



PARLIAMENTARY LIBRARY
Te Pātaka Rangahau a Te Whare Pāremata

MONTHLY ECONOMIC REVIEW






December 2008

(latest data as at 8 December)

Parliamentary Library Research Paper

A Overview

Recent trend

	06/07	07/08	
 Economic Growth	2.3%	2.6%	Annual GDP Growth (June year)
 Unemployment	3.5%	4.2%	Unemployment Rate (September quarter)
 Inflation	1.8%	5.1%	Annual CPI Growth (September year)
 Current Account Deficit	\$14.1b	\$15.0b	Current Account Deficit (June year)
 Interest Rates	8.73%	6.25%	90 Day Bank Bills (November month)

Latest data

The New Zealand economy has been in recession since the start of the year. As a consequence, consumer spending has been falling, with retail sales volumes easing by 0.9 percent in the September quarter. Sales volumes have fallen for three consecutive quarters. Businesses remain pessimistic regarding their own firm's outlook over the coming 12 months, and as a result have trimmed back their investment and employment intentions. Reserve Bank Governor Alan Bollard reduced the official cash rate by a further 150 basis points to five percent in early December. The official cash rate has been reduced by a total of 325 basis points since July 2008. The latest drop in the benchmark interest rate moves monetary policy to an expansionary position for the economy, and reduces the official cash rate to a level last seen in January 2004. The Governor said that the Reserve Bank expects *“financial institutions to play their part in the economic adjustment process by passing on lower wholesale interest rates to their customers”*. Other central banks have also been reducing their benchmark interest rates, including the Bank of England, the Reserve Bank of Australia, and the European Central Bank. The NZX50 fell by 3.9 percent during November 2008.

Outlook

The Reserve Bank has projected a fall in economic output over the September quarter (-0.3 percent), with the economy returning to growth in the December quarter. The NZIER has forecast that the economy will continue easing over the December quarter as well. Over the medium term economic growth will be assisted by the loosening of monetary policy, tax cuts, lower commodity prices and a lower exchange rate. Falling commodity prices will result in inflation falling back within the Reserve Bank's 1 – 3 percent medium term target band in 2009. However, the prices of imports (especially electronic products) are forecast to rise due to the lower exchange rate. The Reserve Bank has projected an annual inflation rate of 2.3 percent in the year ended in the June 2009 quarter. Reflecting the slowdown in the economy, the unemployment rate is expected to rise from current levels, and is projected to peak at six percent in the December 2009 and March 2010 quarters. The NZIER has forecast an unemployment rate of 5.3 percent in the March 2010 quarter.

Topic of the month: Mortgages in New Zealand

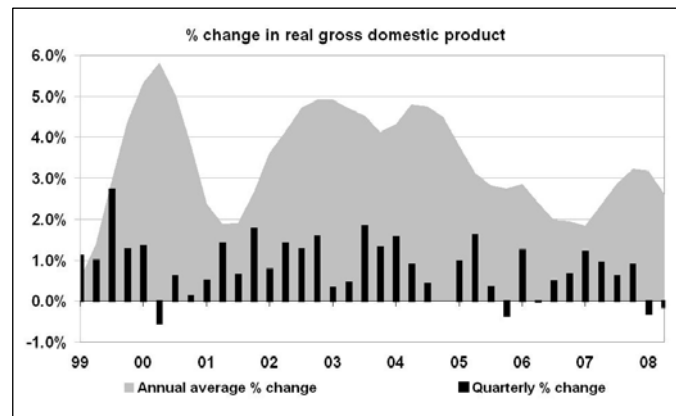
B Economic Growth

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.

Recent trend

During the first half of 2008 the New Zealand economy was in a technical recession (defined as two consecutive quarters of declining economic output). Economic activity eased by 0.2 percent over the June 2008 quarter, following a drop of 0.3 percent over the March quarter. The difficulties being faced by the construction industry were apparent in the GDP figures, with economic output from the construction industry falling by 3.8 percent over the June quarter (following a reduction of 5.2 percent over the previous quarter). Investment in residential buildings fell by 8.2 percent over the June quarter.



On an annual average basis, gross domestic product expanded by 2.6 percent over the year to June 2008. The contribution to gross domestic product from the fishing, forecast and mining sector rose by 27.4 percent over the year, due to the Tui oil field reaching full production. Output from the electricity sector fell by 5.1 percent, partially due to the drought earlier this year reducing the proportion of electricity generated through hydro schemes, and increasing the use of thermal plants (which are more expensive).

Latest monthly data

Retail trade volumes fell for the third consecutive quarter in the September quarter, down 0.9 percent. A decline in motor vehicle retailing expenditure has been the largest contributor to falling retail sales volumes over the past three quarters. The National Bank's *Regional Trends* publication had nine regions recording a drop in economic activity over the September quarter, with activity in the West Coast region falling by 3.1 percent, followed by a drop in economic activity in the Taranaki region (-1.9 percent). According to the *Regional Trends*, economic activity eased by 0.1 percent on a nationwide basis over the quarter.

Year ended June 2008	Nominal GDP
Expenditure GDP	\$179,190 million
GDP per capita	\$42,150

Source: Statistics New Zealand.

Outlook

The Reserve Bank has projected that the economy will ease by a further 0.3 percent in the September quarter, before growing again in the December quarter (+0.2 percent). The NZIER has the economy easing in both the September and December quarters this year, before returning to growth next year. Even so, 2009 is looking likely to be an extremely challenging year for businesses and households.

Net % expecting economic improvement in 12 months	Oct-08	Nov-08
NBNZ – Business Confidence	-42.3	-43.0
NBNZ – Own Activity	-11.4	-14.1
One Network News – Colmar Brunton survey	1	5

Source: National Bank.

GDP growth (%)	Jun-07	Sep-07	Dec-07	Mar-08	Jun-08
Annual (year-on-year)	2.3	2.9	3.2	3.2	2.6
Quarterly (seasonally adjusted)	0.9	0.6	0.9	-0.3	-0.2

Source: Statistics New Zealand.

Next Release: *Gross Domestic Product: September 2008 quarter.*

Date: 23 December 2008

Background

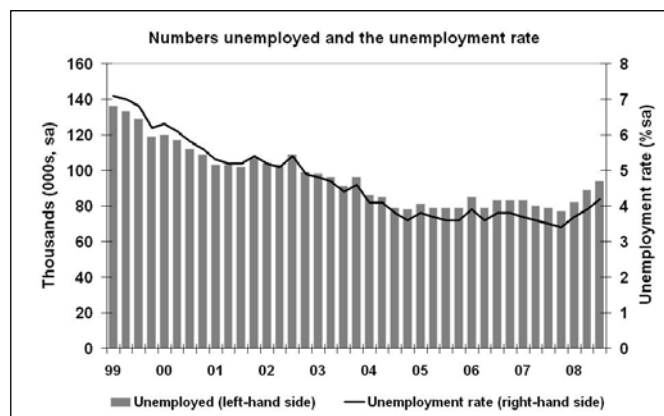
The unemployment rate measures the number of people unemployed as a proportion of those in the labour force. The labour force is the number of people of working age (15 years and over) who are working for wages or a salary, working for a family business, or who are unemployed and seeking work. In New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

Recent trend

New Zealand's unemployment rate, at 4.2 percent for the September quarter, compares favourably with the OECD average of 6.0 percent in September 2008.

Over the September quarter, New Zealand's unemployment rate rose by 0.3 percentage points, to its highest level in almost five years. Employment also rose over the quarter, up 0.1 percent, with full-time employment rising by 0.5 percent, while part-time employment fell by 0.5 percent (on a seasonally adjusted basis).

Between the September 2007 and 2008 quarters, employment rose by one percent. In particular, there was a 4.6 percent increase in employment associated with the education industry, while there was a 7.3 percent reduction in those employment in the agriculture, forestry and fishing industries.



Latest monthly data

Businesses' employment intentions remained negative in the latest National Bank's *Business Outlook* survey, with a net 21 percent of firms expecting to have fewer staff over the year ahead. Firms' employment intentions have now been negative for ten consecutive months. Average ordinary-time weekly earnings for those in paid employment totalled \$895.97 in the September 2008 quarter, up 5.1 percent from the same quarter in 2007. The average ordinary-time weekly paid hours worked totalled 36.82 hours, down 0.4 percent from that recorded in September 2007.

Quarter (%)	Sep-07	Sep-08
Average ordinary time weekly earnings (pre-tax)	\$852.22	\$895.97
Percentage change in hourly earnings from the same period of the previous year	+3.9	+5.1

Source: Statistics New Zealand.

Outlook

The unemployment rate looks set to rise as households and businesses cut back on unnecessary spending and delay investment decisions. The downturn in the global economy will impact demand for exports, again negatively affecting employment within New Zealand. The NZIER has predicted the unemployment rate to rise to 5.3 percent in the March 2010 quarter, while the Reserve Bank has forecast that it will peak at six percent in the December 2009 and March 2010 quarters.

Net % expecting increase in 12 months*	Oct-08	Nov-08
Employment in their business	-20.6	-21.2
Unemployment rate	79.1	85.6

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

Household Labour Force Survey	Sep-07	Dec-07	Mar-08	Jun-08	Sep-08
Unemployment Rate (seasonally adjusted, %)	3.5	3.4	3.7	3.9	4.2
Employment Growth (annual, %)*	1.5	2.5	-0.2	0.7	1.0

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

Next Release: *Household Labour Force Survey: December 2008 quarter.* **Date:** 5 February 2008

D Inflation

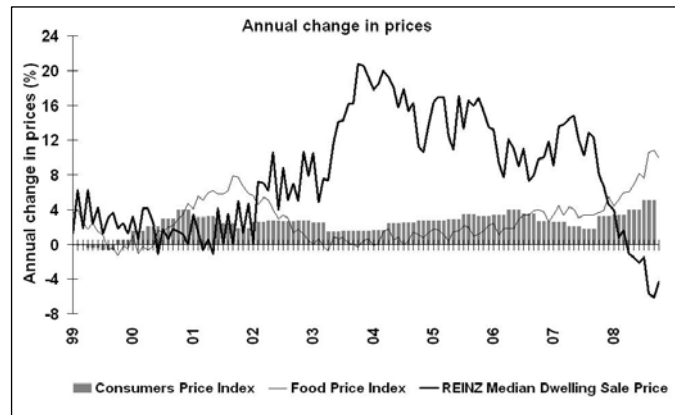
Background

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.

Recent trend

The annual rate of inflation rose to 5.1 percent in the year ended in the September 2008 quarter. This is the highest annual inflation rate since the year ended June 1990 (where it was 7.6 percent). Higher petrol prices were a main contributor to the annual increase in inflation. If they had remained constant between the September 2007 and 2008 quarters, the annual rate of inflation would have been 3.7 percent. Electricity costs rose by 6.9 percent over the year.

Looking at the increase in prices over the September 2008 quarter, the largest single contribution to the 1.5 percent rise in inflation came from a 4.6 percent rise in the price of petrol, followed by a near doubling in the price of a lettuce (up 94.9 percent). Reflecting the current difficulties that motor vehicle dealers are experiencing, the cost of a second-hand car fell by eight percent over the September quarter.



Latest monthly data

Median house prices in New Zealand were \$335,000 in October 2008, down 4.3 percent from October 2007 according to the REINZ. Quotable Value, who measure changes in prices for the three months ended November 2008 with the same period of the previous year, reported a 6.8 percent fall in prices. The volume of properties changing hands has fallen to a larger extent, down by over a third (-34.8%) between October 2007 and October 2008. Food price inflation may have peaked, with the food price index rising by 9.9 percent in the October 2008 year (10.8% in the September 2008 year).

Annual Percentage Change (%)	Oct-08	Nov-08
Quotable Value – Residential property*	-6.8	-6.8
REINZ – National median house sale price**	-4.3	n/a
Food Price Index**	9.9	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

With international commodity prices in freefall due to the global credit crisis, the pressures on prices seen over the first half of 2008 have to a large degree dissipated. The NZIER does not expect the annual inflation rate to return within the Reserve Bank's 1 – 3 percent medium term inflation target until late 2009. The Reserve Bank in its December *Monetary Policy Statement* has forecast the annual rate of inflation to move within the target band some time in the first half of 2009.

National Bank Business Survey	Oct-08	Nov-08
Net % of respondents expecting to increase prices in 3 months time*:	20.3	22.5
Inflation expected in 12 months time:	3.60	3.74

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

Inflation (%)	Sep-07	Dec-07	Mar-08	Jun-08	Sep-08
Consumers Price Index - Annual	1.8	3.2	3.4	4.0	5.1
Tradables inflation	-0.3	2.8	3.4	4.8	6.3
Non-tradables inflation	3.7	3.5	3.5	3.4	4.1
CPI - quarterly	0.5	1.2	0.7	1.6	1.5

Source: Statistics New Zealand.

Next Release: *Consumers Price Index: December 2008 quarter. Date: 20 January 2008*

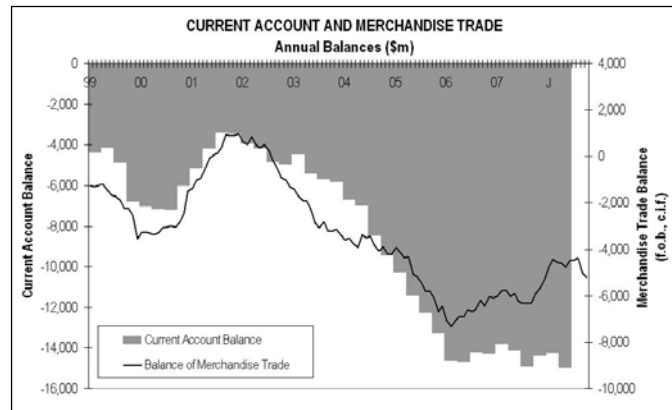
Background

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.

Recent trend

New Zealand's current account deficit for the June 2008 quarter totalled \$4,623 million, a rise of \$1,097 million over the previous quarter. The goods and services deficit increased by \$1,003 million over the June quarter (driven by an increase in imports), while there was a \$94 million rise in the income and current transfers deficit (mainly due to foreign investors gaining higher profits on their New Zealand investments).

In the year ended June 2008 the current account deficit was \$14,967 million (equivalent to 8.4 percent of gross domestic product). The current account deficit has recently peaked at 9.3 percent of GDP for the years ended March and June 2006, and has been (mostly) trending downwards since then.



Latest monthly data

Reflecting the global downturn, international commodity prices fell again in November (for the fourth consecutive month), with the ANZ commodity price index down 7.2 percent. Once the fall in the New Zealand dollar is taken into account, commodity prices fell by 1.8 percent over the month. Visitor numbers were also down, with 0.2 percent fewer short-term visitors entering the country in the year ended October 2008.

Annual Change (%)	Oct-08	Nov-08
World Commodities Prices*	-10.9	-18.0
NZ\$ Commodities Prices*	8.2	5.4
Overseas Visitors**	-0.2	n/a

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

Outlook

The international downturn is expected to hit New Zealand's exports and tourism industry reasonably hard. Travellers' discretionary incomes are coming under pressure from higher unemployment levels; while in general, people are becoming more cautious in their spending habits. A lower exchange rate will make New Zealand a cheaper place to visit and will increase the competitiveness of our exported products.

Annual Balances (\$m)	Jun-07	Sep-07	Dec-07	Mar-08	Jun-08	Oct-08
Current Account	-14,096	-14,892	-14,372	-14,211	-14,967	n/a
Merchandise trade	-2,977	-3,174	-2,381	-1,745	-1,834	n/a
Services	421	430	288	189	-64	n/a
Investment income	-12,135	-12,795	-12,836	-13,387	-13,930	n/a
Current transfers	595	647	557	732	860	n/a
Current Account (quarter*)	-3,682	-3,823	-3,184	-3,526	-4,623	n/a
Merchandise Trade (fob-vfd)	-3,738	-3,827	-2,856	-2,031	-1,897	-2,440
Merchandise Trade (fob-cif)	-6,231	-6,287	-5,312	-4,528	-4,479	-5,220

* 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 2008 **Date:** 22 December 2008

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.

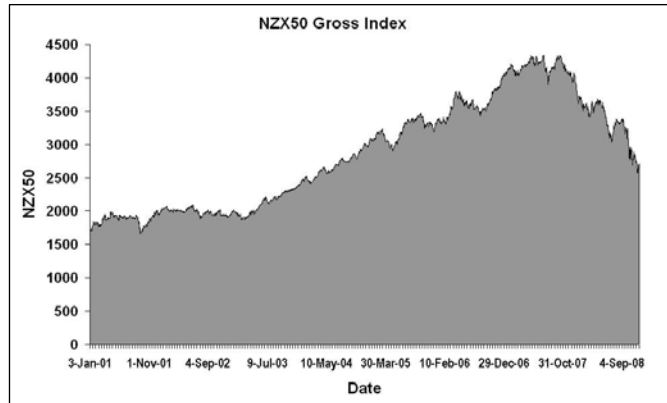
Recent trend & latest monthly data

Fitch Ratings has affirmed New Zealand's long term sovereign credit rating at AA+, but warned that New Zealand relies on extensive foreign borrowing to finance its current account deficit. New Zealand "will certainly be tested in the midst of the liquidity crunch in international financial markets".

Reserve Bank Governor dropped the official cash rate by 150 basis points to five percent in early December. The official cash rate has fallen by a total of 325 basis points since July 2008.

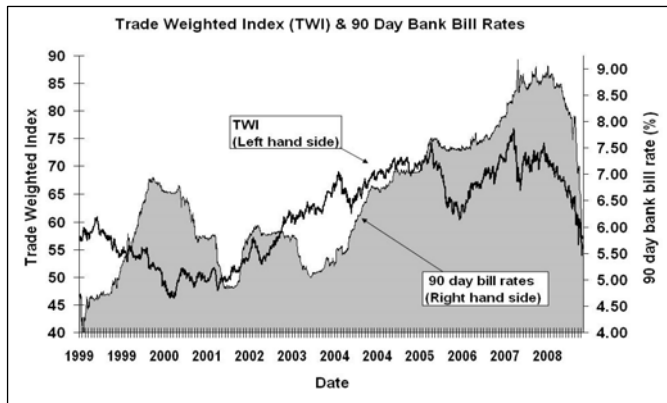
The rate of growth in household borrowing is continuing to fall, with total household claims rising by just 0.2 percent in October 2008, the lowest monthly growth rate since the current series commenced in December 1990.

The NZX50 ended the month of November down a further 3.9 percent to 2711 index points. Over the month equities associated with textiles and apparel sector fell by 12.5 percent, and those associated with the agricultural and fishing sector fell by 10.8 percent. The total value traded on the NZSX during November 2008 totalled \$1.33 billion, down 84 percent from the same month last year (the number of trades which took place was down by a quarter from November 2007). Since the start of 2008, the NZX50 index has fallen by a third (32.9 percent).



Outlook

A number of New Zealand's registered banks have projected that the official cash rate will fall to around four percent by mid-2009, due to ongoing developments in the global and domestic economies. Latest Reserve Bank projections have the 90-day bank bill falling to 5.1 percent in December 2009, before starting to climb again. The NZIER believes that the current easing cycle will be short-lived, with interest rates possibly rising as early as late-2009 due to persistently high inflationary expectations and imported inflation due to a lower exchange rate and recovering international commodity prices.



Monthly averages	Jun-08	Jul-08	Aug-08	Sep-08	Oct-08	Nov-08
Trade Weighted Index (TWI) exchange rate	68.11	67.18	65.52	63.82	60.74	57.41
90 Day Bank Bill Rate	8.68	8.46	8.20	7.95	7.43	6.25
Official Cash Rate*	8.25	8.00	8.00	7.50	6.50	6.50
NZX50	3398	3166	3335	3281	2903	2737

* 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: 29 January 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 show 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 declined by 0.1 percent over the September 2008 quarter according to preliminary estimates. This is the first decline in economic activity over a quarter in seven years. The Euro area is in a technical recession, as is Japan and New Zealand. The United Kingdom is close to recession with zero growth recorded in the June 2008 quarter, and an easing in economic activity of 0.5 percent over the September 2008 quarter. According to the latest OECD *Economic Outlook*, economic activity within the OECD area is projected to ease by 0.4 percent during 2009. The National Bureau of Economic Research in the United States has determined that the United States economy peaked in December 2007, and that this date marked the end of the period of expansion which commenced in November 2001.

Quarterly economic growth rates			
Country	Mar-08	Jun-08	Sep-08
Australia	0.6	0.4	0.1
Japan	0.6	-0.9	-0.1
NEW ZEALAND	-0.3	-0.2	
United Kingdom	0.3	0.0	-0.5
United States	0.2	0.7	-0.1
OECD Total	0.5	0.1	

Sources: OECD

Unemployment

In September 2008, the standardised unemployment rate in the OECD remained steady at six percent. However, the OECD has projected that the number of unemployed in the OECD area will rise by about eight million people over the next two years as a result of the global financial crisis and its aftermath. The unemployment rate within the OECD is projected to peak at 7.3 percent in the first half of 2010.

Standardised unemployment rates			
Country	Sep-08	Oct-08	Nov-08
Australia	4.3	4.3	
Japan	4.0		
NEW ZEALAND	4.2		
United Kingdom	5.8 (Aug)		
United States	6.1	6.5	6.7
OECD Total	6.0		

Source: OECD

Central banks

Central banks around the world continue to drop their official interest rates in response to the global credit crisis. The Reserve Bank of Australia announced on 2 December 2008 that it has dropped its cash rate by a further 100 basis points to 4.25 percent (effective from 3 December 2008). The Australian central bank has dropped its cash rate in each of the last four months, by a total of 300 basis points. The Australian Cash Rate has not been at such a low rate since May 2002. The easing of monetary policy, along with the A\$10.4 billion fiscal package announced in October will provide stimulus to the Australian economy, as will a drop in the Australian dollar. The Bank of England dropped its bank rate by a further 100 basis points in early December (following a 150 basis point reduction in November 2008), while the European Central Bank announced that it was reducing its main refinancing rate by 75 basis points.

Central Bank interest rates (as at 8 December 2008)				
Central Bank	Key Rate	Interest Rate (%)	Effective from	Direction (Basis points)
Australia	Cash Rate	4.25	3-Dec-08	-100
European Central Bank	Main Refinancing Rate	2.50	10-Dec-08	-75
Japan	Uncollateralized overnight rate	0.30	31-Oct-08	-20
NEW ZEALAND	Official Cash Rate	5.00	4-Dec-08	-150
United Kingdom	Bank Rate	2.00	4-Dec-08	-100
United States	Federal Funds Rate	1.00	29-Oct-08	-50

Sources: Central Bank interest rates as at the date stated.

Mortgages in New Zealand

For those households that make mortgage repayments, the median weekly mortgage repayment rose from \$256 to \$328 between 2006/07 and 2007/08 according to Statistics New Zealand's *Household Economic Survey (Income): Year ended June 2008*. The increase in median weekly payments was mainly due to rising mortgage interest rates. Mortgage repayments included interest payments, principal repayments, interest on revolving credit mortgages/loans, and application and service fees for mortgages.

According to the *Household Economic Survey*, 28 percent of households (135,700 households) reported having a weekly mortgage repayment of over \$500 in 2007/08, while eight percent of households (86,300 households) reported paying over \$800 per week.

Of those households that owned or partly-owned their dwelling, 20.9 percent reported that their housing costs accounted for a quarter or more of their total household income in 2007/08. Housing costs included expenditure on mortgages and rent (ground rent), property rates and building-related insurance. Fifteen percent of households reported that housing costs took 30 percent or more of household income, while 8.6 percent reported that housing costs accounted for 40 percent or more of their total household income.

Of those households who owned or partly-owned their dwelling, or the dwelling was held in a family trust by its occupants, just over half (51.5 percent) reported that they made mortgage payments, while the remainder reported that they did not. These dwellings accounted for just over two-thirds of all dwellings, with the remainder being either rented or not owned by the usual resident.

As at October 2008 there were 377,184 residential mortgages on a floating interest rate, according to the Reserve Bank, with 968,775 residential mortgages that were on fixed term rates. It is worth noting that a single household may have more than one mortgage (they may have a portion of their loan fixed, with the remainder floating). Households had borrowed a total of \$153,022 million in residential mortgage loans as at October 2008; with the majority of the amount borrowed being on fixed terms (less than 15 percent by value was floating). Approximately 38 percent of mortgages (\$57,470 million) are to be reset over the coming 12 months, and these mortgages are currently being charged an average of 8.60 percent.

Residential mortgage loans as at October 2008	Amount (\$millions)	Percentage of total (%)	Monthly weighted average interest rate (%)
Floating	22,622	14.8	10.21
Fixed (time remaining to reset rate)			
< 1 year	57,470	37.6	8.60
1 < 2 years	38,623	25.2	8.74
2 < 3 years	16,866	11.0	8.26
3 < 4 years	12,036	7.9	8.09
4 < 5 years	3,784	2.5	8.83
5 years and over	727	0.5	8.11
Total fixed	129,506	84.6	8.56
Unallocated	894	0.6	
Total	153,022	100.0	8.80

Source: Reserve Bank of 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.