

- The Reserve Bank of New Zealand increased the Official Cash Rate to 3.0%
- Demand shows early signs of easing
- Global inflation may have peaked but labour markets remain tight

The Reserve Bank of New Zealand (RBNZ) lifted the Official Cash Rate (OCR) to 3.0% and indicated that the OCR would rise to 4.1% in coming months. The RBNZ assessed that robust domestic demand and supply constraints continued to keep inflation high and that a higher OCR is required to ensure demand slows enough to bring inflation back to target. Globally, lower commodity prices and improving supply conditions are contributing to lower headline inflation, although in Europe the energy situation remains precarious. Meanwhile, labour markets remain tight in many economies, which is adding upwards pressure to wages and prices and keeping central banks on a tightening path.

Monetary policy stays on tightening path

The RBNZ lifted its policy rate 50 basis points (bps) to 3.0% and said that further rates are needed to deliver future inflation within its target range. In the Reserve Bank's assessment, domestic demand remains robust as acute supply constraints persist, most notably in the labour market, and domestic core inflation is broad-based and well above the 1-3% target. June quarter's annual inflation rate of 7.3% was higher than the Bank expected, leading to upward revisions in the inflation forecast. To return inflation to the mid-point of its 1-3% target, the OCR is now projected to rise more quickly and to peak a little higher at 4.1% (up 15bps) in the June 2023 quarter.

The higher OCR is accompanied by a more pronounced slowing in activity than previously forecast and a higher unemployment rate. GDP growth in the years ended June 2023, 2024 and 2025 is forecast at 3.0%, 0.7% and 1.1% respectively, down from 3.3%, 1.1% and 1.2% previously. Meanwhile, the unemployment rate is around 0.2%-pts higher across the forecast period, with a peak of 5% near the end of the forecast period, up from 4.8% previously. House prices are expected to fall by about 15% from peak to trough.

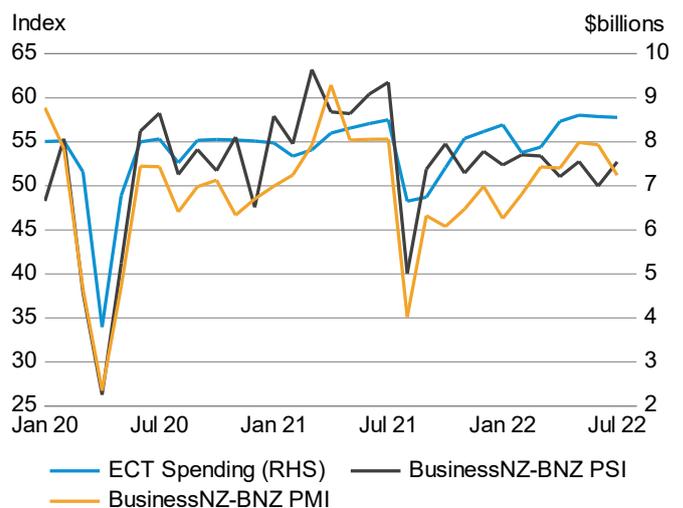
Despite the strength of June's inflation rate, the RBNZ's inflation expectations survey showed some signs of easing expectations, with modest declines in both the 2-year and 5-year ahead measures. The easing of longer-term

expectations, which are the Reserve Bank's major focus, supports the view that its actions will be successful in controlling inflation.

Domestic demand growth is slowing...

Early signs that the pace of demand growth is slowing following the boost from easing Omicron restrictions earlier in the year came from the New Zealand Activity Index. The annual increase in the Index was similar to June at 0.8%, but the pace has trended down since the start of the year. Within the Index, card spending in July was down 0.2% compared to June, with lower fuel prices contributing to a sharp fall in spending on fuel. The BNZ-Business Performance of Composite Index (PCI) fell 0.3 points to 53.8 in July as the softer services index, down 3.5 points to 51.2, more than offset a 2.7 point rise in the manufacturing index (Figure 1).

Figure 1: Domestic activity indicators



Source: Stats NZ, BNZ

Net migration outflows continue...

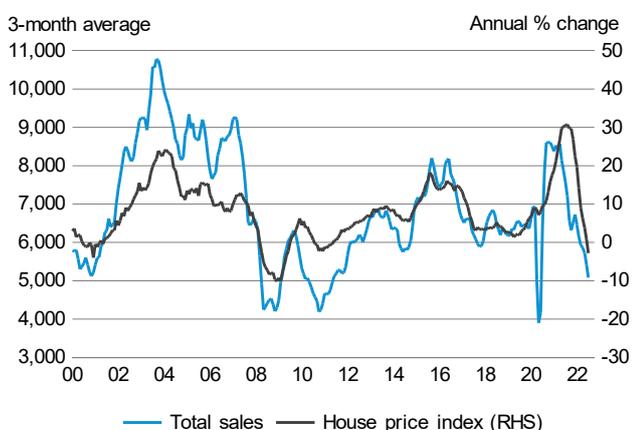
Net migration outflows are also contributing to the weaker demand impulse, with data for the 12 months ended June showing a net outflow of 11,500 migrants, compounding the net outflow of 6,500 for the same period last year.

Overall, annual population growth slowed to 0.2% in the year ended June, the slowest since 1986. On the other hand, monthly international visitor arrivals continued their recovery, reaching 94,000 in June, or 44% of June 2019 levels, providing a boost to domestic income.

...while the housing market continues to slide

The REINZ House Price Index for July was 1.7% lower than in June and 2.9% lower than in July 2021, the first annual fall in house prices since 2011 (Figure 2). Nationally, prices are around 8% below their peak in November 2021. Sales slid 7% in the month and are around 33% lower than a year ago. Other indicators of demand including inventories and days to sell also remained soft, consistent with widespread expectations of further price falls.

Figure 2: Housing market



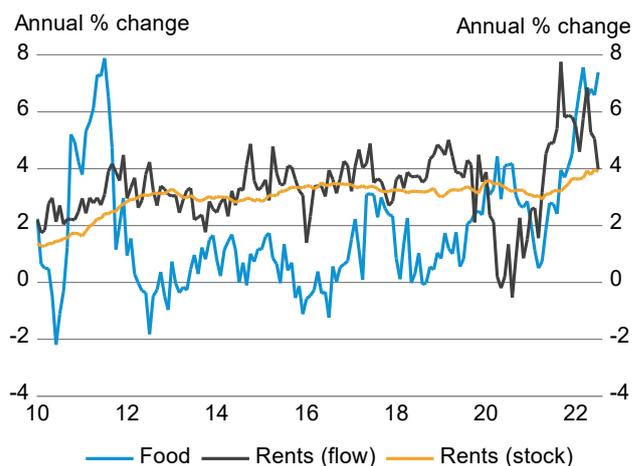
Source: REINZ

Consumer prices remain high

Rental prices may be easing according to the Stats NZ's Rental Property Price Indexes for July. The flow measure of new rentals showed annual rental price inflation slowed to 4.0%, down from 6.9% in April. However, the slow-moving stock measure, which is closely aligned with the rent component in the CPI, remained close to its recent highs, rising 3.9% from a year ago (Figure 3). Industry commentators expect rental prices to ease further as increased supply comes onto the market, while weaker domestic economic conditions are expected to weigh on demand.

Recent wet weather likely constrained food production and contributed to the 1.1% seasonally adjusted increase in July's food price index compared with the previous month. This took the annual rise to 7.4%, up from 6.6% last month (Figure 3). Fruit and vegetable prices led the increase, up 10.4% from the same time last year. Grocery, and restaurant meals and ready-to-eat foods, which each account for over a quarter of the index, both continued to rise strongly, up 7.7% and 6.6% respectively, from the same month a year ago. The food and rent price indices together make up about 30% of the CPI basket of goods, and July data suggests that upward pressure remains strong.

Figure 3: Food and rental property prices

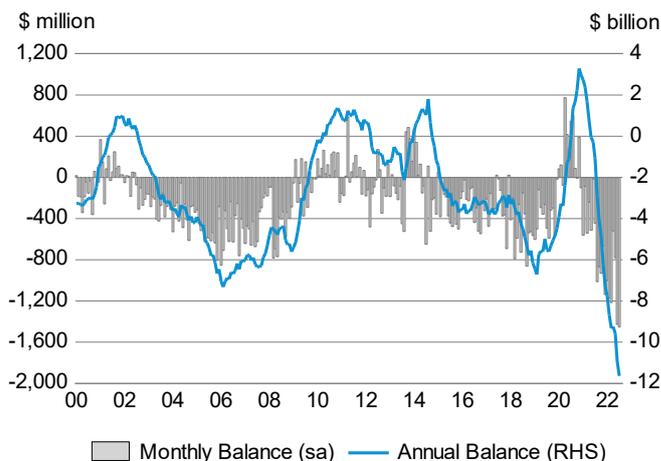


Source: Stats NZ

Trade deficit rises to fresh high...

Goods exports values rose 3.3% in July on a seasonally adjusted basis, supported by higher dairy and meat volumes, up 12.4% and 12.7% respectively on the previous month. Imports value also rose, up 3.0% on the previous month, and the annual trade deficit widened further to a fresh record high of \$11.6 billion (Figure 4).

Figure 4: Merchandise trade balance



Source: Stats NZ

...and dairy prices eased further

Dairy prices fell a further 2.9% at the *GlobalDairyTrade* auction on 16 August, bringing the total decline since March to 29%. Whole milk powder prices fell 3.5%. Prices are expected to remain weak as a result of softer global prospects, particularly in China. Given dairy's significant weight in New Zealand's overall goods exports, the sharp fall in prices will weigh on export returns over the second half of the year.

Global inflation moves down from its peak...

The global inflation tide may be receding as two significant inflation impulses reverse. First, the surge in global oil and agricultural commodity prices has retreated with both price baskets down nearly 25% from last quarter's peak. Slower growth in China is one reason for decline in commodity prices. Reinforcing this easing trend, supply side constraints are continuing to fade – the New York Fed's Supply Chain Pressure Index is at its lowest level since January 2021 – and US business surveys show signs of reduced pricing pressures. However, advanced economy labour markets remain extremely tight and wage growth is picking up, which is supporting demand and keeping central banks on a tightening path. In Europe, falls in inflation appear more distant as the energy crisis there is exacerbated by severe drought.

The turning tide of inflationary forces were evident in US price indexes for July. Headline consumer prices were little changed between June and July, led by lower fuel prices, giving hope that the surge in inflation is abating. Annual headline CPI inflation eased to 8.5% from 9.1% in June, below analyst expectations, as the pace of fuel price rises slowed to 44% from a peak of 60% last month. Food price inflation continued to run hot, with the annual rate rising to 10.9%. Core inflation (CPI less food and energy) slowed to 0.3% in the month, around half the pace of recent months driven by declines in airfares, lodging away from home and used car prices. Other price measures also eased, headline PPI inflation fell 0.5% in July, and the core measure rose 0.2%, also around half of its recent monthly pace. The import price index fell 1.4%, with the non-fuel index down 0.5%. Export prices also fell, although prices excluding food and fuels were flat in the month and capital goods prices continued to pick up, the latter rising at their fastest pace since 1982. The rise in capital goods prices is likely flowing through to New Zealand's import prices and dampening firms' investment plans.

...but labour markets remain tight

In the US, July's employment report was strong across the board, but activity indicators were mixed. Payroll employment rose 528,000, the largest rise since February this year, the unemployment rate fell back to its pre-COVID, 50-year low of 3.5%, and average hourly earnings growth rose to 5.2%. Labour force participation ticked down, highlighting the demand-supply imbalance, and risks of more persistent inflationary pressures. In terms of activity, easing supply constraints in the auto industry underpinned a 0.6% rise in industrial production in July, US retail sales were flat compared with June, while housing starts, new home permits and existing home sales all continued their downward slide.

In the UK, solid employment growth helped keep the unemployment rate steady at 3.8% in June. Annual growth in average weekly earnings (ex-bonuses) picked up to 4.7%, but remains materially behind annual CPI inflation, which rose to 10.1% in July. Inflation is expected to rise to around 13% in October as energy price caps are reset.

GDP data showed the UK economy contracted 0.1% in the June quarter. A rebound is expected in the September quarter but the Bank of England recently forecast the UK economy to shrink for five consecutive quarters, and by around 2% cumulatively, starting in the December 2022 quarter.

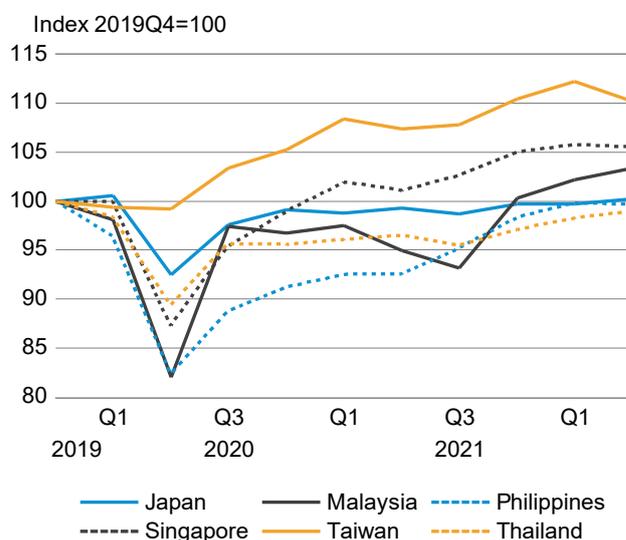
Slower growth in China

In China, monthly data for July showed industrial production, retail sales and fixed asset investment all rose less than analysts expected. Ongoing weakness in the property market remains a significant drag on the economy, and cautious spending behaviour, alongside rolling COVID-related lockdowns across various regions, is also contributing to slower growth. In response, the central bank trimmed 10bps off its medium-term lending facility rate to 2.75% in a surprise announcement that some commentators regarded as modest but possibly signalling further support in coming weeks.

On the inflation front, China's annual headline CPI rose to 2.7% in July from 2.5% in June, below the central bank target of around 3%. Food prices (up 6.3%), particularly pork, were the main driver, while lower energy prices provided a partial offset. Excluding food and energy, annual CPI inflation was a muted 0.8%, consistent with ongoing weakness in consumer spending on services amidst COVID-19 disruptions. Meanwhile, Producer Price inflation slowed to 4.2% as global commodity prices eased and property sector weakness weighed on demand for construction materials.

Elsewhere in Asia, GDP reports for the June quarter were mixed. A rebound in growth over the second half year is expected as these disruption ease. In Japan, real GDP rose 0.5% in the June quarter, the third consecutive quarterly increase, to be up 1.0% from the same quarter last year, but 0.3% below its pre-pandemic level. GDP grew strongly in Malaysia, up 3.5% in the quarter and more moderately in Thailand, up 0.7%, but contracted in Taiwan, Singapore and the Philippines (Figure 3).

Figure 5: Real GDP in Asia



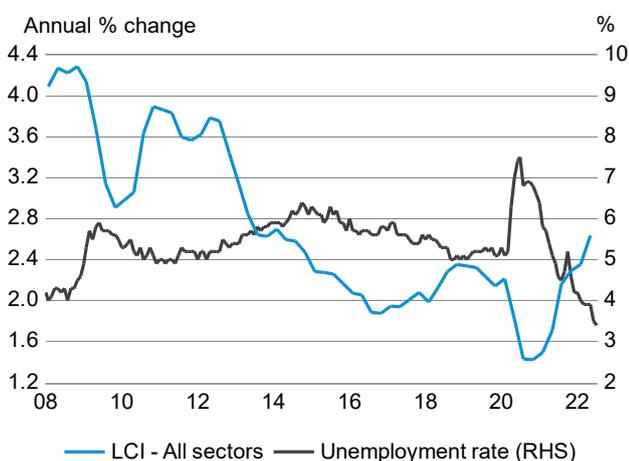
Source: Haver

Australian wage growth edges higher

The Reserve Bank of Australia's (RBA) August Statement on Monetary Policy showed a higher inflation forecast with inflation above its 2-3% target range until mid-2024. The outlook for GDP was revised down by 0.5%-pts in the years ending December 2022 and 2023 to 4% and 2.3% respectively, alongside a lower trough of 3.3% for the unemployment rate, which rises gradually to 3.5% by mid-2023 and 4% by the end of 2024. The RBA forecasts assume that its cash rate rises in line with market pricing of around 3% by the end of the year from 1.85% at present.

July's household labour force survey showed unemployment fell to 3.4%, consistent with RBA expectations, although the details were mixed as participation and employment both fell (Figure 6). Hours worked fell 0.8%, reflecting ongoing Omicron disruption.

Figure 6: Australian unemployment and wages



Source: Haver

On the wages front, the Labour Cost Index, which measures changes in wage rates for a given quantity and quality of labour, advanced 2.6% in the June quarter compared with the same quarter a year ago, up from 2.4% in the March quarter (Figure 6). Analysts viewed the details of the survey as somewhat firmer, with annual private sector wage growth including bonuses rising to 3.3%, and anticipate a more significant pickup in coming quarters. The Fair Work Commission's decision to lift award and minimum wage rates by 4.6% and 5.2% respectively, over the year ahead, will be a key contributor. The semi-annual average weekly earnings release was similarly restrained, up just 1.9% from a year ago.

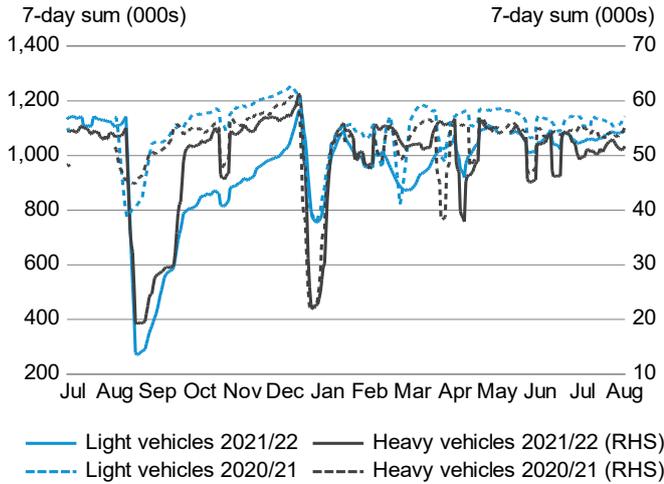
Meanwhile, the Australian Bureau of Statistics released an information paper outlining a new monthly Consumer Price Index indicator. The first monthly update will be in November and cover movements in October's prices. Although not an "official" index, Australia's introduction of a monthly CPI will leave New Zealand as the sole OECD economy without a monthly measure.

Coming Up:

Date	Release
25 Aug	Retail sales (June qtr)
26 Aug	ANZ-Roy Morgan consumer confidence (Aug)
31 Aug	Building consents (Jul), ANZ business confidence (Aug)
2 Sep	International trade (Jun qtr)

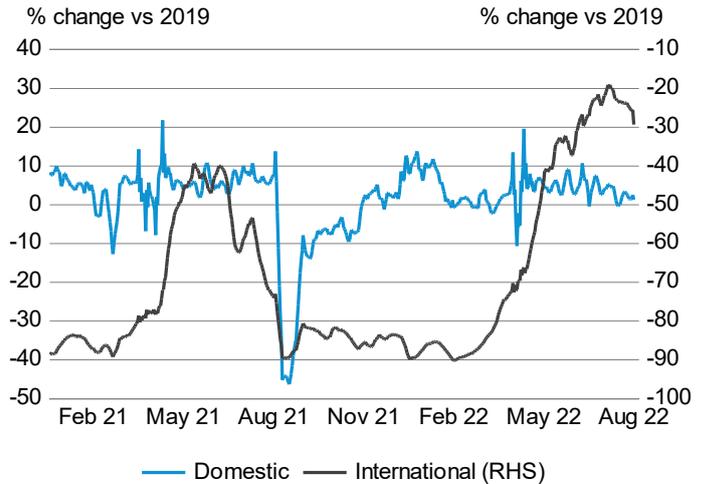
High-Frequency Indicators

Traffic and Freight Movement



Source: Waka Kotahi NZ Transport Agency

Card Spending



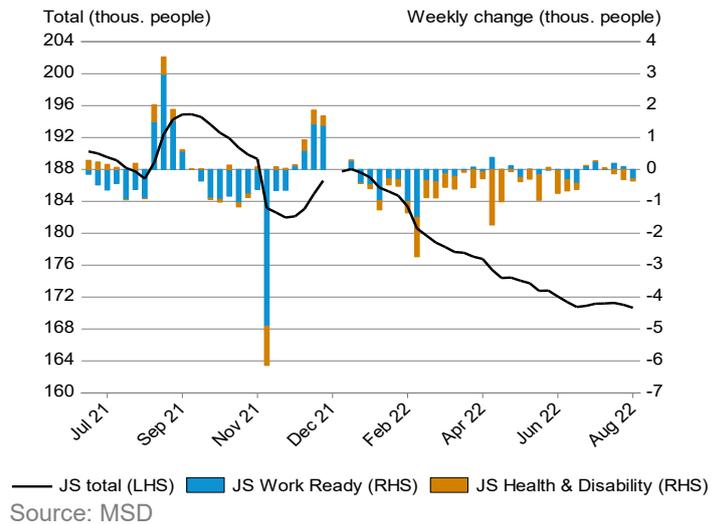
Source: Marketview data via MBIE

People Movements at Selected Locations



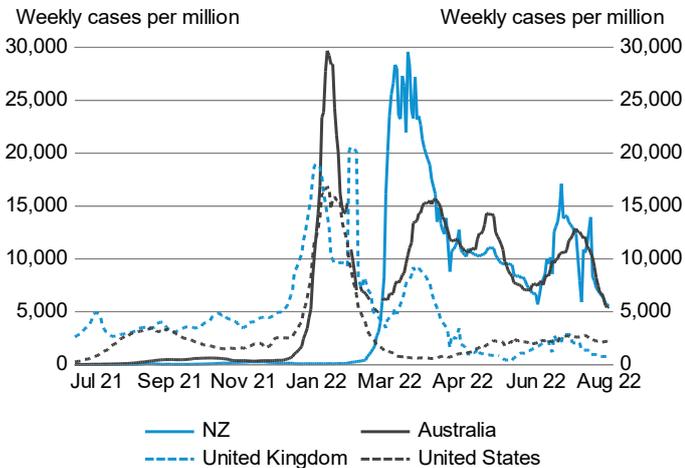
Source: Google/Haver

Jobseeker (JS) and Income Support Receipts



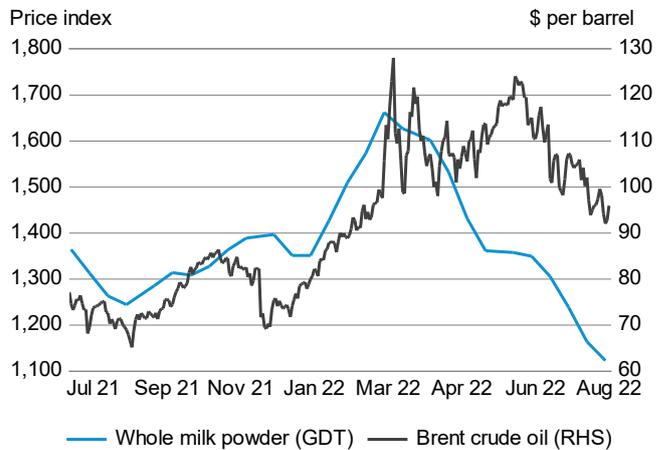
Source: MSD

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	0.6	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	...
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		Feb 22	Mar 22	Apr 22	May 22	Jun 22	Jul 22
Merchandise trade balance (12 month)	NZ\$m	-8,685.1	-9319.7	-9247.6	-9588.4	-10935.4	-11640.5
Dwelling consents - residential	apc	34.1	25.6	-6.9	7.8	-6.5	...
House sales - dwellings	apc	-30.9	-31.9	-32.9	-25.5	-36.1	-36.7
REINZ - house price index	apc	14.2	9.0	6.2	3.8	0.8	-2.8
Estimated net migration (12 month total)	people	-14,875.0	-13692.0	-12729.0	-12533.0	-11480.0	...
ANZ NZ commodity price index	apc	29.2	20.9	17.5	16.5	14.5	14.2
ANZ world commodity price index	apc	20.4	18.0	13.2	6.2	4.8	4.3
ANZBO - business confidence	net%	-51.8	-41.9	-42.0	-55.6	-62.6	-56.7
ANZBO - activity outlook	net%	-2.2	3.3	8.0	-4.7	-9.1	-8.7
ANZ-Roy Morgan - consumer confidence	net%	81.7	77.9	84.4	82.3	80.5	81.9
NZAC	apc	1.8	1.7	...	...	...	...

Daily Indicators		Fri	Mon	Tue	Wed	Thu	Fri
		12/8/22	15/8/22	16/8/22	17/8/22	18/8/22	19/8/22
NZ exchange and interest rates (5)							
NZD/USD	\$	0.6430	0.6445	0.6359	0.6352	0.6273	...
NZD/AUD	\$	0.9064	0.9052	0.9059	0.9068	0.9054	...
Trade weighted index (TWI)	index	72.50	72.70	72.16	72.09	71.38	...
Official cash rate (OCR)	%	2.50	2.50	2.50	3.00	3.00	...
90 day bank bill rate	%	3.27	3.31	3.30	3.31	3.35	...
10 year govt bond rate	%	3.51	3.51	3.40	3.40	3.52	...
Share markets (6)							
Dow Jones	index	33,761	33912	34152	33980	33999	...
S&P 500	index	4,280	4297	4305	4274	4284	...
VIX volatility index	index	19.5	20.0	19.7	19.9	19.6	...
AU all ords	index	7,289	7325	7362	7381	7358	...
NZX 50	index	11,731	11789	11847	11853	11814	...
US interest rates							
3 month OIS	%	2.33	2.33	2.33	2.33	...	...
3 month Libor	%	2.92	2.94	2.96	2.98	...	...
10 year govt bond rate	%	2.84	2.79	2.82	2.89	2.88	...
Commodity prices (6)							
WTI oil	US\$/barrel	94.86	92.24	89.23	88.11	90.50	...
Gold	US\$/ounce	1,792.10	1776.60	1774.85	1767.20	1765.55	...
CRB Futures	index	590.60	588.17	591.63	589.92	588.41	...

(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		Jan 22	Feb 22	Mar 22	2022Q1	Apr 22	May 22	Jun 22	2022Q2	Jul 22	Aug 22
United States	GDP (1)	qpc				-0.4				-0.2		
	Industrial production (1)	mpc	0.4	0.7	0.7		0.7	-0.1	0.0		0.6	...
	CPI	apc	7.5	7.9	8.5		8.3	8.6	9.1		8.5	...
	Unemployment rate (1)	%	4.0	3.8	3.6		3.6	3.6	3.6		3.5	...
	Employment change (1)	000s	504.0	714.0	398.0		368.0	386.0	398.0		528.0	...
	Retail sales value	apc	13.7	17.7	7.1		7.8	8.7	8.5		10.3	...
	House prices (2)	apc	19.0	20.3	21.2		21.2	20.5	...		...	...
	PMI manufacturing (1)	index	57.6	58.6	57.1		55.4	56.1	53.0		52.8	...
Consumer confidence (1)(3)	index	111.1	105.7	107.6		108.6	103.2	98.4		95.7	...	
Japan	GDP (1)	qpc				0.0				0.5		
	Industrial production (1)	mpc	-2.4	2.0	0.3		-1.5	-7.5	9.2		...	...
	CPI	apc	0.5	0.9	1.2		2.5	2.5	2.3		2.6	...
	Unemployment rate (1)	%	2.8	2.7	2.6		2.5	2.6	2.6		...	...
	Retail sales value	apc	1.1	-0.9	0.7		3.1	3.7	1.5		...	...
	PMI manufacturing (1)	index	55.4	52.7	54.1		53.5	53.3	52.7		52.1	...
	Consumer confidence (1)(4)	index	36.6	35.1	32.5		32.0	33.1	32.3		30.1	...
Euro area	GDP (1)	qpc				0.5				0.6		
	Industrial production (1)	mpc	-0.9	0.5	-1.7		0.5	2.1	0.7		...	...
	CPI	apc	5.1	5.9	7.4		7.4	8.1	8.6		8.9	...
	Unemployment rate (1)	%	6.9	6.8	6.7		6.6	6.6	6.6		...	...
	Retail sales volume	apc	8.5	5.1	1.9		4.2	0.4	-3.7		...	...
	PMI manufacturing (1)	index	58.7	58.2	56.5		55.5	54.6	52.1		49.8	...
	Consumer confidence (5)	index	-9.6	-9.6	-21.7		-22.1	-21.3	-23.8		-27.0	...
United Kingdom	GDP (1)	qpc				0.8				-0.1		
	Industrial production (1)	mpc	0.9	-0.5	0.3		-0.1	1.3	-0.9		...	...
	CPI	apc	4.9	5.5	6.2		7.8	7.9	8.2		8.8	...
	Unemployment rate (1)	%	4.0	3.8	3.7		3.8	3.8	3.8		...	...
	Retail sales volume	apc	9.6	7.5	1.9		-5.8	-4.7	-5.8		...	...
	House prices (6)	apc	11.2	12.6	14.3		12.1	11.2	10.7		11.0	...
	PMI manufacturing (1)	index	57.3	58.0	55.2		55.8	54.6	52.8		52.1	...
	Consumer confidence (1)(5)	net %	-19.0	-26.0	-31.0		-38.0	-40.0	-41.0		-41.0	...
Australia	GDP (1)	qpc				0.8				...		
	CPI	apc				5.1				6.1		
	Unemployment rate (1)	%	4.2	4.0	3.9		3.9	3.9	3.5		3.4	...
	Retail sales value	apc	5.8	9.1	8.2		11.1	10.2	12.2		...	...
	House Prices (7)	apc				...					...	...
	PMI manufacturing (1)	index	48.4	53.2	55.7		58.5	52.4	54.0		52.5	...
	Consumer confidence (8)	index	102.2	100.8	96.6		95.8	90.4	86.4		83.8	81.2
China	GDP	apc				4.8				0.4		
	Industrial production	apc	7.5	7.5	5.0		-2.9	0.7	3.9		3.8	...
	CPI	apc	0.9	0.9	1.5		2.1	2.1	2.5		2.7	...
	PMI manufacturing (1)	index	50.1	50.2	49.5		47.4	49.6	50.2		49.0	...
South Korea	GDP (1)	qpc				0.6				0.7		
	Industrial production (1)	mpc	0.4	0.3	1.2		-3.2	0.2	1.9		...	...
	CPI	apc	3.6	3.7	4.1		4.8	5.4	6.0		6.3	...

(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