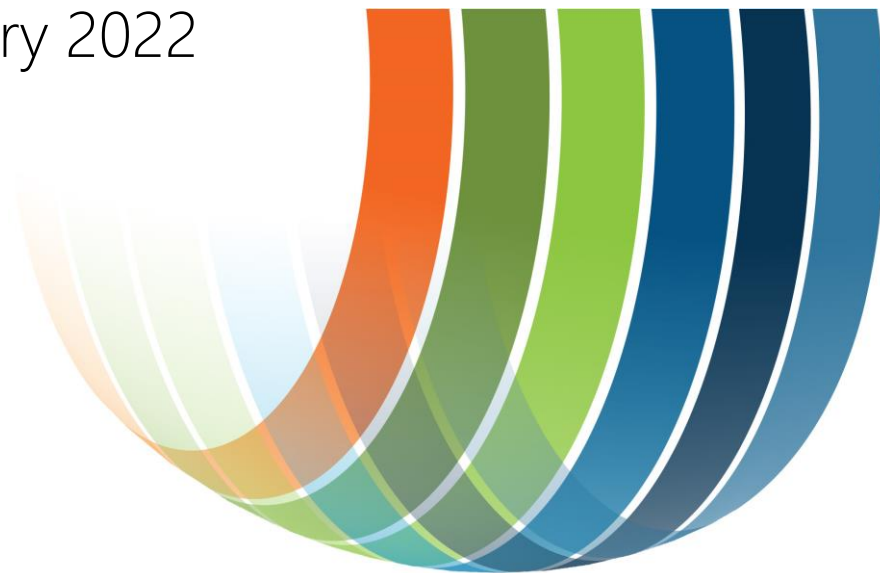


Exploring Omicron's potential economic impact on New Zealand

Public Analysis Report

January 2022



Infometrics

Economics put simply

Authorship

This report has been prepared by Principal Economist Brad Olsen.

Email:

Brad.Olsen@infometrics.co.nz

All work and services rendered are at the request of, and for the purposes of the client only. Neither Infometrics nor any of its employees accepts any responsibility on any grounds whatsoever, including negligence, to any other person or organisation. While every effort is made by Infometrics to ensure that the information, opinions, and forecasts are accurate and reliable, Infometrics shall not be liable for any adverse consequences of the client's decisions made in reliance of any report provided by Infometrics, nor shall Infometrics be held to have given or implied any warranty as to whether any report provided by Infometrics will assist in the performance of the client's functions.

Table of contents

Key Points	4
Key Findings.....	4
Economic recovery to be disrupted	5
Red to hit events and hospitality.....	5
Supply disruptions, absenteeism, and reduced economic participation will hamper activity	6
Fewer people available to work.....	6
Risk of getting COVID-19 will reduce economic participation.....	6
Workforce absenteeism set to rise	8
Workers off sick set to rise considerably under Omicron	8
Australian examples highlight vulnerabilities	8
New Zealand support schemes will be important to assist businesses.....	9
Omicron presents supply challenges	12
Some goods will be harder to get.....	12
People won’t go out as much, and more places will be closed.....	13
Immediate high demand for tests expected.....	14

Key Points

This report provides a brief overview of selected topics identified internationally as key challenges during the outbreak of the Omicron variant of COVID-19. We draw on selected United Kingdom (UK) and private sector data sources, media reports from New Zealand, Australia, and the UK, and Infometrics analysis.

Our analysis is designed to inform the public and provide initial thoughts to decision makers across New Zealand for consideration. Our findings are not exhaustive.

Key Findings

- New Zealand's economic recovery will be disrupted, both due to:
 - Limitations on hospitality and events at Red.
 - Supply chain shocks, high levels of absenteeism, and lower economic participation as people go out and interact less with business.
- Fewer people will be available to work, with a rough estimate of 12% absenteeism based on 25,000 per day peak cases, and 350,000 isolating at that time.
- Australian examples show considerable challenges for transport, logistics, and supermarket operations.
- Supply chain challenges will be exacerbated by sustained high levels of spending focused on supermarkets.
- Medical supplies, pasta, and toilet paper appear vulnerable.
- The Leave Support Scheme and Short Term Absence Payment will be important to enable workers to stay home and get paid, and help businesses fund this pay.
- Economic participation will drop as the Hassle of Going Out (HOGO) morphs into a Hesitancy of Going Out (also HOGO) and contracting COVID-19 or having to isolate.
- Overseas data shows a 25% drop in restaurant activity from normal levels.
- Overseas data also suggests there will be an immediate and high demand for tests for households and businesses.

Economic recovery to be disrupted

The Omicron variant of COVID-19 presents a clear risk to New Zealand's economic activity and recovery. Although New Zealand's economic has strong foundations and has shown itself able to weather previous COVID-19 outbreaks better than expected, Omicron presents a different set of challenges. Both the official response to Omicron, and New Zealander's own reaction to an outbreak, will influence economic outcomes.

Moving to Red will limit some economic activity. Illness from COVID-19, and requirements to isolate as a close contact, will reduce economic supply and an ability for consumers to participate. Demand will also be temporarily disrupted as hesitancy reduces economic activity and spending.

Red to hit events and hospitality

New Zealand has moved to Red under the COVID-19 Protection Framework (CPF, "Traffic Light system") due to community transmission of Omicron. Moving to Red presents additional restrictions on economic activity that will temporarily reduce economic activity. These additional restrictions have the greatest effect on large events and venues, as well as the hospitality sector. Key limits under Red include:¹

- Capacity limits of 100 people able to attend an event, in a defined space, with Vaccine Passes in use, and with 1m physical distancing.
- Capacity limits of 100 people able to be in a hospitality venue seated and separated, with Vaccine Passes in use, and with 1m physical distancing.
- 1m physical distancing and maximum capacity limits in retail and close-contact businesses.

Treasury estimates published in December 2021 outline the expected economic impact of the various levels in the CPF. These expectations are outlined in Table 1.

Table 1

Economic impact of Traffic Lights

Likely impacts on economic activity, from "usual", under the CPF

Level	% of GDP	\$m (weekly)
Green	0% - 2%	\$100
Orange	1% - 3%	\$140
Red	2% - 3%	\$190

Source: Treasury (HYEFU 2021, p9)

¹ New Zealand Government. (2022) *Life at Red*. Unite Against COVID-19. Retrieved from <https://covid19.govt.nz/traffic-lights/life-at-red/>

At Red, economic activity will be 2%-3% below usual activity, with an estimated cost of \$190m per week of Red across New Zealand.

Supply disruptions, absenteeism, and reduced economic participation will hamper activity

Global experiences of Omicron so far show that the higher transmissibility of the variant will see a considerable number of people contract COVID-19 or be close contacts of a case.

These people, many of them workers, will need time off to either recuperate or isolate until they are no longer infectious or at risk of passing on COVID-19. The scale of disruption is large enough to make a considerable difference to economic activity and becomes an implicit limit of economic supply for a variety of goods and services.

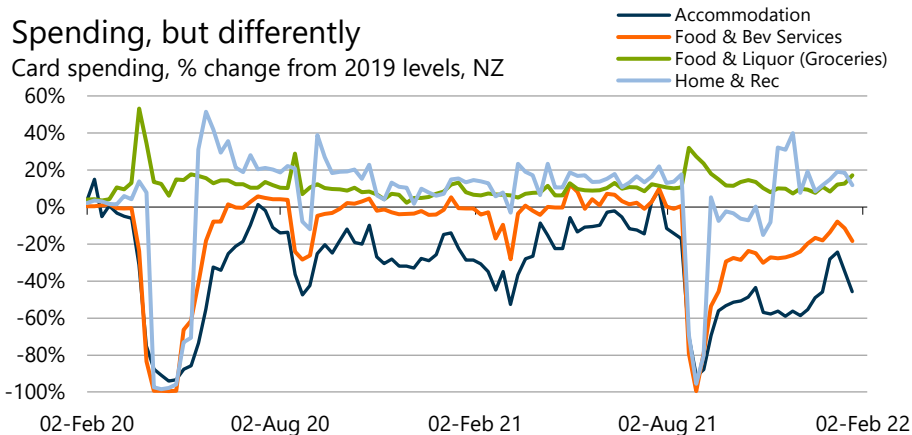
Fewer people available to work

Rapidly rising cases of COVID-19 will diminish available workers across the economy (see below sections). With fewer people able to work, production of goods will be reduced – for example, there will be fewer people able to build, pick crops, or manufacture items. Services will also be disrupted, with fewer workers able to perform their tasks – for example, transporting goods, stacking shelves, or waiting tables.

Risk of getting COVID-19 will reduce economic participation

New Zealand data shows that although spending levels have returned to around normal levels since the shift to the CPF, tourism activity remains far from recovered. Hospitality and accommodation spending is still down 13% and 28% respectively on average over the four weeks to 9 January 2022, compared to pre-pandemic levels.²

Graph 1



The **Hesitancy Of Going Out** (HOGO) is likely to further reduce hospitality spending in the event of an Omicron outbreak. Fewer people will be willing to travel and eat out at

² Infometrics analysis of card spending data, sourced from Marketview via MBIE.

food and beverage services, given the increased risk of coming into contact with COVID-19 and limits on venue numbers.

However, a key risk also remains for supermarket spending. Spending on groceries is up around 12% from pre-pandemic levels, with this substantial level of spending in this area meaning that supply and staff disruptions will cause a greater than otherwise imbalance of supply and demand.

Workforce absenteeism set to rise

The sheer scale of Omicron infections across the population have seen substantial increases in absenteeism of employees from work. Concerning outcomes from both the Australia and the United Kingdom present worrying expectations for the challenges New Zealand might face.

Workers off sick set to rise considerably under Omicron

The number of people absent from work throughout the peak of an Omicron outbreak is expected to be large. Government analysis discussed by Finance Minister Grant Robertson noted that “if there were 25,000 cases a day there would likely be 350,000 people self-isolating”.³

Based on this estimate, around 12% of the New Zealand workforce might be unavailable to work.⁴

High worker absenteeism will present a limit to economic activity. Reduced economic output will result from businesses not being able to open, or not being able to be staffed like normal.

Fewer people being able to work, fewer people willing to go out and risk contracting COVID-19, and fewer people able to access the businesses they need due to worker shortages will all culminate in periods of de-facto lockdowns.

Businesses will need to swiftly determine how to enable business operations continue throughout the Omicron outbreak, and how to limit exposure of staff.

Australian examples highlight vulnerabilities

Unofficial reports out of Australia underscore potential vulnerabilities that New Zealand could face during an Omicron outbreak. News media have quoted industry organisations and major employers facing far higher levels of absenteeism.

The Australian Transport Workers' Union estimates between 33% and 50% of truck drivers cannot operate, and Woolworths has stated that 20% of supermarket distribution workers and 10% of supermarket store workers are unavailable.⁵

Health and social services are also expected to be hit. Hauora Tairāwhiti are expecting 33% of their workforce might be unable to operate at the height of an Omicron

³ Radio New Zealand. (2022). *Supply-chain disruption 'inevitable', but work is underway to reduce impact - Finance Minister*. Radio New Zealand. Retrieved from <https://www.rnz.co.nz/news/business/460021/supply-chain-disruption-inevitable-but-work-is-underway-to-reduce-impact-finance-minister>

⁴ Based on the 2.819m employed people in the September 2021 Household Labour Force Survey.

⁵ Melville, B. (2022). *Plan needed for possible omicron supply shortage threat*. BusinessDesk. Retrieved from <https://businessdesk.co.nz/article/markets/plan-needed-for-possible-omicron-supply-shortage-threat>

outbreak. New Zealand rest home operators are planning for 10% - 14% absenteeism, based on the experience in Australia.⁶

New Zealand support schemes will be important to assist businesses

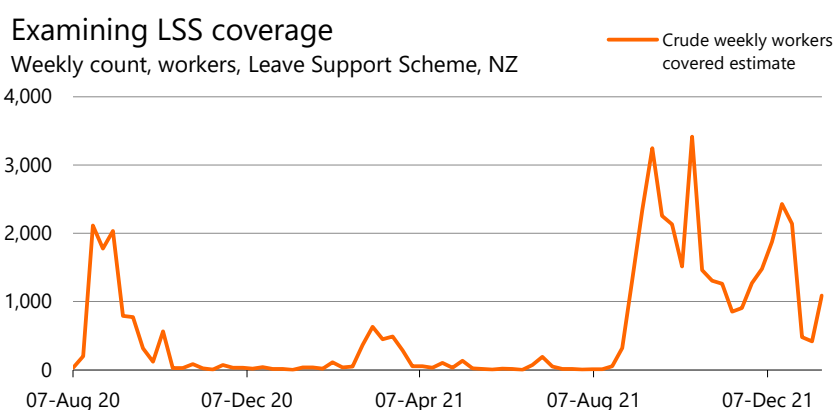
Businesses are likely to struggle shouldering the cost of high absenteeism, particularly in industries that are already struggling. More importantly, workers will need to be reassured that they will keep getting paid, even if they contract Omicron or are required to isolate. Without this reassurance, sick or potentially infected workers are more likely to go to work to ensure they can get paid.

New Zealand's support schemes will play an important role in assisting businesses. The two key schemes are:

- The **Leave Support Scheme (LSS)**, which is for workers who have been told to self-isolate by health officials, usually because they have COVID-19 or are a close contact, and the worker cannot work from home.⁷
- The **COVID-19 Short-Term Absence Payment (STAP)** is for workers who need to self-isolate while they await a COVID-19 test result.⁸

Unfortunately, the Ministry of Social Development is unable to provide the number of workers that are covered by both the LSS and STAP. Instead, weekly payment totals, divided by usual per-person payments, provides a crude proxy for possible coverage.⁹

Graph 2



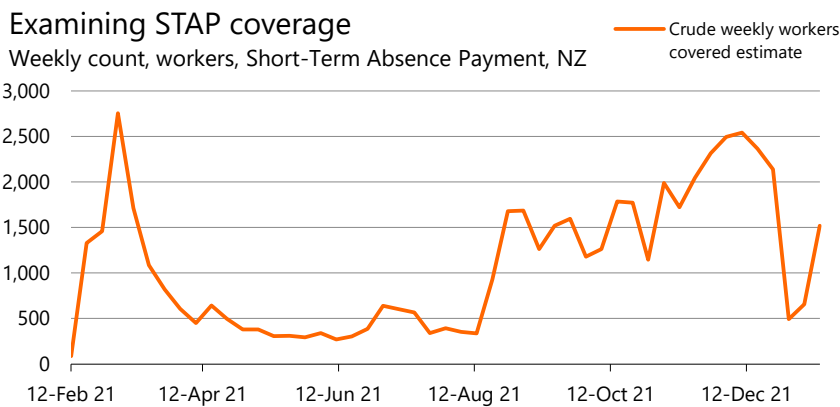
⁶ Bell, J. (2022). *Gisborne Hospital expects up to third of staff may be off work in Omicron outbreak*. Radio New Zealand. Retrieved from <https://www.rnz.co.nz/news/covid-19/459902/gisborne-hospital-expects-up-to-third-of-staff-may-be-off-work-in-omicron-outbreak>

⁷ A full explanation is available from MSD, <https://www.workandincome.govt.nz/covid-19/leave-support-scheme/index.html>

⁸ A full explanation is available from MSD, <https://www.workandincome.govt.nz/covid-19/short-term-absence-payment/index.html>

⁹ For STAP, we divide the weekly additional funding paid by \$359, the per-person STAP payment. For LSS, we divide the weekly additional funding paid by \$600, the per-full time workers LSS payment (\$359 is the part-time worker payment rate). We have also estimated a figure for 25 Dec 2020, given an apparent data issue.

Graph 3



Both crude estimates for LSS and STAP show a larger volume of support during the Delta outbreak, as expected.

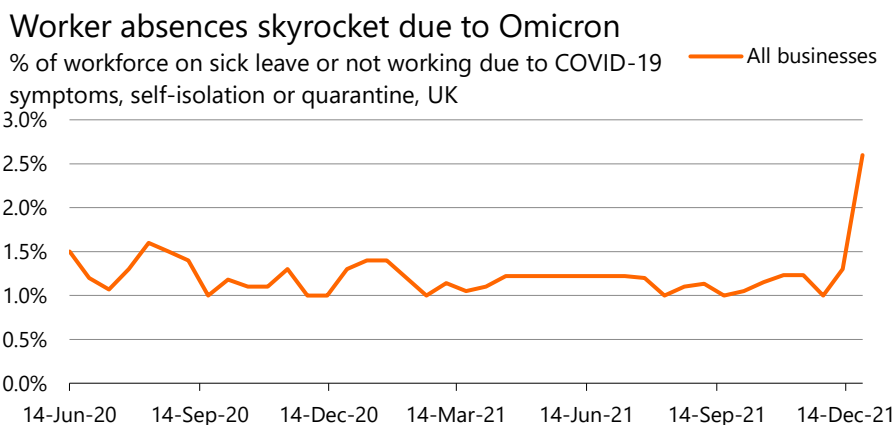
Omicron is set to far eclipse peak coverage for both LSS and STAP. If, as the previously noted Ministerial comment has assumed, New Zealand sees a peak of 25,000 cases a day and 350,000 people off work, there is a \$210m per week upper limit on LSS alone. Such costs are important to bear and are less expensive than the Wage Subsidy. But they are still material costs for the government.

UK data shows considerable lift in absent workers, despite differences

The United Kingdom has experienced a far different approach to COVID-19 than New Zealand, and so UK figures don’t always present useful level comparisons with New Zealand or other parts of the world. But the change in trend is nonetheless of interest.

Workers off sick or not working due to COVID-19 has been recorded in the UK since early on in the pandemic. Although it is not possible to compare these absenteeism rates to pre-pandemic “usual” times, the Omicron effect on absenteeism is stark.

Graph 4

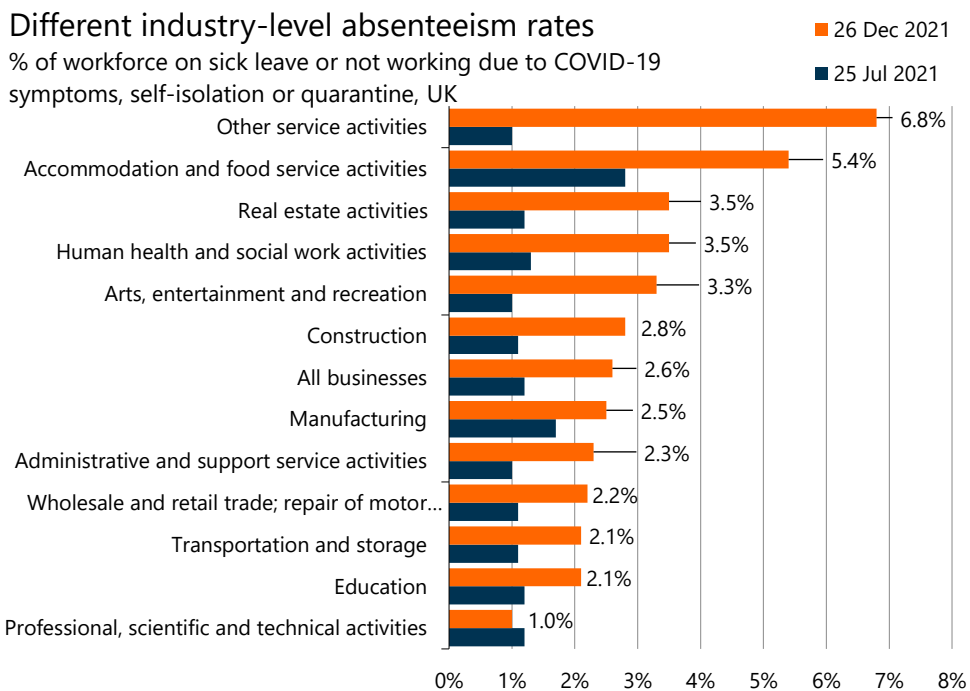


On average, around 1.2% of the UK workforce has been absent from work for sickness or COVID-19 related reasons since mid-2020. However, at the end of December 2021 as Omicron spread rapidly across the UK, absenteeism rates spiked up to 2.5%.¹⁰

Omicron points to a doubling of absenteeism from levels seen earlier in the pandemic.

The same data from the UK also provides a window into the potential industry-level effects of this higher absenteeism. Industry-level results from the UK surveys are patchy, and so we have compared 25 July 2021 and 26 December 2021 as they respectively show the best industry-level coverage pre-Omicron, and the Omicron effect. Services activity show the highest absenteeism rates, as workers in these sectors are usually more exposed to interactions with many other people, increasing the exposure risk. Other services, accommodation, and hospitality industries all showed absenteeism rates of above 5% during the Omicron spread at the end of 2021 in the UK.

Graph 5



Office-based roles without as much contact with others, like in the professional, scientific, and technical services industry, showed the lowest levels of absenteeism.

¹⁰ Infometrics analysis of Business Insights and Conditions Survey (BICS) data from the UK Office for National Statistics (ONS), up to Wave 47. Retrieved from <https://www.ons.gov.uk/economy/economicoutputandproductivity/output/datasets/businessinsightsandimpactontheukeconomy>

Omicron presents supply challenges

The supply chain challenges that Omicron presents are obvious, concerning, and pressing. Action by government and industries to preserve and support transport, logistics, and distribution of essential goods and services will be required, including adequate and prioritized testing capacity, and balanced isolation requirements to enable health protocols to be maintained, but so that workers can get back on the job as soon as possible.

Previous restrictions allowed a considerable number of workers to operate, either as essential workers or working from home. High levels of COVID-19 Omicron in the community will affect all industries, presenting potentially more disruptive economic settings than have occurred before. An inability and unwillingness to operate like normal, due to isolation requirements and a fear of getting COVID-19, will likely culminate in de-facto lockdowns as the population limits exposure.

Some goods will be harder to get

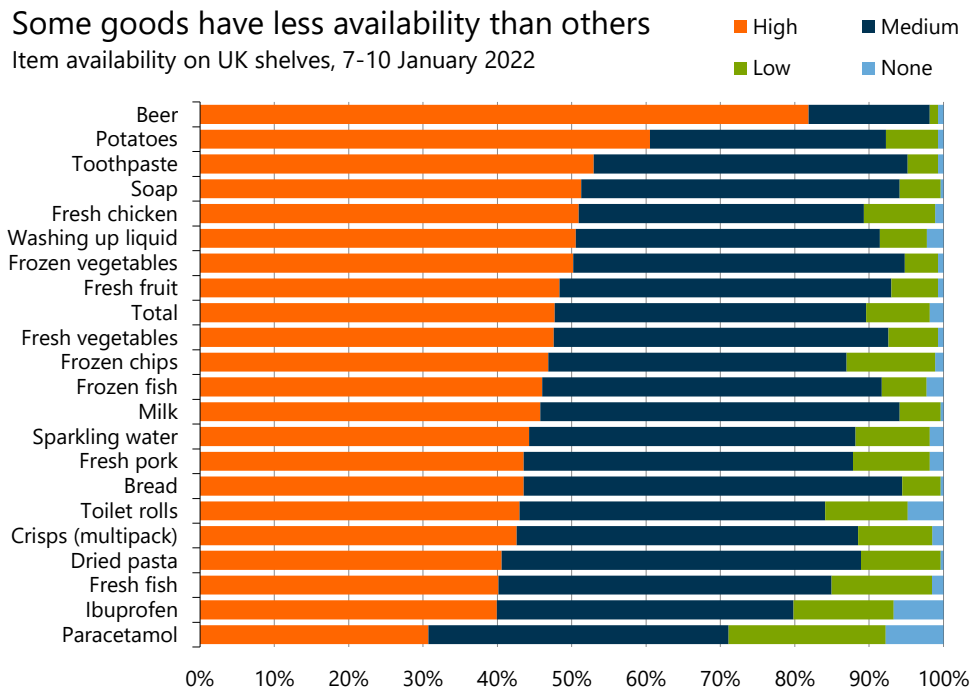
Supply of some essential goods is expected to become more difficult to maintain. Analysis of supermarket shelves in the UK for key items suggests that supply will be unable to cope with the increased demand for medicines.

In early 2022, a larger proportion of paracetamol and ibuprofen shelf availability was rated as low or no stock available. Around 29% of paracetamol shelves were low or empty, compared to just over 10% of all shelves.

Graph 6

Some goods have less availability than others

Item availability on UK shelves, 7-10 January 2022



Fresh fish, pasta, chips, and toilet rolls were also notable products with less availability.

Importantly, the supply of these goods hasn’t been able to keep up with demand. Between early November 2021 and early January 2022, a number of these products showed an even higher level of low or empty shelves.

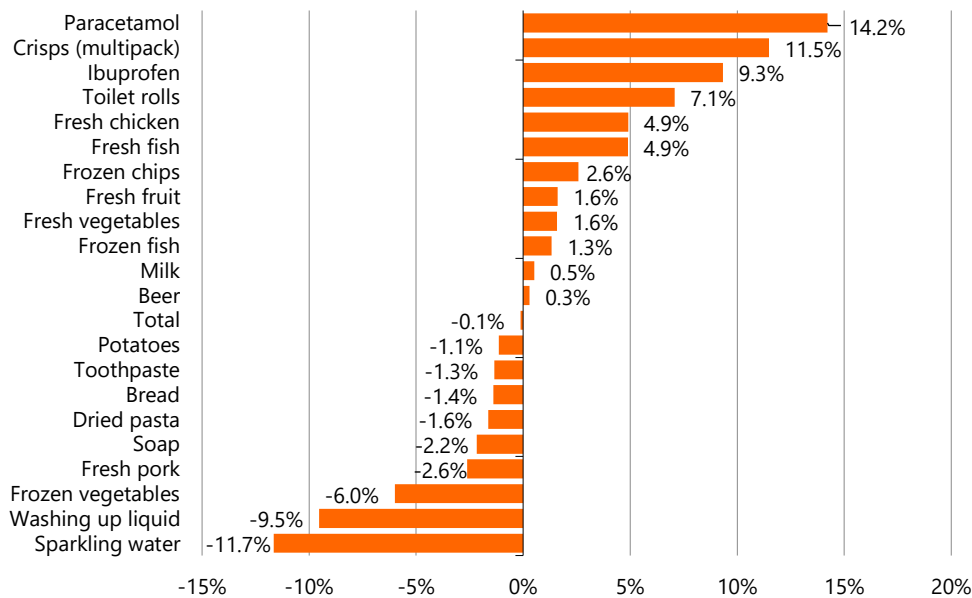
The proportion of low or empty paracetamol shelves rose nearly 12 percentage points, with chips, ibuprofen, and toilet rolls all seeing increases of more than 5 percentage points.

Graph 7

Shortages increase for some goods

Difference in proportion of goods deemed to have low or no stock, UK

Change, 10 Jan 2022 vs 1 Nov 2021



In general, it appears that goods are still being produced and manufactured, but the transport, delivery, and store access of goods is the bottleneck. Short-term disruptions and periods of low or no availability of goods is to be expected. Some stocking up of supplies is expected by New Zealanders and is appropriate with the need to be able to isolate throughout the Omicron outbreak if required.

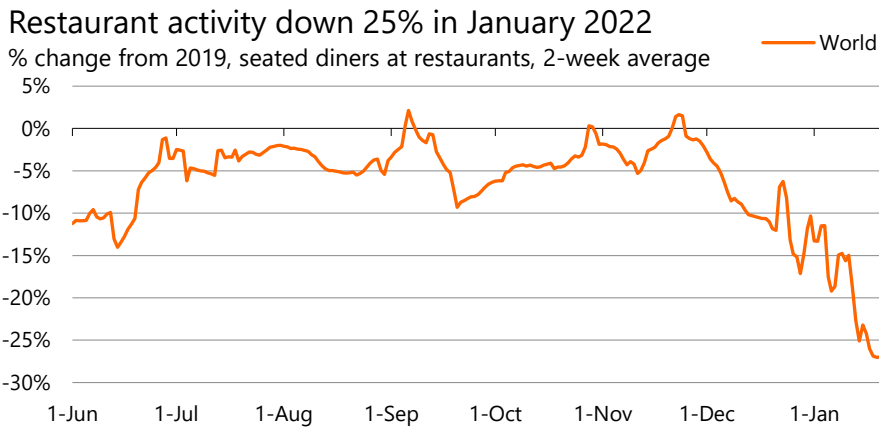
Government and businesses, particularly of essential services, should agree reasonable protocols to enable essential goods and services to be able to be provided. These protocols may include bare limits isolation requirements, with input of health advice.

People won’t go out as much, and more places will be closed

Overseas evidence also highlights that people are likely to reduce their activity in the economy throughout an Omicron outbreak. Australian spending and sentiment data from ANZ shows a considerable fall in early 2022, as people become more cautious about going out, and more people are required to stay home.

Data from OpenTable shows that, despite the Delta variant continuing to spread throughout much of 2021, people still went out for meals. Restaurant activity continued to be at least 90% of pre-pandemic levels between July and mid-December. However, the Omicron outbreak has seen restaurant activity fall considerably, with activity since the start of 2022 being down 25% from usual levels.

Graph 8



Immediate high demand for tests expected

Heightened levels of COVID-19 testing are expected throughout the Omicron outbreak. New Zealand’s test capacity is likely to come under pressure as the number of positive cases rise, and demand for tests also increases.

In the UK, 57% of people had to take a rapid lateral flow test in the last seven days. If this testing rate was required in New Zealand, for the working age population aged 15+, 2.3m tests per week might be needed. This level of testing is an order of magnitude higher than New Zealand’s peak testing week so far throughout the pandemic. Expanded supplies of Rapid Antigen Tests (RATs) are needed quickly to enable demand for testing to be supported.

Graph 9

