

Positive outlook for March quarter GDP...

The past week saw the release of the final set of partial indicators for March quarter GDP, which appear to be pointing to positive growth rather than the contractions that had been forecast in Treasury's *Budget Economic and Fiscal Update* (-0.2%) and the Reserve Bank's *May Monetary Policy Statement* (-0.6%).

...with continued strength in manufacturing ...

Transport and equipment together with meat and dairy product manufacturing led a broad-based increase in sales volumes, with headline manufacturing sales volumes increasing 0.4% in the March quarter.

Figure 1: Manufacturing wholesale sales volumes



Sources: Stats NZ and Treasury calculations

This increase in sales was further boosted by a larger than normal build-up in finished goods inventories, which paints an even more positive picture of activity in the March quarter. Ongoing strength in meat and dairy prices provided additional support to the value of sales over the quarter.

...and a recovery in wholesale sales...

Wholesale trade sales recovered from the dip the previous quarter, rising 3.7% in value and around 3.5% in volume terms, to end up slightly above long-run trend in the March quarter. Like the manufacturing result, the increase in sales was broad-based, with lower sales in grocery, liquor and

tobacco product wholesaling being the only decline (likely due to partial lockdowns during the quarter).

...and sales in services industries also up

Sales across services industries rose 2.5% on average in the March quarter, with house sales remaining close to historic highs, supporting a 6.2% increase in activity in the rental, hiring and real estate services industries. This was consistent with the 2.2% increase in sales recorded in the Retail Trade Survey for the March quarter.

Stats NZ will be heavily reliant on services industry sales data for their estimation of March quarter GDP as the recent redesign of the Quarterly Employment Survey (QES) has meant that hours paid and employment indicators that were previously relied upon have become less robust for assessing changes in activity between the December 2020 and March 2021 quarters¹.

Outlook also remains positive...

The outlook for activity going forward looks similarly positive, with the preliminary read of the June ANZ Business Outlook (ANZBO) showing firms' own activity outlook ticking up an additional two points to remain firmly in expansionary territory at 29%. Employment intentions remain at positive levels not seen since 2017 which, together with ongoing constraints to growth in labour supply and continued strength in aggregate demand, point to stronger wage pressures and lower unemployment in the coming quarters than had been expected. Early indications of retail spending for the June quarter are also positive, with cards transactions for the three months ending May up 3.0% compared to the three months prior.

...resulting in increased inflation expectations

The record-breaking streak in the ANZBO pricing intentions measure continued, with a net 63% of firms in the June survey reporting an intention to raise prices and firms' inflation expectations (12 months ahead) reaching 2.33%. Combined with a net 86% of firms expecting higher costs ahead this poses further upside risk to our inflation outlook.

¹ See <https://www.stats.govt.nz/methods/effects-of-the-qes-redesign-on-the-march-2021-quarter-statistics>

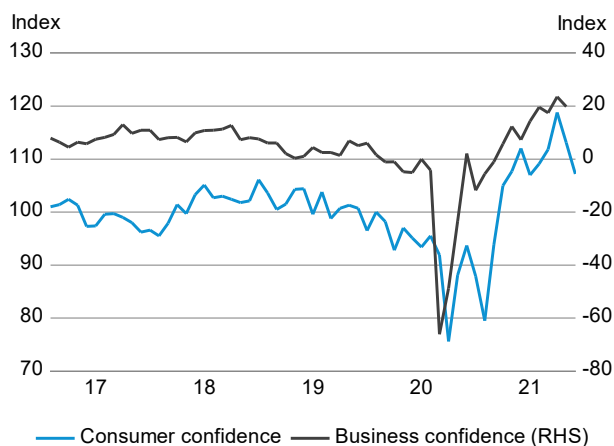
Australia business conditions at record high...

The NAB business survey for May showed business conditions rising to a record high, suggesting the robust growth seen in the March quarter is set to continue. The business confidence index eased slightly from April's record level (Figure 2), but was still among the highest readings ever recorded by the survey. The strength in business conditions was broad based, with employment and profitability rising to record highs and all industries reporting strong activity.

...as consumer confidence fades...

The Westpac-Melbourne Institute Consumer Sentiment report was less positive in June, reflecting the impact of the two-week lockdown in Melbourne. The index fell six points to 107, though this is still higher than any results seen between 2014 and 2020 (Figure 2).

Figure 2: Australia confidence



Source: Haver

...and the US recovery continues at pace

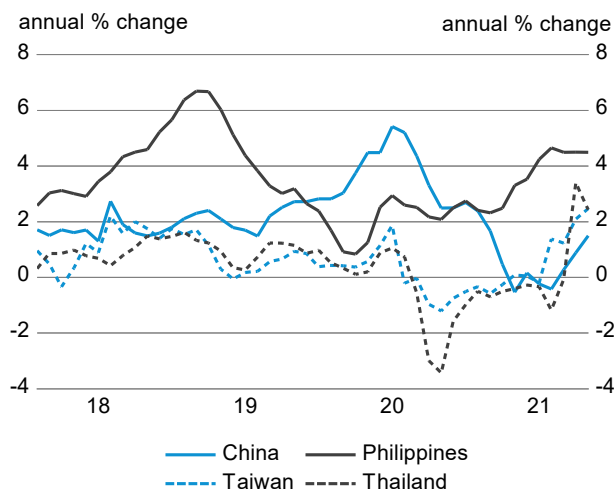
Data from the US continues to indicate a strong recovery, with a rise in exports and a record high level of job openings. The trade deficit fell in April as exports rose 1.1% and imports fell 1.4%, reflecting the improvement in global demand and the shift in domestic demand from goods to services as restrictions in the country are eased.

The April Job Openings and Labour Turnover report signalled an improving labour market, with a record 9.3 million job openings. In addition, record high quits (voluntary job separations) and record low layoffs rates indicate a tight labour market – employers are holding onto workers (suggesting labour is scarce) while workers feel confident leaving their jobs (suggesting jobs are plentiful).

CPI Inflation remains contained in Asia...

Consumers price indexes (CPI) for the month of May showed little movement in Asia, with most indexes moving broadly sideways compared to April. On an annual basis, inflation in the Philippines held steady at just over 4% (driven by price growth in late 2020, which has since faded), Taiwan and Thailand converged at around 2.5%, and China rose to 1.5% (Figure 3). As the region grapples with recent resurgences of COVID-19, the contained inflation situation will allow monetary policymakers to continue providing support.

Figure 3: Consumers Price Index



Source: Haver

...as producer prices surge in China...

Meanwhile, producer prices in China rose 1.6% in May to be up 9.0% over the year, the fastest rate of growth in over a decade. The rise was driven by higher prices for commodities and raw materials. Although higher producer prices did not immediately feed through into domestic consumer price inflation, they could be a catalyst for global inflation given China's large role in global trade.

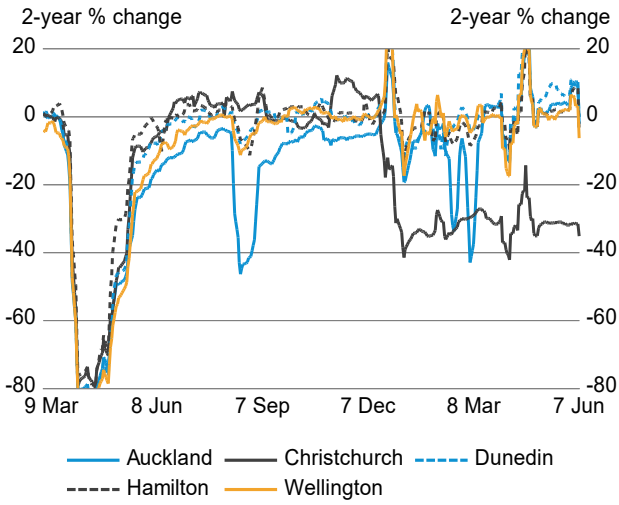
...and central banks receive a warning

The Bank of England's Chief Economist Andy Haldane warned of a "dangerous moment" in monetary policy, as rising inflationary pressures and loose monetary settings raise the risk of persistent inflation overshoot. Haldane suggested that support may need to taper sooner than expected to avoid the sort of inflationary spiral experienced by Britain in the 1970s.

Date	Key upcoming NZ data	Previous
14 Jun	Performance of Services	61.2 (index)
16 Jun	Current account balance	-0.8 (% of GDP)
17 Jun	Gross domestic product	-1.0 (qpc)

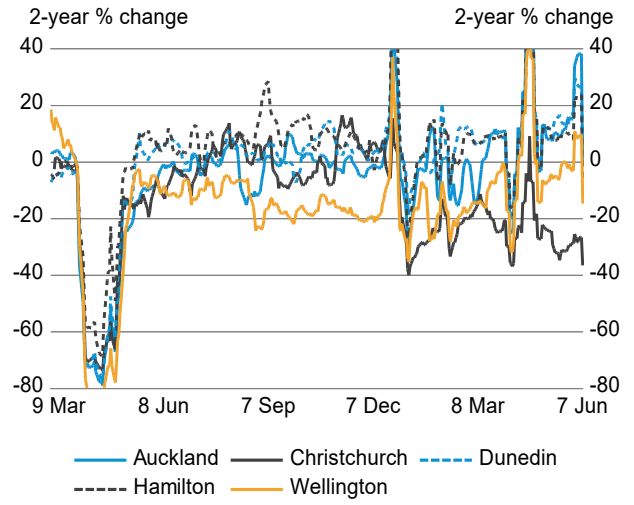
High-Frequency Indicators (Domestic)

Traffic Movement



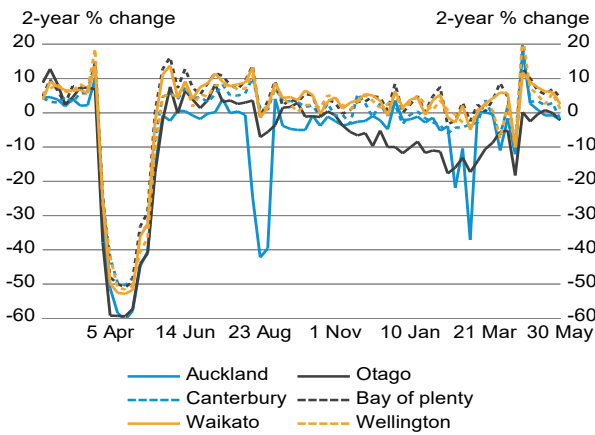
Source: Waka Kotahi NZ Transport Agency

Freight Movement



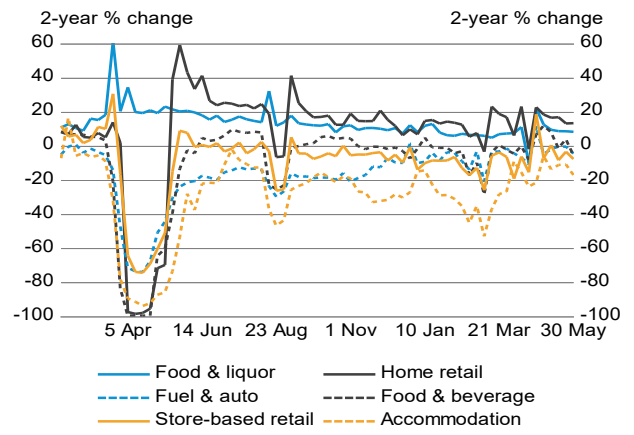
Source: Waka Kotahi NZ Transport Agency

Spending by Region



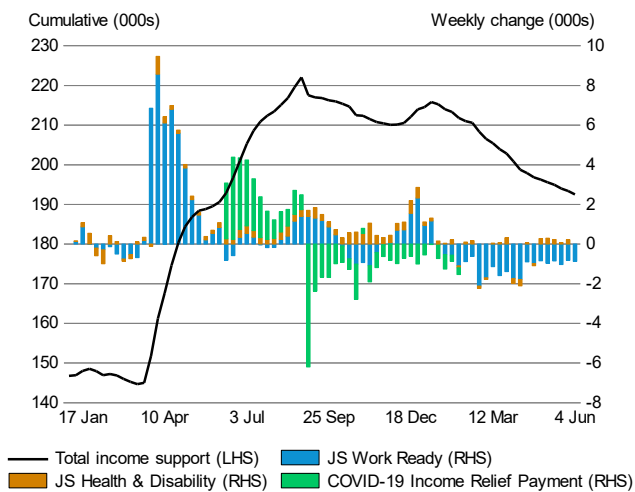
Source: Marketview data via MBIE

Spending by Industry



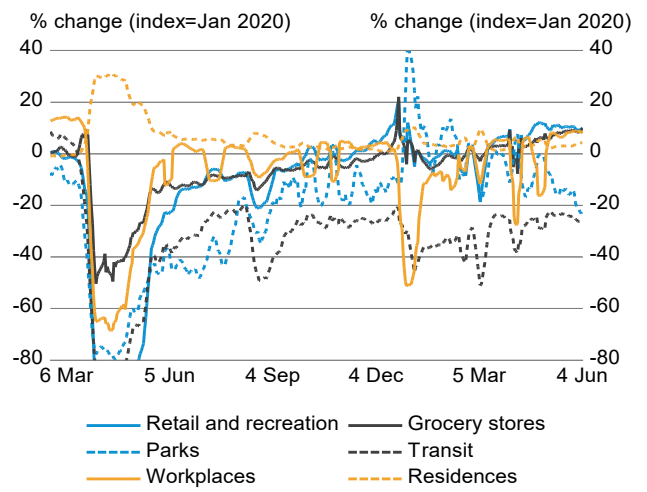
Source: Marketview data via MBIE

Jobseeker (JS) and Income Support Recipients



Source: MSD

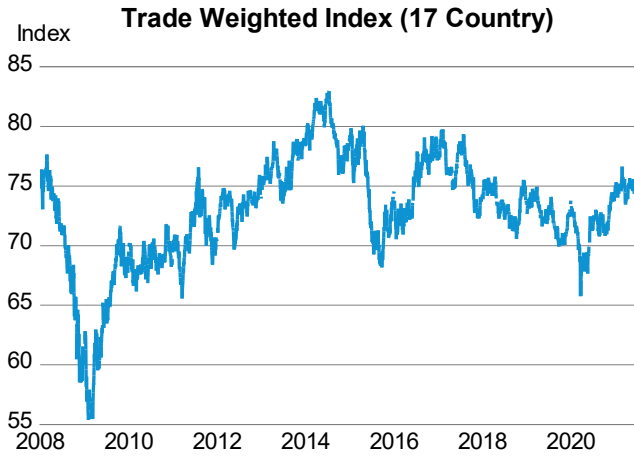
People Movements at Selected Locations



Source: Google

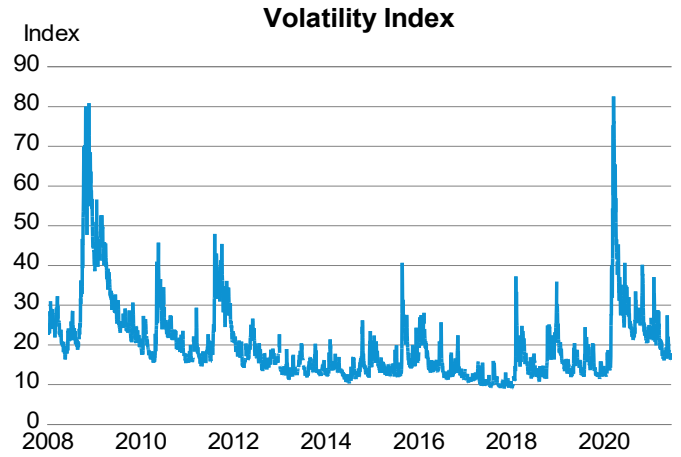
High-Frequency Indicators (Global)

Trade Weighted Index



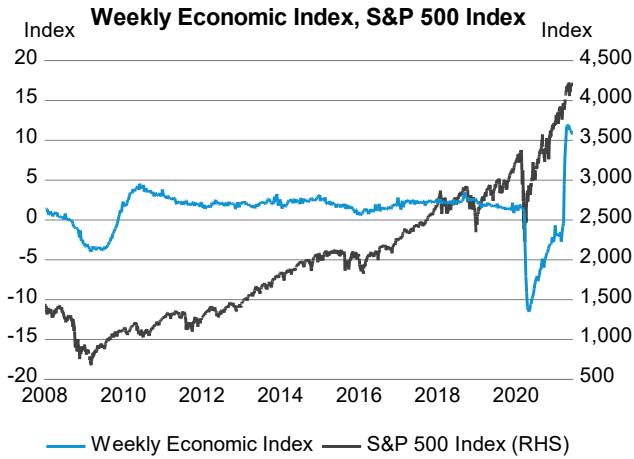
Source: RBNZ

Volatility Index



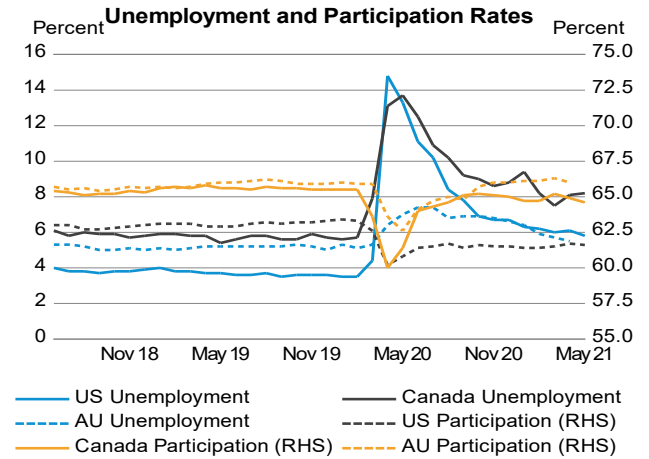
Source: Haver

US Activity and Equities



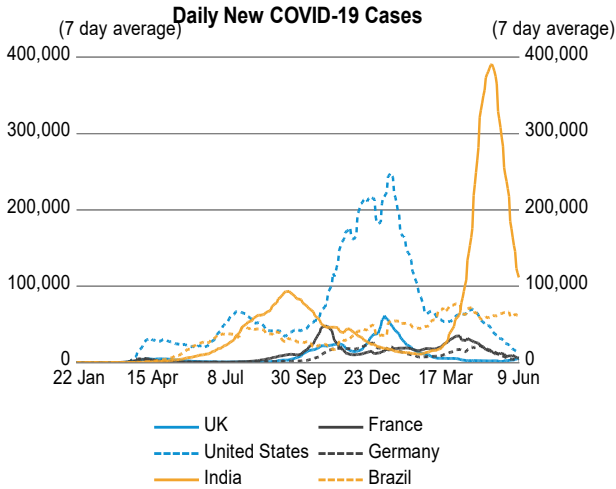
Sources: Federal Reserve Bank of New York, Haver

Labour Markets



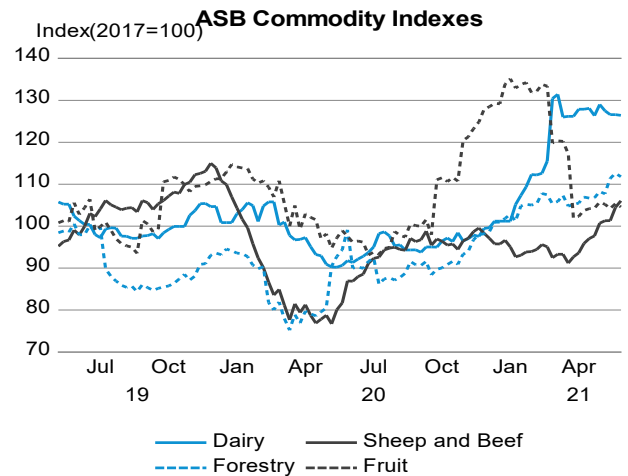
Source: Haver

COVID-19 Cases



Sources: World Health Organisation/Haver

World Commodity Prices



Source: ASB

Quarterly Indicators		2019Q4	2020Q1	2020Q2	2020Q3	2020Q4	2021Q1
Real Production GDP (1)	qpc	0.1	-1.2	-11.0	13.9	-1.0	...
	aapc	2.4	1.7	-1.7	-2.3	-2.9	...
Current account balance (annual)	%GDP	-3.3	-2.8	-1.8	-0.8	-0.8	...
Merchandise terms of trade	apc	7.1	5.4	6.3	-0.3	-1.6	-0.9
CPI inflation	qpc	0.5	0.8	-0.5	0.7	0.5	0.8
	apc	1.9	2.5	1.5	1.4	1.4	1.5
Employment (HLFS) (1)	qpc	0.3	1.0	-0.2	-0.7	0.6	0.5
Unemployment rate (1)	%	4.1	4.3	4.0	5.2	4.9	4.7
Participation rate (1)	%	70.4	70.7	69.9	70.2	70.2	70.4
LCI salary & wage rates - total (2)	apc	2.6	2.5	2.1	1.8	1.6	1.6
QES average hourly earnings - total (2)	apc	3.4	4.4	3.5	4.1	3.9	2.6
Core retail sales volume	apc	3.3	4.0	-11.7	7.6	4.2	5.5
Total retail sales volume	apc	3.3	2.3	-14.2	8.1	4.6	6.8
WMM - consumer confidence (3)	Index	109.9	104.2	97.2	95.1	106.0	105.2
QSBO - general business situation (1,4)	net%	-30.4	-68.4	-57.4	-37.7	-15.7	-10.7
QSBO - own activity outlook (1,4)	net%	2.5	-12.2	-23.5	-0.5	9.1	7.8

Monthly Indicators		Jan 21	Feb 21	Mar 21	Apr 21	May 21	Jun 21
Merchandise trade balance (12 month)	NZ\$m	2,731	2,383	1,696	733	...	...
Dwelling consents - residential	apc	18.0	-4.7	44.7	83.7	...	...
House sales - dwellings	apc	6.9	19.8	35.3	419.7	...	...
REINZ - house price index	apc	18.9	21.3	23.8	26.8	...	...
Estimated net migration (12 month total)	people	30,306	15,992	6,561	...	...	...
ANZ NZ commodity price index	apc	-1.6	0.1	4.0	6.9	7.9	...
ANZ world commodity price index	apc	5.2	11.0	20.2	24.4	24.4	...
ANZBO - business confidence	net%	...	7.0	-4.1	-2.0	1.8	-0.4
ANZBO - activity outlook	net%	...	21.3	16.6	22.2	27.1	29.1
ANZ-Roy Morgan - consumer confidence	net%	113.8	113.1	110.8	115.4	114.0	...

Weekly Benefit Numbers		30 Apr	7 May	14 May	21 May	28 May	4 Jun
Jobseeker Support	number	196,236	195,561	194,937	193,980	193,383	192,501
Work Ready	number	118,029	117,060	116,205	115,173	114,354	113,484
Health Condition and Disability	number	78,207	78,501	78,732	78,807	79,026	79,020
COVID-19 Income Relief Payment	number	...	...	...	...	...	...
Full-time	number	...	...	...	...	...	...
Part-time	number	...	...	...	...	...	...

Daily Indicators		Wed 2/6/21	Thu 3/6/21	Fri 4/6/21	Mon 7/6/21	Tue 8/6/21	Wed 9/6/21
NZ exchange and interest rates (5)							
NZD/USD	\$	0.7263	0.7228	0.7139	...	0.7224	0.7203
NZD/AUD	\$	0.9355	0.9335	0.9326	...	0.9320	0.9304
Trade weighted index (TWI)	index	75.3	75.0	74.4	...	74.9	74.8
Official cash rate (OCR)	%	0.25	0.25	0.25	0.25	0.25	0.25
90 day bank bill rate	%	0.32	0.32	0.32	...	0.32	0.32
10 year govt bond rate	%	1.74	1.77	1.81	...	1.82	1.77
Share markets (6)							
Dow Jones	index	34,600	34,577	34,756	34,630	34,600	34,447
S&P 500	index	4,208	4,193	4,230	4,227	4,227	4,220
VIX volatility index	index	17.5	18.0	16.4	16.4	17.1	17.9
AU all ords	index	7,469	7,511	7,543	7,532	7,542	7,522
NZX 50	index	12,440	12,430	12,496	...	12,518	12,567
US interest rates							
3 month OIS	%	0.06	0.06	0.06	0.06	0.06	...
3 month Libor	%	0.13	0.13	0.13	0.12	0.13	...
10 year govt bond rate	%	1.59	1.63	1.56	1.57	1.53	1.50
Commodity prices (6)							
WTI oil	US\$/barrel	68.83	68.81	69.57	69.21	70.11	69.96
Gold	US\$/ounce	1,903	1,866.55	1,890.60	1,888.40	1,893.15	1,894.60
CRB Futures	index	551	547.63	551.30	551.24	554.54	560.12

(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		Nov 20	Dec 20	2020Q4	Jan 21	Feb 21	Mar 21	2021Q1	Apr 21	May 21	Jun 21
United States [9.6% share of total goods exports]	GDP (1)	qpc			1.1				1.6			
	Industrial production (1)	mpc	0.5	1.2		1.0	-2.9	2.2		0.5	...	...
	CPI	apc	1.2	1.4		1.4	1.7	2.6		4.2	...	...
	Unemployment rate (1)	%	6.7	6.7		6.3	6.2	6.0		6.1	5.8	...
	Employment change (1)	000s	264.0	-306.0		233.0	536.0	785.0		278.0	559.0	...
	Retail sales value	apc	3.8	2.3		9.4	6.5	29.0		51.2	...	...
	House prices (2)	apc	9.2	10.1		11.1	12.0	13.3		...	...	...
Japan [6.1%]	PMI manufacturing (1)	index	57.7	60.5		58.7	60.8	64.7		60.7	61.2	...
	Consumer confidence (1)(3)	index	92.9	87.1		87.1	95.2	114.9		117.5	117.2	...
	GDP (1)	qpc			2.8				-1.0			
	Industrial production (1)	mpc	0.7	-0.2		3.1	-1.3	1.7		2.5	...	...
	CPI	apc	-0.9	-1.1		-0.6	-0.4	-0.2		-0.4	...	...
	Unemployment rate (1)	%	3.0	3.0		2.9	2.9	2.6		2.8	...	...
	Retail sales value	apc	0.6	5.0		2.7	3.7	5.2		12.0	...	...
Euro area [5.5%]	PMI manufacturing (1)	index	49.0	50.0		49.8	51.4	52.7		53.6	53.0	...
	Consumer confidence (1)(4)	index	33.6	31.8		30.0	33.7	36.1		34.8	34.2	...
	GDP (1)	qpc			-0.6				-0.3			
	Industrial production (1)	mpc	2.2	-0.1		0.9	-1.2	0.1		...	...	...
	CPI	apc	-0.3	-0.3		0.9	0.9	1.3		1.6	...	...
	Unemployment rate (1)	%	8.3	8.2		8.2	8.2	8.1		8.0	...	...
	Retail sales volume	apc	-1.5	1.3		-4.8	-1.4	13.1		23.9	...	...
United Kingdom [2.7%]	PMI manufacturing (1)	index	53.8	55.2		54.8	57.9	62.5		62.9	63.1	...
	Consumer confidence (5)	index	-17.6	-13.8		-15.5	-14.8	-10.8		-8.1	-5.1	...
	GDP (1)	qpc			1.3				-1.5			
	Industrial production (1)	mpc	0.8	0.0		-1.9	1.1	1.7		...	...	...
	CPI	apc	0.4	...		...	...	...		...	...	...
	Unemployment rate (1)	%	5.0	5.1		5.0	4.9	4.8		...	...	...
	Retail sales volume	apc	2.2	3.1		-5.7	-3.6	7.1		42.4	...	...
Australia [15.8%]	House prices (6)	apc	6.5	7.3		6.4	6.9	5.7		7.1	10.9	...
	PMI manufacturing (1)	index	55.6	57.5		54.1	55.1	58.9		60.9	65.6	...
	Consumer confidence (1)(5)	net %	-33.0	-26.0		-28.0	-23.0	-16.0		-15.0	-9.0	...
	GDP (1)	qpc			3.2				1.8			
	CPI	apc			0.9				1.1			
	Unemployment rate (1)	%	6.8	6.6		6.4	5.9	5.7		5.5	...	...
	Retail sales value	apc	12.1	10.3		10.3	5.2	3.9		23.8	...	...
China [24.3%]	House Prices (7)	apc			4.3				...			
	PMI manufacturing (1)	index	52.1	55.3		55.3	58.8	59.9		61.7	61.8	...
	Consumer confidence (8)	index	107.7	112.0		107.0	109.1	111.8		118.8	113.1	107.2
	GDP	apc			6.5				18.3			
South Korea [3.0%]	Industrial production	apc	7.0	7.3		35.1	35.1	14.1		9.8	...	...
	CPI	apc	-0.5	0.2		-0.3	-0.2	0.4		0.9	1.3	...
	PMI manufacturing (1)	index	52.1	51.9		51.3	50.6	51.9		51.1	51.0	...
South Korea [3.0%]	GDP (1)	qpc			1.1				1.7			
	Industrial production (1)	mpc	0.5	2.7		-1.2	4.2	-0.9		-1.6	...	...
	CPI	apc	0.6	0.5		0.6	1.1	1.5		2.3	2.6	...

(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