



Commerce Teachers' Professional Development day

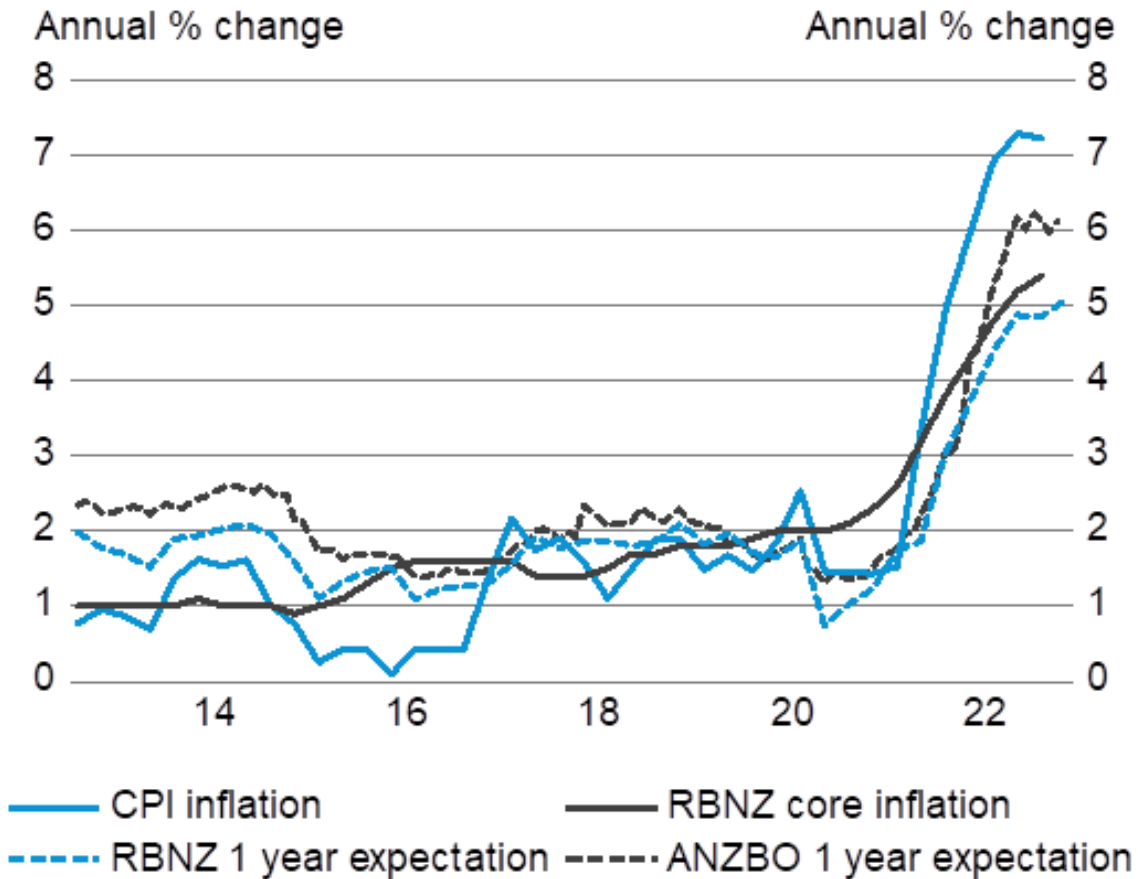
Wellington, 30 November

Key points of presentation

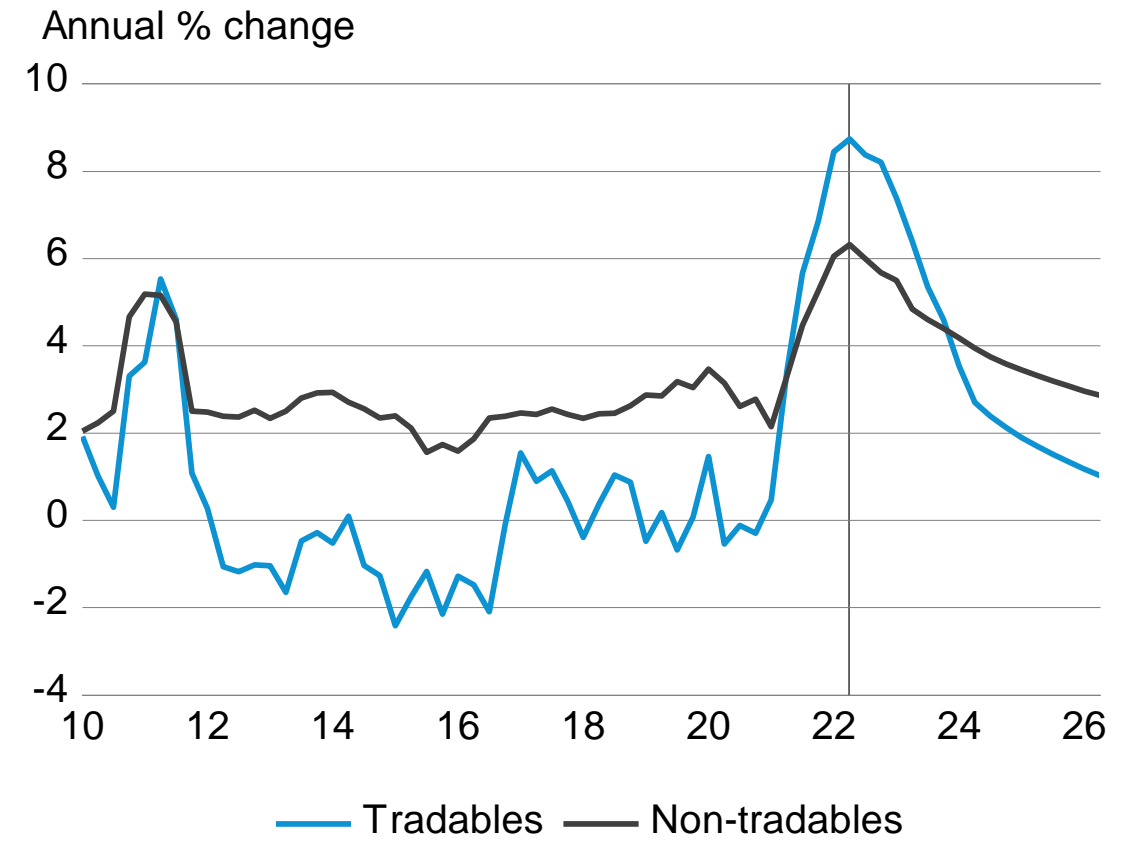
- **Activity remains strong**, pricing pressure intense, labour markets are tight, and wage pressure evident
- **Tradables inflation remains relatively persistent**, reflecting both global price pressures and lower exchange rate
- **Higher policy rates** needed to tame inflation, raising the risk of 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

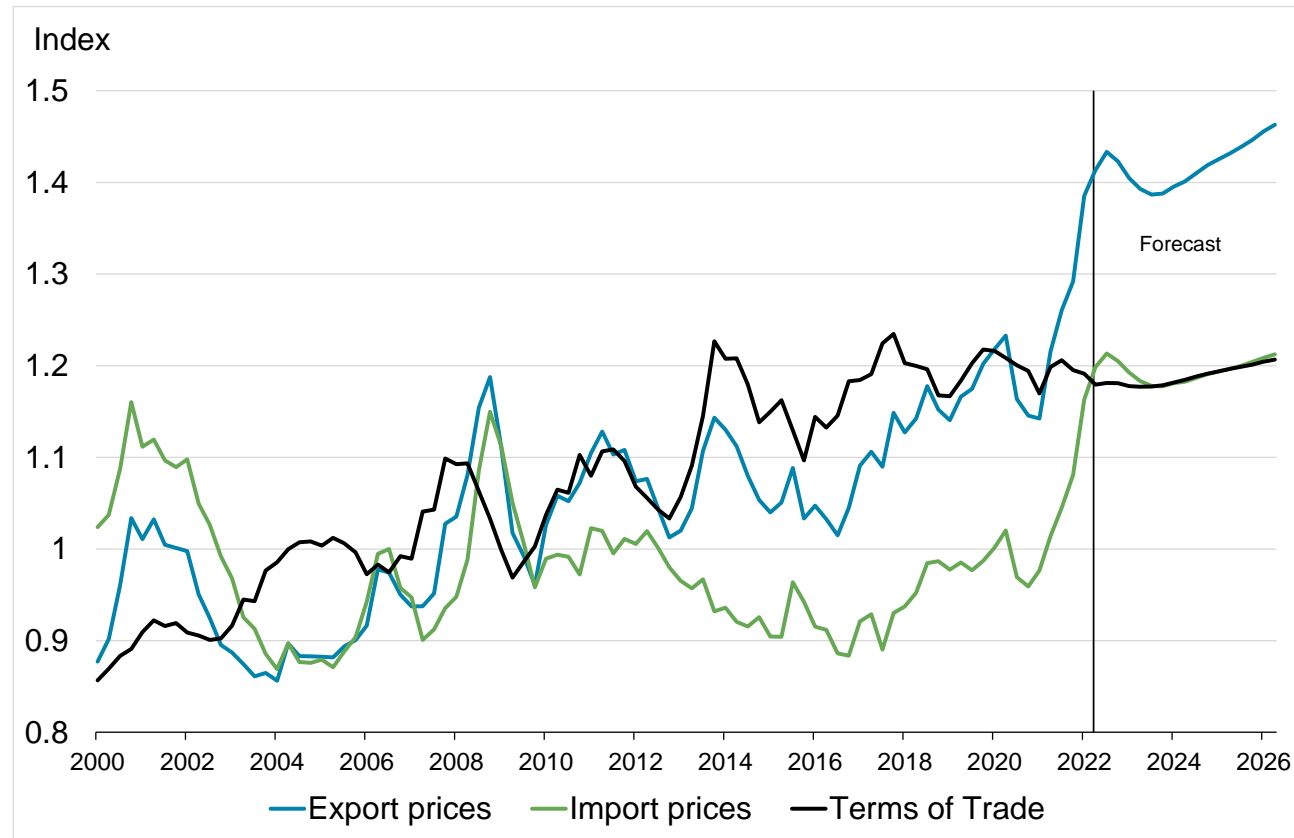


Inflation mix

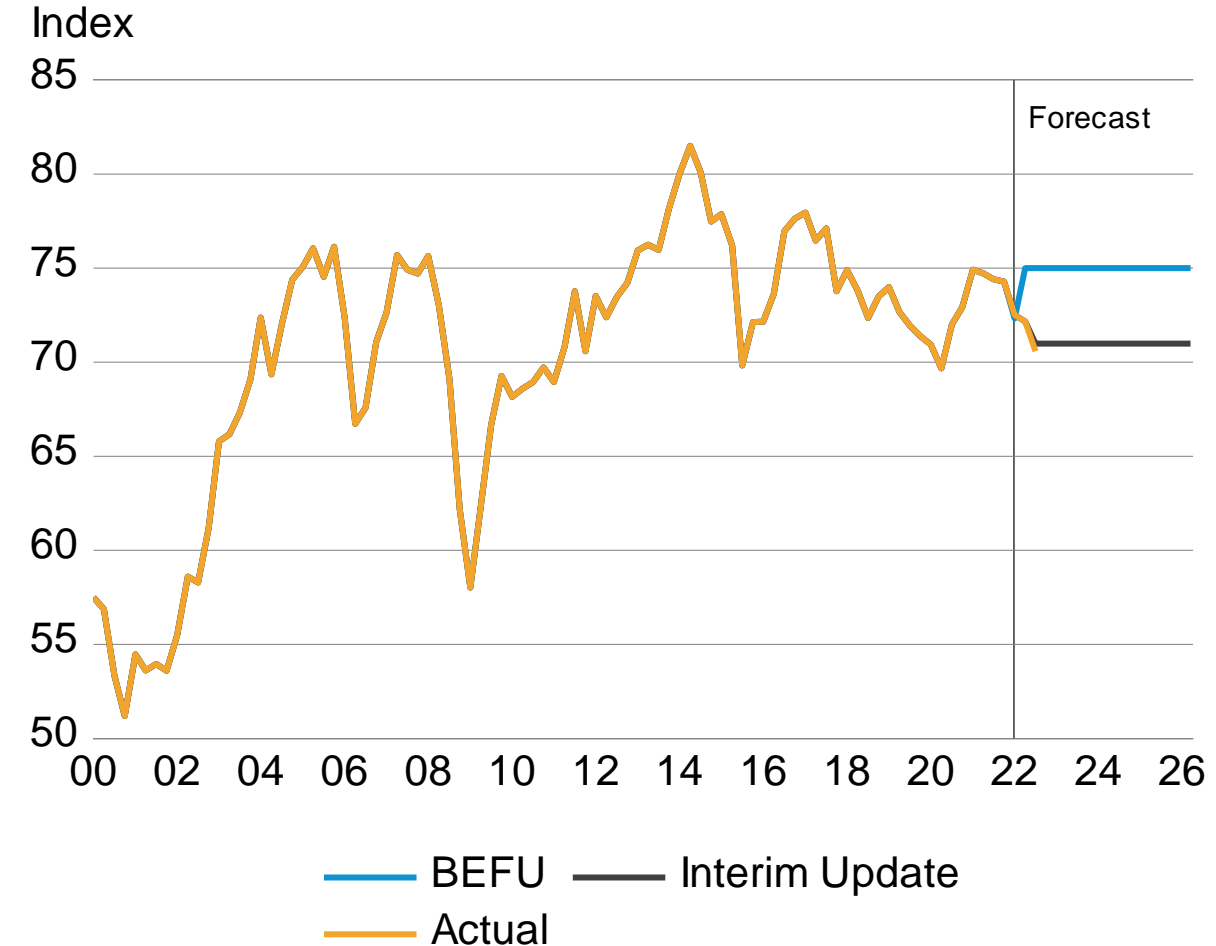


International scene is adding to domestic inflation pressures...

Terms of trade

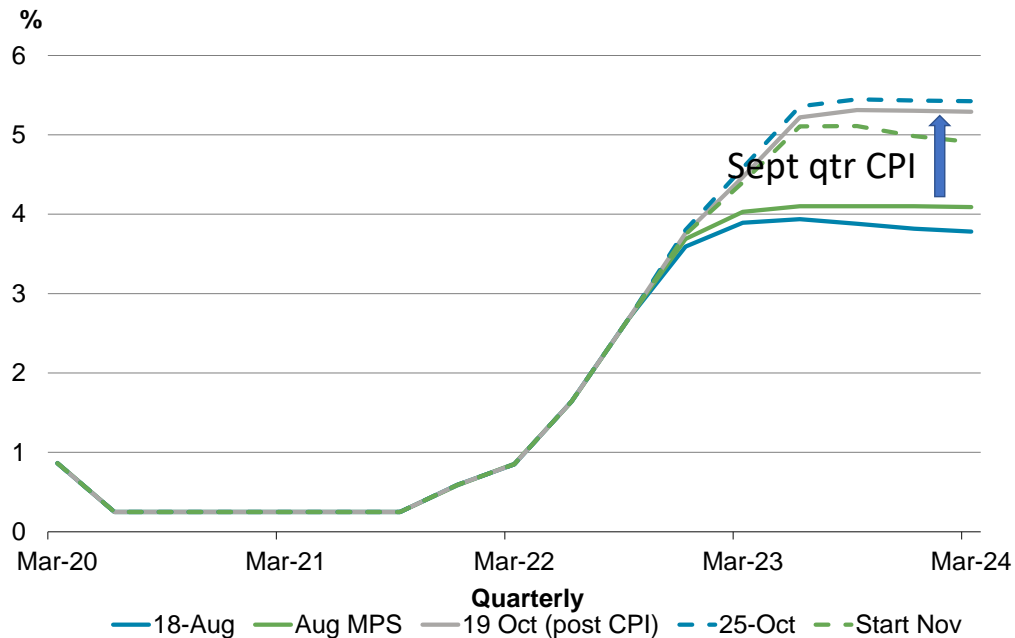


Trade weighted index



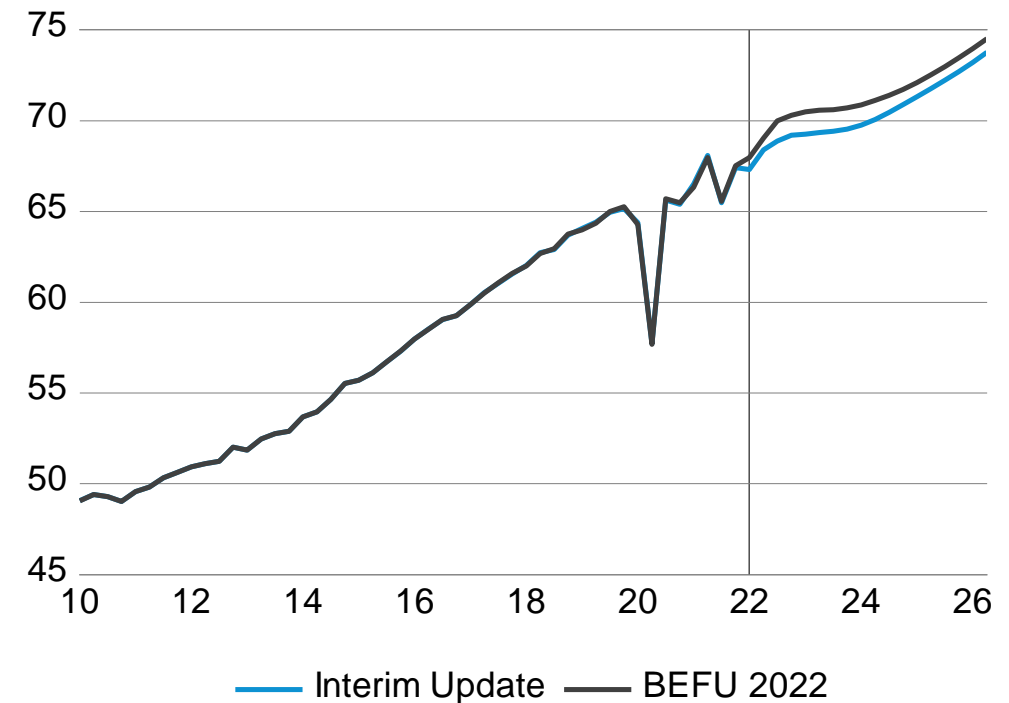
As policy response should ultimately constrains activity

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



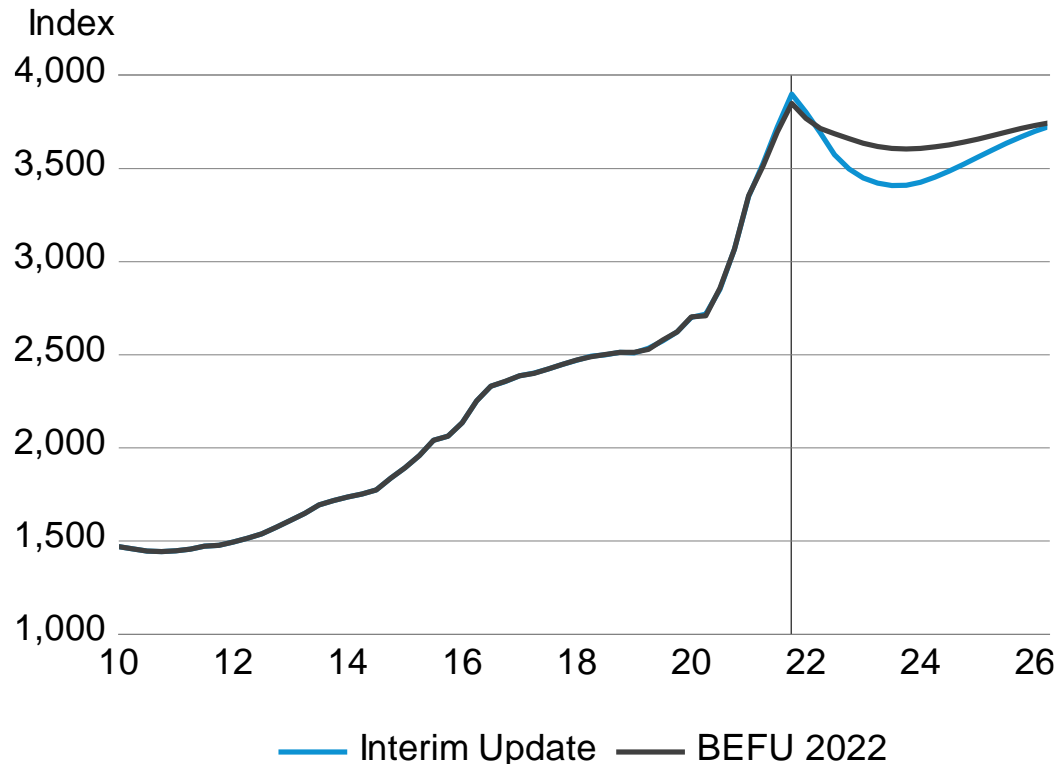
.... and activity (Real GDP) slows

\$billion (09/10 prices)



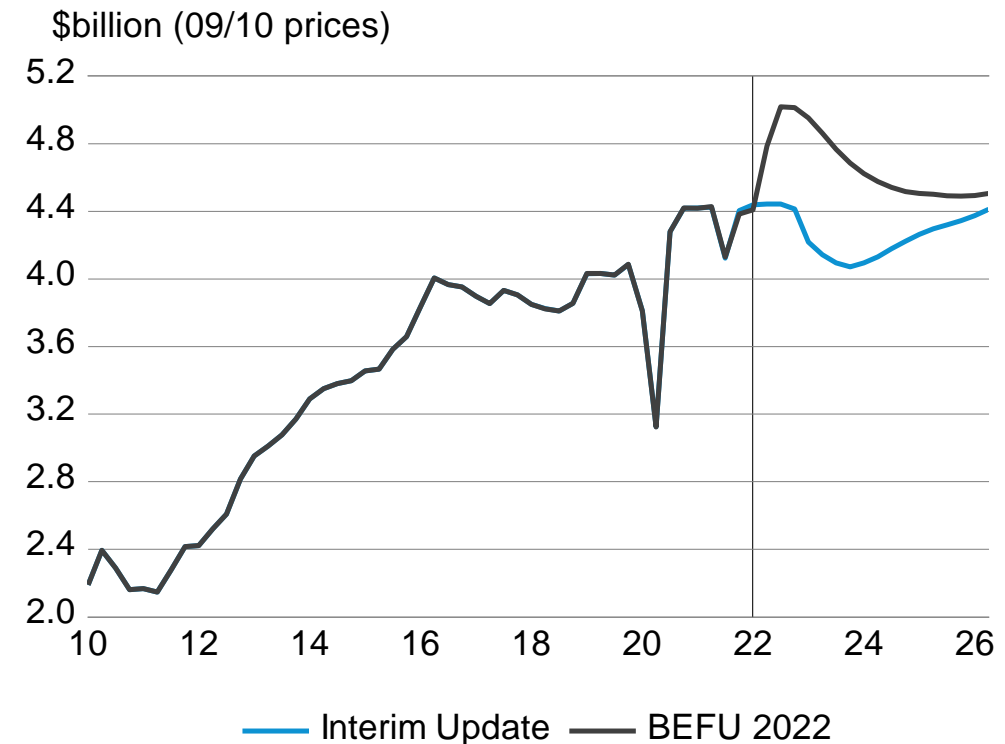
... House prices have fallen and residential activity to fall

House prices



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

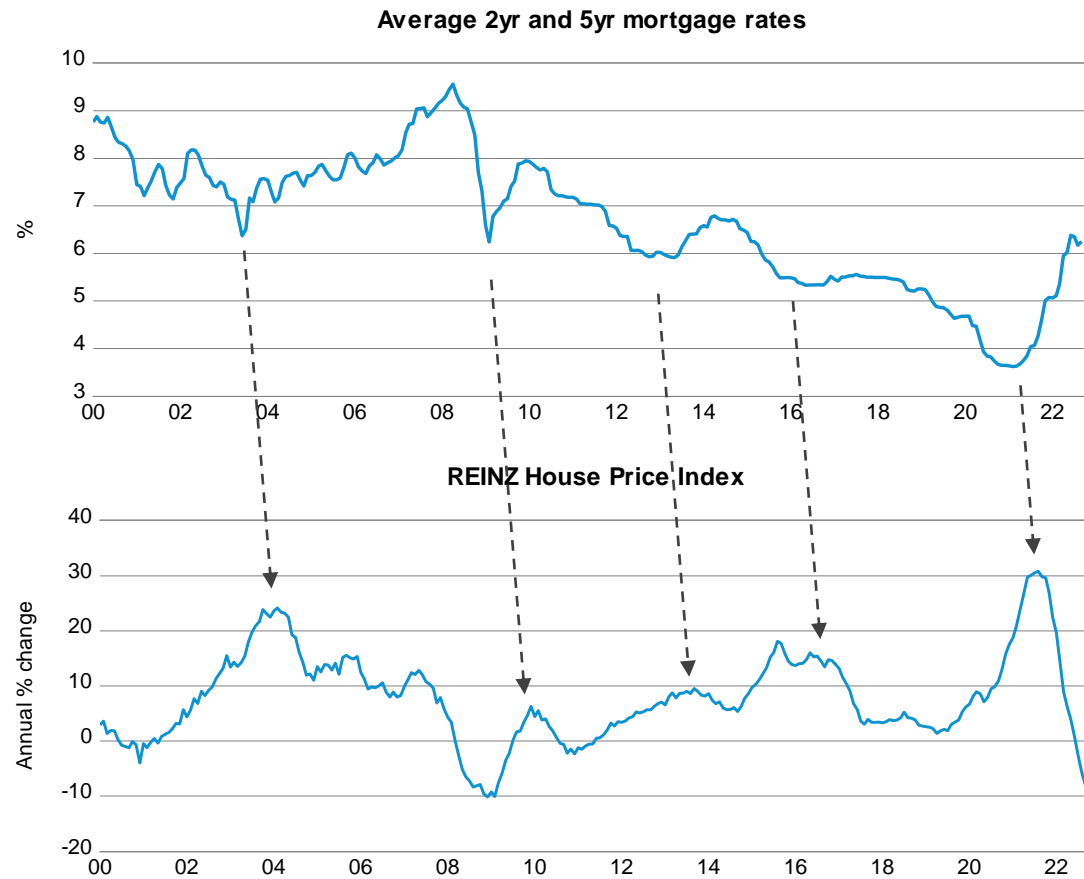
Residential investments



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

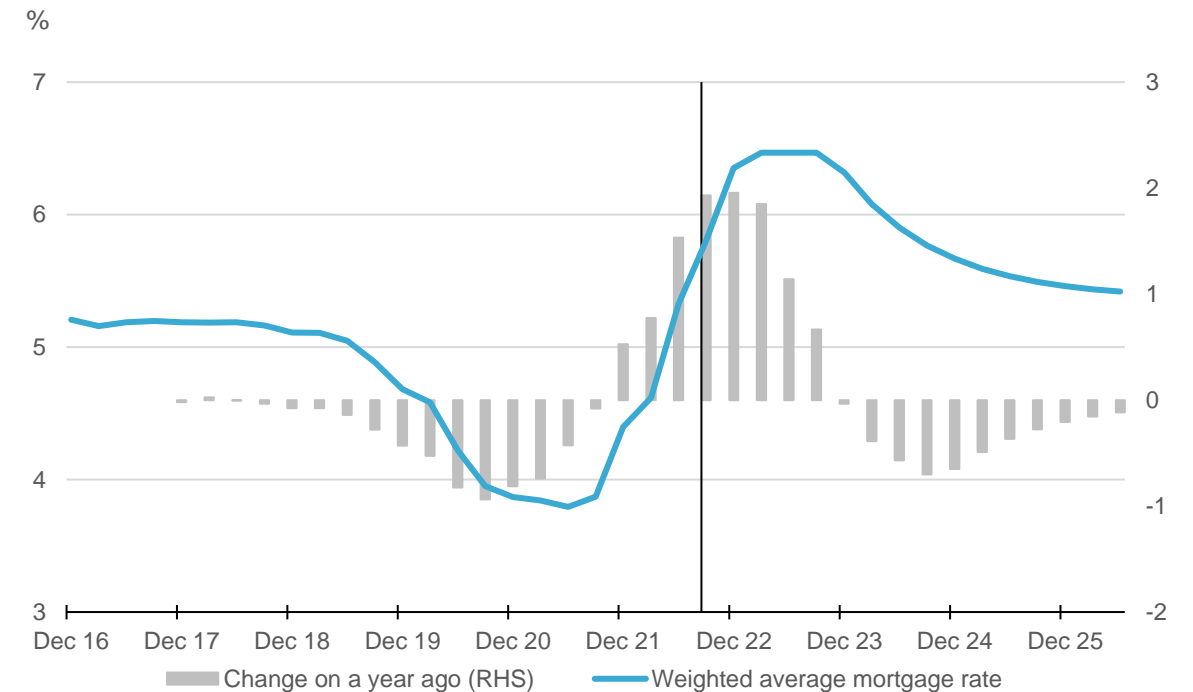
Higher interest rates impact on households...

Interest rates impact household wealth...



.... and budgets

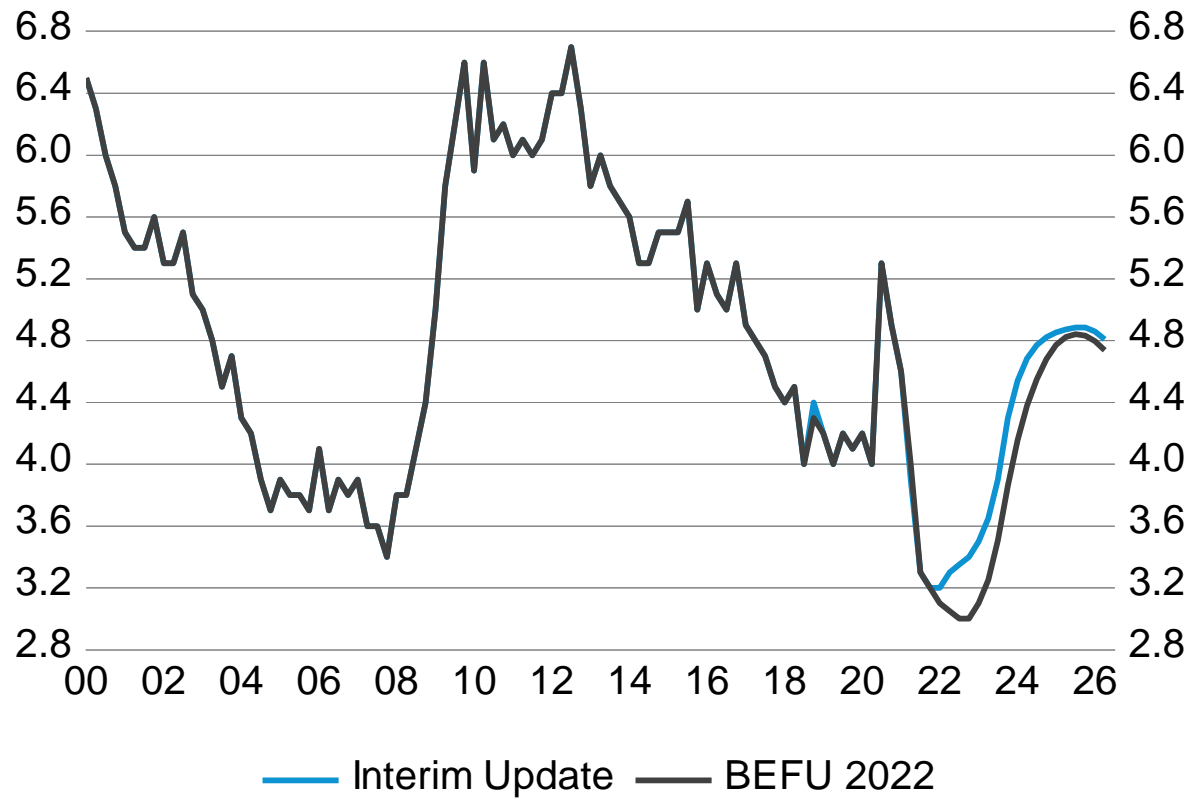
Weighted average mortgage rates



Labour market adjustment still to come...

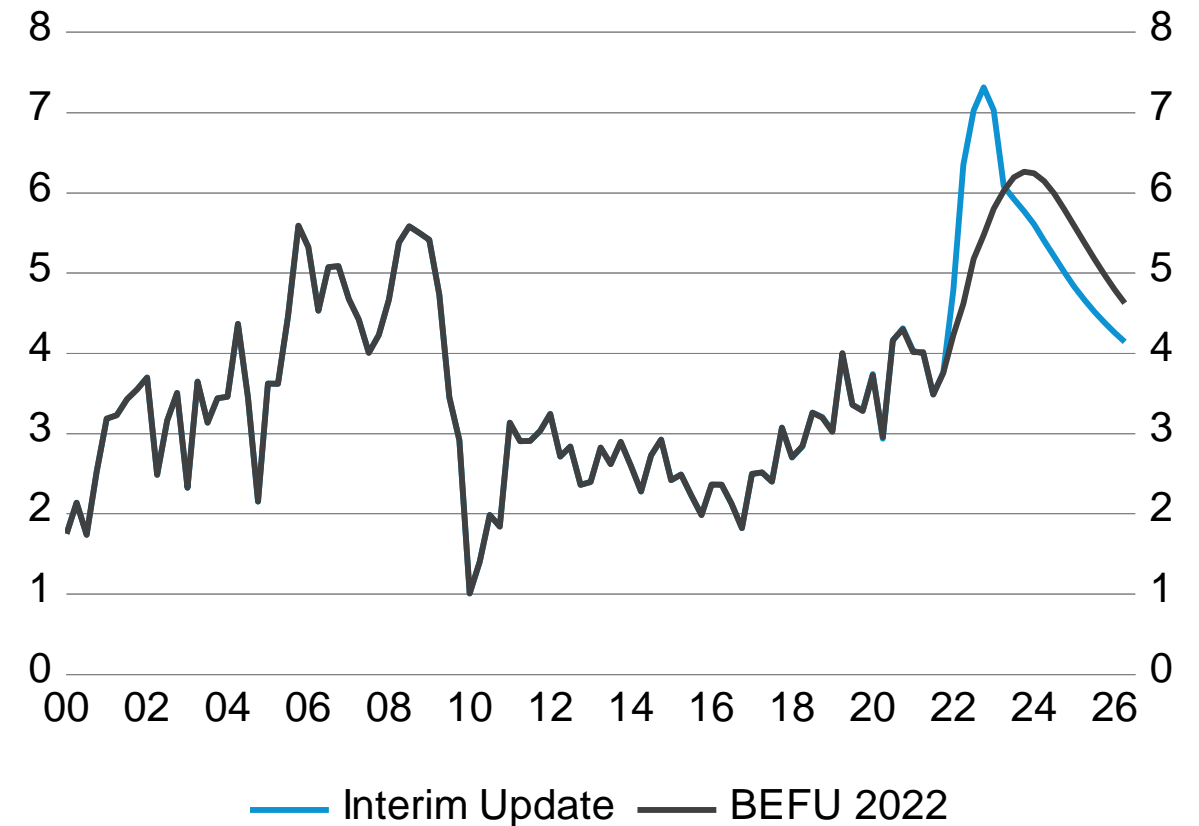
Unemployment

% of labour force

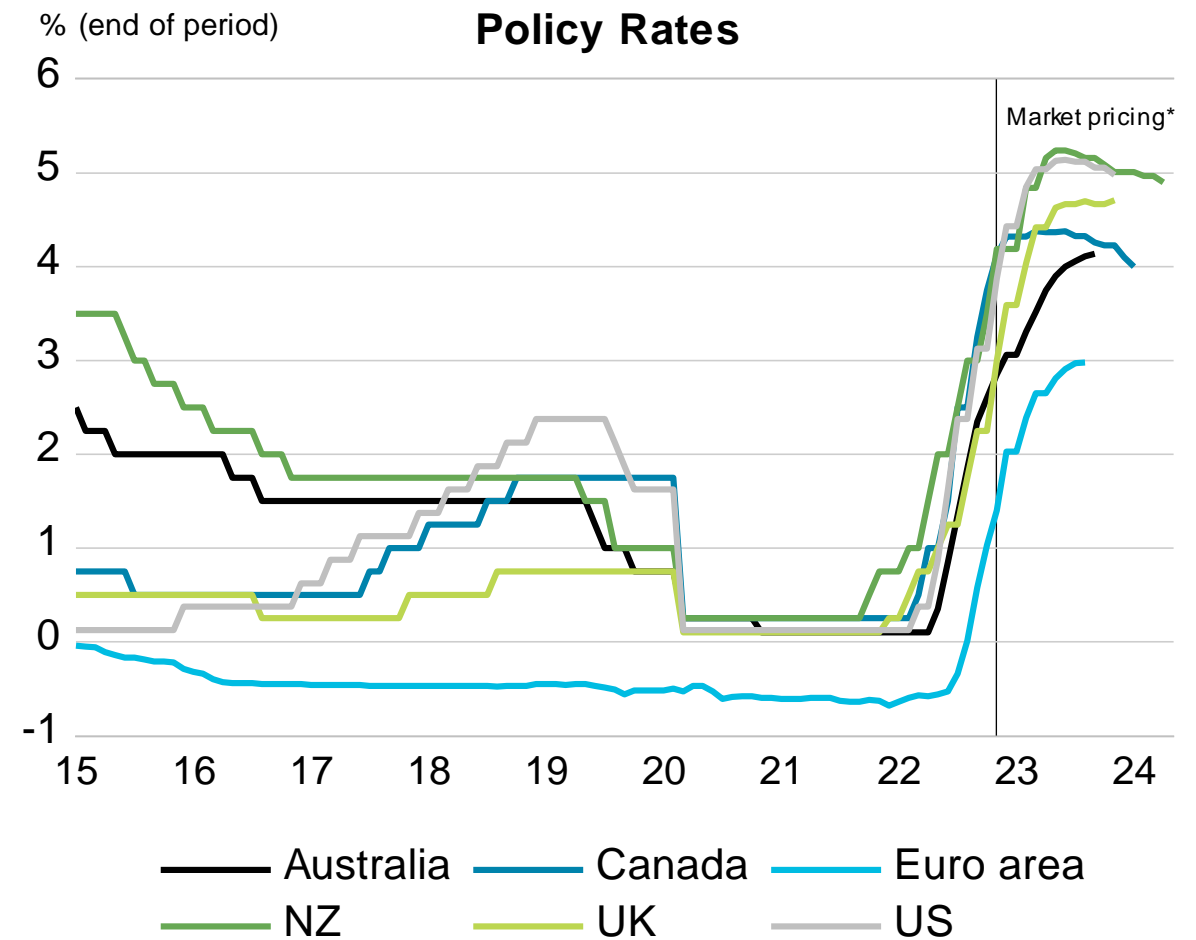
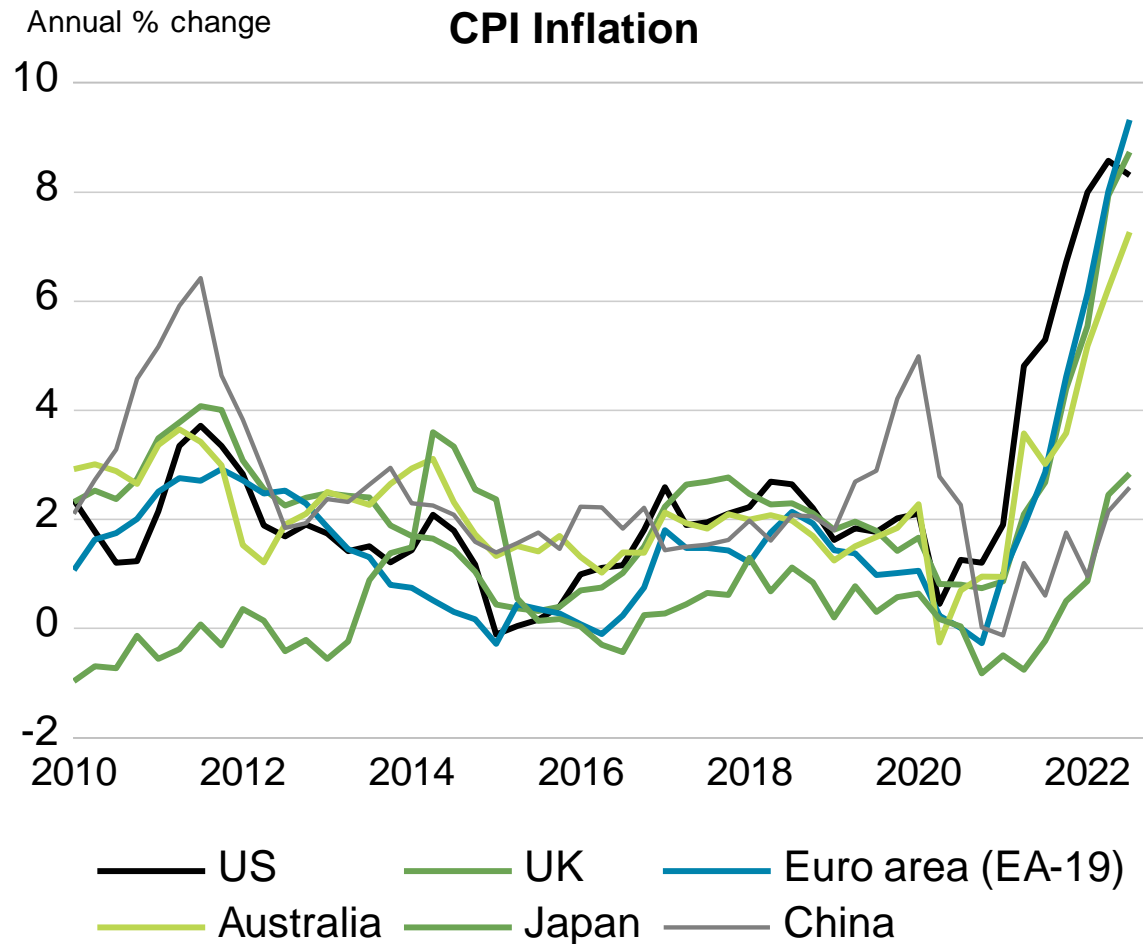


Wage inflation

Annual % change



Globally, economies face the same challenges...



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

IMF “Storm clouds gather over global economy”

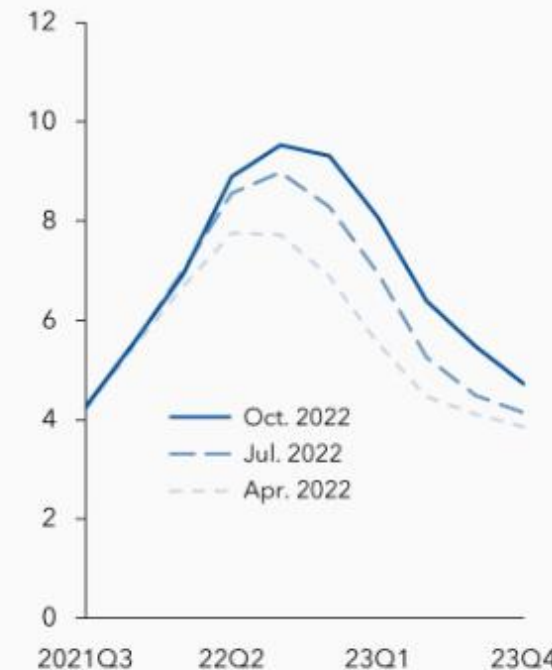
- Three powerful forces at work
 - the Russian invasion of Ukraine,
 - the cost-of-living crisis caused by persistent inflation,
 - and the slowdown in China.
- Policy process is underway, likely requiring a recession to return US and global inflation back to central bank targets.
- The geopolitical 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.

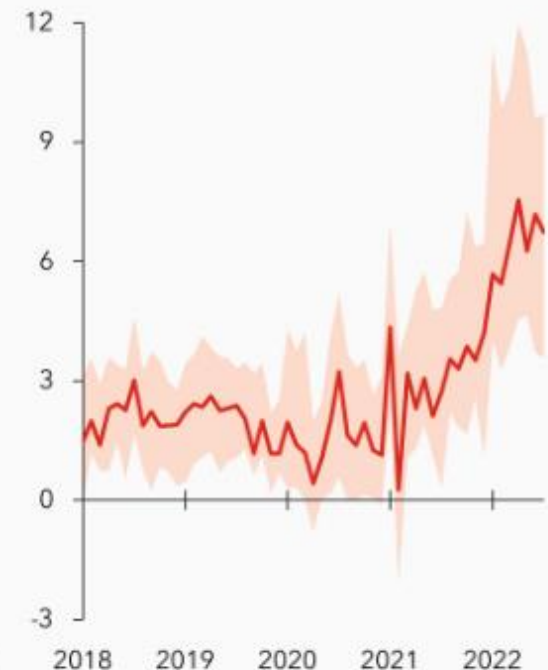
Projected inflation path

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



Core inflation

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



Summary

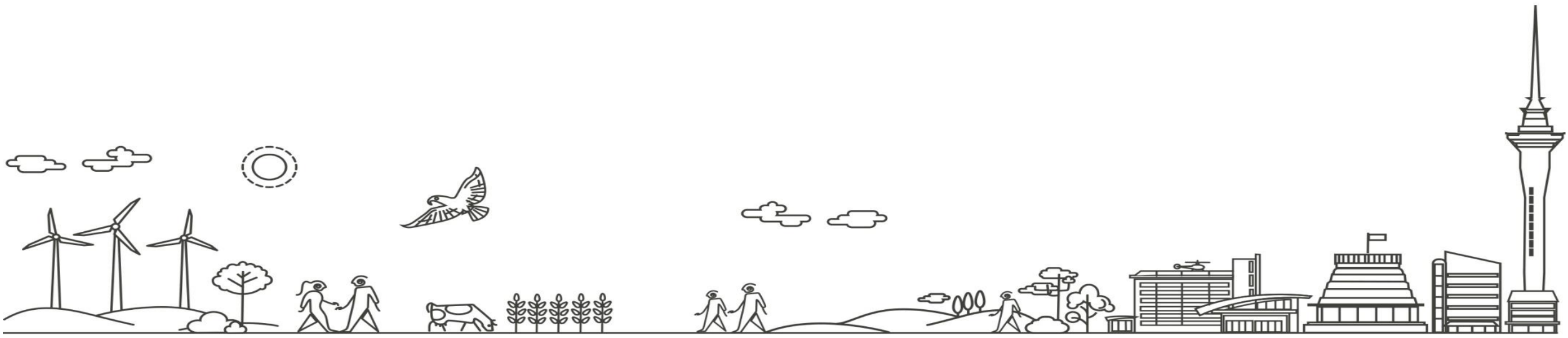
- The NZ economy still has momentum, and we are yet to reach a turning point
- Inflation has built up a head of steam, and cooling it down is likely to slow growth and lift unemployment



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?

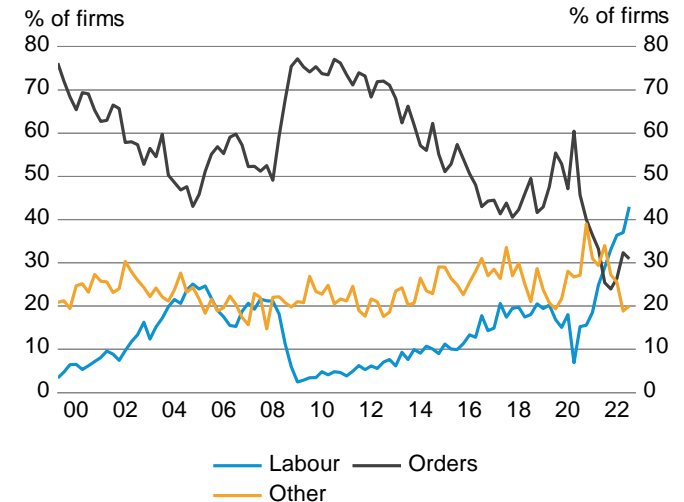




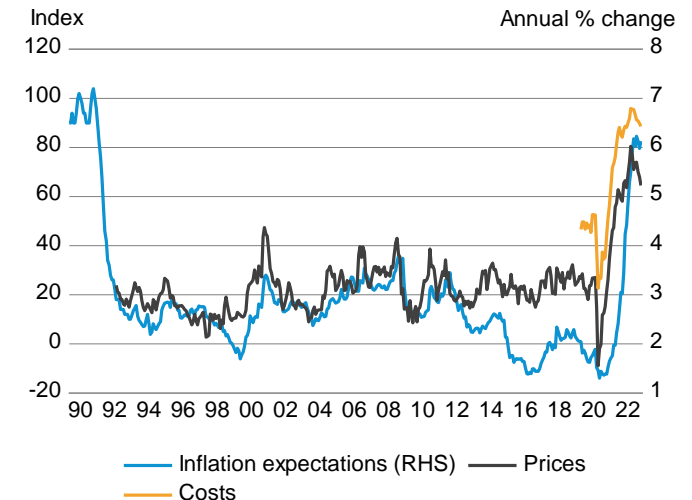
What businesses told us & the data is saying...

- **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 I/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

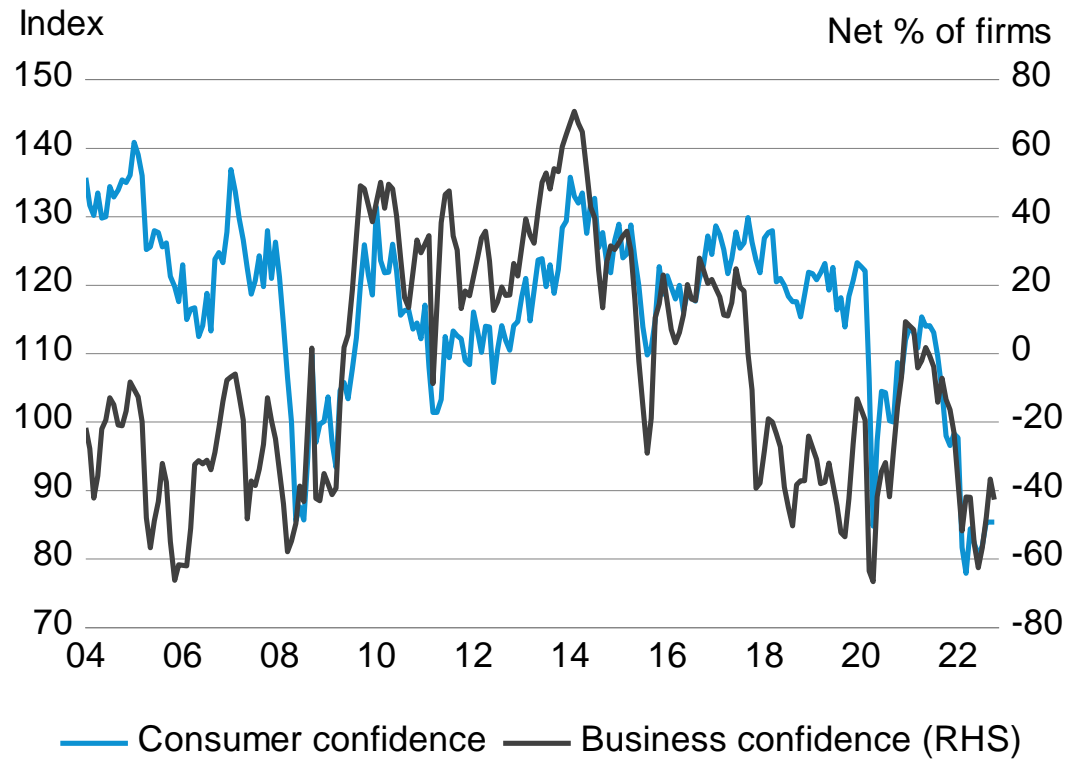


ANZ Price & cost expectations



We expect a slowdown in domestic demand

ANZ Confidence



Domestic Demand

