



Abel Tasman National Park, New Zealand

Weekly Economic Commentary.

(Looking) back (and) to the future.

Our Australian cousins provided us with a useful benchmark last week with their June quarter GDP release. We expect a significantly weaker result for New Zealand over the quarter, but then an equally stronger result over the September quarter in comparison, reflecting the relative success of our ‘go hard, go early’ Covid strategy. On top of that and building on the lessons learnt from the initial lockdown, we anticipate the New Zealand economy will continue to prove relatively resilient.

The 7% drop in Australian GDP over the June quarter provides New Zealand with a useful benchmark. Firstly, we expect New Zealand’s outturn to be even weaker (we have pencilled in a 13% fall at this juncture), noting that the local lockdown restrictions were more severe than Australia’s during the quarter. The Australian data also gives us a sense of the magnitude of possible surprises. In the Australian case, we and the market had anticipated a 6% fall, whereas the result was percentage point lower at 7%.

We are starting to refine our view for the quarter (New Zealand’s GDP data are due on 17 September) as GDP indicators are released. Last week’s trade data contained some interesting tidbits, the most notable of which showed the magnitude of the hit to the tourism and education (export)

sectors. In seasonally-adjusted terms, travel spending into New Zealand halved over the June 2020 quarter. Tourist spending accounted for most of the drop, down about 70% for the quarter, with business travel accounting for the rest. Education travel spending was broadly flat, after a drop in the March quarter.

Despite the drop, travel spending was still positive over the quarter. Moreover, Statistics NZ noted that around 100,000 visitors remained in the country (in August) compared to around 250,000 prior to the lockdown. Based on these facts, the impact of services exports on June quarter GDP may not be as severe as first thought. Instead, the initial impact may be spread out over the coming quarters, as tourists and students leave and are not replaced. Nonetheless, it does pay



to remember that the once the travel exports eventually reach near zero and with the border closed indefinitely at this point, it's likely to stay at near zero for a prolonged period i.e. until well into 2021.

The other interesting tidbit garnered from the trade data was that New Zealand's terms of trade set a fresh record high over the quarter. Normally, this would garner wide coverage, but given the circumstances, this record is flying under the Covid radar. Nonetheless, the record high demonstrates the relative resilience in New Zealand's food export prices, while at the same time New Zealand continues to benefit from low oil prices and low global inflation.

To a degree, the June quarter is somewhat of a moot point. Indeed, the real question is to what level has the economy bounced back over the September quarter?

Generally, the bounce back has been firm, and one key lesson that we have learnt is that the economy's lights can in fact be turned back on relatively quickly. The retail sector is a case in point. Domestic card spending had been tracking (until the second lockdown) back at pre-Covid levels.

Of course, the economy has been boosted significantly by both fiscal and monetary policy. This boost has been notably evident in the labour and housing markets, neither of which has deteriorated as much as we first feared. And recently we released an upward revision to our 2020 house price forecasts.

The data also show that the construction industry is proving more resilient than first thought. Total construction activity fell by 22% in the June quarter with large declines in both residential and non-residential construction. And while that result was a massive drop, it was still less pronounced than the 30% fall that we and other forecasters had expected.

In addition, the construction pipeline is filling faster than we thought it would over recent months. While residential

consents issuance did drop back during the Alert Level 4 lockdown, it has since rebounded and annual issuance remains close to multi-decade highs. This points to a solid pipeline of residential work through the remainder of this year and the early part of 2021.

We would caution though that population growth is slowing rapidly, and the unemployment rate is still going to rise. In turn, and with record low mortgage rates, that gives us two large forces acting in opposite directions on the housing market. On balance, we still expect to see a slowdown in consent issuance going into 2021 (leading to a slowdown in construction), but we anticipate that this slowdown won't nearly be as bad as first feared.

The complicating spanner in the economic works is the second lockdown. While we had anticipated that there would be outbreaks from time to time, the timing of outbreaks was also hard to anticipate. So purely from a timing point of view and relative to our base case assumptions, this will likely lead us to bring down our September quarter growth estimates and offsetting that by lifting our December quarter estimate.

However, the more interesting observation is that activity is playing out very similarly to that seen in the first lockdown. That is, activity in Auckland during the two and a bit weeks at level 3 largely followed a similar pattern to the period at level 3 in the initial lockdown. Similarly, activity in the rest of the country at level 2 mirrored the activity that occurred at that level in the first lockdown. The main exception was the hospitality sector in the rest of New Zealand, which did feel the pinch of Aucklanders being unable to travel and spend.

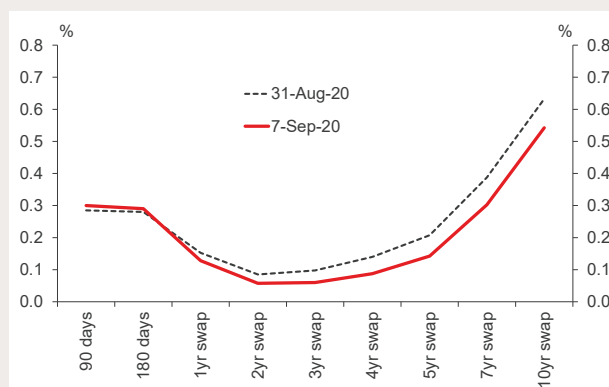
Heeding the lessons learnt from the initial lockdown and with lockdown restrictions now easing (at least in Auckland), we expect economic activity to bounce back again quickly from this mini lockdown. Indeed, the New Zealand economy is likely to prove resilient again.

Fixed vs Floating for mortgages.

Fixed mortgage rates fell sharply over May and June, and have been stable since. There is perhaps some scope for a further decline in fixed mortgage rates, but it isn't guaranteed and it isn't large.

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



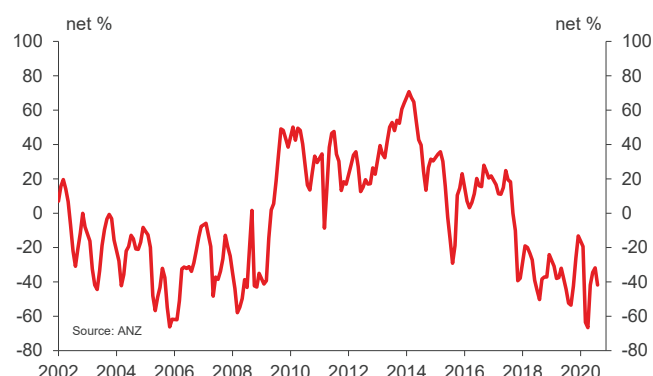
The week ahead.

NZ Sep ANZBO business confidence (flash)

Sep 9, Last: **-41.8**

- Business confidence and expectations for trading activity both ticked down in August's business confidence report. While off the lows reached during the Level 4 lockdown, business activity gauges remain at low levels.
- We expect that confidence will soften again in the September report.
- Part way through August, New Zealand's Covid Alert Level was dialled back up, and it's not clear that the impacts of this change were fully captured in the previous survey.
- Furthermore, even though the Alert Level has been dialled down again, there's likely to be some ongoing nervousness in parts of the economy, especially in some service sectors like hospitality.

NZ business confidence

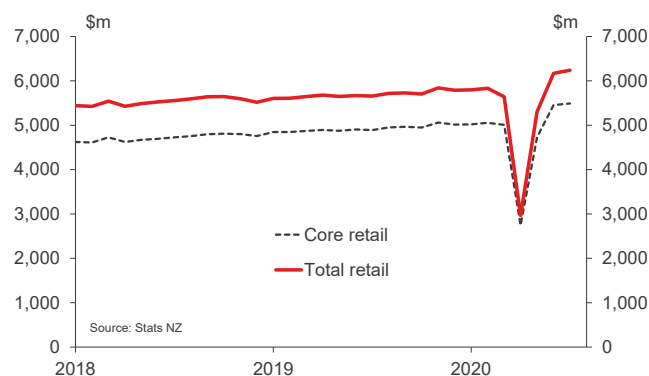


NZ Aug retail card spending

Sep 10, Last: **+1.2%**, Westpac f/c: **-8%**

- Retail spending on electronic cards rose by 1.2% in July. That built on the earlier strong gains in spending that followed the easing in the Alert Level.
- We expect that spending levels will fall by around 8% in August. Mid-way through the month New Zealand's Alert Level was dialled up. While that boosted spending on groceries, spending in other parts of the economy declined. Falls were particularly pronounced in sectors linked to tourism and hospitality. Notably, the stricter lockdown in Auckland was a drag on domestic tourism and hospitality spending in other regions.

Card transactions

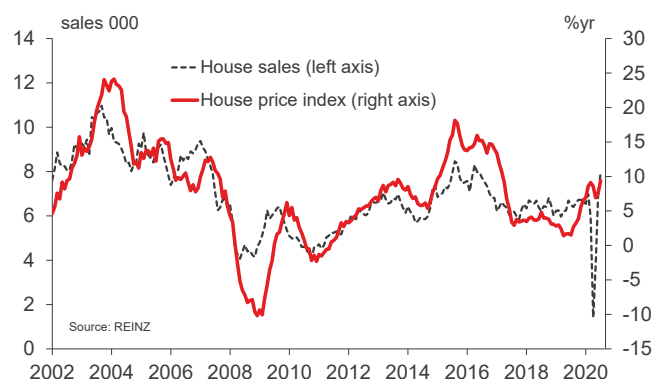


NZ Aug REINZ house sales and prices

Sep 11 (tbc), Sales last: **+15.8%**, Prices last: **+9.4%yr**

- The New Zealand housing market was strong in July, supported by catch-up activity after the Covid-19 lockdown and record-low mortgage rates. Sales rose above pre-Covid levels and prices returned to their previous highs.
- Indicators for August have also been strong, suggesting a further lift in sales. New listings have been elevated in recent months, but the supply of unsold homes on the market appears to be tightening again.
- We expect a modest 2.5% decline in house prices by the end of this year, less severe than our original forecast of a 7% decline. The outlook is a highly uncertain balance between the forces of low interest rates and the Covid recession.

REINZ house prices and sales



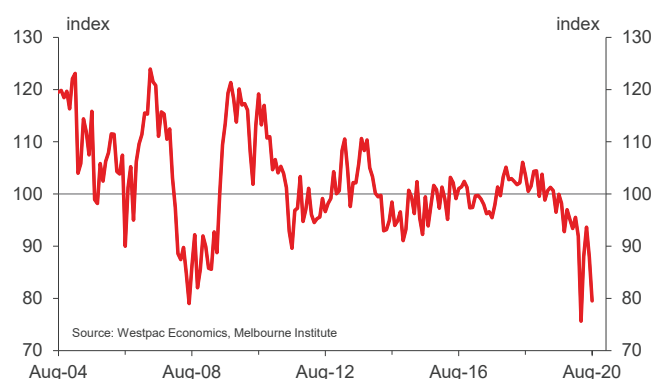
The week ahead.

Aus Sep Westpac-MI Consumer Sentiment

Sep 9, Last: 79.5

- Consumer sentiment fell 9.5% to 79.5 in August to be back near the extreme low of 75.6 seen when Australia entered a national lockdown in April. The renewed Covid outbreak and move to heavy lockdowns in Vic hit confidence hard. It also triggered sharp falls in sentiment in other states on fears of further 'second wave' outbreaks and more prolonged virus disruptions to the economy. Some of these reactions looked overdone.
- Some improvement looks likely in September. Local virus news has been mostly positive with lockdown measures working to bring Vic's outbreak under control - daily new cases are back below 100 vs a peak of 700 when restrictions were tightened. Other states continue to record relatively low case numbers although NSW is still has a steady trickle of cases. Other factors have been more mixed - the Q2 national accounts confirmed a deep recession locally, but the AUD and equity markets have continued to rally, albeit with a sell off move late in the survey week.

Aus Consumer Sentiment Index



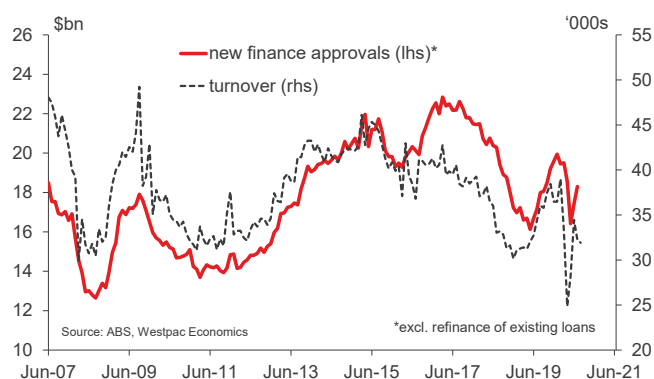
Aus Jul housing finance approvals

Sep 9, Last: 6.2%, WBC f/c: 4.0%

Mkt f/c: 2.0%, Range: 0.0% to 3.0%

- Housing finance approvals posted a better than expected result in June, a 6.2% rise reversing about a third of the 15.8% decline over the previous two months.
- Variations have been much milder than the swings in turnover, which dropped 40% during the March-April lockdown and posted a similar sized rebound.
- Turnover continued to rebound in July. The linkages and lags between turnover and finance approvals remain uncertain. However we expect the latter to show a further recovery in July, with a 4% gain.

Aus new finance approvals

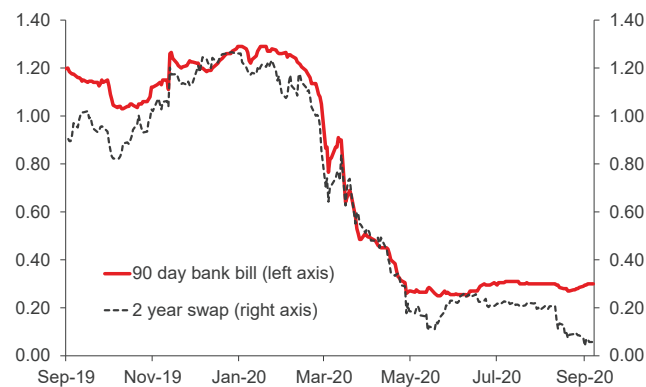


New Zealand forecasts.

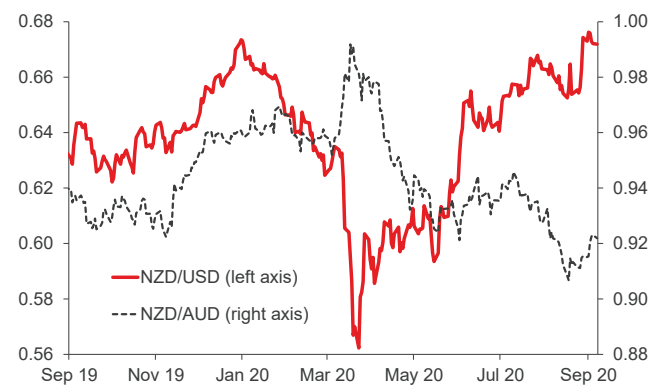
Economic forecasts	Quarterly				Annual			
	2020							
% change	Mar (a)	Jun	Sep	Dec	2018	2019	2020f	2021f
GDP (Production)	-1.6	-13.0	12.3	1.7	3.2	2.3	-4.7	5.9
Employment	1.0	-0.4	-3.8	-0.8	1.9	1.0	-4.0	2.8
Unemployment Rate % s.a.	4.2	4.0	6.5	7.0	4.3	4.1	7.0	6.4
CPI	0.8	-0.5	0.6	-0.1	1.9	1.9	0.8	0.5
Current Account Balance % of GDP	-2.7	-2.3	-2.0	-2.1	-3.8	-3.0	-2.1	-3.5

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	0.30	0.30	-0.10	-0.20	-0.20	-0.20
2 Year Swap	0.20	0.10	0.00	-0.10	-0.10	-0.10
5 Year Swap	0.30	0.25	0.25	0.25	0.25	0.35
10 Year Bond	0.70	0.75	0.75	0.75	0.80	0.80
NZD/USD	0.66	0.67	0.66	0.66	0.68	0.70
NZD/AUD	0.90	0.89	0.87	0.87	0.87	0.88
NZD/JPY	69.3	70.4	69.3	70.0	72.1	74.2
NZD/EUR	0.55	0.55	0.54	0.54	0.55	0.56
NZD/GBP	0.50	0.50	0.49	0.49	0.50	0.50
TWI	71.2	71.5	69.9	69.5	70.7	72.0

2 year swap and 90 day bank bills



NZD/USD and NZD/AUD



NZ interest rates as at market open on 7 September 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	0.29%	0.27%	0.28%
90 Days	0.30%	0.27%	0.30%
2 Year Swap	0.06%	0.09%	0.21%
5 Year Swap	0.14%	0.14%	0.30%

NZ foreign currency mid-rates as at 7 September 2020

Exchange rates	Current	Two weeks ago	One month ago
NZD/USD	0.6719	0.6533	0.6607
NZD/EUR	0.5672	0.5540	0.5605
NZD/GBP	0.5074	0.4995	0.5061
NZD/JPY	71.41	69.12	69.93
NZD/AUD	0.9219	0.9124	0.9230
TWI	72.48	71.03	71.91

Data calendar.

		Last	Market median	Westpac forecast	Risk/Comment
Mon 07					
Aus	Aug ANZ job ads	16.7%	-	-	Up 65% from the May low but then Vic shutdown.
Chn	Aug trade balance USDbn	62.33	49.40	-	Exports boosted by stronger U.S. and global demand.
	Aug foreign reserves \$bn	3154.39	3173.50	-	Have remained relatively stable.
Eur	Sep Sentix investor confidence	-13.4	-	-	Sentiment has been improving throughout Q2.
US	Labour Day Holiday	-	-	-	End of summer so leave the white shoes at home.
Tue 08					
Aus	Aug NAB business survey	0	-	-	Conditions to be impacted by Melbourne lockdown.
	Weekly Payrolls ending 22 Aug.	-1.0	-	-	Lockdowns hit Vic while NSW appeared to be tipping over.
Eur	Q2 GDP	-12.1%	-12.1%	-	Final estimate of Q2 GDP to provide detail on Q2 decline.
US	Aug NFIB small business optimism	98.8	98.9	-	Uncertainty increased as new cases spiked in Jul/Aug.
	Jul consumer credit	8.948	12.800	-	Credit recovering as restrictions ease.
Wed 09					
NZ	Sep ANZ business conf. (prelim)	-41.8	-	-	Reinstated Covid restrictions will dampen confidence.
Aus	Sep WBC-MI Consumer Sentiment	79.5	-	-	Rebound from Vic lockdown shock in Aug?
	Jul housing finance	6.2%	2.0%	4%	Rebounding from initial Covid disruptions...
	Jul owner occupier finance	5.5%	2.5%	-	... which proved to be fairly mild compared to turnover...
	Jul investor finance	8.1%	-	-	... although wider housing market still subdued.
Chn	Aug PPI %yr	-2.4%	-1.9%	-	Decline in producer prices will continue to moderate.
	Aug CPI %yr	2.7%	2.4%	-	Inflation pressures to remain modest into year-end.
US	Jul JOLTS job openings	5889	6000	-	Hiring plans firming as activity recovers.
Thu 10					
NZ	Aug card spending	1.2%	-	-8.0%	Mid-August lockdown will be a drag on spending.
Aus	Sep MI inflation expectations	3.3%	-	-	Held together despite lockdowns in Victoria.
Chn	Aug M2 money supply %yr	10.7%	10.7%	-	Money supply remains elevated, PBOC supporting credit.
	Aug new loans, CNYbn	992.7	1265.0	-	Credit growth slowed in July, but gains to continue.
	Aug foreign direct investment %yr	15.8%	-	-	Foreign direct investment jumped higher in July.
Eur	ECB policy decision	0.0%	0.0%	-	More optimistic on baseline, but risks still present.
US	Aug PPI	0.6%	0.2%	-	Producer price inflation to remain modest.
	Initial jobless claims	881k	-	-	Recent fall reflected change in methodology.
	Jul wholesale inventories	-0.1%	-0.1%	-	Inventories to turn from negative to positive in Q3.
Fri 11					
NZ	Aug manufacturing PMI	58.8	-	-	Covid restrictions reimposed in August.
	Aug food price index	1.2%	-	0.0%	Fruit & veg prices have been elevated in recent months.
	Aug REINZ house sales %yr	24.6%	-	-	Due this week. Listings point to further strength in sales...
	Aug REINZ house prices %yr	9.4%	-	-	...with limited impact from renewed Covid restrictions.
UK	Jul trade balance £mn	5336	-	-	Surplus narrowed on imports; export growth lagging.
US	Aug CPI	0.6%	0.3%	-	Monthly change to drop back after one offs in July.
	Aug monthly budget statement \$bn	-63.0	-	-	Narrowed in Jul as virus relief rolled off.

International forecasts.

Economic forecasts (Calendar years)	2016	2017	2018	2019	2020f	2021f
Australia						
Real GDP % yr	2.8	2.5	2.8	1.8	-4.1	2.3
CPI inflation % annual	1.5	1.9	1.8	1.8	0.7	2.1
Unemployment %	5.7	5.5	5.0	5.2	8.6	7.4
Current Account % GDP	-3.1	-2.6	-2.0	0.6	2.4	0.8
United States						
Real GDP %yr	1.6	2.4	2.9	2.3	-6.8	2.9
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	9.7	7.3
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	4.1
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	1.3	9.5
East Asia ex China						
Real GDP %yr	4.1	4.6	4.4	3.7	-2.0	5.4
World						
Real GDP %yr	3.4	3.9	3.6	2.8	-4.3	5.0

Forecasts finalised 7 August 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	0.09	0.10	0.15	0.20	0.25	0.30	0.35
10 Year Bond	0.91	0.90	0.90	0.95	1.05	1.20	1.35
International							
Fed Funds	0.125	0.125	0.125	0.125	0.125	0.125	0.125
US 10 Year Bond	0.63	0.60	0.60	0.65	0.75	0.85	0.95

Exchange rate forecasts	Latest	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Jun-22
AUD/USD	0.7266	0.73	0.75	0.76	0.76	0.78	0.80	0.80
USD/JPY	106.17	105	105	105	106	106	106	107
EUR/USD	1.1846	1.19	1.21	1.22	1.23	1.24	1.25	1.25
GBP/USD	1.3273	1.32	1.33	1.34	1.35	1.37	1.39	1.40
USD/CNY	6.8488	6.90	6.85	6.80	6.70	6.60	6.50	6.40
AUD/NZD	1.0844	1.11	1.12	1.15	1.15	1.15	1.14	1.14

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