

- **GDP rebounded 3.0% in the December quarter.**
- **More timely data point to slower growth in recent weeks.**
- **High frequency indicators show increasing activity in Auckland as Omicron case numbers fall.**
- **The conflict in Ukraine is adding to global inflation and slowing growth. If sustained, higher inflation could slow global GDP growth by 1%-point.**
- **Risks in China are accumulating but substantial policy support is expected to shore up growth.**

In the three months ended December, economic activity recovered a substantial proportion of losses recorded in the September quarter. This recovery likely continued into early 2022, but the spread of Omicron is now disrupting production and weighing on household spending. In addition, sharply higher fuel prices are cutting into household budgets and raising costs for businesses. The Government's fuel excise cuts will alleviate some of the pressure, but inflation was high prior to the surge in fuel prices and will remain high for some time.

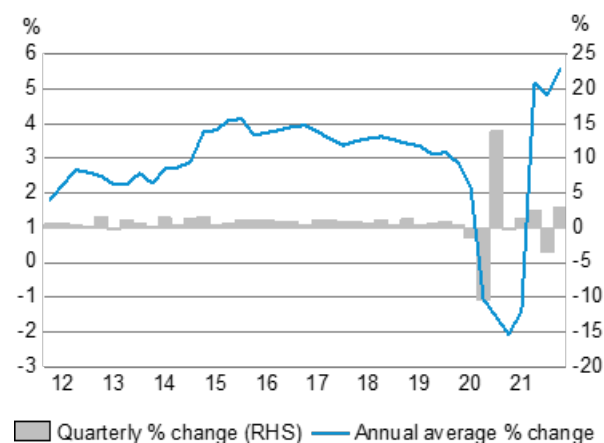
Developments in Ukraine have contributed to ongoing market volatility as investors grapple with the implications of an adverse supply shock that raises inflation and slows growth. Prior to the conflict, there was tentative evidence that global supply disruption was easing, but the events in Eastern Europe have reversed that trend. Energy prices have increased sharply alongside a range of commodities including metals, fertilisers and wheat as sanctions disrupt supply chains. Scenarios developed by the OECD suggests global economic growth could be over 1.0%-point lower and global consumer price inflation around 2.5%-points higher in the first full year, on the assumption that the shocks to commodity and financial markets seen in recent weeks persist for at least a year.

### **Real GDP bounced back 3.0% ...**

As expected, real GDP made a sizable recovery from the Delta-impacted September quarter. Real GDP increased 3.0% following the 3.6% fall in the September quarter. This saw annual average GDP growth rise to 5.6%, and the level of GDP to 3.5% above its pre-pandemic level.

Unsurprisingly, growth was strongest in the services sector as it reopened for business, aided by a 5.2% increase in household consumption spending. Manufacturing and construction activity also recovered strongly, while business investment surged 13.2. A large proportion of investment came from imports, which was reflected in a widening of the current account deficit. On the external side, the fall in export volumes was entirely driven by lower services exports where a major contributor to the decline was the lack of the usual increase in tourist numbers that occurs in the December quarter.

**Figure 1: Real GDP (production) growth**



### **...and the current account deficit widened**

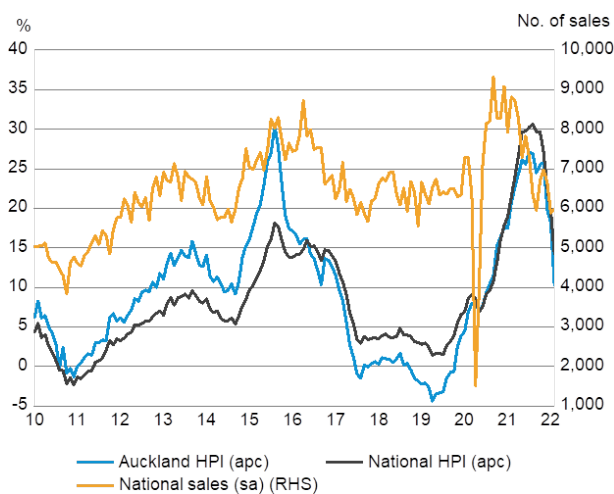
The annual current account deficit widened to 5.8% of GDP in the December quarter as import growth continued to outstrip export growth in both goods and services. This trend is expected to persist over the first half of 2022 but to gradually reverse thereafter as demand for goods imports eases and the border reopens, allowing travel services exports to recover.

### Recent data points to slower growth

The recovery in activity likely continued into early 2022, but the pace of growth has eased. February's electronic cards data fell 7.6% from January, annual growth in the New Zealand Activity Index eased to 1.9% from 2.6% in January and services sector sentiment remained well in contractionary territory. In addition, pandemic-related disruptions to labour supply in many sectors continues to pose challenges, constraining output and disrupting supply chains.

House prices fell for the third consecutive month, down 1.2% in February, according to seasonally adjusted REINZ data. Annual house price growth eased to 14.2%, down from the peak of 30.6% in August 2021 (Figure 2). Sales rose 1.5% from the previous month but remain relatively subdued. Meanwhile, houses are taking longer to sell with the median number of days on the market increasing six days to 38, a further sign of easing demand. With interest rates expected to continue rising, further falls in prices are likely.

Figure 2: House price growth and sales



Source: REINZ

### High-frequency data show pickup in Auckland

In Auckland, Omicron cases appear to have peaked and economic activity is showing signs of improvement. Activity remains well below levels prior to the outbreak but the recovery in activity appears to be following the peak closely, affirming our view that as case numbers fall, consumer activity will quickly recover. Across the rest of New Zealand case numbers are rising, and high-frequency data continue to show negative impacts on economic activity (see charts on page 5).

### Higher global inflation and slower growth

The conflict in Ukraine continues, although there are tentative steps towards a diplomatic de-escalation. Beyond the devastating humanitarian consequences, the entire global economy is experiencing the effects of rising inflation and slower growth. These effects are being transmitted through three main channels, higher commodity prices, supply chain disruption and investor confidence. Trade and financial sanctions imposed by many countries, and the voluntary withdrawal of companies from business ties with Russia, are severely disrupting Russia's commodity exports, creating shortages and driving prices higher. Higher energy prices are having a major global impact, reflecting Russia's role as a large oil and gas exporter. Although many governments have been reluctant to extend the sanctions to commodities because of their global side effects or their dependence on Russian imports, the removal of most Russian banks from the SWIFT financial messaging system is having a significant impact as it complicates trade finance – banks are reluctant to provide trade finance if they are unsure how deals will be settled.

Beyond energy, Russia is a large exporter of a wide range of commodities including base metals, fertilisers and wheat, and all of these markets are being disrupted (Fig 3). Wheat prices have risen to record highs, reflecting the 30% share of global wheat exports that come from Russia and Ukraine, giving rise to concerns around food security in some countries, especially in parts of Africa and the Middle East. In other countries, raw materials shortages, including those used to manufacture semiconductor chips, and high energy prices are exacerbating supply chain disruptions.

Figure 3: Commodity prices



The crisis is also reducing business confidence and increasing investor uncertainty leading to asset price declines and tighter financial conditions, which could potentially lead to capital outflows from emerging markets.

The OECD released an assessment of the “Economic and Social Impacts and Policy Implications of the War in Ukraine” showing that, if sustained for a year, higher commodity prices could lower global GDP by around 1%-point. The impacts differ across regional groupings, with the most intense impact in the neighbouring euro area and smaller impacts for less connected advanced economies in the Asia-Pacific region. Global inflation would be around 2.5%-points higher.

The OECD’s previous economic forecasts were released in November 2021, but in January the IMF forecast global growth of 4.4% and 3.8% in 2022 and 2023 respectively. Overall, while the OECD’s scenario would represent a material slowing in the growth outlook, the pace of the expansion could remain around its medium-term trend pace, although the scenario does not include potential disruption to supply chains or further sanctions.

### Central banks focus on inflation

In the US, inflation rose to 7.9% in February, prompting the Federal Reserve (the Fed) to raise its policy rate 25 basis points (bps) to a range of 0.25%-0.50% and to announce that further increases in the policy rate will be appropriate. The Fed expects to announce when it will begin reducing its nearly US\$19 trillion balance sheet at its May meeting.

The Bank of England increased its policy rate 25bps to 0.75% and noted that the risks of a further increase were balanced.

Earlier, the European Central Bank (ECB) accelerated its plans to taper quantitative easing despite the negative impacts on growth from the conflict in Ukraine. The ECB now plans to end bond purchases in Q3 (previously Q4), subject to the economic outlook. With rate hikes happening after purchases end, this opened the door to earlier rate hikes than seemed likely even prior to the Russian invasion of Ukraine.

### China’s new growth target at risk

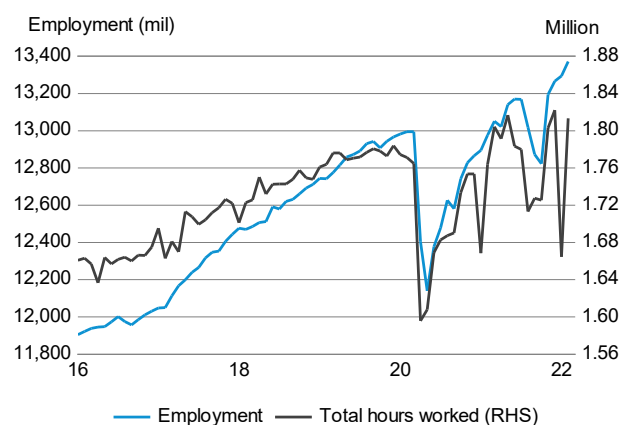
In China, the National Peoples Congress announced a growth target of “around 5.5%” for 2022.

China’s activity data for the combined January and February months suggested growth was consistent with this target. However, recent news of pandemic restrictions covering the province of Jilin and some cities, including Shenzhen a key manufacturing hub for the tech industry and the world’s fourth largest container port, highlights a key risk to the outlook. Moreover, it has the potential to amplify existing supply chain disruption. In combination with the accumulation of other risks including geopolitical tensions, US rate hikes, US regulatory issues and perceptions of hesitant policy, investor confidence has faded, and Chinese equities have fallen sharply. This has spurred the government to announce that it will take substantial measures to shore up growth and restore market confidence.

### Australian labour market tightens

Australia’s February labour force survey was strong across the board: employment rose 0.6%, the participation rate rose to a record high of 66.4% and the unemployment rate fell to 4.0%, equalling the low reached in 2008. Hours worked rebounded sharply from January’s depressed levels but remained 0.5% below December’s level, reflecting above average numbers of people working zero hours due to illness (Fig 4). Indicators of labour demand, including ANZ and SEEK job ads, suggest the labour market will tighten further.

Figure 4: Australian labour market

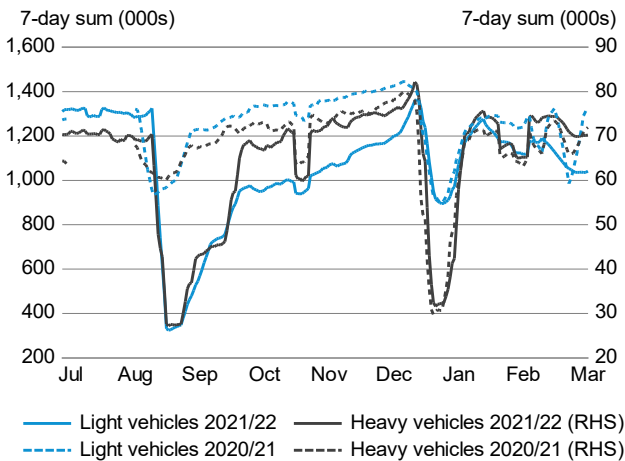


### Coming Up:

Date	Release
21 Mar	International trade, Feb
30 Mar	ANZ Business Confidence, Mar
30 Mar	Building consents, Feb
1 Apr	ANZ Consumer Confidence

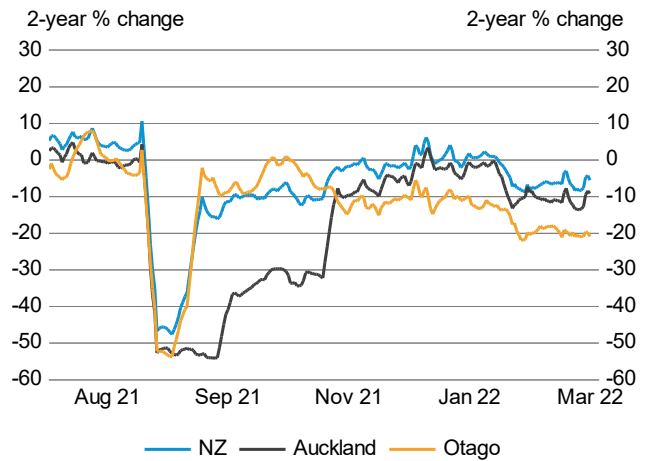
# High-Frequency Indicators<sup>1</sup>

## Traffic and Freight Movement



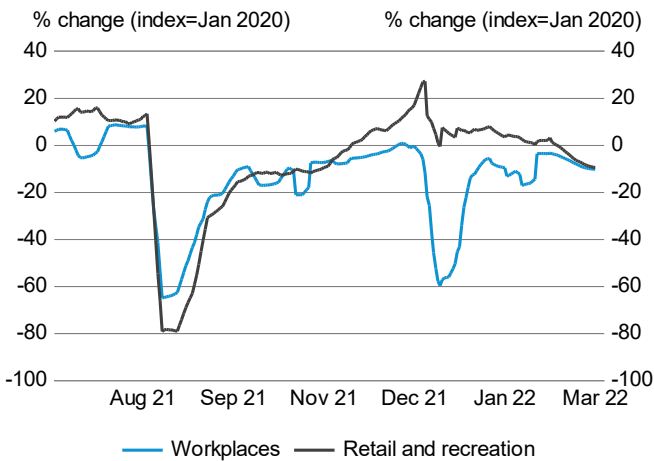
Source: Waka Kotahi NZ Transport Agency

## Card Spending



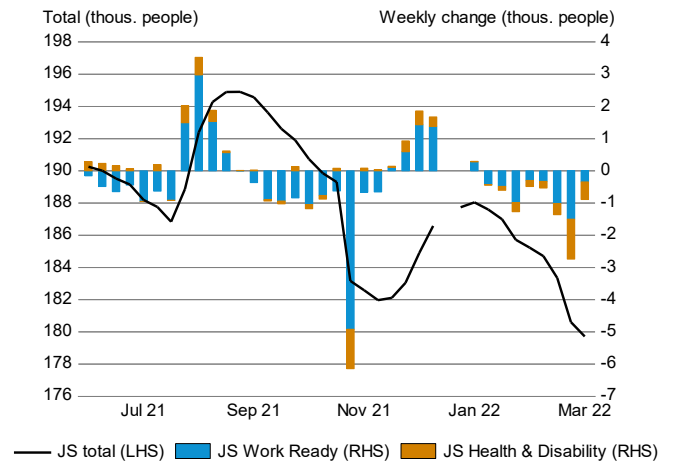
Source: Marketview data via MBIE

## People Movements at Selected Locations



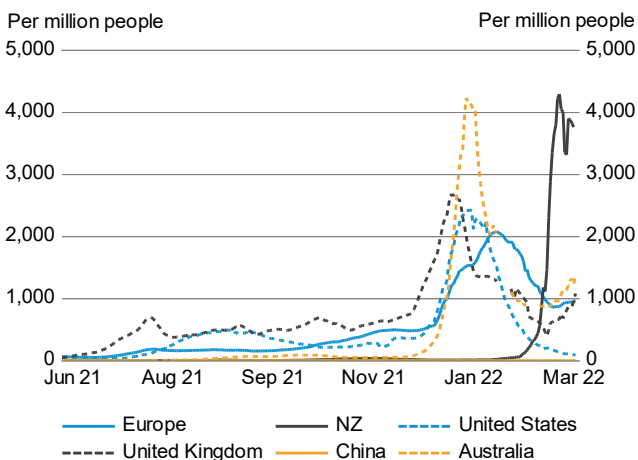
Source: Google/Haver

## Jobseeker (JS) and Income Support Recipients



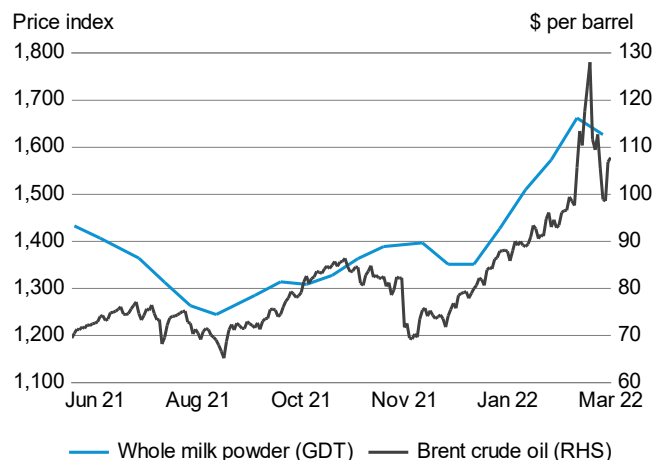
Source: MSD

## COVID-19 Cases Per Million People



Source: Johns Hopkins University/Haver

## World Commodity Prices



Source: Haver

<sup>1</sup> Additional high frequency indicators are available on the Stats NZ COVID-19 data portal: <https://www.stats.govt.nz/experimental/covid-19-data-portal>

<b>Quarterly Indicators</b>		<b>2020Q3</b>	<b>2020Q4</b>	<b>2021Q1</b>	<b>2021Q2</b>	<b>2021Q3</b>	<b>2021Q4</b>
Real Production GDP (1)	qpc	13.9	-0.3	1.3	2.5	-3.6	3.0
	aapc	-1.6	-2.1	-1.4	5.2	4.8	5.6
Current account balance (annual)	%GDP	-0.7	-0.8	-2.5	-3.3	-4.6	-5.8
Merchandise terms of trade	apc	-0.3	-1.6	-0.9	-0.1	5.2	2.6
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	5.1
Total retail sales volume	apc	8.1	4.7	6.6	33.3	-5.2	4.4
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

<b>Monthly Indicators</b>		<b>Sep 21</b>	<b>Oct 21</b>	<b>Nov 21</b>	<b>Dec 21</b>	<b>Jan 22</b>	<b>Feb 22</b>
Merchandise trade balance (12 month)	NZ\$m	-4,064.7	-4876.4	-6232.0	-7281.8	-7717.2	...
Dwelling consents - residential	apc	24.4	10.5	20.8	10.1	-6.3	...
House sales - dwellings	apc	-36.0	-18.5	-15.4	-25.8	-26.8	-32.8
REINZ - house price index	apc	29.8	29.7	27.0	22.5	19.6	14.2
Estimated net migration (12 month total)	people	-7,345.0	-7,709.0	-8,010.0	-7,790.0	-7,508.0	...
ANZ NZ commodity price index	apc	17.4	16.5	22.9	27.8	26.5	29.3
ANZ world commodity price index	apc	23.6	23.8	26.1	23.5	19.7	20.4
ANZBO - business confidence	net%	-7.2	-13.4	-16.4	-23.2	...	-51.8
ANZBO - activity outlook	net%	18.2	21.7	15.0	11.8	...	-2.2
ANZ-Roy Morgan - consumer confidence	net%	104.5	98.0	96.6	98.3	97.7	81.7
NZAC	apc	0.0	0.6	1.8	1.9	...	...

<b>Daily Indicators</b>		<b>Fri</b>	<b>Mon</b>	<b>Tue</b>	<b>Wed</b>	<b>Thu</b>	<b>Fri</b>
		<b>11/3/22</b>	<b>14/3/22</b>	<b>15/3/22</b>	<b>16/3/22</b>	<b>17/3/22</b>	<b>18/3/22</b>

#### **NZ exchange and interest rates (5)**

NZD/USD	\$	0.6861	0.6803	0.6740	0.6743	0.6843	...
NZD/AUD	\$	0.9334	0.9350	0.9373	0.9390	0.9352	...
Trade weighted index (TWI)	index	73.7	73.3	73.0	73.1	73.7	...
Official cash rate (OCR)	%	1.00	1.00	1.00	1.00	1.00	...
90 day bank bill rate	%	1.48	1.49	1.49	1.56	1.58	...
10 year govt bond rate	%	3.00	2.98	3.09	3.14	3.18	...

#### **Share markets (6)**

Dow Jones	index	32,944	32,945	33,544	34,063	34,481	...
S&P 500	index	4,204	4,173	4,262	4,358	4,412	...
VIX volatility index	index	30.8	31.8	29.8	26.7	25.7	...
AU all ords	index	7,339	7,422	7,356	7,436	7,522	...
NZX 50	index	11,821	11,805	11,802	11,874	11,999	...

#### **US interest rates**

3 month OIS	%	0.08	0.08	0.08	0.08	...	...
3 month Libor	%	0.83	0.88	0.92	0.95	...	...
10 year govt bond rate	%	2.00	2.14	2.15	2.19	2.20	...

#### **Commodity prices (6)**

WTI oil	US\$/barrel	109.31	103.22	96.42	95.04	102.98	...
Gold	US\$/ounce	1,978.70	1,954.05	1,913.65	1,913.20	1,949.65	...
CRB Futures	index	628.05	625.04	626.98	624.99	626.07	...

(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		Aug 21	Sep 21	2021Q3	Oct 21	Nov 21	Dec 21	2021Q4	Jan 22	Feb 22	Mar 22
<b>United States</b>	GDP (1)	qpc			0.6				1.7			
	Industrial production (1)	mpc	-0.1	-1.2		1.4	0.8	-0.4		1.4	0.5	...
	CPI	apc	5.3	5.4		6.2	6.8	7.0		7.5	7.9	...
	Unemployment rate (1)	%	5.2	4.7		4.6	4.2	3.9		4.0	3.8	...
	Employment change (1)	000s	517.0	424.0		677.0	647.0	588.0		481.0	678.0	...
	Retail sales value	apc	15.7	14.2		16.2	18.9	16.6		14.0	17.6	...
	House prices (2)	apc	19.7	19.1		18.5	18.3	18.6		...	...	...
	PMI manufacturing (1)	index	59.7	60.5		60.8	60.6	58.8		57.6	58.6	...
Consumer confidence (1)(3)	index	115.2	109.8		111.6	111.9	115.2		111.1	110.5	...	
<b>Japan</b>	GDP (1)	qpc			-0.7				1.1			
	Industrial production (1)	mpc	-3.6	-5.4		1.8	7.0	-1.0		-0.8	...	...
	CPI	apc	-0.5	0.2		0.1	0.6	0.8		0.5	0.9	...
	Unemployment rate (1)	%	2.8	2.8		2.7	2.8	2.7		2.8	...	...
	Retail sales value	apc	-3.2	-0.5		0.9	1.9	1.2		1.1	...	...
	PMI manufacturing (1)	index	52.7	51.5		53.2	54.5	54.3		55.4	52.7	...
	Consumer confidence (1)(4)	index	36.6	38.0		39.2	39.2	38.8		36.6	35.1	...
	<b>Euro area</b>	GDP (1)	qpc			2.3				0.3		
Industrial production (1)		mpc	-1.5	-0.7		-1.3	2.5	1.3		0.0	...	...
CPI		apc	3.0	3.4		4.1	4.9	5.0		5.1	5.9	...
Unemployment rate (1)		%	7.5	7.3		7.3	7.1	7.0		6.8	...	...
Retail sales volume		apc	1.4	2.8		1.7	8.5	2.1		7.8	...	...
PMI manufacturing (1)		index	61.4	58.6		58.3	58.4	58.0		58.7	58.2	...
Consumer confidence (5)		index	-5.3	-4.0		-4.9	-6.8	-8.4		-8.5	-8.8	...
<b>United Kingdom</b>		GDP (1)	qpc			1.0				1.0		
	Industrial production (1)	mpc	0.5	-0.5		-0.8	0.7	0.3		0.6	...	...
	CPI	apc	3.0	2.9		3.8	4.6	4.8		4.9	...	...
	Unemployment rate (1)	%	4.5	4.3		4.2	4.1	4.1		3.9	...	...
	Retail sales volume	apc	0.0	-1.2		-1.9	3.7	-1.7		9.1	...	...
	House prices (6)	apc	11.0	10.0		9.9	10.0	10.4		11.2	12.6	...
	PMI manufacturing (1)	index	60.3	57.1		57.8	58.1	57.9		57.3	58.0	...
	Consumer confidence (1)(5)	net %	-8.0	-13.0		-17.0	-14.0	-15.0		-19.0	-26.0	...
<b>Australia</b>	GDP (1)	qpc			-1.9				3.4			
	CPI	apc			3.0				3.5			
	Unemployment rate (1)	%	4.5	4.6		5.2	4.6	4.2		4.2	4.0	...
	Retail sales value	apc	-0.7	1.9		4.6	6.2	5.2		5.8	...	...
	House Prices (7)	apc			25.4				27.5			
	PMI manufacturing (1)	index	51.6	51.2		50.4	54.8	48.4		48.4	53.2	...
	Consumer confidence (8)	index	104.1	106.2		104.6	105.3	104.3		102.2	100.8	96.6
	<b>China</b>	GDP	apc			4.9				4.0		
Industrial production		apc	5.3	3.1		3.5	3.8	4.3		7.5	7.5	...
CPI		apc	0.8	0.7		1.5	2.3	1.5		0.9	0.9	...
PMI manufacturing (1)		index	50.1	49.6		49.2	50.1	50.3		50.1	50.2	...
<b>South Korea</b>	GDP (1)	qpc			0.3				1.2			
	Industrial production (1)	mpc	0.9	-2.5		0.4	1.6	3.7		0.2	...	...
	CPI	apc	2.6	2.4		3.2	3.8	3.7		3.6	3.7	...

(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