



TE TAI ŌHANGA  
THE TREASURY

# Weekly Economic Update

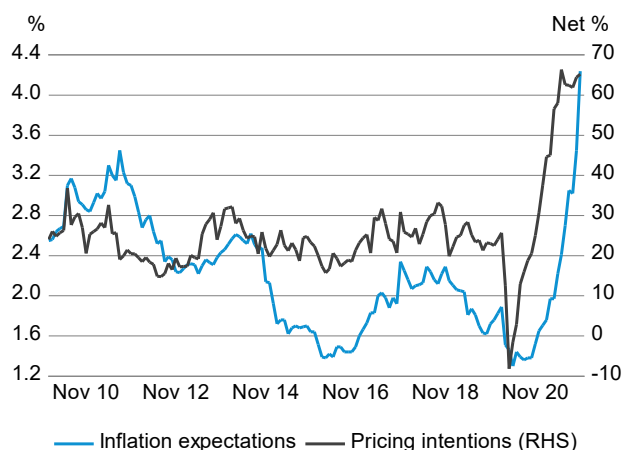
3 December 2021

While activity continues showing signs of recovery, uncertainty and elevated inflationary pressures are still present. The construction sector should be supported by high building consents issuance, although inflationary and capacity pressures may slow the pace of expansion. Meanwhile, continued strength in commodity prices support the terms of trade and capital imports suggest increased business investment in the September quarter. We expect the move to the COVID-19 Protection Framework will lift economic activity in Auckland and will monitor this in coming weeks.

### ***Inflation and uncertainty hit businesses...***

While still elevated relative to pre-COVID-19 levels, business activity and confidence eased slightly in October, with increased uncertainty and historically high inflation expectations. The final November ANZ Business Outlook showed headline business confidence falling 3 points while businesses own activity outlook dipped 7 points. Cost pressures, pricing intentions and inflation expectations all remain high, suggesting ongoing pressure on Consumers Price index (CPI) inflation (Figure 1).

**Figure 1: Cost and inflation pressures**



Source: ANZ

### ***...and consumer confidence eases...***

With increased uncertainty and elevated inflation, consumer confidence eased further in November. The ANZ-Roy Morgan consumer confidence survey showed consumer confidence easing 1 point to 97 in November, continuing the theme of below average confidence levels seen since COVID-19 arrived. Rising interest rates, combined with lower real wages, has likely caused the slight fall in house

price inflation expectations, potentially pointing to a slowdown in housing market activity.

### ***...while building consents support construction***

Construction activity should be well supported over the year ahead as annual building consents issuance reaching a fresh record high of 47,715 in the year to October. However, construction firms continue to highlight strong intentions to raise prices and their 1-year ahead inflation expectations rose to 4.1%, indicating that robust price growth in the construction sector will likely persist into the next year. Combined with material shortages and capacity constraints, this could lead to delays for some projects.

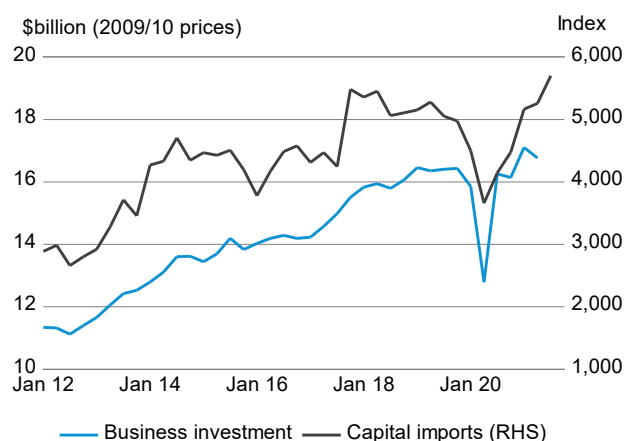
### ***Goods terms of trade reach a record high***

The goods terms of trade in the September quarter increased 0.7% to a record high, reflecting continued strength in global commodity prices. Global freight costs remain elevated, and a fall in travel services exports reflects the disruption of trans-Tasman travel. Imports increased faster than exports, widening the quarterly trade deficit, and will weigh on GDP.

Exports volumes fell as a result of a lockdown-induced drop in forestry exports and an easing in dairy exports after an unusually strong June quarter. However, import volumes continued growing strongly as retailers stock up for the holiday season.

Elevated investment intentions are reflected in strong imports of capital goods in the September quarter, boding well for business investment as the economy moves to the COVID-19 Protection Framework.

**Figure 2: Capital goods imports and business investment**



Source: Stats NZ

The OECD describes the global economic recovery as increasingly uneven as developing economies lag behind. Australia's GDP fell by less than expected and a rebound appeared to take hold in October, and Japan also showed signs of recovery. Inflation reached a record high in Europe, and the US is set to reduce monetary stimulus faster, though a new COVID-19 variant raises concern.

### **OECD Economic Outlook: A Balancing Act**

The OECD released its December Economic Outlook this week, characterising the global recovery as uneven and increasingly imbalanced as the disparity between advanced and developing economies continues to widen. Strong policy support and vaccination in developed countries has pulled output up to its pre-pandemic path, though supply constraints and rising inflation pressures are also bringing risks and policy challenges. Compared to the OECD forecasts released in May, global growth is expected to be slightly weaker in 2021 owing to supply chain disruption and the spread of the Delta variant (Table 1).

**Table 1: OECD Economic Outlook December 2021**

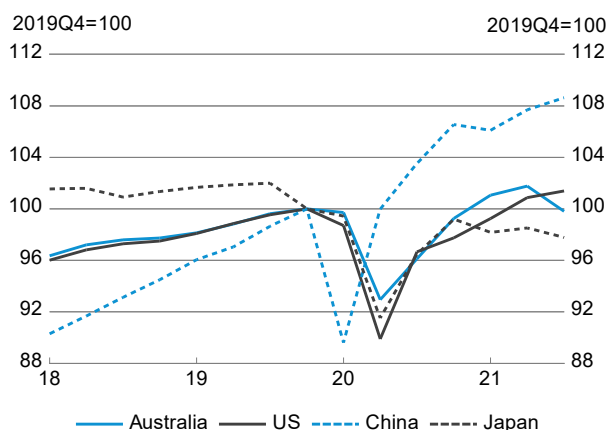
Real GDP growth	2021	2022	2023
World	5.6	4.5	3.2
Change from May	- 0.2	+ 0.1	NA
NZ	4.7	3.9	2.5
Change from May	+ 1.2	+ 0.1	NA

Source: OECD

### **Australian GDP falls by less than expected...**

Australia's real GDP fell by 1.9% in the September quarter compared to the June quarter, a smaller decline than expected and far less severe than the contraction experienced in the June 2020 quarter (Figure 3). After previously recording four consecutive quarters of strong growth, GDP is now slightly below pre-pandemic levels.

**Figure 3: Real GDP**



Source: Haver

Household spending was the main driver of the decline, though a sharp increase in the household saving ratio suggests that a drawdown in savings should support the economic recovery now that COVID-19 restrictions have begun to ease. Retail sales in October support this view, rising 4.9% to be in line with pre-Delta levels.

### **...as Japan's output shows signs of recovery**

Industrial production in Japan rose 1.1% in October after falling for the previous three months as supply shortages constrained activity. Automotive production drove the increase as parts shortages eased, and manufacturers' plans to reach normal production in December will support the recovery further. Retail sales also recovered in October as pandemic restrictions eased, up 1.4% to be in line with levels prior to the Delta outbreak.

### **Inflation hits record high in the euro area...**

The preliminary estimate for November Consumer Price Index (CPI) inflation in the euro area was 4.9%, the fastest rate of annual inflation since the euro was introduced in 1999. Unemployment remained high in October, falling to 7.3%, reducing the chances of a swift monetary policy response.

### **...with faster US monetary policy taper likely...**

US Federal Reserve Chair Jerome Powell stated this week that inflation can no longer be considered transitory, and that a sooner end to the Fed's asset purchase programme appears warranted. This suggests that asset purchases will conclude in the first quarter of next year, with interest rate increases likely to follow shortly after. Strong November employment and manufacturing data released this week support Powell's view that the economy now requires less monetary stimulus.

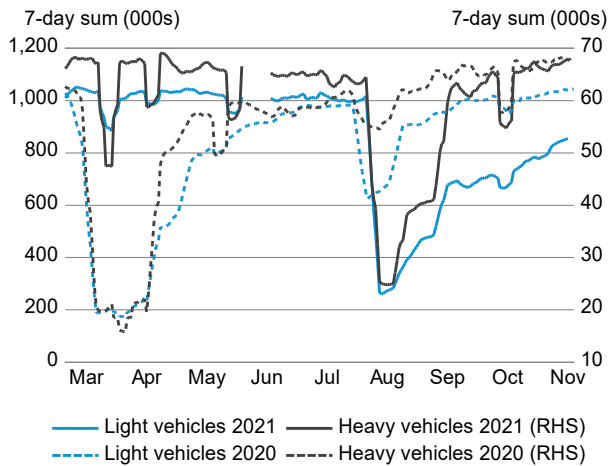
### **...though Omicron variant brings uncertainty**

The World Health Organisation identified a new COVID-19 'variant of concern' named Omicron, which has been found in countries around the world including Australia. The variant appears to be more infectious than previous strains, though it is not yet clear whether it is more deadly. The CEO of BioNTech believes that the vaccine the company co-created with Pfizer will protect against severe symptoms from the variant, and stated that a new vaccine could be relaunched within 100 days.

Date	Key upcoming NZ data	Previous
6 December	Building work put in place	2.0 (qpc)
10 December	Electronic card transactions	9.5 (mpc)

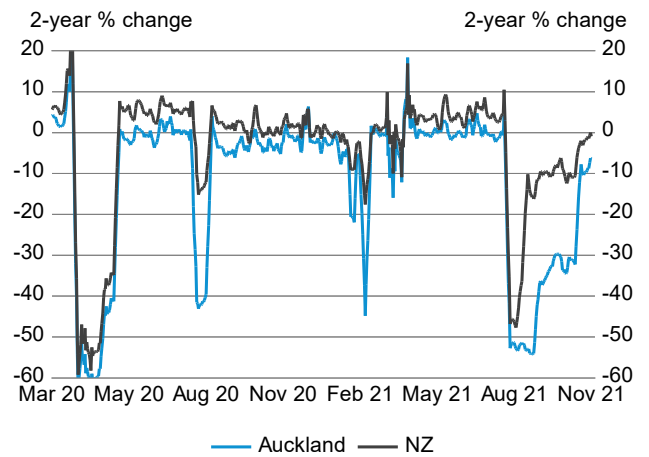
# High-Frequency Indicators<sup>1</sup>

## Traffic and Freight Movement



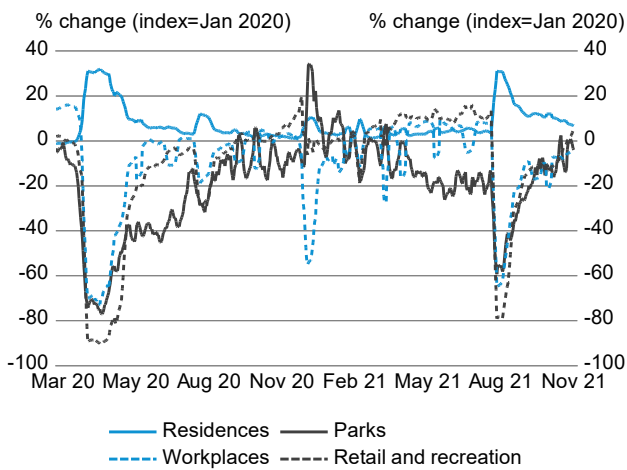
Source: Waka Kotahi NZ Transport Agency

## Card Spending



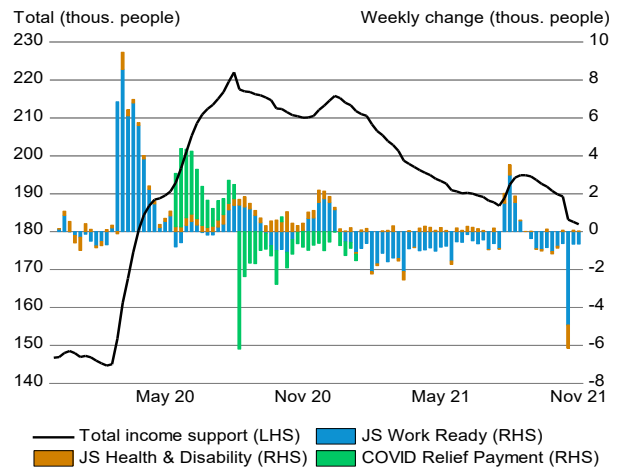
Source: Marketview data via MBIE

## People Movements at Selected Locations



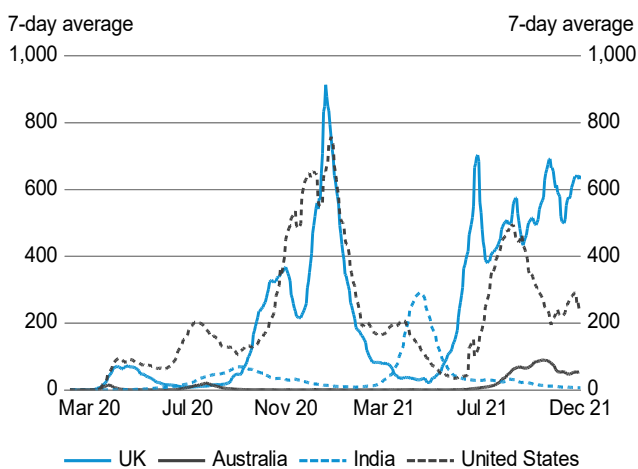
Source: Google

## Jobseeker (JS) and Income Support Recipients



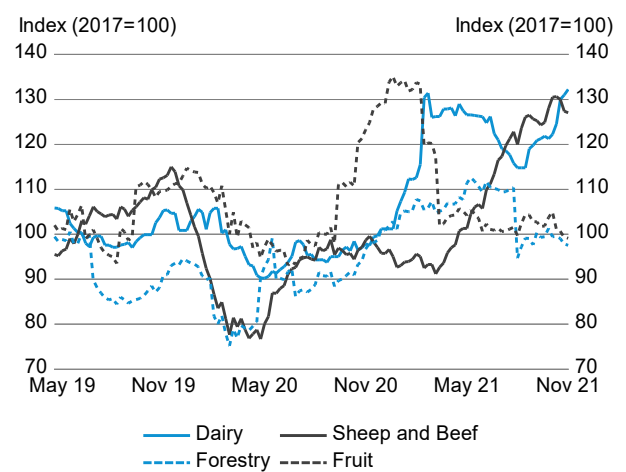
Source: MSD

## COVID-19 Cases Per Million People



Source: World Health Organisation/Haver

## World Commodity Prices



Source: ASB

<sup>1</sup> Additional high frequency indicators are available on the Stats NZ COVID-19 data portal: <https://www.stats.govt.nz/experimental/covid-19-data-portal>

<b>Quarterly Indicators</b>		<b>2020Q2</b>	<b>2020Q3</b>	<b>2020Q4</b>	<b>2021Q1</b>	<b>2021Q2</b>	<b>2021Q3</b>
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	-0.1	5.6
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	-0.7	0.7	0.5	1.0	2.0
Unemployment rate (1)	%	4.1	5.3	4.8	4.6	4.0	3.4
Participation rate (1)	%	69.9	70.1	70.2	70.4	70.5	71.2
LCI salary & wage rates - total (2)	apc	2.1	1.8	1.6	1.6	2.1	2.4
QES average hourly earnings - total (2)	apc	3.0	4.2	4.3	4.0	4.0	3.5
Core retail sales volume	apc	-11.7	7.6	4.4	5.4	30.2	-3.2
Total retail sales volume	apc	-14.2	8.1	4.7	6.6	33.3	-5.2
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
<b>Monthly Indicators</b>		<b>Jun 21</b>	<b>Jul 21</b>	<b>Aug 21</b>	<b>Sep 21</b>	<b>Oct 21</b>	<b>Nov 21</b>
Merchandise trade balance (12 month)	NZ\$m	-276.6	-1088.4	-2922.3	-4105.2	-4920.3	...
Dwelling consents - residential	apc	24.0	24.2	42.3	24.4	10.5	...
House sales - dwellings	apc	10.4	-9.1	-23.6	-36.4	-21.7	...
REINZ - house price index	apc	29.9	30.4	30.7	30.0	29.9	...
Estimated net migration (12 month total)	people	991.0	1,810.0	731.0	796.0	...	...
ANZ NZ commodity price index	apc	17.5	16.9	15.4	17.4	16.4	...
ANZ world commodity price index	apc	28.0	22.2	21.5	23.6	23.7	...
ANZBO - business confidence	net%	-0.6	-3.8	-14.2	-7.2	-13.4	-16.4
ANZBO - activity outlook	net%	31.6	26.3	19.2	18.2	21.7	15.0
ANZ-Roy Morgan - consumer confidence	net%	114.1	113.1	109.6	104.5	98.0	96.6
<b>Weekly Benefit Numbers</b>		<b>22 Oct</b>	<b>29 Oct</b>	<b>5 Nov</b>	<b>12 Nov</b>	<b>19 Nov</b>	<b>26 Nov</b>
<b>Jobseeker Support</b>	number	190,731	189,855	189,309	183,165	182,583	181,971
Work Ready	number	109,236	108,471	107,844	102,924	102,261	101,607
Health Condition and Disability	number	81,495	81,384	81,465	80,241	80,325	80,364
<b>Wage Subsidy August 2021</b>	\$millions	3,507	3,720	3,956	4,172	4,321	4,494
Unique jobs supported	number	1,276,863	1,282,152	1,290,603	1,296,192	1,300,179	1,304,898
Businesses associated with paid application	number	328,455	329,961	331,665	332,970	334,104	335,061
<b>Daily Indicators</b>		<b>Thu 25/11/21</b>	<b>Fri 26/11/21</b>	<b>Mon 29/11/21</b>	<b>Tue 30/11/21</b>	<b>Wed 1/12/21</b>	<b>Thu 2/12/21</b>
<b>NZ exchange and interest rates (5)</b>							
NZD/USD	\$	0.6888	0.6843	0.6824	0.6817	0.6824	0.6811
NZD/AUD	\$	0.9559	0.9541	0.9566	0.9544	0.9571	0.9590
Trade weighted index (TWI)	index	74.0	73.6	73.5	73.3	73.3	73.2
Official cash rate (OCR)	%	0.75	0.75	0.75	0.75	0.75	0.75
90 day bank bill rate	%	0.80	0.80	0.80	0.81	0.86	0.86
10 year govt bond rate	%	2.57	2.58	2.44	2.48	2.45	2.40
<b>Share markets (6)</b>							
Dow Jones	index	...	34,899	35,136	34,484	34,022	34,640
S&P 500	index	...	4,595	4,655	4,567	4,513	4,577
VIX volatility index	index	...	28.6	23.0	27.2	31.1	28.0
AU all ords	index	7,737	7,600	7,562	7,587	7,558	7,536
NZX 50	index	12,795	12,629	12,532	12,719	12,724	12,670
<b>US interest rates</b>							
3 month OIS	%	0.08	0.08	0.08	0.07	0.08	...
3 month Libor	%	0.18	0.18	0.17	0.17	0.17	...
10 year govt bond rate	%	...	1.48	1.52	1.43	1.43	1.44
<b>Commodity prices (6)</b>							
WTI oil	US\$/barrel	...	...	69.88	66.14	65.57	...
Gold	US\$/ounce	1,788.15	1,800.80	1,785.95	1,804.40	1,789.25	...
CRB Futures	index	...	568.79	567.67	564.22	564.81	...

(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		Apr 21	May 21	Jun 21	2021Q2	Jul 21	Aug 21	Sep 21	2021Q3	Oct 21	Nov 21
<b>United States</b> [11.0% share of total goods exports]	GDP (1)	qpc				1.6				0.5		
	Industrial production (1)	mpc	0.1	0.7	0.5		0.8	0.0	-1.3		1.6	...
	CPI	apc	4.2	5.0	5.4		5.4	5.3	5.4		6.2	...
	Unemployment rate (1)	%	6.1	5.8	5.9		5.4	5.2	4.8		4.6	...
	Employment change (1)	000s	269.0	614.0	962.0		1091.0	483.0	312.0		531.0	...
	Retail sales value	apc	53.4	28.0	18.9		15.3	15.7	14.3		16.3	...
	House prices (2)	apc	15.2	17.3	19.2		20.0	19.6	19.1		...	...
	PMI manufacturing (1)	index	60.7	61.2	60.6		59.5	59.9	61.1		60.8	61.1
Consumer confidence (1)(3)	index	117.5	120.0	128.9		125.1	115.2	109.8		111.6	109.5	
<b>Japan</b> [6.0%]	GDP (1)	qpc				0.4				-0.8		
	Industrial production (1)	mpc	2.9	-6.5	6.5		-1.5	-3.6	-5.4		1.1	...
	CPI	apc	-1.1	-0.7	-0.4		-0.3	-0.4	0.2		0.1	...
	Unemployment rate (1)	%	2.8	3.0	2.9		2.8	2.8	2.8		2.7	...
	Retail sales value	apc	11.9	8.3	0.1		2.4	-3.2	-0.5		0.9	...
	PMI manufacturing (1)	index	53.6	53.0	52.4		53.0	52.7	51.5		53.2	54.5
	Consumer confidence (1)(4)	index	34.8	34.2	37.6		37.5	36.6	38.0		39.2	39.2
<b>Euro area</b> [6.5%]	GDP (1)	qpc				2.1				2.2		
	Industrial production (1)	mpc	0.7	-1.2	0.3		1.3	-1.7	-0.2		...	...
	CPI	apc	1.6	2.0	1.9		2.2	3.0	3.4		4.1	...
	Unemployment rate (1)	%	8.1	8.0	7.8		7.6	7.5	7.4		7.3	...
	Retail sales volume	apc	23.7	8.7	5.6		3.3	1.5	2.5		...	...
	PMI manufacturing (1)	index	62.9	63.1	63.4		62.8	61.4	58.6		58.3	58.4
	Consumer confidence (5)	index	-8.1	-5.1	-3.3		-4.4	-5.3	-4.0		-4.8	-6.8
<b>United Kingdom</b> [2.0%]	GDP (1)	qpc				5.5				1.3		
	Industrial production (1)	mpc	-0.4	0.9	-0.6		0.3	1.0	-0.4		...	...
	CPI	apc	1.6	2.1	2.4		2.1	3.0	2.9		3.8	...
	Unemployment rate (1)	%	4.8	4.8	4.7		4.6	4.5	4.3		...	...
	Retail sales volume	apc	42.1	24.4	8.8		1.9	0.4	-0.7		-1.3	...
	House prices (6)	apc	7.1	10.9	13.4		10.5	11.0	10.0		9.9	10.0
	PMI manufacturing (1)	index	60.9	65.6	63.9		60.4	60.3	57.1		57.8	58.1
	Consumer confidence (1)(5)	net %	-15.0	-9.0	-9.0		-7.0	-8.0	-13.0		-17.0	-14.0
<b>Australia</b> [13.0%]	GDP (1)	qpc				0.7				-1.9		
	CPI	apc				3.8				3.0		
	Unemployment rate (1)	%	5.5	5.1	4.9		4.6	4.5	4.6		5.2	...
	Retail sales value	apc	23.8	7.1	2.9		-2.9	-0.7	1.9		4.6	...
	House Prices (7)	apc				19.8					...	
	PMI manufacturing (1)	index	61.7	61.8	63.2		60.8	51.6	51.2		50.4	54.8
	Consumer confidence (8)	index	118.8	113.1	107.2		108.8	104.1	106.2		104.6	105.3
<b>China</b> [31.0%]	GDP	apc				7.9				4.9		
	Industrial production	apc	9.8	8.8	8.3		6.4	5.3	3.1		3.5	...
	CPI	apc	0.9	1.3	1.1		1.0	0.8	0.7		1.5	...
	PMI manufacturing (1)	index	51.1	51.0	50.9		50.4	50.1	49.6		49.2	50.1
<b>South Korea</b> [2.9%]	GDP (1)	qpc				0.8				0.3		
	Industrial production (1)	mpc	-1.9	-1.3	2.3		0.2	-0.5	-1.1		-3.0	...
	CPI	apc	2.3	2.6	2.4		2.6	2.6	2.5		3.2	3.7

(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