Birds Eye View

Spring 2021

The Front Pages

Searching for clues on the state of the economy

Based on the astounding recent labour market data and the most up to date inflation numbers, anyone would think that the New Zealand economy is overheating because of very high levels of activity. However, this is clearly not the case. Our largest city has been subject to a level three or four lockdown since the second half of August, and this has severely affected activity in large parts of the service sector. Most of the rest of New Zealand was in level 3 lockdown for only a few weeks, but this would also have reduced activity a little.

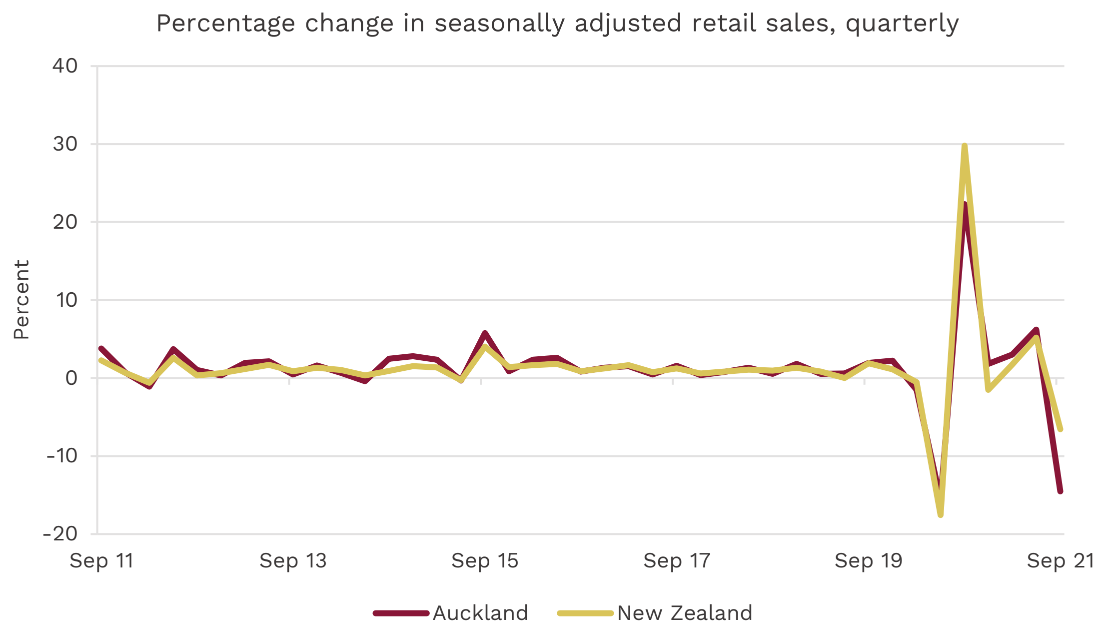
When the government's financial accounts were published on 12 October 2021, the Minister of Finance, Hon Grant Robertson, commented in a press conference that, at level three, activity levels in the economy were generally about 85-90 percent of normal, while they were around 95 percent of normal at level two. This implies that GDP in the third quarter of 2021 (the latter half of which was affected by the lockdown) will have been significantly lower than during the previous quarter. Easing of lockdown restrictions imply that there will be a bit of a bounce back in the fourth (i.e. current) quarter.

It won't be known, however, just how far GDP fell in the third quarter because the official estimate won't be published until 16 December. And the extent of any bounce back won't be revealed until the estimate for the fourth quarter is published on 17 March 2022.

What the other statistical releases and business surveys are indicating

As implied above, labour market and inflation data don't tell us much about the state of the economy at the moment, although we do comment further on them later in this Birds Eye View. Instead, it is necessary to look at other statistical releases and business survey findings to get an impression of the economy's underlying health.

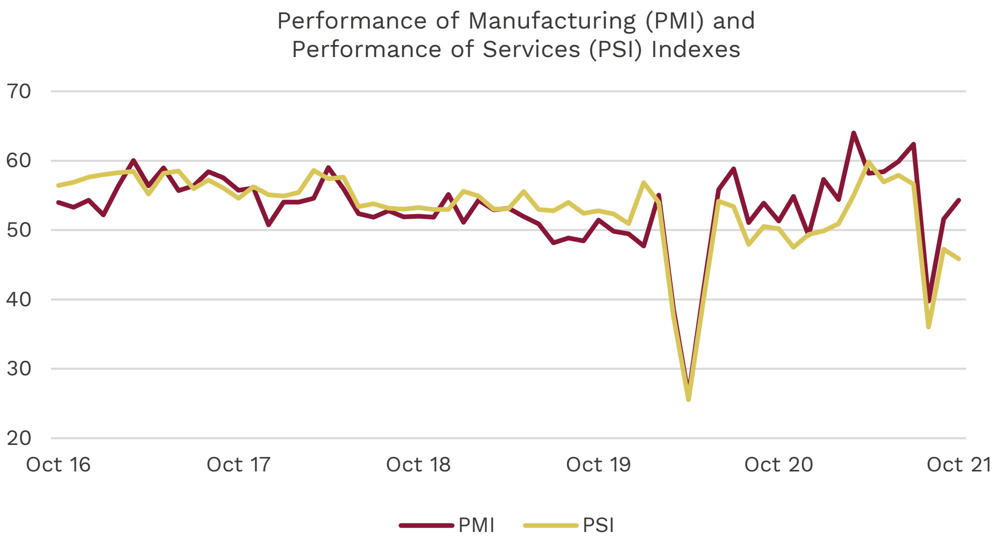
The Retail Trade Survey is conducted by Statistics New Zealand and it extends between retail itself to cover sales and stocks of businesses that provide household and personal goods and services – for example car yards, petrol stations, supermarkets, cafes and restaurants, and hotels. The survey results for the third quarter of 2021 showed that sales in Auckland were 15 percent lower than during the second quarter, and sales in New Zealand as a whole were seven percent lower. Neither of these decreases was as bad as the falls experienced in the June quarter of 2020, when COVID first battered the economy. Nonetheless, they are large and they point strongly towards a fall in GDP in third quarter 2021 GDP.



Source: Statistics New Zealand

Business New Zealand's Performance of Services Index (PSI) has wider coverage and is slightly more up-to-date than the Retail Trade Survey but it, too, points to depressed levels of economic activity. An index level of less than 50 indicates decreasing activity and, at 43.1, the average PSI reading for the three months to October was significantly below this. The average for the Employers and Manufacturers Association (EMA) area, which covers Auckland, was just 36.8, implying a severe contraction.

By contrast, the Performance of Manufacturing Index (PMI) has indicated a sector that has remained resilient, despite a one-off poor reading in August. However, the manufacturing sector is very much smaller than the service sector, so even a strong PMI reading cannot compensate for a weak PSI reading.



Source: BusinessNZ

Meanwhile, the ANZ Bank's latest Business Outlook survey report for the month of November, showed respondents becoming less confident about the business situation as a whole, and less positive about their own activity outlook. Employment and investment intentions were staying positive and improving slightly, but ANZ described cost expectations as ‘still extremely high’ and pricing intentions as ‘still sky high’, respectively.

The take away from all this

In the 1970s, the combination of a sluggish economy and rising prices was labelled ‘stagflation’, but the label doesn’t quite fit now. True, there are significant inflationary pressures and the economy is unlikely to be growing at the moment, but there isn’t the unemployment to go with it. A new epithet is required to characterise the unusual current situation, where all the key indicators are giving unreliable readings, and where it is entirely uncertain when normal service will be resumed.

Elsewhere in this edition

The next section presents a special feature on the changes in the composition and destinations of New Zealand’s top ten merchandise exports during the past decade. It points to an over-dependence on one market and the need to diversify our offering.

Among of the regular sections that follow this, the surprising downward trend in unemployment, the strong growth in residential building consents and the inflation numbers stand out. The review of what is happening in the world’s major economies shows that they are all largely on the same GDP slump-and-recovery path, although one economy took a slightly different route.

Lastly, we present forecasts, up to 2024, for eight key economic indicators. We now expect GDP will decrease by one percent in the year to June 2022, whereas we forecast at the time of the previous Birds Eye View that it would grow by half of one percent. We caution, however, that it is more uncertain than usual where the indicators will head in the short term.

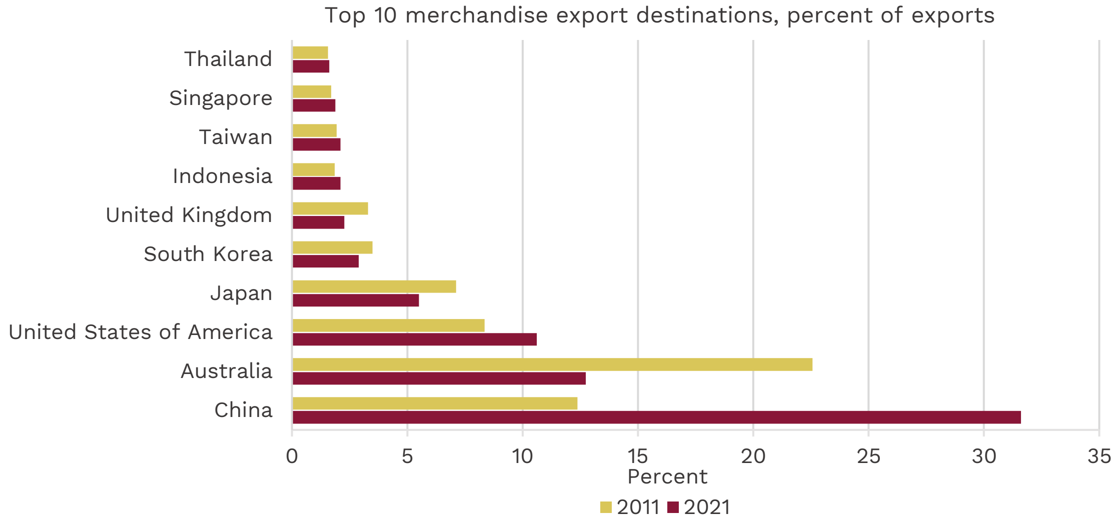
Special feature: Exports

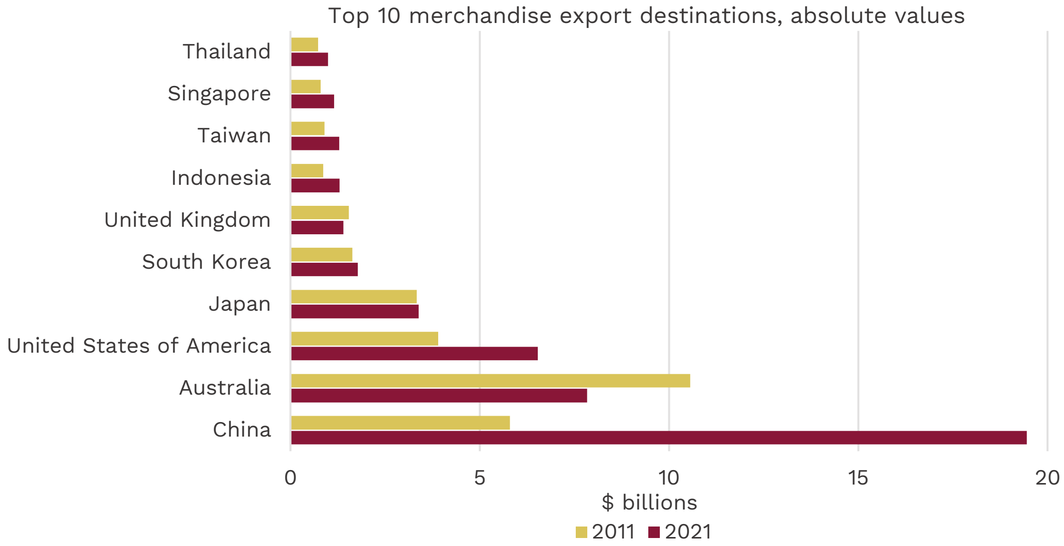
This quarter, we shine a light on how New Zealand's merchandise exports have been performing during the pandemic and how the composition of our national sales has changed over the past decade.

Export patterns over the past decade

The figure below shows how the share of merchandise exports to the top 10 destinations in 2021 has changed since 2011. Our exports are largely oriented towards countries within the Asia-Pacific region. A decade ago, Australia was the top destination for our goods exports, followed by China. By 2021, however, nearly a third of our merchandise were destined for China. The share to Australia (as a percentage of total exports) also dropped significantly over the last 10 years. Between 2021 and 2011, the composition of the top 10 export destinations has changed very little. India and Malaysia each imported around two percent of our goods in 2011, their shares have now dropped and those of Singapore and Thailand increased to enter the top 10. Interestingly, the European Union (EU) did not feature in this list, neither did any individual EU countries.

It's not just the share of exports to Australia that has fallen over the past decade, we are now also exporting fewer goods, in absolute terms to Australia, and even the United Kingdom (UK). On the other hand, the value of goods shipped to China and the United States (US) has increased substantially over this period.





In 2011, the export destinations for New Zealand's top goods were much more diverse (not pictured), with large meat and dairy exports to Germany, Algeria, Russia, and Egypt. This again, points to a trend of increasing concentration of exports to the Asia-Pacific region.

The table below shows our top 10 export products (at the HS4-level) for the September 2021 year, along with the top three export destinations for each of these. In the year to September 2021, New Zealand exported $61.5 billion worth of goods. The primary sector dominates New Zealand's merchandise exports, particularly animal products such as dairy and meat, a trend that has remained largely unchanged over the past decade.

Anywhere between 70 to 95 percent of the output from these sectors is exported.

The only categories from 2011 that did not appear in 2021 were raw aluminium and sawn or chipped wood exports. Unsurprisingly, China featured in the top three destinations for all our biggest exports in 2021, with the exception of wine.

The value of total trade since 2011 (not adjusted for inflation) has grown by 23.94 percent in the last decade. Some of the industries that have seen the largest increase in exports (by value) during this time were rough wood, meat of bovine animals, kiwifruit, non-concentrated milk, and medical appliances.

Moreover, rough wood and kiwifruit exports now make up a substantially bigger share of our national sales than they did 10 years ago. The share of butter and other dairy spreads fell slightly during this time.

Export	Free on board ($m)	Percent of total	Top three export destinations	Free on board ($m)	Percent of total
Milk and cream; concentrated or with added sugar	9,340	15.18	China	4,506	48.24
			Indonesia	434	4.64
			UAE	420	4.50
Wood in the rough	4,066	6.61	China	3,500	86.07
			South Korea	298	7.33
			India	54	1.33
Meat of sheep or goats	3,949	6.42	China	2,004	50.75
			USA	429	10.87
			UK	350	8.86
Meat of bovine animals	3,342	5.43	USA	1,189	35.58
			China	1,369	40.95
			Japan	159	4.77
Butter and other dairy spreads	2,726	4.43	China	723	26.51
			Australia	211	7.75
			Philippines	180	6.60
Kiwifruit	2,711	4.41	EU unknown	741	27.34
			China	615	22.69
			Japan	595	21.96
Cheese and curd	2,089	3.39	China	551	26.37
			Japan	324	15.53
			Australia	257	12.31
Wine	1,918	3.12	USA	640	33.39
			UK	433	22.59
			Australia	385	20.07
Food preparations; suitable for young children	1,478	2.40	China	945	63.92
			Australia	158	10.67
			South Korea	36	2.42
Casein, caseinates and other casein derivatives	1,132	1.84	China	297	26.22
			USA	274	24.18
			Japan	120	10.56
Total for all HS codes	61,526	100.00			

Source: Statistics New Zealand

The impact of COVID-19

As COVID-19 disrupted economic activity across the world, global trade was heavily impacted. Demand for goods such as durables and construction materials fell off a cliff. The mobility restrictions affected both the global demand and supply of goods. In New Zealand, export receipts remained buoyant during 2020, but dipped during the years ended March and April 2021. The one commodity group that did see a significant drop in export receipts in 2020 was forestry products. This was a result of reduced demand for the outputs from this industry, mainly because of disruptions within the building and construction industry. However, demand for wood and wood products recovered beginning in September 2020.

The fall in export receipts in the years to March and April 2021 was driven by a fall in dairy and meat export receipts during these years, which in turn was a result of a decline in their respective export prices.

Although export receipts have now recovered to their pre-COVID levels, global trade continues to be plagued by shipping delays and logjams at major ports.

The need for export diversification

The dramatic surge of exports to China in the past decade or so has largely been driven by a free trade agreement (FTA), signed in 2008. This meant that tariffs on 97 percent of our exports to China have gradually been eliminated, with even more due to be phased out by 2024. The position of China as our premier trading partner has been strengthening each year. In the September 2021 year, exports to the country grew by 16.95 percent.

This heavy dependence on China puts us in a precarious position. A third of our goods exports are at risk if the political relationship sours or the Chinese economy collapses. This does not mean that trade with China should be reined in, rather, efforts must be made to increase trade with other regions. There is a large amount of untapped potential in the European and other fast-growing Asian markets. Brexit and the new FTA with the UK (negotiations are set to conclude later this year) will also bring new opportunities and fuel diversification.

The surprisingly stable nature of the same primary sector commodities in the top exports list decade after decade is also a worrying sign. The economic complexity of our exports has fallen over the past two decades. Economic complexity measures the knowledge and technological density of a particular economy by assessing the level of knowledge complexity in exported products. New Zealand ranks 49th in the world according to this metric.[1] Japan takes the top spot, with the most knowledge intensive exports in the world. Countries with a more diverse export basket have a more complex productive know-how. Greater economic complexity in exports has been shown to highly predict current income levels and future economic growth.

According to the Atlas of Economic Complexity, a tool that helps explain how global trade flows can open growth opportunities for nations, our exports are less complex than other countries with the same level of GDP per capita. This means that the economy is projected to grow at just 2.4 percent per annum over the next decade, placing us in the bottom half of all countries globally.

[1] https://atlas.cid.harvard.edu/rankings

Opportunities to diversify our offerings to the global market will come from moving into nearby and related products or those that build on current capabilities. Based on our existing capabilities and know-how, diversification within the chemicals and machinery industries is achievable. Significant R&D investment is required to encourage the development of other high-value and knowledge intensive industries. One of the most achievable ways to add value to our exports is by way of processing low-value exports such as wood and milk before they are shipped across the world.

Being a small, geographically isolated country means that New Zealand faces some inherent challenges when it comes to increasing the contribution of exports to our economy. Access to markets can be improved by way of trade policy and negotiating new FTAs with emerging markets. We currently have 12 FTAs in force, with seven under negotiation.

One of our biggest barriers to trade, distance from markets is not a challenge that is easily solvable, further highlighting the need for adding value to current exports and building strong trading relationships with diverse countries.

People resources

The bald facts are:

- The unemployment rate is now at a record low of 3.4 percent
- Underutilisation rate also down
- 115,100 more people employed in the year to September
- But 1.3 million people supported by wage subsidies
- Net migration almost zero

Labour market

The latest labour market statistics for the September quarter beat all expectations. The unemployment rate fell to a record low of 3.4 percent, with fewer than 100,000 people out of work. In the year to September 2021, 115,100 more people were employed, taking the total to 2.82 million people. This growth was driven by an increase in full-time employment. The labour market has recovered to pre-COVID levels as the number of paid employees is higher than it was before economic activity slowed early last year.

The underutilisation rate, another measure of spare capacity in the labour market, fell from 10.5 percent last quarter to 9.2 percent. This was despite a 6.6 percent fall in hours worked – a result of heightened alert levels.

The lower unemployment rate was not a consequence of people leaving the labour force, as is the case in other developed countries. Labour force participation rose 0.7 percentage points during the quarter, reaching a record high for women (66.8 percent).

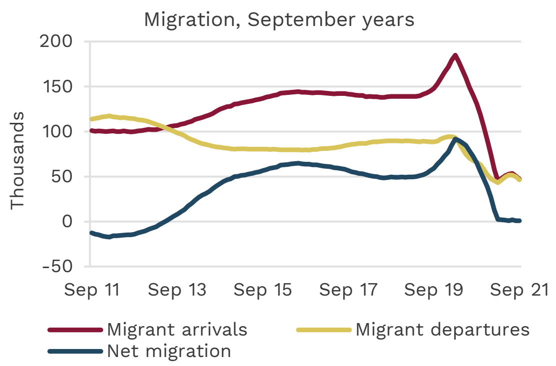
The construction, professional, scientific and technical services, and accommodation and food services industries experienced the biggest increase in the number of filled jobs in the year to September 2021. According to RBNZ, capacity utilisation for builders and manufacturers is at the highest level ever seen. One explanation for the tight labour market at a time when economic activity is reduced is that business have been holding on to labour, even during times of reduced trading due to difficulties with finding and retaining the right staff.

The wage subsidy has also played a crucial role in propping up employment. As of 5 November 2021, 1.29 million jobs were supported by August's Wage subsidy schemes. Moreover, more people have been working from home during Alert level three and four this time than last year, a reflection of increasing flexibility.

The number of jobs being advertised dropped in the year to October 2021 for all regions except Auckland. This indicates that the growth in employment may slow down in the coming months.

Migration

Net migration has slowed to a trickle since border measures were imposed in early 2020. In the year to September 2021, net arrivals to New Zealand was just 800, down from 65,000 the year before. Unsurprisingly, the largest group of migrant arrivals were New Zealand citizens (25,800), followed by Australians (3,200) and Indians (2,500). The largest group leaving the country were also NZ citizens (16,500), followed by Chinese (5,700) and Indian (4,300) citizens.



Broken down by citizenship, in the year to September 2021, there was an annual net gain of 9,300 NZ citizens, which was offset by a net loss of 8,500 Non-NZ citizens. This is a result of the strict border restrictions for non-NZ citizens, which have meant that fewer non-citizens are departing the country.

A worrying trend that may indicate further pressure on the labour market in the future is the net migration loss of young adults, both citizen and non-citizen. The net loss of non-NZ citizens was driven by people in the 16 to 34 age group. In the past, this groups has contributed heavily to migration inflows. A significant number of NZ citizens in their late teens and twenties have also departed the country.

With borders set to open early next year, we can expect migration to increase from current levels. However, with the additional measures of caution and uncertainties still abound, we don’t expect migration to reach its pre-COVID levels anytime soon.

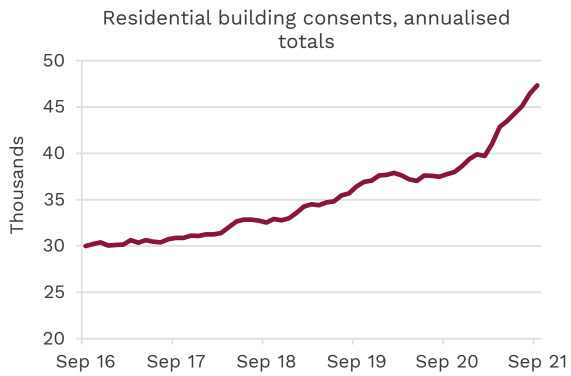
Capital resources

The bald facts are

- The number of new residential building consents is still increasing and this is matched by increasing levels of work in progress
- But shortages of materials and labour are likely to hinder further growth
- Most new housing is high density

Investment and building activity

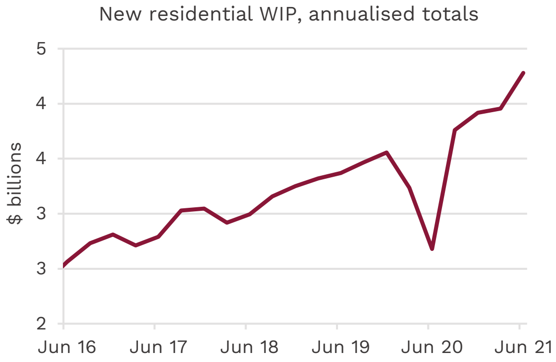
The construction sector was among the most affected by mobility restrictions during the early stages of the pandemic. Alert level three and four restrictions resulted in unprecedented declines in activity. However, the latest data from the September 2021 quarter shows that more building consents than ever are now being issued – dwellings consented were up by 25 percent in the year to September 2021. It is important to note though that the September 2020 year was heavily affected by initial lockdowns.



Demand for multi-unit homes is increasing, with consents for such homes increasing by 40 percent during the year, compared to 15 percent for stand-alone houses. Growth was strongest in Auckland and Wellington. We can expect demand for higher density housing to continue to climb, particularly in light of the recently announced changes to the *Resource Management Act 1991*. These changes will allow buildings of up to three stories on most sites without the need for a resource consent, beginning in August 2022.

The data to June 2021 shows that while the value of work put in place has been increasing since restrictions ended last year, the construction sector has been plagued by severe capacity constraints. Businesses and customers have been experiencing widespread product shortages and delivery delays, with timber being the most problematic input.[2]

In the year to September 2021, prices for the construction of new houses was up by 12 percent. Price rises are expected to get worse before subsiding in the medium-term. To add to this, border restrictions have meant that there has been a shortage of skilled labour in this sector.



Investment and building activity is likely to remain constrained in the short- to medium-term as demand for construction bounces back, but supply struggles to keep up as a result of labour and materials shortages.

Home base

The bald facts are:

- Government finances to the year ending June were stronger than expected, but the latest COVID outbreak will have eroded some of this strength
- Inflation is now almost five percent and the Reserve Bank expects it to peak at nearly six percent in mid-2022
- Retail sales in the September quarter were sharply down, but there has been a bit of a recovery since then.

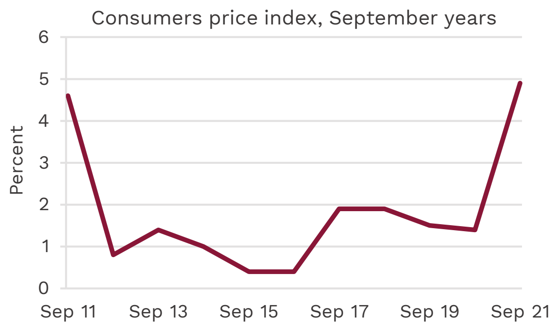
Government finances

The financial statements of the Government for the year ended 30 June 2021 painted a rosy picture, a reflection of the strong economic recovery post the first COVID-19 wave. The operating balance before gains and losses (OBEGAL) deficit was $10.6 billion better than the forecast and stood at $4.6 billion. A healthy labour market recovery coupled with lower alert levels meant that tax revenue of $98 billion was higher than forecast. Core Crown expenditure of $107.8 billion was also lower than what initially predicted.

These results reflect a time before the newest wave of infections and subsequent lockdowns. The interim financial statements for the three months ended September 2021 show that although tax revenue was higher than expected (10.5 percent more than forecast), these gains were offset by higher Core Crown expenses (by 11.4 percent) triggered by financial support measures during lockdowns. Consequently, OBEGAL was 17.1 percent lower than projected in the 2021 Budget and Economic Fiscal Update.

Inflation

Inflation has continued to rise on the back of recovering consumer demand, as restrictions ease, and supply chain logjams. The generous fiscal and monetary stimulus during the lockdown periods has also played a large role in increasing the supply of money.



[2] https://www.mbie.govt.nz/dmsdocument/17754-summary-report-covid-19-pandemic-and-its-impact-on-building-system-actors-research

The headline inflation rate rose by 4.9 percent in the year to September 2021. CPI inflation expectations rose to 6.2 percent in October 2021, which could drive up wage inflation. The Reserve Bank expects prices to continue to rise faster than its 1-3 percent target range in the near term, and ease out over the next three years.

The main drivers of CPI were housing related costs, including construction costs. House ownership costs surged by 12 percent year-on-year (yoy). Petrol prices went up by 21.5 percent in the year to September 2021, influenced by higher global prices of oil. Rental prices also increased significantly, going up by 3.2 percent during the year.

During the year ended October 2021, food prices went up by 3.7 percent. The groups that saw the largest annual increases were fruits and vegetables (up nine percent) and restaurant meals and ready-to-eat food (up five percent).

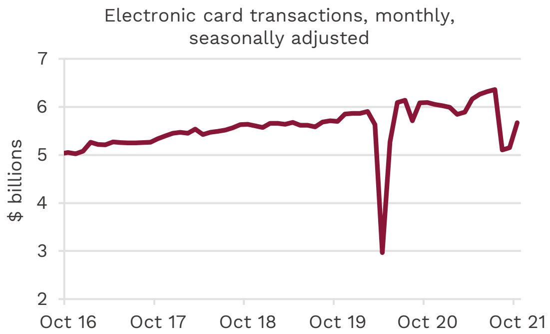
Inflation affects different household differently. This quarter, superannuitant households felt the pinch as they experienced a 3.3 percent increase in prices, compared to 2.7 percent for all households. This was a result of higher prices for fruits and vegetables and transport.

In the year to October 2021, prices received by producers increased by 6.2 percent and prices paid by producers increased by seven percent, the largest increases in over a decade. These prices were influenced by higher global raw milk prices and energy prices during the year.

Wages have not kept up with overall inflation - the labour cost index rose by 2.4 percent over the September 2021 year, which means that the average worker effectively took a 2.5 percent pay cut during the year.

Retail

In the September 2021 quarter, retail sales volumes dropped by 8.1 percent. As expected, the most affected region has been Auckland and the largest falls were observed in spending in the hospitality industry. Since then, there has been an uptick in consumer spending, as reflected by a steady increase in electronic card transactions, driven by spending outside Auckland. As the holiday period draws nearer and the country transitions to the new traffic light system, we can expect retail spending to gradually recover to levels seen before lockdown 2.0.



Spending on most goods and services was down in the year to October 2021, except supermarket and grocery stores (up 9.5 percent). Between September 2021 and October 2021, the period where restrictions outside Auckland were relaxed, spending on durables, travel and tour arrangements, postal and courier delivery services, and fuel increased significantly.

The decision to lift restrictions will provide much needed certainty to businesses in the retail and hospitality industries, particularly in Auckland. The strong labour market and steady increase in vaccinations will further boost confidence and spending.

While we can expect spending on services such as food, transportation, and recreation to increase in the coming months, there is some concern that higher interest rates will dampen consumer spending. As of June 2021, household debt was 168.6 percent of disposable income. With interest rates expected to rise further, some households will have to curb household spending to service their debts.

Abroad and beyond

The bald facts are:

- The latest numbers show GDP growing in most major economies, except Australia and Japan
- Australia is also experiencing increasing unemployment, but it is falling elsewhere
- Inflation is a growing problem in India, the UK and the USA.

The World

Australia

Australia is slowly emerging from lockdowns. However, the measures to counter the recent COVID outbreaks in New South Wales and Victoria have had a significant impact, with GDP contracting by 1.9 percent in the third quarter of 2021, largely a result of a substantial fall in household spending.

The unemployment rate increased to 5.2 percent in October, an increase of 0.6 percentage points from the previous month. This is not necessarily a bad sign as labour force participation has also increased, indicating confidence may have jumped now that restrictions have eased. Inflation has remained subdued compared to the global situation, and was 3 percent in the year to September 2021. In response to this, the Reserve Bank of Australia is maintaining accommodative monetary policy.

India

While the 20.1 percent yoy GDP growth in the April to June quarter might seem impressive, it suffers from a low base effect and is compared to a 24.4 percent contraction in the year before. On a quarterly basis, GDP contracted by 10.2 percent in the June 2021 quarter. This was a result of the devastating second wave of the pandemic, which peaked during this period.

Since July, the pace of vaccinations has picked up and economic activity is inching towards its pre-pandemic level. The Reserve Bank of India estimates that real GDP expanded by 9.6 percent in the September quarter. Numbers for October 2021 show that that manufacturing and services PMI are in the expansionary territory, rising close to or above 56. GST collections during October were the second highest for any month since the tax came into effect, reflecting robust consumer demand.

Rapid inflation remains a key risk as input costs continue to rise. Producer prices surged by 12.5 percent in October 2021 compared to the month before, driven by higher fuel costs amid a global shortage.

China

China experienced disappointing economic growth in the year to September 2021. GDP increased by just 4.9 percent, compared to 7.9 percent yoy in the previous quarter. The manufacturing purchasing manager's index slipped to a contractionary 48.4 in October. Despite a slowdown in economic growth, China's export resilience continues. In the October 2021 month, Chinese exporters shipped nearly $419 billion worth of goods, a 27.1 percent increase yoy. The strong growth came despite power shortages in factories. Export growth was aided by a gradual resurgence of consumer demand in key markets such as the US, Japan, Australia, and the EU.

Economic growth is expected to remain subdued in the coming months, as power shortages and constraints on inputs continue. Other factors that will moderate growth include an adherence to the elimination strategy, reining in debt post the Evergrande debt crisis, and efforts to curb carbon emissions.

Japan

Supply chain shortages and a new wave of COVID-19 hit the world's third-largest economy hard in the third quarter of 2021, and GDP fell by 3 percent on an annualised basis. The Japanese economy is lagging in its recovery to pre-COVID levels compared to other G7 countries; it is still 2.2 percent smaller than it was at the end of 2019.

Inflation remains stubbornly low in Japan, rising by just 0.1 percent in the year to October 2021, despite sharp increases in producer prices and monetary and fiscal stimulus.

The latest data from October 2021 indicates that the economy may finally be turning a corner. Consumer confidence rose to its highest level since before the pandemic. The PMI for October 2021 was an expansionary 53.2, indicating that factory output is increasing as manufacturers navigate supply shortages and rising prices.

United States

The headline results from the third quarter reflected the impact of a resurgence of COVID cases, as government aid to households decreased, coupled with ongoing supply chain disruptions. GDP grew by just 2 percent yoy, compared to 6.9 percent in the quarter before. In response, the IMF slashed its growth forecast for 2021 by one percentage point to 5.9 percent. The US economy was 1.4 percent larger in the third quarter of 2021 compared to the last quarter of 2019.

The CPI increased 6.2 percent in the year to October 2021, the biggest increase in nearly three decades. Despite this, the Chairman of the Federal Reserve maintains that inflation is transitory and will ease over the next year. The US$1.2 trillion infrastructure bill will provide further stimulus over the next five years.

The labour market provided some cause for optimism and gained some momentum. Unemployment dropped to 4.6 percent in October 2021, compared to 6.3 percent in January 2021. However, it still remains above the pre-pandemic low of 3.5 percent. The manufacturing and services indexes for October 2021 were strong, indicating accelerated growth in Q4 2021.

United Kingdom

In the year to September 2021, the UK economy grew by 6.6 percent, slightly below the 6.8 growth predicted. The economy is now inching closer to its pre-pandemic size and remains 2.1 smaller than it was in the fourth quarter of 2019.

The service sector was bouncing back, growing by 1.6 percent during the quarter. However, the production and construction sectors recorded declines of 0.8 and 1.5 percent, respectively.

As in other parts of the world, CPI inflation was above the Bank of England's target range of 1-3 percent, at 3.1 percent, in September 2021. The labour market tightened further as unemployment rate stood at 4.3 percent in October 2021; but there was an increase in part-time work and zero-hour contracts.

Supply constraints and labour shortages are expected to continue to weigh down GDP growth over the short-term.

European Union

The resurgence of the COVID-19 virus, particularly the emergence of a new strain, threatens to impede European economic recovery. Prior to the latest wave, the EU economy was on the expansionary path, growing by 3.9 percent in the year to September 2021. The unemployment rate was just slightly above pre-pandemic levels at 6.8 percent. The revival of intra-EU travel meant that consumer spending was on the mend and output had recovered to its pre-pandemic level. Nevertheless, the economy faced significant headwinds on the path to expansion. Rising energy prices and supply shortages impeded growth in the region's prodigious manufacturing sector.

The latest wave has resulted in the lowest levels of consumer confidence in seven months. The service economy, which is a high-contact economy, will be the first, and most heavily affected. Lockdowns in Germany, EU's largest economy, could bring the whole region back into recession.

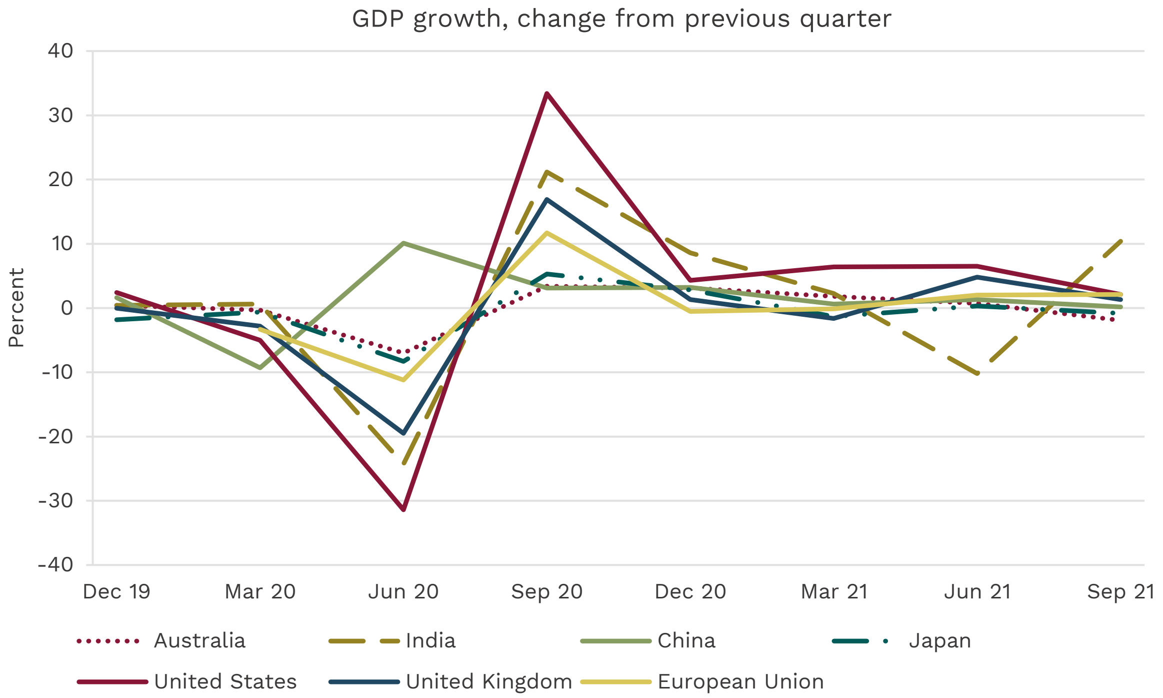
On the flip side, the European economy has weathered successive waves with greater resilience than the last.

Vaccination rates are also high, which will limit the need to pose restrictions on mobility. The resilience of the European economy will certainly be tested during the fourth quarter of 2021 as uncertainties continue to mount.

The path of GDP growth since COVID

The figure below shows how GDP growth has fared across these seven economies since the onset of the COVID-19 pandemic. Since China was the first to react to the outbreak, it experienced an economic contraction earlier than other countries – in the March 2020 quarter. The World Health Organisation declared the outbreak as a pandemic only in March 2020, which is when other countries began imposing widespread restrictions on mobility and economic activity. The full effect of this could be observed in the June 2020 quarter for most regions, except China. The US and India saw the sharpest falls but also the biggest bounce backs in the September 2020 quarter, after which GDP growth remained subdued.

As we grapple with new waves and fresh restrictions in different regions, GDP in each region has reacted differently. On the whole, most countries are now on the path to moderate growth as we learn adapt to the shock and build resilience.



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 21 868 190.

All the forecasts are for the years to June.

All growth rates are annual.

Because the latest outbreak of COVID-19 has dragged on a bit and has extended over two quarters, we are now slightly less optimistic about the performance of the economy in the year ending June 2022 than we were when the previous edition of Birds Eye View was published,. 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	5.1	0.8	4.0	990	3.3	0.3	1.1	-4.6
Forecast	2022	-1.1	0.0	4.6	2,500	5.5	2.5	10.0	-25.8
Forecast	2023	3.0	1.5	4.3	12,500	3.5	4.5	7.0	-14.4
Forecast	2024	2.5	1.4	4.0	15,000	3.3	4.0	5.0	-10.9

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Making sense of the numbers

+64 4 931 9200 info@berl.co.nz www.berl.co.nz