

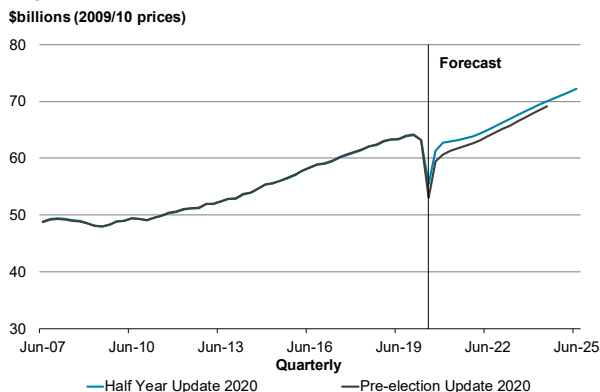
GDP rebounded by a record 14.0% in the September quarter, to be 0.4% up on the same quarter last year. On an annual basis, real GDP was 2.2% down on last year. The current account returned to deficit as imports recovered, and Treasury's *Half Year Economic and Fiscal Update* pointed to an improving economic outlook. House prices continue to increase, supporting consumer confidence, and dairy prices remained buoyant. Manufacturing indicators remain strong, although services activity slowed.

European governments are tightening restrictions as the COVID-19 virus continues to spread, further dampening prospects for growth in the near-term, although incoming data suggests that firms there are adapting, and the effects of the measures may not be as severe as expected earlier. In contrast, China remains on track for around 2% growth this year. In Australia, the labour market recovery continued, and the Government's fiscal deficits forecast were revised down slightly.

Half-year Update released

The Treasury released its *Half Year Economic and Fiscal Update* (HYEFU) on Wednesday. Although the contraction in June quarter GDP was the sharpest on record, it was less severe than expected, suggesting that the effects of alert level restrictions on economic activity are smaller than previously assumed. The HYEFU forecast was for a strong recovery in the September quarter, despite a return to higher alert levels during August and September (Figure 1).

Figure 1: HYEFU forecast for GDP



Sources: Stats NZ, the Treasury

September GDP rebounds by a record 14%

Real production GDP bounced back by 14.0% in the September quarter, following a revised 11.0% fall in the June 2020 quarter, resulting in the strongest quarterly growth in GDP on record. The quarterly rebound was larger than our HYEFU forecast of a 10.5% consistent with high frequency indicators surprising on the upside since we closed our forecasts in late November.

The level of GDP was up 0.4% on the same quarter last year, however the big dip in June meant that over the year to September 2020, real GDP was 2.2% below the year to September 2019.

Services industries rose 11.1% in the quarter, following a 9.8% fall in the June quarter while goods-producing industries grew 26.0% and primary industries were up 4.6% following falls of 15.9% and 7.1% respectively. The industries which contributed the most to quarterly growth included retail trade and accommodation (up 42.8%), construction (up 52.4%) and manufacturing (up 17.2%). Transport, postal and warehousing rose by 16.0% after falling 39.0% in the June quarter, but remains 19.3% lower than in the year to September 2019, reflecting the impact of reduced air travel.

Income support numbers continue to rise

Income support numbers rose for the second week, again driven by the seasonal increase in Jobseeker Support (JS). JS numbers rose by 1,115 in the week ended 11 December, bringing the total to 206,268 or 6.6% of the estimated working-age population. Of the 2,542 cancellations of JS in the week, 1,826 were due to obtaining work.

The number of people receiving the COVID-19 Income Relief Payment (CIRP) fell by 717, with 44 people cancelling due to obtaining work. Of the 3,924 grants for JS during the week, 244 had transferred from the CIRP. Total income support numbers, including JS and the CIRP, increased by 400 to 210,537 (see Domestic High-frequency Indicators).

Manufacturing expands further in November...

The BNZ-BusinessNZ Performance of Manufacturing Index (PMI) picked up in November, rising by 2.9 points to 55.3, the highest level of expansion since July. Production and new orders both rose, up 3.4 points and 4.8 points respectively. Employment eased, down 0.9 points in the month, but remains in expansionary territory.

...but services activity shrinks

The BNZ-BusinessNZ Performance of Services Index (PSI) returned to contractionary territory in November, falling 4.1 points to 46.7. Sales fell 4.3 points while new business was down 4.9 points. Supplier deliveries fell 4.1 points to 39.8 (the lowest level since the survey began) reflecting supply chain disruptions. The weak services result helped drive the GDP Weighted Combined Index (PCI) down 3.2 points to 47.8.

House prices continue to rise...

The November REINZ House Price Index was up 15.3% on a year ago and up 3.0% over the month. Auckland house prices rose by 16.2% over the year and the prices in the rest of the country rose by 14.5%. House prices continue to be supported by a combination of limited inventory, strong demand and accommodative monetary policy.

Despite continued low inventory levels, total house sales in the year to date in November 2020 were 6.6% higher than the same period in 2019. The housing market has been stronger than expected in recent months with no signs of slowing yet, which places upside risk to our forecasts.

...and consumer confidence rebounds

Consumer confidence rose by 10.9 points to 106 in the December quarter according to the Westpac McDermott Miller Consumer Confidence survey. The survey showed a strong lift in spending on entertainment activities as we head into the holiday season. The index is now just below its long run average.

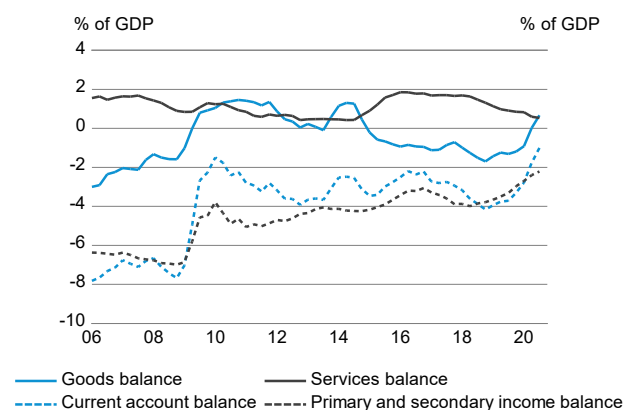
The services balance was resilient...

After reaching a surplus in the June quarter, the quarterly current account has returned to a deficit as imports rose in the September quarter. On an annual basis, the current account deficit for the September 2020 year narrowed to 0.8% of GDP, the narrowest since 2001 (Figure 2).

The services balance was more resilient than we anticipated, recording a quarterly surplus of \$0.5 billion (seasonally adjusted) as services exports rose and imports fell.

On the goods side, a rebound in goods imports returned the quarterly goods balance to deficit and drove the overall current account back into deficit following the record surplus in the previous quarter. Goods exports were little changed from the same quarter a year ago, but imports were about \$2.5 billion lower.

Figure 2: Current account deficit



Sources: Stats NZ

Looking forward, the current account deficit is expected to widen as domestic demand increases import growth. We also forecast a narrower services surplus as services exports weaken further, although much depends on progress in easing border travel restrictions.

...and dairy prices held up at auction

Dairy prices rose 1.3% at this week's GlobalDairyTrade auction. Whole milk prices were up 0.5% and skim milk prices rose 1.2%.

Departures continue to outpace arrivals

Between April and October 2020, there were 119,400 departures and 65,900 arrivals according to Stats NZ. Approximately 23,200 of the arrivals were NZ residents returning from a trip overseas of less than 12 months while the remaining 42,700 were overseas residents (living outside NZ for more than 12 months before their arrival). Almost two-thirds of the overseas resident arrivals were NZ citizens.

European lockdowns spread

European governments are tightening restrictions as the COVID-19 virus continues to spread. These measures will drag on growth and employment through the remainder of this quarter and into next year. However, December manufacturing and services indicators for the euro area and the UK did not fall as much as analysts expected, suggesting that activity is adapting quickly and that the economic costs of recurrent restrictions may be less than expected.

Meanwhile, the European Commission's €1.8tn budget, including a €750bn coronavirus recovery package, has been agreed. The fund, a mixture of grants and loans, will start paying out in the second half of next year. Leaders also approved the new climate goal to reduce emissions by 55% by 2030 compared to 1990. Separately, the European Central Bank unveiled more stimulus for the eurozone economy. It is increasing its bond-buying programme by €500bn to provide more cheap funding for commercial banks and extending the length of its emergency measures.

Brexit, US fiscal stimulus talks continue

Another Brexit deadline came and went, with parties agreeing to keep talking, amidst reports of a compromise. In the US, a 1.1% fall in November's retail sales has increased pressure on US politicians to agree a stimulus package, while the Federal Reserve announced that it would maintain the current pace of bond purchases until the economy recovered further.

China momentum remains solid

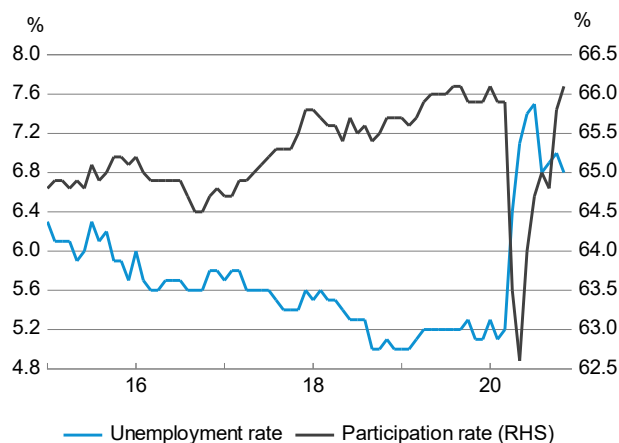
In China, monthly activity data for November met market expectations, showing further evidence of economic recovery. Industrial production reached its highest annual growth since March 2019, up 7.0%, and annual retail sales strengthened to 5.0%. Year to date fixed investment rose 2.6% compared to last year, driven by real estate investment, up 6.8% year to date. Analysts estimate the Chinese economy expanded 1.8% over 2020 and about 8% in 2021.

Australian unemployment falls...

The Australian labour market continued its rapid recovery in November, driven by the easing of public health restrictions in Victoria. Employment rose 0.7% (90,000), consolidating October's 1.4% rise. In level terms, employment is 1.1% below its pre-virus peak in February. Consistent with the rise in employment, hours worked rebounded 2.5% in the month, to be 1.5% below their pre-virus peak.

The unemployment rate fell to 6.8% from 7.0% in October alongside a rise in the participation rate to 66.1%, equal to its pre-pandemic peak (Figure 3). With the participation rate unlikely to rise much further, future gains in employment should flow through to a lower unemployment rate. Some analysts now expect unemployment to fall below 6% by the end of 2021.

Figure 3: Australia – labour market



Source: Haver

The Treasurer's Mid-Year Economic and Fiscal Outlook (MYEFO) featured downward revisions to the Government's budget deficit over the next few years. The 2020/21 underlying cash deficit was revised down by A\$16bn to A\$214bn, and by about A\$25bn in total over the four years to 2023/24. Net debt is expected to rise to 34.5% of GDP by June 2021 and 43.0% by June 2024, the latter compares with 43.8% in the recent Budget projections.

GDP growth for 2020/21 was upgraded to 0.8% from -1.5%, and 2021/22 is expected to be 3.5%, down from 4.8% previously, which lowered the expected costs of the JobKeeper wage subsidy scheme and raised tax receipt projections. In terms of policy, the MYEFO included additional expenditure on aged care, extension of the Coronavirus Supplement payments and additional vaccine funding.

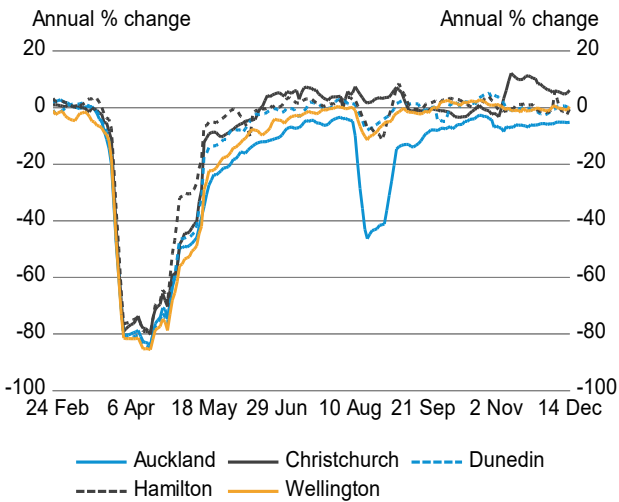
...as trade risks mount...

China reportedly banned Australian coal imports, worth AUD\$14bn, while allowing increased purchases from other suppliers as it moved to combat rising coal prices. Coal is Australia's second largest export, with shipments to China equivalent to about 1% of GDP.

Date	Key upcoming NZ data	Previous
18 Dec	Overseas merchandise trade	-\$501 m
22 Dec	Tourism satellite account	NA

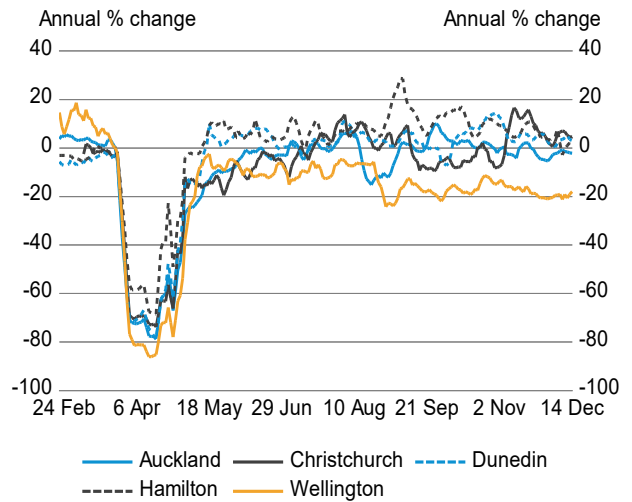
High-Frequency Indicators (Domestic)

Traffic Movement



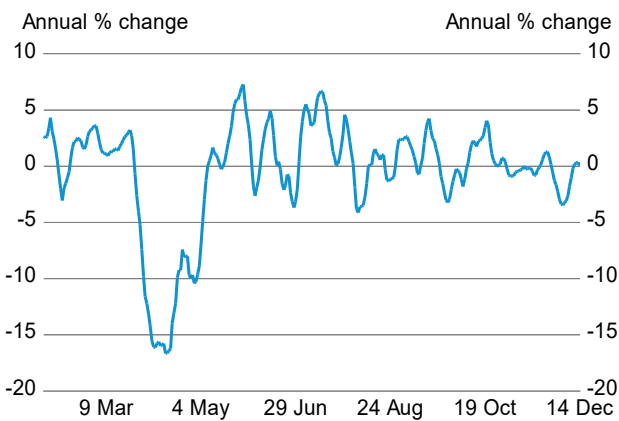
Source: Waka Kotahi NZ Transport Agency

Freight Movement



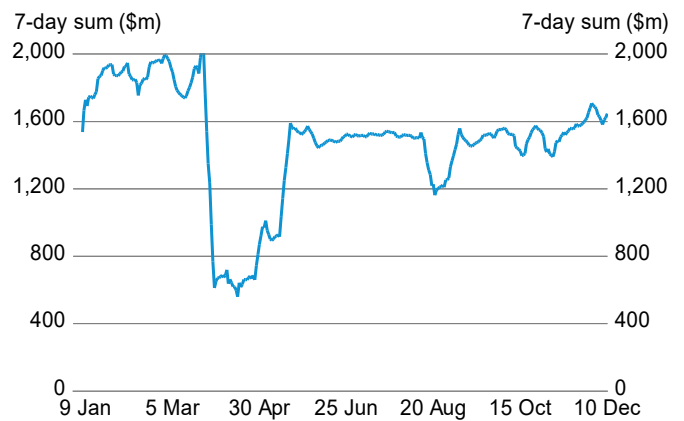
Source: Waka Kotahi NZ Transport Agency

Electricity Demand



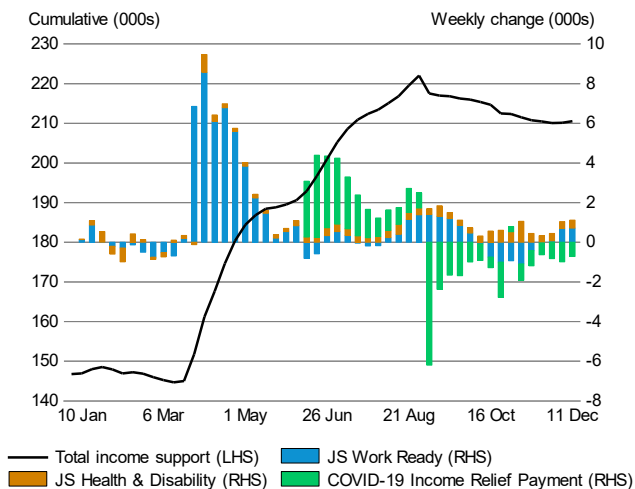
Source: Electricity Authority

Retail Spending



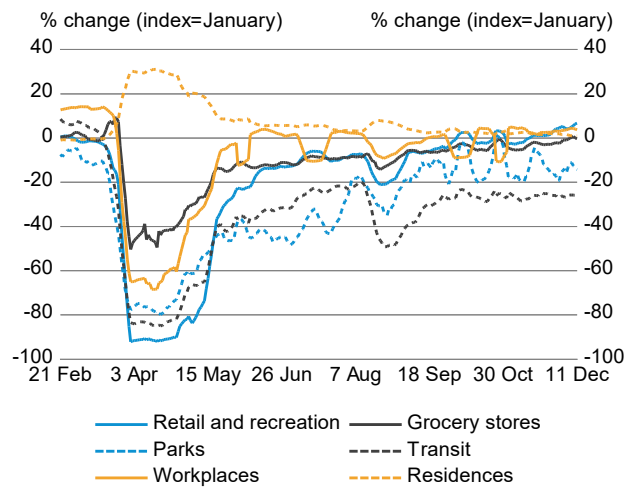
Source: Paymark and Verifone data via Data Ventures

Jobseeker (JS) and Income Support Recipients



Source: MSD

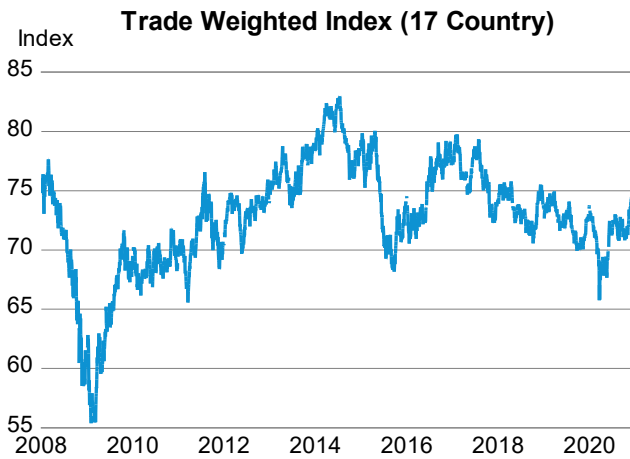
People Movements at Selected Locations



Source: Google

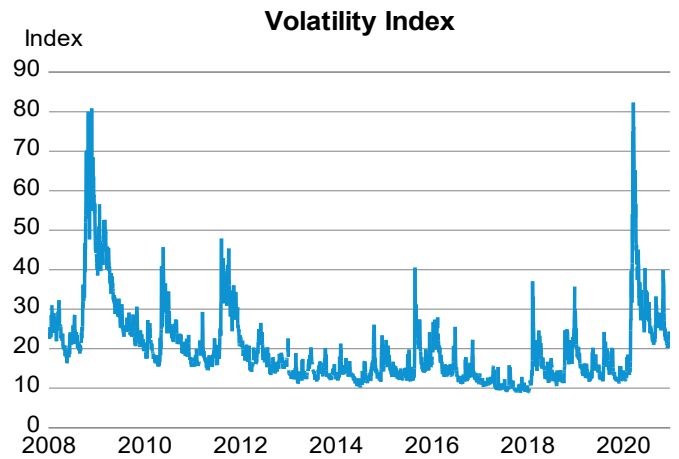
High-Frequency Indicators (Global)

Trade Weighted Index



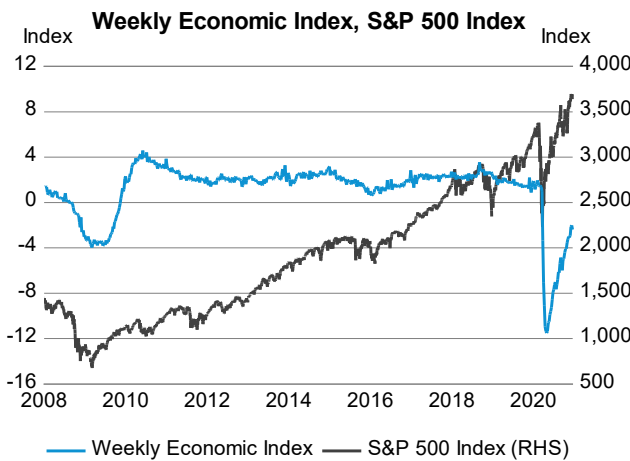
Source: RBNZ

Volatility Index



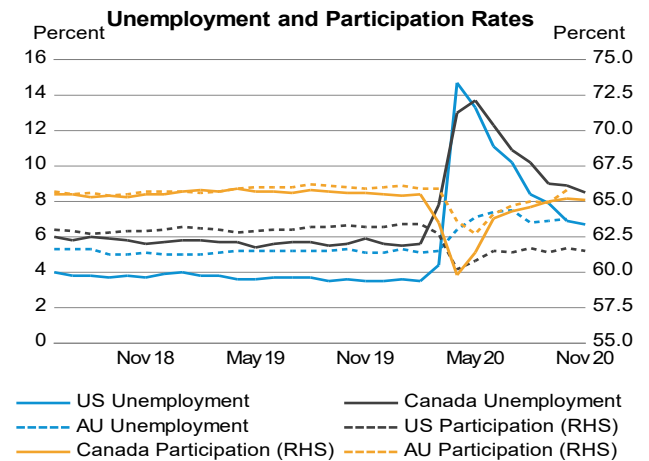
Source: Haver

US Activity and Equities



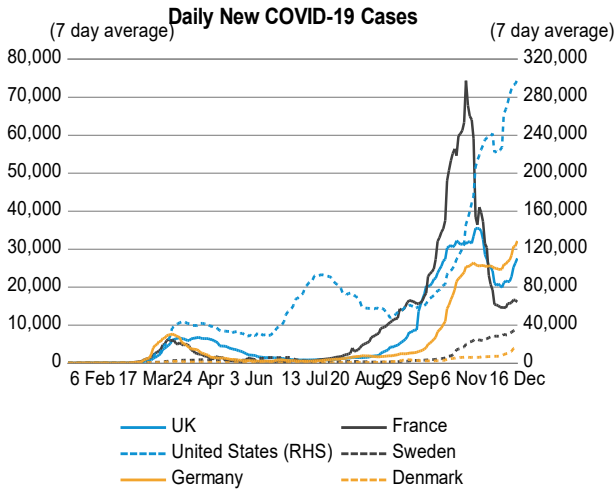
Sources: Federal Reserve Bank of New York, Haver

Labour Markets



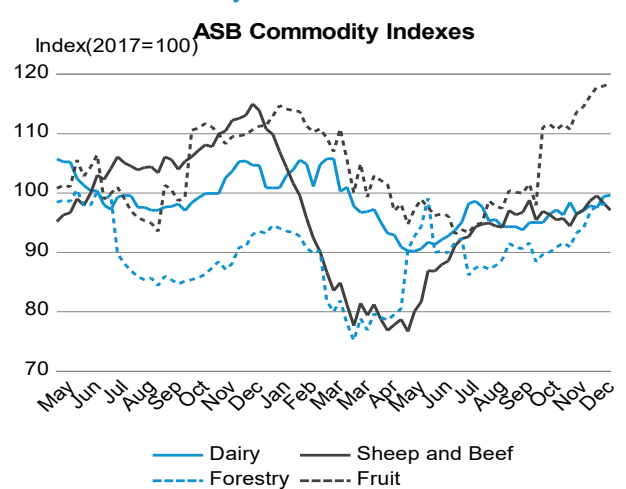
Source: Haver

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	0.4	0.7	0.1	-1.2	-11.0	14.0
	aapc	2.8	2.8	2.3	1.6	-1.7	-2.2
Current account balance (annual)	%GDP	-3.7	-3.7	-3.3	-2.8	-1.8	-0.8
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	95.1
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	41.9	29.4	29.6
REINZ - house price index	apc	7.7	9.2	9.6	10.8	13.3	15.2
Estimated net migration (12 month total)	people	88,808	82,738	76,309	68,843	59,503	...
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		6 Nov	13 Nov	20 Nov	27 Nov	4 Dec	11 Dec
Jobseeker Support	number	203,341	203,365	203,665	204,111	205,153	206,268
Work Ready	number	128,979	128,559	128,529	128,596	129,292	130,007
Health Condition and Disability	number	74,362	74,806	75,136	75,515	75,861	76,261
COVID-19 Income Relief Payment	number	8,168	7,398	6,795	5,971	4,986	4,269
Full-time	number	7,296	6,627	6,101	5,356	4,488	3,830
Part-time	number	872	771	694	615	498	439
Daily Indicators		Wed 9/12/20	Thu 10/12/20	Fri 11/12/20	Mon 14/12/20	Tue 15/12/20	Wed 16/12/20
NZ exchange and interest rates (5)							
NZD/USD	\$	0.7045	0.7020	0.7094	0.7082	0.7084	0.7088
NZD/AUD	\$	0.9503	0.9429	0.9413	0.9406	0.9395	0.9386
Trade weighted index (TWI)	index	74.0	73.8	74.3	74.2	74.2	74.2
Official cash rate (OCR)	%	0.25	0.25	0.25	0.25	0.25	0.25
90 day bank bill rate	%	0.27	0.26	0.26	0.26	0.25	0.25
10 year govt bond rate	%	0.91	0.93	0.89	0.86	0.86	0.88
Share markets (6)							
Dow Jones	index	30,069	29,999	30,046	29,862	30,199	30,155
S&P 500	index	3,673	3,668	3,663	3,647	3,695	3,701
VIX volatility index	index	22.3	22.5	23.3	24.7	22.9	22.5
AU all ords	index	6,965	6,917	6,886	6,900	6,867	6,917
NZX 50	index	12,889	12,860	12,919	12,835	12,767	12,829
US interest rates							
3 month OIS	%	0.09	0.09	0.09	0.09	0.09	...
3 month Libor	%	0.22	0.22	0.22	0.22	0.23	...
10 year govt bond rate	%	0.95	0.92	0.90	0.90	0.92	0.92
Commodity prices (6)							
WTI oil	US\$/barrel	45.52	46.78	46.59	47.02	47.58	...
Gold	US\$/ounce	1,842	1,844.35	1,842.00	1,831.15	1,850.65	...
CRB Futures	index	434	433.94	435.73	435.71	436.79	...

(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		May 20	Jun 20	2020Q2	Jul 20	Aug 20	Sep 20	2020Q3	Oct 20	Nov 20	Dec 20
United States [9.6% share of total goods exports]	GDP (1)	qpc			-9.0				7.4			
	Industrial production (1)	mpc	0.9	6.2		4.2	0.8	-0.1		0.9	0.4	...
	CPI	apc	0.1	0.6		1.0	1.3	1.4		1.2	1.2	...
	Unemployment rate (1)	%	13.3	11.1		10.2	8.4	7.9		6.9	6.7	...
	Employment change (1)	000s	2725.0	4781.0		1761.0	1493.0	711.0		610.0	245.0	...
	Retail sales value	apc	-5.6	2.2		2.7	3.6	6.1		5.5	4.1	...
	House prices (2)	apc	3.6	3.5		4.2	5.3	6.6		...	...	...
Japan [6.1%]	PMI manufacturing (1)	index	43.1	52.6		54.2	56.0	55.4		59.3	57.5	...
	Consumer confidence (1)(3)	index	85.9	98.3		91.7	86.3	101.3		101.4	96.1	...
	GDP (1)	qpc			-8.3				5.3			
	Industrial production (1)	mpc	-8.9	1.9		8.7	1.0	3.9		4.0	...	...
	CPI	apc	0.0	0.1		0.4	0.1	0.0		-0.4	...	...
	Unemployment rate (1)	%	2.9	2.8		2.9	3.0	3.0		3.1	...	...
	Retail sales value	apc	-12.5	-1.3		-2.9	-1.9	-8.7		6.4	...	...
Euro area [5.5%]	PMI manufacturing (1)	index	38.4	40.1		45.2	47.2	47.7		48.7	49.0	...
	Consumer confidence (1)(4)	index	24.1	28.5		29.5	29.3	32.8		33.3	33.6	...
	GDP (1)	qpc			-11.7				12.5			
	Industrial production (1)	mpc	12.5	9.5		5.4	0.5	0.1		2.1	...	...
	CPI	apc	0.1	0.3		0.4	-0.2	-0.3		-0.3	...	...
	Unemployment rate (1)	%	7.7	7.9		8.7	8.6	8.5		8.4	...	...
	Retail sales volume	apc	-2.7	1.5		0.0	4.4	2.5		4.3	...	...
United Kingdom [2.7%]	PMI manufacturing (1)	index	39.4	47.4		51.8	51.7	53.7		54.8	53.8	...
	Consumer confidence (5)	index	-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	5.6	9.9		5.3	0.2	0.4		1.3	...	...
	CPI	apc	0.6	0.6		1.1	0.2	0.6		0.7	...	...
	Unemployment rate (1)	%	4.1	4.1		4.3	4.5	4.8		4.9	...	...
	Retail sales volume	apc	-12.9	-1.9		1.2	2.8	4.6		5.8	...	...
Australia [15.8%]	House prices (6)	apc	1.8	-0.1		1.5	3.7	5.0		5.8	6.5	...
	PMI manufacturing (1)	index	40.7	50.1		53.3	55.2	54.1		53.7	55.6	...
	Consumer confidence (1)(5)	index	-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)	%	7.1	7.4		7.5	6.8	6.9		7.0	6.8	...
	Retail sales value	apc	5.5	8.6		12.8	5.4	6.6		7.7	...	...
China [24.3%]	House Prices (7)	apc			6.6				5.0			
	PMI manufacturing (1)	index	41.6	51.5		53.5	49.3	46.7		56.3	52.1	...
	Consumer confidence (8)	index	88.1	93.7		87.9	79.5	93.8		105.0	107.7	112.0
	GDP	apc			3.2				4.9			
	Industrial production	apc	4.4	4.8		4.8	5.6	6.9		6.9	7.0	...
South Korea [3.0%]	CPI	apc	2.4	2.5		2.7	2.4	1.7		0.5	-0.5	...
	PMI manufacturing (1)	index	50.6	50.9		51.1	51.0	51.5		51.4	52.1	...
	GDP (1)	qpc			-3.2				2.1			
Industrial production (1)	mpc	-7.0	7.1		1.9	-0.4	5.5		-1.2	...	...
CPI	apc	-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