

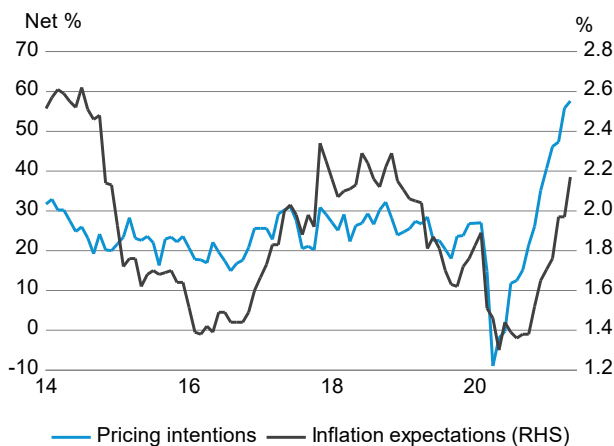
Headline business confidence ticks up...

The ANZ Business Outlook for May 2021 showed business confidence returned to positive territory, rising 4 points to a net 1.8% of firms now expecting conditions to improve. Firms' own activity expectations rose 5 points to 27.1% in April.

...although cost pressures continue to bite...

Cost expectations rose 5 points to a net 81.3% of respondents reporting higher costs while a net 57.4% intend to raise their prices (Figure 1). Inflation expectations rose to 2.2%.

Figure 1: Pricing and inflation expectations



Source: ANZ

...particularly in the construction industry...

Cost pressures are particularly evident in the construction industry with a net 93.3% of construction sector respondents expecting higher costs ahead and a net 80% of them expecting to raise prices. This will likely show up in the form of higher housing cost contributions to Consumers Price Index inflation in the quarters ahead as well as providing a boost to nominal GDP.

... as building consents remain strong

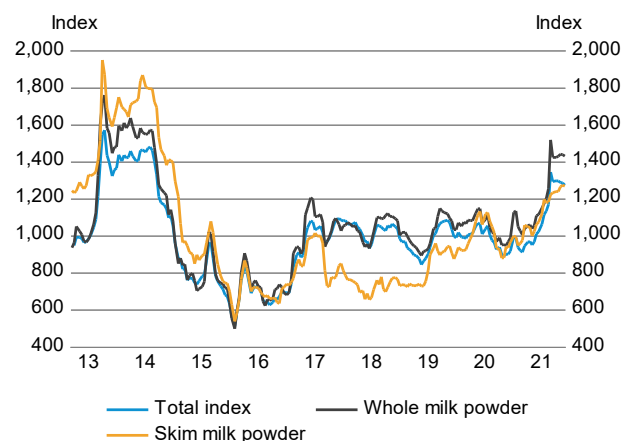
Annual building consents issuance reached a fresh record high, with a total of 42,848 building consents issued in the year to April 2021. Strong consents issuance over the last year provides a strong pipeline of construction activity over the year ahead. The construction industry continues to face headwinds from supply chain disruptions and skills shortages, which are likely to constrain further growth in residential investment, particularly as the

construction sector was already believed to be capacity constrained before the COVID-19 pandemic. Strong demand for construction activity at a time of constrained capacity is likely to put further upward pressure on construction prices.

Dairy prices remain elevated...

Dairy prices eased 0.9% at this week's *GlobalDairyTrade* auction, with whole milk and skim milk powder prices both 0.5% lower compared to the previous auction. Nevertheless, prices remain elevated at levels not seen since the 2013/14 season (Figure 2). This will support dairy farm incomes and is reflected in the mid-point of Fonterra's opening estimate of the farmgate milk price for the 2021/22 season coming in at \$8 per kg of milk solids.

Figure 2: *GlobalDairyTrade* price indexes



Source: *GlobalDairyTrade*

...and the terms of trade lifted slightly

The goods terms of trade index lifted by 0.1% in the March 2021 quarter, as export prices fell by slightly less than import prices. The index is expected to rise strongly over the coming quarters as recent commodity price increases feed through.

Export volumes fell by 1.9% as exporters experienced difficulty shipping products despite strong overseas demand. Lifts in dairy and forestry export volumes were offset by lower meat and seafood exports. In the year ended March 2021, total export values were down by \$14.3 billion (16.5%). Total imports fell by a similar amount, suggesting a broadly neutral impact on annual GDP.

OECD upgrades economic outlook...

In its latest Economic Outlook, the OECD upgraded its forecasts for global economic growth while noting that the recovery remains uneven across countries. Global growth of 5.8% and 4.4% is forecast for 2021 and 2022, respectively (Table 1). The growth upgrade reflects additional fiscal stimulus, vaccine rollouts and more effective containment measures.

Table 1: Real expenditure GDP growth forecasts

Calendar years	2020	2021	2022
World	-3.5	5.8	4.4
OECD	-4.8	5.3	3.8
Euro area	-6.7	4.3	4.4
China	2.3	8.5	5.8
Australia	-2.5	5.1	3.4
New Zealand	-1.1	3.5	3.8
United Kingdom	-9.8	7.2	5.5
United States	-3.5	6.9	3.6

Source: OECD

...as Australia's strong recovery continues...

Australia's real GDP expanded by 1.8% in the March 2021 quarter compared to the previous quarter, taking it above pre-pandemic levels (Table 2). This reflects a further easing of COVID-19 containment measures and a strong labour market recovery. A rise in export prices, in particular for iron ore and liquefied natural gas, contributed to the terms of trade reaching the highest level since the December 2011 quarter. There were also strong increases in both business and residential investment, supported by rising confidence levels and the Federal Government's HomeBuilder scheme.

Household spending continued to recover, though is still 1.5% below pre-pandemic levels. A rise in spending on services and a fall in spending on goods suggest that the shift back to more normal patterns of spending is ongoing (though still incomplete). While the household saving ratio declined further, it still remains around six percentage points above pre-pandemic levels, which suggests there is still scope for above-average consumer spending growth in the coming quarters.

Table 2: Australia GDP, key aggregates (% changes)

Seasonally adjusted	Dec 20 to Mar 21	Mar 20 to Mar 21
GDP	1.8	1.1
GDP per capita	1.7	0.8
Private business investment	4.0	-1.3
Private consumption	1.2	0.0
Household saving ratio	11.6	n/a

Source: Australian Bureau of Statistics

Note: Percentage change, except for household saving ratio

...and the RBA holds the course...

The Reserve Bank of Australia (RBA) left its policy settings unchanged, with the targets for the cash rate, the Term Funding Facility and the yield on the 3-year Australian Government bond remaining at 0.1%. The following sentence was omitted from the June statement compared to previous ones: "*The Board is prepared to undertake further bond purchases to assist with progress towards the goals of full employment and inflation*". Some analysts took this omission to be a sign of a more hawkish policy stance. As previously indicated by the Bank, decisions on future bond purchases will be considered at the July meeting.

...while Asia shows divergent prospects

India's real GDP grew by 1.5% in the March 2021 quarter compared to the previous quarter, taking it around 2% above pre-pandemic levels. Government expenditure expanded by 28.1%, while gross fixed capital formation increased by 9.4%. The prospects for the June quarter are less rosy, however, owing to a surge in COVID-19 infections in May.

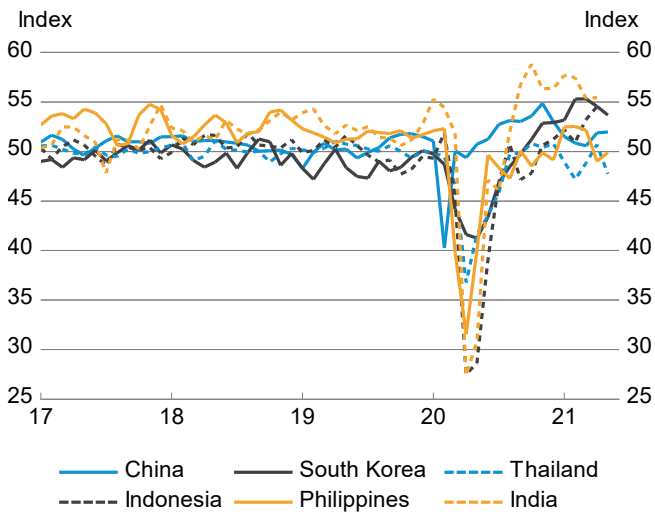
Meanwhile, China's manufacturing sector continued to expand in May. The Caixin manufacturing Purchasing Managers' Index (PMI) increased marginally from 51.9 in April to 52.0 in May (Figure 3). While the gauge for new export orders was at its highest since November 2020, production growth softened owing to raw material shortages and high input prices. The indicator for input prices rose to its highest level since December 2016, while the output price measure reached its highest point since November 2010.

In South Korea, the manufacturing PMI dipped slightly but remained in expansionary territory. As

in China, supply chain issues and rising prices featured prominently in the survey.

In Thailand, there was a fall in the manufacturing PMI to contractionary territory – the fourth monthly contraction in 2021. This reflects a third wave of COVID-19 infections in the country.

Figure 3: Manufacturing PMIs in selected countries

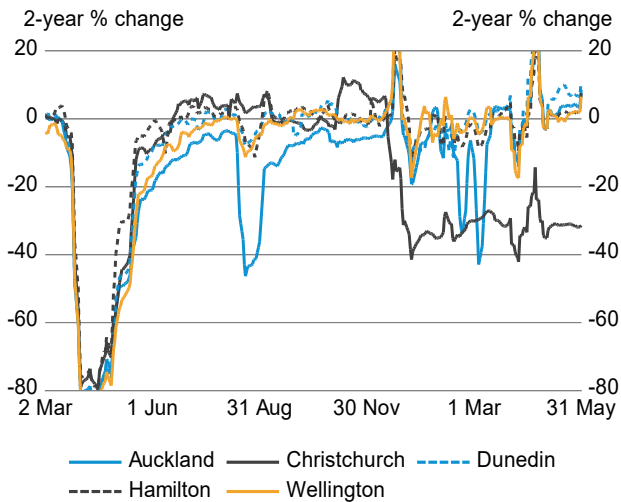


Source: Haver

Date	Key upcoming NZ data	Previous
9 Jun	ANZ Business Outlook (prelim)	2.0 (net %)
10 Jun	Electronic cards transactions	+4.0% (mpc)
11 Jun	BNZ – Performance of Mfg	58.4

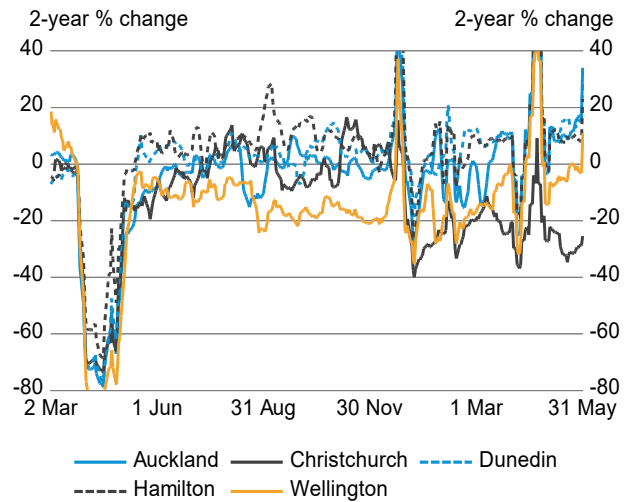
High-Frequency Indicators (Domestic)

Traffic Movement



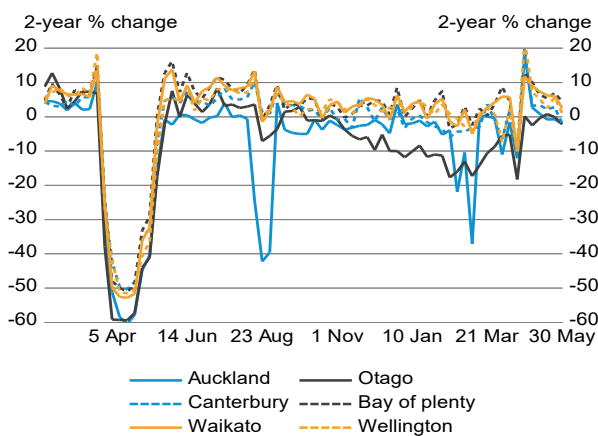
Source: Waka Kotahi NZ Transport Agency

Freight Movement



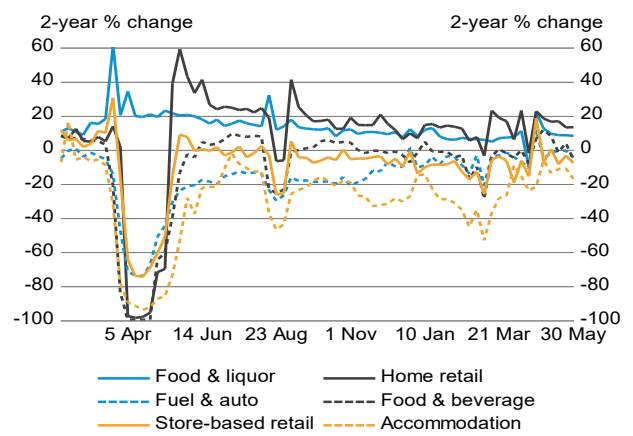
Source: Waka Kotahi NZ Transport Agency

Spending by Region



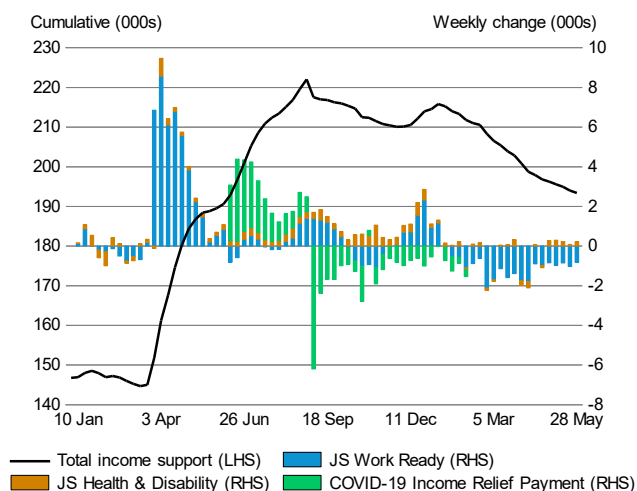
Source: Marketview data via MBIE

Spending by Industry



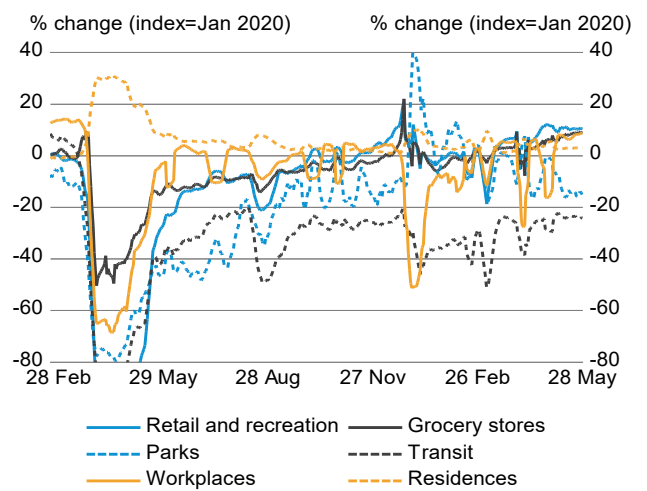
Source: Marketview data via MBIE

Jobseeker (JS) and Income Support Recipients



Source: MSD

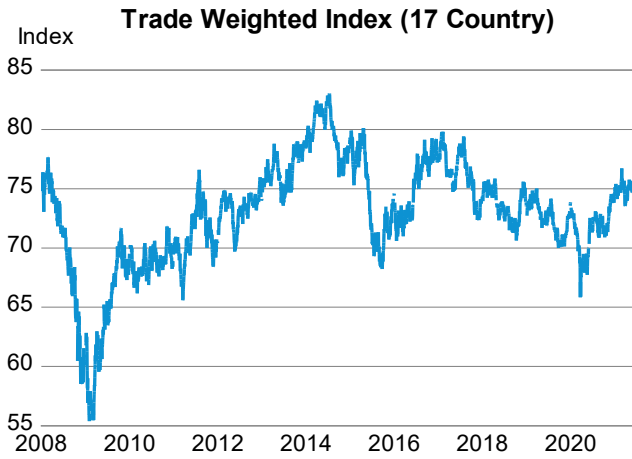
People Movements at Selected Locations



Source: Google

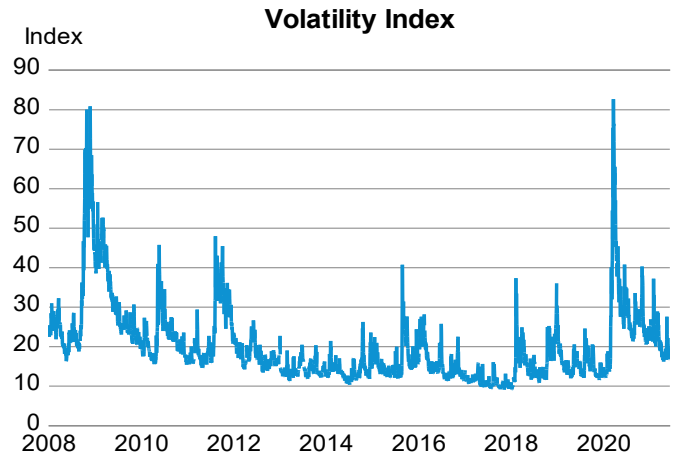
High-Frequency Indicators (Global)

Trade Weighted Index



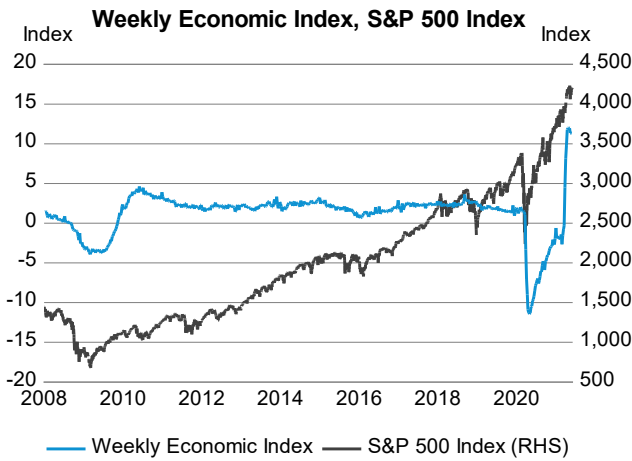
Source: RBNZ

Volatility Index



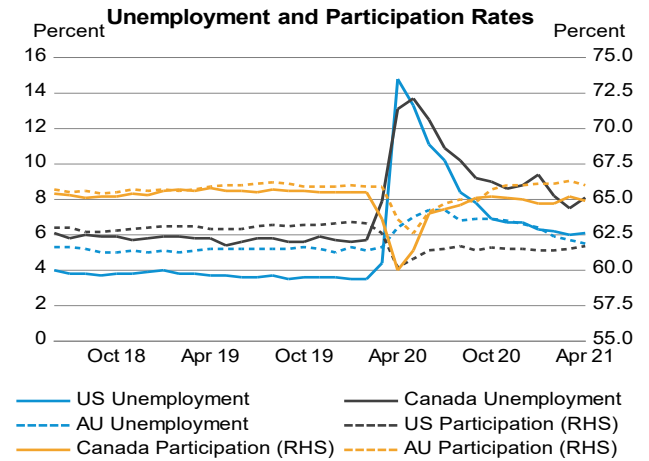
Source: Haver

US Activity and Equities



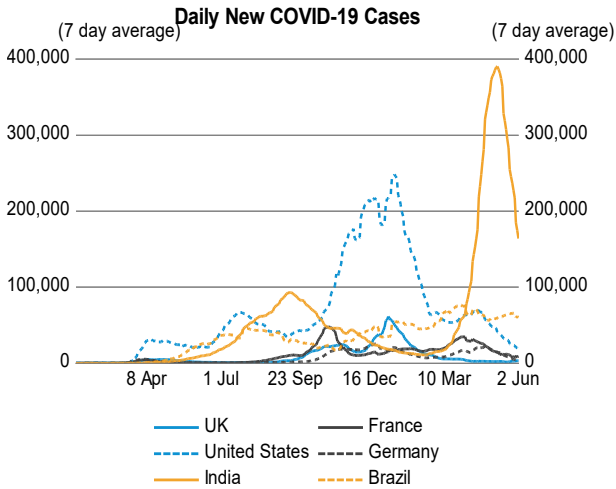
Sources: Federal Reserve Bank of New York, Haver

Labour Markets



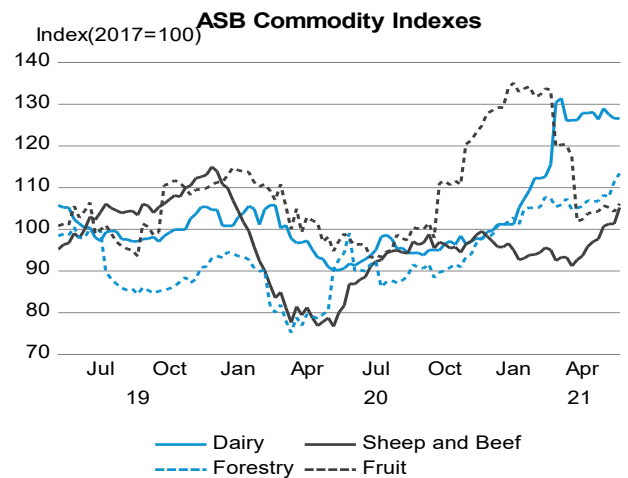
Source: Haver

COVID-19 Cases



Sources: World Health Organisation/Haver

World Commodity Prices



Source: ASB

Quarterly Indicators		2019Q4	2020Q1	2020Q2	2020Q3	2020Q4	2021Q1
Real Production GDP (1)	qpc	0.1	-1.2	-11.0	13.9	-1.0	...
	aapc	2.4	1.7	-1.7	-2.3	-2.9	...
Current account balance (annual)	%GDP	-3.3	-2.8	-1.8	-0.8	-0.8	...
Merchandise terms of trade	apc	7.1	5.4	6.3	-0.3	-1.6	-0.9
CPI inflation	qpc	0.5	0.8	-0.5	0.7	0.5	0.8
	apc	1.9	2.5	1.5	1.4	1.4	1.5
Employment (HLFS) (1)	qpc	0.3	1.0	-0.2	-0.7	0.6	0.5
Unemployment rate (1)	%	4.1	4.3	4.0	5.2	4.9	4.7
Participation rate (1)	%	70.4	70.7	69.9	70.2	70.2	70.4
LCI salary & wage rates - total (2)	apc	2.6	2.5	2.1	1.8	1.6	1.6
QES average hourly earnings - total (2)	apc	3.4	4.4	3.5	4.1	3.9	2.6
Core retail sales volume	apc	3.3	4.0	-11.7	7.6	4.2	5.5
Total retail sales volume	apc	3.3	2.3	-14.2	8.1	4.6	6.8
WMM - consumer confidence (3)	Index	109.9	104.2	97.2	95.1	106.0	105.2
QSBO - general business situation (1,4)	net%	-30.4	-68.4	-57.4	-37.7	-15.7	-10.7
QSBO - own activity outlook (1,4)	net%	2.5	-12.2	-23.5	-0.5	9.1	7.8

Monthly Indicators		Dec 20	Jan 21	Feb 21	Mar 21	Apr 21	May 21
Merchandise trade balance (12 month)	NZ\$m	2,982	2,731	2,383	1,696	733	...
Dwelling consents - residential	apc	26.9	18.0	-4.7	44.7	83.7	...
House sales - dwellings	apc	46.3	6.9	19.8	35.3	419.7	...
REINZ - house price index	apc	17.8	18.9	21.3	23.8	26.8	...
Estimated net migration (12 month total)	people	41,176	30,306	15,992	6,561	...	...
ANZ NZ commodity price index	apc	-5.9	-1.6	0.1	4.0	6.9	...
ANZ world commodity price index	apc	-0.4	5.2	11.0	20.2	24.3	...
ANZBO - business confidence	net%	9.4	...	7.0	-4.1	-2.0	1.8
ANZBO - activity outlook	net%	21.7	...	21.3	16.6	22.2	27.1
ANZ-Roy Morgan - consumer confidence	net%	112.0	113.8	113.1	110.8	115.4	114.0

Weekly Benefit Numbers		23 Apr	30 Apr	7 May	14 May	21 May	28 May
Jobseeker Support	number	196,806	196,236	195,561	194,937	193,980	193,383
Work Ready	number	118,878	118,029	117,060	116,205	115,173	114,354
Health Condition and Disability	number	77,931	78,207	78,501	78,732	78,807	79,026
COVID-19 Income Relief Payment	number	...	...	...	...	...	...
Full-time	number	...	...	...	...	...	...
Part-time	number	...	...	...	...	...	...

Daily Indicators		Wed 26/5/21	Thu 27/5/21	Fri 28/5/21	Mon 31/5/21	Tue 1/6/21	Wed 2/6/21
NZ exchange and interest rates (5)							
NZD/USD	\$	0.7257	0.7281	0.7277	0.7252	0.7285	0.7263
NZD/AUD	\$	0.9348	0.9414	0.9396	0.9388	0.9382	0.9355
Trade weighted index (TWI)	index	75.3	75.6	75.5	75.2	75.4	75.3
Official cash rate (OCR)	%	0.25	0.25	0.25	0.25	0.25	0.25
90 day bank bill rate	%	0.34	0.33	0.33	0.32	0.32	0.32
10 year govt bond rate	%	1.76	1.88	1.88	1.85	1.80	1.74
Share markets (6)							
Dow Jones	index	34,323	34,465	34,529	...	34,575	34,600
S&P 500	index	4,196	4,201	4,204	...	4,202	4,208
VIX volatility index	index	17.4	16.7	16.8	...	17.9	17.5
AU all ords	index	7,332	7,344	7,424	7,407	7,392	7,469
NZX 50	index	12,347	12,243	12,182	12,321	12,462	12,440
US interest rates							
3 month OIS	%	0.06	0.06	0.05	0.05	0.06	...
3 month Libor	%	0.14	0.13	0.13	...	0.13	...
10 year govt bond rate	%	1.58	1.61	1.58	...	1.62	1.59
Commodity prices (6)							
WTI oil	US\$/barrel	66.21	66.85	66.32	...	67.72	...
Gold	US\$/ounce	1,900	1,891.45	1,899.95	...	1,899.35	...
CRB Futures	index	537	547.77	548.54	...	552.02	...

(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		Oct 20	Nov 20	Dec 20	2020Q4	Jan 21	Feb 21	Mar 21	2021Q1	Apr 21	May 21
United States [9.6% share of total goods exports]	GDP (1)	qpc				1.1				1.6		
	Industrial production (1)	mpc	1.1	0.5	1.2		1.0	-2.9	2.2		0.5	...
	CPI	apc	1.2	1.2	1.4		1.4	1.7	2.6		4.2	...
	Unemployment rate (1)	%	6.9	6.7	6.7		6.3	6.2	6.0		6.1	...
	Employment change (1)	000s	680.0	264.0	-306.0		233.0	536.0	770.0		266.0	...
	Retail sales value	apc	5.6	3.8	2.3		9.4	6.5	29.0		51.2	...
	House prices (2)	apc	8.1	9.2	10.1		11.1	12.0	13.3		...	...
Japan [6.1%]	PMI manufacturing (1)	index	58.8	57.7	60.5		58.7	60.8	64.7		60.7	61.2
	Consumer confidence (1)(3)	index	101.4	92.9	87.1		87.1	95.2	114.9		117.5	117.2
	GDP (1)	qpc				2.8				-1.3		
Euro area [5.5%]	Industrial production (1)	mpc	2.1	0.7	-0.2		3.1	-1.3	1.7		2.5	...
	CPI	apc	-0.4	-0.9	-1.1		-0.6	-0.4	-0.2		-0.4	...
	Unemployment rate (1)	%	3.1	3.0	3.0		2.9	2.9	2.6		2.8	...
	Retail sales value	apc	6.4	0.6	5.0		2.7	3.7	5.2		12.0	...
	PMI manufacturing (1)	index	48.7	49.0	50.0		49.8	51.4	52.7		53.6	53.0
	Consumer confidence (1)(4)	index	33.3	33.6	31.8		30.0	33.7	36.1		34.8	34.2
	GDP (1)	qpc				-0.7				-0.6		
United Kingdom [2.7%]	Industrial production (1)	mpc	2.5	2.2	-0.1		0.9	-1.2	0.1		...	...
	CPI	apc	-0.3	-0.3	-0.3		0.9	0.9	1.3		1.6	...
	Unemployment rate (1)	%	8.5	8.3	8.2		8.2	8.2	8.1		8.0	...
	Retail sales volume	apc	4.6	-1.4	1.3		-4.8	-1.5	12.0		...	...
	PMI manufacturing (1)	index	54.8	53.8	55.2		54.8	57.9	62.5		62.9	63.1
	Consumer confidence (5)	index	-15.5	-17.6	-13.8		-15.5	-14.8	-10.8		-8.1	-5.1
	GDP (1)	qpc				1.3				-1.5		
Australia [15.8%]	Industrial production (1)	mpc	0.7	0.8	0.0		-1.9	1.1	1.7		...	...
	CPI	apc	0.7	0.4	...		...	...	...		...	...
	Unemployment rate (1)	%	4.9	5.0	5.1		5.0	4.9	4.8		...	...
	Retail sales volume	apc	6.1	2.2	3.1		-5.7	-3.6	7.1		42.4	...
	House prices (6)	apc	5.8	6.5	7.3		6.4	6.9	5.7		7.1	10.9
	PMI manufacturing (1)	index	53.7	55.6	57.5		54.1	55.1	58.9		60.9	65.6
	Consumer confidence (1)(5)	net %	-31.0	-33.0	-26.0		-28.0	-23.0	-16.0		-15.0	-9.0
China [24.3%]	GDP (1)	qpc				3.2				1.8		
	CPI	apc				0.9				1.1		
	Unemployment rate (1)	%	6.9	6.8	6.6		6.4	5.9	5.7		5.5	...
	Retail sales value	apc	7.7	12.1	10.3		10.3	5.2	3.9		...	...
	House Prices (7)	apc				4.3					...	...
	PMI manufacturing (1)	index	56.3	52.1	55.3		55.3	58.8	59.9		61.7	61.8
South Korea [3.0%]	Consumer confidence (8)	index	105.0	107.7	112.0		107.0	109.1	111.8		118.8	113.1
	GDP	apc				6.5				18.3		
	Industrial production	apc	6.9	7.0	7.3		35.1	35.1	14.1		9.8	...
South Korea [3.0%]	CPI	apc	0.5	-0.5	0.2		-0.3	-0.2	0.4		0.9	...
	PMI manufacturing (1)	index	51.4	52.1	51.9		51.3	50.6	51.9		51.1	51.0
South Korea [3.0%]	GDP (1)	qpc				1.2				1.6		
	Industrial production (1)	mpc	-0.5	0.5	2.7		-1.2	4.2	-0.9		-1.6	...
	CPI	apc	0.1	0.6	0.5		0.6	1.1	1.5		2.3	2.6

(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