Birds Eye View

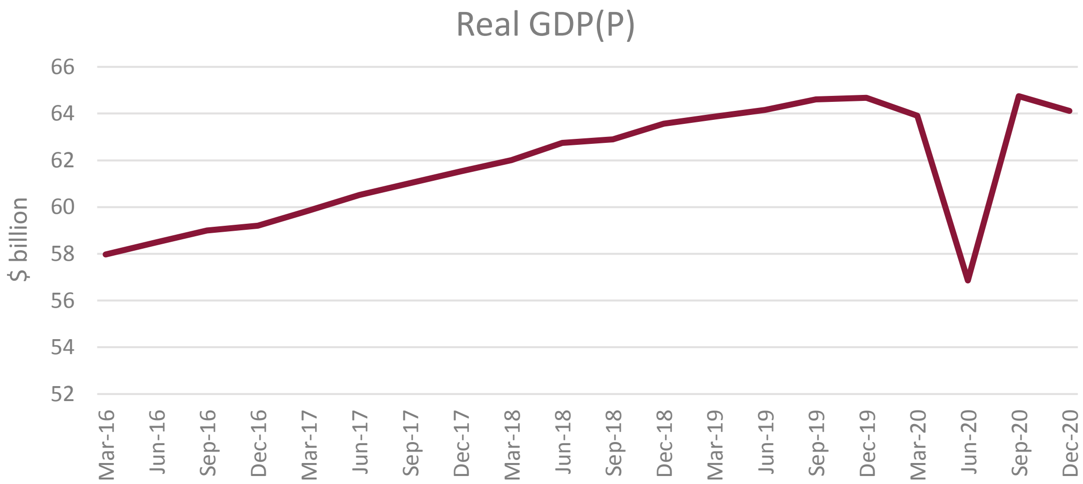
Autumn 2021

The Front Pages

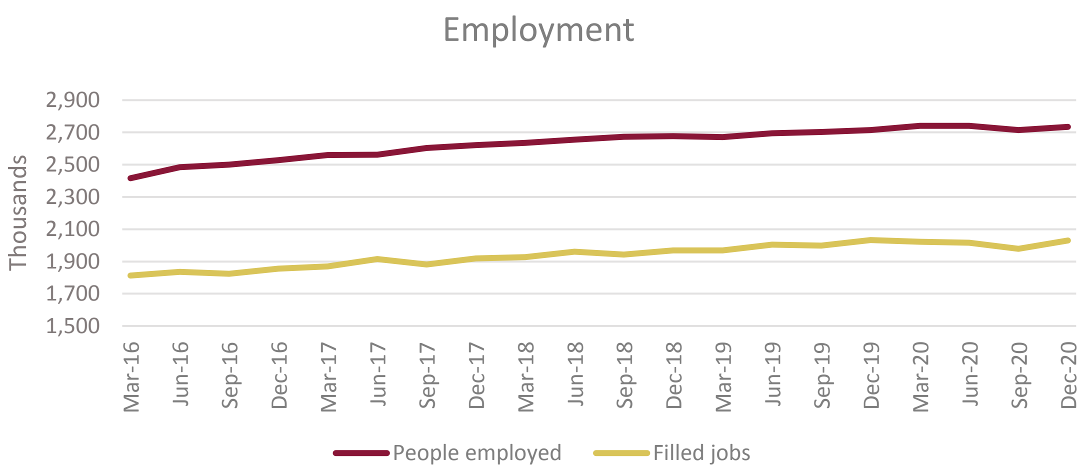
Only moderate scars from COVID-19 …

We now have data on GDP for the whole of 2020 to compare with the full year employment data that was available earlier. The GDP data showed a truly abysmal second quarter of 2020, followed by a strong bounce back in the third quarter and a small decrease in the fourth quarter.

GDP for 2020, was three percent lower than it was in 2019, and this was largely the result of the second quarter crash. GDP in the other three quarters of 2020 was very similar to GDP in each of the quarters of 2019.



It has come at a cost in the form of a significant jump in debt, but thanks to the government's labour market support, there was no corresponding reduction in employment, even when the economy was in lockdown. In fact, the number of people employed (as measured by the Household Labour Force Survey) and the number of filled jobs (as measured by the more narrowly focused Quarterly Employment Survey) were both around one percent higher at the end of 2020 than at the end of 2019. Moreover, as will be seen in a later section, this labour market resilience was carried through to the first quarter of 2021.



… and there are signs that the economy is heating up

Several surveys have indicated that, after a quiet start to 2021, the economy is performing well. The overall Performance of Manufacturing Index (PMI), from Business New Zealand, had a value of 58.5 in April (where an index level of more than 50 indicates growth), with particularly high values for Production (64.5) and New Orders (60.9). The overall Performance of Services Index (PSI) recovered from a sluggish 48.2 in January, to reach 61.2 in April and, again, the values for Sales/Production (62.1) and New Orders 68.0) stood out.

Recent confidence-based surveys have also been largely positive. For example, ANZ's Business Outlook Survey for April showed a net 22 percent of respondents were expecting an improvement in their own business situation. A little earlier, the NZIER's Quarterly Survey of Business Opinion (QSBO) for the March 2021 quarter revealed a modest improvement in confidence in the general business situation, with positive and growing hiring intentions.

The future looks fairly bright …

The Treasury's 2021 Budget Economic and Fiscal Update (BEFU) showed that GDP growth will turn out to be 2.9 percent in the year ending June, followed by forecast growth of 3.2 percent in 2022 and 4.4 percent in 2023. The unemployment rate is forecast to peak at 5.2 percent in the June quarter this year, and then fall gradually to 4.2 percent by 2024. CPI inflation is forecast to rise to 2.1 percent in the June quarter of this year and then remain near the Reserve Bank's target rate of 2.0 percent for the rest of the forecasting period through to 2025. The Crown's Operating balance before gains and losses (OBEGAL) is forecast to show a deficit of $15.1 billion in June this year, then increase to $18.4 billion in 2022, and then decrease gradually to just $2,3 billion by 2025.

The above numbers are dramatically better than was forecast in the Half Year Economic and Fiscal Update (HYEFU) published in December 2020. In economic terms, the effect of COVID-19 has not been anywhere near as bad as had originally been feared, although the Treasury has warned that uncertainty about the economic outlook remains high. The uncertainties, as we see them, are discussed below, and we present our economic forecasts at the end of this edition of Birds Eye View.

Meanwhile, the International Monetary Fund's April 2021 Global Economic Outlook focused on an improved position for the world economy. The IMF estimated that there was a 3.3 percent contraction in 2020, which was 1.1 percent less than previously thought. Growth is now forecast to be six percent in 2021 and 4.4 percent in 2022. In the longer term, the global economic growth rate is expected to be a modest 3.3 percent per annum, owing to damage to supply chains and slowing labour force growth, both in the advanced economies and in some emerging economies.

… but there are ongoing uncertainties and worries

It goes without saying that COVID-19 has not been defeated, and that varied vaccination campaigns across the world and the possible emergence of resistant variants could derail economic recovery. Supply chain issues are still a major concern, and there is the potential for the economic recovery to be stifled by shortages of raw materials, intermediate products and investment goods. The return of inflation is also a spectre, with fears that increased interest rates in response could lead to a collapse in asset prices and a loss of confidence amongst businesses and consumers.

These risks are global economic issues, but there is one risk that is specific to New Zealand. The government has undoubtedly performed well in containing COVID-19, but the next couple of years will be crucial in delivering on infrastructure investments to stimulate the economy. Building and construction projects and programmes have been delayed or deferred, and a lack of funding and industry capacity for future transport and water infrastructure projects is a real risk.

The abiding concern is that, in relation to the economy, New Zealand might win the COVID war, but we might lose the post-COVID peace.

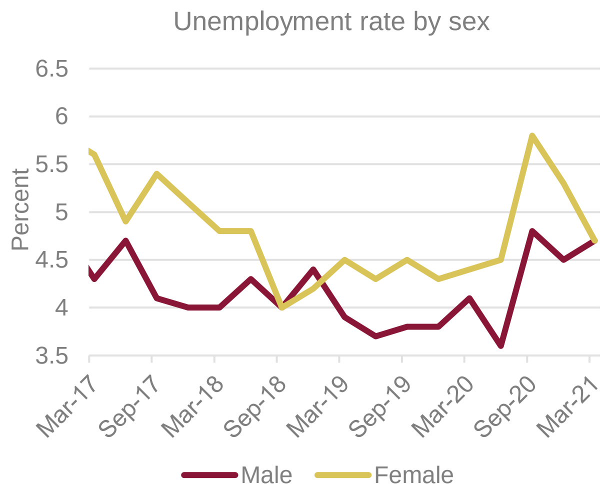
People resources

The bald facts are:

- First quarter 2021 unemployment was down and employment was up
- But the increase in employment hides decreased full-time employment, and underutilisation is higher
- Households are more confident about their job security
- Net migration has been extremely low
- Unusually, there has been positive net migration of NZ citizens and negative net migration of non-New Zealanders

Labour market

New Zealand's seasonally adjusted unemployment rate decreased to 4.7 percent in the March 2021 quarter. After falling very short of the high forecasted rates predicted by many, the unemployment rate has been decreasing from 5.3 percent and nearing levels measured pre-COVID.



For the first time in a couple years, the male and female unemployment rates were the same. After being more heavily impacted by COVID than males, the female unemployment rate decreased from 5.3 percent, whereas the male unemployment rate increased from 4.5 percent.

The seasonally adjusted employment rate is up 66.8 percent in December, to 67.1 percent in March. Female employment increased by 14,000, and male employment increased by 2,000.

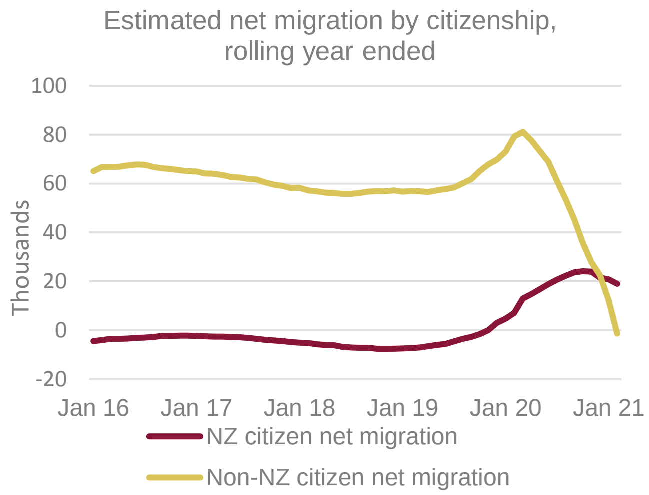
The underutilisation rate, which measures spare capacity in the New Zealand extended labour force, increased from 11.8 percent to 12.2 percent. This has been driven by an increase in available potential jobseekers, and an increase in the number of underemployed people.

The increase in part-time/temporary employees outweighed the decrease in the number of permanent employees, allowing the total number of employed people to still increase. However, this increase in temporary employees may explain the increase in underemployment. It could be that a chunk of people who lost their job due to COVID, have now settled for a part-time job working less hours than they desire. We may be seeing delayed effects of COVID.

Looking ahead, we have seen continued increases in job security. Decreasing numbers of people reported that they believed they had a high/medium chance of losing their job in the next 12 months. 80 percent of total people now believe there is a low/no chance of them losing their job.

Migration

In the first two months of 2021, net migration (migrant arrivals less departures) was 550 and 674, respectively. This represented an enormous year on year reduction. The comparable figures for January and February 2020 were approximately 11,000 and 15,000. This is not surprising, considering the significant disruptions to international travel and the severity of New Zealand's border restrictions in response to the COVID-19 pandemic. Net migration in the year ended February 2021 was 17,000. This is a massive reduction from the year before, when net migration was 85,500.



A trend that has been persistent since official data on citizenship began to be collected is that New Zealand has always had an annual net loss of citizens and an annual net gain of non-citizens. However, for the first time ever, in the year ended January 2021, the net migration of citizens exceeded that of non-citizens by around 8,500 people. Another interesting but unsurprising consequence of the restrictions is that there has been a net loss of 1,400 non-New Zealand citizens in the year ended February 2021. This means that for the first time in 40 years, more non-citizen migrants departed the country than those that arrived. However, we expect this to be a short-term trend that will reverse once border restrictions are eased.

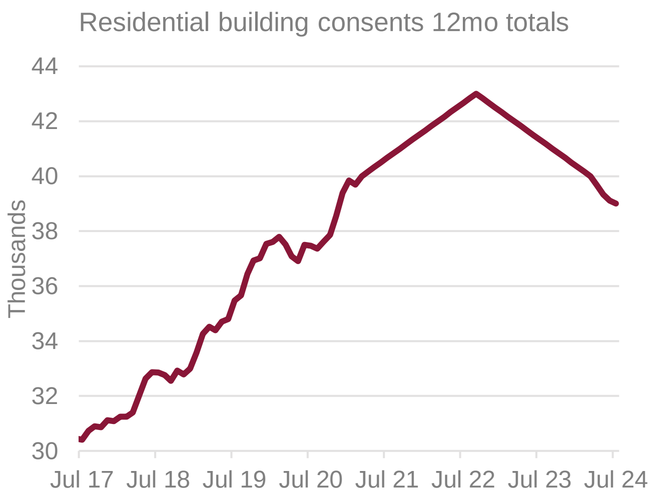
Capital resources

The bald facts are:

- There has been continued strong growth in the number of residential building consents
- This is reflected in growth in the value of work put in place
- Non-residential investment activity is also recovering.

Investment and building activity

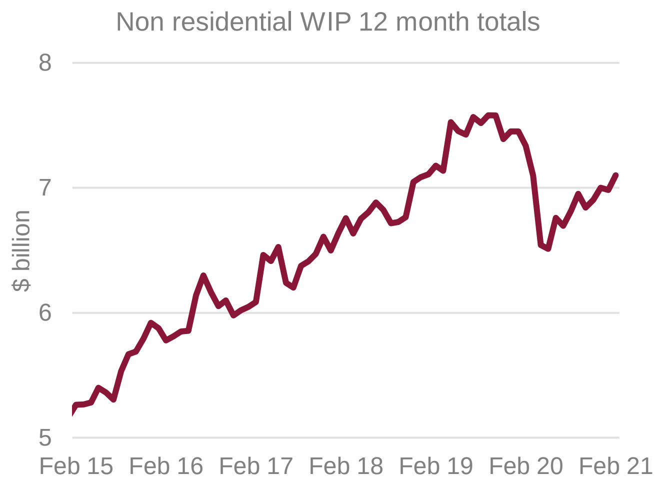
Residential building consents, when measured on an annualised basis, continue to grow apace. The effect of lockdowns has been entirely compensated. We forecast consents will level off and fall somewhat as capacity constraints begin to bite.



The 12 month total value of new residential building work put in place experienced an epic fall during the lockdown in response to COVID-19, but has now resumed the upward trend. The value reached a new high of $3.89 billion in the 12 months ended December 2020, well on its way to being over $4 billion in 2021.

This upward trend appears to be mostly explained by price increases, rather than increased investment.

Aside from residential housing investment we've also seen non-residential investment resume the upward trend it was on prior to 2020. Non-residential building work in place was at an all-time high of around $7.58 billion prior to the lockdowns in response to COVID-19 before falling sharply to 6.5 billion in the 12 months ended May 2020 (the middle of the lockdown period for New Zealand). This is a good sign as it shows New Zealand businesses are adding productive capacity.



Home base

The bald facts are:

- The government's budget deficits and net debt are now forecast to peak lower than initially thought
- Crown revenues have been higher than previously expected, and expenditure has been lower
- The inflation rate remains subdued, but is expected to increase over time
- After a COVID-induced blip, retail spending has resumed its long term upward trend.

Government finances

The Budget Economic and Fiscal Update (BEFU), released alongside Budget 2021, shows New Zealand's strong recovery has improved the Government's financial outlook, with future forecasts for budget deficits and net debt now expected to peak lower than initially thought.

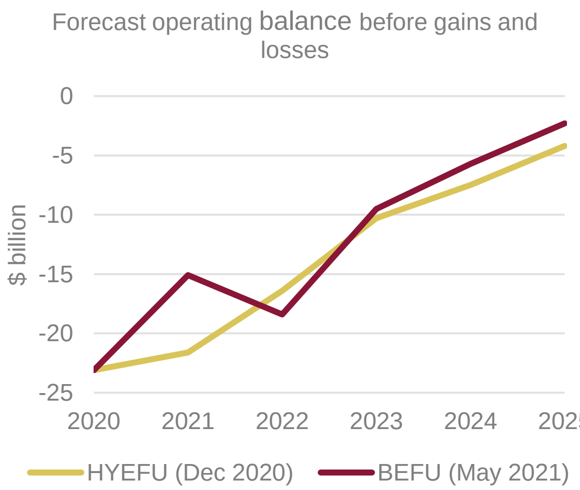
The 2021 OBEGAL is forecast to be a deficit of $15.1 billion (4.5 percent of GDP), which is a reduction of nearly $8 billion compared to the 2019/20 year.

The 2021 OBEGAL deficit is $6.5 billion less than forecast in the Half Year Economic and Fiscal Update (HYEFU) released in December 2020. The reduced forecast is the result of Crown revenue being $3.2 billion greater than forecast, the result of the stronger than expected economic recovery, and core Crown expenses being $3.5 billion less than forecast.

While reduced expenses may appear positive, the lower deficit forecast for 2021 is due, in part, to the Government's failure to deliver all of its expected expenditure in 2021. Expenditure from 2021 has been re-phased to the 2022 fiscal year.

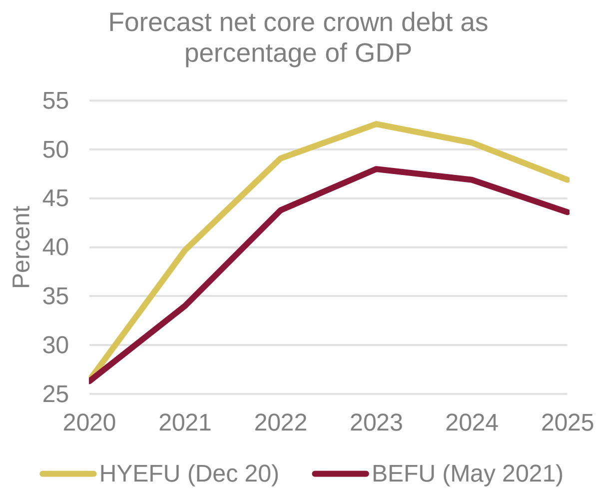
As a result of the re-phrasing and decisions from Budget 2021 the 2022 OBEGAL deficit is now forecast to increase to $18.4 billion (4.5 percent of GDP), compared to $16.4 billion forecast in the December 2020 update.

The 2022 OBEGAL deficit is expected to be the peak of the recovery. From this peak the OBEGAL deficit is forecast to decrease each year to $2.3 billion in 2025 (0.6 percent of GDP). The BEFU deficits forecast for 2023, 2024 and 2025 are all lower than expected in the HYEFU. As a result the combined forecast OBEGAL deficits from 2021 to 2025 are $9 billion less than forecast in the HYEFU.



Lower than expected deficits flow through to a reduction in the forecast levels of net core Crown debt. Treasury forecast that net core Crown debt will grow from $83.4 billion in 2020 to $113.7 billion in 2021 before peaking at $184.2 billion in 2024. By 2025 government intends to reduce net core Crown debt to $180.8 billion.

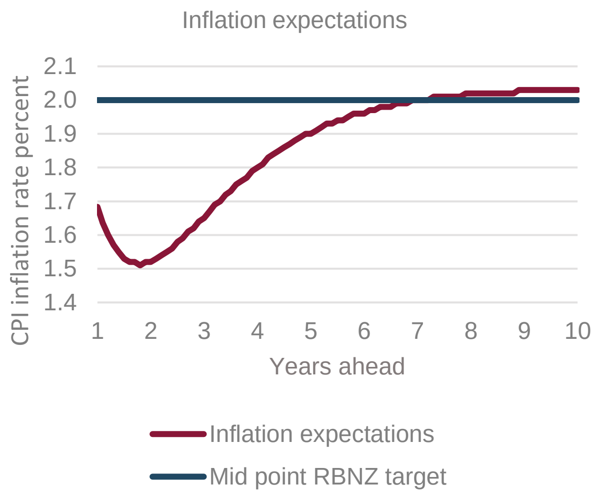
The forecasts for net core Crown debt released with Budget 2021 show a significant improvement from the December 2020 HYEFU. Net core Crown debt in the HYEFU had been expected to peak at $194.2 billion in 2024. This peak debt is equivalent to 48 percent of GDP in 2023, compared to 52.6 percent forecast in the HYEFU. From 2023 net core Crown debt as a proportion of GDP is expected to fall to 46.9 percent of GDP in 2024 and 43.6 percent in 2025.



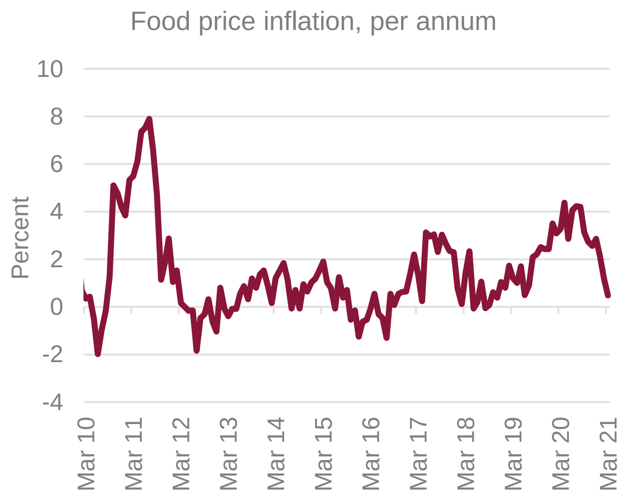
Inflation

The official story is that price inflation has been "more resilient than anticipated" as per the Reserve Bank's February Monetary Policy Statement. This seems to suggest the Bank was expecting and aiming for higher rates of price inflation in response to the economic downturn caused by the lockdowns in response to COVID-19. As it happens, the annual rate of inflation in the March 2021 quarter was 1.5 percent, which is still below the target rate of two percent.

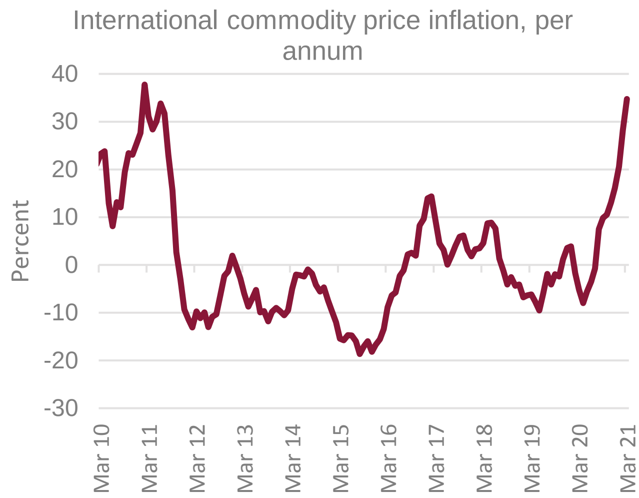
In its February Monetary Policy Statement the RBNZ provided an estimate of price inflation expectations. This statistic is entirely theoretical, but it serves to show the RBNZ's thought process. In the near term the RBNZ believes that people in New Zealand expect price inflation to be below that two percent target. Out towards the longer term it is thought that people in New Zealand believe price inflation will climb above two percent, around seven years in the future. This influences policy decisions made by RBNZ.



Internationally, commentators are concerned about the prospects of inflation caused by disruptions to supply chains as a result of the lockdowns in response to COVID-19. New Zealand appears to have escaped this somewhat, we expected food prices would have started climbing rapidly by now, but this has not materialised. Official data shows that food prices fell during the lockdowns in response to COVID-19 and have continued to fall going into 2021.



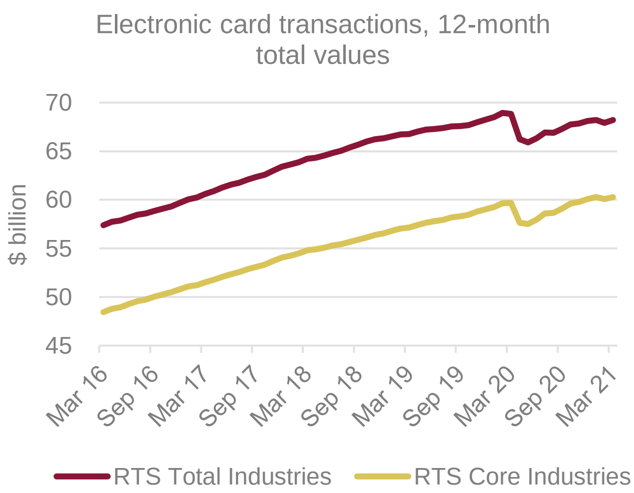
However, we don't think New Zealand will escape price inflation for much longer. International commodity price indices developed by the IMF show prices of all those commodities which are not energy (so no coal, oil etc.) are rising rapidly as a result of significant supply chain disruptions and unprecedented monetary policy decisions by global central banks.



Retail

It seems as though there needs to be more than a global pandemic and national lockdown to stop New Zealanders from spending. As measured by the Retail Trade Survey (RTS), the total value of spending hasn't seen much variation in its trend at all. Aside from the initial drop at the start of lockdown, card transactions have continued to grow at relatively the same rate.

The annual total to March 2021 was four percent lower than the same time period the year previous, but spending has picked up where it was left off before COVID and looks to keep growing from here.



Abroad and beyond

The bald facts are:

- There has been almost no international tourism in year to March, but the easing of the border shut down makes prospects brighter
- Merchandise exports were slightly down in value in the past 12 months, but imports were down significantly
- The result is that the merchandise trade balance in 2020 was positive for the first time since 2015
- The balance of trade (i.e. including services) returned to surplus in 2020
- The world's major economies have all responded to COVID in broadly the same way.

Exports

Tourism

In the year to March 2021, New Zealand had only 50,801 international visitors, whereas there were 3,651,967 international visitors in the previous 12 months. The 50,801 visitors represents 1.4 percent of the total welcomed in the year prior.

New Zealand went from expecting at least 200,000 international visitors per month, to just more than 5,000 in the later months of 2020. But these results come as no surprise. With COVID still running dangerously through other countries, New Zealand has smartly kept borders closed with little exceptions.

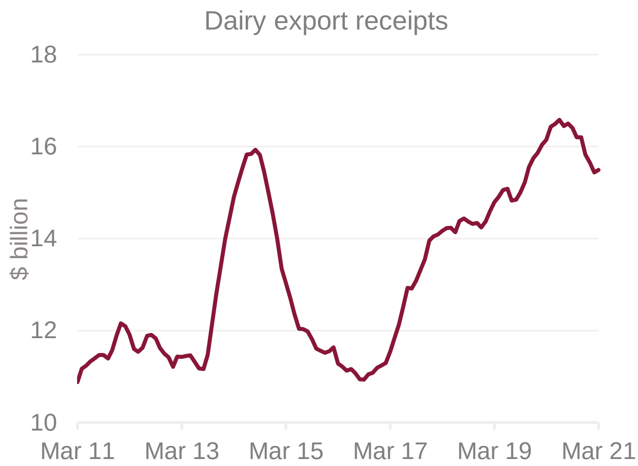
We expect to see these numbers take something of a leap in the next release of our Birds Eye View, with the introduction of the new trans-Tasman bubble. Australia usually makes up around 40 percent of our international visitors, which means we can be confident and hopeful towards the future of our tourism industry.

Goods (merchandise) exports

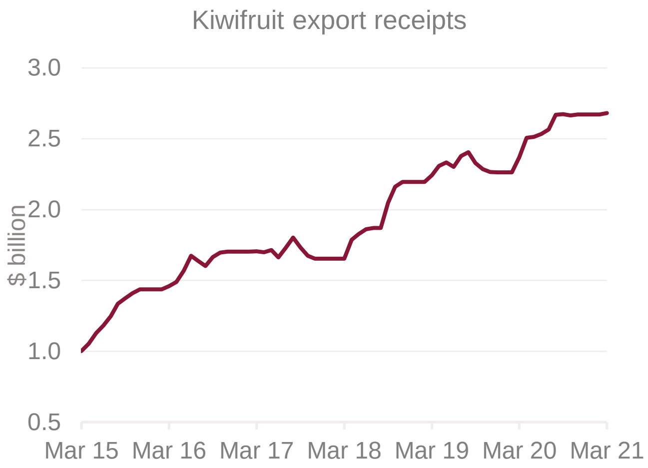
The total value of New Zealand's goods exports for the year ending March 2021 was $260 million lower than during the year ending March 2019. However, the total was $3.9 billion higher than during the year ending March 2018.

After a turbulent year in 2020, due to COVID-19 and logistic issues, merchandise exports have declined gently since March 2020. For the year ending March 2021, the total value was $56.6 billion, down $1.9 billion dollars from the total in the year to March 2020.

The commodities showing some of the largest absolute declines in annual exports since March 2020 were Dairy (down $655 million), Meat (down $404 million), Oil (down $350 million), Fish (down $272 million) and Mechanical machinery (down $211 million). As shown in the figure below, there was a small decline in dairy exports across the 2020 year, but these exports were still at a high level historically.



By contrast, some commodities saw an increase in the annual export values. These included Kiwifruit (up $313 million), Forestry (up $209 million), Honey (up $126 million), and Avocados (up $89 million). As shown below Kiwifruit exports are now at their highest ever annual total, at $2.7 billion, largely as the result of gold kiwifruit, which now makes up 66 percent of the total volume of kiwifruit exports. Gold kiwifruit on average generates $2 a kilogram more in export receipts than green kiwifruit.



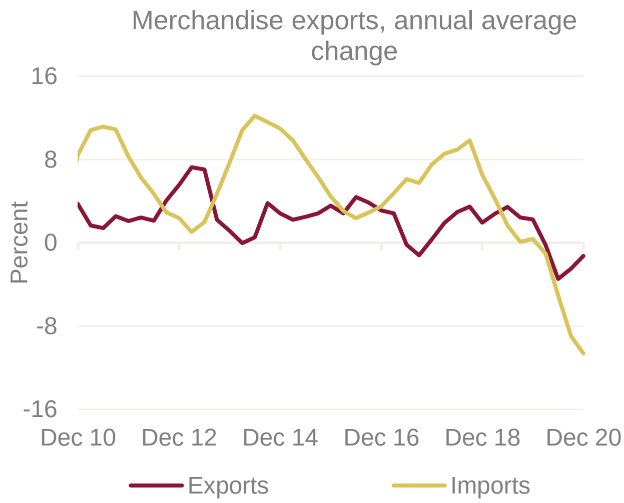
Overall, New Zealand's merchandise export values are only slightly lower than before the onset of the COVID-19 pandemic. Given the ongoing disruption the pandemic is causing in several overseas markets, as well as to transportation systems, we expect to see export values remain relatively stable during the remainder of 2021. This is partly due to the nature of our exports (being food and other raw materials), as well as our largest trade partners China and Australia, which have seen a relativity small disruption to their economies, compared to other trading partners.

Once ratified by both countries, the newly signed upgraded free trade agreement with China (signed 26 January 2021) might also provide a welcome boost to New Zealand exports, with tariff and non-tariff barriers on exports to China intended to be reduced over the next 10 years. On the other hand, this should be tempered by China's announcement in late 2020 of a five year plan to reduce reliance on foreign food imports. Given that two of New Zealand's largest exports to China are Dairy and Meat, this could affect New Zealand exporters in the future.

Trade and payments balances

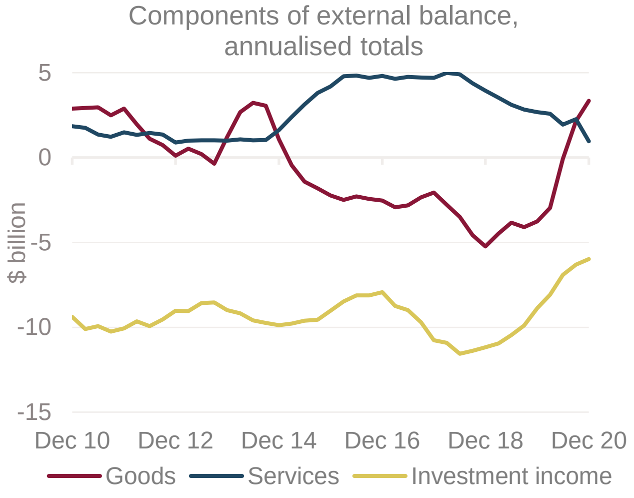
During the year ending March 2021, New Zealand experienced continued relatively strong goods export receipts, compared to our import goods payments. Export receipts for the year to March 2021 were down just 2.8 percent compared to March 2020, while import payments were down 10.5 percent, across the same period. This led our merchandise trade balance to become positive for the first time since 2015. For the year to March 2021, the merchandise trade balance was $1.7 billion in the black.

The positive merchandise trade balance has come more from a decline in our annual growth of imports than from growth in exports. Throughout 2020, there was a continued sharp decline in our annual import bill. This came largely from a slowing in imports of motor vehicles and transport equipment, but also from a significant decrease in crude oil imports. The COVID-19 lockdowns in New Zealand had seen a large reduction in oil imports, as a result of lower fuel usage during the COVID lockdowns.



Surprisingly, given the decline in education and tourism service export receipts, New Zealand's trade in services and tourism export revenue) remained in surplus for the year to December 2020. However, at just $996 million, this surplus is much lower than the $4.9 billion surplus, seen in June 2018.

Tourism contributed the largest share of our annual service export revenue, with $6.6 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 to drop to just $640 million for the December 2020 quarter. It is likely that tourism earnings will pick up throughout 2021 as border closures are eased, such as our current travel bubble with Australia.



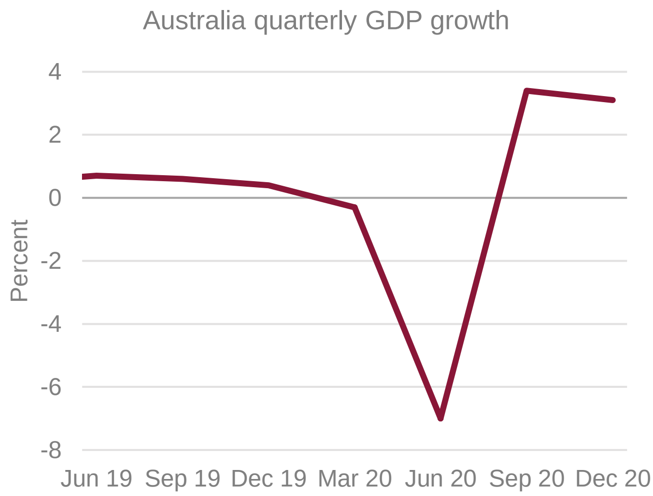
Education earned a further $3.6 billion for the year to December 2020, with only a small decrease in quarterly earnings in the June 2020 quarter, but larger declines in both the September and December 2020 quarter. In the December 2020 quarter Education exports earned $663 million, which is about half on the usual quarterly earnings for Education prior to COVID-19.

The World

The amplitude of the swing has varied from economy to economy, but all of the world's major economies have experienced a relatively short, sharp recession, with a strong bounce-back. This has been followed by some sluggishness at the end of 2020, but the chances that the V-shaped recession will not turn into a W-shaped recession look reasonably good. The New Zealand economy will benefit from renewed global economic strength.

Australia

In 2020, Australia suffered its first official recession in nearly 30 years. GDP contracted by seven percent in the June quarter. However, the economy has managed to bounce back quickly with growth being 3.1 percent in the December 2020 quarter. According to the International Monetary Fund (IMF), Australian GDP is predicted to increase by 4.5 percent this year. Growth has mostly been underpinned by the high export price of iron ore, Australia's single biggest export, and high levels of consumer spending as restrictions ease and people spend more money domestically. Despite the strong recovery, the predicted inflation rate for 2021 is 1.7 percent, which is below the Reserve Bank of Australia's (RBA) target range of 2-3 percent. The RBA's current Official Cash Rate (OCR) is set at 0.1 percent and is expected to remain at that level until 2024.



After reaching a high of 7.5 percent in July 2020, unemployment has fallen astonishingly fast to just 5.6 percent in March 2021, making Australia the only advanced nation with more jobs than before the pandemic. Around 67,000 more people were employed in March 2021 than in February 2020.

Australia's rapid economic recovery has not come easy; it is a result of an aggressive monetary and fiscal policy position. The budget deficit for 2021-22 is projected to be at least AU$50 billion. According to the independent Parliamentary Budget Office, pandemic-era debts will weigh on future budgets for nearly a generation.

India

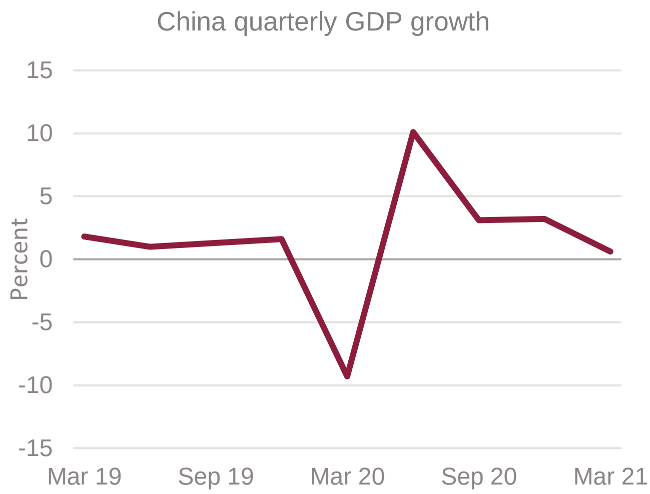
The pandemic has wreaked havoc on India's economy as the country is in the midst of a second wave. GDP contracted by eight percent in 2020 compared to the year before. As the fastest growing trillion-dollar economy in the world, IMF initially predicted a GDP growth rate of 12 percent for India in 2021. However, as recovery has been derailed by a second wave of infections, many experts have revised their projections to under 10 percent.

Over 92 percent of the country's workforce is in the informal sector, which has been hit particularly hard. As of May 2021, the unemployment rate in India was estimated to be eight percent, with urban unemployment being as high as 10.2 percent (it should be noted that there is no regular official unemployment data available for the country). The sectors that have suffered the most have been automobile manufacturing, and real estate and construction. Migrant workers, who are the main source of labour for construction and manufacturing, are returning to their rural homes. Household spending has also declined as uncertainty looms.

The Reserve Bank of India (RBI) has kept interest rates unchanged at four percent. It has been hesitant to bring down rates for fear of pushing up an already high inflation rate, which stood at 6.2 percent in 2020. Fiscal stimulus has come in the form of three packages to support the automobile, pharmaceutical, textile, and food sectors. The speed and state of India's economic recovery depends heavily on the containment of a pandemic that rages on.

China

After a historic contraction in early 2020, China was the only major economy to record an expansion in 2020. GDP grew by 2.3 percent last year. However, this was its slowest growth rate in 40 years. Positive growth was possible because of the country's ability to manage the pandemic early on and government support packages for businesses, which allowed economic activity to resume in the second quarter of the year. The National People's Congress announced a growth target of "over six percent" for 2021, which is likely to be easily surpassed as most sources forecast a growth rate of over eight percent. According to the IMF, the unemployment rate in 2020 was 3.8 percent, and a modest improvement of 0.2 percentage points is predicted for 2021.



Growth has been driven by the industrial and export sectors. Industrial output is on the rise, driven by strong global demand for China's exports, particularly medical supplies and electronic goods. This is despite the Chinese Yuan appreciating significantly in the latter half of 2020. The country's mammoth manufacturing sector is also likely to drive up demand and global prices for oil.

However, all is not well, as the domestic economy has been slow to recover. Domestic demand for goods and, in particular, services remains at below pre-pandemic levels. Household consumption has been slowing down for years due to the inability of household incomes to grow fast enough.

Japan

Japan's economy, the third-largest in the world, shrunk by 4.8 percent in 2020, its first contraction since 2009. But a targeted approach to the pandemic meant that by the end of 2020, GDP was rising again. For 2021, GDP is expected to grow at a rate of 3.3 percent. In December 2020, the government announced a new stimulus package to aid the economy out of the slump. Japan's total stimulus spending is now a whopping NZ$4.2 trillion.

While other countries saw massive spikes in their unemployment rates, Japan's annual rate increased by just 0.4 percentage points to 2.8 percent in 2020. As of March 2021, the unemployment rate stands at 2.6 percent and is trending downwards. This was in part thanks to the government's paycheck protection program, which provided subsidies to businesses that retained workers on their payrolls. Another reason is that due to a greying population, Japan has a very tight labour market and many businesses usually struggle to find workers. Generally, there are more job openings than job seekers. The country's pro-labour attitude and laws have also played a role.

United States

US GDP fell by a staggering 31 percent in the June 2020 quarter compared with the quarter before. However, it quickly rebounded thanks to a high level of investment activity. GDP contracted by 3.5 percent in 2020, the largest decline in 74 years. This year started off with signs of a strong recovery, a GDP growth rate of 6.4 percent in the first quarter exceeded expectations. The IMF predicts that in 2021, the US economy will grow by 6.4 percent, the fastest of all G7 economies.

Fiscal stimulus has come in the form of the Consolidated Appropriations Act (December 2021), a massive US$2.3 trillion (NZ$3.2 trillion) spending bill. Moreover, President Biden has announced additional spending of US$1.9 trillion (NZ$2.6 trillion). These measures will extend unemployment benefits, provide financial support for small businesses and support education, housing and households in various other ways.

The pandemic has left deep scars in the labour market. The latest statistics for April 2021 are disappointing. Only 266,000 new jobs were added when experts had predicted gains of at least one million. Unemployment stands at 6.1 percent, 2.6 percentage points higher than pre-pandemic levels. 43 percent of these are long-term unemployed (unemployed for 27 weeks or more). This is worrying since the longer people stay out of the workforce, the harder it is to get back into the labour market.

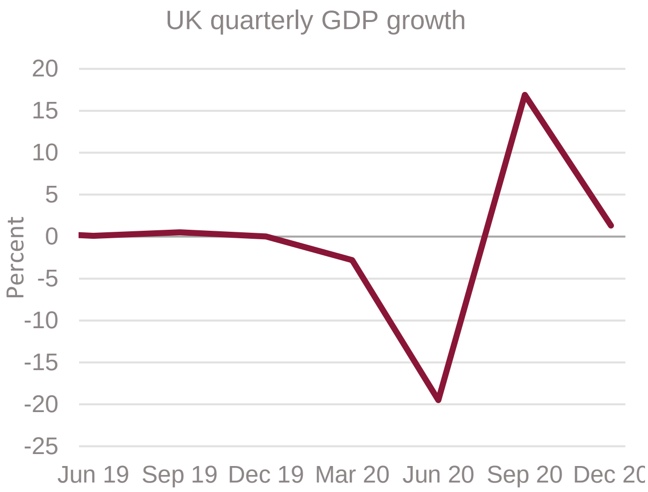
Inflation is predicted to be 2.3 percent in 2021, which is above the Federal Reserve's target of two percent. The latest numbers for April 2021 showed that the Consumer Price Index surpassed expectations and rose by 4.2 percent compared to the previous year, largely due to massive increases in used auto and car rental prices. However, the chairman, Jerome Powell, believes this rate will not persist and is a short-term consequence of the large amount of fiscal stimulus.

United Kingdom

In April 2021, the European Parliament ratified the Trade and Co-operation Agreement (TCA), overcoming the last hurdle in the long Brexit journey. However, several thorny issues remain unaddressed such as complexities surrounding Northern Ireland and an escalating debate over fishing rights between UK and France. Moreover, the deal does not cover services, which constitute 45 percent of UK's exports.

The COVID-19 pandemic hit the country particularly hard, with the UK death toll being the highest in Europe. Consequently, GDP in 2020 fell by 9.9 percent, the largest drop on record. In 2021, GDP growth is predicted to be 5.3 percent, with an even faster rate of 7.3 percent predicted for 2022. The unemployment rate in 2020 was relatively low at 4.5 percent.

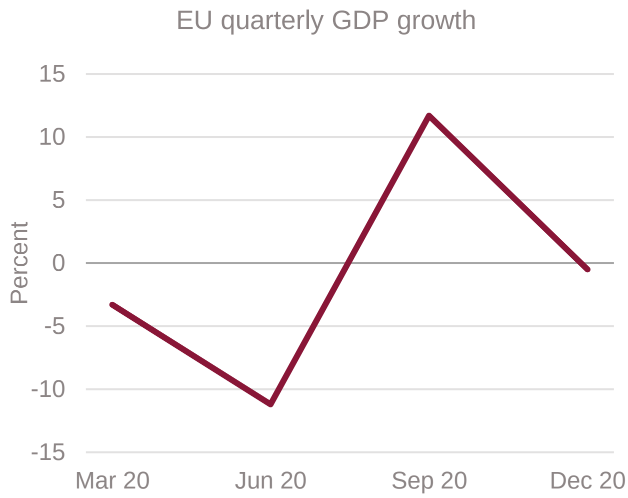
This is thanks to widespread furlough schemes implemented by the government to encourage businesses to retain employees. The unemployment rate is expected to increase to 5.8 percent towards the end of 2021, when this financial support comes to an end in September.



Inflation in 2020 was 0.9 percent, well below the target of 2 percent set by the Bank of England. It is projected to increase to 1.5 percent in the 2021 year, which is still lower than that of other advanced economies in the post-pandemic recovery period.

European Union

European recovery has been extremely rocky. GDP has continued to contract in several countries in 2021, meaning the region has slipped into a recession again, despite projections showing a 4.4 percent growth this year. Even though individual member countries have provided their own fiscal and monetary stimulus, the region as a whole has faced significant roadblocks. The EU-wide €750 billion (NZ$1.25 trillion) fiscal package approved in July 2020 has still not been made available to member nations. Recovery will be paced differently for individual countries. France's economy, for instance, grew in the first quarter of this year as opposed to contractions in Germany, Italy, Spain, and Portugal.



Unemployment in the region is projected to increase to 8.6 percent in 2021 compared to 7.7 in 2020. Concerns stem from the fact that once governments stop supporting businesses to retain workers, unemployment may spike even more.

The improving manufacturing sector provides some optimism for the region. Confidence among European manufacturers is at a nine-year high. German retail sales saw a monthly increase of 7.7 percent in March, displaying signs of recovery. The EU's recovery plan aims to build "a greener, more digital and more resilient Europe", with a special focus on rebuilding the tourism and hospitality sectors in the region.

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.

Compared to the forecasts in the previous edition of Birds Eye View, we are now slightly more optimistic about short term GDP growth and employment growth, and about the unemployment rate. But we are less optimistic about inflation and exports growth.

		GDP(P) growth, %	FTE employment growth, %	Unemploy-ment rate %	Net migration number	CPI inflation, %	Exports growth, %	Imports growth %	OBEGAL, $bn
Actual	2020	-1.7	1.8	4.0	89,000	1.5	1.7	-5.4	23.1
Forecast	2021	3.0	0.5	5.2	8,000	2.6	0.0	-1.0	16.3
Forecast	2022	2.8	1.3	4.6	15,000	4.0	2.5	2.0	-20.6
Forecast	2023	3.5	1.7	4.3	25,000	3.5	4.5	4.0	-14.4
Forecast	2024	3.0	1.4	4.0	25,000	3.2	4.0	3.7	-10.9