GDP is at risk of contracting by between -8.0% y/y and -10% y/y, if not worse this year, on the lengthy, severe lockdowns.
March 2020’s leading business cycle indicator, released today by the Reserve Bank, lifted to 104 from 103.3 in February. The around six-month lead (between the leading indicator and GDP growth) indicates that with Q1.20 at 103.4, down on Q4.19’s 104.0, Q4.20 GDP would be on track to see a contraction.

However, the data used was for Q1.20 and does not capture the worsening conditions of the extended lockdown, globally or domestically. With the lengthening of the lockdown (May level 4, June level 3), from April’s virtually total shutdown of level 5, Q2.20 GDP could see a sharp contraction of around -50% qqsaa or worse, while Q3.20 is likely to see less of a rebound than previously anticipated.

With the current progression of one month for each level, July and August will see some continued restrictions on economic activity, and the recovery in Q3.20 is likely to be much more subdued than originally thought. Instead of a rebound of 40% qqsaa in Q3.20 it could instead be around 15% qqsaa.

Furthermore, it is not certain that the levels will see a linear monthly progression, levels could go up as well as down, while companies themselves are at risk of temporary closures if infections occur.
- The use of the Q1.20 leading indicator (released today) as a pointer of future business activity has been dramatically diminished by the impact of the Covid-19 crisis.

- We previously expected economic growth of -4.8% y/y for 2020, but now believe it could come out closer to between -8.0% y/y to -10% y/y, if not worse. Much will however depend on the progression of opening up the economy. The very slow pace so far has driven our worsening forecasts, as has the sheer length of the lockdown to date, which has seen incomes fall (both due to rising unemployment and firms cutting back on staff remuneration versus last year), and demand to collapse.
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