

Economic data continues to point to activity and confidence holding up relatively well compared to the period under higher alert levels (AL) in 2020. While the recovery in spending dropped back slightly last week, the move to AL 3 in Auckland will support activity ahead. Resilient consumer confidence is expected to support demand as restrictions ease, and sustained inflationary pressures raises expectations of tighter monetary policy. The possible default of Chinese property developer Evergrande remains a concern for financial markets. A default could lead to a slowdown in the Chinese economy and weaken demand for our exports.

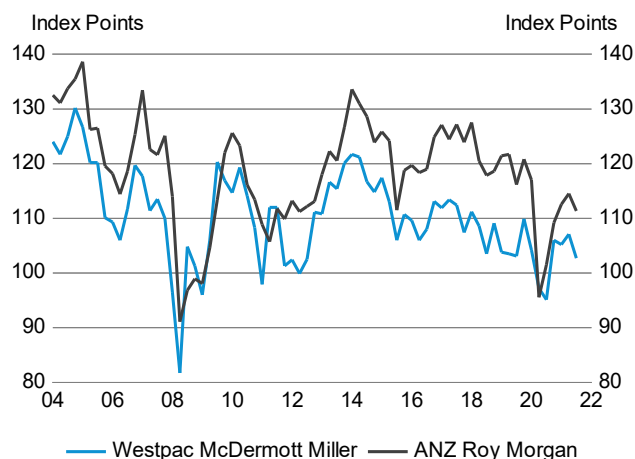
Recovery in card spending has abated...

Card spending in most regions outside Auckland in the week ended 20 September fell after an initial bounce back but remains above the levels seen in 2019. Total spending is expected to continue rising with Auckland moving to AL 3. However, in-person spending has not recovered to the same extent as the 2020 post-lockdown period, which likely reflects AL 3 in Auckland and a rise in online shopping

...but consumer confidence has been resilient

Consumer confidence in the Westpac McDermott Miller Consumer Confidence Survey fell 4.4 points in September to 102.7, much less than the fall seen during the 2020 lockdown (Figure 1). Supply chain disruptions and rising shipping costs appear to be weighing on consumers' spending by limiting the availability of goods and raising prices. While Auckland moving down alert levels is positive, global shipping is likely to remain disrupted for some time.

Figure 1: Consumer confidence



Monetary policy is expected to tighten...

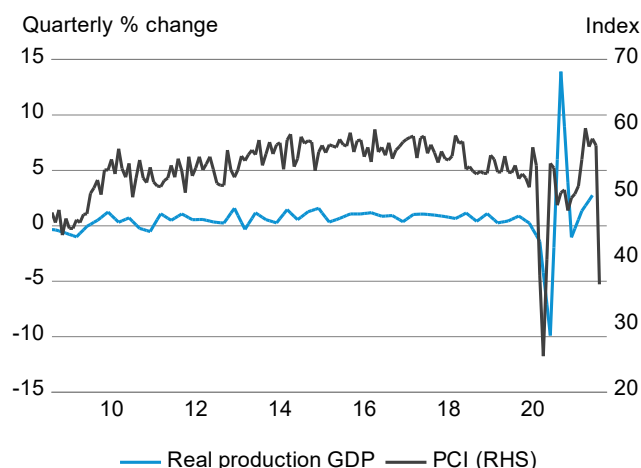
The evidence is becoming ever clearer that the economy was in a robust state prior to the Delta outbreak and has been resilient to the lockdown. There is also increasing evidence of inflationary pressure. Consequently, it seems increasingly likely that the Reserve Bank will lift interest rates. The Reserve Bank itself this week indicated that monetary policy would be tightened in small increments, rather than sharply.

The RBNZ has also announced that loan to value ratio (LVR) restrictions will tighten from 1 November 2021, limiting the amount of lending banks can do above an LVR of 80 percent to 10 percent of all new loans to owner-occupiers.

...after activity falls in the September quarter...

Both the BNZ-BusinessNZ Performance of Manufacturing and Services Indexes fell in August as a result of the nationwide lockdown and are now in contractionary territory. The Combined Index (PCI) fell to 36.2, a 20.8-point drop from July, suggesting a sharp decline in GDP in the September quarter (Figure 2).

Figure 2: GDP and PCI



Sources: Stats NZ, BNZ-BusinessNZ

...and Fonterra confirms pay-out for the year

Fonterra confirmed a \$7.74 per kgMS payout (including dividend) for the 2020/21 year. While dairy prices have been easing since their peak in March 2021, they remain at elevated levels which will be providing a boost to export values and the New Zealand dairy industry. Dairy prices rose 1.0% at the latest *GlobalDairyTrade* auction.

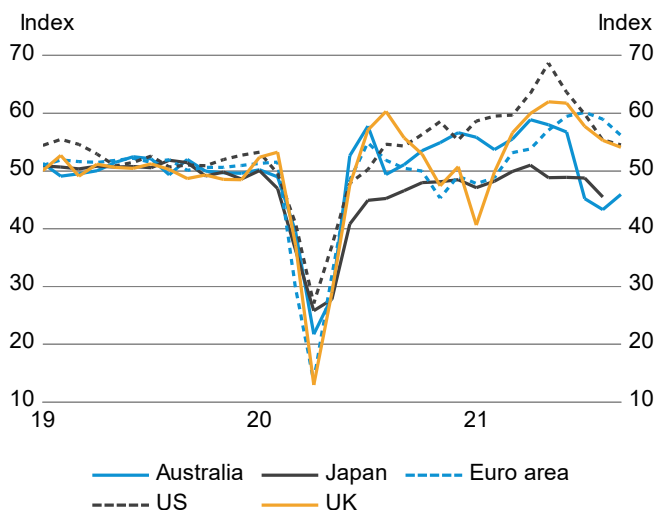
Concerns about Evergrande cause jitters...

It has been a volatile week in global financial markets, mostly due to concerns about the possible default of Chinese property developer Evergrande. Since there are no derivative instruments built on Evergrande's debt of more than NZD400 billion, analysts expect contagion to the rest of the financial system to be limited. However, a negative impact on the property sector is likely to result in a slowdown in China's economic growth, which could affect the demand for New Zealand's exports. After deteriorating early in the week, risk appetite improved on Thursday as Evergrande announced that it had reached an agreement on an upcoming coupon payment. Further helping sentiment was a large liquidity injection by the Chinese central bank. However, there is still a lot of uncertainty about Evergrande's restructure, to what extent the Chinese government will intervene, and the degree of wider contagion in the region.

...as activity growth slackens

Purchasing Managers' Index (PMI) data released for September confirmed that the global economic recovery is slowing. The PMI for the euro area, whilst still firmly in expansionary territory (above 50), declined to a five-month low (Figure 3). The measure for input prices reached a 21-year high, reflecting ongoing supply chain disruptions and shortages of materials. In the US, the composite PMI also declined, reaching a 12-month low. In addition to supply chain disruption, the decline reflected a slowdown in demand related to the Delta outbreak, while labour shortages continue to be an issue. Overall, with demand continuing to outpace supply, price pressures remain elevated.

Figure 3: Composite PMIs in selected countries



Source: Haver

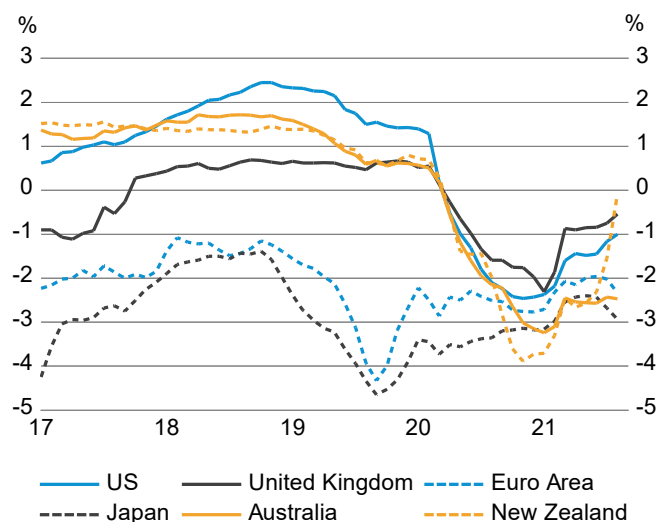
...and global central banks hold steady

Inflation rates are rising around the world and economic growth has slowed in many jurisdictions due to the Delta outbreak. However, the Federal Reserve expects US GDP growth will remain robust through 2022-24. Nevertheless, most central banks are only inching slowly toward tighter monetary policy. This week Norway became only the second developed economy after South Korea to raise its policy interest rate.

This week's United States Federal Open Market Committee (FOMC) statement was largely in line with market expectations, noting that if progress towards its policy goals continues as expected, asset purchase tapering 'may soon be warranted'. This means the FOMC will continue purchasing government bonds, but at a slower pace, with the slowdown expected to commence in either November or December. Some FOMC members brought forward their expectations of interest rate hikes, with nine out of 18 now judging an increase in 2022 to be appropriate, up from seven previously.

Shadow interest rates, which indicate the overall stance of monetary policy including asset purchases, remain firmly in negative territory, but have started increasing, notably in New Zealand (Figure 4).

Figure 4: Shadow interest rates

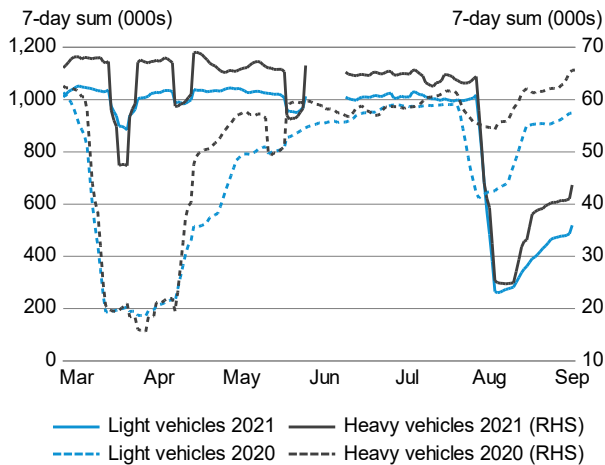


Source: Haver

Date	Key upcoming NZ data	Previous
30 September	Building consents	+2.1% (mpc)
1 October	ANZ Consumer Confidence	109.6 (index)

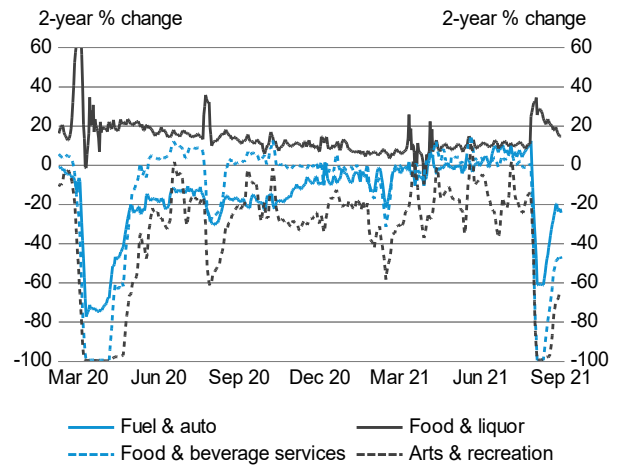
High-Frequency Indicators¹

Traffic and Freight Movement



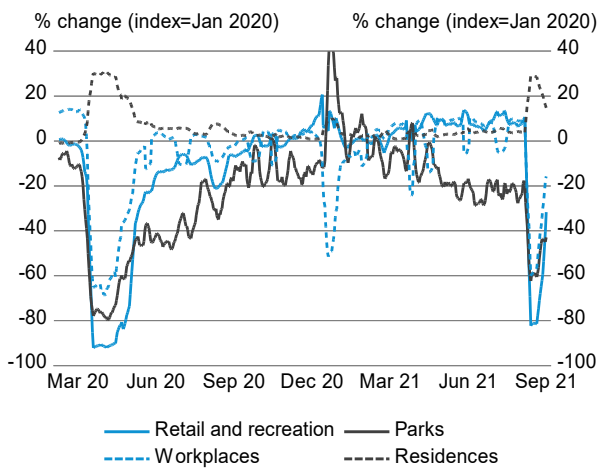
Source: Waka Kotahi NZ Transport Agency

Card Spending



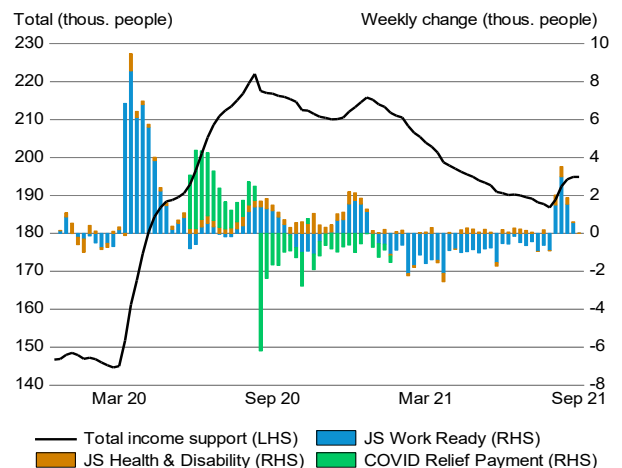
Source: Marketview data via MBIE

People Movements at Selected Locations



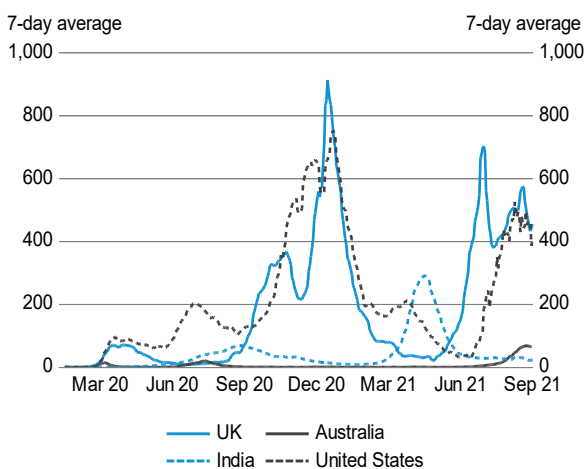
Source: Google

Jobseeker (JS) and Income Support Recipients



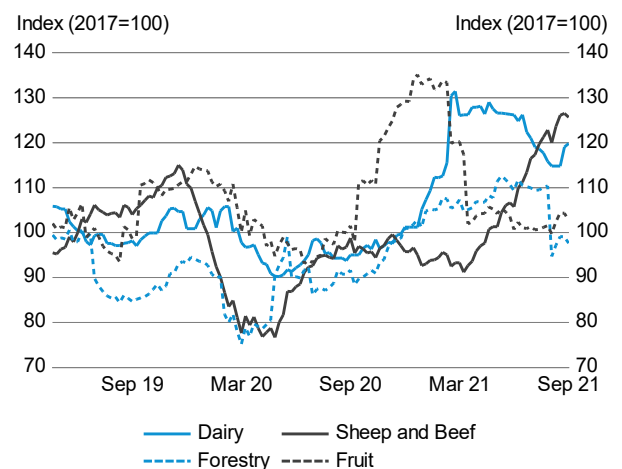
Source: MSD

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	-1,099	-2,944	...
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		13 Aug	20 Aug	27 Aug	3 Sep	10 Sep	17 Sep
Jobseeker Support	number	186,840	188,865	192,393	194,280	194,898	194,907
Work Ready	number	106,734	108,231	111,213	112,749	113,316	113,322
Health Condition and Disability	number	80,106	80,634	81,180	81,528	81,579	81,588
COVID-19 Income Relief Payment	number	...	...	...	...	...	...
Full-time	number	...	...	...	...	...	...
Part-time	number	...	...	...	...	...	...

Daily Indicators		Thu 16/9/21	Fri 17/9/21	Mon 20/9/21	Tue 21/9/21	Wed 22/9/21	Thu 23/9/21
NZ exchange and interest rates (5)							
NZD/USD	\$	0.7125	0.7062	0.7030	0.7022	0.7023	0.6998
NZD/AUD	\$	0.9714	0.9697	0.9705	0.9665	0.9683	0.9667
Trade weighted index (TWI)	index	75.5	75.2	74.9	74.8	74.9	74.7
Official cash rate (OCR)	%	0.25	0.25	0.25	0.25	0.25	0.25
90 day bank bill rate	%	0.61	0.68	0.67	0.61	0.62	0.61
10 year govt bond rate	%	1.80	1.86	1.87	1.84	1.86	1.86
Share markets (6)							
Dow Jones	index	34,751	34,585	33,970	33,920	34,258	34,765
S&P 500	index	4,474	4,433	4,358	4,354	4,396	4,449
VIX volatility index	index	18.7	20.8	25.7	24.4	20.9	18.6
AU all ords	index	7,760	7,703	7,538	7,563	7,594	7,681
NZX 50	index	13,080	13,235	13,179	13,177	13,216	13,306
US interest rates							
3 month OIS	%	0.08	0.08	0.08	0.08	0.08	...
3 month Libor	%	0.12	0.12	0.13	0.13	0.13	...
10 year govt bond rate	%	1.34	1.37	1.31	1.33	1.32	1.41
Commodity prices (6)							
WTI oil	US\$/barrel	72.61	72.09	70.41	70.51	72.23	73.30
Gold	US\$/ounce	1,748	1,755.95	1,757.75	1,774.45	1,773.40	1,750.00
CRB Futures	index	556	555.50	550.58	547.07	549.61	...

(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		...	...	...
Japan [6.0%]	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	...
	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	...	...
Euro area [6.5%]	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	...
	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	3.0	...
	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	...	...
United Kingdom [2.0%]	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	-4.0
	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	-3.3	6.9		42.1	24.6	9.1		1.9	0.0	...
Australia [13.0%]	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	-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	...	...
China [31.0%]	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
	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