fall off a cliff.

“What we’ve learned from the last lockdown is that the size of the deterioration in spending and activity probably doesn’t matter nearly as much as the size of the rebound”.

We also head into this lockdown with an economy running strong – in fact it was already overheating.

“That very strong starting point suggests that there is a bit of robustness going into this. You’ve also got households responding differently this time,” he says.

“They know from the last lockdown just how good the wage subsidy was at protecting jobs. So job security through this is probably a little bit higher than it was 18 months ago . . . and that confidence could be worth something too in terms of the underlying economic momentum.”

But the impacts are lumpy and vary hugely from sector to sector, he says.

“Anecdotally, you can hear from one business, in construction or something, and they say ‘this is fine we’ve got plenty of demand out there

and we couldn’t meet it if we wanted to.’ Then you talk to a hospitality provider or a cafe or something and they are really having to think hard about whether they can survive. It’s very different for everybody.”

A survey done this week by the Northern Business Chambers tells that story.

The survey of around 2000 businesses, taking in Auckland, Waikato, Tauranga and Taupo, revealed

sharp differences between regions on almost every measure, from the likelihood of taking the wage subsidy, to redundancy expectations.

While it found the majority were still operating in some form during lockdown, around a third doubted they would survive the pandemic.

In Taupo, just 16 per cent were confident that they would get through.

For Auckland Business Chamber chief executive Michael Barnett, it is heart-breaking stuff.

“This week I tried to see the positive but all I can see is business wearing the cost of managing a problem,” he says.

“I saw over 150,000 small and medium businesses claim a wage subsidy but to do so they had to have lost over 40 per cent of their revenue.

“One of the toughest things we see is the despair of business owners as they see years of investment in a business diluted and their futures weakened.”

The survey showed news on possible redundancies varied widely.

Across the four chambers, 23 per cent of businesses said they were likely to shed staff.

But whereas only 3 per cent of Auckland businesses said they would look at redundancies, 71 per cent of Tauranga businesses said they could make cuts.

“I am aware of one hotel that will lose more than \$2m in revenue this month and they expect the same in September,” Barnett says.

The survey saw over 70 per cent of businesses losing over \$100,000 of revenue each week of lockdown; 90 per cent of businesses only able to operate part-time and 95 per cent expecting that they will claim government support.

“From a macro perspective we all underestimated just how powerful the macroeconomic policy would be, not just on its own

but in conjunction with successful virus containment,” says Workman.

“It turned out that the monetary policy response, the fiscal policy response together with a successful health response was an extremely potent stimulatory mix for the broader economy”.

But he doesn’t want to overplay the good news. “I think we as economists can look at the macro data and tell a positive story with it,” he says. “But we also need to pay tribute to those who are suffering”.

What we’ve learned from the last lockdown is that the size of the deterioration in spending and activity probably doesn’t matter nearly as much as the size of the rebound.

Economist Miles Workman