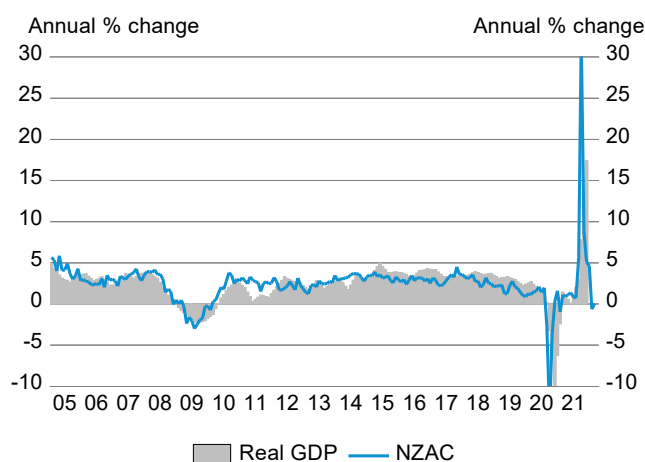


Overall activity is broadly back to September 2020 levels across most parts of the country, with regional activity indicators rebounding and business activity indicators holding up across the country. Our export sector has been resilient despite ongoing global supply chain disruptions and heightened alert level restrictions in parts of the country. However, cost pressures remain intense and the proportion of businesses intending to raise prices continues to rise.

Economic activity bounces back...

Overall economic activity in New Zealand for the month of September returned to broadly the same level as a year ago according to the New Zealand Activity Index (NZAC) (Figure 1), highlighting the recovery seen in the high-frequency indicators for the regions that moved to Alert Level 2 last month. The resilience in demand seen to date could indicate that the fall in September 2021 quarter GDP is shallower than what may have been expected initially, although there is still more data to come.

Figure 1: NZAC and real GDP

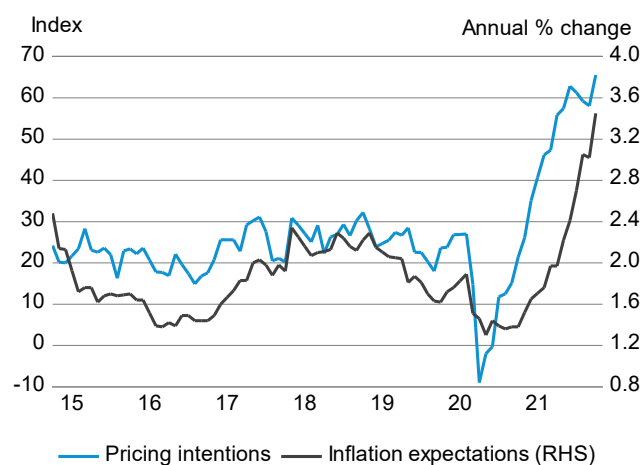


Source: Stats NZ

...and business expectations remain resilient

Business' expectations of their own activity eased slightly in the final October read of the ANZ Business Outlook but a net 21.7% of businesses continue to expect conditions to improve ahead. However, headline confidence continues to slip. Cost pressures continue to mount with a net 87.2% expecting higher prices, leading to a significant rise in pricing intentions and suggests inflationary pressures will remain elevated in the quarters ahead (Figure 2).

Figure 2: Pricing intentions and inflation expectations



Source: ANZ

Record high export and import values...

Despite higher alert level restrictions and ongoing supply chain disruptions, New Zealand's goods trade has been robust. Annual values of both imports and exports reached record highs in the year ended September 2021 and led to a \$4.1 billion annual goods trade deficit. Strong growth in import values partly reflects rising freight costs and elevated global inflation, though demand also appears strong as confidence in the economic recovery remains.

The fact that a roughly normal volume of goods is crossing New Zealand wharfs seems counterintuitive given how much we are hearing about supply-chain disruptions and difficulty securing shipping space. Our conclusion is that supply chains have been stretched more by a *surge in demand* for goods than by a *reduction in supply* of shipping space. As global demand for goods has risen, shipping companies have captured some of the resulting price increases, but many product producers have also benefitted from higher prices.

...leading to a higher milk price forecast

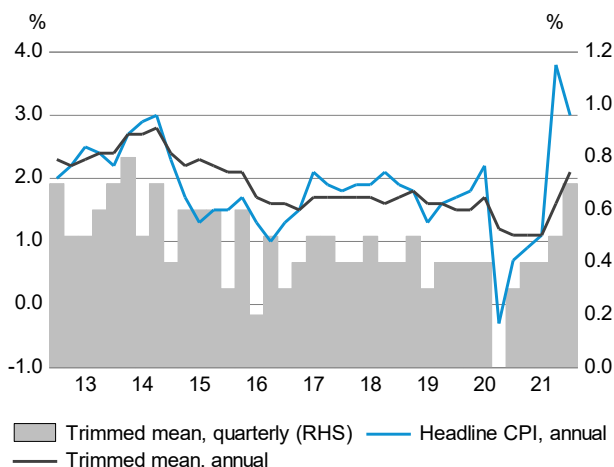
Fonterra Co-operative Group increased and narrowed their forecast Farmgate Milk Price range to \$7.90-\$8.90 per kg/MS. As a result the mid-point price lifts to \$8.40 from \$8, equalling the highest price ever paid in 2014. Global milk production is forecast to remain below average levels, driven by a slowdown in US production owing to the increased cost of feed.

Internationally, inflation expectations continued to rise, as supply disruptions drove up prices and constrained activity, bringing forward expectations of central bank rate hikes. Slower growth in the US and South Korea provided further confirmation of slower global growth momentum.

Inflation pressures rise in Australia...

In Australia, the headline consumers price index rose 0.8% in the September quarter, driven by rises in fuel and home-building costs, and the annual rate dipped to 3.0% (Figure 3). These results were in line with analysts' expectations but the trimmed mean, which strips out large price movements, was surprisingly strong, at 0.7% in the quarter. This lifted the annual trimmed rate to 2.1%, the first time since 2015 it has been inside the Reserve Bank of Australia's (RBA) 2-3% inflation target. Analysts noted this surprise reflects "transitory" COVID-19-related supply bottlenecks, but also that demand pressures are likely to increase as the economy reopens. Short-term interest rates rose as financial markets responded to the risk that the conditions for a rate rise by the RBA will be met earlier than the current guidance of 2024.

Figure 3: Australian inflation



Source: Haver

...and in other advanced economies...

The Bank of Canada surprised analysts with its decision to immediately end its quantitative easing programme and its guidance that a higher policy rate may be appropriate by the middle of 2022. Driving the Bank's decisions were upward revisions to inflation, which it expects to average 3.4% over 2022, up from 2.5% previously.

The European Central Bank (ECB) made no changes to its policy settings this week or to its transitory inflation view, however ongoing supply

disruptions mean inflation will take longer to fall back below the 2% target. ECB President Lagarde confirmed that the ECB does not expect to raise rates in 2022, but there was nothing in the ECB's report to shift financial market expectations of a rate hike next year.

...as global growth slows...

In South Korea, real GDP rose 0.3% in the September quarter, down from 0.8% in the previous quarter, as a fourth wave of strict COVID-19 restrictions curtailed activity.

In the US, GDP growth slowed to 0.5% in the September quarter from 1.6% in the previous quarter, reflecting supply side constraints, the delta variant outbreak and less fiscal support.

Positive data over the past week point to a pickup in US growth in the final quarter but also reinforce financial market expectations that the Fed policy rate will rise by 0.5% before the end of 2022. The Conference Board measure of consumer confidence rose, defying expectations of a fall, as did year-ahead inflation expectations, up 0.5% to 7.0%, a 13-year high. Initial "flash" readings for October's IHS Markit purchasing managers' indexes (PMI) showed the higher composite PMI was driven by a resurgent services sector as COVID-19 infections fell. However, supply bottlenecks and labour shortages weighed on manufacturing production and drove prices higher.

PMI releases for the euro area and the UK echoed the news of constrained inputs and rising output prices, further challenging central bank views of transitory price pressure.

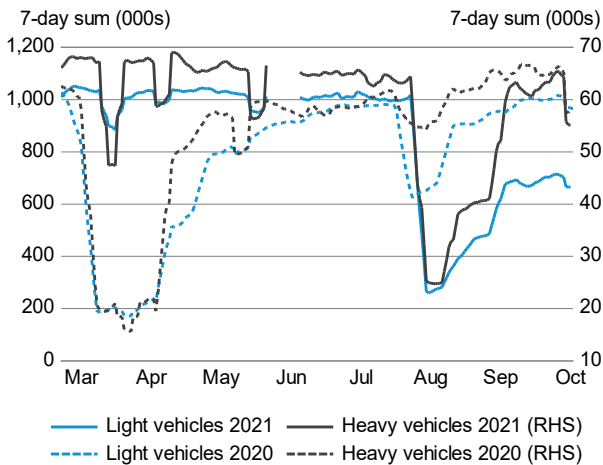
...and the UK fiscal outlook improves

In the UK Budget, the Chancellor announced a further GBP135 billion in spending across the next four years. This came as the Office of Budget Responsibility materially upgraded its economic forecasts, mostly reflecting lower estimates of economic scarring, and its revenue forecasts. The forecasts showed a marked reduction in fiscal deficits and expected borrowing. Analysts saw the positive outlook as reaffirming market expectations that the Bank of England will hike Bank Rate next week.

Date	Key upcoming NZ data	Previous
2 Nov	Building consents	+3.8% (mpc)
4 Nov	Labour market statistics	4.0% unemployment

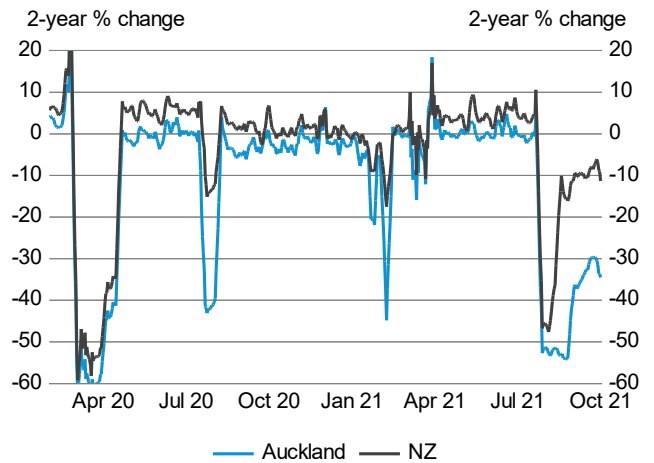
High-Frequency Indicators¹

Traffic and Freight Movement



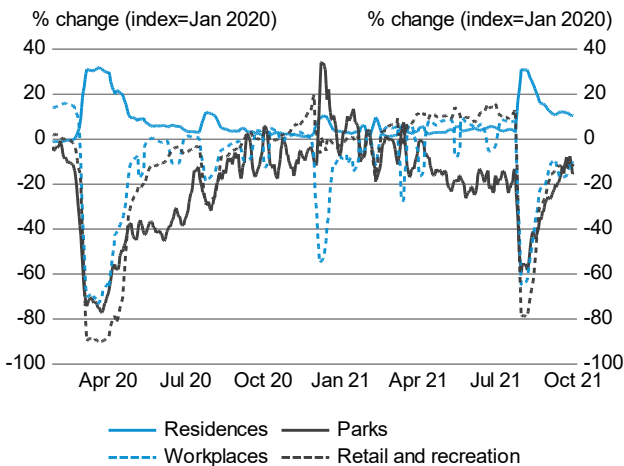
Source: Waka Kotahi NZ Transport Agency

Card Spending



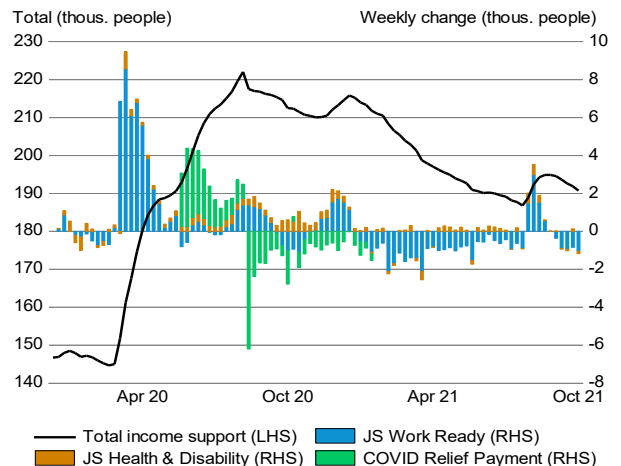
Source: Marketview data via MBIE

People Movements at Selected Locations



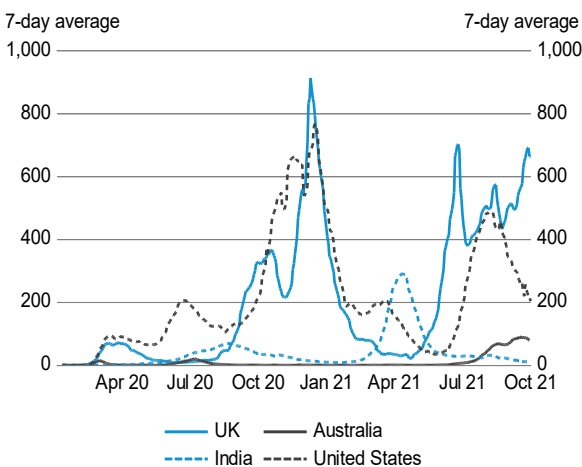
Source: Google

Jobseeker (JS) and Income Support Recipients



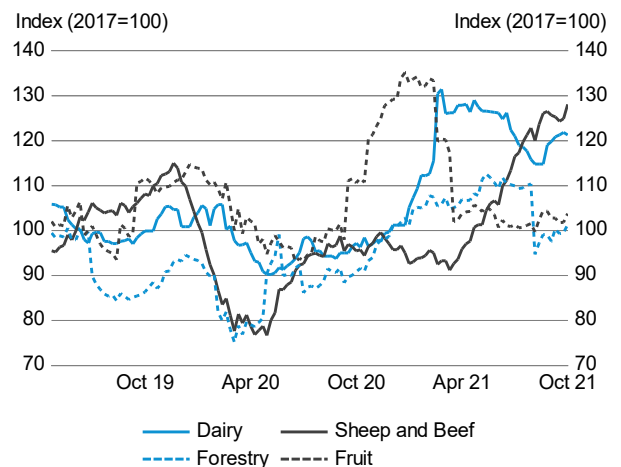
Source: MSD

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	2.2
	apc	1.5	1.4	1.4	1.5	3.3	4.9
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	-49.1	-276.6	-1096.8	-2936.9	-4084.8	...
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	2,441.0	2,321.0	3,342.0	2,382.0
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	-13.4
ANZBO - activity outlook	net%	27.1	31.6	26.3	19.2	18.2	21.7
ANZ-Roy Morgan - consumer confidence	net%	114.0	114.1	113.1	109.6	104.5	98.0

Weekly Benefit Numbers		17 Sep	24 Sep	1 Oct	8 Oct	15 Oct	22 Oct
Jobseeker Support	number	194,907	194,571	193,632	192,612	191,904	190,731
Work Ready	number	113,322	112,956	112,056	111,120	110,280	109,236
Health Condition and Disability	number	81,588	81,615	81,579	81,489	81,627	81,495
Wage Subsidy August 2021	\$millions	2,276	2,597	2,846	3,067	3,304	3,507
Unique jobs supported	number	1,216,413	1,236,462	1,251,753	1,260,852	1,270,581	1,276,863
Businesses associated with paid application	number	298,911	307,962	316,611	321,645	326,067	328,455

Daily Indicators		Thu 21/10/21	Fri 22/10/21	Mon 25/10/21	Tue 26/10/21	Wed 27/10/21	Thu 28/10/21
NZ exchange and interest rates (5)							
NZD/USD	\$	0.7206	0.7163	...	0.7168	0.7161	0.7160
NZD/AUD	\$	0.9571	0.9594	...	0.9562	0.9512	0.9551
Trade weighted index (TWI)	index	76.2	76.0	...	75.9	75.8	75.9
Official cash rate (OCR)	%	0.50	0.50	0.50	0.50	0.50	0.50
90 day bank bill rate	%	0.74	0.74	...	0.74	0.75	0.78
10 year govt bond rate	%	2.37	2.43	...	2.39	2.46	2.53
Share markets (6)							
Dow Jones	index	35,603	35,677	35,741	35,757	35,491	35,730
S&P 500	index	4,550	4,545	4,566	4,575	4,552	4,596
VIX volatility index	index	15.0	15.4	15.2	16.0	17.0	16.5
AU all ords	index	7,729	7,727	7,754	7,759	7,758	7,740
NZX 50	index	13,126	13,093	...	13,075	13,020	12,971
US interest rates							
3 month OIS	%	0.08	0.08	0.08	0.08	0.08	...
3 month Libor	%	0.12	0.12	0.13	0.14	0.13	...
10 year govt bond rate	%	1.68	1.66	1.64	1.63	1.54	1.57
Commodity prices (6)							
WTI oil	US\$/barrel	82.50	84.53	84.64	85.64	82.66	...
Gold	US\$/ounce	1,779.30	1,808.25	1,805.25	1,785.55	1,795.25	...
CRB Futures	index	566.60	568.36	568.78	568.88	567.91	...

(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		2021Q1	Apr 21	May 21	Jun 21	2021Q2	Jul 21	Aug 21	Sep 21	2021Q3	Oct 21
United States [10.6% share of total goods exports]	GDP (1)	qpc	1.5				1.6				0.5	
	Industrial production (1)	mpc		0.1	0.7	0.5		1.0	-0.1	-1.3		...
	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		15.3	15.4	13.9		...
	House prices (2)	apc		15.2	17.3	19.2		20.0	19.7
Japan [5.6%]	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	109.8		113.8
	GDP (1)	qpc	-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	0.2		...
	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	-0.6		...
Euro area [6.5%]	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		...
	GDP (1)	qpc	-0.3				2.1				...	
	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	3.4		...
	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
United Kingdom [2.3%]	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		-4.8
	GDP (1)	qpc	-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	2.9		...
	Unemployment rate (1)	%		4.8	4.8	4.7		4.6	4.5
	Retail sales volume	apc		41.8	24.2	8.6		1.2	-0.2	-1.3		...
Australia [13.0%]	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		-17.0
	GDP (1)	qpc	1.9				0.7				...	
	CPI	apc	1.1				3.8				3.0	
	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
China [31.5%]	House Prices (7)	apc	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
	GDP	apc	18.3				7.9				4.9	
	Industrial production	apc		9.8	8.8	8.3		6.4	5.3	3.1		...
	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	1.7				0.8				0.3	
	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