ANZ Research

NZ Forecast Update and Q1 GDP Preview

11 June 2020

This is not personal advice. It does not consider your objectives or circumstances. Please refer to the Important Notice.

Contact

Liz Kendall for more details.

GDP outlook slightly better but still very bleak

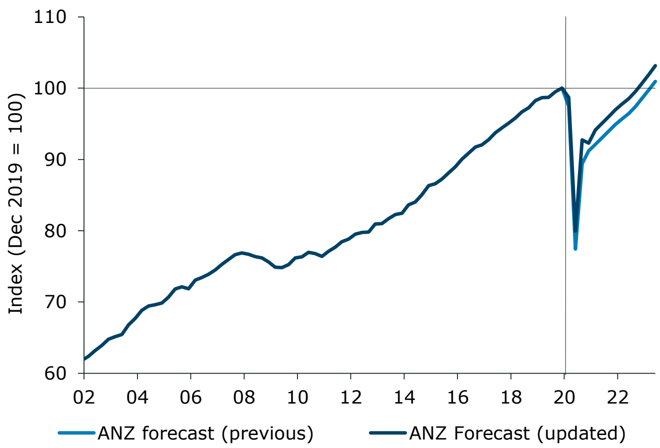
Key points

- We have revised up our forecasts, but only slightly. Q1 GDP is expected to show a 1.3% q/q contraction but should be looked through.
- Significant economic weakness will become clear in coming quarters and it's going to be ugly, but the recovery will now occur a little faster.
- Markets might be buoyed for a while, but a reality check will come. It will be a slow recovery and the RBNZ needs to stay the course with QE.

We have revised our forecasts up slightly

We now expect that GDP contracted 20-21% over H1 as a result of the COVID-19 pandemic and associated economic restrictions. This is less than the 22-23% fall previously estimated. The upward revision reflects that we have been able to move out of alert levels faster than previously expected.

Figure 1. ANZ GDP forecasts



Source: Statistics NZ, ANZ Research

The elimination of COVID-19 will spur a slightly stronger bounce in activity into the second half of the year, with firms and households a bit more confident than otherwise. Mass gatherings will allow some extra activity to take place, and productivity will be higher without social distancing.

But confidence and spending is still expected to be weak once the current bounce subsides, especially with some firms under pressure and unemployment rising. More economic activity will be possible, but it doesn't mean it will necessarily happen. Lost income and longer-term impacts on industries like tourism will create an economic hole that won't be easily filled. And the global outlook is bleak, making an export recovery more difficult. Our primary industries are facing headwinds via constrained production, higher borrowing costs, and lower prices. Plus the exchange rate has risen significantly, dampening net exports and GDP.

Weighing up these factors, the outlook now looks better, but only slightly. We now expect that GDP will contract 7-9% (previously 8-10%) this year. The recovery will still be slow, but it won't take quite as long for GDP to return to pre-COVID levels (end-2022 based on current forecasts, versus mid-2023 previously). We expect unemployment to peak at 10%, rather than 11%.

However, the recovery will be slow. Labour-intensive industries are under particular pressure and it will take a long time for the economy to reshape and recover to take up the slack. An updated forecast table is on page 4.

We would emphasise that these forecast adjustments are not big changes relative to the size of the economic shock itself and the very wide bands of uncertainty around all forecasts at present. There are plenty of unknowns that could change the outlook. And the overall story remains the same. Eliminating COVID-19 so quickly was a best case scenario, but the best of a pretty bad bunch. New Zealand with a closed border is a smaller economy.

Data is very noisy at present

The news flow has been more positive recently: New Zealand has eliminated COVID-19, economic activity is bouncing back, and the domestic and global economic data has been heading in the right direction. Things are looking a bit better than we had feared. But there is some noise in the data too.

As we discussed in our recent ANZ NZ Insight: The recession is just beginning, there are reasons to be cautious when interpreting the recent bounce in activity. A bounce was always expected when lockdown restrictions were eased. But the buying flurry is not expected to last, with a weaker underlying economic pulse expected to be evident.

There is also a lot of other noise in the domestic and global data too. Changes in restrictions are creating volatility and will do so for a while. It is also understandably very difficult to measure what has been happening. Measurement issues may confuse the data signals meaningfully, and that uncertainty needs to be taken into consideration. It will take time for both volatility and measurement issues to abate, once more "stable" economic conditions are reached. In the meantime, separating signal from the noise will be an ongoing challenge.

Q1 GDP data will have little signal

Next week's GDP data will be affected by such measurement issues. They are also very ancient history when we consider how much has changed since the start of the year. For the record, we think that GDP actually contracted 2.2% q/q during the quarter (previous forecast: -2.5%, RBNZ: -2.4% q/q), but partial data so far suggests that only half of that may show up in official statistics.

We have pencilled in a pick of -1.3% q/q and 0.0% y/y (table 1) for reported GDP, but the uncertainty band around this is very wide. At face value, a print in line with our expectations might suggest conditions in Q1 weren't as bad as we (or the RBNZ) feared. But we don't think that is the case; some of this may reflect good news, but a significant portion likely comes down to measurement issues. Any weakness that has not been captured in the Q1 data won't disappear from the record either; it is likely to be reflected in Q2 GDP instead. We estimate that GDP contracted 20-21% over H1, but how this will be spread across Q1 and Q2 is uncertain and may be impacted by the Q1 outturn next week. And of course, Q2 data is likely to be subject to measurement error too.

See page 3 for more on our GDP and Balance of Payments forecasts.

Table 1. GDP data summary

	ANZ forecast	Prev
Quarterly % change	-1.3%	0.5%
Annual % change	0.0%	1.8%
Annual average % change	1.5%	2.3%

Source: Statistics NZ, ANZ Research

The full extent of the economic bounce will be in the Q3 GDP data, meaning that will be difficult to interpret too. But over Q3, high-frequency indicators will start to reflect the underlying data pulse. We will be watching business surveys, labour market data, the housing market, and spending in particular.

Markets may continue to be buoyed

Markets (domestically and globally) have taken signals from recent positive news, spurred by abundant global liquidity. That has supported NZD and pushed bond yields higher.

It is reasonable to expect that low interest rates and risk premia will support asset prices, but the recent risk rally appears to be overdone. The recession is just getting started and there is a long recovery ahead. This will weigh on earnings, and is very likely to lead to a rise in defaults.

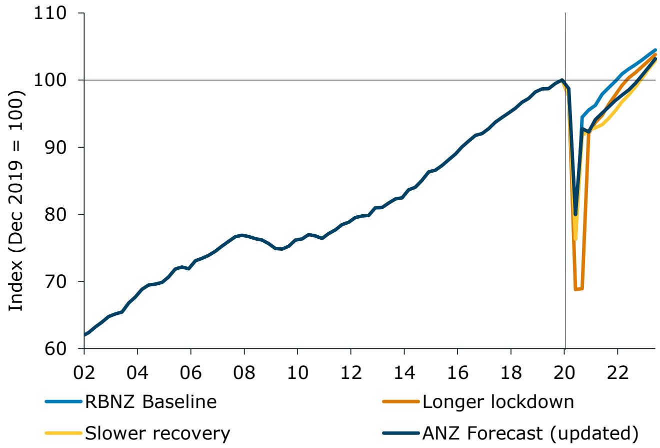
Markets are discounting these concerns and are pricing in a rapid recovery on the back of enormous stimulus. This theme may continue for a while yet. But in our view an eventual deterioration in the data and/or a reminder from RBNZ that it is a long road ahead will provide a reality check for domestic markets. That may not see yields go a lot lower, but will stem further increases. We expect to see flatter bond curves eventually, reflecting the slow recovery.

Policy needs to stay the course

Relative to the RBNZ's forecasts, our progress eliminating COVID-19 has been faster than expected. The RBNZ assumed that we would be in Alert Level 2 for ten months in their May MPS baseline scenario. At face value, that means that recent developments present upside risk to the RBNZ's central forecast.

However, we think the RBNZ's baseline was too optimistic because it did not take into account the degree of weakness in demand we expect to become evident. In our view, the RBNZ's slow recovery scenario is the more relevant benchmark. A slightly better outlook than that (in line with our forecasts) is encouraging, but no reason for complacency.

Figure 2. ANZ and RBNZ scenarios



Source: Statistics NZ, RBNZ, ANZ Research

Inflation and unemployment are set to move dramatically away from target for a long time, and the RBNZ needs to keep its foot firmly on the accelerator as we enter the recovery period ahead. An acknowledgement of more positive news is expected at the OCR review, along with a dose of caution about the outlook. Then by August we think the weak outlook will become clear, with an expansion of QE to $90bn expected.

The details: Q1 GDP and BOP

New Zealand Balance of Payments and GDP figures are released at 10:45am next Wednesday and Thursday respectively. We think the economy contracted 2.2% q/q in Q1, based on our understanding of the various COVID-19 Alert Levels. But measurement issues could mute this by up to half. We expect to see a print closer to -1.3% q/q, with industry impacts as in table A1. There is much more uncertainty around these forecasts than usual.

Table A1: ANZ Q1 industry-level forecast

Industry	q/q%	%pt cont.
Agriculture, forestry, and fishing	-0.5	-0.03
Mining	-1.8	-0.02
Manufacturing	-1.0	-0.10
Electricity, gas, water, and waste services	0.0	0.00
Construction	-5.7	-0.36
Wholesale trade	-1.0	-0.05
Retail trade and accommodation	-0.6	-0.05
Transport, postal, and warehousing	-1.0	-0.04
Information media and telecommunications	-0.8	-0.03
Financial and insurance services	1.2	0.07
Rental, hiring, and real estate services	-1.2	-0.16
Prof, scientific, technical, admin, and support	-1.7	-0.17
Public administration and safety	0.3	0.01
Education and training	-4.8	-0.18
Health care and social assistance	1.2	0.07
Arts, recreation, and other services	-2.0	-0.06
Unallocated	-2.2	-0.17
Balancing item	--	0.00
Gross domestic product	**-1.3**	**-1.3**

Source: Statistics NZ, ANZ Research

Annual growth is expected to soften from 1.8% to 0.0% y/y. A print of -1.3% q/q for GDP is weaker than our previous forecast (-2.5% q/q) and the RBNZ's expectations at the time of the February MPS (-2.4%).

The annual current account deficit is expected to narrow by 0.4% pts of GDP to 2.6%. Significant improvement in the goods balance will be a key driver here, with seasonally adjusted goods exports lifting around 2.5% q/q and imports falling almost 3%. Services exports and imports are both expected to decline around 6%, reflecting the beginning of the zero-tourism dynamic that will be an even bigger feature of the Q2 data. The income deficit is expected to narrow in the quarter, but the magnitude is more uncertain than usual. Low global interest rates will keep the primary deficit under pressure, while reduced dividend payments to offshore investors could see outflows shrink considerably. However, that too could be more of a story for Q2.

Table A2: Balance of payments data summary

	ANZ forecast	Prev
Current account ($m, actual)	1,874	-2,657
Current account ($m, sa)	-950	-1,877
Annual CAB ($bn)	-8.1	-9.2
% of GDP	-2.6%	-3.0%

Source: Statistics NZ, ANZ Research

The details: ANZ economic forecasts

	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21
GDP (% qoq)	0.5	**-1.3**	**-19.0**	**16.0**	**-0.5**	**2.0**	**1.0**	**1.0**	**1.0**
GDP (% yoy)	1.8	**0.0**	**-19.0**	**-6.8**	**-7.7**	**-4.6**	**18.9**	**3.5**	**5.1**
CPI (% qoq)	0.5	0.8	**-0.4**	**0.1**	**-0.1**	**0.5**	**0.2**	**0.3**	**-0.2**
CPI (% yoy)	1.9	2.5	**1.6**	**1.0**	**0.4**	**0.1**	**0.7**	**0.9**	**0.8**
Employment (% qoq)	0.0	0.7	**-6.0**	**-1.9**	**1.5**	**1.0**	**0.7**	**0.9**	**0.9**
Employment (% yoy)	1.0	1.6	**-5.1**	**-7.1**	**-5.8**	**-5.5**	**1.3**	**4.2**	**3.5**
Unemployment Rate (% sa)	4.0	4.2	**7.6**	**10.0**	**9.7**	**9.3**	**9.2**	**8.9**	**8.4**

Figures in bold are forecasts. mom: Month-on-Month; qoq: Quarter-on-Quarter; yoy: Year-on-Year

Contact us

Meet the team

We welcome your questions and feedback. Click here for more information about our team.

Sharon Zollner
Chief Economist

Follow Sharon on Twitter
@sharon_zollner

Telephone: +64 27 664 3554
Email: sharon.zollner@anz.com

General enquiries:
research@anz.com

Follow ANZ Research
@ANZ_Research (global)

David Croy
Senior Strategist

Market developments, interest rates, FX, unconventional monetary policy, liaison with market participants.

Telephone: +64 27 432 2769
Email: david.croy@anz.com

Susan Kilsby
Agricultural Economist

Primary industry developments and outlook, structural change and regulation, liaison with industry.

Telephone: +64 21 633 469
Email: susan.kilsby@anz.com

Liz Kendall
Senior Economist

Research co-ordinator, publication strategy, property market analysis, monetary and prudential policy.

Telephone: +64 27 240 9969
Email: elizabeth.kendall@anz.com

Miles Workman
Senior Economist

Macroeconomic forecast co-ordinator, fiscal policy, economic risk assessment and credit developments.

Telephone: +64 21 661 792
Email: miles.workman@anz.com

Kyle Uerata
Economic Statistician

Economic statistics, ANZ proprietary data (including ANZ Business Outlook), data capability and infrastructure.

Telephone: +64 21 633 894
Email: kyle.uerata@anz.com

Natalie Denne
PA / Desktop Publisher

Business management, general enquiries, mailing lists, publications, chief economist's diary.

Telephone: +64 21 253 6808
Email: natalie.denne@anz.com

Important notice

This document is intended for ANZ's Institutional, Markets and Private Banking clients. It should not be forwarded, copied or distributed. The information in this document is general in nature, and does not constitute personal financial product advice or take into account your objectives, financial situation or needs.

This document may be restricted by law in certain jurisdictions. Persons who receive this document must inform themselves about and observe all relevant restrictions.

Disclaimer for all jurisdictions: This document is prepared and distributed in your country/region by either: Australia and New Zealand Banking Group Limited (ABN11 005 357 522) (**ANZ**); or its relevant subsidiary or branch (each, an **Affiliate**), as appropriate or as set out below.

This document is distributed on the basis that it is only for the information of the specified recipient or permitted user of the relevant website (**recipients**).

This document is solely for informational purposes and nothing contained within is intended to be an invitation, solicitation or offer by ANZ to sell, or buy, receive or provide any product or service, or to participate in a particular trading strategy.

Distribution of this document to you is only as may be permissible by the laws of your jurisdiction, and is not directed to or intended for distribution or use by recipients resident or located in jurisdictions where its use or distribution would be contrary to those laws or regulations, or in jurisdictions where ANZ would be subject to additional licensing or registration requirements. Further, the products and services mentioned in this document may not be available in all countries.

ANZ in no way provides any financial, legal, taxation or investment advice to you in connection with any product or service discussed in this document. Before making any investment decision, recipients should seek independent financial, legal, tax and other relevant advice having regard to their particular circumstances.

Whilst care has been taken in the preparation of this document and the information contained within is believed to be accurate, ANZ does not represent or warrant the accuracy or completeness of the information Further, ANZ does not accept any responsibility to inform you of any matter that subsequently comes to its notice, which may affect the accuracy of the information in this document.

Preparation of this document and the opinions expressed in it may involve material elements of subjective judgement and analysis. Unless specifically stated otherwise: they are current on the date of this document and are subject to change without notice; and, all price information is indicative only. Any opinions expressed in this document are subject to change at any time without notice.

ANZ does not guarantee the performance of any product mentioned in this document. All investments entail a risk and may result in both profits and losses. Past performance is not necessarily an indicator of future performance. The products and services described in this document may not be suitable for all investors, and transacting in these products or services may be considered risky.

ANZ expressly disclaims any responsibility and shall not be liable for any loss, damage, claim, liability, proceedings, cost or expense (Liability) arising directly or indirectly and whether in tort (including negligence), contract, equity or otherwise out of or in connection with this document to the extent permissible under relevant law. Please note, the contents of this document have not been reviewed by any regulatory body or authority in any jurisdiction.

ANZ and its Affiliates may have an interest in the subject matter of this document. They may receive fees from customers for dealing in the products or services described in this document, and their staff and introducers of business may share in such fees or remuneration that may be influenced by total sales, at all times received and/or apportioned in accordance with local regulatory requirements. Further, they or their customers may have or have had interests or long or short positions in the products or services described in this document, and may at any time make purchases and/or sales in them as principal or agent, as well as act (or have acted) as a market maker in such products. This document is published in accordance with ANZ's policies on conflicts of interest and ANZ maintains appropriate information barriers to control the flow of information between businesses within it and its Affiliates.

Your ANZ point of contact can assist with any questions about this document including for further information on these disclosures of interest.

Country/region specific information: Unless stated otherwise, this document is distributed by Australia and New Zealand Banking Group Limited (**ANZ**).

Australia. ANZ holds an Australian Financial Services licence no. 234527. For a copy of ANZ's Financial Services Guide please click here or request from your ANZ point of contact.

Brazil, Brunei, India, Japan, Kuwait, Malaysia, Switzerland, Taiwan. This document is distributed in each of these jurisdictions by ANZ on a cross-border basis.

Cambodia. This document is distributed in Cambodia by ANZ Royal Bank (Cambodia) Limited (**ANZ Royal Bank**). The recipient acknowledges that although ANZ Royal Bank is a subsidiary of ANZ, it is a separate entity to ANZ and the obligations of ANZ Royal Bank do not constitute deposits or other liabilities of ANZ and ANZ is not required to meet the obligations of ANZ Royal Bank.

European Economic Area (EEA): ***United Kingdom.*** ANZ is authorised in the United Kingdom by the Prudential Regulation Authority (**PRA**) and is subject to regulation by the Financial Conduct Authority (**FCA**) and limited regulation by the PRA. Details about the extent of our regulation by the PRA are available from us on request. This document is distributed in the United Kingdom by Australia and New Zealand Banking Group Limited ANZ solely for the information of persons who would come within the FCA definition of "eligible counterparty" or "professional client". It is not intended for and must not be distributed to any person who would come within the FCA definition of "retail client". Nothing here excludes or restricts any duty or liability to a customer which ANZ may have under the UK Financial Services and Markets Act 2000 or under the regulatory system as defined in the Rules of the Prudential Regulation Authority (**PRA**) and the FCA. ANZ is authorised in the United Kingdom by the PRA and is subject to regulation by the FCA and limited regulation by the PRA. Details about the extent of our regulation by the PRA are available from us on request.

Fiji. For Fiji regulatory purposes, this document and any views and recommendations are not to be deemed as investment advice. Fiji investors must seek licensed professional advice should they wish to make any investment in relation to this document.

Hong Kong. This publication is issued or distributed in Hong Kong by the Hong Kong branch of ANZ, which is registered at the Hong Kong Monetary Authority to conduct Type 1 (dealing in securities), Type 4 (advising on securities) and Type 6 (advising on corporate finance) regulated activities. The contents of this publication have not been reviewed by any regulatory authority in Hong Kong.

India. If this document is received in India, only you (the specified recipient) may print it provided that before doing so, you specify on it your name and place of printing.

Myanmar. This publication is intended to be general and part of ANZ's customer service and marketing activities when implementing its functions as a licensed bank. This publication is not Securities Investment Advice (as that term is defined in the Myanmar Securities Transaction Law 2013).

Important notice

New Zealand. This document is intended to be of a general nature, does not take into account your financial situation or goals, and is not a personalised adviser service under the Financial Advisers Act 2008 (**FAA**).

Oman. ANZ neither has a registered business presence nor a representative office in Oman and does not undertake banking business or provide financial services in Oman. Consequently ANZ is not regulated by either the Central Bank of Oman or Oman's Capital Market Authority. The information contained in this document is for discussion purposes only and neither constitutes an offer of securities in Oman as contemplated by the Commercial Companies Law of Oman (Royal Decree 4/74) or the Capital Market Law of Oman (Royal Decree 80/98), nor does it constitute an offer to sell, or the solicitation of any offer to buy non-Omani securities in Oman as contemplated by Article 139 of the Executive Regulations to the Capital Market Law (issued vide CMA Decision 1/2009). ANZ does not solicit business in Oman and the only circumstances in which ANZ sends information or material describing financial products or financial services to recipients in Oman, is where such information or material has been requested from ANZ and the recipient understands, acknowledges and agrees that this document has not been approved by the CBO, the CMA or any other regulatory body or authority in Oman. ANZ does not market, offer, sell or distribute any financial or investment products or services in Oman and no subscription to any securities, products or financial services may or will be consummated within Oman. Nothing contained in this document is intended to constitute Omani investment, legal, tax, accounting or other professional advice.

People's Republic of China (PRC). This document may be distributed by either ANZ or Australia and New Zealand Bank (China) Company Limited (**ANZ China**). Recipients must comply with all applicable laws and regulations of PRC, including any prohibitions on speculative transactions and CNY/CNH arbitrage trading. If this document is distributed by ANZ or an Affiliate (other than ANZ China), the following statement and the text below is applicable: No action has been taken by ANZ or any affiliate which would permit a public offering of any products or services of such an entity or distribution or re-distribution of this document in the PRC. Accordingly, the products and services of such entities are not being offered or sold within the PRC by means of this document or any other document. This document may not be distributed, re-distributed or published in the PRC, except under circumstances that will result in compliance with any applicable laws and regulations. If and when the material accompanying this document relates to the products and/or services of ANZ China, the following statement and the text below is applicable: This document is distributed by ANZ China in the Mainland of the PRC.

Qatar. This document has not been, and will not be:

- lodged or registered with, or reviewed or approved by, the Qatar Central Bank (**QCB**), the Qatar Financial Centre (**QFC**) Authority, QFC Regulatory Authority or any other authority in the State of Qatar (**Qatar**); or
- authorised or licensed for distribution in Qatar,

and the information contained in this document does not, and is not intended to, constitute a public offer or other invitation in respect of securities in Qatar or the QFC. The financial products or services described in this document have not been, and will not be:

- registered with the QCB, QFC Authority, QFC Regulatory Authority or any other governmental authority in Qatar; or
- authorised or licensed for offering, marketing, issue or sale, directly or indirectly, in Qatar.

Accordingly, the financial products or services described in this document are not being, and will not be, offered, issued or sold in Qatar, and this document is not being, and will not be, distributed in Qatar. The offering, marketing, issue and sale of the financial products or services described in this document and distribution of this document is being made in, and is subject to the laws, regulations and rules of, jurisdictions outside of Qatar and the QFC. Recipients of this document must abide by this restriction and not distribute this document in breach of this restriction. This document is being sent/issued to a limited number of institutional and/or sophisticated investors (i) upon their request and confirmation that they understand the statements above; and (ii) on the condition that it will not be provided to any person other than the original recipient, and is not for general circulation and may not be reproduced or used for any other purpose.

Singapore. This document is distributed in Singapore by the Singapore branch of ANZ solely for the information of "accredited investors", "expert investors" or (as the case may be) "institutional investors" (each term as defined in the Securities and Futures Act Cap. 289 of Singapore). ANZ is licensed in Singapore under the Banking Act Cap. 19 of Singapore and is exempted from holding a financial adviser's licence under Section 23(1)(a) of the Financial Advisers Act Cap. 100 of Singapore.

United Arab Emirates (UAE). This document is distributed in the UAE or the Dubai International Financial Centre (**DIFC**) (as applicable) by ANZ. This document does not, and is not intended to constitute: (a) an offer of securities anywhere in the UAE; (b) the carrying on or engagement in banking, financial and/or investment consultation business in the UAE under the rules and regulations made by the Central Bank of the UAE, the Emirates Securities and Commodities Authority or the UAE Ministry of Economy; (c) an offer of securities within the meaning of the Dubai International Financial Centre Markets Law (DIFCML) No. 12 of 2004; and (d) a financial promotion, as defined under the DIFCML No. 1 of 200. ANZ DIFC Branch is regulated by the Dubai Financial Services Authority (**DFSA**) ANZ DIFC Branch is regulated by the Dubai Financial Services Authority (**DFSA**). The financial products or services described in this document are only available to persons who qualify as "Professional Clients" or "Market Counterparty" in accordance with the provisions of the DFSA rules. In addition, ANZ has a representative office (**ANZ Representative Office**) in Abu Dhabi regulated by the Central Bank of the UAE. The ANZ Representative Office is not permitted by the Central Bank of the UAE to provide any banking services to clients in the UAE.

United States. Except where this is a FX- related document, this document is distributed in the United States by ANZ Securities, Inc. (**ANZ SI**) which is a member of the Financial Regulatory Authority (**FINRA**) (www.finra.org) and registered with the SEC. ANZSI's address is 277 Park Avenue, 31st Floor, New York, NY 10172, USA (Tel: +1 212 801 9160 Fax: +1 212 801 9163). ANZSI accepts responsibility for its content. Information on any securities referred to in this document may be obtained from ANZSI upon request. This document or material is intended for institutional use only – not retail. If you are an institutional customer wishing to effect transactions in any securities referred to in this document you must contact ANZSI, not its affiliates. ANZSI is authorised as a broker-dealer only for institutional customers, not for US Persons (as "US person" is defined in Regulation S under the US Securities Act of 1933, as amended) who are individuals. If you have registered to use this website or have otherwise received this document and are a US Person who is an individual: to avoid loss, you should cease to use this website by unsubscribing or should notify the sender and you should not act on the contents of this document in any way. Non-U.S. analysts: Non-U.S. analysts may not be associated persons of ANZSI and therefore may not be subject to FINRA Rule 2242 restrictions on communications with the subject company, public appearances and trading securities held by the analysts. Where this is an FX-related document, it is distributed in the United States by ANZ's New York Branch, which is also located at 277 Park Avenue, 31st Floor, New York, NY 10172, USA (Tel: +1 212 801 916 0 Fax: +1 212 801 9163).

Vietnam. This document is distributed in Vietnam by ANZ or ANZ Bank (Vietnam) Limited, a subsidiary of ANZ.

This document has been prepared by ANZ Bank New Zealand Limited, Level 26, 23-29 Albert Street, Auckland 1010, New Zealand,
Ph 64-9-357 4094, e-mail nzeconomics@anz.com, http://www.anz.co.nz