

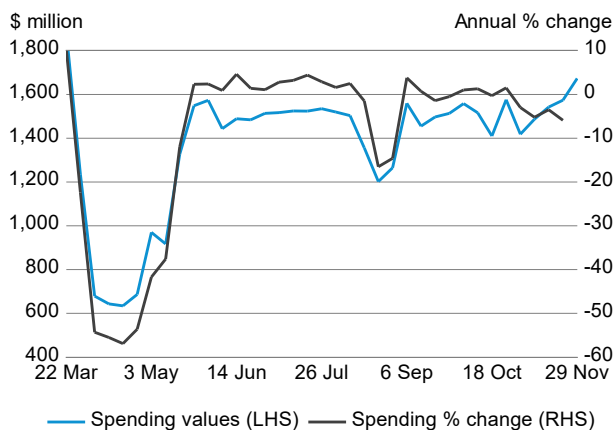
Business confidence improved in November while consumer confidence fell, suggesting that there is a risk the September quarter surge in retail spending may not persist. Job numbers rose strongly in October, boosted by hiring for the general election. The terms of trade recorded the sharpest quarterly drop in over a decade as prices for dairy, meat and forestry products fell. Annual building consents reached a 46-year high on the back of strong growth in multi-unit dwelling consent issuance. Core Crown tax revenue for the four months to October 2020 was \$2.9 billion (10.9%) above forecast, mainly owing to above-forecast GST, source deduction and corporate tax revenue.

The OECD's six-monthly Economic Outlook (EO) expressed hope for a brighter future on the back of progress with vaccines and treatments. Global GDP is now expected to fall by 4.2% in 2020 compared with a 6.0% contraction forecast in June. Global growth is projected to be 4.1% in 2021, compared with 5.2% in June, and 3.7% in 2022 (a new projection year in this EO). Australia's economy grew 3.3% in the September quarter compared to the prior quarter, but was 3.8% lower than a year ago.

Seasonal spending increase appears weaker

Electronic card spending has shown a strong pick-up in recent weeks, reaching the highest level since before the Alert Level 4 lockdown. However, spending data from Marketview, which compares card spending values to the same week in 2019, suggests the usual seasonal increase in spending has been weaker than last year (Figure 1).

Figure 1: Weekly electronic card spending

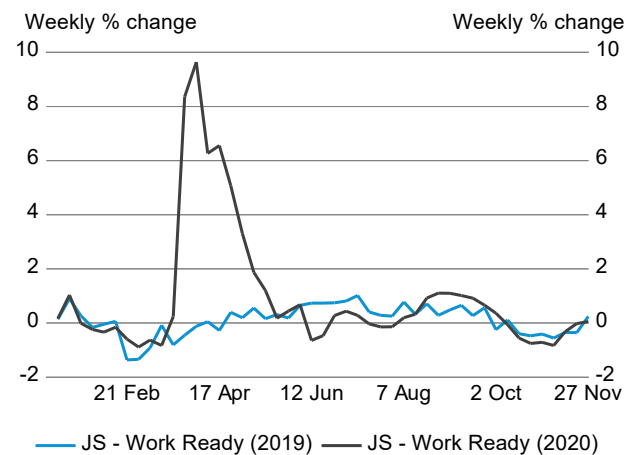


Sources: Data Ventures, Marketview data via MBIE

Income support continues to fall

Income support numbers fell for the thirteenth consecutive week, easing slightly to around 210,100. The number of JS – Work Ready recipients increased slightly after falling throughout October and November. This is in line with normal patterns, and numbers are expected to continue rising through December and January (Figure 2).

Figure 2: Jobseeker Support – Work Ready

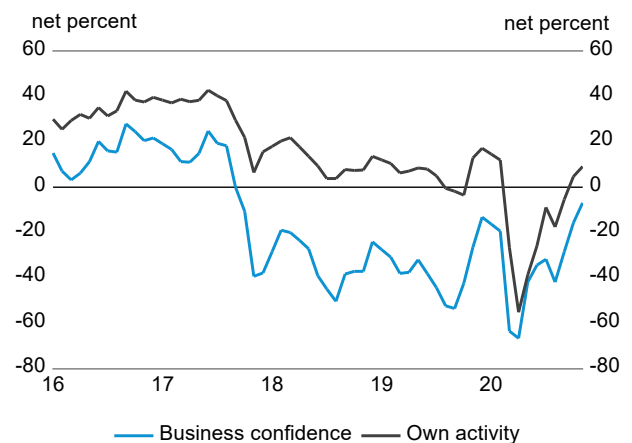


Source: Ministry of Social Development

Business confidence improves further...

Business confidence rose to its highest level since late 2017, but remained in negative territory, according to the ANZ Business Outlook. Own activity also rose - a net 9.1% of businesses now expect activity to improve in the year ahead (Figure 3). Construction remains the most positive sector while agriculture is the most pessimistic.

Figure 3: ANZ Business Outlook



Source: ANZ

... and consumer confidence is steady

Consumer confidence eased 2 points to 106.9 in November in the ANZ-Roy Morgan Consumer Confidence survey. Although below its historical average of 120, it is well above recent lows, consistent with the recent strength in retail sales.

Filled jobs rose sharply in October...

Filled jobs rose by 27,667 in October, boosted by hiring for the general election. Stats NZ calculates filled jobs by averaging weekly jobs paid throughout the month, based on tax data.

Building consents reach 46-year high

Building consents issuance jumped 8.8% in October, consolidating the 3.6% rise in September, driven by a 30.4% increase in the number of multi-unit dwellings. Despite heightened uncertainty due to COVID-19, consents issuance between April and October 2020 averaged higher than the same period in 2019, contributing to annual consents recording a 46-year high.

High consents issuance over the past year is expected to support a strong pipeline of construction activity over the year ahead, although capacity constraints and uncertainties relating to firms' supply chains and forward order books may constrain further growth in investment activity.

Terms of trade pulled down by export prices

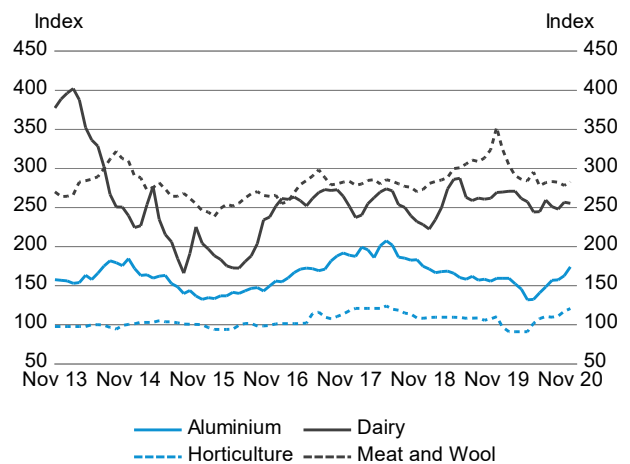
The merchandise terms of trade fell 4.7% in the September quarter, the largest quarterly drop in over a decade. This was the result of an 8.3% quarterly fall in export prices, driven by prices for dairy, meat and forestry products, which was partly offset by a 3.7% fall in import prices. Although export volumes rose strongly in the quarter, lower prices resulted in a 2.2% fall in export values.

Spending by overseas visitors and students was \$1.5 billion in the September quarter, down by half compared to 2019. Stats NZ estimates that there were 112,000 visitors in the country over the quarter, compared to 141,000 last year. Spending by New Zealanders overseas also fell, down to just \$324m in the quarter compared to around \$2 billion in the same period last year.

Commodity Price Index lifts in November...

Commodity prices rose slightly (up 0.9%) in the November ANZ World Commodity Price Index, with softening dairy prices (down 0.6%) more than offset by increased meat (up 1.7%), horticulture (up 3.0%) and aluminium (up 7.0%) prices (Figure 4).

Figure 4: World commodity prices

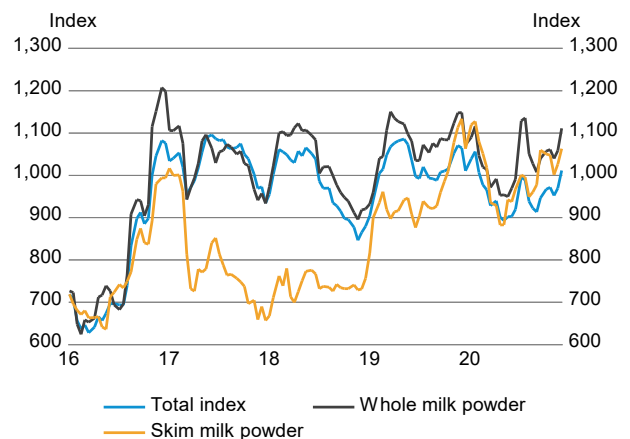


Source: ANZ

...and dairy prices on the rise

The *GlobalDairyTrade* (GDT) index rose 4.3% in US dollar terms and 1.9% in NZ dollar terms in this week's auction, reflecting strong global demand which is offsetting increased northern hemisphere milk production. Whole milk powder prices rose 5.0% and skim milk prices 3.6% (Figure 5).

Figure 5: *GlobalDairyTrade* prices



Source: Haver

OECD updates economic outlook

The OECD's December *Economic Outlook* (EO) forecasts the NZ economy to contract 4.8% in the year ending December 2020 and to grow 2.8% and 2.7% in 2021 and 2022 respectively (Table 1). This forecast is stronger than the Treasury's *Pre-election Economic and Fiscal Update*, which was finalised prior to the stronger-than-expected June quarter GDP release and recent above-forecast tax revenues, but weaker than the Reserve Bank's most recent forecasts. Unemployment is now projected to peak at 5.8% in 2021, down from a peak of 7.9% in the June EO. The OECD consider that rising unemployment will weigh on household spending and high uncertainty will hold back investment.

OECD sees brighter outlook

The OECD's latest EO "Coronavirus: Turning hope into reality" is more upbeat, albeit cautiously, than their June EO. Global GDP is now expected to fall by 4.2% in 2020 compared with a 6.0% contraction forecast in June. Economic activity fell by less than expected in the June quarter and rebounded strongly in the September quarter due to health measures, easing mobility restrictions and support from fiscal and monetary policy. However, growth has slowed in recent months due to a second wave of COVID-19 in some areas. Assuming the renewed outbreaks are contained, global growth is projected to be 4.1% in 2021, compared with 5.2% in June, and 3.7% in 2022 (a new projection year in this EO).

The economic impact of the pandemic in 2020 varies significantly across the OECD. The largest falls in GDP are expected for Spain, the United Kingdom and Greece (more than 10.0%) while falls of 2.0% or less are expected in Korea, Turkey and Lithuania. Mid-range declines are expected in other countries including Australia and New Zealand. Outside the OECD, China's growth stands out (Table 1).

Table 1: Selected OECD growth forecasts

| Calendar years - annual average % change | | | |
|--|-------|------|------|
| | 2020 | 2021 | 2022 |
| World | -4.2 | 4.2 | 3.7 |
| OECD | -5.5 | 3.3 | 3.2 |
| US | -3.7 | 3.2 | 3.5 |
| China | 1.8 | 8.0 | 4.9 |
| Euro area | -7.5 | 3.6 | 3.3 |
| UK | -11.2 | 4.2 | 4.1 |
| Sweden | -3.2 | 3.3 | 3.3 |
| Australia | -3.8 | 3.2 | 3.1 |
| NZ | -4.8 | 2.7 | 2.6 |

Source: OECD

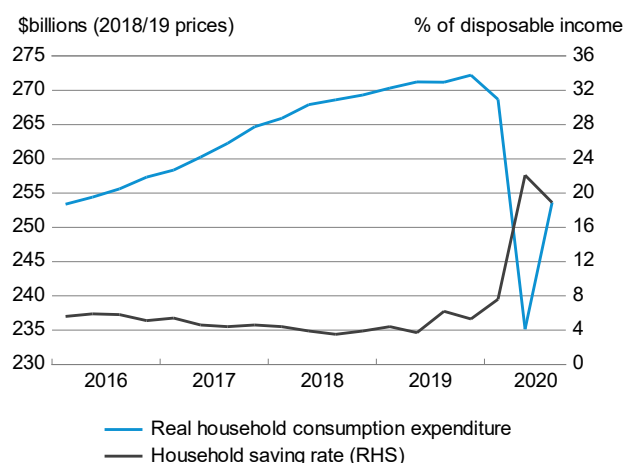
The OECD considers that uncertainty has receded but remains high. They outline two alternative scenarios. In the upside scenario, stronger confidence among consumers and firms sees global GDP growth of around 5% in 2021 and 5½% in 2022. In the downside scenario, weaker confidence and higher uncertainty due to slower vaccine development lowers global growth to around 1½% in 2021 and 2¼% in 2022. The impact of this scenario is lessened by additional macroeconomic policy support and by relatively strong performance from much of the Asia-Pacific region where COVID-19 is better contained.

Australian recovery begins

Australia's economy grew 3.3% in the September quarter compared to the prior quarter but was 3.8% smaller than a year ago. Restrictions were eased across Australia during the quarter, except in Victoria, which accounts for about 25% of GDP. Consequently, quarterly growth was the among the weakest in the OECD, but with the virus now contained and Victoria reopening, Australia is likely to outperform in coming quarters. In NZ, the major domestic banks expect GDP to increase by about 12% in September, and to be about 2.5% lower than a year ago.

Household consumption drove the Australian economy, rising 7.9% in the quarter, but still 6.5% lower than a year ago. Despite the surge in spending, household saving remains elevated, at about 19% of income (Figure 6). Analysts estimate that savings accumulated over the past two quarters are about 5% of GDP. Unwinding these savings in coming quarters, alongside continued easing of restrictions and reopening of state borders, will support strong private demand growth.

Figure 6: House consumption and saving



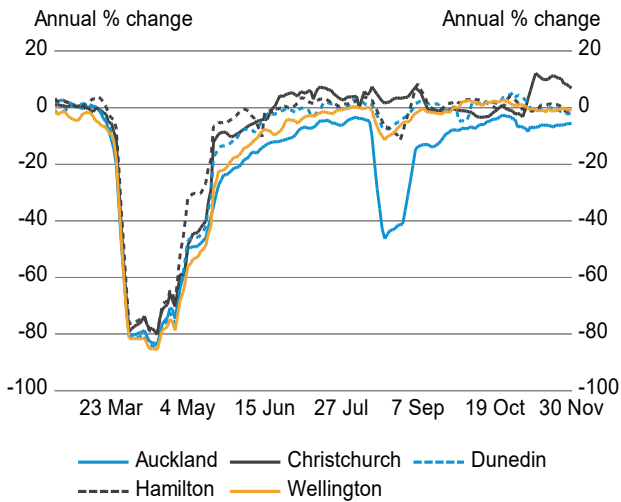
Source: Haver

Other components of expenditure on GDP were more subdued. Business investment fell 4.1%, although dwelling investment rose 0.6%, the first rise in two years, as home renovations surged. Public spending and inventories contributed positively, but net exports dragged on growth as imports rebounded.

| Date | Key upcoming NZ data | Previous |
|--------|--------------------------------|----------|
| 8 Dec | ANZ Business Outlook (Prelim) | - 6.9% |
| 9 Dec | Manufacturing Survey | - 12% |
| 9 Dec | Wholesale Trade Survey | - 10% |
| 10 Dec | Electronic card transactions | + 8.2% |
| 11 Dec | New Zealand activity indicator | + 1.4% |

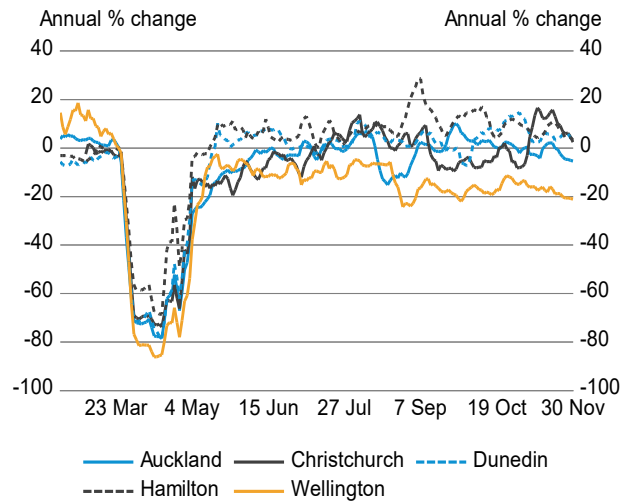
High-Frequency Indicators (Domestic)

Traffic Movement



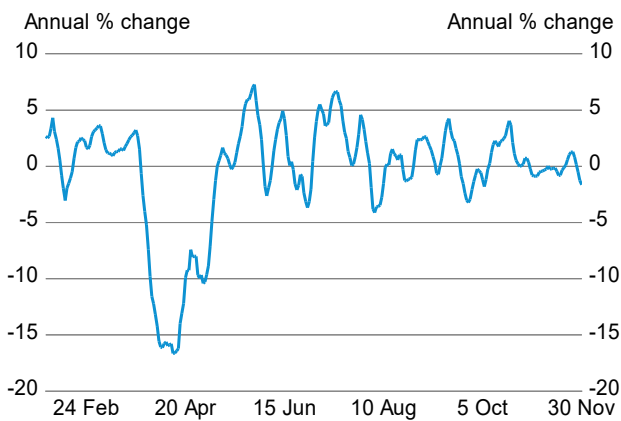
Source: Waka Kotahi NZ Transport Agency

Freight Movement



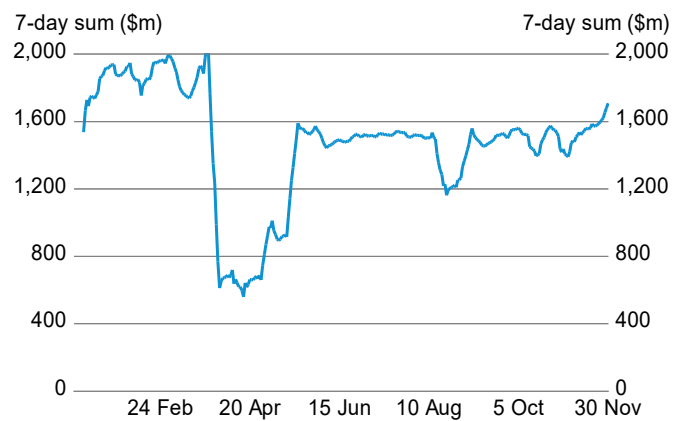
Source: Waka Kotahi NZ Transport Agency

Electricity Demand



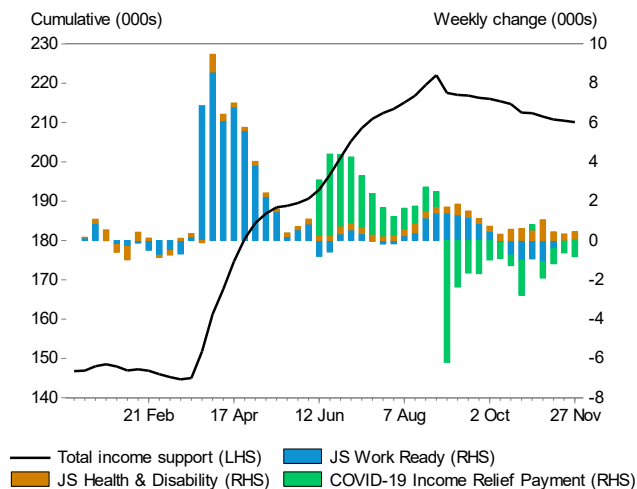
Source: Electricity Authority

Retail Spending



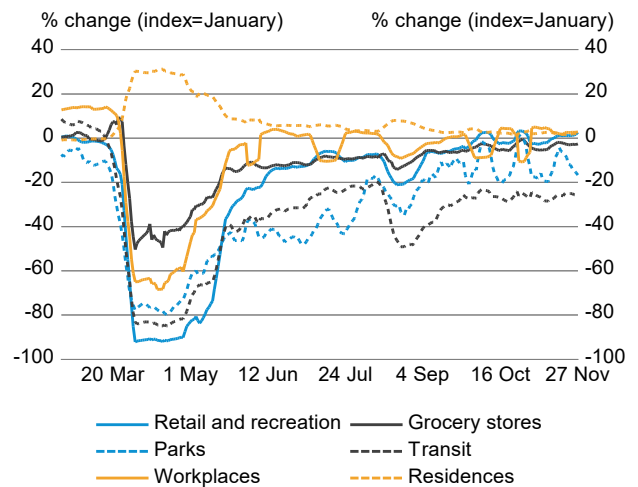
Source: Paymark and Verifone data via Data Ventures

Jobseeker (JS) and Income Support Recipients



Source: MSD

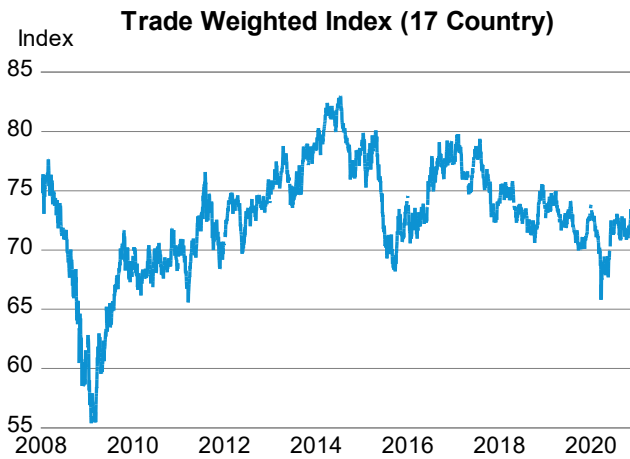
People Movements at Selected Locations



Source: Google

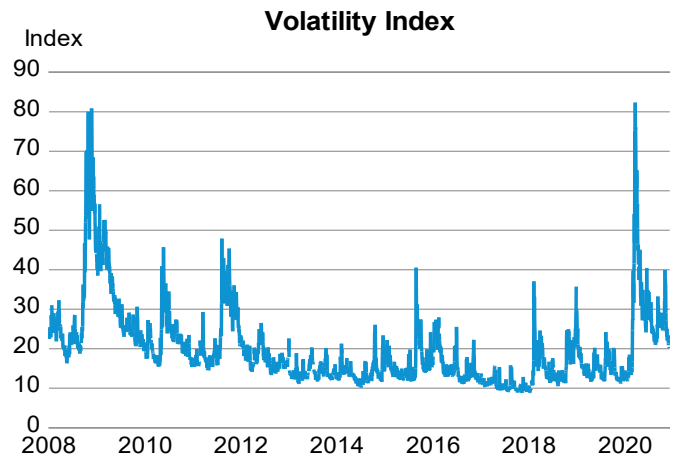
High-Frequency Indicators (Global)

Trade Weighted Index



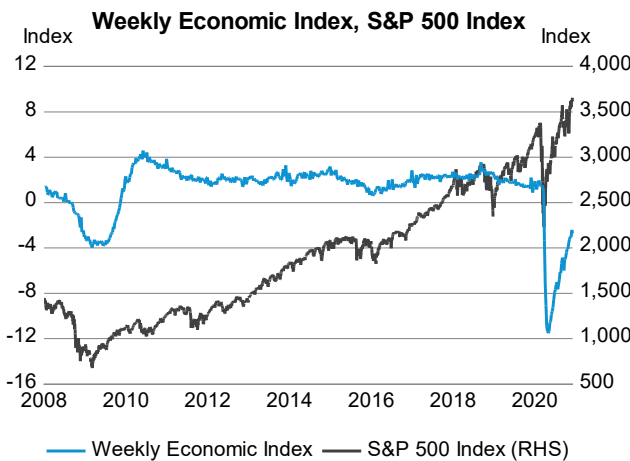
Source: RBNZ

Volatility Index



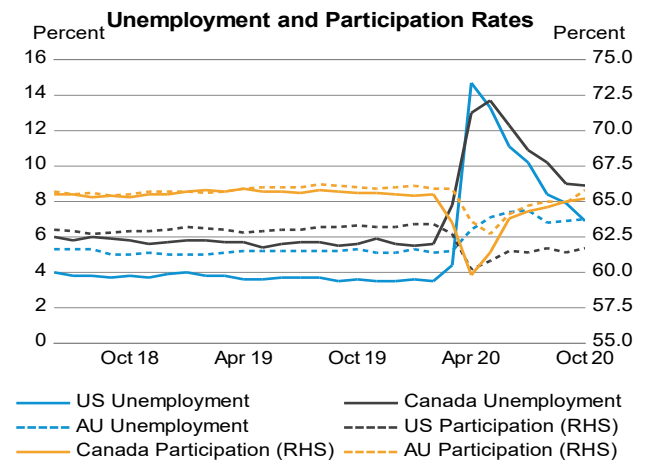
Source: Haver

US Activity and Equities



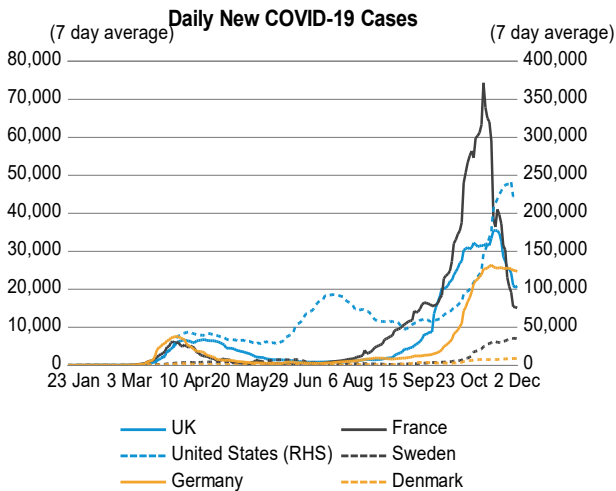
Sources: Federal Reserve Bank of New York, Haver

Labour Markets



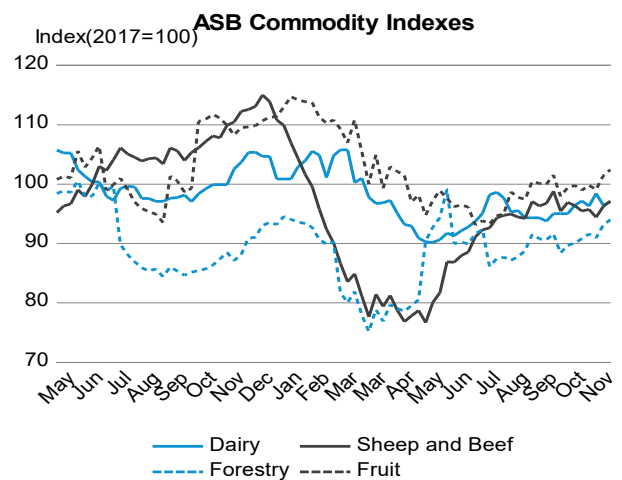
Source: Haver

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 | 6.3 | -0.4 |
| 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 | | Jun 20 | Jul 20 | Aug 20 | Sep 20 | Oct 20 | Nov 20 |
| Merchandise trade balance (12 month) | NZ\$m | -1,131 | 26 | 1,369 | 1,653 | 2,191 | ... |
| Dwelling consents - residential | apc | 20.4 | -0.8 | -3.3 | 7.7 | 7.2 | ... |
| House sales - dwellings | apc | 11.8 | 29.1 | 27.7 | 41.0 | 25.0 | ... |
| REINZ - house price index | apc | 7.7 | 9.2 | 9.6 | 10.9 | 13.5 | ... |
| Estimated net migration (12 month total) | people | 88,146 | 81,370 | 75,117 | 67,735 | ... | ... |
| ANZ NZ commodity price index | apc | -2.9 | 0.2 | -3.9 | -6.5 | -5.6 | -10.9 |
| ANZ world commodity price index | apc | -5.7 | -1.5 | -2.8 | -3.1 | -2.3 | -5.5 |
| ANZBO - business confidence | net% | -34.4 | -31.8 | -41.8 | -28.5 | -15.7 | -6.9 |
| ANZBO - activity outlook | net% | -25.9 | -8.9 | -17.5 | -5.4 | 4.7 | 9.1 |
| ANZ-Roy Morgan - consumer confidence | net% | 104.5 | 104.3 | 100.2 | 100.0 | 108.7 | 106.9 |
| Weekly Benefit Numbers | | 23 Oct | 30 Oct | 6 Nov | 13 Nov | 20 Nov | 27 Nov |
| Jobseeker Support | number | 203,776 | 203,371 | 203,341 | 203,365 | 203,665 | 204,111 |
| Work Ready | number | 131,002 | 130,065 | 128,979 | 128,559 | 128,529 | 128,596 |
| Health Condition and Disability | number | 72,774 | 73,306 | 74,362 | 74,806 | 75,136 | 75,515 |
| COVID-19 Income Relief Payment | number | 8,733 | 8,995 | 8,168 | 7,398 | 6,795 | 5,971 |
| Full-time | number | 7,782 | 8,010 | 7,296 | 6,627 | 6,101 | 5,356 |
| Part-time | number | 951 | 985 | 872 | 771 | 694 | 615 |
| Daily Indicators | | Wed 25/11/20 | Thu 26/11/20 | Fri 27/11/20 | Mon 30/11/20 | Tue 1/12/20 | Wed 2/12/20 |
| NZ exchange and interest rates (5) | | | | | | | |
| NZD/USD | \$ | 0.6975 | 0.7008 | 0.7010 | 0.7041 | 0.7028 | 0.7064 |
| NZD/AUD | \$ | 0.9473 | 0.9513 | 0.9523 | 0.9511 | 0.9548 | 0.9565 |
| Trade weighted index (TWI) | index | 73.8 | 74.1 | 74.1 | 74.3 | 74.3 | 74.5 |
| 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 | 0.92 | 0.89 | 0.87 | 0.85 | 0.89 |
| Share markets (6) | | | | | | | |
| Dow Jones | index | 29,872 | ... | 29,910 | 29,639 | 29,824 | 29,884 |
| S&P 500 | index | 3,630 | ... | 3,638 | 3,622 | 3,662 | 3,669 |
| VIX volatility index | index | 21.3 | ... | 20.8 | 20.6 | 20.8 | 21.2 |
| AU all ords | index | 6,888 | 6,849 | 6,817 | 6,742 | 6,812 | 6,811 |
| NZX 50 | index | 12,668 | 12,602 | 12,640 | 12,769 | 12,730 | 12,729 |
| US interest rates | | | | | | | |
| 3 month OIS | % | 0.08 | 0.08 | 0.08 | 0.09 | 0.09 | ... |
| 3 month Libor | % | 0.23 | 0.22 | 0.23 | 0.23 | 0.23 | ... |
| 10 year govt bond rate | % | 0.88 | ... | 0.84 | 0.84 | 0.92 | 0.95 |
| Commodity prices (6) | | | | | | | |
| WTI oil | US\$/barrel | 45.71 | ... | ... | 45.20 | 44.54 | 45.28 |
| Gold | US\$/ounce | 1,810 | 1,807.40 | 1,779.30 | 1,762.55 | 1,810.75 | 1,822.60 |
| CRB Futures | index | 427 | ... | 428.69 | 428.41 | 427.16 | 426.80 |

(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 | | ... | ... |
| Japan [6.1%] | PMI manufacturing (1) | index | 41.5 | 43.1 | 52.6 | | 54.2 | 56.0 | 55.4 | | 59.3 | 57.5 |
| | Consumer confidence (1)(3) | index | 85.7 | 85.9 | 98.3 | | 91.7 | 86.3 | 101.3 | | 101.4 | 96.1 |
| | GDP (1) | qpc | | | | -8.2 | | | | 5.0 | | |
| | Industrial production (1) | mpc | -9.8 | -8.9 | 1.9 | | 8.7 | 1.0 | 3.9 | | 3.8 | ... |
| | 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 | | 3.1 | ... |
| | Retail sales value | apc | -13.9 | -12.5 | -1.3 | | -2.9 | -1.9 | -8.7 | | 6.4 | ... |
| Euro area [5.5%] | PMI manufacturing (1) | index | 41.9 | 38.4 | 40.1 | | 45.2 | 47.2 | 47.7 | | 48.7 | 49.0 |
| | Consumer confidence (1)(4) | index | 21.3 | 24.1 | 28.5 | | 29.5 | 29.3 | 32.8 | | 33.3 | 33.6 |
| | 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) | % | 7.2 | 7.7 | 7.9 | | 8.7 | 8.6 | 8.5 | | 8.4 | ... |
| | Retail sales volume | apc | -19.3 | -2.7 | 1.5 | | 0.1 | 4.4 | 2.2 | | ... | ... |
| United Kingdom [2.7%] | PMI manufacturing (1) | index | 33.4 | 39.4 | 47.4 | | 51.8 | 51.7 | 53.7 | | 54.8 | 53.8 |
| | Consumer confidence (5) | index | -22.0 | -18.8 | -14.7 | | -15.0 | -14.7 | -13.9 | | -15.5 | -17.6 |
| | 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 | ... |
| Australia [15.8%] | House prices (6) | apc | 3.7 | 1.8 | -0.1 | | 1.5 | 3.7 | 5.0 | | 5.8 | 6.5 |
| | PMI manufacturing (1) | index | 32.6 | 40.7 | 50.1 | | 53.3 | 55.2 | 54.1 | | 53.7 | 55.6 |
| | Consumer confidence (1)(5) | index | -22.7 | -23.7 | -21.0 | | -16.6 | -16.6 | -17.9 | | -20.4 | -22.6 |
| | GDP (1) | qpc | | | | -7.0 | | | | 3.3 | | |
| | 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 | | ... | ... |
| China [24.3%] | House Prices (7) | apc | | | | 6.6 | | | | ... | | |
| | PMI manufacturing (1) | index | 35.8 | 41.6 | 51.5 | | 53.5 | 49.3 | 46.7 | | 56.3 | 52.1 |
| | Consumer confidence (8) | index | 75.6 | 88.1 | 93.7 | | 87.9 | 79.5 | 93.8 | | 105.0 | 107.7 |
| | 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 | 52.1 |
| South Korea [3.0%] | GDP (1) | qpc | | | | -3.2 | | | | 2.1 | | |
| | Industrial production (1) | mpc | -6.6 | -7.0 | 7.1 | | 1.9 | -0.4 | 5.5 | | -1.2 | ... |
| | CPI | apc | 0.1 | -0.3 | -0.0 | | 0.3 | 0.7 | 1.0 | | 0.1 | 0.6 |

(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