

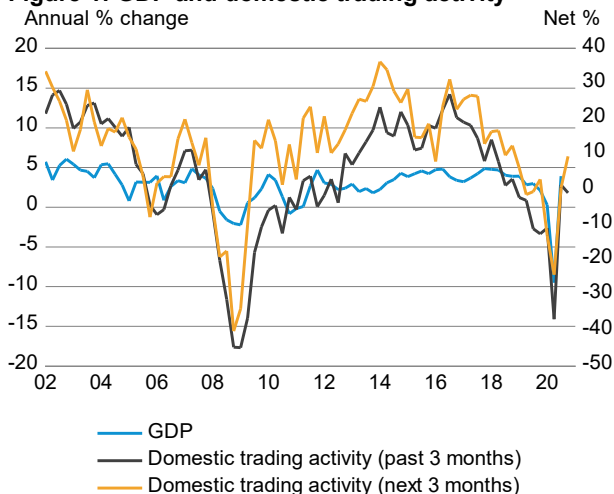
New COVID cases in the community

Three cases of COVID-19 have been recorded in the community over the past week, all of which originated from the same MIQ facility in Auckland. Contact tracing is well underway, and the MIQ facility has been placed into temporary lockdown.

Business sentiment continues to improve...

The December quarter release of the NZIER's Quarterly Survey of Business Opinion (QSBO) showed improving business sentiment. A net 9% of firms now think their trading activity for the next 3 months will be higher, compared to 0.5% in the September quarter (Figure 1).

Figure 1: GDP and domestic trading activity



Sources: NZIER, Stats NZ

A net 16% of firms were pessimistic about the general business situation in the December quarter, up from a net 38% in the September quarter and 58% in the June quarter. Conditions remain challenging for some firms, particularly those in the services and retail areas. Capacity and cost pressures remain key concerns and firms are cautious about hiring, with a net 8% of firms reducing their headcount in the December quarter. Investment intentions are now positive but remain weak.

...and inflation exceeds expectations

High demand for domestic tourism, vehicles, furniture and electronics, combined with supply chain disruptions and less discounting activity provided a stronger inflationary environment than

expected in the December quarter. Consumer prices rose 0.5% in the quarter, driven by broad-based increases in both the tradables and non-tradables groups. Annual inflation remained at 1.4%, unchanged from the September quarter.

The stronger-than-expected outturn for inflation adds to recent data suggesting the economy was more resilient than expected in our HYEPU forecast. However, we expect inflationary pressures to ease as the effects of the pandemic and response continue to flow through the economy, although supply-side disruptions may provide support for prices in the near term.

Manufacturing activity contracts in December...

The BNZ-BusinessNZ Performance of Manufacturing Index (PMI) returned to contractionary territory in December, down 6 points to 48.7. Production fell by 3.5 points but remained in expansionary territory while new orders, employment, finished goods and deliveries all fell into contractionary territory.

...but services activity improves

The Performance of Services Index (PSI) picked up, rising 2.5 points to 49.2, but remains contractionary. Sales rose 5.6 points to 51.3 and employment rose to 51.7, its best reading since January 2020, but new orders fell by 1.3 points and supplier deliveries remained weak at 39.5, possibly driven by supply-side problems. The positive services result helped drive the GDP Weighted Combined Index (PCI) up 1.5 points to 49.2.

Fall in dairy exports

In the month of December, New Zealand's exports fell 2.5% (in seasonally adjusted terms), with exports of dairy products 19% lower than the same month last year, driven by a drop in sales to China. This is the first time in six years that there has been a fall in dairy product exports to China in a December month. The drop in dairy exports was partly offset by a rise in exports of respiratory equipment. Total imports rose 7.9% in December, led by imports of passenger cars. The resulting seasonally adjusted monthly trade balance in December 2020 was a deficit of \$107 million.

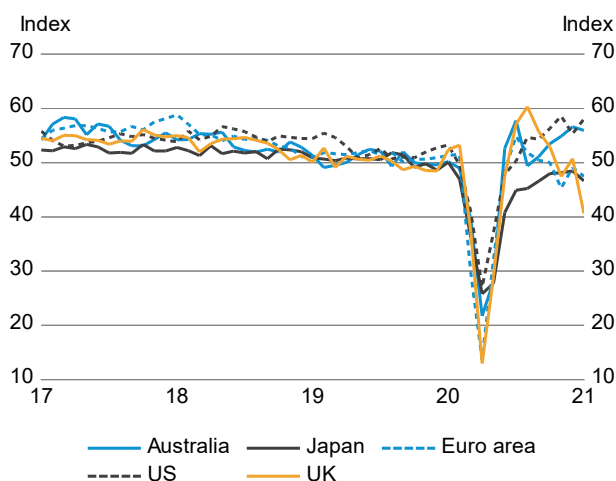
Vaccine success improves world outlook

The global economic contraction over 2020 was revised down by 0.9 percentage points (ppts) to 3.5% in the IMF's January World Economic Outlook. Growth in 2021 was upgraded by 0.3 ppts to 5.5%, driven by hopes of a vaccine-powered recovery and increased fiscal stimulus in the US and Japan. Renewed waves of infection and new virus strains pose significant risks, however.

UK PMI plunges in January...

The UK Purchasing Managers' Index (PMI) came in much weaker than expected, reflecting the impact of January's renewed lockdown. The manufacturing PMI fell 4.6 points (pts) to 52.9, while the services PMI plummeted nearly 11 pts to 38.8. This dragged the composite index down to 40.6, the weakest level since May 2020 (Figure 2).

Figure 2: Composite Output PMI



Source: IHS Markit/Haver Analytics

...and unemployment rises

The UK unemployment rate in the three months to November 2020 was 5.0%, an increase of 0.6 ppts from the previous quarter. Employment fell by 0.3% in the quarter, though hours worked increased by 10.0%. This result was better than the Bank of England's November forecast, though further near-term weakness is expected.

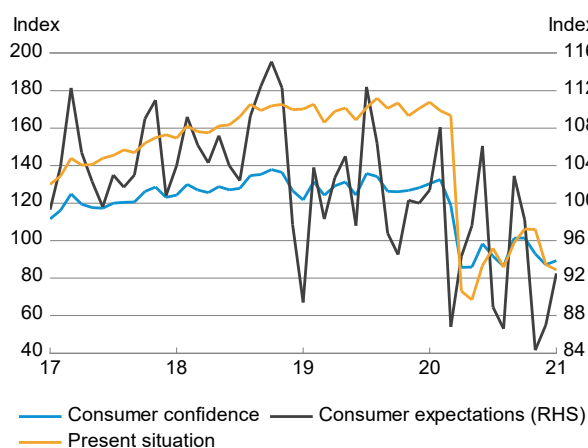
European PMI eases as France lockdown looms

The euro area PMI fell to 47.5 in January (Figure 2), with the services index dropping 2.3 pts while the manufacturing index fell by 0.8 pts. Meanwhile, vaccine supply delays are casting doubt on whether the European Union's target of vaccinating 70% of adults by the summer will be achieved, and calls are growing for a third lockdown in France as COVID-19 cases surge and hospitalisations rise.

US PMI and consumer confidence rise...

PMI results out of the US were more positive, with the manufacturing index rising to a record 59.1 and the services index rising to 0.9 pts shy of its record level in November. The composite index reached 58.0, 0.6 pts off the record level reached in November. Consumer confidence rose 2.2 pts after dropping nearly 15 pts from October to December (Figure 3). The details were mixed, with the expectations index at its highest since October, but the present situation index at its lowest since May.

Figure 3: US consumer confidence



Source: The Conference Board/Haver Analytics

...and the Fed holds policy unchanged

The US Federal Reserve Board agreed to hold its policy rate unchanged, citing softening business activity amid the virus resurgence. Democrats announced plans to bring a stimulus vote as early as next week, which would likely include the stimulus payments and increased jobless benefits in President Biden's \$1.9 trillion proposal.

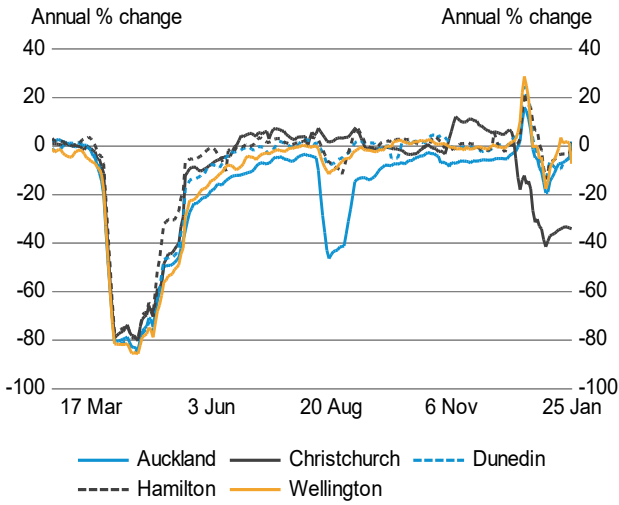
Australian inflation, business conditions rise

The Australian Consumer Price Index rose 0.9% in the December quarter, exceeding expectations and taking annual inflation up to 0.9%. The December NAB Business Survey saw business confidence fall 9 pts, likely influenced by the Sydney COVID-19 outbreak. The business conditions index was more positive, rising 7 pts to its highest level since 2018. Employment conditions rose sharply, entering positive territory for the first time since the start of the pandemic, underscoring December's 0.4% rise in employment and 0.2 ppt fall in the unemployment rate to 6.6%.

Date	Key upcoming NZ data	Previous
3 Feb	Unemployment rate	5.3%
4 Feb	ANZ Business Outlook	+9.4% (net)

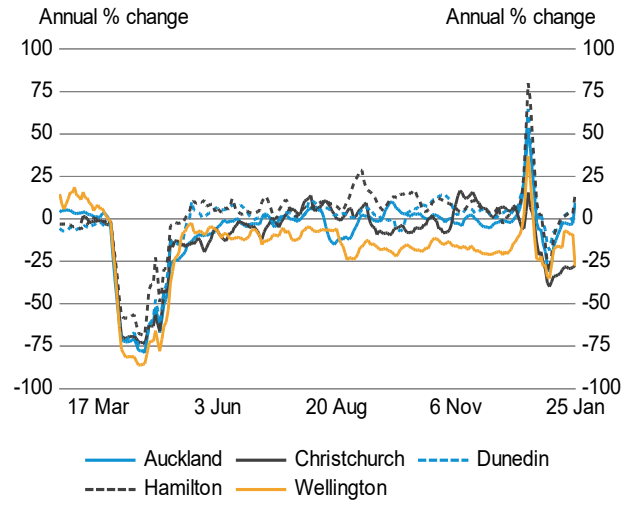
High-Frequency Indicators (Domestic)

Traffic Movement



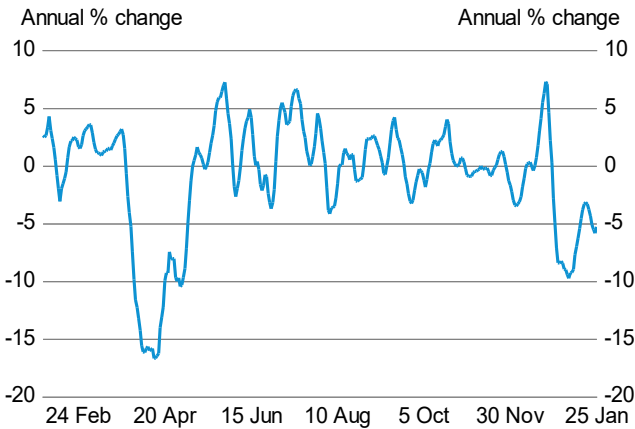
Source: Waka Kotahi NZ Transport Agency

Freight Movement



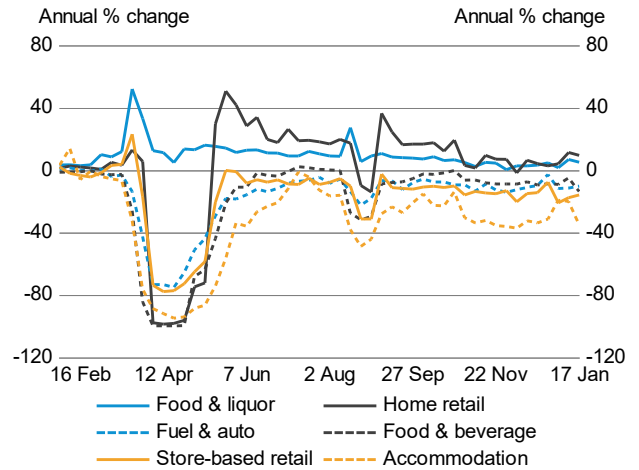
Source: Waka Kotahi NZ Transport Agency

Electricity Demand



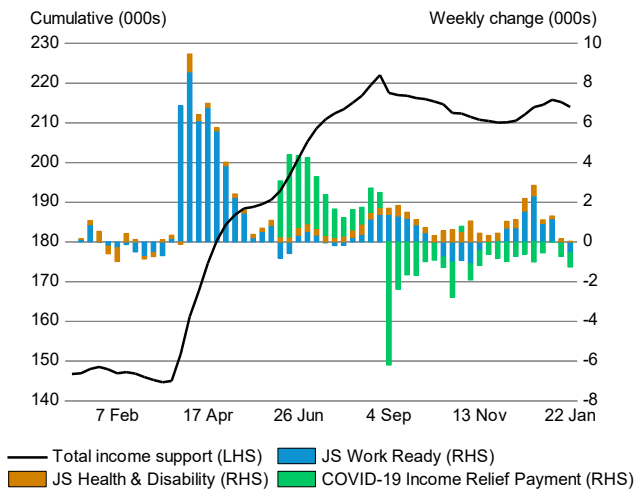
Source: Electricity Authority

Retail Spending



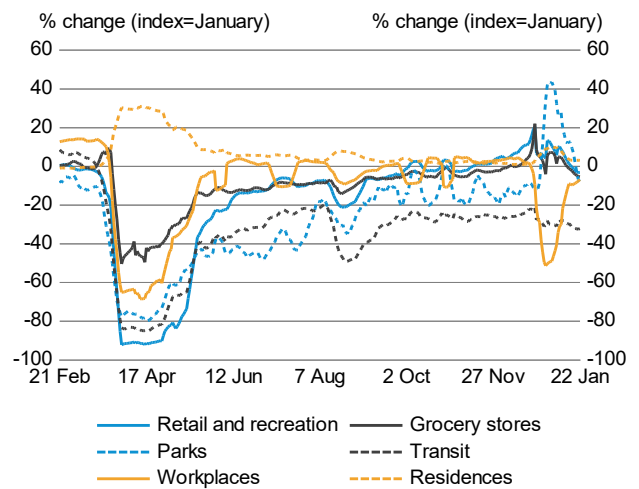
Source: Marketview data via MBIE

Jobseeker (JS) and Income Support Recipients



Source: MSD

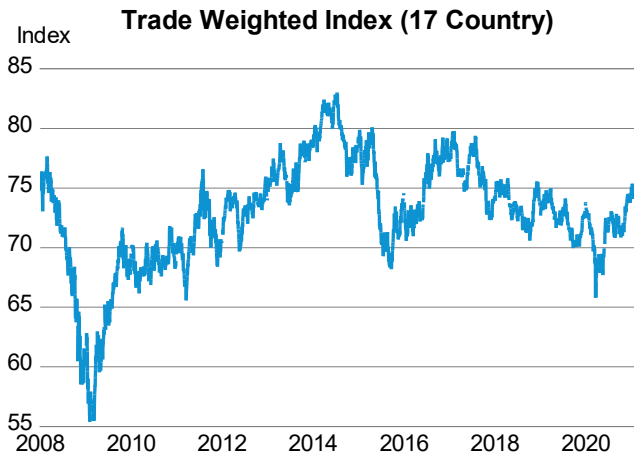
People Movements at Selected Locations



Source: Google

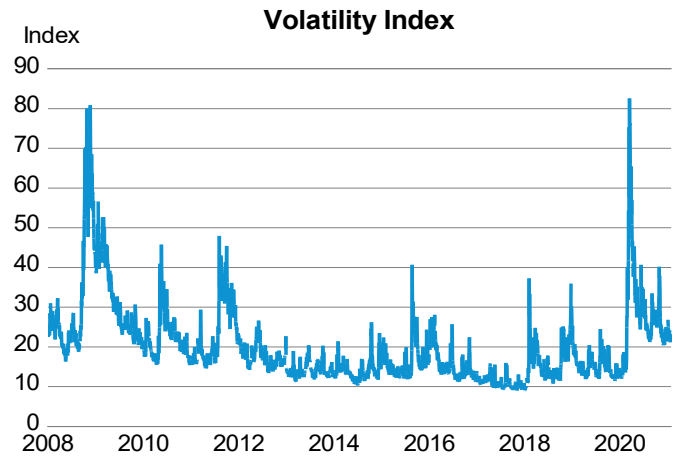
High-Frequency Indicators (Global)

Trade Weighted Index



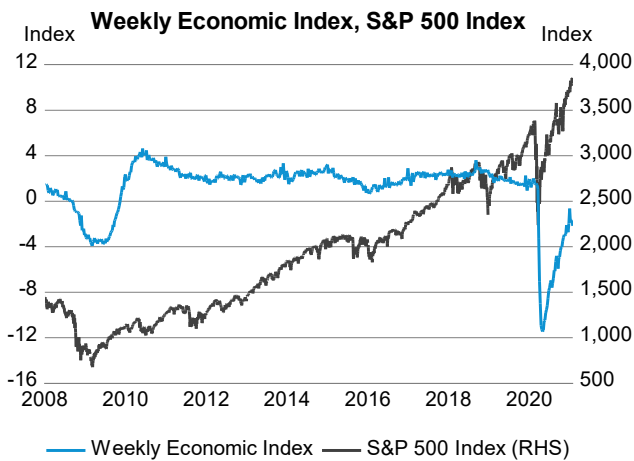
Source: RBNZ

Volatility Index



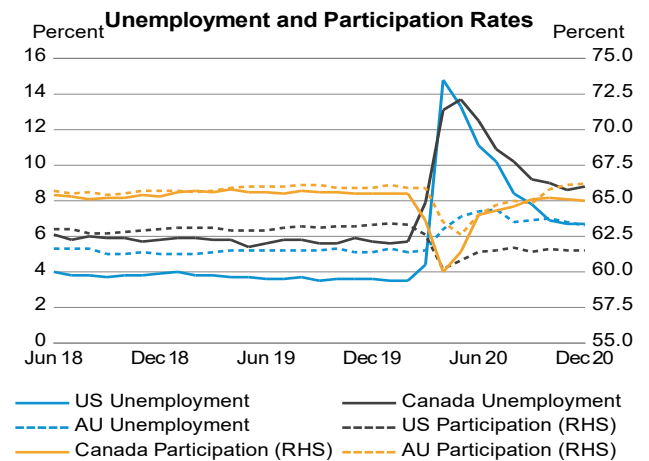
Source: Haver

US Activity and Equities



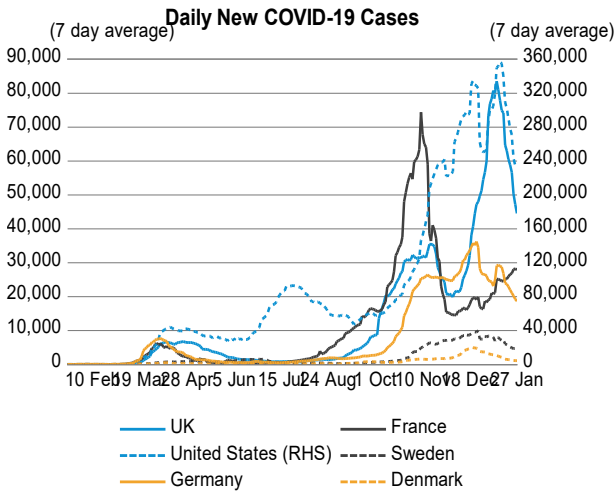
Sources: Federal Reserve Bank of New York, Haver

Labour Markets



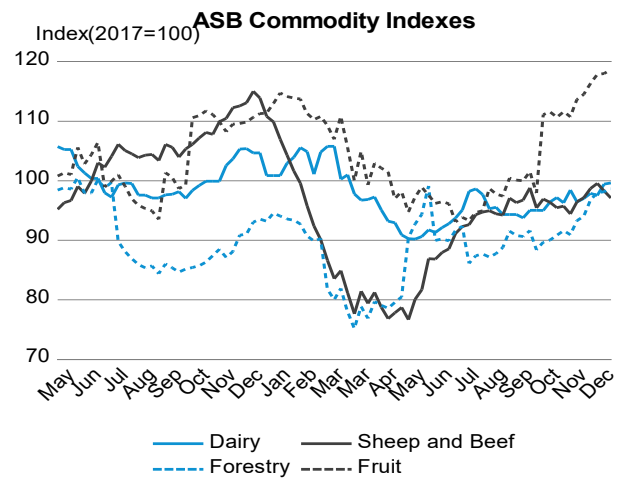
Source: Haver

COVID-19 Cases



Sources: World Health Organisation/Haver

World Commodity Prices



Source: ASB

Quarterly Indicators		2019Q3	2019Q4	2020Q1	2020Q2	2020Q3	2020Q4
Real Production GDP (1)	qpc	0.7	0.1	-1.2	-11.0	14.0	...
	aapc	2.8	2.3	1.6	-1.7	-2.2	...
Current account balance (annual)	%GDP	-3.7	-3.3	-2.8	-1.8	-0.8	...
Merchandise terms of trade	apc	0.9	7.1	5.4	6.3	-0.4	...
CPI inflation	qpc	0.7	0.5	0.8	-0.5	0.7	0.5
	apc	1.5	1.9	2.5	1.5	1.4	1.4
Employment (HLFS) (1)	qpc	0.4	0.3	1.1	-0.3	-0.8	...
Unemployment rate (1)	%	4.2	4.1	4.2	4.0	5.3	...
Participation rate (1)	%	70.7	70.4	70.7	69.9	70.1	...
LCI salary & wage rates - total (2)	apc	2.5	2.6	2.5	2.1	1.8	...
QES average hourly earnings - total (2)	apc	4.2	3.6	3.6	3.0	3.6	...
Core retail sales volume	apc	5.4	3.3	4.0	-11.7	7.7	...
Total retail sales volume	apc	4.5	3.3	2.3	-14.2	8.3	...
WMM - consumer confidence (3)	Index	103.1	109.9	104.2	97.2	95.1	106.0
QSBO - general business situation (1,4)	net%	-37.1	-30.8	-67.9	-57.6	-37.6	-16.3
QSBO - own activity outlook (1,4)	net%	-0.6	2.9	-12.9	-24.1	0.5	9.4

Monthly Indicators		Jul 20	Aug 20	Sep 20	Oct 20	Nov 20	Dec 20
Merchandise trade balance (12 month)	NZ\$m	26	1,369	1,655	2,223	3,300	2,937
Dwelling consents - residential	apc	-0.8	-3.3	7.7	7.2	19.9	...
House sales - dwellings	apc	29.1	27.7	41.9	30.0	33.0	36.6
REINZ - house price index	apc	9.2	9.6	10.8	13.2	15.0	17.1
Estimated net migration (12 month total)	people	82,811	76,823	69,556	60,445	52,373	...
ANZ NZ commodity price index	apc	0.2	-3.9	-6.5	-5.6	-10.9	-5.9
ANZ world commodity price index	apc	-1.5	-2.8	-3.1	-2.3	-5.5	-0.4
ANZBO - business confidence	net%	-31.8	-41.8	-28.5	-15.7	-6.9	9.4
ANZBO - activity outlook	net%	-8.9	-17.5	-5.4	4.7	9.1	21.7
ANZ-Roy Morgan - consumer confidence	net%	104.3	100.2	100.0	108.7	106.9	112.0

Weekly Benefit Numbers		18 Dec	25 Dec	1 Jan	8 Jan	15 Jan	22 Jan
Jobseeker Support	number	208,465	211,320	212,441	213,755	213,853	213,359
Work Ready	number	131,556	133,877	134,821	135,991	135,936	135,401
Health Condition and Disability	number	76,909	77,443	77,620	77,764	77,917	77,958
COVID-19 Income Relief Payment	number	3,655	2,648	2,096	2,069	1,390	662
Full-time	number	3,283	2,363	1,870	1,846	1,253	583
Part-time	number	372	285	226	223	137	79

Daily Indicators		Wed 20/1/21	Thu 21/1/21	Fri 22/1/21	Mon 25/1/21	Tue 26/1/21	Wed 27/1/21
NZ exchange and interest rates (5)							
NZD/USD	\$	0.7124	0.7185	0.7218	0.7193	0.7190	0.7238
NZD/AUD	\$	0.9239	0.9265	0.9304	0.9317	0.9332	0.9335
Trade weighted index (TWI)	index	74.1	74.6	74.8	74.7	74.7	75.1
Official cash rate (OCR)	%	0.25	0.25	0.25	0.25	0.25	0.25
90 day bank bill rate	%	0.29	0.28	0.29	0.29	0.29	0.29
10 year govt bond rate	%	1.01	1.04	1.07	1.06	1.03	1.03
Share markets (6)							
Dow Jones	index	31,188	31,176	30,997	30,960	30,937	30,303
S&P 500	index	3,852	3,853	3,841	3,855	3,850	3,751
VIX volatility index	index	21.6	21.3	21.9	23.2	23.0	37.2
AU all ords	index	7,051	7,107	7,079	7,111	...	7,060
NZX 50	index	13,026	13,112	13,333	13,399	13,323	13,374
US interest rates							
3 month OIS	%	0.09	0.08	0.08	0.08	0.08	...
3 month Libor	%	0.22	0.22	0.22	0.21	0.22	...
10 year govt bond rate	%	1.10	1.12	1.10	1.05	1.05	1.04
Commodity prices (6)							
WTI oil	US\$/barrel	53.24	53.13	52.28	52.78	52.61	52.85
Gold	US\$/ounce	1,857	1,862.10	1,852.70	1,856.85	1,856.60	1,843.00
CRB Futures	index	459	459.41	456.31	457.65	459.50	...

(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		2020Q2	Jul 20	Aug 20	Sep 20	2020Q3	Oct 20	Nov 20	Dec 20	2020Q4	Jan 21
United States [9.6% share of total goods exports]	GDP (1)	qpc	-9.0				7.5				...	...
	Industrial production (1)	mpc		4.2	0.7	-0.1		1.0	0.5	1.6		...
	CPI	apc		1.0	1.3	1.4		1.2	1.2	1.4		...
	Unemployment rate (1)	%		10.2	8.4	7.8		6.9	6.7	6.7		...
	Employment change (1)	000s		1761.0	1493.0	711.0		654.0	336.0	-140.0		...
	Retail sales value	apc		2.7	3.6	6.1		5.4	3.7	2.9		...
	House prices (2)	apc		4.2	5.4	6.7		8.0	9.1	...		...
Japan [6.1%]	PMI manufacturing (1)	index		54.2	56.0	55.4		59.3	57.5	60.7		...
	Consumer confidence (1)(3)	index		91.7	86.3	101.3		101.4	92.9	87.1		89.3
	GDP (1)	qpc	-8.3				5.3				...	...
	Industrial production (1)	mpc		8.7	1.0	3.9		4.0	-0.5	...		...
	CPI	apc		0.3	0.1	0.0		-0.4	-0.9	-1.1		...
	Unemployment rate (1)	%		2.9	3.0	3.0		3.1	2.9	...		...
	Retail sales value	apc		-2.9	-1.9	-8.7		6.4	0.6	...		...
Euro area [5.5%]	PMI manufacturing (1)	index		45.2	47.2	47.7		48.7	49.0	50.0		...
	Consumer confidence (1)(4)	index		29.5	29.3	32.8		33.3	33.6	31.8		...
	GDP (1)	qpc	-11.7				12.4				...	...
	Industrial production (1)	mpc		5.6	0.4	0.2		2.3	2.5	...		...
	CPI	apc		0.4	-0.2	-0.3		-0.3	-0.3	-0.3		...
	Unemployment rate (1)	%		8.7	8.6	8.5		8.4	8.3	...		...
	Retail sales volume	apc		0.2	4.4	2.6		4.2	-2.9	...		...
United Kingdom [2.7%]	PMI manufacturing (1)	index		51.8	51.7	53.7		54.8	53.8	55.2		...
	Consumer confidence (5)	index		-15.0	-14.7	-13.9		-15.5	-17.6	-13.9		-15.5
	GDP (1)	qpc	-18.8				16.0				...	...
	Industrial production (1)	mpc		5.2	0.2	0.3		1.1	-0.1	...		...
	CPI	apc		1.1	0.2	0.6		0.7	0.4	...		...
	Unemployment rate (1)	%		4.3	4.5	4.8		4.9	5.0	...		...
	Retail sales volume	apc		1.1	2.7	4.5		5.9	2.1	2.9		...
Australia [15.8%]	House prices (6)	apc		1.5	3.7	5.0		5.8	6.5	7.3		...
	PMI manufacturing (1)	index		53.3	55.2	54.1		53.7	55.6	57.5		...
	Consumer confidence (1)(5)	index		...	...	...		...	...	...		...
	GDP (1)	qpc	-7.0				3.3				...	...
	CPI	apc	-0.3				0.7				0.9	...
	Unemployment rate (1)	%		7.5	6.8	6.9		7.0	6.8	6.6		...
	Retail sales value	apc		12.8	5.4	6.6		7.7	12.1	...		...
China [24.3%]	House Prices (7)	apc	6.6				5.0				...	...
	PMI manufacturing (1)	index		53.5	49.3	46.7		56.3	52.1	...		...
	Consumer confidence (8)	index		87.9	79.5	93.8		105.0	107.7	112.0		107.0
	GDP	apc	3.2				4.9				6.5	...
	Industrial production	apc		4.8	5.6	6.9		6.9	7.0	7.3		...
South Korea [3.0%]	CPI	apc		2.7	2.4	1.7		0.5	-0.5	0.2		...
	PMI manufacturing (1)	index		51.1	51.0	51.5		51.4	52.1	51.9		...
	GDP (1)	qpc	-3.2				2.1				1.1	...
South Korea [3.0%]	Industrial production (1)	mpc		1.9	-0.4	5.6		-1.1	0.3	...		...
	CPI	apc		0.3	0.7	1.0		0.1	0.6	0.5		...

(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