THE TREASURY
Kaitohutohu Kaupapa Rawa

Monthly Economic Indicators

New Zealand Government

March 2017

Executive Summary

- **GDP growth slowed in the final quarter of 2016 but is expected to recover over 2017**
- **Despite slower real GDP growth, nominal GDP increased strongly as dairy prices rose**
- **The current account deficit narrowed to 2.7% of GDP and New Zealand's net international liability position fell to a post-2000 low of 59.9% of GDP**
- **Internationally, political developments continued to drive financial market sentiment**

Real GDP growth slowed in the final quarter of 2016 and was weaker than anticipated in the *Half-Year Economic and Fiscal Update (HYEFU)*. However, much of the weakness appears to be due to temporary factors and the growth outlook remains positive.

In contrast to the slowdown in real activity, nominal GDP growth accelerated, as the terms of trade rose sharply on higher dairy prices. The strength of nominal GDP is reflected in tax revenue, which remained above our HYEFU forecast in the seven months ended January.

Increased spending by overseas visitors to New Zealand also supported national income growth and contributed to a further narrowing of the current account deficit. The recent run of lower deficits has been accompanied by a downward trend in New Zealand's net international liability position, which fell to a fresh low of 59.9% of GDP in December.

Internationally, political developments continued to drive financial market sentiment. Headline inflation continued to rise in many economies, driven by fuel price movements, although underlying inflation generally remains low and monetary policy remains highly accommodative.

This month's special topic covers some of the key insights from the Treasury's March 2017 business talks. The overall view of businesses was one of ongoing economic expansion, supported by solid population growth, high tourist numbers and positive employment and investment intentions.

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Analysis

Real GDP growth slowed in the final quarter of 2016 and was weaker than anticipated in the *Half-Year Economic and Fiscal Update (HYEFU)*. However, much of the weakness appears to be due to temporary factors, and the growth outlook remains positive. Dairy export prices have recovered, net migration inflows remain high, tourism is strong and interest rates are low and are expected to continue to support activity for a considerable period. In the December quarter, higher dairy prices were a key driver of a further acceleration in nominal (or current price) GDP growth, while higher tourism spending contributed to a wider services surplus and a narrower current account deficit. The strength of nominal GDP is reflected in tax revenue, which remained above our HYEFU forecast for the seven months ended January.

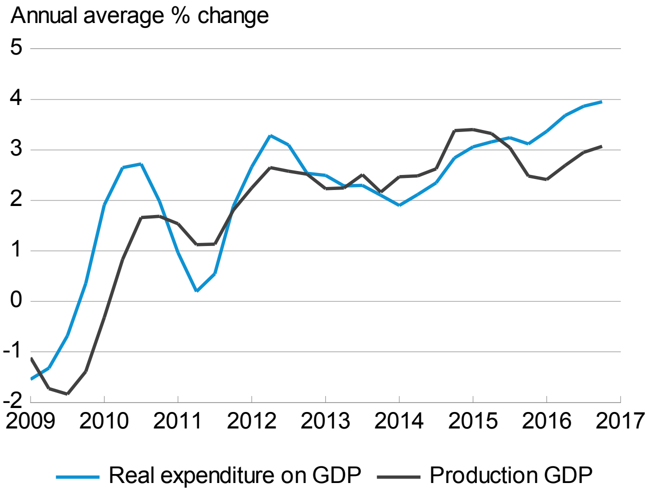
Domestically, some food prices have been unusually high in recent months as poor weather has reduced supply. We expect higher food and fuel prices to drive annual headline consumer price (CPI) inflation to around 2.0% in the March 2017 quarter. However, food prices will likely drop back to more normal levels as the season progresses, and fuel prices appear to have stabilised, suggesting they will not add to future inflation. Overall, headline inflation is likely to drop back below 2.0% later this year.

Real GDP growth slowed in the December quarter…

Real GDP growth slowed to 0.4% in 2016Q4, following a downwardly revised 0.8% (was 1.1%) in the prior quarter, well below the Treasury's HYEFU forecast. Compared to the same quarter a year ago growth eased to 2.7%, well below the HYEFU forecast of 3.6% growth. Over the calendar year growth picked up to 3.1% from 2.5% over 2015, but below the 3.4% growth rate forecast in HYEFU (Figure 1).

However, when we turn to the expenditure measure of GDP, which underpins our tax revenue forecasts, a different picture of the difference from forecast emerges. Although real expenditure on GDP advanced just 0.2% in 2016Q4, growth from the same quarter a year ago was only 0.2%-points lower than the 3.6% expected in HYEFU. Moreover, for the year ended December 2016, real expenditure on GDP increased 4.0%, materially above our HYEFU estimate of 3.5%. These variances reflected both the positive revisions introduced in 2016Q3, which saw March year 2016 GDP revised up, and the lower December outturn. So while growth in the December quarter was weaker than expected, the earlier revisions resulted in GDP growth over the year being higher than anticipated. A similar difference to forecast is evident for nominal GDP over the year ending 2016.

Figure 1: Growth in real expenditure on GDP outstrips growth in production GDP

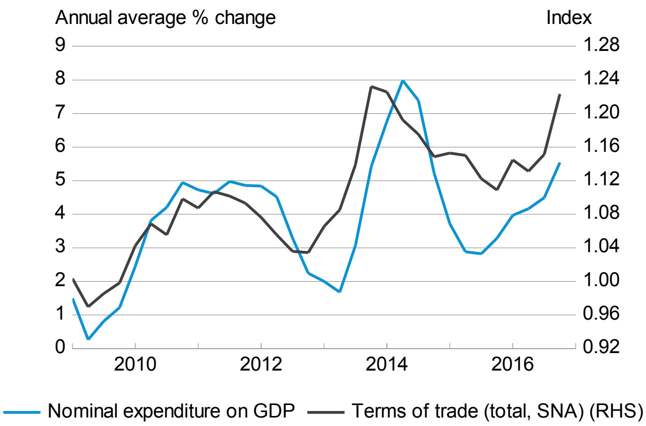


Source: Statistics NZ

But nominal GDP growth accelerated …

The terms of trade rose 6.2% in the quarter, stronger than expected, driven by higher dairy prices, contributing to a 2.1% rise in nominal GDP. This followed a rise of 1.6% in 2016Q3. As a result, nominal GDP was 5.5% higher over 2016, 0.6%-points higher than forecast. Reflecting the strength of nominal GDP, tax revenue was 0.7% ($291 million) higher than forecast over the seven months ended January.

Figure 2: Increases in the terms of trade added to nominal GDP



Source: Statistics NZ

Temporary factors weigh on dairy production…

Weakness in primary production, including dairy, was the main driver behind the slower pace of output growth in 2016Q4, and the downward revisions to 2016Q3 growth. However, weather conditions have improved and dairy production has recovered. We expect a positive contribution from primary production in the March quarter.

On the expenditure side, falling dairy production was reflected in lower dairy export volumes. The weakness in dairy exports was compounded by substantial falls in a number of other export categories including forestry, energy, chemicals and metal products (Table 1). Overall, goods exports volumes fell 6.0%, the largest decline fall in over 25 years. Services export volumes provided a partial offset rising 2.1% on higher visitor numbers and increased spending per visitor. Import volumes rose 1.9% in the quarter, led by capital goods imports and net exports subtracted 1.6%-points from growth.

Table 1: Goods exports fell heavily

Export	Quarter % change
Agriculture and fishing primary products	7.5
Forestry primary products	-9.4
Coal, crude petroleum and ores, minerals and gases	-20.8
Meat products	-1.1
Dairy products	-7.5
Other food, beverages, and tobacco	0.7
Textiles, apparel, and leather products	-6.4
Wood and paper products	-2.6
Chemicals, rubber, plastic, and non-metallic minerals	-6.3
Metal products, machinery, and equipment	-8.0
Exports of goods	-6.0
Exports of services	2.1
Exports of goods and services	-3.8

Source: Statistics NZ

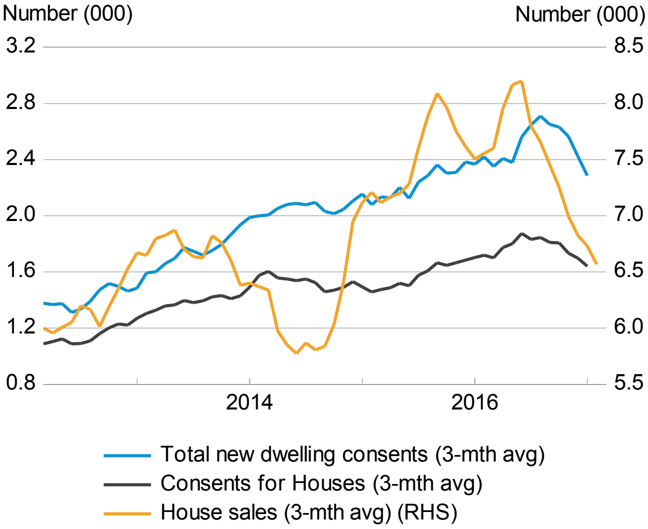
Inventories rose sharply, contributing 1.9%-points to GDP growth in the quarter, which suggests that some of the weakness in net exports may be timing related. However, there are few signs of export strength evident in merchandise trade figures over the first two months of the year. Dairy export volumes contracted 3.0% in February, the fourth consecutive fall and, aside from crude oil, there are few signs of a substantial lift in quantities from December's levels among other groups. Meanwhile, on the import side, monthly values for major categories have generally remained above their December quarter monthly averages despite a modest rise in the New Zealand dollar.

…residential investment…

Construction activity continued to support growth, rising 1.8% in the December quarter and 10.5% over 2016 as a whole. Non-residential and other construction (including infrastructure) made the major contributions to growth. Residential construction rose 1.1%. Residential investment, which includes transfer costs, was flat in the quarter, reflecting fewer existing house sales over the quarter (Figure 3).

The number of new residential dwelling consents dropped sharply over November and December 2016, down 8.9% and 7.9% respectively, accelerating the declining trend that began in July last year (Figure 3). Although consents stabilised in January, we now expect residential investment to drag on growth over the first half of 2017.

Figure 3: Dwelling consents and house sales have fallen



Source: Statistics NZ, REINZ

Our business contacts noted that financial and regulatory barriers and skilled labour shortages were impacting on construction costs. The implication was that some projects were no longer feasible, resulting in fewer consents. At the same time, higher mortgage costs and tighter LVR limits were seen to be constraining demand growth. Nonetheless, ongoing strong population growth, low interest rates and rising labour incomes are expected to support a resumption of residential construction growth later in the year.

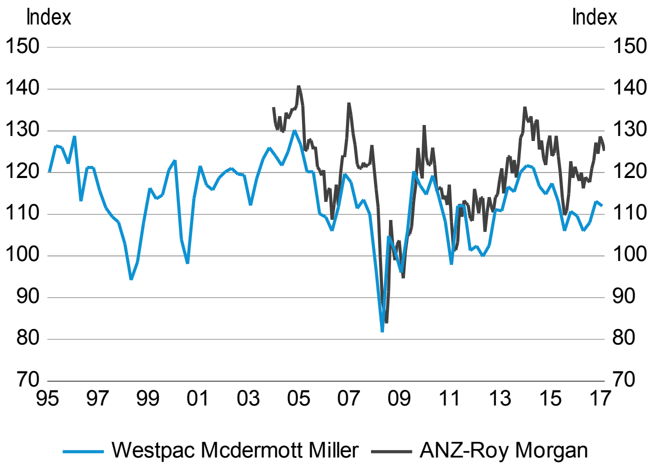
Nationwide annual house price growth slowed to 10.5% in February, according to the Real Estate Institute (REINZ), down from a peak of 16.3% in July 2016. February house sales stabilised at January's level, 13.9% down from the same month a year ago (Figure 3). However, over January and February housing data tends to be affected by seasonal events and March's data, released in mid-April, will provide a more reliable gauge on market trends.

…and household consumption…

Real private consumption expenditure ended the year on a softer note, rising 0.4% in 2016Q4, although we had anticipated some pull back following strong growth of 1.4% and 2.1% in Q2 and Q3 respectively. Consumption growth is expected to strengthen in the March quarter, although the value of electronic card spending fell in February, partially unwinding January's 2.7% rise.

The outlook for private consumption over the year ahead remains positive. Consumer confidence measures eased in March, but remained above average, while net migration reached a fresh high in the 12-months ended February (Figure 4). While the ongoing strength of net migration is clearly at odds with our HYEFU forecast of a significant easing over 2017, it does reinforce our expectation that real GDP will accelerate to 3.5% by June 2018.

Figure 4: Consumer confidence remains high



Source: Westpac McDermott Miller, ANZ-Roy Morgan

…Higher food and energy prices may also restrain real growth …

Food prices rose 0.2% in February following a rise of 2.8% in January to be 2.2% higher than a year ago. Fruit and vegetables and dairy products led the annual rise, which was the largest since 2011. Fuel prices have held at around January's level over February and March, up around 5.0% from the December quarter average. We expect the combined impact of higher food and fuel prices to drive annual CPI inflation to around 2.0% in the March quarter, from 1.3% in December. We expect these price rises to constrain overall consumption volume growth somewhat in the quarter.

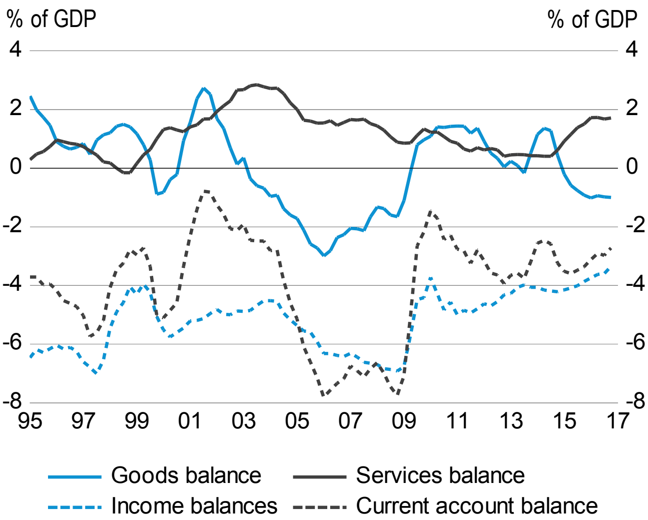
Looking ahead, the seasonal shortages driving fruit and vegetable prices should abate over time in line with changes in the seasonal product mix. International dairy prices have stopped increasing (indeed prices have moved down in recent auctions), which should be reflected in domestic prices in coming months, and fuel prices have stabilised. In sum, the drivers of recent increases in headline inflation are expected to subside, and inflation is expected to dip back below 2.0% this year.

We also expect underlying inflation pressures to remain subdued over the year ahead. Our business contacts noted that that strong competition from online sales was suppressing retail margins. Net migration inflows continue to add the labour supply and alleviate wage pressure and, with unemployment at 5.2%, we believe the labour market continues to operate with a degree of spare capacity.

Current account deficit narrowed further…

Also released in March, the Balance of Payments and International Investment Position showed the annual current account deficit narrowed further to $7.1 billion (2.7% of GDP) for the year ended 2016Q4, from $7.6 billion (3.0% of GDP) in the year ended 2016Q3 (Figure 5). The seasonally adjusted quarterly deficit of $1.6 billion was $0.4 billion smaller than in the September quarter. The major contributor to the smaller deficit was a shift in the balance on secondary income from deficit to surplus as tax inflows rose, and non-life insurance premiums and claims increased following the Kaikōura earthquakes. Increased services exports, mostly driven by increased spending by more international visitors, also made a substantial contribution to the smaller deficit. A wider trade deficit provided a partial offset.

Figure 5: Current account deficit narrowed



Source: Statistics NZ

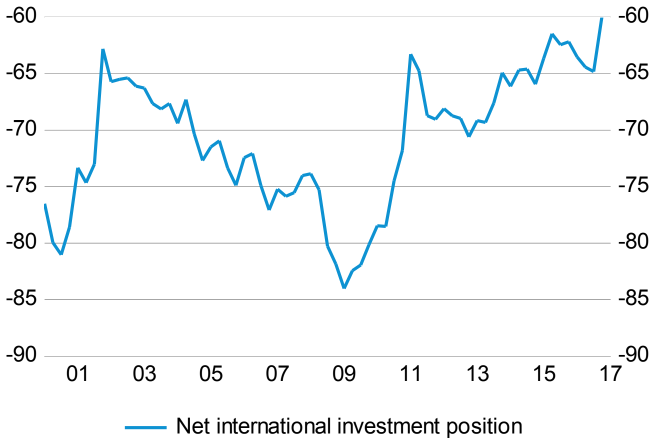
The current account deficit was a little narrower than the 2.8% deficit forecast in the HYEFU. Combined with higher dairy prices and increased production, it now seems less likely that the deficit will widen substantially this year, as forecast in the HYEFU. Indeed, it would not be too surprising to see a further modest narrowing in coming quarters.

Reinsurance claims related to the Kaikōura earthquakes generated provisional capital account inflows of $0.7 billion, the same treatment that was accorded to reinsurance inflows arising from the 2010/11 Canterbury earthquakes.

…and net liabilities fall to an historic low…

New Zealand's net liability position narrowed to $156.5 billion (59.9% of GDP) as at 31 December 2016, down $10.4 billion from 64.8% of GDP in the previous quarter (Figure 6). This is the lowest international liability to GDP ratio recorded since quarterly records were introduced in 2000. The change reflected both market price movements and net financial account outflows. Excluding financial derivatives and equities, the net external debt position fell $5.6 billion to $143.5 billion (55.0% of GDP), driven by an increase in external lending.

Figure 6: Net liabilities to GDP fall to record low



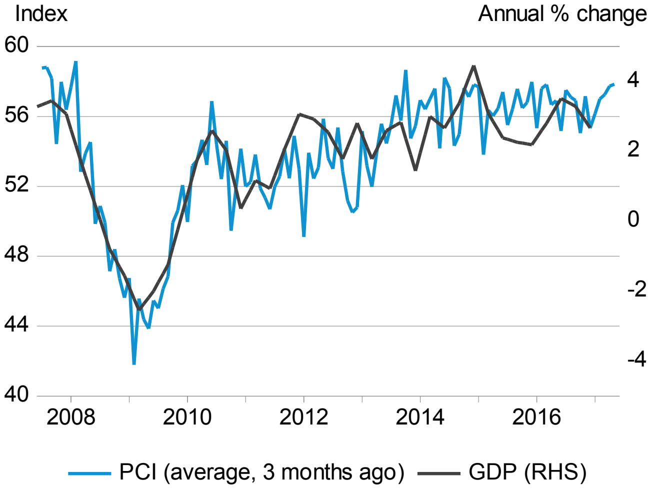
Source: Statistics NZ

The financial account recorded a net outflow of investment of $3.3 billion, conceptually at odds with the quarterly current account deficit of $2.3 billion (which would typically be associated with capital inflows). As a result, net errors and omissions totalled $4.9 billion in the quarter. Given this, and the valuation changes noted earlier, the underpinnings of the improved net liability positions appear tenuous and it would not be surprising if December's gains proved temporary. Nevertheless, the trend reduction in net liabilities since 2009 has improved the economy's resilience to negative external shocks.

Business sentiment remains positive…

New Zealand's Performance of Service Index (PSI) remained strong in February at 58.8, albeit down 0.7-points from January, while the manufacturing survey (PMI) bounced back from January's weakness, up 3.0 points to 55.2. Reflecting these moves, the average of the composite indexes (PCI) rose 0.2 points to 57.9. Ongoing strength in the PMI provides further comfort that the slowdown in GDP will be temporary. Indeed, taken at face value, the PCI supports our HYEFU forecast of annual real GDP growth rising to over 3.5% by the end of the year (when 2016Q4 data drops out of the annual calculation, Figure 7).

Figure 7: Business sentiment signals stronger growth



Source: BNZ/Business New Zealand

…and the Reserve Bank expects interest rates to remain low for a considerable period

The Reserve Bank held the Official Cash Rate at 1.75% at its March review as was widely expected. In the accompanying statement, the Reserve Bank Governor noted the slowdown in the December quarter was expected to be temporary, and that monetary policy stimulus was likely to continue for a considerable period. Inflation was expected to be variable over the year ahead and was expected to return to the midpoint of the target band (ie 2%) over the medium-term. He also noted that global developments had been generally positive over the first months of the year, although uncertainty remained high.

Political developments drive financial markets

International financial markets have been swayed by a number of political events. First, anti-EU parties underperformed, both in the Dutch election and in the first of the French presidential debates. Markets responded positively with some gains for the euro and a further narrowing of the spread between French and German 10-year bond yields. More recently, markets became increasingly focused on the passing of the American Health Care Act (AHCA), viewing it as a proxy for the Trump administration's ability to accomplish its goals in the House. The withdrawal of the AHCA was followed by a weaker US dollar, falls in equity markets and rallying Treasury yields.

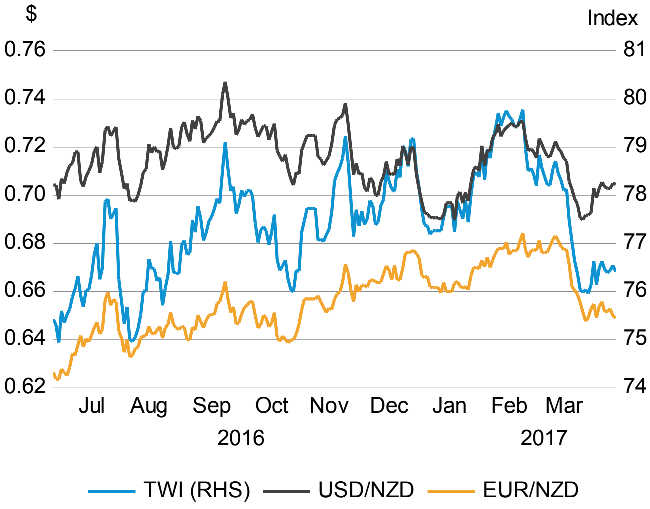
UK formally notified EU of its intention to leave

On the 29th of March PM May formally triggered Article 50 of the Lisbon Treaty, starting the two year time limit on negotiations. In her letter to European Council President Tusk, PM May promised the talks would be in a spirit of "respectful, sincere co-operation". Market reaction to the news was muted.

The NZD fell against most main crosses

The NZD saw broad-based weakness this month, following weaker than expected Q4 GDP data, widening interest rate differentials, and a decline in dairy auction prices.

Figure 8: NZD fell in March



Source: RBNZ

Oil prices fell in the month

Oil prices fell over the month, as data showed a marked rise in US inventories and that Saudi Arabia reversed one third of its production cuts. Brent crude prices dropped 7% since the beginning of the month to USD$51bbl. Domestically, there has been little movement in retail fuel prices with the weaker TWI offsetting lower international oil prices.

China's key economic targets for 2017 outlined at the China's National People's Congress

Premier Li Keqiang outlined several key economic targets for 2017 at China's National People's Congress this month. In particular, a lower growth target of "around 6.5%, or higher if possible in practice", compared to the 6.5-7% target in 2016. The softer growth target indicates the government's need to balance rising leverage and related financial risks with the desire to maintain strong growth. Other targets include:

- maintaining price stability, with a CPI of 3%
- reducing excess capacity, particularly in coal and steel
- preserving a deficit-to-GDP ratio of 3.0%
- slightly tighter credit growth
- supporting the CNY's "stable position" in the global monetary system.

Overall, the targets represent only a slight change from 2016, reflecting a desire for stability ahead of the 19th Communist Party Congress in late 2017.

China's recent data for January and February point to fairly strong first quarter performance. Fixed asset investment grew 8.9% compared to Jan/Feb last year, while industrial production rose 6.3% in the year. However, retail sales growth eased to 9.5% yoy from 10.4% in December. CPI inflation fell from 2.5% to 0.8% in February, chiefly driven by lower food prices. Inflation excluding food dipped from 2.5% to 2.2%.

The US Fed hiked its policy rate…

The US Federal Reserve lifted rates as was widely expected, by 25 basis points to a target range of 0.75% to 1.00%. With the rate rise well signalled, the market focus was on the Summary of Projections (SEP). The SEP showed very little change in the economic projections and no change in the median expected fed funds rate at the end of 2017 (1.4%) or 2018 (2.1%). That is, a total of three increases (two remaining) in 2017 and a further three in 2018. Market pricing implies more than one hike is expected by the end of 2017, with two hikes fully priced in by mid-2018.

Inflationary pressures continue to build in the US. Annual headline PCE inflation (the Fed's preferred measure) rose to 1.9% in January, while core PCE inflation increased to 1.7%. In February, annual headline CPI inflation lifted 0.1%-ppts to 2.7%, while core inflation eased to 2.2%. Robust jobs growth points to a tightening labour market, with 235,000 non-farm jobs created in February, above market expectations of around 190,000.

…followed by the People's Bank of China…

In China, the People's Bank made an unscheduled increase in interest rates across a number of instruments hours after the US Fed announcement, which helped preserve the differential between domestic and US interest rates.

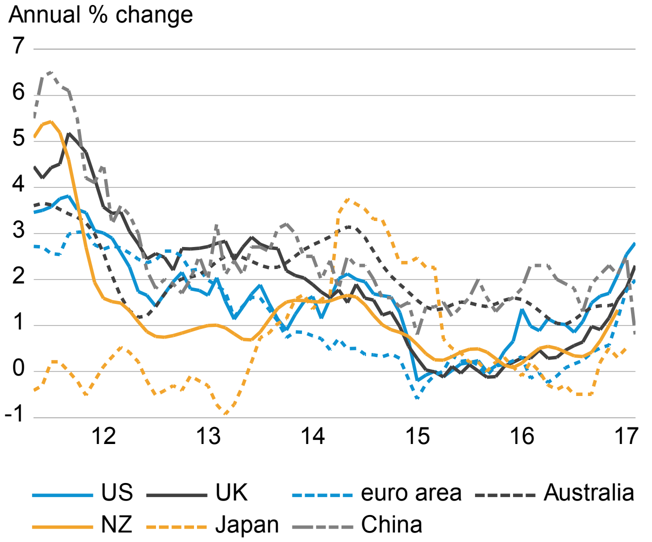
…while other central banks remained on hold

The Bank of Japan (BoJ), Bank of England (BoE), Bank of Australia (BoA) and European Central Bank (ECB) all held policy rates and settings unchanged this month.

In Japan, annual CPI inflation rose to 0.4% in January, while annual core inflation was positive for the first time in over a year, at 0.1% (Figure 9). With inflation still low, BoJ Governor Kuroda stated there is "no reason" to raise the bank's bond yield targets.

In the UK, February CPI inflation came in above market expectations at 2.3% yoy (2.1% expected) and above the BoE's target. Annual core inflation was 2.0% (1.7% expected). BoE Governor Mark Carney said in October last year that the Bank was willing to tolerate a small overshoot, but with inflation expected to rise to 2¾ % in early 2018, market commentators are wondering just how much inflation the BoE is prepared to tolerate. At its latest meeting, the tone from the BoE was slightly more hawkish than markets had expected with some members seeing a case for a more immediate withdrawal of stimulus if price pressures or activity surprised to the upside.

Figure 9: International inflation – headline CPI



Source: Haver

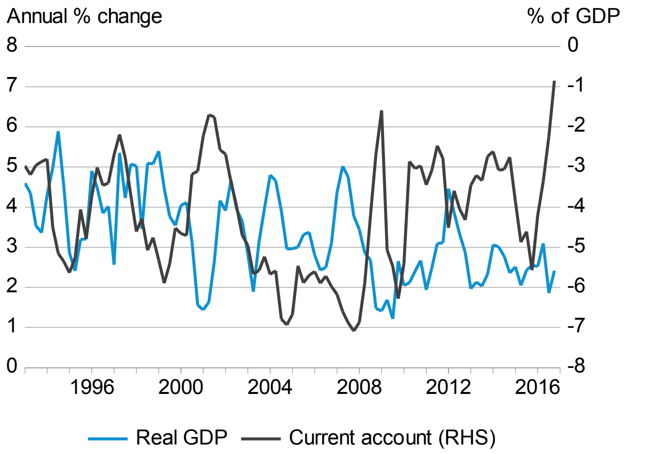
In Australia, the RBA's decision to hold the cash rate at 1.50% was in line with market expectations. However, analysts continue to focus on what they perceive to be growing unease within the RBA as to the efficacy of prudential measures to limit rising household leverage. The potential for interest rate cuts to exacerbate the fragility of household balance sheets is thought to raise the threshold for a rate cut.

In the euro area, annual headline inflation rose to 2.0% from 1.8% in January, its highest rate since early 2013. However, annual core CPI was flat at 0.9%, where it has remained since December 2016, and the unemployment rate was steady at 9.6% in January. ECB President Draghi noted that risks of deflation had largely disappeared but a convincing upward trend in core inflation was yet to emerge. ECB forecasts for headline CPI inflation in 2017 and 2018 were raised 0.4%-points and 0.1%-points respectively to 1.7% and 1.6%, with 2019 unchanged at 1.6%. On growth, the ECB assessed risks to the economic outlook as "less pronounced" although still "tilted to the downside".

GDP growth resumes in Australia, current account deficit narrows

Real GDP in Australia grew 1.1% in the December 2016 quarter, following a 0.5% contraction in the September quarter, bringing growth to 2.5% for 2016 overall (Figure 10). Nominal GDP increased 3.0% in the quarter with a sharp rise in commodity export prices, fuelling a 16.5% rise in company profits. However, compensation of employees fell 0.5% in the quarter, the largest quarterly decline in two decades, partially reflecting ongoing slack in the labour market.

Figure 10: Australian GDP and current account deficit



Source: Haver

Australia's current account deficit narrowed sharply in the December quarter to -0.9% of GDP, the smallest deficit since 1979 (-2.4% of GDP previously, see Figure 10). Iron ore and coal export prices rose sharply in the quarter, moving the goods and services balance from a deficit of $A3.5bn in the September quarter to a $A7.4bn surplus.

Cyclone Debbie, a category four cyclone at its most fierce, travelled down the coast of Queensland late March. Affected regions include key producers of fruit and vegetables, coking coal, and sugar. The economic impacts are unclear at this stage, but are may affect June quarter activity, given its timing, and food price inflation.

Special Topic: March 2017 Business Talks

In the second week of March, Treasury officials met with around 20 businesses in Auckland, Wellington and Christchurch to discuss the outlook for the economy. The information gathered will be used to inform the Treasury's 2017 *Budget Economic and Fiscal Update*. The views summarised below are those of the businesses.

Activity remains strong…

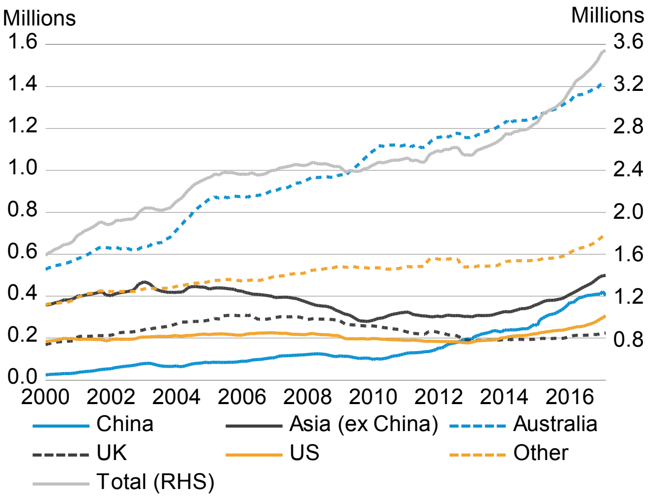
Overall, businesses were positive regarding recent activity and the prospects for the immediate future. Supported by strong population growth, high tourist numbers and the fact that "Kiwis seem to have a bit more money in their pockets", most businesses had experienced buoyant sales, which they expect to continue in the near term.

By region, Auckland and surrounding areas continue to outperform, while the South Island, with the exception of Queenstown, seems to be moving at a more gradual pace. In Christchurch, the peak of the residential rebuild has passed and, with it, the additional boost to demand for goods and services.

…particularly for tourism and construction…

Consistent with record-high tourist numbers (in excess of 3.5 million in the year to February, Figure1), activity in the tourism sector is particularly strong.

Figure 1: International visitor arrivals (annual sum)



Source: Statistics New Zealand

In the past few months businesses have noticed a pickup in growth from the US and South East Asia, which has offset slowing growth from China and the UK. An increase in relatively cheap alternative options available to Chinese travellers was noted as one of the reasons for slowing growth from China, while Brexit and the depreciation of the GBP that followed was said to be driving slower growth from the UK. That said, the upcoming Lions rugby tour is expected to lead to an increase in visitors from the UK later in the year.

Seasonal peaks in the tourism sector present challenges to firms around capacity optimisation. Some firms noted there is a degree of strategic under-capacity in the sector, which prevents them from having significant idle (and costly) capacity in the off-season. One implication of this is that prices and margins are higher than otherwise, particularly during the peak season when demand is strongest. That said, firms reported they have had some success in shifting demand into the shoulder season.

Overall, the outlook for tourism remains strong, as factors such as increased air capacity and income growth, particularly in emerging Asia, continue.

The construction industry is "busy" and is expected to remain that way for some time. That said, growth in construction activity was said to be constrained by a number of factors, including difficulty navigating financial and legal restrictions, difficulty finding skilled labour, and, in Auckland, logistical challenges owing to high congestion. These factors are driving construction costs and prices higher, while competition is keeping profit margins low.

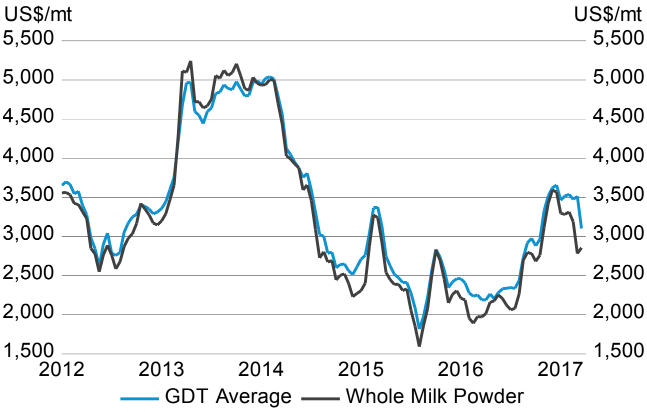
The retail sector remains buoyed by strong population growth and high tourist numbers, which are supporting growth in sales volumes and helping maintain profit levels. However, high competition, particularly from online sellers, is suppressing margins on a per unit basis. In addition, some retailers noted that poor weather over summer had dampened seasonal demand for apparel. On the other hand, demand for durable goods, such as whiteware, has been solid. This is partially attributed to ongoing strength in the housing market.

Overall, businesses noted a mild pickup in cost pressures, mostly with respect to labour, insurance and, to a lesser extent, rent. Strong domestic and international competition has limited the degree of retail pass-through of rising costs to prices, but with margins already squeezed, future cost increases are expected to drive prices higher.

…with optimism in the dairy sector building

The increase in dairy prices in the second half of 2016 and the recent improvement in weather conditions has seen farmer optimism recover somewhat. This is expected to have some positive downstream impact on businesses. However, firms anticipate this is likely to be limited largely to maintenance catch-up and possibly higher consumables spending as production this season finishes on a stronger note. With the sub-$5/Kg MS (and for most farmers, sub-cost) pay-out for the last two seasons still front of mind and some retracement of recent price gains (Figure 2), farmers are expected to remain cautious overall. Accordingly, larger-scale capital investment is expected to remain relatively muted.

Figure 2: Dairy prices



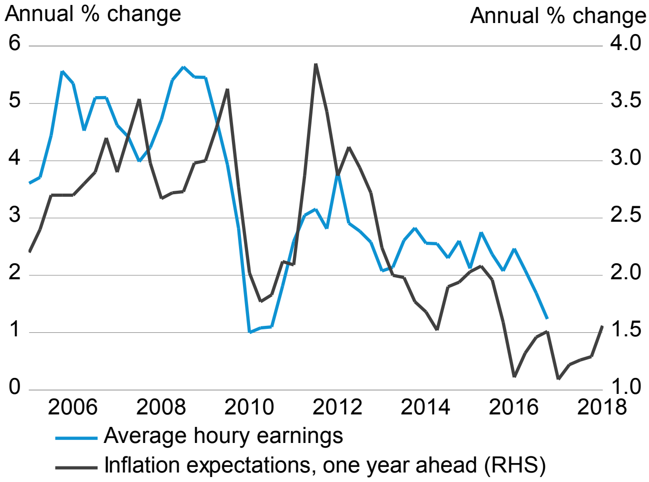
Source: GlobalDairyTrade

Employment and investment intentions positive

Consistent with Treasury expectations for solid employment growth and economic expansion, hiring intentions were positive overall. However, many firms noted they are experiencing difficulties finding skilled labour, particularly in IT, construction and chefs. In Auckland and Queenstown these difficulties extend to lower-skilled labour because of the high cost of living. In addition, Auckland firms noted that on top of the higher cost of living there, frustration around transport infrastructure and high commute times are adding to these difficulties. Businesses, particularly in the construction sector, said they are heavily reliant on net migration inflows to meet skill shortages. However, even with net migration inflows at record-highs, shortages remain.

Expectations for wage rises were generally in excess of medium run inflation expectations of around 2%, with skilled wage pressures significantly higher. While strong migration inflows are perceived to be keeping lower-skilled wage pressures muted, social pressures to increase wages above the minimum wage (eg. the living wage) are supporting wage growth at the lower end. Figure 3 suggests aggregate wage pressures are broadly consistent with inflation expectations.

Figure 3: Wages and inflation expectations



Source: Statistics New Zealand, Reserve Bank

Also consistent with a solid pace of economic expansion, a number of large-scale investment projects have either recently been completed, are underway or are due to start later this year. Investment intentions were evenly spread between IT and building physical capacity. However, in Auckland some firms noted that the benefits of expanding physical capacity were being eroded by the state of transport infrastructure, which is impairing the mobility of both customers and suppliers and making it difficult to service the city as a whole.

Implications for the outlook

The overall view of businesses was one of ongoing economic expansion, supported by solid population growth, high tourist numbers and positive employment and investment intentions. While there may be a number of factors constraining further growth in construction, the level of activity in the sector is expected to remain strong for some time. One of the bigger turn arounds in the last year has been the improvement in dairy prices. While average dairy farm incomes are likely to exceed average costs this season, there remains an understandably high degree of cautiousness within the sector, which will likely limit the benefit to downstream businesses.

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

		2015Q3	2015Q4	2016Q1	2016Q2	2016Q3	2016Q4	2017Q1
Gross Domestic Product (GDP)								
Real production GDP	qtr % chg[1]	1.0	1.0	0.7	0.8	0.8	0.4	...
	ann ave % chg	3.1	2.5	2.4	2.7	2.9	3.1	...
Real private consumption	qtr % chg[1]	0.6	1.4	0.4	2.1	1.4	0.4	...
	ann ave % chg	2.8	2.9	2.8	3.2	4.0	4.3	...
Real public consumption	qtr % chg[1]	-0.4	-0.1	1.2	0.1	1.2	1.1	...
	ann ave % chg	2.8	2.6	2.7	1.9	1.9	2.3	...
Real residential investment	qtr % chg[1]	2.6	1.5	4.4	5.1	0.6	0.1	...
	ann ave % chg	3.2	2.0	2.8	6.3	9.0	11.0	...
Real non-residential investment	qtr % chg[1]	2.9	-2.5	1.8	1.1	0.7	1.8	...
	ann ave % chg	4.3	2.2	2.4	2.4	1.9	3.4	...
Export volumes	qtr % chg[1]	2.2	0.1	-0.6	3.5	-1.1	-3.8	...
	ann ave % chg	7.6	6.8	5.5	4.9	3.1	1.6	...
Import volumes	qtr % chg[1]	-2.1	0.8	0.7	2.9	1.7	1.9	...
	ann ave % chg	5.6	3.6	2.1	1.3	2.4	4.2	...
Nominal GDP - expenditure basis	ann ave % chg	2.8	3.3	4.0	4.1	4.5	5.6	...
Real GDP per capita	ann ave % chg	1.2	0.6	0.4	0.6	0.9	0.9	...
Real Gross National Disposable Income	ann ave % chg	1.5	1.4	1.9	2.5	3.1	4.1	...
External Trade								
Current account balance (annual)	NZ$ millions	-8,529	-8,321	-7,821	-7,371	-7,618	-7,112	...
	% of GDP	-3.5	-3.4	-3.1	-2.9	-3.0	-2.7	...
Investment income balance (annual)	NZ$ millions	-9,581	-9,207	-8,752	-8,337	-8,221	-7,911	...
Merchandise terms of trade	qtr % chg	-3.8	-2.0	4.2	-2.0	-1.1	5.7	...
	ann % chg	-3.6	-3.2	-0.4	-3.8	-1.1	6.7	...
Prices								
CPI inflation	qtr % chg	0.3	-0.5	0.2	0.4	0.3	0.4	...
	ann % chg	0.4	0.1	0.4	0.4	0.4	1.3	...
Tradable inflation	ann % chg	-1.2	-2.1	-1.2	-1.5	-2.1	-0.1	...
Non-tradable inflation	ann % chg	1.5	1.8	1.6	1.8	2.4	2.4	...
GDP deflator	ann % chg	0.7	0.3	0.9	0.1	1.2	3.9	...
Consumption deflator	ann % chg	1.1	0.7	0.8	0.7	-0.1	0.6	...
Labour Market								
Employment (HLFS)	qtr % chg[1]	-0.3	1.1	1.2	2.4	1.3	0.8	...
	ann % chg[1]	1.4	1.4	2.0	4.5	6.1	5.8	...
Unemployment rate	%[1]	5.6	4.9	5.2	5.0	4.9	5.2	...
Participation rate	%[1]	68.3	68.3	68.8	69.7	70.1	70.5	...
LCI salary & wage rates - total (adjusted)[5]	qtr % chg	0.4	0.4	0.4	0.4	0.5	0.4	...
	ann % chg	1.6	1.5	1.6	1.5	1.7	1.6	...
QES average hourly earnings - total[5]	qtr % chg	1.0	0.3	0.3	0.5	0.5	-0.1	...
	ann % chg	2.3	2.1	2.4	2.1	1.7	1.3	...
Labour productivity[6]	ann ave % chg	0.8	0.5	0.8	-0.2	-1.2	-2.2	...
Retail Sales								
Core retail sales volume	qtr % chg[1]	1.3	1.4	1.0	2.5	0.2	0.6	...
	ann % chg	5.2	5.2	4.8	6.4	5.0	3.8	...
Total retail sales volume	qtr % chg[1]	1.6	1.3	0.9	2.2	0.7	0.6	...
	ann % chg	5.7	5.3	4.9	6.0	5.1	3.9	...
Confidence Indicators/Surveys								
WMM - consumer confidence[3]	Index	106	111	110	106	108	113	112
QSBO - general business situation[4]	net %	-14.5	14.7	1.7	18.6	25.7	28.3	...
QSBO - own activity outlook[4]	net %	21.7	21.6	3.8	16.8	39.2	27.0	...

Monthly Indicators

		2016M09	2016M10	2016M11	2016M12	2017M01	2017M02	2017M03
External Sector								
Merchandise trade - exports	mth % chg[1]	0.6	9.7	-11.7	9.2	0.9	-2.8	...
	ann % chg[1]	-5.7	3.0	-5.0	-0.2	0.3	-5.5	...
Merchandise trade - imports	mth % chg[1]	5.4	2.1	-8.6	3.9	3.6	0.1	...
	ann % chg[1]	0.8	0.1	-5.6	-1.0	7.2	4.0	...
Merchandise trade balance (12 month total)	NZ$ million	-3354	-3247	-3175	-3139	-3408	-3794	...
Visitor arrivals	number[1]	298,240	304,150	304,840	300,310	305,620	299,710	...
Visitor departures	number[1]	294,090	309,850	302,160	312,780	301,420	302,040	...
Housing								
Dwelling consents - residential	mth % chg[1]	1.1	0.0	-8.9	-7.9	0.8	...	...
	ann % chg[1]	16.6	9.6	6.1	-13.1	3.4	...	...
House sales - dwellings	mth % chg[1]	-5.2	-8.7	4.0	-1.9	-6.1	1.1	...
	ann % chg[1]	-9.5	-14.2	-5.9	-10.7	-14.7	-14.2	...
REINZ - house price index	mth % chg	1.3	0.3	0.8	0.3	-0.9	0.4	...
	ann % chg	9.7	14.4	14.9	13.5	11.7	10.5	...
Private Consumption								
Electronic card transactions - total retail	mth % chg[1]	2.0	0.5	0.0	0.1	2.7	-0.6	...
	ann % chg	6.1	4.2	5.1	5.8	5.6	2.6	...
New car registrations	mth % chg[1]	-1.6	3.1	-1.0	-2.0	1.4	0.2	...
	ann % chg	8.6	13.1	13.3	7.8	12.2	7.3	...
Migration								
Permanent & long-term arrivals	number[1]	11,020	11,110	11,020	10,940	11,340	11,070	...
Permanent & long-term departures	number[1]	4,650	4,880	4,820	4,930	4,920	5,070	...
Net PLT migration (12 month total)	number	69,954	70,282	70,354	70,588	71,305	71,333	...
Commodity Prices								
Brent oil price	US$/Barrel	46.57	49.52	44.73	53.22	54.58	54.87	*49.45*
WTI oil price	US$/Barrel	45.20	49.81	45.73	52.06	52.56	53.46	*52.52*
ANZ NZ commodity price index	mth % chg	3.9	2.1	3.2	2.0	-1.1	0.6	...
	ann % chg	-5.0	-4.6	3.0	9.4	8.6	9.2	...
ANZ world commodity price index	mth % chg	5.1	0.7	3.2	0.7	-0.1	2.0	...
	ann % chg	10.6	4.0	13.6	16.5	19.1	20.9	...
Financial Markets								
NZD/USD	$[2]	0.7309	0.7159	0.7153	0.7049	0.7126	0.7220	*0.7009*
NZD/AUD	$[2]	0.9634	0.9395	0.9489	0.9579	0.9547	0.9428	*0.9203*
Trade weighted index (TWI)	June 1979 = 100[2]	77.84	76.87	77.93	78.12	78.55	78.78	*76.60*
Official cash rate (OCR)	%	2.00	2.00	1.75	1.75	1.75	1.75	1.75
90 day bank bill rate	%[2]	2.23	2.15	2.07	2.03	1.98	2.02	*1.97*
10 year govt bond rate	%[2]	2.40	2.54	2.99	3.33	3.23	3.29	*3.30*
Confidence Indicators/Surveys								
ANZ - business confidence	net %	27.9	24.5	20.5	21.7	...	16.6	...
ANZ - activity outlook	net %	42.4	38.4	37.6	39.6	...	37.2	...
ANZ-Roy Morgan - consumer confidence	net %	121.0	122.9	127.2	124.5	128.7	127.4	125.2
Performance of Manufacturing Index	Index	57.5	55.1	54.4	54.3	52.2	55.2	...
Performance of Services Index	Index	54.5	56.8	58.3	58.5	59.5	58.8	...

qtr % chg	quarterly percent change
mth % chg	monthly percent change
ann % chg	annual percent change
ann ave % chg	annual average percent change

1 Seasonally adjusted
2 Average (11am)
3 Westpac McDermott Miller
4 Quarterly Survey of Business Opinion
5 Ordinary time
6 Production GDP divided by HLFS hours worked

Sources: Statistics New Zealand, Reserve Bank of New Zealand, NZIER, ANZ, Haver, Westpac McDermott Miller, ANZ-Roy Morgan, REINZ, BNZ-Business NZ