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MONTHLY ECONOMIC REVIEW

September 2009

(latest data as at 7 September)

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	8.20%	2.76%	90 Day Bank Bills (August month)

Latest data

This time last year all eyes were on the upcoming release of gross domestic product figures for the June 2008 quarter, which was going to confirm whether New Zealand was in a technical recession. One year on, and New Zealand has been in a recession for five consecutive quarters, and probably a sixth (the GDP figures for the June 2009 quarter are released on 23 September). However, there are signs of improvement. Economic activity, as recorded by the National Bank's *Regional Trends* publication, expanded by 0.4 percent on a national level over the June 2009 quarter, the first quarter to do so since 2007. In another first since 2007, retail sales volumes rose by 0.4 percent over the June 2009 quarter, the first quarterly rise in sales volumes since the September 2007 quarter. International commodity prices for New Zealand's main export commodities rose for the sixth consecutive month. Net migration numbers continue to rise as New Zealanders delay permanent and long-term (PLT) travel overseas, and PLT arrivals increase (permanent and long-term migration refers to stays of 12 months or longer). There are preliminary signs that first home buyers re-entering the housing market, with an increase in activity recorded in the lower end of the market. The housing market in general is showing signs of re-awakening. The REINZ House Price Index rose by 0.9 percent between July 2008 and 2009, and sales numbers have been rising.

Outlook

Recovery in economic growth is forecast to return in either the September or December quarter of 2009, with the economy on "the cusp of a fragile recovery" (in the words of the NZIER). The degree and extent of the recovery is dependent upon a number of factors, including movements in the exchange rate, interest rates, business and consumer consumption and investment decisions, and economic conditions overseas. Whatever the speed of the recovery, the unemployment rate has been forecast to continue climbing over the short-term. Forecasts vary as to the extent of future rises in the unemployment rate. The Reserve Bank Governor has stated that he expects to keep the OCR at current or lower levels until the latter part of 2010. There is a slight possibility of a further decline in the official cash rate (quite possibly on 10 September).

Topic of the month: Goods and Services Tax (GST) / Value Added Tax (VAT) in OECD countries

B Economic Growth

Background

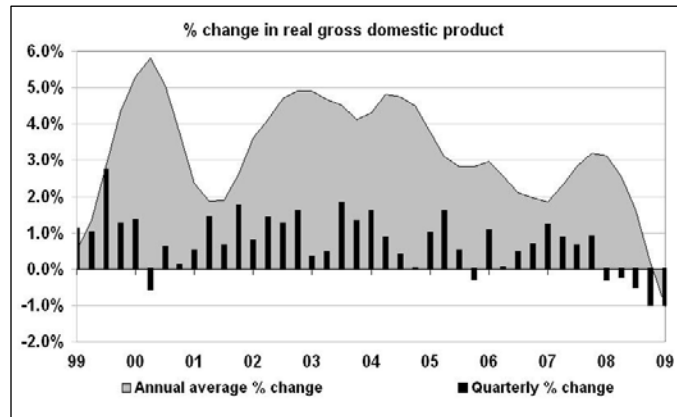
A country's gross domestic product (GDP) is a measure of economic activity during a set period of time, normally reported on a quarterly and an annual basis. It is the sum of money values of all final goods and services produced in an economy over a set period. The primary indicator used for tracking 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 gross domestic product. Over the March 2009 quarter, economic activity eased by one percent, following a similar rate of negative growth over the December 2008 quarter.

Private consumption expenditure has contracted for each of the last five quarters, while investment in residential buildings has fallen in each of the last seven quarters (including a drop of 14.2 percent in the December 2008 quarter).

In annual average percentage terms, economic activity fell by one percent over the year ended March 2009. This was the first time that the economy has contracted on an annual basis since the year ended June 1992. Falling activity in the construction and manufacturing industries was the largest contributor to the decline in economic activity.



Other data

Eight regions recorded a rise in economic activity over the June quarter according to the National Bank's *Regional Trends*. The other six recorded a fall in activity, resulting in the national aggregate measure recording its first rise since 2007, up 0.4 percent. On an annual basis, the nationwide economic activity measure dropped by 1.8 percent over the year to June 2009. This was the largest contraction recorded since the series commenced in the mid-1970s.

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

Source: Statistics New Zealand.

Net migration has been rising, with a net increase of 14,500 over the year ended July 2009 (compared with a net increase of 5,200 for the previous July year). The net figure was the highest level recorded since the December 2006 year. It reflects a drop-off in permanent and long-term departures (for periods of 12 months or more), and an increase in permanent and long-term arrivals. The increase in New Zealand's population will place additional demand on consumer goods and services, and on housing.

Outlook

The NZIER believes that the economy is on "the cusp of a fragile recovery". The Institute has forecast that the economy will contract by 1.8 percent in the year ended March 2010, before staging a recovery in the following March year, expanding by three percent.

Net % expecting economic improvement in 12 months	Jul-09	Aug-09
NBNZ – Business Confidence	18.7	34.2
NBNZ – Own Activity	12.6	26.0

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

Background

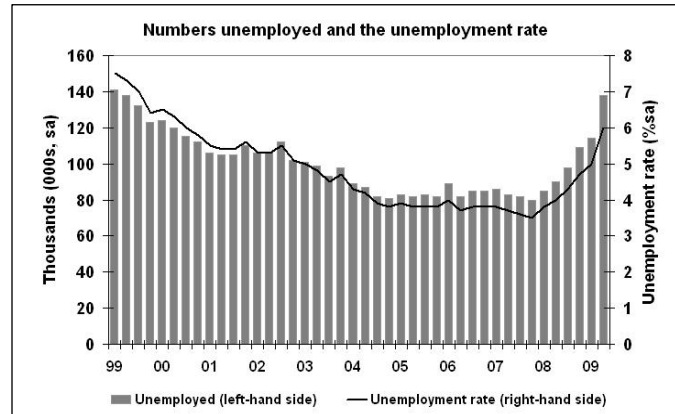
The unemployment rate measures the number of people unemployed as a proportion of those in the labour force. The labour force is the number of people of working age (15 years and over) who are working for wages or a salary, working for a family business, or who are unemployed and seeking work. In New 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 rose sharply over the June 2009 quarter, up one percentage point to six percent. This was the largest quarterly increase in the unemployment rate since the September 1988 quarter. There were 138,000 people unemployed in the June quarter (in seasonally adjusted terms).

Employment fell by 0.4 percent over the June 2009 quarter, following a reduction of 1.3 percent over the March 2009 quarter. Over the June quarter, a 1.1 percent reduction in full-time employment was partially offset by a 1.3 percent increase in part-time employment.

When comparing the June 2008 and 2009 quarters, employment fell by 0.9 percent. Falling employment in the wholesale & retail trade industries contributed over two-thirds of the reduction in employment between the two June quarters. Sizeable falls in employment were also recorded in the agriculture, forestry & fishing, and communications services industries. Employment within the health and community services sector, rose by 9.1 percent over the same period.



Other data

Employment intentions have been negative in the National Bank's *Business Outlook* survey since December 2007. Recently, employment expectations have improved somewhat, but still remain negative. A net 2.6 percent of respondents in the August survey expect to cut employment over the coming year. Employees are "extremely pessimistic" about their current employment situation according to the Westpac McDermott Miller *Employment Confidence Index*.

Net % expecting increase in 12 months*	Jul-09	Aug-09
Employment in their business	-6.8	-2.6
Unemployment rate	74.3	63.6

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

Outlook

The unemployment rate is forecast to continue climbing, but looking ahead over the next couple of years, there is a broad divergence amongst forecasts. The Department of Labour expects the unemployment rate to rise to around seven percent by early 2010. Respondents to the Reserve Bank's *Survey of Expectations* expect the unemployment rate will increase to 7.2 percent by June 2010, and then improve to 6.7 percent in June 2011. The NZIER has forecast that the unemployment rate will peak around eight percent in 2011.

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.

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

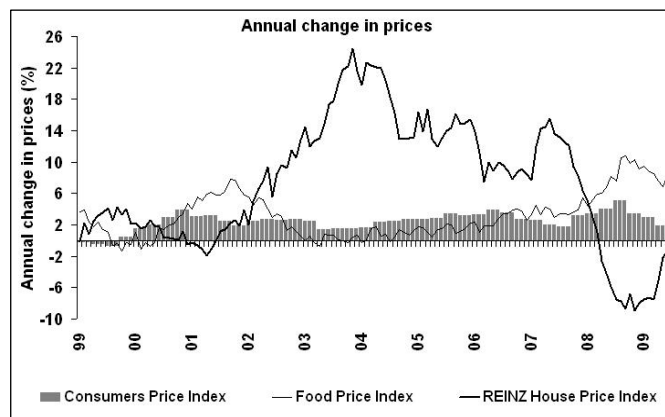
Background

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, resulting in an annual inflation rate of 1.9 percent in the year ended in the June quarter. Annual non-tradable inflation was 3.3 percent (non-tradable inflation measures changes in prices for those goods and services that are not subject to foreign competition).

Over the quarter, the largest individual upward contribution to prices came from a 3.2 percent rise in petrol prices, while the largest individual downward contribution came from a 14.4 percent fall in international air transport prices.



Other data

The REINZ has commenced a monthly Housing Price Index. Compared with a year ago, the index was 0.9 percent higher in July 2009 (although 7.3 percent lower than its November 2007 peak). According to Quotable Value, the national average sale price increased to \$385,426 in August 2009. Quotable Value reported that a general shortage of listings is leading to increased competition amongst buyers, and is resulting in multiple offers being made on quality properties.

Respondents to the latest Reserve Bank *Survey of Expectations* anticipate an increase in prices of 0.4 percent over the September 2009 quarter, and 0.5 percent over the December 2009 quarter. These quarterly movements would result in an annual increase in inflation of 0.8 percent and 1.7 percent for years ended September and December 2009 respectively.

Outlook

Inflationary pressures are forecast to continue easing over the short-term, especially with the appreciation in the exchange rate placing downward pressure on tradable inflation. The Reserve Bank has forecast annual inflation to fall briefly below the bottom of its 1 – 3 percent target band in the September quarter this year, with an annual inflation rate of 0.7 percent. The NZIER has forecast that the annual rate of inflation will remain below the lower target band until the year ended in the September 2010 quarter.

Annual Percentage Change (%)	Jul-09	Aug-09
Quotable Value – Residential property*	-5.0	-2.8
REINZ Housing Price Index**	0.9	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 month of the previous year. Sources: Quotable Value; REINZ; Statistics New Zealand

National Bank Business Survey	Jul-09	Aug-09
Net % of respondents expecting to increase prices in 3 months time*	12.9	15.2
Inflation expected in 12 months time:	2.60	2.52

*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.

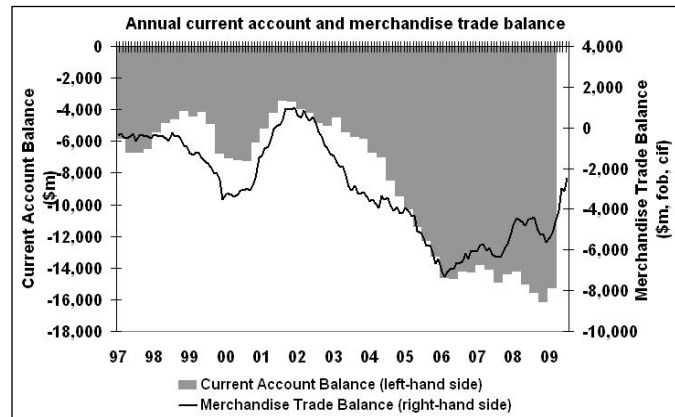
Date: 15 October 2009

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

The current account deficit totalled \$15,246 million for the year ended March 2009, equivalent to 8.5 percent of New Zealand's GDP. The largest contributor to the current account deficit was a \$13,409 million deficit in the investment income balance. This balance records the earnings of New Zealanders' overseas investments less foreign investors' investment earnings on their New Zealand investments. The investment income balance has deteriorated rapidly over the last decade, from \$4,746 million recorded in the year ended June 1999.



Other data

Reflecting a possible turnaround in international soft commodity prices, the ANZ Commodity Price Index recorded an increase for the sixth consecutive month, with prices rising by 4.2 percent in August. After taking account of movements in the exchange rate, prices were down by 0.7 percent in New Zealand dollar terms.

The price for whole milk powder rose by 24 percent in Fonterra's September online auction. This follows a 26 percent rise in prices in the previous month, pushing the auction price to levels last seen in October 2008. The rise in prices has been put down to an increase in demand and falling global stock levels. Any increase in the payout to dairy farmers (Fonterra's current forecast is \$4.55 per kilogram of milksolids for the 2009/10 season) depends upon currency movements and price movements for other dairy products.

Outlook

New Zealand's current account deficit is forecast to improve on the back of restricted growth for imported goods, and falling profits associated with foreign investors. Exporters will continue to be adversely impacted by the higher exchange rate, although there are signs that international commodity prices for New Zealand's main exports have started to show an upwards trend (albeit from low base prices).

Annual Change (%)	Jul-09	Aug-09
World Commodities Prices*	-28.5	-22.9
NZ\$ Commodities Prices*	-19.5	-21.6
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.

Annual Balances (\$m)	Jun-08	Sep-08	Dec-08	Mar-09	Jun-09	Jul-09
Current Account	-14,982	-15,528	-16,108	-15,246	n/a	n/a
Merchandise trade	-1,845	-2,259	-2,327	-1,298	n/a	n/a
Services	-138	-496	-1,044	-1,290	n/a	n/a
Investment income	-13,860	-13,671	-13,619	-13,409	n/a	n/a
Current transfers	860	899	883	751	n/a	n/a
Current Account (quarter*)	-4,683	-3,996	-3,724	-2,682	n/a	n/a
Merchandise Trade (fob-vfd)	-1,897	-2,327	-2,729	-1,824	-412	150
Merchandise Trade (fob-cif)	-4,478	-5,048	-5,614	-4,684	-3,112	-2,478

* 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 New Zealand dollar continued to appreciate during August, averaging 62.85 index points on a trade weighted basis. This represents an appreciation of 20 percent since the TWI's recent trough of 52.31 index points in February this year (on a monthly average basis). Over the last six months, the exchange rate has appreciated by 35 percent against the Japanese yen and by 31 percent against the United States dollar.

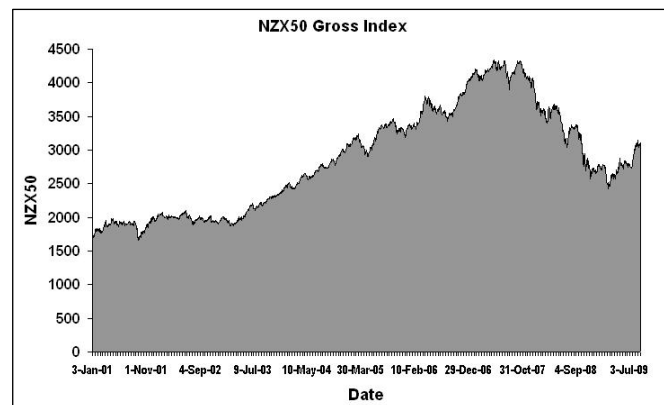
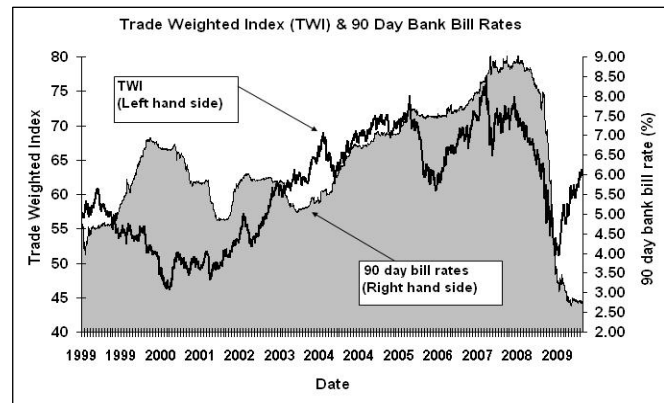
Longer-term interest rates crept higher during August, while the short-term interest rates remained steady. Reserve Bank Governor, Alan Bollard has stated that he expects the official cash rate to remain at or below current levels "through until the latter part of 2010".

Businesses are expecting it to be easier to obtain credit over the coming year, according to the latest National Bank *Business Outlook* survey. A net six percent of respondents believed that this would be the case. This follows two months in which businesses thought credit would be more difficult to obtain over the coming twelve months.

The NZX50 ended the month of August at 3098 index points, up 2.7 percent over the month (and up 14.1 percent from the start of the year). Total capital raised on the NZX in 2009 (to date) has totalled \$5.02 billion, an increase of 91 percent over the same period last year. This figure was split between new equity raised (\$2 billion) and new debt issued (\$3.02 billion), as businesses continue deleveraging and repairing their balance sheets. Foreign investors owned approximately 39 percent of New Zealand listed companies on the sharemarket in the June 2009 quarter, according to analysis undertaken by Goldman Sachs JBVere. This compared to 39.1 percent in the March 2007 quarter, and 60.3 percent in 1997.

Outlook

The official cash rate is not expected to rise until the latter part of 2010, with a slight possibility remaining of further downward movement in the short term. Mortgage rates are expected to continue increasing due to higher deposit rates and international funding costs.



Monthly averages	Mar-09	Apr-09	May-09	Jun-09	Jul-09	Aug-09
Trade Weighted Index (TWI) exchange rate	53.84	56.87	57.95	60.32	60.59	62.85
90 Day Bank Bill Rate	3.24	3.12	2.82	2.78	2.79	2.76
Official Cash Rate*	3.00	2.50	2.50	2.50	2.50	2.50
NZX50	2549	2643	2787	2798	2843	3081

* 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

Gross domestic product in the OECD area stabilised in the June 2009 quarter (declining by 0.002 percent), following a fall of 2.1 percent over the March 2009 quarter. Of the major OECD economies, Japan, France and Germany recorded positive economic growth over the second quarter of 2009.

Unlike most OECD countries, Australia has not entered into a technical recession (the only recent decline in activity was in the December 2008 quarter, -0.7%). Latest economic data has the Australian economy expanding by 0.6 percent over the June 2009 quarter.

Quarterly economic growth rates			
Country	Dec-08	Mar-09	Jun-09
Australia	-0.7	0.4	0.6
Japan	-3.5	-3.1	0.9
NEW ZEALAND	-1.0	-1.0	
United Kingdom	-1.8	-2.4	-0.7
United States	-1.4	-1.6	-0.3
OECD Total	-1.9	-2.1	-0.0

Source: OECD

Consensus estimates project that the economies of New Zealand's main trading partners will contract by 0.6 percent in the year ended March 2010, but will grow by 2.8 percent in the following year.

Unemployment

The standardised unemployment rate within the OECD remained steady at 8.3 percent in June 2009. However, the unemployment rate for the same month in 2008 was 5.9 percent.

In June, the OECD projected that unemployment levels would continue to rise, with an average unemployment rate of 9.9 percent at the end of 2010. OECD Secretary-General Angel Gurría noted that in previous downturns, the jobs recovery tended to lag behind the pickup in economic growth.

Standardised unemployment rates			
Country	Jun-09	Jul-09	Aug-09
Australia	5.8	5.8	
Japan	5.4		
NEW ZEALAND	6.0		
United Kingdom	7.5 (Apr)		
United States	9.5	9.4	9.7
OECD Total	8.3		

Source: OECD

Central banks

The Reserve Bank of Australia left its cash rate unchanged at three percent in early September. Reserve Bank Governor, Glenn Stevens, stated that economic conditions in Australia have been stronger than expected. The United States Federal Reserve decided in August to maintain the target range for the federal funds rate at 0 – 0.25 percent. In their press release, the Federal Open Market Committee noted that it *"continues to anticipate that economic conditions are likely to warrant exceptionally low levels of the federal funds rate for an extended period"*. United States President Barack Obama has nominated Ben Bernanke for a second four year term as chairman of the Federal Reserve. The United States Senate needs to confirm the president's nomination of Ben Bernanke before it becomes official.

Central Bank interest rates (as at 7 September 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.

Goods and Services Tax (GST) / Value Added Tax (VAT) in OECD countries

A Goods and Services Tax (GST) which is also known as a Value Added Tax (VAT) has been implemented by nearly 150 countries worldwide, including New Zealand. New Zealand introduced a Goods and Services Tax on 1 October 1986 at a rate of 10 percent. The GST rate increased to 12.5 percent from 1 July 1989.

Twenty-nine of the 30 OECD countries have a GST/VAT tax. Only the United States does not have a federal consumption tax. Instead, the individual States within the United States have their own retail and other sales taxes.

The table to the right shows the GST/VAT tax rates for each OECD country as at 1 January 2009, along with the year in which the country first introduced a GST/VAT tax. Back in 1968, France and Germany were the first OECD countries to introduce such a tax system, with Australia being the latest OECD country to adopt a goods and services tax (in 2000).

Goods and services taxes have become increasingly important as a source of tax revenue. Within the OECD, general consumption taxes (of which GST/VAT taxes account for approximately two-thirds of revenue, and excise taxes the other third) provided 19 percent of total tax revenue in 2006. This compared with 14 percent of total tax revenue in 1965.

In the OECD, the average rate of GST/VAT has been rising over time. In 1980, the un-weighted average tax rate was 16.65 percent. This increased to 16.8 percent in 1990 and to 17.80 percent in 2000. The average rate in 2009 was 17.61 percent. The reduction was partially due to the United Kingdom reducing their VAT rate from 17.5 percent to 15.0 percent from 1 December 2008 temporarily as part of their economic stimulus package to help address the financial crisis. It is legislated to rise back to 17.5 percent from 1 January 2010.

There is a wide diversity across countries in terms of application of their goods and services tax. Most countries have certain goods and services which are exempt from GST/VAT (such as basic essentials). Those goods and services that are exempt in New Zealand include: the provision of financial services; the supply of residential accommodation in a dwelling; the supply by a non-profit body of donated goods and services; and the supply of fine metals (gold, silver and platinum).

Certain countries offer lower GST/VAT tax rates on various goods and services. For example, Norway offers a lower rate on foodstuffs (14%), and the United Kingdom offers a lower rate on fuel and power for domestic and charity use (5%).

GST/VAT rate in OECD member countries		
Country	Implemented	1 Jan 2009
Australia	2000	10.0
Austria	1973	20.0
Belgium	1971	21.0
Canada	1991	5.0
Czech Republic	1993	19.0
Denmark	1967	25.0
Finland	1994	22.0
France	1968	19.6
Germany	1968	19.0
Greece	1987	19.0
Hungary	1988	20.0
Iceland	1989	24.5
Ireland	1972	21.5
Italy	1973	20.0
Japan	1989	5.0
Korea	1977	10.0
Luxembourg	1970	15.0
Mexico	1980	15.0
Netherlands	1969	19.0
NEW ZEALAND	1986	12.5
Norway	1970	25.0
Poland	1993	22.0
Portugal	1986	21.0
Slovak Republic	1993	19.0
Spain	1986	16.0
Sweden	1969	25.0
Switzerland	1995	7.6
Turkey	1985	18.0
United Kingdom	1973	15.0
United States
<i>Un-weighted average</i>	..	17.61

Source: OECD

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