

Publishing the Weekly Economic Update

With New Zealand again moving into lockdown following community cases of the Delta strain of COVID-19, the Treasury has decided to again publish the Weekly Economic Update and include analysis of higher frequency data to help people understand the implications of the latest COVID-19 outbreak.

Alert levels increase in response to new cases

Alert Level 4 was reintroduced for an initial period of seven days in Auckland and the Coromandel and three days for the rest of the country, following the re-emergence of COVID-19 in the community in Auckland. The Auckland resident had travelled in the Coromandel while infectious and, as at 19 August, a total of 21 people in the community have tested positive.

New Zealand entered lockdown in strong shape

The New Zealand economy enters this period of lockdown in a robust position. The economy has recovered strongly during 2021, and the labour market has continued to improve. Previous lockdowns indicate that while activity levels do fall sharply, economic losses have been smaller than originally anticipated as the economy has proven to be adaptive. A significant amount household spending and business activity was deferred, rather than lost, during shorter duration lockdowns, and fiscal support measures have helped to counteract losses of incomes.

Treasury estimates of alert level impacts...

With that said, the Treasury makes assumptions of the impact on the economy (in terms of GDP) at the various COVID-19 Alert Levels that can provide a guide to the potential impacts of lockdowns. These Alert Level impacts are shown in Table 1, along with a breakdown by industry.¹ These can be thought of as average impacts after the policy responses that existed at the time. The figures represent the estimated loss in activity at the point in time that an Alert Level restriction is in place. If the periods under higher Alert Levels are kept short, a reasonable proportion of the loss will likely be recouped later and therefore short-lived lockdowns will see smaller total economic losses than in Table 1.

Table 1: Alert Level activity declines by industry

	Alert Level Impacts BEFU 2021			
	L1	L2	L3	L4
Primary sector	0%	0%	5%	15%
Manufacturing	0%	5%	5%	25%
Construction	5%	5%	20%	75%
Electricity, gas, water, and waste services	5%	5%	5%	10%
Wholesale Trade	0%	5%	10%	40%
Retail Trade	0%	5%	25%	40%
Accommodation and food services	10%	15%	30%	75%
Other services	5%	5%	15%	25%
Government (incl. education and health)	0%	0%	5%	10%
Total	3%-4%	4%-6%	10%-15%	25%-30%

Source: The Treasury

Industries that were not classified as Essential (such as construction) are heavily impacted at Alert Level 4, however the impacts fall away rapidly at lower levels. Essential industries (including much of the food-producing parts of the Primary and Manufacturing sectors) maintain much of their output even at higher Alert Levels.

...have fallen with experience of lockdowns.

Our estimates of the impact of Alert Levels 1 to 3 have been progressively moderated since April last year, as the actual economic experience of lockdowns has proved less severe than originally anticipated. The estimated Alert Level 4 impact has been revised less frequently, reflecting that there has only been one prior episode when the whole country was at the highest Alert Level. More detail on the evolution of our estimates can be found in a Special Topic contained in the Weekly Economic Update – 23 April².

The economy is in a robust position

Prior to the move to Alert Level 4, the economy was in a robust position, with GDP back above pre-COVID-19 levels and the unemployment rate falling to 4.0% on the back of continued resilience in demand. A recovering global economy and high demand for our goods exports sustained the terms of trade at elevated levels. Inflationary pressures had been rising, with supply chain disruptions and labour shortages continuing to drive up costs and prices.

¹ These assumptions have been rounded to the nearest 5 percent given the inherent uncertainty that surrounds these industry estimates.

² <https://www.treasury.govt.nz/publications/weu/weekly-economic-update-23-april-2021>

Official cash rate remains on hold

The Reserve Bank (RBNZ) left the Official Cash Rate (OCR) unchanged at 0.25% in their August Monetary Policy Statement. This announcement follows the reinstatement of COVID-19 Alert Level 4 restrictions and the heightened level of uncertainty associated with the latest outbreak.

The RBNZ noted that fiscal policy had been effective in dealing with the impact of COVID-19 restrictions on demand and that the global economy has continued to recover. The Committee sees a need to raise interest rates in the near-term, noting the strength of domestic spending and capacity pressures, including the labour market. The RBNZ's is forecasting the OCR to reach 0.6% by the end of the year and to rise to 2.0% by the end of 2023.

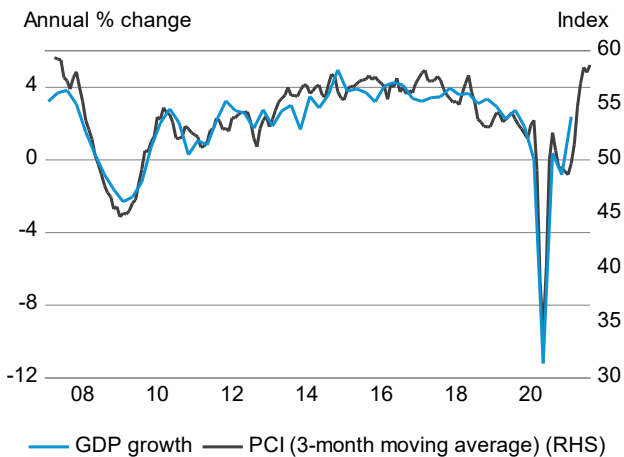
The services sector remains expansionary...

The BNZ-Business NZ Performance of Services Index (PSI) for July remained in expansion mode (a reading above 50 indicates expansion) for the fifth consecutive month. The index was 57.9, down 0.5 points from June, and well above the survey average of 53.9. Activity/sales and new orders/business remained strong while supplier deliveries remained in contractionary territory (47.6).

...leaving the aggregate story unchanged

Last week the Performance of Manufacturing Index (PMI) lifted 1.7 points to 62.6. As a result, the BNZ-BusinessNZ GDP-weighted Combined Performance Index (PCI) remained stable at 58.6, 0.2 points lower than in June. The series has been growing strongly this year, but there are signs that this trend may be stabilising (Figure 1). Both the PSI and PMI cited the increasingly tight labour market as a concern.

Figure 1: GDP and PCI



Source: BNZ-BusinessNZ, Stats NZ

Strong growth in NZ Activity Index...

The New Zealand Activity Index (NZAC) rose 5.4% compared to July 2020. Activity indicators were strong across the board, driven by online job advertisements, falling jobseeker numbers and electronic card transaction activity.

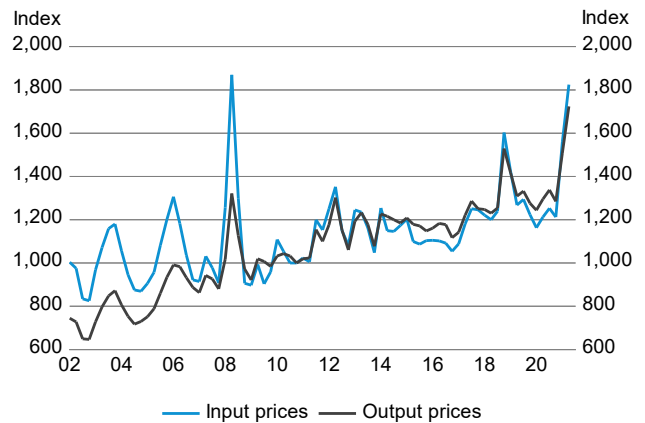
The NZAC is now being published by [Statistics NZ](#).

...as business prices continue to rise...

Prices for goods and services produced in NZ, as reflected by the Producers Prices Index (PPI) rose strongly across most industries in the June 2021 quarter. Input prices rose 3.0% while output prices were up 2.6% in the quarter.

Electricity and gas prices have been a significant driver of higher prices over the past few quarters. Prices paid by the industry (input prices) were up 50.6% compared to the June 2020 quarter, while prices received by the industry (output prices), were up 33.1% compared to the June 2020 quarter, their highest level since the series began.

Figure 2: Electricity and gas supply



Source: Stats NZ

Across all industries, input prices (up 5.9% year-on-year) increased faster than output prices (up 4.0% year-on-year). Capital goods prices rose 2.9% in the quarter and 4.5% compared to a year ago.

...and dairy prices remain stable at auction

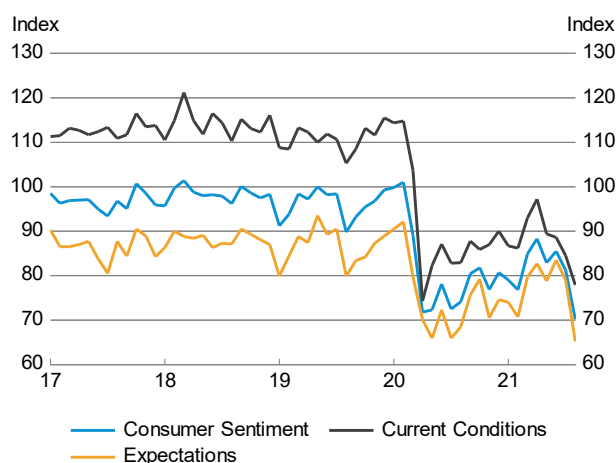
Dairy prices rose 0.3% at this week's *GlobalDairyTrade* auction, following eight consecutive price falls at auction. Whole milk powder prices fell 1.5% while skim milk powder prices rose 1.1%. Despite the recent falls, prices are still up 27% compared to last year.

Global recovery appears to be losing momentum...

There was a broad-based weakening in China's activity indicators in July, with industrial production, investment, and retail sales growth all weaker than expected. Retail sales grew by 8.5% in July from a year ago, much lower than market expectations for a 11.5% rise, and compared to June's increase of 12.1%. China's economy has rebounded strongly to pre-pandemic growth rates, but the recovery is now losing pace owing to new COVID-19 outbreaks, increased price pressures, supply disruptions, and flooding.

In the United States (US), retail sales for July were also weaker than expected, with the headline figure down 1.1%, mainly owing to lower vehicle sales. The slowdown is believed to be due to base effects from the stimulus-driven spending earlier in the year, higher prices, and increased caution as the Delta variant of COVID-19 continues to spread. A weakening in confidence is evident, with the University of Michigan's consumer confidence index for August falling by 13% to its lowest level since 2011, i.e. lower even than during April 2020, when lockdowns were initially instated (Figure 3). This was driven mostly by concerns about the Delta variant and rising inflation.

Figure 3: US consumer confidence



Source: Haver

...as the US Fed moves towards tapering asset purchases

Minutes released from the July Federal Open Market Committee (FOMC) meeting suggest that the US Federal Reserve (Fed) could begin to taper asset purchases before the end of this year, although some members would prefer to wait until early 2022. The minutes further noted that the Fed's goal on inflation was reached, while progress with regard to the labour market goal was 'close to being satisfied'.

Inflation data mixed...

Annual consumer price inflation in the United Kingdom (UK) eased to 2.0% in July from 2.5% the previous month, driven by discounting and summer sales. However, producer input price inflation remained elevated in July at 9.9% in annual terms, which suggests that underlying inflation pressures are still strong.

In Canada, annual consumer price inflation rose from 3.1% in June to 3.7% in July, the quickest pace since May 2011. This was driven by higher transport and housing costs, with homeowner replacement costs rising by 13.8% compared to a year ago, the fastest pace since October 1987.

...as supply constraints persist

Supply chain disruptions are continuing across the world, and a number of factories in South East Asia are struggling to maintain production levels. The partial shutdown of China's Ningbo-Zhoushan container port, the third busiest in the world, due to an employee testing positive for COVID-19 will add to existing global supply chain disruptions.

Japan avoids double-dip recession

Japan's economy expanded by 0.3% in the June quarter on a quarterly basis, following a fall of 0.9% in the March quarter. However, the reprieve may be short-lived as new daily cases of COVID-19 have risen to record levels of above 20,000. On Tuesday, the state of emergency in Tokyo and other regions were extended until 12 September, covering around 60% of Japan's population. 'Serious cases are increasing rapidly and severely burdening the medical system, particularly in the capital region', according to the prime minister.

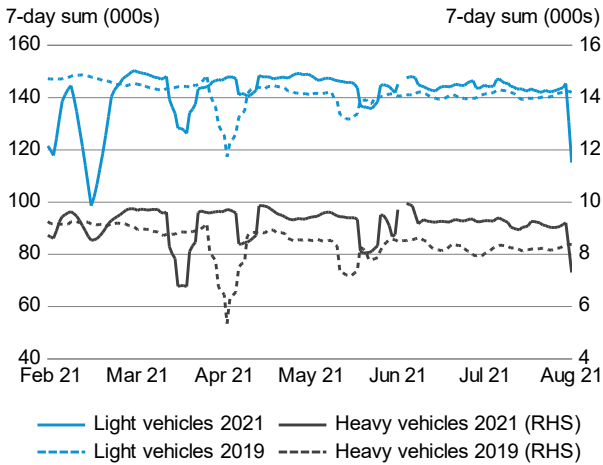
Australia unemployment falls

Australia's unemployment rate fell to 4.6% in July, well below the 5.3% recorded prior to the pandemic in January 2020. The fall in unemployment was mainly driven by a drop in the labour force participation rate, however, likely because unemployed people were not looking for work due to the widespread lockdowns. Total employment was flat, and hours worked fell by 0.2%.

Date	Key upcoming NZ data	Previous
24 August	Retail sales volumes	+2.5 (qpc)
25 August	Merchandise trade balance	-\$0.3b (ann)
27 August	Consumer confidence	113.1 (index)

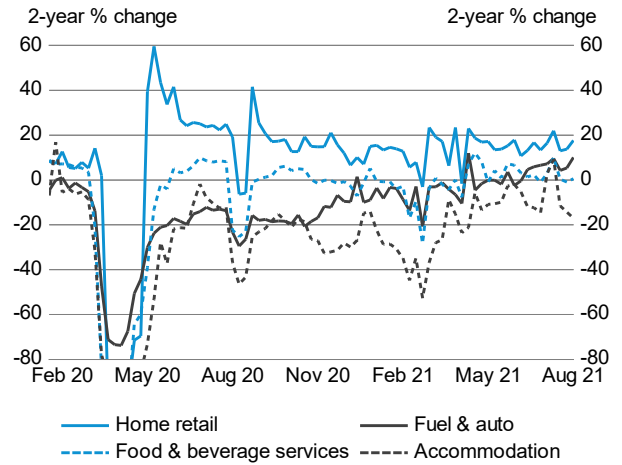
High-Frequency Indicators³

Traffic and Freight Movement



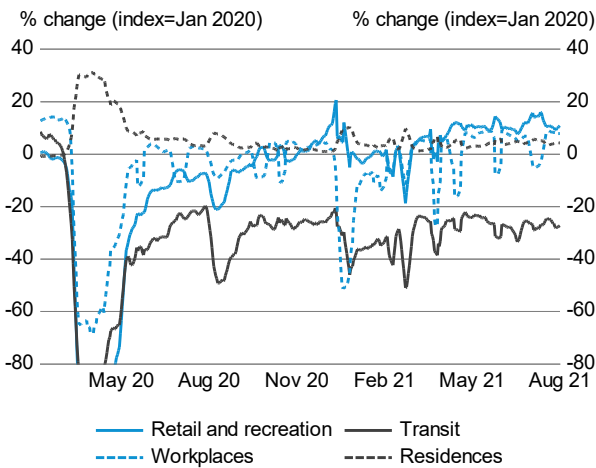
Source: Waka Kotahi NZ Transport Agency

Card Spending



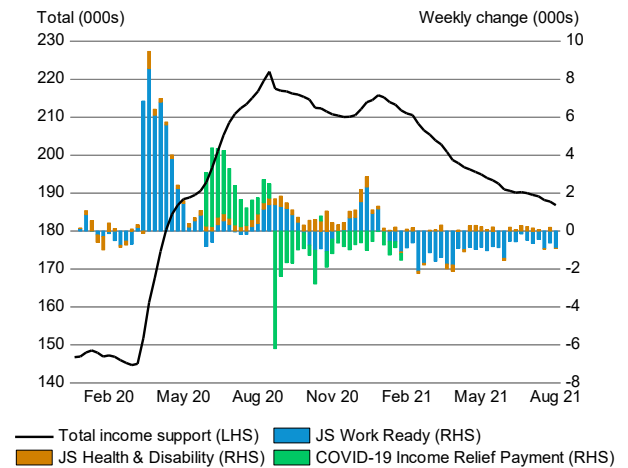
Source: Marketview data via MBIE

People Movements at Selected Locations



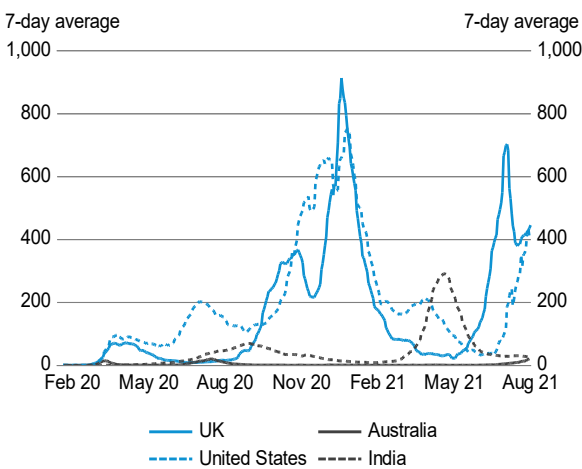
Source: Google

Jobseeker (JS) and Income Support Recipients



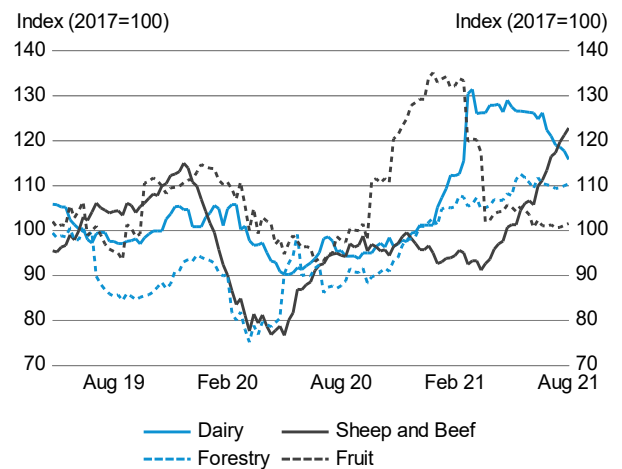
Source: MSD

COVID-19 Cases Per Million People



Source: World Health Organisation/Haver

World Commodity Prices



Source: ASB

³ Additional high frequency indicators are available on the Stats NZ COVID-19 data portal: <https://www.stats.govt.nz/experimental/covid-19-data-portal>

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	-0.4	-0.6	0.7	0.6	1.1
Unemployment rate (1)	%	4.2	4.1	5.3	4.8	4.6	4.0
Participation rate (1)	%	70.7	69.9	70.1	70.2	70.4	70.5
LCI salary & wage rates - total (2)	apc	2.5	2.1	1.8	1.6	1.6	2.1
QES average hourly earnings - total (2)	apc	3.7	3.0	4.2	4.3	4.0	4.0
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		Feb 21	Mar 21	Apr 21	May 21	Jun 21	Jul 21
Merchandise trade balance (12 month)	NZ\$m	2,386	1,701	765	-41	-252	...
Dwelling consents - residential	apc	-4.7	44.7	83.7	17.3	24.0	...
House sales - dwellings	apc	19.8	37.0	439.7	86.4	9.8	-11.7
REINZ - house price index	apc	21.3	23.9	26.8	29.7	30.0	30.7
Estimated net migration (12 month total)	people	13,473	3,229	3,697	4,201	4,711	...
ANZ NZ commodity price index	apc	0.1	4.0	6.8	7.9	17.4	17.1
ANZ world commodity price index	apc	11.0	20.2	24.2	25.2	27.8	22.5
ANZBO - business confidence	net%	7.0	-4.1	-2.0	1.8	-0.6	-3.8
ANZBO - activity outlook	net%	21.3	16.6	22.2	27.1	31.6	26.3
ANZ-Roy Morgan - consumer confidence	net%	113.1	110.8	115.4	114.0	114.1	113.1
Weekly Benefit Numbers		9 Jul	16 Jul	23 Jul	30 Jul	6 Aug	13 Aug
Jobseeker Support	number	190,008	189,528	189,150	188,193	187,761	186,840
Work Ready	number	110,304	109,659	109,215	108,273	107,643	106,734
Health Condition and Disability	number	79,704	79,866	79,932	79,920	80,115	80,106
COVID-19 Income Relief Payment	number	...	...	...	...	...	...
Full-time	number	...	...	...	...	...	...
Part-time	number	...	...	...	...	...	...
Daily Indicators		Thu 12/8/21	Fri 13/8/21	Mon 16/8/21	Tue 17/8/21	Wed 18/8/21	Thu 19/8/21
NZ exchange and interest rates (5)							
NZD/USD	\$	0.7034	0.7007	0.7037	0.7015	0.6881	0.6852
NZD/AUD	\$	0.9550	0.9548	0.9567	0.9593	0.9501	0.9499
Trade weighted index (TWI)	index	74.8	74.6	74.8	74.7	73.5	73.3
Official cash rate (OCR)	%	0.25	0.25	0.25	0.25	0.25	0.25
90 day bank bill rate	%	0.68	0.67	0.67	0.67	0.55	0.43
10 year govt bond rate	%	1.72	1.71	1.70	1.74	1.61	1.68
Share markets (6)							
Dow Jones	index	35,500	35,515	35,625	35,343	34,961	34,894
S&P 500	index	4,461	4,468	4,480	4,448	4,400	4,406
VIX volatility index	index	15.6	15.5	16.1	17.9	21.6	21.7
AU all ords	index	7,861	7,898	7,850	7,773	7,771	7,735
NZX 50	index	12,682	12,764	12,720	12,635	12,719	12,957
US interest rates							
3 month OIS	%	0.10	0.10	0.10	0.10	0.09	...
3 month Libor	%	0.12	0.12	0.12	0.13	0.13	...
10 year govt bond rate	%	1.36	1.29	1.26	1.26	1.27	1.24
Commodity prices (6)							
WTI oil	US\$/barrel	69.09	68.36	67.44	66.50	65.46	...
Gold	US\$/ounce	1,747	1,773.85	1,786.35	1,789.45	1,783.45	...
CRB Futures	index	563	564.35	563.95	565.99	565.99	...

(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		Jan 21	Feb 21	Mar 21	2021Q1	Apr 21	May 21	Jun 21	2021Q2	Jul 21	Aug 21
United States [9.6% share of total goods exports]	GDP (1)	qpc				1.5				1.6		
	Industrial production (1)	mpc	1.1	-3.0	2.8		0.0	0.8	0.2		0.9	...
	CPI	apc	1.4	1.7	2.6		4.2	5.0	5.4		5.4	...
	Unemployment rate (1)	%	6.3	6.2	6.0		6.1	5.8	5.9		5.4	...
	Employment change (1)	000s	233.0	536.0	785.0		269.0	614.0	938.0		943.0	...
	Retail sales value	apc	9.4	6.5	29.7		53.4	28.0	18.7		15.8	...
	House prices (2)	apc	11.2	12.1	13.4		15.0	17.0	...		...	...
	PMI manufacturing (1)	index	58.7	60.8	64.7		60.7	61.2	60.6		59.5	...
Consumer confidence (1)(3)	index	87.1	95.2	114.9		117.5	120.0	128.9		129.1	...	
Japan [6.1%]	GDP (1)	qpc				-0.9				0.3		
	Industrial production (1)	mpc	3.1	-1.3	1.7		2.9	-6.5	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	2.9		...	...
	Retail sales value	apc	2.7	3.7	5.2		11.9	8.3	0.1		...	...
	PMI manufacturing (1)	index	49.8	51.4	52.7		53.6	53.0	52.4		53.0	...
	Consumer confidence (1)(4)	index	30.0	33.7	36.1		34.8	34.2	37.6		37.5	...
Euro area [5.5%]	GDP (1)	qpc				-0.3				2.0		
	Industrial production (1)	mpc	1.0	-1.2	0.6		0.7	-1.1	-0.3		...	...
	CPI	apc	0.9	0.9	1.3		1.6	2.0	1.9		2.2	...
	Unemployment rate (1)	%	8.2	8.2	8.1		8.1	8.0	7.7		...	...
	Retail sales volume	apc	-4.9	-1.3	13.8		23.5	8.6	5.0		...	...
	PMI manufacturing (1)	index	54.8	57.9	62.5		62.9	63.1	63.4		62.8	...
	Consumer confidence (5)	index	-15.5	-14.8	-10.8		-8.1	-5.1	-3.3		-4.4	...
United Kingdom [2.7%]	GDP (1)	qpc				-1.6				4.8		
	Industrial production (1)	mpc	-1.6	0.5	1.5		-0.8	0.6	-0.7		...	...
	CPI	apc	0.9	0.7	1.0		1.6	2.1	2.4		2.1	...
	Unemployment rate (1)	%	5.1	5.0	4.9		4.8	4.8	4.7		...	...
	Retail sales volume	apc	-5.7	-3.7	7.0		42.2	24.7	9.8		...	...
	House prices (6)	apc	6.4	6.9	5.7		7.1	10.9	13.4		10.5	...
	PMI manufacturing (1)	index	54.1	55.1	58.9		60.9	65.6	63.9		60.4	...
	Consumer confidence (1)(5)	net %	-28.0	-23.0	-16.0		-15.0	-9.0	-9.0		-7.0	...
Australia [15.8%]	GDP (1)	qpc				1.8				...		
	CPI	apc				1.1				3.8		
	Unemployment rate (1)	%	6.4	5.9	5.7		5.5	5.1	4.9		4.6	...
	Retail sales value	apc	10.3	5.2	3.9		23.8	7.1	2.9		...	...
	House Prices (7)	apc				8.9					...	...
	PMI manufacturing (1)	index	55.3	58.8	59.9		61.7	61.8	63.2		60.8	...
	Consumer confidence (8)	index	107.0	109.1	111.8		118.8	113.1	107.2		108.8	104.1
China [24.3%]	GDP	apc				18.3				7.9		
	Industrial production	apc	35.1	35.1	14.1		9.8	8.8	8.3		6.4	...
	CPI	apc	-0.3	-0.2	0.4		0.9	1.3	1.1		1.0	...
	PMI manufacturing (1)	index	51.3	50.6	51.9		51.1	51.0	50.9		50.4	...
South Korea [3.0%]	GDP (1)	qpc				1.7				0.7		
	Industrial production (1)	mpc	-1.2	4.2	-0.7		-1.9	-1.0	2.2		...	...
	CPI	apc	0.6	1.1	1.5		2.3	2.6	2.4		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