

# Economic Note

COVID-19 watch: Potential volatility ahead

20 February 2020

## COVID-19 watch: What to look out for over 2020

- The (uncertain) impact of the COVID-19 coronavirus represents a risk to the NZ and global outlook.
- It will take time for the impacts of the coronavirus to show in the published activity data.
- Financial markets could be susceptible to additional volatility over 2020, particularly if activity prints reveal surprises.

## COVID-19 clouds the 2020 economic outlook

**At the start of the year the NZ economy appeared to be well placed** with inflation close to the midpoint of the 1-3% inflation target and with employment at (or slightly above) its maximum sustainable level. There still remain a number of key supports, but the COVID-19 coronavirus outbreak represents a dark cloud on the domestic and global outlook.

**Viral outbreaks have typically resulted in a sharp, but relatively brief, shock to both the NZ and global economies, and the RBNZ has assumed as much for COVID-19.** In the February Monetary Policy Statement, the [RBNZ](#) assumed that the COVID-19 coronavirus will deliver a short-term hit to NZ GDP, with most of the impacts occurring in the first half of 2020. The RBNZ's projections assumed a 0.3 percentage point hit to Q1 GDP (+0.4% qoq growth), but for growth to subsequently rebound, with quarterly growth to accelerate to 0.9% for the remainder of 2020 (i.e. Q2, Q3, Q4). At present ASB expects a virus-induced dip in Q1 NZ GDP (see our [note](#) here), but for the NZ economy to regain momentum in Q2, with the solid growth outlook a key facet underpinning our on-hold OCR view for 2020 and 2021.

## Data lags will prolong the uncertainty for markets and policymakers

Evidence is building that the COVID-19 coronavirus is imposing significant disruption on both the NZ economy and that of our key trading partners. Already we have seen a number of global confidence gauges and other forward-looking activity indicators soften. **It is generally acknowledged that NZ and global GDP will stumble in Q1, but less clear is the extent to which the NZ and global economy will bounce back over the remainder of the year.** If the COVID-19 coronavirus looks to have a more sizeable and drawn-out impact on NZ and global growth, we expect policy settings (mostly monetary) to try and offset the impacts. Central banks (where possible) will likely trim interest rates.

**Given the uncertainty over the coronavirus impacts, policymakers and markets will likely place considerable weight on forward-looking indicators and activity gauges.** Confidence readings and global manufacturing/services PMIs can provide timely signals on where the economy is heading. PMIs are typically published at the end of the month to which they apply for many of our key trading partners. Readings over the next few months are likely to show signs of virus-related disruptions and could prove useful in signalling how long-lasting the impact is likely to be.

## We can see a volatile period ahead for published data that could potentially add to financial market volatility.

Forward-looking indicators, however, have been known to provide false signals. GDP measures are still widely acknowledged as being the most appropriate measure for economy-wide activity, but they are typically published with a lag of 2-3 months. We could well face a situation where published GDP figures are publicising a Q1 hit, whereas forward-looking indicators published at around the same time could be pointing to a pending rebound in economic activity (as is generally expected) or a more prolonged hit. Also adding to volatility could be different publication lags, with the release of GDP for China considerably timelier than for NZ.

Table 1 summarises key decision dates for the RBNZ and a calendar of key NZ and global data prints. It shows:

- Q1 GDP figures will not be released until mid-April through to mid-June. China is one of the earliest economies to report provisional GDP figures (17 April for Q1 GDP), NZ is one of the laggards (16 June). April global PMIs will be published well ahead of NZ GDP.
- Q2 GDP figures are not available from about mid-July (China) till mid-September (NZ). It will not be until the NZ Q2 GDP release in mid-September that the RBNZ will have confirmation over how persistent the COVID-19 impact was. The NZ General Election (September 19) would likely be an added complication for September OCR deliberations.
- Q3 GDP will not be published until October 19 in China and mid-December in NZ. The next OCR window that the RBNZ could response to after that NZ GDP print would be the February MPS on 24 February 2021.

Efforts by authorities and central bankers to support confidence have helped to calm financial markets, notwithstanding some virus-related volatility from softer company announcements. **However, the upshot is that published data are unlikely to be smooth over the coming months and this could be a cause for additional financial market volatility.**

**This will not make the lives of central bankers any easier, either, including the RBNZ.** The table below shows the OCR decision dates and the list of the latest data available to the RBNZ at that time. By the August 2020 MPS, for example, the RBNZ would have NZ Q2 CPI, Q2 QSBO, Q2 labour market data and the Q3 RBNZ Survey of Expectations, but not Q2 GDP (which could prove to be a pivotal number, given potential coronavirus impacts). The RBNZ would have Q2 Chinese and Q2 US GDP and global manufacturing/services PMI data out to July as well as recent RBA and Fed decisions to ponder.

**Table 1: Data and events calendar for 2020**

2020	New NZ data published prior to OCR decision	Key overseas data/events	RBA/US Fed timetable
OCR – 25 Mar	Q4 2019 GDP (Mar 19) Feb ANZ Business Outlook (27-Feb) Feb PMI (13-Mar), Feb PSI (16-Mar)	Q4 Australia GDP (4 Mar) Feb 2020 Global manufacturing and services PMIs (Feb 21/22)	RBA – Mar 3 US Fed – Mar 19
MPS – 13 May	NZ Budget (14 May) Q1 2020 CPI (20 Apr) Q1 2020 labour market (May 6) Q1 QSBO (early Apr), ANZBO (30 Apr) Q2 RBNZ Survey (7 May) Mar PMI (17 Apr), Mar PSI (21 Apr)	Q1 China GDP (17 April) Q1 US GDP (Apr 30) Apr 2020 Global manufacturing and services PMIs (Apr 23/24)	RBA – May 5 US Fed – Apr 30
OCR – 24 Jun	FSR – 27 May Q1 2020 GDP (16 Jun) May ANZBO (28 May) May PMI (12 Jun), May PSI (15 Jun)	Q1 Australia GDP (June 3) Jun 2020 Global manufacturing and services PMIs (Jun 23/24)	RBA – June 2 US Fed – June 11
MPS – 12 Aug	Q2 2020 CPI (16 Jul) Q2 2020 labour market (early Aug) Jul ANZBO (30 Jul), Q2 QSBO (early Aug) Q3 RBNZ Survey Expectations (early Aug) June PMI (17 Jul), June PSI (20 Jul)	Q2 China GDP (July 16) Q2 US GDP (July 31) Jul 2020 Global manufacturing and services PMIs (Jul 24/25)	RBA – Aug 4 US Fed – July 30
OCR – 23 Sep	NZ General Election (Sep 19) Q2 2020 GDP (mid Sep) Aug ANZBO (31 Aug) Aug PMI (11 Sep), Aug PSI (14 Sep)	Q2 Australia GDP (Sep 2) Aug 2020 Global manufacturing and services PMIs (Aug 21/22)	RBA – Sep 1 US Fed – Sep 17
MPS – 11 Nov	Q3 2020 CPI (16 Oct) Q3 2020 labour market (6 Nov) ANZBO (29 Oct), Q3 QSBO – early Oct Q4 RBNZ Survey (early Nov) Sep PMI (16 Oct), Sep PSI (19 Oct)	US Presidential Election (Nov 3 US time) Q3 China GDP (Oct 19) Q3 US GDP (Oct 30) Oct 2020 Global manufacturing and services PMIs (Oct 23/24)	RBA – Nov 3 US Fed – Nov 6

Source: ASB, Statistics NZ, FOMC, RBA, RBNZ, Bloomberg. For some non-Statistics New Zealand data and policy releases – e.g. NZ Budget, QSBO/ANZ Business Outlook – the RBNZ sometimes gets advance data/information prior to the official publication.

**ASB Economics & Research**

Chief Economist  
Senior Economist  
Senior Economist  
Senior Economist  
Senior Rural Economist  
Senior Economist, Wealth  
Data & Publication Manager

Nick Tuffley  
Mark Smith  
Jane Turner  
Mike Jones  
Nathan Penny  
Chris Tennent-Brown  
Judith Pinto

[nick.tuffley@asb.co.nz](mailto:nick.tuffley@asb.co.nz)  
[mark.smith4@asb.co.nz](mailto:mark.smith4@asb.co.nz)  
[jane.turner@asb.co.nz](mailto:jane.turner@asb.co.nz)  
[mike.jones@asb.co.nz](mailto:mike.jones@asb.co.nz)  
[nathan.penny@asb.co.nz](mailto:nathan.penny@asb.co.nz)  
[chris.tennent-brown@asb.co.nz](mailto:chris.tennent-brown@asb.co.nz)  
[judith.pinto@asb.co.nz](mailto:judith.pinto@asb.co.nz)

**Phone**

(649) 301 5659  
(649) 301 5957  
(649) 301 5853  
(649) 301 5660  
(649) 448 8778  
(649) 301 5915  
(649) 301 5660

[www.asb.co.nz/economics](http://www.asb.co.nz/economics)

 [@ASBMarkets](https://twitter.com/ASBMarkets)

**Disclaimer**

This document is published solely for informational purposes. It has been prepared without taking account of your objectives, financial situation, or needs. Before acting on the information in this document, you should consider the appropriateness and suitability of the information, having regard to your objectives, financial situation and needs, and, if necessary seek appropriate professional or financial advice.

We believe that the information in this document is correct and any opinions, conclusions or recommendations are reasonably held or made, based on the information available at the time of its compilation, but no representation or warranty, either expressed or implied, is made or provided as to accuracy, reliability or completeness of any statement made in this document. Any opinions, conclusions or recommendations set forth in this document are subject to change without notice and may differ or be contrary to the opinions, conclusions or recommendations expressed elsewhere by ASB Bank Limited. We are under no obligation to, and do not, update or keep current the information contained in this document. Neither ASB nor any person involved in the preparation of this document accepts any liability for any loss or damage arising out of the use of all or any part of this document.

Any valuations, projections and forecasts contained in this document are based on a number of assumptions and estimates and are subject to contingencies and uncertainties. Different assumptions and estimates could result in materially different results. ASB does not represent or warrant that any of these valuations, projections or forecasts, or any of the underlying assumptions or estimates, will be met.