



PARLIAMENTARY LIBRARY
Te Pātaka Rangahau a Te Whare Pāremata

MONTHLY ECONOMIC REVIEW

May 2009

(latest data as at 8 May)

Parliamentary Library Research Paper

A Overview

Recent trend

	07/08	08/09	
Economic Growth	3.2%	0.2%	Annual GDP Growth (December year)
Unemployment	3.8%	5.0%	Unemployment Rate (March quarter)
Inflation	3.4%	3.0%	Annual CPI Growth (March year)
Current Account Deficit	\$14.4b	\$16.1b	Current Account Deficit (December year)
Interest Rates	8.87%	3.12%	90 Day Bank Bills (April month)

Latest data

New Zealand's unemployment rate rose by 0.3 percentage points to five percent in the March 2009 quarter, with the rate rise smaller than general expectations (commentators had forecast an unemployment rate of around 5.3 percent). One of the reasons behind the lower rate rise was a reduction in the labour force participation rate, as people left the workforce. The annual rate of inflation has re-entered the Reserve Bank's medium term inflation target band (1 – 3 percent), with an annual rise in consumer prices of three percent for the year ended March 2009. The annual rate of inflation had recently peaked at 5.1 percent in the year ended September 2008. Food-related inflation remains much higher, with the Food Price Index rising by 8.6 percent over the year to March 2009. Fonterra has announced a ten cent rise in their payout for the 2008/09 season to \$5.20 per kilogram of milksolids. It is estimated that the rise will inject an additional \$120 million into the rural economy. International visitors spent \$6.1 billion in the year ended March 2009, down 0.1 percent from the previous year, while visitor numbers were down 3.9 percent on an annual basis. Reserve Bank Governor reduced the official cash rate by a further 50 basis points to 2.50 percent. Unusually the Governor offered guidance to the market as to future changes in the OCR, stating that "we expect to keep the OCR at or below the current level through until the latter part of 2010".

Outlook

The Treasury has forecast that the economy contracted by around one percent over the March 2009 quarter, due to lower household expenditure, business investment and exports. The number of those unemployed is expected to continue climbing during 2009, due to weaker labour demand and increased redundancies and layoffs. Rises in the unemployment rate may be tempered by a decrease in the labour force, as people leave the workforce in response to the economic slowdown. Various banks have forecast an unemployment rate of around seven percent for the December 2009 quarter. Further reductions in the official cash rate have not been ruled out by the Reserve Bank Governor, "The OCR could still move modestly lower over the coming quarters". Economic commentators have forecast that the OCR could end the year at around two percent. The annual rate of inflation is forecast to fall over the short-term, as capacity utilisation eases.

Topic of the month: Funding of New Zealand's registered banks (particularly from non-residents)

B Economic Growth

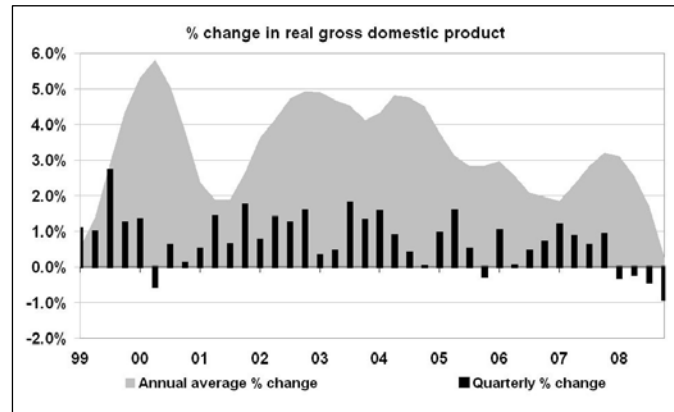
Background

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 the fourth consecutive quarter in the December 2008 quarter. Over the quarter, the economy contracted by 0.9 percent; the largest quarterly contraction since the September 1992 quarter.

Wholesale trade activity fell by 4.9 percent over the December 2008 quarter, and construction activity fell by 4.4 percent (with investment in residential buildings falling by 14.0 percent over the quarter, as measured by expenditure GDP). Private consumption was steady over the quarter, while general government expenditure rose by 1.7 percent.



On an annual average basis, the economy expanded by 0.2 percent over calendar year 2008, despite four quarters of declining economic activity during the year. This was because the economy grew at a faster rate in 2007 than it contracted in 2008.

Other data

There was a significant improvement in business confidence as measured by the National Bank *Business Outlook* survey. Overall, businesses remain pessimistic regarding the outlook for the economy over the coming 12 months. Furthermore, a net 65 percent of firms responding to NZIER's March 2009 *Quarterly Survey of Business Opinion* expected the economy to deteriorate over the next six months.

Year ended December 2008	Nominal GDP
Expenditure GDP	\$180,444 million
GDP per capita	\$42,244

Source: Statistics New Zealand.

The number of building consents issued for new dwelling units continues to trend downwards, with consents for new authorised housing units (including apartments) for March 2009 down 56 percent from the recent peak recorded in June 2007. Fonterra raised its payout for the 2008/09 season by 10 cents per kilogram of milksolids to \$5.20. This is expected to inject an additional \$120 million into the rural economy.

Outlook

Treasury now expects gross domestic product to fall by around one percent in real terms over the March 2009 quarter. Economic forecasters have forecast a further decline in GDP in the June quarter, with limited growth returning over the second half of 2009. The OECD has forecast the New Zealand economy to remain in recession throughout 2009, before recovering "hesitantly" in 2010.

Net % expecting economic improvement in 12 months	Mar-09	Apr-09
NBNZ – Business Confidence	-39.3	-14.5
NBNZ – Own Activity	-21.2	-3.8
One Network News – Colmar Brunton survey	+3	na

Source: National Bank.

GDP growth (%)	Dec-07	Mar-08	Jun-08	Sep-08	Dec-08
Annual (year-on-year)	3.2	3.1	2.5	1.7	0.2
Quarterly (seasonally adjusted)	0.9	-0.3	-0.2	-0.5	-0.9

Source: Statistics New Zealand.

Next Release: *Gross Domestic Product: March 2009 quarter.* **Date:** 26 June 2009

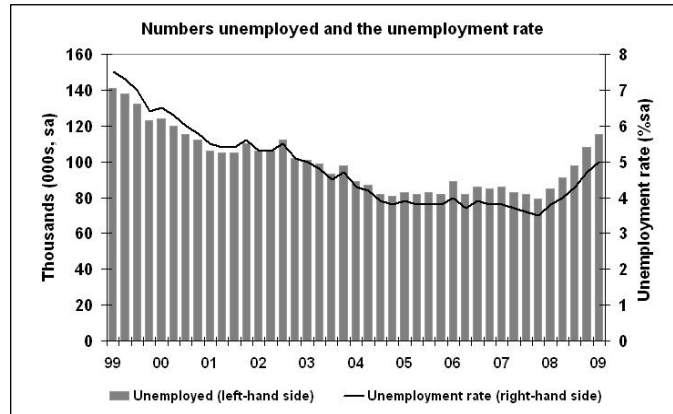
Background

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 by 0.3 percentage points to five percent in the March 2009 quarter. The unemployment rate was last at this level in the March 2003 quarter. In seasonally adjusted terms there were 115,000 people unemployed in the March quarter (the greatest number of people unemployed since the September 2000 quarter).

The labour force participation rate (which measures the proportion of the working age population either in employment or unemployed) fell 0.7 percentage points to 68.4 percent over the March 2009 quarter (but was 0.7 percentage points higher than that recorded in the March 2008 quarter).



Over the March 2009 quarter the number of those employed fell by 1.1 percent, with part-time employment falling by 3.1 percent, and full-time employment falling by 0.7 percent. When comparing the March 2008 and 2009 quarters, there was a 0.8 percent rise in employment. When comparing actual employment numbers between the March 2008 and 2009 quarters, there was a 6.6 percent drop in employment in the manufacturing industry, followed by a 4.4 percent drop in employment in the agriculture, forestry and fishing industry. Of the 27 OECD countries that produce a harmonised unemployment rate, New Zealand is ranked ninth with our unemployment rate well below the OECD average of 7.3 percent.

Other data

The Quarterly Employment Survey for the March 2009 quarter showed that average ordinary time weekly earnings (excluding overtime) totalled \$926.64, a rise of 2.3 percent from the previous quarter and up 5.5 percent from March 2008. The survey showed that total weekly paid hours worked fell by 1.9 percent between the March 2008 and 2009 quarters, with sizeable reductions of hours worked in the manufacturing and construction industries.

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. Any further falls in labour participation (as people leave the workforce) will partially mute rises in the unemployment rate (as the rate is calculated on the size of the labour force). Forecasts vary as to the degree and speed at which the unemployment rate will climb, with a number of banks forecasting an unemployment rate of approximately seven percent in the December 2009 quarter.

Net % expecting increase in 12 months*	Mar-09	Apr-09
Employment in their business	-28.1	-19.1
Unemployment rate	85.9	76.8

*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

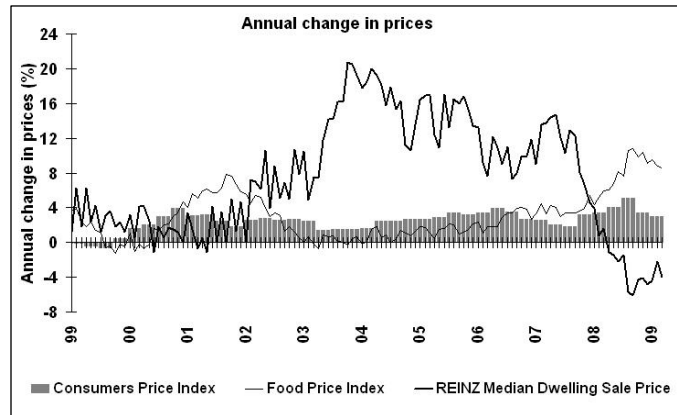
Inflation is the change in prices of goods and services over a certain period of time. The official rate of inflation is measured by Statistics New Zealand's Consumer Price Index (CPI). The CPI tracks the price of a basket of household goods and services over time.

Consumers Price Index

The Consumers Price Index rose by 0.3 percent over the March 2009 quarter, following a fall of 0.5 percent in prices over the December 2008 quarter.

The largest individual upward contribution to consumer prices over the March quarter came from a 3.5 percent rise in second-hand cars, followed by a 4.2 percent rise in the price of cigarettes. The largest individual downward contribution to prices came from a 16.5 percent fall in the price of international air transport, followed by a 19.2 percent fall in diesel prices.

The annual inflation rate was three percent in the year between the March 2008 and 2009 quarters. This is the first time since the September 2007 quarter that annual inflation has been within the Reserve Bank's 1 – 3 percent medium inflation target band.



Other data

Food price inflation remains stubbornly high, with the Food Price Index rising by 8.6 percent over the year to March 2009. Prices in the meat, poultry and fish subgroup of the index rose by 12.6 percent over the year (the price of pork has risen by 19.0 percent). Fruit prices have risen by 25.2 percent over the year to March 2009. Salary and wage rates as measured by the Labour Cost Index rose by 3.3 percent over the year to March 2009 (including overtime). This is the lowest annual increase since the December 2007 quarter, and reflects the weakening of the labour market.

Annual Percentage Change (%)	Mar-09	Apr-09
Quotable Value – Residential property*	-9.3	-9.2
REINZ – National median dwelling sale price**	-4.0	n/a
Food Price Index**	8.6	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

Annual inflation is forecast to continue declining over the near term, as capacity utilisation of the economy's resources eases and demand for goods and services moderates. Some economic commentators believe that annual inflation could test the lower limit of the Reserve Bank's target band later this year. However, the lower exchange rate is placing pressure on import prices. The extent to which import price rises will be passed on to the consumer depends on the ability of retailers to do so in the current environment.

National Bank Business Survey	Mar-09	Apr-09
Net % of respondents expecting to increase prices in 3 months time*:	9.2	17.6
Inflation expected in 12 months time:	2.63	2.73

*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

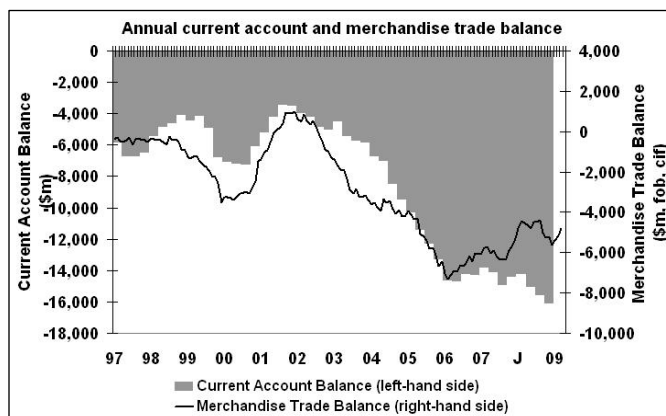
The balance of payments is the record of the receipts and payments between a country's residents and the rest of the world, over a given period. The current account is that part of a country's balance of payments which embraces its transactions of goods, services, international investment income, and 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 was \$3,772 million in the December 2008 quarter (in seasonally adjusted terms), a reduction of \$236 million over the previous quarter.

On an annual basis, the current account deficit totalled \$16,073 million for the 2008 calendar year, equivalent to 8.9 percent of gross domestic product. The investment income deficit of \$13,582 million made up the bulk of the current account deficit. A goods deficit of \$2,360 million, a services deficit of \$1,014 million, along with a current transfers surplus of \$883 million made up the remainder of the current account deficit.

New Zealand's international investment position (international assets less international liabilities) was -\$167.7 billion as at 31 December 2008, equivalent to 92.9 percent of gross domestic product.



Other data

International commodity prices rose for the second month in a row in April 2009, with prices rising by 2.5 percent (following a one percent rise in the previous month). However, the rise in the New Zealand dollar "outstripped" the rise in commodity prices, resulting in prices falling by 2.8 percent over the month (and was down by 7.7 percent on an annual basis).

Annual Change (%)	Mar-09	Apr-09
World Commodities Prices*	-31.4	-29.5
NZ\$ Commodities Prices*	-4.0	-7.7
Overseas Visitors**	-3.9	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 during 2009 due to easing demand for imports, and falling profits on foreigners' New Zealand investments. The Treasury has forecast a current account deficit equivalent to 8.6 percent in the year ended March 2009. In their April forecasts the Westpac Bank has forecast a current account deficit equivalent to 6.2 percent for the 2009 calendar year, while the BNZ has forecast a deficit equivalent to 6.4 percent. Tourist numbers are likely to continue falling in the near term.

Annual Balances (\$m)	Dec-07	Mar-08	Jun-08	Sep-08	Dec-08	Mar-09
Current Account	-14,372	-14,211	-14,982	-15,528	-16,073	n/a
Merchandise trade	-2,381	-1,745	-1,845	-2,259	-2,360	n/a
Services	288	189	-138	-496	-1,014	n/a
Investment income	-12,836	-13,387	-13,860	-13,671	-13,582	n/a
Current transfers	557	732	860	899	883	n/a
Current Account (quarter*)	-3,239	-3,503	-4,692	-4,008	-3,772	n/a
Merchandise Trade (fob-vfd)	-2,856	-2,031	-1,897	-2,327	-2,729	-1,926
Merchandise Trade (fob-cif)	-5,312	-4,528	-4,478	-5,048	-5,614	-4,796

* 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: March 2009 **Date:** 25 June 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

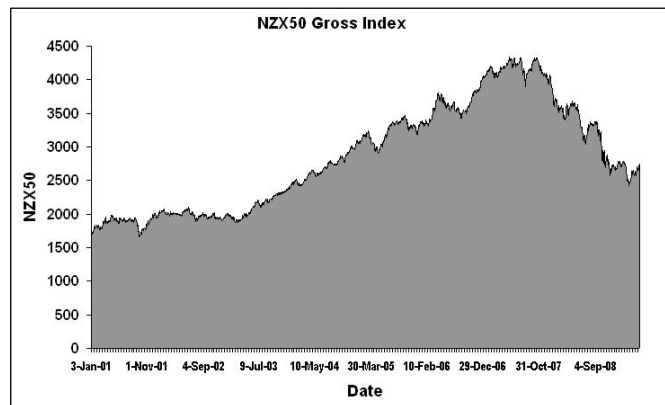
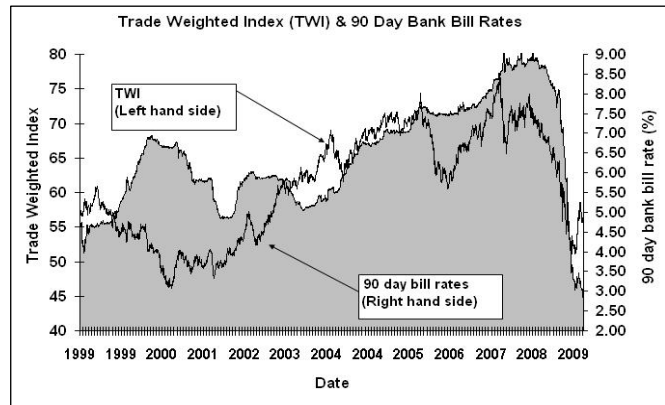
The official cash rate was reduced by 50 basis points to 2.50 percent on 30 April 2009, the third time this year that the official cash rate has been reduced. It is now 575 basis points lower than its peak of 8.25 percent in July 2008. In the media release announcing the reduction, Reserve Bank Governor made the unusual move of stating that the Bank was unlikely to raise interest rates until the latter part of 2010. Furthermore, he stated that "The OCR could still move modestly lower over the coming quarters".

The reduction in mortgage rates is feeding its way through to households as existing fixed term mortgages are refixed at lower rates when their term expires. Variable first mortgage housing rates averaged 6.41 percent in April 2009, compared with 10.90 percent in July 2008. Business base lending rates have fallen to a lesser extent, falling from a monthly average of 13.85 percent in July 2008 to 12.38 percent in April 2009. However, the fall in interest rates has resulted in a dramatic decline in retail deposit rates, adversely impacting households that are reliant upon the interest income from their savings. Call deposit rates and six month deposit rates averaged 0.69 percent and 3.79 percent respectively in April 2009, down from 3.09 percent and 8.14 percent in July 2008.

Reflecting movement in overseas markets, the NZX50 has rallied over the past two months. It has risen by 18 percent from a recent low of 2418 index points in early March 2009, to 2855 index points as at 7 May 2009. In the year to date, a total of \$3.2 billion in capital has been raised on the NZX markets, including debt of \$2.1 billion and equities of \$1.1 billion. A number of listed companies have been raising additional capital in order to boost their balance sheets (and in some cases to retire bank debt).

Outlook

Some economic commentators have suggested that the Reserve Bank may hold off reducing the official cash rate in June, while assessing how the economy is faring with fiscal and monetary policy stimulus delivered to date. In such a case, the Bank would leave itself further room to move lower later in the year if economic indicators deteriorate. It is forecast that the official cash rate will end the year at around two percent, 50 basis points lower than its current level.



Monthly averages	Nov-08	Dec-08	Jan-09	Feb-09	Mar-09	Apr-09
Trade Weighted Index (TWI) exchange rate	57.41	55.11	54.86	52.31	53.84	56.87
90 Day Bank Bill Rate	6.25	5.23	4.38	3.40	3.24	3.12
Official Cash Rate*	6.50	5.00	3.50	3.50	3.00	2.50
NZX50	2737	2691	2747	2666	2549	2643

* 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: 11 June 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

When comparing the March 2008 and 2009 quarters, China's economy expanded by 6.1 percent, according to preliminary estimates. This is the lowest annualised quarter-on-quarter growth recorded since quarterly records began in 1992. The International Monetary Fund has forecast the Chinese economy to expand by 6.5 percent over calendar year 2009, down from nine percent annual GDP growth in the 2008 calendar year.

Economic output within the OECD area has been forecast to contract by 4.3 percent in 2009, after expanding by 0.9 percent in 2008. The OECD area is in a technical recession, after two consecutive quarters of contracting GDP in the second half of 2008.

Quarterly economic growth rates			
Country	Sep-08	Dec-08	Mar-09
Australia	0.1	-0.5	
Japan	-0.4	-3.2	
NEW ZEALAND	-0.5	-0.9	
United Kingdom	-0.7	-1.6	-1.9
United States	-0.1	-1.6	-1.6
OECD Total	-0.2	-1.9	

Sources: OECD

Unemployment

Having risen by 0.5 percentage points to 5.7 percent during the month of March 2009, Australia's unemployment rate unexpectedly fell by 0.3 percentage points to 5.4 percent in April. During the month there was a 27,300 increase in employment, driven by a 49,100 increase in full-time employment (part-time employment fell by 21,800). Over the month, the participation rate fell by 0.1 percentage point to 65.4 percent. The unemployment rate within the OECD area was 7.3 percent in February 2009, 0.3 percentage points higher than the previous month, and a rise of 1.7 percentage points over the same month in 2008.

Standardised unemployment rates			
Country	Feb-09	Mar-09	Apr-09
Australia	5.2	5.7	5.4
Japan	4.4		
NEW ZEALAND		5.0	
United Kingdom	6.6 Jan		
United States	8.1	8.5	8.9
OECD Total	7.3		

Source: OECD

Central banks

The Board of the Australian Reserve Bank decided to keep the Bank's cash rate steady at three percent at the interest rate's review in early May 2009. In releasing the Board's decision, Australian Reserve Bank Governor, Glenn Stevens stated that *"the stance of monetary policy, together with the substantial fiscal initiatives, will provide significant support to domestic demand over the period ahead"*. The cash rate was last reduced in April 2009, when it fell by 25 basis points. The U.S. Federal Reserve in an April press release reaffirmed that it will employ all available tools to promote the recovery of the economy. In particular, that *"The Committee will maintain the target range for the federal funds rate at 0 to ¼ percent and anticipates that economic conditions are likely to warrant exceptionally low levels of the federal funds rate for an extended period"*.

Central Bank interest rates (as at 8 May 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.

Funding of New Zealand's registered banks (particularly from non-residents)

New Zealand's registered banks fund their lending from New Zealand residents and overseas borrowing, along with utilising their capital and reserves, and other liabilities. As at the end of March 2009, a total of \$330.7 billion in both New Zealand dollars and foreign currency funding was held by New Zealand's registered banks. As well, there were \$20.5 billion in capital and reserves, and an additional \$50.0 billion in other liabilities (which included timing and statistical adjustments, revaluations, accruals and all other liabilities). The total liabilities of New Zealand's registered banks were \$401.2 billion as at 31 March 2009.

Registered bank liabilities as at (\$m)	March 2008 (\$m)	December 2008 (\$m)	March 2009 (\$m)
New Zealand dollar and foreign currency funding			
<i>New Zealand residents</i>	181,187	202,624	201,881
<i>Non-residents</i>	117,033	127,518	128,812
NZ dollar and foreign currency funding	298,220	330,142	330,692
<i>Capital and reserves</i>	22,573	22,841	20,454
<i>Other liabilities</i>	21,545	49,591	50,007
Total liabilities	342,339	402,573	401,153

Note: Other liabilities include timing and statistical adjustments, revaluations, accruals and all other liabilities.

Source: Reserve Bank of New Zealand.

The cost and accessibility of offshore funding to New Zealand's registered banks has been adversely affected by the international financial turmoil (especially since the collapse of Lehman Brothers in the latter part of 2008). The Government announced the introduction of a wholesale guarantee scheme in November 2008, available to investment-grade New Zealand financial institutions, in order to facilitate access to international financial markets. Reflecting the importance of foreign funding to New Zealand's financial system, the Reserve Bank Governor and the Secretary to the Treasury visited Hong Kong, London and New York in February 2009, to encourage those markets to continue lending to New Zealand's banks.

At 31 March 2009 a total of \$128.8 billion of registered bank funding was sourced from non-residents (overseas lenders). Funding from non-residents has become a more important source of funding to New Zealand's registered banks, accounting for approximately 39 percent of funding at March 2009 (excluding capital and reserves, and other liabilities). This represents a rise from less than 30 percent in 1998. Funding from non-residents can be classified into funding sourced from (i) associates \$54.2 billion, (ii) financial institutions \$57.5 billion, or (iii) other \$17.1 billion. Associates are defined as being an organisation that has substantially the same shareholders as the reporting entity, or any organisation that holds 20 percent or more of the reporting entity's capital. In regards to New Zealand's registered banks, this figure reflects the funding of the Australian-owned banks from the Australian parents (excluding the financial claims on the associates' share capital).

Non-resident funding can also be classified by maturity. At 31 March 2009 of the \$128.8 billion funded from non-residents, approximately nine percent was on call (\$11.6 billion), with an additional 63 percent due to mature within 90 days (\$81.6 billion). Only \$11.7 billion (9.1 percent) was due to mature in a period of four years or longer. However this is an improvement from a year earlier, where \$7.5 billion (6.4 percent) was funded at a maturity of four years or longer.

Grant Cleland, Research Analyst - Economics
Economics and Industry Team
Parliamentary Library

Copyright: © NZ Parliamentary Library

Any content published in this document may be reproduced and published without further licence or permission. This is subject to the material being reproduced accurately and not being used in a misleading context. Where the material is being published or issued to others, the source and copyright status must be acknowledged.