Monthly Economic Indicators

THE TREASURY
Kaitohutohu Kaupapa Rawa

February 2014

Executive Summary

- **Momentum in the economy was sustained in the December 2013 quarter, pointing to quarterly growth of around 1%.**
- **Firms and consumers remain positive in their outlook in the new year, supporting growth in the March quarter.**
- **Some of the international economic data were weaker as a result of temporary factors.**

The underlying positive momentum in the New Zealand economy in the September quarter appears to have carried on into the December quarter, although the rebound in agricultural output from the drought will not be repeated. The number of people employed increased 1.1% in the December quarter and unemployment fell from 6.2% to 6.0%. Wage growth remained moderate and total labour incomes increased 5.2% from a year ago.

Other economic indicators also appear positive for GDP growth in the December quarter. Exports grew by more than imports, which is positive for GDP, the balance of payments and the terms of trade, and points to increased income for the tradables sector. Overseas visitor arrivals were steady and net external migration inflows picked up, boosting population growth and aggregate demand, particularly in Auckland and Christchurch.

Income growth from employment and exports supported retail sales in the December quarter, which is a positive indicator for private consumption growth. Overall, we expect robust growth in GDP of around 1% in the December quarter. The official figures will be released on 20 March.

Early indications are also positive for the March quarter, with consumer confidence at a seven-year high and job ads increasing in January. On a softer note, the housing market paused in January, but an acceleration in building consents in the December quarter points to further growth in residential investment in early 2014.

Firms remain optimistic early in the new year, with new orders and activity indicators at high levels. So far, the expansion has not brought higher cost-inflation, with labour, other inputs and capital goods prices all increasing only moderately in the past year, the only exception being construction costs. However, the economy is expected to show higher inflation as spare capacity is absorbed, and the Reserve Bank is widely expected to increase the Official Cash Rate on 13 March.

The international economic outlook is generally positive, but there are some signs of weakness in the latest data.

The Special Topic this month looks at a framework for understanding internal and external imbalances in an open economy. The framework is applied to the New Zealand economy in the light of recent developments and our forecasts.

New Zealand Government

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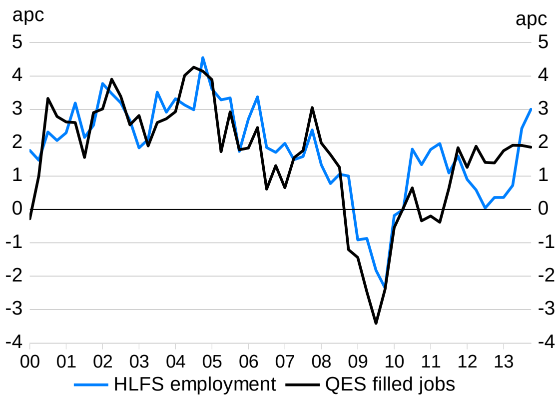
Positive momentum in the economy

Data released in the past month point to a continuation of the positive momentum seen in the New Zealand economy in the September quarter of 2013, although that 1.4% quarterly growth was boosted by a rebound in agricultural output from the drought earlier in the year. Employment and labour incomes continued to expand firmly in the December quarter and goods exports surged; high visitor arrivals point to an increase in net services exports, and increasing net external migration gains will have boosted aggregate demand. Other data, including building consents and consumer confidence, show ongoing momentum in the economy in early 2014.

Employment continued to expand...

Firms hired more staff in the December quarter, increasing the number of filled jobs by 0.4% and taking the annual increase to 1.9% (32,200), according to the Quarterly Employment Survey (QES) (Figure 1). More than half of the increase was in two of the largest industries: professional, science, technical, administration and support services (9,100), and health care and social assistance (7,700).

Figure 1: Filled jobs and employment growth



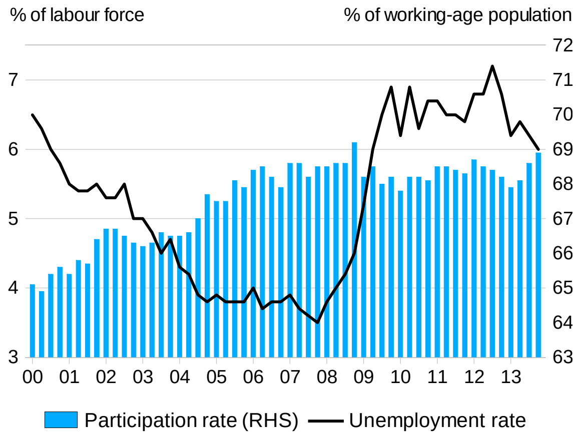
Source: Statistics NZ

The number of people employed increased by 1.1% (24,000) in the December quarter, taking the annual increase to 3.0% (67,000) on seasonally adjusted figures (Figure 1), according to the Household Labour Force Survey (HLFS) which has wider coverage than the QES.

...and unemployment fell slightly...

The number of people actively seeking and available for work (i.e., unemployed) fell slightly (down by 2,000 to 147,000 seasonally adjusted) in the December quarter. As a result of the rise in employment and small fall in unemployment, the total number of people in the labour force rose by 22,000, taking the participation rate to 68.9% – its second highest level in the 28-year history of the HLFS. The fall in the number of unemployed resulted in a fall in the unemployment rate from 6.2% in September to 6.0% (Figure 2), although the rate for females rose slightly to 6.9%. Increased numbers of females seeking work may be a result of welfare reforms which encourage beneficiaries to seek part-time work.

Figure 2: Unemployment and participation rates



Source: Statistics NZ

...and combined with moderate wage growth to produce higher labour incomes

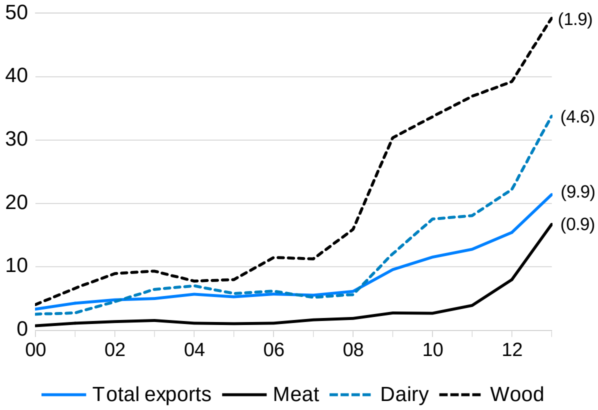
Wage growth picked up in the December quarter on an annual basis, but remained moderate. Average hourly earnings (for ordinary time) increased by 2.9% in the year to December, up from 2.1% in June and 2.6% in September. Wage growth was stronger in the private sector (at 3.2%) than in the public sector (1.6%). Average weekly paid hours (per full-time equivalent employee) increased only marginally from a year ago, but taking the increase in the number of people employed into account, total weekly gross earnings increased 5.2% from a year ago. The annual rate of growth was similar to the previous quarter, but up from 3.9% in the June quarter.

Employment growth in the December quarter was stronger than in our *Half Year Economic and Fiscal Update* (HYEFU) and followed growth of 1.2% in the previous quarter. While a lot of the increase in employment was a result of the Christchurch rebuild, employment growth was positive elsewhere as well. We expect employment to continue to grow in 2014, although at a slower rate than in the second half of 2013.

Higher export values...

The value of merchandise exports was up 18.3% in the December quarter from a year ago as the rebound in dairy production from the drought earlier in the year flowed through to higher export volumes. Export prices also increased for dairy products, with the value of milk powder, butter and cheese exports up by 62% from a year ago to $5.1 billion. Export volumes of these products were up by only 10%, implying a near 50% increase in export prices. The terms of trade (due for release in early March) are expected to record a further increase from the September quarter's 40-year high. Increased dairy product exports to China (particularly whole milk powder) and higher world prices made China New Zealand's largest goods export market in 2013, accounting for 21% of total goods exports ($9.96 billion). China is also taking an increasing share of forestry and meat exports (Figure 3).

Figure 3: China's share of New Zealand's top three goods export categories



Source: Statistics NZ

...and lower growth in imports...

The value of imports increased 6.4% in the December quarter from a year ago. Capital goods imports were up by 11.2% from a year before (chiefly transport equipment), pointing to increased investment in the December quarter, while consumption goods imports were up only 3.2%. Motor vehicle imports were up 17.5% from a year ago, possibly in response to lower prices (see last month's special topic), but crude oil and petrol imports were unchanged from a year ago.

...positive for GDP and boosted incomes

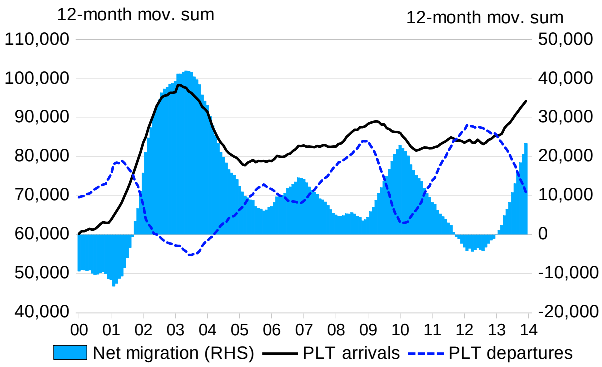
The increase in export values relative to imports will increase the goods surplus on the balance of payments in the December quarter. The merchandise trade balance turned around from a deficit of $766 million in the December quarter 2012, to a surplus of $534 million in 2013. The increased volume of exports relative to imports will make a positive contribution to quarterly GDP growth, and the elevated primary product export prices (reflected in the terms of trade) will boost farm incomes in the quarter.

The outlook for the goods terms of trade remains positive in the near term, as commodity prices have remained high and it takes one quarter (on average) for spot prices to flow through to export prices. The ANZ Commodity Price Index rose 1.2% in world price terms in January to a new record high, with dairy prices increasing strongly and forestry prices reaching a new record. Prices at the GlobalDairyTrade auction have remained elevated in February, supporting the terms of trade until the June quarter at least. Dairy prices may ease after that as global supply increases, although there is little sign of that so far. The outlook for trading partner growth (discussed below) remains positive, although there were some signs of weakness in the February data.

Overseas visitor arrivals and external migration also supportive of GDP growth

Net services exports are also likely to contribute positively to GDP growth in the final quarter of 2013. Short-term overseas visitor arrivals in the December quarter were steady in seasonally adjusted terms from the previous quarter, but New Zealand resident short-term departures fell 1.7%. Setting aside length of stay and daily spend factors, this should result in a gain on travel services net exports in the quarter.

Figure 4: External migration



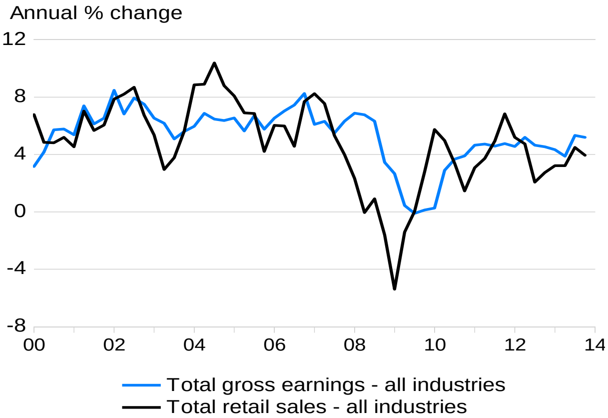
Source: Statistics NZ

Net external migration registered a larger gain in the December quarter as permanent and long-term arrivals (seasonally adjusted) increased by 1,160 from the September quarter and departures fell by 520. This took the annual net gain to 22,470, a turnaround from a net loss of 1,170 in 2012 (Figure 4) and boosted annual population growth in 2013 by 0.5%-point to 1.2%.

Growth in incomes to lead to higher consumption...

The growth in labour incomes (discussed above) and in farm incomes (from high export prices) is expected to lead to robust growth in private consumption in the December quarter. Retail sales volumes and values both increased by 1.2% in the quarter as retail prices remained unchanged overall. The increase was less than the growth in electronic card transactions (ECT) for the quarter (1.7%) suggested. The largest increases were for clothing and footwear (possibly in response to the good weather), recreational goods, electrical and electronic goods, and department store sales. Non-store and commission-based retail sales (which include on-line purchases within New Zealand) fell 10% in the quarter, possibly as households sourced more on-line purchases from overseas (not included in NZ retail sales). Those purchases may have received a boost prior to Christmas from the high value of the New Zealand dollar which was up 2.75% from the previous quarter and 5.0% from a year ago.

Figure 5: Retail sales and total gross earnings



Source: Statistics NZ

On an annual basis, retail sales increased 3.9% in both volume and value terms, ending a period of five quarters of annual price falls, and down from a growth rate of 4.7% in the volume of sales in the year to September 2013. Growth in sales in 2013 was less than the growth in total gross earnings of 5.2% (discussed above), suggesting that household spending remains well contained (Figure 5). However, growth in private consumption in the December quarter, as a major component of GDP, may be higher than retail sales as Statistics New Zealand now includes household purchases of goods worth less than $1,000 from overseas in private consumption. (Note that these are netted out from GDP as imports.) We expect real private consumption growth of around 1% in the final quarter of 2013.

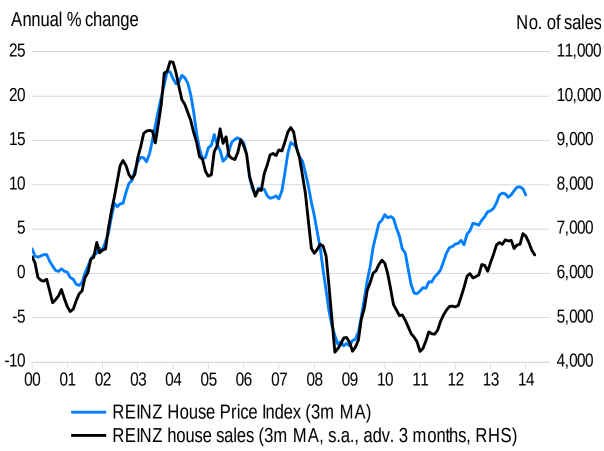
...with momentum flowing into 2014

Indicators are positive for private consumption growth in the March quarter. Although ECT fell 0.5% in January from December, they remained at a high level. ANZ-Roy Morgan consumer confidence increased to a seven-year high in February in seasonally adjusted terms from January's already high level. ANZ Job Ads increased 2.8% in January from December, a positive indicator for employment growth and a further fall in unemployment.

Housing market cooling...

One possible headwind for private consumption growth is a slight cooling in the existing home market as the loan-to-value restrictions continue to have an impact. Sales continued to fall from a year ago in January, down 4.3%, and prices now appear to be impacted, with the REINZ house price index falling slightly in January in seasonally adjusted terms (Figure 6). The annual growth in the price index slipped from 9.2% in December to 7.7% in January. However, median price increases remained robust in Auckland (14%) and Christchurch (10%). A slowdown in the housing market may weigh on private consumption growth in 2014, especially for consumer durables.

Figure 6: House prices and house sales



Source: Real Estate Institute of NZ

...but residential investment looks up

However, support for durables consumption may come from increased residential investment in 2014. The total number of dwelling consents increased 14.6% (seasonally adjusted) in the December quarter from September (+3.8% if volatile apartments are excluded), and up by a third from a year ago. The pick-up in consents points to a further acceleration in residential investment in 2014 as the Christchurch rebuild gathers pace and building expands in Auckland.

Robust growth expected in December quarter

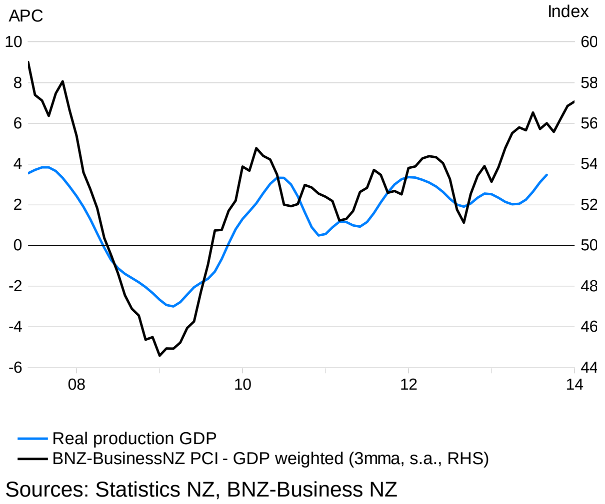
Overall, we expect robust growth in real GDP of around 1% in the December quarter, with positive contributions from all the main expenditure components, partially offset by some recovery in stocks. Production GDP growth is expected to be similar. The ANZ Regional Trends survey, which estimates GDP growth on a regional basis from secondary data, showed a 0.9% increase in nationwide activity in the quarter. The official figures will be released on 20 March.

Firms positive about current activity...

Firms remain very positive about their current activity. The BNZ-Business NZ Performance of Manufacturing Index (PMI) stood at 56.2 in January (seasonally adjusted), just below December's 56.4, but equal to the average for the previous six months and indicating rapid expansion. New orders remained above 60 and production increased 1.8 points to 59.5. The Performance of Services Index (PSI) rose to 58.1 in January, up 0.5 points from December and the highest monthly figure since November 2007 before the global financial crisis hit. New orders stood at 66.1 and activity/sales at 63.2.

The Performance of Composite Index, which combines the manufacturing and services indices, points to high GDP growth (Figure 7). The first reading from the ANZ Business Outlook survey, due for release on 28 February, is expected to maintain the high level of business confidence and activity outlook from late last year.

Figure 7: Performance of Composite Index and GDP



Sources: Statistics NZ, BNZ-Business NZ

...and face limited inflation pressures...

Firms do not appear to be facing generalised inflation pressures so far. Private sector wage and salary costs, measured by the Labour Cost Index (which measures the cost of a fixed unit of labour), increased 1.7% in the year to December 2013, their lowest rate of increase in three years.

Firms' input prices fell 0.7% on average in the December quarter, with price falls across the board but especially large falls for electricity with increased hydro generation. On an annual basis, input prices were up 2.8%, with dairy commodity prices being a large influence. Firms' output prices fell 0.4% in the quarter, led by wholesale electricity prices, but with only moderate increases elsewhere. Output prices increased 3.8% from a year ago, but were skewed by dairy farming and dairy manufacturing prices.

Capital goods prices increased only 0.5% in the quarter and 1.4% for the year. Increases were concentrated in residential and non-residential building costs (up 4.5% and 3.2% respectively from a year ago), and land improvements (up 2.0%), reflecting the pressures emanating from the Christchurch rebuild. Prices for plant, machinery and equipment (including transport equipment) fell on both a quarterly and annual basis, reflecting the high value of the NZ dollar.

...and inflation expectations broadly unchanged

The Reserve Bank's latest survey showed that firms' expectations of one-year-ahead consumer price inflation rose slightly from 1.9% to 2.0%, while two-year-ahead expectations were unchanged at 2.3%. Respondents expected 90-day interest rates to be 3.0% by the end of March, slightly above current levels. The Reserve Bank is widely expected to increase the Official Cash Rate by 25 basis points to 2.75% on 13 March as spare capacity is absorbed in the economy.

Transitory softness in international economy

Global developments were slightly weaker in February as US activity continued to be weather-impaired, while temporary factors may have dampened Chinese growth in early 2014.

A policy-neutral RBA waits for jobs to pick up

The Reserve Bank of Australia (RBA) revised up its 2014 growth forecast and acknowledged that low interest rates are leading to an improvement in the economic outlook. While the Bank expects the unemployment rate to rise, it indicated that it would hold rates steady in the near term after annual inflation in the December quarter was higher than expected at 2.7%.

Low interest rates continued to support activity. New lending for housing was up 28.5% annually in December, and house prices were up 3.5% in the December quarter. Higher prices encouraged increased dwelling approvals and supported retail sales. The January NAB business survey confirmed rising business confidence and conditions. However, the labour market remains weak. Employment fell 3,700 in January and the unemployment rate climbed to a decade-high of 6.0%, the same as New Zealand's. Wage growth in 2013 was the weakest on record.

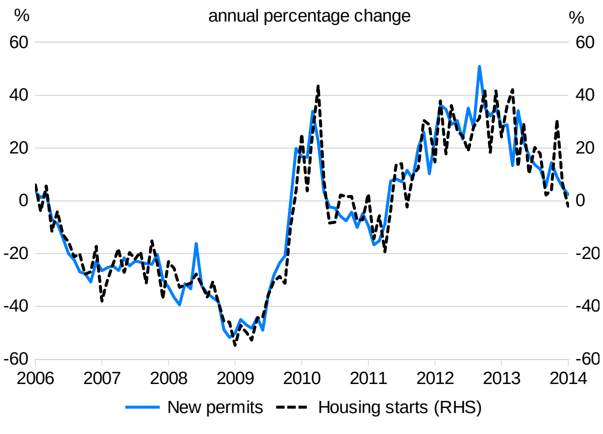
China sees a soft start to the year...

Chinese data began the year on a weak note. The official PMIs and the HSBC PMIs all showed lower growth in early 2014 relative to the recent history in both manufacturing and services. Temporary factors, including the Chinese New Year, pollution control and clampdowns on spending by officials, are likely to have contributed to the weak PMIs.

...while the harsh US winter impairs activity...

The harsh winter weakened US activity. Non-farm payrolls grew by a subdued 113,000 in January, although in the separate household survey the unemployment rate fell 0.1% points to 6.6% on strong jobs growth. Retail sales and industrial production (IP) fell in January, as the ISM manufacturing PMI tumbled 5.2 points to 51.3. However, the non-manufacturing PMI rose, and the general data softness is expected to be transitory.

Figure 8: Supply of new houses in the US



Source: Haver

The recent softness in housing supply raises questions about the housing recovery as mortgage rates edge higher. The inclement weather played a part in the 16% plunge in January's housing starts, but new permits, which should be less affected by the weather, fell 5.4% (Figure 8).

Analysts expect the Federal Reserve to continue to taper QE. Meanwhile, low inflation (1.6% in January) reinforces the 'low-for-long' guidance on the Fed Funds Rate and Congress has approved a bill extending the debt ceiling until March 2015.

...and Japan's growth falters towards year end

Sluggish Japanese GDP growth of 0.3% in the December quarter reinforced concerns around the stimulus-led recovery, although investment continued to be robust. A strong manufacturing PMI in January (56.6) and a 0.3%-point fall in the unemployment rate to 3.7% in December suggest that growth may rebound in the March quarter before the tax rise. A large trade deficit owing to the high cost of energy imports and the weak yen led to a deteriorating external position over 2013. The Bank of Japan (BoJ) doubled the size of two programmes aimed at stimulating bank lending and is on track to doubling the monetary base (up 52% annually in January). The BoJ left its QE programme unchanged in February.

Positively, the euro area recovery continues

The euro area economy expanded 0.3% in the December quarter, confirming a steady albeit slow recovery; rising financial market sentiment reflected the improving outlook. However, key indicators remained tepid: retail sales and IP contracted in December, while the PMIs fell in February. All told, the near-term pace of recovery will likely be modest. The European Central Bank (ECB) is confident that inflation will return to 2%, despite a low 0.8% outturn in January, but some analysts expect further ECB action to boost growth and counter disinflationary pressures.

The BoE's new guidance becomes entrenched

The Bank of England (BoE) introduced further forward guidance as the unemployment rate edged closer to the 7% threshold for possible rate hikes. The Bank stated that a hike is unlikely after the 7% threshold is met, owing to sizable spare capacity in the economy. This new guidance was reinforced by the 1.9% inflation rate in January, the first time it has fallen below the BoE's 2.0% target in four years.

Special Topic: Macroeconomic equilibrium in the long run

This month's special topic uses the Swan framework, first developed by the Australian economist, Trevor Swan, in the 1950s, to revisit the concepts of long-run internal and external equilibrium for the New Zealand economy.[1]

Background

The concept of internal equilibrium relates to an economy that is fully-employed and operating in line with its potential level of activity. This analysis defines internal equilibrium in terms of the *level* of GDP at any point in time relative to its potential level – the so-called output gap – as opposed to its potential rate of *growth*. However, this is not a precise concept, particularly given the usual lagging relationship between GDP and employment growth.

The concept of external equilibrium relates to when the current account is equal to its desired long-run position. Where this lies depends on your view of a country's 'sustainable' long-run net international investment position (NIIP) and its long-run rate of nominal GDP growth. Table 1 shows indicative long-run levels of the NIIP under different assumptions of nominal GDP growth and the current account.[2] For example, a current account deficit in the region of 4% of GDP is consistent with ultimately stabilising New Zealand's NIIP in the region of -90% of GDP in the long run. By contrast, a current account deficit of around 3% of GDP is consistent with eventually stabilising the NIIP broadly in line with its present level of around -70% of GDP. The latter is the measure used in the rest of this special topic.

Table 1 – Indicative long-run NIIP positions under different long-run economic assumptions (% of GDP, abstracting from valuation changes)[3]

		Nominal GDP growth (annual % change)		
		4.0%	**4.5%**	**5.0%**
Current account balance (% of GDP)	**0**	0	0	0
	-1	-26	-23	-21
	-2	-52	-46	-42
	-3	-78	-70	-63
	-4	-104	-93	-84
	-5	-130	-116	-105

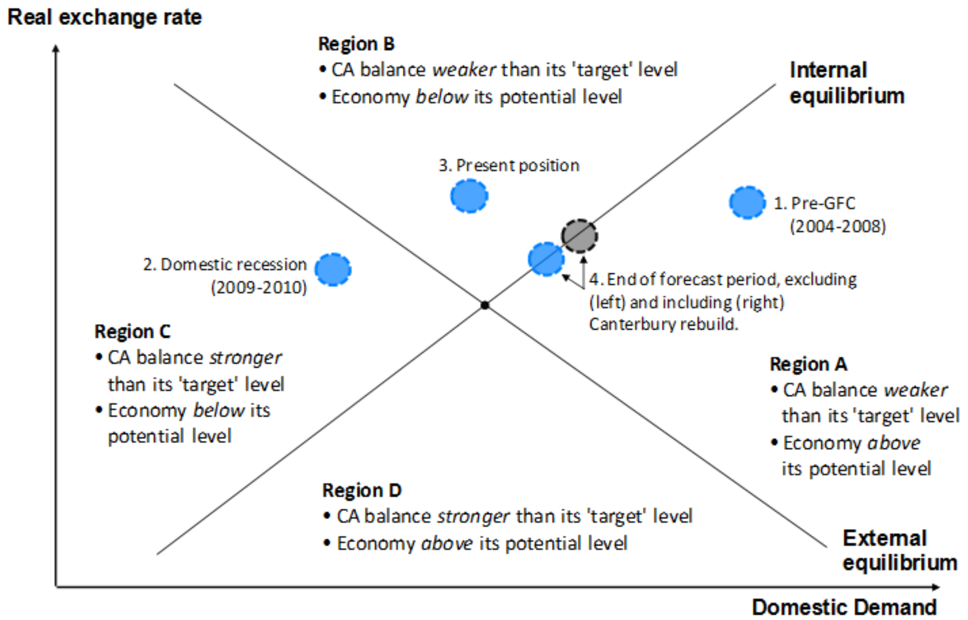
Source: The Treasury

The Swan framework

Figure 9 illustrates the standard Swan framework, dictated by the external and internal equilibrium lines. The intuition behind the former is that the lower a country's real exchange rate, the more attractive its exports to overseas buyers and the stronger its external position. Accordingly, to help maintain external equilibrium, more domestic demand is needed to boost imports and to bring the external side back into shape. Hence the downward slope of the external equilibrium line.

The intuition is the opposite for the internal equilibrium line: the stronger the level of domestic demand, the higher the exchange rate needed to restrain net exports to prevent the economy overheating (i.e., operating ahead of its potential level).[4] The interaction of domestic demand and the real exchange rate determines which one of the four regions in Figure 9 an economy is operating in at any point in time.

Figure 9 – Swan framework for New Zealand (note that each position of the economy in the diagram is stylised)



Source: The Treasury

Recent developments in the New Zealand economy

While highly stylised, the Swan framework can be used to illustrate recent trends in the New Zealand economy and how the Treasury's forecasts relate to internal and external equilibrium.

In the four-year period prior to the global financial crisis, the New Zealand economy was operating in region A of Figure 9, represented by marker 1. During this period, the current account deficit averaged in the region of 7% of GDP – wider than that consistent with external equilibrium for New Zealand in the long run. Meanwhile, the positive output gap and tight labour market were consistent with the economy operating above its potential level.

Following the recession in the aftermath of the global financial crisis, the economy shifted into region C (represented by marker 2). The real exchange rate fell and the current account balance improved markedly. The current account deficit is now estimated to have averaged 2.1% of GDP between mid-2009 and the end of 2010 – narrower than the notion of external equilibrium mentioned earlier, hence the position to the left of the external equilibrium line. As a negative output gap opened up and conditions in the labour market weakened, the economy shifted to the left of the internal equilibrium line too.

The recovery in domestic demand and the rise in the real exchange rate over recent years have seen the economy move up and to the right somewhere in region B (marker 3 – very much stylised). Following recent revisions, the current account deficit is expected to remain in the region of 3-4% of GDP in the near term, consistent with stabilising net external liabilities in the region of 70-80% of GDP in the long run. While the output gap is estimated to be largely closed, the usual lagging relationship with job creation means that the unemployment rate remains higher than that consistent with internal equilibrium.

Outlook for the forecast period

The economy is expected to shift further to the right of the diagram over the course of the forecast period as domestic demand increases. In terms of dynamics, it will move back into region A for a few years as a positive output gap opens up, before settling to a point on the internal equilibrium line by the end of the forecast period (marker 4). Note that it is standard practice for the Treasury's forecasts to achieve internal equilibrium by the end of the forecast period, because it is assumed that monetary policy is effective in ensuring that the economy operates at full capacity by the end of the five-year forecast horizon.

Following the revisions to the current account in the 2013 National Accounts, all else being equal we expect the current account deficit to widen to around 6% of GDP at the end of the forecast period, compared to around 6.5% of GDP in the *Half Year Update* (HYEFU) forecasts. Crucially, however, this would still be wider than the concept of long-run external equilibrium for New Zealand, hence the position of the grey marker 4 to the right of the external equilibrium line. Excluding the Canterbury rebuild-related investment that is expected to take place over the forecast period points to a narrower 'underlying' current account deficit of around 4-4.5% of GDP at the end of the forecast period (represented by the blue marker 4).[5] This is closer to being in external equilibrium than the headline forecast, but would still be wider than that consistent with stabilising the NIIP in line with its present level in the long run.

Further macroeconomic adjustment beyond the forecast horizon

The assumed depreciation in the (real) exchange rate towards the end of the Treasury's forecast period is expected to begin to stimulate activity in the exchange rate-sensitive parts of the economy, such as the services and non-commodity export sectors. Given the lags between changes in relative prices (i.e., the exchange rate) and changes in economic agents' behaviour, this process is expected to continue beyond the end of the forecast period as well.

However, based on the Treasury's HYEFU forecasts, further macroeconomic adjustment outside the forecast period is likely in order to achieve external equilibrium in the long run. Based on the Swan framework, this involves a combination of a lower real exchange rate to further bolster activity in the exchange rate-sensitive sectors, as well as weaker domestic demand (i.e., higher national saving) to shift closer to the centre of the diagram.

Conclusions supported by international research

Of course, this conclusion stems directly from the Treasury's forecast for the current account deficit to widen from its current level over the coming five years or so. However, the prognosis is supported by international forecasters, most notably the International Monetary Fund (IMF), who expect the current account deficit to widen by a similar extent over the same period.[6]

The IMF's forecasts are used as a direct input into the Peterson Institute's bi-annual update of global equilibrium exchange rates, which employs a similar, macroeconomic balance-style framework to that of the Swan framework explained above.[7] Given that the Peterson Institute specify a long-run 'target' current account deficit for New Zealand of 3% of GDP, the latest update from November 2013 concludes that the New Zealand dollar remains significantly overvalued.

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[1] The concept of macroeconomic equilibrium has been discussed in a number of Treasury working papers in recent years, including: Cassino and Oxley, *How Does the Exchange Rate Affect the Real Economy? A Literature Survey*, WP13/26, December 2013; and Labuschagne and Vowles, *Why are Real Interest Rates in New Zealand so High? Evidence and Drivers*, WP10/09, December 2010.

[2] For further discussion of this relationship in the long run, see Sebastian Edwards' paper, *External imbalances in New Zealand,* presented at a joint Treasury/Reserve Bank workshop in 2006: http://www.rbnz.govt.nz/research_and_publications/seminars_and_workshops/12jun06/tspl-edwards.pdf

[3] The long-run relationship is given by the equation:
NIIP = CA(1+n)/n
where NIIP and CA are the long-run NIIP and current account positions expressed as a % of GDP, and n is nominal GDP growth.

[4] For further discussion of the workings of the Swan diagram, see: Temin, Peter, *Currency Crises from Andrew Jackson to Angela Merkel*, MIT Department of Economics Working Paper No. 13-07, February 2013.

[5] Note, however, that this should not be considered a forecast or a counterfactual of what would have happened to the current account in the absence of the earthquakes.

[6] See the IMF's World Economic Outlook Database, October 2013: http://www.imf.org/external/pubs/ft/weo/2013/02/weodata/index.aspx

[7] For the latest release from November 2013, see: http://www.iie.com/publications/pb/pb13-29.pdf

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

26 February 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	1.1
	ann % chg[1]	0.6	0.0	0.4	0.4	0.7	2.4	3.0
Unemployment rate	%[1]	6.8	7.2	6.8	6.2	6.4	6.2	6.0
Participation rate	%[1]	68.5	68.4	68.2	67.9	68.1	68.6	68.9
LCI salary & wage rates - total (adjusted)[5]	qtr % chg	0.5	0.5	0.5	0.4	0.4	0.4	0.5
	ann % chg	2.0	1.9	1.8	1.8	1.7	1.6	1.6
QES average hourly earnings - total[5]	qtr % chg	0.1	1.1	-0.1	0.8	0.2	1.6	0.2
	ann % chg	2.9	2.8	2.6	2.1	2.1	2.6	2.9
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	1.1	0.9	2.1	-0.2	0.7
	ann % chg	4.2	1.7	1.8	2.5	4.4	4.3	3.7
Total retail sales volume	qtr % chg[1]	0.9	0	1.8	0.8	1.5	0.2	1.2
	ann % chg	4.7	2.2	3.2	3.5	4.2	4.7	3.9
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

		2013M08	2013M09	2013M10	2013M11	2013M12	2014M01	2014M02
External Sector								
Merchandise trade - exports	mth % chg[1]	-2.7	-8.4	0.0	2.0	5.4	...	...
	ann % chg[1]	-0.4	16.1	22.4	16.9	16.0	...	...
Merchandise trade - imports	mth % chg[1]	2.2	12.8	-5.7	8.5	-2.7	...	...
	ann % chg[1]	10.0	-1.0	5.6	-2.8	18.8	...	...
Merchandise trade balance (12 month total)	NZ$ million	-2129	-1559	-1018	-248	-259	...	...
Visitor arrivals	number[1]	228,590	226,570	222,620	229,900	230,370	...	...
Visitor departures	number[1]	228,850	229,880	223,640	231,960	239,370	...	...
Housing								
Dwelling consents - residential	mth % chg[1]	2.0	2.1	1.0	12.5	7.6	...	...
	ann % chg[1]	16.3	22.4	15.4	36.7	47.4	...	...
House sales - dwellings	mth % chg[1]	-3.5	0.5	0.7	-7.5	-0.7	3.7	...
	ann % chg[1]	8.5	18.9	2.0	-6.6	-1.1	-4.3	...
REINZ - house price index	mth % chg	2.1	0.8	1.6	1.2	-1.0	-2.4	...
	ann % chg	9.5	9.8	9.9	9.6	9.2	7.7	...
Private Consumption								
Electronic card transactions - total retail	mth % chg[1]	0.6	-1.2	1.9	0.6	0.6	-0.5	...
	ann % chg	6.4	3.5	7.0	6.7	5.5	6.1	...
New car registrations	mth % chg[1]	-4.6	-7.5	7.0	2.6	-1.4	2.1	...
	ann % chg	23.0	15.8	16.2	23.0	20.3	20.2	...
Migration								
Permanent & long-term arrivals	number[1]	7,930	8,050	8,310	8,210	8,340	...	...
Permanent & long-term departures	number[1]	5,770	5,280	5,310	5,450	5,520	...	...
Net PLT migration (12 month total)	number	12,848	15,174	17,490	19,478	22,468	...	...
Commodity Prices								
Brent oil price	US$/Barrel	111.34	111.64	109.16	107.96	110.67	108.11	*109.07*
WTI oil price	US$/Barrel	106.54	106.24	100.55	93.87	97.75	94.64	*100.35*
ANZ NZ commodity price index	mth % chg	0.7	-1.4	-1.0	0.5	1.7	0.6	...
	ann % chg	28.8	23.4	20.8	20.3	22.6	23.9	...
ANZ world commodity price index	mth % chg	0.7	1.1	1.4	-0.3	1.0	1.2	...
	ann % chg	26.0	23.1	23.0	21.6	21.6	22.6	...
Financial Markets								
NZD/USD	$[2]	0.7923	0.8125	0.8349	0.8265	0.8229	0.8283	*0.8281*
NZD/AUD	$[2]	0.877	0.8759	0.8784	0.8856	0.915	0.9347	*0.9231*
Trade weighted index (TWI)	June 1979 = 100[2]	74.75	76.22	77.25	77.21	77.51	78.41	*77.90*
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	2.67	2.66	2.73	2.88	*2.92*
10 year govt bond rate	%[2]	4.47	4.70	4.65	4.71	4.76	4.64	*4.57*
Confidence Indicators/Surveys								
ANZ - business confidence	net %	48.1	54.1	53.2	60.5	64.1	...	...
ANZ - activity outlook	net %	43.3	45.3	47.1	47.1	53.5	...	...
ANZ-Roy Morgan - consumer confidence	net %	123.0	118.8	122.3	128.4	129.4	135.8	133.0
Performance of Manufacturing Index	Index	57.2	54.5	56.1	57.0	56.4	56.2	...
Performance of Services Index	Index	52.7	56.0	57.9	56.5	57.6	58.1	...

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