

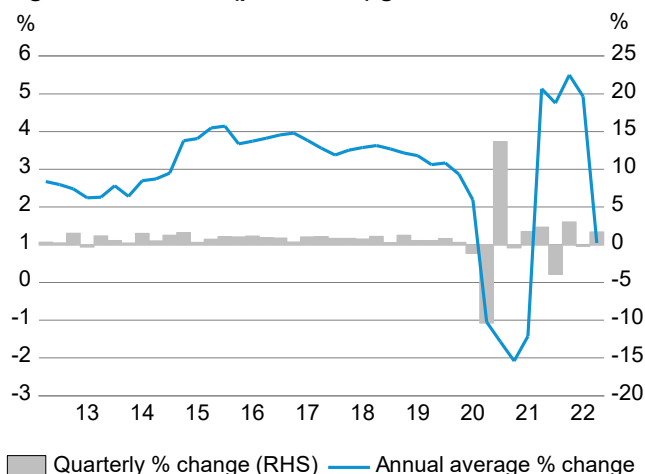
- Economic activity rebounded 1.7% in the June quarter as COVID restrictions eased and international travel resumed
- The current account deficit widened to 7.7% of GDP as imports remained solid and commodity prices rose
- Rising food and rental inflation and falling housing wealth continue to squeeze household spending
- Global central banks raise rates at pace even as activity weakens

The return of international tourists and the easing of Omicron restrictions contributed to a solid rebound in June quarter GDP. There were few signs that higher interest rates significantly affected growth in the quarter. More recent data points to some easing in activity but rises in card spending and housing sales in August point to some resilience in demand. Globally, activity indicators continue to deteriorate but headline inflation is easing as commodity prices retreat. However, core inflation is proving to be more persistent and central banks are continuing to raise rates rapidly.

### GDP rebounded 1.7% in the June quarter

The economy rebounded from the weak March quarter, increasing 1.7% in the June quarter (Figure 1). Compared to the same quarter a year ago, real GDP was up 0.4% – a solid result given that the June 2021 quarter predates the Omicron outbreak. Annual average growth slowed sharply to 1.0% and is no longer being influenced by the strong rebound from the first lockdown in 2020. Real GDP is now 4.8% above pre-COVID level (Figure 6).

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



Source: Stats NZ

A strong COVID-related rebound, including tourism and recreational spending, supported growth. Meanwhile, other areas of apparent weakness such as real estate, have not yet translated into significant falls in those industries. Industries that had been particularly impacted by Omicron restrictions in the March quarter, such as arts and recreation, rebounded strongly, while the easing of border restrictions boosted the transport industry as international flights resumed. Together with ongoing strength in domestic travel, this saw the retail trade and accommodation industry grow strongly. We expect further recovery in international tourism, which reached one third of pre-COVID levels in the quarter, to support growth over the remainder of 2022.

There were few signs of slowing demand in the economy. Private consumption fell 3.1% in the quarter, but we are not interpreting it as a sign of a significant drop off in demand, given it followed two consecutive quarters of 5% growth. That said, with household budgets under pressure from rising prices and higher interest rates, we do expect consumer spending growth to slow. In combination with less COVID-related supply disruption, this will contribute to a better alignment of supply and demand that will be crucial in reducing inflation.

Surging inflation boosted nominal GDP, which rose 3.4% in the quarter. However, growth in the year ended June slowed sharply to 5.1% from 8.2% in March, reflecting the same base effects as real GDP.

### The current account widened...

The annual current account deficit widened to 7.7% of GDP in the June quarter as all the major balances widened (Figure 2).

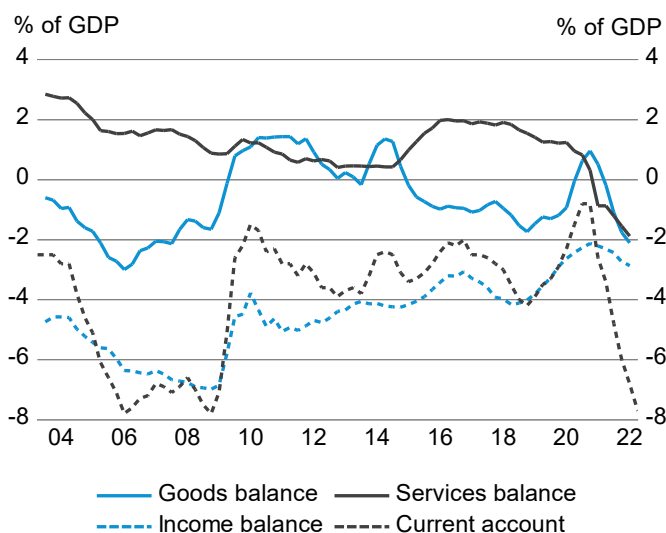
The annual goods deficit widened to 2.5% of GDP despite a partial recovery in goods export volumes from Omicron-related disruption in the March quarter and support from higher NZ commodity prices. Stronger export revenue

was offset by higher goods import prices, which have risen 21.5% in the past year, and solid import volumes. The return international tourists gave a boost to services exports, but higher prices drove services import values up by even more resulting in the services deficit widening to 2.2% of GDP. The annual income deficit widened to 3.0% of GDP reflecting the impact of rising global interest rates on external debt and weaker returns from external assets.

The wider deficit flowed through to a worse net foreign liability position, which increased to 49.9% of GDP from 45.6% in the March quarter. Weaker global economic conditions also contributed to significant negative net valuation changes.

We expect the deficit to widen to over 8% of GDP in the September quarter, exceeding the peaks of 7.8% in 2006 and 2008. Despite the widening deficit, credit rating agency Fitch upgraded New Zealand's foreign currency credit rating to AA+, reflecting the expected narrowing of the deficit as the Government consolidates its fiscal position and increased tourism inflows return the services balance to surplus.

**Figure 2: Annual current account balances**



Source: Stats NZ

**More pressure on household budgets...**

Food prices rose further in August, to be 8.3% higher than a year ago. Core grocery goods, which account for over a third of the index, continued to increase strongly, up 8.7%, reflecting the impact of higher global commodity prices and domestic cost pressures.

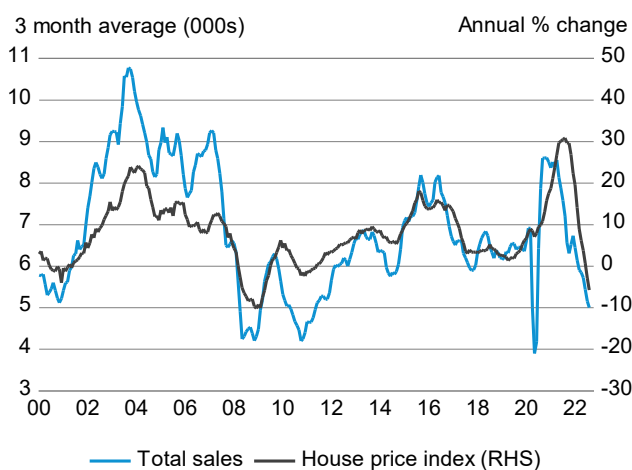
Meanwhile, the stock measure of rental prices increased 0.3% in August to be 4.0% higher than a year ago, the fastest rate of increase since 2008. The flow measure, which includes only rental prices for dwellings that had a new bond lodged in the reference month, fell for the second consecutive month, down 1.0%, although this will take some time to be reflected in the stock measure which is more closely aligned with the rent component in the CPI.

**...but spending holds up**

Total electronic card spending increased 0.7% in August, following two months of contraction, which may reflect the impact of the Government's first cost-of-living payment.

Activity in the housing market also picked up in August with seasonally adjusted sales up 7.7%, according to REINZ data. It is too early to read much into the outturn with other indicators, including prices and days to sell, continuing to point to lower demand. The REINZ House Price Index fell a further 1.4% on a seasonally adjusted basis in August, to be down 5.8% on the same month a year ago and 9.4% from its November 2021 peak.

**Figure 3: Housing market**

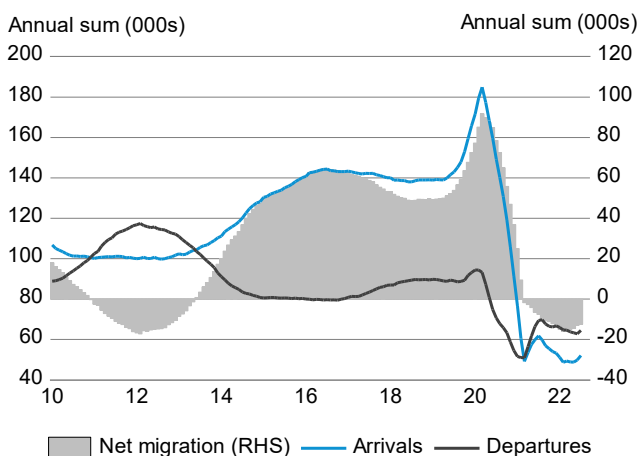


Source: REINZ

**Net migration outflows continued...**

The annual net migration loss increased to 12,400 in July, up from 7600 in July 2021 (Figure 4). With the complete border reopening from the end of July, migrant arrivals are expected to continue to increase across the rest of the year, although it is uncertain when they will exceed departures. In the interim, net migration outflows are contributing to ongoing tightness in the labour market.

**Figure 4: International migration**



Source: Stats NZ

### Global outlook weakens...

Financial market conditions tightened further as developed economy central banks continued to raise rates sharply even as the growth outlook deteriorated further. Headline global inflation is also easing as energy and other commodity prices fall, but core inflation is slowing by less and was surprisingly strong in the US.

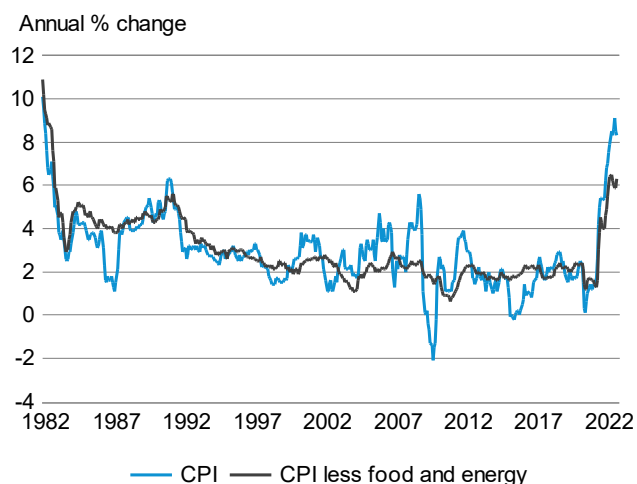
Central banks in Canada, Europe and the UK raised rates by 75 basis points (bps) at their latest reviews, while the Reserve Bank of Australia raised its policy rate 50bps. All central banks were clear that rates would need to rise further to quell inflation.

Meanwhile, leading indicators of global growth continued to deteriorate. August readings of global business sentiment fell to their lowest level since 2020, consistent with the OECD's Composite Leading Indicator. Oil prices fell below US\$90 for the first time since 8 February as Chinese data disappointed amidst ongoing COVID-19 restrictions. Adding to the gloom, euro area energy uncertainty intensified with Nord Stream 1 gas flows suspended indefinitely.

### ...as US inflation strength surprises...

Headline CPI eased further in August to 8.3% while core inflation picked to 6.3% – the highest in five months and much stronger than analysts had expected (Figure 5). Markets reacted by cementing in a further 75bps rate rise by the Fed at its 21 September meeting and raising expectations of rates rising above 4.25% by March next year.

Figure 5: US CPI inflation



Source: Haver

There were significant reactions to the CPI data across bond, equity and currency markets. Bond yields rose across most maturities with flow-on effects across global markets. Global equities fell, led by a 4.3% fall in the S&P500. In currency markets, the USD rose against most currencies, especially the NZD, which fell 2.4% to just below US\$0.6 for the first time in two years. The exchange rate is a key driver of inflation in NZ and further falls could complicate the Reserve Bank's task of reducing inflation.

The US labour market showed some signs of moderation as August payroll growth eased and labour supply increased. The participation rate rose to 62.4%, a post-COVID high, but below its pre-COVID level of 63.4%. This was associated with a rise in the unemployment rate to 3.7% from 3.5% in July. Annual hourly wage growth was steady at 5.2%.

### ...euro area energy uncertainty intensifies...

Increases in European gas prices are causing a large negative income shock and governments are moving to stabilise prices. Meanwhile, gas flows from Russia through the Nord Stream 1 pipeline have been suspended indefinitely, adding to uncertainty. The European Commission has proposed measures to raise around €140bn from non-gas energy companies through a mix of taxes and levies that would be recycled back to end users. Member states are to discuss the proposal on 30 September. Some members, including France and Germany have already announced plans to stabilise prices. In the UK, new PM Truss announced a cap on household energy costs from October for two years. Businesses will get some relief for six months. The fiscal cost of the package is estimated to be around 6% of GDP (GBP150bn).

The ECB raised its key policy rates by 75 basis points to 0.75% and said it expects to raise rates further in coming months. The ECB inflation projections were increased, and now average 2.3% in 2024, above its 2% target. The Bank of Canada increased interest rates by 75ps to 3.25%.

The UK economy stagnated in the three months to July, with output flat over the period, down from growth of 0.3% in the three months to April. Meanwhile, the unemployment rate fell to 3.6% in the three months to June, the lowest since 1974 and inflation rose to 9.9% in August. The Bank of England is expected to raise rates 75bps at its meeting on 22 September.

### ...and demand in China remains subdued

Further signs of sluggish demand in China were evident as inflation measures dipped in August. CPI inflation slowed to 2.5% compared to the same month a year, driven by lower retail fuel prices and declining services prices amid COVID-19 restrictions. Excluding food and energy, annual inflation was steady at 0.8%. Producer price inflation fell to 2.3%, reflecting lower oil prices (Brent crude was 7% lower in August than in July) and lower building materials prices as property sector weakness continued. The latter also contributing to continued sluggish credit growth. On the activity side, Chinese import and export growth figures were both below analyst expectations, consistent with slower global demand growth and a weak domestic economy.

### Few signs of slower demand in Australia

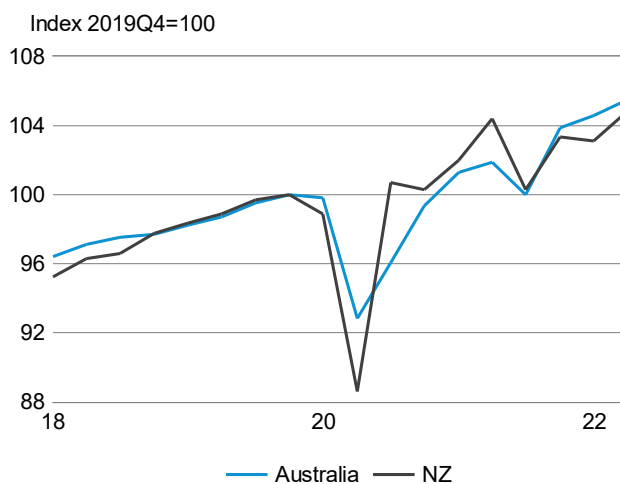
Real GDP grew 0.9% in the June quarter compared to the March quarter, and 3.6% from the same quarter a year ago, to be 5.5% above its pre-COVID level (Figure 6). Household consumption and exports led the rise, the latter boosted by re-opening of the border to travel. Growth is expected to slow from here as higher rates and cost of living pressures see households cut back spending but there are few signs of slowdown yet:

- The labour market remained tight in August as employment rebounded from a surprise fall in July. The unemployment rate ticked up to 3.5%, alongside a rise in participation.
- August’s monthly NAB business survey saw recent strength continue with both business confidence and conditions edging higher to +10 and +20 respectively, consistent with the resilience of the economy. The survey’s price indicators eased but remained high and consistent with strong inflation.

The RBA raised its policy rate by 50 basis points to 2.35%, stating “price stability is a prerequisite for a strong economy” and that it expects to increase rates further. Financial markets are pricing a cash rate of 3.35% in December 2022.

In other developments, the government will end fuel excise reductions on 29 September, pushing petrol prices up by 25 cents per litre and adding 0.25% to CPI inflation, and the permanent migration cap will be raised to 195,000 from 160,000 this financial year to fill gaps in industries including healthcare, construction and technology.

Figure 6: Real GDP in Australia and NZ



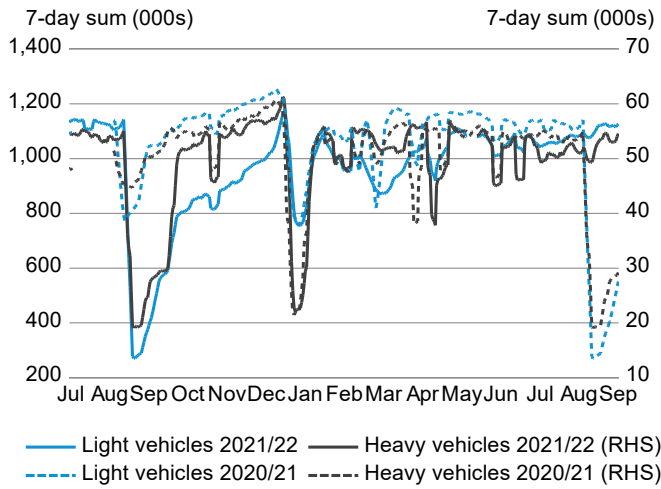
Source: Haver

### Coming Up:

Date	Release
22 Sep	International trade (Aug)
29 Sep	ANZ Business Outlook (Sep)
30 Sep	Building consents (Aug) ANZ-RM Consumer Confidence (Sep)

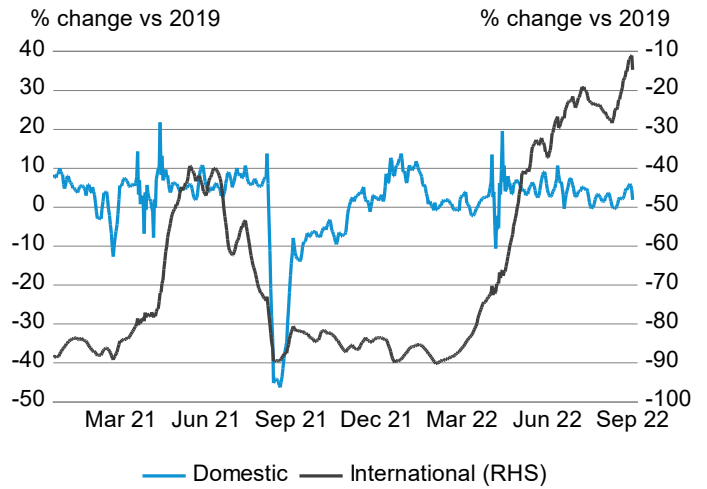
# High-Frequency Indicators

## Traffic and Freight Movement



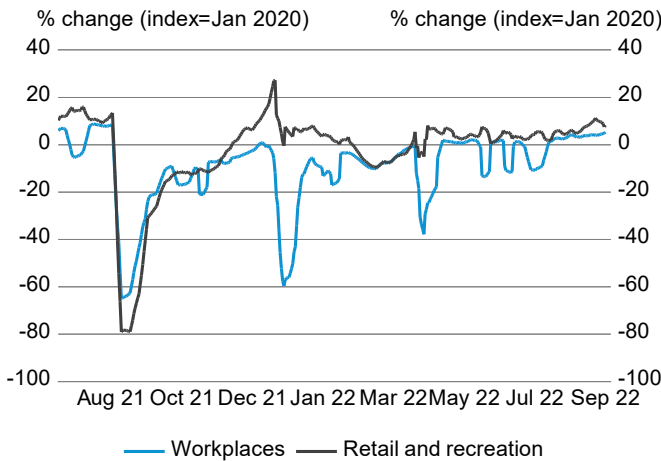
Source: Waka Kotahi NZ Transport Agency

## Card Spending



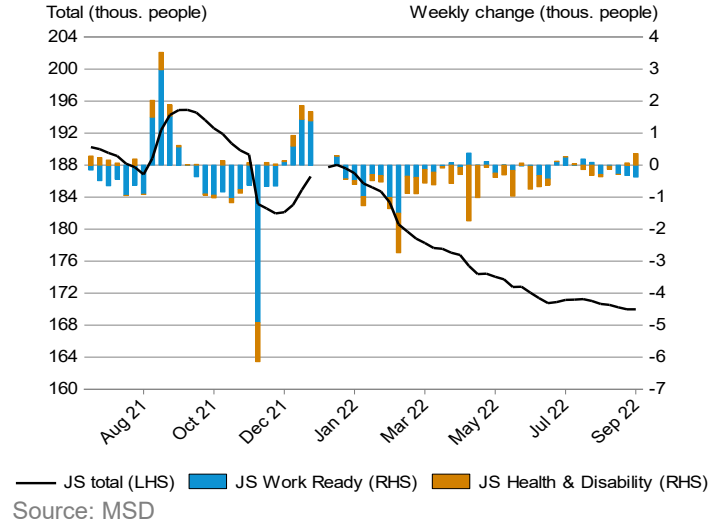
Source: Marketview data via MBIE

## People Movements at Selected Locations



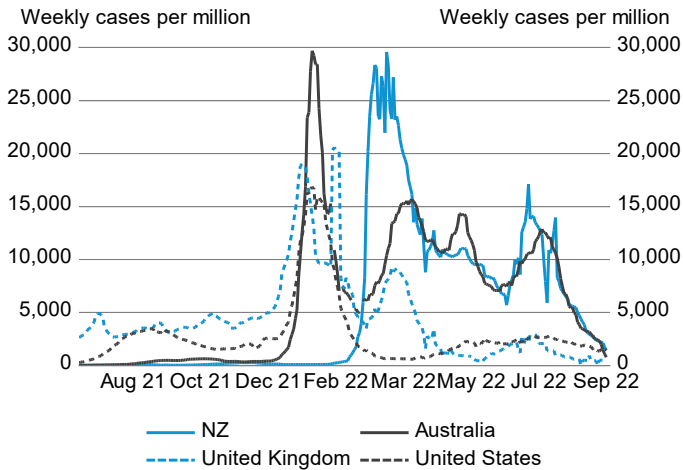
Source: Google/Haver

## Jobseeker (JS) and Income Support Receipts



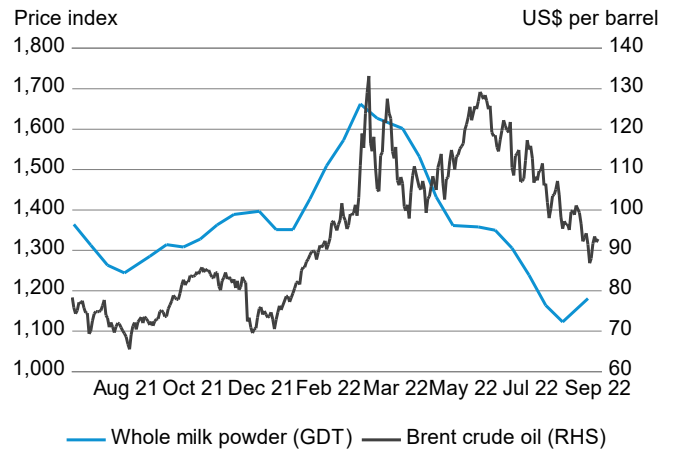
Source: MSD

## COVID-19 Cases Per Million People



Source: John Hopkins University/Haver

## World Commodity Prices



Source: Haver

## Tables

<b>Quarterly Indicators</b>		<b>2021Q1</b>	2021Q2	2021Q3	2021Q4	2022Q1	2022Q2
Real Production GDP (1)	qpc	1.7	2.3	-3.9	3.0	-0.2	1.7
	aapc	-1.4	5.1	4.8	5.5	4.9	1.0
Current account balance (annual)	%GDP	-2.6	-3.4	-4.8	-6.0	-6.8	-7.7
Merchandise terms of trade	apc	-0.9	-0.1	5.2	2.8	3.3	-2.4
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	0.6	1.1	1.7	-0.1	-0.0	0.0
Unemployment rate (1)	%	4.6	3.9	3.3	3.2	3.2	3.3
Participation rate (1)	%	70.4	70.5	71.2	71.0	70.9	70.8
LCI salary & wage rates - total (2)	apc	1.6	2.1	2.4	2.6	3.0	3.4
QES average hourly earnings - total (2)	apc	4.0	4.0	3.5	3.8	4.8	6.4
Core retail sales volume	apc	5.3	30.0	-3.2	5.1	3.2	-1.8
Total retail sales volume	apc	6.6	33.1	-5.1	4.4	2.3	-3.7
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

<b>Monthly Indicators</b>		<b>Mar 22</b>	Apr 22	May 22	Jun 22	Jul 22	Aug 22
Merchandise trade balance (12 month)	NZ\$m	-9,319.7	-9247.6	-9588.4	-10935.4	-11640.5	...
Dwelling consents - residential	apc	25.6	-6.9	7.8	-6.5	-2.9	...
House sales - dwellings	apc	-31.9	-32.9	-25.5	-35.6	-35.1	-18.3
REINZ - house price index	apc	9.0	6.2	3.8	0.8	-2.8	-5.7
Estimated net migration (12 month total)	people	-15,292.0	-14920.0	-14541.0	-12960.0	-12382.0	...
ANZ NZ commodity price index	apc	20.9	17.5	16.5	14.5	14.2	10.9
ANZ world commodity price index	apc	18.0	13.2	6.2	4.8	4.3	2.5
ANZBO - business confidence	net%	-41.9	-42.0	-55.6	-62.6	-56.7	-47.8
ANZBO - activity outlook	net%	3.3	8.0	-4.7	-9.1	-8.7	-4.0
ANZ-Roy Morgan - consumer confidence	net%	77.9	84.4	82.3	80.5	81.9	85.4
NZAC	apc	1.7	...	...	...	...	...

<b>Daily Indicators</b>		<b>Fri</b>	<b>Mon</b>	<b>Tue</b>	<b>Wed</b>	<b>Thu</b>	<b>Fri</b>
		<b>9/9/22</b>	12/9/22	13/9/22	14/9/22	15/9/22	16/9/22
<b>NZ exchange and interest rates (5)</b>							
NZD/USD	\$	0.6084	0.6117	0.6141	0.6003	0.6018	...
NZD/AUD	\$	0.8958	0.8934	0.8920	0.8904	0.8894	...
Trade weighted index (TWI)	index	70.66	70.77	70.91	70.00	70.08	...
Official cash rate (OCR)	%	3.00	3.00	3.00	3.00	3.00	...
90 day bank bill rate	%	3.54	3.58	3.58	3.61	3.62	...
10 year govt bond rate	%	4.01	3.93	3.97	4.00	4.05	...
<b>Share markets (6)</b>							
Dow Jones	index	32,152	32381	31105	31135	30962	...
S&P 500	index	4,067	4110	3933	3946	3901	...
VIX volatility index	index	22.8	23.9	27.3	26.2	26.3	...
AU all ords	index	7,139	7208	7254	7072	7082	...
NZX 50	index	11,758	11813	11762	11658	11659	...
<b>US interest rates</b>							
3 month OIS	%	2.33	2.33	2.33	2.33	...	...
3 month Libor	%	3.25	3.27	3.29	3.48	...	...
10 year govt bond rate	%	3.33	3.37	3.42	3.41	3.45	...
<b>Commodity prices (6)</b>							
WTI oil	US\$/barrel	87.27	88.18	87.84	88.48	85.10	...
Gold	US\$/ounce	1,713.40	1726.40	1704.85	1703.90	1689.10	...
CRB Futures	index	572.18	573.14	573.44	571.75	569.10	...

(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		Feb 22	Mar 22	2022Q1	Apr 22	May 22	Jun 22	2022Q2	Jul 22	Aug 22	Sep 22
<b>United States</b>	GDP (1)	qpc			-0.4				-0.1			
	Industrial production (1)	mpc	0.7	0.7		0.7	-0.1	0.0		0.5	-0.2	...
	CPI	apc	7.9	8.5		8.3	8.6	9.1		8.5	8.3	...
	Unemployment rate (1)	%	3.8	3.6		3.6	3.6	3.6		3.5	3.7	...
	Employment change (1)	000s	714.0	398.0		368.0	386.0	293.0		526.0	315.0	...
	Retail sales value	apc	17.7	7.1		7.8	8.7	8.8		10.1	9.1	...
	House prices (2)	apc	20.3	21.2		21.3	20.5	18.6		...	...	...
	PMI manufacturing (1)	index	58.6	57.1		55.4	56.1	53.0		52.8	52.8	...
Consumer confidence (1)(3)	index	105.7	107.6		108.6	103.2	98.4		95.3	103.2	...	
<b>Japan</b>	GDP (1)	qpc			0.1				0.9			
	Industrial production (1)	mpc	2.0	0.3		-1.5	-7.5	9.2		0.8	...	...
	CPI	apc	0.9	1.2		2.5	2.5	2.3		2.6	...	...
	Unemployment rate (1)	%	2.7	2.6		2.5	2.6	2.6		2.6	...	...
	Retail sales value	apc	-0.9	0.7		3.1	3.7	1.5		2.4	...	...
	PMI manufacturing (1)	index	52.7	54.1		53.5	53.3	52.7		52.1	51.5	...
	Consumer confidence (1)(4)	index	35.1	32.5		32.0	33.1	32.3		30.1	32.0	...
<b>Euro area</b>	GDP (1)	qpc			0.7				0.8			
	Industrial production (1)	mpc	0.6	-1.7		0.1	1.1	1.1		-2.3	...	...
	CPI	apc	5.9	7.4		7.4	8.1	8.6		8.9	...	...
	Unemployment rate (1)	%	6.8	6.8		6.7	6.7	6.7		6.6	...	...
	Retail sales volume	apc	5.1	1.9		4.2	0.6	-3.2		-0.9	...	...
	PMI manufacturing (1)	index	58.2	56.5		55.5	54.6	52.1		49.8	49.6	...
	Consumer confidence (5)	index	-9.6	-21.7		-22.1	-21.2	-23.7		-27.0	-24.9	...
<b>United Kingdom</b>	GDP (1)	qpc			0.8				-0.1			
	Industrial production (1)	mpc	-0.5	0.3		-0.1	1.3	-0.9		-0.3	...	...
	CPI	apc	5.5	6.2		7.8	7.9	8.2		8.8	8.6	...
	Unemployment rate (1)	%	3.8	3.7		3.8	3.8	3.8		3.6	...	...
	Retail sales volume	apc	7.5	2.0		-5.7	-4.9	-6.1		-3.3	...	...
	House prices (6)	apc	12.6	14.3		12.1	11.2	10.7		11.0	10.0	...
	PMI manufacturing (1)	index	58.0	55.2		55.8	54.6	52.8		52.1	47.3	...
	Consumer confidence (1)(5)	net %	-26.0	-31.0		-38.0	-40.0	-41.0		-41.0	-44.0	...
<b>Australia</b>	GDP (1)	qpc			0.7				0.9			
	CPI	apc			5.1				6.1			
	Unemployment rate (1)	%	4.0	3.9		3.9	3.9	3.5		3.4	3.5	...
	Retail sales value	apc	9.1	8.2		11.1	10.2	12.2		15.8	...	...
	House Prices (7)	apc			...					...	...	...
	PMI manufacturing (1)	index	53.2	55.7		58.5	52.4	54.0		52.5	49.3	...
	Consumer confidence (8)	index	100.8	96.6		95.8	90.4	86.4		83.8	81.2	84.4
<b>China</b>	GDP	apc			4.8				0.4			
	Industrial production	apc	7.5	5.0		-2.9	0.7	3.9		3.8	...	...
	CPI	apc	0.9	1.5		2.1	2.1	2.5		2.7	2.5	...
	PMI manufacturing (1)	index	50.2	49.5		47.4	49.6	50.2		49.0	49.4	...
<b>South Korea</b>	GDP (1)	qpc			0.6				0.7			
	Industrial production (1)	mpc	0.3	1.2		-3.2	0.3	1.7		-1.3	...	...
	CPI	apc	3.7	4.1		4.8	5.4	6.0		6.3	5.7	...

(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