

- **Consumer price inflation came in broadly as expected, increasing inflation expectations and market pricing for interest rates.**
- **Trade deficit narrows on the back of strong export prices.**
- **Global growth outlook weakens further in response to Ukraine crisis and the rise of Omicron in China.**

Inflation continues to be front of mind both domestically and internationally, with central banks confronted with record inflation at the same time agencies are downgrading growth forecasts.

While the NZ trade deficit narrowed on the back of strong commodity prices over the beginning of the year, there are some signs that global disruptions are beginning to impact commodity prices.

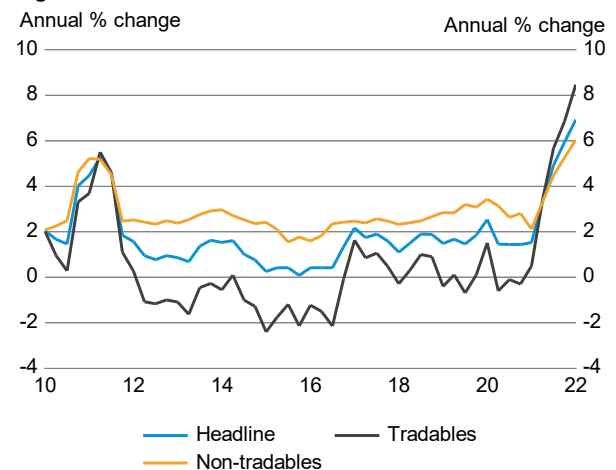
Inflation expectations remain firmly anchored above 4%, with markets now pricing in a further 50 basis points hike to the OCR at the next review.

### *Russia's invasion of Ukraine helps drive inflation to a three-decade high...*

Annual Consumers Price Index (CPI) inflation increases to a three-decade high of 6.9% as Russia's invasion of Ukraine adds to an already inflationary environment (Figure 1). The conflict in Ukraine has significantly constrained supply and led to rising oil and other commodity prices, with 91 octane petrol up 9% in the quarter. As a result, transport costs and the cost of producing food drove this quarter's inflation. Annual tradable inflation is now 8.5% on a year ago, up from 6.9% in December.

Meanwhile, resilient domestic demand and a tight construction sector have played key roles in annual non-tradable inflation rising to 6.0%, from 5.3% in December. The demand for new housing is at all-time highs following significant house price growth over 2021 and regulatory changes to multi-unit dwellings. Material and labour supply has not come close to keeping up with demand and so the cost of building a house increased further to 18% on a year ago, up from 16% in December. The New Zealand activity index confirms demand has remained resilient, up 1.7% on March last year.

**Figure 1 – CPI inflation**



### *...and narrows the trade deficit...*

The continued rise in commodity prices over March 2022 led to a narrowing trade deficit for New Zealand. Export prices rose significantly, particularly dairy and meat prices which reached record highs, both up around one-third on an annual basis. As a result, New Zealand's goods exports values rose 17% on a year ago, despite slowly lower export quantities. Import values did not rise as much in March but are still up 25% on a year ago.

### *...leading to interest rate expectations bouncing*

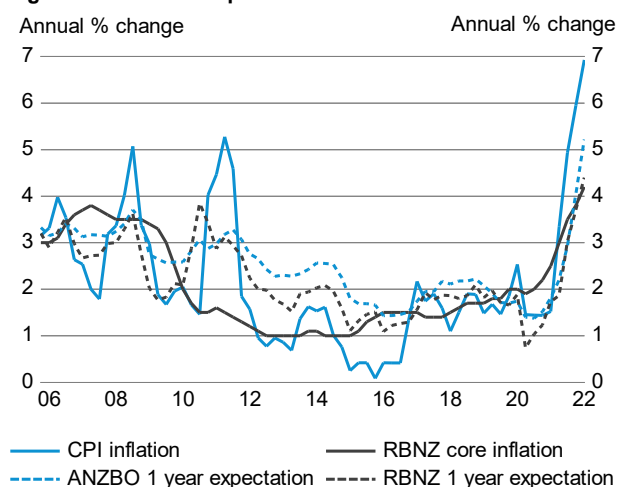
Monetary policy expectations have bounced around a bit over the last two weeks. Interest rate expectations fell slightly following the Reserve Bank's monetary policy decision, which reflects larger increases now and smaller increases later. However, following the CPI release last week and other international releases, interest rate expectations have increased once again. Current market pricing is for a 4% OCR by mid next year, with a 50 basis points increase at the next rate review.

### While inflationary pressures will likely persist...

The degree of persistence is reflected in measures of core inflation and expectations. The Reserve Bank's sectoral factor model is at a record high, rising from 3.8% in the year to December, to 4.2% in the year to March 2022. Inflation expectations are also elevated (Figure 2).

It is hard to see the current inflationary pressures declining anytime soon. While the ongoing conflict in Ukraine means petrol prices will likely remain elevated over the coming months, the Government's excise tax and public transport cost policies shave about 0.5% off inflation. Overall, we are likely to see ongoing price pressure from a strong construction sector, nominal wages growth, and continued supply disruptions. As a result, tradable inflation is expected to ease faster than non-tradable inflation.

Figure 2 – Inflation expectations and core inflation



### ...there are signs of easing price growth ahead

The Global dairy trade auction saw a much larger drop in the latest auction on 19 April of 3.6%, compared to roughly 1% declines in the previous two auctions. This takes the price index back to similar levels in mid-February 2022.

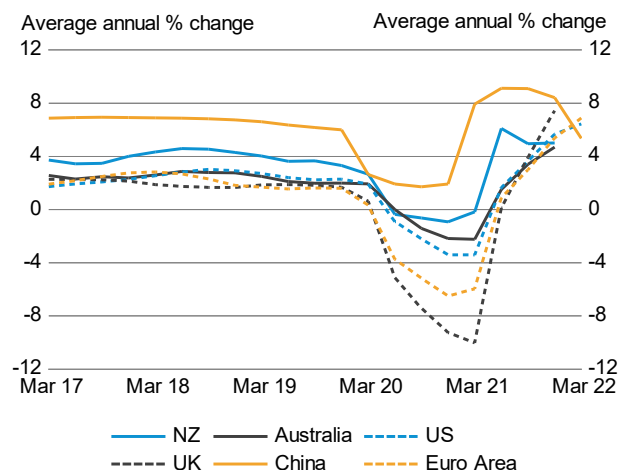
In addition, ANZ's Business Outlook survey shows signs of easing inflationary pressures to come. While construction activity remains elevated as expected given the solid pipeline of work, residential construction intentions are expected to fall, which will ease demand. Meanwhile, current labour market tightness might begin to ease as labour supply is expected to improve following the Omicron outbreak and employment intentions ease slightly.

### The Ukraine crisis continues to cloud the economic outlook...

Last week, the IMF released its April 2022 *World Economic Outlook* which highlighted the significant economic cost of the Russian invasion of Ukraine. Global growth is projected to slow from 6.1% in 2021 (Figure 3) to 3.6% in both 2022 and 2023, a downward revision of 0.8% and 0.2%, respectively, from the January *WEO Update*.

Prior to the invasion, economies across the world have been facing inflationary pressure due to the COVID-19 shock to supply against robust consumer demand. Disruption to key commodity markets as a result of the invasion has intensified price pressures and the IMF is forecasting inflation to be 5.7% across advanced economies in 2022.

Figure 3: Real GDP Growth

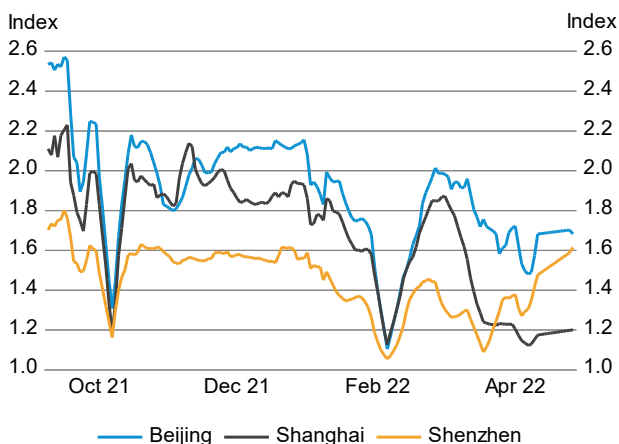


### ...and China's Omicron outbreak continues to spread

Omicron continues to spread across Shanghai and this week authorities in Beijing began mass testing of the vast majority of the city's 22 million residents, after 33 locally transmitted cases were identified on 25 April. The Chinese Government continues to pursue its elimination strategy and the economic costs are mounting, though support from fiscal and monetary policy is likely.

China's economy started 2022 strongly, recording growth of 1.3% in the March quarter, beating expectations of a 0.6% increase. Despite the strong outturn, weak consumer demand remains a key concern for the economy with retail sales falling 3.5% in March compared to the previous year. The unemployment rate also rose to 5.8% in March, its highest level since May 2020. As the impacts of COVID-19 lockdowns bite, analysts are expecting another consumer demand to weaken further. High frequency data for the month-to-date shows widespread disruption to transport and logistics (Figure 4), which is also likely to impact industrial production and exports as pressure on supply chains grow and drive further inflationary pressures globally.

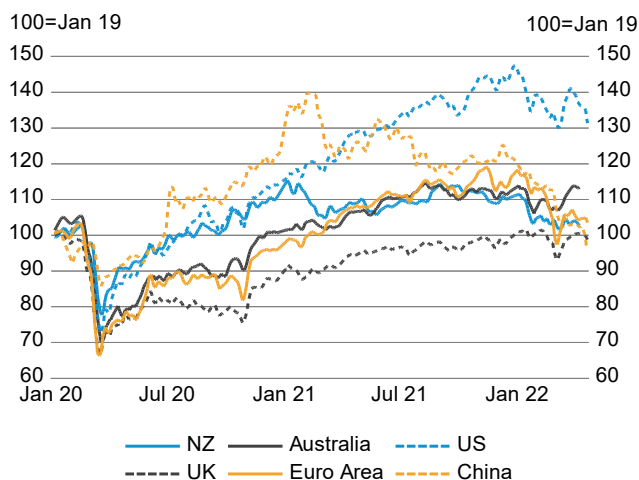
**Figure 4: China Baidu Congestion Index**



### Equities decline globally as investor risk sentiment adjusts to lower growth prospects...

Share market indices have seen marked declines across 2022 as risk-off sentiment dominates due to high inflation and sharply increasing monetary policy expectations, weighing on the global growth outlook. At the time of writing, the US S&P 500 Index is down by 10.6% in 2022 and had its worst quarterly performance since the March 2020 quarter.

**Figure 5: Share Market Indices**



### The US economy contracts with more challenges ahead...

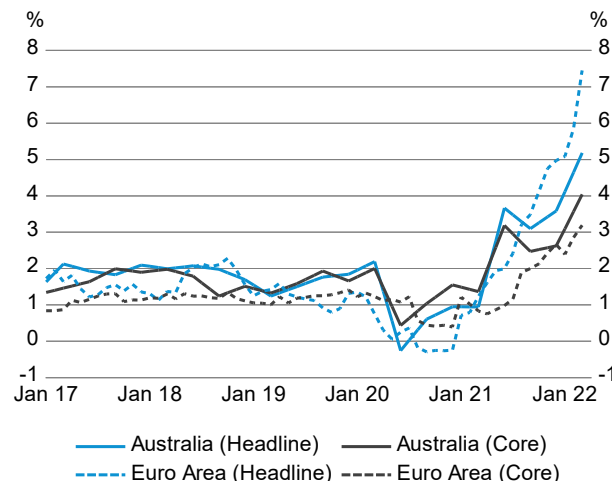
The US economy surprisingly contracted 0.4% in the March quarter, well below the expectation of 0.3% gain on the back of surging imports. Despite the negative outcome, underlying demand is strong with consumer spending increasing by 0.7% across the quarter, supported by strong employment and built-up savings from across the pandemic, despite Omicron impacts and rising inflation. Durable goods orders at US factories rose 0.8% in March, rebounding from a revised 1.7% fall in February and core capital goods orders also increased 1% indicating strong business investment as firms look to shore up inventories and bring supply chains closer to home in the fallout of the Russian invasion of Ukraine.

The US goods trade deficit widened by nearly 18% to a record high in March as imports growth far exceed growth in exports. The deficit continues to point towards strong demand and the need for monetary policy tightening. The Federal Open Market Committee is expected to accelerate its tightening cycle at next week's May meeting, and employment cost and personal consumption expenditure data also to be released this week are likely to further indicate the need to respond to broad-based inflationary pressures. US growth is expected to remain muted across the rest of 2022 as declining real incomes and rising interest rates in response to inflation dampen activity.

### ...while inflationary pressures are mounting in Australia and Europe...

Australia's headline CPI inflation increased by 2.1% in the March quarter, well above the 1.7% consensus. Australia's annual headline inflation rate is now 5.1% (Figure 6). While some of the quarterly increase can be attributed to the transitory impacts of the Russian invasion of Ukraine, core inflation rose by 1.4%, the largest increase since 2008. Inflationary pressures are broad-based with 10 of 11 components seeing increases. Transport, food and housing prices increased 4.2%, 2.8% and 2.7%, respectively. The magnitude and broad-based nature of inflation raises the likelihood of the RBA lifting its cash rate at its May meeting next week. Continued tightness in the labour market and mounting wage pressures will also weigh on the RBA's decision.

**Figure 6: Annual Inflation**

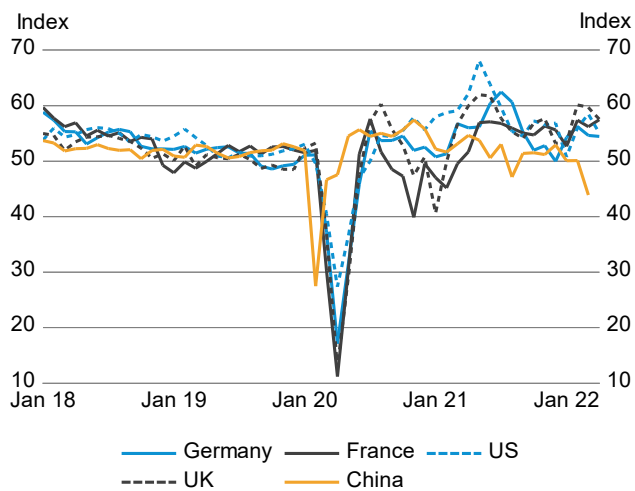


April CPI inflation for the Euro Area is also due later on Friday 29<sup>th</sup> April, with the market consensus of annual headline inflation reaching 7.5% from 7.4% in March. Annual core inflation is also expected to rise to 3.1% making the case for monetary policy to respond, although the uncertainty from the Russian invasion of Ukraine will be a factor.

Preliminary GDP data for the March quarter, also due to be published later today, is expected to show the Euro Area economy expanded by 0.3%. While growth has slowed, European economies have held up considerably better than first anticipated following the Ukraine crisis,

with manufacturing remaining resilient (Figure 7) despite energy supply concerns, and a rebound in services industries. The outlook, however, remains weak with household spending expected to be impacted by declining real incomes and continued uncertainty.

**Figure 7: Composite Purchasing Managers Index**



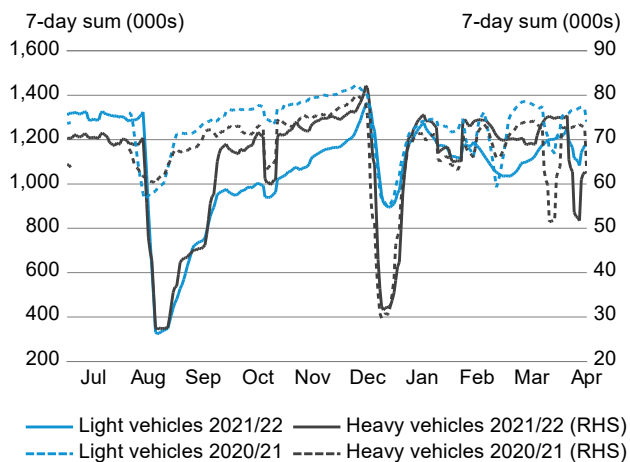
Source: Haver

#### Coming Up:

| Date  | Release                  |
|-------|--------------------------|
| 3 May | Building Consents Issued |
| 4 May | Labour Market Statistics |

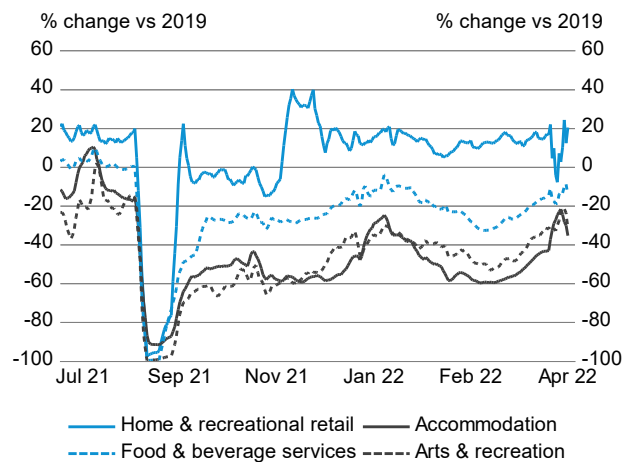
## High-Frequency Indicators

### Traffic and Freight Movement



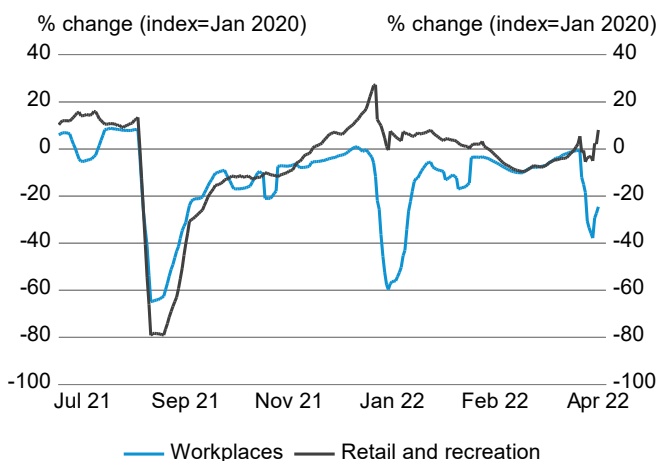
Source: Waka Kotahi NZ Transport Agency

### Card Spending



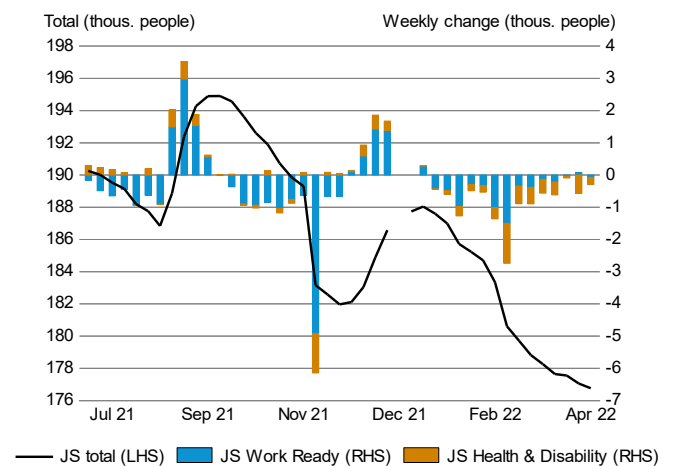
Source: Marketview data via MBIE

### People Movements at Selected Locations



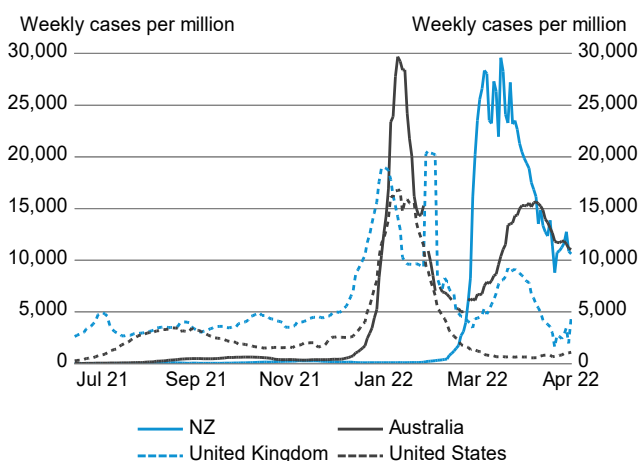
Source: Google/Haver

### Jobseeker (JS) and Income Support Recipients



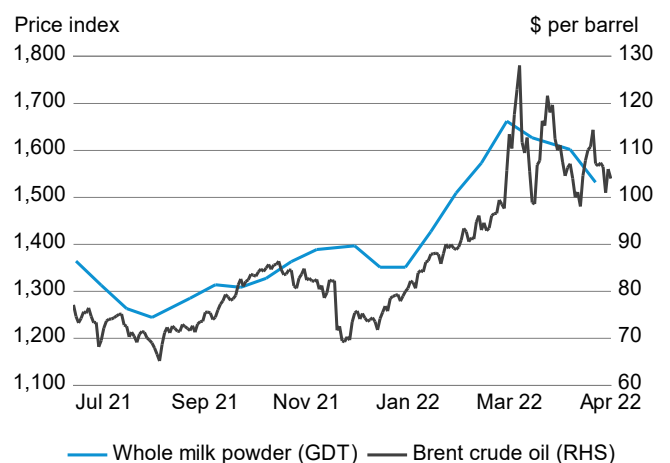
Source: MSD

### 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    | 1.8    |
|                                         | apc   | 1.4    | 1.5    | 3.3    | 4.9    | 5.9    | 6.9    |
| 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 | -7304.9 | -7779.9 | -8675.7 | -9108.4 |
| 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 | -8085.0 | -7802.0 | -7922.0 | -7623.0 | ...     |
| 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<br>20/4/22 | Thu<br>21/4/22 | Fri<br>22/4/22 | Mon<br>25/4/22 | Tue<br>26/4/22 | Wed<br>27/4/22 |
|-------------------------------------------|-------------|----------------|----------------|----------------|----------------|----------------|----------------|
| <b>NZ exchange and interest rates (5)</b> |             |                |                |                |                |                |                |
| NZD/USD                                   | \$          | 0.6762         | 0.6780         | 0.6716         | ...            | 0.6620         | 0.6571         |
| NZD/AUD                                   | \$          | 0.9133         | 0.9122         | 0.9129         | ...            | 0.9214         | 0.9178         |
| Trade weighted index (TWI)                | index       | 73.51          | 73.59          | 73.26          | ...            | 72.97          | 72.59          |
| Official cash rate (OCR)                  | %           | 1.50           | 1.50           | 1.50           | 1.50           | 1.50           | 1.50           |
| 90 day bank bill rate                     | %           | 1.92           | 1.94           | 1.96           | ...            | 1.97           | 1.97           |
| 10 year govt bond rate                    | %           | 3.51           | 3.46           | 3.53           | ...            | 3.54           | 3.55           |
| <b>Share markets (6)</b>                  |             |                |                |                |                |                |                |
| Dow Jones                                 | index       | 35,161         | 34793          | 33811          | 34049          | 33240          | 33302          |
| S&P 500                                   | index       | 4,459          | 4394           | 4272           | 4296           | 4175           | 4184           |
| VIX volatility index                      | index       | 20.3           | 22.7           | 28.2           | 27.0           | 33.5           | 31.6           |
| AU all ords                               | index       | 7,870          | 7887           | 7768           | ...            | 7604           | 7547           |
| NZX 50                                    | index       | 11,966         | 11954          | 11908          | ...            | 11813          | 11726          |
| <b>US interest rates</b>                  |             |                |                |                |                |                |                |
| 3 month OIS                               | %           | 0.33           | 0.33           | 0.33           | 0.33           | 0.33           | ...            |
| 3 month Libor                             | %           | 1.14           | 1.18           | 1.21           | 1.22           | 1.24           | ...            |
| 10 year govt bond rate                    | %           | 2.85           | 2.90           | 2.90           | 2.81           | 2.77           | 2.82           |
| <b>Commodity prices (6)</b>               |             |                |                |                |                |                |                |
| WTI oil                                   | US\$/barrel | 102.75         | 103.79         | 102.86         | 99.60          | 102.62         | 102.02         |
| Gold                                      | US\$/ounce  | 1,949.55       | 1943.70        | 1941.55        | 1895.00        | 1904.60        | 1885.80        |
| CRB Futures                               | index       | 642.22         | 640.37         | 638.39         | 635.00         | 639.24         | 639.58         |

(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                  | 2021Q3 | Oct 21 | Nov 21 | Dec 21 | 2021Q4 | Jan 22 | Feb 22 | Mar 22 | 2022Q1 | Apr 22 |
|------------------------------------------------------|----------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| United States<br>[9.6% share of total goods exports] | GDP (1)                    | 0.6    |        |        |        | 1.7    |        |        |        | -0.4   |        |
|                                                      | Industrial production (1)  |        | 1.4    | 0.8    | -0.4   |        | 1.0    | 0.9    | 0.9    |        | ...    |
|                                                      | CPI                        |        | 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)      |        | 677.0  | 647.0  | 588.0  |        | 504.0  | 750.0  | 431.0  |        | ...    |
|                                                      | Retail sales value         |        | 16.5   | 18.6   | 16.8   |        | 13.7   | 17.8   | 6.6    |        | ...    |
|                                                      | House prices (2)           |        | 18.5   | 18.3   | 18.5   |        | 18.9   | 20.2   | ...    |        | ...    |
| Japan<br>[6.1%]                                      | PMI manufacturing (1)      |        | 60.8   | 60.6   | 58.8   |        | 57.6   | 58.6   | 57.1   |        | ...    |
|                                                      | Consumer confidence (1)(3) |        | 111.6  | 111.9  | 115.2  |        | 111.1  | 105.7  | 107.6  |        | 107.3  |
|                                                      | GDP (1)                    | -0.7   |        |        |        | 1.1    |        |        |        | ...    |        |
|                                                      | Industrial production (1)  |        | 2.1    | 5.0    | 0.2    |        | -2.4   | 2.0    | 0.3    |        | ...    |
|                                                      | CPI                        |        | 0.1    | 0.6    | 0.8    |        | 0.5    | 0.9    | 1.2    |        | ...    |
|                                                      | Unemployment rate (1)      |        | 2.7    | 2.8    | 2.7    |        | 2.8    | 2.7    | 2.6    |        | ...    |
|                                                      | Retail sales value         |        | 0.9    | 1.9    | 1.2    |        | 1.1    | -0.9   | 1.0    |        | ...    |
| Euro area<br>[5.5%]                                  | PMI manufacturing (1)      |        | 53.2   | 54.5   | 54.3   |        | 55.4   | 52.7   | 54.1   |        | ...    |
|                                                      | Consumer confidence (1)(4) |        | 39.2   | 39.2   | 38.8   |        | 36.6   | 35.1   | 32.5   |        | ...    |
|                                                      | GDP (1)                    | 2.2    |        |        |        | 0.3    |        |        |        | ...    |        |
|                                                      | Industrial production (1)  |        | -1.4   | 2.5    | 1.5    |        | -0.7   | 0.7    | ...    |        | ...    |
|                                                      | CPI                        |        | 4.1    | 4.9    | 5.0    |        | 5.1    | 5.9    | 7.4    |        | ...    |
|                                                      | Unemployment rate (1)      |        | 7.2    | 7.1    | 7.0    |        | 6.9    | 6.8    | ...    |        | ...    |
|                                                      | Retail sales volume        |        | 1.6    | 8.4    | 2.3    |        | 8.4    | 5.0    | ...    |        | ...    |
| United Kingdom<br>[2.7%]                             | PMI manufacturing (1)      |        | 58.3   | 58.4   | 58.0   |        | 58.7   | 58.2   | 56.5   |        | ...    |
|                                                      | Consumer confidence (5)    |        | -4.9   | -6.8   | -8.4   |        | -8.5   | -8.8   | -18.7  |        | -16.9  |
|                                                      | GDP (1)                    | 0.9    |        |        |        | 1.3    |        |        |        | ...    |        |
|                                                      | Industrial production (1)  |        | -0.7   | 1.0    | 0.3    |        | 0.7    | -0.6   | ...    |        | ...    |
|                                                      | CPI                        |        | 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        |        | -1.3   | 3.6    | -1.6   |        | 9.6    | 7.1    | 0.9    |        | ...    |
| Australia<br>[15.8%]                                 | House prices (6)           |        | 9.9    | 10.0   | 10.4   |        | 11.2   | 12.6   | 14.3   |        | ...    |
|                                                      | PMI manufacturing (1)      |        | 57.8   | 58.1   | 57.9   |        | 57.3   | 58.0   | 55.2   |        | ...    |
|                                                      | Consumer confidence (1)(5) |        | -17.0  | -14.0  | -15.0  |        | -19.0  | -26.0  | -31.0  |        | -38.0  |
|                                                      | GDP (1)                    | -1.9   |        |        |        | 3.4    |        |        |        | ...    |        |
|                                                      | CPI                        | 3.0    |        |        |        | 3.5    |        |        |        | 5.1    |        |
|                                                      | Unemployment rate (1)      |        | 5.2    | 4.6    | 4.2    |        | 4.2    | 4.0    | 4.0    |        | ...    |
|                                                      | Retail sales value         |        | 4.5    | 6.2    | 5.0    |        | 5.8    | 9.1    | ...    |        | ...    |
| China<br>[24.3%]                                     | House Prices (7)           | 25.4   |        |        |        | 27.5   |        |        |        | ...    |        |
|                                                      | PMI manufacturing (1)      |        | 50.4   | 54.8   | 48.4   |        | 48.4   | 53.2   | 55.7   |        | ...    |
|                                                      | Consumer confidence (8)    |        | 104.6  | 105.3  | 104.3  |        | 102.2  | 100.8  | 96.6   |        | 95.8   |
|                                                      | GDP                        | 4.9    |        |        |        | 4.0    |        |        |        | 4.8    |        |
|                                                      | Industrial production      |        | 3.5    | 3.8    | 4.3    |        | 7.5    | 7.5    | 5.0    |        | ...    |
|                                                      | CPI                        |        | 1.5    | 2.3    | 1.5    |        | 0.9    | 0.9    | 1.5    |        | ...    |
|                                                      | PMI manufacturing (1)      |        | 49.2   | 50.1   | 50.3   |        | 50.1   | 50.2   | 49.5   |        | ...    |
| South Korea<br>[3.0%]                                | GDP (1)                    | 0.3    |        |        |        | 1.2    |        |        |        | 0.7    |        |
|                                                      | Industrial production (1)  |        | 0.4    | 1.6    | 3.4    |        | 0.3    | 0.6    | ...    |        | ...    |
|                                                      | CPI                        |        | 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