



Kōkako

# Weekly Economic Commentary.

**I get knocked down, but I get up again.**

New Zealand is now into its second week of lockdown. And although no-one knows for sure just how long health-related restrictions will remain in place, it's clear that economic activity will take a sizeable knock – we're forecasting a sharp 6% fall in GDP in the September quarter. That decline is likely to be recovered later this year, provided that lockdown conditions are gradually rolled back. But even with these disruptions, we don't expect much relief in terms of inflation. And that means a rise in the OCR is still on the cards later this year.

With the emergence of the Delta variant on our shores and the reimposition of strict health restrictions, we've revised down our near-term forecasts for economic activity. We're now forecasting that GDP will contract by 6% in the September quarter, whereas prior to this latest outbreak we were expecting growth of 0.9%.

The situation is still evolving, and we'll continue to review our forecasts over the next few weeks. At this stage Auckland is set to remain at Alert Level 4 for at least four weeks, and we expect a gradual easing in restrictions after that time.

Other parts of the country are likely to move down the Alert Level scale sooner. But given the more infectious nature of

the Delta variant and the Government's cautious approach, we still expect that some restrictions will remain in place for several more weeks.

Conditions could turn out better or worse than our forecasts depending on how the health situation plays out. For instance, we could see the Alert Level dialled back faster in regions where there are no cases. Alternatively, we could have some setbacks if new clusters emerge.

As we saw following the initial outbreak of Covid-19 last year, conditions across sectors are likely to be highly varied. Weakness is once again likely to be heavily centred on the hospitality and transportation sectors. Social distancing



requirements are also likely to see some construction activity delayed and will be a drag on non-essential retail activity. In contrast, the impact on our primary sectors is likely to be limited.

When health restrictions are eventually relaxed, we expect that economic activity will recover quickly (as it has after previous lockdowns) and have pencilled in growth of 9% in the December quarter. That would take GDP back to the sort of levels we were anticipating prior to this latest outbreak.

Underpinning our expectations for another fairly swift recovery, both monetary and fiscal policy remain highly stimulatory. Over the past year, that stimulus has helped to supercharge domestic demand. The impact of this has been seen most clearly in the housing and construction sectors, with house prices rising rapidly and dwelling consent numbers at an all-time high. The boost to demand from policy stimulus has also seen household spending running well above the levels we saw prior to the outbreak, with spending up 3.3% in the June quarter alone. This all points to healthy spending appetites prior to the lockdown, and we expect that will continue to support a rebound in demand through the final part of the year.

Although we will see some catch-up activity when health restrictions are eased, we don't expect that GDP will rise significantly above our pre-lockdown forecasts for any material amount of time. That's because prior to the lockdown GDP had already lifted strongly and many parts of the economy were running into capacity constraints. In sectors like construction, where activity is already running hot and many order books are full, this means some projects could be delayed and completion times could be pushed out.

Even with a sharp health-related drop in activity over the next few weeks, we don't expect to see much (if any) relief from the strong inflation pressures that have emerged over the past year. The latest trade figures showed that shipping costs are continuing to push higher for many imported consumer and intermediate goods. At the same time, businesses across the country are still reporting difficulties sourcing stocks.

Importantly, demand in the economy is expected to recover quickly when lockdown conditions ease, as it has after previous lockdowns. And as we have frequently highlighted, it's the firmness in demand that has really boosted inflation, driving the build-up of capacity pressures and allowing businesses to pass on cost increases.

The Reserve Bank is acutely aware of these ongoing inflation pressures. The August monetary policy decision came hot on the heels of the country going back into lockdown, and that saw the RBNZ stand pat despite their own forecast of strong medium term inflation pressures. Since that time, however, comments from RBNZ officials have continued to strike a hawkish tone, and they have noted that future policy decisions won't be closely linked to whether the economy is in lockdown or not.

Putting this altogether, we continue to expect the start to the OCR tightening cycle by the end of this year. At this stage, we've pencilled in the start of rate hikes in November. However, depending on the trend in Covid cases, a hike at the October meeting is still a possibility.

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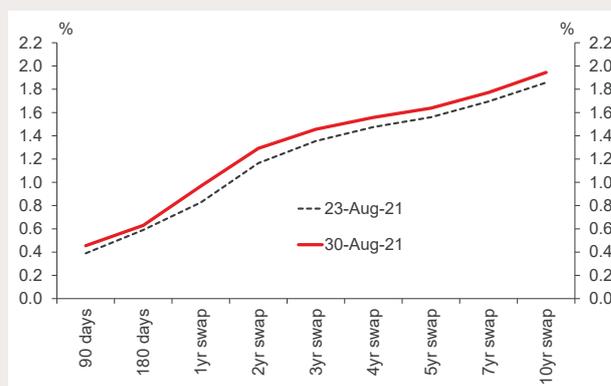
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## Fixed vs floating for mortgages.

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**



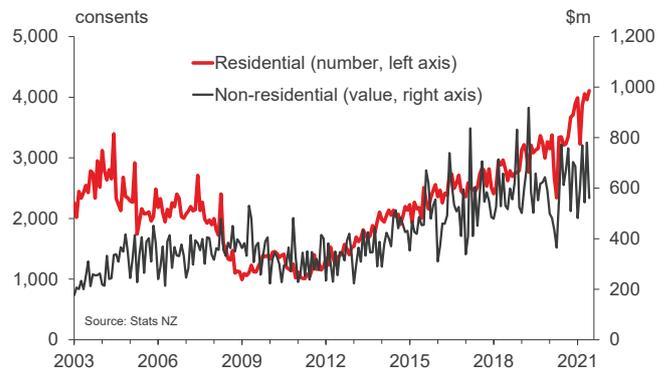
# The week ahead.

## NZ Jul residential building consents

**Aug 31, Last: +3.8%, Westpac f/c: -3%**

- Residential consent issuance rose 3.8% in June, taking annual consent numbers to a fresh all-time high.
- We expect that monthly consent numbers will nudge down in July and are forecasting a 3% drop. That's mainly due to an expected pull back in the 'lumpy' apartments category after a large number of consents were issued last month.
- Despite the expected pull back in July, annual consent numbers are set to linger around record levels. Home building 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.

## NZ building consents



## NZ August ANZBO Business Confidence

**August 31, Domestic Trading Activity last: 26.3**

- The previous reading on business activity showed that trading activity continued to hold firm above pre-Covid levels in July, though business confidence has pulled back a little.
- With the country back at Alert Level 4, we'll be watching to see how overall business sentiment is holding up at this early stage. However, at least some of the responses for August will have pre-dated the return to Alert Level 4. It's not clear how much of a knock sentiment will take from the current lockdown. Over the past year we've seen how quickly the economy can bounce back after a successful lockdown. In addition, highly supportive monetary and fiscal policy remain in place.
- Underlying inflation gauges will again be an area worth keeping an eye on with businesses continuing to highlight strong cost pressures.

## NZ business confidence

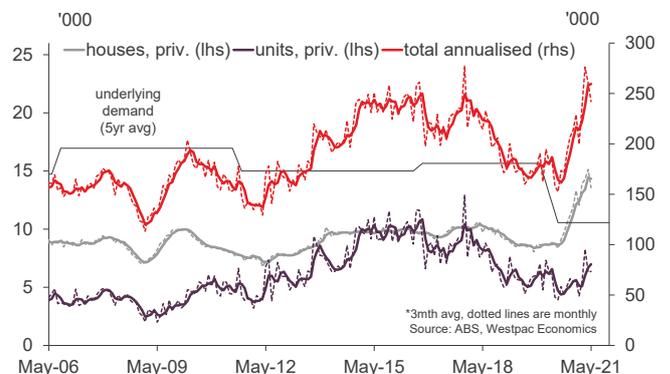


## Aus Jul dwelling approvals

**Aug 31, Last: -6.7%, WBC f/c: -5%**  
**Mkt f/c: -5.0%, Range: -8.0% to 2.0%**

- Dwelling approvals fell 6.7% in June, a pull-forward associated with the HomeBuilder scheme continued to unwind, approvals down 18% since the scheme expired led by segments that saw the biggest corresponding run-up. Despite this, total dwelling approvals are still at a very high level, up nearly 50%/yr and 16.7% above their pre-pandemic peak.
- There are almost certainly more HomeBuilder-related declines to come. With COVID lock-down disruptions also in the mix, monthly approvals could see some volatile moves. We expect to see a 5% decline for the July month.

## Aus dwelling approvals



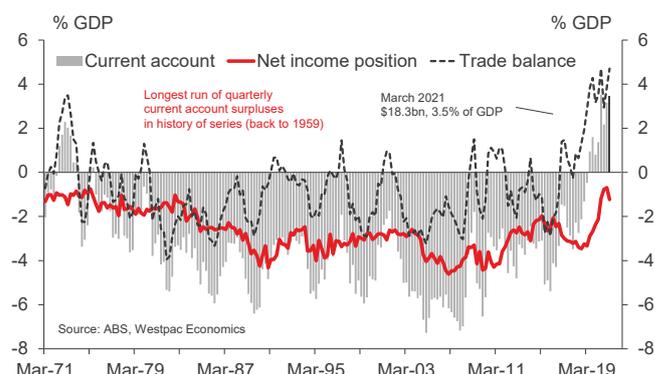
# The week ahead.

## Aus Q2 current account, AUDbn

**Aug 31, Last: 18.3, WBC f/c: 20.5**  
**Mkt f/c: 21.5, Range: 19.0 to 23.0**

- Australia is a current account surplus nation - at least of late. The June quarter, will be the 9th consecutive quarterly current account surplus, a record run in modern times.
- Moreover, the surplus is getting larger, inflated by higher commodity prices boosting export earnings.
- The current account surplus is forecast to be \$20.5bn in the June quarter, including a trade surplus of \$28.1bn and a net income deficit of \$7.6bn.
- That follows a \$18.3bn surplus for the March quarter, comprised of +\$24.8bn for trade and -\$6.5bn for net income.
- The trade position improved in the June quarter, more than fully accounted for by a further and sharp rise in the terms of trade, we estimate up in the order of +5.8%.

## Current a/c: Q1, record 8th consecutive surplus

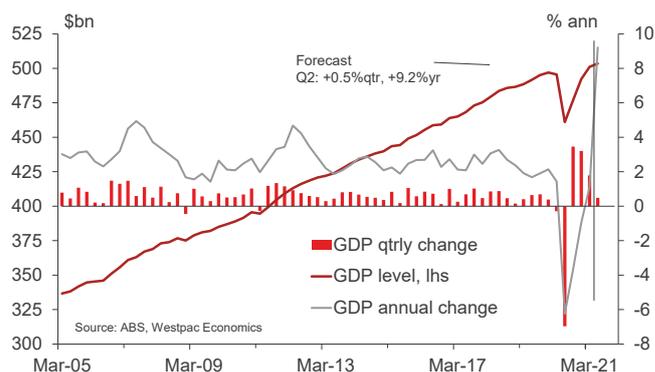


## Aus Q2 GDP

**Sep 1, Last: 1.8%qtr, 1.1%yr, WBC f/c: 0.5%qtr, 9.2%yr**  
**Mkt f/c: 0.5%qtr, Range: -0.1%qtr to 1.2%qtr**

- Australia's economic recovery stumbled in the June quarter, lockdowns and export weakness taking the gloss off growth. We are forecasting a modest 0.5% rise in GDP due to these negatives.
- The arithmetic of our Q2 GDP forecast is: domestic demand +1.4%; total inventories -0.2ppts; and net exports -0.7ppts. Consumer spending is a forecast +1.0%; home building -0.3%; business investment +2.0%; and public demand +2.0%.
- Snap lockdowns were a factor during the quarter. Then the NSW Bondi outbreak began on June 16, leading to a Greater Sydney lockdown around June 24. This caused a fall away in activity over the second half of the June month. We have attempted to allow for this weakness late in the quarter, but recognise this as a source of downside risk to our forecast.

## Australian economy: recovery slowed in Q2

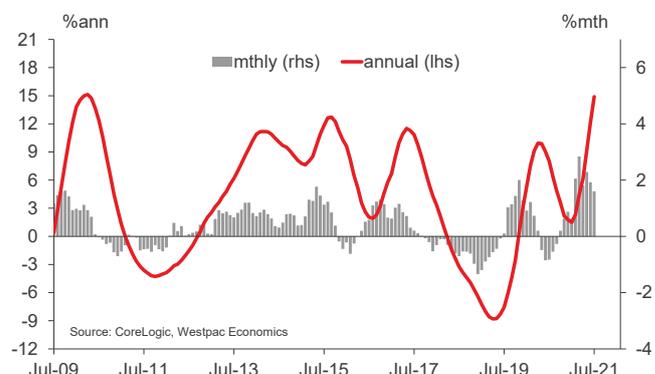


## Aus Aug CoreLogic home value index

**Sep 1, Last: 1.6%, WBC f/c: 1.5%**

- Australian dwelling prices posted another solid gain in July but with clearer signs of a moderation from the red-hot pace through the first half of the year. The CoreLogic home value index, covering the eight major capital cities, rose 1.6% in the month after posting gains of 1.9%-2.8%*month* over the previous five months. Prices are up 15.1%*year*. The 3*month* annualised pace of gains moderated to 21% from a cracking 40% peak in April.
- Aug is set for a similar gain for the month, the daily measure pointing to a 1.6% rise. COVID disruptions have had limited impact so far although price growth in Sydney and Melbourne does look to have seen some loss of momentum towards the end of the month.

## Australian dwelling prices



## The week ahead.

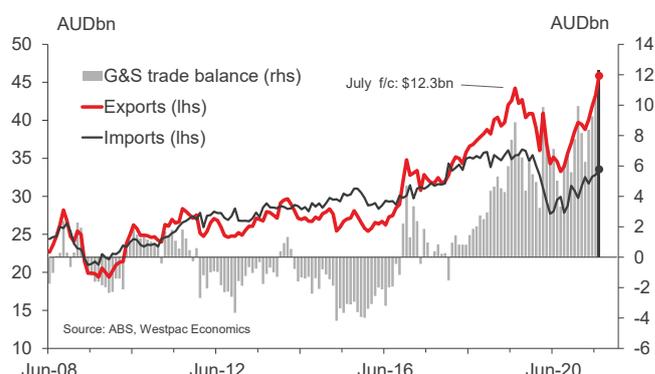
### Aus Jul trade balance, AUDbn

**Sep 2, Last: 10.5, WBC f/c: 12.3**

**Mkt f/c: 9.9, Range: 8.0 to 12.5**

- Australia's trade account has been in surplus for 42 consecutive months, from the start of 2018. The annual surplus swelled from \$23bn for 2018 to \$74bn in 2020 - with rising commodity prices a key driver of the growing surplus.
- We anticipate that we will see back to back fresh record highs for the trade surplus in June and July.
- We expect the surplus to rise to \$12.3bn in July, up from \$10.5bn for June.
- Export earnings increased by a forecast 5.8%, \$2.5bn on higher volumes and prices - notably for iron ore, coal and LNG.
- Imports are up a forecast 2.2%, \$0.7bn on higher volumes, higher prices associated with the lower dollar and higher global energy prices.

### Australia's trade balance: record surplus in July?



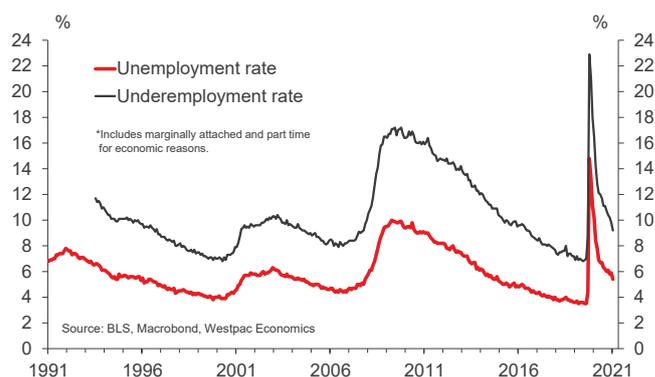
### US Aug employment report

**Aug 6, nonfarm payrolls, Last: 943k, WBC f/c: 850k**

**Aug 6, unemployment rate, Last: 5.4%, WBC f/c: 5.2%**

- Nonfarm payrolls surprised modestly to the upside in July, a gain of 943k being reported. With revisions, job creation in the month was above 1 million.
- As the economy continues to re-open, we expect another extraordinary month of job creation in August, circa 850k.
- The household survey is likely to report another decline in the unemployment rate in August, though the scale of this latest fall is anticipated to be modest at just 0.2ppts, taking the unemployment rate down to 5.2%.
- The reason this is the case is that participation should rise as unemployment benefits cease and workers who have stayed home to care for their family begin to return to the labour force. This will be a process that takes more than a year, but should gather pace in coming months.

### US labour market gains to continue

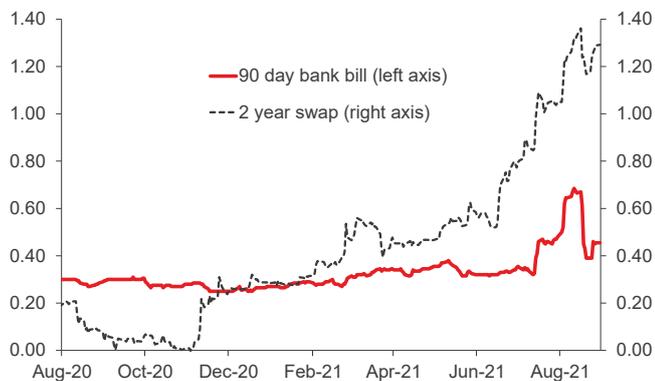


# New Zealand forecasts.

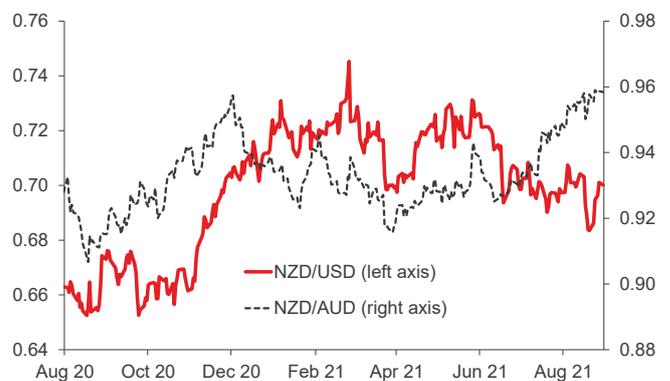
Economic forecasts	Quarterly				Annual			
	2021				2019	2020	2021f	2022f
% change	Mar (a)	Jun	Sep	Dec				
GDP (Production)	1.6	1.5	-6.1	9.0	2.4	-2.9	4.8	4.8
Employment	0.6	1.1	-0.1	0.5	1.2	0.7	2.1	2.1
Unemployment Rate % s.a.	4.6	4.0	3.8	4.2	4.0	4.8	4.2	3.5
CPI	0.8	1.3	1.1	0.1	1.9	1.4	3.4	2.1
Current Account Balance % of GDP	-2.2	-3.3	-3.9	-4.3	-3.3	-0.8	-4.3	-4.4

Financial forecasts	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Jun-23	Dec-23
Cash	0.25	0.50	0.75	1.25	1.25	1.50	1.75	2.00
90 Day bill	0.45	0.70	1.15	1.35	1.45	1.60	1.85	2.10
2 Year Swap	1.20	1.35	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	2.05	2.15	2.20	2.30	2.45	2.55
NZD/USD	0.69	0.71	0.72	0.73	0.74	0.74	0.74	0.73
NZD/AUD	0.96	0.95	0.95	0.95	0.95	0.95	0.93	0.94
NZD/JPY	76.6	78.8	80.6	81.8	82.9	83.6	84.4	84.0
NZD/EUR	0.57	0.58	0.59	0.60	0.61	0.61	0.62	0.61
NZD/GBP	0.49	0.50	0.50	0.51	0.51	0.51	0.51	0.51
TWI	72.8	73.9	74.1	74.8	75.4	75.3	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 30 August 2021

Interest rates	Current	Two weeks ago	One month ago
Cash	0.25%	0.25%	0.25%
30 Days	0.28%	0.53%	0.33%
60 Days	0.37%	0.60%	0.41%
90 Days	0.46%	0.67%	0.48%
2 Year Swap	1.29%	1.33%	1.05%
5 Year Swap	1.64%	1.66%	1.46%

NZ foreign currency mid-rates as at 30 August 2021

Exchange rates	Current	Two weeks ago	One month ago
NZD/USD	0.7001	0.7042	0.6973
NZD/EUR	0.5936	0.5970	0.5874
NZD/GBP	0.5090	0.5088	0.5014
NZD/JPY	76.93	77.24	76.45
NZD/AUD	0.9584	0.9553	0.9505
TWI	74.44	74.86	74.03

## Data calendar.

		Last	Market median	Westpac forecast	Risk/Comment
<b>Mon 30</b>					
Aus	Q2 company profits	-0.3%	2.5%	-1.5%	Tapering of subsidies continues to dent "profits".
	Q2 inventories	2.1%	1.0%	1.4%	Rebuild over Q1 & Q2 after 2020H1 rundown.
	June business indicators	-	-	-	To provide an overall gauge on business conditions for Q2.
Eur	Aug economic confidence	119	118	-	To provide a read on business and consumer sentiment.
UK	Public holiday	-	-	-	Summer bank holiday.
US	Jul pending home sales	-1.9%	0.4%	-	Supply continues to hold back sales.
	Aug Dallas Fed index	27.3	22.8	-	COVID-19's impact varies by region.
<b>Tue 31</b>					
NZ	Jul building permits	3.8%	-	-3.0%	Expected to nudge down after earlier strength.
	Aug ANZ business confidence	-3.8	-	-	Own activity is likely to decline as Alert Levels increased.
Aus	Jul dwelling approvals	-6.7%	-5.0%	-5.0%	HomeBuilder unwind and potential lock-down disruptions.
	Jul private sector credit	0.9%	0.5%	0.5%	Housing boosted by lower rates + businesses access credit lines.
	Q2 current account balance, \$bn	18.3	21.5	20.5	Widens as rising export prices swell trade surplus.
	Q2 net exports, ppts cont'n	-0.6	-0.8	-0.7	Imports vol's up (economic rebound) while export vol's slip.
	Q2 public demand	0.2%	-	2.0%	Gov't spending a growth engine; health response + stimulus.
Chn	Aug non-manufacturing PMI	53.3	52	-	A helpful barometer of the impact of restrictions...
	Aug manufacturing PMI	50.4	50.2	-	... to drive COVID-19 cases to zero.
Eur	Aug CPI %yr	2.2%	2.6%	-	Annual rate to trend back down in coming months.
US	Jun FHFA house prices	1.7%	1.9%	-	Uptrend in prices entrenched....
	Jun S&P/CS home price index	1.8%	1.9%	-	... affordability not yet an issue.
	Aug Chicago PMI	73.4	68.9	-	COVID-19's impact varies by region.
	Aug consumer confidence index	129.1	124.0	-	Delta uncertainty remains headwind for sentiment.
<b>Wed 01</b>					
Aus	Q2 GDP	1.8%	0.5%	0.5%	Lock-downs + weaker exports weigh on activity.
	Aug CoreLogic home value index	1.6%	-	1.5%	Momentum slowing but still another strong monthly gain.
Chn	Aug Caixin China PMI	50.3	50.2	-	Focused on smaller, export-focused firms.
Eur	Jul unemployment rate	7.7%	7.6%	-	Hiring uptick expected to see U/E rate tick down.
US	Aug ADP employment change	330k	650k	750k	Has carried a negative bias versus payrolls.
	Jul construction spending	0.1%	0.3%	-	Residential construction activity strong; mixed elsewhere.
	Aug ISM manufacturing	59.5	58.7	-	Momentum slowly abating; still very strong.
<b>Thu 02</b>					
NZ	Q2 terms of trade	0.1%	-	3.2%	Export prices jumped across all key export commodities.
Aus	Jul trade balance \$bn	10.5	9.9	12.3	Another record surplus, led by exports - up on prices & vol's.
	Jul housing finance	-1.6%	-	1%	Turnover still ticking over in July despite lock-downs...
	Jul owner occupier finance	-2.5%	-3.0%	-3%	... but owner occupiers likely softening...
	Jul investor finance	0.7%	-	5%	... as investors continue to lift.
US	Initial jobless claims	-	-	-	Downtrend in initial claims remains in place despite delta.
	Jul trade balance US\$bn	-75.7	-74.5	-	Consumer demand and inventory rebuild bolstering imports.
	Jul factory orders	1.5%	0.3%	-	Core durable orders point to solid equipment CAPEX gains.
	Fedspeak	-	-	-	Bostic to discuss path to inclusive economy.
<b>Fri 03</b>					
Chn	Aug Caixin China PMI services	54.9	51.5	-	Disruptions from COVID-19 restrictions expected to hit.
Eur	Jul retail sales	1.5%	-0.4%	-	Services spending to take over from goods consumption.
US	Aug non-farm payrolls	943k	787k	850k	Strong gains to continue in August...
	Aug unemployment rate	5.4%	5.2%	5.2%	...fall in U/E rate limited by rise in participation rate.
	Aug average hourly earnings %mth	0.4%	0.3%	0.3%	Wage pressures concentrated in low-skill areas.
	Aug ISM non-manufacturing	64.1	62.7	-	Services at risk from delta, but underlying demand strong.

## 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	4.2	4.5
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	5.1	4.0
Current account % of GDP	-2.6	-2.1	0.7	2.6	4.2	2.4
<b>United States</b>						
Real GDP %/yr	2.3	3.0	2.2	-3.5	6.1	4.3
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	3.8
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	2.5	2.7
<b>Euro zone</b>						
Real GDP %/yr	2.6	1.9	1.3	-6.6	4.5	4.4
<b>United Kingdom</b>						
Real GDP %/yr	1.7	1.3	1.4	-9.9	6.5	5.0
<b>China</b>						
Real GDP %/yr	6.9	6.7	5.8	2.3	9.3	5.8
<b>East Asia ex China</b>						
Real GDP %/yr	4.7	4.4	3.7	-2.4	4.6	5.0
<b>World</b>						
Real GDP %/yr	3.8	3.6	2.8	-3.3	5.7	4.7

Forecasts finalised 6 August 2021

Interest rate forecasts	Latest	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Jun-23	Dec-23
<b>Australia</b>									
Cash	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.50	0.75
90 Day BBSW	0.01	0.04	0.07	0.10	0.15	0.20	0.40	0.70	0.95
10 Year Bond	1.21	1.30	1.55	1.70	1.80	1.90	2.00	2.10	2.20
<b>International</b>									
Fed Funds	0.125	0.125	0.125	0.125	0.125	0.125	0.375	0.875	0.875
US 10 Year Bond	1.34	1.45	1.60	1.70	1.80	1.90	2.00	2.10	2.20

Exchange rate forecasts	Latest	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Jun-23	Dec-23
AUD/USD	0.7234	0.72	0.75	0.76	0.77	0.78	0.78	0.80	0.78
USD/JPY	109.97	111	111	112	112	112	113	114	115
EUR/USD	1.1755	1.21	1.22	1.23	1.22	1.21	1.21	1.20	1.19
GBP/USD	1.3693	1.41	1.42	1.43	1.44	1.45	1.44	1.44	1.43
USD/CNY	6.4855	6.35	6.25	6.15	6.10	6.05	6.00	6.00	5.95
AUD/NZD	1.0429	1.04	1.06	1.06	1.05	1.05	1.05	1.08	1.07

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