ANZ Research

New Zealand Weekly Focus

14 April 2020

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The long road to recovery

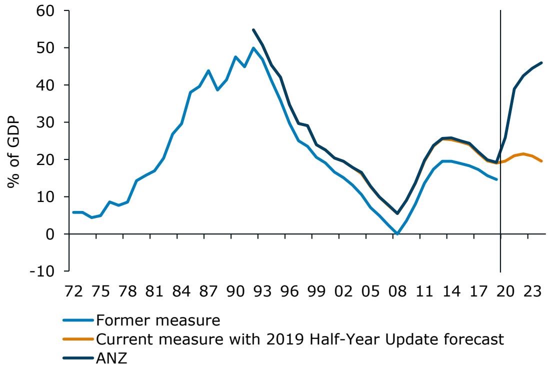
Economic overview

As the economic landscape has shifted, so too has the Government's fiscal strategy. Government debt is expected to spike higher over the next couple of years, and some difficult decisions lie ahead for when we eventually need to rebuild buffers. For now, fiscal policy is still in the early stages of absorbing the initial blow, with more spending to come. Fiscal costs will depend on outbreak developments, the economic fallout, and policy decisions that are yet to be announced. But at this stage we expect bond issuance to increase to $45bn next fiscal year. While we are making significant progress in containing the COVID-19 outbreak, restrictions on activity are likely to be eased very cautiously. We now expect GDP to fall around 22% in the first half of the year and to be 8-10% lower over the year, with extra Government and RBNZ support. The unemployment rate is expected to lift to 11% this quarter. Consistent with a weaker economic outlook and the expected path of bond issuance, RBNZ QE is expected to roughly double to around $60bn in order to support market functioning and ease monetary conditions further.

Chart of the week

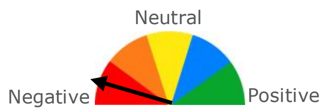
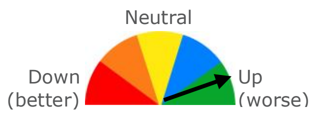
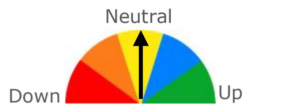
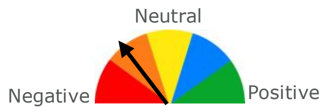
Large fiscal deficits and a sharp increase in core Crown net debt is on the cards.

Core Crown net debt



Source: The Treasury, ANZ Research

The ANZ heatmap

Variable	View	Comment	Risks around our view
GDP	-5.5% y/y for 2021 Q1	Highly uncertain, but we know the coming domestic recession will be deep. We expect a bounce, even if some activity is never regained.	
Unemployment rate	8.7% for 2021 Q1	The labour market is set to deteriorate rapidly, with the unemployment rate set to rise significantly.	
Monetary policy	OCR at 0.25% in June 2020	A 0.25% OCR is here for at least 12 months. We expect QE to be roughly doubled to $60bn to keep bond curves low and flat.	
CPI	0.9% y/y for 2021 Q1	Inflation is currently around where it needs to be, but is set to slip and remain weak as the slowdown takes hold.	

Economic overview

Summary

Government debt is lifting markedly as the economy shrinks.

As the economic landscape has shifted, so too has the Government's fiscal strategy. Government debt is expected to spike higher over the next couple of years, and some difficult decisions lie ahead for when we eventually need to rebuild buffers. For now, fiscal policy is still in the early stages of absorbing the initial blow, with more spending to come. Fiscal costs will depend on outbreak developments, the economic fallout, and policy decisions that are yet to be announced. But at this stage we expect bond issuance to increase to $45bn next fiscal year. While we are making significant progress in containing the COVID-19 outbreak, restrictions on activity are likely to be eased very cautiously. We now expect GDP to fall around 22% in the first half of the year and to be 8-10% lower over the year, with extra Government and RBNZ support. The unemployment rate is expected to lift to 11% this quarter. Consistent with a weaker economic outlook and the expected path of bond issuance, RBNZ QE is expected to roughly double to around $60bn in order to support market functioning and ease monetary conditions further.

Forthcoming data

REINZ housing market data – March (Wednesday 15 April, 9:00am). These data should begin to show a few signs of softening in March, but the big hit to housing turnover will not show until the April data are released next month.

Food Price Index – March (Wednesday 15 April, 10:45am). Food prices typically lift around 0.5% in March. However, this March is different. There has been strong demand for groceries, but weak demand for restaurant meals. We think the former will dominate, with the FPI up more than 1% m/m.

Rental Price Index – March (Wednesday 15 April, 10:45am). Rent freezes didn't kick in until late in the month, but fewer students were arriving in the country already, taking the pressure off. Normally up around 0.3% m/m in March; we think 0.1-0.2% is more likely.

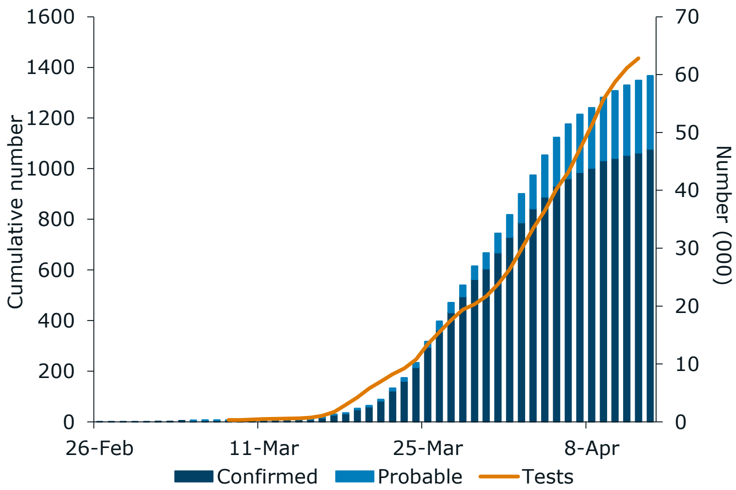
ANZ Monthly Inflation Gauge – March (Thursday 16 April, 1:00pm).

What's the view?

This week we discuss the broader fiscal implications of the COVID-19 shock and how we see things playing out over the years ahead. We have also downgraded our forecasts.

NZ is making great progress at controlling the outbreak…

Figure 1. New daily COVID-19 cases in New Zealand



Source: Ministry of Health

Economic overview

…But the path out of Level 4 lockdown remains foggy.

As a country we are making really great progress at controlling the outbreak, with daily new case numbers continuing to drop (figure 1). Encouragingly, lockdown measures have been implemented before the outbreak could become as widespread as it has in most countries, and the number of hospitalisations remains low.

Although we are making very good progress, the path out of lockdown will not be straightforward, and restrictions will have to be eased cautiously in order to avoid a relapse. Exactly what "Alert Level 3" will look like is not likely to be static, and it won't see 'normal' activity (including schools) resuming all at once. Some types of work, such as construction and online retail, are easier to operate with effective social distancing than others, such as hospitality. These differing risk levels will drive decision-making, with less focus on what is or isn't "essential" as we move out of Level 4. The Government will provide more information about what Level 3 and Level 2 mean in practice on Thursday, to allow businesses to start their planning now. We suspect Alert Level 3 will be more stringent than previously understood and estimated by us, based on numbers produced by The Treasury that suggest GDP will be 25% below pre-lockdown levels in Alert Level 3. Additional announcements on the Government's economic response are also expected this week.

Significant restrictions on activity will remain for a while yet.

Quarantine measures for arrivals from overseas announced last week are an important step towards being able to slowly restart the economy. Strict border measures will be needed for a long time – though hopes are rising that an exception may be able to be made for Australia somewhat sooner, as they are also making very good progress in reducing daily case numbers to very low levels. But beyond the question of our borders, the reality is that we can expect some activity limitations and altered behaviour for the remainder of this year at least, reflecting the ever-present threat of a renewed outbreak.

We've downgraded our economic forecasts

We have downgraded our GDP…

We've downgraded our economic outlook to reflect the likelihood that even assuming Alert Level 4 lockdown is lifted on schedule on 22 April, restrictions will be eased in a piecemeal, cautious fashion. We now expect GDP to fall about 22% in the first half of the year and to be 8-10% lower over 2020. The initial slump in GDP that we are assuming is broadly consistent with a month in Alert Level 4, followed by another month in Alert Level 3, with activity restrictions still expected for the remainder of the year at least. We will get some more clarity on this later this week. The initial impact could very well be greater than currently assumed if we need to be in Alert Level 3 or 4 for longer.

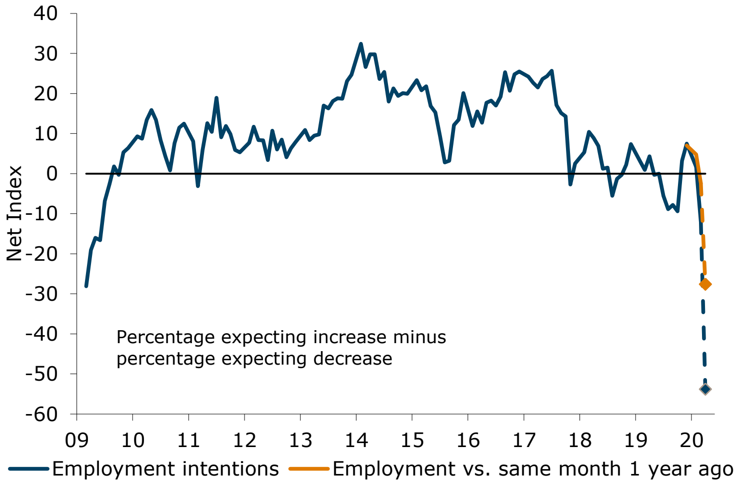
This outlook includes more fiscal and RBNZ support, including through the recovery. Treasury scenarios released earlier today highlight how bad things could get without this stimulus, depending on how long the lockdown goes on.

We will see an initial rebound in GDP once restrictions start to be eased, but from there we expect the recovery will be protracted, reflecting continued limitations, extreme uncertainty, and the fact that households and firms are under financial pressure and many will need to deleverage. On the other hand, fiscal stimulus, easy financial conditions and a recovery in net exports will all provide support.

…and labour market outlook.

The labour market is undergoing a significant deterioration. The Government's wage subsidy scheme is helping, with 40% of the workforce now being supported by business claims through the scheme. But it is a stop-gap measure, and we know that firms are facing the difficult prospect of shedding staff, with a net 54% of firms in our preliminary April ANZ Business Outlook survey expecting to reduce their headcount (while a net 28% already have compared to this time last year). At this stage, we expect the unemployment rate will increase to 11% in short order, with almost 240,000 fewer people in employment. The labour market is expected to improve only slowly, reflecting the gradual nature of the recovery.

Figure 2. ANZBO experienced and expected hiring



Source: ANZ Research

Inflation will be weak.

Inflation is expected to be weak, reflecting the significant slowdown in demand that outpaces a reduction in the economy's scope to provide goods and services. Deflationary themes were already clearly evident in our preliminary April Business Outlook survey. The slow recovery will mean that inflation will increase only gradually from there. We see headline inflation dipping below 1% next year, before starting a muted recovery through 2022.

We think the RBNZ will need to scale up QE…

This anaemic outlook means that it will be crucial for the RBNZ to stay the course well after the crisis is over. With monetary policy now in unconventional territory, the focus for us and the market has switched from predicting the OCR to quantifying the magnitude of QE that will be needed. Our view is that at or before the May MPS, QE will be scaled up from around $30bn currently to $60bn worth of purchases, in order to ease monetary conditions and facilitate the ramping up of government spending (see page 13 for more details). The RBNZ will also need to provide extraordinary stimulus well into the economy's rebuilding phase to ensure that inflation is on an improving trajectory.

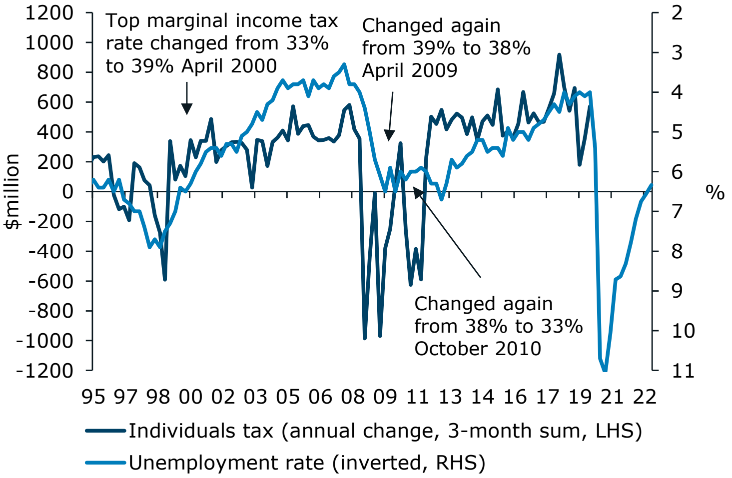
The economic outlook largely determines the fiscal outlook

The economic outlook (alongside policy decisions) will determine the fiscal outlook:

…as the fiscal position deteriorates from all directions.

- The larger and more drawn-out the economic hit, the more fiscal support will be required and the weaker the tax take.
- A weaker labour market will weigh on income tax (figure 3) and lead to a spike in social spending.
- Weaker demand for goods and services will weigh on business profits and corporate tax.
- Weak nominal consumption (reflecting muted consumer prices and very weak non-discretionary consumer spending) will weigh on GST receipts.
- Lower-for-longer interest rates will weigh on resident withholding tax. A flight to safety might initially see household deposits lift, but lower incomes and slower credit growth will mean a smaller savings pool than otherwise.
- Ultimately, the bigger the deterioration in the fiscal position, the bigger the eventual consolidation needs to be.

Figure 3. Individuals tax and unemployment rate[1]



Source: The Treasury, Statistics NZ, ANZ Research

Stages of the fiscal policy response

The fiscal policy response is just getting started.

The fiscal policy response can be roughly broken into three interrelated stages.

1) Damage control (where we are right now)
2) Facilitating the recovery (once COVID-19 risks are under control)
3) Unwinding the stimulus and rebuilding fiscal buffers (could be 2+ years away, and continue for a very long time).

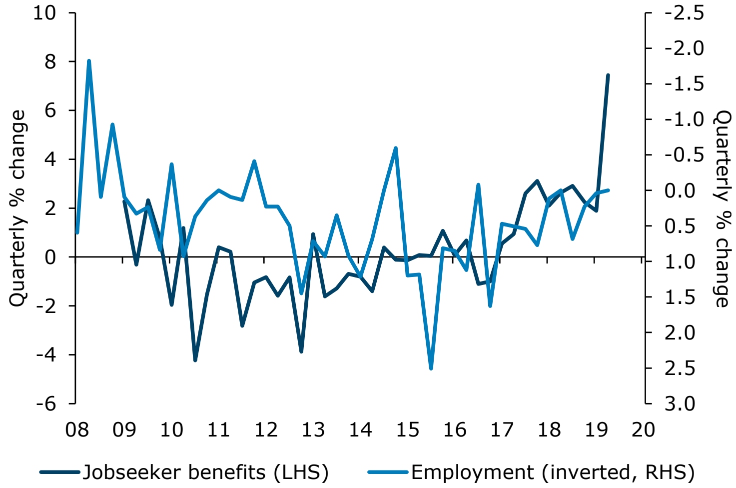
In reality, there will be overlap between these stages, reflecting differing impacts across sectors, over varying timeframes. For example, some households and firms may need ongoing support for a while, while some industries, like construction, will be well placed to help support the recovery once lockdown ends by working on infrastructure and other projects.

The initial response has been about damage control.

Stage 1 aims to cushion the blow by protecting those hardest hit and strengthening the safety net under society's most vulnerable. This covers most of the policy announcements we have seen to date, including wage subsidies, increased benefit and transfer payments, and higher health spending. Jobseeker benefit applications have increased and are expected to rise significantly from there (figure 4), while 40% of the workforce are reported to be being supported by wage subsidies. We may need to see more funds diverted to assist firms and households as the crisis unfolds.

[1] Changes to income thresholds and marginal tax rates as well as wage and population growth complicate the historical relationship. But the outlook for compensation of employees is equally as dire and that will be reflected in the tax take.

Figure 4. MSD Jobseeker benefits and employment



Source: Ministry of Social Development, Statistics NZ, ANZ Research

In the near term, the fiscal response, alongside mortgage holidays and working capital loans for SMEs, will help alleviate cash-flow difficulties and keep households connected to the labour market, allowing the economy to recover faster than otherwise. But of course, an increase in spending of this magnitude cannot continue in perpetuity – particularly the wage subsidy which, while necessary, is very expensive.

Once the virus is contained, policy can focus on the recovery…

Stage 2 is about facilitating the recovery. For discretionary fiscal stimulus to have a meaningful impact on activity, COIVD-19 risks need to be under control and the economy unconstrained (or at least a lot less constrained) by lockdown measures. This is when policies such as tax cuts, broader increases in transfer payments, and higher operational and capital spending can play a role in getting the economy moving again.

But to be effective, the policy response will need to be big and broad based, and if it's big it will also need to be largely temporary in nature. Timing is important too, but tricky. There isn't a lot of point boosting household incomes to give activity a boost if most businesses and households are in lockdown. Likewise, households will be reluctant to go out and spend if perceived COVID-19 risks remain high. This is part of the reason why success in this initial lockdown period is so important.

…But the Government will eventually need to rebuild fiscal buffers.

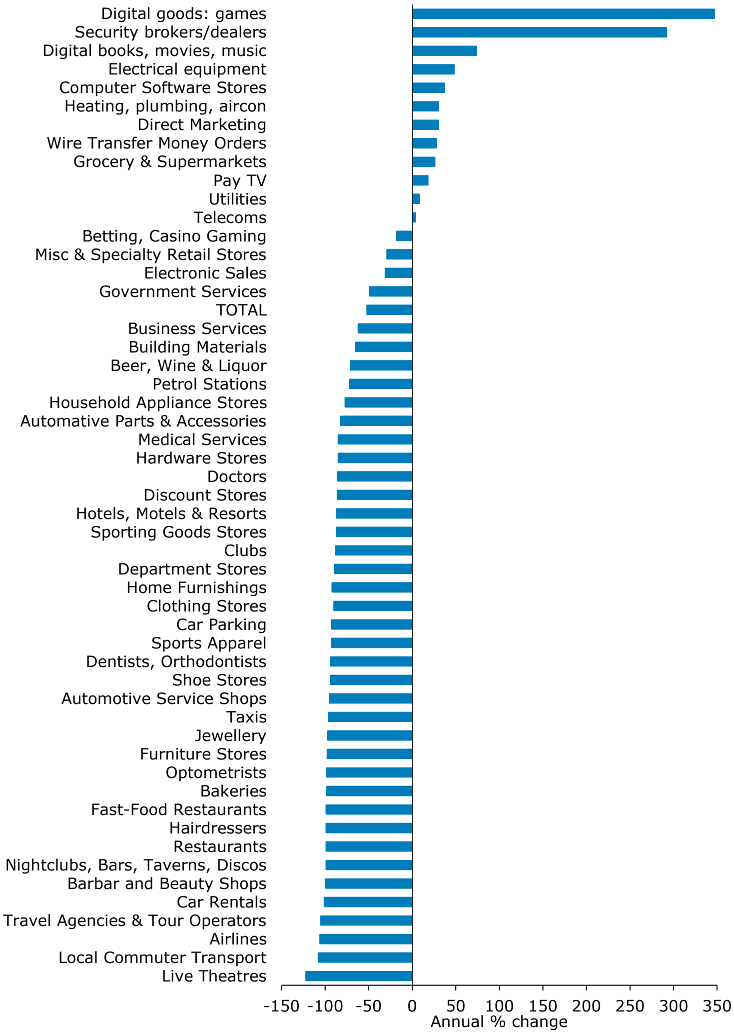
Stage 3 can occur when the economy has picked up enough momentum that fiscal stimulus can be withdrawn without adversely affecting business and consumer sentiment, and when spare capacity in the economy has reduced. Unwinding discretionary stimulus is pretty straightforward if the stage two response has been largely temporary in nature (eg ramping down government investment in buildings if private construction is approaching capacity constraints). However, there will be some permanent elements (such as higher benefit payments and the reinstatement of depreciation on commercial buildings) that will need to be funded on an ongoing basis. The latter will hopefully pay for itself with higher-than-otherwise business investment.

Importantly, fiscal buffers will need to be rebuilt and the debt ratio guided back to prudent levels. In stage three, we are likely to see some re-evaluation of existing policy settings to ensure they remain fair, effective and affordable. Current outgoings could be put under additional scrutiny with a view to cost savings, and future spending allowances could be constrained. A lift in some tax rates and/or the implementation of new tax types may also be on the menu. We discuss options in more detail below.

The new economy will be different; fiscal policy needs to adapt

Lockdown is having an immediate and drastic impact on household spending, with our own internal data showing just how radical the change has been (figure 5, over).

Figure 5. ANZ daily merchant card spending



Source: ANZ

(Values less than -100% mean refunds outweighed revenue)

Spending patterns have changed markedly under lockdown.

The impacts of this shock will linger for years. Some sectors, such as international tourism, are likely to face significantly reduced demand for a long period. Structural changes in the way people consume, save and work are possible. Reduced incomes, lower asset values and reliance on debt will also necessitate a period of deleveraging for many.

Some changes will be more long-term or even permanent.

These changes are going to have flow-on impacts on retail, hospitality, domestic incomes, business investment, and broader economic momentum. The public sector is going to become a much larger share of the economy over the next few years. Global supply chains and just-in-time manufacturing could be reshaped, with the world generally becoming more insular. There will be long-term political ramifications.

Financial markets have also changed markedly – and possibly permanently – with large-scale QE looking less "unconventional" by the day. Fiscal and monetary policy in New Zealand have long been expected to keep an eye on what the other is up to and trying to achieve, but now, the paradigm has shifted and the Reserve Bank and Government are overtly coordinating to boost the economy. The end point? A very large RBNZ balance sheet and a sharp spike in government debt. Both could prove difficult to unwind down the track.

It's difficult for economic forecasters to lay out a central estimate of where the economy is likely to end up, let alone strip away the cyclical impacts from the structural ones and predict its exact composition. But these are important considerations, especially from a fiscal policy perspective, since they ultimately determine what kind of policy response the economy can afford over the long run. Policy makers will need to be nimble and willing to make the tough decisions.

Good thing there's plenty of scope for the Government to borrow

The Government has plenty of scope to borrow…

New Zealand government debt is low by international standards, and that's a great place to start. The Treasury has previously expressed their comfort with a net debt ratio of around 30% of GDP in "normal times" (higher than has been maintained in previous years), but that debt above 50-60% would be the upper limit before the costs of taking on more debt begin to outweigh the benefits.

…but fiscal resources are finite.

At the current juncture, containing the debt ratio is far less important than ensuring that the decisions made do not waste finite fiscal resources and are effective at both stimulating the economy on the other side and boosting the productive capacity of the economy over the longer run. After all, generations to come are likely to be picking up the tab for today's fiscal response.

So how much will the Government need to borrow?

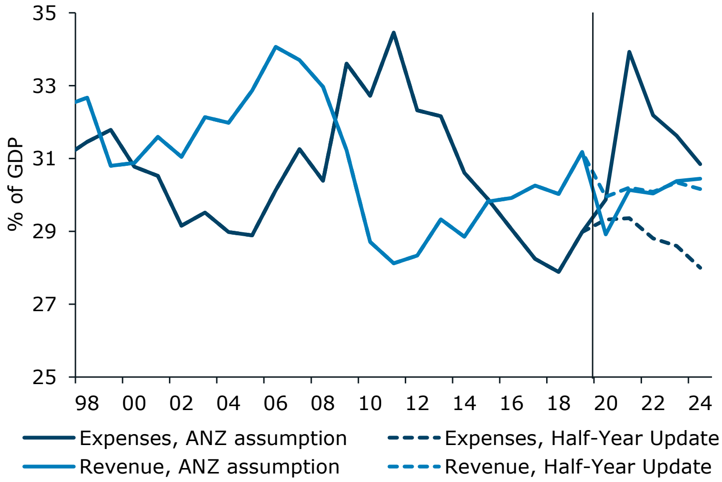
It's very uncertain how much the Government will need to borrow.

Well, how long is a piece of string? First, the outlook for COVID-19 itself is highly uncertain. The timing of a vaccine is unknown; the virus could mutate into something more or less severe; or the risk of a second wave could put the economy back into Level 4 lockdown. Second, the economic impacts are highly uncertain – and that will matter for both tax receipts and expenses. And third, we don't know what decisions the Government will make. Even by Budget day in May, the Treasury will still only be able to produce its best guesstimate of how this situation is going to unfold.

For context, in the aftermath of the Global Financial Crisis and Canterbury earthquakes, core Crown expenses increased from around 30% of GDP to around 34% over just a few years. Meanwhile core Crown revenue fell from around 33% of GDP to around 28%. This reflected both automatic stabilisers and fiscal decisions, such as lower income tax rates, but higher GST. Gross sovereign-issued debt lifted by around $50bn over four years and net core Crown debt lifted by around 20%pts of GDP over a similar time frame. The current shock is likely to be more front-loaded than that.

Revenue and expenses are poised to diverge

Figure 6. Core crown revenue and expenses



Source: The Treasury, Statistics NZ, ANZ Research

As noted above, there is an extreme amount of uncertainty around the fiscal outlook, but based on our economic outlook and assuming both automatic stabilisers and a decent discretionary fiscal policy response we envisage core Crown expenses approaching 34% of GDP by the June 2021 fiscal year. The current fiscal year will see a marked increase too, with the wage subsidy estimated to see $8-12 billion out the door in a very short timeframe. Tax revenue will fall as businesses fail and tax relief is taken up (figure 6).

We think net debt could lift by around 25%pts of GDP.

The above revenue and expenses profile would see net core Crown debt lift from around 20% of GDP currently to around 45% by the end of the Treasury's current forecast horizon (June 2024) (figure 7). This would also see operating deficits persist over the forecast horizon (figure 8).

We're going to need an exit strategy.

As part of May's Budget, the Government will be required to produce an updated fiscal strategy, including how it plans to eventually guide the Government's books back into the black. As a first step, the strategy will likely focus on a return to surplus, which, depending on the Treasury's economic outlook and fiscal decisions, may not occur over the Treasury's forecast horizon. But at this early stage, that's okay, provided deficits are shrinking and the Government is making good decisions. Stabilisation and an eventual reduction in the debt ratio will also need to feature, but achieving the latter in any meaningful way over the next five years would be a stretch.

Figure 7. Net core Crown debt

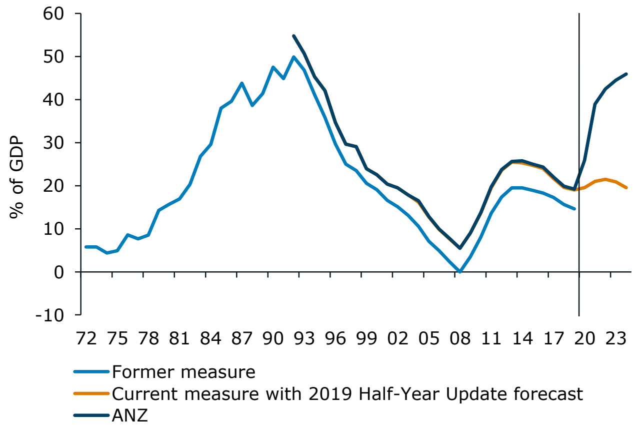
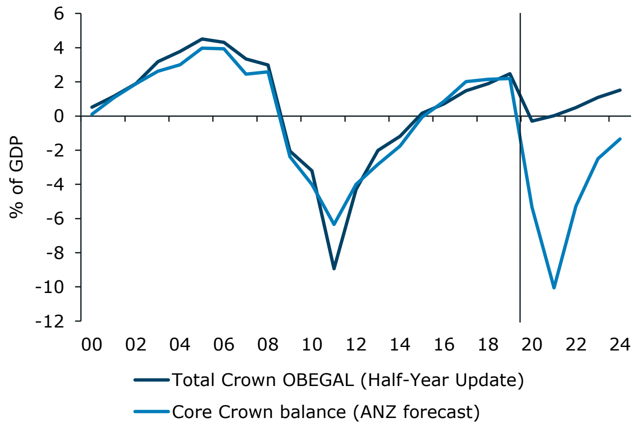


Figure 8. Operating balance



Source: The Treasury, ANZ Research

NZDM will need to issue more bonds – a lot more!

This suggests a significant boost to NZGB issuance is on the cards. NZ Debt Management guidance as at the Half-Year Update was for gross issuance of $42bn over the five years to June 2024. Since then, guidance for the current fiscal year has been lifted by $15bn to $25b, with $17bn of this going out the door in Q2. Based on our estimates, bond issuance for the 2021 fiscal year will need to be around $45bn – that's $35bn higher than the Half-Year Update guidance. Cumulatively to June 2024, we currently expect to see gross issuance increase by around $100bn compared to December's Half-Year Update. However, this number will be very sensitive to the Treasury's economic and tax outlook, as well as fiscal decisions yet to be announced.

What about the sovereign credit rating?

There could be implications for the sovereign credit rating.

The implications of the rapid lift in Government debt for New Zealand's sovereign credit ratings are less clear-cut than some might think, particularly over the longer run if rating agencies adjust their methodologies to account for the weaker world. New Zealand would probably need to come out of this worse off than other advanced economies to be stung with a long-lasting and meaningful downgrade. However, in the near term a significant deterioration the fiscal position could trigger a downgrade if the ratings agency thinks this is likely to be sustained.

Economic overview

New Zealand already has some vulnerabilities that our historically strong fiscal position has helped mitigate. This includes high private-sector debt, a reliance on overseas savings to fund investment, a sizable net international investment liability position, a relatively small domestic economy, and relatively concentrated export sector.

At the current juncture, goods export prices appear to be holding up relative to other global commodities and low global interest rates should contain the income deficit. This should provide a decent offset to an evaporating services surplus as international travel dries up, but this certainly isn't enough to offset the surge in Government debt that's on the cards.

But a rating downgrade is not a certainty by any means.

What does work in our favour is New Zealand's strong starting position, its strong institutional settings, free-floating currency, independent central bank, hedged foreign currency debt, and respectable history of fiscal consolidation when times are good.

In the near term, an outlook downgrade is possible. Last week, S&P lowered its outlook on Australia's 'AAA' rating from stable to negative, reflecting a material weakening in the government's fiscal position and indicating that an AA+ rating could be on the cards. S&P's outlook for New Zealand's long-term local currency credit rating of AA+ is currently "positive". In this environment, a notch down to a stable outlook would not be a surprise. But the rating itself would likely prove sticky at AA+, particularly if the Government has a clear strategy to guide debt back to prudent levels once we're through the recovery stage.

Current domestic issuer ratings for NZ Government

Agency	Rating	Outlook
Moody's Investor's Service	Aaa	Stable
Standard & Poor's	AA+	Positive
Fitch Ratings	AA+	Stable

Some difficult choices lie ahead

The Government is yet to announce how it plans to stimulate activity on the other side.

Plenty of significant fiscal decisions lie ahead. First, once the threat of COVID-19 has been dealt to, the Government needs to decide how best to stimulate the economy. There are plenty of ways to skin a cat here: tax cuts, increased transfer payments, helicopter money, increased Government operational and capital spending. It can be high level or specific, but we think it will need to be big – and therefore able to be unwound.

The introduction of a universal basic income (UBI) has been raised by some as a possibility. We're not convinced it would be better than something temporary, such as a well-timed one-off payment to households. A UBI has some merit, particularly in terms of work incentives, but it would be very costly, probably require higher tax rates or lower spending elsewhere, and do little (if anything) to improve poverty outcomes compared to the current targeted approach to welfare.

Government policy can influence both supply and demand.

But Government policy certainly has a role to play in freeing up the supply side of the economy. Reform of the Resource Management Act is one option that has been kicking around for quite some time now. It's not easy, but red tape isn't going to aid a speedy recovery.

Other well-intentioned policies could also have unfortunate side-effects. The pace at which the economy will return to full employment is influenced by the entry-level wage rate. The Ministry of Business, Innovation and Employment estimated that the recent increase in the minimum wage would result in 6500 fewer individuals in employment than there would have been if the minimum wage had not increased. However, given the current situation, this number could be much higher. Many businesses do not have the capacity to absorb extra costs at this time, nor will they any time soon. Wage subsides can't continue indefinitely.

It's very important to support income earners at the lower end, but it's also important to maximise the chances that those who want jobs can find one. There are other options. A reduction in income tax rates for lower-income earners could deliver the boost that the Government is trying to achieve with minimum wage increases, without the negative implications for employment. Transfer payments are also an option. The key thing is keeping households connected to the workforce.

Rebuilding

A strategy to rebuild fiscal buffers will be required…

Once the economy is doing okay, it'll be time for the Government to unwind and rebuild fiscal buffers for the next rainy day. It will be difficult for the Government to reduce the debt ratio over the next few years without making some tough decisions. Come Budget day the Government may decide that forecasting a mere flattening or stabilisation of the debt profile is good enough for now. However, the Public Finance Act will eventually require more.[2]

…but can be damaging.

Rebuilding fiscal buffers will be a balancing act. Following the Global Financial Crisis, the pursuit of fiscal consolidation saw spending on key infrastructure dwindle on a per capita basis, leading to the infrastructure deficit that we know all too well today. Insufficient infrastructure has meant a smaller economy and lower incomes than otherwise, so it's promising to see that the Government is already looking for shovel-ready projects to get on with once the virus is under control.

Everything should be put on the table.

It could also be time to reassess the affordability, fairness and efficiency of other large chunks of Government spending, for example:

- The fees-free policy was initially estimated to cost taxpayers $2.5bn over the first five years. The Government's current policy is to extend this to second-year students after the election. Much of the benefits of a tertiary education accrue to the individual. A more targeted approach (from a socio-economic and skills shortage perspective) could lead to better outcomes overall, but this could prove politically challenging.

Including current spending commitments…

- New Zealand Superannuation payments account for a hefty chunk of spending. New Zealand runs a pay-as-you-go system, where payments are funded from the current tax take. The problem is that the aging population means those collecting Super now are a much higher share of the total population, with fewer younger tax-payers per retiree footing the bill that is growing by the day. Attempts have been made in the past to address the fairness and affordability of superannuation (such as establishing the NZ Super Fund) but anything more than that (such as lifting the eligibility age or means testing) has been squashed. Nonetheless, it could be worth a revisit.

…and future tax settings.

Speaking of difficult choices, some tax rates may also need to rise. Higher income tax rates, and/or threshold adjustments, particularly at the top income levels, can be a powerful revenue source. However, it's unlikely the Government will signal this kind of policy response any time soon, since it could weigh heavily on sentiment and spending decisions if it is not already anticipated.

New tax types, such as on capital gains, wealth, or inheritance could also be on the menu. Again, politically difficult. Still, we wouldn't rule anything out. COVID-19 has changed the world and fiscal settings need to change with it.

Local data

ANZ Commodity Price Index – March. The World Price Index fell 2.1% in March, to be down 8.3% over the past four months. But relative to other global commodities, that's not too bad. In NZD terms, the index lifted 3.3% m/m due to the sharp fall in the NZD.

[2] See An Introduction to New Zealand's Fiscal Policy Framework for further details.

Economic overview

NZIER Quarterly Survey of Business Opinion – Q1. Business Sentiment deteriorated massively in Q1, reflecting uncertainty associated with the COVID 19 crisis. And yet, even then, the survey significantly understates the degree of pessimism in the business community at present as it was closed off before New Zealand went into Level 4 lockdown.

GlobalDairyTrade auction. Futures suggested prices would fall, but the GDT Index lifted 1.2%. Long live New Zealand's export resilience.

ANZ Business Outlook Flash – April. Business confidence fell 9 points to -73%. Expected own activity plummeted 34 points, with a net 61% of firms now expecting lower activity for their firm in the year ahead. All key activity indicators fell further from March levels, most to record lows.

ANZ Truckometer – March. The Light Traffic Index fell 29.3% m/m, while the Heavy Traffic fell 8.0% m/m. The month included nearly a full week of Level 4 lockdown. April data will be even weaker. The relationship between light traffic and output is unlikely to hold over this unusual period of disruption, but there should still be a relationship between heavy traffic and production.

Net migration – February. Annual net migration reportedly lifted sharply in February, but these data are prone to substantial revision. Statistics NZ pointed out that COVID-19 impacts have made these data more uncertain than usual.

The week ahead

It's a big week for Government announcements, with the Minister of Finance's next economic plan on Wednesday, and more detail on the practicalities of Alert Levels 2 and 3 due on Thursday.

In terms of data, this week brings the March REINZ housing market data, which should begin to show a few signs of softening. However, the big hit to housing turnover will not show until the April data are released next month. House prices may also be a little slow to respond, but there's plenty of weakness in the pipeline.

We'll also get a string of monthly price data with the March Food Price Index and Rental Price Index out on Wednesday. Strong demand for groceries is expected to see a slightly stronger monthly rise than is typical. We expect the FPI to lift a little more than 1% m/m. For rents, fewer international students might take some of the puff out of the market. But that, as well as rent freezes, is more of a story for April. Finally, our Monthly Inflation Gauge is out on Thursday. This marks the last piece of price data ahead of the Q1 CPI release. Our Q1 CPI Preview note will be will follow either Friday or early next week.

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.

- ANZ NZ Truckometer – Anything but BAU
- ANZ NZ Business Outlook Preliminary – Unprecedented
- ANZ NZ Commodity Price Index – Down but not out

FX / rates overview

Summary

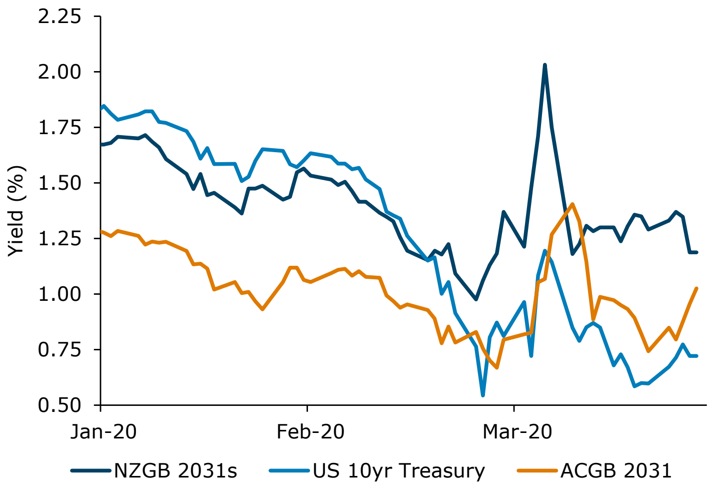
We expect NZGB issuance will be stepped up significantly over the next few years, with bond issuance increasing to $45bn next year. That's a significant uplift. We also expect QE to be almost doubled to $60bn at or before the RBNZ's May MPS. Growth is set to take a large and lasting hit and measures of the monetary policy stance suggest that more easing is required. The ramp-up in QE that we expect should be more than enough to absorb upcoming bond issuance, and gradually flatten the curve, a process that will also spurred along by the unfortunate continuation of very negative COVID-19 developments globally.

More bond issuance as fiscal policy eases, but more QE is coming too

For interest rates markets it's all about the three-way tussle between the RBNZ's large-scale asset purchases (QE), domestic bond issuance, and global market developments. Necessary fiscal support and the worsening growth environment increase the need for more government bond issuance, but the impact of this can – and will – be countered by increased QE. In recent days, QE has been extended in both size and scope. But the market also has one eye on global interest rate markets, which have been volatile – especially in Australia, where the yield curve has steepened in response to what the market felt (in our view, incorrectly) was a more hawkish RBA statement last week.

3-way tussle between issuance, QE and global markets

Figure 1: NZ, US and Australian 10yr Bond Yields



Source: Bloomberg

Global market volatility won't go away, and nor will the ongoing tug of war in markets between those calling the lows and those looking for another leg down in yields (and equity markets). News over the weekend that the US death toll had surpassed Italy's and that a second wave of cases is being seen in Singapore are likely to leave markets on edge as we re-open today. Similarly, suggestions that COVID-19 may be more contagious than previously thought – potentially extending lockdowns and slowing attempts to get back to work – give more weight to cautious views on how quickly economies will recover.

Global markets are still volatile but downside risks remain dominant.

Our new, lower growth forecasts put us squarely at the more bearish end of the macroeconomic-outlook spectrum. That implies a massive ramp-up in bond issuance, but we fully expect the RBNZ's LSAP QE programme to pave the way for it. That doesn't mean that it will be plain sailing – far from it – but we believe the RBNZ has "got this" and will enable record bond issuance to occur without putting unacceptable upward pressure on yields.

That being the case, we assume that the RBNZ's QE programme will continue to be responsive to the quickly changing issuance profile, buying more bonds than NZDM issues. A statement like that six months ago would have been unbelievable – but today it's a reality. The low starting point for Government debt gives us fiscal firepower and means that it is relatively easy for the RBNZ to absorb new issuance. It won't remove day-to-day volatility from the market (with QE operations staggered over the week but issuance occurring weekly). Nonetheless, in trend terms it should gradually flatten the slope of the yield curve.

So, where do the numbers stand? Our forecasts need to be heavily caveated given the unusually high degree of uncertainty, with the pace and magnitude of developments seen in recent weeks well beyond the calibration of any model, even our back-of-the-envelope ones. Nonetheless, we estimate the need for just over $100bn of additional issuance compared to HYEFU estimates published in December (Table 1).

ANZ estimates for NZGB issuance over the coming 5 fiscal years

Year	ANZ	HYEFU19
19/20	25	10
20/21	45	10
21/22	30	8
22/23	25	8
23/24	20	6
Total	145	42

Source: NZ Treasury, ANZ estimates

That profile represents a significant lift in issuance and represents a much larger lift in gross sovereign-issued debt than was seen in the wake of the GFC, which was around $50bn (as discussed on page 8). It's not strictly comparable given the known maturity profile (with $11bn of 5/21s maturing in the 2020/21 fiscal year and the maturity of 4/23s – which form a part of this year's issuance – in the 22/23 fiscal year). Nonetheless, it is a significant lift in the funding profile.

A big step up in NZGB issuance is coming …

The key question then becomes; can QE provide an offset to such large issuance? We think the short answer is a firm "yes". In recent weeks, QE has certainly had an impact. By the end of the week, QE will have taken more NZGB bonds out of the market (in dollar terms) than stepped-up NZDM issuance has put in (figure 2). That's despite a record amount of issuance last week following the successful tap syndication (or sale) of $3.5bn of the NZGB 5/31 bonds. Having issued $4.3bn of bonds this quarter to date, with another syndication planned, and 11 weeks to go, issuance can remain at around the $0.8 to $1bn pace each week if the next syndication is around the same size as last week's.

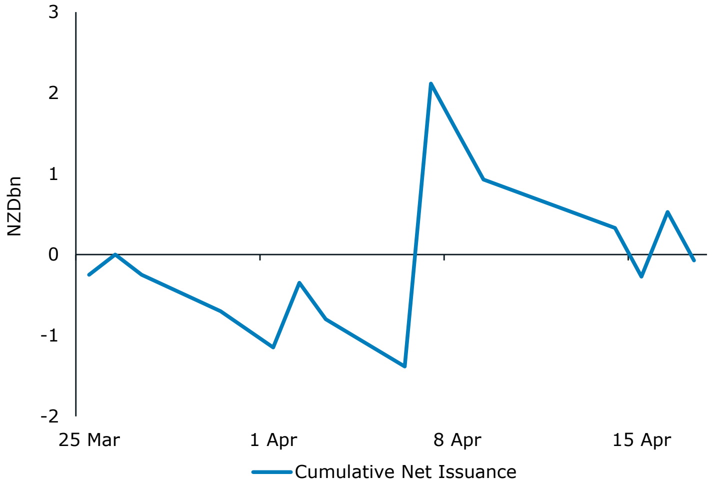
… but QE will offset this

We may see the pace of QE slow in coming weeks, but we don't think it will slow by much, if at all. It makes sense to front-load it, given that it is an attempt to lower and flatten the yield curve. The pace is likely to continue outstripping the $0.8bn of issuance scheduled for the remainder of this month, and also the $0.8bn to $1bn pace likely in May and June.

Of note, the RBNZ twice struggled to fully attract the maximum amount of longer bonds it was looking for last week, suggesting that there are fewer sellers than there were earlier. And unlike in Australia, QE here has thus far also been mainly aimed at the longer end of the curve, where bonds are at their most stretched (cheap) relative to swap, with around 70% of the "delta" or risk of purchases completed thus far and scheduled this week concentrated in the back four bonds (with maturities ranging from 2029 to 2037). These bonds have also seen the lowest offer-cover (the ratio of offers shown to the RBNZ at the purchase tenders compared to the maximum amount the RBNZ has said it will accept) across all QE operations so far. This suggests that there are fewer long end sellers. By slowly wearing down sellers like this, the RBNZ can flatten the curve.

The RBNZ is buying more long end bonds.

Figure 2: Net NZGB issuance (NZDM issuance less RBNZ QE) through to Friday 17 April



Source: NZDM, RBNZ, ANZ

Sceptics will say that the RBNZ will run out of ammunition if it keeps up buying at the $1.8bn per week pace scheduled for this week and last. Technically that's true – having completed $3.6bn of the $30bn of LSAP purchases, continuing at that pace would see the RBNZ reach its $30bn limit in around 15 weeks, or the end of July. Keeping that pace up therefore requires the size of the NZGB LSAP programme to be increased, and that is precisely what we expect to occur next month, if not sooner.

Shadow short rates can give us a lead on where QE is heading.

Landing on an appropriate monetary policy stance is very difficult in the current environment given the high degree of uncertainty, the number of moving parts and the fact that this crisis is global.

One way to determine how much more easing may be coming is to look at shadow short rates (SSRs). We discussed these in last week's Weekly Focus. To briefly recap, they are quantitatively derived estimates of the effective stance of a central bank's policy rate when the policy rate is at its lower bound, captured by measuring the impact of QE and other policies. It's effectively the OCR that would have brought about the observed yield curve if the zero bound didn't exist (and abstracting from a bunch of other stuff). It shouldn't be interpreted as a measure of the effective stimulus that monetary policy is providing, as it is a theoretical rate, not one that can actually be transacted at, but it does provide a neat summary of the stance of monetary policy, both conventional and unconventional, in a single number.

At the moment, New Zealand's SSR is around -0.70% (figure 3). This is around 70bps above the corresponding estimate for Australia (which is around -1.4%). We estimate that every $10bn of QE dampens the SSR by around 25bps, though this is a rough estimate and the impact will not be static. This means that if NZGB QE was doubled to $60bn, we would see the SSR fall to similar levels seen in Australia. However, we think the SSR is likely to go well below -1.4%, given the rates prevailing in other countries and those seen post-GFC. Accordingly, we expect the RBNZ to roughly double the size of its LSAP programme to $60bn at the May Monetary Policy Statement. Furthermore, we would not rule out tweaks in the interim, such as widening the scope of QE to include inflation-linked bonds and the like, as was done with LGFA bonds last week.

The RBNZ cut by 575bps in 2008/9…

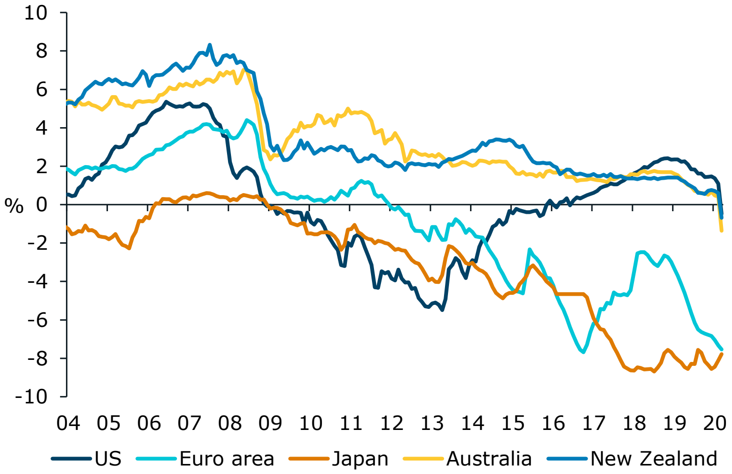
This all may sound dramatic, but as a result of the GFC the OCR was cut by 575 basis points, including back-to-back 150bp cuts in December 2008 and January 2009. We entered this crisis with the OCR at 1.00% and have so far seen 75bps of cuts. Taking the SSR to around 1.4% would imply "only" 240bps of "cuts" delivered through conventional and unconventional means, yet there is widespread belief amongst economists that this is a worse negative economic shock than the GFC.

Our expectations for QE are based on our macroeconomic outlook and, relatedly, our expectations for bond issuance. As we've noted, these are more uncertain than usual.

If the economy were to bounce back more quickly than we expect or need less fiscal support, then less QE would be required. However, given the magnitude of the shock and the response required, in our view risks are tilted towards more purchases, not less.

It is also possible that the RBNZ could decide to adopt a yield curve target, as in Australia, instead of making announcements regarding the volume of purchases. From the market's perspective, provided the RBNZ were looking to push yields lower and flatter as we expect, the impact would be the same.

Figure 3: Shadow Short Rates



Source: LJK Limited

… and the Fed expanded its SOMA holdings by around 20% of GDP in 2008/9.

With regard to timing, we believe the RBNZ needs to remain one step ahead of the market. With $26.4bn of the original $30bn of NZGB QE yet to be transacted, it would seem that the RBNZ can afford to wait and make a decision when that's exhausted. However, by announcing a larger QE target well before NZDM announces the next fiscal year's bond programme (which we expect in May), the RBNZ can counter the negative impact of issuance, especially if it is of the volume we expect. Signalling is a powerful element of QE, and while the RBNZ has flagged a finite dollar value of purchases, other central banks have opted for different approaches. The most notable of these are the Fed, who has said its QE programme is unlimited, and the RBA, who have instead announced a 0.25% yield target for their 3-year government bond, with no limit on how many bonds can be purchased to meet that goal.

Similar policy moves here should flatten the yield curve.

Expanding QE to $60bn will take the RBNZ's LSAP programme to just over 20% of our new, lower GDP forecasts, which is comparable to the circa 20% of GDP expansion of the Fed's SOMA account (ie its QE portfolio) after the GFC. At the moment, the Fed's SOMA account sits at approximately 23% of US GDP. That figure grew by around 1.3% of GDP last week and is rising quickly. Importantly, at $60bn, the RBNZ's LSAP will be able to absorb almost all issuance over the next five quarters, plus some, with our new forecast calling for $62bn of issuance combined over the next quarter ($17bn) and the next fiscal year ($45bn). It should be enough to suppress what would ordinarily lead to a sharp issuance-led increase in bond yields.

We have never seen anything like the current crisis. While QE is primarily needed to ease financial conditions, it will also pave the way for the significant fiscal easing that is on its way, with more initiatives expected to be announced by the Minister of Finance this week.

Data calendar

Date	Country	Data/event	Mkt.	Last	NZ time
14-Apr	AU	NAB Business Conditions - Mar	--	0	13:30
	AU	NAB Business Confidence - Mar	--	-4	13:30
	CH	Exports YoY - Mar	-13.9%	--	UNSPECIFIED
	CH	Imports YoY - Mar	-9.8%	--	UNSPECIFIED
	CH	Trade Balance - Mar	$20.00B	$47.29B	UNSPECIFIED
15-Apr	US	Import Price Index MoM - Mar	-3.2%	-0.5%	00:30
	US	Import Price Index YoY - Mar	-5.1%	-1.2%	00:30
	US	Export Price Index MoM - Mar	-1.9%	-1.1%	00:30
	US	Export Price Index YoY - Mar	--	-1.3%	00:30
	NZ	REINZ House Sales YoY - Mar	--	9.2%	09:00
	NZ	Food Prices MoM - Mar	--	0.0%	10:45
	AU	ANZ-RM Consumer Confidence Index - 12-Apr	--	71.9	11:30
	AU	Westpac Consumer Conf Index - Apr	--	91.9	12:30
	AU	Westpac Consumer Conf SA MoM - Apr	--	-3.8%	12:30
	US	MBA Mortgage Applications - 10-Apr	--	-17.9%	23:00
16-Apr	US	Retail Sales Advance MoM - Mar	-8.0%	-0.5%	00:30
	US	Retail Sales Ex Auto MoM - Mar	-5.0%	-0.4%	00:30
	US	Retail Sales Ex Auto and Gas - Mar	-5.1%	-0.2%	00:30
	US	Retail Sales Control Group - Mar	-2.0%	0.0%	00:30
	US	Empire Manufacturing - Apr	-35.0	-21.5	00:30
	US	Industrial Production MoM - Mar	-4.0%	0.6%	01:15
	US	Capacity Utilization - Mar	73.8%	77.0%	01:15
	US	Business Inventories - Feb	-0.4%	-0.1%	02:00
	US	NAHB Housing Market Index - Apr	55.0	72.0	02:00
	US	US Federal Reserve releases Beige Book	--	--	06:00
	US	Net Long-term TIC Flows - Feb	--	$20.9B	08:00
	US	Total Net TIC Flows - Feb	--	$122.9B	08:00
	NZ	ANZ Monthly Inflation Gauge - Mar	--	0.1%	13:00
	AU	Consumer Inflation Expectation - Apr	--	4.0%	13:00
	AU	Employment Change - Mar	-30.0k	26.7k	13:30
	AU	Unemployment Rate - Mar	5.4%	5.1%	13:30
	AU	Participation Rate - Mar	65.9%	66.0%	13:30
	AU	Full Time Employment Change - Mar	--	6.7k	13:30
	AU	Part Time Employment Change - Mar	--	20.0k	13:30
	GE	Wholesale Price Index YoY - Mar	--	-0.9%	18:00
	GE	Wholesale Price Index MoM - Mar	--	-0.9%	18:00
	GE	CPI EU Harmonized MoM - Mar F	0.1%	0.1%	18:00
	GE	CPI EU Harmonized YoY - Mar F	1.3%	1.3%	18:00
	GE	CPI MoM - Mar F	0.1%	0.1%	18:00
	GE	CPI YoY - Mar F	1.4%	1.4%	18:00
	EC	Industrial Production SA MoM - Feb	-0.1%	2.3%	21:00
	EC	Industrial Production WDA YoY - Feb	-1.9%	-1.9%	21:00
17-Apr	US	Housing Starts - Mar	1300k	1599k	00:30
	US	Housing Starts MoM - Mar	-18.7%	-1.5%	00:30
	US	Building Permits - Mar	1270k	1452k	00:30
	US	Building Permits MoM - Mar	-12.5%	-6.3%	00:30
	US	Philadelphia Fed Business Outlook - Apr	-31.0	-12.7	00:30
	US	Initial Jobless Claims - 11-Apr	5350k	6606k	00:30

Continued on following page

Data calendar

Date	Country	Data/event	Mkt.	Last	NZ time
17-Apr	US	Continuing Claims - 4-Apr	13630k	7455k	00:30
	CH	GDP SA QoQ - Q1	-11.2%	1.5%	14:00
	CH	GDP YoY - Q1	-6.0%	6.0%	14:00
	CH	GDP YTD YoY - Q1	-4.8%	6.1%	14:00
	CH	Industrial Production YoY - Mar	-6.2%	--	14:00
	CH	Industrial Production YTD YoY - Mar	-10.0%	-13.5%	14:00
	CH	Retail Sales YoY - Mar	-9.8%	--	14:00
	CH	Retail Sales YTD YoY - Mar	-12.5%	-20.5%	14:00
	JN	Industrial Production MoM - Feb F	--	0.4%	16:30
	JN	Industrial Production YoY - Feb F	--	-4.7%	16:30
	EC	Construction Output MoM - Feb	--	3.6%	21:00
	EC	Construction Output YoY - Feb	--	6.0%	21:00
	EC	CPI MoM - Mar F	0.5%	0.5%	21:00
	EC	CPI YoY - Mar F	0.7%	1.2%	21:00
	EC	CPI Core YoY - Mar F	1.0%	1.0%	21:00
18-Apr	US	Leading Index - Mar	-7.1%	0.1%	02:00

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 15 Apr (9:00am)	REINZ housing data – March	More muted?	The housing market has been holding up into the new year. We expect a slowing is imminent.
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.
11-15 May	REINZ housing data – April	Stopped	The housing market will have ground to a halt in April. Expect some volatility, with a trend deterioration forming overall.
Mon 11 May (10:45am)	Electronic Card Transactions – April	Noisy	Retail spend was down 3.9% in March, with strong growth in consumables offset by weak hospitality, apparel and services.
Tue 12 May (10:00am)	ANZ Truckometer – April	--	--
Wed 13 May (10:45am)	Food Price Index – April	Uncertain	Higher demand for groceries and necessities, zero supply of restaurant meals. It's all pretty uncertain.
Wed 13 May (10:45am)	Rental Price Index – April	Wither	Fewer students and rent freezes. Is this historically significant driver of domestic inflation about to wither? Probably.
Wed 13 May (2:00pm)	RBNZ Monetary Policy Statement – May	Hold	With the OCR on hold "for at least the next 12 months" it's all about QE and the RBNZ assessment of how the situation is likely to evolve.
Thu 14 May (1:00pm)	ANZ Monthly Inflation Gauge – April	--	--
Thu 14 May	NZ Budget	Massive	A spike in debt, huge deficits, and a new fiscal strategy. The Government is taking COVID-19 on head on. It's still early days, but hopefully Budget will mark the end of the beginning and the beginning of the recovery.
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	**-2.5**	**-20.6**	**15.5**	**2.0**	**1.0**	**1.0**	**1.0**	**1.0**
GDP (% yoy)	1.8	**-1.2**	**-21.6**	**-10.1**	**-8.8**	**-5.5**	**20.2**	**5.1**	**4.1**
CPI (% qoq)	0.5	**0.6**	**0.1**	**0.3**	**0.0**	**0.5**	**0.1**	**0.2**	**0.0**
CPI (% yoy)	1.9	**2.3**	**1.8**	**1.4**	**1.0**	**0.9**	**0.9**	**0.8**	**0.8**
Employment (% qoq)	0.0	**-1.0**	**-8.0**	**0.0**	**3.0**	**2.0**	**0.7**	**0.9**	**1.0**
Employment (% yoy)	1.0	**-0.1**	**-8.7**	**-8.9**	**-6.2**	**-3.3**	**5.8**	**6.7**	**4.7**
Unemployment Rate (% sa)	4.0	**5.4**	**10.7**	**11.1**	**10.1**	**8.7**	**8.6**	**8.3**	**7.8**

	Jun-19	Jul-19	Aug-19	Sep-19	Oct-19	Nov-19	Dec-19	Jan-20	Feb-20	Mar-20
Retail ECT (% mom)	0.3	-0.1	1.2	0.4	-0.5	2.6	-0.5	-0.2	0.5	-3.9
Retail ECT (% yoy)	1.5	2.0	3.1	0.6	1.6	5.1	3.9	4.2	8.6	-1.8
Car Registrations (% mom)	-2.3	5.5	-0.5	5.5	-5.7	-1.6	2.0	-4.9	6.7	-31.6
Car Registrations (% yoy)	-11.0	-5.4	-5.2	4.7	-6.6	3.0	5.6	-3.5	-0.3	-31.1
Building Consents (% mom)	-4.1	-0.9	1.0	7.5	-1.2	-8.0	10.4	-2.8	4.7	--
Building Consents (% yoy)	9.5	18.6	12.3	24.2	18.9	9.0	17.9	1.7	5.4	--
REINZ House Price Index (% yoy)	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	0.6	0.5	0.5	0.6	0.6	0.6	0.6	--
Household Lending Growth (% yoy)	5.9	5.9	6.0	6.1	6.2	6.3	6.5	6.6	6.7	--
ANZ Roy Morgan Consumer Conf.	122.6	116.4	118.2	113.9	118.4	120.7	123.3	122.7	122.1	106.3
ANZ Business Confidence	-38.1	-44.3	-52.3	-53.5	-42.4	-26.4	-13.2	..	-19.4	-63.5
ANZ Own Activity Outlook	8.0	5.0	-0.5	-1.8	-3.5	12.9	17.2	..	12.0	-26.7
Trade Balance ($m)	330	-732	-1642	-1310	-1038	-786	380	-414	594	--
Trade Bal ($m ann)	-4987	-5516	-5591	-5321	-5055	-4837	-4467	-3946	-3258	--
ANZ World Comm. Price Index (% mom)	-3.9	-1.4	0.3	0.0	1.2	4.3	-3.4	-0.9	-2.1	-2.1
ANZ World Comm. Price Index (% yoy)	-2.4	-0.5	0.9	3.4	7.2	12.4	8.7	5.6	0.6	-5.5
Net Migration (sa)	4210	5030	5310	5150	5620	4920	6090	6860	8250	--
Net Migration (ann)	50684	51765	52799	53424	55025	55543	57259	61053	65211	--
ANZ Heavy Traffic Index (% mom)	-2.2	2.3	-3.5	3.4	2.7	-1.5	-2.6	4.7	-3.2	-8.0
ANZ Light Traffic Index (% mom)	-2.0	1.4	0.3	-0.3	0.2	0.9	-2.2	2.9	-0.8	-29.3
ANZ Monthly Inflation Gauge (% mom)	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

	Actual			Forecast (end month)					
FX rates	Feb-20	Mar-20	Today	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21
NZD/USD	0.624	0.594	0.609	0.52	0.53	0.55	0.57	0.59	0.60
NZD/AUD	0.958	0.976	0.954	1.00	0.98	0.98	0.95	0.97	0.97
NZD/EUR	0.566	0.543	0.558	0.47	0.49	0.51	0.53	0.54	0.55
NZD/JPY	67.79	64.55	65.59	58.2	59.4	61.6	63.8	66.1	67.2
NZD/GBP	0.484	0.481	0.487	0.50	0.49	0.49	0.48	0.49	0.49
NZ$ TWI	70.01	68.40	69.22	62.7	63.5	65.5	66.7	68.4	69.2
Interest rates/QE	Feb-20	Mar-20	Today	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21
NZ OCR	1.00	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
LSAP ($bn)	--	30	33	60	60	60	60	60	60
NZ 90 day bill	1.06	0.49	0.45	0.43	0.43	0.43	0.43	0.43	0.43
NZ 10-yr bond	1.06	1.08	1.13	0.70	0.95	1.25	1.50	1.70	2.00
US Fed funds	1.75	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
US 3-mth	1.46	1.43	1.22	0.40	0.40	0.40	0.40	0.65	0.65
AU Cash Rate	0.75	0.25	0.17	0.25	0.25	0.25	0.25	0.25	0.25
AU 3-mth	0.81	0.37	0.21	0.45	0.45	0.45	0.45	0.45	0.45

	10-Mar	6-Apr	7-Apr	8-Apr	9-Apr	10-Apr
Official Cash Rate	1.00	0.25	0.25	0.25	0.25	0.25
90 day bank bill	0.87	0.47	0.47	0.45	0.45	0.45
NZGB 05/21	0.59	0.26	0.27	0.26	0.27	0.27
NZGB 04/23	0.62	0.36	0.40	0.40	0.34	0.34
NZGB 04/27	0.85	0.82	0.88	0.86	0.78	0.78
NZGB 04/33	1.14	1.40	1.45	1.41	1.24	1.24
2 year swap	0.76	0.48	0.49	0.49	0.45	0.49
5 year swap	0.80	0.59	0.64	0.67	0.61	0.66
RBNZ TWI	70.12	67.98	68.58	68.37	68.81	68.81
NZD/USD	0.6313	0.5933	0.5982	0.5974	0.6005	0.6078
NZD/AUD	0.9633	0.9775	0.9678	0.9680	0.9639	0.9571
NZD/JPY	66.26	64.76	65.26	65.02	65.35	65.85
NZD/GBP	0.4838	0.4819	0.4865	0.4840	0.4827	0.4881
NZD/EUR	0.5561	0.5494	0.5499	0.5495	0.5529	0.5558
AUD/USD	0.6554	0.6070	0.6181	0.6173	0.6230	0.6349
EUR/USD	1.1353	1.0800	1.0878	1.0872	1.0860	1.0937
USD/JPY	104.94	109.14	109.09	108.84	108.83	108.47
GBP/USD	1.3049	1.2312	1.2296	1.2345	1.2439	1.2455
Oil (US$/bbl)	34.36	26.08	23.63	25.09	22.76	22.76
Gold (US$/oz)	1662.16	1637.33	1655.52	1648.55	1662.20	1696.65
NZX 50	10897	9764	9810	10032	9964	9964
Baltic Dry Freight Index	627	604	596	607	635	635
NZX WMP Futures (US$/t)	2845	2620	2620	2710	2725	2725

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