



Kōkako

Weekly Economic Commentary.

The numbers add up.

With a few weeks of this Covid-19 lockdown under our belts, and with some easing of restrictions outside of Auckland, we've now accumulated a bit of data to tell us how the economy is faring. So far, it supports our view that the economy is capable of a rapid rebound once restrictions are lifted.

New Zealand moved into Alert Level 4, the strictest level of restrictions, on 18 August, after the detection of a Covid case in the community with no identifiable source. Since then, over 800 cases have been identified, mostly contained to Auckland. The rest of the country moved down to Level 3 on 1 September (with Northland delayed a few days), and to Level 2 on 8 September.

High-frequency economic data is limited, but what we have sheds some light on both the overall impact of the lockdown and the response as the restrictions have been loosened. Generally speaking, we have a good idea of how much activity can go ahead at each alert level. However, the regional split may complicate things, by disrupting national supply chains – Auckland is a major hub for manufacturing and distribution centres.

Firstly, electronic card spending roughly halved after the move to Level 4. Outside of Auckland, as the restrictions have been eased, this has since improved to be down about 20% on pre-lockdown levels.

The drop in spending was not quite as large as we saw during the lockdown in March-April 2020. It's likely that firms are better positioned to offer online shopping and contactless delivery this time. But ultimately, the constraint on spending is what types of businesses are deemed essential and allowed to open at each Alert Level.

Electricity demand was down by as much as 10% at Level 4, compared to a drop of 15% during last year's lockdown. Demand in Auckland is still about 10% lower, but it has improved to around 5% down in the rest of the country.



Traffic volumes were down as much as 65% for heavy vehicles. In the main centres apart from Auckland, that has now eased to around a 40% drop. Passenger vehicle traffic has been slower to pick up, which likely reflects both the rise of online shopping and ability of many workers to continue working from home.

Finally, job advertisements are where we've seen the most marked difference compared to last year's lockdown. By our estimates, the number of new vacancies initially fell by about a third, with a modest pickup since then in both Auckland and elsewhere. That compares to a drop of as much as three-quarters last year.

What's more, the drop in vacancies this time was from a very elevated level. Indeed, the number of vacancies has only dropped back to around where they were at this time in 2019, a distinctly non-crisis period. With the benefit of experience, firms now know that activity can bounce back quickly when Covid restrictions are lifted – and when they are, employers will be back to facing the severe labour shortages that existed before the lockdown.

Overall, we remain confident in our view that we'll see a strong nationwide rebound in economic activity as this Covid outbreak is brought under control. That said, there will be some areas to watch closely. One is the ongoing impact of supply shortages and escalating costs for materials and shipping. Another is the risk of a more protracted hit to the hospitality sector – Alert Level 2 is more restrictive around indoor venues than it was last time, given what has been learnt since then about the aerosol spread of Covid-19.

This Thursday sees the release of June quarter GDP. This might feel more dated than usual, given the return to Covid

lockdown since then. But it will be an important reminder of how quickly the economy was gathering momentum up until then – and what potentially lies on the other side of lockdown.

We're expecting a 1.7% increase for the June quarter, on top of the 1.6% rise in the March quarter. Stats NZ has also noted that there will be some revisions to the recent history, which could lift the level of GDP by almost 1%. All together, this would put GDP substantially above its pre-Covid level.

Household demand continues to be a key engine for growth, which in turn is flowing through to other sectors. Sectoral indicators point to strong growth in wholesale trade (up 3.0%), non-food manufacturing (up 1.8%) and construction (up 1.8%).

Travel-related spending will also have been boosted by the Trans-Tasman travel bubble through much of the June quarter. We expect to see the strongest gains in transport (up 10%) and retail trade and accommodation (up 3.3%).

Our forecast is at the high end of the range of market estimates. We're also expecting a much stronger result than the 0.7% rise that the Reserve Bank forecast in its August *Monetary Policy Statement* (which didn't have the benefit of the activity indicators that have been published recently). A result in line with our view would further bolster the RBNZ's willingness to start lifting interest rates once the risks around the current Covid outbreak have cleared.

Michael Gordon, Acting Chief Economist

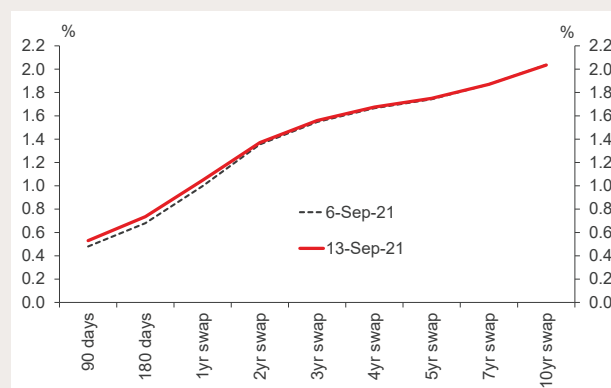
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Fixed vs floating for mortgages.

We expect the Reserve Bank to start increasing the OCR over the coming months, with the timing subject to how the current Covid-19 outbreak plays out.

Based on our OCR forecasts over the coming years, we think there is value in moving beyond the currently popular one-year fixed term, towards terms of two to 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 ANZBO Business Confidence (Preliminary)

Sep 13, Domestic Trading Activity last: 19.2

- The previous reading on business activity showed that trading activity continued to ease in August, though it remained at firm levels. This was the third consecutive month of easing.
- The latest confidence survey will provide an indication of how business confidence has evolved since the Covid Alert Level was dialled up. Strict activity restrictions remain in place in Auckland, and for much of the survey period restrictions will also have been dialled up in other regions. Those developments will have knocked confidence to some degree. However, over the past year the economy has proven to be more resilient than expected to Covid related headwinds.
- Underlying inflation gauges will again be an area worth keeping an eye on as inflation expectations from the last survey breached the upper band of the RBNZ's inflation target.

NZ business confidence



NZ Aug REINZ house sales and prices

Sep 14, Sales last: 0%, Prices last: +30.6%/yr

- The housing market had cooled to some degree after loan-to-value restrictions were reimposed in March. However, the rate of house price growth remained high, and if anything was regaining some momentum in July.
- The return to Covid-19 lockdown midway through August means that turnover is likely to be down sharply for the month (although buyer interest reportedly remains high and realtors are better equipped to provide online viewings and auctions.)
- Short-term mortgage rates began to rise in July, as the Reserve Bank signalled that it is now time to start withdrawing monetary stimulus. The rise to date has been modest, but is likely to become more significant as the OCR is increased over the coming months.

REINZ house prices and sales

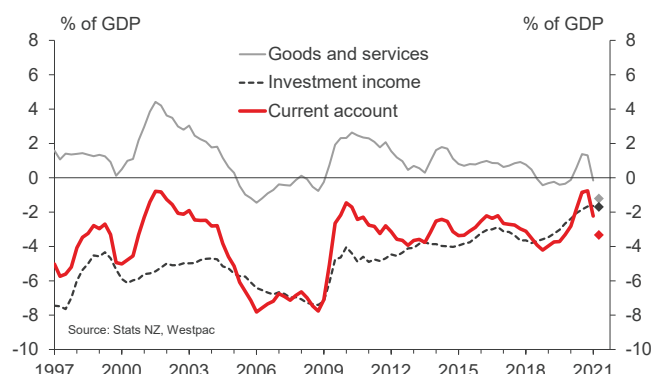


NZ Q2 Current Account Balance, % of GDP

Sep 15, Last: -2.2%, Westpac: -3.3%

- We expect the annual current account deficit will widen to 3.3% of GDP in the June quarter, from 2.2% in the March quarter.
- Essentially after the Covid distortions over 2020, the current account deficit is returning back to around pre-pandemic levels.
- Looking ahead (and through the current lockdown), we expect the current account to widen further on the strength of the domestic economy and the associated lift in import values. We expect the deficit to reach its widest point of around 4.4% in the second half of 2022.

Annual current account balance



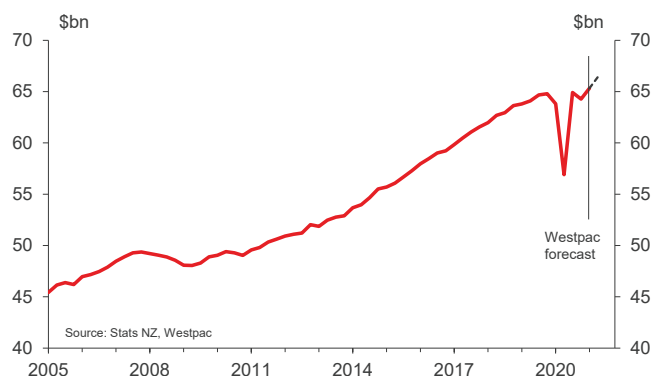
The week ahead.

NZ Q2 GDP

Sep 16, Last: 1.6%, Westpac f/c: +1.7%, Mkt f/c: +1.2%

- We expect a 1.7% rise in GDP for the June quarter following a 1.6% rise in March. This illustrates the strength of the economy in 2021. While the return to lockdown will see GDP drop sharply again in the September quarter, we expect a rapid rebound once the restrictions are lifted.
- The trans-Tasman bubble gave the retail and hospitality sectors a boost after about a year with no overseas tourists. Strong household demand again continued to provide support.
- Our forecast is at the upper end of the market range, and substantially higher than the Reserve Bank's estimate of 0.7%. A result in line with our view would bolster the case for removing some monetary stimulus.

Production-based GDP

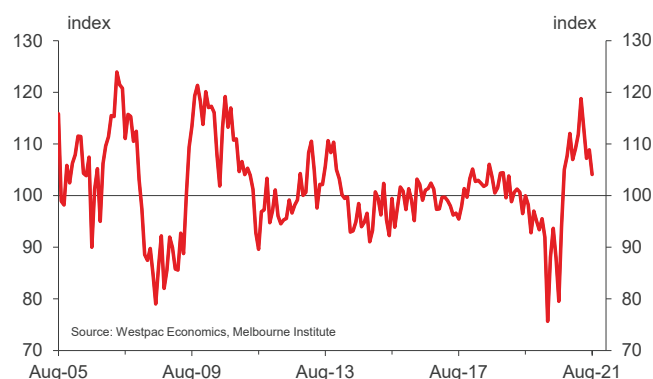


Aus Sep Westpac-MI Consumer Sentiment

Sep 15, Last: 104.1

- Sentiment fell 4.4% to 104.1 in August. Despite the further loss of confidence, sentiment held up better than might have been expected given virus developments – the prolonged lockdown already in place for NSW extended in the month, Qld still in the midst of snap restrictions and a sixth successive lock-down announced for Vic at the end of the survey week. At 104.1, sentiment in Aug was still above pre-pandemic levels let alone last year's lows.
- Covid developments will weigh again in Sep with Vic's lockdown extended and both NSW and Vic conceding that restrictions will be unable to rein in cases, meaning a lift in vaccine coverage is needed for restrictions to safely end. ACT has also been drawn into an extended lockdown. Hospital systems are also coming under significant strain in parts of Sydney. Cases remain negligible across other states. On the plus side, Australia's vaccine roll-out has accelerated with recent deals ensuring ample supply of Pfizer near-term.

Aus Consumer Sentiment Index

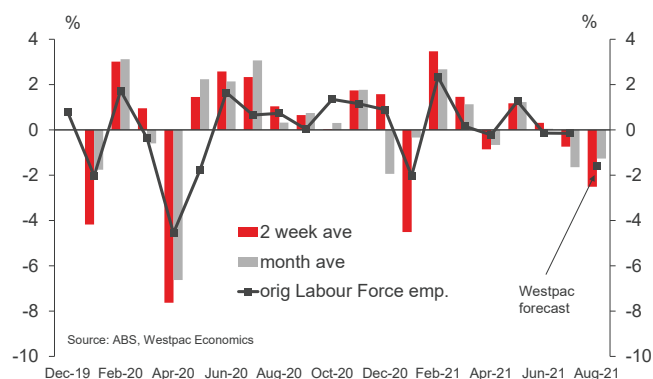


Aus August Labour Force, employment '000

**Sep 16, Last: 2.2k, WBC f/c: -150k Mkt f/c: -100k
Range: -300k to -50k**

- Total employment lifted a modest 2.2k in July. As we expected, July was a story of hours worked rather than employment. We cautioned that the pronounced 2.4% fall in Payrolls in the two weeks to July 17 largely reflected workers being stood down and taking holidays (but remaining attached to their employer) than outright job losses.
- In the two weeks to August 14, payrolls declined 0.7% compared to a decrease 1.8% through the previous two weeks (revised from a -2.0%). Through the month to the 14th payrolls are down 2.4%. Making an allowance for potential revisions our employment forecast is -150k (-1.6% not seasonally adjusted). This brings the proportional variation between payrolls and employment closer to what was seen during the lock downs last year but we still see upside (i.e. a smaller negative) rather than downside to our forecast.

Aus Payrolls vs Labour Force Employment



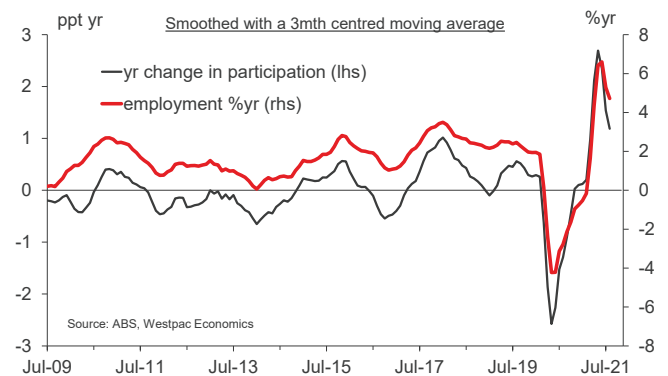
The week ahead.

Aus August Labour Force, unemployment %

Sep 16, Last: 4.6%, WBC f/c: 5.0% Mkt f/c: 5.0%
Range: 4.8% to 5.5%

- In July the lockdown again had a meaningful impact on participation. Male and female participation posted an equivalent proportional fall nationally but there were divergences between the states. NSW's male participation was down 0.9%, while female participation fell 1.1%. Victoria's female participation rate posted a sizeable 0.7% recovery while males had a modest 0.1% gain. Female participation again proved more responsive to the lock downs partly reflecting that women tend to be the first to take on additional household responsibilities, notably during school holidays.
- The fall in participation was enough to drive a 0.3ppt fall in the unemployment rate, from 4.9% to 4.6% (0.6ppts below pre-Covid levels), even though employment gains were only marginal.
- We are forecasting a 0.5ppt fall in participation to 65.5% which will limit the rise in unemployment to 0.4ppt to 5.0%.

Aus participation and employment

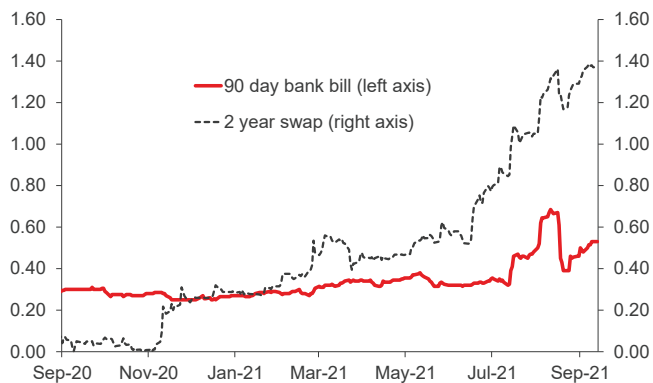


New Zealand forecasts.

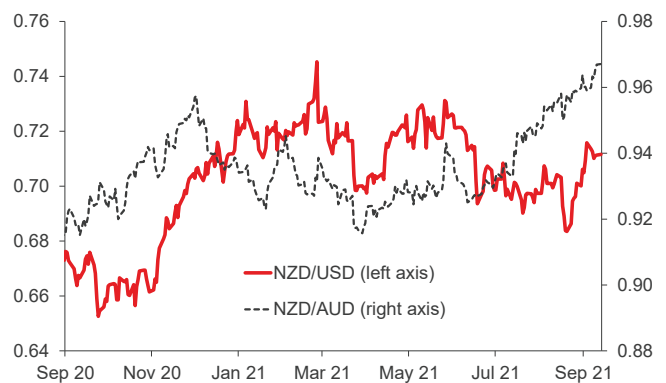
Economic forecasts		Quarterly				Annual		
	2021							
% change	Mar (a)	Jun	Sep	Dec	2019	2020	2021f	2022f
GDP (Production)	1.6	1.7	-6.1	9.0	2.4	-2.9	4.9	4.9
Employment	0.6	1.1	-0.1	0.5	1.2	0.7	2.1	2.1
Unemployment Rate % s.a.	4.6	4.0	3.8	4.2	4.0	4.8	4.2	3.5
CPI	0.8	1.3	1.1	0.1	1.9	1.4	3.4	2.1
Current Account Balance % of GDP	-2.2	-3.4	-3.9	-4.3	-3.3	-0.8	-4.3	-4.4

Financial forecasts	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Dec-23
Cash	0.50	0.75	1.25	1.25	1.50	1.50	1.75	2.00
90 Day bill	0.70	1.15	1.35	1.45	1.60	1.70	1.85	2.10
2 Year Swap	1.35	1.50	1.60	1.70	1.80	1.90	2.00	2.15
5 Year Swap	1.75	1.90	2.00	2.10	2.20	2.30	2.40	2.55
10 Year Bond	1.95	2.05	2.15	2.20	2.30	2.40	2.45	2.55
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	78.8	80.6	81.8	82.9	83.6	83.6	84.4	84.0
NZD/EUR	0.58	0.59	0.60	0.61	0.61	0.61	0.62	0.61
NZD/GBP	0.50	0.50	0.51	0.51	0.51	0.51	0.51	0.51
TWI	73.9	74.1	74.8	75.4	75.3	75.1	75.0	74.3

2 year swap and 90 day bank bills



NZD/USD and NZD/AUD



NZ interest rates as at market open on 13 September 2021

Interest rates	Current	Two weeks ago	One month ago
Cash	0.25%	0.25%	0.25%
30 Days	0.33%	0.28%	0.53%
60 Days	0.43%	0.37%	0.60%
90 Days	0.53%	0.46%	0.67%
2 Year Swap	1.37%	1.29%	1.33%
5 Year Swap	1.75%	1.64%	1.66%

NZ foreign currency mid-rates as at 13 September 2021

Exchange rates	Current	Two weeks ago	One month ago
NZD/USD	0.7116	0.7001	0.7042
NZD/EUR	0.6023	0.5936	0.5970
NZD/GBP	0.5138	0.5090	0.5088
NZD/JPY	78.19	76.93	77.24
NZD/AUD	0.9671	0.9584	0.9553
TWI	75.46	74.44	74.86

Data calendar.

		Last	Market median	Westpac forecast	Risk/Comment
Mon 13					
NZ	Aug food price index	1.3%	–	0.2%	Gains spread across categories.
	Sep ANZ business confidence (prelim)	19.2	–	–	First gauge of business confidence since lockdown.
US	Aug monthly budget statement	–302.1	–	–	Deficit to narrow materially on recovery but remain large.
Tue 14					
NZ	Aug REINZ house sales	0.0%	–	–	Dialling up of the Alert Level will dent sales...
	Aug REINZ house price index %yr	30.6%	–	–	...but price impact to be muted.
Aus	Aug NAB business survey	11	–	–	Lockdowns to hit activity – will impact be less than early 2020?
	RBA Governor Lowe speech	–	–	–	“Delta, the Economy and Monetary Policy”, online.
	Q2 residential property price index	5.4%	–	–	Robust growth expected for Q2 release.
UK	Jul ILO unemployment rate	4.7%	4.6%	–	End of furlough scheme poses risks but labour demand is strong.
US	Aug NFIB small business optimism	99.7	99.0	–	Supply chain frictions and delta may weigh on small businesses.
	Aug CPI	0.5%	0.4%	0.4%	Input shortages and reopening expected to buoy inflation.
Wed 15					
NZ	Q2 current account % of GDP	–2.2%	–	–3.3%	Current account deficit is returning to pre-pandemic levels.
Aus	Sep WBC–MI Consumer Sentiment	104.1	–	–	Confidence to be challenged by latest lockdowns in NSW & Vic.
Chn	Aug retail sales %yr	8.5%	7.0%	–	Restrictions against Covid-19 have hit hard recently.
	Aug industrial production	14.4%	13.4%	–	Global supply chain disruptions a material headwind.
	Aug fixed asset investment ytd %yr	10.3%	9.0%	–	Further near-term weakness likely.
Eur	Jul industrial production	–0.3%	0.5%	–	Supply bottlenecks are likely to restrain growth in production.
UK	Aug CPI, %yr	2.0%	2.9%	–	CPI expected to lift on supply chain constraints and recovery.
US	Sep Fed Empire state index	18.3	17.1	–	To provide a timely update on NY manufacturing sector.
	Aug import price index	0.3%	0.3%	–	High freight costs and commodities to support IPI.
	Aug industrial production	0.9%	0.3%	–	Parts shortages to remain a headwind for activity.
Thu 16					
NZ	Q2 GDP	1.6%	1.2%	1.7%	Strong result driven by both spending on goods & services.
Aus	Sep MI inflation expectations	3.30%	–	–	Have been trending around 3.6% to 3.7%; is this about to break?
	Aug employment	2.2k	–100k	–150k	Weekly Payrolls highlighted the hit in NSW & Qld but were better...
	Aug unemployment rate	4.6%	5.0%	5.0%	... than expected in Vic. Upside risk to empl, downside for unempl.
	RBA Bulletin	–	–	–	Includes latest research articles.
Eur	Jul trade balance €bn	12.4	–	–	Has narrowed through first half on import rebound.
US	Aug retail sales	–1.1%	–0.8%	–	Delta concerns and rotation to services to weigh on retail sales.
	Initial jobless claims	–	–	–	Downtrend to remain in place in coming months on reopening.
	Sep Philly Fed index	19.4	19.2	–	Will offer a gauge of business activity in region.
	Jul business inventories	0.8%	0.5%	–	Inventories are due for a rebuild, but supply an issue.
Fri 17					
NZ	Aug manufacturing PMI	62.6	–	–	Return of lockdown is likely to result in a weaker print.
Eur	Aug CPI, %yr	3.0%	–	–	Final release of CPI expected to be at or near initial figure reported.
UK	Aug retail sales	–2.5%	–	–	Likely to see consumer shift from goods to reopened services.
US	Sep Uni. of Michigan sentiment	70.3	72.0	–	Consumer sentiment hit by delta last month; uncertainty remains.

International forecasts.


Economic Forecasts (Calendar Years)	2017	2018	2019	2020	2021f	2022f
Australia						
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	2.6	2.2
Unemployment rate %	5.5	5.0	5.2	6.8	5.6	4.0
Current account % of GDP	-2.6	-2.1	0.7	2.7	4.3	2.6
United States						
Real GDP %/yr	2.3	3.0	2.2	-3.5	5.8	4.2
CPI inflation %/yr	2.1	2.4	1.9	1.2	4.3	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
Japan						
Real GDP %/yr	1.7	0.6	0.3	-4.8	2.3	2.7
Euro zone						
Real GDP %/yr	2.6	1.9	1.3	-6.6	4.6	4.4
United Kingdom						
Real GDP %/yr	1.7	1.3	1.4	-9.9	6.7	5.5
China						
Real GDP %/yr	6.9	6.7	5.8	2.3	8.5	5.7
East Asia ex China						
Real GDP %/yr	4.7	4.4	3.7	-2.4	4.2	4.9
World						
Real GDP %/yr	3.8	3.6	2.8	-3.3	5.5	4.6
Forecasts finalised 8 September 2021						

Interest rate forecasts	Latest	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Dec-23
Australia									
Cash	0.10	0.10	0.10	0.10	0.10	0.10	0.25	0.50	0.75
90 Day BBSW	0.01	0.07	0.10	0.15	0.20	0.40	0.65	0.70	0.95
10 Year Bond	1.22	1.55	1.70	1.80	1.90	2.00	2.05	2.10	2.20
International									
Fed Funds	0.125	0.125	0.125	0.125	0.125	0.375	0.625	0.875	0.875
US 10 Year Bond	1.30	1.60	1.70	1.80	1.90	2.00	2.05	2.10	2.20

Exchange rate forecasts	Latest	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Dec-23
AUD/USD	0.7383	0.75	0.76	0.77	0.78	0.78	0.79	0.80	0.78
USD/JPY	109.89	111	112	112	112	113	113	114	115
EUR/USD	1.1829	1.21	1.23	1.22	1.21	1.21	1.21	1.20	1.19
GBP/USD	1.3843	1.41	1.43	1.44	1.45	1.44	1.44	1.43	1.42
USD/CNY	6.4562	6.35	6.30	6.25	6.25	6.20	6.20	6.15	6.10
AUD/NZD	1.0363	1.06	1.06	1.05	1.05	1.05	1.07	1.08	1.07

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