



Monthly Economic Indicators



April 2016

Executive Summary

- **Recent data indicate the economy experienced reasonable growth over the March quarter, although there are hints the pace of growth may ease in the current quarter**
- **Consumer price inflation remains low, while the housing market has picked up again**
- **International economic data were generally softer in April and the IMF downgraded its global growth forecasts.**

Data released in the month indicate the economy experienced reasonable growth in the March quarter, although there were hints of a slower pace of growth in the current quarter. The number of businesses reporting increased trading activity in the March quarter was steady, but business confidence waned and fewer businesses expect activity to rise in the current quarter.

Indicators of retail spending growth remained solid although consumer confidence eased a little over the quarter, which might indicate a slower pace of household consumption growth in coming quarters. On the other hand, the resurgent housing market is likely to support consumer spending as household wealth rises. Net migration and tourist inflows continued to rise.

The seasonally adjusted March quarter trade deficit narrowed slightly as imports fell further than exports. Lower meat exports drove the fall in exports while capital goods imports were also back sharply. The annual trade deficit widened to \$3.8 billion, up from \$2.4 billion a year ago. We expect the deficit to widen further over the year ahead, as dairy and meat export values fall below their year-ago values.

Consumer price inflation remained low, at 0.2% in the March quarter and 0.4% in the year. Like the Reserve Bank, we expect inflation to remain below the Bank's 1-3% target range over the next few quarters, as appreciation of the exchange rate maintains downward pressure on tradables prices and non-tradables inflation remains subdued. The Reserve Bank left the Official Cash Rate unchanged at 2.25%.

Inflation, which is a key driver of growth in nominal GDP and tax revenue, has been much weaker than forecast in the *Half Year Update*. However, this weakness has been more than offset by stronger-than-expected real GDP growth. The faster pace of nominal GDP growth has contributed to the \$800 million variance in February's year-to-date tax revenue. The Treasury's *Budget Economic and Fiscal Update*, to be released on 26 May, will take account of these developments.

International economic data were generally softer in April and the IMF downgraded its global growth forecasts. The IMF shaved 0.2 percentage points off its global growth forecast (now 3.2% for 2016), indicative of the risks to global economic growth. This month's Special Topic discusses the latest IMF forecasts in more detail.

Analysis

The economy appears to have maintained reasonable momentum over the first quarter of the year, although there are tentative signs of an easing in the pace of activity in the current June quarter. Retail spending grew solidly in the March quarter, supported by strong tourism inflows. The housing market strengthened in March and net migration inflows remained elevated. Annual inflation picked up a little but inflation indicators generally remain subdued. Dairy export prices lifted in the month, as did the New Zealand dollar, dampening exporter revenues. The merchandise trade deficit widened further.

Solid activity in March quarter but firms more cautious about the outlook...

The NZIER's Quarterly Survey of Business Opinion (QSBO) showed business confidence in the economic outlook declined in the first quarter of the year. Confidence fell across most sectors with the fall most marked in manufacturing, with respondents reporting falls in domestic and export sales in the quarter. Although the QSBO does not directly cover agriculture, the effects of the dairy downturn were evident in reduced confidence in the dairy-intensive regions of Waikato, Taranaki and Southland.

Table 1: QSBO summary of key results

Net % of firms experiencing/expecting an increase in:		Dec-15	Mar-16	Long-run average
General Business situation	Actual	15	2	-5
	Seas. adj.	13	-1	-5
Domestic trading activity (s.a.)	Past 3m	18	18	11
	Next 3m	20	6	15
Employment (s.a.)	Past 3m	14	9	-5
	Next 3m	13	11	0
Ease of finding labour	Skilled	-32	-33	-17
	Unskilled	-5	-11	14
Investment (plant and machinery, s.a.)		10	9	0
Average costs	Next 3m	15	24	42
Selling prices	Next 3m	9	11	31

Source: NZIER

The number of firms reporting increased activity in the quarter was steady at a net 18%, but fewer firms expected activity to increase in the June quarter. The fall in expected activity was spread across the industries. Underlying details in the QSBO also had a softer tone with investment and employment intentions easing. The number of firms reporting increased employment in the March quarter also declined to a net 11%, but remained well above its long-term average of -5%. Despite signs the labour market tightened further with firms reporting increased difficulty finding

skilled and unskilled labour, and a pickup in average costs, pricing indicators remained soft.

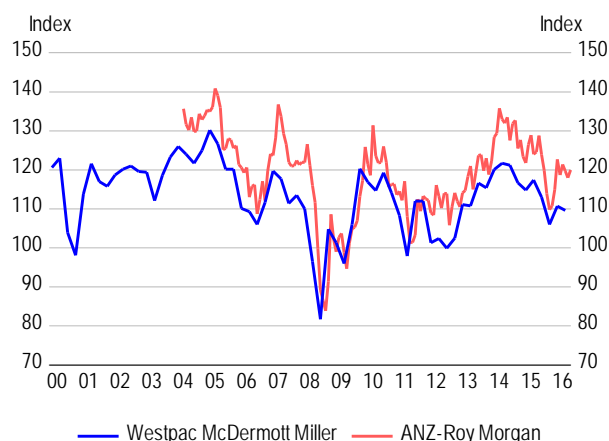
A slower pace of growth in both services and manufacturing were also evident in the BNZ-BusinessNZ Performance of Services (PSI) and Performance of Manufacturing Indexes (PMI). Averaged over the March quarter, the PSI slowed to 55.7 from 59.2 in the previous quarter, the lowest quarterly reading since 2014Q2, but still solid (a PSI/PMI reading above 50 indicates the sector is generally expanding). The PMI also eased in the quarter, to 55.3 from 57.5 previously.

Activity in the primary industries is expected to weaken in the March quarter GDP, reflecting the effects of low dairy prices and the El Nino weather pattern. Meat processing, which had been higher than normal earlier in the season as stock numbers were reduced, fell 15% in the March quarter, the largest seasonally adjusted fall since 2011Q4. This fall was reflected in a 16% reduction in meat export volumes over the quarter. Seasonally adjusted milk production is estimated to be broadly flat in the quarter, following falls in the two prior quarters.

...households also a little more cautious...

Retail spending, as measured by Electronic Card Transactions, rose 0.1% in March, to be up 1.2% in the quarter. Although the quarterly pace of growth was back slightly on rises of 1.5% in the prior quarters, annual growth increased to 5.8%. With consumer price inflation remaining low, we expect March's retail sales survey (released 13 May) to record solid volume growth.

Figure 1: Consumer Confidence



Sources: Westpac McDermott Miller, ANZ-Roy Morgan

Consumer confidence eased a little in the March quarter according to the Westpac McDermott

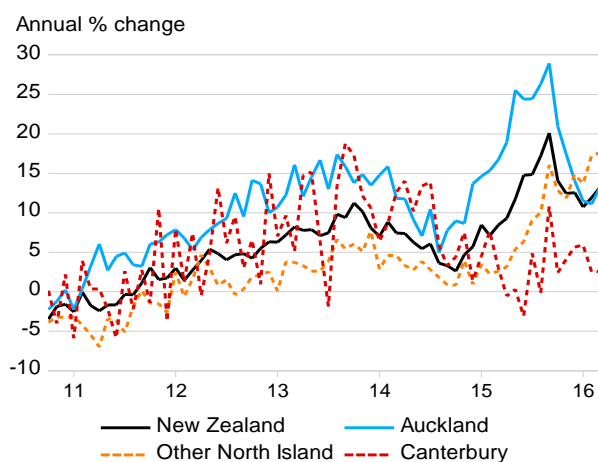
Miller (WMM) survey. At 109.6, the WMM index was back from 110.7 in the December quarter, and close to its long-run average (Figure 1). The monthly ANZ-Roy Morgan consumer confidence survey rose 2 points to 120 in March but the average for the quarter eased to 117 from 120 in the previous quarter. With both surveys showing consumer confidence is around average, we expect consumer spending will continue to expand at a moderate pace.

...despite renewed vigour in the housing market

The Auckland housing market sprang back to life in March following a hiatus as the market adjusted to regulatory measures introduced in the December quarter. The Real Estate Institute of New Zealand's (REINZ) figures showed Auckland house sales rose 12% (seasonally adjusted) in March, although declines in prior months left sales 12% down on the same month a year ago. House sales nationally rose 4.7% in the month, to be 8.0% higher than the same month a year ago.

The national median house price index increased 2.0% in March, led by a 3.4% rise in Auckland. House prices in the North Island outside of Auckland continued to increase strongly, up 16% from the same time a year ago, compared to 13.3% in Auckland and for New Zealand as a whole (Figure 2).

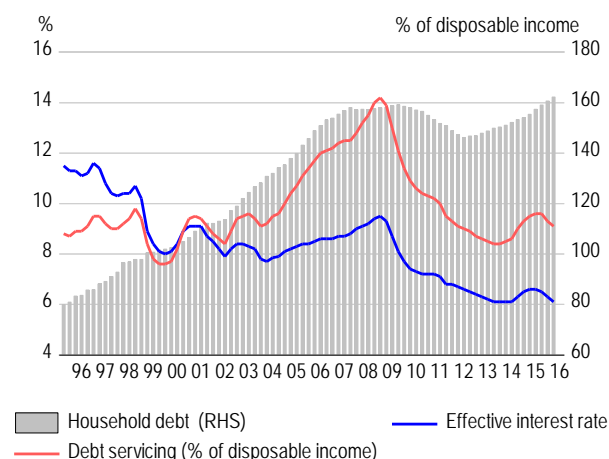
Figure 2: REINZ House Price Index



Sources: REINZ

The rise in house prices is being accompanied by growth in household credit, up 7.9% in the year to February 2016 and declines in mortgage interest rates. The Reserve Bank's measure of the average or effective interest rate fell to a record low 5.33% in February as fixed rates moved lower. This suggests the effective interest rate will fall below 6% in the March quarter (see Figure 3, which includes data up to the December quarter).

Figure 3: Household debt



Sources: RBNZ

Declining interest rates have helped push the aggregate share of household debt servicing to disposable income down over the past year despite the high, and rising, ratio of household debt to income. With the Reserve Bank projecting interest rates to remain low over the next few years, and the economy expected to continue growing at a reasonable pace, the risks to households from increasing their exposure to debt appear to have eased. Nonetheless, as the Reserve Bank's MPS scenarios point out, the global outlook is uncertain and domestic pressures could cause inflation and interest rates to rise earlier than expected. Under either scenario households may find their financial position becomes stressed.

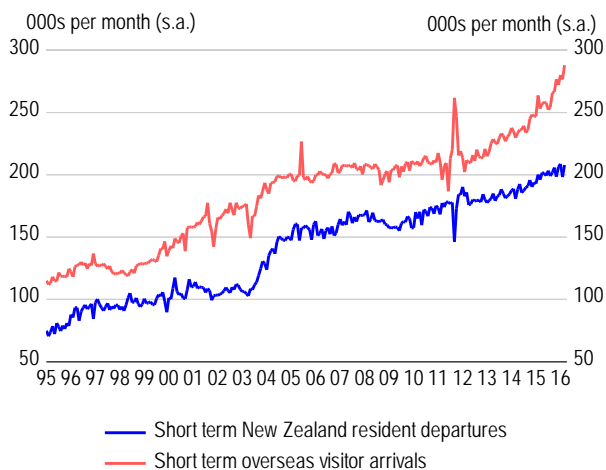
Tourism and migration continue to rise

Net migration inflows reached 67,600 in the 12 months to March and 156,000 in the three years ending March 2016. Seasonally adjusted net inflows for the March month were down slightly from the previous month, the second consecutive monthly decline, driven by a decrease in arrivals. Whether this marks a turning point in the migration cycle will be clearer in coming months.

International visitor arrivals also continued their upward trend, increasing 4.1% in the March month and 3.6% in the March quarter. Arrivals were 10.4% (307,500) higher in the year ended March 2016 than the previous year, led by increases in arrivals from Australia (up 91,500), China (up 82,300) and the USA (up 26,800). Easter was observed a month earlier than last year which may have flattered March's figures at the expense of reduced arrivals in April. Nonetheless, the upward trend in visitor arrivals is continuing to grow strongly (Figure 4). Its

contribution to growth and employment should be evident in the March quarter labour market report, due for release on 4 May 2016. Resident short-term departures rose 4.9% in the month and were 5.3% higher for the year ended March 2016.

Figure 4: International travel



Source: Statistics NZ

The annual trade deficit widened further

Merchandise exports fell 1.2% on a seasonally adjusted basis in the March quarter, driven by a decline in meat volumes. Dairy export values fell 6.4% in the March quarter and are expected to fall further as weaker dairy prices continue to filter through to export prices and values.

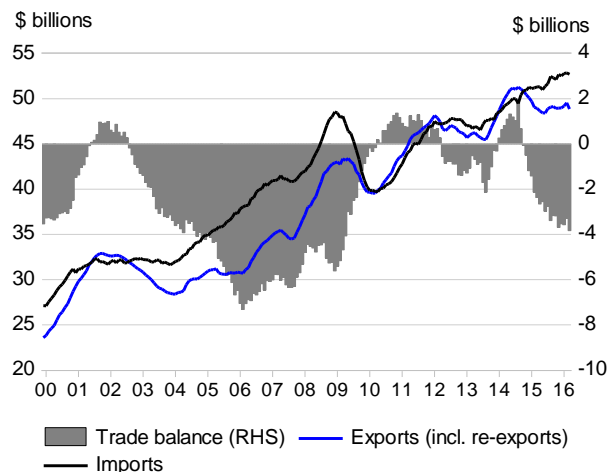
Dairy prices rose modestly at the two April GDT auctions, suggesting the declining trend in dairy export values may reverse later in the year. However, with global production continuing to increase and rising European stockpiles, it would be premature to conclude that market fundamentals have shifted decisively in favour of higher prices.

Declines in capital goods imports were the main driver of the seasonally adjusted 3.2% fall in merchandise imports in the March quarter. Transport equipment imports were down sharply in the quarter, chiefly due to no large aircraft imports this quarter, while machinery and plant imports fell 7.4%.

With imports falling faster than exports, the March quarter trade deficit (\$944 million, seasonally adjusted) was slightly smaller than the December quarter deficit (\$1,226 million). Nonetheless, the annual trade deficit widened further to \$3.8 billion (Figure 5). Annual export values are little changed from a year ago, as falls in dairy exports have been offset by increases in other exports including meat and fruit. Imports are around \$1.4 billion higher than a year ago, despite lower

petroleum imports, indicative of the solid pace of domestic activity in New Zealand. This broad trend of declining exports and rising imports is expected to persist, leading to further widening of the trade deficit.

Figure 5: Merchandise trade balance

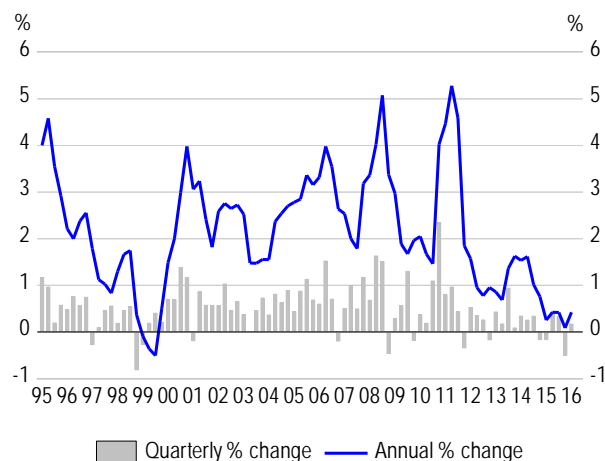


Source: Statistics NZ

Annual inflation below Treasury forecast...

The Consumers Price Index (CPI) rose 0.2% in the March quarter, driven by a 1.0% rise in the price of non-tradables goods and services (Figure 6). Partly offsetting this rise, tradables prices fell 0.9% in the quarter as lower international oil prices drove falls in petrol prices and international airfares.

Figure 6: Annual inflation



Source: Statistics NZ

In the year to March 2016 the CPI increased 0.4%, up from 0.1% in the previous quarter, and well below the rate anticipated in the Treasury's *Half Year Update*. Non-tradables inflation increased 1.6%, with housing related prices, including rentals, up 2.3%, and prices for newly built houses (excluding land), up 5.0%, the main contributors. Transport prices made the largest

downward contributions to prices over the year, with petrol prices and international airfares contributing to the 1.2% decline in tradables inflation.

Like the Reserve Bank, we expect inflation to remain below the Bank's 1-3% target range over the next few quarters. The exchange rate has appreciated over the past few months, despite reductions in the OCR, to be around 6% higher than its low point in September 2015. This appreciation is maintaining downward pressure on tradables prices. Upward pressures on non-tradables inflation remain subdued as migration inflows contribute to labour supply and lower inflation expectations reduce wage expectations. The Reserve Bank kept the OCR at 2.25%.

...but tax revenue exceeds forecast

Inflation is a key driver of growth in nominal GDP and tax revenue, but despite much weaker inflation outcomes than forecast in the *Half Year Update* nominal GDP growth has not slowed to the extent we anticipated. To a large extent the greater resilience of nominal GDP reflects the strength of real expenditure GDP, which increased 2.5% over the second half of 2015. The unanticipated strength of real GDP growth has more than offset the drag on nominal GDP from lower inflation outcomes. In turn, the faster pace of nominal GDP growth is reflected in the \$800 million variance in February's year-to-date tax revenue. The Treasury's *Budget Economic and Fiscal Update*, to be released on 26 May, will take account of these developments.

Global activity mixed, but generally softer

Economic data were generally softer in April, complementing the IMF downgrade of its global growth forecasts. The 0.2ppts that the IMF shaved off its global growth forecast (now 3.2% for 2016) indicate risks to global economic growth abound, including China's economic transition, financial market volatility, geopolitical risks and the possibility of Brexit. This month's Special Topic discusses the latest IMF forecasts in more detail.

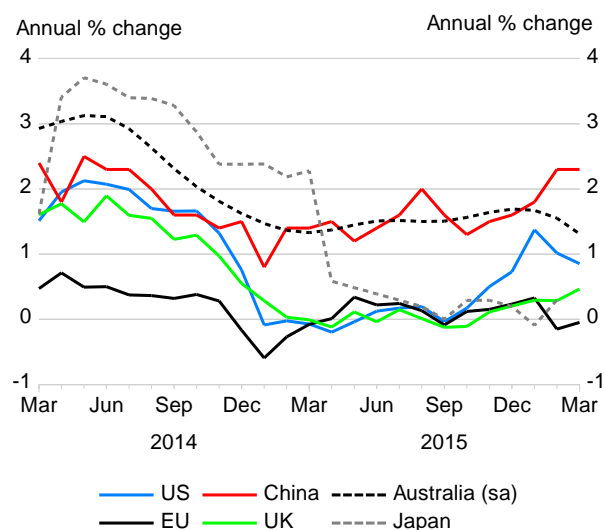
US data point to weaker Q1 GDP

US data were mixed in April. Industrial production (IP) fell 0.6% in March, driven by manufacturing output. This weakness is expected to continue, as the April Markit manufacturing PMI fell to its lowest level since 2009 (50.8) and durable goods orders and inventories growth were weak. These outturns point to weaker March quarter GDP growth (due 29 April NZT), and indicate the recent

USD depreciation has not yet benefited the manufacturing sector.

In a more positive vein, the fall in retail sales for March was more than offset by upward revisions for January and February. US labour market data in March were robust, with strong employment growth, an unemployment rate of 5.0%, greater labour force participation, and higher hourly earnings. Price pressures in the US in March were broadly stable, if a bit softer, supporting the Federal Reserve's decision to keep its policy rate unchanged in April. While consumer price inflation was 0.9% in March (Figure 7), core annual inflation edged down to 2.2%. Producer prices were also down slightly. The market is not pricing a policy rate hike until December 2016.

Figure 7: Consumer prices



Source: Haver

China's growth supported by stimulus

China's annual GDP growth was 6.7% in the March quarter, in line with expectations but slightly down from the December quarter (6.8%). The outturn was supported by fiscal and monetary stimulus, alongside climbing property prices. Credit growth increased in March as February's reserve ratio requirement cut came into effect and total social financing (lending in the economy) surged beyond expectations. Similarly, fixed asset investment (ex. rural) rose 10.6% in the year to March, led by property and state-funded infrastructure growth. However, manufacturing investment continued to slow.

Higher investment flowed through to stronger IP, which was up 6.8% in the year to March from 5.4% in January-February. Strong credit growth fuelled property prices, which rose 7.4% on average in the year to March, and retail sales,

which grew 10.5% in the same period. Export and import volumes also increased. Consumer price growth in China was unchanged at 2.3% in the year to March (Figure 7), while core inflation rebounded to 1.5% for the year. Producer prices increased 0.5% in March (-4.3% annual) due to higher global commodity prices.

Australian outturns mixed

Some Australian outturns disappointed this month. The trade deficit was revised higher due to greater services imports, and retail sales were flat in February, the third weaker-than-expected outturn in a row. However, other data were more positive. Australia's unemployment rate dropped to 5.7%, down from 6.0% in January and the NAB business survey improved, with firms reporting higher sales, profits, employment, and confidence. House prices levelled off, with prices in the capital cities falling 0.2% in March and residential building approvals were up 3.1% in February (although down 9% in the year).

The Reserve Bank of Australia held its policy rate unchanged at its April meeting, noting there were "reasonable prospects for continued growth". March quarter inflation was 1.3%, well below expectations (Figure 7), increasing the likelihood of easier monetary policy, possibly as soon as the RBA's meeting on 3 May.

Mild euro area growth, no ECB changes

Growth in the euro area has been moderate. Euro area retail sales growth increased slightly to 2.4% in the year to February, and unemployment continued its slow decline to 10.3% in February. IP fell 0.8% in February, partly reversing January's spike of 1.9%. Finally, both the euro area trade surplus and current account surplus narrowed in February.

The European Central Bank (ECB) left its policy rates unchanged in April, noting no change to their perceived balance of risks, which was weighted to the downside. Consumer prices in the euro area fell by 0.1% in the year to March (see Figure 7), while core prices edged up by 1.0% and producer prices fell 4.2% (driven largely by low energy prices). The ECB's bank lending survey showed credit conditions eased in the first quarter of this year, supported by March's monetary accommodation. Markets are not currently pricing a further policy cut in 2016.

United Kingdom growth moderating

UK growth continued to moderate in the March quarter to 0.4%, softer than the quarter prior (0.6%). Commentators suggest that concerns around Brexit are already weighing on sentiment. Activity was relatively subdued in March, with retail sales volumes falling more than expected (up only 2.7% in the year), and slightly softer labour market outturns for the three months to February. Although unemployment remained at 5.1%, employment growth slowed and total earnings only rose 1.8%. Weaker manufacturing led to a surprise fall in IP (down 0.3% in February, and down 0.5% annual), although PMI surveys of manufacturing and services sectors were slightly more positive.

Consumer prices rose more than expected, by 0.5% in the year to March (Figure 7), with core inflation up 1.5%, mainly due to a spike in airfares. The Bank of England (BoE) held its policy rate stable at 0.5% in April. Markets are currently pricing for a downward move in policy rates, despite BoE intentions of a hike.

Japanese outturns remain weak

Outturns for Japan last month were poor. Two large surveys of manufacturers, the Tankan index and the Nikkei manufacturing PMI, fell more than expected, and the trade surplus increased in March, but only because exports declined less than imports (6.8% and 14.9% respectively). Wages growth remained low, underpinning weak retail sales growth. Weak foreign demand and the recent Kyushu earthquake indicate growth is likely to remain subdued in the near future. These weak outturns will be taken into account at the Bank of Japan's meeting on 28 April. Further easing of policy is expected, if not at this meeting.

Market sentiment improves

Markets showed greater stability in April, with the VIX (a measure of share market volatility) hitting a low for the year of 13.1 in the month. Commodity prices were generally higher, with the CRB (an index of commodity prices) up 7% in the month. Oil prices rallied in anticipation of supply restrictions and lower US production, to be up 19% in the month, while iron ore and copper also saw gains. All equity indices (except the Chinese Shanghai Composite) were up in the month, and German and US 10-yr bond yields rose 14 and 7 basis points respectively, suggesting market risk aversion began to tail off in April.

The International Monetary Fund (IMF) prepares economic forecasts for the world economy which it releases at its twice-yearly meetings of member countries, with its most recent forecasts presented at its spring meeting in Washington DC in April. The annual meeting is held in October each year. The IMF also releases its *Global Financial Stability Report* and *Fiscal Monitor* at its six-monthly meetings and since 2007 it has updated its forecasts in January and July each year. The IMF also publishes regional economic outlooks.

The IMF prepares forecasts of all major macro-economic variables for its 189 member countries. The Treasury relies on them as a check on its own forecasts of economic growth for New Zealand's main trading partners, which are an input to its forecasts of the New Zealand economy.¹ This special topic summarises the IMF's latest forecasts and their implications for New Zealand.

Global growth outlook downgraded...

In its April 2016 *World Economic Outlook* (WEO),² the IMF once again downgraded its forecast for the global economy as a result of the recent weaker performance of many emerging and advanced economies. It emphasised that the risks are skewed to the downside and have increased since its previous forecasts.

The IMF revised down its forecasts for world economic growth in 2016 by 0.2 percentage points (ppts) to 3.2% and for 2017 by 0.1ppt to 3.5% from its January *Update*. The latest figures were reductions of 0.4ppts and 0.3ppts respectively from its October 2015 WEO. Its forecasts have generally been revised down recently as the global economy has under-performed and the outlook has deteriorated. Global growth of 3.2% in 2016 would represent a slight pick-up from an estimated 3.1% growth in output in 2015. Beyond 2017, world growth is expected to gradually strengthen, reaching 3.9% in 2021 as economic conditions normalise.

...for advanced and emerging economies...

The near-term economic outlook was downgraded as activity has softened in the major advanced economies: fourth quarter growth in the US disappointed at 0.3%, remained low at 0.3% in the euro area and contracted by 0.3% in Japan. Those three economies account for nearly one third of the world economy in purchasing power parity (PPP) terms (ie, adjusted for price levels, which boosts the share of developing economies).

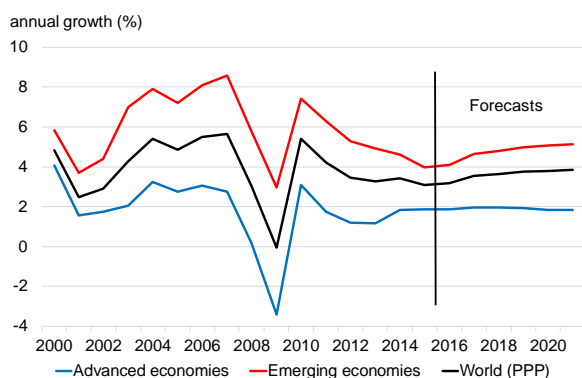
At the same time, growth has also been slowing in emerging market economies, particularly Russia and Brazil, as energy and hard commodity prices have fallen as a result of weak demand and increased supply. The outlook for sub-Saharan Africa is also significantly weaker, as hard commodity prices affect South Africa, and lower oil prices affect Nigeria, the largest economy in the region. Growth was also revised down in other oil-exporting economies. However, the outlook for emerging Asian economies was revised up, chiefly on faster growth for China (to 6.5% and 6.2% in 2016 and 2017 respectively) as a result of recent monetary and fiscal stimulus.

Growth in advanced economies is expected to be flat in 2016 at 1.9%, picking up to only 2.0% in 2017, while growth in emerging economies is expected to pick up only slightly to 4.1% in 2016 (from 4.0% in 2015), but then to accelerate to 4.6% in 2017. The downgrade in the growth outlook for emerging economies is particularly serious for the global outlook as they drove world growth before the global financial crisis (GFC) and immediately afterwards (Figure 1). Much of that growth was driven by China, including the GFC recovery.

¹ See February 2016 *Monthly Economic Indicators* topic: <http://www.treasury.govt.nz/economy/mei/archive/pdfs/mei-feb16.pdf>

² <http://www.imf.org/external/ns/cs.aspx?id=29>

Figure 1: IMF world economic outlook



Source: IMF, April 2016 WEO

However, emerging economies' growth has slowed since 2010 and many of them are now losing momentum as they encounter capacity constraints following their rapid expansion; some, particularly China, also face structural challenges of an ageing population, slower productivity growth, loss of international competitiveness and an unsustainable growth model (in China's case based on debt and infrastructure investment).

Although the IMF revised up its near-term growth forecasts for China, it expects its growth to slow to 6.0% in 2018 and thereafter as authorities rebalance the economy from investment to consumption as the main driver of expansion. Investment is currently 43% of China's GDP, high by even developing economy standards, so any reduction will reduce overall GDP growth as consumption growth will be unlikely to offset it.

Weaker growth in emerging economies will bring slower growth in the global economy as a whole. Given their faster rate of growth since 2002 (led chiefly by China), their share of the global economy in PPP terms has increased from 43% in 2000 to 58% in 2015.

...exacerbated by global growth imbalances...

There are many other factors which impinge on the current outlook as well. Chief amongst these is the uneven pattern of growth in the world economy: amongst the advanced economies the US is recovering reasonably strongly, while the euro area and Japan continue to experience only low growth. At the same time, growth is slowing in many emerging economies, as noted above.

This difference in growth rates is reflected in different monetary policy stances as the Federal Reserve has commenced interest rate increases, while the Bank of Japan and European Central

Bank have adopted negative policy rates and quantitative easing. The increase in US interest rates and resulting appreciation of the US dollar have caused concern to US exporters and manufacturers, while authorities in Japan and the euro area would like their currencies to support demand for their exports.

The tightening of US monetary policy is also affecting many emerging market economies which are directly or indirectly linked to US monetary settings through interest and/or exchange rates, leading to concerns about the impact on US dollar debt in those emerging economies and their competitiveness if their currencies appreciate.

...highlighted by financial market volatility...

These concerns about slow or slowing growth in most economies apart from the US (which influences global financial conditions through its monetary policy) were reflected in heightened financial market volatility in the first quarter of 2016. Global share indices fell by 10%, oil prices fell by 25% and commodity indices by around 10%, before recovering by the end of the quarter.

The concerns about the growth outlook were initially triggered by some weak data from China, compounded by share market volatility, large capital outflows and fears of a devaluation of the yuan. These concerns were exacerbated by a view that central banks and governments had limited room to support growth. Monetary policy is close to or below the zero lower bound in many advanced economies and government debt is high (advanced economy government debt is above 100% of GDP³). In addition, there was concern that even if central banks could loosen policy further, it might not have much effect.

...and downside risks...

The IMF highlighted the risks to the economic outlook: in a list of ten major risks, only one was positive for growth, namely that lower oil prices might stimulate private consumption in oil-importing economies. The negative risks include current stresses in some economies, rebalancing in China, weak commodity demand, no rebound in growth in developing economies, weaker growth in advanced economies, capital outflows from developing economies, low oil prices leading to stresses in oil-exporting economies, a sharp slowdown in China, and non-economic shocks (eg, geopolitical conflicts, political discord, terrorism, refugee flows and global epidemics).

³ IMF *Fiscal Monitor*, April 2016

The IMF also developed a scenario in which policy proves ineffective at stimulating demand in an environment of ongoing low growth and low inflation; this could be the “secular stagnation” hypothesis whereby low interest rates and ample liquidity fail to increase investment in the face of ongoing weak final demand. Low productivity and wage growth also form a part of this scenario. Global growth would be 0.4ppts lower in each year in the absence of a policy response.

...but the IMF made a policy prescription

The IMF’s policy prescription for advanced economies is to strengthen growth through structural reforms, supported by monetary and fiscal policy, and for developing economies to reduce vulnerabilities and increase resilience. A synchronised slowdown, similar to the global financial crisis, would require a coordinated policy response, possibly including reforms to the global financial safety net and financial support for those at most risk of negative spill-overs.

What this outlook means for New Zealand

New Zealand’s trading partners are concentrated in emerging Asian economies (chiefly China) and other economies closely linked to them, including Australia, the newly industrialised economies (NIEs) and ASEAN-4.⁴ Together these economies account for more than half of New Zealand’s merchandise exports. These economies are continuing to perform relatively well, although the outlook for some of them, especially the NIEs, was revised down in the WEO. As a result, the average growth rate of New Zealand’s main trading partners is slightly above the world average; however, it has been affected more by the recent downgrade than the global average, with growth lower in 2016 than 2015 and a smaller pick-up in 2017 (Table 1).

However, New Zealand is expected to be less affected by some of the developments in the global economy than many other economies. In particular, the rebalancing of China’s economy from investment to consumption as the main driver of growth is expected to be less negative for New Zealand than some other economies because it will favour demand for the soft commodities (food) which New Zealand exports rather than the hard commodities (metals and energy) which many other countries in the region export to China (Figure 2). This more positive

impact will outweigh the negative impacts via some other economies in the region.

Table 1: NZ’s trading partner growth (TPG)

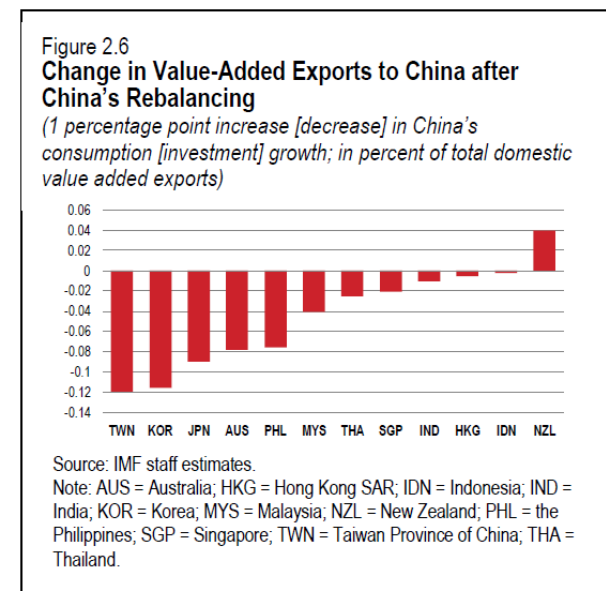
Country/Grouping	Weight	annual growth (%)			
		2015	2016	2017	2020
China	24.0%	6.9	6.5	6.2	6.0
Australia	22.1%	2.5	2.5	3.0	2.8
United States	12.5%	2.4	2.4	2.5	2.0
NIEs ¹	11.3%	2.0	2.1	2.5	2.9
ASEAN-4 ²	8.4%	4.6	4.5	4.8	5.1
Euro area	7.3%	1.6	1.5	1.6	1.6
Japan	7.2%	0.5	0.5	-0.1	0.7
United Kingdom	3.9%	2.2	1.9	2.2	2.1
India	1.7%	7.3	7.5	7.5	7.7
Canada	1.5%	1.2	1.5	1.9	2.0
NZ’s TPG	100.0%	3.5	3.4	3.6	3.7
World growth (PPP)		3.1	3.2	3.5	3.8
New Zealand		2.2	2.4	2.4	2.5

¹ Korea, Singapore, Taiwan, Hong Kong

² Malaysia, Indonesia, Thailand, Philippines

Source: IMF, April 2016 WEO

Figure 2: Impact of China’s rebalancing



Source: IMF, *Asia-Pacific Regional Economic Outlook*, May 2016

The global economic environment impinges on the New Zealand economy in many other ways apart from demand for export goods and services. Slowing global growth and low commodity prices have brought weak tradables inflation as import prices remain low; low oil prices have provided some offset to the falls in dairy prices for New Zealand’s terms of trade, but low global interest rates relative to New Zealand’s have maintained demand for financial assets, keeping upward pressure on the NZ dollar. However, New Zealand has more monetary policy room to respond to any further downturn in activity.

⁴ NIEs: Korea, Taiwan, Hong Kong and Singapore; ASEAN-4: Indonesia, Malaysia, Philippines and Thailand.

Treasury officials who attended the IMF spring meeting reported that the general mood amongst participants was consistent with the tone of the IMF's forecasts. However, there was a sense of relative optimism in some quarters stemming from the improvement in market sentiment that has occurred since the first quarter of 2016 when the forecasts were developed and concern about the outlook for the global economy was at its height.

Since then, financial market volatility has subsided and concerns about a global recession have

reduced. Monetary policy has become more accommodative in the major developed economies, economic data have improved slightly (particularly in China, where there has also been a reduction in capital outflows and a slight appreciation of the yuan), exchange rates have stabilised somewhat and commodity prices have strengthened. However, the negative risks to the outlook remain, especially in the medium term.

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	0.2
	ann % chg	1.0	0.8	0.3	0.4	0.4	0.1	0.4
Tradable inflation	ann % chg	-1.0	-1.3	-2.4	-1.8	-1.2	-2.1	-1.2
Non-tradable inflation	ann % chg	2.5	2.4	2.4	2.1	1.5	1.8	1.6
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	1.7
QSBO - own activity outlook ⁴	net %	33.9	26.7	25.0	9.3	21.7	21.6	3.8

Monthly Indicators

		2015M10	2015M11	2015M12	2016M01	2016M02	2016M03	2016M04
External Sector								
Merchandise trade - exports	mth % chg ¹	-1.3	6.0	-8.8	5.7	-6.3	-5.2	...
	ann % chg ¹	-5.0	0.8	0.5	5.8	9.1	-14.3	...
Merchandise trade - imports	mth % chg ¹	-0.9	2.8	-2.9	12.0	-8.5	-17.2	...
	ann % chg ¹	-3.8	12.6	-3.0	7.0	1.8	-3.7	...
Merchandise trade balance (12 month total)	NZ\$ million	-3182	-3695	-3537	-3576	-3294	-3838	...
Visitor arrivals	number ¹	266,860	276,830	272,410	280,270	276,880	288,230	...
Visitor departures	number ¹	271,080	282,740	284,760	280,080	293,110	283,120	...
Housing								
Dwelling consents - residential	mth % chg ¹	5.3	1.9	2.8	-7.8	10.8
	ann % chg ¹	9.2	17.0	15.4	-0.5	35.3
House sales - dwellings	mth % chg ¹	-6.8	-3.9	7.7	-9.2	3.1	4.7	...
	ann % chg ¹	18.6	8.5	3.5	4.3	5.7	8.2	...
REINZ - house price index	mth % chg	-4.2	0.5	0.8	0.3	1.8	2.2	...
	ann % chg	14.1	12.5	12.6	10.7	11.9	13.3	...
Private Consumption								
Electronic card transactions - total retail	mth % chg ¹	0.1	0.8	0.2	0.3	0.6	0.1	...
	ann % chg	5.8	4.6	6.6	5.2	9.2	6.2	...
New car registrations	mth % chg ¹	-1.3	-1.9	3.1	-2.9	5.7	-3.9	...
	ann % chg	3.8	1.3	2.4	-1.1	7.4	-0.2	...
Migration								
Permanent & long-term arrivals	number ¹	10,840	10,530	10,060	10,740	10,570	9,870	...
Permanent & long-term departures	number ¹	4,690	4,290	4,520	4,650	4,580	4,540	...
Net PLT migration (12 month total)	number	62,477	63,659	64,930	65,911	67,391	67,619	...
Commodity Prices								
Brent oil price	US\$/Barrel	48.43	44.27	38.01	30.70	32.18	38.20	42.88
WTI oil price	US\$/Barrel	46.22	42.44	37.19	31.67	30.50	37.80	39.92
ANZ NZ commodity price index	mth % chg	1.6	-4.5	-3.9	-0.4	0.0	-2.9	...
	ann % chg	2.1	-1.0	-1.1	-1.6	-10.3	-14.2	...
ANZ world commodity price index	mth % chg	7.1	-5.6	-1.8	-2.3	0.5	-1.3	...
	ann % chg	-11.6	-15.3	-12.9	-14.7	-17.8	-22.4	...
Financial Markets								
NZD/USD	\$ ²	0.6670	0.6567	0.6737	0.6521	0.6634	0.6733	0.6886
NZD/AUD	\$ ²	0.9270	0.9188	0.9296	0.9313	0.9300	0.9001	0.8984
Trade weighted index (TWI)	June 1979 = 100 ²	71.80	71.39	73.23	71.93	72.35	72.19	72.74
Official cash rate (OCR)	%	2.75	2.75	2.50	2.50	2.50	2.25	2.25
90 day bank bill rate	% ²	2.86	2.89	2.79	2.73	2.62	2.43	2.33
10 year govt bond rate	% ²	3.34	3.50	3.56	3.32	3.07	3.02	2.86
Confidence Indicators/Surveys								
ANZ - business confidence	net %	10.5	14.6	23.0	...	7.1	3.2	3.2
ANZ - activity outlook	net %	23.7	32.0	34.4	...	25.5	29.4	29.4
ANZ-Roy Morgan - consumer confidence	net %	114.9	122.7	118.7	121.4	119.7	118.0	120.0
Performance of Manufacturing Index	Index	53.4	55.1	57.0	57.9	55.9	54.7	...
Performance of Services Index	Index	56.4	59.4	58.5	55.4	56.7	54.8	...
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