Monthly Economic Indicators

THE TREASURY
Kaitohutohu Kaupapa Rawa

March 2016

Executive Summary

- **Real GDP grew by a stronger than expected 0.9% in the December quarter. Growth strengthened markedly in the second half of 2015.**
- **Growth is expected to moderate in the first half of 2016, as subdued farm incomes weigh on business investment.**
- **Lower terms of trade and low inflation dampened nominal GDP, and the terms of trade may fall further as dairy prices declined in early 2016.**
- **The annual current account deficit narrowed on the back of growth in export services.**

The economy expanded by a stronger-than-expected 0.9% in the December quarter 2015, the same pace of growth as in the September quarter, following 0.3% growth in both the March and June quarters. Growth was driven by increases in private consumption and residential investment, reflecting record net migration inflows and an expansion in residential construction in Auckland. In addition, continued elevated tourist arrivals following their earlier surge also supported the level of GDP.

Growth is expected to moderate to around 0.6% a quarter in the first half of 2016 as business investment and exports are expected to be subdued. Business fixed investment is expected to slow owing to lower farm incomes, which reflected a fall in dairy prices. In addition, the earlier high livestock slaughter may weigh on agricultural production and exports in coming quarters. However, the growth outlook remains solid, supported by high population growth, residential investment led by Auckland and low interest rates.

The Reserve Bank reduced the Official Cash Rate (OCR) at its March Monetary Policy Statement, primarily in response to a weaker global outlook and a fall in inflation expectations. Changes in the Reserve Bank's forecast of short-term interest rates point to a further rate reduction in 2016.

Nominal GDP eased 0.1% in the December quarter, led by a 1.3% fall in the terms of trade. The goods terms of trade decline 3.4%, owing to further declines in dairy prices. Low inflation also weighed on nominal consumption growth, but it was held up by strong growth in consumption volumes.

Despite a lower goods terms of trade, the annual current account deficit fell to 3.1% of GDP in the December quarter from 3.3% in September. An increase in the annual services surplus, owing to strong growth in services exports, and a smaller income deficit more than offset a widening in the goods trade deficit. The current account deficit may widen in 2016 as earlier dairy price falls continue to impact on dairy exports.

Global economic data were mixed, with the US recovery continuing to some extent and activity in Australia and the euro area showing a small pick-up. However, weak inflationary pressures and uncertainty in the global growth outlook reinforced a more accommodative stance for monetary policy across the world. The New Zealand dollar fell following the OCR cut in New Zealand, but appreciated later in the month on the back of a softer policy stance on the part of the US Federal Reserve.

This month's special topic analyses information collected in the Treasury's March 2016 business talks. Overall, these talks suggest that current growth in the New Zealand economy may be slightly stronger than forecast in the *Half-Year Economic and Fiscal Update*.

New Zealand Government

Analysis

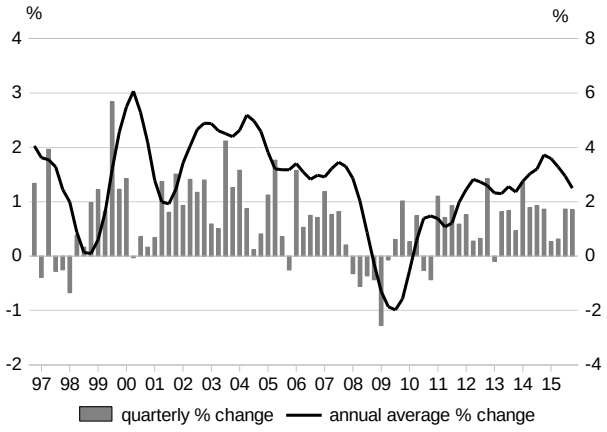
The economy expanded 0.9% in the December quarter, and growth in the second half of 2015 was significantly stronger in than the first half. GDP in the year to December 2015 rose 2.5% from 2014, faster than the forecast of 2.2% in the *Half-Year Economic and Fiscal Update* (HYEFU). Growth in the December quarter was driven by consumption and residential investment, reflecting high population growth and construction activity in Auckland.

Quarterly GDP growth is expected to moderate from the December quarter, as a further fall in the terms of trade weighs on farm incomes, in turn dampening business investment growth. However, growth in 2016 may be slightly stronger than forecast in the HYEFU (2.3%), as strength in its fundamental drivers – migration, tourism spending and housing construction – persists.

Strong GDP growth in the December quarter...

Headline real production GDP grew 0.9% in the December quarter, the same pace as in the September quarter and exceeding its HYEFU forecast of 0.7%. This represents the second consecutive quarter of a rebound in economic growth from the first half of 2015. GDP expanded 1.7% over the second half of the year, whereas it had grown just 0.6% over the first half. Output growth in the December year fell to 2.5% from 3.7% in 2014 (Figure 1).

Figure 1: Real production GDP



Source: Statistics New Zealand

Services industries drove growth in the quarter, expanding 0.8%, similar to the September quarter. Retail trade and accommodation, and arts, recreation and other services grew 1.7% and 2.0% respectively, reflecting buoyant household demand and tourist arrivals. Business, financial and IT services also expanded solidly, supported by a pick-up in business confidence in the December quarter. On the other hand, growth in rental and real estate services was soft at 0.3%, reflecting a drop in house sales as the market adjusted to regulatory changes, although growth in this industry group for the December year remained solid at 2.8%.

Goods-producing industries recorded soft growth of 0.3% in the quarter, showing a pullback from slightly faster growth in the September quarter (0.5%). Manufacturing activity fell 0.4%, primarily as food manufacturing declined 4.1% following higher meat processing and exports in the September quarter, partly as dairy farmers culled stock in anticipation of low returns and dry conditions. Utilities production also declined 1.3%, possibly from to lower hydro electricity production owing to dry conditions. Construction provided an offset, rebounding by 2.5% in the quarter from a 2.5% fall previously, as a pick-up in in Auckland offset an easing in the Canterbury residential rebuild.

Agricultural, fishing and forestry output contracted 1.6%, as falls in dairy prices over the past two years led to lower production. In addition to the culling of stock, a reduction in supplementary feed also reduced milk production.

...in private consumption and construction...

Expenditure GDP growth was high at 1.1% in the December quarter after robust growth of 1.4% in the September quarter. This represented a rebound from slower growth of 0.4% and 0.7% in the March and June quarters respectively.

Seasonally-adjusted private consumption rose 1.0%, its fastest quarterly pace since September 2014, and propelled domestic demand. Healthy consumption growth reflected high population growth and increases in aggregate household spending. Residential investment also supported growth, increasing 1.6% in the quarter, as expanding residential construction activity in Auckland more than offset a fall in house sales and an easing Canterbury residential rebuild.

However, other components of domestic demand were weak, with business fixed investment contracting 2.6%, and government consumption growing just 0.4%. A large rise in inventories contributed 1.4% points to growth, which may reflect an early meat slaughter as farmers anticipated dry conditions in early 2016. If so, these meat stocks would be reduced in the March

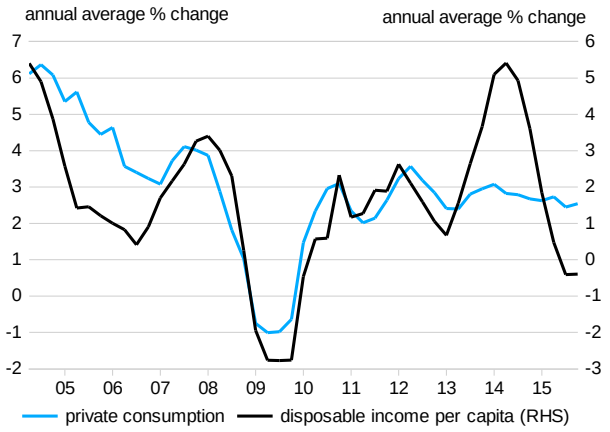
quarter as they are exported, with no net impact on expenditure GDP.

Goods exports rose 0.6% in the December quarter, stronger than our forecast for a fall, supported by meat and forestry exports and a rebound in oil exports. Services exports declined 0.9% in the quarter, but remained at an elevated level and were up 7% from the December quarter 2014. At the same time, goods imports rose just 0.2%, chiefly owing to fewer large aircraft imports than in the previous quarter. All told, net exports were only a slight drag on real GDP growth and more positive than forecast in the HYEFU, owing to higher goods exports than expected.

Growth to moderate in coming quarters…

Treasury expects quarterly GDP growth to ease from the December quarter in the first half of 2016, to around 0.6% a quarter, chiefly as weak dairy prices lead to lower exports and farm incomes, in turn dampening business investment. Reflecting a fall in the terms of trade, real national disposable income per capita (real income per resident less transfers) fell 0.4% in 2015. Lower per capita incomes present some risks to household spending, but despite this private consumption growth has held up at a solid level so far (Figure 2). The seasonally-adjusted ANZ-Roy Morgan consumer confidence remained high at 117.8 in the March quarter, suggesting continued strong private consumption growth ahead.

Figure 2: Real private consumption and disposable income per capita



Source: Statistics New Zealand

…but still supported by population growth…

The fundamental drivers of growth remain intact, including population growth, tourism spending, residential construction and low interest rates. Persistence of these drivers suggests that growth in 2016 may be stronger than its HYEFU forecast of 2.3%.

Annual net migration reached a record high of 67,400 in February, exceeding its HYEFU forecast peak of 62,500 in the March quarter. A 10% increase in arrivals drove most of the annual net gain, while departures declined just 1.1%, making only a small contribution. This contrasted with the February 2014 year, when a 15% fall in departures contributed strongly to the annual net migration gain. The annual net inflow from Australia rose to 1,600 in February, with a monthly net gain from Australia persisting for a fifth consecutive month. High migration is expected to remain a key driver of domestic demand growth over the first half of 2016.

Increased tourist spending is also supporting GDP. Overseas visitor arrivals in February rose 8.7% from February 2015 to 373,000, driven by an increase in arrivals from Australia, the UK and Germany. Holidaymakers and people visiting relatives and friends contributed the majority of the increase from a year ago. Total international visitor expenditure expanded 31% in 2015, forming a high base for real and nominal services exports in 2016.

Reflecting solid demand, the average of the BNZ-BusinessNZ Performance of Manufacturing Index in January and February (57.0) is higher than in the December quarter (55.2), led by an increase in production and new orders, and should support activity in coming months. The Performance of Services index was also positive at an average of 56.2 so far in 2016, continuing to show strong growth in the services sector. The Treasury's March 2016 business talks, which are summarised in this month's special topic, also point to a positive outlook for business activity in the first half of 2016.

…a solid supply response from housing…

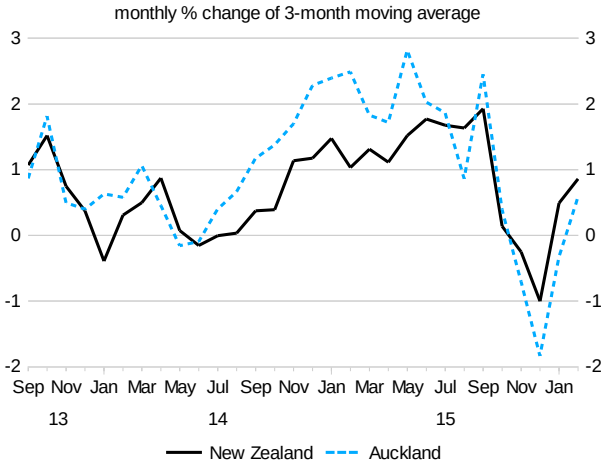
Residential investment is expected to continue to boost growth, with activity shifting increasingly to Auckland from Canterbury. The number of dwelling consents was largely steady at a record level in the December quarter, and up 14% from a year ago, driven chiefly by Auckland. In addition, a shift in construction activity to more apartments, which can take longer to complete than houses, suggests that some consents in the September quarter will contribute to residential investment in the March quarter. The seasonally-adjusted dwelling consents rebounded by 10.8% in February after dipping 7.8% in January, suggesting continued solid growth in residential investment in the June quarter.

…as the housing market regains momentum…

Despite strong residential construction, housing demand is expected to continue to outpace supply. The Real Estate Institute of New Zealand

(REINZ) stratified median house price index rose 3.9% in February in seasonally-adjusted terms, following some falls in January and in the December quarter 2015 (Figure 3), and annual house price growth picked up from 10.7% to 11.9% in February. This reflected a broad-based pick-up in demand across most New Zealand regions. Seasonally-adjusted house sales fell 1.6% in the February month, but the fall largely reflected a low number of houses available for sale at the start of the month, particularly in Auckland, the surrounding regions and Wellington. However, with more houses being put up for sale in February, house sales are likely to rebound in line with strong demand.

Figure 3: REINZ stratified median house prices



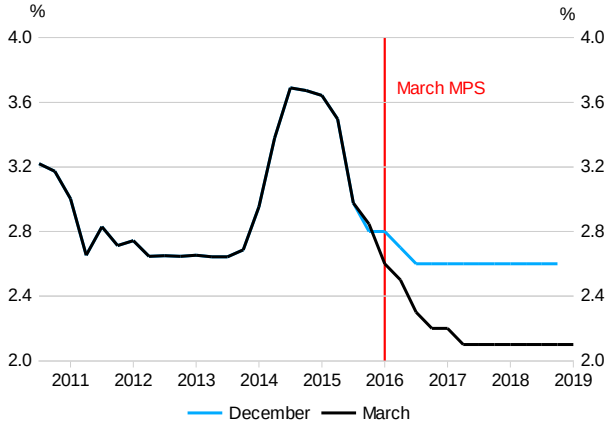
Source: Real Estate Institute of New Zealand

The earlier fall in housing demand in the December quarter was a result of the market adjusting to regulatory changes, but their impact appears to have softened. The recent rebound in demand reflected the ongoing momentum in fundamentals – record net migration and low interest rates. House price growth is likely to remain high in 2016, albeit somewhat slower than in 2015, driven more by regions outside of Auckland, in turn supporting residential investment growth over the next couple of years.

…and the Reserve Bank's monetary easing

Accommodative monetary conditions also underpin a solid outlook for domestic demand. The Reserve Bank reduced the OCR by 25 bps to 2.25% at its March Monetary Policy Statement, driven by two main factors. Firstly, the Reserve Bank assessed the global outlook to be weaker than previously, leading to softer demand for commodities, which is expected to dampen tradables inflation. Secondly, the recent fall in inflation expectations is likely to weaken wage- and price-setting behaviour. A reduction in the Reserve Bank's 90-day rate forecasts signals a further cut in the OCR to 2.0% (Figure 4), and the market is pricing in an 80% probability of another 25 bps reduction by June.

Figure 4: RBNZ forecast 90 day interest rates



Source: Reserve Bank of New Zealand

Lower terms of trade drag on nominal GDP…

The nominal economy remained subdued in the December quarter, easing 0.1%, dampened by a fall in the terms of trade and low inflation. The terms of trade fell 1.3% following a 3.3% drop in the September quarter, to be 4.4% lower over the year to December. The main driver was a 3.4% decline in the goods terms of trade in the quarter, as falls in dairy prices more than offset lower oil import prices. Growth in nominal private consumption held up at 0.9%, driven by strong population growth; however, the consumption price deflator was largely flat, reflecting subdued nominal wage growth and low tradables inflation. Nominal GDP growth in the 2015 year was 3.4%, slower than 5.1% in 2014.

Reflecting strong growth in consumption and residential investment, goods and services tax (GST) in the seven months to January exceeded its HYEFU forecast by $220 million (2.2%). Source deductions were $227 million (1.4%) higher than forecast, owing to stronger-than-expected labour incomes. Total tax revenue in the seven months to January exceeded forecast by $446 million (1.1%), and was $1.7 billion (4.6%) higher than in the period to January 2015.

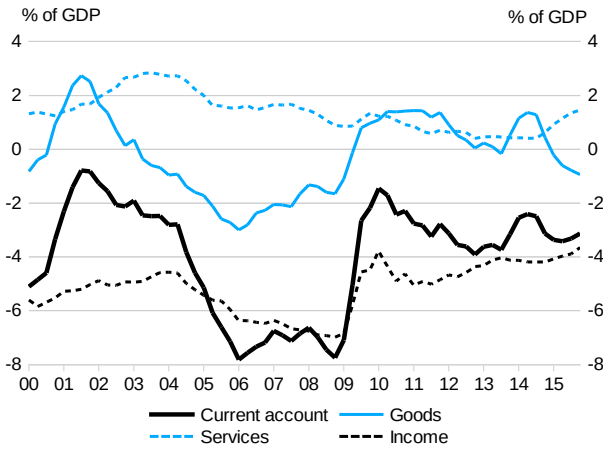
Nominal GDP growth is expected to remain low in the first half of 2016 owing to low inflation. Recent declines in the GlobalDairyTrade price index, including a 1.5% fall over the March month, led dairy prices to be a cumulative 18% lower since the end of the September quarter. Lower dairy prices point to further falls in the terms of trade

over the first half of 2016, which would weigh on nominal GDP growth. The ANZ Business Outlook for March shows that firms' 12-month inflation expectations were steady at a low level of 1.4%, following a 0.2% point fall in February. Pricing intentions and profit expectations also remained broadly weak. Business confidence has fallen since December, although the outlook for activity was largely steady, reinforcing solid growth in volume terms but weak price pressures.

…but the current account deficit narrowed…

Despite the 3.4% fall in the goods terms of trade, the annual current account deficit narrowed in the December quarter to 3.1% of GDP from 3.3%, as a wider goods deficit was offset by an increased services surplus and a smaller primary income deficit as earnings accrued to overseas investors in NZ firms fell. Compared to a year ago, the annual current account deficit was steady at 3.1%, slightly narrower than expected by the market (Figure 5).

Figure 5: Current account balance



Source: Statistics New Zealand

New Zealand's net international liability position fell slightly as a share of GDP from 61.8% to 61.4%, although it rose in dollar terms to $151.2 billion from $150.7 billion. Exchange rate appreciation in the December quarter had a net positive impact on the net liability position, as it reduced the NZD value of overseas debts by more than the assets.

…as a widening annual services surplus…

The annual services surplus expanded to 1.5% of GDP ($3.6 billion) in the December quarter from 1.3% ($3.3 billion) in the September quarter. Increases in travel services exports, particularly other personal travel (chiefly tourism) and education, continue to drive growth in total services exports which rose to 17% in 2015 from 6% in 2014. While the annual services surplus rose, the seasonally-adjusted quarterly surplus eased as travel services exports fell modestly, supporting the National Accounts picture of domestic spending being driven more by resident households in the December quarter and a retracement in tourism exports, reflecting their elevated levels and a halt to NZD depreciation.

The other factor behind the narrowing in the current account was a smaller annual primary income deficit, which fell to 3.6% of GDP in December ($8.7 billion) from 3.8% ($9.3 billion) in September. This was largely the result of a $0.5 billion reduction in investment income from foreign investment in New Zealand.

…offset an increase in the goods deficit

The increase in the annual services surplus offset a widening in the annual goods deficit to 0.9% of GDP in the December quarter ($2.3 billion deficit) from 0.7% ($1.9 billion deficit) in the September quarter. For the quarter itself, seasonally-adjusted goods exports fell $0.6 billion, primarily as lower dairy prices dampened exports, while goods imports decreased $0.3 billion, due to fewer large aircraft deliveries and a smaller fuel import bill.

Merchandise trade data for February showed that the seasonally-adjusted monthly goods deficit remained steady at around $100 million, lower than its December quarter average. Goods export values were up solidly from the end of 2015 while imports were steady, pointing to a smaller goods deficit than forecast.

Current account deficit may rise over 2016

The annual goods deficit is expected to increase further as earlier falls in dairy prices continue to dampen export receipts and farmers respond by reducing production. Meat export volumes may decline in coming months as high meat slaughtering over the past year weighs on livestock numbers. On the other hand, the trade balance will be partly supported by lower import prices, particularly for fuel and other hard commodities. The services trade surplus is expected to remain elevated, supported by strong visitor arrivals.

On balance, the current account deficit is expected to widen over 2016, primarily as a result of further anticipated increases in the goods deficit. While the services surplus is expected to remain elevated, it is unlikely to rise significantly. That said, latest data suggest that the current

account deficit will peak at a lower level in 2016 than the HYEFU forecast of 6%.

Global activity was mixed in March, with softer monetary policy stances

Global activity was mixed in March, with positive outturns in the US, euro area and Australia offset by some weaker results for Japan, China and the UK. Inflation pressures remained weak in most economies, and central banks softened their stances, either easing further or reducing their tightening bias. All central banks noted a soft global growth outlook in their decisions, reflecting uncertainty around Brexit, the efficacy of monetary policy, and concerns about China. This formed part of the backdrop to the RBNZ's decision to lower the OCR in March.

Recent US strength, but future uncertainty and worries of softer global growth

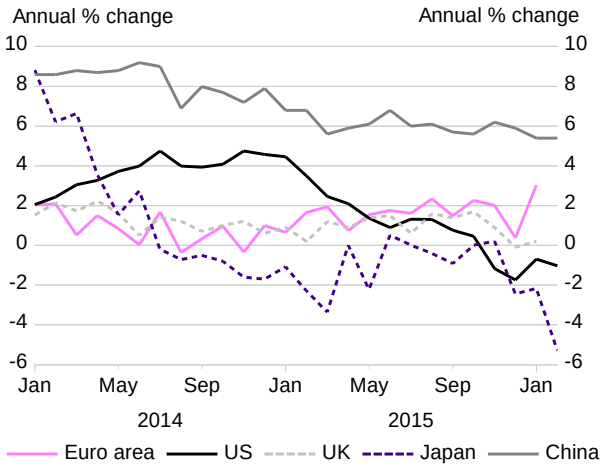
The US economy showed continued strength with Q4 GDP growth revised up to 0.3% driven by higher services consumption, but weighed down by lower business investment and profits. However, recent outturns point to weaker Q1 private consumption, with negative growth in January and February retail sales (-0.1% and -0.4% respectively), and mixed consumer confidence. Manufacturing indicators were also muted, reflecting ongoing headwinds from the strong USD, with weak exports contributing to a widening trade deficit in January. The labour market remained strong, with increasing employment and participation rates, and unemployment steady at 4.9%.

Inflation outturns were robust, with annual core CPI inflation at 2.3% in February, annual core PCE inflation (the Fed's preferred measure) stable in February after increasing 0.2ppts to 1.7% in January, and 1- and 5-year inflation expectations rising 0.2ppts in March to 2.7%. Despite these outturns, Fed Chair Yellen stated she expects overall PCE inflation to come in "well below 2%" in 2016. The US Federal Reserve (Fed) held rates steady in March and cut the number of anticipated rate rises in 2016 from four to two, also citing concerns around softer global growth and financial market volatility. Markets currently do not price a rise until 2017.

Positive euro area data, but softer outlook

Manufacturing data surprised upwards in the euro area, as industrial production (IP) increased 3.0% in the year to January (Figure 6), and the manufacturing PMI increased in both February and March (to 51.2, then 51.4). However, the manufacturing PMIs were weaker in France and Germany in March, new orders remained near a 1-year low and inventories continued to build – all pointing to softer activity ahead. Unemployment continued its gradual decline, falling 0.1% points in January to 10.3%.

Figure 6: Industrial production (total industry, excluding construction)



Source: Haver

The ECB cut its deposit rate to -0.4%, as expected, lowered the marginal lending rate to 0.25%, and extended its asset purchase programme from €60bn to €80bn per month. The ECB also announced new targeted long-term refinancing operations (TLTROs) which enable banks to borrow under certain conditions at an interest rate no higher than the refinancing rate (which was cut 5bps to 0.00%). The ECB has forecast lower inflation over 2016, in line with core CPI at 0.8% for the year to February, and suggest a slower return to target than previously expected. While the ECB has said "a rate reduction remains in our armoury", markets are pricing the probability of another cut by the end of 2016 as only 50%.

Australian Q4 GDP surprises upwards, but outlook weaker

Australian Q4 GDP surpassed market expectations, growing 0.6% (3.0% apc). However, private consumption, which contributed 0.4% points to the 0.6% rise in GDP, faces downside risk with soft January retail sales growth (below expectations at 0.3%). Weak investment continued to hamper growth, detracting 0.2% points from Q4 GDP, reflecting the slow transition away from mining investment. Labour market data were also soft, with falling unemployment driven largely by weaker labour supply (the participation

rate fell in February). Although the Reserve Bank of Australia kept its policy rate at 2.0%, it noted continued low inflation will provide “scope for further easing”. Markets are not pricing a cut in 2016.

Weak Japanese growth, more accommodation expected

Japan’s GDP growth in Q4 was weak, at -0.3%. Private consumption is expected to remain low, with retail sales falling 2.3% in February (after a 0.4% fall in January) and consumer confidence in February falling more than expected. IP also surprised on the downside in February (Figure 6), falling 6.2% in the month, and 5.4% in the year (partly due to a temporary plant closure). Finally, annual core CPI inflation (excluding fresh food) remained at zero in February.

More accommodative fiscal and monetary policy is expected. Although the Bank of Japan left its policy rate unchanged at -0.1% this month, Governor Kuroda said theoretically the policy rate could go as low as -0.5%.

Weaker outturns and outlook for China

Data releases for China in March suggested weaker demand in the Asian region, with retail sales growth of 10.3% in the year to February, less than expected, and imports 13.6% lower than a year ago (in USD terms). Production measures also appeared weaker, with declining manufacturing and non-manufacturing PMIs, weak IP growth (which grew 5.4% in the year to February, its weakest growth since the GFC) and exports falling 16.9% in the year (in USD terms). Further, growth in fixed asset investment in the year to February was driven largely by public investment, growing 10.2% overall, while private fixed asset investment rose only 6.9%.

Reflecting the weaker outlook, the People’s Bank of China cut the reserve requirement ratio 50 basis points to 17.0%. Annual CPI inflation was higher than expected in February at 2.3%, led by higher food prices (owing partly to the Chinese New Year), but below the 3% target. Core inflation (excluding food and energy) was weaker in February (at 1.3%). Further easing of monetary and/or fiscal policy is expected in 2016.

UK momentum slowing

The UK economy is thought to be losing momentum, with the 2016 Budget reducing average growth forecasts from 2.4% to 2.1% over the next five years. January IP increased below expectations (up 0.3% in the month and 0.2% in the year) and February retail sales fell more than expected (down 0.4%, after a 2.2% gain in January). Although labour market data were strong (with the unemployment rate stable at 5.1% in the three months to January and the employment rate at a record high), economic growth is expected to slow as the economy nears capacity.

The BoE left its policy rate unchanged in March, warning that Brexit uncertainty may delay spending and depress demand growth. Consumer prices rose 0.3% in February (with annual core inflation at 1.1%). The BoE stands out from other central banks (apart from the Fed) by maintaining their next rate move is likely to be up, although markets are pricing only a 20% probability of a rise in 2016.

Global markets stabilised

Global markets largely stabilised in March from earlier in the year. Equities were less volatile, and commodities, including oil, held on to previous gains (buoyed by a lower USD due to the Fed’s softer interest rate outlook). The NZD appreciated as the USD weakened, more than undoing the depreciation that followed March’s OCR cut.

Special Topic: March 2016 Business Talks

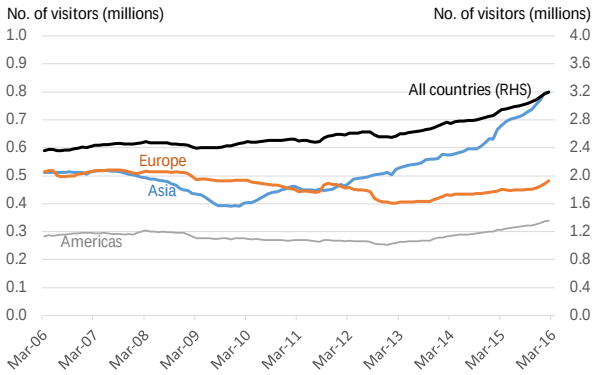
In the second week of March, Treasury officials met with 25 businesses in Auckland, Wellington and Christchurch to discuss the outlook for the economy. The information gathered will be used to inform the Treasury's *Budget Economic and Fiscal Update*. The views expressed by the people we met are summarised below.

Outlook for business activity remains positive

In general, the people we talked to were positive regarding recent activity and prospects for the immediate future. There did not appear to be much negative sentiment outside of the dairy industry.

The tourism sector is doing particularly well. Demand has increased greatly over the last 12 months, with strong growth expected to continue. Visitor numbers out of Asia were reported as being up by more than 40% over the past few months, although the length of stay has not increased to levels of traditional western markets and Asian tourist spending in total has not yet returned to pre-Global Financial Crisis (GFC) levels. Similarly, UK visitor numbers, while growing, are still below pre-GFC levels, but are expected to continue to grow, boosted by next year's British and Irish Lions rugby tour (Figure 1).

Figure 1 – Visitor arrivals by geographic region



Source: Statistics New Zealand

There is little spare capacity in the tourism sector at peak times, leading to higher prices and higher profits, which has also been helped by deflation in input costs. Accommodation is stretched in peak tourist areas, which will hopefully be alleviated by current construction projects. Overall, tourism is in a very good position and has a very positive outlook, particularly with proposed increases in flight capacity into New Zealand.

The increase in tourist numbers appears to be having a spin-off effect on the retail sector, with some reports of retail spending up by as much as 5% year-on-year. This is expected to flatten over the next six months or so, but is not expected to decline. Competition, particularly from online stores, is squeezing margins.

Construction is also very busy and could remain so for the next five to ten years. Construction activity in Canterbury has slowed as the residential and horizontal infrastructure rebuilding efforts are almost complete. However, the vertical rebuild is starting to slowly get underway as commercial investors come back to Canterbury. Furthermore, projects elsewhere are ramping up and taking up the slack, e.g. roading projects around the North Island and residential construction in the Auckland area, the latter of which is constrained only by a lack of available land.

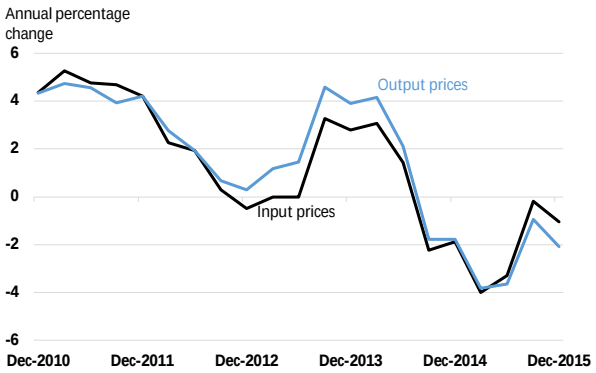
Following a dip in late 2015 caused by tighter loan-to-valuation ratio (LVR) restrictions and tighter tax rules, housing demand picked up in Auckland in early 2016, supporting prices at their current high levels. Land availability is low, but greater density will allow dwelling construction to pick-up. Foreign buyers may now be returning to Auckland and may look to other regions, particularly Waikato and Bay of Plenty.

There seems to be no doubt that the dairy industry is struggling; the fall in dairy prices has negatively affected profitability and dairy investment. However, other agricultural and horticultural sectors appear to be doing well, as prices have largely held up for wine and meat, for example, despite some falls. There is some optimism that dairy prices have reached the bottom and dairy imports into China are increasing on a month-on-month basis. What happens in China over the next few years will be the key influence on the global dairy market.

Pricing intentions are subdued

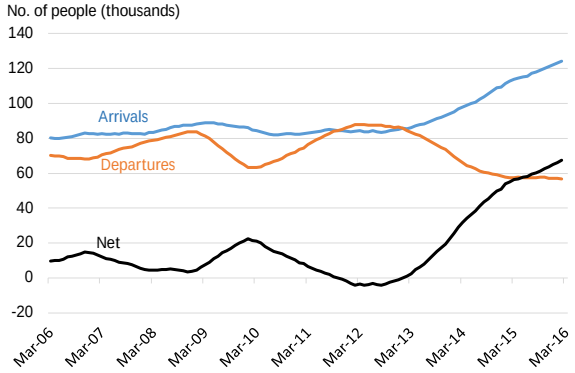
Businesses noted that most of their input costs are down (Figure 2). The lower oil price, and hence transportation costs, has provided a buffer against the lower NZD for importers. Output prices are flat or falling, mainly owing to low inflation and inflation expectations, and competition, particularly in retail and construction. The net effect of these two factors is that margins have been squeezed and profits have been static.

Figure 2 – Producers' input and output prices



Source: Statistics New Zealand

Figure 3 – Net migration, arrivals and departures



Source: Statistics New Zealand

However, some people reported that they were aware of large profit gains in some sectors, particularly construction and tourism, as mentioned above.

Labour market buoyant

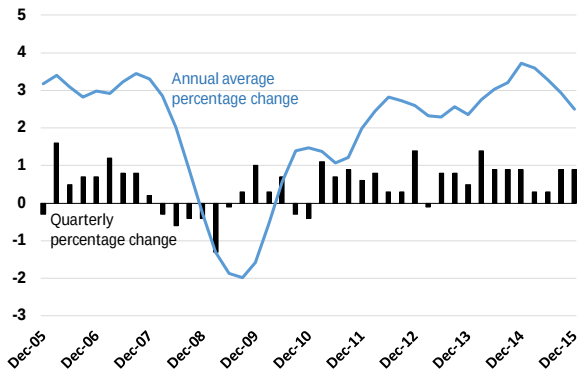
Overall, there is a moderate bias towards hiring. There is strong demand for blue-collar workers in Canterbury, Wellington and Auckland, although it is difficult to attract them into Auckland owing to the perceived high cost of living there. Particular sectors mentioned as having skill shortages included finance, IT, telecommunications, energy and specialized construction roles. In some cases, skills shortages are having to be filled from overseas. There has been a notable expansion in the workforce in the tourism sector, although this is mostly seasonal work; demand is being met in this area, to some extent, by visitors on working holidays.

Wage growth was generally described as 'slow', although this appeared to mean somewhere in the range of 2 to 3%. In some cases, this included an element of 'catch-up' after a few years of low or nil wage increases. Wage pressures are evident in specialist areas such as IT and engineering. Elevated net migration is adding to the supply of labour, which is constraining wage growth across non-specialist jobs (Figure 3).

What does this mean for the outlook?

Overall, these business talks indicated that recent and current growth in the New Zealand economy is solid, perhaps a little stronger than was forecast in the 2015 *Half Year Economic and Fiscal Update*. This had been suggested by previous economic data releases, e.g. the rise in employment and drop in unemployment reported in early February, and was confirmed by the December GDP quarterly growth figure of +0.9%, which was reported after these talks were undertaken. All of these things will be taken into consideration as we prepare revised economic forecasts for the forthcoming Budget.

Figure 4 – Growth in real Gross Domestic Product



Source: Statistics New Zealand

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

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New Zealand Key Economic Data

Quarterly Indicators

		2014Q3	2014Q4	2015Q1	2015Q2	2015Q3	2015Q4	2016Q1
Gross Domestic Product (GDP)								
Real production GDP	qtr % chg[1]	0.9	0.9	0.3	0.3	0.9	0.9	...
	ann ave % chg	3.2	3.7	3.6	3.3	3.0	2.5	...
Real private consumption	qtr % chg[1]	1.3	0.2	0.6	0.5	0.8	1.0	...
	ann ave % chg	2.8	2.7	2.6	2.7	2.4	2.5	...
Real public consumption	qtr % chg[1]	0.4	0.1	0.9	0.9	0.3	0.4	...
	ann ave % chg	2.9	2.7	2.3	2.1	2.0	2.2	...
Real residential investment	qtr % chg[1]	0.0	4.2	0.8	-0.1	1.3	1.6	...
	ann ave % chg	13.6	14.6	11.6	8.6	7.8	6.0	...
Real non-residential investment	qtr % chg[1]	4.1	0.2	-3.0	2.1	2.3	-2.6	...
	ann ave % chg	8.6	9.6	9.0	7.5	5.0	2.0	...
Export volumes	qtr % chg[1]	0.1	6.1	1.6	-0.1	1.8	0.3	...
	ann ave % chg	1.4	3.0	4.2	5.8	7.5	6.7	...
Import volumes	qtr % chg[1]	1.0	2.5	0.8	1.6	-2.6	0.7	...
	ann ave % chg	8.0	7.9	7.4	6.6	5.6	3.6	...
Nominal GDP - expenditure basis	ann ave % chg	7.1	5.1	3.6	2.8	2.8	3.3	...
Real GDP per capita	ann ave % chg	1.8	2.2	1.9	1.5	1.1	0.6	...
Real Gross National Disposable Income	ann ave % chg	6.3	5.1	3.5	2.2	1.4	1.5	...
External Trade								
Current account balance (annual)	NZ$ millions	-5,913	-7,464	-8,064	-8,259	-8,096	-7,709	...
	% of GDP	-2.5	-3.1	-3.4	-3.4	-3.3	-3.1	...
Investment income balance (annual)	NZ$ millions	-9,373	-9,449	-9,217	-9,049	-9,094	-8,488	...
Merchandise terms of trade	qtr % chg	-4.5	-2.4	1.2	1.5	-3.8	-2.0	...
	ann % chg	-0.3	-5.0	-5.6	-4.2	-3.6	-3.2	...
Prices								
CPI inflation	qtr % chg	0.3	-0.2	-0.2	0.4	0.3	-0.5	...
	ann % chg	1.0	0.8	0.3	0.4	0.4	0.1	...
Tradable inflation	ann % chg	-1.0	-1.3	-2.4	-1.8	-1.2	-2.1	...
Non-tradable inflation	ann % chg	2.5	2.4	2.4	2.1	1.5	1.8	...
GDP deflator	ann % chg	1.1	-2.2	-1.0	0.3	0.4	-0.2	...
Consumption deflator	ann % chg	0.7	0.7	0.5	0.5	0.9	0.7	...
Labour Market								
Employment (HLFS)	qtr % chg[1]	1.0	1.0	0.7	0.2	-0.5	0.9	...
	ann % chg[1]	3.2	3.5	3.2	3.0	1.4	1.4	...
Unemployment rate	%[1]	5.5	5.8	5.8	5.9	6.0	5.3	...
Participation rate	%[1]	68.8	69.4	69.5	69.3	68.7	68.4	...
LCI salary & wage rates - total (adjusted)[5]	qtr % chg	0.5	0.5	0.3	0.5	0.4	0.4	...
	ann % chg	1.7	1.7	1.7	1.6	1.6	1.5	...
QES average hourly earnings - total[5]	qtr % chg	1.4	0.5	0.0	0.8	1.0	0.3	...
	ann % chg	2.3	2.6	2.1	2.8	2.3	2.1	...
Labour productivity[6]	ann ave % chg	-0.4	0.1	0.5	0.7	0.8	0.7	...
Retail Sales								
Core retail sales volume	qtr % chg[1]	1.6	1.8	2.3	0.0	1.1	1.4	...
	ann % chg	4.5	6.0	7.2	5.8	5.2	5.2	...
Total retail sales volume	qtr % chg[1]	1.5	1.8	2.1	0.1	1.5	1.2	...
	ann % chg	4.7	5.9	7.1	5.5	5.7	5.3	...
Confidence Indicators/Surveys								
WMM - consumer confidence[3]	Index	117	115	117	113	106	111	110
QSBO - general business situation[4]	net %	19.0	23.6	23.3	5.1	-14.5	14.7	...
QSBO - own activity outlook[4]	net %	33.9	26.7	25.0	9.3	21.7	21.6	...

Monthly Indicators

		2015M09	2015M10	2015M11	2015M12	2016M01	2016M02	2016M03
External Sector								
Merchandise trade - exports	mth % chg[1]	-7.1	-1.2	6.1	-8.6	5.5	-5.3	...
	ann % chg[1]	1.7	-5.0	0.8	0.5	5.8	9.3	...
Merchandise trade - imports	mth % chg[1]	-8.9	-0.7	3.0	-2.6	9.5	-5.5	...
	ann % chg[1]	-3.2	-3.8	12.6	-2.9	6.9	2.8	...
Merchandise trade balance (12 month total)	NZ$ million	-3169	-3182	-3695	-3539	-3579	-3323	...
Visitor arrivals	number[1]	266,070	266,720	276,720	272,460	279,740	275,250	...
Visitor departures	number[1]	265,570	270,360	282,200	284,630	280,460	294,070	...
Housing								
Dwelling consents - residential	mth % chg[1]	-5.1	5.3	1.9	2.8	-7.8	10.8	...
	ann % chg[1]	12.9	9.2	17.0	15.4	-0.5	35.3	...
House sales - dwellings	mth % chg[1]	0.6	-6.9	-4.0	7.3	-10.0	3.3	...
	ann % chg[1]	38.3	18.6	8.5	3.5	4.3	5.7	...
REINZ - house price index	mth % chg	3.0	-4.2	0.5	0.8	0.1	1.6	...
	ann % chg	20.1	14.1	12.5	12.6	10.7	11.9	...
Private Consumption								
Electronic card transactions - total retail	mth % chg[1]	0.9	0.1	0.8	0.1	0.4	0.7	...
	ann % chg	6.1	5.8	4.6	6.6	5.2	9.2	...
New car registrations	mth % chg[1]	0.0	-1.3	-2.0	3.1	-2.9	5.7	...
	ann % chg	5.0	3.8	1.3	2.4	-1.1	7.4	...
Migration								
Permanent & long-term arrivals	number[1]	10,490	10,830	10,530	10,080	10,780	10,640	...
Permanent & long-term departures	number[1]	4,900	4,700	4,290	4,530	4,650	4,570	...
Net PLT migration (12 month total)	number	61,234	62,477	63,659	64,930	65,911	67,391	...
Commodity Prices								
Brent oil price	US$/Barrel	47.62	48.43	44.27	38.01	30.70	32.18	*38.36*
WTI oil price	US$/Barrel	45.48	46.22	42.44	37.19	31.67	30.50	*37.75*
ANZ NZ commodity price index	mth % chg	8.8	1.6	-4.5	-3.9	-0.4	0.0	...
	ann % chg	2.8	2.1	-1.0	-1.1	-1.6	-10.4	...
ANZ world commodity price index	mth % chg	5.6	7.1	-5.6	-1.8	-2.3	0.4	...
	ann % chg	-18.2	-11.6	-15.3	-12.9	-14.7	-17.8	...
Financial Markets								
NZD/USD	$[2]	0.6334	0.6670	0.6567	0.6737	0.6521	0.6634	*0.6724*
NZD/AUD	$[2]	0.8975	0.9270	0.9188	0.9296	0.9313	0.9300	*0.9000*
Trade weighted index (TWI)	June 1979 = 100[2]	68.77	71.80	71.39	73.23	71.93	72.35	*72.14*
Official cash rate (OCR)	%	2.75	2.75	2.75	2.50	2.50	2.50	2.25
90 day bank bill rate	%[2]	2.85	2.86	2.89	2.79	2.73	2.62	*2.43*
10 year govt bond rate	%[2]	3.30	3.34	3.50	3.56	3.32	3.07	*3.02*
Confidence Indicators/Surveys								
ANZ - business confidence	net %	-18.9	10.5	14.6	23.0	...	7.1	3.2
ANZ - activity outlook	net %	16.7	23.7	32.0	34.4	...	25.5	29.4
ANZ-Roy Morgan - consumer confidence	net %	110.8	114.9	122.7	118.7	121.4	119.7	118.0
Performance of Manufacturing Index	Index	55.1	53.5	55.1	57.0	58.0	56.0	...
Performance of Services Index	Index	59.2	56.4	59.4	58.5	55.4	56.9	...

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