

What's in store for NZ as we head into 2021?

With special guest Mark Smith,
Senior Economist from ASB

November 2020





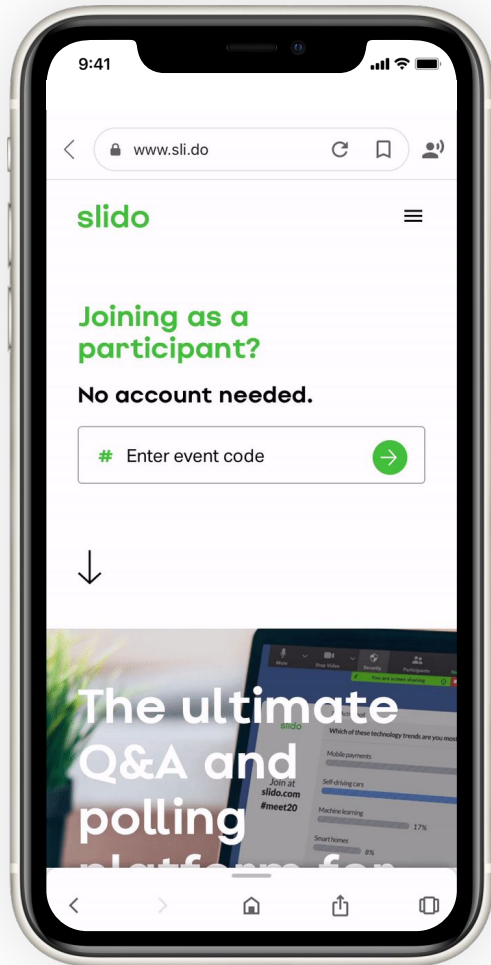
Mark Smith

Senior Economist



Mark is an experienced economist, financial analyst and media commentator with over 20 years of experience working as an economist in NZ and the UK.

Today, Mark will be delivering economic insights around the ongoing impacts of COVID-19 and give advice on how you can best position your business for what's to come in 2020.



Questions

Slido Q & A with Mark

1. Grab your smartphone
2. Open **slido.com**
3. Type in the event code **86099**
4. Type your question

If there is a question someone has asked that is relevant to you, please **upvote** it by giving it a **thumbs up**.



NZ Economic overview

Uncertainty is the only certainty

Mark Smith, Senior Economist, ASB

November 2020

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Topics

- Overview of economic backdrop.
- Key lessons.

| Economic backdrop

- Uncertainty is pronounced.
- COVID-19 dominates outlook.
- 2020 Global recession, winter looming in Northern Hemisphere.
- Viral outbreaks typically 'V' shaped recoveries.
- Latest vaccine news promising but still early days.
- NZ doing better than earlier thought.
- COVID and policy response has triggered a shift in consumer spending patterns.
- Contrasts between/within sectors.



COVID-19 Sector

Under/outperformers

Underperform	Steady	Outperform
<ul style="list-style-type: none">• Airlines, international tourism• Airports, travel agents, tourist operators• International education• Public transport, vehicle rental• fuel retailing• Accommodation, conferences• Hospitality, arts, recreation• Commercial property - office, retail	<ul style="list-style-type: none">• Agriculture• Primary manufacturing	<ul style="list-style-type: none">• Housing• Supermarkets• Online retail• IT services, internet service providers• Delivery/courier services• Technology• Healthcare• Medical safety equipment• Cleaning/sanitation

Source: ASB

| NZ Policy Support

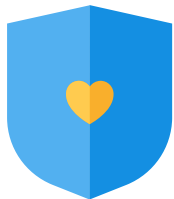
NZ Government

\$50bn COVID Response and Recovery Fund (CRRF).

- Wage subsidy.
- Income support.
- Small business cashflow loans.
- Business Finance Guarantee scheme.

RBNZ

- Policy interest rate.
- Quantitative Easing - \$100bn till July 2022.
- Funding for Lending Programme.



| Impacts

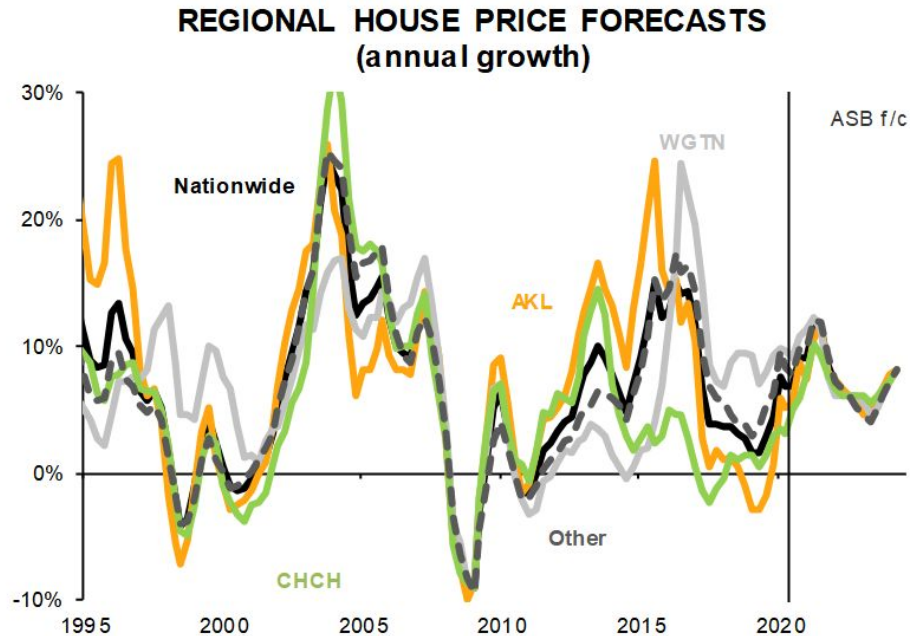
- Policy support has front-loaded growth.
- Rotation of growth.
- Brighter signs in interest-rate sensitive pockets.
- RBNZ policy measures to slow overheating in some pockets.

| Not out of woods yet

- We are in the midst of a global pandemic.
- Border restrictions to remain for a while yet.

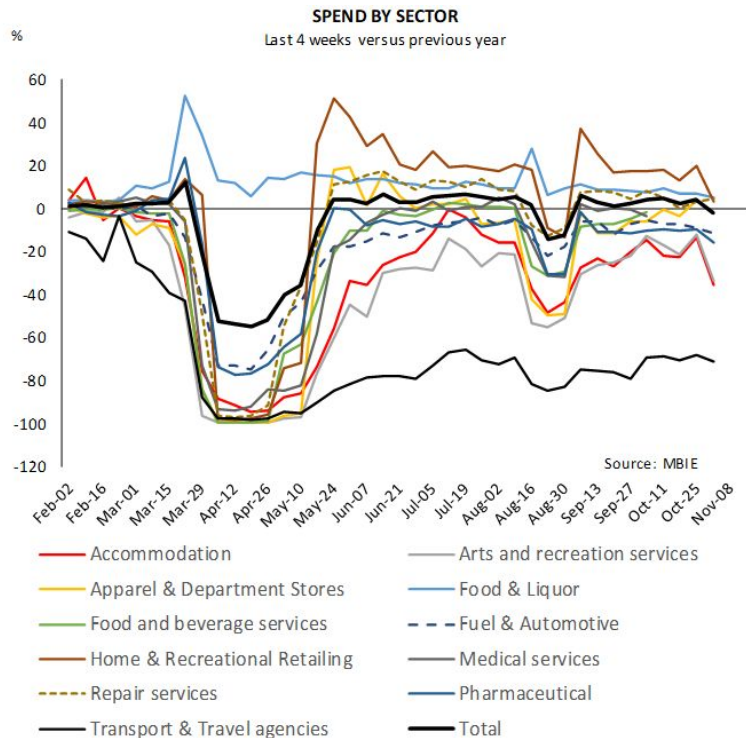


Housing market responding



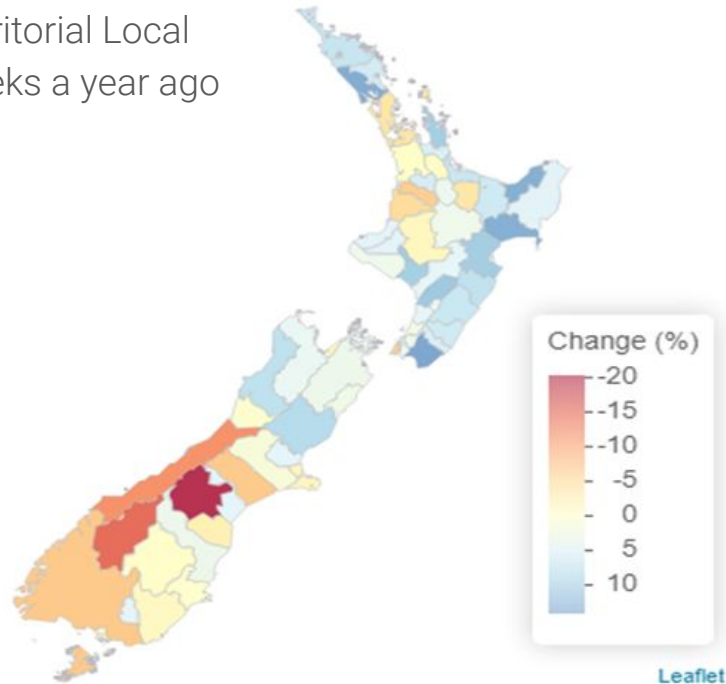
Source: QV, ASB(f)

Mixed retail picture



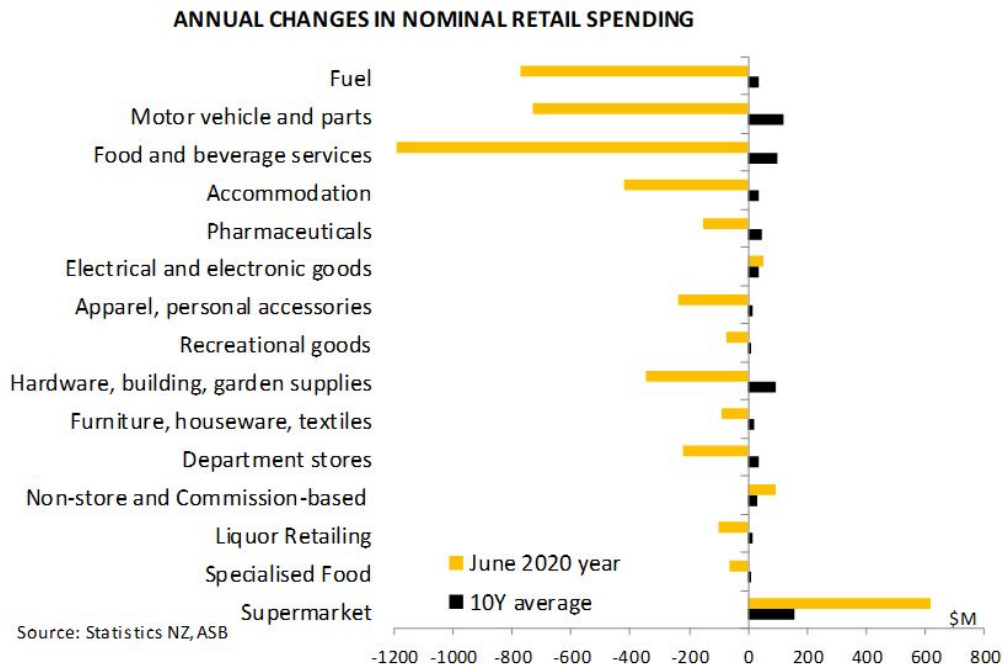
Regional contrasts

MBIE card spend by Territorial Local Authority vs same 4 weeks a year ago



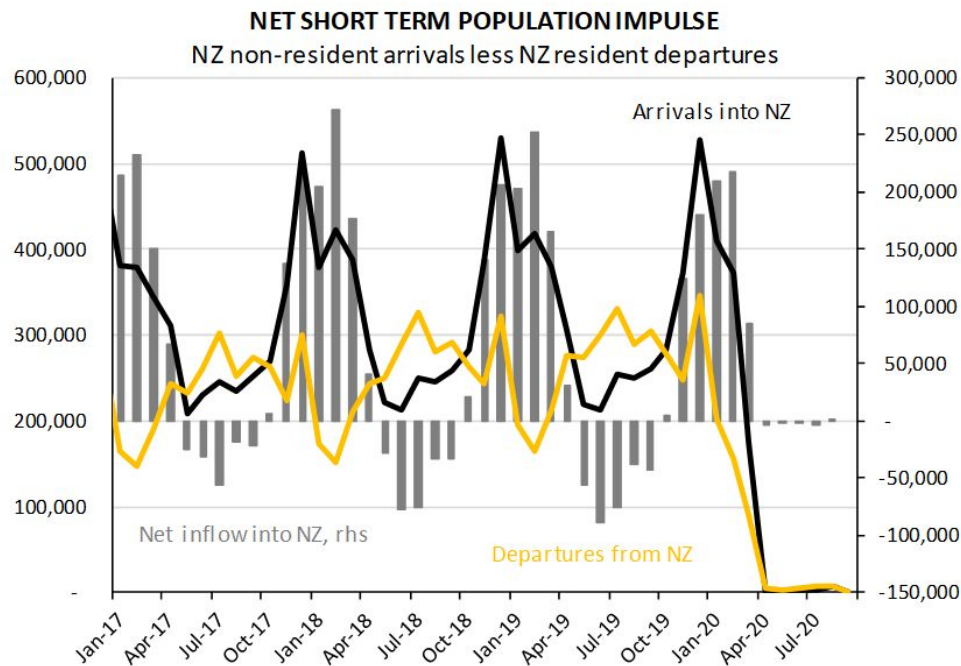
Rebound

to be led by components that we weak in Q2



Closed border headwinds

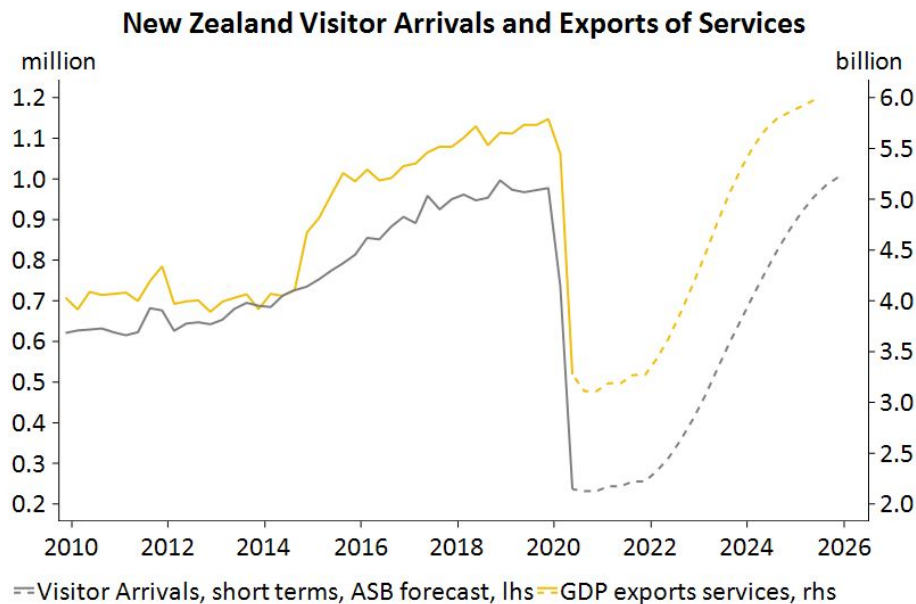
to intensify in summer



Source: Stats NZ, ASB

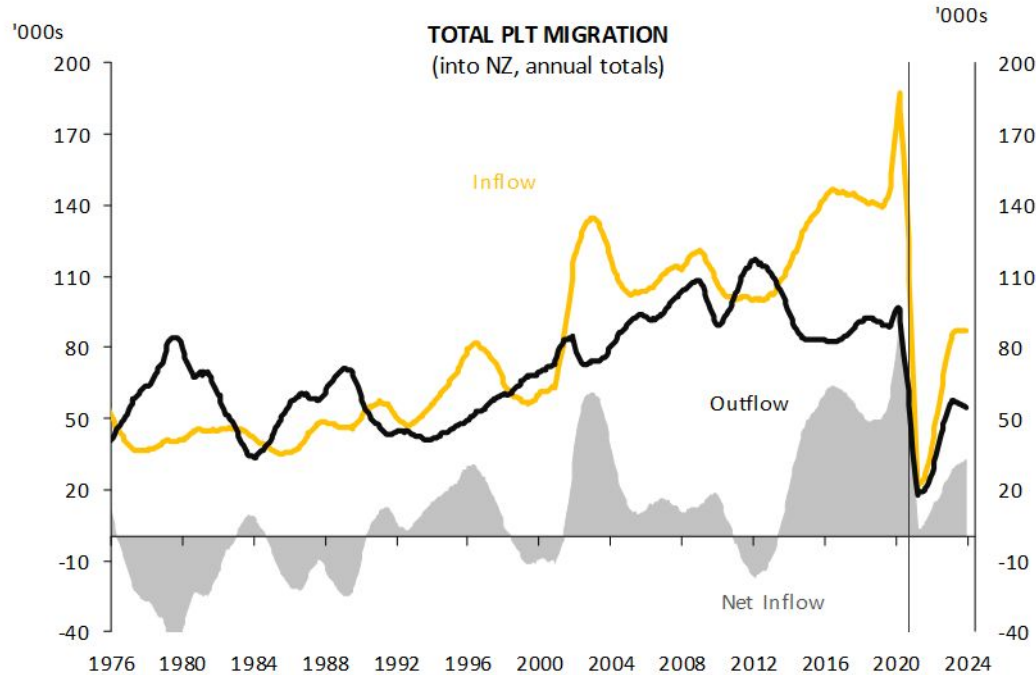
Inbound tourism

to take time to recover



Source: Macrobond, ASB

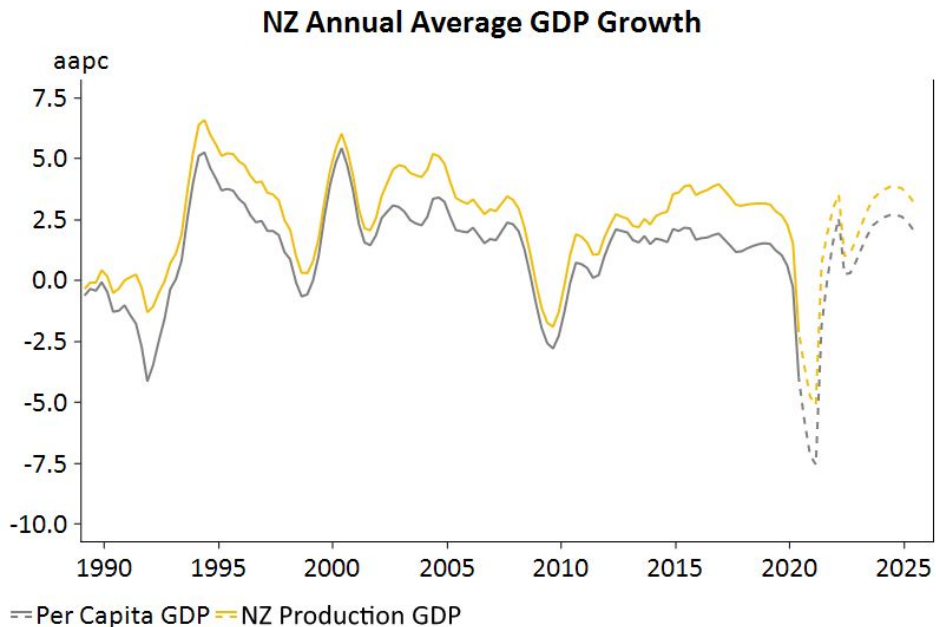
Population growth to slow



Source: Stats NZ, ASB

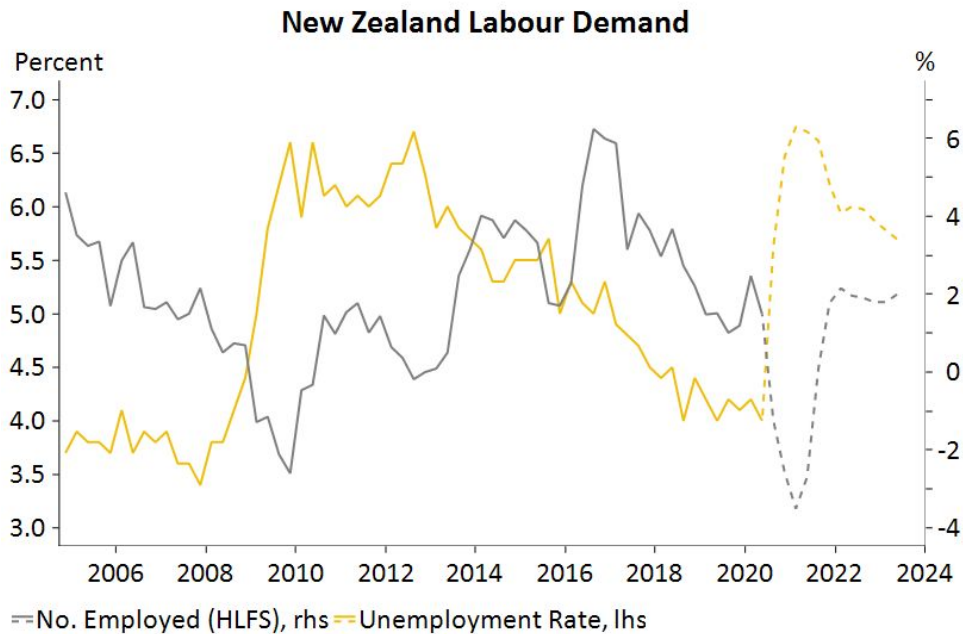
GDP

below pre-COVID levels till mid-2022



Source: Macrobond, ASB

Demand for labour to cool



Source: Macrobond, ASB

Summary

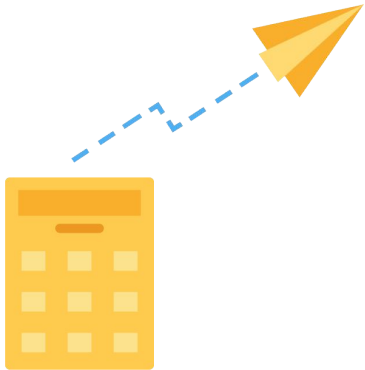
- Uncertainty is the only certainty.
- Risks of a V shaped recovery are growing.
- OCR unlikely to go negative, but it is not going up either.
- Rotation of growth and consumer spending habits.
- 2020 Global and NZ recession due to COVID-19 pandemic.
- 2020H2 NZ recovery stronger than expected, but uneven.
- 2021 Uneven.
- 2022 Looking better.
- RBNZ keep foot on accelerator until expansion secure.



Lesson 1

Benefits of flexibility

- Don't pick winners/put all eggs into 1 basket.
- Impacts on work habits, hours, location, where we live and work and infrastructure provision.
- Housing – does location matter?
- Infrastructure – more effective utilisation of core infrastructure.
- Need to be able to switch off or fatigue will set in.





Lessons 2 & 3

Importance of resilience and delivery

- Safety, stability and reliability key.
- NZ's allure as safe haven.
- Need sound foundations – critical infrastructure – broadband, transport, electricity.
- Things will sometimes go wrong or turn out differently.
- Have a plan B and be able to execute it.
- Need more of a buffer – stock shortages could be an issue.

Economic forecasts

ASB economic forecasts		Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Mar-22	Mar-23
		<<actual	forecast>>					
NZ GDP real	AA %	-2.1	-3.5	-4.8	-5.1	0.8	3.9	2.4
private consumption	AA%	-1.3	-2.8	-4.1	-4.9	0.6	3.9	2.8
dwelling construction	AA%	-6.5	-8.9	-11.5	-10.1	2.2	4.7	-4.3
other investment	AA%	-5.1	-7.2	-8.1	-7.5	2.7	5.5	5.4
exports	AA%	-5.6	-9.2	-12.8	-14.9	-9.8	3.2	8.8
imports	AA%	-6.0	-11.9	-17.6	-20.4	-12.1	4.8	8.7
NZ GDP real	A%	-12.4	-3.4	-3.2	-1.3	12.7	1.0	3.4
NZ GDP real	Q%	-12.2	11.0	0.7	0.5	0.3	0.4	0.8
NZ CPI	Q%	-0.5	0.7	0.1	0.2	0.3	0.4	0.5
NZ CPI	A %	1.5	1.4	1.0	0.5	1.3	1.5	1.3
NZ house prices (QV index)	A %	6.8	6.9	9.1	9.0	11.3	7.0	4.9
NZ unemployment (sa%)	Qtr	4.0	5.6	6.5	6.7	6.7	5.9	5.8
NZ private sector wages (LCI)	A %	2.1	1.6	1.2	1.2	1.4	1.7	1.9



Financial forecasts



ASB interest rate forecasts

(end of quarter)

	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Mar-22	Mar-23
	<< actual		forecast >>				
NZ OCR	0.25	0.25	0.25	0.25	0.25	0.25	0.25
NZ 90-day bank bill	0.30	0.31	0.30	0.30	0.30	0.30	0.30
NZ 2-year swap rate	0.21	0.06	0.25	0.25	0.25	0.25	0.45
NZ 5-year swap rate	0.35	0.13	0.35	0.35	0.35	0.35	0.65
NZ 10-year swap rate	0.74	0.51	0.80	0.80	0.80	0.95	1.15
NZ 10-year Bond	0.91	0.46	0.85	0.85	0.85	1.00	1.20

ASB foreign exchange forecasts

(end of quarter)

	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Mar-22	Mar-23
	<< actual		forecast >>				
NZD/USD	0.64	0.66	0.67	0.67	0.66	0.66	0.66
NZD/AUD	0.93	0.93	0.89	0.88	0.86	0.85	0.86
NZD/JPY	69	70	71	70	69	69	69
NZD/EUR	0.57	0.56	0.54	0.54	0.53	0.52	0.53
NZD/GBP	0.52	0.51	0.50	0.49	0.49	0.49	0.49
NZD/CNY	4.5	4.5	4.6	4.6	4.5	4.4	4.4
NZD TWI	71.4	71.6	69.9	69.4	68.0	67.4	67.6

Thank you.

