

The Front Pages

It was all going so well

The bubble has burst. Just as we were getting comfortable, COVID-19 raised its ugly head again and New Zealand went back into lockdown. At the time of writing (30 August 2021), it seems that Auckland will be in Level 4 lockdown for at least another two weeks, while the rest of the country will move to Level 3 lockdown for an uncertain period of time.

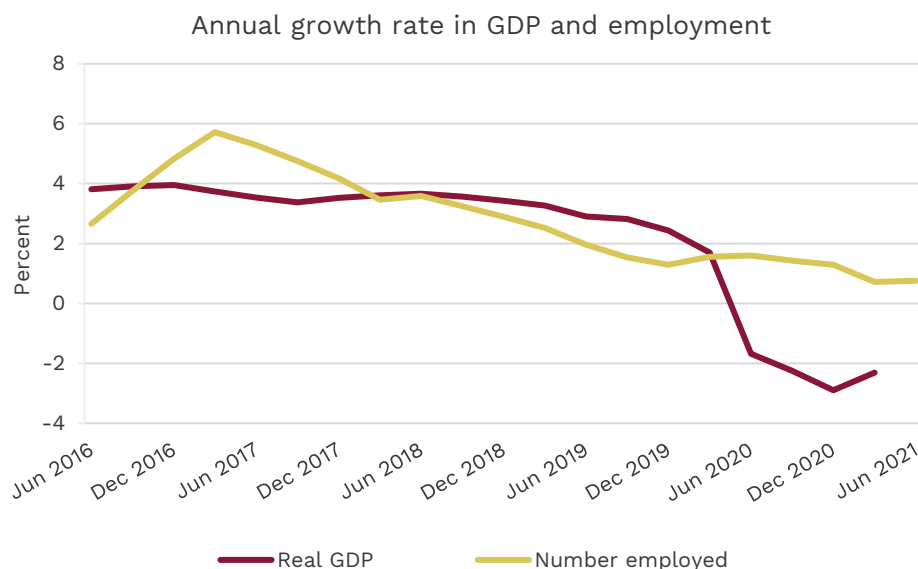
Until the latest lockdown was announced, it seemed that the Government's measures to keep a COVID-19 induced economic meltdown at bay were working. But whether they will continue to work will depend on the length of the current outbreak and, in particular, the government's capacity and appetite to sustain economic relief measures.

Prior to the latest outbreak, GDP and employment were growing reasonably quickly, and the unemployment rate fell to about the lowest it is likely to go. The spectres at the feast became inflation and supply-side constraints.

We have prepared a special feature on inflation in this edition of Birds Eye View, suffice to say at this point, we are not convinced that it will be a temporary issue. We start with the major economic indicators and consider the prospects for economic growth.

Latest stats show GDP and employment growth

Total employment in New Zealand continued to grow, even during the national COVID-related lockdown of 2020. Annual growth rates are measured by comparing the latest four quarters with the previous four quarters. As the graph below shows, in the four quarters to June 2021, the number of employed people in New Zealand grew by 0.8 percent. This was up from 0.7 percent in the four quarters to March 2021.



By contrast, GDP started to fall in the June 2020 quarter, and has continued to fall. However, it is expected that the forthcoming data for the June 2021 quarter will reveal a return to growth. This is because the nightmare reading for the June quarter of 2020 will be included in the previous four quarters, rather than the latest four quarters. Measured on a quarterly basis, GDP rebounded sharply in September 2020, fell slightly in December 2020, and returned to healthy growth in March 2021.

Both manufacturing and the services sector are running hot

The main official economic statistics are quarterly and tend to be released with a bit of a time lag, but Business New Zealand's Performance of Manufacturing Index (PMI) and Performance of Services Index (PSI) provide useful more up-to-date indications of the health of the economy.

The PMI for July 2021 was 62.6, which indicates strong growth. PMI and PSI indexes use a reading above 50.0 to indicate growth. In fact, the July index level was the second highest since the PMI was created in 2002. There was also strong growth in all the sub-indexes (for production, employment, new orders, finished stocks and deliveries).

The latest PSI was 57.9, which also indicates robust growth. Significantly, however, the sub-index for stocks and inventories was only 52.0 (i.e. hardly growing) and the sub-index for supplier deliveries was only 47.6 (i.e. declining). This suggests that supply side constraints are being felt, and this might be an indicator of increased inflation in the pipeline.

The question is where the labour force for further growth will come from

With only four percent of the labour force out of work, but ready for and actively seeking a job, it is difficult to imagine how employment can continue to grow. Many unemployed people will have skills that the market wants, but can't find work because they don't live where their skills are in demand. Others may find themselves in a benefits trap, whereby taking a job is an unattractive option for their family, once the costs of travel to work and other related costs are taken into account. And, yes, there will be some who are disaffected for a number of reasons.

Market conditions might entice some people back into the labour market. But the opportunities for employers to recruit from the current labour market are likely to be limited. Instead, they will most probably need to entice workers from other employers by increasing wages and salaries, or find ways of increasing the productivity of their existing workforce. The trouble is, however, that New Zealand has a poor record of productivity growth, and the likely outcome could be wage inflation with limited economic benefit.

The IMF is also worried about constraints on world economic growth

Meanwhile, the July 2021 World Economic Outlook from the International Monetary Fund implies that New Zealand is not alone in facing the risks we have outlined above. The Fund is still projecting solid world economic growth (6.0 percent in 2021 and 4.9 percent in 2022), but is now slightly more optimistic about the prospects for advanced economies and slightly less optimistic about the prospects for the emerging economies. Interestingly, the Fund is relatively sanguine about inflation, signalling that the current pressures are likely to ease in 2022.

However, the Fund does see some risks to this outlook. It is concerned that slower-than-anticipated vaccine rollouts could allow the virus to mutate further. At the same time, financial conditions could tighten rapidly, if inflation does not track as expected. In combination, these issues could set back the recovery and keep global growth below the rates indicated above.

BERL's economic forecasts

Prior to the latest COVID-19 lockdown, we were relatively optimistic about the prospects for the New Zealand economy. However, the latest outbreak of the Delta strain of COVID-19, has dampened our optimism. It is still early days in the current outbreak, and impossible to have any degree of certainty about how the New Zealand economy will perform.

Accordingly, the forecasts we present at the end of this Birds Eye View carry the strong caveat that they are based on the assumption that the current outbreak lasts no longer than the 2020 outbreak, implying a reasonably rapid return to normal conditions. However, this implies that the 2.8 percent growth in GDP we were forecasting for the year ending June 2022 will be largely wiped out.

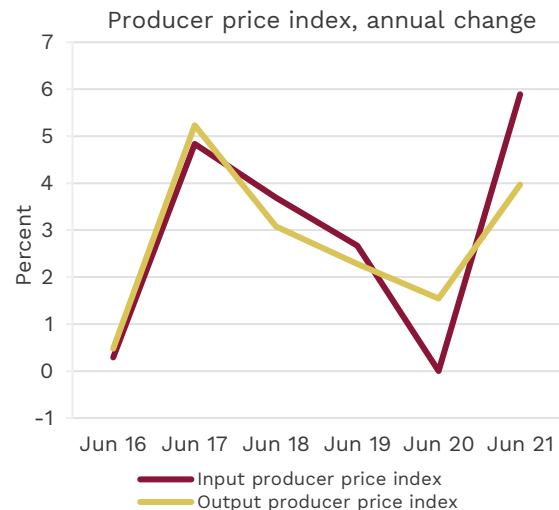
Special feature: Inflation

Concerns about inflation have come to the forefront again in the aftermath of the recession caused by COVID-19. As the global economy recovers from the downturn caused by the pandemic, prices for most goods and services have been rising as more money flows into the economy and it begins opening up. What remains to be seen is whether these price increases persist in the longer term.

In a decision that took many by surprise, the Reserve Bank of New Zealand (RBNZ) announced in its latest monetary policy statement that it would keep the OCR unchanged at 0.25 percent. The primary reason cited for this was the new outbreak of COVID-19 in the community, which may impede economic recovery. The strong labour market coupled with fiscal stimulus in the form of wage subsidies will provide a buffer for the economy, reducing the need for monetary stimulus. Moreover, RBNZ maintains its view that the recent increases in inflation are largely transitory. It expects inflation to continue to rise over the rest of the year, but ease out at two percent (its target midpoint) in 2022.

Business prices flash warning signs

Business price indexes (BPI) consist of the producer price index (PPI), the capital goods price index (CGPI), and the farm expenses price index (FEPI). The input and output PPI tend to move in tandem. In the June 2021 year, the input and output PPI both rose sharply, compared to the previous year when only output PPI saw an increase. The hike in the input PPI was largely a direct consequence of prices soaring in the petroleum and coal product manufacturing (by 19.8 percent), electricity and gas supply (by 17 percent), and meat and meat product manufacturing industries (by 6.2 percent).



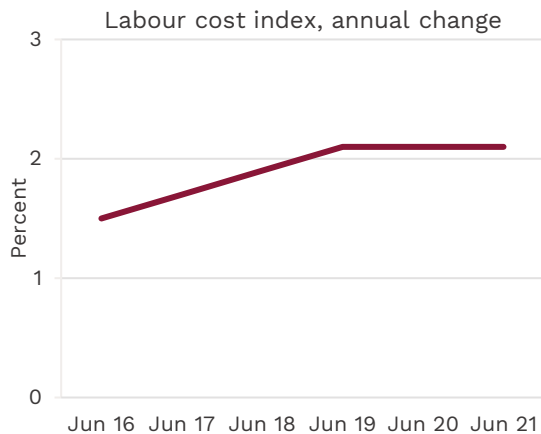
The elevated input prices translated into large increases in the output prices for the same top two industries by 16.3 and 14.3 percent respectively. Output prices in the dairy product manufacturing industry also substantially increased over the quarter by 13.8 percent. In the June 2021 quarter, the CGI, which measures changes in the price level for physical capital assets purchased by producers, experienced the largest quarterly increase in over three decades when it surged by 2.9 percent. The annual increase for the year to June 2021 was 4.9 percent.

An increase in producer prices is an early indicator of looming consumer price hikes. This means that the pent up inflationary pressure in the PPI will continue to spill over into consumer prices as supply chains continue to experience disruptions.

Slow but steady growth in labour costs...for now

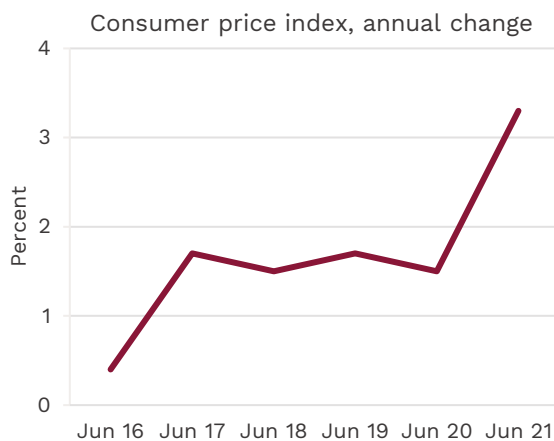
In the year to June 2021, wage inflation went up by 2.1 percent. Wages in retail trade and accommodation jumped as a consequence of the increase in minimum wage in April 2021. Wages for those in the construction sector also spiked as activity in the sector resumed. Private sector wages grew at a slightly faster pace (2.2 percent) than public sector wages (1.9 percent). With many industries experiencing labour shortages, owing to negligible inward migration and

historically low unemployment, wage inflation is likely to accelerate.



Back with a bang

In June 2021, consumer price inflation (CPI) experienced the biggest annual jump in nearly a decade, with consumer prices going up by 3.3 percent. This was outside RBNZ’s target inflation range of 1-3 percent. Price increases were nearly universal, with the prices of 10 of the 11 groups in the CPI basket going up. The biggest drivers were higher prices for new housing, petrol, and food. Higher petrol prices were a result of a surge in global oil prices. Bottlenecks at ports have contributed to relentless hikes in global shipping costs, which have translated into pricier imports.

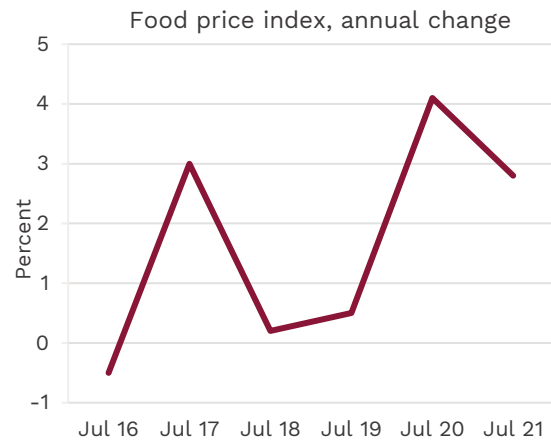


Sticker shock

The July 2021 release of the food price index (FPI) indicated that food prices went up by 2.8 percent, compared to July 2020. The main drivers of this were

large increases in the fruit and vegetables and restaurant and ready-to-eat food categories. Grocery food prices also increased sharply by 2.7 percent during the same period. Food price inflation has increased in nearly every period since September 2016. Dairy prices were at an all-time high, driven by rising global dairy trade prices between December 2020 and March 2021.

What makes these price increases worrying is that the fruit and vegetables, ready-to-eat food, and grocery food categories accounted for over 83 percent of the average household’s weekly food expenditure as of 2019.



Rental price increases maintain momentum

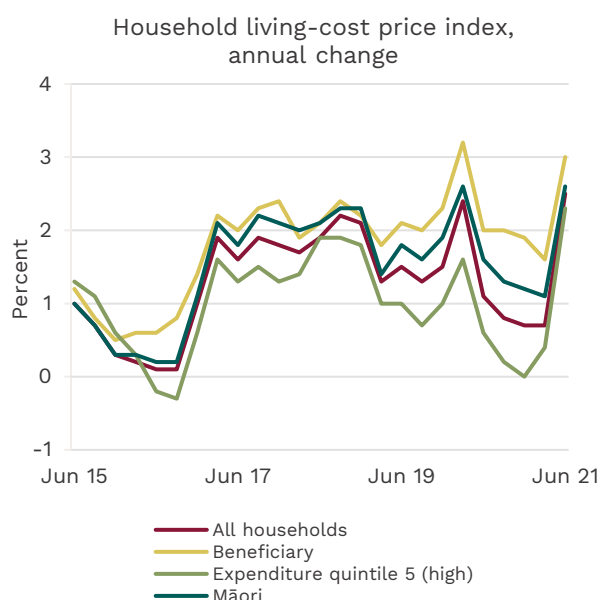
The stock measure of the rental price index (RPI) has hovered around three percent, and has gone up every year in the past decade. The burden of these price increases falls disproportionately on the lowest income decile households, who, in 2019, spent 12.6 percent of their weekly income on rent, on average. The average New Zealand household spent 9.1 percent of its weekly budget on rent during the same period.

Lower income households bear the brunt of inflation

The household living-cost price index (HLPI) is a disaggregated measure of price changes experienced by different households. It is a better measure of the cost of living than the CPI for households. In the year to June 2021, the HLPI for all

households increased by 2.5 percent. This was 0.4 percentage points higher than wage inflation during the same time period, implying that the purchasing power of wages has fallen.

The group that experienced the largest increase in prices were households where the highest income recipient received government benefit payments (beneficiary). This was largely a result of higher prices for housing and utilities since the average beneficiary household spends a third of its income on rent. The two groups for whom price increases were the smallest were those groups that had the highest incomes and the highest expenditures. Prices also increased significantly (2.6 percent) during the year for Māori households.



Conclusions

Inflation is nowhere near the levels observed between 1974 and 1983, when inflation in New Zealand averaged at 15 percent a year. But there is some cause for concern, as there are currently signs of further inflationary pressures. The underlying drivers of inflation, particularly the worldwide supply side constraints and increases in commodity prices appear to be well entrenched, and we do not see them easing in the near future, particularly with new COVID outbreaks in

manufacturing hubs such as China and Vietnam.

Some of the inflationary pressures in the system, most notably in producer prices, have not yet fully fed through to consumer prices. Moreover, the pent up demand from the latest lockdown will add further pressure when restrictions are lifted. As a result, we would expect inflation to persist above RBNZ's two percent target beyond 2022. However, if inflation does stabilise sooner, it will be to the benefit of households on fixed and low incomes.

People resources

The bald facts are:

- The number of employed people increased by 46,800 in the year to June
- At 4.0 percent, the latest unemployment rate is back down to pre-COVID levels
- The underutilisation rate is down, but is still 10.5 percent
- Net migration was down to 4,700 in the year to June, but 15,500 Kiwis came home.

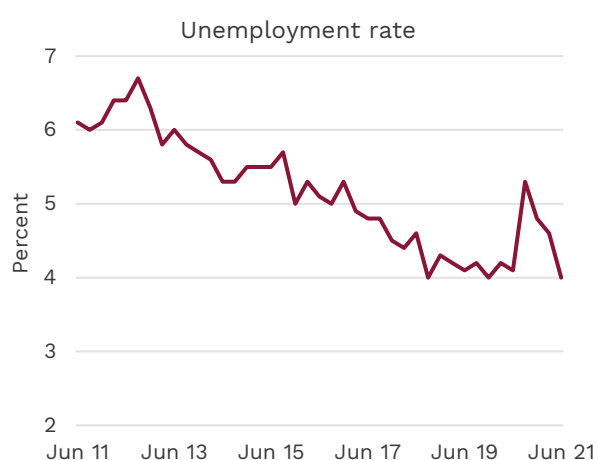
Labour market

Headline labour market statistics have improved over the past quarter. Seasonally adjusted employment went up for both men and women. In the June 2021 quarter, the employment rate increased by 0.5 percentage points to 67.6 percent compared to March 2021. In absolute numbers, 28,000 more people entered the workforce in June 2021 from the quarter before. The sector that experienced that largest percentage increase in the year to June 2021 was construction (by six percent).

Annual changes in employment show that since June 2020, the number of employed people increased by 46,800, over 60 percent of this being in Auckland. The ethnic groups with the largest gains were Pacific people (by 20,600) and Māori women (by 13,900). Much of the growth

has come from temporary work¹ which went up by 21.5 percent during the year.

After peaking post-COVID in September 2020 at 5.3 percent, unemployment (seasonally adjusted) has been trending downwards over the past three quarters. In June 2021, the unemployment rate dropped to four percent from 4.6 percent in March 2021. The number of unemployed people fell by 12.4 percent (17,000 people) in just one quarter, the largest fall in quarterly unemployment since the inception of the HLFS in 1986. The overall unemployment rate has been restored to pre-pandemic levels.



The male unemployment rate fell sharply by 0.8 percentage points to 3.8 percent, while the female unemployment rate fell by a modest 0.3 percentage points to 4.3 percent in June 2021 from March 2021.

The underutilisation rate – an equally important measure of spare capacity in the labour market – fell by 1.6 percentage points, to 10.5 percent between March and June 2021. The number of people underutilised dropped by 13.3 percent (48,000 people) during the same period. This was the largest drop since the series began being recorded in 2004. This is an indication that the labour market might be tightening, with the upward pressure on wages likely to intensify. Further evidence of the tightening labour market was reflected in the declining potential

labour force which fell by 14.3 percent over the quarter, the fourth largest quarterly drop ever.

However, we are certainly not out of the woods yet. The number of people receiving a main benefit as of 30 July 2021 was still higher than pre-COVID levels in 2019, by 58,000 people. Moreover, there is still spare capacity in tourism related industries. However, these workers may not have skills that can be transferred to other sectors to ease the inevitable shortages. The resurgence of the virus and the resulting lockdown measures could hamper the swift recovery seen over the past quarter.

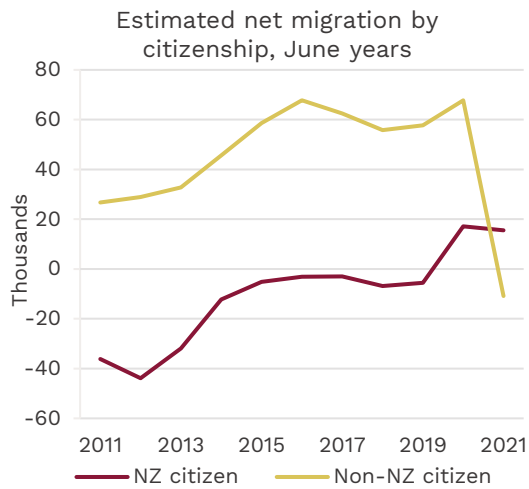
Migration

Since border closures came into effect in March 2020, net migration has unsurprisingly been trending downwards. Annual net migration for the June 2021 year fell by 94.4 percent to just 4,700. Both migrant arrivals and departures have plummeted with arrivals falling by 72 percent and departures by 46 percent over the year. Migrant arrivals and departures were the lowest for a June year since 1986 and 1984, respectively. New Zealand's comparative success in avoiding a disastrous COVID-19 outbreak meant that many citizen and non-citizen migrants prolonged their stay in the country.

Breaking net migration down by citizenship points to a trend that has been intensifying since the onset of border closures. For the first time ever, in the December 2020 year, the net migration of NZ citizens surpassed that of non-NZ citizens. This pattern has continued into the current period. In the year ended June 2021, the net migration of NZ citizens was 15,552 while that of non-NZ citizens was -10,842. Further disaggregation shows that in the year to June 2021, migrant arrivals of non-NZ citizens shrunk by a massive 85 percent

¹ Includes casual, seasonal, fixed-term, and temporary agency employees.

while migrant departures of NZ citizens fell by 53 percent in the same period.



The low levels of net migration have far reaching consequences that go beyond the tourism, hospitality, and education sectors. The labour market is heating up with widespread reports of labour shortages in several industries. The potential for a swift recovery and further economic growth is likely to be seriously constrained by labour shortages.

Capital resources

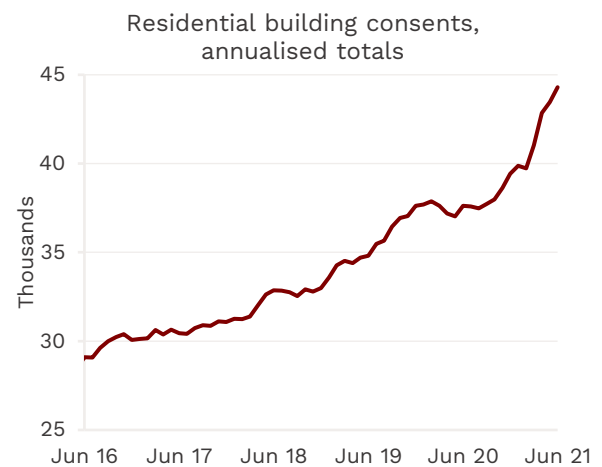
The bald facts are:

- The number of residential building consents increased by 18 percent in the year to June
- But the annualised value of building work put in place has grown only slowly because of last year's COVID lockdown.

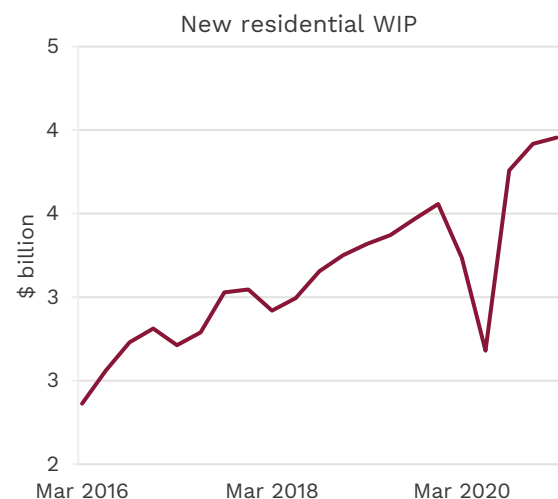
Investment and building activity

Annualised residential building consents have continued their upward trend. The effect of the initial lockdowns in 2020 was just an imperceptible dip in the trend. 44,299 new dwellings were consented in the June 2021 year, an 18 percent increase from the year before. 43 percent of these consents were issued in Auckland (up by 29 percent), 16.4 percent in the rest of the North Island (up by 22 percent), and 14.7 percent in Canterbury

(up by 12 percent). The number of new consents issued over the year fell in the Nelson, Marlborough, and Otago regions.



The value of building work put in place (WIP) measures the actual work done in each time period. As expected, due to the strict lockdowns in 2020, residential and non-residential WIP took a massive hit at the start of 2020. Beginning in May-June 2020, residential and non-residential WIP recovered and experienced sharp increases. In the March 2021 quarter, residential and non-residential building prices rose one percent and 0.4 percent, respectively.



Home base

The bald facts are:

- Data for the first eleven months of the Government's financial year indicate a stronger position than was forecast at the time of the Budget, implying good ability to respond to the latest COVID outbreak
- Total retail spending was 3.6 percent higher in July 2021 than in July 2020.

Government finances

The Interim Financial Statements of the Government for the eleven months ending May 2021 reflected a strong position, with nearly all key metrics comparing favourably against the Budget Economic and Fiscal Update (BEFU) 2021. During this period, Core Crown tax revenue was \$4.1 billion (4.8 percent) above the BEFU 2021 forecast. Core Crown expenses were slightly lower (0.9 percent) than forecast.

The operating balance before gains and losses (OBEGAL) deficit stood at \$3.6 billion, just 38.3 percent of the forecast deficit, which suggests that the full year deficit will be somewhat lower than the forecast of \$15.1 billion. Net core Crown debt was \$6 billion lower than forecast, at \$101.5 billion (31.2 percent of GDP).

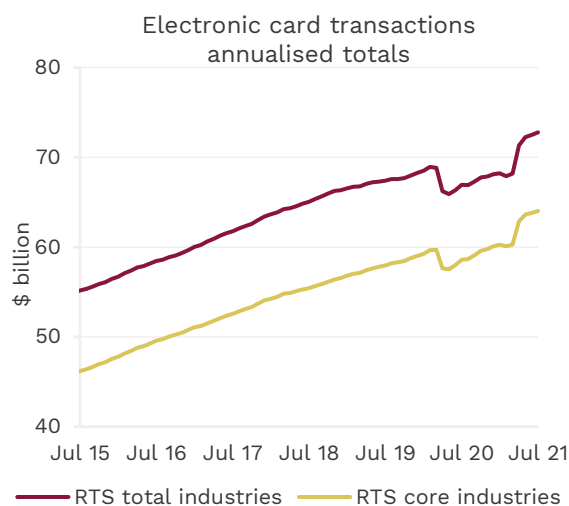
The Government's strong overall financial position indicates that it is well equipped to support the economy through the latest lockdown measures.

Retail

The latest data on electronic card transactions showed that annual retail spending has rebounded and continues to grow at roughly the same rate observed before the 2020 COVID outbreak. Total electronic card spending in the month of July 2021 was \$8.5 billion, of which 73.6 percent was retail spending.

After adjusting for seasonality, spending on apparel went up by 3.5 percent between June 2021 and July 2021 while spending on services fell by 0.3 percent.

Total retail spending increased by 3.6 percent in July 2021 compared to July 2020. This was driven by increased spending on fuel, a consequence of higher global fuel prices.



Abroad and beyond

The bald facts are:

- In June 2021, there were 51,600 overseas visitors to New Zealand, but the bubbles that allowed their entry have now closed again
- In the year to May 2021, the value of New Zealand's merchandise exports fell by one percent, but remained high by historical standards
- During the same period, the value of imports exceeded the value of exports, but only fractionally
- Most of the world's major economies are in recovery, but the Delta variant might hold back growth. Inflation is also a threat.

Exports

Tourism

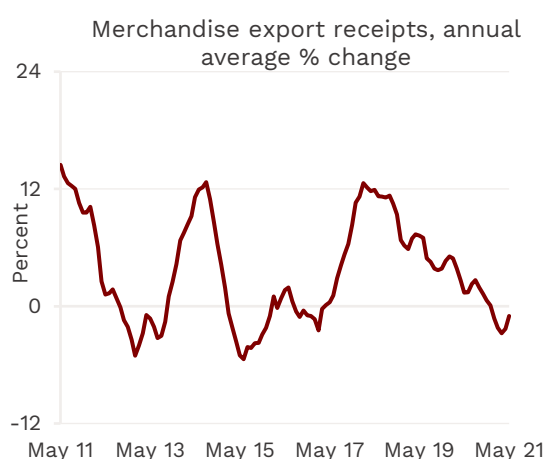
The travel bubble with Australia opened on 19 April 2021 and with the Cook Islands on 17 May 2021 but, as of 30 August 2020, both bubbles have been suspended. In the June 2021 year, overseas visitor arrivals were down by 2.7 million to just 186,000 people. In the month of June 2021, prior to the closing

of the bubbles, there were 51,600 overseas visitors in New Zealand, almost 80 percent of whom were from Australia.

The future remains highly uncertain for the tourism industry, particularly in the short-term. During the first level four lockdown in 2020, industry output dropped to just 11 percent of its pre-COVID levels. Longer term, with vaccination rates domestically and internationally increasing, we can expect the number of visitors to steadily increase. However, it might be a number of years before tourism reverts back to pre-pandemic levels.

Goods (merchandise) exports

After a slight dip in annualised merchandise export receipts between September 2020 and April 2021, the value of exports increased to \$57.1 billion for the May 2021 year. This was \$1.1 billion less than the value for the May 2020 year and \$100 million less than that for May 2019. The slight upward trend may be an indication of merchandise exports recovering from the disruptions to global trade in 2020.



In terms of absolute values, the commodity groups that experienced the largest annual declines during the May 2021 year were dairy (down \$1.2 billion), meat (down \$372 million), oil (down \$325 million), and fish (down \$150 million). Despite the annual decline, dairy and meat receipts were still at historically high levels. Moreover, a large part of the decline in values for New Zealand dairy,

meat, oil, and fish exports can be explained by lower export unit prices for all commodities compared to the May 2020 year.

The commodities that saw the largest absolute increase in export values were forestry products (up by \$1 billion), avocados (\$89 million), honey (\$67 million), and kiwifruit (\$62 million). Receipts from avocado exports reached a record high at \$202 billion in the May 2021 year. After sharp falls in forestry export receipts over 2020, they have been steadily increasing and totalled \$4.8 billion in the May 2021 year.

On the whole, merchandise exports fared relatively well throughout the pandemic despite the global disruption to trade. Some commodity groups such as forestry, oil, and fish took a bigger hit than others. Exports receipts from kiwifruit, avocado, and other fruit remained buoyant.

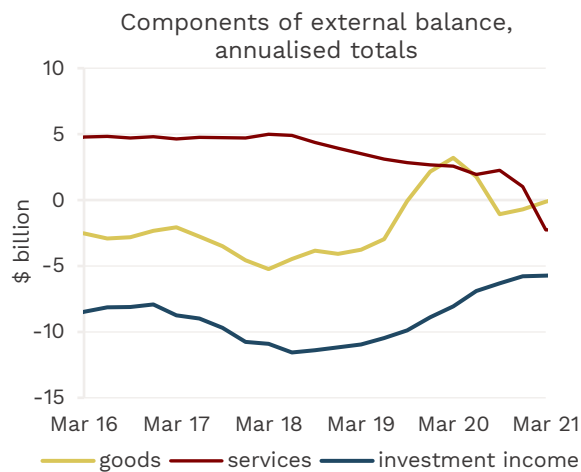
Trade and payments balances

Despite the improving performance of exports in the May 2021 year, the merchandise trade balance has continued to dip because of a steady rise in imports. During the year, the value of merchandise imports exceed that of exports by \$61.7 million. This was a small trade deficit, compared to previous May years.



Unsurprisingly, worldwide travel restrictions have meant that service exports, such as transportation and

travel, took a massive hit. In the March 2021 year, service exports were \$3.3 billion less than in March 2020. Some service exports such as telecommunications, computer, and information were delivered digitally and thus remained stable compared to previous years. Tourism exports fell by nearly 80 percent and education exports by 26 percent. Compared to the December 2020 quarter, tourism exports increased by \$125 million to \$770 million in the March 2021 quarter. Education exports in the March 2021 quarter (\$628 million) were half of what they were in May 2019 (\$1.3 billion).



For the first time since March 1999, the balance of trade in services went into a deficit, which amounted to \$2.3 billion in March 2021. Tourism exports are expected to be higher for the June 2021 quarter thanks to the opening of travel bubbles with Australia and the Cook Islands. However, the recent spread of the Delta variant leaves the future shrouded in uncertainty.

The World

Australia

In the March 2021 quarter, the Australian economy expanded by 1.8 percent, a 1.1 percent increase on the pre-pandemic March 2020 quarter. Two main factors contributed to the increase. First, there was strong growth in the terms of trade, driven by high export prices for iron ore and liquefied natural gas, some of the nation's top exports. Second, private

investment in the March 2021 quarter grew by 5.3 percent, the strongest rise since September 2017. Construction activity and business investment in machinery and equipment grew, supported by fiscal schemes. Household spending on services also rose significantly by 1.2 percent over the quarter.

However, these numbers reflect a time before the Delta variant of COVID-19 made its way into the country in mid-June. Business and consumer confidence wavered as lockdowns were extended till the end of September in some cities. The Reserve Bank of Australia (RBA) expects economic activity to contract in the September quarter. It also expects unemployment to rise from the current 4.6 percent (the lowest rate in a decade).

The RBA has indicated that it is unlikely to tighten monetary policy before 2024.



India

The effects of the second wave of the COVID-19 outbreak are still lingering and India's economy shows no signs of bouncing back just yet. In the March 2021 quarter, GDP growth was just 1.6 percent, while over the financial year (1 April 2020 to 31 March 2021), the economy contracted by 7.3 percent. This was the worst recession for the Indian economy in seven decades (post-independence). The slight improvement in the first quarter was driven by state spending and growth in the manufacturing sector. The second wave impeded economic activity

in the retail, transport, and construction sectors.



The unemployment rate as of August 2021 stood at 7.9 percent. GDP growth in the next quarter is likely to remain muted as a result of a failure to contain the recent outbreak and ongoing supply disruptions. Moreover consumer demand has crashed following high unemployment and a drop in household incomes. The IMF downgraded its GDP growth prediction to 9.5 percent in 2021, owing to the slow pace of vaccinations and reduced consumer spending. Predictions for 2022 look optimistic with IMF forecasting a GDP growth rate of 8.5 percent, the fastest of all major advanced and emerging economies. However, the key to unlocking this rate of growth will be a high rate of vaccinations, a daunting task in a country with a population of 1.4 billion.

China

The Chinese economy grew by an astounding 18.3 percent, year-on-year (yoy), in the first quarter of 2021. However, losing some steam, GDP expanded by 1.3 percent over the second quarter (7.9 percent yoy). The economy has been weighed down by accelerating prices for raw materials and new COVID outbreaks. Vehicle manufacturing, in particular, has slowed down. Consumer spending has dampened, with online sales of physical goods rising by just four percent in July 2021, compared to an average of 21 percent over the past five years. The unemployment rate of 16.2 percent, in July, for those aged 16 to 24 also paints a grim picture.



China's zero tolerance approach to stamping out the virus means that recent outbreaks are likely to further slow down economic growth and exacerbate global shortages of raw materials manufactured in China. The government may need to loosen monetary policy and ramp up fiscal stimulus to stimulate domestic spending and manufacturing. However, amid historically high debt levels, the government is severely restricted in the amount of fiscal stimulus it can provide.

Japan

Beating predictions, the world's third largest economy expanded by 1.3 percent in the year to June 2021, and by 0.3 percent over the quarter. As lockdown measures eased, consumer spending increased, a sign that the appetite of consumers to spend remains strong, despite only partial recovery. The unemployment rate fell by a slight 0.1 percent to 2.9 percent in June 2021, compared with a month before. The restaurant services and accommodation sectors logged the largest increases in employment. However, the potential for further employment growth remains cloudy as lockdown measures are re-imposed. Moreover, Japan remains stuck in a low inflation trap, with CPI dropping by 0.3 percent in the July year.



The recent surge in COVID-19 cases has dented economic prospects for the remainder of the year, with another round of strict restrictions on the horizon. Supply chain disruptions in Asia have meant that Japanese manufacturers are struggling to secure inputs. All in all, the economic recovery of Japan remains fragile, owing to relatively low vaccination rates and transport logjams.

United States

The US economy expanded by 6.5 percent in the second quarter of 2021, against predictions of over 8.5 percent. Potential gains were held back by decreases in residential fixed investment, private inventory investment, and federal government spending. Output was mainly boosted by consumer spending on food and accommodation services and pharmaceutical products.



The US economy is thought likely to have reached its peak post-pandemic recovery period, with growth in the following

quarters expected to be muted. Despite the relatively strong economic recovery, the labour market has been struggling. While the unemployment rate dropped to 5.4 percent in July 2021, there are still 5.7 million fewer jobs than before the pandemic. And this was before the latest outbreak of the Delta variant amongst the unvaccinated population.

In the year to July, CPI rose by 5.4 percent, a 20-year high. However, this does seem to be levelling off as monthly increases are decelerating. In August, the University of Michigan's consumer confidence index plummeted to levels last seen a decade ago in 2011, a reflection of the pessimism of consumers in the resilience of the economy.

United Kingdom

Looser restrictions, owing to a successful vaccination drive in the second quarter, meant that pent up consumer demand from the lockdown was released, driving a 4.8 percent GDP expansion. At 97.5 percent of its pre-pandemic size, the economy has nearly fully recovered. The unemployment rate stood at 4.8 percent in the June 2021 quarter, 0.9 percentage points higher than before the pandemic. Demand for construction, transport, and manufacturing workers was growing faster than in February 2020.

Inflationary pressure was low in July 2021, with inflation being just 0.1 percentage points above Bank of England's (BoE) two percent target. However, this was widely believed to be an anomaly with BoE expecting inflation to rise to four percent later this year.



With hospitalisation rates being low, thanks to one of the highest vaccination rates in the world, the UK is one of the better positioned economies. The economy is growing at its fastest pace in 80 years, inflation seems to be under control, and unemployment continues its downward trend. The IMF even upgraded its growth forecast to seven percent, the fastest of all G7 economies (joint with the US). The success story of the UK economy highlights just how important high vaccination rates are to boost economic growth in these unprecedented times.

Travel restrictions are gradually being lifted, even for non-EU countries, allowing the tourism industry to bounce back. The economy is expected to expand by 4.5 percent during 2021. As in many parts of the world, consumer confidence has rebounded, but rising costs and input shortages plague the manufacturing sector. The €750 billion recovery fund will continue to contribute to an equitable, sustainable, and digitally inclusive recovery.

European Union

The European economy is on a path to recovery, aided by high vaccination rates and a gradual easing of restrictions. In the June 2021 quarter, the EU economy expanded by 1.9 percent, with Portugal and Austria recording the largest quarterly increases of over four percent. The unemployment rate remains persistently high, at 7.1 percent in June 2021. This was only a reduction of 0.2 percentage points from a year before. The burden of unemployment fell disproportionately on the youth (under 25), 17 percent of whom were unable to find work. The highest unemployment rates were observed in Greece, Italy, and Spain.

BERL forecasts

We have simplified the contents of our forecast data tables, to focusing on a selection of key variables.

If you would like to obtain forecasts of other variables not shown, please email info@berl.co.nz or phone +64 4 931 9200.

All the forecasts are for the years to June.

Because of the latest outbreak of COVID-19, we are less optimistic, than we were when the previous edition of Birds Eye View was published, about the performance of the economy in the year ending June 2022. Our forecasts for the years ending June 2023 and 2024 are largely unchanged, although they are surrounded by more uncertainty.

		GDP(P) growth, %	FTE employment growth, %	Unemployment rate %	Net migration number	CPI inflation, %	Exports growth, %	Imports growth %	OBEGAL, \$bn
Actual	2020	-1.7	1.8	4.0	89,000	1.5	1.7	-5.4	-23.1
Actual	2021	3.0e	0.8	4.0	4,700	3.3	0.3	1.1	-10.0e
Forecast	2022	0.5	0.0	4.6	5,000	4.0	2.5	2.0	-20.6
Forecast	2023	3.0	1.5	4.3	12,500	3.5	4.5	4.0	-14.4
Forecast	2024	3.0	1.4	4.0	15,000	3.3	4.0	3.7	-10.9

Note: The 2021 Actual for GDP is an estimate, based on data for the latest three quarters. The 2021 Actual for the OBEGAL is an estimate, based on data for 11 months of the government financial year.



Making sense of the numbers