

Bubble with some Australian states resumes

Quarantine-free travel with the Northern Territory and Western Australia as well as some green light flights from New South Wales and Queensland will resume at midnight on Friday.

Business confidence continues to improve...

The June quarter release of the NZIER's Quarterly Survey of Business Opinion (QSBO) shows a continued bounce-back in firms' own activity, with a net 28% of firms expecting their own activity to increase in the next three months. This saw headline business confidence return to positive territory for the first time since mid-2017, with a net 10% of firms now expecting to see an improvement in general economic activity.

The rebound in activity has been broad-based across most industries. The building industry led the way on the back of an ongoing record pipeline of consented work ahead, although cost pressures have intensified, with a net 85% of firms reporting increased costs in the June quarter, the highest since March 1985. While indicators of activity in retailing and manufacturing industries are up, confidence has been slower to recover as supply chain disruptions, cost pressures and reduced export demand slow recovery in these industries.

...and firms report difficulty finding staff...

This backdrop of solid demand has seen firms look to increase employment and investment in plant machinery and equipment over the months ahead. However ongoing constraints on labour supply growth have meant that firms are reporting record levels of difficulty in finding both skilled and unskilled staff. This is particularly evident in the construction industry where labour shortages were reported as being the main limiting factor.

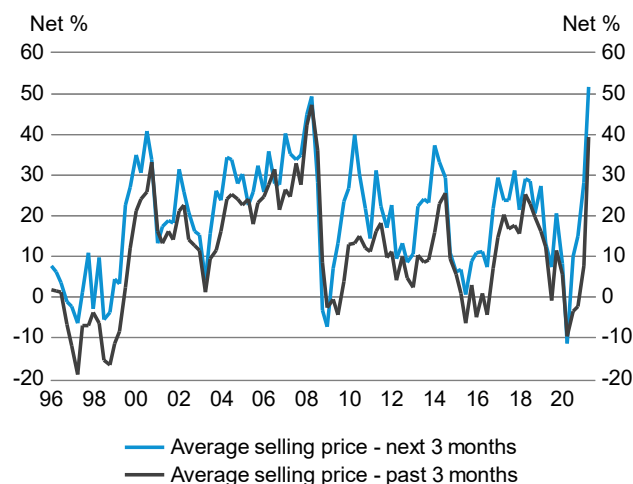
...and inflationary pressures continue to build

Firms are reporting that they are more able to pass on the increased costs that they have been facing over recent months, with 39% of firms reporting having raised prices over the past quarter, and over half of the surveyed firms expecting to raise prices over the coming quarter (Figure 1).

Ongoing strength in activity indicators point to the New Zealand economy continuing to perform well

over the rest of the year, consistent with our *Budget Update* forecast of 4.0% annual average growth in GDP over the year to December 2021. Higher inflationary pressures means that there is an increased likelihood that the RBNZ will raise rates earlier than forecast in the *Budget Update*.

Figure 1: Pricing intentions



Source: NZIER

Consumer confidence remains stable

Consumer confidence remained unchanged at 114 in June in the ANZ-Roy Morgan Consumer Confidence Survey, below its long-run average of 119. Inflation expectations continue to build, with a record 88% of people expecting prices to increase by 5.1% on average over the next two years.

Global shipping costs show no sign of easing...

Global shipping costs are not showing any signs of easing. The Baltic Dry Index rose 30% in June to a new post-GFC high and it is expected that congestion in the shipping industry will last well into next year.

...while commodity prices remain elevated

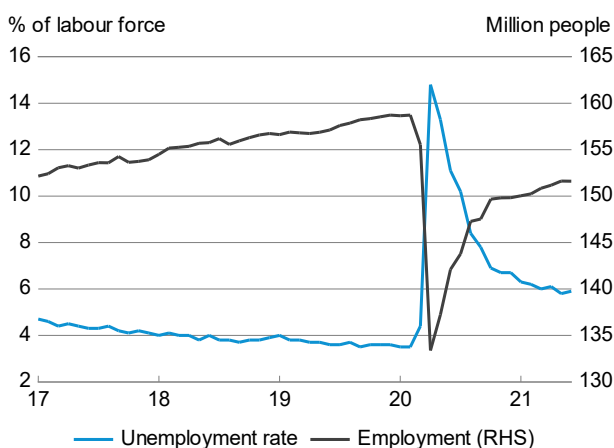
The ANZ World Commodity Price Index continued to rise, lifting 0.8% in June. In local currency terms, the index rose 2.3%. Gains were recorded in the forestry sector, up 3.6%, while dairy was the only sector to record a fall, down 1.5% from previously elevated levels. Dairy prices also fell 3.6% at this week's *GlobalDairyTrade* auction but remain over 20% up on the same time last year. Whole milk powder prices were down 3.0% and skim milk powder prices fell 7.0% on the back of subdued demand.

US labour market data appears mixed...

In the United States (US), labour market data for June showed a mixed picture but overall suggest continuing progress toward full employment. The Household Survey showed employment falling slightly, while the unemployment rate ticked up to 5.9% (Figure 2). The participation rate was unchanged at well below pre-pandemic levels.

Broader measures of unemployment were more encouraging, with the U-6 measure (which includes those on the margins of the labour force as well as those who would like to work more hours) falling to 9.8%. Payroll data were also more positive, with non-farm employment experiencing the largest rise in ten months, driven by the leisure and hospitality industry as restrictions continue to ease.

Figure 2: US Household Survey



Source: Haver

...as growth momentum slows...

The ISM services index for the US recorded a sharp drop in June, driven by weaker business activity and employment. The overall index remained firmly in expansionary territory, indicating that the recovery in services activity continued but at a slower pace. The services employment index fell to just below the break-even level of 50, further adding to the downside in June's employment data.

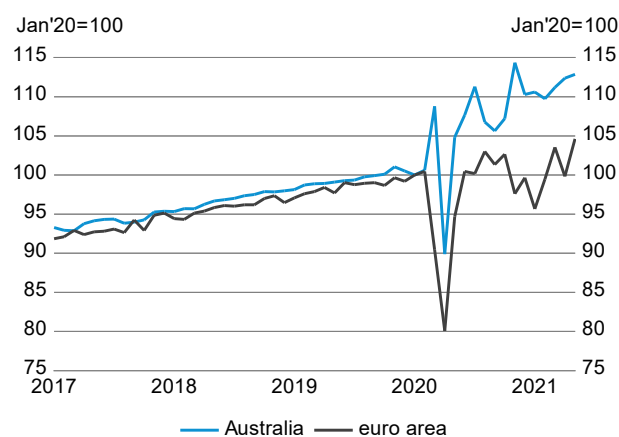
...and US approaches COVID 'independence'

In a 4 July address, President Biden stated that the US is 'closer than ever to declaring independence' from COVID-19, urging residents to get vaccinated in order to protect against emerging variants of the virus. Around half of the US population has been fully vaccinated, though the daily vaccination rate has been steadily falling since April. At the current pace, it will take until the end of the year to vaccinate 75% of the population, a proportion that would provide an effective level of herd immunity.

Easing restrictions boost euro area spending...

Retail sales values in the euro area rebounded sharply in May, more than reversing the fall in April (Figure 3). The vaccination programme in the European Union has continued to pick up pace, and at the current rate it will take only another two months to vaccinate 75% of the population. In Australia, retail sales values for May were revised up, with steady monthly growth of 0.4%.

Figure 3: Retail sales values



Source: Haver

...as England must 'learn to live' with COVID-19

UK Prime Minister Johnson announced that virtually all official restrictions in England are likely to be removed on 19 July, even as daily infections continue to rise and are expected to reach 50,000 by the end of the month. Half of the UK population has been fully vaccinated against COVID-19, and it will take another two months to vaccinate 75% of the population at the current rate.

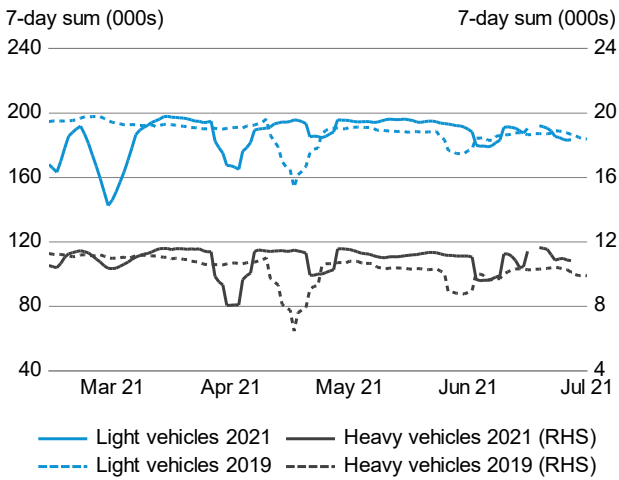
RBA opens door for earlier rate rises

The Reserve Bank of Australia (RBA) kept their 0.1% cash rate unchanged at the July meeting, though bond purchases were reduced and a slight change in tone suggests that a cash rate increase could occur earlier than previously indicated. The Bank's central scenario is that economic conditions for rate rises 'will not be met before 2024' – in previous statements, these conditions were 'unlikely to be met until 2024 at the earliest'. This suggests that if the economic recovery in Australia continues to surprise on the upside, as the Bank acknowledged that it has to date, then rate rises could come earlier.

Date	Key upcoming NZ data	Previous
12 July	Electronic card transactions	2.3% (mpc)
16 July	Consumers price index	1.5% (apc)

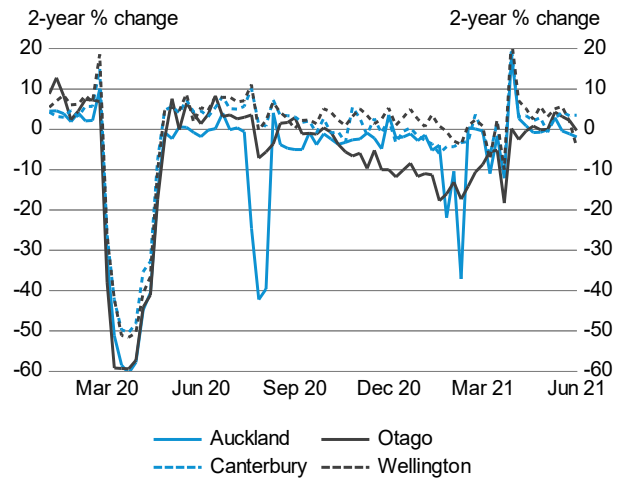
High-Frequency Indicators

Traffic and Freight Movement



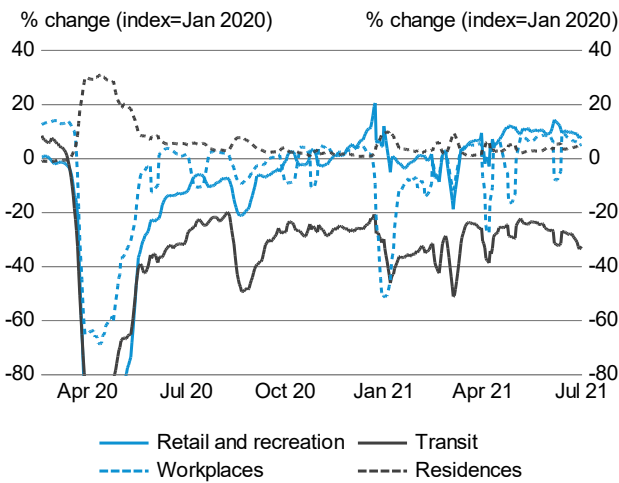
Source: Waka Kotahi NZ Transport Agency

Card spending



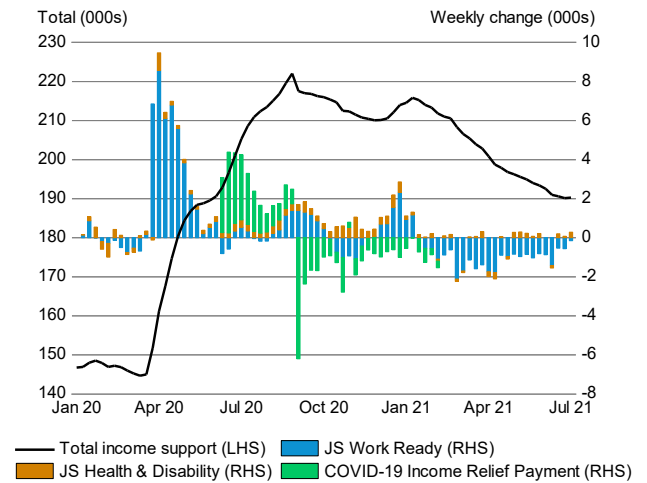
Source: Marketview data via MBIE

People Movements at Selected Locations



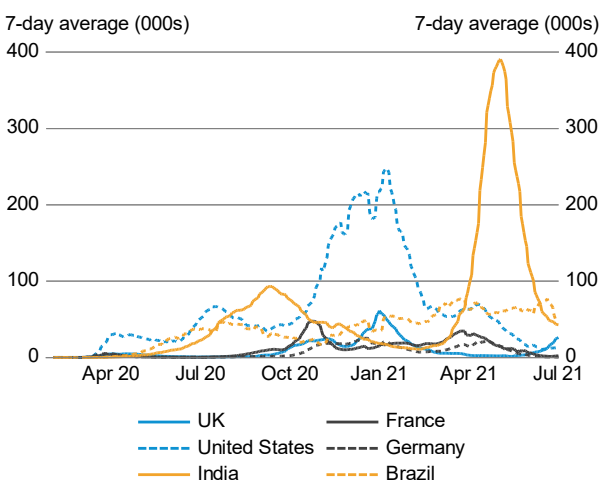
Source: Google

Jobseeker (JS) and Income Support Recipients



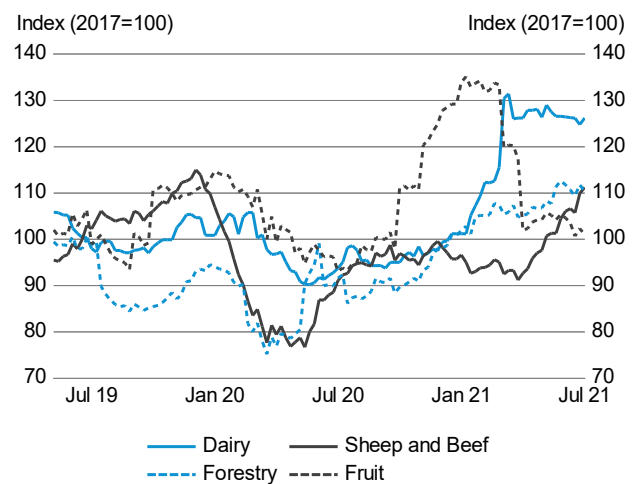
Source: MSD

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	...
	apc	2.5	1.5	1.4	1.4	1.5	...
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	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	6.8	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		28 May	4 Jun	11 Jun	18 Jun	25 Jun	2 Jul
Jobseeker Support	number	193,383	192,501	190,953	190,614	190,128	190,257
Work Ready	number	114,354	113,484	112,047	111,510	110,946	110,790
Health Condition and Disability	number	79,026	79,020	78,906	79,107	79,185	79,470
COVID-19 Income Relief Payment	number	...	...	...	...	...	...
Full-time	number	...	...	...	...	...	...
Part-time	number	...	...	...	...	...	...
Daily Indicators		Wed 30/6/21	Thu 1/7/21	Fri 2/7/21	Mon 5/7/21	Tue 6/7/21	Wed 7/7/21
NZ exchange and interest rates (5)							
NZD/USD	\$	0.6998	0.6989	0.6962	0.7024	0.7071	0.7018
NZD/AUD	\$	0.9310	0.9331	0.9330	0.9343	0.9363	0.9366
Trade weighted index (TWI)	index	73.7	73.8	73.7	74.1	74.5	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	0.36	0.35	0.34	0.33	0.34
10 year govt bond rate	%	1.77	1.77	1.72	1.67	1.69	1.64
Share markets (6)							
Dow Jones	index	34,503	34,634	34,786	...	34,577	34,682
S&P 500	index	4,298	4,320	4,352	...	4,344	4,358
VIX volatility index	index	15.8	15.5	15.1	...	16.4	16.2
AU all ords	index	7,585	7,542	7,587	7,589	7,531	7,599
NZX 50	index	12,655	12,684	12,712	12,812	12,759	12,748
US interest rates							
3 month OIS	%	0.08	0.10	0.10	0.10	0.10	...
3 month Libor	%	0.15	0.14	0.14	0.14	0.13	...
10 year govt bond rate	%	1.45	1.48	1.44	...	1.37	1.33
Commodity prices (6)							
WTI oil	US\$/barrel	73.47	75.23	75.16	...	73.37	...
Gold	US\$/ounce	1,763	1,781.50	1,786.15	1,791.35	1,809.85	...
CRB Futures	index	556	554.27	554.49	...	552.21	...

(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	5.9
	Employment change (1)	000s	264.0	-306.0		233.0	536.0	785.0		269.0	583.0	850.0
	Retail sales value	apc	3.8	2.3		9.4	6.5	29.7		53.4	28.1	...
	House prices (2)	apc	9.2	10.2		11.2	12.0	13.4		14.9	...	...
Japan [6.1%]	PMI manufacturing (1)	index	57.7	60.5		58.7	60.8	64.7		60.7	61.2	60.6
	Consumer confidence (1)(3)	index	92.9	87.1		87.1	95.2	114.9		117.5	120.0	127.3
	GDP (1)	qpc			2.8				-1.0			
	Industrial production (1)	mpc	0.7	-0.2		3.1	-1.3	1.7		2.9	-5.9	...
	CPI	apc	-0.9	-1.1		-0.6	-0.4	-0.2		-0.4	-0.1	...
	Unemployment rate (1)	%	3.0	3.0		2.9	2.9	2.6		2.8	3.0	...
	Retail sales value	apc	0.6	5.0		2.7	3.7	5.2		11.9	8.2	...
Euro area [5.5%]	PMI manufacturing (1)	index	49.0	50.0		49.8	51.4	52.7		53.6	53.0	52.4
	Consumer confidence (1)(4)	index	33.6	31.8		30.0	33.7	36.1		34.8	34.2	37.6
	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	2.0	...
	Unemployment rate (1)	%	8.2	8.2		8.2	8.2	8.1		8.1	7.9	...
	Retail sales volume	apc	-1.3	1.4		-4.8	-1.2	13.7		23.3	9.0	...
United Kingdom [2.7%]	PMI manufacturing (1)	index	53.8	55.2		54.8	57.9	62.5		62.9	63.1	63.4
	Consumer confidence (5)	index	-17.6	-13.8		-15.5	-14.8	-10.8		-8.1	-5.1	-3.3
	GDP (1)	qpc			1.3				-1.6			
	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		42.5	24.6	...
Australia [15.8%]	House prices (6)	apc	6.5	7.3		6.4	6.9	5.7		7.1	10.9	13.4
	PMI manufacturing (1)	index	55.6	57.5		54.1	55.1	58.9		60.9	65.6	63.9
	Consumer confidence (1)(5)	net %	-33.0	-26.0		-28.0	-23.0	-16.0		-15.0	-9.0	-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	7.1	...
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	63.2
	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	...
South Korea [3.0%]	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	50.9
	GDP (1)	qpc			1.1				1.7			
	Industrial production (1)	mpc	0.5	2.7		-1.2	4.2	-0.7		-1.6	-0.7	...
	CPI	apc	0.6	0.5		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