

GDP data tells us that post-lockdown rebound in activity over the past year has been even stronger than previously thought. This is giving businesses confidence about their prospects once restrictions ease. But there are still challenges in the medium and longer term. Uncertainty about our post-vaccination strategy, together with ongoing global supply chain issues and labour shortages are likely to be constraints to our economic recovery for some time once restrictions ease.

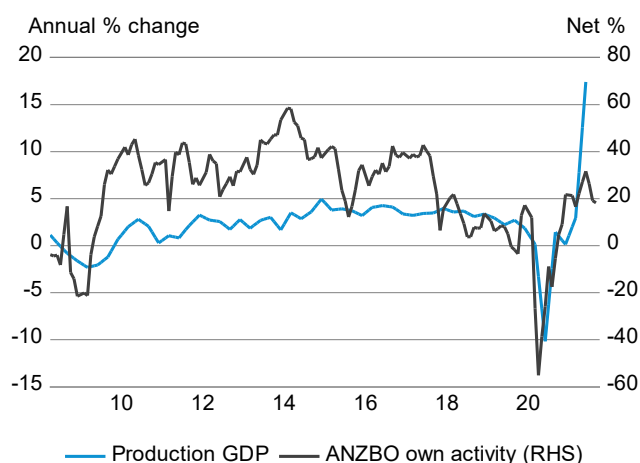
High-frequency indicators have held up well...

Following the drop to Alert Level 2, card spending in most regions outside Auckland has risen above 2019 levels, with spending on food and beverage services showing a significant increase but remaining far from a full recovery.

...with businesses remaining confident despite lockdown...

Business confidence has remained resilient through lockdown so far, with business confidence rising 7 points in ANZ's Preliminary Business Outlook survey for September. Firms' own activity outlook remained broadly stable, with a net 18.2% of firms expecting to increase activity (Figure 1). Only 4.3% of businesses reported lower activity compared to a year ago, much lower than the 63.2% of surveyed businesses in May 2020. Inflationary pressures eased slightly, with inflation expectations falling slightly from 3.1% to 3.0% in September and pricing intentions easing from 59% to a net 55% of firms expecting to raise their prices in coming months.

Figure 1: Own activity and GDP



Source: ANZBO, Stats NZ

...which had little impact on house prices

Housing market strength continued despite Alert Level 4 restrictions. The REINZ House Price Index rose 1.9% in the month of August and recording a fresh record high annual growth rate of 31.1%. However, with interest rates expected to rise after this latest outbreak of COVID-19 in the community is contained, house price growth is expected to slow.

The economy grew strongly before lockdown...

Real GDP grew 2.8% in the June 2021 quarter, with broad-based growth confirming a strong recovery since the first lockdown in 2020. This strengthens the case for rising interest rates in the near term. Inflationary pressures were already evident and the economy was already above capacity, so this GDP number will support the Reserve Bank's view that monetary policy may need to tighten.

Growth in the June quarter was broad-based, but particularly strong in tourism-exposed industries. However, this outturn also reflects unusual people movements as a result of travel restrictions during the pandemic. Typically, there is a fall in the quarter following the peak tourist season, but the actual volume of services exports increased in the June quarter. Adjusting for this typical seasonal pattern magnified the result with seasonally adjusted services exports increasing 63% in the quarter. This boosted seasonally adjusted GDP.

GDP is expected to contract sharply next quarter owing to restrictions, potentially amplified by the continued unusual travel patterns highlighted above

...and the annual current account deficit widened

New Zealand's annual current account deficit widened to 3.3% of GDP in the June 2021 quarter, driven by the recovery in goods imports and the ongoing reduction in travel services export revenue. The deficit is expected to continue widening, as a downward cycle in global commodity prices weakens the goods balance and the slow recovery in international tourism drags down the services balance.

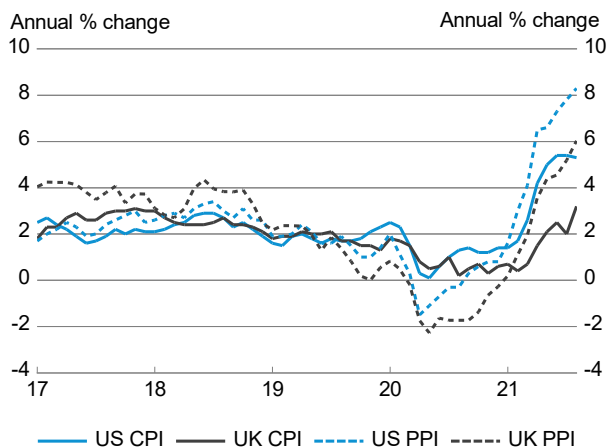
Global inflation debate continues...

The global economy has experienced a sharp lift in inflation recently. The big uncertainty is whether this is temporary (in which case central banks can keep interest rates low) or persistent (meaning global interest rates will rise). The latest evidence remains mixed, although there appears to be more of a persistent element than was expected earlier in the year.

Annual CPI inflation in the UK rose to 3.2% in August, the highest rate since 2012 (Figure 2). Growth in the month was driven by restaurant, hotel and recreation prices, reflecting the impact of easing pandemic-related restrictions. This adds credence to the argument that high inflation is a temporary phenomenon driven by the recovering services sector. However, rising producer price (PPI) inflation suggests underlying price pressures.

US inflation data also presented a mixed picture. While annual price growth eased to 5.3% in August, which would appear to support the temporary inflation narrative, price weakness was concentrated in volatile categories like airfares and hotels, which will have been impacted by the spread of the Delta variant and may rebound as the pandemic fades. Furthermore, producer price inflation and inflation expectations both hit new record highs, suggesting that persistent price pressures could be present.

Figure 2: Consumer and producer prices



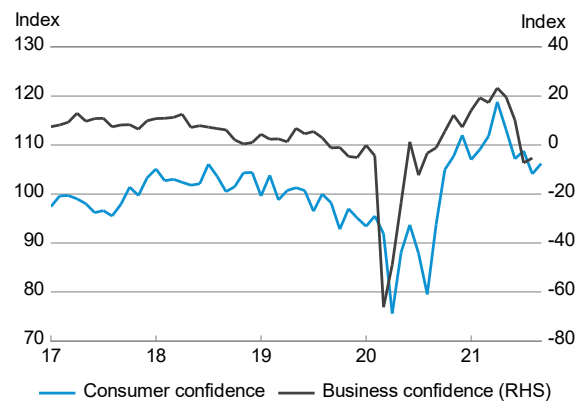
Source: Haver

...as Australian confidence shows resilience...

Australian business and consumer confidence indexes recovered some ground in August and September, but remain well below the levels seen prior to the June Delta outbreak (Figure 3). The dip in confidence has been far smaller than during the initial outbreak in 2020, however, reflecting both the

strong economic momentum going into the current outbreak and increased certainty that activity will bounce back once a high degree of vaccine coverage allows for the easing of restrictions.

Figure 3: Australia confidence indexes



Source: Haver

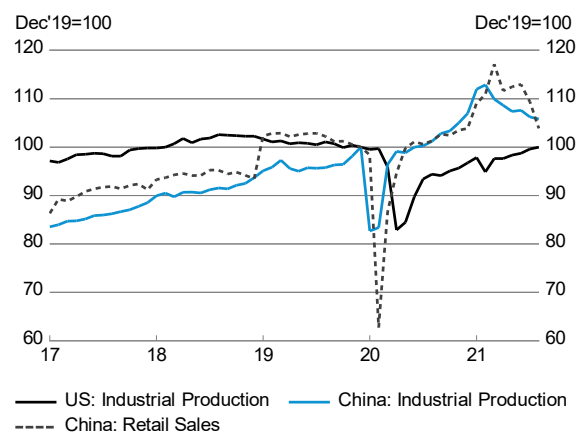
...despite labour market vulnerability...

Employment fell 1.1% in Australia in August as the spread of the Delta variant disrupted activity. The unemployment rate fell to 4.5%, though this was driven by a drop in the labour force participation rate as fewer people looked for work.

...and a slowing global recovery

China's industrial production and retail sales for August reflected the impact of virus control measures and the government's financial crackdown, with both indexes showing a slowdown from earlier in the year (Figure 4). Industrial production in the US was also weaker than expected, partly due to the impact of Hurricane Ida.

Figure 4: Industrial production and retail sales

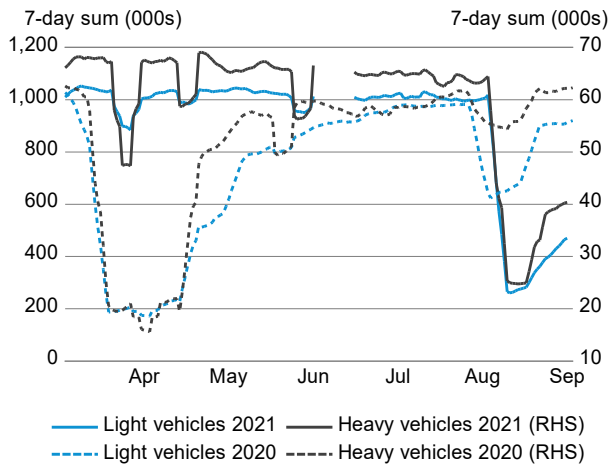


Source: Haver

Date	Key upcoming NZ data	Previous
20 September	Performance of Services	57.9 (index)
24 September	Merchandise trade balance	-0.3 (\$billion)

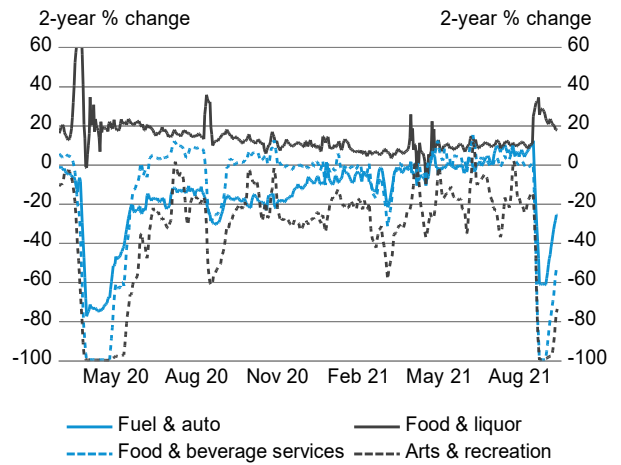
High-Frequency Indicators¹

Traffic and Freight Movement



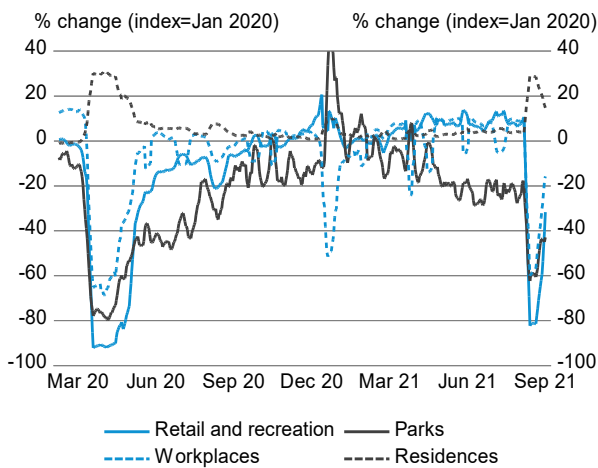
Source: Waka Kotahi NZ Transport Agency

Card Spending



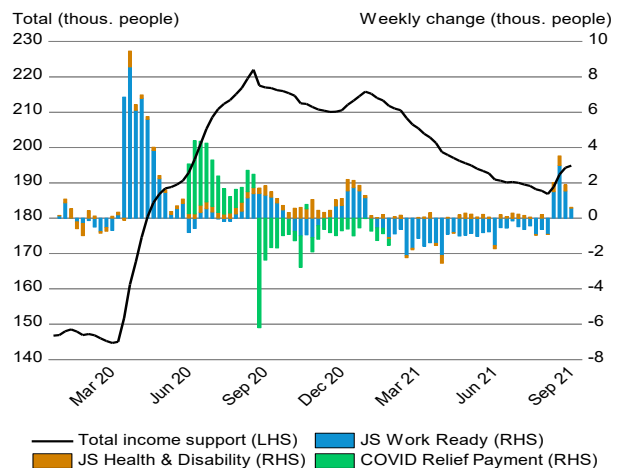
Source: Marketview data via MBIE

People Movements at Selected Locations



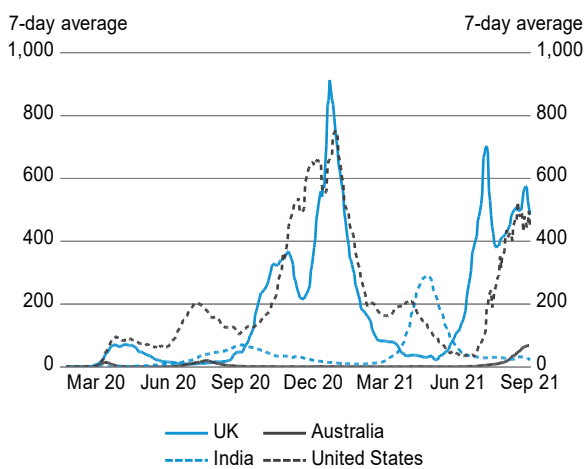
Source: Google

Jobseeker (JS) and Income Support Recipients



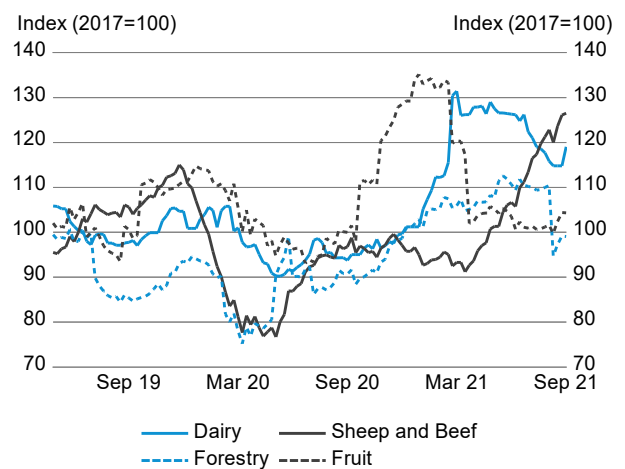
Source: MSD

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		2020Q1	2020Q2	2020Q3	2020Q4	2021Q1	2021Q2
Real Production GDP (1)	qpc	-1.4	-9.9	13.9	-1.0	1.4	2.8
	aapc	1.7	-1.3	-1.6	-2.1	-1.4	5.1
Current account balance (annual)	%GDP	-2.4	-1.5	-0.7	-0.8	-2.5	-3.3
Merchandise terms of trade	apc	5.4	6.3	-0.3	-1.6	-0.9	0.0
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	-0.4	-0.6	0.7	0.6	1.1
Unemployment rate (1)	%	4.2	4.1	5.3	4.8	4.6	4.0
Participation rate (1)	%	70.7	69.9	70.1	70.2	70.4	70.5
LCI salary & wage rates - total (2)	apc	2.5	2.1	1.8	1.6	1.6	2.1
QES average hourly earnings - total (2)	apc	3.7	3.0	4.2	4.3	4.0	4.0
Core retail sales volume	apc	4.0	-11.7	7.6	4.4	5.4	30.2
Total retail sales volume	apc	2.3	-14.2	8.1	4.7	6.6	33.3
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		Apr 21	May 21	Jun 21	Jul 21	Aug 21	Sep 21
Merchandise trade balance (12 month)	NZ\$m	748	-49	-277	-1,104	...	...
Dwelling consents - residential	apc	83.7	17.3	24.0	24.2	...	...
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	6.8	7.9	17.5	16.9	15.4	...
ANZ world commodity price index	apc	24.2	25.2	28.0	22.2	21.5	...
ANZBO - business confidence	net%	-2.0	1.8	-0.6	-3.8	-14.2	-6.8
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	...
Weekly Benefit Numbers		6 Aug	13 Aug	20 Aug	27 Aug	3 Sep	10 Sep
Jobseeker Support	number	187,758	186,840	188,865	192,393	194,280	194,898
Work Ready	number	107,643	106,734	108,231	111,213	112,749	113,316
Health Condition and Disability	number	80,118	80,106	80,634	81,180	81,528	81,579
COVID-19 Income Relief Payment	number	...	...	...	...	...	...
Full-time	number	...	...	...	...	...	...
Part-time	number	...	...	...	...	...	...
Daily Indicators		Thu 9/9/21	Fri 10/9/21	Mon 13/9/21	Tue 14/9/21	Wed 15/9/21	Thu 16/9/21
NZ exchange and interest rates (5)							
NZD/USD	\$	0.7090	0.7100	0.7105	0.7112	0.7080	0.7125
NZD/AUD	\$	0.9638	0.9639	0.9656	0.9658	0.9691	0.9714
Trade weighted index (TWI)	index	75.2	75.2	75.3	75.4	75.2	75.5
Official cash rate (OCR)	%	0.25	0.25	0.25	0.25	0.25	0.25
90 day bank bill rate	%	0.53	0.53	0.53	0.53	0.54	0.61
10 year govt bond rate	%	1.92	1.87	1.89	1.87	1.80	1.80
Share markets (6)							
Dow Jones	index	34,879	34,608	34,870	34,578	34,814	34,751
S&P 500	index	4,493	4,459	4,469	4,443	4,481	4,474
VIX volatility index	index	18.8	21.0	19.4	19.5	18.2	18.7
AU all ords	index	7,659	7,706	7,726	7,740	7,723	7,760
NZX 50	index	13,096	13,064	13,171	13,109	13,099	13,080
US interest rates							
3 month OIS	%	0.08	0.08	0.08	0.08	0.08	...
3 month Libor	%	0.11	0.12	0.12	0.12	0.12	...
10 year govt bond rate	%	1.30	1.35	1.33	1.28	1.31	1.34
Commodity prices (6)							
WTI oil	US\$/barrel	68.14	69.82	70.54	70.53	72.61	72.61
Gold	US\$/ounce	1,788	1,794.60	1,793.90	1,792.75	1,796.95	1,747.95
CRB Futures	index	554	556.19	555.05	555.09	557.75	...

(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		15.1	17.1	19.1		...	...	...
	PMI manufacturing (1)	index	60.8	64.7		60.7	61.2	60.6		59.5	59.9	...
Consumer confidence (1)(3)	index	95.2	114.9		117.5	120.0	128.9		125.1	113.8	...	
Japan [6.0%]	GDP (1)	qpc			-1.1				0.5			
	Industrial production (1)	mpc	-1.3	1.7		2.9	-6.5	6.5		-1.5	...	...
	CPI	apc	-0.5	-0.4		-1.1	-0.7	-0.4		-0.3	...	...
	Unemployment rate (1)	%	2.9	2.6		2.8	3.0	2.9		2.8	...	...
	Retail sales value	apc	3.7	5.2		11.9	8.3	0.1		2.4	...	...
	PMI manufacturing (1)	index	51.4	52.7		53.6	53.0	52.4		53.0	52.7	...
	Consumer confidence (1)(4)	index	33.7	36.1		34.8	34.2	37.6		37.5	36.6	...
Euro area [6.5%]	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	...	...
	Unemployment rate (1)	%	8.1	8.1		8.2	8.0	7.8		7.6	...	...
	Retail sales volume	apc	-1.3	13.8		23.6	8.6	5.4		3.1	...	...
	PMI manufacturing (1)	index	57.9	62.5		62.9	63.1	63.4		62.8	61.4	...
	Consumer confidence (5)	index	-14.8	-10.8		-8.1	-5.1	-3.3		-4.4	-5.3	...
United Kingdom [2.0%]	GDP (1)	qpc			-1.6				4.8			
	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	-3.6	6.9		42.1	24.1	9.1		2.4	...	...
	House prices (6)	apc	6.9	5.7		7.1	10.9	13.4		10.5	11.0	...
	PMI manufacturing (1)	index	55.1	58.9		60.9	65.6	63.9		60.4	60.3	...
	Consumer confidence (1)(5)	net %	-23.0	-16.0		-15.0	-9.0	-9.0		-7.0	-8.0	...
Australia [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	...	...
	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	...
	Consumer confidence (8)	index	109.1	111.8		118.8	113.1	107.2		108.8	104.1	106.2
China [31.0%]	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	...
	PMI manufacturing (1)	index	50.6	51.9		51.1	51.0	50.9		50.4	50.1	...
South Korea [3.0%]	GDP (1)	qpc			1.7				0.8			
	Industrial production (1)	mpc	4.2	-0.7		-1.9	-1.3	2.3		0.4	...	...
	CPI	apc	1.1	1.5		2.3	2.6	2.4		2.6	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