

## Special topic – Business Talks

This week's update contains a special topic, summarising the key messages gained from visits with firms undertaken as part of the preparation of this year's *Budget Economic and Fiscal Update*.

### Travel bubble with Australia announced

The Government announced that two-way quarantine-free travel with Australia will commence on 19 April. Both countries will have the right to stop quarantine-free travel in the event of an outbreak. New Zealand's bubble will operate on a state-by-state basis with Australia.

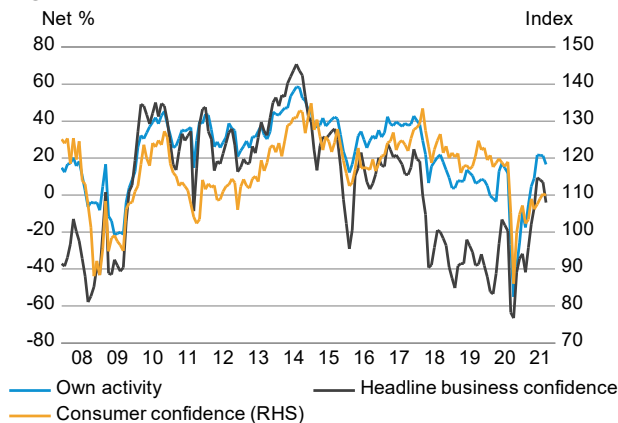
### Travel from India suspended

The Government has announced a two-week suspension of people travelling from India, effective 4pm on Sunday, 11 April. This is in response to a surge in the number of cases of travellers from India returning positive for COVID-19 at MIQ.

### Headline business confidence falls...

Headline business confidence fell 4 points to -8% and own activity expectations remained unchanged in the preliminary April ANZ Business Outlook Survey. Pricing intentions rose to an all-time high, up 6 points to a net 53% of respondents intending to raise prices. Expected costs rose 2 points to a net 75% of firms expecting higher costs ahead. ANZ reports that rising costs are an economy-wide issue, with shipping disruptions, rising global commodity prices, the higher minimum wage and skill shortages all contributing. Employment and investment intentions remain unchanged.

**Figure 1: Business and consumer confidence**



Source: ANZ, ANZ-Roy Morgan

### ...and consumer confidence is lower

Consumer confidence fell 2 points to 111 in the March release of the ANZ-Roy Morgan Consumer Confidence Survey. Consumer confidence remains below its historical average of 120.

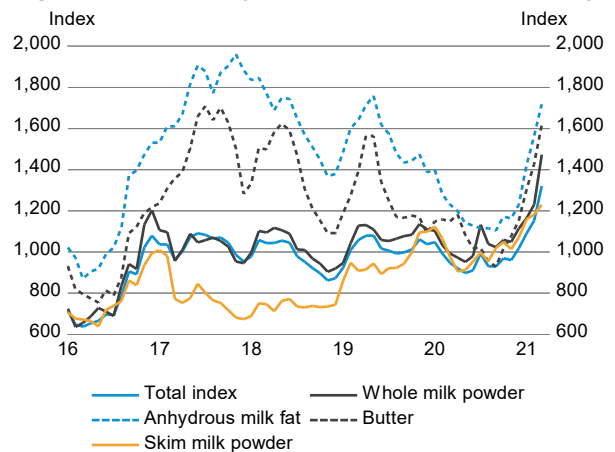
### Commodity prices rise to a record high

The ANZ World Commodity Price Index rose 6.1% in March to a record high, driven by a 12.7% rise in dairy prices. In local currency terms, the index was up 7.4%.

The recent strength in dairy prices was maintained in this week's *GlobalDairyTrade* auction, with overall prices increasing by 0.3% (Figure 2) on higher than normal volumes. Skim milk powder prices rose by 0.6% while whole milk powder prices remained unchanged from the previous auction.

A combination of strong global demand, especially from China, and no material increases in milk supply from the main dairy-exporting nations has supported the recovery in dairy prices.

**Figure 2: GlobalDairyTrade auction prices (monthly)**



Source: Haver

### Multi-unit dwelling consents fall on the month

In the month of February, seasonally adjusted building consents fell 18.2% from January, with the volatile multi-unit dwelling consents series falling by 37.6%, the largest seasonally adjusted monthly fall since March 2020. A total of 39,725 building consents were issued in the year to February 2021, down 0.4% from the year to January but still 4.9% higher than a year ago. This outturn supports a strong pipeline of construction activity over the year ahead, although capacity constraints and supply

chain issues pose challenges for further growth. Recent changes made to housing tax policies may further affect growth in consented activity going forward.

**IMF upgrades global growth...**

In its April 2021 World Economic Outlook (WEO), the International Monetary Fund (IMF) upgraded its forecast for 2021 global output growth to 6.0% (Table 1), 0.5 percentage points (ppts) higher than forecast in its January Update. This reflects additional fiscal support in a number of large economies, in particular the United States (US) and Japan, as well as the expectation that increased vaccination will allow for the gradual resumption of contact-intensive activities.

**Table 1: IMF April 2021 WEO projections for selected countries**

	2021	2022
<b>World</b>	<b>6.0</b>	<b>4.4</b>
Australia	4.5	2.8
China	8.4	5.6
Euro area	4.4	3.8
South Korea	3.6	2.8
New Zealand	4.0	3.2
Singapore	5.2	3.2
Taiwan	4.7	3.0
Thailand	2.6	5.6
United Kingdom	5.3	5.1
United States	6.4	3.5

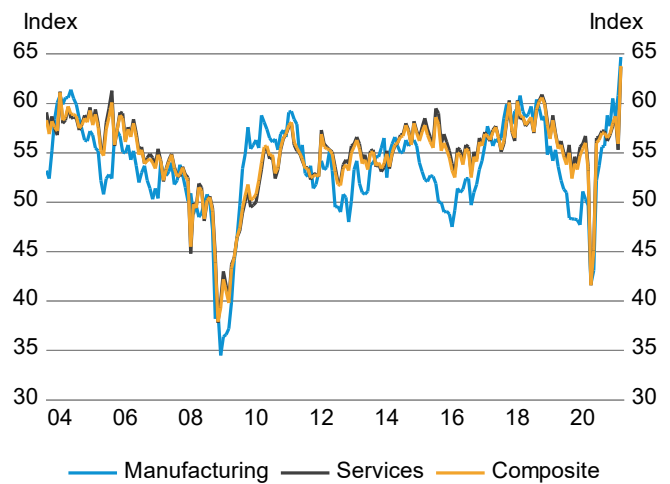
Source: IMF April 2021 WEO

**... amid continued strong US data...**

Nonfarm payroll employment increased by 916,000 in March, much better than market expectations for a 660,000 rise. Most of the gains were in the services sector, aided by the gradual re-opening of contact-intensive businesses. The unemployment rate fell by 0.2 ppts to 6.0%. Despite these gains, there are still 8.4 million fewer people employed than before the pandemic.

Other data have also been positive, with the US Institute for Supply Management (ISM) manufacturing survey index rising to 64.7 in March (Figure 3), its highest level since 1983, driven by a notable improvement in the new orders component. The ISM services index also rose strongly to 63.7, its highest level since 1997.

**Figure 3: US ISM indices**



Source: Haver

**...and as global economic recovery continues**

The J.P. Morgan Global Purchasing Managers' Index (PMI) Composite Output Index increased to a 79-month high of 54.8 in March, one of its best readings over the past decade. The improvement was driven by the US, while the pace of expansion in Germany, the UK, India and Australia were also above the world average. Price pressures continued to build, with average input prices rising at the quickest pace in more than 12 years. Meanwhile, the final composite PMI for the euro area in March was revised higher by one index point to 53.2. The region returned to growth in March following four months of decline and business confidence improved to a 37-month peak.

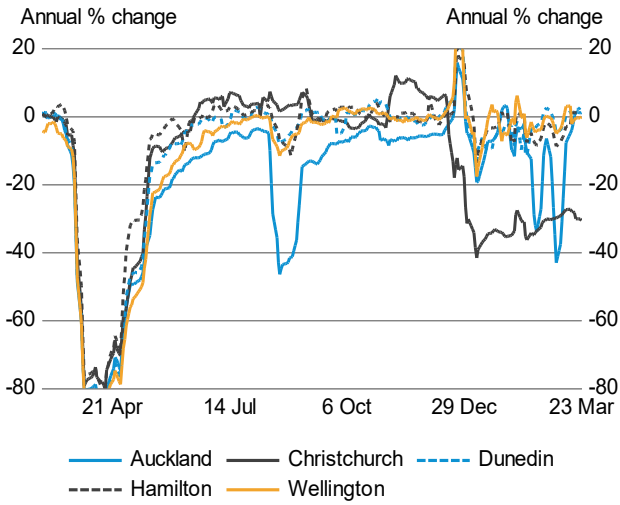
**RBA keeps policy settings unchanged**

The Reserve Bank of Australia (RBA) left its policy settings unchanged, with the targets for the cash rate, the Term Funding Facility and the yield on the 3-year Australian Government bond remaining at 0.1%. While noting that the recovery has been stronger than expected, the RBA does not expect conditions for a rate hike to be met until 2024 at the earliest, which means it does not foresee inflation increasing sustainably to within the 2% - 3% target range until that time. The Bank is prepared to undertake more bond purchases (beyond what has already been announced) if the need arises.

Date	Key upcoming NZ data	Previous
13 Apr	Electronic card transactions	- 8.1% apc
15 Apr	Food price index	+ 1.2% apc
15 Apr	Rental price index	+ 3.0% apc
16 Apr	NZ Activity Index	+ 0.5% apc

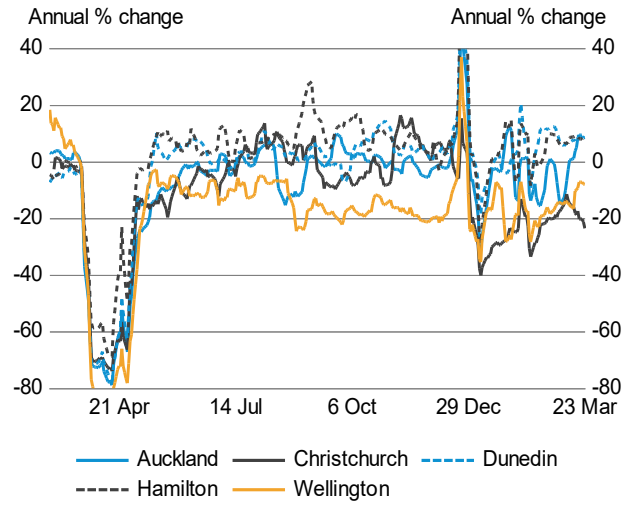
# High-Frequency Indicators (Domestic)

## Traffic Movement



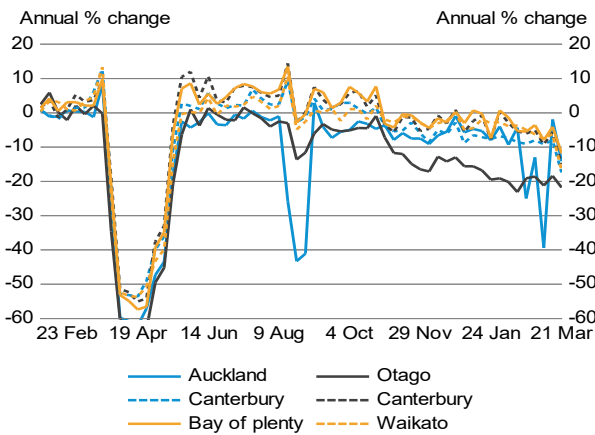
Source: Waka Kotahi NZ Transport Agency

## Freight Movement



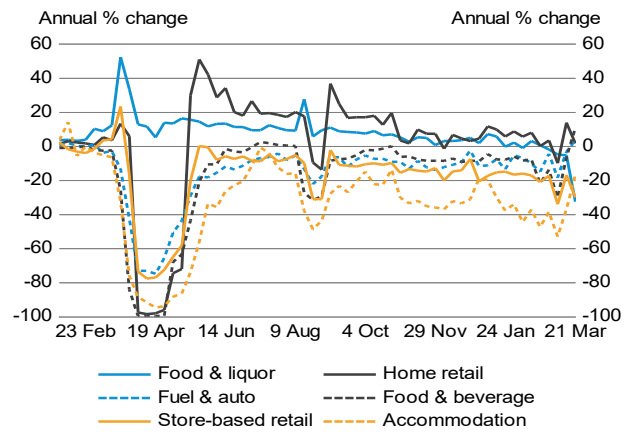
Source: Waka Kotahi NZ Transport Agency

## Spending by Region



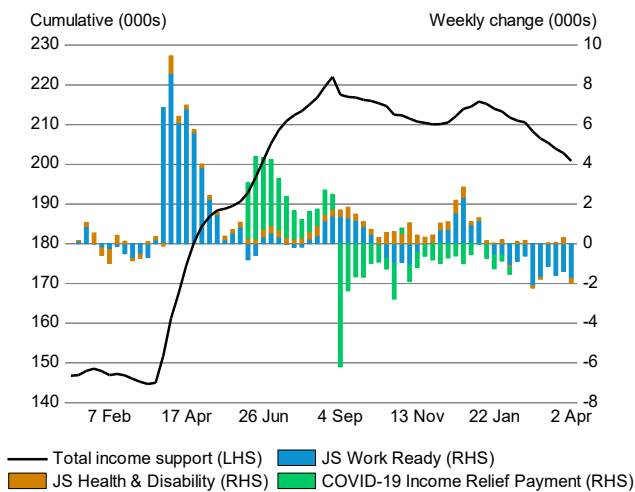
Source: Marketview data via MBIE

## Spending by Industry



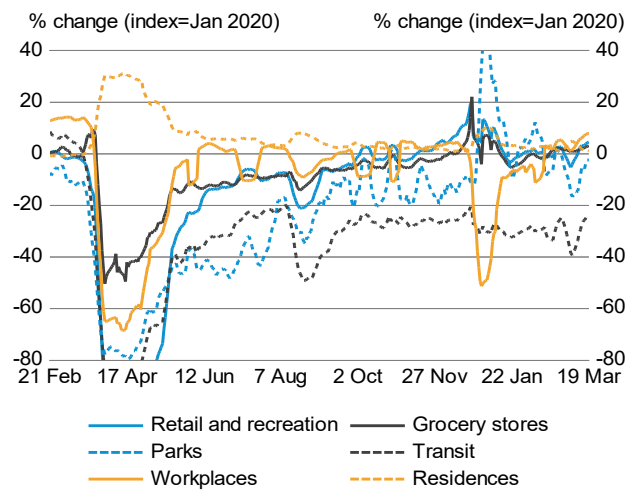
Source: Marketview data via MBIE

## Jobseeker (JS) and Income Support Recipients



Source: MSD

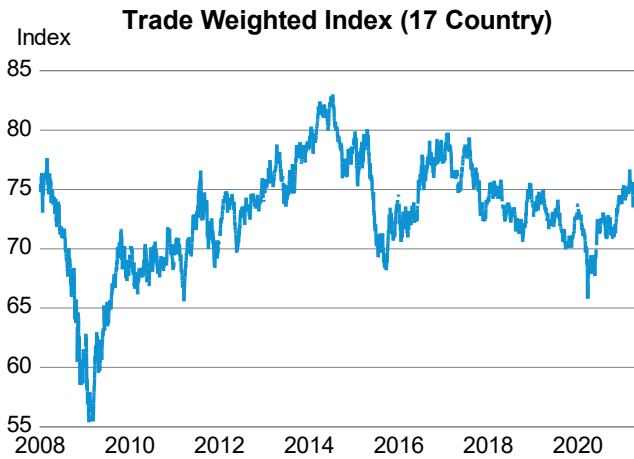
## People Movements at Selected Locations



Source: Google

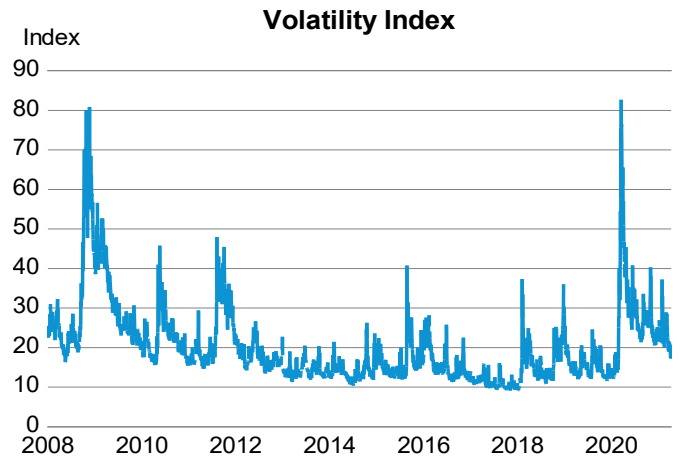
# High-Frequency Indicators (Global)

## Trade Weighted Index



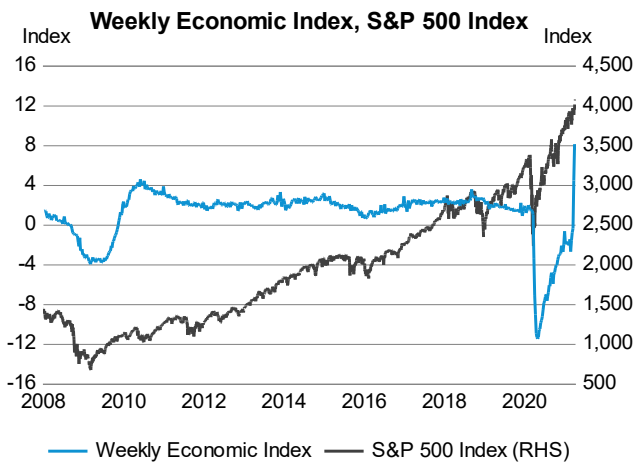
Source: RBNZ

## Volatility Index



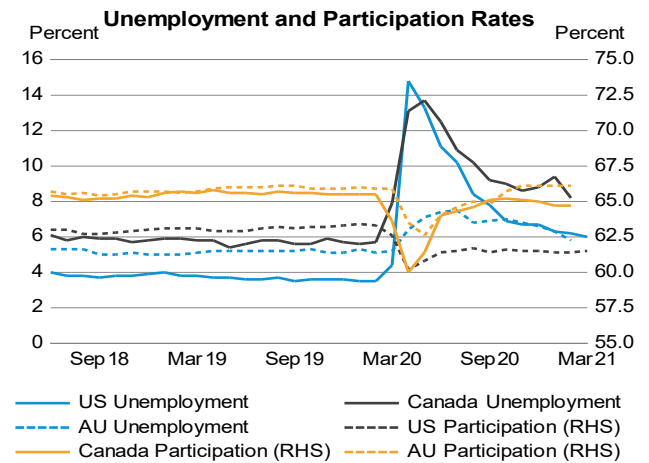
Source: Haver

## US Activity and Equities



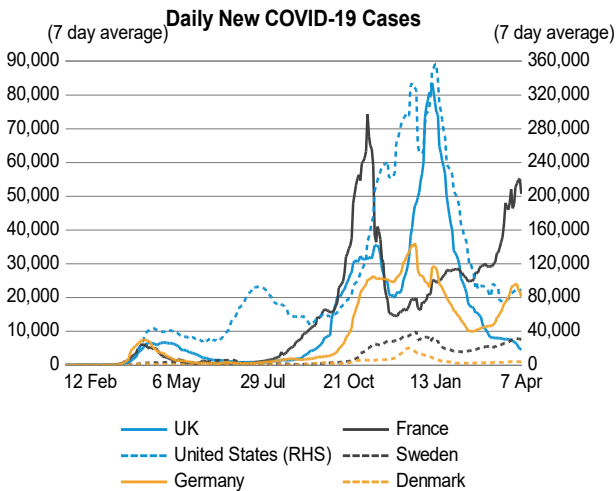
Sources: Federal Reserve Bank of New York, Haver

## Labour Markets



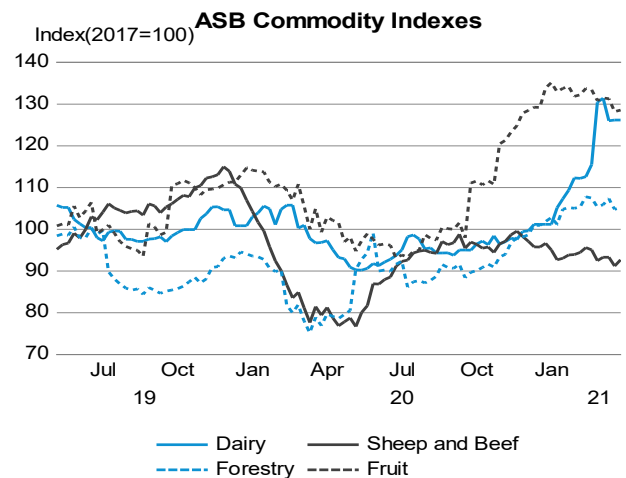
Source: Haver

## COVID-19 Cases



Sources: World Health Organisation/Haver

## World Commodity Prices



Source: ASB

## Special Topic – March 2021 Business Talks

Between 3 March and 12 March 2021, officials from the Treasury met with a range of businesses and other organisations to discuss the outlook for the economy.

A number of businesses were more optimistic about the outlook than they had previously expected. There are some pressure points (for example the impact of reduced international tourism on provincial towns, and an ongoing skilled labour shortage), however supply chain issues are mostly being managed, and strong household spending and house price growth have supported the economic recovery.

### ***The lack of international tourism is being felt across the country...***

The effect of a lack of international tourism is being experienced throughout the country, in particular in areas more than a few hours' drive from population centres that have benefitted less from domestic tourism. Many tourism businesses are operating at reduced capacity or hibernating until international visitors return, and reported major job losses over the last year.

There is a reasonable amount of positive sentiment in luxury tourism and hospitality. However, a number of budget tourism and hospitality businesses are struggling. The West Coast and Queenstown Lakes District have been particularly impacted, as shown by the Regional Activity Indicator (see 26 February 2021 *Weekly Economic Update*). Some businesses reported that Managed Isolation and Quarantine has provided some relief by boosting hotel occupancy, particularly in Auckland.

While there is optimism that international tourists will return, some businesses worried about whether infrastructure will be fit for purpose relative to the speed at which tourism is expected to rebuild.

### ***...with increased concern after alert level increases***

COVID-19-related uncertainty seems to be holding back growth in parts of the country, for example the upper and lower parts of the North Island.

Changing alert levels has been a cause of concern for the tourism industry, with some businesses reporting product spoilage and fewer re-bookings

following the most recent removal of restrictions compared to previous periods of higher alert levels, possibly suggesting a lack of consumer confidence.

Auckland has been particularly hard-hit by alert level changes, with a number of major events, cultural activities and businesses impacted. Some businesses reported government support has helped mitigate some of this effect, enabling the retention of permanent staff across venues.

### ***Border settings remain a hot topic...***

The tourism industry has been impacted by border closures, and there was interest from businesses for greater certainty around the future of New Zealand's border settings. A trans-Tasman bubble was considered by many businesses as being key to their recovery, bolstered by the fact that Australians normally comprise a significant proportion of New Zealand's visitors.

Tertiary education has also taken a hit from border settings, with lost revenue and job losses reported, likely due to reduced numbers of international student arrivals last year, and similar losses are expected this year. This has been partly offset by a higher than normal number of domestic student enrolments. A flow-on economic effect is expected, due to students normally remaining in the country for several years.

### ***...as does the need for skilled labour***

Businesses across multiple sectors reported difficulty obtaining skilled labour. The construction industry is experiencing some delays, with project managers and builders proving difficult to find. Skilled labour is also in short supply for the agriculture and horticulture industry, as many of these skills are difficult to source domestically.

Some retail businesses are also finding skilled labour hard to come by, particularly in the areas of management and IT. Tourism businesses reported difficulty in obtaining IT-related labour, and there are concerns about whether enough tourism and hospitality workers will be available once the borders re-open, as a large number of people who were filling these roles have left the country.

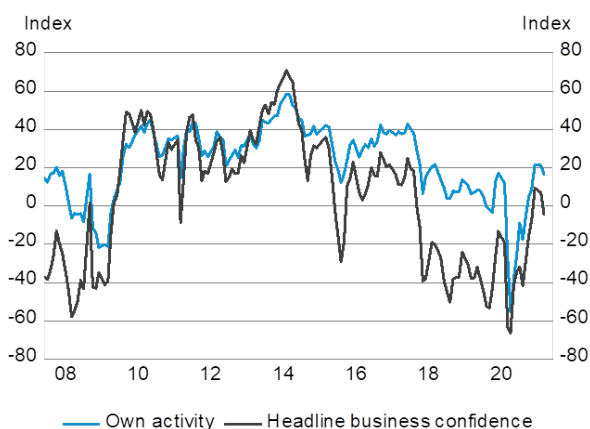
### **Margins are being squeezed for some businesses...**

The retail, horticulture, and construction industries reported experiencing upward wage pressures. For some businesses, the desire to retain skilled labour is driving wage pressures. Some businesses in the construction and horticulture reported experiencing lost profits due to a shortage of labour.

Supply chain issues are adding to cost pressures for some businesses, with increased freight costs and product spoilage due to delays. Environmental regulations and increasing carbon credit costs were also cited as drivers of cost pressures. These factors may be reflected in recent measures of Business Confidence and Business Own Activity (Figure 1), which have fallen slightly in recent months.

Businesses reported expecting delays caused by global supply chain issues to persist until the end of the year, while domestic issues should be resolved by the middle of the year.

**Figure 1: Business confidence and own activity**



Source: ANZ Research

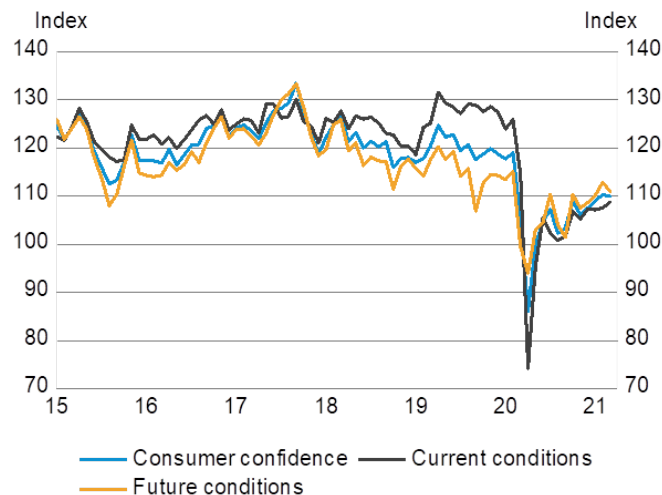
### **...though for some businesses, demand is strong**

Construction continues to perform well, with newly built homes being sold more quickly than usual and plenty of work available.

Retail businesses reported strong durable goods and car sales, with supply chain disruptions proving manageable in this area and the popularity of online delivery holding up. The increase in spending on household goods and cars is likely a knock-on effect of reduced spending on international travel.

Consumer confidence has been increasing since the country came out of Alert Level 4 last year, however consumer confidence levels have not yet recovered to pre-COVID-19 levels. The ANZ-Roy Morgan Consumer Confidence Index remains below its historical average of 120 (Figure 2).

**Figure 2: Consumer confidence**



Source: ANZ-Roy Morgan, Treasury

Horticulture and agriculture businesses also reported strength, with solid domestic sales and strong export sales particularly to the Chinese market.

Quarterly Indicators		2019Q3	2019Q4	2020Q1	2020Q2	2020Q3	2020Q4
Real Production GDP (1)	qpc	0.7	0.1	-1.2	-11.0	13.9	-1.0
	aapc	2.8	2.4	1.7	-1.7	-2.3	-2.9
Current account balance (annual)	%GDP	-3.7	-3.3	-2.8	-1.8	-0.8	-0.8
Merchandise terms of trade	apc	0.9	7.1	5.4	6.3	-0.3	-1.7
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	0.6	0.4	1.0	-0.3	-0.7	0.6
Unemployment rate (1)	%	4.2	4.1	4.2	4.0	5.3	4.9
Participation rate (1)	%	70.7	70.4	70.7	69.9	70.1	70.2
LCI salary & wage rates - total (2)	apc	2.5	2.6	2.5	2.1	1.8	1.6
QES average hourly earnings - total (2)	apc	4.2	3.6	3.6	3.0	3.6	4.2
Core retail sales volume	apc	5.4	3.3	4.0	-11.7	7.7	4.2
Total retail sales volume	apc	4.5	3.3	2.3	-14.2	8.3	4.8
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		Oct 20	Nov 20	Dec 20	Jan 21	Feb 21	Mar 21
Merchandise trade balance (12 month)	NZ\$m	2,223	3,287	2,984	2,733	2,364	...
Dwelling consents - residential	apc	7.2	19.9	26.9	18.0	-4.7	...
House sales - dwellings	apc	30.0	34.0	46.3	6.2	14.6	...
REINZ - house price index	apc	13.2	16.0	17.8	18.9	21.4	...
Estimated net migration (12 month total)	people	59,981	51,821	43,899	33,179	...	...
ANZ NZ commodity price index	apc	-5.6	-10.9	-5.9	-1.6	0.1	4.0
ANZ world commodity price index	apc	-2.3	-5.5	-0.4	5.2	11.0	20.2
ANZBO - business confidence	net%	-15.7	-6.9	9.4	...	7.0	-4.1
ANZBO - activity outlook	net%	4.7	9.1	21.7	...	21.3	16.6
ANZ-Roy Morgan - consumer confidence	net%	108.7	106.9	112.0	113.8	113.1	110.8

Weekly Benefit Numbers		26 Feb	5 Mar	12 Mar	19 Mar	26 Mar	2 Apr
Jobseeker Support	number	208,335	206,541	205,446	203,925	202,848	200,865
Work Ready	number	130,113	128,415	127,272	125,682	124,290	122,550
Health Condition and Disability	number	78,219	78,126	78,174	78,243	78,558	78,309
COVID-19 Income Relief Payment	number	...	...	...	...	...	...
Full-time	number	...	...	...	...	...	...
Part-time	number	...	...	...	...	...	...

Daily Indicators		Wed 31/3/21	Thu 1/4/21	Fri 2/4/21	Mon 5/4/21	Tue 6/4/21	Wed 7/4/21
<b>NZ exchange and interest rates (5)</b>							
NZD/USD	\$	0.6989	0.6981	...	...	0.7059	0.7059
NZD/AUD	\$	0.9182	0.9195	...	...	0.9231	0.9208
Trade weighted index (TWI)	index	73.9	73.8	...	...	74.4	74.2
Official cash rate (OCR)	%	0.25	0.25	0.25	0.25	0.25	0.25
90 day bank bill rate	%	0.35	0.34	...	...	0.35	0.34
10 year govt bond rate	%	1.78	1.81	...	...	1.81	1.76
<b>Share markets (6)</b>							
Dow Jones	index	32,982	33,153	...	33,527	33,430	33,446
S&P 500	index	3,973	4,020	...	4,078	4,074	4,080
VIX volatility index	index	19.4	17.3	...	17.9	18.1	17.2
AU all ords	index	7,017	7,064	...	...	7,134	7,177
NZX 50	index	12,561	12,488	...	...	12,400	12,488
<b>US interest rates</b>							
3 month OIS	%	0.06	0.07	0.07	0.07	0.07	...
3 month Libor	%	0.19	0.20	...	...	0.20	...
10 year govt bond rate	%	1.74	1.69	1.72	1.73	1.67	1.68
<b>Commodity prices (6)</b>							
WTI oil	US\$/barrel	59.16	61.45	...	58.73	59.34	59.77
Gold	US\$/ounce	1,691	1,726.05	...	...	1,744.65	1,738.05
CRB Futures	index	507	504.96	...	505.49	507.68	508.28

(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		Aug 20	Sep 20	2020Q3	Oct 20	Nov 20	Dec 20	2020Q4	Jan 21	Feb 21	Mar 21
<b>United States</b> [9.6% share of total goods exports]	GDP (1)	qpc			7.5				1.1			
	Industrial production (1)	mpc	1.0	-0.1		1.0	0.9	1.0		1.1	-2.2	...
	CPI	apc	1.3	1.4		1.2	1.2	1.4		1.4	1.7	...
	Unemployment rate (1)	%	8.4	7.8		6.9	6.7	6.7		6.3	6.2	6.0
	Employment change (1)	000s	1583.0	716.0		680.0	264.0	-306.0		233.0	468.0	916.0
	Retail sales value	apc	3.6	6.1		5.4	3.8	2.3		9.5	6.3	...
	House prices (2)	apc	5.4	6.7		8.1	9.2	10.2		11.1	...	...
<b>Japan</b> [6.1%]	PMI manufacturing (1)	index	55.6	55.7		58.8	57.7	60.5		58.7	60.8	64.7
	Consumer confidence (1)(3)	index	86.3	101.3		101.4	92.9	87.1		88.9	90.4	109.7
	GDP (1)	qpc			5.3				2.8			
	Industrial production (1)	mpc	1.0	3.9		4.0	-0.5	-1.0		4.3	-2.1	...
	CPI	apc	0.1	0.0		-0.4	-0.9	-1.1		-0.6	-0.4	...
	Unemployment rate (1)	%	3.0	3.0		3.1	3.0	3.0		2.9	2.9	...
	Retail sales value	apc	-1.9	-8.7		6.4	0.6	5.0		2.7	3.7	...
<b>Euro area</b> [5.5%]	PMI manufacturing (1)	index	47.2	47.7		48.7	49.0	50.0		49.8	51.4	52.7
	Consumer confidence (1)(4)	index	29.3	32.8		33.3	33.6	31.8		30.0	33.7	...
	GDP (1)	qpc			12.5				-0.7			
	Industrial production (1)	mpc	0.9	0.1		2.5	2.2	-0.1		0.8	...	...
	CPI	apc	-0.2	-0.3		-0.3	-0.3	-0.3		0.9	0.9	...
	Unemployment rate (1)	%	8.7	8.7		8.5	8.3	8.2		8.3	8.3	...
<b>United Kingdom</b> [2.7%]	Retail sales volume	apc	4.5	2.5		4.4	-1.9	0.9		-6.4	...	...
	PMI manufacturing (1)	index	51.7	53.7		54.8	53.8	55.2		54.8	57.9	62.5
	Consumer confidence (5)	index	-14.6	-13.6		-15.5	-17.6	-13.8		-15.5	-14.8	-10.8
	GDP (1)	qpc			16.9				1.3			
	Industrial production (1)	mpc	0.5	0.7		0.9	0.3	0.2		-1.5	...	...
	CPI	apc	0.2	0.6		0.7	0.4	...		...	...	...
	Unemployment rate (1)	%	4.5	4.8		4.9	5.0	5.1		5.0	...	...
<b>Australia</b> [15.8%]	Retail sales volume	apc	2.8	4.5		6.1	2.2	3.0		-5.9	-3.6	...
	House prices (6)	apc	3.7	5.0		5.8	6.5	7.3		6.4	6.9	5.7
	PMI manufacturing (1)	index	55.2	54.1		53.7	55.6	57.5		54.1	55.1	58.9
	Consumer confidence (1)(5)	net %	-27.0	-25.0		-31.0	-33.0	-26.0		-28.0	-23.0	-16.0
	GDP (1)	qpc			3.4				3.1			
	CPI	apc			0.7				0.9			
	Unemployment rate (1)	%	6.8	6.9		7.0	6.8	6.6		6.3	5.8	...
<b>China</b> [24.3%]	Retail sales value	apc	5.4	6.6		7.7	12.1	10.3		10.3	5.2	...
	House Prices (7)	apc			5.0				4.3			
	PMI manufacturing (1)	index	49.3	46.7		56.3	52.1	55.3		55.3	58.8	59.9
	Consumer confidence (8)	index	79.5	93.8		105.0	107.7	112.0		107.0	109.1	111.8
	GDP	apc			4.9				6.5			
<b>South Korea</b> [3.0%]	Industrial production	apc	5.6	6.9		6.9	7.0	7.3		35.1	35.1	...
	CPI	apc	2.4	1.7		0.5	-0.5	0.2		-0.3	-0.2	...
	PMI manufacturing (1)	index	51.0	51.5		51.4	52.1	51.9		51.3	50.6	51.9
<b>South Korea</b> [3.0%]	GDP (1)	qpc			2.1				1.2			
	Industrial production (1)	mpc	0.7	3.1		-0.5	0.5	2.7		-1.2	4.3	...
	CPI	apc	0.7	1.0		0.1	0.6	0.5		0.6	1.1	1.5

(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