



Weekly Economic Commentary.

To Level 3 and beyond.

While Auckland breathed a sigh of relief in regaining some freedoms with the move down to Alert Level 3 last week, the Covid restrictions of now varying levels continue to impact short-term economic activity. By and large, though, the effects are playing out in line with our expectations and with previous experiences. With this in mind, we expect the economic activity to rebound quickly to pre-lockdown levels and for the Reserve Bank to start its OCR hiking cycle next month.

On that front, we have had some readings from households regarding their sentiment. The September quarter Westpac McDermott Miller Consumer Confidence survey showed that consumer sentiment has so far remained relatively resilient. And while household confidence levels did dip compared to prior to the lockdown, these moves lower were modest and noticeably less than the slump we saw at a similar stage of the major 2020 lockdown.

And in some ways, households appear to be looking through this lockdown. Last week's other major September quarter survey release, the Employment Confidence Index, highlighted that household views of the labour market actually improved over the quarter, in particular around perceptions of current

job opportunities. Businesses have remained in hiring mode even through this latest lockdown, wary of the skill shortages that have been building up over recent months.

For the same reason, perceptions about job security were little changed in the survey, with firms largely looking to hold on to their existing workers. While there has been some lift in the number of people receiving the Jobseeker benefit, it's been far less than we saw in last year's Level 4 lockdown. And there's been no discernible movement in the weekly employment snapshots provided by Stats NZ, albeit based on tax data that is incomplete. We'll get a fuller picture of this with the monthly employment indicator published on Tuesday.



Meanwhile, household spending has begun to rebound as lockdown restrictions around the country have eased. After dipping by as much as 50% compared to pre-Covid levels (when Alert Level 4 was in force nationwide), electronic card spending is now sitting around 15% down on pre-Covid levels.

Also, and unsurprisingly, the regional Alert Level split is mirrored in regional retail spending patterns. Spending in regions outside of Auckland is back even with pre-Covid levels, while spending remains around 50% down in Auckland.

There has also been a change in the mix of spending. Spending on grocery items has seen its now familiar spike, while spending on durables has continued its resilience. However, hospitality spending has dived, although it has lifted to a degree following the various relaxations of Covid restrictions and as venues have re-opened to customers.

With those observations in mind, we expect activity to rebound decisively once lockdown restrictions are ultimately eased. Putting some numbers around it, we expect a 6.1% jump in GDP over the December quarter, after an expected 5.5% dip in the September quarter.

If the economy performs along those lines, and assuming that Covid restrictions gradually ease, then we expect the economic challenges facing the economy prior to the lockdown to quickly return. These challenges include surging demand, supply constraints, including for labour and things like building materials, and rising inflation pressures.

We expect the Reserve Bank (RBNZ) to begin its OCR hiking cycle in October, after it had hit pause back in August at the time of the reintroduction of lockdown measures. We expect 25 basis point increases in October, November, February and May, with further gradual increases to a high tide mark of 2% by the end of 2023.

Indeed, with the case for rate hikes now widely accepted, the discussion is now turning to one of tactics. Recently financial markets have been pricing in some chance of a 50 basis point move at the October review, just as they were ahead of the August review.

A speech last week by the RBNZ Assistant Governor shed some light on this matter. The bottom line is that different conditions warrant different approaches. Last year, we had no experience of what a lockdown would do to the economy, and the risks to activity and inflation were seen as skewed to the downside. In that situation, the 'least regrets' option was to move fast and hard.

This year, though, there's much more clarity around how the economy responds to lockdowns, and the risks are seen as more two-sided. In these conditions, central banks can operate more like they normally do: assess the starting point for the economy, run their forecasts, and produce a policy track that's consistent with meeting their inflation and employment mandates. And this approach generally favours small, predictable moves, to avoid creating unnecessary volatility.

This doesn't entirely rule out a 50 basis point move at some point in the future. If the RBNZ decided that the risks around inflation were becoming skewed to the upside, it could conclude that strong action is again needed. And indeed, the whopper June quarter GDP result demonstrated that the economy was already running much hotter than expected coming into the current lockdown.

Nathan Penny, Senior Agri Economist

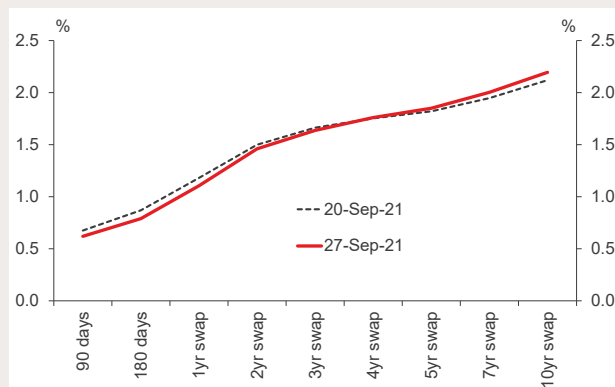
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Fixed vs floating for mortgages.

We expect the Reserve Bank to start raising the OCR in October, with a series of increases over the coming months.

Based on our OCR forecasts over the coming years, we think there is value in moving beyond the currently popular one-year fixed term, towards terms of two to three years. Longer terms (out to five years) don't offer additional value, though they may be suitable for borrowers who value more certainty in their repayments.

NZ interest rates



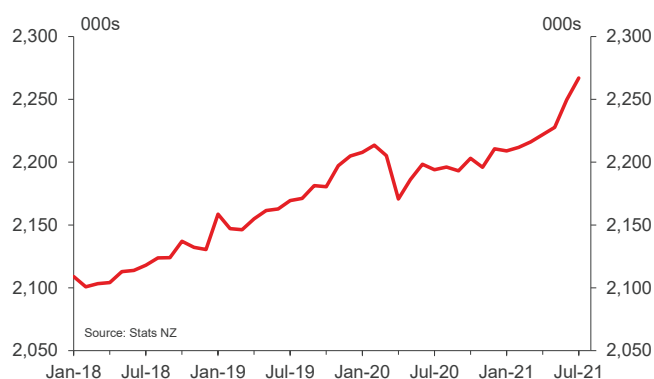
The week ahead.

NZ Aug Monthly Employment Indicator

Sep 28, Last: 0.8%

- The Monthly Employment Indicator, based on data from income tax filings, showed a strong lift in the number of jobs in recent months as the economy continued to gain momentum. Filled jobs in July were 2.4% above their pre-pandemic peak.
- New Zealand returned to lockdown in the last two weeks of August after a new Covid-19 outbreak. Remarkably, the weekly snapshots provided by Stats NZ (albeit from incomplete data) suggest little impact on jobs so far. The renewed wage subsidy scheme has helped firms to hold on to workers, and businesses are aware that skill shortages will remain an issue as the country emerges from this lockdown.

NZ Monthly Employment Indicator filled jobs

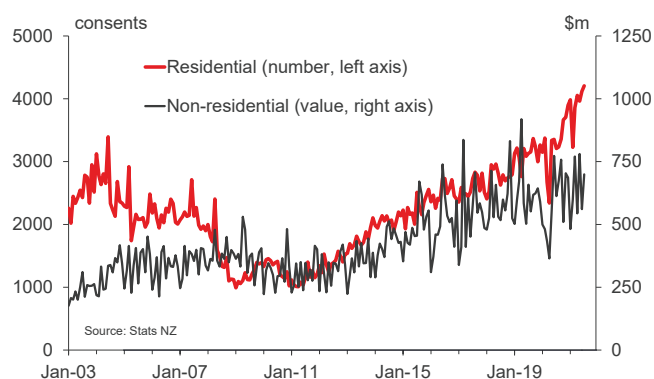


NZ Aug residential building consents

Sept 30, Last: +2.1%, Westpac f/c: -20%

- Residential consent issuance rose 2.1% in July, taking annual consent numbers to a fresh all-time high.
- We expect that consent issuance will fall back sharply in August in response to the dialling up of the Alert Level halfway through the month and have pencilled in a 20% decline. However, there is a wide band of uncertainty around this month's figures. Notably, the ability to continue processing consents during lockdown may limit the downside risk.
- Despite the expected pull back in August, annual consent numbers are set to linger at multi-decade highs, with construction activity set to remain strong over the year ahead.

NZ building consents

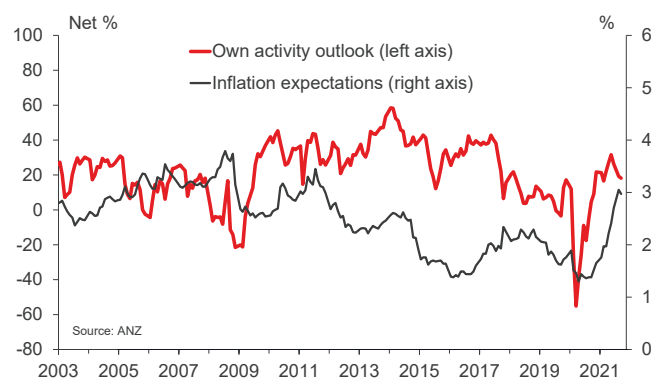


NZ Sep ANZBO Business Confidence (Final)

Sep 30, Domestic Trading Activity last: 18.2

- The preliminary reading on business activity for September showed that trading activity eased in the wake of the Delta lockdown but remained firmly above pre-Covid levels.
- The final report for September will provide a more detailed look at how business sentiment is faring in the face of ongoing restrictions and will also provide a breakdown by industries. There will most likely be divergences across industries between those that can operate with social distancing versus those that are customer facing. In addition, industries that are heavily concentrated in Auckland could see divergences as Auckland was in Alert Level 4 longer than the rest of the country.
- Underlying inflation gauges will again be an area worth keeping an eye on as inflation expectations from the last survey reached the top of the RBNZ's inflation target band.

NZ business confidence



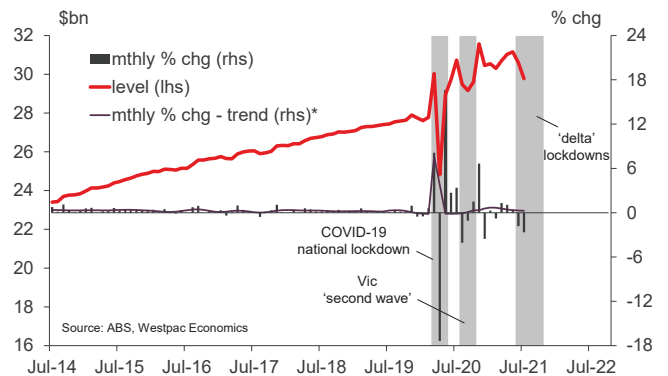
The week ahead.

Aus Aug retail trade

Sep 28, Last: -2.7%, WBC f/c: -1.5%
Mkt f/c: -2.0%, Range: -4.0% to -1.5%

- Retail sales fell a further 2.7% in July following a 1.8% fall in June. Covid lockdowns had clear impacts with a steep 8.9% drop in NSW as lockdowns tightened but a more mixed result in Vic which was coming out fourth lockdown initially but entered into another 12-day lockdown mid-month – the net effect saw sales tick up 1.3% mth coming off a 4% fall in June.
- August saw restrictions intensify with the delta lockdown continuing in NSW, Vic reopening initially but moving back into an extended lockdown from week two, along with ACT, and Qld in lockdown initially, albeit with restrictions easing from week three. As always, there is some uncertainty around the net effect of measures and periods of eased restrictions, particularly for retail, 40% of which is basic food which outperforms during lockdowns. Indeed, our Westpac Card Tracker suggests retail sectors were relatively steady in the month. On balance we still expect to see a net decline in sales, but arguably a relatively modest one of -1.5% mth.

Aus monthly retail sales

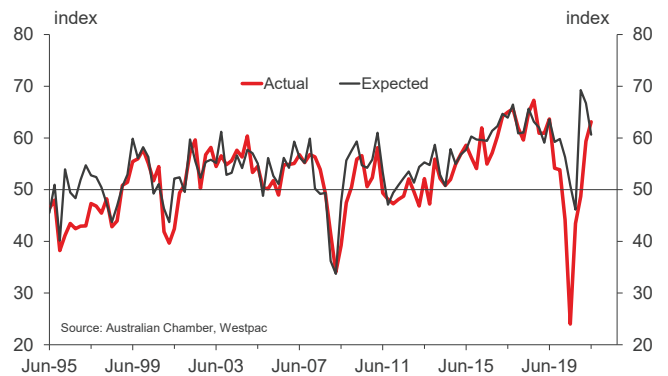


Aus Q3 AusChamber–Westpac business survey

Sep 28, Last: 63.1

- The AusChamber Westpac business survey for Q3, conducted through August into September, will provide a timely update on manufacturing and insights into economy wide trends.
- No doubt the latest lockdowns, centred in NSW and Victoria, will disrupt activity. Of interest will be the severity of those disruptions and the response of businesses around hiring and investment.
- Recall that manufacturing had considerable momentum ahead of the latest lockdowns – with the Westpac-AusChamber Actual Composite index printing at 63.1 for the June quarter.
- The strong broad-based recovery across the economy provided a boost to the manufacturing sector. Notable positives prior to the latest lockdown included: the home building uptrend; the recovery in consumer spending (with a focus on goods); businesses lifting spending on equipment investment; and ongoing strength in government spending, including investment in additional transport infrastructure projects.

Aus Westpac-AusChamber Composite indexes, actual and expected, sa

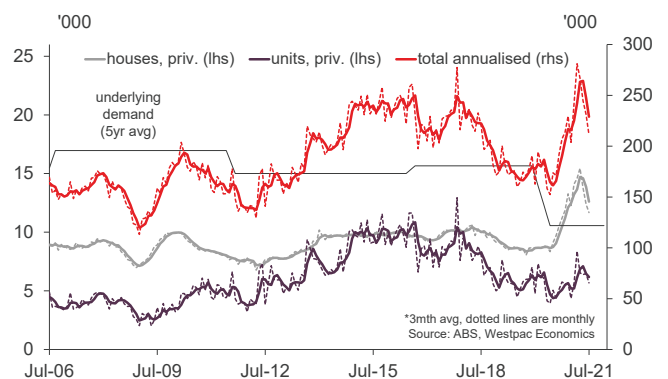


Aus Aug dwelling approvals

Sep 30, Last: -8.6%, WBC f/c: -5%
Mkt f/c: -5.0%, Range: -7.1% to 2.0%

- Dwelling approvals continued to unwind a major policy-induced pull-forward with a further 8.6% drop in July marking a cumulative 25% decline from their March peak, associated with the end of the Federal Government's HomeBuilder scheme. Dwelling approvals had posted a phenomenal 84% surge between last year's Covid low and March – even with the big decline since then, monthly approvals are still up 21% yr and 8.6% above their pre-pandemic level.
- The HomeBuilder unwind likely has further to run, approvals potentially dropping well below their 'underlying trend' pace as the shadow of the pull-forward effect rolls through. Add to this more meaningful Covid lockdown disruptions in the three biggest states and there are some clear downside risks. On balance, we expect approvals to fall another 5%.

Aus dwelling approvals



The week ahead.

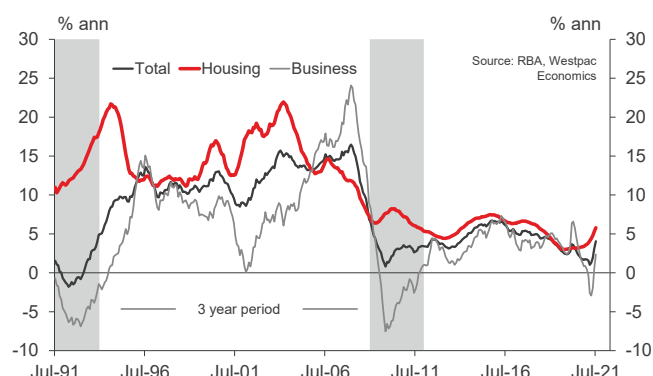
Aus Aug private sector credit

Sep 30, Last: 0.7%, WBC f/c: 0.5%

Mkt f/c: 0.5%, Range: 0.1% to 0.8%

- Over the first half of 2021, credit growth was on an improving trend, across residential and business. The monthly pace lifted from around 0.2% to 0.4%. This was supported by substantial policy stimulus and a reopening of the economy.
- The latest lockdowns represent a temporary setback.
- An initial impact from lockdowns is that firms look to access lines of credit to support cash flow. This occurred early in 2020, including a 2.9% jump in March, and is evident in mid-2021.
- For June and July, total credit grew by 0.9% and 0.7%, respectively. This included strong gains in business, 1.6% and 1.1%.
- For August, we anticipate a 0.5% rise in total credit, factoring in another increase in business (as Victoria returned to lockdown), albeit not on the scale evident in June and July.

Aus credit – annual growth jumps to 4.0%

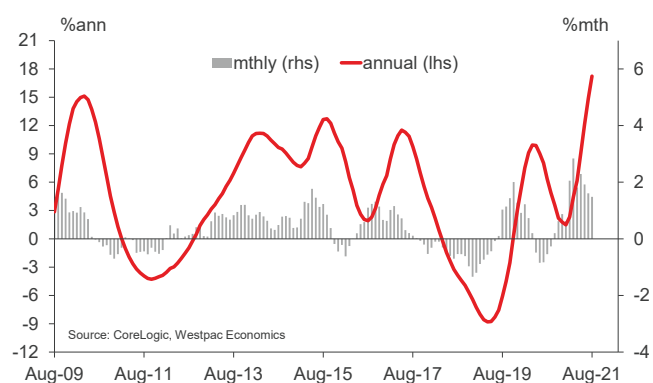


Aus Sep CoreLogic home value index

Oct 1, Last: 1.5%, WBC f/c: 1.4%

- Australian dwelling prices posted another solid gain in Aug despite significant Covid-related disruptions to the Sydney and Melbourne markets. Prices rose 1.5% nationally after a 1.6% rise in July – a relatively strong gain, albeit down on the red-hot pace seen in the first half of 2021 when monthly rises were in the 1.9 - 2.8% range. The 3mth annualised pace of gains has eased back to just over 20% from a cracking 30% peak in May. Market turnover saw much bigger Covid disruptions, dropping about 6% nationally, big falls in Sydney and Melbourne partially offset by rises elsewhere.
- Covid disruptions continues in Sep, Sydney and Melbourne remaining in lockdowns. However, the picture on prices looks similar with daily measures pointing to only a slight further loss of momentum. Nationally these point to a 1.4% gain for the month as a whole.

Australian dwelling prices



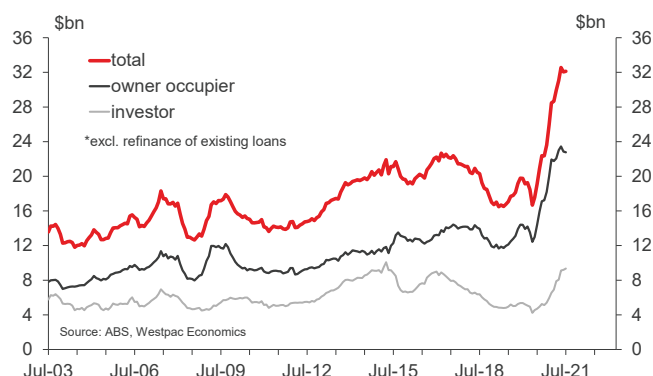
Aus Aug housing finance approvals

Sep 2, Last: 0.2%, WBC f/c: -3.0%

Mkt f/c: -2.0%, Range: -3.0% to 0.5%

- Housing finance approvals nudged up slightly by 0.2% in July, a slight dip in owner occupier approvals more than offset by a steady rise in investor loans (+1.8%). Weakness continues to centre on construction-related loans, where the HomeBuilder boost is unwinding, and loans to first home buyers who are starting to react to deteriorating affordability.
- Lockdown related disruptions were minimal in July but should become a little more pronounced in Aug, the full effects likely to show through from Sep.
- Turnover definitely retraced in Aug but much of this would have been 'unanticipated', i.e. people may have secured finance in the month but been unable to transact. Overall, we expect finance approvals to fall 3% with some risks to the downside.

Aus new housing finance approvals

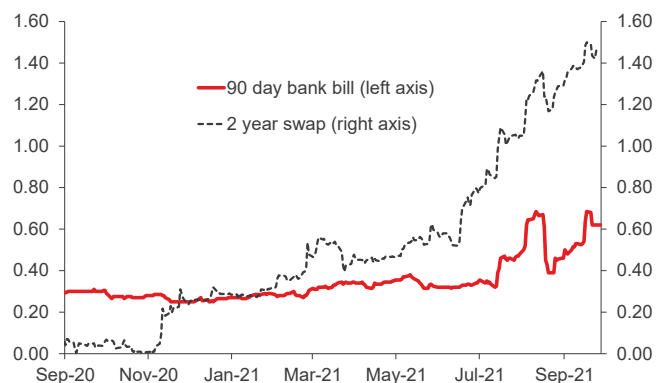


New Zealand forecasts.

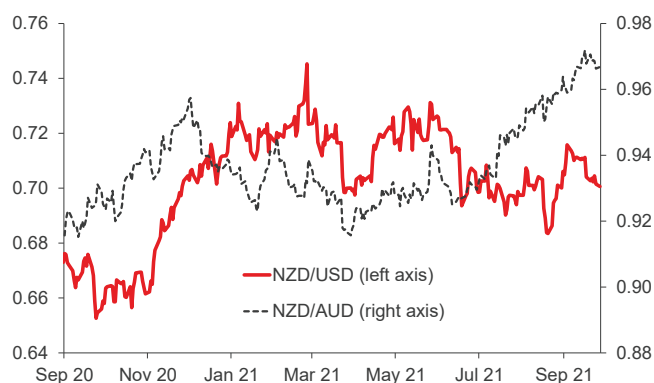
Economic forecasts	Quarterly				Annual			
	2021	2022			2019	2020	2021f	2022f
% change	Jun (a)	Sep	Dec	Mar				
GDP (Production)	2.8	-5.5	6.1	0.3	2.4	-2.1	5.1	4.3
Employment	1.1	0.0	0.5	0.7	1.2	0.7	2.2	1.8
Unemployment Rate % s.a.	4.0	3.8	4.2	3.8	4.0	4.8	4.2	3.5
CPI	1.3	1.2	0.3	0.7	1.9	1.4	3.7	2.5
Current Account Balance % of GDP	-3.3	-3.9	-4.5	-4.4	-2.9	-0.8	-4.5	-5.2

Financial forecasts	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Dec-23
Cash	0.75	1.00	1.25	1.25	1.50	1.50	1.75	2.00
90 Day bill	0.95	1.20	1.35	1.45	1.60	1.70	1.85	2.10
2 Year Swap	1.60	1.75	1.85	1.95	2.05	2.10	2.15	2.20
5 Year Swap	1.95	2.10	2.20	2.30	2.40	2.45	2.50	2.60
10 Year Bond	2.10	2.15	2.25	2.30	2.40	2.45	2.50	2.60
NZD/USD	0.71	0.72	0.73	0.74	0.74	0.74	0.74	0.73
NZD/AUD	0.95	0.95	0.95	0.95	0.95	0.94	0.93	0.94
NZD/JPY	78.8	80.6	81.8	82.9	83.6	83.6	84.4	84.0
NZD/EUR	0.58	0.59	0.60	0.61	0.61	0.61	0.62	0.61
NZD/GBP	0.50	0.50	0.51	0.51	0.51	0.51	0.51	0.51
TWI	73.9	74.1	74.8	75.4	75.3	75.1	75.0	74.2

2 year swap and 90 day bank bills



NZD/USD and NZD/AUD



NZ interest rates as at market open on 27 September 2021

Interest rates	Current	Two weeks ago	One month ago
Cash	0.25%	0.25%	0.25%
30 Days	0.42%	0.33%	0.28%
60 Days	0.52%	0.43%	0.37%
90 Days	0.62%	0.53%	0.46%
2 Year Swap	1.46%	1.37%	1.29%
5 Year Swap	1.85%	1.75%	1.64%

NZ foreign currency mid-rates as at 27 September 2021

Exchange rates	Current	Two weeks ago	One month ago
NZD/USD	0.7006	0.7116	0.7001
NZD/EUR	0.5979	0.6023	0.5936
NZD/GBP	0.5118	0.5138	0.5090
NZD/JPY	77.54	78.19	76.93
NZD/AUD	0.9671	0.9671	0.9584
TWI	74.82	75.46	74.44

Data calendar.

		Last	Market median	Westpac forecast	Risk/Comment
Mon 27					
Eur	Aug M3 money supply %yr	7.6%	-	-	Policy remains highly supportive.
US	Aug durable goods orders	-0.1%	0.6%	-	Re-opening should beget confidence and investment.
	Sep Dallas Fed index	9.0	11.0	-	A timely update on manufacturing in Texas.
	Fedspeak	-	-	-	Evans, Brainard, and Williams to speak.
Tue 28					
NZ	Aug employment indicator	0.8%	-	-	Limited impact expected from the latest Covid lockdown.
Aus	Aug retail sales	-2.7%	-2.0%	-1.5%	Basic food spend may buffer against delta lockdown drag.
	Q3 AusChamber-Westpac survey	63.1	-	-	Manuf'g sector considerable momentum ahead of lockdowns.
Chn	Aug industrial profits %yr	16.4%	-	-	Commodity prices have provided significant support, til now.
UK	Sep nationwide house prices	2.1%	-	-	May ease on stretched affordability and tax break expiry.
US	Aug wholesale inventories	0.6%	-	-	Rebuild of inventories due, but supply an issue.
	Jul S&P/CS home price index	19.08%	20.20%	-	FHFA measure also due.
	Sep consumer confidence index	113.8	114.6	-	Delta resurgence poses a headwind for consumer confidence.
	Sep Richmond Fed index	9	-	-	Important gauge on manufacturer sentiment in region.
	Fedspeak	-	-	-	Chair Powell & Secretary Yellen before Senate Banking Panel.
	Fedspeak	-	-	-	Bullard and Bostic.
Wed 29					
Eur	Sep economic confidence	117.5	-	-	Supply constraints and shipping capacity may be headwinds.
US	Aug pending home sales	-1.8%	1.0%	-	Slight uptick expected from shored-up supply.
	Fedspeak	-	-	-	Bullard and Bostic.
Thu 30					
NZ	Aug building consents	2.1%	-	-20.0%	Processing likely to be affected by lockdown, esp. in Auckland.
	Sep ANZ business confidence	-6.8	-	-	First chance to see impact of latest lockdown on industries.
Aus	Aug dwelling approvals	-8.6%	-5.0%	-5.0%	HomeBuilder unwind and lockdowns will weigh on approvals.
	Aug private sector credit	0.7%	0.5%	0.5%	Strong gains in June & July, as firms accessed credit lines.
	Aug job vacancies	23.4%	-	-	Will provide a timely update on Aus labour market conditions.
Chn	Sep non-manufacturing PMI	47.5	-	-	Delta hit in August, but risks dissipating.
	Sep manufacturing PMI	50.1	-	-	Manufacturing likely to mark time...
	Sep Caixin China PMI	49.2	-	- smaller business to see downside risks.
	Q2 current account balance	52.8bn	-	-	Full view of trade and investment income.
Eur	Aug unemployment rate	7.6%	-	-	Expected to continue downtrend on reopening tailwinds.
UK	Q2 GDP	4.80%	-	-	Final release for the Q2 GDP.
US	Initial jobless claims	351k	-	-	Recovery in labour market to continue.
	Q2 GDP	6.6%	6.7%	-	Third release of GDP expected to be at or near prior release.
	Sep Chicago PMI	66.8	65.2	-	To provide a timely indicator on manufacturing in Chicago.
	Fedspeak	-	-	-	Bostic, Evans and Bullard.
Fri 01					
NZ	Sep ANZ consumer confidence	109.6	-	-	Covid restrictions weighing on confidence.
Aus	Sep CoreLogic home value index	1.5%	-	1.4%	Still showing only a slight moderation during delta lockdowns.
	Aug housing finance	0.2%	-2.0%	-3.0%	Lockdown disruptions to be more pronounced in Aug...
	Aug owner occupier finance	-0.4%	-0.8%	-	...but full effects likely to show through from Sept.
	Aug investor finance	1.8%	-	-	Housing turnover lull from lockdowns likely to impact.
Eur	Sep CPI %yr	3.0%	-	-	Rising energy and household goods costs may spike CPI.
US	Aug personal income	1.1%	0.2%	-	Pandemic relief programs have provided income boost.
	Aug personal spending	0.3%	0.7%	-	Rotation to services should be apparent.
	Aug core PCE deflator	0.3%	0.2%	-	Re-opening pressures fading.
	Aug construction spending	0.3%	0.3%	-	Robust housing demand to lift construction spend.
	Fedspeak	-	-	-	Harker and Mester.

International forecasts.

Economic Forecasts (Calendar Years)	2017	2018	2019	2020	2021f	2022f
Australia						
Real GDP %/yr	2.4	2.8	1.9	-2.4	3.0	5.0
CPI inflation %/yr	1.9	1.8	1.8	0.9	2.6	2.2
Unemployment rate %	5.5	5.0	5.2	6.8	5.6	4.0
Current account % of GDP	-2.6	-2.1	0.7	2.7	4.3	2.6
United States						
Real GDP %/yr	2.3	3.0	2.2	-3.5	5.8	4.2
CPI inflation %/yr	2.1	2.4	1.9	1.2	4.3	2.8
Unemployment rate %	4.4	3.9	3.7	8.1	5.4	4.0
Current account % of GDP	-2.3	-2.3	-2.6	-2.5	-2.4	-2.4
Japan						
Real GDP %/yr	1.7	0.6	0.3	-4.8	2.3	2.7
Euro zone						
Real GDP %/yr	2.6	1.9	1.3	-6.6	4.6	4.4
United Kingdom						
Real GDP %/yr	1.7	1.3	1.4	-9.9	6.7	5.5
China						
Real GDP %/yr	6.9	6.7	5.8	2.3	8.5	5.7
East Asia ex China						
Real GDP %/yr	4.7	4.4	3.7	-2.4	4.2	4.9
World						
Real GDP %/yr	3.8	3.6	2.8	-3.3	5.5	4.6

Forecasts finalised 8 September 2021

Interest rate forecasts	Latest	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Dec-23
Australia									
Cash	0.10	0.10	0.10	0.10	0.10	0.10	0.25	0.50	0.75
90 Day BBSW	0.02	0.07	0.10	0.15	0.20	0.40	0.65	0.70	0.95
10 Year Bond	1.41	1.55	1.70	1.80	1.90	2.00	2.05	2.10	2.20
International									
Fed Funds	0.125	0.125	0.125	0.125	0.125	0.375	0.625	0.875	0.875
US 10 Year Bond	1.44	1.60	1.70	1.80	1.90	2.00	2.05	2.10	2.20

Exchange rate forecasts	Latest	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Dec-23
AUD/USD	0.7297	0.75	0.76	0.77	0.78	0.78	0.79	0.80	0.78
USD/JPY	110.45	111	112	112	112	113	113	114	115
EUR/USD	1.1739	1.21	1.23	1.22	1.21	1.21	1.21	1.20	1.19
GBP/USD	1.3720	1.41	1.43	1.44	1.45	1.44	1.44	1.43	1.42
USD/CNY	6.4615	6.35	6.30	6.25	6.25	6.20	6.20	6.15	6.10
AUD/NZD	1.0325	1.06	1.06	1.05	1.05	1.05	1.07	1.08	1.07

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