

- **The spread of Omicron and easing house prices are weighing on household spending.**
- **Business sentiment weakened in January, but higher dairy prices are providing support.**
- **Sharply higher inflation is putting pressure on central banks to tighten monetary policy as geopolitical tensions drive oil prices sharply higher, but inflation is easing in China and policy support is increasing.**
- **Australian labour market resilient to Omicron wave despite large fall in hours worked.**

The spread of Omicron is weighing on domestic spending, particularly in the services sector, and easing house prices are an additional headwind to spending. International experience suggests the disruption from the former will be temporary and spending will bounce back. But we expect the effects of latter to persist and to contribute to slower household consumption growth over the year ahead.

Global inflation provided more positive surprises in the US, UK and Canada, reinforcing expectations of central bank tightening. In contrast, inflation is mild in China and policy there is biased towards additional stimulus. Geopolitical tensions have added to volatility on both financial and commodity markets, with oil prices up sharply over the week. In Australia, the Omicron wave saw hours worked fall heavily in January, but employment held up, supporting expectations of a sharp rebound.

Spending is slowing as Omicron spreads

As COVID-19 cases accelerate, high-frequency indicators now suggest that consumer activity is declining across New Zealand (see charts on page 4). Electronic card spending across all regions has now fallen below the same week in 2020. In the week ended 13 February, total card fell 10.0% below the same week in 2020. Spending in Auckland was 10.3% below 2020 levels, while Otago, Nelson, Marlborough and the West Coast were down by 15-25%. Weather events recently may also have had an impact.

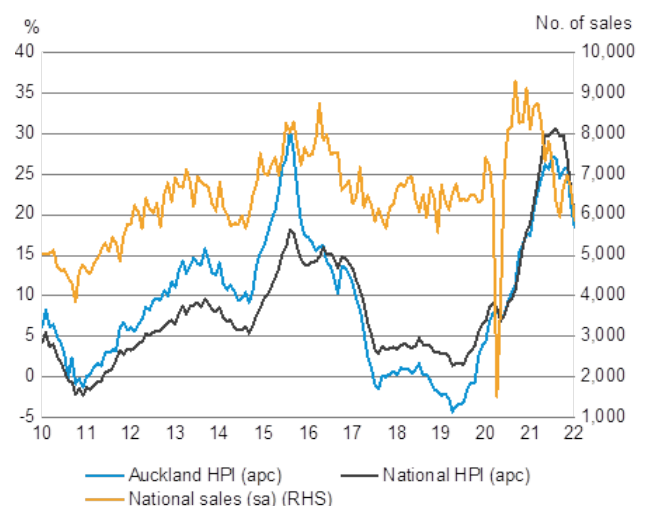
Traffic data indicates that light vehicle traffic volumes remain below 2021 levels, but heavy vehicle traffic volumes have held up. Google mobility data also indicates fewer people movements at workplaces, and retail and recreation locations. Total Jobseeker Support

numbers continue to fall, as more seasonal work becomes available and remain well below the same week in 2021, indicating continued tightness in the labour market. International experience suggests that this will lead to a temporary fall in hours worked, rather than having a permanent impact on employment.

House prices ease...

The REINZ House Price Index declined 0.9% (seasonally adjusted) in January, led by Auckland with a 1.2% decline. Relative to a year ago, house price growth has eased to 19.9%, down from a peak of 30.6% in August 2021, while sales activity fell further, down 11.9% from a year ago (Fig 1).

Figure 1: REINZ House Price Index and sales



Source: REINZ

House prices are easing sooner than anticipated in our forecasts reflecting tighter credit conditions, and expectations of higher interest rates.

Also taking pressure off house prices, record-high building consents and weakening population growth point to increased supply.

Overall, a weaker housing market will weigh on household spending growth over the year ahead.

...as net international migration flows reverse

For the 2021 calendar year, annual net migration decreased to a net outflow of 3,900 people, comprising an inflow of 45,900 and an outflow 49,800. This is a significant departure from recent trends in net migration, with a net 36,800-person inflow estimated for the 2020 calendar year. The recently announced stages of the Reconnecting New Zealand framework should catalyse migration both into and out of New Zealand over 2022.

Business sentiment weakens

While remaining in expansionary territory, the Performance of Manufacturing Index (PMI) dropped to 52.1 in January 2022 from 53.8 in December. The Services Index also fell, down 3.9 points 45.9, well into contractionary territory.

On the positive side, dairy prices rose a further 4.2% at this week's GDT auction to be nearly 30% higher than the same time last year.

Tax revenue, NZAC show resilience...

The Government's financial accounts showed tax revenue was around 3.0% (\$1.5bn) above forecast in the six months ended December 2021, providing further evidence activity bounced back from the Delta lockdowns. Operating expenses were 1.0% (\$0.7bn) below forecast, contributing to an operating (OBEGAL) deficit that was \$2.8bn narrower than projected. Also showing resilience, January's NZ activity index (NZAC) was 2.8% higher than a year ago.

...as inflation expectations reach 31-year high

The Reserve Bank's Survey of Expectations showed business and professional forecasters expect 1-year ahead inflation of 4.4% – the highest since 1990 – and 2-year ahead inflation of 3.3%. Survey respondents believed that the Reserve Bank would raise its policy rate by 25 basis points in coming weeks and by at least 100 basis points over the year ahead. The next Monetary Policy Review is scheduled for 23 February.

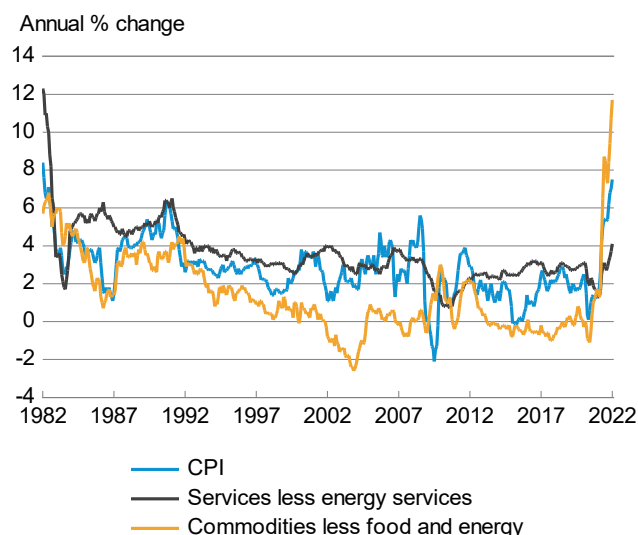
Global policy tightening and geopolitical risks are driving market volatility

Sharply higher inflation has driven expectations of greater urgency in central bank tightening and lifted global interest rates. Price pressures remain more muted in China, but rising energy costs could push headline inflation up. The risk of conflict in Ukraine and potential sanctions also affecting wider commodity prices, from energy to industrial metals to food, that are already reflecting strains from strong demand and supply-side constraints.

US inflation reaches 40-year high...

Following on from the strong US nonfarm payrolls report, US consumer price inflation was again higher than analysts expected, with headline inflation hitting a 40-year high of 7.5% (Fig 2). The breadth of the price pressures is evident in various core measures of inflation, which strip out the components that typically account for the much of the CPI's volatility such as food and energy. Core goods prices rose 10.7% from a year ago, reflecting the strength of demand and supply constraints, and core services prices, which includes housing services and reflects more persistent pressures, rose 4.1%. Other indicators of inflation breadth, including trimmed means and weighted medians, while lower than the headline and core measures, confirm that inflation is high and policy action can be expected.

Figure 2: US inflation



Source: Haver

January inflation also remained strong in the UK and Canada, with annual rates of 5.5% and 5.0% respectively. Analysts expect UK inflation to exceed 7% in February.

Following the US inflation release, financial markets moved to price in a high probability of a 50 basis point (bp) increase in the Federal Reserve's policy rate at its next policy meeting on 16 March, and a rise of around 1.75bps by the end of the year. US 10-year bond yields rose to over 2% for the first time since 2019, and the rate moves cascaded into other markets, including NZ. Analysts are now focused on the Private Consumption Expenditure (PCE) deflator, which is the Fed's target and lower than the CPI, to be released 25 February.

Geopolitical tensions in Ukraine and potential sanctions are also contributing to volatility in financial markets and wider commodity prices, reflecting Russia's role as a major commodity exporter. Oil prices rose to over USD\$96bbl this week, with some analysts suggesting oil could easily reach US\$120 per barrel, enough to send the price of NZ's Regular 91 to over NZ\$3.00 per litre from around NZ\$2.70 this week.

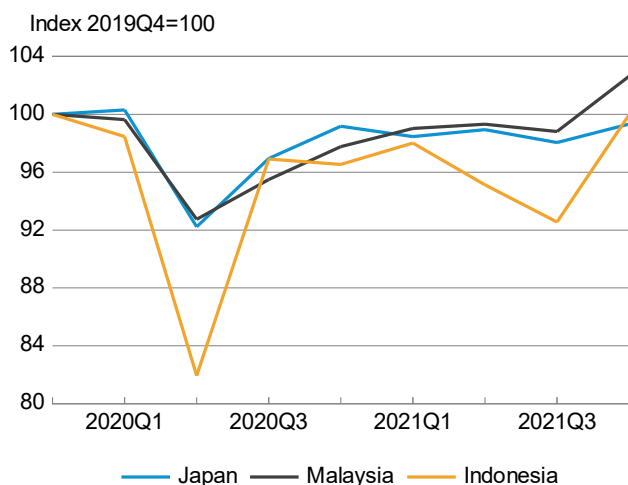
...but remains low in China

In China, annual consumer price inflation eased to 0.9% as food prices dipped, while policy support for activity was evident in a pickup in credit growth, which will help support near-term investment activity.

Omicron threatens recovery in Asia

GDP reports from Japan, Malaysia and Indonesia continued the trend of other Q4 releases in the region of a strong recovery from the Delta outbreak (Fig 3).

Figure 3: GDP in Asia



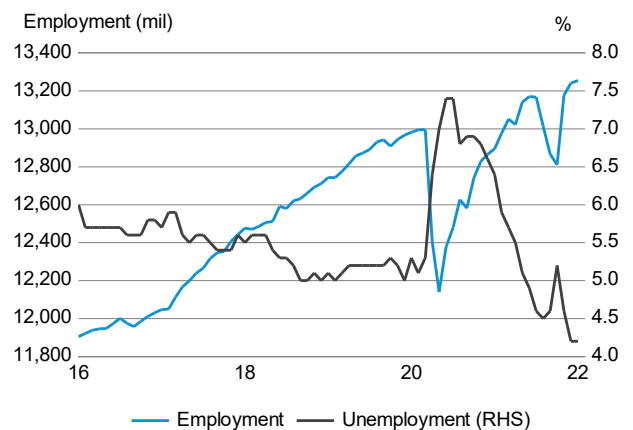
Source: Haver

This strength may wane as the spread of Omicron accelerates across the region, although few new government restrictions have been imposed overall, and disruption should prove temporary. Over the past week case numbers have increased in Hong Kong, South Korea, Indonesia, Thailand, and Malaysia; stabilised in Singapore and Japan; fallen in the Philippines and India; and remained very low in China and Taiwan.

Omicron surges hits hours worked in Australia

Hours worked fell 8.8% in January as Omicron led workers to isolate, but many workers also took extended leave. Hours are expected to rebound sharply as Omicron recedes and self-isolation rules are relaxed further. Overall, the labour market was resilient: employment rose 0.1% and the unemployment rate was steady at 4.2% - close to a 50-year low (Fig 4). The tightness of the Australian labour market is adding to expectations that wage growth will pick up and that the Reserve Bank of Australia will start raising interest rates later this year. Wages data, due 28 February, will be closely watched for signs of faster wage growth, which the central bank has identified as a key marker for policy action.

Figure 4: Australian labour market



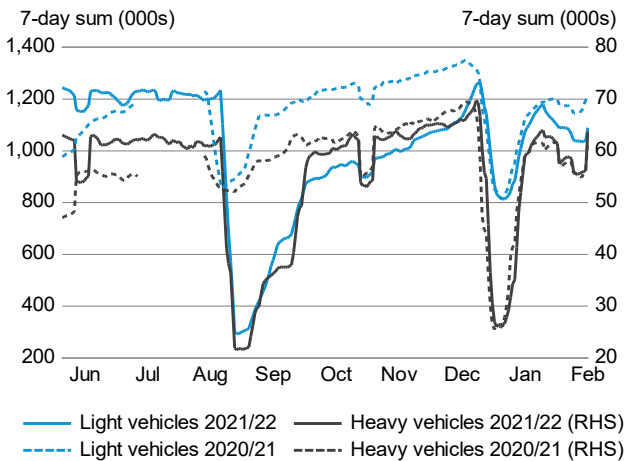
Source: Haver

Coming Up:

Date	Release
17 Feb	Business Price Indexes, Dec qtr 2021
23 Feb	RBNZ Monetary Policy Review
24 Feb	Trade balance, Jan
25 Feb	Retail sales volumes, Dec qtr 2021 ANZ consumer confidence, Feb
28 Feb	ANZ business confidence, Feb
2 Mar	Building consents, Jan Terms of trade, Dec qtr 2021

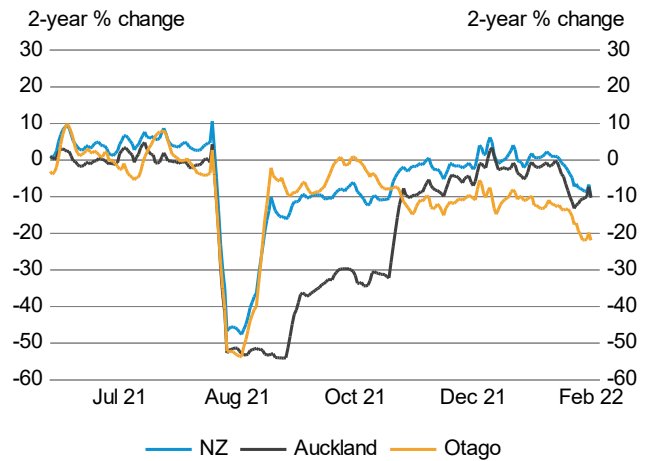
High-Frequency Indicators¹

Traffic and Freight Movement



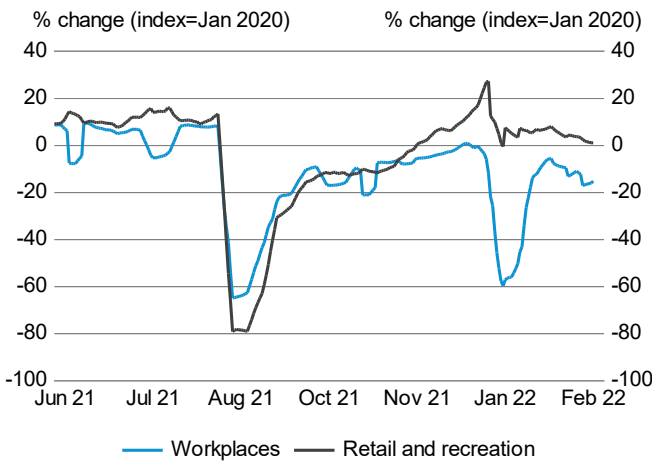
Source: Waka Kotahi NZ Transport Agency

Card Spending



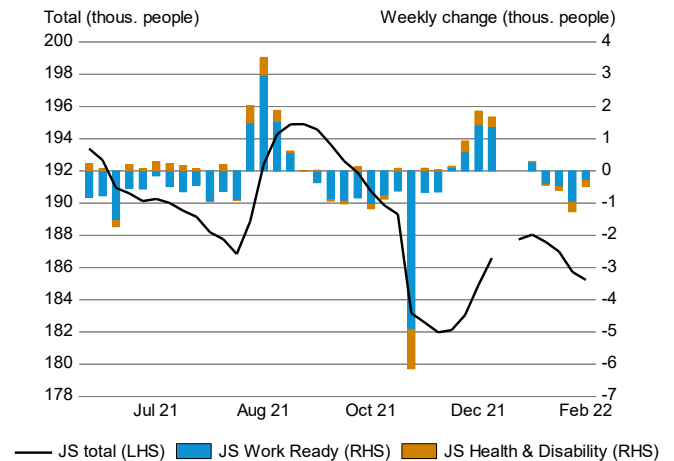
Source: Marketview data via MBIE

People Movements at Selected Locations



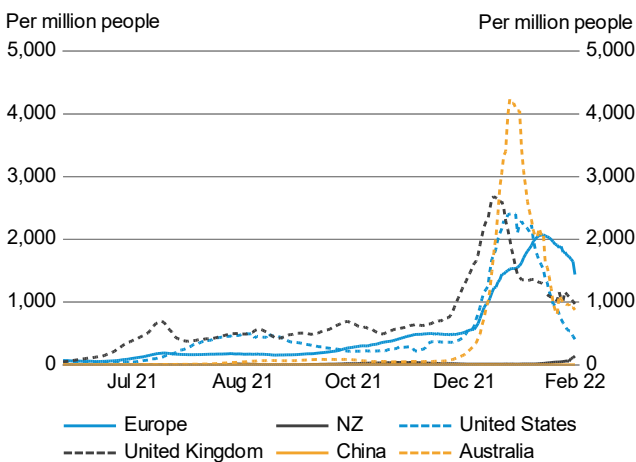
Source: Google/Haver

Jobseeker (JS) and Income Support Recipients



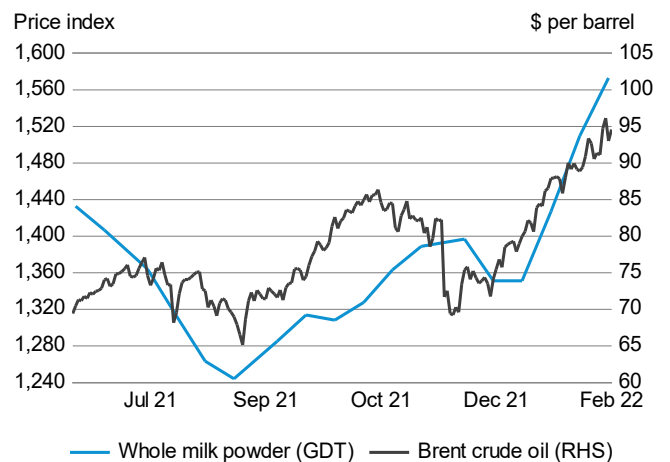
Source: MSD

COVID-19 Cases Per Million People



Source: Johns Hopkins University/Haver

World Commodity Prices



Source: Haver

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		2020Q3	2020Q4	2021Q1	2021Q2	2021Q3	2021Q4
Real Production GDP (1)	qpc	13.9	-0.4	1.5	2.4	-3.7	...
	aapc	-1.5	-1.9	-1.3	5.3	4.9	...
Current account balance (annual)	%GDP	-0.7	-0.8	-2.5	-3.3	-4.6	...
Merchandise terms of trade	apc	-0.3	-1.6	-0.9	-0.1	5.6	...
CPI - inflation	qpc	0.7	0.5	0.8	1.3	2.2	1.4
	apc	1.4	1.4	1.5	3.3	4.9	5.9
Employment (HLFS) (1)	qpc	-0.7	0.6	0.7	1.0	1.9	0.1
Unemployment rate (1)	%	5.3	4.9	4.6	4.0	3.3	3.2
Participation rate (1)	%	70.1	70.2	70.4	70.5	71.2	71.1
LCI salary & wage rates - total (2)	apc	1.8	1.6	1.6	2.1	2.4	2.6
QES average hourly earnings - total (2)	apc	4.2	4.3	4.0	4.0	3.5	3.8
Core retail sales volume	apc	7.6	4.4	5.4	30.2	-3.2	...
Total retail sales volume	apc	8.1	4.7	6.6	33.3	-5.2	...
WMM - consumer confidence (3)	Index	95.1	106.0	105.2	107.1	102.7	99.1
QSBO - general business situation (1,4)	net%	-38.8	-12.1	-7.0	6.7	-11.1	-34.4
QSBO - own activity outlook (1,4)	net%	0.8	10.8	6.9	26.6	8.7	8.3

Monthly Indicators		Jul 21	Aug 21	Sep 21	Oct 21	Nov 21	Dec 21
Merchandise trade balance (12 month)	NZ\$m	-1,088.4	-2922.0	-4064.7	-4895.7	-6232.9	-6784.4
Dwelling consents - residential	apc	24.2	42.3	24.4	10.5	20.8	10.1
House sales - dwellings	apc	-9.1	-23.6	-36.0	-18.5	-15.4	-26.0
REINZ - house price index	apc	30.4	30.7	29.8	29.7	27.0	23.0
Estimated net migration (12 month total)	people	-3,439.0	-5,298.0	-5,627.0	-5,772.0	-5,505.0	-3,916.0
ANZ NZ commodity price index	apc	16.9	15.4	17.4	16.5	22.9	27.8
ANZ world commodity price index	apc	22.2	21.5	23.6	23.8	26.1	23.5
ANZBO - business confidence	net%	-3.8	-14.2	-7.2	-13.4	-16.4	-23.2
ANZBO - activity outlook	net%	26.3	19.2	18.2	21.7	15.0	11.8
ANZ-Roy Morgan - consumer confidence	net%	113.1	109.6	104.5	98.0	96.6	98.3
NZAC	apc	4.7	-0.6	0.0	0.6	1.8	1.9

Daily Indicators		Fri	Mon	Tue	Wed	Thu	Fri
		11/2/22	14/2/22	15/2/22	16/2/22	17/2/22	18/2/22
NZ exchange and interest rates (5)							
NZD/USD	\$	0.6656	0.6643	0.6622	0.6640	0.6690	...
NZD/AUD	\$	0.9322	0.9308	0.9284	0.9289	0.9296	...
Trade weighted index (TWI)	index	71.4	71.3	71.1	71.2	71.5	...
Official cash rate (OCR)	%	0.75	0.75	0.75	0.75	0.75	...
90 day bank bill rate	%	1.21	1.21	1.22	1.23	1.23	...
10 year govt bond rate	%	2.82	2.78	2.82	2.88	2.84	...
Share markets (6)							
Dow Jones	index	34,738	34,566	34,989	34,934	34,312	...
S&P 500	index	4,419	4,402	4,471	4,475	4,380	...
VIX volatility index	index	27.4	28.3	25.7	24.3	28.1	...
AU all ords	index	7,516	7,535	7,490	7,573	7,575	...
NZX 50	index	12,174	11,950	11,938	12,122	12,257	...
US interest rates							
3 month OIS	%	0.08	0.08	0.08	0.08	...	...
3 month Libor	%	0.51	0.46	0.47	0.49	...	...
10 year govt bond rate	%	1.92	1.98	2.05	2.03	1.97	...
Commodity prices (6)							
WTI oil	US\$/barrel	93.10	95.52	92.07	93.66	...	...
Gold	US\$/ounce	1,831.15	1,866.15	1,848.55	1,862.60	...	...
CRB Futures	index	600.18	599.50	598.74	598.64	...	...

(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		Jul 21	Aug 21	Sep 21	2021Q3	Oct 21	Nov 21	Dec 21	2021Q4	Jan 22	Feb 22
United States [9.6%] share of total goods exports]	GDP (1)	qpc				0.6				1.7		
	Industrial production (1)	mpc	0.7	-0.1	-1.2		1.4	0.9	-0.1		1.4	...
	CPI	apc	5.4	5.3	5.4		6.2	6.8	7.0		7.5	...
	Unemployment rate (1)	%	5.4	5.2	4.7		4.6	4.2	3.9		4.0	...
	Employment change (1)	000s	689.0	517.0	424.0		677.0	647.0	510.0		467.0	...
	Retail sales value	apc	15.3	15.7	14.2		16.2	18.9	16.7		13.0	...
	House prices (2)	apc	20.0	19.7	19.1		18.5	18.3	...		...	...
PMI manufacturing (1)	index	59.9	59.7	60.5		60.8	60.6	58.8		57.6	...	
Consumer confidence (1)(3)	index	125.1	115.2	109.8		111.6	111.9	115.2		113.8	...	
Japan [6.1%]	GDP (1)	qpc				-0.7				1.3		
	Industrial production (1)	mpc	-1.5	-3.6	-5.4		1.8	7.0	-1.0		...	...
	CPI	apc	-0.4	-0.5	0.2		0.1	0.6	0.8		...	...
	Unemployment rate (1)	%	2.8	2.8	2.8		2.7	2.8	2.7		...	...
	Retail sales value	apc	2.4	-3.2	-0.5		0.9	1.9	1.2		...	...
	PMI manufacturing (1)	index	53.0	52.7	51.5		53.2	54.5	54.3		55.4	...
	Consumer confidence (1)(4)	index	37.5	36.6	38.0		39.2	39.2	38.8		36.6	...
Euro area [5.5%]	GDP (1)	qpc				2.3				0.3		
	Industrial production (1)	mpc	0.7	-1.6	-0.7		-1.5	2.4	1.2		...	...
	CPI	apc	2.2	3.0	3.4		4.1	4.9	5.0		...	...
	Unemployment rate (1)	%	7.7	7.5	7.4		7.3	7.1	7.0		...	...
	Retail sales volume	apc	3.4	1.4	2.8		1.7	8.2	2.0		...	...
	PMI manufacturing (1)	index	62.8	61.4	58.6		58.3	58.4	58.0		58.7	...
	Consumer confidence (5)	index	-4.4	-5.3	-4.0		-4.9	-6.8	-8.4		-8.5	...
United Kingdom [2.7%]	GDP (1)	qpc				1.0				1.0		
	Industrial production (1)	mpc	0.6	0.5	-0.5		-0.8	0.7	0.3		...	...
	CPI	apc	2.1	3.0	2.9		3.8	4.6	4.8		4.9	...
	Unemployment rate (1)	%	4.6	4.5	4.3		4.2	4.1	4.1		...	...
	Retail sales volume	apc	1.8	0.3	-1.0		-1.5	4.2	-0.9		...	...
	House prices (6)	apc	10.5	11.0	10.0		9.9	10.0	10.4		11.2	...
	PMI manufacturing (1)	index	60.4	60.3	57.1		57.8	58.1	57.9		57.3	...
Consumer confidence (1)(5)	net %	-7.0	-8.0	-13.0		-17.0	-14.0	-15.0		-19.0	...	
Australia [15.8%]	GDP (1)	qpc				-1.9				...		
	CPI	apc				3.0				3.5		
	Unemployment rate (1)	%	4.6	4.5	4.6		5.2	4.6	4.2		4.2	...
	Retail sales value	apc	-2.9	-0.7	1.9		4.6	6.2	5.2		...	...
	House Prices (7)	apc				25.4					...	...
	PMI manufacturing (1)	index	60.8	51.6	51.2		50.4	54.8	48.4		48.4	...
	Consumer confidence (8)	index	108.8	104.1	106.2		104.6	105.3	104.3		102.2	100.8
China [24.3%]	GDP	apc				4.9				4.0		
	Industrial production	apc	6.4	5.3	3.1		3.5	3.8	4.3		...	...
	CPI	apc	1.0	0.8	0.7		1.5	2.3	1.5		0.9	...
	PMI manufacturing (1)	index	50.4	50.1	49.6		49.2	50.1	50.3		50.1	...
South Korea [3.0%]	GDP (1)	qpc				0.3				1.1		
	Industrial production (1)	mpc	0.2	-0.5	-1.1		-2.9	5.3	4.3		...	...
	CPI	apc	2.6	2.6	2.4		3.2	3.8	3.7		3.6	...

(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