

May 2014

Executive Summary

- **May's data releases showed strong demand, confirming the continuation of economic momentum.**
- **The labour market continued to improve in the March quarter, with strong jobs growth and an expansion of the labour force, resulting in a steady unemployment rate.**
- **The international economy showed some weakness in the March quarter, with slower growth in some of New Zealand's major trading partners.**

Data released in May showed continuing strong demand in the economy, confirming the continuation of economic momentum from the second half of 2013, although business and consumer confidence eased slightly but remain at elevated levels. Data on retail spending continue to support our expectations of a solid lift in private consumption in the March quarter.

There was strong jobs growth and an expansion of the labour force in the March quarter, resulting in a steady unemployment rate and moderate wage growth. The relatively subdued wage inflation is consistent with the moderate underlying inflation across business costs in general but is still expected to accelerate in the year ahead as the labour market gradually tightens. An expanding workforce also contributed to higher labour incomes, providing further support for domestic demand.

The ongoing surge in net migrants, along with elevated consumer confidence, is consistent with a further strengthening of domestic demand over the middle of 2014. However, there are several factors which will act to temper demand, including easing dairy prices, monetary tightening and a moderation in house price inflation.

Dairy auction prices continued to ease from historically elevated levels and were reflected in Fonterra's lower forecast milk payout for the upcoming 2014/15 season. Falling dairy prices are likely to flow through a decline in export values in coming months, although recent increases in the price of other commodities will provide a partial offset.

All told, recent developments support the Treasury's recently released Budget Economic and Fiscal Update 2014, the economic forecasts for which were finalised on 17 April.

The international economy showed some weakness in the March quarter, with relatively low growth in some of New Zealand's major trading partners. However, activity was strong in the UK and Japan, and the US picked up as the harsh winter receded. The policy stance of the major central banks remains accommodative and global monetary conditions are likely to be easy for some time.

This month's special topic is a comparison of the Australian and New Zealand Budgets released in May.

Domestic demand remains elevated

Data released in May indicated continuing strong demand in the economy, confirming the continuation of economic momentum from the second half of 2013, although business and consumer confidence eased slightly but remain at elevated levels. There was strong jobs growth and an expansion of the labour force in the March quarter, resulting in a steady unemployment rate and moderate wage growth. Relatively subdued wage inflation is consistent with the moderate underlying inflation across business costs in general. However, above-trend growth and a gradual tightening of the labour market are likely to see inflationary pressures build over the coming year.

Data on retail spending continues to support our expectations of a solid lift in private consumption in the March quarter, reinforced by the expansion in the workforce which is contributing to higher labour incomes. The ongoing surge in net migrants, along with elevated consumer confidence, is consistent with a further strengthening of domestic demand over the middle of 2014. However, there are several factors which will act to temper demand pressures, including easing dairy prices, monetary tightening and a moderation in house price inflation. Nevertheless, recent developments support the Treasury's *Budget Economic and Fiscal Update 2014 (BEFU 2014)*, which was finalised on 17 April.

Strength in jobs growth continues...

Labour market data for the March 2014 quarter continued to show sustained jobs growth. According to the Household Labour Force Survey (HLFS), employment rose 0.9% in the quarter, building on the strong gains in the second half of 2013, which saw the annual rate of growth accelerate to 3.7% (Figure 1). Underlying the increase in employment over the past year has been a persistent lift in the number of both part-time and fulltime workers. The corresponding survey of businesses (Quarterly Employment Survey (QES)) saw filled jobs rise at a similar pace of 1.1% in the quarter, to be up 2.6% in the year. There were continued signs of broader-based improvement in the labour market, with QES filled jobs and HLFS employment outside of

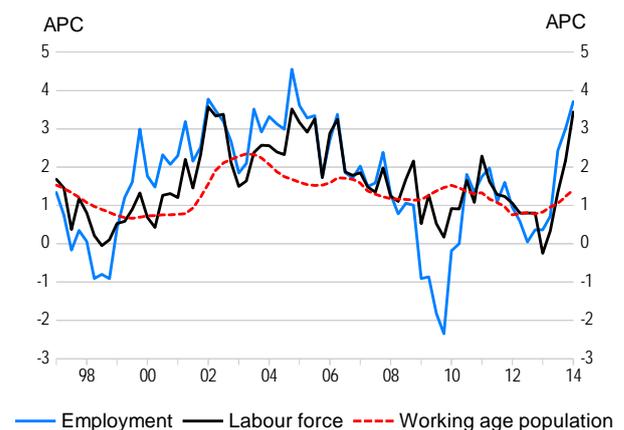
Auckland and Canterbury showing positive growth.

...matched by an increase in labour supply...

The participation rate rose 0.4% points to 69.3% – the highest level on record – which saw the unemployment rate hold steady at 6.0%. The lift in the participation rate over the past year was notable amongst younger age groups (15-24 years) as well as in prime working age groups (30-39 years).

While structural factors (e.g., welfare reforms and increasing female participation) may be contributing to the elevated participation rate, the strong employment growth is encouraging others to look for work, driving the broad expansion in the labour force observed in recent quarters (Figure 1). The pool from which the labour force is drawn (i.e., the working age population) is also increasing, supported by the ongoing surge in external net migration which has been chiefly driven by fewer departures to Australia. The rise in the participation rate is broadly consistent with the *BEFU 2014* forecasts and it is expected that the rate will remain elevated at its current level. However, a degree of statistical correction cannot be ruled out.

Figure 1: Employment, labour force and working-age population growth



Source: Statistics NZ

...contributing to modest wage growth...

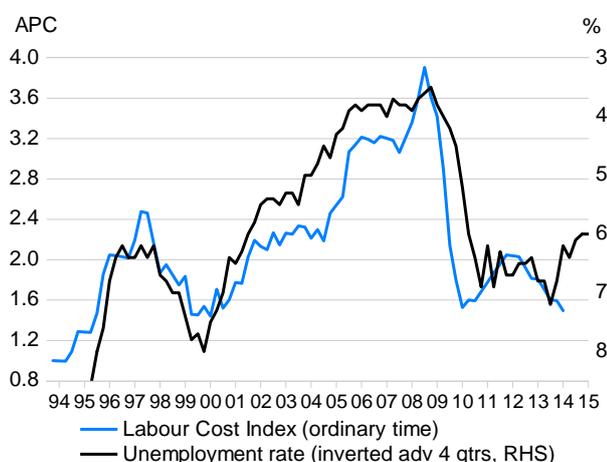
The strong labour supply response has contributed to the relatively moderate wage growth in the recent period. The QES measure of average hourly earnings (ordinary time) grew 2.5% annually in the March quarter, moderating from 2.9% previously. Similarly, the Labour Cost

Index (LCI) (a measure of wage inflation) for ordinary time salary and wage rates rose a subdued 0.3% in the quarter, with the annual rate falling slightly to 1.5% from 1.6%, broadly in line with CPI inflation. For the construction sector, LCI wage inflation was slightly higher at 1.9%, although the quarterly rate eased 0.1% points to 0.5%, suggesting that wage pressures in the industry remain contained for now.

Modest wage inflation is also consistent with moderate underlying inflation in other costs faced by businesses. The input producers' price index rose 1.0% in the March 2014 quarter, to be up 3.1% in the year. This was largely influenced by higher input prices in electricity and gas supply as low lake levels led to a switch to more costly thermal generation. The capital goods price index lifted 0.6% in the March quarter to be up 2.1% in the year. The increase was largely driven by non-tradable asset groups (residential and non-residential buildings), while prices for tradable asset types such as transport equipment were down, partly reflecting an appreciation of the NZ dollar (particularly against the yen) and weak world prices for capital goods.

Wage inflation is still expected to pick up as the labour market gradually tightens and the economy grows above trend. Historically, wage inflation tends to lag movements in the unemployment rate by about three to four quarters (Figure 2), so it is expected that wage inflation will begin to catch up in the near future. The NZIER Quarterly Survey of Business Opinion (QSBO) showed that both skilled and unskilled labour has been difficult to find over recent quarters, suggesting upward pressure ahead for wages.

Figure 2: Wage inflation and the unemployment rate



Source: Statistics NZ

...but consumption growth to remain robust

Retail trade data for the March quarter indicated robust private consumption growth, in line with the recently released *BEFU 2014*. Retail sales volumes lifted 0.7% in the quarter following a strong upwardly-revised 1.4% increase in the December quarter. The outturn translates to an annual growth rate of 3.8% - well above the series average of 2.4%. The main contributors to the quarterly rise came from electrical and electronic retailing (+5.5%), hardware, building and garden supplies (+2.0%) and food and beverage service sales (+1.5%).

The large rise in total labour incomes reported in the QES further reinforces our expectation of solid household consumption growth in the March quarter. Despite the modest growth in nominal wages, total gross weekly earnings rose a strong 6.4% in the year to March owing to a large increase in total hours paid (+3.8%) as the workforce expanded.

Business sentiment positive...

The manufacturing sector continued to show expansion in April. The BNZ-BusinessNZ Performance of Manufacturing Index (PMI) stood at 55.2, down 2.9 points from the previous month, but has remained in expansionary territory for 19 consecutive months, while the Performance of Services Index (PSI) rose by 0.4 points to 58.9, the highest since late 2007. The two indices indicate solid expansion in manufacturing and services activity as well as ongoing jobs growth. The ANZ Business Outlook (ANZBO) survey for May also pointed to continued expansion in the economy with a net 51% of firms optimistic about activity for their own business, down slightly from a net 53% but well above the long-run average.

Hiring intentions from ANZBO were also at healthy levels along with ANZ job ads, indicating positive jobs growth ahead. The number of job ads rose 2.6% in April, the fourth consecutive rise, led by a 2.9% rise in internet job ads. The outturn points to a reduction in the unemployment rate in coming quarters, assuming that the labour force participation rate remains fairly stable.

...and consumer confidence holds up...

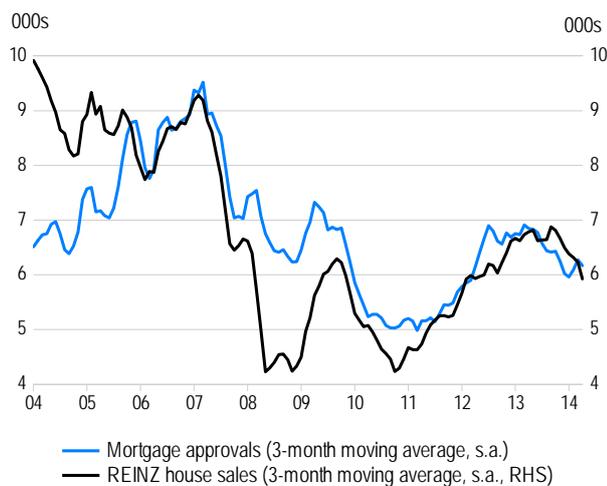
Consumer confidence continues to hold up at elevated levels relative to history but did drop in May, likely reflecting the effect of recent interest rate rises. On a seasonally-adjusted basis, the ANZ Consumer Confidence Index fell 7.3 points to 127.1, 6.2 points below the peak in March this

year. In April, total electronic card spending at retail outlets lifted 0.3%, holding onto the large gains seen over recent months. All told, economic data continues to suggest a robust near-term outlook for household consumption, although confidence levels have eased, possibly reflecting the start of monetary tightening.

...while a further moderation in housing market activity was evident

REINZ housing market data for April pointed to a further moderation in activity with house sales falling 7.1% on a seasonally-adjusted basis, to be down 20.2% from levels last year. The close proximity of Easter and ANZAC Day is likely overstating the fall in sales for April. Nevertheless a downward trend is apparent since loan-to-value restrictions (LVRs) came into effect in October last year (Figure 3). The moderation in the housing market is also reflected in the lower mortgage approvals since the restrictions took effect, which has likely also contributed to the slowing in annual housing credit growth in the March quarter (5.6%, down from 6.0% in October 2013).

Figure 3: Mortgage approvals and house sales



Sources: RBNZ, REINZ

The REINZ Stratified House Price Index also showed a slowing in annual house price inflation to 8.5% in April from 9.2% in March despite a 0.6% lift in sales prices for the month. The Quotable Value measure of house prices (which better adjusts for the composition of house sales) has continued to show a more consistent slowdown, with annual house price inflation at 8.4% - down from 9.6% in January. There is still a degree of uncertainty as to how the LVR restrictions have impacted on house prices. The RBNZ, in its *Financial Stability Report* for May, noted that the impact has been broadly in line with their modelled estimates, although the proportion

of high-LVR lending by banks was considerably lower than the 10% target. All told, price growth is still expected to soften over the coming year owing to rising mortgage rates and an ongoing recovery in housing supply.

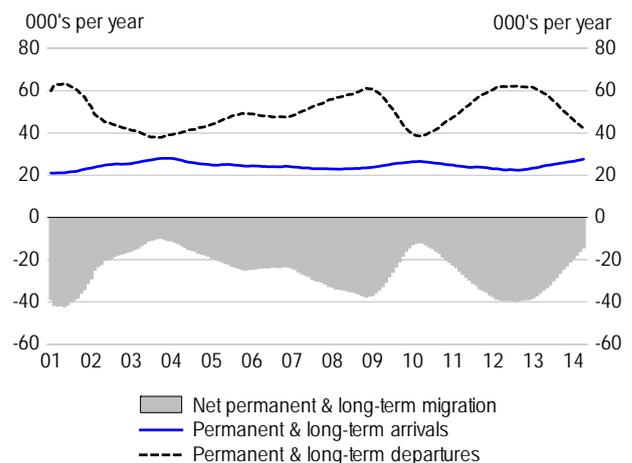
Domestic demand will remain elevated for some time yet...

The slowing in housing market activity, as well as rising interest rates, is likely to temper domestic demand and will eventually lead to some moderation in economic momentum. However, there are still factors that could contribute to a more cyclical pick-up in domestic demand such as a further lift in jobs growth, stronger net migration and a resurgence in housing demand.

...as the surge in net migration continues

A seasonally-adjusted net gain of 4,080 permanent and long-term migrants was recorded in the April month, following a net gain of 3,890 in the previous month. This took the annual net inflow in the year to April to 34,370 which is about 20% below the peak of 42,500 reached in 2003. Underlying the overall net gain in the month were fewer departures to Australia, which also saw the seasonally-adjusted net outflow to Australia narrow further to 200 – the lowest on record. Although higher net migration will add further to domestic demand, it will also continue to help alleviate labour supply pressures, particularly in Canterbury.

Figure 4: Annual New Zealand citizen permanent & long-term migration



Source: Statistics NZ

The migration pattern of New Zealand citizens explains about two-thirds of the turn-around in net migration since the trough in mid-2012. Since April 2012, New Zealand citizen departures have declined by around 20,000, while New Zealand citizen arrivals increased by around 5,000,

narrowing the annual net loss of New Zealand citizens to 14,460 in the April 2014 year from 39,460 (Figure 4 above). There is a risk that the current net migration cycle reaches a higher peak with a longer duration relative to the Treasury's main forecasts, as highlighted in the *Risks and Scenarios Chapter of BEFU 2014*.

Trade surplus lifts further in April...

The annual merchandise trade surplus lifted further in April, supported by elevated export values, and is consistent with an expected narrowing of the annual current account deficit to less than 3% of GDP in the June quarter, as in our *BEFU 2014* forecasts. Overseas Merchandise Trade data showed a \$534 million surplus for April, taking the annual merchandise trade balance to \$1.2 billion, up from \$800 million in the year to March.

On a seasonally-adjusted basis, export values fell 6.5% in the month owing to a decrease in product volumes for dairy (-5.3%) and meat (-8.0%), although the drop in dairy volumes comes on the back of a record-high export season. Import values fell by a lesser extent (-5.0%) but the import of capital goods rose strongly from year-earlier levels, consistent with the positive investment intentions of firms.

...but dairy prices continue to ease

The GlobalDairyTrade (GDT) Price Index fell 1.8% in the second auction for May. That said, much of the decline in the whole milk powder indices was concentrated in near-term contracts with later contracts either flat or rising and the market overall seems reasonably balanced. The GDT index is now down around 23% since February this year which will contribute to a decline in dairy export values in coming months. The recent normalisation in dairy prices was also reflected in Fonterra's milk price forecast of \$7.00 per kg of milk solids for the upcoming 2014/15 season, down from a high of \$8.40 for the season just ending.

Earlier falls in global dairy prices led to a further fall in the ANZ World Commodity Price Index for April, partially offset by price increases for aluminium and seafood. The ANZ World Commodity Price Index fell 4.0% in April, driven by a 9.2% fall in dairy product prices, on the back of a 3.6% drop in March. Although falling dairy prices have been the key driver behind the 4% drop in the world index since February, increases in meat, seafood and aluminium prices have prevented a sharper decline. Signs of falling

commodity prices support expectations of an early to mid-2014 peak in the terms of trade, which are expected to gradually decline in the second half of the year as global dairy supply expands.

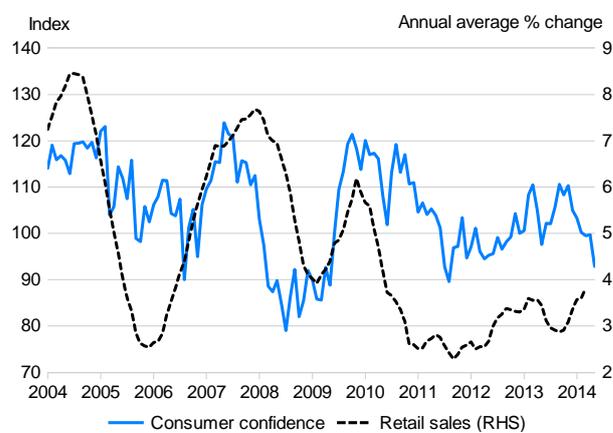
Soft growth for our major trading partners

The international economy showed some weakness in the March quarter, with relatively low growth in some of New Zealand's major trading partners. However, activity was strong in the UK and Japan, and the US picked up as the harsh winter receded. The policy stance of the major central banks remains accommodative and global monetary conditions are likely to be easy for some time.

Growth in activity eases slightly in Australia...

Growth in Australian economic activity moderated towards the end of the March quarter. Consumer confidence has fallen from its late 2013 highs, owing to low wage growth, publicised job cuts and a contractionary Budget. Retail sales growth was modest at 0.1% in March, and annual growth may gradually soften owing to recent declines in household confidence (Figure 5).

Figure 5: Australian consumer confidence and spending



Sources: Haver, Westpac, Australian Bureau of Statistics

Housing demand eased, with new mortgages down in March and house price growth slowing in the quarter. Housing approvals also fell, but their levels remained high. Export values dropped 2.4%, owing to lower iron ore prices as Chinese demand fell, although the weaker demand has had only a limited effect on export volumes. Employment growth in April – while modest at 0.1% – was positive for the fourth consecutive month, and the unemployment rate remained at 5.8%. A degree of labour market stabilisation and soft data in other areas on balance reinforce the RBA's stated intention to hold its policy rate low for some time. The Australian government revised

up its growth forecast in its 2014/15 Budget and hastened the pace of fiscal consolidation (see the special topic on a comparison of the Australian and New Zealand Budgets).

...while the Chinese economy remains soft

Chinese activity was soft in April. Annual growth in retail sales (11.9%), industrial production (IP) (8.7%) and fixed investment (17.3%) declined from March. Annual growth in exports was low at 0.9%, although data were distorted by elevated levels of false export invoicing last year. The HSBC manufacturing PMI rose 1.6 points to 49.7 in May, reflecting support from the government's mini stimulus package. Risks of a housing market correction increased: annual house price inflation in April was down from March, and sales volumes in the four months to April fell 7.8% compared to the four months to April 2013.

US rebounds following winter-affected growth

US GDP growth in the March quarter was only slightly positive as the harsh winter weighed on activity. Investment and exports contracted, but upbeat consumer confidence supported private consumption. Activity rebounded as the weather improved. The ISM PMIs showed strong growth in the manufacturing and services sectors in April. Non-farm payrolls rose 288,000 and the unemployment rate dropped 0.4% points to 6.3% in a separate survey. The housing market picked up, with a surge in housing permits and starts, and home sales recovered. Equity markets were buoyant as the S&P500 and the Dow reached all-time highs. The Fed tapered its monthly asset purchases by \$10 billion to \$45 billion in May as the recovery in the economy and financial markets resumed. However, markets expect the Fed Funds Rate to remain near zero until the June quarter of 2015.

Weak GDP expansion in the euro area...

The euro area economy expanded at a subdued pace of 0.2% in the March quarter, led by net exports. Growth was uneven, with Germany (0.8%) and Spain (0.4%) outperforming France (0.0%) and Italy (-0.1%). Consumer confidence continued to improve, supporting retail sales, and a pick-up in jobs growth shows that the labour market is stabilising to an extent. Solid PMIs in April and May suggest that growth will continue at a slow, stable pace in the June quarter.

Disinflationary risks persisted. The European Commission cut its inflation and growth forecasts for the euro area, and the ECB signalled policy action in June to boost the economy and inflation.

...but a cyclical upturn in the UK

The UK economy is in a cyclical upswing. GDP grew 0.8% in the March quarter, driven by strong investment and net exports. The unemployment rate in the three months to March fell 0.1% point to 6.8% relative to the three months to February on the back of strong jobs growth. Private sector momentum continued into the June quarter: retail volumes surged 1.2% in April, boosted by a stronger labour market and house price growth, while the PMIs showed robust growth in both manufacturing and services. Although the BoE revised up its growth forecast slightly, its policy stance is accommodative as inflation in April (1.8%) remained below the Bank's 2% target.

Robust Q1 growth in Japan ahead of tax rise

The Japanese economy expanded 1.5% in the March quarter, on the back of a surge in private consumption and investment ahead of the sales tax increase in April. However, growth is slowing in the June quarter as higher taxes reduce private demand. The manufacturing PMI dropped to a 14-month low of 49.4 in April and the services PMI to a 3-year low of 46.4. However, the Bank of Japan remained upbeat on the economy after leaving policy unchanged at its May meeting, and suggested that the demand drag from the tax rise will start to ease around mid-2014. Expectations of further stimulus fell and the yen appreciated.

Signs of weakness in emerging Asia

Growth for most emerging Asian economies was weaker, driven largely by country-specific factors. GDP expansion in the March quarter was sharply lower than in the December quarter for Malaysia (0.8%), Indonesia (0.9%), India (1.5%) and Hong Kong (0.2%). Growth was also soft in Taiwan (0.5%) and Singapore (0.6%), although their quarterly growth rates are volatile. Thailand's economy contracted 2.1% as the political crisis weighed on domestic demand. The exception to the weakness is the South Korean economy, which grew 0.9% on strong exports. Data for the Philippines are not yet available, but the post-typhoon rebuild is expected to boost GDP.

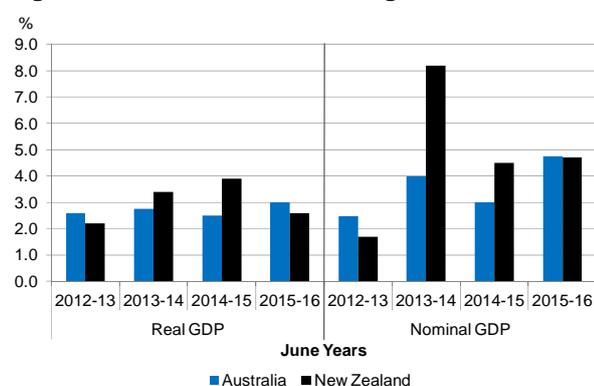
Special Topic: Comparing the economic and fiscal outlook - Australia and New Zealand

Australia's 2014 Budget was delivered on 13 May, followed by the New Zealand Budget on 15 May. This special topic summarises the economic and fiscal outlooks presented in the two Budgets.

Near-term economic outlook stronger for New Zealand...

The Australian Budget forecasts real GDP growth of 2.5% in 2014/15 and 3% in 2015/16 (June years). The corresponding forecasts for New Zealand are 3.9% and 2.6% (Figure 1 and Table 1 at the end of this topic). Both Budgets contained upward revisions to the short-term growth outlook from the respective mid-year forecasts.

Figure 1: Real and nominal GDP growth

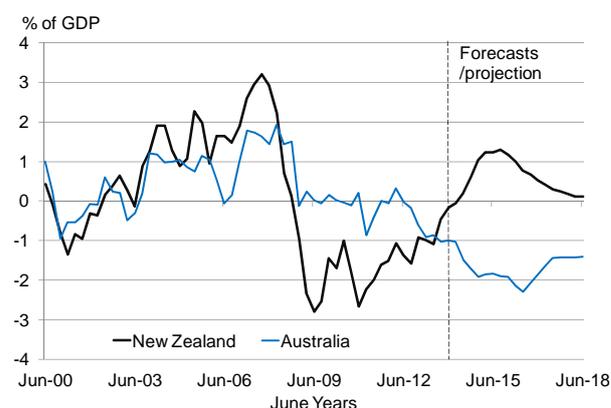


Source: The Commonwealth of Australia, the Treasury

The difference in nominal GDP growth (which is the main driver of government revenues) is stark at 4% for Australia versus 8.2% for New Zealand in 2013/14. This reflects the terms of trade growth in New Zealand and the fall occurring in Australia. However, the gap in nominal GDP growth is forecast to narrow, moving to 3% and 4.5% respectively in 2014/15.

Based on latest forecasts, by the end of 2015/16 the Australian economy will have grown slower than trend for seven of the past eight years, leaving a negative output gap (actual output below potential output) of 2%. In contrast, we expect a positive output gap of around 1% for New Zealand (Figure 2). However, in the years following, Australian real GDP growth is forecast to exceed New Zealand's. This reflects a combination of the growth required to close the respective output gaps and somewhat higher assumed potential growth in Australia. In 2016/17 and 2017/18 growth is above trend in Australia but below trend in New Zealand.

Figure 2: Australia and New Zealand output gaps



Sources: The Commonwealth of Australia, the Treasury

...resulting in divergent unemployment paths

Reflecting the different stages of the economic cycle that New Zealand and Australia are at, their unemployment rates are forecast to move in opposite directions over the next few years. The unemployment rate in Australia is forecast to increase to 6.25% before declining to 5.75%, while it is forecast to fall below 5% in 2016/17 in New Zealand.

Current account to remain stable in Australia but increase in New Zealand

Over the period to 2015/16 Australia's current account deficit is forecast to fluctuate between 3% and 4% of GDP, while in New Zealand it is expected to move from 3% to slightly more than 6%. In Australia, export growth is forecast to be much stronger than previously and import growth much weaker, reflecting the transition from investment to exports in the natural resources sector.

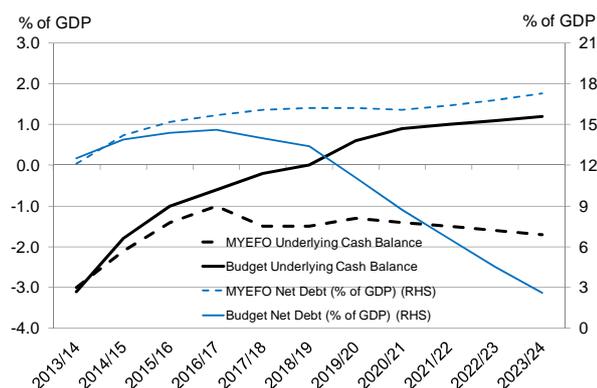
The Australian Budget shows an improved fiscal outlook...

The Australian Budget showed a marked improvement in the fiscal outlook from that presented in the 2013 Mid Year Economic and Fiscal Outlook (MYEFO). The underlying cash balance, Australia's preferred operational target, is projected to move into surplus in 2018/19, and net debt peaks and then declines. This contrasts with ongoing deficits and rising debt in the MYEFO (Figure 3).

To compare fiscal outlooks we need to go beyond the headline fiscal figures reported in the respective budgets. This is because Australia compiles its budget on an IMF Government Finance Statistics (GFS) basis, while

New Zealand reports on a Generally Accepted Accounting Principles (GAAP) basis. However, to assist with international comparisons we also produce high-level GFS accounts for New Zealand.¹ The different scope of the Federal Government in Australia compared with central government in New Zealand leaves some remaining differences. This particularly impacts capital spending. Table 1 on the following page summarises the fiscal outlooks for both countries.

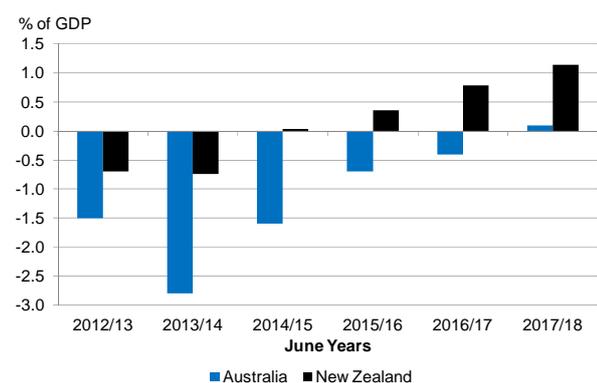
Figure 3: Australia's underlying cash balance and net debt



Sources: The Commonwealth of Australia

Australia forecasts most of its fiscal aggregates to trough in the current 2013/14 fiscal year, and improve steadily towards a balance or surplus position in 2017/18 or 2018/19 depending on the measure. The GFS cash balance moves from a deficit of 3.0% of GDP this year to 0.0% in 2017/18. The corresponding figures for New Zealand are a deficit of 1.8% moving to a surplus of 1.0% respectively.

Figure 4: GFS Fiscal balance



Sources: The Commonwealth of Australia, the Treasury

The fiscal balance improves vis-à-vis the mid-year forecasts in line with the outlook for the cash balance for both countries, but particularly so for Australia (Figure 4).

Australia's net debt is projected to peak at 14.6% of GDP in 2016/17 before declining to 0.7% by 2024/25. Calculating net debt on a broadly comparable basis, New Zealand's core Crown net debt (including advances and NZSF as financial assets) is forecast to decline steadily over the forecast period, falling from 10% of GDP in 2012/13 to 6% in 2017/18. The net debt measure we use in our fiscal budget is forecast to begin declining in 2015/16, falling steadily thereafter. Financial assets such as advances and the NZSF are excluded from the target measure because they are considered ring-fenced for specific purposes.

Australia's fiscal adjustment is initially moderate...

The path of fiscal adjustment in Australia allows for ongoing growth in public spending, just at a slower pace than previously forecast. The largest adjustment in spending plans from the 2013 MYEFO occurs in 2017/18 and beyond, when the economy is expected to be growing at a more robust pace. Between 2013/14 and 2017/18, the ratio of total payments to GDP is forecast to fall by 1.1 percentage points. In comparison, in New Zealand, the ratio of core Crown expenditure to GDP is forecast to fall by about 1.1 percentage points between 2013/14 and 2016/17.

...so fiscal drag on the economy is relatively modest near-term

Given the profile of adjustment and its moderate pace, the drag on the economy over the next few years is relatively modest for Australia. All up, market economists estimate that fiscal policy will subtract around 0.2% to 0.5% from demand on average, not dissimilar to the fiscal impulse estimated for New Zealand.

Overall, the fiscal adjustment processes underway in New Zealand and Australia will help both countries maintain their strong fiscal positions relative to many other advanced economies.

¹ For more details, see the box *Operating Balance Indicators* on page 32 of the *Budget Economic and Fiscal Update 2014*, and *Additional Information* document on the Treasury website <http://www.treasury.govt.nz/budget/forecasts/befu2014/085.htm>

Table 1: Economic and Fiscal Outlook

June years		2012/13	2013/14	2014/15	2015/16	2016/17	2017/18
		(actual)	(forecast)	(forecast)	(forecast)	(forecast)	(forecast)
Real GDP ¹	Australia	2.6	2½	2½	3	3½	3½
	NZ	2.2	3.4	3.9	2.6	2.1	2.2
CPI ²	Australia	2.4	3¼	2¼	2½	2½	2½
	NZ	0.7	1.8	1.9	2.6	2.2	2.0
Unemployment Rate ³	Australia	5.6	6.0	6¼	6¼	6.0	5¾
	NZ	6.7	6.0	5.5	5.2	4.8	4.5
Current Account Balance ⁴	Australia	-3.6	-3¼	-4	-3¼		
	NZ	-3.8	-2.8	-5.1	-5.9	-6.2	-6.3
GFS Fiscal balance ⁵	Australia	-1.5	-2.8	-1.6	-0.7	-0.4	0.1
	NZ	-0.7	-0.7	0.0	0.4	0.8	1.1
GFS cash surplus (+) / deficit (-) ⁵	Australia		-3.0	-1.6	-0.8	-0.4	0.0
	NZ	-1.9	-1.8	-2.3	0.0	0.7	1.0
Net debt	Australia	10.0	12.5	13.9	14.4	14.6	14.0
	NZ ⁶	10.0	9.1	9.2	8.5	7.3	6.0
	NZ (Budget basis)	26.2	25.8	26.4	25.9	24.9	23.8

¹ Annual Average percent change

² Annual percent change, June quarter

³ Seasonally adjusted, percent, June quarter

⁴ Percent of GDP

⁵ IMF Government Finance Statistics basis, percent of GDP

⁶ Net debt including Advances and NZSF as financial assets

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

28 May 2014

Quarterly Indicators

		2012Q3	2012Q4	2013Q1	2013Q2	2013Q3	2013Q4	2014Q1
Gross Domestic Product (GDP)								
Real production GDP	qtr % chg ¹	0.2	1.2	0.5	0.4	1.2	0.9	...
	ann ave % chg	2.8	2.6	2.3	2.2	2.6	2.7	...
Real private consumption	qtr % chg ¹	0.1	1.3	0.9	1.0	0.4	1.2	...
	ann ave % chg	3.1	2.9	2.6	2.6	3.1	3.4	...
Real public consumption	qtr % chg ¹	0.2	0.2	-0.8	0.5	2.1	-0.5	...
	ann ave % chg	-0.9	-1.0	-0.6	-0.2	0.5	0.8	...
Real residential investment	qtr % chg ¹	3.8	2.8	7.6	-0.5	7.4	0.1	...
	ann ave % chg	14.0	15.7	19.3	17.9	17.5	17.4	...
Real non-residential investment	qtr % chg ¹	-2.2	1.1	0.8	7.4	0.1	0.9	...
	ann ave % chg	4.5	4.6	3.7	3.8	5.3	6.9	...
Export volumes	qtr % chg ¹	3.4	-0.7	2.0	-3.6	-0.4	3.1	...
	ann ave % chg	3.2	2.2	2.5	2.6	1.0	1.0	...
Import volumes	qtr % chg ¹	1.2	0.5	1.9	2.2	4.1	0.2	...
	ann ave % chg	2.2	2.6	1.2	2.4	4.6	6.3	...
Nominal GDP - expenditure basis	ann ave % chg	3.3	2.3	2.1	1.7	2.8	5.2	...
Real GDP per capita	ann ave % chg	2.0	1.9	1.6	1.6	1.9	2.0	...
Real Gross National Disposable Income	ann ave % chg	2.0	1.1	0.6	1.7	3.1	5.3	...
External Trade								
Current account balance (annual)	NZ\$ millions	-7,744	-8,590	-8,349	-8,243	-8,870	-7,546	...
	% of GDP	-3.7	-4.1	-3.9	-3.9	-4.1	-3.4	...
Investment income balance (annual)	NZ\$ millions	-9,645	-9,300	-9,327	-8,896	-8,972	-9,307	...
Merchandise terms of trade	qtr % chg	-3.2	-1.2	4.2	4.6	7.5	2.4	...
	ann % chg	-9.2	-8.9	-2.8	4.3	15.8	20.0	...
Prices								
CPI inflation	qtr % chg	0.3	-0.2	0.4	0.2	0.9	0.1	0.3
	ann % chg	0.8	0.9	0.9	0.7	1.4	1.6	1.5
Tradable inflation	ann % chg	-1.2	-1.0	-1.1	-1.6	-0.5	-0.3	-0.6
Non-tradable inflation	ann % chg	2.3	2.5	2.4	2.5	2.8	2.9	3.0
GDP deflator	ann % chg	-1.1	-2.2	0.1	0.2	3.2	6.9	...
Consumption deflator	ann % chg	0.4	0.6	0.4	0.1	0.6	0.8	...
Labour Market								
Employment (HLFS)	qtr % chg ¹	-0.4	0.5	0.2	0.4	1.2	1.1	0.9
	ann % chg ¹	0.0	0.4	0.4	0.7	2.4	3.0	3.7
Unemployment rate	% ¹	7.2	6.8	6.2	6.4	6.1	6.0	6.0
Participation rate	% ¹	68.4	68.2	67.9	68.1	68.6	68.9	69.3
LCI salary & wage rates - total (adjusted) ⁵	qtr % chg	0.5	0.5	0.4	0.4	0.4	0.5	0.3
	ann % chg	1.9	1.8	1.8	1.7	1.6	1.6	1.5
QES average hourly earnings - total ⁵	qtr % chg	1.1	-0.1	0.8	0.2	1.6	0.2	0.5
	ann % chg	2.8	2.6	2.1	2.1	2.6	2.9	2.5
Labour productivity ⁶	ann ave % chg	3.1	3.4	2.3	1.6	0.6	-0.4	...
Retail Sales								
Core retail sales volume	qtr % chg ¹	0.2	1.1	0.9	2.0	-0.2	1.0	0.8
	ann % chg	1.7	1.8	2.5	4.4	4.3	3.7	3.6
Total retail sales volume	qtr % chg ¹	0	1.9	0.8	1.5	0.2	1.4	0.7
	ann % chg	2.2	3.2	3.5	4.2	4.7	3.9	3.8
Confidence Indicators/Surveys								
WMM - consumer confidence ³	Index	103	111	111	117	115	120	122
QSBO - general business situation ⁴	net %	8.0	18.5	22.8	35.9	37.8	52.8	51.7
QSBO - own activity outlook ⁴	net %	13.2	5.7	12.2	23.6	28.7	29.9	35.3

Monthly Indicators

		2013M11	2013M12	2014M01	2014M02	2014M03	2014M04	2014M05
External Sector								
Merchandise trade - exports	mth % chg ¹	2.2	5.8	-5.0	2.8	4.3	-5.0	...
	ann % chg ¹	16.1	15.8	21.5	16.4	14.9	14.0	...
Merchandise trade - imports	mth % chg ¹	7.9	-2.4	0.5	3.7	0.9	-6.5	...
	ann % chg ¹	-2.8	19.3	3.9	7.9	12.3	5.0	...
Merchandise trade balance (12 month total)	NZ\$ million	-274	-317	262	625	827	1191	...
Visitor arrivals	number ¹	230,830	231,520	237,300	241,260	233,890	237,930	...
Visitor departures	number ¹	232,680	239,970	233,350	246,300	240,550	236,000	...
Housing								
Dwelling consents - residential	mth % chg ¹	11.9	6.7	-8.5	-1.6	8.3
	ann % chg ¹	36.7	47.4	25.0	14.7	35.5
House sales - dwellings	mth % chg ¹	-7.4	-0.7	3.6	-5.9	-1.7	-7.1	...
	ann % chg ¹	-6.6	-1.1	-4.3	-7.6	-10.0	-20.2	...
REINZ - house price index	mth % chg	1.2	-1.0	-2.4	2.1	3.4	0.1	...
	ann % chg	9.6	9.2	7.7	8.2	9.2	8.5	...
Private Consumption								
Electronic card transactions - total retail	mth % chg ¹	0.7	0.6	-0.4	0.8	0.0	0.3	...
	ann % chg	6.7	5.5	6.1	5.7	5.1	5.7	...
New car registrations	mth % chg ¹	2.7	-1.2	2.6	4.1	3.2	-0.5	...
	ann % chg	23.0	20.3	20.2	23.6	26.8	17.5	...
Migration								
Permanent & long-term arrivals	number ¹	8,180	8,310	8,230	8,500	8,750	8,710	...
Permanent & long-term departures	number ¹	5,450	5,380	5,080	4,940	4,860	4,630	...
Net PLT migration (12 month total)	number	19,478	22,468	25,666	29,022	31,914	34,366	...
Commodity Prices								
Brent oil price	US\$/Barrel	107.96	110.67	108.11	109.05	107.49	107.78	109.49
WTI oil price	US\$/Barrel	93.87	97.75	94.64	100.82	100.80	102.07	101.82
ANZ NZ commodity price index	mth % chg	0.5	1.8	0.6	0.8	-2.6	-5.0	...
	ann % chg	20.1	22.5	23.8	24.4	11.8	-3.6	...
ANZ world commodity price index	mth % chg	-0.3	1.0	1.2	0.9	-0.1	-4.0	...
	ann % chg	21.3	21.5	22.6	22.4	14.0	-2.8	...
Financial Markets								
NZD/USD	\$ ²	0.8265	0.8229	0.8283	0.8288	0.8517	0.8620	0.8621
NZD/AUD	\$ ²	0.8856	0.915	0.9347	0.9239	0.9395	0.9254	0.9264
Trade weighted index (TWI)	June 1979 = 100 ²	77.21	77.51	78.41	77.96	79.70	80.21	80.18
Official cash rate (OCR)	%	2.50	2.50	2.50	2.50	2.75	3.00	3.00
90 day bank bill rate	% ²	2.66	2.73	2.88	2.93	3.05	3.24	3.37
10 year govt bond rate	% ²	4.71	4.76	4.64	4.57	4.58	4.55	4.30
Confidence Indicators/Surveys								
ANZ - business confidence	net %	60.5	64.1	...	70.8	67.3	64.8	53.5
ANZ - activity outlook	net %	47.1	53.5	...	58.5	58.2	52.5	51.0
ANZ-Roy Morgan - consumer confidence	net %	128.4	129.4	135.8	133.0	132.0	133.5	127.6
Performance of Manufacturing Index	Index	57.1	56.4	56.2	56.3	58.0	55.2	...
Performance of Services Index	Index	56.5	57.6	58.1	52.8	58.5	58.9	...
qtr % chg	quarterly percent change			¹	Seasonally adjusted			
mth % chg	monthly percent change			²	Average (11am)			
ann % chg	annual percent change			³	Westpac McDermott Miller			
ann ave % chg	annual average percent change			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