

Business unusual, for enterprising angels

It's a digital world and India is next best trader.

Jarrold Kerr
Chief Economist

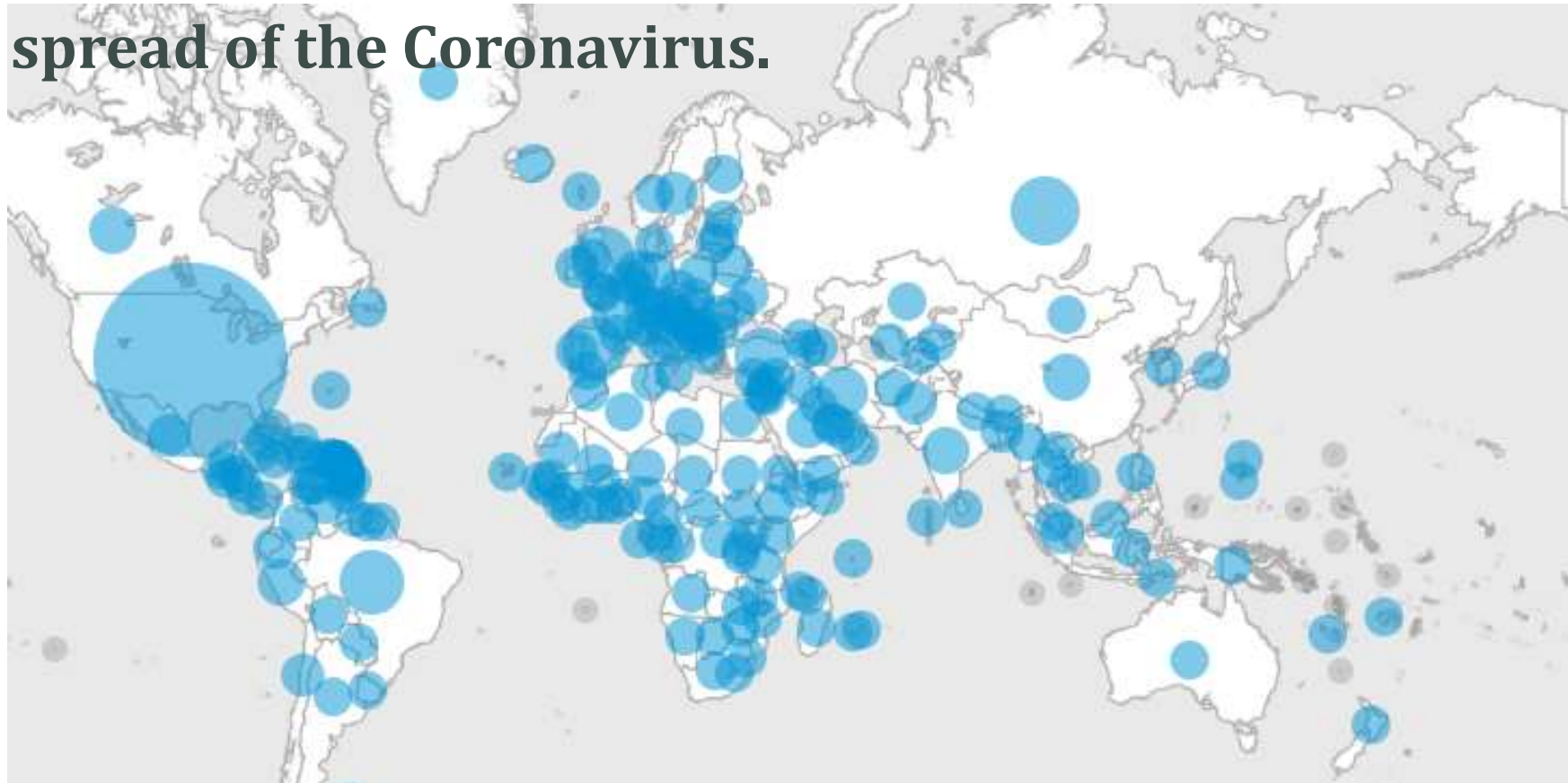
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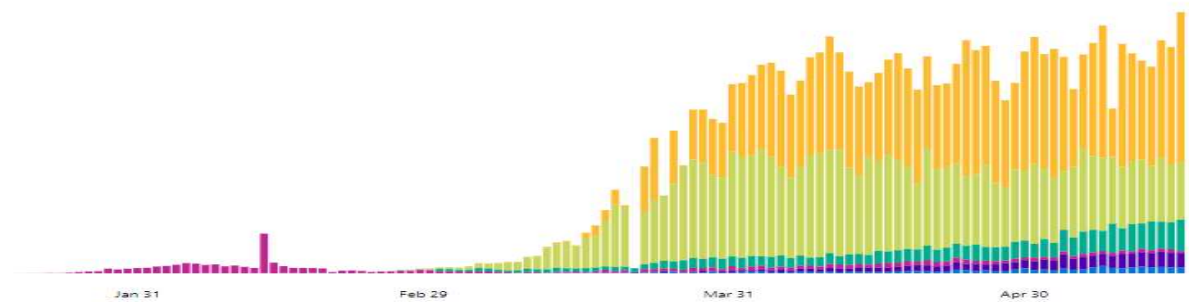
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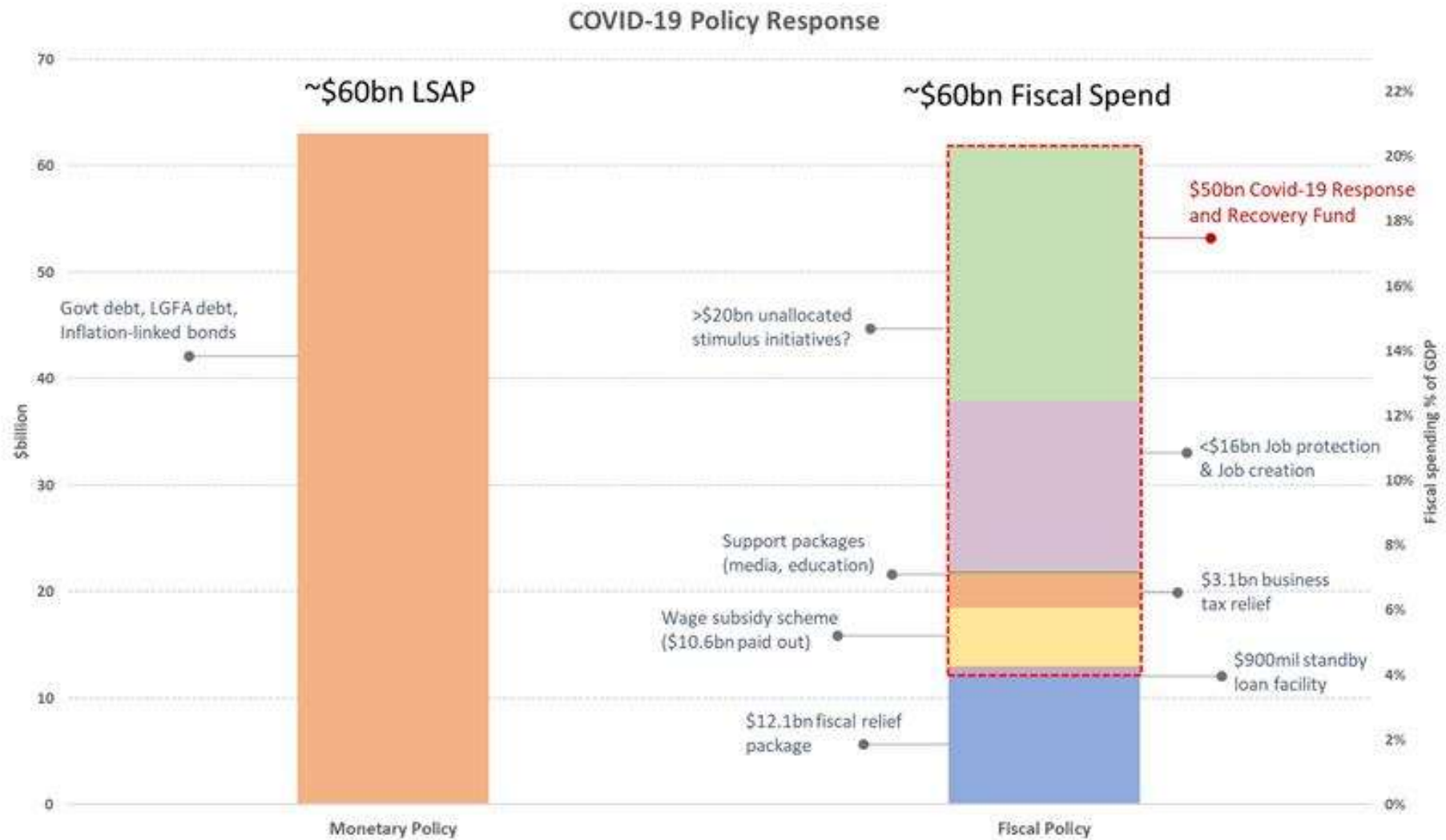
The spread of the Coronavirus.



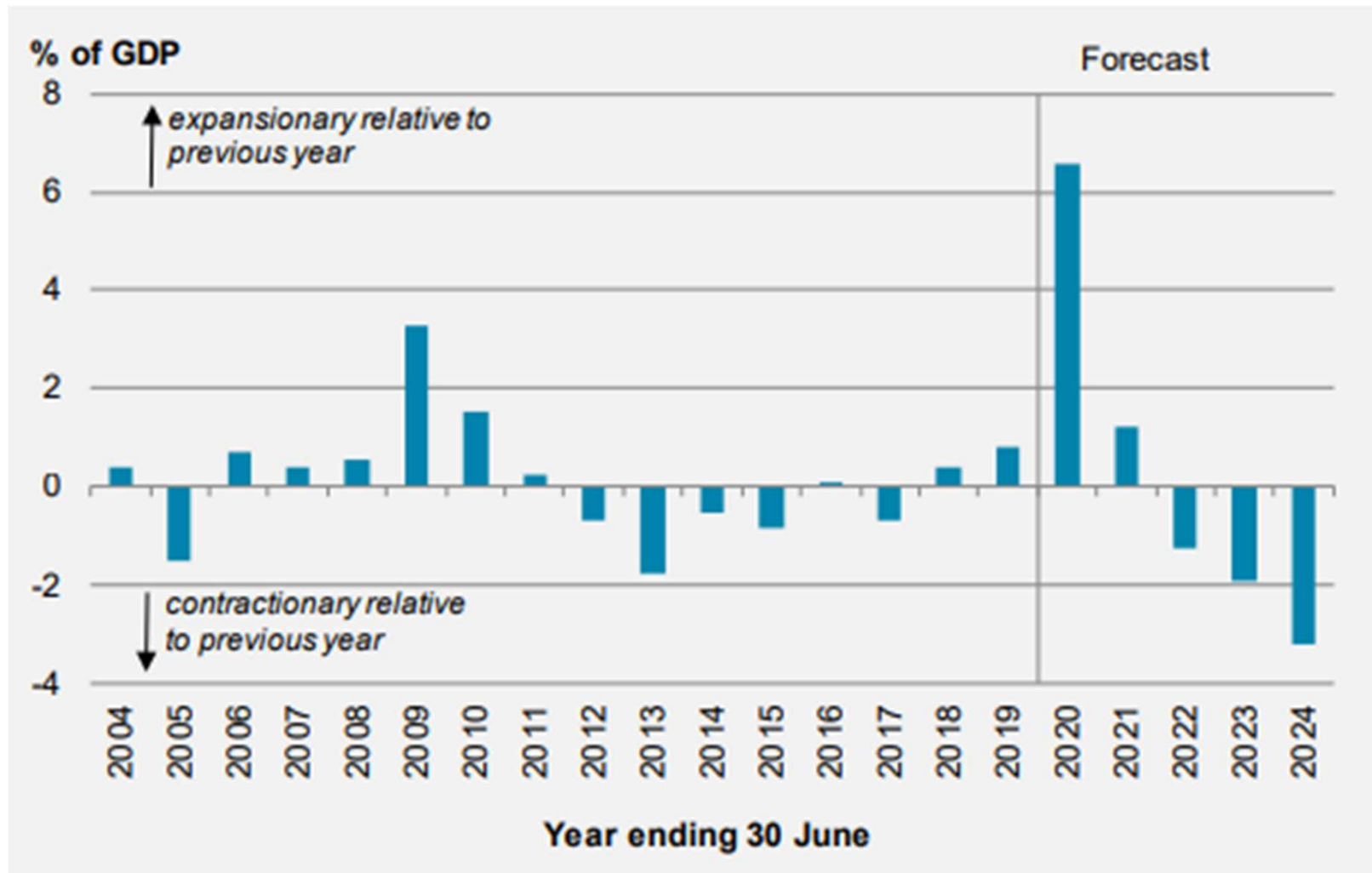
Americas	2,017,811 confirmed cases
Europe	1,890,467 confirmed cases
Eastern Mediterranean	346,276 confirmed cases
Western Pacific	168,724 confirmed cases
South-East Asia	143,750 confirmed cases
Africa	61,163 confirmed cases



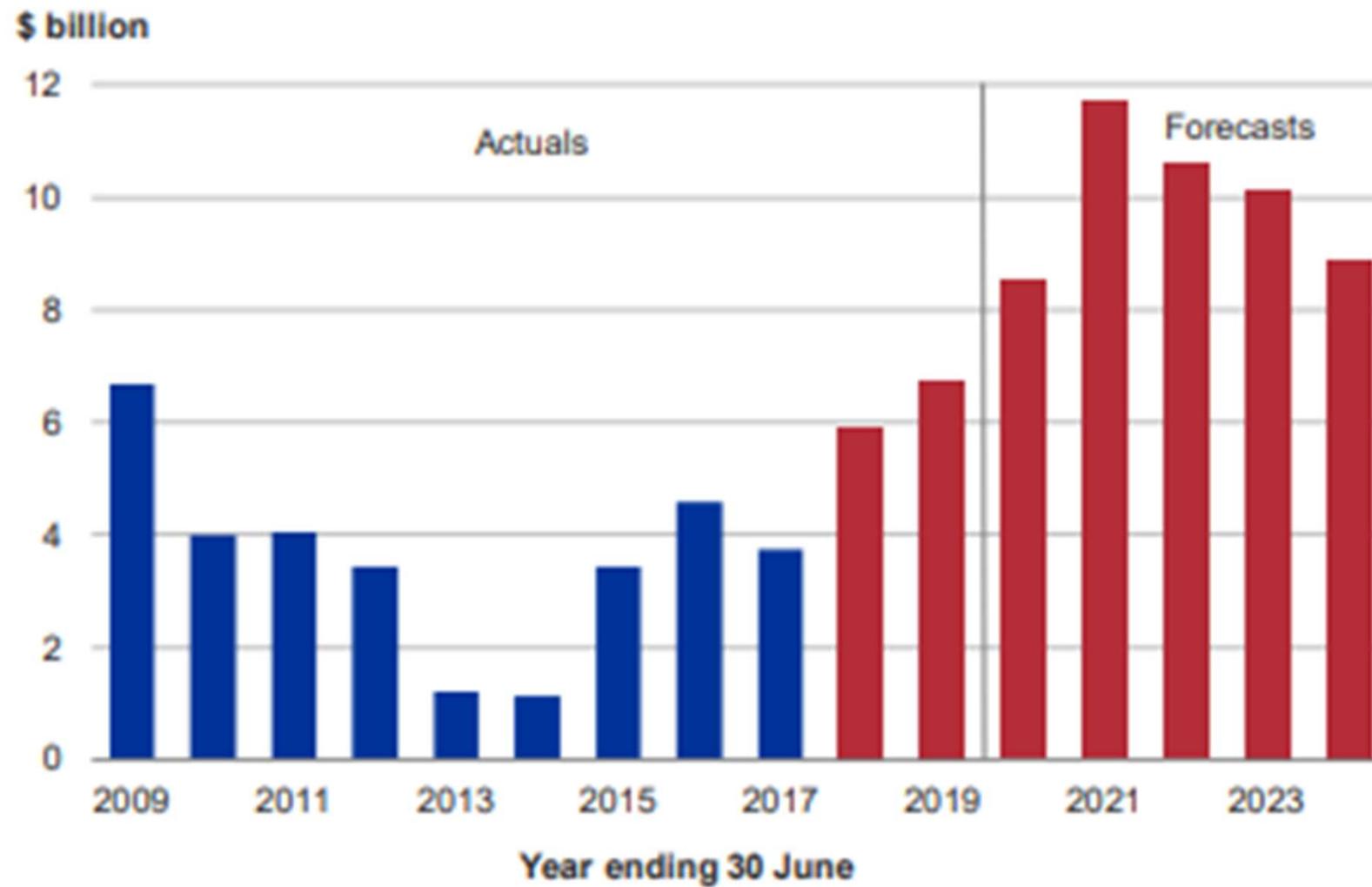
Perfect policy symmetry in response (thus far)



An optimistic recovery, after severe damage



After decades of underinvestment, we invest.

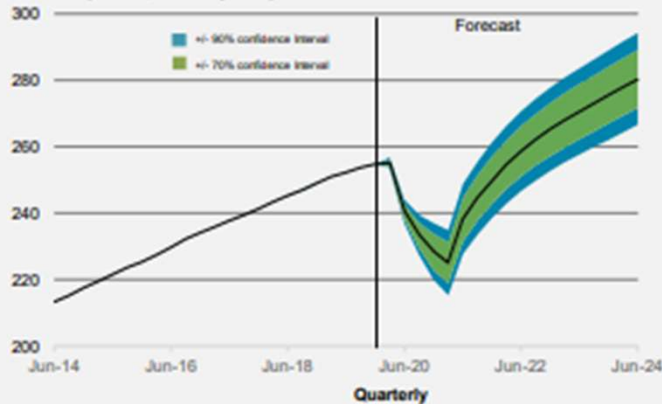


An optimistic recovery, after severe damage

Figure 1.18 – Uncertainty bands for selected forecast variables

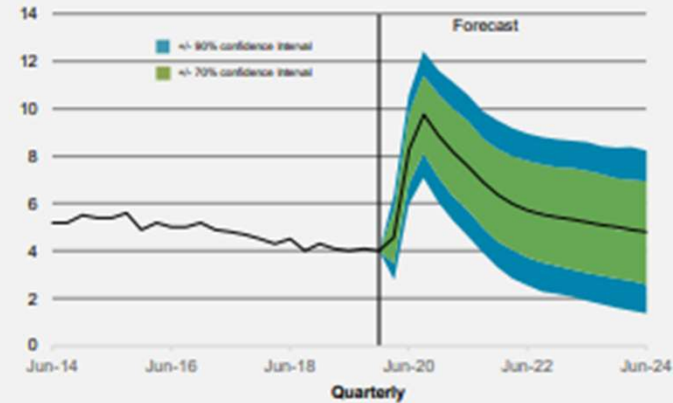
A. Real GDP

\$billions (annual, 2009/10 prices)



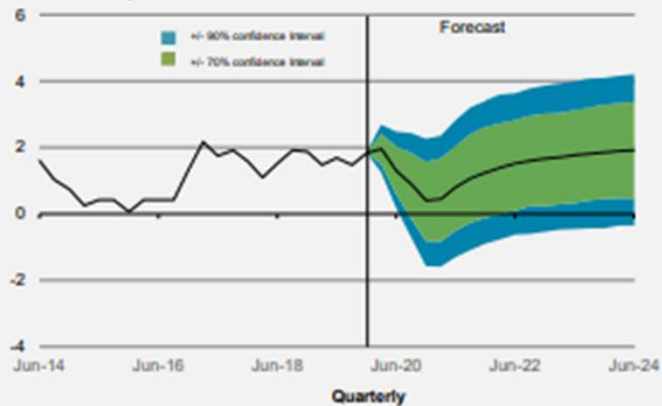
B. Unemployment rate

% of labour force



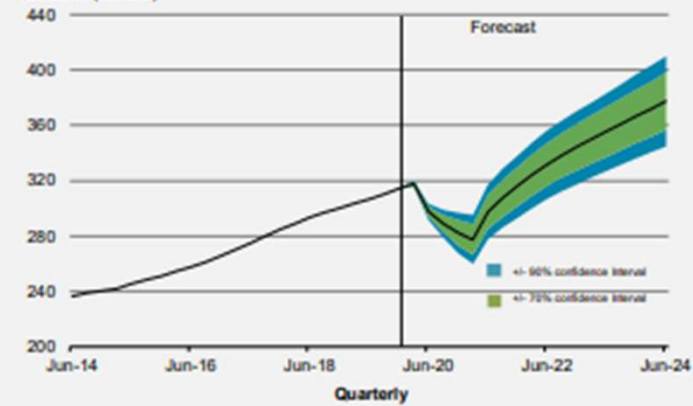
C. CPI inflation

Annual % change



D. Nominal GDP

\$billions (annual)

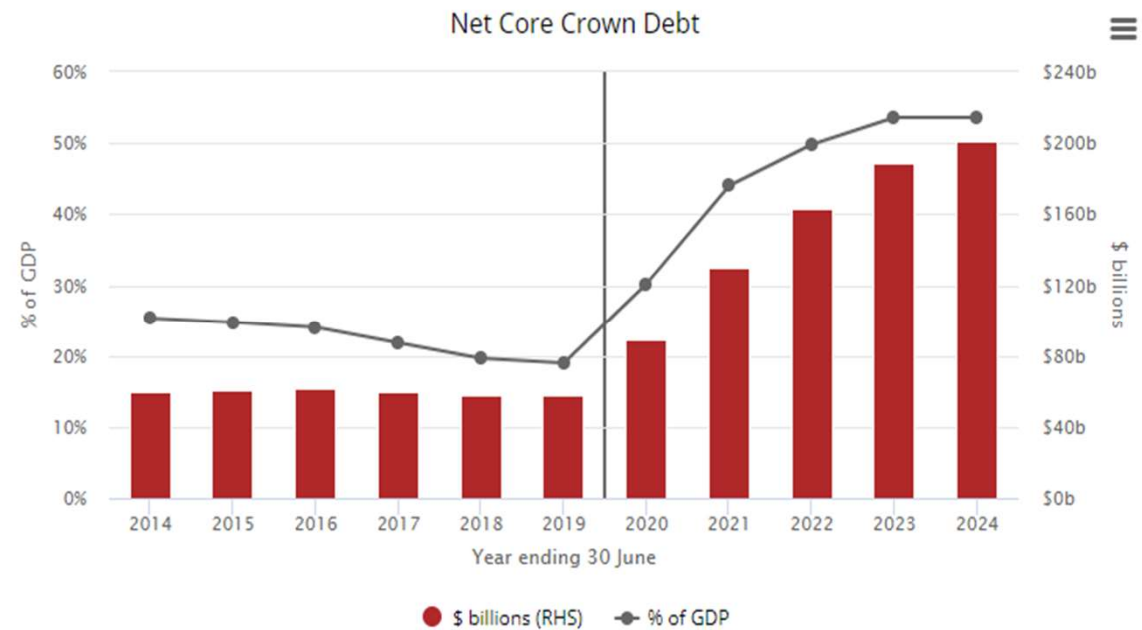
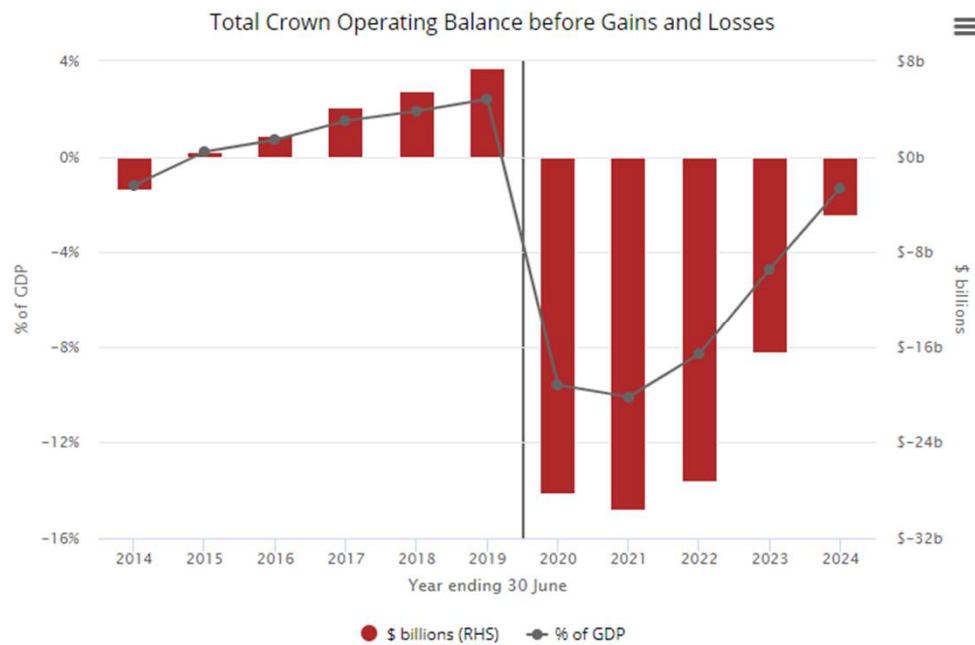


Sources: Stats NZ, the Treasury

Deficit deeds done dirt cheap



Deficits require funding, and funding we get cheap.



Kiwibank Data Insights

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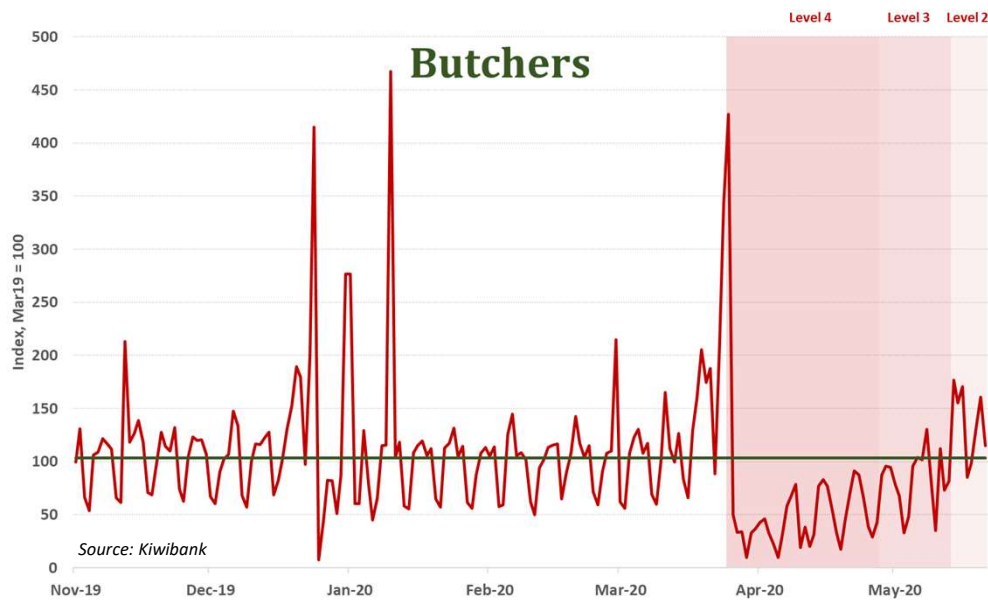
Aggregated transactional data from
Kiwibank debit and credit cards

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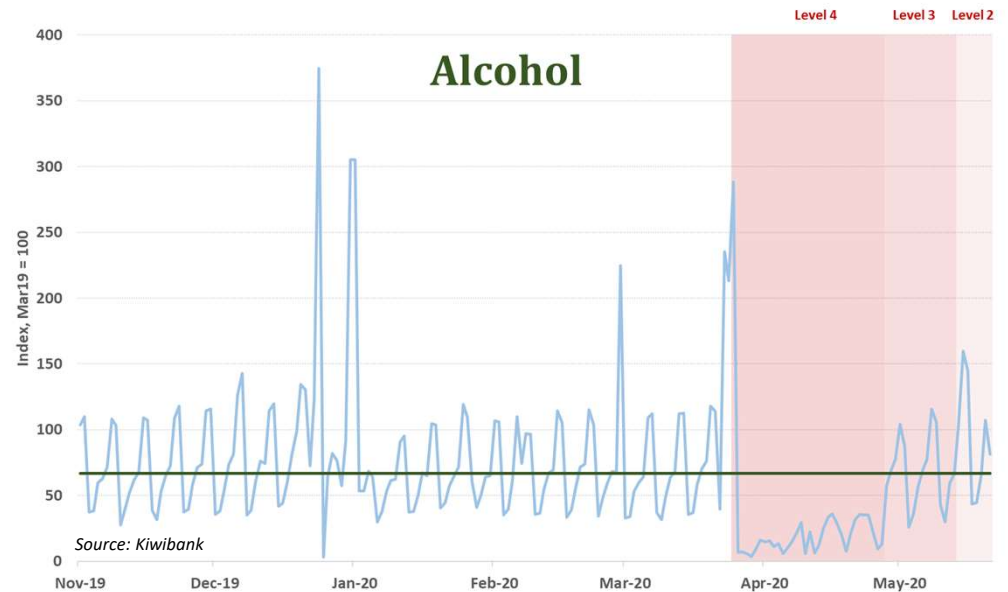


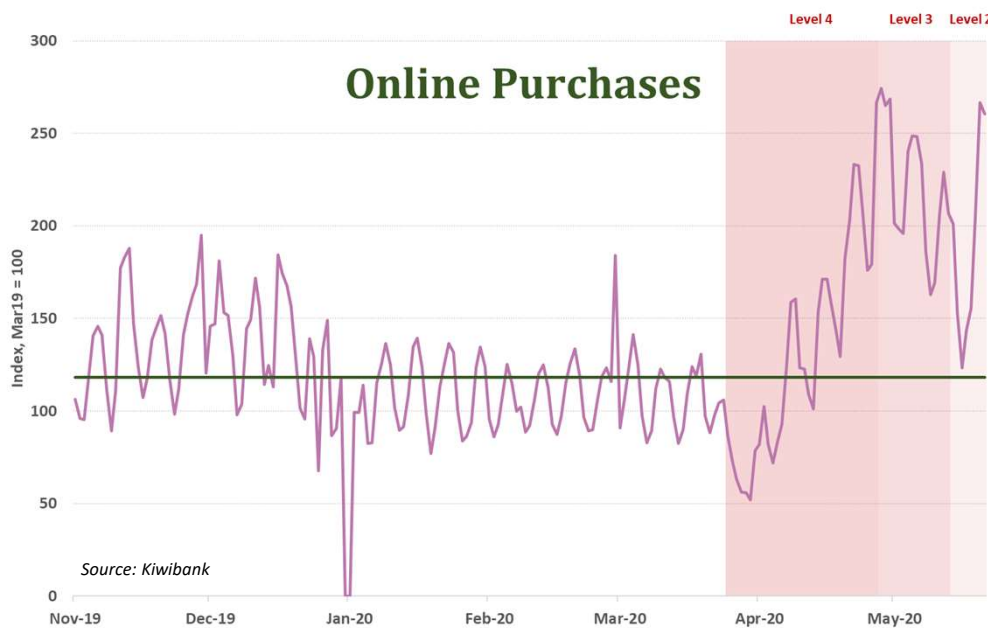
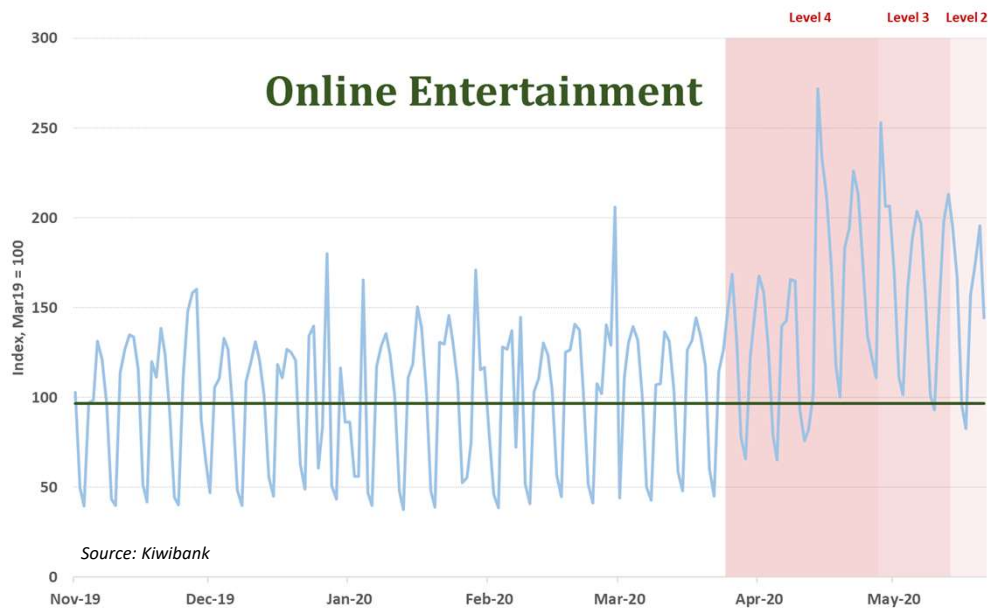
The pre-lockdown pre-load.



We filled our freezers with meat, our cabinets with alcohol, and our bathrooms with (too much) toilet paper and sanitiser.

Spending across all 3 has returned to 'normal' post-lockdown.





During lockdown we went digital.

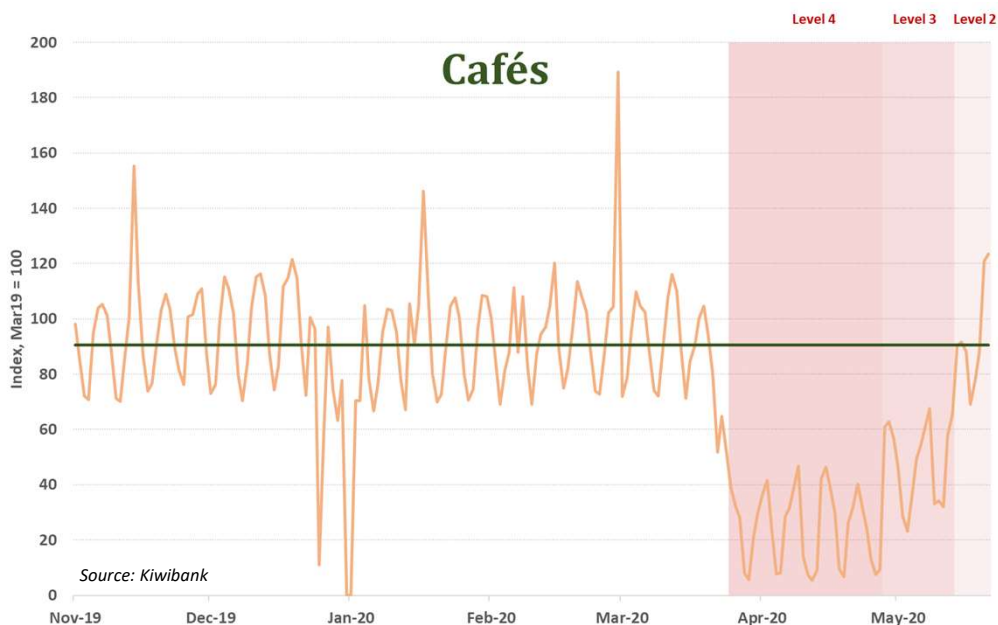
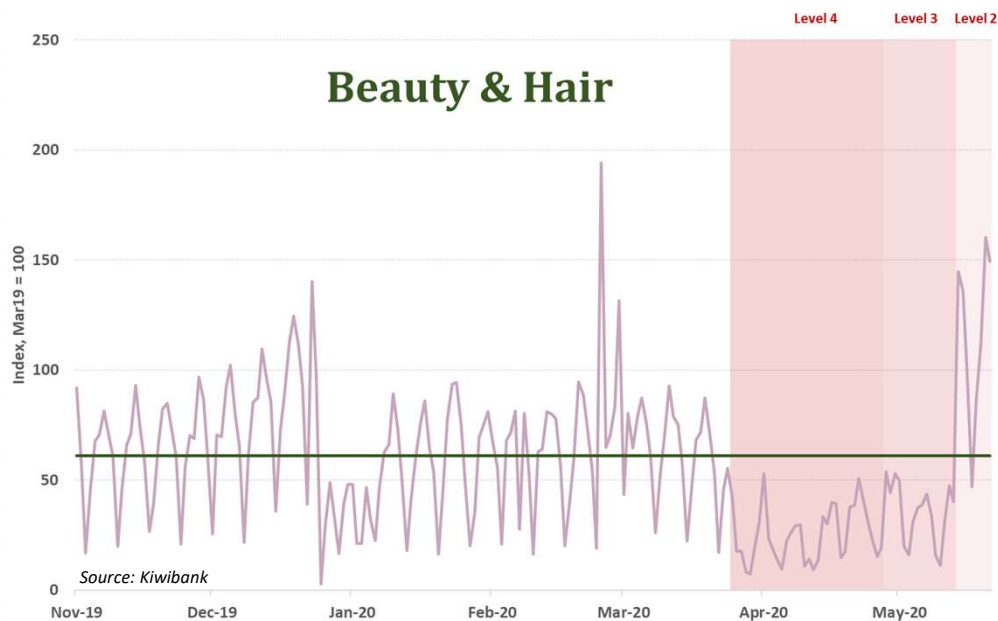


We went online for entertainment and retail therapy.

Spending across all 3 has remained elevated.

Are we seeing a structural shift? Yes, most definitely. We already were.

The Covid-lockdown has only accelerated the digital move.

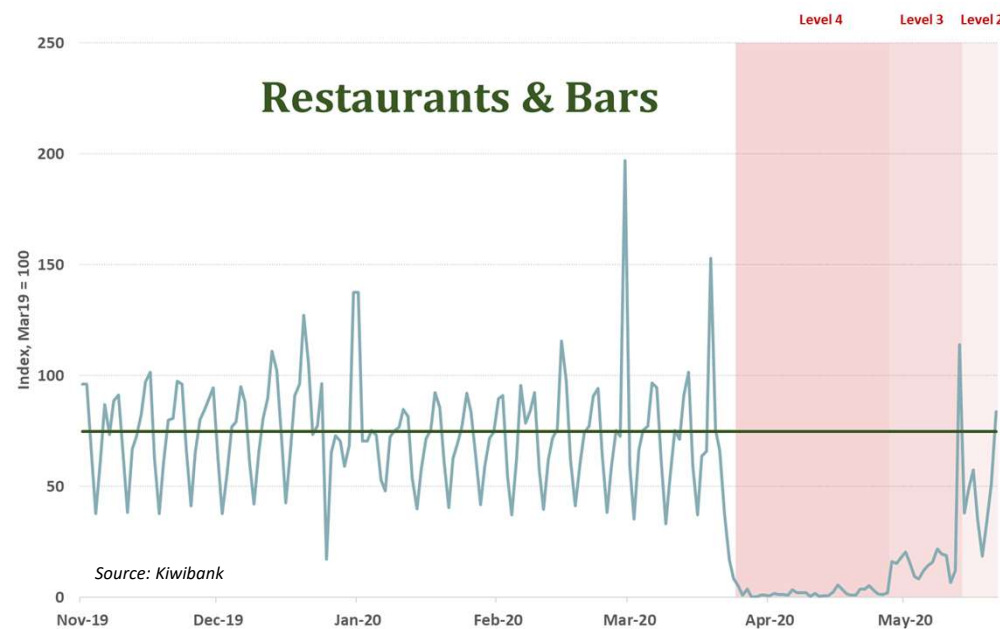


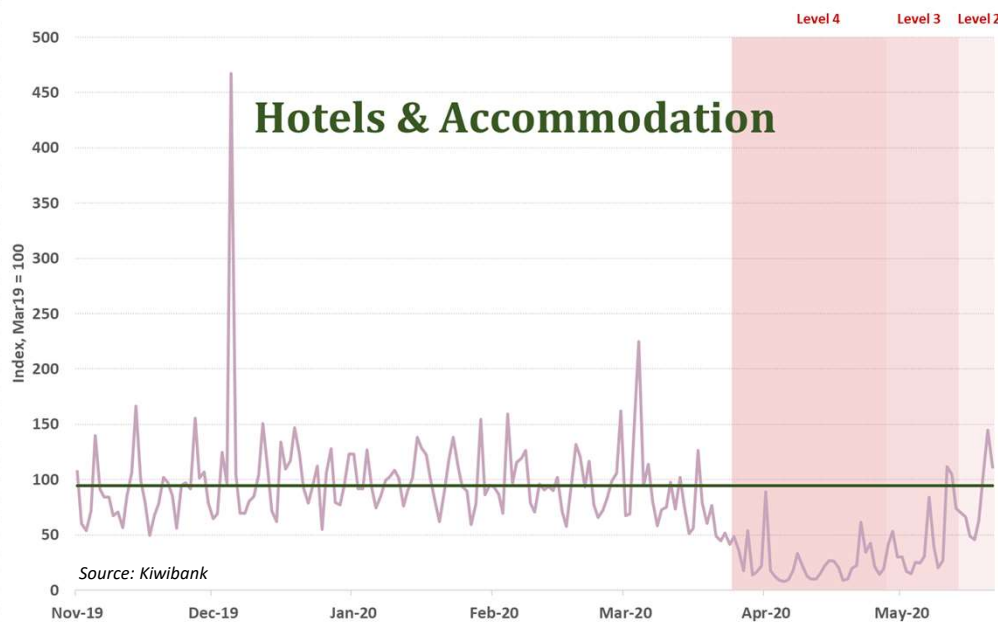
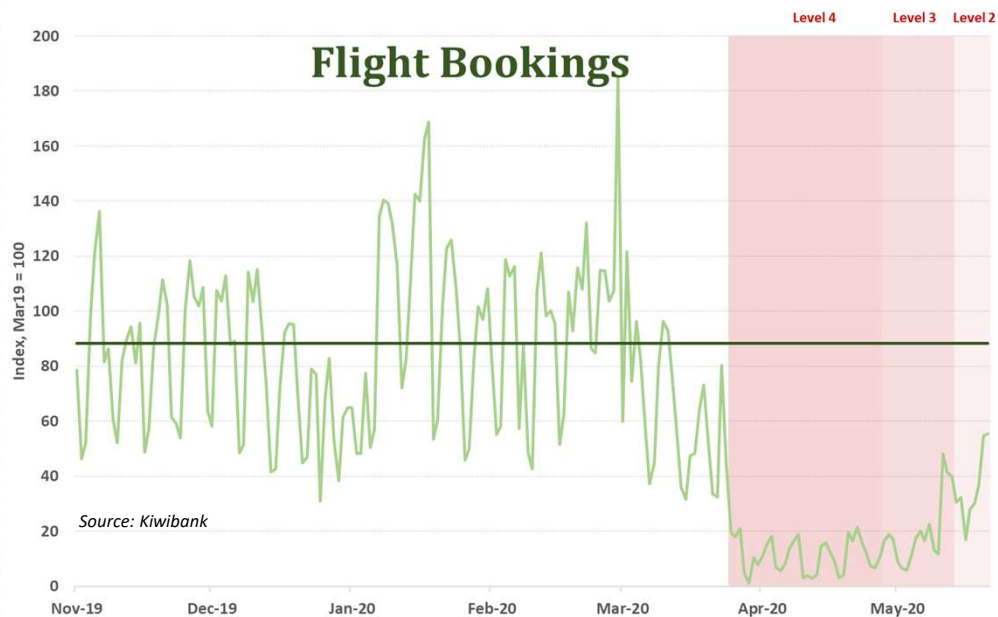
Unlockdown.



We got haircuts, finally! And we went to see our friends and family.

We expect to see a continued lift in spending as more of us are allowed to fit into every restaurant, bar and café.





Locked out.



Although we've seen a bounce in hotels and accommodation, and a small lift in flights, these areas are of most concern.

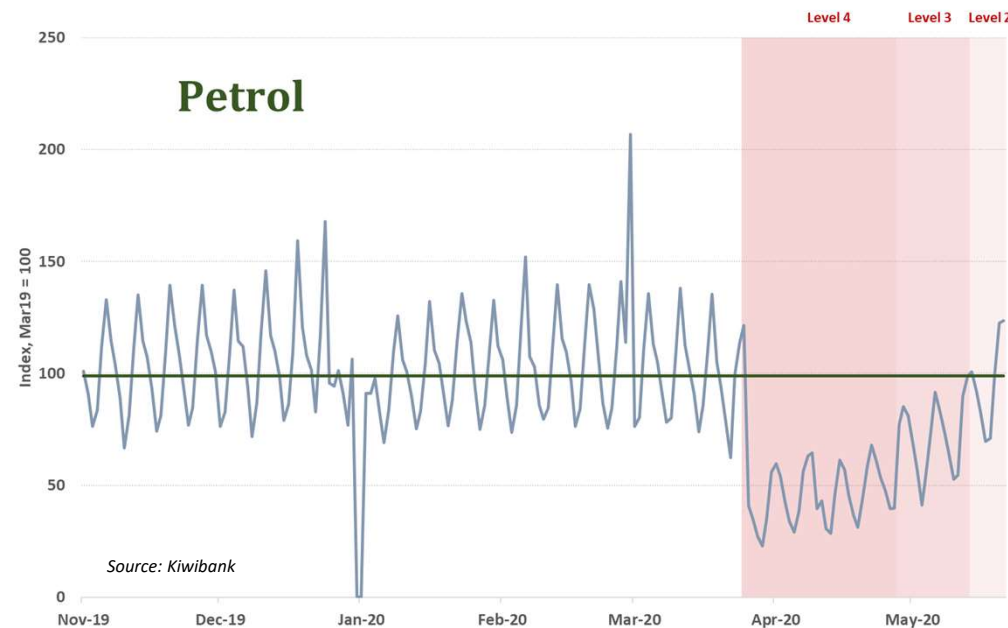
Even under level 1, foreign tourists will be conspicuously absent.

A climate change chance. Can we force change



Our spending on petrol (and diesel) has spiked right back to pre-lockdown levels. And there's a price difference. Petrol prices are lower today. So we must be buying a little more – perhaps to get away.

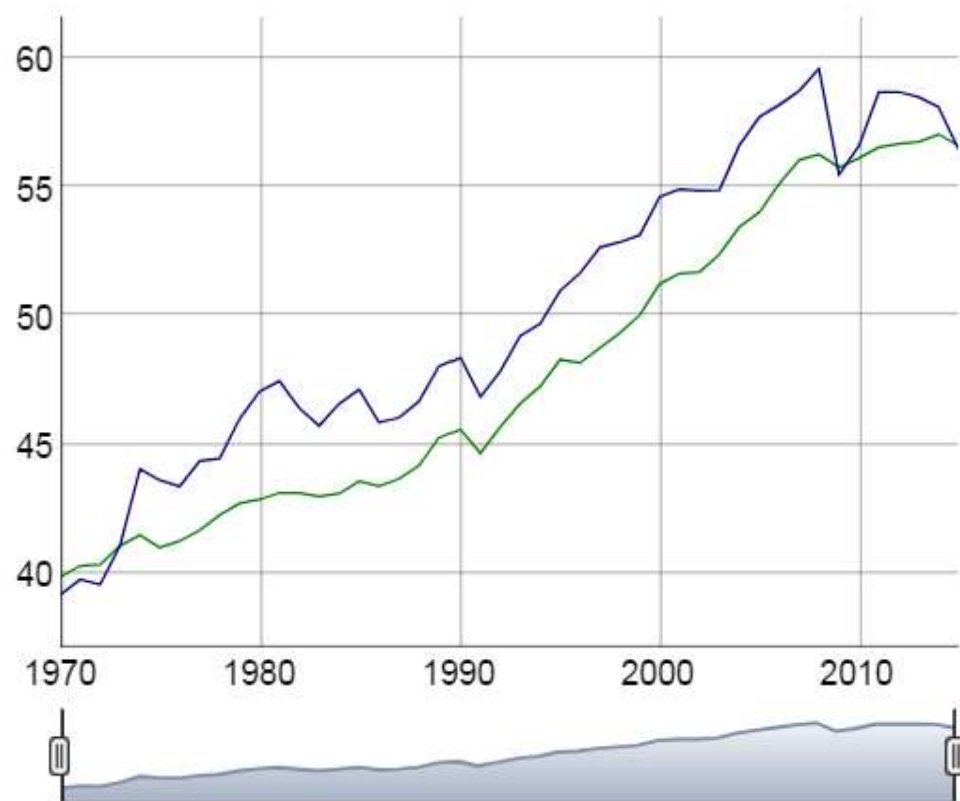
We would hope Kiwi's use their new found online powers to work from home more often. Fewer cars on the road, and in the CBD, is a goal worth fighting for.



Protectionism is proving populist but = deglobalisation

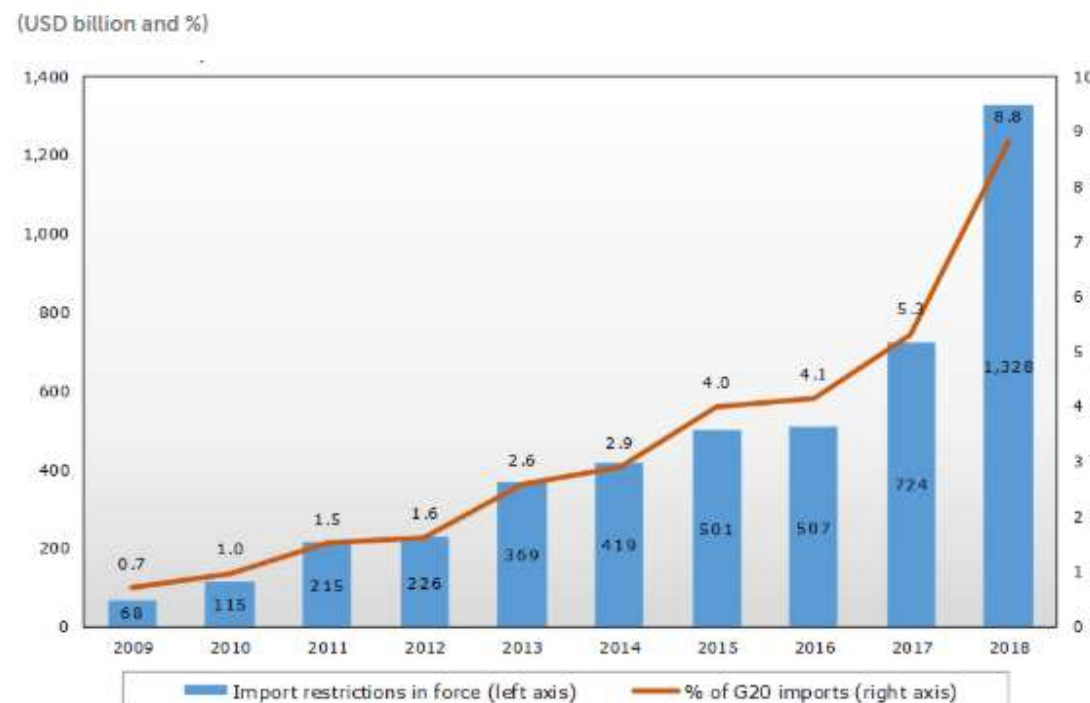
Protectionism is flaring up (again) post-crisis.

KOF Index of Globalisation
(1970-2015)



— Index - De facto — Trade - De facto

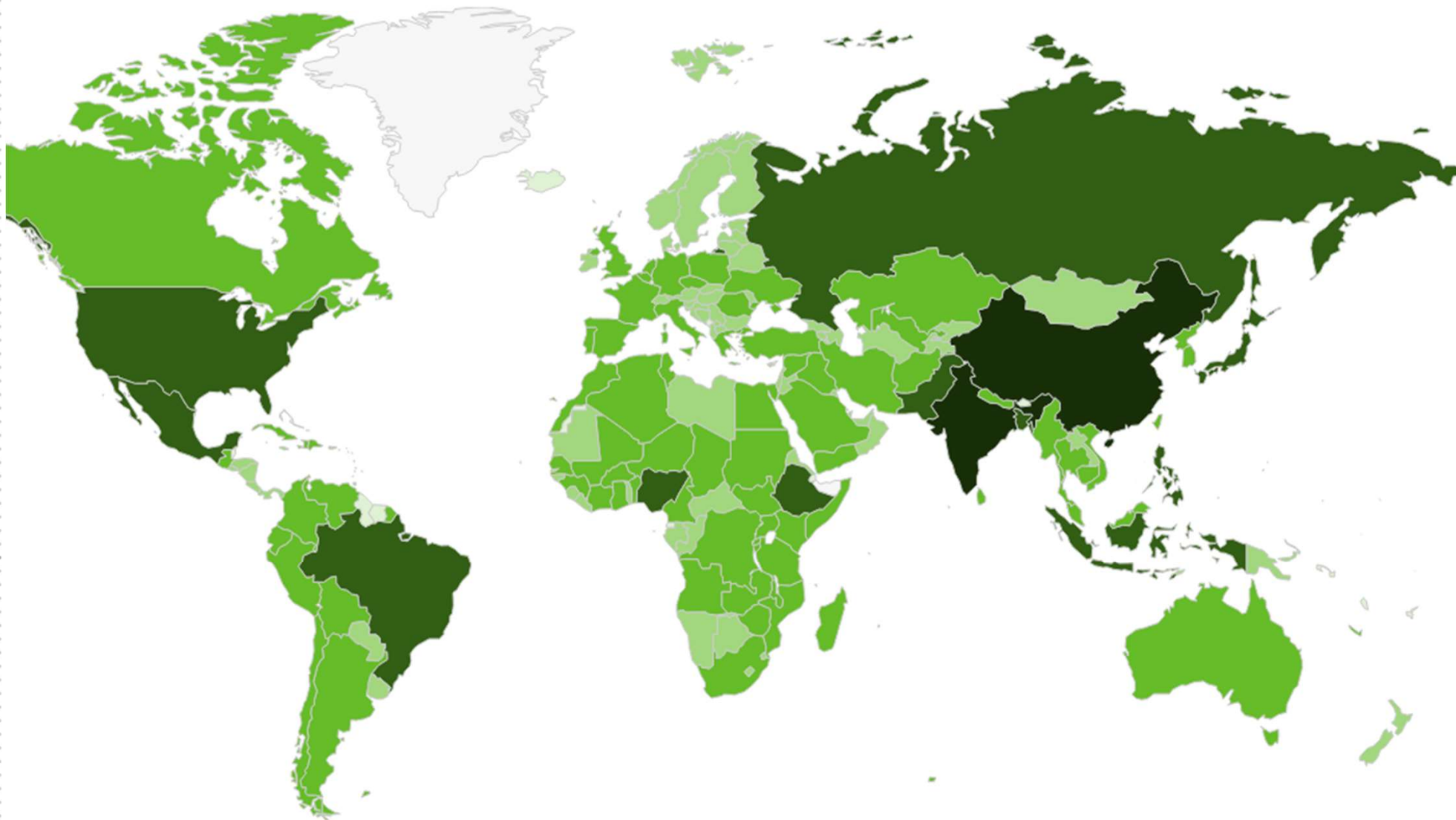
Trade Restrictive Measures in G20
(Cumulative measures introduced from 2008)



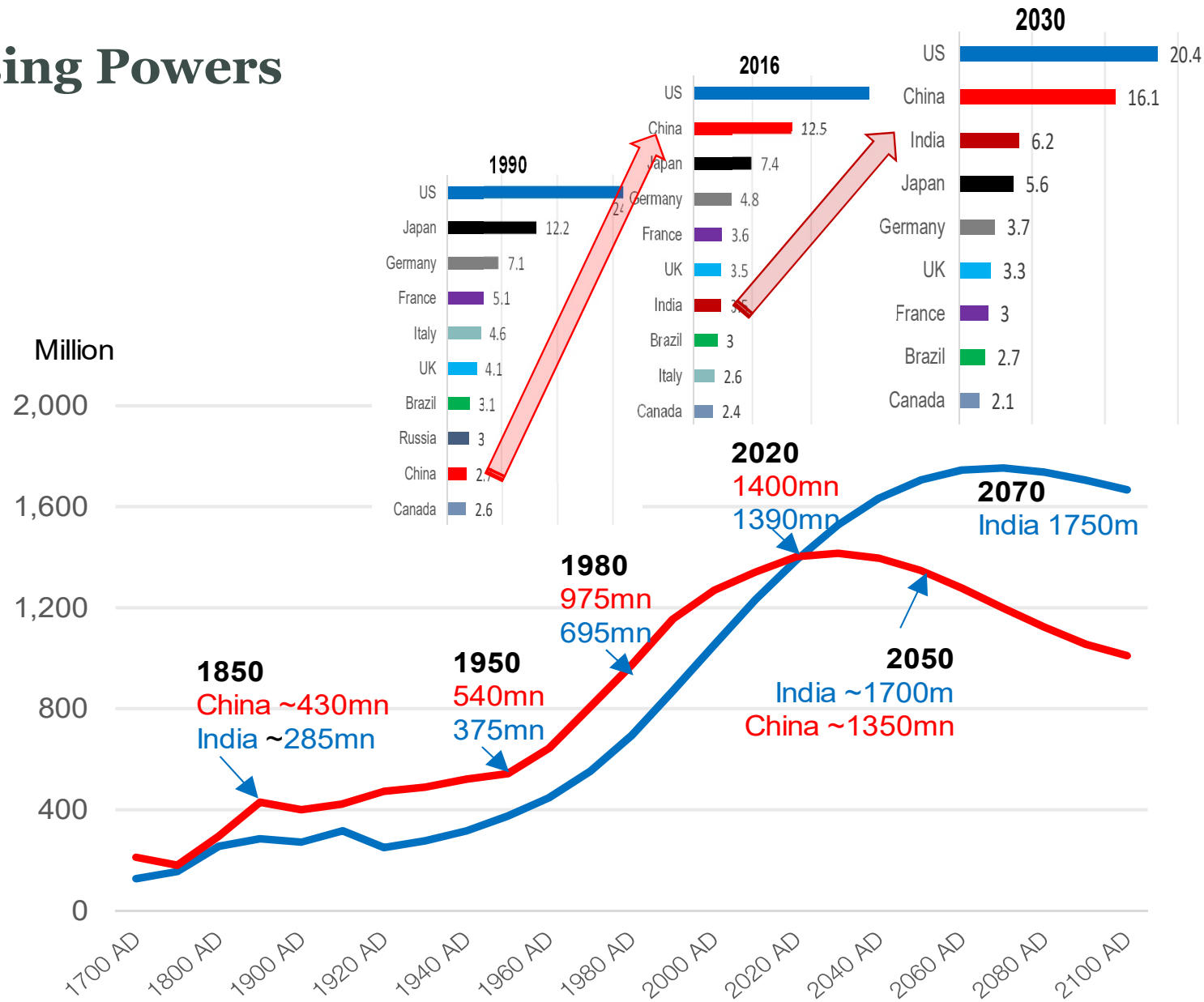
Source: WTO Secretariat

We are geographically closer to the economic action

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Rising Powers




Additional Charts

Free of charge...

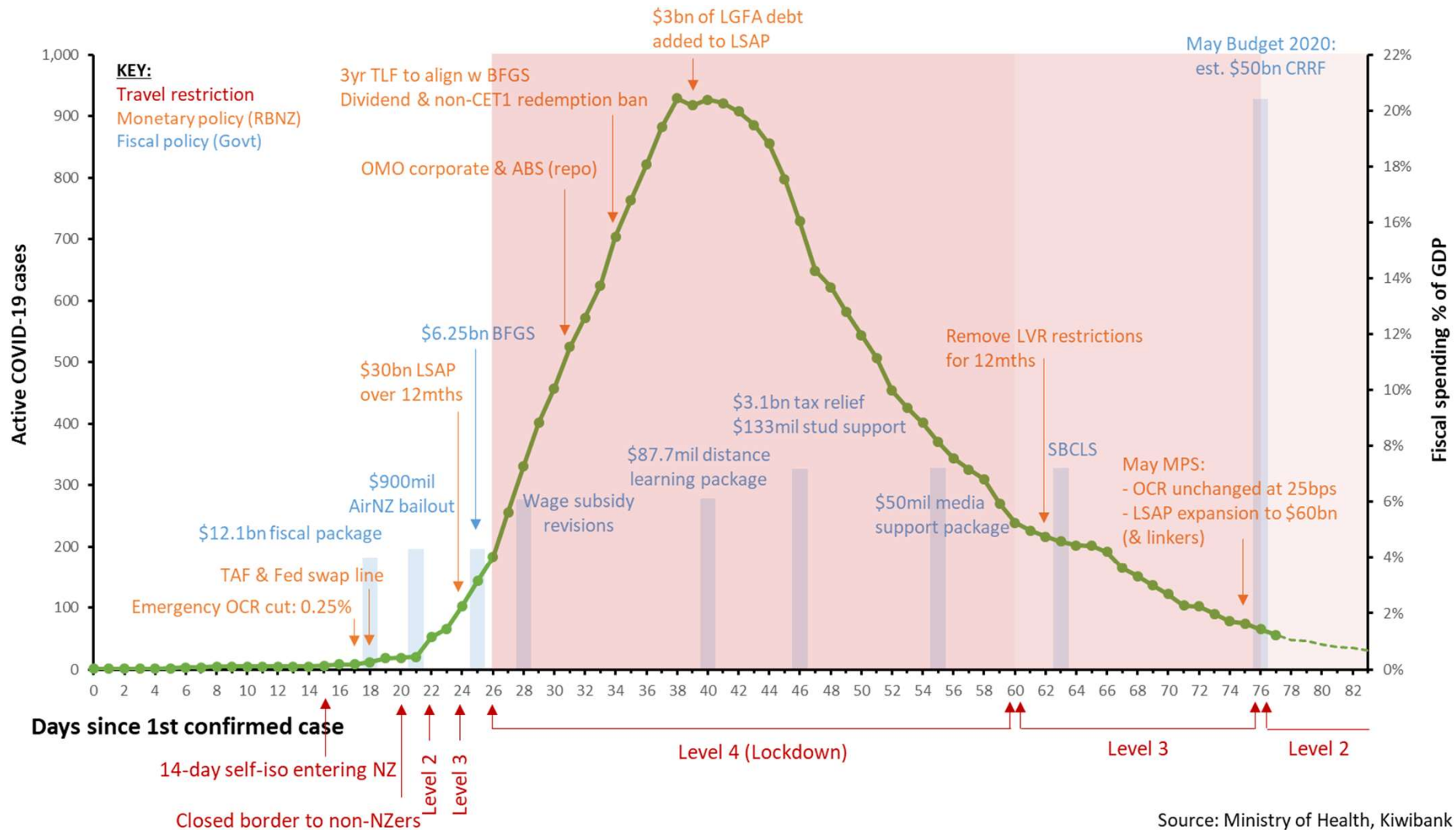
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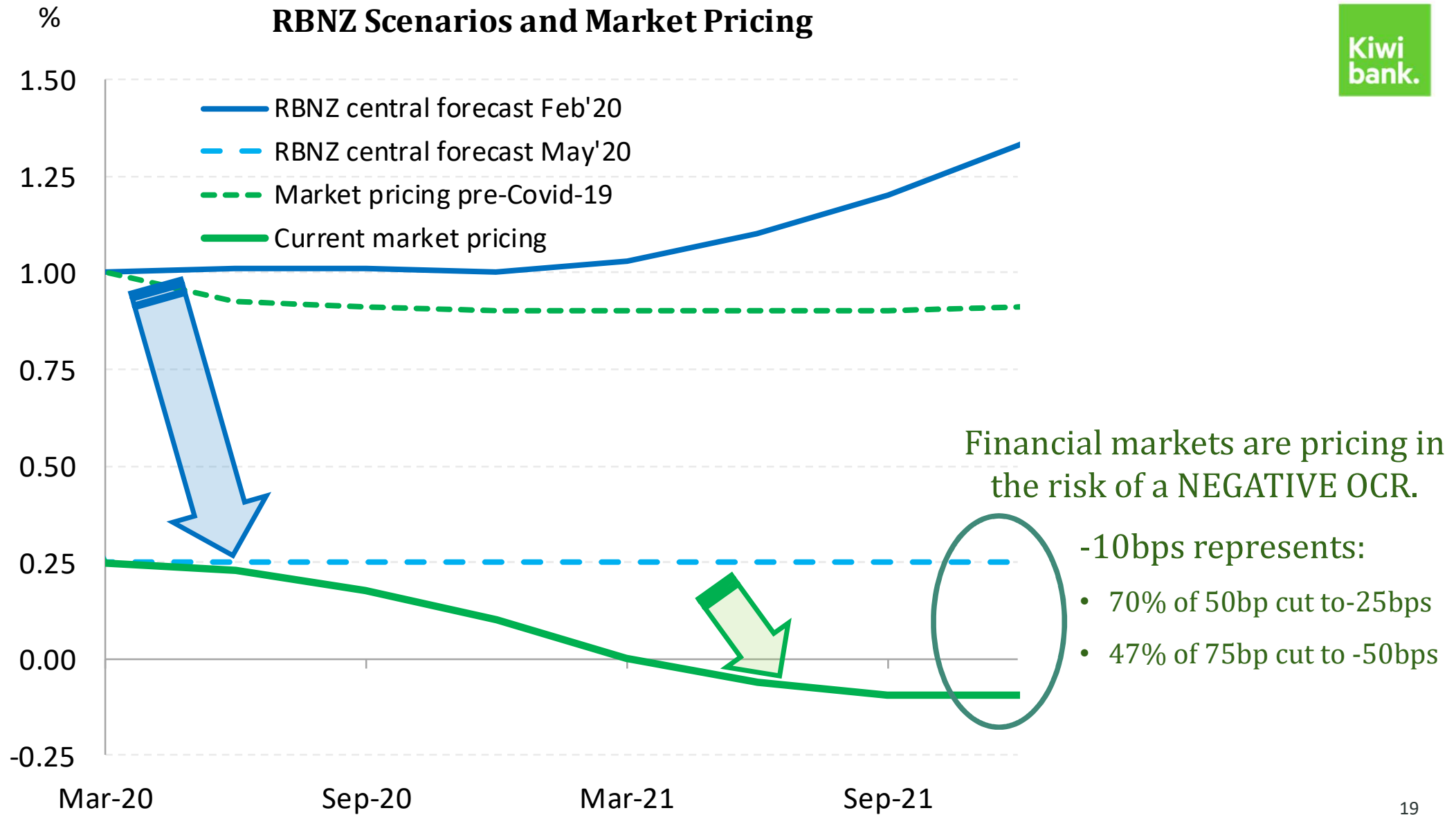
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“Whatever it takes” is currently 8% of GDP, soon to be 20%



Source: Ministry of Health, Kiwibank



The RBNZ's tool shed has some tried and some untested

1. LSAPs (QE) are the most useful in the current crisis.

- LSAPs are designed to keep markets functioning and lower interest rates throughout the economy. (oh, and they fund the Government)

2. Term Lending to banks would be the best next step.

- Cheap term funding will alleviate pressures and lower all bank rates (deposit and lending).

3. FX intervention is useful, but success may be limited.

- The RBNZ can sell 'unlimited', freshly 'minted', NZDs. Success may be limited.

4. Negative rates are debatable at best. I'm not a fan...

- Evidence shows a perverse increase in savings, and lower inflation expectations. But it could be seen as intergenerational wealth transfer...

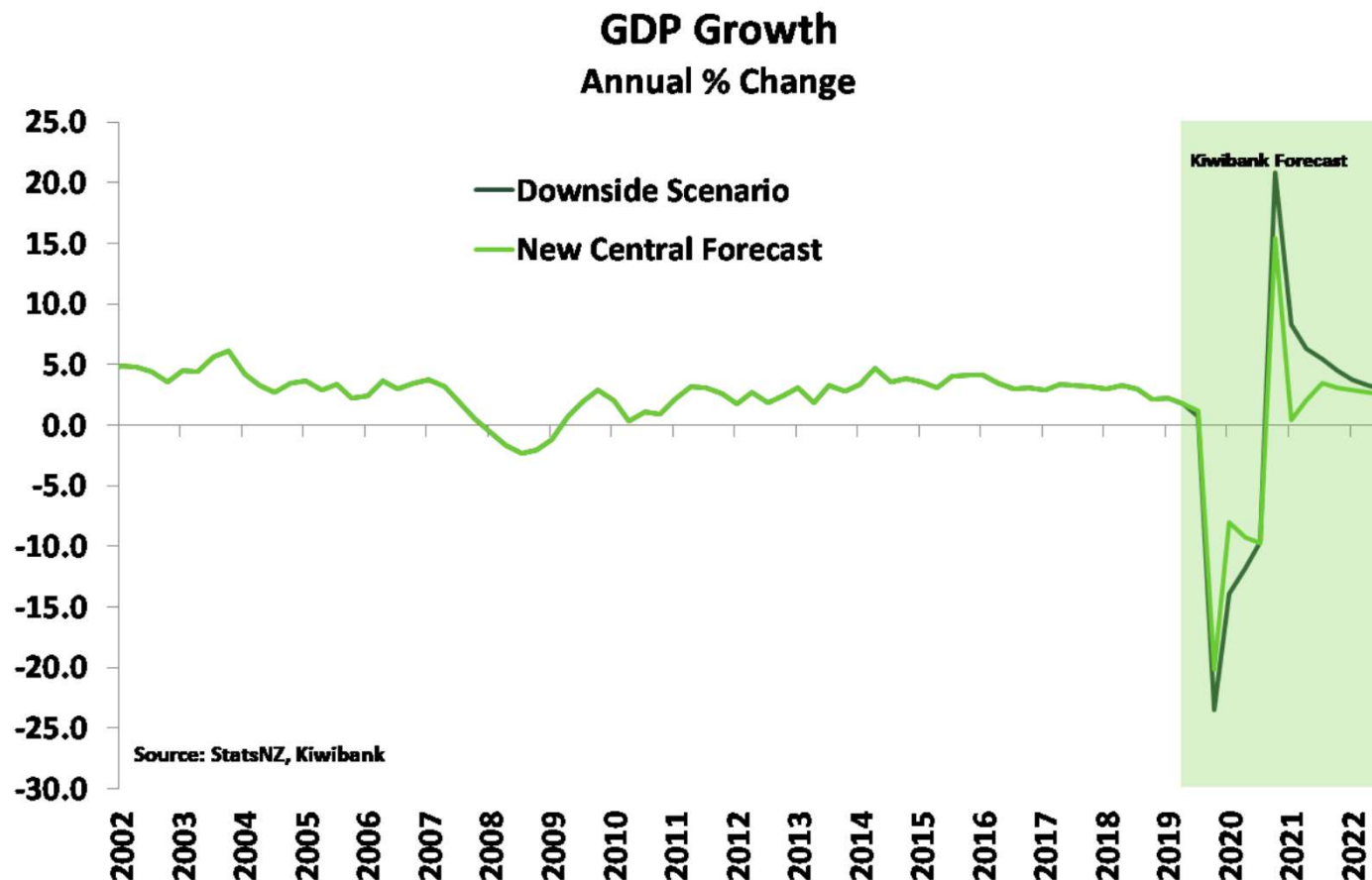
Our output will look more like a 'W' not a hopeful 'V'



TABLE 1: GDP REDUCTION WHILE COVID-19 ALERT LEVELS ARE IN PLACE

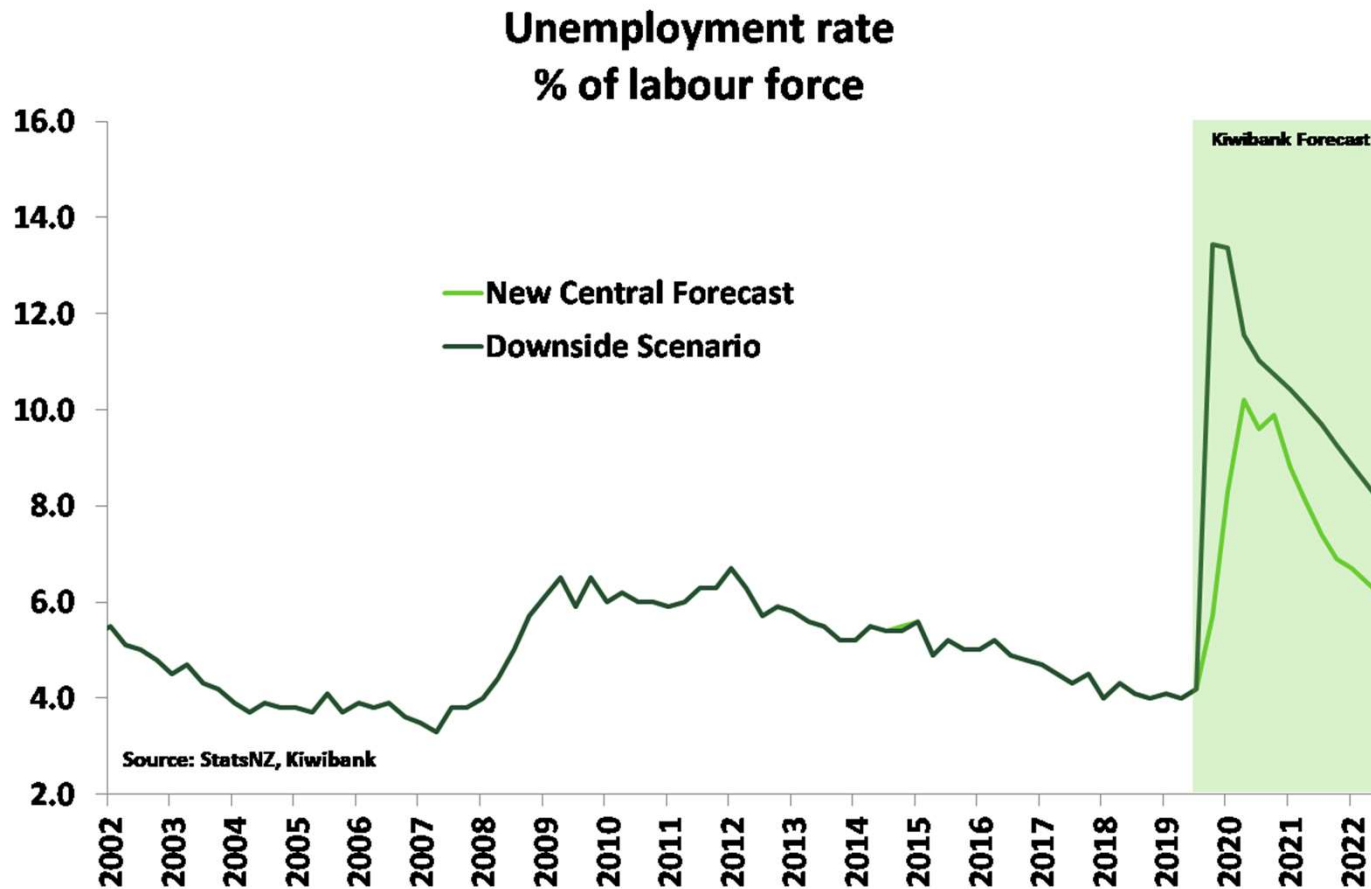
Alert level	GDP reduction (%)
1	3.8
2	8.8
3	19
4	37

Source: RBNZ



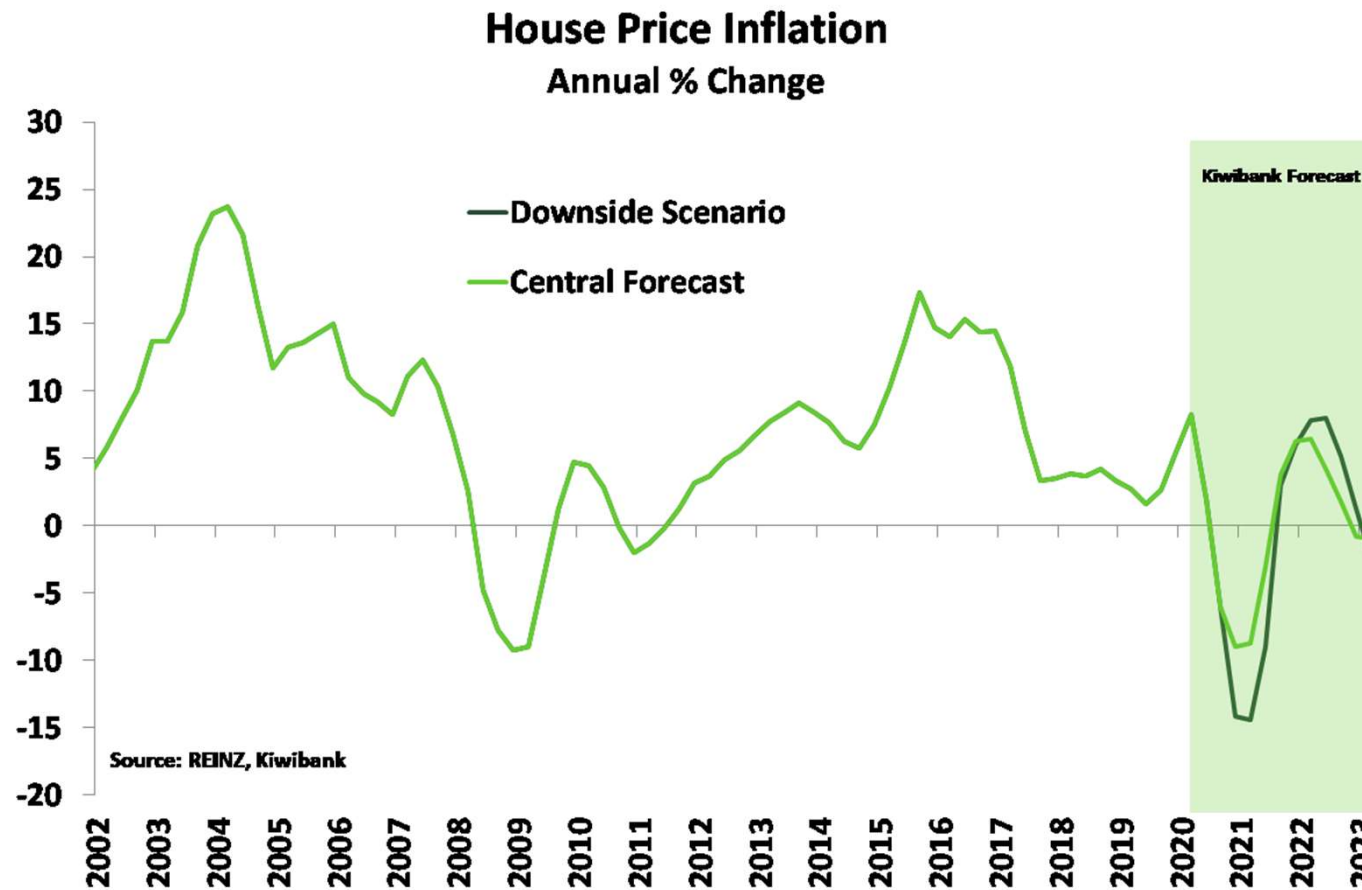
Job losses will mount, but wage subsidy will help & delay hit

We are forecasting peak unemployment of 10%, if the situation worsens we could easily see higher double digit UR for the first time since the early 1990s.



Housing market activity has been stopped in its tracks

Fundamentals, such as a shortage of affordable housing will remain. Meaning the drop in prices will be contained.



There are three fundamental pillars behind housing



1. Mortgage rates are at record lows, with 2.99% on offer.

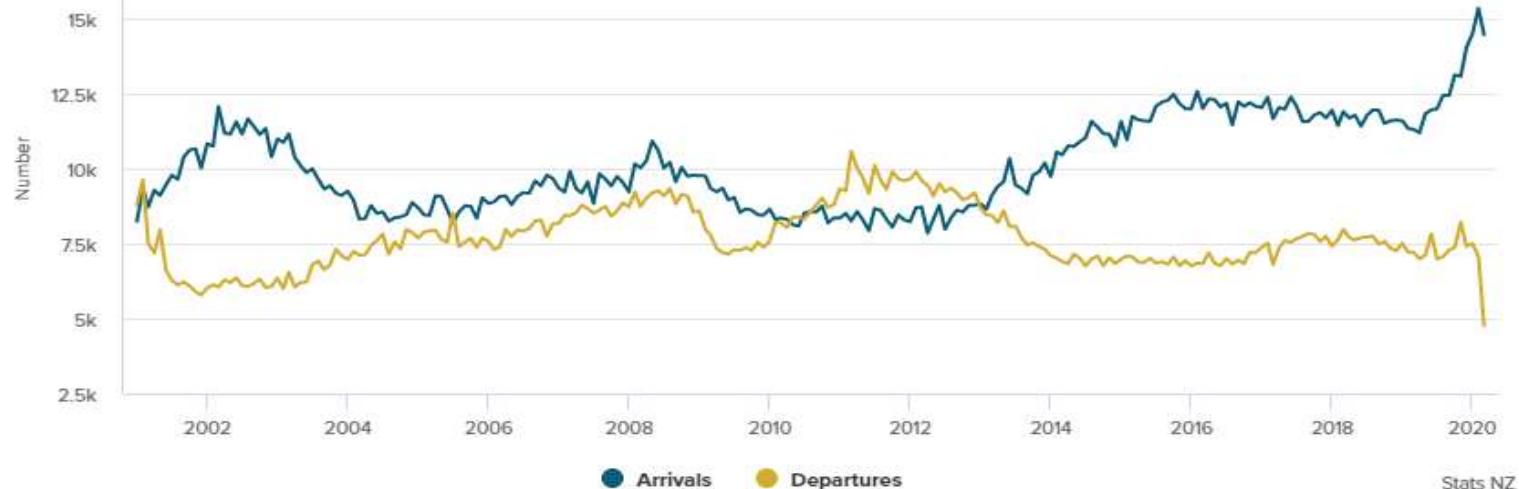
- The 12mth removal of LVRs will support credit growth.

2. We still have a chronic shortage of affordable homes.

- There is at least a shortage of 100,000 nationwide (mostly in Auckland).

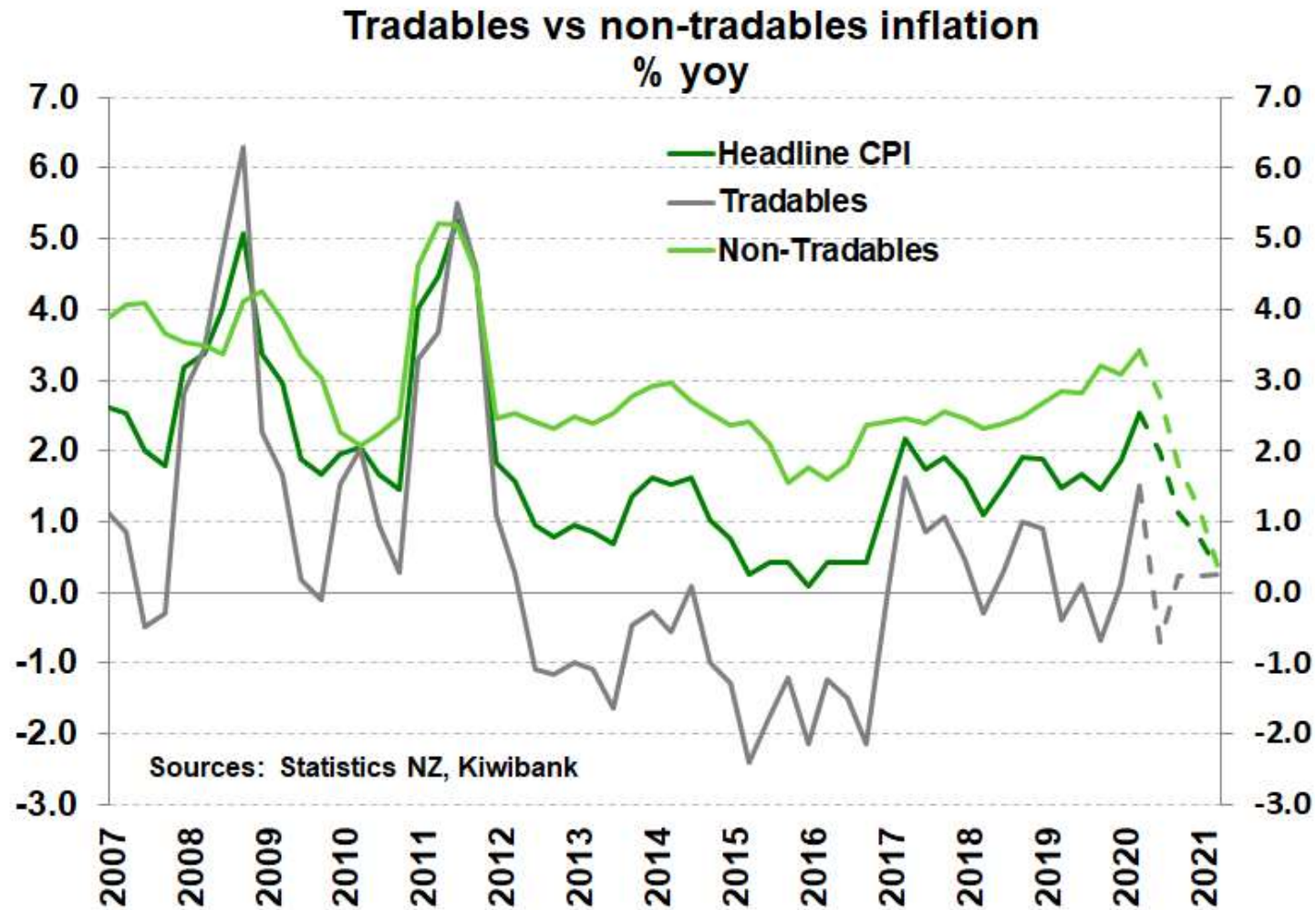
3. Population growth... well it was.

- We have seen the largest migration boom ever recorded. But migration flows will remain restricted.



General inflation will head towards zero

The risk is a period of deflation.



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