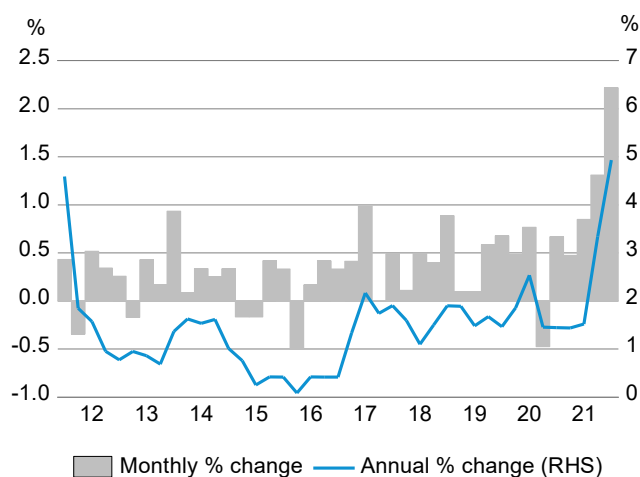


Like other countries around the world, consumer prices in New Zealand have risen sharply, with the Consumers Price Index (CPI) growing at its fastest rate in over ten years in the September quarter. Elevated cost pressures and resilient demand will likely boost inflation further in the quarters ahead and financial markets now expect monetary policy to tighten more sharply. Some cost pressures are expected to ease over 2022 but demand is expected to remain resilient. Businesses have indicated that activity had already begun rebounding last month, consistent with the high-frequency data. However, the recovery is likely to be felt unevenly across the country with regions at different alert levels.

Highest inflation in over 10 years...

CPI inflation reached 2.2% in the quarter, with prices up 4.9% from a year ago (Figure 1), reflecting the high cost pressures reported in business surveys, continued momentum in demand from the June quarter and the resilience seen in the high-frequency data. Inflation is now the highest it has been for over 10 years and will likely rise further in the quarters ahead. However, some inflationary pressures are expected to ease over 2022 as the effects of higher energy prices and supply chain disruptions subside.

Figure 1: Consumers Price Index



Source: Stats NZ

...leading to an upward spike in swap rates...

Measures of core inflation and inflation expectations have risen to around 10-year highs, contributing to financial markets' expectations of a better-than-even probability of a 50-basis point increase in the Official Cash Rate at the November Monetary Policy

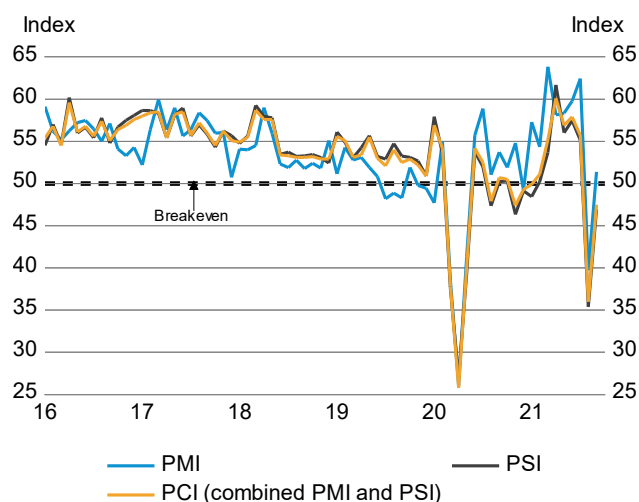
Statement, with both the 1-year and 2-year swap rates jumping strongly after the CPI release. Some retail interest rates moved higher in the days after the CPI release, with mortgage rates rising 14-50 basis points so far, taking the average 2-year fixed rate to around 3.4%. Rising interest rates are expected to help bring inflation down towards the Reserve Bank's 2.0% target midpoint over the medium term.

...and businesses report improving activity

The BNZ-BusinessNZ Performance of Manufacturing Index (PMI) is back to expansionary territory after rising to 51.4 in September (Figure 2). However, the outlook for the North Island remains contractionary while activity in the South Island has returned to pre-lockdown levels.

The BNZ-BusinessNZ Performance of Services Index (PSI) also rose but remains in contraction at 46.9. While lower alert levels have allowed manufacturing in most parts of the country to resume, restrictions, particularly in Auckland, and limits on gathering sizes will continue to constrain the recovery in services.

Figure 2: PMI, PSI and PCI



Source: BNZ-BusinessNZ

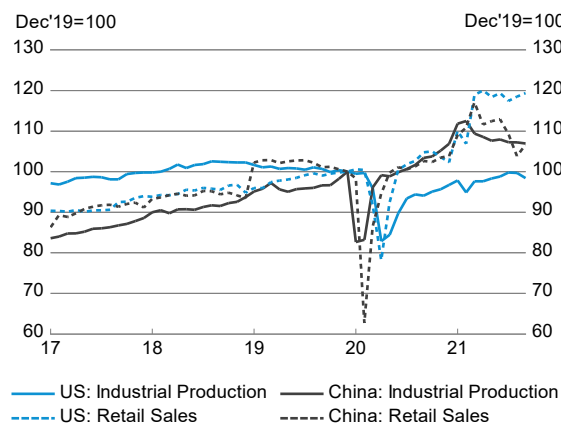
The effects of the pandemic are not felt evenly across businesses, with smaller businesses and those in Auckland, disproportionately affected. Business outreach suggests small and medium-sized businesses are more pessimistic than suggested in the business surveys. Concerns raised include managing the vaccination status of people in the workplace, ongoing supply-chain issues, skills shortages and difficulty maintaining international contacts owing to closed borders.

Global growth appears to be slowing amid supply constraints and weakening construction activity, while inflation continues to be driven up by supply disruption and energy shortages, contributing to fears of ‘stagflation’ (stagnant economic growth and high price inflation) in the global economy.

Growth slows in the September quarter...

Industrial production in September was weaker than anticipated in both China and the US, indicating a slowdown in global economic growth (Figure 3). In China, production eased slightly from the previous month to continue the trend of a steady decline since the beginning of the year. Difficulty sourcing materials contributed to a surprise drop in production in the US, with vehicle output being particularly affected by the global shortage of semiconductor chips.

Figure 3: US and China economic activity



Source: Haver

Retail sales data were more encouraging, with both the US and China posting solid gains. China’s overall GDP growth for the September quarter was a disappointing 0.2% rise compared to the previous quarter. Given the various headwinds facing China’s economy, including energy shortages, outbreaks of COVID-19 and the precarious property market, economic growth appears unlikely to pick up significantly in the near term.

...with weakness in construction...

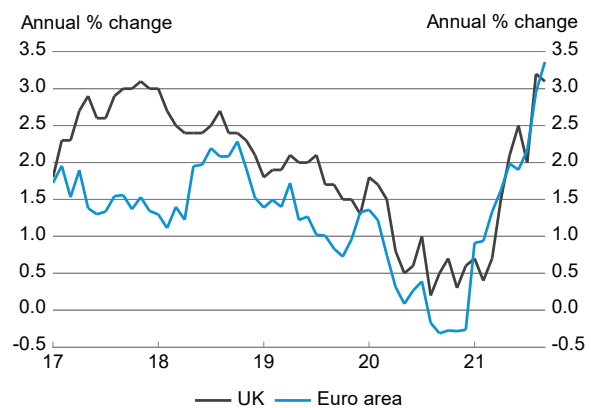
Construction activity around the world is displaying weakness, suggesting that a key driver of the post-pandemic economic recovery is starting to slow. Construction was a weak point in China’s GDP data, down 1.8% compared to the same quarter in 2020, as high debt levels weighed on the country’s property sector. A similar fall in construction activity was recorded in the euro area in August, and homebuilding in the US unexpectedly fell in September amid shortages of materials and labour.

New building permits also fell sharply in the US, indicating that the slowdown in residential construction is likely to continue.

...as inflation remains high...

Annual consumer price index (CPI) inflation remained high in both the UK and the euro area, with both above 3.0% in September (Figure 4). Bank of England Governor Bailey signalled that a tightening in monetary policy could be imminent, stating that the bank ‘will have to act’ if the risks of persistently elevated inflation continue to mount.

Figure 4: Consumer price indexes

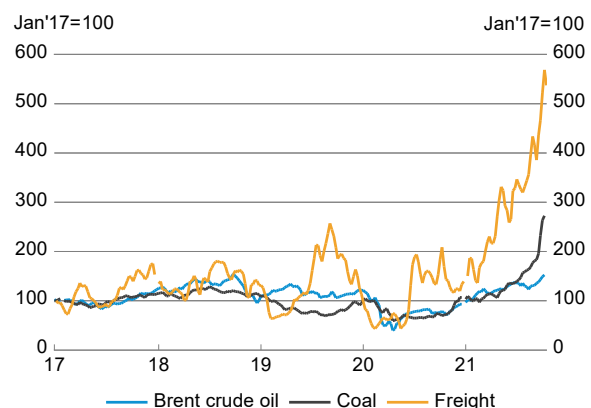


Source: Haver

...amid supply disruption and energy shortages

Rising oil prices have been a key contributor to global inflation, and these have continued to rise in October to the highest level in three years (Figure 5). Freight prices also show little sign of easing, as congestion at ports around the world remains severe. Coal prices have nearly tripled since the start of 2021, prompting China to increase mining activity despite pledges to reduce emissions.

Figure 5: Global freight and energy prices

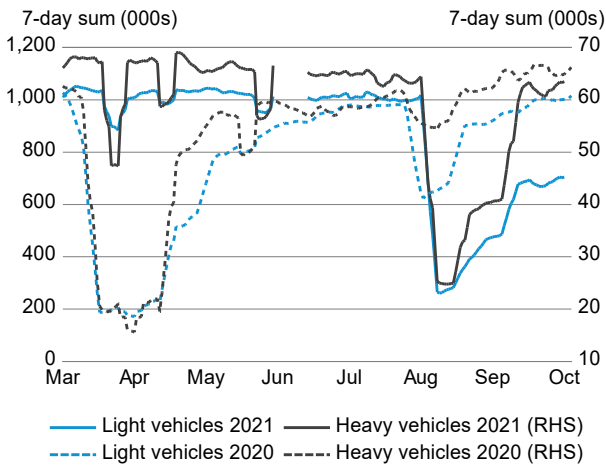


Source: Haver

Date	Key upcoming NZ data	Previous
27 October	Merchandise trade balance	-1.0 (\$bn)
27 October	Business confidence	-7.2 (net %)
29 October	Consumer confidence	104.5 (index)

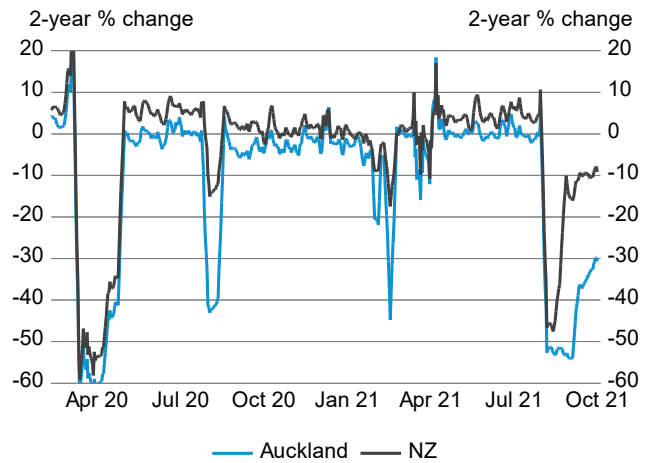
High-Frequency Indicators¹

Traffic and Freight Movement



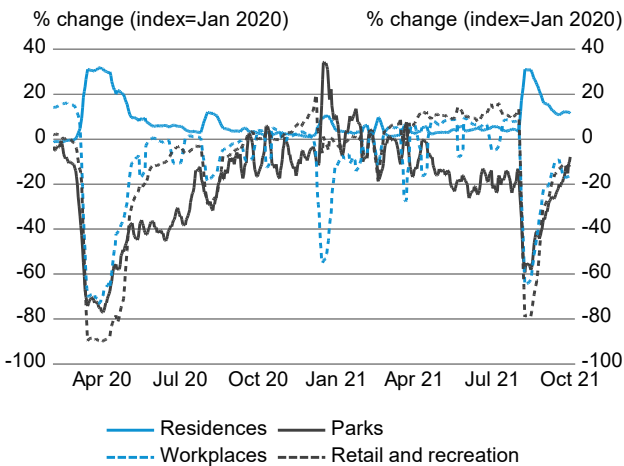
Source: Waka Kotahi NZ Transport Agency

Card Spending



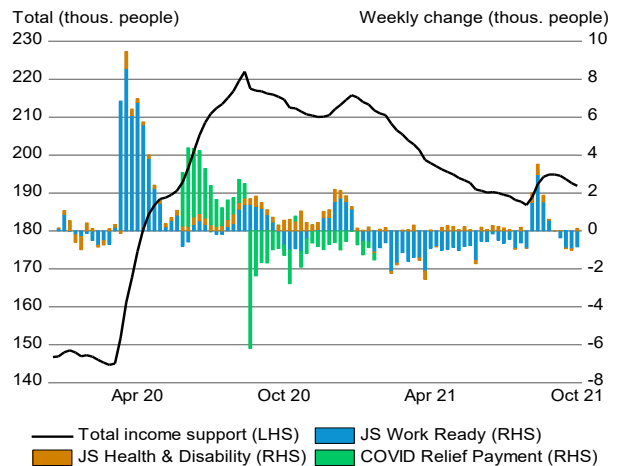
Source: Marketview data via MBIE

People Movements at Selected Locations



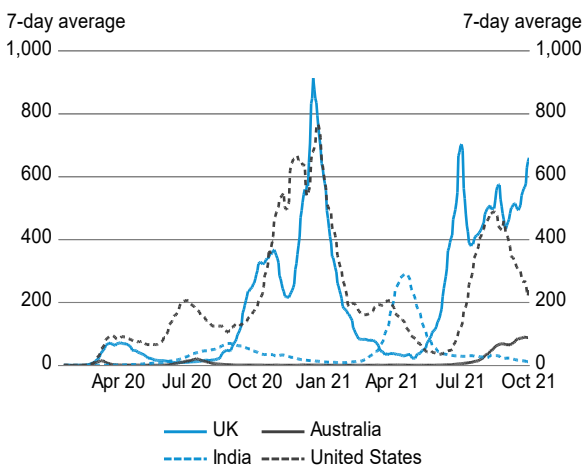
Source: Google

Jobseeker (JS) and Income Support Recipients



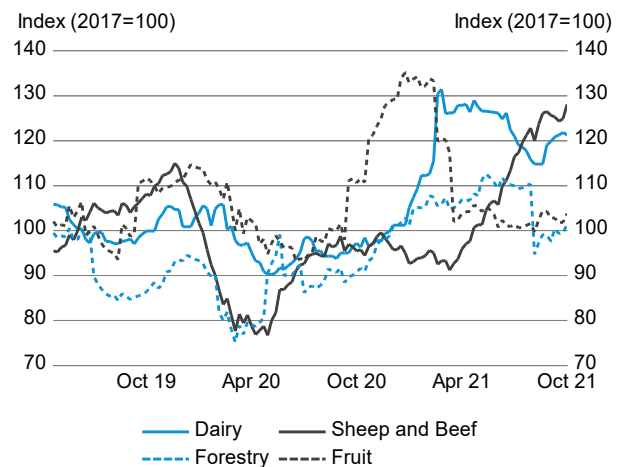
Source: MSD

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		2020Q2	2020Q3	2020Q4	2021Q1	2021Q2	2021Q3
Real Production GDP (1)	qpc	-9.9	13.9	-1.0	1.4	2.8	...
	aapc	-1.3	-1.6	-2.1	-1.4	5.1	...
Current account balance (annual)	%GDP	-1.5	-0.7	-0.8	-2.5	-3.3	...
Merchandise terms of trade	apc	6.3	-0.3	-1.6	-0.9	0.0	...
CPI inflation	qpc	-0.5	0.7	0.5	0.8	1.3	2.2
	apc	1.5	1.4	1.4	1.5	3.3	4.9
Employment (HLFS) (1)	qpc	-0.4	-0.6	0.7	0.6	1.1	...
Unemployment rate (1)	%	4.1	5.3	4.8	4.6	4.0	...
Participation rate (1)	%	69.9	70.1	70.2	70.4	70.5	...
LCI salary & wage rates - total (2)	apc	2.1	1.8	1.6	1.6	2.1	...
QES average hourly earnings - total (2)	apc	3.0	4.2	4.3	4.0	4.0	...
Core retail sales volume	apc	-11.7	7.6	4.4	5.4	30.2	...
Total retail sales volume	apc	-14.2	8.1	4.7	6.6	33.3	...
WMM - consumer confidence (3)	Index	97.2	95.1	106.0	105.2	107.1	102.7
QSBO - general business situation (1,4)	net%	-61.2	-36.7	-15.0	-8.2	8.6	-8.4
QSBO - own activity outlook (1,4)	net%	-25.0	1.1	9.5	7.5	27.1	9.3

Monthly Indicators		May 21	Jun 21	Jul 21	Aug 21	Sep 21	Oct 21
Merchandise trade balance (12 month)	NZ\$m	-49	-277	-1,099	-2,944	...	...
Dwelling consents - residential	apc	17.3	24.0	24.2	42.3	...	...
House sales - dwellings	apc	86.4	10.4	-9.1	-23.8	-37.9	...
REINZ - house price index	apc	29.7	29.9	30.4	31.0	30.5	...
Estimated net migration (12 month total)	people	2,441	2,321	3,342	2,382	...	...
ANZ NZ commodity price index	apc	7.9	17.6	16.9	15.4	17.4	...
ANZ world commodity price index	apc	25.2	28.0	22.2	21.5	23.6	...
ANZBO - business confidence	net%	1.8	-0.6	-3.8	-14.2	-7.2	-8.6
ANZBO - activity outlook	net%	27.1	31.6	26.3	19.2	18.2	26.2
ANZ-Roy Morgan - consumer confidence	net%	114.0	114.1	113.1	109.6	104.5	...

Weekly Benefit Numbers		10 Sep	17 Sep	24 Sep	1 Oct	8 Oct	15 Oct
Jobseeker Support	number	194,898	194,907	194,571	193,632	192,612	191,904
Work Ready	number	113,316	113,322	112,956	112,056	111,120	110,280
Health Condition and Disability	number	81,579	81,588	81,615	81,579	81,489	81,627
COVID-19 Income Relief Payment	number	...	...	...	...	...	...
Full-time	number	...	...	...	...	...	...
Part-time	number	...	...	...	...	...	...

Daily Indicators		Wed 13/10/21	Thu 14/10/21	Fri 15/10/21	Mon 18/10/21	Tue 19/10/21	Wed 20/10/21
NZ exchange and interest rates (5)							
NZD/USD	\$	0.6934	0.6976	0.7036	0.7079	0.7096	0.7157
NZD/AUD	\$	0.9447	0.9440	0.9490	0.9552	0.9555	0.9575
Trade weighted index (TWI)	index	74.1	74.3	74.9	75.3	75.5	75.9
Official cash rate (OCR)	%	0.50	0.50	0.50	0.50	0.50	0.50
90 day bank bill rate	%	0.68	0.68	0.69	0.74	0.78	0.75
10 year govt bond rate	%	2.09	2.10	2.11	2.25	2.36	2.35
Share markets (6)							
Dow Jones	index	34,378	34,913	35,295	35,259	35,457	35,609
S&P 500	index	4,364	4,438	4,471	4,486	4,520	4,536
VIX volatility index	index	18.6	16.9	16.3	16.3	15.7	15.5
AU all ords	index	7,572	7,620	7,674	7,690	7,690	7,727
NZX 50	index	13,025	13,048	13,012	12,999	13,066	13,114
US interest rates							
3 month OIS	%	0.08	0.08	0.08	0.08	0.08	...
3 month Libor	%	0.12	0.12	0.12	0.13	0.13	...
10 year govt bond rate	%	1.56	1.52	1.59	1.59	1.65	1.65
Commodity prices (6)							
WTI oil	US\$/barrel	80.44	81.31	82.39	82.62	83.19	83.87
Gold	US\$/ounce	1,786	1,798.70	1,772.65	1,767.85	1,779.55	1,778.00
CRB Futures	index	561	564.45	567.03	568.38	567.99	569.25

(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		2021Q1	Apr 21	May 21	Jun 21	2021Q2	Jul 21	Aug 21	Sep 21	2021Q3	Oct 21
United States [10.6% share of total goods exports]	GDP (1)	qpc	1.5				1.6				...	...
	Industrial production (1)	mpc		0.1	0.7	0.5		1.0	-0.1	-1.3		...
	CPI	apc		4.2	5.0	5.4		5.4	5.3	5.4		...
	Unemployment rate (1)	%		6.1	5.8	5.9		5.4	5.2	4.8		...
	Employment change (1)	000s		269.0	614.0	962.0		1091.0	366.0	194.0		...
	Retail sales value	apc		53.4	28.0	18.9		15.3	15.4	13.9		...
	House prices (2)	apc		15.2	17.2	19.1		19.9	...	...		...
Japan [5.6%]	PMI manufacturing (1)	index		60.7	61.2	60.6		59.5	59.9	61.1		...
	Consumer confidence (1)(3)	index		117.5	120.0	128.9		125.1	115.2	109.3		...
	GDP (1)	qpc	-1.1				0.5				...	...
	Industrial production (1)	mpc		2.9	-6.5	6.5		-1.5	-3.6	...		...
	CPI	apc		-1.1	-0.7	-0.4		-0.3	-0.4	...		...
	Unemployment rate (1)	%		2.8	3.0	2.9		2.8	2.8	...		...
	Retail sales value	apc		11.9	8.3	0.1		2.4	-3.2	...		...
Euro area [6.5%]	PMI manufacturing (1)	index		53.6	53.0	52.4		53.0	52.7	51.5		...
	Consumer confidence (1)(4)	index		34.8	34.2	37.6		37.5	36.6	38.0		...
	GDP (1)	qpc	-0.3				2.1				...	...
	Industrial production (1)	mpc		0.7	-1.1	0.2		1.4	-1.6	...		...
	CPI	apc		1.6	2.0	1.9		2.2	3.0	3.4		...
	Unemployment rate (1)	%		8.2	8.0	7.8		7.6	7.5	...		...
	Retail sales volume	apc		23.7	8.7	5.6		3.1	0.0	...		...
United Kingdom [2.3%]	PMI manufacturing (1)	index		62.9	63.1	63.4		62.8	61.4	58.6		...
	Consumer confidence (5)	index		-8.1	-5.1	-3.3		-4.4	-5.3	-4.0		...
	GDP (1)	qpc	-1.4				5.5				...	...
	Industrial production (1)	mpc		-0.4	0.9	-0.6		0.2	0.8	...		...
	CPI	apc		1.6	2.1	2.4		2.1	3.0	2.9		...
	Unemployment rate (1)	%		4.8	4.8	4.7		4.6	4.5	...		...
	Retail sales volume	apc		42.1	24.6	9.1		1.9	0.0	...		...
Australia [13.0%]	House prices (6)	apc		7.1	10.9	13.4		10.5	11.0	10.0		...
	PMI manufacturing (1)	index		60.9	65.6	63.9		60.4	60.3	57.1		...
	Consumer confidence (1)(5)	net %		-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)	%		5.5	5.1	4.9		4.6	4.5	4.6		...
	Retail sales value	apc		23.8	7.1	2.9		-2.9	-0.7	...		...
China [31.5%]	House Prices (7)	apc	8.9				19.8				...	...
	PMI manufacturing (1)	index		61.7	61.8	63.2		60.8	51.6	51.2		...
	Consumer confidence (8)	index		118.8	113.1	107.2		108.8	104.1	106.2		104.6
	GDP	apc	18.3				7.9				4.9	...
	Industrial production	apc		9.8	8.8	8.3		6.4	5.3	3.1		...
	CPI	apc		0.9	1.3	1.1		1.0	0.8	0.7		...
South Korea [2.9%]	PMI manufacturing (1)	index		51.1	51.0	50.9		50.4	50.1	49.6		...
	GDP (1)	qpc	1.7				0.8				...	...
	Industrial production (1)	mpc		-1.9	-1.3	2.3		0.2	-0.7	...		...
	CPI	apc		2.3	2.6	2.4		2.6	2.6	2.5		...

(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