

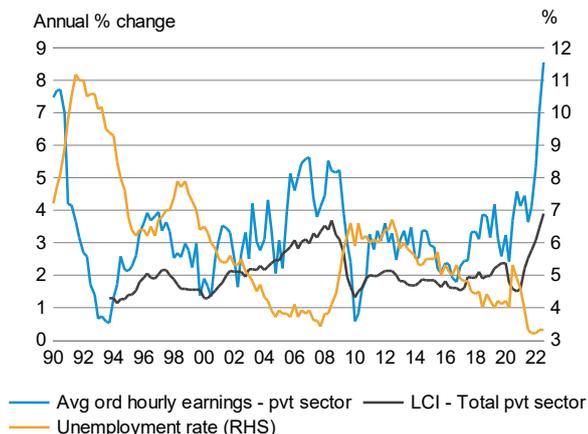
- **Unemployment rate steady at 3.3%**
- **Tight labour market conditions are supporting household incomes and spending**
- **Inflation expectations increase and food prices continue to rise rapidly**
- **Pace of global monetary policy tightening expected to slow**

Incoming data show that the labour market remains tight, and that wage growth has picked up further, which in turn, is sustaining growth in household spending. Adding to inflation pressures, inflation expectations, which play a key role in firms' price setting decisions, have increased. These developments reinforce expectations that the Reserve Bank will need to move its policy rate higher, for longer, than previously expected, to cool demand. Globally, central banks are facing similar challenges as tight labour markets keep pressure on wages and inflation. As the risks of a more restrictive, and prolonged, policy stance increase, so too do the prospects of a global recession.

### Tight labour market conditions...

The unemployment rate was steady at 3.3% in the September quarter as a 1.3% rise in employment was met with a 0.8%-point lift in the participation rate to a record high 71.7%. Tight labour market conditions are following through to higher wage costs with Labour Cost Index inflation rising to 3.7%, led by a 3.9% rise in the private sector index, surpassing its previous high in 2008. Average ordinary time hourly earnings, which better reflects employee compensation, rose to a record high 7.4%, driven by an 8.6% increase in the private sector measure, also a record high (Figure 1).

**Figure 1: Unemployment and wage growth**

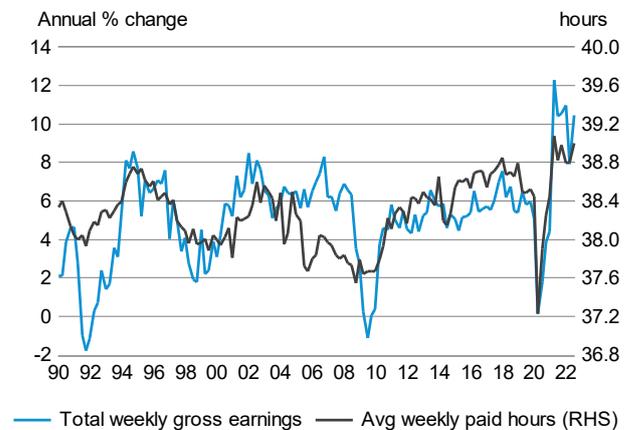


Source: Stats NZ

### ...are supporting households' incomes...

Labour market tightness is also being reflected in higher average weekly hours worked, which are high relative to historical norms (Figure 2). Elevated hours worked, in combination with rapid wages growth and robust gains in employment has resulted in double digit gains in the aggregate wages bill for five of the past six quarters. Overall, tight labour market conditions are supporting households' incomes and purchasing power.

**Figure 2: Total earnings and hours paid**



Source: Stats NZ

### ...and spending

This was evident in October's retail card data with showed spending increases 1% in the month. Spending on discretionary items, including durable goods and hospitality, drove the increase. Government cost of living payments and recovering tourism likely supported spending but the overall impression is that household spending behaviour has yet to be materially affected by high inflation and tighter monetary conditions.

However, demand is slowing in the manufacturing sector, according to October's BNZ- BusinessNZ Performance of Manufacturing Index, which gave a contractionary reading for the first time this year.

The surge in labour earnings is flowing through to the fiscal accounts. Income tax in the three months ended September was \$481m (4.4%) higher than forecast in the Budget and 11% higher than for the same period a year ago. However, this was largely offset by below-forecast goods and services tax, hinting at slower consumer spending. Overall, the fiscal deficit was largely as expected at \$2.6b for the year to date.

### ***Inflation expectations increase...***

Inflation expectations rose at all horizons in the RBNZ's latest Survey of Expectations (Table 1). The closely watched two-years-ahead measure showed a material rise, with the current reading of 3.6% the highest since 1991, while the longer-term measures ticked higher.

**Table 1: Inflation expectations**

	Current	Previous
One-year ahead	5.1	4.9
Two-years ahead	3.6	3.1
Five-years ahead	2.4	2.3
Ten-years ahead	2.2	2.1

Source: RBNZ

### ***...as food prices rise at fastest pace in 14 years***

Annual food price inflation picked up further in October, reaching a 14-year high of 10.1%, as fruit and vegetable prices surged 17.1%. Rental price inflation also remained firm, up 4% from the same month a year ago.

### ***Commodity prices fall***

NZ's commodity export prices fell 3.4% in October on lower meat and dairy prices, according to the ANZ World Commodity Price Index. Dairy prices slid further at the early November GDT auction, down 3.9%, to be 33% below March's peak. Analysts now expect this year's dairy payout to be at the lower end of Fonterra's guidance of \$8.50 to \$10.00/kgMS.

### ***RBNZ Governor reappointed, review published***

RBNZ Governor Orr was reappointed to a further five-year term, effective from 27 March 2023. Following his reappointment, the Bank released its first five-yearly review of monetary policy as required by recently introduced legislation. Covering the 2017-22 period, the review found the Bank was slow to recognise the drivers of low inflation prior to the pandemic, and that it had underestimated the effectiveness of fiscal policy during the pandemic. In addition, an earlier tightening of policy in 2021 may have reduced the rate of current inflation. Nonetheless, inflation and unemployment were low relative to most OECD economies. The review has no implications for the current stance of monetary policy, although the Bank is separately reviewing its remit, which includes the 1-3% target range. The Bank expects to release options for changes to the remit shortly.

### ***Global tightening cycle matures...***

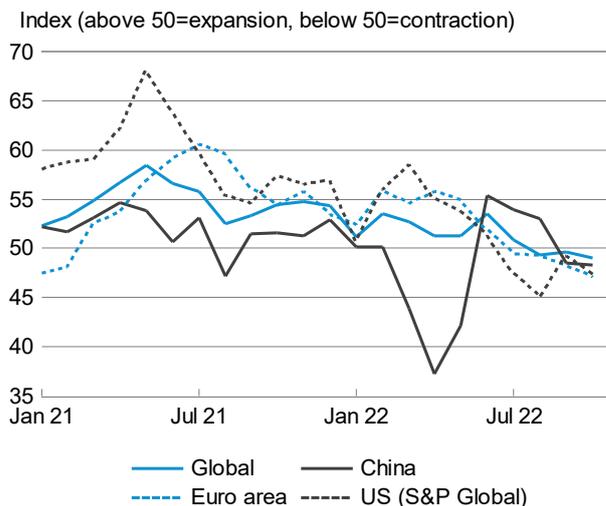
Over the past seven months global policy rates have increased around 250bps (ex-China). Many developed economy central banks are moving into the mature phase of the tightening cycle as they consider the cumulative impact of hikes delivered. Some banks have slowed the pace of rate increases (Reserve Bank of Australia (RBA) and Bank of Canada), while others, including the European Central Bank (ECB), the Fed and the Bank of England (BoE), have indicated their intention to do so. However, central bank guidance continues to emphasise the need for rates to rise further.

### ***...as recession risks rise***

Against this backdrop, incoming data continues to show resilience, but leading indicators underscore the risks of global recession. Labour market reports from the US, euro area (EA) and Canada showed continued strength in employment and household incomes, while the recessionary signal from global Purchasing and Managers Surveys (PMIs) intensified in October, especially in manufacturing.

The global composite PMI fell to 49.0 in October, the third consecutive sub-50 reading, which indicates activity contracted (Figure 3). Both services and manufacturing data show contraction and point to slower global growth, with the weakest data in Europe. In the US, the PMIs show a slowdown in manufacturing but give conflicting signals on services. The ISM survey points to solid services growth but the S&P Global survey shows activity is declining.

**Figure 3: Composite PMIs**



Source: Haver

China's PMIs weakened mainly owing to a fall in services sentiment, which suggests stringent containment measures amid the COVID-19 flare-ups nationwide may have been a drag on the rebound of domestic activity in the near term. The emerging market Asia PMI modestly edged down in October, driven by a weaker demand outlook, especially in North Asia versus relatively resilient South Asia.

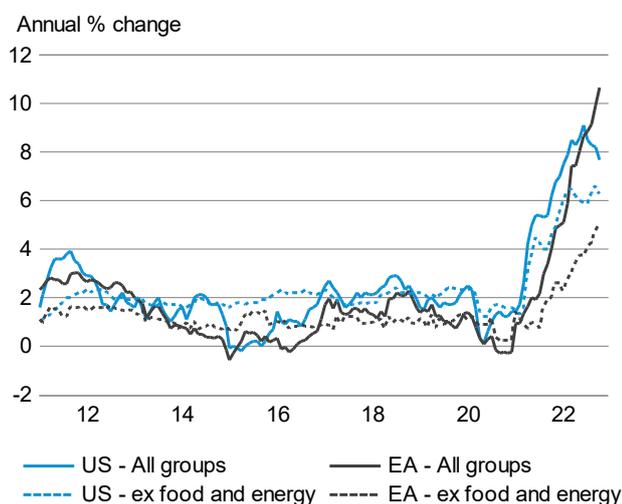
In addition to easing demand, the global PMIs also showed significant improvements in supply chain bottlenecks as delivery times improve and backlogs of orders are cleared. Overall, promising signs that demand and supply are becoming better aligned.

### US Fed expects smaller hikes but higher peak...

As widely expected, the Fed raised its policy target range by 75bps to 3.75-4.0%. It hinted that the pace of rate hikes would slow by noting that decisions would reflect the cumulative increase in rates and the lagged impact on activity. Chair Powell said that the Fed intended to increase rates further and that recent data, including job openings, not only pointed to a higher peak than the 4.5-4.75% previously expected, but to a longer time at the peak. Accordingly, Powell considered that it was less likely the Fed would be able to reduce inflation and avoid a recession.

Expectations of smaller sized rate hikes were reinforced by a larger drop in October CPI inflation than analysts had expected. The headline increased 0.4% in the month taking the annual rate to 7.7% from 8.2% in September (Figure 4). The core index, which excludes food and energy, rose 0.3% compared to September, below the consensus expectation of 0.5%, resulting in the annual rate easing to 6.3% from 6.6%. The shelter components of the core index remained firm, but core prices ex-shelter rose just 0.1%, driven by a fall in core goods prices. Overall, this report suggests that inflation pressures have moved beyond their peak, but pressures are expected to remain firm for some time yet.

**Figure 4: US and euro area CPI inflation**



Source: Haver

### ...as labour market strength continues

Prior to the Fed's decision, September's Job Openings and Labour Turnover Survey showed job openings rebounded from August's fall, which was revised to be smaller than originally estimated. This data suggests that monetary policy has gained less traction on labour demand than previously thought.

October's nonfarm payrolls report provided further evidence of continued strong labour demand. The headline payrolls increase of 261k was well above market expectations (193k), although the pace of gains has eased from earlier in the year.

The household survey reported mixed results: the unemployment rate rose two-tenths to 3.7%, reflecting a drop in employment and, for the second month in a row, a decline in participation. The rise in unemployment, alongside recent high-profile announcements of hiring freezes and workforce cuts from companies including Twitter, Amazon and Meta, may be an early sign the labour market is beginning to rebalance. However, the survey is volatile and the reversal in job openings, together with still-strong gains in payrolls, suggests conditions remain very tight and demand is ebbing only gradually.

### Euro area inflation reaches new highs

Euro area (EA) inflation reached 10.7% in October, well above consensus expectations (10.3%), and core inflation rose to 5.0% (Figure 4). At the country level, prices in Italy surged 4% in the month owing to energy prices, taking the annual rate to 12.8%. In Germany, the harmonised (HICP) measure was 11.6%, while the national measure hit 10.4%, the highest since 1951.

EA GDP rose 0.2% in the September quarter compared to the previous quarter, pushing out expectations of a recession to the current quarter. German, French and Italian GDP rose 0.3%, 0.2% and 0.5% respectively.

The BoE raised its cash rate by 75bps to 3.0% as expected. Based on market pricing that the cash rate would reach 5.25%, the BoE forecast GDP to fall 3%, and inflation to drop to 0% in three years' time from a peak of 10.9%. Governor Bailey commented that he did not think rates would go that high. September quarter GDP data, to be released on 11 November, is expected to show the economy contracted, which would likely make it the first major developed economy to enter recession.

### Asian exports fall as global demand weakens

In addition to China's weak PMIs, easing consumer and producer price inflation also point to soft demand conditions from ongoing COVID disruption and a slowing global economy. Annual headline CPI inflation slowed to 2.1% as fuel prices fell and food prices rose a modest 0.1% in the month. Annual producer prices fell 1.3% in October, the first annual fall in two years, led by lower energy and metals prices, the latter likely reflecting the sustained contraction in housing.

Reinforcing the view of slowing global demand, annual growth in China's exports fell for the first time since May 2020. The slowdown in demand was notable for exports to both the US and Europe. October exports also fell sharply in South Korea, while Taiwan's exports

recovered somewhat after falling around 15% over the previous two months.

Speculation that China is planning to start living with COVID-19 have persisted despite denials from government officials. Nevertheless, there have been positive developments including a meeting of the newly elected Politburo Standing Committee (PSC), China's top leadership body, to discuss pandemic control. Although the PSC confirmed that the zero-covid strategy remains in place, local governments were encouraged to take a more targeted approach to minimise the economic costs. This meeting took place as new daily cases rose to over 5,000 for the first time since May, led by a resurgence in Guangdong province. On balance, it seems likely that growth in China will remain subdued in the near-term and that a material reopening boost is still some months away.

### Higher inflation in Australia...

The RBA raised the cash rate 25bps to 2.85% and indicated more rises were coming. The RBA also downgraded its growth forecasts by around 0.25%-points in both 2023 and 2024. Inflation is now forecast to be around 8% in the December quarter, from 7.8% previously, and a little above 3% at the end of 2024, from around 3% previously (Table 2). The higher inflation projection partly reflects higher household energy costs, which are expected to rise by 10-15% in the December 2022 quarter and a further 20-30% over 2023.

**Table 2: Australia forecast summary**

	Year ended December		
	2022	2023	2024
GDP*	4.0	2.0	1.5
Unemployment rate	3.5	3.8	4.3
CPI inflation**	8.0	4.8	3.3

\* Ann.avg % change, \*\*Ann % change

Source: RBA

### ...is weighing on confidence

Cost of living pressures were likely a significant factor behind subdued retail sales volumes growth of 0.2% in the September quarter. However, this followed two strong quarters of growth and also reflects ongoing rebalancing of spending towards services, including travel and eating out, and away from goods. Nominal retail sales remained firm, up 2.2% in the quarter, but spending may slow sharply over coming months according to the latest Westpac/Melbourne Institute survey of consumer sentiment. Sentiment fell a further 6.9% to 78.0 - its lowest level since 1991 outside the April 2020 COVID-19 lockdown.

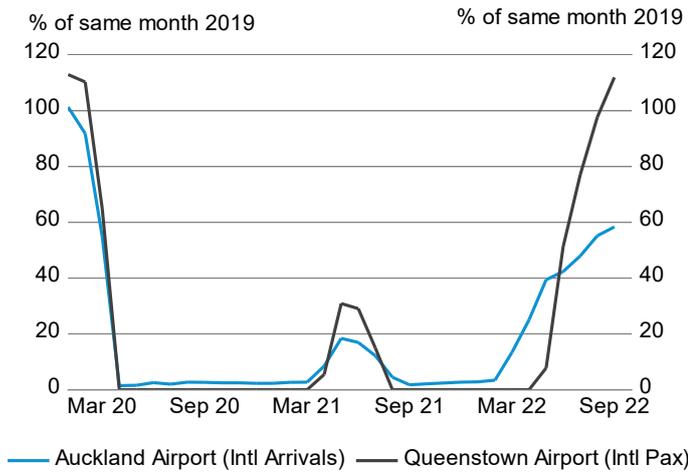
Headline business confidence also weakened, from +5 to a below average 0, in October's NAB survey. In contrast, business conditions, which are more closely correlated with broader measures of economic activity, remained at levels consistent with strong growth, albeit down slightly from September's cycle high. Price indicators remained consistent with high inflation, but labour cost growth indicators eased further and are now materially below their July peak, suggesting that wage pressures are more moderate than in New Zealand and some other developed economies.

### Coming Up:

Date	Release
14 Nov	Services PMI (Oct)
15 Nov	Net migration and visitor arrivals (Sep), REINZ house prices (Oct)
22 Nov	International trade (Oct)
23 Nov	RBNZ Monetary Policy Statement
25 Nov	Retail trade volumes (Sep qtr)

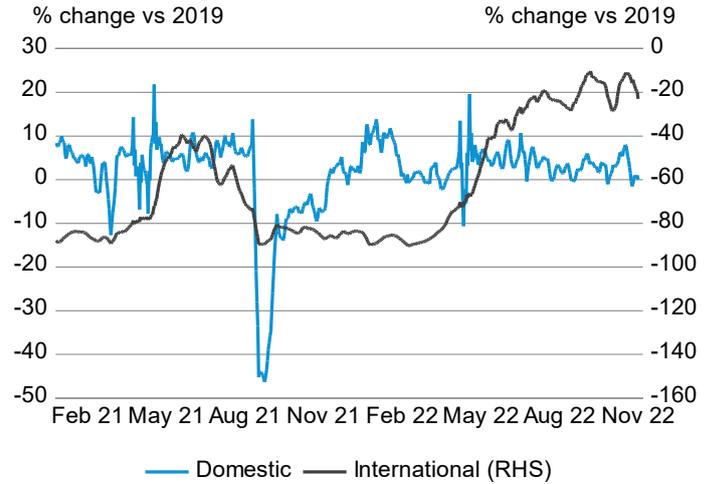
# High-Frequency Indicators

## Monthly International Arrivals



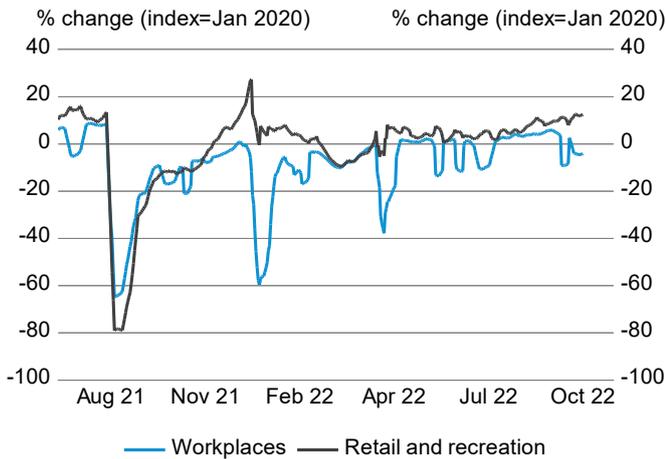
Source: Haver

## Card Spending



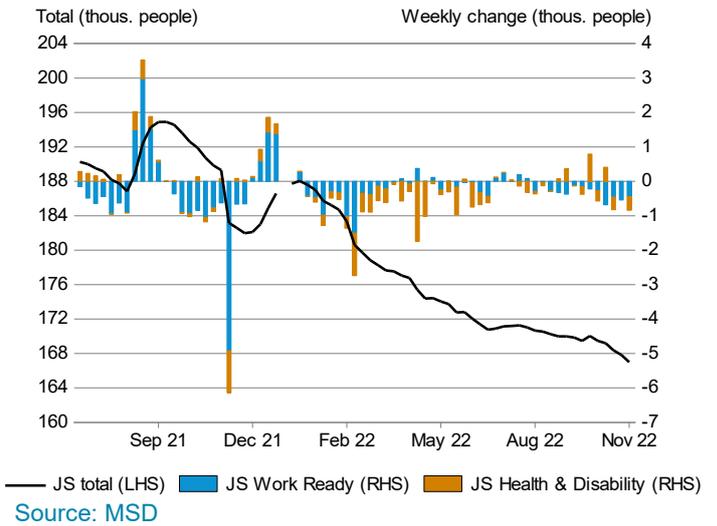
Source: Marketview data via MBIE

## People Movements at Selected Locations



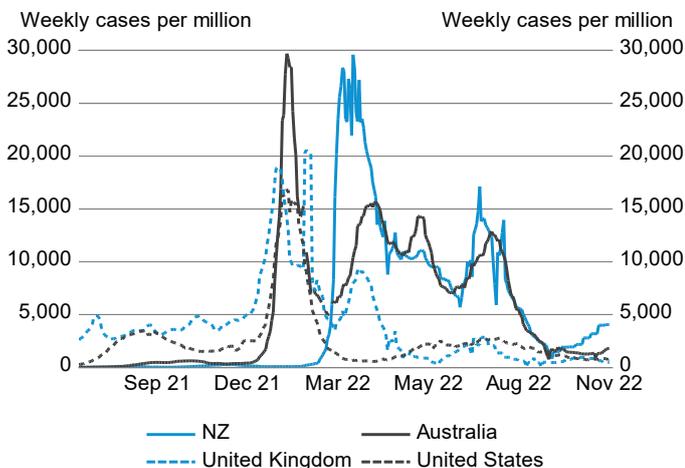
Source: Google/Haver

## Jobseeker (JS) and Income Support Receipts



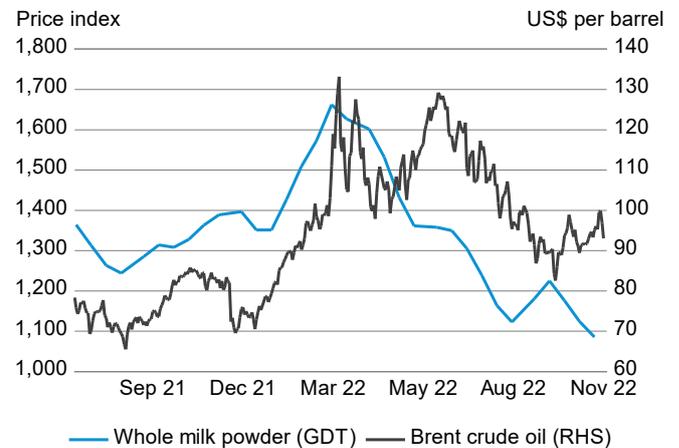
Source: MSD

## COVID-19 Cases Per Million People



Source: John Hopkins University/Haver

## World Commodity Prices



Source: Haver

## Tables

<b>Quarterly Indicators</b>		<b>2021Q2</b>	2021Q3	2021Q4	2022Q1	2022Q2	2022Q3
Real Production GDP (1)	qpc	2.3	-3.9	3.0	-0.2	1.7	...
	aapc	5.1	4.8	5.5	4.9	1.0	...
Current account balance (annual)	%GDP	-3.4	-4.8	-6.0	-6.8	-7.7	...
Merchandise terms of trade	apc	-0.1	5.2	2.8	3.3	-2.4	...
CPI inflation	qpc	1.3	2.2	1.4	1.8	1.7	2.2
	apc	3.3	4.9	5.9	6.9	7.3	7.2
Employment (HLFS) (1)	qpc	1.1	1.5	-0.0	0.0	-0.0	1.3
Unemployment rate (1)	%	3.9	3.3	3.2	3.2	3.3	3.3
Participation rate (1)	%	70.6	71.1	71.0	70.9	70.9	71.7
LCI salary & wage rates - total (2)	apc	2.1	2.4	2.6	3.0	3.4	3.7
QES average hourly earnings - total (2)	apc	4.0	3.5	3.8	4.8	6.4	7.4
Core retail sales volume	apc	30.0	-3.2	5.1	3.2	-1.8	...
Total retail sales volume	apc	33.1	-5.1	4.4	2.3	-3.7	...
WMM - consumer confidence (3)	Index	107.1	102.7	99.1	92.1	78.7	...
QSBO - general business situation (1,4)	net%	9.0	-11.4	-36.5	-33.8	-61.9	-42.4
QSBO - own activity outlook (1,4)	net%	29.1	10.0	6.9	5.2	-12.0	-14.0

<b>Monthly Indicators</b>		<b>May 22</b>	Jun 22	Jul 22	Aug 22	Sep 22	Oct 22
Merchandise trade balance (12 month)	NZ\$m	-9,596.5	-10974.4	-12003.9	-12496.3	-11945.4	...
Dwelling consents - residential	apc	7.8	-6.5	-2.9	0.9	1.7	...
House sales - dwellings	apc	-25.5	-35.6	-34.7	-16.1	-10.9	...
REINZ - house price index	apc	3.8	0.7	-2.8	-5.7	-8.0	...
Estimated net migration (12 month total)	people	-15,723.0	-13669.0	-12249.0	-10973.0	...	...
ANZ NZ commodity price index	apc	16.5	14.5	14.2	10.8	14.0	12.3
ANZ world commodity price index	apc	6.2	4.8	4.3	2.4	0.2	-5.2
ANZBO - business confidence	net%	-55.6	-62.6	-56.7	-47.8	-36.7	-42.7
ANZBO - activity outlook	net%	-4.7	-9.1	-8.7	-4.0	-1.8	-2.5
ANZ-Roy Morgan - consumer confidence	net%	82.3	80.5	81.9	85.4	85.4	85.4
NZAC	apc	1.2	0.8	0.8	6.8	5.2	...

<b>Daily Indicators</b>		<b>Fri</b>	<b>Mon</b>	<b>Tue</b>	<b>Wed</b>	<b>Thu</b>	<b>Fri</b>
		<b>4/11/22</b>	7/11/22	8/11/22	9/11/22	10/11/22	11/11/22
<b>NZ exchange and interest rates (5)</b>							
NZD/USD	\$	0.5772	0.5891	0.5944	0.5951	0.5889	...
NZD/AUD	\$	0.9178	0.9164	0.9167	0.9160	0.9158	...
Trade weighted index (TWI)	index	69.88	70.62	70.85	70.88	70.24	...
Official cash rate (OCR)	%	3.50	3.50	3.50	3.50	3.50	...
90 day bank bill rate	%	4.17	4.17	4.19	4.21	4.19	...
10 year govt bond rate	%	4.58	4.51	4.62	4.56	4.52	...
<b>Share markets (6)</b>							
Dow Jones	index	32,403	32827	33161	32514	33715	...
S&P 500	index	3,771	3807	3828	3749	3956	...
VIX volatility index	index	24.6	24.4	25.5	26.1	23.5	...
AU all ords	index	7,089	7129	7150	7187	7146	...
NZX 50	index	11,231	11290	11152	11143	11092	...
<b>US interest rates</b>							
3 month OIS	%	3.83	3.83	3.83	3.83	...	...
3 month Libor	%	4.55	4.56	4.59	4.63	...	...
10 year govt bond rate	%	4.17	4.22	4.14	4.12	3.82	...
<b>Commodity prices (6)</b>							
WTI oil	US\$/barrel	92.58	91.80	88.80	85.83	...	...
Gold	US\$/ounce	1,674.40	1678.95	1678.65	1715.25	...	...
CRB Futures	index	559.26	558.67	559.41	561.35	...	...

(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		Apr 22	May 22	Jun 22	2022Q2	Jul 22	Aug 22	Sep 22	2022Q3	Oct 22	Nov 22
<b>United States</b>	GDP (1)	qpc				-0.1				0.6		
	Industrial production (1)	mpc	0.7	-0.1	-0.1		0.7	-0.1	0.4		...	...
	CPI	apc	8.3	8.6	9.1		8.5	8.3	8.2		7.7	...
	Unemployment rate (1)	%	3.6	3.6	3.6		3.5	3.7	3.5		3.7	...
	Employment change (1)	000s	368.0	386.0	293.0		537.0	292.0	315.0		261.0	...
	Retail sales value	apc	7.8	8.7	8.8		10.0	9.4	8.2		...	...
	House prices (2)	apc	21.3	20.5	18.7		16.0	13.1	...		...	...
	PMI manufacturing (1)	index	55.4	56.1	53.0		52.8	52.8	50.9		50.2	...
Consumer confidence (1)(3)	index	108.6	103.2	98.4		95.3	103.6	107.8		102.5	...	
<b>Japan</b>	GDP (1)	qpc				0.9				...		
	Industrial production (1)	mpc	-1.5	-7.5	9.2		0.8	3.4	-1.6		...	...
	CPI	apc	2.5	2.5	2.3		2.6	3.0	2.9		...	...
	Unemployment rate (1)	%	2.5	2.6	2.6		2.6	2.5	2.6		...	...
	Retail sales value	apc	3.1	3.7	1.5		2.4	4.1	4.5		...	...
	PMI manufacturing (1)	index	53.5	53.3	52.7		52.1	51.5	50.8		50.7	...
	Consumer confidence (1)(4)	index	32.0	33.1	32.3		30.1	32.0	31.2		30.8	...
<b>Euro area</b>	GDP (1)	qpc				0.8				0.2		
	Industrial production (1)	mpc	0.0	1.3	1.0		-2.3	1.5	...		...	...
	CPI	apc	7.4	8.1	8.6		8.9	9.1	9.9		...	...
	Unemployment rate (1)	%	6.7	6.7	6.7		6.7	6.7	6.6		...	...
	Retail sales volume	apc	5.1	1.1	-2.9		-0.8	-1.4	-0.6		...	...
	PMI manufacturing (1)	index	55.5	54.6	52.1		49.8	49.6	48.4		46.4	...
	Consumer confidence (5)	index	-22.1	-21.2	-23.8		-27.0	-25.0	-28.8		-27.6	...
<b>United Kingdom</b>	GDP (1)	qpc				0.2				...		
	Industrial production (1)	mpc	-0.2	0.4	-0.3		-1.1	-1.8	...		...	...
	CPI	apc	7.8	7.9	8.2		8.8	8.6	8.8		...	...
	Unemployment rate (1)	%	3.8	3.8	3.8		3.6	3.5	...		...	...
	Retail sales volume	apc	-6.1	-4.9	-6.1		-3.3	-5.6	-6.9		...	...
	House prices (6)	apc	12.1	11.2	10.7		11.0	10.0	9.5		7.2	...
	PMI manufacturing (1)	index	55.8	54.6	52.8		52.1	47.3	48.4		46.2	...
	Consumer confidence (1)(5)	net %	-38.0	-40.0	-41.0		-41.0	-44.0	-49.0		-47.0	...
<b>Australia</b>	GDP (1)	qpc				0.9				...		
	CPI	apc				6.1				7.3		
	Unemployment rate (1)	%	3.9	3.9	3.5		3.4	3.5	3.5		...	...
	Retail sales value	apc	11.1	10.2	12.2		15.8	19.4	18.6		...	...
	House Prices (7)	apc				...					...	...
	PMI manufacturing (1)	index	58.5	52.4	54.0		52.5	49.3	50.2		49.6	...
	Consumer confidence (8)	index	95.8	90.4	86.4		83.8	81.2	84.4		83.7	78.0
<b>China</b>	GDP	apc				0.4				3.9		
	Industrial production	apc	-2.9	0.7	3.9		3.8	4.2	6.3		...	...
	CPI	apc	2.1	2.1	2.5		2.7	2.5	2.8		2.1	...
	PMI manufacturing (1)	index	47.4	49.6	50.2		49.0	49.4	50.1		49.2	...
<b>South Korea</b>	GDP (1)	qpc				0.7				0.3		
	Industrial production (1)	mpc	-3.2	0.3	1.8		-1.3	-1.4	-1.8		...	...
	CPI	apc	4.8	5.4	6.0		6.3	5.7	5.6		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