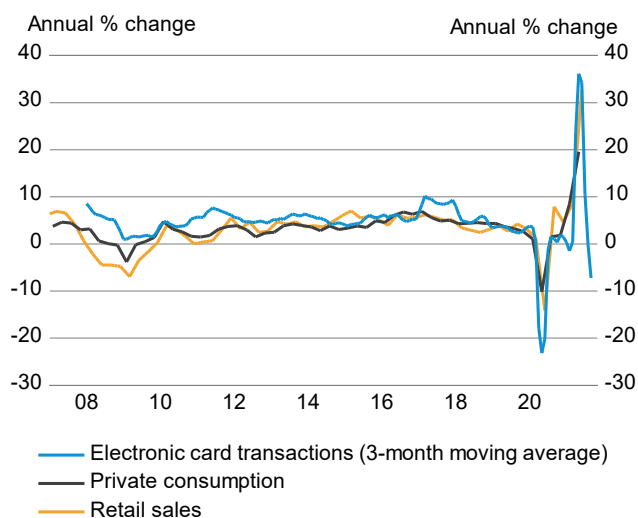


While parts of the country are experiencing a bounce back in activity, ongoing restrictions in the northern regions mean that the recovery is not complete. Activity is expected to continue recovering as restrictions ease, although there are downside risks stemming from prolonged restrictions and the possibility that labour supply and overall demand falls as a result of people choosing to isolate if COVID-19 becomes endemic. However, businesses appear to have remained optimistic for now, and continued high house price growth in areas outside of Auckland suggests that underlying demand remains resilient.

Card spending fell during lockdown...

Total electronic card spending fell 13.4% in the September quarter owing to higher alert levels that began in mid-August. While that took spending to around 7% lower in the September quarter compared to a year ago, the fall was smaller than that experienced in the June 2020 quarter (Figure 1).

Figure 1: Consumer spending



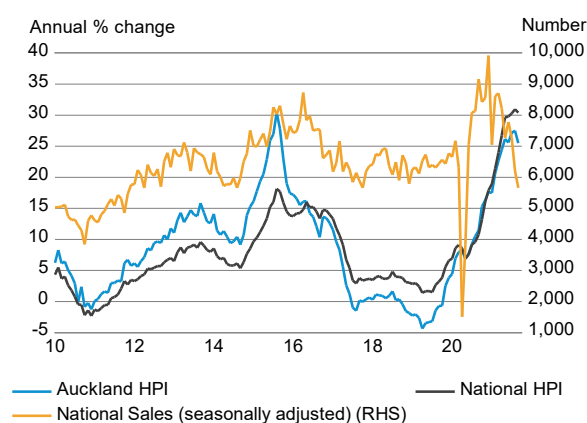
Source: Stats NZ

Within the last month of the September quarter, easing restrictions meant that card spending was able to increase 1.6% from August. High frequency data shows that spending in Auckland continues to recover as restrictions ease, but the national recovery has broadly stabilised with activity below 2019 levels. With parts of the Waikato and Northland returning to Alert Level 3, the recovery may be slower than after the 2020 lockdown, particularly as ongoing supply-chain disruptions, shortages and restrictions weigh on activity. However, spending in most Alert Level 2 regions continues to be above 2019 levels.

...and house price growth eased

Regional differences in alert level settings were reflected in the housing market as well. Monthly house price growth in the REINZ House Price Index (HPI) eased to 1.4% in September, with Alert Level 4 settings in Auckland slowing growth to 0.3% there. However, other regions saw prices continuing to rise at a rapid 2.4% per month, suggesting that overall demand remains resilient. Over the year ahead however, rising mortgage rates, tightening loan-to-value ratios restrictions and rising unaffordability are expected to slow the pace of house price growth.

Figure 2: House prices and sales



Source: REINZ

Inflationary pressures are still building...

The preliminary October release of the ANZ Business Outlook survey (ANZBO) shows that inflationary pressures remain intense, with both cost expectations and pricing intentions higher. Despite rising cost pressures, expected profitability rose, and only a net 3% of firms now expect lower profits. High cost pressures, pricing intentions and resilient activity during the Delta-outbreak are expected to produce a further increase in inflation from the 3.3% annual rate recorded in June. Data for the September 2021 quarter Consumers Price Index will be released on 18 October 2021.

...but business confidence remains resilient

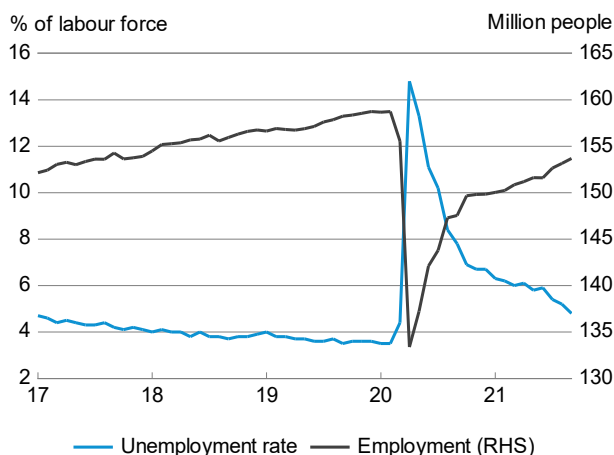
Expectations of firms' own activity rose 6 points in the preliminary October ANZBO to a net 26.2% expecting improving conditions ahead, which may be based on expectations of easing restrictions ahead. However, if restrictions are in place for longer than expected, the economic recovery will also be drawn out.

A combination of high consumer price index (CPI) inflation and weak employment growth is posing challenges for central banks around the world, who face trade-offs between supporting the labour market recovery and reining in price growth.

US employment growth disappoints...

Employment numbers disappointed for a second month in the US, rising less than expected in September to end up 3.2% below pre-pandemic levels (Figure 3). The unemployment rate fell to 4.8%, though this was partly driven by a fall in labour force participation, which has remained stubbornly low over the past year as the ongoing spread of COVID-19 deters people from returning to work. The labour market appears tight, with average hourly wages growing 4.6% in the year to September, indicating that weak labour supply could put upward pressure on consumer prices.

Figure 3: US labour market



Source: Haver

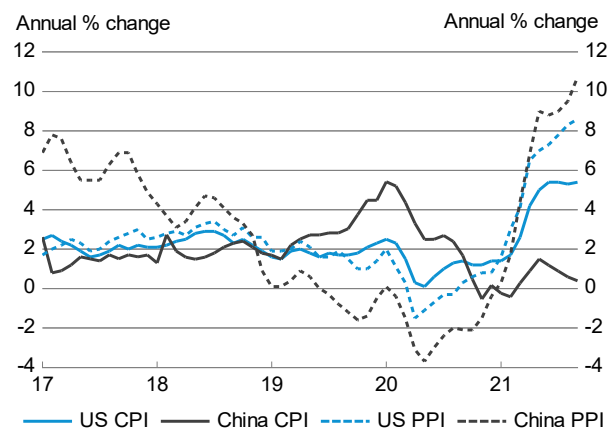
...while Australian unemployment rises

Australia's unemployment rate rose slightly to 4.6% in September, as employment and labour force participation both decreased. Employment fell back below its pre-pandemic level, while the participation rate was the lowest since June 2020. Australia's labour market appeared strong prior to the recent outbreak of COVID-19, and should begin to recover again in October as activity restrictions are eased, though the participation rate may lag while community transmission of the virus remains high.

Inflation remains elevated in the US...

In the US, annual CPI inflation remained elevated in September, rising slightly to 5.4% (Figure 4). Core inflation, which excludes volatile food and energy prices, remained steady at 4.0%, indicating strong underlying price pressures, and producer price index (PPI) inflation reached a record high.

Figure 4: Consumer and producer price indexes



Source: Haver

While CPI inflation remained subdued in China in September, PPI inflation rose to a record high. Surging coal prices were the main contributor, and these will also curb industrial production as factories face power shortages.

...prompting the Fed to plan stimulus reduction

Minutes from the September meeting of the US Federal Reserve board reveal that asset purchases will likely begin to reduce before the end of this year, with the programme concluding around the middle of 2022. While monetary support is set to be reduced within the next two months, interest rates will likely be stable until maximum employment is reached, which could be some time given the disruption to the labour market recovery caused by the spread of the Delta variant. Members continue to view elevated inflation as transitory, expecting that the upward pressure on prices will abate over 2022 as demand and supply imbalances subside. Upside risks were noted, however, with longer-lasting supply issues and inflation expectations possibly resulting in more persistent inflation.

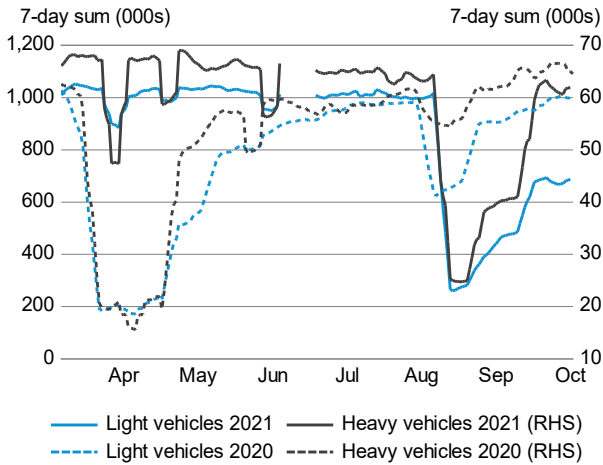
Business confidence rises as Australia reopens

Australia's business confidence rose sharply in September, as firms looked forward to the planned easing of restrictions announced in New South Wales (NSW) and Victoria. Business conditions, a measure of current trading conditions, profitability and employment, fell as restrictions continued to suppress activity, but a recovery is likely as the two largest states reopen this month. This week, fully vaccinated people will be allowed greater freedom in NSW, while Melbourne's lockdown is set to end on 26 October when vaccination targets are met.

Date	Key upcoming NZ data	Previous
18 October	BNZ Performance of Services	35.6 (index)
18 October	Consumers Price Index	3.3 (apc)

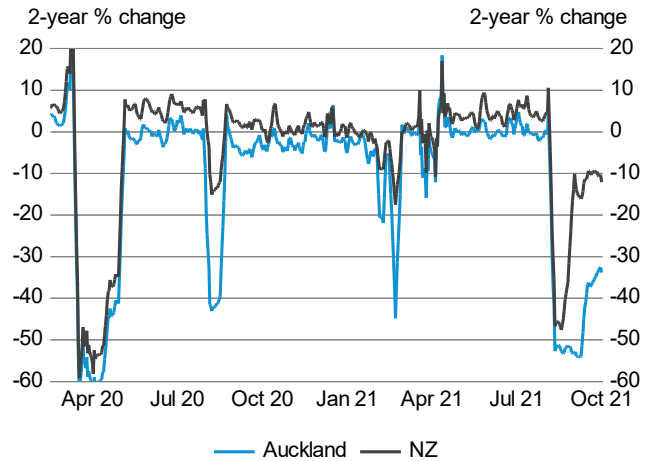
High-Frequency Indicators¹

Traffic and Freight Movement



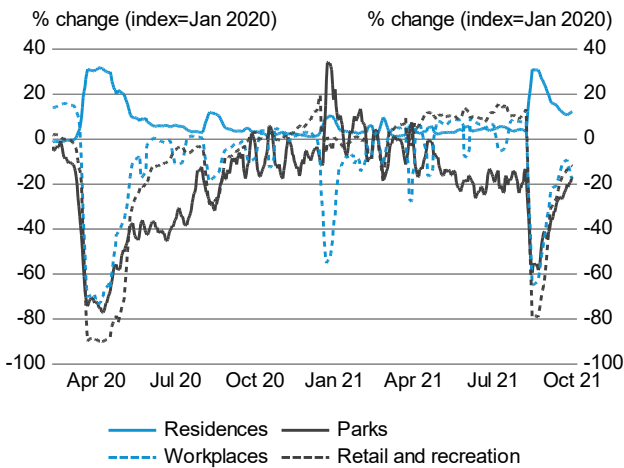
Source: Waka Kotahi NZ Transport Agency

Card Spending



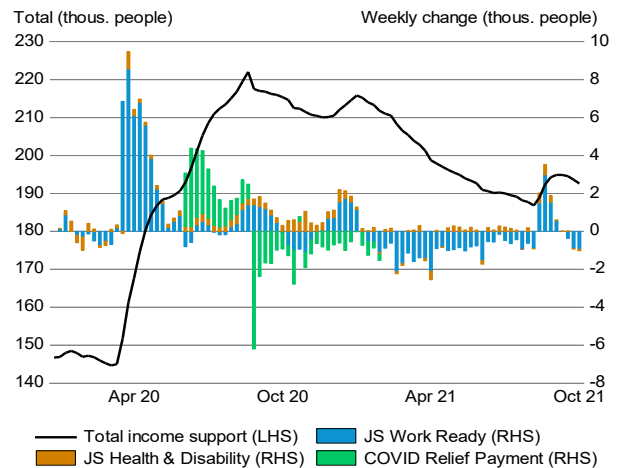
Source: Marketview data via MBIE

People Movements at Selected Locations



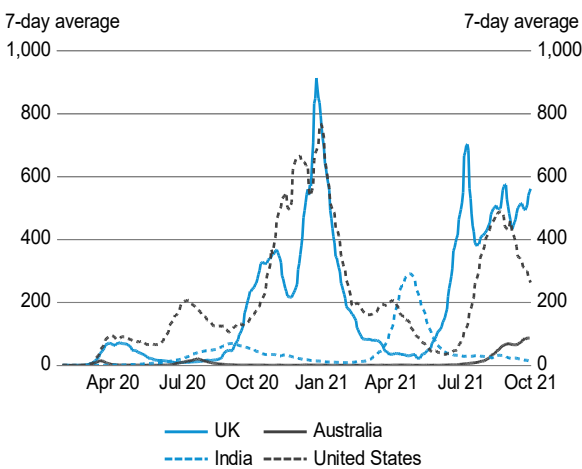
Source: Google

Jobseeker (JS) and Income Support Recipients



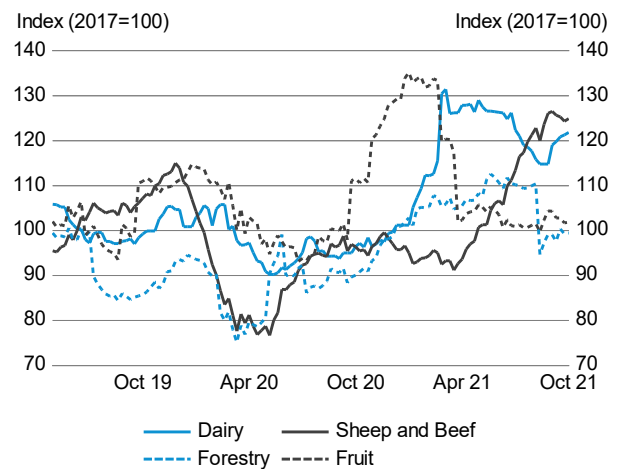
Source: MSD

COVID-19 Cases Per Million People



Source: World Health Organisation/Haver

World Commodity Prices



Source: ASB

¹ 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		2020Q2	2020Q3	2020Q4	2021Q1	2021Q2	2021Q3
Real Production GDP (1)	qpc	-9.9	13.9	-1.0	1.4	2.8	...
	aapc	-1.3	-1.6	-2.1	-1.4	5.1	...
Current account balance (annual)	%GDP	-1.5	-0.7	-0.8	-2.5	-3.3	...
Merchandise terms of trade	apc	6.3	-0.3	-1.6	-0.9	0.0	...
CPI inflation	qpc	-0.5	0.7	0.5	0.8	1.3	...
	apc	1.5	1.4	1.4	1.5	3.3	...
Employment (HLFS) (1)	qpc	-0.4	-0.6	0.7	0.6	1.1	...
Unemployment rate (1)	%	4.1	5.3	4.8	4.6	4.0	...
Participation rate (1)	%	69.9	70.1	70.2	70.4	70.5	...
LCI salary & wage rates - total (2)	apc	2.1	1.8	1.6	1.6	2.1	...
QES average hourly earnings - total (2)	apc	3.0	4.2	4.3	4.0	4.0	...
Core retail sales volume	apc	-11.7	7.6	4.4	5.4	30.2	...
Total retail sales volume	apc	-14.2	8.1	4.7	6.6	33.3	...
WMM - consumer confidence (3)	Index	97.2	95.1	106.0	105.2	107.1	102.7
QSBO - general business situation (1,4)	net%	-61.2	-36.7	-15.0	-8.2	8.6	-8.4
QSBO - own activity outlook (1,4)	net%	-25.0	1.1	9.5	7.5	27.1	9.3
Monthly Indicators		May 21	Jun 21	Jul 21	Aug 21	Sep 21	Oct 21
Merchandise trade balance (12 month)	NZ\$m	-49	-277	-1,099	-2,944	...	...
Dwelling consents - residential	apc	17.3	24.0	24.2	42.3	...	...
House sales - dwellings	apc	86.4	10.4	-9.1	-23.8	-37.9	...
REINZ - house price index	apc	29.7	29.9	30.4	31.0	30.5	...
Estimated net migration (12 month total)	people	2,441	2,321	3,342	2,382	...	...
ANZ NZ commodity price index	apc	7.9	17.6	16.9	15.4	17.4	...
ANZ world commodity price index	apc	25.2	28.0	22.2	21.5	23.6	...
ANZBO - business confidence	net%	1.8	-0.6	-3.8	-14.2	-7.2	-8.6
ANZBO - activity outlook	net%	27.1	31.6	26.3	19.2	18.2	26.2
ANZ-Roy Morgan - consumer confidence	net%	114.0	114.1	113.1	109.6	104.5	...
Weekly Benefit Numbers		3 Sep	10 Sep	17 Sep	24 Sep	1 Oct	8 Oct
Jobseeker Support	number	194,280	194,898	194,907	194,571	193,632	192,612
Work Ready	number	112,749	113,316	113,322	112,956	112,056	111,120
Health Condition and Disability	number	81,528	81,579	81,588	81,615	81,579	81,489
Daily Indicators		Thu 7/10/21	Fri 8/10/21	Mon 11/10/21	Tue 12/10/21	Wed 13/10/21	Thu 14/10/21
NZ exchange and interest rates (5)							
NZD/USD	\$	0.6919	0.6942	0.6938	0.6927	0.6934	0.6976
NZD/AUD	\$	0.9495	0.9483	0.9483	0.9439	0.9447	0.9440
Trade weighted index (TWI)	index	74.0	74.2	74.1	74.0	74.1	74.3
Official cash rate (OCR)	%	0.50	0.50	0.50	0.50	0.50	0.50
90 day bank bill rate	%	0.65	0.66	0.66	0.66	0.68	0.68
10 year govt bond rate	%	2.00	2.02	2.07	2.13	2.09	2.10
Share markets (6)							
Dow Jones	index	34,755	34,746	34,496	34,378	34,378	34,913
S&P 500	index	4,400	4,391	4,361	4,351	4,364	4,438
VIX volatility index	index	19.5	18.8	20.0	19.9	18.6	16.9
AU all ords	index	7,551	7,617	7,601	7,576	7,572	7,620
NZX 50	index	13,105	13,087	13,019	12,996	13,025	13,048
US interest rates							
3 month OIS	%	0.08	0.08	0.08	0.08	0.08	...
3 month Libor	%	0.12	0.12	0.12	0.13	0.12	...
10 year govt bond rate	%	1.58	1.61	...	1.59	1.56	1.52
Commodity prices (6)							
WTI oil	US\$/barrel	78.30	79.55	...	80.75	80.67	...
Gold	US\$/ounce	1,762	1,773.25	1,757.65	1,767.75	1,785.70	...
CRB Futures	index	560	562.43	561.74	560.89	561.33	...

(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	Apr 21	May 21	Jun 21	2021Q1	Jul 21	Aug 21	Sep 21	2021Q2	Oct 21
United States [10.6% share of total goods exports]	GDP (1)	qpc	1.1				1.5				1.6	
	Industrial production (1)	mpc		0.1	0.6	0.5		0.8	0.4	...		...
	CPI	apc		4.2	5.0	5.4		5.4	5.3	5.4		...
	Unemployment rate (1)	%		6.1	5.8	5.9		5.4	5.2	4.8		...
	Employment change (1)	000s		269.0	614.0	962.0		1091.0	366.0	194.0		...
	Retail sales value	apc		53.4	28.0	18.9		15.1	15.1	...		...
	House prices (2)	apc		15.2	17.2	19.1		19.9	...	...		...
	PMI manufacturing (1)	index		60.7	61.2	60.6		59.5	59.9	61.1		...
Consumer confidence (1)(3)	index		117.5	120.0	128.9		125.1	115.2	109.3		...	
Japan [5.6%]	GDP (1)	qpc	2.8				-1.1				0.5	
	Industrial production (1)	mpc		2.9	-6.5	6.5		-1.5	-3.6	...		...
	CPI	apc		-1.1	-0.7	-0.4		-0.3	-0.4	...		...
	Unemployment rate (1)	%		2.8	3.0	2.9		2.8	2.8	...		...
	Retail sales value	apc		11.9	8.3	0.1		2.4	-3.2	...		...
	PMI manufacturing (1)	index		53.6	53.0	52.4		53.0	52.7	51.5		...
	Consumer confidence (1)(4)	index		34.8	34.2	37.6		37.5	36.6	38.0		...
Euro area [6.5%]	GDP (1)	qpc	-0.4				-0.3				2.2	
	Industrial production (1)	mpc		0.7	-1.1	0.2		1.4	-1.6	...		...
	CPI	apc		1.6	2.0	1.9		2.2	3.0	...		...
	Unemployment rate (1)	%		8.2	8.0	7.8		7.6	7.5	...		...
	Retail sales volume	apc		23.7	8.7	5.6		3.1	0.0	...		...
	PMI manufacturing (1)	index		62.9	63.1	63.4		62.8	61.4	58.6		...
	Consumer confidence (5)	index		-8.1	-5.1	-3.3		-4.4	-5.3	-4.0		...
United Kingdom [2.3%]	GDP (1)	qpc	1.1				-1.4				5.5	
	Industrial production (1)	mpc		-0.4	0.9	-0.6		0.2	0.8	...		...
	CPI	apc		1.6	2.1	2.4		2.1	3.0	...		...
	Unemployment rate (1)	%		4.8	4.8	4.7		4.6	4.5	...		...
	Retail sales volume	apc		42.1	24.6	9.1		1.9	0.0	...		...
	House prices (6)	apc		7.1	10.9	13.4		10.5	11.0	10.0		...
	PMI manufacturing (1)	index		60.9	65.6	63.9		60.4	60.3	57.1		...
	Consumer confidence (1)(5)	net %		-15.0	-9.0	-9.0		-7.0	-8.0	-13.0		...
Australia [13.0%]	GDP (1)	qpc	3.2				1.9				0.7	
	CPI	apc	0.9				1.1				3.8	
	Unemployment rate (1)	%		5.5	5.1	4.9		4.6	4.5	4.6		...
	Retail sales value	apc		23.8	7.1	2.9		-2.9	-0.7	...		...
	House Prices (7)	apc	4.3				8.9				19.8	
	PMI manufacturing (1)	index		61.7	61.8	63.2		60.8	51.6	51.2		...
	Consumer confidence (8)	index		118.8	113.1	107.2		108.8	104.1	106.2		104.6
China [31.5%]	GDP	apc	6.5				18.3				7.9	
	Industrial production	apc		9.8	8.8	8.3		6.4	5.3	...		...
	CPI	apc		0.9	1.3	1.1		1.0	0.8	0.7		...
	PMI manufacturing (1)	index		51.1	51.0	50.9		50.4	50.1	49.6		...
South Korea [2.9%]	GDP (1)	qpc	1.1				1.7				0.8	
	Industrial production (1)	mpc		-1.9	-1.3	2.3		0.2	-0.7	...		...
	CPI	apc		2.3	2.6	2.4		2.6	2.6	2.5		...

(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