Monthly Economic Indicators

THE TREASURY
Kaitohutohu Kaupapa Rawa

November 2016

Executive Summary

- Robust labour market and retail sales data point to solid third quarter GDP growth
- An earthquake on 14 November caused some localised disruption to activity in central New Zealand but nation-wide impacts appear limited
- Global financial market volatility increased in November, reflecting the unexpected change in the outlook for US economic policy in light of the presidential election

Economic data released over November reinforced the outlook for solid GDP growth over the second half of 2016. Activity in the third quarter was underpinned by robust growth in the labour market and in retail sales. Wage pressures remained benign, reflecting the rapid pace of expansion in labour supply and subdued inflation expectations. Nonetheless, labour income growth remained solid, driven by the increase in employment.

Income growth supported a further expansion in real retail sales in the September quarter, which increased 0.9% from the previous quarter. Tourism, which also contributed to retail sales growth in the September quarter, showed further strength in October, with the number of visitor arrivals 14.5% higher than the same month a year ago.

Other indicators of activity in the December quarter were also generally positive, while business and consumer confidence remained high. Overall, we expect growth over the second half of 2016 to be similar to that recorded over the first half of the year.

Risks to the outlook arose from the large earthquake that occurred on 14 November. The earthquake caused extensive damage and some loss of life in the Kaikōura and adjoining regions. The town of Kaikōura, which is an important tourist centre and on the main South Island road and rail network, was extensively damaged and transport links were blocked by large slips. There was also damage to housing and commercial buildings in Kaikōura and adjoining regions, including Wellington.

While the impact of the earthquake and subsequent aftershocks on the region directly affected is significant, its impact on the economy as a whole is considered likely to be relatively minor at this stage. The Special Topic this month discusses the likely regional and national economic impacts.

The housing market is a further source of risk to the outlook. The Reserve Bank observed that growth in house prices remained excessive and was posing a risk to financial stability. Nonetheless, the Bank reduced the Official Cash Rate (OCR) from 2.0% to 1.75%. The Reserve Bank projected the cash rate to remain at this level over the next two years or so, although it did not rule out the possibility of a further reduction.

The global economy showed some resurgence of demand according to data released this month, while business activity indicators remained subdued. There was increased volatility in financial markets arising from an unexpected change in the outlook for US economic policy in the light of the presidential election.

New Zealand Government

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Analysis

Data released in November show economic activity in New Zealand remained strong over the third quarter and into the fourth quarter. Activity in the third quarter was underpinned by robust growth in the labour market and in retail sales. Early indications are that activity will continue to expand strongly in the fourth quarter. Consumers and businesses remain optimistic about the outlook and, in rural regions, confidence will be buoyed by the recovery in dairy prices. Net migration and tourism inflows rose further in October, which will underpin growth in domestic demand and exports in coming months.

A large earthquake struck central New Zealand on 14 November. Road and rail links in the upper South Island have been damaged isolating the Kaikōura region (population approx. 4,000), which is dependent on tourism and primary industries for much of its income. There has been some damage to housing and commercial buildings across the affected region and to the port in the capital city, Wellington, disrupting trading activity. Overall, this event does not materially alter our view of the medium-term growth outlook. The Special Topic provides further information on the impacts of the earthquake. The Treasury's *Half Year Economic and Fiscal Update,* which will be released on Thursday 8 December, will contain updated forecasts, including an initial assessment of the fiscal impact of the earthquakes.

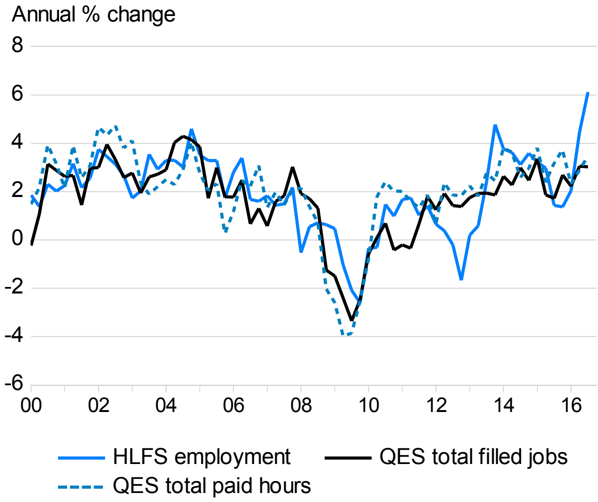
Labour market strengthened further...

The labour market strengthened further in the September quarter, although wage growth remains subdued, likely reflecting the rapid expansion of the labour force associated with record high net immigration and subdued inflation expectations.

Employment increased 1.4% (seasonally adjusted) in the September quarter following 2.4% growth in the June quarter. Although headline employment growth was flattered somewhat by growth in part-time employment, up 4.0% in the quarter, full-time employment posted a respectable 0.3% gain on the back of an out-sized 3.5% increase in the June quarter. Compared to the same time a year ago, there were 144,000 (6.1%) more people in employment, although this figure is affected by measurement changes introduced into the Household Labour Force Survey (HLFS) in the June 2016 quarter. Industry changes in employment are also affected by the measurement changes, clouding comparisons with earlier periods.

However, the Quarterly Employment Survey's (QES) measure of filled jobs corroborates the strength apparent in the HLFS, with filled jobs increasing 0.6% (seas. adj.) from the June quarter and 3.0% from the same quarter a year ago. The QES measure of weekly hours paid, which informs quarterly GDP, also rose strongly, up 1.3% in the quarter and 3.4% higher than a year ago. Growth in professional and business support services appears to have been particularly vigorous, with paid hours increasing 8.1% from the same quarter a year ago, providing a solid underpinning to quarterly GDP growth.

Figure 1: Further strength in employment, jobs and paid hours



Source: Statistics NZ

The strength of labour demand was broadly balanced by equally strong labour supply growth. The number of work-age people employed or actively participating in the labour market (that is, the labour force) rose by 32,000, just short of the 35,000 increase in employment. As a consequence, the number of people unemployed fell by 3,000 and the unemployment rate decreased to 4.9% from 5.0% in the June quarter.

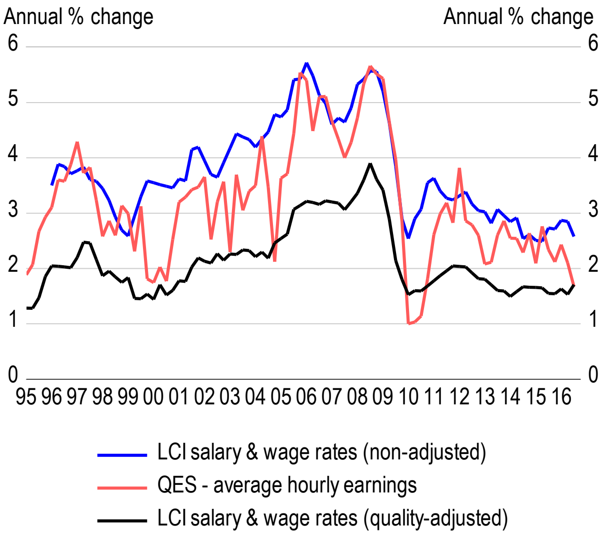
Over the past four quarters the unemployment rate has averaged 5.0%, a little above the Treasury's estimate of the rate consistent with stable inflation. That is, we consider there remains a degree of slack in the labour market. This view is corroborated by the relatively high rate of labour under-utilisation (12.2% in the September quarter) compared to the pre-2009 average of 9.7% and the absence of upward wage pressure.

…but wage growth remained subdued

The Labour Cost Index (LCI)[1] showed private sector salary and wage growth was steady at 0.4% in the September quarter and 1.6% in the year. However, public sector wages and salaries, which tend to be more variable owing to the nature of wage bargaining in the sector, increased 1.7% in the September year, up from 1.3% in the June year. The increase in public sector wages, which was influenced by collective agreements for nurses, teachers and police, lifted overall LCI growth to 1.7% (Figure 2).

Growth in average ordinary-time hourly earnings eased to 1.7% in the September year, down from 2.1% in June, the slowest since 2010. This likely reflects compositional effects, that is, an increase in the proportion of relatively low-paid jobs covered by the survey. Supporting this view, annual growth in the unadjusted LCI, which includes payments, such as bonuses and promotions, for improvements in the quality of work done, slowed in the quarter from 2.8% to 2.6% (Figure 2).

Figure 2: Wage growth remained sluggish



Source: Statistics NZ

Net migration inflows, which rose to fresh highs of 70,300 in the 12 months to October, are clearly adding to supply and alleviating pressure on wages. We expect these inflows to remain high over the coming year and slack in the labour market to ease only modestly despite above-trend growth. In sum, we see limited scope for wage inflation to rise markedly over the year ahead. Although wages growth was subdued, growth in labour incomes remained robust with total weekly gross earnings up 5.3% in the September year, mainly due to the strength of growth in paid hours.

Growth in incomes and tourism is supporting retail spending…

Strong growth in labour incomes is supporting retail spending. Retail sales values rose 0.9% in the September quarter and 5.1% in the year. Sales volumes also recorded growth of 0.9%, a respectable gain after the June quarter's 2.2% rise. Quarterly volume growth was led by sales of cars (up 3.4%) and fuel (up 2.2%). The impact of tourism was evident in the accommodation volume growth (up4 .7%), while strength in residential investment was evident in spending on hardware, building, and garden supplies (up 1.9%), reflecting elevated housing activity.

Early indications are that retail spending will remain robust in the December quarter. Tourist numbers rose in the October month, up 11.7% from a year ago, and total electronic card spending increased 0.6% from a month ago, following a rise of 2.1% in September.

The ANZ-Roy Morgan consumer confidence index continued to improve in November, reaching a 17-month high (Figure 3). We will be watching this measure for signs of any earthquake-related effects.

…and business confidence is supporting investment and employment

Business sentiment remained upbeat in October, with both the BNZ-Business New Zealand manufacturing and services indexes strengthening from a month ago.

Although business confidence eased a touch in November, according the ANZ Business Outlook, businesses' outlook for their own activity remained solid with a net 38% expecting better conditions over the year ahead. Investment and employment intentions remained elevated, with the latter particularly strong in the agricultural sector. The ANZ's confidence composite indicator, which combines both business and consumer confidence is pointing to GDP growth accelerating from its current pace of 3.6%.

As with the consumer confidence survey, most of the business survey measures were received prior

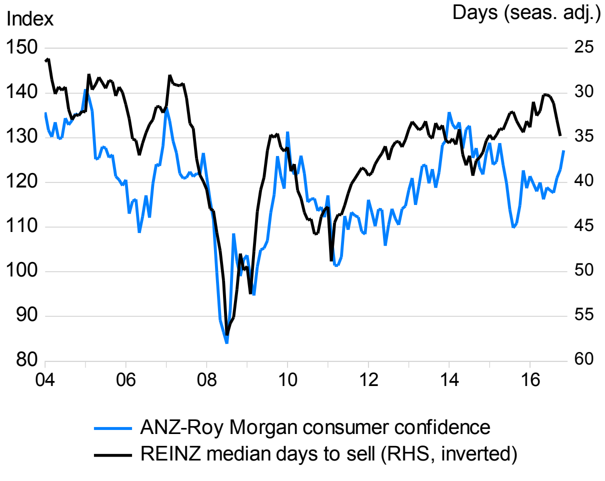
[1] This measure of wage inflation reflects changes in the rates that employers pay to have the same job done to the same standard.

to the Kaikōura earthquake and we will be keeping an eye on next month's release for any related impacts.

Housing market activity eases…

Somewhat counter to the rising trend in consumer confidence, housing market activity has eased in recent months. October's REINZ housing market report showed sales were down 14.2% from a year ago and days to sell had increased to 34.8, their highest since early 2015 (Figure 3). The stratified median house price was flat in the month, but 14.4% higher than the same month last year. In Auckland, house prices were 12.9% higher than a year ago, although REINZ noted that the latest LVR restrictions were affecting sales of properties at the "lower end" of the market. In a further sign that the market may be cooling, ASB's October Housing Confidence Survey showed the proportion of people who consider now to be a good time to buy a house to be at a record low.

Figure 3: Consumer confidence improves but housing market activity eases



Sources: ANZ-Roy Morgan, REINZ

...but house prices remain a source of risk

In its November *Monetary Policy Statement* and *Financial Stability Review* the Reserve Bank observed that house price inflation remains excessive and is posing concerns for financial stability. Nevertheless, the Reserve Bank considered that a further 25 basis point reduction in its policy rate to 1.75% was appropriate to move CPI inflation back within the 1-3% target range and to reduce the risk of long-term inflation expectations shifting away from the 2% mid-point of the range. The Reserve Bank's projections, and financial market pricing, suggest the policy rate is most likely to remain steady over the year ahead.

There appears to be limited pass-through to retail rates from the lower Official Cash Rate (OCR). Rather it appears that the lower OCR has helped offset a rise in mortgage lending rates as banks face higher funding costs.

Household deposit growth, which is an important source of mortgage funding, has slowed in recent months and household credit growth has increased. Housing credit increased 9.1% in the year to October, up from 7.2% growth a year ago. This has put a squeeze on funding, which banks have had to meet through more stringent lending criteria and increased borrowing in relatively more expensive foreign markets. In addition, some banks have increased retail deposit rates, likely reflecting increased competition for domestic funds. Overall, interest rates for borrowers remain low and continue to support both residential and business investment spending.

Dairy prices continued to recover…

The reduction in the OCR, along with increases in US interest rates, has likely contributed to an easing in the NZD/USD exchange rate. In combination with rises in the USD price of dairy products at recent GlobalDairyTrade auctions, this has enabled the country's largest dairy processor, Fonterra, to increase its payments to suppliers to an expected NZD$6.00 per kilogram of milksolids from the previously expected NZD$5.25. At this higher price, most suppliers will be profitable. Suppliers will begin to receive the higher payments in December 2016, supporting activity in producer regions.

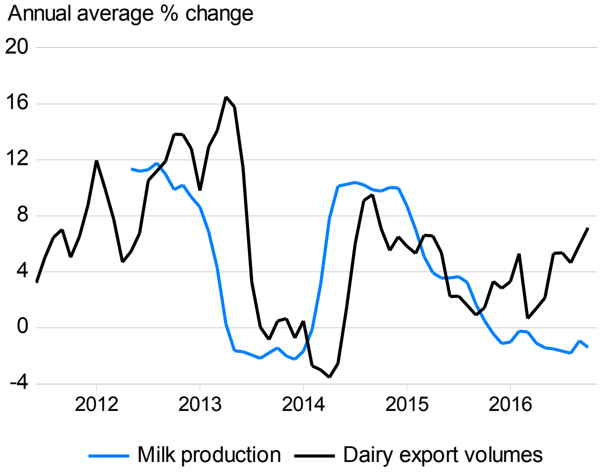
…but milk production is lower

However, it is not all good news for New Zealand's dairy producers as the increase in price is being offset, at least partially, by lower production within New Zealand. Milk production was 6.1% lower in October 2016 than the same month last year and 3.1% lower over the season to date, which began in June. The national dairy herd is smaller than it was last year and we expect production in 2016/17 season to remain lower than the previous season.

Trade deficit narrowed in October

Lower dairy production will eventually flow through to lower export volumes. For now, dairy export volumes are continuing to support the trade balance. October's export data showed dairy export volumes were 15.4% higher than the same month last year and 7.1% higher over the 12 months ended October (Figure 4). Combined with higher dairy prices in the month, dairy export values were 13.0% higher than the same time a year ago. Dairy exports were the main contributor to a narrowing of the annual trade deficit to $3.3 billion from $3.4 billion in September. Forestry (up 25.8%) and fruit (up 39.7%) export values were the other main contributors.

Figure 4: Dairy exports rise despite lower milk production



Source: DCANZ, Statistics NZ

On the imports side, passenger cars, up 15.0% from a year ago, and aircraft were the major contributors to a 0.6% rise in imports values from a year ago. Excluding aircraft and parts, imports were 6.6% lower than a year ago, led by lower intermediate goods (down 11.0%) and capital goods imports (down 8.1%). However, with the TWI exchange rate up 7.1% from a year ago, any decline in capital goods import volumes would appear to be modest.

The impact of higher dairy prices was also evident in the September quarter Producer Price Index. The output index increased 1.0%, driven by a rise of 27.7% in dairy prices, while the input index rose 1.5% on higher dairy manufacturing prices. However, compared to a year ago producer price inflation remained tepid. Both the input and input indexes were up 0.1% on a year ago.

Overall, we continue to expect solid GDP growth over the second half of 2016. Growth needs to remain strong throughout 2017 if wage and price pressures are to rise sufficiently to pull inflation up to the 2% mid-point of its target range. The Treasury's *Half Year Economic and Fiscal Update,* to be released on 8 December, will provide further details on the outlook.

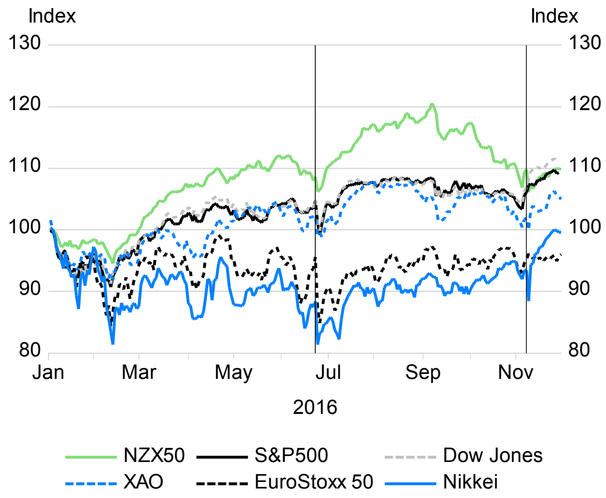
Financial market volatility increases…

The global economy showed some resurgence of demand according to data released this month, while business activity indicators remained subdued. There was increased volatility in financial markets arising from an unexpected change in the outlook for US economic policy in the light of the presidential election.

The initial market reaction to the election was negative, as equity prices, bond yields and the USD all fell, while demand for safe-haven assets increased. These moves were then reversed upon confirmation of the results, as markets began to focus on the likely impact of the president-elect's stated policies. Equity prices rose, with increases led by industries expected to gain under the prospective policies (Figure 5).

Figure 5: Equity indexes (base=100, 5/1/2016)*

*lines show the Brexit vote (23/6/16) and US election (8/11/16)



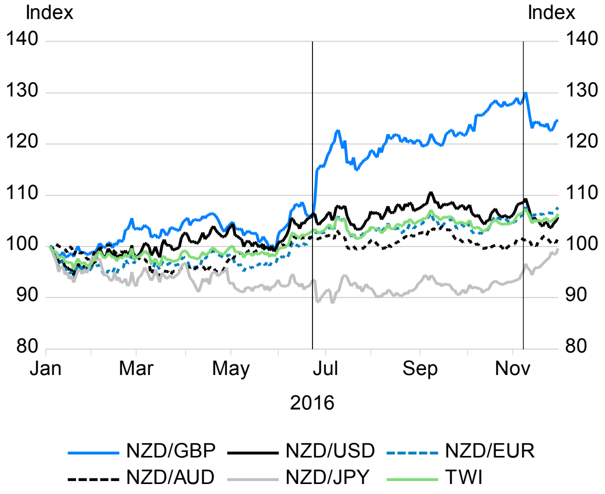
Source: Haver

The USD gained and safe-haven currencies dropped back again. In the three weeks since the election, the USD TWI rose around 4% to its highest level since 2002. The NZD fell about 3% against the USD (touching briefly below $0.70), but the NZD TWI fell only around 1% as the NZD gained against the EUR and JPY (Figure 6). With the USD appreciating, the Bank of China has allowed the Renminbi to fall to 6.9 RMB to the USD, its lowest level since 2009, to maintain a steady trade-weighted exchange rate index.

US and NZ 10-year government bond yields rose close to one-year highs, responding to indicated trade and fiscal policies under the president-elect that will likely increase inflation and prompt faster interest rate hikes by the Federal Reserve (a December hike is fully priced in by markets) (Figure 7). German and Japanese yields became positive once again. Financial markets generally consolidated towards the end of the month but the large movements remained in place.

Figure 6: Exchange rate indexes (base 5/1/2016)*

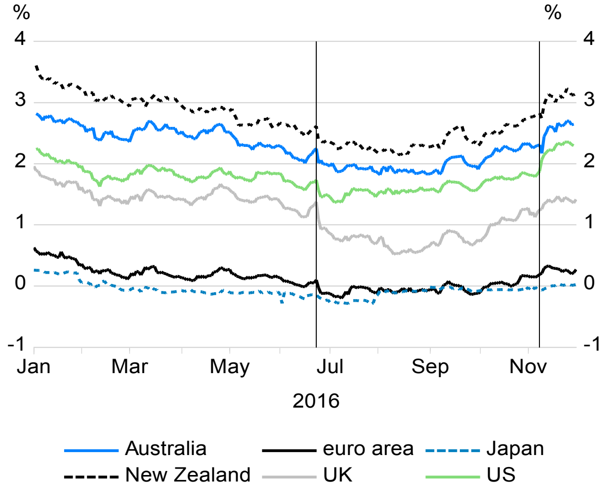
*lines show the Brexit vote (23/6/16) and US election (8/11/16)



Source: RBNZ

Figure 7: 10-year government bond yields*

*lines show the Brexit vote (23/6/16) and US election (8/11/16)



Source: Haver

Strong US September quarter GDP growth

US September quarter GDP growth was greater than anticipated at 0.8%, driven by exports (which grew 2.4%) and a rebuilding of inventories. Personal consumption growth was 0.7% and imports grew only 0.6%. Subsequently, domestic demand appears to have picked up further, as retail sales grew 0.8% in October (4.3% apc, with positive historical revisions) and surveys of consumer confidence were broadly positive in October and November, with the Conference Board measure at a post-recession high. Labour market developments were also upbeat, with robust non-farm payroll growth of 161,000 in October, unemployment easing to 4.9%, and the fastest wage growth since 2009 (2.8%).

In contrast, business activity indicators were mixed. Industrial production disappointed, falling 0.9% in the year to October, while manufacturing grew 0.1%. Wholesale inventories fell 0.4% in October, and exports fell 2.7% in the month. Business surveys point to slight growth in manufacturing, but some weakness in non-manufacturing.

Indicators of inflationary pressures were also mixed. Consumer price inflation was 0.4% in October and 1.6% in the year – a two-year high – but annual core CPI eased (from 2.2% to 2.1%) and producer prices were unchanged in the month. The stronger USD is expected to dampen inflation outturns in future, but markets have almost fully priced in a Fed hike in December, reflecting Fed members' and Chair Yellen's comments, as well as market expectations of greater inflationary pressure from possible future policies.

Japan's growth exceeds expectations

Japan's economy grew 0.5% in the September quarter, outpacing expectations of 0.2% growth, led by exports (which rebounded 2.0%) while private consumption grew only 0.1% and investment grew 0.2%. Analysts do not expect this strength will be sustained, with flat readings for industrial production and retail sales in September. However, the manufacturing PMI rose from 50.4 to 51.4 in October. Consumer prices increased in October for the first time since February (up 0.1% apc), but largely due to typhoons in August causing higher food prices.

Australia's growth remains subdued…

Growth in Australia remains soft. Retail sales grew 3.3% in the year to September, recovering from their mid-2016 low but still subdued compared to 2014 and 2015. Construction work fell 4.9% in the September quarter (-11.1% apc) and is expected to subtract 0.7ppts from Q3 GDP growth, in contrast to recent record levels of building approvals. The unemployment rate was unchanged at 5.6% in October, as below-expected job growth was offset by easing participation. Annual employment growth declined from 1.3% in September to 0.9%, half its growth rate a year ago.

…while growth in China is mixed

China's growth in October was mixed. Annual industrial production growth was unchanged at 6.1%, annual retail sales growth eased from 10.7% to 10.0%, and export and import growth remained negative in the year to October (-7.3% and -1.4% respectively). In contrast, all measures of manufacturing and non-manufacturing PMIs rose in October, and annual fixed asset investment growth edged up from 8.2% to 8.3% (ytd), although the share of state sector investment remained high at 35.5%. Price pressures increased in October, as annual CPI inflation was 2.1% (1.9% previously), and was 1.8% excluding food – a two year high. Annual producer price inflation accelerated to 1.2% (0.1% previously) – a four year high.

…and UK economy shows diverging trends

The labour market and household demand remained strong in the UK, but goods production softened. Industrial production growth fell to 0.3% in the year to September, down from growth of 2.2% in July, possibly showing the impact of uncertainty arising from Brexit. The trade deficit widened in September as exports declined despite the weaker pound, and the manufacturing PMI fell from a high of 55.5 to 54.3. The services PMI rose from 52.4 to 54.5, but also showed its most rapid input cost growth since 2011. In contrast, retail sales volumes grew 7.4% in the year to October, a 14-year high, and the unemployment rate fell to an 11-year low (near pre-crisis levels), at 4.8% in September. Annual core wage growth remained low at 2.2% in the September quarter.

Annual consumer price inflation eased from 1.0% to 0.9% in October (1.2% core), weaker than expected, but producer output prices rose 2.1% (apc) and the BoE warned October's outturn belies the higher inflation expected to come.

Looking forward, the government's Autumn Statement forecast higher growth in 2016 (2.1% vs 2.0% previously), but considerably lower growth in 2017 (1.4% vs 2.2% previously) as a result of Brexit. Tax revenue is expected to be lower and debt issuance higher (up £122bn by 2021), with a new fiscal target of a balanced budget for 2020-2025 (previously targeted a surplus).

Positive surveys in the euro area

September quarter GDP growth was 0.3% in the euro area, as rising investment growth offset easing consumption growth. Industrial production growth fell from 2.3% to 1.3% in September, led by consumer durable goods. Subsequent business and consumer surveys have shown improvement. October manufacturing and services PMIs rose to 53.7 and 54.1 respectively, with the highest composite PMI in a year (54.1). In addition, annual CPI inflation continued its steady rise in October at 0.5% as energy prices recovered, while core inflation was stable at 0.8%.

Central banks hold steady…

The Fed, RBA, BoJ, and BoE all held their policy rates unchanged in November, at 0.25%-0.50%, 1.5%, -0.1%, and 0.25% respectively. Aside from the Fed, markets expect each Bank to remain on hold over the next year. The BoJ kept its bond purchasing programme unchanged but does not expect to reach its inflation target until a year later, as deflation continued at -0.5% in September. The BoE revised up its growth and inflation forecasts and signalled no further cuts.

…but risks remain

Risks remain to global growth, however. The UK High Court ruled Article 50 cannot be triggered without Parliament's approval, adding further uncertainty to the Brexit process. Concerns over Italian bank failures have increased in the lead-up to Italy's constitutional referendum on 4 December, and ECB President Draghi warned that low interest rates have created "fertile terrain" for risks in financial markets. The RBNZ's latest *Financial Stability Report* highlights these global and domestic risks to New Zealand's growth, including risks around global political uncertainty and elevated asset prices.

On a positive note, while the latest OECD *Economic Outlook* emphasised that member countries have been stuck in a "low-growth trap" for the past five years, it upgraded the US outlook on the estimated impact of the president-elect's policies, and forecast higher NZ growth than in the 2016 *Budget Update*. Treasury's latest forecasts will be released in the *Half Year Economic and Fiscal Update* on 8 December.

MEI Special Topic: Implications of Kaikōura earthquakes for the NZ economy

A magnitude 7.8 earthquake occurred in North Canterbury just after midnight on 14 November causing extensive damage and some loss of life in the Kaikōura and adjoining regions. The town of Kaikōura, which is an important tourist centre and on the main South Island road and rail network, was extensively damaged and transport links were blocked by large slips. There was also damage to housing in the region, as well as to commercial buildings and the port in Wellington.

While the impact of the earthquake and subsequent aftershocks on the region directly affected is significant, its impact on the economy as a whole is considered likely to be relatively minor at this stage. This special topic discusses the likely regional and national economic impact.

Regional economic impact considerable…

The impact of the earthquakes on the Kaikōura and surrounding regions is expected to be considerable. The industries most likely to be affected are tourism (hospitality and retail) and primary production (seafood, dairy and wine). The impact on tourism is expected to be more serious and longer-lasting than the impact on primary industry because access to Kaikōura has been restricted, accommodation, retail and hospitality facilities have been damaged and some tour operators are unable to function. Infrastructure in the town was also damaged.

In the primary industries, some dairy output has been lost as it could not be collected and processed, and the uplift of the seabed may affect the seafood industry for some time. Wine production in Marlborough may be affected by damage to storage tanks and transport to and from the region will be an issue for all industries.

Some effects are expected to be felt further afield as well. The extensive damage to the road and rail network in the north-east of the South Island will affect not only that region but also the transport of people and freight between other parts of the South Island and the North Island. The disruption of the transport links is already adding time and costs to freight and travel.

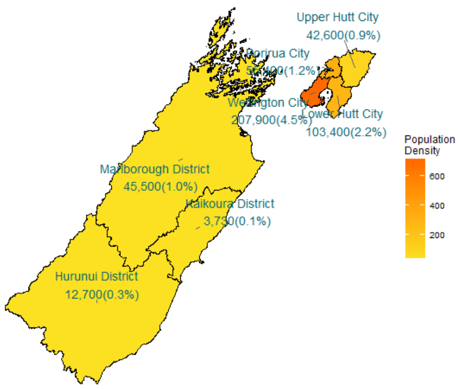
The earthquakes also caused damage in Wellington, with some commercial and retail buildings and parts of the port damaged. Business services, retail and hospitality industries have experienced some short-term disruption as a result and shipping was temporarily disrupted, with container services still affected. The extent of the damage to buildings is uncertain at this stage, with some buildings still being checked and two being demolished. The economic impact of this will be a loss of output, some of which will be caught up later or displaced elsewhere. Although the economic impact on the Wellington region is less concentrated than on the regions of the South Island, it may be greater because of the larger number of people affected.

There has also been extensive damage to housing in the area of the South Island most directly affected. While this damage has resulted in a loss of capital, on its own it will not result in lower economic activity, although it may lead to a shortage of accommodation for workers. A high proportion of NZ households have insurance cover and the first $100,000 (+GST) of damage is covered by the Earthquake Commission (EQC).

…but much less at a national level

Although the economic impact of the earthquakes at a regional level is expected to be considerable, their impact at a national level is expected to be much less. The region directly affected is less densely populated and accounts for a smaller share of national output and employment than the parts of Canterbury that were affected by the 2010 and 2011 earthquakes. The Kaikōura and Hurunui Districts, the areas most affected by the earthquakes, make up only 0.4% of the total New Zealand population, with Marlborough accounting for an additional 1% (Figure 1), whereas the areas directly affected by the Canterbury earthquakes accounted for around 10% of the total population.

Figure 1: Population of regions directly affected by the November 2016 earthquakes



Source: Statistics NZ (NZ Population Estimates, 30 June 2016)

Although the population of the town of Kaikōura is small (approx. 2,000), it is situated on the main South Island land transport network and a lot of tourists pass through it. On average over the past five years, approximately 125,000 international visitors (representing around 4% of all short-term visitors to New Zealand) stayed in the town. However, taking total spending into account, Kaikōura and Hurunui Districts together account for less than 1% of total tourist spending.[2]

Some of the tourism activity lost to the region may be displaced elsewhere, subject to capacity in other areas. Overseas visitor arrivals to New Zealand have increased 21% in the past two years and some areas are operating at close to capacity, and if people are not be able to go elsewhere there may be some net loss.

There may also be a wider impact on tourism elsewhere in New Zealand as people cancel or postpone trips to New Zealand because of the disruption and/or risk of more earthquakes. This effect is thought to be relatively small and the impact on tourism will be much less than the Canterbury earthquakes in 2010 and 2011 which destroyed extensive facilities in Christchurch (e.g. hotels), reducing capacity in the industry as a whole. However, there is a risk that there could be a drop in overseas visitor arrivals in early 2017 as a result of the earthquakes.

Loss of output will be offset by repair and rebuilding activity…

The negative impacts of the earthquakes on economic activity are expected to be offset by repair and reconstruction activity in the short and medium term. The immediate recovery and clean-up will provide a small offset in the short-term to business disruption, while the longer-term rebuilding and reconstruction (e.g. of the road and rail network) will make a positive contribution to output over time. The reconstruction work will be included under government and business investment and residential investment.

Although it is only replacing capital which has been destroyed by the earthquakes, such activity counts towards economic output. As in the case of the Canterbury earthquakes, much of it will be financed by insurance payments (in the case of household and commercial damage) or by local and central government (in the case of public infrastructure and EQC payments).

…but it may still be relatively small…

However, rebuilding and reconstruction work may not add much to economic output in net terms, given that the construction sector is currently estimated to be operating close to full capacity. Reconstruction work may be at the expense of other work in the sector, making no additional contribution to output. An initial assessment of the impact on the government's fiscal position will be included in the *Half Year Economic and Fiscal Update* to be released on 8 December.

…and other economic impacts as well…

There may be other economic impacts as well. Given that the economy is generally considered to be operating close to capacity (particularly the construction industry), additional demand may push up wages and the cost of materials. While this is the case for the construction industry as a whole, particularly residential construction, some resources may become free from horizontal infrastructure reconstruction as this work is completed in Christchurch at around this time. Additional freight and passenger transport costs may also have a temporary impact on inflation.

The earthquakes are not expected to have a significant effect on business or consumer confidence nationally as their economic impact is more limited than the Canterbury earthquakes and the economy is in a strong growth phase at present. Lower exports from tourism and primary production and higher imports associated with the reconstruction (and from higher fuel usage as a result of diversions) are likely to have a negative impact on the balance of payments.

…but national impact likely to be minor

Although the economic impact of the recent earthquakes on the region directly affected is expected to be considerable, their impact on the economy as a whole is expected to be relatively minor. The region directly affected accounts for a small share of national output and, while the impacts do reach further, they are much less than in the case of the Canterbury earthquakes. In the short term, there are both negative and positive economic effects, timing impacts, and possible displacement and diversion of activity to other regions and industries; in the medium term there will be positive effects from subsequent rebuilding and reconstruction, although the net impact of the additional work is uncertain at this stage.

[2] MBIE, Monthly Regional Tourism Estimates

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

		2015Q1	2015Q2	2015Q3	2015Q4	2016Q1	2016Q2	2016Q3
Gross Domestic Product (GDP)								
Real production GDP	qtr % chg[1]	0.2	0.4	0.8	0.9	0.9	0.9	...
	ann ave % chg	3.6	3.3	2.9	2.5	2.5	2.8	...
Real private consumption	qtr % chg[1]	0.6	0.3	0.7	0.9	0.5	1.9	...
	ann ave % chg	2.6	2.7	2.3	2.3	2.3	2.7	...
Real public consumption	qtr % chg[1]	0.8	0.7	0.3	-0.2	0.6	1.0	...
	ann ave % chg	2.3	2.1	2.0	2.0	1.8	1.7	...
Real residential investment	qtr % chg[1]	0.3	0.4	1.5	1.5	4.9	6.0	...
	ann ave % chg	11.5	8.6	7.8	5.9	7.2	10.3	...
Real non-residential investment	qtr % chg[1]	-2.5	1.3	2.6	-2.8	1.8	1.7	...
	ann ave % chg	9.0	7.5	4.9	1.9	1.4	1.3	...
Export volumes	qtr % chg[1]	1.8	0.1	2.0	-0.1	-0.4	4.0	...
	ann ave % chg	4.3	5.9	7.6	6.8	5.5	4.9	...
Import volumes	qtr % chg[1]	0.8	1.1	-2.3	0.8	0.7	2.6	...
	ann ave % chg	7.4	6.6	5.6	3.6	2.1	1.2	...
Nominal GDP - expenditure basis	ann ave % chg	3.6	2.8	2.8	3.2	3.8	4.2	...
Real GDP per capita	ann ave % chg	1.9	1.5	1.1	0.6	0.5	0.7	...
Real Gross National Disposable Income	ann ave % chg	3.3	2.1	1.3	1.4	2.0	2.6	...
External Trade								
Current account balance (annual)	NZ$ millions	-8,469	-8,752	-8,529	-8,321	-7,821	-7,384	...
	% of GDP	-3.5	-3.6	-3.5	-3.4	-3.1	-2.9	...
Investment income balance (annual)	NZ$ millions	-9,566	-9,499	-9,581	-9,207	-8,752	-8,374	...
Merchandise terms of trade	qtr % chg	1.2	1.5	-3.8	-2.0	4.2	-2.1	...
	ann % chg	-5.6	-4.2	-3.6	-3.2	-0.4	-3.9	...
Prices								
CPI inflation	qtr % chg	-0.2	0.4	0.3	-0.5	0.2	0.4	0.4
	ann % chg	0.3	0.4	0.4	0.1	0.4	0.4	0.4
Tradable inflation	ann % chg	-2.4	-1.8	-1.2	-2.1	-1.2	-1.5	-2.1
Non-tradable inflation	ann % chg	2.4	2.1	1.5	1.8	1.6	1.8	2.4
GDP deflator	ann % chg	-0.8	0.5	0.8	0.4	1.3	1.3	...
Consumption deflator	ann % chg	0.5	0.6	1.1	0.7	0.8	0.7	...
Labour Market								
Employment (HLFS)	qtr % chg[1]	0.6	0.0	-0.2	0.9	1.4	2.4	1.4
	ann % chg[1]	3.2	2.9	1.5	1.3	2.0	4.5	6.1
Unemployment rate	%[1]	5.4	5.5	5.5	5.0	5.2	5.0	4.9
Participation rate	%[1]	69.3	68.9	68.4	68.2	68.8	69.7	70.1
LCI salary & wage rates - total (adjusted)[5]	qtr % chg	0.3	0.5	0.4	0.4	0.4	0.4	0.5
	ann % chg	1.7	1.6	1.6	1.5	1.6	1.5	1.7
QES average hourly earnings - total[5]	qtr % chg	0.0	0.8	1.0	0.3	0.3	0.5	0.5
	ann % chg	2.1	2.8	2.3	2.1	2.4	2.1	1.7
Labour productivity[6]	ann ave % chg	0.5	0.6	0.7	0.5	0.9	-0.1	...
Retail Sales								
Core retail sales volume	qtr % chg[1]	2.2	-0.1	1.4	1.2	1.1	2.5	0.3
	ann % chg	7.2	5.8	5.2	5.2	4.8	6.4	5.1
Total retail sales volume	qtr % chg[1]	2.1	0.0	1.6	1.1	0.9	2.2	0.9
	ann % chg	7.1	5.5	5.7	5.3	4.9	6.0	5.1
Confidence Indicators/Surveys								
WMM - consumer confidence[3]	Index	117	113	106	111	110	106	108
QSBO - general business situation[4]	net %	23.3	5.1	-14.5	14.7	1.7	18.6	25.7
QSBO - own activity outlook[4]	net %	25.0	9.3	21.7	21.6	3.8	16.8	39.2

Monthly Indicators

		2016M05	2016M06	2016M07	2016M08	2016M09	2016M10	2016M11
External Sector								
Merchandise trade - exports	mth % chg[1]	-1.3	-1.1	2.1	-7.9	0.7	9.3	...
	ann % chg[1]	4.7	2.3	-4.9	-8.7	-5.8	2.2	...
Merchandise trade - imports	mth % chg[1]	-1.4	-1.1	4.2	-3.4	5.4	2.1	...
	ann % chg[1]	5.7	-4.5	-11.9	-3.7	0.9	0.6	...
Merchandise trade balance (12 month total)	NZ$ million	-3624	-3335	-2956	-3101	-3356	-3297	...
Visitor arrivals	number[1]	284,890	282,960	291,490	286,350	296,710	...	...
Visitor departures	number[1]	294,860	286,400	297,740	284,390	291,360	...	...
Housing								
Dwelling consents - residential	mth % chg[1]	-0.7	20.4	-8.7	-1.5	0.2	...	...
	ann % chg[1]	16.1	34.8	-0.5	23.7	13.7	...	...
House sales - dwellings	mth % chg[1]	-3.6	-2.3	-8.8	6.4	-5.5	-9.1	...
	ann % chg[1]	13.6	5.9	-10.1	-3.1	-9.5	-14.2	...
REINZ - house price index	mth % chg	2.0	1.6	2.6	-2.0	1.1	0.1	...
	ann % chg	14.7	14.2	16.3	11.7	9.7	14.4	...
Private Consumption								
Electronic card transactions - total retail	mth % chg[1]	-0.2	1.2	0.2	-1.2	2.0	0.6	...
	ann % chg	3.3	6.8	5.8	3.2	6.1	4.2	...
New car registrations	mth % chg[1]	-4.6	-0.6	0.2	8.4	-1.0	3.3	...
	ann % chg	4.2	-1.2	-1.9	10.5	8.6	13.1	...
Migration								
Permanent & long-term arrivals	number[1]	10,220	10,250	10,450	10,350	10,960	...	...
Permanent & long-term departures	number[1]	4,670	4,540	4,810	4,690	4,630	...	...
Net PLT migration (12 month total)	number	68,432	69,090	69,015	69,119	69,954	70,282	...
Commodity Prices								
Brent oil price	US$/Barrel	46.74	48.25	44.95	45.84	46.57	49.52	*44.47*
WTI oil price	US$/Barrel	46.76	48.80	44.69	44.76	45.20	49.81	*45.58*
ANZ NZ commodity price index	mth % chg	2.5	0.1	-0.3	1.9	3.9	1.3	...
	ann % chg	-3.5	-6.1	-5.8	-0.5	-5.0	-5.3	...
ANZ world commodity price index	mth % chg	1.0	3.5	2.1	3.2	5.1	0.7	...
	ann % chg	-11.7	-5.6	1.9	11.1	10.6	4.0	...
Financial Markets								
NZD/USD	$[2]	0.6804	0.7034	0.7123	0.7229	0.7309	0.7159	*0.7153*
NZD/AUD	$[2]	0.9290	0.9502	0.9472	0.9481	0.9634	0.9395	*0.9489*
Trade weighted index (TWI)	June 1979 = 100[2]	72.86	75.23	76.30	76.77	77.84	76.87	*77.93*
Official cash rate (OCR)	%	2.25	2.25	2.25	2.00	2.00	2.00	1.75
90 day bank bill rate	%[2]	2.38	2.37	2.37	2.24	2.23	2.15	*2.07*
10 year govt bond rate	%[2]	2.68	2.51	2.27	2.20	2.40	2.54	*2.99*
Confidence Indicators/Surveys								
ANZ - business confidence	net %	11.3	20.2	16.0	15.5	27.9	24.5	20.5
ANZ - activity outlook	net %	30.4	35.1	31.4	33.7	42.4	38.4	37.6
ANZ-Roy Morgan - consumer confidence	net %	116.2	118.9	118.2	117.7	121.0	122.9	127.2
Performance of Manufacturing Index	Index	57.1	57.6	55.6	55.1	57.5	55.2	...
Performance of Services Index	Index	56.9	56.5	54.4	57.8	54.2	56.3	...

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