



Westland Tai Poutini National Park, New Zealand

Weekly Economic Commentary.

Rolling back, paying it forward.

As Covid-19 restrictions have been rolled back, New Zealanders have been opening up their wallets again. In fact, after falling 50% during the Alert Level 4 lockdown, retail weekly spending is now only a little below the levels that we saw this time last year.

Despite the sharp rebound, we do expect to see some retail spending weakness later in the year. Unemployment has increased and economic confidence has fallen. There's also ongoing weakness in sectors like hospitality due to the closure of the borders. In addition, some of the recent increase in spending is likely to be catch-up spending, i.e. pent-up demand after the lockdown.

However, at this stage the downturn in spending is looking like it will be at the more moderate end of expectations.

Our recent Westpac McDermott Miller survey of consumers has provided some colour how spending appetites are shaping up as the economy has emerged from lockdown.

The survey has shown that after being stuck inside for a month New Zealanders are in the mood to hit the town again, with many of the households we spoke to telling us that it's a good time to increase their spending in bars. People are also

keen to spend more on in-home entertainment, like Netflix and online gaming.

However, with nervousness about the economic environment, households have told us that they are cautious about their spending on major household items, like furnishings.

In addition, while many households have had to scrap plans for overseas holidays, we haven't really seen much of an increase in the number of New Zealanders who are planning to spend more on domestic holidays. We do think that over time New Zealanders will increase their spending on domestic holidays. However, this may be cold comfort to many tourism operators already looking at a big hole in their current earnings.

It's also possible that some households who have had to cancel overseas trips will choose to spend on other items instead. For instance, we're hearing a lot of anecdotes about spending on home renovations. Down the track and if those



anecdotes translate into broader household sentiment, that could mean a change in appetite for spending on major household items.

Meanwhile, we recently published a bulletin on the COVID impact on the agricultural sector.¹

In it we noted that the agricultural sector has come through the COVID lockdown largely unscarred. This relatively moderate impact stems from the fact that the Government prioritised food supply during the lockdown, with the sector and its supply chain classified as ‘essential services’. And with supermarket shopping allowed during the lockdown, importantly, households also continued to have ample access to food. The same principle applied offshore, with governments prioritising food imports, meaning market access, some bottlenecks aside, was largely maintained through the worst period of global COVID lockdowns.

The other saving grace for the agricultural sector was that it was in a strong position prior to the virus outbreak. Meat prices sat at or near record prices at the end of 2019, horticultural export incomes were at record highs, while the forecast milk price sat above a healthy \$7.00/kg. This strength meant farm and orchard balance sheets were either strong or improving. We do note though that the drought was a spanner in the works for some regions on top of the COVID impacts.

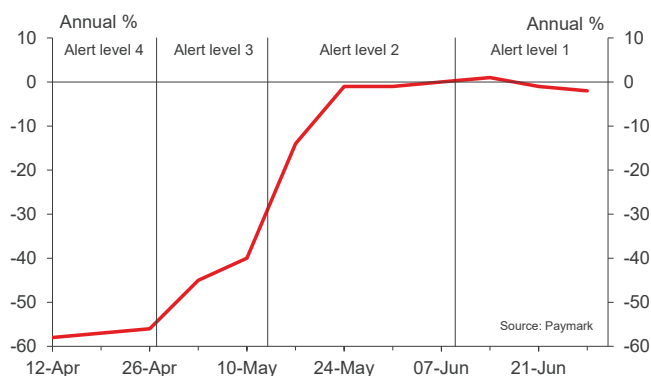
Nonetheless, food export prices still fell during the (global) lockdown. As a general rule, while supermarkets were open, restaurants were closed. And often it is at restaurants, cafes, bakeries and the like where the pointy end of food demand is. In other words, it is in these venues that consumers are, in normal circumstances, willing to pay highest prices for food.

More recently, and as lockdown restrictions have eased globally, overall agricultural export prices have firmed. And we anticipate that this rebound has further to run over the coming months.

However, we caution that a global recession of unprecedented scale still looms large over the New Zealand economy and the agricultural sector. And with this in mind, we expect COVID will knock dairy and meat sector incomes later in the year. For example, our 2020/21 farmgate milk price forecast stands at \$6.50/kg, down from an estimated \$7.20/kg for 2019/20.

Stepping back, though, the sector is likely to prove relatively resilient compared to other parts of the economy. Importantly, the sector is also likely to remain profitable over the next year or two. As a result, activity and employment are likely to hold up well in the sector, affording agriculture options that some other sectors don’t have.

Weekly retail spending



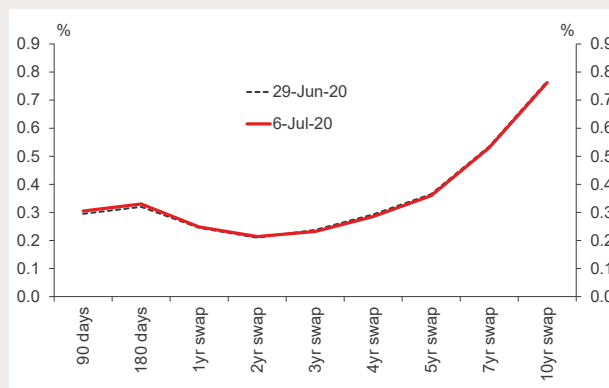
¹ Available here: <https://www.westpac.co.nz/assets/Business/Economic-Updates/2020/Bulletins-2020/Agri-Covid-Impact-June-2020-Westpac-NZ.pdf>

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



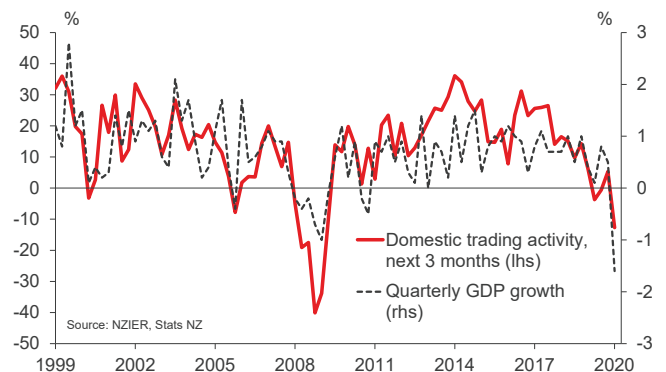
The week ahead.

NZ Q2 Survey of Business Opinion

Jul 7, General business situation, Last: -67.3
Domestic trading activity (past 3 mths), Last: -10.5

- The June quarter survey will have been run after COVID related restrictions on domestic activity were eased.
- We expect that the backwards looking components of the survey, including the closely watched domestic trading activity gauge, will have fallen sharply. That would be consistent with very weak activity through the June quarter, which included the Alert Level 4 lockdown through April when many businesses were unable to trade.
- While the economy has been opening up again, many businesses are still very nervous about the outlook. Consequently, we expect weakness in the hiring and investment gauges.

QSBO domestic trading activity and GDP

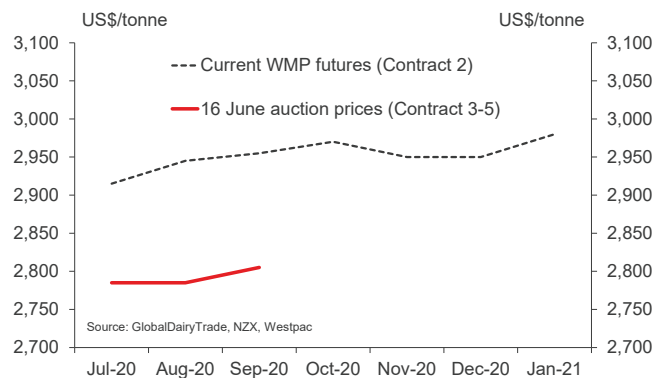


NZ GlobalDairyTrade auction, whole milk powder prices

Jul 8, Last: +2.2%, Westpac: +5%

- We expect that whole milk powder prices will post a solid gain of circa 5% at this dairy auction as global dairy markets continue to rebound after earlier COVID-related weakness. Whole milk powder prices rose 2.2% at the previous auction.
- At this juncture, the dairy futures market also points to a price lift of around 5%.
- Over the remainder of the New Zealand spring, we anticipate that the recent uptick in global dairy prices has further to run. However, later in the year and as the global economic recession bites, we expect global dairy prices will come under renewed downward pressure from weak global demand.

Whole milk powder prices

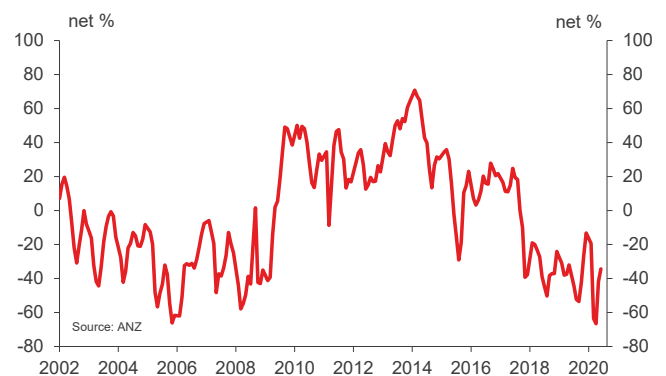


NZ Jul ANZBO business confidence (flash)

Jul 9, Last: -34.4

- After falling sharply during the lockdown, business confidence has picked up again. Nevertheless, it remains well below the levels we saw prior to the outbreak of COVID. Expectations for trading activity over the coming months also remain subdued.
- We expect that confidence will rise again in July but that it will remain at low levels. Recent weeks have seen signs that domestic activity is picking up again. However, the borders remain closed and there is lingering nervousness about the impact of COVID on domestic activity.
- Nervousness about economic conditions means that many businesses will remain cautious with regards to their plans for capital spending and hiring for some time yet.

NZ business confidence



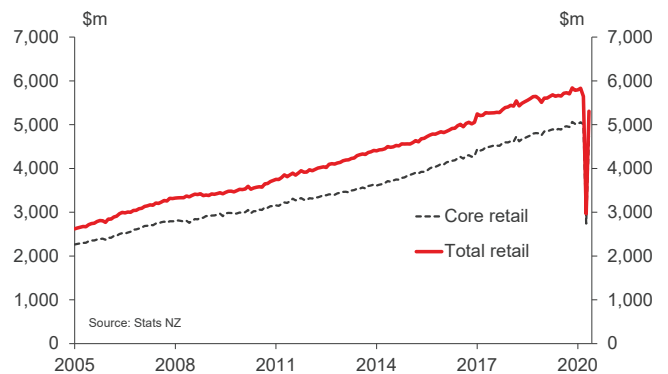
The week ahead.

NZ Jun retail card spending

Jul 10, Last: +80.7%, WBC f/c: +18%

- Retail spending on electronic cards rose by 80% in May. That larger than expected gain followed a nearly 50% drop during New Zealand's Alert Level 4 lockdown, but still left spending below pre-COVID levels. Looking beneath the surface, spending was boosted by pent up demand after the lockdown that added to demand in items like household durables. However, we also saw signs of more general resilience in spending appetites.
- We expect another sizeable gain in June and have pencilled in an 18% rise for the month. That would take spending back to the levels we saw before the outbreak. Weekly updates indicate that spending by New Zealand citizens has been pushing higher, particularly for durable items. That may reflect some substitution from international travel. There is continued weakness in the hospitality sector.

Card transactions

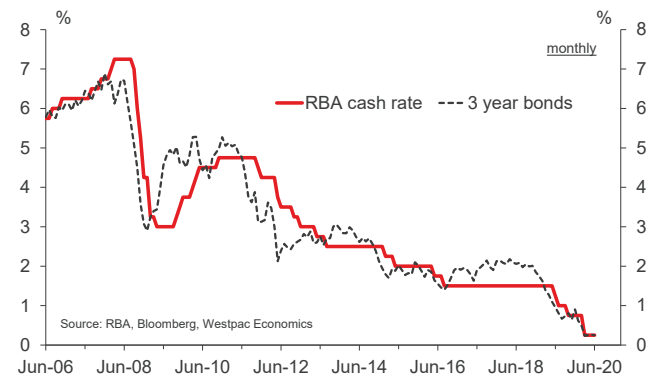


Aus Jul RBA policy decision

Jul 7, Last: 0.25%, WBC f/c: 0.25%
Mkt f/c: 0.25%, Range: 0.25% to 0.25%

- The RBA is providing considerable stimulus to the economy through a range of policies and will continue to do so.
- Interest rates and policy settings will be unchanged in July.
- The key elements of the RBA's response to the pandemic are as follows. (1) Lowering the cash rate to 0.25%. (2) Targeting the 3 year government bond rate at 0.25%. (3) Market operations, as needed, to provide ample liquidity to the banking system. (4) A Term Funding Facility for the banking system providing 3 year funding at 0.25%. (5) Setting the rate paid on Exchange Settlement balances at the RBA at 10bps.
- The cash rate is set to remain at its current level for a very long time - we assess until at least the end of 2023 although the 3yr bond target rate will likely be lifted during 2022.

RBA cash rate and 3 year bonds

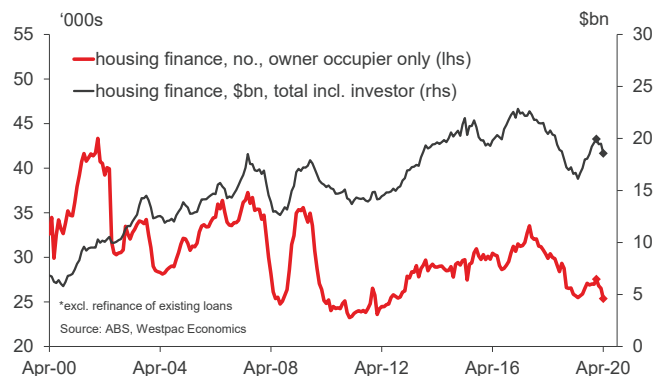


Aus May housing finance approvals

Jul 9, Last: -4.8%, WBC f/c: -10%
Mkt f/c: -6.0%, Range: -10.0% to -5.0%

- Housing finance approvals started to reflect COVID disruptions in April but are expected to see a materially bigger hit in May.
- The total value of new loans fell 4.8% in April, a milder than expected fall given the steep 40% drop in property turnover during the lockdown. That disconnect likely reflects lags more than anything with lenders still processing applications submitted prior to the lockdown.
- While property markets reopened in May, turnover returning to more normal levels in June, May finance approvals are expected to reflect the earlier disruptions with a 10% drop forecast.

New finance approvals*

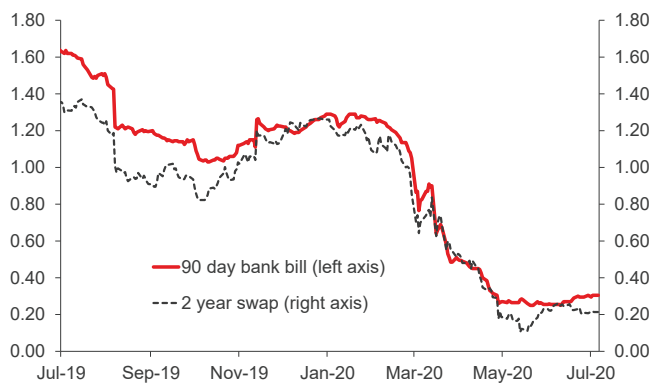


New Zealand forecasts.

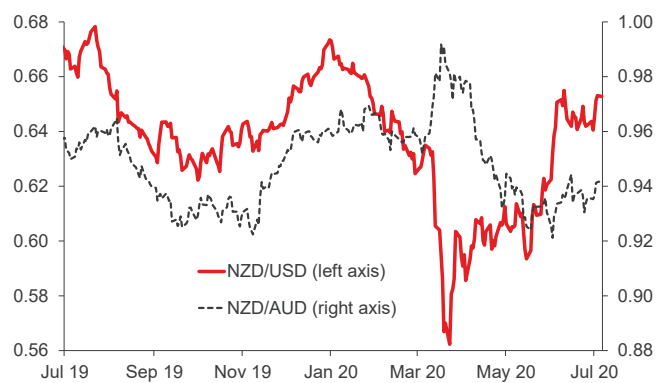
Economic forecasts	Quarterly				Annual			
	2020							
% change	Mar (a)	Jun	Sep	Dec	2018	2019	2020f	2021f
GDP (Production)	-1.6	-13.5	14.0	0.9	3.2	2.3	-4.6	5.1
Employment	0.7	-7.5	0.7	1.3	1.9	0.8	-4.9	3.4
Unemployment Rate % s.a.	4.2	7.0	8.0	7.5	4.3	4.0	7.5	6.6
CPI	0.8	-0.5	0.8	-0.3	1.9	1.9	0.8	0.4
Current 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 6 July 2020

Interest rates	Current	Two weeks ago	One month ago
Cash	0.25%	0.25%	0.25%
30 Days	0.28%	0.27%	0.27%
60 Days	0.30%	0.28%	0.26%
90 Days	0.31%	0.29%	0.26%
2 Year Swap	0.21%	0.22%	0.25%
5 Year Swap	0.36%	0.36%	0.42%

NZ foreign currency mid-rates as at 6 July 2020

Exchange rates	Current	Two weeks ago	One month ago
NZD/USD	0.6528	0.6383	0.6500
NZD/EUR	0.5812	0.5705	0.5756
NZD/GBP	0.5238	0.5170	0.5123
NZD/JPY	70.18	68.16	71.24
NZD/AUD	0.9419	0.9374	0.9330
TWI	72.49	71.33	72.13

Data calendar.

		Last	Market median	Westpac forecast	Risk/Comment
Mon 06					
NZ	Jun ANZ commodity prices	-0.1%	-	-	Dairy prices rebounding after COVID-related fall.
Aus	Jun MI inflation gauge	0.1%	-	-	Lack of underlying inflationary pressures.
	Jun ANZ job ads	0.5%	-	-	Job ads collapsed earlier in the year.
Eur	Jul Sentix investor confidence	-24.8	-	-	Since Apr low, confidence has been clawing back losses.
	May retail sales	-11.7%	-	-	Apr captured the shopping shutdown, clothing -21% in mth.
Chn	Jun foreign reserves \$bn	3101.69	3112.00	-	Reserve stockpiles growing steadily on reduced outflows.
US	Jun Markt service PMI	46.7	47.0	-	Final estimate for services PMI to confirm recovery trend.
	Jun ISM non-manufacturing	45.4	50.0	-	Business activity driving gains, new orders less pronounced.
Tue 07					
NZ	QSBO general business situation	-67.3	-	-	Expected to rise, but remain at low levels.
Aus	Jun AiG PSI	31.6	-	-	May, services +4.5pts. Rate of contraction to ease in June.
	RBA policy decision	0.25%	0.25%	0.25%	RBA providing considerable stimulus. On hold.
US	May JOLTS job openings	5046	4800	-	Hiring; firing and job opening detail.
	Fedspeak				FOMC Daly and Barkin speak.
Wed 08					
NZ	GlobalDairyTrade auction, WMP prices	2.2%	-	5.0%	Whole milk powder prices likely to post solid gain.
US	May consumer credit, \$bn	-68.7	-15.0	-	After drastic fall Mar-Apr, market looks for stabilisation.
Thu 09					
NZ	Jul ANZ business confidence	-34.4	-	-	Continued lift from low levels expected.
Aus	May investor finance	-4.2%	-8.0%	-10%	Lagged effect of April's market shutdown likely to impact ...
	May housing finance	-4.8%	-6.0%	-10%	... more fully in May despite the subsequent reopening ...
	May owner occupier finance	-5.0%	-4.5%	-10%	... that has seen turnover return to normal in June.
Chn	Jun PPI %yr	-3.7%	-3.2%	-	Lower material prices aid profits, but final demand weak.
	Jun CPI %yr	2.4%	2.6%	-	Economic slack gives PBOC cause for accommodative policy.
US	Initial jobless claims	-	-	-	Downtrend intact, at least for now. July holds risks.
	May wholesale inventories	-1.2%	-1.2%	-	To remain volatile in the months ahead.
Fri 10					
NZ	Jun card spending	78.9%	16.5%	18.0%	Continued gains as trading restrictions have been eased.
Chn	Jun M2 money supply %yr	11.1%	11.1%	-	Monetary easing supporting money supply.
	Jun new loans, CNYbn	1480.0	1823.5	-	Credit availability key positive for recovery.
	Jun foreign direct investment %yr	7.5%	-	-	Long-term development requires foreign involvement.
US	Jun PPI	0.4%	0.4%	-	Food and energy were key factors for final demand prices.

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	0.91	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	0.67	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	0.6925	0.70	0.72	0.73	0.74	0.75	0.76
USD/JPY	107.53	106	106	107	107	108	108
EUR/USD	1.1246	1.13	1.14	1.15	1.16	1.17	1.18
GBP/USD	1.2464	1.26	1.27	1.27	1.28	1.29	1.30
USD/CNY	7.0658	7.00	6.90	6.85	6.80	6.70	6.60
AUD/NZD	1.0632	1.08	1.11	1.14	1.14	1.14	1.13

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