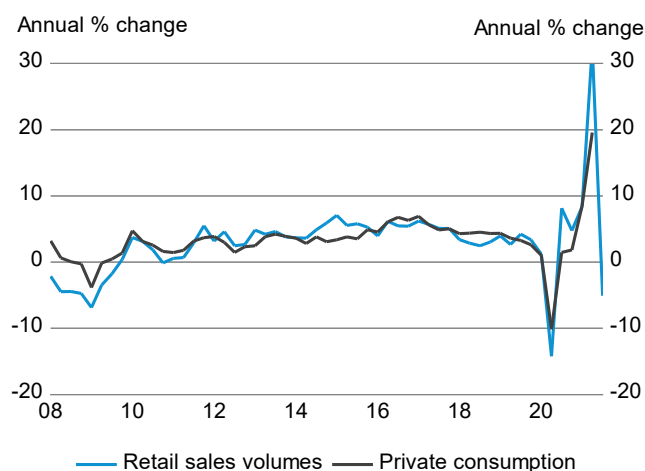


As expected, retail trade was significantly impacted by COVID-19 restrictions in the September quarter. However, economic activity has been recovering and overall demand has remained resilient, contributing to the Reserve Bank's decision to raise the Official Cash Rate (OCR) with further increases expected ahead. As interest rates rise, inflationary pressures are expected to ease as household spending turns towards servicing household debt

Retail trade fell with restrictions...

Retail sales volumes fell 8.1% in the September quarter, owing to the effect of the Delta outbreak and associated restrictions. Reflecting previous data releases, Auckland has been the most significantly affected region and hospitality the most impacted industry. Despite this fall, the rebound seen in the weekly electronic card spending data since late September is expected to continue as restrictions ease, supporting household consumption and the economic recovery in the December 2021 quarter.

Figure 1: Retail trade and consumption



Source: Stats NZ

...but domestic demand supported goods trade...

Despite global supply chain disruption, strong demand both overseas and domestically is supporting New Zealand's goods trade which is now roughly in line with the pre-pandemic trend. Goods import values continued to surge in October, breaking the previous record for an October month by \$500 million. Goods exports recovered as restrictions eased, and global commodity prices remain supportive.

...contributing to an OCR increase...

The Reserve Bank increased the OCR by 0.25 percentage points to 0.75% in the November Monetary Policy Statement (MPS) with annual headline Consumer Price Index (CPI) inflation at 4.9% and unemployment at 3.4%. In line with survey-measures of inflation expectations, the Reserve Bank expects annual CPI inflation to be above their target band in the near before returning towards the 2% midpoint target over the next two years.

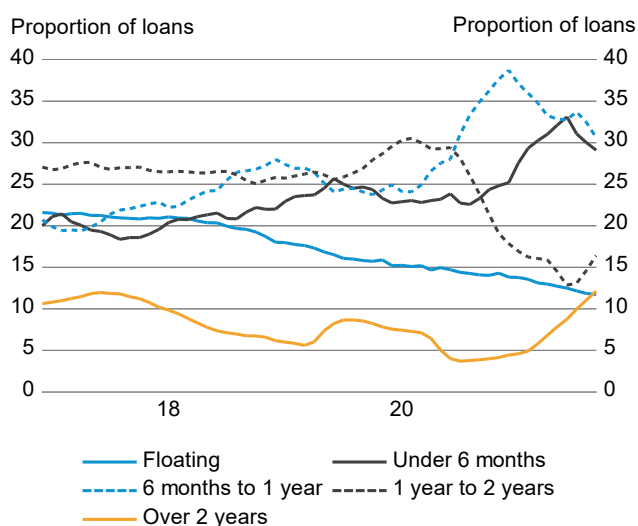
The Reserve Bank expects to gradually remove monetary policy stimulus further over time given the medium-term outlook for inflation and employment. The MPS shows the OCR increasing to 2.6% by September 2024, about 0.5 percentage points higher than expected at the August MPS.

...which will dampen household spending

Household debt increased significantly over the past year and a half, reaching 169% of disposable income at the end of the June 2021 quarter. Most of this is in housing, with housing lending growth reaching a peak in July and remaining elevated at 11.6% in September 2021.

With elevated debt and mortgage lending concentrated in shorter terms, rising interest rates will likely have a significant impact on highly indebted households (Figure 2). With more income turning towards servicing debt, reduced spending will lower aggregate demand.

Figure 2: Residential mortgages by time until next repricing



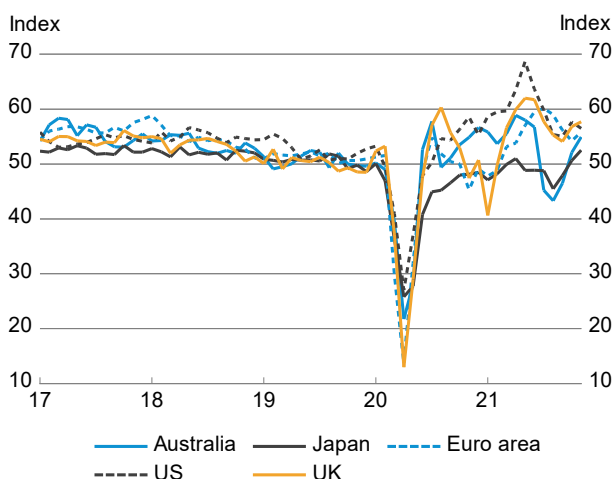
Source: Reserve Bank of New Zealand

Growth in advanced economies seems to be picking up in November, though rising COVID-19 cases in Europe pose a threat to the recovery. Supply chain disruption continues to drive inflation higher, and the stage appears set for a faster tightening in monetary policy in the US.

Global growth strengthens in November...

Purchasing Managers Indexes (PMI) for November indicate a strengthening recovery in advanced economies, with most composite output indexes lifting further into expansionary territory (Figure 3). Supply chain issues featured strongly in the surveys as delivery times lengthened and shortages were reported. This flowed through into rising price pressures, with growth in input costs near or exceeding record highs, suggesting that high inflation is unlikely to abate in the near term.

Figure 3: Composite output PMI



Source: Haver

Australia's PMI lifted further into expansionary territory, led by the services index as easing restrictions allowed in-person activities to resume. Japan's PMI experienced a similar recovery, with rising vaccination rates and easing activity restrictions boosting business confidence. Growth slowed in the US, reflecting ongoing supply constraints, though the PMI remained firmly expansionary and above the long-run average.

Growth unexpectedly picked up in the euro area, though rising COVID-19 cases and weakening business confidence suggest that the improved performance may be short-lived. The UK PMI rose to the top of the pack for the first time this year, with strong employment growth combined with record inflationary pressures suggesting that a tightening in monetary policy may come soon.

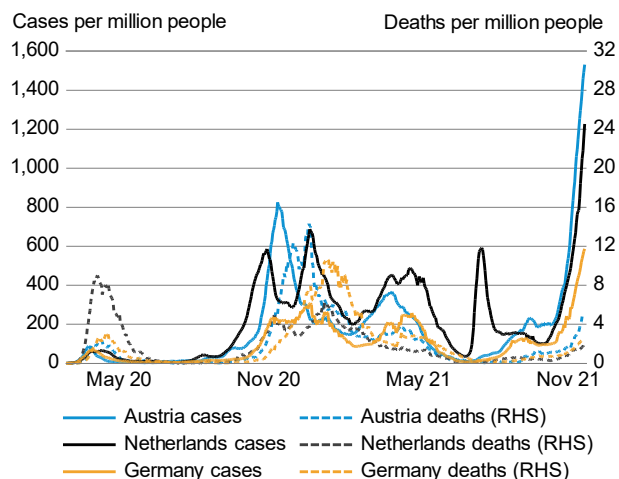
...as US Fed eyes faster tightening in policy...

Minutes of the US central bank's November policy meeting show that a growing proportion of members are open to a faster reduction in monetary stimulus if high inflation persists. The data since the meeting in early November suggest that these conditions may have been met. US consumer prices as measured by the Personal Consumption Expenditure deflator rose by 5.0% on an annual basis in October, the highest in nearly 40 years. Price inflation for goods was even stronger at 7.5%, with lower services price inflation pulling down the headline number. Consequently, financial markets now pricing in an interest rate increase by the middle of next year.

...but COVID-19 spread in Europe is a threat

Daily COVID-19 cases in Germany, Austria and the Netherlands have risen well above previous records, and although deaths have remained much lower than previous waves, these are also on the rise (Figure 4). This has resulted in new restrictions, and in some cases these have been met with violent protest. Consumer confidence in the euro area fell to its lowest level in 7 months, indicating future weakness in household demand.

Figure 4: Daily new COVID-19 cases and deaths

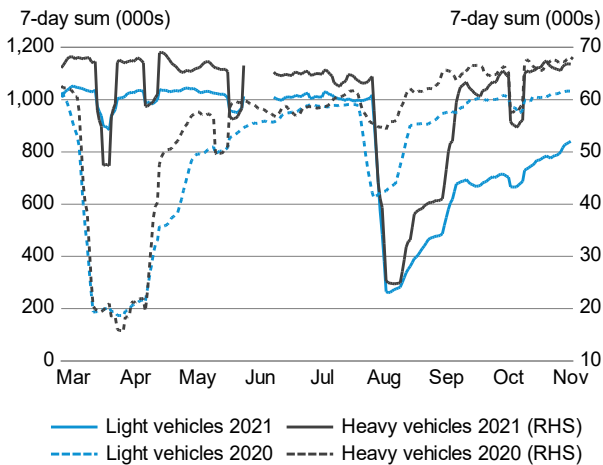


Source: Our World in Data

Date	Key upcoming NZ data	Previous
30 November	ANZ Business Confidence	-13.4 (index)
1 December	New dwelling consents	-1.9 (mpc)
2 December	Terms of trade	+3.3 (qpc)

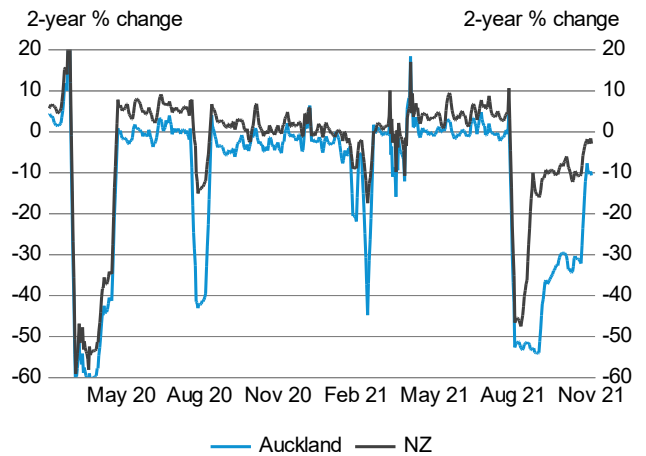
High-Frequency Indicators¹

Traffic and Freight Movement



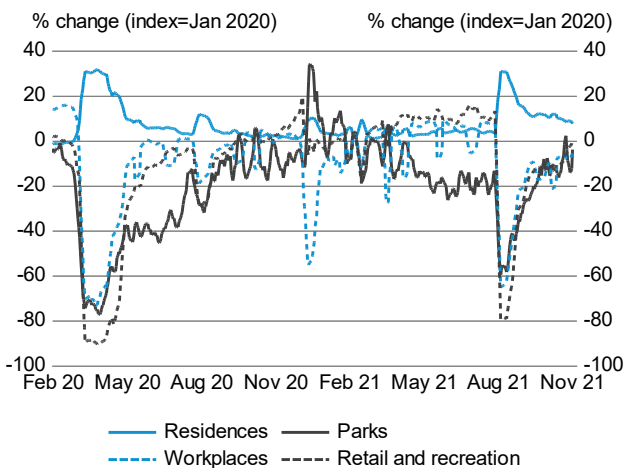
Source: Waka Kotahi NZ Transport Agency

Card Spending



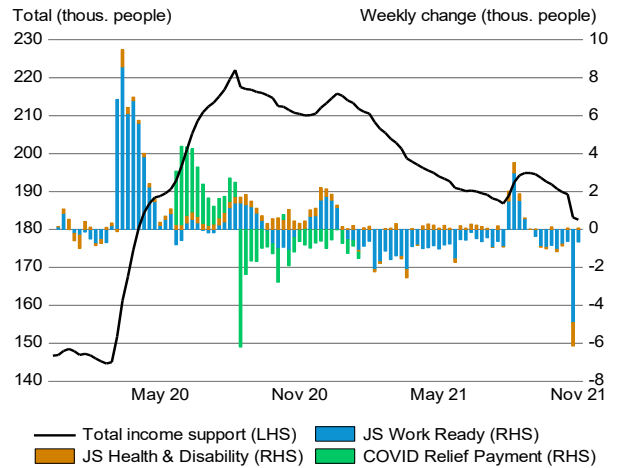
Source: Marketview data via MBIE

People Movements at Selected Locations



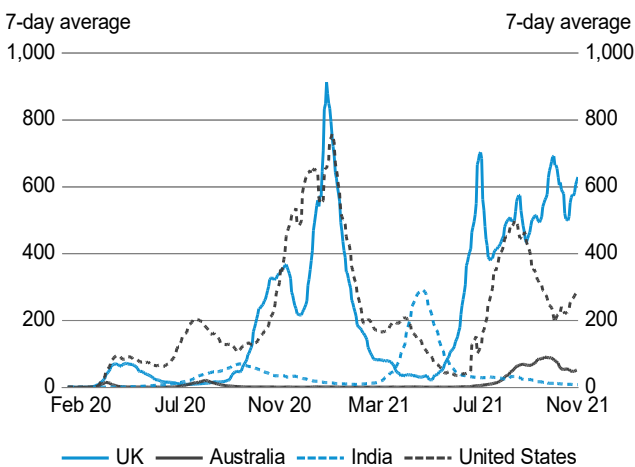
Source: Google

Jobseeker (JS) and Income Support Recipients



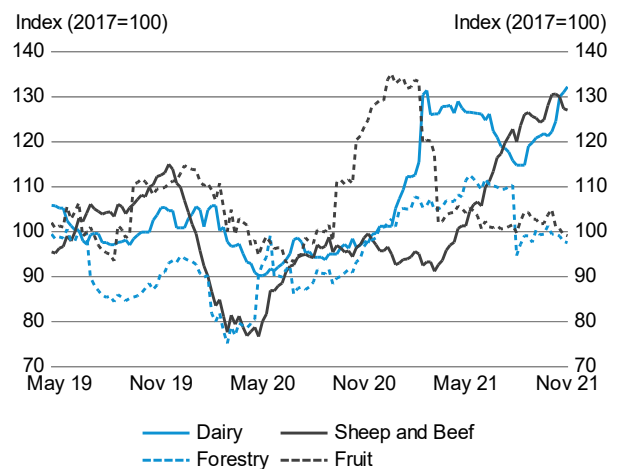
Source: MSD

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	-0.7	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	-3.2
Total retail sales volume	apc	-14.2	8.1	4.7	6.6	33.3	-5.2
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		Jun 21	Jul 21	Aug 21	Sep 21	Oct 21	Nov 21
Merchandise trade balance (12 month)	NZ\$m	-276.6	-1088.4	-2922.3	-4105.2	-4920.3	...
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	...
Weekly Benefit Numbers		15 Oct	22 Oct	29 Oct	5 Nov	12 Nov	19 Nov
Jobseeker Support	number	191,904	190,731	189,855	189,309	183,165	182,583
Work Ready	number	110,280	109,236	108,471	107,844	102,924	102,261
Health Condition and Disability	number	81,627	81,495	81,384	81,465	80,241	80,325
Wage Subsidy August 2021	\$millions	3,304	3,507	3,720	3,956	4,172	4,321
Unique jobs supported	number	1,270,581	1,276,863	1,282,152	1,290,603	1,296,192	1,300,179
Businesses associated with paid application	number	326,067	328,455	329,961	331,665	332,970	334,104
Daily Indicators		Thu	Fri	Mon	Tue	Wed	Thu
NZ exchange and interest rates (5)		18/11/21	19/11/21	22/11/21	23/11/21	24/11/21	25/11/21
NZD/USD	\$	0.7005	0.7036	0.6990	0.6951	0.6934	0.6888
NZD/AUD	\$	0.9650	0.9672	0.9664	0.9617	0.9602	0.9559
Trade weighted index (TWI)	index	74.9	75.2	74.9	74.6	74.5	74.0
Official cash rate (OCR)	%	0.50	0.50	0.50	0.50	0.75	0.75
90 day bank bill rate	%	0.87	0.87	0.87	0.87	0.87	0.80
10 year govt bond rate	%	2.65	2.62	2.60	2.62	2.61	2.57
Share markets (6)							
Dow Jones	index	35,871	35,602	35,619	35,814	35,804	...
S&P 500	index	4,705	4,698	4,683	4,691	4,701	...
VIX volatility index	index	17.6	17.9	19.2	19.4	18.6	...
AU all ords	index	7,713	7,730	7,688	7,742	7,726	7,737
NZX 50	index	12,800	12,740	12,608	12,689	12,767	12,795
US interest rates							
3 month OIS	%	0.08	0.08	0.08	0.08	...	...
3 month Libor	%	0.16	0.16	0.17	0.18	0.18	...
10 year govt bond rate	%	1.59	1.54	1.63	1.67	1.64	...
Commodity prices (6)							
WTI oil	US\$/barrel	79.01	76.11	76.74	78.32	78.39	...
Gold	US\$/ounce	1,860.30	1,861.10	1,816.05	1,789.15	1,782.05	...
CRB Futures	index	569.04	569.07	569.79	572.05	572.28	...

(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
United States [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	...		...	...
Japan [5.6%]	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	...
	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		0.1	...
	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		...	...
Euro area [6.5%]	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	...
	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		...	...
United Kingdom [2.3%]	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	-6.8
	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	42.1	24.4	8.8		1.9	0.4	-0.7		-1.3	...
Australia [13.0%]	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	-14.0
	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		...	...
China [31.5%]	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
	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	...
South Korea [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