



# Weekly Economic Update

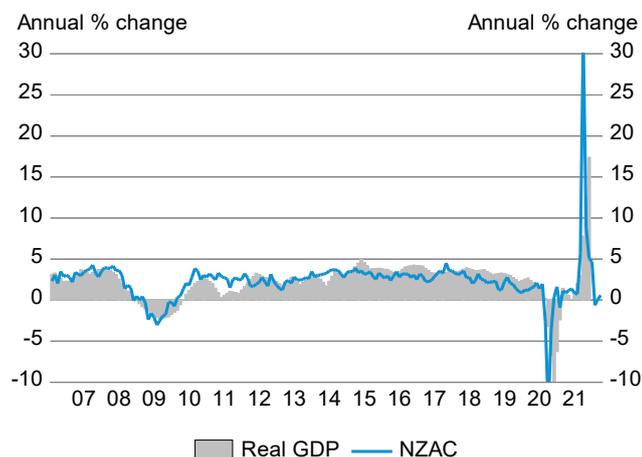
19 November 2021

The economy continues to recover but growth remains uneven across industries and regions as ongoing restrictions continue to limit activity. However, spending data following Auckland’s move to Alert Level 3 step 2 suggests momentum will pick up in the latter half of the December 2021 quarter. Continued resilience in demand will likely coincide with ongoing elevated cost pressures and rising inflation expectations. This indicates prices will likely continue rising at a robust pace into next year.

### **Economic activity continued increasing...**

Economic activity continued to rise in the month of October as the New Zealand Activity (NZAC) Index rose 0.6% from a year ago. Movements in the constituent indicators were mixed, with falls recorded in traffic movements and electronic card transactions. However, domestic electronic card spending recovered to broadly match 2-years-ago levels in the week ended 14 November, reflecting the further easing of restrictions in Auckland. Therefore, the recovery will likely gain momentum, leading to further growth in the NZAC in November and supporting GDP in the December 2021 quarter (Figure 1).

**Figure 1: NZAC and real GDP**



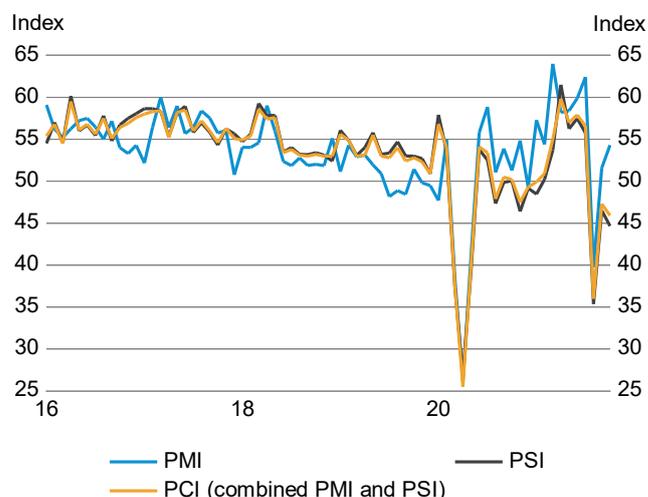
Source: Stats NZ

### **...but the recovery remains uneven**

The BNZ BusinessNZ Performance of Composite Index (PCI), which measures the combined performances of the manufacturing and service sectors, fell 1.4 points to 45.9 in the month of October to remain in contractionary territory (a reading above 50 indicates expansion; below 50 contraction) (Figure 2). This was largely driven by the 1.9 point fall in the Performance of Services Index (PSI) as lingering

restrictions continued to negatively impact the likes of hospitality and recreational businesses. Manufacturing activity bounced back however, with easing restrictions in the northern regions contributing to the Performance of Manufacturing Index (PMI) rising to 54.3 in October, taking it further into expansionary territory. While these indices are expected to recover as restrictions ease, they remain below their pre-delta-outbreak levels. Even as restrictions ease, the pace of recovery may not be as quick as that experienced during 2020.

**Figure 2. BNZ-BusinessNZ activity indicators**



Source: BNZ-BusinessNZ

### **Cost pressures confirmed...**

Consistent with business survey results indicating intense cost pressures in recent months, producer input prices grew 1.6% in the September quarter to be up 7.0% from a year ago. In addition to rising input costs, firms are also expected to face rising wage costs due to the tight labour market. This all points to further consumer price inflation ahead.

### **...and inflation expectations rose to decade highs**

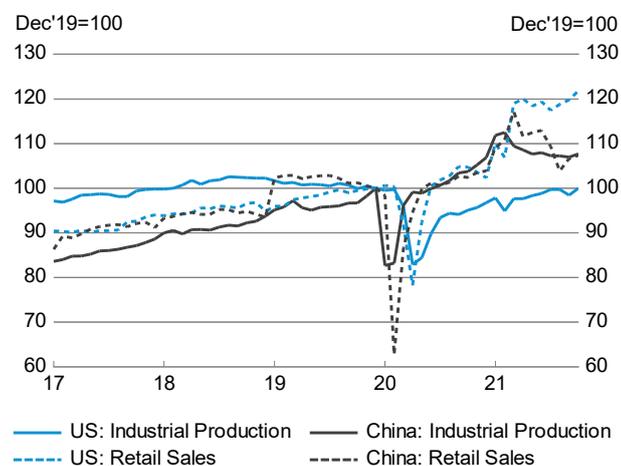
Inflation expectations continued to rise in the Reserve Bank of New Zealand’s (RBNZ) October 2021 Survey of Expectations. The one- two- and five-year ahead measures of annual inflation are now above the RBNZ’s 2.0% midpoint target, with the one- and two-year ahead expectations at their highest levels in over 10 years. The ten-year ahead expectations are however stable. While respondents expected the Official Cash Rate to rise in response to rising inflation, it is likely that inflation will remain above the RBNZ’s target band over the quarters ahead.

Positive economic data from the US, UK and euro area increase the likelihood that central banks will reduce monetary stimulus faster in response to rising consumer price index (CPI) inflation, particularly as high prices appear to be hurting consumer confidence. In China, growth picked up slightly in October, but multiple headwinds will weaken growth through to the end of the year.

### US consumer spending rises higher...

Both retail spending and industrial production in the US were stronger than expected in October (Figure 3), suggesting a rebound in economic growth following a relatively weak September quarter. Combined with October's high inflation outturn, the data may convince the US Federal Reserve that a faster reduction in monetary stimulus is warranted.

**Figure 3: Industrial production and retail sales**



Source: Haver

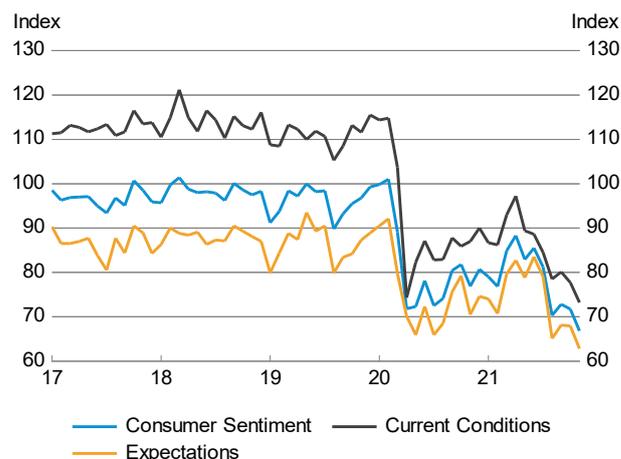
Retail and industrial activity in China also beat expectations in October, with both growing steadily despite supply constraints and restrictions to control new outbreaks of COVID-19. Momentum in the economy remains weak compared to the second half of 2020, however. As China continues to pursue a zero-COVID strategy with tight restrictions to curb outbreaks, and as a deepening debt crisis weighs on the property sector, growth will likely remain weak into the end of the year.

### ...but weak consumer confidence suggests risk

Falling consumer confidence suggests that caution may be needed in assessing the US growth outlook, despite strong retail sales in October. The University of Michigan consumer confidence index fell to a ten-year low in November, with both current conditions and future expectations weakening (Figure 4). Higher prices and a lack of policy response to contain them

were cited as the main reason for the drop in confidence, putting further pressure on the Federal Reserve to taper stimulus.

**Figure 4: US consumer confidence**

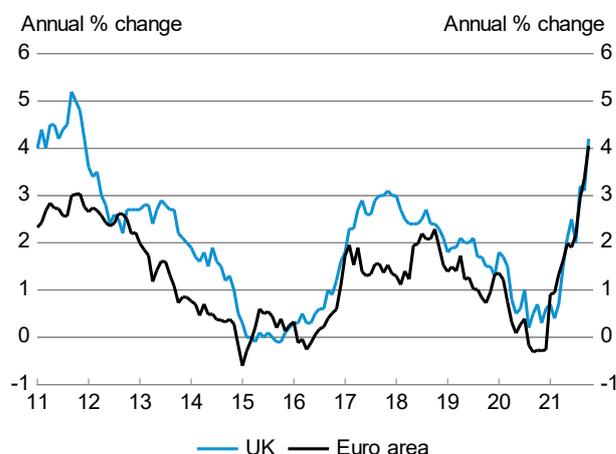


Source: Haver

### Inflation rises higher in UK and Europe...

Annual CPI inflation surpassed 4.0% in both the UK and euro area in October, the highest rate in either region for a decade (Figure 5). Core inflation measures also reached decade-highs, indicating persistent underlying price pressures.

**Figure 5: Consumer price index**



Source: Haver

### ...amid strengthening labour markets

Labour market data for the September quarter were more positive than expected for both the UK and euro area, with the UK unemployment rate falling to 4.2%. This will give central banks confidence that less monetary stimulus is needed, raising the chances that they will increase interest rates in response to rising CPI inflation.

Date	Key upcoming NZ data	Previous
23 Nov	Retail Trade Survey	+3.3% (volumes)
24 Nov	RBNZ November MPS	0.5% (OCR)

## Special topic: The economic impacts of global supply chain disruption

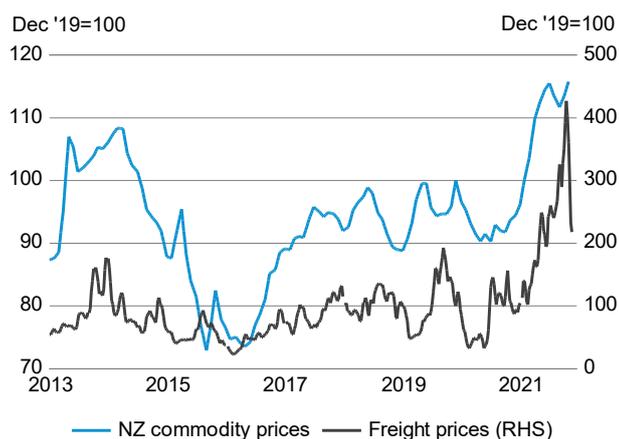
Strong demand for goods in the wake of the COVID-19 pandemic has driven up freight costs, boosting consumer price inflation and putting pressure on businesses. Ports around the world are congested, and competition for limited shipping space has caused challenges for exporters, with smaller producers more likely to miss out and be unable to deliver to customers. New Zealand's trade has been resilient to the disruption, though there is a risk that global connections will be lost and long-term growth will be reduced.

### **Strong demand and constrained supply have boosted prices...**

One consequence of the COVID-19 pandemic has been a sharp lift in global demand for goods, as consumers substituted away from in-person services. The global supply chain has struggled to keep up with this additional demand, given the long lags involved in expanding shipping capacity, causing freight prices to rise dramatically.

A similar dynamic has also pushed up global commodity prices, as food security concerns have led buyers to stock up on agricultural goods at a time when global agricultural production has been relatively constrained. This has resulted in near-record high prices for New Zealand's major commodity exports (Figure 6).

**Figure 6: Commodity and freight prices**



Sources: ANZ, Baltic Exchange/Haver

### **...putting cost pressure on NZ businesses...**

High freight costs mean that importers are paying significantly more to have goods shipped to New Zealand. A 20-foot container from Shanghai to NZ, which cost around US\$500 prior to the pandemic, was costing businesses around US\$5000 in September. This is adding to inflationary pressures

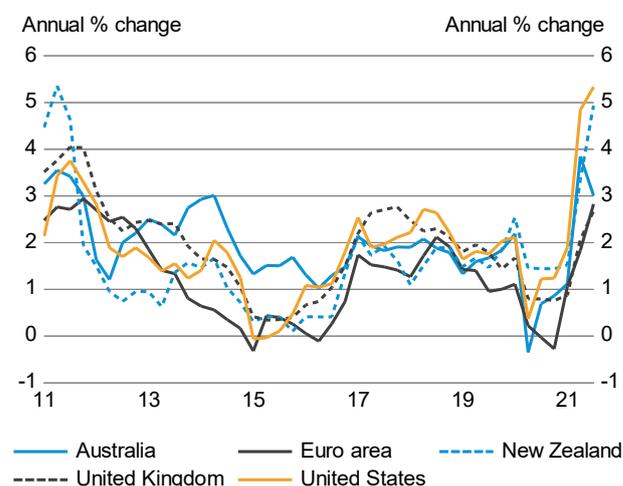
as some retailers pass on the additional cost to consumers, while reducing margins for businesses who are unable to pass on the cost.

Global commodity prices have also increased to record highs, boosting export returns. While exporters may not be formally responsible for paying the cost of freight, higher prices act like a tax with the cost burden falling on whichever party (buyer or seller) has the least bargaining power, meaning some exporters will be at least partially footing the bill for high freight costs.

### **...and driving high inflation around the world**

Supply chain congestion and elevated freight costs are contributing to high consumer price index (CPI) inflation around the world, including in New Zealand where annual CPI inflation reached 4.9% in the September 2021 quarter (Figure 7). Delays and shortages of materials are also weakening economic activity, stoking fears of 'stagflation' (stagnant economic growth and high price inflation) in the global economy, and central banks may be forced to raise interest rates earlier than expected if inflation continues to rise.

**Figure 7: Consumer price indexes**



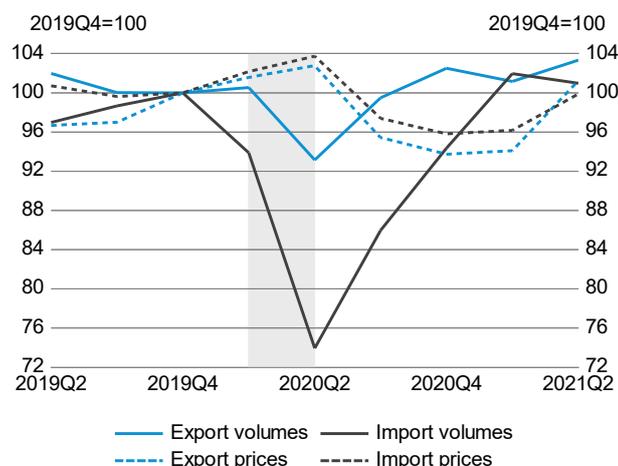
Source: Haver

### **Port congestion results in long delays...**

Elevated demand for goods and a limited number of ships has resulted in increased volumes of cargo per vessel. This has meant that each vessel requires a longer period of time in port to unload, resulting in backlogs of ships waiting to enter ports and creating congestion throughout the global supply chain. In New Zealand, overall import and export volumes have recovered from the initial shock in mid-2020, with both exceeding pre-pandemic levels by the

start of 2021 (Figure 8). Ships are visiting our ports less frequently, however, and carrying more cargo per vessel, creating congestion as in other parts of the world.

**Figure 8: Goods trade volumes and prices**



Source: Stats NZ

Domestic ports have suffered additional challenges, with Ports of Auckland (POAL) having to delay a planned automation project and struggling with labour shortages after COVID-19 disrupted the flow of migrant workers. Productivity at POAL has improved recently, prompting shipping lines to remove congestion surcharges that had been in place since November 2020.

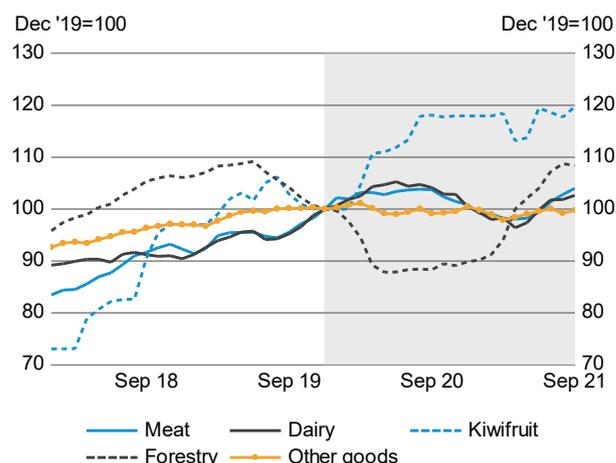
**...causing challenges for exporters...**

Overseas demand remains strong, but some sectors are missing opportunities due to supply chain disruption. There have been reports of exporters struggling to get hold of empty containers and space on ships, with smaller producers more at risk of missing out and being unable to deliver goods to customers. Larger exporters have generally been able to secure space or charter their own vessels to avoid disruption, meaning the aggregate data have not shown a significant impact on export volumes.

**...with impacts varying by sector**

New Zealand's largest export sectors have performed well following the initial shock in mid-2020 (Figure 9), masking the poor performance of other significant goods exports like mechanical machinery, aluminium, apples<sup>1</sup> and fish, which make up around 7% of total goods exports. Meat, dairy, kiwifruit and forestry, which comprise just over half of the total, have recovered in quantity terms and benefited from rising prices in 2021.

**Figure 9: Goods export values, 12-month sum**



Source: Stats NZ

The strength in New Zealand's major goods exports has supported aggregate goods export values to be 2.7% above 2019 levels in the year ended September 2021, despite a rise in the NZD exchange rate. In contrast, the sum of other goods export values (excluding meat, dairy, kiwifruit and forestry) has been relatively flat since the onset of the pandemic and in the year to September 2021 was 0.3% below the 2019 year.

**The outlook is uncertain...**

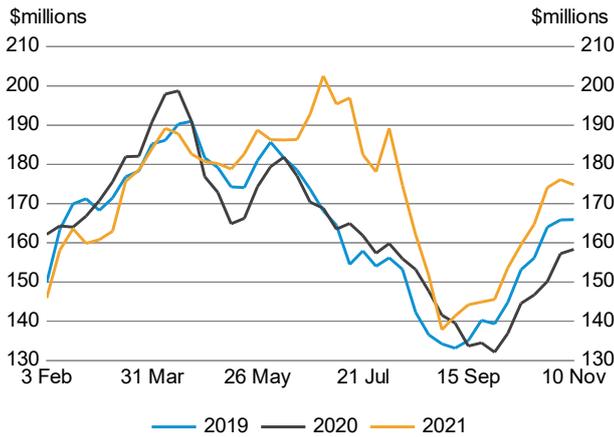
Industry commentators believe that only a slowdown of consumer demand will allow the supply chain the necessary time to catch up, thereby easing the disruption. Forecasters expect disruption to extend throughout 2022 as sustained high container demand slows progress in clearing freight backlogs. Domestically, the shift towards the COVID-19 Protection Framework is expected to reduce the likelihood of strict lockdowns, meaning the risk of further disruption in the domestic supply chain is lower, although the tight labour market points to ongoing labour shortages until border restrictions ease. With these restrictions expected to ease in 2022, greater inward migration will likely reduce the severity of labour shortages in the supply chain and primary industries.

<sup>1</sup> Apple growers have faced the additional challenge of a lack of pickers as the inflow of migrant workers was disrupted.

**...and while NZ trade continues to be resilient...**

Experimental goods trade data from Stats NZ give a high-frequency reading of trade values. After rising unusually high in June and July, export values have fallen back in line with normal seasonal trends and been consistently above 2019 and 2020 levels since September (Figure 10). Log volumes fell below previous years' levels in August and September, which is to be expected given that forestry businesses could not operate at Alert Level 4, but had recovered by October.

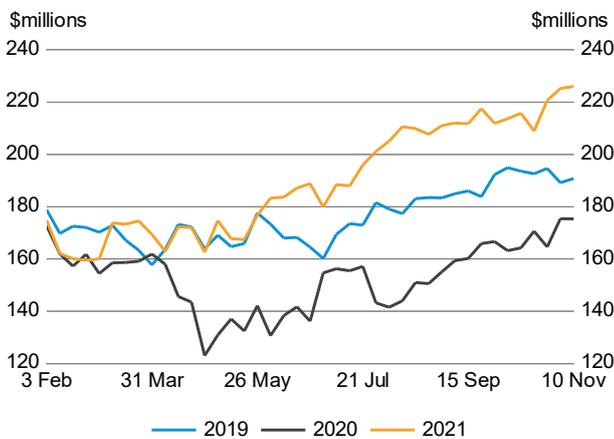
**Figure 10: Goods export values (4-week m.a.)**



Source: Stats NZ

Import values, meanwhile, remain elevated compared to previous years, and have shown little sign of slowing in the face of the August Delta outbreak (Figure 11). Higher prices may be driving part of the increase in import values, though ports in New Zealand are also reporting high volumes of imports. Demand for goods clearly remains robust, including capital goods used by businesses, reflecting confidence in a strong economic recovery once vaccination allows restrictions to ease.

**Figure 11: Goods import values (4-week m.a.)**



Source: Stats NZ

**...and freight prices appear to be easing...**

As shown in Figure 6, global freight prices have fallen in recent weeks. This reflects an easing in container traffic as the pre-Christmas peak in international shipping comes to an end. It is unlikely that freight costs will return to pre-pandemic levels as the shift toward more containers per vessel is expected to persist, resulting in a less efficient and therefore more expensive global supply chain.

**...disruption could reduce long-term growth...**

The impacts of supply chain disruption, combined with the ongoing uncertainty that the pandemic brings, will likely be damaging the confidence of internationally-facing businesses. This effect will be particularly severe for smaller businesses who do not have firmly-established relationships with international partners and lack the resources to absorb higher costs. The overall impacts are difficult to quantify but can be understood as a loss of long-term potential growth as investments are foregone, businesses are forced to exit, and potential businesses are reluctant to enter.

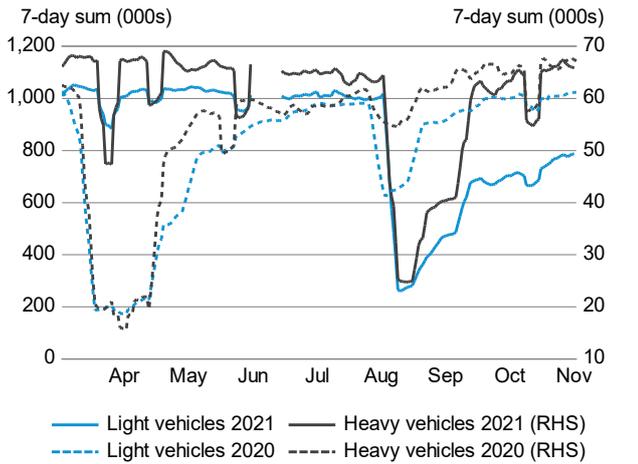
While strong performance from New Zealand's largest export sectors and a record high terms of trade will likely continue to support aggregate export values, the impact of supply chain disruption on smaller exporters will mean that growth is weaker than it otherwise would be. This loss may have already been realised to some extent, with half of New Zealand's goods export sector (Other Goods in Figure 9) experiencing zero growth since the onset of the pandemic after growing 8.3% in the two years prior.

**...and put NZ's international connections at risk**

An ongoing risk for New Zealand will be the loss of international connections if global supply chain disruption persists. Given the country's relatively small market and geographic isolation, some trading partners may shift away from New Zealand to focus on closer markets where trade is more convenient. Some export sectors have already experienced challenges accessing previously reliable overseas markets, and fear that these connections could be damaged permanently. The longer disruption persists, the greater the risk that international trade becomes less globalised and New Zealand loses important connections, with significant implications for the domestic economy.

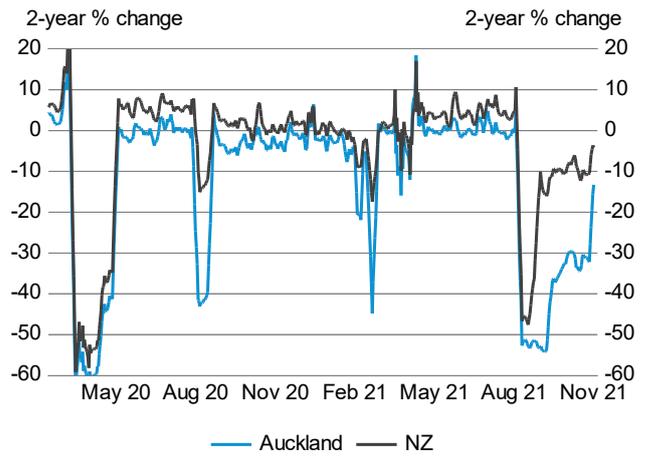
# High-Frequency Indicators<sup>2</sup>

## Traffic and Freight Movement



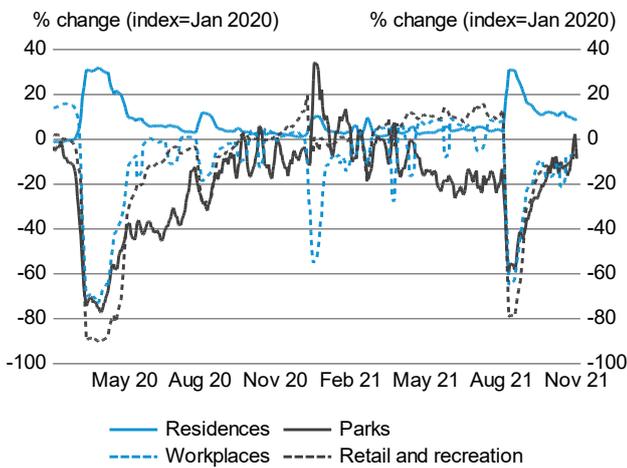
Source: Waka Kotahi NZ Transport Agency

## Card Spending



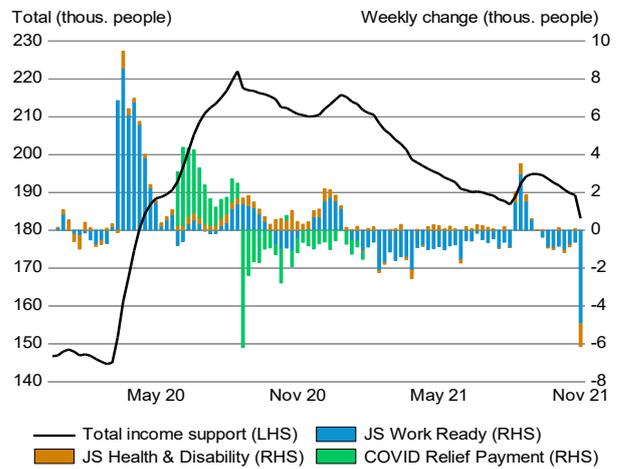
Source: Marketview data via MBIE

## People Movements at Selected Locations



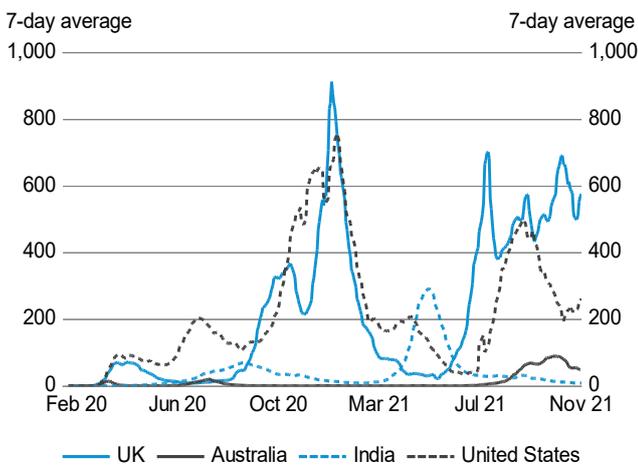
Source: Google

## Jobseeker (JS) and Income Support Recipients



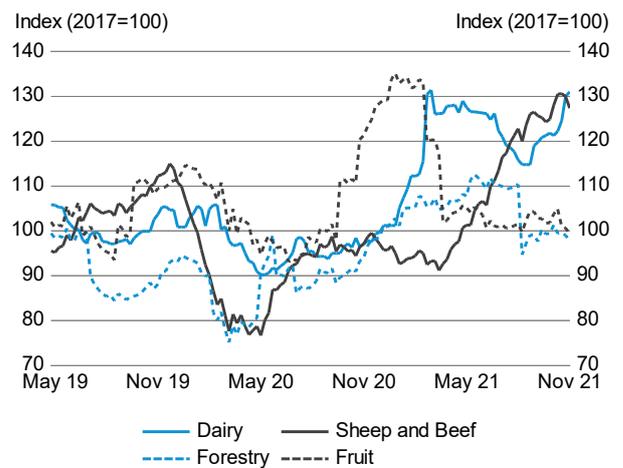
Source: MSD

## COVID-19 Cases Per Million People



Source: World Health Organisation/Haver

## World Commodity Prices



Source: ASB

<sup>2</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>

<b>Quarterly Indicators</b>		<b>2020Q2</b>	<b>2020Q3</b>	<b>2020Q4</b>	<b>2021Q1</b>	<b>2021Q2</b>	<b>2021Q3</b>
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	-0.7	0.7	0.5	1.0	2.0
Unemployment rate (1)	%	4.1	5.3	4.8	4.6	4.0	3.4
Participation rate (1)	%	69.9	70.1	70.2	70.4	70.5	71.2
LCI salary & wage rates - total (2)	apc	2.1	1.8	1.6	1.6	2.1	2.4
QES average hourly earnings - total (2)	apc	3.0	4.2	4.3	4.0	4.0	3.5
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
<b>Monthly Indicators</b>		<b>Jun 21</b>	<b>Jul 21</b>	<b>Aug 21</b>	<b>Sep 21</b>	<b>Oct 21</b>	<b>Nov 21</b>
Merchandise trade balance (12 month)	NZ\$m	-276.6	-1096.8	-2936.9	-4084.8	...	...
Dwelling consents - residential	apc	24.0	24.2	42.3	24.4	...	...
House sales - dwellings	apc	10.4	-9.1	-23.6	-36.4	-21.7	...
REINZ - house price index	apc	29.9	30.4	30.7	30.0	29.9	...
Estimated net migration (12 month total)	people	991.0	1,810.0	731.0	796.0	...	...
ANZ NZ commodity price index	apc	17.5	16.9	15.4	17.4	16.4	...
ANZ world commodity price index	apc	28.0	22.2	21.5	23.6	23.7	...
ANZBO - business confidence	net%	-0.6	-3.8	-14.2	-7.2	-13.4	-18.1
ANZBO - activity outlook	net%	31.6	26.3	19.2	18.2	21.7	15.6
ANZ-Roy Morgan - consumer confidence	net%	114.1	113.1	109.6	104.5	98.0	...
<b>Weekly Benefit Numbers</b>		<b>8 Oct</b>	<b>15 Oct</b>	<b>22 Oct</b>	<b>29 Oct</b>	<b>5 Nov</b>	<b>12 Nov</b>
<b>Jobseeker Support</b>	number	192,612	191,904	190,731	189,855	189,309	183,165
Work Ready	number	111,120	110,280	109,236	108,471	107,844	102,924
Health Condition and Disability	number	81,489	81,627	81,495	81,384	81,465	80,241
<b>Wage Subsidy August 2021</b>	\$millions	3,067	3,304	3,507	3,720	3,956	4,172
Unique jobs supported	number	1,260,852	1,270,581	1,276,863	1,282,152	1,290,603	1,296,192
Businesses associated with paid application	number	321,645	326,067	328,455	329,961	331,665	332,970
<b>Daily Indicators</b>		<b>Thu 11/11/21</b>	<b>Fri 12/11/21</b>	<b>Mon 15/11/21</b>	<b>Tue 16/11/21</b>	<b>Wed 17/11/21</b>	<b>Thu 18/11/21</b>
<b>NZ exchange and interest rates (5)</b>							
NZD/USD	\$	0.7066	0.7019	0.7041	0.7046	0.6991	0.7005
NZD/AUD	\$	0.9651	0.9630	0.9603	0.9583	0.9591	0.9650
Trade weighted index (TWI)	index	75.4	75.0	75.1	75.1	74.7	74.9
Official cash rate (OCR)	%	0.50	0.50	0.50	0.50	0.50	0.50
90 day bank bill rate	%	0.84	0.85	0.85	0.86	0.86	0.87
10 year govt bond rate	%	2.64	2.64	2.66	2.67	2.70	2.65
<b>Share markets (6)</b>							
Dow Jones	index	35,921	36,100	36,087	36,142	35,931	35,871
S&P 500	index	4,649	4,683	4,683	4,701	4,689	4,705
VIX volatility index	index	17.7	16.3	16.5	16.4	17.1	...
AU all ords	index	7,701	7,766	7,798	7,747	7,704	7,713
NZX 50	index	13,027	12,908	12,964	12,903	12,837	12,800
<b>US interest rates</b>							
3 month OIS	%	0.08	0.08	0.08	0.08	0.08	...
3 month Libor	%	0.16	0.16	0.16	0.16	0.16	...
10 year govt bond rate	%	...	1.58	1.63	1.63	1.60	...
<b>Commodity prices (6)</b>							
WTI oil	US\$/barrel	81.59	80.87	80.85	80.76	78.36	...
Gold	US\$/ounce	1,857.90	1,860.55	1,859.90	1,859.20	1,864.90	...
CRB Futures	index	570.62	570.61	569.54	568.52	568.57	...

(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		Apr 21	May 21	Jun 21	2021Q2	Jul 21	Aug 21	Sep 21	2021Q3	Oct 21	Nov 21
<b>United States</b> [10.6% share of total goods exports]	GDP (1)	qpc				1.6				0.5		
	Industrial production (1)	mpc	0.1	0.7	0.5		0.8	0.0	-1.3		1.6	...
	CPI	apc	4.2	5.0	5.4		5.4	5.3	5.4		6.2	...
	Unemployment rate (1)	%	6.1	5.8	5.9		5.4	5.2	4.8		4.6	...
	Employment change (1)	000s	269.0	614.0	962.0		1091.0	483.0	312.0		531.0	...
	Retail sales value	apc	53.4	28.0	18.9		15.3	15.7	14.3		16.3	...
	House prices (2)	apc	15.2	17.3	19.2		20.0	19.7	...		...	...
	PMI manufacturing (1)	index	60.7	61.2	60.6		59.5	59.9	61.1		60.8	...
Consumer confidence (1)(3)	index	117.5	120.0	128.9		125.1	115.2	109.8		113.8	...	
<b>Japan</b> [5.6%]	GDP (1)	qpc				0.4				-0.8		
	Industrial production (1)	mpc	2.9	-6.5	6.5		-1.5	-3.6	-5.4		...	...
	CPI	apc	-1.1	-0.7	-0.4		-0.3	-0.4	0.2		...	...
	Unemployment rate (1)	%	2.8	3.0	2.9		2.8	2.8	2.8		...	...
	Retail sales value	apc	11.9	8.3	0.1		2.4	-3.2	-0.5		...	...
	PMI manufacturing (1)	index	53.6	53.0	52.4		53.0	52.7	51.5		53.2	...
	Consumer confidence (1)(4)	index	34.8	34.2	37.6		37.5	36.6	38.0		39.2	...
<b>Euro area</b> [6.5%]	GDP (1)	qpc				2.1				2.2		
	Industrial production (1)	mpc	0.7	-1.2	0.3		1.3	-1.7	-0.2		...	...
	CPI	apc	1.6	2.0	1.9		2.2	3.0	3.4		4.1	...
	Unemployment rate (1)	%	8.1	8.0	7.8		7.6	7.5	7.4		...	...
	Retail sales volume	apc	23.7	8.7	5.6		3.3	1.5	2.5		...	...
	PMI manufacturing (1)	index	62.9	63.1	63.4		62.8	61.4	58.6		58.3	...
Consumer confidence (5)	index	-8.1	-5.1	-3.3		-4.4	-5.3	-4.0		-4.8	...	
<b>United Kingdom</b> [2.3%]	GDP (1)	qpc				5.5				1.3		
	Industrial production (1)	mpc	-0.4	0.9	-0.6		0.3	1.0	-0.4		...	...
	CPI	apc	1.6	2.1	2.4		2.1	3.0	2.9		3.8	...
	Unemployment rate (1)	%	4.8	4.8	4.7		4.6	4.5	4.3		...	...
	Retail sales volume	apc	41.8	24.2	8.6		1.2	-0.2	-1.3		...	...
	House prices (6)	apc	7.1	10.9	13.4		10.5	11.0	10.0		9.9	...
	PMI manufacturing (1)	index	60.9	65.6	63.9		60.4	60.3	57.1		57.8	...
Consumer confidence (1)(5)	net %	-15.0	-9.0	-9.0		-7.0	-8.0	-13.0		-17.0	...	
<b>Australia</b> [13.0%]	GDP (1)	qpc				0.7				...		
	CPI	apc				3.8				3.0		
	Unemployment rate (1)	%	5.5	5.1	4.9		4.6	4.5	4.6		5.2	...
	Retail sales value	apc	23.8	7.1	2.9		-2.9	-0.7	1.9		...	...
	House Prices (7)	apc				19.8					...	...
	PMI manufacturing (1)	index	61.7	61.8	63.2		60.8	51.6	51.2		50.4	...
Consumer confidence (8)	index	118.8	113.1	107.2		108.8	104.1	106.2		104.6	105.3	
<b>China</b> [31.5%]	GDP	apc				7.9				4.9		
	Industrial production	apc	9.8	8.8	8.3		6.4	5.3	3.1		3.5	...
	CPI	apc	0.9	1.3	1.1		1.0	0.8	0.7		1.5	...
	PMI manufacturing (1)	index	51.1	51.0	50.9		50.4	50.1	49.6		49.2	...
<b>South Korea</b> [2.9%]	GDP (1)	qpc				0.8				0.3		
	Industrial production (1)	mpc	-1.9	-1.3	2.3		0.2	-0.7	-0.8		...	...
	CPI	apc	2.3	2.6	2.4		2.6	2.6	2.5		3.2	...

(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