

# Weekly Economic Update

3 September 2021

Businesses remain optimistic about the outlook for economic demand after Alert Levels are lowered. The bigger challenge is likely to be constraints on the supply side of the economy, such as difficulty finding labour, production delays and logistical bottlenecks. Different alert levels between Auckland and the rest of the country could further challenge supply chains. Consistent with these supply-side challenges, a wide range of inflation indicators are increasing.

The global economy appears to be slowing due to resurgences of COVID-19, while inflation pressures are ramping up owing to supply constraints.

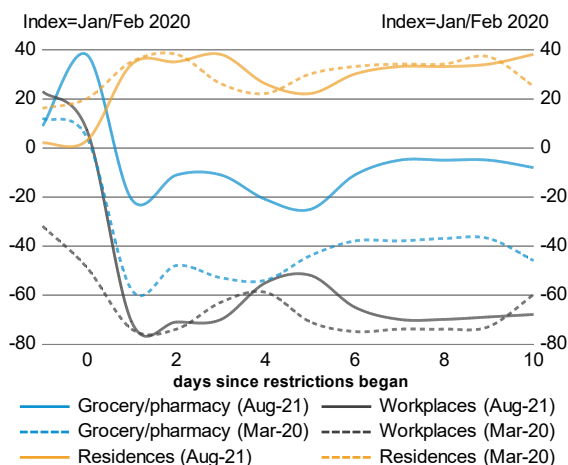
### People movements key to containment outcomes

Data supplied by Google using users' location history allows a comparison between the movements of people during the recent Alert Level 4 period in New Zealand with the same period in 2020, and other parts of the world that are aiming to control the spread of COVID-19. Mobility in New Zealand appears to be similar to last year's lockdown, suggesting high compliance with the restrictions. And New Zealand mobility is far lower than Greater Sydney, which arguably suggests we have a greater chance of controlling the virus.

### Mobility levels similar to 2020 Alert Level 4...

In New Zealand, people movements at places of residence and workplaces during the recent Alert Level 4 period appear very similar to those a year ago, indicating similar levels of compliance (Figure 1). Movements at grocery stores and pharmacies have been significantly less impacted in the current period, possibly reflecting more frequent grocery shopping or vaccinations at local health facilities.

Figure 1: People movements, Aug-2021 vs. Mar-2020

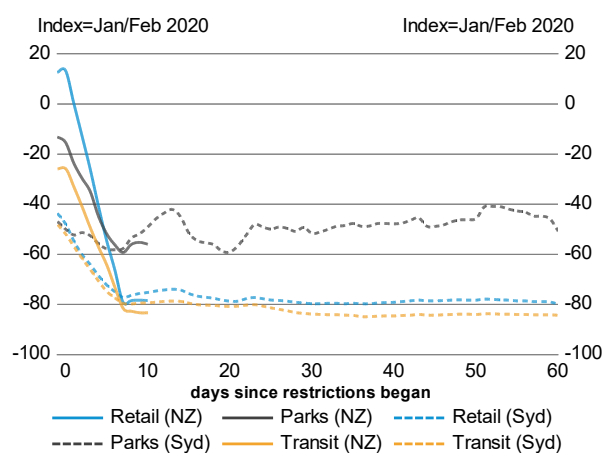


Source: Google mobility data

### ...with similar patterns to the City of Sydney...

A useful comparison can be made with Sydney, Australia, which experienced an outbreak of the Delta strain in June 2021 that continues to grow. People movements in the City of Sydney fell substantially after the stay-at-home orders were introduced on 26 June. New Zealand experienced a similar decline in people movements in the latest period under Alert Level 4 (Figure 2).

Figure 2: NZ (Aug-2021) vs. City of Sydney (Jun-2021)

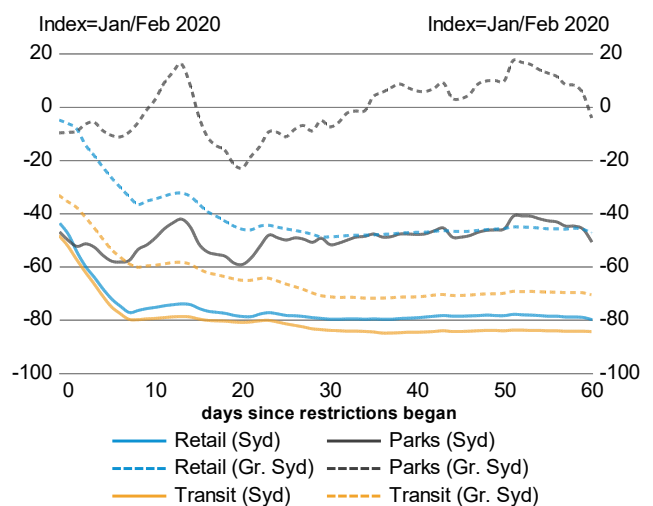


Source: Google mobility data

### ...though trends in Greater Sydney differ

Comparing people movements with other areas, mobility in the Greater Sydney area appears to be much higher than in the city centre (Figure 3), thus could be linked to the extended outbreak of the more contagious strain of COVID-19.

Figure 3: Sydney (Jun-2021) vs. Greater Sydney excluding City of Sydney



Source: Google mobility data

### **Businesses remain optimistic...**

Early business confidence data suggests that businesses remain optimistic, buoyed by the momentum going into this lockdown and an anticipated post-lockdown rebound, reflecting businesses experiences last year. The ANZ Business Outlook Survey (ANZBO) for August shows that initial responses after lockdown look robust. Business confidence fell 10 points, and own activity was down 7 points. This survey includes 75% of responses pre-lockdown and 25% post-lockdown, but data shows that much of the fall in both business confidence and activity predates the lockdown.

### **...but capacity pressures are growing more acute...**

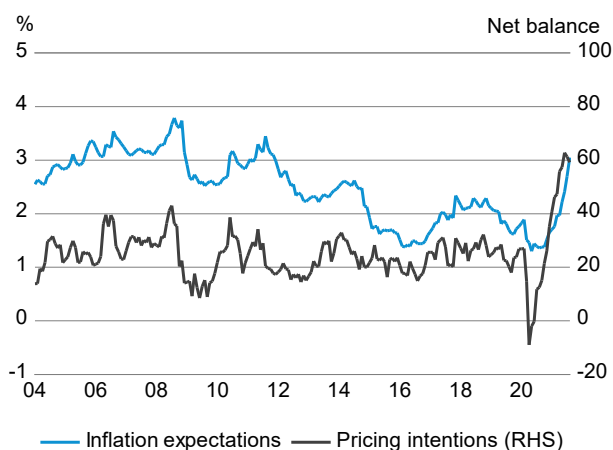
A number of businesses have highlighted that international supply chain issues and labour shortages are growing more acute and are being exacerbated by the current lockdown. Domestic firms are also experiencing difficulty finding labour and disrupted supply chains. Domestic supply chain disruptions are, however, not as severe as last year during Alert Level 4. Large firms have been able to put in place more secure supply arrangements, although small firms are less able to do so.

### **...and regional boundaries concern some**

Auckland being at Alert Level 4 could add to supply constraints for firms in the rest of the country, given the important role Auckland plays in manufacturing, warehousing and logistics. The impact is likely to be uneven, with some industries heavily impacted. Our early assessment is the Alert Level boundary differences could potentially increase the cost of Level 3 restrictions by up to \$50m per week, which is relatively small compared to the overall cost of COVID-19 restrictions.

### **Inflation expectations reach 10-year high...**

**Figure 4: Inflation expectations and pricing intentions**



Source: ANZ

The ANZBO survey also shows that inflation pressures remain intense, with inflation expectations reaching 3.05%, its highest reading in almost 10 years (Figure 4). Pricing intentions remain extremely high, as do expected costs.

### **...and building consents record a new record**

Annual building consents recorded a fresh record high in July, indicating that demand for construction activity was robust prior to the nation-wide move to Alert Level 4 in August. While restrictions on activity will lead to a drop in recorded consents in the month of August, there is likely to be a bounce back in September as councils process the backlog. Capacity issues, particularly with respect to labour supply and materials shortages are expected to be exacerbated further by the current lockdown, however, we expect these to be temporary.

### **The terms of trade lifts to near record highs**

The goods terms of trade index lifted 3.3% in the June 2021 quarter, as export prices rose by more than import prices. The terms of trade index is expected to continue rising over the coming quarters as higher world commodity prices feed through.

**Figure 5: Goods trade values**



Source: Stats NZ

Along with surprisingly strong retail sales, these data suggest further upside risk to the GDP forecast in the 2021 Budget Update.

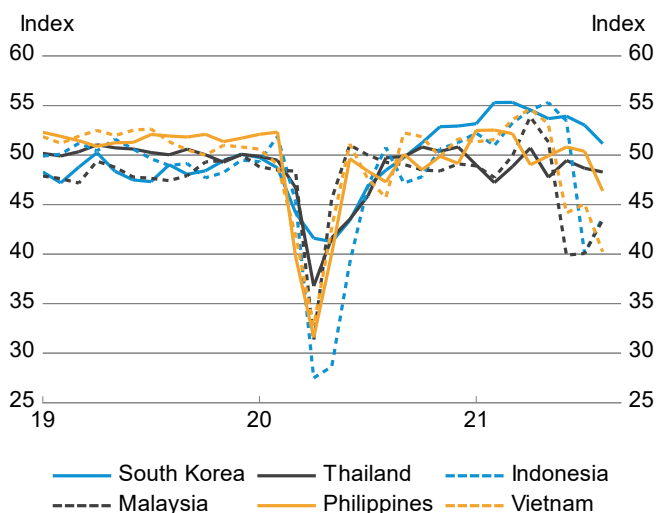
Record high freight costs continue to be reflected in the data, with transportation services import prices rising a further 20%, following a 52% rise in the March quarter. These increased costs will be reducing profits for exporters and are expected to persist for at least another year.

### **Weak global activity data...**

Restrictions on activity amid outbreaks of COVID-19 continue to affect global activity indicators. China's official non-manufacturing Purchasing Managers Index (PMI) fell sharply from 53.3 in July to 47.5 in August, with a value of below 50 indicating that activity is contracting. The manufacturing component also fell, but more modestly and remained in expansionary territory at 50.1, from 50.4 the previous month.

Elsewhere in Asia, manufacturing activity remains in contractionary territory in most countries (Figure 6). South Korea's manufacturing PMI continued to fall in August, and although it remained in expansionary territory, production levels declined for the first time in a year, driven by an increase in COVID-19 infections and shortages of materials. In Vietnam, amid its worst outbreak of COVID-19, there was another sharp fall in the manufacturing PMI to 40.2, from 45.1 the previous month. Some manufacturers are unable to operate at all, while others are operating at reduced capacity and with a lower number of workers. Manufacturers also continue to face severe delays in receiving inputs, exacerbated by reduced capacity at ports.

**Figure 6: Manufacturing PMIs**



Source: Haver

Canada's June quarter GDP contracted unexpectedly by 0.3% on a quarterly basis. The contraction was driven by a 0.8% fall in gross fixed capital formation and a 4% decline in goods and services exports, partially offset by higher inventories and consumption.

In the United States (US), the ADP employment report showed a weaker-than-expected increase of 374,000 for August owing to the spread of the Delta

variant of COVID-19. Another sign that the US labour market is losing steam was evident in the ISM manufacturing index. Although the overall index rose to 59.9, the employment sub-index fell to 49.0, the lowest level since November.

### **...amid rising inflation pressures...**

Annual inflation in the euro area increased by more than expected to 3.0% in August, from 2.2% in July. Core inflation increased from 0.9% to 1.6%, the highest level in a decade. Across the globe, PMIs continue to indicate that price pressures remain intense. In the US, the Chicago PMI prices paid index increased by a further 2.3 points to 93.9, the highest level since 1979.

### **...as confidence falls...**

Higher inflation and the effects of the pandemic led to a large fall in the US Conference Board Consumer Confidence Index in August. It fell by 11.3 points to a six-month low.

### **...and US taper is signalled**

Fed Chair Jerome Powell noted in his speech at Jackson Hole last week that the US Federal Reserve Bank could start tapering asset purchases this year, in line with the July Federal Open Market Committee meeting and minutes. On inflation, Powell reiterated that current pressures on inflation are believed to be transitory and noted that it 'may do more harm than good' to react to these given the long response lags of monetary policy.

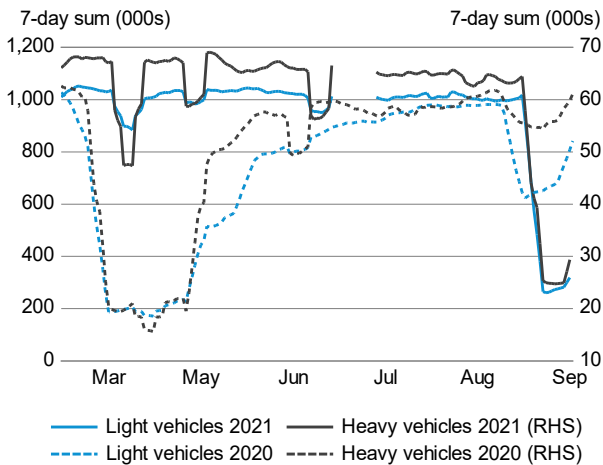
### **Domestic demand boosts Australia's GDP**

Australia's June quarter GDP increased by a better-than-expected 0.7% in the June quarter, with domestic demand contributing 1.6 percentage points. Household spending was up 1.1% and public investment 7.4%, driven by state and local government infrastructure projects. The household spending increase reflected in a fall in the savings ratio from 11.6% to 9.7% – still well above pre-pandemic levels of around 5%. The June quarter was not substantially affected by lockdowns. The September quarter is expected to show a contraction of at least 1%, according to the Reserve Bank's August Statement on Monetary Policy, but more recent forecasts from analysts are for a decline of at least 2%.

Date	Key upcoming NZ data	Previous
6 September	Value of building work put in place	3.7 (mpc)
10 September	Electronic card transactions	0.9 (mpc)

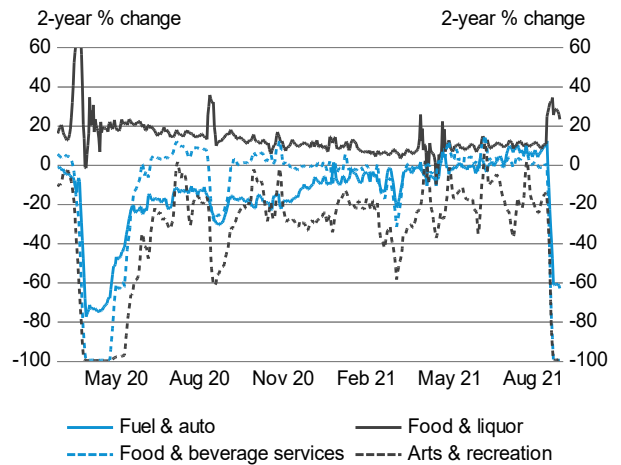
# High-Frequency Indicators<sup>1</sup>

## Traffic and Freight Movement



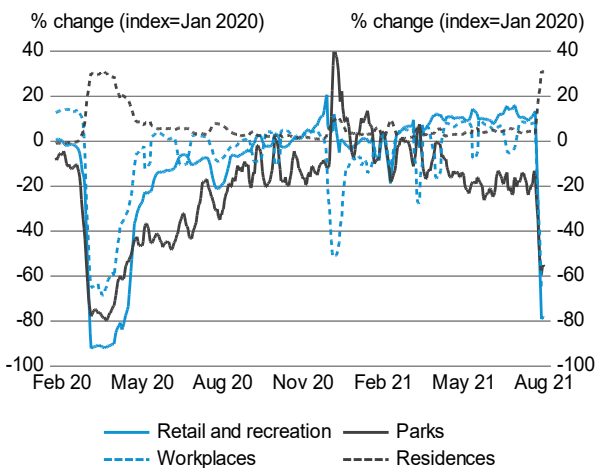
Source: Waka Kotahi NZ Transport Agency

## Card Spending



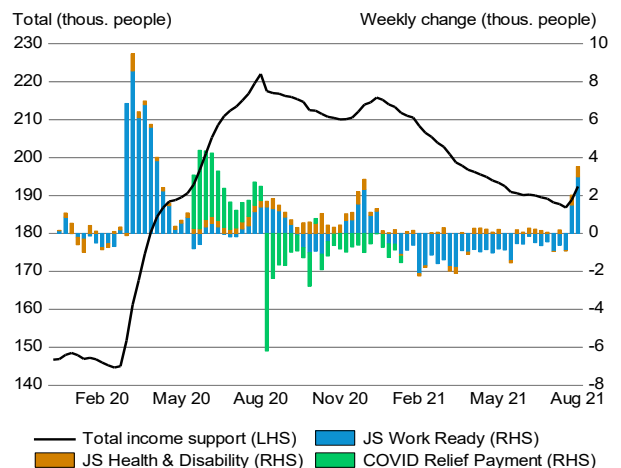
Source: Marketview data via MBIE

## People Movements at Selected Locations



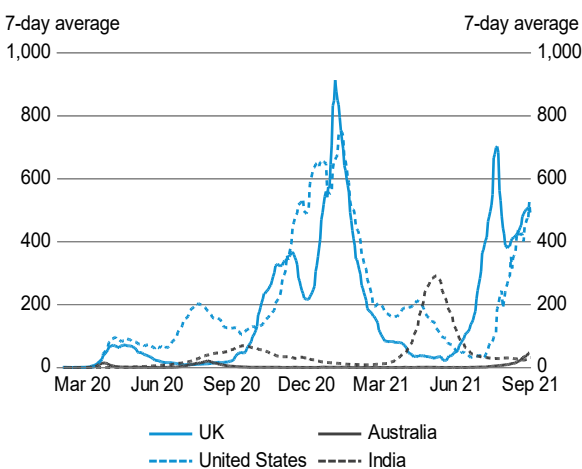
Source: Google

## Jobseeker (JS) and Income Support Recipients



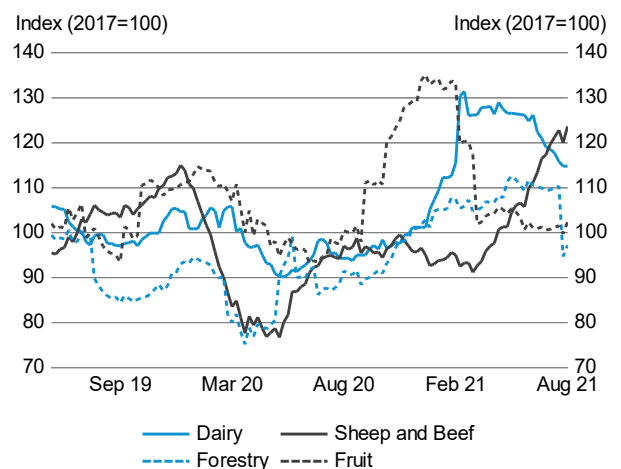
Source: MSD

## COVID-19 Cases Per Million People



Source: World Health Organisation/Haver

## World Commodity Prices



Source: ASB

<sup>1</sup> 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	-1.5	-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	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		Mar 21	Apr 21	May 21	Jun 21	Jul 21	Aug 21
Merchandise trade balance (12 month)	NZ\$m	1,701	748	-49	-277	-1,104	...
Dwelling consents - residential	apc	44.7	83.7	17.3	24.0	24.2	...
House sales - dwellings	apc	37.0	439.7	86.4	9.8	-11.7	...
REINZ - house price index	apc	23.9	26.8	29.7	30.0	30.7	...
Estimated net migration (12 month total)	people	3,229	3,697	4,201	4,711	...	...
ANZ NZ commodity price index	apc	4.0	6.8	7.9	17.4	17.1	...
ANZ world commodity price index	apc	20.2	24.2	25.2	27.8	22.5	...
ANZBO - business confidence	net%	-4.1	-2.0	1.8	-0.6	-3.8	-14.2
ANZBO - activity outlook	net%	16.6	22.2	27.1	31.6	26.3	19.2
ANZ-Roy Morgan - consumer confidence	net%	110.8	115.4	114.0	114.1	113.1	109.6

Weekly Benefit Numbers		23 Jul	30 Jul	6 Aug	13 Aug	20 Aug	27 Aug
<b>Jobseeker Support</b>	number	189,150	188,193	187,761	186,840	188,862	192,390
Work Ready	number	109,215	108,273	107,643	106,734	108,228	111,213
Health Condition and Disability	number	79,932	79,920	80,115	80,106	80,634	81,180
<b>COVID-19 Income Relief Payment</b>	number	...	...	...	...	...	...
Full-time	number	...	...	...	...	...	...
Part-time	number	...	...	...	...	...	...

Daily Indicators		Thu 26/8/21	Fri 27/8/21	Mon 30/8/21	Tue 31/8/21	Wed 1/9/21	Thu 2/9/21
<b>NZ exchange and interest rates (5)</b>							
NZD/USD	\$	0.6965	0.6941	0.7005	0.7026	0.7043	0.7064
NZD/AUD	\$	0.9588	0.9595	0.9584	0.9628	0.9624	0.9600
Trade weighted index (TWI)	index	74.2	74.1	74.4	74.6	74.7	74.9
Official cash rate (OCR)	%	0.25	0.25	0.25	0.25	0.25	0.25
90 day bank bill rate	%	0.45	0.46	0.46	0.46	0.50	0.49
10 year govt bond rate	%	1.68	1.67	1.71	1.72	1.76	1.81
<b>Share markets (6)</b>							
Dow Jones	index	35,213	35,456	35,400	35,361	35,313	35,444
S&P 500	index	4,470	4,509	4,529	4,523	4,524	4,537
VIX volatility index	index	18.8	16.4	16.2	16.5	16.1	16.4
AU all ords	index	7,770	7,760	7,789	7,823	7,813	7,784
NZX 50	index	13,052	13,060	13,181	13,219	13,243	13,280
<b>US interest rates</b>							
3 month OIS	%	0.09	0.08	0.08	0.06	0.08	...
3 month Libor	%	0.12	0.12	...	0.12	0.12	...
10 year govt bond rate	%	1.34	1.31	1.29	1.30	1.31	1.29
<b>Commodity prices (6)</b>							
WTI oil	US\$/barrel	67.42	68.84	69.28	68.43	68.59	...
Gold	US\$/ounce	1,787	1,798.50	...	1,814.85	1,811.80	...
CRB Futures	index	560	561.17	560.35	559.64	557.22	...

(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		Jan 21	Feb 21	Mar 21	2021Q1	Apr 21	May 21	Jun 21	2021Q2	Jul 21	Aug 21
<b>United States</b> [9.6% share of total goods exports]	GDP (1)	qpc				1.5				1.6		
	Industrial production (1)	mpc	1.1	-3.0	2.8		0.0	0.8	0.2		0.9	...
	CPI	apc	1.4	1.7	2.6		4.2	5.0	5.4		5.4	...
	Unemployment rate (1)	%	6.3	6.2	6.0		6.1	5.8	5.9		5.4	...
	Employment change (1)	000s	233.0	536.0	785.0		269.0	614.0	938.0		943.0	...
	Retail sales value	apc	9.4	6.5	29.7		53.4	28.0	18.7		15.8	...
	House prices (2)	apc	11.2	12.1	13.5		15.1	17.1	19.1		...	...
	PMI manufacturing (1)	index	58.7	60.8	64.7		60.7	61.2	60.6		59.5	59.9
Consumer confidence (1)(3)	index	87.1	95.2	114.9		117.5	120.0	128.9		125.1	113.8	
<b>Japan</b> [6.1%]	GDP (1)	qpc				-0.9				0.3		
	Industrial production (1)	mpc	3.1	-1.3	1.7		2.9	-6.5	6.5		-1.5	...
	CPI	apc	-0.7	-0.5	-0.4		-1.1	-0.7	-0.4		-0.3	...
	Unemployment rate (1)	%	2.9	2.9	2.6		2.8	3.0	2.9		2.8	...
	Retail sales value	apc	2.7	3.7	5.2		11.9	8.3	0.1		2.4	...
	PMI manufacturing (1)	index	49.8	51.4	52.7		53.6	53.0	52.4		53.0	52.7
	Consumer confidence (1)(4)	index	30.0	33.7	36.1		34.8	34.2	37.6		37.5	36.6
<b>Euro area</b> [5.5%]	GDP (1)	qpc				-0.3				2.0		
	Industrial production (1)	mpc	1.0	-1.2	0.6		0.7	-1.1	-0.3		...	...
	CPI	apc	0.9	0.9	1.3		1.6	2.0	1.9		2.2	...
	Unemployment rate (1)	%	8.2	8.1	8.1		8.2	8.0	7.8		7.6	...
	Retail sales volume	apc	-4.9	-1.3	13.8		23.5	8.6	5.0		...	...
	PMI manufacturing (1)	index	54.8	57.9	62.5		62.9	63.1	63.4		62.8	61.4
	Consumer confidence (5)	index	-15.5	-14.8	-10.8		-8.1	-5.1	-3.3		-4.4	-5.3
<b>United Kingdom</b> [2.7%]	GDP (1)	qpc				-1.6				4.8		
	Industrial production (1)	mpc	-1.6	0.5	1.5		-0.8	0.6	-0.7		...	...
	CPI	apc	0.9	0.7	1.0		1.6	2.1	2.4		2.1	...
	Unemployment rate (1)	%	5.1	5.0	4.9		4.8	4.8	4.7		...	...
	Retail sales volume	apc	-5.9	-3.6	6.9		42.1	24.1	9.1		2.4	...
	House prices (6)	apc	6.4	6.9	5.7		7.1	10.9	13.4		10.5	11.0
	PMI manufacturing (1)	index	54.1	55.1	58.9		60.9	65.6	63.9		60.4	60.3
	Consumer confidence (1)(5)	net %	-28.0	-23.0	-16.0		-15.0	-9.0	-9.0		-7.0	-8.0
<b>Australia</b> [15.8%]	GDP (1)	qpc				1.9				0.7		
	CPI	apc				1.1				3.8		
	Unemployment rate (1)	%	6.4	5.9	5.7		5.5	5.1	4.9		4.6	...
	Retail sales value	apc	10.3	5.2	3.9		23.8	7.1	2.9		-2.9	...
	House Prices (7)	apc				8.9					...	
	PMI manufacturing (1)	index	55.3	58.8	59.9		61.7	61.8	63.2		60.8	51.6
Consumer confidence (8)	index	107.0	109.1	111.8		118.8	113.1	107.2		108.8	104.1	
<b>China</b> [24.3%]	GDP	apc				18.3				7.9		
	Industrial production	apc	35.1	35.1	14.1		9.8	8.8	8.3		6.4	...
	CPI	apc	-0.3	-0.2	0.4		0.9	1.3	1.1		1.0	...
PMI manufacturing (1)	index	51.3	50.6	51.9		51.1	51.0	50.9		50.4	50.1	
<b>South Korea</b> [3.0%]	GDP (1)	qpc				1.7				0.8		
	Industrial production (1)	mpc	-1.2	4.2	-0.7		-1.9	-1.3	2.3		0.4	...
	CPI	apc	0.6	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