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MONTHLY ECONOMIC REVIEW

July 2009

(latest data as at 6 July)

Parliamentary Library Research Paper

A Overview

Recent trend

	07/08	08/09	
Economic Growth	3.1%	-1.0%	Annual GDP Growth (March year)
Unemployment	3.8%	5.0%	Unemployment Rate (March quarter)
Inflation	3.4%	3.0%	Annual CPI Growth (March year)
Current Account Deficit	\$14.2b	\$15.2b	Current Account Deficit (March year)
Interest Rates	8.68%	2.78%	90 Day Bank Bills (June month)

Latest data

The New Zealand economy contracted for the fifth consecutive quarter during March 2009, with gross domestic product declining by one percent over the quarter. On an annual average basis, the economy contracted by one percent over the year ended March 2009. The last time the economy contracted on an annual average basis was in the year ended June 1992. Despite the poor gross domestic product figures, business and consumer confidence levels have shown signs of stabilisation, and in some cases improvement. Respondents to the latest National Bank *Business Outlook* survey and the *Westpac McDermott Miller Consumer Confidence Index* are more optimistic. The property market is showing signs of improvement, with sales numbers rising and prices showing signs of stabilisation (albeit still down around seven percent from a year ago, according to Quotable Value). The current account deficit totalled \$15,246 million in the year ended March 2009, equivalent to 8.5 percent of gross domestic product. This compares with a deficit of \$16,108 million for the 2008 calendar year (9.0% of GDP). The investment income deficit (which measures earnings from New Zealand's foreign investment overseas, less the earnings from foreigners' investments in New Zealand), totalled some \$13,409 million over the March 2009 year, and continues to make up a sizeable proportion of the current account deficit. The exchange rate appreciated further during June, much to the annoyance of exporters. Reserve Bank Governor, Alan Bollard noted that "if markets are buying the New Zealand dollar on the expectation of a strong recovery they may end up being disappointed".

Outlook

A further contraction in the economy over the June 2009 quarter has been forecast by a majority of economic forecasters, with NZIER Consensus Forecasts expecting the economy to contract by 0.6 percent over the quarter. Growth is forecast to return to the New Zealand economy in the fourth quarter of 2009. The unemployment rate is expected to rise over the coming year. The excess in capacity due to the rising level of unemployment, along with falling utilisation of plant and machinery, is placing downward pressure on prices. The annual rate of inflation is forecast to drop temporarily below the Reserve Bank's 1 – 3 percent target band during 2009. The Reserve Bank has effectively ruled out any increase in the OCR before late 2010.

Topic of the month: New Zealand's GDP per capita ranking within the OECD

B Economic Growth

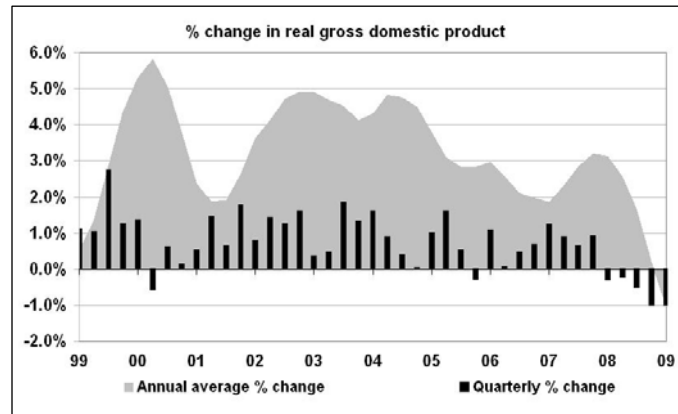
Background

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 remains in recession with economic activity declining for a fifth consecutive quarter over the March 2009 quarter. Over the quarter, the economy contracted by one percent, following a similar rate of contraction over the December 2008 quarter (having been revised down from a 0.9 percent contraction).

Value-added output from the manufacturing sector fell by 7.2 percent over the March 2009 quarter, while output from the transport and communications sector fell by 4.5 percent. Expenditure-based gross domestic product contracted by 0.7 percent over the quarter, with imports falling by 8.6 percent. Private consumption expenditure fell for a fifth consecutive quarter, down 1.3 percent during March 2009.



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 and manufacturing industries were the largest contributors to the annual decline in GDP, having contracted by 8.9 percent and 5.4 percent respectively over the March 2009 year. In terms of expenditure-based GDP, investment in residential buildings fell by almost a quarter (23.4 percent) from the previous year.

Other data

Consumer and business confidence have both shown signs of improvement. The latest National Bank *Business Outlook* survey has a net eight percent of firms expecting their own activity outlook to improve over the coming twelve months. In the June 2009 quarter, consumer confidence reached its highest level for 18 months, as measured by the *Westpac McDermott Miller Consumer Confidence Index*.

Year ended December 2008	Nominal GDP
Expenditure GDP	\$179,912 million
GDP per capita	\$42,023

Source: Statistics New Zealand.

Outlook

The NZIER Consensus Forecast is that the economy will have contracted by a further 0.6 percent in the June 2009 quarter, and will ease by 1.6 percent over the year ended March 2010. The OECD in its latest *Economic Outlook* is more pessimistic, forecasting that the New Zealand economy will contract by three percent in 2009, before staging a recovery in the following year (0.6% growth forecast in 2010) due to major policy stimulus.

Net % expecting economic improvement in 12 months	May-09	Jun-09
NBNZ – Business Confidence	1.9	5.5
NBNZ – Own Activity	3.8	8.3

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

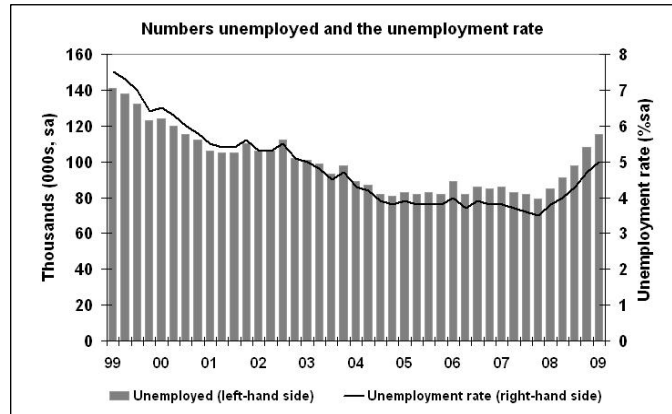
The unemployment rate measures the number of people unemployed as a proportion of those in the labour force. The labour force is the number of people of working age (15 years and over) who are working for wages or a salary, working for a family business, or who are unemployed and seeking work. In New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

Employment and unemployment

Having reached a recent low of 3.5 percent in the fourth quarter of 2007, New Zealand's unemployment rate has risen to five percent in the March 2009 quarter. There were 114,000 people unemployed in the March 2009 quarter, up from 79,000 people in the December 2007 quarter. We have to look back to the September 2000 quarter to see a similar number of people unemployed.

Employment fell by 1.1 percent over the March 2009 quarter, but was 0.8 percent higher than that recorded for the March 2008 quarter.

While most groups are experiencing rises in their rates of unemployment, those aged under 25 years seem to be the hardest hit. The actual unemployment rate for those aged 15 to 19 years has risen from 15.5 percent in the March 2008 quarter to 19.1 percent in the March 2009 quarter. For those aged 20 to 24 years, the rates are 8.5 percent and 11.5 percent respectively.



Other data

Employee confidence improved in the June 2009 quarter, but remained pessimistic overall according to the latest *Westpac McDermott Miller Employment Confidence Index*. The improvement came from a better employment outlook rather than from a perceived improvement in present conditions. The result is consistent with findings of recent business surveys that show that firms are looking to shed staff over the coming year in response to falling demand for their goods and services.

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.

Outlook

New Zealand's unemployment rate is forecast to continue climbing over the next couple of years. NZIER Consensus Forecasts suggest that employment is expected to decline by 2.7 percent over the March 2010 year with around 60,000 job losses forecast. The unemployment rate is forecast to rise to 7.2 percent in the March 2010 quarter. The NZIER in their June 2009 *Quarterly Predictions* sees rising unemployment persisting to around 2011, where it is likely to peak at around 7.6 percent mid-year. This would see approximately 176,000 people unemployed at that point.

Net % expecting increase in 12 months*	May-09	Jun-09
Employment in their business	-16.0	-16.6
Unemployment rate	72.8	75.4

*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

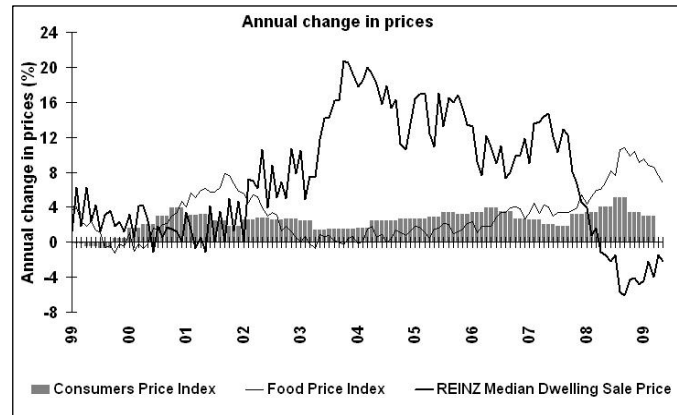
Inflation is the change in prices of goods and services over a certain period of time. The official rate of inflation is measured by Statistics New Zealand's Consumer Price Index (CPI). The CPI tracks the price of a basket of household goods and services over time.

Consumers Price Index

Over the March 2009 quarter, prices rose by 0.3 percent, following a fall in prices of 0.5 percent over the previous quarter. The largest single individual upward contribution to prices came from a 3.5 percent rise in second-hand cars, followed by a 4.2 percent rise in the price of cigarettes.

The annual rate of inflation was three percent in the year ended in the March 2009 quarter. This was the first time since the September 2007 quarter, that the annual rate of inflation has been within the Reserve Bank's medium term inflation target band.

Between the March 2008 and 2009 quarters, the most significant individual upward movement in prices came from a 7.5 percent rise in electricity costs, followed by a 2.1 percent rise in housing rentals.



Other data

Faced with weak demand for their goods and services, along with reduced wage and salary pressures (due to rising unemployment), firms' pricing intentions continue to fall (along with their outlook for annual inflation over the coming twelve months). A net eight percent of firms were expecting to raise their prices over the coming quarter, down from a net 12 percent in the previous month.

Annual food price inflation continues to fall from its recent double digit highs recorded in mid-to-late 2008, to 6.8 percent in the year ended May 2009. However, considering the country has been in recession for over a year, and that international commodity prices have fallen by more than a quarter over the past year, food price inflation remains stubbornly high.

Outlook

The Reserve Bank has forecast that the annual rate of inflation is likely to fall below the bottom of the target band temporarily later this year (partly due to the sizeable increases in prices recorded in the June and September quarters last year falling out of the equation). The annual inflation rate is expected to return inside the band by early 2010.

Annual Percentage Change (%)	May-09	Jun-09
Quotable Value – Residential property*	-8.1	-7.1
REINZ – National median dwelling sale price**	-2.2	n/a
Food Price Index**	6.8	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	May-09	Jun-09
Net % of respondents expecting to increase prices in 3 months time*:	12.4	8.5
Inflation expected in 12 months time:	2.65	2.56

*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

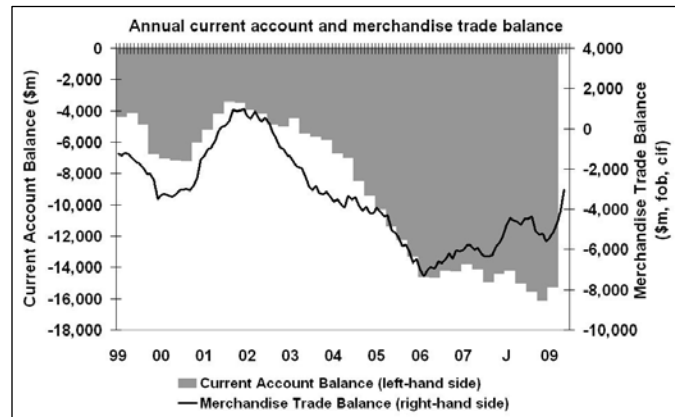
The balance of payments is the record of the receipts and payments between a country's residents and the rest of the world, over a given period. The current account is that part of a country's balance of payments which embraces its transactions of goods, services, international investment income, and 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 for the March 2009 quarter was \$2,682 million in seasonally adjusted terms, a decrease of \$1,042 million over the previous quarter. The decrease was due to import values falling to a larger extent than export values.

For the year ended March 2009, New Zealand's current account deficit totalled \$15,246 million (equivalent to 8.5 percent of GDP). This compares with a deficit equivalent to nine percent of GDP in the year ended December 2008.

Continuous current account deficits since the 1970s has resulted in New Zealand building up a substantial overseas liability. At the end of March 2009, this totalled \$176.6 billion, and is equivalent to almost a year's output of goods and services from the New Zealand economy (98.2 percent of GDP).



Other data

The rising New Zealand dollar is having an adverse impact upon commodity prices in New Zealand dollar terms. A 0.2 percent rise in international commodity prices in June was wiped-out by a surging currency, resulting in commodity prices falling by five percent in New Zealand dollar terms. On an annual basis, New Zealand commodity prices are now down 17 percent.

Annual Change (%)	May-09	Jun-09
World Commodities Prices*	-28.1	-27.9
NZ\$ Commodities Prices*	-11.2	-17.3
Overseas Visitors**	-2.6	n/a

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

Outlook

Easing demand for imports, along with falling profits on foreigners' New Zealand investments are expected to lead to further decreases in the current account deficit. However, the rising New Zealand dollar makes our exporters less competitive. The Reserve Bank noted in their latest *Monetary Policy Statement*, "While being a food exporter has partly insulated the New Zealand economy from the global downturn, it has not done so completely". NZIER Consensus Forecasts have imports falling by 12.1 percent over the next year.

Annual Balances (\$m)	Mar-08	Jun-08	Sep-08	Dec-08	Mar-09	May-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	-1,823	-275
Merchandise Trade (fob-cif)	-4,528	-4,478	-5,048	-5,614	-4,683	-3,044

* 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.

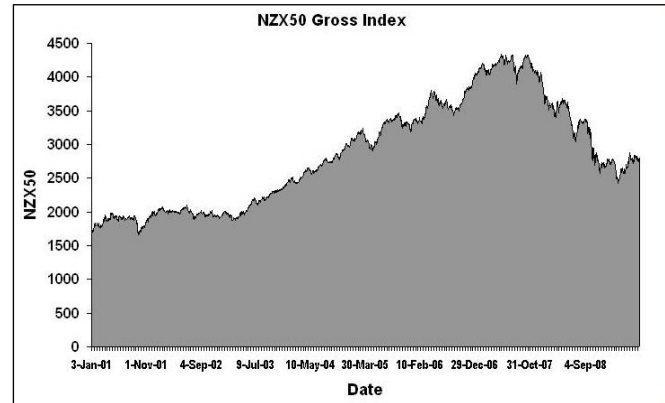
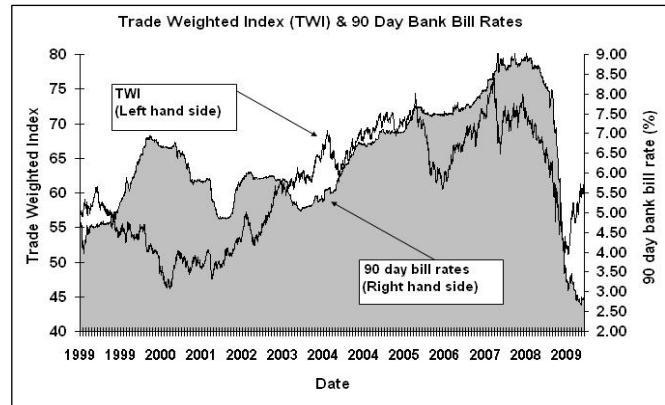
Recent trend & latest monthly data

The Reserve Bank has noted that prolonged exchange rate strength could have a serious negative impact upon the New Zealand economy. In a speech in June the Reserve Bank Governor Alan Bollard stated that the recent upward pressure on the New Zealand dollar was working against a necessary rebalancing of the economy, and that "If markets are buying the New Zealand dollar on the expectation of a strong recovery they may end up being disappointed". Since its recent trough in early March this year, the exchange rate (on a trade weighted basis) has risen by 16.5 percent to 59.50 index points as at 3 July 2009.

The appreciation in the currency has not been uniform against all of our main trading partners, rising by 27.4 percent against the United States dollar, and 25.5 percent against the Japanese Yen. The appreciation against the Australian dollar has been more subdued, rising by 1.2 percent over the same time period.

The official cash rate has fallen by 575 basis points since July 2008 to 2.50 percent currently. Over the same time period, floating first mortgage new customer housing rates have fallen by 446 basis points to 6.44 percent, and the business base lending rate has fallen by 242 basis points to 9.82 percent. The Reserve Bank believes that there is some scope for further reductions in floating mortgage rates, given the easing of the official cash rate and other market movements.

There were 251 recorded mortgagee sales during the month of April, which accounted for four percent of total house sales for the month.



Outlook

The Reserve Bank believes that it will be some time before monetary support can be withdrawn, and a self-sustaining recovery commences. In their latest *Monetary Policy Statement*, the Bank has reiterated that it expects to keep the official cash rate at or below its current level through until the latter part of 2010. The exchange rate is thought to be overvalued, with many economic forecasters expecting it to depreciate over the short to medium term. The NZIER has forecast a trade weighted index (TWI) averaging 56.7 index points over the year ended March 2010 (Consensus Forecasts have an average of 57.8 index points).

Monthly averages	Jan-09	Feb-09	Mar-09	Apr-09	May-09	Jun-09
Trade Weighted Index (TWI) exchange rate	54.86	52.31	53.84	56.87	57.95	60.32
90 Day Bank Bill Rate	4.38	3.40	3.24	3.12	2.82	2.78
Official Cash Rate*	3.50	3.50	3.00	2.50	2.50	2.50
NZX50	2747	2666	2549	2643	2787	2798

* 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 July 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, the largest quarterly fall since records began in 1960, according to preliminary estimates released by the OECD. However, the OECD believes that the economic slowdown is reaching the bottom, with recovery likely to be weak and fragile. The United Kingdom economy contracted by 2.4 percent in the March 2009 quarter (worse than analyst expectations), following a contraction of 1.8 percent over the December 2008 quarter. Latest Office for National Statistics figures show that the economy entered into a recession earlier than previously thought, with it beginning in the second quarter of 2008.

Quarterly economic growth rates			
Country	Sep-08	Dec-08	Mar-09
Australia	0.2	-0.6	0.4
Japan	-0.7	-3.6	-3.8
NEW ZEALAND	-0.5	-1.0	-1.0
United Kingdom	-0.7	-1.8	-2.4
United States	-0.1	-1.6	-1.4
OECD Total	-0.3	-2.0	-2.1

Sources: OECD

Unemployment

Unemployment rates continue to rise internationally. Within the OECD, the countries suffering the largest rates of unemployment include Spain (at 18.7%), and Ireland (at 11.7%). The unemployment rate within the United States has risen to 9.5 percent in June 2009, with another 467,000 jobs lost during the month. Since the recession started in the United States in December 2007, a total of 6.5 million jobs have been lost.

Latest OECD projections have the average unemployment rate within the OECD approaching ten percent at the end of 2010 (its highest level since the 1970s), compared with an average of 8.0 percent currently. Angel Gurría, Secretary-General of the OECD noted that *"Previous downturns have taught us that the jobs recovery will lag a long way behind the pickup in economic growth"*.

Standardised unemployment rates			
Country	Apr-09	May-09	Jun-09
Australia	5.5	5.7	
Japan	5.0	5.2	
NEW ZEALAND	5.0 Mar		
United Kingdom	7.2 Mar		
United States	8.9	9.4	9.5
OECD Total	8.0		

Source: OECD

Central banks

Central banks have entered a 'wait and watch' phase in regards to interest rate reductions, observing economic indicators to see whether previous interest rate cuts are having a positive effect upon their economies. Having reduced their official interest rates to near zero, some central banks have been using other policy options (such as quantitative easing) to support monetary policy. The U.S. Federal Reserve has recently observed that *"Conditions in financial markets have generally improved in recent months"*, and has referred to collected information that *"suggests that the pace of economic contraction is slowing"*.

Central Bank interest rates (as at 6 July 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 GDP per capita ranking within the OECD

Since 29 May 1973 New Zealand has been a member of the OECD, a grouping of countries that share a commitment to democratic government and the market economy. Currently, there are 30 member countries, with the Slovak Republic being the most recent to join on 14 December 2000.

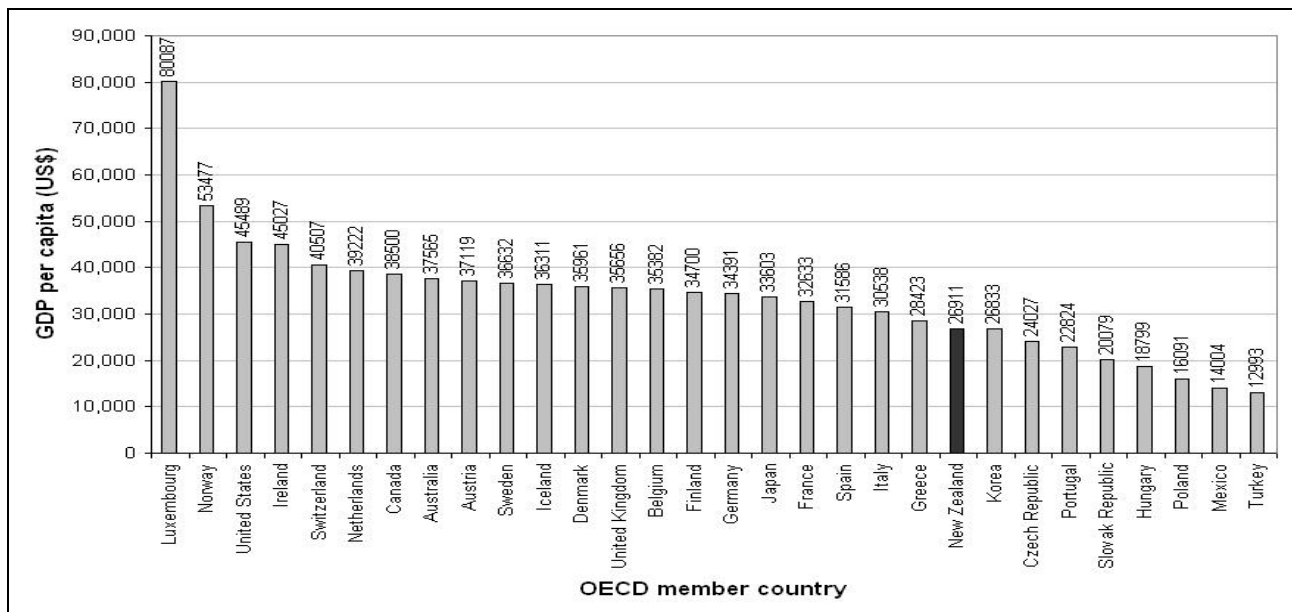
A country's gross domestic product (GDP) is a measure of economic activity during a set period of time. Gross domestic product per capita is a figure that can be used as an indicator of the living standards of citizens within a country over time, and between countries.

Gross domestic product per capita figures are available for the 2007 calendar year for OECD countries on a purchasing power parity (PPP) basis (2008 figures are not yet available for countries). Purchasing power parities are special exchange rates calculated to reflect relative price levels between countries when converted to another currency. Gross domestic product per capita figures converted to United States dollars using PPPs reflect relative standards of living better than conversions using market exchange rates.

In 2007, in current prices and PPPs, New Zealand was placed 22nd in the OECD with a GDP per capita of US\$26,911. This placed us behind Greece (in 21st position with a GDP per capita of US\$28,423), and ahead of South Korea (in 23rd position with a GDP per capita of US\$26,833). New Zealand's GDP per capita was approximately 82 percent of the OECD average of US\$32,747 in 2007. The chart below shows GDP per capita for each OECD country for the 2007 calendar year.

Based on constant prices and PPPs, New Zealand's position deteriorated markedly during the 1970s, when we fell from 7th place in 1974 to 19th place in 1979. Since 1979, New Zealand's GDP per capita ranking has been relatively stable, ranging from 19th to 21st place within the OECD. In 2007, Greece moved ahead of us in the table, resulting in New Zealand dropping to 22nd placing.

GDP per capita for OECD countries for 2007 (at current prices and PPPs, US\$)



Grant Cleland, Research Analyst - Economics
Economics and Industry Team
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