ANZ Research

# New Zealand Weekly Focus

20 March 2020

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Contents




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## Gravity calling

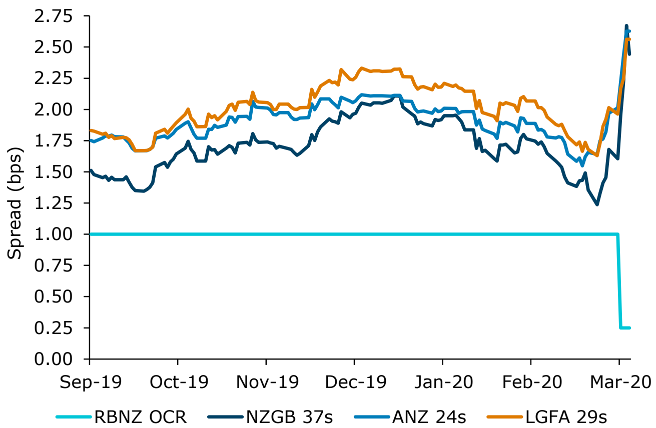
### Economic overview

The global and domestic slowdown is going to be severe. This realisation has seen financial markets all but capitulate and has galvanised policy makers. Central banks around the world have moved to large-scale stimulus and taken measures to ensure financial systems remain stable. Governments are doing what they can to cushion the blow. Here in New Zealand, the Government has announced a bold fiscal package, with more to come at May's Budget. The RBNZ has cut the OCR to 0.25%, committed to keeping it there for at least a year, freed up banking system capital, provided liquidity, and are active in the market – all positive steps. And yet more is needed. We expect quantitative easing in very short order. RBNZ bond purchases are urgently needed to ease market pressure, stimulate the economy, and reduce the risk that this large economic shock coincides with a financial one.

### Chart of the week

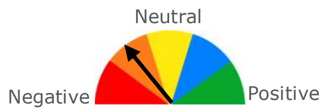
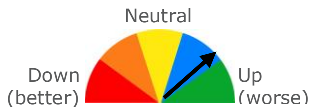
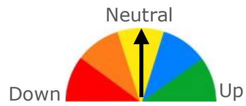
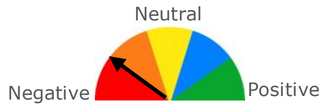
Domestic financial markets are in disarray. Financial conditions have perversely tightened, even as the RBNZ has eased monetary policy.

**The OCR and yields on selected bonds**




Source: Bloomberg, ANZ Research

### The ANZ heatmap

<table>
<tr><th>Variable</th><th>View</th><th>Comment</th><th>Risks around our view</th></tr>
<tr><td>GDP</td><td>-2.2% y/y for 2021 Q1</td><td>The coming domestic recession will be deep. It is highly uncertain. We expect GDP to fall by 3-4%, but it could be more.</td><td>
</td></tr>
<tr><td>Unemployment rate</td><td>7.1% for 2021 Q1</td><td>The labour market is set to deteriorate rapidly, with the unemployment rate set to rise significantly.</td><td>
</td></tr>
<tr><td>OCR / effective shadow rate</td><td>OCR at 0.25% in June 2020</td><td>A 0.25% OCR is here for at least 12 months, but more stimulus is on the way, with large-scale asset purchases the next move.</td><td>
</td></tr>
<tr><td>CPI</td><td>1.2% y/y for 2021 Q1</td><td>Inflation is currently around where it needs to be, but is set to slip and remain weak as the slowdown takes hold.</td><td>
</td></tr>
</table>

# Economic overview

**Note:** while developments are evolving so rapidly we will issue our ***Weekly Focus*** on Fridays, and follow up with a shorter, less structured update on Mondays. We will revert to our usual schedule once the pace of events cools.

## Summary

*The downturn is severe; QE needed imminently.*

The global and domestic slowdown is going to be severe. This realisation has seen financial markets all but capitulate and has galvanised policy makers. Central banks around the world have moved to large-scale stimulus and taken measures to ensure financial systems remain stable. Governments are doing what they can to cushion the blow. Here in New Zealand, the Government has announced a bold fiscal package, with more to come at May's Budget. The RBNZ has cut the OCR to 0.25%, committed to keeping it there for at least a year, freed up banking system capital, provided liquidity, and are active in the market – all positive steps. And yet more is needed. We expect quantitative easing in very short order. RBNZ bond purchases are urgently needed to ease market pressure, stimulate the economy, and reduce the risk that this large economic shock coincides with a financial one.

## Forthcoming data

**Overseas Merchandise Trade – February (Wednesday 25 March).** Watch for signals on how COVID-19 disruption has weighed on both imports and exports.

**ANZ Roy Morgan Consumer Confidence (Friday 27 March).**

## What's the view?

*The gravity of the situation is becoming clear.*

Over the past week, there has been an increasing awareness of the gravity of the economic shock that is unfolding globally. The COVID-19 outbreak puts the world in an unprecedented situation, both economically and socially. To save literally millions of lives, countries have imposed increasingly onerous limitations on the movement and interactions of people – a serviceable enough definition of what an "economy" is.

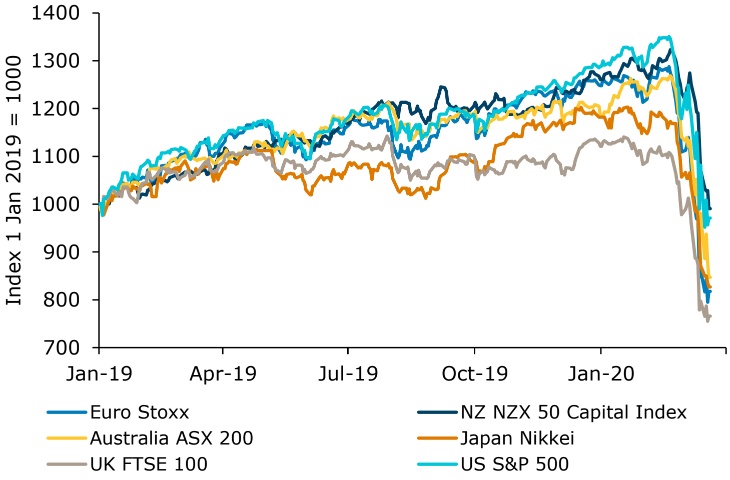
So far, New Zealand has no evidence of the sustained community outbreaks that have led to effective shutdowns of many countries overseas. But unfortunately that does not mean we will be unaffected. The main channels through which the economic is already being seriously impacted include:

*The domestic economy is being seriously impacted.*

- A sudden stop in international tourism – and caution about traveling is likely to largely prevent an offsetting lift in domestic tourism in the near term;
- Disruption to export logistics – although the situation in China is normalising, it is worsening elsewhere;
- Disruption to imports, causing an air bubble in the pipeline for a range of goods, including important inputs to manufacturing and construction, that will become more noticeable soon;
- A sharp global recession that will hit our commodity prices and other exports hard;
- A massive confidence shock that will dampen investment and employment, and on the household side, weaken the housing market and discretionary consumption;
- Wealth effects from equity price falls (figure 1, over);
- Widespread stresses in global and local financial markets in terms of liquidity and risk spreads putting pressure on corporates; and
- Social distancing, which is already hitting hospitality hard.

# Economic overview

**Figure 1. Global equities**




Source: Bloomberg

*The Government has announced a broad fiscal package.*

The Government has announced a broad $12.1bn (4% of GDP) COVID-19 response package, of which about half will be delivered before June 2020. The package includes:

- wage subsidies for businesses affected by COVID-19 in all regions and sectors for 12 weeks ($5.1bn);
- increased benefit support of $25 per week and an increase in the Winter Energy Payment ($2.8bn) – both are permanent;
- business tax changes to free up cash flow ($2.8bn), including re-introducing building depreciation, a provisional tax threshold lift, and writing off interest on late tax payments;
- A boost to health spending ($0.5bn); and
- Smaller initiatives including a self-isolation support, a worker redeployment package, and an aviation support package.

*There's more to come, with the outlook bleak.*

It is a very large spend-up, and the Government made it clear that there is more to come in the May Budget. However, the Government also didn't hide the fact that a recession cannot be avoided, and that times are grim indeed. The economy grew 1.8% in the year to December last year, but we expect that in 2020 the economy will shrink. How much is an extremely difficult question to answer, as it depends enormously on how the virus evolves both here and offshore, a question that economists are ill equipped to answer.

*We see GDP falling 3-4%.*

We are thinking about scenarios with a contraction in the range of 1-9% possible, depending on how developments play out. Impacts at the larger end of this range could be seen if there were to be a sustained community outbreak here, if credit markets were to seize up for a prolonged period, or both. A fall at the mild end would require that the virus is contained relatively quickly offshore (and avoided here) and that the recovery can therefore get underway sooner. Our best guess currently is that the economy will contract 3-4% this year (figure 2, over), even with significant fiscal and monetary stimulus. That is a considerably deeper recession than that seen following the Global Financial Crisis.

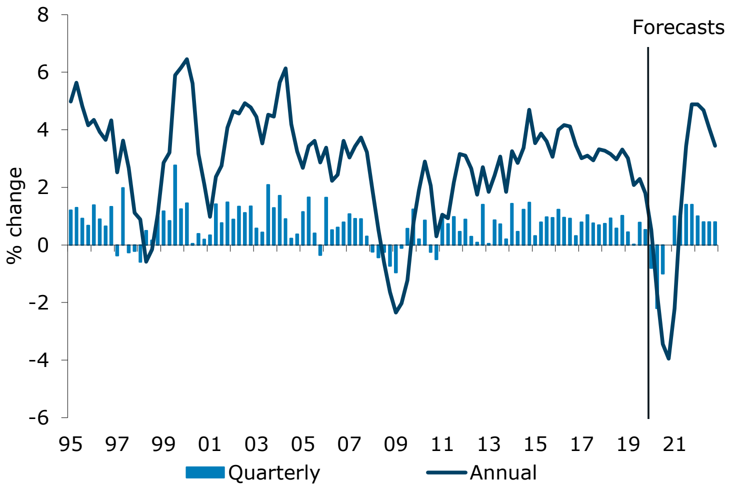
*The housing market will likely suffer.*

At this stage, we assume a recovery that gathers pace from the middle of next year. Strong rates of growth are then expected as the economy returns to something resembling normal. However, the bounce-back will not be complete. Unfortunately, some spending that would otherwise have happened will simply be lost.

# Economic overview

History tells us that where the economy goes the housing market follows. It's true that this is not a normal downturn, but with the outlook for incomes unclear, uncertainty rife, and social distancing a priority, the housing market looks set to weaken. We are pencilling in a fall in house prices of 3½%, in line with the slowdown in GDP. This is very conservative relative to the impacts we have seen in downturns over history, and there is significant downside risk if credit seizes up.

**Figure 2. ANZ GDP forecast**




Source: Statistics NZ, ANZ Research

*Unemployment is expected to rise.*

We expect the fall in GDP will see the unemployment rate rise to around 7%, with the Government's wage subsidy program preventing an even worse blowout, at least in the near term. The labour market typically lags the economic cycle, but this time we might see something more front-loaded. Depending on different scenarios, unemployment is expected to rise to somewhere in the range of 6-10%, but again this – and the timing – is highly uncertain.

*Inflation to undershoot.*

Inflation is expected to be persistently weaker, and undershoot the RBNZ's inflation target over the medium term. This is all despite the significant fiscal and monetary stimulus that has been announced. More will clearly be needed.

*The fiscal cost will be large, with debt set to rise.*

The fiscal cost of this crisis will end up being much larger than what has been announced so far. We think net core Crown debt may need to increase $60-120bn. That would take net government debt from less than 20% of GDP today to 30-50%, and would require am increase in bond issuance of around $50bn cumulatively to June 2024.

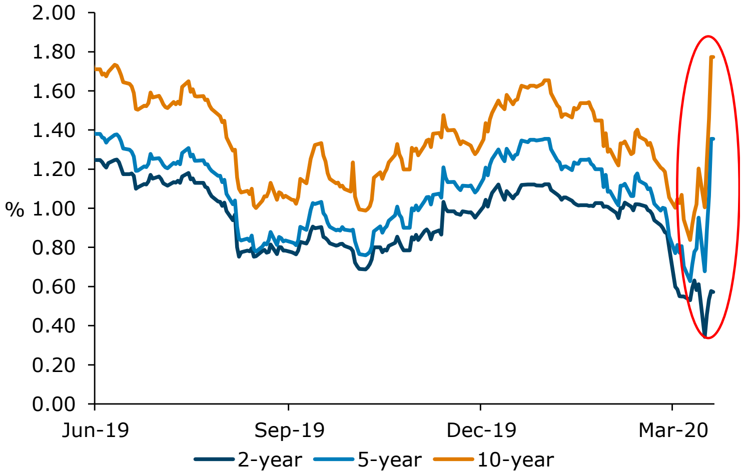
To fund the package announced this week, for the remainder of this fiscal year (to June), DMO has announced an extra $3bn of bond issuance and the same of T-bills. In addition, there will be no buy-back of the 2021 bond, providing another $1.25bn.

The outlook for funding and the fiscal position for the following three fiscal years will be announced at the Budget in May. We think annual gross NZGB issuance for 2021/22 could increase beyond the circa $20bn issued in 2011.

*Bond markets are struggling.*

Bond markets have not taken the news well. In short, it's a lot of government debt for the market to absorb, and as a result, bond yields have risen very sharply, more than unwinding the initial fall that was seen in anticipation and delivery of monetary policy easing (figure 3).

**Figure 3. New Zealand bond yields**




Source: Bloomberg

*Financial conditions have tightened.*

The surge in bond yields represents a significant tightening in financial conditions, working in the opposite direction to the 75bp cut in the OCR that the RBNZ delivered last week. And it isn't just an issue isolated to government bond markets; it is indicative of broader financial market stresses (see FX/Rates overview, page 7, for more details).

The RBNZ has made it clear that they stand ready to support the smooth functioning of the financial system, in addition to the significant easing of monetary policy we saw this week. They have:

*The RBNZ has taken a range of steps.*

- Cut the OCR 75bps to 0.25%;
- Committed to keep the OCR there for at least 12 months;
- Delayed increases in bank capital requirements;
- Implemented a new term auction facility to provide liquidity to banks;
- Established a swap line with the Federal Reserve to help provide USD liquidity up to USD30bn;
- Intervened in FX swap markets;
- Changed penalty rates on bank cash balances so that markets can trade near OCR, even if there is excess cash;
- Have been active in government bond markets; and
- Signalled that they remain prepared to act further to ensure the system operates smoothly, including by conducting large-scale asset purchases.

It's a long list, and these are significant measures – consistent with the enormity of the problems we are dealing with. The provision of a term auction facility announced today is a helpful step, in particular, to help ease credit strains.

*But ultimately, large-scale QE is needed….*

And yet, even more is required. Large-scale intervention in the bond market is needed urgently. The Reserve Bank actually has a mandate to do this now, outside the scope of "unconventional policy", to ensure that the market can trade in a manner consistent with monetary policy settings. But over and above that, even more monetary easing is required in order to provide more stimulus, calm market jitters and ease credit strains.

*….urgently.*

A move to large-scale asset purchases ("quantitative easing", or "QE") is needed very urgently, We expect QE to be announced very soon indeed, and it needs to be large given how dysfunctional markets are at present. We expect QE could be in the order of $15-20bn per year. That's big; somewhere in the order of 5-7% of GDP. See our NZ Insight note from Wednesday for more detail.

# Economic overview

*That's consistent with central banks around the world.*

Major central banks are there already, with the Federal Reserve, ECB, Bank of England and Bank of Japan announcing enormous debt-buying programmes to ease the economic and financial blow. The Reserve Bank of Australia has also committed to buying Australian government bonds across the curve to ensure that the market trades near OCR. We expect action from the RBNZ in coming days, not weeks.

*This is a war.*

Over the past 12 years we have seen government debt rise to extremely high levels without constraint, since central banks have been able to fund it without a great deal in the way of negative consequences, inflationary or otherwise. Borrowing freshly printed money from yourself is a neat trick. It's a trick often seen in wartime, in fact, and this is a war, make no mistake. We'll find out eventually whether the strategy can keep working ad infinitum, but inflation is clearly a problem for another day, with the oil price plummeting this week to just over USD20/bbl and demand dropping like a stone.

## The week ahead

This week we'll get reads on the very initial impact of the COVID-19 crisis on trade flows (Wednesday) and consumer confidence (Friday).

## Local data

**GlobalDairyTrade auction.** The GDT Price Index fell 3.9%, a much milder fall than futures were suggesting. It's true that the cause isn't great – dry conditions across the North Island curtailing production, but we'll take it.

**Balance of Payments – Q4.** The current account narrowed to 3.0% of GDP.

**GDP – Q4.** The economy expanded 0.5% q/q (1.8% y/y).

## 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 - Challenging the status quo
- GDP Outlook and Q4 Review – The good old days
- NZ Insight: RBNZ intervention urgently needed
- Current Account – Entering the slowdown
- ANZ NZ Monthly Inflation Gauge – Starting to slip

# FX / rates overview

## Summary

*The OCR cut was bold but bond markets are running scared of fiscal expansion.*

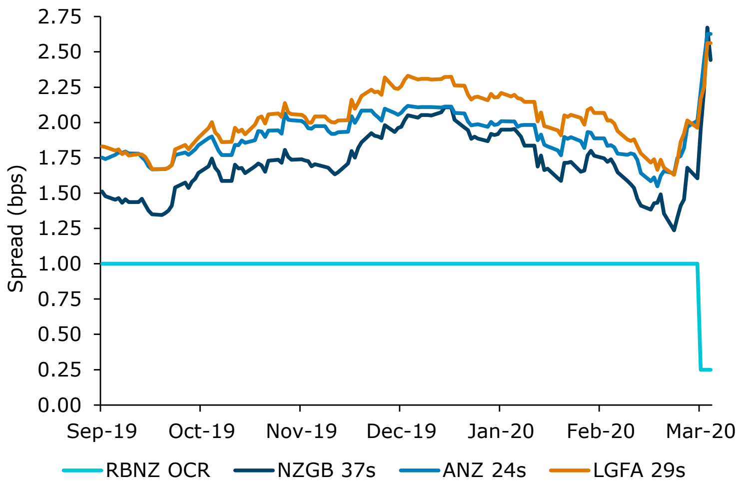
The RBNZ's decision to cut the OCR to 0.25% and commitment to keeping it at that level for at least 12 months on Monday was a bold move, as was the announcement that large-scale purchases of NZGBs (QE) would be their likely next move if additional stimulus should prove needed. However, the move was overshadowed by the Government's $12bn fiscal package, which coincided with large fiscal stimulus plans announced in other countries. This perversely drove long-term bond yields higher. We expect that move to reverse in the wake of the RBNZ's liquidity announcements today, large-scale QE underway offshore, and with RBNZ expected to begin QE soon. NZD volatility has been significant, but our growth forecasts point to further weakness.

## Rates

*Markets had become dislocated but help has arrived.*

Bond market moves this week have been extremely convoluted, with large-scale fiscal easing and poor liquidity contributing to sharp moves higher and steeper initially, and central bank provision of liquidity and ramping up of QE later in the week contributing to those moves reversing a little. Central banks have struggled to keep up, but they are now back on the front foot, with QE underway in Australia and across most major markets – and imminent here. NZGB yields are significantly higher than where we would expect them to be given where the OCR is, but newly-announced RBNZ liquidity initiatives have helped soothe funding concerns here. We expect curves to resume flattening and credit spreads to start narrowing as fresh liquidity is injected and as QE gets underway here very soon.

**Figure 1. The OCR and yields on selected bonds**




Source: Bloomberg, ANZ Research

## FX

*More NZD weakness is expected but not all currencies can depreciate at the same time.*

FX volatility has been significant, but we expect the NZD to remain under pressure as the COVID-19 crisis unfolds. As a large food exporter, we expect NZ to be well placed eventually, but the near-term hit to growth is front and centre and New Zealand's greater reliance on trade and tourism do speak to a lower Kiwi. However, the hit to growth is a global phenomenon and not all currencies can depreciate simultaneously. The NZD has also already come a long way now. We do expect markets to stop focussing on things like interest rate differentials (which have been significant drivers of FX over the past two decades) and instead start focussing on old-fashioned economic concepts like current accounts and trade flows. The domestic economy is stressed and QE is imminent. Although FX markets are rewarding central banks and governments for bold moves, the structure of the market still matters. With significant offshore capital already deployed in NZ's capital markets already, the risk is that QE sees capital outflows, which will weigh on the NZD.

# Data calendar

| Date | Country | Data/event | Mkt. | Last | NZ time |
|---|---|---|---|---|---|
| 20-Mar | NZ | Credit Card Spending MoM - Feb | -- | 1.3% | 15:00 |
| | NZ | Credit Card Spending YoY - Feb | -- | 3.7% | 15:00 |
| | GE | PPI MoM - Feb | -0.2% | 0.8% | 20:00 |
| | GE | PPI YoY - Feb | 0.2% | 0.2% | 20:00 |
| | EC | ECB Current Account SA - Jan | -- | €32.6B | 22:00 |
| | UK | Public Finances (PSNCR) - Feb | -- | -€18.8B | 22:30 |
| | UK | Public Sector Net Borrowing - Feb | €0.7B | -€10.5B | 22:30 |
| | UK | PSNB ex Banking Groups - Feb | €0.8B | -€9.8B | 22:30 |
| 21-Mar | US | Existing Home Sales - Feb | 5.51M | 5.46M | 03:00 |
| | US | Existing Home Sales MoM - Feb | 0.9% | -1.3% | 03:00 |
| 24-Mar | US | Chicago Fed Nat Activity Index - Feb | -- | -0.25 | 01:30 |
| | EC | Consumer Confidence - Mar A | -14.0 | -6.6 | 04:00 |
| | AU | CBA PMI Mfg - Mar P | -- | 50.2 | 11:00 |
| | AU | CBA PMI Services - Mar P | -- | 49.0 | 11:00 |
| | AU | CBA PMI Composite - Mar P | -- | 49.0 | 11:00 |
| | AU | ANZ-RM Consumer Confidence Index - 22-Mar | -- | 100.0 | 11:30 |
| | JN | Jibun Bank PMI Mfg - Mar P | -- | 47.8 | 13:30 |
| | JN | Jibun Bank PMI Services - Mar P | -- | 46.8 | 13:30 |
| | JN | Jibun Bank PMI Composite - Mar P | -- | 47.0 | 13:30 |
| | GE | Markit/BME Manufacturing PMI - Mar P | 40.0 | 48.0 | 21:30 |
| | GE | Markit Services PMI - Mar P | 42.0 | 52.5 | 21:30 |
| | GE | Markit/BME Composite PMI - Mar P | 43.7 | 50.7 | 21:30 |
| | EC | Markit Manufacturing PMI - Mar P | 41.0 | 49.2 | 22:00 |
| | EC | Markit Services PMI - Mar P | 43.0 | 52.6 | 22:00 |
| | EC | Markit Composite PMI - Mar P | 43.3 | 51.6 | 22:00 |
| | UK | Markit PMI Manufacturing SA - Mar P | 49.0 | 51.7 | 22:30 |
| | UK | Markit/CIPS Services PMI - Mar P | 48.0 | 53.2 | 22:30 |
| | UK | Markit/CIPS Composite PMI - Mar P | -- | 53.0 | 22:30 |
| | GE | Import Price Index MoM - Feb | -- | -0.4% | 03/31 |
| | GE | Import Price Index YoY - Feb | -- | -0.9% | 03/31 |
| 25-Mar | US | Markit Manufacturing PMI - Mar P | 45.0 | 50.7 | 02:45 |
| | US | Markit Services PMI - Mar P | 44.0 | 49.4 | 02:45 |
| | US | Markit Composite PMI - Mar P | -- | 49.6 | 02:45 |
| | US | New Home Sales - Feb | 750k | 764k | 03:00 |
| | US | New Home Sales MoM - Feb | -1.8% | 7.9% | 03:00 |
| | US | Richmond Fed Manufact. Index - Mar | -4 | -2 | 03:00 |
| | NZ | Trade Balance NZD - Feb | -- | -340M | 10:45 |
| | NZ | Trade Balance 12 Mth YTD NZD - Feb | -- | -3866M | 10:45 |
| | NZ | Exports NZD - Feb | -- | 4.73B | 10:45 |
| | NZ | Imports NZD - Feb | -- | 5.07B | 10:45 |
| | AU | Skilled Vacancies MoM - Feb | -- | 0.7% | 13:00 |
| | GE | IFO Business Climate - Mar F | -- | 87.7 | 22:00 |
| | GE | IFO Expectations - Mar F | -- | 82.0 | 22:00 |
| | GE | IFO Current Assessment - Mar F | -- | 93.8 | 22:00 |
| | UK | CPI MoM - Feb | -- | -0.3% | 22:30 |
| | UK | CPI YoY - Feb | 1.7% | 1.8% | 22:30 |
| | UK | CPI Core YoY - Feb | -- | 1.6% | 22:30 |
| | UK | RPI MoM - Feb | -- | -0.4% | 22:30 |

Continued on following page

# Data calendar

| Date | Country | Data/event | Mkt. | Last | NZ time |
|---|---|---|---|---|---|
| 25-Mar | UK | RPI YoY - Feb | -- | 2.7% | 22:30 |
| | UK | RPI Ex Mort Int.Payments (YoY) - Feb | -- | 2.8% | 22:30 |
| | UK | PPI Input NSA MoM - Feb | -- | 0.9% | 22:30 |
| | UK | PPI Input NSA YoY - Feb | -- | 2.1% | 22:30 |
| | UK | PPI Output NSA MoM - Feb | -- | 0.3% | 22:30 |
| | UK | PPI Output NSA YoY - Feb | -- | 1.1% | 22:30 |
| | UK | PPI Output Core NSA MoM - Feb | -- | 0.1% | 22:30 |
| | UK | PPI Output Core NSA YoY - Feb | -- | 0.7% | 22:30 |
| | UK | House Price Index YoY - Jan | -- | 2.2% | 22:30 |
| 26-Mar | US | MBA Mortgage Applications - 20-Mar | -- | -8.4% | 00:00 |
| | US | Durable Goods Orders - Feb P | -0.8% | -0.2% | 01:30 |
| | US | Durables Ex Transportation - Feb P | -0.3% | 0.8% | 01:30 |
| | US | FHFA House Price Index MoM - Jan | -- | 0.6% | 02:00 |
| | JN | PPI Services YoY - Feb | 2.2% | 2.3% | 12:50 |
| | GE | GfK Consumer Confidence - Apr | 7.8 | 9.8 | 20:00 |
| | EC | M3 Money Supply YoY - Feb | 5.1% | 5.2% | 22:00 |
| | UK | Retail Sales Ex Auto Fuel MoM - Feb | | -- | 1.6% |
| | UK | Retail Sales Ex Auto Fuel YoY - Feb | -- | 1.2% | 22:30 |
| | UK | Retail Sales Inc Auto Fuel MoM - Feb | 0.1% | 0.9% | 22:30 |
| | UK | Retail Sales Inc Auto Fuel YoY - Feb | 0.6% | 0.8% | 22:30 |
| 27-Mar | UK | Bank of England Bank Rate - Mar | -- | 0.10% | 01:00 |
| | US | Advance Goods Trade Balance - Feb | -$64.2B | -$65.9B | 01:30 |
| | US | Wholesale Inventories MoM - Feb P | -- | -0.4% | 01:30 |
| | US | GDP Annualized QoQ - Q4 T | 2.1% | 2.1% | 01:30 |
| | US | GDP Price Index - Q4 T | 1.3% | 1.3% | 01:30 |
| | US | Core PCE QoQ - Q4 T | -- | 1.2% | 01:30 |
| | US | Personal Consumption - Q4 T | -- | 1.7% | 01:30 |
| | US | Initial Jobless Claims - 21-Mar | -- | 281k | 01:30 |
| | US | Continuing Claims - 14-Mar | -- | 1701k | 01:30 |
| | US | Kansas City Fed Manf. Activity - Mar | -- | 5 | 04:00 |
| | NZ | ANZ Consumer Confidence MoM - Mar | -- | -0.5% | 10:00 |
| | NZ | ANZ Consumer Confidence Index - Mar | -- | 122.1 | 10:00 |
| | JN | Tokyo CPI YoY - Mar | 0.3% | 0.4% | 12:30 |
| | JN | Tokyo CPI Ex-Fresh Food YoY - Mar | 0.4% | 0.5% | 12:30 |
| | JN | Tokyo CPI Ex-Fresh Food, Energy YoY - Mar | 0.6% | 0.7% | 12:30 |
| | CH | BoP Current Account Balance - Q4 F | -- | $40.1B | UNSPECIFIED |
| | GE | Retail Sales MoM - Feb | 0.0% | 1.0% | 27 Mar - 3 Apr |
| | GE | Retail Sales NSA YoY - Feb | 1.5% | 2.1% | 27 Mar - 3 Apr |
| 28-Mar | US | Personal Income - Feb | 0.4% | 0.6% | 01:30 |
| | US | Personal Spending - Feb | 0.3% | 0.2% | 01:30 |
| | US | PCE Deflator MoM - Feb | 0.1% | 0.1% | 01:30 |
| | US | PCE Deflator YoY - Feb | 1.7% | 1.7% | 01:30 |
| | US | PCE Core Deflator MoM - Feb | 0.2% | 0.1% | 01:30 |
| | US | PCE Core Deflator YoY - Feb | 1.7% | 1.6% | 01:30 |
| | US | U. of Mich. Sentiment - Mar F | 94.0 | 95.9 | 03:00 |

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

| Date | Data/event | Economic signal | Comment |
|---|---|---|---|
| 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 (3:00pm) | RBNZ sectoral lending – February | Watching | Emerging risks are likely boosting deposits. Not a great way to close the funding gap. |
| Tue 31 Mar (10:45am) | Building Consents – February | High | Recent resurgence in the housing market is expected to provide continued support – for now. |
| Tue 31 Mar (1:00pm) | ANZ Business Outlook – March | -- | -- |
| Mon 6 Apr (1:00pm) | ANZ Commodity Price Index – March | -- | -- |
| Tue 7 Apr (10:00am) | NZIER Quarterly Survey of Business Opinion – Q1 | Hit | With COVID-19 uncertainty weighing and a near-tern hit to activity in the pipeline, expect sentiment to slide. |
| Wed 8 Apr (early am) | GlobalDairyTrade auction | Weaker | The emerging global downturn is expected to weigh on dairy prices. |
| Thu 9 Apr (10:00am) | ANZ Truckometer – March | -- | -- |
| Tue 14 Apr (10:45am) | Net Migration – February | Easing | These data are noisy, but we'll be looking for confirmation that the cycle has been easing, albeit with a 3 quarter lag. |
| 14-17 Apr | REINZ housing data – March | More muted? | The housing market has been holding up into the new year. We expect a slowing at some point soon. |
| Wed 15 Apr (10:45am) | Food Price Index – March | Dip | Food prices are expected to slip slightly. Supply disruption into China presents some downside. |
| Wed 15 Apr (10:45am) | Rental Price Index – March | Small rise | Continued increases in rental prices should support a quarterly rise in CPI rents. |
| Thu 16 Apr (1:00pm) | ANZ Monthly Inflation Gauge – March | -- | -- |
| Mon 20 Apr (10:45am) | Consumer Price Index – Q1 | Above 2% | We've pencilled in 0.4% q/q (2.1% y/y) for headline inflation, but the price impacts of COVID-19 disruption are uncertain. Risks to the medium-term outlook are to the downside. |
| Wed 22 Apr (early am) | GlobalDairyTrade auction | Weaker | The emerging global downturn is expected to outweigh tightening supply due to drought. |
| Wed 29 Apr (10:45am) | Overseas Merchandise Trade – March | 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. |
| Thu 31 Apr (1:00pm) | ANZ Business Outlook – April | -- | -- |
| Fri 1 May (10:00am) | ANZ Roy Morgan Consumer Confidence – April | -- | -- |
| Tue 5 May (10:45am) | Building Consents – March | For now | Recent resurgence in the housing market is expected to provide continued support – for now. |
| Tue 5 May (1:00pm) | ANZ Commodity Price Index – March | -- | -- |
| Wed 6 May (early am) | GlobalDairyTrade auction | Weaker | Global economic weakness and the seasonal lift in Northern Hemisphere production will put downward pressure on prices. |
| Wed 6 May (10:45am) | Labour Market Statistics – Q1 | Already | Expect deterioration in the labour market, with job losses already being seen. |
| Thu 7 May (3:00pm) | RBNZ Inflation Expectations Survey – Q2 | Lower | Likely to move lower, especially with oil prices having fallen and demand dropping. |
| **On balance** | | **Data watch** | **Risks are clearly tilted to the downside, with global developments evolving rapidly.** |

# Key forecasts and rates

| | Dec-19 | Mar-20 | Jun-20 | Sep-20 | Dec-20 | Mar-21 | Jun-21 | Sep-21 | Dec-21 |
|---|---|---|---|---|---|---|---|---|---|
| GDP (% qoq) | 0.5 | **-0.8** | **-2.2** | **-1.0** | **0.0** | **1.0** | **1.0** | **1.4** | **1.4** |
| GDP (% yoy) | 1.8 | **0.5** | **-1.7** | **-3.4** | **-4.0** | **-2.2** | **1.0** | **3.4** | **4.9** |
| CPI (% qoq) | 0.5 | **0.3** | **0.1** | **0.4** | **0.1** | **0.5** | **0.3** | **0.5** | **0.1** |
| CPI (% yoy) | 1.9 | **2.0** | **1.6** | **1.3** | **1.0** | **1.2** | **1.5** | **1.5** | **1.5** |
| LCI Wages (% qoq) | 0.6 | **0.4** | **0.8** | **0.4** | **0.4** | **0.2** | **0.6** | **0.3** | **0.4** |
| LCI Wages (% yoy) | 2.4 | **2.5** | **2.4** | **2.2** | **2.0** | **1.8** | **1.6** | **1.5** | **1.5** |
| Employment (% qoq) | 0.0 | **-0.5** | **-0.8** | **-0.8** | **0.0** | **0.1** | **0.9** | **0.9** | **1.2** |
| Employment (% yoy) | 1.0 | **0.4** | **-1.0** | **-2.0** | **-2.1** | **-1.5** | **0.2** | **1.9** | **3.1** |
| Unemployment Rate (% sa) | 4.0 | **4.9** | **6.0** | **7.0** | **7.0** | **7.1** | **6.6** | **6.3** | **6.3** |
| Current Account (% GDP) | -3.0 | **-3.0** | **-3.3** | **-3.5** | **-3.9** | **-4.0** | **-3.8** | **-3.6** | **-3.5** |
| Terms of Trade (% qoq) | 2.6 | **1.1** | **-4.6** | **0.5** | **1.2** | **0.2** | **0.3** | **0.3** | **0.3** |
| Terms of Trade (% yoy) | 6.9 | **7.0** | **0.6** | **-0.6** | **-1.9** | **-2.8** | **2.2** | **2.1** | **1.1** |

| | May-19 | Jun-19 | Jul-19 | Aug-19 | Sep-19 | Oct-19 | Nov-19 | Dec-19 | Jan-20 | Feb-20 |
|---|---|---|---|---|---|---|---|---|---|---|
| Retail ECT (% mom) | -0.6 | 0.3 | 0.0 | 1.2 | 0.4 | -0.5 | 2.7 | -0.6 | -0.2 | 0.6 |
| Retail ECT (% yoy) | 3.4 | 1.5 | 2.0 | 3.1 | 0.6 | 1.6 | 5.1 | 3.9 | 4.2 | 8.6 |
| Car Registrations (% mom) | -2.1 | -2.8 | 5.1 | -0.1 | 6.7 | -6.8 | -1.3 | 2.3 | -4.5 | 4.6 |
| Car Registrations (% yoy) | -12.6 | -11.0 | -5.4 | -5.2 | 4.7 | -6.6 | 3.0 | 5.6 | -3.5 | -0.3 |
| Building Consents (% mom) | 16.2 | -4.2 | -1.2 | 0.8 | 6.9 | -1.3 | -8.5 | 9.8 | -2.0 | -- |
| Building Consents (% yoy) | 8.3 | 9.5 | 18.7 | 12.5 | 23.6 | 18.6 | 8.0 | 15.8 | 1.6 | -- |
| REINZ House Price Index (% yoy) | 1.7 | 1.8 | 1.6 | 2.7 | 3.2 | 3.8 | 5.5 | 6.5 | 7.0 | 8.6 |
| Household Lending Growth (% mom) | 0.5 | 0.5 | 0.5 | 0.6 | 0.5 | 0.5 | 0.6 | 0.6 | 0.6 | -- |
| Household Lending Growth (% yoy) | 6.0 | 5.9 | 5.9 | 6.0 | 6.1 | 6.2 | 6.3 | 6.5 | 6.6 | -- |
| ANZ Roy Morgan Consumer Conf. | 119.3 | 122.6 | 116.4 | 118.2 | 113.9 | 118.4 | 120.7 | 123.3 | 122.7 | 122.1 |
| ANZ Business Confidence | -32.0 | -38.1 | -44.3 | -52.3 | -53.5 | -42.4 | -26.4 | -13.2 | .. | -19.4 |
| ANZ Own Activity Outlook | 8.5 | 8.0 | 5.0 | -0.5 | -1.8 | -3.5 | 12.9 | 17.2 | .. | 12.0 |
| Trade Balance ($m) | 175 | 330 | -732 | -1642 | -1310 | -1038 | -785 | 384 | -340 | -- |
| Trade Bal ($m ann) | -5602 | -4987 | -5516 | -5591 | -5321 | -5055 | -4836 | -4460 | -3866 | -- |
| ANZ World Comm. Price Index (% mom) | 0.0 | -3.9 | -1.4 | 0.3 | 0.0 | 1.2 | 4.3 | -3.4 | -0.9 | -2.1 |
| ANZ World Comm. Price Index (% yoy) | 0.7 | -2.4 | -0.5 | 0.9 | 3.4 | 7.2 | 12.4 | 8.7 | 5.6 | 0.6 |
| Net Migration (sa) | 3860 | 3370 | 4080 | 4270 | 3850 | 3770 | 2490 | 3930 | 6490 | -- |
| Net Migration (ann) | 47661 | 47273 | 47285 | 47344 | 46790 | 46751 | 44966 | 43765 | 56501 | -- |
| ANZ Heavy Traffic Index (% mom) | 0.9 | -2.3 | 2.3 | -3.5 | 3.3 | 2.8 | -1.4 | -2.7 | 5.0 | -3.0 |
| ANZ Light Traffic Index (% mom) | 0.8 | -2.0 | 1.4 | 0.3 | -0.3 | 0.2 | 1.3 | -2.2 | 1.9 | -0.7 |
| ANZ Monthly Inflation Gauge (% mom) | 0.2 | 0.5 | 0.5 | 0.3 | 0.3 | 0.3 | 0.1 | 0.4 | 0.6 | 0.1 |

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

# Key forecasts and rates

| | 20-Feb | 16-Mar | 17-Mar | 18-Mar | 19-Mar | 20-Mar |
|---|---|---|---|---|---|---|
| Official Cash Rate | 1.00 | 0.25 | 0.25 | 0.25 | 0.25 | 0.25 |
| 90 day bank bill | 1.16 | 0.64 | 0.66 | 0.68 | 0.69 | 0.69 |
| NZGB 05/21 | 0.97 | 0.34 | 0.46 | 0.54 | 0.58 | 0.39 |
| NZGB 04/23 | 0.96 | 0.49 | 0.70 | 0.84 | 1.02 | 0.79 |
| NZGB 04/27 | 1.20 | 0.86 | 1.07 | 1.26 | 1.53 | 1.31 |
| NZGB 04/33 | 1.53 | 1.35 | 1.65 | 1.91 | 2.29 | 2.07 |
| 2 year swap | 1.08 | 0.63 | 0.70 | 0.73 | 0.74 | 0.72 |
| 5 year swap | 1.15 | 0.70 | 0.86 | 0.92 | 1.06 | 1.00 |
| RBNZ TWI | 71.40 | 68.67 | 69.14 | 68.33 | 65.79 | 65.79 |
| NZD/USD | 0.6335 | 0.6040 | 0.5951 | 0.5862 | 0.5669 | 0.5674 |
| NZD/AUD | 0.9562 | 0.9783 | 0.9918 | 0.9885 | 0.9910 | 0.9914 |
| NZD/JPY | 71.05 | 63.98 | 63.69 | 62.91 | 62.06 | 62.89 |
| NZD/GBP | 0.4919 | 0.4913 | 0.4918 | 0.4888 | 0.4924 | 0.4939 |
| NZD/EUR | 0.5870 | 0.5409 | 0.5397 | 0.5329 | 0.5257 | 0.5323 |
| AUD/USD | 0.6626 | 0.6173 | 0.6001 | 0.5930 | 0.5721 | 0.5724 |
| EUR/USD | 1.0792 | 1.1166 | 1.1028 | 1.1000 | 1.0783 | 1.0666 |
| USD/JPY | 112.16 | 105.92 | 107.02 | 107.32 | 109.48 | 110.81 |
| GBP/USD | 1.2880 | 1.2295 | 1.2100 | 1.1992 | 1.1514 | 1.1490 |
| Oil (US$/bbl) | 53.78 | 28.70 | 26.95 | 20.37 | 25.08 | 25.08 |
| Gold (US$/oz) | 1610.69 | 1478.08 | 1466.92 | 1495.88 | 1475.41 | 1471.40 |
| NZX 50 | 12065 | 9477 | 9434 | 9455 | 9115 | 9148 |
| Baltic Dry Freight Index | 480 | 623 | 612 | 629 | 630 | 630 |
| NZX WMP Futures (US$/t) | 2925 | 2745 | 2790 | 2620 | 2600 | 2580 |

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