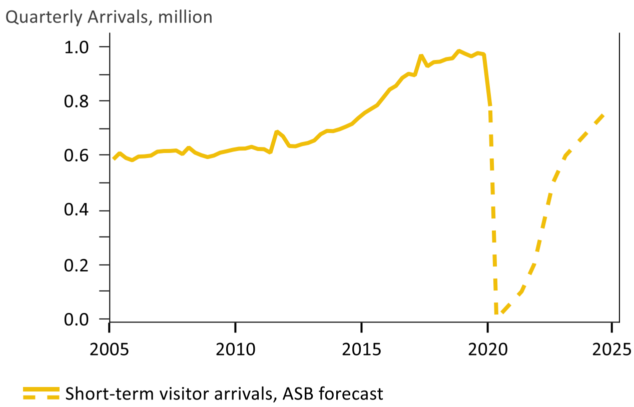
Economic Weekly

06 July 2020

Border patrol

NZ Short-Term Visitor Arrivals



Source: Macrobond, ASB

The border closure remains in the spotlight, as both our key bulwark against COVID-19 but also as a constraint on our economy. Decisions around our border need to balance those benefits of keeping NZ free from COVID-19 (and the health risks from it) against NZ's ability to afford, for example, dry homes, expensive life-saving medical treatment, and in minimising the personal tragedies that unemployment and business failures can cause.

In our feature piece, Mark Smith looks at the tourism sector's outlook, the most impacted sector from the border closure. It may be years until relatively free cross-border movement is allowed. Technology may in time enable movement with much less risk than is the case now, which would enable freer people movement. As NZ's latest walkabout and Victoria's isolation procedure gaps show, border measures have their challenges. The toughest choice NZ would face would be if there is no workable vaccine and NZ has to choose between keeping itself as physically cut off from the rest of the world as it is now or re-integrating. NZ relies on exporting and needs to maintain and build relationships.

There are two key NZ data releases this week. Tuesday's NZIER's Quarterly Survey of Business Opinion survey for the June quarter will show a plunge in business confidence, as the ANZ monthly survey already has. But how helpful the results of the survey will be for predicting GDP is another thing entirely given how large the survey movements (and GDP itself) will be this year. And, looking to more recent data, we are seeing encouraging signs in retail card transactions. For the June month we expect a 10% lift from May's partial rebound in the official Statistics NZ figures out on Friday. Our own transaction data showed further recovery in transactions to similar levels that were occurring before NZ went into lockdown. nick.tuffley@asb.co.nz

Recent COVID-19 publications	Where to find support
ASB Economic forecasts and monitoring: Quarterly Economic Projections ASB COVID-19 Chart pack NZ Sector outlook **Financial market trends:** Corporate Hedging Toolbox **Policy response:** RBNZ leaves QE target unchanged in June	ASB financial support package Government support package COVID-19 alert system explainer For these publications and more COVID-19 research, see here

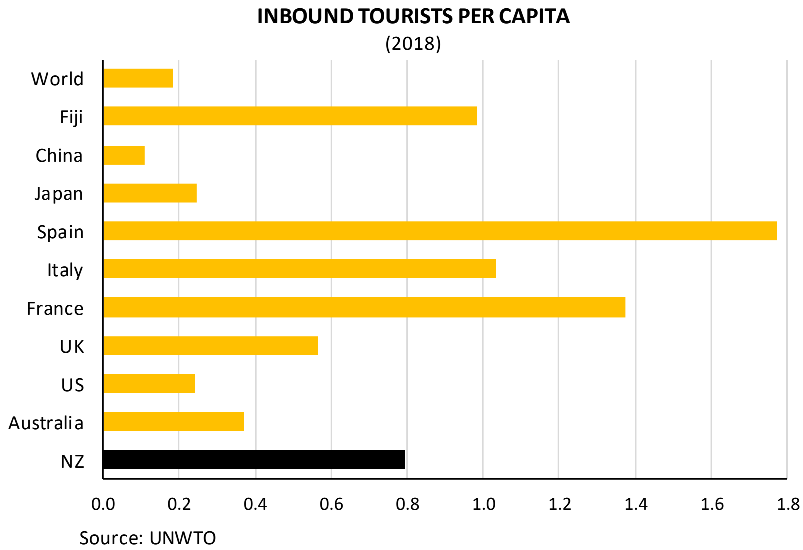
Tourism Sector Outlook

- The tourism sector is perhaps the most visible casualty from COVID-19. Due to the loss of international tourism, NZ's GDP will be 3-5% lower than it would otherwise be.
- Domestic tourism within New Zealand is 40% larger than inbound tourism, and the switch towards domestic tourist experiences for New Zealanders will lessen the economic hit. Some adjustments will still have to be made to cater for the different needs of domestic tourists.
- Considerable uncertainty remains on how quickly the tourism sector can bounce back. The return to pre-COVID-19 levels of free cross-border movement looks to be years, rather than months away.

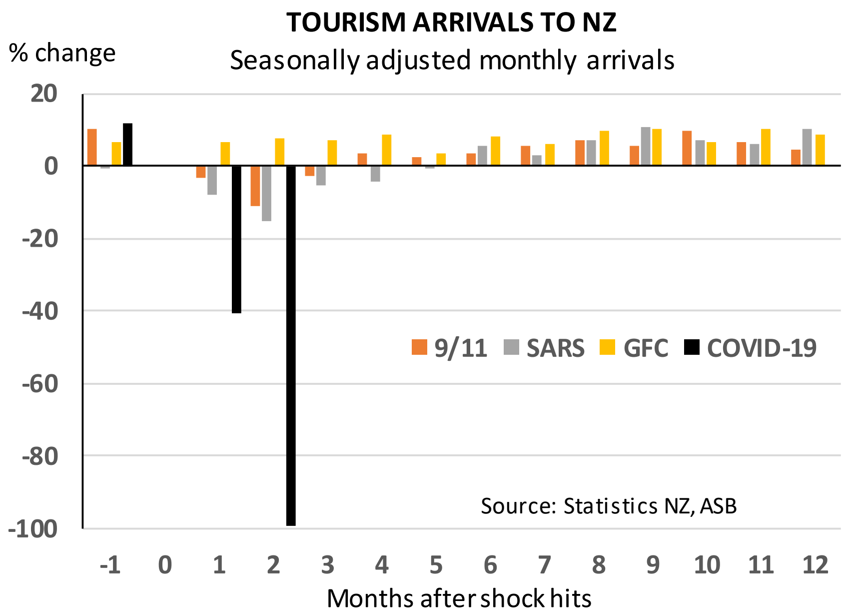
This summarises a recent note on the NZ tourism sector outlook.

From boom to bust

International tourism had been a major growth sector. According to figures provided by the United Nations World Tourism Office (UNWTO), global tourism flows have increased from just 25 million people in 1950, to 166 million in 1970, 435 million in 1990, to a whopping 1.4 billion visitor arrivals by 2018. Tourism to NZ has also ridden this wave, with a 3.5-fold increase in visitor arrivals to NZ since 1990 (versus 3.2 times globally). Inbound tourism into NZ is just a drop in the bucket, accounting for just 0.3% of global flows. Overseas tourism constitutes a proportionately greater chunk of NZ's economic activity. It accounts for about 5-6% of NZ's GDP, around twice that of Australia, the US and UK, but below that of France, Italy and Spain.



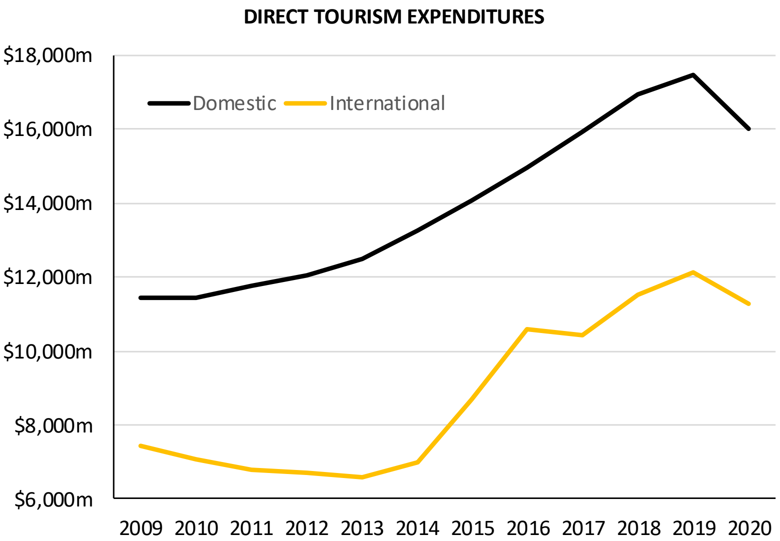
COVID-19 has delivered a king-hit to the global tourism sector. Global tourism has fallen off a cliff according to UNWTO figures. The closure of NZ's borders to Chinese visitors from early February and other destinations on March 19 to halt the spread of COVID-19 has resulted in the flood of inbound tourists turning into a trickle. Arrivals to NZ fell to 3.46 million arrivals in the April 2020 year, with just 1,700 arrivals in April. About half of the moderation is fewer visitors from Asia. Compared to past events, the hit to NZ tourism arrivals has been more sudden and of significantly larger magnitude.



Border restrictions to remain for a while yet, and travel preferences may change

Previous events – including 9/11 (2001), SARS (2003), and the Global Financial Crisis (2009) – have resulted in short-lived disruptions. COVID-19 is proving a tough nut to crack. Border restrictions are unlikely to be relaxed until a vaccine is available or the outbreak can be successfully contained. To us, this looks a long way off. Despite NZ having addressed the health challenges posed by COVID-19 better than most, our isolation will count against us in trying to attract long-distance travellers from key markets.

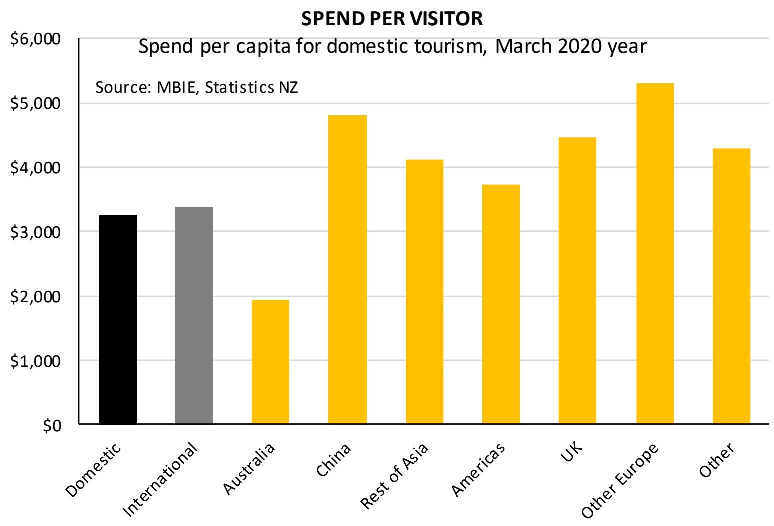
Don't forget domestic tourism



Source: MBIE

While the focus is on the overseas visitor tap being tightened, domestic tourism is actually larger. According to the 2019 NZ Tourism Satellite Account, around 60% ($23.6bn) of the $40.9bn in total tourism-related expenditures are either directly or indirectly generated by domestic tourism. This leaves the remaining $17.3bn, which also includes expenditures from international students residing for less than 1 year in NZ (close to $4bn).

MBIE figures also suggest about a 60:40 split for direct tourism expenditures, with domestic expenditures ($16bn in the April 2020 year) about 40% higher than expenditures by overseas tourists in NZ ($11.3bn). Direct domestic tourism spending per capita is on par with international spending per overseas arrival and above that of Australian visitors (see chart). More than half of the nearly 50% growth in total tourism expenditure over the last decade has come from domestic tourists.

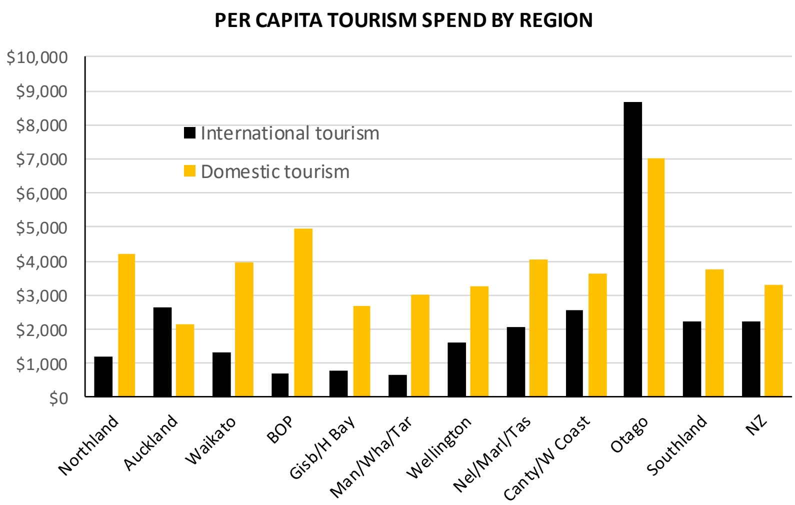


Moreover, regional tourism estimates from MBIE (bottom chart) show that domestic tourism significantly outstrips overseas tourism in all but two regions – Auckland and Otago (which includes Queenstown).

Gauging the economic impacts

Impacts on NZ's GDP and labour market

Tourism includes many aspects of economic activity, and there is no set measure of tourism in the national accounts. The NZ System of National Accounts (SNA) has two major categories for tourism. The first category is tourism-characteristic industries which include accommodation, food & beverage services and transport. Tourism-related industries include retail trade and education & training. About two-thirds of overall tourism spending (about 9% of GDP) is categorised as value added, of which $16.2bn (5.4% of GDP) is the direct contribution of tourism and tourism-related industries. Less than half of this would be from international tourism.

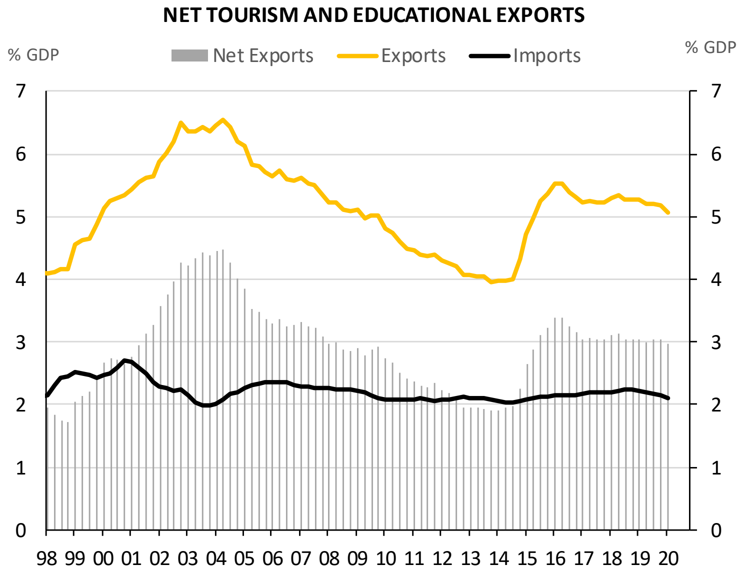


Source: Statistics NZ, MBIE, ASB

In looking at services export figures in the Balance of Payments, travel exports were a shade under $16bn in the March 2020 year, roughly 5.1% of GDP (see chart). Of this, inbound personal tourism accounted for 3.7% of GDP, educational exports for 1.4% of GDP and business/government tourism into NZ at just under 0.1% of GDP. Imports of tourism (i.e. spending by NZ tourists overseas), by contrast, are around 2.1%. Of this, 1.7% of GDP is for outgoing personal tourism of NZ residents, with the remainder from business/government trips abroad and NZ students studying overseas. This leaves net exports of tourism at around 3% of GDP (see second chart). This net export balance largely reflects the net inflow of personal tourism to NZ and positive net exports of education.

All up, we consider the hit to the NZ economy from the closure of our borders to be in the region of 3% to 5% of GDP. We consider 3% of GDP to be the lower bound of a potential range of estimates of the net impact on the NZ economy of foregone tourism spending. Our work on sector analysis uses input/output analysis to track the linkages of the economy. The input/output multipliers for tourism-related sectors are in a 1.5 to 1.8 range, averaging 1.65. Applying that multiplier to the net loss of tourist spending suggests the full GDP impact will be around 5% of GDP.

Tourism is an employment-rich sector (directly accounting for more than 8% of employment and 230,000 jobs according to the 2019 NZ Tourism Satellite Account). There are higher proportions of tourism-related employment in the accommodation, hospitality, broader retail and transport sectors.



Source: Statistics NZ

Shutting off the international tourism tap will have sizeable implications for NZ employment. The phasing out of the Government's wage subsidy, which finally ends in September, will see job losses lift in the sector. A sizeable chunk of the nearly 150,000 net fall in employment we expect by the end of the year will likely be either directly or indirectly linked to inbound tourism.

Net immigration will have a bearing on the growth in the labour market and potentially the climb in employment. There is the view that the outbreak of COVID-19 will set see permanent and long-term inflows slow from a flood to a trickle and lead to a protracted period of very low net immigration to NZ. Permanent and long-term net immigration has fallen to virtually nil during the level 4 lockdown. It is early days, however. NZ's reputation as a global safe-haven will likely have been enhanced by our success in containing COVID-19.

Even if net immigration remains low, and the unemployment queues are shorter than they would otherwise be, this will throw up other challenges. NZ has tended to import labour when needed to address skill shortages. Considerably more onus needs to be placed on NZ workers to upskill. An attitude shift may also be required to fill vacancies that kiwis were previously reluctant to fill.

The importance of creating resilience

COVID-19 has delivered a king hit to one of the key growth sectors of the NZ economy. One of our economic engines has run out of fuel and it is unclear how far away the next re-fuelling stop is. Policymakers have helped to soften and delay the pending hit to the economy. The wage subsidy has provided impacted firms with some breathing space. With our borders likely to remain shut for a while yet this will only be a temporary respite.

Tough decisions on whether some business operations will remain viable will need to be made. Business failures and job losses in the tourism sector look inevitable which will be gut wrenching for many people whose livelihoods are jeopardised. Now is the time for firms and employees in the tourism sector to check whether their strategic direction is best aligned to operate in the new economic landscape. It may involve some tweaking of investment and hiring decisions but should ultimately bolster economic resilience. Greater focus on extracting more value rather than one of increasing volumes (i.e. increasing visitor numbers) could prove to be a useful starting point. The Government's focus on upskilling and retraining in the 2020 Budget was particularly welcome, providing workers and firms with help in transitioning towards the post-COVID-19 economic landscape.

COVID-19 will not be the last challenge NZ or the world faces. Dealing with climate change poses arguably bigger challenges, which are more incremental in nature compared to the abrupt nature of the current shock. Think of COVID-19 as a shot across the bow. The saying goes: don't waste a good crisis. COVID-19 has demonstrated our ability to work together, adapt, think, work and live differently. It has also underscored the importance of being prepared. This will help to build up our resilience as an economy and as a society. mark.smith4@asb.co.nz

Foreign Exchange Market

FX Rates	Current*	Week ago	Month ago	Year ago	ST Bias	Support^	Resistance^
NZD/USD	0.6534	0.6411	0.6487	0.6677	FLAT	0.6400	0.6680
NZD/AUD	0.9415	0.9357	0.9299	0.9503	FLAT/UP	0.9300	0.9500
NZD/JPY	70.28	68.72	70.78	72.02	FLAT	68.50	73.00
NZD/EUR	0.5811	0.5714	0.5713	0.5918	FLAT	0.5700	0.5950
NZD/GBP	0.5238	0.5199	0.5140	0.5306	FLAT	0.5130	0.5330
TWI	72.5	71.4	71.7	72.91	FLAT	N/A	N/A

*^ Weekly support and resistance levels * Current as at 9.30am today; week ago as at Monday 5pm*

NZD Recap

The NZD lifted against all the major crosses as global investor anxiety eased over the week, with equities, commodity prices and interest rates edging higher. Global investors appeared to be cheered by US economic data indicating a stronger-than-expected bounce back in activity post-lockdown. US consumer confidence, house sales, the ISM manufacturing index and US labour market data (particularly on-farm payrolls) all outperformed median market expectations. Stronger US economic data saw investors shrug off the continued rise in new US COVID-19 infections.

Outlook

Global investor sentiment and equity market performance is likely to remain a key driver of NZD moves over the week ahead, particularly against the USD and JPY. Global investor appetites are likely to remain caught in a tug of war between worries about a resurgence in COVID-19 infections and the steady recovery in global economic activity. With less economic data scheduled for release this week, financial markets may focus on the rising number of new COVID-19 infections. The NZD/USD is likely to remain comfortable in its recent range of 0.64 to 0.66.

NZ economic data this week is limited, with the main focus likely to be June electronic card spending (we expect to see another sizable bounce in card spending). The fortnightly global dairy trade auction takes place Tuesday night this week. The resurgence of COVID-19 infections in Melbourne may see the NZD continue to outperform the AUD this week. However, our year-end view for the NZD/AUD remains intact and we expect the AUD to outperform the NZD, largely on Australia's favourable commodity price outlook and stronger current account position.

jane.turner@asb.co.nz

ASB foreign exchange forecasts	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Mar-22	Mar-23
(end of quarter)		<< actual	forecast >>					
NZD/USD	0.67	0.60	0.64	0.64	0.65	0.66	0.68	0.66
NZD/AUD	0.96	0.97	0.93	0.91	0.90	0.88	0.88	0.86
NZD/JPY	73	65	69	66	66	67	69	67
NZD/EUR	0.60	0.54	0.57	0.55	0.57	0.58	0.60	0.58
NZD/GBP	0.51	0.49	0.52	0.52	0.52	0.52	0.52	0.51
NZD/CNY	4.7	4.3	4.5	4.6	4.6	4.7	4.8	4.6
NZD TWI	73.8	68.8	71.4	71.1	71.7	72.1	73.6	71.4

Interest Rate Market

Wholesale interest rates	Current	Week ago	Month ago	Year ago	ST Bias	MT Bias
Cash rate	0.25	0.25	0.25	1.50	UNCH	UP
90-day bank bill	0.32	0.31	0.26	1.62	UNCH	UP
2-year swap	0.22	0.21	0.25	1.31	UNCH	UP
5-year swap	0.36	0.35	0.42	1.38	UNCH	UP
10-year swap	0.76	0.74	0.87	1.72	UNCH	UP
10-year govt bond yield	0.97	0.91	0.99	1.52	UNCH	UP
Curve Slope (2s10s swaps)	0.55	0.53	0.62	0.41	UNCH	DOWN

** Current as at 9.30am today; week ago as at Monday 5pm. Key UNCH = Broadly unchanged*

Market Recap

Local and global swap yields start the week a fraction higher, with curves slightly steeper. NZ 10-year bonds yields have firmed in step with US yields and remain in the upper part of recent trading ranges. Improving data, renewed hopes that a vaccine will be found for COVID-19 and increased confidence that policy stimulus will boost the economy have improved global sentiment and marginally steepened curves. Interspersed with this have been periodic bouts of risk aversion, where concerns over the impact of rapid climb in COVID-19 cases on economic reopening's and heighted tensions in Hong Kong have seen yields dip and yield curves flatten.

Last week's NZ Government Bond tender $800m in nominal bonds) was well supported, with resultant yields through mid-market levels, with NZ yields dampened by $940m of RBNZ purchases. Local data was briefly glanced at but had little impact as it did not contradict the market's narrative of improvement.

The message from global central bankers – most notably US Federal Reserve Chair Powell, RBA Deputy Governor Debelle and RBNZ Governor Orr – was that the economy was weaker than it was pre-COVID-19 and the economic outlook was highly uncertain. Moreover, all options remained on the table (including a negative OCR in the RBNZ's case), with policy settings to remain highly accommodative for a long time yet. Subsequent policy moves remain skewed towards policy easing rather than policy tightening.

Near-term interest rate outlook

For markets and policymakers, the next few weeks look to be a waiting game and we expect yields to remain largely directionless and very, very low. Equity market direction remains a useful guide for yields and curve slope.

Market pricing remains skewed to a lower OCR, which is reasonable given the risk profile. Terminal OCR pricing (as proxied by 1-year OIS) are fractionally lower for NZ yields (about 0.15%) relative to Australian yields (about 0.21%) consistent with the greater willingness of the RBNZ to take its policy rate lower. Tomorrow, the RBA are widely expected to maintain policy settings and reaffirm any hike in the cash rate is likely to be a long way away.

This week's data – including the Q2 QSBO (Tuesday 10am) is expected to be weak, and yields could be under downward pressure if the July preliminary ANZ Business Outlook (Thursday 1:00pm) signals the fleeting recovery running out of puff. There is also some modest downside risk to the market expectation of a 16.5% climb in June card spending for NZ. This week's global dataflow is light, with the June non-manufacturing ISM (Tuesday), and Chinese CPI (Thursday) key highlights.

A further $950m in conventional NZ Government bonds will be tendered this week, but with the RBNZ to continue with its trimmed-down $NZ940m of NZ Government bond purchases (and $40m of LGFA purchases), this should not have a material impact on spreads. Next week's syndication of the May 2041 bond looms and this will provide a sterner test of market appetite. To date, NZ Government Bonds on issue have soared to just under $100bn.

Medium-term outlook

We don't expect the OCR to move above its 0.25% operational lower bound until 2024 at the earliest. If more policy stimulus was needed the RBNZ will likely increase and broaden its $60bn asset purchase programme before cutting the OCR. Subpar global activity and RBNZ asset purchases should help to cap longer-term NZ interest rates despite a flood of global public debt issuance. mark.smith4@asb.co.nz

Domestic events

Data	Date	Time (NZT)	Market	ASB
NZIER QSBO, Experienced trading activity, s.a., Q2	07/07	10:00am	-	-
Electronic Card Transactions, Retail, June, % mom	10/07	10:45am	-	+10

The NZIER Quarterly Survey of Business Opinion will confirm a plunge in business confidence over Q2, as already shown by the more timely ANZ survey. We typically place more emphasis on the Quarterly Survey by NZIER as it has a more reliable performance in predicting GDP growth. However, given the highly unusual circumstance of the COVID-19 pandemic and the volatility over the quarter, the quarterly survey may not be able to accurately account for the impact of the lockdown over April followed by the gradual reopening as NZ moved through Alert Levels 3,2 and 1 over May and June.

Retail card spending is set for another solid climb in June, following the record May bounce. Our proprietary ASB card spending data, which has a very close fit with the ECT data, point to 10% lift in June retail and core ECT spending. The easing of COVID-19 restrictions fuelled a close to 80% climb in overall retail spending in May, with more than a four-fold increase in non-essential retail Further easing of COVID-19 restrictions – NZ moved to Alert Level 1 on midnight June 8 – is expected to trigger more pent-up demand, with a sizeable climb in hospitality retail expected. Despite this, retail card spending is expected to decline around 20% in Q2, with the lockdown restrictions in April the key driver behind record declines in Q2 GDP. Pent-up demand in the coming months could see a few more solid months of growth, but climbing unemployment, the turning off of the overseas visitor tap and weak household income growth point to a soft outlook for card spending over 2020.

Major International Events for the week ahead*

Data	Date	Time (NZT)	ASB
Australia CBA Housing Card Spend, June, %yoy	07/07	1:30 pm	-
RBA Interest Rate Announcement, %	07/07	4:30 pm	0.25
Japan Current Account Surplus, May, ¥bn	08/07	11:50 am	700
China Inflation, June, %yoy	09/07	1:30 pm	2.5
Australia Value of Home Loans, May,	10/07	1:30 pm	-8.0

Originally published by CBA Global Markets Research on Friday 3rd July at 2:15 pm

Australian data to 26 June from CBA **household card spending** suggests the gentle upswing in spending has paused and is now tracking broadly sideways when we smooth out week to week volatility. Total spend was up 4.5% for the week ending 26 June compared to a year earlier. A tightening up of restrictions in Victoria has seen the region lagging behind the other Australian states. Card usage has gone up as shops have been reluctant to take cash and also because of the trend towards PayWave. We estimate card spend would need to be up around 10% to be back to pre-COVID levels once we account for these two factors.

At the July meeting, we expect the Reserve Bank of Australia (RBA) to leave the cash rate and the bond yield target for 3-year Commonwealth Bonds at 0.25%. On Tuesday 30th June, Deputy Governor Guy Debelle spoke on the RBA's policy actions. Of note, he referred to the Exchange Settlement balances (i.e. banks' deposit holdings at the RBA) and influence on the level of the cash rate, and how this has been passed on to other market rates. The efficacy of the RBA's policy actions is likely to be reiterated in the July statement.

We expect **Japan's May current account surplus** to lift to ¥700bn, driven by rebounding goods trade surplus in May.

We forecast **China's CPI inflation** to pick up to 2.5%yoy in June because severe floods pushed up food prices. PPI deflation may have eased to 3.3%yoy because the economic recovery led to a broad rebound in commodity prices.

We expect the value of **Australian home loan approvals** to fall a further 8.0% in May after falling by 4.8% in April. Our internal lending data show a weakening in lending growth over May.

Key Forecasts

ASB NZ economic forecasts	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Mar-22	Mar-23
		<< actual	forecast >>					
GDP real - Q%	0.5	-1.6	-16.8	14.7	1.1			
GDP real - A%	1.8	-0.2	-17.1	-5.7	-5.1	-3.8	2.7	4.9
GDP real - AA%	2.3	1.5	-3.3	-5.3	-7.0	-7.9	5.1	4.6
CPI - Q%	0.5	0.8	-0.3	0.3	-0.1			
CPI - A%	1.9	2.5	1.6	1.3	0.7	0.3	1.4	1.7
HLFS employment growth - Q%	0.1	0.7	-2.8	-1.6	-1.1			
HLFS employment growth - A%	0.8	1.6	-1.8	-3.6	-4.8	-4.5	1.7	2.7
Unemployment rate - %sa	4.0	4.2	6.3	7.4	7.7	7.0	7.0	6.0
Annual current account balance as % of GDP	-3.0	-2.7	-2.5	-1.9	-1.8	-2.1	-1.0	-0.5

Q% = percentage change on previous quarter

A% = percentage change since same quarter the previous year

AA% = percentage change for year ending quarter since the previous year

ASB interest rate forecasts	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Mar-22	Mar-23
(end of quarter)		<< actual	forecast >>					
NZ OCR	1.00	0.25	0.25	0.25	0.25	0.25	0.25	0.25
NZ 90-day bank bill	1.29	0.51	0.30	0.30	0.30	0.30	0.30	0.30
NZ 2-year swap rate	1.26	0.53	0.21	0.30	0.35	0.40	0.40	0.60
NZ 5-year swap rate	1.45	0.63	0.35	0.40	0.50	0.55	0.65	0.85
NZ 10-year swap rate	1.78	0.93	0.74	0.75	0.85	0.90	0.95	1.05
NZ 10-year Bond	1.65	1.03	0.91	0.75	0.85	0.95	1.05	1.15

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NZD/AUD	0.96	0.97	0.93	0.91	0.90	0.88	0.88	0.86
NZD/JPY	73	65	69	66	66	67	69	67
NZD/EUR	0.60	0.54	0.57	0.55	0.57	0.58	0.60	0.58
NZD/GBP	0.51	0.49	0.52	0.52	0.52	0.52	0.52	0.51
NZD/CNY	4.7	4.3	4.5	4.6	4.6	4.7	4.8	4.6
NZD TWI	73.8	68.8	71.4	71.1	71.7	72.1	73.6	71.4

ASB Economics & Research			Phone
Chief Economist	Nick Tuffley	nick.tuffley@asb.co.nz	(649) 301 5659
Senior Economist	Mark Smith	mark.smith4@asb.co.nz	(649) 301 5657
Senior Economist	Jane Turner	jane.turner@asb.co.nz	(649) 301 5853
Senior Economist	Mike Jones	mike.jones@asb.co.nz	(649) 301 5661
Senior Economist, Wealth	Chris Tennent-Brown	chris.tennent-brown@asb.co.nz	(649) 301 5915
Publication & Data Manager	Judith Pinto	judith.pinto@asb.co.nz	(649) 301 5660

www.asb.co.nz/economics

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