



Weekly Economic Commentary.

Rounding the bend.

The New Zealand economy has come through the ‘tourist-less summer’ with employment conditions relatively intact. And a range of other recent indicators suggest some solid momentum as we head into the middle of the year.

In recent months we’ve emphasised that the New Zealand economy was likely to lose some steam over the summer period. Normally the number of people in the country would start to rise from around October, peaking in February before turning to a net outflow over the next few months. That pattern has been disrupted by the closure of the border and the loss of international tourism, which has affected both the level of activity and the pattern throughout the year. Consequently, we expected to see some softening in the data over summer – with the flipside being that growth would look stronger than normal through the middle of the year.

That soft patch was indeed apparent in some activity indicators such as credit card spending. But one area that has proved to be more resilient than we expected is the labour market. Employment grew by 0.6% over the March quarter, and the unemployment rate dropped to 4.7% compared to our forecast of an unchanged 4.9%.

With a second consecutive drop in unemployment, it’s looking increasingly likely that the 5.2% reading last September marked the high for this cycle. That’s a much lower and earlier peak than anyone imagined at the time. The wage subsidy scheme played a critical role in keeping people attached to the workforce during the Covid-19 lockdown last year, but the subsequent success in keeping unemployment down is due to the fact that the domestic economy has been able to operate largely without Covid restrictions.

Prior to the Covid-19 shock, the unemployment rate had dropped to around 4%. At the time the Reserve Bank judged this to be at or above ‘maximum sustainable employment’, according to their mandate. We agree with that assessment. At a current rate of 4.7%, that implies we’ve still got some way to go before we would expect to see a sustained lift in wage and price pressures. But the gap is closing, and a little faster than expected.



With the economy now moving into the period when there would normally be an outflow of overseas visitors, we'd expect to see a stronger pulse to the data over the next few months. And indeed, the releases over the last week suggest that we're off to a good start.

The ANZ business confidence survey has picked up for the last couple of months, with gains across the board in terms of activity, hiring and investment intentions. That's despite firms increasingly facing cost pressures from things such as rising materials and shipping costs. Inflation expectations for the year ahead have risen, and pricing intentions have surged to a record high.

Intentions don't necessarily translate into action – if anything, the recent inflation data demonstrates how difficult firms are finding it to raise their prices. We do expect a strong lift in annual inflation over the next couple of quarters, partly due to base effects (i.e. some temporary price drops during the Covid lockdown period last year). But where we differ from the sentiment that pervades among markets and business surveys is that we don't expect this to lead to an ongoing lift in inflation through next year.

One part of the economy that is already running full steam ahead is the construction sector, and especially homebuilding. Last week's residential consents data reinforced that trend – consents rose by 18% in March, reversing most of the drop in the previous month. The number of consents granted over the last year reached more than 41,000, a new record high.

The strong pace of building activity, along with the drop in migration-led population growth, means that the industry is now making significant progress on addressing the housing shortage. We expect that strong pipeline of work to continue even as house price inflation cools.

The impact of the Government's recent housing policy announcements is unclear – the plan is that investors will still be able to deduct interest from their taxable income for a certain period if they buy a new build rather than an existing house. That could make new builds quite appealing to property investors, but they may be reluctant to jump in until they know how long the exemption will be.

The final indicator of note last week was the Government's fiscal accounts for the March month. The operating balance is running more than \$5bn ahead of what was expected at the Half-Year Update in December, with tax revenue from individuals, companies and GST all running well ahead of forecast.

Ahead of the Budget release on 20 May, the Finance Minister has indicated that this will leave room for both increased spending allowances and a reduction in borrowing requirements over the next few years. We'll be providing our preview of what to expect from the Budget later this week.

Michael Gordon, Acting Chief Economist

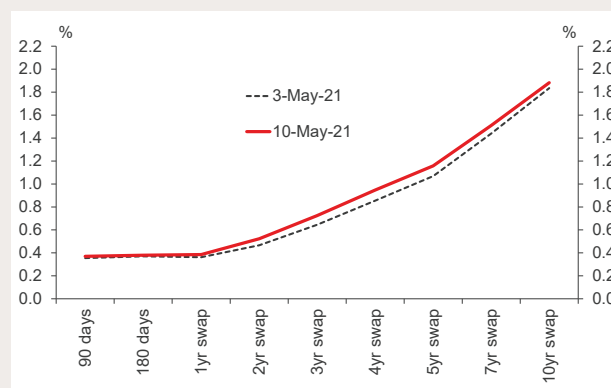
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Fixed vs Floating for mortgages.

We expect that floating rates, and shorter fixed-term rates, will be stable over the coming months. Inflation is set to spike higher this year, but the Reserve Bank will not need to respond to this.

Longer-term interest rates are now rising in response to the improved economic outlook. Based on our forecasts, taking a longer-term fixed rate (three to five years) will still be less expensive for borrowers than taking a short-term rate now and refixing later. However, the advantage is narrowing.

NZ interest rates



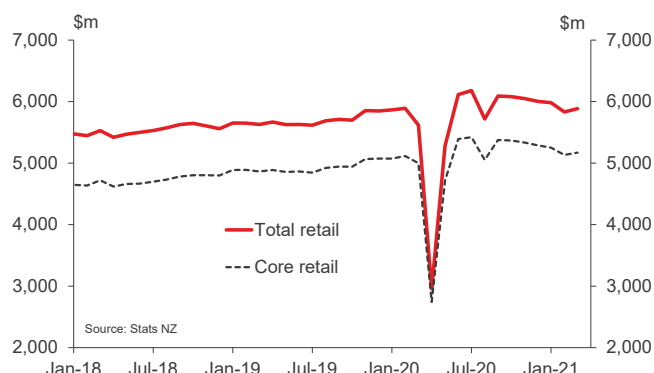
The week ahead.

NZ March Retail Card Spending

May 11, Last: +0.9%, Westpac f/c: +1.5%

- Retail spending picked up in March, rising by 0.9%. But despite March's increase, the underlying trend in spending has been relatively soft. After rebounding from lockdown, the level of retail spending has trended down over the past six months. In large part, that reflects the continued lack of international tourists during the peak summer months.
- We expect a 1.5% rise in spending in April. In both February and March spending was restrained by the dialling up of the Covid Alert Level. With current Alert Level being lower, we expect spending will rise in areas like hospitality.

NZ retail card spending



NZ Apr REINZ house sales and prices

May 13 (TBC), Sales last: -3.2%, Prices last: +24%/yr

- The April REINZ report will be the first comprehensive read on the strength of the housing market since the Government's announcement in late March, which significantly tightened up the tax treatment of property investors.
- Indicators so far suggest that house sales were still perky through April, although auction clearance rates fell. The key new information will be whether prices have continued to be bid up at the white-hot pace seen in recent months.
- We expect prices to flatten off over the rest of this year as investors step back, with homebuyers coming to the fore.

NZ REINZ house prices and sales



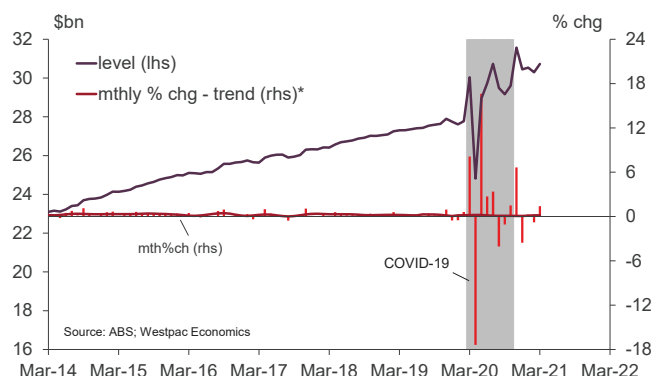
Aus Mar retail trade

May 10, Last: -0.8%, WBC f/c: 1.4%

Mkt f/c: 1.4%, Range: -0.3% to 1.7%

- Preliminary estimates showed a stronger than expected 1.4% gain in retail sales in March – led by reopening rebounds in WA and Vic, which were affected by 'mini-lockdowns' in Feb. Significant flood disruptions in NSW and Qld and yet another mini-lockdown in Qld late in the month appeared to have had little impact.
- The final release may see slight revisions and will include the full survey detail – sales by storetype, state, firm size and online vs in store. Stepping back from the monthly moves, retail has had a soft, patchy start to 2021 with a string of 'mini lockdowns' affecting several states and signs that 'catch-up' spending may be starting to wane. The further relaxation of Covid restrictions (outside of periodic lockdowns) may also be starting to see a rotation of spending away from retail back to non-retail segments, accommodation, recreation and travel in particular.

Aus monthly retail sales



The week ahead.

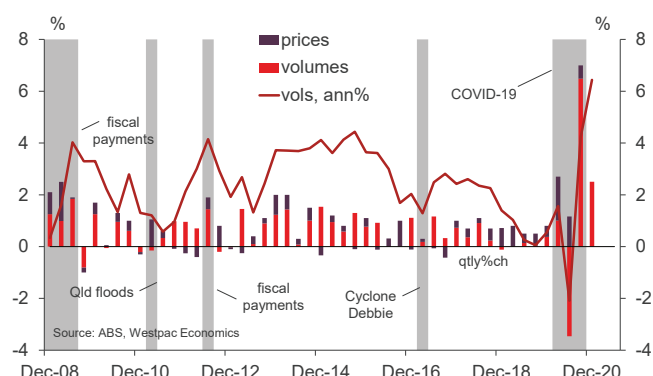
Aus Q1 real retail sales

May 10, Last: 2.5%, WBC f/c: -0.3%

Mkt f/c: -0.4%, Range: -0.6% to 0.3%

- Real retail sales rose 2.5% in Q4 following a spectacular 6.5% jump in Q3 to be up 6.4%yr – retailers capitalised on reopening rebounds in the second half of the year and expenditure switching into key retail segments.
- Sales look to have eased a touch in Q1, preliminary monthly estimates showing nominal sales down -0.1% for the quarter. The CPI detail suggests retail prices remain subdued, for food in particular. We expect the retail deflator to show a muted 0.2% gain meaning volumes are down 0.3%qtr.
- Note that the wider consumption measures reported in the national accounts include many categories not covered by the retail survey that are likely benefitting from reopening – a wide array of consumer services in particular.

Aus quarterly retail volumes and prices



Aus Federal Budget, \$bn

May 11, Last: -155 (est), WBC f/c: -84

Mkt f/c: -80

- The Federal budget deficit while still sizeable is significantly lower than the Government expected in their December update (MYEFO).
- Economic prospects have improved: output is rebounding briskly as Covid restrictions are relaxed, unemployment is much lower than expected and commodity prices have tracked a much higher path. These dynamics have improved the budget starting position in the order of around \$45bn.
- The budget strategy is to boost growth with additional stimulus so as to drive the unemployment rate lower still – closer to full employment.
- We expect the 2020/21 deficit to come in around \$155bn, down from \$197.7bn in MYEFO. The deficit then narrows to \$84bn in 2021/22 (including a May Budget stimulus package in the order of \$20bn), down from \$108.5bn in MYEFO.

\$bn	'20/21	'21/22	'22/23	'23/24	'24/25
MYEFO Dec 2020	-197.7	-108.5	-84.4	-66.0	-55.0**
Economic boost	42.7	44.5	32.4	27.0	27.0
New spending					
Tax	0	0	7.0	0	0
Covid package	0	5.0	0	0	0
Child care, plus	0	4.0	4.0	4.0	4.0
Aged care	0	2.5	2.5	2.5	2.5
Jobseeker increase	0	2.5	2.5	2.5	2.5
Other	0	6.0	4.0	2.0	2.0
Budget package	0	20	20	11	11
Budget position*	-155	-84	-72	-50	-39
% of GDP	-7.5	-4.0	-3.3	-2.2	-1.6

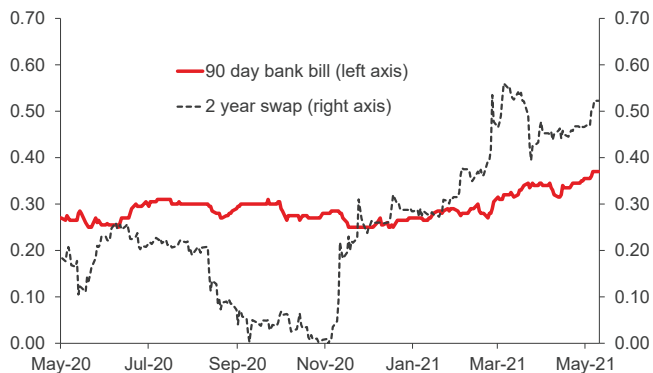
* Westpac's expectation of Government forecasts. ** Westpac's estimate

New Zealand forecasts.

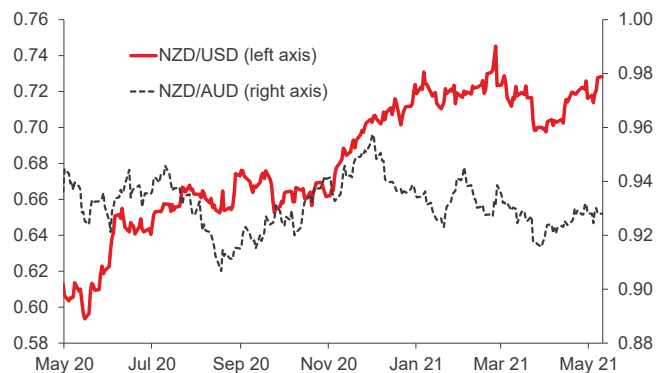
Economic forecasts	Quarterly				Annual			
	2020	2021						
% change	Dec (a)	Mar	Jun	Sep	2019	2020	2021f	2022f
GDP (Production)	-1.0	-0.4	1.8	0.4	2.4	-2.9	3.9	4.0
Employment	0.6	0.5	0.1	0.4	1.2	0.8	1.4	2.1
Unemployment Rate % s.a.	4.9	4.7	4.7	4.6	4.1	4.9	4.5	4.1
CPI	0.5	0.8	0.5	0.7	1.9	1.4	2.4	1.3
Current 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	1.00	1.05	1.10
10 Year Bond	1.80	1.85	1.90	1.95	2.00	2.10
NZD/USD	0.73	0.73	0.74	0.76	0.76	0.76
NZD/AUD	0.92	0.91	0.90	0.89	0.89	0.89
NZD/JPY	79.6	80.3	82.1	85.1	84.4	84.4
NZD/EUR	0.61	0.60	0.60	0.61	0.60	0.60
NZD/GBP	0.52	0.52	0.52	0.54	0.54	0.54
TWI	75.6	74.9	75.0	76.1	75.7	75.5

2 year swap and 90 day bank bills



NZD/USD and NZD/AUD



NZ interest rates as at market open on 10 May 2021

Interest rates	Current	Two weeks ago	One month ago
Cash	0.25%	0.25%	0.25%
30 Days	0.27%	0.26%	0.26%
60 Days	0.32%	0.31%	0.29%
90 Days	0.37%	0.35%	0.32%
2 Year Swap	0.52%	0.47%	0.45%
5 Year Swap	1.16%	1.04%	1.05%

NZ foreign currency mid-rates as at 10 May 2021

Exchange rates	Current	Two weeks ago	One month ago
NZD/USD	0.7283	0.7238	0.7038
NZD/EUR	0.5987	0.5987	0.5917
NZD/GBP	0.5206	0.5207	0.5130
NZD/JPY	79.13	78.26	77.20
NZD/AUD	0.9280	0.9276	0.9231
TWI	75.54	75.47	74.28

Data calendar.

		Last	Market median	Westpac forecast	Risk/Comment
Mon 10					
Aus	Q1 real retail sales	2.5%	-0.4%	-0.3%	Look to have eased a touch after big gains in H2 2020.
	Mar retail sales	1.4%	1.4%	1.4%	Vic and WA drove a strong gain in March prelim.
	Apr NAB business survey	25	-	-	Business conditions jumped 8pts to +25, an historic high.
Eur	May Sentix investor confidence	13.1	-	-	Above pre-COVID levels on prospects for H2 recovery.
US	Fedpeak	-	-	-	FOMC's Evans to discuss economic outlook.
Tue 11					
NZ	Apr card spending	2.0%	-	1.5%	Spending likely to rise following easing in Alert Levels.
Aus	Federal Budget, AUDbn	-155(e)	-80	-84	Deficit lower on stronger economy, but still sizeable.
	Apr 24 Weekly Payroll Jobs	-	-	-	The first 'clean' read on payrolls after Easter and JobKeeper.
Chn	Apr CPI %yr	0.4%	1.0%	-	Temporary spike in prices beginning to build...
	Apr PPI %yr	4.4%	6.5%	-	... in both consumer and factory-gate measures.
Eur	May ZEW survey of expectations	66.3	-	-	Will look through near-term risks to the rebound in H2.
US	Apr NFIB small business optimism	98.2	100.8	-	Record number of firms reported job openings in March...
	Mar JOLTS job openings	7367k	7500k	-	... also reflected in vacancies across the broader economy.
	Fedpeak	-	-	-	FOMC's Williams, Brainard, Daly to speak.
Wed 12					
Eur	Mar industrial production	-1.0%	1.0%	-	Mfg sector remains the source of strength for Europe.
UK	Q1 GDP	1.3%	-1.7%	-	Likely to contract in Q1; will be followed by strong rebound.
	Mar trade balance £bn	-7123	-	-	Exports weighted down temporarily by Brexit disruptions.
US	Apr CPI	0.6%	-	-	To show a strong 3%yr+ rise on base effects.
	Apr monthly budget statement	-659.6	-	-	Will continue to widen as waves of stimulus come online.
	Fedpeak	-	-	-	Vice Chair Clarida to talk on the US economic outlook.
Thu 13					
NZ	Apr food price index	0.0%	-	0.8%	Boost from higher fruit and vegetable prices.
	Apr REINZ house prices %yr	24.0%	-	-	Due this week. First chance to see how...
	Apr REINZ house sales	-3.2%	-	-	...policy changes are affecting investors' demand.
Aus	May MI inflation expectations	3.2%	-	-	Jolted lower in April; firmly below pre-COVID levels.
US	Apr PPI	1.0%	0.3%	-	Will be supported by rising commodity input prices.
	Initial jobless claims	498k	-	-	Continues to make fresh covid lows; downtrend established.
	Fedpeak	-	-	-	FOMC's Waller and Bullard to speak.
Fri 14					
NZ	Apr manufacturing PMI	63.6	-	-	Likely to follow the global trend of robust manufacturing.
US	Apr import price index	1.2%	0.6%	-	Rising fuel costs will remain supportive
	Apr retail sales	9.8%	1.1%	-	Surging on reopening; labour market recovery; and stimulus.
	Apr industrial production	1.4%	1.3%	-	Mfg surveys show robust output and new orders.
	Mar business inventories	0.5%	0.3%	-	Inventories choppy on restocking and high turnover.
	May Uni. of Michigan sentiment	88.3	90.0	-	Still below pre-Covid, but continuing to recover.
	Fedpeak	-	-	-	FOMC's Kaplan to take part in moderated discussion.

International forecasts.

Economic Forecasts (Calendar Years)	2017	2018	2019	2020f	2021f	2022f
Australia						
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	2.2	1.8
Unemployment rate %	5.5	5.0	5.2	6.8	5.0	4.7
Current account % of GDP	-2.6	-2.1	0.7	2.5	3.5	1.9
United States						
Real GDP %/yr	2.3	3.0	2.2	-3.5	6.5	4.1
CPI inflation %/yr	2.1	2.4	1.9	1.2	2.9	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
Japan						
Real GDP %/yr	1.7	0.6	0.3	-4.8	2.7	2.1
Euro zone						
Real GDP %/yr	2.6	1.9	1.3	-6.6	4.2	4.0
United Kingdom						
Real GDP %/yr	1.7	1.3	1.4	-9.9	5.5	5.5
China						
Real GDP %/yr	6.9	6.7	5.8	2.3	10.0	5.7
East Asia ex China						
Real GDP %/yr	4.7	4.4	3.7	-2.4	4.8	4.9
World						
Real GDP %/yr	3.8	3.6	2.8	-3.3	5.9	4.5
Forecasts finalised 7 May 2021						

Interest rate forecasts	Latest	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22
Australia								
Cash	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
90 Day BBSW	0.04	0.05	0.07	0.09	0.10	0.10	0.10	0.10
10 Year Bond	1.68	1.85	1.95	2.10	2.20	2.30	2.40	2.50
International								
Fed Funds	0.125	0.125	0.125	0.125	0.125	0.125	0.125	0.125
US 10 Year Bond	1.57	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	0.7778	0.79	0.80	0.82	0.85	0.85	0.85	0.85
USD/JPY	109.14	109	109	110	111	111	111	110
EUR/USD	1.2061	1.21	1.21	1.23	1.25	1.26	1.27	1.27
GBP/USD	1.3911	1.40	1.40	1.41	1.41	1.41	1.42	1.42
USD/CNY	6.4591	6.40	6.30	6.20	6.15	6.10	6.05	6.00
AUD/NZD	1.0745	1.08	1.10	1.11	1.12	1.12	1.12	1.12

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