

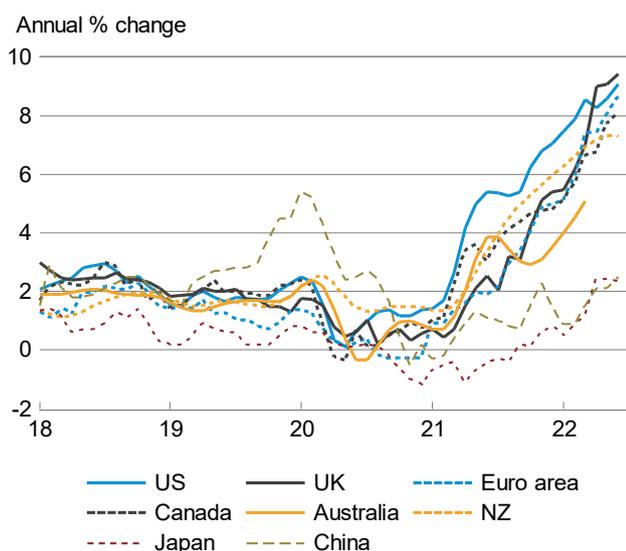
- NZ inflation rose to a multi-decade high of 7.3% in the June quarter.
- The Reserve Bank raised its policy rate to 2.5% and further tightening is expected.
- Global inflation picked up pace in June.

Inflation continued to rise in New Zealand and around world against a backdrop of tight labour markets and supply chain disruptions. Central banks have stepped up the pace of policy tightening as they seek to return demand and supply to a more sustainable balance. There are some early signs that demand is easing and that supply chains are recovering, but uncertainty remains high. Overall, it is clear that policy rates will rise further as central bank's strive to meet their inflation objectives, but fears this will drive economies into recession are weighing on sentiment.

### *Inflation rises further...*

The Consumers Price Index (CPI) surprised on the upside, rising 1.7% in the June 2022 quarter to be up 7.3% on a year ago (Figure 1).

**Figure 1: NZ and global inflation**



Source: Haver

Annual non-tradable inflation rose to 6.3%, driven by construction costs, rents, and food, up 18.0%, 4.3% and 6.6% respectively. Annual tradable inflation rose to 8.7%, reflecting the strength of global inflation.

Measures of core inflation also increased, including the Reserve Bank's preferred sectoral factor model estimate, which increased to an annual rate of 4.8%, well above the Bank's medium-term inflation target. Core inflation tends to be slow moving and, with labour markets remaining tight, its strength underscores the need for tighter monetary policy to deliver a more sustainable balance between supply and demand. However, recent falls in petrol and other commodity prices, alongside improving global supply chains, may reduce headline inflation, if sustained.

Ahead of the inflation announcement the Government announced a 5-month extension to Fuel Excise Duty and Road User Charges reductions, as well as extending half price public transport.

### *...and the Reserve Bank continues to tighten...*

Prior to the CPI release, the Reserve Bank increased the Official Cash Rate by 50 basis points (bps) to 2.5%, in line with market expectations. The Bank was resolute in its commitment to continue increasing interest rates until it is comfortable that its inflation mandate will be met.

### *Activity is showing early signs of weakness...*

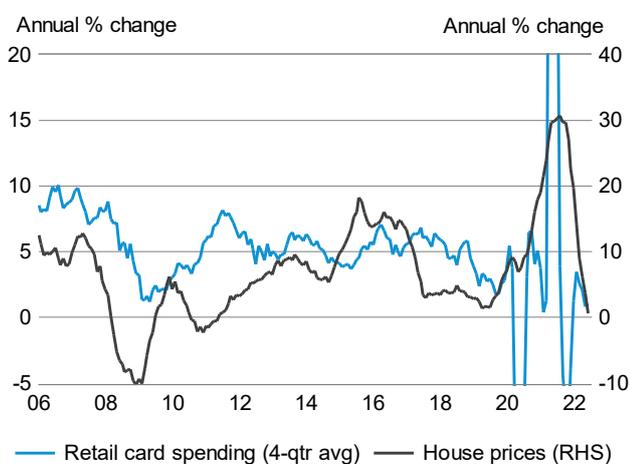
June's electronic card transaction data showed signs of slowing consumer spending, although some of the weakness may reflect the seasonal impact of our inaugural Matariki public holiday. Retail spending rose just 0.1% from the previous month, driven by higher spending on fuel, while core spending (i.e. excluding fuel and vehicles) fell 0.3%. The decline in core spending followed two months of strong growth as Omicron restrictions eased, which meant core spending rose 5.0% in the three months ended June compared to the three months prior.

With COVID-19 cases on the rise again, there is further downside risk to consumer spending. High frequency card spending data dipped 2.9% in the week ending 17 July compared to the previous week, as the 7-day moving average of reported cases rose above 10,000 for the first time since mid-April.

June's BusinessNZ-BNZ Purchasing Managers Indices (PMIs) were mixed: the manufacturing PMI fell to a contractionary reading of 49.7 while services rose slightly, up 0.1 to 55.4, as the industry's recovery since the easing of public health restrictions was sustained. The NZ Activity Index, which summarises several monthly indicators including card spending and PMIs, for June eased to 0.8% down from 1.2% in May, driven by the weaker spending and manufacturing data.

In the housing market, prices of existing homes fell 0.9% in June, to be 6.7% below their November peak, and the annual rate eased to 0.7%. Ongoing weakness in sales and lengthening days to sell point to further house price falls ahead. More generally, house prices are a key barometer of overall household spending (Figure 2).

**Figure 2. Consumer spending and house prices**



Sources: Stats NZ, REINZ

### Exports rebound in June...

Goods export values lifted 6.9% in the June quarter with gains in 9 of the top 10 categories supported by continued price strength and higher volumes following Omicron disruptions in the March quarter. Meat and fruit led the recovery as volumes increased sharply, up 7.6% and 22.1% respectively. Dairy exports rose 2.7% as higher price more than offset lower volumes. On the imports side, values rose 1.0%, led by an increase in intermediate goods, with higher prices likely a key driver.

Despite a narrower trade deficit in the quarter, the annual deficit increased by almost NZ\$1bn to a new high of \$10.5 billion (about 3% of GDP). Although we expect export volumes to lift further, be easing prices will provide an offset and limit any rise in values. On the import side, the strength of global inflation will keep upward pressure on values. In sum, the trade deficit may remain high for some time.

### ...but dairy prices continue to slide.

Dairy prices continued their slide from March's highs, down 5% at the latest *Global Dairy Trade* auction. The falling price is in line with the general pullback in global commodity prices, but global dairy supply is tight, providing a floor for prices.

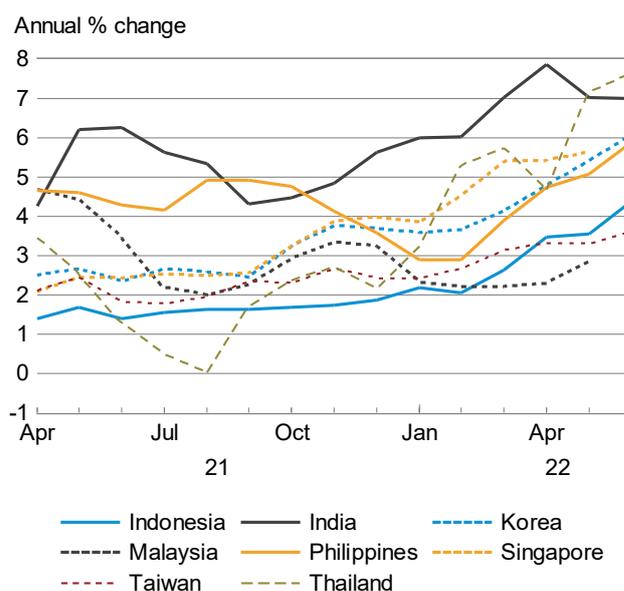
### Global inflation continues to rise...

Global inflation picked up pace in June, with US headline CPI up 9.1% from the same month a year ago and core inflation (CPI excluding food and energy) rose to 6.9%. Elsewhere, inflation hit 9.4% in the UK and 8.4% in Canada, but remained relatively subdued in China, at 2.5%, and Japan at 2.2% (Figure 1).

These reports followed labour market releases that showed labour markets remained tight, except in China where some slack remains. US employment rose 0.25% in June, a similar pace to recent months, while the unemployment rate was steady at 3.6%. Similarly, UK unemployment was steady at 3.8% in the three months to May while employment was 2.1% higher than a year ago. Meanwhile, Canadian unemployment fell to 4.9%, a fresh multi-decade low, prompting the Bank of Canada to raise its policy rate 100 bps to 2.5%.

Inflation has also picked up across Asia to be above 5% in several countries and above central bank targets in most economies, despite very large energy subsidies in some countries (Figure 3). Policy tightening picked up pace over the past fortnight with moves from central banks in South Korea, Singapore and the Philippines.

**Figure 3: Inflation in Asia**



Source: Haver

Other data has been mixed. In the US, June retail sales rose 1.0% following a fall the previous month, easing fears the economy is already in recession. In contrast, US manufacturing output fell for the second consecutive month in June, driving a weak industrial production outturn, and housing market indicators continued to soften. On a more positive note, Russian gas flows to Europe partially resumed following a shutdown for maintenance. In addition, Ukraine and Russia are expected to announce a deal to allow Ukraine's grain shipments to resume.

The European Central Bank (ECB) raised its policy rate by 50bps, taking the deposit rate back to 0%. The ECB also announced a new tool – the “Transmission Protection Instrument” – that enables it to intervene in the bond market to prevent “unwarranted” moves in member country bond markets. Bond yields in Italy have risen markedly in recent weeks amidst political turmoil that has resulted in the Prime Minister’s resignation, but it is hard to argue this rise is unwarranted, although the ECB provide few details on the conditions for its use.

Overall, there remains a considerable imbalance between the strength of demand growth and available capacity. Central banks have begun to withdraw stimulus, but further rate rises are required to slow demand and achieve a more sustainable balance.

### ...as recovery in China takes hold...

China’s GDP contracted 2.6% in the June quarter compared to the previous quarter (0.4% on the same quarter a year ago) as the pandemic impacted activity. Despite the weak quarter, June’s monthly data releases showed activity continued to recover from the earlier lockdown measures, with gains across industrial production, business investment, exports and retail sales; the latter up 9.9% from the previous month. However, the property sector remained weak and, while aggregate unemployment fell to 5.5%, youth unemployment was reported to have risen to over 19%. Commentators expect growth of around 3.5% in 2022, well below the OCED’s June forecast of 4.4%.

### ...and helps ease supply chain pressure

Disruptions to global supply chains are a prominent part of the inflation debate. The New York Federal Reserve has developed indicators of supply chain pressure based on business surveys and indicators of freight costs. Global supply chain pressures declined in June, continuing the decrease that started in January (Figure 4).

**Figure 4: Global Supply Chain Pressure Index**



Source: Federal Reserve of New York

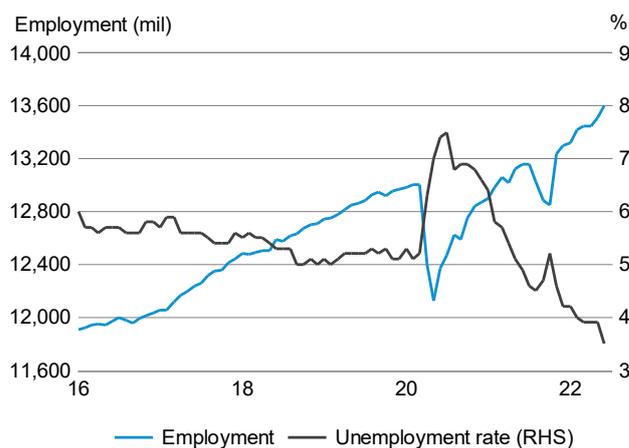
The decline in June mainly reflected a large decrease in Chinese supply delivery times as covid restrictions were eased. The easing of supply bottlenecks, in conjunction with

expectations of weaker demand are being reflected in the decline in commodity prices over recent weeks. If sustained, the fall in prices will take some pressure off global inflation.

### Australian labour market tightens further

Australia’s labour market data remained strong in June with the unemployment rate dropping to 3.5%, from an already low 3.9% (Figure 5). Employment rose 0.7% to be 3.3% higher than a year ago, driven by a 7% increase in full-time employment, and the participation rate rose to a fresh high of 66.8%.

**Figure 5: Australian labour market**



Source: Federal Reserve of New York

In a subsequent speech, the Reserve Bank of Australia (RBA) Governor observed that growth in demand was pushing up against labour market capacity and that higher interest rates would help reduce demand growth to a more sustainable pace. The Governor also noted that the neutral policy rate was around 2.5%, implying that rates need to rise from 1.35% currently. Market analysts expect the cash rate to rise 50bps when the Bank’s board meets on 2 August and for it to rise to over 3% by December.

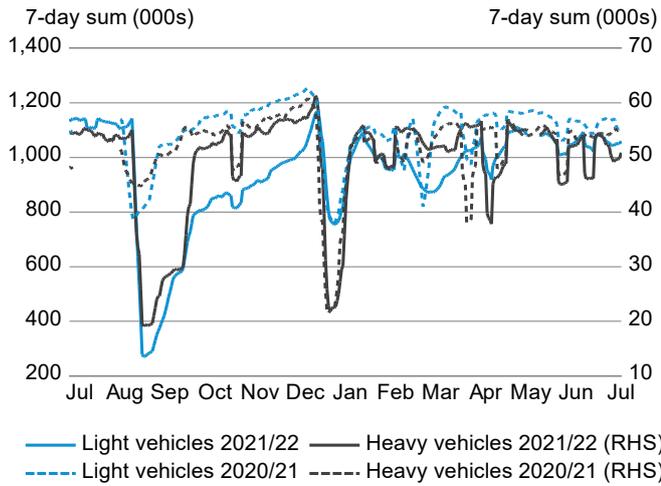
Meanwhile, the Australian Treasurer announced the terms of reference for a review of the RBA. Led by three experts from Australia and overseas, the review will consider the RBA’s objectives, mandate, the interaction between monetary, fiscal and macroprudential policy, its performance, governance, culture, and operations. The review is scheduled for completion in March 2023.

### Coming Up:

Date	Release
28 Jul	ANZ Business Outlook (Jul)
29 Jul	ANZ-RM Consumer Confidence (Jul)
1 Aug	Building consents (Jun)
3 Aug	Labour market statistics (Jun qtr)

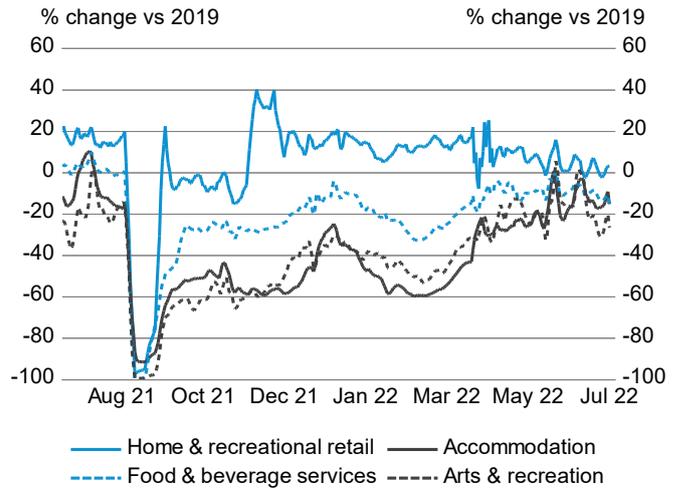
# High-Frequency Indicators

## Traffic and Freight Movement



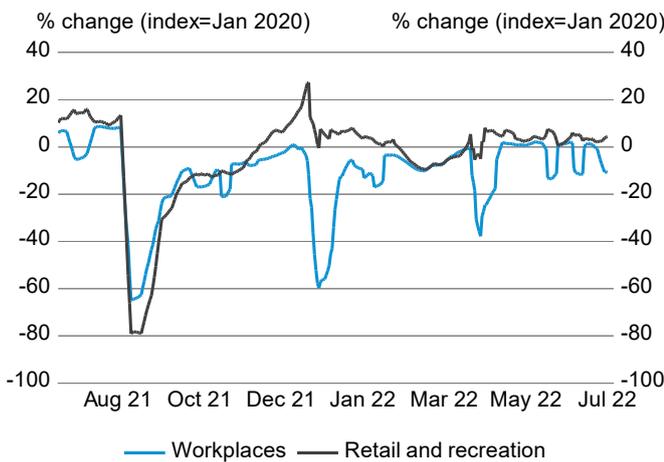
Source: Waka Kotahi NZ Transport Agency

## Card Spending



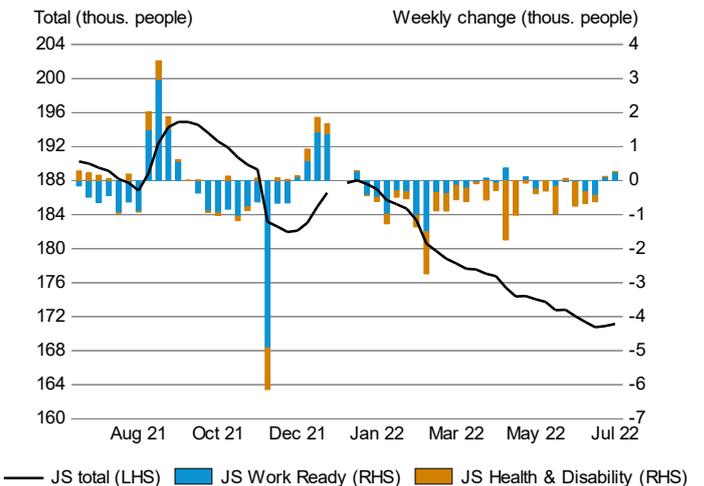
Source: Marketview data via MBIE

## People Movements at Selected Locations



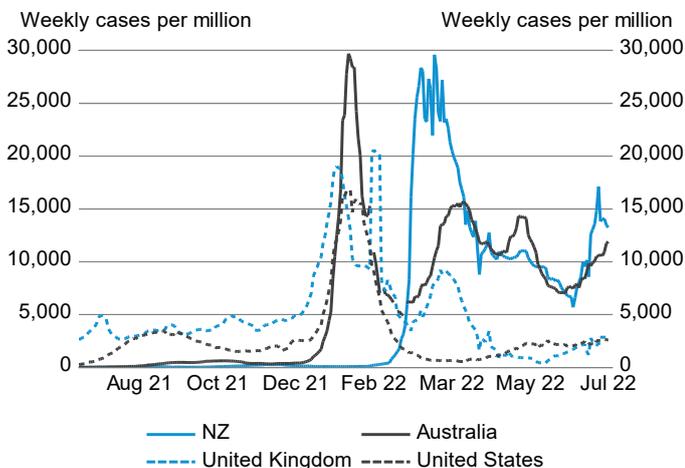
Source: Google/Haver

## Jobseeker (JS) and Income Support Receipts



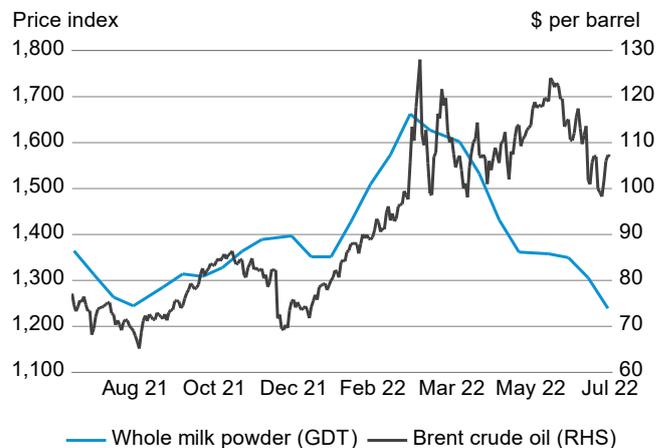
Source: MSD

## COVID-19 Cases Per Million People



Source: John Hopkins University/Haver

## World Commodity Prices



Source: Haver

## Tables

Quarterly Indicators		2021Q1	2021Q2	2021Q3	2021Q4	2022Q1	2022Q2
Real Production GDP (1)	qpc	1.7	2.4	-3.8	3.0	-0.2	...
	aapc	-1.4	5.2	4.9	5.6	5.1	...
Current account balance (annual)	%GDP	-2.5	-3.3	-4.6	-5.8	-6.5	...
Merchandise terms of trade	apc	-0.9	-0.1	5.2	2.8	3.3	...
CPI inflation	qpc	0.8	1.3	2.2	1.4	1.8	1.7
	apc	1.5	3.3	4.9	5.9	6.9	7.3
Employment (HLFS) (1)	qpc	0.7	0.9	1.8	0.0	0.1	...
Unemployment rate (1)	%	4.6	4.0	3.3	3.2	3.2	...
Participation rate (1)	%	70.4	70.5	71.2	71.1	70.9	...
LCI salary & wage rates - total (2)	apc	1.6	2.1	2.4	2.6	3.0	...
QES average hourly earnings - total (2)	apc	4.0	4.0	3.5	3.8	4.8	...
Core retail sales volume	apc	5.3	30.0	-3.2	5.1	3.2	...
Total retail sales volume	apc	6.6	33.1	-5.1	4.4	2.3	...
WMM - consumer confidence (3)	Index	105.2	107.1	102.7	99.1	92.1	78.7
QSBO - general business situation (1,4)	net%	-7.1	9.3	-11.4	-36.6	-34.0	-61.6
QSBO - own activity outlook (1,4)	net%	4.6	30.4	8.8	6.7	5.3	-10.5
Monthly Indicators		Jan 22	Feb 22	Mar 22	Apr 22	May 22	Jun 22
Merchandise trade balance (12 month)	NZ\$m	-7,765.4	-8685.1	-9319.7	-9260.9	-9562.8	-10509.1
Dwelling consents - residential	apc	-6.3	34.1	25.6	-6.9	7.8	...
House sales - dwellings	apc	-26.4	-30.9	-31.9	-32.9	-26.4	-38.1
REINZ - house price index	apc	19.6	14.2	9.0	6.2	3.7	0.8
Estimated net migration (12 month total)	people	-13,050.0	-13616.0	-11823.0	-10890.0	-10673.0	...
ANZ NZ commodity price index	apc	26.5	29.2	20.9	17.5	16.5	14.5
ANZ world commodity price index	apc	19.7	20.4	18.0	13.2	6.2	4.8
ANZBO - business confidence	net%	...	-51.8	-41.9	-42.0	-55.6	-62.6
ANZBO - activity outlook	net%	...	-2.2	3.3	8.0	-4.7	-9.1
ANZ-Roy Morgan - consumer confidence	net%	97.7	81.7	77.9	84.4	82.3	80.5
NZAC	apc	2.7	1.8	1.7	...	...	...
Daily Indicators		Fri 15/7/22	Mon 18/7/22	Tue 19/7/22	Wed 20/7/22	Thu 21/7/22	Fri 22/7/22
<b>NZ exchange and interest rates (5)</b>							
NZD/USD	\$	0.6134	0.6196	0.6149	0.6240	0.6223	...
NZD/AUD	\$	0.9081	0.9093	0.9021	0.9047	0.9030	...
Trade weighted index (TWI)	index	70.40	70.92	70.38	71.10	71.04	...
Official cash rate (OCR)	%	2.50	2.50	2.50	2.50	2.50	...
90 day bank bill rate	%	3.10	3.11	3.13	3.12	3.16	...
10 year govt bond rate	%	3.69	3.74	3.72	3.75	3.79	...
<b>Share markets (6)</b>							
Dow Jones	index	31,288	31073	31827	31875	32037	...
S&P 500	index	3,863	3831	3937	3960	3999	...
VIX volatility index	index	24.2	25.3	24.5	23.9	23.1	...
AU all ords	index	6,798	6888	6853	6975	7018	...
NZX 50	index	11,123	11164	11163	11199	11270	...
<b>US interest rates</b>							
3 month OIS	%	1.58	1.58	1.58	1.58	...	...
3 month Libor	%	2.74	2.71	2.73	2.76	...	...
10 year govt bond rate	%	2.93	2.96	3.01	3.04	2.91	...
<b>Commodity prices (6)</b>							
WTI oil	US\$/barrel	99.59	104.48	106.12	102.26	96.35	...
Gold	US\$/ounce	1,706.15	1719.05	1713.05	1709.30	1705.10	...
CRB Futures	index	574.43	578.54	576.18	577.47	576.74	...

(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		2021Q4	Jan 22	Feb 22	Mar 22	2022Q1	Apr 22	May 22	Jun 22	2022Q2	Jul 22
United States	GDP (1)	qpc	1.7				-0.4				...	
	Industrial production (1)	mpc		0.4	0.8	0.7		0.8	0.0	-0.2		...
	CPI	apc		7.5	7.9	8.5		8.3	8.6	9.1		...
	Unemployment rate (1)	%		4.0	3.8	3.6		3.6	3.6	3.6		...
	Employment change (1)	000s		504.0	714.0	398.0		368.0	384.0	372.0		...
	Retail sales value	apc		13.7	17.7	7.1		7.8	8.2	8.4		...
	House prices (2)	apc		19.0	20.3	21.1		21.2	...	...		...
	PMI manufacturing (1)	index		57.6	58.6	57.1		55.4	56.1	53.0		...
Consumer confidence (1)(3)	index		111.1	105.7	107.6		108.6	103.2	98.7		...	
Japan	GDP (1)	qpc	1.0				-0.1				...	
	Industrial production (1)	mpc		-2.4	2.0	0.3		-1.5	-7.5	...		...
	CPI	apc		0.5	0.9	1.2		2.5	2.5	2.3		...
	Unemployment rate (1)	%		2.8	2.7	2.6		2.5	2.6	...		...
	Retail sales value	apc		1.1	-0.9	0.7		3.1	3.7	...		...
	PMI manufacturing (1)	index		55.4	52.7	54.1		53.5	53.3	52.7		...
	Consumer confidence (1)(4)	index		36.6	35.1	32.5		32.0	33.1	32.3		...
Euro area	GDP (1)	qpc	0.4				0.5				...	
	Industrial production (1)	mpc		-0.8	0.6	-1.7		0.5	0.8	...		...
	CPI	apc		5.1	5.9	7.4		7.4	8.1	8.6		...
	Unemployment rate (1)	%		6.9	6.8	6.8		6.7	6.6	...		...
	Retail sales volume	apc		8.5	5.2	1.9		4.0	0.2	...		...
	PMI manufacturing (1)	index		58.7	58.2	56.5		55.5	54.6	52.1		...
	Consumer confidence (5)	index		-9.7	-9.5	-21.6		-22.1	-21.2	-23.6		-27.0
United Kingdom	GDP (1)	qpc	1.3				0.8				...	
	Industrial production (1)	mpc		0.9	-0.5	0.3		0.0	0.8	...		...
	CPI	apc		4.9	5.5	6.2		7.8	7.9	8.2		...
	Unemployment rate (1)	%		4.0	3.8	3.7		3.8	3.8	...		...
	Retail sales volume	apc		9.7	7.5	1.5		-5.7	-4.7	...		...
	House prices (6)	apc		11.2	12.6	14.3		12.1	11.2	10.7		...
	PMI manufacturing (1)	index		57.3	58.0	55.2		55.8	54.6	52.8		...
Consumer confidence (1)(5)	net %		-19.0	-26.0	-31.0		-38.0	-40.0	-41.0		...	
Australia	GDP (1)	qpc	3.6				0.8				...	
	CPI	apc	3.5				5.1				...	
	Unemployment rate (1)	%		4.2	4.0	3.9		3.9	3.9	3.5		...
	Retail sales value	apc		5.8	9.1	8.2		11.1	10.3	...		...
	House Prices (7)	apc	27.5				...				...	
	PMI manufacturing (1)	index		48.4	53.2	55.7		58.5	52.4	54.0		...
Consumer confidence (8)	index		102.2	100.8	96.6		95.8	90.4	86.4		83.8	
China	GDP	apc	4.0				4.8				0.4	
	Industrial production	apc		7.5	7.5	5.0		-2.9	0.7	3.9		...
	CPI	apc		0.9	0.9	1.5		2.1	2.1	2.5		...
	PMI manufacturing (1)	index		50.1	50.2	49.5		47.4	49.6	50.2		...
South Korea	GDP (1)	qpc	1.3				0.6				...	
	Industrial production (1)	mpc		0.4	0.3	1.2		-3.3	0.1	...		...
	CPI	apc		3.6	3.7	4.1		4.8	5.4	6.0		...

(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