



Westland Tai Poutini National Park, New Zealand

Weekly Economic Commentary.

In it for the long haul.

New Zealand's labour market has been more resilient to the Covid-19 lockdown than was initially feared. But recent events have highlighted that overcoming the virus, both here and globally, is going to be a drawn-out process, and it's not clear how much of the pain still lies ahead of us. That means support from fiscal and monetary policy will need to remain in place for some time, and we expect the Reserve Bank to extend its programme of bond purchases in the coming months.

Right now, our picture of how Covid-19 has impacted the labour market is incomplete. The Household Labour Force Survey is the official source for the rate of unemployment, but this is only published quarterly and the next release isn't until early August. However, there is a range of more timely indicators – some of which have emerged only recently – that can help us to fill in some of the gaps.

Our quarterly Employment Confidence Index, which was surveyed in early June, showed that employment confidence has plunged since March. People's perceptions about current job opportunities and job security have unsurprisingly fallen. More notable was that the questions on earnings growth were also down sharply. This fits with some survey evidence that,

in terms of firms' response to the crisis, pay cuts and reduced hours have played at least as much of a role as layoffs. The Government's wage subsidy scheme is likely to have been a key factor here, allowing employers to keep workers on at reduced pay during the lockdown.

It's clear that there have been a large number of layoffs, but fewer than was feared. The number of people receiving the Jobseeker Support benefit has risen by about 45,000 since the lockdown, which equates to 1.6% of the workforce. Not everyone who is unemployed will receive this benefit: non-residents are excluded, and there is a cap on partners' earnings (though a new temporary benefit that addresses the second issue was introduced this month). Even so, the



increase in benefit numbers to date would still put us quite some way from the double-digit unemployment rates that were initially predicted.

It may be that layoffs are being countered by a faster than expected return to hiring (or rehiring). Online job advertisements during the lockdown were down about 75% on the same time last year. But they have rebounded quickly since then, and are now only 20% down on last year.

Stats NZ has recently begun to provide weekly figures on the number of filled jobs, based on tax filings. These figures showed that over 100,000 jobs were lost during the lockdown in April. But surprisingly, the number of filled jobs jumped almost back to previous levels in May as the restrictions were eased.

The overall sense from the data is that the impact on the labour market has been less than expected so far. But what has happened to date doesn't rule out the possibility of a second wave of layoffs as the wage subsidy scheme runs out over the next few months. Our forecast is for a peak unemployment rate of 8% in the September quarter this year.

It's likely that there will be further policy measures to stave off a sharper rise in unemployment. Indeed, the May Budget included \$20bn of as-yet unallocated spending that was essentially set aside for that purpose, and monetary policy support is also going to be necessary for an extended period of time.

Last week's OCR review was straightforward compared to the dramatic events that unfolded earlier this year. The RBNZ opted not to make any changes to the stance of monetary policy, leaving the OCR at 0.25% and reiterating that it planned to hold it at this level until at least March next year. It also left the quantum of its Large-Scale Asset Purchase (LSAP) programme at \$60bn, with purchases continuing through to May 2021.

The RBNZ acknowledged that the country had moved down to Alert Level 1 sooner than expected, and that recent economic data has suggested the economic fallout from the lockdown may not be as severe as previously anticipated. However, the RBNZ was cautious about these improvements to the outlook. It worried that "these positives may be short-lived given the fragile nature" of global pandemic containment.

The RBNZ's caution is understandable in light of recent developments. Worldwide case numbers have shot up again as the virus has made its way into developing economies. Parts of the US are now seeing another wave of infections as restrictions have been eased. And even some of the earlier success stories around the world have been frustrated by new flare-ups.

As for New Zealand, there's been a furore about gaps in the enforcement of quarantine and testing for returning New Zealanders, as new cases have started arriving again after a quiet patch. While the return of Covid-19 to our shores was probably inevitable given the global spread of the virus and the rising number of returnees, the public response has made one thing clear: there is no appetite for any compromise around our international borders.

That means the prospect of a travel 'bubble' with Australia (where case numbers have picked up recently, including some community transmission) is looking more distant than it once did. This presents a downside risk to our economic forecasts, countering some of the stronger data we've seen recently.

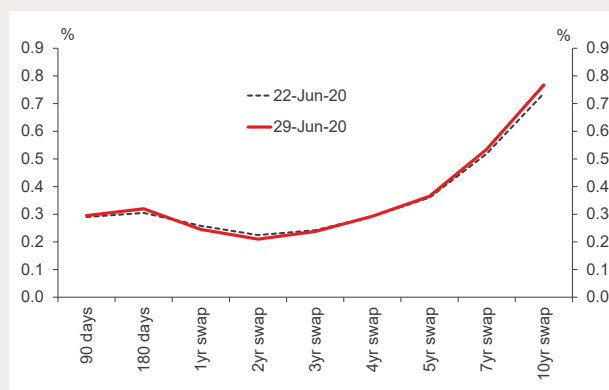
The RBNZ's statement noted that the Monetary Policy Committee had discussed expanding its bond programme now. It also said that "staff are working towards ensuring a broader range of monetary policy tools would be deployable in coming months", and that it would give a progress update in the August *Monetary Policy Statement*. This confirms that the RBNZ's disposition is still towards looser monetary policy, and it still sees the risks to inflation and employment as being to the downside.

Fixed vs Floating for mortgages.

Fixed mortgage rates have fallen recently, but they may not drop much further in the near term. The drop in mortgage rates this year is now roughly commensurate with the drop in wholesale rates.

We are forecasting fairly stable interest rates this year, but early next year we expect that the RBNZ will lower the OCR to -0.5%. If that is correct, then both fixed and floating rates will fall next year.

NZ interest rates



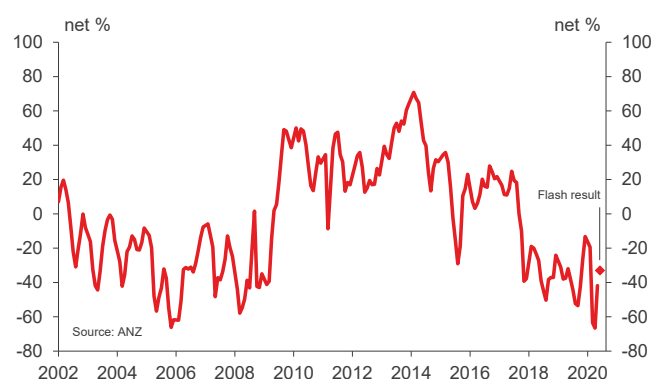
The week ahead.

NZ Jun ANZBO business confidence (final)

Jun 30, Last: -41.8, Preliminary result for June: -33.0

- After falling sharply during the lockdown, business confidence has started to lift again. Nevertheless, it remains well below the levels we saw prior to the outbreak of COVID-19. Expectations for trading activity over the coming months remain subdued. We're also continuing to see weakness in businesses' plans for hiring and investment spending.
- Since the release of the 'flash' survey result at the start of the month, the COVID alert level has been eased and domestic activity is showing signs of lifting. However, there is ongoing concern about containment measures, conditions in some sectors remain weak and the news flow from abroad remains soft. On balance, we do not expect a big change from the flash reading when the final results are released.

NZ business confidence

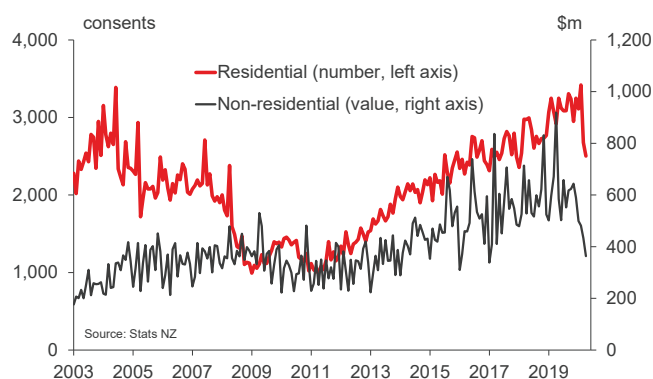


NZ May dwelling consents

Jul 1, Last: -6.5%, Westpac f/c: +14%

- Dwelling consent numbers fell 6.5% in April. That was a very small drop given that the country was in Level 4 lockdown through most of the month. This reflects that processing of consents was able to continue, even though building activity was put on hold.
- With the alert level relaxed in recent months, we expect that consent processing will pick up again in May and are forecasting a 14% rise. That will still leave consent numbers below the levels that prevailed prior to the lockdown.
- There is a wide bound of uncertainty around consent issuance. Notably, there is the risk of a larger than expected bounce due to catch up activity after the lockdown period.

NZ building consents

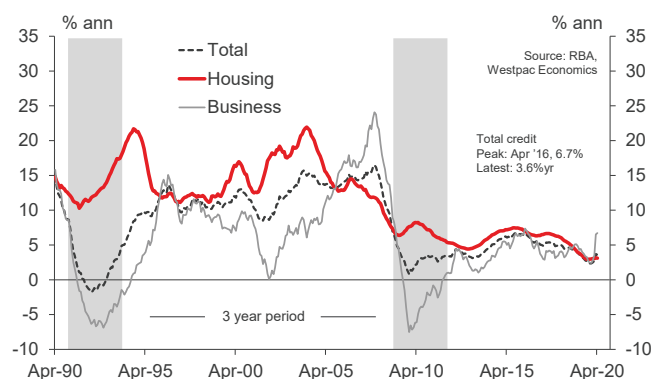


Aus May private credit

Jun 30, Last: 0.0%, WBC f/c: 0.0%
Mkt f/c: 0.0%, Range: -0.3% to 0.3%

- Credit to the private sector flat-lined in April.
- Admittedly, that came after a 1.1% jump in March when lending to businesses surged, +3.1%, as firms drew down on existing lines of credit to ease cash flow pressures.
- For May, credit potentially flat-lined for a second month.
- Housing credit grew by 0.23%, 3.1%/yr in April. The upswing pre-COVID on lower interest rates has faltered. Housing turnover has collapsed on restrictions, the hit to income and to confidence. New lending is down, credit is set to slow.
- Businesses are in survival mode - looking to cut non-essential spending, including investment expenditure. Business credit is set to not only slow but contract, as is typical in recessions.

Credit: one-off spike in March, weakness to follow



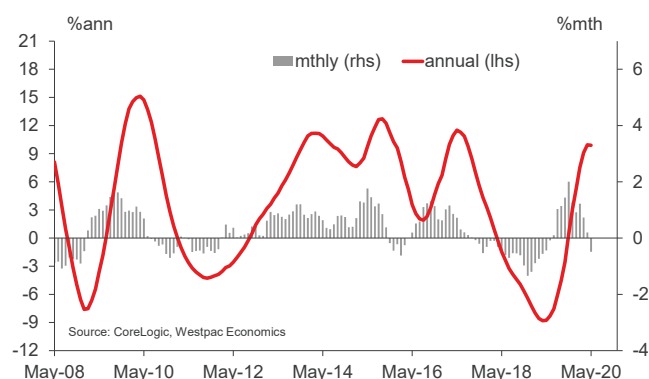
The week ahead.

Aus Jun CoreLogic home value index

Jul 1, Last: -0.5%, WBC f/c: -0.7%

- The COVID-19 lockdown pulled the rug out from under what had been a promising start to 2020 for Australia's housing market. Turnover seized up as restrictions came into force in April, price gains stalling and then dipping into negative in May – the first monthly decline since the 2018-19 correction.
- While restrictions were eased through May and June, particularly those relating to the real estate market, price slippage looks to have continued, accelerating a touch. CoreLogic's daily index points to a 0.7% decline nationally. We continue to see a material price correction ahead. However this relates more to the wider impacts of the virus than its direct disruptions to the housing market – the flow on effects to employment, incomes, rental markets and migration will be the driver from here. That means the price adjustment may be quite gradual, particularly while there are a range of support policies in place, including temporary mortgage repayment holidays for stressed borrowers.

Australian dwelling prices

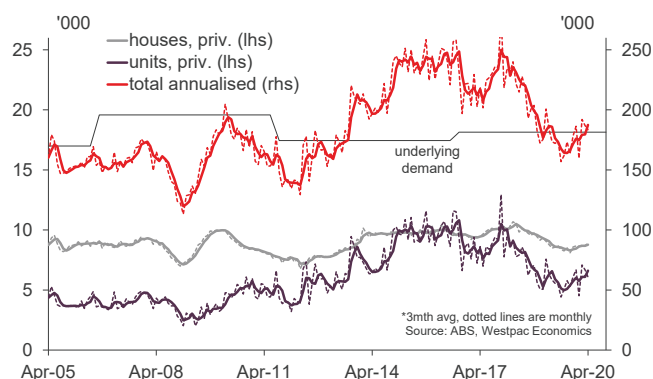


Aus May dwelling approvals

Jul 1, Last: -1.8%, WBC f/c: -1.0%
Mkt f/c: -6.0%, Range: -11.0% to -1.0%

- Dwelling approvals held up surprisingly well in April, the 1.8% decline much milder than expected given COVID disruptions and what looked to be an elevated level of high rise approvals in preceding months. Remarkably, despite the lock-down April dwelling approvals were still up 5.7%yr.
- However, it should be noted that the lags between application and approval mean the April reading largely reflects applications made in previous months. Virus disruptions are also likely to see commencements on many approved projects delayed near term.
- We expect lock-down effects to show through more fully in May with a 10% drop in approvals pencilled in.

Dwelling approvals

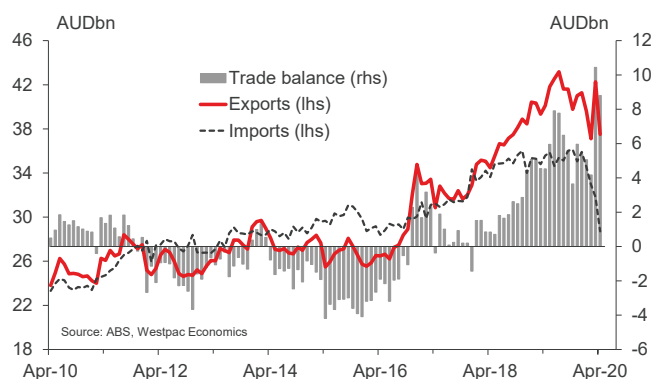


Aus May trade balance, AUDbn

Jul 2, Last: 8.8, WBC f/c: 9.0
Mkt f/c: 9.0, Range: 7.0 to 9.8

- Australia is running sizeable trade surpluses. The net impact of the pandemic, to date, has been to boost the surplus.
- Key to this, imports have trended lower on falling domestic demand, while goods exports have been more resilient. Also, the iron ore price is up on reduced supply from Brazil.
- The surplus likely remained elevated in July, at a forecast \$9.0bn. Goods imports are down sharply in April. Near record lows were reported for cars (reflecting the collapse in sales) and fuel (lower prices).
- Exports likely moved somewhat lower in the month, with coal hit by lower prices and reduced shipments on weaker demand. Service exports, which to date have held up more than service imports, potentially eased in the month.

Trade surplus: hit record high in March, \$10.4bn



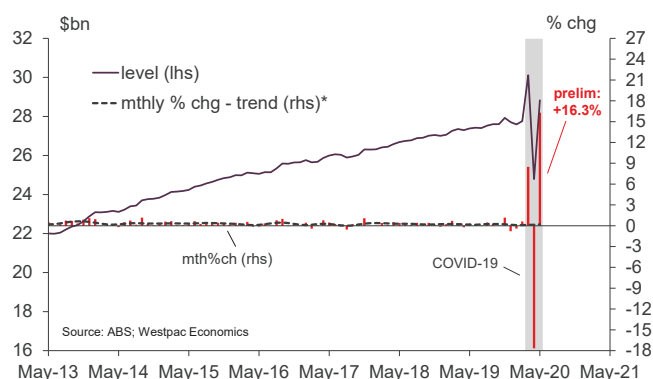
The week ahead.

Aus May retail trade

Jul 3, Last: -17.7%, WBC f/c: +16.3%
Mkt f/c: 16.3%, Range: -5.0% to 18.5%

- The ABS has moved to releasing preliminary retail sales estimates as part of an effort to provide more timely information on the impacts of the Coronavirus. The impact has been dramatic – preliminary estimates showing a 16.3% jump in May that followed a 17.7% plunge in April and an 8.5% stockpiling driven surge in March. These wild swings are unprecedented in the 38yr history of the survey.
- Final estimates for May will confirm the big rebound but give more colour around the performance across storetypes, states and sales channels.
- Three things should also be noted: 1) even with the big May rebound, sales are shaping to be down 3.5%qtr for Q2; 2) retail misses some of the largest COVID impacts on consumer spending, especially around tourism (including overseas), hospitality and services; and 3) retail is also skewed towards segments that are benefitting from expenditure being switched away from these services.

Monthly retail sales

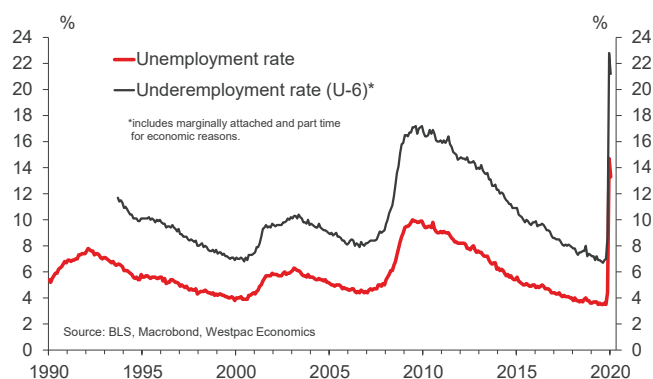


Jun US employment report

Jul 2, nonfarm payrolls: last: 2509k, WBC: 2000k
Jul 2, unemployment rate: last: 13.3%, WBC: 12.5%

- The May employment report shocked the market, with 2.5mn jobs created in the month against an expectation of a large fall. Emphasised by this result is the rapid re-opening of US state economies as well as the use of Government support measures to keep staff on the books – albeit at reduced hours. Another large gain is anticipated in June given we have seen a further move towards 'normal' trading in the past month. Though stubbornly high, initial and continuing claims suggest some momentum in employment gains has been lost.
- The unemployment rate is not only determined by jobs but also participation. As state economies re-open, participation is likely to rebound, holding up the unemployment rate. Underemployment will also remain historically high.

US labour market slack to remain historic

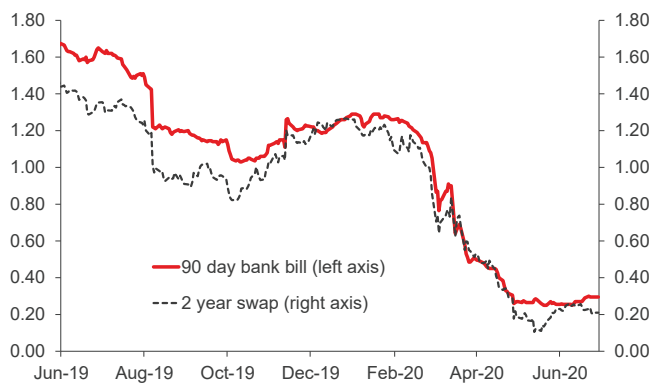


New Zealand forecasts.

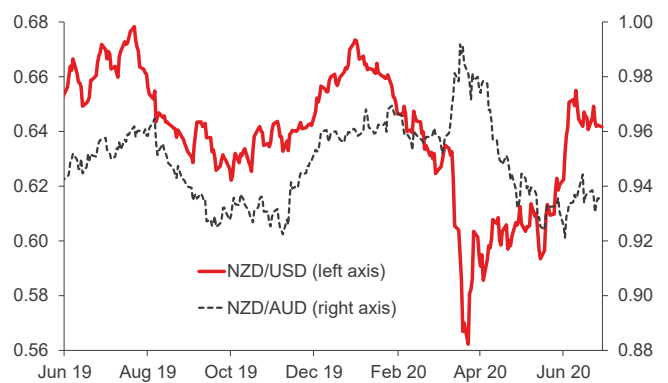
Economic forecasts	Quarterly				Annual			
	2020				2018	2019	2020f	2021f
% change	Mar (a)	Jun	Sep	Dec				
GDP (Production)	-1.6	-13.5	14.0	0.9	3.2	2.3	-4.6	5.1
Employment	0.7	-7.5	0.7	1.3	1.9	0.8	-4.9	3.4
Unemployment Rate % s.a.	4.2	7.0	8.0	7.5	4.3	4.0	7.5	6.6
CPI	0.8	-0.5	0.8	-0.3	1.9	1.9	0.8	0.4
Current Account Balance % of GDP	-2.7	-2.1	-1.7	-1.7	-3.8	-3.0	-1.7	-2.0

Financial forecasts	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21
Cash	0.25	0.25	0.25	-0.50	-0.50	-0.50
90 Day bill	0.25	0.20	-0.10	-0.20	-0.20	-0.20
2 Year Swap	0.10	0.00	-0.10	-0.10	-0.10	0.00
5 Year Swap	0.30	0.25	0.25	0.30	0.40	0.50
10 Year Bond	0.85	0.85	0.85	0.90	1.00	1.10
NZD/USD	0.65	0.65	0.64	0.65	0.66	0.67
NZD/AUD	0.93	0.90	0.88	0.88	0.88	0.88
NZD/JPY	68.9	68.9	68.5	69.6	71.3	72.4
NZD/EUR	0.58	0.57	0.56	0.56	0.56	0.57
NZD/GBP	0.52	0.51	0.50	0.51	0.51	0.52
TWI	71.5	70.6	69.1	69.7	70.2	70.7

2 year swap and 90 day bank bills



NZD/USD and NZD/AUD



NZ interest rates as at market open on 29 June 2020

Interest rates	Current	Two weeks ago	One month ago
Cash	0.25%	0.25%	0.25%
30 Days	0.27%	0.27%	0.27%
60 Days	0.29%	0.27%	0.26%
90 Days	0.30%	0.27%	0.26%
2 Year Swap	0.21%	0.25%	0.23%
5 Year Swap	0.37%	0.38%	0.35%

NZ foreign currency mid-rates as at 29 June 2020

Exchange rates	Current	Two weeks ago	One month ago
NZD/USD	0.6417	0.6425	0.6295
NZD/EUR	0.5718	0.5716	0.5655
NZD/GBP	0.5209	0.5127	0.5039
NZD/JPY	68.76	68.91	67.73
NZD/AUD	0.9354	0.9400	0.9262
TWI	71.50	71.51	70.51

Data calendar.

		Last	Market median	Westpac forecast	Risk/Comment
Mon 29					
Eur	Jun economic confidence	67.5	82.5	-	Demand weakness to linger.
	Jun consumer confidence	-14.7	-	-	Sentiment rose in May; UE will remain a major headwind.
UK	May net mortgage lending £bn	0.3	-2.0	-	Lending fell dramatically in April. Uncertainty rife.
	Jun Nationwide house prices	-1.7%	-1.0%	-	Market forecasts further weakness in UK house prices
US	May pending home sales	-21.8%	18.9%	-	Optimism over resumption of sales clear.
	Jun Dallas Fed index	-49.2	-29.5	-	Regional survey results positive of late.
	Fedspeak	-	-	-	FOMC's Daly to speak.
	Fedspeak	-	-	-	FOMC's Williams and IMF's Georgieva.
Tue 30					
NZ	Jun ANZ business confidence (final)	-33	-	-	The flash result in early June was up, still low.
Aus	May private sector credit	0.0%	0.0%	0.0%	Housing slowing, business to weaken.
	RBA Deputy Governor Debelle	-	-	-	The RBA's policy actions and balance sheet.
Chn	Jun manufacturing PMI	50.6	50.4	-	After a solid comeback, the market expects modest...
	Jun non-manufacturing PMI	53.6	53.3	-	... improvement from here.
Eur	Jun CPI %/yr	0.1%	-0.1%	-	Inflation across the Eurozone to remain muted.
UK	Jun GfK consumer sentiment	-30	-29	-	Personal finance and major purchase outlook rose in May.
	Q1 GDP	-2.0%	-2.0%	-	Q1 saw large hit to growth. More pain on the way.
US	Apr S&P/CS home price index	0.47%	0.50%	-	Market view on home prices remains positive despite virus.
	Jun Chicago PMI	32.3	42.0	-	Regional survey results positive of late.
	Jun consumer confidence index	86.6	90.0	-	Modest improvement in consumer confidence expected.
	FOMC Chair Powell	-	-	-	And Treasury Secretary Mnuchin.
	Fedspeak	-	-	-	FOMC's Williams.
Wed 01					
NZ	May building consents	-6.5%	-	14.0%	Lockdown restrictions have eased, some catch-up activity.
Aus	Jun AiG PMI	41.6	-	-	May, manuf'g recovered by 5.8pts - further bounce in June?
	Jun CoreLogic home value index	-0.5%	-	-0.7%	Correction began in May and picked up slightly in June.
	May dwelling approvals	-1.8%	-6.0%	-10%	COVID shock likely to land this month.
Chn	Jun Caixin China manufacturing PMI	50.7	50.7	-	PMI crossed into positive territory last month, expansionary.
Eur	Jun Markit manufacturing PMI	-	-	-	Rebound reported in flash for Eurozone, UK and Germany.
US	Jun ADP employment change	-2760k	3000k	-	Employment results of May signalled worst is over.
	Jun Markit manufacturing PMI	49.6	-	-	Hovering just under expansionary benchmark of 50.
	May construction spending	-2.9%	1.0%	-	Forecast upbeat after slump in April.
	Jun ISM manufacturing	43.1	49.0	-	Rising, but still contractionary for 4th consec. month.
	FOMC June meeting minutes	-	-	-	Discussion of risk and potential next policy steps key.
	Fedspeak	-	-	-	FOMC's Evans.
Thu 02					
Aus	May trade balance, \$bn	8.8	9.0	9.0	Sizeable surplus, imports trend weakness on softer demand.
Eur	May PPI %/yr	-4.5%	-	-	Producer prices reduced in both MoM and YoY measures
	May unemployment rate	7.3%	7.6%	-	Gov. support limiting brunt of effect.
US	May trade balance US\$bn	-49.4	-52.0	-	China tensions, supply-chain disruption are headwinds.
	Jun non-farm payrolls	2509k	3000k	2000k	Economy re-opening to see gains sustained in Jun.
	Jun unemployment rate	13.3%	12.5%	12.5%	Participation a big risk to UE as economy re-opens.
	Jun average hourly earnings %/mth	-1.0%	-0.5%	-	Economic slack to have sustained effect on wages.
	Initial jobless claims	-	-	-	Stubborn in recent weeks, but downtrend intact.
	May factory orders	-13.0%	8.0%	-	Market expecting factory orders to jump this month.
Fri 03					
Aus	Jun AiG PCI	24.9	-	-	Construction sector contracting, collapse in new orders.
	May retail sales	-17.7%	16.3%	16.3%	Preliminary estimate showed big rebound in May.
Chn	Jun Caixin China PMI services	55	53.7	-	Recovery in services evidence with consec. readings >50.
Eur	Jun Markit services PMI	-	-	-	For Eurozone, UK and Germany.
US	Independence Day observed	-	-	-	Public holiday ahead of Fourth of July on Saturday.

International forecasts.

Economic forecasts (Calendar years)	2016	2017	2018	2019	2020f	2021f
Australia						
Real GDP % yr	2.8	2.5	2.8	1.8	-3.6	2.5
CPI inflation % annual	1.5	1.9	1.8	1.8	0.2	2.3
Unemployment %	5.7	5.5	5.0	5.2	8.3	7.1
Current Account % GDP	-3.1	-2.6	-2.0	0.6	2.5	1.0
United States						
Real GDP %yr	1.6	2.4	2.9	2.3	-5.5	2.1
Consumer Prices %yr	1.4	2.1	2.4	1.9	0.7	1.4
Unemployment Rate %	4.9	4.4	3.8	3.7	12.7	9.8
Current Account %GDP	-2.3	-2.3	-2.3	-2.6	-2.5	-2.4
Japan						
Real GDP %yr	0.5	2.2	0.3	0.7	-5.0	1.0
Euro zone						
Real GDP %yr	1.9	2.5	1.9	1.2	-8.5	1.7
United Kingdom						
Real GDP %yr	1.9	1.9	1.3	1.4	-7.0	2.5
China						
Real GDP %yr	6.8	6.9	6.8	6.1	0.1	10.0
East Asia ex China						
Real GDP %yr	4.1	4.6	4.4	3.7	-2.6	5.5
World						
Real GDP %yr	3.4	3.9	3.6	2.8	-3.0	4.9

Forecasts finalised 12 June 2020

Interest rate forecasts	Latest	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21
Australia							
Cash	0.25	0.25	0.25	0.25	0.25	0.25	0.25
90 Day BBSW	0.10	0.10	0.15	0.20	0.25	0.30	0.35
10 Year Bond	0.88	1.00	1.00	1.05	1.15	1.25	1.35
International							
Fed Funds	0.125	0.125	0.125	0.125	0.125	0.125	0.125
US 10 Year Bond	0.68	0.75	0.75	0.80	0.85	0.90	0.95

Exchange rate forecasts	Latest	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21
AUD/USD	0.6876	0.70	0.72	0.73	0.74	0.75	0.76
USD/JPY	107.17	106	106	107	107	108	108
EUR/USD	1.1215	1.13	1.14	1.15	1.16	1.17	1.18
GBP/USD	1.2419	1.26	1.27	1.27	1.28	1.29	1.30
USD/CNY	7.0782	7.00	6.90	6.85	6.80	6.70	6.60
AUD/NZD	1.0706	1.08	1.11	1.14	1.14	1.14	1.13

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