

Economic Bulletin.

11 June 2021

Preview of Q1 GDP (17 June, 10:45am) and current account (16 June, 10:45am).

- We expect a 0.6% rise in GDP for the March quarter, after a 1.0% drop in December.
- Strong domestic demand appears to have outweighed the loss of from the absence of international tourists over the summer period.
- The strong housing market has been an engine for economic growth, providing a tailwind for some industries.
- We expect the current account deficit to widen in the March quarter, due to the loss of tourist earnings and a rebound in demand for imports.

Michael Gordon, Senior Economist

+64 9 336 5670

Gregorius Steven, Economist

+64 9 367 3978

	Dec-20 actual	Mar-21 Westpac f/c	Mar-21 RBNZ f/c
GDP			
Quarterly % chg	-1.0	0.6	-0.6
Annual % chg	-0.9	0.9	-0.3
Annual average % chg	-2.9	-2.7	-3.1
Balance of Payments			
Current account balance \$m	-2,695	-2,230	-
Annual balance \$m	-2,549	-6,680	-5,334
Annual balance % of GDP	-0.8	-2.1	-1.6

Q1 GDP, 17 June.

We estimate that GDP rose by 0.6% in the March quarter, a partial unwinding of the 1% drop in the December quarter last year. This would put the level of activity slightly below its pre-Covid peak, and more significantly, about 4% short of where we would have expected the economy to be if Covid hadn't happened.

This is an upgrade from our initial forecast of a flat quarterly result, which was essentially an acknowledgement that things could go either way. The absence of overseas tourists was expected to weigh more heavily on the economy over the summer months, but this was countered by an ongoing rebound in domestic demand. The data released over the last week or so suggest that the latter won out over the March quarter.

There's still a high degree of uncertainty around our forecast, given the challenges that Stats NZ faces in measuring the impact of Covid on activity. But as we've noted previously, we wouldn't regard a weak result as a sign of a 'double dip' recession; rather, the loss of overseas tourism has disrupted



the normal seasonal patterns in spending. The flipside of this is that we expect a strong lift in growth through the middle part of this year.

Our forecast is likely to be well within the range of market forecasts. Financial markets also appear to be braced for a solid lift in activity over the quarter, although a weaker than expected result would probably only prompt a minor reaction.

We expect a much stronger result than the 0.6% drop that the Reserve Bank forecast in its May *Monetary Policy Statement* (which didn't have the benefit of the activity indicators that have been published recently). On the face of it, that might prompt the RBNZ to bring forward its expected timing of OCR hikes even further. However, we're still sceptical that by next year the evidence on inflation pressures will be enough to warrant rate hikes. Indeed, the strong pace of growth in domestic activity actually argues against the idea that we're running up against capacity constraints.

In terms of the details, we expect the strongest contributions to come from wholesale trade (up 3.9%), construction (up 2.8%) and non-food manufacturing (up 2.3%). The strong housing market is likely to have contributed to these sectors in various ways, both boosting household spending and generating demand for construction materials.

Other positive drivers include the continued strong growth in the public sector, and a 0.5% rise in retail spending, led by hospitality. A lift in milk production boosted the agricultural sector, although food manufacturing overall was held back by a drop in meat and wine volumes.

The main weak spots in March quarter activity relate to natural resources in one way or another. The mining sector saw a further decline in oil and gas extraction, while low hydro lake levels saw both a drop in total electricity generation and a greater reliance on more expensive sources.

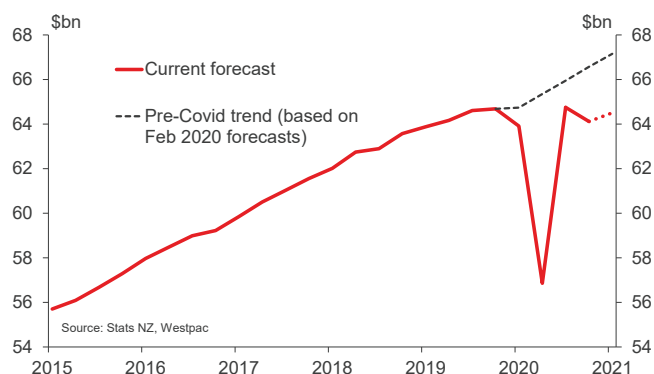
The March quarter included a short period of Covid restrictions, with Auckland returning to Alert Level 3 for a total of eleven days. However, the data that we've seen for the quarter reinforces what we suspected from previous episodes: short periods of restrictions largely result in activity being delayed rather than lost altogether. Given that the restrictions happened in the middle of the quarter, it's likely that the 'catchup' period has already been captured in the March quarter figures.

Q1 Balance of Payments, 16 June.

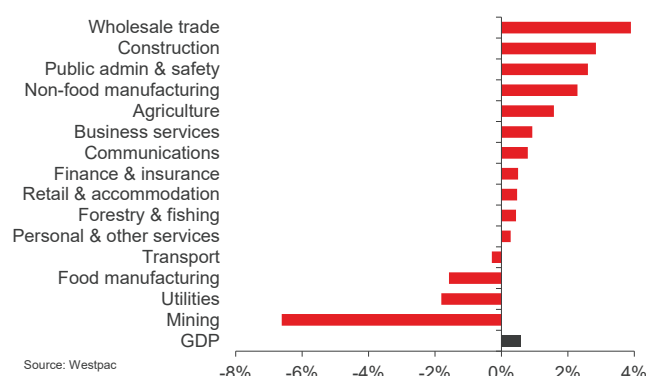
We expect the annual current account deficit to widen to 2.1% of GDP in the March quarter, after having narrowed to a 19-year low of 0.8% late last year. The main factor is the lack of the usual lift in overseas visitor spending at this time of year. This will see the deficit widen further over the rest of 2021, with a broad-based resumption of overseas travel not expected to begin until next year.

Meanwhile, the March quarter goods balance (in seasonally adjusted terms) is also likely to tip back into negative territory. Importantly, import volumes continue to rebound after last year's dramatic drop during the Covid lockdown. A temporary dip in export volumes of around 2.5% is likely to add to the weakness in the goods balance over the quarter.

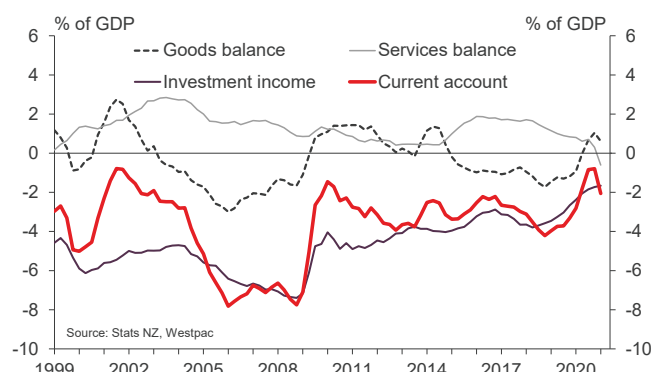
Level of quarterly GDP



Q1 GDP forecasts by production



Annual current account balance



Contact the Westpac economics team.

Michael Gordon, Acting Chief Economist

+64 9 336 5670

Satish Ranchhod, Senior Economist

+64 9 336 5668

Nathan Penny, Senior Agri Economist

+64 9 348 9114

Paul Clark, Industry Economist

+64 9 336 5656

Gregorius Steven, Economist

+64 9 367 3978

Any questions email:

economics@westpac.co.nz

Past performance is not a reliable indicator of future performance. The forecasts given in this document are predictive in character. Whilst every effort has been taken to ensure that the assumptions on which the forecasts are based are reasonable, the forecasts may be affected by incorrect assumptions or by known or unknown risks and uncertainties. The ultimate outcomes may differ substantially from these forecasts.

Disclaimer.

Things you should know

Westpac Institutional Bank is a division of Westpac Banking Corporation ABN 33 007 457 141 ("Westpac").

Disclaimer

This material contains general commentary, and market colour. The material does not constitute investment advice. Certain types of transactions, including those involving futures, options and high yield securities give rise to substantial risk and are not suitable for all investors. We recommend that you seek your own independent legal or financial advice before proceeding with any investment decision. This information has been prepared without taking account of your objectives, financial situation or needs. This material may contain material provided by third parties. While such material is published with the necessary permission none of Westpac or its related entities accepts any responsibility for the accuracy or completeness of any such material. Although we have made every effort to ensure the information is free from error, none of Westpac or its related entities warrants the accuracy, adequacy or completeness of the information, or otherwise endorses it in any way. Except where contrary to law, Westpac and its related entities intend by this notice to exclude liability for the information. The information is subject to change without notice and none of Westpac or its related entities is under any obligation to update the information or correct any inaccuracy which may become apparent at a later date. The information contained in this material does not constitute an offer, a solicitation of an offer, or an inducement to subscribe for, purchase or sell any financial instrument or to enter a legally binding contract. Past performance is not a reliable indicator of future performance. Whilst every effort has been taken to ensure that the assumptions on which the forecasts are based are reasonable, the forecasts may be affected by incorrect assumptions or by known or unknown risks and uncertainties. The ultimate outcomes may differ substantially from these forecasts.

Country disclosures

Australia: Westpac holds an Australian Financial Services Licence (No. 233714). This material is provided to you solely for your own use and in your capacity as a wholesale client of Westpac.

New Zealand: In New Zealand, Westpac Institutional Bank refers to the brand under which products and services are provided by either Westpac or Westpac New Zealand Limited ("WNZL"). Any product or service made available by WNZL does not represent an offer from Westpac or any of its subsidiaries (other than WNZL). Neither Westpac nor its other subsidiaries guarantee or otherwise support the performance of WNZL in respect of any such product. The current disclosure statements for the New Zealand branch of Westpac and WNZL can be obtained at the internet address www.westpac.co.nz. For further information please refer to the Product Disclosure Statement (available from your Relationship Manager) for any product for which a Product Disclosure Statement is required, or applicable customer agreement.

China, Hong Kong, Singapore and India: This material has been prepared and issued for distribution in Singapore to institutional investors, accredited investors and expert investors (as defined in the applicable Singapore laws and regulations) only. Recipients in Singapore of this material should contact Westpac Singapore Branch in respect of any matters arising from, or in connection with, this material. Westpac Singapore Branch holds a wholesale banking licence and is subject to supervision by the Monetary Authority of Singapore. Westpac Hong Kong Branch holds a banking licence and is subject to supervision by the Hong Kong Monetary Authority. Westpac Hong Kong branch also holds a license issued by the Hong Kong Securities and Futures Commission (SFC) for Type 1 and Type 4 regulated activities. This material is intended only to "professional investors" as defined in the Securities and Futures Ordinance and any rules made under that Ordinance. Westpac Shanghai and Beijing Branches hold banking licenses and are subject to supervision by the China Banking and Insurance Regulatory Commission (CBIRC). Westpac Mumbai Branch holds a banking license from Reserve Bank of India (RBI) and subject to regulation and supervision by the RBI.

UK: The contents of this communication, which have been prepared by and are the sole responsibility of Westpac Banking Corporation London and Westpac Europe Limited. Westpac (a) has its principal place of business in the United Kingdom at Camomile Court, 23 Camomile Street, London EC3A 7LL, and is registered at Cardiff in the UK (as Branch No. BR00106), and (b) authorised and regulated by the Australian Prudential Regulation Authority in Australia. Westpac is authorised in the United Kingdom by the Prudential Regulation Authority. Westpac is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. Details about the extent of our regulation by the Prudential Regulation Authority are available from us on request. Westpac Europe Limited is a company registered in England (number 05660023) and is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority.

This communication is being made only to and is directed at (a) persons who have professional experience in matters relating to investments who fall within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "Order") or (b) high net worth entities, and other persons to whom it may otherwise lawfully be communicated, falling within Article 49(2)(a) to (d) of the Order (all such persons together being referred to as "relevant persons"). Any person who is not a relevant person should not act or rely on this communication or any of its contents. The investments to which this communication relates are only available to and any invitation, offer or agreement to subscribe, purchase or otherwise acquire such investments will be engaged in only with, relevant persons. Any person who is not a relevant person should not act or rely upon this communication or any of its contents. In the same way, the information contained in this communication is intended for "eligible counterparties" and "professional clients" as defined by the rules of the Financial Conduct Authority and is not intended for "retail clients". With this in mind, Westpac expressly prohibits you from passing on the information in this communication to any third party. In particular this communication and, in each case, any copies thereof may not be taken, transmitted or distributed,

directly or indirectly into any restricted jurisdiction. This communication is made in compliance with the Market Abuse Regulation (Regulation(EU) 596/2014).

Investment Recommendations Disclosure

The material may contain investment recommendations, including information recommending an investment strategy. Reasonable steps have been taken to ensure that the material is presented in a clear, accurate and objective manner. Investment Recommendations for Financial Instruments covered by MAR are made in compliance with Article 20 MAR. Westpac does not apply MAR Investment Recommendation requirements to Spot Foreign Exchange which is out of scope for MAR.

Unless otherwise indicated, there are no planned updates to this investment Recommendation at the time of publication. Westpac has no obligation to update, modify or amend this Investment Recommendation or to notify the recipients of this Investment Recommendation should any information, including opinion, forecast or estimate set out in this Investment Recommendation change or subsequently become inaccurate.

Westpac will from time to time dispose of and acquire financial instruments of companies covered in this Investment Recommendation as principal and act as a market maker or liquidity provider in such financial instruments.

Westpac does not have any proprietary positions in equity shares of issuers that are the subject of an investment recommendation.

Westpac may have provided investment banking services to the issuer in the course of the past 12 months.

Westpac does not permit any issuer to see or comment on any investment recommendation prior to its completion and distribution.

Individuals who produce investment recommendations are not permitted to undertake any transactions in any financial instruments or derivatives in relation to the issuers covered by the investment recommendations they produce.

Westpac has implemented policies and procedures, which are designed to ensure conflicts of interests are managed consistently and appropriately, and to treat clients fairly.

The following arrangements have been adopted for the avoidance and prevention of conflicts of interests associated with the provision of investment recommendations.

- (i) Chinese Wall/Cell arrangements;
- (ii) physical separation of various Business/Support Units;
- (iii) and well defined wall/cell crossing procedures;
- (iv) a "need to know" policy;
- (v) documented and well defined procedures for dealing with conflicts of interest;
- (vi) steps by Compliance to ensure that the Chinese Wall/Cell arrangements remain effective and that such arrangements are adequately monitored.

U.S: Westpac operates in the United States of America as a federally licensed branch, regulated by the Office of the Comptroller of the Currency. Westpac is also registered with the US Commodity Futures Trading Commission ("CFTC") as a Swap Dealer, but is neither registered as, or affiliated with, a Futures Commission Merchant registered with the US CFTC. Westpac Capital Markets, LLC ("WCM"), a wholly-owned subsidiary of Westpac, is a broker-dealer registered under the U.S. Securities Exchange Act of 1934 ("the Exchange Act") and member of the Financial Industry Regulatory Authority ("FINRA"). This communication is provided for distribution to U.S. institutional investors in reliance on the exemption from registration provided by Rule 15a-6 under the Exchange Act and is not subject to all of the independence and disclosure standards applicable to debt research reports prepared for retail investors in the United States. WCM is the U.S. distributor of this communication and accepts responsibility for the contents of this communication. All disclaimers set out with respect to Westpac apply equally to WCM. If you would like to speak to someone regarding any security mentioned herein, please contact WCM on +1 212 389 1269. All disclaimers set out with respect to Westpac apply equally to WCM.

Investing in any non-U.S. securities or related financial instruments mentioned in this communication may present certain risks. The securities of non-U.S. issuers may not be registered with, or be subject to the regulations of, the SEC in the United States. Information on such non-U.S. securities or related financial instruments may be limited. Non-U.S. companies may not be subject to audit and reporting standards and regulatory requirements comparable to those in effect in the United States. The value of any investment or income from any securities or related derivative instruments denominated in a currency other than U.S. dollars is subject to exchange rate fluctuations that may have a positive or adverse effect on the value of or income from such securities or related derivative instruments.

The author of this communication is employed by Westpac and is not registered or qualified as a research analyst, representative, or associated person under the rules of FINRA, any other U.S. self-regulatory organisation, or the laws, rules or regulations of any State. Unless otherwise specifically stated, the views expressed herein are solely those of the author and may differ from the information, views or analysis expressed by Westpac and/or its affiliates.