TE TAI ŌHANGA
THE TREASURY

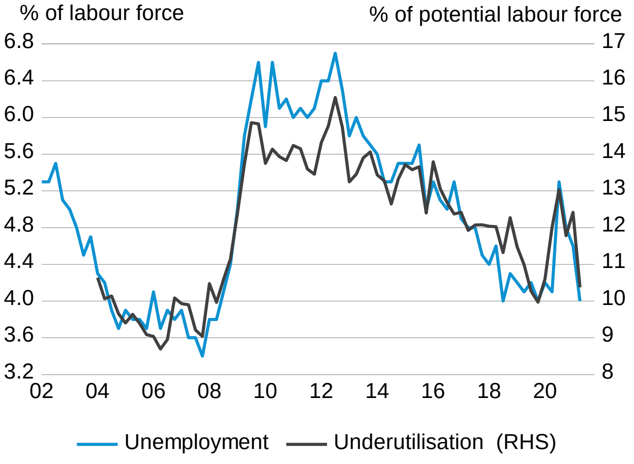
Weekly Economic Update

6 August 2021

Unemployment rate falls to 4.0%...

The June quarter Household Labour Force Survey recorded a higher-than-expected increase in employment and stable participation. This has seen the seasonally adjusted unemployment rate fall to 4.0%, reaching rates observed immediately prior to COVID-19, which were at levels not seen since just before the Global Financial Crisis in 2008 (Figure 1). The underutilisation rate, a broader measure of slack in the labour market, also fell sharply in the June quarter, to 10.4%.

Figure 1: Unemployment and underutilisation



Source: Stats NZ

Unlike last quarter when full-time employment declined, the increase in employment this quarter was driven by a 1.1% increase in full-time employment. Part-time employment also rose, up 1.6%. The increase in employment was concentrated in the Health Care, Wholesale Trade and Education industries, partly offset by reduced employment in Agriculture.

…as wage pressures mount

With the unemployment rate at decade-lows and the underutilisation rate dropping, wage pressures are beginning to manifest. Annual Labour Cost Index (LCI) wage inflation rose by 2.1%, and average ordinary time hourly earnings was up 4.0% in the year the June. High demand for construction and domestic tourism, together with a constrained supply of labour, pushed wages in these industries higher.

Hours worked recovered from the fall last quarter, rising 1.6%.

Rising wages, increasing employment and higher average hours worked saw total weekly gross earnings rise 3.0% in the quarter, which further support already elevated household spending.

New annual record for consents issuance…

Monthly building consents rose 3.8% in June, driven by an 8.9% increase in the volatile multi-unit dwelling category. The outlook for residential investment continues to look robust over the year ahead, with a fresh record high in annual building consents issuance expected to support economic activity. However, ongoing supply chain disruptions and labour shortages continue to impose barriers for further growth in the near term and are creating heightened inflationary pressures. The LCI shows that construction industry wages rose 3.1% in the year to June. Cost pressures are expected to rise further as the demand for new housing remains elevated.

…as the RBNZ considers further restrictions

The Reserve Bank announced that it will be consulting on tighter Loan-to-Value Ratio restrictions for owner occupiers as well as debt-to-income restrictions and/or interest rate floors to promote sustainable lending.

Commodity prices ease…

The ANZ World Commodity Price Index eased 1.4% in July. Log prices fell 2.0% in the month and dairy prices continued to ease, down 3.4%.

Dairy prices fell 1.0% in US dollar terms at this week's ***GlobalDairyTrade*** auction, led by a 3.8% fall in whole milk powder prices. Skim milk powder prices rose 1.5%, partly offsetting this fall. This is the eighth consecutive fall at auction; however, relatively tight global supply should limit further falls in dairy prices.

Global shipping costs are still rising. Demand for shipping containers is unlikely to ease anytime soon as wholesalers begin to stock up ahead of the holiday season in the December quarter.

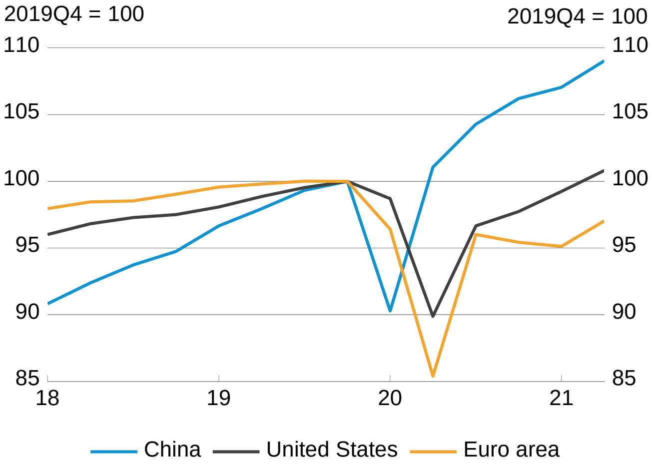
…and consumer confidence remains stable

Consumer confidence eased 1 point to 113 in July. Inflation expectations remain very high at 4.9% and house price inflation expectations rose to 6.4% from 5.8%.

US GDP moves above pre-pandemic level…

June quarter GDP in the United States (US) increased by 3.1% compared to the March quarter, taking its level above where it was before the start of the pandemic (Figure 2). Although the headline number was below market expectations, strength in private consumption and investment growth buoyed sentiment, with most of the miss coming from government spending and inventories.

Figure 2: Real GDP (indexed)



Source: Haver

The euro area's June quarter GDP result was stronger than expected at a 2% quarterly increase, driven by private and government consumption. This brought the level of GDP to around 3% below pre-pandemic levels.

…but manufacturing disappoints…

The July US ISM manufacturing index fell by 1.1 points (pts) to 59.5, contrary to expectations for an increase. This confirmed that, while activity levels in the manufacturing sector remain high, the pace of growth appears to be slowing. Still, this was the 14th consecutive month of expansion. After increasing to a 42-year peak the previous month, the Prices Index declined by 6.4 pts to 85.7.

The Caixin China General Manufacturing PMI declined from 51.3 in June to 50.3 in July – the slowest rate of growth in 15 months, with new orders falling. Prices for raw materials remained high, and the resurgence of COVID-19 in some regions in China worsened supplier delivery times.

…and cases rise

New cases of COVID-19 continue rising in some regions, although death rates have declined. In the US, the mayor of New York City (NYC) introduced a 'Key to NYC', whereby proof of vaccination will be required from 13 September for some indoor activities. It is hoped that this will encourage more people to get vaccinated.

In Israel, where 62% of the population is fully vaccinated against COVID-19, new daily cases have surged above 3,000, prompting the reintroduction of some restrictions in an attempt to control the spread.

RBA keeps policy settings unchanged…

The Reserve Bank of Australia (RBA) this week kept its cash rate target at 10 basis points. As previously signalled, it will continue to purchase government securities at a rate of A$5 billion a week until early September, after which it will decline to A$4 billion a week until at least mid-November. The decision to maintain the decision to taper quantitative easing surprised some analysts given the deterioration in the economic outlook owing to ongoing outbreaks of COVID-19 in parts of the country. The RBA is forecasting a contraction in GDP in the September quarter, but expects this to be followed by a sharp rebound from the lockdowns. Reflecting this, its forecast for 2022 real GDP growth was lifted from 3.5% to around 4%.

…as retail trade recovers…

Australia's retail trade volumes rose 0.8% in the June quarter following a 0.5% fall in the previous. Retail sales in food services rose by 3.9%, taking it above pre-pandemic levels for the first time.

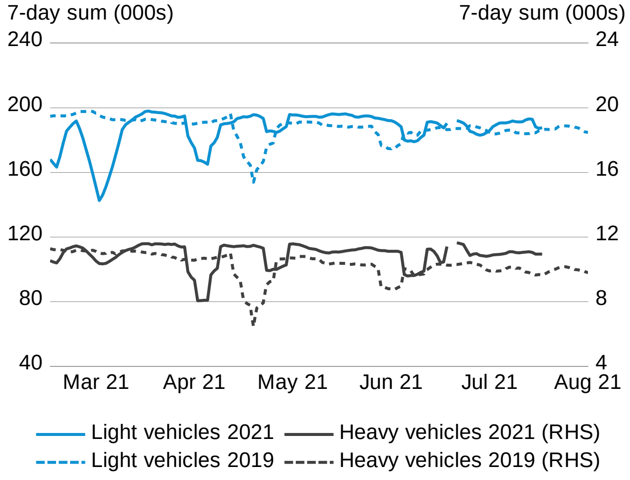
…and vaccine targets set

Based on modelling by the Doherty Institute on vaccination targets and estimates from the Treasury on the economic cost of lockdowns, Australia's prime minister announced that when 70% of the eligible population is vaccinated (nationally and in each state and territory), the country will move to the transition phase in its four-phase plan to reopen the country. In order to move to the next phase where there will be minimum baseline restrictions, a target of 80% has been set. There is no target as of yet for moving to the final phase, when international borders will be reopened. As at 4 August, 16% of the population was fully vaccinated against COVID-19.

Date	Key upcoming NZ data	Previous
10 August	Electronic card transactions	+9.8%
12 August	Food price index	+2.8%
12 August	Rental price index	+4.9%

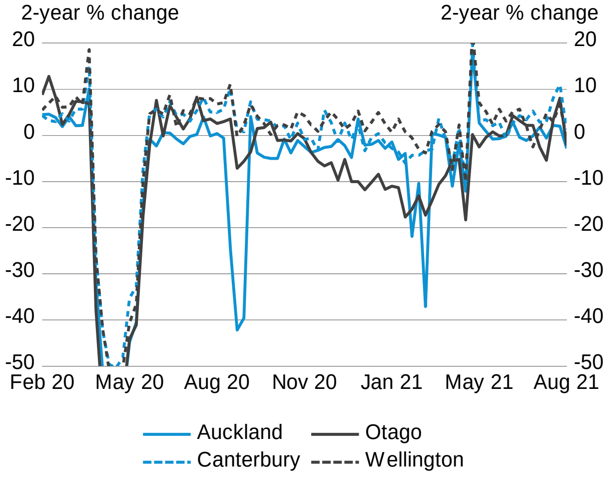
High-Frequency Indicators

Traffic and Freight Movement



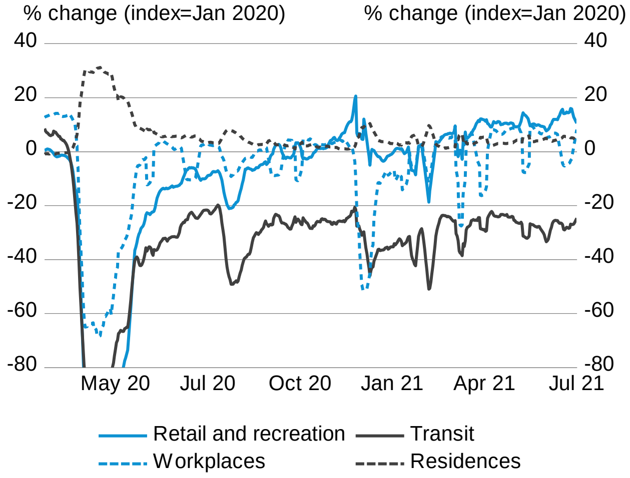
Source: Waka Kotahi NZ Transport Agency

Card Spending



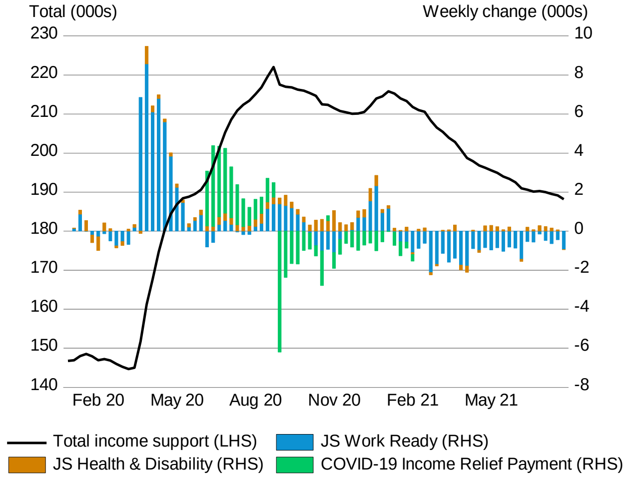
Source: Marketview data via MBIE

People Movements at Selected Locations



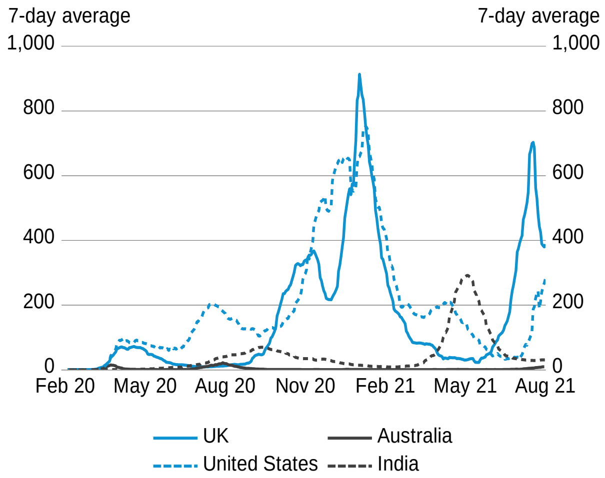
Source: Google

Jobseeker (JS) and Income Support Recipients



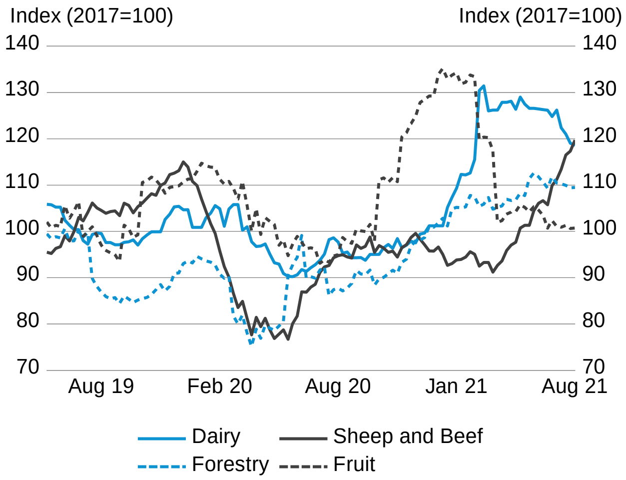
Source: MSD

COVID-19 Cases Per Million People



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	-0.4	-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	85.5	6.2	...
REINZ - house price index	apc	21.3	23.9	26.8	29.9	30.0	...
Estimated net migration (12 month total)	people	14,019	4,214	4,940	5,743	...	...
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		25 Jun	2 Jul	9 Jul	16 Jul	23 Jul	30 Jul
Jobseeker Support	number	190,128	190,257	190,008	189,528	189,150	188,193
Work Ready	number	110,946	110,790	110,304	109,659	109,215	108,273
Health Condition and Disability	number	79,185	79,470	79,704	79,866	79,932	79,920
COVID-19 Income Relief Payment	number	...	...	...	...	...	...
Full-time	number	...	...	...	...	...	...
Part-time	number	...	...	...	...	...	...

Daily Indicators		Thu 29/7/21	Fri 30/7/21	Mon 2/8/21	Tue 3/8/21	Wed 4/8/21	Thu 5/8/21
NZ exchange and interest rates (5)							
NZD/USD	$	0.6954	0.7001	0.6963	0.6997	0.7058	0.7047
NZD/AUD	$	0.9441	0.9474	0.9491	0.9497	0.9531	0.9543
Trade weighted index (TWI)	index	73.8	74.1	73.9	74.2	74.7	74.7
Official cash rate (OCR)	%	0.25	0.25	0.25	0.25	0.25	0.25
90 day bank bill rate	%	0.47	0.48	0.50	0.50	0.55	0.65
10 year govt bond rate	%	1.51	1.51	1.52	1.51	1.58	1.59
Share markets (6)							
Dow Jones	index	35,085	34,935	34,838	35,116	34,793	35,064
S&P 500	index	4,419	4,395	4,387	4,423	4,403	4,429
VIX volatility index	index	17.7	18.2	19.5	18.0	18.0	17.3
AU all ords	index	7,695	7,664	7,760	7,751	7,779	7,780
NZX 50	index	12,729	12,595	12,703	12,701	12,797	12,754
US interest rates							
3 month OIS	%	0.10	0.07	0.10	0.10	0.10	...
3 month Libor	%	0.13	0.12	0.12	0.12	0.12	...
10 year govt bond rate	%	1.28	1.24	1.20	1.19	1.19	1.23
Commodity prices (6)							
WTI oil	US$/barrel	73.62	73.93	71.31	70.64	68.15	...
Gold	US$/ounce	1,829	1,825.75	1,811.45	1,812.65	1,829.10	...
CRB Futures	index	564	562.20	564.09	560.71	559.37	...

(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**				1.5				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	12.1	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	**2.8**				-1.0				...	
	Industrial production (1)	mpc		3.1	-1.3	1.7		2.9	-6.5	6.2		...
	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	**-0.6**				-0.3				2.0	
	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	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	**1.3**				-1.6				...	
	Industrial production (1)	mpc		-1.6	0.5	1.5		-1.0	0.7	...		...
	CPI	apc		0.9	0.7	1.0		1.6	2.1	2.4		...
	Unemployment rate (1)	%		5.1	5.0	4.9		4.8	4.8	...		...
	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	**3.2**				1.8				...	
	CPI	apc	**0.9**				1.1				3.8	
	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	2.9		...
	House Prices (7)	apc	**4.3**				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
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		50.4
South Korea [3.0%]	GDP (1)	qpc	**1.1**				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