



TTeke

Weekly Economic Commentary.

Two steps forward, one step back.

The lopsided nature of New Zealand's economic recovery was on full display in the latest GDP figures. Activity had already bounced back strongly after the Covid-19 lockdown last year, but with the border remaining closed, areas such as travel and tourism have been hit hard. Meanwhile, more domestically focused sectors have benefited from a shift in spending patterns and substantial monetary and fiscal support.

GDP fell by 1% in the December quarter of last year, giving back some of the strong post-Covid bounce seen in the previous quarter. The result was weaker than our forecast of a 0.3% fall, although we were in the minority of forecasters picking a decline. Indeed, we were surprised that more forecasters hadn't joined the negative camp, given the soft sectoral indicators that had been released in the week prior.

Two sectors accounted for most of the quarterly decline. Construction activity fell by 8.7%, after having surged to well above pre-Covid levels in the previous quarter. Homebuilding continued to pick up, but non-residential and infrastructure work slowed. Retail and hospitality fell by 5%, likely weighed down by the absence of international tourists.

The details of the GDP report don't suggest a materially different outlook from what we have been forecasting. The

closure of the border and lack of overseas tourists has been a key drag on activity, and we expect to see a further drop in GDP in the March quarter, which is when visitor numbers would normally have peaked.

This has sparked some talk about a second recession, which is not quite accurate. We're still in the same downturn that began a year ago when the border was closed. The loss of international travel has both reduced the level of GDP and disrupted its through-the-year pattern, which means that growth will appear weaker than normal in summer and stronger than normal in winter. This pattern will persist until international travel starts to return to pre-Covid levels (or at least until the seasonal adjustment methods catch up).

On that note, there have been some encouraging signs in the last week of progress towards a trans-Tasman travel 'bubble',



with suggestions that two-way quarantine-free travel could begin as soon as mid-April. That's not markedly different from what we had baked into our forecasts, which assumed a rising probability of a travel bubble starting between March and September. Before Covid, Australia was New Zealand's most important tourism market, accounting for about a quarter of visitor spending.

The current level of GDP is down by about 1% compared to a year ago, prior to the Covid pandemic. More to the point, it's around 4% short of where we would have expected it to be if Covid hadn't happened. That shortfall will act as a handbrake against a widespread build-up of inflation pressures in the domestic economy, and should help to temper some of the recent market concerns about a resurgence of inflation (though that sentiment is piggybacking off a broader global trend). We do expect a sharp pick-up in inflation in the near term, resulting from disruptions to global supply chains and the rebound in commodity prices. However, our view remains that the RBNZ will look through this and will keep the cash rate unchanged through to 2024.

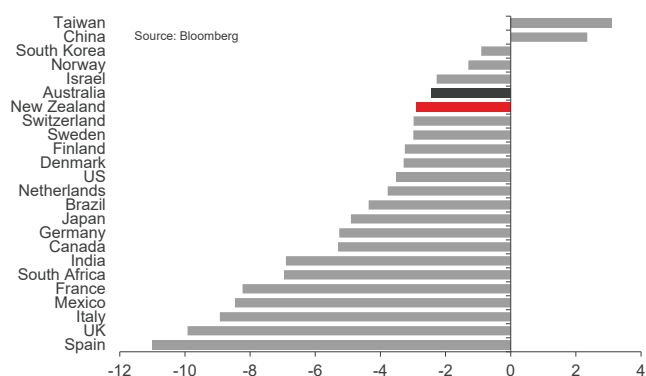
New Zealand has had one of the quickest economic rebounds from Covid-19, due to a combination of its successful elimination strategy and timely monetary and fiscal support. However, to make a true comparison across countries we need to look at the performance of GDP over the whole of 2020, considering both the extent of lost activity during the Covid lockdown and the strength of the rebound as restrictions were lifted.

New Zealand's GDP over 2020 as a whole was down by 2.9% compared to 2019. That puts us slightly below Australia, which is a fair reflection of the relative importance of tourism in the two economies. However, both countries have come out well ahead of most other developed economies. Indeed, the countries that acted early and pursued elimination strategies all rank near the top of the list, topped by Taiwan (generally

considered to be the gold standard for Covid response) and China (which also has a higher trend growth rate than most countries).

This week is fairly quiet on the data front, with the main releases being the Westpac McDermott Miller surveys of consumer confidence (Monday) and employment confidence (Friday). However, we're also expecting sometime this week an announcement by the Government on a suite of policies to address housing affordability. This is expected to include measures to both cool investor demand for housing (or encourage non-housing forms of investment) and to boost housing supply. No doubt there are many things that could be done in this space that would be useful, but we'll find out on the day whether they add up to something transformational.

International GDP growth over 2020



Michael Gordon, Acting Chief Economist

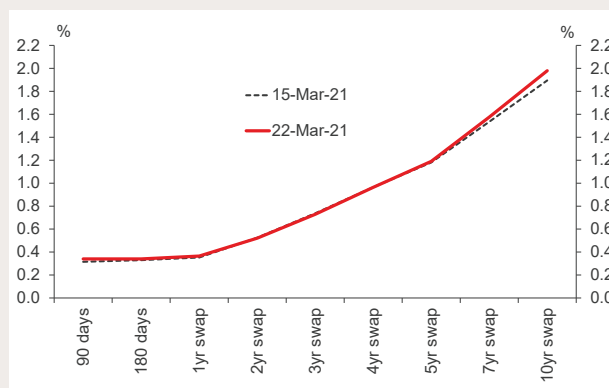
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Fixed vs Floating for mortgages.

We expect mortgage rates to rise over 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.

Longer-term fixed mortgage rates may rise soon, in response to a large increase in wholesale fixed rates over the past two months. We expect shorter-term fixed rates, and floating rates, will be stable over the coming months.

NZ interest rates

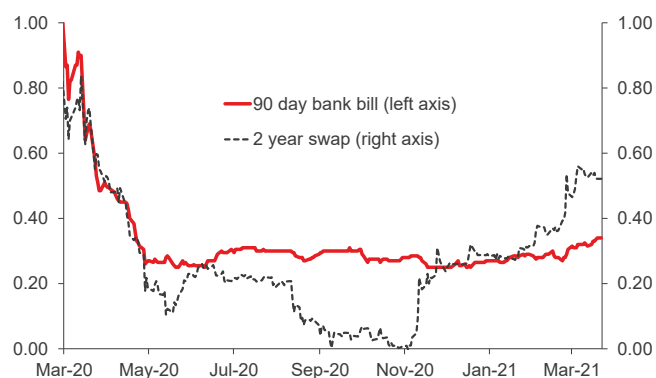


New Zealand forecasts.

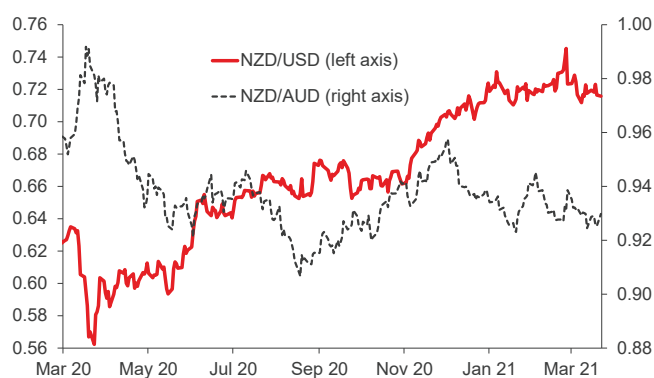
Economic forecasts	Quarterly				Annual			
	2020	2021			2019	2020	2021f	2022f
% change	Dec (a)	Mar	Jun	Sep				
GDP (Production)	-1.0	-0.4	1.9	0.1	2.4	-2.9	3.8	3.8
Employment	0.6	-0.1	0.2	0.4	1.3	0.7	1.0	3.0
Unemployment Rate % s.a.	4.9	5.0	5.1	5.0	4.1	4.9	4.9	4.2
CPI	0.5	0.8	0.6	0.6	1.9	1.4	1.9	1.0
Current 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	1.20	1.30
10 Year Bond	1.90	1.90	1.95	2.00	2.10	2.20
NZD/USD	0.74	0.75	0.76	0.78	0.78	0.77
NZD/AUD	0.94	0.94	0.93	0.92	0.92	0.92
NZD/JPY	80.7	82.5	84.4	87.4	86.6	85.5
NZD/EUR	0.62	0.62	0.62	0.62	0.62	0.61
NZD/GBP	0.53	0.54	0.54	0.55	0.55	0.54
TWI	76.6	77.0	77.1	78.2	77.8	76.7

2 year swap and 90 day bank bills



NZD/USD and NZD/AUD



NZ interest rates as at market open on 22 March 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%	0.29%	0.27%
90 Days	0.34%	0.32%	0.28%
2 Year Swap	0.52%	0.56%	0.36%
5 Year Swap	1.19%	1.28%	0.89%

NZ foreign currency mid-rates as at 22 March 2021

Exchange rates	Current	Two weeks ago	One month ago
NZD/USD	0.7158	0.7164	0.7294
NZD/EUR	0.6018	0.6011	0.6022
NZD/GBP	0.5171	0.5179	0.5204
NZD/JPY	77.70	77.65	76.87
NZD/AUD	0.9298	0.9325	0.9279
TWI	75.10	75.06	75.55

Data calendar.

		Last	Market median	Westpac forecast	Risk/Comment
Mon 22					
NZ	Q1 WBC-MM Consumer Confidence	106.0	-	-	Confidence rose in Q4 after lockdown conditions eased.
US	Feb Chicago Fed activity index	0.66	0.72	-	In positive territory and signalling growth above trend.
	Feb existing home sales	0.6%	-2.8%	-	Lack of supply crimping turnover.
	Fedspeak	-	-	-	Chair Powell and various speakers.
Tue 23					
UK	Jan ILO unemployment rate	5.1%	5.2%	-	Extended furlough scheme will hold down job losses.
US	Feb new home sales	4.3%	-4.1%	-	Pandemic experience and low rates driving demand.
	Mar Richmond Fed index	14	15	-	Rising input costs and new orders supportive.
	Fedspeak	-	-	-	Various speakers, including Powell and Yellen.
Wed 24					
NZ	Feb trade balance \$m	-626	-	180	Imports moderating from their end-of-year peak.
Eur	Mar Markit PMIs	-	-	-	Mfg and services for the Euro Area, UK and Germany.
	Mar consumer confidence	-14.8	-16.0	-	Beleaguered vaccine rollout remains a damper.
UK	Feb CPI	-0.2%	-	-	Expect an uptick in coming months on energy prices.
US	Feb durable goods orders	3.4%	1.0%	-	Business investment is promising; conditions improving.
	Mar Markit manufacturing PMI	58.6	59.7	-	Both Mfg and services PMIs remain firmly in expansion ...
	Mar Markit services PMI	59.8	60.0	-	... as the economic recovery accelerates.
	Fedspeak				Various speakers, including Powell and Yellen.
Thu 25					
Eur	Feb M3 money supply %yr	12.5%	-	-	Elevated on ECB's commitment to financial accommodation.
US	Initial jobless claims	770k	-	-	Ticked up last week, but part of a broader downward trend.
	Q4 GDP	4.1%	4.1%	4.1%	Third estimate; likely unchanged from prior estimate.
	Mar Kansas City Fed index	24	-	-	Prices received, prices paid and employment improving.
	Fedspeak				Various speakers, including Vice Chair Clarida.
Fri 26					
NZ	Q1 WBC-MM Employment Confidence	97.6	-	-	Strong rise last quarter as availability of jobs picked up.
Chn	Q4 current account balance	130.2	-	-	Final estimate; current account rising on export strength.
UK	Feb retail sales	-8.2%	2.2%	-	Will benefit from the gradual relaxation of lockdowns.
US	Feb wholesale inventories	1.3%	-	-	Likely to lend support for growth as economy accelerates.
	Feb personal income	10.0%	-7.0%	-5.0%	Stimulus payments continue to create volatility ...
	Feb personal spending	2.4%	-0.6%	-0.4%	... the weather was also a factor for spending in Feb.
	Feb core PCE deflator	0.3%	0.1%	0.1%	Upcoming pick up in inflation will prove transitory.

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	0.03	0.02	0.02	0.02	0.04	0.06	0.08	0.10
10 Year Bond	1.82	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	1.70	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	0.7742	0.79	0.80	0.82	0.85	0.85	0.84	0.82
USD/JPY	109.03	109	110	111	112	111	111	110
EUR/USD	1.1914	1.20	1.21	1.23	1.25	1.26	1.27	1.27
GBP/USD	1.3912	1.40	1.40	1.41	1.41	1.41	1.42	1.42
USD/CNY	6.5138	6.40	6.30	6.20	6.15	6.10	6.05	6.00
AUD/NZD	1.0804	1.07	1.07	1.08	1.09	1.09	1.09	1.09

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