

## ***GDP rose more than expected***

March quarter GDP surprised on the upside, increasing 1.6%, following a 1.0% contraction the quarter prior, to be down 2.3% over the year. GDP is now sitting above pre-COVID levels.

Households spent up large in the quarter, with spending on consumer durables and services up 8.8% and 5.9%, respectively. Increased investment in plant, machinery and equipment underpinned an 8.3% increase in business investment. This strength in the domestic economy was more than enough to offset the weakness in services exports (down 20.2% in the quarter) stemming from the lack of international visitors during the usual tourism peak.

Construction activity recovered most of the ground lost last quarter, rising 6.6% in March, with a solid stream of consented work in the pipeline boding well for future activity. Services industries benefitted from strong household spending, up 1.1% in the quarter on the back of strong retailing and wholesaling activity, and an increase in activity in health care and social assistance.

## ***Current account deficit widens...***

The annual current account deficit for the year ended March 2021 widened to 2.2% of GDP, driven by a record seasonally adjusted deficit of \$5.0 billion in the March quarter. Strong domestic demand underpinned an 8.8% increase in imports in the March quarter, which saw the seasonally adjusted goods balance returning to deficit.

The continued disruption to international tourism activity saw a seasonally adjusted fall in services exports result in the annual services trade balance go into deficit for the first time since 1998. The opening of the border to Australian visitors was not captured in the March quarter data and any impact from this will appear in the June quarter numbers.

## ***...while the net international investment position improved***

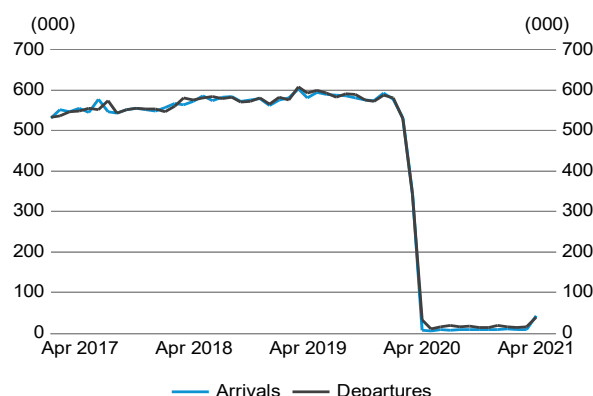
New Zealand's net international investment position improved significantly to -49.5% of GDP, a record high for the series, as the value of New Zealand's overseas assets increased, and the value of overseas liabilities fell. This was primarily the result

of strong growth in overseas share markets and the comparatively weaker performance of New Zealand-listed shares.

## ***Family catch-ups dominate visitor arrivals***

Arrivals into (and departures from) NZ continued to increase in April, dominated by trans-Tasman travel which made up around 80% of total passenger movements, but sit at only 10% of pre-COVID levels (Figure 1). Short-term arrival and departure numbers have been broadly even since the trans-Tasman bubble opened and visitor arrivals are heavily skewed towards people visiting friends and relatives, which suggests not much of a net benefit in terms of tourism spending from these flows coming through in the June quarter.

**Figure 1: Short-term arrivals and departures**

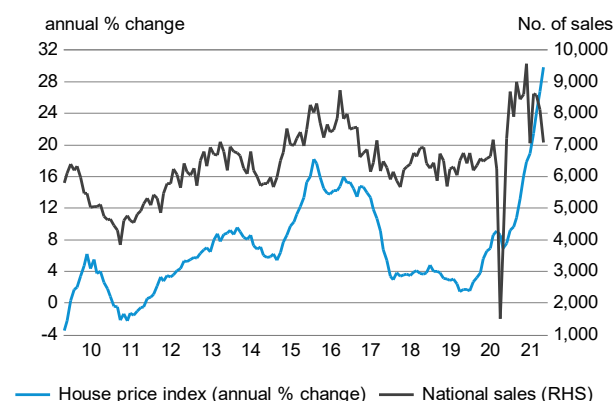


Source: Stats NZ

## ***Housing market shows continued momentum***

Annual house price growth reached 29.8% in May, a fresh record high, temporarily boosted by the dip in house prices observed in May 2020 (Figure 2).

**Figure 2: Housing activity**



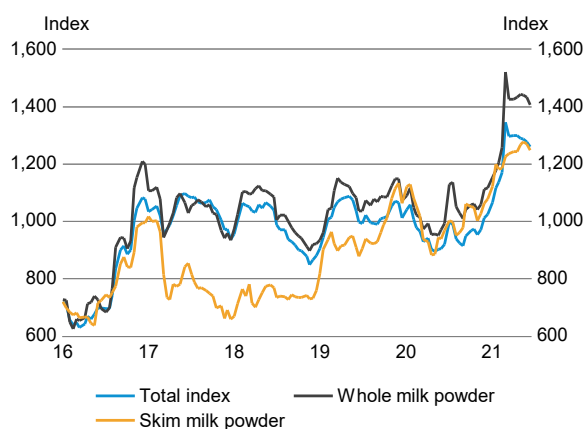
Source: REINZ

On a monthly basis, house price growth slowed slightly to 1.8%, and while the number of sales were down from April they remain near a 5-year high. Measures of demand in the market, such as median days to sell, continue to suggest that buyers are still keen to purchase whatever is available in the market, and inventory levels remain at historically low levels.

### **Dairy prices ease at latest auction**

While whole milk prices eased slightly at the latest *GlobalDairyTrade* auction, pulling to overall index down 1.3% (Figure 3), they remain elevated at historically high levels that bode well for farm incomes in the season ahead.

**Figure 3: GlobalDairyTrade auction results**

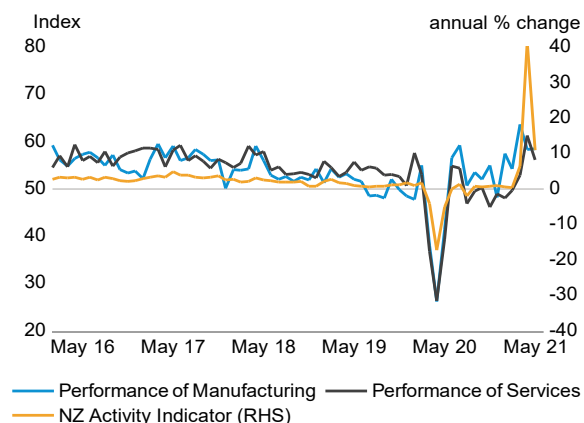


Source: *GlobalDairyTrade*

### **Activity indicators for May remain positive...**

Indicators of activity remained firmly in expansionary territory in the May release of the BNZ-Business New Zealand Performance of Manufacturing and Services indexes (Figure 4), further reflected in the composite New Zealand Activity indicator being up over 10% on May 2020 (when alert level restrictions were still in place).

**Figure 4: Activity indicators**



Source: BNZ-BusinessNZ, Treasury

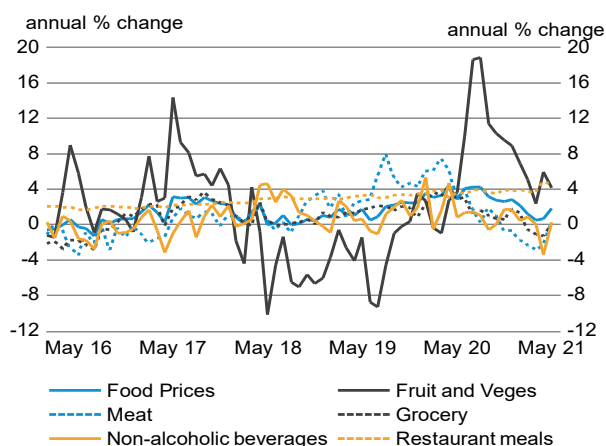
### **...although capacity pressures remain**

While demand indicators for sales and new orders are positive, there are signs that supply side pressures persist, particularly in the services sector, where deliveries from suppliers remain firmly in contractionary territory. With demand appearing to be outstripping supply, inflationary pressures are becoming increasingly apparent.

### **Fruit and vegetable prices higher...**

Higher prices for fresh fruit and vegetables (up 4.1%) and restaurant meals and ready-to-eat food (up 4.4%) contributed to annual food price inflation reaching 1.8% over the year to May (Figure 5). Grocery prices – which account for a third of the expenditure basket – were basically unchanged.

**Figure 5: Food prices**

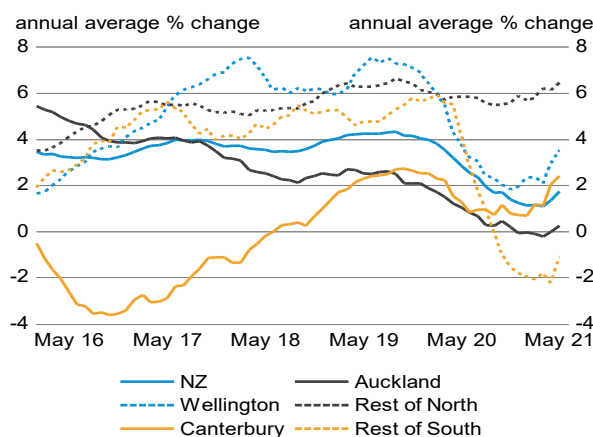


Source: Stats NZ

### **...and new rental prices continue to pick up**

While annual rent price inflation for the total stock of rental properties remained relatively stable at 3.1% over the year to May, prices for new rental tenancies are on the increase, after falling across most of the country over the lockdown periods in mid-2020 (Figure 6).

**Figure 6: Regional rental prices (new tenancies)**

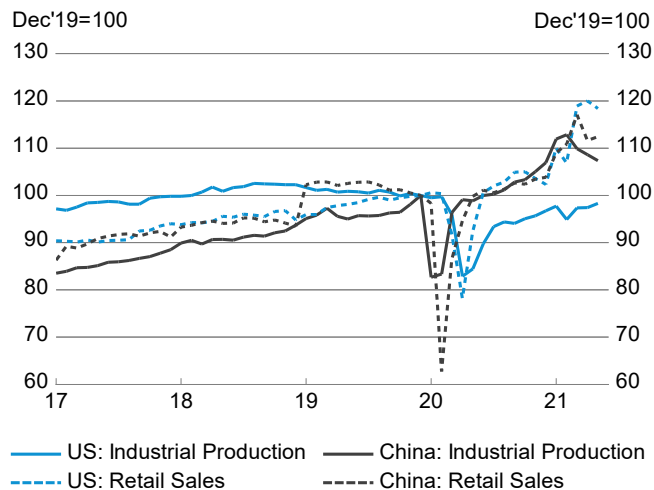


Source: Stats NZ

### Activity data mixed globally...

Industrial production grew by more than expected in the United States (US) and euro area in May, both up 0.8% compared to April. However, retail sales declined by 1.3% in the US in May, as the effects of the government's stimulus cheques started fading and following strong growth in the previous two months (Figure 7). In China, industrial production and retail sales increased strongly, though at a slower pace than the market expected.

**Figure 7: Industrial production and retail trade**

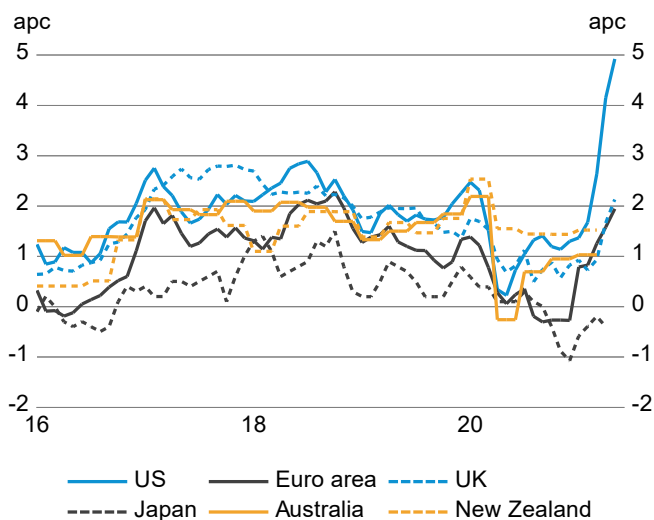


Source: Haver

### ...as inflation pressures build...

Annual CPI inflation in the United States (US) continued to rise by more than expected in May, with the overall rate increasing to 5.0% (Figure 8) and the core rate (excluding food and energy products) rising to 3.8%, the highest since 2008 and 1992, respectively.

**Figure 8: Annual consumer price inflation**



Source: Haver

Inflation expectations have also been on the rise. The New York Federal Reserve survey's three-year ahead expected inflation rate reached an eight-year high of 3.6% in May, up from 3.1% in April, signalling that the increase in inflation may not be transitory. Monthly producer price inflation was also slightly higher than expected in May at 0.8%, taking the annual rate to 6.5%, from 6.1% in April.

In the United Kingdom (UK), annual consumer price inflation in May was also higher than expected, with both the overall and core index rising by more than 2%. This is the first time that core inflation has risen above the Bank of England's 2% target since 2018. Elsewhere in advanced economies, inflation remains more contained though it has increased.

### ...and US Fed takes more hawkish stance...

While the Federal Open Market Committee (FOMC) kept policy settings unchanged, 13 of the 18 Fed officials now project two rate hikes by the end of 2023, compared to seven in March. The number of Fed officials expecting rate hikes in 2022 also increased from four to seven. The forecast for core PCE inflation for this year was revised from 2.2% to 3.0%, but medium-term projections imply that the Fed still believes the increase will be transitory, with core inflation falling back to 2.1% in 2022 and 2023. The unemployment rate is forecast to fall below the long-run assumption of 4.0% in 2022 and 2023.

### ...while employment rises in UK and Australia

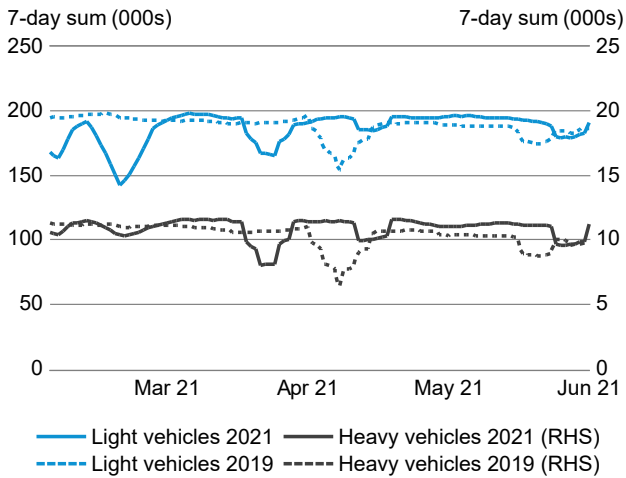
Payroll employment in the UK rose in May for the sixth consecutive month, though was still 1.9% below year-ago levels, and participation remains relatively weak. Annual growth in earnings increased to 5.6%, driven by base effects and the compositional effects of a decline in the proportion of people employed in lower-paid jobs.

In Australia, employment increased by 0.9% in May and the unemployment rate dropped by 0.4 percentage points to 5.1%, bringing it roughly in line with pre-pandemic levels. The participation rate increased to 66.2%, higher than it was at the end of 2019.

Date	Key upcoming NZ data	Previous
25 Jun	Merchandise Trade (monthly)	\$388 million surplus

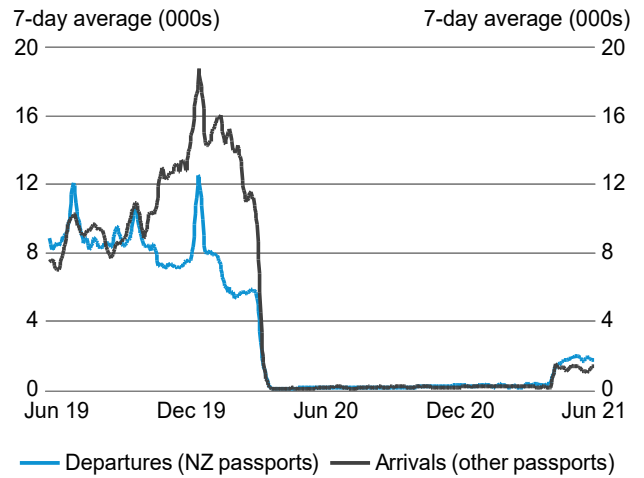
## High-Frequency Indicators

### Traffic and Freight Movement



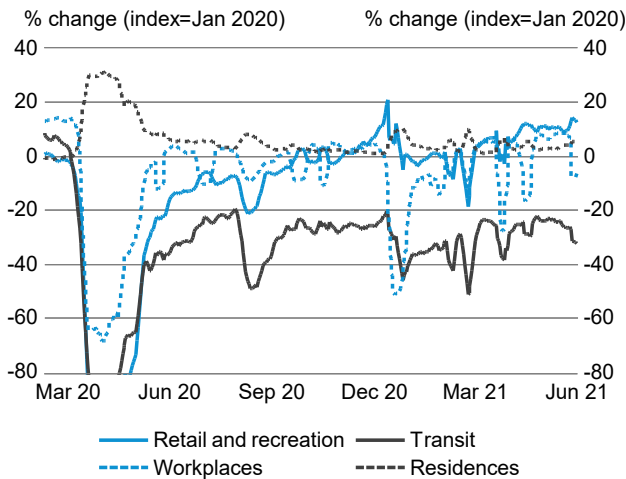
Source: Waka Kotahi NZ Transport Agency

### Border Crossings



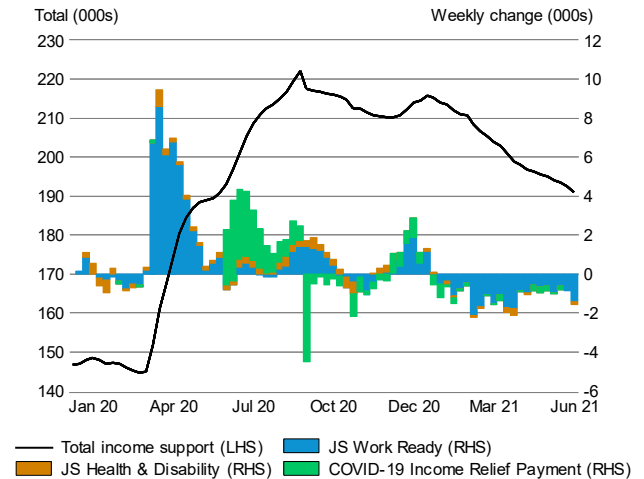
Source: Stats NZ

### People Movements at Selected Locations



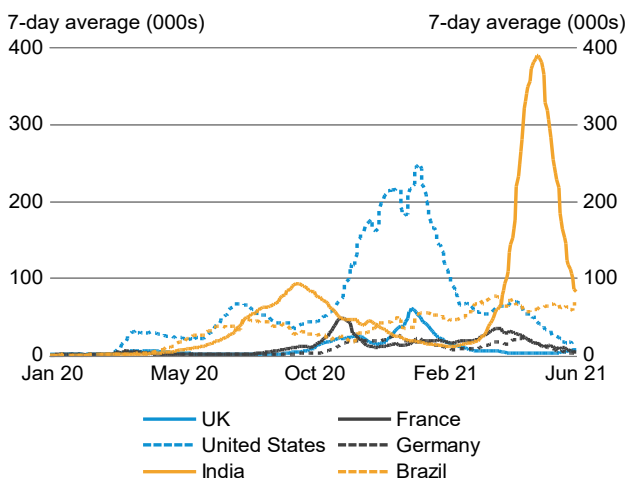
Source: Google

### Jobseeker (JS) and Income Support Recipients



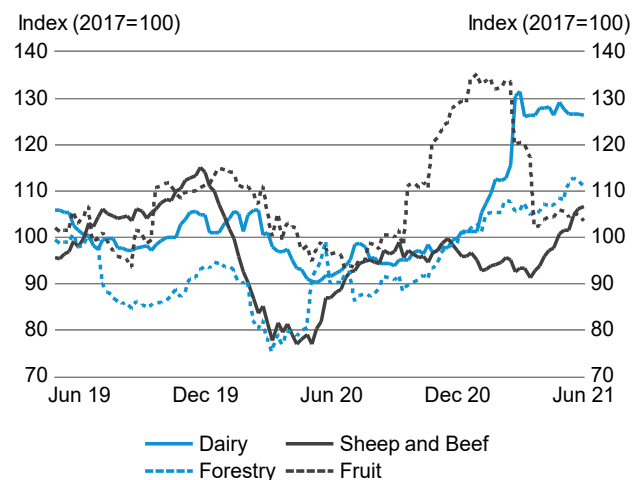
Source: MSD

### COVID-19 Cases



Source: World Health Organisation/Haver

### World Commodity Prices



Source: ASB

Quarterly Indicators		2019Q4	2020Q1	2020Q2	2020Q3	2020Q4	2021Q1
Real Production GDP (1)	qpc	0.2	-1.5	-10.8	14.1	-1.0	1.6
	aapc	2.4	1.7	-1.6	-2.2	-2.9	-2.3
Current account balance (annual)	%GDP	-3.3	-2.8	-1.8	-0.8	-0.8	-2.2
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	37.0	436.6	81.4	...
REINZ - house price index	apc	18.9	21.3	23.9	26.8	30.0	...
Estimated net migration (12 month total)	people	29,683	14,964	5,401	6,328	...	...
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		7 May	14 May	21 May	28 May	4 Jun	11 Jun
Jobseeker Support	number	195,561	194,937	193,980	193,383	192,501	190,953
Work Ready	number	117,060	116,205	115,173	114,354	113,484	112,047
Health Condition and Disability	number	78,501	78,732	78,807	79,026	79,020	78,906
COVID-19 Income Relief Payment	number	...	...	...	...	...	...
Full-time	number	...	...	...	...	...	...
Part-time	number	...	...	...	...	...	...

Daily Indicators		Wed 9/6/21	Thu 10/6/21	Fri 11/6/21	Mon 14/6/21	Tue 15/6/21	Wed 16/6/21
<b>NZ exchange and interest rates (5)</b>							
NZD/USD	\$	0.7203	0.7178	0.7194	0.7141	0.7135	0.7134
NZD/AUD	\$	0.9304	0.9284	0.9278	0.9272	0.9269	0.9275
Trade weighted index (TWI)	index	74.8	74.5	74.6	74.3	74.3	74.3
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	0.32
10 year govt bond rate	%	1.77	1.71	1.67	1.66	1.67	1.65
<b>Share markets (6)</b>							
Dow Jones	index	34,447	34,466	34,480	34,394	34,299	34,034
S&P 500	index	4,220	4,239	4,247	4,255	4,247	4,224
VIX volatility index	index	17.9	16.1	15.7	16.4	17.0	18.2
AU all ords	index	7,522	7,559	7,577	...	7,633	7,633
NZX 50	index	12,567	12,518	12,550	12,562	12,696	12,582
<b>US interest rates</b>							
3 month OIS	%	0.06	0.06	0.06	0.06	0.06	...
3 month Libor	%	0.12	0.12	0.12	0.12	0.12	...
10 year govt bond rate	%	1.50	1.45	1.47	1.51	1.51	1.57
<b>Commodity prices (6)</b>							
WTI oil	US\$/barrel	69.96	70.29	71.00	70.94	72.06	72.15
Gold	US\$/ounce	1,895	1,888.65	1,881.05	1,865.60	1,865.10	1,860.75
CRB Futures	index	560	561.66	563.47	562.48	558.77	...

(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		1.1	-2.9	2.6		0.1	0.8	...
	CPI	apc	1.2	1.4		1.4	1.7	2.6		4.2	5.0	...
	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	29.7		53.4	28.1	...
	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		2.9	...	...
	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		11.9	...	...
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	2.1	0.1		0.9	-1.2	0.4		0.8	...	...
	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		-1.3	...	...
	CPI	apc	0.4	...		...	...	...		...	...	...
	Unemployment rate (1)	%	5.0	5.1		5.0	4.9	4.8		4.7	...	...
	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	5.1	...
	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				8.9			
	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			
	Industrial production	apc	7.0	7.3		35.1	35.1	14.1		9.8	8.8	...
	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