

Weekly Economic Update

23 July 2021

Travel bubbles with Australian states paused

Quarantine free travel with New South Wales, Victoria and South Australia are paused until at least next week as these states introduce restrictions to curb the spread of the delta variant.

An announcement about the travel bubble is expected on Friday afternoon.

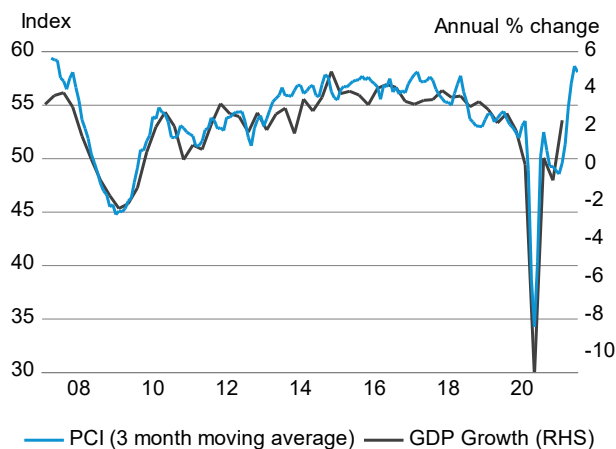
Activity indicators are up across the board...

The BNZ-BusinessNZ Performance of Manufacturing Index (PMI) rose by 2.1 points to 60.7 in June. A reading above 50 indicates that the sector is expanding. Two of the major sub-index values of production (64.5) and new orders (63.6) remained particularly strong. Despite the pick-up in activity, the proportion of negative comments (53.1%) remained higher than positive ones. Challenges faced by both manufacturers and services businesses include significant labour shortages and logistics disruptions.

The services sector remained in expansionary territory for the fourth consecutive month according to the BNZ-BusinessNZ Performance of Services Index (PSI). The PSI rose 2.3 points to 58.6 in June, driven by expansion in the sub-indices of activity/sales (62.5) and new orders/business (66.1). The GDP-weighted Combined Index (PCI) rose 2.0 points to 59.1.

BNZ noted that combined, the PSI and PMI point to an annual GDP for the year ended June 2021 of around 4% (Figure 1).

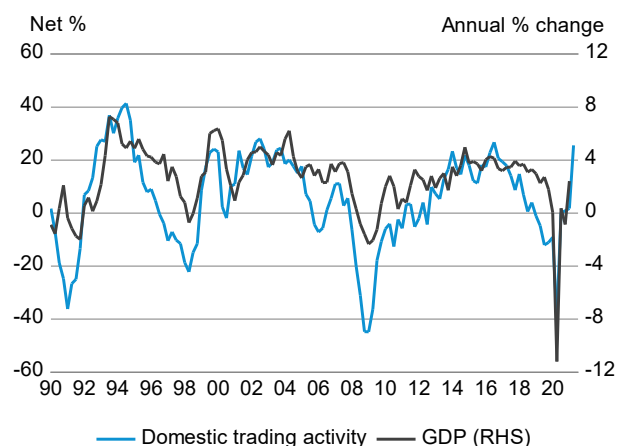
Figure 1: Real production GDP and PCI



Source: Stats NZ, BNZ-BusinessNZ

This result is consistent with results from the Quarterly Survey of Business Opinion (QSBO) which shows that domestic trading activity for the past 3 months points to an annual GDP lift of around 4% (Figure 2).

Figure 2: Domestic trading activity and GDP



Source: Stats NZ, NZIER

The New Zealand Activity Index (NZAC) is also up 6.0% on June last year. Activity indicators are up across the board, with particularly strong growth in online job advertisements and falling jobseeker numbers. Traffic flows and card transactions are also firmly up on the same time last year.

This strong outturn is partly driven by activity indicators being lower than usual in June last year while the economy was in recovery following COVID restrictions. Most activity indicators have now recovered to above their pre-COVID-19 values.

...reflected in strength in tax revenues

These indicators of activity are also consistent with the recent strength seen in tax revenue outturns. Total unconsolidated tax revenue for the eleven months ended May 2021 was \$4.5 billion (4.7%) above the 2021 *Budget Economic and Fiscal Update* forecast and \$13.7 billion (15.6%) more than last year. Corporate tax, GST, source deductions, resident withholding tax on dividends and other persons tax were all above forecast.

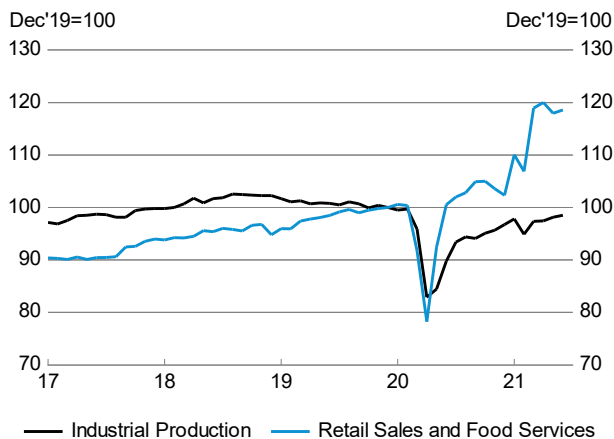
Dairy prices continue to fall at auction

Dairy prices fell 2.9% in US dollar terms at this week's **GlobalDairyTrade** auction, led by a 5.2% fall in skim milk powder prices and a 3.8% fall in whole milk powder prices. While this is the seventh consecutive fall at auction, dairy prices are still up almost 20% year on year.

Strong US consumer spending continues...

Retail spending in the US continued to rise in June, remaining well above the pre-pandemic trend (Figure 3). Restaurant spending was a key driver of growth in the month, increasing 2.3% to exceed the pre-pandemic peak by more than 5%. Preliminary July consumer sentiment unexpectedly fell, possibly owing to rising COVID-19 cases.

Figure 3: US retail sales and industrial production



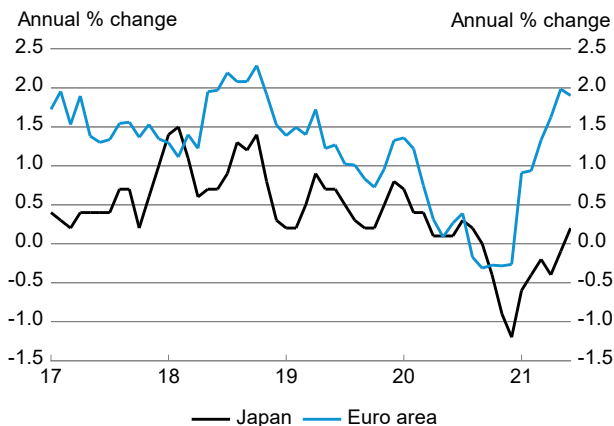
Source: Haver

The recovery in industrial production has been more subdued, with the index still around 1% below pre-pandemic levels in June. Production was up 1.4% for the quarter as a whole, indicating robust growth in June quarter GDP.

...as inflation remains contained in Europe...

Annual consumer price inflation in the euro area eased slightly in June, remaining around the European Central Bank's 2% target (Figure 4). Price pressures will likely pick up in the second half of the year as easing restrictions allow for a further recovery in demand.

Figure 4: Consumer price index



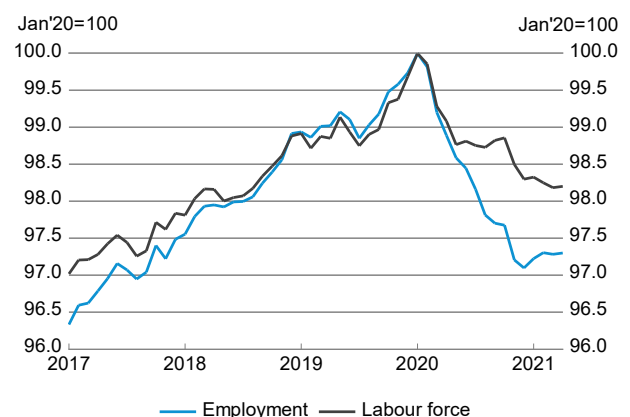
Source: Haver

In Japan, annual inflation reached above zero for the first time since September 2020, driven by higher energy costs as world oil prices rose. When excluding fresh food and energy costs, consumer prices were down 0.2% on an annual basis, reflecting persistently weak consumer demand.

...and UK employment recovery stalls

The UK unemployment rate was unchanged at 4.8% in the three months to June, as the number of people in employment and in the labour force both remained flat (Figure 5). Easing restrictions in the UK should be positive for employment, although rising COVID-19 cases are a threat to the recovery.

Figure 5: UK labour market (3-mth moving average)



Source: Haver

Spread of Delta strain threatens global recovery

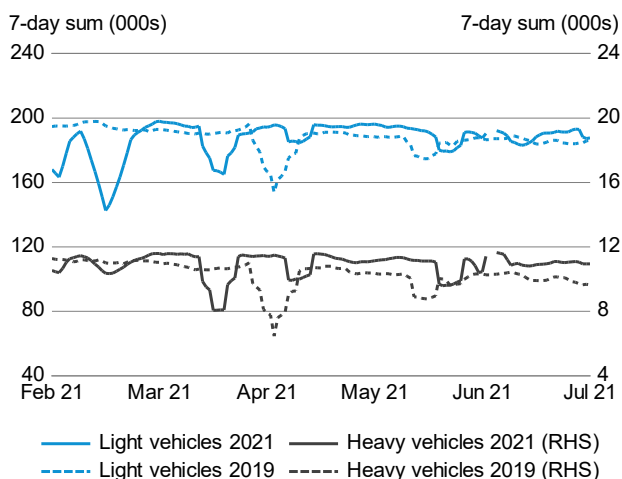
Global COVID-19 infections are on the rise as the more infectious Delta strain takes hold in countries where the virus had been relatively contained. On 19 July, daily cases in the UK were trending at around 50,000 as all restrictions were removed in England, while a similar number of new cases were recorded in the US. The high vaccination rates in the two countries have proven effective in reducing the severity of symptoms, with deaths remaining low despite the sharp rise in new cases.

The rise of the Delta strain has been particularly notable in Asia, where low vaccination rates have allowed the virus to spread. Daily cases have spiked in Thailand and Vietnam, where COVID-19 was contained throughout 2020. The spread has also been severe in Australia, with lockdown restrictions being introduced in South Australia and extended in Victoria this week while daily cases remain high in New South Wales.

Date	Key upcoming NZ data	Previous
26 July	Merchandise trade balance	- \$0.3 billion
29 July	ANZ Business Confidence	- 0.6 (net %)
30 July	ANZ Consumer Confidence	114.1 (index)
30 July	Residential building consents	- 2.8 (mpc)

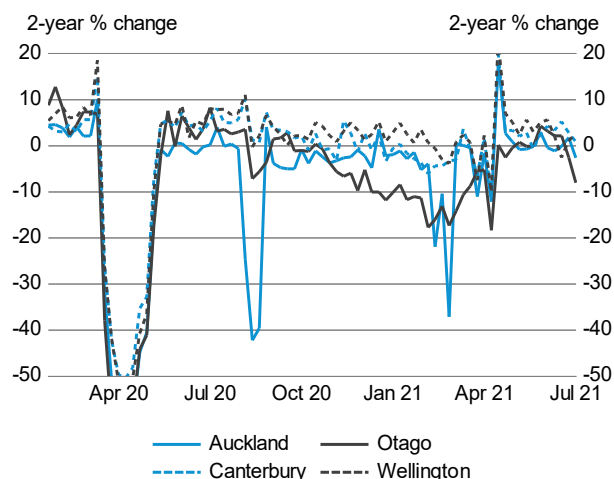
High-Frequency Indicators

Traffic and Freight Movement



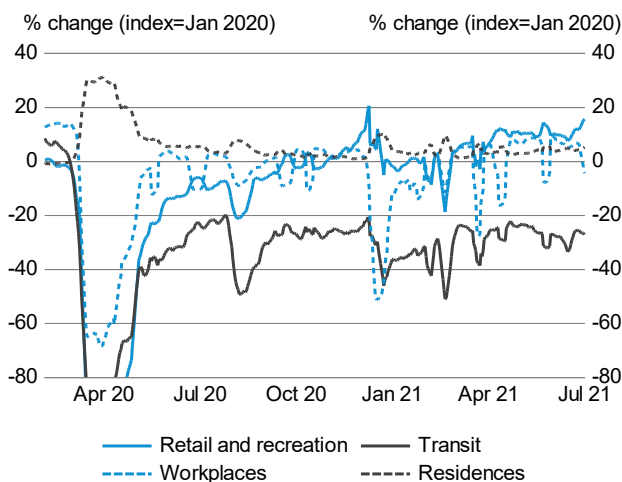
Source: Waka Kotahi NZ Transport Agency

Card spending



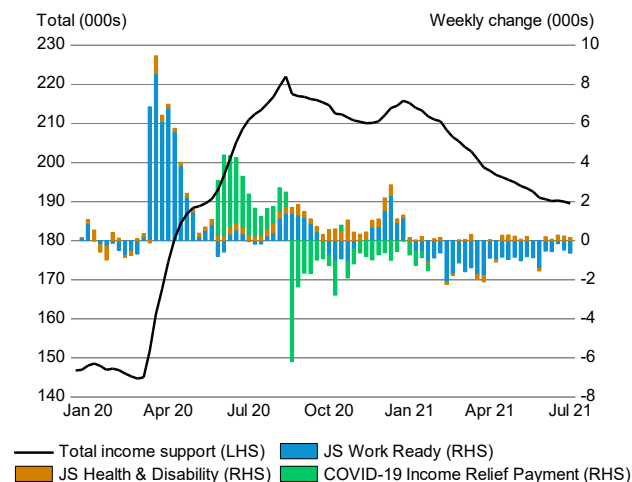
Source: Marketview data via MBIE

People Movements at Selected Locations



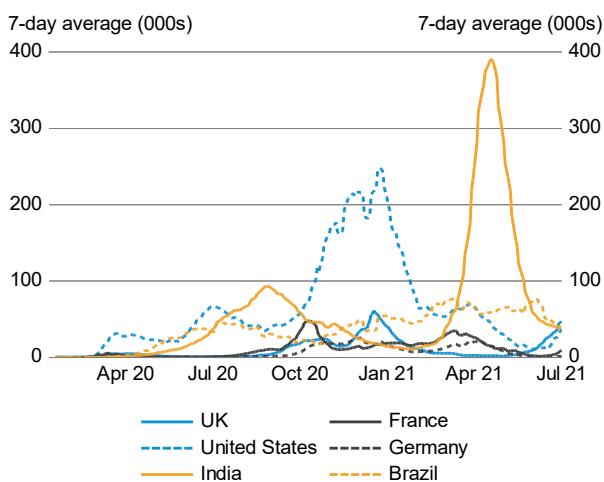
Source: Google

Jobseeker (JS) and Income Support Recipients



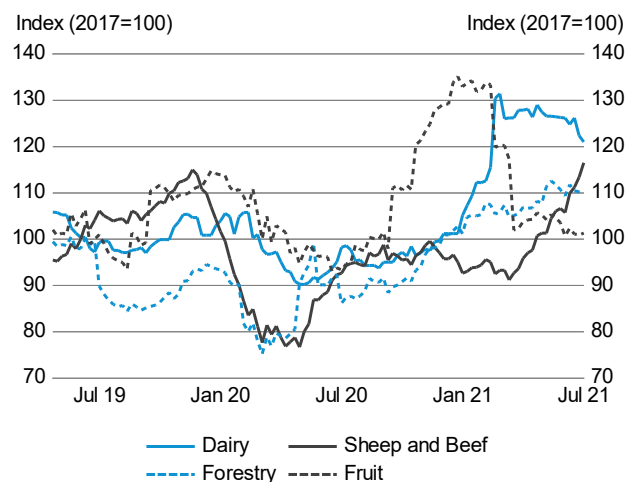
Source: MSD

COVID-19 Cases



Source: World Health Organisation/Haver

World Commodity Prices



Source: ASB

Quarterly Indicators		2020Q1	2020Q2	2020Q3	2020Q4	2021Q1	2021Q2
Real Production GDP (1)	qpc	-1.5	-10.8	14.1	-1.0	1.6	...
	aapc	1.7	-1.6	-2.2	-2.9	-2.3	...
Current account balance (annual)	%GDP	-2.8	-1.8	-0.8	-0.8	-2.2	...
Merchandise terms of trade	apc	5.4	6.3	-0.3	-1.6	-0.9	...
CPI - inflation	qpc	0.8	-0.5	0.7	0.5	0.8	1.3
	apc	2.5	1.5	1.4	1.4	1.5	3.3
Employment (HLFS) (1)	qpc	1.0	-0.2	-0.7	0.6	0.5	...
Unemployment rate (1)	%	4.3	4.0	5.2	4.9	4.7	...
Participation rate (1)	%	70.7	69.9	70.2	70.2	70.4	...
LCI salary & wage rates - total (2)	apc	2.5	2.1	1.8	1.6	1.6	...
QES average hourly earnings - total (2)	apc	4.4	3.5	4.1	3.9	2.6	...
Core retail sales volume	apc	4.0	-11.7	7.6	4.2	5.5	...
Total retail sales volume	apc	2.3	-14.2	8.1	4.6	6.8	...
WMM - consumer confidence (3)	Index	104.2	97.2	95.1	106.0	105.2	107.1
QSBO - general business situation (1,4)	net%	-66.2	-60.1	-38.2	-14.9	-7.9	10.1
QSBO - own activity outlook (1,4)	net%	-12.3	-24.6	-0.6	10.6	7.8	27.6
Monthly Indicators		Jan 21	Feb 21	Mar 21	Apr 21	May 21	Jun 21
Merchandise trade balance (12 month)	NZ\$m	2,731	2,386	1,700	764	-62	...
Dwelling consents - residential	apc	18.0	-4.7	44.7	83.7	17.3	...
House sales - dwellings	apc	6.9	19.8	37.0	439.7	85.5	6.2
REINZ - house price index	apc	18.9	21.3	23.9	26.8	29.9	30.0
Estimated net migration (12 month total)	people	28,848	14,019	4,214	4,940	5,743	...
ANZ NZ commodity price index	apc	-1.6	0.1	4.0	6.8	7.9	17.4
ANZ world commodity price index	apc	5.2	11.0	20.2	24.2	25.2	27.8
ANZBO - business confidence	net%	...	7.0	-4.1	-2.0	1.8	-0.6
ANZBO - activity outlook	net%	...	21.3	16.6	22.2	27.1	31.6
ANZ-Roy Morgan - consumer confidence	net%	113.8	113.1	110.8	115.4	114.0	114.1
Weekly Benefit Numbers		11 Jun	18 Jun	25 Jun	2 Jul	9 Jul	16 Jul
Jobseeker Support	number	190,953	190,614	190,128	190,257	190,008	189,528
Work Ready	number	112,047	111,510	110,946	110,790	110,304	109,659
Health Condition and Disability	number	78,906	79,107	79,185	79,470	79,704	79,866
COVID-19 Income Relief Payment	number	...	...	...	...	...	...
Full-time	number	...	...	...	...	...	...
Part-time	number	...	...	...	...	...	...
Daily Indicators		Wed 14/7/21	Thu 15/7/21	Fri 16/7/21	Mon 19/7/21	Tue 20/7/21	Wed 21/7/21
NZ exchange and interest rates (5)							
NZD/USD	\$	0.6990	0.7013	0.6993	0.6984	0.6940	0.6920
NZD/AUD	\$	0.9373	0.9395	0.9427	0.9464	0.9448	0.9453
Trade weighted index (TWI)	index	74.1	74.2	74.1	74.2	73.8	73.7
Official cash rate (OCR)	%	0.25	0.25	0.25	0.25	0.25	0.25
90 day bank bill rate	%	0.33	0.41	0.43	0.47	0.46	0.45
10 year govt bond rate	%	1.59	1.64	1.67	1.61	1.54	1.53
Share markets (6)							
Dow Jones	index	34,933	34,987	34,688	33,962	34,512	34,798
S&P 500	index	4,374	4,360	4,327	4,258	4,323	4,359
VIX volatility index	index	16.3	17.0	18.5	22.5	19.7	17.9
AU all ords	index	7,632	7,617	7,631	7,560	7,526	7,581
NZX 50	index	12,720	12,671	12,673	12,652	12,651	12,709
US interest rates							
3 month OIS	%	0.10	0.10	0.10	0.10	0.10	...
3 month Libor	%	0.13	0.13	0.13	0.13	0.14	...
10 year govt bond rate	%	1.37	1.31	1.31	1.19	1.23	1.30
Commodity prices (6)							
WTI oil	US\$/barrel	73.13	71.65	71.76	66.45	67.32	70.30
Gold	US\$/ounce	1,823	1,823.75	1,824.30	1,814.90	1,823.05	...
CRB Futures	index	562	560.50	561.10	557.31	559.30	...

(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		2020Q4	Jan 21	Feb 21	Mar 21	2021Q1	Apr 21	May 21	Jun 21	2021Q2	Jul 21
United States [9.6% share of total goods exports]	GDP (1)	qpc	1.1				1.6				...	
	Industrial production (1)	mpc		1.1	-3.1	2.7		0.0	0.7	0.4		...
	CPI	apc		1.4	1.7	2.6		4.2	5.0	5.4		...
	Unemployment rate (1)	%		6.3	6.2	6.0		6.1	5.8	5.9		...
	Employment change (1)	000s		233.0	536.0	785.0		269.0	583.0	850.0		...
	Retail sales value	apc		9.4	6.5	29.7		53.4	27.6	18.0		...
	House prices (2)	apc		11.2	12.0	13.4		14.9	...	...		...
	PMI manufacturing (1)	index		58.7	60.8	64.7		60.7	61.2	60.6		...
	Consumer confidence (1)(3)	index		87.1	95.2	114.9		117.5	120.0	127.3		...
Japan [6.1%]	GDP (1)	qpc	2.8				-1.0				...	
	Industrial production (1)	mpc		3.1	-1.3	1.7		2.9	-6.5	...		...
	CPI	apc		-0.6	-0.4	-0.2		-0.4	-0.1	0.2		...
	Unemployment rate (1)	%		2.9	2.9	2.6		2.8	3.0	...		...
	Retail sales value	apc		2.7	3.7	5.2		11.9	8.3	...		...
	PMI manufacturing (1)	index		49.8	51.4	52.7		53.6	53.0	52.4		...
	Consumer confidence (1)(4)	index		30.0	33.7	36.1		34.8	34.2	37.6		...
Euro area [5.5%]	GDP (1)	qpc	-0.6				-0.3				...	
	Industrial production (1)	mpc		1.1	-1.3	0.5		0.6	-1.0	...		...
	CPI	apc		0.9	0.9	1.3		1.6	2.0	1.9		...
	Unemployment rate (1)	%		8.2	8.2	8.1		8.1	7.9	...		...
	Retail sales volume	apc		-4.8	-1.2	13.7		23.3	9.0	...		...
	PMI manufacturing (1)	index		54.8	57.9	62.5		62.9	63.1	63.4		...
	Consumer confidence (5)	index		-15.5	-14.8	-10.8		-8.1	-5.1	-3.3		...
United Kingdom [2.7%]	GDP (1)	qpc	1.3				-1.6				...	
	Industrial production (1)	mpc		-1.6	0.5	1.5		-1.0	0.7	...		...
	CPI	apc		...	...	...		...	...	...		...
	Unemployment rate (1)	%		5.1	5.0	4.9		4.8	4.8	...		...
	Retail sales volume	apc		-5.7	-3.6	7.1		42.5	24.6	...		...
	House prices (6)	apc		6.4	6.9	5.7		7.1	10.9	13.4		...
	PMI manufacturing (1)	index		54.1	55.1	58.9		60.9	65.6	63.9		...
	Consumer confidence (1)(5)	net %		-28.0	-23.0	-16.0		-15.0	-9.0	-9.0		...
Australia [15.8%]	GDP (1)	qpc	3.2				1.8				...	
	CPI	apc	0.9				1.1				...	
	Unemployment rate (1)	%		6.4	5.9	5.7		5.5	5.1	4.9		...
	Retail sales value	apc		10.3	5.2	3.9		23.8	7.1	...		...
	House Prices (7)	apc	4.3				8.9				...	
	PMI manufacturing (1)	index		55.3	58.8	59.9		61.7	61.8	63.2		...
	Consumer confidence (8)	index		107.0	109.1	111.8		118.8	113.1	107.2		108.8
China [24.3%]	GDP	apc	6.5				18.3				7.9	
	Industrial production	apc		35.1	35.1	14.1		9.8	8.8	8.3		...
	CPI	apc		-0.3	-0.2	0.4		0.9	1.3	1.1		...
	PMI manufacturing (1)	index		51.3	50.6	51.9		51.1	51.0	50.9		...
South Korea [3.0%]	GDP (1)	qpc	1.1				1.7				...	
	Industrial production (1)	mpc		-1.2	4.2	-0.7		-1.6	-0.7	...		...
	CPI	apc		0.6	1.1	1.5		2.3	2.6	2.4		...

(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