

- **The Reserve Bank of New Zealand accelerates monetary policy tightening and signals a contraction next year**
- **Domestic demand remains resilient against headwinds**
- **The OECD downgrade global growth in 2023 as demand weakens and recession risks rise**

The Reserve Bank of New Zealand (RBNZ) increased the OCR 75-basis points (bps) – the largest ever margin – signalling a higher-than-expected OCR peak next year leading to a contraction. Robust retail sales and persistent inflation pressures highlight the underlying strength of demand in the economy, despite falling house prices and pessimistic sentiment. The global economy faces similar challenges, and the outlook looks increasingly gloomy. High inflation, rising interest rates, COVID-19 in China and energy supply uncertainty are weighing on demand, with Europe and the UK approaching recession. Positively, price pressures show signs of moderating as interest rates push higher, albeit at a slower pace.

The RBNZ accelerates tightening...

The RBNZ Monetary Policy Committee (MPC) lifted the OCR to 4.25% at the November Monetary Policy Statement, as largely expected. The MPC continues to take a strong stance against inflation, after debating a 100 bps at this meeting and signalling a higher-than-expected OCR peak of 5.5% next year. The RBNZ are forecasting inflation to peak at 7.5% at the end of this year, unemployment to peak at 5.7% and the economy to contract 1.0% across 2023. Market participants and other forecasters are revising up their OCR forecasts with consensus favouring a 75 bps lift in February.

...as retail spending holds up...

The retail trade survey saw sales volumes rise 0.4% in the quarter, while sales values lifted 2.5%. While this outturn points to a slight increase in private consumption in the September quarter, the correlation to the GDP measure of consumption has been weak over the past two years. Consumer spending is expected to ease toward the end of the year as headwinds gather and monetary policy tightening accelerates.

...migrant and visitor flows continue to recover...

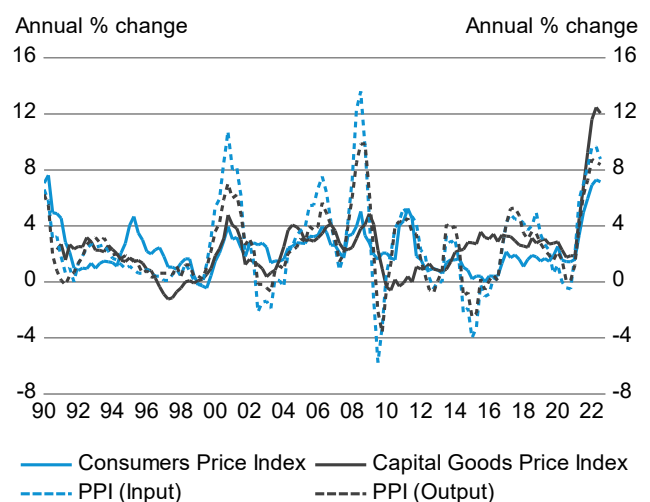
Net migration outflows continued falling, slowing to 8,400 in the September 2022 year, down from a net outflow of

11,000 in the year to August 2022. Overseas visitor arrivals continued recovering with 151,300 in September 2022 standing at about 58% of the 261,800 visitor arrivals in September 2019. Going forward, a recovery in tourism will add to domestic spending.

...and price pressures persist

Meanwhile, price pressures persist for business in the September quarter. The input producers price index is up 8.8% on a year ago, due in part to primary industry input prices up 14.1%. Meanwhile, the output producers price index is up 8.4% on a year ago. Farmers have seen a record-breaking annual increase of 15% in farm expenses according to the farm expenses price index due largely to fertiliser and fuel prices, and recently interest rates. The capital goods price index was up 12.1% on a year ago, largely driven by construction.

Figure 1: Price Indices



Source: Stats NZ

Activity holds up in October...

The New Zealand Activity Index (NZAC), a timely monthly activity indicator, points to robust activity in October.

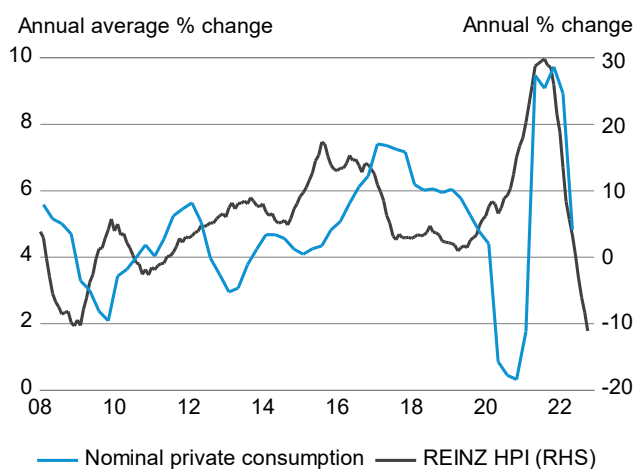
Despite easing slightly from 5.2% to 3.1% annual growth in September (largely due to COVID restrictions introduced last year), it remains above its pre-COVID average. Part of this reflects card spending holding up, and this was separately reflected in the RBNZ monthly credit card spending series showing a 1.0% monthly increase in October. Meanwhile, the BNZ-Business NZ Performance of Services Index lifted to 57.4, a strong outturn that is near the top end of its historical range. This looks to be driven by demand shifting back to services and away from goods.

...but expect households to cut spending soon

House prices continued their steady descent in October, eating away at wealth gains made while mortgage rates were at record lows. The Real Estate Institute of New Zealand (REINZ) House Price Index fell 1.1% in October, the 11th consecutive month of declines, reaching a record low -10.9% annual growth. Two useful leading indicators – falling sales and rising days on market – point to further easing to come. Meanwhile, the upward revisions in the OCR will come with higher mortgage rates and more downward pressure on house prices and consumption.

Consumer confidence in November fell back to its lowest level since June, down 5 points to 80.7. As labour demand and wage growth ease, we expect this subdued sentiment to align closer with spending.

Figure 2: House prices and private consumption

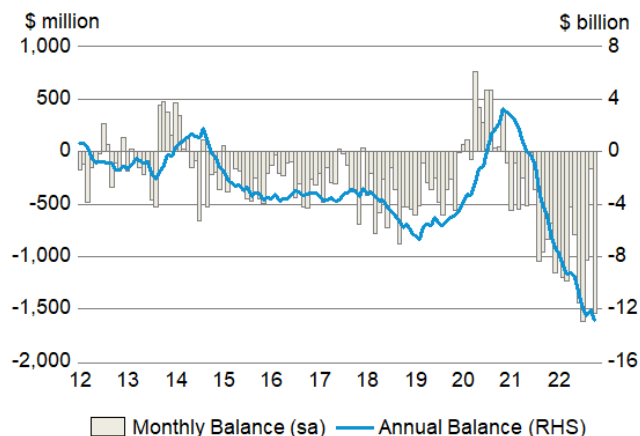


Source: Stats NZ, REINZ

The trade deficit widened...

The annual merchandise trade deficit widened to \$12.9 billion, a new record. Goods export values fell 11.4% in October, following the sharp rise in September as exporters – particularly dairy – released inventories. Dairy volumes are expected to remain subdued in months to come off the back of weaker production. Import values surged, up 8.0% in the month, highlighting the strength of domestic demand. Machinery and equipment imports rose 14.2% pointing to robust investment. The strength of import demand is likely to keep the trade deficit at near record levels into 2023, but it is expected to narrow as higher interest rates slow economic activity.

Figure 3 – Overseas Merchandise Trade Balance



Source: Stats NZ

The OECD downgrades global growth in 2023...

The OECD downgraded global growth 0.6%-age points in 2023 in its November *Economic Outlook* from April, reflecting higher and more persistent inflation requiring a stronger monetary policy, and ongoing energy supply challenges in Europe.

Table 1: OECD Projections

	Real GDP Growth (annual average % change)		
	2022	2023	2024
World	3.1	2.2	2.7
US	1.8	0.5	1.0
China	3.3	4.6	4.1
Euro area	3.3	0.5	1.4
Australia	4.0	1.9	1.6
NZ	2.1	1.0	1.2

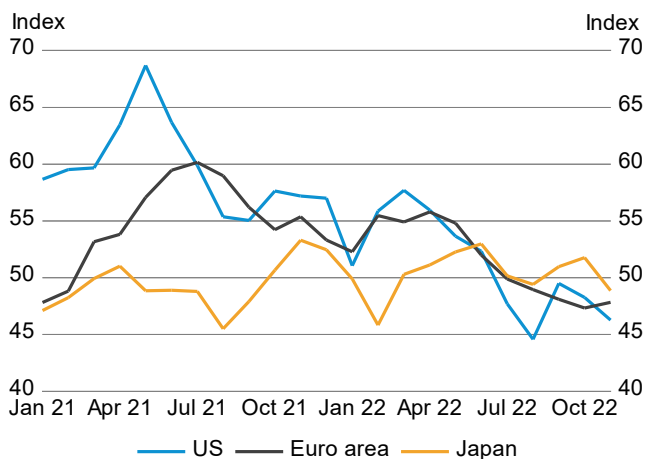
...and energy supply uncertainty creates further risk

European economies are facing significant challenges from higher energy prices as oil and gas supplies from Russia dry up. The OECD estimates that output in manufacturing and service sectors could decline between 2.25-3.0% if reduced flows from Russia are not offset by drawing down reserves or securing new supplies, and the challenges are expected to remain for winter in 2023. End-use energy expenditure is estimated to amount to nearly 18% of GDP for OECD economies in 2022, levels not seen since the 1980s.

Global demand is weakening

S&P Global November Purchasing Managers Indices (PMI) showed weakening demand in the world's largest advanced economies (Figure 4).

Figure 4: S&P Global Composite PMIs



Source: Haver

The US manufacturing PMI drove the decline in the composite measure, down sharply to 47.6 from 50.4 in October, indicating a contraction in the sector. The euro area manufacturing PMI lifted slightly to 47.3 from 46.7, while the services component was flat. The report, however, reinforces that the world's third largest economy is heading into recession, although the improvement spurred optimism the contraction will be shallower than first anticipated. The contraction in Japan's manufacturing sector accelerated with the PMI slipping to 46.3 from 48.7 in October, while the services component fell sharply from 53.2 to 50.0. On a more positive note, the PMI reports indicated slowing price inflation and easing supply-chain disruption.

Weaker demand has pulled down oil prices in recent weeks, with WTI crude slipping under USD 80 per barrel.

The UK has likely entered recession

In the UK, GDP fell 0.2% in the September quarter, led by a fall of 0.5% in household consumption, as consumers face mounting challenges from high inflation. GDP is widely expected to contract again in the December quarter, amounting to the economy in recession.

CPI inflation rose sharply in October, up 2.0% in the month as energy prices leapt 24% as the regulatory price cap was raised. Annual CPI inflation hit 11.1%, the highest in over 40 years. The government's energy price cap avoided an even larger increase and, with the cap in place for the next 6 months, analysts believe inflation may have peaked, although it is expected to remain elevated in 2023.

The UK Government's Autumn Statement affirmed the shift in the fiscal stance since the change in leadership, with £55 billion of tax rises and spending cuts unveiled, as the Government faces mounting debt-servicing costs, which are projected to peak at 12.0% of revenue in the 2023 fiscal year. The UK Government also faces a growing liability from the Bank of England's losses on its Asset Purchase Facility as interest rates rise, projected to be over £30 billion in 2023.

US inflation eases, but demand picture mixed

Following the weaker-than-expected CPI inflation in October, US producer price inflation also surprised on the downside, rising 0.2% in October against an expected 0.4% increase. The release reinforced views that inflation pressures are easing in the US.

Stronger-than-expected retail sales and core capital goods shipments, which both rose by 1.3% and feed into the US GDP report, suggest resilient consumption and investment activity and a solid start to December quarter GDP. However, there were signs of a cooling labour market as initial jobless claims rose to 240,000 the week ended November 19, exceeding economists' expectations of 225,000 claims. Jobless claims have historically been an indicator of recessions, and the release supported expectations that the Federal Reserve's tightening is gaining traction.

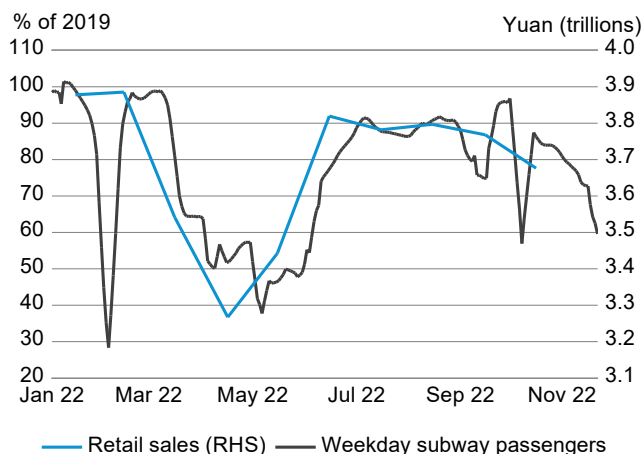
Easing prices, and signs of weakening demand, have reinforced market expectations the Federal Open Market Committee (FOMC) will hike by 50bps at the December meeting. The November meeting minutes signalled the majority of members viewed a slowdown of the pace of tightening will soon be appropriate, although the Federal funds rate will likely rise to higher levels than previously expected. Fed officials now view the probability of the US entering recession in 2023 as nearly 50%.

China's economy looks vulnerable

New local COVID-19 cases reported in China rose to 29,754 on 23 November, surpassing the previous peak during April's outbreak in Shanghai, and are reported to be more widespread than at any point during the pandemic, with over 17,500 areas of the country categorised as high risk on 22 November. Over 20% of China's economy now facing some form of COVID-19 restrictions. The surging COVID-19 wave comes following the Politburo Standing Committee's recent easing of COVID-19 policy settings, aimed at reducing the economic cost of zero-COVID measures by moving away from mass testing and snap lockdowns.

COVID-19's impact on China's economy is mounting, with growth momentum slowing in October. Retail sales fell 0.7% compared to the previous month, as consumers face ongoing restrictions. November has seen restrictions tighten further, pointing to further declines in consumer activity in the coming months, as reflected by high-frequency data (Figure 5).

Figure 5: China retail sales and people movements



Source: Haver

China’s property market downturn continued in October, with sales falling further, down over 23% from a year previous, although recent policy measures including further credit support, aimed at improving developer liquidity, and loosening down-payment requirements for buyers, should provide support. Without a clear signal of reopening, China’s economy faces mounting challenges into 2023, with growth needing to become increasingly reliant on domestic consumption as external demand weakens.

Japan’s economy slowing, inflation rising

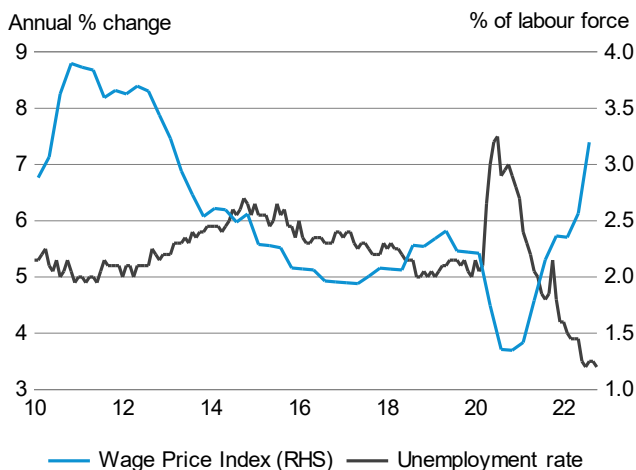
Japan’s real GDP contracted 0.3% in the September quarter compared to the previous quarter, the first contraction in four quarters. GDP was dragged down by slower private consumption growth as COVID-19 spiked early in the quarter and a surge in imports. Japan’s economy is slowing, although a recession is not expected at this point. Annual CPI inflation rose to 3.6% in October, a 40-year high, but The Bank of Japan has yet to change its policy stance, setting it apart from other advanced economies.

Australia’s labour market remains tight

In Australia, the unemployment rate fell to 3.4% in October against expectations of a 0.1 percentage point rise to 3.6%, as employment growth rebounded. Hours worked also lifted 2.3% in the month, the strongest monthly rise since February, all pointing toward ongoing strength in labour demand (Figure 6).

The Wage Price Index also beat expectation in the September quarter, increasing by 1.0%, the fastest quarterly increase in a decade. The rise brings annual growth to 3.1% which is expected to continue to lift, although growth remains below the 3.5-3.8% level consistent with the Reserve Bank of Australia’s inflation target. The labour market releases left market expectations of a 25 bps increase in the policy rate in December unchanged.

Figure 6: Australian Labour Market



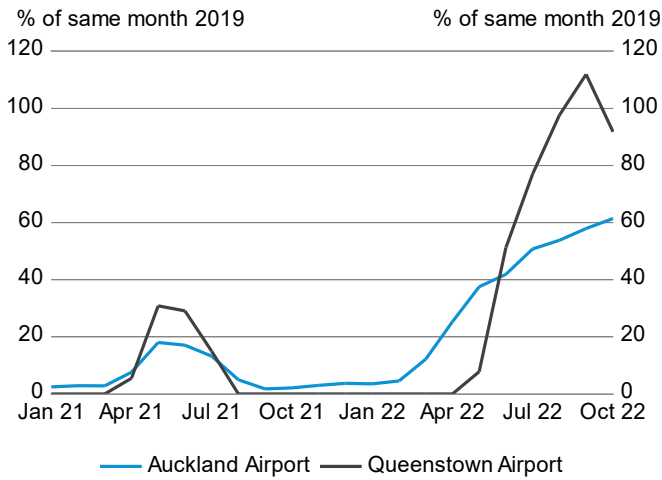
Source: Haver

Coming Up:

Date	Release
28 Nov	Employment Indicators (Oct)
30 Nov	Building consents (Oct)
30 Nov	ANZ Business Outlook (Oct)
2 Dec	Terms of Trade (Sep qtr)

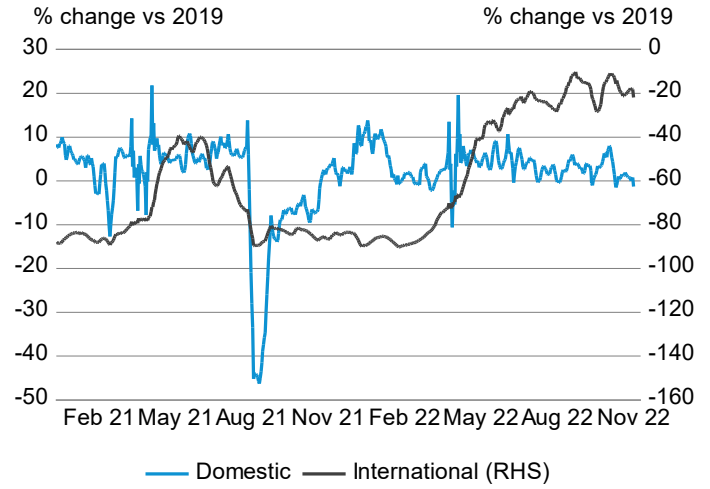
High-Frequency Indicators

Monthly International Passenger Volumes



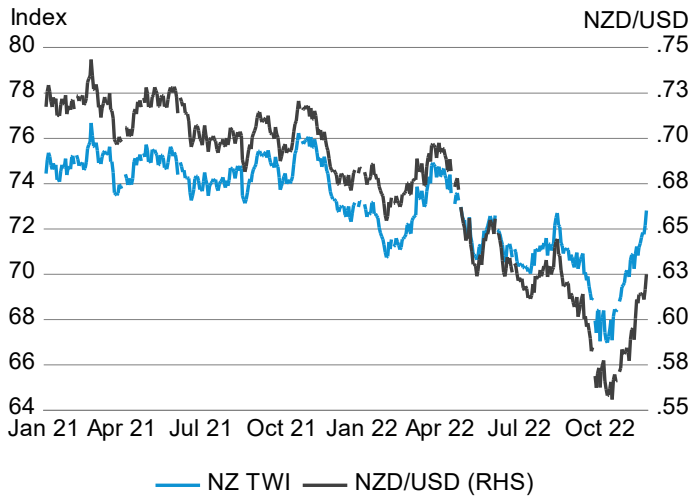
Source: Haver

Card Spending



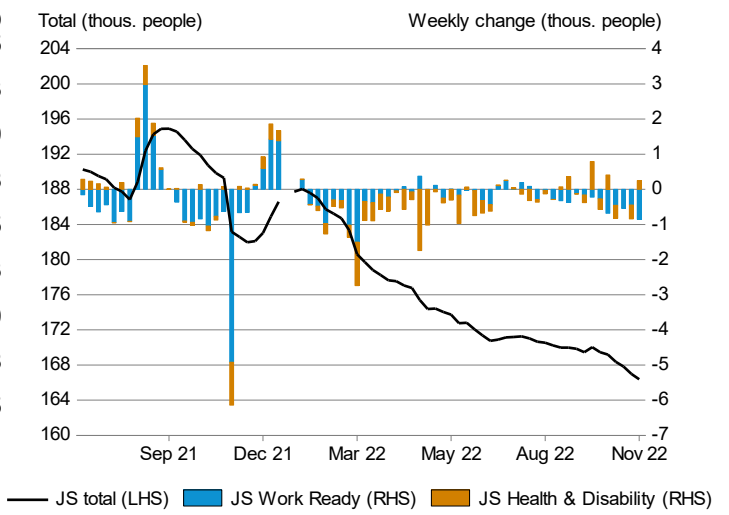
Source: Marketview data via MBIE

Exchange Rates



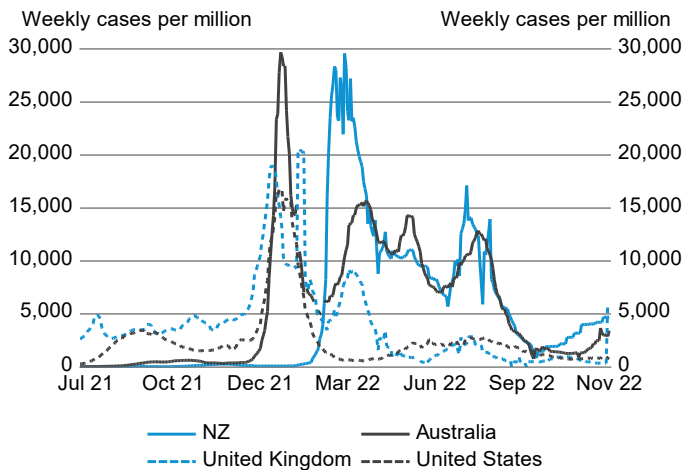
Source: RBNZ

Jobseeker (JS) and Income Support Receipts



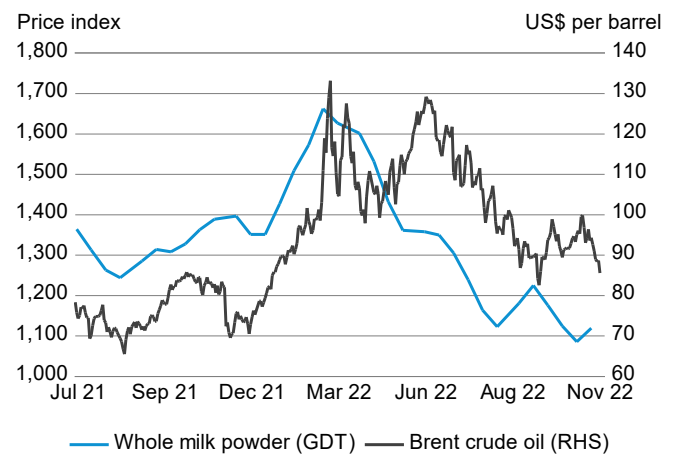
Source: MSD

COVID-19 Cases Per Million People



Source: John Hopkins University/Haver

World Commodity Prices



Source: Haver

Tables

Quarterly Indicators		2021Q2	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	5.0
Total retail sales volume	apc	33.1	-5.1	4.4	2.3	-3.7	4.9
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

Monthly Indicators		May 22	Jun 22	Jul 22	Aug 22	Sep 22	Oct 22
Merchandise trade balance (12 month)	NZ\$m	-9,596.5	-10974.4	-12002.5	-12503.0	-12033.3	-12879.8
Dwelling consents - residential	apc	7.8	-6.5	-2.9	0.9	1.7	...
House sales - dwellings	apc	-25.5	-35.6	-34.7	-15.6	-7.8	-34.7
REINZ - house price index	apc	3.8	0.7	-2.8	-5.8	-8.0	-10.9
Estimated net migration (12 month total)	people	-17,125.0	-15378.0	-13377.0	-10814.0	-8446.0	...
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	...

Daily Indicators		Thu	Fri	Mon	Tue	Wed	Thu
		17/11/22	18/11/22	21/11/22	22/11/22	23/11/22	24/11/22
NZ exchange and interest rates (5)							
NZD/USD	\$	0.6140	0.6140	0.6145	0.6110	0.6165	0.6250
NZD/AUD	\$	0.9116	0.9167	0.9229	0.9236	0.9274	0.9268
Trade weighted index (TWI)	index	71.35	71.62	71.84	71.76	72.16	72.81
Official cash rate (OCR)	%	3.50	3.50	3.50	3.50	4.25	4.25
90 day bank bill rate	%	4.16	4.20	4.23	4.31	4.32	4.39
10 year govt bond rate	%	4.13	4.16	4.21	4.24	4.11	4.20
Share markets (6)							
Dow Jones	index	33,546	33746	33700	34098	34194	...
S&P 500	index	3,947	3965	3950	4004	4027	...
VIX volatility index	index	23.9	23.1	22.4	21.3	20.4	...
AU all ords	index	7,339	7355	7335	7376	7422	7432
NZX 50	index	11,295	11381	11440	11420	11324	11322
US interest rates							
3 month OIS	%	3.83	3.83	3.83	3.83	...	...
3 month Libor	%	4.68	4.66	4.69	4.70	4.76	...
10 year govt bond rate	%	3.77	3.82	3.83	3.76	3.71	...
Commodity prices (6)							
WTI oil	US\$/barrel	81.64	80.07	79.74	80.83	77.94	...
Gold	US\$/ounce	1,758.60	1751.60	1740.40	1742.95	1740.15	...
CRB Futures	index	564.27	560.92	557.08	559.39	560.64	...

(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
United States	GDP (1)	qpc				-0.1				0.6		
	Industrial production (1)	mpc	0.7	-0.1	-0.1		0.7	-0.1	0.1		-0.1	...
	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	9.7	8.6		8.3	...
	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	...	
Japan	GDP (1)	qpc				1.1				-0.3		
	Industrial production (1)	mpc	-1.5	-7.5	9.2		0.8	3.4	-1.7		...	...
	CPI	apc	2.5	2.5	2.3		2.6	3.0	2.9		3.8	...
	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	4.8		...	...
	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	...
Euro area	GDP (1)	qpc				0.8				0.2		
	Industrial production (1)	mpc	-0.3	1.6	1.0		-2.3	2.0	0.9		...	...
	CPI	apc	7.4	8.1	8.6		8.9	9.1	9.9		10.6	...
	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	-23.9
United Kingdom	GDP (1)	qpc				0.2				-0.2		
	Industrial production (1)	mpc	-0.2	0.4	-0.3		-0.7	-1.4	0.3		...	...
	CPI	apc	7.8	7.9	8.2		8.8	8.6	8.8		9.6	...
	Unemployment rate (1)	%	3.8	3.8	3.8		3.6	3.5	3.6		...	...
	Retail sales volume	apc	-6.1	-5.0	-6.0		-3.3	-5.3	-6.8		-6.1	...
	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	-44.0
Australia	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		3.4	...
	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
China	GDP	apc				0.4				3.9		
	Industrial production	apc	-2.9	0.7	3.9		3.8	4.2	6.3		5.0	...
	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	...	
South Korea	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