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MONTHLY ECONOMIC REVIEW

June 2009

(latest data as at 8 June)

Parliamentary Library Research Paper

A Overview

Recent trend

	07/08	08/09	
Economic Growth	3.2%	0.2%	Annual GDP Growth (December year)
Unemployment	3.8%	5.0%	Unemployment Rate (March quarter)
Inflation	3.4%	3.0%	Annual CPI Growth (March year)
Current Account Deficit	\$14.4b	\$16.1b	Current Account Deficit (December year)
Interest Rates	8.71%	2.82%	90 Day Bank Bills (May month)

Latest data

Fonterra has released its opening forecast payment for the 2009/10 dairy season. At \$4.55 per kilogram of milksolids it is below the 2008/09 season's payout of \$5.20 per kilogram. Fonterra states that this opening forecast reflects lower international commodity prices for dairy products, and is based on a New Zealand exchange rate equivalent to US59 cents. Fonterra's chairman, Henry van der Heyden said that the situation was not helped by the decision of the United States Government to introduce dairy export subsidies, "*which is bad news for our farmers*". The New Zealand dollar has strengthened by around 17 percent on a trade weighted basis since its recent trough in early March 2009. Much of this appreciation has been due to weakness in the United States dollar and the Japanese Yen. The New Zealand dollar has appreciated by approximately 29 percent and 28 percent respectively against these two currencies since early March 2009. In the United States, the unemployment rate has risen to 9.4 percent, with non-farm employment falling by an additional 345,000 in May 2009. While job-losses were widespread, the rate of decline was less than expected, raising the possibility that the worst (in terms of monthly job losses) may be over. Here, in New Zealand, the unemployment rate in the March 2009 quarter was five percent (with 115,000 people unemployed on a seasonally adjusted basis).

Outlook

The Treasury in the *Budget Economic and Fiscal Update 2009 (BEFU)* has forecast that the economy will continue contracting over the first three quarters of 2009, before showing signs of growth in the December 2009 quarter. As a result, the unemployment rate is forecast to continue rising, reaching a peak of around eight percent in the second half of 2010 (although they do note that there is considerable uncertainty around these forecasts). The NZIER has forecast the unemployment rate to peak at a later date and at a lower unemployment rate, peaking at 7.6 percent in mid-2011. As a result of the easing labour market and increased spare capacity, pressures on inflation are easing rapidly. New Zealand's annual inflation rate has been projected to drop to around one percent by the September 2009 quarter. Reserve Bank Governor, Alan Bollard has not ruled out further decreases in the official cash rate, and has stated the Bank's intention to keep the OCR at or below its current level until the latter part of next year.

Topic of the month: Public debt – Budget 2009

B Economic Growth

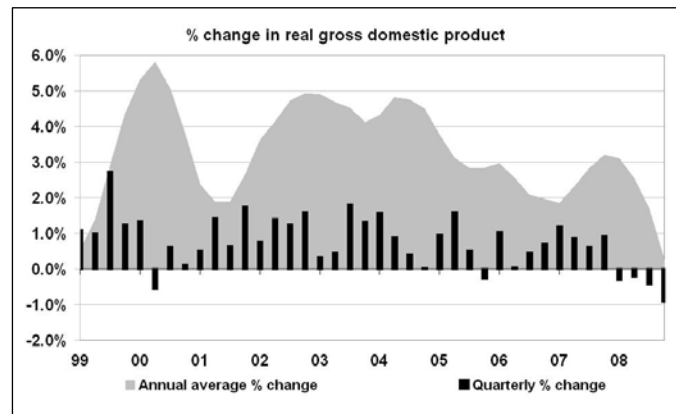
Background

A country's gross domestic product (GDP) is a measure of economic activity during a set period of time, normally reported on a quarterly and an annual basis. It is the sum of money values of all final goods and services produced in an economy over a set period. The primary indicator used for tracking economic performance over time is known as real gross domestic product, or real GDP. Real GDP is gross domestic product adjusted for changes in prices. New Zealand's official gross domestic product figures are sourced from Statistics New Zealand.

Gross domestic product

The economy contracted by 0.9 percent over the December 2008 quarter, the fourth consecutive quarter of contraction in the New Zealand economy. The largest contribution to the contraction over the quarter was from a 3.8 percent fall in value-added output from the manufacturing industry, followed by a 4.9 percent fall in value-added output from the wholesale trade industry.

Expenditure-based gross domestic product contracted by 0.6 percent over the December 2008 quarter, with investment in residential buildings falling by 14 percent over the quarter. Private consumption expenditure was steady from the previous quarter, while the value of exports of goods and services fell to a lesser extent than the value of goods and services imported into the country.



On an annual average basis, the economy expanded by 0.2 percent over calendar year 2008, despite four quarters of declining economic activity during the year. This was because the economy grew at a faster rate in 2007 than it contracted in 2008.

Other data

While it has increased its forecast payout by 10 cents per kilogram of milksolids to \$5.20 for the 2008/09 season, Fonterra has announced a lower opening forecast payout of \$4.55 per kilogram of milksolids for the 2009/10 season. This opening forecast payout is reflective of lower international commodity prices, and is based on an exchange rate of around US59 cents to the New Zealand dollar. In its press release, Fonterra stated that as a rule of thumb, every one cent movement in the New Zealand dollar has an impact upon the payout of approximately 10 cents per kilogram (based on everything else being equal).

Year ended December 2008	Nominal GDP
Expenditure GDP	\$180,444 million
GDP per capita	\$42,244

Source: Statistics New Zealand.

Outlook

The Treasury in the *BEFU* has forecast that the economy contracted by 1.1 percent over the March 2009 quarter, and will contract for two further quarters before returning to growth in the December 2009 quarter. The NZIER *Quarterly Predictions: June 2009* publication has forecast a contraction in the economy of 1.8 percent over the March 2009 year.

Net % expecting economic improvement in 12 months	Apr-09	May-09
NBNZ – Business Confidence	-14.5	1.9
NBNZ – Own Activity	-3.8	3.8
One Network News – Colmar Brunton survey	+3	na

Source: National Bank.

GDP growth (%)	Dec-07	Mar-08	Jun-08	Sep-08	Dec-08
Annual (year-on-year)	3.2	3.1	2.5	1.7	0.2
Quarterly (seasonally adjusted)	0.9	-0.3	-0.2	-0.5	-0.9

Source: Statistics New Zealand.

Next Release: *Gross Domestic Product: March 2009 quarter.* **Date:** 26 June 2009

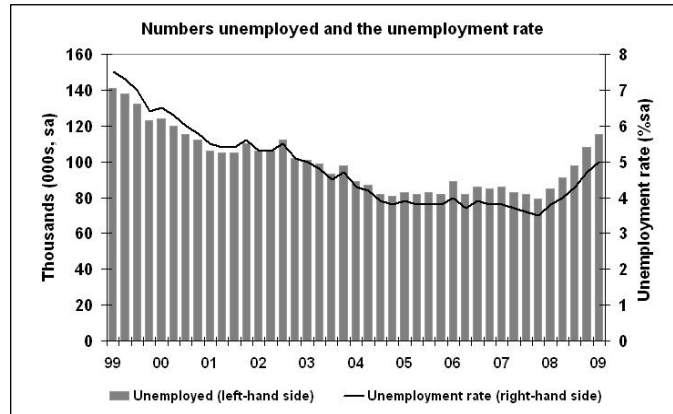
Background

The unemployment rate measures the number of people unemployed as a proportion of those in the labour force. The labour force is the number of people of working age (15 years and over) who are working for wages or a salary, working for a family business, or who are unemployed and seeking work. In New Zealand, the official unemployment rate is sourced from Statistics New Zealand's quarterly Household Labour Force Survey.

Employment and unemployment

New Zealand's unemployment rate rose by 0.3 percentage points to five percent in the March 2009 quarter, with 115,000 people unemployed (on a seasonally adjusted basis). The unemployment rate was last at this level six years ago, while you have to look back to the September 2000 quarter to see the same number of people unemployed. The unemployment rate has now risen for five consecutive quarters.

Over the March 2009 quarter, employment fell by 1.1 percent, driven by a 3.1 percent fall in part-time employment (full-time employment fell by 0.7 percent). However, when comparing employment for the March 2008 and 2009 quarters, there has been a 0.8 percent rise in employment numbers.



When comparing the actual unemployment rate data for the March 2008 and 2009 quarters, there has been a sizeable rise in the unemployment rates for those in the younger age groups. The unemployment rate for those aged 15 – 19 years has risen by 4.1 percentage points between the two March quarters to 19.6 percent in the March 2009 quarter, while the unemployment rate for those aged 20 – 24 years has risen 3.5 percentage points to 12.0 percent. This compares with a 1.3 percentage point rise to 5.6 percent in the actual unemployment rate between the two March quarters.

Other data

Reflecting the deteriorating labour market, employment confidence has fallen. Businesses are consolidating their activities; and reducing staff numbers. A net 16 percent of respondents to the latest National Bank *Business Outlook* survey expect to reduce employment in their business over the coming 12 months.

Outlook

New Zealand's unemployment rate is forecast to continue climbing over the next couple of years. The NZIER has forecast that the rise in the unemployment rate will continue to persist until mid-2011, when the unemployment rate will peak at around 7.6 percent. The Treasury are slightly more pessimistic in the *BEFU*, forecasting the unemployment rate peaking at eight percent in the second half of 2010 (with a forecast 179,000 people unemployed in the September 2010 quarter). However, they do note that there is considerable uncertainty around their forecast figures.

Quarter (%)	Mar-08	Mar-09
Average ordinary time weekly earnings (pre-tax)	\$878.39	\$926.64
Percentage change in hourly earnings from the same period of the previous year	+4.1	+5.5

Source: Statistics New Zealand.

Net % expecting increase in 12 months*	Apr-09	Apr-09
Employment in their business	-19.1	-16.0
Unemployment rate	76.8	72.8

*equal to the % of respondents expecting an increase minus the % expecting a decrease. Source: National Bank.

Household Labour Force Survey	Mar-08	Jun-08	Sep-08	Dec-08	Mar-09
Unemployment Rate (seasonally adjusted, %)	3.8	4.0	4.3	4.7	5.0
Employment Growth (annual, %)*	-0.2	0.8	1.0	0.9	0.8

*change since the same quarter of the previous year. Source: Statistics New Zealand.

Next Release: Household Labour Force Survey: June 2009 quarter. **Date:** 6 August 2009

D Inflation

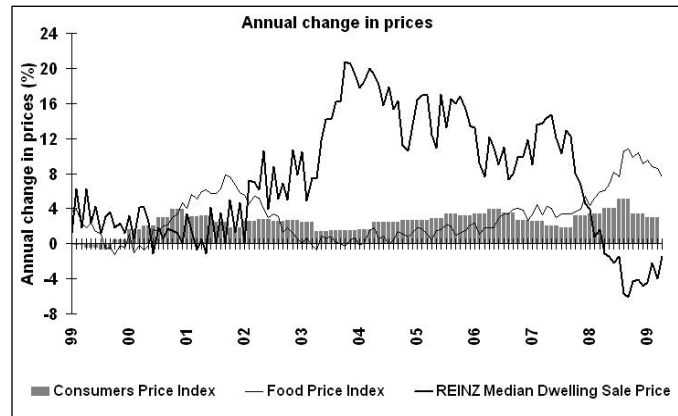
Background

Inflation is the change in prices of goods and services over a certain period of time. The official rate of inflation is measured by Statistics New Zealand's Consumer Price Index (CPI). The CPI tracks the price of a basket of household goods and services over time.

Consumers Price Index

The Consumers Price Index rose by 0.3 percent over the March 2009 quarter, and rose by three percent between the March 2008 and 2009 quarters. This is the first time since the September 2007 quarter that the annual rate of inflation has been within the Reserve Bank's medium target band of 1 -3 percent.

Annually, the most significant individual upward contribution to inflation came from a 7.5 percent rise in electricity prices. Lower petrol costs (down 9.3 percent) were the most significant individual downwards contribution to the annual inflation rate. The price of 91-unleaded petrol averaged 155.5 cents per litre in the March 2009 quarter, compared with 171.6 cents per litre in the March 2008 quarter.



Other data

Inflationary expectations continue to fall as capacity utilisation rises and demand for goods and services eases (restricting the ability of firms to increase prices). Respondents to the latest Reserve Bank Survey of Expectations expect an annual inflation rate of 1.8 percent over the year ahead (down from 2.2 percent), and a two-year ahead inflation rate of 2.2 percent (down from 2.3 percent).

Annual food price inflation continues to remain higher than general inflation (as measured by the consumers price index), although price rises are starting to trend downwards. In the year to April 2009, food prices rose by 7.6 percent (compared with a 9.5 percent rise in the year to January 2009).

Outlook

Annual inflation is forecast to continue declining over the near term. In the BEFU the Treasury has forecast the annual rate of inflation dropping to one percent in the year ended in the September 2009 quarter, before rising again (but remaining within the Reserve Bank's medium target band over the forecast period out to June 2013).

Annual Percentage Change (%)	Apr-09	May-09
Quotable Value – Residential property*	-9.2	-8.1
REINZ – National median dwelling sale price**	-1.4	n/a
Food Price Index**	7.6	n/a

*change since the same three months ended in the month of the previous year **change since the same month of the previous year.

Sources: Quotable Value; REINZ; Statistics New Zealand

National Bank Business Survey	Apr-09	May-09
Net % of respondents expecting to increase prices in 3 months time*:	17.6	12.4
Inflation expected in 12 months time:	2.73	2.65

*equal to the % of respondents expecting an increase minus the % expecting a decrease. Source: National Bank.

Inflation (%)	Mar-08	Jun-08	Sep-08	Dec-08	Mar-09
Consumers Price Index - Annual	3.4	4.0	5.1	3.4	3.0
Tradables inflation	3.4	4.8	6.3	2.3	1.7
Non-tradables inflation	3.5	3.4	4.1	4.3	3.8
CPI - quarterly	0.7	1.6	1.5	-0.5	0.3

Source: Statistics New Zealand.

Next Release: Consumers Price Index: June 2009 quarter.

Date: 16 July 2009

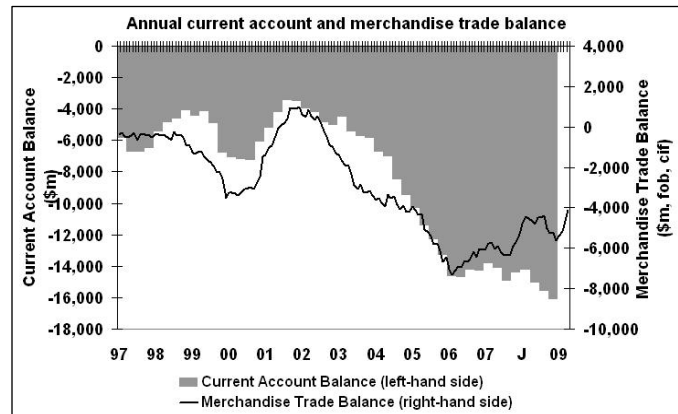
Background

The balance of payments is the record of the receipts and payments between a country's residents and the rest of the world, over a given period. The current account is that part of a country's balance of payments which embraces its transactions of goods, services, international investment income, and current transfers (e.g. foreign aid). A "balance of payments deficit" refers to a deficit of the current account.

Current account deficit

New Zealand's current account deficit rose from 8.6 percent of gross domestic product in the year ended September 2008 to 8.9 percent of GDP in the 2008 calendar year. Totalling some \$16,073 million in the 2008 calendar year, a sizeable proportion of the current account deficit was due to a \$13,582 million deficit in the investment income balance (which measures profits of New Zealand investments abroad less profits made by foreigners on their investments in New Zealand).

New Zealand's net international debtor position was \$167.7 billion as at 31 December 2008 (92.9% of GDP), reflecting the fact that New Zealand holds more international liabilities than international assets.



Other data

International commodity prices rose for the third consecutive month in May. However, they are still 28 percent lower than they were a year ago. When fluctuations in the exchange rate is taken into account, commodity prices in New Zealand dollar terms are 11 percent lower than they were a year ago.

The number of short-term overseas visitors in the year ended April 2009 was down 2.7 percent from the previous year, with 2.417 million visitor arrivals.

Annual Change (%)	Apr-09	May-09
World Commodities Prices*	-29.4	-28.1
NZ\$ Commodities Prices*	-7.6	-11.2
Overseas Visitors**	-2.7	n/a

*change since the same month of the previous year. **change since the previous year-end. Sources: Statistics New Zealand; ANZ.

Outlook

The current account deficit has been forecast to improve during 2009 due to easing demand for imported goods, and falling profits on foreigners' New Zealand investments. In the *BEFU* the Treasury has forecast a current account deficit of \$15,394 million for the March 2009 year (8.6% of GDP), falling to \$12,016 million in the March 2010 year (6.9% of GDP).

Annual Balances (\$m)	Dec-07	Mar-08	Jun-08	Sep-08	Dec-08	Apr-09
Current Account	-14,372	-14,211	-14,982	-15,528	-16,073	n/a
Merchandise trade	-2,381	-1,745	-1,845	-2,259	-2,360	n/a
Services	288	189	-138	-496	-1,014	n/a
Investment income	-12,836	-13,387	-13,860	-13,671	-13,582	n/a
Current transfers	557	732	860	899	883	n/a
Current Account (quarter*)	-3,239	-3,503	-4,692	-4,008	-3,772	n/a
Merchandise Trade (fob-vfd)	-2,856	-2,031	-1,897	-2,327	-2,729	-1,277
Merchandise Trade (fob-cif)	-5,312	-4,528	-4,478	-5,048	-5,614	-4,108

* Seasonally adjusted. VFD – The value of imports before insurance and freight costs. CIF – Cost of goods imported, including insurance and freight to New Zealand. FOB – Free on board, the value of goods at New Zealand ports before export. Source: Statistics New Zealand.

Next Release: *Balance of Payments: March 2009* **Date:** 25 June 2009

Background

The trade weighted index (TWI) is an index of the New Zealand dollar's value against a basket of five overseas currencies, where each currency is weighted by a combination of the size of the associated country's trade with New Zealand (including the Euro group of countries) and their gross domestic product. The official cash rate (OCR) is the interest rate that applies to overnight borrowing and lending between banks and the Reserve Bank. It is currently a key operational feature of monetary policy in New Zealand. The NZX50 is the main share index of the New Zealand Exchange. It tracks changes in the share prices of the top 50 publicly listed companies by free float market capitalisation on the NZX market. It is a gross index, so it includes the payout of dividends in its calculation.

Recent trend & latest monthly data

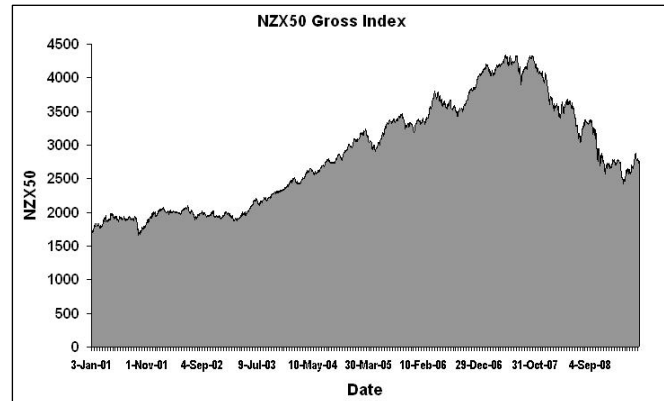
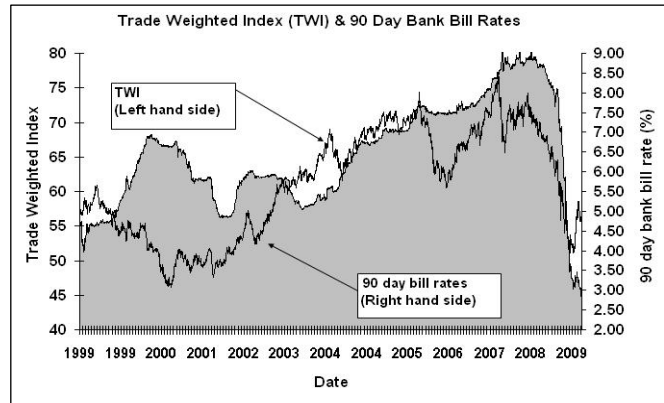
Following the delivery of the 2009 Budget (28 May 2009), credit agency Standard and Poor's announced that they were revising their credit rating outlook for New Zealand from negative to stable. The agency had placed a negative outlook on New Zealand's foreign currency credit rating in January 2009. Moody's Investor Services has reaffirmed its rating outlook for New Zealand as stable, while Fitch Ratings agency is currently in the process of reviewing the country's credit rating after the delivery of the 2009 Budget.

Of concern to exporters, the New Zealand dollar continues to climb, especially against the United States dollar. The exchange rate has been climbing for the last three months (on a monthly average basis), and currently sits at 59.78 index points on a trade-weighted basis. Since its 2009 trough on a trade-weighted basis in early March this year, the exchange rate has risen by 17.1 percent.

Reserve Bank Governor Alan Bollard expects the 575 basis point reduction in the official cash rate since July 2008 to continue feeding through to households via lower mortgage rates as existing fixed-rate mortgages come up for re-pricing. The Governor has not ruled out further reductions in the official cash rate, and has explicitly stated the Bank's intention to "keep the OCR at or below the current level through until the latter part of 2010".

Outlook

The Treasury in the *BEFU* has forecast the New Zealand dollar to depreciate over the coming year from an estimated level of 55.5 index points on a trade-weighted basis in the June 2009 quarter, to 50.0 index points in the June 2010 quarter. The average 90-day bank bill rate is forecast to fall from 3.7 percent in the March 2009 quarter, to 2.5 percent in the March 2010 and 2011 quarters. The NZIER has forecast the exchange rate to depreciate from 62.4 index points on a TWI basis in the March 2009 year, to 56.7 index points in the March 2010 year, based on lower commodity prices, narrower interest rate differentials, and previous cyclical trends. The Institute expects short-term interest rates to rise gradually from 2010 onwards.



Monthly averages	Dec-08	Jan-09	Feb-09	Mar-09	Apr-09	May-09
Trade Weighted Index (TWI) exchange rate	55.11	54.86	52.31	53.84	56.87	57.95
90 Day Bank Bill Rate	5.23	4.38	3.40	3.24	3.12	2.82
Official Cash Rate*	5.00	3.50	3.50	3.00	2.50	2.50
NZX50	2691	2747	2666	2549	2643	2787

* actual rate at end of month, the Official Cash Rate is an interest rate set by the Reserve Bank to implement monetary policy.

Sources: Reserve Bank; NZX.

Next Official Cash Rate (OCR) decision: 11 June 2009

Background

New Zealand's economic growth rate, unemployment rate and central bank interest rates are compared with our main trading partners. The first table below illustrates the seasonally adjusted quarterly growth rates in economic activity. The second table below shows the standardised unemployment rate in each OECD country/area, while the third shows the main central bank interest rates for various OECD countries (and currency group in the case of the Euro), along with the date and direction of the latest movements for each.

Economic growth

Gross domestic product in the OECD area fell by 2.1 percent in the first quarter of 2009, according to preliminary estimates released by the OECD. This represents the largest quarterly fall in output since their records began in 1960, and follows a fall of two percent over the December 2008 quarter.

The Australian economy expanded by 0.4 percent over the March 2009 quarter, due to rising exports and consumer expenditure. Of those OECD countries that have released their March 2009 quarter's GDP results, Australia remains one of a few that have recorded positive economic growth.

The Treasury in the *BEFU* has forecast the economies of our top 12 trading partners to contract by 2.5 percent in calendar year 2009, before expanding by only one percent in 2010 (this compares with an annual growth rate of four percent in 2007, and 1.8 percent in 2008).

Unemployment

The unemployment rate in the OECD area was 7.7 percent in March 2009, up 0.3 percentage points from the previous month, and 2.0 percentage points higher than from a year earlier. During the month of April, Spain had an unemployment rate of 18.1 percent, while the unemployment rate in Ireland was 11.1 percent.

Australia's unemployment rate unexpectedly fell by 0.3 percentage points to 5.4 percent in April 2009. Most economic commentators were expecting the unemployment rate to continue its upward trend.

Central banks

The Board of the Australian Reserve Bank decided to leave the Bank's cash rate steady at three percent during the rate's review in early June 2009. The released statement by Reserve Bank Governor, Glenn Stevens, referred to emerging evidence of stabilisation in the global economy, and better conditions in the global financial markets. Confidence within Australia, while still low, had shown signs of improvement. Inflationary pressures continue to abate as capacity utilisation falls, and demand for labour weakens. The Bank noted that scope remains for some further easing of monetary policy, if needed. The Australian cash rate has been reduced twice so far in 2009, by a total of 125 basis points.

Quarterly economic growth rates			
Country	Sep-08	Dec-08	Mar-09
Australia	0.2	-0.6	0.4
Japan	-0.6	-3.8	-4.0
NEW ZEALAND	-0.5	-0.9	
United Kingdom	-0.7	-1.6	-1.9
United States	-0.1	-1.6	-1.5
OECD Total	-0.3	-2.0	-2.1

Sources: OECD

Standardised unemployment rates			
Country	Mar-09	Apr-09	May-09
Australia	5.7	5.4	
Japan	4.8	5.0	
NEW ZEALAND	5.0		
United Kingdom	6.9 Feb		
United States	8.5	8.9	9.4
OECD Total	7.7		

Source: OECD

Central Bank interest rates (as at 8 June 2009)				
Central Bank	Key Rate	Interest Rate (%)	Effective from	Direction (Basis points)
Australia	Cash Rate	3.00	8-Apr-09	-25
European Central Bank	Main Refinance Rate	1.00	13-May-09	-25
Japan	Uncollateralized overnight rate	0.10	19-Dec-08	-20
NEW ZEALAND	Official Cash Rate	2.50	30-Apr-09	-50
United Kingdom	Bank Rate	0.50	5-Mar-09	-50
United States	Federal Funds Rate	0.00 – 0.25	16-Dec-08	-75

Sources: Central Bank interest rates as at the date stated.

Public debt – Budget 2009

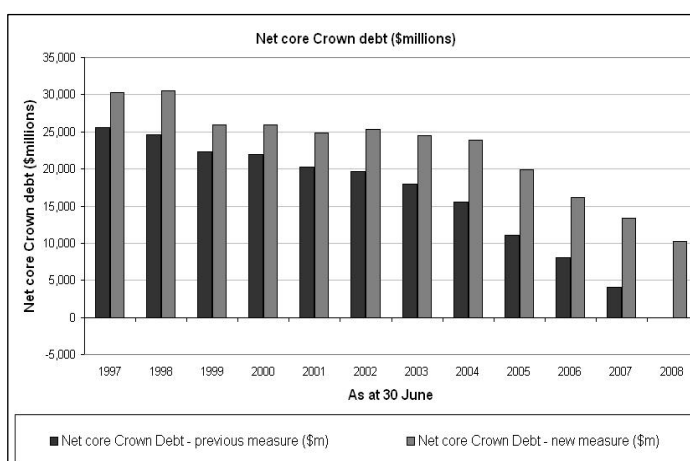
The 2009 Budget was delivered by Hon Bill English on 28 May 2009. In the associated *Budget Economic and Fiscal Update 2009*, Budget deficits are forecast to persist over the next nine years. As a result, net debt is projected to peak at around 36 percent of gross domestic product by 2016/2017.

The Government's long-term debt objective is now measured in "net debt" terms, to take into account movement in value in the Crown's financial assets as well as liabilities. In previous Budgets, a gross sovereign-issued debt measure was used for the long-term debt objective.

In Budget 2008, a long-term debt objective of approximately 20 percent of GDP was set for gross sovereign-issued debt (GSID) over the next ten years (the gross sovereign-issued debt figure excludes settlement cash). In Budget 2009, the long-term debt objective is to keep net debt below 40 percent of GDP, and to ensure that it is brought back to around 30 percent of GDP no later than the early 2020s.

A new net debt indicator was released in this year's Budget, and it has a narrower focus than previous versions (see graph). Net debt has been defined as being core Crown net debt with the exclusion of assets such as the New Zealand Superannuation Fund, student loans and other advances (such as loans to District Health Boards).

Treasury has stated in the *BEFU* that these assets have been excluded from the net debt calculations (in effect closing the gap between the gross and net debt figures) as they are more illiquid than the other financial assets that the Crown holds, and that they are held for public policy purposes rather than for public financing purposes (e.g. through legislation the assets held within the New Zealand Superannuation Fund can only be utilised for future New Zealand Superannuation payments).



At the end of the 2009/10 fiscal year, net debt is forecast to rise to \$27,319 million, or 15.6 percent of gross domestic product. It then has been forecast to rise rapidly to 30.9 percent of gross domestic product as at 30 June 2013. Gross debt is forecast to rise to \$50,973 million (or 29.1 percent of GDP) at 30 June 2010, and to \$78,469 million as at 30 June 2013 (or 38.7 percent of GDP).

Fiscal Years ended 30 June (\$m)	2008 (a)	2009 (f)	2010 (f)	2011 (f)	2012 (f)	2013 (f)
Gross Sovereign-Issued Debt (excluding Reserve Bank settlement cash and Reserve Bank bills)	31,390	44,217	50,973	62,427	70,657	78,469
<i>Gross debt as a % of GDP</i>	<i>17.5</i>	<i>24.8</i>	<i>29.1</i>	<i>34.2</i>	<i>36.9</i>	<i>38.7</i>
Net core Crown debt (excluding NZS Fund, student loans and other advances)	10,258	15,482	27,319	39,759	51,910	62,634
<i>Net debt as a % of GDP</i>	<i>5.7</i>	<i>8.7</i>	<i>15.6</i>	<i>21.8</i>	<i>27.1</i>	<i>30.9</i>

Note: (a) – actual; (f) – forecast. Source: The Treasury, Budget Economic and Fiscal Update

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