



# Weekly Economic Commentary.

## Hard labour.

The September quarter labour market surveys, to be released on Wednesday, are shaping up as another critical part of the inflation picture for New Zealand. With the economy running hot and the labour market increasingly tight, there's a greater risk that a short-term inflation shock could provide the spark for an ongoing upward spiral in wages and prices. And once that kind of inflation becomes embedded, it's much harder and costlier for the Reserve Bank to squeeze it out of the economy again.

We're expecting a further drop in the unemployment rate for the September quarter, and an acceleration in wage growth. Crucially, we expect both of these to be stronger than what the RBNZ assumed in its most recent forecasts in August. If we're right, that would further bolster the case for a series of OCR hikes over the coming months.

On that point, we should address the fact that interest rate markets have been on an absolute tear in recent weeks. Market pricing is now consistent with an OCR reaching almost 3% in the next two years. It's likely that some of this reflects runaway momentum in a thin market, rather than a strongly-held view on the cash rate. So while we wouldn't rule out such an outcome, we'd note that there's already a lot of inflation

'fear' baked into the longer-term interest rates that borrowers now face.

For the Household Labour Force Survey (HLFS), we've pencilled in a drop in the unemployment rate from 4.0% to 3.8%. Unfortunately this won't be a clean read on the labour market this time, as the latest Covid lockdown (which began around the middle of the quarter) is likely to bias it downward. We saw this effect during last year's lockdown, when the unemployment rate surprised everyone by falling to 4% before picking up again.

There are two reasons for this. First, to be counted as 'unemployed' you need to be actively seeking work, which



isn't always practical under lockdown conditions. Stats NZ has done some additional questioning to gauge the extent of this issue, but the headline unemployment rate itself won't be adjusted for this.

The thornier issue which can't be corrected for is that the survey response rate was lower than usual, as Stats NZ had to move away from face-to-face interviews and towards online. This drop-off in responses will have been among groups that are normally harder to reach anyway and, while we don't know for certain, it's likely that they have higher rates of unemployment.

While both effects are likely to be smaller this time than they were last year, we don't have a clear sense of how much impact they will have. As such, the risks are to the downside of our 3.8% forecast – that number is more like our assessment of the 'true' result, rather than what will be published on the day.

Even without the latest Covid lockdown, we would have been looking for a stronger result this quarter. The monthly employment indicator, based on income tax data, has shown a strong lift in the number of jobs in recent months. Job ads have surged over the course of this year, and even in lockdown they are still running above their pre-pandemic levels. Jobseeker benefit numbers were lower on average over the quarter, even with an uptick at the start of the lockdown. And the NZIER business opinion survey found that hiring intentions were at an all-time high.

This strong demand is coming at a time when the supply of workers is more constrained than normal, as a result of the border closure. The labour force is still growing – Stats NZ estimates that the working-age population has risen by about 0.7% over the last year. But that compares to growth rates above 2% before the pandemic.

As a result, much of that demand is being channelled into competing for the existing pool of workers. Indeed, the NZIER survey also found that a net 47% of firms expect worker turnover to rise in the coming months – the highest, by quite a large margin, in the history of the survey going back to 1970.

This is a classic formula for higher wage inflation. We saw the first signs of this in the June quarter, with a 0.7% rise in the Labour Cost Index (LCI), and we expect this to accelerate to 0.9% for the September quarter. Within that, we expect a 1% rise in private sector wages, but with more restraint in the public sector due to the partial wage freeze.

The LCI is a slow-moving measure by design, so even a modest-looking acceleration like this would be significant – and would be the biggest quarterly rise since 2008. And this may not even capture the non-wage sweeteners that some employers are reportedly offering, such as signing bonuses and extra leave entitlements.

Both the LCI and the Quarterly Employment Survey (QES) are conducted mid-quarter, so they will have pre-dated the Covid lockdown that began on 18 August. In contrast, the HLFS is surveyed throughout the quarter, so its hours worked measure should be a reasonable gauge of how much activity was lost during the lockdown. We'd expect a drop in hours worked of around 5%, which is broadly in line with our current forecast of GDP for the quarter.

**Michael Gordon**, Acting Chief Economist

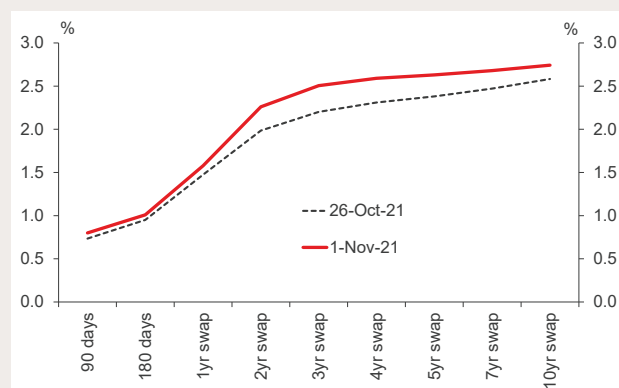
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## Fixed vs floating for mortgages.

We expect the Reserve Bank to increase the OCR further at its upcoming reviews, rising to 1.25% by mid-2022 and reaching a peak of 2% by late 2023.

Based on these OCR forecasts, we think there is value in extending fixed-rate terms as far out as three years. Longer terms (out to five years) don't offer additional value, though they may be suitable for borrowers who value more certainty in their repayments.

**NZ interest rates**



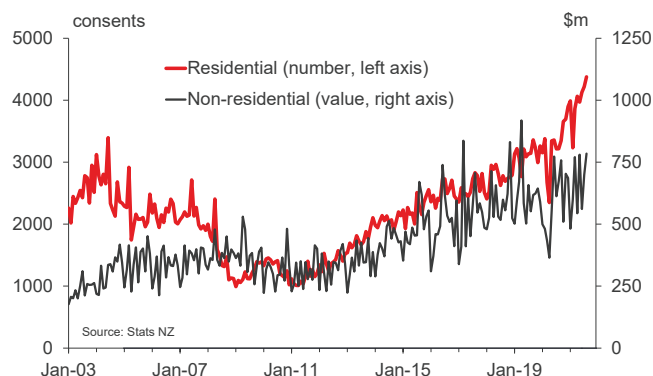
# The week ahead.

## NZ Sep residential building consents

**Nov 2, Last: +3.8%, Westpac f/c: -5.0%**

- Residential consent issuance rose 3.8% in August, taking annual consent numbers to a fresh all-time high. Issuance levels remained strong despite the dialling up of the Alert Level halfway through the month.
- We expect that consent issuance will fall by 5% in September. The firm August numbers included a huge increase in medium density consents in Auckland. Issuance in this category can be lumpy and is likely to drop back to more normal levels this month, dragging down the overall level of issuance.
- Despite the expected pull back, annual consent numbers are set to linger at multi-decade highs, with construction activity set to remain strong over the year ahead.

## NZ building consents

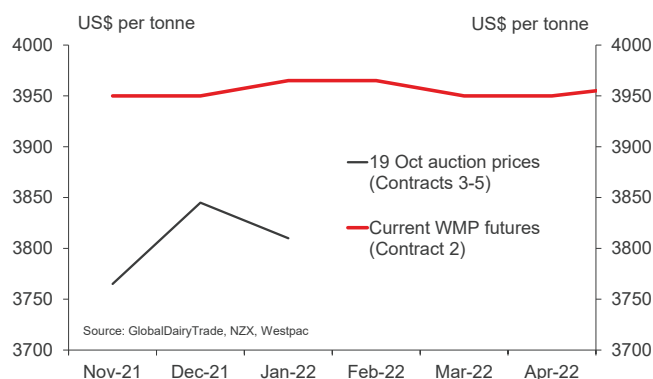


## NZ GlobalDairyTrade auction, whole milk powder prices

**Nov 3, Last: +1.5%, Westpac: +2.0%**

- We expect whole milk powder prices to lift at the upcoming dairy auction. This lift would build on the circa 7% rise over September and October.
- Recently, soft global supply has been translating into higher global dairy prices. For this auction, weak New Zealand production over September (down 4% compared to September 2020) is likely to further boost prices.
- Our pick is more modest than futures market pricing, where a circa 5% lift is expected.

## Whole milk powder prices



## NZ Q3 Household Labour Force Survey

**Nov 3, Employment last: 1.0%, WBC f/c: 0.8%**  
**Unemployment rate last: 4.0%, WBC f/c: 3.8%**

- We expect the unemployment rate to fall to 3.8% for the September quarter. This would be the lowest reading since 2008, just before the Global Financial Crisis.
- The risks to the headline rate are to the downside – as we observed last year, the Covid lockdown that began in mid-August is likely to distort the figures lower.
- But even without that effect, we would have been looking at a stronger result. Employment indicators have all been notably strong over recent months, with job advertisements well above pre-Covid levels, unemployment benefit numbers falling, and filled jobs accelerating.

## NZ Household Labour Force Survey



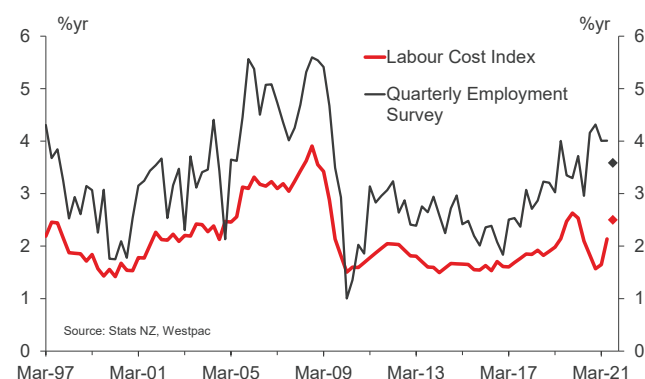
# The week ahead.

## NZ Q3 Labour Cost Index

**Nov 3, Private sector last: 0.9%, WBC f/c: 1.0%**

- We expect a 0.9% rise in the Labour Cost Index for the September quarter. Within that, we expect a 1% rise in private sector wages, but with more restraint in the public sector due to the partial wage freeze.
- Strong demand for labour is combining with a shortage of skilled workers. That in turn will put workers in a stronger position to negotiate cost-of-living adjustments, as inflation has surged in the near term.
- The LCI in particular will be an important update for the Reserve Bank. A hot economy and a tight labour market increases the risk of a sustained period of homegrown inflation.

## NZ salary and wage growth, all sectors

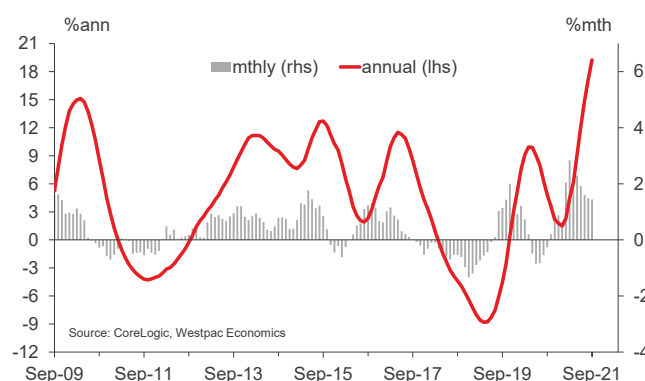


## Aus Oct house prices

**Nov 1, Last: 1.5%, WBC f/c: 1.4%**

- Australian dwelling prices posted another solid gain in Sep, up 1.5% nationally after a 1.5% gain in Aug and a 1.6% rise in July. All told, the slowdown during the 'delta' outbreak has been remarkably mild. Indeed, the Sydney market has managed to continue outperforming, with average monthly gains of 1.9%.
- Market turnover has seen bigger disruptions – the combination suggesting expectations of a quick resumption of strong market conditions are the key factor supporting price gains.
- Daily measures point to another solid 1.4% gain in Oct. However, performances are become more varied with what looks to be a very strong 2.5% gain in Brisbane contrasting with about a 1.6% rise in Sydney, a 1% rise in Melbourne and a small dip in Perth.

## Australian dwelling prices



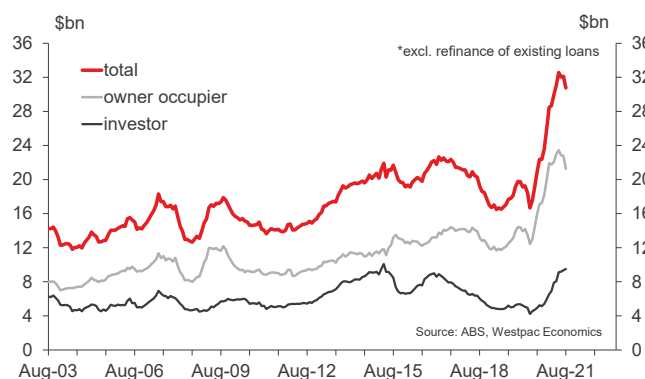
## Aus Sep housing finance approvals

**Nov 1, Last: -4.3%, WBC f/c: -5.0%**

**Mkt f/c: 1.5%, Range: 5% to +2.5%**

- Housing finance approvals recording a 4.3% decline in Aug, with a sharp 6.6% fall in owner-occupier loans partially offset by a 1.5% gain in investor loans.
- Sep is likely to see more weakening as unwinding HomeBuilder pullforward effects still look to have some way to run for construction related loans and the full hit from delta disruptions yet to play through.
- Whereas the total value of housing market turnover fell by an estimated 13% between May and Aug, the total value of housing finance has declined by less than half of that so far. The total value of sales dropped closer to 20% in NSW and 30% in Vic.

## New finance approvals\*



# The week ahead.

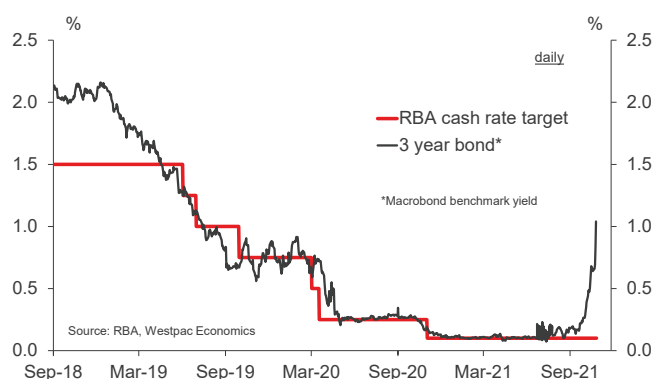
## Aus RBA policy decision

**Nov 2, Last: 0.10%, WBC f/c: 0.10%**

**Mkt f/c: 0.10%, Range: 0.10% to 0.10%**

- The RBA Board meeting for November is not expected to see any changes to policy settings.
- The focus will be on the wording and guidance around the likely timing of the initial rate rise in the upcoming cycle.
- Currently, RBA guidance is: “will not increase the cash rate until actual inflation is sustainably within the 2 to 3 per cent target range. The central scenario for the economy is that this condition will not be met before 2024”.
- Westpac Economics anticipates an early timing, forecasting an initial rate hike in the March quarter 2023, likely at the February meeting.
- Core inflation surprising to the high side, to now be inside the target band for the first time since 2015, lends weight to an early timing than envisaged by the RBA.

## RBA cash rate and 3 year bonds



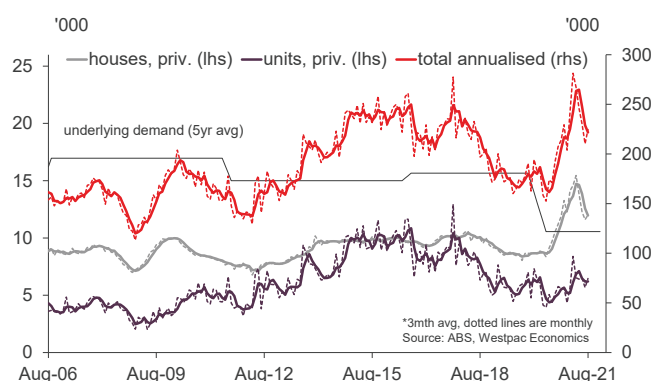
## Aus Sep dwelling approvals

**Nov 3, Last: 6.8%, WBC f/c: -8%**

**Mkt f/c: 2.0%, Range: 8.0% to +8.1%**

- Dwelling approvals recorded a surprise 6.8% gain in August, mainly driven by a 25% jump in high rise approvals but with some solid across both houses and units and across nearly all major states.
- We expect Sep approvals to show a significant pullback as some of the highrise jump reverses, a continued unwind in HomeBuilder related activity shows through and as Covid lockdowns see more direct impacts.
- Approvals are expected to fall 8%, the confluence of factors presenting some downside risk to the number. Upside centres on the remarkable surge in price in what is otherwise a ‘hot’ market for established properties.

## Dwelling approvals



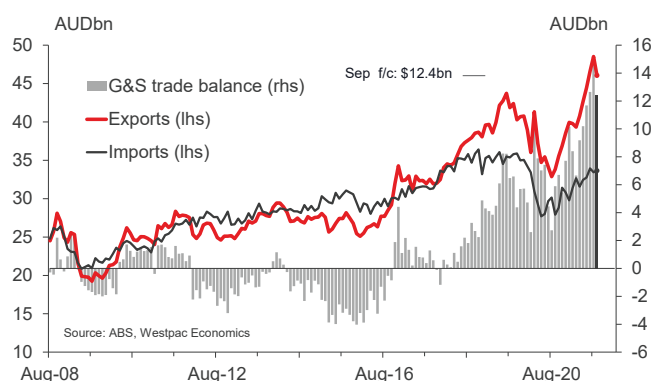
## Aus Sep trade balance, AUDbn

**Nov 4, Last: 15.1, Westpac f/c: 12.4**

**Mkt f/c: 12.2, Range: 11.0 to 17.5**

- Australia’s trade account has been in surplus for 44 consecutive months, from the start of 2018. The annual surplus widened to \$73bn for 2020, with rising commodity prices the key driver.
- In August 2021, the monthly surplus hit a new record high, of \$15.1bn.
- For September, the surplus is likely to pullback from its high, to a forecast \$12.4bn. The main mover, the reversal of the iron ore spot price, down by 25%, from around US\$160 to about \$120.
- Export earnings are expected to decline, down by about 5%, \$2.5bn. Higher coal prices and gains in LNG export earnings will be more than outweighed by the drop in iron ore earnings, as well as the risk of some pullback off highs for both gold and rural goods.
- Imports forecast to advance, up by around 0.5%, +\$0.2bn, on higher oil prices and some resilience in volumes despite the lockdowns.

## Australia’s trade balance





# The week ahead.

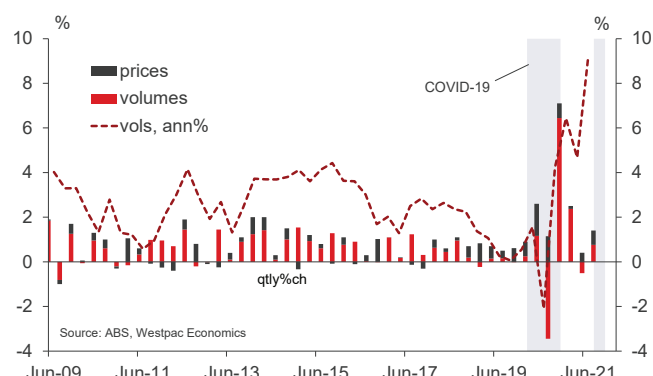
## Aus Q3 real retail sales

**Nov 4, Last: 0.8%, WBC f/c: -4.5%**

**Mkt f/c: 5.0%, Range: 5.6% to 2.5%**

- Real retail sales volumes were buffeted by 'minilockdowns' in the first half of 2021, declining 0.5% in Q1 and recovering 0.8% in Q2 but remained at a relatively high level overall, 6.7% above their pre-Covid levels in late 2019.
- Monthly sales figures show a 4.4% decline in nominal sales for Q3 as a whole, NSW, Vic and ACT all hit hard by lockdowns. With the CPI detail showing only a slight gain in retail prices, volume are expected to decline 4.5%qtr.
- Note that retail sales are somewhat insulated from the worst of Covid lockdown impacts due to the switching boost to basic food, which accounts for about 40% of retail sales.

## Quarterly retail volumes and prices

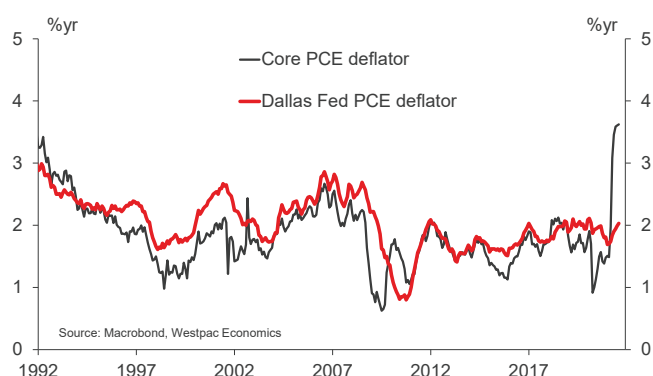


## US Nov FOMC meeting

**Nov 3**

- Prior to the premeeting media blackout, numerous members of the FOMC expressed support for a formal taper decision at the November meeting.
- They also gave similar guidance on its length, with mid2022 seen as the optimal end date. Beginning in December, this process will see bond and RMBS purchases by the Federal Reserve reduced by a combined \$15bn per month.
- With this decision essentially a done deal for the market, participants will be focused on any discussion around the next steps for policy beyond the taper.
- We expect Chair Powell and the FOMC will recognise the risks with respect to inflation, but like the BoC be in no hurry to signal rate increases, with December 2022 still the most likely starting point.

## Underlying inflation gives FOMC time re rates



## US Oct employment report

**Nov 5, nonfarm payrolls, Last: 194k, WBC f/c: 500k,**

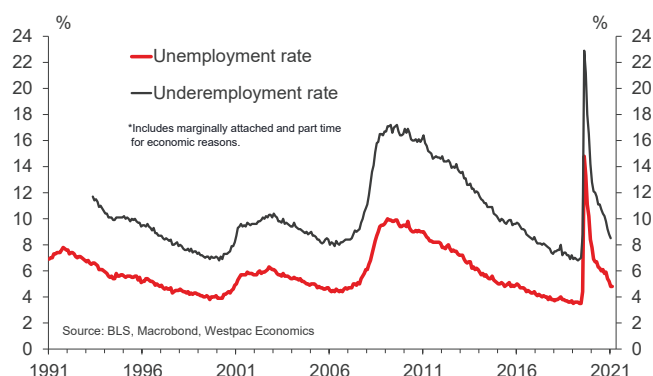
**Mkt f/c: 425k**

**Nov 5, unemployment rate, Last: 4.8%, WBC f/c: 4.7%,**

**Mkt f/c: 4.7%**

- The September nonfarm payrolls print was a material disappointment to both the market's and our own expectations.
- However, the prior two months were revised up materially, while comparing the establishment survey data to other available information made clear that much of the disappointment in September was due to restricted labour supply.
- Oct should see a much stronger gain for nonfarm payrolls, circa 500k. Though, like in September, some of the gain could come in the form of revisions to the prior two months.
- The household survey should also see a strong gain for employment and a decline in the unemployment rate from 4.8% to 4.7% despite a modest lift in participation.

## US remains on long road to full employment

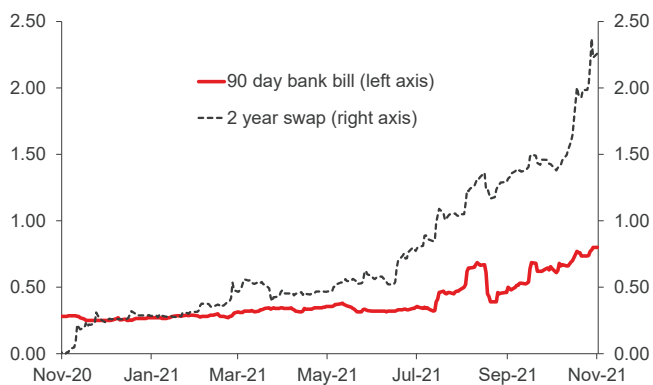


# New Zealand forecasts.

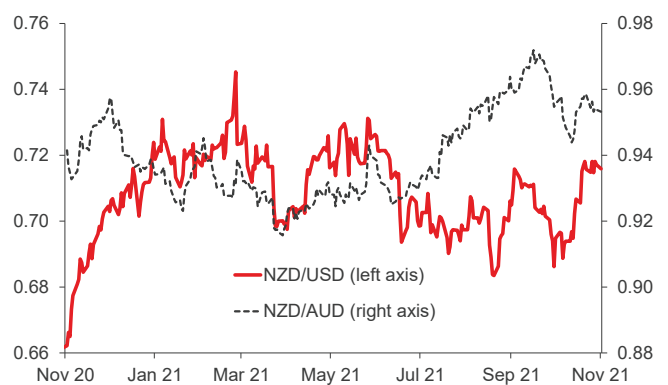
Economic forecasts	Quarterly				Annual			
	2021			2022				
% change	Jun (a)	Sep	Dec	Mar	2019	2020	2021f	2022f
GDP (Production)	2.8	-5.5	4.5	2.2	2.4	-2.1	4.7	4.8
Employment	1.1	0.8	0.0	0.5	1.2	0.7	2.4	1.6
Unemployment Rate % s.a.	4.0	3.8	4.0	3.8	4.0	4.8	4.0	3.5
CPI	1.3	2.2	0.6	0.8	1.9	1.4	5.1	2.9
Current Account Balance % of GDP	-3.3	-3.9	-4.4	-4.2	-2.9	-0.8	-4.4	-5.2

Financial forecasts	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Dec-23
Cash	0.75	1.00	1.25	1.25	1.50	1.50	1.75	2.00
90 Day bill	0.95	1.20	1.35	1.45	1.60	1.70	1.85	2.10
2 Year Swap	1.80	1.90	2.00	2.05	2.10	2.15	2.20	2.20
5 Year Swap	2.30	2.35	2.40	2.45	2.50	2.55	2.60	2.60
10 Year Bond	2.45	2.45	2.50	2.50	2.55	2.60	2.60	2.60
NZD/USD	0.71	0.72	0.73	0.74	0.74	0.74	0.74	0.73
NZD/AUD	0.95	0.95	0.95	0.95	0.95	0.94	0.93	0.94
NZD/JPY	79.5	80.6	82.5	83.6	84.4	84.4	85.1	84.7
NZD/EUR	0.60	0.60	0.61	0.63	0.63	0.63	0.64	0.63
NZD/GBP	0.51	0.52	0.52	0.52	0.52	0.53	0.53	0.53
TWI	74.6	75.2	75.9	76.6	76.4	76.3	76.0	75.3

2 year swap and 90 day bank bills



NZD/USD and NZD/AUD



NZ interest rates as at market open on 1 November 2021

Interest rates	Current	Two weeks ago	One month ago
Cash	0.50%	0.50%	0.25%
30 Days	0.59%	0.53%	0.46%
60 Days	0.70%	0.61%	0.55%
90 Days	0.80%	0.70%	0.64%
2 Year Swap	2.26%	1.65%	1.39%
5 Year Swap	2.63%	2.05%	1.87%

NZ foreign currency mid-rates as at 1 November 2021

Exchange rates	Current	Two weeks ago	One month ago
NZD/USD	0.7159	0.7063	0.6942
NZD/EUR	0.6195	0.6090	0.5988
NZD/GBP	0.5229	0.5137	0.5124
NZD/JPY	81.70	80.68	76.99
NZD/AUD	0.9532	0.9525	0.9564
TWI	75.94	75.20	74.21

## Data calendar.

		Last	Market median	Westpac forecast	Risk/Comment
<b>Mon 01</b>					
Aus	Oct CoreLogic home value index	1.5%	–	1.4%	Only a modest slowing in momentum during lockdowns.
	Sep housing finance	–4.3%	–1.5%	–5.0%	A further leg lower as HomeBuilder unwind and delta...
	Sep owner occupier finance	–6.6%	–	–5.5%	... disruptions continue to have lagged effects.
	Sep investor finance	1.5%	–	–4%	Investor loans should outperform slightly.
	Oct MI inflation gauge	2.7%	–	–	Inflation pressures in focus, centred on rising costs.
	Oct ANZ job ads	–2.8%	–	–	Labour market to bounce back on reopening.
Chn	Oct Caixin China PMI	50	50	–	Power outages and supply disruptions are headwinds.
Eur	Oct Markit manufacturing PMI	58.5	58.5	–	Final release for month.
UK	Oct Markit manufacturing PMI	57.7	–	–	Final release for month.
US	Sep construction spending	0.0%	0.5%	–	Strong housing demand expected to support construction.
	Oct ISM manufacturing	61.1	60.3	–	Continues to signal robust growth...
	Oct Markit manufacturing PMI	59.2	59.2	–	...but supply chain and delta remain as headwinds.
<b>Tue 02</b>					
NZ	RBNZ Governor Orr speaking	–	–	–	Speech on "Housing matters", 9:30am.
	Sep building permits	3.8%	–	–5.0%	Easing after last month's surge in medium-density consents.
Aus	RBA policy decision	0.10%	0.10%	0.10%	Any shift in guidance re "on hold until 2024" the key focus.
	RBA Deputy Governor Debelle	–	–	–	Panel participant, Impact X Sydney Summit.
<b>Wed 03</b>					
NZ	GlobalDairyTrade auction	1.5%	–	2.0%	Dairy prices likely to lift further on the back of weak production.
	RBNZ Financial Stability Report	–	–	–	Consultation on debt-to-income limits to start soon.
	Q3 employment	1.0%	0.3%	0.8%	Employment indicators strong over the quarter...
	Q3 unemployment rate	4.0%	3.8%	3.8%	...but Covid lockdown may distort the unemployment rate lower.
	Q3 labour cost index (pvt, ord time)	0.9%	–	1.0%	Tight labour market is expected to lift wage growth.
Aus	Sep dwelling approvals	6.8%	–2.0%	–8.0%	Aug highrise gain to reverse with more HomeBuilder unwind.
Chn	Oct Caixin China PMI services	53.4	53.5	–	Both service PMIs bounced in Sep; delta a risk in Oct.
Eur	Oct Markit services PMI	54.7	54.7	–	Final release for month.
	Sep unemployment rate	7.5%	–	–	Employment growth to see U/E slowly trend down in 21/22.
UK	Oct Nationwide house prices	0.1%	0.3%	–	Annual growth to remain strong above 9%/yr.
	Oct Markit services PMI	58	–	–	Final release for month.
US	Oct ADP employment change	568k	400k	400k	Another robust print expected.
	Oct ISM non-manufacturing	61.9	61.8	–	Reopening sustaining strong expectations for activity.
	Sep factory orders	1.2%	–0.1%	–	Transport orders have been creating volatility of late.
	Oct Markit service PMI	58.2	58.2	–	Strength in line with view from ISM survey.
	FOMC policy decision, midpoint	0.125%	0.125%	0.125%	A formal taper decision is expected.
<b>Thu 04</b>					
NZ	Oct ANZ commodity prices	1.5%	–	–	Dairy and meat prices firmed over October.
Aus	Sep trade balance \$bn	15.1	12.2	12.4	Exports –5%, lower iron ore price. Imports +0.5%, oil price up.
	Q3 real retail sales	0.8%	5.0%	–4.5%	Volumes crunched by 'delta' lockdowns.
UK	BoE policy decision	0.10%	0.25%	–	Market expecting a hike despite mixed data.
US	Initial jobless claims	281k	–	–	Downtrend likely to continue at slow pace.
	Q3 productivity	2.1%	–1.3%	–	Delta's resurgence to hit productivity hard.
	Sep trade balance US\$bn	–73.3	–74.6	–	Trade deficit to widen further to historically significant levels.
<b>Fri 05</b>					
Aus	RBA Statement on Monetary Policy	–	–	–	Updated forecasts of particular interest.
Chn	Q3 current account balance US\$bn	53.3	–	–	Full detail on trade position. X'pts strong; M'pts modest.
Eur	Sep retail sales	0.3%	–	–	Reopening supportive of services, at the expense of retail.
US	Oct non-farm payrolls	194k	425k	500k	Employment momentum expected to lift...
	Oct unemployment rate	4.8%	4.7%	4.7%	... and see U/E rate continue to edge lower.
	Oct average hourly earnings %mth	0.6%	0.4%	0.5%	Labour shortages supporting wage growth.



## International forecasts.


Economic Forecasts (Calendar Years)	2017	2018	2019	2020	2021f	2022f
<b>Australia</b>						
Real GDP %/yr	2.4	2.8	1.9	-2.4	3.0	5.0
CPI inflation %/yr	1.9	1.8	1.8	0.9	2.8	2.4
Unemployment rate %	5.5	5.0	5.2	6.8	5.1	3.8
Current account % of GDP	-2.6	-2.1	0.7	2.7	4.2	2.1
<b>United States</b>						
Real GDP %/yr	2.3	3.0	2.2	-3.5	5.7	4.0
CPI inflation %/yr	2.1	2.4	1.9	1.2	4.5	2.8
Unemployment rate %	4.4	3.9	3.7	8.1	5.4	4.0
Current account % of GDP	-2.3	-2.3	-2.6	-2.5	-2.4	-2.4
<b>Japan</b>						
Real GDP %/yr	1.7	0.6	0.3	-4.8	2.3	2.7
<b>Euro zone</b>						
Real GDP %/yr	2.6	1.9	1.3	-6.6	4.6	4.4
<b>United Kingdom</b>						
Real GDP %/yr	1.7	1.3	1.4	-9.9	6.7	5.5
<b>China</b>						
Real GDP %/yr	6.9	6.7	5.8	2.3	8.5	5.7
<b>East Asia ex China</b>						
Real GDP %/yr	4.7	4.4	3.7	-2.4	4.1	4.9
<b>World</b>						
Real GDP %/yr	3.8	3.6	2.8	-3.3	5.4	4.6
Forecasts finalised 8 October 2021						

Interest rate forecasts	Latest	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Dec-23
<b>Australia</b>									
Cash	0.10	0.10	0.10	0.10	0.10	0.10	0.25	0.50	0.75
90 Day BBSW	0.07	0.07	0.10	0.15	0.20	0.40	0.65	0.70	0.95
10 Year Bond	1.90	1.95	2.05	2.15	2.25	2.30	2.30	2.30	2.30
<b>International</b>									
Fed Funds	0.125	0.125	0.125	0.125	0.125	0.375	0.625	0.875	0.875
US 10 Year Bond	1.57	1.75	1.90	2.00	2.10	2.20	2.25	2.30	2.30

Exchange rate forecasts	Latest	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Dec-23
AUD/USD	0.7543	0.75	0.76	0.77	0.78	0.78	0.79	0.80	0.78
USD/JPY	113.58	112	112	113	113	114	114	115	116
EUR/USD	1.1682	1.19	1.20	1.19	1.18	1.18	1.17	1.16	1.15
GBP/USD	1.3795	1.38	1.39	1.40	1.41	1.41	1.40	1.40	1.39
USD/CNY	6.3918	6.35	6.30	6.25	6.25	6.20	6.20	6.15	6.10
AUD/NZD	1.0471	1.06	1.06	1.05	1.05	1.05	1.07	1.08	1.07

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