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MONTHLY ECONOMIC REVIEW

November 2009

(latest data as at 6 November)

Parliamentary Library Research Paper

A Overview

Recent trend

	07/08	08/09	
Economic Growth	2.5%	-1.8%	Annual average GDP Growth (June year)
Unemployment	4.3%	6.5%	Unemployment Rate (September quarter)
Inflation	5.1%	1.7%	Annual Inflation Rate (September year)
Current Account Deficit	\$14.8b	\$10.6b	Current Account Deficit (June year)
Interest Rates	7.43%	2.79%	90 Day Bank Bills (October month)

Latest data

New Zealand's unemployment rate rose to a nine-year high in the September 2009 quarter, reaching 6.5 percent, up 0.5 percentage points from the previous quarter. There were 150,000 people unemployed in the quarter (in seasonally adjusted terms), up 12,000 over the quarter. The actual unemployment rate has risen to ten percent in the Gisborne and Hawkes Bay region, and 9.3 percent in Northland. The unemployment rate for those aged 15 to 19 years has risen from 15.7 percent to 25.1 percent in the September 2008 and 2009 quarters respectively. Consumer prices rose to a greater extent than market expectations over the September 2009 quarter, with the Consumers Price Index increasing by 1.3 percent over the quarter. Higher international transport costs, local authority rates and payments, and vehicle relicensing fees were factors behind the increase in prices during the September quarter. On an annual basis, the rate of inflation eased to 1.7 percent, well within the Reserve Bank's target band of 1 to 3 percent over the medium term. House prices are 1.1 percent lower than a year ago, according to latest figures from Quotable Value, whereas last month they were 2.8 percent lower than in August 2008. They remain approximately seven percent below the market peak of late 2007. Reserve Bank Governor, Alan Bollard, left the official cash rate at 2.50 percent at the rate's latest review in late October. He reiterated that *"we expect to keep the OCR at the current level until the second half of 2010"*.

Outlook

A gradual recovery (presumably with fits-and-starts ahead) is underway. The Treasury believes that the economy will expand by an annual rate of two percent over the second half of 2009, helped along by lower income tax rates and lending rates (although these started to rise again earlier in the year). Any improvement in the labour market is some way off, and the unemployment rate is forecast to continue climbing over the short-term. The Department of Labour is forecasting the unemployment rate to peak at around seven percent in mid-2010. The annual rate of inflation is expected to remain within the Reserve Bank's target band, although it is expected to rise in the year ended in the December 2009 quarter from its current level.

Topic of the month: New Zealand's enterprise demographics

B Economic Growth

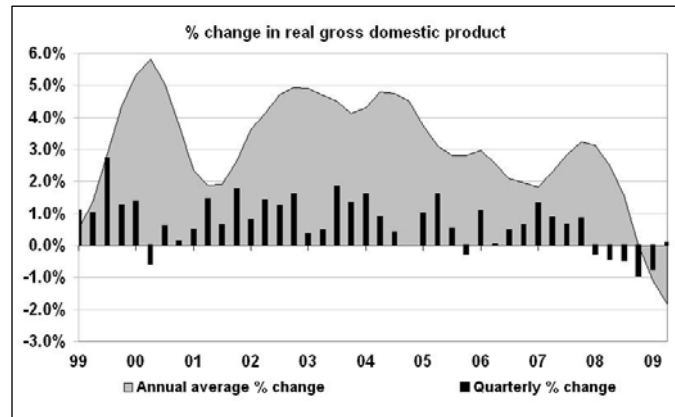
Background

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 New Zealand economy expanded by less than 0.1 percent over the June 2009 quarter (the market had been expecting a contraction of around 0.2 percent over the quarter). Economic growth in the latest quarter follows five consecutive quarters of contraction in output. Consumer expenditure increased for the first time since the December 2007 quarter, helped along by the 1 April 2009 tax cuts and lower lending rates.

The economy contracted by 1.8 percent in annual average terms over the year to June 2009, the largest annual fall in output since the current gross domestic product series began in 1987. Reflecting the downturn in the housing market, the value of investment in residential building fell by a quarter over the year, while value-added output from the construction industry fell by 9.3 percent.



Other data

Business and consumer confidence have been improving over recent months. While still at a high level, business confidence declined slightly in the latest National Bank's *Business Outlook* survey.

Year ended June 2009	Nominal GDP
Expenditure GDP	\$180,210 million
GDP per capita	\$41,955

Source: Statistics New Zealand.

Retail sales rose by 1.1 percent during the month of August, with core retail sales (which exclude vehicle-related purchases) rising 1.2 percent. In nominal value terms, the largest rises in expenditure took place in clothing and softgoods retailing stores, followed by hardware retailing stores. Total retail sales have been trending upward since February 2009.

Outlook

Confidence indicators are consistent with economic growth of around 2.5 percent over the coming year; although much of the improvement in confidence is based upon factors looking ahead, rather than current conditions. A gradual recovery looks likely, with the Treasury expecting the economy to grow at an annual rate of around two percent over the second half of 2009.

Net % expecting economic improvement in 12 months	Sep-09	Oct-09
NBNZ – Business Confidence	49.1	48.2
NBNZ – Own Activity	32.2	30.5

Source: National Bank.

Consumer expenditure will continue to be constrained by higher unemployment levels and households' decreasing level of debt. Exports will be constrained by the higher exchange rate, while businesses will delay their investment and upgrade decisions while they hold excess capacity.

GDP growth (%)	Jun-08	Sep-08	Dec-08	Mar-09	Jun-09
Annual (year-on-year)	2.5	1.5	0.0	-1.1	-1.8
Quarterly (seasonally adjusted)	-0.4	-0.5	-1.0	-0.8	0.1

Source: Statistics New Zealand.

Next Release: *Gross Domestic Product: September 2009 quarter.*

Date: 23 December 2009

C Employment and Unemployment

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.

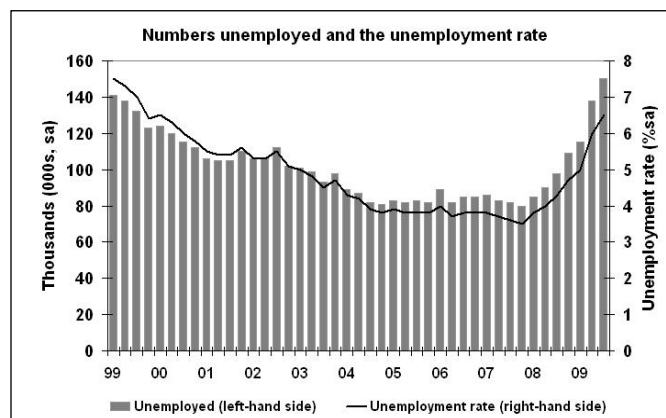
Employment and unemployment

New Zealand's unemployment rate reached a low of 3.5 percent in the December 2007 quarter, and has been trending upward ever since. The unemployment rate is currently at a nine-year high, rising by 0.5 percentage points to 6.5 percent in the September 2009 quarter. There were 150,000 people unemployed in the September quarter, the highest number recorded since the March 1994 quarter.

Employment fell by 0.8 percent over the September quarter, driven by a 0.5 percent drop in full-time employment and a 1.1 percent drop in part-time employment.

Between the September 2008 and 2009 quarters there was a 40,200 fall in employment numbers, with the majority of the reduction associated with the manufacturing sector (-27,300) followed by the retail trade and accommodation sector (-12,200). Significant employment gains were recorded in the health care and social assistance sector (+12,100) and the education and training sector (+10,100) over the year.

New Zealand dropped one place to 10th position within the OECD in terms of its unemployment rate. Current unemployment rates within the 30 member organisation range from three percent in Norway to 18.9 percent in Spain, and average 8.6 percent.



Other data

Average weekly ordinary-time earnings in the September 2009 quarter were \$934.60 according to the *Quarterly Employment Survey*, an increase of 2.3 percent from the previous quarter. The majority of this increase was due to an increase in ordinary-time earnings to \$25.42 per hour, with the difference resulting from a slight rise in the length of the working week.

Net % expecting increase in 12 months*	Sep-09	Oct-09
Employment in their business	1.8	-0.3
Unemployment rate	50.0	40.6

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

Outlook

Businesses' employment intentions are showing signs of stabilisation; however the unemployment rate is forecast to continue rising over the short term as the labour force expands due to positive net immigration, along with tertiary graduates and school leavers entering the employment market. The Department of Labour anticipates the unemployment rate will continue to rise over the upcoming quarters, reaching a peak of around seven percent by mid-2010.

Quarter (%)	Sep-08	Sep-09
Average ordinary time weekly earnings (pre-tax)	\$882.39	\$934.60
Percentage change in hourly earnings from the same period of the previous year	+4.9	+5.9

Source: Statistics New Zealand.

Household Labour Force Survey	Sep-08	Dec-08	Mar-09	Jun-09	Sep-09
Unemployment Rate (seasonally adjusted, %)	4.3	4.7	5.0	6.0	6.5
Employment Growth (annual, %)*	1.1	0.9	0.8	-0.9	-1.8

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

Next Release: Household Labour Force Survey: December 2009 quarter. **Date:** 4 February 2010

D Inflation

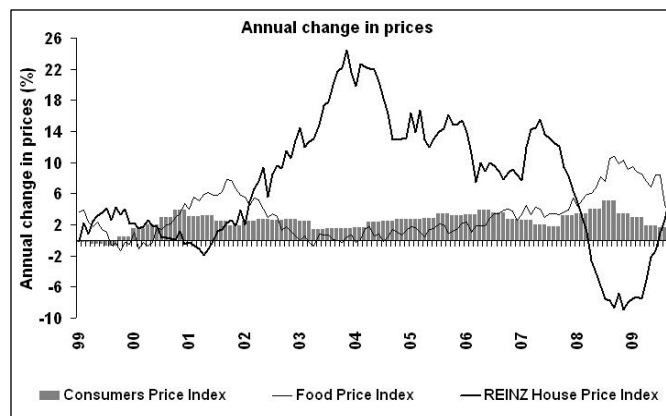
Background

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 Consumers Price Index (CPI). The CPI tracks the price of a basket of household goods and services over time.

Consumers Price Index

The inflation rate over the September 2009 quarter was higher than market expectations, rising by 1.3 percent. The increase was driven by higher prices for international air transport (+11.0%), local authority rates and payments (+5.6%), and vehicle relicensing fees (+16.2%). The higher vehicle relicensing fees reflected an increase in the Accident Compensation Corporation levies from 1 July 2009.

The annual rate of inflation in the year ended September 2009 was 1.7 percent, the lowest annual rate recorded in five and a half years. The most significant individual upward contributions to higher consumer prices over the year came from higher costs for second-hand cars (+12.9%), higher electricity costs (+4.5%), and an increase in local authority rates and payments over the year (+6.6%).



Other data

Salary and wage rates (excluding overtime) rose by 0.5 percent over the September 2009 quarter according to the *Labour Cost Index*. Annual salary and wage growth was 2.1 percent, the smallest annual growth rate since 2002. According to the Index, annual private sector salary and wage growth was 1.9 percent over the year, while salary and wage growth in the public sector was 2.9 percent.

The REINZ Housing Price Index for New Zealand increased 5.3 percent between the months of September 2008 and 2009. According to Quotable Value the average sale price was \$387,567 in September 2009, approximately seven percent below the market peak of late 2007.

Outlook

The Treasury expects annual inflation to rise in the December 2009 quarter before trending lower over 2010. This is partially due to the deflationary December 2008 quarter dropping out of the equation (prices fell by 0.5 percent in that quarter). Wage growth is expected to continue to decline as the labour market softens further.

Annual Percentage Change (%)	Aug-09	Sep-09
Quotable Value – Residential property*	-2.8	-1.1
REINZ Housing Price Index**	2.6	5.3
Food Price Index**	4.6	3.3

*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	Sep-09	Oct-09
Net % of respondents expecting to increase prices in 3 months time*	8.9	14.2
Inflation expected in 12 months time:	2.57	2.60

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

Inflation (%)	Sep-08	Dec-08	Mar-09	Jun-09	Sep-09
Consumers Price Index - Annual	5.1	3.4	3.0	1.9	1.7
Tradables inflation	6.3	2.3	1.7	0.2	-0.1
Non-tradables inflation	4.1	4.3	3.8	3.3	3.0
CPI - quarterly	1.5	-0.5	0.3	0.6	1.3

Source: Statistics New Zealand.

Next Release: *Consumers Price Index: December 2009 quarter. Date: 20 January 2010*

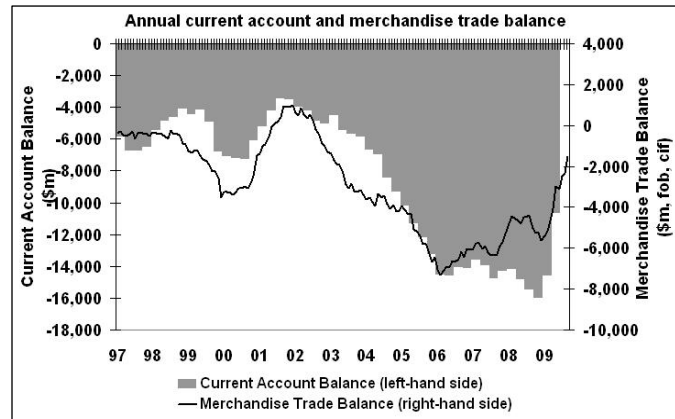
Background

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

The seasonally adjusted current account deficit totalled \$612 million in the June 2009 quarter, a reduction of \$1,508 million from the previous quarter. Following legal action by the Inland Revenue Department, a \$661 million tax liability provision made by the Bank of New Zealand was a driver behind a reduction in foreign investors' earnings over the quarter.

The current account deficit totalled \$10,614 million in the year ended June 2009, equivalent to 5.9 percent of gross domestic product.



Other data

International commodity prices for New Zealand's main exports rose by 4.6 percent in October, resulting in commodity prices re-approaching levels of a year ago. Prices have risen by 24 percent since February this year. However, once the appreciation of the New Zealand dollar is accounted for, prices fell by 0.4 percent over the month, and were 19.3 percent lower than a year ago.

Annual Change (%)	Sep-09	Oct-09
World Commodities Prices*	-13.0	-1.6
NZ\$ Commodities Prices*	-18.7	-19.3
Overseas Visitors**	-1.8	n/a

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

Trading prices for Whole Milk Powder (WMP) in Fonterra's latest online auction were up 13.7 percent from last month to US\$3,437 per tonne. Prices (in United States dollars) have risen approximately 88 percent from auction results for July, when the price was US\$1,829 per tonne.

Outlook

Recent merchandise trade results indicate further improvement in the trade balance, which along with improvements in the international investment position should result in an improvement in the current account deficit over the short-term. The ANZ Bank in its latest *Quarterly Economic Forecasts* has forecast a current account deficit of \$6,400 million, equivalent to 3.5 percent of GDP for the 2009 calendar year. The Reserve Bank has forecast a deficit equivalent of around seven percent of GDP over the medium term.

Annual Balances (\$m)	Jun-08	Sep-08	Dec-08	Mar-09	Jun-09	Sep-09
Current Account	-14,795	-15,437	-15,969	-14,569	-10,614	n/a
Merchandise trade	-1,904	-2,326	-2,382	-1,336	528	n/a
Services	-118	-425	-908	-1,118	-977	n/a
Investment income	-13,732	-13,728	-13,721	-13,035	-11,027	n/a
Current transfers	958	1,042	1,041	920	861	n/a
Current Account (quarter*)	-4,622	-4,053	-3,608	-2,102	-612	n/a
Merchandise Trade (fob-vfd)	-1,897	-2,327	-2,729	-1,824	-410	908
Merchandise Trade (fob-cif)	-4,478	-5,048	-5,614	-4,684	-3,110	-1,533

* 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.

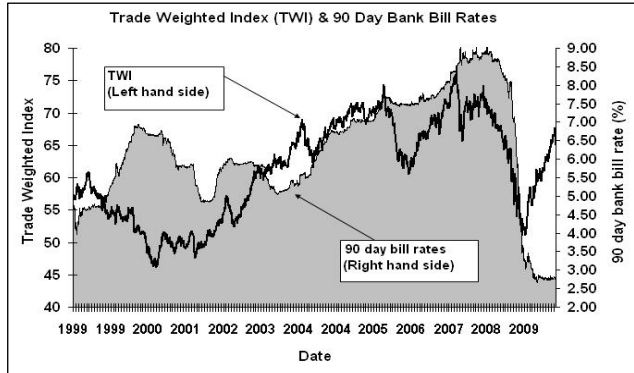
Next Release: *Balance of Payments: September 2009 quarter.* **Date:** 22 December 2009

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 NZX 50 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

Reserve Bank Governor, Alan Bollard left the official cash rate steady at 2.50 percent at the rate's latest review in October. The Governor noted that the Bank saw no urgency in withdrawing monetary policy stimulus, with the Bank expecting "to keep the OCR at the current level until the second half of 2010". This follows similar statements made since April. These earlier statements had mentioned that the Bank wanted to keep the cash rate at "or below" current levels. The absence of these words from the latest statement indicates that the next movement in monetary policy will most likely be upwards.

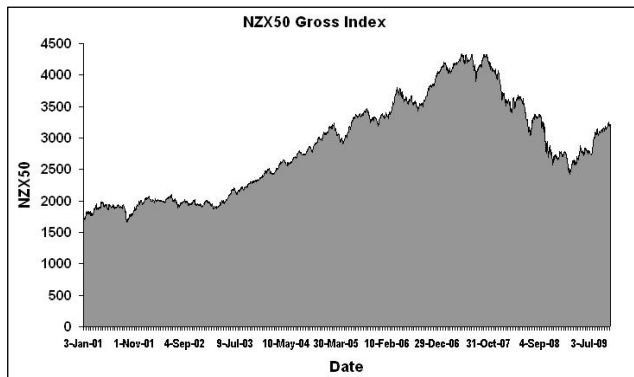


The exchange rate continued to appreciate during October on a monthly average basis, rising by 3.4 percent to 66.5 trade weighted index points. However, during the last week of October the exchange rate began to depreciate, and as at 6 November 2009 was 64.8 index points (on a TWI basis).

The NZSX market capitalisation peaked in May 2007 at \$78.2 billion, and totalled \$54.3 billion in October 2009, a reduction of 30.6 percent. Over the same period, the NZX50 has fallen by just over a quarter. During 2009 to date, some \$5.7 billion has been raised on the NZSX markets, with \$2.68 billion of this being in equity and \$3.02 billion in debt.

Outlook

The Reserve Bank's September Monetary Policy Statement has projected the 90-day bank bill rate to rise at a steeper rate through 2011 than had previously been the case. The 90-day bank bill rate is projected to average 2.8 percent over the 12 months through to the September 2010 quarter, before rising. Due to the accumulation of debt and the economic recovery, longer-term interest rates are also expected to rise more quickly than previously expected. The NZIER Consensus Forecasts has the interest rate on ten-year government stock averaging 5.8 percent in the year to March 2010, rising to 6.1 percent in the following year.



Monthly averages	May-09	Jun-09	Jul-09	Aug-09	Sep-09	Oct-09
Trade Weighted Index (TWI) exchange rate	57.95	60.32	60.59	62.85	64.32	66.48
90 Day Bank Bill Rate	2.82	2.78	2.79	2.76	2.77	2.79
Official Cash Rate*	2.50	2.50	2.50	2.50	2.50	2.50
NZX50	2787	2798	2843	3081	3126	3188

* 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: 10 December 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 output in the OECD area stabilised in the second quarter of 2009, following a contraction of 2.2 percent over the March 2009 quarter. During the June 2009 quarter, 13 of the 30 OECD member countries recorded economic growth.

The United States economy grew in the September 2009 quarter for the first time in over a year, with its economy expanding by 0.9 percent. The *Cash for Clunkers* program, in which Americans could swap their old less-fuel-efficient vehicles for discounted new vehicles, was a significant contributor to a 0.8 percent increase in personal consumption expenditure over the quarter.

Quarterly economic growth rates			
Country	Mar-09	Jun-09	Sep-09
Australia	0.4	0.6	
Japan	-3.3	0.6	
NEW ZEALAND	-0.8	0.1	
United Kingdom	-2.5	-0.6	-0.4
United States	-1.6	-0.2	0.9
OECD Total	-2.2	0.0	

Source: OECD

Forecasts for the Australian economy have been revised upward by the Australian Treasury. The *Mid-Year Economic and Fiscal Outlook* has forecast the Australian economy to expand by 1.5 percent over the 2009/10 financial year (as opposed to a contraction of 0.5 percent forecast at the time of the 2009 Budget in May).

Unemployment

The harmonised unemployment rate within the OECD was 8.6 percent in August 2009, 0.1 percentage point higher than that recorded in July. The unemployment rate is above ten percent in five OECD countries: Spain, Ireland, Turkey, the Slovak Republic, and the United States. The unemployment rate in the United States was 10.2 percent in October 2009. Since the recession commenced in the United States, the number of those unemployed has more than doubled to 15.7 million.

Harmonised unemployment rates			
Country	Aug-09	Sep-09	Oct-09
Australia	5.8	5.7	
Japan	5.5		
NEW ZEALAND	6.0 (Jun)		
United Kingdom	7.8 (Jun)		
United States	9.7	9.8	10.2
OECD Total	8.6		

Source: OECD

Central banks

The Australian Reserve Bank lifted its cash rate by a further 25 basis points on Melbourne Cup Day to 3.50 percent (the second month in a row in which it has lifted the cash rate). In the media release, the Bank noted that it is prudent to gradually reduce the degree of monetary policy stimulus in the economy, now that economic conditions have shown signs of improvement. The Bank has forecast that the annual rate of inflation will continue to moderate in the near term, and will be at a level consistent with the inflation target in 2010. Australian Reserve Bank Governor, Glenn Stevens stated that the risk of economic contraction in Australia has now passed.

Central Bank interest rates (as at 6 November 2009)				
Central Bank	Key Rate	Interest Rate (%)	Effective from	Direction (Basis points)
Australia	Cash Rate	3.50	4-Nov-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.

New Zealand's enterprise demographics

There were 476,560 enterprises as at February 2009, according to Statistics New Zealand's *New Zealand Business Demography Statistics*. This represents an increase of 0.3 percent over the previous year. This series includes economically significant enterprises that are engaged in the production of goods and services in New Zealand.

The largest numbers of enterprises are located in the rental, hiring and real estate services industry group, which contains just over a fifth (96,246 enterprises) of the total number of enterprises operating in New Zealand. This is followed by the agriculture, forestry and fishing industry group, with 73,563 enterprises operating within it (15.4 percent of the total).

New Zealand enterprises employed 1,919,200 employees as at February 2009. This represented a decrease of 2.7 percent over the previous year, the first annual decrease in employee numbers since the current series commenced in 2000. Large enterprises (those that employ one hundred or more employees) accounted for 0.4 percent of total enterprises, yet they employed close to half of all employees (47.1 percent). In comparison, approximately 69 percent of enterprises employed no staff (i.e. they are owner-operated enterprises). The manufacturing industry employs the most people, with an employee count of 239,530 people as at February 2009.

Employee count sized group	Number of enterprises	% total enterprises	Employee count	% total employee count
0	327,836	68.8	0	0.0
1 - 5	99,563	20.9	229,510	12.0
6 - 9	19,984	4.2	144,670	7.5
10 - 19	15,895	3.3	213,340	11.1
20 - 49	8,603	1.8	254,440	13.3
50 - 99	2,534	0.5	173,060	9.0
100+	2,143	0.4	904,270	47.1
Total	476,558	100	1,919,200	100

Note: Employee Count – Head count of salary and wage earners sourced from taxation data (excludes owner-operators).

Source: Statistics New Zealand.

There were 51,800 enterprise start-ups during the year ended February 2009, while there were 52,880 enterprises which ceased over the year according to the provisional data. This was the first year since 2001 in which enterprise deaths were higher than births. Over recent years, the birth rate (which measures new enterprises as a percentage of total enterprises) has been trending downward from 17 percent in the year ended February 2004 to 11 percent in the year ended February 2009. Enterprise death rates have been fairly consistent, averaging around 10 to 11 percent since 2002.

According to the 2007 Annual Enterprise Survey, those enterprises with 100 or more staff accounted for approximately 42 percent of total value-added output within the economy in 2007 (calculated as gross output minus intermediate consumption). The value-added output of owner-operated enterprises (that have no employees) was next, contributing 13 percent of total value-added output, followed by the value-added output of enterprises with one to five employees (12.2%).

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