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# MONTHLY ECONOMIC REVIEW

**December 2009**

(latest data as at 8 December)

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	6.25%	2.80%	90 Day Bank Bills (November month)

### Latest data

New Zealand exited a 15-month long recession with a 0.1 percent rise in economic output over the June 2009 quarter. An economic recovery is underway but remains fragile, with households remaining cautious about increasing consumption, and businesses delaying investment decisions until demand has improved. The National Bank's *Regional Trends* showed that the provincial economies lead economic activity growth over the September 2009 quarter. Economic activity in the South Island expanded by 1.1 percent over the quarter, while economic activity in the North Island expanded by just over half of that (0.6 percent). Fonterra has increased their forecast payout for the 2009/10 season to \$6.05 per kilogram of milksolids. It has been estimated that this will inject an additional \$1.2 billion into the economy. The housing market has shown signs of renewal, with Quotable Value recording a one percent rise in house prices over the year to November 2009, although prices remain 5.9 percent below their peak of late-2007. It is thought that a lack of properties offered for sale has been a significant factor behind price rises in recent months. Reserve Bank Governor, Alan Bollard, left the official cash rate steady at 2.50 percent at the rate's review in December 2009. The Reserve Bank indicated that if the New Zealand economy continues to strengthen; it may start increasing the official cash rate "around the middle of 2010", which is earlier than it had previously signalled.

### Outlook

A gradual economic recovery is forecast; although it remains possible that there could be a further negative quarter of GDP output while the economy regains its feet. Business confidence remains high, and is consistent with a highly optimistic growth rate of four percent over the coming year. High levels of net migration will support household consumption (and demand for housing), and will provide an offset to increasing unemployment levels. Spare capacity within the economy will provide an effective brake on price rises; therefore the inflation rate is forecast to remain subdued. The unemployment rate is expected to peak around mid-2010, at a lower level than was forecast during the depths of the global financial crisis. Current forecasts have the unemployment rate peaking somewhere around seven to eight percent.

**Topic of the month:** New Zealand's National Accounts: March 2009 Year

# B Economic Growth

## Background

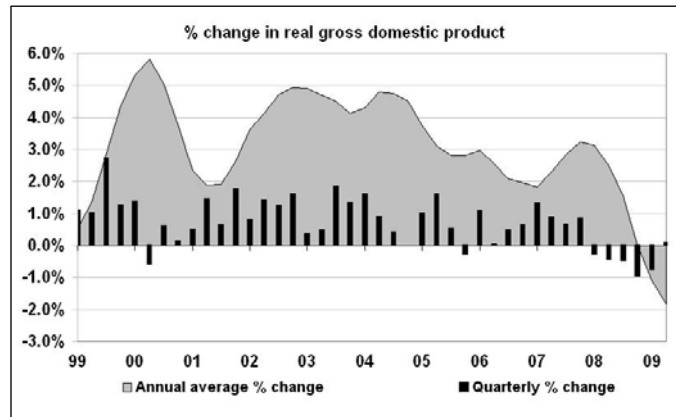
A country's gross domestic product (GDP) is a measure of economic activity during a set period of time, normally reported on a quarterly and an annual basis. It is the sum of money values of all final goods and services produced in an economy over a set period. The primary indicator used for tracking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

Following five consecutive quarters of economic contraction, the New Zealand economy expanded by less than 0.1 percent over the June 2009 quarter, thereby ending the recession.

In annual average terms, the economy contracted by 1.8 percent over the year to June 2009, the largest annual fall in output since the current Statistics New Zealand GDP series commenced in 1987.

The value of GDP in the March 2009 quarter (the last quarter of the recession) was 2.9 percent lower than that recorded in the December 2007 quarter (the quarter prior to the recession), and reflects the total loss of output over the period.



## Other data

Twelve of 14 regions recorded an increase in economic activity over the September 2009 quarter according to the National Bank's *Regional Trends*. The Waikato region recorded the largest increase in activity (+2.1 percent), while the Bay of Plenty (-0.2 percent) and Wellington (-0.9 percent) regions were the two regions that recorded a decline in activity over the quarter.

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

Source: Statistics New Zealand.

Fonterra has announced a further increase in the forecast payout for the 2009/10 season to \$6.05 cents per kilogram of milk solids.

Business confidence remains strong (especially regarding overall business confidence), although confidence has declined slightly in surveys undertaken in November. Having managed to make it through the recession, many retailers are reliant upon a successful Christmas season. Retail sales volumes rose by only 0.1 percent over the September 2009 quarter after accounting for seasonal adjustment and inflation.

## Outlook

Business confidence is consistent with economic growth of around four percent next year; although a more gradual recovery is more likely, given current unemployment numbers and household debt levels. The rise in net migration is providing a boost to consumption with net migration totalling 18,560 in the year to October 2009.

Net % expecting economic improvement in 12 months	Oct-09	Nov-09
NBNZ – Business Confidence	48.2	43.4
NBNZ – Own Activity	30.5	33.7

Source: National Bank.

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

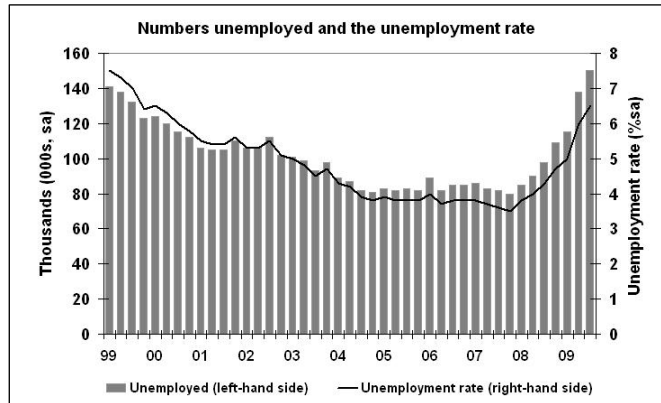
The unemployment rate measures the number of people unemployed as a proportion of those in the labour force. The labour force is the number of people of working age (15 years and over) who are working for wages or a salary, working for a family business, or who are unemployed and seeking work. In New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

## Employment and unemployment

The unemployment rate rose by 0.5 percentage points to a nine and a half year high of 6.5 percent in the September 2009 quarter. The unemployment rate has been increasing steadily since its recent low of 3.5 percent in the December 2007 quarter.

There were 150,000 people unemployed in the September 2009 quarter in seasonally adjusted terms, a nine percent rise over the previous quarter. This is the highest number of those unemployed since the March 1994 quarter, when there were 162,000 people unemployed.

New Zealand's youth have been badly effected, with the unemployment rate for those aged 15 – 19 years rising from 15.7 percent in the September quarter 2008, to 25.1 percent in the September 2009 quarter. Those aged 20 – 24 years have seen their unemployment rate rise from 7.6 percent to 10.9 percent over the same period.



## Other data

There are signs that conditions in the labour market may be turning, with a net five percent of firms expected to increase employment over the next twelve months according to November's National Bank *Business Outlook Survey*. The *Manpower Employment Outlook Survey* showed that employers are reporting stronger employment intentions for the first quarter of 2010 (when compared with the current quarter), especially in the wholesale and retail trade industry.

Net % expecting increase in 12 months*	Oct-09	Nov-09
Employment in their business	-0.3	5.3
Unemployment rate	40.6	35.2

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

## Outlook

The unemployment rate is expected to continue climbing, although there is a divergence of views around its final peak. It is now forecast to peak at a lower rate than previously thought. Businesses have responded to the recession through a mix of reducing employee numbers as well as the hours of those employed. Therefore, any improvement in the economy will generally result in those employees working reduced hours returning to normal working conditions before any sizeable increase in employment takes place. The Treasury expects the unemployment rate will reach close to seven percent in the December 2009 quarter, and the NZIER has expressed a view that the unemployment rate may peak at close to eight percent in 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

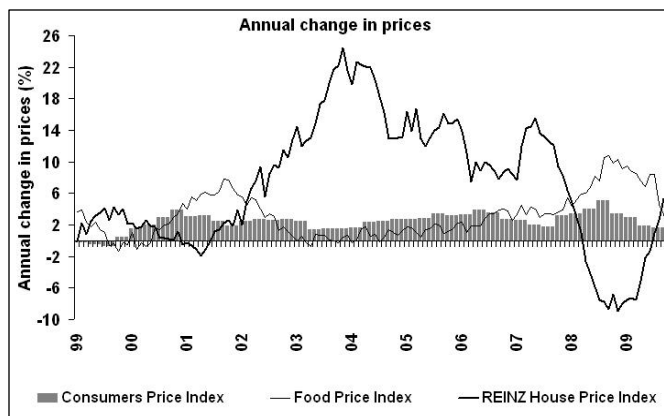
## Background

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

A 1.3 percent rise in consumer prices over the September 2009 quarter surprised economic commentators on the upside (most were expecting a smaller increase in prices). Major contributions to inflation over the quarter came from higher prices for vegetables, international air transport, and local authority rates and payments.

The annual inflation rate (at 1.7 percent) dropped to its lowest level in five and a half years, and is well within the Reserve Bank's target band of 1 – 3 percent. Non-tradable inflation (prices for those goods and services that are not traded internationally) rose by three percent over the year.



## Other data

Latest Quotable Value data showed that house prices increased by one percent over the year to November 2009. However, prices remain 5.9 percent below the market peak set in late 2007, with an average sale price in November 2009 of \$393,373. Quotable Value noted that the increase in prices nationwide has largely been driven by price rises in the main urban areas.

The Reserve Bank's *Survey of Expectations* showed that respondents have increased their expectations of inflation over both the one-year and two-year timeframes.

Average one-year-ahead inflation expectations are 2.1 percent (up from 1.8 percent), while average two-year-ahead expectations of inflation are 2.61 percent (up from 2.25 percent). Respondents to the survey expect a quarterly rise in consumer prices of 0.5 percent over the December 2009 quarter.

Annual Percentage Change (%)	Oct-09	Nov-09
Quotable Value – Residential property*	0.2	1.0
REINZ Housing Price Index**	5.0	n/a
Food Price Index**	2.0	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

## Outlook

The NZIER expects the annual rate of inflation to remain comfortably within the Reserve Bank's inflation target band over the medium term. Spare capacity within the economy and higher unemployment rates will ease price pressures. The Institute has forecast no change in consumer prices over the December 2009 quarter, resulting in an annual inflation rate of 2.1 percent over the 2009 calendar year.

National Bank Business Survey	Oct-09	Nov-09
Net % of respondents expecting to increase prices in 3 months time*:	14.2	14.8
Inflation expected in 12 months time:	2.60	2.61

\*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

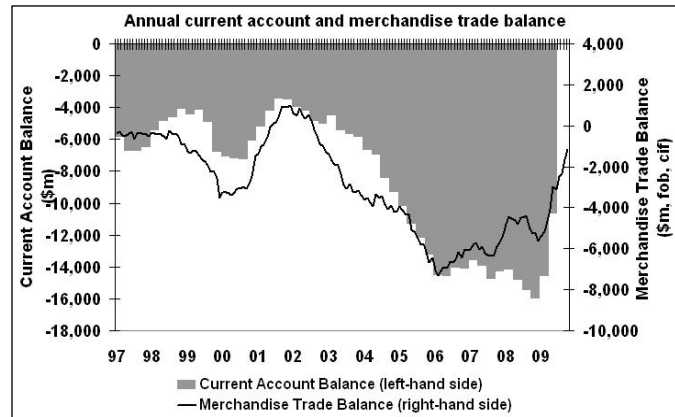
## Background

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

New Zealand's current account deficit totalled \$10,614 million in the year ended June 2009, equivalent to 5.9 percent of gross domestic product. As a proportion of GDP, this was the smallest deficit since the year ended September 2004.

A \$661 million tax liability provision made by the Bank of New Zealand (following court action by the Inland Revenue Department) was a factor behind a reduction in foreign investors' earnings.



## Other data

International prices for New Zealand's main export commodities continue to rise. The ANZ Commodity Price Index rose by 10.5 percent during November 2009 (with dairy prices rising 22 percent). On an annual basis, prices were up 17.4 percent, although they remained 8.5 percent lower in New Zealand dollar terms, due to the appreciation of the New Zealand dollar.

International visitor numbers are down one percent over the year ended October 2009, with a sizeable rise in visitors from Australia (up 9.7 percent) partially offsetting declines from other countries. Tourist numbers from South Korea, Japan and the United Kingdom have reduced substantially on an annual basis.

Annual Change (%)	Oct-09	Nov-09
World Commodities Prices*	-1.5	17.4
NZ\$ Commodities Prices*	-19.2	-8.5
Overseas Visitors**	-1.0	n/a

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

## Outlook

Weak domestic consumer spending will limit demand for imports over the near term, while exports will be assisted by the global economic recovery. Higher international commodity prices (especially for dairy) will provide additional support. The current account deficit has been forecast to improve over the short-term. An increase in the merchandise trade balance and reduced profits for foreign investors on their New Zealand investments will be the main drivers behind a reduction in the current account deficit. In the year ended March 2010, forecasts of the deficit range from -1.2 percent of GDP (NZIER) to -3.7 percent of GDP (ANZ).

Annual Balances (\$m)	Jun-08	Sep-08	Dec-08	Mar-09	Jun-09	Oct-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	1,146
Merchandise Trade (fob-cif)	-4,478	-5,048	-5,614	-4,684	-3,110	-1,164

\* 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 at 2.50 percent in December 2009. It was the fifth consecutive review of the OCR in which it has remained steady. In the Reserve Bank's latest Monetary Policy Statement (released the same day), the Bank stated that current monetary policy support may need to be withdrawn "around the middle of 2010" if the economy continues to recover.

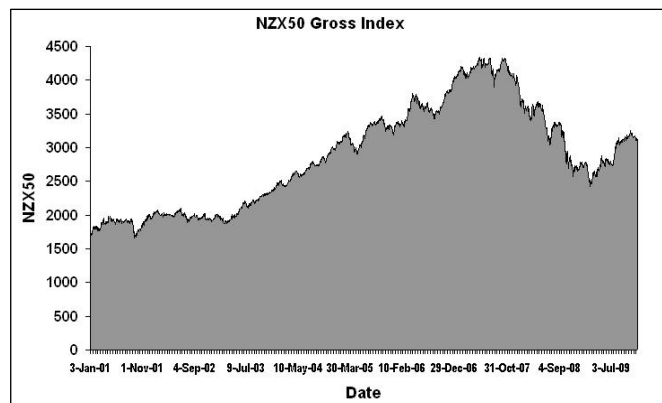
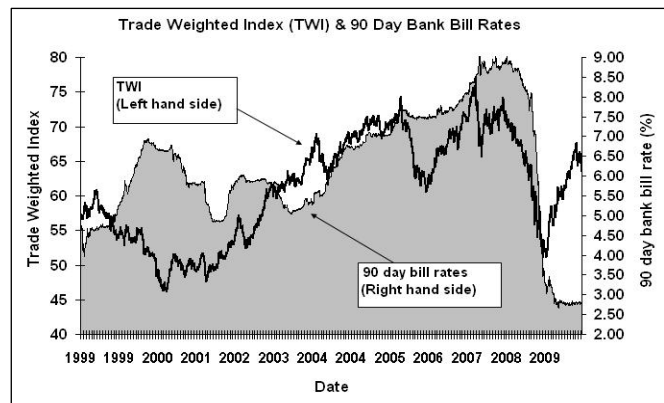
The number of mortgagee sales rose to 343 in September 2009, with 2,680 mortgagee sales taking place in the year ended September 2009.

According to the REINZ there were 65,575 dwelling sales over the year, so mortgagee sales accounted for approximately four percent of total sales. Over the past year there has been a change in the geographic location of mortgagee sales away from the major centres to provincial New Zealand. A lower proportion of sales have taken place in Auckland, while there have been major increases in mortgagee sales in Northland and the Hawkes Bay.

Kathmandu Holdings Limited, an outdoor clothing and equipment retailer, commenced trading on the NZX on 13 November 2009. The company was included in the NZX50 (the top 50 listed companies by free float capitalisation) on 23 November 2009, replacing Methven Limited. The NZX has raised \$6.19 billion of capital over the first eleven months of the year, comprising \$3.17 billion of new equity, and \$3.02 billion in debt.

## Outlook

Higher interest rates and an exchange rate are providing the Reserve Bank with time before it needs to increase the official cash rate. However, its latest statement has brought forward the likely window in which it will commence tightening monetary policy from the second half of 2010 to around the middle of 2010. Some economic commentators believe that the Bank could start tightening monetary policy earlier in the year to (i) smooth the tightening process, and (ii) to curb inflationary pressures. Respondents to the Reserve Bank's *Survey of Expectations* believe that the exchange rate against the United States dollar will be around US\$0.73 at the end of March 2010.



Monthly averages	Jun-09	Jul-09	Aug-09	Sep-09	Oct-09	Nov-09
Trade Weighted Index (TWI) exchange rate	60.32	60.59	62.85	64.32	66.48	65.24
90 Day Bank Bill Rate	2.78	2.79	2.76	2.77	2.79	2.80
Official Cash Rate*	2.50	2.50	2.50	2.50	2.50	2.50
NZX50	2798	2843	3081	3126	3188	3142

\* 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: 28 January 2010**

## 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

United States Federal Reserve Chairman Ben Bernanke in a mid-November speech to the Economic Club of New York expressed his view that the recent pickup in the U.S. economy was due to more than temporary factors, and that continued growth was likely. He pointed to constrained bank lending and a weak job market as factors that could hinder the rate of recovery.

The NZIER has forecast the economies of New Zealand's trading partners to expand by 0.5 percent over the year to March 2010, before staging a recovery over the following year, with economic growth of 3.3 percent. Higher levels of growth within New Zealand's subdued growth in Europe.

Quarterly economic growth rates			
Country	Mar-09	Jun-09	Sep-09
Australia	0.4	0.6	
Japan	-3.2	0.7	1.2
NEW ZEALAND	-0.8	0.1	
United Kingdom	-2.5	-0.6	-0.3
United States	-1.6	-0.2	0.7
OECD Total	-2.2	0.0	

Source: OECD

Asian trading partners (excluding Japan) will offset

## Unemployment

The unemployment rate in the United States fell unexpectedly in November, dropping by 0.2 percentage points to ten percent. During the month, there were 11,000 job losses, the lowest monthly reduction in employment since the recession began in December 2007. The U.S. Labor Department also revised down the number of jobs lost during the months of September and October 2009.

The harmonised unemployment rate within the OECD rose 0.1 percentage point to 8.7 percent in September 2009. In Australia, the Reserve Bank has forecast that the unemployment rate will peak at "a considerably lower level" than had previously been forecast.

Harmonised unemployment rates			
Country	Sep-09	Oct-09	Nov-09
Australia	5.7	5.8	
Japan	5.3		
NEW ZEALAND	6.5		
United Kingdom	7.8(Aug)		
United States	9.8	10.2	10.0
OECD Total	8.7		

Source: OECD

## Central banks

The Australian Reserve Bank increased interest rates for the third consecutive month in December, with its cash rate rising by another 25 basis points to 3.75 percent. Around the same time, the European Central Bank left its interest rate steady at 1.0 percent. The Bank of England left its bank rate steady at 0.50 percent in November, while increasing the size of its asset purchase programme by £25 billion to £200 billion. Through this programme, the Bank uses its reserves to purchase government and corporate debt in order to increase the money supply in the economy. As at 3 December 2009, the bank had purchased just under £185 billion of assets through its asset purchase programme (mainly Government bonds).

Central Bank interest rates (as at 8 December 2009)				
Central Bank	Key Rate	Interest Rate (%)	Effective from	Direction (Basis points)
Australia	Cash Rate	3.75	2-Dec-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 National Accounts: March 2009 Year

Statistics New Zealand has released national accounts figures for the year ended March 2009. In that year, New Zealand's gross domestic product (GDP) totalled \$184,802 million.

The compensation of employees, and the gross operating surplus provided a similar contribution to the GDP in the year ended March 2009 (approximately 43.7% and 44.2% respectively). Compensation of employees comprises salaries and wages, plus employers' contribution to any superannuation scheme, ACC levies, fringe benefits and redundancy payments. The gross operating surplus (business profits) is a residual item and includes the producers' output less the sum of intermediate consumption, compensation of employees, and taxes on production and imports net of subsidies.

Years ended March 2009	(\$m)	(%GDP)
Compensation of employees	80,669	43.7%
Gross operating surplus	81,865	44.3%
Taxes on production and imports	23,167	12.5%
Less subsidies	-899	-0.5%
<b>Gross domestic product</b>	<b>184,802</b>	<b>100%</b>

Starting with a GDP figure, New Zealand's gross national income, gross national disposable income, and national disposable income figures can then be calculated. New Zealand's gross national income is equivalent to its GDP plus the earnings of New Zealanders overseas, less the earnings of foreigners in New Zealand. New Zealand's net investment income from the rest of the world totalled -\$13,035 million in the year ended March 2009 (foreigners' investment income on their New Zealand investments outweighed the income from New Zealanders' investments overseas during the year). Once this is taken into account, New Zealand's gross national income (formerly referred to as gross national product) totalled \$171,767 million in the year ended March 2009. This represents New Zealanders' claim on resources.

Transfers also take place between countries (these are where assets change hands without an offsetting transaction taking place, e.g. aid donations). New Zealand received a net \$884 million in current transfers in the year to March 2009. Once these are added to gross national income, the result is a gross national disposable income of \$172,651 million. Wear and tear along with obsolescence of New Zealand's fixed assets is also taken into account in the national accounts, and is defined as the consumption of fixed capital. This figure is subtracted from the gross national disposable income to provide a national disposable income figure (a figure of income, from which New Zealanders could either save or invest). In the year ended March 2009, this equated to \$145,676 million.

Years ended March	2006 (\$m)	2007 (\$m)	2008 (\$m)	2009 (\$m)
<b>Gross domestic product</b>	160,273	168,328	181,259	184,802
<i>Plus net investment income from the rest of the world</i>	-11,064	-11,906	-13,344	-13,035
<b>Equals Gross national income</b>	149,209	156,423	167,916	171,767
<i>Plus net current transfers from the rest of the world</i>	144	774	828	884
<b>Equals Gross national disposable income</b>	149,353	157,196	168,744	172,651
<i>Less consumption of fixed capital</i>	21,909	23,554	25,248	26,976
<b>Equals National disposable income</b>	127,444	133,642	143,496	145,676

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