Monthly Economic Indicators

THE TREASURY
Kaitohutohu Kaupapa Rawa

January 2014

Executive Summary

- **The New Zealand economy picked up pace in the second half of 2013, posing near-term upside risks to the Treasury's *Half Year Update* forecasts...**
- **...and bringing us closer to the start of the monetary tightening cycle.**
- **Tapering gets underway in the US, while vulnerabilities in emerging markets re-appear.**

The New Zealand economy broke into its stride in the second half of 2013, following a drought-affected first half of the year. Real GDP grew by 1.4% in the September 2013 quarter, driven by a bounce-back in agricultural production, and confirmed the near-term upside risks to the Treasury's *Half Year Update* forecasts.

It will be difficult for the agricultural sector to repeat a similar-sized boost to GDP growth in the December quarter, but all signs indicate that the economy continued to expand at an above-potential rate going into 2014. The NZIER's Quarterly Survey of Business Opinion (QSBO) reached an almost 20-year high in the December quarter and other survey indicators remain elevated. Meanwhile, the strong showing from Electronic Card Transactions in the December month added to the evidence of buoyant consumer spending in the final quarter of the year.

All told, the slack in the economy that has persisted since the 2008/09 recession now looks to have largely been used up and we are nearing the start of the monetary tightening cycle. While the Reserve Bank held the Official Cash Rate (OCR) unchanged at its first interest rate decision of 2014, it is widely expected to hike rates in its March review.

With the timing of the first OCR hike now seemingly settled, market attention can focus on the extent of the tightening cycle and its interaction with the macro-prudential loan-to-value lending restriction introduced in October. The latter appears to be having its intended effect of dampening demand in the housing market, but the near-term outlook for the market remains complicated by underlying factors – particularly the ongoing turnaround in net migration flows.

A faster-than-expected US recovery in late 2013 led the Federal Reserve to commence the reduction of quantitative easing in January. The modest recovery in the euro area also gained pace. However, key risks around developing economies remain, with recent financial volatility eliciting responses from their central banks – most notably in Turkey.

It has been one year since Japan began to implement 'Abenomics' – the three-pronged economic plan aimed at reviving the economy from almost 20 years of sluggish growth. This month's special topic examines the impact of the measures to date on New Zealand's trade links with Japan.

New Zealand Government

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Analysis

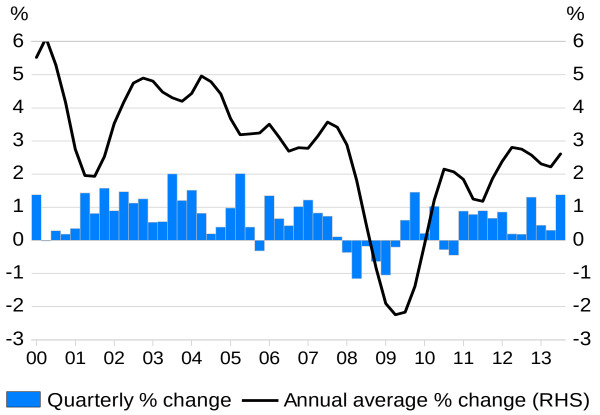
Robust near-term outlook for the economy

The Treasury's *Half Year Economic and Fiscal Update* (HYEFU), released in the run-up to Christmas, foresaw a robust near-term outlook for the New Zealand economy. The latest data releases confirm some of the near-term upside risks to real activity in the HYEFU forecasts, although nominal GDP growth – which matters most for tax revenue – is lagging slightly behind that expected in the HYEFU following a range of revisions. Price pressures in the economy remain moderate for now, but are steadily increasing. After keeping the Official Cash Rate (OCR) unchanged at 2.5% in its recent review, the Reserve Bank is now widely expected to begin the monetary tightening cycle in March.

Larger-than-expected rebound from the drought in the September quarter...

Real production GDP rose by a stronger-than-expected 1.4% in the September quarter. In annual terms, output in the quarter was 3.5% higher than a year ago and 2.6% higher in the year ended September (Figure 1).

Figure 1: Real (production) GDP

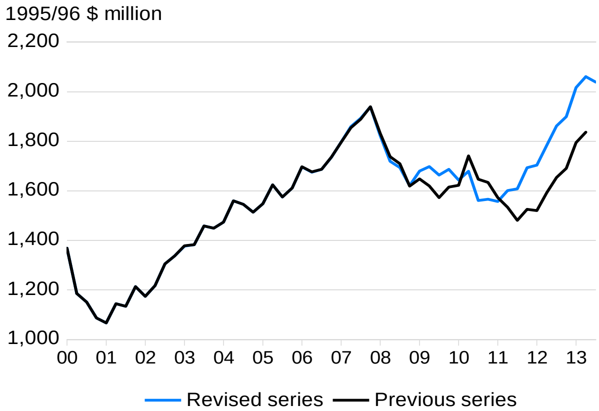


Source: Statistics NZ

The quarterly outturn was driven overwhelmingly by growth in the primary industries, reflecting a bounce-back from last summer's drought. After falling in the previous two quarters, output in the agriculture, forestry and fishing industries surged by 13.9% in the quarter and accounted for almost two-thirds of the increase in GDP. The manufacturing industry also contributed positively to growth, with output up 1.5% from the June quarter – its fastest pace since the start of 2012. Nine of the 11 services industries posted positive growth from the previous quarter, although growth in the sector as a whole eased to 0.4% (down from an average of 0.9% in the previous three quarters). Construction activity fell by 1.0% – its first quarterly decline since the March 2011 quarter – driven by a drop in heavy and civil engineering construction (including roads and other infrastructure) but partly offset by gains in residential building.

Notably, the release incorporated improved and revised measures of the Canterbury rebuild. All told, a cumulative 12% more construction activity in real terms is now estimated to have taken place over the past two years or so (Figure 2). Construction activity in the September quarter was over 5% higher than its previous peak in late 2007. This reconciles with the increasingly acute signs of pricing pressures developing within the Canterbury region (see further on).

Figure 2: Real construction activity



Source: Statistics NZ

...contributed to a run-up in inventories...

On an expenditure basis, real GDP rose by 1.1% from the previous quarter, following a 0.2% gain in June. Inventories were the main driver, contributing 1.5% points to growth in the quarter. The build-up in inventories was driven in large part by a run-up in dairy stocks as milk production bounced back from last summer's drought but dairy exports fell. Such stocks will be run down over the coming quarters as exports pick up; judging from November's monthly trade data, dairy exports appear to have surged by around 25% in the December quarter.

Residential investment was the other main driver of growth, rising by 8.5% in the quarter, in keeping with the pick-up in residential construction seen in the production-based accounts. Private consumption growth eased to 0.4% in the quarter, down from an average of 1.1% over the previous three quarters. Nonetheless, annual average growth increased to 3.0% in the September year and is expected to strengthen further over the coming quarters as the labour market strengthens and consumer confidence remains elevated. Meanwhile, net trade made another sizeable negative contribution to quarterly GDP growth, reflecting a fall in export volumes and a hefty pick-up in imports. The latter was reflected in strong growth in investment in plant and machinery (up 11.6% in the quarter), which, following revisions, is now above its pre-recession peak. Overall, the September quarter GDP release confirmed some of the near-term upside risks to real activity in the Treasury's HYEFU forecasts.

...and helped to drive the gain in nominal GDP

The strong quarterly gain in real GDP flowed through to a 2.6% increase in nominal GDP – its fastest pace of growth since early 2010. In keeping with the surge in the terms of trade during the September quarter, most of the positive impulse came from a sharp lift in commodity export prices, which rose by 13%.

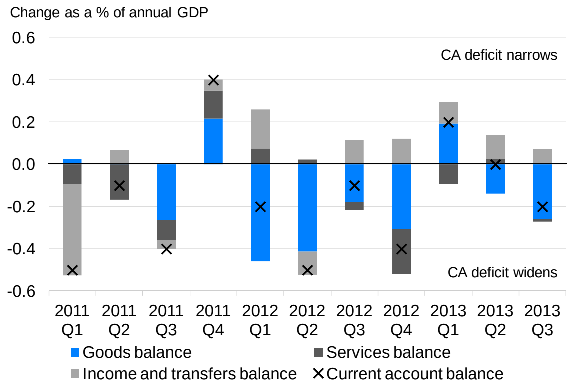
Despite the pick-up in quarterly growth, revisions to the GDP accounts resulted in *annual* nominal GDP growth lagging slightly behind the HYEFU forecasts. This was also true of tax revenue in the Treasury's financial accounts report for the five months ended November 2013, although such weakness appears to reflect idiosyncratic factors, which are expected to largely reverse out in coming months. Continued gains in commodity export prices, rising domestic inflation and solid real growth all suggest that nominal GDP growth will gather pace in the near term. In HYEFU, annual average nominal GDP growth is forecast to peak at 7.1% in the June 2014 year.

Current account deficit remained broadly steady around 4% of GDP

The other main data release in the run-up to Christmas showed that the annual current account deficit widened to 4.1% of GDP in the September quarter, from a revised 3.9% of GDP deficit in the June quarter. The outturn was broadly in line with market expectations, and incorporated a range of revisions that had previously been built in to the year ended March 2013 National Accounts.

In dollar terms, the annual current account deficit widened to $8.8 billion, from $8.2 billion in the June quarter. The annual movement was driven entirely by a fall in the goods balance (Figure 3). As a result, the goods balance registered a deficit for the first time since the middle of 2009.

Figure 3: Change in current account components



Sources: Statistics NZ, the Treasury

At first glance this seems at odds with the surge in the goods terms of trade to a 40-year high in the middle of last year. However, as mentioned earlier, its positive impact on the annual goods balance in the September quarter was constrained by reduced export volumes, reflecting the lingering impact of last summer's drought, and a sharp pick-up in goods imports. The latter increased by just over $1 billion on a seasonally-adjusted basis in the quarter, driven by imports of transport and mechanical machinery.

Elevated commodity prices will continue to lend support to export prices and receipts over the coming quarters. The GlobalDairyTrade Price Index increased by 1.4% at January's second dairy auction, with prices still around 50% higher than a year ago. That said, we expect the annual current account deficit to remain close to its current level in the region of 4% of GDP over the next 6-9 months, before widening on the back of the robust outlook for the domestic economy and the ongoing Canterbury rebuild.

The recent bout of revisions to the current account complicates comparisons with the HYEFU forecasts, which were finalised before the revisions were released. All else equal, though, the narrower starting point is consistent with the current account deficit widening to around 6.0% of GDP over the five-year forecast period, compared with around 6.5% of GDP in the HYEFU forecasts.

Surveys indicate continuing momentum...

Following the strong bounce-back in the September quarter, it will be difficult for the agricultural sector to have realised a similar-sized contribution to GDP growth in final quarter of 2013. That said, all signs indicate that the economy continued to expand at an above-potential growth rate going into 2014.

The headline confidence measure of the NZIER's Quarterly Survey of Business Opinion (QSBO) posted further gains in the December 2013 quarter, with the net percentage of firms expecting the general business situation to improve rising to an almost 20-year high. Encouragingly, measures of employment and investment intentions also improved, further reinforcing the positive outlook for the economy.

The positive picture was mirrored in the regular monthly surveys from the manufacturing and services industries, which remained at elevated levels consistent with robust growth. The headline BNZ/Business NZ Performance of Manufacturing Index eased slightly in December, but the series remained in expansionary territory for the 12th consecutive month – its longest run since 2007. Similarly, although volatile, the corresponding survey of the services industry also remains indicative of rising activity.

...with upside risks to private consumption

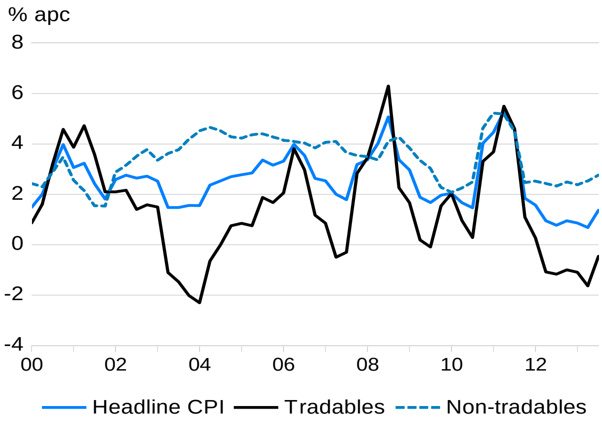
December's Electronic Card Transactions (ECT) data, which showed that core retail spending increased by 0.9% from the previous month, provided further evidence of buoyant activity. When taken together with robust showings in the October and November months, the latest ECT data point to strong real private consumption growth in the region of around 1% in the final quarter of 2013 – slightly faster than in our HYEFU forecasts.

Rate hikes around the corner

All told, as expected in the HYEFU forecasts, the slack in the economy that has persisted since the 2008/09 recession now looks to have largely been used up. With the economy set to continue expanding at an above-potential growth, the start of the monetary tightening cycle is looming.

Admittedly, price pressures in the economy have remained moderate up to now. At 1.6% in the December quarter, annual inflation remained below the 2% mid-point of the Reserve Bank's target band for the ninth consecutive quarter (ie, since the GST increase dropped out of the annual comparison). And even though the 0.1% gain in the Consumers Price Index (CPI) surprised on the upside, the fact that the upward surprise was driven by tradables inflation should be less of a concern for the Reserve Bank. Indeed, while non-tradables inflation ticked up, it came in broadly in line with expectations (Figure 4).

Figure 4: CPI inflation



Source: Statistics NZ

That said, as mentioned in the previous *Monthly Economic Indicators*, there are increasing signs of price pressures, such as the pick-up in inflation expectations over the second half of 2013. Furthermore, according to the QSBO, the number of firms reporting capacity as a constraint increased slightly in the December quarter. The survey also showed a marked increase in the number of firms reporting difficulty in finding unskilled labour – particularly in the Canterbury region.

All told, while the Reserve Bank held the Official Cash Rate (OCR) unchanged at its first rate decision of 2014, it clearly signalled future rate increases and it is widely expected to begin the tightening cycle in March at its next review.

Tentative signs of loan-to-value restrictions moderating demand in the housing market

With the timing of the first OCR hike seemingly settled, market attention can focus on the extent of the tightening cycle and its interaction with the macro-prudential loan-to-value lending restrictions introduced in October.

The latter appear to be starting to have their intended effect of dampening demand in the housing market. Following a sharp fall in November, the number of house sales fell by a further 1% on a seasonally-adjusted basis in December, while the REINZ house price index recorded a flat reading in December – its weakest showing since early 2012. The number of mortgage approvals has also fallen sharply and is currently around 10% lower than a year ago.

However, the near-term outlook for the housing market remains complicated by underlying factors – particularly the ongoing strength in net migration flows, which has been a big contributor to the upward pressure on prices in the Auckland region.

The annual net inflow of permanent and long-term migrants increased to 22,500 in the 2013 calendar year – its highest level since the start of 2010.

Recovery continues as tapering commences

A faster-than-expected US recovery in late 2013 led the Federal Reserve (Fed) to commence the reduction of quantitative easing (QE) in January. The modest recovery in the euro area also gained pace. However, key risks around developing economies remain, with recent financial volatility eliciting responses from some central banks.

The change in outlook between developed and developing economies was reflected in the revised forecasts by the IMF, the World Bank (WB), and the OECD. The IMF raised its projected global growth slightly in 2014 owing to a 0.2%-point upgrade to advanced economies, while emerging economies excluding China were weaker. The WB lifted its projected global growth by 0.2% points to 3.2% for 2014, but cut emerging market growth by 0.3% points to 5.3%. While the OECD downgraded global growth in 2014 by 0.4% points to 3.6%, growth for advanced economies was held steady.

Unexpectedly strong US economic data and reduced fiscal risk...

US developments were relatively robust in late 2013. Manufacturing surveys were elevated in November and December, growth was solid in retail sales and industrial production (IP), and housing starts were high. GDP growth in the December quarter was 0.8%, following 1.0% in the September quarter. However, higher mortgage rates and the ongoing rise in house prices are restraining housing demand.

The labour market continued to recover, but risks remain. Growth in non-farm payrolls was strong in November (241,000), although growth fell to 74,000 in December amidst inclement weather conditions. The unemployment rate fell from 7.2% in October to 6.7% in December, although there was a further drop in labour force participation.

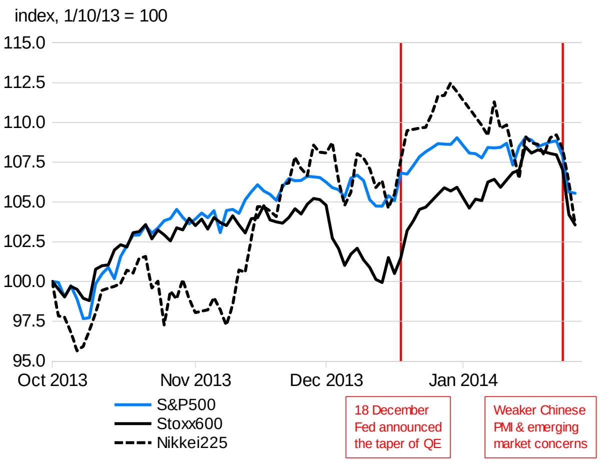
The Congress reached a bipartisan agreement on the 2014 and 2015 federal budgets, which saw a reduction in the pace of fiscal consolidation. However, the debt ceiling still needs to be raised as its suspension period ends on 7 February. The US Treasury warned that funding will be exhausted by the end of February.

...led to the tapering of asset purchases

The stronger-than-expected recovery led the Fed to announce in December the reduction of QE, starting in January. The monthly pace of asset purchases is to decline to US$65bn in February, US$20bn lower than December, according to the Fed's January statement. The Fed reiterated that tapering will be data-contingent and the Fed Funds Rate will be held low for a long period. Analysts expect asset purchases to be completely withdrawn by the end of 2014, given a more hawkish Fed voting board for 2014.

The start of tapering had a more material impact on global market sentiment later in January. There were no sizable falls in equities immediately following the announcement, but recent concerns around emerging economies, which led to a drop in stock prices and currencies, were partly driven by this withdrawal of Fed stimulus (Figure 5). Bond yields drifted higher and the USD appreciated, although the NZD/USD remained at an elevated level.

Figure 5: Major developed capital markets



Source: Haver

Pick-up in Australia not yet turning into jobs...

The housing-led pick-up continued in Australia. Strong housing demand was reflected in high annual growth in housing finance in November, while housing approvals were elevated. Retail sales rose 0.7%, in line with the recovery in the housing market. The high 2.7% annual inflation rate in the December quarter surprised the market, and diminished expectations of a further RBA rate cut. However, the labour market remained subdued. There were 7,200 fewer people employed in December compared to October, led by a large fall in the number of full-time employed, further contributing to the recent AUD depreciation.

...as recovery consolidates in the euro area and the UK

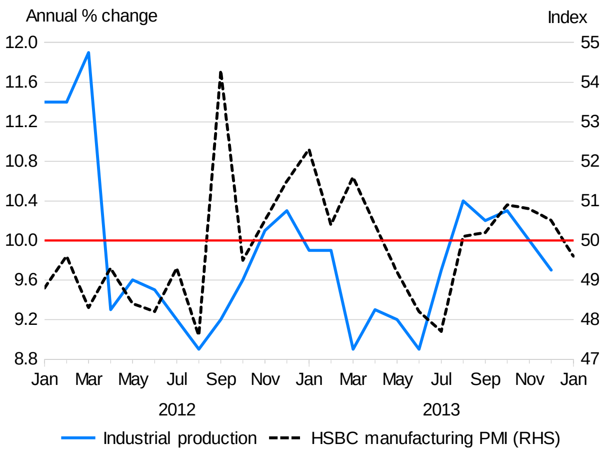
The euro area recovery gained some traction as IP and retail sales were buoyant in November, and PMIs for December showed solid growth in activity. However, lending to firms and households remains weak, and analysts increasingly expect further supportive actions from the ECB, especially given low inflation (0.8% in December).

The UK recovery accelerated, with GDP up 0.7% in the December quarter, supported by generally solid growth in retail sales and house prices. This reading took annual growth to 2.8%, its strongest post-GFC pace, although the UK's initial GDP estimate is subject to sizable revisions. The average unemployment rate for the three months to November fell 0.3% to 7.1%, and is now close to the BoE's 7.0% threshold at which a policy rate hike is possible. However, the BoE's January minutes restated its dovish policy stance.

Chinese activity cools towards year end...

The Chinese economy grew 7.7% in 2013 overall, above expectations, but activity eased in December. IP grew 9.7% annually in December, below expectations, and fixed investment growth fell, although annual retail sales grew as expected at 13.6%. The fall in the flash HSBC manufacturing PMI in January, by 1.0 point to 49.5, moved markets (discussed later). However, Figure 6 shows that the below-50 PMI is consistent with sub-trend growth in activity, and not necessarily a contraction.

Figure 6: China HSBC PMI and IP growth



Sources: HSBC, Haver

Credit risks resurfaced. A wealth-management fund facing default was bailed out by an unknown buyer, highlighting growing imbalances in the large informal banking sector. Local government debt was 31% of GDP at the end of 2012, a high level and an increase from 2010, although this is not considered to pose a risk of a systemic crisis.

...and BoJ may provide further stimulus

Developments in Japan were softer, ahead of the tax hike in April. GDP rose just 0.3% in the September quarter, followed by a decline in IP and consumer confidence in recent months. Analysts increasingly expect the BoJ to expand its QE programme, despite a recent rise in inflation, as the outlook for activity weakens. This month's special topic looks at how 'Abenomics' – the three-pronged economic plan aimed at rejuvenating the Japanese economy – has affected New Zealand's trade with Japan to date.

Vulnerabilities in emerging markets re-appear

The broad sell-off in emerging markets in late January, triggered by the weak Chinese PMI, highlighted key risks faced by these economies. Recovery in advanced economies and tapering-led higher yields mean that developed market assets are becoming more attractive. Meanwhile, weaker growth, higher debt and political uncertainty increased emerging market risks. These developments increased the risk of a large-scale outflow of capital from emerging markets, which would constrain credit availability, raise import costs and lower growth in a time of cyclical and structural downturn. A number of emerging market central banks – notably Turkey – have recently hiked their policy interest rates to shore up their currencies, with limited success so far.

A severe downturn in developing economies, especially emerging Asia, would negatively impact the NZ economy through reduced demand for our exports, including tourism services, but it is likely that there would be some partially offsetting effects, including a weaker NZD.

Special Topic: The impact of Abenomics on New Zealand – one year in

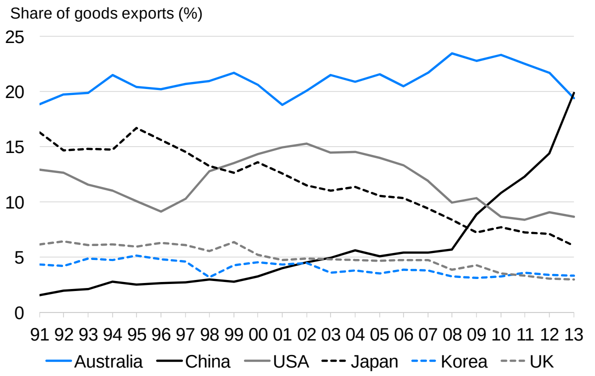
It has been just over a year since Japanese Prime Minister Shinzo Abe launched the three-pronged economic plan dubbed 'Abenomics' aimed at reviving the Japanese economy from almost 20 years of sluggish growth. The plan has monetary, fiscal and structural elements – the so-called three 'arrows' – aimed at ending the deflationary cycle, returning the public finances to a sustainable footing, and boosting the economy's potential rate of growth.

International opinion remains divided as to how successful these three arrows will prove, particularly at addressing the deep-rooted structural imbalances in the Japanese economy. While not a full assessment of the impact of Abenomics on the New Zealand economy, this special topic takes a look at the initial impacts so far on New Zealand's bilateral trade with Japan.

Abenomics offers potential long-term benefits for New Zealand exporters

The impact of Abenomics on New Zealand's trade with Japan will be felt through a variety of channels, both direct and indirect, and positive and negative, and will also differ between the short and the long term. Clearly, a rejuvenated Japanese economy has the potential to provide long-term benefits for New Zealand exporters. Japan has slipped down the ranks of New Zealand's top export markets over the past two decades, being surpassed by the US and, more recently, China (Figure 7). Nonetheless, it remains New Zealand's fourth largest goods export market, ahead of Korea and the UK, and is an important source market for overseas visitors too.

Figure 7 – New Zealand top export destinations



Sources: Statistics New Zealand, the Treasury

As the world's third largest economy, a more prosperous Japan would provide a welcome backdrop for regional and global economic growth too. To the extent that a stronger Japan enables faster growth in the Emerging Asia region, Abenomics has the potential to deliver additional indirect benefits for New Zealand exporters. In this regard, the International Monetary Fund has noted that an increase in Japanese foreign direct investment and bank lending to many Asian countries over the past year or so has helped to counteract some of the pressures that arose in the region from speculation of tapering in the US.

One year in, however, it is the short-term, knock-on effect on the yen from Abenomics' first arrow – the massive monetary expansion by the Bank of Japan aimed at achieving its new goal of 2% inflation – that has been the most visible. The yen has plunged by over 20% on a trade-weighted basis since Mr. Abe came to office in December 2012, and has fallen to a similar extent against the New Zealand dollar (NZD).

Weaker yen taking its toll on goods exports...

There is, of course, no simple answer as to how exchange rate movements affect the real economy and there are a range of trade-offs to consider.[1] On the negative side, the sharp increase in the bilateral exchange rate against the yen appears to have taken a toll on New Zealand's goods exports to Japan. In the year ended November 2013, exports to Japan fell by 12.7% ($400m) compared with the previous year, led by falls in exports of wood, fruit, and mineral fuels, although factors other than the exchange rate may have had an effect too. Either way, New Zealand's goods trade surplus with Japan, which has been a feature since mid-2009, has largely been eroded over the past year or so.

...as Japanese visitors tighten their belts

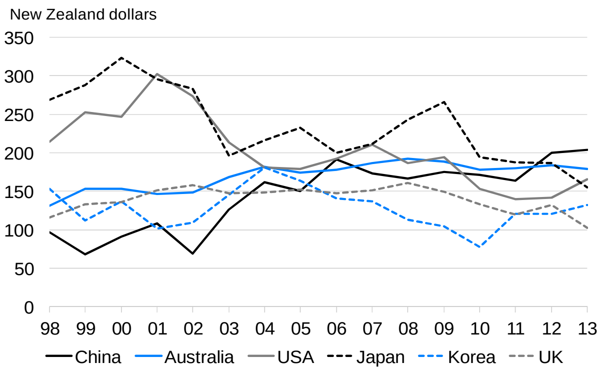
The weaker yen also appears to be constraining spending by Japanese visitors to New Zealand. Admittedly, the number of short-term visitor arrivals from Japan increased by around 7% in the year ended November 2013 from the previous year, having broadly stabilised after a dip around the time of the tsunami in 2011. However, according to the latest available data from the Ministry of Business, Innovation and Employment's International Visitor Survey, total

[1] This is one of the main conclusions of a Treasury Working Paper released in December 2013 and available on the Treasury website. See: Cassino and Oxley, *How Does the Exchange Rate Affect the Real Economy? A Literature Survey*, New Zealand Treasury Working Paper 13/26.

spending by Japanese visitors *fell* by 13% ($30m) in the year ended September 2013.

As recently as 2011, Japanese visitors to New Zealand spent more per day than visitors of any other nationality. However, in the year ended September 2013, Japanese visitors' daily spending ranked only fourth, behind visitors from China, Australia and the US, respectively (Figure 8). Overall, spending by Japanese visitors is likely to remain subdued over the coming years as the lagged impacts of the weaker yen feed through.

Figure 8 – Daily spend by visitors to New Zealand



Sources: MBIE, Statistics New Zealand, the Treasury

But there are some offsets...

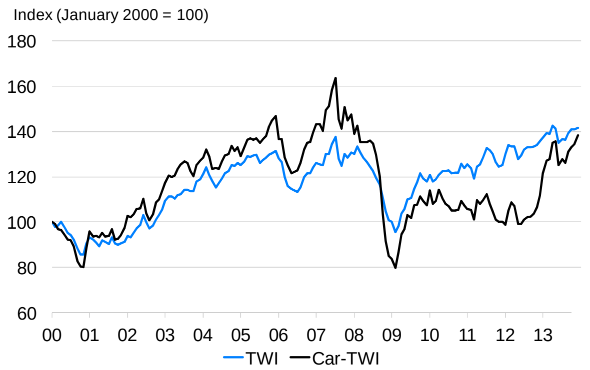
On the flipside, of course, the higher NZD exchange rate against the yen also makes yen-denominated imports from Japan cheaper. Around half of the goods that New Zealanders import from Japan are capital or intermediate goods (with the remainder dominated by imports of cars, discussed shortly). Given the ongoing Canterbury rebuild, the higher exchange rate against the yen, as with the elevated trade-weighted exchange rate index (TWI) in general, increases the quantity of goods that New Zealanders can buy with a given amount of NZD.

The higher exchange rate also makes it cheaper for New Zealanders to visit Japan, although this benefit is limited by the fact that nearly four times as many Japanese visitors visit New Zealand each year as go the other way.

...particularly with regard to car imports

Perhaps the largest beneficiary from the sharp rise in the NZD against the yen, however, has been car importers and, in turn, consumers. With no car exports to constrain, the usual two-sided and offsetting considerations associated with a high exchange rate mentioned above do not apply to cars. In this partial sense it is in New Zealand's interests to have as high a car-related TWI as possible. Figure 9 shows a car-weighted exchange rate index (car-TWI) for New Zealand, constructed by the Treasury based on data from the New Zealand Transport Agency on the origins of car imports over time. With over 80% of cars registered in New Zealand currently originating from Japan, the index is dominated by the yen cross-rate.[2] Accordingly, while the headline TWI has increased by around 6% since late 2012, the car-weighted index has surged by more than 33% over the same period.

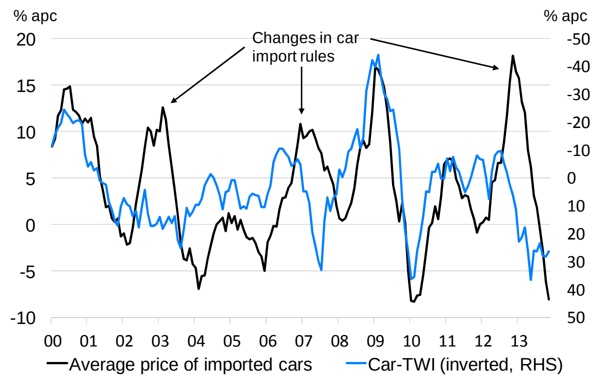
Figure 9 – Measures of the exchange rate



Sources: RBNZ, NZTA, the Treasury

Apart from three notable instances when emissions rules for imported cars were tightened, the average price of a car imported into New Zealand is closely (inversely) related to changes in the car-TWI (Figure 10). The average price of an imported car fell by $1,500 (8.1%) in NZD terms over the year ended November 2013.

Figure 10 – Cost of car imports vs. car-TWI

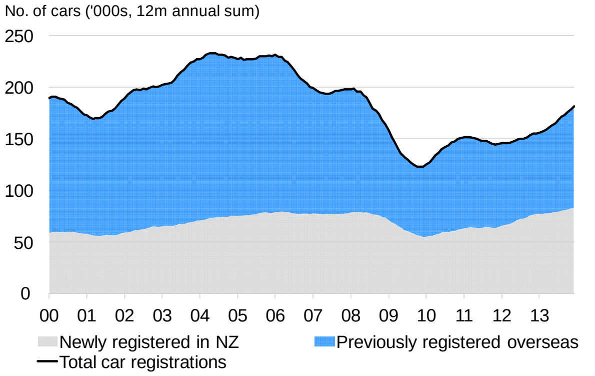


Sources: RBNZ, NZTA, the Treasury

This coincided with a surge in car registrations over the course of the year – particularly of cars previously registered overseas, which accounted for over three-quarters of the increase in registrations since the end of 2012 (Figure 11).

[2] At present, total car registrations in New Zealand are split roughly equally between cars registered here for the first time and cars that were previously registered overseas. Around two-thirds of the former, and almost all of the latter, originate from Japan.

Figure 11 – Car registrations



Sources: NZTA, the Treasury

All told, in the year ended November 2013, New Zealanders imported 20% more cars than in the previous year, but the value of such imports increased by just 10%. It is not accurate to describe this as a *saving*, as New Zealanders on the whole still spent more on car imports than in the previous year. However, all else equal and in the absence of the higher car-TWI, we estimate that the import bill for the same quantity of car imports would have been some $300 million higher than was actually paid.

Moreover, the higher car-TWI is also likely to afford a range of welfare benefits not readily visible in the nominal trade statistics. For example, as a result of the higher car-TWI, a given outlay of NZD could now potentially be able to buy a newer, safer and more economical car than previously would have been the case.

Conclusion

Assessing the impact to date of Abenomics on New Zealand's trade with Japan essentially boils down to evaluating the short-term impacts of the sizeable appreciation of the NZD against the yen. This is not an easy or scientific task. The stronger NZD appears to have reduced Japanese demand for New Zealand's goods and services exports, but there are a number of offsetting impacts to consider too – particularly given Japan's position as the main supplier of cars to New Zealand. On balance, we estimate that the positive and negative impacts for the economy as a whole broadly balanced each other out over the past year or so. However, there will have been winners (mainly consumers) and losers (exporters).

Over the longer term, a rejuvenated Japanese economy would increase Japanese demand for imports and offer potential lasting benefits for New Zealand's exporters. They would stand to benefit directly through Japan's position as New Zealand's fourth largest export market, and also indirectly through potential knock-on effects on the Emerging Asia region.

For now, though, it is too early to deem the Abenomics experiment a success and there remain a number of large challenges to overcome – particularly with regard to delivering growth-enhancing structural reforms. Only time will tell whether Abenomics will help to get the Japanese economy back on track, or whether it will prove another false dawn for the Land of the Rising Sun.

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

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New Zealand Key Economic Data

30 January 2014

Quarterly Indicators

		2012Q2	2012Q3	2012Q4	2013Q1	2013Q2	2013Q3	2013Q4
Gross Domestic Product (GDP)								
Real production GDP	qtr % chg[1]	0.2	0.2	1.3	0.5	0.3	1.4	...
	ann ave % chg	2.8	2.8	2.6	2.3	2.2	2.6	...
Real private consumption	qtr % chg[1]	0.1	0.1	1.3	0.9	1.1	0.4	...
	ann ave % chg	3.5	3.1	2.9	2.5	2.5	3.0	...
Real public consumption	qtr % chg[1]	0.3	0.4	0.3	-0.6	0.1	2.2	...
	ann ave % chg	-0.6	-1.0	-1.0	-0.6	-0.1	0.5	...
Real residential investment	qtr % chg[1]	7.2	4.3	2.0	8.0	-0.6	8.4	...
	ann ave % chg	7.2	13.3	15.4	19.1	17.9	17.7	...
Real non-residential investment	qtr % chg[1]	1.3	-2.0	0.6	1.6	6.7	0.9	...
	ann ave % chg	5.1	4.2	4.3	3.6	3.6	5.3	...
Export volumes	qtr % chg[1]	-0.6	3.1	0.9	0.9	-3.8	-0.7	...
	ann ave % chg	2.5	3.2	2.2	2.5	2.6	1.0	...
Import volumes	qtr % chg[1]	-2.6	1.5	-0.1	2.3	2.1	4.5	...
	ann ave % chg	4.3	2.2	2.6	1.2	2.4	4.6	...
Nominal GDP - expenditure basis	ann ave % chg	4.3	3.2	2.2	2.1	1.6	2.9	...
Real GDP per capita	ann ave % chg	2.0	2.0	1.9	1.6	1.5	1.9	...
Real Gross National Disposable Income	ann ave % chg	2.5	2.0	1.1	0.6	1.7	3.2	...
External Trade								
Current account balance (annual)	NZ$ millions	-7,516	-7,744	-8,590	-8,349	-8,243	-8,765	...
	% of GDP	-3.6	-3.7	-4.1	-3.9	-3.9	-4.1	...
Investment income balance (annual)	NZ$ millions	-9,957	-9,645	-9,300	-9,327	-8,896	-8,872	...
Merchandise terms of trade	qtr % chg	-2.5	-3.2	-1.2	4.2	4.6	7.5	...
	ann % chg	-6.7	-9.2	-8.9	-2.8	4.3	15.9	...
Prices								
CPI inflation	qtr % chg	0.3	0.3	-0.2	0.4	0.2	0.9	0.1
	ann % chg	1.0	0.8	0.9	0.9	0.7	1.4	1.6
Tradable inflation	ann % chg	-1.1	-1.2	-1.0	-1.1	-1.6	-0.5	-0.3
Non-tradable inflation	ann % chg	2.4	2.3	2.5	2.4	2.5	2.8	2.9
GDP deflator	ann % chg	1.4	-1.2	-2.3	0.3	0.0	3.1	...
Consumption deflator	ann % chg	0.4	0.5	0.6	0.4	0.1	0.5	...
Labour Market								
Employment (HLFS)	qtr % chg[1]	0.1	-0.4	0.5	0.2	0.4	1.2	...
	ann % chg[1]	0.6	0.0	0.4	0.4	0.7	2.4	...
Unemployment rate	%[1]	6.8	7.2	6.7	6.2	6.4	6.2	...
Participation rate	%[1]	68.5	68.4	68.2	67.9	68.1	68.6	...
LCI salary & wage rates - total (adjusted)[5]	qtr % chg	0.5	0.5	0.5	0.4	0.4	0.4	...
	ann % chg	2.0	1.9	1.8	1.8	1.7	1.6	...
QES average hourly earnings - total[5]	qtr % chg	0.1	1.1	-0.1	0.8	0.2	1.6	...
	ann % chg	2.9	2.8	2.6	2.1	2.1	2.6	...
Labour productivity[6]	ann ave % chg	2.1	3.1	3.4	2.4	1.6	0.6	...
Retail Sales								
Core retail sales volume	qtr % chg[1]	0.3	0.3	1.0	0.9	2.1	-0.1	...
	ann % chg	4.2	1.7	1.8	2.5	4.4	4.3	...
Total retail sales volume	qtr % chg[1]	0.9	0	1.8	0.8	1.5	0.3	...
	ann % chg	4.7	2.2	3.2	3.5	4.2	4.7	...
Confidence Indicators/Surveys								
WMM - consumer confidence[3]	Index	100	103	111	111	117	115	120
QSBO - general business situation[4]	net %	-4.1	8.0	19.8	23.0	31.9	37.6	51.7
QSBO - own activity outlook[4]	net %	8.1	17.7	18.7	18.1	17.8	30.3	30.7

Monthly Indicators

		2013M07	2013M08	2013M09	2013M10	2013M11	2013M12	2014M01
External Sector								
Merchandise trade - exports	mth % chg[1]	12.8	-2.7	-8.6	0.0	1.9	...	...
	ann % chg[1]	-5.3	-0.4	16.1	22.4	16.9	...	...
Merchandise trade - imports	mth % chg[1]	-5.7	2.1	12.9	-5.0	7.9	...	...
	ann % chg[1]	17.0	10.0	-1.0	5.6	-2.8	...	...
Merchandise trade balance (12 month total)	NZ$ million	-1705	-2129	-1559	-1018	-248	...	...
Visitor arrivals	number[1]	228,220	228,590	226,570	222,620	229,900	230,370	...
Visitor departures	number[1]	229,930	228,850	229,880	223,640	231,960	239,370	...
Housing								
Dwelling consents - residential	mth % chg[1]	-3.3	2.0	2.1	1.0	12.5	7.6	...
	ann % chg[1]	28.1	16.3	22.4	15.4	36.7	47.4	...
House sales - dwellings	mth % chg[1]	15.4	-3.5	0.4	0.5	-7.6	-1.0	...
	ann % chg[1]	14.7	8.5	18.9	2.0	-6.6	-1.1	...
REINZ - house price index	mth % chg	-0.5	2.1	0.8	1.6	1.2	-1.0	...
	ann % chg	8.6	9.5	9.8	9.9	9.6	9.2	...
Private Consumption								
Electronic card transactions - total retail	mth % chg[1]	0.5	0.6	-1.2	1.9	0.7	0.6	...
	ann % chg	7.7	6.4	3.5	7.0	6.7	5.5	...
New car registrations	mth % chg[1]	9.9	-4.0	-7.9	7.2	2.4	-1.5	...
	ann % chg	27.6	23.0	15.8	16.2	23.0	20.3	...
Migration								
Permanent & long-term arrivals	number[1]	7,720	7,930	8,050	8,310	8,210	8,340	...
Permanent & long-term departures	number[1]	5,750	5,770	5,280	5,310	5,450	5,520	...
Net PLT migration (12 month total)	number	10,569	12,848	15,174	17,490	19,478	22,468	...
Commodity Prices								
Brent oil price	US$/Barrel	107.89	111.34	111.64	109.16	107.96	110.67	*108.06*
WTI oil price	US$/Barrel	104.70	106.54	106.24	100.55	93.87	97.75	*94.30*
ANZ NZ commodity price index	mth % chg	0.6	0.7	-1.1	-1.0	0.2	1.7	...
	ann % chg	26.9	28.8	23.8	21.2	20.3	22.6	...
ANZ world commodity price index	mth % chg	0.6	0.7	0.9	1.4	-0.1	1.0	...
	ann % chg	25.7	26.0	22.9	22.9	21.6	21.6	...
Financial Markets								
NZD/USD	$[2]	0.7885	0.7923	0.8125	0.8349	0.8265	0.8229	*0.8293*
NZD/AUD	$[2]	0.8594	0.877	0.8759	0.8784	0.8856	0.915	*0.9348*
Trade weighted index (TWI)	June 1979 = 100[2]	74.78	74.75	76.22	77.25	77.21	77.51	*78.51*
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	2.64	2.65	2.67	2.66	2.73	*2.89*
10 year govt bond rate	%[2]	4.23	4.47	4.70	4.65	4.71	4.76	*4.65*
Confidence Indicators/Surveys								
ANZ - business confidence	net %	52.8	48.1	54.1	53.2	60.5	64.1	...
ANZ - activity outlook	net %	43.7	43.3	45.3	47.1	47.1	53.5	...
ANZ-Roy Morgan - consumer confidence	net %	119.8	123.0	118.8	122.3	128.4	129.4	135.8
Performance of Manufacturing Index	Index	59.3	57.3	54.5	56.1	57.0	56.4	...
Performance of Services Index	Index	58.0	52.7	56.1	58.0	56.4	57.5	...

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