Monthly Economic Indicators

THE TREASURY
Kaitohutohu Kaupapa Rawa

March 2013

Executive Summary

- **Real GDP grew strongly in the December 2012 quarter, with broad-based growth...**
- **...leading to solid performance for the NZ economy in the year as a whole.**
- **Indicators point to ongoing strength domestically...**
- **...but the impact of the drought, while uncertain, will detract from growth in 2013.**

Following a soft patch of activity in the middle of 2012, the New Zealand economy is looking more positive. December quarter GDP rose a robust 1.5%, to be 2.5% higher for the year, its strongest growth rate since 2008. Growth was broad based across industries, with the forestry and logging sector performing especially well in the quarter and construction picking up as expected. However, while real GDP was strong in the quarter, nominal GDP continued to be soft, declining for the third time in four quarters, as the terms of trade continued to fall and pricing pressures remain weak in the economy. The annual current account deficit widened from 4.7% to 5.0% of GDP in the December quarter, driven by lower export receipts owing primarily to weaker prices.

The strong December quarter GDP result helped to contribute to a solid 2012 year overall for growth. The main contributors on the expenditure side were consumption and investment, including both business and residential investment. Net exports only had a slight positive contribution in the year, as the high exchange rate made imports more attractive. One factor detracting from the solid growth in 2012 has been the weak performance of the labour market. The unemployment rate remains elevated, and employment growth is subdued. The implication is that productivity growth in 2012 was a very strong 3.3%. The labour market is expected to show some more strength later in 2013, particularly as the Canterbury rebuild continues to ramp up. We received additional evidence of this in our recent business talks; we briefly discuss the outcomes of these in our first *Special Topic* this month.

Indicators released during March point to ongoing strength in the first half of 2013. Activity indicators for the manufacturing and services sector rose, while business and consumer confidence continued to improve. However, the impact of drought on the economy will be a key offset. This month's second *Special Topic* provides a brief overview of Treasury's current assumptions around the impact of the drought.

Global data were generally positive during the month, with US data generally solid, Australian data improving, and Japanese sentiment rising. However, the euro area remains weak, with risks re-emerging around the euro area crisis. Cyprus received a last-minute bailout, while Italy's political uncertainty continued.

New Zealand Government

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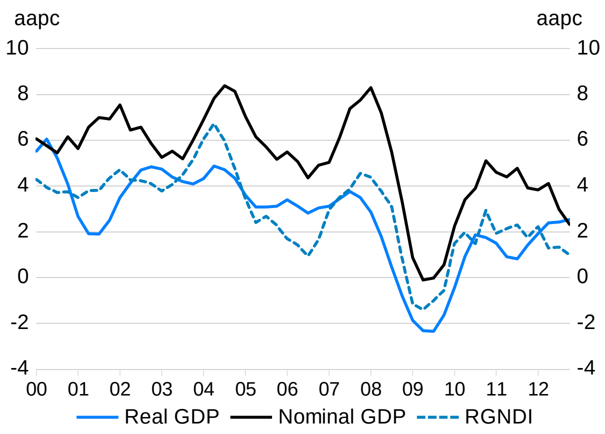
Analysis

The New Zealand economy is looking more positive following a soft patch through the middle of 2012. December quarter GDP rose strongly and indicators point to ongoing momentum in early 2013. The housing market continues to strengthen, which will provide impetus to consumption spending in the near term. The Canterbury rebuild will also be a significant driver of growth, with reports from the region pointing to a significant ramping up in activity scheduled to take place in 2013. However, the drought will provide some offset to the stronger growth from the rebuild, impacting on agricultural output as well as flowing on to other sectors. The international scene remains fragile, with Cyprus the latest country in Europe to receive a bailout. However, data in the US continue to show strength despite the fiscal tightening, while emerging Asia and Australia continue to grow.

GDP grows strongly in the December quarter...

Real production GDP surged a much stronger-than-expected 1.5% in the December quarter following soft June and September quarters, taking annual growth to 2.5% for the 2012 year (Figure 1). Despite this strength, nominal GDP fell 0.4% in the quarter, rising a subdued 2.3% for the year, as the terms of trade continued its fall. Taking into account the fall in the terms of trade, real gross national disposable income (RGNDI) rose 1.0% in the quarter; while GDP is a measure of goods and services produced, RGNDI is a broader measure of income. While the 1.0% rise in the quarter was encouraging, it was also only 1.0% higher for the year.

Figure 1 – Real (production), nominal GDP & RGNDI



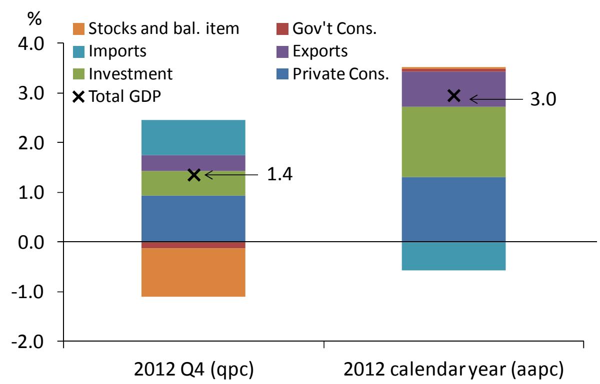
Source: Statistics NZ

...with broad-based contributions across industries...

The increase in quarterly GDP was broad based, as output rose in 15 of the 16 industries on the production side. The forestry and logging industry in particular was strong, with a 9.0% quarterly rise in production and it is now at its highest level since the series began in 1987, likely supported by good harvesting conditions in the quarter. Agriculture was up 1.5% in the quarter on the back of increased deer, poultry and other livestock farming. Mining activity rose 5.9% in the quarter as exploration increased. As expected, construction also rose strongly, as additional activity got underway in the Canterbury region. Manufacturing was the only industry to record a fall in the quarter as petroleum, chemical, plastic and rubber products manufacturing fell 8.7%, following a 5.8% rise in the September quarter. Excluding this component, manufacturing production rose 1.5%.

On the expenditure side, household final consumption rose 1.6% as consumers continued to make the most of falling and discounted prices on durable goods, including audio-visual equipment, furniture and appliances. Services spending rose 1.6%, its largest quarterly rise in nearly four years. Investment provided a positive contribution (Figure 2), with both market and residential investment higher in the quarter. Government consumption was softer, in line with ongoing fiscal consolidation, down 0.7% in the quarter. Net exports had a positive contribution to growth in the quarter as imports fell and goods export volumes rose 2.1% on stronger forestry and manufacturing exports, which more than offset a 12% decline in dairy products. Dairy exports came off a strong September quarter that was boosted by a rundown in stocks.

Figure 2 – Expenditure components' contribution to growth



Sources: Statistics NZ, Treasury

...leading to a solid year overall

Despite two soft quarters in the middle of the year, annual average (production) GDP finished with a solid growth rate of 2.5% in 2012, the highest growth rate in New Zealand since 2008 (Figure 1). On the expenditure measure, growth was even stronger, up 3.0% in the year (Figure 2). Investment was a strong contributor to growth in the year, with both residential and business investment higher. Private consumption contributed 1.3% to the annual 3.0% growth and net exports added only 0.1%, with the strong exchange rate over the year making imports more attractive.

While GDP growth has begun to show some strength, especially compared to many of New Zealand's developed economy peers, the labour market has continued to lag. As discussed in February's *MEI,* the labour market remains subdued, with particular weakness in part-time employment among young workers, as well as the self-employed. Employment was flat in the 2012 year at the same time as real output increased 2.5%. This implies very strong productivity growth (3.3% on an hours worked basis). Firms have been able to shed the less productive workers and still increase output. As the economy continues to exhibit growth, firms will gain more confidence and rehire workers, but this can take some time; the Canterbury rebuild will also add impetus to hiring. There is already evidence of this in the HLFS data (Canterbury employment was up 5.2% for the year) and additional strengthening is expected; Treasury's business talks (discussed further in this month's first *Special Topic*) confirmed that firms were expecting a further pick-up in employment in Canterbury.

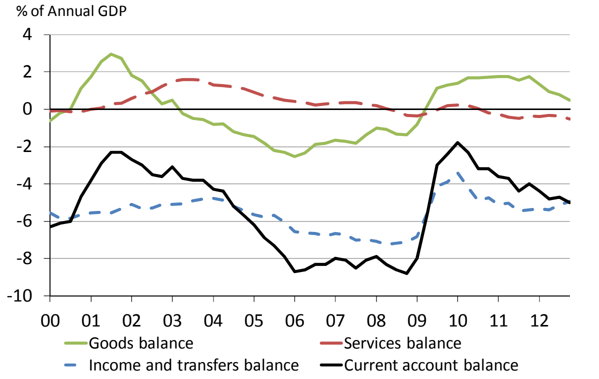
Annual current account deficit widens...

The other main release during the month was the Balance of Payments for the December quarter. The annual current account deficit widened to 5.0% of GDP ($10.5 billion) in the year to December 2012, from 4.7% of GDP in the year to September. The deficit has widened over the last three-and-a-half years since the current account peaked at just under a 2% deficit in the aftermath of the Global Financial Crisis (Figure 3).

...driven by lower export receipts

The widening in the headline annual deficit from the previous quarter was driven in large part by a deterioration in the goods and services trade balances (Figure 3). The goods surplus narrowed for the fourth consecutive quarter, driven by lower exports, particularly dairy and crude oil. Lower prices played a large part, with the goods terms of trade declining 1.4% in the quarter to be 9.0% lower for the year. However, this is expected to be the trough for the terms of trade, as we have already seen significant rises in dairy prices in 2013; prices for dairy products at Global Dairy Trade auctions have risen by more than 50% since the start of the year and Fonterra have revised up their current season forecast payout. The ANZ commodity price index rose 7.4% in March – its third strongest monthly rise on record – driven by increases in dairy and pelt prices.

Figure 3 – Current account and components



Sources: Statistics NZ, Treasury

The wider annual services deficit was also driven predominantly by lower exports in the December year, with service exports $405 million lower than the corresponding September year. This reflects the Rugby World Cup effect dropping out of the annual figures as well as general weakness associated with the strong exchange rate. The fall is also the result of fewer Australians holidaying in New Zealand as they make the most of the strong AUD against the USD, and holidaying in the USA and elsewhere instead.

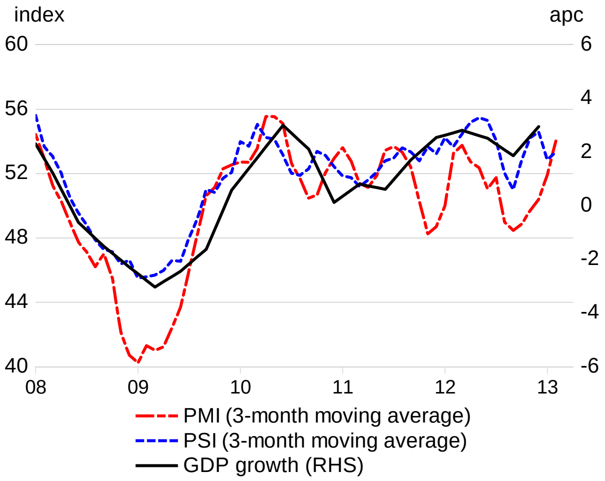
The effects of the goods and services balances on the headline result were partially offset by a narrowing in the annual income deficit. This was mainly driven by a fall in the income outflow component, reflecting lower profits earned by foreign firms in New Zealand over the course of the year.

Indicators pointing to continued growth momentum into 2013...

Forward indicators for activity point to ongoing momentum in 2013, although we are unlikely to see such a strong quarterly growth rate as we saw in the December quarter. The BNZ-BusinessNZ Performance of Manufacturing Index (PMI) and Performance of Services Index (PSI) both rose strongly in February, pointing to expanding output in their respective sectors. The PMI rose 1.1 points in January to 56.3 (values above 50 indicate expansion), its highest monthly result since February 2012. The detail from the release was also strong, with the production sub-index at 61.4, its highest reading since 2004, and new orders also high at 58.1. This is an encouraging result for the manufacturing sector, which has faced headwinds from a strong NZD, and points to a continuation of solid growth in the March quarter of 2013 (Figure 4).

The PSI also had an encouraging result, rising 2.7 points to 55.5 in February. The details were positive, with all five sub-indices above 50; new orders and activity were both robust at 59.6 and 55.4 respectively.

Figure 4 – PMI, PSI and GDP growth



Sources: Statistics NZ, BNZ-BusinessNZ

Another pointer to ongoing strong performance is continued strength in tax revenue, as evidenced in the Financial Statements of the Government for the eight months to February 2013. Core Crown tax revenue was $719m (2.0%) above the HYEFU forecast, with the variance driven by source deductions owing to the strength in the top end of the labour market. Other individuals' tax was also above forecast, helped by strong equity markets.

...including improving business and consumer confidence...

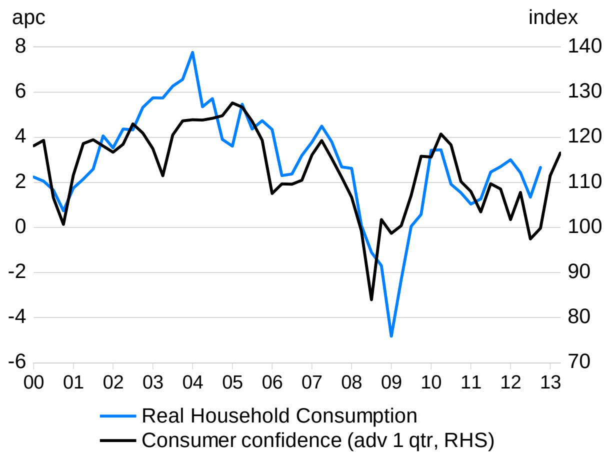
Both business and consumer confidence measures continue to sit above their long-run averages, pointing to ongoing strength ahead.

The ANZ Business Outlook (ANZBO) seasonally adjusted business confidence measure rose slightly in March, indicating firms are becoming more optimistic about the economy. As expected, the agricultural sector saw its confidence weaken, given the intensification of drought conditions over the month. Other aspects of the survey, such as the firms' own activity outlook, profits, employment outlook and investment, all remain above long-run averages, indicating a solid start to the year.

We have also seen consumer confidence hold at above-average levels, signalling increasing appetite for consumer spending, similar to that seen in the December quarter. This is likely to have been influenced by ongoing increases in house prices, which continued to rise in February, particularly in Auckland and Christchurch, making homeowners feel more wealthy. This is also flowing on to new construction activity, with a continuation in the strong trend for new building consents, which were up 24.0% in February from a year ago. Again, the activity was focussed in the Auckland and Christchurch regions.

Westpac McDermott Miller consumer confidence rose from 111.5 to 116.5 on a seasonally adjusted basis in the March quarter, which followed an 11.7 point increase in the previous quarter. Over history, this level of consumer confidence is consistent with around 3% annual consumption growth (Figure 5). As consumption is a large proportion of GDP (62%), this should translate into a continuation of solid growth in the first half of 2013 (albeit likely more modest that the surge in the December quarter).

Figure 5 – Westpac consumer confidence and household consumption



Sources: Statistics NZ, Westpac McDermott Miller

...but drought will provide some offset

While other indicators are pointing to solid growth in the first part of 2013, this will be tempered by the impacts of the drought. Our initial assessment is that the drought could subtract around 0.7% points from annual growth in real GDP in the 2013 calendar year, although the exact impact remains very uncertain. While the real side of the economy will take a hit from lower agricultural production and manufacturing, dairy prices have risen substantially of late as mentioned above. This will help to support farmer incomes, offsetting the fall in volumes, but the impact will be different for different producers.

This month's second *Special Topic* takes a closer look at the economic impacts of the drought.

Global outlook brightens barring the euro area

Global developments were generally positive in March. Australian data improved, while Japanese optimism grew. Some uncertainty surrounding the impact of the US sequester persists, but US data remained relatively strong. However, the euro-area weakness was exacerbated by recent events, which does not help its neighbour, the UK.

RBA stimulus begins to affect activity...

Australia's December quarter GDP growth (0.6%) and stronger-than-expected investment intentions pointed to a pickup in activity. Capex plans indicated that mining investment, which is due to peak mid-2013, will decline more slowly from its peak than previously expected. Other investment is expected to pick up, partly driven by low RBA policy rates.

The labour market tightened while housing activity strengthened, supported by low interest rates. The February unemployment rate held steady at 5.4% against an expected rise, on the back of a job surge. January housing finance grew 2.8%, as homebuyer sentiment rose to a 3-year high.

January saw a rise in imports, which is likely to be indicative of rising domestic demand. A fall in January mining exports, caused by Queensland flooding, led to a large temporary trade deficit. Mining exports have rebounded in February and the trade deficit was correspondingly smaller.

...as Chinese data recover from distortion...

Chinese data earlier in the month were distorted by the New Year timing. Both the manufacturing and services PMIs fell significantly in February, while CPI inflation was higher owing to food price hikes. However, the latest PMIs exhibited a rebound and food prices have already reversed, suggesting that distortion in the data has ended.

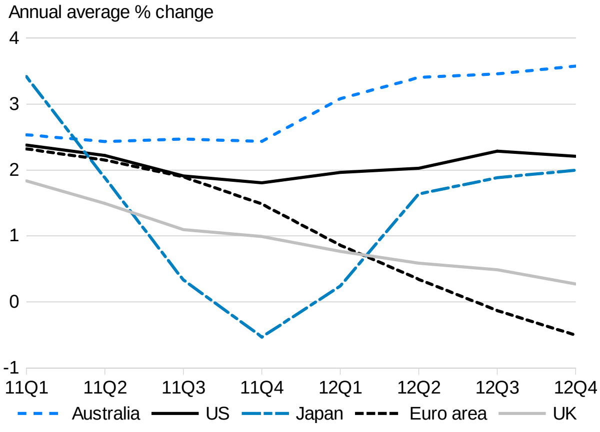
...and Japanese prospects brighten

The final reading of Japan's December quarter GDP was revised into positive territory (0.04%). This was driven largely by an upward revision to private consumption, reflecting the improving sentiment shown by the consumer confidence index and the eco-watcher's consumer survey.

Monetary stimulus and yen depreciation brightened the business outlook. This is expected to continue given that the new Bank of Japan governor advocates further easing. The Nikkei has regained all of its post-GFC loss.

The annual average growth rates of NZ's major trading partners were mostly positive in the December quarter, except for the euro area (Figure 6).

Figure 6 – GDP Growth



Source: Haver

Solid US data conceal post-sequester risks

The US labour and housing markets continued to recover. On the labour side, employment rose above expectation in February, and the unemployment rate fell 0.2% points to 7.7%. The Case-Shiller house-price index climbed steadily in December and January, and new housing permits are at a post-GFC high.

Risk remains over the full impact of the March government spending cut and the earlier tax hike. The ISM manufacturing index and the various regional PMIs declined markedly in March, suggesting possible sequester effects. The March final reading of the University of Michigan consumer confidence index was revised back up almost to its February level, and hence fiscal consolidation has not evidently impacted on household sentiment.

Euro area volatility re-emerges...

Political and financial volatility re-emerged in the euro area, arguably undoing much of the previous month's improvement. The rejection by Italian minor parties of a coalition agreement implies continued political risks, compounded by Fitch's credit downgrade. The market is increasingly convinced that the Cyprus bank bail-in, involving a levy on large uninsured depositors, could be applied to future bank rescues, despite ECB assurances to the contrary.

Economic data deteriorated. The euro area unemployment rate remained unchanged at 12.0% in February. Industrial production contracted 0.4% in January and the manufacturing/services composite PMI fell 1.4 points to 46.5 in March.

German data were relatively strong. The German unemployment rate remained low (5.3%), while the German composite PMI indicated output expansion. German trade and retail data furthermore signalled rising demand. However, the German strength implied that the rest of the euro area is even weaker than its aggregate data suggest.

...which is bad news for the UK

The UK's December quarter GDP contracted 0.3%, fuelling fears of a triple-dip recession. February's manufacturing PMI entered contractionary territory. January's credit growth, such as loans and the money supply, slowed, reflecting the slowdown in activity. The rise in retail sales in February, while positive, was largely owing to a temporary bounce back from January's contraction. March quarter GDP is expected to be weak, and the government lowered its economic growth forecasts for the current year in its annual budget.

Special Topic 1: March 2013 Business Talks

Over the course of a week in March, Treasury officials met with around 40 businesses, accounting firms and trading bank economists in Auckland, Wellington and Christchurch to discuss the outlook for the economy. The information gathered will be used to inform the Treasury's Budget Economic and Fiscal Update. The views expressed are those of the businesses we met.

Sentiment remains positive…

Since the Treasury's last round of business talks in September 2012, sentiment remains positive on the whole but "patchy" with some firms adjusting to the lower growth in business activity, regarding it as the "new normal." Activity continues to differ amongst regions where Auckland is humming along, largely thanks to the strength in the housing market, while there has been a noticeable pick-up in Canterbury as the earthquake rebuilding continues to gather momentum. Wellington is relatively subdued, primarily attributed to a constrained public sector.

The residential housing market is still perceived to be strong with increasing sales and profitability for firms allied to this sector. This has been aided by lower borrowing rates which have seen the demand for property finance pick up in conjunction with higher loan-to-value ratios being approved. The stronger presence of foreign buyers from emerging Asia and Europe is also adding to demand. Strength in the housing market is being led by the Auckland region where strong overseas and internal net migration is placing added pressure on the existing stock. There are still concerns over the lagged supply response in Auckland, while in Wellington an overhang of properties is holding back the market

In response, residential construction work is improving in Auckland and Canterbury but is fairly flat elsewhere. The recent collapse of Mainzeal caused some concern about the state of the industry but most of the work will be quickly picked up by other firms. Progress in Canterbury had undoubtedly picked up recently, although a real surge is yet to be seen. Nonetheless, firms believe the groundwork has been laid for the rebuild to really ramp up as demolition work winds down and insurance settlements proceed. There has also been a noticeable improvement in confidence for the CBD commercial rebuild, which is yet to begin, given greater certainty around government anchor projects.

The retail sector has picked up since the last round of business talks with stronger underlying sales growth and some expansion in store premises evident. The strength was consistent across the country, while growth in Auckland and Christchurch was particularly strong. Discounting is still considered to be widespread across the industry as a whole. This high volume-low margin model will continue to be a drag on profitability.

The manufacturing sector is still under pressure from the elevated New Zealand dollar (NZD), although this was a weaker theme relative to the previous business talks. Alongside this, several firms pointed to the weak demand from Australia. Strong competition from foreign producers posed a further challenge, with a few firms moving production offshore to keep costs under control.

Concerns in the farming sector around the impact of the current drought centre on next season's production and the duration of the dry weather. If the dry weather persists over autumn/winter then it would significantly increase the impact on the economy. Some upside is expected from stronger meat volumes in the near term owing to early slaughter. Outside of the meat and dairy industries, the sector is holding up reasonably well.

… as firms mitigate rising costs…

Firms remain focused on managing costs they can control to maintain margins as other costs continue to rise. In particular, rising costs relating to insurance, transport (driven by higher fuel prices), and energy were mentioned frequently. The increase in the minimum wage will also contribute to higher labour costs.

The high NZD is helping to provide an offset by reducing imported input costs. Firms exporting to countries with a high NZD cross-rate have generally adapted to exchange rate movements, primarily through hedging. Other ways in which firms were managing their costs were by generating scale and improving productivity, thereby allowing some firms to reduce their total staff numbers.

Recent wage increases have generally been similar to last year and around the rate of CPI inflation. Looking ahead, planned wage increases are slightly ahead of CPI inflation, around 3% with some willing to pay more for good performance. Wage pressure is strongest amongst trades and IT workers. Wage pressure in Canterbury has generally been confined to certain occupations thus far such as finishing trades and digger operators.

Overall, the majority of businesses said that they were maintaining employment at current levels. There were reports of new hiring going forward in service and transport firms, and reports of lay-offs in manufacturing. Skilled labour is difficult to find with several firms pointing out the skills mismatch that currently exists. This has translated to more strength in the high-income end of the labour force as firms are motivated to retain valued and older workers. This provides some backing for the compositional factors behind the current strength in PAYE tax revenue.[1] Employers are waiting for a sustained pick-up in activity before they recommence recruitment.

… leading to increased profits

Most businesses reported increased profits largely as a result of managing their costs, although a few firms attributed it to improved activity and better margins. Only a few said that profits were being squeezed and/or would be down in the coming year. In general, tax accountants expect 5% to 10% growth in profits this year based on the tax firms are currently paying. Increased profitability was also reflected in greater merger and acquisition (M&A) activity and reports of investment at levels above depreciation.

What does this mean for the outlook?

Overall, the tenor of these talks was consistent with recent business surveys which suggest that sentiment remains positive for the most part going into 2013. However, the uncertain impacts of the drought provide a touch of caution. Overall, the talks show a continuation of momentum in the economy from a strong December quarter as tax revenue for the current year to date remains above HYEFU 2012 forecasts. This is despite some difficult trading conditions in the form of an elevated NZD, tight margins and a subdued labour market.

[1] http://www.treasury.govt.nz/government/financialstatements/monthend

Special Topic 2: The economic impacts of the drought

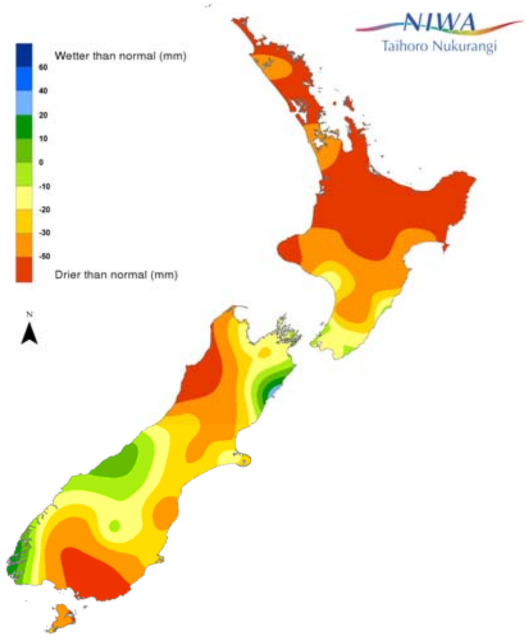
Most of the country has enjoyed the long, hot summer, but the dry conditions have taken an increasing toll on the agricultural sector. This Special Topic outlines the Treasury's estimates of the impact of the drought on the economy, with regard to both the volume and value of output produced. Further analysis of the drought will be included in the forthcoming *2013 Budget Economic and Fiscal Update*.

All eyes are on the skies...

In terms of soil moisture deficit, the 2012/13 season to date has been the driest in at least 40 years. The entire North Island has been designated a drought zone, along with parts of the South Island's West Coast too (although the higher incidence of irrigation in the rest of the South Island has helped to reduce the impact there to date).

The outlook is still subject to much uncertainty and depends in large part on weather conditions in the coming months. Increasing parts of the country are starting to receive rain and are forecast to see more, but this is not expected to break the drought conditions at this stage (Figure 7). The analysis below assumes that the drought does not intensify further from now, but that the effects of the drought to date will continue to be felt for some time.

Figure 7 – Soil moisture anomaly (deviation from average 1981-2010, as at 9am on 3 April)



Source: NIWA

...but the drought has already taken a toll

By assuming that the drought does not intensify from now on, the Treasury expects its economic impact to be largely contained to the 2013 calendar year. We estimate that the negative impact on ***real GDP growth*** this calendar year will be approximately 0.7% points from what it would have been otherwise.

The Treasury's estimate takes into account the expected direct impacts of the drought on lower agricultural production, including reduced dairy and meat production and earlier than usual meat slaughter and processing, as well as indirect multiplier effects throughout the economy in line with previous studies.

The dairy industry made a strong start to the season, with cumulative milk production running around 5-7% ahead of the previous year into the new year. However, pasture conditions have deteriorated rapidly over the past two months or so, particularly in the North Island, and total milk production over the season as a whole is now likely to be around 1% down at best compared to last season. Meanwhile, faced with reduced feed supply, farmers in the most-affected areas have started to shift sheep and cattle to be finished in less-affected areas of the country, or sent stock for early slaughter. Meat slaughter is tracking well ahead on last year.

There remains considerable uncertainty as to when the impacts of the drought will be most visible in the quarterly GDP data. In its latest GDP release, Statistics New Zealand noted that the full impact of the drought on value-added output would not be clear until comprehensive annual data on intermediate consumption by the agricultural sector become available. Assessing the quarterly timing of the drought's impact on the economy is additionally complicated by the fact that its effects on individual industry sectors will at least partially offset each other. In particular, this is likely to have been the case in the March 2013 quarter, in which the negative impact on quarterly real GDP growth from lower dairy production is expected to have been partially offset by front-loaded and earlier-than-usual meat slaughtering.

Overall, we expect the biggest negative impact of the drought on quarterly real GDP growth to show up in the June 2013 quarter. However, depending on the extent that farmers front-load slaughtering, the impact may be spread more evenly across the June and September quarters.

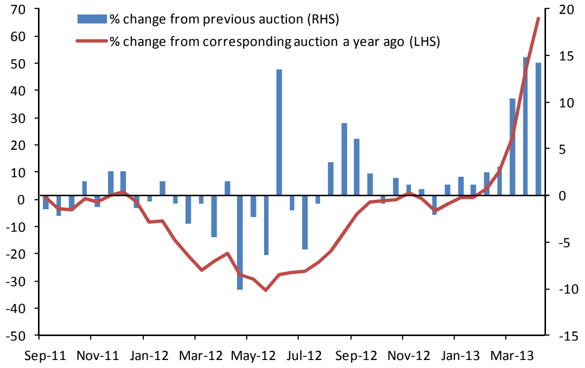
Impact on nominal GDP less clear-cut

It is difficult to assess with any certainty what the corresponding impact of the drought will be on ***nominal GDP***. The direct impact of lower agricultural production may be offset to some extent by higher global prices (reflecting drought-induced supply fears) and also a potentially lower New Zealand dollar.

Somewhat fortuitously, the domestic drought has coincided with tighter global dairy supply conditions that have contributed to a sharp increase in global dairy prices in recent weeks. Prices at Fonterra's Global Dairy Trade auction have surged by nearly 45% at the past three fortnightly auctions alone (Figure 8). Farmers in the least-afflicted areas – mainly in the central South Island – face clear price signals to maintain milk output levels, or even increase if possible, in the near term.

That said, the indirect impacts of the drought on the rest of the economy will be more akin to a negative demand shock in the economy, leading to more typical negative price impacts, including on wages and inflation. All else equal, the drought-induced increased supply/slaughter of meat will also put downward pressure on prices in the near term, but lead to reduced supply – and possibly higher prices – next season.

Figure 8 – Global Dairy Trade dairy prices



Sources: Global Dairy Trade, the Treasury

On balance, we assess the corresponding impact on nominal GDP for the 2013 calendar year relative to the HYEFU baseline to be broadly similar to the 0.7% real impact outlined above. However, we note that this estimate is more uncertain given the wide range of possible developments in agricultural prices and incomes.

Risks to the Treasury's estimate

The Treasury's estimate of the impact of the drought is subject to considerable uncertainty and ongoing risks. On the downside, the latest indications from the dairy industry suggest that the impact of the drought on milk production may be more negative than we have factored in to our central estimate outlined above.

Moreover, our estimate does not include any potential impact of the drought on lake storage levels and hydroelectric power generation. Reduced hydroelectric power generation would be negative for value-added GDP if producers switch to more costly thermal generation and pass these costs on to consumers and producers.

This effect would be likely to be reversed later, however, as hydroelectric generation is restored. Lake levels across the country as a whole are currently broadly in line with their corresponding levels last year. But while water inflows have picked up as rainfall in the lower South Island has increased over the past few weeks, overall inflows remain around 40% lower than their 80-year average for this time of the year.

There are also possible offsets associated with the drought, reflecting industries that may have been positively influenced by the dry weather conditions relative to our HYEFU forecasts. This includes parts of the horticulture industry including wine, the construction and forestry industries, and hospitality. However, on balance, the immediate risks to our drought impact estimate are for a larger negative impact on real GDP than outlined above, possibly up to 1% in the 2013 calendar year.

More generally, there may be longer-term effects from the drought than we have assumed, particularly into the 2014 calendar year if the drought persists longer than assumed in this analysis and a cold, dry winter weighs on ewe conception rates this autumn. An estimate of the size of this impact, however, would have to consider a wide range of possible offsets. These include any potential boost from a weaker exchange rate, different monetary policy settings than forecast, the possibility of higher average livestock weights next season because of lower stock numbers.

Monthly Economic Indicators is a regular report prepared by the Forecasting and Monitoring team of the Treasury.

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New Zealand Key Economic Data

4 April 2013

Quarterly Indicators

		2011Q3	2011Q4	2012Q1	2012Q2	2012Q3	2012Q4	2013Q1
Gross Domestic Product (GDP)								
Real production GDP	qtr % chg[1]	0.8	0.4	1.0	0.2	0.2	1.5	...
	ann ave % chg	0.8	1.4	1.9	2.4	2.4	2.5	...
Real private consumption	qtr % chg[1]	1.2	0.3	0.6	0.2	0.0	1.5	...
	ann ave % chg	1.7	2.0	2.5	2.6	2.2	2.1	...
Real public consumption	qtr % chg[1]	0.3	0.4	-1.2	1.1	0.1	-0.7	...
	ann ave % chg	2.0	2.0	1.8	1.5	1.0	0.3	...
Real residential investment	qtr % chg[1]	1.1	4.3	1.3	5.5	5.6	2.0	...
	ann ave % chg	-11.5	-11.2	-10.7	-2.7	5.7	10.9	...
Real non-residential investment	qtr % chg[1]	2.7	-0.1	3.7	3.1	-4.1	2.2	...
	ann ave % chg	9.7	7.5	6.0	5.9	4.7	5.4	...
Export volumes	qtr % chg[1]	0.3	4.1	-2.4	-1.2	4.2	0.9	...
	ann ave % chg	1.8	2.7	2.6	2.4	3.1	2.1	...
Import volumes	qtr % chg[1]	1.7	-2.4	4.2	-3.7	2.1	-2.0	...
	ann ave % chg	10.6	6.6	6.1	3.6	1.3	1.4	...
Nominal GDP - expenditure basis	ann ave % chg	4.8	3.9	3.8	4.1	3.0	2.3	...
Real GDP per capita	ann ave % chg	-0.3	0.4	1.0	1.6	1.7	1.8	...
Real Gross National Disposable Income	ann ave % chg	2.3	1.8	2.2	1.3	1.3	1.0	...
External Trade								
Current account balance (annual)	NZ$ millions	-8,826	-8,268	-9,033	-10,087	-9,861	-10,509	...
	% of GDP	-4.4	-4.0	-4.4	-4.8	-4.7	-5.0	...
Investment income balance (annual)	NZ$ millions	-10,595	-10,750	-10,443	-10,899	-10,226	-9,791	...
Merchandise terms of trade	qtr % chg	-0.6	-1.5	-2.3	-2.5	-3.2	-1.4	...
	ann % chg	3.4	1.0	-2.1	-6.7	-9.2	-9.1	...
Prices								
CPI inflation	qtr % chg	0.4	-0.3	0.5	0.3	0.3	-0.2	...
	ann % chg	4.6	1.8	1.6	1.0	0.8	0.9	...
Tradable inflation	ann % chg	4.6	1.1	0.3	-1.1	-1.2	-1.0	...
Non-tradable inflation	ann % chg	4.5	2.5	2.5	2.4	2.3	2.5	...
GDP deflator	ann % chg	2.9	0.4	-0.2	1.9	-1.4	-2.7	...
Consumption deflator	ann % chg	3.2	1.6	1.3	1.2	1.0	0.9	...
Labour Market								
Employment (HLFS)	qtr % chg[1]	0.1	0.4	0.2	-0.1	-0.4	-1.0	...
	ann % chg[1]	1.1	1.6	0.9	0.6	0.0	-1.3	...
Unemployment rate	%[1]	6.5	6.4	6.7	6.8	7.3	6.9	...
Participation rate	%[1]	68.3	68.4	68.7	68.4	68.4	67.2	...
LCI salary & wage rates - total (adjusted)[5]	qtr % chg	0.6	0.6	0.4	0.5	0.5	0.5	...
	ann % chg	2.0	2.0	2.0	2.0	1.9	1.8	...
QES average hourly earnings - total[5]	qtr % chg	1.2	0.1	1.4	0.1	1.1	-0.1	...
	ann % chg	3.2	2.8	3.8	2.9	2.8	2.6	...
Labour productivity[6]	ann ave % chg	-1.1	0.0	0.7	1.7	2.8	3.3	...
Retail Sales								
Core retail sales volume	qtr % chg[1]	1.8	2	-0.5	0.7	0	1.5	...
	ann % chg	3.2	6.4	4.2	4.1	1.7	2	...
Total retail sales volume	qtr % chg[1]	1.8	1.5	0.1	1.2	-0.2	2.1	...
	ann % chg	2.8	5.7	4.2	4.7	2.2	3.3	...
Confidence Indicators/Surveys								
WMM - consumer confidence[3]	Index	112	101	102	100	103	111	111
QSBO - general business situation[4]	net %	24.6	0.1	13.0	-4.1	8.0	19.8	...
QSBO - own activity outlook[4]	net %	30.0	9.9	16.9	8.1	17.7	18.7	...

Monthly Indicators

		2012M09	2012M10	2012M11	2012M12	2013M01	2013M02	2013M03
External Sector								
Merchandise trade - exports	mth % chg[1]	4.5	-8.1	7.3	-6.6	1.4	3.9	...
	ann % chg[1]	-4.5	-10.9	-2.1	-4.3	-10.2	8.0	...
Merchandise trade - imports	mth % chg[1]	5.7	-15.0	13.7	6.3	-15.1	15.6	...
	ann % chg[1]	-3.6	1.6	-1.6	-10.4	-6.5	2.5	...
Merchandise trade balance (12 month total)	NZ$ million	-891	-1379	-1389	-1159	-1286	-1082	...
Visitor arrivals	number[1]	211,820	209,080	215,250	219,430	214,570	223,410	...
Visitor departures	number[1]	210,830	215,520	213,410	218,990	217,770	220,020	...
Housing								
Dwelling consents - residential	mth % chg[1]	6.9	-1.6	-5.2	9.6	-0.2	1.9	...
	ann % chg[1]	22.0	32.4	19.8	22.5	19.5	24.0	...
House sales - dwellings	mth % chg[1]	-8.1	18.3	-0.7	-6.8	10.9	-3.9	...
	ann % chg[1]	8.0	32.6	24.1	8.2	21.1	7.5	...
REINZ - house price index	mth % chg	0.6	1.5	1.4	-0.6	-1.0	1.6	...
	ann % chg	5.0	6.9	7.3	6.7	7.2	8.1	...
Private Consumption								
Electronic card transactions - total retail	mth % chg[1]	-0.5	0.5	0.5	0.3	0.4	0.8	...
	ann % chg	4.1	3.2	6.2	3.6	5.8	2.5	...
New car registrations	mth % chg[1]	-4.1	10.0	-4.0	0.2	3.4	1.0	...
	ann % chg	6.7	21.4	8.4	3.0	6.5	9.4	...
Migration								
Permanent & long-term arrivals	number[1]	7,240	7,370	7,340	7,320	7,050	7,130	...
Permanent & long-term departures	number[1]	7,030	6,990	6,760	7,430	6,670	6,580	...
Net PLT migration (12 month total)	number	-3,280	-2,319	-1,567	-1,165	12	1,195	...
Commodity Prices								
Brent oil price	US$/Barrel	112.95	111.92	109.41	109.56	113.02	116.19	116.40
WTI oil price	US$/Barrel	94.72	89.57	86.66	88.25	94.69	95.32	95.50
ANZ NZ commodity price index	mth % chg	2.9	1.2	0.9	-0.1	-0.5	0.4	8.7
	ann % chg	-13.2	-12.4	-12.6	-12.3	-10.2	-5.9	2.4
ANZ world commodity price index	mth % chg	3.4	1.4	0.9	1.0	0.3	1.1	7.4
	ann % chg	-12.2	-8.6	-6.7	-5.2	-6.1	-4.9	3.9
Financial Markets								
NZD/USD	$[2]	0.8174	0.8198	0.8192	0.8318	0.8375	0.8389	0.8389
NZD/AUD	$[2]	0.7867	0.7967	0.7875	0.7943	0.797	0.8136	0.8136
Trade weighted index (TWI)	June 1979 = 100[2]	72.80	73.12	73.38	74.33	75.27	76.26	76.26
Official cash rate (OCR)	%	2.50	2.50	2.50	2.50	2.50	2.50	2.50
90 day bank bill rate	%[2]	2.64	2.65	2.64	2.65	2.66	2.66	2.66
10 year govt bond rate	%[2]	3.58	3.51	3.47	3.56	3.56	3.81	3.81
Confidence Indicators/Surveys								
ANZ - business confidence	net %	17	17.2	26.4	22.7	...	39	34.6
ANZ - activity outlook	net %	29.3	25.5	31.6	31.4	...	38	32.4
ANZ-Roy Morgan - consumer confidence	net %	111.9	110.5	114.1	114.7	118.3	121.0	115.0
Performance of Manufacturing Index	Index	49.1	53.6	56.8	49.7	51.1	53.8	...
Performance of Services Index	Index	51.8	57.7	57.5	52.2	50.5	57.0	...

qtr % chg — quarterly percent change
mth % chg — monthly percent change
ann % chg — annual percent change
ann ave % chg — annual average percent change

1 Seasonally adjusted
2 Average (11am)
3 Westpac McDermott Miller
4 Quarterly Survey of Business Opinion
5 Ordinary time
6 Production GDP divided by HLFS hours worked

Sources: Statistics New Zealand, Reserve Bank of New Zealand, NZIER, ANZ, Haver, Westpac McDermott Miller, ANZ-Roy Morgan, REINZ, BNZ-Business NZ