ANZ Research

# New Zealand Weekly Focus

25 May 2020

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Contents




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## Flightless kiwis

### Economic overview

Tourism is significant for the New Zealand economy, accounting for 10% of GDP if one takes into account its impact on other industries. We are particularly exposed relative to other countries, and the outlook for the industry is bleak, even as we make great progress in eliminating COVID-19. Domestic tourism is getting underway again, but international tourism will be MIA for a long time and is set for a slow recovery. This will weigh on incomes, spending and house prices, with some regions particularly affected. The Government is providing assistance, but pressure for more may increase, with firm closures and job losses inevitable, especially since tourism is very labour intensive. We estimate that tourism receipts could fall by half this year. However, this could reduce to a quarter if a trans-Tasman bubble were introduced. Overall, the blow to tourism could subtract 2.4% to 4.7% from GDP this year. Over the long term, the industry will reshape. But there's no denying that it is going to be a challenging time ahead for many.

### FX/rates overview

New Zealand long-term interest rates continue to grind lower, driven by the RBNZ's continued focus on the longer end of the NZGB curve. We don't expect the broad pattern of RBNZ purchases to change given the Governor's consistently dovish tone, the threat of negative interest rates, and clear signs that the "lower and flatter" NZGB yield curve is having beneficial knock-on effects across the wider credit market. We have tweaked our bond forecasts to reflect this. In the FX space, although we expect the NZD to eventually run into headwinds as the euphoria of increased liquidity dies down, for now NZD remains well supported, leaving us more neutral near term.

### Chart of the week

Tourism is taking a massive hit globally, and New Zealand is very exposed.

**Travel and tourism direct contribution to GDP by country**


Source: World Bank

***Please note that the Weekly Focus will not be published next week due to Queen's Birthday weekend and will resume on Monday 8 June.***

# Economic overview

## Summary

*Tourism is important and the outlook is bleak.*

Tourism is significant for the New Zealand economy, accounting for 10% of GDP if one takes into account its impact on other industries. We are particularly exposed relative to other countries, and the outlook for the industry is bleak, even as we make great progress in eliminating COVID-19. Domestic tourism is getting underway again, but international tourism will be MIA for a long time and is set for a slow recovery. This will weigh on incomes, spending and house prices, with some regions particularly affected (see our heatmap). The Government is providing assistance, but pressure for more may increase, with firm closures and job losses inevitable, especially since tourism is very labour intensive. We estimate that tourism receipts could fall by half this year. However, this could reduce to a quarter if a trans-Tasman bubble were introduced. Overall, the blow to tourism could subtract 2.4% to 4.7% from GDP this year. Over the long term, the industry will reshape. But there’s no denying that it is going to be a challenging time ahead for many.

***Please note that the Weekly Focus will not be published next week due to Queen's Birthday weekend and will resume on Monday 8 June.***

## Forthcoming data

**Overseas Merchandise Trade – April (Tuesday 26 May, 10:45am).** Exports of goods – particularly dairy and fruit – have held up well. Imports continue to be weak due to reduced domestic demand and supply disruptions. We expect a trade surplus of approximately $815m for April.

**RBNZ new mortgage lending data – April (Tuesday 26 May, 3:00pm).** The recent surge in mortgage credit to help some households through will show up in the April numbers. Despite a flurry of post-lockdown catch-up activity strength is not set to last as the housing market turns and caution settles in.

**RBNZ Financial Stability Report – May (Wednesday 27 May, 9:00am).** The global economy is materially weaker, and that could expose financial market vulnerabilities. Weakness in the property market (residential and commercial) and associated risks will be a theme. At least dairy prices haven’t fallen too much, yet.

**ANZ Business Outlook – May (Thursday 28 May, 1:00pm).**

**ANZ Roy Morgan Consumer Confidence– May (Friday 29 May, 10:00am).**

**RBNZ sectoral lending data – April (Friday 29 May, 3:00pm).** Credit growth was strong in April, with working capital loans helping to fill the gap for many businesses. Expect a short-term spike in credit, but a softer pulse on the other side.

**Overseas Trade Indices – Q1 (Tuesday 2 June, 10:45am).** Expected to lift around 1% q/q, as import prices fall by more than export prices. Weak oil prices should remain a key support heading into Q2, but the medium-term outlook for export prices is fragile.

**Building consents – April (Tuesday 2 June, 10:45am).** Dropped considerably.

**GlobalDairyTrade auction (Wednesday 3 June, early am).** Prices are expected to fall further at the first auction of the new production season.

**ANZ Commodity Price Index – May (Thursday 4 June, 1:00pm).**

## What’s the view?

*This week we take a closer look at tourism.*

Tourism is an important part of the New Zealand economy. Approximately 3.87 million international visitors came to New Zealand in the year ended March 2019, making up 40% of our tourism spend (figure 1). The outlook for tourism is unfortunately now grim, even as domestic travel gets underway again and the possibility of a trans-Tasman bubble gains traction. The sector will need to adjust to the new reality and for some firms and employees the impact will be painful. This week we take a closer look at tourism and the possible outlook from here.[1]

[1] With many thanks to Olivia Botica for her work on this topic during her time in ANZ Research.

# Economic overview

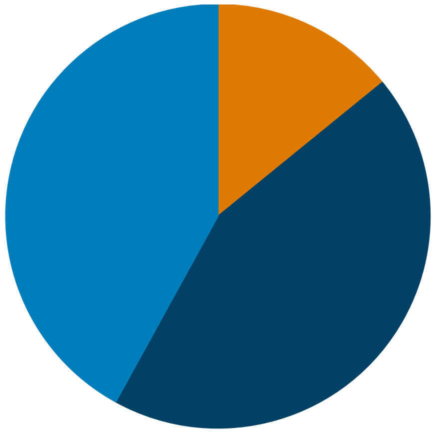
## A closer look at the tourism sector

*Tourism contributes about 10% of GDP, directly and indirectly.*

Last year, tourism expenditure in New Zealand totalled $40.9bn and generated a direct contribution to GDP of $16.2bn – 5.8% of annual GDP. The industry also helped support other sectors of the economy like retail and hospitality, and was thereby responsible for an indirect value add of $11.2bn – another 4% of GDP.

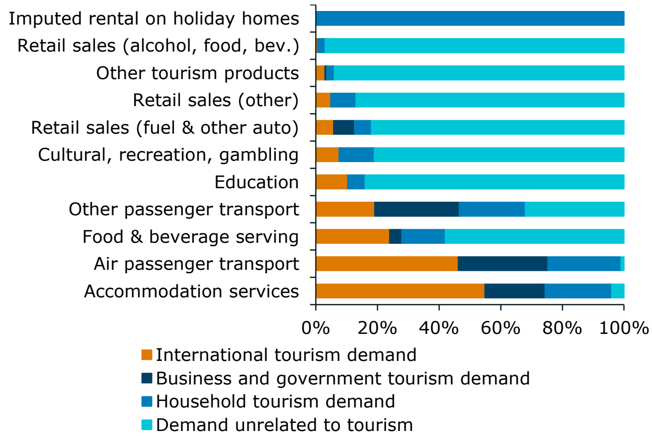
A number of industries are exposed to tourism, particularly accommodation, hospitality, and transport (figure 2). For example, international tourism accounts for 24% of total food and beverage serving services. This means that without a stream of international visitors, the hospitality industry would reduce by a quarter.

**Figure 1. Composition of tourism expenditure (year ended January 2020)**




Source: MBIE

**Figure 2. Tourism exposure of related industries**

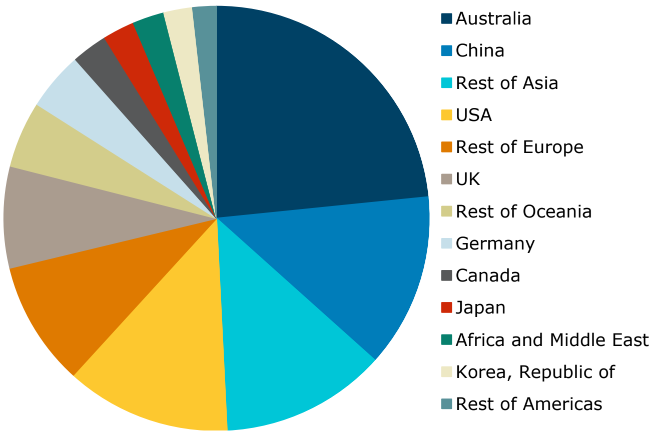



Source: Statistics NZ

*We are more exposed than many other countries.*

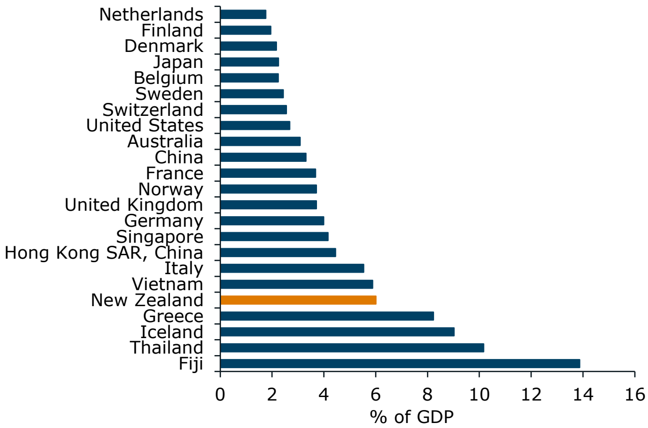
International visitors to New Zealand come from a wide range of countries (figure 3), with the biggest shares of expenditure coming from Australia (23%), China (13%) and the rest of Asia (13%). New Zealand is more exposed to tourism than a lot of other countries; we rely more heavily on this sector for employment, income and GDP (figure 4). In 2019, 229,566 people were directly employed in tourism (8.4% of the labour force). This is a significant portion of the labour market and is considerably higher than many other countries.

**Figure 3. Composition of international tourism expenditure by visitor origin (year ending Jan 20)**




Source: MBIE

**Figure 4. Tourism direct contribution to GDP by country**

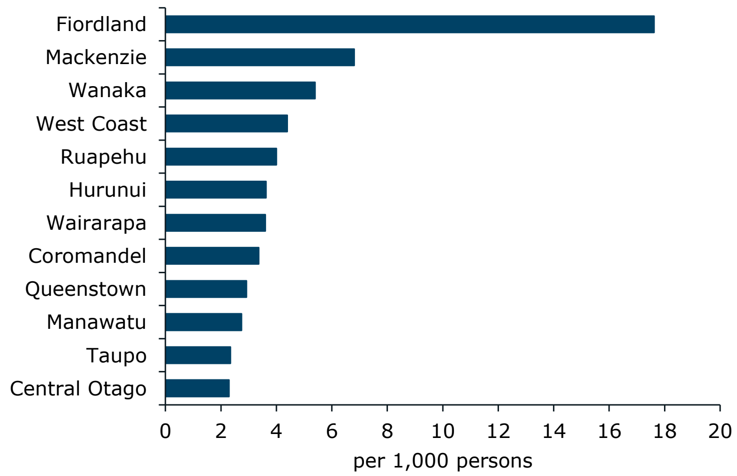



Source: World Bank 5

*Some regions are particularly exposed.*

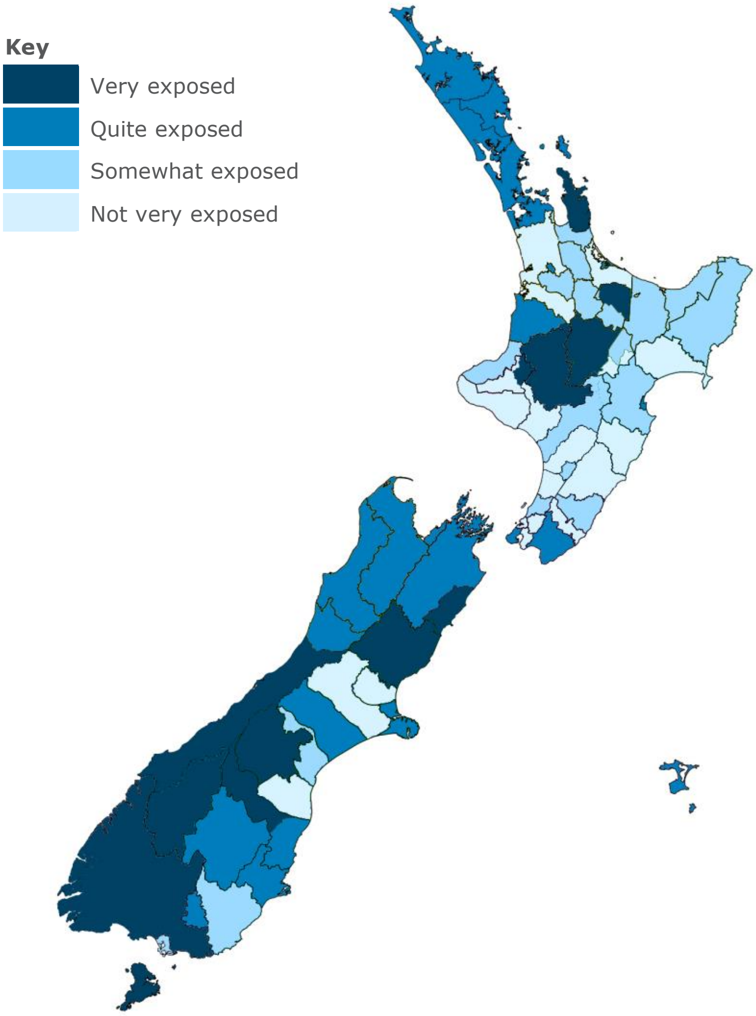
Many regions of New Zealand have reaped the benefits of strong tourism growth in recent years, but are now highly exposed to the sudden stop in international visitor demand due to COVID-19. Supply of accommodation per capita suggests areas such as Fiordland, Mackenzie Country, Wanaka, and the West Coast are very vulnerable. The least-exposed regions by this measure are Bay of Plenty, Waikato and Wellington. An alternative, more granular measure is visitor spend per capita. Exposure of the territorial authorities to tourism by this measure is shown in the heat map (figure 6). It shows consistent themes. The South Island is particularly exposed.

**Figure 5. Accommodation units by region per capita**




Source: Statistics NZ

**Figure 6. Heat map of regional spend/vulnerability**



# Economic overview

Prior to COVID-19 the tourism industry was one of the most buoyant parts of the New Zealand economy. Tourism expenditure in New Zealand grew rapidly in recent years, with total expenditure estimated to have increased 30% since 2015, as visitor numbers rose. The industry was stretched and coming up against capacity constraints. Before the outbreak, MBIE was forecasting that the industry would continue to see strong growth with visitor arrivals reaching 5.1 million by 2024 and international spend reaching $15 billion by 2024. Now the picture is clearly quite different.

## COVID-19 impacts clearly evident

*COVID-19 has had a massive impact globally.*

COVID-19 has served a massive blow to the tourism industry globally. The sector has gone within a few months from a flourishing and exciting space to a complete stop. The United Nations World Trade Organization (UNWTO) has estimated a fall in global tourism arrivals of between 60-80% in 2020. As of 8 May, 156 destinations (76% of total destinations) have completely or partially closed off borders. They also note that around 80% of the industry is comprised of SMEs, and that the sector has a strong history of supporting women, youth and rural communities.

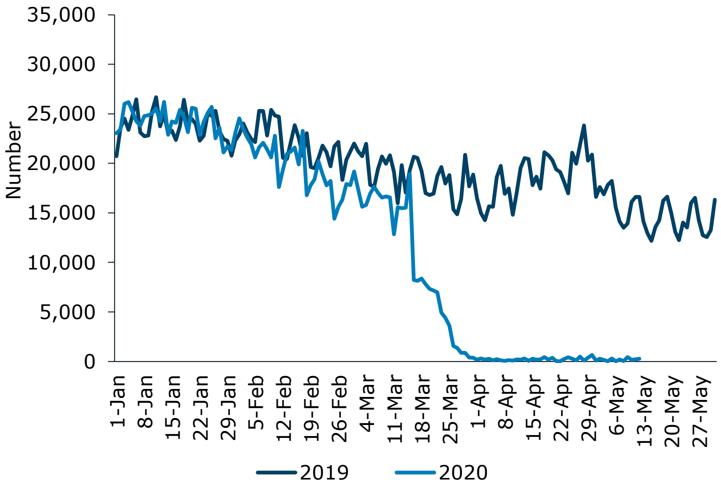
*Job losses could be severe.*

In New Zealand, Tourism Industry Aotearoa (TIA) has estimated that approximately 100K jobs could be lost as a result of the current crisis, some 40% of those employed in the industry. The duration of border closures, scale of domestic travel, possibility of a trans-Tasman 'bubble', and strength of demand in the recovery will all be important in determining the impact. Cruise ship demand is at particularly high risk and could see one of the slowest recoveries. However, it is not a large part of the tourism industry in New Zealand, comprising only 2% of total tourism expenditure in 2019.

*International visitor arrivals have fallen to zero.*

The effects of the COVID-19 crisis have started to become apparent in released data. International visitors fell to zero on 22 April 2020, as a result of necessary border closures in response to the COVID-19 crisis (figure 7). On 18 May New Zealand saw no international arrivals or departures at all, which probably hasn't happened since the 1960s. Fortress New Zealand meets Hotel California.

**Figure 7. Arrivals to New Zealand**




Source: Statistics NZ

*Tourism spend is down in all regions.*

MBIE monthly regional tourism estimates to March show a reduction in total tourism monthly spend for all regions (table 1). Southland, Otago, Wellington, Auckland, and the West Coast all saw a decline of 30% or more in March versus a year ago.

Since moving to Alert Level 2, it is encouraging to see Airbnb report that domestic bookings have recovered to 85% of pre-COVID levels. However, many kiwis are choosing to travel short distances. This post-lockdown surge will reflect pent-up demand and substitution away from international travel. However, the data could be volatile as lockdown ends. After that, a new (weaker) trend in demand will likely become clear.

**Table 1. Regional tourism spend estimates (March 2020)**

| Region | % change in total spend from March 2019 |
|---|---|
| Northland | -15% |
| Marlborough | -15% |
| Taranaki | -21% |
| Tasman | -21% |
| Waikato | -22% |
| Hawke's Bay | -22% |
| Gisborne | -24% |
| Manawatu-Whanganui | -25% |
| Bay of Plenty | -25% |
| Canterbury | -27% |
| Nelson | -29% |
| West Coast | -30% |
| Auckland | -31% |
| Wellington | -33% |
| Otago | -34% |
| Southland | -37% |

Source: MBIE

*Short-term rentals are flooding the market.*

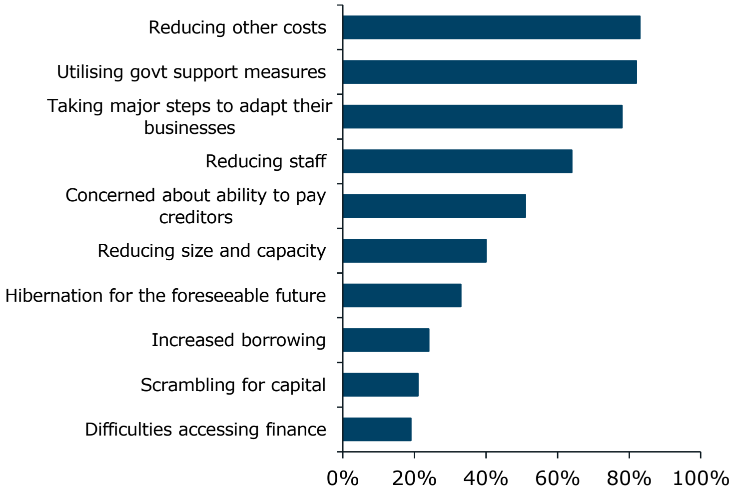
With demand weaker, those regions that have a lot of short-term accommodation (figure 5) will be vulnerable to an influx of some of this housing onto the longer-term rental market at the same time that they depopulate due to lost tourism jobs, putting downward pressure on rents and house prices. This has already been seen to some extent in Queenstown (see Box A). See our ANZ Property Focus for more on impacts on house prices by region.

A survey completed by TIA, published on 5 May, demonstrated the swift and devastating impact Covid-19 has had on the industry (figure 8). Of the 569 respondents:

*Firms in the industry are responding.*

- 33% indicated that they were going into hibernation for the foreseeable future;
- 40% are sharply reducing business size and capacity;
- 51% are concerned about being able to pay their creditors; and
- 82% are reliant on Government support.

**Figure 8. Tourism industry survey of COVID-19 impacts**




Source: Tourism Industry Aotearoa

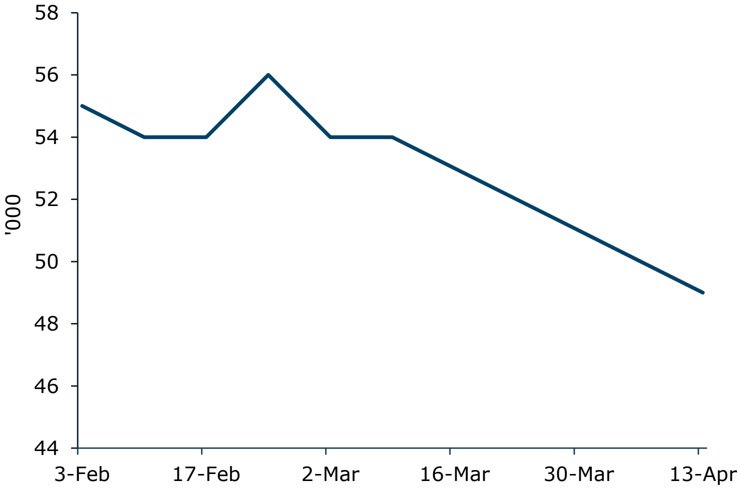
## Box A: Queenstown rental market – a case study

Stuff reports that the number of Queenstown rental property listings on Trade Me jumped about 80% from February to March 2020. The increase in supply saw a 11% decrease in median weekly rents. In 2017, Airbnb reported that 10% of all New Zealand listings were located in Queenstown. With borders expected to be closed for a significant time, landlords are converting these short-term accommodation options into long-term rental properties, flooding the market.

Queenstown's extreme exposure to tourism will have large repercussions for not only house prices and rents but also employment in the region. Stuff reports that the tourism industry contributes two-thirds of Queenstown's jobs. Not only is there a sharp increase in the effective supply of housing; there will be a swift reduction in demand for it at the same time.

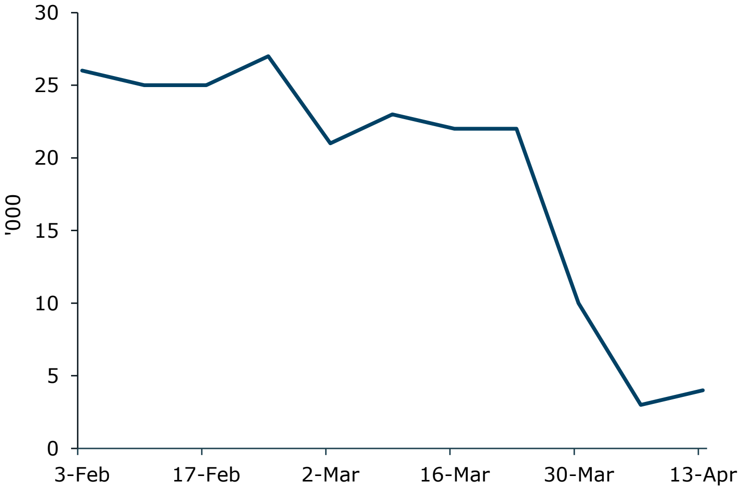
This problem could be widespread. The below AirDNA data shows the effect of Covid-19 on the accommodation sharing industry, including services such as Airbnb and Vrbo. Active properties have fallen 11% since the start of February 2020 (figure A1). New bookings in New Zealand have dropped from 26,000 in the week of February 3-9 to 4,000 bookings in the week of April 13-19, when New Zealand was in Level 4 lockdown (figure A2).

**Figure A1. Active short-term rental properties in New Zealand**




Source: AirDNA

**Figure A2. New bookings for short-term rental properties in New Zealand**




Source: AirDNA

# Economic overview

*The Government is providing assistance.*

*But pressure for more may increase.*

*Tourism receipts could fall by a quarter to a half.*

*We expect something at the larger end of this range.*

*It will have a particularly potent labour market impact.*

*International travel is off the cards for a while.*

## Government response so far

Although tourism expenditure overall is weighted towards domestic spend, many companies that primarily focus on international visitors have seen their revenues slashed to zero. Industry participants are calling for clarity and certainty. The Government has announced a $400 Million Tourism Recovery Package as part of the May Budget, including advice and support to help businesses pivot towards the domestic and Australian market, hibernate, or work through other options. The fund is supplemented by extension of the Wage Subsidy Scheme that will be available to many firms in the sector, who will not struggle to demonstrate a 50% hit to revenue. There is also a Strategic Tourism Assets Protection Programme designed to protect key assets.

Tourism is highly seasonal; many more international visitors travel to New Zealand in the summer months. Therefore, as we head towards summer in August/October there will be added pressure from the industry to re-open borders, at least to Australia. The decision will be made through a health lens, with the priority being avoiding any risk of re-igniting community spread of COVID-19 that could devastate the broader economy. A vigorous and robust tracing and testing program can go a long way to ameliorating the risks that we might need to once more resort to shutdowns, but the industry has been warned that any re-opening of borders remains some time away.

## Tourism after lockdown

The outlook for tourism over the medium term is very uncertain. We estimate a possible drop in tourism receipts in the range of about a quarter to a half over this year, over a range of scenarios (table 2). The potential direct negative impacts on GDP range from 2.4 to 4.7%, with these effects expected to be reasonably persistent as the industry adapts to the new reality.

**Table 2. Reduction in tourism spending this year under different scenarios**

| | Total reduction in demand | Impact on annual GDP |
|---|---|---|
| Scenario One: Domestic travel only | -48% | -4.7% |
| Scenario Two: Domestic travel with substitution effect | -42% | -4.1% |
| Scenario Three: Trans-Tasman Bubble | -25% | -2.5% |
| Scenario Four: Oceania Bubble | -24% | -2.4% |

Source: ANZ Research

Our current macroeconomic forecasts are consistent with a scenario at the larger end of this range, with a potential trans-Tasman bubble a source of very welcome upside risk. All of these scenarios have a significant and long-lasting impact on GDP – and the labour market to boot.

The tourism industry is very labour intensive – comprising 5.8% of GDP but 8.4% of jobs in the economy. Taking this into account, along with the necessary structural adjustment in the industry, it's clear that the labour market will be worse affected than it would be by a 'typical' GDP fall spread more broadly across sectors. This is one of the reasons that we see the unemployment rate peaking at a higher level and improving more gradually than the RBNZ and the Treasury at this stage. We intend to cover the labour market outlook and these considerations in more detail in a future ANZ Weekly Focus.

We now consider the above scenarios in more detail.

## Scenario One: Domestic travel only

International borders are unlikely to be opened for quite some time – potentially until a vaccine or highly effective treatment to COVID-19 is available. This will serve a direct and enormous blow. If we assume borders are to remain closed for the remainder of the year, this would lead to a reduction of 40% in tourism spending, consistent with TIA estimates for employment impacts above.

*Domestic tourism is significant though and can get underway.*

*Nonetheless, tourism could halve.*

*Households might do more domestic travel, providing an offset.*

*Especially if prices drop.*

*A trans-Tasman bubble is possible.*

*We think it wouldn't be until Level 1.*

The remaining 60% of the industry is made up two sectors: business/government demand (15%) and domestic household spending (45%).

At Alert Level 2, domestic travel has resumed, although we expect it will remain at muted levels initially due to residual caution about the virus. But even once that dissipates, demand will be weak. We expect that New Zealand could see a rise in unemployment to 11% in Q3, reducing to 8% next year. Recession, high unemployment, falling house prices and uncertainty about the outlook will all lead to a decrease in household spending, particularly discretionary leisure spending. We assume that this might reduce household spending on domestic tourism by 10-15%.

Business demand will also reduce with the economy weak and a generally cautious approach to firm interactions and travel.

In this scenario, weaker domestic and MIA international spending would result in a total fall in tourism expenditure of 48%. The impact could be even greater if we have underestimated the extent to which domestic tourism spending is pruned by financially cautious households.

### Scenario Two: Domestic travel with substitution effect

In practice, the weak demand described above will very likely be partially offset by households spending some of the money they would have otherwise have used for overseas travel on trips within New Zealand instead. In this scenario, we assume that a third of the spend previously used for travelling outside of New Zealand will be used for domestic travel. This would result in a 42% fall in tourism expenditure rather than 48%.

Of course, this impact is uncertain. Kiwis visit different places in New Zealand than international visitors do. We also spend less (staying with family and friends, for example), so the offset could be less than we have assumed. Lower prices could also feed into lower nominal expenditure, as firms are forced to reduce prices to cater to a New Zealand market and stimulate demand for their product. Such price reduction could support demand, but it is unclear how these impacts will net out.

### Scenario Three: Trans-Tasman Bubble

The idea of a trans-Tasman bubble is gaining prominence, and is looking like a promising possibility as both countries make great progress eliminating the virus. Jacinda Ardern, Winston Peters and Australian PM Scott Morrison all support the idea in principle, if it can be done safely.

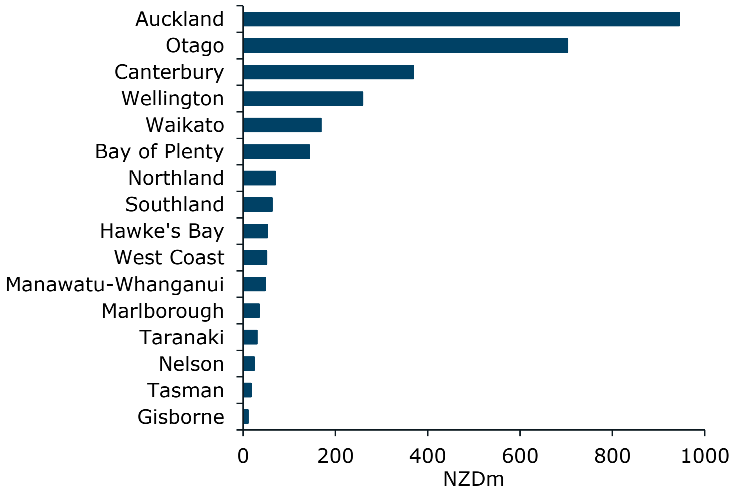
Australia has announced a three-step travel plan:

- Stage One – intrastate travel opens back up (limited to people exploring their own territory),
- Stage Two – some interstate travel resumes,
- Stage Three – all interstate travel resumes, some international travel possible (New Zealand and the Pacific).

Australia are currently in Stage One and Morrison has indicated that he hopes all interstate travel will be possible by the next Australian school holidays (June 26 –July 3). This is a prerequisite to trans-Tasman travel. And we expect that a trans-Tasman bubble would only be established once New Zealand is safely in level 1. But there are a lot of other hurdles to clear to convince both countries that the travel can be undertaken safely without quarantine measures. Ardern has indicated that the timescale is long: "it won't be weeks."

By allowing Australian visitors to travel to New Zealand the outlook for the tourism industry could improve. The Otago and Auckland regions would benefit in particular (figure 9).

**Figure 9. Regional spend by Australian visitors 2020 (excluding air-passenger transport)**




Source: MBIE

*Allowing Australian visitors would provide clear benefits.*

It is important to note that New Zealand has more of an economic incentive to open the borders than Australia does.

*We have a strong incentive to make it work.*

- Tourism has a smaller direct contribution to GDP in Australia (3.08%) and has a smaller contribution to employment (4.38%), according to the World Bank.
- Australia has a smaller exposure to international visitors than we do at ~30% of total tourism expenditure. Tourism is also a larger proportion of exports in New Zealand (20%) than in Australia (10%).
- In the year ended February 2020, New Zealanders spent approximately AUD2.6bn in Australia, accounting for 5.7% of their tourism exports. In contrast, in the year ended January 2019, Australian visitors generated approximately 24% of international tourism spend in New Zealand, or 9% of total tourism expenditure.

*We might be able to capture more expenditure too.*

However, New Zealand could become the international destination of choice for Australians who have no other choices. Tourism Research Australia report that Australia saw travel services imports (ie outgoing tourism spend) of around AUD58.3bn (~NZD62.4bn), so New Zealand could capture some of this expenditure. However, Australians are likely to spend less in New Zealand than on international trips.

*The impact would be significant, taking the decline in tourism from a half to a quarter.*

Spend from international visitors is generally influenced by currency movements; as the NZD depreciates international visitors are incentivised to spend more (though of course this is moot if visitors cannot come). The relationship between currency movements and Australian spending is less apparent than for other visitors, however, meaning that a lower NZD/AUD wouldn’t necessarily generate a lot of extra spending if a trans-Tasman bubble was in operation.

In total we estimate that tourism expenditure might fall 25% if a trans-Tasman bubble was introduced. This is a significant improvement from a possible fall of 40-50% without it, but it would not be a panacea.

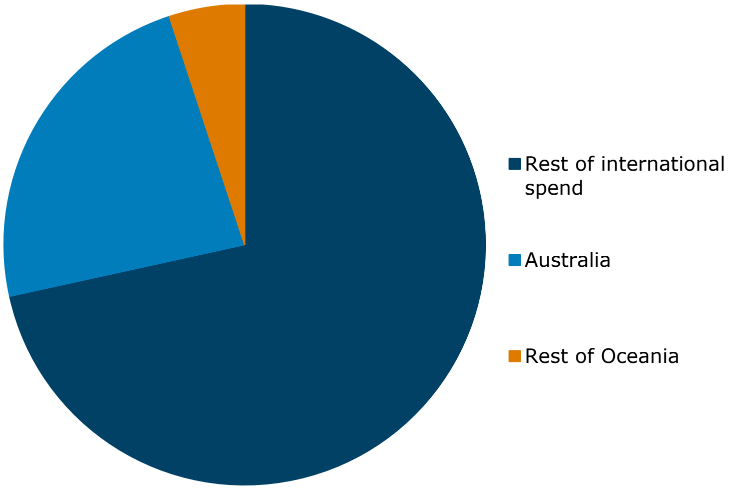
### Scenario Four: Oceania Bubble

*Including the Pacific would have small benefits for us, but could be very significant for them.*

A potential extension of the trans-Tasman bubble idea is to also include the Pacific. It’s not one-way traffic, though it is certainly small in our direction. In the year ending January 2020, MBIE estimates that Oceania excluding Australia and New Zealand contributed 4.3% of international spend in New Zealand (figure 10), contributing 1.7% to total tourism expenditure.

Because the contribution of the Pacific is only small, if borders were opened with the rest of Oceania the damage to the tourism industry could be pruned by an extra 1% or so to a reduction of around 24%. However, the impact of such a bubble on Pacific nations could be very significant, given they are highly exposed to tourism, and Australia and New Zealand are their most important markets. They will be highly motivated to commence some international travel quickly, if possible.

**Figure 10. NZ international spend composition for the year ending January 2020**




Source: MBIE

## Long-haul implications

*Tourism will need to reshape.*

Covid-19 has caused a cardiac arrest in the global tourism industry. Countries around the world are trying to re-imagine what the future of the industry could look like. As different countries control the spread of the virus there may eventually be "global spheres" created. A "global sphere" would be similar to the idea of a Trans-Tasman bubble, except it would include more countries. Indeed, some European countries are once more cautiously opening up their borders to each other. New Zealand may look at opening borders with other countries that have been able to control the virus. Countries that have similar exposure to the tourism industry, such as Vietnam (5.8% direct contribution to GDP), may be more likely to form these relationships. Of course, the logistics are complicated by the fact that from many parts of the world, a stopover is required to get here.

*The way we fly could change.*

The way we fly could change dramatically. For example, aircrafts could introduce private capsules, intensive testing at the airport, and fewer passengers per plane. All of these changes would lead to more expensive travel, with more barriers. The era of global mass tourism may effectively be past its peak, for good and ill.

The idea of an immunity certificate has been articulated overseas, although it is too early to judge the reliability and longevity of immunity after contracting COVID-19. The certificate would be necessary to travel to certain countries and could become as important as having a valid passport.

*Even with a vaccine for COVID-19, some changes will be hard to reverse.*

But a successful vaccine is the ultimate solution. With a vaccine the tourism industry could start to claw its way back to pre-Covid19 levels. But it is likely that even if a vaccine is created the tourism industry will have already seen some transformations that will be hard to reverse. For example:

- a permanent change in the perceived risk of travel;
- a sustained reduction in the supply of tourism services and products, leading to a permanent higher price of travel;
- reduced business travel due to risk and widespread acceptance of cheaper, more environmentally friendly alternatives such as video conferencing.
- a shift in the perception around how necessary international leisure travel is.

# Economic overview

*It will be a difficult path ahead.*

One positive that could come from the lockdown is that the border closures have given New Zealand the opportunity to reimagine a more sustainable tourism industry. We could re-focus the industry to ensure that over-reliance on mass tourism does not reoccur. But unfortunately, there's no avoiding the fact that it's going to be a very challenging time ahead.

## Local data

**GlobalDairyTrade auction.** Lifted 1.0%, defying expectations of further weakness.

**Food Price Index – April.** Up 1%, but this data is being clouded by lockdown effects and measurement issues.

**ANZ Monthly Inflation Gauge – April.** Down 0.8% m/m. Lockdown measures meant many goods and services were not traded in April, so we've had to estimate some prices – a challenge also faced by Statistics NZ as it compiles the CPI.

**Retail Trade Survey – Q1.** Retail sales volumes fell 0.7% q/q in Q1. Q2 is when the household sector really began to feel the brunt of this crisis, and that's when we expect to see a very significant deterioration in these data.

**Performance Services Index – April.** From an expansionary 52 in February to a very contractionary 25.9 in April, all eyes are now on May for the rebound – we think it will be partial.

## What you may have missed

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- ANZ Property Focus – In question
- ANZ NZ Monthly Inflation Gauge – Dusty

## The ANZ heatmap

| Variable | View | Comment | Risks around our view |
|---|---|---|---|
| GDP | -5.5% y/y for 2021 Q1 | Highly uncertain and with a slow recovery. Downside risks loom. Our expectation for more QE provides some modest upside. | Neutral  Negative / Positive |
| Unemployment rate | 8.1% for 2021 Q1 | The labour market is set to deteriorate rapidly, with the unemployment rate set to rise significantly. | Neutral  Down (better) / Up (worse) |
| Monetary policy | OCR at 0.25% in June 2021 | A 0.25% OCR is here for the rest of the year. We see QE being expanded and have pencilled in $90bn by August for now. | Neutral  Down / Up |
| 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. | Neutral  Negative / Positive |

# FX / rates overview

## Summary

New Zealand long-term interest rates continue to grind lower, driven by the RBNZ's continued focus on the longer end of the NZGB curve. We don't expect the broad pattern of RBNZ purchases to change given the Governor's consistently dovish tone, the threat of negative interest rates, and clear signs that the "lower and flatter" NZGB yield curve is having beneficial knock-on effects across the wider credit market. We have tweaked our bond forecasts to reflect this. In the FX space, although we expect the NZD to eventually run into headwinds as the euphoria of increased liquidity dies down, for now NZD remains well supported, leaving us more neutral near term.

*Lower and flatter NZGB curve; but a more stable NZD.*

Quantitative easing (QE) continues to have a meaningful impact on the local market, with the long end of the NZGB curve falling to new lows on Friday. Shorter-term bond yields have risen off their lows, largely on the back of the prospect of a negative OCR being pushed back into next year. As a result, we now have a "lower and flatter" NZGB curve, which is one of the stated aims of QE. Regular readers will be aware that we have been calling for a lower and flatter curve for some time, but the recent move has occurred slightly more quickly than we expected, necessitating a tweak of our forecasts (table 1).

*Our forecasts see slightly more downside and a delayed eventual lift in yields.*

**Table 1: ANZ 10-year NZGB forecasts (4/29s)**

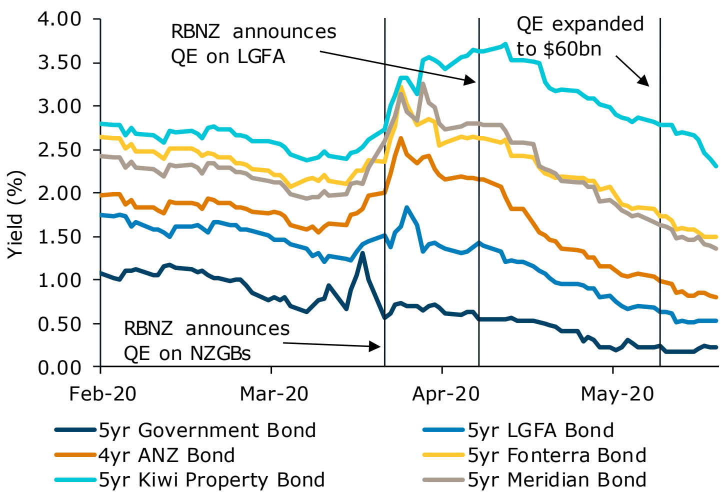
| Timeframe | New forecasts | Old forecasts |
|---|---|---|
| Current | 0.49 | N/A |
| Jun-20 | 0.40 | 0.75 |
| Sep-20 | 0.40 | 1.00 |
| Dec-20 | 0.50 | 1.25 |

Our near-term forecasts don't differ significantly from current market rates, which have fallen slightly further than we expected. However, we have delayed the timing and moderated the profile of an eventual lift in rates on the view that the RBNZ's consistent and methodical approach to QE will suppress yields for longer, with a mild rise in yields seen towards year-end as the monetary and fiscal easing starts to flow through to the economy. This will support economic recovery, even if it is gradual.

RBNZ rhetoric remains dovish and QE has the capacity to absorb all NZGB issuance well into next year. We don't expect the RBNZ's consistent focus on the long end to change. It is clear that QE is working, with credit spreads narrower across the broader market (figure 2) and more is coming – we expect the LSAP to be increased to $90bn in August. We see little scope for yields to rise in this environment.

*The impact of QE across credit markets is plain to see.*

**Figure 1: Yields on selected 4-5 year NZ bonds**




Source: Bloomberg

# FX / rates overview

*The risk is we go lower and the recovery is delayed, but we'd need to see a negative OCR for substantial further downside.*

Our forecasts imply further downside from here, and if anything, the risk is yields go further and/or the eventual lift in rates occurs later rather than sooner. However, we'd need to see a negative OCR for substantial further downside. That's not our expectation and certainly isn't on the cards this year. Instead, we see more QE in coming months, contributing to keeping the yield curve flatter and slightly lower in the short term.

That said, if by next year the economy is still floundering, inflation expectations remain subdued and unemployment still high, a negative OCR is a possibility. If that were to occur, we would expect bond yields to go even lower. It is worth noting that if the OCR remains at 0.25%, it's difficult to see 10-year bond yields moving much below 0.4% or so. Market expectations of an eventual move into negative rates could drive bond yields lower, but for now the market has been happy to push out and fade its expectations for a negative OCR.

*More neutral short term outlook for the NZD.*

In the FX space, we are more neutral the NZD in the near term. As with interest rates, the extraordinary amount of liquidity is a key driver, and for now markets are happy to give the NZD the benefit of the doubt.  At a conceptual level, there are conceivably as many reasons to be bullish (we have beaten COVID-19, commodity prices are holding up, risk appetite has bounded back quickly) as there are to be bearish (tourism was a big piece of the economy and it's now gone, our yields are lower than the US and Australia's, negative rates may be coming, risk sentiment could sour at any time). As such, we're somewhat ambivalent.

We do eventually expect the NZD to be under pressure at some stage as risk appetite comes under pressure and excess liquidity gives way to concerns over earnings and solvency. But that looks to be a story for later in the year, when the realities of falling inflation expectations and rising joblessness become clearer. FX markets remain highly attuned to employment data, but that data tends to lag the economic cycle. And at the moment, many in the market are instead focusing on liquidity and eyeing the rebound in data that started with the release of several global PMI data releases (which are essentially business confidence surveys) last week.

We are also mindful that FX markets have taken a glass-half-full view of the prospect of negative rates here – ignoring the possibility because for now, they're off the table. But as the end of the year approaches, if they are still a possibility, the market will start to pay closer attention.

# Data calendar

| Date | Country | Data/event | Mkt. | Last | NZ time |
|---|---|---|---|---|---|
| 25-May | GE | GDP SA QoQ - Q1 F | -2.2% | -2.2% | 18:00 |
| | GE | GDP NSA YoY - Q1 F | -1.9% | -1.9% | 18:00 |
| | GE | GDP WDA YoY - Q1 F | -2.3% | -2.3% | 18:00 |
| | GE | IFO Business Climate - May | 78.5 | 74.3 | 20:00 |
| | GE | IFO Expectations - May | 75.0 | 69.4 | 20:00 |
| | GE | IFO Current Assessment - May | 80.0 | 79.5 | 20:00 |
| 26-May | NZ | Trade Balance NZD - Apr | 1270M | 672M | 10:45 |
| | NZ | Trade Balance 12 Mth YTD NZD - Apr | -2500M | -3456M | 10:45 |
| | NZ | Exports NZD - Apr | 5.30B | 5.81B | 10:45 |
| | NZ | Imports NZD - Apr | 4.00B | 5.14B | 10:45 |
| | AU | ANZ-RM Consumer Confidence Index - 24-May | -- | 92.3 | 11:30 |
| | JN | PPI Services YoY - Apr | 1.2% | 1.6% | 11:50 |
| | GE | GfK Consumer Confidence - Jun | -18.2 | -23.4 | 18:00 |
| | UK | CBI Retailing Reported Sales - May | -65 | -55 | 22:00 |
| | UK | CBI Total Dist. Reported Sales - May | -- | -68 | 22:00 |
| 27-May | US | Chicago Fed Nat Activity Index - Apr | -- | -4.19 | 00:30 |
| | US | House Price Purchase Index QoQ - Q1 | -- | 1.3% | 01:00 |
| | US | FHFA House Price Index MoM - Mar | 0.5% | 0.7% | 01:00 |
| | US | S&P CoreLogic CS 20-City MoM SA - Mar | 0.30% | 0.45% | 01:00 |
| | US | S&P CoreLogic CS 20-City YoY NSA - Mar | 3.40% | 3.47% | 01:00 |
| | US | New Home Sales - Apr | 480k | 627k | 02:00 |
| | US | New Home Sales MoM - Apr | -23.4% | -15.4% | 02:00 |
| | US | Conf. Board Consumer Confidence - May | 87.0 | 86.9 | 02:00 |
| | US | Conf. Board Expectations - May | -- | 93.8 | 02:00 |
| | US | Conf. Board Present Situation - May | -- | 76.4 | 02:00 |
| | US | Dallas Fed Manf. Activity - May | -62.0 | -73.7 | 02:30 |
| | AU | Construction Work Done - Q1 | -1.5% | -3.0% | 13:30 |
| | CH | Industrial Profits YoY - Apr | -- | -34.9% | 13:30 |
| | US | MBA Mortgage Applications - 22-May | -- | -2.6% | 23:00 |
| 28-May | US | Richmond Fed Manufact. Index - May | -40 | -53 | 02:00 |
| | US | US Federal Reserve releases Beige Book | -- | -- | 06:00 |
| | NZ | ANZ Business Confidence - May F | -- | -45.6 | 13:00 |
| | NZ | ANZ Activity Outlook - May F | -- | -42.0 | 13:00 |
| | AU | Private Capital Expenditure - Q1 | -2.9% | -2.8% | 13:30 |
| | EC | Economic Confidence - May | 70.7 | 67.0 | 21:00 |
| | EC | Industrial Confidence - May | -25.4 | -30.4 | 21:00 |
| | EC | Services Confidence - May | -27.9 | -35.0 | 21:00 |
| | EC | Consumer Confidence - May F | -- | -18.8 | 21:00 |
| | UK | Nationwide House PX MoM - May | -1.0% | 0.7% | 28 May-4 Jun |
| | UK | Nationwide House Px NSA YoY - May | 2.8% | 3.7% | 28 May-4 Jun |
| 29-May | GE | CPI EU Harmonized MoM - May P | -0.1% | 0.4% | 00:00 |
| | GE | CPI EU Harmonized YoY - May P | 0.4% | 0.8% | 00:00 |
| | GE | CPI MoM - May P | -0.1% | 0.4% | 00:00 |
| | GE | CPI YoY - May P | 0.6% | 0.9% | 00:00 |
| | US | GDP Annualized QoQ - Q1 S | -4.8% | -4.8% | 00:30 |
| | US | Personal Consumption - Q1 S | -7.5% | -7.6% | 00:30 |
| | US | GDP Price Index - Q1 S | 1.3% | 1.3% | 00:30 |
| | US | Core PCE QoQ - Q1 S | 1.8% | 1.8% | 00:30 |

Continued on following page

# Data calendar

| Date | Country | Data/event | Mkt. | Last | NZ time |
|---|---|---|---|---|---|
| 29-May | US | Durable Goods Orders - Apr P | -19.8% | -14.7% | 00:30 |
| | US | Durables Ex Transportation - Apr P | -15.0% | -0.4% | 00:30 |
| | US | Cap Goods Orders Nondef Ex Air - Apr P | -10.0% | -0.1% | 00:30 |
| | US | Cap Goods Ship Nondef Ex Air - Apr P | -10.0% | -0.2% | 00:30 |
| | US | Initial Jobless Claims - 23-May | 2100k | 2438k | 00:30 |
| | US | Continuing Claims - 16-May | 25750k | 25073k | 00:30 |
| | US | Pending Home Sales MoM - Apr | -15.0% | -20.8% | 02:00 |
| | US | Pending Home Sales NSA YoY - Apr | -- | -14.5% | 02:00 |
| | US | Kansas City Fed Manf. Activity - May | -22 | -30 | 03:00 |
| | NZ | ANZ Consumer Confidence MoM - May | -- | -20.2% | 10:00 |
| | NZ | ANZ Consumer Confidence Index - May | -- | 84.8 | 10:00 |
| | JN | Tokyo CPI YoY - May | 0.1% | 0.2% | 11:30 |
| | JN | Tokyo CPI Ex-Fresh Food YoY - May | -0.2% | -0.1% | 11:30 |
| | JN | Retail Sales MoM - Apr | -6.9% | -4.6% | 11:50 |
| | JN | Retail Sales YoY - Apr | -11.2% | -4.7% | 11:50 |
| | JN | Industrial Production MoM - Apr P | -5.6% | -3.7% | 11:50 |
| | JN | Industrial Production YoY - Apr P | -10.6% | -5.2% | 11:50 |
| | AU | Private Sector Credit MoM - Apr | 0.6% | 1.1% | 13:30 |
| | AU | Private Sector Credit YoY - Apr | 4.0% | 3.6% | 13:30 |
| | GE | Import Price Index MoM - Apr | -1.4% | -3.5% | 18:00 |
| | GE | Import Price Index YoY - Apr | -7.2% | -5.5% | 18:00 |
| | GE | Retail Sales MoM - Apr | -10.5% | -4.0% | 18:00 |
| | GE | Retail Sales NSA YoY - Apr | -14.3% | -1.2% | 18:00 |
| | EC | M3 Money Supply YoY - Apr | 8.1% | 7.5% | 20:00 |
| | EC | CPI MoM - May P | -0.1% | 0.3% | 21:00 |
| | EC | CPI Estimate YoY - May | 0.1% | 0.4% | 21:00 |
| | EC | CPI Core YoY - May P | 0.8% | 0.9% | 21:00 |
| 30-May | US | Advance Goods Trade Balance - Apr | -$65.0B | -$64.4B | 00:30 |
| | US | Wholesale Inventories MoM - Apr P | -0.5% | -0.8% | 00:30 |
| | US | Personal Income - Apr | -6.5% | -2.0% | 00:30 |
| | US | Personal Spending - Apr | -12.8% | -7.5% | 00:30 |
| | US | PCE Deflator MoM - Apr | -0.6% | -0.3% | 00:30 |
| | US | PCE Deflator YoY - Apr | 0.5% | 1.3% | 00:30 |
| | US | PCE Core Deflator MoM - Apr | -0.3% | -0.1% | 00:30 |
| | US | PCE Core Deflator YoY - Apr | 1.1% | 1.7% | 00:30 |
| | US | MNI Chicago PMI - May | 40.0 | 35.4 | 01:45 |
| | US | U. of Mich. Sentiment - May F | 74.0 | 73.7 | 02:00 |
| | US | U. of Mich. Current Conditions - May F | -- | 83.0 | 02:00 |
| | US | U. of Mich. Expectations - May F | -- | 67.7 | 02:00 |
| | US | U. of Mich. 1 Yr Inflation - May F | -- | 3.0% | 02:00 |
| | US | U. of Mich. 5-10 Yr Inflation - May F | -- | 2.6% | 02:00 |
| 31-May | CH | Composite PMI - May | -- | 53.4 | 13:00 |
| | CH | Manufacturing PMI - May | 51.0 | 50.8 | 13:00 |
| | CH | Non-manufacturing PMI - May | 53.5 | 53.2 | 13:00 |
| 1-Jun | AU | Ai Group Perf of Mfg Index - May | -- | 35.8 | 10:30 |
| | AU | CBA PMI Mfg - May F | -- | 42.8 | 11:00 |
| | AU | CoreLogic House Px MoM - May | -- | 0.2% | 12:00 |
| | JN | Jibun Bank PMI Mfg - May F | -- | 38.4 | 12:30 |
| | AU | Melbourne Institute Inflation MoM - May | -- | -0.1% | 13:00 |

Continued on following page

# Data calendar

| Date | Country | Data/event | Mkt. | Last | NZ time |
|---|---|---|---|---|---|
| | AU | Melbourne Institute Inflation YoY - May | -- | 1.2% | 13:00 |
| | CH | Caixin PMI Mfg - May | 49.7 | 49.4 | 13:45 |
| | UK | Markit PMI Manufacturing SA - May F | -- | 40.6 | 20:30 |
| 2-Jun | US | Markit Manufacturing PMI - May F | -- | 39.8 | 01:45 |
| | US | Construction Spending MoM - Apr | -7.6% | 0.9% | 02:00 |
| | US | ISM Manufacturing - May | 43.0 | 41.5 | 02:00 |
| | US | ISM New Orders - May | -- | 27.1 | 02:00 |
| | US | ISM Prices Paid - May | -- | 35.3 | 02:00 |
| | US | ISM Employment - May | -- | 27.5 | 02:00 |
| | NZ | Building Permits MoM - Apr | -- | -21.3% | 10:45 |
| | NZ | Terms of Trade Index QoQ - Q1 | -- | 2.6% | 10:45 |
| | AU | ANZ-RM Consumer Confidence Index - 31-May | -- | -- | 11:30 |
| | AU | Company Operating Profit QoQ - Q1 | -- | -3.5% | 13:30 |
| | AU | Inventories SA QoQ - Q1 | -- | 0.3% | 13:30 |
| | AU | Net Exports of GDP - Q1 | -- | 0.1 | 13:30 |
| | AU | BoP Current Account Balance - Q1 | -- | A$1.0B | 13:30 |
| | AU | RBA Cash Rate Target - Jun | 0.25% | 0.25% | 16:30 |
| | AU | RBA 3-Yr Yield Target - Jun | -- | -- | 18:30 |
| | GE | Markit/BME Manufacturing PMI - May F | -- | 36.8 | 19:55 |
| | EC | Markit Manufacturing PMI - May F | -- | 39.5 | 20:00 |
| | UK | Net Consumer Credit - Apr | -- | -£3.8B | 20:30 |
| | UK | Consumer Credit YoY - Apr | -- | 3.7% | 20:30 |
| | UK | Net Lending Sec. on Dwellings - Apr | -- | £4.8B | 20:30 |
| | UK | Mortgage Approvals - Apr | -- | 56.2k | 20:30 |
| | UK | Money Supply M4 MoM - Apr | -- | 2.8% | 20:30 |
| | UK | M4 Money Supply YoY - Apr | -- | 8.1% | 20:30 |
| | UK | M4 Ex IOFCs 3M Annualised - Apr | -- | 14.0% | 20:30 |
| 3-Jun | AU | Ai Group Perf of Construction Index - May | -- | 21.6 | 10:30 |
| | AU | CBA PMI Services - May F | -- | 25.5 | 11:00 |
| | AU | CBA PMI Composite - May F | -- | 26.4 | 11:00 |
| | JN | Jibun Bank PMI Services - May F | -- | 25.3 | 12:30 |
| | JN | Jibun Bank PMI Composite - May F | -- | 27.4 | 12:30 |
| | AU | GDP SA QoQ - Q1 | -- | 0.5% | 13:30 |
| | AU | GDP YoY - Q1 | -- | 2.2% | 13:30 |
| | AU | Building Approvals MoM - Apr | -- | -4.0% | 13:30 |
| | AU | Private Sector Houses MoM - Apr | -- | -1.2% | 13:30 |
| | CH | Caixin PMI Composite - May | -- | 47.6 | 13:45 |
| | CH | Caixin PMI Services - May | -- | 44.4 | 13:45 |
| | GE | Unemployment Change (000's) - May | -- | 373.0k | 19:55 |
| | GE | Unemployment Claims Rate SA - May | -- | 5.80% | 19:55 |
| | UK | Official Reserves Changes - May | -- | $1353M | 20:30 |
| | UK | Markit/CIPS Services PMI - May F | -- | 27.8 | 20:30 |
| | UK | Markit/CIPS Composite PMI - May F | -- | 28.9 | 20:30 |
| | EC | PPI MoM - Apr | -- | -1.5% | 21:00 |
| | EC | PPI YoY - Apr | -- | -2.8% | 21:00 |
| | EC | Unemployment Rate - Apr | -- | 7.4% | 21:00 |
| | US | MBA Mortgage Applications - 29-May | -- | -- | 23:00 |
| 4-Jun | US | ADP Employment Change - May | -9000k | -20236k | 00:15 |

Continued on following page

# Data calendar

| Date | Country | Data/event | Mkt. | Last | NZ time |
|---|---|---|---|---|---|
| 4-Jun | US | Markit Services PMI - May F | -- | 36.9 | 01:45 |
| | US | Markit Composite PMI - May F | -- | 36.4 | 01:45 |
| | US | Factory Orders - Apr | -14.8% | -10.4% | 02:00 |
| | US | Factory Orders Ex Trans - Apr | -- | -3.6% | 02:00 |
| | US | ISM Non-Manufacturing Index - May | 44.4 | 41.8 | 02:00 |
| | US | Durable Goods Orders - Apr F | -- | -- | 02:00 |
| | US | Durables Ex Transportation - Apr F | -- | -- | 02:00 |
| | US | Cap Goods Orders Nondef Ex Air - Apr F | -- | -- | 02:00 |
| | US | Cap Goods Ship Nondef Ex Air - Apr F | -- | -- | 02:00 |
| | NZ | QV House Prices YoY - May | -- | 7.1% | 05:00 |
| | NZ | ANZ Commodity Price - May | -- | -1.1% | 13:00 |
| | AU | Trade Balance - Apr | -- | A$10602M | 13:30 |
| | AU | Exports MoM - Apr | -- | 15% | 13:30 |
| | AU | Imports MoM - Apr | -- | -4% | 13:30 |
| | AU | Retail Sales MoM - Apr | -- | 8.5% | 13:30 |
| | GE | Markit Construction PMI - May | -- | 31.9 | 19:30 |
| | GE | Markit Services PMI - May F | -- | 31.4 | 19:55 |
| | GE | Markit/BME Composite PMI - May F | -- | 31.4 | 19:55 |
| | EC | Markit Services PMI - May F | -- | 28.7 | 20:00 |
| | EC | Markit Composite PMI - May F | -- | 30.5 | 20:00 |
| | UK | Markit/CIPS Construction PMI - May | -- | 8.2 | 20:30 |
| | EC | Retail Sales MoM - Apr | -- | -11.2% | 21:00 |
| | EC | Retail Sales YoY - Apr | -- | -9.2% | 21:00 |
| | EC | ECB Main Refinancing Rate - Jun | -- | 0.00% | 23:45 |
| | EC | ECB Marginal Lending Facility - Jun | -- | 0.25% | 23:45 |
| | EC | ECB Deposit Facility Rate - Jun | -- | -0.50% | 23:45 |
| 5-Jun | US | Trade Balance - Apr | -$38.0B | -$44.4B | 00:30 |
| | US | Nonfarm Productivity - Q1 F | -2.3% | -2.5% | 00:30 |
| | US | Unit Labor Costs - Q1 F | 4.6% | 4.8% | 00:30 |
| | US | Initial Jobless Claims - 30-May | -- | -- | 00:30 |
| | US | Continuing Claims - 23-May | -- | -- | 00:30 |
| | AU | Ai Group Perf of Services Index - May | -- | 27.1 | 10:30 |
| | UK | GfK Consumer Confidence - May F | -- | -34.0 | 11:01 |
| | GE | Factory Orders MoM - Apr | -- | -15.6% | 18:00 |
| | GE | Factory Orders WDA YoY - Apr | -- | -16.0% | 18:00 |
| | AU | Foreign Reserves - May | -- | A$63.2B | 18:30 |
| 6-Jun | US | Change in Nonfarm Payrolls - May | -7000k | -20537k | 00:30 |
| | US | Average Weekly Hours All Employees - May | 34.3 | 34.2 | 00:30 |
| | US | Unemployment Rate - May | 19.5% | 14.7% | 00:30 |
| | US | Average Hourly Earnings MoM - May | 0.5% | 4.7% | 00:30 |
| | US | Average Hourly Earnings YoY - May | 8.1% | 7.9% | 00:30 |
| | US | Consumer Credit - Apr | -$21.50B | -$12.04B | 07:00 |

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 |
|---|---|---|---|
| Tue 26 May (10:45am) | Overseas Merchandise Trade – April | Holding up | Goods exports have been holding up well. Imports have tailed off owing to supply disruptions and a weak domestic demand pulse. We see this theme continuing. |
| Tue 26 May (3:00pm) | RBNZ new mortgage lending data – April | Won't last | The recent surge in mortgage credit to help some households through will show up in the April numbers, but strength is not set to last as the housing market turns and caution settles in. |
| Wed 27 May (09:00am) | RBNZ Financial Stability Report – May | Changed | The global economy is materially weaker, and that could expose financial market vulnerabilities. Weakness in the property market and associated risks may also be a theme. At least the NZD is down and dairy prices haven't fallen too much, yet. |
| Thu 28 May (1:00pm) | ANZ Business Outlook – May | -- | -- |
| Fri 29 May (10:00am) | ANZ Roy Morgan Consumer Confidence – May | -- | -- |
| Fri 29 May (3:00pm) | RBNZ sectoral lending data – April | Working capital | Credit growth was strong in April, with working capital loans helping to fill the gap for many businesses. Expect a short-term spike to credit growth, but a softer pulse on the other side. |
| Tue 2 Jun (10:45am) | Terms of Trade – Q1 | Two negatives | The terms of trade are expected to improve slightly in Q1, as export prices fall less than import prices. |
| Tue 2 Jun (10:45am) | Building Consents – April | Drop | Building consents look set to drop considerably in April, but the recent pipeline of work should keep construction going for a while. The question is how many projects will be cancelled. Weak demand will weigh medium term. |
| Wed 3 Jun (early am) | GlobalDairyTrade auction | Weaker | Prices are expected to fall further at the first auction of the new NZ dairy production season. Returns are expected to ease further into Q3. |
| Thu 4 Jun (1:00pm) | ANZ Commodity Price Index – May | -- | -- |
| Mon 8 Jun (10:45am) | Work Put In Place – Q1 | Tools down | Solid activity early in the quarter will be offset by the halt in activity as lockdown began. |
| Tue 9 Jun (10:00am) | ANZ Truckometer – May | -- | -- |
| Wed 10 Jun (10:45am) | Economic Survey of Manufacturing– Q1 | Was steady | Manufacturing activity was holding pretty steady and then lockdown hit at the very end of the quarter. |
| 10 -17 Jun | REINZ housing data – May | Bumpy | The housing market was bank on line in May, so expect sales to rebound some, but weakness in prices is expected to emerge. |
| Thu 11 Jun (10:45am) | Electronic Card Transactions – May | Up | Expect a bounce as some spending comes back, but even if growth is strong, the trend is set to be lower. |
| Fri 12 Jun (10:45am | Food Price Index – May | Uncertain | Some prices had to be imputed in April, and that would have continued into the first half of May. |
| Fri 12 Jun (10:45am) | Rental Price Index – May | Wither | Fewer international visitors and rent freezes. Is this historically significant driver of domestic inflation about to wither? |
| Mon 15 Jun (10:45am) | Net Migration – April | Nope | Visitor arrivals have fallen to close to zero with borders closed, so there will be nothing to see here -- literally. |
| Mon 15 Jun (1:00pm) | ANZ Monthly Inflation Gauge – May | -- | -- |
| Wed 17 Jun (early am) | GlobalDairyTrade auction | Weaker | The downward trend on prices is expected to continue through the winter months. |
| Wed 17 Jun (10:45am) | Balance of Payments – Q1 | Narrow | The service surplus is set to narrow as tourism dries up, the goods deficit will narrow as imports contract, and the income deficit will narrow on lower global rates. |
| Thu 18 Jun (10:45am) | GDP – Q1 | Over the top | We will firm up our view in coming weeks. But for now we expect GDP contracted 2.5% q/q in Q1 as the crisis started. |
| Wed 24 Jun (2:00pm) | RBNZ OCR Review – June | All the stops | The RBNZ will continue to emphasise it will pull out all the stops and that it has plenty of options. We see more QE in time, with an expansion to a $90bn limit pencilled in for August. |
| **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 | 0.8 | **-0.4** | **0.1** | **-0.1** | **0.5** | **0.2** | **0.3** | **-0.2** |
| CPI (% yoy) | 1.9 | 2.5 | **1.6** | **1.0** | **0.4** | **0.1** | **0.7** | **0.9** | **0.8** |
| Employment (% qoq) | 0.0 | 0.7 | **-6.0** | **-2.5** | **2.5** | **2.0** | **0.7** | **0.9** | **1.0** |
| Employment (% yoy) | 1.0 | 1.6 | **-5.1** | **-7.7** | **-5.4** | **-4.2** | **2.6** | **6.2** | **4.7** |
| Unemployment Rate (% sa) | 4.0 | 4.2 | **7.6** | **10.5** | **9.4** | **8.1** | **8.0** | **7.7** | **7.1** |

| | Jul-19 | Aug-19 | Sep-19 | Oct-19 | Nov-19 | Dec-19 | Jan-20 | Feb-20 | Mar-20 | Apr-20 |
|---|---|---|---|---|---|---|---|---|---|---|
| Retail ECT (% mom) | -0.1 | 1.1 | 0.2 | -0.3 | 2.8 | -0.6 | -1.1 | 1.7 | -4.6 | -46.8 |
| Retail ECT (% yoy) | 2.0 | 3.1 | 0.6 | 1.6 | 5.1 | 3.9 | 4.2 | 8.6 | -1.8 | -47.5 |
| Car Registrations (% mom) | 5.6 | -0.7 | 4.4 | -6.6 | 0.3 | 1.2 | -6.1 | 9.1 | -30.6 | -88.7 |
| Car Registrations (% yoy) | -5.4 | -5.2 | 4.7 | -6.6 | 3.0 | 5.6 | -3.5 | -0.3 | -31.1 | -92.5 |
| Building Consents (% mom) | -1.5 | 0.8 | 7.5 | -1.7 | -8.3 | 10.5 | -3.3 | 5.7 | -21.3 | -- |
| Building Consents (% yoy) | 18.1 | 12.3 | 24.3 | 18.9 | 8.6 | 18.0 | 1.4 | 5.1 | -13.4 | -- |
| REINZ House Price Index (% yoy) | 1.6 | 2.7 | 3.2 | 3.9 | 5.5 | 6.5 | 6.9 | 8.5 | 9.1 | 8.5 |
| Household Lending Growth (% mom) | 0.5 | 0.6 | 0.5 | 0.5 | 0.6 | 0.6 | 0.6 | 0.6 | 0.2 | -- |
| Household Lending Growth (% yoy) | 5.9 | 6.0 | 6.1 | 6.2 | 6.3 | 6.5 | 6.6 | 6.7 | 6.4 | -- |
| ANZ Roy Morgan Consumer Conf. | 116.4 | 118.2 | 113.9 | 118.4 | 120.7 | 123.3 | 122.7 | 122.1 | 106.3 | 84.8 |
| ANZ Business Confidence | -44.3 | -52.3 | -53.5 | -42.4 | -26.4 | -13.2 | .. | -19.4 | -63.5 | -66.6 |
| ANZ Own Activity Outlook | 5.0 | -0.5 | -1.8 | -3.5 | 12.9 | 17.2 | .. | 12.0 | -26.7 | -55.1 |
| Trade Balance ($m) | -732 | -1642 | -1310 | -1038 | -786 | 380 | -396 | 531 | 672 | -- |
| Trade Bal ($m ann) | -5516 | -5591 | -5321 | -5055 | -4837 | -4467 | -3927 | -3302 | -3456 | -- |
| ANZ World Comm. Price Index (% mom) | -1.4 | 0.3 | 0.0 | 1.2 | 4.3 | -3.4 | -1.4 | -2.1 | -2.0 | -1.1 |
| ANZ World Comm. Price Index (% yoy) | -0.5 | 0.9 | 3.4 | 7.2 | 12.4 | 8.7 | 5.1 | 0.1 | -5.8 | -9.2 |
| Net Migration (sa) | 5010 | 5390 | 5160 | 5760 | 4880 | 6640 | 7010 | 8280 | 9700 | -- |
| Net Migration (ann) | 51842 | 52981 | 53626 | 55468 | 55940 | 58556 | 62177 | 66515 | 71456 | -- |
| ANZ Heavy Traffic Index (% mom) | 2.3 | -3.5 | 3.4 | 2.7 | -1.5 | -2.6 | 4.7 | -3.2 | -8.0 | -45.0 |
| ANZ Light Traffic Index (% mom) | 1.4 | 0.3 | -0.3 | 0.2 | 0.9 | -2.2 | 2.9 | -0.8 | -29.3 | -71.1 |
| ANZ Monthly Inflation Gauge (% mom) | 0.5 | 0.3 | 0.3 | 0.3 | 0.1 | 0.4 | 0.6 | 0.1 | 0.1 | -0.8 |

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 | Mar-20 | Apr-20 | Today | Jun-20 | Sep-20 | Dec-20 | Mar-21 | Jun-21 | Sep-21 |
| NZD/USD | 0.594 | 0.613 | 0.610 | 0.57 | 0.53 | 0.55 | 0.57 | 0.59 | 0.60 |
| NZD/AUD | 0.976 | 0.936 | 0.934 | 0.95 | 0.98 | 0.98 | 0.95 | 0.97 | 0.97 |
| NZD/EUR | 0.543 | 0.563 | 0.560 | 0.55 | 0.53 | 0.56 | 0.58 | 0.59 | 0.58 |
| NZD/JPY | 64.55 | 65.30 | 65.60 | 63.8 | 59.4 | 61.6 | 63.8 | 66.1 | 67.2 |
| NZD/GBP | 0.481 | 0.489 | 0.501 | 0.47 | 0.45 | 0.47 | 0.48 | 0.48 | 0.48 |
| NZ$ TWI | 68.40 | 69.24 | 69.22 | 67.1 | 64.6 | 66.7 | 68.2 | 69.9 | 70.2 |
| Interest rates/QE | Mar-20 | Apr-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 | 90 | 90 | 90 | 90 | 90 |
| NZ 90 day bill | 0.49 | 0.27 | 0.25 | 0.32 | 0.32 | 0.32 | 0.32 | 0.32 | 0.32 |
| NZ 10-yr bond | 1.08 | 0.73 | 0.49 | 0.40 | 0.40 | 0.50 | 1.00 | 1.25 | 1.25 |
| US Fed funds | 0.25 | 0.25 | 0.25 | 0.25 | 0.25 | 0.25 | 0.25 | 0.25 | 0.25 |
| US 3-mth | 1.45 | 0.69 | 0.37 | 0.40 | 0.40 | 0.40 | 0.40 | 0.40 | 0.40 |
| AU Cash Rate | 0.25 | 0.25 | 0.25 | 0.25 | 0.25 | 0.25 | 0.25 | 0.25 | 0.25 |
| AU 3-mth | 0.37 | 0.10 | 0.10 | 0.20 | 0.20 | 0.20 | 0.25 | 0.28 | 0.28 |

| | 22-Apr | 18-May | 19-May | 20-May | 21-May | 22-May |
|---|---|---|---|---|---|---|
| Official Cash Rate | 0.25 | 0.25 | 0.25 | 0.25 | 0.25 | 0.25 |
| 90 day bank bill | 0.33 | 0.25 | 0.25 | 0.25 | 0.25 | 0.25 |
| NZGB 05/21 | 0.23 | 0.07 | 0.07 | 0.06 | 0.06 | 0.03 |
| NZGB 04/23 | 0.28 | 0.08 | 0.11 | 0.12 | 0.10 | 0.12 |
| NZGB 04/27 | 0.69 | 0.33 | 0.36 | 0.39 | 0.35 | 0.35 |
| NZGB 04/33 | 1.15 | 0.74 | 0.74 | 0.76 | 0.71 | 0.70 |
| 2 year swap | 0.34 | 0.11 | 0.14 | 0.13 | 0.15 | 0.16 |
| 5 year swap | 0.49 | 0.20 | 0.23 | 0.22 | 0.22 | 0.23 |
| RBNZ TWI | 68.22 | 67.69 | 68.40 | 69.07 | 69.27 | 69.24 |
| NZD/USD | 0.6002 | 0.5965 | 0.6090 | 0.6133 | 0.6122 | 0.6094 |
| NZD/AUD | 0.9465 | 0.9240 | 0.9300 | 0.9329 | 0.9321 | 0.9325 |
| NZD/JPY | 64.61 | 64.00 | 65.55 | 66.00 | 65.95 | 65.64 |
| NZD/GBP | 0.4854 | 0.4920 | 0.4972 | 0.4999 | 0.5006 | 0.5012 |
| NZD/EUR | 0.5521 | 0.5517 | 0.5552 | 0.5599 | 0.5573 | 0.5594 |
| AUD/USD | 0.6342 | 0.6456 | 0.6548 | 0.6574 | 0.6568 | 0.6537 |
| EUR/USD | 1.0871 | 1.0812 | 1.0968 | 1.0954 | 1.0985 | 1.0901 |
| USD/JPY | 107.64 | 107.30 | 107.63 | 107.60 | 107.72 | 107.64 |
| GBP/USD | 1.2365 | 1.2125 | 1.2248 | 1.2268 | 1.2229 | 1.2173 |
| Oil (US$/bbl) | 13.78 | 31.82 | 32.50 | 33.49 | 33.92 | 33.25 |
| Gold (US$/oz) | 1703.45 | 1762.66 | 1735.41 | 1750.80 | 1734.75 | 1734.68 |
| NZX 50 | 10418 | 10758 | 10790 | 10788 | 10732 | 10663 |
| Baltic Dry Freight Index | 694 | 427 | 453 | 477 | 494 | 498 |
| NZX WMP Futures (US$/t) | 2560 | 2600 | 2600 | 2600 | 2600 | 2600 |

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