

- Domestic and international inflationary pressures remain elevated.
- Prompting tightening monetary policy both here and abroad.
- Although both business and consumer confidence remain subdued and global growth forecasts are being downgraded.
- On a brighter note for Easter, chocolate prices remain much more affordable than petrol or beer.

Ongoing geopolitical tensions and COVID19-related supply chain disruptions continue to weigh on consumer and business sentiment and are exacerbating already elevated inflationary pressures both domestically and internationally. At a time when global growth prospects are being downgraded, this is placing central banks in the unenviable position of having to tighten monetary policy at a time when real growth and employment prospects are waning.

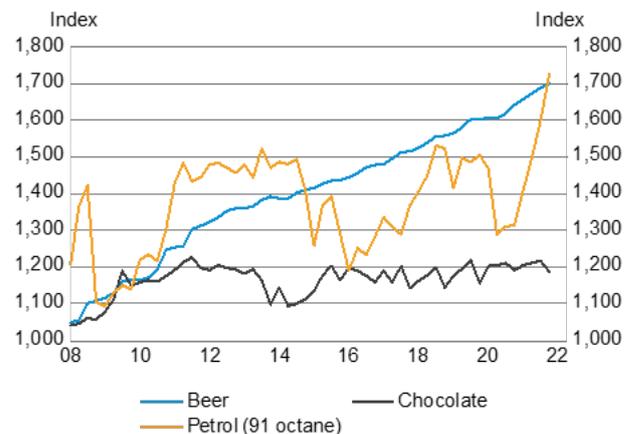
Continued weakness in house prices and increasing mortgage debt servicing costs are expected to further weigh on consumer spending and confidence.

Inflationary pressures remain intense...

Excess demand in the economy continues into the March 2022 quarter with further price increases. Rent prices bounced back to 3.7% annual growth after a slight seasonally adjusted drop in February. Food prices rose 0.4% on a seasonally adjusted basis in March 2022, taking annual food price growth to 7.6%.

With Easter around the corner, it seems noteworthy that over the past decade or so that eating chocolate at home has become increasingly more cost effective than driving to your local bar for a pint of amber ale (Figure 1). Since 2008, the average price of a block of chocolate has increased on average only 1.3% per annum while petrol and beer prices have grown around 3 times as fast.

Figure 1 – Beer and petrol prices outpace chocolate



Source: Stats NZ

Meanwhile, commodity prices remain elevated. The ANZ World Commodity Price Index hit a new record in March, lifting a further 3.9%. Dairy prices eased only slightly from significant growth over recent months with the Global Dairy Trade Price Index falling 1% for the fortnight ending 5 April.

...pointing to 6.9% annual inflation in March...

Our latest estimates show annual inflation increasing to 6.9% in the March 2022 quarter, from 5.9% in the December 2021 quarter, as supply factors continue to dominate demand factors (Table 1). While demand has remained resilient throughout most of the Omicron outbreak, it does appear to be easing as electronic card spending fell 1.3% in March 2022. In addition to Omicron, slower demand is also reflected in declining house prices and tightening credit conditions. Meanwhile, the ongoing COVID-19 related supply disruption and the war in Ukraine continue to put significant pressure on prices.

Table 1 – Treasury’s CPI inflation estimates

Consumers Price Index March 2022 quarter	Quarterly % change	Annual % change
The Treasury’s latest estimate	1.6	6.9
HYEFU 2021 forecast	1.0	5.5

Petrol prices, construction costs, and food prices look to be the main contributors to rising prices once again. Following the war in Ukraine, upward pressure on oil prices has resulted in a slightly larger quarterly increase in petrol and diesel prices in the March 2022 quarter.

The Government’s recent policy decision to temporarily reduce petrol excise tax and provide additional subsidies to public transport in late March will help to offset inflation in the June quarter. We also expect the cost of building a house to increase at a similar rate to the 4.6% quarterly increase in December 2021. This is fuelled by high demand for building a house as seen in recent record high consent issuance and constrained supply of labour and materials.

Table 2 – Forecast CPI price changes and contribution

2022Q1			
Group	Quarterly % change	% point contribution	Annual % change
Food group	3.0	0.6	6.6
Alcoholic beverages and tobacco group	3.7	0.3	4.0
Clothing and footwear group	0.1	0.0	3.7
Housing and household utilities group	2.0	0.6	8.8
Household contents and services group	-0.8	-0.0	4.0
Health group	0.2	0.0	1.8
Transport group	3.1	0.4	14.1
Communication group	-0.6	-0.0	-1.0
Recreation and culture group	-0.7	-0.1	5.0
Education group	0.0	0.0	0.6
Miscellaneous goods and services group	0.7	0.1	4.6
All Groups	1.8	1.8	6.9
Tradables	1.5	0.6	7.5
Non-tradables	2.0	1.2	6.6

Source: The Treasury

...and elevated inflation over the next quarter...

Inflationary pressures are expected to remain even as temporary factors wane. Inflation looks to be more persistent both domestically and abroad. Prices are increasing across most expenditure groups and the Reserve Bank measures of core inflation and inflation expectations are rising. Higher wage growth will likely feed into inflation in coming quarters, as wage growth looks to catch up to inflation in coming years.

...leaving businesses pessimistic about activity over the coming months...

Economic activity will likely weaken over the coming months as businesses remain pessimistic according to the March 2021 NZIER Quarterly Survey of Business Opinion. Business confidence stabilised at a low level with net 9% of surveyed businesses reporting weaker activity, although there is optimism of a recovery in the next quarter.

Businesses report that inflationary pressures are set to intensify over the coming months as labour shortages and supply disruptions lead to capacity constraints. While demand looks to be weakening, the overall impact is higher inflation. 94 percent of retailers surveyed reported higher costs over the past quarter and a record high 99 percent of retailers surveyed expect costs to increase in the next quarter. Retail was the most pessimistic of sectors with cost pressures and weakening demand.

...highlighting the difficulty of the Reserve Bank’s decision to increase interest rates

The Reserve Bank’s Monetary Policy Committee decided to increase the OCR by 50 basis points at the April Monetary Policy Review and signalled further interest rate hikes. Market commentators has been evenly split on whether the Reserve Bank would increase by 25 or 50 basis points.

House prices continue to ease

House prices continue to ease from their recent highs, with the monthly REINZ House Price Index recording its fourth consecutive decline, falling 1.4% (seasonally adjusted) in March. This fall takes annual growth down from 14.3% in February to 9.0% in March.

The number of sales recorded in March were around a third less than the same time last year, and listings’ days on market increased to 39. Softening house prices are expected to weigh on consumer confidence and spending over the coming quarters.

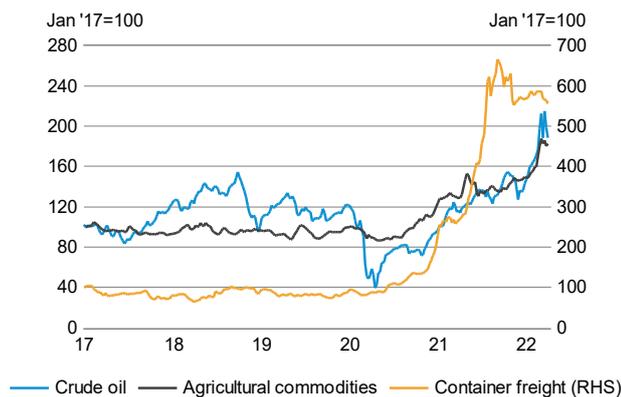
The global growth outlook is worsening ...

Although the UK’s GDP grew by 0.1% in February 2022 – with a particular rebound in tourism-related industries – the global growth outlook has continued to weaken due to Omicron, rising interest rates, and the invasion of Ukraine. The World Trade Organisation has cut its forecast for global trade growth for 2022 from 4.7% to 3.0% due to the economic disruption caused by the Russia-Ukraine war.

Meanwhile, the outbreak of Omicron in China’s major centres combined with their continued zero-COVID policy has led to large-scale disruption of activity, resulting in economic headwinds as weaker domestic consumption offsets a recovery so far driven by exports and investment. China’s exports grew 14.7% in the year to March, a stronger than expected result although slightly down from the 16.3% growth across January and February. This signals a further easing as COVID-19 disruptions continue. Imports unexpectedly declined by 0.1%, owing to disruption from COVID-19 restrictions and the Ukraine war.

The temporary closing of Chinese factories will further compound global supply chain disruption, especially for manufacturing-aligned goods, but will also likely ease container costs that have remained elevated (Figure 2).

Figure 2 – Global price indices



Source: Haver

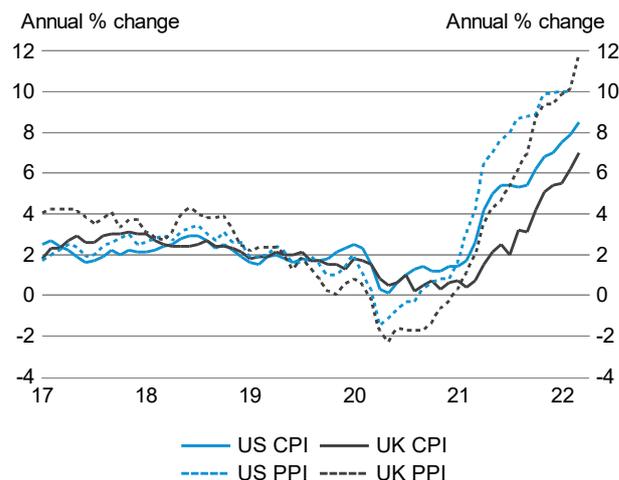
As the impacts of Omicron begin to fade, real activity in the US will remain resilient in the near term but the tightening of monetary policy and high inflation will weigh on activity thereafter. With the inversion of the US yield curve, some commentators are predicting the US could see a recession in 18-24 months.

... as inflationary pressures continue abroad ...

Prices in the United States climbed at their highest rates since 1981, rising 8.5% over the year to the end of March driven by continuing supply chain problems, soaring demand, and higher energy costs (Figure 3). High gas prices were the main driver of the rise. The gasoline index rose 18.3% in March and accounted for over half of all the items' monthly increases, while the food index is up 8.8% compared with the prior 12 months. This outturn is expected to strengthen the sentiment that the US Federal Reserve will move to increase interest rates to tamp down inflation.

Similarly, annual CPI inflation in the UK increased to 7.0% in March, a 0.8 percentage point increase over February and the highest rate of inflation since March 1992. This outturn came in above the forecast of 6.7%, with motor fuels and petrol costs being the single greatest source of upward pressure. Although the price data was collected before the five pence per litre fuel duty reduction, high inflation is expected to persist and reduce household consumption, largely owing to elevated energy costs and global supply constraints.

Figure 3 – Inflation in the US and UK



Source: Haver

... and interest rates are set to rise ...

The Reserve Bank of Australia opted to maintain the cash rate target rate at 0.1% in its latest monetary policy decision, citing the need to see that inflation is sustainably within the 2-3% range before it increases interest rates. Despite this, the announcement took a more hawkish tone than previous, suggesting future rises are expected if inflationary pressures persist.

The Bank of Canada this week opted to increase its cash rate by 0.5% to 1% and noted that further hikes will be necessary. Amid all this, the European Central Bank's meeting on Friday (New Zealand Time) will set the tone for economic conditions in Europe. Chief amongst this will be discussion on current inflationary conditions and the Russian invasion of Ukraine with an eye to preventing stagflation expectations growing across Europe. Likewise, South Korea and Singapore are expected to tighten policy at their coming monetary policy announcements, signalling a dampening of economic conditions across parts of Asia in the medium term.

... while consumer confidence in Australia falls.

The Australian Consumer Sentiment Index declined 4.2% on a monthly basis to 96.6 points in March 2022, weighed down by concerns over the war in Ukraine, the floods in south-east Queensland and Northern NSW, and expectations of higher inflation and interest rates. This is its weakest point since September 2020, which is also the last time the index was below the 100-level indicating that pessimists outnumber optimists.

This fall was broad-based across all sentiment sub-indexes. The 'economy, next 12 months' sub-index fell by 6.7% while the 'economy, next 5 years' sub-index was down by 5.8%. The 'finances vs a year ago' sub-index also fell by 3.9% and the 'time to buy a major household item' sub-index slid 4.4%.

Global labour markets, however, remain tight.

The United Kingdom's unemployment rate fell slightly in the three months to the end of February to 3.8% compared to the 3.9% recorded in the three months to the end of January. Real wages excluding bonuses, however, sank 1.0% – the fastest fall since 2014 – as rising inflation continues to erode the purchasing power of British households. Increasing energy prices will likely continue to exert upward pressure on cost-of-living, dampening consumption and real output growth in the UK over the medium term.

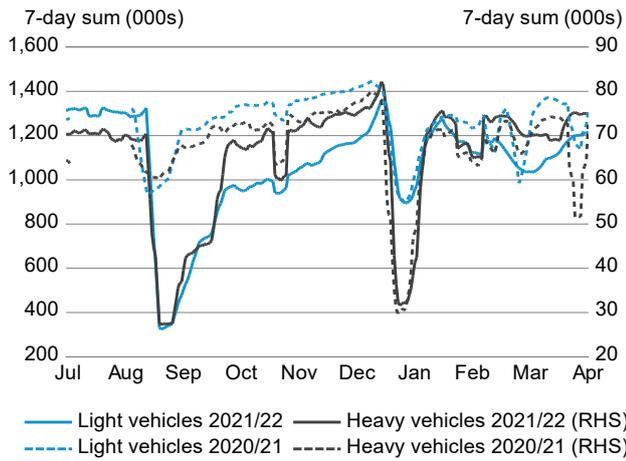
Lastly, the Westpac Melbourne Institute Index of Unemployment Expectations fell 1.1% to 101.8 in March from 102.8 in February, indicating a slight loosening of labour market expectations in Australia over the medium term.

Coming Up:

Date	Release
19 April	Business NZ PSI
21 April	Consumers Price Index

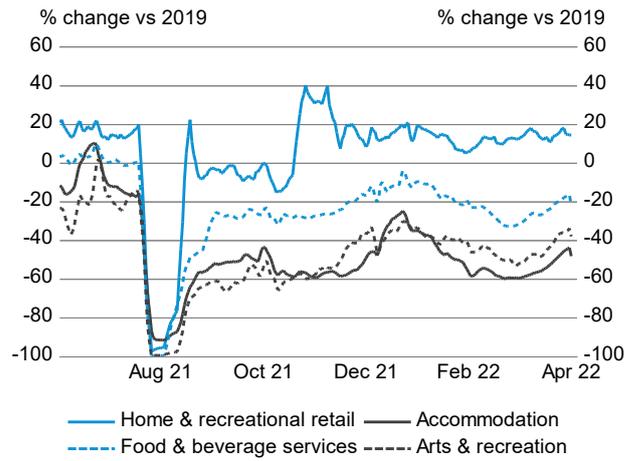
High-Frequency Indicators

Traffic and Freight Movement



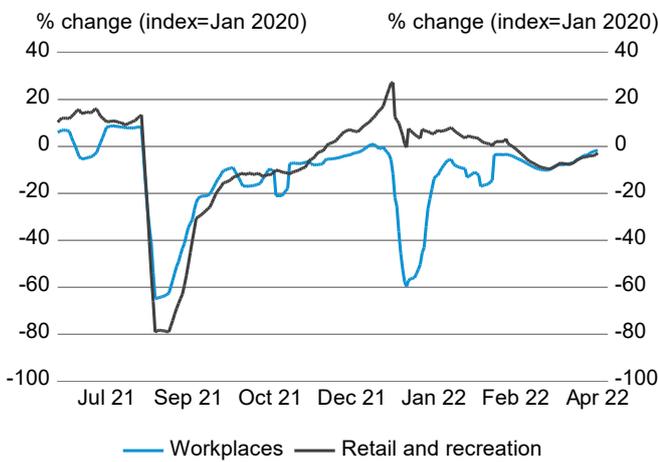
Source: Waka Kotahi NZ Transport Agency

Card Spending



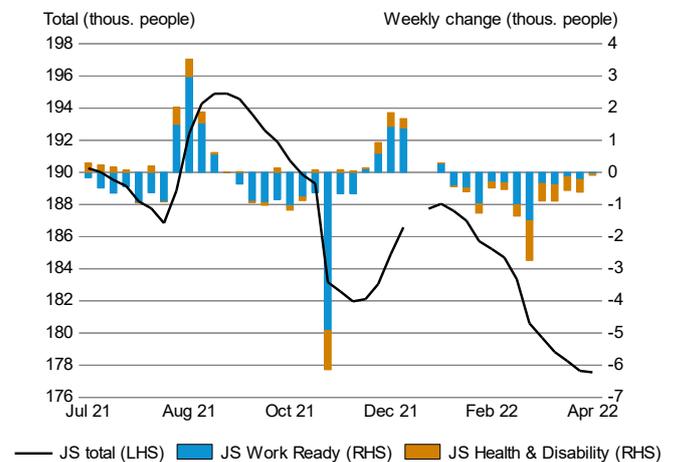
Source: Marketview data via MBIE

People Movements at Selected Locations



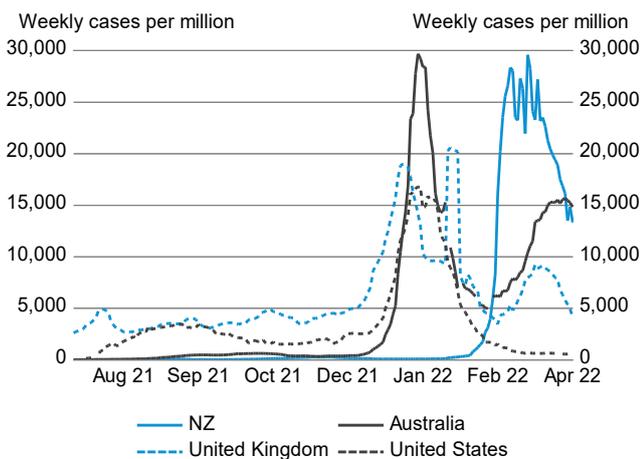
Source: Google/Haver

Jobseeker (JS) and Income Support Recipients



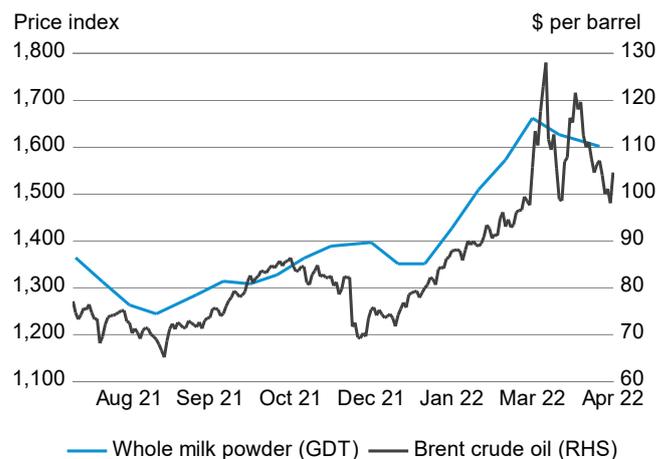
Source: MSD

COVID-19 Cases Per Million People



Source: Johns Hopkins University/Haver

World Commodity Prices



Source: Haver

Quarterly Indicators		2020Q4	2021Q1	2021Q2	2021Q3	2021Q4	2022Q1
Real Production GDP (1)	qpc	-0.3	1.3	2.5	-3.6	3.0	...
	aapc	-2.1	-1.4	5.2	4.8	5.6	...
Current account balance (annual)	%GDP	-0.8	-2.5	-3.3	-4.6	-5.8	...
Merchandise terms of trade	apc	-1.6	-0.9	-0.1	5.2	2.6	...
CPI inflation	qpc	0.5	0.8	1.3	2.2	1.4	...
	apc	1.4	1.5	3.3	4.9	5.9	...
Employment (HLFS) (1)	qpc	0.6	0.7	1.0	1.9	0.1	...
Unemployment rate (1)	%	4.9	4.6	4.0	3.3	3.2	...
Participation rate (1)	%	70.2	70.4	70.5	71.2	71.1	...
LCI salary & wage rates - total (2)	apc	1.6	1.6	2.1	2.4	2.6	...
QES average hourly earnings - total (2)	apc	4.3	4.0	4.0	3.5	3.8	...
Core retail sales volume	apc	4.4	5.4	30.2	-3.2	5.1	...
Total retail sales volume	apc	4.7	6.6	33.3	-5.2	4.4	...
WMM - consumer confidence (3)	Index	106.0	105.2	107.1	102.7	99.1	...
QSBO - general business situation (1,4)	net%	-12.5	-6.3	6.9	-11.6	-35.0	-32.6
QSBO - own activity outlook (1,4)	net%	10.5	7.3	26.6	8.6	8.0	8.3

Monthly Indicators		Oct 21	Nov 21	Dec 21	Jan 22	Feb 22	Mar 22
Merchandise trade balance (12 month)	NZ\$m	-4,876.4	-6239.7	-7303.5	-7783.2	-8372.9	...
Dwelling consents - residential	apc	10.5	20.8	10.1	-6.3	34.1	...
House sales - dwellings	apc	-18.5	-15.4	-25.8	-26.4	-31.1	-33.5
REINZ - house price index	apc	29.7	27.0	22.5	19.7	14.2	9.0
Estimated net migration (12 month total)	people	-7,470.0	-8,085.0	-7,802.0	-7,922.0	-7,623.0	...
ANZ NZ commodity price index	apc	16.5	22.9	27.8	26.5	29.2	20.9
ANZ world commodity price index	apc	23.8	26.1	23.5	19.7	20.4	18.0
ANZBO - business confidence	net%	-13.4	-16.4	-23.2	...	-51.8	-41.9
ANZBO - activity outlook	net%	21.7	15.0	11.8	...	-2.2	3.3
ANZ-Roy Morgan - consumer confidence	net%	98.0	96.6	98.3	97.7	81.7	77.9
NZAC	apc	0.6	1.8	1.9	...	...	...

Daily Indicators		Wed 6/4/22	Thu 7/4/22	Fri 8/4/22	Mon 11/4/22	Tue 12/4/22	Wed 13/4/22
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NZ exchange and interest rates (5)

NZD/USD	\$	0.6940	0.6906	0.6884	0.6824	0.6820	0.6885
NZD/AUD	\$	0.9173	0.9213	0.9201	0.9186	0.9198	0.9217
Trade weighted index (TWI)	index	74.7	74.4	74.2	73.8	73.8	74.4
Official cash rate (OCR)	%	1.00	1.00	1.00	1.00	1.00	1.50
90 day bank bill rate	%	1.67	1.67	1.68	1.70	1.71	1.72
10 year govt bond rate	%	3.33	3.41	3.45	3.47	3.52	3.55

Share markets (6)

Dow Jones	index	34,497	34,584	34,721	34,308	34,220	34,565
S&P 500	index	4,481	4,500	4,488	4,413	4,397	4,447
VIX volatility index	index	22.1	21.6	21.2	24.4	24.3	21.8
AU all ords	index	7,788	7,735	7,772	7,773	7,736	7,772
NZX 50	index	12,079	12,076	12,066	11,932	11,889	11,875

US interest rates

3 month OIS	%	0.33	0.33	0.33	0.33	0.33	...
3 month Libor	%	0.99	0.99	1.01	1.02	1.04	...
10 year govt bond rate	%	2.61	2.66	2.72	2.79	2.72	2.70

Commodity prices (6)

WTI oil	US\$/barrel	96.23	96.03	98.35	94.22	100.52	104.25
Gold	US\$/ounce	1,930.15	1,932.40	1,941.40	1,951.55	1,960.85	...
CRB Futures	index	633.76	633.10	636.31	637.32	637.56	...

- (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		2021Q2	Oct 21	Nov 21	Dec 21	2021Q3	Jan 22	Feb 22	Mar 22	2021Q4	Apr 22
United States [9.6% share of total goods exports]	GDP (1)	qpc	1.6				0.6				1.7	
	Industrial production (1)	mpc		1.4	0.8	-0.4		1.4	0.5	...		...
	CPI	apc		6.2	6.8	7.0		7.5	7.9	8.5		...
	Unemployment rate (1)	%		4.6	4.2	3.9		4.0	3.8	3.6		...
	Employment change (1)	000s		677.0	647.0	588.0		504.0	750.0	431.0		...
	Retail sales value	apc		16.2	18.9	16.6		14.0	17.6	...		...
	House prices (2)	apc		18.5	18.4	18.6		19.1	...	...		...
Japan [6.1%]	PMI manufacturing (1)	index		60.8	60.6	58.8		57.6	58.6	57.1		...
	Consumer confidence (1)(3)	index		111.6	111.9	115.2		111.1	105.7	107.2		...
	GDP (1)	qpc	0.6				-0.7				1.1	
	Industrial production (1)	mpc		1.8	7.0	-1.0		-0.8	0.1	...		...
	CPI	apc		0.1	0.6	0.8		0.5	0.9	...		...
	Unemployment rate (1)	%		2.7	2.8	2.7		2.8	2.7	...		...
	Retail sales value	apc		0.9	1.9	1.2		1.1	-0.8	...		...
Euro area [5.5%]	PMI manufacturing (1)	index		53.2	54.5	54.3		55.4	52.7	54.1		...
	Consumer confidence (1)(4)	index		39.2	39.2	38.8		36.6	35.1	32.5		...
	GDP (1)	qpc	2.2				2.3				0.3	
	Industrial production (1)	mpc		-1.3	2.5	1.3		0.0	...	...		...
	CPI	apc		4.1	4.9	5.0		5.1	5.9	...		...
	Unemployment rate (1)	%		7.2	7.1	7.0		6.9	6.8	...		...
	Retail sales volume	apc		1.6	8.4	2.3		8.4	5.0	...		...
United Kingdom [2.7%]	PMI manufacturing (1)	index		58.3	58.4	58.0		58.7	58.2	56.5		...
	Consumer confidence (5)	index		-4.9	-6.8	-8.4		-8.5	-8.8	-18.7		...
	GDP (1)	qpc	5.6				0.9				1.3	
	Industrial production (1)	mpc		-0.7	1.0	0.3		0.7	-0.6	...		...
	CPI	apc		3.8	4.6	4.8		4.9	5.5	6.2		...
	Unemployment rate (1)	%		4.2	4.1	4.1		3.9	3.8	...		...
	Retail sales volume	apc		-1.3	3.8	-1.3		9.3	7.0	...		...
Australia [15.8%]	House prices (6)	apc		9.9	10.0	10.4		11.2	12.6	14.3		...
	PMI manufacturing (1)	index		57.8	58.1	57.9		57.3	58.0	55.2		...
	Consumer confidence (1)(5)	net %		-17.0	-14.0	-15.0		-19.0	-26.0	-31.0		...
	GDP (1)	qpc	0.8				-1.9				3.4	
	CPI	apc	3.8				3.0				3.5	
	Unemployment rate (1)	%		5.2	4.6	4.2		4.2	4.0	...		...
	Retail sales value	apc		4.5	6.2	5.0		5.8	9.1	...		...
China [24.3%]	House Prices (7)	apc	19.8				25.4				27.5	
	PMI manufacturing (1)	index		50.4	54.8	48.4		48.4	53.2	55.7		...
	Consumer confidence (8)	index		104.6	105.3	104.3		102.2	100.8	96.6		95.8
	GDP	apc	7.9				4.9				4.0	
	Industrial production	apc		3.5	3.8	4.3		7.5	7.5	...		...
South Korea [3.0%]	CPI	apc		1.5	2.3	1.5		0.9	0.9	1.5		...
	PMI manufacturing (1)	index		49.2	50.1	50.3		50.1	50.2	49.5		...
	GDP (1)	qpc	0.8				0.3				1.2	
South Korea [3.0%]	Industrial production (1)	mpc		0.4	1.6	3.4		0.3	0.6	...		...
	CPI	apc		3.2	3.8	3.7		3.6	3.7	4.1		...

(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