ANZ Research

New Zealand Weekly Focus

24 February 2020

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Near-term dip

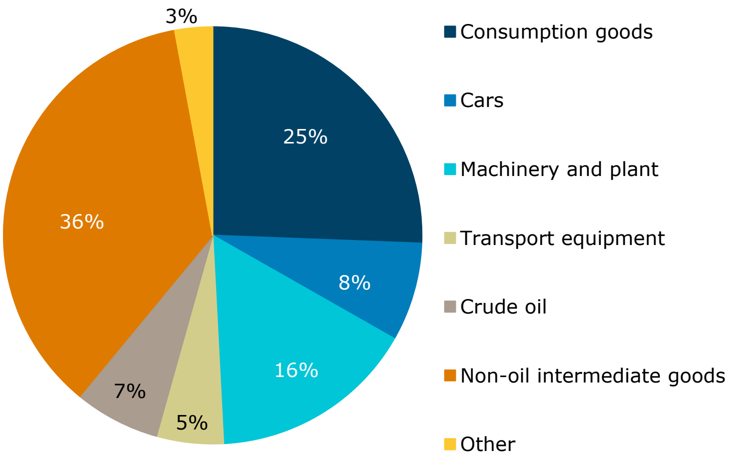
Economic overview

The outbreak of COVID-19 continues to upend both lives and economies. Here in New Zealand, exporters of goods and services have borne the brunt so far, but are well-placed to weather a short period of disruption. The longer the interruption to China's economy continues, however, the more we'll start to notice it on the import side – not just toys and electronics. China is also a key supplier of a range of intermediate and capital goods that are crucial for construction, manufacturing and farmers. For now, it's an air bubble in the supply pipeline, but it could become a bigger issue if it persists. It remains impossible to put a timeline on China returning to normality. We've updated our GDP forecasts to take into account the latest developments. We now expect -0.1% growth in Q1, and 0.5% growth in Q2. Key data this week are reads on both business and consumer confidence.

Chart of the week

It's not just about t-shirts.

Mix of New Zealand imports from China, 2019



Source: Statistics NZ, ANZ Research

The ANZ heatmap

Variable	View	Comment	Risks around our view
GDP	2.9% y/y for 2021 Q1	The outlook for GDP was looking more positive. We expect a COVID-19 dent in growth in the near term, with downside risks.	Neutral  Negative / Positive
Unemployment rate	4.1% for 2021 Q1	The labour market is "tight". Although the unemployment rate may be thrown around in coming quarters, trend decline is looking less likely.	Neutral  Down (better) / Up (worse)
OCR	1% in March 2021	We expect the RBNZ to be on hold for the foreseeable future, but downside risks remain. Market pricing for a small chance of cuts is appropriate.	Neutral  Down / Up
CPI	1.9% y/y for 2021 Q1	Inflation is around where it needs to be. The medium-term domestic picture is positive, but again risks are important.	Neutral  Negative / Positive

Economic overview

Summary

We've revised down our near-term GDP forecasts.

The outbreak of COVID-19 continues to upend both lives and economies. Here in New Zealand, exporters of goods and services have borne the brunt so far, but are well-placed to weather a short period of disruption. The longer the interruption to China's economy continues, however, the more we'll start to notice it on the import side – not just toys and electronics. China is also a key supplier of a range of intermediate and capital goods that are crucial for construction, manufacturing and farmers. For now, it's an air bubble in the supply pipeline, but it could become a bigger issue if it persists. It remains impossible to put a timeline on China returning to normality. We've updated our GDP forecasts to take into account the latest developments. We now expect -0.1% growth in Q1, and 0.5% growth in Q2. Key data this week are reads on both business and consumer confidence.

Forthcoming data

Overseas Merchandise Trade – January (Thursday 27 February, 10:45am). The disruption caused by the COVID-19 outbreak will have had only a minor impact on January volumes, but will significantly disrupt February exports and imports.

ANZ Business Outlook – February (Thursday 27 February, 1:00pm).

ANZ Roy Morgan Consumer Confidence – February (Friday 28 February, 10:00am).

Hindsight is 2020

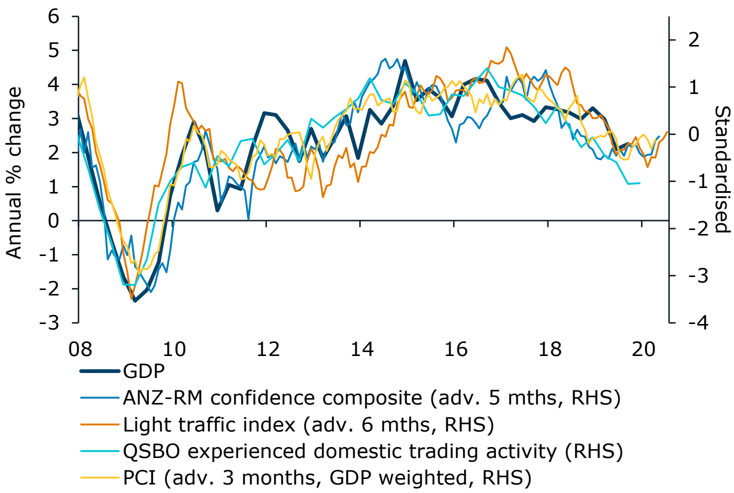
Prior to COVID-19 disruption, 2020 was poised for acceleration in growth.

Economic momentum found a floor through the end of last year, reflected in a plateau in activity indicators. Had COVID-19 not come along, we think GDP growth would have been ripe for improvement into 2020, albeit a gradual one. And last week's REINZ data also confirmed that the housing market started the year on a solid footing. However, it's possible that momentum may peak soon, with clouds forming over the housing market outlook as a result of credit headwinds.

Taking into account what we know so far, we expect that GDP grew about 0.6% q/q in Q4, resulting in annual growth moderating from 2.3% to 1.8% – consistent with where our suite of activity indicators was tracking at that time (figure 1). We will get more of a steer in the lead-up to the release of GDP data on 19 March. But while the upcoming data will be interesting for understanding where we were, it's all ancient history now. Previously, we had expected to see a floor in GDP growth in Q4, but now COVID-19 is expected to see growth significantly dented over the first half of this year. Estimating that will be our focus.

Forward-indicators had found a floor.

Figure 1: GDP growth and forward-looking activity indicators



Source: Statistics NZ, NZIER, BNZ-BusinessNZ, ANZ Research

Economic overview

But now the outlook is clouded by possible COVID-19 disruption…

What we know, and what we are watching

The impact of the COVID-19 outbreak on the people of China is immense and our thoughts are with those affected both directly and indirectly – not just through illness but through the disruption, dislocation, and impacts on both emotional and financial wellbeing associated with the attempts to contain the virus.

As we await the impact on the New Zealand data flow, we'll continue to closely watch the news flow and anecdotes for signals on the efficacy of containment measures and the capacity at which activity in China has resumed, including at its ports.

The impacts on the global and New Zealand economies are at this stage highly uncertain, and will depend heavily on how long the disruptions persist, and whether they spread to other economies. This week, we'll provide a round-up of the latest about what we know and what we are watching as regards to the key channels through which New Zealand is being impacted.

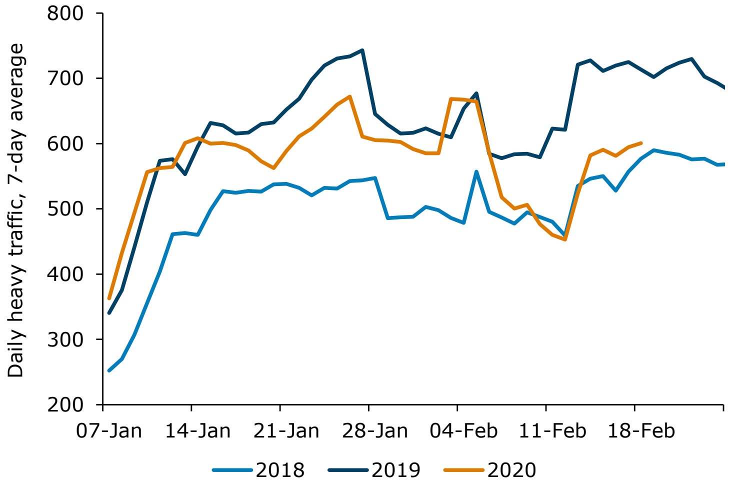
Exports

…with exports and primary industries already slowing markedly…

Primary exports have been immediately impacted. China's cool chain is currently heavily congested, meaning meat and seafood exports to China are severely impaired. Dry goods can sit and wait a while for a spot at the port if necessary, as the backlog is worked through, but meat exports are particularly vulnerable, for all that China's Government has sensibly announced that food imports will be a priority.

However, dry goods exports are not having a happy time either. Because China's construction has slowed significantly, large log inventories have built up that may take months to clear. China takes over 50% of New Zealand's log harvest, so the impact has juddered rapidly through the New Zealand supply chain. Due to fewer logging trucks, heavy traffic movements north of Gisborne are running around 20% below year-ago levels, which puts them back where they were in 2018.

Figure 2. Heavy traffic through Hamanatua Bridge (north of Gisborne)



Source: NZTA, ANZ Research

…and commodity prices under pressure.

Dairy prices have dropped 8% over two GlobalDairyTrade auctions, which falls into the 'could have been worse' category. Price support is being provided by the fact that North Island dairy production is being negatively impacted by dry conditions, as well as the generally tight global supply that was evident before all this happened.

Fruit exports have a window before the main harvest is ready, during which China's logistical challenges will hopefully ease. Kiwifruit has online sales channels available in China.

Alternative markets exist…

Alternative markets do exist for New Zealand's export products, but their size relative to China is often small, and competitors will be targeting them as well. Also, some – particularly in Asia – are experiencing economic problems of their own, due to their own exposure to China's sudden stop, and in some cases, growing COVID-19 cases. Japan and Malaysia had dreadful Q4 GDP outturns, not a great starting point for a shock like this. Korea, our second-largest log market (but only just over a tenth as large in terms of volumes taken), has declared an "economic emergency".

…but NZ can't swim against the global tide…

As a small, open economy specialising in commodities, New Zealand is prone to being buffeted by export shocks. Sometimes these global shocks lead to recession (1998 Asian Crisis; 2008 Global Financial Crisis) and sometimes they don't (the 2015 dairy price fall), depending on their severity, duration, and what else is going on at the time.

…and dry conditions aren't helping things.

What else is going on has historically tended to be a drought, more often than seems fair, really. Drought exacerbated both the 1998 and 2008 downturns. And conditions are very dry at present too, particularly in the North Island. There's plenty of feed available around the country as a whole, due to a good spring, but the timing is very unfortunate – farmers need to offload stock just as the export cool chain has seized up, restricting the ability of local processors to take animals. Farm gate prices are falling sharply as a result.

Agriculture is a lot more important than its share of GDP might suggest.

It is true that the agriculture sector, as narrowly defined in the GDP statistics, is a smaller part of the New Zealand economy than it used to be (figure 3), mostly due to growth in the services sector. But agriculture remains this economy's income-earning backbone, and always will be, with water and pastoral land New Zealand's comparative advantages. When commodity prices fall, it's everybody's problem, just as when they go up, the economic benefits go well beyond the famer. The NZD typically does its part to ensure the joy and pain is spread around, by following commodity prices up and down and making imports less or more expensive.

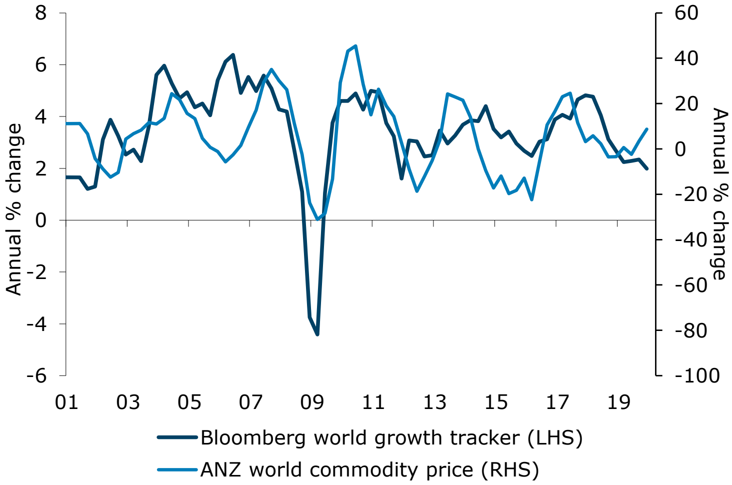
Figure 3: Agriculture share of New Zealand GDP

Source: Statistics NZ

There will be ongoing uncertainty about how the Chinese consumer will respond.

It's more than a question of getting our goods to market. Beyond the disruptions to China's logistics, whenever they might end, is the lurking question of what state the shell-shocked Chinese consumer will be left in at the end of all this. Most New Zealand food exports sit at the luxury end of the spectrum. This is where the biggest profits lie but also where demand is most elastic. In short, if you're worried about your job or the state of your business, you're less likely to buy New Zealand lamb to serve to your dinner guests. Yes, people have to eat, but that doesn't mean that food prices aren't prone to large cycles driven by both supply and demand factors. There is a broad correlation between world GDP growth and New Zealand's commodity price cycles (figure 4). In short, what happens to China's labour market is pretty important for our exporters.

Figure 4. Bloomberg world growth tracker and NZ commodity price cycles



Source: Bloomberg, ANZ Research

Tourism and education exports are expected to weaken…

Exports in the form of tourism are also being hurt. Arrivals from China account for 14% of tourist spending and have dropped markedly. The unknowns are how long the ban will last, and also whether people from other countries will still be willing to get onto a long-haul flight. For every one that's not, though, there may be another who chooses New Zealand over say, Asia, as a destination. New Zealanders will be more likely to holiday at home, rather than heading overseas – a decision that will be aided by NZD depreciation.

…with some partial offsets…

Education exports have taken a heavy hit from the fact that many students had not yet arrived in New Zealand when the travel ban was put in place. But here again, there may be offsets, with New Zealand a possible alternative destination for some students who had planned to go places now directly impacted by the virus.

Imports

Today's situation differs importantly from previous global economic shocks in that it is an import shock as well. New Zealand relies on China for a huge number of goods, and supply of these is currently being disrupted, with many Chinese factories closed, transport logistics impossible, and ports congested and not operating at full capacity. It is unknowable how long the current disruptions will persist, but anecdotally, import volumes are well down already. If it's prolonged, we're going to suddenly find out that we are reliant on China for some quirky things.

…including weaker-than-otherwise imports.

Some of the goods are the first things you'd think of - furniture, clothes, toys, electronics. We might have to all put up with a bit less choice when out shopping for a while. Imports actually subtract from GDP, so to the extent we buy home-made versions instead, that'll actually boost the economy. Of course, the extent to which New Zealand can actually turn around and start manufacturing cell phones is pretty limited, to say the least. But for some products, there will be a delighted local producer struggling to meet the demand. But even if not, in terms of the pure GDP impact, importing fewer consumption items is not 'bad', though it would certainly make life tough for some retailers who are under pressure already.

But weaker imports will also cause problems…

But where the rubber really hits the road in GDP terms is imports of capital and intermediate goods. As figure 5 below shows, consumption goods are actually in the minority when it comes to New Zealand's imports from China. There's actually a lot more of the stuff we use to make other stuff, namely intermediate and capital goods.

Figure 5. Make-up of NZ imports from China (2019)

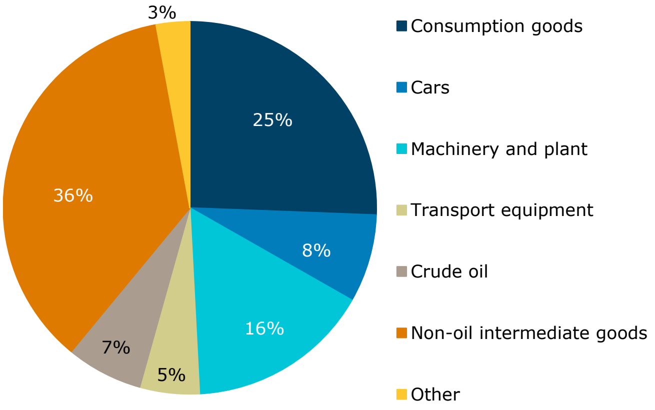
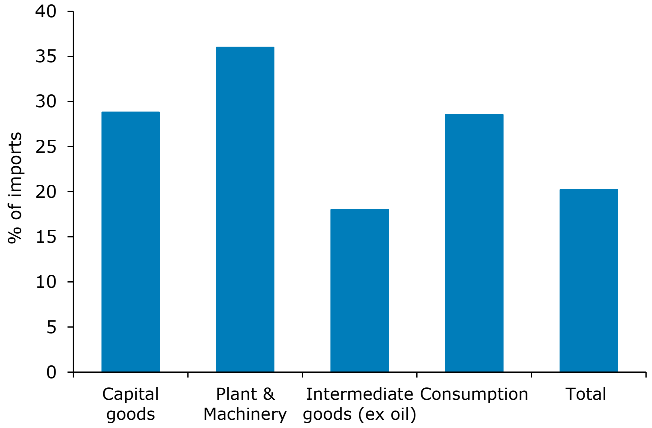


Figure 6. Share of imports from China



Source: Statistics NZ

…for NZ retail, manufacturing, construction, and agricultural activity.

Take construction. We may export wood but we import steel. And bathroom fittings. And kitchen appliances. And bulldozers. And parts for bulldozers. In the Australian Financial Review last week an article estimated that large construction projects in the country were facing at least a four-week delay on materials, and that is if China's factories are back to BAU sometime this week, which may be optimistic.

Then there's farming. We import fertiliser. Chemicals. Animal feed. Tractors. China is an important part of the supply chain for many of these products. Even the goods we import from other countries often have components that come from China.

Or manufacturing. We import plastics from China for packaging and transporting food. Yeast for making beer and bread. Face masks and hair nets for food production lines.

And then there's pharmaceuticals. China has become a very significant part of the global supply for these as well.

Globally, the vulnerability of some just-in-time supply chains has already been exposed, particularly in electronics. It wouldn't be surprising if New Zealand, being at the far-flung end of the world, holds larger inventories of necessities than most. Let's hope they prove sufficient to get us through. China is eager to get its factories and its broader economy functioning again as soon as possible, but the trade-off with the speed at which the virus can be contained is unavoidable. The path ahead remains very uncertain.

Putting it all together: what does it mean for our forecasts?

The negative impact is expected to be a little larger than previously assumed.

Our forecasts are under constant review at the moment, as news comes to light. And we now expect the hit to New Zealand GDP from the COVID-19 outbreak to be a bit larger than previously assumed.

We now expect that GDP will be 0.5-0.9%pts lower over the first half of the year (H1) than otherwise (0.3-0.7%pts previously). In reality, uncertainty around these estimates is much wider than this range indicates, but this is the range we estimate based on our current set of assumptions. Our overarching key assumption is that disruption to the Chinese economy continues over February and March, but is largely resolved after Q1. This is consistent with ANZ Research forecasts for Chinese GDP of growth of 3.2%-4% y/y in Q1. We're not epidemiologists and are therefore not confident that any of our assumptions will hold true, but it's a line in the sand against which developments can be gauged.

And in terms of the specifics…

In terms of the specifics:

- For **travel and tourism**, we assume disruptions persist until the end of March, with still-soft demand in Q2, and a recovery over the second half of the year. The economic impact includes flow-on effects to industries such as retail and hospitality. This subtracts 0.35%pts from GDP in H1.

- We assume a two-thirds reduction in students from China in Q1, with no recovery this year. This directly reduces **education exports** to the tune of 0.1%pts off GDP.
- **Goods export volumes** are expected to be lower in Q1 and Q2, with demand already significantly stymied and disruption to ports and factories in China expected to dissipate only gradually over March. We expect it will take time for business as usual to resume again and for demand to recover, with exports lower in Q2, and a recovery in Q3. This recovery is not expected to be complete, with production decisions affected to some degree. Overall, this subtracts 0.5%pts from H1 GDP.

…there are lots of moving parts.

- We assume that temporary disruption to **imports and supply chains** will affect a range of industries over Q1. We assume that this disruption will resolve itself gradually as factories and the like re-open in China, with a complete recovery over Q2 and Q3. But nonetheless this could weigh on consumption, residential investment and business investment for a short time. Currently, we are assuming that this reduces Q1 GDP by 0.2%pts, but with a partial recovery over Q2 that sees GDP 0.1%pts lower in H1.
- We assume that **positive offsets** to GDP occur due to a lower NZD than otherwise, price reductions for some goods (more on that later), and demand from New Zealanders filling the gap. For travel and tourism, we assume that there is a positive offset (about a third as large), with New Zealanders staying home and tourists from other markets filling the gap. For goods exports, we assume a partial offset (about a third as large), with some sales of products to other markets and in New Zealand. Overall, offsets are expected to cushion the blow by around 0.35%pts.

In total, we are currently assuming a 0.7%pt impact, with 0.6%pts of this in Q1 and 0.1% in Q2 (see table 1). However, based on the assumptions above, we could conceivably see something in the range of 0.5-0.9%pts, depending on supply chain effects and offsets, even if our assumptions about the severity and duration of the disruption prove to be right. We expect a 0.5%pt bounce in H2 – recovering most (but not all) of the hole in growth.

Table 1: Assumed impact on GDP growth from COVID-19 (relative to baseline)

	Q1	Q2	H2
Travel/tourism	-0.2%pt	-0.15%pt	+0.15%pt
Education	-0.1%pt		
Goods exports	-0.3%pt	-0.2%pt	+0.3%pt
Imports / supply chains	-0.2%pt	+0.1%pt	+0.1%pt
Positive offsets	+0.2%pt	+0.15%pt	
Total impact	**-0.6%pt**	**-0.1%pt**	**+0.5%pt**

Source: ANZ Research

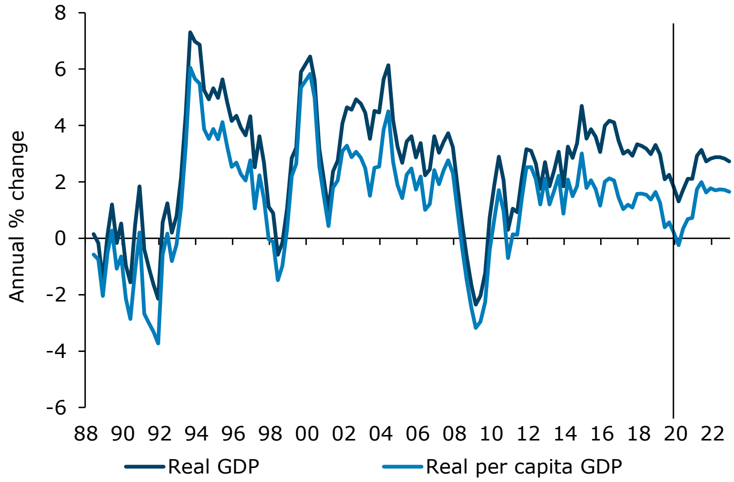
We think economic activity will contract in Q1, and grow just 0.5% in Q2…

Combined with a small (0.2%pt) tweak to our baseline growth assumption for Q1 based on what we now know about the activity indicators before the COIVD-19 outbreak, we now expect GDP to print at -0.1% q/q in Q1, followed by 0.5% q/q growth in Q2. This would see annual growth dip even further to 1.3% in Q1, before improving over 2020 (figure 6). The dent could be larger if widespread drought conditions were to intensify beyond what we have currently assumed. Leaving that risk aside, we now expect only 2.1% growth over the year as a whole (previously 2.5%).

Over the medium term, and assuming a relatively fast resolution to the COVID-19 situation, we still view the outlook as bright, even if we are currently experiencing a challenging bump in the road. We see growth running at about 3% in 2021/22, above where we see potential. Supporting the outlook, we still see long-term export opportunities, a favourable outlook for our terms of trade, a positive fiscal impulse and easy financial conditions playing their part.

Economic overview

Figure 7: GDP growth



Source: Statistics NZ, ANZ Research

...but for now, the medium-term outlook remains positive.

That's growth. What about inflation?

Inflation will also be impacted through a number of channels...

The impacts on CPI inflation from COVID-19 are expected to be negative on balance, but tracking the impacts isn't straightforward. As with economic activity, there is much uncertainty and offsets may cushion the blow (at least in the near term, and assuming a relatively sharp recovery).

Fewer holiday makers from China are expected to put downward pressure on domestic inflation via weaker demand for things like accommodation, vehicle hire, airfares, and recreation and cultural services in both Q1 and Q2. Tradeable prices are also expected to be weaker on balance, as export disruption sees a little more product cleared in domestic markets than otherwise (but this definitely has its limits). In particular, meat and fruit and vegetable prices are expected to be weaker than otherwise in both Q1 and Q2. Lower oil prices have also seen petrol prices slip in recent weeks. However, the lower NZD is providing a partial offset. In addition, disruption to imports means some retailers are at risk of running out of stock, meaning they are less likely to discount prices.

...with the net impact negative...

Weighing it all up we think quarterly inflation will be 0.1%pts lower than otherwise in Q1 at 0.4% q/q, with Q2 inflation 0.3%pts lower at 0.2% q/q. Based on the assumption that trade flows normalise by the end of Q2, we expect to see a marked rebound in inflation in Q3 (0.3%pts higher at 0.8% q/q).

At this stage we see little persistence in the shock to inflation, but the risk is that the impact on activity weighs on domestic demand a little more than we anticipate, resulting in a more persistent shock to non-tradable inflation. Fair to say, we'll be watching our Monthly Inflation Gauge closely over the coming months.

...but not persistent.

To the extent that the RBNZ deem the shock to activity and inflation to be temporary, they will look through it. However, should inflation expectations slip markedly, and/or global and domestic activity fail to recover, then the call for further easing will be hard to ignore. That begs the question...

What would see us downgrade our forecasts further?

We assume the impact will be short-lived...

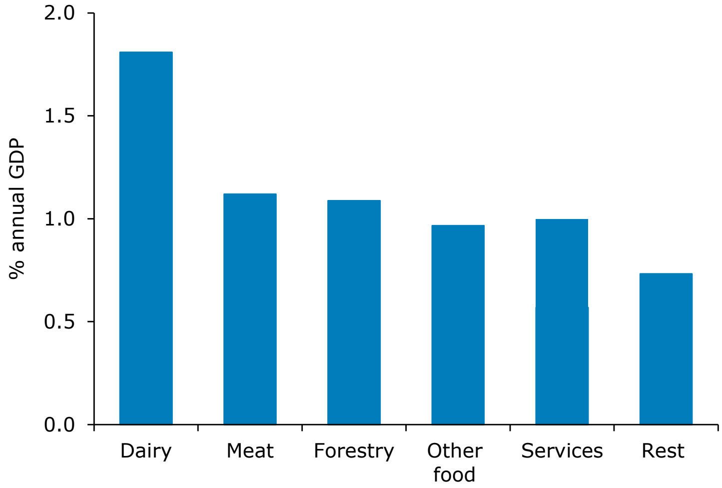
Broadly speaking, our forecast is for a short, sharp dent in GDP over the first half of the year, with a vigorous (but incomplete) bounce-back over the latter half. Essentially we are assuming a similar dynamic as was seen as a result of the SARS outbreak, but we expect the magnitude to be greater, and the bounce a little less pronounced. We are assuming that disruption continues, albeit dissipating, over February and March, which means that we expect bad news about the economic impact will continue for a while, especially as the effects we have assumed start to manifest themselves in the data.

Clearly the local data flow will be poor for a while. But it's actually the likely timing and shape of the bounce on the other side that determines whether the RBNZ can conceivably look through it or not.

...but risks are to the downside.

The scope for recovery in H2 would be threatened if global growth looked like it would be weak for quite some time, directly affecting our exports (say if disruption to ports and supply chains in China continued well into Q2, or if another major economy is forced to implement meaningful shutdowns to contain the virus, which is now looking more likely). Exports to China currently account for 6% of our annual nominal GDP, but the indirect effects to other industries mean our reliance is even greater than that in reality (figure 8). We would also be worried if global financial markets experienced significant disruption, such as a re-pricing of risk in credit markets that saw spreads widen markedly.

Figure 8: Direct contribution of Chinese exports to NZ GDP (nominal, annual)



Source: Statistics NZ

The slowdown in domestic activity could become more synchronised...

For the domestic economy, our key concern is that impacts emanating from the outbreak could have flow-on effects to the labour market and incomes. That could cause widespread business difficulties and delinquencies; could stop the construction cycle in its tracks; and/or could significantly erode household sentiment and spending. In short, the risk is that the shock gathers synchronised downward momentum in the domestic economy.

One way this could occur would be if there was prolonged difficulty in sourcing products from China. This is not our current expectation, but the impacts on supply chains are particularly difficult to estimate. Should businesses feel a bigger or longer crunch from this channel than we assume, then we could see even weaker consumption, business investment, and residential and commercial construction.

..despite recent momentum in housing.

Generally, the housing market can be thought of as being reasonably domestically driven and so wouldn't be in the direct firing line. But a lot of building materials are sourced abroad, so there is a risk that residential investment – often a key driver of the domestic economic cycle – could be meaningfully affected. This is an important channel through which we could see significant repercussions across the domestic economy.

We'll be watching developments closely.

To be clear, we are not forecasting this sort of worrying shock to the domestic economy at this stage. But uncertainty is immense. And we know from experience that if the global economy takes a material hit from the COVID-19 outbreak, then New Zealand could only swim against the tide for so long. If a bad scenario did occur, then the NZD, OCR and fiscal spending could all come to the economy's aid. The New Zealand economy is resilient and the medium-term outlook remains bright. But we've got to get there first.

Economic overview

The week ahead

Goods trade data for the month of January are out at 10:45am on Thursday. Export volumes will be weak due to demand for key exports falling in early January and exports to China being constrained with the Chinese New Year holiday period falling earlier than normal, notably affecting meat and logs. This occurred alongside strong in-market volumes for meat, dairy and forestry products. The bulk of the disruption to trade due to COVID-19 is expected to hit February trade data rather than January. For January we are picking exports will be pared back to $4.15bn while imports are expected to be relative steady at $5bn.

Our February Business Outlook is out on Thursday, followed by ANZ-Roy Morgan Consumer Confidence on Friday.

Local data

ANZ Monthly Inflation Gauge – January. The ANZ Monthly Inflation Gauge lifted 0.6% m/m in January, which kept annual inflation stable at 3.2% y/y. The annual lift in excise tax saw tobacco and cigarette prices lead gains in January, contributing 0.5%pts to the monthly rise.

REINZ housing market data – January. House prices rose 0.6% in January, to be up 6.9% y/y. Annual house price inflation has just overtaken its long-run average of 6.8%, and we expect it will peak at 8% by mid-2020. Days to sell fell further, suggesting there's still some near-term price pressure in the pipeline.

GlobalDairyTrade auction. The GDT price index fell 2.9% with milk powders back 2.6%. At this point the impact of weaker demand due to COVID-19 disruption is more than offsetting the potential impact that drought could have on NZ milk supplies. Most of the North Island has had virtually no rain in February (Wellington being the exception!) and this would typically prompt some urgency from buyers to secure product.

Retail Trade Survey – Q4. Sales volumes lifted 0.7% q/q, close to our expectation and down from 1.7% in Q3. Spending on electronics remained robust. This is the first partial indicator for Q4 GDP, and has no implications for our expectation that the economy expanded 0.6% in the quarter.

What you may have missed

Please contact us if you would like to be added to the distribution list for any of these publications. Otherwise click on the links below to view reports.

- NZ Property Focus: Confidence trick
- NZ Monthly Inflation Gauge: Up in smoke

FX / rates overview

Summary

Downside risks from COVID-19, USD strength and flatter curves.

The medium-term macroeconomic outlook is playing second fiddle to the downside risks stemming from COVID-19 disruptions, at least in market participants' eyes. Although we remain hopeful that any disruptions will be short-lived and softened by offsetting factors, uncertainty remains high and the market mood seems ingrained. With that comes the prospect of lower rates, flatter curves and USD strength.

Key events this week

The ANZ Business Outlook survey (Thursday) and ANZ-Roy Morgan Consumer Confidence (Friday).

Rates

Yield curve biased to flatten in line with global trends.

COVID-19 headlines and the associated disruptions to trade and tourism remain the major market thematic. We don't expect this to change any time soon given that the spread of the disease appears to still be exponential outside of China (suggesting we may see more restrictions elsewhere) but stabilising in China (because of restrictions, suggesting a longer period of disruption). China is New Zealand's largest trading partner, and while the RBNZ has made it clear it won't front-foot downside risks with a monetary policy response, the market will continue to lean against that. NZ's 2y/10yr bond curve is the steepest in the G10, which goes against the grain of the downside growth risks, the RBNZ following rather than leading, and flatter global curves.

FX

Headwinds for the Kiwi...

We remain constructive on the USD, which is supported by generally better US data and the US's remoteness from Asia and COVID-19 fears. Downside risks to the NZD growth outlook have increased, creating further headwinds for the Kiwi.

NZD/USD: Remains biased to the downside as trade disruptions continue, USD strength persists and trading partner currencies (particularly in Asia) come under pressure.

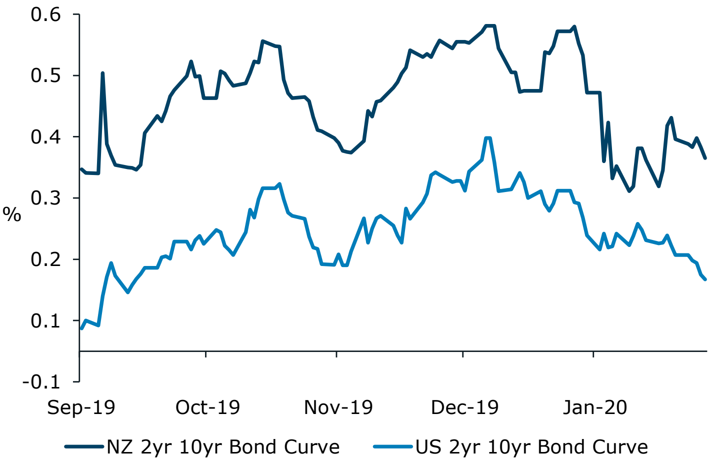
NZD/AUD: Soft AU jobs data has seen the market price in higher odds of RBA cuts, which we expect. When the USD does all the work, this cross tends to be more stable.

NZD/EUR: Another week of mostly softer data has further undermined the EUR. We see no immediate end in sight, but are mindful of valuations.

NZD/GBP: EC/UK trade talks start in less than 2 weeks, which should be a long term support for GBP, which will also be supported by more expansionary UK fiscal policy.

NZD/JPY: The JPY's safe-haven status is now under question in the wake of both soft data and China's proximity to COVID-19 disruptions.

Figure 1. NZ and US 2yr-10yr Bond Curve Spreads



Source: Bloomberg, ANZ Research

Data calendar

Date	Country	Data/event	Mkt.	Last	NZ time
24-Feb	NZ	Credit Card Spending MoM - Jan	--	-0.9%	15:00
	NZ	Credit Card Spending YoY - Jan	--	3.4%	15:00
	GE	IFO Business Climate - Feb	95.3	95.9	22:00
	GE	IFO Expectations - Feb	92.1	92.9	22:00
	GE	IFO Current Assessment - Feb	98.6	99.1	22:00
25-Feb	US	Chicago Fed Nat Activity Index - Jan	-0.16	-0.35	02:30
	US	Dallas Fed Manf. Activity - Feb	0.0	-0.2	04:30
	AU	ANZ-RM Consumer Confidence Index - 23-Feb	--	109.1	11:30
	JN	PPI Services YoY - Jan	2.1%	2.1%	12:50
	GE	GDP SA QoQ - Q4 F	0.0%	0.0%	20:00
	GE	GDP NSA YoY - Q4 F	0.3%	0.3%	20:00
	GE	GDP WDA YoY - Q4 F	0.4%	0.4%	20:00
26-Feb	UK	CBI Retailing Reported Sales - Feb	3	0	00:00
	UK	CBI Total Dist. Reported Sales - Feb	10	11	00:00
	US	House Price Purchase Index QoQ - Q4	--	1.1%	03:00
	US	FHFA House Price Index MoM - Dec	0.4%	0.2%	03:00
	US	S&P CoreLogic CS 20-City MoM SA - Dec	0.40%	0.48%	03:00
	US	S&P CoreLogic CS 20-City YoY NSA - Dec	2.85%	2.55%	03:00
	US	Conf. Board Consumer Confidence - Feb	132.1	131.6	04:00
	US	Conf. Board Expectations - Feb	--	102.5	04:00
	US	Conf. Board Present Situation - Feb	--	175.3	04:00
	US	Richmond Fed Manufact. Index - Feb	10	20	04:00
	AU	Construction Work Done - Q4	-1.0%	-0.4%	13:30
27-Feb	US	MBA Mortgage Applications - 21-Feb	--	-6.4%	01:00
	US	New Home Sales - Jan	715k	694k	04:00
	US	New Home Sales MoM - Jan	3.0%	-0.4%	04:00
	NZ	Trade Balance NZD - Jan	-533M	547M	10:45
	NZ	Trade Balance 12 Mth YTD NZD - Jan	-3940M	-4309M	10:45
	NZ	Exports NZD - Jan	4.44B	5.54B	10:45
	NZ	Imports NZD - Jan	5.00B	5.00B	10:45
	NZ	ANZ Business Confidence - Feb	--	-13.2	13:00
	NZ	ANZ Activity Outlook - Feb	--	17.2	13:00
	AU	Private Capital Expenditure - Q4	0.5%	-0.2%	13:30
	EC	M3 Money Supply YoY - Jan	5.3%	5.0%	22:00
	EC	Economic Confidence - Feb	102.7	102.8	23:00
	EC	Industrial Confidence - Feb	-7.5	-7.3	23:00
	EC	Business Climate Indicator - Feb	-0.3	-0.23	23:00
	EC	Services Confidence - Feb	11.0	11.0	23:00
	EC	Consumer Confidence - Feb F	--	-6.6	23:00
28-Feb	US	GDP Annualized QoQ - Q4 S	2.1%	2.1%	02:30
	US	GDP Price Index - Q4 S	1.4%	1.4%	02:30
	US	Personal Consumption - Q4 S	1.7%	1.8%	02:30
	US	Core PCE QoQ - Q4 S	1.3%	1.3%	02:30
	US	Durable Goods Orders - Jan P	-1.5%	2.4%	02:30
	US	Durables Ex Transportation - Jan P	0.2%	-0.1%	02:30
	US	Cap Goods Orders Nondef Ex Air - Jan P	0.1%	-0.8%	02:30
	US	Cap Goods Ship Nondef Ex Air - Jan P	0.1%	-0.3%	02:30
	US	Initial Jobless Claims - 22-Feb	211k	210k	02:30

Continued on following page

Data calendar

Date	Country	Data/event	Mkt.	Last	NZ time
28-Feb	US	Continuing Claims - 15-Feb	1722k	1726k	02:30
	US	Pending Home Sales MoM - Jan	2.0%	-4.9%	04:00
	US	Pending Home Sales NSA YoY - Jan	--	6.8%	04:00
	US	Kansas City Fed Manf. Activity - Feb	-2	-1	05:00
	NZ	ANZ Consumer Confidence Index - Feb	--	122.7	10:00
	JN	Tokyo CPI YoY - Feb	0.5%	0.6%	12:30
	JN	Tokyo CPI Ex-Fresh Food YoY - Feb	0.6%	0.7%	12:30
	JN	Retail Sales MoM - Jan	-0.2%	0.2%	12:50
	JN	Retail Sales YoY - Jan	-1.0%	-2.6%	12:50
	JN	Industrial Production MoM - Jan P	0.2%	1.2%	12:50
	JN	Industrial Production YoY - Jan P	-3.1%	-3.1%	12:50
	UK	GfK Consumer Confidence - Feb	-8	-9	13:01
	AU	Private Sector Credit MoM - Jan	--	0.2%	13:30
	AU	Private Sector Credit YoY - Jan	--	2.4%	13:30
	GE	Import Price Index MoM - Jan	0.2%	0.2%	20:00
	GE	Import Price Index YoY - Jan	-0.2%	-0.7%	20:00
	UK	Nationwide House PX MoM - Feb		0.4%	0.5%
	UK	Nationwide House Px NSA YoY - Feb	2.3%	1.9%	20:00
	GE	Unemployment Change (000's) - Feb	4.5k	-2.0k	21:55
	GE	Unemployment Claims Rate SA - Feb	5.0%	5.0%	21:55
29-Feb	GE	CPI MoM - Feb P	0.3%	-0.6%	02:00
	GE	CPI YoY - Feb P	1.7%	1.7%	02:00
	GE	CPI EU Harmonized MoM - Feb P	0.4%	-0.8%	02:00
	GE	CPI EU Harmonized YoY - Feb P	1.6%	1.6%	02:00
	US	Advance Goods Trade Balance - Jan	-$68.1B	-$68.3B	02:30
	US	Wholesale Inventories MoM - Jan P	0.1%	-0.2%	02:30
	US	Personal Income - Jan	0.4%	0.2%	02:30
	US	Personal Spending - Jan	0.3%	0.3%	02:30
	US	PCE Deflator MoM - Jan	0.2%	0.3%	02:30
	US	PCE Deflator YoY - Jan	1.8%	1.6%	02:30
	US	PCE Core Deflator MoM - Jan	0.2%	0.2%	02:30
	US	PCE Core Deflator YoY - Jan	1.7%	1.6%	02:30
	US	MNI Chicago PMI - Feb	46.0	42.9	03:45
	US	U. of Mich. Sentiment - Feb F	100.7	100.9	04:00
	US	U. of Mich. Current Conditions - Feb F	--	113.8	04:00
	US	U. of Mich. Expectations - Feb F	--	92.6	04:00
	US	U. of Mich. 1 Yr Inflation - Feb F	--	2.5%	04:00
	US	U. of Mich. 5-10 Yr Inflation - Feb F	--	2.3%	04:00
	CH	Composite PMI - Feb	--	53.0	14:00
	CH	Manufacturing PMI - Feb	47.4	50.0	14:00
	CH	Non-manufacturing PMI - Feb	50.0	54.1	14:00

Key: AU: Australia, EC: Eurozone, GE: Germany, JN: Japan, NZ: New Zealand, UK: United Kingdom, US: United States, CH: China.
Source: Dow Jones, Reuters, Bloomberg, ANZ Bank New Zealand Limited. All $ values in local currency.
Note: All surveys are preliminary and subject to change

Local data watch

Domestic data had turned upward with growth poised to improve gradually over 2020. However, COVID-19 disruption will dent activity in the near-term at least. We're hoping the impacts will be short lived, with growth rebounding later in the year. We see the OCR on hold for the foreseeable future, but global risks could change this.

Date	Data/event	Economic signal	Comment
Thu 27 Feb (10:45am)	Overseas Merchandise Trade – January	Easing	Dairy export volumes and prices are expected to start to ease in January with a much larger impact on February exports.
Thu 27 Feb (1:00pm)	ANZ Business Outlook – February	--	--
Fri 28 Feb (10:00am)	ANZ Roy Morgan Consumer Confidence – February	--	--
Mon 2 Mar (10:45am)	Terms of Trade – Q4		The terms of trade are expected to lift slightly in Q4, but the outlook is looking murky.
Wed 4 Mar (early am)	GlobalDairyTrade auction	Easing	Reduced demand from China will weigh, potentially partially offset by reduced supply on the back of dry conditions.
Wed 4 Mar (10:45am)	Building Consents –January	Hi there	Consents have been holding at a high level. While downside risks remain, recent resurgence in the housing market is expected to provide continued support.
Wed 4 Mar (1:00pm)	ANZ Commodity Price Index – February	--	--
Fri 6 Mar (10:45am)	Work Put In Place – Q4	Build me up	Another nudge up is expected, with building consents having pushed higher.
Tue 10 Mar (10:00am)	ANZ Truckometer – February	--	--
Tue 10 Mar (10:45am)	Economic Survey of Manufacturing– Q4	Line ball	The PMI suggests manufacturing activity lifted in Q4, but with the December month coming in below 50 it's a line-ball call.
10 -17 Mar	REINZ housing data – February	Up	The market has tightened, and that is expected to translate to into lifting house price inflation.
Fri 13 Mar (10:45am)	Food Price Index – February	Dip	Food prices are expected to slip slightly. Supply disruption into China presents some downside.
Fri 13 Feb (10:45am	Rental Price Index – February	Small rise	Continued increases in rental prices should support a quarterly rise in CPI rents.
Mon 16 Feb (10:45am)	Net Migration – January	Easing	These data are noisy, but we'll be looking for confirmation that the cycle has been easing, albeit with a 3 quarter lag.
Mon 16 Mar (1:00pm)	ANZ Monthly Inflation Gauge – February	--	--
Wed 18 Mar (early am)	GlobalDairyTrade auction	Easing	Reduced demand from China may continue to weigh, dry conditions may provide an offset.
Wed 18 Mar (10:45am)	Balance of Payments – Q4	Stable	We expect the annual current account deficit to remain stable as a share of GDP at 3.3%.
Thu 19 Mar (10:45am)	GDP – Q4	The last hurrah?	Quarterly growth of 0.6% is expected to see annual growth slow to 1.8%. COVID-19 impacts mean annual growth is likely to slow further in Q1 2020.
Wed 25 Mar (10:45am)	Overseas Merchandise Trade – February	Disruption	We'll be watching these data closely for a signal on how COVID-19 disruption has weighed on both sides of the trade balance.
Fri 27 Mar (10:00am)	ANZ Roy Morgan Consumer Confidence – March	--	--
Tue 31 Mar (10:45am)	Building Consents – February	High	Consents have been holding at a high level. While downside risks remain, recent resurgence in the housing market is expected to provide continued support.
Tue 31 Mar (1:00pm)	ANZ Business Outlook – March	--	--
Mon 6 Apr (1:00pm)	ANZ Commodity Price Index – March	--	--
Wed 8 Apr (early am)	GlobalDairyTrade auction	Easing	Reduced demand from China will weigh, potentially partially offset by reduced supply on the back of dry conditions.
On balance		**Data watch**	**The vibe has improved and we now see the OCR flat for the foreseeable future. Global risks are salient.**

Key forecasts and rates

	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21
GDP (% qoq)	0.7	**0.6**	**-0.1**	**0.5**	**1.1**	**0.6**	**0.7**	**0.7**	**0.7**
GDP (% yoy)	2.3	**1.8**	**1.3**	**1.7**	**2.1**	**2.1**	**2.9**	**3.1**	**2.7**
CPI (% qoq)	0.7	0.5	**0.4**	**0.2**	**0.8**	**0.3**	**0.6**	**0.3**	**0.7**
CPI (% yoy)	1.5	1.9	**2.1**	**1.7**	**1.8**	**1.7**	**1.9**	**2.1**	**2.0**
LCI Wages (% qoq)	0.6	0.6	**0.4**	**0.8**	**0.5**	**0.6**	**0.4**	**0.8**	**0.5**
LCI Wages (% yoy)	2.3	2.4	**2.5**	**2.5**	**2.4**	**2.4**	**2.4**	**2.4**	**2.4**
Employment (% qoq)	0.2	0.0	**0.3**	**0.4**	**0.4**	**0.5**	**0.4**	**0.4**	**0.4**
Employment (% yoy)	1.0	1.0	**1.3**	**1.0**	**1.1**	**1.6**	**1.7**	**1.7**	**1.7**
Unemployment Rate (% sa)	4.1	**4.0**	**4.2**	**4.1**	**4.2**	**4.1**	**4.1**	**4.1**	**4.1**
Current Account (% GDP)	-3.3	**-3.3**	**-3.5**	**-3.9**	**-4.1**	**-4.3**	**-4.3**	**-4.1**	**-4.0**
Terms of Trade (% qoq)	1.9	**0.9**	**1.0**	**-3.6**	**1.0**	**1.0**	**0.3**	**0.3**	**0.3**
Terms of Trade (% yoy)	1.0	**5.3**	**5.3**	**0.1**	**-0.7**	**-0.6**	**-1.3**	**2.6**	**1.9**

	Apr-19	May-19	Jun-19	Jul-19	Aug-19	Sep-19	Oct-19	Nov-19	Dec-19	Jan-20
Retail ECT (% mom)	0.9	-0.6	0.3	0.0	1.2	0.2	-0.5	3.0	-0.9	-0.1
Retail ECT (% yoy)	5.0	3.4	1.5	2.0	3.1	0.6	1.6	5.1	3.9	4.2
Car Registrations (% mom)	1.9	-2.1	-2.7	5.2	0.0	6.5	-6.6	-1.4	2.2	-4.7
Car Registrations (% yoy)	-0.5	-12.6	-11.0	-5.4	-5.2	4.7	-6.6	3.0	5.6	-3.5
Building Consents (% mom)	-8.5	16.1	-4.2	-1.2	0.7	7.0	-1.2	-8.4	9.9	--
Building Consents (% yoy)	-3.2	8.2	9.5	18.7	12.4	23.5	18.5	8.0	15.8	--
REINZ House Price Index (% yoy)	1.4	1.7	1.8	1.6	2.7	3.2	3.8	5.5	6.5	6.9
Household Lending Growth (% mom)	0.5	0.5	0.5	0.5	0.6	0.5	0.5	0.6	0.6	--
Household Lending Growth (% yoy)	5.9	6.0	5.9	5.9	6.0	6.1	6.2	6.3	6.5	--
ANZ Roy Morgan Consumer Conf.	123.2	119.3	122.6	116.4	118.2	113.9	118.4	120.7	123.3	122.7
ANZ Business Confidence	-37.5	-32.0	-38.1	-44.3	-52.3	-53.5	-42.4	-26.4	-13.2	--
ANZ Own Activity Outlook	7.1	8.5	8.0	5.0	-0.5	-1.8	-3.5	12.9	17.2	--
Trade Balance ($m)	361	175	330	-732	-1642	-1310	-1043	-791	547	--
Trade Bal ($m ann)	-5578	-5602	-4987	-5516	-5591	-5321	-5060	-4847	-4309	--
ANZ World Comm. Price Index (% mom)	2.6	0.0	-3.9	-1.4	0.3	0.0	1.2	4.3	-3.4	-0.9
ANZ World Comm. Price Index (% yoy)	2.2	0.7	-2.4	-0.5	0.9	3.4	7.2	12.4	8.7	5.7
Net Migration (sa)	3310	3860	3370	4080	4270	3850	3770	2490	3930	--
Net Migration (ann)	47966	47661	47273	47285	47344	46790	46751	44966	43765	--
ANZ Heavy Traffic Index (% mom)	2.5	0.9	-2.3	2.2	-3.5	3.4	2.8	-1.3	-2.5	4.8
ANZ Light Traffic Index (% mom)	0.2	0.8	-2.0	1.4	0.3	-0.3	0.2	1.3	-2.2	2.0
ANZ Monthly Inflation Gauge (% mom)	-0.1	0.2	0.5	0.5	0.3	0.3	0.3	0.1	0.4	0.6

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

Key forecasts and rates

	Actual			Forecast (end month)					
FX rates	Dec-19	Jan-20	Today	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21
NZD/USD	0.674	0.646	0.632	0.67	0.66	0.66	0.65	0.65	0.65
NZD/AUD	0.961	0.966	0.958	0.97	0.97	0.97	0.97	0.97	0.97
NZD/EUR	0.600	0.583	0.584	0.62	0.60	0.60	0.58	0.58	0.57
NZD/JPY	73.10	70.04	70.46	74.4	73.9	73.9	72.8	72.8	72.8
NZD/GBP	0.511	0.489	0.488	0.51	0.50	0.49	0.48	0.47	0.47
NZ$ TWI	73.70	71.63	71.01	74.6	73.4	73.3	72.0	71.8	71.6
Interest rates	Dec-19	Jan-20	Today	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21
NZ OCR	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
NZ 90 day bill	1.29	1.26	1.14	1.28	1.28	1.28	1.28	1.28	1.28
NZ 10-yr bond	1.65	1.30	1.22	1.25	1.20	1.35	1.50	1.40	1.40
US Fed funds	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75
US 3-mth	1.91	1.75	1.68	1.90	1.90	1.90	1.90	1.90	1.90
AU Cash Rate	0.75	0.75	0.75	0.75	0.50	0.25	0.25	0.25	0.25
AU 3-mth	0.92	0.88	0.89	0.95	0.70	0.45	0.45	0.45	0.45

	21-Jan	17-Feb	18-Feb	19-Feb	20-Feb	21-Feb
Official Cash Rate	1.00	1.00	1.00	1.00	1.00	1.00
90 day bank bill	1.27	1.19	1.18	1.17	1.16	1.14
NZGB 05/21	1.01	1.01	0.99	0.99	0.97	0.94
NZGB 04/23	1.09	1.03	1.00	1.00	0.96	0.92
NZGB 04/27	1.42	1.25	1.23	1.23	1.20	1.16
NZGB 04/33	1.78	1.57	1.55	1.56	1.53	1.47
2 year swap	1.22	1.12	1.10	1.11	1.08	1.04
5 year swap	1.35	1.20	1.17	1.18	1.15	1.11
RBNZ TWI	72.50	71.62	71.55	71.40	71.40	71.10
NZD/USD	0.6601	0.6435	0.6392	0.6399	0.6335	0.6349
NZD/AUD	0.9625	0.9572	0.9569	0.9560	0.9562	0.9580
NZD/JPY	72.61	70.70	70.14	70.60	71.05	70.86
NZD/GBP	0.5063	0.4937	0.4906	0.4929	0.4919	0.4898
NZD/EUR	0.5945	0.5932	0.5904	0.5925	0.5870	0.5853
AUD/USD	0.6858	0.6723	0.6680	0.6693	0.6626	0.6627
EUR/USD	1.1104	1.0847	1.0827	1.0801	1.0792	1.0847
USD/JPY	110.00	109.87	109.73	110.33	112.16	111.61
GBP/USD	1.3038	1.3033	1.3029	1.2982	1.2880	1.2964
Oil (US$/bbl)	58.34	52.05	52.05	53.29	53.78	53.38
Gold (US$/oz)	1554.83	1580.40	1587.32	1609.94	1610.69	1643.41
NZX 50	11805	11874	11936	11981	12065	12073
Baltic Dry Freight Index	689	434	450	465	480	497
NZX WMP Futures (US$/t)	3155	2955	2950	2910	2925	2925

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