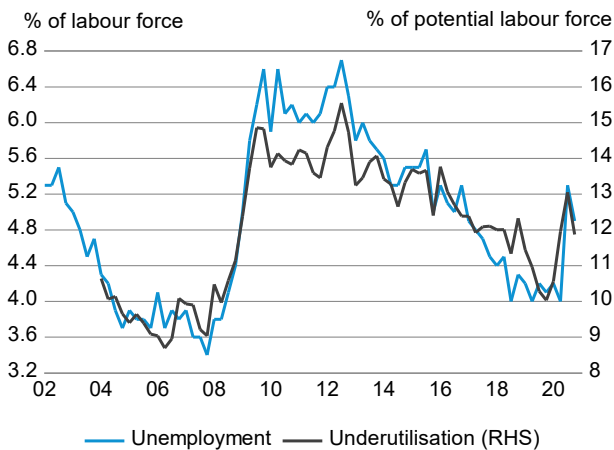


Labour market data stronger than anticipated...

The unemployment rate fell to 4.9% in the December quarter from 5.3% in the September quarter (Figure 1). The participation rate was relatively stable, rising slightly to 70.2% from 70.1% the previous quarter.

Figure 1: Unemployment and underutilisation rates

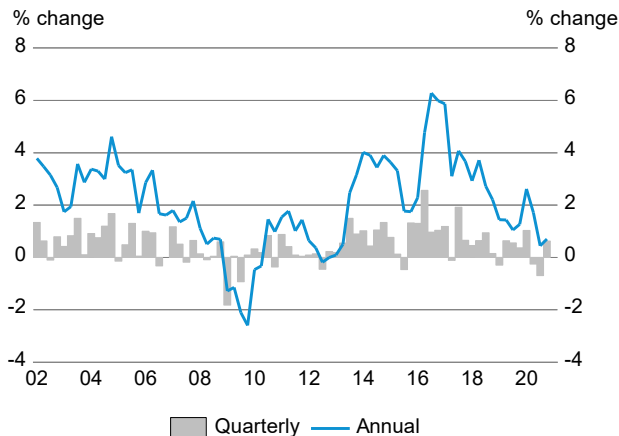


Source: Stats NZ

...driven by a rise in employment...

The Household Labour Force Survey (HLFS) recorded an additional 17,000 people employed compared to the previous quarter – up 0.6% (Figure 2). This was consistent with the Quarterly Employment Survey (QES) filled jobs measure up 16,500 or 0.8%. On an annual basis, HLFS employment was up 0.7% while QES filled jobs were up 0.9% on last year.

Figure 2: Employment



Source: Stats NZ

...led by construction and the public sector...

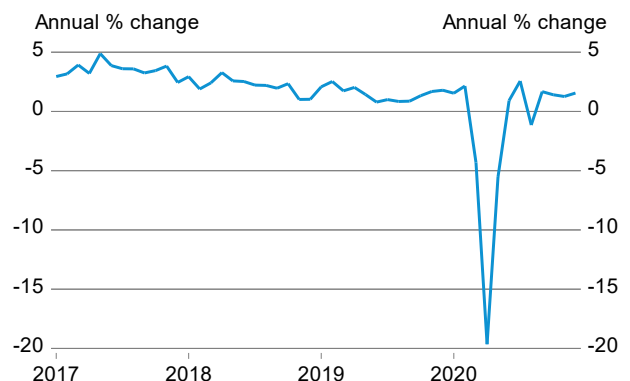
The construction industry provided most of the boost to employment in the December quarter, with an additional 10,300 people employed in the quarter, to be up 21,000 over the year. This suggests labour supply may be less of a constraint on capacity in the construction sector than previously thought, alongside record levels of building consents currently in the pipeline. Significant gains in employment were also seen across the public sector industries. Partially offsetting employment declines were recorded (as expected) in some tourism-related industries.

...resulting in a pickup in activity...

The solid employment story has translated into a similarly positive activity story, with hours worked up 4.5% in the December quarter following the 9.4% bounce-back in the September quarter after the 10.2% fall seen in the June quarter. Hours worked in the December quarter were up 3.9% on the same quarter last year, however the corresponding QES hours paid series was up only 0.3% over the year.

The New Zealand Activity Index (NZAC) for December that was released two weeks ago pointed to activity in the December month being around 1.5% above the same period last year (Figure 3), sustaining the pace observed in the previous two months. These positive outturns highlight the greater than expected resilience that has been observed in the New Zealand economy since the easing of lockdown restrictions.

Figure 3: New Zealand Activity Index (NZAC)

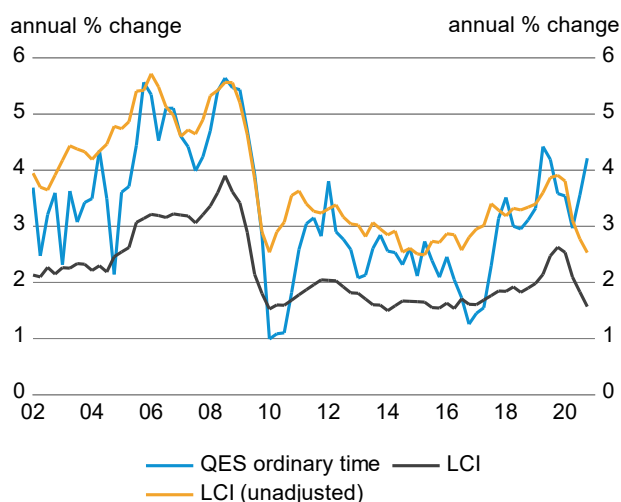


Source: The Treasury

...supporting wage growth

The strong employment result, combined with compositional shifts in the industry employment mix, has translated into support for earnings growth - with QES average hourly earnings up 4.2% over the year. Looking through the compositional effects, the unadjusted Labour Cost Index (LCI) rose 2.5% while the adjusted LCI rose 1.6% over the year (Figure 4).

Figure 4: Wage growth



Source: Stats NZ

While the December quarter labour market data points to a material upgrade in expectations for the economic outlook, uncertainty remains as to whether the strength in employment will be maintained in coming months, particularly as we move into what has traditionally been the peak of our international tourism season.

Building consents continue to rise...

Building consents rose 4.9% in December, led by a 6.3% increase in multi-unit dwellings. Total annual consents were up 4.8% in December 2020 compared to a year ago and at 39,420, was the highest level since 1974. Consents issuance was up in all the main centres compared with a year ago, with Auckland and Canterbury both up over 25% in December 2020 compared with 2019.

High levels of consents issuance, together with a resilient labour market and strong house price growth over the past year points to continued strength in construction activity in the year ahead. However, there are still headwinds to consider, such as the potential for supply chain disruptions to dampen the pace at which growth occurs.

Consumer and business confidence higher

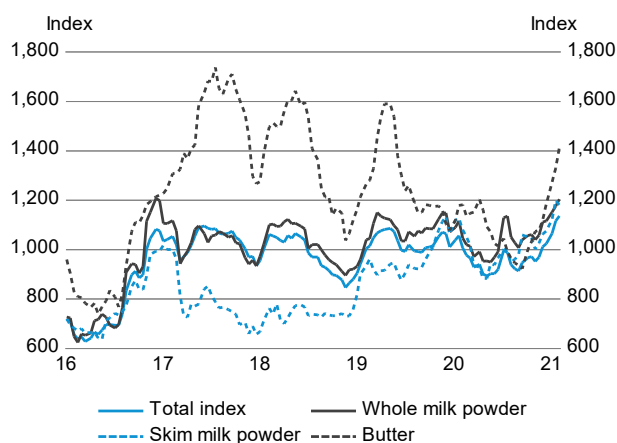
The preliminary February release of the ANZ Business Outlook showed another lift in activity. Business confidence lifted 3 points to a net 12% of firms expecting conditions to improve while the activity outlook rose to 22%. Cost pressures are becoming apparent, with a net 71% of firms expecting higher costs ahead. Firms are intending to pass the costs on where they can, with a net 49% of firms intending to raise their prices. Investment and employment intentions and capacity utilisation are also higher, consistent with an improving growth outlook.

Consumer confidence rose by 2 points to 114 in the January release of the ANZ-Roy Morgan Consumer Confidence Survey. Consumer confidence is now just below its historical average of 120.

Fonterra raises milk price forecast

Dairy prices rose for the sixth consecutive time at the *GlobalDairyTrade* auction this week. Overall, prices rose by 1.8% to be about 13% higher than a year ago (Figure 5). Whole milk powder prices rose by 2.3% while skim milk powder prices were down 1.5%. Milk fat prices were particularly strong, with butter up 6.2%.

Figure 5: GlobalDairyTrade results



Sources: Haver/GlobalDairyTrade

Fonterra has increased their 2020/21 forecast milk price range by 20 cents per kilogram of milk solids to \$6.90-\$7.50 for the season that finishes at the end of May. The midpoint of the range is now \$7.20 per kgMS.

The ANZ World Commodity Price Index rose 3.6% in the month of January, with the dairy sector providing most of the lift. Stronger prices were also recorded in the meat and forestry sectors. In local currency terms, the index was up 2.4%.

US recovery continues...

The advance estimate of the US's December quarter GDP came in at a quarterly growth rate of 1%, close to market expectations and leaving the size of the economy US\$475bn below its pre-pandemic level. Investment, exports and imports were strong, but private and government consumption was relatively soft.

Meanwhile, the January ISM manufacturing index ISM declined by 1.8 points (pts) to 58.7. Although weaker than expected, it remains above its long-term average and represents the eighth consecutive month of expansion. The new orders and production components declined, while the employment index improved marginally. The prices index increased by 4.5 pts to its highest level since April 2011, supported by higher commodity prices and strong supplier pricing power.

...and fiscal negotiations have started

Republicans revealed a US\$618bn fiscal stimulus plan on Monday, less than a third of the amount that was proposed by the Democrats. This large gap suggests that negotiations might be protracted, which could dampen the pace of the recovery in the March quarter. However, Democrats may decide to use budget reconciliation to pass the stimulus package without Republican support.

Euro area GDP contracts

Euro area GDP contracted by 0.7% in the December quarter, slightly better than recent consensus forecasts. There was substantial variation between countries. Germany's economy was 3.9% smaller at the end of 2020 compared to the end of 2019, while Spain's was down 9.1%. With mobility restrictions still in place during the March quarter of 2021, another contraction in GDP is expected, followed by a steady recovery as vaccines aid in a gradual return to normal.

RBA extends bond purchasing programme

The Reserve Bank of Australia (RBA) kept its targets of 10 basis points for the cash rate and the yield on the 3-year Australian Government bond unchanged, but surprised markets with a more dovish tone than expected. Despite an improved domestic and global economic outlook, the RBA announced that it would purchase an additional AU\$100bn of government bonds when the current AU\$100bn programme comes to an end in mid-April, at the same pace as currently of AU\$5bn a week. The Bank also indicated that it will not raise

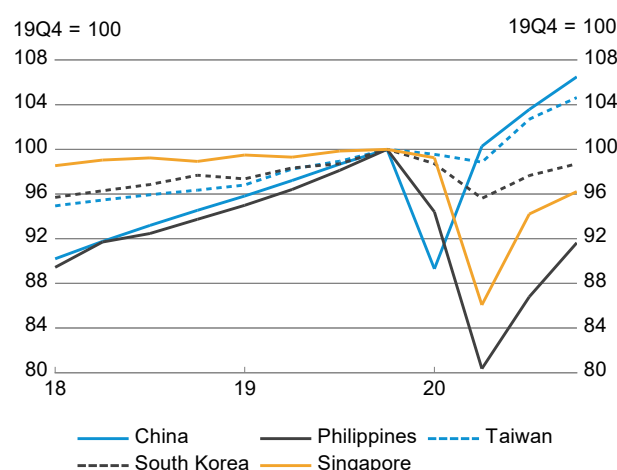
interest rates until 2024 at the earliest, noting that the recovery remained dependent on "significant fiscal and monetary support". The RBA expects average growth of 3.5% this year and next, roughly unchanged from previous forecasts, while its forecast for the unemployment rate at the end of 2022 was lowered from 6.0% to 5.5%.

Growth slows in Asia

China's Caixin manufacturing Purchasing Managers' Index (PMI) weakened in January and was below market expectations. There was a slowdown in the growth in the production and new orders components, a decline in the new export business index, and sharp rises in the input costs and output prices components. Manufacturers still expect output to rise over the next year, but the degree of positive sentiment declined to an eight-month low in January. Many firms are concerned about a resurgence of the virus in China and abroad, which could cause further disruptions to business operations and supply chains and lead to a slowdown in the global demand recovery.

Elsewhere in Asia, Philippines's GDP grew by 5% in the December quarter of 2020, still leaving it around 8% lower than the same period of 2019 (Figure 6). Singapore's GDP bounced back by 2.1%, leaving it around 4% lower than the pre-pandemic level. In Taiwan, though the pace of growth slowed in the fourth quarter, its economy managed to grow by 3% in 2020.

Figure 6: Real GDP in selected Asian countries

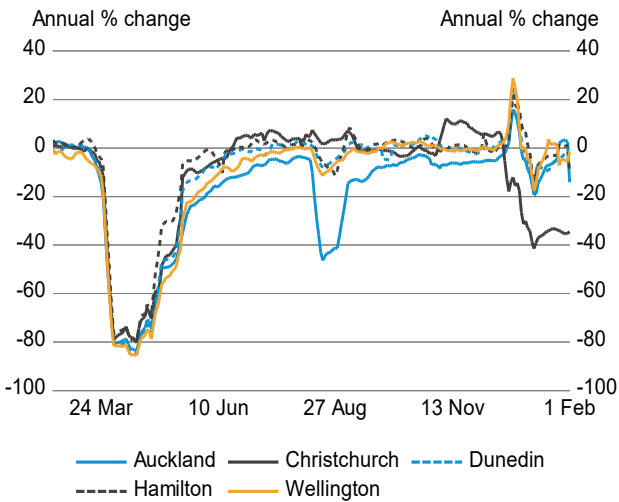


Source: Haver, the Treasury

Date	Key upcoming NZ data	Previous
11 Feb	Electronic cards	+ 3.5%
12 Feb	Food Price Index	+2.9%
12 Feb	Rental Price Index	+3.1%

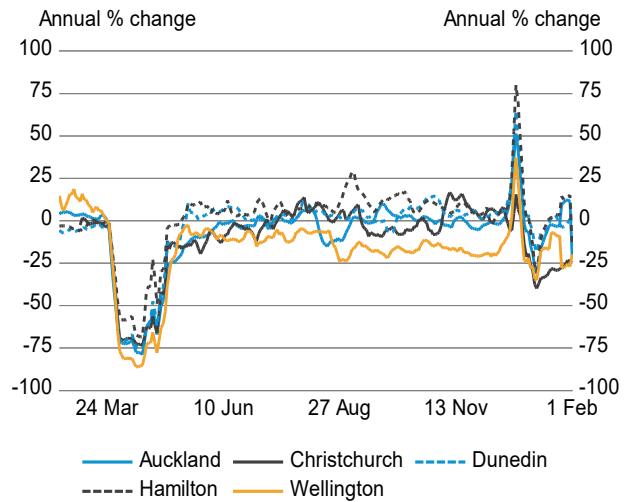
High-Frequency Indicators (Domestic)

Traffic Movement



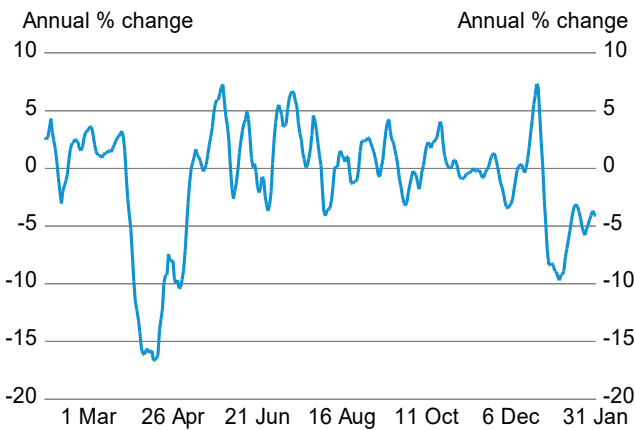
Source: Waka Kotahi NZ Transport Agency

Freight Movement



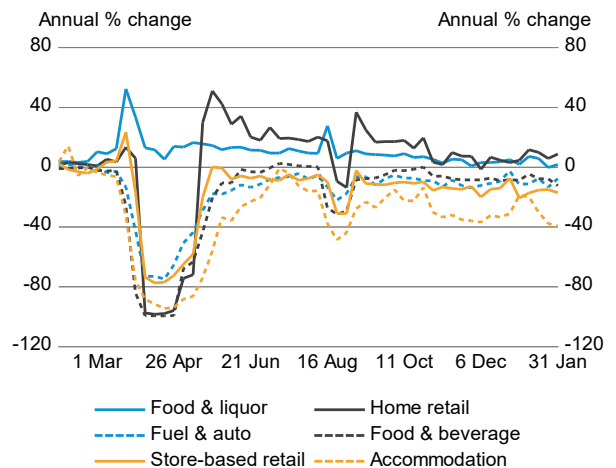
Source: Waka Kotahi NZ Transport Agency

Electricity Demand



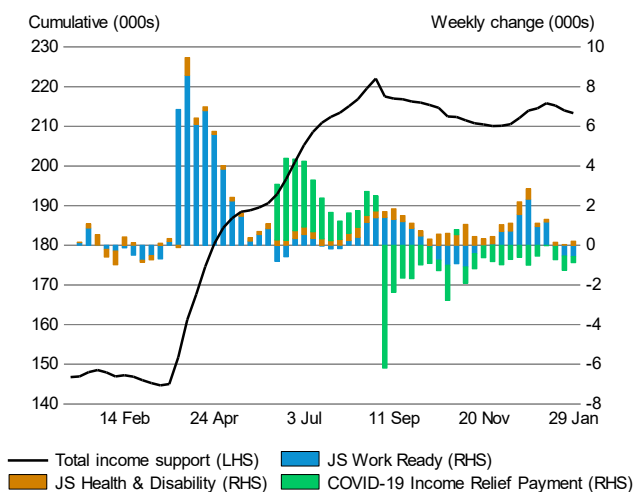
Source: Electricity Authority

Retail Spending



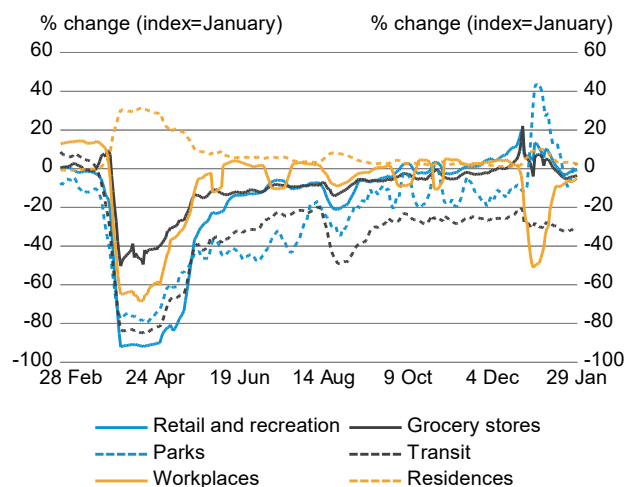
Source: Marketview data via MBIE

Jobseeker (JS) and Income Support Recipients



Source: MSD

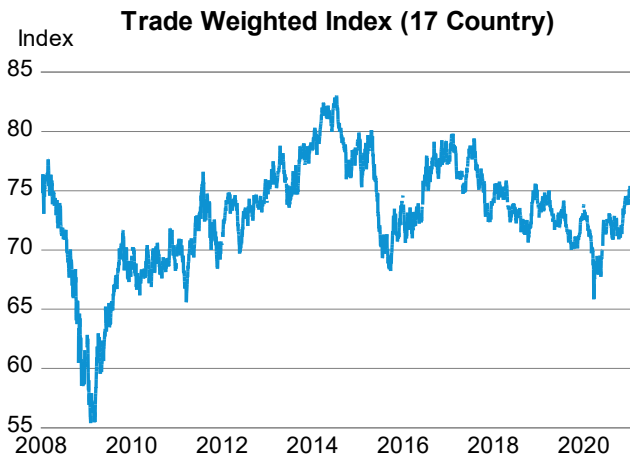
People Movements at Selected Locations



Source: Google

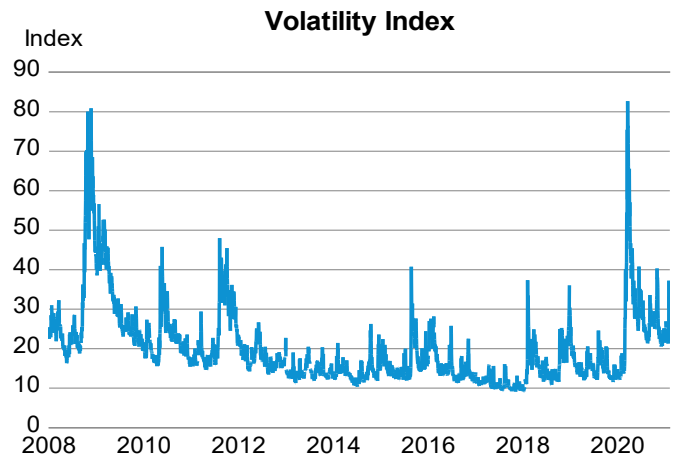
High-Frequency Indicators (Global)

Trade Weighted Index



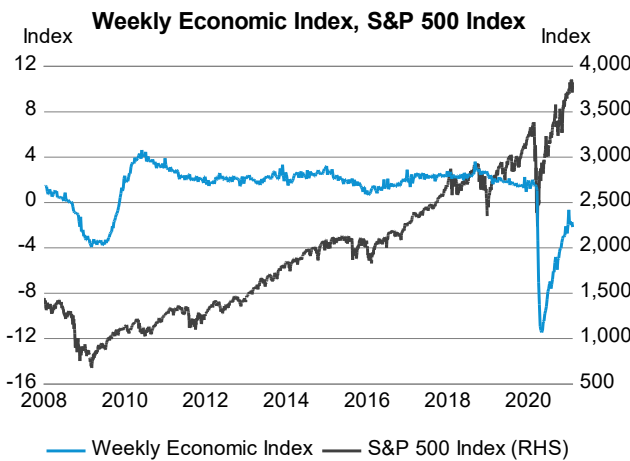
Source: RBNZ

Volatility Index



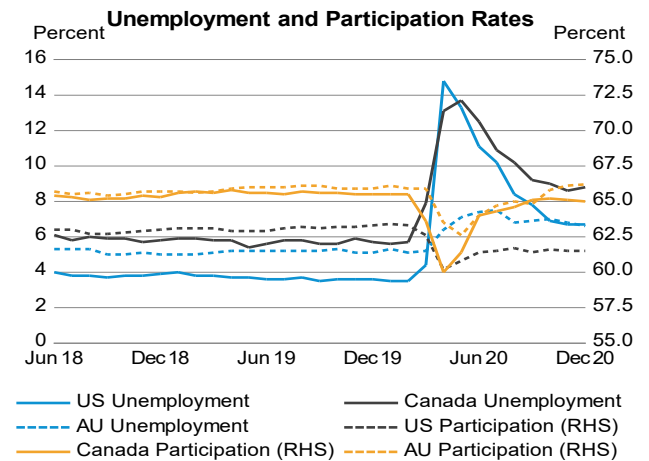
Source: Haver

US Activity and Equities



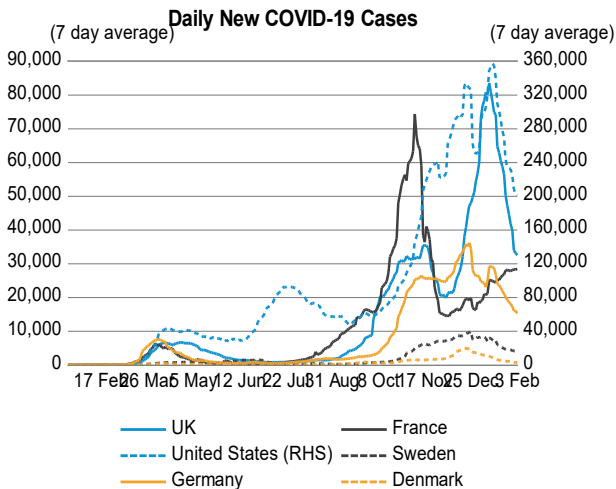
Sources: Federal Reserve Bank of New York, Haver

Labour Markets



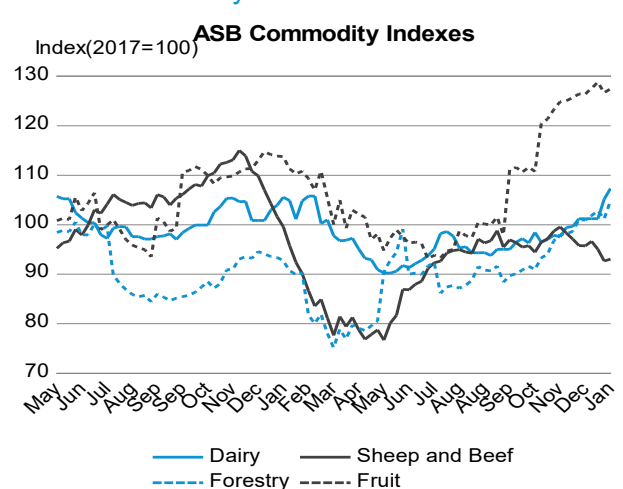
Source: Haver

COVID-19 Cases



Sources: World Health Organisation/Haver

World Commodity Prices



Source: ASB

Quarterly Indicators		2019Q3	2019Q4	2020Q1	2020Q2	2020Q3	2020Q4
Real Production GDP (1)	qpc	0.7	0.1	-1.2	-11.0	14.0	...
	aapc	2.8	2.3	1.6	-1.7	-2.2	...
Current account balance (annual)	%GDP	-3.7	-3.3	-2.8	-1.8	-0.8	...
Merchandise terms of trade	apc	0.9	7.1	5.4	6.3	-0.4	...
CPI inflation	qpc	0.7	0.5	0.8	-0.5	0.7	0.5
	apc	1.5	1.9	2.5	1.5	1.4	1.4
Employment (HLFS) (1)	qpc	0.6	0.4	1.0	-0.3	-0.7	0.6
Unemployment rate (1)	%	4.2	4.1	4.2	4.0	5.3	4.9
Participation rate (1)	%	70.7	70.4	70.7	69.9	70.1	70.2
LCI salary & wage rates - total (2)	apc	2.5	2.6	2.5	2.1	1.8	1.6
QES average hourly earnings - total (2)	apc	4.2	3.6	3.6	3.0	3.6	4.2
Core retail sales volume	apc	5.4	3.3	4.0	-11.7	7.7	...
Total retail sales volume	apc	4.5	3.3	2.3	-14.2	8.3	...
WMM - consumer confidence (3)	Index	103.1	109.9	104.2	97.2	95.1	106.0
QSBO - general business situation (1,4)	net%	-37.1	-30.8	-67.9	-57.6	-37.6	-16.3
QSBO - own activity outlook (1,4)	net%	-0.6	2.9	-12.9	-24.1	0.5	9.4
Monthly Indicators		Aug 20	Sep 20	Oct 20	Nov 20	Dec 20	Jan 21
Merchandise trade balance (12 month)	NZ\$m	1,369	1,655	2,223	3,300	2,937	...
Dwelling consents - residential	apc	-3.3	7.7	7.2	19.9	...	...
House sales - dwellings	apc	27.7	41.9	30.0	33.0	36.6	...
REINZ - house price index	apc	9.6	10.8	13.2	15.0	17.1	...
Estimated net migration (12 month total)	people	76,823	69,556	60,445	52,373	...	...
ANZ NZ commodity price index	apc	-3.9	-6.5	-5.6	-10.9	-5.9	-2.2
ANZ world commodity price index	apc	-2.8	-3.1	-2.3	-5.5	-0.4	4.6
ANZBO - business confidence	net%	-41.8	-28.5	-15.7	-6.9	9.4	...
ANZBO - activity outlook	net%	-17.5	-5.4	4.7	9.1	21.7	...
ANZ-Roy Morgan - consumer confidence	net%	100.2	100.0	108.7	106.9	112.0	113.8
Weekly Benefit Numbers		25 Dec	1 Jan	8 Jan	15 Jan	22 Jan	29 Jan
Jobseeker Support	number	211,320	212,441	213,755	213,853	213,359	213,006
Work Ready	number	133,877	134,821	135,991	135,936	135,401	134,840
Health Condition and Disability	number	77,443	77,620	77,764	77,917	77,958	78,166
COVID-19 Income Relief Payment	number	2,648	2,096	2,069	1,390	662	342
Full-time	number	2,363	1,870	1,846	1,253	583	297
Part-time	number	285	226	223	137	79	45
Daily Indicators		Wed 27/1/21	Thu 28/1/21	Fri 29/1/21	Mon 1/2/21	Tue 2/2/21	Wed 3/2/21
NZ exchange and interest rates (5)							
NZD/USD	\$	0.7238	0.7134	0.7168	0.7177	0.7157	0.7206
NZD/AUD	\$	0.9335	0.9355	0.9348	0.9400	0.9376	0.9470
Trade weighted index (TWI)	index	75.1	74.4	74.7	74.8	74.6	75.2
Official cash rate (OCR)	%	0.25	0.25	0.25	0.25	0.25	0.25
90 day bank bill rate	%	0.29	0.29	0.29	0.29	0.28	0.28
10 year govt bond rate	%	1.03	1.07	1.10	1.15	1.19	1.27
Share markets (6)							
Dow Jones	index	30,303	30,603	29,983	30,212	30,687	...
S&P 500	index	3,751	3,787	3,714	3,774	3,826	...
VIX volatility index	index	37.2	30.2	33.1	30.2	25.6	...
AU all ords	index	7,060	6,918	6,871	6,923	7,028	7,091
NZX 50	index	13,374	13,086	13,127	13,097	13,045	13,091
US interest rates							
3 month OIS	%	0.08	0.07	0.07	0.08	...	...
3 month Libor	%	0.21	0.21	0.20	0.20	0.19	...
10 year govt bond rate	%	1.04	1.07	1.11	1.09	1.12	...
Commodity prices (6)							
WTI oil	US\$/barrel	52.85	52.34	52.16	53.55	54.77	...
Gold	US\$/ounce	1,843	1,853.70	1,863.80	1,862.95	1,833.10	...
CRB Futures	index	458	457.35	458.50	458.79	460.81	...

(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		2020Q2	Jul 20	Aug 20	Sep 20	2020Q3	Oct 20	Nov 20	Dec 20	2020Q4	Jan 21
United States [9.6% share of total goods exports]	GDP (1)	qpc	-9.0				7.5				1.0	
	Industrial production (1)	mpc		4.2	0.7	-0.1		1.0	0.5	1.6		...
	CPI	apc		1.0	1.3	1.4		1.2	1.2	1.4		...
	Unemployment rate (1)	%		10.2	8.4	7.8		6.9	6.7	6.7		...
	Employment change (1)	000s		1761.0	1493.0	711.0		654.0	336.0	-140.0		...
	Retail sales value	apc		2.7	3.6	6.1		5.4	3.7	2.9		...
	House prices (2)	apc		4.2	5.4	6.7		8.0	9.1	...		...
	PMI manufacturing (1)	index		53.7	55.6	55.7		58.8	57.7	60.5		58.7
	Consumer confidence (1)(3)	index		91.7	86.3	101.3		101.4	92.9	87.1		89.3
	<hr/>											
Japan [6.1%]	GDP (1)	qpc	-8.3				5.3				...	
	Industrial production (1)	mpc		8.7	1.0	3.9		4.0	-0.5	-1.6		...
	CPI	apc		0.3	0.1	0.0		-0.4	-0.9	-1.1		...
	Unemployment rate (1)	%		2.9	3.0	3.0		3.1	2.9	2.9		...
	Retail sales value	apc		-2.9	-1.9	-8.7		6.4	0.6	-0.3		...
	PMI manufacturing (1)	index		45.2	47.2	47.7		48.7	49.0	50.0		49.8
	Consumer confidence (1)(4)	index		29.5	29.3	32.8		33.3	33.6	31.8		30.0
<hr/>												
Euro area [5.5%]	GDP (1)	qpc	-11.7				12.4				-0.7	
	Industrial production (1)	mpc		5.6	0.4	0.2		2.3	2.5	...		...
	CPI	apc		0.4	-0.2	-0.3		-0.3	-0.3	-0.3		...
	Unemployment rate (1)	%		8.6	8.6	8.6		8.4	8.3	8.3		...
	Retail sales volume	apc		0.2	4.4	2.6		4.2	-2.9	...		...
	PMI manufacturing (1)	index		51.8	51.7	53.7		54.8	53.8	55.2		54.8
	Consumer confidence (5)	index		-14.9	-14.6	-13.6		-15.5	-17.6	-13.8		-15.5
<hr/>												
United Kingdom [2.7%]	GDP (1)	qpc	-18.8				16.0				...	
	Industrial production (1)	mpc		5.2	0.2	0.3		1.1	-0.1	...		...
	CPI	apc		1.1	0.2	0.6		0.7	0.4	...		...
	Unemployment rate (1)	%		4.3	4.5	4.8		4.9	5.0	...		...
	Retail sales volume	apc		1.1	2.7	4.5		5.9	2.1	2.9		...
	House prices (6)	apc		1.5	3.7	5.0		5.8	6.5	7.3		6.4
	PMI manufacturing (1)	index		53.3	55.2	54.1		53.7	55.6	57.5		54.1
Consumer confidence (1)(5)	net %		-27.0	-27.0	-25.0		-31.0	-33.0	-26.0		-28.0	
<hr/>												
Australia [15.8%]	GDP (1)	qpc	-7.0				3.3				...	
	CPI	apc	-0.3				0.7				0.9	
	Unemployment rate (1)	%		7.5	6.8	6.9		7.0	6.8	6.6		...
	Retail sales value	apc		12.8	5.4	6.6		7.7	12.1	...		...
	House Prices (7)	apc	6.6				5.0					...
	PMI manufacturing (1)	index		53.5	49.3	46.7		56.3	52.1	55.3		55.3
Consumer confidence (8)	index		87.9	79.5	93.8		105.0	107.7	112.0		107.0	
<hr/>												
China [24.3%]	GDP	apc	3.2				4.9				6.5	
	Industrial production	apc		4.8	5.6	6.9		6.9	7.0	7.3		...
	CPI	apc		2.7	2.4	1.7		0.5	-0.5	0.2		...
	PMI manufacturing (1)	index		51.1	51.0	51.5		51.4	52.1	51.9		51.3
<hr/>												
South Korea [3.0%]	GDP (1)	qpc	-3.2				2.1				1.1	
	Industrial production (1)	mpc		1.9	-0.4	5.6		-1.2	0.3	3.7		...
	CPI	apc		0.3	0.7	1.0		0.1	0.6	0.5		0.6

(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