Birds Eye View

Autumn 2022

The Front Pages

The emergency brakes are on

It is widely accepted that the New Zealand economy, which grew by three percent in the December quarter of 2021, is heading for a marked slow-down. The December quarter growth was fueled by the easing of COVID-19 restrictions, and hopes for a global economic recovery.

The IMF is more pessimistic

However, earlier optimism has largely evaporated as the result of war and inflation. In the October 2021 edition of its World Economic Outlook, the International Monetary Fund (IMF) forecast global economic growth of 4.9 percent in 2022, but this was downgraded to 3.6 percent by the time of the April 2022 edition.

The Russia-Ukraine war is exacerbating supply chain disruptions. It is also contributing to accelerating inflation that will need to be curbed by the withdrawal of monetary support.

NZ Treasury is happier about 2022, and only slightly less bullish about 2023

A slow-down of the sort predicted by the IMF would inevitably have ramifications for the New Zealand economy. Nonetheless, the Treasury has upgraded its forecast of economic growth for the year ending June 2022, and remains very confident about growth in the year to June 2023.

Table 1 Treasury economic forecasts, years ending June

	Year	GDP (Production)	Employment	Unemployment	Inflation (CPI)
HYEFU (Dec '21)	2022	0.8	3.7	3.2	5.1
	2023	4.9	0.9	3.3	3.1
BEFU (May '22)	2022	1.7	3.4	3.1	6.7
	2023	4.2	1.0	3.3	5.2

All numbers are annual growth rates, except unemployment, which is the percentage rate.

In its Half Year Economic and Fiscal Update (HYEFU), released in December of last year, the Treasury was forecasting GDP growth of 0.8 percent in the year to June 2022. However, this was revised up to 1.7 percent in the Budget Economic and Fiscal Update (BEFU), delivered last month. It is noteworthy that the Treasury revised its inflation forecasts upwards between the HYEFU and the BEFU. However, its forecasts for employment and unemployment have changed only slightly.

Businesses and consumers don't share the Treasury's optimism

In stark contrast with the Treasury, businesses and consumers have become distinctly more pessimistic during the past six months. According to the ANZ Business Outlook Survey, in December last year, businesses had, on balance, positive expectations for their own activity levels in the year ahead. However, their expectations had turned negative by May of this year.

Moreover, by May, their expectations about general business conditions, which were already negative in December, fell towards the record low levels seen when COVID-19 first arrived in New Zealand.

Table 2 ANZ Business Outlook Index[1]

	Dec-21	May-22
General business conditions	-23	-56
Own activity outlook	12	-5

It is also clear that consumers share businesses' negative expectations about their own prospects, and the general economic situation in the near future. The latest results from the ANZ Roy Morgan Consumer Confidence Survey show that New Zealanders have become distinctly pessimistic over the last six months.

Table 3 ANZ Roy Morgan Consumer Confidence Index

	Dec-21	May-22
Family's financial situation compared to year ago	1	-17
Family's financial situation in 12 months	12	-1
New Zealand economic conditions in next 12 months	-20	-41
Good/bad time to buy major household items	0	-30

There is also some evidence to suggest that business and consumer pessimism has been matched by actual business performance. Business New Zealand's composite Performance of Manufacturing and Services Index (PCI) averaged only 49.6 in the period from January to April, where an index value of less than 50 indicates a contraction in activity. Allowing for the fact that the PCI does not include the primary sector, this implies that the economy as a whole was unlikely to be growing much, if at all, during those months.

Why BERL doubts the Treasury forecasts

It is difficult to understand why Treasury is forecasting GDP growth as high as 1.7 percent in the year ending June 2022, and why it lifted its forecast between the time of the HYEFU at the end of last year, and the BEFU last month.

At the time of writing we only have GDP data for the first half of the year ending June 2022, but this shows that GDP was just 1.4 percent higher than it was in the corresponding period of the previous year. This implies that GDP in the second half of the year ending June 2022 would need to be 2.9 percent higher than during the first half of the year, if the Treasury forecast turns out to be correct. This seems very unlikely, given the current low and worsening levels of business and consumer confidence, and the weak PCI reading.

As shown in the forecasts at the end of this *Birds Eye View*, we expect GDP growth in the year ending June 2022 to be close to zero percent.

Elsewhere in this edition

The special feature this quarter is migration. We examine past trends that have shaped our current population, and what the Government's immigration 'rebalance' means for the future. We also take stock of the key economic indicators that are shaping the 'next normal' for New Zealand. The abroad and beyond section presents a quick pulse check of some of our largest trading partners. Finally, we present the BERL forecasts for the years to June 2022, 2023, and 2024.

[1] The business and consumer confidence survey results indicate the net balance of respondents (percentage) who expect an improvement minus those who expect a deterioration.

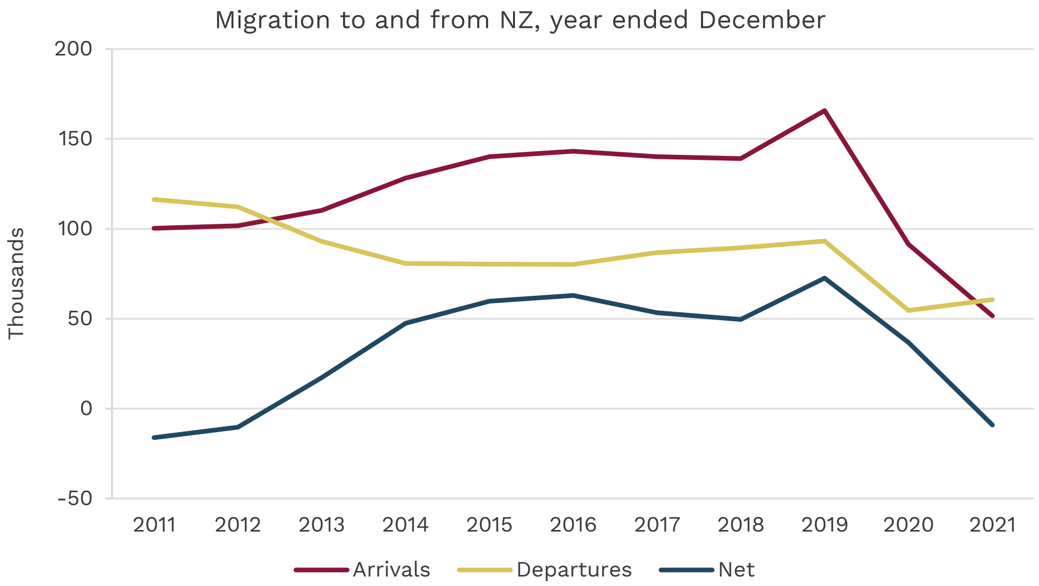
Special feature: Migration

In March 2020, soon after the World Health Organisation declared COVID-19 a pandemic, New Zealand essentially restricted all immigration into the country. The, now controversial, MIQ system also restricted the border movement of citizens and residents.

After nearly two long years of close to total isolation, New Zealand is finally re-opening its borders to the world.

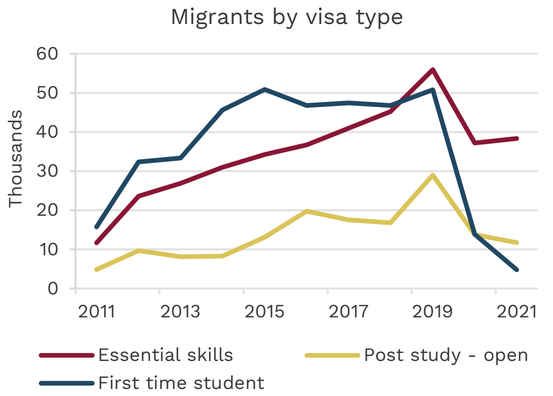
The unique circumstances of the pandemic gave the government a chance to reassess its immigration policy.

In this edition of the BEV, we take a look at some of the migration trends that have shaped the population of New Zealand over the past decade, the reversal of these trends during the COVID-19 era, and what migration may look like in the post-pandemic era.



Migration boosted population growth in the 2010s

Beginning in 2013, net migration into New Zealand began to climb sharply, boosting overall population growth. Several factors contributed to this sudden growth.

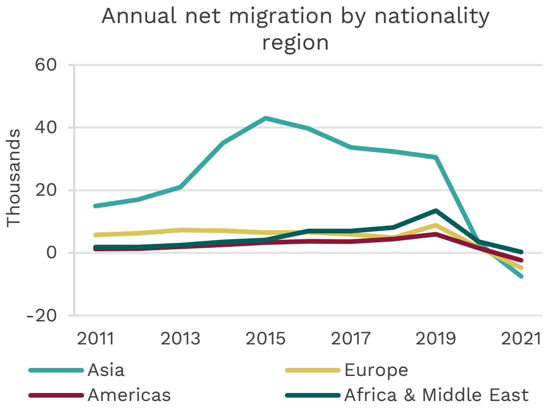


Post the Global Financial Crisis and the Canterbury earthquakes, labour demand was growing. In response, the number of temporary work visas granted, for example essential skills visas, rose.

Equally importantly, the number of international students at tertiary institutions was growing at an unprecedented level. In 2013, the Government introduced a package of initiatives that streamlined the student visa application process, and allowed students to work while they studied. Consequently, the number of full fee paying students from India and China nearly doubled between 2013 and 2014. This eventually led to a rise in the number of student-to-work visas being issued.

The ethnic diversity of New Zealand is growing

Post World War II, the Government encouraged migration to Zealand from Britain and Ireland. This was slowly extended to other European countries and, eventually, the rest of the world. With the turn of the century, the focus of immigration policy shifted to the talents and skills of incoming migrants, opening the door to diversity.



As of the 2018 Census, over seven percent of our population was born in North-West Europe. This is much higher than those born in North-East Asia (4.3 percent), which was the second-largest group. However, when we look at new migrant arrivals, the vast majority are from Asia, particularly from China, India, and the Philippines.

The relatively recent influx of migrants from virtually every region in the world has meant that our population is becoming more diverse. In fact, New Zealand has one of the most ethnically diverse populations in the world, with a population encompassing people from over 200 unique ethnicities.

COVID-19 has reversed long-standing migration trends

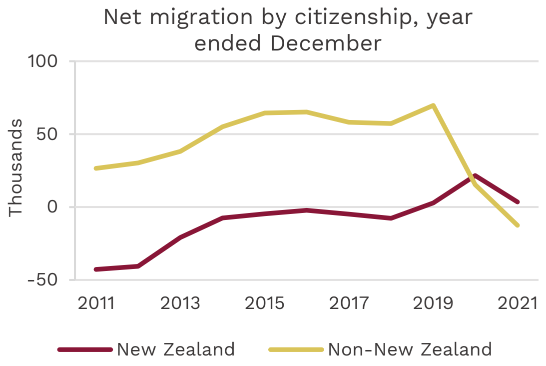
In the six years before COVID-19 upended migration trends, annual net migration averaged over 50,000 people a year. In the year ended March 2022, New Zealand experienced a net migration loss of over 7,000 people.

In the past, large net migration outflows from New Zealand have been driven by labour market conditions, particularly people seeking better economic opportunities abroad (especially in Australia), and differences in immigration policy.

With the pandemic came travel disruptions, restrictions, and border closures. In addition to this, lockdowns resulted in reduced economic activity and opportunities, significantly disrupting the world economy. New work and residence visas issued by Immigration New Zealand slowed to a trickle, and were largely limited to those already in the country.

The combination of all of these factors had an unprecedented impact on the inward and outward migration of citizens and non-citizens.

Net migration of non-citizens nosedived

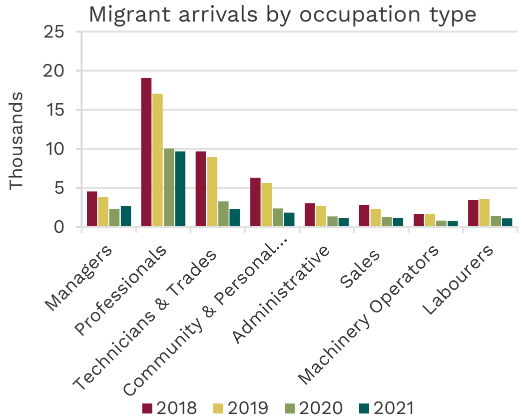


Unsurprisingly, the border closures resulted in a massive drop in non-citizen migration. Historically, overall net migration losses have been driven by an outflow of New Zealand citizens. In 2020, for the first time in 40 years, net migration of non-citizens dipped below zero. More non-citizens were leaving the country than those who were entering. Non-citizen arrivals fell by close to 80 percent between 2019 and 2021. Limited entry, and re-entry, also resulted in many migrants in the country, on work and student visas, holding off travel. Departures fell by 30 percent between 2019 and 2021.

Another interesting trend was the positive net migration of citizens during the pandemic era. New Zealand generally experiences a net loss of citizens in any given year. With one of the biggest diasporas in the Organisation for Economic Co-operation and Development (OECD), as a share of total population, over a million Kiwis lived overseas prior to COVID-19. As 2019 was nearing a close, and the threat of the pandemic was growing, more and more Kiwis decided to return home amid the uncertainty of being locked out of their home, and away from family. New Zealand citizens and residents were returning home in record numbers. In addition, many decided to postpone overseas trips for travel and work. In the year ended December 2020, just 15,000 citizens departed the country. Between 2000 and 2019 this number averaged over 50,000 departures per year.

Skills gaps and shortages were intensified

The sudden border closures resulted in severe skills and labour shortages for domestic businesses. This was especially the case for employers who relied on migrant labour, for example those in the horticulture sector. There was also a severe shortage of trades workers, medical staff, and various other occupations. In fact, these shortages were so severe that the Government decided to either extend existing visas for workers in certain industries, or let a limited number of people in, as in the case of medical and horticultural workers.



The lack of access to workers has added to other pandemic-related price pressures for business owners, for example supply chain logjams and rising inflation.

As part of the immigration rebalance, agreements will be put in place with sectors that currently rely on lower-skilled migrants. These will include the care, construction and infrastructure, meat processing, seafood, and seasonal snow and adventure tourism sectors, in exchange for sector improvements. In addition, easier residence pathways will be offered to higher-skilled migrants in certain roles in the health and social services, trades, agriculture, engineering, construction, and technology industries.

The role for immigration policy

Immigration policy plays a very important role in determining the size and make-up of a country's migrants, and consequently, its population. New Zealand's immigration system has relied on a points-based systems since the early 1990s. It is designed with the goal to increase the well-being of residents and citizens. This system can be tweaked to reflect changes to preferences for minimum wage thresholds, skills shortages, and qualification levels, amongst other criteria. This also means that, inherently, high-skilled migrants, and those who contribute to industries experiencing shortages, are prioritised.

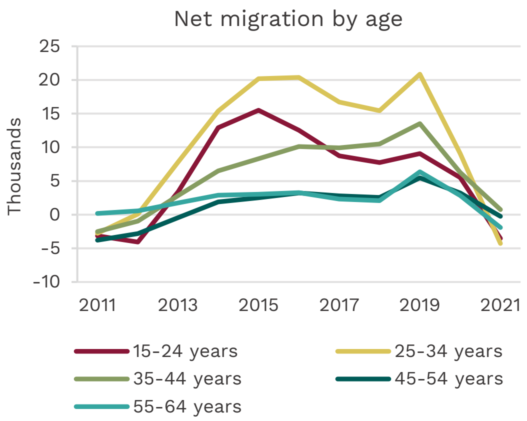
The Government recently announced a 'rebalancing' of the immigration system. The rebalance is designed with a view to attract high-skilled migrants, increase the productivity and resilience of certain industries, and ease the pressure on national infrastructure and housing.

A recent inquiry into immigration policy by the Productivity Commission found that immigration has played a vital role in New Zealand's economic development, reducing the effects of labour shortages and the 'brain drain'. The report also highlighted the need for policy to be more transparent, and have stronger links to education and training policies. It also cautioned against using migration as a tool to fix other policy failures, such as the rising cost of housing.

What will future migration look like?

Now that the government has announced a plan to fully re-open the borders by July 2022, we can expect some of the movements in migration to return to pre-pandemic trends. However, a lot has changed for New Zealand during these two years in isolation, in terms of policy and the preferences of Kiwis and non-citizens.

Many citizens and residents, particularly those in their 20s and 30s, will in all probability, depart the country for work or study. The latest numbers for March 2022 show that the net migration of citizens is already falling fast. In the March 2022 month, compared to the March 2021 month, net migration of citizens was already down by 87 percent.



Worryingly, younger age groups have seen substantial losses during the pandemic closures, exacerbating labour shortages. In the case of citizens specifically, even though the year to March 2022 saw an overall gain, there was a net loss 1,800 people in the 18 to 27 age group during this period. This is unsurprising considering past trends, and the substantial wage gaps between New Zealand and other advanced nations, for example Australia. As a result, we can continue to expect high-skilled citizens to depart the country in search of greener pastures. MBIE's current estimates suggest that close to 50,000 people will emigrate over the year.[2]

The rebalancing of the immigration system to attract higher skilled migrants, tighter conditions on work, student, and partner visas, and new conditions on which employers can, and can't, hire migrant workers, will mean that overall migration is unlikely to return to the elevated levels seen before the pandemic.

While we can expect net migration to start inching upwards in the second half of 2022, it is hard to predict by how much. We can be sure that the re-opening of the borders will ease some of the acute labour shortages for employers in many industries. On the flip side, we will definitely see many residents and citizens leave in pursuit of better economic outcomes. On top of this, new migrants' decisions to move to New Zealand, particularly those with in-demand skills, will depend on how we compare to other advanced nations. Specifically, on issues such as affordability (particularly housing), the standard of living, wages, and overall well-being.

What remains to be seen is how well our infrastructure, housing supply, educational and training institutions, and the labour market will all respond to migration in the next normal.

[2] https://www.mbie.govt.nz/dmsdocument/19761-assessing-the-risk-of-new-zealanders-emigrating-as-border-restrictions-ease

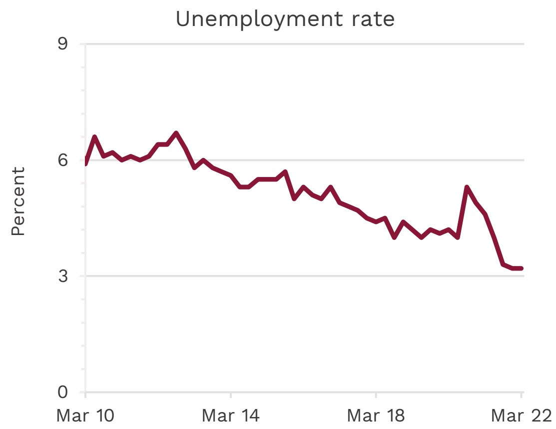
People resources

The bald facts are:

- Unemployment is down, and the labour force is growing
- Auckland has experienced the highest growth in employment, but the regions are struggling to attract and hold workers.

The labour market

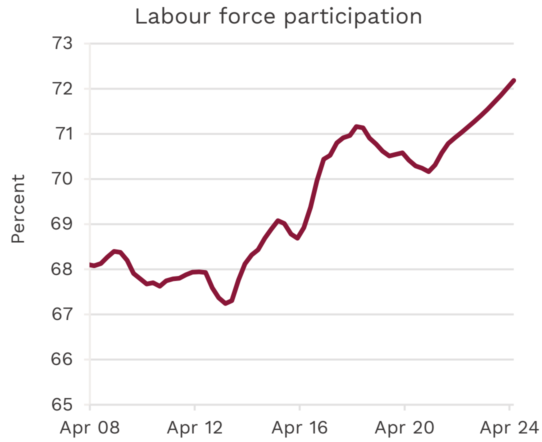
The unemployment rate has remained low at 3.4 percent in the first quarter of 2022, which is 1.5 percentage points lower than a year ago. Thirty-nine thousand fewer people are estimated to be officially unemployed compared to March last year.



Underutilisation decreased by 81,000 compared to last year, equating to a 2.8 percent decrease in the underutilisation rate – which is the number of people who are in the labour force but are unemployed or underemployed.

What drives this underutilisation decrease is a 27,000 drop in the number of those who are underemployed, a decrease of 39,000 in the number of people unemployed, and a 15,000 reduction in the total labour force.

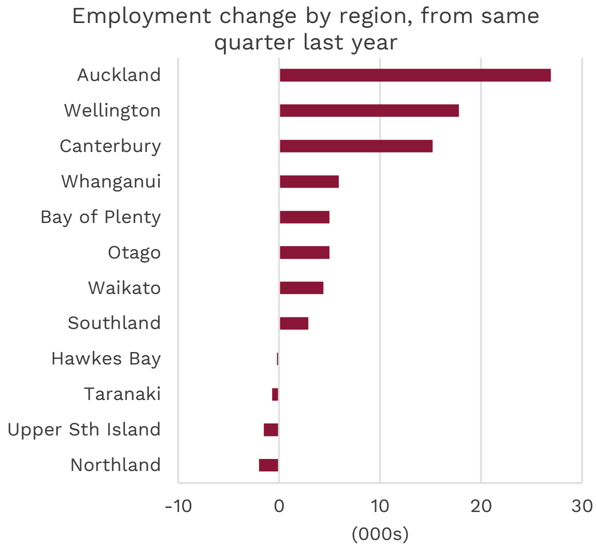
Labour force participation has jumped back up compared to a year ago. Looking forward, the labour force is set to continue increasing to above 72 percent over the next two years.



The building and construction sector leads employment growth, with 24,600 more FTEs than March 2021. This increase is followed by finance and property services with 20,000 more FTEs than last year.

Education occupations and unspecified occupations saw the highest decline in employment. There are 11,500 fewer FTEs in the education sector, and half the number of "unspecified" FTEs compared to last year, bringing the total unspecified FTEs to 33,300.

Auckland leads regional employment growth at 26,900 more FTEs, followed by Wellington (17,800), and Canterbury (15,200). Northland saw the highest decline in employment (-2000).



Capital resources

The bald facts are:

- More and more building consents are being issued, and at higher values
- The regions are experiencing high residential construction growth as increased costs push home buyers and builders out of the cities.

Investment and building activity

Despite building material supply shortages, building consents issued continue to rise.

Auckland leads total annual residential building consents, followed by Canterbury, Waikato, and Wellington. However, the regions which experienced the most significant upward shift were Gisborne and Northland. Auckland placed third, followed closely by Tasman. These trends suggest the appetite for regional living is showing no signs of slowing down.

The total value of residential building work completed reflects the high cost of housing and construction at a whopping $21 billion.

New house consents have jumped in the last few months, with Auckland leading the pack. Canterbury has also experienced an increase in new homes, up to similar levels of the peak rebuild season of late 2014. This is not surprising as Christchurch has become one of the more affordable New Zealand cities to live in, and is therefore attractive to first home buyers.

The number of non-residential building consents continues to remain stable, showing little change from last year. However, the consent values have been climbing quickly after the dip caused by the 2020 lockdowns.

Home base

The bald facts are:

- After implementing new accounting measures, the Government's finances reflect increased debt. The Treasury has indicated that it is not concerned about the level of debt
- Inflation is high, and retail spending is sluggish. The cost of living will be putting pressure on most households.

Government finances

The Interim Financial Statement of the Government, published by the Treasury for the 10 months ended 30 April 2022, shows most indicators have been tracking better than forecast. Crown revenue was $1.8 billion higher than expected, while expenses were $800 million lower than expected.

The balance before gains and losses (OBEGAL) showed a deficit of $9.4 billion, which was $3.2 billion lower than expected. The Treasury expects the strength in the operating balance will continue until the year's end.

Unfortunately, this is unlikely to lead to easing in the tax take, as net debt was $4.3 billion higher than forecast. This is due to a new headline debt measure announced in the 2022 BEFU. The debt measure now includes Crown advances, Crown entity borrowings, and the financial assets and borrowings of the New Zealand Superannuation (NZS) fund. The Government's objective is to keep the new debt measure below a ceiling of 30 percent of GDP. Because the investments and derivatives of the NZS and ACC suffered net losses in recent market conditions, their inclusion in the Crown debt measure has driven the $4.3 billion discrepancy.

Despite the new debt measure being more volatile, Treasury maintains that the volatility does not signal the need for a change in fiscal policy settings to achieve the Government's debt objectives.

While there is the cost of living payment on the way for many households, the prospect of more COVID-19 subsidies are unlikely.

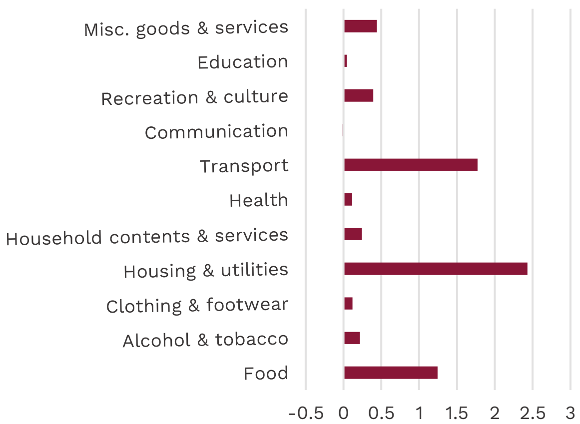
Inflation

Unfortunately, there is no prospect of a slowdown in the Consumer Price Index's (CPI) growth on the horizon. The CPI is perched at an astonishing 6.9 percent, which dwarfs the Reserve Bank's target of two percent.

As a small consolation for Kiwi households, food prices grew at a slightly slower rate in April 2022 compared to previous months.

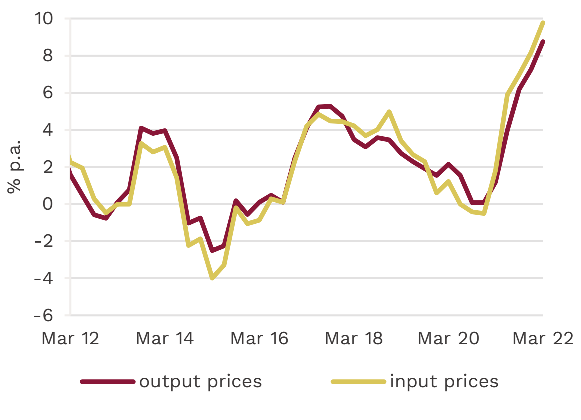
The breakdown of the CPI shows that the cost of housing and household utilities, transport, and food are the key drivers of the cost of living upsurge.

Percentage points contribution



It is also not looking good for producers, as input price inflation is sitting just below 10 percent and output price rises are not far behind.

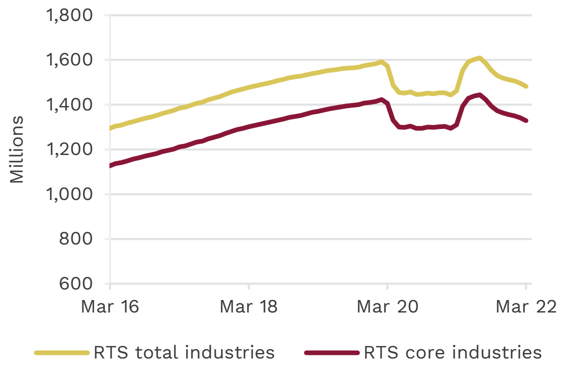
Producer prices, annual percent change



Retail

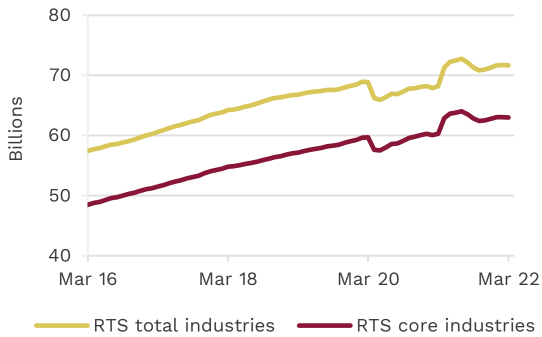
The volume and value of retail transactions slumped in the latest quarter.

Electronic card transactions, 12 month total number



Notably, the number of transactions appears to be reducing to close to early pandemic levels. This could be due to two key factors. Firstly, it is possible the reduction in spending is due to the Omicron waves affecting households. Secondly, if real incomes have not kept pace, the higher prices of all goods at current inflation levels reduces total demand for those goods. The trend before the pandemic suggested consumer spending was steadily rising year on year. After the early pandemic shock, spending spiked back up, but it was not sustained at this level for long. This drop in spending suggests that under current conditions, consumer confidence has not rebounded as a new normal becomes part of the times.

Electronic card transactions, 12 month total values



The value of transactions, however, continued to rise over summer, but then remained flat for March 2022. Since prices for goods have increased, it is not surprising that the total value of purchases did not drop as total volume decreased. Overall, the consumer has to buy fewer goods to stay on the same budget they had a year ago.

Abroad and beyond

The bald facts are:

- The balance of trade was negative for the March quarter
- Animal products, led by dairy, continue to be New Zealand's foremost export.

Trade

China remains New Zealand's key exporting destination, taking first, second, and third place for New Zealand's top exports for the March 2022 quarter. 8.7 percent of total exports were milk powder, butter, and cheese to China. 5.2 percent of exports were meats, and 3.5 percent were logs and wood to China. Meat exports to the US came in at fourth, with milk products to Indonesia in fifth position.

Animal products are still New Zealand's biggest export, with dairy accounting for 25.6 percent of the country's exports, and meat taking up 13.9 percent. Logs and travel battle for third place at 5.7 and 5.2 percent, respectively.

New Zealand's top import, by source, is petroleum from the United Arab Emirates, equating to $804 million of product, or 3.4 percent of total imports. This is unsurprising given the rocketing prices of fuel. Following petroleum, $753 million of electrical equipment, and $748 million of mechanical machinery from China come in second and third.

Total exports reduced by 3.6 percent from the December 2021 quarter, and imports decreased by 7.8 percent from the December 2021 quarter.

In total, New Zealand imported $23.6 billion of goods, and exported 19.8 billion of goods for the March 2022 quarter, which leaves the trade balance at negative $3.78 billion. As the price of fuel continues to rise, the trade balance is expected to remain in deficit.

The World

Australia

Despite the less than rosy outlook for the world economy in 2022, the Australian economy is experiencing a strong expansion. The IMF forecasts real GDP growth to be 4.2 percent in the 2022 year. As has historically been the case, Australia's strong export sector will boost national income and aid in the recovery from the pandemic. Commodity price developments are expected to result in terms of trade reaching a record high in June 2022.

As the worst effects of the pandemic-induced economic downturn continue to subside, the Reserve Bank of Australia expects household income and consumption to increase. Business investment is also expected to gain momentum.

Labour market participation is at a record high of over 66 percent, with more women and older people participating. The unemployment rate, which currently stands at 3.9 percent, is expected to fall further, and remain less than four percent through to 2024.

Inflation has remained low in Australia, compared to other developed countries, but is picking up pace. Unsurprisingly, rising global fuel prices and higher housing costs have contributed to inflation rising above five percent, with non-discretionary inflation at 6.6 percent. The Reserve Bank expects the CPI to reach six percent by the end of 2022.

India

The Indian economy is expected to grow at a rate of 7.5 percent in 2022. Tighter monetary conditions and weak global demand will subdue growth.

India has been grappling with the effects of high inflation for a number of years. Although the direct impact of the war in Ukraine is low, higher fuel and cereal world prices, two major imports, have aggravated inflation. Headline inflation is nearing the eight percent mark. In response, the Reserve Bank of India began to tighten monetary policy in May. Fiscal support is continuing in the form of a food scheme for poor households, and reduced fuel taxes. Import duties have also been shaved to curb inflation.

Labour market outcomes in India have been less than optimal for years before COVID-19. Unemployment has been high and labour market participation low, particularly for women. As of June 2022, the unemployment rate stands at over seven percent. The pandemic has also had a disproportionate impact on youth unemployment, with nearly 20 million jobs being lost. Poor labour market outcomes continue to be India's Achilles heel.

China

The long, strict lockdowns in China have come at the cost of economic growth. Growth forecasts for the Chinese economy have been downgraded to just over four percent for 2022. A slower-than-expected rebound in global trade, low consumer and business confidence, and the heavily indebted real-estate sector all weigh on growth. The OECD has flagged inadequate social protection, for example, unemployment benefits, as a concern that will impede consumption growth.

China, like India, has not directly felt the effects of the war in Ukraine. Any impacts have been felt through developments in the world market. Food price inflation has been low since China is largely self-reliant on food. However, imported energy and raw material prices have risen significantly, as in the rest of the world.

A record 10.8 million students are set to graduate this year, increasing competition in the job market. The unemployment rate for those aged between 16 and 24 years is extremely high at 16 percent. Overall unemployment stands at 5.8 percent.

The main concern for China, looking ahead, will be to resume economic activity and boost consumer and business confidence.

Japan

As the effects of the Omicron outbreak in Japan wane, economic recovery is underway, albeit at a slow pace. The IMF has cut the 2022 growth outlook for the world's third-largest economy to 2.4 percent, from its earlier estimate of 3.3 percent. The rapid rise in commodity prices, owing to the conflict in Ukraine, has hit the world's fifth largest importer hard. Japan's world-leading manufacturing industry continues to feel the bite of the supply side pressures plaguing businesses the world over.

The accumulation of household savings, in combination with fiscal measures, will in part shield households from inflationary impacts. The Bank of Japan expects a strong bounce back in consumer demand and business activity. Businesses manufacturing automobile- and digital-related goods will be better positioned than firms in the face-to-face services sector.

Unemployment has traditionally been low in Japan, and the rate currently stands at 2.5 percent. There are also 1.23 job openings for every job seeker. The main challenge for Japan for the rest of 2022 will be to secure a sure-footed, sustainable recovery.

United States

The GDP growth rate fell again in the first quarter of 2022 owing to lower exports, higher imports, and federal and local government spending cuts. High energy prices, continued supply chain disruptions, and tighter financial conditions will all dampen the growth outlook for the rest of 2022. GDP is expected to grow at 2.5 percent for 2022.

Despite the slowdown, private consumption remains strong, particularly spending on goods, which is at historically high levels. This is despite historically high inflation (8.3 percent in April 2022). The Federal Reserve has finally abandoned its long-held view that inflation is transitory, and increased the federal funds rate by half a percentage point in May, the biggest in two decades. Further hikes are expected throughout the year.

As in other advanced nations, the labour market is performing well. The unemployment rate is at 3.6 percent. The hospitality and professional service industries recorded a growth in employment, but employment in retail trade fell. The participation rate remains below pre-pandemic levels.

For the rest of 2022, inflationary pressures will be front of mind for the US economy. Faster than expected tightening of monetary policy will also subdue growth.

United Kingdom (UK)

GDP in the UK is forecast to increase by 3.6 percent in 2022. The country has recovered swiftly from the historical slump last year. However, growth is now starting to moderate as global inflationary woes start to kick in and depress demand. The manufacturing sector, in particular, is stagnating amid rising prices.

The UK economy is particularly exposed to cost increases resulting from the war in Ukraine. These have flowed through to energy prices and caused disruptions in the supply chain. The rapidly increasing cost of living has led to a fall in consumer confidence.

The Bank of England has been steadily increasing interest rates since late last year, and has signalled that it will continue to do so. Fiscal measures are also tightening, apart from measures for low-income households to cushion the effect of price increases.

Despite this, the labour market remains tight with the number of vacancies at 1.3 million in March 2022. The unemployment rate is comparatively low at 3.7 percent, below pre-pandemic levels.

The key risk to the outlook for the UK is the war in Ukraine, which will continue to push prices upwards, and depress demand and confidence.

European Union (EU)

Prior to the escalation of the situation in Ukraine, the EU was on a path to a sustained recovery. The war has thrown a spanner in the works and presented significant challenges. The region has announced a gradual phasing out of Russian gas, on which the region is heavily reliant. This decoupling has shifted growth forecasts for 2022 from 4.0 percent to 2.7 percent.

The region is feeling the heat from all angles with prices increasing for energy, fertilisers, food, and industrial metals. All of this has eroded households' purchasing power, as inflation has passed the eight percent mark. Furthermore, heightened uncertainty will prevent consumers from dipping into savings accumulated during the pandemic.

The strong labour market is the region's saving grace. Unemployment is at a record low of 6.2 percent, and is expected to decrease further. All countries within the region have performed well on this metric.

The economic ramifications of the war require careful policy action, particularly considering the impacts on countries that are less resilient. Well-targeted support is also required for businesses and consumers that are in a particularly susceptible position.

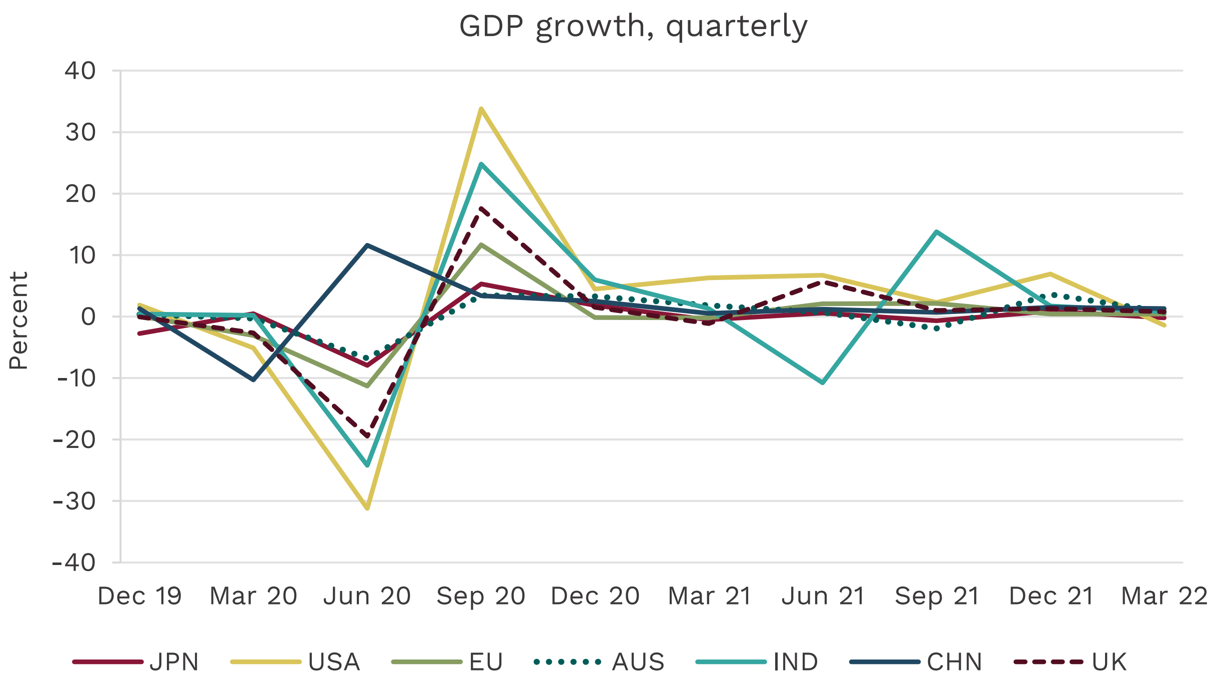
The path of GDP growth in the post-pandemic recovery era

At the beginning of 2022, recessions and economic slowdowns appeared to be moving into the rear-view mirror. But the escalating tensions in Europe have added uncertainties and eroded confidence. Even countries like China and the US which are, for the most part, not reliant on energy, food, and other commodities from Russia or Ukraine, are feeling the heat of heightened world prices.

Global economic activity is expected to slow to just 2.9 percent in 2022, according to the World Bank (as of June 2022). In the first quarter of 2022, most countries experienced little to no economic growth.

These headwinds are expected to persist through to 2023, with no respite for the world economy to be expected anytime soon.

Concerns that "stagflation" is making a comeback, amid rising inflation and slow growth, are increasing. If history is anything to go by, significant monetary tightening may be required to quell inflationary fires, which may plunge economies into another recession.



BERL forecasts

We have simplified the contents of our forecast data tables, to focus 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.

The lingering effects of Omicron and the escalating war in Europe have weighed on domestic economic activity. As a result, we are forecasting no growth for the year to June 2022. We have also adjusted our forecasts for other indicators based on the most recent values and developments in the economy. Net migration in particular has been revised downwards, and the CPI upwards. Our forecasts for inflation, exports and imports have also been increased.

	GDP growth %	FTEs growth %	Unemployment rate %	Net migration Number	CPI %	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	0.0	3.0	3.2	-9,000	7.5	12.0	30.5	-17.5
Forecast 2023	1.0	1.5	3.8	10,000	6.0	8.0	19.0	-14.4
Forecast 2024	2.5	1.4	4.0	15,000	3.3	4.0	9.5	-10.9

Making sense of the numbers

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