Weekly Economic Update

TE TAI ŌHANGA
THE TREASURY

26 February 2021

Additional COVID cases in the community

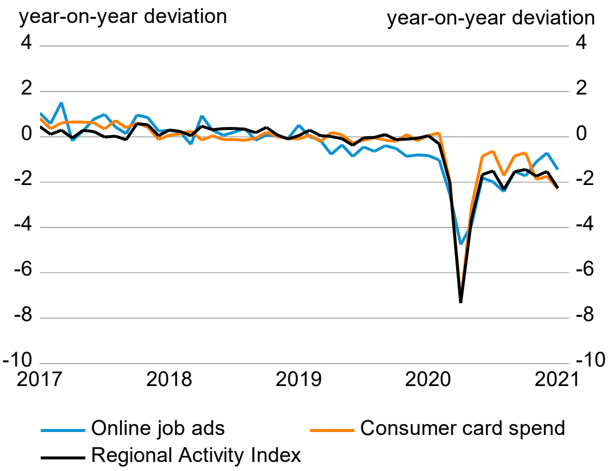
Auckland joined the rest of the country at Alert Level 1 on Monday. Over the past week, eight additional community COVID-19 cases have been recorded in the Auckland region. These new community cases are all linked to the "Auckland February" cluster.

New regional activity indicators available

In this week's Special Topic, we are publishing a new set of experimental indicators – the Regional Activity Indices (RAIs) – to help shed light on how regional economies are performing in near real-time. Each RAI is a composite index that summarises six monthly indicators of economic activity in that region. Currently these component indicators include measures of consumer spending, jobseeker numbers, online job vacancies, traffic volumes, and electricity demand.

One of the key insights from the RAIs is that activity growth is still somewhat subdued in regions that usually rely on high levels of international consumer spending. Most notably, this includes regions in the lower South Island, but also regions in the upper North. Figure 1 below highlights the RAI for the Otago region. For more insight (and the full set of RAIs), refer to the Special Topic included on pages 5-10 below.

Figure 1: Otago activity selected components

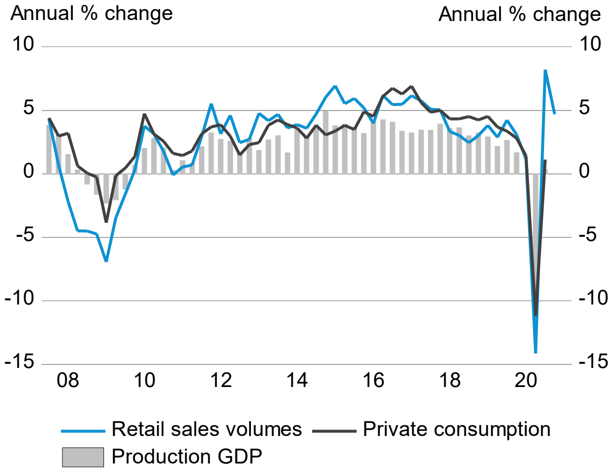


Source: The Treasury, Various

Retail Trade still strong….

The Retail Trade Survey showed that spending held up in the 2020 year. Despite a 2.7% decline in retail sales volumes in the quarter (following a record increase in September), sales volumes in the December quarter were up 4.8% from December 2019. New Zealanders holidaying at home rather than abroad and low interest rates are expected to have supported domestic spending.

Figure 2: Retail Trade and Private Consumption



Source: Stats NZ

Retail sales volumes are a strong indicator of real private consumption and this result presents upside risk for our HYEFU estimate of a 2.8% annual decrease in real private consumption. Spending on consumer durables has remained high despite reported supply chain issues. Furniture, floor coverings, houseware and textiles sales volumes rose 4.0% in the quarter, following a 31.0% rise in September, to be up 10.1% on last year.

Subdued inflation indicators

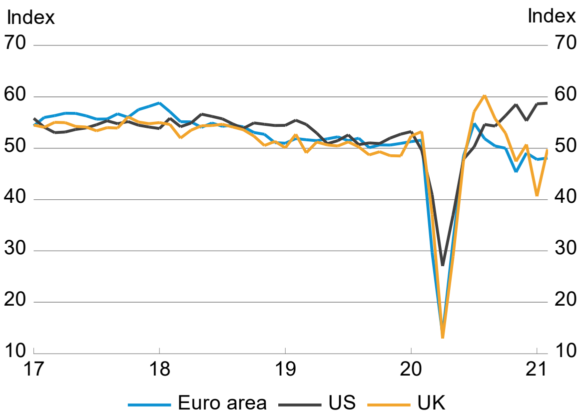
The Producers Price Index (PPI) showed output prices rose 0.4% in the December quarter, driven by the construction and hospitality industries. Input prices were unchanged in the quarter, however the February ANZ Business Outlook pointed to increasing input cost pressures, with a net 72% of businesses expecting higher costs ahead.

As expected, the RBNZ left the Official Cash Rate unchanged at 0.25% in the MPS this week and the Large Scale Asset Purchase Programme remains with a target of $100 billion of bonds to be purchased by June next year. The Bank recognised that the economic outlook is highly uncertain and remains prepared to provide additional monetary stimulus if necessary.

February PMI surveys show mixed picture…

February Purchasing Managers surveys for the US, UK and euro area show a mixed global recovery (Figure 3). In the US, the services index rose by 0.6 points to 58.9, while the manufacturing index fell by 0.7 to 58.5, with both industries remaining firmly in expansion. While manufacturing in the euro area performed similarly with a 2.9-point rise to 57.7, services appeared much weaker with a 0.7-point fall to 44.7, remaining contractionary. The UK services index rebounded strongly following January's sharp fall, rising 10.2 points to 49.7. The manufacturing index fell slightly but remains expansionary at 50.5.

Figure 3: Composite PMI indexes

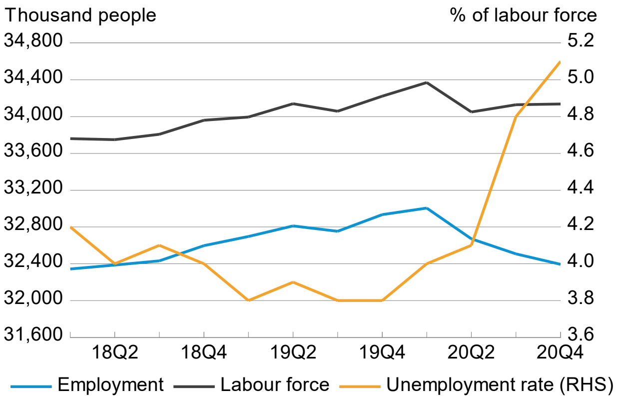


Source: Haver

… as UK employment continues to fall…

Employment in the United Kingdom fell by 114,000 in the final quarter of 2020, to be down 1.9% compared to the first quarter of 2020 (Figure 4). Labour force numbers were flat, remaining down 0.7% compared to the first quarter of 2020. The unemployment rate increased by 0.1 percentage points from the previous quarter, to 5.1%. Earnings were up 3.3% from the previous quarter, likely reflecting the loss of lower-paid jobs.

Figure 4: UK labour market statistics

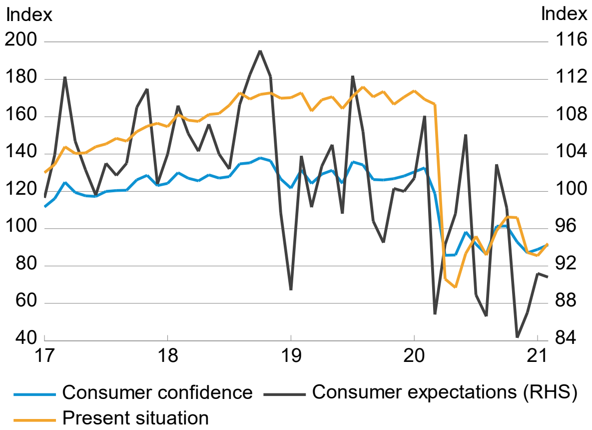


Source: Haver

…and US consumer situation improves…

The United States consumer confidence index rose 2.4 points in February led by a strong increase in the present situation index but remains well below pre-COVID levels (Figure 5). Uncertainty remains, though, with the expectations index easing slightly.

Figure 5: US consumer confidence



Source: Haver

…but recovery "far from complete" …

In a semi-annual testimony before Congress, US Federal Reserve Chair Powell stressed that the economy remains a long way off the Fed's employment and inflation goals. Powell also expressed a desire to achieve a "broad and inclusive" recovery, noting that the rise in unemployment has fallen disproportionately on lower-wage workers and minority groups. The House of Representatives is expected to vote this week on President Biden's $1.9 trillion stimulus plan, with Democrats hoping to enact the package before increased unemployment benefits expire on 14 March.

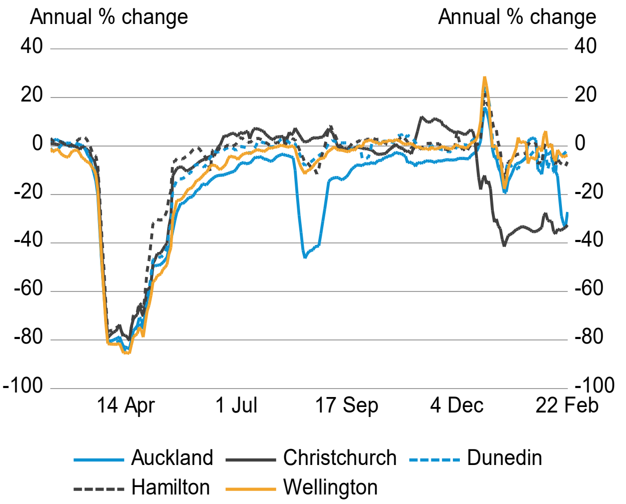
…as the global vaccination effort continues

Over 200 million COVID-19 vaccine doses have been administered across 95 countries, as Israel leads the way with 35% of its population having received a two-dose inoculation. In the US, 6% have received two doses, compared to 2% in the EU and 1% in the UK. The rollout has been slow in Asia, with many countries unlikely to secure a steady vaccine supply until the second half of 2021.

Date	Key upcoming NZ data	Previous
3 Mar	Building consents	+ 4.9% (mpc)
3 Mar	ANZ Commodity Price Index	+ 3.6% (mpc)
5 Mar	Value of building work	+ 34.6% (qpc)

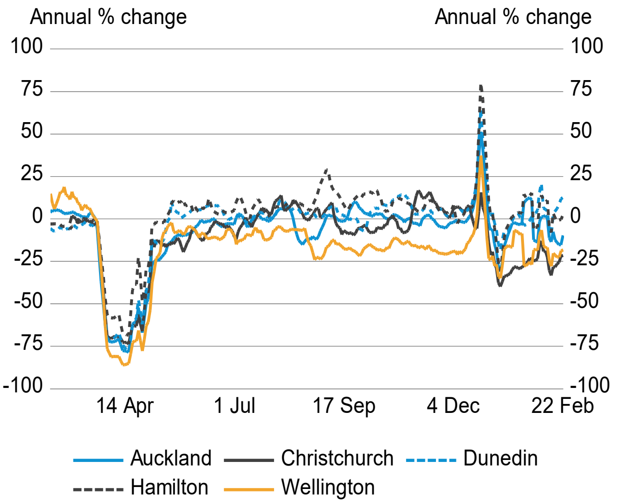
High-Frequency Indicators (Domestic)

Traffic Movement



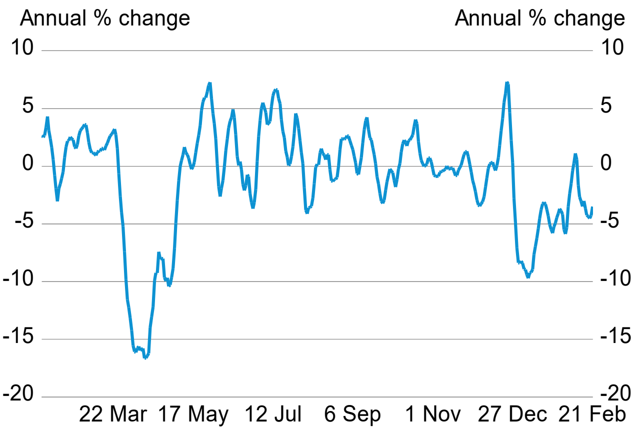
Source: Waka Kotahi NZ Transport Agency

Freight Movement



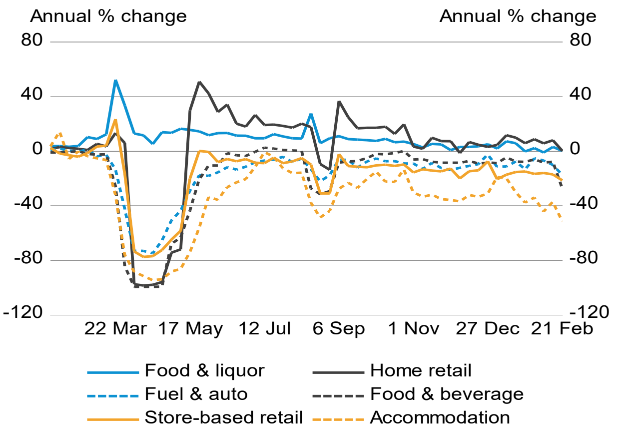
Source: Waka Kotahi NZ Transport Agency

Electricity Demand



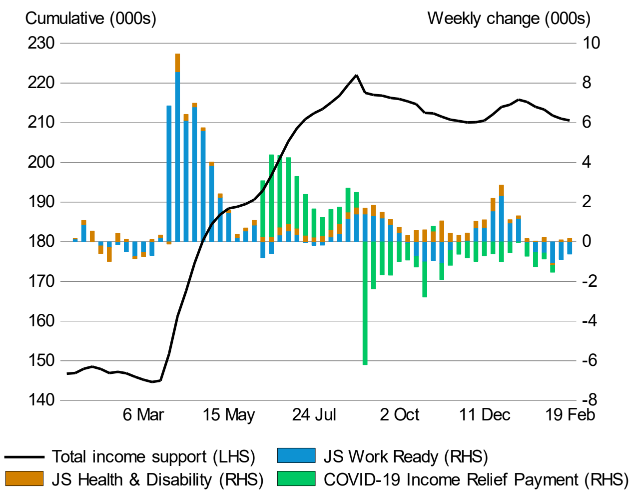
Source: Electricity Authority

Retail Spending



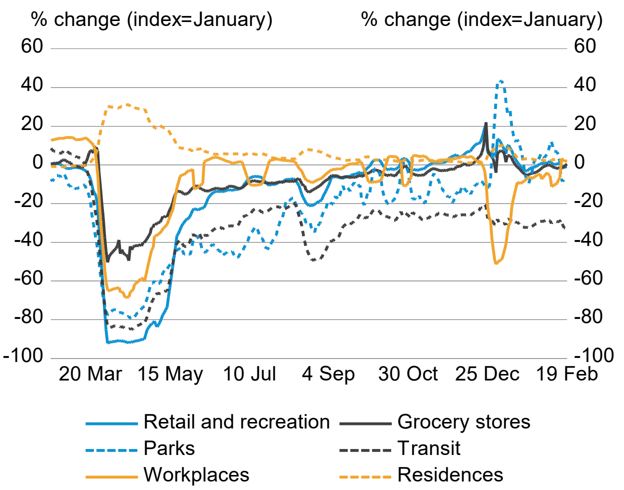
Source: Marketview data via MBIE

Jobseeker (JS) and Income Support Recipients



Source: MSD

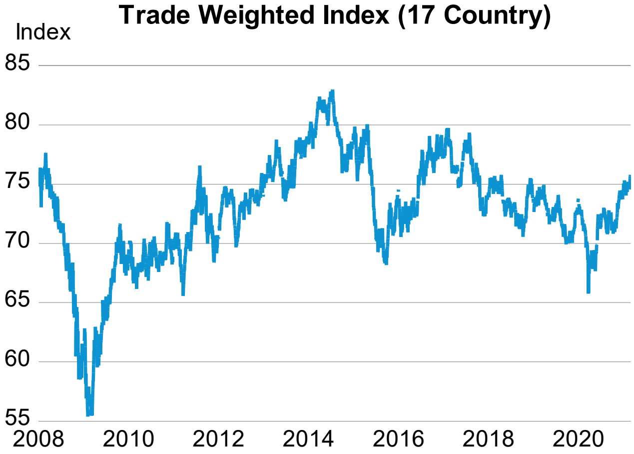
People Movements at Selected Locations



Source: Google

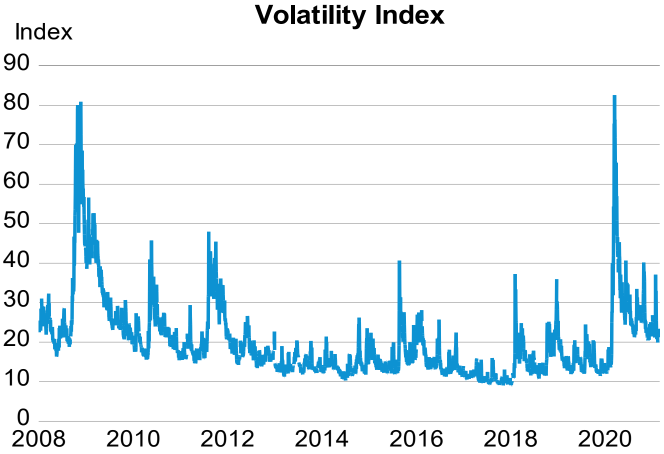
High-Frequency Indicators (Global)

Trade Weighted Index



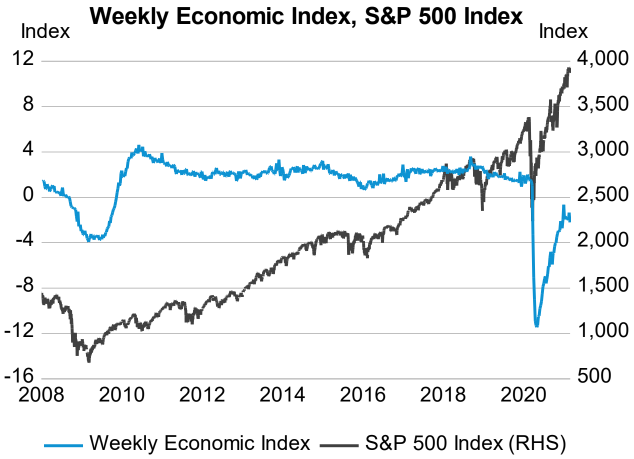
Source: RBNZ

Volatility Index



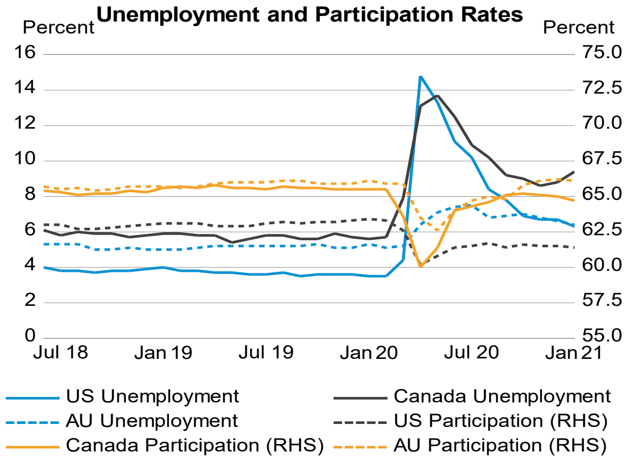
Source: Haver

US Activity and Equities



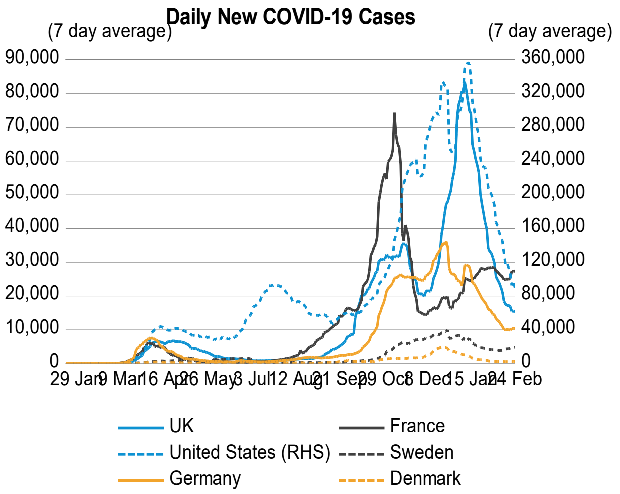
Sources: Federal Reserve Bank of New York, Haver

Labour Markets



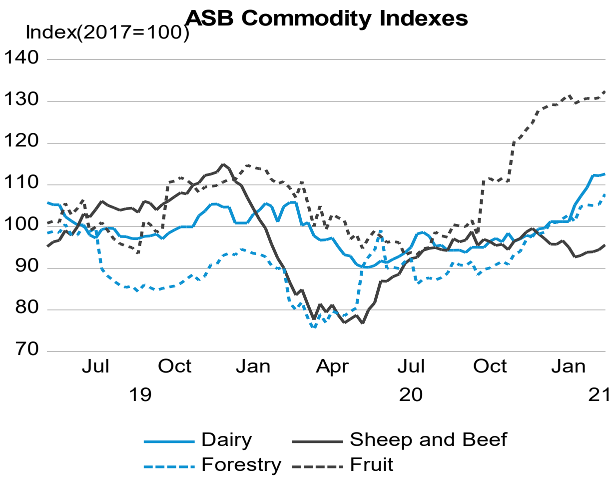
Source: Haver

COVID-19 Cases



Sources: World Health Organisation/Haver

World Commodity Prices



Source: ASB

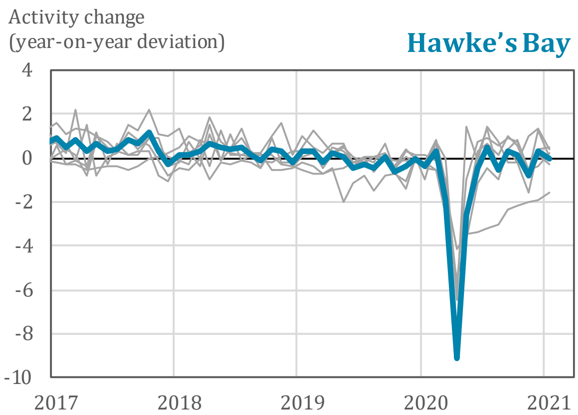
Special Topic: Regional Activity Indices

What are the Regional Activity Indices?

Today we are publishing the Regional Activity Indices (RAIs) to help shed light on how regional economies are performing, and how they react to region-specific shocks, in near real-time.

The RAIs are an experimental set of indicators produced by Treasury, Stats NZ and the Reserve Bank of New Zealand. Each RAI is a composite index that summarises several monthly indicators of economic activity in that region. As of February 2021, the Regional Activity Index for each region is based on six indicators that span consumer spending, jobseeker numbers, online job vacancies, traffic volumes (light and heavy vehicles), and electricity demand.

Figure 1: Hawke's Bay regional activity



Sources: The Treasury, Various

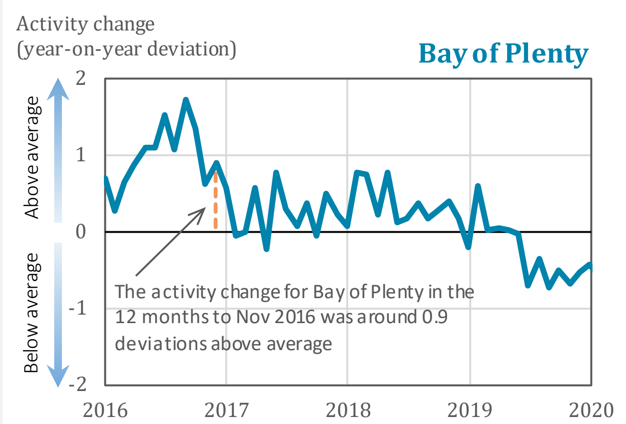
In the simplest possible terms, the RAI for each region is no more than a weighted average of these six constituent indicators. More specifically, it is *the* weighted average that seeks to capture as much of the *common movement* of these indicators as possible – as demonstrated in Figure 1 for the Hawke's Bay region.

The RAIs seek the common movements in several indicators…

Most economic indicators (such as card spending, electricity usage, and job market conditions) are influenced both by broad, underlying economic drivers as well as specific, (or 'idiosyncratic') drivers that are unique to each particular indicator. For example, card spending might surge in November due to promotional activity on Black Friday weekend – activity which is largely de-coupled from broader economic fundamentals like the job market and industrial production. Similarly, a mild winter might cause residential, and therefore total, electricity usage to dip – even when broader economic activity (including industrial and commercial electricity usage) is holding-up.

How to read the regional activity indices

Each Regional Activity Index (RAI) measures the year-on-year change in activity levels for that region.



A positive value for one of the regional indices means that many of the underlying indicators grew at above-average rates over the past year, and vice-versa for a negative value. As such, the RAIs can be used as indicators of regional economic momentum.

It is especially important to bear in mind that the scale for each RAI is unique to that region. This means that a one-deviation movement in the regional index for Auckland say, is not equivalent to a one-deviation movement in the West Coast, or any other region.

We recommend reading the [Interpretation guidance and FAQs] before citing the Regional Activity Indices.

With this in mind, the RAI for each region seeks to capture only the *common movements* that are present in a diverse set of indicators. The idea is that any movements that are common to many indicators should be a good signal of the broad, underlying economic fundamentals in the region. The flip side to this approach is that the RAIs actually discard the idiosyncratic movements that are specific only to card-spending, electricity demand, or the job market etc. Although these idiosyncratic movements do also contribute to economic activity, they do not reflect movements in overall economic fundamentals.

…enabling a near real-time lens on activity

A key benefit of the RAIs is that they can be updated monthly, around 2-3 weeks after the end of each month. This helps to provide a much more timely and higher-resolution view of movements in regional economic activity than can be gained from the current set of regional economic statistics.

What are some of the key insights?

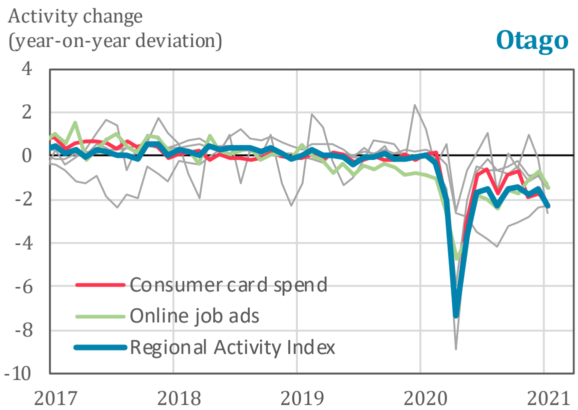
The full set of RAIs on pages 10 and 11 show that year-on-year activity changes bounced-back remarkably quickly right across the country after the national lockdown. Many regions are close to recovering – or have already recovered – to their long-term average levels of activity growth. This is consistent with the picture from the national level NZAC index, which indicates that although overall activity growth has recovered to positive levels, the *rate* of growth remains just below its long-term average (see more details on regional vs national comparisons on page 9 below).

The post-lockdown rebound seems to have been particularly strong in central North Island regions, where most of the component indicators recovered to their average levels in the last quarter of 2020 (eg, Hawke's Bay – Figure 1).[1]

Despite the recovery, the RAIs for *all* regions dipped in January. This was driven by several key indicators growing at a slower rate in the 12 months to January vis-a-vis December, including consumer card spending, online job ads and heavy traffic movements (in most regions).

Notably, the RAIs for the West Coast, Otago and Southland – and to a lesser extent, Canterbury, Auckland, Waikato and Bay of Plenty – all seem to indicate that, activity growth remains some way below the average rates for those regions. Much of this remaining gap is due to below-average growth in consumer card spending; and particularly, the loss of international consumer spending. This loss has been especially significant for the Otago region (Figure 2), where international spending in Queenstown and Wanaka usually accounts for a high fraction of overall spending. This loss of activity has flow-on effects for other indicators, with growth in online job ads and light and heavy traffic all down relative to their average rates for Otago, the West Coast and Southland.

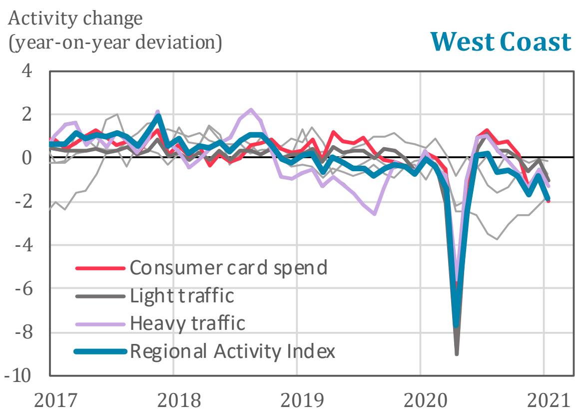
Figure 2: Otago regional activity



Sources: The Treasury, Various

Interestingly, activity growth in the West Coast (Figure 3) initially appeared to recover fully following the lockdown – led by strong growth in consumer card spending and traffic movements (heavy and light) from May to July. However, growth in these indicators appears to have fallen away in the second half of 2020, causing the West Coast RAI to drop back below average.

Figure 3: West Coast regional activity



Sources: The Treasury, Various

The RAIs also pick-up other important regional dynamics that cannot be gained from other regional statistics. For example, the RAIs for Auckland and its nearest neighbours – Northland, Waikato and Bay of Plenty – are all highly correlated (with individual cross-correlations in this

[1] All component indicators (displayed in light grey) have been standardised in the same way as the RAI itself (ie, to have mean = 0 and standard deviation = 1). This allows for all the series to be presented on the same scale – making the co-movements of interest more readily apparent. These standardised inputs can be viewed and downloaded alongside the RAIs on the Stats NZ COVID-19 data portal.