Quarterly Economic Forecast

May 2020

Fast and Furious

- NZ abruptly went into a stringent lockdown on health risks, prompting a huge and rapid economic response.
- NZ comes out of stringent restrictions able to entertain the possibility of moving to 'normal' distancing.
- But the hard road of economic recovery is just starting and has several levels of its own to work through.

NZ is emerging out of lockdown into a very different world to the one we all heralded in at the start of the year. Countries around the world have abruptly headed into various degrees of lockdowns, all with marked impacts on economies. NZ had the most stringent rating of lockdown restrictions, according to Oxford University, as the Government 'went hard' and responded to the fast-breaking crisis at a furious pace. But equally, NZ is now in a position where – fingers crossed – it has hope of returning to a semblance of normality sooner than many countries.

The health crisis may be easing, but the economic crisis is only just starting. Economically, we see NZ as going through three stages: surviving the crisis, adapting in a period of transition, reimagining itself into the new normal.

The crisis period is where we are now: surviving the impacts of the lockdown and reopening when ongoing restrictions, behavioural changes, and potential for spending caution mean revenue streams are highly uncertain. It has been – and will continue to be – a time of swiftly making hard decisions. It is important to make sure that you are well on top of your financial position, particularly your cashflows, and that you have got all the support you need.

The transition period could be 12 to 18 months. During this time a number of important uncertainties such as the persistence of COVID-19, longevity of social distancing and border restrictions will linger but increasingly get resolved – potentially sooner rather than later for social distancing in NZ. Persistent and permanent shifts in behaviour will become more apparent. It will be a period in which being adaptable and flexible will be important.

Finally, NZ will reimagine itself in what will become the 'new' normal. Supply chains are likely to focus more on reliability and resilience, favouring local sources more even if at higher cost. Trade will be more focused on goods and on services that are more provided by remote and less reliant on people movements. The importance of fully leveraging technology has been starkly highlighted, and will change how we shop, work, and influence where we live.

As an economics team, we will be continuing to assess what we see as the most likely path forward out of the countless possibilities. Some of our recent work has included creating economic scenarios to give some examples of what some of the plausible alternative are, and an assessment of which sectors of the economy are likely to be most impacted by COVID-19 and those most likely to be resilient and even thrive.

This is a time when a lot can change in a short space of time. The one-stop shop for finding out about our latest views is our Economic Weekly. It includes a table of key forecasts at the end so you can ensure you have our most up-to-date views, a list of our most recent COVIDS-related publications, and links to where you can seek support.

ASB Economics (649) 301 5659 nick.tuffley@asb.co.nz

ASB COVID-19 related publications

COVID-19 Policy Response Timeline – see page 7

ASB Economic forecasts and monitoring:
ASB COVID-19 Chart pack
A chart pack, updated weekly, monitors key economic and financial markets trends for NZ and its major trading partners, with a specific focus on the impact of the COVID-19 pandemic.

COVID-19 and the economic path ahead (central forecasts)
A detailed discussion of our economic forecasts in light of the COVID-19 pandemic. Given the high level of uncertainty, this document focusses on the key considerations which will shape the outlook for the next year or so.

COVID-19 possible paths in an uncertain future (alternative scenarios)
Given the high level of uncertainty and difficulties forecasting in this environment, we provide a couple of alternative scenarios so users of forecasts can have a stronger understanding of the implications from the risks to the outlook.

Financial market trends:
COVID-19: Market stocktake and what we are watching
Summary of key financial market developments over March (which was a wild ride). This document remains useful as it includes a handy layperson's guide to understanding various market support measures that have been introduced as well as some explanation of key financial trends to monitor (included in our weekly chart pack).

ASB Podcast for investors
Worried about Kiwisaver? Don't fret, listen to the latest podcast from the ASB Investment Team, discussing key COVID-19 and financial market developments and how the will impact investments, featuring Senior Economist Chris-Tennent Brown.

Policy response:
RBNZ confirms increase to QE at May Monetary Policy Statement
RBNZ confirms it will increase its annual asset purchases (QE) to $60 billion and reaffirms its commitment to leave the OCR at its current operational lower bound of 0.25%. RBNZ does not rule out further action of any type.

Budget 2020 delivers huge support, huge debt
The Government announces a very stimulatory Budget, including a $50 billion COVID Response and Recovery Fund. The Treasury projects net debt to peak at 54% of GDP, although we note that optimistic economic forecasts may be painting a flattering picture of the long-term fiscal implications from fighting the COVID-19 crisis.

Industry specific analysis and other:
Sectors are expected to share the pain from COVID-19
The hardest-hit sectors from COVID-19 are those directly impacted by the tighter border requirements and on physical distancing. These include sectors aligned to tourism, including accommodation services, transport, hospitality, retail trade, as well as professional services, and arts and other services. Direct impacts are expected to be widespread across the economy, with proportionately more of the subsequent impacts to be incurred in the services sector.

Thinking about the new normal for housing
NZ's housing market will emerge from lockdown into some big headwinds. We expect 5-10% falls in house prices in the year to March 2021. Over 2021, we expect house prices to stabilise, before gradually recovering as the unemployment rate begins to decline

Farmshed Economics: COVID-19 what we know and what we don't
Impact of the COVID-19 pandemic on the agri sector in NZ.

Where to find support

ASB financial support package
Government support package
COVID-19 alert system explainer

ASB

International Outlook – Nadir?

Globally, nations are starting to reopen as the immediate health-crisis imposed by COVID-19 slowly passes. However, the economic consequences of COVID-19 disruptions and lockdowns are only just beginning to be felt.

The global economy is in a deep recession. We forecast a 3.2% yoy contraction in GDP growth in calendar 2020. For reference, during the GFC, the global economy contracted by just 0.1% yoy. The length and depth of the global recession will ultimately depend on how quickly countries can ease restrictions. And there's also the risk of a second wave of virus cases, particularly in Europe.

NZ's trading partners are expected to fare a little better than the global average. The consensus sees trading partner growth in such bottoming out around -2.5% yoy this year, before a rapid recovery to nearly 6% in 2021. The chart provides context of just how unprecedented this shock is.

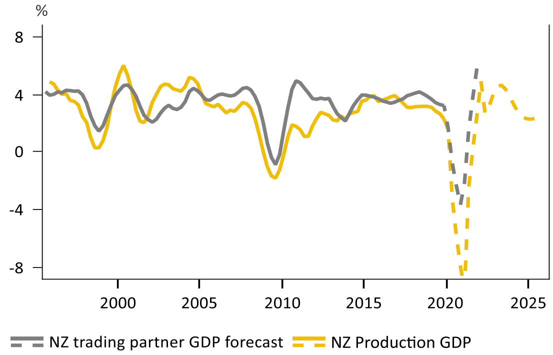
It's too early to judge how actual activity is running relative to these projections. The latest global data have, unsurprisingly, made for terrible reading. Manufacturing and services PMIs across Asia, Europe, and the US are consistent with a near stalling in activity. The JP Morgan global PMI hit the lowest level on record of 39.8 in April (50.0 is consistent with expansion). There have also been some gob-smacking job loss numbers, no more so than in the US where 20.5m people lost their job in April.

We'll be looking at China for a guide to how quickly economies can recover post-lockdown. China was obviously first to be hit by COVID-19 and looks to be coming out the other side in a stronger position than most - we expect Chinese GDP of +1.5% yoy for 2020. This bodes well for NZ's exports given our close trade ties. The chart shows that NZ has become much more reliant on China over the past 10 years as a home for our exports.

Australia, our second-largest trading partner, is in a position not too far from our own. GDP growth will contract sharply this year (we expect -5% y/y) but a large fiscal package from the Australian federal and state governments will help offset an even steeper decline in economic activity.

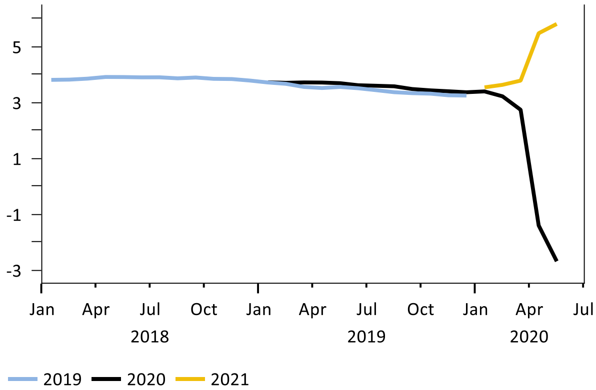
Overall, the above leaves us broadly comfortable with our prior view that NZ's goods exports will continue to hold up well over 2020, while NZ's service exports (read tourism) bear most of the COVID-19 brunt.

NZ & NZ Trading Partner Annual Average GDP Growth



Source: Macrobond, ASB

Evolution of Forecasts NZ Trading Partner GDP growth - calendar year

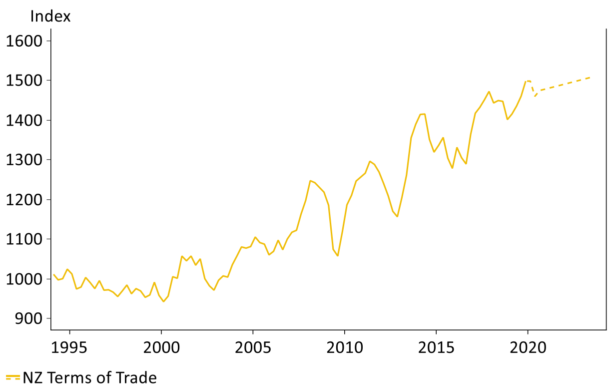


Source: Macrobond, ASB

China's Increasing Influence

Source: Macrobond, ASB

NZ Merchandise Terms of Trade



Source: Macrobond, ASB

The New Zealand Economy – Covid-19 to trigger economic recession

The COVID-19 pandemic has severely disrupted economic activity over the early months of 2020 and going forward there remains a significant degree of uncertainty on both the global and domestic outlook. It is widely accepted that the NZ economy will contract sharply over H1 2020 as the pandemic rapidly spread during March – we have pencilled in an 18% decline. The size of the bounce back over H2 2020 and beyond in NZ depends on the ability to keep the virus spread under control and the effectiveness of fiscal support in carrying businesses and households through this tumultuous time. **We expect the NZ economy to contract 6% by December 2020**.

The magnitude of economic decline over 2020 will likely depend on each country's ability to contain and manage the outbreak. While much of the developed world appears to have slowed the spread for now, there remains the risk of a disruptive second wave of infections. However, in NZ, we face a relatively unique opportunity of potentially eliminating COVID-19. This may spare the NZ economy of the ordeal of facing second and third waves of viral outbreaks. A re-emergence of the virus could ultimately see NZ cycling between Alert Levels 2, 3 and 4 over the coming year in order to manage the impact of the outbreak on the health system. A re-tightening in restrictions would cause additional economic disruption, and would increase uncertainty for businesses, delaying employment and investment decisions. A second wave of the outbreak would result in a more severe recession than would otherwise be the case.

Instead, **NZ is on track to continue gradually lowering the Alert Level over the coming year (sooner rather than later, hopefully)** and allow some degree of normality to resume. **Indeed, this scenario may even see economic activity recover faster than we have pencilled in over 2020.** However, there is still a cost, and NZ must continue to carefully manage the border and offshore arrivals into NZ through the entire duration of the pandemic – which may be years. Furthermore, global tourism demand is likely to be significantly lower over the coming years as the global economy enters the largest global recession since the 1930's Great Depression. Long-haul travel demand will likely remain severely impacted by reduced global household incomes and employment confidence, fear of catching the virus and difficulties in obtaining travel insurance. With international tourism likely to be significantly impacted over the next couple of years, the NZ economy must adapt and pivot to the 'new' normal.

NZ's agricultural sector remains well placed (relatively speaking), and strong food-related export earnings are likely to cushion the impact of weaker global economic demand on the broader NZ export sector. The outbreak has caused supply chain disruptions across the world – impacting the global supply of key food commodities. With NZ's food production less impacted from COVID-19, NZ food exporters are well placed if global food supply weakens.

We expect construction demand to fall over the coming year, from recent record highs. In the near term, the construction industry is likely face delays in completing projects due to the lockdown, social distancing requirements and potential disruption to the supply of materials and labour. Looking further into 2020, we expect construction demand, for both housing and commercial projects, to slump as a result of the coming severe recession. This fall in private sector demand will free up some spare capacity in the construction sector, and later this year may prove to be an opportune time for the NZ Government to ramp up its own construction plans for both housing and non-residential building.

We expect unemployment will rise above 9%. The Government's 2020 Budget was focussed at keeping jobs and to limit the long-term impacts of the recession. The weaker labour market will prompt more cautious behaviour from households and consumer spending on non-discretionary items will be reduced. **Job security will be the defining feature of housing demand going forward.** We expect house prices to fall just 6% over the year to March 2021. The main risk to house prices would be a lift in mortgage defaults triggered by the large increase in unemployment. A key policy tool to manage this risk is a joint venture between the Government, the RBNZ and retail banks to provide a six-month principal and interest payment mortgage holiday for mortgage holders and SME businesses. This policy should help prevent a spike in mortgage defaults and limit the fall in house prices over the coming year. Furthermore, the RBNZ's relaxation of high loan-to-value lending restrictions for 12 months should also help support vulnerable households over the coming year.

Interest Rates and Exchange Rates – past the lows?

Interest rates

COVID-19 has proved to be a gamechanger for markets and has seen interest rates plummet. Policymakers have pulled out all of the stops to avert the most severe downturn since the Great Depression. Massive fiscal support packages have been unveiled. We have seen global central banks trim policy rates to operational lows, monetary implementation measures instigated to soothe frictions in credit markets/promote lending and Quantitative Easing (QE) programmes kick-started (or introduced in NZ's case).

In NZ the OCR has been at its operational low of 0.25% since mid-March, and the RBNZ has maintained forward guidance that the OCR will remain on hold until early 2021. On March 23 the RBNZ introduced a $30bn Large Scale Asset Purchase programme (i.e. Quantitative Easing), that has subsequently been increased to $60bn. This, and the RBNZ not ruling out OCR cuts saw NZ yields hit record lows recently. NZ and global yields have risen of late as the NZ and global economies have started to reopen after lockdown.

Over the next few years we expect NZ and global yields to remain at historically low levels for most tenors. Over the next year or two policy interest rates for NZ and our major trading partners are expected to remain around operational lows, with the OCR unlikely to move above 0.25% until early 2024**. NZ wholesale interest rates are forecast to gradually drift higher as the NZ economy moves past the crisis stage but will remain very low over the forecast period. Uncertainty is high.** Yields both here and abroad could move lower if COVID-19 proves to be a larger or more persistent growth headwind. If so, we expect an upsizing of RBNZ QE ahead of OCR cuts. Our view is that RBNZ QE should cap upward pressure on NZ longer-term yields arising from higher NZ Government bond issuance.

Foreign Exchange

Currency markets had a wild ride over the early part of the COVID-19 crisis. Heighted risk aversion and the adoption of QE by the RBNZ pushed the NZD down to around 55 US cents in late March, before actions by NZ and global policymakers and improved optimism restored some calm.

The NZD has recovered some lost ground and at around 62 US cents is comfortably within our short-term fair-value' range of 0.6050-0.6450 USD**. The near-term NZD outlook is contingent on how well COVID-19 is handled in NZ and abroad.** NZ looks to have addressed the health challenges better than most, and with the Chinese economy and broader commodity prices strengthening there is some NZD support. The currency outlook is inherently uncertain, and further bouts of financial market and currency volatility are possible. Increasing risk aversion, triggered by a heightening of tensions between China and the US, could push the Chinese yuan lower, taking the NZD with it.

The increasing alignment of policy settings between NZ and Australia – monetary policy interest rates at 0.25%, moving down the QE path (albeit to differing degrees), and expansive fiscal support packages – has been a factor in pushing the NZD/AUD from closer to parity in mid-March to around 93 Australian cents at present. Providing this alignment holds, moves in this cross should be modest

On a medium-term basis, we continue to forecast modest NZD appreciation against most majors. The NZ economic recovery, our high Terms of Trade, more food-centric export mix, and eventual recovery in global growth will be key influences. The NZD is expected to rise towards 65 US cents and 95 Australian cents. Modest NZD gains are expected to be less pronounced against the JPY, EUR, and GBP.

Our Corporate Hedging Toolbox sets out some thoughts on the currency outlook and offers some strategies for firms and other market participants.

For more discussion on the current state of the **housing market** – please read our latest Housing Confidence report.
For more discussion on **regional economic developments** – please read our latest Regional Economic Scoreboard.
For more discussion on **rural developments** – please read Farmshed Economics and the Weekly Commodities Report.
For up-to-date discussion on **global financial market themes** – please read our Markets Monthly Report.
The Economic backdrop can change quickly – for the most up to date views on **Interest Rates and FX** – please read our Economic Weekly and for our latest views on the changing economic landscape – subscribe to our Economic Notes and Rural Economic Notes. **Subscribe** to all of these reports here.
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COVID-19 NZ policy response timeline

16 March: OCR cut by 75bps to 0.25% for at least the next 12 months.

17 March: NZ Government announces $12.1b economic response package (4% GDP). This includes $500m for health, $5.1b in wage subsidies over 12 weeks with a $150,000 cap, $126m for COVID-19 leave and self-isolation support, $2.8b income support (including $25 per week benefit increase and a doubling of the 2020 Winter Energy Payment, $100m for redeployment, $2.8b in business tax changes to free up cashflow including higher provisional tax threshold, reinstatement of building depreciation and writing off interest on late tax payments, $600m initial aviation support.

18 March: RBNZ has pledged to delay/slowdown its regulatory initiatives. This includes deferring the start date of increased capital requirements of NZ banks by 12 months.

19 March: NZ Govt closes border, effectively stopping all people travelling to NZ except for returning New Zealanders.

20 March: RBNZ introduces measures to bolster liquidity and improve monetary policy implementation. These include the Term Auction Facility (TAF, giving banks the ability to access term funding, with collateralised loans out to 12 months), the provision of liquidity in FX swap markets, the re-establishment of USD swap lines, supporting liquidity in the NZ Govt bond market, and the removal of credit tiers for Exchange Settlement Account System (ESAS) account holders.

20 March: NZ Govt supports Air NZ with 24- month loan facilities of up to $900m.

21 March: NZ Govt introduces COVID alert system initially setting it at level 2.

23 March: RBNZ implements $30bn in Large Scale Asset Programme of NZ Government bonds.

23 March: NZ Govt lifts alert to level 3 and says will be at level 4 in 48 hours (lockdown except for essential services).

23 March: NZ Govt removes cap on wage subsidy scheme, injecting a further $4b over next 11 weeks and taking the total cost from $5.1b to $9.3b. The $9.3b is an estimate, not a cap or a floor, with support there to meet the demand. NZ Govt freezes all rent increases for six months and looks to extend no-cause terminations.

24 March: NZ Govt gives detail on $600m aviation package with $270m to airports and airlines and up to $330m on ensuring capacity for high priority goods.

24 March: NZ Govt, RBNZ and retail banks announce that banks will provide a six-month principal and interest payment mortgage holiday for mortgage holders and SME businesses. RBNZ lowers banks' core funding ratio to 50% from 75%.

24 March: NZ Govt also announces a $6.25b SME business finance scheme allowing for loans up to three years, with Government taking 80% of the credit risk and the banks carrying the remainder.

25 March: NZ Govt tweaks wage subsidy scheme with a cost estimate now between $8b and $12b, up from the original $5.1b. To date, $2.7b of wage subsidies has already been paid out for over 428,000 workers. NZ Govt announces a $327m package for social services.

27 March: NZ Govt modifies wage subsidy scheme to support workers that can't work during Level 4.

28 March: NZ Govt temporarily removes tariffs on all medical and hygiene imports.

30 March: RBNZ introduces weekly Open Market Operation (OMO), providing additional liquidity to the corporate sector by allowing banks to exchange their purchases of NZ corporate debt for cash.

31 March: NZ extends State of Emergency for a further 7 days.

1 April: NZ Debt Management Office increases NZ 2019/20 NZ Govt bond programme to $25bn, $12bn higher than forecast 2 weeks earlier. $8bn of issuance has taken place to date.

2 April: RBNZ introduce a Term Lending Facility, to support bank lending for low interest rates for up to 3 years under the Business Finance Guarantee Scheme. Scheme to be launched from May. NZ banks to suspend dividends on ordinary shares.

3 April: NZDMO appoints lead managers to form a panel for a syndicated tap of the 2031 NZ Government bond. Expected to be launched next week, subject to market conditions.

3 April: RBNZ Governor Orr highlighted potential future options, including the RBNZ expanding its $30bn asset purchase programme (i.e. QE) and further OCR reductions. RBNZ Assistant Governor Hawkesby was quoted as saying the RBNZ could extend its asset purchases to local council and Local Government Funding Agency (LGFA) debt.

3 April: The net number of new people to go on Jobseeker Support in a week peaked at 9,470 in the week to April 3.

6 April: In an announcement to the NZX, the RBNZ has offered to purchase Local Government Funding Agency bonds in small scale for liquidity management purposes and to support market functioning.

7 April: The NZ Debt Management Office (DMO) announced that an additional $3.5bn of May 2031 NZ Government bonds were issued via syndication, with a spread of 32bps over the 2019 NZ government bond. Settlement will occur on April 15, with no further syndications until June. The RBNZ also announced that it had added $3bn of Local Government Funding Agency (LGFA) debt (30% of total on issue) to its Large Scale Asset Purchase programme (LSAP). This took the total size of the LSAP to $33bn over 12 months (11% of NZ GDP).

8 April: RBNZ Assistant Governor Hawkesby said that the RBNZ is open to increasing the size and scope of its asset purchase program, but there is a limit to how much the RBNZ can buy, with the appropriate percentage of holdings of individual issues in the order of 40-50%.

8 April: NZ Govt unveil $88m learning from home package.

9 April: NZ to quarantine all overseas arrivals from midnight tonight. The number of job seeker recipients has increased sharply by over 22,000 in the period between 20 March and 8 April to just under 170,000. A large number of businesses are now receiving the wage subsidy, with 1.42 million individuals now covered as at 9 April, with around $8.9bn paid out so far.

14 April: NZ extends State of Emergency for a further 7 days. NZ Government announce new tertiary student package ($35m in operational funding, $98m in capital expenditure). NZ Treasury releases new economic scenarios to try and gauge the economic impact of COVID-19.

15 April: NZ Government announced a suite of new measures to provide relief for small and medium-sized businesses. Specific features of the package include a $3.1 billion tax loss carry-back scheme, $60 million estimated annual savings to business each year from changes to the tax loss continuity rules, $25 million in the next 12 months for further business consultancy support, greater flexibility for affected businesses to meet their tax obligations, and measures to support commercial tenants and landlords. It adds to the $20bn in support measures already announced.

16 April: NZ PM Ardern provides some guidelines on Alert Level 3. If possible, work from home. If not, firms must comply with health and safety requirements around physical distancing and contactless engagement. Bars, restaurants, and most retail look set to remain closed, but delivery/takeout and click and collect type purchasing would reopen. Children up to year 10 can go to school. Government to announce on Monday April 20 when Alert Level 4 will be lifted.

16 April: At the Pandemic Select Committee, RBNZ Governor Orr reiterated that a negative OCR is not off the table beyond early 2021. Due to RBNZ Quantitative Easing (QE) the effective (or shadow) OCR is already 'deeply negative' with the RBNZ's $30bn in QE equivalent to 150bps of easing. Orr also noted the RBNZ could increase QE as NZ government borrowing rises [ASB expects that the RBNZ will increase its QE programme to $40-50bn in May]. Assistant Governor Hawkesby noted that in Alert Level 4 the NZ economy was running 35% below normal (20-25% below normal in Alert Level 3).

17 April: The RBNZ signals. It plans on purchasing $NZ130m of local government bonds and $NZ1.35bn NZ government bonds next week, a step down from last week.

17 April: The number of Jobseeker Support beneficiaries reached 175,000, around 5.8% of the working-age population, up 1 percentage point since 20 March. Total wage subsidy payments totalled $10.1bn, benefitting 1.6 million people.

20 April: At 4pm, NZ PM Ardern announced that NZ will move from Alert Level 4 to Alert Level 3 at 11.59pm on Monday, April 27. Businesses are allowed to do the minimum necessary to prepare for Alert Level 3. NZ to be at Alert Level 3 for 2 weeks, before Cabinet makes further decisions on 11 May. The NZD/USD spiked 30-40 points on the announcement, with no reaction in interest rate markets.

21 April: The RBNZ proposed to remove the mortgage loan-to-value ratio (LVR) restrictions on housing lending. Following a 7-day consultation period, a decision will be made "promptly after that. RBNZ Governor Orr stated he is "open-minded on direct monetisation of government debt", with Orr reiterating that RBNZ QE is more preferable to a

negative OCR. Non-resident holdings fell slightly under 50% of the $76bn total holdings in NZ Government bonds in March, the lowest proportion since 2003.

23 April: NZ Government announce $50m media support package.

24 April: the number of Jobseeker Support beneficiaries reached 180,000, around 6.0% of the estimated working-age population. Total wage subsidy payments reached $10.5bn, benefitting 1.7 million people.

24: April: RBNZ confirmed it will seek to buy a further $1.35bn in government bonds next week. Cumulative NZGB purchases now stand at $6.7bn, around 10% of total (nominal) NZGBs on issue.

25 April: NZ Government extend the Leave Support to workers who cannot work at home but need to self-isolate ($585.80 for full-time workers).

30 April: RBNZ removes the mortgage loan-to-value ratio (LVR) restrictions on housing lending for 12 months, effective May 1. RBNZ to review the appropriate settings for LVRs in a year's time.

1 May: NZ Government announce lending scheme to support small business. The Government will provide loans of up to $100,000 for firms employing fewer than 50 staff. Firms will be able to borrow $10,000 each plus $1800 for every employee they have. Loans will be interest-free if paid off in the first year. Five-year loans attract an interest rate of 3% with no repayments required for two years.

1 May: The number of Jobseeker Support beneficiaries reached 184,000, around 6% of the estimated working-age population. Total wage subsidy payments reached $10.6bn, benefitting 1.7 million people.

1 May: RBNZ weekly NZGB purchases total $1345m and $130m of LGFA bonds, taking cumulative RBNZ NZGB bond purchases to $7.83bn, with $399m of LGFA purchases (Total $8.227bn). RBNZ purchases of NZGB's have been broadly spread across the 2021-2037 maturities, with a greater concentration in the 2025-2029 tenors (48% of total purchases). The RBNZ signal a further $1350m in NZGB purchases next week.

3 May: NZ Government announce law change to fast track eligible development and infrastructure projects under the Resource Management Act. New legislation to be passed in June.

4 May: NZ Government and authorities to decide rules around the Level 2 Alert today, with details to be announced later this week. NZ could potentially move to Alert Level two by Wednesday, May 13. There are warnings that the shift to Alert Level 2 could be delayed unless people stick to Alert Level 3 rules, following reports of widespread lockdown breaches. NZ wage subsidy to be extended to some sectors after the 12-week period expires. NZ Government temporarily amends immigration law to support more "efficient management" of visa changes.

4 May: RBNZ provides operational details of the Term Lending Facility, which provides funding to banks at very low interest rates. The facility will offer to lend funds to banks at the Official Cash Rate of 0.25 percent, fixed for three years. It will be available to use for six months, starting from 26 May and ending on 29 October.

8 May: The RBNZ did $1.35bn in NZGB purchases and $100bn in LGFA purchases, taking cumulative NZGB purchases to $9.178bn and $499m in LGFA securities. Recent purchases were more concentrated in longer-dates tenors (2029-). The RBNZ signal a further $1350m in NZGB purchases next week.

11 May: PM Ardern announces that NZ will be moving to Alert level 2 in stages, starting from 11.59pm on Wednesday May 13. Retail premises and personal services will be able to open on May 14, schools and tertiary education on May 18, and pubs/bars on May 21. A "keep it safe" mantra will apply, with social gatherings limited to 10 persons, and with a maximum of 100 persons at public gatherings.

12 May: Applications open for the Small Business Cash Flow Loan Scheme (SBCS), through till 12th June. Eligible businesses and organisations are entitled to a one-off loan. The maximum amount loaned is $10,000 plus $1,800 per full-time-equivalent employee.

13 May: RBNZ agree to expand the Large-Scale Asset Purchase programme to purchase up to a maximum of $60b over the next 12 months (from $33bn) and reaffirmed its forward guidance that the OCR will remain at 0.25% until early 2021. Eligible assets to purchase include NZ Government Bonds, NZ Government Inflation-Indexed Bonds, and Local Government Funding Agency bonds. The Monetary Policy Committee signalled its preparedness to use additional monetary policy tools if and when needed. Tools available included further reductions in the OCR; a term lending facility; and adding other asset classes, such as foreign assets, to the LSAP programme. NZ yields eased with market pricing a negative OCR over 2021 (-0.1% by mid-22).

13 May: RBNZ also release a number of documents, including the April 30 request that the Crown indemnify the Bank from losses arising out of or in connection with asset purchases of up to:

- 50% of the face value of New Zealand government nominal bonds on issue;
- 30% of the face value of New Zealand government inflation-indexed bonds (IIBs) on issue;
- 30% of the face value of Local Government Funding Agency bonds on issue.

The proposed caps reflect the RBNZ's view on the best balance of purchases for delivering economic stimulus through LSAPs. The RBNZ have pledged to purchase bonds in the secondary market rather than directly off the Government.

14 May: The NZ Budget delivers a $62.1bn COVID-19 spending package, including the $50bn COVID-19 Response and Recovery Fund (CRRF) to support households and businesses and start the economic rebuilding. It included an extension of the wage subside scheme. As a result of large fiscal deficits and higher capital spending net core Crown debt is forecast to climb to 53.6% of GDP by 2022/23. Gross NZ Government bond issuance for 20/21 was set at $60bn, higher than expected, with NZ Government bonds on issue set to approach $213bn by 2023/24. NZ yields rose.

14 May: The Budget extends the wage subsidy scheme by a further 8 weeks (till August 5) at an estimated cost of $3.2bn. From June 10, businesses suffering or set to suffer, revenue loss of at least 50 per cent for the 30-day period prior to the application date versus the nearest comparable period last year are eligible.

15 May: The number of people on Jobseeker Support has increased by 30%, or 43,426 people, in the two months to May 15. A net 1,606 people went on Jobseeker Support in the week to May 15, bringing the total up to 188,432 (6.3% working-age population). Northland (10.2%) and Tasman (6.3%) saw the largest percentage increases. A total of $10.85bn has been paid out in the wage subsidy.

15 May: The RBNZ signal a further $1350m in NZGB purchases next week. Total purchases have risen to $10.5bn in NZ Government bonds. Combined with the $569m in LGFA purchases this takes total purchases to $11.1bn.

19 May: RBNZ Assistant Governor Hawkesby reiterated that all of the RBNZ's options for alternative monetary policy remained in play, and they are open to using them. The RBNZ wants retail interest rates to fall "substantially more" than they have to date.

20 May: On the issue of a negative OCR, RBNZ Governor Orr noted "We don't want to go negative at this point; we're prepared to if we have to but not until a lot later."

22 May: RBNZ Governor Orr reiterates increasing QE would be the first option should the RBNZ decide more monetary stimulus is needed. With a much as $60bn in RBNZ QE by next May, the RBNZ "have a long run-up at the moment", with the RBNZ confident where it is with QE.

22 May: The RBNZ signal they will be purchasing $1.175bn in NZ bonds next week (and $50 in LGFA bonds), down from the $1.35bn of the last 5 weeks. Total purchases have risen to $11.9bn in NZ Government bonds (46% in the 2025-2029 tenor and around 19% for the 2021 and 2023 bonds). Combined with the $629m in LGFA purchases this takes total purchases to $12.5bn.

25 May: Government announces that workers who lost their job between March 1 and October 30 because of the economic impact of COVID-19 will now be eligible for tax-free weekly payments of $490 a week for a period of 12 weeks. Part-time workers in the same position will receive $250 a week. Some conditions apply. The scheme is forecast to cost about $570m, with around 230,000 people eligible according to Treasury estimates.

25 May: At their 4pm media conference, PM Ardern announces some incremental changes to Alert Level 2 guidelines. Effective from noon May 29, the person limits on social gatherings have been raised to 100 persons (from 10). Hospitality venues will still need to allow for physical distancing, The NZ Cabinet will check Level 2 settings on June 8 and will consider a move to Alert Level 1 no later than June 22.

Economic and Financial Forecasts

ASB economic forecasts		Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Mar-22	Mar-23
		<<actual	forecast >>						
NZ GDP real	**AA%**	**2.3**	**1.8**	**-2.8**	**-4.8**	**-6.7**	**-8.3**	**4.6**	**4.6**
private consumption	AA%	2.7	1.9	-3.4	-6.6	-9.5	-11.5	3.9	4.2
dwelling construction	AA%	4.3	3.2	-6.7	0.0	-17.0	-24.5	-16.5	8.7
other investment	AA%	2.1	1.5	-7.1	-11.3	-13.5	-15.6	8.8	6.1
exports	AA%	2.3	-0.5	-8.6	-14.2	-19.8	-22.9	7.3	13.8
imports	AA%	1.5	1.7	-4.2	-8.9	-13.3	-17.5	3.7	10.5
NZ GDP real	A%	1.8	0.9	-16.2	-5.8	-5.8	-5.5	2.7	4.8
NZ GDP real	Q%	0.5	-0.5	-16.9	13.2	0.5	-0.1		
NZ CPI	**A%**	**1.9**	**2.5**	**1.3**	**1.0**	**0.4**	**-0.1**	**1.2**	**1.6**
NZ house prices (QV index)	A%	4.3	6.8	5.0	0.5	-3.9	-6.6	1.0	2.9
NZ unemployment (sa%)	Qtr	4.0	4.2	8.9	9.3	8.5	8.2	7.1	6.1
NZ private sector wages (LCI)	A%	2.4	2.4	2.0	1.6	1.3	1.1	1.5	1.9

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 cash rate target	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	0.25	0.30	0.35	0.40	0.40	0.60
NZ 10-year gov't stock	1.65	1.03	0.65	0.75	0.85	0.95	1.05	1.15

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 >>					
USD per NZD	0.67	0.60	0.55	0.58	0.60	0.61	0.64	0.65
GBP per NZD	0.51	0.49	0.46	0.47	0.48	0.48	0.49	0.50
AUD per NZD	0.96	0.97	0.96	0.97	0.95	0.94	0.94	0.94
JPY per NZD	73.3	65.1	53.9	58.0	61.2	63.4	67.5	68.5
EUR per NZD	0.60	0.54	0.47	0.51	0.53	0.54	0.57	0.58
CNY per NZD	4.71	4.26	3.93	4.12	4.25	4.30	4.50	4.57
TWI - 17 country	73.8	68.8	63.7	66.6	68.1	68.8	71.5	72.4

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