



PARLIAMENTARY LIBRARY

Te Pātaka Rangahau a Te Whare Pāremata

MONTHLY ECONOMIC REVIEW

March 2009

(latest data as at 12 March)

Parliamentary Library Research Paper

A Overview

Recent trend

	07/08	08/09	
Economic Growth	2.8%	1.7%	Annual GDP Growth (September year)
Unemployment	3.4%	4.6%	Unemployment Rate (December quarter)
Inflation	3.2%	3.4%	Annual CPI Growth (December year)
Current Account Deficit	\$14.9b	\$15.5b	Current Account Deficit (September year)
Interest Rates	8.82%	3.40%	90 Day Bank Bills (February month)

Latest data

New Zealand's unemployment rate rose to 4.6 percent in the December 2008 quarter (an increase of 0.4 percent over the September quarter) with 105,000 people unemployed (on a seasonally adjusted basis). There was also a 0.9 percent increase in employment over the December quarter, with full-time employment growing by 0.3 percent and part-time employment by 3.5 percent. Reserve Bank Governor, Alan Bollard reduced the official cash rate by a further 50 basis points to three percent in March 2009. This follows two cuts of 150 basis points each in December and January. The official cash rate has fallen 525 basis points since its July 2008 peak of 8.25 percent. While mortgage rates have declined in line with reductions in the official cash rate, the business base lending rate has fallen to a lesser extent. Reserve Bank Governor has called on the financial institutions to *"continue lending on sound business propositions, to support the recovery"*. The retail industry continues to be adversely affected by the recession, with sales volumes falling by 0.6 percent over the December quarter, the fifth consecutive quarterly decline in sales volumes.

Outlook

Internationally, the economic situation continues to worsen, with exports from Asian countries being hit hard (especially for Japan, China and Taiwan). As a small open economy, New Zealand is exposed to current international economic events. However, the large reduction in interest rates, along with fiscal policy stimulus (through increased expenditure and lower tax rates), a lower New Zealand dollar and fuel prices, is providing support to the New Zealand economy. The Reserve Bank expects to see economic activity to trough in mid-2009 before gradually improving (although they acknowledge that the recovery is dependent upon international economic developments and that there is a risk that the recovery may occur later and be more protracted). The NZIER in their latest *Quarterly Predictions* has forecast the economy to contract by 1.5 percent in the year ended March 2009, and grow by just 1.1 percent in the March 2010 year. Reflecting businesses' employment intentions, the unemployment rate is forecast to continue rising. The Reserve Bank has forecast an unemployment rate of 5.2 percent in the March 2009 quarter, rising to 6.8 percent in the March 2010 quarter.

Topic of the month: Arthur Okun's misery index

B Economic Growth

Background

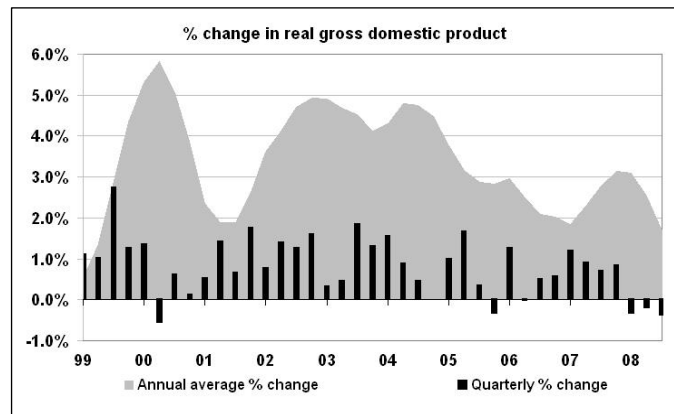
A country's gross domestic product (GDP) is a measure of economic activity during a set period of time, normally reported on a quarterly and an annual basis. It is the sum of money values of all final goods and services produced in an economy over a set period. The primary indicator used for tracking 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

Economic activity within New Zealand declined for the third consecutive quarter in the September 2008 quarter, with activity falling by 0.4 percent in seasonally adjusted terms.

On an annual average basis, the economy grew by 1.7 percent over the year ended September 2008. The fishing, forestry and mining industry expanded by 16.8 percent over the year, reflecting a full year of oil production from the Tui oil field.

Gross domestic product per capita was \$42,089 in the year ended September 2008. An increase of 0.7 percent from the September 2007 year on an inflation adjusted basis.



Other data

The recession is adversely affecting the retail industry in particular, with sales volumes falling and profitability under pressure. Retail sales volumes fell by 0.6 percent in the December 2008 quarter, following falls in each of the previous four quarters (motor vehicle retailing volumes have now fallen for seven consecutive quarters).

Year ended September 2008	Nominal GDP
Expenditure GDP	\$179,538 million
GDP per capita	\$42,089

Source: Statistics New Zealand.

Ten of New Zealand's 14 regions recorded an increase in economic activity in the December 2008 quarter according to the National Bank's *Regional Trends* publication. Growth in economic activity ranged from two percent growth for the West Coast, to a decline of 3.2 percent for the Northland Region. Nationally, the publication recorded a 0.1 percent decline in economic activity over the December 2008 quarter, the fourth consecutive quarter of a decline in this series.

Outlook

New Zealand's gross domestic product has been forecast to contract on an annual average basis for the year ended March 2009. The NZIER has forecast the economy to contract by 1.5 percent over the March 2009 year, while the Reserve Bank has forecast a contraction of 0.8 percent. Both of these forecasts are worse than the downside scenario forecast by Treasury in its *Economic and Fiscal Forecasts* released in December, of an annual average contraction of 0.2 percent over the March 2009 year.

Net % expecting economic improvement in 12 months	Dec-08	Feb-09
NBNZ – Business Confidence	-35.0	-41.2
NBNZ – Own Activity	-21.5	-20.1
One Network News – Colmar Brunton survey	n/a	-9

Source: National Bank.

GDP growth (%)	Sep-07	Dec-07	Mar-08	Jun-08	Sep-08
Annual (year-on-year)	2.8	3.1	3.1	2.5	1.7
Quarterly (seasonally adjusted)	0.7	0.8	-0.3	-0.2	-0.4

Source: Statistics New Zealand.

Next Release: *Gross Domestic Product: December 2008 quarter.*

Date: 27 March 2009

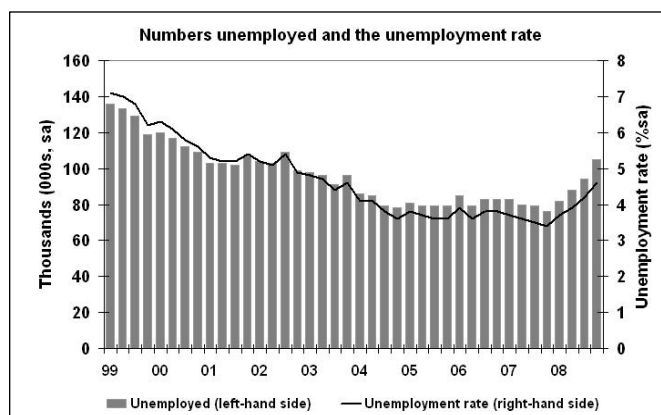
Background

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

There was a 0.4 percentage point rise in New Zealand's unemployment rate in the December 2008 quarter to 4.6 percent. In the quarter there were 105,000 people unemployed on a seasonally adjusted basis, a rise of 11.7 percent over the previous quarter. The unemployment rate was last at this level five years ago, in the December 2003 quarter.

Over the December 2008 quarter there was a 0.9 percent rise in employment, with a 0.3 percent rise in full-time employment and a 3.5 percent rise in part-time employment. When comparing employment between the December 2007 and 2008 quarters, there was also a 0.9 percent rise in employment numbers.



New Zealand's unemployment rate in the December 2008 quarter was the tenth lowest (and equal to that of Luxembourg) out of 27 OECD countries that produce a standardised unemployment rate. First equal were the Netherlands and Norway, who both had an unemployment rate of 2.7 percent. Spain, at the other end of the rankings, had an unemployment rate of 13.4 percent

Other data

The results of the latest *Manpower Employment Outlook* survey reflect a struggling labour market, with a net nine percent of employers expecting a decline in employee headcount numbers during the second quarter of 2009. This is the least optimistic that survey participants have been since the survey began in the second quarter of 2004. Only the transportation and utilities sector expects to increase employee headcount numbers over the June 2009 quarter.

Quarter (%)	Dec-07	Dec-08
Average ordinary time weekly earnings (pre-tax)	\$861.55	\$905.74
Percentage change in hourly earnings from the same period of the previous year	+3.5	+5.1

Source: Statistics New Zealand.

Outlook

The short-term outlook for employment continues to remain bleak, with a net 29 percent of firms responding to the latest National Bank *Business Outlook* survey expecting to reduce employment numbers in their firms over the coming twelve months. The NZIER has forecast the unemployment rate to rise to 6.1 percent in March 2010 (with an additional 50,000 people unemployed when compared with the December 2008 quarter). Furthermore the Institute expects the unemployment rate to remain above six percent until mid-2012.

Net % expecting increase in 12 months*	Dec-08	Feb-09
Employment in their business	-22.2	-29.1
Unemployment rate	86.0	86.9

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

Household Labour Force Survey	Dec-07	Mar-08	Jun-08	Sep-08	Dec-08
Unemployment Rate (seasonally adjusted, %)	3.4	3.7	3.9	4.2	4.6
Employment Growth (annual, %)*	2.5	-0.2	0.7	1.0	0.9

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

Next Release: *Household Labour Force Survey: March 2009 quarter. Date: 7 May 2009*

D Inflation

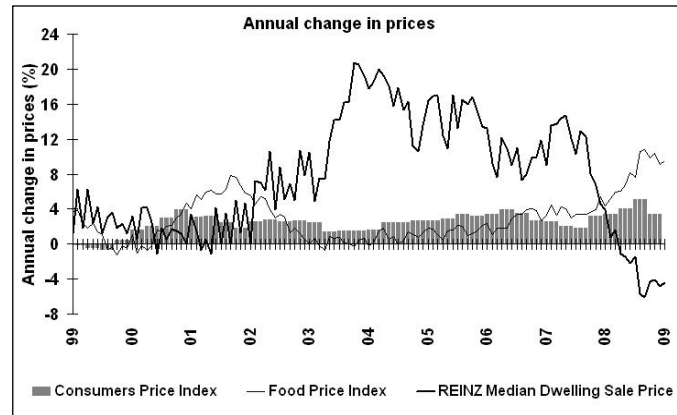
Background

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 annual rate of inflation fell from 5.1 percent in the year ended September 2008 to 3.4 percent in the December 2008 year. Over the December 2008 quarter prices actually fell by 0.5 percent. The last time this occurred was in the December 2006 quarter. The largest single contribution to lower prices came from a 22.4 percent reduction in petrol prices, followed by a 65.8 percent fall in the price of a lettuce. Central and local government charges rose by 1.2 percent over the December 2008 quarter.

On an annual basis (the increase in prices between the December 2007 and 2008 quarters), the most significant individual upwards contribution to a rise in prices came from a 7.7 percent rise in electricity prices, followed by a three percent rise in rentals for housing.



Other data

There was an 8.9 percent decline in residential property sale prices when comparing the three months ended February 2009 with the same period in 2008, according to Quotable Value. The average sales price for New Zealand was \$383,786 using this indicator. Food prices continue to rise dramatically, rising by 8.8 percent in the year ended February 2009. Over the year, fruit and vegetable prices rose by 12.1 percent, meat, poultry and fish prices rose by 11.0 percent, and the grocery food subgroup rose by 9.1 percent.

Annual Percentage Change (%)	Jan-09	Feb-09
Quotable Value – Residential property*	-8.3	-8.9
REINZ – National median dwelling sale price**	-4.4	-2.2
Food Price Index**	9.5	8.8

*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

Outlook

Inflationary expectations continue to decline, with the average one-year-ahead inflation rate expectation of 2.2 percent in the Reserve Bank's *Survey of expectations – a survey of businesses*. Respondents to the survey expect prices to rise by 0.4 percent over the March 2009 quarter. The NZIER expects the annual rate of inflation to fall within the Reserve Bank's 1 – 3 percent (medium term) target band by mid to late-2009. The Reserve Bank has projected the annual inflation rate to fall to 1.9 percent in June 2009.

National Bank Business Survey	Dec-08	Feb-09
Net % of respondents expecting to increase prices in 3 months time*:	14.1	14.8
Inflation expected in 12 months time:	3.15	2.68

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

Inflation (%)	Dec-07	Mar-08	Jun-08	Sep-08	Dec-08
Consumers Price Index - Annual	3.2	3.4	4.0	5.1	3.4
Tradables inflation	2.8	3.4	4.8	6.3	2.3
Non-tradables inflation	3.5	3.5	3.4	4.1	4.3
CPI - quarterly	1.2	0.7	1.6	1.5	-0.5

Source: Statistics New Zealand.

Next Release: Consumers Price Index: March 2009 quarter. **Date:** 17 April 2008

Background

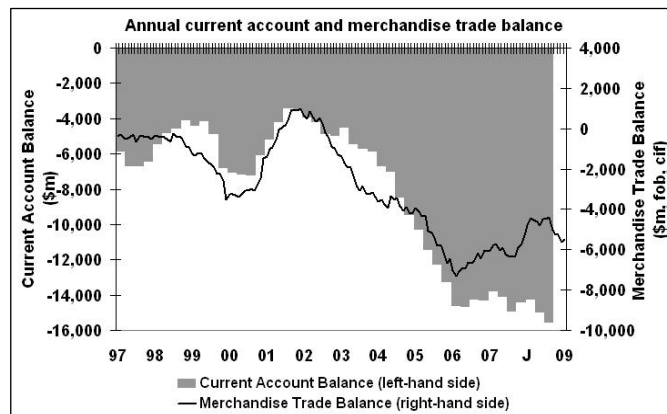
The balance of payments is the record of the receipts and payments between a country's residents and the rest of the world, over a given period. The current account is that part of a country's balance of payments which embraces its transactions of goods, services, international investment income, and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

Current account deficit

For the year ended September 2008, the actual current account deficit totalled \$15,509 million, equivalent to 8.6 percent of gross domestic product. Over the year the current account deficit rose by \$617 million in nominal terms, but fell by 0.1 percentage point as a percentage of gross domestic product.

While the merchandise trade balance improved by \$912 million over the year, the services balance deteriorated by \$901 million, and the investment income balance declined by \$867 million.

New Zealand's net international debt (which excludes equity assets and liabilities) totalled \$154.1 billion as at 30 September 2008.



Other data

International visitor numbers fell by 3.7 percent in January 2009 when compared with January 2008, with visitors from Japan, South Korea and Taiwan falling dramatically. On an annual basis, there was a 0.9 percent fall in visitors. International commodity prices continue to ease, down a further 4.6 percent in February (and down 30.7 percent on an annual basis). When the fall in the exchange rate is taken into account, commodity prices rose by 1.9 percent during February.

Annual Change (%)	Jan-09	Feb-09
World Commodities Prices*	-26.5	-30.7
NZ\$ Commodities Prices*	-2.6	1.5
Overseas Visitors**	-0.9	n/a

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

Outlook

New Zealand's earnings from overseas trade and tourism are under pressure due to the international economic climate, which will reduce demand for exports, and lead to a drop in tourist numbers. The NZIER has forecast a drop in export volumes of 2.8 percent in the March 2009 year. Import volumes will also decline as domestic expenditure is squeezed due to rising unemployment and higher prices due to the lower exchange rate.

Annual Balances (\$m)	Dec-07	Mar-08	Jun-08	Sep-08	Dec-08	Jan-09
Current Account	-14,372	-14,211	-14,982	-15,509	n/a	n/a
Merchandise trade	-2,381	-1,745	-1,845	-2,262	n/a	n/a
Services	288	189	-138	-471	n/a	n/a
Investment income	-12,836	-13,387	-13,860	-13,662	n/a	n/a
Current transfers	557	732	860	887	n/a	n/a
Current Account (quarter*)	-3,188	-3,510	-4,650	-4,079	n/a	n/a
Merchandise Trade (fob-vfd)	-2,856	-2,031	-1,897	-2,327	-2,722	-2,593
Merchandise Trade (fob-cif)	-5,312	-4,528	-4,478	-5,048	-5,607	-5,483

* 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: December 2008* **Date:** 26 March 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

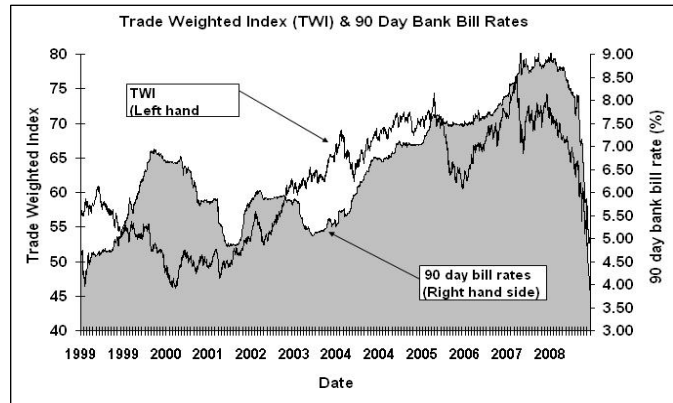
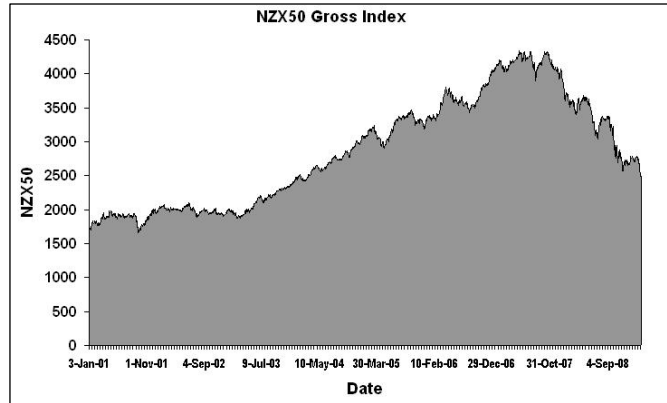
International credit rating agency Moody's has reaffirmed New Zealand's credit rating at triple-A with a stable outlook, but has expressed concerns regarding the Crown's long-term debt projections. Standard & Poor's (S&P) placed a negative outlook on New Zealand's external rating in mid-January, referring to the projected fiscal deficits and the size of the country's current account deficit. Any downgrading of our credit ratings could push up the cost of lending.

Reserve Bank Governor Alan Bollard reduced the official cash rate by 50 basis points to three percent on 12 March 2009. The official cash rate has now fallen 525 basis points since July 2008.

The Governor has commented that any future cuts will be much smaller than those observed recently (in reference to the 150 basis point cuts in December and January, and 100 basis point reduction in October).

The 90-day bank rate continued to fall in February, averaging the month at 3.40 percent. Since July 2008, the 90-day bank bill rate has fallen by 506 basis points. In comparison, the variable first mortgage housing lending rate has fallen by 413 basis points to 6.77 percent, while the base lending rate (an indicator of businesses lending costs) has fallen by 81 basis points to 13.04 percent in February 2009. Reserve Bank Governor has called on "financial institutions to continue lending on sound business propositions, to support the recovery".

The NZX50 gross index has fallen by 43 percent since its recent peak in May 2007.



Outlook

Registered banks believe the official cash rate could go as low as 2.5 percent (or possibly lower). The Reserve Bank Governor has expressed the need for New Zealand's interest rates to remain competitive in the international market, given our size. As such, he does not expect to see near-zero interest rates in New Zealand, unlike other countries.

Monthly averages	Sep-08	Oct-08	Nov-08	Dec-08	Jan-09	Feb-09
Trade Weighted Index (TWI) exchange rate	63.82	60.74	57.41	55.11	54.86	52.31
90 Day Bank Bill Rate	7.95	7.43	6.25	5.23	4.38	3.40
Official Cash Rate*	7.50	6.50	6.50	5.00	3.50	3.50
NZX50	3281	2903	2737	2691	2747	2666

* 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: 30 April 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

According to preliminary estimates, gross domestic product output in the OECD area during the December 2008 quarter fell by 1.5 percent, following a decline in output over the September quarter of 0.2 percent. Economic output in the United States fell by 1.6 percent over the December 2008 quarter. United States Federal Reserve Chairman Ben Bernanke told the US Senate Banking Committee in February that unless the government succeeds in stabilising the banking system and financial markets, the economy faced entering a mutually reinforcing cycle of weak growth and financial market strain. Over the December 2008 quarter Japan's economy contracted by 3.2 percent. This was the economy's worse quarterly performance since the 1974 oil shocks.

Quarterly economic growth rates			
Country	Jun-08	Sep-08	Dec-08
Australia	0.3	0.1	-0.5
Japan	-0.9	-0.6	-3.2
NEW ZEALAND	-0.2	-0.4	
United Kingdom	0.0	-0.7	-1.5
United States	0.7	-0.1	-1.6
OECD Total	0.1	-0.2	-1.5

Sources: OECD

Unemployment

The unemployment rate within the United States continues to climb, rising to 8.1 percent in February 2009. A total of 651,000 jobs were lost during the month, following losses of 655,000 in January 2009, and 681,000 in December 2008. Since the recession began in December 2007 a total of 4.4 million jobs have been lost, of which, half of these job losses have occurred in the last four months. At 8.1 percent, the unemployment rate in the United States is at its highest level in over 25 years.

Standardised unemployment rates			
Country	Dec-08	Jan-09	Feb-09
Australia	4.5	4.8	5.2
Japan	4.3	4.1	
NEW ZEALAND	4.6		
United Kingdom	6.2 (Nov)		
United States	7.2	7.6	8.1
OECD Total	6.8	6.9	

Source: OECD

Central banks

Further official interest rate cuts have taken place internationally over the last month, although the Reserve Bank of Australia left its cash rate on hold at 3.25 percent in early March. The Bank of England's Monetary Policy Committee decided to reduce the Bank's Bank Rate by a further 50 basis points to 0.50 percent. The Committee also decided to undertake further monetary actions in order to boost money supply and credit. As a result, the Bank will undertake a programme of asset purchases of £75 billion financed by the issuance of central bank reserves. The European Central Bank also reduced its Main Refinancing Operations rate by 50 basis points, to 1.50 percent. European Central Bank forecasts has real annual gross domestic product output within the Euro zone declining by between 2.2 percent and 3.2 percent in 2009.

Central Bank interest rates (as at 12 March 2009)				
Central Bank	Key Rate	Interest Rate (%)	Effective from	Direction (Basis points)
Australia	Cash Rate	3.25	4-Feb-08	-100
European Central Bank	Main Refinance Rate	1.50	11-Mar-09	-50
Japan	Uncollateralized overnight rate	0.10	19-Dec-08	-20
NEW ZEALAND	Official Cash Rate	3.00	12-Mar-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

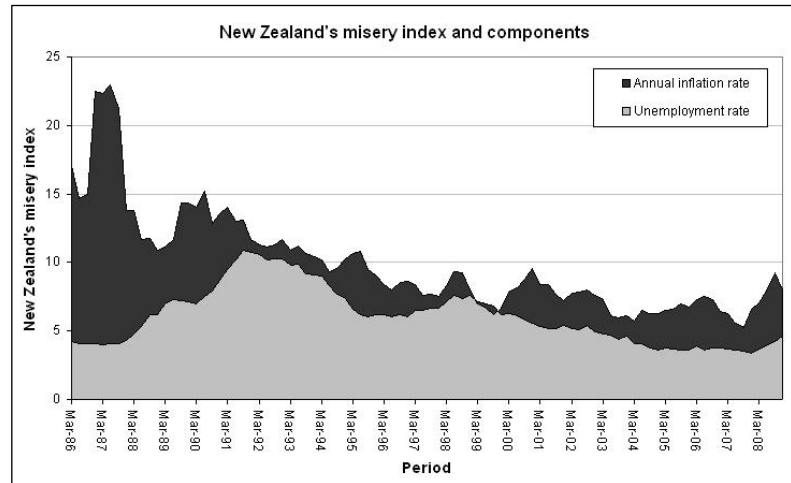
Sources: Central Bank interest rates as at the date stated.

Arthur Okun's misery index

The misery index is an index of an economy's unemployment rate and the rate of inflation. It was created by American economist Arthur Okun in the 1970s. Between 1968 and 1969, Arthur Okun had been chairman of the Council of Economic Advisers to the United States President. During the 1970s there were high rates of unemployment and inflation. The index assumes that the higher the rates of unemployment and inflation within an economy, the greater the economic and social costs. A rise in the misery index can be bought about by either a rise in unemployment or a rise in the annual rate of inflation.

This graph plots a misery index for New Zealand from the March 1986 quarter to the December 2008 quarter, using Statistics New Zealand's seasonally adjusted unemployment rate (available from the March 1986 quarter), and the annual change in the consumers price index (between the same quarter of the current year and the previous year).

Over this period, the misery index peaked at 22.9 index points in June 1987. This included an unemployment rate of 4.1 percent and an annual inflation rate of 18.8 percent.



Currently (as at December 2008), New Zealand's misery index stands at 8.0 index points (an unemployment rate of 4.6 percent, and an annual inflation rate of 3.4 percent). Looking ahead, using forecast figures from the NZIER's *Quarterly Predictions: March 2009* publication, the misery index is forecast to rise to 8.4 index points in the March 2009 quarter, 8.8 index points in the March 2010 quarter, before falling to 8.3 index points in the March 2011 quarter.

The following table estimates the current misery index for the countries of Australia, Japan, South Korea, the United Kingdom and the United States. It takes the latest unemployment rate available and adds to that the annual rate of inflation to the December 2008 quarter. Of those countries included, the misery index is currently the highest in the United Kingdom (at 10.1 percent), followed by the United States (at 9.7 percent). While the unemployment rate is higher in the United States than in the United Kingdom, the United Kingdom has a much higher annual rate of inflation

Estimated misery index for selected countries	New Zealand	Australia	Japan	South Korea	United Kingdom	United States
Period	Dec-08 / Dec 08	Feb-09 / Dec-08	Jan-09 / Dec-08	Jan-09 / Dec-08	Nov-08 / Dec-08	Feb-09 / Dec-08
Unemployment rate / annual inflation rate						
Unemployment rate	4.6	5.2	4.1	3.3	6.2	8.1
Annual inflation rate	3.4	3.7	1.0	4.5	3.9	1.6
Estimated misery index	8.0	8.9	5.1	7.8	10.1	9.7

Source: Statistics New Zealand; OECD

Grant Cleland, Research Analyst - Economics
Economics and Industry Team
Parliamentary Library

Copyright: © NZ Parliamentary Library

Any content published in this document may be reproduced and published without further licence or permission. This is subject to the material being reproduced accurately and not being used in a misleading context. Where the material is being published or issued to others, the source and copyright status must be acknowledged.