ANZ Research

NZ Insight: The recession is just beginning

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The recession is just beginning

Key points

- There are welcome signs of a bounce in activity. But don't be fooled; while the disruption is easing, the recession is just beginning.
- Based on our ANZ card data, the recent bounce in spending looks lacklustre, especially once you factor in how much spending was "lost" during lockdown. We don't expect the current buying flurry to continue, with the full impact of economic weakness yet to be felt.

The details

- Now that the economy is opening up, conditions are getting better. The streets are filling, some cash flow is returning, there's strong demand for some items, and there are signs of an economic bounce.
- Don't be fooled, though. A short-term bounce in activity is to be expected, reflecting pent-up demand, but we expect spending to settle at a much lower trend.
- According to ANZ card data, daily spending has returned to 'normal' since lockdown conditions were eased (figure 1) – but there's no sign of catch-up to make up for the output lost based on spending since March (figure 2).
- Seen in this light, the bounce so far has actually been pretty modest, especially given how much spending has been "lost" as a result of the lockdown. There is a queue for appointments at hairdressers, certainly, but no one is getting two haircuts to compensate for their previous shabbiness.
- And importantly, we do not expect the current flurry of spending to continue. Demand will be weak.

Figure 1. ANZ card spend data (Daily spend)

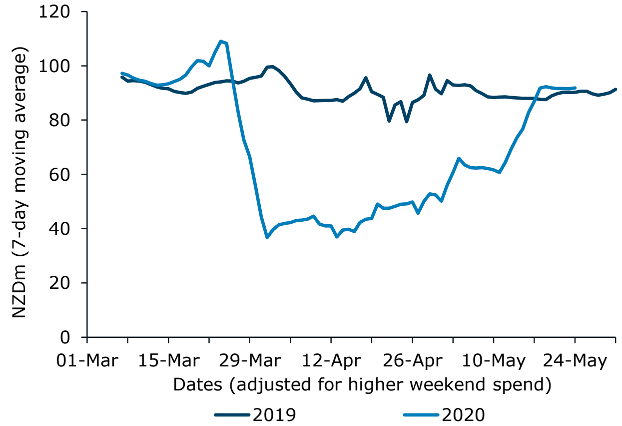
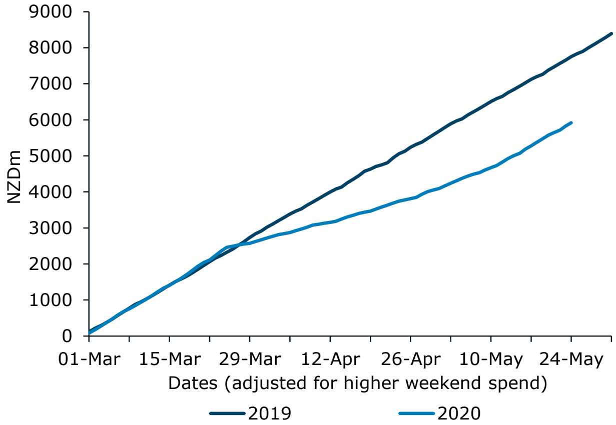


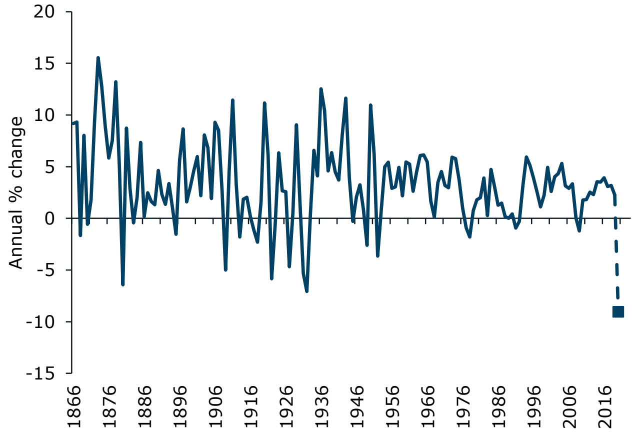
Figure 2. ANZ card spend data (Cumulative spend since 1 March)



Source: ANZ Research

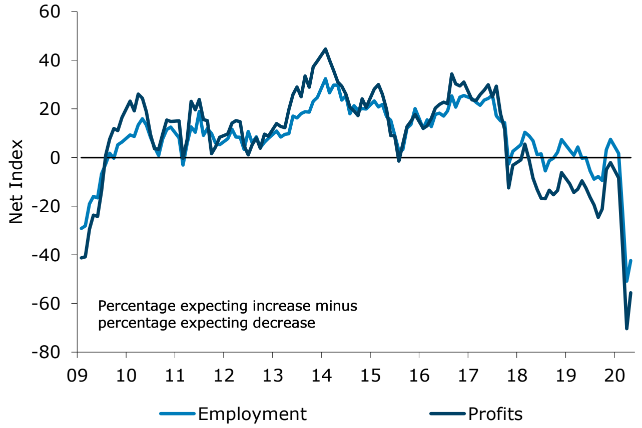
- The recession is going to be nasty and this is just the beginning. The RBNZ estimates this is the biggest drop in GDP in at least 160 years (figure 3), reflecting the unprecedented lockdown measures that shut down large chunks of the economy.
- Economic activity is past its lockdown lows, but the broader fallout is only just starting to be felt. And it's the longer-lasting impacts that hurt the most.
- Persistent impacts on firm cash flow, household incomes and wealth positions will determine the extent of job losses, firm failures and cancelled investment. The extent of these impacts has not been fully borne out yet, but unfortunately will be large.
- A lot of businesses are aware of this, with sentiment still extremely cautious, according to our ANZ Business Outlook. This is weighing on experienced profits and hiring (figure 4), which will ultimately impact investment, household incomes and spending.

Figure 3. Long-term GDP growth



Source: RBNZ, ANZ Research

Figure 4. ANZBO employment and profit expectations



Source: ANZ Research

- Demand will be weak for a long time, making the recovery slow. But even without that, lost tourism could subtract 5% from GDP this year alone, and the recovery there will be gradual too. This means GDP will remain low, or other industries will need to grow to fill that gap. It's not going to be a quick recovery.
- The labour market will also be more significantly impacted than it usually is in downturns, reflecting the fact that labour-intensive industries – tourism, retail, hospitality, construction – are particularly affected.
- Stimulus measures from the Government and RBNZ are helping. The outlook certainly could have been worse. But it's going to be a long road ahead, and the news may get worse before it gets better.

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