

- Indicators of activity and labour demand remain firm
- Business and consumer sentiment rise but remain weak
- Global markets volatile as central banks raise rates at pace, UK announces large fiscal expansion, and risks of an escalation in the conflict in Ukraine increase

Indicators of activity and labour demand showed steady gains in August. The outlook also improved with confidence among households and businesses rising further from their recent lows, although sentiment generally remains weak. The incoming data also highlighted ongoing strength in inflation pressures and strong wage growth.

Global financial markets have been volatile in the wake of further large increases in central banks' policy rates, the large fiscal expansion in the UK, and rising risks of an escalation in Russia's war on Ukraine. The NZD came under pressure from the rise in global financial market volatility, which will add to domestic inflation pressure.

### Activity gained momentum in August...

Activity gained momentum in August according to the BNZ-BusinessNZ combined services and manufacturing index (PCI). The index rose 3.9 points from July to 58.2, well above its long-run average of 53.5. Both services and manufacturing reported gains, the former up 4.2 points while the latter gained 1.4 points. BNZ analysts commented that still-strong growth may lead to a higher OCR than projected by the Reserve Bank. The NZ Activity Index, which includes the PCI, increased 7% from the same month a year ago.

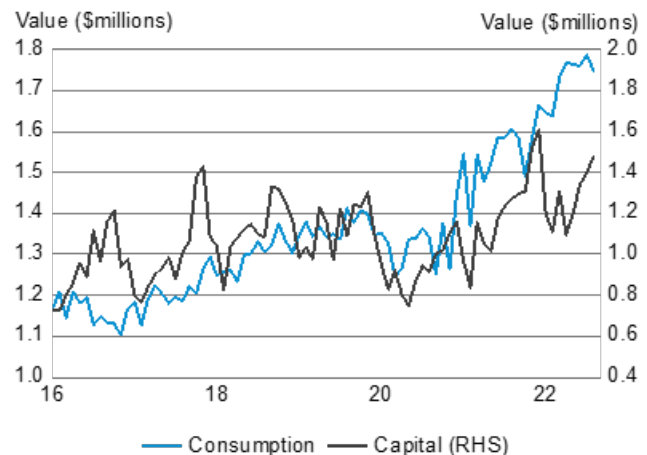
Residential building consents fell 1.6% in August compared to the previous month, which recorded a rise of 4.9%. Looking through the monthly volatility, consents remain strong with the number of consents in August in line with the average of the past 12 months.

In the labour market, StatsNZ's monthly employment indicators show filled jobs continued to grow steadily. Filled jobs rose 0.4% in August compared to July, to be 1.3% higher over the past three months compared to the prior three months. Gross earnings were up by more than 10% from the same month a year ago.

The external sector provided further indications that demand is holding up. Dairy cooperative Fonterra announced a record payout to suppliers of \$9.30 per kg of milksolids for the 2021/22 season and forecast next season's payout to be in the range of \$8.50-\$10.00 (mid-point \$9.25).

Meanwhile, the annual trade deficit continued to widen, reaching \$12.3bn in the year ending August as imports continue to outpace exports. Exports rose strongly in the month, reflecting volatility in dairy exports. Imports of consumption and capital goods remained high, suggesting domestic demand is stable (Figure 1).

Figure 1: Imports of goods



Source: Stats NZ

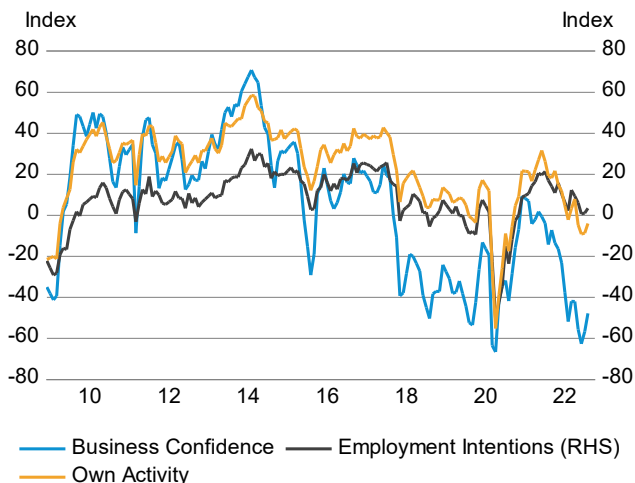
### ...and the outlook improved...

The ANZ Business Outlook showed a further lift in confidence, up 11 points to -37, and expectations of own activity, up 2 points to -2, but both remain at recessionary levels (Figure 2). Cost and price expectations eased slightly but continue to signal inflationary pressures remain intense. Employment intentions strengthened, and firms reported wage settlements were little changed at 6.5%.

The Westpac-McDermott Miller Employment Confidence Index reinforced the view of continued labour market strength, rising to 115.2 in the three months ending September, its highest level since June 2019. However, households' view of earnings was at odds with other indicators. The share of households reporting higher earnings rose, but remained well below pre-pandemic levels, and expected earnings growth held at close to its lowest levels in the history of the survey.

Consumer confidence has also picked up. The Westpac-McDermott Miller consumer confidence survey for the September quarter rose 8.9 points to 87.6. While that is up from the record lows seen earlier in the year, confidence remains weak. Confidence also remained very weak in the September's ANZ consumer confidence survey.

**Figure 2: ANZ Business Outlook**



Source: ANZ

### Global markets volatile as rapid rates rises continue...

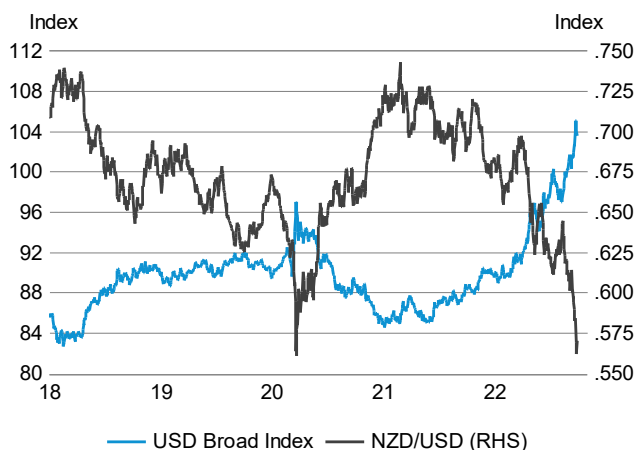
Global financial markets have been extremely volatile over the past week or so, while risks from Russia's war in Ukraine have intensified. Updated projections from the OECD showed further downward revisions to growth in 2023.

Central banks have continued to raise rates rapidly. The US Federal Reserve delivered a widely expected 75 basis points (bps) policy rate hike, taking rates to 3.0%-3.25%. However, markets were surprised by increases in the "dots" representing policymaker's views of future rates, which suggest rates will rise by more than previously expected. The dots also showed higher and more persistent core inflation. Markets now expect rates to rise by 125bps by mid-2023.

The Fed's announcement sparked a move higher in interest rates, while equities fell and the USD rose against most currencies, including the NZD (Figure 3). The strength of the USD has exposed some tensions in the global economy: central banks in other economies want to prevent their currencies falling and stoking inflation but are concerned that additional tightening will drive their economies into recession.

In Japan, the government intervened in the currency market to prevent further weakness following the Bank of Japan's (BoJ) decision to keep rates unchanged. The BoJ decision followed a rise in headline inflation to 3.0% in August and annualised growth of over 3% in the core rate, which excludes fresh food and energy, for the past six months. There is growing speculation that the BoJ will need to raise rates soon. The People's Bank of China also took steps to stabilise its currency, which has fallen around 13% against the USD since the start of the year.

**Figure 3: Exchange rates**



Source: Haver

Other central banks to have raised rates include the Bank of England (+50bps) Switzerland (+75bps), Norway (+50bps), Sweden (+100bps), Indonesia (+50bps), and the Philippines (+50bps).

### ...and UK "mini-budget" raises concerns

Further volatility, centred on Europe, erupted in the wake of the UK government's announcement of a large fiscal expansion. UK Chancellor Kwasi Kwarteng announced a 'mini-budget' which included costings of the energy price freeze, around 8% of GDP, and tax cuts totalling around 2.0% of GDP. Planned tax cuts include a cut in the basic rate of income tax from 20 percent to 19 percent, the abolition of the 45 percent higher rate of income tax, the reversal of the increase in National Insurance from April 2022, and the abolition of the proposed Health and Social Care Levy.

While the cost of the package and most of the tax cuts were widely expected, cuts to income tax, stamp duty and tax relief on business investment, together around 0.5% of GDP, were a surprise. In the absence of offsetting revenue/spending measures, the fiscal package raised concerns regarding UK's fiscal strategy and the inflationary implications. Analysts expect deficits of about 9% of GDP in the fiscal years ending March 2023 and 2024 and around 6% in 2025, with debt levels above 105% of GDP by March 2025.

Financial markets reacted by selling GBP and UK bonds: the GBP fell to its lowest level against the USD since 1986 and yields on the 10-year gilt spiked to 11-year highs. The Bank of England intervened to restore order in the gilt market, leading to a partial reversal in yields. The inflationary implications of the package saw the market pricing as much as 175bps of rate rises by November, including the possibility of an emergency hike, and a terminal rate of around 6%.

### OECD downgrades growth outlook...

The OECD released its Interim Economic Outlook: "Paying the Price of War". OECD forecasts show a weaker outlook than in the June projections, which were already much weaker than those made in late 2021. Growth projections for 2022 were unchanged from their June Outlook at 3.0% but with notable declines in some markets including the US

and China. Global growth is projected to ease further to 2.2% in 2023 compared with 2.8% expected in June, including just 0.5% in the US and -0.7% in Germany. Inflation in G20 countries is expected to ease from 8.2% in 2022 but remain high at 6.6% in 2023, with both years up from what was expected in the June Outlook.

The OECD notes that significant uncertainty surrounds the projections and that downside risks dominate. The projections assume an easing of energy market pressures in Europe and no further escalation of the war in Ukraine. An illustrative scenario shows the impact of higher gas prices, in which global inflation is over ½ percentage point higher and global growth is almost ½ percentage point lower in 2023 (with much larger impacts for Europe). Food prices and the Chinese property market are also noted as key risks to the outlook.

### ...as Russia raises stakes in Ukraine war

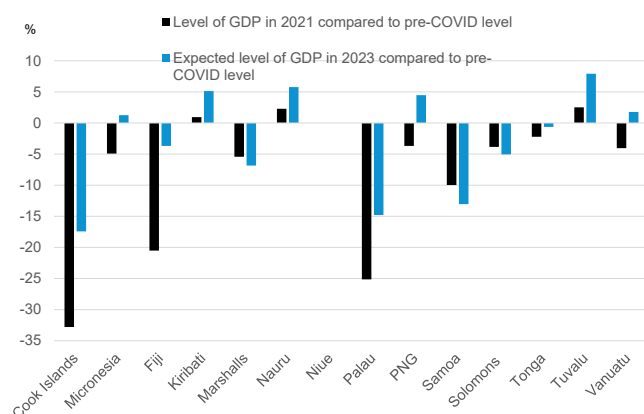
However, risks of an escalation of the war in Ukraine have intensified. Russian President Putin has announced the partial mobilisation of armed forces reserves to secure occupied territories, and their annexation is expected to be announced shortly. Following their annexation, attacks on the territories would amount to war on Russia, which would escalate the conflict. The US and other nations intend to impose additional sanctions in coming days.

### Asia outlook also downgraded

The Asian Development Bank (ADB) cuts its forecasts for Asia to 4.3% in 2022 and 4.9% in 2023 reflecting the impacts of lockdowns in China, the war in Ukraine and rising global inflation.

The ADB's forecasts for the Pacific were revised up to 4.7% in 2022, largely reflecting the strength of the recovery in Fiji's tourism industry. COVID-19 continues to pose a significant downside risk for many of the smaller economies. Figure 4 shows activity is deeply depressed in several states, with little improvement expected in some (Figure 4).

**Figure 4: GDP in the Pacific compared to pre-COVID levels**



Source: ADB

In China, August activity data picked up but housing market activity remained weak. Overall, policy support appears to be providing an offset to COVID restrictions, slower export sales and housing market weakness. However, there are near term risks from more widespread covid restrictions in early September, although analysts do not expect disruption to be as severe as in March/April this year, which drove a contraction in June quarter GDP.

### Australian fiscal deficit narrows sharply

The Treasury reported the government's budget deficit in 2021/22 was AU\$32bn (1.4% of GDP), well below the AU\$80bn (3.5% of GDP) forecast in April and last year's deficit of 6.5% of GDP. Net debt was 22.5% of GDP, much lower than April's forecast of 27.6%, and down from 28.6% in 2020/21. The new government is preparing a fiscal package for release on 25 October.

The Reserve Bank of Australia's review of its Bond Purchase Programme concluded that it helped lower borrowing costs and the exchange rate, which supported activity and employment. However, the RBA will incur a large operating loss and negative equity (-AU\$12.4bn) this financial year due to valuation losses on bond holdings, but this will not impede its operations.

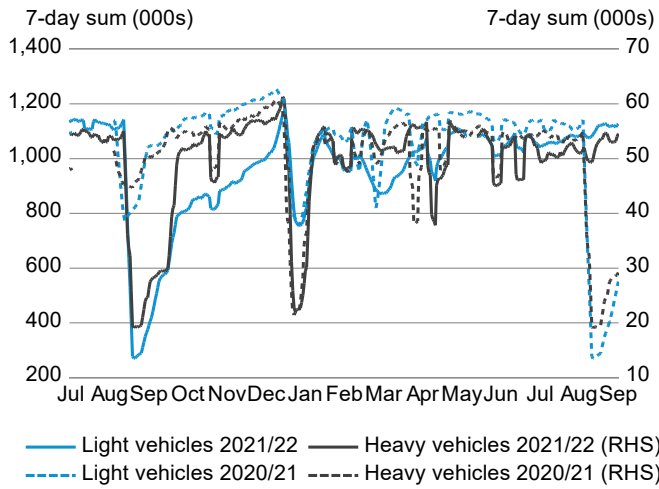
Retail sales remained buoyant in August, rising 0.6%, the eighth consecutive rise, despite rapidly rising interest rates. The first release of the official monthly CPI indicator showed an annual rise of 6.8% in August. Based on the new indicator, analysts expect headline CPI inflation of around 7.0% in the three months ending September.

### Coming Up:

Date	Release
4 Oct	NZIER QSBO (Sept qtr)
5 Oct	RBNZ OCR decision
11 Oct	Electronic Card Transactions (Sep)
12 Oct	Net migration, visitor arrivals (Aug)
13 Oct	Food and Rental price indexes (Sep)

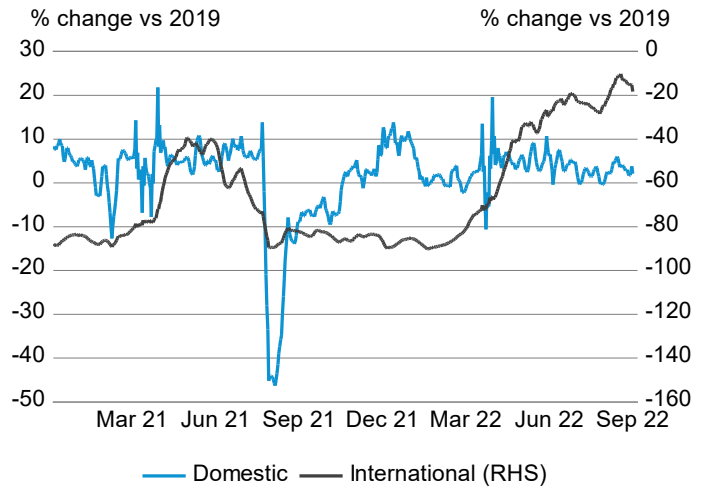
# High-Frequency Indicators

## Traffic and Freight Movement



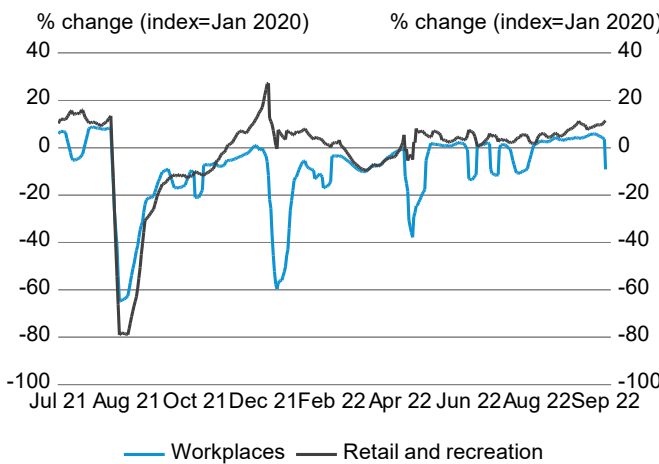
Source: Waka Kotahi NZ Transport Agency

## Card Spending



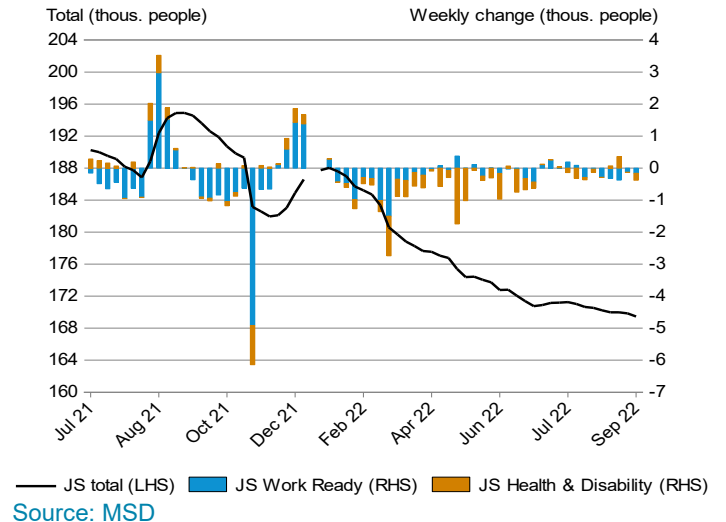
Source: Marketview data via MBIE

## People Movements at Selected Locations



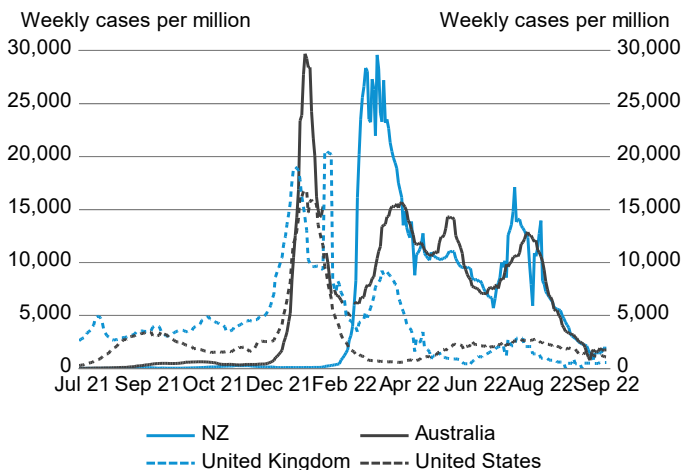
Source: Google/Haver

## Jobseeker (JS) and Income Support Receipts



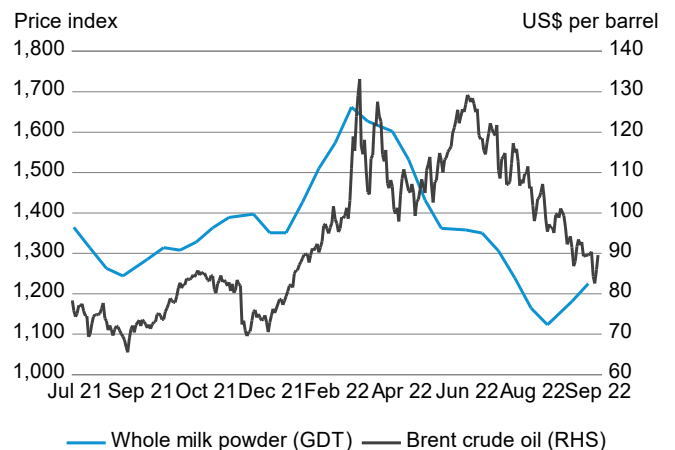
Source: MSD

## 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>Apr 22</b>	May 22	Jun 22	Jul 22	Aug 22	Sep 22
Merchandise trade balance (12 month)	NZ\$m	-9,247.6	-9596.5	-10946.6	-11965.3	-12279.7	...
Dwelling consents - residential	apc	-6.9	7.8	-6.5	-2.9	0.9	...
House sales - dwellings	apc	-32.9	-25.5	-35.6	-35.1	-18.3	...
REINZ - house price index	apc	6.2	3.8	0.8	-2.8	-5.7	...
Estimated net migration (12 month total)	people	-14,920.0	-14541.0	-12960.0	-12382.0	...	...
ANZ NZ commodity price index	apc	17.5	16.5	14.5	14.2	10.9	...
ANZ world commodity price index	apc	13.2	6.2	4.8	4.3	2.5	...
ANZBO - business confidence	net%	-42.0	-55.6	-62.6	-56.7	-47.8	-36.7
ANZBO - activity outlook	net%	8.0	-4.7	-9.1	-8.7	-4.0	-1.8
ANZ-Roy Morgan - consumer confidence	net%	84.4	82.3	80.5	81.9	85.4	85.4
NZAC	apc	...	...	...	...	...	...

<b>Daily Indicators</b>		<b>Fri</b>	<b>Mon</b>	<b>Tue</b>	<b>Wed</b>	<b>Thu</b>	<b>Fri</b>
		<b>23/9/22</b>	26/9/22	27/9/22	28/9/22	29/9/22	30/9/22
<b>NZ exchange and interest rates (5)</b>							
NZD/USD	\$	0.5846	...	0.5688	0.5623	0.5703	...
NZD/AUD	\$	0.8804	...	0.8760	0.8738	0.8789	...
Trade weighted index (TWI)	index	68.96	...	67.95	67.41	68.39	...
Official cash rate (OCR)	%	3.00	3.00	3.00	3.00	3.00	...
90 day bank bill rate	%	3.76	...	3.81	3.83	3.82	...
10 year govt bond rate	%	4.10	...	4.29	4.31	4.18	...
<b>Share markets (6)</b>							
Dow Jones	index	29,590	29261	29135	29684	29226	...
S&P 500	index	3,693	3655	3647	3719	3640	...
VIX volatility index	index	29.9	32.3	32.6	30.2	31.8	...
AU all ords	index	6,789	6667	6697	6660	6761	...
NZX 50	index	11,435	...	11214	11120	11200	...
<b>US interest rates</b>							
3 month OIS	%	3.08	3.08	3.08	3.08	...	...
3 month Libor	%	3.63	3.64	3.64	3.67	...	...
10 year govt bond rate	%	3.69	3.88	3.97	3.72	3.76	...
<b>Commodity prices (6)</b>							
WTI oil	US\$/barrel	79.07	77.17	78.91	82.15	...	...
Gold	US\$/ounce	1,643.55	1643.35	1634.30	1652.15	...	...
CRB Futures	index	560.33	556.80	558.14	558.23	...	...

(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	18.7		16.1	...	...
	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	103.6	108.0	
<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	3.0	...
	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	9.1	...
	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	-9.5	-21.6		-22.1	-21.2	-23.7		-27.1	-25.0	-28.8
<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	2.1		-6.1	-5.1	-6.4		-3.2	-5.3	...
	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	-49.0
<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	19.4	...
	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	4.2	...
	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