

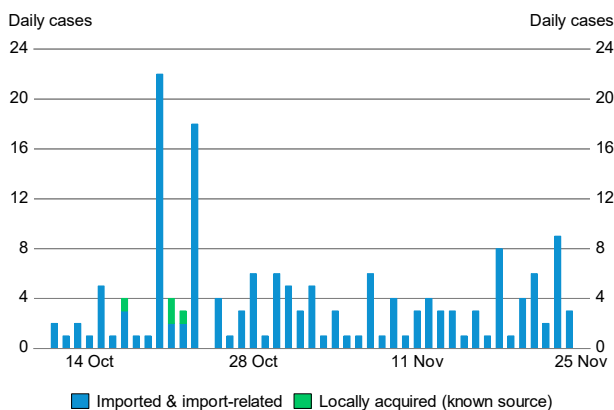
Retail sales experienced their highest growth on record in the September quarter, presenting upside risk to the Treasury's PREFU forecast of GDP growth. Card spending has shown a steady recovery in November after some volatility, and the number of people receiving income support continues to fall. Annual GDP in the year to March 2020 was revised up by nearly \$8 billion, and the annual goods trade surplus reached a 28-year high in October.

Improved prospects for global growth next year were reinforced by further positive vaccine news, this time from AstraZeneca and the University of Oxford. A key benefit of the AstraZeneca vaccine is that it is likely to be available at a lower cost compared to others and can be kept at refrigerator temperatures, making it easier to deploy.

Air New Zealand case not related to NZ

After an Air New Zealand staff member tested positive during routine screening in China, further tests have confirmed the positive result. Genome sequencing has shown that the infection is not related to any known cases in New Zealand, and close contacts from the flight are in quarantine in Auckland. None of the person's close contacts have yet tested positive. The case is being treated as if it were a confirmed case in New Zealand, with locations visited by the person prior to the flight being investigated. There are currently 60 active cases in the country, 55 of which are in managed isolation at the border.

Figure 1: Daily COVID-19 cases by infection source

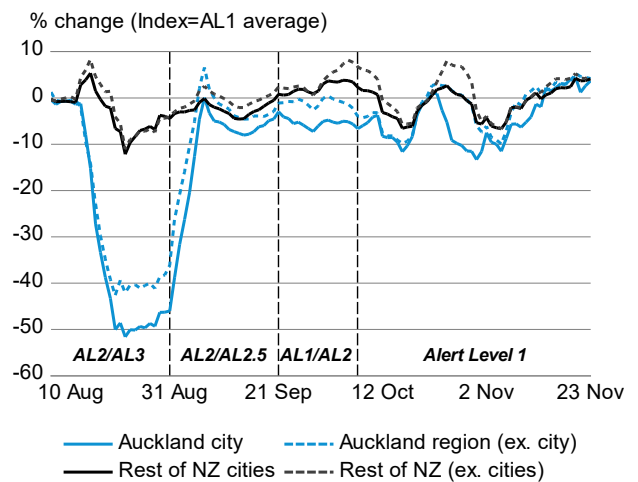


Source: Institute of Environmental Science and Research

Spending recovers after volatility

Electronic card spending has appeared volatile since Auckland returned to Alert Level 1 on 8 October, with differences persisting between city centres and regional areas (Figure 2). A steady upward trend has emerged since early November, however, and spending in city centres appears to be catching up.

Figure 2: Spending inside and outside city centres



Source: Paymark and Verifone data via Data Ventures

The gap between Auckland and the rest of the country has also been closing. In the week to 23 November, spending in both city centres and regional areas, in Auckland and the rest of New Zealand, was 4-5% above the June/July Alert Level 1 average. Total card spending in New Zealand reached its highest level since the post-lockdown surge in May 2020 (see Domestic High-frequency Indicators).

Income support falls slightly

Income support numbers fell for the twelfth consecutive week, with the total number of people receiving Jobseeker Support and the COVID-19 Income Relief Payment (CIRP) easing slightly to around 210,500. This compares to around 222,000 at the end of August.

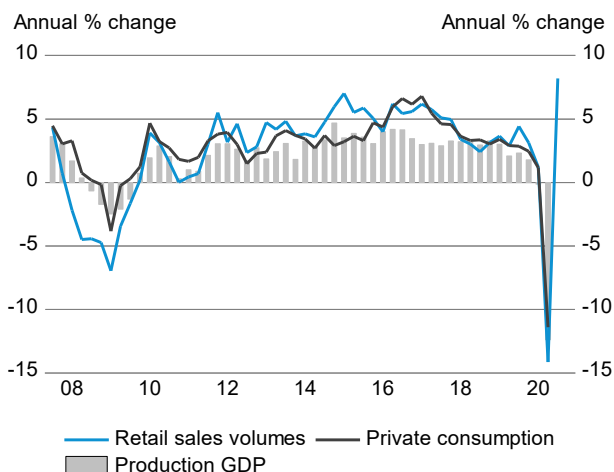
The downward trend has been largely driven by CIRP payment periods coming to an end, though the number of people receiving Jobseeker Support "Work Ready" payments has also fallen in each of the last seven weeks (see Domestic High-frequency Indicators).

Retail sales rebound strongly in the quarter...

The September quarter Retail Trade Survey showed that retail sales volumes rose by 28.0% from their June quarter level (8.2% annually), the biggest rise on record. This follows a 14.8% fall in the June quarter. All industries, except supermarket and grocery stores, experienced growth over the quarter. Volume growth was particularly strong for motor vehicles and parts, up \$1.3 billion (47.7%), food and beverage services, up \$1.0 billion (65.5%) and hardware, building and garden supplies, up \$0.7 billion (40.0%).

Spending over the past two quarters has been supported by a variety of factors. Wage subsidy schemes, pent up demand, forced savings during higher alert levels, New Zealanders holidaying at home rather than abroad, and low interest rates have all contributed to the strong result. While a rebound in spending was expected following the easing of higher alert levels, the strength of the rebound has exceeded market expectations. Retail sales volumes are a strong indicator of real private consumption (Figure 3). This outturn poses upside risk to our Pre-election Update (PREFU) forecasts of 12.0% growth for September quarter GDP.

Figure 3: Retail sales volumes, real private consumption and GDP



Source: Stats NZ

...however, uncertainty remains

Despite the strong September quarter result, uncertainty remains around how long the strength in spending can last. As some of the factors supporting spending come to an end and the peak international travel season over summer approaches without international visitors, we may see retail sales growth slow significantly in coming quarters.

Annual GDP was revised higher...

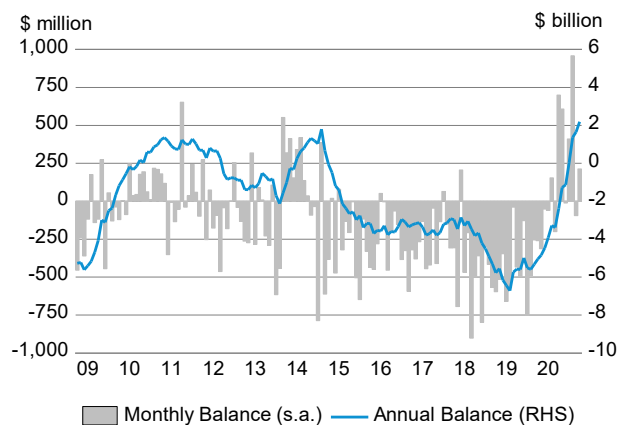
Annual GDP was revised up by \$7.9 billion in the year to March 2020 relative to the previously published quarterly data. These revisions mainly relate to private consumption, investment and, to a lesser degree, government consumption. Annual GDP data is based on more comprehensive information than quarterly estimates, and as a result earlier quarterly data is revised each year when annual data is released.

The first annual GDP data relating to the COVID-19 affected period will be for the year to March 2021, and this will not be released until November 2021.

...and the annual trade surplus grew

The annual trade surplus grew further, reaching a 28-year high of \$2.2 billion in the year ended October 2020, driven by lower imports (Figure 4). Over the year to October, imports fell by \$6.5 billion (10.1%) compared to the previous year, with international and domestic restrictions impacting imports of fuel and transport equipment. Exports on the other hand, rose \$734 million (1.2%) over the year, supported by meat, dairy and horticulture products. Exports of optical and medical equipment also contributed strongly to the increase in exports, rising 38.6% over the year.

Figure 4: Overseas merchandise trade



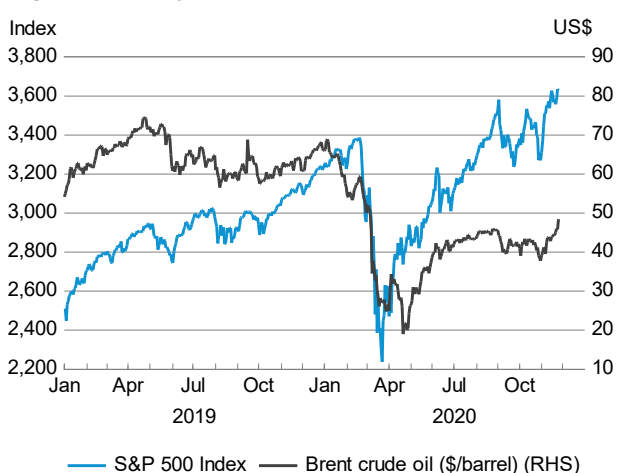
Source: Stats NZ

Imports recovered slightly in the month of October, rising 3.3% in seasonally adjusted terms. The recovery in imports is expected to continue as the domestic recovery continues, although there are potential headwinds with ongoing supply chain congestion issues resulting from COVID-19.

Global growth prospects improve...

Improved prospects for global growth next year were reinforced by further positive vaccine news, this time from AstraZeneca and the University of Oxford. A key benefit of the AstraZeneca vaccine is that it is likely to be available at a lower cost compared to others and can be kept at refrigerator temperatures, making it easier to deploy. This news, combined with the US President's decision to cooperate with a transition of power to President-elect Biden, propelled US equity markets to fresh highs earlier this week. Oil prices were also higher, increasing to over US\$45 per barrel for the first time since early March (Figure 5).

Figure 5: Equity and oil prices



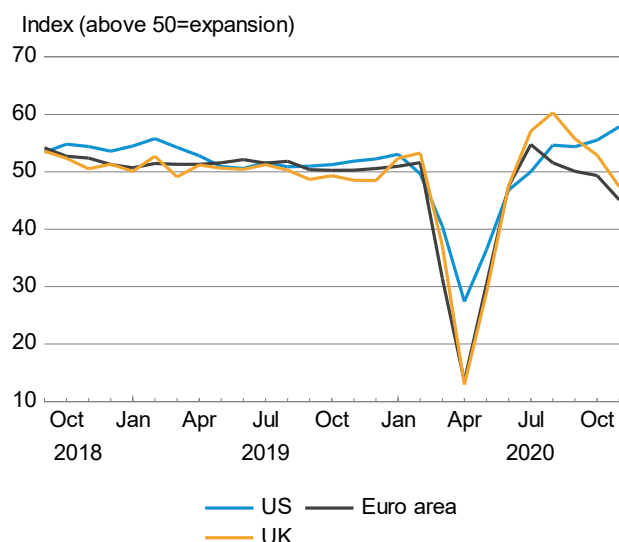
Source: Haver

...but there are risks in the near-term

However, disruption from the pandemic is threatening the short-term outlook. The US Conference Board's measure of consumer confidence weakened, which may signal a slow-down in spending over the forthcoming holiday period. On the other hand, the preliminary (or flash) US Markit Performance of Manufacturing Indexes (PMIs) for both manufacturing and services defied analyst expectations of a fall, with the composite index rising to its highest level since March 2015 (Figure 6).

In contrast, November's flash composite PMIs weakened in the euro area and in the United Kingdom, reinforcing expectations that gross domestic product will decline again in the region.

Figure 6: Composite PMIs – US, UK and euro area



Source: Haver

UK fiscal deficit to hit post-war high

The UK's Office of Budget Responsibility released updated fiscal projections alongside the Government's Spending Review for 2021/22. The 2020/21 public sector net borrowing deficit is projected to reach 19% of GDP, its highest since 1944/45, and debt to reach 105% of GDP, its highest since 1959/60. The deficit is expected to drop to 7.4% of GDP the following year, as temporary COVID-19 support measures unwind, and to 3.9% of GDP by 2025/26.

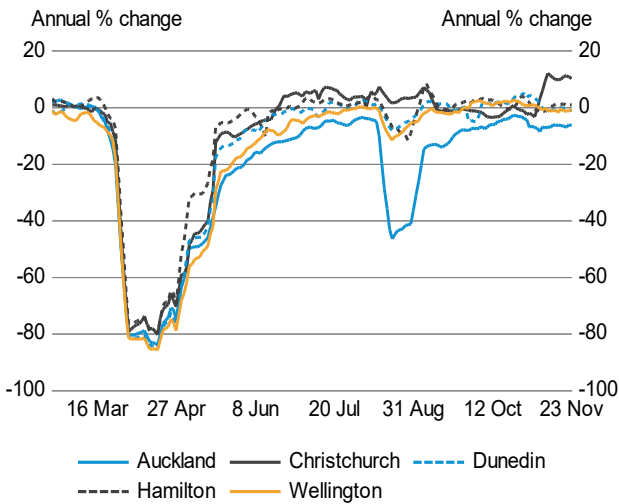
Construction work falls in Australia...

In Australia, the value of construction work done fell 2.6% in the three months ended September compared to the three months ended June. The lockdown in Victoria accounted for a large portion of the weakness. Residential investment fell 1.0%, as a fall in apartments outweighed an increase in houses and a large rise in renovations. The outlook for residential construction is mixed. Approvals for new houses have held up, partly supported by the federal government's HomeBuilder programme, but the slowdown in migration and international students is weighing on demand, especially for apartments.

| Date | Key upcoming NZ data | Previous |
|--------|---|----------|
| 30 Nov | ANZ Business Outlook | -15.6 |
| 1 Dec | Overseas trade price indexes (Terms of trade - merchandise) | + 2.5% |
| 3 Dec | Building consents issued | + 3.6% |
| 4 Dec | Building work put in place (vols) | + 22.0% |

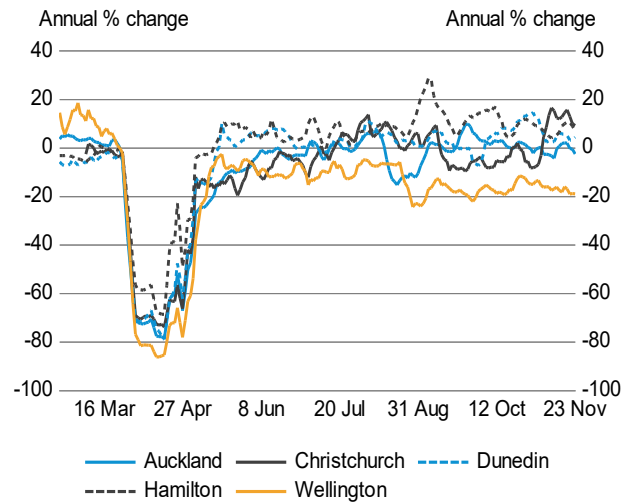
High-Frequency Indicators (Domestic)

Traffic Movement



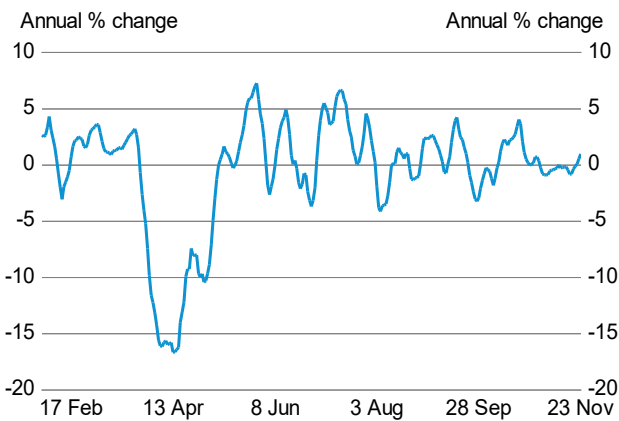
Source: Waka Kotahi NZ Transport Agency

Freight Movement



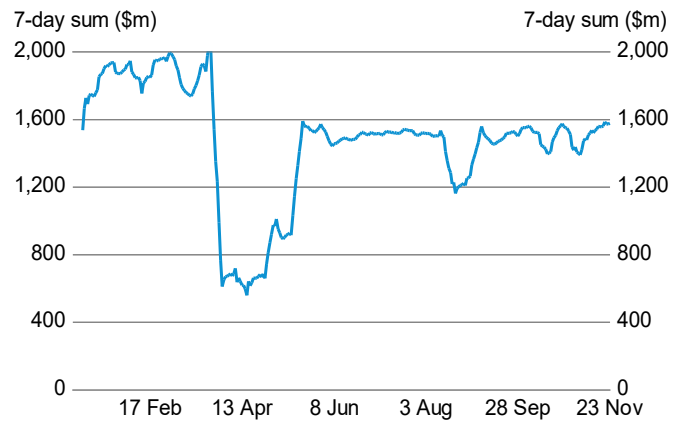
Source: Waka Kotahi NZ Transport Agency

Electricity Demand



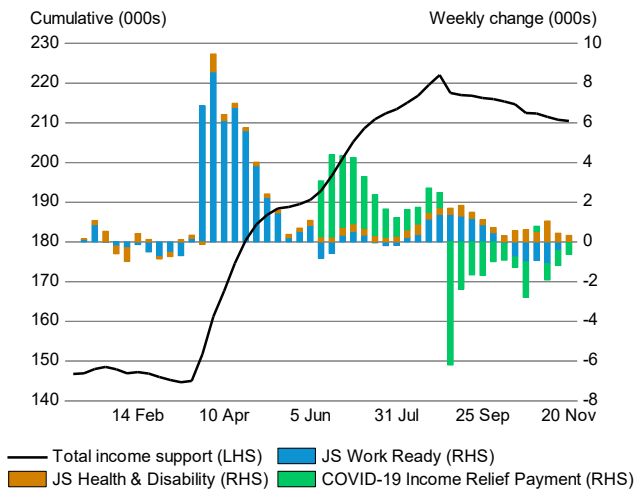
Source: Electricity Authority

Retail Spending



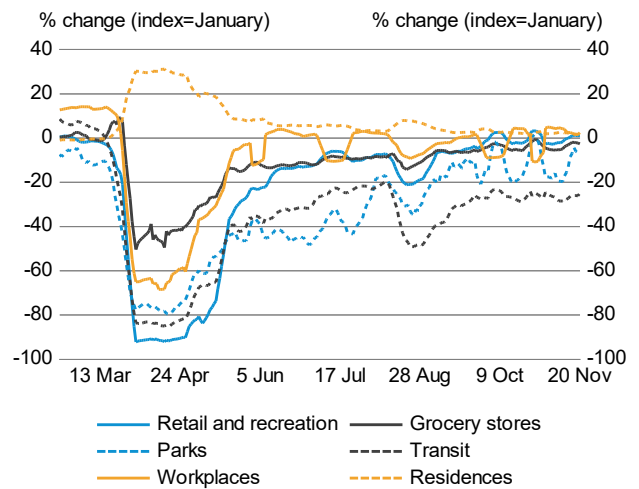
Source: Paymark and Verifone data via Data Ventures

Jobseeker (JS) and Income Support Recipients



Source: MSD

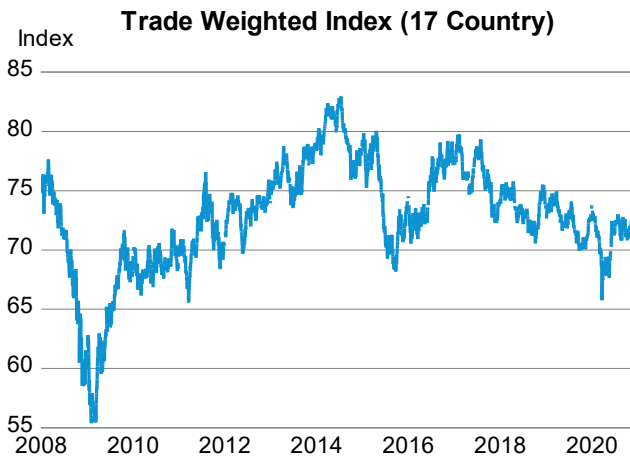
People Movements at Selected Locations



Source: Google

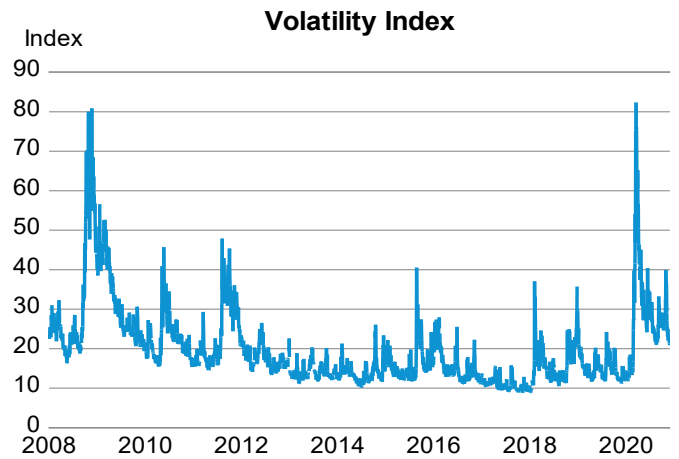
High-Frequency Indicators (Global)

Trade Weighted Index



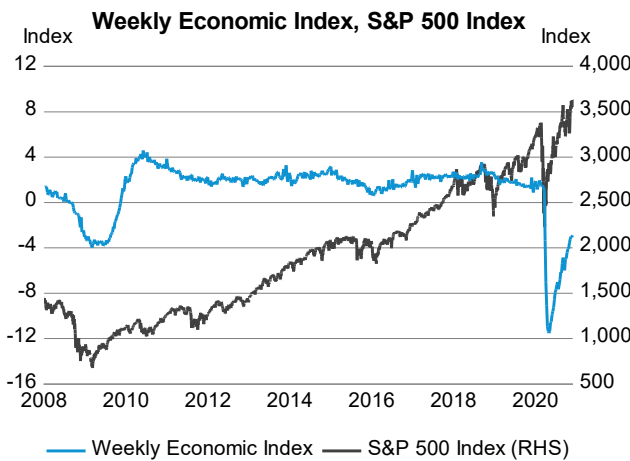
Source: RBNZ

Volatility Index



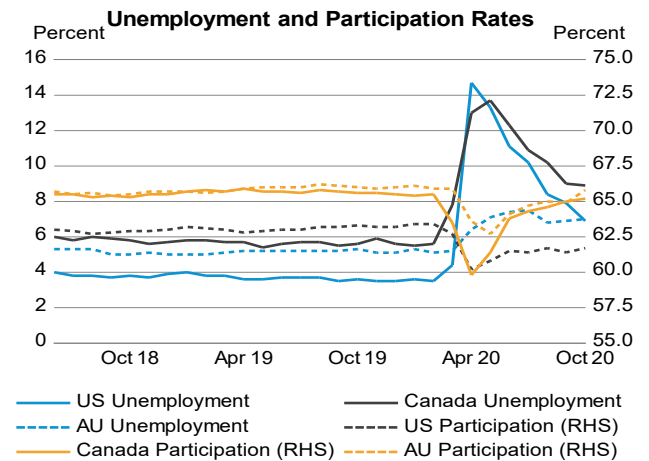
Source: Haver

US Activity and Equities



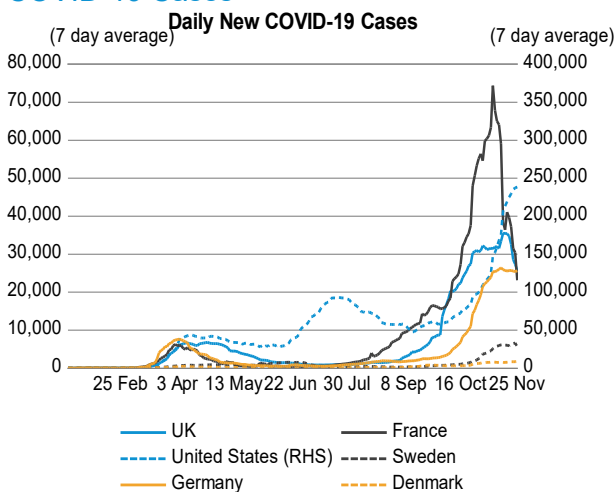
Sources: Federal Reserve Bank of New York, Haver

Labour Markets



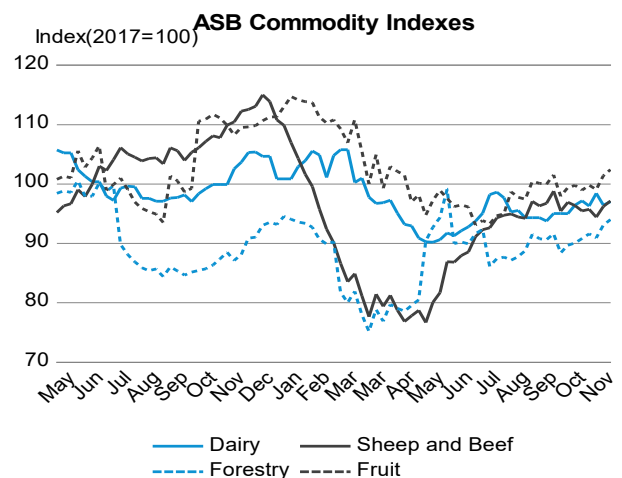
Source: Haver

COVID-19 Cases



Sources: World Health Organisation/Haver

World Commodity Prices



Source: ASB

| Quarterly Indicators | | 2019Q2 | 2019Q3 | 2019Q4 | 2020Q1 | 2020Q2 | 2020Q3 |
|---|-------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| Real Production GDP (1) | qpc | 0.1 | 0.7 | 0.5 | -1.4 | -12.2 | ... |
| | aapc | 2.8 | 2.7 | 2.3 | 1.5 | -2.0 | ... |
| Current account balance (annual) | %GDP | -3.8 | -3.8 | -3.4 | -2.9 | -1.9 | ... |
| Merchandise terms of trade | apc | -1.0 | 0.9 | 7.1 | 5.4 | 6.5 | ... |
| CPI inflation | qpc | 0.6 | 0.7 | 0.5 | 0.8 | -0.5 | 0.7 |
| | apc | 1.7 | 1.5 | 1.9 | 2.5 | 1.5 | 1.4 |
| Employment (HLFS) (1) | qpc | 0.6 | 0.4 | 0.3 | 1.1 | -0.3 | -0.8 |
| Unemployment rate (1) | % | 4.0 | 4.2 | 4.1 | 4.2 | 4.0 | 5.3 |
| Participation rate (1) | % | 70.5 | 70.7 | 70.4 | 70.7 | 69.9 | 70.1 |
| LCI salary & wage rates - total (2) | apc | 2.1 | 2.5 | 2.6 | 2.5 | 2.1 | 1.8 |
| QES average hourly earnings - total (2) | apc | 4.4 | 4.2 | 3.6 | 3.6 | 3.0 | 3.6 |
| Core retail sales volume | apc | 3.6 | 5.4 | 3.3 | 4.0 | -11.7 | 7.7 |
| Total retail sales volume | apc | 2.9 | 4.5 | 3.3 | 2.3 | -14.2 | 8.3 |
| WMM - consumer confidence (3) | Index | 103.5 | 103.1 | 109.9 | 104.2 | 97.2 | ... |
| QSBO - general business situation (1,4) | net% | -30.3 | -38.7 | -28.7 | -67.7 | -58.3 | -39.4 |
| QSBO - own activity outlook (1,4) | net% | -1.9 | -0.7 | 3.7 | -13.1 | -24.6 | 0.4 |
| Monthly Indicators | | May 20 | Jun 20 | Jul 20 | Aug 20 | Sep 20 | Oct 20 |
| Merchandise trade balance (12 month) | NZ\$m | -1,274 | -1,131 | 26 | 1,369 | 1,653 | 2,191 |
| Dwelling consents - residential | apc | -4.4 | 20.4 | -0.8 | -3.6 | 7.7 | ... |
| House sales - dwellings | apc | -44.3 | 11.8 | 29.1 | 27.7 | 41.0 | 25.0 |
| REINZ - house price index | apc | 7.0 | 7.7 | 9.2 | 9.6 | 10.9 | 13.5 |
| Estimated net migration (12 month total) | people | 90,694 | 88,146 | 81,370 | 75,117 | 67,735 | ... |
| ANZ NZ commodity price index | apc | -1.3 | -2.9 | 0.2 | -3.9 | -6.4 | -5.6 |
| ANZ world commodity price index | apc | -8.1 | -5.7 | -1.5 | -2.8 | -3.0 | -2.3 |
| ANZBO - business confidence | net% | -41.8 | -34.4 | -31.8 | -41.8 | -28.5 | -15.7 |
| ANZBO - activity outlook | net% | -38.7 | -25.9 | -8.9 | -17.5 | -5.4 | 4.7 |
| ANZ-Roy Morgan - consumer confidence | net% | 97.3 | 104.5 | 104.3 | 100.2 | 100.0 | 108.7 |
| Weekly Benefit Numbers | | 16 Oct | 23 Oct | 30 Oct | 6 Nov | 13 Nov | 20 Nov |
| Jobseeker Support | number | 204,171 | 203,776 | 203,371 | 203,341 | 203,365 | 203,665 |
| Work Ready | number | 132,004 | 131,002 | 130,065 | 128,979 | 128,559 | 128,529 |
| Health Condition and Disability | number | 72,167 | 72,774 | 73,306 | 74,362 | 74,806 | 75,136 |
| COVID-19 Income Relief Payment | number | 10,517 | 8,733 | 8,995 | 8,168 | 7,398 | 6,795 |
| Full-time | number | 9,373 | 7,782 | 8,010 | 7,296 | 6,627 | 6,101 |
| Part-time | number | 1,144 | 951 | 985 | 872 | 771 | 694 |
| Daily Indicators | | Wed 18/11/20 | Thu 19/11/20 | Fri 20/11/20 | Mon 23/11/20 | Tue 24/11/20 | Wed 25/11/20 |
| NZ exchange and interest rates (5) | | | | | | | |
| NZD/USD | \$ | 0.6884 | 0.6904 | 0.6913 | 0.6955 | 0.6942 | 0.6975 |
| NZD/AUD | \$ | 0.9457 | 0.9471 | 0.9498 | 0.9501 | 0.9504 | 0.9473 |
| Trade weighted index (TWI) | index | 73.0 | 73.2 | 73.4 | 73.7 | 73.6 | 73.8 |
| Official cash rate (OCR) | % | 0.25 | 0.25 | 0.25 | 0.25 | 0.25 | 0.25 |
| 90 day bank bill rate | % | 0.25 | 0.25 | 0.25 | 0.25 | 0.25 | 0.25 |
| 10 year govt bond rate | % | 0.89 | 0.86 | 0.82 | 0.80 | 0.81 | 0.89 |
| Share markets (6) | | | | | | | |
| Dow Jones | index | 29,438 | 29,483 | 29,263 | 29,591 | 30,046 | 29,872 |
| S&P 500 | index | 3,568 | 3,582 | 3,558 | 3,578 | 3,635 | 3,630 |
| VIX volatility index | index | 23.8 | 23.1 | 23.7 | 22.7 | 21.6 | 21.3 |
| AU all ords | index | 6,726 | 6,743 | 6,740 | 6,772 | 6,855 | 6,888 |
| NZX 50 | index | 12,606 | 12,557 | 12,442 | 12,502 | 12,553 | 12,668 |
| US interest rates | | | | | | | |
| 3 month OIS | % | 0.09 | 0.08 | 0.08 | 0.08 | 0.08 | ... |
| 3 month Libor | % | 0.22 | 0.21 | 0.20 | 0.21 | 0.23 | ... |
| 10 year govt bond rate | % | 0.88 | 0.86 | 0.83 | 0.86 | 0.88 | 0.88 |
| Commodity prices (6) | | | | | | | |
| WTI oil | US\$/barrel | 41.82 | 41.74 | 41.99 | 42.91 | 44.71 | ... |
| Gold | US\$/ounce | 1,876 | 1,857.35 | 1,875.70 | 1,840.20 | 1,799.60 | ... |
| CRB Futures | index | 423 | 423.53 | 426.74 | 426.51 | 427.09 | ... |

(1) Seasonally adjusted
(2) Ordinary time, all sectors
(3) Westpac McDermott Miller

(4) Quarterly Survey of Business Opinion
(5) Reserve Bank (11am)
(6) Daily close

Data in italic font are provisional
... Not available

| Country | Indicator | | Apr 20 | May 20 | Jun 20 | 2020Q2 | Jul 20 | Aug 20 | Sep 20 | 2020Q3 | Oct 20 | Nov 20 |
|---|----------------------------|-------|----------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| United States [9.6% share of total goods exports] | GDP (1) | qpc | | | | -9.0 | | | | 7.4 | | |
| | Industrial production (1) | mpc | -12.7 | 0.9 | 6.0 | | 4.2 | 0.7 | -0.4 | | 1.1 | ... |
| | CPI | apc | 0.3 | 0.1 | 0.6 | | 1.0 | 1.3 | 1.4 | | 1.2 | ... |
| | Unemployment rate (1) | % | 14.7 | 13.3 | 11.1 | | 10.2 | 8.4 | 7.9 | | 6.9 | ... |
| | Employment change (1) | 000s | -20787.0 | 2725.0 | 4781.0 | | 1761.0 | 1493.0 | 672.0 | | 638.0 | ... |
| | Retail sales value | apc | -19.9 | -5.6 | 2.2 | | 2.7 | 3.6 | 5.9 | | 5.7 | ... |
| | House prices (2) | apc | 3.8 | 3.6 | 3.5 | | 4.2 | 5.3 | 6.6 | | ... | ... |
| | PMI manufacturing (1) | index | 41.5 | 43.1 | 52.6 | | 54.2 | 56.0 | 55.4 | | 59.3 | ... |
| | Consumer confidence (1)(3) | index | 85.7 | 85.9 | 98.3 | | 91.7 | 86.3 | 101.3 | | 101.4 | 96.1 |
| Japan [6.1%] | GDP (1) | qpc | | | | -8.2 | | | | 5.0 | | |
| | Industrial production (1) | mpc | -9.8 | -8.9 | 1.9 | | 8.7 | 1.0 | 3.9 | | ... | ... |
| | CPI | apc | 0.2 | 0.0 | 0.1 | | 0.4 | 0.1 | 0.0 | | -0.4 | ... |
| | Unemployment rate (1) | % | 2.6 | 2.9 | 2.8 | | 2.9 | 3.0 | 3.0 | | ... | ... |
| | Retail sales value | apc | -13.9 | -12.5 | -1.3 | | -2.9 | -1.9 | -8.7 | | ... | ... |
| | PMI manufacturing (1) | index | 41.9 | 38.4 | 40.1 | | 45.2 | 47.2 | 47.7 | | 48.7 | ... |
| | Consumer confidence (1)(4) | index | 21.3 | 24.1 | 28.5 | | 29.5 | 29.3 | 32.8 | | 33.3 | ... |
| | | | | | | | | | | | | |
| Euro area [5.5%] | GDP (1) | qpc | | | | -11.8 | | | | 12.6 | | |
| | Industrial production (1) | mpc | -18.0 | 12.5 | 9.5 | | 5.3 | 0.6 | -0.4 | | ... | ... |
| | CPI | apc | 0.3 | 0.1 | 0.3 | | 0.4 | -0.2 | -0.3 | | -0.3 | ... |
| | Unemployment rate (1) | % | 7.4 | 7.6 | 7.9 | | 8.1 | 8.3 | 8.3 | | ... | ... |
| | Retail sales volume | apc | -19.3 | -2.7 | 1.5 | | 0.1 | 4.4 | 2.2 | | ... | ... |
| | PMI manufacturing (1) | index | 33.4 | 39.4 | 47.4 | | 51.8 | 51.7 | 53.7 | | 54.8 | ... |
| | Consumer confidence (5) | index | -22.0 | -18.8 | -14.7 | | -15.0 | -14.7 | -13.9 | | -15.5 | -17.6 |
| | | | | | | | | | | | | |
| United Kingdom [2.7%] | GDP (1) | qpc | | | | -19.8 | | | | 15.5 | | |
| | Industrial production (1) | mpc | -19.5 | 5.6 | 9.9 | | 5.3 | 0.2 | 0.4 | | ... | ... |
| | CPI | apc | 0.8 | 0.6 | 0.6 | | 1.1 | 0.2 | 0.6 | | 0.7 | ... |
| | Unemployment rate (1) | % | 4.0 | 4.1 | 4.1 | | 4.3 | 4.5 | 4.8 | | ... | ... |
| | Retail sales volume | apc | -22.8 | -12.9 | -1.9 | | 1.2 | 2.8 | 4.6 | | 5.8 | ... |
| | House prices (6) | apc | 3.7 | 1.8 | -0.1 | | 1.5 | 3.7 | 5.0 | | 5.8 | ... |
| | PMI manufacturing (1) | index | 32.6 | 40.7 | 50.1 | | 53.3 | 55.2 | 54.1 | | 53.7 | ... |
| | Consumer confidence (1)(5) | index | -22.7 | -23.7 | -21.0 | | -16.6 | -16.6 | -17.9 | | -20.4 | ... |
| Australia [15.8%] | GDP (1) | qpc | | | | -7.0 | | | | ... | | |
| | CPI | apc | | | | -0.3 | | | | 0.7 | | |
| | Unemployment rate (1) | % | 6.4 | 7.1 | 7.4 | | 7.5 | 6.8 | 6.9 | | 7.0 | ... |
| | Retail sales value | apc | -8.9 | 5.5 | 8.6 | | 12.8 | 5.4 | 6.6 | | ... | ... |
| | House Prices (7) | apc | | | | 6.6 | | | | | ... | ... |
| | PMI manufacturing (1) | index | 35.8 | 41.6 | 51.5 | | 53.5 | 49.3 | 46.7 | | 56.3 | ... |
| | Consumer confidence (8) | index | 75.6 | 88.1 | 93.7 | | 87.9 | 79.5 | 93.8 | | 105.0 | 107.7 |
| | | | | | | | | | | | | |
| China [24.3%] | GDP | apc | | | | 3.2 | | | | 4.9 | | |
| | Industrial production | apc | 3.9 | 4.4 | 4.8 | | 4.8 | 5.6 | 6.9 | | 6.9 | ... |
| | CPI | apc | 3.3 | 2.4 | 2.5 | | 2.7 | 2.4 | 1.7 | | 0.5 | ... |
| | PMI manufacturing (1) | index | 50.8 | 50.6 | 50.9 | | 51.1 | 51.0 | 51.5 | | 51.4 | ... |
| South Korea [3.0%] | GDP (1) | qpc | | | | -3.2 | | | | 1.9 | | |
| | Industrial production (1) | mpc | -6.6 | -7.0 | 7.1 | | 1.9 | -0.3 | 5.4 | | ... | ... |
| | CPI | apc | 0.1 | -0.3 | -0.0 | | 0.3 | 0.7 | 1.0 | | 0.1 | ... |

(1) Seasonally adjusted

(2) Case-Shiller Home Price Index 20 city

(3) The Conference Board Consumer Confidence Index

(4) Cabinet Office Japan

(5) European Commission

(6) Nationwide House Price Index

(7) Australian Bureau of Statistics

(8) Melbourne/Westpac Consumer Sentiment Index