



Tieke

Weekly Economic Commentary.

Caught on the hop.

China is leading a global growth recovery. The speed of the recovery has surprised, with implications for New Zealand in terms of higher export prices and a temporary shot in the arm for inflation. This week's labour market data are likely to show that unemployment has risen further. However, more recent data are beginning to hint that the labour market is turning the corner.

We are now in the midst of a global recovery in demand for consumer goods. This rebound is being led by the resurgent Chinese economy but is now also spreading to other key economic blocks. In fact, global trade volumes are all but back at their pre-Covid levels.

The rebound in trade has been sudden and it has caught many supply chains on the hop, leaving them struggling to keep up. This dynamic has led to shortages of some consumer goods and rising commodity prices. Notably, oil prices are back at their pre-Covid levels, iron ore prices have sky-rocketed and global grain prices have surged.

For New Zealand, the surge in global demand has boosted prices for some of our key export commodity prices like dairy, forestry and fruit. For the dairy industry, these price rises

led us to bump up our 2020/2021 farmgate gate milk price forecast last month by 50 cents to \$7.50/kg of milk solids. This lift, if it eventuates, would see the farmgate milk price at its highest level since the record high of \$8.40/kg, back in the 2013/2014 season.

The export sector laggard has been meat. Covid case numbers have spiked in our key meat export markets such as the US, the EU and the UK. Thus, the strength in Chinese meat demand has been somewhat offset by weaker demand in these markets.

But on this front, there are signs that the same tight supply and rising demand dynamic is starting to rub off on beef and lamb markets. Importantly for these softer markets, Covid vaccines are here and are gradually being rolled out. As



this happens, we expect meat demand to improve in those markets and for this demand to translate into higher meat export prices by around mid-2021.

In addition, the global demand recovery has been a catalyst for lifting consumer inflation. As we noted last week, the December quarter CPI data beat expectations, with annual inflation printing at 1.4% compared to our expectations for a 1.0% rise. Much of the surprise came in rising prices for big-ticket imported items like cars, beds and electronics, which fits with the tight global supply chain story.

We expect global supply chains will struggle for a little longer. And the recent increases in global commodity prices may well flow through to prices for some consumer goods. Consequently, we now expect CPI inflation will be 2.1% by the June quarter of this year. That is a far cry from the 1.4% rate we were previously expecting and underscores our view that further OCR cuts are no longer required.

That said, the RBNZ is not about to start lifting the OCR in response to this mini-burst of inflation either, as some of this inflation lift is likely to prove temporary. The level of demand as evidenced by global trade volumes is not above pre-Covid levels. Accordingly, production and supply chains are likely to catch up over the year. In turn, this catch up should take some of the heat out of supply shortages and similarly take some of the heat out of commodity prices, including global dairy prices.

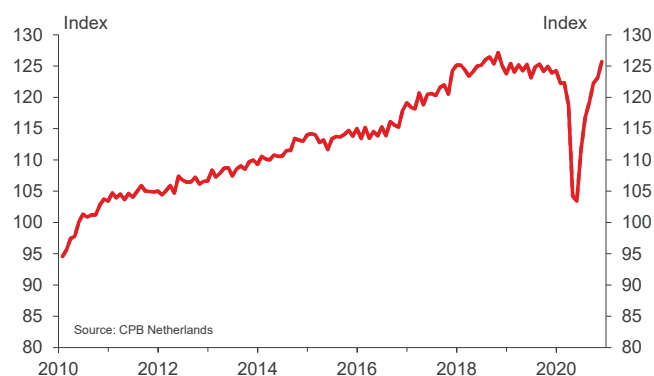
This week, we get an update on the RBNZ's other key consideration – the labour market. We expect the December quarter labour market data to show a rise in the unemployment rate to 5.6%. While unemployment benefit numbers were largely flat over the quarter, the quarter average was nonetheless higher than over September. Meanwhile, we also expect flat employment growth and

notably slowing wage growth over the quarter. Taking a step back, we also note that the unemployment rate that the economy ultimately reaches this year is likely to be considerably lower than was feared in the early stages of the pandemic.

Looking at more timely labour market data, we are beginning to see hints that the labour market is turning the corner. Stats NZ's monthly employment indicator showed a surprisingly strong increase at the end of last year. Filled jobs rose 0.9% in December, in seasonally adjusted terms, translating into a 0.5% rise on a year ago. Similarly, job advertisement data are now up slightly on a year ago.

Extrapolating these data and adding in our expectation for the economy to build on its Covid rebound means we are likely to see the unemployment rate start to turn down by the end of the year. All up, this puts the RBNZ in a comfortable position for now, with both inflation and the labour market heading in the right direction.

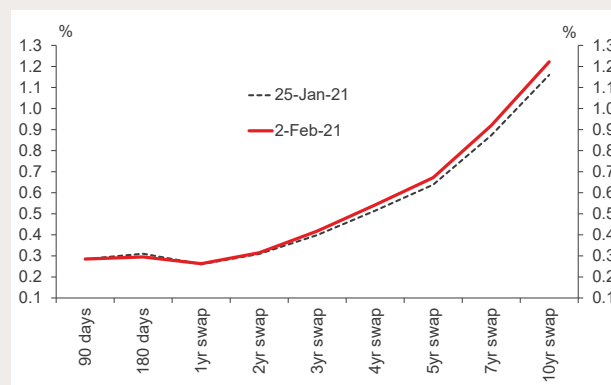
Global trade volumes



Fixed vs Floating for mortgages.

We now think that the RBNZ's OCR reduction cycle is over. If that is correct, there will be a period of relative stability in both fixed and floating mortgage rates ahead. Also, if there are no further OCR cuts then locking in a longer term mortgage rate, from three to five years, may prove less expensive for borrowers than taking a short-term rate now and refinancing later.

NZ interest rates



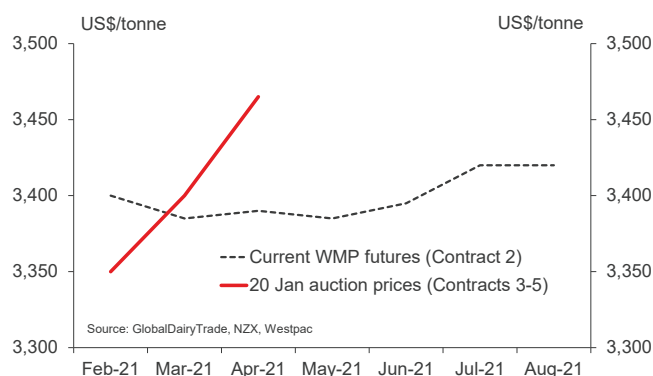
The week ahead.

NZ GlobalDairyTrade auction, whole milk powder prices

Feb 3, Last: 2.2% chg, Westpac: +1.0%

- We expect whole milk powder prices will lift a touch at the upcoming dairy auction. Prices have surged over January, and we expect that momentum to continue.
- Our pick is largely consistent with current futures market pricing.
- The dairy price lift is part of a broader surge in global commodity prices, with the resurgent Chinese economy underpinning demand.

Whole milk powder prices



NZ Q4 Household Labour Force Survey

Feb 3, Employment last: -0.8%, WBC f/c: 0.0%

Unemployment rate last: 5.3%, WBC f/c: 5.6%

- We expect the unemployment rate to rise to 5.6% for the December quarter, from 5.3% in the September quarter.
- Unemployment benefits were flattening out by the December quarter, but at a higher level on average compared to the previous quarter.
- We expect unemployment to reach its peak soon, at a much lower level than was feared in the early days of the pandemic. But a return to 'maximum sustainable' employment is some distance away.

Household Labour Force Survey

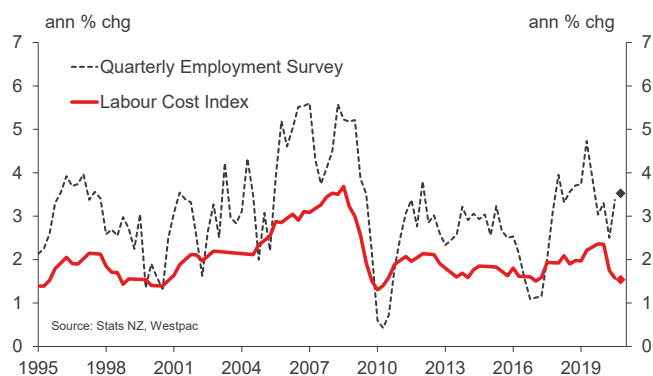


NZ Q4 Labour Cost Index

Feb 3, Private sector last: 0.4%, WBC f/c: 0.5%

- We expect a 0.5% increase in the Labour Cost Index measure of wage growth. This would see the annual growth rate slow from 1.9% to 1.6%.
- Wage growth was accelerating by 2019 as the labour market tightened, but promptly lost that momentum when Covid hit.
- The Labour Cost Index will be more reliable than the Quarterly Employment Survey measure of earnings growth. The loss of relatively low-paying jobs in tourism and hospitality is likely to drag up the average hourly pay rate.

LCI and QES salary and wages, all sectors



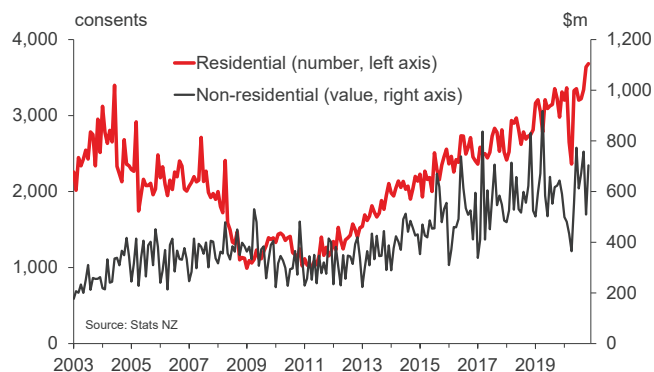
The week ahead.

NZ Dec residential building consents

Feb 4, Last: +1.2%, Westpac f/c: -5%

- Consent issuance has been charging higher in recent months and in annual terms is now at its highest level since 1974. Following the easing in lockdown conditions last year, strong house price growth and supply tightness in many regions have underpinned a significant increase in home building activity.
- We expect that consent numbers will ease by 5% in December. That's due to an expected easing in apartment consents which rose strongly in November, and which tend to be lumpy on a month-to-month basis. That would still leave annual issuance at very high levels, signalling a strong construction pipeline as we head into the new year.

NZ building consents

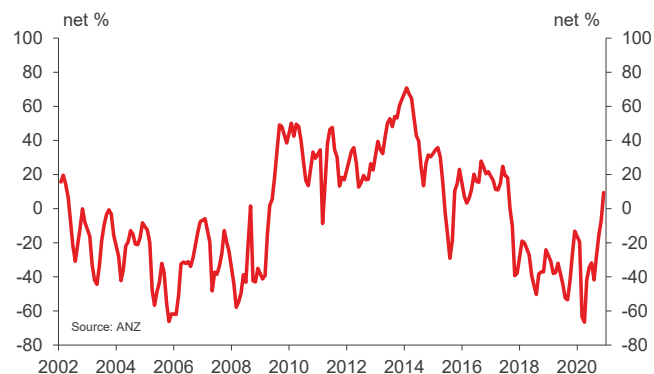


NZ Feb ANZ Business Outlook survey

Feb 4, Own activity last: 21.7

- We expect that this month's survey will show that overall business conditions remain firm, but that conditions are uneven across the economy. We expect continued firmness in sectors like construction, but softness in the services sector.
- Recent surveys indicate that the economy has lost some steam over the summer months. That is consistent with the loss of international tourism which is normally a particularly large boost to demand around this time.
- A key area to watch will be the survey's inflation gauges, some of which jumped sharply higher in December. Global shipping disruptions have pushed the prices of some goods higher, especially in the retail sector. We'll be watching to see if the resulting pressure on prices has continued to build in the new year.

NZ business confidence



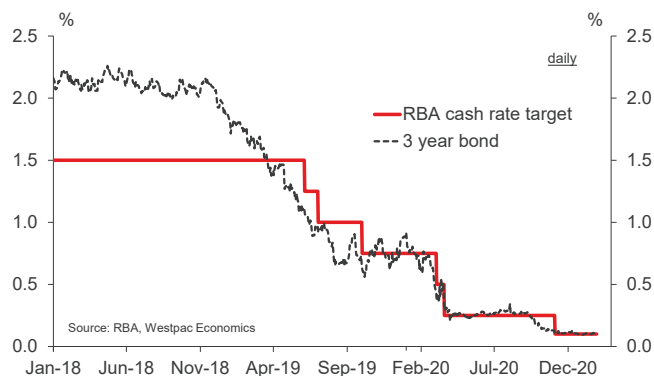
Aus RBA policy decision

Feb 2, Last: 0.1%, WBC f/c: 0.1%

Mkt f/c: 0.1%, Range: 0.1% to 0.1%

- Earlier this week in an extensive report "What Next for the RBA" we made the following points:
- RBA will extend the Quantitative Easing (QE) program by a further \$100 billion with the announcement coming at either the February Board meeting or, more likely, the March Board meeting.
- RBA will reshape the Term Funding Facility (TFF) when the current scheme expires end June to narrow the focus on specifically boosting business lending.
- The yield curve control policy (YCC) will be continued through 2021 with a review expected early in 2022.

Aus RBA cash rate and 3 year bonds



The week ahead.

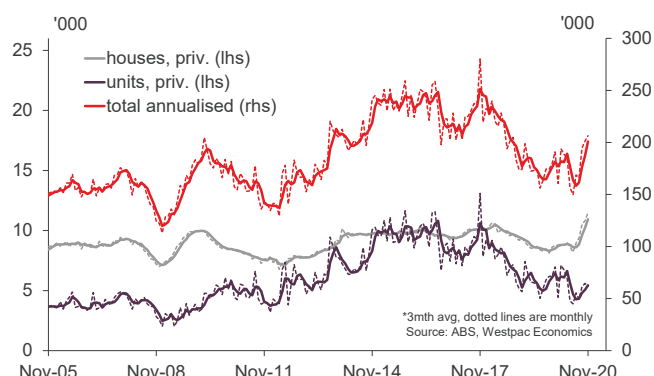
Aus Dec dwelling approvals

Feb 3, Last: 2.6%, WBC f/c: 7.5%

Mkt f/c: 2.3%, Range: -1.0% to 15.6%

- Dwelling approvals also saw a strong resurgence in late 2020, posting a big 17.4% gain in Sep followed by a 3.3% rise in Oct and a further 2.6% rise in Nov. Remarkably, total approvals are up 15%yr. As well as post-COVID 'catch-up' rebounds, approvals are showing a clear and substantial boost from the Federal Government's HomeBuilder scheme with strength centred on detached houses which are more likely to qualify for the scheme.
- Both reopening rebounds and the boost from HomeBuilder clearly carried into Dec, the latter seeing a further big lift due to extensions to the policy (see above). Even with some further softening in high rise approvals, total dwelling approvals are expected to show a strong 7.5% rise.

Aus dwelling approvals



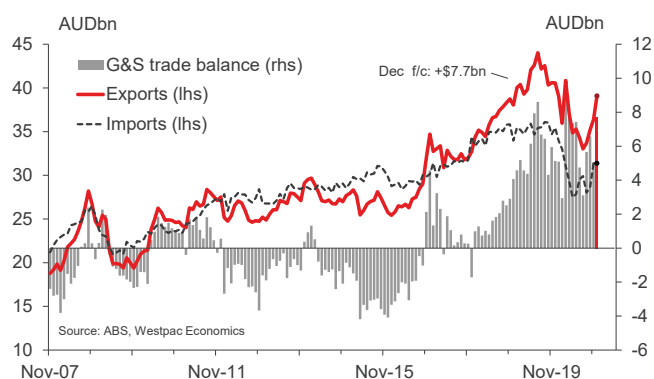
Aus Dec trade balance, \$bn

Feb 4, Last: 5.0, WBC f/c: 7.7

Mkt f/c: 9.0, Range: 4.8 to 11.0

- Australia's trade account was in surplus throughout 2020, albeit with volatility in these troubled and turbulent times.
- In November, the surplus dipped from \$6.6bn to \$5.0bn associated with a spike in imports.
- December will see the surplus snap back, to a forecast \$7.7bn.
- Imports are expected to be flat, holding onto the strong November gain. The reopening of the economy has boosted domestic demand for goods imports.
- Exports finished the year with a flourish, up a forecast 7.5%. Rural goods shipments are recovering after the drought - the rain is back! Iron ore export earnings are soaring on strong demand from China (as well as weak ore supply from Brazil) - triggering a surging iron ore price.

Australia's trade balance



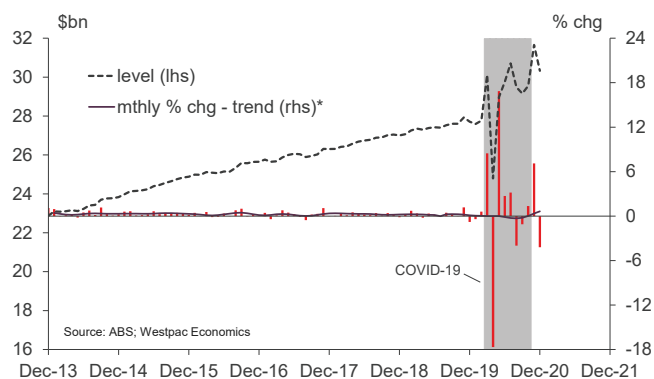
Aus Dec retail trade

Feb 5, Last: 7.1%, WBC f/c: -4.2%

Mkt f/c: -4.2%, Range: -4.3% to -4.0%

- Preliminary estimates showed a 4.2% fall in retail sales in Dec, partial lockdowns associated with COVID clusters in Sydney clearly disrupting activity late in the month. Despite the pull back, sales were still up 9.4% on a year ago. Every major state recorded a fall, suggesting the closure of interstate borders was also a factor.
- Note that sales were coming off a strong 7.1% gain in Nov - associated with the Black Friday sales, an event which gets bigger each year.
- Final estimates will shed more light on the gain, including the picture across store-type and states, as well as online sales and sales by business size. Note that our Westpac Card Tracker, which proved to be a good guide for Dec retail sales, points to a more stable result in January, albeit with more COVID-related volatility in the month.

Aus monthly retail sales



The week ahead.

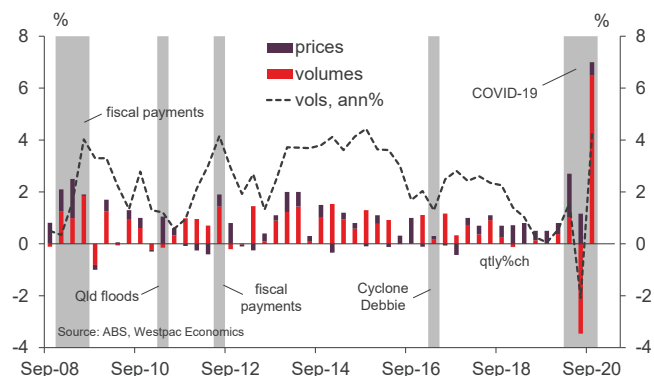
Aus Q4 real retail sales

Feb 5, Last: 6.5%, WBC f/c: 1.5%

Mkt f/c: 1.8%, Range: -4.0% to 2.1%

- Real retail sales posted a spectacular 6.5% jump in Q3 more than reversing the 3.5% drop during the nation-wide COVID lockdown in Q2 and despite the 'second wave' lockdown continuing to weigh on activity in Victoria. Aside from reopening rebounds, retail is also benefitting from significant expenditure switching towards retail segments and from the continued closure of international borders which is forcing Australians' to spend more locally (more than offsetting the lower spend by inbound tourists).
- The Dec quarter should see a further gain. Preliminary estimates show nominal sales up 2.5%qtr despite some big monthly swings. The Q4 CPI detail suggests retail prices had a slightly firmer gain in the quarter, particularly for food. Even still, real retail sales look likely to be up 1.5%qtr. Note that the wider consumption measures reported in the national accounts continue to differ greatly from quarterly retail moves due to the aforementioned expenditure switching effects.

Aus quarterly retail volumes and prices



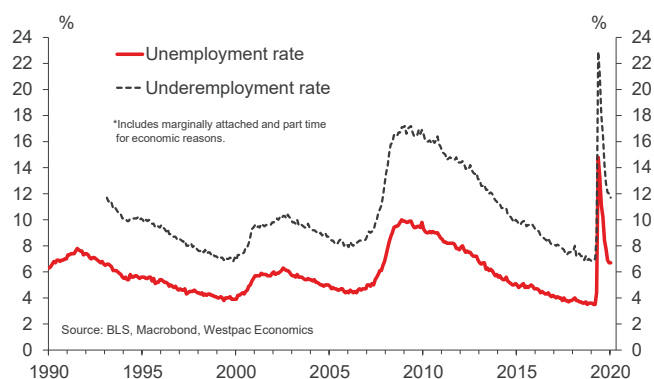
US Jan employment report

Feb 5, nonfarm payrolls, last: -140k, WBC: -50k

Feb 5, unemployment rate, last: 6.7%, WBC: 6.8%

- The loss of 140k jobs in December came as a surprise to the market. Since then, initial jobless claims have risen further, averaging around 900k per week in the past three readings. This points to a further loss of jobs in January, albeit one limited in scale. We look for a decline of 50k.
- If the vaccine rollout occurs as planned and additional stimulus is passed by Congress, this job loss will reverse quickly. In contrast, the recovery back to full employment will be prove long and difficult.
- Not only is the unemployment rate currently almost twice its pre-pandemic level, but this is with participation 2ppts lower than before COVID-19.
- Employment will need strong, sustained gains to recover, and only then will wages stand a chance of growing robustly.

US full employment still a long way off

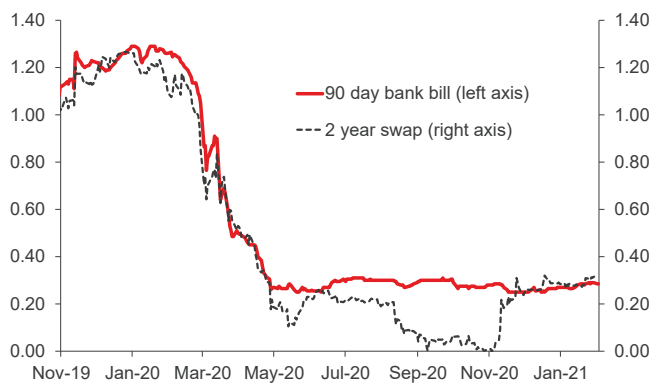


New Zealand forecasts.

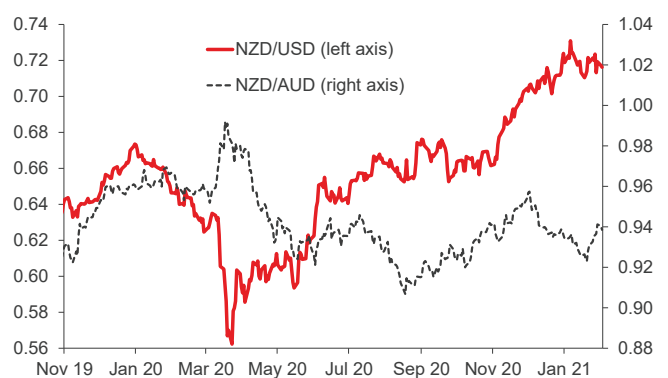
Economic forecasts	Quarterly				Annual			
	2020		2021					
% change	Sep (a)	Dec	Mar	Jun	2019	2020f	2021f	2022f
GDP (Production)	14.0	0.0	0.6	1.6	2.3	-2.6	5.9	2.5
Employment	-0.8	-0.5	0.3	0.6	1.2	-0.6	2.2	2.9
Unemployment Rate % s.a.	5.3	5.6	5.7	5.6	4.1	5.6	5.4	5.0
CPI	0.7	0.5	0.6	0.4	1.9	1.4	1.6	1.3
Current Account Balance % of GDP	-0.8	-0.9	-1.2	-1.9	-3.3	-0.9	-2.1	-2.0

Financial forecasts	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22
Cash	0.25	0.25	0.25	0.25	0.25	0.25
90 Day bill	0.30	0.30	0.30	0.30	0.30	0.30
2 Year Swap	0.25	0.25	0.25	0.25	0.25	0.25
5 Year Swap	0.60	0.60	0.60	0.60	0.60	0.65
10 Year Bond	1.10	1.20	1.30	1.35	1.40	1.45
NZD/USD	0.73	0.74	0.75	0.76	0.78	0.78
NZD/AUD	0.94	0.94	0.94	0.93	0.92	0.92
NZD/JPY	75.9	77.0	78.0	79.0	81.9	81.9
NZD/EUR	0.60	0.60	0.60	0.61	0.62	0.61
NZD/GBP	0.53	0.54	0.54	0.55	0.55	0.55
TWI	75.8	76.1	76.5	76.7	77.9	77.7

2 year swap and 90 day bank bills



NZD/USD and NZD/AUD



NZ interest rates as at market open on 2 February 2021

Interest rates	Current	Two weeks ago	One month ago
Cash	0.25%	0.25%	0.25%
30 Days	0.26%	0.26%	0.26%
60 Days	0.28%	0.27%	0.27%
90 Days	0.29%	0.28%	0.27%
2 Year Swap	0.31%	0.28%	0.29%
5 Year Swap	0.67%	0.58%	0.54%

NZ foreign currency mid-rates as at 2 February 2021

Exchange rates	Current	Two weeks ago	One month ago
NZD/USD	0.7162	0.7147	0.7118
NZD/EUR	0.5935	0.5911	0.5827
NZD/GBP	0.5237	0.5250	0.5273
NZD/JPY	75.18	74.11	73.72
NZD/AUD	0.9385	0.9276	0.9372
TWI	74.76	74.41	74.43

Data calendar.

		Last	Market median	Westpac forecast	Risk/Comment
Mon 01					
Aus	Jan CoreLogic home value index	0.9%	–	0.5%	Dwelling prices +1.7% in Q4. Daily index +0.5% rise Jan to date.
	Dec & Jan AiG PMI	52.1	–	–	Manuf'g in expansion zone – economy reopening.
	Jan MI inflation gauge	1.5%	–	–	To follow the stronger-than-expected Q4 CPI.
	Jan ANZ job ads	9.2%	–	–	Has shown rapid signs of recovery from lows in April.
	Dec housing finance	5.6%	4.0%	7.5%	Vic reopening, strong gains in other markets, boosted by a...
	Dec owner occupier finance	5.5%	–	8.0%	... rush of construction-related finance due to extended...
	Dec investor finance	6.0%	–	5.0%	... HomeBuilder scheme. Investors lifting but subdued for now.
Chn	Jan Caixin Mfg PMI	53.0	52.5	–	Manufacturing supported by robust external demand.
Eur	Dec unemployment rate	8.3%	8.3%	–	Trend down underpinned by changes in participation.
UK	Dec net mortgage lending £bn	5.7	–	–	Set for a strong finish to 2020 given housing demand.
US	Dec construction spending	0.9%	0.8%	–	Strength concentrated in residential construction.
	Jan ISM manufacturing	60.7	59.9	–	Employment component lagging orders and output.
	Fedspeak	–	–	–	Fed's Bostic Speaks with Rosengen on Labour Market.
Tue 02					
Aus	RBA policy decision	0.10%	0.10%	0.10%	Opportunity for the RBA to set the scene for 2021.
	Weekly Payroll Jobs and Wages	–	–	–	Week ending 16 January 2021.
Eur	Q4 GDP	12.5%	–1.7%	–	Eurozone on the precipice of double-dip recession.
US	Fedspeak	–	–	–	Fed's Mester to give Remarks on Labour Market.
Wed 03					
NZ	GlobalDairyTrade auction, WMP	2.2%	–	1.0%	Dairy prices to build on recent strength.
	Q4 unemployment rate	5.3%	6.6%	5.6%	Flattening out but higher on average over the quarter.
	Q4 employment change	–0.8%	0.2%	0.0%	Regaining momentum after Covid lockdown.
	Q4 labour cost index	0.4%	0.5%	0.5%	Annual pace slowed in 2020 as unemployment rose.
	Jan ANZ commodity prices	1.8%	–	–	Dairy price surge to lift January index.
Aus	Dec & Jan AiG PCI	55.3	–	–	Construction above 50 in Oct & Nov – rising new orders housing.
	Dec dwelling approvals	2.6%	2.3%	7.5%	HomeBuilder also driving big gains in house approvals.
	RBA Governor Lowe speaking	–	–	–	'The Year Ahead', National Press Club Canberra 12.30pm AEDT.
Chn	Jan Caixin services PMI	56.3	55.5	–	Services sentiment robust despite consumer recovery lag.
Eur	Jan CPI	0.3%	–	–	Year-on-year inflation has been negative since August.
US	Jan ADP employment change	–123k	50k	–50k	A further loss of jobs likely in January.
	Jan ISM non-manufacturing	57.2	56.8	–	Dec rise largely due to supply chain issues.
	Fedspeak	–	–	–	Fed's Bullard and Harker to speak.
Thu 04					
NZ	Dec building permits	1.2%	–	–5.0%	Easing after recent gains, annual issuance still very high.
	Feb ANZ business confidence	9.4	–	–	Business conditions have moderated, still firm.
Aus	Dec trade balance, \$bn	5.0	9.0	7.7	Surplus reverses Nov narrowing, led by exports.
Eur	Dec retail sales	–6.1%	–	–	Weak Nov print driven by sharp falls in Spain and France.
UK	BoE policy decision	0.10%	0.10%	–	May provide further guidance on bond purchase pace.
US	Fedspeak	–	–	–	Fed's Mester, Evans and Daly to speak.
	Initial jobless claims	847k	–	–	Jobless claims easing back from recent 927k peak.
	Dec factory orders	1.0%	0.8%	–	Equipment investment has been strong in early recovery.
Fri 05					
Aus	Dec & Jan AiG PSI	52.9	–	–	Services up sharply in Oct & Nov – reopening, notably Victoria.
	Dec retail sales	7.1%	–4.2%	–4.2%	Prelim estimate show hit from partial lockdowns in late Dec...
	Q4 real retail sales	6.5%	1.8%	1.5%	... but retail still showing a decent gain for Q4 overall.
	RBA Governor Lowe speaking	–	–	–	House of Reps standing committee, Canberra 9.30am AEDT.
	RBA Statement on Monetary Policy	–	–	–	Includes updated and revised forecasts.
US	Jan non-farm payrolls	–140k	50k	–50k	A further loss of jobs seems likely given initial claims.
	Jan unemployment rate	6.7%	6.7%	6.8%	Remaining slack substantial; to take a long time to reduce.
	Jan average hourly earnings %mth	0.8%	0.3%	0.2%	Wage growth to remain modest for foreseeable future.
	Dec trade balance US\$bn	–68.1	–66.0	–	Imports for shopping season saw Nov deficit near record.
	Dec consumer credit	15.274	12.000	–	Auto loans have driven strong consumer credit growth.

International forecasts.

Economic Forecasts (Calendar Years)	2017	2018	2019	2020f	2021f	2022f
Australia						
Real GDP %/yr	2.4	2.8	1.9	-2.7	4.2	3.3
CPI inflation %/yr	1.9	1.8	1.8	0.9	2.0	1.8
Unemployment rate %	5.5	5.0	5.2	7.0	6.0	5.2
Current account % of GDP	-2.6	-2.1	0.7	2.2	1.3	-0.5
United States						
Real GDP %/yr	2.3	3.0	2.2	-3.6	4.1	3.3
CPI inflation %/yr	2.1	2.4	1.9	1.1	1.8	1.9
Unemployment rate %	4.4	3.9	3.7	8.1	5.5	4.3
Current account % of GDP	-2.3	-2.3	-2.6	-2.5	-2.4	-2.4
Japan						
Real GDP %/yr	2.2	0.3	0.7	-5.8	3.0	2.2
Euro zone						
Real GDP %/yr	2.6	1.8	1.3	-7.7	4.0	5.0
United Kingdom						
Real GDP %/yr	1.9	1.3	1.5	-10.8	7.1	5.5
China						
Real GDP %/yr	6.9	6.8	6.1	1.7	10.0	5.6
East Asia ex China						
Real GDP %/yr	4.7	4.4	3.7	-2.8	5.3	5.1
World						
Real GDP %/yr	3.8	3.5	2.8	-3.7	5.8	4.6
Forecasts finalised 11 December 2020						

Interest rate forecasts	Latest	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Dec-22
Australia								
Cash	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
90 Day BBSW	0.01	0.02	0.02	0.02	0.02	0.04	0.06	0.10
10 Year Bond	1.13	1.15	1.30	1.45	1.55	1.70	1.75	1.95
International								
Fed Funds	0.125	0.125	0.125	0.125	0.125	0.125	0.125	0.125
US 10 Year Bond	1.05	1.10	1.25	1.40	1.50	1.60	1.65	1.75

Exchange rate forecasts	Latest	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Dec-22
AUD/USD	0.7640	0.78	0.79	0.80	0.82	0.85	0.85	0.82
USD/JPY	104.51	104	104	104	104	105	105	105
EUR/USD	1.2097	1.22	1.23	1.24	1.25	1.26	1.27	1.28
GBP/USD	1.3703	1.37	1.37	1.38	1.39	1.41	1.41	1.41
USD/CNY	6.4632	6.45	6.35	6.25	6.20	6.15	6.10	6.00
AUD/NZD	1.0677	1.07	1.07	1.07	1.08	1.09	1.09	1.09

Contact the Westpac economics team.

Dominick Stephens, Chief Economist

+64 9 336 5671

Michael Gordon, Senior 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

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.

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Things you should know

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