

While firms expect overall conditions to deteriorate in the months ahead, they continue to expect their own activity will improve. Data continues to suggest that a bounce back in activity will occur in the December 2021 quarter, supporting the case for further monetary policy tightening ahead. However, the recovery may be slowed with the extension of Alert Level 3 in Auckland and parts of Waikato. Demand remains strong and inflationary pressures are expected to remain elevated with indications that input costs are continuing to rise and skilled labour shortages are growing more acute.

Business confidence remains resilient...

Headline business confidence returned to negative territory in the September quarter release of the NZIER's Quarterly Survey of Business Opinion (QSBO), with a net 8% of firms expecting a deterioration in general business conditions. However, firms' own activity indicators continued to improve with a net 29% experiencing an increase in their own activity in the September quarter, up from the June quarter. Own activity expectations also improved, indicating that businesses are a lot more optimistic than they were during last year's lockdown.

...but the building sector remains pessimistic

Business confidence fell in the building sector, however output expectations rose significantly to a net 64% expecting higher activity. Construction demand is strong, but capacity pressures remain acute, reflecting the impact of labour shortages and ongoing supply chain disruptions. Construction firms are finding it easier to pass on higher costs by raising prices.

Cost pressures appear mixed...

Cost and pricing pressures appear to be easing in most other sectors. The proportion of firms that expect cost increases ahead fell to 7% and only 4% expect to raise prices in the December quarter.

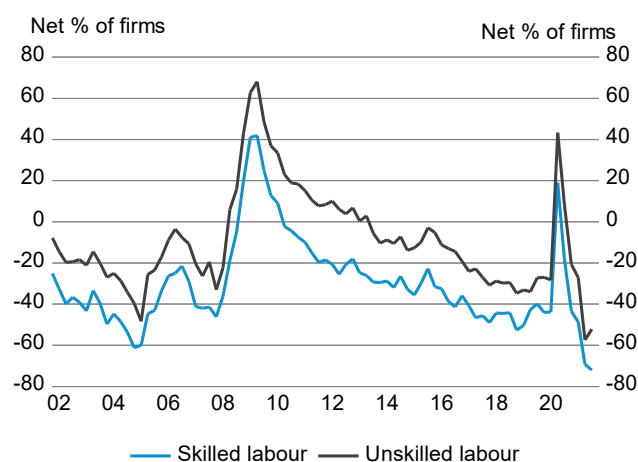
NZIER says that the latest results indicate that inflation pressures may not be as persistent as expected last quarter and they expect inflation to moderate over the coming year. However, capacity pressures remain acute and shipping costs are still rising. The Baltic Dry Index rose another 26% in

August and shipping costs are now at their highest rate 2008.

...but skilled labour shortages are growing

Intentions to hire are strong, with many firms surveyed planning to increase headcount in the next quarter. Skilled labour shortages are growing more acute with a record net 72% of businesses reporting difficulty finding skilled labour (Figure 1). There has, however, been a slight easing in difficulty finding unskilled labour. Labour shortages are expected to lead to further wage pressures.

Figure 1: Ease of finding labour



Source: NZIER

The OCR lifts 25 basis points...

As widely expected, the Reserve Bank (RBNZ) raised the Official Cash Rate by 25 basis points this week to 0.5%. The RBNZ said that it is appropriate to continue reducing the level of monetary stimulus in order to meet their inflation and employment mandates. They also indicated that further removal of monetary stimulus is expected over time but that these moves are dependent on the medium-term outlook for inflation and employment.

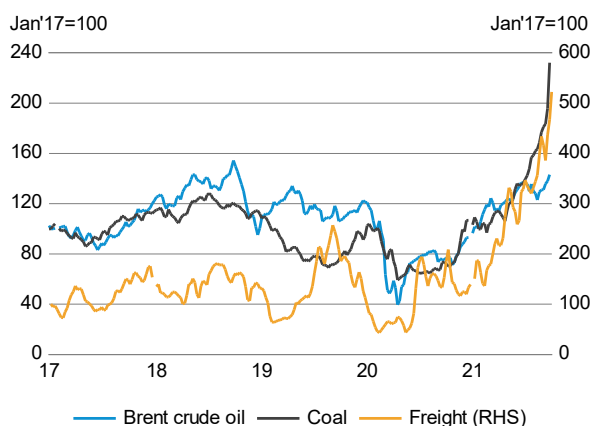
...as commodity prices rise

The ANZ World Commodity Price Index rose 1.5% in September, driven by a rebound in dairy and forestry prices as well as strong meat and aluminium prices. Despite the pandemic, prices for New Zealand's goods exporting sectors are the best they have been in decades and the terms of trade is at its highest level on record.

Global inflation pressures continue building...

Global prices for energy and shipping have risen dramatically this year, with little sign of easing in the near-term (Figure 2). The Baltic Dry sea freight index has increased five-fold since the beginning of 2021, and world oil prices have reached their highest level since 2018, with both adding to domestic inflation pressures. In China, factories are being forced to ration energy as coal prices reach a record high, threatening the country's industrial production and global trade. In Europe, surging gas prices are raising inflation fears at the same time as the economic recovery appears to be slowing.

Figure 2: Global energy and freight prices

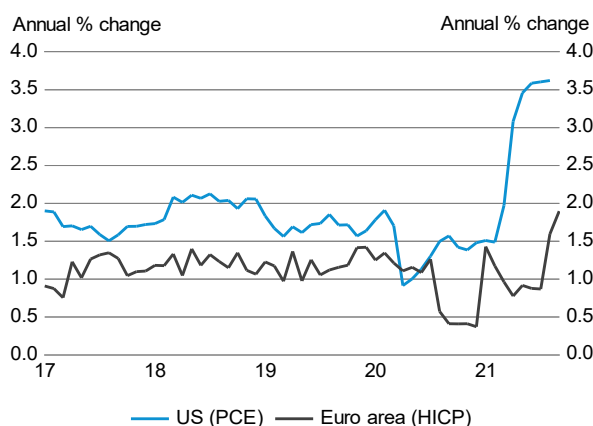


Source: Haver

...with core inflation reaching decade-highs

Core inflation, which measures underlying price growth by excluding volatile categories like food and energy, has risen to its highest level in more than a decade in both the US and the euro area (Figure 3). In the US, core personal consumption expenditure (PCE) inflation rose by 3.6% in the year ended August, the highest rate of growth since 1991, while the euro area Harmonised Index of Consumer Prices (HICP) rose by 1.9% in the year ended September, the highest rate since 2008.

Figure 3: Core inflation (excluding food and energy)

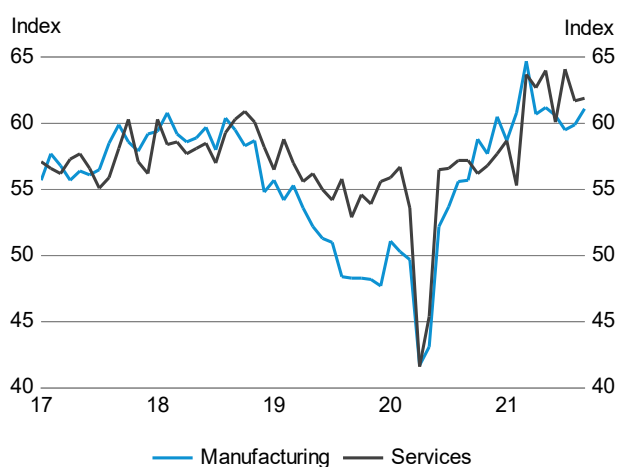


Source: Haver

US recovery back on track...

With daily COVID-19 cases now trending down in the US, the economic recovery appears to have resumed. The Institute of Supply Management (ISM) indexes of manufacturing and services performance both increased in September, with readings well above 50 pointing to strong growth (Figure 4). Personal consumption was stronger than expected in September, and consumer confidence was revised up to show a significant increase. The ADP employment report for September also beat expectations, with strong growth in services jobs reflecting the easing in the spread of the Delta variant.

Figure 4: US ISM indexes



Source: Haver

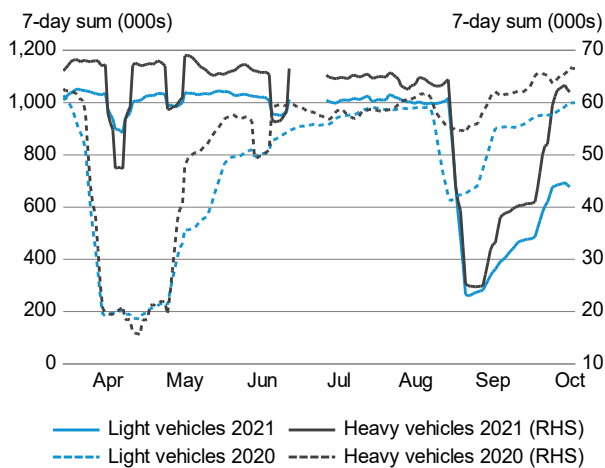
...as default risk looms

Markets continue to be rattled by the impending threat of the first government default in US history as the nation approaches its debt ceiling, at which point the government will not be able to take on more debt to cover its existing payment obligations. A default on US government debt would be inconceivable, with Treasury bills considered one of the safest investments in the world, but Senate Republicans have resisted plans to suspend the debt ceiling. The immediate risk was averted late this week as a deal was made to raise the debt ceiling into December, but uncertainty will continue as another political struggle appears likely at the end of the year.

Date	Key upcoming NZ data	Previous
12 October	Electronic card transactions	- 21.8 (mpc)
15 October	Performance of manufacturing	40.1 (index)

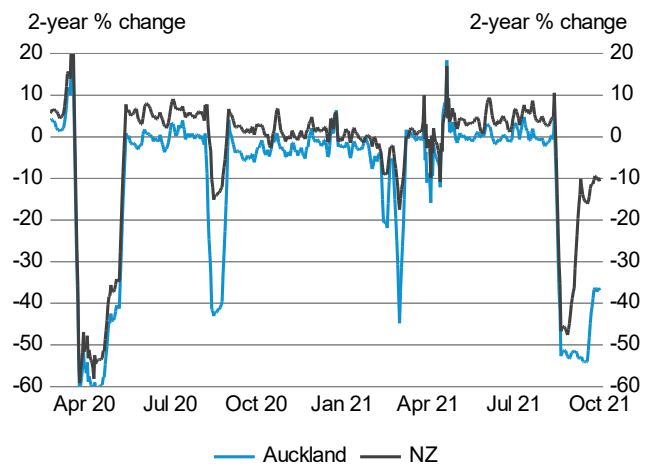
High-Frequency Indicators¹

Traffic and Freight Movement



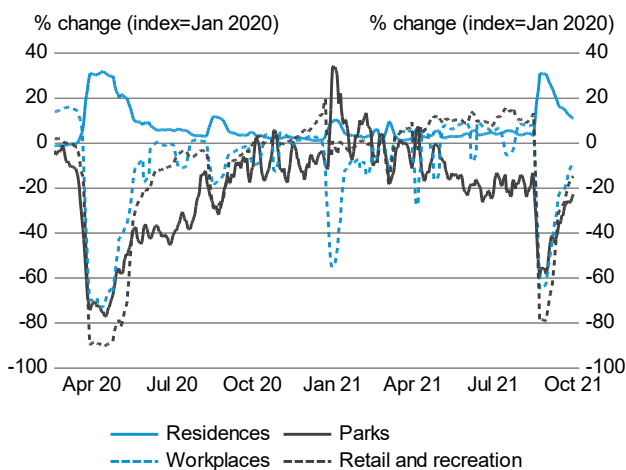
Source: Waka Kotahi NZ Transport Agency

Card Spending



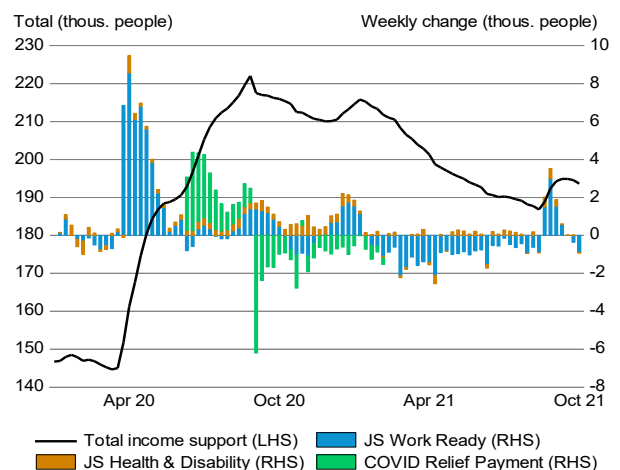
Source: Marketview data via MBIE

People Movements at Selected Locations



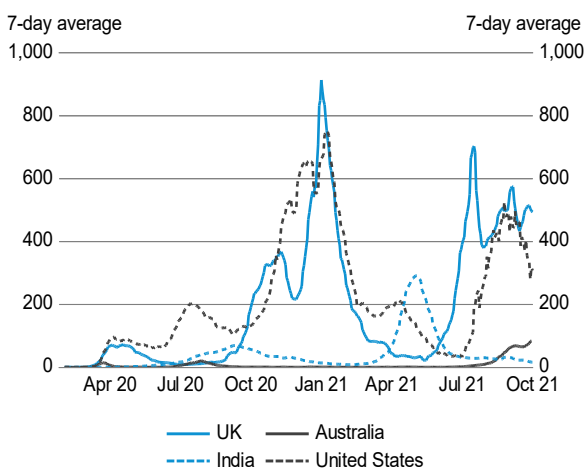
Source: Google

Jobseeker (JS) and Income Support Recipients



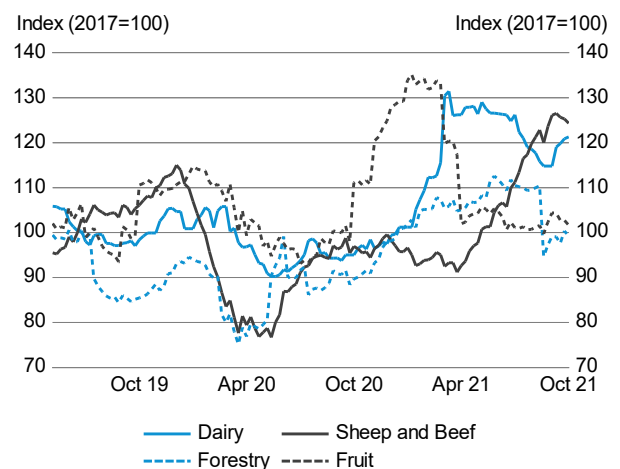
Source: MSD

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		Apr 21	May 21	Jun 21	Jul 21	Aug 21	Sep 21
Merchandise trade balance (12 month)	NZ\$m	748	-49	-277	-1,099	-2,944	...
Dwelling consents - residential	apc	83.7	17.3	24.0	24.2	42.3	...
House sales - dwellings	apc	439.7	86.4	10.4	-9.7	-26.5	...
REINZ - house price index	apc	26.8	29.7	30.0	30.6	31.2	...
Estimated net migration (12 month total)	people	3,112	3,209	3,344	4,407	...	...
ANZ NZ commodity price index	apc	6.7	7.9	17.6	16.9	15.4	17.4
ANZ world commodity price index	apc	24.2	25.2	28.0	22.2	21.5	23.6
ANZBO - business confidence	net%	-2.0	1.8	-0.6	-3.8	-14.2	-7.2
ANZBO - activity outlook	net%	22.2	27.1	31.6	26.3	19.2	18.2
ANZ-Roy Morgan - consumer confidence	net%	115.4	114.0	114.1	113.1	109.6	104.5

Weekly Benefit Numbers		27 Aug	3 Sep	10 Sep	17 Sep	24 Sep	1 Oct
Jobseeker Support	number	192,393	194,280	194,898	194,907	194,571	193,632
Work Ready	number	111,213	112,749	113,316	113,322	112,956	112,056
Health Condition and Disability	number	81,180	81,528	81,579	81,588	81,615	81,579
COVID-19 Income Relief Payment	number	...	...	...	...	...	...
Full-time	number	...	...	...	...	...	...
Part-time	number	...	...	...	...	...	...

Daily Indicators		Thu 30/9/21	Fri 1/10/21	Mon 4/10/21	Tue 5/10/21	Wed 6/10/21	Thu 7/10/21
NZ exchange and interest rates (5)							
NZD/USD	\$	0.6874	0.6899	0.6934	0.6956	0.6967	0.6919
NZD/AUD	\$	0.9558	0.9546	0.9543	0.9556	0.9561	0.9495
Trade weighted index (TWI)	index	73.7	73.9	74.1	74.3	74.5	74.0
Official cash rate (OCR)	%	0.25	0.25	0.25	0.25	0.50	0.50
90 day bank bill rate	%	0.65	0.63	0.61	0.62	0.64	0.65
10 year govt bond rate	%	1.97	1.99	2.01	1.98	1.99	2.00
Share markets (6)							
Dow Jones	index	33,844	34,326	34,003	34,315	34,417	34,755
S&P 500	index	4,308	4,357	4,300	4,346	4,364	4,400
VIX volatility index	index	23.1	21.2	23.0	21.3	21.0	19.5
AU all ords	index	7,630	7,487	7,577	7,537	7,496	7,551
NZX 50	index	13,276	13,279	13,337	13,200	13,166	13,105
US interest rates							
3 month OIS	%	0.06	0.08	0.08	0.08	0.08	...
3 month Libor	%	0.13	0.13	0.13	0.12	0.12	...
10 year govt bond rate	%	1.52	1.48	1.49	1.54	1.53	1.58
Commodity prices (6)							
WTI oil	US\$/barrel	75.03	76.01	77.68	79.17	77.43	...
Gold	US\$/ounce	1,743	1,757.05	1,754.55	1,753.20	1,759.70	...
CRB Futures	index	554	556.20	557.08	558.81	559.16	...

(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		Feb 21	Mar 21	2021Q1	Apr 21	May 21	Jun 21	2021Q2	Jul 21	Aug 21	Sep 21
United States [11.0% share of total goods exports]	GDP (1)	qpc			1.5				1.6			
	Industrial production (1)	mpc	-3.0	2.9		0.1	0.6	0.5		0.8	0.4	...
	CPI	apc	1.7	2.6		4.2	5.0	5.4		5.4	5.3	...
	Unemployment rate (1)	%	6.2	6.0		6.1	5.8	5.9		5.4	5.2	...
	Employment change (1)	000s	536.0	785.0		269.0	614.0	962.0		1053.0	235.0	...
	Retail sales value	apc	6.5	29.7		53.4	28.0	18.9		15.1	15.1	...
	House prices (2)	apc	12.1	13.5		15.2	17.2	19.1		19.9	...	...
Japan [6.0%]	PMI manufacturing (1)	index	60.8	64.7		60.7	61.2	60.6		59.5	59.9	61.1
	Consumer confidence (1)(3)	index	95.2	114.9		117.5	120.0	128.9		125.1	115.2	109.3
	GDP (1)	qpc			-1.1				0.5			
	Industrial production (1)	mpc	-1.3	1.7		2.9	-6.5	6.5		-1.5	-3.2	...
	CPI	apc	-0.5	-0.4		-1.1	-0.7	-0.4		-0.3	-0.4	...
	Unemployment rate (1)	%	2.9	2.6		2.8	3.0	2.9		2.8	2.8	...
	Retail sales value	apc	3.7	5.2		11.9	8.3	0.1		2.4	-3.2	...
Euro area [6.5%]	PMI manufacturing (1)	index	51.4	52.7		53.6	53.0	52.4		53.0	52.7	51.5
	Consumer confidence (1)(4)	index	33.7	36.1		34.8	34.2	37.6		37.5	36.6	38.0
	GDP (1)	qpc			-0.3				2.2			
	Industrial production (1)	mpc	-1.2	0.7		0.7	-1.1	-0.1		1.5	...	...
	CPI	apc	0.9	1.3		1.6	2.0	1.9		2.2	3.0	...
	Unemployment rate (1)	%	8.1	8.1		8.2	8.0	7.8		7.6	7.5	...
	Retail sales volume	apc	-1.3	13.8		23.7	8.7	5.6		3.1	0.0	...
United Kingdom [2.0%]	PMI manufacturing (1)	index	57.9	62.5		62.9	63.1	63.4		62.8	61.4	58.6
	Consumer confidence (5)	index	-14.8	-10.8		-8.1	-5.1	-3.3		-4.4	-5.3	-4.0
	GDP (1)	qpc			-1.4				5.5			
	Industrial production (1)	mpc	0.5	1.5		-0.8	0.6	-0.7		1.2	...	...
	CPI	apc	0.7	1.0		1.6	2.1	2.4		2.1	3.0	...
	Unemployment rate (1)	%	5.0	4.9		4.8	4.8	4.7		4.6	...	...
	Retail sales volume	apc	-3.3	6.9		42.1	24.6	9.1		1.9	0.0	...
Australia [13.0%]	House prices (6)	apc	6.9	5.7		7.1	10.9	13.4		10.5	11.0	10.0
	PMI manufacturing (1)	index	55.1	58.9		60.9	65.6	63.9		60.4	60.3	57.1
	Consumer confidence (1)(5)	net %	-23.0	-16.0		-15.0	-9.0	-9.0		-7.0	-8.0	-13.0
	GDP (1)	qpc			1.9				0.7			
	CPI	apc			1.1				3.8			
	Unemployment rate (1)	%	5.9	5.7		5.5	5.1	4.9		4.6	4.5	...
	Retail sales value	apc	5.2	3.9		23.8	7.1	2.9		-2.9	-0.7	...
China [31.0%]	House Prices (7)	apc			8.9				19.8			
	PMI manufacturing (1)	index	58.8	59.9		61.7	61.8	63.2		60.8	51.6	51.2
	Consumer confidence (8)	index	109.1	111.8		118.8	113.1	107.2		108.8	104.1	106.2
	GDP	apc			18.3				7.9			
	Industrial production	apc	35.1	14.1		9.8	8.8	8.3		6.4	5.3	...
	CPI	apc	-0.2	0.4		0.9	1.3	1.1		1.0	0.8	...
South Korea [3.0%]	PMI manufacturing (1)	index	50.6	51.9		51.1	51.0	50.9		50.4	50.1	49.6
	GDP (1)	qpc			1.7				0.8			
	Industrial production (1)	mpc	4.2	-0.7		-1.9	-1.3	2.3		0.2	-0.7	...
	CPI	apc	1.1	1.5		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