



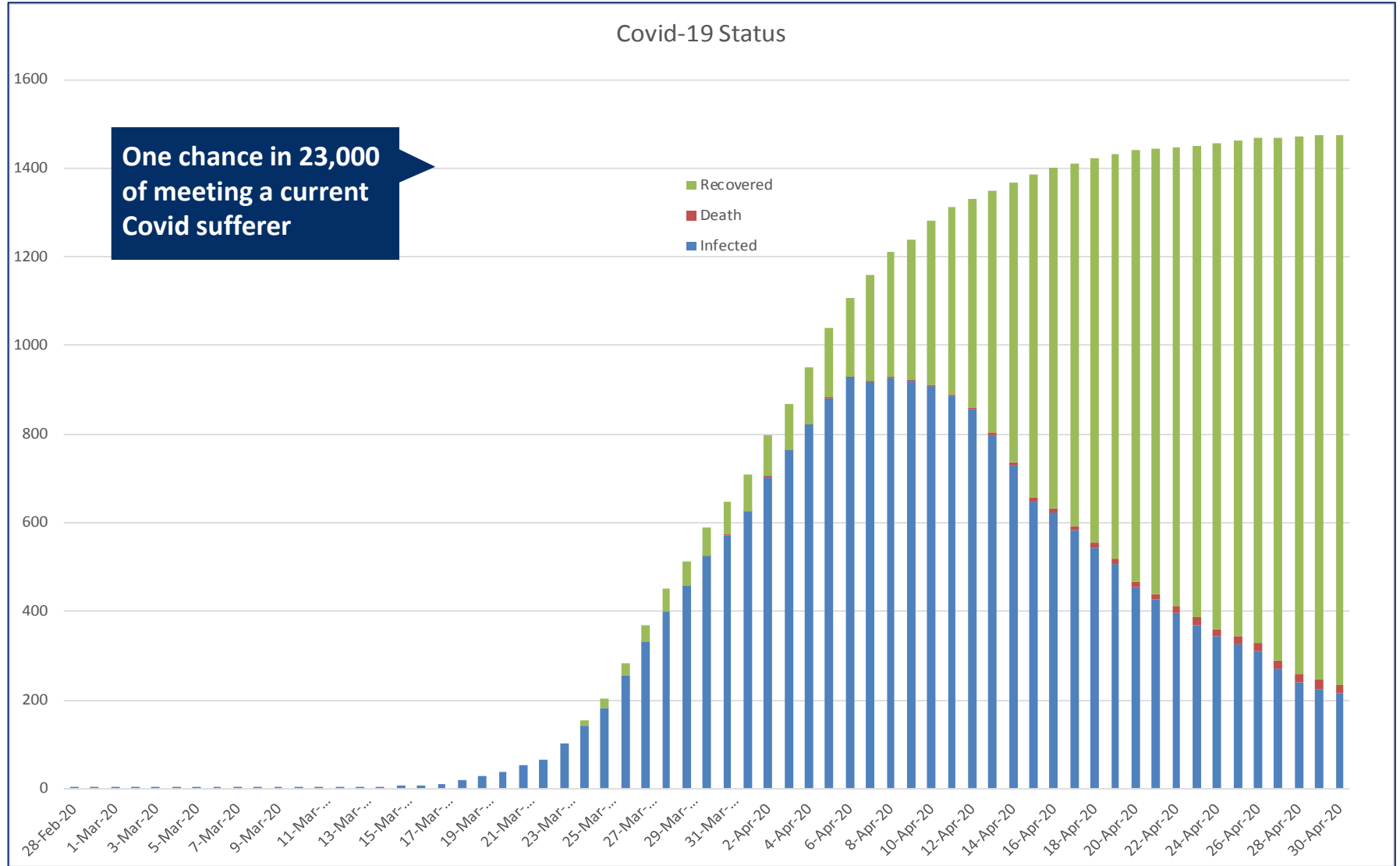
FROM RESCUE TO RECOVERY

Stephen Toplis | April 2020

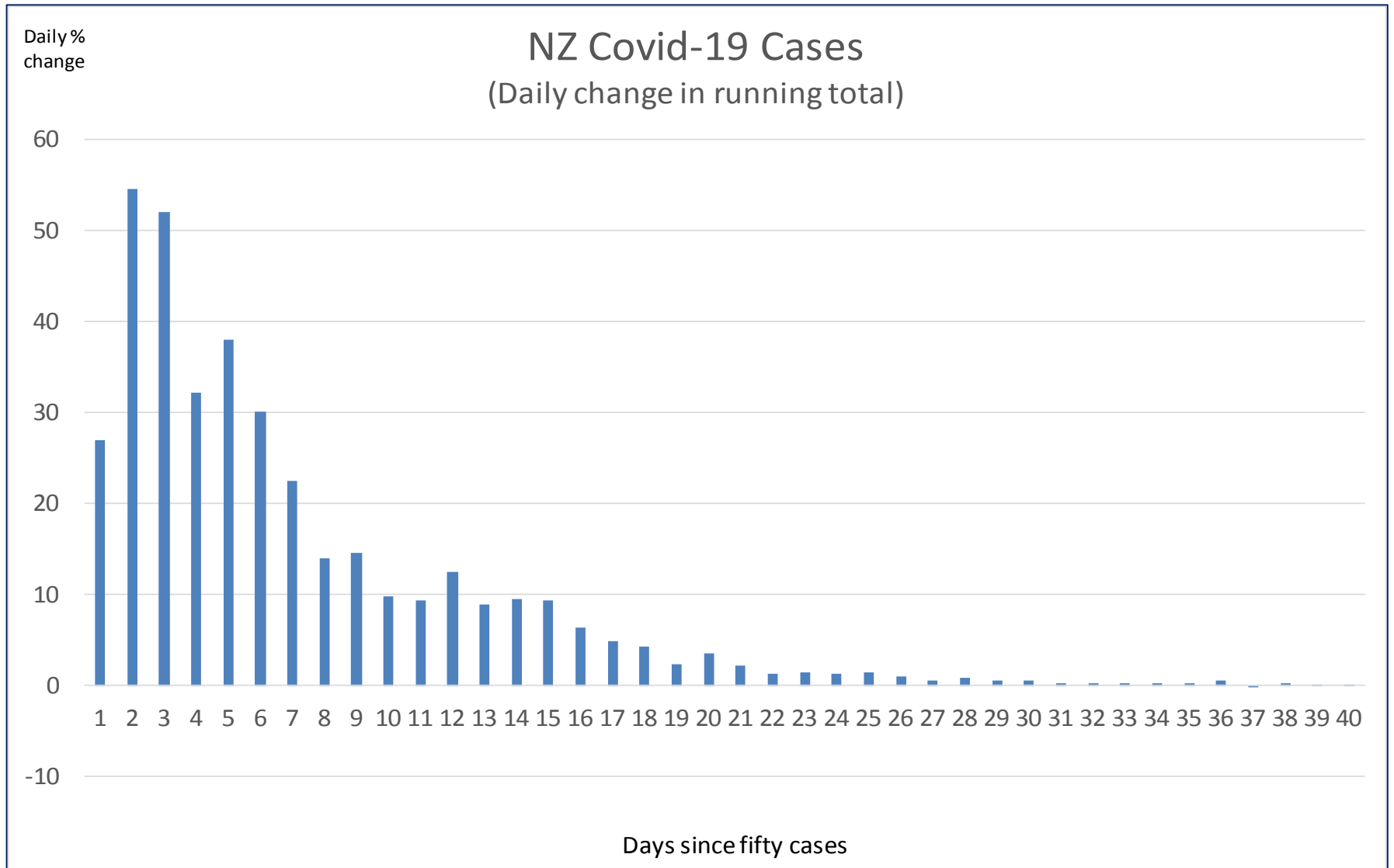
Introduction

- We are winning the battle against Covid-19
- No time for complacency
- Moving through the levels
- Economic costs still massive
- Unemployment the enduring problem
- Fiscal and RBNZ balance sheets blow out
- It's a long way back

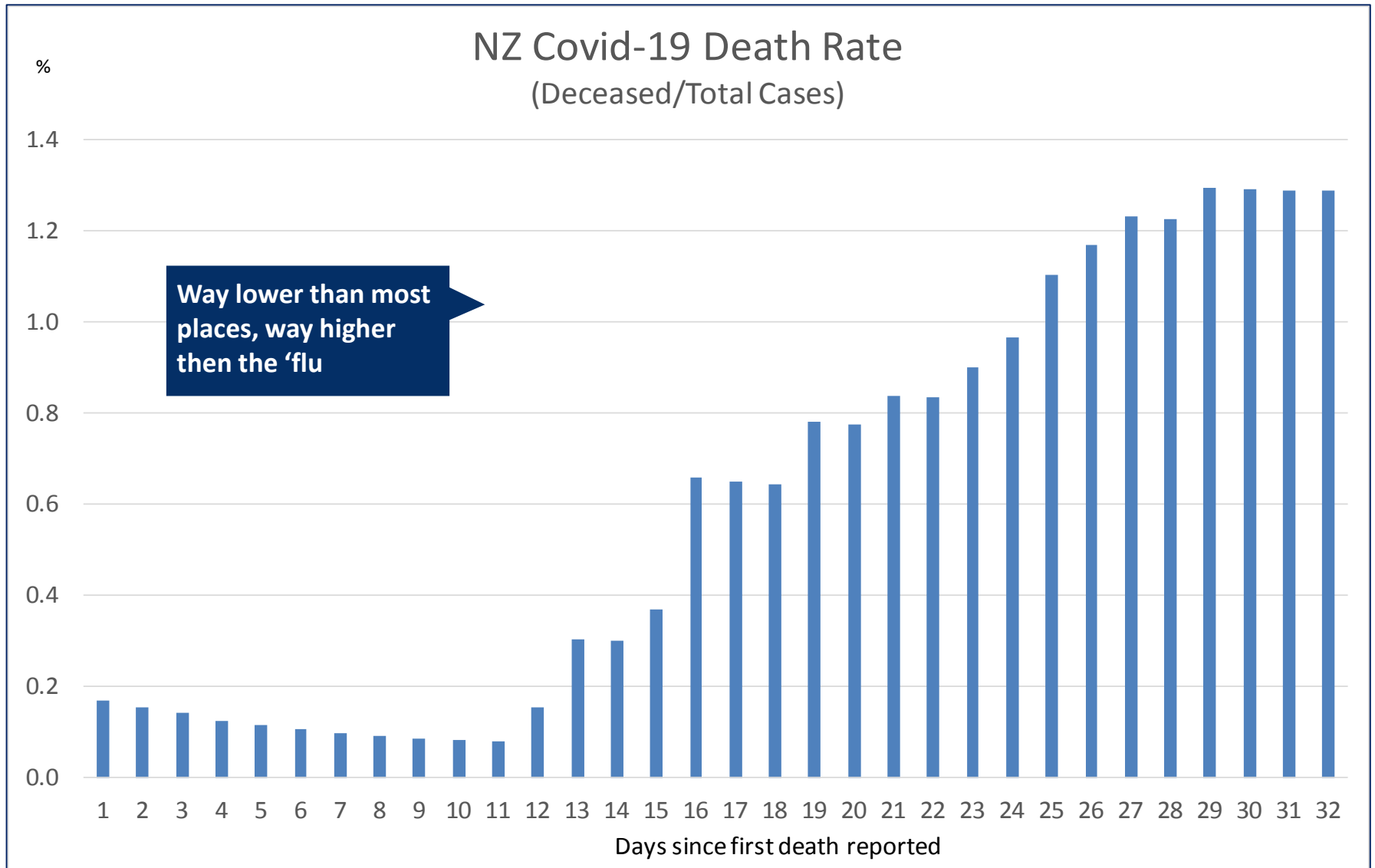
Winning The Covid-19 battle



Headed To Zero



Don't Be Complacent



Moving to Level 3

- 500,000 more at work
- Manufacturing, forestry and construction the biggest beneficiaries
- Add in online retail, takeaways, distribution and transport
- 40% of economy closed goes to 24%

Level 2 Requirements

- No community transmission
- A few days of zero change
- Shrinking clusters
- Confidence in contact tracing
- May 11 first decision

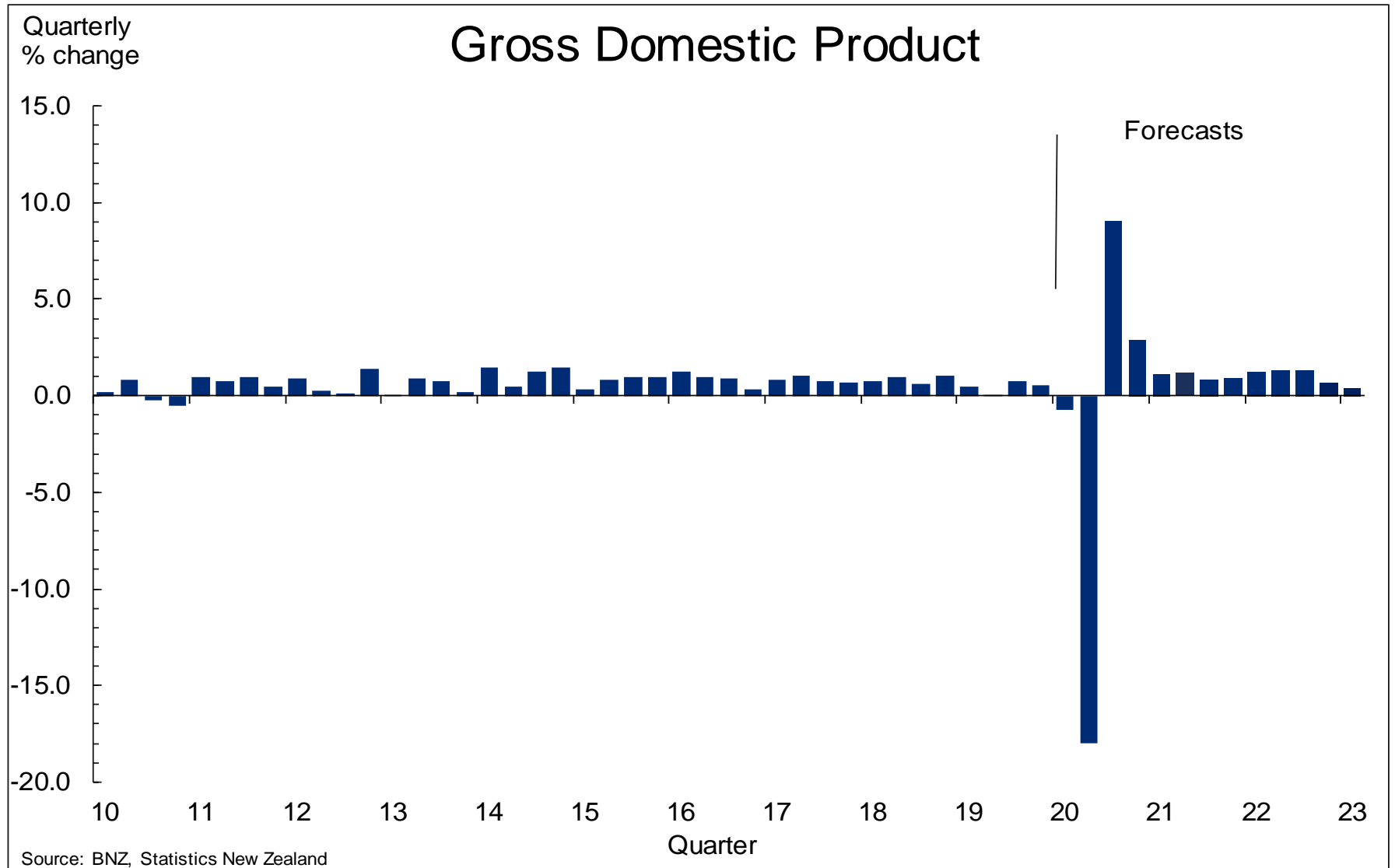
Moving to Level 2

- Most businesses back in operation
- Schools and universities all go
- Larger gatherings allowed
 - Up to 100 indoors
 - Up to 500 outdoors
- 15% of economy closed
- Biggest psychological impact

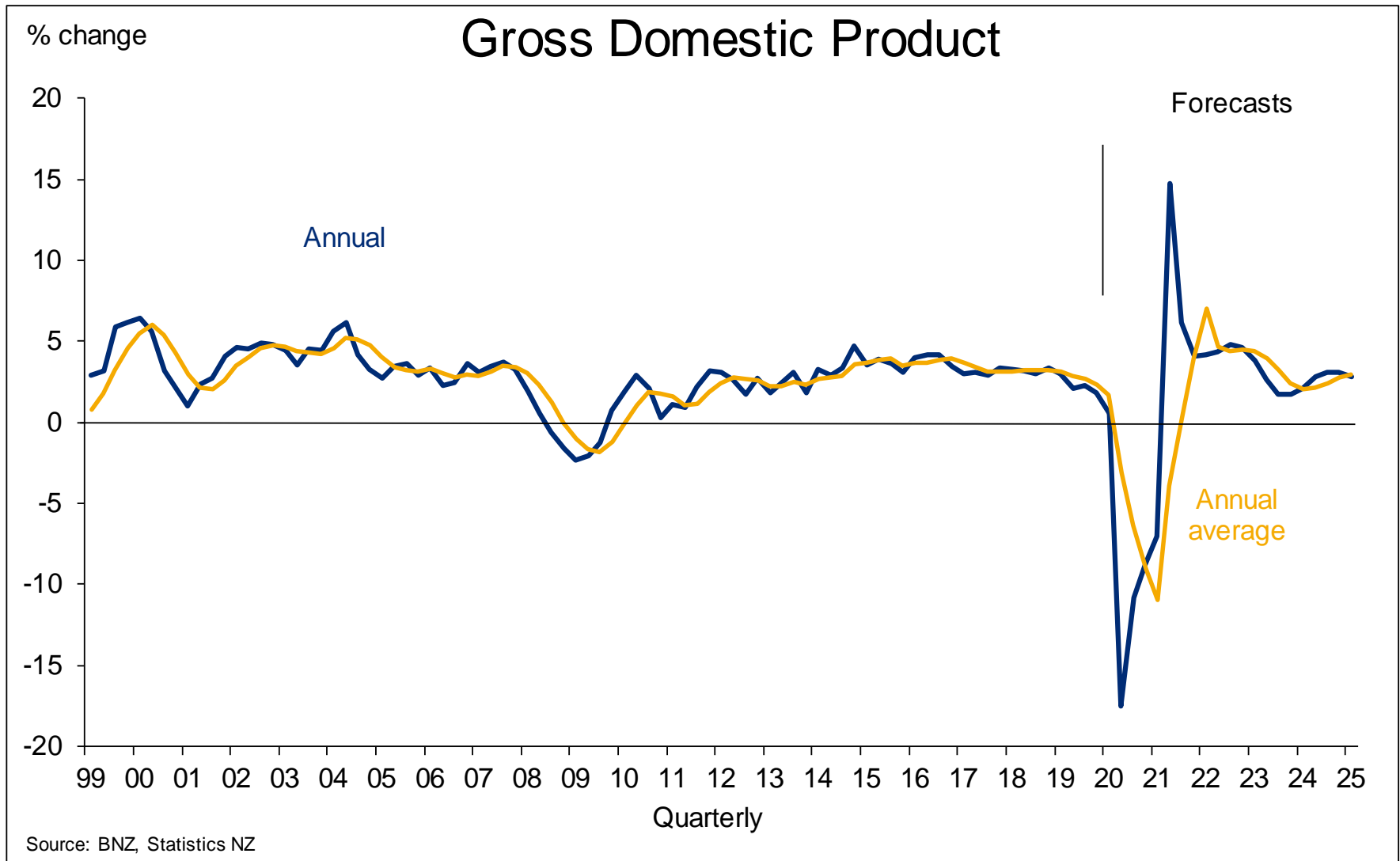
The Economy

- Massive fall in Q2
- Bounce in activity Q3
- But unemployment rises most in Q3
- Years to get back to normal
- Structurally very different

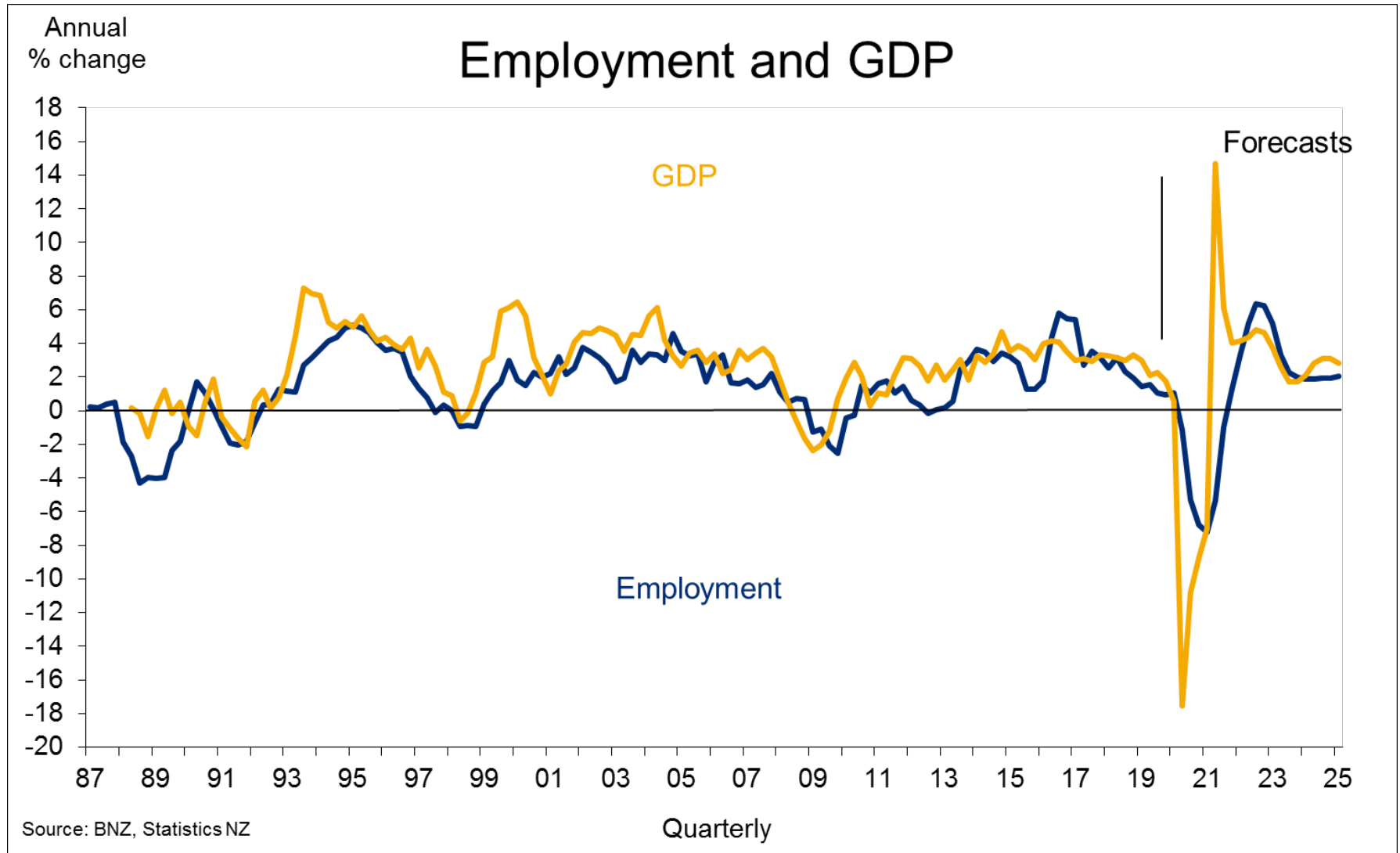
Unbelievable!



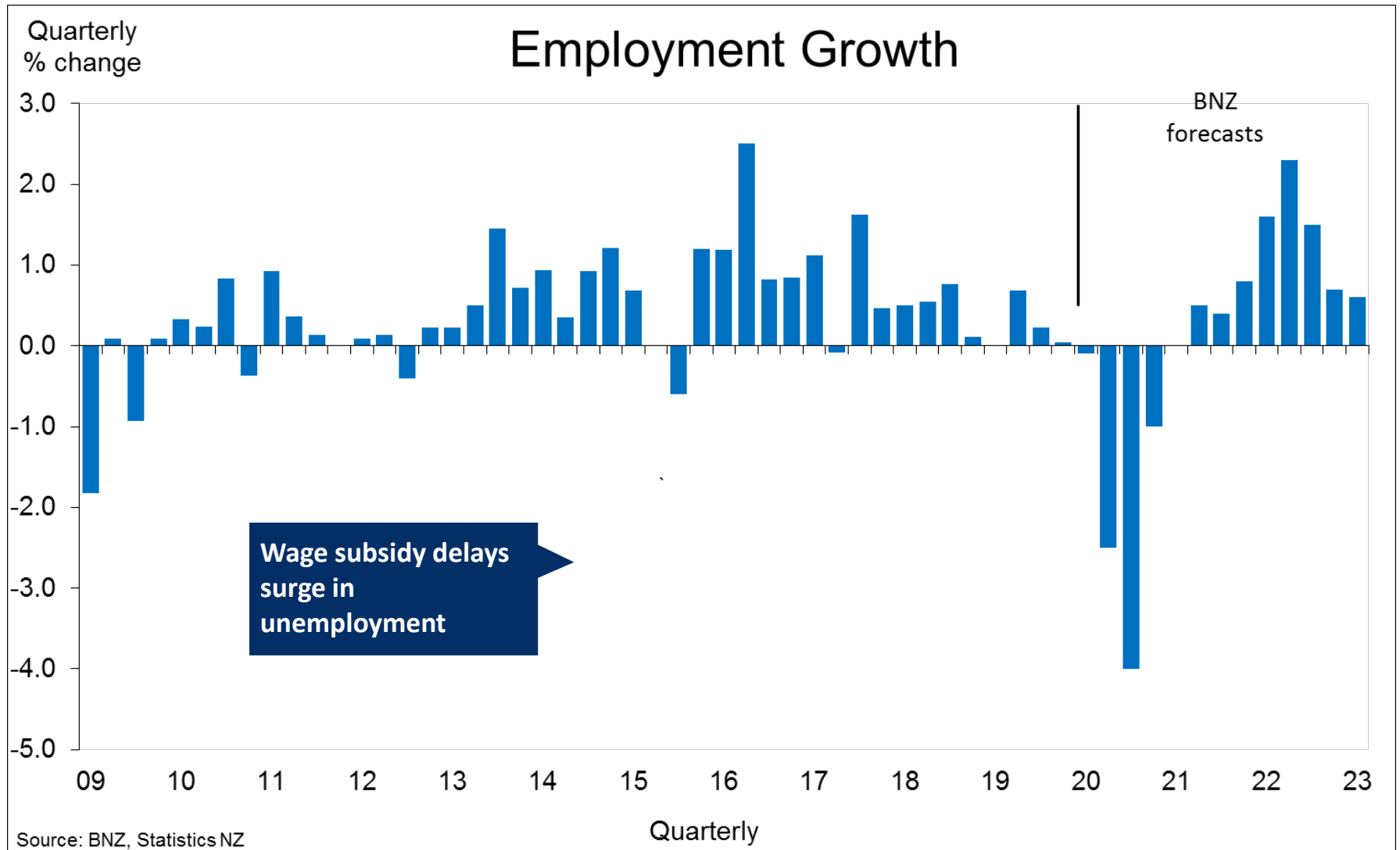
Bounce In Context



Employment Lags



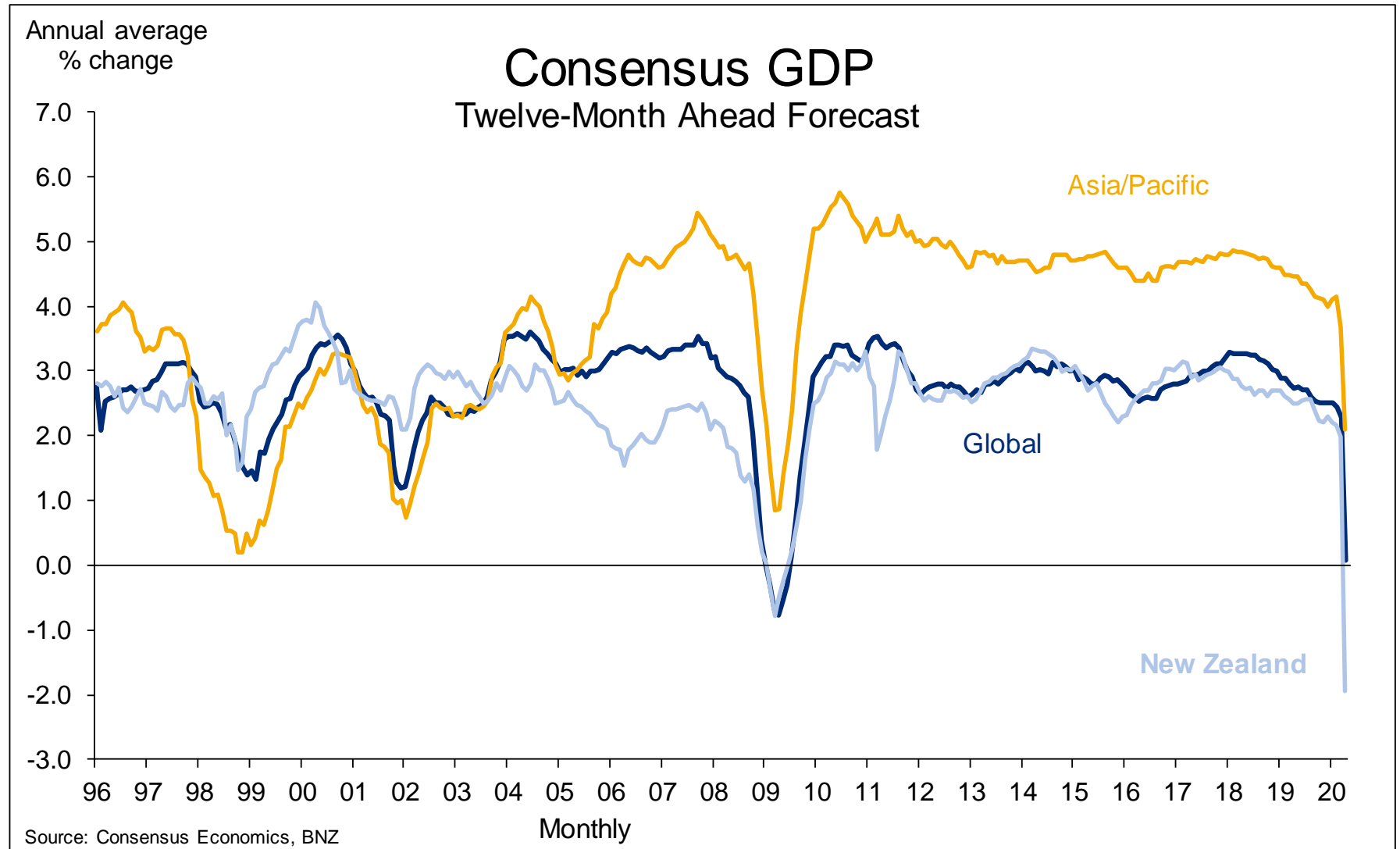
Q3 The Killer



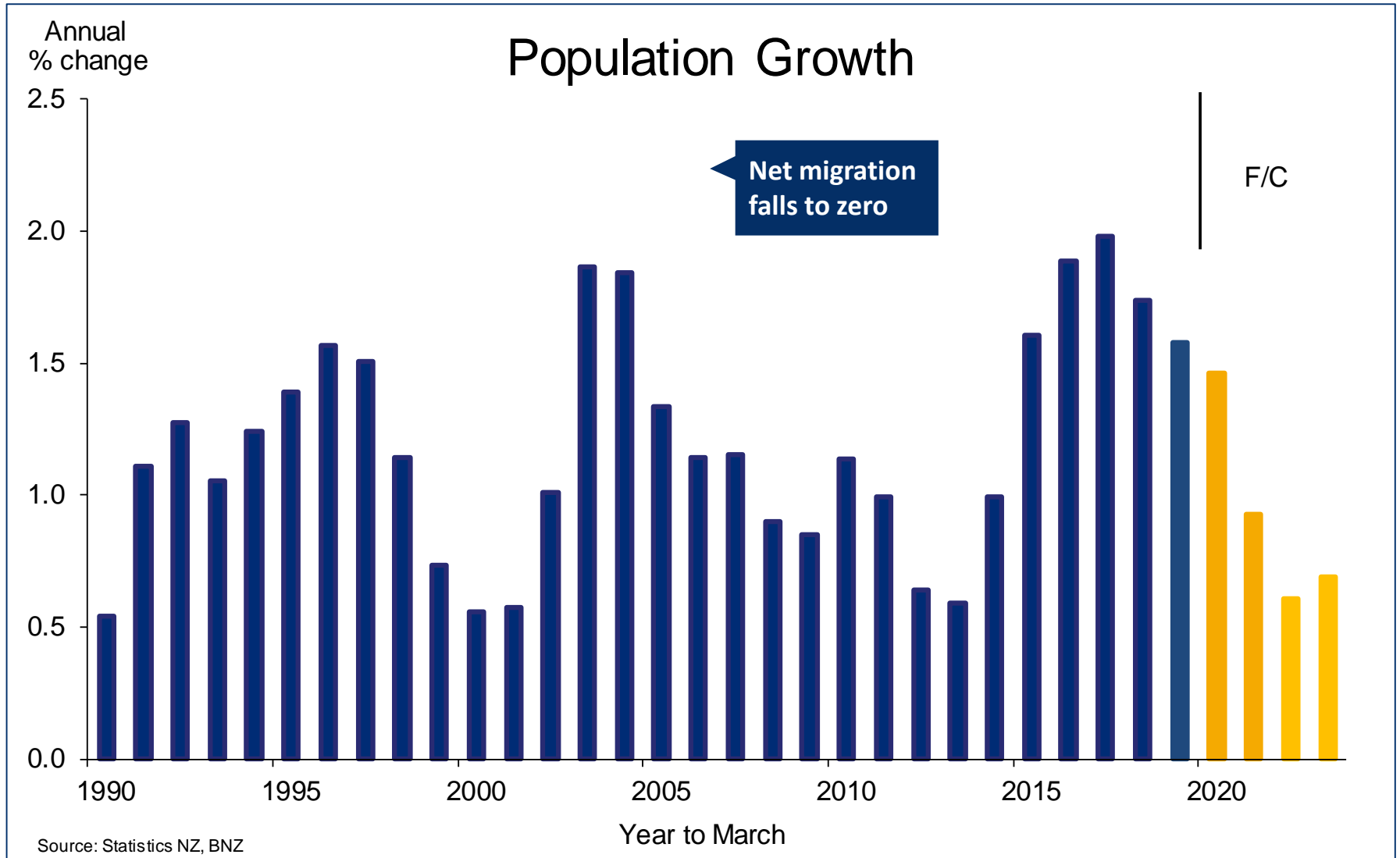
Years To Get Back To Normal

- International back drop problematic
- Population growth much lower
- Unemployment rate will stay lofty
- Income effects huge
- Asset prices thumped
- Confidence dented
- Investment activity weakened
- International tourism in disarray
- Debts to be repaid

Global Growth Plummet

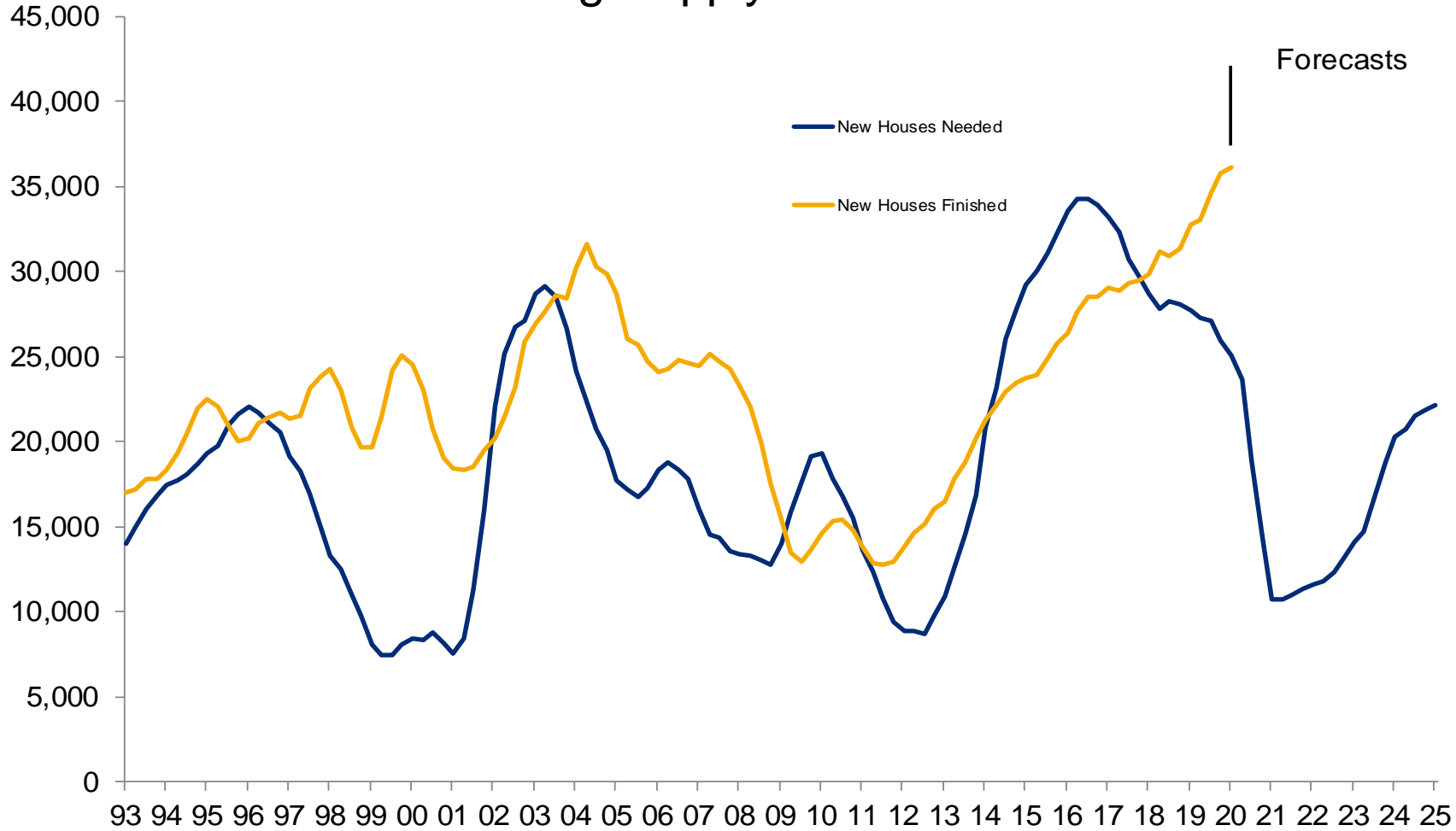


Population Growth Much Slower



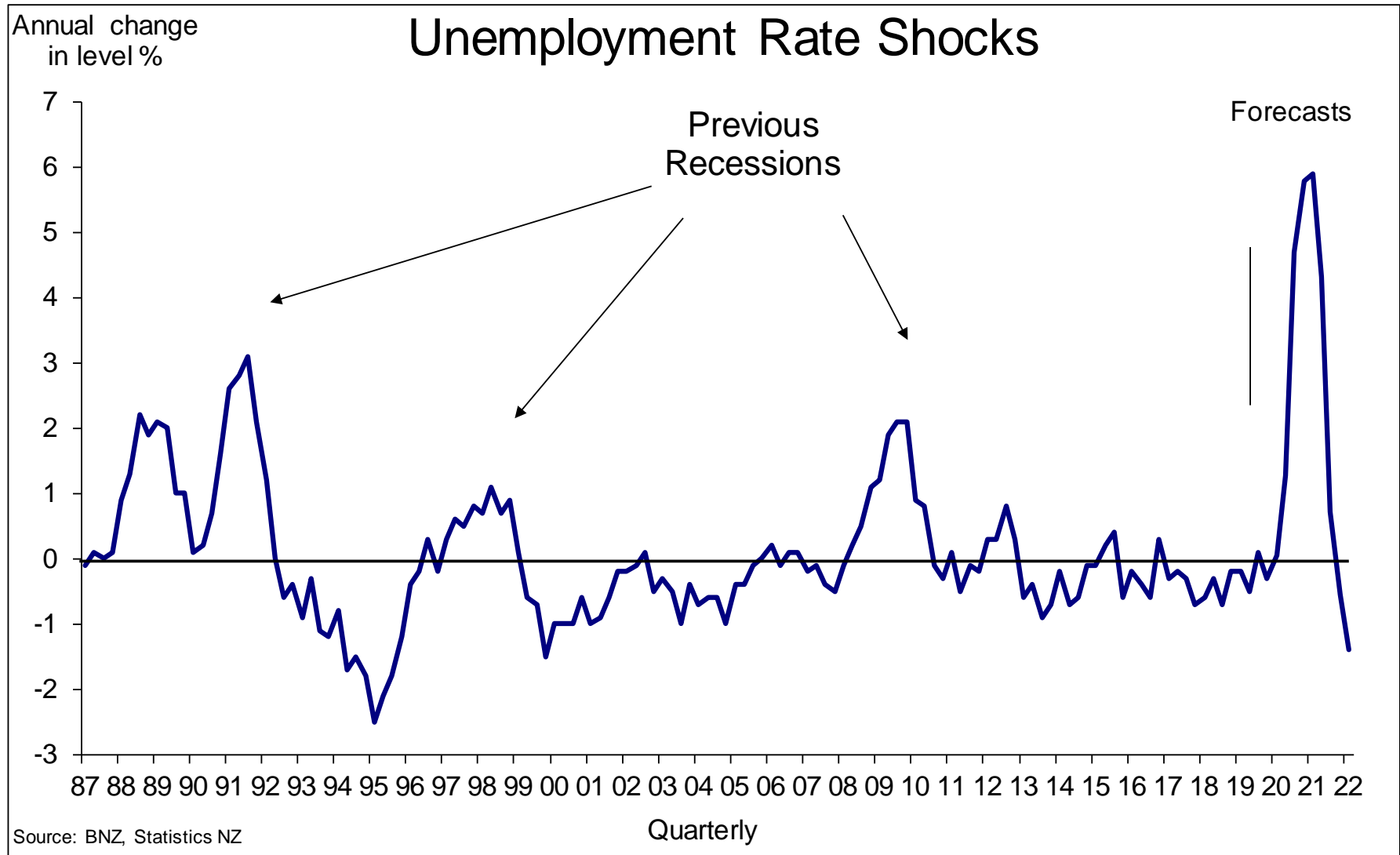
A Disaster For Residential Construction

Housing Supply and Demand

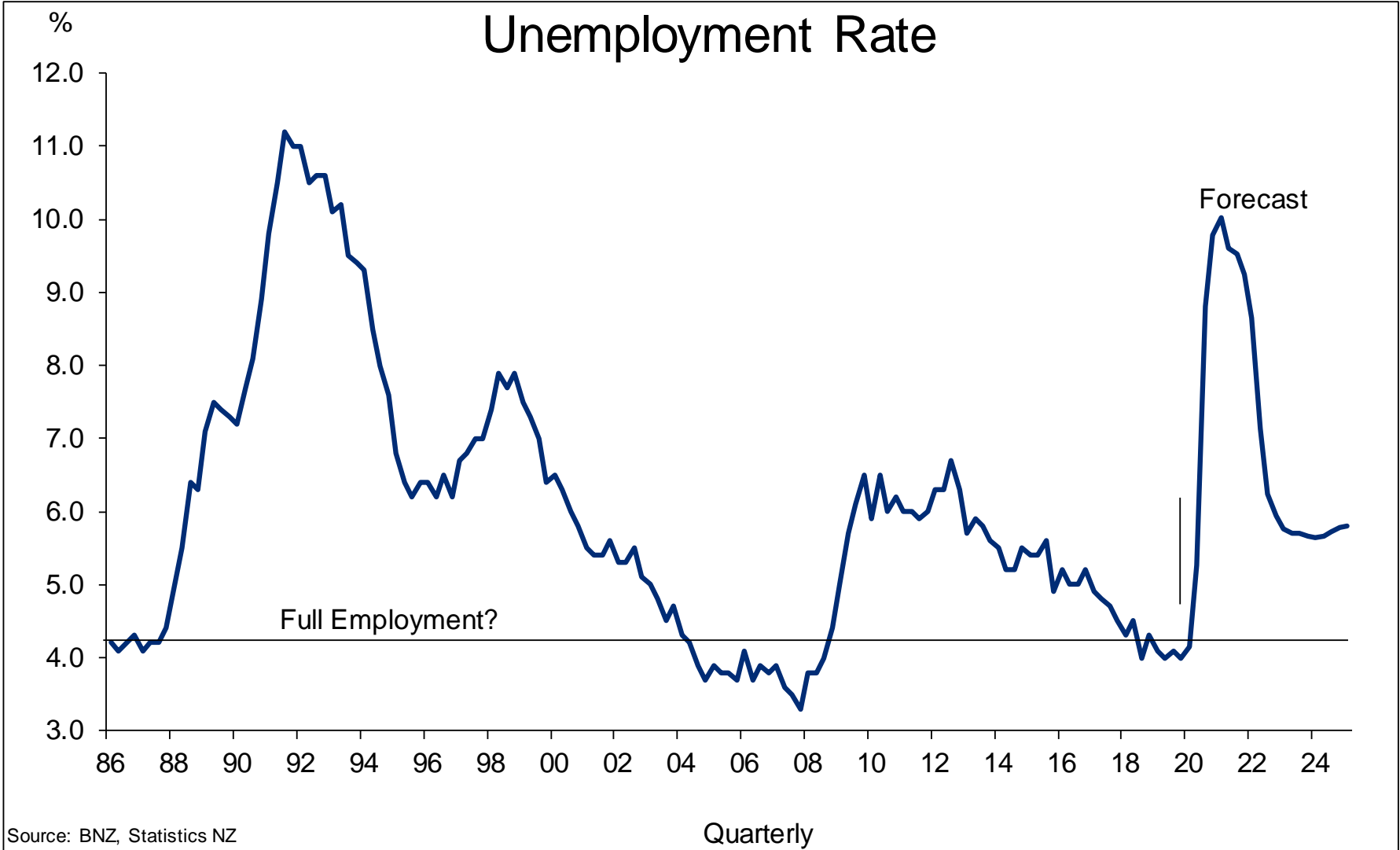


Source: BNZ, Statistics New Zealand

Unprecedented Change In Unemployment



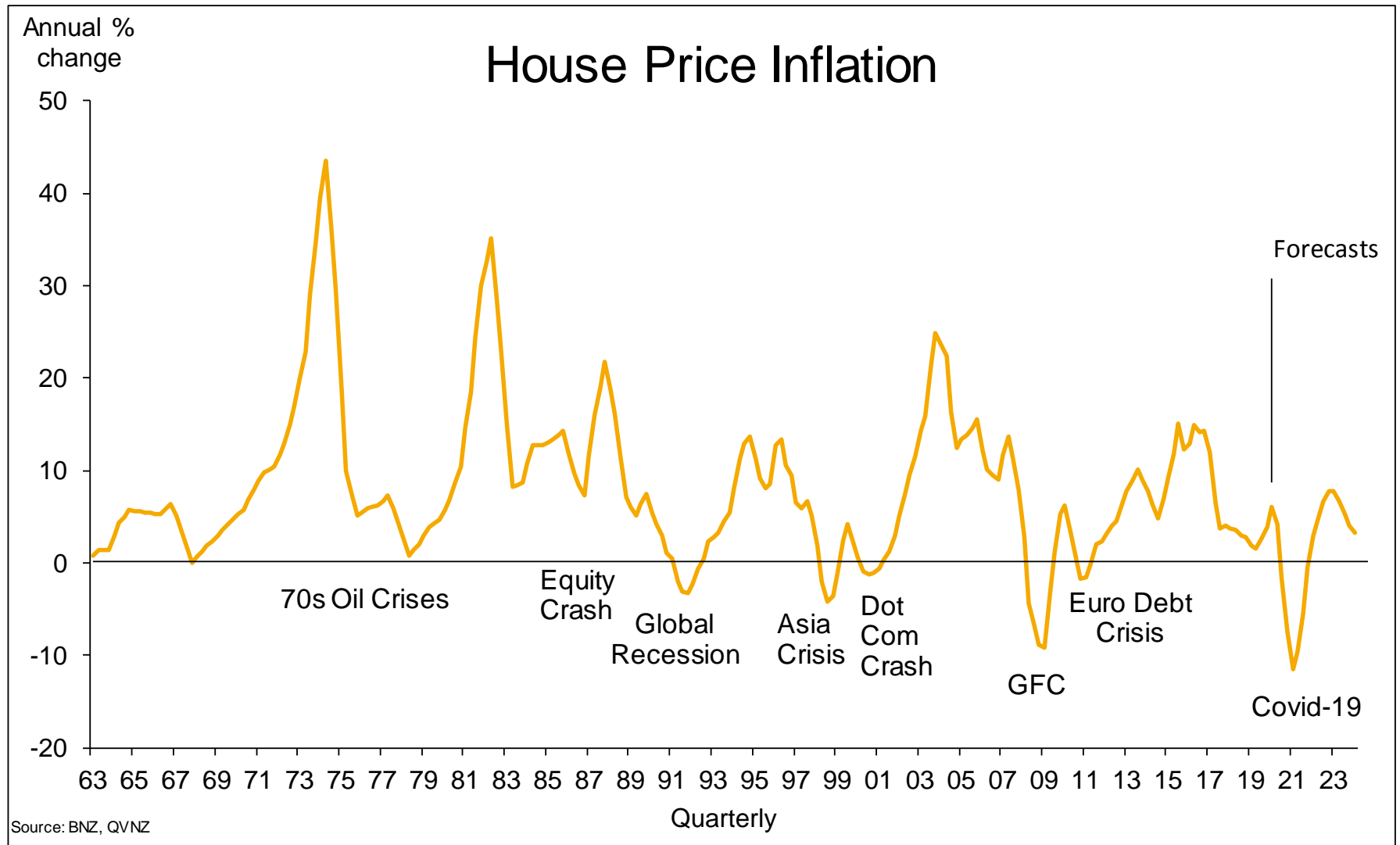
And A Long Way Back



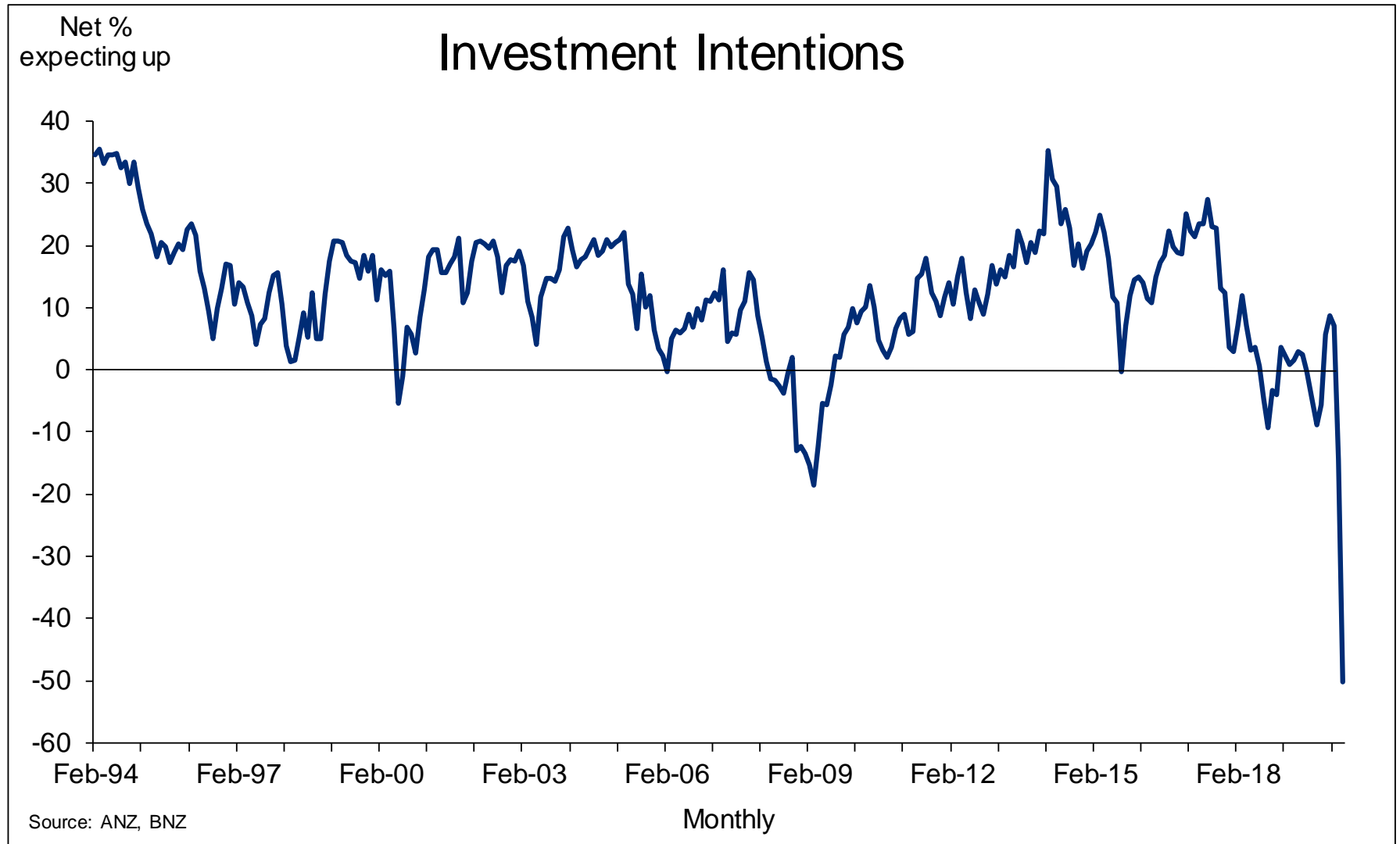
Source: BNZ, Statistics NZ

Quarterly

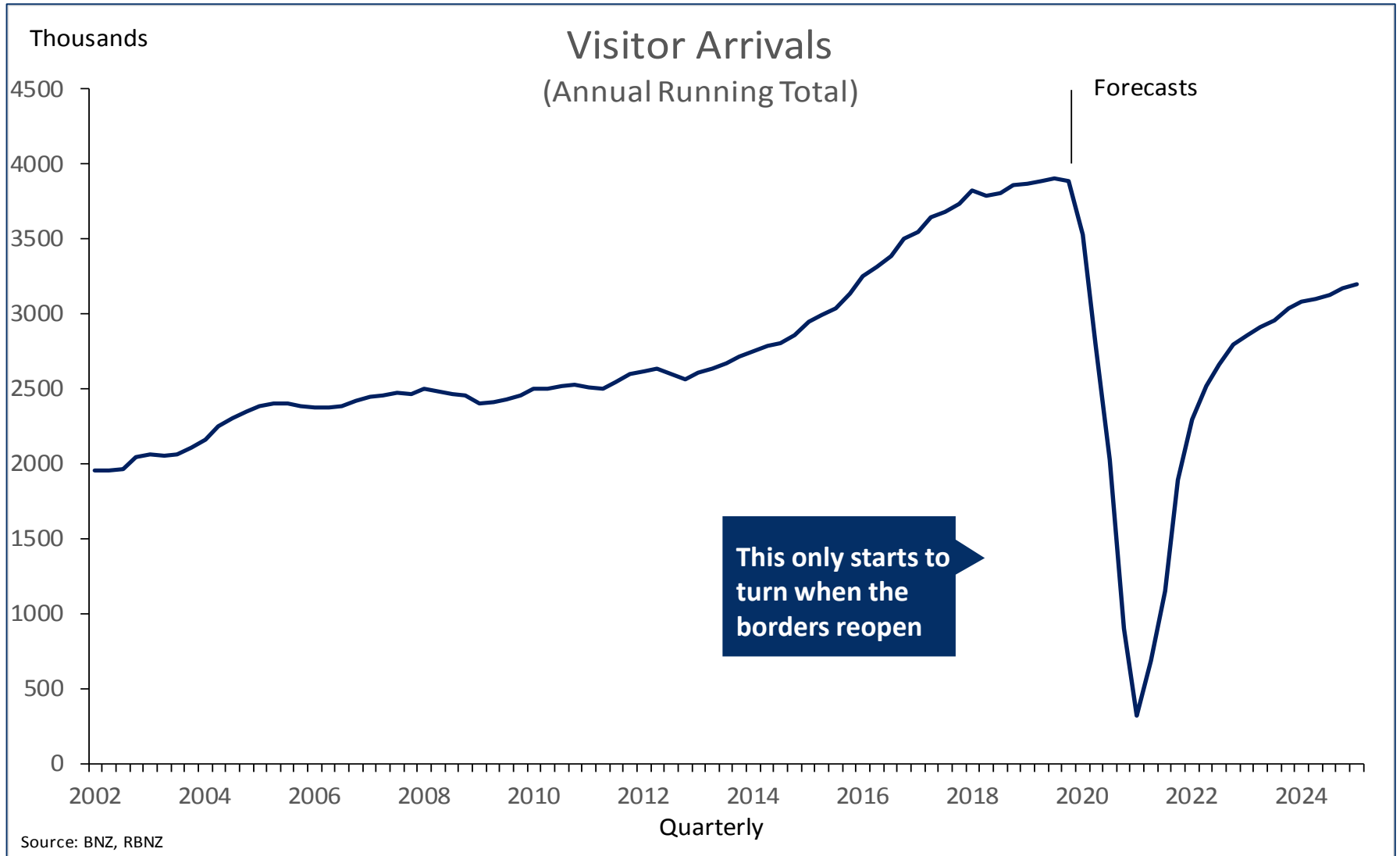
House Prices To Fall



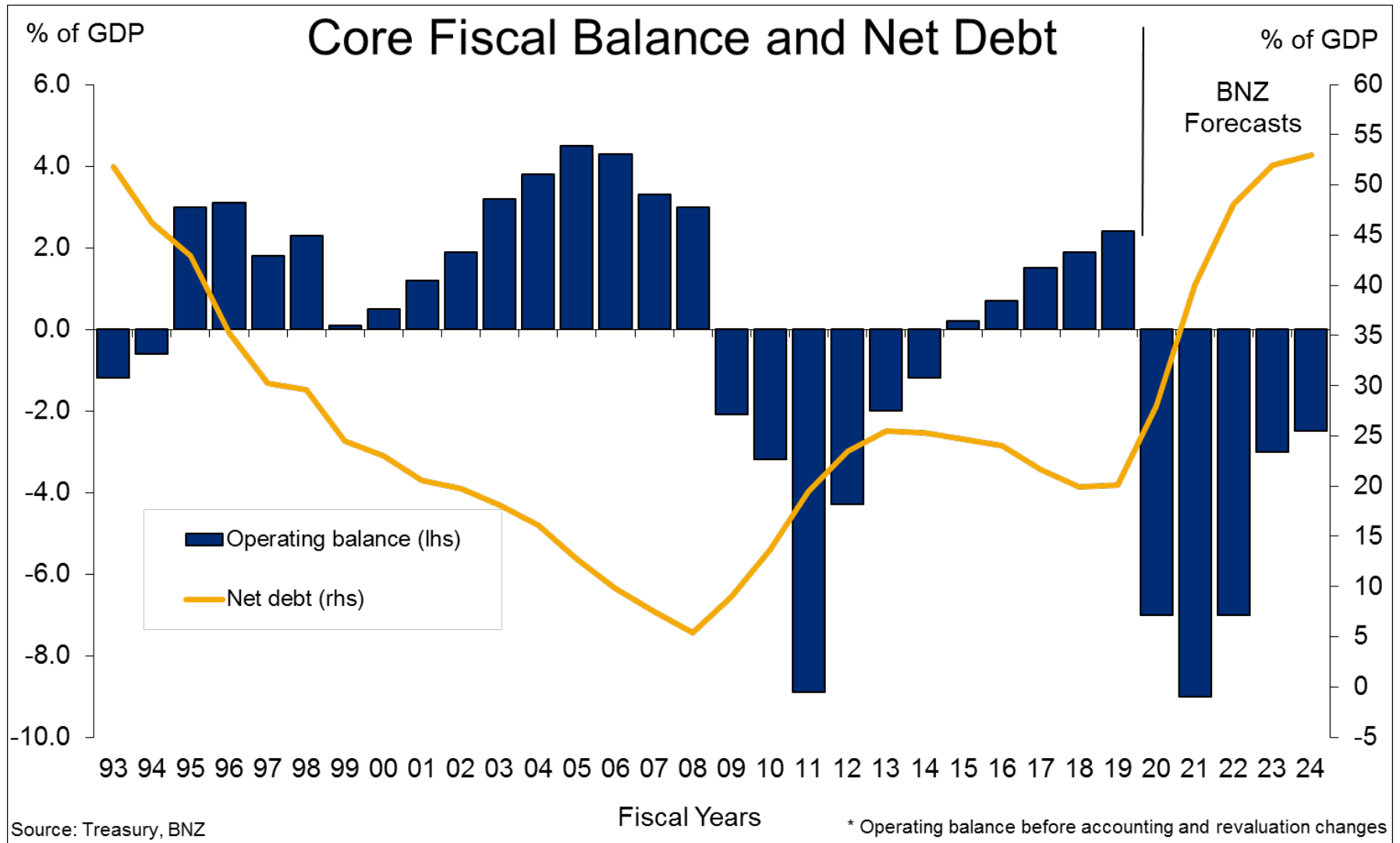
Investment Intentions Plummet



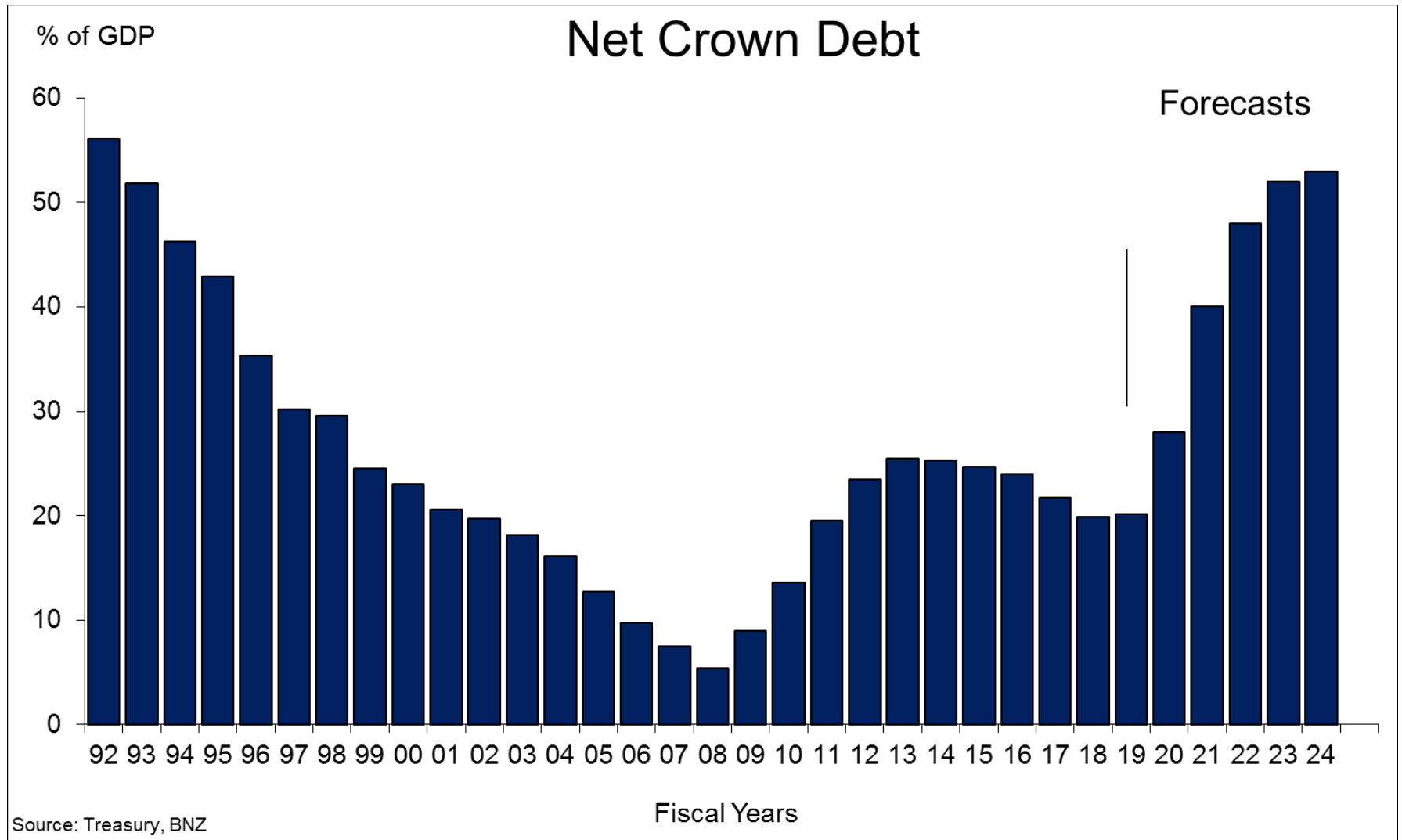
International Tourism In Disarray



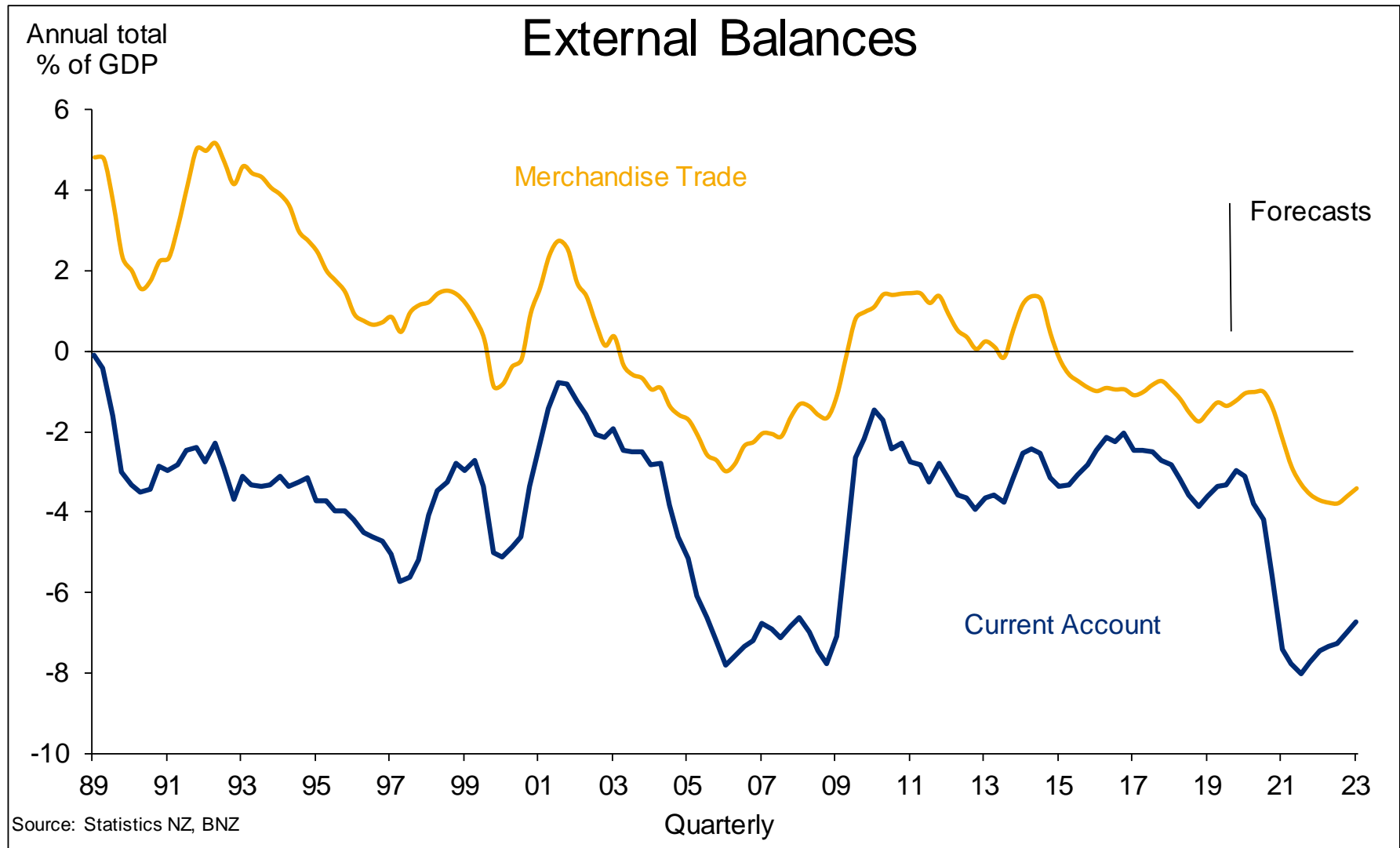
Debts To Be Repaid



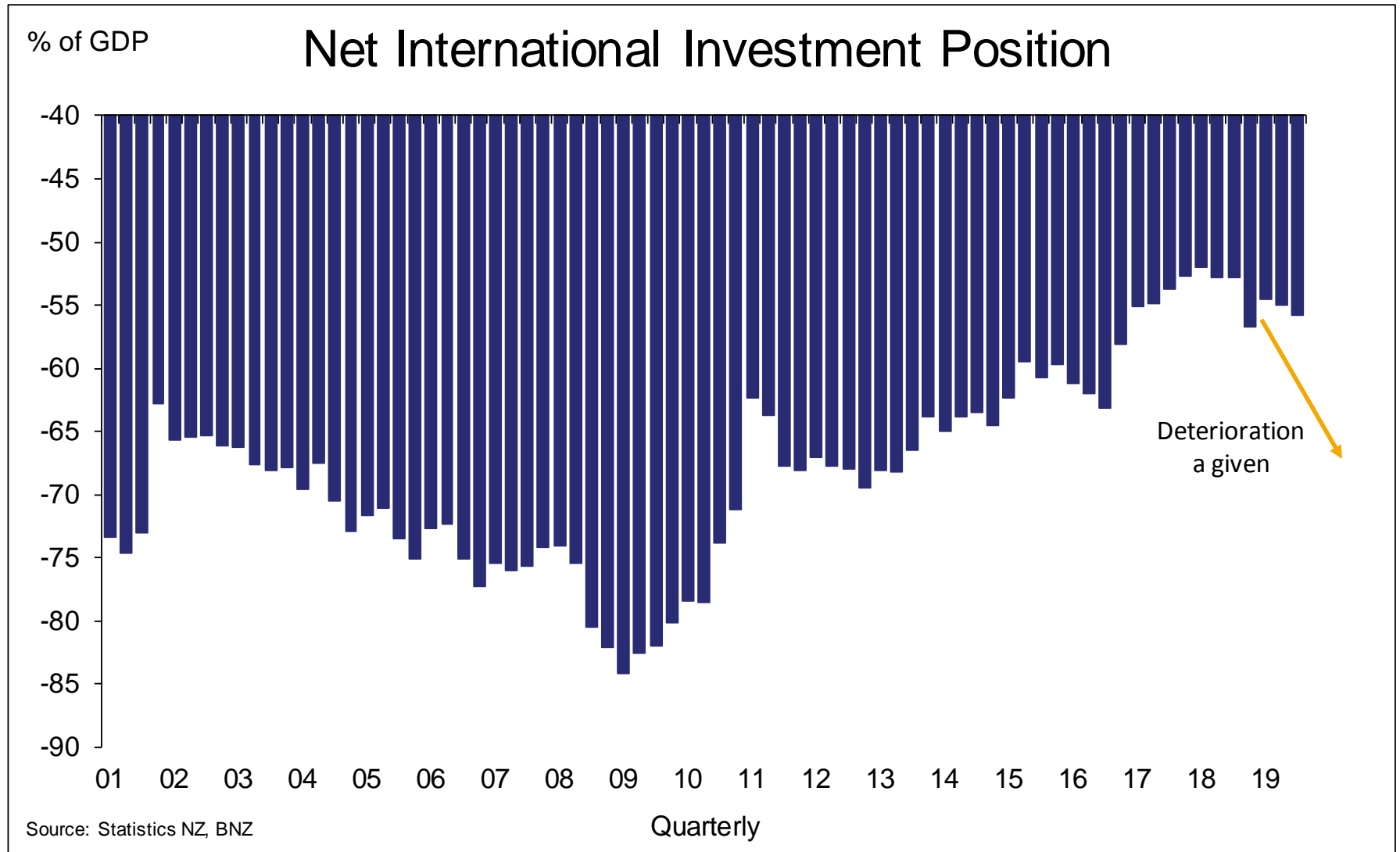
Not Without Precedent



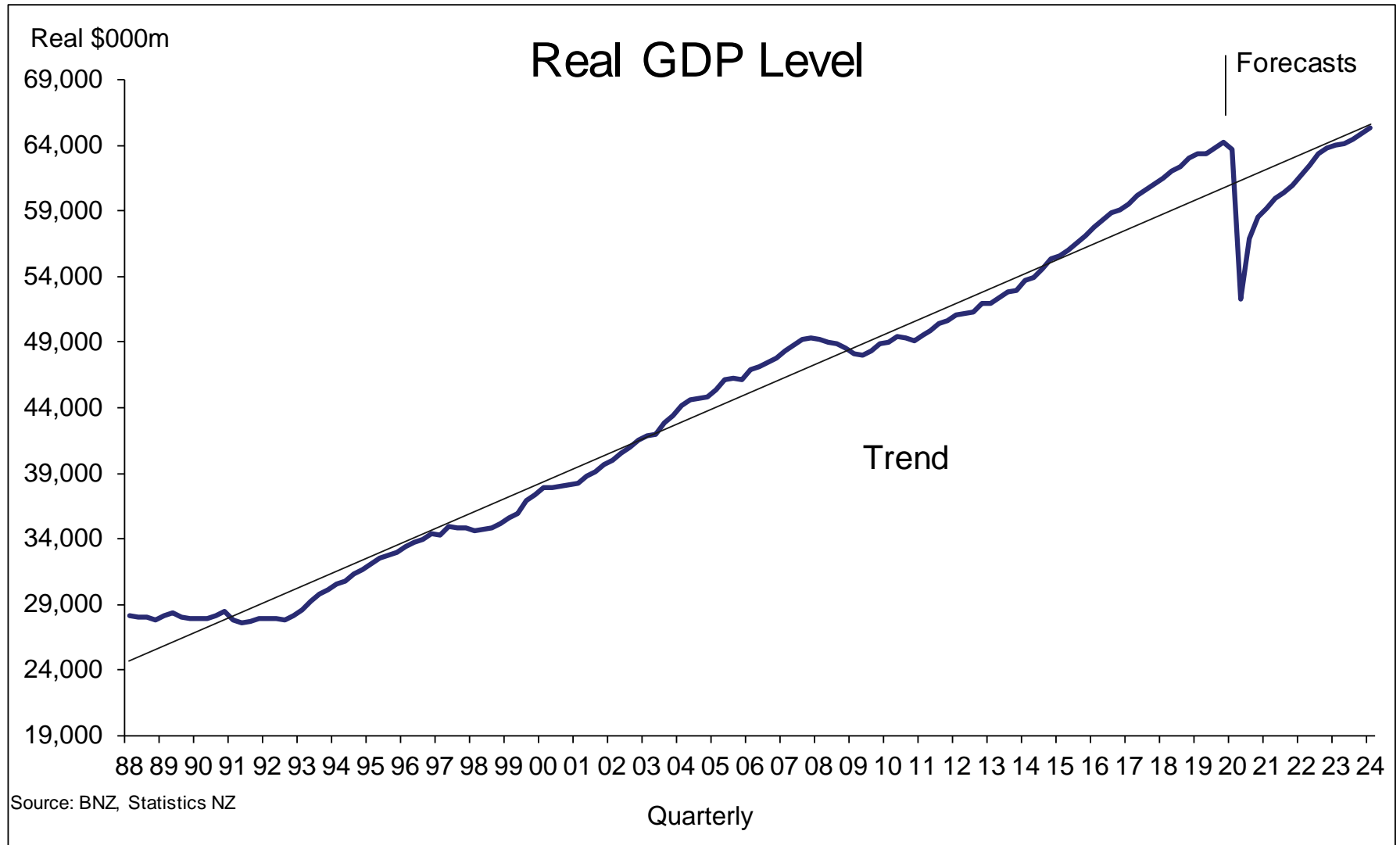
External Accounts Deteriorate



Debt Build Up Guaranteed



Putting It Altogether



Source: BNZ, Statistics NZ

Biggest Hits

- International tourism
- Hospitality industry
- Commercial property
- Discretionary goods and services

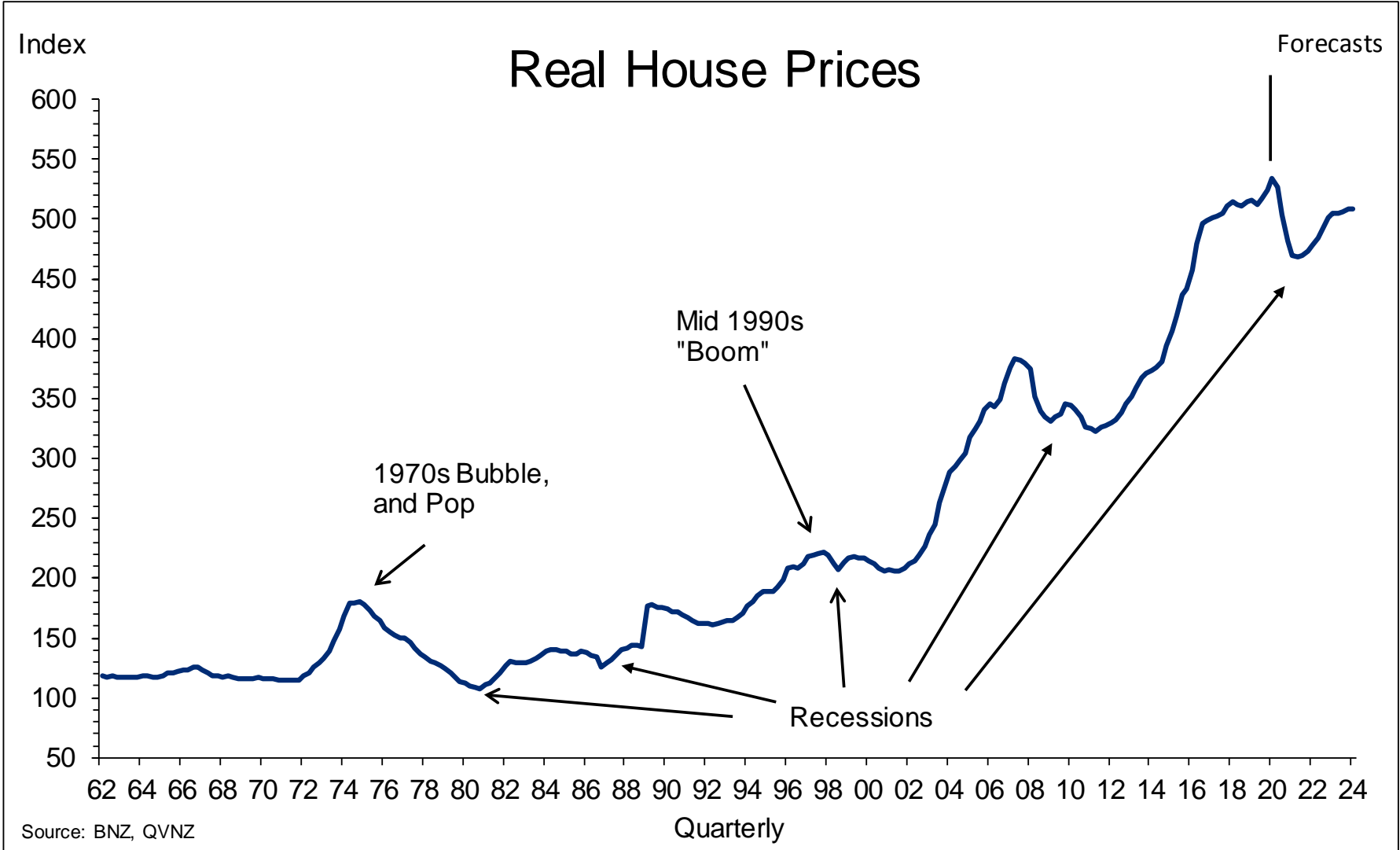
Potential Winners

- Infrastructure
- The digital economy
- Import substituting manufacturing
- Call centres
- On line retailers

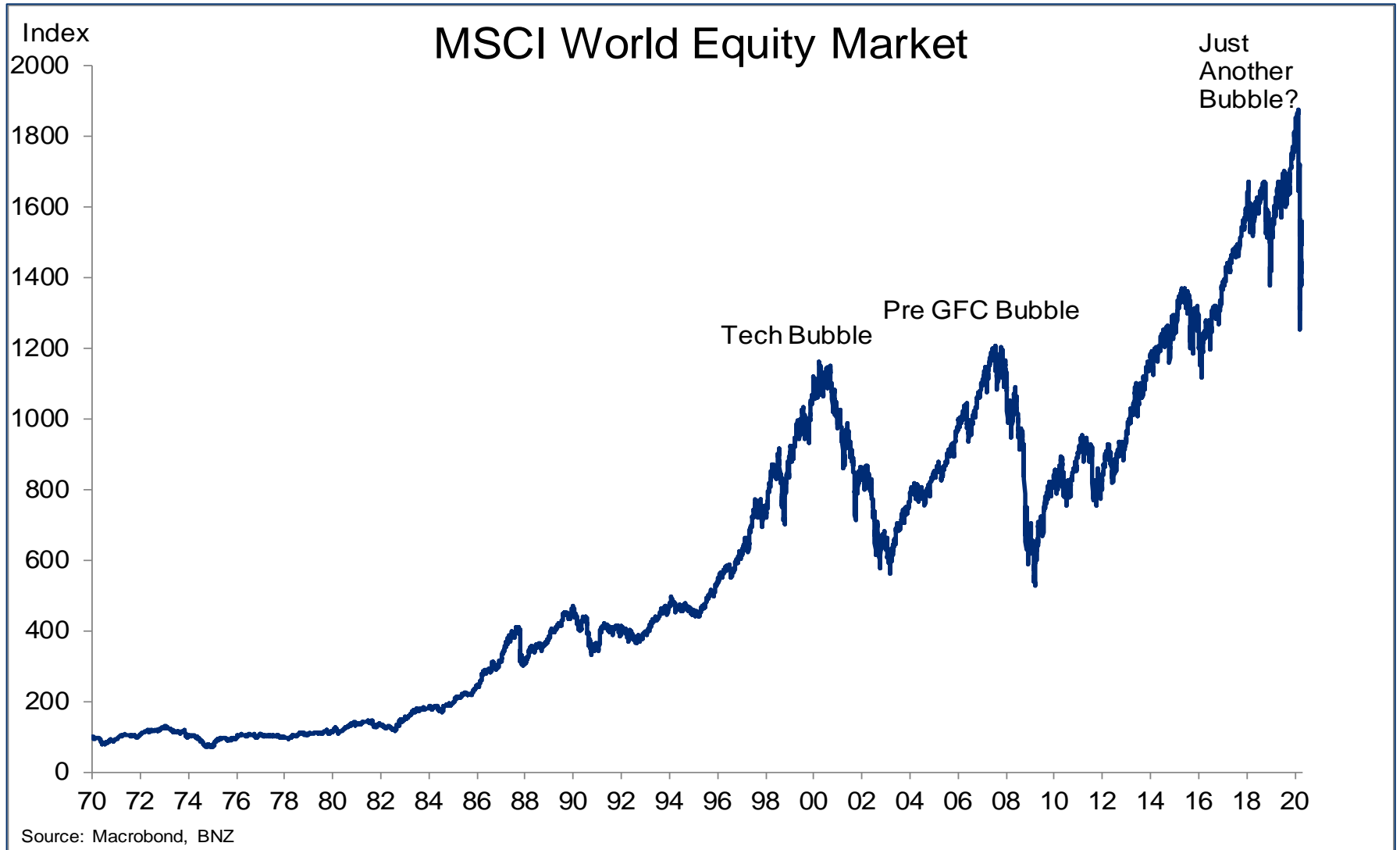
Market Outcomes

- House prices tumble
- Equities claw their way higher
- Cash rate here for a long time
- Yield curve steepens
- QE the dominant tool
- NZD driven by risk sentiment

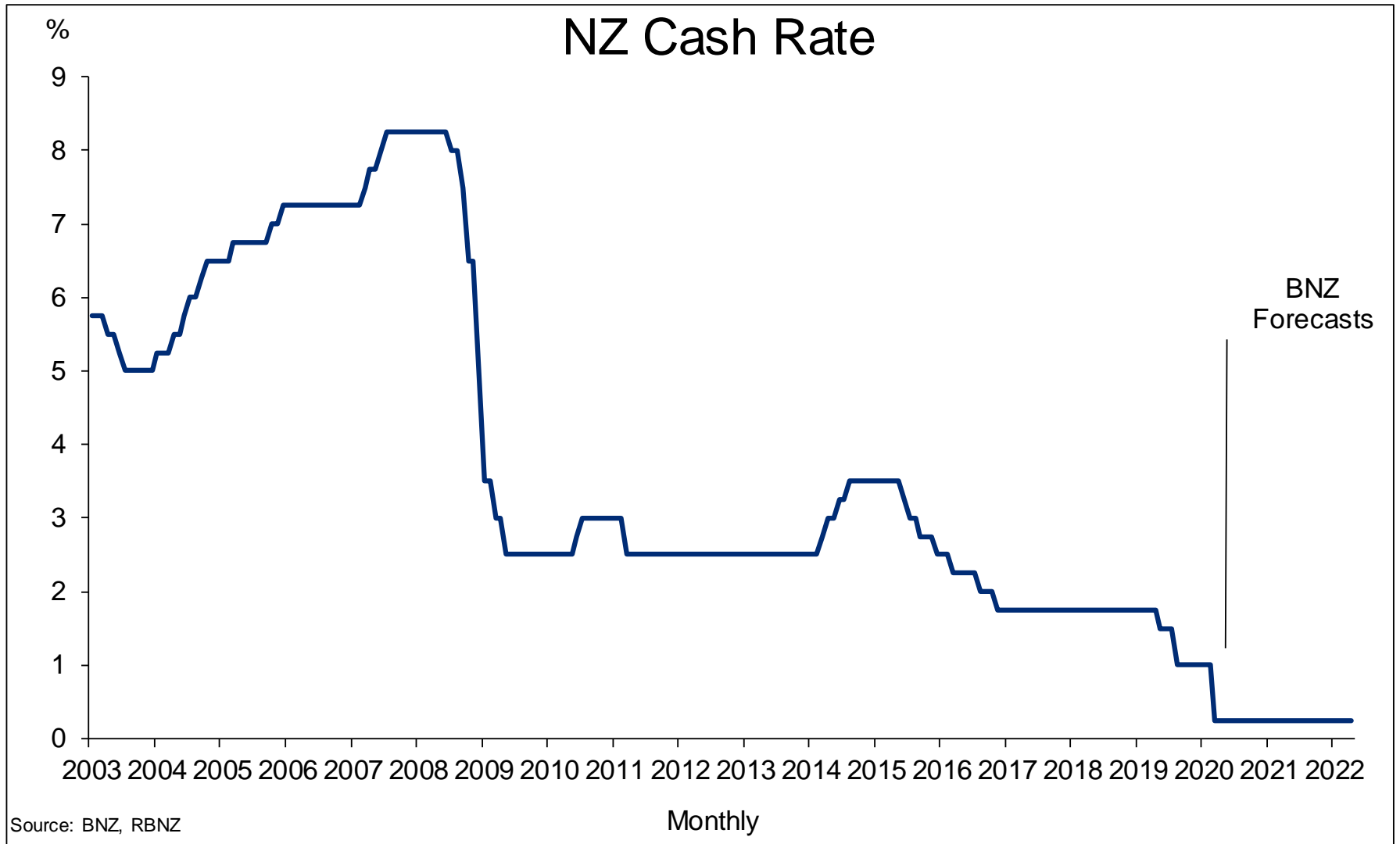
The House Price Correction



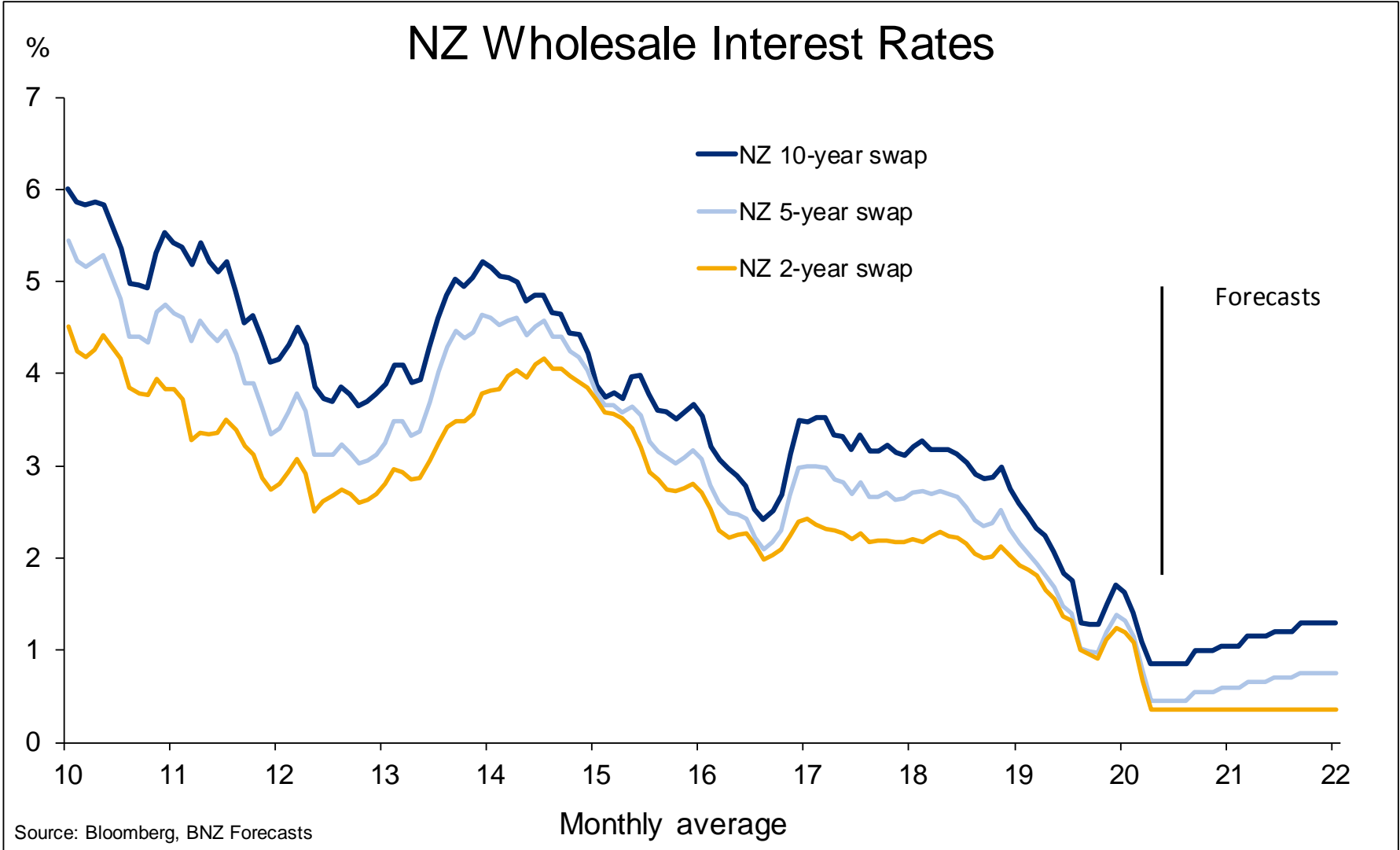
Peak To Peak 7 Years Away?



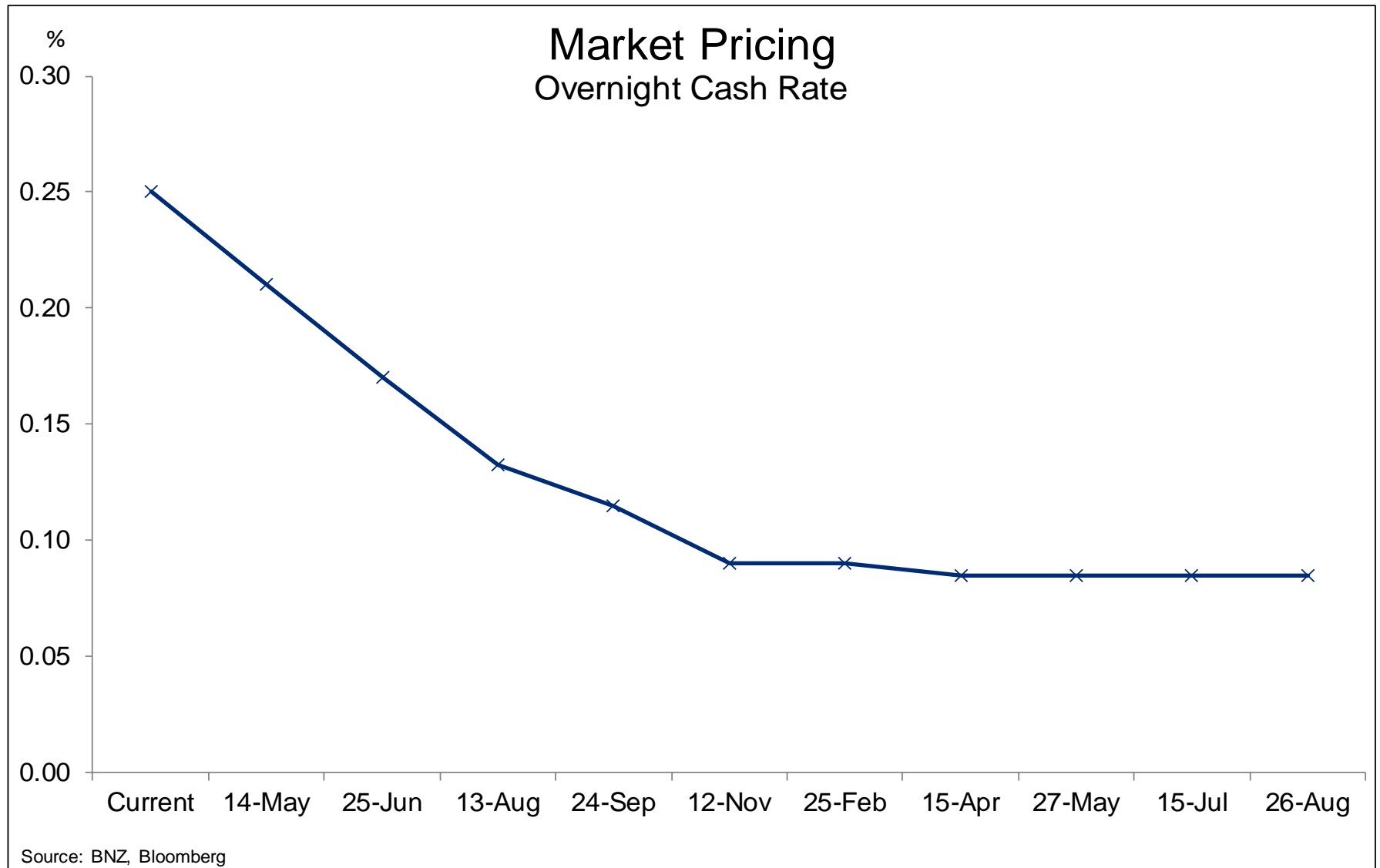
Going Nowhere Fast



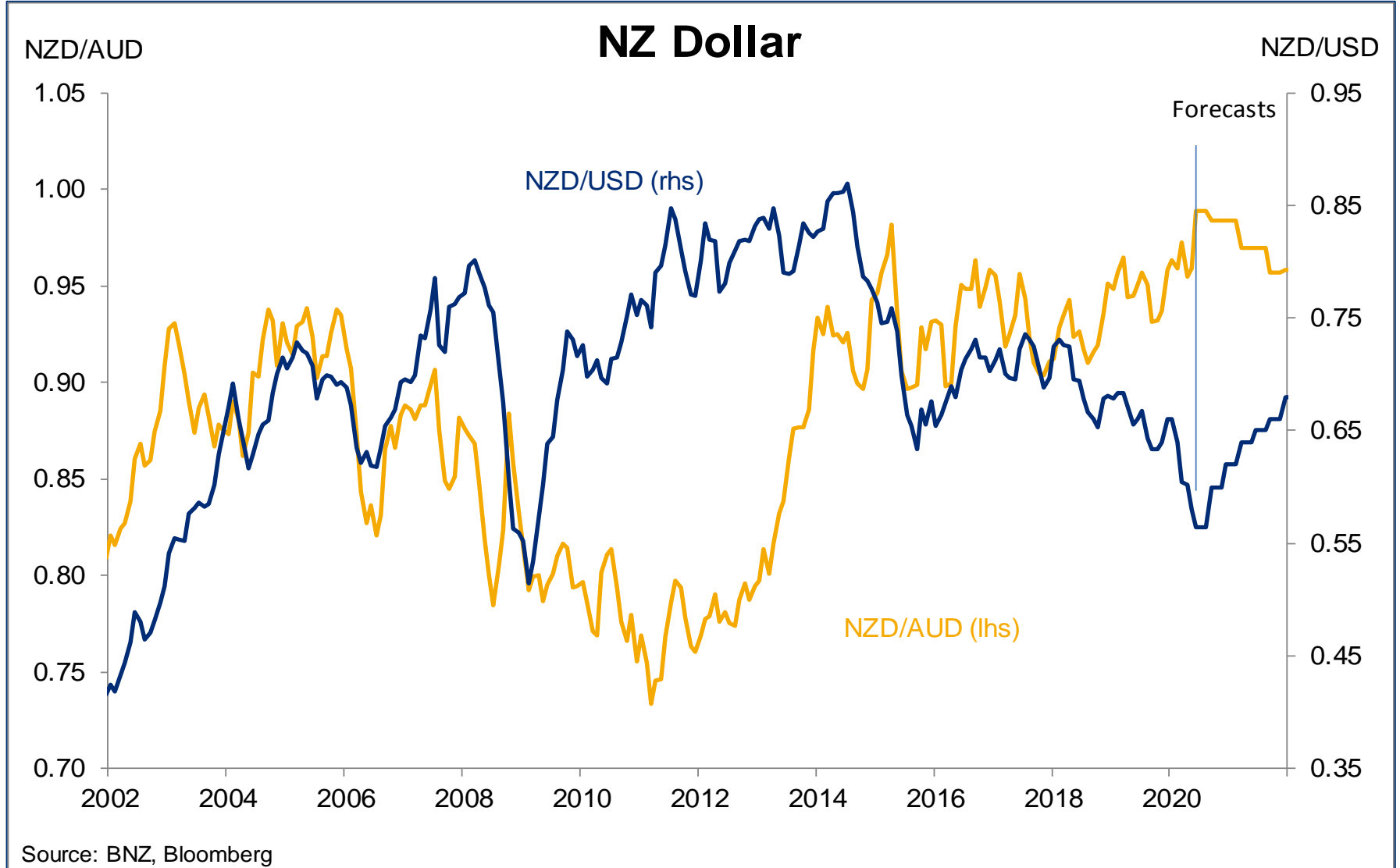
Though A Modest Steepening



Market Overexcited?



NZD At Risk's Mercy



Conclusion

- The outlook is brightening
- But the pain is yet to be fully felt
- Return to “normal” is years away
- And the world will never be the same

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