



# Weekly Economic Commentary.

## Here and back again.

It's early days for the trans-Tasman travel bubble, but the evidence to date supports our view that it won't move the dial much on GDP this year. That said, there are signs that the economy fared better than we expected in the absence of international tourists over summer.

Figures from Stats NZ show that in the first nine days of the travel bubble (from 19 to 27 April), almost 29,000 people arrived here from Australia, while about 18,000 people flew in the other direction. That's a net positive in terms of people numbers. However, around 60% of the arrivals were New Zealand citizens, who were most likely coming back to visit friends and family after more than a year of separation.

If we look at the groups that are more likely to be holidaymakers – New Zealand citizens flying to Australia, and vice versa – the net flows were more balanced. Arguably there isn't a hard distinction between taking a holiday and visiting friends and family, but the latter group tends to have a lower daily spend.

We're not surprised by this result. Before Covid, trans-Tasman tourism was largely balanced, apart from a net inflow in the summer months. So while the resumption of travel is welcome, we would expect the net impact on GDP to be close

to zero for this year. The greater prize would be the return of tourists from the Northern Hemisphere, which is really a story for 2022 and beyond, once New Zealand's vaccination programme is completed.

We expected the absence of international tourists to have its greatest impact over summer, when the net inflows normally peak. And indeed we have seen some softness in areas such as credit card spending in recent months. But the labour market appears to have fared better than we expected over this period, with both employment and hiring intentions on the rise.

As a result, we now expect the unemployment rate for the March quarter to hold steady at 4.9%. That itself is a surprisingly low starting point, even with what we now know about the speed of the economy's rebound from the Covid lockdown.



We should note that the unemployment rate has been subject to some very large forecasting errors over the past year. Our best assessment of the last three months is 'steady', but we acknowledge that the survey result could surprise in either direction.

The HLFs results are an average over the quarter, so it's useful to look at developments within the quarter. Stats NZ has provided a week-by-week breakdown of the survey for the last three quarters; this suggests a broadly sideways trend in unemployment at the end of last year. The weekly figures on Jobseeker Support benefits tell a similar story: benefits ticked up over the Christmas/New Year period, but that appears to be nothing more than the usual seasonal pattern.

Meanwhile, the Monthly Employment Indicator fared better than we expected, with the number of filled jobs up by 0.3% over the quarter – just enough to soak up the growth in the working-age population. Job advertisements have been even stronger than that, and by March were up almost 20% on their pre-Covid highs. But it may be that employers are struggling to fill some roles, due to a mismatch between the areas of high demand and the skills of those who have been put out of work as a result of Covid.

Although the rebound in the labour market has been unusually swift, unemployment remains above its pre-Covid level, and above the 'inflation-neutral' level which we estimate to be in the range of 4.0-4.5%. Note that by 2019, when the unemployment rate had fallen to around 4%, wage growth was starting to accelerate after years of subdued growth. At the time the Reserve Bank agreed that the economy was running at or above 'maximum sustainable employment' based on a broad suite of labour market indicators.

With an unemployment rate closer to 5% now, it's not surprising that wage growth has receded. We expect the Labour Cost Index (LCI) to remain subdued with a 0.3% rise for the March quarter, which would hold the annual growth rate at 1.6%. The index typically sees smaller increases in the March quarter anyway (pay reviews are more common in the second half of the year), and there were no special factors such as minimum wage hikes or public sector pay agreements this time.

While overall wage growth has been subdued, that's not to say that there aren't pockets of wage pressure. The Covid shock has been quite unevenly distributed, with some sectors such as tourism and hospitality facing a sharp crunch, while others such as construction and healthcare have been on a hiring spree. At the same time, some businesses have been squeezed by the loss of access to overseas workers.

That makes the LCI a better gauge of wage growth than the Quarterly Employment Survey (QES) measure of average hourly earnings, which can be affected by changes in the composition of jobs. Over 2020 the loss of relatively low-paying jobs in the tourism sector actually dragged up the average hourly wage rate. We expect that force to start dissipating over the coming quarters.

**Michael Gordon**, Acting Chief Economist

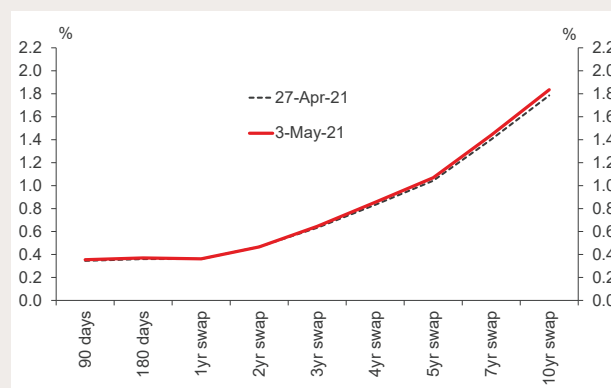
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## Fixed vs Floating for mortgages.

We expect that floating rates, and shorter fixed-term rates, will be stable over the coming months. The Reserve Bank will not respond to a temporary spike in inflation. Longer-term fixed rates may rise sooner, in response to a large increase in wholesale fixed rates over the past few months.

We expect mortgage rates to rise over the course of the coming years. Based on our forecasts, taking a longer-term fixed rate (from three years to five years) will prove less expensive for borrowers than taking a short-term rate now and refinancing later.

**NZ interest rates**



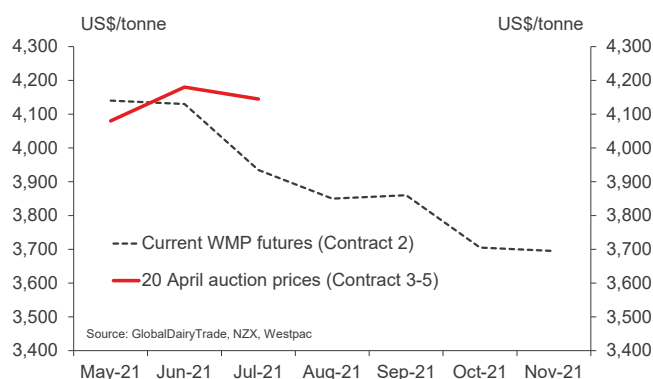
# The week ahead.

## NZ GlobalDairyTrade auction, whole milk powder prices

**May 5, Last: +0.4%, Westpac: +1.0%**

- We expect whole milk powder prices to lift a touch at the upcoming dairy auction. Prices also nudged higher in the last April auction.
- Our pick is largely in line with current futures market pricing.
- With the New Zealand winter looming, we expect the upward pressure on dairy prices to continue until the new season kicks off in the spring.

## Whole milk powder prices

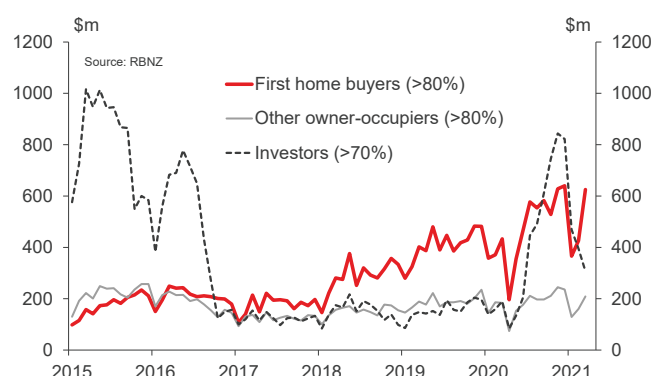


## RBNZ Financial Stability Report

**May 5**

- The Reserve Bank's six-monthly Financial Stability Report comes against the backdrop of some significant changes to housing policy – although those changes will somewhat overshadow the report itself.
- The Government announced a range of policies in late March, which will tilt the playing field away from highly-leveraged investors. But it's too early to have any evidence of their impact.
- Restrictions on high loan-to-value lending have failed to dampen the housing market's strength. The Government also asked the RBNZ for advice on debt-to-income ratios and interest-only lending, but that advice isn't expected until late May.

## NZ new mortgage lending at high LVRs



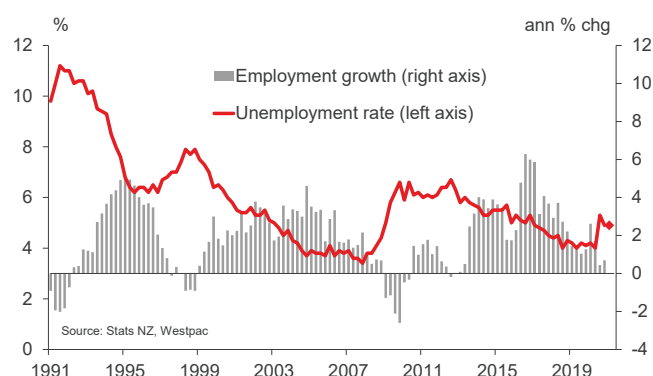
## NZ Q1 Household Labour Force Survey

**May 5, Employment last: 0.6%, WBC f/c: 0.3%**

**Unemployment rate last: 4.9%, WBC f/c: 4.9%**

- We expect an unemployment rate of 4.9% for the March quarter, the same as for the December quarter. That in itself was a surprising drop from the (apparent) post-Covid peak of 5.3% in September.
- Jobs growth was modest over the quarter, though it held up better than we expected, given the ongoing closure of the border over what would normally be the peak tourist season.
- Job advertisements are now rising strongly, though that may not be fully translating through to hiring due to skills mismatches.

## NZ Household Labour Force Survey



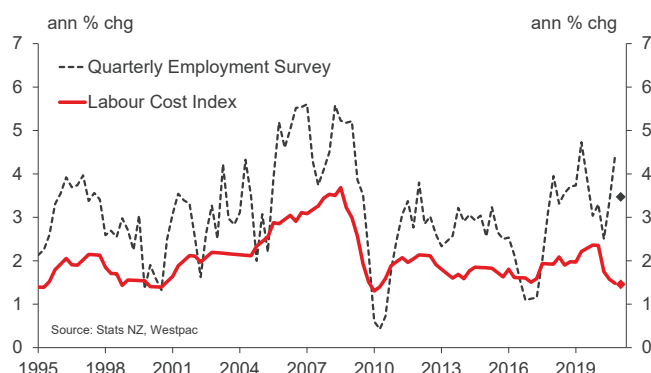
# The week ahead.

## NZ Q1 Labour Cost Index

**May 5, Private sector last: 0.5%, WBC f/c: 0.3%**

- We expect a 0.3% increase in the Labour Cost Index measure of wage growth. This would leave the annual growth rate unchanged at 1.6%.
- The index typically sees smaller increases in the March quarter (pay reviews are more common in the second half of the year), and there were no specific factors such as minimum wage hikes or public sector pay agreements this time.
- The Labour Cost Index has been more subdued than the Quarterly Employment Survey measure of earnings. However, the latter is distorted by the loss of relatively low-paying jobs in tourism and hospitality, which has dragged up the average hourly pay rate.

## NZ salary and wage growth, all sectors

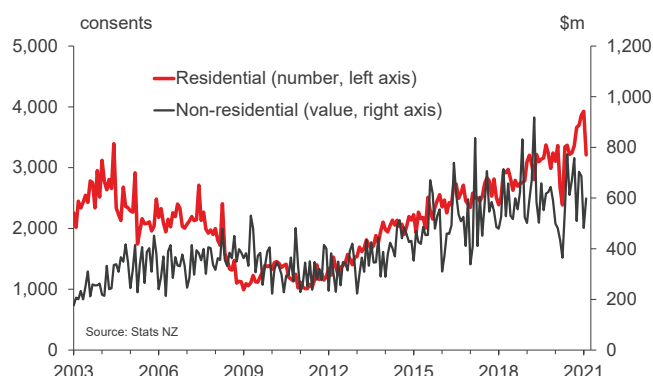


## NZ Mar residential building consents

**May 6, Last: -18.2%, Westpac f/c: +5.0%**

- Residential consent issuance fell 18% in February. While that was a large drop, it was the first drop in six months. To put it in context, that decline still left consent issuance running at the sort of firm levels we saw prior to the outbreak. And in annual terms, consent issuance remained around multi-decade highs.
- We expect that consent numbers will rise by 5% in February. That's due to ongoing firmness in medium-density dwelling consents, especially in Auckland.
- This month's result may be dampened by the higher Covid Alert level early in the month.

## NZ building consents



## NZ May ANZBO business confidence (Preliminary)

**May 7, Last (Final April): -2.0**

- Business confidence rose in April as respondents digested the announcements the Government made regarding the housing market and the initial reaction of the trans-Tasman travel bubble opening.
- The preliminary release of the May business survey will continue to give us a better view on how the trans-Tasman travel bubble is affecting them. The return of some tourism into the country could mean even stronger intentions for investment and employment.
- Underlying inflation gauges will continue to be an area worth watching. In recent months, we have seen a record number of firms reporting an increase in costs.

## NZ business confidence



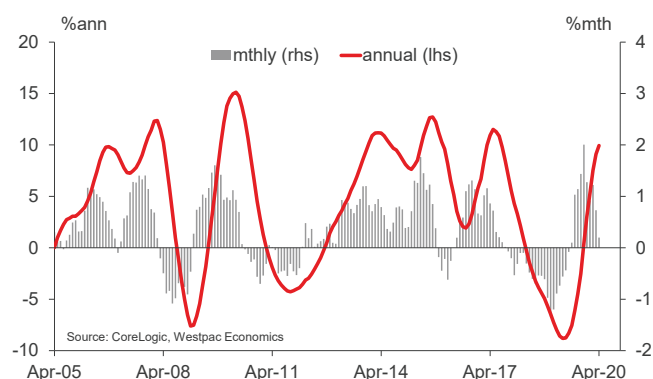
# The week ahead.

## Aus Apr CoreLogic home value index

**May 3, Last: 2.8%, WBC f/c: 1.8%**

- Australia's housing upturn swung into broad-based boom in early 2021 with prices surging 5.6% in the first quarter, March posting the strongest monthly price gain in 32 years. Sydney posted a particularly rapid 3.7% rise.
- April looks set for another strong read, albeit not quite in the same league. The CoreLogic daily index points to a 1.8% rise nationally, Sydney again outperforming with a 2.4% rise. The strength of gains in early 2021 has led us to upgrade our full year price growth forecast from 10% to 15% although the pace will likely slow from here, initially as the surge starts to see more prospective owner occupiers 'priced out' in terms of affordability.

## Australian dwelling prices

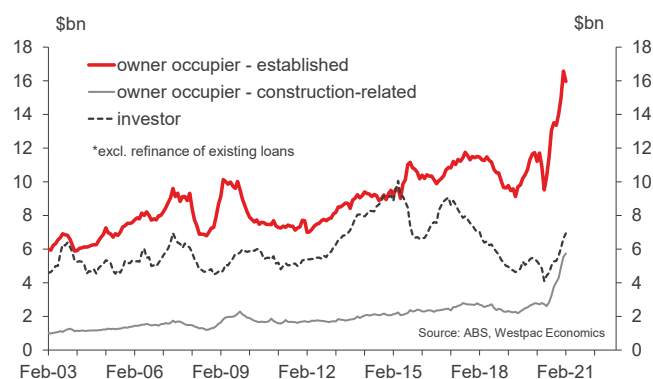


## Aus Mar housing finance approvals

**May 4, Last: -0.4%, WBC f/c: 2.0%**

- Housing finance consolidated in Feb after a huge 76% gain since the COVID low back in May last year. Approvals are well above previous pre-COVID peaks with a reopening 'catch-up' boosted by additional stimulus coming from policy, both monetary and fiscal.
- Some of this is likely to wane in March. In particular, construction-related finance associated with the Federal HomeBuilder scheme is likely to have passed its peak (these loans account for 15-20% of all new housing finance approvals). However, momentum across the rest is likely to remain strong given what looked to be an lift in turnover in the March month and strong price gains. Overall we expect total finance approvals to be up 2% in the month. Note that owner occupier loans are likely to be down slightly on HomeBuilder effects but investor loans are likely to post another strong gain of around 5%. We expect this wedge to widen further over the course of 2021.

## New finance approvals\*



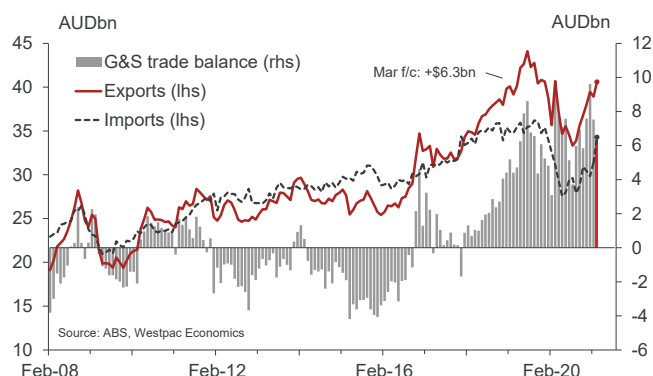
## Aus Mar trade balance, \$bn

**May 4, Last: 7.5, WBC f/c: 6.3**

**Mkt f/c: 8.3, Range: 5.7 to 10.5**

- Australia's trade account has been in surplus for 38 consecutive months, from the start of 2018. The surplus has swelled from \$23bn for 2018 to \$75bn in 2020.
- In January 2021, the surplus hit a record high of \$9.6bn, then eased to \$7.5bn in February and is forecast to narrow to \$6.3bn in March on a flood of imports ahead of the Easter holiday period.
- Imports jumped in March up a forecast 9.2%, +\$2.9bn. Customs data (nsa) reported broad based strength in goods imports. This was ahead of the Easter break, with Good Friday this year falling at the start of April, on the 2nd.
- Export earnings continue to go from strength to strength on higher commodity prices, notably iron ore. Exports are forecast to rise by 4.3%, +\$1.7bn, in March led higher by metal ores (dominated by iron ore). In the month, commodity prices advanced by 1.3% in AUD terms.

## Australia's trade balance





# The week ahead.

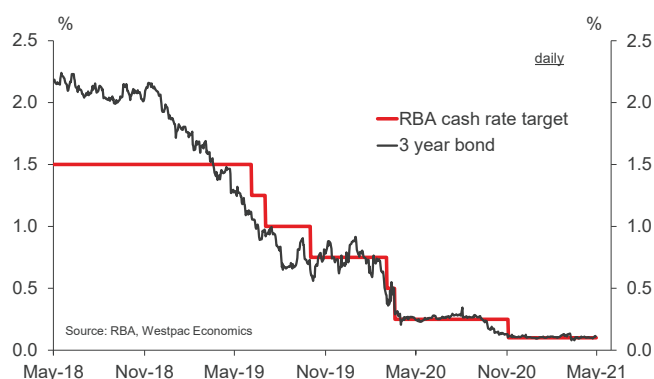
## Aus RBA policy decision

**May 4, Last: 0.1%, WBC f/c: 0.1%**

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

- The Reserve Bank Board meets on May 4. That will be followed by the May Statement on Monetary Policy on May 7. Our central view is that the RBA will maintain current policy settings at the upcoming meeting.
- We anticipate that the extension of the Yield Curve Control Policy (YCC) to target the November 2024 bonds from the April 2024 bonds; and a third QE program of \$100 billion to begin in the first week of September, will come later in the year at the Board meeting on August 3.
- However, in recent times, the meetings which have been linked to the Statements on Monetary Policy have incorporated policy initiatives. Of the two initiatives we expect to be announced in August, the one most likely to be brought forward to May would be the extension of YCC to the November 2024 bond.
- Following the Board meeting, markets will closely watch Deputy Governor Debelle's speech "Monetary Policy during Covid" on May 6.

## RBA cash rate and 3 year bonds



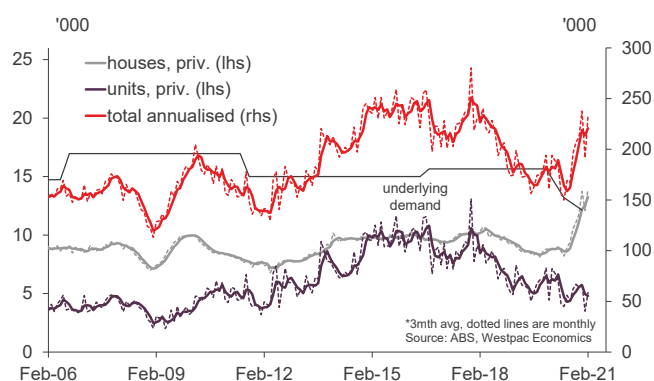
## Aus Mar dwelling approvals

**May 5, Last: 21.6%, WBC f/c: 3.0%**

**Mkt f/c: 3.0%, Range: -5.5% to 15%**

- Dwelling approvals leapt 21.6% in Feb, coming off a 19.4% drop the month prior. Pinpointing the timing of HomeBuilder pull-forward effects is proving very difficult – the Jan plunge as expected but the Feb rebound a big surprise.
- HIA new home sales spiked again in March (+90%, after a similar 90% spike in Dec) suggesting there was another major pull-forward effect just ahead of the end of the HomeBuilder scheme on March 31. However, the flow through to approvals is highly uncertain. Approvals have shown much more muted swings, including a much smaller retracement in Jan, implying a high degree of 'smoothing'. Final construction approval may be being obtained prior to sale in some cases (e.g. developers selling new/off the plan builds) and after contract signing in others (e.g. where individuals are engaging builders). On balance, we expect approvals to show another gain of 3% but there are significant risks on both sides of the Mar number.

## Dwelling approvals



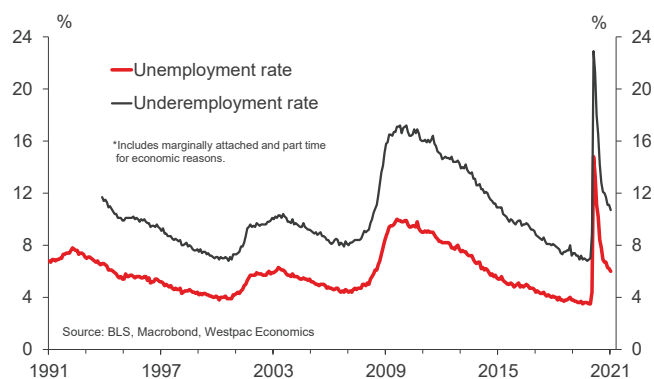
## US April employment report

**May 7, nonfarm payrolls last: 916k, WBC: 1,100k**

**May 7, unemployment rate: 6.0%, WBC: 5.8%**

- The strength recently shown by the US labour market was largely expected but nonetheless startling: 916k new jobs created in the month of March alone; around 1.1mn including positive revisions to the prior two months.
- With the vaccine drive in full swing and the economy showing strong momentum, the coming three months are likely to see more of the same. In April we look for 1.1mn new jobs and believe further upward revisions to prior months could also be seen.
- Despite this rapid momentum in employment, the downtrend in the unemployment rate is likely to slow through mid year as participation begins to rise back to more normal levels. This trend is likely to emerge slowly, gaining pace as the case load reduces and work restrictions lift.

## Participation to slow U/E rate downtrend

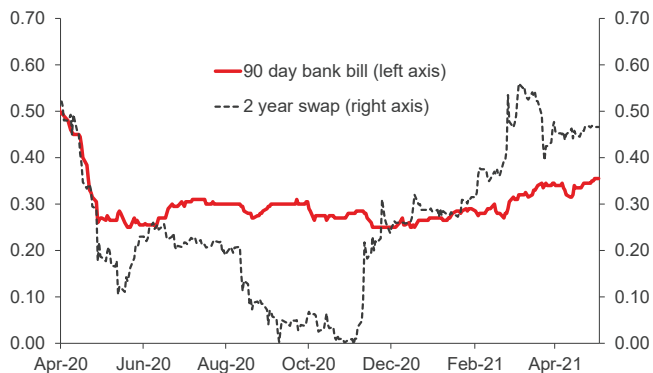


# New Zealand forecasts.

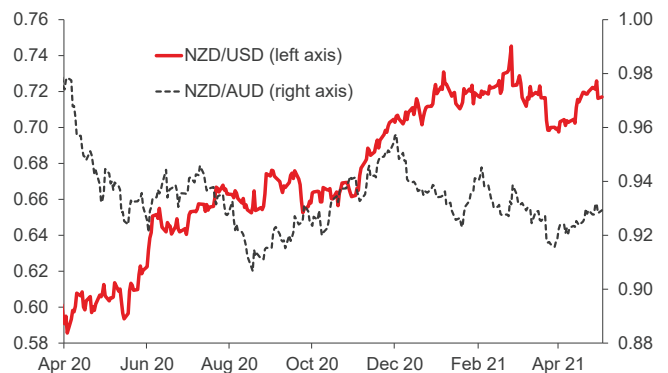
Economic forecasts	Quarterly				Annual			
	2020	2021						
% change	Dec (a)	Mar	Jun	Sep	2019	2020	2021f	2022f
GDP (Production)	-1.0	-0.4	1.8	0.4	2.4	-2.9	3.9	4.0
Employment	0.6	0.3	0.0	0.3	1.3	0.7	1.0	2.6
Unemployment Rate % s.a.	4.9	4.9	5.0	5.0	4.1	4.9	4.9	4.2
CPI	0.5	0.8	0.5	0.7	1.9	1.4	2.4	1.3
Current Account Balance % of GDP	-1.0	-1.4	-2.1	-2.5	-3.3	-1.0	-2.5	-2.2

Financial forecasts	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22
Cash	0.25	0.25	0.25	0.25	0.25	0.25
90 Day bill	0.35	0.35	0.35	0.35	0.35	0.35
2 Year Swap	0.45	0.45	0.45	0.45	0.45	0.45
5 Year Swap	1.00	1.00	1.00	1.05	1.10	1.15
10 Year Bond	1.80	1.85	1.90	1.95	2.00	2.10
NZD/USD	0.72	0.73	0.74	0.76	0.76	0.75
NZD/AUD	0.91	0.91	0.90	0.89	0.89	0.89
NZD/JPY	78.5	80.3	82.1	85.1	84.4	83.3
NZD/EUR	0.60	0.60	0.60	0.61	0.60	0.59
NZD/GBP	0.51	0.52	0.52	0.54	0.54	0.53
TWI	74.5	74.9	75.0	76.1	75.8	74.7

2 year swap and 90 day bank bills



NZD/USD and NZD/AUD



NZ interest rates as at market open on 3 May 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	0.31%	0.30%	0.30%
90 Days	0.36%	0.34%	0.34%
2 Year Swap	0.47%	0.45%	0.45%
5 Year Swap	1.07%	1.05%	1.11%

NZ foreign currency mid-rates as at 3 May 2021

Exchange rates	Current	Two weeks ago	One month ago
NZD/USD	0.7170	0.7140	0.7059
NZD/EUR	0.5958	0.5965	0.5977
NZD/GBP	0.5188	0.5163	0.5076
NZD/JPY	78.29	77.67	77.80
NZD/AUD	0.9293	0.9247	0.9226
TWI	74.96	74.86	74.46

## Data calendar.

		Last	Market median	Westpac forecast	Risk/Comment
<b>Mon 03</b>					
Aus	Apr CoreLogic home value index	2.8%	–	1.8%	Another strong gain but not quite as 'red-hot' as March.
	Apr MI inflation gauge	1.8%	–	–	Follows a softer CPI print for Q1.
	Apr ANZ job ads	7.4%	–	–	Vacancies also elevated in the official ABS measure.
US	Mar construction spending	–0.8%	1.9%	–	Being driven by buoyant housing construction.
	Apr ISM manufacturing	64.7	65.1	–	Conditions currently sitting at a 35-year high.
	Fed Chair Powell	–	–	–	To speak on community development.
<b>Tue 04</b>					
Aus	Mar housing finance	–0.4%	–	2%	Well above pre-pandemic peaks. Investor activity picking up?
	Mar trade balance \$bn	7.5	8.3	6.3	Surplus narrows, import burst ahead of Easter.
	RBA policy decision	0.10%	0.10%	0.10%	Maintaining maximum policy stimulus.
Chn	Apr Caixin China PMI	50.6	50.8	–	To signal robust activity after Lunar New Year holiday.
US	Mar trade balance US\$bn	–71.1	–73.4	–	Household & business demand behind rising imports.
	Mar factory orders	–0.8%	1.6%	–	GDP pointed to strong but slowing business investment.
	Fedspeak	–	–	–	FOMC's Daly to speak to Economic Club of Minnesota.
<b>Wed 05</b>					
NZ	GlobalDairyTrade auction (WMP)	0.4%	–	1.0%	We expect upward pressure on dairy prices to continue.
	RBNZ Financial Stability Report	–	–	–	Too soon to assess recent housing policy changes.
	Q1 employment	0.6%	0.3%	0.3%	Modest gains despite lack of tourists over summer...
	Q1 unemployment rate	4.9%	5.0%	4.9%	...consistent with a steady unemployment rate.
	Q1 LCI wage inflat. (pvt, ord. time)	0.5%	0.4%	0.3%	Wage growth pressure has dissipated.
	Apr ANZ commodity prices	6.1%	–	–	More modest price gains likely after bumper March.
Aus	Mar dwelling approvals	21.6%	3.0%	3.0%	Major pull-forward effects ahead of HomeBuilder expiry.
	Apr AiG PCI	61.8	–	–	Construction +4.4pts in March to record high (series from 2005).
US	Apr ADP employment change	517k	900k	850k	Out of step with official measure.
	Apr ISM non-manufacturing	63.7	64.1	–	Services propelled by surging personal consumption.
	Fedspeak	–	–	–	FOMC's Evans and Mester to speak.
<b>Thu 06</b>					
NZ	Mar building permits	–18.2%	–	5.0%	Firmness in medium density consents.
	May ANZ business confidence	–2.0	–	–	Likely to firm due to trans-Tasman travel bubble.
Aus	RBA Deputy Governor Debelle	–	–	–	Monetary policy during Covid, Perth 7pm AEST.
Eur	Mar retail sales	3.0%	0.5%	–	Will gradually build momentum as we move to second half.
UK	BoE policy decision	0.10%	0.1%	–	Policy will remain accommodative as recovery gathers pace.
US	Initial jobless claims	553k	–	–	Hit a fresh pandemic low last week; downtrend to continue.
	Fedspeak	–	–	–	FOMC's Mester and Kaplan to speak.
	May Financial Stability Report	–	–	–	Assesses the resilience of the US' financial system.
<b>Fri 07</b>					
Aus	RBA Statement on Monetary Policy	–	–	–	Updated forecasts to be closely scrutinised by markets.
	Apr AiG PSI	58.7	–	–	Services up 2.9pts in March, to highest level since June 2018.
Chn	Apr trade balance USDbn	13.80	–	–	Should begin to pick up after seasonal dip over LNY.
	Apr foreign reserves \$bn	3170.03	–	–	Likely to rise on weakening USD over April.
	Q1 current account balance	123.8	–	–	Approaching pre-GFC levels, the series high.
US	Apr non-farm payrolls	916k	950k	1,100k	Another spectacular employment print is anticipated...
	Apr unemployment rate	6.0%	5.8%	5.8%	... as economy opens up; participation is a headwind.
	Apr average hourly earnings %mth	–0.1%	0.1%	–	Given remaining slack, wage g'th should remain modest.
	Mar consumer credit	27.578	21.250	–	Reopening saw surge in Feb, the largest mthly gain in 3 yrs.
<b>Sat 8</b>					
Chn	Apr foreign direct investment %oyr	4.6%	–	–	Annual pace slowing from peak in September.



## International forecasts.


Economic Forecasts (Calendar Years)	2017	2018	2019	2020f	2021f	2022f
<b>Australia</b>						
Real GDP %/yr	2.4	2.8	1.9	-2.4	5.2	3.6
CPI inflation %/yr	1.9	1.8	1.8	0.9	2.6	2.1
Unemployment rate %	5.5	5.0	5.2	6.8	5.7	5.2
Current account % of GDP	-2.6	-2.1	0.7	2.5	3.7	1.8
<b>United States</b>						
Real GDP %/yr	2.3	3.0	2.2	-3.5	6.0	4.1
CPI inflation %/yr	2.1	2.4	1.9	1.2	2.2	2.1
Unemployment rate %	4.4	3.9	3.7	8.1	5.3	4.3
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	2.7	2.2
<b>Euro zone</b>						
Real GDP %/yr	2.6	1.9	1.3	-6.6	4.2	3.9
<b>United Kingdom</b>						
Real GDP %/yr	1.7	1.3	1.4	-9.9	5.5	5.5
<b>China</b>						
Real GDP %/yr	6.9	6.7	5.8	2.3	10.0	5.7
<b>East Asia ex China</b>						
Real GDP %/yr	4.7	4.4	3.7	-2.4	5.0	4.9
<b>World</b>						
Real GDP %/yr	3.8	3.6	2.8	-3.3	5.9	4.5
Forecasts finalised 9 April 2021						

Interest rate forecasts	Latest	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22
<b>Australia</b>								
Cash	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
90 Day BBSW	0.04	0.05	0.07	0.09	0.10	0.10	0.10	0.10
10 Year Bond	1.75	1.85	1.95	2.10	2.20	2.30	2.40	2.50
<b>International</b>								
Fed Funds	0.125	0.125	0.125	0.125	0.125	0.125	0.125	0.125
US 10 Year Bond	1.64	1.75	1.85	2.00	2.10	2.20	2.30	2.40


Exchange rate forecasts	Latest	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22
AUD/USD	0.7773	0.79	0.80	0.82	0.85	0.85	0.84	0.82
USD/JPY	108.83	109	110	111	112	111	111	110
EUR/USD	1.2116	1.20	1.21	1.23	1.25	1.26	1.27	1.27
GBP/USD	1.3938	1.40	1.40	1.41	1.41	1.41	1.42	1.42
USD/CNY	6.4695	6.40	6.30	6.20	6.15	6.10	6.05	6.00
AUD/NZD	1.0734	1.10	1.10	1.11	1.12	1.12	1.12	1.11

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