



TE TAI ŌHANGA  
THE TREASURY

# Commerce Teachers' Professional Development day

Wellington, 30 November

# Key points of presentation

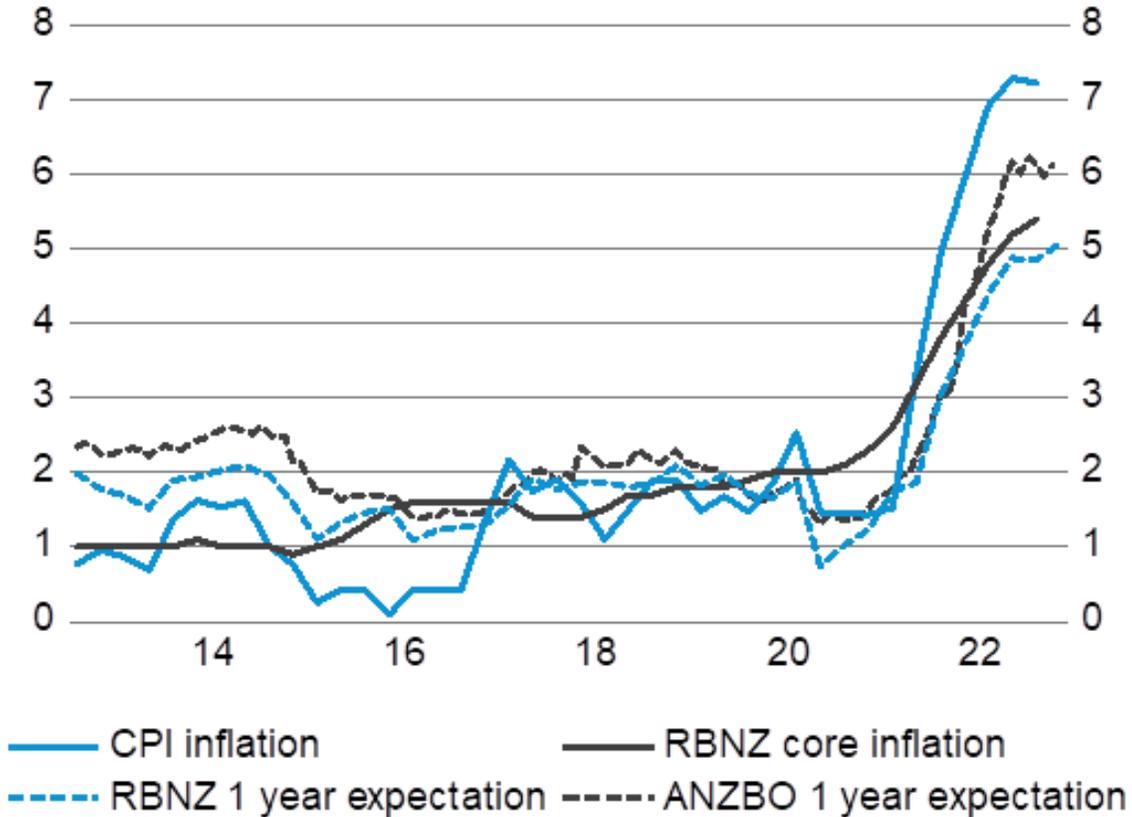
- **Activity remains strong**, pricing pressure intense, labour markets are tight, and wage pressure evident
- **Tradables inflation remains relatively persistent**, reflecting both global price pressures and lower exchange rate
- **Higher policy rates** needed to tame inflation, raising the risk of a sharper slowdown next year
- **Activity is expected to ease**, lowering demand for labour and **lifting unemployment**

# Inflation developments remain key to the outlook

## CPI inflation

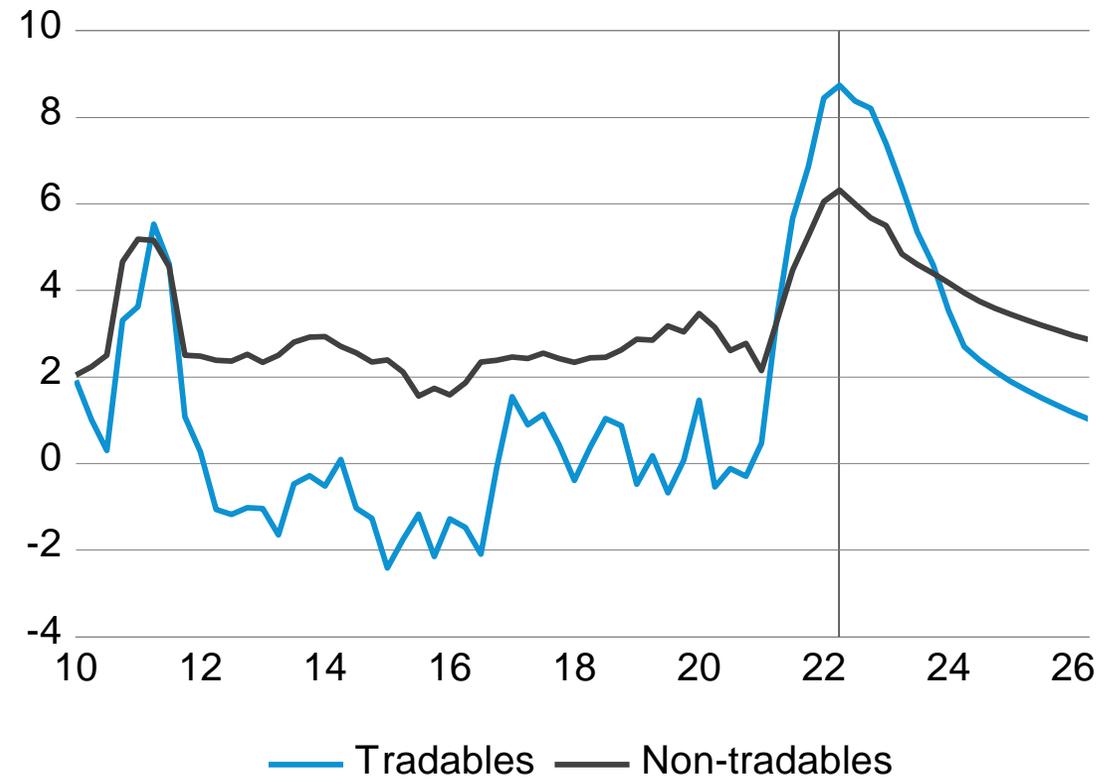
Annual % change

Annual % change



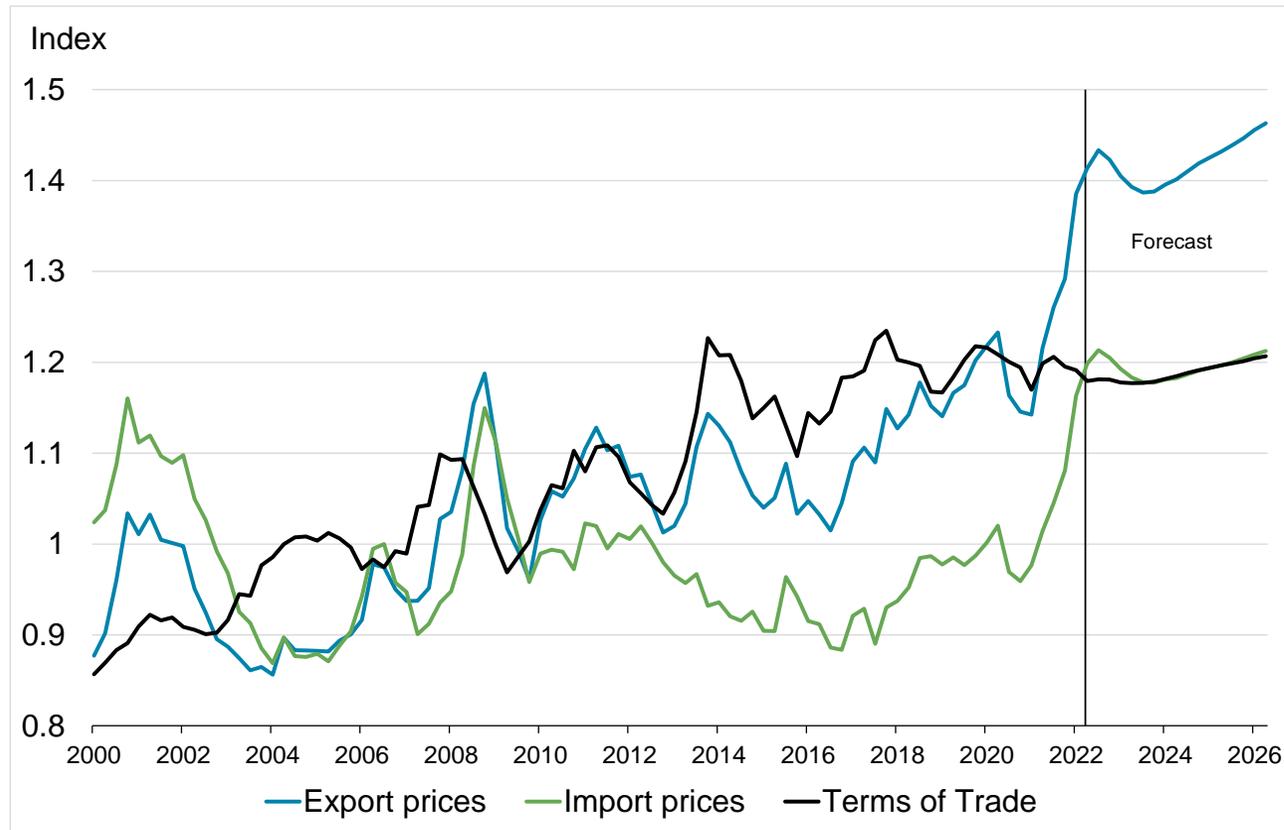
## Inflation mix

Annual % change

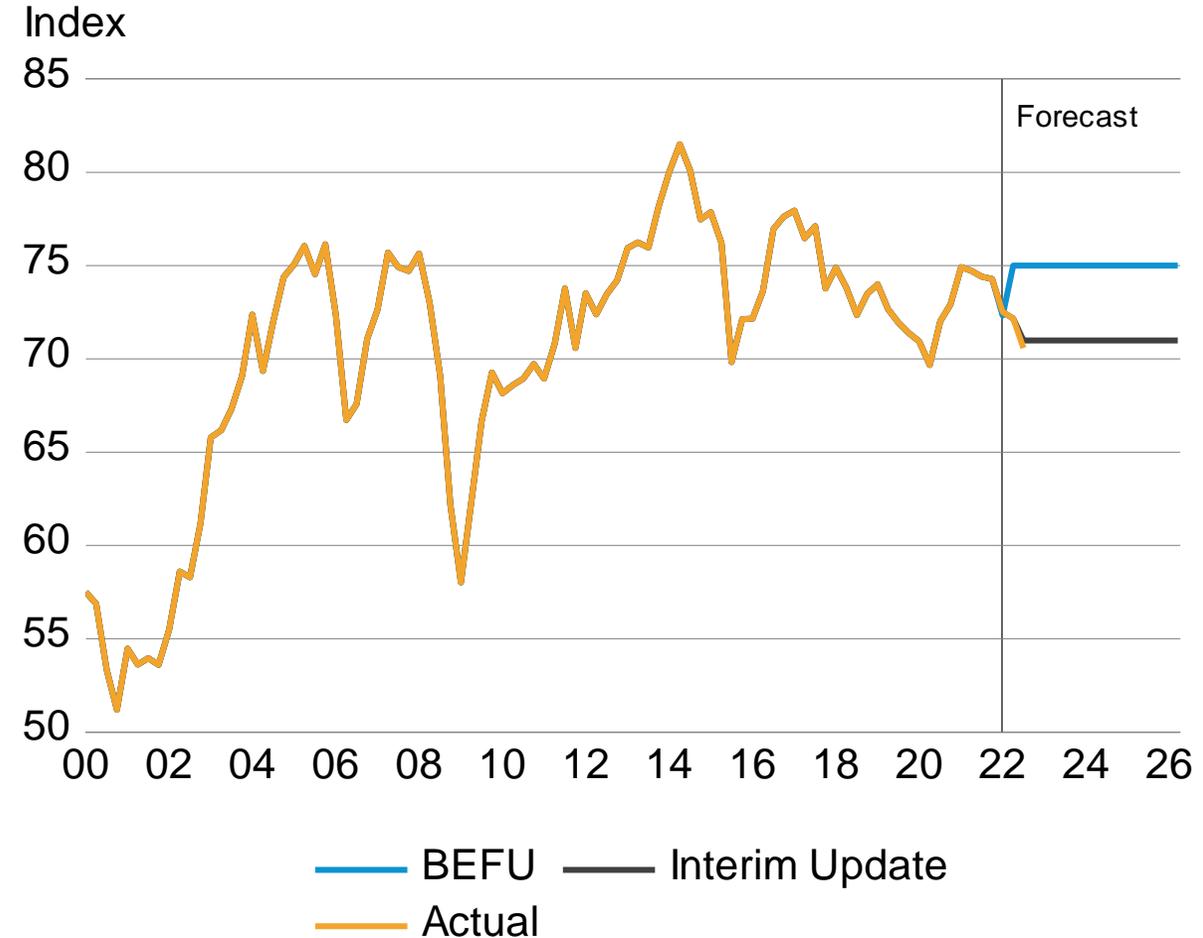


# International scene is adding to domestic inflation pressures...

## Terms of trade

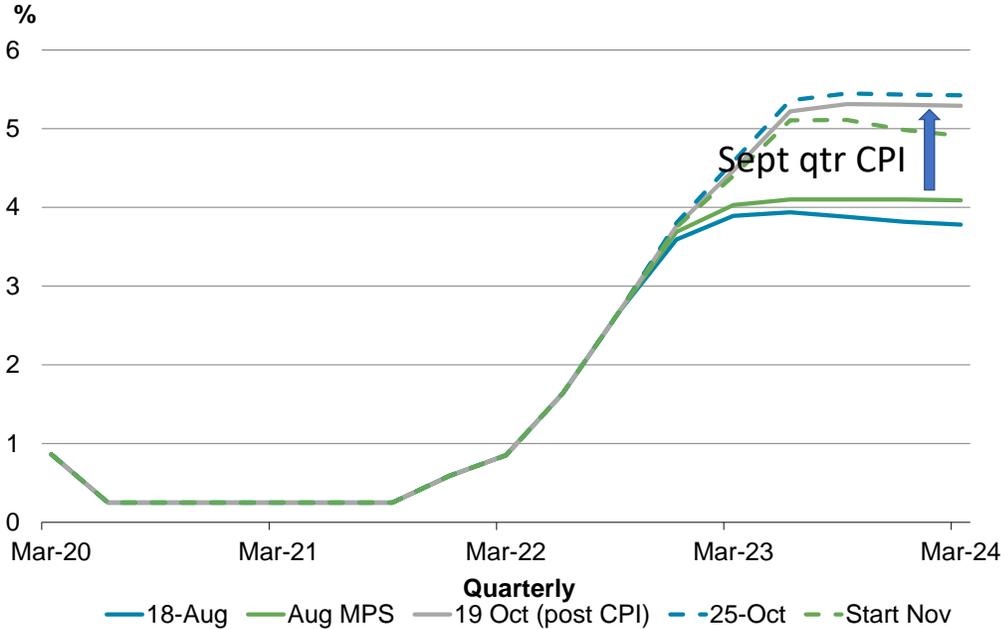


## Trade weighted index

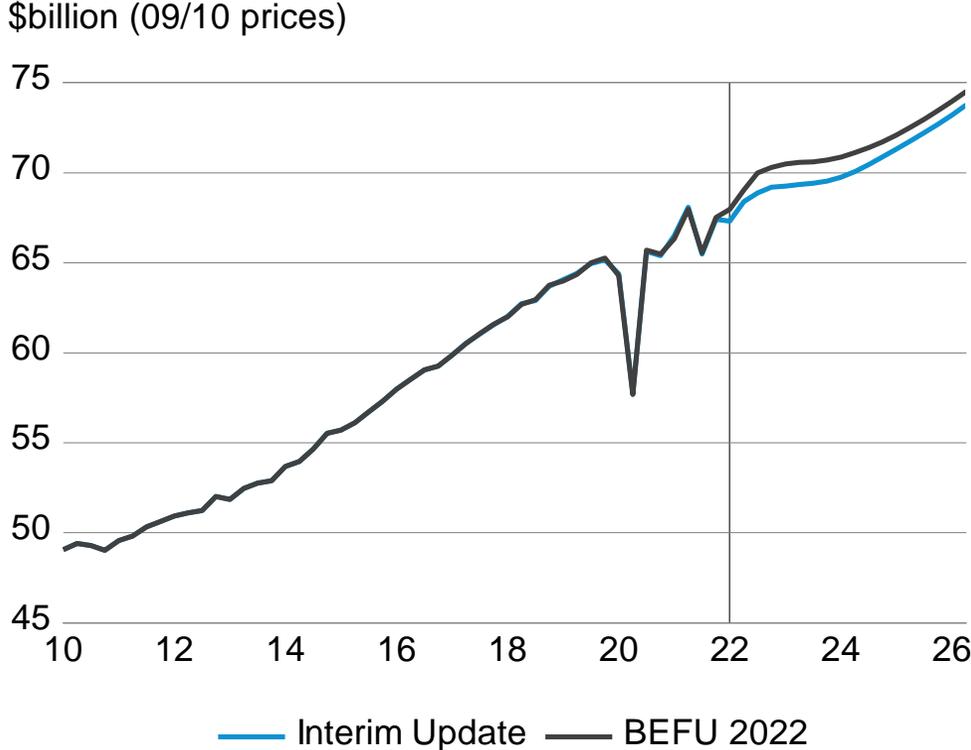


# As policy response should ultimately constrains activity

Interest rates (90-days) are expected to continue to rise...

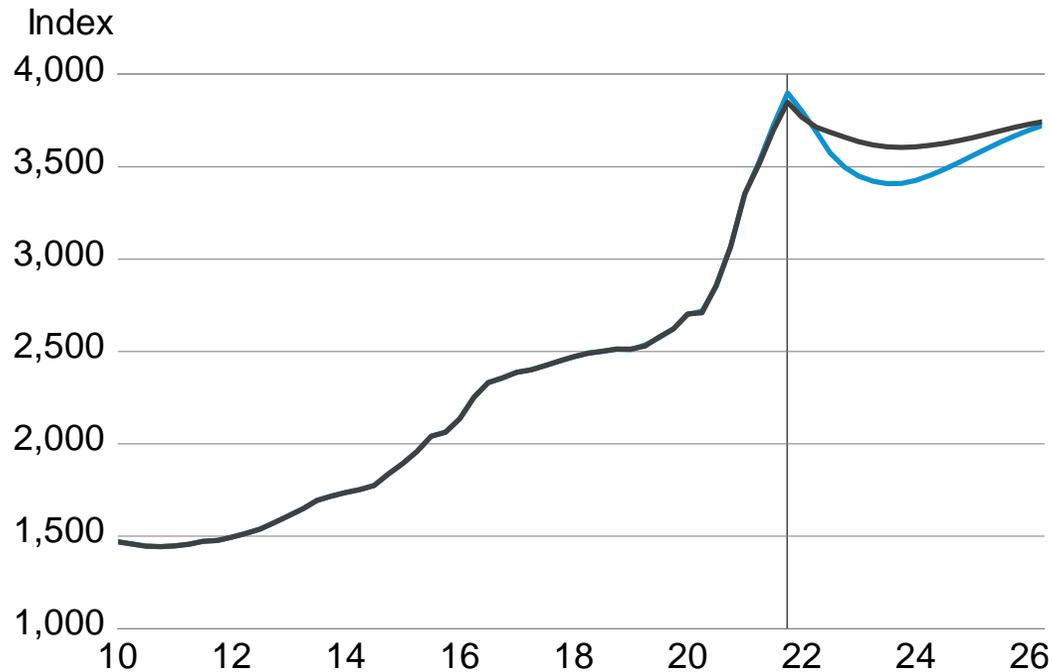


.... and activity (Real GDP) slows



# ... House prices have fallen and residential activity to fall

## House prices



— Interim Update — BEFU 2022

- House prices to fall approximately 13% from peak.
- But still around 30% above pre-COVID levels.
- Risks tilted towards slightly greater falls.

## Residential investments

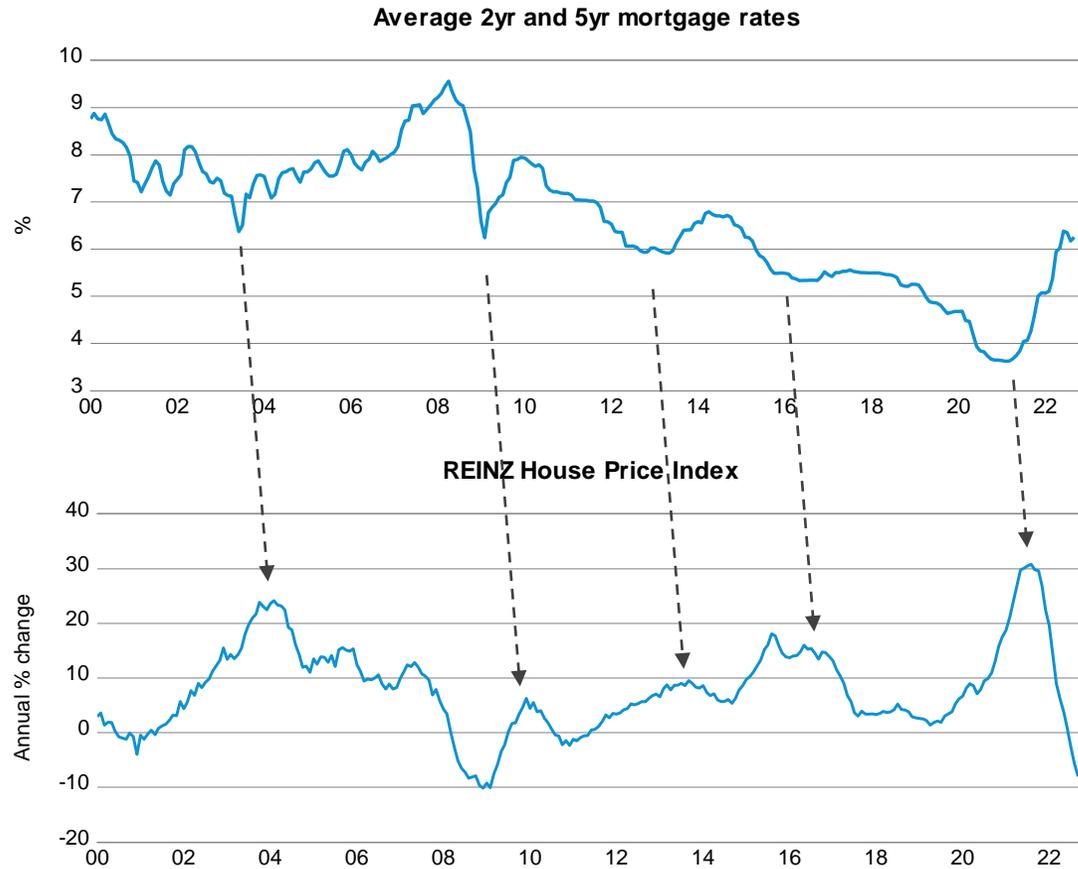


— Interim Update — BEFU 2022

- Existing pipeline of work should see residential investment hold around current levels throughout 2022 before moderating over 2023.

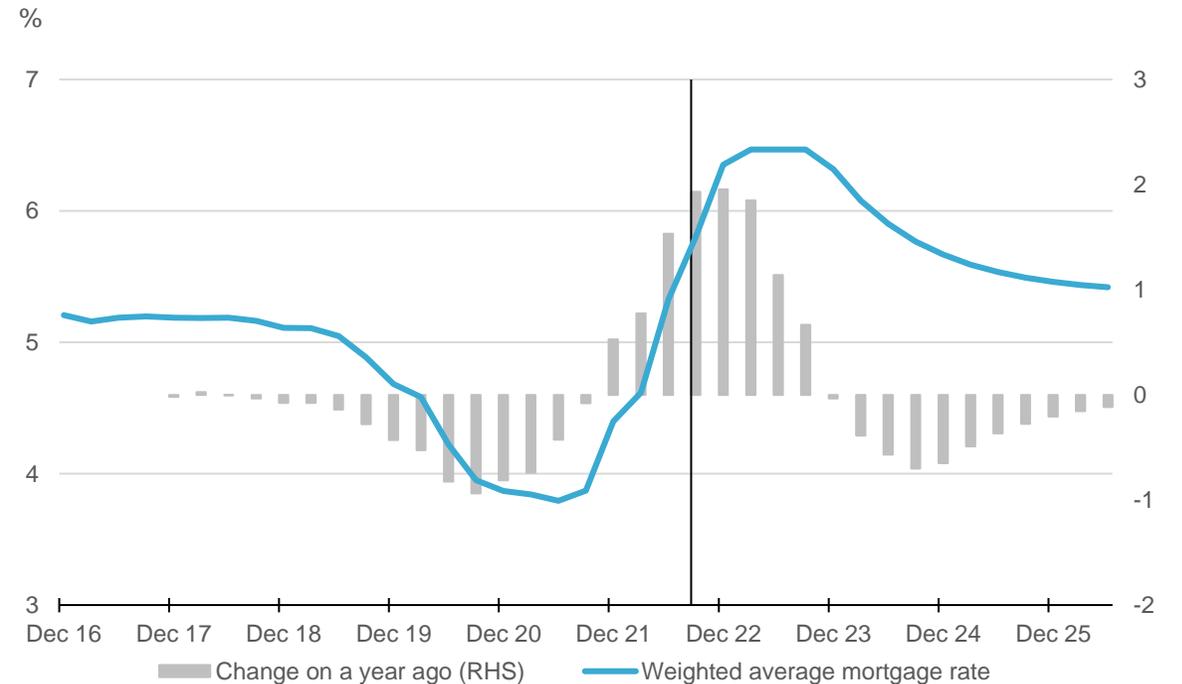
# Higher interest rates impact on households...

## Interest rates impact household wealth...



## .... and budgets

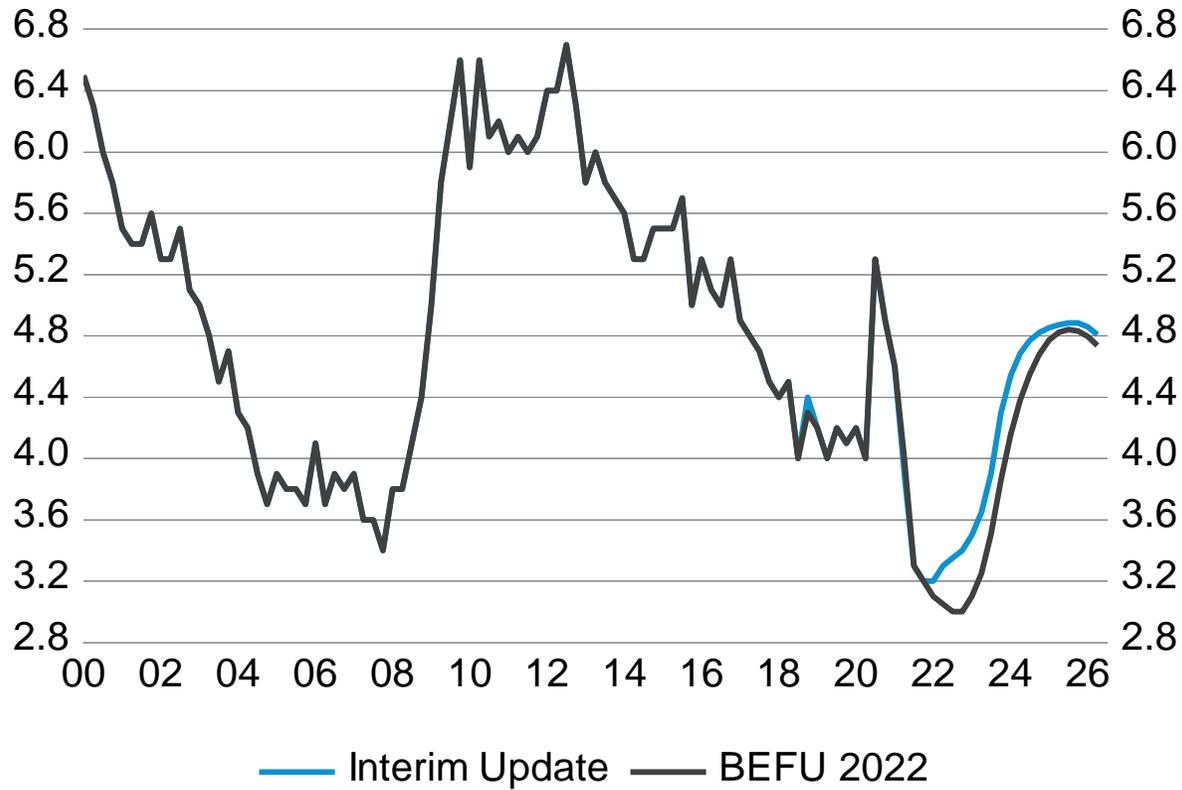
### Weighted average mortgage rates



# Labour market adjustment still to come...

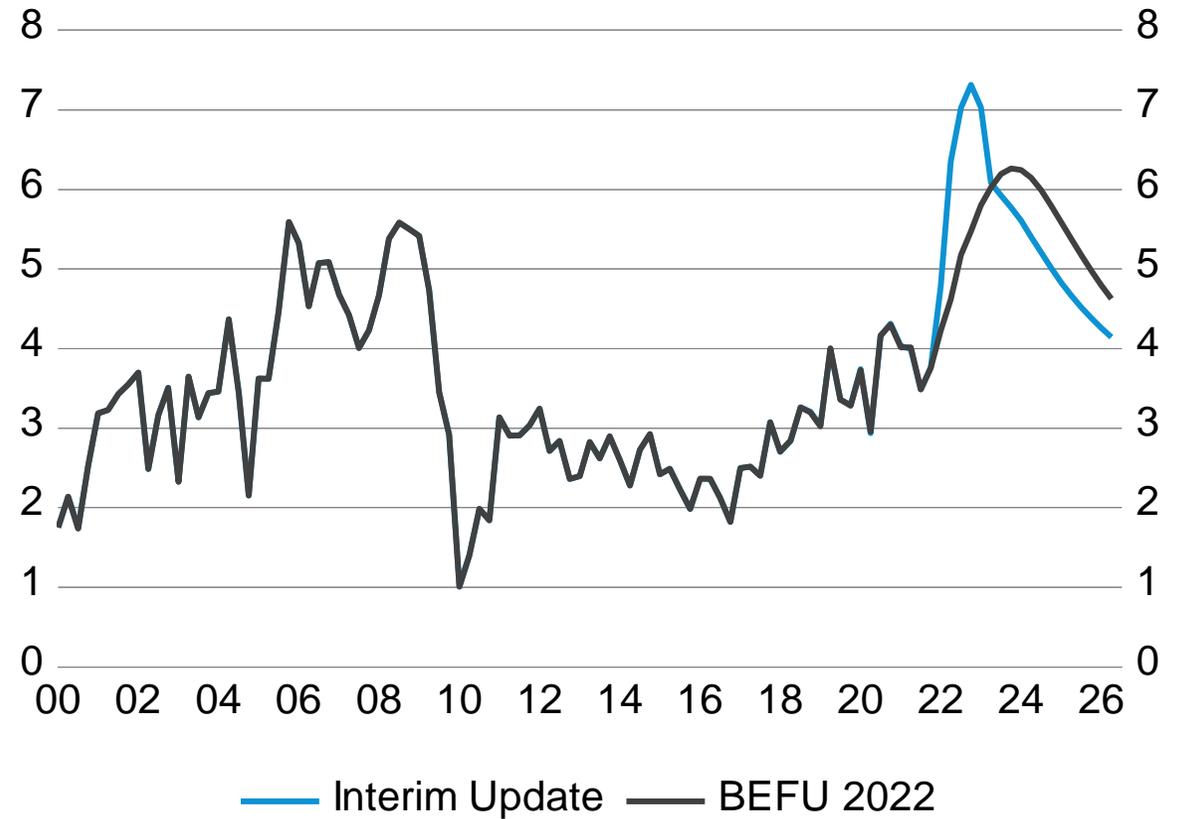
## Unemployment

% of labour force

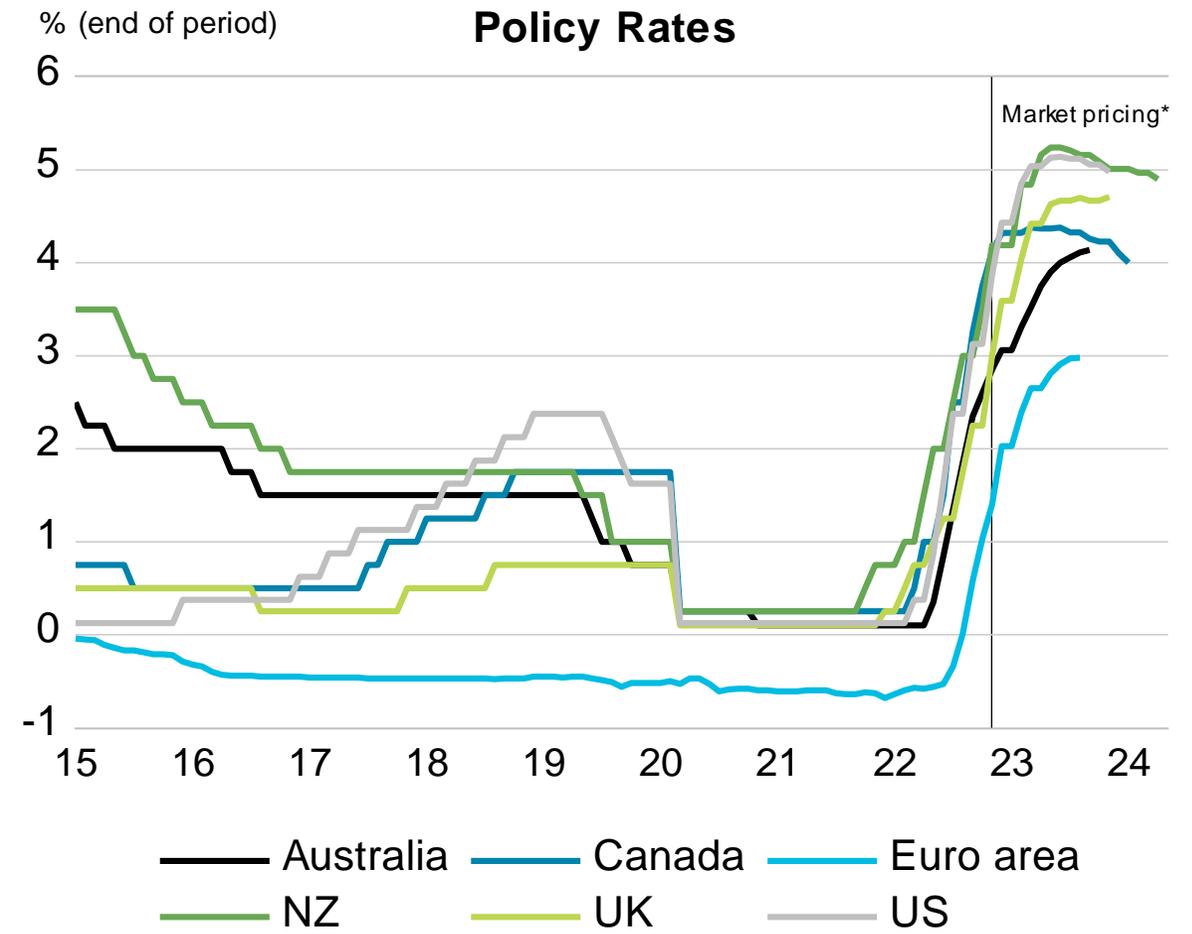
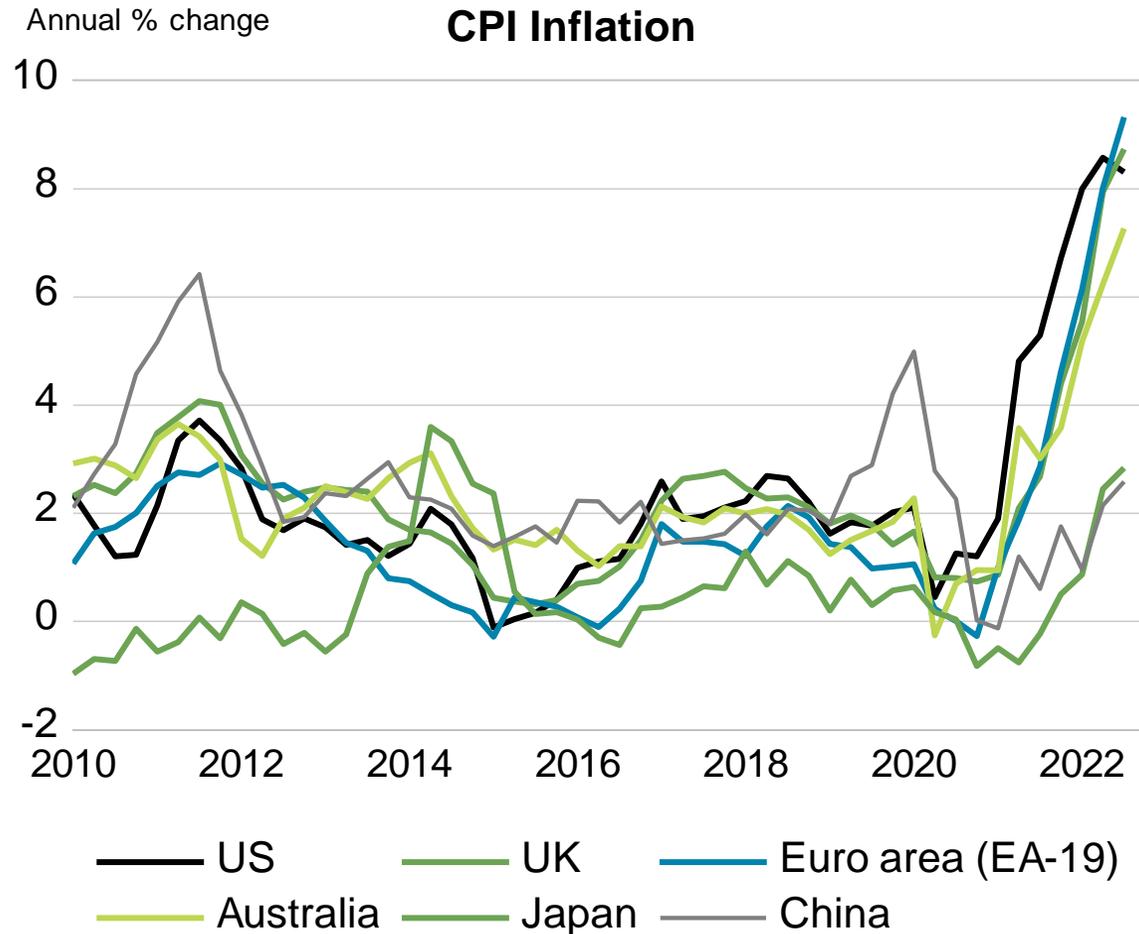


## Wage inflation

Annual % change



# Globally, economies face the same challenges...



\*as at 4/11/22, source: ANZ

# IMF “Storm clouds gather over global economy”

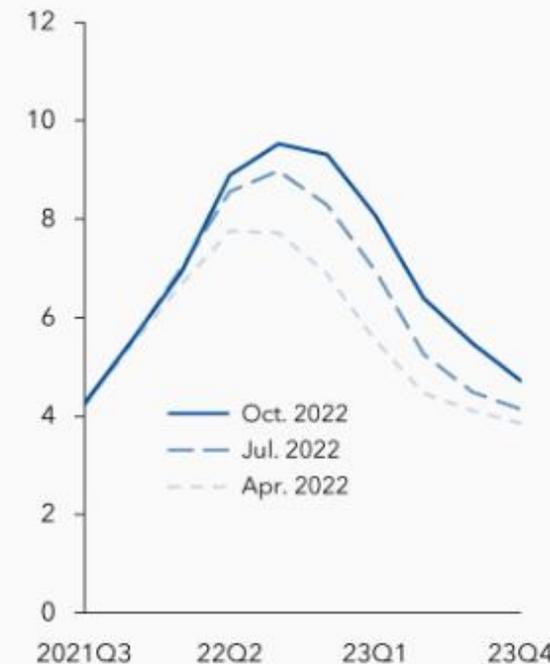
- Three powerful forces at work
  - the Russian invasion of Ukraine,
  - the cost-of-living crisis caused by persistent inflation,
  - and the slowdown in China.
- Policy process is underway, likely requiring a recession to return US and global inflation back to central bank targets.
- The geopolitical realignment of energy supplies in the wake of the war is both broad and permanent and not a transitory shock.
- 1/3 of world economy to contract as real incomes shrink and prices rise.
- 25% chance that global GDP is below 2% in 2023

## Persistent price pressures

Global inflation is broadening, and forecast to peak at 9.5% this year before decelerating to 4.1% by 2024.

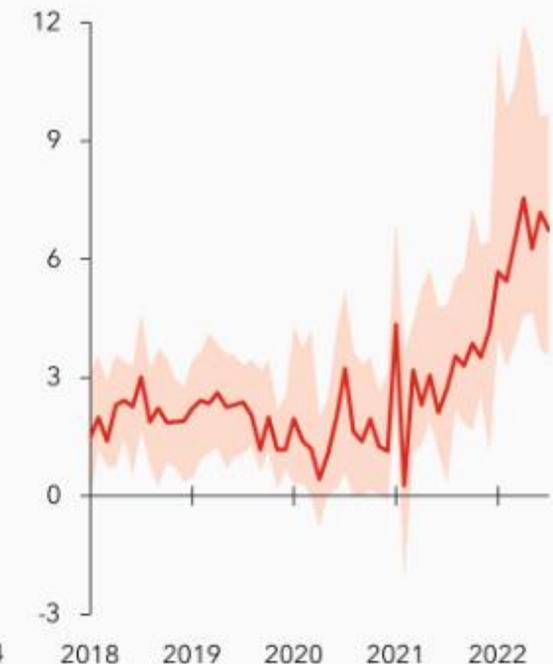
### Projected inflation path

(world headline; percent; year-over-year)



### Core inflation

(median; percent; annualized month-over-month)



# Summary

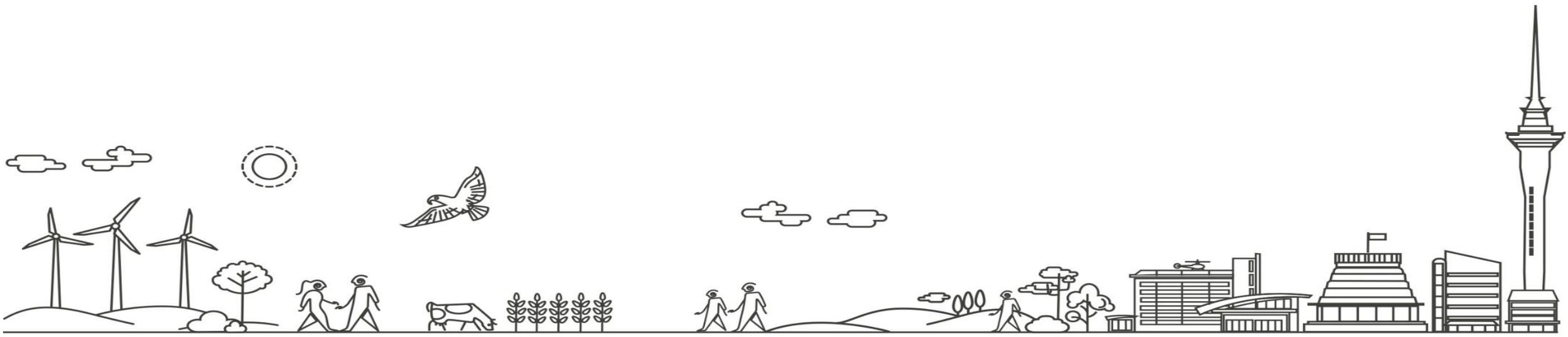
- The NZ economy still has momentum, and we are yet to reach a turning point
- Inflation has built up a head of steam, and cooling it down is likely to slow growth and lift unemployment



# Where have all the economics graduates gone?

- Long-term decline in (macro)economics graduates & quant skills more generally
- More competition for high-quality students
- Difficult to recruit from abroad for the skills we need
- What trends do you see at school level?

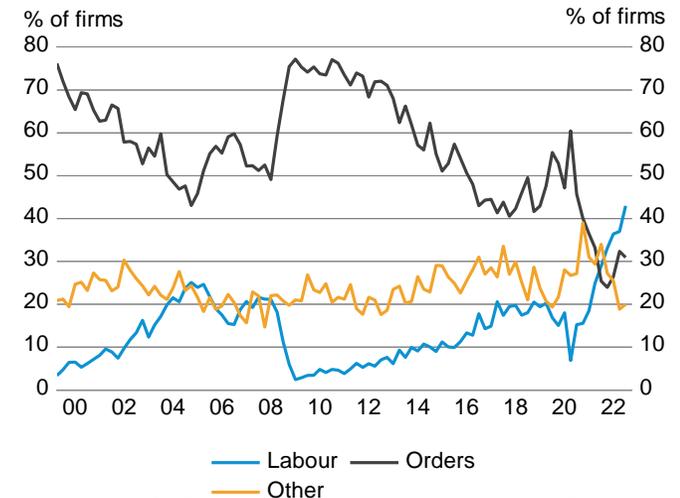




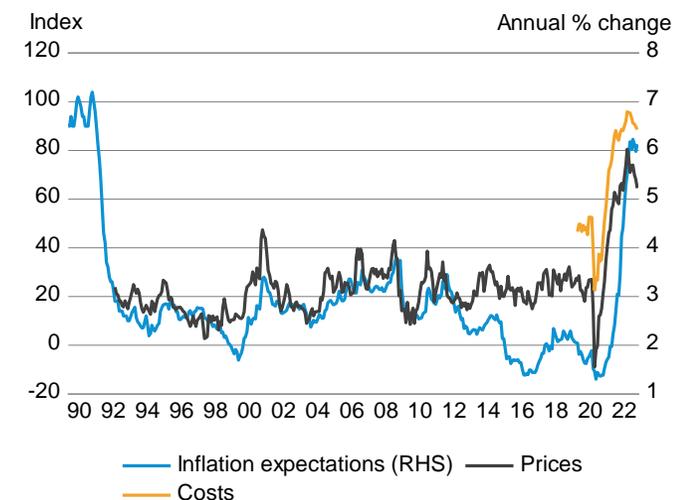
# What businesses told us & the data is saying...

- **Demand is holding up** (perhaps more than expected)  
**Electronic cards**
- **Inflation pressures remain intense** with costs increasing and despite a reasonable degree of pass through, margins are compressing **CPI, ANZBO, QSBO**
- **Labour market exceptionally tight** with wages rising and in some cases reviewed more regularly **Sept qtr l/mkt**
- **Labour shortages the biggest barrier to growth**
- **Tourism recovery underway**, particularly trans-Tasman **Int'l travel stats**. Yet to see noticeable forward bookings for long-haul. Expect this to pick up but risk that it is late or misses current season
- Remain a little cautious about data volatility

## Labour the biggest constraint

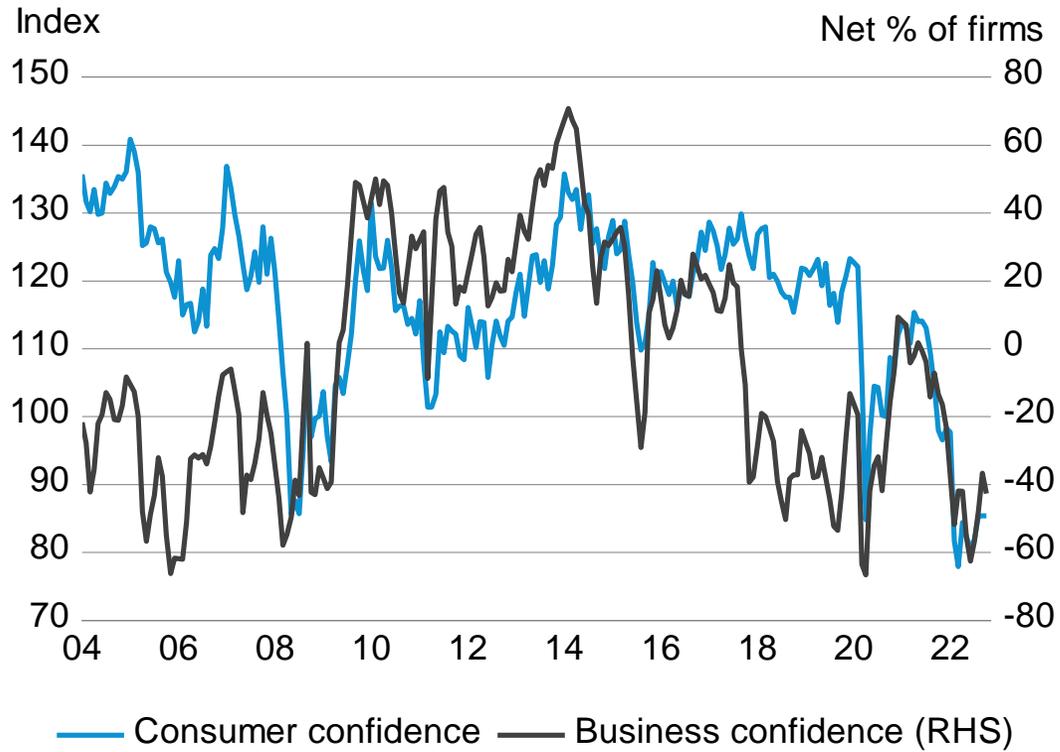


## ANZ Price & cost expectations



# We expect a slowdown in domestic demand

## ANZ Confidence



## Domestic Demand

