



Mōhua

Weekly Economic Commentary.

Painting a household picture.

Over the last few weeks our suite of household confidence surveys has provided interesting insights into several aspects of household sentiment. The surveys have firmed up our view that economic growth slowed over the March quarter, and that the economy is operating at different speeds across sectors and regions. The surveys will also provide a useful benchmark to gauge the impact over coming quarters of the Government's housing policy changes.

The first cab off the survey rank, consumer confidence, showed a dip in household sentiment over the March quarter. However, December quarter confidence had lifted off Covid-induced lows and despite the March dip, confidence remains at generally healthy levels.

The nuance was in the detail. Households are happy with their own economic lots. However, they remain cautious on the prospects for the broader economy. This result is not all that surprising given that some Covid-related issues remain and the economy is running below its potential with New Zealand's borders still closed.

In contrast, employment confidence lifted a touch over the quarter. Generally, households were seeing some more job opportunities and a slight pickup in their earnings.

Employment confidence, though, was uneven, with not all groups experiencing the same labour market benefits as of yet. Specifically, lower income earners and women didn't see the same opportunities or earnings increases over the quarter.

This patchiness fits with the latest employment data. The monthly employment indicator showed that filled jobs were largely flat over February. That said, given that we were expecting the lack of overseas tourists would weigh on tourism and related sector employment over the summer, a flat result represents somewhat of a pleasant surprise.

Our regional survey also provided some useful insights. Indeed, the regional survey neatly summarised what we are seeing across the broader economy in terms of economic growth slowing and patchiness across sectors and regions.



The first insight was that tourist-heavy regions are still struggling. And with the March quarter normally being the peak in the tourist season, this message was loud and clear in the regional confidence survey. Specifically, Otago, Auckland and Nelson/Marlborough/West Coast showed dips in confidence over the quarter.

Secondly and unsurprisingly, the Level 3 lockdown knocked back Auckland's confidence over the quarter. We have noted previously, however, that the actual impact on the nationwide economy of regionally specific lockdowns is small and much of the impact is temporary. Indeed, much activity is simply delayed rather than outright cancelled.

Meanwhile, the provinces remain buoyant on the back of strong agricultural activity and incomes. Agricultural activity was largely unaffected through 2020 and commodity prices were resilient overall. More recently, we have seen a pickup in global food prices, and locally this trend has flowed through to dairy, forestry and horticulture prices in particular. Recall that we have lifted our 2020/21 milk price forecast twice this year, with the latest revision taking it up to \$7.90/kg. We expect that global meat prices will eventually follow this trend from around the middle of this year.

Lastly, the red-hot housing market is underpinning confidence in all regions. The survey coincided with some of the largest house price increases seen on record. February data showed that Gisborne/Hawkes Bay and Manawatu/Whanganui, for example, saw massive 30% and 29% annual house price increases, respectively, while the country as a whole saw a still-impressive 22% rise.

What the surveys didn't capture were the changes to housing market policy in late March. The removal of interest cost deductibility for investors was the major change and, in our view, collectively these changes are the most significant

for the housing market for over 30 years. This means that coming surveys will provide a good barometer of how households interpret these housing policy changes and their potential impacts.

The effects of the housing policy changes may be hard to discern initially. We would expect the first response to be a sharp drop in house sales, as highly-leveraged buyers step back from the market. Indeed, the latest figures from realestate.co.nz show a substantial rise in the number of unsold homes by the end of March, which suggests there has already been a hit to sales since the policy announcement. And when sales are low, it can be difficult to get a read on what's going on with house values across the wider market. As such, the effects on households' perceived wealth, confidence and spending activity could take several months to play out.

Westpac-McDermott Miller consumer confidence



Nathan Penny, Senior Agri Economist

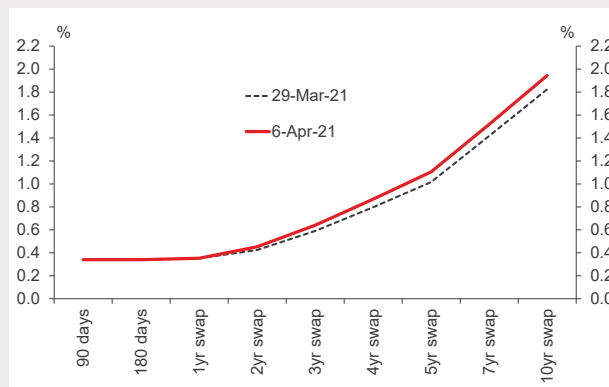
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Fixed vs Floating for mortgages.

We expect that floating rates, and shorter fixed-term rates, will be stable over the coming months. The Reserve Bank will not respond to a temporary spike in inflation. Longer-term fixed rates may rise sooner, in response to a large increase in wholesale fixed rates over the past few months.

We expect mortgage rates to rise over the course of the coming years. Based on our forecasts, taking a longer-term fixed rate (from three years to five years) will prove less expensive for borrowers than taking a short-term rate now and refinancing later.

NZ interest rates



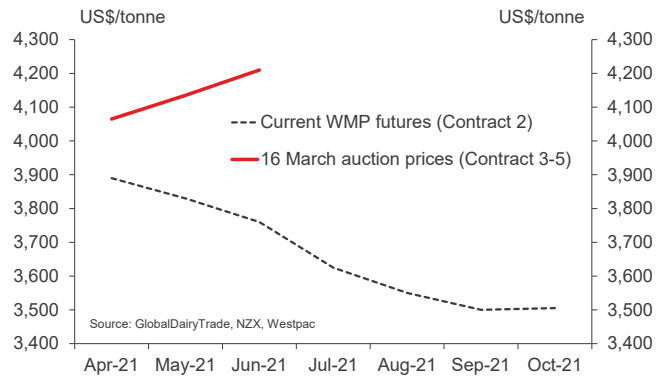
The week ahead.

NZ GlobalDairyTrade auction, whole milk powder prices

Apr 7, Last: -6.2% chg, Westpac: -4.0%

- We expect whole milk powder prices to decline further at the upcoming dairy auction. Prices are coming off the boil after a 21% spike in the first March auction.
- Our pick is slightly above current futures market pricing – futures pricing is pointing to a fall of circa 5%.
- That said, with dairy markets tight and prices at the point where buyer resistance is also likely, a wide range of results are possible at this auction.

Whole milk powder prices

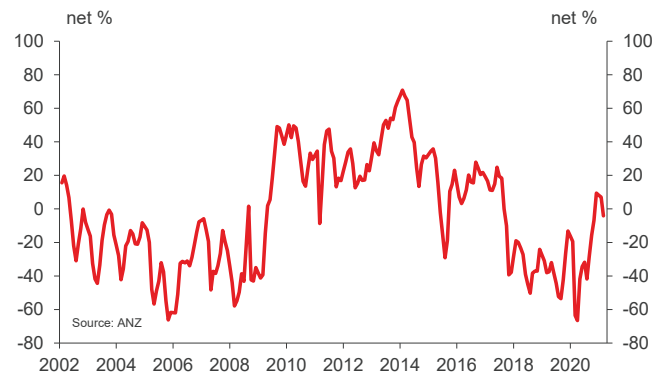


NZ April ANZ Business Outlook survey (flash result)

Apr 8, Business Confidence last: -4.1

- Business confidence fell in March but has remained around average levels. There are big differences across sectors, with a lack of international tourists continuing to be a headwind for service and retail sector firms.
- April is likely to see a deterioration in overall business confidence and a continued divergence across sectors. In late March the Government announced major interventions in the housing market. These changes are likely to be a drag on house prices and confidence.
- Pricing gauges will also be worth watching as the recent disruptions with the Suez Canal has likely exacerbated the current supply chain issues.

NZ business confidence



Aus RBA policy decision

**Apr 6, Last: 0.1%, WBC f/c: 0.1%
Mkt f/c: 0.1%, Range: 0.1% to 0.1%**

- The RBA is widely expected to maintain current policy settings at the April Board meeting.
- These settings include: "targets of 10 basis points for the cash rate and the yield on the 3-year Australian Government bond, as well as the parameters of the Term Funding Facility and the government bond purchase program".
- Activity conditions have surprised to the high side as the economy reopens and the unemployment rate moderated to 5.8% in February, down from the mid-2020 peak of 7.5%. However that rate of 5.8% is still too high and the achievement of the RBA's policy goals is still a long way off.
- RBA guidance is that: "The Board will not increase the cash rate until actual inflation is sustainably within the 2 to 3% target range. ... The Board does not expect these conditions to be met until 2024 at the earliest".

RBA cash rate and 3 year bonds

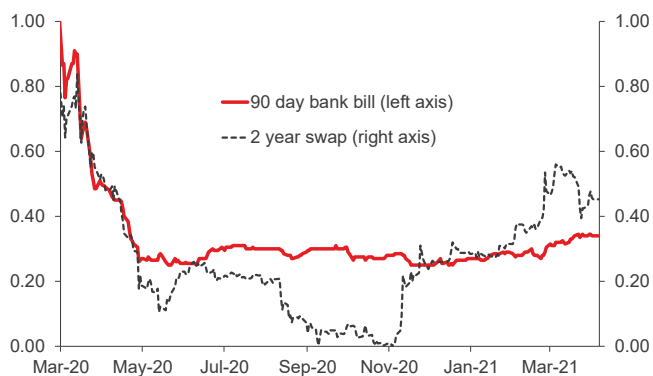


New Zealand forecasts.

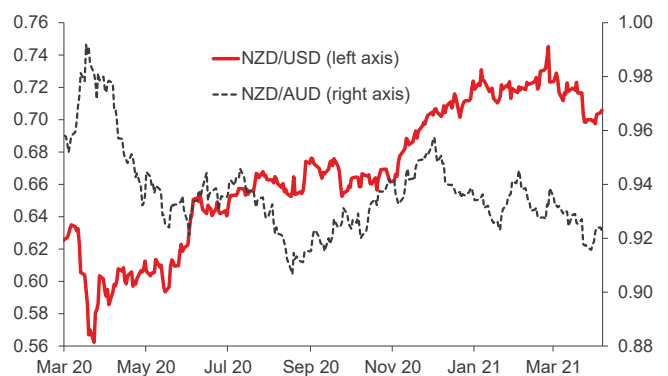
Economic forecasts	Quarterly				Annual			
	2020	2021			2019	2020	2021f	2022f
% change	Dec (a)	Mar	Jun	Sep				
GDP (Production)	-1.0	-0.4	1.9	0.1	2.4	-2.9	3.8	3.8
Employment	0.6	-0.1	0.2	0.4	1.3	0.7	1.0	3.0
Unemployment Rate % s.a.	4.9	5.0	5.1	5.0	4.1	4.9	4.9	4.2
CPI	0.5	0.8	0.6	0.6	1.9	1.4	1.9	1.0
Current Account Balance % of GDP	-1.0	-1.4	-2.1	-2.6	-3.3	-1.0	-2.7	-2.8

Financial forecasts	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22
Cash	0.25	0.25	0.25	0.25	0.25	0.25
90 Day bill	0.30	0.30	0.30	0.30	0.30	0.30
2 Year Swap	0.40	0.40	0.40	0.45	0.50	0.55
5 Year Swap	1.00	1.00	1.05	1.10	1.15	1.20
10 Year Bond	1.65	1.70	1.75	1.80	1.90	2.00
NZD/USD	0.72	0.73	0.74	0.76	0.76	0.75
NZD/AUD	0.91	0.91	0.90	0.89	0.89	0.89
NZD/JPY	78.5	80.3	82.1	85.1	84.4	83.3
NZD/EUR	0.60	0.60	0.60	0.61	0.60	0.59
NZD/GBP	0.51	0.52	0.52	0.54	0.54	0.53
TWI	74.5	74.9	75.0	76.1	75.8	74.7

2 year swap and 90 day bank bills



NZD/USD and NZD/AUD



NZ interest rates as at market open on 6 April 2021

Interest rates	Current	Two weeks ago	One month ago
Cash	0.25%	0.25%	0.25%
30 Days	0.26%	0.26%	0.26%
60 Days	0.30%	0.30%	0.29%
90 Days	0.34%	0.34%	0.32%
2 Year Swap	0.45%	0.52%	0.56%
5 Year Swap	1.11%	1.19%	1.28%

NZ foreign currency mid-rates as at 6 April 2021

Exchange rates	Current	Two weeks ago	One month ago
NZD/USD	0.7059	0.7158	0.7164
NZD/EUR	0.5977	0.6018	0.6011
NZD/GBP	0.5076	0.5171	0.5179
NZD/JPY	77.80	77.70	77.65
NZD/AUD	0.9226	0.9298	0.9325
TWI	74.46	75.10	75.06

Data calendar.

		Last	Market median	Westpac forecast	Risk/Comment
Tue 06					
Aus	Mar ANZ job ads	7.2%	-	-	Strong monthly rises a positive lead for ABS job vacancies.
	RBA policy decision	0.10%	0.10%	0.10%	To maintain current policy settings.
Chn	Mar Caixin China PMI services	51.5	-	-	Follows a strong 5pt rise in the official services PMI.
Eur	Apr Sentix investor confidence	5	-	-	Investors continue to look through short-term headwinds.
	Feb unemployment rate	8.1%	-	-	Wage subsidies have held down unemployment.
US	Feb JOLTS job openings	6917	-	-	Rising openings and declining claims signal strong job gains.
Wed 07					
NZ	GlobalDairyTrade auction (WMP)	-6.2%	-	-4.0%	Prices coming off the boil after early March spike.
	Mar ANZ commodity prices	3.3%	-	-	Prices rising on dairy price spike.
Aus	Mar AiG PCI	57.4	-	-	Construction index well above 50, led by housing surge.
Chn	Mar foreign reserves \$bn	3204.99	-	-	Softer gold prices a damper but still steadily rising.
US	Feb trade balance US\$bn	-68.2	-70.2	-	Strength of domestic demand to keep deficit wide.
	Feb consumer credit	-1.315	3.500	-	Rates positive for credit demand. Optimism also evident.
	FOMC meeting minutes	-	-	-	Focus will be on breadth of opinions amongst FOMC.
	Fedspeak	-	-	-	FOMC's Evans and Kaplan to speak.
Thu 08					
NZ	Apr ANZ business confidence	-4.1	-	-	Housing market news likely to be a drag on confidence.
Chn	Mar foreign direct investment %yr	4.6%	-	-	Pace has moderated from December high.
US	Initial jobless claims	-	-	-	Downtrend clear. A big positive for sentiment.
	Fed Chair Powell	-	-	-	To take part in IMF panel on global economy.
	Fedspeak	-	-	-	FOMC's Bullard to discuss Economy and Monetary Policy.
Fri 09					
Aus	Mar AiG PSI	55.8	-	-	Services expanding on reopening. Uptrend over recent months.
	RBA Financial Stability Review	-	-	-	Half yearly update.
Chn	Mar CPI %yr	-0.2%	0.4%	-	Measures of consumer and factory gate prices...
	Mar PPI %yr	1.7%	3.3%	-	... should see further gains on base effects.
	Mar new loans, CNYbn	1360.0	2600.0	-	New loans demand strong given optimism over outlook.
	Mar M2 money supply %yr	10.1%	9.8%	-	Money growth to remain elevated.
US	Mar PPI	0.5%	0.5%	-	Upstream price pressures will build but remain modest.

International forecasts.

Economic Forecasts (Calendar Years)	2017	2018	2019	2020f	2021f	2022f
Australia						
Real GDP %/yr	2.4	2.8	1.9	-2.4	5.2	3.6
CPI inflation %/yr	1.9	1.8	1.8	0.9	2.6	2.1
Unemployment rate %	5.5	5.0	5.2	6.8	6.0	5.3
Current account % of GDP	-2.6	-2.1	0.7	2.5	3.7	1.8
United States						
Real GDP %/yr	2.3	3.0	2.2	-3.5	5.3	4.4
CPI inflation %/yr	2.1	2.4	1.9	1.2	1.8	1.9
Unemployment rate %	4.4	3.9	3.7	8.1	5.7	4.5
Current account % of GDP	-2.3	-2.3	-2.6	-2.5	-2.4	-2.4
Japan						
Real GDP %/yr	2.2	0.3	0.7	-5.5	2.2	2.2
Euro zone						
Real GDP %/yr	2.6	1.8	1.3	-6.8	4.2	3.9
United Kingdom						
Real GDP %/yr	1.9	1.3	1.5	-10.5	5.0	5.5
China						
Real GDP %/yr	6.9	6.8	6.1	2.3	10.0	5.7
East Asia ex China						
Real GDP %/yr	4.7	4.4	3.7	-2.6	5.0	4.9
World						
Real GDP %/yr	3.8	3.5	2.8	-3.2	5.9	4.7

Forecasts finalised 10 March 2021

Interest rate forecasts	Latest	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22
Australia								
Cash	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
90 Day BBSW	0.04	0.02	0.02	0.02	0.04	0.06	0.08	0.10
10 Year Bond	1.84	1.85	1.85	1.90	2.05	2.20	2.35	2.50
International								
Fed Funds	0.125	0.125	0.125	0.125	0.125	0.125	0.125	0.125
US 10 Year Bond	1.73	1.65	1.70	1.80	1.95	2.10	2.25	2.40

Exchange rate forecasts	Latest	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22
AUD/USD	0.7548	0.79	0.80	0.82	0.85	0.85	0.84	0.82
USD/JPY	110.69	109	110	111	112	111	111	110
EUR/USD	1.1717	1.20	1.21	1.23	1.25	1.26	1.27	1.27
GBP/USD	1.3768	1.40	1.40	1.41	1.41	1.41	1.42	1.42
USD/CNY	6.5727	6.40	6.30	6.20	6.15	6.10	6.05	6.00
AUD/NZD	1.0854	1.10	1.10	1.11	1.12	1.12	1.12	1.11

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