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Te Pātaka Rangahau a Te Whare Pāremata

MONTHLY ECONOMIC REVIEW

August 2009

(latest data as at 10 August)

Parliamentary Library Research Paper

A Overview

Recent trend

	07/08	08/09	
Economic Growth	3.1%	-1.0%	Annual GDP Growth (March year)
Unemployment	4.0%	6.0%	Unemployment Rate (June quarter)
Inflation	4.0%	1.9%	Annual CPI Growth (June year)
Current Account Deficit	\$14.2b	\$15.2b	Current Account Deficit (March year)
Interest Rates	8.46%	2.79%	90 Day Bank Bills (July month)

Latest data

New Zealand's unemployment rate has risen to six percent in the June 2009 quarter (in seasonally adjusted terms), a rise of one percentage point from the previous quarter. The unemployment rate was last at this level in the September 2000 quarter. There were 138,000 people unemployed in the June 2009 quarter (seasonally adjusted). Youth unemployment (those aged 15-24 years) has been the hardest hit, rising from 10.7 percent in June 2008 to 16.3 percent in June 2009. Within the OECD, New Zealand's unemployment rate is 9th lowest, with rates ranging from 3.1 percent in Norway to 18.7 percent in Spain. Alan Bollard, Governor of the Reserve Bank left the official cash rate at 2.50 percent at the rate's July review. In the associated press release, Dr Bollard commented that the high level of the New Zealand dollar "*is not helping the sustainability of future growth, and brings with it additional economic risks*". The NZX50, the share index of the top 50 companies listed on the New Zealand Exchange, rose by 7.9 percent during the month of July, and is currently sitting around 27 percent above its early-March 2009 low.

Outlook

The economy is forecast to return to economic growth in the second half of 2009. A number of bank economists have forecast a positive rate of economic growth (albeit slight) in both the September and December 2009 quarters. However, firms' employment intentions remain in negative territory, and the unemployment rate is forecast to reach somewhere around 7.5 percent by this time next year. The Reserve Bank continues to express its view that it will be keeping the official cash rate "*at or below the current level through until the latter part of 2010*". A further reduction in the cash rate later this year cannot be ruled out, although (given recent experience) any such reduction is unlikely to be fully passed through onto borrowers. The Bank believes that the annual rate of inflation will remain comfortably within the 1 – 3 percent target band over the medium term. International trading conditions are likely to remain difficult over the short term as economies adjust to lower wealth levels, and higher levels of unemployment.

Topic of the month: New Zealand's working-age population as at June 2009: A breakdown

B Economic Growth

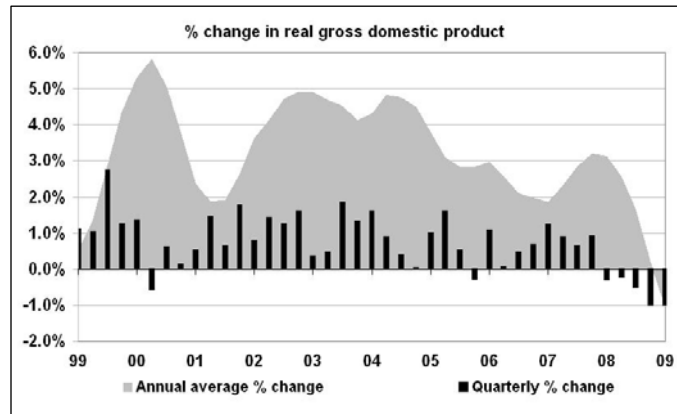
Background

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 has experienced five consecutive quarters of contraction in economic activity. Over the March 2009 quarter, the economy contracted by one percent, following a similar rate of contraction over the December 2008 quarter.

On an annual average basis, the economy contracted by one percent over the year to March 2009. A contraction on an annual average basis was last recorded in the June 1992 year. The construction, manufacturing and wholesale trade industries have been hit the hardest, with value-added output from the construction industry contracting by 8.9 percent over the year to March 2009, and value-added output from the other two industries contracting by 5.4 percent. Investment in residential buildings has fallen by almost a quarter (23.4 percent) over the year.



Other data

Consumer confidence rose again in July, with a net 19 percent of respondents to the National Bank's *Business Outlook* survey expecting that general business conditions will improve over the next 12 months. There may be some over-optimism present as respondents were more pessimistic regarding their own firm's outlook (it is thought that firms would have greater insight over their own industry's outlook).

Year ended March 2009	Nominal GDP
Expenditure GDP	\$179,912 million
GDP per capita	\$42,023

Source: Statistics New Zealand.

The number of building consents issued for new dwellings (excluding apartments) is showing signs of stabilisation, with an increase in trend numbers during the months of April, May and June this year. This follows 21 consecutive months of falling consent numbers for new dwellings on a trend basis. Including apartments, there were 14,175 building consents issued for new dwellings in the year ended June 2009, the lowest number recorded since the series began in the mid-1960s.

Outlook

The economy is forecast to return to growth at some stage in the second half of 2009. Economic growth is forecast to remain subdued for quite some time, as households limit their spending and consumption, and businesses delay investment. Demand growth for our exports will depend upon the recovery of the economies of our trading partners.

Net % expecting economic improvement in 12 months	Jun-09	Jul-09
NBNZ – Business Confidence	5.5	18.7
NBNZ – Own Activity	8.3	12.6

Source: National Bank.

GDP growth (%)	Mar-08	Jun-08	Sep-08	Dec-08	Mar-09
Annual (year-on-year)	3.1	2.5	1.6	0.2	-1.0
Quarterly (seasonally adjusted)	-0.3	-0.2	-0.5	-1.0	-1.0

Source: Statistics New Zealand.

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

Date: 23 September 2009

C Employment and Unemployment

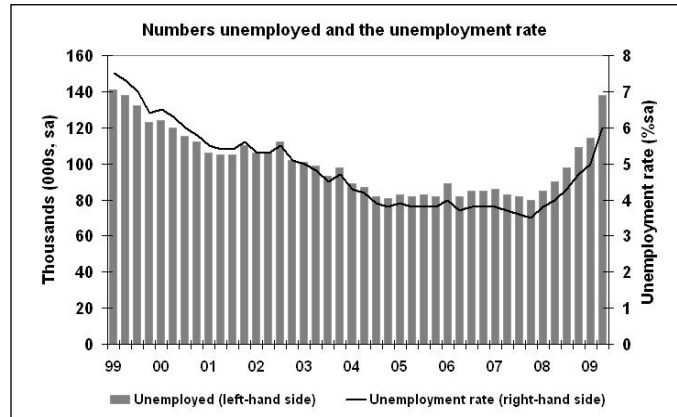
Background

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

Reflecting the impact of the recession and the international financial crisis on the labour market, New Zealand's unemployment rate rose by one percentage point to six percent in the June 2009 quarter (in seasonally adjusted terms). This was the largest single quarterly rise in the unemployment rate since the September 1988 quarter. The unemployment rate was last at this level in the September 2000 quarter.

In seasonally adjusted terms there were 138,000 people unemployed in the June 2009 quarter (a 10-year high), up 24,000 from the previous quarter, and 48,000 higher than a year ago. There was a shift from full-time to part-time employment over the quarter. Full-time employment fell by 1.1 percent, while part-time employment rose by 0.4 percent over the quarter.



employment rose by 1.3 percent, resulting in overall

Looking at actual employment numbers by industry, total employment fell by 18,200 between the June 2008 and 2009 quarters to 2,166,100. Between the two quarters there have been 12,300 jobs lost in the wholesale and retail trade industry, and 9,800 lost in the agriculture, forestry and fishing industry. Whereas, employment in the health and community services industry rose by 18,800 over the year.

Other data

Statistics New Zealand has also released their *Quarterly Employment Survey* for the June 2009 quarter. The survey found that the number of paid hours decreased by 1.2 percent over the June 2009 quarter (in seasonally adjusted terms), and were down 3.4 percent on a year earlier. Reduced hours worked in the manufacturing, construction, and wholesale trade industries made up the bulk of reduced hours worked between the June 2008 and 2009 quarters.

Quarter (%)	Jun-08	Jun-09
Average ordinary time weekly earnings (pre-tax)	\$886.11	\$928.61
Percentage change in hourly earnings from the same period of the previous year	+4.7	+4.8

Source: Statistics New Zealand.

Outlook

The unemployment rate has been forecast to continue climbing over the coming year, with bank economists forecasting a rate of around 7.5 percent in 2010. A net 19 percent of respondents to the latest NZIER *Quarterly Survey of Business Opinion* expect to reduce staff numbers over the September quarter (down from a net 31 percent who cut numbers over the June quarter). The NZIER is forecasting an unemployment rate of 7.8 percent next year.

Net % expecting increase in 12 months*	Jun-09	Jul-09
Employment in their business	-16.6	-6.8
Unemployment rate	75.4	74.3

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

Household Labour Force Survey	Jun-08	Sep-08	Dec-08	Mar-09	Jun-09
Unemployment Rate (seasonally adjusted, %)	4.0	4.3	4.7	5.0	6.0
Employment Growth (annual, %)*	0.8	1.0	1.0	0.8	-0.9

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

Next Release: *Household Labour Force Survey: September 2009 quarter. Date: 5 November 2009*

D Inflation

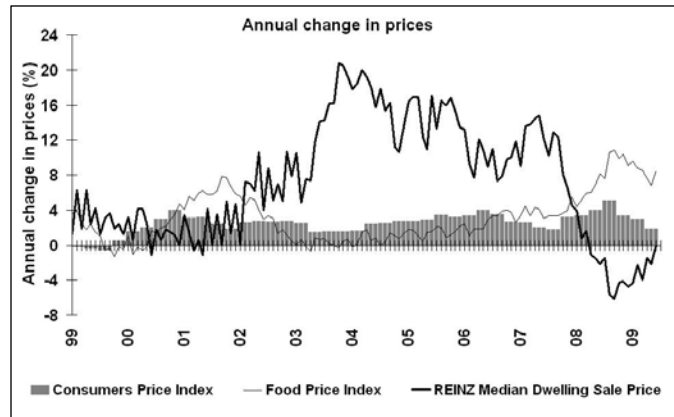
Background

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 0.6 percent over the June 2009 quarter. Increases in prices were wide ranging, with nine of the 11 CPI groups recording price increases over the quarter. One group remained unchanged, and another recorded a fall in prices.

The largest single individual upward contribution to price increases came from a 3.2 percent rise in the price of petrol, followed by a 4.4 percent rise in the price of second-hand cars. Reflecting the difficulties facing the international tourism industry, the price of international air transport fell by 14.4 percent over the quarter, and the price of overseas package holidays fell by 17.7 percent.



The annual rate of inflation was 1.9 percent in the year ended in the June 2009 quarter, within the Reserve Bank's target band of 1 – 3 percent. This was the lowest annual rise in inflation since the year ended in the September 1997 quarter. Electricity prices rose by 5.4 percent over the June 2009 year, while local authority rates and payments rose by 5.7 percent.

Other data

Food prices continue to increase at a rate greater than the overall rate of inflation on an annual basis. In the year ended June 2009, the food price index rose by 8.4 percent. There was a sizeable jump in food prices during the month of June, where they rose by 2.8 percent. The recent cold weather has led to higher vegetable prices (up 23.2 percent in June).

Salary and wage rates (including overtime) rose by 2.8 percent in the year to the June 2009 quarter, the lowest annual increase since the June 2005 quarter.

Annual Percentage Change (%)	Jun-09	Jul-09
Quotable Value – Residential property*	-7.1	-5.0
Salary and Wage Rates (including Overtime)**	2.8	n/a
Food Price Index**	8.4	n/a

*change since the same three months ended in the month of the previous year **change since the same quarter of the previous year. Sources: Quotable Value; REINZ; Statistics New Zealand

Outlook

The Reserve Bank has forecast that annual inflation is likely to temporarily fall below the bottom of the target band later this year, as the sizeable increases in prices recorded in the June 2008 and September 2008 quarters move out of the annual inflation equation. Over the medium term, the Bank expects the annual rate of inflation to track comfortably within its target band.

National Bank Business Survey	Jun-09	Jul-09
Net % of respondents expecting to increase prices in 3 months time*:	8.5	12.9
Inflation expected in 12 months time:	2.56	2.60

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

Inflation (%)	Jun-08	Sep-08	Dec-08	Mar-09	Jun-09
Consumers Price Index - Annual	4.0	5.1	3.4	3.0	1.9
Tradables inflation	4.8	6.3	2.3	1.7	0.2
Non-tradables inflation	3.4	4.1	4.3	3.8	3.3
CPI - quarterly	1.6	1.5	-0.5	0.3	0.6

Source: Statistics New Zealand.

Next Release: Consumers Price Index: September 2009 quarter.

Date: 15 October 2009

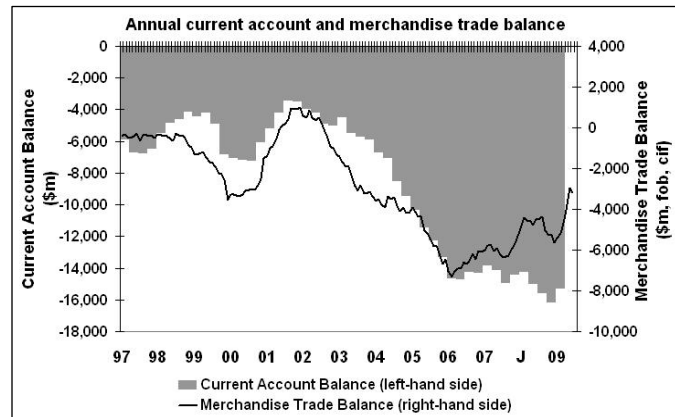
Background

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

In the year ended March 2009, New Zealand's current account deficit totalled \$15,246 million (equivalent to 8.5 percent of gross domestic product). This compares with a deficit equivalent to 9.0 percent of GDP for the 2008 calendar year, and a deficit equivalent to 8.0 of GDP in the March 2008 year.

Continuous current account deficits since the 1970s have resulted in New Zealand building up a substantial overseas liability. At the end of March 2009, this totalled \$176,628 million, equivalent to almost a year's output of goods and services from the New Zealand economy (98.2 percent of GDP).



Other data

The value of merchandise exports fell by 5.4 percent over the June 2009 quarter (on a seasonally adjusted basis), while the value of imports fell by 3.4 percent. Despite an increase in the volume of casein and caseinates, along with milk powder, butter and cheese exported over the quarter, the export value of these products fell over the quarter. International prices for our export commodities are 28.5 percent lower than they were a year ago according to the *ANZ Commodity Price Index*. When the movement in the New Zealand dollar is taken into account, commodity prices are almost a fifth lower.

Annual Change (%)	Jun-09	Jul-09
World Commodities Prices*	-27.9	-28.5
NZ\$ Commodities Prices*	-17.3	-19.5
Overseas Visitors**	-2.8	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 due to an improving merchandise trade balance and an investment income balance. Demand for imports is expected to ease with households reining in their expenditure and businesses delaying or cancelling capital investment. Reduced profit levels and lower interest rates will cut the returns on foreigners' New Zealand investments. However, demand for exports is also likely to be limited over the short-term (which will not only impact volumes demanded but prices paid).

Annual Balances (\$m)	Mar-08	Jun-08	Sep-08	Dec-08	Mar-09	Jun-09
Current Account	-14,211	-14,982	-15,528	-16,108	-15,246	n/a
Merchandise trade	-1,745	-1,845	-2,259	-2,327	-1,298	n/a
Services	189	-138	-496	-1,044	-1,290	n/a
Investment income	-13,387	-13,860	-13,671	-13,619	-13,409	n/a
Current transfers	732	860	899	883	751	n/a
Current Account (quarter*)	-3,596	-4,683	-3,996	-3,724	-2,682	n/a
Merchandise Trade (fob-vfd)	-2,031	-1,897	-2,327	-2,729	-1,824	-469
Merchandise Trade (fob-cif)	-4,528	-4,478	-5,048	-5,614	-4,684	-3,176

* 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: June 2009* **Date:** 22 September 2009

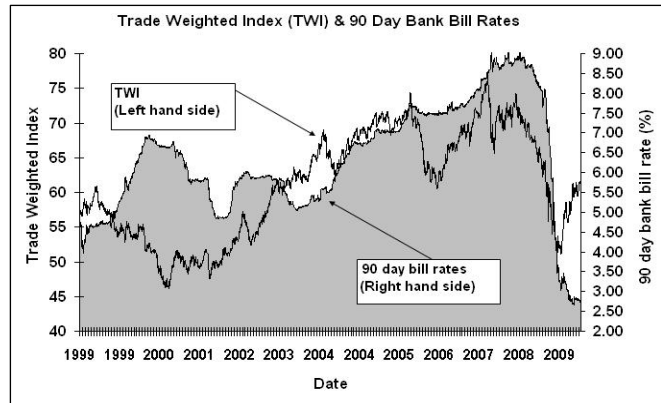
Background

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

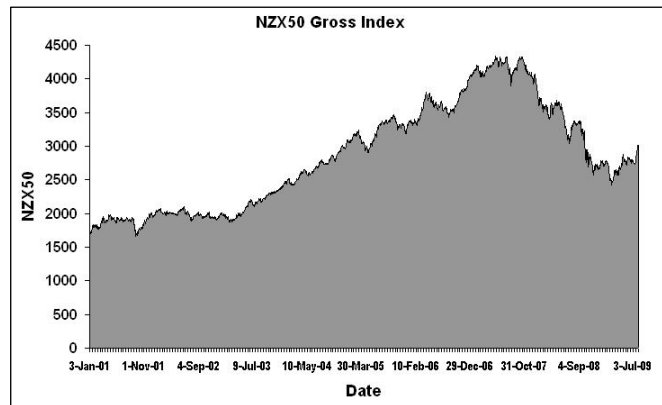
Reflecting the revival of an international risk appetite, and an easing up of credit markets, the New Zealand dollar has appreciated to levels last seen in October 2008. However, this appreciation in the currency could delay our economic recovery as the higher dollar negatively impacts export-led growth opportunities.

Reserve Bank Governor Alan Bollard left the official cash rate steady at 2.50 percent during the rate's review in late July. The associated press release focused on the high dollar, stating that *"the level of the dollar in particular, is not helping the sustainability of future growth, and brings with it additional economic risks"*. The Governor did not rule out further reductions in the official cash rate, and he reiterated that Bank expects to keep the OCR *"at or below the current level through until the latter part of 2010"*.



There were 247 registered mortgagee sales during May 2009, up from 88 for the same month last year (but down from the 251 recorded during April 2009). According to Terralink the majority of properties that went under mortgagee sales (200) were owned as a portfolio of properties by individuals with investment properties, or companies, rather than being single family homes. In the year to date there have been 973 registered mortgagee sales.

Share prices on the New Zealand Exchange have reflected rises in prices on overseas exchanges. The NZX50 rose by 7.9 percent during July 2009, ending the month at 3016 index points. Since its lowest point this year in early March 2009, the NZX50 has risen by almost 27 percent.



Outlook

Forecasting currency movements and appropriate values is fraught with difficulty, but the New Zealand dollar is thought to be above its fair value (although some economic commentators do not believe that it is clear whether the currency is overpriced). The current weakness of the United States dollar is a major factor behind the appreciation in the New Zealand currency. Another reduction in the official cash rate cannot be ruled out with the Reserve Bank Governor stating that he will *"reassess policy settings"* if an easing in financial conditions does not occur.

Monthly averages	Feb-09	Mar-09	Apr-09	May-09	Jun-09	Jun-09
Trade Weighted Index (TWI) exchange rate	52.31	53.84	56.87	57.95	60.32	60.59
90 Day Bank Bill Rate	3.40	3.24	3.12	2.82	2.78	2.79
Official Cash Rate*	3.50	3.00	2.50	2.50	2.50	2.50
NZX50	2666	2549	2643	2787	2798	2843

* 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 September 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

The global economy has experienced its deepest recession since the Second World War. Economic activity within the OECD area contracted by 2.2 percent over the March 2009 quarter, following a contraction of 1.9 percent over the December 2008 quarter. Early signs of stabilisation are being observed, with improvements in confidence levels, equity indexes, and forward-looking indicators (unfortunately unemployment levels are a lagging indicator, and will be one of the last to show signs of improvement). However, given the extent of the financial crisis, the OECD is forecasting a weak and fragile recovery.

Quarterly economic growth rates			
Country	Dec-08	Mar-09	Jun-09
Australia	-0.6	0.4	
Japan	-3.6	-3.8	
NEW ZEALAND	-1.0	-1.0	
United Kingdom	-1.8	-2.4	-0.8
United States	-1.4	-1.6	-0.3
OECD Total	-1.9	-2.2	

Sources: OECD

Unemployment

The standardised unemployment rate within the OECD climbed to 8.3 percent in May 2009, up 0.3 percentage points from the previous month, and a substantial 2.4 percentage point rise from the same month in 2008. The unemployment rate averaged 9.4 percent in the Euro area in June 2009 and 9.4 percent in the United States during July 2009.

The unemployment rate in Australia remained steady at 5.8 percent in July 2009, with an increase in the labour force and a reduction in full-time employment being met by an increase in part-time employment during the month.

Standardised unemployment rates			
Country	May-09	Jun-09	Jul-09
Australia	5.7	5.8	5.8
Japan	5.2	5.4	
NEW ZEALAND		6.0	
United Kingdom	7.5 (Apr)		
United States	9.4	9.5	9.4
OECD Total	8.3		

Source: OECD

Central banks

The Board of the Australian Reserve Bank decided to leave the cash rate unchanged at three percent at the rate's latest review in early August. While the Bank stated in its *Statement on Monetary Policy* that it is comfortable with the current cash rate, it also noted that if further signs of a durable economy become apparent, that "movement towards a more normal setting of monetary policy could be expected at some point". In the United States the federal funds rate is operating in the range 0.00 to 0.25 percent, with Federal Reserve Chairman Ben Bernanke reporting to Congress in late July that "The FOMC [Federal Open Market Committee] anticipates that economic conditions are likely to warrant maintaining the federal funds rate at exceptionally low levels for an extended period".

Central Bank interest rates (as at 10 August 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.

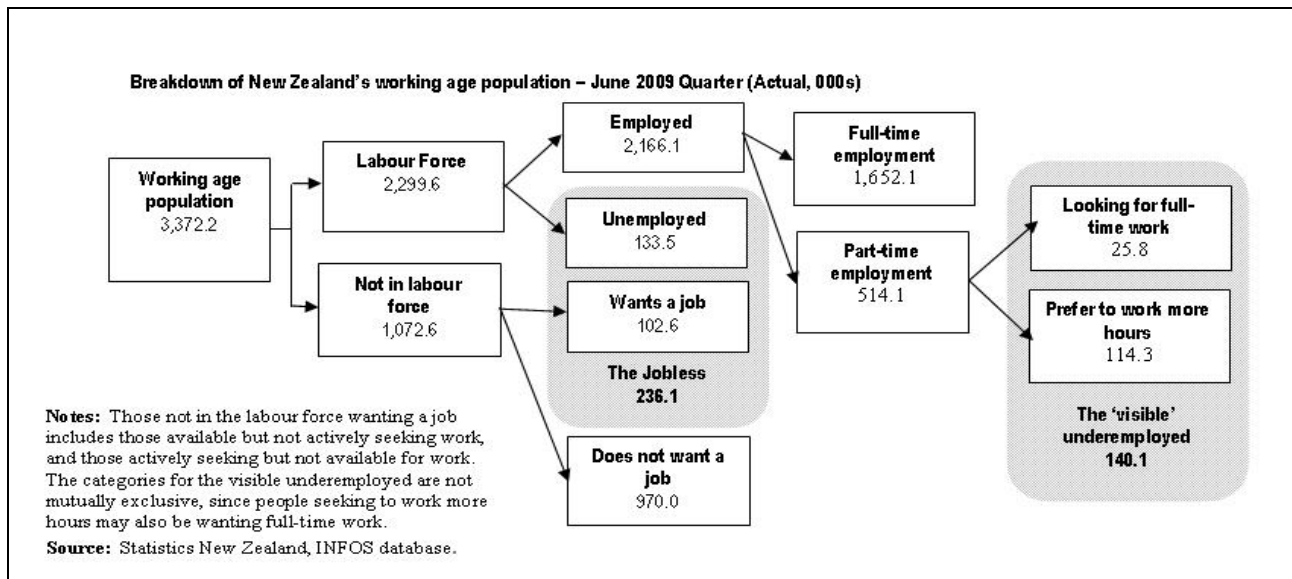
New Zealand's working-age population as at June 2009: A breakdown

The following chart provides a breakdown of New Zealand's working-age population as at the June 2009 quarter. The figures are actual figures, rather than seasonally adjusted figures. The working-age population is defined as being the usually resident non-institutionalised civilian population aged 15 years and over. As at the June 2009 quarter there were 3,372,200 people of working-age in New Zealand.

These people can be defined as being in the labour force, or not in the labour force. The labour force is defined as those people either in work or who are available and actively seeking work (they can be either employed or unemployed). Those not in the labour force are people not in work and are either not available or not actively seeking work (included within this category are those that are retired, studying, home with children, and home for other reasons). As at June 2009, the labour force totalled 2,299,600, and those not in the labour force totalled some 1,072,600.

The labour force can be divided into those that are employed and those that are unemployed. To be classified as employed, an employee has to work one or more hours per week. To be classified as unemployed, a person has to be not in work, available for work, and actively seeking employment. In the June 2009 quarter, there were 2,166,100 people employed and 133,500 people unemployed. Employment can be further divided into full-time and part-time employment (where full-time employees work 30 hours or more per week). Approximately three-quarters of those employed are employed full-time (76%), and the remainder are employed part-time (24%). Those that are employed part-time, but are looking to work additional hours, and/or are looking for full-time work, are classified as being the **visible underemployed**. In the June 2009 quarter, there were 25,800 people looking for full-time work, and 114,300 people looking to work more hours than they were currently working.

There are also those not in the labour force who want a job. These are people who are either (i) available for work, but are not actively looking (82,700), or (ii) those actively looking but not available for work (19,900). In the June 2009 quarter, there were 102,600 people not in the labour force who wanted a job. If you add these people to those that are unemployed, then you get the **jobless** figure. In the June 2009 quarter, there were 236,100 people considered jobless.



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