



Kōkako

Weekly Economic Commentary.

V shaped recovery, another one.

Last week's releases highlighted the underlying strength of the New Zealand economy that lies beyond the current Covid-19 lockdown. Activity was much stronger than expected over the first half of this year, and even more recent lockdown-affected figures were notably resilient.

GDP grew by 2.8% in the June quarter, another major upside surprise after the 1.4% rise in the March quarter. The median market forecast was 1.1%, while our pick of 1.7% was at the top of the range.

As with the March figures, we weren't surprised by what drove the strength in activity, but rather the magnitude of the changes. The service sectors, in particular tourism-related ones, recorded even larger gains than what early indicators had suggested.

The opening of the trans-Tasman travel bubble over most of the quarter would have played a big role in this. The sectors that benefited the most were hospitality (+25%), transport (+14%) and retail trade (+2.6%). Some of this would have also been a continuation of the strong domestic demand that we saw in March.

Some of the June quarter surprise will reflect challenges in the measurement of GDP. Firstly, border restrictions have meant that the usual seasonal patterns in tourism have been thrown out – this year we saw a lift in tourist numbers in the June quarter, instead of the usual decline from the summer peak. Another issue is that Stats NZ has been using alternative data sources in some cases, to better capture the disruptive effects of Covid. While these efforts are welcome, it means that the traditional indicators give us less visibility about the GDP outcomes.

The June GDP figures further illustrate that the economy was running hot going into this lockdown. The level of GDP now sits 4.3% higher than where it was at the end of 2019, before the pandemic. That's arguably higher than we would have been by now if the pandemic hadn't happened – and off the back of a lower population than otherwise, given the near-shutdown in migration over the last 18 months.



Some of the economy's momentum will be derailed for a while, given the current lockdown. However, a V-shaped rebound looks likely later this year when the current lockdown conditions are eased. And as that happens, we'll be back to dealing with concerns about capacity constraints and inflation pressures.

We have had some preliminary data on how the economy has been handling lockdown from the ANZ business confidence survey. This was the first release where all the responses were sent during lockdown. Measures of activity, employment and investment remained at high levels, suggesting that firms are better positioned to deal with this latest lockdown. They are also expecting a return to strong demand once the restrictions are lifted.

Inflationary pressures have also remained at elevated levels, with inflation expectations for the year ahead hovering at the top of the RBNZ's target band. This has been rising persistently for over a year along with other measures such as costs.

A combination of strong demand along with continued supply chain disruptions. With Auckland still at Alert Level 4 (hopefully for not too much longer) this is likely to further constrain domestic supply chains even further.

Another piece of data showing the resilience of the economy was the release of the August house sales figures by the REINZ. Sales fell by 17% in seasonally adjusted terms, but they were still close to pre-pandemic levels. The house price index rose another 1.9% for the month, to be up 31% on a year ago.

We have already seen attempts from policy makers this year to cool the housing market, but this has yielded little result. The re-introduction of loan-to-value limits has only had a small impact on house price inflation (which indeed was what the Reserve Bank had expected). Surprisingly, we

can attribute little if any impact to the changes in the tax treatment of investment properties that were announced back in March.

Policies to date have largely been aimed at the investor side of the market. Owner-occupiers on the other hand, have been quite willing to step into the gap and pay the elevated prices we've been seeing.

We now expect the Reserve Bank to raise the OCR by 25 basis points at its next review on 6 October. At the start of the lockdown we had pencilled in a November hike as our central view, noting that there were risks of an earlier or later move. With the stronger than expected starting point for the economy, and the signs that the outbreak is coming under control, we now see an October move as the most likely. We expect that to be followed by hikes in November, February, and May, with further gradual moves to a peak of 2% by late 2023.

While we expect a 25 basis point move in October, markets are pricing some risk of a 50 basis point hike. Indeed, RBNZ officials have said that a 50bp move was seriously considered at the August *Monetary Policy Statement*, before the latest lockdown was announced. With that in mind, there'll be a lot of interest in the speech by Assistant Governor Hawkesby on Tuesday. The speech was originally planned for a conference that has been postponed indefinitely. The RBNZ has decided to release it now rather than wait – which suggests they think it has something that the market needs to hear ahead of the October review.

Gregorius Steven, Economist

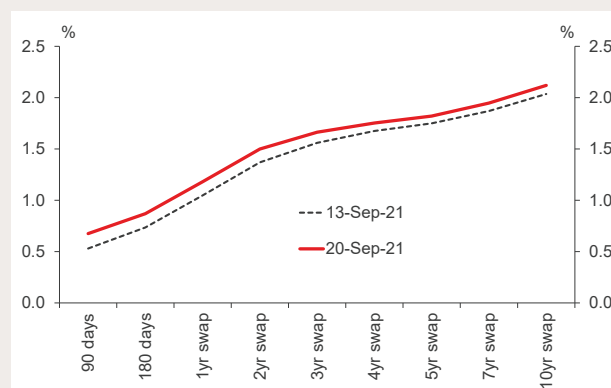
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Fixed vs floating for mortgages.

We expect the Reserve Bank to start raising the OCR in October, with a series of increases over the coming months.

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



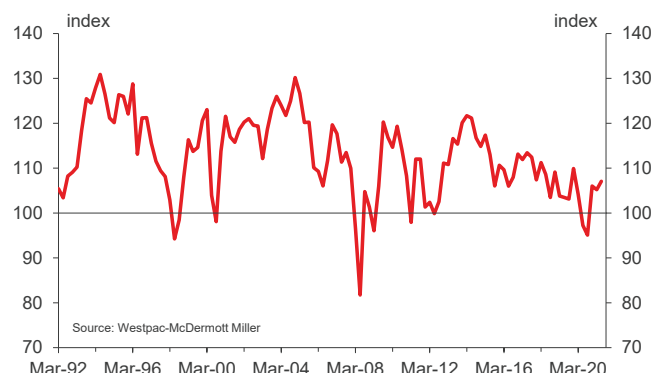
The week ahead.

NZ Q3 Westpac McDermott Miller Consumer Confidence

Sep 21, Last: 107.1

- The first half of the year saw consumer confidence trending higher as the economy and labour market continued to firm.
- Since the time of our previous survey, the Covid Alert Level has been dialled up and the reintroduction of health restrictions will likely have an important bearing on confidence. Our latest survey was conducted between 1 and 11 September. During that time Auckland was at Alert Level 4, with the rest of the country at a reduced level of restrictions.

Westpac-McDermott Miller consumer confidence

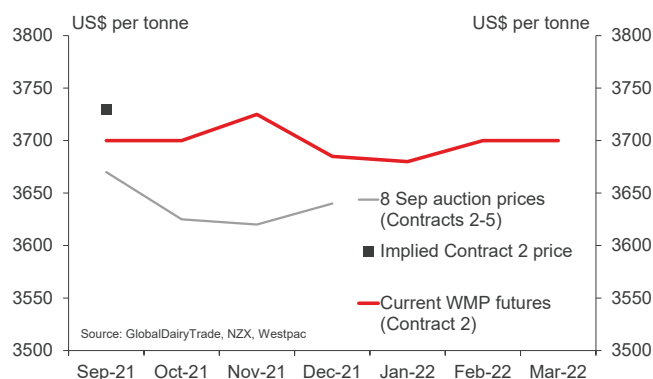


NZ GlobalDairyTrade auction, whole milk powder prices

Sep 22, Last: +3.3%, Westpac: +1.0%

- We expect whole milk powder prices to lift a touch at the upcoming dairy auction. This lift would build on the 3.3% rise at the previous auction.
- Our pick is similar to futures market pricing, which is currently pointing to a lift of around 1.5%.
- Global dairy markets are largely balanced. The next likely catalyst for significant price change will be the strength or otherwise of New Zealand spring production. Data on this front will be available from mid October.

Whole milk powder prices

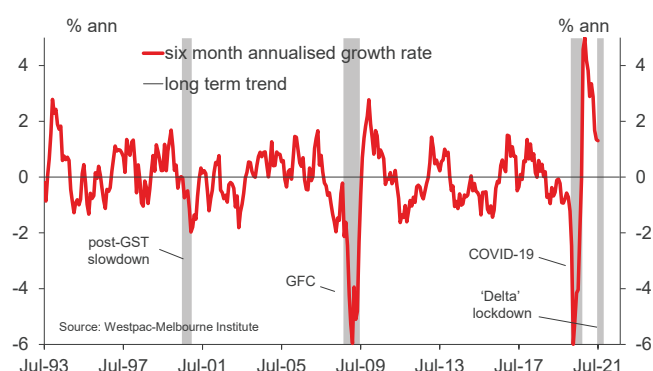


Aus Aug Westpac-MI Leading Index

Sep 22, Last: 1.30%

- The six-month annualised growth rate, fell from 1.36% in June to 1.3% in July, an above trend read but showing a clear slowing as the impact of local virus lockdowns starts to come through.
- The full hit from delta will appear in August with the Leading Index growth rate very likely to be jolted sharply into negative territory. The month will incorporate a big virus-related contraction in total hours worked (-3.7%omth). It will also see substantial drags from unwinding surges in dwelling approvals (down a further 8.6%) and commodity prices (down 4.6% in AUD terms). That said, some components have improved, sentiment already lifting slightly on prospects of a vaccine-led reopening (the Westpac-MI Consumer Expectations Index up 3.8%, the Westpac-MI Unemployment Expectations Index showing a similar improvement). The ASX200 was also up 1.9%, US industrial production posting a robust 1.3% gain.

Aus Westpac-MI Leading Index



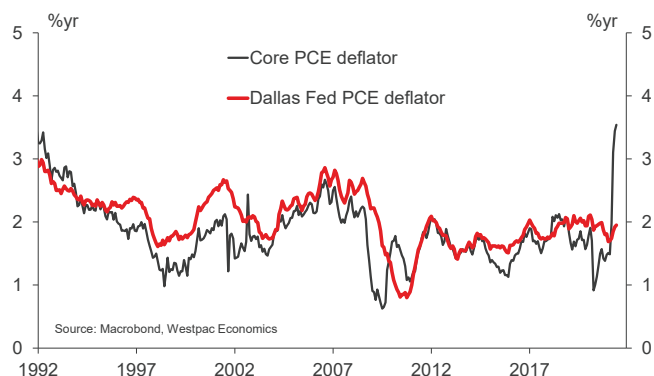
The week ahead.

US September FOMC meeting

Sep 21-22, Last: 0.125%, Westpac f/c: 0.125%, Mkt f/c 0.125%

- Since the July FOMC meeting, the US has seen the groundwork for a taper laid, but also a number of significant data disappointments.
- While the August nonfarm payrolls miss saw Westpac push back the timing of the taper announcement from September to December, to allow momentum and risks to be further assessed, we continue to expect the process to run from January to June 2022.
- Thereafter, US activity and employment growth should remain robust, warranting a shift in the narrative around policy to rate hikes.
- Both stages of the policy outlook should be on display at the September meeting, with robust growth expectations to be confirmed and inflation seen at target. While the narrative will cover the risks, opportunities for the economy should be the focus.

US underlying inflation holding near 2%

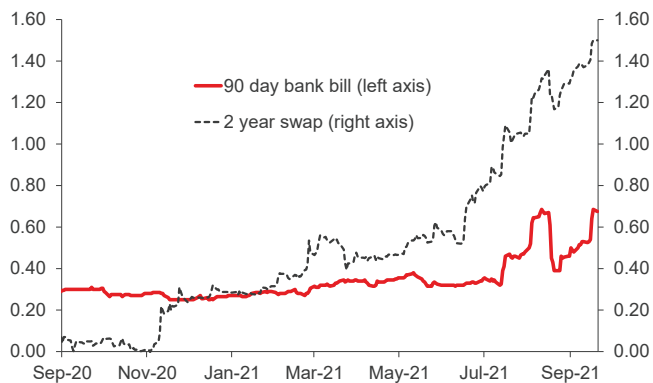


New Zealand forecasts.

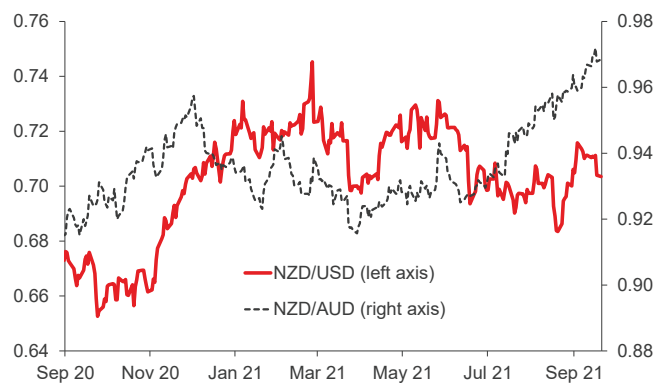
Economic forecasts	Quarterly				Annual			
	2021			2022				
% change	Jun (a)	Sep	Dec	Mar	2019	2020	2021f	2022f
GDP (Production)	2.8	-5.5	6.1	0.3	2.4	-2.1	5.1	4.3
Employment	1.1	0.0	0.5	0.7	1.2	0.7	2.2	1.8
Unemployment Rate % s.a.	4.0	3.8	4.2	3.8	4.0	4.8	4.2	3.5
CPI	1.3	1.2	0.3	0.7	1.9	1.4	3.7	2.5
Current Account Balance % of GDP	-3.3	-3.9	-4.5	-4.4	-2.9	-0.8	-4.5	-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	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	74.2

2 year swap and 90 day bank bills



NZD/USD and NZD/AUD



NZ interest rates as at market open on 20 September 2021

Interest rates	Current	Two weeks ago	One month ago
Cash	0.25%	0.25%	0.25%
30 Days	0.46%	0.32%	0.28%
60 Days	0.57%	0.40%	0.33%
90 Days	0.68%	0.48%	0.39%
2 Year Swap	1.50%	1.36%	1.17%
5 Year Swap	1.82%	1.74%	1.56%

NZ foreign currency mid-rates as at 20 September 2021

Exchange rates	Current	Two weeks ago	One month ago
NZD/USD	0.7035	0.7157	0.6819
NZD/EUR	0.5997	0.6023	0.5829
NZD/GBP	0.5118	0.5163	0.5004
NZD/JPY	77.35	78.55	74.85
NZD/AUD	0.9685	0.9597	0.9579
TWI	75.01	75.56	73.23

Data calendar.

		Last	Market median	Westpac forecast	Risk/Comment
Mon 20					
NZ	Aug BusinessNZ PSI	57.9	-	-	Likely to see a drop due to a return to Alert Level 4.
Chn	Public holiday	-	-	-	Mid-autumn festival from 19th to 21st of September.
UK	Sep Rightmove house prices	-0.3%	-	-	Robust demand supportive of house prices.
US	Sep NAHB housing market index	75	74	-	Builder sentiment at risk given supply shortages and prices.
Tue 21					
NZ	RBNZ Asst. Gov. Hawkesby speaking	-	-	-	Speech "A least regrets approach to uncertainty".
	Q3 Westpac-MM consumer conf.	107.1	-	-	Covid Alert level has been dialled up since the last survey.
Aus	RBA minutes	-	-	-	Colour and debate on the risks to the central case forecasts.
US	Aug housing starts	-7.0%	0.6%	-	To build a base in coming months after recent decline.
	Aug building permits	2.60%	-2.2%	-	Labour and materials shortages may see projects delayed.
Wed 22					
NZ	GlobalDairyTrade auction (WMP)	+3.3%	-	1.0%	Dairy prices likely to rise for second consecutive auction.
Aus	Aug Westpac-MI Leading Index	-1.3%	-	-	Full scale of 'Delta' hit to show through.
	RBA	-	-	-	RBA's Bullock to speak at Bloomberg Inside Track.
Eur	Sep consumer confidence	-5.3%	-	-	Delta uncertainty may weigh on consumer confidence.
US	Aug existing home sales	2.0%	-2.5%	-	Supply the major constraints, but affordability also a concern.
	FOMC policy decision, midpoint	0.25%	0.25%	-	Committee will keep focus on near-term taper.
Thu 23					
Aus	Weekly payrolls	-0.7%	-	-	Weekly payrolls for the week ended 28 August.
Eur	Sep Markit manufacturing PMI	61.4	60.3	-	To remain firm on robust demand and supply chain friction.
	Sep Markit services PMI	59.0	59.0	-	Re-opening of Euro region to support services.
UK	Sep Markit manufacturing PMI	60.3	-	-	Continues to point to robust growth....
	Sep Markit services PMI	55.5	-	- services at risk from delta concerns.
	BoE policy decision	0.10%	0.10%	-	Likely to highlight promising outlook; still mindful of risks
US	Aug Chicago Fed activity index	0.53	-	-	To provide an update on activity in the region.
	Initial jobless claims	332k	-	-	Downtrend slowing, but further progress likely.
	Sep Markit manufacturing PMI	61.1	61.0	-	Continues to point to strong growth in production.
	Sep Markit service PMI	55.1	55.0	-	Delta fears a headwind for services.
	Aug leading index	0.9%	0.5%	-	Important gauge of medium-term growth outlook.
	Sep Kansas City Fed index	29	-	-	Raw material shortages are headwinds.
Fri 24					
NZ	Aug trade balance \$m	-402	-	-2150	Another bumper month for import values widens trade deficit.
UK	Sep GfK consumer sentiment	-8	-	-	Re-opening to support sentiment.
US	Aug new home sales	1.0%	0.7%	-	Attempting to stabilise after large fall through H1 2021.
	Fedspeak	-	-	-	Mester then George on economic outlook. Williams too.
	Fedspeak	-	-	-	Chair Powell, Clarida and Bowman host Fed listens event.

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	1.30	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	1.33	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	0.7299	0.75	0.76	0.77	0.78	0.78	0.79	0.80	0.78
USD/JPY	109.83	111	112	112	112	113	113	114	115
EUR/USD	1.1772	1.21	1.23	1.22	1.21	1.21	1.21	1.20	1.19
GBP/USD	1.3803	1.41	1.43	1.44	1.45	1.44	1.44	1.43	1.42
USD/CNY	6.4503	6.35	6.30	6.25	6.25	6.20	6.20	6.15	6.10
AUD/NZD	1.0317	1.06	1.06	1.05	1.05	1.05	1.07	1.08	1.07

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