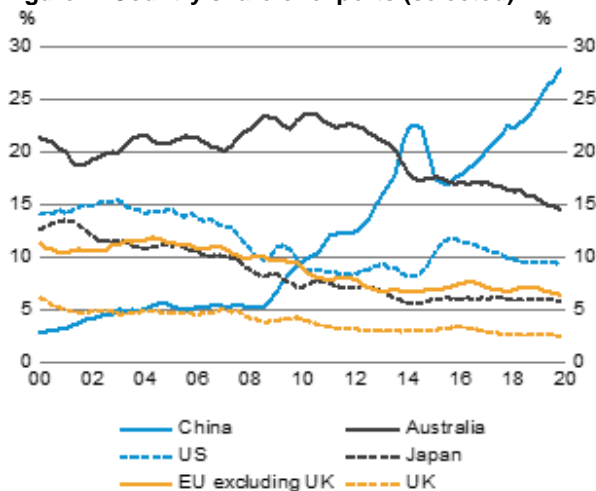


While January saw a strong start to 2020 for exports, the COVID-19 outbreak is expected to have a significant impact on demand and supply in coming months, with business confidence and commodity prices starting to turn negative.

A strong start to the year...

The annual trade balance narrowed to \$3.9 billion in January, driven by stronger exports. Export values rose 3.4%, with dairy exports up 1.6%. Exports to China increased to \$1.3 billion, up 30% from January 2019, now accounting for 28% of New Zealand's merchandise exports (Figure 1).

Figure 1: Country share of exports (selected)



Source: Stats NZ

Imports rose by 3.3% in the month, led by an increase in petroleum products. Capital and intermediate goods imports remained relatively weak, reflecting subdued business confidence, but consumption goods imports held up.

...with an improving terms of trade...

The goods terms of trade was in a better position than expected at the start of this year, driven by stronger-than-expected export price growth and weaker-than-expected import price growth.

...however COVID-19 impacts are being felt

The ANZ World Commodity Price Index fell 2.1% in February, however it lifted 0.9% in local currency terms owing to a weaker NZD. Dairy prices were resilient at the latest *GlobalDairyTrade* auction, down 1.2% in USD terms (up 0.3% in NZD terms).

The impact of the recent coronavirus outbreak is expected to intensify in March, with a number of businesses experiencing constrained access to the Chinese market (for both imports and exports), and lower export prices due to reduced demand. We expect to see downward pressure on export values and our goods terms of trade. In addition, meat prices are being impacted by drought conditions, which have brought forward slaughtering.

Business confidence fell...

The ANZ Business Outlook Survey for February showed that headline business confidence fell 6 points to -19 in February and a net 12% of firms expecting stronger activity for their businesses, down 5 points. A sharp decline in activity and sentiment for agriculture and manufacturing was partly offset by improved indicators in construction.

Survey responses received after the COVID-19 outbreak hit the headlines were more negative, and ANZ will be releasing an early "flash" estimate of the March results on Tuesday 10 March.

...while consumer confidence was unchanged

Consumer confidence eased 1 point in the February ANZ-Roy Morgan Consumer Confidence Survey, remaining at around its 10-year average, although the COVID-19 outbreak is likely to weigh on confidence in coming months.

Building consents remain high...

Building consents reached a fresh 45-year high of 37,606 in the year to January 2020. Consents fell 2.0% in the month, driven by a 6.8% fall in the volatile multi-unit dwelling category, while standalone consents rose 1.4%. A low interest rate environment, rising house prices and a continued growth in demand for houses should see consents issuance remain elevated.

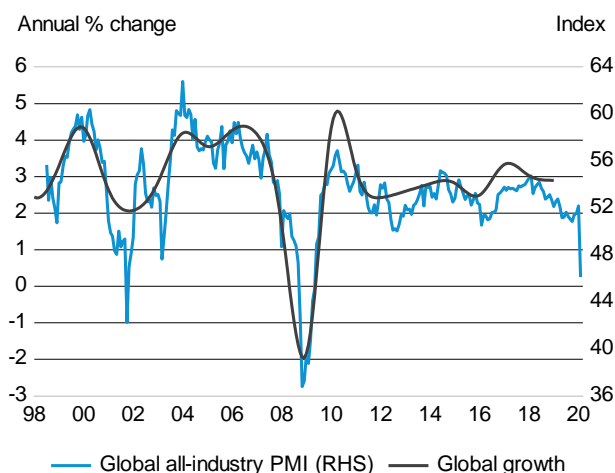
...although activity measures are mixed

The volume of overall building activity fell 0.8% in the December 2019 quarter, with residential building growth (up 1.2%) partly offsetting a 3.6% fall in non-residential work. Strong consent issuance over the past year should support activity in residential construction going forward.

Fed cuts rates as outlook weakens...

The widening global spread of the coronavirus outbreak is raising concerns about the extent of disruption to global economic activity. A growing number of forecasters expect global growth to stall or even contract in the March quarter. February's PMI data supports this view (Fig 2), while the risks that weakness spills into the June quarter are growing as further restrictions on activity, such as those in Italy, are put in place.

Figure 2: Global PMI falls sharply



Source: Haver, JPMorgan

These concerns sparked last week's sharp fall in equity market prices and bond yields. To help stabilise markets, the US Federal Reserve made a rare inter-meeting monetary policy adjustment, cutting its policy rate 50 basis points (bps) to 1.0% from 1.25%. Fed Chair Powell observed that the spread of the virus had led to a material change in the risks to the US outlook.

In the US, financial system liquidity and funding conditions did not appear to be under any immediate stress, although there is a risk that measures to contain the virus will disrupt output and incomes and lead to firms missing payments globally. Some commentators are sceptical that monetary policy can do much to address the impacts of the virus on the economy. One benefit, according to some commentators, is that the cuts help reduce long-term yields and make it cheaper for governments to borrow and spend on public health and broader fiscal initiatives.

...as do Canada and Australia...

Central banks in Canada and Australia (RBA) cut rates at this week's scheduled meetings, by 50 bps to 1.25%, and by 25 bps to 0.5%, respectively.

The RBA's policy statement focused on the risks to activity arising from the coronavirus outbreak and emphasised the high degree of uncertainty around the way that things may develop. Tourism and education are the most immediately affected sectors and the RBA considers that they alone would directly lower GDP by 0.5 percentage points in the March quarter. Combined with the drag from bushfires, the economy is at risk of a contraction in the March quarter.

Real GDP in Australia expanded 0.5% in the December 2019 quarter (Q4), while Q3 growth was revised to 0.6% from 0.4%, and growth for the year ended December was 1.9%.

...further global easing expected...

The RBA also observed that, in most economies, there is an expectation of further easing. Financial markets are pricing in two further 25 bps cuts in the US and one more cut in Australia. This would take Australia's cash rate to 0.25%, which the RBA judges to be the effective lower bound. The ECB is expected to deliver a 10 bps cut at its 12 March meeting. In Asia, where monetary easing was already underway, further easing is expected, alongside other stimulus measures.

...as risks rise

In China, activity is gradually returning to normal, but in general remains well below year-ago levels. However, the return of workers in larger numbers poses the risk of a renewed outbreak, while the slow rate of return to normal could result in growing global supply chain disruptions.

The news on the economic outlook has remained negative, with an exceptionally weak Chinese PMI the dominant feature. China's PMI slumped 24.4 points, driving JPMorgan's February all-industry PMI down 6.1 points, its largest one-month drop on record. At 46.1, the PMI points to weak quarterly global GDP growth. Outside China, the fall was around 2 points, but may weaken further in March, reflecting the virus' spread.

Date	Key NZ Data	Previous
9 Mar	Wholesale Trade Survey	0.3% qpc
10 Mar	Survey of Manufacturing	-0.3% qpc

Quarterly Indicators		2018Q3	2018Q4	2019Q1	2019Q2	2019Q3	2019Q4
Real Production GDP (1)	qpc	0.6	1.0	0.4	0.1	0.7	...
	aapc	3.2	3.2	3.1	2.8	2.7	...
Current account balance (annual)	%GDP	-3.6	-3.8	-3.6	-3.3	-3.3	...
Merchandise terms of trade	apc	-0.3	-4.8	-1.9	-1.0	0.9	6.9
CPI inflation	qpc	0.9	0.1	0.1	0.6	0.7	0.5
	apc	1.9	1.9	1.5	1.7	1.5	1.9
Employment (HLFS) (1)	qpc	0.8	0.1	0.0	0.7	0.2	0.0
Unemployment rate (1)	%	4.0	4.3	4.1	4.0	4.1	4.0
Participation rate (1)	%	70.9	70.6	70.3	70.3	70.4	70.1
LCI salary & wage rates - total (2)	apc	1.8	1.9	2.0	2.1	2.5	2.6
QES average hourly earnings - total (2)	apc	2.9	3.1	3.4	4.4	4.2	3.6
Core retail sales volume	apc	3.7	5.0	3.9	3.6	5.4	3.3
Total retail sales volume	apc	2.7	3.5	3.3	2.9	4.5	3.3
WMM - consumer confidence (3)	Index	103.5	109.1	103.8	103.5	103.1	109.9
QSBO - general business situation (1,4)	net%	-26.3	-21.4	-29.0	-33.3	-35.3	-26.1
QSBO - own activity outlook (1,4)	net%	10.5	15.5	4.7	-4.4	0.5	6.8

Monthly Indicators		Sep 19	Oct 19	Nov 19	Dec 19	Jan 20	Feb 20
Merchandise trade balance (12 month total)	NZ\$m	-5321	-5055	-4836	-4460	-3866	...
Dwelling consents - residential	apc	30.8	16.4	2.7	22.2	2.7	...
House sales - dwellings	apc	8.3	-0.3	1.0	16.3	3.2	...
REINZ - house price index	apc	3.2	3.8	5.5	6.5	6.9	...
Estimated net migration (12 month total)	people	46790	46751	44966	43765	...	...
ANZ NZ commodity price index	apc	6.5	9.7	18.8	12.2	8.2	7.1
ANZ world commodity price index	apc	3.4	7.2	12.4	8.7	5.6	0.6
ANZBO - business confidence	net%	-54	-42	-26	-13	...	-19
ANZBO - activity outlook	net%	-2	-4	13	17	...	12
ANZ-Roy Morgan - consumer confidence	net%	114	118	121	123	123	122

Daily Indicators		Thu 27/2/20	Fri 28/2/20	Mon 2/3/20	Tue 3/3/20	Wed 4/3/20	Thu 5/3/20
NZ exchange and interest rates (5)							
NZD/USD	\$	0.6294	0.6305	0.6219	0.6262	0.6290	0.6289
NZD/AUD	\$	0.9603	0.9588	0.9559	0.9580	0.9515	0.9500
Trade weighted index (TWI)	index	70.7	70.7	69.7	70.0	70.1	69.9
Official cash rate (OCR)	%	1.00	1.00	1.00	1.00	1.00	1.00
90 day bank bill rate	%	1.08	1.06	0.87	0.90	0.77	0.82
10 year govt bond rate	%	1.17	1.07	0.93	1.06	0.95	1.08
Share markets (6)							
Dow Jones	index	25767	25409	26703	25917	27091	26121
S&P 500	index	2979	2954	3090	3003	3130	3024
VIX volatility index	index	39.2	40.1	33.4	36.8	32.0	39.6
AU all ords	index	6737	6512	6461	6512	6399	6472
NZX 50	index	11437	11261	11103	11346	11418	11641
US interest rates							
3 month OIS	%	1.58	1.58	1.59	1.59	1.09	...
3 month Libor	%	1.58	1.46	1.25	1.31	1.00	...
10 year govt bond rate	%	1.30	1.13	1.10	1.02	1.02	0.92
Commodity prices (6)							
WTI oil	US\$/barrel	47.09	44.76	46.75	47.18	46.78	...
Gold	US\$/ounce	1652	1610	1600	1616	1642	...
CRB Futures	index	396	395	398	399	399	...

(1) Seasonally Adjusted

(2) Ordinary time, all sectors

(3) Westpac McDermott Miller

(4) Quarterly Survey of Business Opinion

(5) Reserve Bank (11am)

(6) Daily close

Data in Italic font are provisional

... Not available

Country	Indicator		Jul 19	Aug 19	Sep 19	2019Q3	Oct 19	Nov 19	Dec 19	2019Q4	Jan 20	Feb 20
United States [9.6% share of total goods exports]	GDP (1)	qpc				0.5				0.5		
	Industrial production (1)	mpc	-0.2	0.7	-0.3		-0.4	0.9	-0.4		-0.3	...
	CPI	apc	1.8	1.7	1.7		1.8	2.1	2.3		2.5	...
	Unemployment rate (1)	%	3.7	3.7	3.5		3.6	3.5	3.5		3.6	...
	Employment change (1)	000s	194.0	207.0	208.0		185.0	261.0	147.0		225.0	...
	Retail sales value	apc	3.5	4.4	4.0		3.1	3.3	5.5		4.4	...
	House prices (2)	apc	2.0	2.0	2.1		2.2	2.5	2.9		...	...
	PMI manufacturing (1)	index	51.3	48.8	48.2		48.5	48.1	47.8		50.9	50.1
Japan [6.1%]	Consumer confidence (1)(3)	index	135.8	134.2	126.3		126.1	126.8	128.2		130.4	130.7
	GDP (1)	qpc				0.1				-1.6		
	Industrial production (1)	mpc	1.3	-1.2	1.7		-4.5	-1.0	1.2		0.8	...
	CPI	apc	0.5	0.3	0.3		0.2	0.5	0.8		0.6	...
	Unemployment rate (1)	%	2.3	2.3	2.4		2.4	2.2	2.2		2.4	...
	Retail sales value	apc	-2.0	1.8	9.2		-7.0	-2.1	-2.6		-0.4	...
	PMI manufacturing (1)	index	49.4	49.3	48.9		48.4	48.9	48.4		48.8	47.8
	Consumer confidence (1)(4)	index	37.9	37.2	35.9		36.3	38.7	39.0		39.2	38.2
Euro area [5.5%]	GDP (1)	qpc				0.3				0.1		
	Industrial production (1)	mpc	-0.3	0.4	0.0		-0.9	0.0	-2.1		...	...
	CPI	apc	1.0	1.0	0.8		0.7	1.0	1.3		1.4	...
	Unemployment rate (1)	%	7.6	7.5	7.5		7.4	7.4	7.4		7.4	...
	Retail sales volume	apc	2.3	2.9	2.9		1.8	2.4	1.7		1.7	...
	PMI manufacturing (1)	index	46.5	47.0	45.7		45.9	46.9	46.3		47.9	49.2
	Consumer confidence (5)	index	-6.6	-7.1	-6.6		-7.6	-7.2	-8.1		-8.1	-6.6
	GDP (1)	qpc				0.5				0.0		
United Kingdom [2.7%]	Industrial production (1)	mpc	-0.1	-0.7	0.2		0.1	-1.2	0.1		...	...
	CPI	apc	2.0	1.8	1.8		1.5	1.4	1.3		1.8	...
	Unemployment rate (1)	%	3.8	3.9	3.8		3.8	3.8	3.8		...	...
	Retail sales volume	apc	3.4	2.5	2.7		3.0	0.7	0.8		0.7	...
	House prices (6)	apc	0.3	0.6	0.2		0.4	0.8	1.4		1.9	2.3
	PMI manufacturing (1)	index	48.0	47.4	48.3		49.6	48.9	47.5		50.0	51.7
	Consumer confidence (1)(5)	index	-6.9	-11.4	-9.8		-10.6	-8.8	-7.1		-6.5	-6.2
	GDP (1)	qpc				0.6				0.5		
Australia [15.8%]	CPI	apc				1.7				1.8		
	Unemployment rate (1)	%	5.2	5.3	5.2		5.3	5.2	5.1		5.3	...
	Retail sales value	apc	2.6	2.9	2.0		2.7	3.2	2.4		...	...
	House Prices (7)	apc				-3.9				...		
	PMI manufacturing (1)	index	51.3	53.1	54.7		51.6	48.1	48.3		45.4	44.3
	Consumer confidence (8)	index	96.5	100.0	98.2		92.8	97.0	95.1		93.4	95.5
	GDP	apc				6.0				6.0		
	Industrial production	apc	4.8	4.4	5.8		4.7	6.2	6.9		...	...
China [24.3%]	CPI	apc	2.8	2.8	3.0		3.8	4.5	4.5		5.4	...
	PMI manufacturing (1)	index	49.7	49.5	49.8		49.3	50.2	50.2		50.0	35.7
	GDP (1)	qpc				0.4				1.3		
South Korea [3.0%]	Industrial production (1)	mpc	2.3	-1.3	1.7		-1.0	0.5	3.7		-1.3	...
	CPI	apc	0.6	-0.0	-0.4		0.0	0.2	0.7		1.5	1.1

(1) Seasonally adjusted

(2) Case-Shiller Home Price Index 20 city

(3) The Conference Board Consumer Confidence Index

(4) Cabinet Office Japan

(5) European Commission

(6) Nationwide House Price Index

(7) Australian Bureau of Statistics

(8) Melbourne/Westpac Consumer Sentiment Index

As the COVID-19 outbreak continues to evolve, the impact on tourism from the continued ban on travellers from China (and now Iran) is being felt. Early indicators show a sharp decline in business confidence and expected activity, particularly in expected exports.

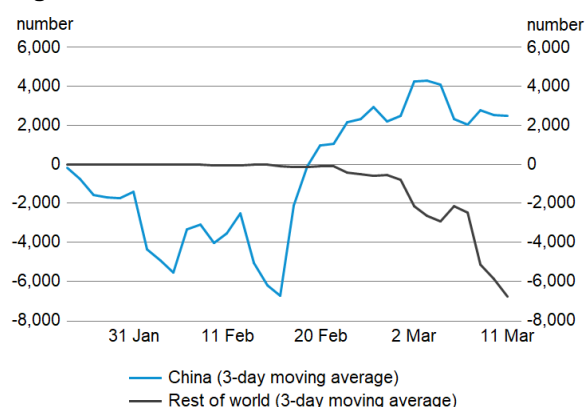
Manufacturing and wholesale trade data for the December quarter were generally positive, and house prices continued to rise in February along with a recovery in Auckland sales.

Consumer spending remained steady in February, though there are signs that the reduction in visitor arrivals and virus-related fears are feeding through into reduced sales in the hospitality industry.

COVID-19 cases spread globally

While the number of recoveries in China from COVID-19 has exceeded the number of new confirmed cases in the past two weeks (Figure 1), the outbreak has spread globally, with Italy, Iran and South Korea particularly affected.

Figure 1: New recovered less confirmed cases



Source: Johns Hopkins University/Haver

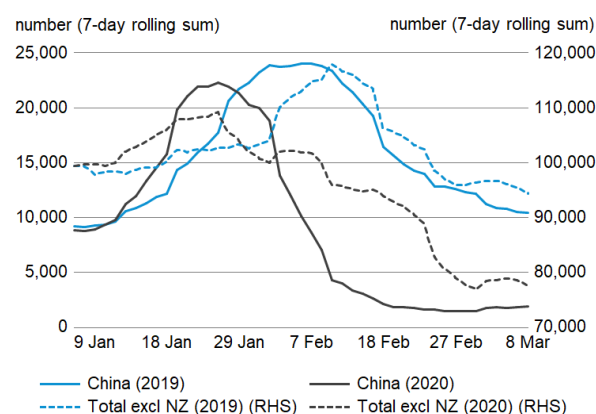
The number of confirmed cases in New Zealand remains unchanged from this time last week, at five.

Tourist arrivals continue to be impacted...

The ongoing travel restrictions and fears due to COVID-19 continue to hurt tourism activity, with arrivals well down on this time last year. Data from Customs NZ on border crossings show that close to 20,000 fewer visitors arrived in the first week of

March compared to the same period last year (Figure 2).

Figure 2: Arrivals by country of origin (weekly)

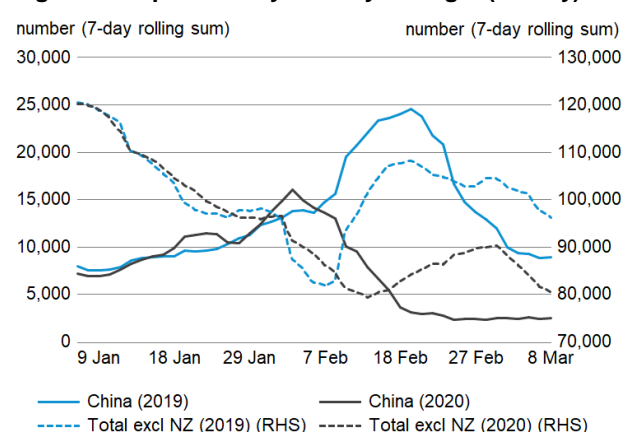


Source: Customs NZ

...although departures have been delayed

Customs NZ data suggest that visitor departures have also been delayed, with the normal outflow of Chinese visitors following the peak travel period of the Chinese lunar new year not occurring (Figure 3). These delayed departures may provide some offset to the reduction in tourism spending from the reduction in new arrivals.

Figure 3: Departures by country of origin (weekly)



Source: Customs NZ

Exports to China affected...

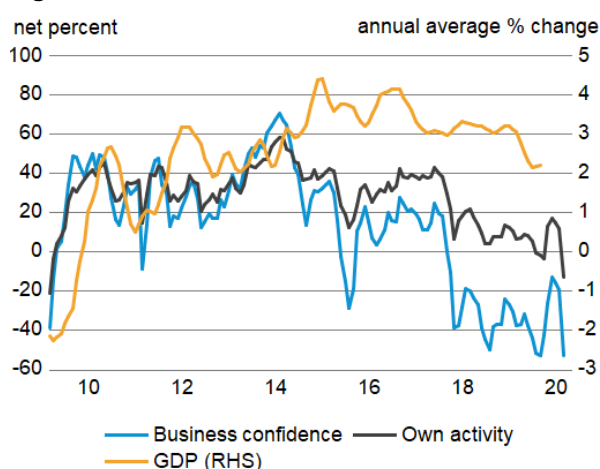
Preliminary merchandise trade data for February show that exports to China were around \$142 million less than over the same period in 2019, a 12% decline. Forestry and seafood exports were particularly affected, down \$114 million (42%) and \$42 million (68%) respectively. These falls were

partly offset by an increase in the value of dairy exports, which were up \$131 million (45%) on February last year, reflecting strong prices received over that period.

...as business confidence and outlook take a hit

Preliminary data from the March ANZ Business Outlook released this week showed a marked contraction in business confidence and outlook, with firms' activity intentions at their lowest level since March 2009 (Figure 4). Export intentions are at a record low, with a net 22% of firms expecting lower exports, reflecting the supply chain disruptions caused by the COVID-19 outbreak.

Figure 4: ANZ Business Outlook



Source: ANZ/Stats NZ

Meat and dairy sales strong in December quarter...

Manufacturing sales volumes rebounded 2.7% in the December 2019 quarter following a 3.0% fall in June and a flat September. This is the strongest quarterly increase in six years.

Meat and dairy product manufacturing sales volumes led the way with a 7.9% rise, reflecting increased exports and favourable weather conditions prior to Christmas. Localised droughts and floods have recently affected production, and together with the disruptive effects from COVID-19, will likely result in a more subdued result for these industries in the March quarter.

The remainder of the manufacturing industries were soft, with eight of the 13 industries recording slight contractions in activity. Combined with the likelihood that meat and dairy sales in the December quarter were partly met by existing stocks rather than current period production, this

suggests that manufacturing may register a decline in next week's GDP data.

...while wholesaling activity remains steady

Wholesale trade sales rose for the 15th consecutive quarter, up 0.3% in the December quarter. Basic materials wholesaling rose 1.3%, partly offset by a 0.8% fall in grocery, liquor and tobacco product wholesaling, which fell for the second consecutive quarter. This is the first time in six years that the grocery category has fallen in consecutive quarters, though this may reflect a retracement from strong fruit exports in the June quarter.

Consumer spending continues to grow...

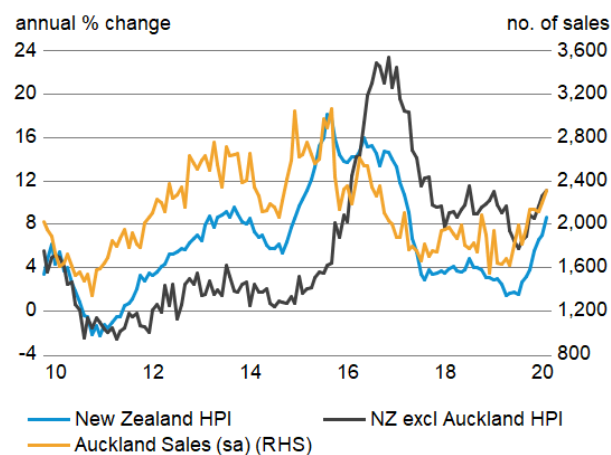
Electronic card transactions data for February were up 0.6% in the month, with spending in core retail industries up 0.8%. While spending on consumables and durables were both up (2.4% and 0.8% respectively), spending in the hospitality industry fell 0.8%.

The drop in hospitality spending was likely driven by the reduced visitor arrivals shown in Figure 2, though we may also be seeing a shift in behaviour, with NZ residents potentially avoiding dining out due to COVID-19 fears.

...and housing market activity remains strong

The REINZ national house price index rose 2.0% in February, to be up 8.7% over the year (Figure 5). Auckland house prices rose 6.9% over the year while prices in areas outside Auckland rose 10.2%. Sales volumes in Auckland have continued to recover, up 5.2% in February and 41.6% over the year.

Figure 5: House Price Index



Source: REINZ

Governments respond to COVID-19...

The World Health Organisation (WHO) declared the COVID-19 outbreak a pandemic as the number of confirmed cases of the virus reached 125,000 globally. In Italy, total infections surpassed 12,000 in the latest data and in the US, close to 1,000. The spread in Asia is slowing as it continues elsewhere. However, a new vector of contagion has potentially arisen: of the 24 new cases in China today (bringing the total to nearly 81,000), 10 reportedly originated from outside the country.

The policy response to the COVID-19 shock continues to ramp up and it appears monetary and fiscal policy are coordinating more than has typically been the case. Last week the Fed cut rates and the US Congress passed a first attempt at fiscal support—with more likely to be coming. This week, the Bank of England cut its policy rate 50bps ahead of its March 26 meeting and the government's budget included measures to support growth through the outbreak. The incremental news relative to expectations was not large, at 0.2% of GDP, but the overall expected boost to growth this year from fiscal policy is now near 1% of GDP. The government in Sweden also announced extra fiscal measures aimed at alleviating the hit from the virus. The total amount is small at 0.06% of GDP, however, and there remains pressure on the Riksbank to act.

Italy followed China in taking severe measures to contain the outbreak. As a result, its economy is expected to post a sharp contraction during the lockdown through at least April. The Italian Government plans to approve tomorrow a targeted temporary fiscal package as a response to the virus shock. The government seems inclined toward a sizable package worth about 0.75% of GDP through a mix of direct and contingent measures. Although temporary, the final bill may well turn out to be higher than currently budgeted.

The European Central Bank announced a package of measures to support Europe's economy, including a commitment to buy an additional €120bn in bonds by the end of the year. The central bank also launched a programme of cheap loans to banks, to encourage them to continue lending to small businesses. Markets were unconvinced by the ECB's response, with the Euro Stoxx-600 falling 11.5% today, the weakest trading day in its history.

The New York Federal Reserve has expanded its activities in short-term borrowing markets in an attempt to calm signs of financial stress, offering up over a trillion dollars in short-term loans to banks. The announcement temporarily halted the decline in US equities, but the relief was short-lived, with the Dow and S&P 500 indexes today registering their steepest daily falls since 1987.

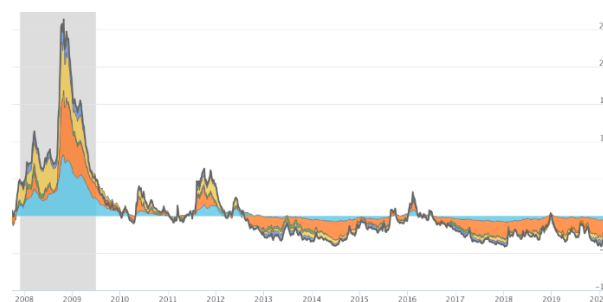
The Australian Government yesterday announced an A\$17.6bn stimulus package, with \$6.7bn directed towards small and medium-sized firms to allow them to continue paying wages. \$1bn will fund tourism operators and some China-exposed exporters.

...as financial markets flounder

Financial markets are in turmoil and oil prices have collapsed as containment measures to stop the spread of COVID-19 look increasingly likely to send the global economy into recession. Equity markets have slid into a bear market, credit spreads have widened sharply, and yields on safe assets have reached record lows.

Global measures of financial stress, such as the US Treasury Office of Financial Research's Financial Stress Index (Figure 6), have risen significantly in a notably short period. Recent values are well below those seen during the Global Financial Crisis of 2007-09, but are near if not above values observed during the 2011-12 debt crisis in Europe or the 2015-16 commodity shock.

Figure 6: Financial Stress Index



Source: US Treasury Office of Financial Research

Date	Key NZ Data	Previous
18 Mar	BoP Current Account	-3.3% (% of GDP)
19 Mar	Gross Domestic Product	0.7% qpc

Quarterly Indicators		2018Q3	2018Q4	2019Q1	2019Q2	2019Q3	2019Q4
Real Production GDP (1)	qpc	0.6	1.0	0.4	0.1	0.7	...
	aapc	3.2	3.2	3.1	2.8	2.7	...
Current account balance (annual)	%GDP	-3.6	-3.8	-3.6	-3.3	-3.3	...
Merchandise terms of trade	apc	-0.3	-4.8	-1.9	-1.0	0.9	6.9
CPI inflation	qpc	0.9	0.1	0.1	0.6	0.7	0.5
	apc	1.9	1.9	1.5	1.7	1.5	1.9
Employment (HLFS) (1)	qpc	0.8	0.1	0.0	0.7	0.2	0.0
Unemployment rate (1)	%	4.0	4.3	4.1	4.0	4.1	4.0
Participation rate (1)	%	70.9	70.6	70.3	70.3	70.4	70.1
LCI salary & wage rates - total (2)	apc	1.8	1.9	2.0	2.1	2.5	2.6
QES average hourly earnings - total (2)	apc	2.9	3.1	3.4	4.4	4.2	3.6
Core retail sales volume	apc	3.7	5.0	3.9	3.6	5.4	3.3
Total retail sales volume	apc	2.7	3.5	3.3	2.9	4.5	3.3
WMM - consumer confidence (3)	Index	103.5	109.1	103.8	103.5	103.1	109.9
QSBO - general business situation (1,4)	net%	-26.3	-21.4	-29.0	-33.3	-35.3	-26.1
QSBO - own activity outlook (1,4)	net%	10.5	15.5	4.7	-4.4	0.5	6.8

Monthly Indicators		Sep 19	Oct 19	Nov 19	Dec 19	Jan 20	Feb 20
Merchandise trade balance (12 month total)	NZ\$m	-5321	-5055	-4836	-4460	-3866	...
Dwelling consents - residential	apc	30.8	16.4	2.7	22.2	2.7	...
House sales - dwellings	apc	8.3	-0.3	1.0	16.9	7.2	9.2
REINZ - house price index	apc	3.2	3.8	5.5	6.5	7.0	8.6
Estimated net migration (12 month total)	people	46790	46751	44966	43765	...	...
ANZ NZ commodity price index	apc	6.5	9.7	18.8	12.2	8.2	7.1
ANZ world commodity price index	apc	3.4	7.2	12.4	8.7	5.6	0.6
ANZBO - business confidence	net%	-54	-42	-26	-13	...	-19
ANZBO - activity outlook	net%	-2	-4	13	17	...	12
ANZ-Roy Morgan - consumer confidence	net%	114	118	121	123	123	122

Daily Indicators		Fri 6/3/20	Mon 9/3/20	Tue 10/3/20	Wed 11/3/20	Thu 12/3/20	Fri 13/3/20
NZ exchange and interest rates (5)							
NZD/USD	\$	0.6317	0.6332	0.6318	0.6261	0.6260	0.6130
NZD/AUD	\$	0.9557	0.9577	0.9597	0.9645	0.9674	0.9746
Trade weighted index (TWI)	index	70.2	70.2	70.1	69.8	69.9	69.2
Official cash rate (OCR)	%	1.00	1.00	1.00	1.00	1.00	...
90 day bank bill rate	%	0.83	0.87	0.87	0.91	0.90	0.90
10 year govt bond rate	%	1.04	0.87	0.86	1.00	1.01	1.10
Share markets (6)							
Dow Jones	index	25865	23851	25018	23553	21201	...
S&P 500	index	2972	2747	2882	2741	2481	...
VIX volatility index	index	41.9	54.5	47.3	53.9	75.5	...
AU all ords	index	6288	5822	5996	5789	5371	...
NZX 50	index	11426	11092	10897	10874	10333	...
US interest rates							
3 month OIS	%	1.09	1.09	1.09	1.09	...	...
3 month Libor	%	0.90	0.77	0.78	0.77	...	...
10 year govt bond rate	%	0.74	0.54	0.76	0.82	0.88	...
Commodity prices (6)							
WTI oil	US\$/barrel	41.14	31.05	34.47	32.98	31.50	...
Gold	US\$/ounce	1684	1673	1656	1654	1571	...
CRB Futures	index	399	395	396	396	389	...

(1) Seasonally Adjusted

(2) Ordinary time, all sectors

(3) Westpac McDermott Miller

(4) Quarterly Survey of Business Opinion

(5) Reserve Bank (11am)

(6) Daily close

Data in Italic font are provisional

... Not available

Country	Indicator		Aug 19	Sep 19	2019Q3	Oct 19	Nov 19	Dec 19	2019Q4	Jan 20	Feb 20	Mar 20
United States [9.6% share of total goods exports]	GDP (1)	qpc			0.5				0.5			
	Industrial production (1)	mpc	0.7	-0.3		-0.4	0.9	-0.4		-0.3	...	...
	CPI	apc	1.7	1.7		1.8	2.1	2.3		2.5	2.3	...
	Unemployment rate (1)	%	3.7	3.5		3.6	3.5	3.5		3.6	3.5	...
	Employment change (1)	000s	207.0	208.0		185.0	261.0	184.0		273.0	273.0	...
	Retail sales value	apc	4.4	4.0		3.1	3.3	5.5		4.4	...	...
	House prices (2)	apc	2.0	2.1		2.2	2.5	2.9		...	...	...
	PMI manufacturing (1)	index	48.8	48.2		48.5	48.1	47.8		50.9	50.1	...
Japan [6.1%]	Consumer confidence (1)(3)	index	134.2	126.3		126.1	126.8	128.2		130.4	130.7	...
	GDP (1)	qpc			0.0				-1.8			
	Industrial production (1)	mpc	-1.2	1.7		-4.5	-1.0	1.2		0.8	...	...
	CPI	apc	0.3	0.3		0.2	0.5	0.8		0.6	...	...
	Unemployment rate (1)	%	2.3	2.4		2.4	2.2	2.2		2.4	...	...
	Retail sales value	apc	1.8	9.2		-7.0	-2.1	-2.6		-0.4	...	...
	PMI manufacturing (1)	index	49.3	48.9		48.4	48.9	48.4		48.8	47.8	...
	Consumer confidence (1)(4)	index	37.2	35.9		36.3	38.7	39.0		39.2	38.2	...
Euro area [5.5%]	GDP (1)	qpc			0.3				0.1			
	Industrial production (1)	mpc	0.3	0.0		-0.3	-0.6	-1.8		2.3	...	...
	CPI	apc	1.0	0.8		0.7	1.0	1.3		1.4	...	...
	Unemployment rate (1)	%	7.5	7.5		7.4	7.4	7.4		7.4	...	...
	Retail sales volume	apc	2.9	2.9		1.8	2.4	1.7		1.7	...	...
	PMI manufacturing (1)	index	47.0	45.7		45.9	46.9	46.3		47.9	49.2	...
	Consumer confidence (5)	index	-7.1	-6.6		-7.6	-7.2	-8.1		-8.1	-6.6	...
	GDP (1)	qpc			0.5				0.0			
United Kingdom [2.7%]	Industrial production (1)	mpc	-0.7	0.2		0.1	-1.2	0.1		-0.1	...	...
	CPI	apc	1.8	1.8		1.5	1.4	1.3		1.8	...	...
	Unemployment rate (1)	%	3.9	3.8		3.8	3.8	3.8		...	...	...
	Retail sales volume	apc	2.5	2.7		3.0	0.7	0.8		0.7	...	...
	House prices (6)	apc	0.6	0.2		0.4	0.8	1.4		1.9	2.3	...
	PMI manufacturing (1)	index	47.4	48.3		49.6	48.9	47.5		50.0	51.7	...
	Consumer confidence (1)(5)	index	-11.4	-9.8		-10.6	-8.8	-7.1		-6.5	-6.2	...
	GDP (1)	qpc			0.6				0.5			
Australia [15.8%]	CPI	apc			1.7				1.8			
	Unemployment rate (1)	%	5.3	5.2		5.3	5.2	5.1		5.3	...	...
	Retail sales value	apc	2.9	2.0		2.7	3.2	2.4		2.2	...	...
	House Prices (7)	apc			-3.9				...			
	PMI manufacturing (1)	index	53.1	54.7		51.6	48.1	48.3		45.4	44.3	...
	Consumer confidence (8)	index	100.0	98.2		92.8	97.0	95.1		93.4	95.5	91.9
	GDP	apc			6.0				6.0			
	Industrial production	apc	4.4	5.8		4.7	6.2	6.9		...	...	...
China [24.3%]	CPI	apc	2.8	3.0		3.8	4.5	4.5		5.4	5.2	...
	PMI manufacturing (1)	index	49.5	49.8		49.3	50.2	50.2		50.0	35.7	...
	GDP (1)	qpc			0.4				1.3			
South Korea [3.0%]	Industrial production (1)	mpc	-1.3	1.7		-1.0	0.5	3.7		-1.3	...	...
	CPI	apc	-0.0	-0.4		0.0	0.2	0.7		1.5	1.1	...

(1) Seasonally adjusted

(2) Case-Shiller Home Price Index 20 city

(3) The Conference Board Consumer Confidence Index

(4) Cabinet Office Japan

(5) European Commission

(6) Nationwide House Price Index

(7) Australian Bureau of Statistics

(8) Melbourne/Westpac Consumer Sentiment Index

Weekly Economic Update

20 March 2020

As the number of new COVID-19 cases continues to grow globally, countries are beginning to shut down operations and many have closed their borders. New Zealand announced, for the first time in history, that the border would close to all people who are not residents or citizens from 11:59pm on Thursday in an attempt to prevent the health system from being overwhelmed. A sharp decline is expected in all areas of the economy with travel and tourism, business confidence and exports hit particularly hard. New Zealand announced a \$12.1bn fiscal stimulus package this week to support businesses and beneficiaries. The RBNZ cut the official cash rate to 0.25% for at least the next 12 months and will defer the start date of increased capital requirements for banks by 12 months.

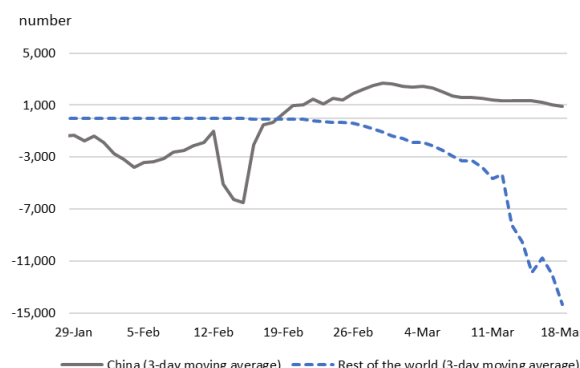
The 2019 year ended strongly with GDP up 0.5% in the December quarter (up 2.3% annually), led by growth in the services sector. The current account deficit narrowed by more than forecast in the quarter, which should provide some support our export earnings as COVID-19 develops. Forthcoming releases are expected to reflect very significant impacts from COVID-19, with most commentators expecting a deep contraction.

COVID-19 cases spread globally...

On Tuesday, the Government announced a \$12.1bn fiscal package, equivalent to 4% of GDP to support businesses and beneficiaries. The package included a \$5.1bn wage subsidy, \$2.8bn increase in benefits, \$100m for sick and self-quarantine leave related to COVID-19, \$500m for the health system and \$2.8bn in business tax measures.

While China continues to recover from COVID-19, the number of new cases in much of the world has grown exponentially (Figure 1), with much of Europe and the USA becoming the new centres of the outbreak.

Figure 1: New recovered less confirmed cases



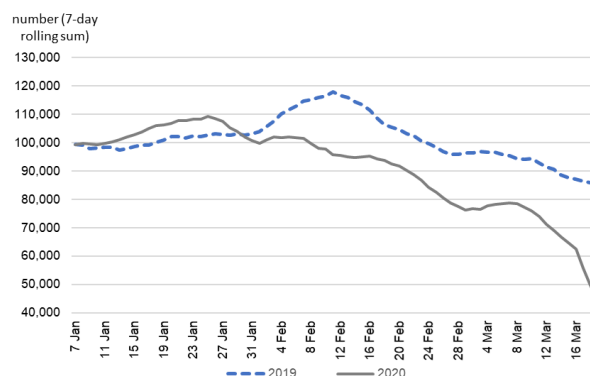
Source: Johns Hopkins University / Haver

The number of confirmed cases in New Zealand currently stands at 39.

New travel restrictions impact on travel...

Tourism has come to a standstill. On Saturday, New Zealand announced that anyone arriving into the country after 1am on Monday would be required to self-isolate for 14 days from the date of entry and all cruise ships not already in NZ waters would not be allowed to dock until June 30. This escalated and by Thursday, we closed our borders to all travellers as infections around the world continued to increase. Data from Customs NZ on border crossings show that visitor arrivals fell to around 40,000 fewer visitors in the third week of March compared to the same period last year (Figure 2).

Figure 2: Visitor arrivals (weekly)



Source: Customs NZ

...and the RBNZ cut the official cash rate

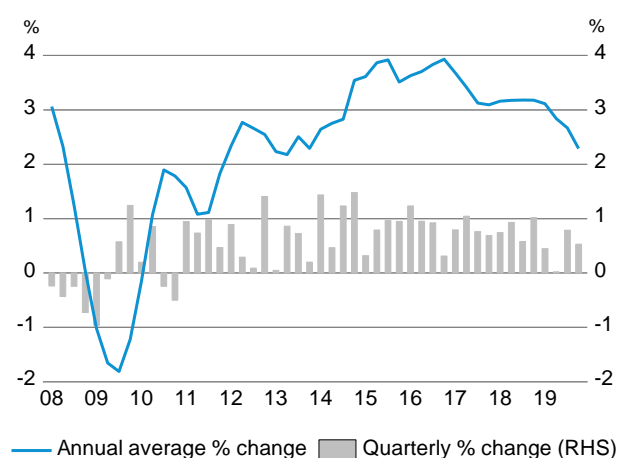
The Reserve Bank cut the Official Cash Rate by 0.75pp to 0.25% for a period of at least 12 months in an early announcement, citing that the significant negative implications of COVID-19 warrant further monetary easing. The Committee also agreed that should further stimulus be required, a Large Scale Asset Purchase programme of NZ government bonds would be preferable to further OCR reductions. The OCR review scheduled for 25 March has been cancelled. On Friday, the RBNZ announced a raft of new measures to support liquidity in the banking sector. The RBNZ also announced that it would defer the start date of the increased capital requirements for banks by 12 months, enabling them to provide an additional \$47 billion of credit. The RBNZ will also delay or slow down most of its regulatory initiatives for an initial period of 6 months.

Solid end to 2019

December quarter GDP was in line with our *HYEFU* forecasts. This will be the last quarter that isn't affected by COVID-19 for some time.

The economy grew by 0.5% in the December 2019 quarter, following a 0.8% increase in the previous quarter, with GDP per capita rising 0.2%. GDP grew 2.3% in the December year, the slowest rate of annual growth since December 2016. The biggest contributor was services, up 0.6%. Primary industries increased 0.5%, led by mining. Goods-producing industries rose 0.1% while household spending rose 0.3%.

Figure 3: Real GDP growth



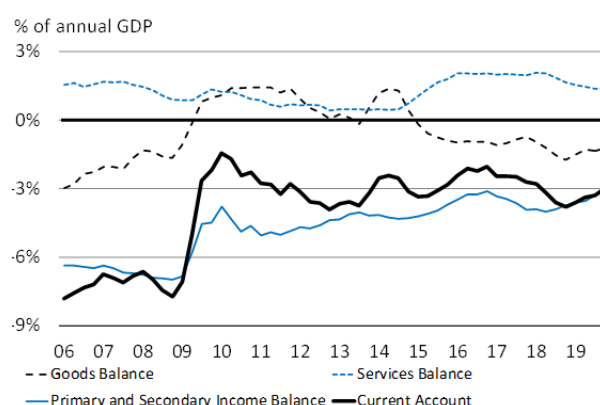
Source: StatsNZ

The current account deficit narrowed to \$1.9bn in the December quarter and was smaller than forecast at *HYEFU*, meaning New Zealand's

external accounts are in a better position to cope with the effects of COVID-19 on our export earnings.

The March quarter release of the balance of payments, due on 17 June, will include the initial impacts of COVID-19. It will reflect the impacts of a decline in especially Chinese visitors (who accounted for 19% of total spending by overseas visitors in 2019), due to the ban on the entry into New Zealand of foreign nationals transiting through mainland China, which has been in place since 2 February. In addition, it will reflect impact from market access delays and lower export prices. In subsequent quarters, the impact of additional border restrictions, increased reluctance to travel abroad, and lower global demand will have more severe effects on our balance of payments position. The services surplus was \$4.2bn at the end of 2019, with the net travel services surplus at \$9.5bn. A sharp reduction in travel in the coming quarters will have a notable negative impact on the overall current account deficit and net international liability position.

Figure 4: Balance of Payments components



Source: StatsNZ

Stats NZ has released provisional indications for merchandise trade which show that the cumulative value of exports to China in February 2020 were about \$144m less than for the same period in 2019. For the first 10 days in March, exports to China have fallen behind 2019 levels by around \$200m.

Fonterra reported a \$584m interim profit, and left their Farmgate Milk Price range of \$7.00-\$7.60 per kgMS and forecast normalised earnings guidance of 15-25 cents/share unchanged. They also announced that they will not be paying an interim dividend. The *GlobalDairyTrade* Price Index eased 3.9% with WMP down 4.2% this week, falling less than many analysts had been expecting.

Global recession near certain...

It has been a week of wild financial market swings as investors react to the near certainty of a sharp recession. What remains unknown is the depth and duration of the downturn, and how severely it will affect financial vulnerabilities among both corporates and households.

...as China data presages steep falls in activity

China's activity data revealed the extent of the risk facing other countries. Over the Jan-Feb months, compared to the same months last year, industrial output fell by 13.5%, retail sales fell by 20.5%, and fixed asset investment fell 24.5%. China's GDP is expected to contract by 10% in the quarter, according to some forecasters.

China's activity data presaged weaker sentiment data in developed economies. This sparked a range of country forecast downgrades, with some investment banks expecting global GDP growth to contract between 1% and 2% over 2020. In the US, some forecasters consider that GDP could contract by 3% in the June quarter. During the GFC, the largest quarterly GDP fall was around 2%; in 1958 there was a 2.6% fall. Euro area and UK output could drop by 6% or more in the June quarter.

Central banks adopt GFC era policies...

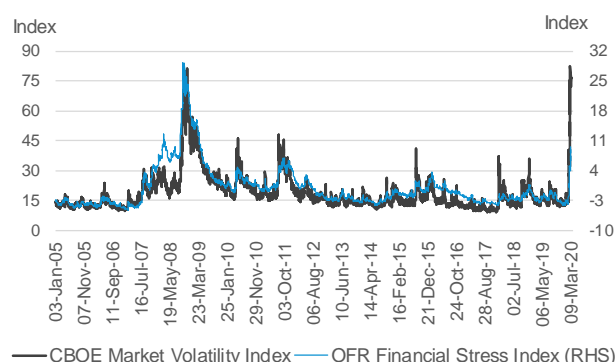
Globally, central banks and fiscal authorities have taken aggressive measures to support their economies during the COVID-19 outbreak.

The US Federal Reserve Bank cut its benchmark interest rate to 0% - 0.25%, restarted quantitative easing and announced a range of measures to support market liquidity, including swap lines with the RBNZ. The BoE and RBA cut rates to their lower bound and, along with the ECB, outlined new or enhanced QE programmes. Many Asian central banks also cut rates.

...amid market turmoil...

US equity markets had one of their worst days on record on 16 March, with the S&P 500 falling by 12% despite the US Federal Reserve's emergency rate cut. Volatility levels are elevated; the CBOE Market Volatility Index and the OFR Financial Stress Index have risen to GFC levels (Figure 5).

Figure 5: Market volatility and financial stress



Source: Wall Street Journal, Office of Financial Research

In currency markets, the USD rose against other currencies, particularly those perceived as risky, such as the NZD and AUD, which both fell to GFC era levels of around 0.55. The NZD recovered to around 0.57 this morning. The British pound fell to its weakest level against the USD since 1985. Oil prices collapsed, falling to US\$24 a barrel, the lowest since 2003, but have since risen to around US\$27. This collapse will contribute to deflationary pressures over the next few quarters.

...and increasing fiscal support

More governments have announced fiscal stimulus packages. In Europe, France announced new fiscal spending of €45bn and €300bn of loan guarantees. Germany has made up to €500bn in loans available to companies affected by COVID-19, and has expanded its wage subsidy scheme. Italy and Spain, two of the countries hardest hit by the virus, have announced fiscal packages of around 1.4% of GDP, but including government-backed loan guarantees, the support could be in the region of 10% - 15%. The UK has announced a £350bn package, of which £330bn are in the form of government-backed loans. Poland has announced a fiscal package of 9% of GDP and Sweden 6% of GDP.

In the US, additional fiscal stimulus of around US\$1 trillion (5% of GDP) is anticipated. Likely measures include direct cash payments to households, support for airlines and assistance to businesses.

Date	Key NZ Data	Previous
25 Mar	Merchandise Trade	-\$340 NZm

Quarterly Indicators		2018Q3	2018Q4	2019Q1	2019Q2	2019Q3	2019Q4
Real Production GDP (1)	qpc	0.6	1.0	0.4	0.0	0.8	0.5
	aapc	3.2	3.2	3.1	2.9	2.7	2.3
Current account balance (annual)	%GDP	-3.6	-3.8	-3.6	-3.4	-3.3	-3.0
Merchandise terms of trade	apc	-0.3	-4.8	-1.9	-1.0	0.9	6.9
CPI inflation	qpc	0.9	0.1	0.1	0.6	0.7	0.5
	apc	1.9	1.9	1.5	1.7	1.5	1.9
Employment (HLFS) (1)	qpc	0.8	0.1	0.0	0.7	0.2	0.0
Unemployment rate (1)	%	4.0	4.3	4.1	4.0	4.1	4.0
Participation rate (1)	%	70.9	70.6	70.3	70.3	70.4	70.1
LCI salary & wage rates - total (2)	apc	1.8	1.9	2.0	2.1	2.5	2.6
QES average hourly earnings - total (2)	apc	2.9	3.1	3.4	4.4	4.2	3.6
Core retail sales volume	apc	3.7	5.0	3.9	3.6	5.4	3.3
Total retail sales volume	apc	2.7	3.5	3.3	2.9	4.5	3.3
WMM - consumer confidence (3)	Index	103.5	109.1	103.8	103.5	103.1	109.9
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QSBO - own activity outlook (1,4)	net%	10.5	15.5	4.7	-4.4	0.5	6.8

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REINZ - house price index	apc	3.2	3.8	5.5	6.5	7.0	8.6
Estimated net migration (12 month total)	people	51012	52447	52342	53078	56501	...
ANZ NZ commodity price index	apc	6.5	9.7	18.8	12.2	8.2	7.1
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Daily Indicators		Thu 12/3/20	Fri 13/3/20	Mon 16/3/20	Tue 17/3/20	Wed 18/3/20	Thu 19/3/20
NZ exchange and interest rates (5)							
NZD/USD	\$	0.6260	0.6130	0.6040	0.6067	0.5947	0.5640
NZD/AUD	\$	0.9674	0.9746	0.9813	0.9907	0.9922	0.9854
Trade weighted index (TWI)	index	69.9	69.2	68.7	69.1	68.3	65.8
Official cash rate (OCR)	%	1.00	1.00	0.25	0.25	0.25	0.25
90 day bank bill rate	%	0.90	0.90	0.64	0.66	0.68	0.69
10 year govt bond rate	%	1.01	1.10	1.03	1.10	1.40	1.63
Share markets (6)							
Dow Jones	index	21201	23186	20189	21237	19899	20087
S&P 500	index	2481	2711	2386	2529	2398	2409
VIX volatility index	index	75.5	57.8	82.7	75.9	76.5	72.0
AU all ords	index	5371	5591	5058	5333	4999	4809
NZX 50	index	10333	9827	9477	9434	9455	9115
US interest rates							
3 month OIS	%	1.10	1.10	0.25	0.25	0.25	...
3 month Libor	%	0.74	0.84	0.89	1.05	1.12	...
10 year govt bond rate	%	0.88	0.94	0.73	1.02	1.18	1.12
Commodity prices (6)							
WTI oil	US\$/barrel	31.50	31.72	28.96	26.96	20.37	25.22
Gold	US\$/ounce	1571	1563	1488	1536	1498	1474
CRB Futures	index	389	387	381	377	373	...

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(2) Ordinary time, all sectors

(3) Westpac McDermott Miller

(4) Quarterly Survey of Business Opinion

(5) Reserve Bank (11am)

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Country	Indicator		Aug 19	Sep 19	2019Q3	Oct 19	Nov 19	Dec 19	2019Q4	Jan 20	Feb 20	Mar 20
United States [9.6% share of total goods exports]	GDP (1)	qpc			0.5				0.5			
	Industrial production (1)	mpc	0.7	-0.3		-0.4	0.9	-0.4		-0.5	0.6	...
	CPI	apc	1.7	1.7		1.8	2.1	2.3		2.5	2.3	...
	Unemployment rate (1)	%	3.7	3.5		3.6	3.5	3.5		3.6	3.5	...
	Employment change (1)	000s	207.0	208.0		185.0	261.0	184.0		273.0	273.0	...
	Retail sales value	apc	4.4	4.0		3.1	3.3	5.4		5.0	4.3	...
	House prices (2)	apc	2.0	2.1		2.2	2.5	2.9		...	...	...
	PMI manufacturing (1)	index	48.8	48.2		48.5	48.1	47.8		50.9	50.1	...
Japan [6.1%]	Consumer confidence (1)(3)	index	134.2	126.3		126.1	126.8	128.2		130.4	130.7	...
	GDP (1)	qpc			0.0				-1.8			
	Industrial production (1)	mpc	-1.2	1.7		-4.5	-1.0	1.2		1.0	...	...
	CPI	apc	0.3	0.3		0.2	0.5	0.8		0.6	0.5	...
	Unemployment rate (1)	%	2.3	2.4		2.4	2.2	2.2		2.4	...	...
	Retail sales value	apc	1.8	9.2		-7.0	-2.1	-2.6		-0.4	...	...
	PMI manufacturing (1)	index	49.3	48.9		48.4	48.9	48.4		48.8	47.8	...
	Consumer confidence (1)(4)	index	37.2	35.9		36.3	38.7	39.0		39.2	38.2	...
Euro area [5.5%]	GDP (1)	qpc			0.3				0.1			
	Industrial production (1)	mpc	0.3	0.0		-0.3	-0.6	-1.8		2.3	...	...
	CPI	apc	1.0	0.8		0.7	1.0	1.3		1.4	1.2	...
	Unemployment rate (1)	%	7.5	7.5		7.4	7.4	7.4		7.4	...	...
	Retail sales volume	apc	2.9	2.9		1.8	2.4	1.7		1.7	...	...
	PMI manufacturing (1)	index	47.0	45.7		45.9	46.9	46.3		47.9	49.2	...
	Consumer confidence (5)	index	-7.1	-6.6		-7.6	-7.2	-8.1		-8.1	-6.6	...
	GDP (1)	qpc			0.5				0.0			
United Kingdom [2.7%]	Industrial production (1)	mpc	-0.7	0.2		0.1	-1.2	0.1		-0.1	...	...
	CPI	apc	1.8	1.8		1.5	1.4	1.3		1.8	...	...
	Unemployment rate (1)	%	3.9	3.8		3.8	3.8	3.8		3.9	...	...
	Retail sales volume	apc	2.5	2.7		3.0	0.7	0.8		0.7	...	...
	House prices (6)	apc	0.6	0.2		0.4	0.8	1.4		1.9	2.3	...
	PMI manufacturing (1)	index	47.4	48.3		49.6	48.9	47.5		50.0	51.7	...
	Consumer confidence (1)(5)	index	-11.4	-9.8		-10.6	-8.8	-7.1		-6.5	-6.2	...
	GDP (1)	qpc			0.6				0.5			
Australia [15.8%]	CPI	apc			1.7				1.8			
	Unemployment rate (1)	%	5.3	5.2		5.3	5.2	5.1		5.3	5.1	...
	Retail sales value	apc	2.9	2.0		2.7	3.2	2.4		2.2	...	...
	House Prices (7)	apc			-3.9				2.8			
	PMI manufacturing (1)	index	53.1	54.7		51.6	48.1	48.3		45.4	44.3	...
	Consumer confidence (8)	index	100.0	98.2		92.8	97.0	95.1		93.4	95.5	91.9
	GDP	apc			6.0				6.0			
	Industrial production	apc	4.4	5.8		4.7	6.2	6.9		-13.5	-13.5	...
China [24.3%]	CPI	apc	2.8	3.0		3.8	4.5	4.5		5.4	5.2	...
	PMI manufacturing (1)	index	49.5	49.8		49.3	50.2	50.2		50.0	35.7	...
	GDP (1)	qpc			0.4				1.3			
South Korea [3.0%]	Industrial production (1)	mpc	-1.3	1.7		-1.0	0.5	3.7		-1.3	...	...
	CPI	apc	-0.0	-0.4		0.0	0.2	0.7		1.5	1.1	...

(1) Seasonally adjusted

(2) Case-Shiller Home Price Index 20 city

(3) The Conference Board Consumer Confidence Index

(4) Cabinet Office Japan

(5) European Commission

(6) Nationwide House Price Index

(7) Australian Bureau of Statistics

(8) Melbourne/Westpac Consumer Sentiment Index