Weekly Economic Update

16 July 2021

TE TAI ŌHANGA
THE TREASURY

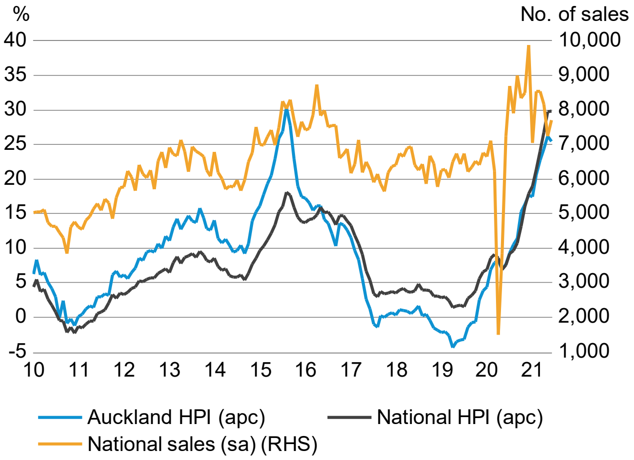
New South Wales travel bubble remains on hold

The Trans-Tasman travel bubble with New South Wales (NSW) remains paused, as COVID-19 case numbers continue to increase, with over 500 locally acquired cases recorded over the past week. Victoria also recorded 11 new community cases on Wednesday, prompting a re-introduction of mask wearing rules and at least one state (Western Australia) imposing border restriction on travellers from Victoria.

House prices continue to increase

The housing market continues to show resilience, with prices rising 1.5% in June to be up 29.8% over the year, matching the record high set the previous month (Figure 1). High sales volumes in recent months have coincided with near record low levels of inventory, resulting in the median number of days required to sell a house falling to 31 days – only slightly above the record low for a June month (30 days) in 2005.

Figure 1: House prices and sales



Source: REINZ

High levels of sales activity seen recently are expected to support consumption and investment over the quarters ahead as new occupiers of residential properties fit out dwellings and carry out renovations. There are early signs that the rate of house price growth is easing, and we continue to expect that house price growth will ease over time, driven by the lower attractiveness of rental properties to investors, high levels of residential investment activity, constrained population growth and the prospect of rising interest rates over the coming year.

RBNZ calls early halt to asset purchasing…

In Wednesday's Monetary Policy Review, the Reserve Bank of New Zealand (RBNZ) announced that it would halt additional asset purchases under the Large-Scale Asset Purchase (LSAP) programme by 23 July 2021.

The decision to bring forward the cessation of the LSAP programme from the original June 2022 target reflects fact that the New Zealand economy has performed better than expected, and inflationary pressures are increasing as a result of increasing domestic capacity pressures and growing labour and skills shortages. The Funding for Lending programme was left unchanged.

While the Official Cash Rate (OCR) remains unchanged at 0.25%, several banks have recently increased term deposit and mortgage lending rates, reflecting an expectation that rate rises will likely occur earlier than previously anticipated.

Households still spending…

Core retail spending rose a seasonally adjusted 5.5% in the June quarter, led by an 18.1% bounce-back in hospitality spending coming out of the lockdowns that happened in the March quarter. Spending on consumer durables continued its strong run, up 3.9% over the quarter, and will likely be supported in coming quarters as households furnish newly-built or purchased houses.

…and inflation pressures increase

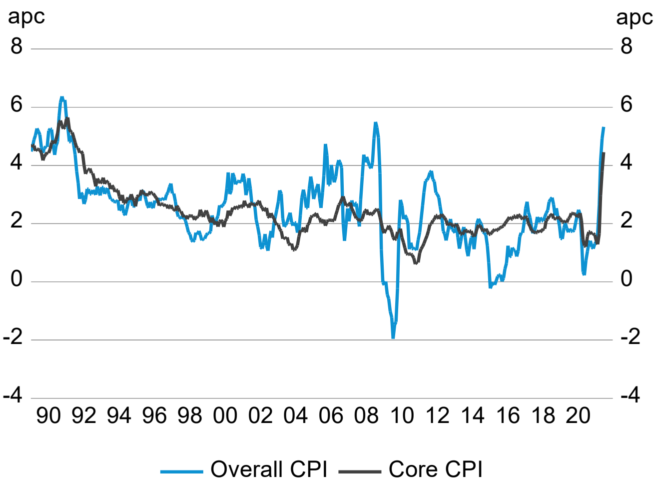
Headline annual Consumer Price Index (CPI) inflation rose to a near 10-year high 3.3% in the June quarter, up from the 1.5% rate recorded in the year to March. House construction costs provided the largest contribution to increase, up 4.6% in the quarter and 7.4% over the year. As expected, higher petrol prices provided a boost to this quarter's result, although this impact is expected to be transitory. Recent business survey measures indicate that firms are increasingly looking to pass on cost increases, with June ANZ Business Outlook survey inflation expectations rising 19 basis points to 2.4%.

A sharp rise in vegetable prices in the June month saw annual food prices increase 2.8% in the year ending June 2021, while the stock measure of rent prices increased 3.1% over the year.

Inflation rises in US, UK…

Consumer price index (CPI) data for June from the United States (US) delivered another surprising outturn, with the headline and core (excluding food and energy) annual rates at 5.4% and 4.5%, respectively (Figure 2). This resulted in the market bringing forward its expectations for rate hikes by the US Federal Reserve Bank (Fed), with the first 25 basis point increase now priced for late-2022. A more than 10% increase in used vehicle prices accounted for close to 40% of the total monthly increase in the CPI in June, reflecting both strong demand and supply issues in the auto industry. Producer price inflation for the year to June was also higher than expected at 7.3%, up from 6.6% in the year to May.

Figure 2: Annual headline and core CPI in the US



Source: Haver

CPI inflation in the United Kingdom (UK) was also above expectations at an annual rate of 2.5% in June for the overall index and 2.3% for the core items. Following this release, Bank of England (BoE) Monetary Policy Committee member, Dave Ramsden, said inflation may peak at 4% this year, much higher than the BoE's current forecasts.

…while ECB changes target

In its recently completed strategy review, the first since 2003, the European Central Bank (ECB) adopted a symmetric 2% inflation target. Previously, the target was 'close to but below 2%'. The next strategy review is due in 2025. The ECB president, Christine Lagarde, clarified that the bank will not aim to have periods of inflation above 2%, i.e. it will not implement an average inflation targeting regime as was adopted by the Fed in January 2021. Lagarde further noted that next week's Governing Council meeting will introduce 'some interesting variations and changes'.

Strong growth in Chinese trade continues…

China's exports grew faster than expected in June in annual terms notwithstanding supply chain disruptions, marking the 12th consecutive month of growth, boosted by higher global demand as lockdowns were eased. Import growth was also higher than expected.

…activity remains solid…

China's GDP expanded by 7.9% in the June 2021 quarter compared to the same quarter a year earlier, slightly below analyst expectations. Quarterly growth was 1.3%, higher than the March quarter expansion of 0.6%. Meanwhile, retail sales and industrial production data continued to grow strongly (and faster than expected) in June. The unemployment rate remained steady at 5%.

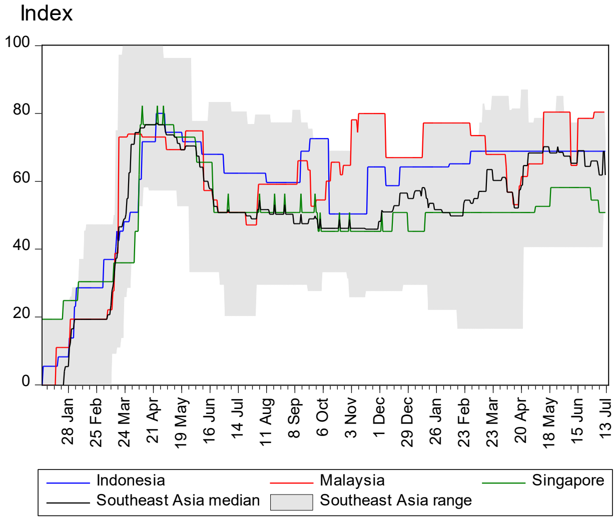
…central bank eases liquidity…

The People's Bank of China (PBOC) last week cut reserve ratio requirements (RRR) for Chinese banks by 50 basis points to 8.9%, the first reduction since March 2020. Consumer price inflation in China remains contained, having eased in June to 1.1% in annual terms, from 1.3% the previous month. The PBOC have clarified that the policy change is a standard liquidity operation and not a change in monetary policy, though some interpret it as an attempt to boost liquidity levels amid tentative signs of a slowdown in domestic activity.

…and restrictions tightened in Asia

Restrictions have been tightened in a number of countries in Asia in an attempt to curb the spread of the more infectious Delta variant of the COVID-19 virus (Figure 3). In Indonesia, the hardest hit in the region by the recent surge in cases, the government tightened restrictions in Bali and Java to try to stem the spread. Hospitals are struggling to cope with the increased load and there are shortages of oxygen. Official new daily infections and deaths are hovering at around 40,000 and 850, respectively, although other sources suggest the actual number is likely much higher. In South Korea, amid a record-high number of new cases, the government introduced Level 4 social distancing measures in Seoul for two weeks. In Japan, Tokyo entered its fourth state of emergency. Except for Singapore, Asia's progress in fully vaccinating the population against COVID-19 has been relatively slow.

Figure 3: COVID-19 Government Response Tracker



Source: Blavatnik School of Government, University of Oxford

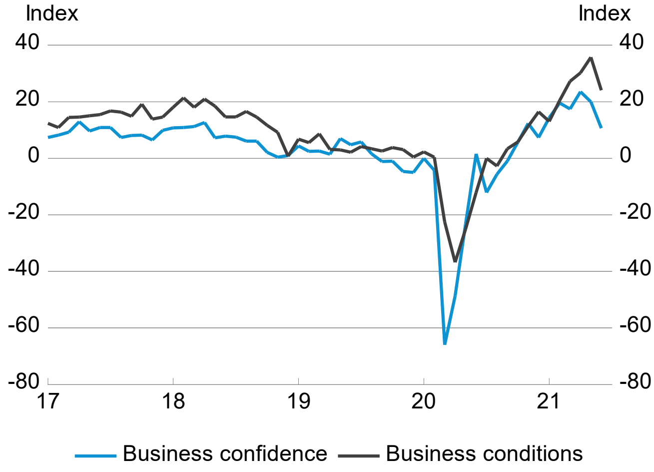
Australia unemployment falls…

Australia's unemployment rate declined from 5.1% in May to 4.9% in June as the number of employed people increased by 0.2%, the number of unemployed fell by 3.1%, and the participation rate remained steady at 66.2%. Monthly hours worked fell by 33 million (1.8%) owing to a sharp fall (8.4%) in Victoria. Total hours worked are still 6.8% higher in annual terms.

…as business confidence deteriorates

Confidence levels in Australia declined in June amidst increasing COVID-19 cases and restrictions on activity in NSW and Victoria. The National Australia Bank (NAB) index for business conditions fell by 12 points to +24, while the confidence index declined by 9 points to +11 (Figure 4), driven by services sectors in NSW and Queensland. Despite declining over the past two months, the business confidence index remains well above its long-run average. However, with restrictions in Greater Sydney extended for at least another two weeks, confidence levels may decline further in July. The NSW lockdown is costing around A$700 million a week according to the Australian Treasury. The recently announced A$5 billion assistance package should provide support to businesses and households over this period.

Figure 4: Australia business conditions and confidence



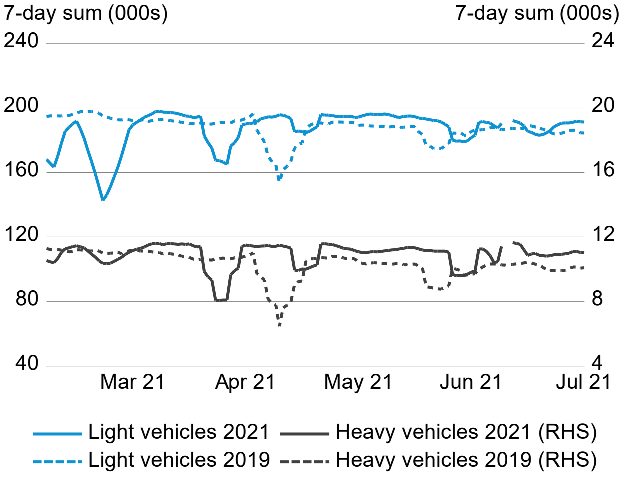
Source: Haver

Consumer confidence increased by 1.5% in July, as measured by the Westpac-Melbourne Institute Index of Consumer Sentiment. A sharp fall in NSW was more than offset by strong bounce-backs in other states where restrictions have been eased. The longer the lockdown in NSW is extended, the greater the risk that lower consumer confidence could spill over to other states.

Date	Key upcoming NZ data	Previous
19 July	Performance of Services Index	56.1
21 July	NZ Activity Indicator	10.9% (apc)

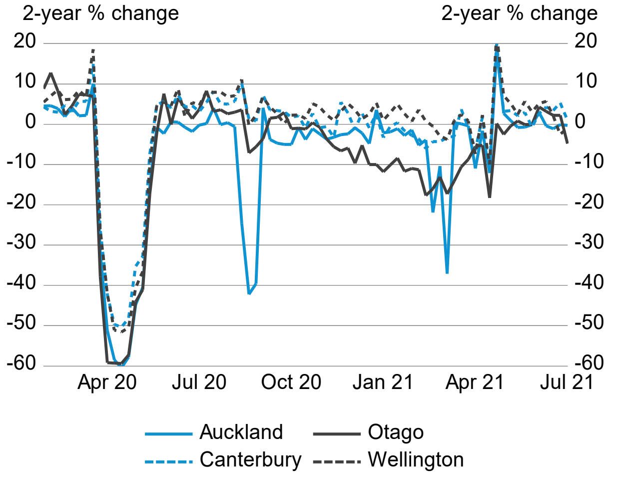
High-Frequency Indicators

Traffic and Freight Movement



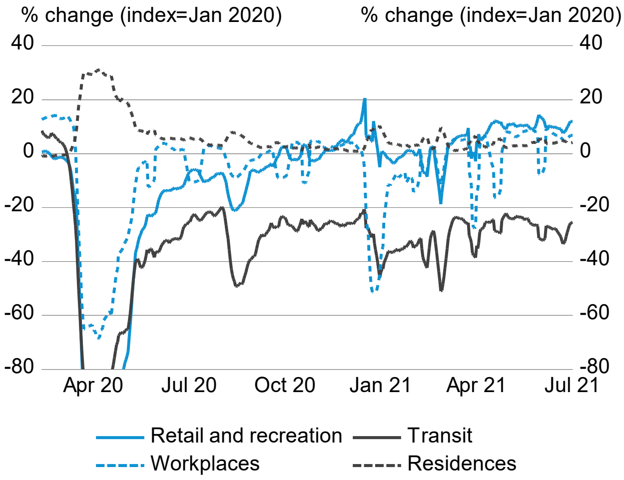
Source: Waka Kotahi NZ Transport Agency

Card spending



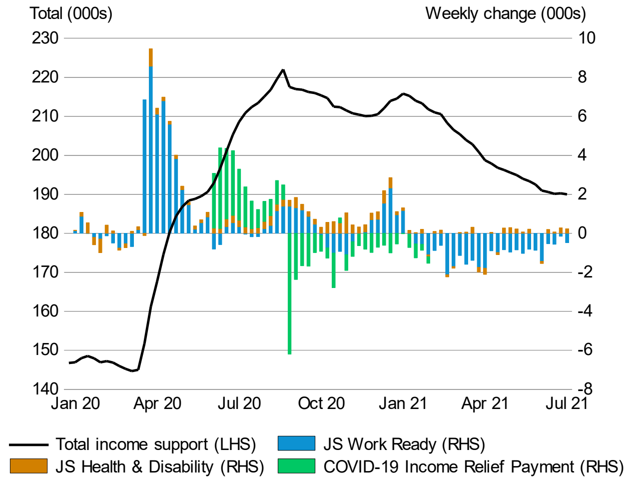
Source: Marketview data via MBIE

People Movements at Selected Locations



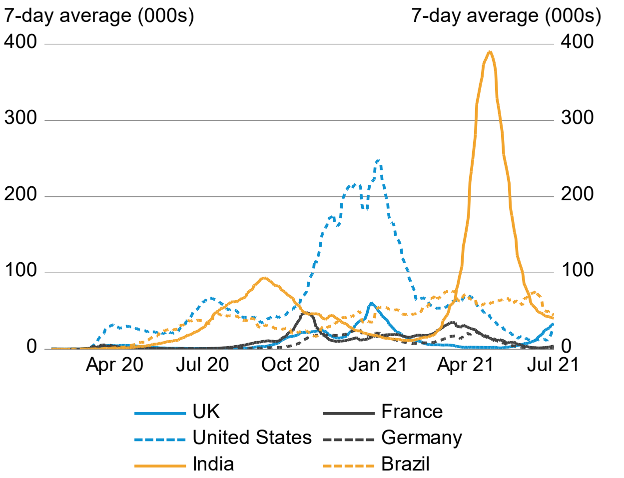
Source: Google

Jobseeker (JS) and Income Support Recipients



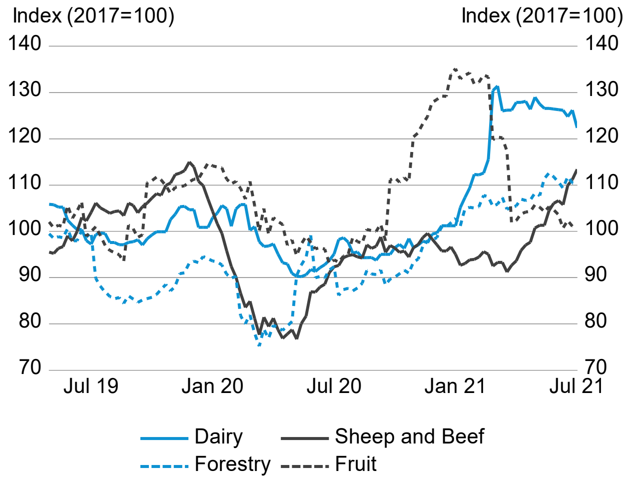
Source: MSD

COVID-19 Cases



Source: World Health Organisation/Haver

World Commodity Prices



Source: ASB

Quarterly Indicators		2020Q1	2020Q2	2020Q3	2020Q4	2021Q1	2021Q2
Real Production GDP (1)	qpc	-1.5	-10.8	14.1	-1.0	1.6	...
	aapc	1.7	-1.6	-2.2	-2.9	-2.3	...
Current account balance (annual)	%GDP	-2.8	-1.8	-0.8	-0.8	-2.2	...
Merchandise terms of trade	apc	5.4	6.3	-0.3	-1.6	-0.9	...
CPI inflation	qpc	0.8	-0.5	0.7	0.5	0.8	1.3
	apc	2.5	1.5	1.4	1.4	1.5	3.3
Employment (HLFS) (1)	qpc	1.0	-0.2	-0.7	0.6	0.5	...
Unemployment rate (1)	%	4.3	4.0	5.2	4.9	4.7	...
Participation rate (1)	%	70.7	69.9	70.2	70.2	70.4	...
LCI salary & wage rates - total (2)	apc	2.5	2.1	1.8	1.6	1.6	...
QES average hourly earnings - total (2)	apc	4.4	3.5	4.1	3.9	2.6	...
Core retail sales volume	apc	4.0	-11.7	7.6	4.2	5.5	...
Total retail sales volume	apc	2.3	-14.2	8.1	4.6	6.8	...
WMM - consumer confidence (3)	Index	104.2	97.2	95.1	106.0	105.2	107.1
QSBO - general business situation (1,4)	net%	-66.2	-60.1	-38.2	-14.9	-7.9	10.1
QSBO - own activity outlook (1,4)	net%	-12.3	-24.6	-0.6	10.6	7.8	27.6

Monthly Indicators		Jan 21	Feb 21	Mar 21	Apr 21	May 21	Jun 21
Merchandise trade balance (12 month)	NZ$m	2,731	2,386	1,700	764	-62	...
Dwelling consents - residential	apc	18.0	-4.7	44.7	83.7	17.3	...
House sales - dwellings	apc	6.9	19.8	37.0	439.7	85.5	6.2
REINZ - house price index	apc	18.9	21.3	23.9	26.8	29.9	30.0
Estimated net migration (12 month total)	people	28,848	14,019	4,214	4,940	5,743	...
ANZ NZ commodity price index	apc	-1.6	0.1	4.0	6.8	7.9	17.4
ANZ world commodity price index	apc	5.2	11.0	20.2	24.2	25.2	27.8
ANZBO - business confidence	net%	...	7.0	-4.1	-2.0	1.8	-0.6
ANZBO - activity outlook	net%	...	21.3	16.6	22.2	27.1	31.6
ANZ-Roy Morgan - consumer confidence	net%	113.8	113.1	110.8	115.4	114.0	114.1

Weekly Benefit Numbers		4 Jun	11 Jun	18 Jun	25 Jun	2 Jul	9 Jul
Jobseeker Support	number	192,501	190,953	190,614	190,128	190,257	190,008
Work Ready	number	113,484	112,047	111,510	110,946	110,790	110,304
Health Condition and Disability	number	79,020	78,906	79,107	79,185	79,470	79,704
COVID-19 Income Relief Payment	number	...	...	...	...	...	...
Full-time	number	...	...	...	...	...	...
Part-time	number	...	...	...	...	...	...

Daily Indicators		Wed 7/7/21	Thu 8/7/21	Fri 9/7/21	Mon 12/7/21	Tue 13/7/21	Wed 14/7/21
NZ exchange and interest rates (5)							
NZD/USD	$	0.7018	0.6984	0.6926	0.6988	0.7003	0.6990
NZD/AUD	$	0.9366	0.9365	0.9343	0.9350	0.9347	0.9373
Trade weighted index (TWI)	index	74.2	74.0	73.5	73.9	74.0	74.1
Official cash rate (OCR)	%	0.25	0.25	0.25	0.25	0.25	0.25
90 day bank bill rate	%	0.34	0.35	0.34	0.32	0.33	0.33
10 year govt bond rate	%	1.64	1.63	1.54	1.54	1.54	1.59
Share markets (6)							
Dow Jones	index	34,682	34,422	34,870	34,996	34,889	34,933
S&P 500	index	4,358	4,321	4,370	4,385	4,369	4,374
VIX volatility index	index	16.2	19.0	16.2	16.2	17.1	16.3
AU all ords	index	7,599	7,615	7,545	7,605	7,612	7,632
NZX 50	index	12,748	12,753	12,690	12,763	12,785	12,720
US interest rates							
3 month OIS	%	0.10	0.10	0.10	0.10	0.10	...
3 month Libor	%	0.12	0.12	0.13	0.13	0.13	...
10 year govt bond rate	%	1.33	1.30	1.37	1.38	1.42	1.37
Commodity prices (6)							
WTI oil	US$/barrel	72.20	72.94	74.56	74.21	75.24	...
Gold	US$/ounce	1,805	1,807.70	1,806.00	1,792.40	1,813.85	...
CRB Futures	index	553	551.94	554.70	557.30	559.27	...

(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		2020Q4	Jan 21	Feb 21	Mar 21	2021Q1	Apr 21	May 21	Jun 21	2021Q2	Jul 21
United States [9.6% share of total goods exports]	GDP (1)	qpc	**1.1**				1.6				...	
	Industrial production (1)	mpc		1.1	-3.1	2.7		0.0	0.7	0.4		...
	CPI	apc		1.4	1.7	2.6		4.2	5.0	5.4		...
	Unemployment rate (1)	%		6.3	6.2	6.0		6.1	5.8	5.9		...
	Employment change (1)	000s		233.0	536.0	785.0		269.0	583.0	850.0		...
	Retail sales value	apc		9.4	6.5	29.7		53.4	28.1	...		...
	House prices (2)	apc		11.2	12.0	13.4		14.9	...	...		...
	PMI manufacturing (1)	index		58.7	60.8	64.7		60.7	61.2	60.6		...
	Consumer confidence (1)(3)	index		87.1	95.2	114.9		117.5	120.0	127.3		...
Japan [6.1%]	GDP (1)	qpc	**2.8**				-1.0				...	
	Industrial production (1)	mpc		3.1	-1.3	1.7		2.9	-6.5	...		...
	CPI	apc		-0.6	-0.4	-0.2		-0.4	-0.1	...		...
	Unemployment rate (1)	%		2.9	2.9	2.6		2.8	3.0	...		...
	Retail sales value	apc		2.7	3.7	5.2		11.9	8.3	...		...
	PMI manufacturing (1)	index		49.8	51.4	52.7		53.6	53.0	52.4		...
	Consumer confidence (1)(4)	index		30.0	33.7	36.1		34.8	34.2	37.6		...
Euro area [5.5%]	GDP (1)	qpc	**-0.6**				-0.3				...	
	Industrial production (1)	mpc		1.1	-1.3	0.5		0.6	-1.0	...		...
	CPI	apc		0.9	0.9	1.3		1.6	2.0	...		...
	Unemployment rate (1)	%		8.2	8.2	8.1		8.1	7.9	...		...
	Retail sales volume	apc		-4.8	-1.2	13.7		23.3	9.0	...		...
	PMI manufacturing (1)	index		54.8	57.9	62.5		62.9	63.1	63.4		...
	Consumer confidence (5)	index		-15.5	-14.8	-10.8		-8.1	-5.1	-3.3		...
United Kingdom [2.7%]	GDP (1)	qpc	**1.3**				-1.6				...	
	Industrial production (1)	mpc		-1.6	0.5	1.5		-1.0	0.7	...		...
	CPI	apc		...	...	...		...	...	...		...
	Unemployment rate (1)	%		5.1	5.0	4.9		4.8	4.8	...		...
	Retail sales volume	apc		-5.7	-3.6	7.1		42.5	24.6	...		...
	House prices (6)	apc		6.4	6.9	5.7		7.1	10.9	13.4		...
	PMI manufacturing (1)	index		54.1	55.1	58.9		60.9	65.6	63.9		...
	Consumer confidence (1)(5)	net %		-28.0	-23.0	-16.0		-15.0	-9.0	-9.0		...
Australia [15.8%]	GDP (1)	qpc	**3.2**				1.8				...	
	CPI	apc	**0.9**				1.1				...	
	Unemployment rate (1)	%		6.4	5.9	5.7		5.5	5.1	4.9		...
	Retail sales value	apc		10.3	5.2	3.9		23.8	7.1	...		...
	House Prices (7)	apc	**4.3**				8.9				...	
	PMI manufacturing (1)	index		55.3	58.8	59.9		61.7	61.8	63.2		...
	Consumer confidence (8)	index		107.0	109.1	111.8		118.8	113.1	107.2		108.8
China [24.3%]	GDP	apc	**6.5**				18.3				7.9	
	Industrial production	apc		35.1	35.1	14.1		9.8	8.8	8.3		...
	CPI	apc		-0.3	-0.2	0.4		0.9	1.3	1.1		...
	PMI manufacturing (1)	index		51.3	50.6	51.9		51.1	51.0	50.9		...
South Korea [3.0%]	GDP (1)	qpc	**1.1**				1.7				...	
	Industrial production (1)	mpc		-1.2	4.2	-0.7		-1.6	-0.7	...		...
	CPI	apc		0.6	1.1	1.5		2.3	2.6	2.4		...

(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