



PARLIAMENTARY LIBRARY
Te Pātaka Rangahau a Te Whare Pāremata

MONTHLY ECONOMIC REVIEW

April 2009

(latest data as at 9 April)

Parliamentary Library Research Paper

A Overview

Recent trend

	07/08	08/09	
Economic Growth	3.2%	0.2%	Annual GDP Growth (December year)
Unemployment	3.4%	4.6%	Unemployment Rate (December quarter)
Inflation	3.2%	3.4%	Annual CPI Growth (December year)
Current Account Deficit	\$14.4b	\$16.1b	Current Account Deficit (December year)
Interest Rates	8.91%	3.24%	90 Day Bank Bills (March month)

Latest data

New Zealand remains in recession, with the economy contracting by 0.9 percent over the December 2008 quarter (the largest quarterly reduction to date of the four consecutive quarterly contractions in gross domestic product, since they commenced in the March 2008 quarter). However, on an annual average basis, the economy expanded by 0.2 percent over the 2008 calendar year. The results of the latest NZIER *Quarterly Survey of Business Opinion* showed that firms' employment and investment intentions continue to deteriorate. The current account deficit rose, both in nominal terms and as a percentage of gross domestic product. In the year ended December 2008, the deficit totalled \$16,073 million (8.9 percent of GDP), compared with an annual deficit of \$15,528 million in the year ended September 2008 (8.6 percent of GDP). With a stampede of households trying to fix their mortgages at low long-term fixed-rates, long term wholesale rates climbed, resulting in the Reserve Bank Governor issuing a news release, stating that the rise "is unwarranted and inconsistent with the monetary policy outlook". The New Zealand dollar has also risen dramatically from recent lows, contributing to the current economic difficulties of exporters.

Outlook

The remainder of 2009 looks like it will be gruelling for the world economy (and New Zealand). Given firms intentions to reduce staff numbers over the coming period, the unemployment rate is forecast to continue climbing and employment numbers are forecast to fall from their recent record highs. There looks to be at least a further one or two quarters of contraction in gross domestic product before economic growth returns to the New Zealand economy. NZIER *Consensus Forecasts* has the economy contracting by 0.6 percent over the March 2009 quarter. However, stimulus is being provided to the economy through the large reduction in interest rates (and mortgage rates), along with fiscal policy stimulus (through increased expenditure and lower income tax rates), and a relatively lower New Zealand dollar and fuel prices. The annual rate of inflation is forecast to move back into the Reserve Bank's medium term target band of 1 – 3 percent in either the March or June 2009 quarters. The Bank has warned that any further reductions in the official cash rate will be to a lesser degree than recent movements (referring to the 150 basis point reductions in December and January).

Topic of the month: New Zealand's international investment position

B Economic Growth

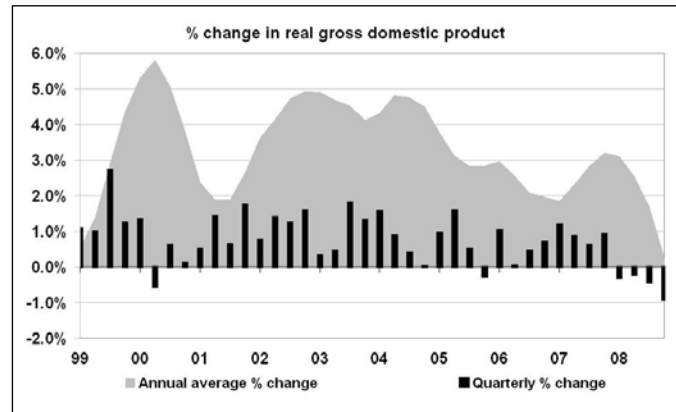
Background

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. Furthermore, the change in economic activity over the September 2008 quarter was revised downward from -0.4 percent to -0.5 percent. Prior to the current recession, the economy last experienced a technical recession in early 1998.

Despite four quarters of declining economic activity during 2008, the economy expanded by 0.2 percent on an annual average basis over the year ended December 2008. This was because the economy grew at a faster rate in 2007 than it contracted in 2008, resulting in residual growth of 0.2 percent on an annual average basis. Over the year economic activity within the construction industry fell by 7.1 percent.



Other data

Business confidence remains extremely weak, and this was reflected in businesses' responses to the NZIER's *Quarterly Survey of Business Opinion* and the National Bank's *Business Outlook* surveys. Survey results provide a useful leading indicator of where the economy is heading. The National Bank has noted that the current level of its composite indicator is consistent with a three percent fall in annual gross domestic product.

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

Source: Statistics New Zealand.

On a seasonally adjusted basis, a net 47 percent of firms responding to the NZIER's *Quarterly Survey of Business Opinion* reported a decrease in their own trading activity over the March 2009 quarter (the highest level recorded since the survey began in 1970). Furthermore, a net 38 percent expect a decrease in their own trading activity over the June quarter.

Outlook

Economic commentators have forecast that there will be a further contraction in economic output over the March 2009 quarter. The Treasury believes that economic growth will be lower than their downside scenario in the *December Update* in both 2009 and 2010. The NZIER has forecast the economy to contract by 1.5 percent on an annual average basis over the March 2009 year.

Net % expecting economic improvement in 12 months	Feb-09	Mar-09
NBNZ – Business Confidence	-41.2	-39.3
NBNZ – Own Activity	-20.1	-21.2
One Network News – Colmar Brunton survey	-9	+3

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

C Employment and Unemployment

Background

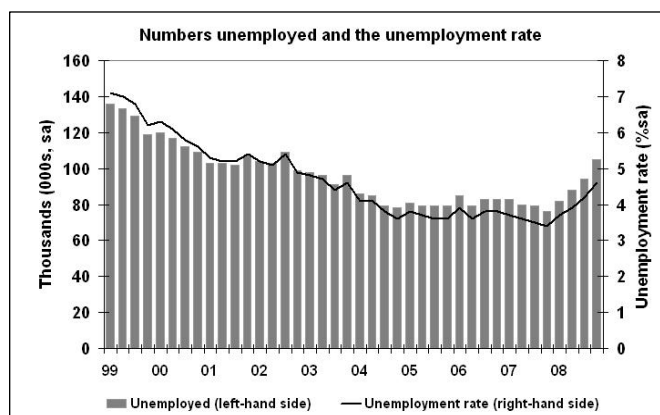
The unemployment rate measures the number of people unemployed as a proportion of those in the labour force. The labour force is the number of people of working age (15 years and over) who are working for wages or a salary, working for a family business, or who are unemployed and seeking work. In New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

Employment and unemployment

New Zealand's unemployment rate rose by 0.4 percentage points to 4.6 percent in the December 2008 quarter. In the quarter there were 105,000 people unemployed on a seasonally adjusted basis. The unemployment rate was last at this level five years ago.

However, somewhat surprisingly, there was also a 0.9 percent rise in employment over the quarter, with an additional 21,000 people employed. Most of the quarterly employment growth came from part-time employment, while full-time employment also rose.

The labour force participation rate (which measures the proportion of those aged 15 years and over that are either employed or unemployed) increased to its highest level recorded in the December 2008 quarter, up 0.6 percentage points to 69.3 percent.



Other data

The labour market has eased considerably over the past year, with firms reporting that it has become much easier to find skilled and unskilled labour. As a result, employment confidence has fallen, with pessimists outnumbering optimists in the latest *Westpac McDermott Miller Confidence Index*. Jobs are perceived as being hard to get, and employees do not expect the situation to improve much over the coming year.

Quarter (%)	Dec-07	Dec-08
Average ordinary time weekly earnings (pre-tax)	\$861.55	\$905.74
Percentage change in hourly earnings from the same period of the previous year	+3.5	+5.1

Source: Statistics New Zealand.

Outlook

New Zealand's unemployment rate is forecast to continue climbing over 2009 due to the difficult economic conditions. Forecasts vary as to the degree and speed at which the unemployment rate will ascend (the 0.5 percent rise in the Australian unemployment rate during the month of March 2009 only adds to concerns). Survey results show that firms intend to lay off staff over the short term. Over a third of respondents to the *NZIER's Quarterly Survey of Business Opinion* intend to reduce staff numbers over the next three months, while a net 28 percent of respondents to the National *Bank's Business Outlook* survey intend to cut staff numbers over the coming year. Recent *NZIER Consensus Forecasts* has the unemployment rate rising to 6.8 percent in 2009/10 (March year).

Net % expecting increase in 12 months*	Feb-09	Mar-09
Employment in their business	-29.1	-28.1
Unemployment rate	86.9	85.9

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

Household Labour Force Survey	Dec-07	Mar-08	Jun-08	Sep-08	Dec-08
Unemployment Rate (seasonally adjusted, %)	3.4	3.7	3.9	4.2	4.6
Employment Growth (annual, %)*	2.5	-0.2	0.7	1.0	0.9

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

Next Release: *Household Labour Force Survey: March 2009 quarter. Date: 7 May 2009*

D Inflation

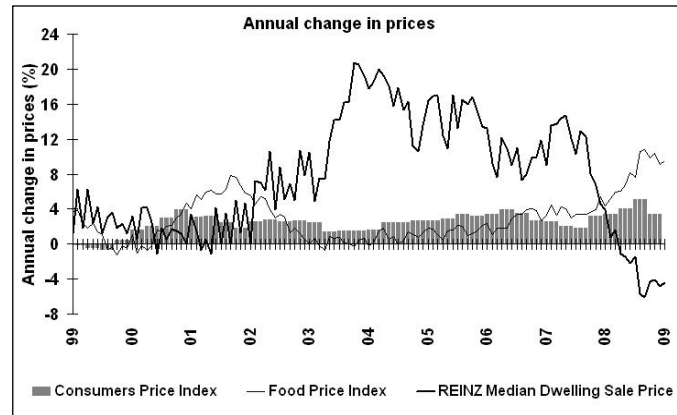
Background

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

There was a 0.5 percent decrease in the Consumers Price Index over the December 2008 quarter, the largest quarterly drop in consumer prices in a decade. Transport-related prices provided the largest contribution to the fall in the index, with petrol prices falling by 22.4 percent over the quarter, and diesel prices falling by 26.9 percent.

The annual rate of inflation fell to 3.4 percent in the year ended in the December 2008 quarter, down from 5.1 percent in the year ended in the September quarter. Central and local government charges rose by 6.5 percent on an annual basis (with charges rising by 1.2 percent over the December quarter).



Other data

There was a 9.3 percent fall in national property values when comparing the three months ended March 2009 with the same period in 2008, according to Quotable Value New Zealand. They reported that the decline from the previous month (which recorded an 8.9 percent drop in values) was driven by lower property values in the Auckland region; prices in other regions have shown signs of stabilisation.

Annual Percentage Change (%)	Feb-09	Mar-09
Quotable Value – Residential property*	-8.9	-9.3
REINZ – National median dwelling sale price**	-2.2	-4.0
Food Price Index**	8.8	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

Outlook

The annual rate of 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. Annual inflation is expected to return within the Reserve Bank's medium term target range of 1 – 3 percent in either the March or June quarters of this year. The Reserve Bank in their March *Monetary Policy Statement* has projected an annual inflation rate of 3.1 percent in the year ended in the March 2009 quarter, and 1.9 percent in the year ended in the June 2009 quarter.

National Bank Business Survey	Feb-09	Mar-09
Net % of respondents expecting to increase prices in 3 months time*:	14.8	9.2
Inflation expected in 12 months time:	2.68	2.63

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

Inflation (%)	Dec-07	Mar-08	Jun-08	Sep-08	Dec-08
Consumers Price Index - Annual	3.2	3.4	4.0	5.1	3.4
Tradables inflation	2.8	3.4	4.8	6.3	2.3
Non-tradables inflation	3.5	3.5	3.4	4.1	4.3
CPI - quarterly	1.2	0.7	1.6	1.5	-0.5

Source: Statistics New Zealand.

Next Release: *Consumers Price Index: March 2009 quarter.* **Date:** 17 April 2008

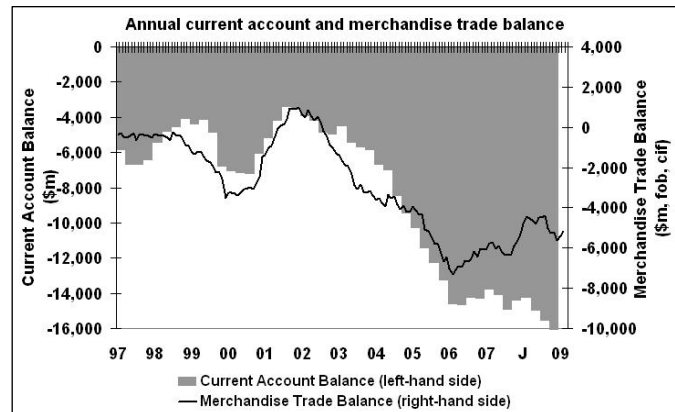
Background

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 \$16,073 million for the 2008 calendar year, equivalent to 8.9 percent of gross domestic product. This compared with an annual deficit of \$14,372 million for the year ended December 2007 (8.2 percent of GDP).

The investment income deficit of \$13,582 million in 2008 contributes the majority of the current account deficit, primarily due to the high level of foreign investment in New Zealand, and the returns that foreign investors have gained on those assets.



Other data

International commodity prices rose for the first time in eight months according to the ANZ Commodity Price Index, rising by one percent over March 2009. However, when comparing the world price index with the month of March 2008, the index was 31.4 percent lower. With the rise in the New Zealand dollar during March 2009, commodity prices in New Zealand dollar terms fell by 3.4 percent over the month (and were four percent lower than a year earlier).

Annual Change (%)	Feb-09	Mar-09
World Commodities Prices*	-30.7	-31.4
NZ\$ Commodities Prices*	1.5	-4.0
Overseas Visitors**	-2.4	n/a

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

International visitor numbers were down 8.5 percent in February 2009 compared with the same month in 2008 (on an annual basis, visitor numbers were down by 2.4 percent in the year ended February 2009). There was a significant reduction in the number of visitors from the countries of Japan, South Korea and Taiwan (and Asian countries in general).

Outlook

The current account deficit has been forecast to improve due to easing demand for imports, and falling profits on foreigners' New Zealand investments. The Reserve Bank in their March *Monetary Policy Statement* has forecast a current account deficit equivalent to 8.3 percent in the year ended March 2010.

Annual Balances (\$m)	Dec-07	Mar-08	Jun-08	Sep-08	Dec-08	Feb-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	-2,730	-2,307
Merchandise Trade (fob-cif)	-5,312	-4,528	-4,478	-5,048	-5,614	-5,161

* 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.

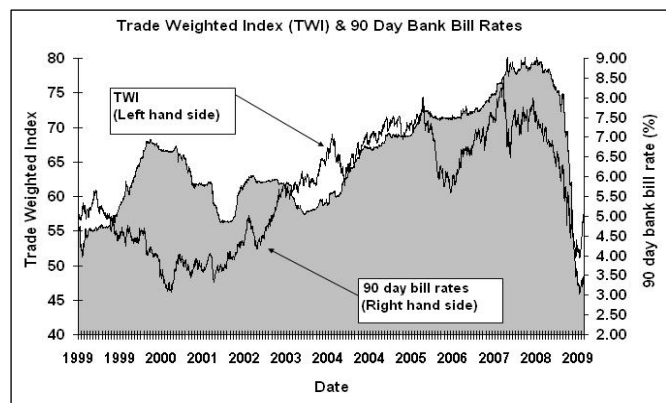
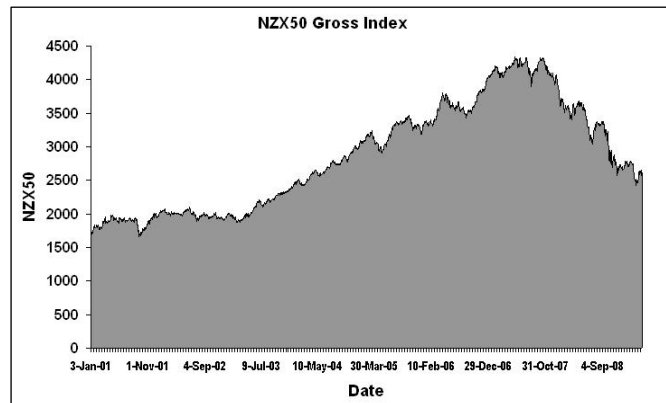
Recent trend & latest monthly data

Reserve Bank Governor expressed concern over the rise in long-term wholesale interest rates in early April. In his news release he reiterated that the economic recovery is expected to be gradual and that current risks continue to be weighed towards the downside. When taking these into account, he believed that *“the rise in longer-term interest rates is unwarranted and inconsistent with the monetary policy outlook”*. The rise in the wholesale rates was driven by a surge in household demand to fix long term rates after commentators noted that fixed-term mortgage rates had troughed and were going to rise.

Reserve Bank Governor Alan Bollard reduced the official cash rate by 50 basis points to three percent on 12 March 2009, the second reduction in the OCR this year. The official cash rate has now fallen 525 basis points since July 2008.

The New Zealand dollar has been appreciating over the last month. At the time of writing (9 April 2009) the trade weighted index was 57.70 index points, up 12 percent from the start of March 2009. Over this period, the New Zealand dollar has appreciated by 18 percent against the Japanese Yen, and by 16 percent against the United States dollar.

The NZX50 ended 9 April 2009 at 2571 index points, down 5.3 percent from the start of the year, and down 40.7 percent from the NZX50's recent peak of 4333 index points on 24 May 2007.



Outlook

The equity markets and exchange rate are likely to remain fairly volatile over the short term. A further cut in the official cash rate looks likely at the end of the month, although Alan Bollard has warned that any further reductions will not be to the same degree as to some of those of recent times (referring to the 150 basis point drop in the OCR in December 2008 and January 2009). Respondents to NZIER's March 2009 *NZIER Consensus Forecasts* expect the trade weighted index to average 51.9 index points in the year ended March 2010, and the 90 day bank bill rate to average three percent over the same period.

Monthly averages	Oct-08	Nov-08	Dec-08	Jan-09	Feb-09	Mar-09
Trade Weighted Index (TWI) exchange rate	60.74	57.41	55.17	54.86	52.31	53.84
90 Day Bank Bill Rate	7.43	6.25	5.23	4.38	3.40	3.24
Official Cash Rate*	6.50	6.50	5.00	3.50	3.50	3.00
NZX50	2903	2737	2691	2747	2666	2549

* 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 April 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

Currently, half of the 30 OECD member countries are experiencing a technical recession (two consecutive quarters of contraction in economic output), with a further four countries experiencing a quarter's economic growth between two contracting quarters. Economic output within the OECD area contracted by 1.9 percent over the December 2008 quarter, following a contraction of 0.2 percent in the September quarter.

The OECD has forecast economic activity within the OECD area to contract by 4.3 percent over 2009. The Organisation believes that the global recession will worsen this year before recovery slowly builds in 2010. Even so, they have forecast economic activity within the OECD area to contract by 0.1 percent in 2010. International trade is forecast to fall by 13 percent in 2009, and world economic activity is forecast to contract by 2.7 percent (before experiencing a recovery in 2010, expanding by 1.25 percent).

Quarterly economic growth rates			
Country	Jun-08	Sep-08	Dec-08
Australia	0.3	0.1	-0.5
Japan	-1.2	-0.4	-3.2
NEW ZEALAND	-0.2	-0.5	-0.9
United Kingdom	0.0	-0.7	-1.6
United States	0.7	-0.1	-1.6
OECD Total	0.0	-0.2	-1.9

Sources: OECD

Unemployment

Australia's unemployment rate rose 0.5 percentage points to 5.7 percent in the month of March 2009, with 650,900 people unemployed. During the month, employment fell by 34,700, driven by a drop in full-time employment. The unemployment rate within the United States continues to climb, rising to 8.5 percent of the labour force in March 2009. During the month, a further 663,000 jobs were lost. Since the National Bureau of Economic Research called that the U.S recession commenced in December 2007, a total of 5.1 million jobs have been lost, and the unemployment rate has risen 3.6 percentage points from 4.9 percent in December 2007.

Standardised unemployment rates			
Country	Jan-09	Feb-09	Mar-09
Australia	4.8	5.2	5.7
Japan	4.1	4.4	
NEW ZEALAND	4.6 (Dec)		
United Kingdom	6.4 (Dec)		
United States	7.6	8.1	8.5
OECD Total	7.0	7.3	

Source: OECD

Central banks

The Reserve Bank of Australia reduced its cash rate by 25 basis points to three percent in early April, having left the official interest rate steady in March 2009. The interest rate is now 425 basis points lower than a year earlier. In his media release, the Governor stated the Board of the Bank "judged that there was scope for a further modest adjustment to the cash rate", given that "the Australian economy is contracting". In early April the Governing Council of the European Central Bank decided to reduce its main refinancing rate by 25 basis points to 1.25 percent (effective from 8 April 2009).

Central Bank interest rates (as at 9 April 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 Refinancing Rate	1.25	8-Apr-09	-25
Japan	Uncollateralized overnight rate	0.10	19-Dec-08	-20
NEW ZEALAND	Official Cash Rate	3.00	12-Mar-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 international investment position

A country's International Investment Position statement measures the level of its international financial assets and liabilities at a particular point of time. It comprises a country's net international debt (lending to non-residents less borrowing from non-residents) and net equity investment (investment in shares abroad, less foreign investment in New Zealand company shares).

The New Zealand economy has been a net debtor to the rest of the world since the early 1970s due to continuing current account deficits. A net debtor position means that international liabilities are larger than international assets.

Net international investment position (-\$167,702m as at 31 December 2008) =

Net international debt (-\$156,296m) +

Net international equity (-\$11,406m) +

At the end of December 2008, New Zealand's net international investment debtor position (the total of New Zealand's net international debt and net overseas equity) totalled \$167,702 million (equivalent to 92.9 percent of GDP). This compares with a net international investment debtor position of \$152,556 million at 31 December 2007 (equivalent to 87.1 percent of GDP). New Zealand's net international equity was -\$11,406 million at 31 December 2008 with equity investment in New Zealand of \$59,275 million being larger than New Zealand's equity investments abroad of \$47,869 million.

New Zealand's net international debt totalled -\$156,296 million at 31 December 2008 (this figure excludes equity assets and liabilities). New Zealand's borrowing from abroad of \$248,015 million out-weighed its lending abroad of \$91,720 million. The banking sector (registered banks plus other financial sector institutions) held 77.1 percent of net international debt at 31 December 2008, with the corporate sector holding 27.1 percent of net international debt. In contrast, the general government and monetary authorities held net international assets equivalent to 4.2 percent of net international debt. The table below shows New Zealand's international assets and liabilities, and net asset position at 31 December 2008.

Annual Balances as at 31 December 2008 (\$m)	New Zealand's International Assets (\$m)	New Zealand's International Liabilities (\$m)	New Zealand's Net international assets (\$m)
International Equity (A)	47,869	59,275	-11,406
International debt (Lending less Borrowing) (B)			
<i>Banks</i>	38,943	159,380	-120,437
<i>Other sectors</i>	27,385	69,775	-42,390
<i>Private sector (C)</i>	66,328	229,155	-162,827
<i>General government</i>	9,357	17,799	-8,442
<i>Monetary authorities</i>	16,035	1,062	14,973
<i>Public sector (D)</i>	25,392	18,861	6,531
Total International Debt (B) = (C) + (D)	91,720	248,015	-156,296
Net International Investment Position (A) + (B)	139,589	307,291	-167,702

Source: Statistics New Zealand.

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.