Birds Eye View

Summer 2021

The Front Pages

An impressive economic bounce back …

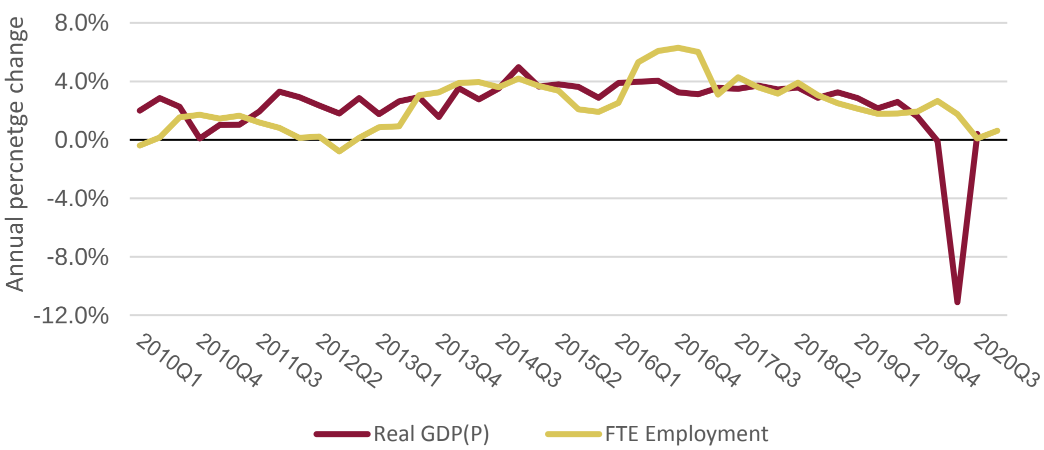
After falling, quarter on quarter, by 5.9 percent in the first quarter of 2020, and by 11.5 percent in the second quarter, New Zealand's GDP bounced back by 14.7 percent in the third quarter. The fourth quarter GDP figures will not be released by Statistics New Zealand until late March, but employment data for the fourth quarter was published in early February, and the numbers indicated that a strong recovery is being maintained. Full-time Equivalent (FTE) Employment increased from 2.172 million in the third quarter of 2020, to 2.197 million in the fourth quarter, a quarterly increase of 1.2 percent.

Added to this, the latest major business confidence surveys, including the QSBO and ANZ's, found considerably improved confidence amongst businesses about their trading prospects. The QSBO for the final quarter found that only one percent of business thought that they faced reduced demand in the coming quarter, a marked improvement from previous surveys. The ANZ's Business Outlook survey for December 2020 found that businesses' confidence in their own activity levels was at plus 21.7 percent, its highest level since March 2018. This level of confidence was mirrored in the first ANZ survey of 2021.

Moreover, views of global economic prospects have been revised to point to a stronger recovery. In the January edition of its World Economic Outlook, the IMF warned of exceptional uncertainty, but projected that the global economy would grow by 5.5 percent in 2021 and 4.2 percent in 2022. The previous projection for 2021 was 5.2 percent. The improved prospects were described as 'vaccine-powered', but was also attributed to additional policy support in a few large economies.

On the domestic front, the Treasury's Half Year Economic and Fiscal Update (HYEFU), published in December, forecast inflation-adjusted growth in the production measure of GDP of 1.5 percent in the year to June 2021, and growth of 2.6 percent the following year. GDP fell by 2.1 percent in the year to June 2020. Last year's Budget Economic and Fiscal Update (BEFU) the Treasury was forecasting falls in GDP of 4.6 percent in the year to June 2020 and 1.0 percent in the year to June 2021, before a growth surge of 8.6 percent in the year to June 2022. The HYFU forecasts that unemployment will now grow to 6.6 percent in the June quarter of 2021, before peaking at 6.8 percent a year later. The BEFU forecast that unemployment would peak at 8.6 percent in June 2021, before tailing off.

… but COVID-19 has left scars …



Getting back to actual measures, rather than forecasts, third quarter 2020 GDP was only 0.4 percent higher than a year previously and, bearing in mind that annual GDP growth has averaged 2.7 percent during the past 10 years, this implies almost a whole year's worth of economic growth was lost because of COVID-19. Similarly, FTE employment in the fourth quarter of 2020 was only 0.6 percent higher than it was in the same quarter of 2019, which compares with a 10-year annual growth rate of 2.4 percent.

Together, the GDP and employment figures imply that productivity (GDP per FTE worker) has fallen, and this reflects some switching from highly skilled employment to medium or low skilled employment: think displaced airline pilots turning to fruit picking, or engineers becoming shelf stackers.

… and there are risks of further setbacks.

We see the following potential threats to New Zealand's continued economic recovery:

- Significant outbreaks of COVID-19 in the community in New Zealand and a failure of vaccinations to halt the spread of the virus overseas
- Geo-political tensions increasing
- Collapse in asset prices causing loss of investor and consumer confidence
- Difficulties in shifting goods through the world's major ports, causing supply chain breakdowns and interruptions to production.

The probability of these risks eventuating is difficult to assess, but any, or a combination, of them could have serious consequences. The last of the four is a novel risk that could escalate as time goes on. Ports around the world are having problems moving goods in and out, and stories abound of machinery parts, needed for repairs, taking weeks or even months to arrive. The cumulative effect on production of many instances of this sort could be like slowly dropping sand into a gear box – it works for a while, but it will eventually grind to a halt.

Despite the risks, we are more optimistic than previously …

Assuming the risks above do not eventuate, we are now considerably more optimistic, albeit cautiously, about where the New Zealand economy is going. As recently as Spring 2020, we thought that production GDP would fall by 4.6 percent in the year to March 2021, but we now forecast growth of 1.0 percent in the year to June 2021, and growth of 3.0 percent in the year to June 2022.

Similarly, we previously forecast that the unemployment rate would peak at 8.5 percent in the June quarter of 2021, before gradually tailing off to 6.8 percent over the following three years. Based on expectations of more rapid GDP growth, we are now forecasting that the rate will be 6.0 percent in the June quarter of 2021, and that it will fall to 4.0 percent by June 2024.

There are several reasons for our increased optimism. One is that, as noted above, global economic prospects have improved. Another is that demand for New Zealand's commodity exports has remained relatively strong. Another is that the promise of effective vaccines against COVID-19 brings forward the likely time when our borders will be open again, allowing resumed inbound tourism and education exports. Lastly, the fact that the economic impacts of COVID-19 have not been as dire as originally feared means that the financial accounts of the government of New Zealand are in a much stronger position than previously forecast. This means that the government is in a fairly good fiscal position to mitigate any adverse economic events.

… but the outlook could change very rapidly.

This possibility has been highlighted by the fact that, at the time of writing, a fresh outbreak of COVID-19 in the community has led to a further imposition, Alert Level 3 restrictions in Auckland, and Alert Level 2 restrictions across the rest of the country.

People resources

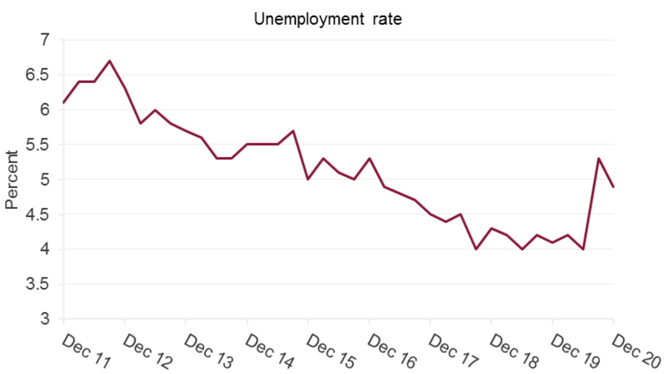
The bald facts are:

- The unemployment rate in the December 2020 quarter dropped to 4.9 percent, from 5.3 percent in September. But the rate was 4.1 percent in December 2019
- The underutilisation rate fell, from 13.2 percent in the September quarter, to 11.9 percent in December. But this rate was also higher than a year earlier
- Employment increased by 17,000 in the December quarter, following falls in the previous two quarters
- Employment growth in construction has been strong
- People's confidence about their job security is increasing
- The overall number of net migrants (all citizenships) collapsed to a monthly average of 635 in 2020, but the number of New Zealand citizens migrating home increased to an annual total of 21,828.

Labour market statistics

New Zealand's seasonally adjusted unemployment rate dropped to 4.9 percent in the December 2020 quarter, from 5.3 percent in the September 2020 quarter. This was a surprise to many who expected unemployment to increase with the end of the government wage subsidy scheme. The September 2020 quarter unemployment rate of 5.3 percent followed the largest increase observed in a single quarter since the series began in 1986.

The seasonally adjusted number of unemployed people fell by 10,000 in the December 2020 quarter, to 141,000. Despite this drop, unemployment is still higher than it has been in a few years. At the same time in 2019, the unemployment rate was 4.1 percent. The number of unemployed people is still 25,000 higher than it was in the December 2019 quarter when the total number of unemployed was 116,000.



The increase in unemployment has impacted female employment greater than male. An additional 15,000 women were unemployed in December 2020, compared with the December 2019 quarter, while there were an additional 11,000 unemployed men.

Focusing on employment, the seasonally adjusted number of people in work rose by 17,000 over the December 2020 quarter. This is a turnaround following falls of 7,000 in the June 2020 quarter, and 19,000 in the September 2020 quarter.

Overall, employment has increased since last year. Since the December 2019 quarter, the seasonally adjusted number of employed people had a small increase of 19,000 (0.7 percent). This annual growth is lower than seen in recent pre-COVID-19 years. Not all industries have fared equally well in that time, with construction up, and tourism-related industries down.

Nationally, there was an annual increase of 21,000 in the number of people whose main job was in the construction industry, up to 278,300 people in the December 2020 quarter. The growth in the construction industry across 2020 reflected an increase of 13,200 people employed in construction services.

The "underutilisation" rate, which measures whether people are working as many hours as they want to, fell to 11.9 percent from 13.2 percent in the September 2020 quarter. Although there has been a quarterly fall, the rate is still higher than this time last year, when it was 10.1 percent.

Looking ahead, people are more confident in their employment. This is a positive sign for the economy, and household expenditure in particular. Feelings of job security have improved since the September 2020 quarter, with 79.1 percent of people in the December 2020 quarter saying there was almost no chance, or a low chance, that they would lose their job or business in the next 12 months, compared with 74.3 percent in the previous quarter.

Migration

Net migration into New Zealand (migrant arrivals less migrant departures) in 2020 totalled 44,127. However, 87 percent of the net migration occurred in the first three months of the year. Since then the monthly average has been just

635. This compares with monthly average net migration of 4,131 in 2018, and 6,117 in 2019.

One key impact of COVID-19 on migration patterns is that net migration of New Zealand citizens has become strongly positive. In 2018, net migration of New Zealand citizens was -7,611 (i.e. there was migration loss), but the flow started to reverse towards the end of 2019, and the migration gain in 2020 was 21,828.

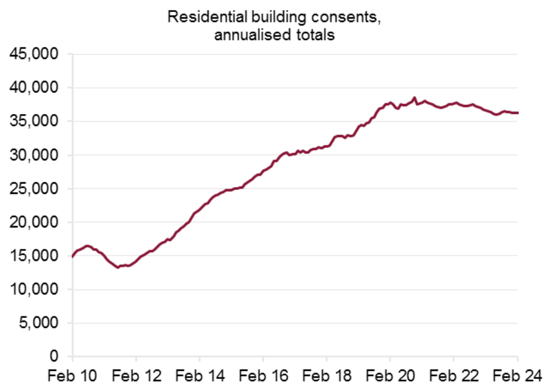
Capital resources

The bald facts are:

- Residential construction investment reached a peak in late 2020, but it is expected to tail off slightly in the next few years
- Non-residential investment decreased in 2020
- A major concern is that supply chain disruptions will adversely impact the sector significantly.

Investment and building activity

Although construction employment was strong at the end of 2020, growth in residential investment (as measured by the number of consents) has slowed since even before COVID-19. The number reached a peak at around 37,000 in November 2019, but has barely increased since then. This indicates capacity constraints all through the production structure of residential building, from consent processing to building. We forecast these constraints will continue to bite in the near term, although demand for residential investment will remain strong.



Non-residential investment in industrial and commercial buildings tells a less positive story. Work put in place peaked in the December 2019 quarter at an annual total of $519 million (measured in 1999 dollars), but then fell to $458 million in the September 2020 quarter.

The global economy is still in a precarious position, despite IMF's positive outlook. Supply chains for all goods have been disrupted, dismantled, and discombobulated from the restrictions put in place to combat COVID-19 globally. The effect of this will flow through to the banking sector in time, and represents a very real risk of financial crisis.

What effect this has on non-residential investment will be interesting to see. During the aftermath of the 2008 Global Financial Crisis non-residential investment fell and remained subdued until 2015.

Home base

The bald facts are:

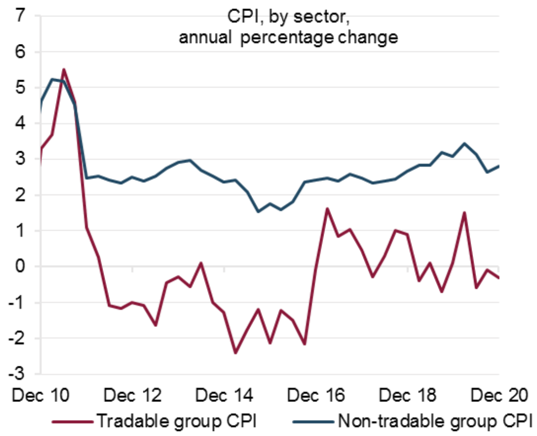
- Consumer price inflation remains subdued
- Retail spending dipped sharply during the lockdown, but card-based spending almost recovered to 2019 levels by the end of 2020
- As expected, the government's financial accounts plunged into the red because of the response to COVID-19, but not by as much as had been first feared
- The OBEGAL (operating balance) is now forecast to be minus $21.6 billion in 2020/21, which is $10.1 billion less than forecast before the October 2020 general election.

Inflation

The official story is that there are no inflationary pressures, and certainly this is illustrated in the Consumer Price Index data. The annual rate of inflation in the December 2020 quarter was 1.4 percent. Tradeable goods in particular are changing in price by practically nothing on average.

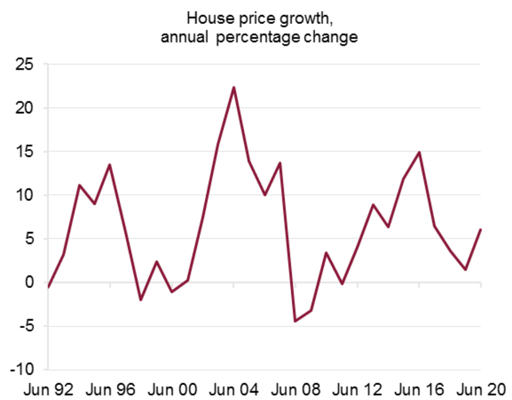
It's illustrative to imagine the counterfactual. We know that in the past decade huge advances in manufacturing, robotics, automation, and supply chain management have occurred. Combined with the effect of globalisation this should have implied generally falling prices of tradeable goods (as between 2012 and 2016 in the chart below). The fact that prices of these goods have remained stagnant in recent history shows that the gains in wellbeing consumers might have been able to expect from economic progress have been siphoned away.

A BERL website article this month analyses recent data on the cost of living for different household groups. It shows that, even though CPI inflation is low, the rate for the poorest households has been greatest.



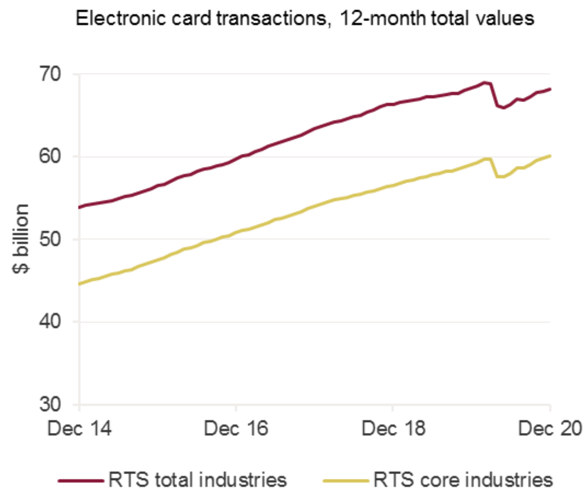
The NZX50 which is the share price of the top 50 companies on the NZX can be used to measure the price of capital goods. We can see inflation in this statistic has been as high as 30 percent in 2019 and was almost 14 percent in 2020.

Another way to measure the actual effect of inflation on prices is to look at the price of houses. CoreLogic produces an index of house prices, this data is available from the Reserve Bank of New Zealand. The index showed that inflation of house prices in New Zealand has been six percent from June 2019 to June 2020, although the rate of increase appears to have accelerated since then.



Retail

Kiwis are still spending. The 12-month total value for electronic card transactions in 2020 was slightly less than the 2019 year, but it was greater than the 2018 year. In 2020 the lockdown restrictions severely limited spending opportunities, resulting in reduced spending for several months. However, the travel restrictions have prevented spending abroad and have likely resulted in more spending in New Zealand. This has likely contributed to a solid recovery in the latter half of the year. By the end of 2020 the total value of transactions was again higher than at the end of 2018.



Although Kiwi's are spending, they may not be receiving the goods and services they have purchased. The Commerce Commission had an increase in complaints for the year ending 30 June 2020. The Commission received nearly 10,000 complaints, an increase of more than 10 percent from the previous year. Of these complaints, 20 percent related to COVID-19. COVID-19 complaints include travel-related, non-delivery, delivery time and selling products that the business did not have in stock. COVID-19 will no-doubt continue to cause disruptions for businesses and households.

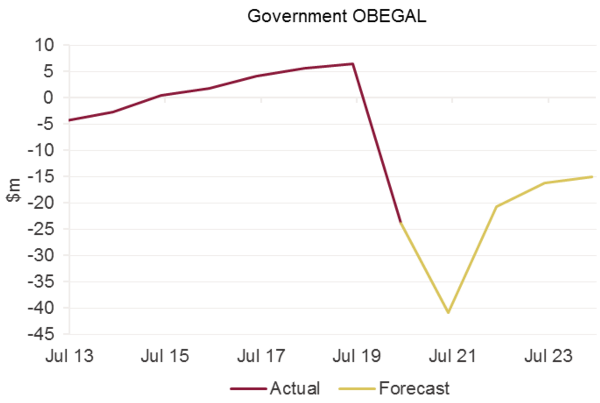
Government accounts

The government's fiscal outlook continues to be largely influenced by the COVID-19 pandemic, through the impact on economic activity and the government's measures to support the economy. Since the start of the COVID-19 pandemic, the government has faced a fiscal outlook of large deficits and increasing levels of debt.

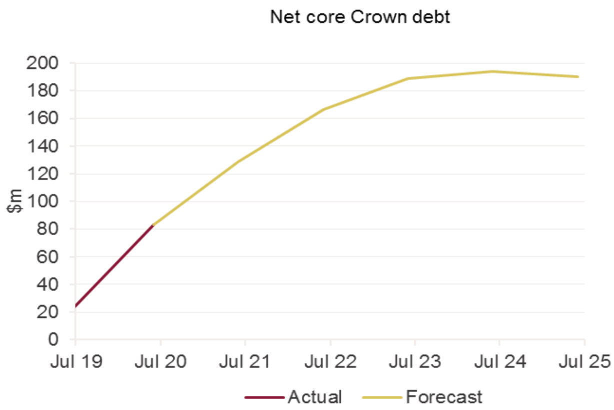
On 16 December 2020 the government released its Half Year Economic and Fiscal Update (HYEFU). The strong recovery has seen the government fiscal outlook improve from the pre-election economic and fiscal update (PREFU).

A highlight of the HYEFU release was a significant improvement in the Treasury's forecasts, in light of the economy's stronger than expected rebound. The HYEFU update showed reductions in forecast budget deficits over the next five years, as well as a reduction to the expected growth of net core crown debt required to support the economy through the recovery.

The budget deficit in the HYEFU, as recorded in the Operating Balance Before Gains and Losses (OBEGAL), was forecast to be $21.6 billion in 2020/21. This is $10.1 billion less than forecast prior to the election. The deficit is then expected to fall each year for the forecast period reaching $4.2 billion by 2025. To compare this to the long term forecast before the election, the deficit in 2024 is now expected to be $4.9 billion less than forecast



The budget deficits forecast in the HYEFU will cause net core Crown debt to grow. Net core Crown debt is forecast to increase each year to 2024 when it will reach $194.2 billion (50.7 percent of GDP). By 2025, it will begin to decline falling to $190 billion (46.9 percent of GDP), as core Crown residual cash becomes positive for the first time since COVID-19 became a factor.



The strong recovery highlighted in the HYEFU has continued and is reflected in the Interim Financial Statements of the Government of New Zealand for the Five Months Ended 30 November 2020.

OBEGAL as at 30 November was $4.3 billion, which was $1.9 billion (10.1 percent) less than the deficit forecast at the time of the HYEFU. The size of the OBEGAL is the result of tax income being higher than forecast by $0.7 billion and expenses being $0.5 billion less. In addition to greater revenue and lower expenses the OBEGAL deficit was attenuated by Crown entities and state owned enterprises, which performed better than forecast by $0.3 billion and $0.2 billion, respectively.

The stronger-than-expected recovery is showing through in tax revenues of most types. The 2020 income tax year was not as adversely affected by the pandemic as initially expected. The higher-than-anticipated revenues were the result of GST revenues being $0.4 billion greater than forecast because of relatively strong domestic spending, and corporate tax revenue being $0.3 billion greater.

Net core Crown debt was $99 billion at the end of November 2020. This was 0.9 billion less than the 2020 HYEFU forecast. Net core Crown debt is currently 30.9 percent of GDP. But, looking to June 2021, the end of the government financial year, net core Crown debt is forecast to reach $128.6 billion (39.7 percent of GDP).

Abroad and beyond

The bald facts are:

- The number of international visitors to New Zealand fell to less than one million in 2020, and almost all of that number came in the first quarter
- The country's goods exports were slightly lower in 2020 than in 2019, but were significantly higher than in 2018
- Dairy exports fell slightly in 2020, but were still worth around $16 billion, and kiwifruit exports continued their climb towards $3 billion
- Meanwhile, the value of imports fell by 11.5 percent in 2020, and the result was the balance of trade became positive for the first time since 2014
- The economies of New Zealand's main trading partners started to show recovery by the end of the year.

Exports

Tourism

The total number of international visitors to New Zealand in 2020 was 996,350, but a staggering 96 percent of this total arrived in the first three months of the year.

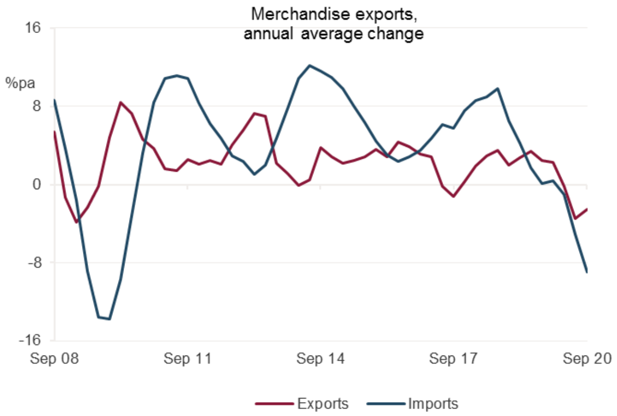
The monthly average number of international visitors from April 2020 onwards was just 4,145. This compares to monthly averages of almost 322,000 in 2018 and 324,000 in 2019.

No wonder, then, that places, such as Queenstown, where the economy depends largely on international tourism, are experiencing enormous hardship. Widespread uptake of

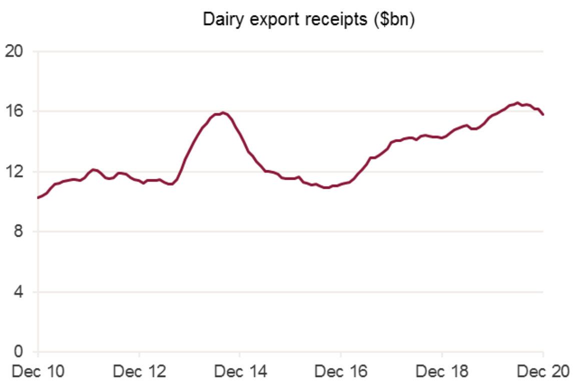
COVID-19 vaccines will eventually bring the visitors back, but this won't happen in the short term, and lasting damage to tourism businesses will have been done by then.

Goods (merchandise) exports

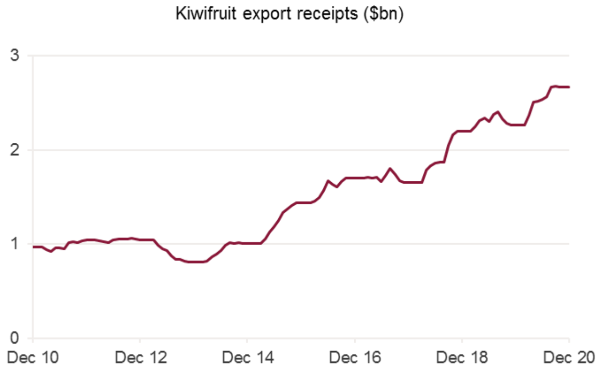
The total value of New Zealand goods exports for the year ending December 2020 was just $230 million lower than a year earlier, but $2.4 billion higher than during the year to December 2018.



The commodities showing some of the largest absolute declines since COVID-19 started to affect New Zealand trade were oil (down $341 million), dairy (down $325 million), fish (down $196 million), meat (down $190 million), and mechanical machinery (down $185 million). The figure below focuses on dairy exports, and it shows the small decline in dairy exports in 2020. However, it also shows that 2020 dairy exports were still at a high level, and well above the export values seen just a few years ago in 2016.



But not all commodities saw a decline in annual values in 2020, kiwifruit exports were up $302 million, with honey up $125 million, wine up $107 million, casein up $87 million, and avocadoes up $65 million. As shown in the figure below kiwifruit exports are now at their highest ever annual total, at $2.7 billion. A big part of the increase in kiwifruit export values was exports of the gold kiwifruit, which now make up 66 percent of the total volume of kiwifruit exports. On average, gold kiwifruit generates $2 a kilogram more in export receipts than green kiwifruit.



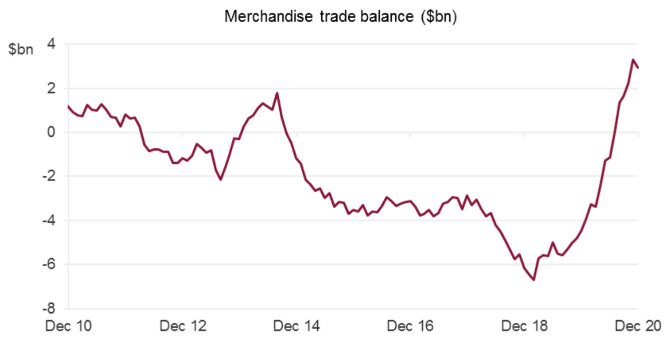
Overall, New Zealand's merchandise export values are unlikely to grow much during 2021 because of the ongoing COVID-19-related market impacts and the disruptions to transportation systems. However, the nature of our exports (mainly food and other raw materials) and the relative economic stability enjoyed by our largest trade partners, China and Australia, are both positive factors.

The newly signed upgraded free trade agreement with China (signed 26 January 2021), once ratified by both countries, may also provide a welcome boost to New Zealand exports, with tariff and non-tariff barriers on exports to China, to be reduced over the next 10 years.

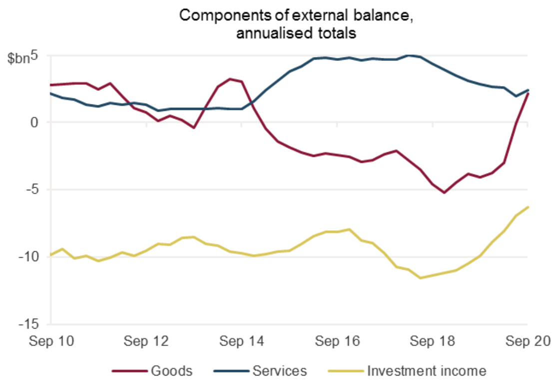
Trade and payments balances

While New Zealand's goods export receipts for December 2020 were almost the same as December 2019, import payments were down by 11.5 percent. The merchandise trade balance, therefore, became positive, as shown in the figure below.

For the year to December 2020, the merchandise trade balance was $2.9 billion in the black, with annual merchandise exports worth $59.9 billion and annual merchandise imports worth $57.0 billion.



The change in the overall balance since 2018 has been the result of slow growth in our imports, especially of motor vehicles, plant and transport equipment. Further denting New Zealand's import bill, was a very large decrease in our annual crude oil import bill (down $2.1 billion between March 2020 and December 2020). The COVID-19 lockdowns in New Zealand had seen a large reduction in oil imports, due to the low amount of fuel usage during the lockdowns. Just $47 million of crude oil was imported in April 2020, and $11 million in July 2020, this has risen to $233 million in December 2020. But these imported values are still low compared to an average of $350 million per month in 2019.



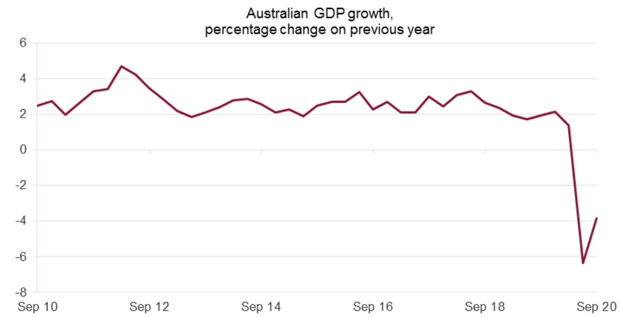
Surprisingly, given the decline in education and tourism service exports, the trade in services (including education and tourism export revenue) remained in surplus for the year to September 2020, though the surplus has been in decline since June 2018. For the 12 months to September, our trade in services surplus was $2.4 billion. Overall, tourism contributed the largest share of our annual service export revenue, with $9.4 billion in earnings, most of which was earned up to the end of the March 2020 quarter. The lack of international visitors allowed into New Zealand throughout 2020 has seen tourism earnings drop to just $670 million for the September 2020 quarter. It is likely that tourism earnings will continue to remain very low until border closures are eased.

Education earned a further $4.2 billion for the year to September 2020, with only a small decline in quarterly earnings in the June 2020 quarter, but a larger decline in the September 2020 quarter. This indicates that a significant portion of the approximately 100,000 international students enrolled with New Zealand education providers were able to make it into the country prior to the March 2020 closing of the border. Any of these who need to continue studying in 2021, will need to remain in the country once the study year finishes.

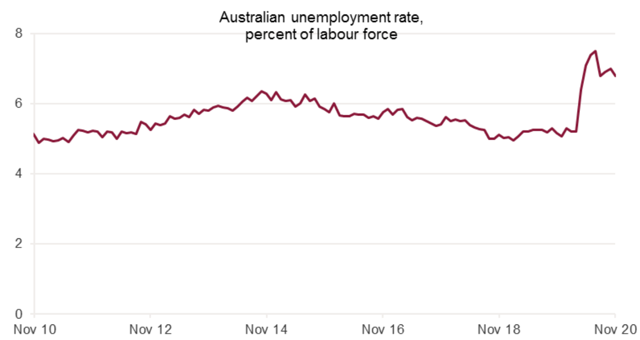
The World

Australia

Australian GDP saw quarterly growth of 3.3 percent in the September 2020 quarter, compared to the June 2020 quarter. This, reversed some of the 7.0 percent decrease seen in the June 2020 quarter. Overall for the year to September 2020, Australian GDP dropped by 3.8 percent. This is up from 6.4 percent decrease for the year to June 2020, as seen in the figure below. Prior to the COVID-19 pandemic, the Reserve Bank of Australia had been forecasting GDP growth in Australia to be around 2.75 percent for the 2020 year.



The impact of the COVID-19 pandemic can also be seen in the Australian unemployment rate, which rose sharply, to sit at 7.5 percent as of July 2020, before falling to 6.6 percent in December 2020, as shown in the figure below.



In addition to the fiscal support from both the Australian Federal and State Governments, the Reserve Bank of Australia (RBA) has been using monetary policy tools. Since the start of March 2020, the RBA has reduced the official cash rate (OCR) by 65 basis points to 0.1 percent. The RBA has also setup a term funding facility (TFF), which provides authorised deposit-taking institutions (ADIs) access to around A$200 billion in funding. As of the end of January 2021, ADIs had taken up $85.4 billion of the $200 billion available through this facility. The funding is fixed for three years at a fixed interest rate of 0.25 percent. The objective of this funding is to provide an incentive to the ADIs to lend to small and medium sized businesses.

As of February 2021, the RBA is forecasting that Australia will see an increase in GDP with annual GDP growing by 3.5 percent in 2021 and 2022. In addition, the RBA believes that unemployment peaked at 7.5 percent in July 2020, and will fall to six percent by the end of 2021. The RBA is no longer forecasting it will hit the high of 10 percent, as per its earlier forecasts in 2020.

India

India has always been interventionist, historically, but changes made to Farmers Produce Trade and Commerce Act, and two other Acts of Parliament, mean farmers no longer enjoy the existence of a monopsonist that buys produce at legislated minimum prices. This sort of structure is a common form of subsidy all over the world. It benefits small, inefficient producers, as well as bureaucrats, at the expense of consumers.

Farmers are now permitted to sell produce intra- and inter-state, beyond the scope of the Agricultural Produce Market Committee (which previously ran the local monopsonies for produce). This implies that businesses composed of a number of farmers agglomerated into a single entity should become more profitable than stand-alone family farms.

It may also imply increased access to Indian markets for international agriculture products. Though this will require changes to other Acts of Parliament and trade agreements. International investors are likely to gain access to opportunities in creating farming agglomerations.

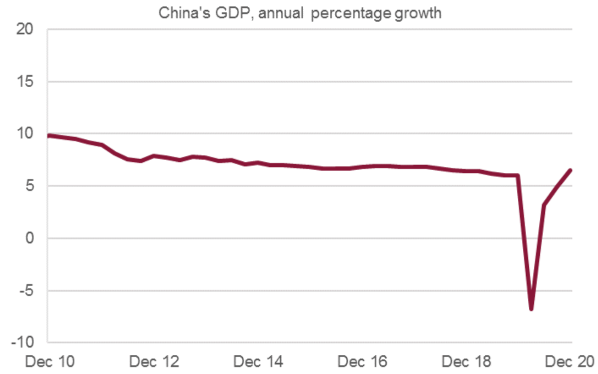
It should be noted, however, that "deregulation" does not always mean what it says. It does not always imply a move towards a free market, and can simply mean picking winners or preferring groups that are different from the old status quo.

All in all it remains to be seen how much Indian consumers gain from these changes.

China

Official statistics out of China tell a story that the economy went through a large depression in the March quarter of 2020, brought about by the response to COVID-19. The statistics indicate that, after restrictions were lifted, production resumed and has returned to levels of growth similar to what was observed before COVID-19 emerged.

Except that the numbers cannot necessarily be taken at face value. China's GDP statistics are a planned statistic. Each region is tasked with reporting a specific number for production, and these orders then feed down to the businesses doing the producing.



More importantly, what does this mean for New Zealand's exporters? China's "state capitalism" top-down approach quickly lifted the country from poverty into middle income status, but it will be more difficult to lift it from a middle income country to a wealthy one. New Zealand exporters should understand that real demand from China might be as good now as it will ever get.

Japan

Japan's population stopped growing in about 2010 and it has declined slightly since then. Partly because of this, the country's GDP growth has been sluggish. In December 2020, the OECD noted that the COVID-19 shock in early 2020 had triggered a major recession and that real GDP was projected to shrink by around five percent during the year.

The OECD also commented that the economy is gradually strengthening, although growth remains sluggish. Ongoing difficulties in bringing COVID-19 infections under control have held back domestic demand. However, as restrictions are lifted in the near term, consumption is expected to recover, supported by government subsidies and incentives. In addition, recovering external demand, as the situation of trading partners improves, will sustain export growth. On the other hand, private investment is set to remain relatively subdued. Overall, GDP is projected to expand by 2.5 percent in 2021 and 1.5 percent in 2022, assuming further economic stimulus.

United States

The US economy gained 49,000 jobs in January, with hardly any jobs in the private sector. The labour market offered little relief to the nearly 10 million Americans who are now unemployed.

Looking to strengthen the recovery, President Biden has been pressing for a US$1.9 trillion relief measure. The verdict is still out if these relief measures will be approved. As Democrats have been pushing for the relief package, Republicans have indicated that a smaller package would suffice, or that it is even too soon for another round of support.

However, the job market is suffering, with 227,000 jobs lost in December, the first decline since April 2020. These job losses were concentrated in pandemic-exposed sectors, the weakness in January was spread across more sectors. The unemployment rate fell to 6.3 percent, from 6.7 percent. But the decline came partly because a significant proportion of people left the labour force, a sign that the downturn could leave a lasting impact. At the same time last year the unemployment rate was 3.5 percent, the lowest in 50 years. The economy still has nearly 10 million fewer jobs than it did before the pandemic.

Nonetheless, despite the grim start to this year, many forecasters predict that the economy will strengthen in 2021.

European Union and United Kingdom

The risk of a “no-deal Brexit” was narrowly avoided when a deal was struck at the eleventh hour, followed by a 1,400 page document, published on 26 December 2020, guiding the new trading relationship. The growing pains of the separation are still in their early days with importers and exporters on both sides of the channel experiencing disruption and logistical issues. Pre-Brexit stockpiles are running down, and supply chains are being impacted.

Building rules of origin into the trading relationship is proving challenging, with suppliers unprepared for the necessary audit trails to document the provenance of their goods. Additionally, an increasing number of UK businesses are moving their operations, tax revenues, and employment to the EU. For some business though, responding to the pandemic and resulting containment measures is a bigger burden.

A third wave of COVID-19 infections late in 2020 resulted in new restrictions across the EU and UK over December and January. Intensive health policies, including vaccination programmes, and ongoing fiscal stimulus are expected to contribute to a 4.2 percent lift in GDP across the EU in 2021, after a 7.2 percent contraction in 2020. Meanwhile, in late January the IMF downgraded 2021 GDP forecasts for the UK, to 4.5 percent, down from the 5.9 percent forecast made in October 2021. This is on the back of the drop of 10 percent in 2020, the largest drop of the G7 countries. The UK isn’t expected to recover its previous growth rate until 2022.

Pandemic politics are crucial with planning for the lifting of lockdown restrictions, and resolving the uncertainty about vaccine rollouts between the EU and UK, key to boosting business and consumer confidence. The outlook will inevitably be weakened if new outbreaks occur.

Forecast data tables

We have simplified the contents of our forecast data tables, to focus on a selection of key variables.

If you would like to obtain forecasts of other variables not shown, please email info@berl.co.nz or phone +64 4 931 9200.

All the forecasts are for the years to June.

		GDP(P) growth, %	FTE employment growth, %	Unemploy-ment rate %	Net migration number	CPI inflation, %	Exports growth, %	Imports growth %	OBEGAL $bn
Actual	2020	-1.8	1.8	4.0	89,000	1.5	1.7	-5.4	-23.1
Forecast	2021	1.0	-0.5	6.0	7,500	1.4	2.5	2.0	-21.6
Forecast	2022	3.0	1.5	5.5	10,000	1.6	4.0	6.0	-18.4
Forecast	2023	3.5	2.2	4.7	12,500	1.9	4.5	6.0	-13.3
Forecast	2024	3.0	2.0	4.0	15,000	1.8	4.5	6.0	-9.5

Making sense of the numbers

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