Birds Eye View

Summer 2022

The Front Pages

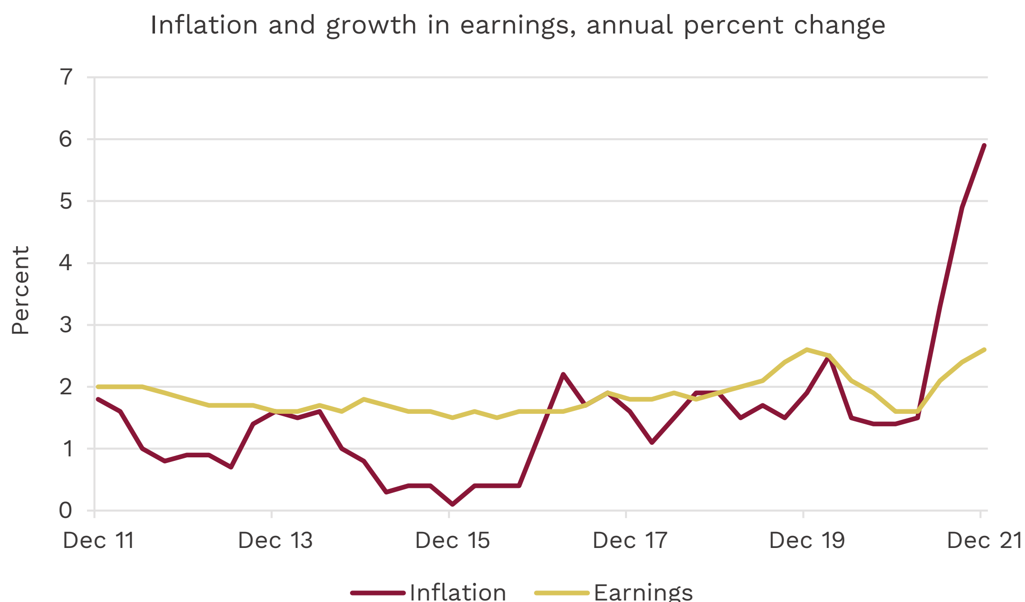
How will the work get done?

The New Zealand economy is currently on a knife-edge, with the next set of GDP statistics likely to show little, if any, growth, as well as weak business confidence. At the same time, unemployment has been extraordinarily low, which raises the question of whether any economic recovery will be stymied by labour shortages.

We think that employers could face severe negative labour-related issues for a number of reasons.

Falling real wages

Inflation is now outstripping the rate of increase in earnings by a significant and apparently widening margin. The graph below shows that after an extended period when earnings were generally increasing faster than prices, inflation has now exceeded growth in earnings. In the December 2021 quarter, inflation was just over twice the rate of increase in earnings; real wages have been falling.



Given these developments and the current environment, employees will likely react to this pressure. We expect many employees will react in one of the following ways:

1) **Change jobs to seek high wages**

With the growth in earnings not keeping up with the rate of inflation, employees may be encouraged to move to new jobs, if they cannot negotiate satisfactory increases with their

employers. Existing labour shortages and low unemployment mean that job switching will be relatively easy. Many employers will experience gaps in their workforce and, even if they can replace employees reasonably quickly, they will need to expend resources on training and inducting new employees.

This pressure will not disappear, at least until the rate of increase in earnings overtakes the rate of inflation. The gap between inflation and earnings growth has not begun to narrow yet, so this means that the issue may persist well into the rest of the year.

2) Respond with industrial action

Another effect of the gap between inflation and earning increases is likely to be the growth of labour relations problems (strikes and works-to-rule), especially in those sectors of the workforce that are highly unionised.

One of the principal roles of trade unions is to ensure their members are reasonably well-remunerated. In the current circumstances they are undoubtedly going to seek wage increases that are greater than the rate of inflation to ensure their members are compensated for falls in real wages, and to ensure that real wages do not fall further. In recent days, we have already heard about medical laboratory workers signalling their willingness to strike.

Disruptions could, therefore, be a prolonged phenomenon as wage negotiations can take a long time because they are based on changes to multi-employer collective agreements.

3) Jump across the Tasman

Until now it is likely that many New Zealanders who have been contemplating moving to Australia, and beyond, for work will have been deterred from making the leap because of the uncertainty of being able to return. However, with a pathway for reopening having being announced, that obstacle may very soon disappear. Accordingly, there will soon be little to stop NZ's brightest and best from emigrating in order to improve their financial situation.

We expect significant numbers to leave, and for elevated migration from New Zealand to Australia to last for some time. On the flip side, there are many Kiwis waiting to return home. Therefore, it is hard to predict what direction net migration will take in the near-term and what that will mean for the labour market.

The COVID-19 effect

The Omicron outbreak, which at the time of writing has some way to go before it peaks, will keep large numbers of people away from work, either because they are infected, or because they are close contacts. On top of this, a small, but non-negligible, number of people are no longer available to work in their previous occupations because they are not vaccinated. Some short-term disruptions to economic activity can also be expected, particularly, spending on hospitality and recreation services may take a hit.

However, these problems are likely to be short-term. Due to Omicron's short peak, daily case numbers will dwindle and impacts will weaken. The future beyond Omicron is still shrouded in some degree of uncertainty and will depend on how fast economic activity can rebound once mobility restrictions are relaxed further.

Conclusions

In combination, the factors outlined above could have a major impact on the ability of employers to get work done. We expect that most of the labour pressures employers will need to deal with will persist for most of 2022, if not into 2023.

Economic growth is likely to be held back, but this does not necessarily mean that the unemployment rate will increase. This is because, as we observed in the previous *Birds Eye View*, the usual relationship between GDP growth and unemployment has broken down. Part of the reason for this has been the provision of significant fiscal support measures, for example, the wage subsidy, which have propped up employment.

Elsewhere in this edition of *Birds Eye View*

Continuing the theme of labour, the next section is a special feature on the labour market, examining the latest levels of employment, unemployment, underemployment, participation and other measures, and what significant major changes there have been.

This is followed by the regular sections on people and capital resources, domestic economic conditions, trade flows, and what is happening in the major overseas economies.

Lastly, we present our economic forecasts. Since the previous edition of *Birds Eye View*, we have lowered our expectations of GDP growth and increased our forecast of inflation for the year ending June 2022. We also now foresee moderate negative net migration, instead of the opposite flow.

Special feature: Labour market

The labour market is running hot with a historically low rate of unemployment and labour shortages in several industries. Employment and labour force participation is near historical highs. To add to this, net migration is now negative, further constraining the labour market. Despite this, there is some room for improvement.

Real wages are falling, underemployment has increased slightly, and hours worked per employee have not recovered to pre-pandemic levels.

This quarter, we take a deep dive into the labour market data and highlight trends that will shape the short- to medium-term outlook for labour demand and supply.

	Quarterly	Annual change (%)
Household labour force survey		
Employment rate	68.8	
Unemployment rate	3.2	
Underutilisation rate	9.2	
Labour force participation rate	71.1	
Quarterly employment survey		
Full time equivalent (FTE) employment change (%)	1.8	4.6
Average hourly earnings change (%)	1.0	3.8
Labour cost index change (%)	0.6	2.6

Employment stays elevated

As of December 2021, 68.8 percent of the working age population of New Zealand was employed, as measured by the household labour force survey (HLFS). This equals 2.8 million people. Employment growth was just 0.1 percent since the September quarter, or 3.7 percent since December 2020. Employment stands at a historically high level, and New Zealand's employment rate is one of the highest in the OECD.

Men (73.3 percent of the working-age population) were more likely to be employed than women (64.5 percent) since men tend to have a higher participation rate. There were also differences between the employment rates of different ethnic groups. The Asian (74.6 percent) and Middle Eastern, Latin American and African (MELAA) (73.4 percent) groups had the highest employment rates. Pacific peoples (63.5 percent) and Māori (64.8 percent) had the lowest rates of employment.

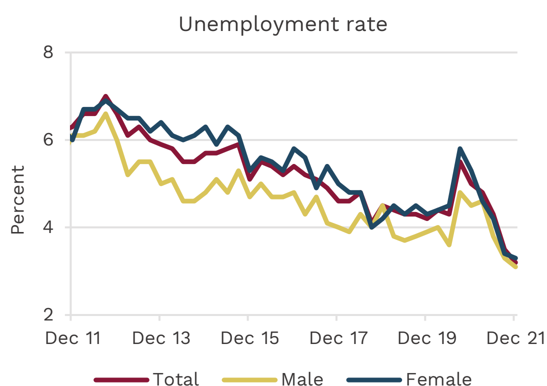
Demand for workers was strengthening as the number of filled jobs, measured by the Quarterly Employment Survey (QES), grew by 1.4 percent during the quarter (or 4.2 percent annually), to a total of 2.1 million filled jobs as of December 2021.[1] However, employment has recovered faster in some industries than others. The Professional, scientific and technical (8.5 percent), Construction (8.3 percent), and Administrative and support services (6.8 percent) industries saw the fastest growth in filled jobs in the year to December 2021. The number of filled jobs fell in the Agriculture, forestry and fishing (3.9 percent) and Arts and recreation services (3.1 percent) industries during this period.

Unemployment is at a record low

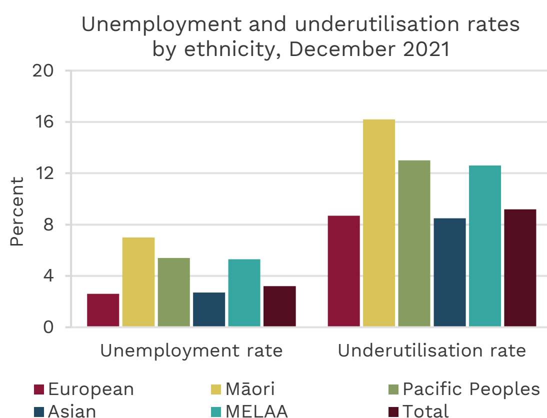
The unemployment rate continued its downward trend, falling to a record low of 3.2 percent in the last quarter of 2021.

[1] The QES does not include some industries, such as agriculture, which have a large number of self-employed individuals with no employees.

The rate for females was slightly higher (3.3 percent) than that for males (3.1 percent). The gap between male and female unemployment has narrowed significantly over the decade.



Breaking down the unemployment and underutilisation rates by ethnicity highlights inequalities in labour market outcomes. Those of European and Asian ethnicity had the lowest unemployment and underutilisation rates, while these rates for Māori were seven percent and 16.2 percent respectively, the highest of all the ethnic groups.



Young people aged between 15 and 24 are also more likely to be unemployed (10 percent). Youth unemployment tends to be higher than average because young people are more likely to switch jobs, thereby remaining unemployed for short periods of time. Moreover, 54 percent of unemployed youth were in education, which adds time constraints and increases the challenges of finding a suitable role.

The overall unemployment rate also masks significant regional differences.

The Bay of Plenty region had the highest unemployment rate at 4.3 percent. Taranaki (4.2) and Gisborne/Hawke's Bay (3.8) also had comparatively high unemployment rates. The number of people looking for employment actually increased in these three regions during the quarter. Unsurprisingly, these regions also have relatively high underutilisation rates, Gisborne/Hawke's Bay in particular has an underutilisation rate of 11.1 percent.

Manawatu-Whanganui had the lowest unemployment rate, at 2.6 percent, of any region in the December 2021 quarter, followed by Wellington and Otago, both 2.8 percent.

Participation stays buoyant

The December quarter labour force participation rate (LFPR) dropped only slightly to 71.1 percent from the previous quarter's high of 71.2 percent. Not all groups are equally likely to participate in the labour market. The MELAA group had the highest participation rate (77.5 percent), followed by the Asian rate (76.7 percent). Participation in the labour market grew significantly for those of Māori (up by 1 percentage point to 69.7 percent) and Pacific (up by 0.7 percentage points to 67.2 percent) ethnicities during the quarter. These were also the two groups with the lowest participation rates.

The participation rate can differ significantly by age group. Those under 20 and over 65 are less likely to participate in the labour market. Looking at the trends in participation for the over 65 group over the past 20 years, an interesting pattern emerges. In December 2001, the LFPR for the older population was just 8.6 percent. By December 2021, this had climbed to over 25 percent, a knock-on effect of the aging population. Statistics NZ predicts that the participation rate for this group will continue to increase, and an aging population will eventually drag down overall participation rates.

Women today are more likely to participate in the labour market than ever before. In 2011, just 62 percent of women were part of the labour force. Today, 67 percent of all working-age women are either employed or looking for work, a 1.4 percentage point increase since December 2020.

Wage growth remained subdued but pressure is building

The labour cost index (LCI) increased by a moderate 0.6 percent during the quarter, or 2.6 percent annually. Some industries had higher than average wage pressures. These include the Electricity, gas, water, and waste services (7.8 percent), Accommodation and food services (five percent), and Health care and social assistance (3.5 percent) industries.

There is some evidence that the tightening labour market is nudging wages upwards. Wages were higher compared to a year ago, for 61 percent of jobs. In December 2020, just 42 percent of private sector jobs saw a wage increase. While 51 percent of all jobs had wage increases of two percent or less during the year, the proportion reporting larger increases (five percent or more) is the highest since 2009, at 20 percent. Bigger pay rises are more likely to be feature of more specialised and skilled roles, where workers possess significant bargaining power.

Average earnings measured by the QES showed a steady 3.8 percent growth in average hourly earnings during the year. Private sector wages (4.1 percent) grew substantially faster than those in the public sector (3.2 percent).

As noted in the Front Pages, real wages are falling because wage inflation is trailing behind the consumers price index (CPI).

Hours worked remain soft

Weekly hours worked per employee rebounded strongly from their low (31 hours) September 2021 level, growing by 7.5 percent. However, they were still below December 2020 levels by 4.1 percent and below December 2019 levels by 1.1 percent. Slow growth in hours worked can largely be attributed to the disruptions caused by COVID-19. If the situation in Australia is anything to go by, we can expect hours worked to fall further as case numbers balloon and employees self-isolate. However, this will likely be temporary and hours worked can be expected to recover once daily case numbers settle down.

There is some evidence that employers may be holding on to workers in anticipation of better economic conditions. Moreover, thousands of jobs are still being propped up by support programmes such as the Leave Support Scheme.

Spare capacity is limited with a few soft spots

The labour market remains stretched, as evidenced by all measures. Apart from a high employment rate and record low unemployment, the underutilisation rate remained at a historically low level of 9.2 percent. Additionally, labour participation hovered around the historically high rate seen last quarter.

However, the rate of underemployment (part-timers who would like, and are available, to work more hours than they currently do) increased slightly during the December 2021 quarter by 0.5 percentage points to 3.8 percent of the labour force.

Breaking these rates down by gender shows that there is still a significant amount of spare capacity within the female workforce. The underemployment rate for women (5.3 percent) is more than double that for men (2.4 percent). There is also still more room for hours worked, per employee to grow.

The All Vacancies Index (AVI), which measures online job advertisements,[2] increased by just over one percent in the December 2021 quarter. Annual growth clocked in at 36 percent. Advertised vacancies are now 34 percent above pre-COVID levels. The healthcare and manufacturing sectors saw the strongest growth over the quarter and the year. By occupation, the AVI reflected strong demand for professionals and community and personal services over the December 2021 quarter.

Employers looking for unskilled workers seem to be particularly hard-pressed, with growth in the AVI being strong for this group over the latest quarter and the year. Supply of unskilled workers is likely to stay constrained in the medium-term, in light of the Government's intention to curtail low-skilled migration.

Future outlook

Given the latest developments with the widespread Omicron outbreak, it is hard to accurately predict how the labour market will change over the next few months.

Despite some of the factors outlined in The Front Pages, demand for labour may be dented as the Reserve Bank continues to tighten monetary policy, tempering demand for goods and services. The latest surge will also dampen business' mood as the future remains clouded in uncertainty. On the flip side, the Government has announced further financial support for businesses in hard-hit sectors such as hospitality. But, whether it will be enough to keep small businesses afloat remains to be seen.

Nonetheless, despite the grim outlook for business activity, firms' employment intentions remain high. Finding skilled labour was one of the most pressing, growing concerns for businesses in ANZ's business outlook survey for the December 2021 quarter. The survey also found that despite slipping business confidence and negative profit intentions, a net 10.5 percent of firms expected employment to increase over the coming year. Those in the manufacturing and construction sectors had higher employment intentions than those in the retail and service sectors.

Undoubtedly, the supply side of the labour market will stay constrained for the better part of the year. With most measures of spare capacity stretched, there isn't much room for supply to grow. A reduction in underemployment and growth in hours worked may not be enough to fill the gaps considering the steady growth in job vacancies.

The latest Omicron outbreak has the potential to disrupt the supply of workers, adding further pressure to firms' supply chains and output. Worker absenteeism may increase in the short-term as employees are required to isolate.

Closed borders and an upheaval of immigration policy suggest a further contraction of supply over the next few months. Challenges will be exacerbated when self-isolation for NZ citizens and residents commences in March. Following previous patterns, we can expect some of the workforce to leave the country in search of opportunities abroad after not being able to travel for over two years.

Finally, as inflation keeps creeping upwards and the labour market contracts even more, wages will play catch up. Wage inflation can be expected to go up in the medium-term.

[2] https://www.mbie.govt.nz/assets/jobs-online-quarterly-data-release-december-2021.pdf

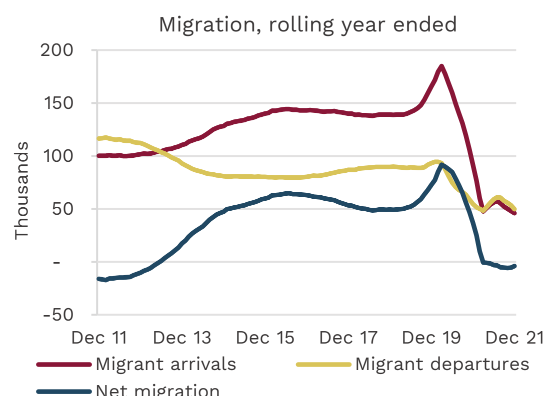
People resource

The bald facts are:

- For the first time in nearly a decade, net migration has turned negative
- The natural rate of increase in the population (births minus deaths) is slowing

Migration

Net migration dipped into negative territory in the year to April 2021, and has only dropped further since then as a consequence of the border closures. The latest numbers from December 2021 show that net migration is at its lowest point in seven years. Net migration for the year ended December 2021 was 3,900, down from a net gain of 36,800 in the December 2020 year. A net 4,800 NZ citizens entered the country, while a net 8,700 non-NZ citizens departed during the year.



As expected, NZ citizens are the biggest group leading arrivals and departures to and from the country. More NZ citizens than last year are now leaving the country. Departures of NZ citizens increased by 15 percent during the year, likely a consequence of borders opening up in the rest of the world. By visa type, the biggest drops since last year were in the student and work categories.

The number of border crossings in 2021 fell to the lowest level in 50 years to just 826,400 during the year, compared to 14.2 million pre-pandemic (2019).

Net migration is predicted to remain exceptionally low throughout the year. Numbers are not expected to rise to levels seen before the pandemic anytime soon, partly as a result of the immigration reset, which aims to drastically curtail low-skilled migration. Low migration will aggravate existing skills shortages, especially in the building and construction industry.

As borders open in March, we can expect to see a number of Kiwis leave the country for Australia. However, it is hard to predict what net migration will look like beyond the short-term until the new immigration settings are announced in April.

In the long-term, reduced immigration could have severe consequences in the form of constrained economic growth. In the year to December 2021, New Zealand's population grew by just 23,500 people. Deaths during the year increased by 7.1 percent, reflecting our ageing population. At the same time, the number of births was more-or-less static.

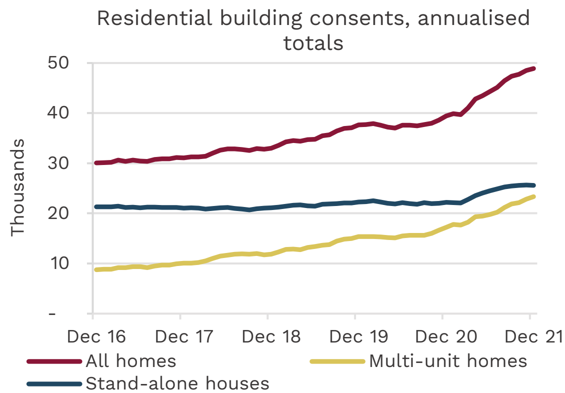
Capital resources

The bald facts are

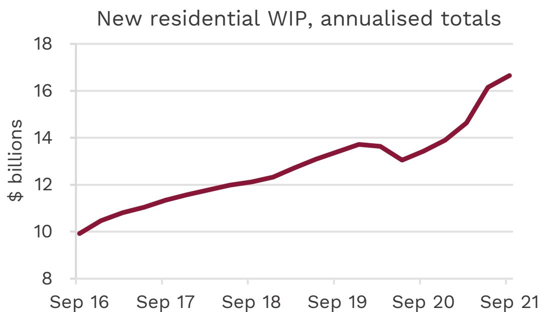
- Nearly 50,000 consents for new residential buildings were issued in 2021
- The amount of building work actually done has increased despite COVID, but problems with the supply of materials could slow activity

Investment and building activity

The number of new homes consented continues to soar to unprecedented levels. In the year to December 2021, a record 48,899 new homes were consented. The growth is being led by multi-unit homes, consents for which surged by 36 percent from the year before. Such homes made up nearly half (48 percent) of all new homes consented in 2021. Housing intensification in Auckland was one of the biggest drivers of this trend. Over 72 percent of all new homes consented in Auckland during this period were multi-unit homes, compared to 56 percent nationally.



Actual building work put in place (WIP) has managed to stay buoyant in the aftermath of the second nationwide lockdown, which put a pause on all non-essential building activity. Although the lockdown did result in a drop in WIP, particularly in Auckland where activity fell by 11 percent. Since then, building activity has regained strength and will continue to climb. A report by the Ministry of Business, Innovation and Employment (MBIE) states that the resilience of building activity has been driven by the strength of the residential sector. Moving forward, the construction sector will be significantly constrained by labour and materials shortages, particularly timber.



Building activity is likely to fall below current peak levels beyond 2023/24 as mortgage rates rise and building costs continue to escalate.

Home base

The bald facts are:

- The Government's financial accounts for the first half of the current financial year were better than forecast
- Revenues were higher, and expenses were lower, than expected
- Inflation is the highest in three decades, but this could boost the government's tax revenues
- Retail spending has grown moderately, and consumers lack confidence

Government finances

The Interim Financial Statements of the Government, for the six months ended 31 December 2021, show the financial position of the Government and compare it to forecasts in the Half Year Economic and Fiscal Update 2021 (HYEFU 2021). The results show a largely favourable position against forecasts as the economy rode out, largely unscathed, of yet another lockdown.

Core Crown tax revenue was three percent ($1.5 billion) higher than forecast, partly a consequence of the strong labour market. Core Crown expenses were just (one percent) below forecast. Owing to the better than expected performance of the economy during this period, the Operating Balance before Gains and Losses (OBEGAL) was $8 billion in deficit, $2.8 billion lower than forecast. All this means that the Government is well positioned to provide support in response to a burgeoning Omicron outbreak. The COVID-19 Leave Support Scheme will support businesses whose employees have to isolate. Moreover, over $4 billion remains unallocated in the COVID-19 Response and Recovery Fund.

In December 2021, the Government announced the priority areas for Budget 2022. The first target is to strengthen the health system by undertaking a large-scale reform. Budget 2022 will provide significant investment to establish Health New Zealand and the new Māori Health Authority. The second priority will be to address climate change via the establishment of a Climate Emergency Response Fund (CERF), which will nudge New Zealand closer to its climate objectives over the next few years.

Inflation

Annual inflation, as measured by the consumers price index (CPI), clocked in at 5.9 percent for the year to December 2021, the highest in three decades. The largest contributing group was housing and household utilities. Home ownership costs were up by 15.7 percent during the year as construction firms face labour shortages and supply delays. The price of petrol surged by 30.5 percent over the same period as supply continues to struggle to keep up with high demand for fuel. Renters were not sheltered from the rising cost of accommodation either. In the year to December 2021, actual rental prices for housing had gone up by 3.8 percent.

Food prices also continue their relentless rise, with the biggest annual jump in a decade of 5.9 percent in the year to January 2022. Fruit and vegetable prices went up by a staggering 15.4 percent during this period, reflecting pricier imports and a shortage of horticultural workers. The price of poultry (up by 12.2 percent) and eggs (up by 15.4 percent) also increased sharply.

Household living costs reached record highs for some households in December 2021. The cost of living for Māori households went up by 5.3 percent as a consequence of higher petrol prices and rent increases. Māori households spend around 20 percent of their expenditure on rent, compared to 14 percent for the average household. A steady increase in mortgage interest payments is a growing factor in the increased cost of living for high expenditure households who typically spend more on interest repayments than the average household.

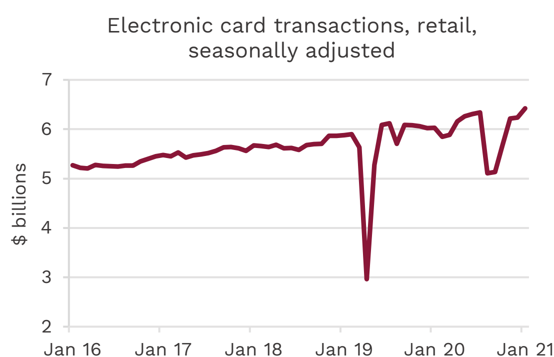
Households continue to experience an erosion of real wages, with wage growth at just 2.6 percent for the year to December 2021. This has been surprisingly subdued considering how tight the labour market currently is and the acute shortage of workers in some industries.

The business price indexes rose again in the December quarter. Input prices were up by 1.1 percent during the quarter and output prices by 1.4 percent. There were signs of inflation cooling down as the pace of these increases was much lower than the growth seen in the June 2021 quarter. The largest increases in input prices this quarter were experienced by businesses in the dairy (7.7 percent) and construction (1.8 percent) industries. This was also true for output prices for the dairy (9.2 percent) and construction (3.2 percent) industries.

In the latest monetary policy statement, the Reserve Bank raised the OCR by 25 basis points to one percent. The Bank has signalled that further increases are to come over the next 18 months.

Retail

Retail spending, as measured by electronic card transactions, increased by three percent between December 2021 and January 2022 (not adjusted for inflation). Spending has now recovered to levels seen before the last nationwide lockdown. The category that experienced the highest jump was durables, which includes furniture, electrical goods, and department stores. However, some of this increase in spending is a result of higher prices. For example, spending on fuel went up by 2.7 percent during the month.



Although spending has managed to stay afloat, consumers are not yet ready to splurge on non-essentials. The latest consumer confidence survey by ANZ stressed the gloomy prospects for retail trade in the short- to medium-term. Consumer confidence was recorded at 98, significantly below its long-term average of close to 120. A net four percent of households believed that it was a bad time to make major purchases, and this was before the outbreak of Omicron in the community.

Moreover, given that most households are experiencing a fall in real wages, with rapid inflation and higher borrowing costs, they are likely to limit spending on non-essentials and big-ticket items. Rapidly rising case numbers will act as a further drag on hospitality sector earnings, and mute spending on services in particular.

Abroad and beyond

The bald facts are:

- Led by dairy and meat, New Zealand exports have been strong
- And, led by machinery and vehicles, imports have been growing even faster
- In the latest quarter, all the major overseas economies experienced GDP growth
- Inflation continues to be a problem in the USA, India, the UK, and the EU
- Apart from India, which had a one percent increase in unemployment, all the observed economies had virtually no change in their unemployment rates.

Trade

New Zealand exports performed well during the December 2021 year. Total exports rose by 13 percent, to $6.1 billion, in the December 2021 month, compared to December 2020. Exports to most of our top trading partners rose. Leading the charge were dairy exports, which were up by 29 percent. A large part of this increase was a result of skyrocketing dairy prices. The second largest group was meat and edible offal, for which export values were up 19 percent in the December 2021 month. The exported quantity of beef and sheep meat actually fell during this period. Therefore, the increase was driven by higher prices.

There was also record growth in imports (up by 23 percent) and high demand for Vehicles, parts and accessories (24 percent) and Mechanical machinery and equipment (18 percent).

In the year to December 2021, imports outweighed exports by $6.8 billion, compared to a surplus of $3 billion in the year to December 2021, a result of low domestic demand during that year.

Exports to China (5.2 percent), USA (15 percent), EU (14 percent), and Japan (22 percent) were up in the December 2021 month, compared to the same month a year ago. However, exports to Australia were down by 9.3 percent, a result of a fall in fruit and wine exports.

It is important to note that while exports are at record highs, most of this growth hinges on elevated world prices for commodities such as dairy and meat. Actual volumes traded were down.

Therefore, the future performance of exports will depend largely on what happens to world prices.

The World

Australia

Australia has passed its Omicron peak and, as daily infections come down, restrictions are being eased. Economic activity has been recovering, although the country's GDP estimate for the December quarter of 2021 is awaited.

The inflation rate in Australia has been rising since last year. While it is currently above the Reserve Bank's inflation target of one to three percent, reaching 3.5 percent last December, it is relatively low when compared with most G20 economies. One plausible explanation for the country's lower than average inflation rate is the low electricity costs Australia has, and its self-reliance on coal which diminished the impact of higher oil prices in the international market. The unemployment rate has been coming down in Australia as the economy is re-heating. At the beginning of 2021 it stood at 6.4 percent, and lowered to 4.2 percent in December.

India

In India, as elsewhere, the Omicron peak has had a smaller social and economic impact than the Delta peak. While in the June quarter the country experienced an 11.6 percent reduction in its GDP when compared to the previous quarter, in the September quarter the economy recovered to previous levels with a GDP growth of 12.7 percent versus the previous quarter.

There are concerns around inflation in India, with the inflation rate in December having increased by 5.6 percent in a year on year basis. However, there are early signs of inflation slowing down in the country, as on a month to month basis inflation has reached negative levels in the December and January months, -0.4 percent and -0.3 percent respectively. Furthermore, while the economy shows early signs of recovery, unemployment is heading in the opposite direction. The unemployment rate rose by one percentage point to eight percent in December. India has a high youth unemployment rate of 23 percent.

China

China's annual GDP growth rate averaged 9.2 percent from 1989 to 2021, so while the latest GDP data from the December quarter is a positive four percent on a year-on-year basis, there is a sense of disappointment given past performance. On the other hand, China's exports grew by 21 percent in December, which was driven by the country's economic partners increasing their demand for goods since their economies re-opened.

China's unemployment rate has stabilised at around five percent throughout the year of 2021. The country's inflation rate is well under control at 1.5 percent in December. However business prices rose to 9.1 percent in the same period. This was a result of higher commodity costs, especially coal and oil, impacting the country's manufacturing sector.

Japan

After a fall in GDP in the third quarter of 2021, when compared to the previous quarter, Japan's GDP grew by 1.3 per cent in the fourth quarter, and on a year-on-year basis, grew by only 0.7 percent. Global supply chain bottlenecks and labour market pressures are limiting the country's ability to grow. For instance, semiconductor shortages are harming the country's automotive industry that contracted by 15.9 percent in 2020, and only recovered by eight percent last year.

Japan has been stuck with deflation or low inflation over the past decades, and even the spike in global oil prices was not enough to raise the country's inflation significantly. In December, the country's CPI rose to 0.8 percent on a yearly basis, and it has reached pre-COVID levels. Further, having a tight labour market means that the country does not suffer an unemployment issue. Unemployment in Japan fluctuated

around three percent throughout 2021, and in December it was 2.7 percent.

United States

The United States is facing its highest inflation rate since the 80s, reaching 7.5 percent in December on a year-on-year basis.

The labour market is still tight, despite a slight increase in unemployment that rose from 3.5 percent in December to 4 percent in January. As a result of this tight job market and high inflation, workers are resigning from their jobs, to look for better wages, at a record rate In November 2021 around 4.5 million Americans resigned from their jobs. The effect that this will cause on productivity and GDP growth is yet to be seen.

The US is still enjoying a higher than average GDP growth rate, having risen to 5.5 per cent year-on-year. Personal consumption expenditure is the main driver of economic growth in the US, being responsible for 5.3 percentage points of GDP growth in 2021.

United Kingdom

The UK is returning to normal levels of economic activity aided by a high vaccination rate. Consumer spending is set to return to pre-COVID levels. In December 2022 it reached 358,983 million pounds, which is just about 4 million pounds lower than December 2019. Moreover, the country's GDP grew by 6.5 percent in the fourth quarter of 2021, with the recovery being driven by consumer expenditure.

However, the UK is concerned with rising inflation. Inflation rose to 4.8 percent in December. But on the bright side, prices fell by 0.1 percent on a monthly basis, which brings hope that inflation could at least start rising more slowly. The unemployment rate has been steadily falling throughout 2021, starting at five percent in January and down to 4.1 percent in December.

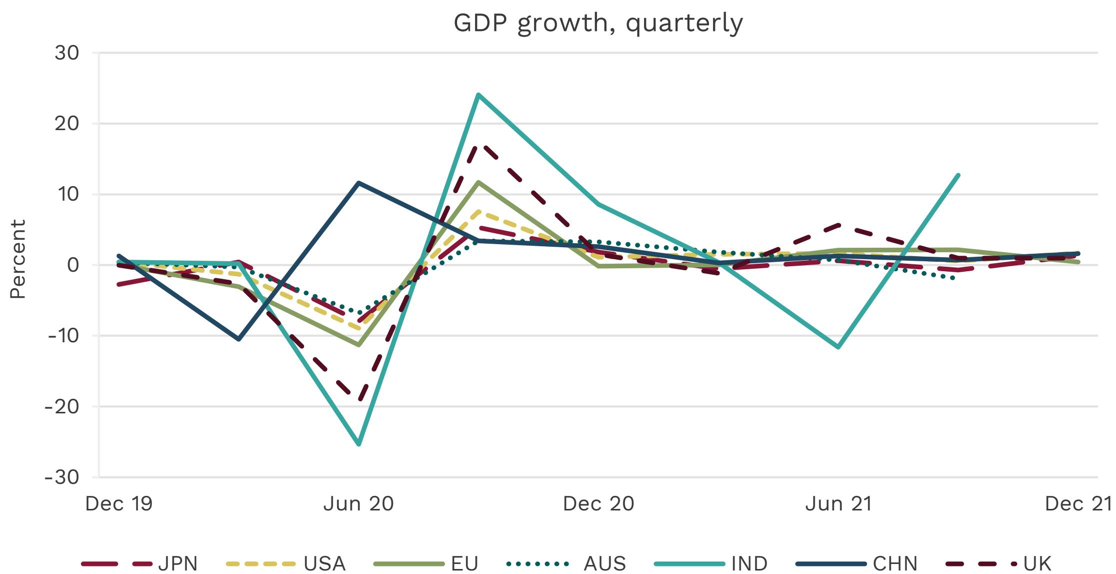
European Union

The European Union is on a steady path to recovery. Most members have high vaccination rates and, with free travel amongst the countries, consumer spending is fuelling GDP growth. In the latest quarter GDP growth reached 4.8 percent in the region. The unemployment rate is not alarming, but it is higher than the other observed economies, at 6.4 percent. Given the fact that the EU is composed of 27 countries, some members can skew the average in one direction, as is the case with Greece and Spain having a much higher unemployment rate than other members.

Inflation is a growing problem in the EU. It has reached 5.3 percent in the latest quarter. Supply chain pressures and higher oil prices are the main drivers of inflation, but the EU is especially vulnerable to the conflict that has erupted between Russia and Ukraine as Russia is the main supplier of natural gas to the region.

The path of GDP growth in the pandemic era

The figure below shows the significant impacts that COVID-19 had on the world economy. It is noticeable how the pandemic had a larger impact on GDP in 2020, when most governments adopted more severe mobility restrictions to contain the spread of the virus in comparison to 2021. Last year's Delta outbreak and the ongoing Omicron surge have been more manageable thanks to the wide availability of vaccines. A large number of previous cases in most countries has meant that their populations have a greater immunity in comparison with the original outbreak in 2020. Therefore, most governments (with the exception of China) have given up on the elimination strategy and discarded the use of mobility restrictions for extended periods of time. With the exception of India, none of the observed economies had a GDP drop in 2021 comparable with 2020.



BERL forecasts

We have simplified the contents of our forecast data tables, to focusing on a selection of key variables.

If you would like to obtain forecasts of other variables not shown, please email info@berl.co.nz or phone +64 21 868 190.

All the forecasts are for the years to June.

All growth rates are annual.

Because Omicron has struck New Zealand later than in most countries, we have reduced our forecast for GDP growth for the current year ending in June. This means that our forecasts for employment and unemployment have also been revised downwards. We have changed our forecast for net migration from positive to negative for the reasons set out in the Front Pages. Our forecasts of inflation, exports and imports have also been increased. However, we have not changed our forecast for the OBEGAL.

		GDP(P) growth, %	FTE employment growth, %	Unemployment rate %	Net migration number	CPI inflation, %	Exports growth, %	Imports growth %	OBEGAL, $bn
Actual	2020	-1.0	0.6	4.0	85,000	1.5	1.4	-4.6	-23.1
Actual	2021	5.3	2.8	4.0	4,700	3.3	0.3	-1.1	-4.6
Forecast	2022	-1.8	0.0	3.8	-7,500	6.0	5.5	10.0	-25.8
Forecast	2023	3.0	1.5	4.3	10,000	3.5	4.5	7.0	-14.4
Forecast	2024	2.5	1.4	4.0	15,000	3.3	4.0	5.0	-10.9

Making sense of the numbers

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