



Weekly Economic Commentary.

It's freedom Jim, but not as we know it.

The world remains locked in a race between vaccines and variants. Parts of the world are planning to open up their economies as vaccination progresses, which could result in shifts in spending patterns in some of our key markets. But the Delta variant of Covid-19 is proving to be difficult to manage and threatens to undermine those plans.

England celebrated “Freedom Day” last week, as Boris Johnson’s government lifted almost all of the remaining Covid restrictions. Compulsory mask-wearing is gone, limits on the numbers of people who can gather indoors or outdoors have been ended, social distancing will be limited to people who have tested positive for the virus and to airports. And importantly for the English psyche, pubs are free to open at full capacity.

Freedom Day comes as the English vaccination programme reaches key milestones. The BBC has reported that 69% of England’s adult population has been double-vaccinated, while 88% have had at least one dose.

Other developed countries are making good progress with their vaccination programmes too. In Europe 53% of adults are double-vaccinated, while in the US 49% of the entire population are double-vaccinated. And notably in the US,

many states are embracing this progress by reducing or eliminating Covid restrictions altogether.

For New Zealand, these Covid milestones herald a changing dynamic for export demand in some of our major export markets.

The first of these is that demand in these markets will start to increasingly shift from goods back to services. Or put more simply, people will start to eat out, go to the movies, travel and drink in pubs. This is good news for export demand for meat, especially for prime cuts. For example, something like venison has been especially hard hit by Covid as it is almost exclusively eaten in restaurants; households are generally unfamiliar with cooking venison at home. Farmgate venison prices slumped by around a third at one stage during the pandemic. However, we expect venison prices to regain a good chunk of this price fall by year end.



Similarly, as these economies recover, premium exports are likely to see demand return. Already we've seen demand for merino wool spike. Indeed, merino prices have fully regained their pre-Covid levels and now sitting at their highest level since mid-2019.

On the other hand, we anticipate less of a boost for exports in the staples category. At the same time, exports to China won't see the same boost. Recall that China's economic recovery was already in full swing by the second half of 2020. Instead, China's export demand for New Zealand products will settle to more in line with its trend growth.

Notably, this means that New Zealand's dairy exports won't receive much of an additional boost from export demand over the remainder of this year. With that in mind, we anticipate that the export price baton will pass (to a degree) from dairy, forestry and horticulture to meat over the second half of 2021.

Meanwhile, we anticipate that as supply chain disruptions ease, all export categories should receive a second wind of sorts. Effectively, extremely high shipping costs have been acting as a tax on exports, so as costs fall, export demand should rise, while exporters will get to keep more of the overall price. That said, normalising supply chains will also increase supply, offsetting some of gains from higher demand. On balance, we expect New Zealand's overall export prices will remain near or at record highs through this year and into 2022.

Of course, all of these views come with a large caveat. That caveat is in the form of the Delta variant, which is significantly more infectious than previous Covid variants. Indeed England, despite its high vaccination rate, is still seeing a high number of Covid cases. Reported cases over the last week have been running around the 40,000 per day mark.

Interestingly, the other UK nations (Scotland, Wales and Northern Ireland) are not to be 'free'. Vaccination rates are comparable with England, but the governments there have erred on the side of caution in terms of lifting Covid restrictions. That creates a natural experiment as to which Covid strategy will prove more successful in both health and economic terms.

The difficulty of managing Delta, in the absence of sufficiently high levels of vaccination, is now all too apparent in Australia. As a result, the New Zealand Government has announced a pause to quarantine-free travel between the two countries for the next eight weeks. That will be a fresh blow to the hospitality sector, although the evidence suggests that spending by locals has played a large part in the jump in hospitality spending over recent months.

The plans for a wider reopening of New Zealand's borders remain under development. The rise of the Delta variant has clearly complicated things: while achieving 'herd immunity' through vaccination was possible even under earlier variants, the much higher infectiousness of Delta has now put herd immunity out of reach. This suggests that ongoing controls of some sort will also be needed once New Zealand does start to reopen its border more widely.

Nathan Penny, Senior Agri Economist

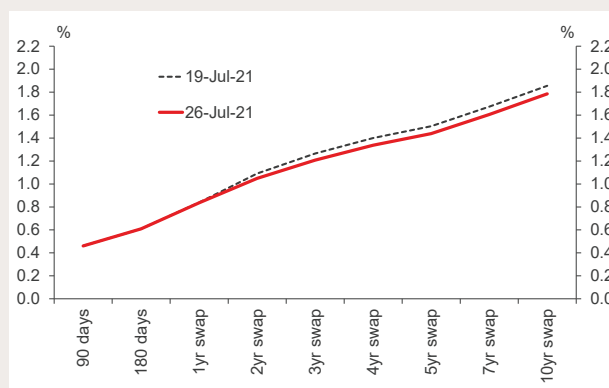
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Fixed vs floating for mortgages.

We now expect the Reserve Bank to start increasing the OCR over the coming months. Fixed-term mortgage rates have already begun to lift in anticipation; floating rates are likely to rise once the OCR does.

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



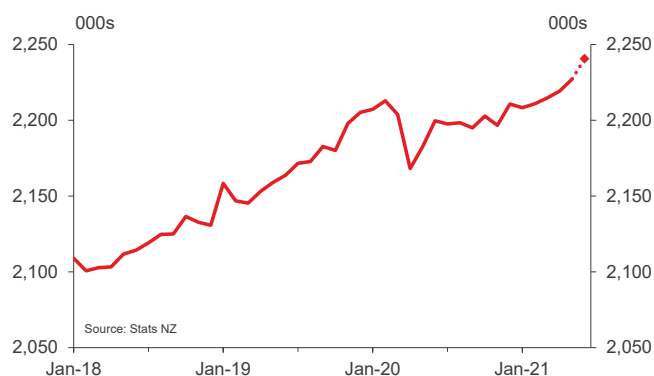
The week ahead.

NZ Jun employment indicators

Jul 28, Last: 0.4%, Westpac f/c: 0.6%

- The monthly employment indicator is based on data from income tax filings. It provides a less detailed but more timely snapshot of employment trends compared to the quarterly surveys.
- The number of filled jobs has picked up in recent months as the domestic economy has strengthened. Weekly data suggests there was a further acceleration in June.
- Job vacancies have surged well above pre-Covid levels as labour demand has run hot. Some of this will reflect new job creation, but some of it will also be 'churn', as skill shortages lead to increased poaching of existing workers.

NZ Monthly Employment Indicator filled jobs

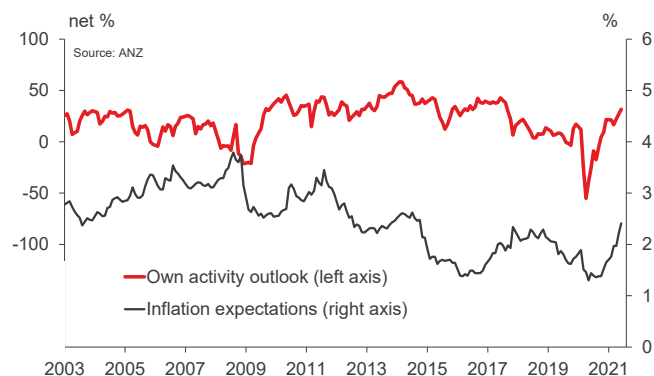


NZ Jul ANZBO business confidence

Jul 29, Domestic Trading Activity last: 31.6

- June's read on business activity further highlighted the strength in economic conditions over 2021 as employment and investment intentions continued to rise.
- We expect to continue seeing an improvement in expectations of own activity. This is despite the disruptions we've experienced on the trans-Tasman bubble.
- Inflation expectations will again be worth watching especially after June's firm CPI release and given the recent strength in demand. Inflation expectations rose to 2.4% last month, continuing the uptrend seen for about the last year.

NZ business confidence

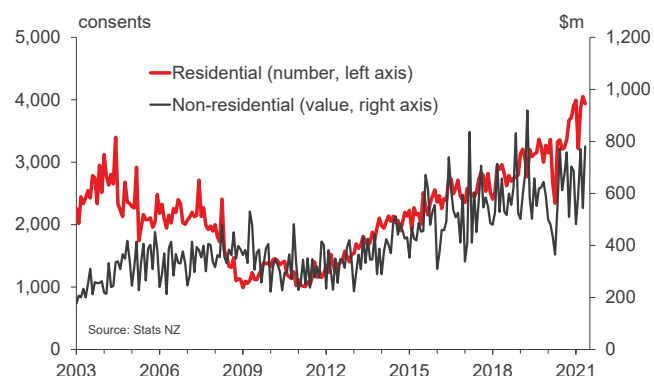


NZ Jun residential building consents

Jul 30, Last: -2.8%, Westpac f/c: flat

- Residential consent issuance nudged down in May. That was related to a pullback in the lumpy apartments category after earlier strong gains.
- We expect that monthly consent numbers will remain broadly flat at a high level in June. Consent issuance continues to be supported by strength in house prices and low interest rates. There has been a particularly high level of issuance in Auckland, but strength has been widespread.
- An increasing share of the houses built in New Zealand are medium density dwellings, like apartments or townhouses. As consents for these dwellings are often issued in groups, overall consent issuance has become more volatile on a month-to-month basis. However, smoothing through such monthly swings, we expect annual consent issuance will continue to hover around record levels.

NZ building consents



The week ahead.

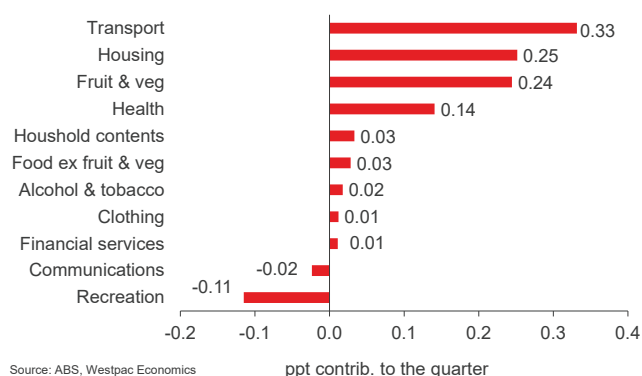
Aus Q2 Consumer Price Index

Jul 28, Last: 0.6% WBC f/c: 0.9%

Mkt f/c: 0.7%, Range: 0.4% to 0.9%

- The Q1 CPI gained 0.6% which was less than Westpac's 1.0% forecast; the market median was 0.9%. The trimmed mean lifted 0.3%qtr (WBC forecast 0.6%) and the annual pace eased back from 1.2%yr to 1.1%yr, a record low in this series, while the six-month annualised pace lifted very modestly from 1.5% to 1.6%, still well below the bottom of the RBA's target band.
- For Q2, demand for dwellings has surged due to low interest rates and the HomeBuilder grants. We are seeing a temporary boost to the CPI from a surge in fresh fruit & vegetable prices, while the surge in crude oil prices and a weaker AUD has boosted auto fuel prices. There was a seasonal lift in health costs associated with the annual health premium reset.
- Offsetting the gains in Q2 are falling prices for both domestic and international holidays and travel due to government subsidies for airfares and increasing competition.

Aus Q2 CPI contributions

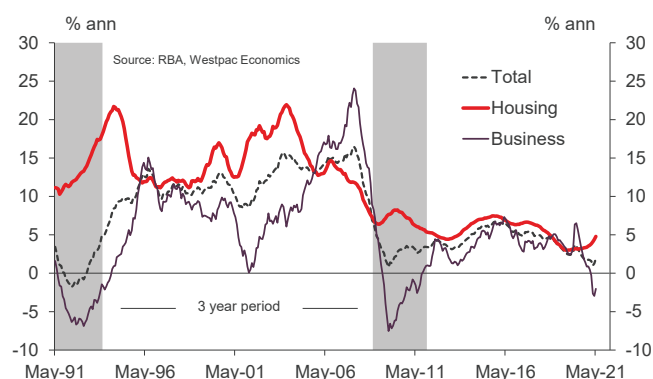


Aus Jun private credit

Jul 30, Last: 0.4% WBC f/c: 0.4%

- Credit to the private sector is emerging from a period of softness associated with the Covid recession. For 2021 to date, an improving trend is evident supported by substantial policy stimulus and a reopening of the economy. The latest lockdowns represent a temporary setback.
- Credit growth averaged 0.4% over the past three months. We anticipate a further gain of 0.4% in June, lifting annual growth to 2.4% up from the cycle low of 1.0% in March.
- Housing credit grew by 6.8% annualised over the past 3 months (including a 0.59% lift in May), up from a mid-2020 low of 2.7% annualised. The sector is in a strong upswing, responding to record low rates and government incentives.
- Business credit is at a turning point, stabilising of late after contracting during much of 2020. The profile for the past three months (+0.4%, -0.3%, +0.2%) remained volatile.

Aus credit growth

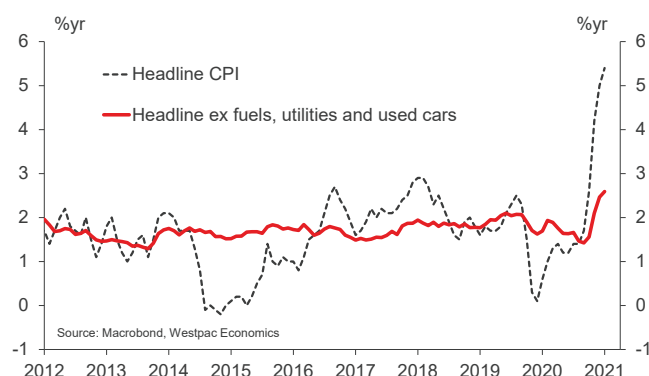


US Jul FOMC meeting

Jul 27-28, Last: 0.125%, WBC f/c: 0.125%

- At the June FOMC meeting, both the Committee and Chair Powell provided a positive view of the outlook. The tone of Chair Powell in the press conference also pointed to a pragmatic approach to policy in the years ahead.
- To us this means a quick taper in the first half of 2022 followed after a short delay by a sequence of rate hikes, admittedly only up to 1.625% in 2024.
- While the FOMC will likely show comfort in the outlook for the labor market following the latest readings, we do not expect anything more in terms of guidance on the outlook.
- Instead, this will come at the Jackson Hole Symposium and formally at the September FOMC meeting, when fresh forecasts will be made available.

US CPI



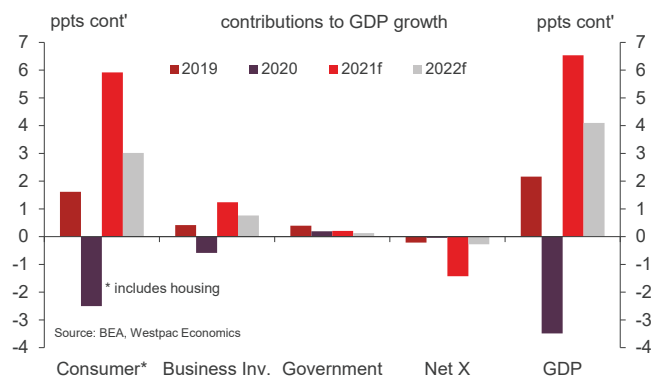
The week ahead.

US Q2 GDP

Jul 29, annualised growth Last: 6.4%, WBC f/c: 9.0%

- In the three months to June, the US economy improved materially as the vaccine drive took effect and confidence amongst both households and businesses strengthened.
- Though consumer spending on goods has topped out, spending on services is on the rise. Housing investment meanwhile has been, and will remain, a significant positive.
- Investment by the business sector is similarly poised to contribute sustainably. And this spending also points to sustained strength in hiring across the US economy, providing a further boost to consumer income and spending.
- It is worth noting that peak recovery momentum for this cycle is now behind us, with annualised growth expected to fall from 9% in Q2 to 5.0% in Q4, then 2.25% come end-2022. However, the latter is still an above-trend outcome.

US GDP

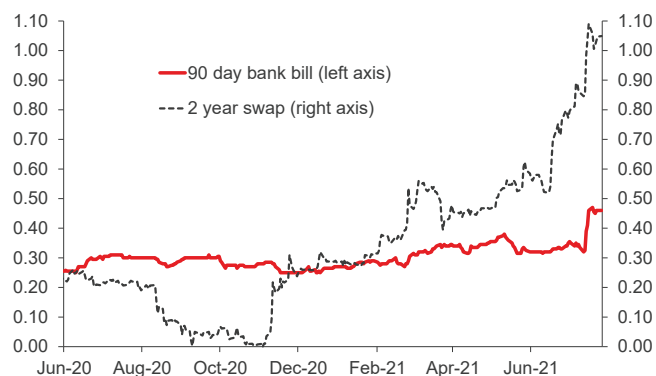


New Zealand forecasts.

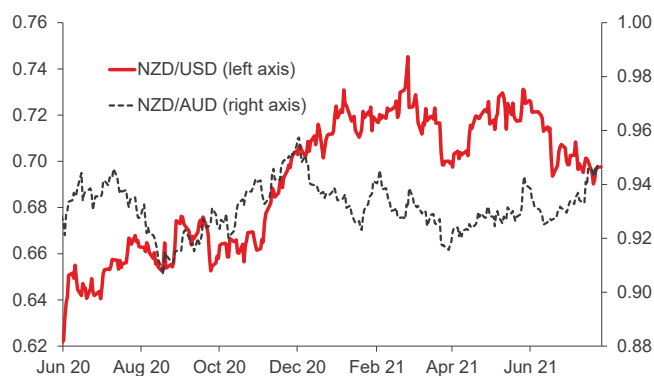
Economic forecasts	Quarterly				Annual			
	2021				2019	2020	2021f	2022f
% change	Mar (a)	Jun	Sep	Dec				
GDP (Production)	1.6	0.6	0.9	1.3	2.4	-2.9	5.8	4.5
Employment	0.5	0.4	0.3	0.4	1.2	0.8	1.7	2.1
Unemployment Rate % s.a.	4.7	4.5	4.4	4.2	4.1	4.9	4.2	3.9
CPI	0.8	1.3	0.9	0.2	1.9	1.4	3.3	2.0
Current Account Balance % of GDP	-2.2	-3.4	-4.4	-4.8	-3.3	-0.8	-4.8	-3.9

Financial forecasts	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Jun-23	Dec-23
Cash	0.50	1.00	1.00	1.00	1.25	1.25	1.50	1.75
90 Day bill	0.90	1.10	1.10	1.20	1.35	1.45	1.70	2.00
2 Year Swap	1.30	1.40	1.50	1.60	1.70	1.80	2.00	2.15
5 Year Swap	1.60	1.75	1.90	2.00	2.10	2.20	2.40	2.55
10 Year Bond	1.80	1.95	2.10	2.15	2.20	2.30	2.45	2.55
NZD/USD	0.71	0.74	0.76	0.77	0.77	0.77	0.75	0.72
NZD/AUD	0.95	0.95	0.95	0.94	0.94	0.94	0.94	0.92
NZD/JPY	78.8	82.1	85.1	86.2	86.2	87.0	85.5	82.8
NZD/EUR	0.59	0.61	0.62	0.63	0.64	0.64	0.63	0.61
NZD/GBP	0.50	0.52	0.53	0.53	0.53	0.53	0.52	0.50
TWI	73.9	76.0	77.1	77.5	77.4	77.3	75.7	73.0

2 year swap and 90 day bank bills



NZD/USD and NZD/AUD



NZ interest rates as at market open on 26 July 2021

Interest rates	Current	Two weeks ago	One month ago
Cash	0.25%	0.25%	0.25%
30 Days	0.32%	0.27%	0.27%
60 Days	0.39%	0.30%	0.30%
90 Days	0.46%	0.34%	0.33%
2 Year Swap	1.05%	0.86%	0.77%
5 Year Swap	1.44%	1.34%	1.38%

NZ foreign currency mid-rates as at 26 July 2021

Exchange rates	Current	Two weeks ago	One month ago
NZD/USD	0.6976	0.6996	0.7071
NZD/EUR	0.5924	0.5892	0.5926
NZD/GBP	0.5070	0.5035	0.5090
NZD/JPY	77.10	77.07	78.32
NZD/AUD	0.9474	0.9351	0.9329
TWI	74.23	73.97	74.36

Data calendar.

		Last	Market median	Westpac forecast	Risk/Comment
Mon 26					
NZ	Jun trade balance \$m	469	-	261	A record month for exports by some margin.
Aus	RBA's Tony Richards	-	-	-	Head of Payments Policy to speak.
US	Jun new home sales	-5.9%	4.0%	-	Dip in May attributed to low inventory and higher prices.
	Jul Dallas Fed index	31.1	32.1	-	A timely update on status of bottlenecks & price pressures.
Tue 27					
Aus	RBA Deputy Governor	-	-	-	Guy Debelle, FX mkts US conference (online).
Chn	Jun industrial profits %yr	36.4%	-	-	Downstream profits crimped by surging factory-gate prices.
Eur	Jun M3 money supply %yr	8.4%	-	-	Credit growth muted; ECB committed to accommodation.
US	Jul Richmond Fed index	22	20	-	June indicated that prices paid are beginning to crest.
	Jun durable goods orders	2.3%	2.1%	-	Investment to remain robust over 2021.
	May FHFA house prices	1.8%	-	-	Widespread gains forging ahead across the nation...
	May S&P/CS home price index	1.62%	1.47%	-	... affordability constraints yet to constrain price growth.
	Jul consumer confidence index	127.3	124.0	-	Initially lagged broader recovery, but now picking up steam.
Wed 28					
NZ	Jun employment indicators	0.4%	-	0.6%	Demand for labour running hot.
Aus	Q2 CPI	0.6%	0.7%	0.9%	Food & fuel boosting the CPI but Homebuilder grants...
	Q2 CPI %yr	1.1%	3.8%	4.0%	...continue to subsidise dwelling prices while falling airfares...
	Q2 CPI trimmed mean	0.3%	0.5%	0.5%	...will see falling travel costs. Outside of the lift in insurance...
	Q2 CPI trimmed mean %yr	1.1%	1.6%	1.6%	...premiums there is little there to boost core inflation.
US	FOMC policy decision, midpoint	0.125%	0.125%	0.125%	Confidence to remain despite delta uncertainties.
	Fed Chair Powell	-	-	-	Post-meeting press conference.
	Jun wholesale inventories	1.3%	-	-	Inventories choppy, but should add to growth over the year.
Thu 29					
NZ	Jul ANZ business confidence	-0.6%	-	-	Continued strength in the economy to boost confidence.
Aus	Q2 import price index	0.2%	-	1.0%	Up on higher energy prices, while AUD flat after recent gains.
	Q2 export price index	11.2%	-	9.0%	Sharply higher on surging commodity prices.
Eur	Jul economic confidence	117.9	-	-	Economic confidence at a two-decade high on reopening.
US	Q2 GDP	6.4%	8.3%	9.0%	Peak momentum now behind US, but growth to remain robust.
	Initial jobless claims	419k	-	-	Last week's uptick an aberration from established downtrend.
	Jun pending home sales	8.0%	1.0%	-	Remain robust - low mortgage rates offsetting higher prices.
Fri 30					
NZ	Jul ANZ consumer confidence	114.1	-	-	Confidence has been trending higher in recent months.
	Jun building permits	-2.8%	-	0.0%	Annual issuance to remain at record levels.
Aus	Jun private credit	0.4%	-	0.4%	Improving trend off weak base, housing upswing; business stabilising.
	Q2 PPI	0.4%	-	-	Upstream price pressure has been surprisingly subdued.
Eur	Q2 GDP	-0.3%	1.6%	-	To bounce back briskly following double dip recession.
	Jun unemployment rate	7.9%	7.9%	-	Furlough schemes holding down u/e; cushioning households.
	Jul CPI %yr	1.9%	2.0%	-	Short-term rise a function of energy prices/reopening.
US	Q2 employment cost index	0.9%	0.9%	-	A good test of breadth of wage pressures.
	Jun personal income	-2.0%	-0.6%	-	Stimulus roll off affecting income.
	Jun personal spending	0.0%	0.6%	-	Services spending gaining on re-opening.
	Jun core PCE deflator	0.5%	0.7%	-	Underlying inflation not an issue.
	Jul Chicago PMI	66.1	63.7	-	Dipped in June, weighed down by employment component.

International forecasts.

Economic Forecasts (Calendar Years)	2017	2018	2019	2020	2021f	2022f
Australia						
Real GDP %/yr	2.4	2.8	1.9	-2.4	4.9	4.0
CPI inflation %/yr	1.9	1.8	1.8	0.9	2.6	2.4
Unemployment rate %	5.5	5.0	5.2	6.8	4.4	3.8
Current account % of GDP	-2.6	-2.1	0.7	2.6	4.2	2.6
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	5.4	3.8
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	2.3
Euro zone						
Real GDP %/yr	2.6	1.9	1.3	-6.6	4.5	4.4
United Kingdom						
Real GDP %/yr	1.7	1.3	1.4	-9.9	6.2	5.0
China						
Real GDP %/yr	6.9	6.7	5.8	2.3	9.5	5.8
East Asia ex China						
Real GDP %/yr	4.7	4.4	3.7	-2.4	4.9	5.0
World						
Real GDP %/yr	3.8	3.6	2.8	-3.3	5.8	4.6

Forecasts finalised 23 July 2021

Interest rate forecasts	Latest	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Jun-23	Dec-23
Australia									
Cash	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.50	0.75
90 Day BBSW	0.03	0.04	0.07	0.10	0.15	0.20	0.40	0.70	0.95
10 Year Bond	1.19	1.55	1.80	1.95	2.00	2.05	2.10	2.20	2.30
International									
Fed Funds	0.125	0.125	0.125	0.125	0.125	0.125	0.375	0.875	0.875
US 10 Year Bond	1.28	1.60	1.80	1.95	2.00	2.05	2.10	2.20	2.30

Exchange rate forecasts	Latest	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Jun-23	Dec-23
AUD/USD	0.7370	0.75	0.78	0.80	0.82	0.82	0.82	0.80	0.78
USD/JPY	110.27	111	111	112	112	112	113	114	115
EUR/USD	1.1768	1.21	1.22	1.23	1.22	1.21	1.21	1.20	1.19
GBP/USD	1.3758	1.41	1.42	1.43	1.44	1.45	1.44	1.44	1.43
USD/CNY	6.4720	6.35	6.25	6.15	6.10	6.05	6.00	6.00	5.95
AUD/NZD	1.0573	1.06	1.05	1.05	1.06	1.06	1.06	1.07	1.08

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