# Monthly Economic Indicators

THE TREASURY
Kaitohutohu Kaupapa Rawa

November 2014

## Executive Summary

- **Increased employment has reduced spare capacity in the labour market...**
- **...but weak price pressures have reduced the prospect of interest rate increases over the year ahead**
- **Growth in the advanced economies remains uneven**

The deepening dichotomy between growth in economic activity and prices was evident in the labour market and even more so in the retail industry. Demand for workers increased at a brisk pace in the September quarter – employment rose 0.8% in the quarter to be up 3.2% for the year – while wages increased moderately, up 2.3% in the year. In the retail industry, the difference between growth in activity and prices was stark – retail sales volumes increased 1.5% in the September quarter but prices fell 0.6%. Elsewhere, dairy export prices continued their downward trend as did international oil prices; the firmer exchange rate, up 2.5% on a TWI basis, reinforced the downward price pressures.

The unemployment rate fell to 5.4%, still a little above its post-2000 average, suggesting that, all else equal, wage growth will rise towards its 15-year average of 3.4% over the next year or so. However, inflation (or cost of living adjustments), which is a key ingredient in wage negotiations, has been weaker than expected so far this year, indicating that the rise in wage growth over the year ahead is also likely to be more gradual than expected. The Reserve Bank's Survey of Expectations shows that market analysts expect annual CPI inflation to be around 1.6% in September 2015, down from around 2.0% at the time the Pre-Election forecasts (PREFU) were completed. Reflecting the weaker price pressures, surveyed expectations of short-term interest rates in 12 months time were also lowered.

In sum, domestic inflation has been more subdued, and dairy export prices have fallen more sharply, than the Treasury and other forecasters assumed earlier in the year. As a consequence, growth in expenditure on goods and services and in farm incomes is likely to be weaker than forecast, resulting in lower tax revenue. In addition, lower interest rates will impact on tax revenue collected from Resident Withholding Tax on interest income. Full details will be available in the Treasury's *Half Year Economic and Fiscal Update* (HYEFU) to be released on 16 December.

Internationally, growth remains uneven in the advanced economies, with the recovery continuing in the US and in the UK, while activity in the euro area and Japan remains weak. Further macroeconomic policy stimulation is expected in the euro area and Japan. Chinese activity showed broad weakness in October, partly owing to the housing market slowdown, and monetary policy support has been limited.

This month's special topic summarises the recently released independent report on the quality of the Treasury's fiscal policy advice.

New Zealand Government

ISSN-1175-6780 – Text and data finalised 27 November 2014

### Growth in activity remained brisk but subdued price pressures raise revenue risks

Employment grew strongly in the September quarter, reflecting the brisk pace of expansion in output over the past 12 months, which helped lower the unemployment rate to 5.4%. Hourly wage growth has been relatively subdued, increasing 2.3% in the year to September, but so too has the cost of living, resulting in moderate gains in real purchasing power. These real gains were evident in retail sales data for the September quarter, which showed growth in the volume of goods and services sold outstripping growth in the value of sales.

Reinforcing the subdued price environment, dairy export prices fell further as did international crude oil prices, and the exchange rate rose. In sum, inflation seems unlikely to rise at the pace expected in the *Pre-Election Economic and Fiscal Update* (PREFU) and export receipts may be weaker than expected. As a consequence, interest rate rises by the Reserve Bank are likely to be more gradual than previously assumed, and the government's tax revenues will not rise by as much.

### Increased employment...

According to the Household Labour Force Survey (HLFS), the number of people in employment rose by 18,000 (0.8%) in the September quarter, driven by the addition of 14,000 (0.8%) people in full-time employment. Compared to the same time last year, the total number of people employed increased by 72,000 (3.1%), with 66,000 of those employed full time.

The unemployment rate fell to 5.4% from 5.6% in the June quarter (Figure 1), despite a 0.1% point increase in the participation rate to 69.0%.

Jobs filled in September's Quarterly Employment Survey (QES) recorded a similar gain, up 1.0% in the quarter and 3.0% in the year to September. However, in contrast to the HLFS, most of the jobs gained in the quarter were part-time, which kept total paid hours flat in the quarter, and 3.3% higher than a year ago. Hours paid in the business services industry, which are a direct input into production GDP, fell sharply and completely reversed the previous quarter's gain. Business services contributed 0.4% points to the June quarter's 0.7% increase in real GDP, so the most recent outcome implies a similar sized negative contribution from that industry.

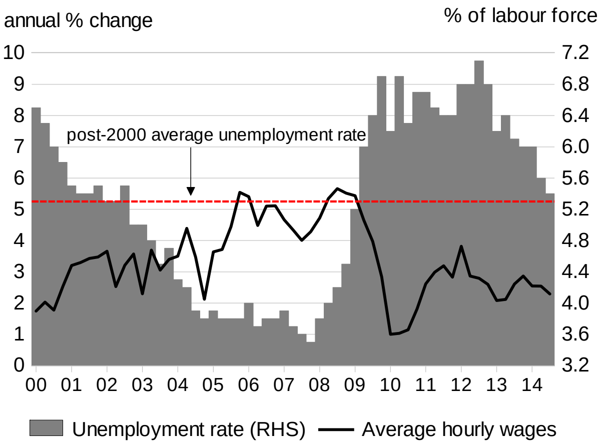
### ...and moderate wage growth...

Private sector hourly earnings were 2.9% higher than in the same quarter a year ago, down a little from 3.1% in the quarter prior. Public sector wages increased 1.0%, and growth in total average hourly earnings eased to 2.3% from 2.6% in the year to June. After adjusting for inflation, real wages increased 1.3% in the year, above the post-2000 average of 0.9%.

The increase in total hours paid, combined with the increase in earnings, resulted in a 5.0% rise in total weekly gross earnings. Overall, labour income growth was consistent with our PREFU forecasts, and September quarter tax revenue from source deductions was close to forecast.

Looking ahead, the lower unemployment rate is expected to generate upward wage pressure and there was some evidence of this in the September quarter Labour Cost Index. Private sector wage costs increased 1.9% in the year to September, up from 1.8% in the year to June, and the proportion of private sector wages increasing from the same quarter a year ago was the highest in three years. Public sector wage growth eased to 1.1%, the smallest annual increase since 1995, and restricted total annual wage growth to 1.7%.

**Figure 1: Unemployment rate and wage growth**




Source: Statistics NZ

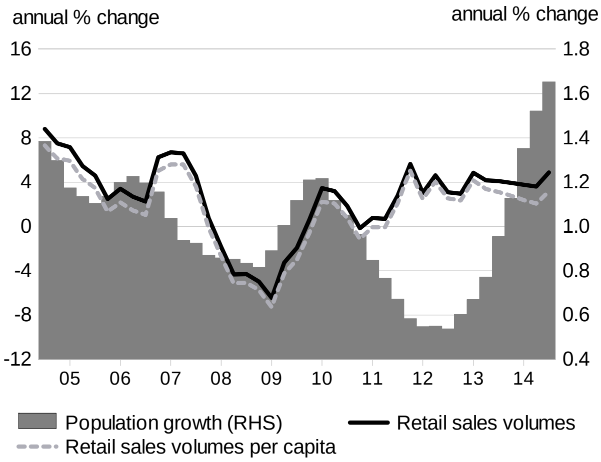
The unemployment rate is only slightly above its post-2000 average (Figure 1), suggesting that the QES measure of wage growth should be trending towards its post-2000 average of 3.4%, as forecast in the PREFU. Crucially however, inflation has been more subdued than expected – last month we noted annual inflation in the

September quarter was weaker than expected in the PREFU – which means that cost of living wage adjustments, and thus overall wage growth, are likely to be weaker than forecast in the PREFU over the year ahead. As a consequence, tax revenue from source deductions may grow more slowly over the coming year than forecast in the PREFU.

**...provide support for growth in real activity...**

In addition to rising incomes, households are benefiting from falling retail prices, which were 0.6% lower than in the previous quarter according to September's Quarterly Retail Trade Survey. The boost to purchasing power was evident in the 1.5% gain in sales volumes, the largest quarterly gain in over two years. Strong population growth is also boosting retail sales and quarterly growth in per capita terms was a bit lower, at 1.0%. Compared to the same quarter a year ago, total retail sales volumes are 4.9% higher, the population is 1.7% larger and retail sales per capita have increased 3.2% (Figure 2).

**Figure 2: Retail sales and population growth**




Source: Statistics New Zealand

A similar pace of retail sales volume growth is anticipated in the final quarter of the year following a 1.5% increase in the value of Electronic Card Transactions in October, and continued high, albeit easing, levels of consumer confidence.

A recovery in agricultural production and processing from the drought that affected June quarter output will provide further support for third quarter GDP growth. However, the weakness in paid hours noted above presents downside risk to the PREFU forecast of 1.0% real GDP growth. On the other hand, the ANZ Regional Trends report for the September quarter showed economic activity across the regions was 1.1% higher than in the June quarter.

**...but subdued price pressures pose downside risks to nominal GDP in the short-term...**

Large falls in dairy export prices over the third quarter, combined with September's lower CPI outturn, compound the downside risks to our 0.4% nominal GDP growth forecast. These risks have been reinforced by declines in the Producer Price Indexes, and for transport equipment and plant and machinery in the Capital Goods Price Index. The construction sector is one of the few areas where price pressures are evident – compared to the same quarter last year residential building costs increased 4.7% and non-residential building costs increased 4.1% – although even here there was some easing in the quarterly pace of price growth. Growth in residential building consents has eased in recent quarters and has likely peaked in annual terms, which suggests that the annual rate of price increases may also be close to its peak.

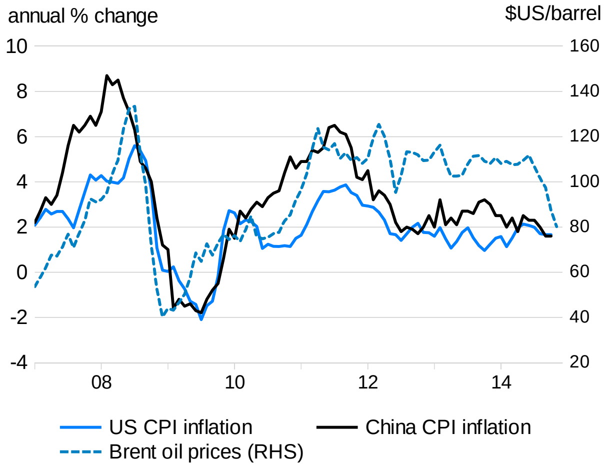
**...and into 2015...**

The weakness in prices has continued into the December quarter. The ANZ Monthly Inflation Gauge for October showed little sign of increasing inflation pressure with prices outside the housing group remaining flat.

Dairy prices at the GlobalDairyTrade auctions fell further in November, leading to increased speculation that Fonterra will reduce its forecast current season milk payout from $5.30 per kilogram of milk solids to below $5.00 per kg/MS. Through its effect on income growth, a lower dairy price will be a restraining influence on domestic demand and inflation over the year ahead.

A more immediate source of lower domestic prices is the fall in international crude oil prices over the month. Brent crude oil fell from US$87 per barrel at the start of the month to US$78 at the time of writing, reflecting some easing in global demand as well as the ongoing impact of increased US supply. For the domestic economy, the lower oil prices should lead to lower petrol prices and less inflation in the December quarter. They will also help to keep the global inflation impulse low (Figure 3). The exchange rate is applying further downward pressure on tradables inflation – the Trade Weighted Index appreciated 2.5% over the month.

**Figure 3: Crude oil prices and inflation in the US and China**




Source: Haver

## ...which will impact on tax revenue growth

Consistent with these signs of weak price pressures, the Reserve Bank's December quarter survey of expectations showed the average 1-year-ahead inflation expectation was 1.6%, down from 2.0% in the September quarter survey. The average of 2-year-ahead inflation expectations was also lower, down to 2.1% from 2.2% previously. Reflecting the fall in inflation expectations, expectations of 90-day interest rates 1-year-ahead were down 25 basis points to 3.9% (90-day rates are currently a little below 3.7%), and 1-year-ahead expectations of annual hourly wage growth eased to 2.5% from 2.6% previously.

In general, the PREFU forecasts were similar to the average expectations of CPI inflation and short-term interest rates reported in September's survey, so downward revisions to these variables can be anticipated in the *Half Year Economic and Fiscal Update* (HYEFU). This will have broad implications for growth in tax revenue, through growth in the value of sales of goods and services, and thus GST revenues and corporate taxes, as well as revenue collected on interest earned through Resident Withholding Tax, and on labour income through source deductions.

A more complete assessment of the outlook for the New Zealand economy will be released as part of the HYEFU on 16 December.

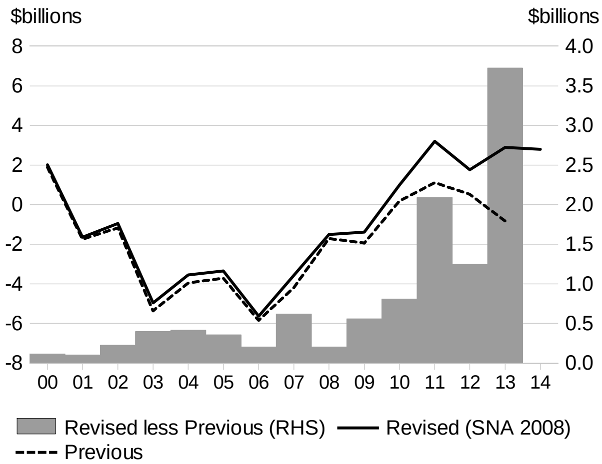
## Migrant inflows support housing market

There was further strength in net migration inflows in the October month, with a net gain of 5,200 recorded. The record 47,700 inflow for the October year was led by more student arrivals particularly from India and more New Zealand citizens returning from Australia.

The housing market is a focal point for the demand effects of migration and, to date, the impacts on the housing market have been limited relative to previous migration cycles. Annual growth in the Real Estate Institute's house price index eased to 3.9% in October from 4.1% in September and 9.9% in October 2013. This contrasts sharply with the rapid and rising house price inflation (annual growth peaked at 24% in late 2003) at a similar point in the early 2000s migration cycle.

Limits on loan-to-value ratios (LVR) have been a key restraining influence. The Reserve Bank's November *Financial Stability Report* noted that the LVR limit was a temporary policy but that it was likely to remain in place as long as *"there is a risk of a resurgence in house price inflation, particularly in light of strong migration inflows*".

**Figure 4: Household saving revised up**




Source: Statistics NZ

The adoption of new standards for compiling GDP, SNA 2008, increased the historical level of nominal GDP by $5 billion (2.2%) in the year ended March 2014 and increased national and household saving measures (Figure 4). Revised real GDP figures, which have been rebased to the 2009/10 year, will be released, along with September quarter GDP, on 18 December.

## Uneven global outlook leads to policy easing

Growth across the developed world continued to be unbalanced, with weak euro area growth and contraction in Japan in Q3. The Bank of Japan (BoJ) expanded its quantitative easing (QE) programme in response to weak domestic demand. Leaders of the G20 met in Brisbane to discuss strategies for a broader recovery, and agreed to introduce policies aimed at lifting investment and boost the G20's GDP by 2% by 2018.

**Chinese economy remained weak in October**

Chinese activity softened further as the housing market slowed. Industrial production (IP) and fixed investment grew at a slower annual pace in October, which was reflected by a fall in the PMIs. Growth in nominal retail sales slowed (to 11.5%), although sales volumes were stable as inflation was low (1.6%). The housing market slowdown continued, with declining home sales and house prices, and total credit growth weakened owing to lower lending to property developers. The People's Bank of China cut its one-year deposit rate by 25 bps to 2.75% and its lending rate by 40 bps to 5.6%, and some analysts expect further policy easing in early 2015.

**Australian activity increased slightly, but still soft**

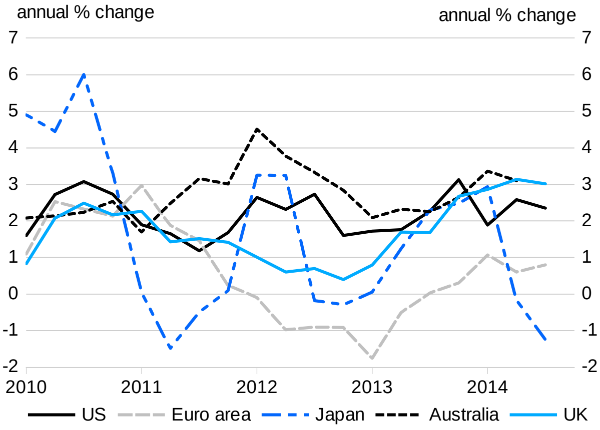
Australian activity showed some pick-up. Jobs growth rebounded in October, returning to its recent trend of 0.9% on a year ago, although the unemployment rate remained high at 6.2% and wage growth was weak. Retail sales values grew 6.8% on a year ago in September, boosted by iPhone 6 sales, and Q3 private consumption growth is expected to be solid. The NAB business conditions index surged in October, but a fall in business confidence suggests that firms viewed the improvement in conditions as temporary. The outlook for the mining sector remains weak as iron ore prices have dropped below $US70 a tonne, down 50% since November 2013. More positive was the announcement of a free trade agreement with China, which is expected to support resource and services exports, and increase Chinese investment in Australia.

The housing market moderated: annual house price growth fell to 9.1% in Q3 and dwelling approvals were down from early 2014. Some analysts forecast 0.7% growth in Q3 GDP, supported by consumption and exports but offset by lower residential investment growth. Q3 GDP will be released on 3 December.

**Uneven developed world growth...**

The US and UK recoveries continued. The US economy grew 1.0% in the September quarter, driven by business investment and net exports, while the PMIs indicated solid growth in activity in October. Non-farm payrolls rose 214,000 in October and the unemployment rate fell to 5.8%. Consumer confidence rose to its highest level since late 2007, supporting retail spending. The recovery in the UK labour market slowed slightly, with jobs growth easing in the three months to September and the unemployment rate steady at 6.0%. The PMIs pointed to slower but still solid growth in activity in October, while retail volumes expanded strongly. Housing demand has started to moderate, suggesting an impact from the Bank of England's (BoE) removal of mortgage support.

**Figure 5: Major advanced economies' growth**




Source: Haver

While the US economy strengthened, growth remained weak in the euro area and was negative in Japan (Figure 5). Euro area GDP rose only 0.2% in Q3, with weak growth in Germany (0.1%) and a contraction in Italy (-0.1%), while the PMIs indicated continued low growth in activity in Q4. Inflation remained low at 0.4% in October, reflecting weak demand and falling energy prices. The Japanese economy entered recession in Q3, contracting 0.4% as investment and inventories fell. Consumer and business confidence declined in October, still affected by the sales tax rise in April and a softer labour market, with the unemployment rate rising to 3.6% in September.

**...with further easing in the weaker economies**

Further policy support is expected in the weaker economies. The BoJ increased the size and maturity of its asset purchase programme owing to weak domestic demand and disinflationary risks. Japanese Prime Minister Abe called a snap election scheduled for 14 December, seeking a stronger mandate to delay the second sales tax rise to 2017 and introduce structural reforms. The European Central Bank stated that sovereign bond purchases may be used to boost growth and inflation.

Monetary policy is expected to tighten in the US and UK in mid to late 2015. The US Federal Reserve's policy outlook for 2015 appears broadly unchanged following the large market volatility in October. The BoE appears slightly more supportive as it lowered its near-term inflation forecasts, reinforced by low inflation in October (1.3%); however, markets still expect the BoE to raise its policy rate in the second half of 2015.

**Markets stabilised and NZD appreciated**

Global markets rebounded from the volatility in October. The Nikkei and the S&P500 reached all-time highs, and the Stoxx600 regained its level in late September. Sentiment was supported by solid US data, policy actions in Japan and expectations of further easing elsewhere. Government bond yields were higher compared to October as demand for safe assets fell. While markets have stabilised, further volatility is likely as US and UK monetary tightening becomes more imminent.

The NZ dollar strengthened against the major trading partner currencies over the month. The TWI rose 2.5% to 78.4 at the end of November, appreciating strongly against the Australian dollar, yen and euro as they weakened against the US dollar. The NZ dollar may resume its depreciation against the US dollar and pound in coming months, but may strengthen further against other currencies owing to an uneven growth outlook across major economies.

## Special Topic: External Review of Treasury's Fiscal Policy Advice

Twenty years have passed since the Fiscal Responsibility Act came into force in 1994, with the provisions of fiscal responsibility subsequently being absorbed into the Public Finance Act, and further changes to these principles recently being adopted. With this in mind, last year the Treasury commissioned an independent review of the fiscal policy advice that it has provided over the past decade.

Whilst it appears that New Zealand's fiscal policy institutions have served it well through recent history, and are well regarded internationally, no country should rest on its laurels. The fiscal accounts have come through the global financial crisis (GFC) better than many countries, but as the government finances return to surplus it was seen as appropriate to review the way in which the Treasury provides advice.

The Review of the Treasury's Fiscal Policy Advice, and the Treasury's response to the Review, have now been published on the Treasury website[1]. The following sections outline the findings of the Review.

**Commissioning an international expert...**

The Treasury commissioned Teresa Ter-Minassian, a former Director of the Fiscal Affairs Department at the IMF, to conduct the Review. Ms Ter-Minassian visited New Zealand twice to interview experts including current and former Treasury officials, current and former Ministers of Finance, members of the Finance and Expenditure Committee and the Opposition, and a number of academics and private sector representatives.

Ms Ter-Minassian was asked to consider the overall quality of the Treasury's advice, noting the following aspects in particular:

1. The information, frameworks and tools of analysis used by the Treasury
2. The coordination of fiscal with other economic policies
3. The Treasury's advice on the evolving fiscal policy framework
4. The Treasury's understanding of, and role in evaluating, the drivers of Government expenditures.

**...confirmed the strength of performance**

The Review found that the Treasury's advice has been consistent with sound principles and practices of responsible fiscal management, and appropriately mindful of fiscal policy's equity, effectiveness and efficiency objectives. It also notes the success in effectively influencing the Government's fiscal policies over the period, and the improvements in inclusivity and a range of stakeholder inputs that have been sought.

The fiscal framework is found to have provided the Government flexibility to accommodate the adverse shock of the GFC and the fiscal costs of the Canterbury earthquakes. This is all very positive news for New Zealand.

[1] http://www.treasury.govt.nz/publications/informationreleases/fiscalpolicyadvice

### ...with some room for improvement

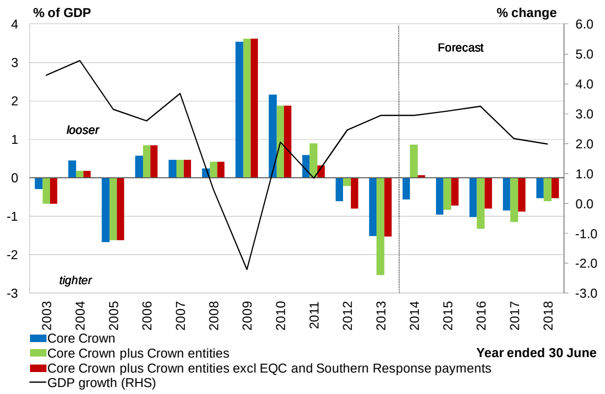
The Review also made a series of recommendations regarding the Treasury's advice. These are expected to help inform the Treasury's work programme over the next few years, highlighting the long-term benefits that can be gained from conducting a Review of this sort.

### Avoiding pro-cyclicality

One of the main aims of fiscal policy is to avoid 'pro-cyclicality' – running loose fiscal policy which puts upward pressure on interest rates and the exchange rate when the economy is expanding, exacerbating macroeconomic imbalances, or running excessively tight fiscal policy in times when the economy is contracting.

The Review notes that whilst New Zealand has been successful in avoiding pro-cyclical fiscal contractions in the aftermath of the GFC (Figure 1), it has been less successful in avoiding pro-cyclicality during upturns. This is recognised as a common challenge for many countries worldwide, and may be due to many factors including difficulties in estimating the output gap contemporaneously. The Review uses the Treasury fiscal impulse[2] estimates to show that fiscal policy was pro-cyclical during half of the years of positive economic growth between 1998 and 2012.

**Figure 1 – Estimates of the fiscal impulse**




Source: The Treasury, 2013 HYEFU, as used in the Review

For this reason the Review recommends that the Treasury continue to focus on avoiding pro-cyclicality in fiscal policy, and in particular that reduction in net debt remains paramount in fiscal strategy advice and the primary option for any future unforeseen shocks such as revenue surprises.

### The tools used by the Treasury could be developed further....

Various improvements to the modelling that the Treasury undertakes have been identified in the Review. Many of these are incremental developments to the Treasury's suite of models that would allow the Treasury to stay on the frontier of modelling work in fiscal policy.

The Treasury is found to have not given enough credence to the possibility of shocks of similar size to those experienced during the GFC, and it is recommended that in future the alternative scenarios run as sensitivity tests on the economic projections do incorporate these.

It is also recommended that the Treasury undertake a series of modelling developments to allow improvements in analysing the effects of fiscal policy. These include changes to the summary indicators used to judge the fiscal impulse (e.g. looking at the sensitivity of tax revenues to domestic demand changes), and analysing the extent to which fiscal multipliers may vary over the economic cycle.

It is also recommended that the Treasury consider developing a new general equilibrium model for looking directly at the short and medium-term impact of fiscal policy.

### .... as could analysis of the balance sheet

New Zealand is recognised as pioneering in the construction of a complete balance sheet for the government, looking at social, commercial and financial assets and liabilities. The Review highlights the Investment Statement 2014 as an important addition to the analysis in this area. However, similar to the scenarios considered for economic forecasts, it is recommended that the Treasury develop its analysis of the balance sheet to also look at alternative scenarios for the economic fundamentals, and in particular pay attention to the correlation within and among the portfolios.

### ... but the Treasury looks well placed to understand and control future fiscal pressures

Whilst there are clearly areas the Review shows need development, it highlights the work the Treasury has undertaken to understand spending pressures in the longer-term. This is in the context of the future pressures of an ageing population as

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[2] The fiscal impulse is the year-to-year change in the cyclically-adjusted primary balance (tax less spending excluding on debt interest), on a cash basis and excluding capital expenditure on defence.

shown in the Long-term Fiscal Statement. However, it also notes the drive towards a holistic medium-term and recipient-focused approach to the analysis and reform of public spending programmes, known as the 'investment approach'. This approach helps identify key and at-risk areas or individuals where additional spending can create greater value for money in terms of saved future spending.

The Treasury is thus developing an enhanced monitoring framework to look at the sustainability, efficiency and effectiveness of government spending, and improving the evidence base for the social assets portfolio (the property, plant and equipment of government), including large-scale infrastructures.

The Review recommends that the Treasury continue to improve performance information, through not expanding the number of indicators too widely, benchmarking against comparator countries, and that this be undertaken collaboratively with other government departments to ensure that suitable cross-government incentives are created. However, it is recognised that as with many aspects of the fiscal policy framework, New Zealand is at the leading edge of international experience, and that lessons learned here may be taken as international best practice.

***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

## Quarterly Indicators

| | | 2013Q1 | 2013Q2 | 2013Q3 | 2013Q4 | 2014Q1 | 2014Q2 | 2014Q3 |
|---|---|---|---|---|---|---|---|---|
| **Gross Domestic Product (GDP)** | | | | | | | | |
| Real production GDP | qtr % chg[1] | 0.5 | 0.6 | 1.1 | 1.0 | 1.0 | 0.7 | ... |
| | ann ave % chg | 2.3 | 2.2 | 2.6 | 2.8 | 3.2 | 3.5 | ... |
| Real private consumption | qtr % chg[1] | 0.9 | 0.9 | 0.5 | 1.2 | 0.1 | 1.2 | ... |
| | ann ave % chg | 2.6 | 2.6 | 3.1 | 3.3 | 3.4 | 3.3 | ... |
| Real public consumption | qtr % chg[1] | -0.3 | 0.3 | 1.9 | -0.3 | 1.4 | 0.5 | ... |
| | ann ave % chg | -1.0 | -0.5 | 0.3 | 0.9 | 1.7 | 2.6 | ... |
| Real residential investment | qtr % chg[1] | 5.7 | 1.0 | 6.3 | 1.0 | 11.1 | -0.2 | ... |
| | ann ave % chg | 19.3 | 17.9 | 17.5 | 17.3 | 17.0 | 18.1 | ... |
| Real non-residential investment | qtr % chg[1] | 1.9 | 5.7 | 1.4 | 0.6 | -1.4 | 2.5 | ... |
| | ann ave % chg | 3.7 | 3.9 | 5.5 | 7.2 | 8.4 | 7.2 | ... |
| Export volumes | qtr % chg[1] | 0.8 | -3.2 | -0.9 | 4.0 | 2.8 | -2.9 | ... |
| | ann ave % chg | 3.0 | 3.1 | 1.4 | 1.3 | 0.4 | 0.9 | ... |
| Import volumes | qtr % chg[1] | 2.0 | 2.2 | 4.0 | 0.2 | 1.8 | 2.9 | ... |
| | ann ave % chg | 1.3 | 2.5 | 4.6 | 6.3 | 8.0 | 8.8 | ... |
| Nominal GDP - expenditure basis | ann ave % chg | 2.1 | 1.6 | 2.8 | 5.2 | 6.7 | 7.8 | ... |
| Real GDP per capita | ann ave % chg | 1.7 | 1.6 | 1.9 | 2.0 | 2.2 | 2.4 | ... |
| Real Gross National Disposable Income | ann ave % chg | 0.9 | 2.0 | 3.3 | 5.4 | 7.2 | 7.8 | ... |
| **External Trade** | | | | | | | | |
| Current account balance (annual) | NZ$ millions | -7,967 | -7,894 | -8,476 | -7,350 | -6,005 | -5,798 | ... |
| | % of GDP | -3.8 | -3.7 | -3.9 | -3.3 | -2.7 | -2.5 | ... |
| Investment income balance (annual) | NZ$ millions | -8,923 | -8,501 | -8,507 | -9,026 | -9,337 | -9,820 | ... |
| Merchandise terms of trade | qtr % chg | 4.2 | 4.6 | 7.5 | 2.5 | 1.8 | 0.4 | ... |
| | ann % chg | -2.8 | 4.3 | 15.8 | 20.2 | 17.3 | 12.5 | ... |
| **Prices** | | | | | | | | |
| CPI inflation | qtr % chg | 0.4 | 0.2 | 0.9 | 0.1 | 0.3 | 0.3 | 0.3 |
| | ann % chg | 0.9 | 0.7 | 1.4 | 1.6 | 1.5 | 1.6 | 1.0 |
| Tradable inflation | ann % chg | -1.1 | -1.6 | -0.5 | -0.3 | -0.6 | 0.1 | -1.0 |
| Non-tradable inflation | ann % chg | 2.4 | 2.5 | 2.8 | 2.9 | 3.0 | 2.7 | 2.5 |
| GDP deflator | ann % chg | 0.1 | -0.1 | 3.2 | 7.2 | 6.1 | 3.2 | ... |
| Consumption deflator | ann % chg | 0.5 | 0.1 | 0.6 | 0.9 | 0.9 | 1.1 | ... |
| **Labour Market** | | | | | | | | |
| Employment (HLFS) | qtr % chg[1] | 0.2 | 0.5 | 1.3 | 1.0 | 0.9 | 0.5 | 0.8 |
| | ann % chg[1] | 0.4 | 0.7 | 2.5 | 3.0 | 3.7 | 3.7 | 3.2 |
| Unemployment rate | %[1] | 6.2 | 6.4 | 6.1 | 6.0 | 6.0 | 5.6 | 5.4 |
| Participation rate | %[1] | 67.9 | 68.1 | 68.6 | 68.9 | 69.2 | 68.9 | 69.0 |
| LCI salary & wage rates - total (adjusted)[5] | qtr % chg | 0.4 | 0.4 | 0.4 | 0.5 | 0.3 | 0.5 | 0.5 |
| | ann % chg | 1.8 | 1.7 | 1.6 | 1.6 | 1.5 | 1.6 | 1.7 |
| QES average hourly earnings - total[5] | qtr % chg | 0.8 | 0.2 | 1.6 | 0.2 | 0.5 | 0.2 | 1.4 |
| | ann % chg | 2.1 | 2.1 | 2.6 | 2.9 | 2.5 | 2.5 | 2.3 |
| Labour productivity[6] | ann ave % chg | 2.3 | 1.6 | 0.6 | -0.3 | -0.3 | -0.3 | ... |
| **Retail Sales** | | | | | | | | |
| Core retail sales volume | qtr % chg[1] | 1.2 | 1.8 | -0.3 | 1.0 | 1.1 | 1.2 | 1.4 |
| | ann % chg | 2.5 | 4.4 | 4.3 | 3.7 | 3.6 | 3 | 4.5 |
| Total retail sales volume | qtr % chg[1] | 1.1 | 1.2 | 0.3 | 1.2 | 1 | 1.1 | 1.5 |
| | ann % chg | 3.5 | 4.2 | 4.7 | 3.9 | 3.8 | 3.6 | 4.7 |
| **Confidence Indicators/Surveys** | | | | | | | | |
| WMM - consumer confidence[3] | Index | 111 | 117 | 115 | 120 | 122 | 121 | 117 |
| QSBO - general business situation[4] | net % | 22.8 | 35.9 | 37.8 | 52.8 | 51.7 | 31.7 | 19.0 |
| QSBO - own activity outlook[4] | net % | 18.0 | 20.9 | 15.4 | 17.5 | 20.8 | 11.5 | 22.9 |

## Monthly Indicators

| | | 2014M05 | 2014M06 | 2014M07 | 2014M08 | 2014M09 | 2014M10 | 2014M11 |
|---|---|---|---|---|---|---|---|---|
| **External Sector** | | | | | | | | |
| Merchandise trade - exports | mth % chg[1] | 2.8 | 0.0 | 3.6 | -7.5 | 14.9 | -4.0 | ... |
| | ann % chg[1] | 12.2 | 4.3 | -3.8 | 6.4 | -5.4 | -5.1 | ... |
| Merchandise trade - imports | mth % chg[1] | 0.1 | -1.0 | -9.1 | 14.3 | -8.6 | 3.7 | ... |
| | ann % chg[1] | 6.8 | 8.3 | 0.2 | -11.8 | 23.3 | 11.9 | ... |
| Merchandise trade balance (12 month total) | NZ$ million | 1320 | 1189 | 1034 | 1779 | 633 | -107 | ... |
| Visitor arrivals | number[1] | 237,790 | 236,900 | 235,940 | 229,270 | 231,880 | 239,420 | ... |
| Visitor departures | number[1] | 246,720 | 246,030 | 238,270 | 238,610 | 231,630 | 236,590 | ... |
| **Housing** | | | | | | | | |
| Dwelling consents - residential | mth % chg[1] | -4.5 | 5.0 | -2.2 | -0.7 | -12.2 | ... | ... |
| | ann % chg[1] | 7.8 | 30.1 | 20.5 | 15.7 | 6.6 | ... | ... |
| House sales - dwellings | mth % chg[1] | 2.3 | 0.3 | 4.8 | -4.7 | 4.3 | 7.3 | ... |
| | ann % chg[1] | -14.8 | -6.3 | -13.0 | -16.3 | -12.0 | -2.4 | ... |
| REINZ - house price index | mth % chg | -0.8 | 0.2 | 0.3 | 0.2 | 0.0 | 0.6 | ... |
| | ann % chg | 6.5 | 6.3 | 5.9 | 4.8 | 4.1 | 3.9 | ... |
| **Private Consumption** | | | | | | | | |
| Electronic card transactions - total retail | mth % chg[1] | 1.2 | 0.0 | -0.2 | 0.7 | 0.1 | 1.0 | ... |
| | ann % chg | 7.6 | 4.0 | 5.1 | 4.1 | 5.4 | 5.7 | ... |
| New car registrations | mth % chg[1] | 3.5 | 3.1 | 1.7 | -1.1 | 3.1 | -1.9 | ... |
| | ann % chg | 21.7 | 25.2 | 16.6 | 18.7 | 31.1 | 21.3 | ... |
| **Migration** | | | | | | | | |
| Permanent & long-term arrivals | number[1] | 9,110 | 9,200 | 9,330 | 9,510 | 9,580 | 9,900 | ... |
| Permanent & long-term departures | number[1] | 5,110 | 4,930 | 4,750 | 4,760 | 4,850 | 4,650 | ... |
| Net PLT migration (12 month total) | number | 36,397 | 38,338 | 41,043 | 43,483 | 45,414 | 47,684 | ... |
| **Commodity Prices** | | | | | | | | |
| Brent oil price | US$/Barrel | 109.48 | 111.84 | 106.81 | 101.78 | 97.40 | 87.46 | *79.89* |
| WTI oil price | US$/Barrel | 102.11 | 105.79 | 103.59 | 96.54 | 93.21 | 84.37 | *76.50* |
| ANZ NZ commodity price index | mth % chg | -2.1 | -1.0 | -3.4 | -0.4 | 1.6 | 2.4 | ... |
| | ann % chg | -6.0 | -7.8 | -11.5 | -12.5 | -9.9 | -6.8 | ... |
| ANZ world commodity price index | mth % chg | -2.2 | -0.9 | -2.4 | -3.3 | -1.3 | -0.8 | ... |
| | ann % chg | -3.1 | -0.3 | -3.3 | -7.2 | -9.4 | -11.3 | ... |
| **Financial Markets** | | | | | | | | |
| NZD/USD | $[2] | 0.861 | 0.8621 | 0.8697 | 0.8435 | 0.8167 | 0.7869 | *0.7829* |
| NZD/AUD | $[2] | 0.9255 | 0.9204 | 0.9259 | 0.9065 | 0.9001 | 0.8973 | *0.9027* |
| Trade weighted index (TWI) | June 1979 = 100[2] | 80.10 | 80.33 | 80.93 | 79.23 | 78.36 | 76.58 | *77.61* |
| Official cash rate (OCR) | % | 3.00 | 3.25 | 3.50 | 3.50 | 3.50 | 3.50 | 3.50 |
| 90 day bank bill rate | %[2] | 3.38 | 3.52 | 3.67 | 3.69 | 3.71 | 3.68 | *3.67* |
| 10 year govt bond rate | %[2] | 4.30 | 4.42 | 4.37 | 4.20 | 4.20 | 4.04 | *4.05* |
| **Confidence Indicators/Surveys** | | | | | | | | |
| ANZ - business confidence | net % | 53.5 | 42.8 | 39.7 | 24.4 | 13.4 | 26.5 | ... |
| ANZ - activity outlook | net % | 51.0 | 45.8 | 45.1 | 36.6 | 37.0 | 37.8 | ... |
| ANZ-Roy Morgan - consumer confidence | net % | 127.6 | 131.9 | 132.7 | 125.5 | 127.7 | 123.4 | 121.8 |
| Performance of Manufacturing Index | Index | 52.7 | 53.7 | 54.1 | 57.0 | 58.5 | 59.3 | ... |
| Performance of Services Index | Index | 54.1 | 55.1 | 58.4 | 57.4 | 58.0 | 57.8 | ... |

| | |
|---|---|
| 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