



# Weekly Economic Commentary.

**Thank you very much for your kind vaccination.**

The Delta outbreak continues to weigh on economic conditions, especially in the upper North Island. However, we and businesses expect this weak patch to prove temporary, with activity set to rebound to pre-lockdown levels in early 2022. These views are path dependent though. Crucially, this anticipated rebound requires a lift in vaccination rates, thus enabling looser Covid restrictions.

The Delta lockdown continues to crimp economic activity. For example, September retail spending remained weak despite most parts of the country regaining many of their freedoms to move about. Indeed, after plunging circa 20% last month, September spending saw a paltry 0.9% lift.

Unsurprisingly, spending in Auckland and the Waikato remains very weak, reflecting the ongoing tight Covid restrictions in these regions. In these two regions, weekly spending remains around 30% below the level prior to this latest lockdown.

Further south, spending is largely back to pre-lockdown levels. In addition, the agricultural sector continues to perform strongly, with farmgate meat prices sitting at record highs and dairy prices also strengthening of late. On the dairy

front, we expect this price strength to continue over the dairy season and we recently lifted our 2021/22 milk price forecast by 75 cents to \$8.50/kg. If achieved, this milk price would be a record high.

However, it's not all one-way traffic in the regions south of the Waikato. In particular, ongoing level 2 restrictions continue to drag on hospitality spending, plus the lack of travelling Aucklanders and Hamiltonians means a key source of demand for hospitality businesses in some regions has dried up.

The latest housing market data were also split along geographic lines. September house sales were 50% below pre-Delta levels in Auckland, whereas sales outside of Auckland have picked up. Similarly, house prices were



subdued in Auckland over the month, while prices in the rest of the country continue to surge. In fact, in regions outside of Auckland prices are now 34% higher than they were a year ago.

With the above in mind and the low probability of a quick end to lockdown restrictions, we expect a weak end to the year in terms of economic activity. After dropping an estimated 5.5% over the September quarter, we expect GDP to lift by only 4.5% over the December quarter. In other words, we don't expect GDP to regain its pre-Delta level until next year.

When 2022 does roll around, we expect economic activity will rebound as lockdown restrictions eventually ease, underpinned by ongoing support from monetary and fiscal policy, as well as firmness in the housing and labour markets. This has been the pattern following previous lockdowns and we expect this time will be no different. We anticipate that GDP will lift 2.2% in the March quarter and thus take economic activity back above its pre-lockdown level.

And it appears businesses are thinking similarly. Last week's business confidence survey showed that business sentiment remains relatively firm despite the lockdown. Importantly, firms' investment and hiring intentions are holding up. And that is consistent with a quick rebound in activity once the lockdown ends.

Inflation too is not going away. Businesses continue to report concerns about supply chain issues and the associated rise in costs. But at the same time, firms remain confident in their

ability to pass on costs to their customers. This highlights the fact that demand is also strong. Notably, the survey also showed that firms expect inflation to track above 3% over the next year.

With growing supply-side pressures and strong domestic demand, we expect the upcoming September quarter CPI report will show that inflation has risen to 4.2%. That would be the highest level since 2011. Furthermore, and of particular importance for the RBNZ, we expect that inflation pressures will remain strong even when the current supply-side disruptions eventually ease, reflecting the firm outlook for domestic demand. While the Delta-outbreak may moderate some of those demand side pressures in the short-term, we're still looking at a strong medium-term inflation outlook. Against this backdrop, more OCR hikes are likely over the coming months.

Of course, there are risks around these forecasts. One key uncertainty is how long the Alert Level remains elevated in Auckland and other parts of the upper North Island. On this front, New Zealand's vaccination rate has continued to push higher following Saturday's 'Vaxathon', with 85% of the eligible population having now received their first dose and 65% now fully vaccinated.

**Nathan Penny**, Senior Agri Economist

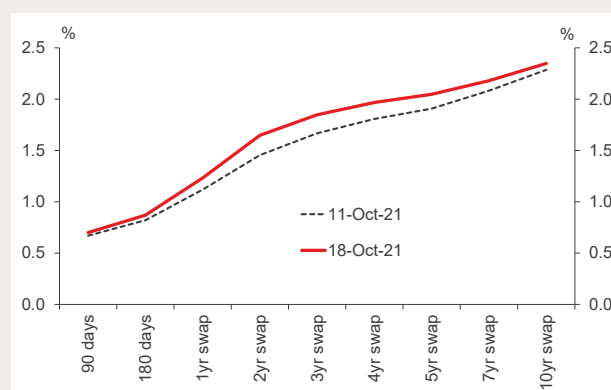
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## Fixed vs floating for mortgages.

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**



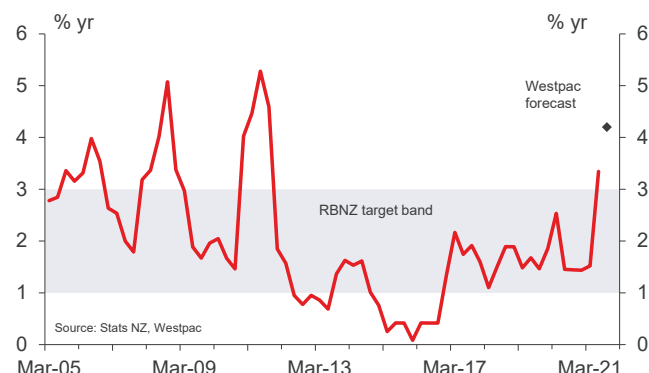
# The week ahead.

## NZ Q3 CPI

**Oct 18, Last +1.3%, WBC f/c: +1.5%, Market f/c: +1.5%, Range +1.2% to 1.8%**

- We expect that New Zealand consumer prices rose by 1.5% in the September quarter. That would see annual inflation rising to 4.2%, up from 3.3% last quarter and the highest annual inflation rate since 2011's GST related spike.
- Inflation is being boosted by increasing supply-side pressures, including disruptions to global manufacturing and distribution, as well as increases in international oil prices. Those pressures have been reinforced by strong domestic demand, which means cost increases have been passing through to final prices.
- Our forecast for September quarter inflation is slightly higher than the RBNZ factored into their last set of published forecasts.

## NZ Consumer Price Inflation

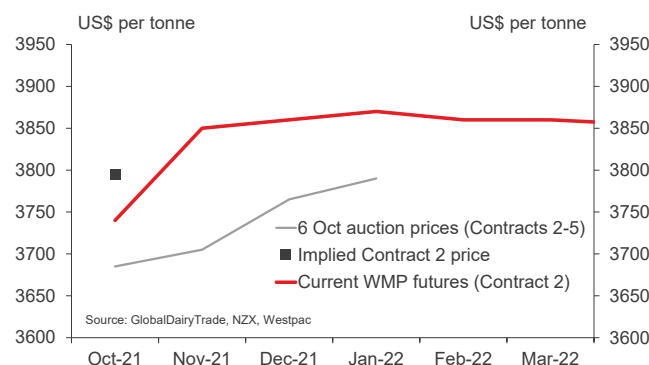


## NZ GlobalDairyTrade auction, whole milk powder prices

**Oct 20, Last: -0.4%, Westpac: +1.0%**

- We expect whole milk powder (WMP) prices to lift at the upcoming dairy auction. WMP prices fell a touch (-0.4%) at the previous auction.
- Our pick is a touch lower than futures market pricing, which is pointing to a circa 2% rise.
- New Zealand spring production has started on the back foot and as official data confirms this production weakness, we anticipate prices will remain firm, if not track higher.

## Whole milk powder prices

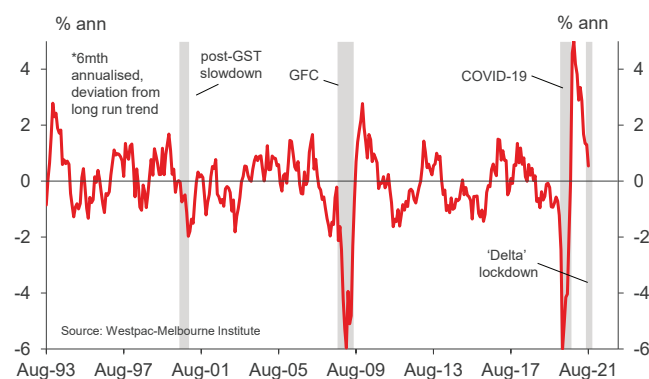


## Aus Aug Westpac-MI Leading Index

**Sep 22, Last: 0.5%**

- The six-month annualised growth rate fell from 1.4% in July to 0.5% in August. While the rate remains positive, indicating above trend momentum, this is likely more weakness to come as the full effects of 'Delta' lockdowns locally impact.
- The Sep read will include a significant hit from commodity prices, down 7.2% in AUD terms in the latest month vs -2.9% last month. Other components have been more mixed, the ASX down 2.7% and the Westpac-MI Consumer Expectations Index down slightly but the Westpac-MI Unemployment Expectations Index improving significantly, dwelling approvals posting a partial rebound, and total hours worked up 0.9%.

## Aus Westpac-MI Leading Index



# The week ahead.

## China Q3 GDP

**Oct 18, Last: 7.9%, WBC f/c: 4.9%**

- 2021 is shaping up as a volatile year for China's economy, with negligible growth in Q1 followed by a rebound in Q2 then another poor three months in Q3.
- Partly to blame is the spread of delta within China's borders. While the total number of reported cases eventually proved only a handful, authorities' pre-emptive restrictions hit retail and domestic travel hard in the middle of the quarter.
- Also a factor were the consequences of the Government's reforms to the residential construction sector in 2020. Evergrande's plight is the most obvious outcome on this front, but activity across the sector has faced significant headwinds through 2021 as developers adjust to the new rules.
- We expect that this lull in growth will again prove transitory, and so continue to hold to our 8.5% and 5.7% year-average forecasts for 2021 and 2022 respectively.

## China GDP

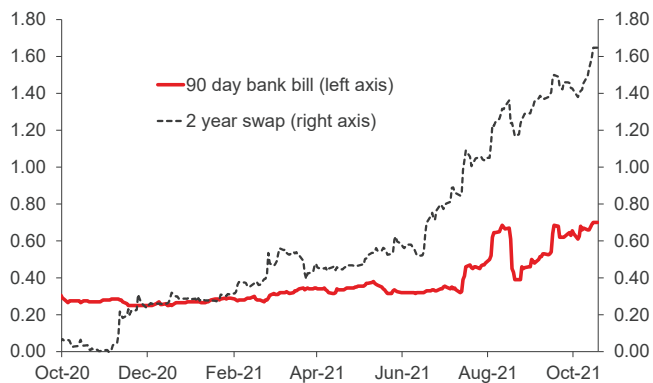


# New Zealand forecasts.

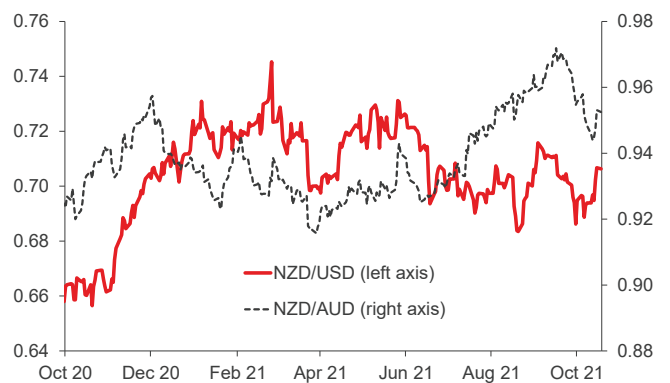
Economic forecasts	Quarterly				Annual			
	2021			2022				
% change	Jun (a)	Sep	Dec	Mar	2019	2020	2021f	2022f
GDP (Production)	2.8	-5.5	4.5	2.2	2.4	-2.1	4.7	4.8
Employment	1.1	0.1	0.5	0.7	1.2	0.7	2.2	1.8
Unemployment Rate % s.a.	4.0	3.8	4.2	3.8	4.0	4.8	4.2	3.5
CPI	1.3	1.5	0.5	0.6	1.9	1.4	4.2	2.6
Current 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	1.60	1.75	1.85	1.95	2.05	2.10	2.15	2.20
5 Year Swap	1.95	2.10	2.20	2.30	2.40	2.45	2.50	2.60
10 Year Bond	2.10	2.15	2.25	2.30	2.40	2.45	2.50	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 18 October 2021

Interest rates	Current	Two weeks ago	One month ago
Cash	0.50%	0.25%	0.25%
30 Days	0.53%	0.46%	0.46%
60 Days	0.61%	0.55%	0.57%
90 Days	0.70%	0.64%	0.68%
2 Year Swap	1.65%	1.39%	1.50%
5 Year Swap	2.05%	1.87%	1.82%

NZ foreign currency mid-rates as at 18 October 2021

Exchange rates	Current	Two weeks ago	One month ago
NZD/USD	0.7063	0.6942	0.7035
NZD/EUR	0.6090	0.5988	0.5997
NZD/GBP	0.5137	0.5124	0.5118
NZD/JPY	80.68	76.99	77.35
NZD/AUD	0.9525	0.9564	0.9685
TWI	75.20	74.21	75.01

## Data calendar.

		Last	Market median	Westpac forecast	Risk/Comment
<b>Mon 18</b>					
NZ	Sep BusinessNZ PSI	35.6	–	–	Likely to see a bounce but activity expected to remain weak.
	Q3 CPI	1.3%	1.5%	1.5%	Supply side pressure coming atop firm domestic demand.
Chn	Q3 GDP %yr	7.9%	5.0%	4.9%	Restrictions to stop delta mid-Q2 the primary drag on growth.
	Sep retail sales %yr	2.5%	3.5%	–	Services PMI pointing to a robust rebound in activity in Sep.
	Sep industrial production ytd %yr	13.1%	12.2%	–	Power outages and supply constraints both headwinds.
	Sep fixed asset investment ytd %yr	8.9%	7.8%	–	Property investment hindered by reform and now Evergrande.
UK	Oct Rightmove house prices	0.3%	–	–	Annual growth strong at 5.8%yr.
US	Sep industrial production	0.4%	0.2%	–	Supply a pressing issue, though demand has also softened.
	Oct NAHB housing market index	76	75	–	Off highs, but still at a strong level.
	Fedspk	–	–	–	Quarles and Kashkari.
<b>Tue 19</b>					
Aus	RBA minutes	–	–	–	Colour around emerging risks: prices & wages; housing.
US	Sep building permits	5.6%	–3.0%	–	Partial reversal of Aug gains expected. But risks to upside...
	Sep housing starts	3.9%	–0.3%	–	... given strength of underlying demand for housing.
	Fedspk	–	–	–	Daly to make introductory remarks. Bostic and Waller too.
<b>Wed 20</b>					
NZ	GlobalDairyTrade auction (WMP)	–0.4%	–	1.0%	Soft dairy production leading dairy prices higher.
Aus	Sep Westpac-MI Leading Index	0.5%	–	–	'Delta' lockdowns driving a sharp slowdown.
Eur	Sep CPI %yr	3.0%	–	–	Final read, core inflation at 1.9%yr.
UK	Sep CPI %yr	3.2%	–	–	Inflation pressures to persist well into 2022.
US	Federal Reserve's Beige book	–	–	–	A qualitative view of conditions across the 12 districts.
	Fedspk	–	–	–	Quarles on Outlook. Bostic, Kashkari, Evan and Bullard too.
<b>Thu 21</b>					
Eur	Oct consumer confidence	–4.0	–	–	Has steadily improved through 2021 as risks abated.
US	Initial jobless claims	–	–	–	Back to pre-pandemic levels.
	Oct Philly Fed index	30.7	–	–	Conditions across the regions highly variable.
	Sep leading index	0.9%	–0.5%	–	US economic momentum has slowed sharply in Q3.
	Sep existing home sales	–2.0%	2.3%	–	Demand for housing is strong; supply is the constraint.
	Fedspk	–	–	–	Waller on US economy.
<b>Fri 22</b>					
Eur	Oct Markit manufacturing PMI	58.6	–	–	Supply chain clearly an ongoing concern...
	Oct Markit services PMI	56.4	–	–	... but delta becoming less of an issue for services.
UK	Oct GfK consumer sentiment	–13	–	–	Hit by fuel crisis in Sep, but still well above lows.
	Sep retail sales	–0.9%	–	–	Demand for services has seen a run of weak reads for retail.
	Oct Markit manufacturing PMI	57.1	–	–	Logistics and parts supply are pressing issues...
	Oct Markit services PMI	55.4	–	–	... but consumers are keen to make use of freedoms.
US	Oct Markit manufacturing PMI	60.7	60.5	–	Strength of sector impressive given supply issues.
	Oct Markt service PMI	54.9	55.1	–	For services, delta now more of a risk in US than elsewhere.
	Fedspk	–	–	–	Daly on the Fed and Climate Change Risk.

## 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	0.03	0.07	0.10	0.15	0.20	0.40	0.65	0.70	0.95
10 Year Bond	1.64	1.60	1.70	1.80	1.90	2.00	2.05	2.10	2.20
<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	1.52	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	0.7421	0.75	0.76	0.77	0.78	0.78	0.79	0.80	0.78
USD/JPY	113.87	112	112	113	113	114	114	115	116
EUR/USD	1.1602	1.19	1.20	1.19	1.18	1.18	1.17	1.16	1.15
GBP/USD	1.3678	1.38	1.39	1.40	1.41	1.41	1.40	1.40	1.39
USD/CNY	6.4342	6.35	6.30	6.25	6.25	6.20	6.20	6.15	6.10
AUD/NZD	1.0524	1.06	1.06	1.05	1.05	1.05	1.07	1.08	1.07



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