THE TREASURY
Kaitohutohu Kaupapa Rawa

Monthly Economic Indicators

New Zealand Government

July 2017

Executive Summary

- **The unemployment rate fell to 4.8% as labour force participation declines.**
- **Annual CPI inflation was 1.7%, lower than expectations.**
- **House prices, and sales volumes fell, driven by weaker Auckland activity. Building consents fell slightly in the month but were broadly flat for the quarter.**
- **Dairy export values rose, and Fonterra increased its forecast farmgate milk price for the 2017/18 season.**
- **Internationally, the labour market puzzle of low wage growth despite the falling unemployment rate has continued.**

The number of people employed fell by 4,000 (0.2%) in the June quarter, and the labour force fell by 6,000 people (0.2%), despite ongoing population growth. The number of unemployed fell by 3,000 leading to the unemployment rate falling to 4.8% from 4.9%. There was still little sign of building wage pressures, with annual growth in QES ordinary time hourly earnings lifting only slightly from 1.5% to 1.6%.

Consistent with low nominal wage growth, annual CPI inflation was lower than expected, at 1.7%. Measures of underlying inflation were also weaker, but firms' pricing intentions are consistent with higher rates of inflation.

Conditions in the housing market continued to ease, with much of the weakness coming from Auckland, where house prices were down 0.6% from a year ago. Building consents were down slightly in the month and broadly flat for the quarter, consistent with a pause in building activity growth in 2017.

Dairy export values rose 11.6% in the month and Fonterra increased its farmgate milk price forecast for the 2017/18 season by 25 cents to $6.75 per kg of milk solids.

Internationally, headline inflation has continued to weaken around the world, partly driven by lower oil prices and low wage growth. The labour market puzzle of low wage growth despite a falling unemployment rate has continued globally. Economic growth has picked up in the US and the EU but has weakened in the UK.

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Analysis

Indicators of spare capacity and inflation pressures released in July were mixed, with wage growth and Consumers Price Index (CPI) inflation subdued, but the NZIER's Quarterly Survey of Business Opinion (QSBO) suggesting that labour is more difficult to find and that firms intend to raise prices. Dairy export values continued to increase and Fonterra increased its forecast for the 2017/18 season. Indicators from the housing market softened, with lower prices and sales. Consents fell slightly in the month, but were flat in the quarter.

Employment contracted slightly...

According to the Household Labour Force Survey (HLFS), the total number of people in employment fell by 4,000 (-0.2%) in the June 2017 quarter (Figure 1), owing to fewer people in part-time employment (-1.8%) offsetting a rise in full-time employment (0.7%). The fall in employment contrasted to both the Treasury's and market expectations of an increase in employment of 0.6-0.7% in the quarter, after a net 13% of firms in the NZIER's Quarterly Survey of Business Opinion (QSBO) reported that they had increased their number of employees, similar to the share in the March quarter. The decline in employment saw the employment rate fall 0.4 percentage points to 66.7%.

This is the first quarter in which annual comparisons are not affected by the HLFS design change in the June quarter of 2016. The number of people employed increased by 76,000 (3.1%) in the year to June 2017, with the majority of the increase (61,000) from those in full-time employment.

While HLFS employment suggested relatively muted growth in the demand for labour, other measures were more positive. Total actual hours worked increased 1.0% in the quarter (although annual growth eased to 2.6% due to the weak March quarter) and Quarterly Employment Survey (QES) full-time equivalent employees (FTEs) and filled jobs rose 0.7% and 1.0% respectively.

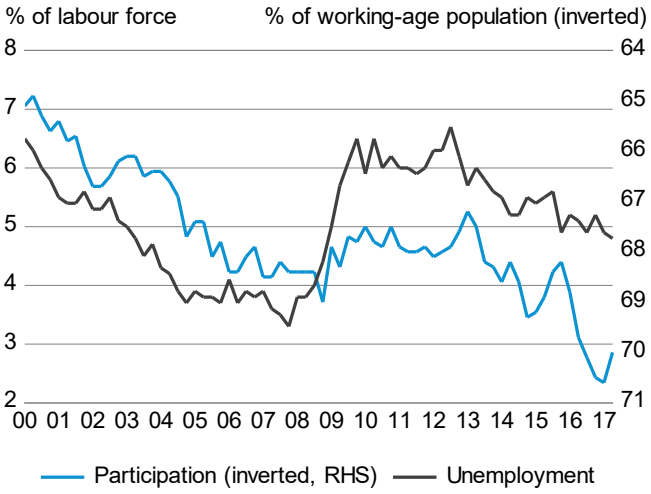
…but with fewer people in the labour force…

The labour force contracted by 0.2% (6,000 people) in the quarter as a 0.6 percentage point fall in the participation rate to 70.0% more than offset the 0.5% (19,000) increase in the working age population. This meant that the number of people not in the labour force increased by 2.4% (27,000). The June quarter result contrasts with preceding quarters that were characterised by strong expansion of the labour force as a result of rising participation rates and high working age population growth.

…the unemployment rate fell

The number of unemployed fell by 3,000 to 128,000 and the unemployment rate fell from 4.9% to 4.8% (Figure 2), in line with market expectations. The underutilisation rate fell from 12.3% to 11.8%, chiefly owing to fewer underemployed people (part-timers who would like more hours).

Figure 1: Unemployment and participation rates

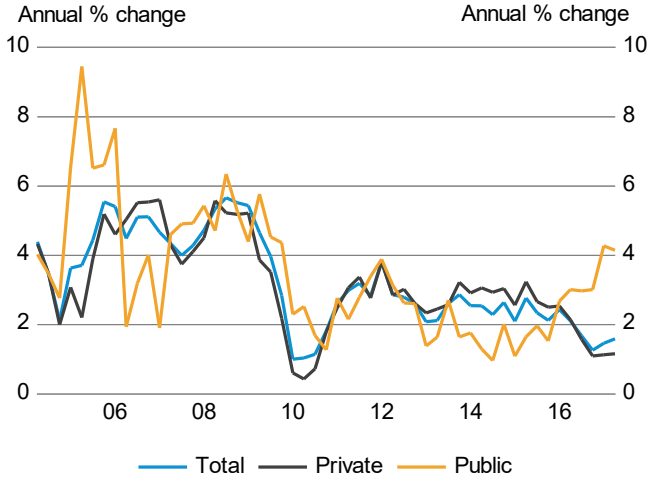


Source: Statistics NZ

Wage pressures remain subdued

Annual growth in QES ordinary time hourly earnings lifted to 1.6%, from 1.5% in March. Public sector wage growth eased in the quarter but remains high on an annual basis at 4.1%, chiefly due to the large increase in the March quarter. Annual private sector growth lifted marginally to 1.2%, from 1.1% in the previous two quarters. Subdued wage pressures are consistent with our view that some spare capacity remains in the labour market.

Figure 2: Ordinary time hourly wages



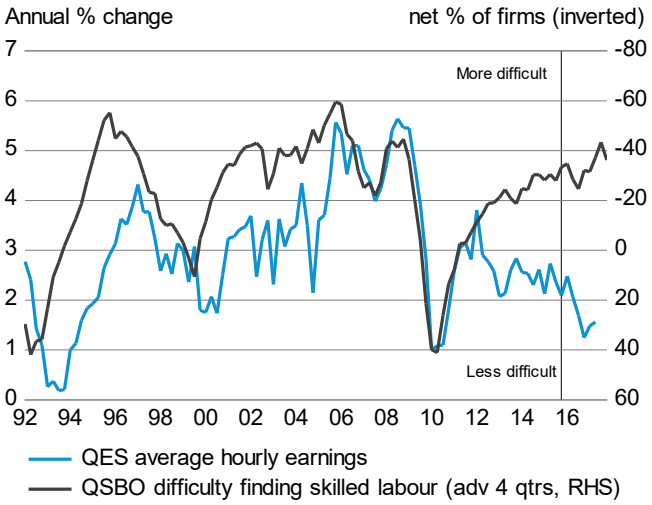
Source: Statistics NZ

Annual growth in the ordinary time Labour Cost Index (LCI), which measures changes in wages and salaries for a fixed quantity and quality of labour (i.e. approximates unit labour costs), increased slightly to 1.7% for all sectors combined and to 1.6% for the private sector (both up 0.1%).

Most measures of wage growth remain around or below the rate of annual consumer price inflation, which was 2.2% in March, before easing to 1.7% in June. Some households may be responding to higher living costs by increasing the numbers of hours they work, with average weekly paid hours for FTEs 0.4% higher than a year ago. This has helped to lift annual growth in average ordinary time weekly earnings to 2.0%, broadly in line with inflation.

The QSBO's measure of the difficulty finding labour continues to point to higher wage growth, but after diverging from wage growth in 2012 it has been a less reliable lead indicator. The QSBO showed a net 22.9% of firms had difficulty finding unskilled labour, down from 24.1% in March but up from 13.0% in June last year. A net 46.6% of firms had difficulty finding skilled labour, up from 38.8% last year. Weak inflation will be part of the reason for slower wage growth, but it is less clear why the relationship between difficulty finding labour and wage growth continues to diverge (Figure 3).

Figure 3: Wage growth and difficulty finding labour



Source: NZIER, Statistics NZ

Looking ahead, we expect annual economic growth to remain around or a little higher than current levels over the year ahead, which should have a positive flow-on effect to employment growth. We expect this to be matched by growth in the labour supply, which is being materially increased by migration as well as high participation, leading to a broadly flat unemployment rate over the year ahead. With some spare capacity still in the labour market, wage pressures are expected to remain modest for the economy as a whole in 2017, despite greater pressure in some sectors.

CPI inflation lower than expected…

Annual Consumers Price Index (CPI) inflation was 1.7% in the year to June, down from 2.3% in March and below our Budget Economic Update forecast of 1.8% and the Reserve Bank's May MPS forecast of 2.1%.

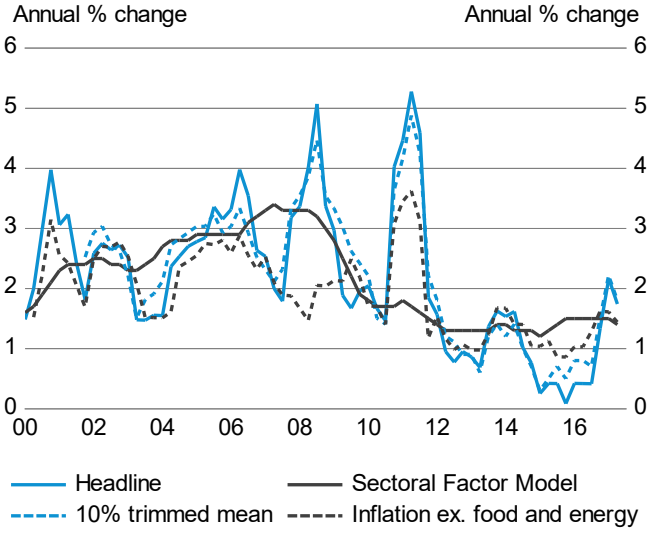
Inflation was flat in the quarter. The groups with the largest quarterly increases were food and housing and household utilities (up 0.7% and 0.8% respectively). However all increases were entirely offset by falls elsewhere, with the largest falls coming from transport and communications (down 1.3% and 1.8% respectively).

Annual non-tradables inflation was 2.4% and annual tradables inflation was 0.9%. Tradables inflation was in line with expectations, but non-tradables inflation was expected to be higher. The weakness in non-tradables inflation was driven in part by declines in domestic airfares and accommodation services.

…with core measures also weaker…

Measures of underlying inflation attempt to look through quarterly volatility, and can therefore be a more reliable indicator of how inflation is tracking. Most measures of underlying inflation fell: the 10% trimmed mean measure of annual inflation fell from 2.2% to 1.8%; the quarterly weighted mean measure fell from 2.2% to 2.0%; the Reserve Bank's sectoral factor model estimate of core inflation fell from 1.5% to 1.4%; and inflation excluding food and energy fell from 1.6% to 1.4%.

Figure 4: Measures of underlying inflation



Source: RBNZ, Statistics NZ

But other indicators suggest inflation could be stronger…

Looking at firms' own pricing intentions, the QSBO showed a net 24% of firms expected to increase selling prices next quarter, and the ANZ's Business Outlook survey showed a net 27.6%. Both of these were down from March, but above recent averages,

and to the extent they are realised, point to an increase in inflation. ANZ's Business Outlook showed inflation expectations fell from 2.03% last month to 1.98%.

The QSBO capacity utilisation measure (CUBO) fell, from 93.6% to 92.1%, but sits above the 5-year average of 91.8%. The labour market measures of capacity were mixed, the fall in employment suggested there could be more spare capacity, although total hours worked increased 1.0% and the unemployment rate fell.

Overall, there are mixed indicators for the outlook for inflation. Firms' pricing intentions are probably consistent with higher rates of inflation but have got to translate into actual, sustained increases, while wage growth has been subdued. Measures such as CUBO are elevated, but again not that different to the average of the past 5 years, during which inflation outturns have been weak.

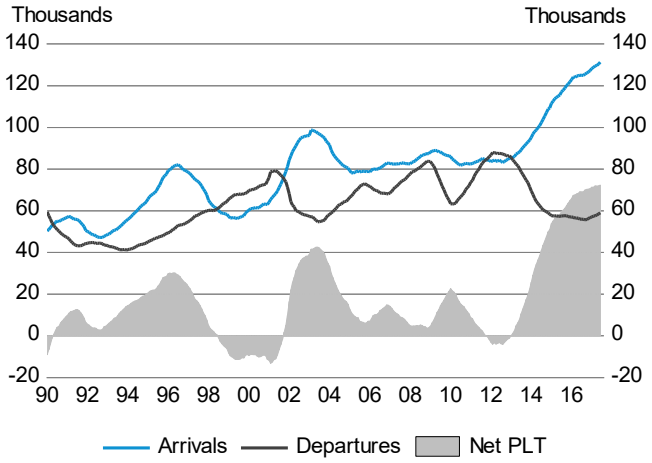
Annual inflation is expected to remain below 2% for the next year, owing to petrol price decreases and a high exchange rate. In 2018 inflation is expected to pick up to around 2% as the degree of spare capacity in the economy diminishes.

Migration reaches new record

Annual net permanent and long term (PLT) migration reached a new high of 72,300 in June, with a net 6,350 (sa) PLT migrants arriving in the month. Annual departures have started to increase, and in June were at the level they were in 2014 (59,100). However annual arrivals continued climbing to a record high (131,400).

International visitor arrivals also grew strongly in June fuelled by the Lions tour. There were 23,400 British and Irish visitors, 16,700 more than June last year.

Figure 5: Permanent and long-term migration

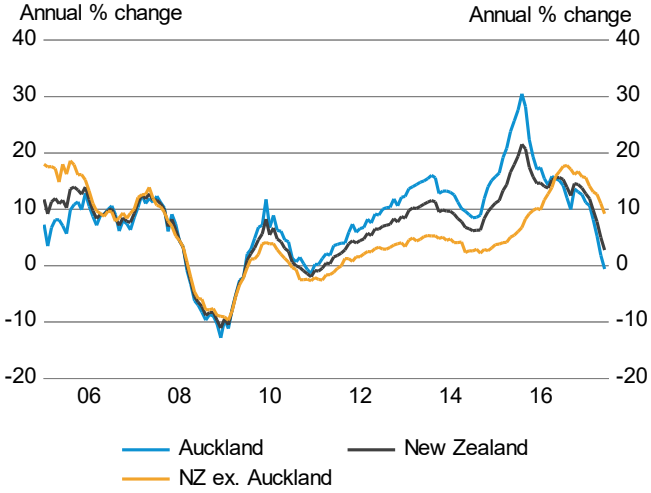


Source: Statistics NZ

Auckland drives softer housing activity…

Conditions in the housing market eased further, with the New Zealand house price index (HPI) down 0.7% (sa) in the month. Much of the weakness continued to come from Auckland, where the HPI fell 1.0% (sa), with prices flat elsewhere. For the quarter as a whole the New Zealand HPI fell 0.3% (sa), the first quarter to do so since 2010. From a year ago, the New Zealand HPI was up 2.8%, but fell 0.6% in Auckland.

Figure 6: New Zealand house price inflation

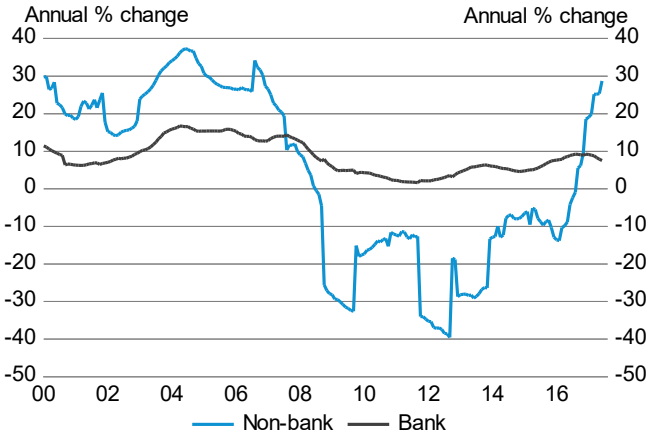


Source: REINZ

House sales volumes also fell in the month, down 6.3% (sa) for New Zealand, and 5.9% (sa) for Auckland. On an annual basis, sales were down 24.7% for New Zealand and 33.2% for Auckland.

The weaker price growth and sales have been influenced in part by changes to LVR restrictions in October last year, requiring investors to have a 40% deposit. Total new mortgage lending in the year to June was 10.1% lower than the year prior, and investor lending drove the fall, down 30.0%. Lending to first home buyers and other owner occupiers fell marginally. Although total mortgage lending has slowed, mortgage lending from non-bank lending institutions (NBLIs) has accelerated in recent months, up 28.8% from a year ago (although it still makes up a small proportion of total mortgage lending). NBLIs are not affected by LVR restrictions, so borrowers declined by banks might seek a loan from NBLIs (likely at a higher interest rate).

Figure 7: Non-Bank and Bank mortgage lending



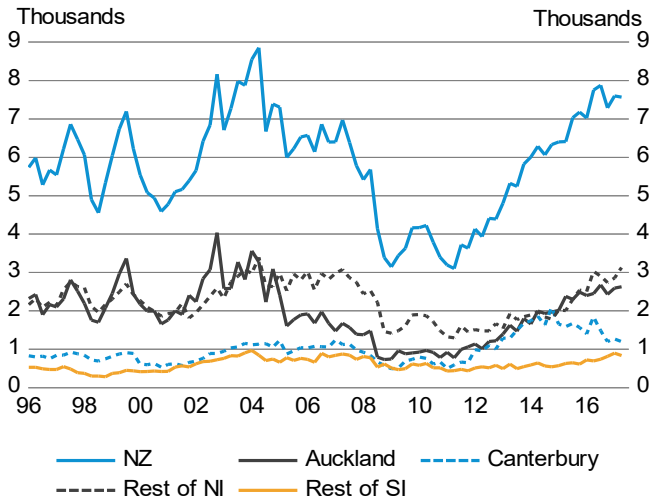
Source: RBNZ

Other factors at play likely include affordability constraints, with prices reaching levels in Auckland that limit the number of potential buyers, as well as slight increases in mortgage interest rates and tighter availability of credit. Despite Auckland being the source of weaker price growth, it is still the region with the most pronounced underlying demand, fuelled by high net migration.

..and consent issuance flattens…

The number of new dwelling consents fell 1.0% (sa) in the June month, and was down 0.4% (sa) in the quarter. Consents have been broadly flat since the start of 2016, despite expectations of continued growth. Much of the weakness has come from Canterbury, as earthquake rebuild activity subsides. However, the upward trend in Auckland has also flattened.

Figure 8: Residential dwelling consents (quarterly)



Source: Statistics NZ

The QSBO's indicator of the main 'limiting factor' for builders in June had orders (a proxy for demand) at an all-time low of 28.1%, meaning capacity constraints such as labour, capital, and finance may be the main influences limiting growth in building activity, rather than softer demand.

We expect the flatness in consents and falls in sales to translate to a pause in real residential investment growth, which we have already started to see with a fall of 1.6% (sa) in the March quarter. However, as the population fuelled demand continues to grow, and the capacity of the construction sector expands, we expect growth to resume towards the end of 2017.

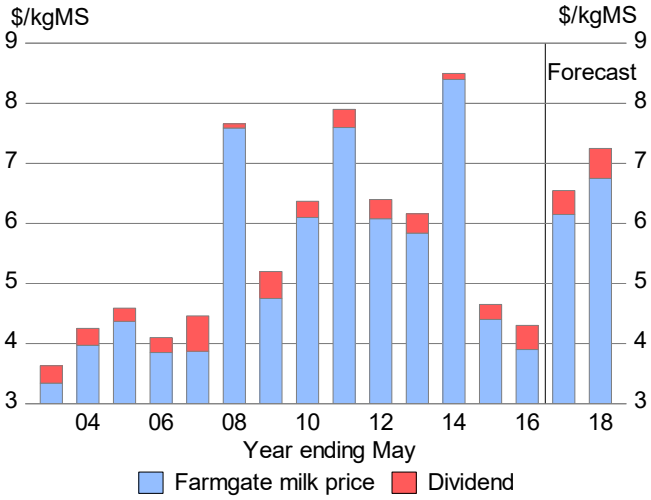
Dairy helps goods balance

The GDT price index was broadly flat through June and July, but up 56.4% from July last year after strong gains at the end of 2016. The ANZ commodity price index rose 2.1% in June, up 25% from last year. The increases were broad based, but meat, dairy and horticultural products, which have been the strongest performers in the past few months, maintained their momentum.

Reflecting the strong gains in dairy prices, the merchandise trade data showed that the value of dairy exports rose 11.6% (sa) in the June month. In the quarter, dairy exports rose more than any other category, up 22.2% (sa) ($679 million) with a 19.6% (sa) rise in volumes. All major import categories posted a rise in the quarter except passenger motor cars, which fell 2.6% (sa). That said, passenger motor cars imports were up over 18% on a year ago. The annual merchandise trade deficit narrowed $135 million from May to $3.7 billion, with annual exports up 0.9% ($454 million) to $49.9 billion and annual imports up 0.6% ($319 million) to $53.5 billion.

Fonterra has responded to higher milk prices by increasing its forecast farmgate milk price for the 2017/18 season by $0.25 to $6.75 per kg of milk solids. Including the forecast dividend of 45 to 55 cents, the expected total pay-out would be $7.20 to $7.30, up from $6.55 forecast for last season. This will enable farmers to begin paying down the debt which increased during the 2014/15 and 2015/16 seasons.

Figure 9: Fonterra milk price and dividend



Source: Fonterra

US data was mixed

As widely expected, the US Federal Reserve (the Fed) left interest rates unchanged in July at the range of 1.00-1.25%. The Committee acknowledged that recent inflation outcomes had been weaker than expected and were below the target level. However, they continued to stress that they still believe that inflation will "stabilize around the Committee's 2 percent objective over the medium term". The Committee noted their intention to begin unwinding the balance sheet "relatively soon", which analysts believe may be as soon as the Fed's September meeting, depending on data flows before then. Earlier in the month the minutes from the May meeting showed some division between Committee

members as to the appropriate timing of balance sheet normalisation. Some members indicated that they would prefer to announce the process within the next couple of months, while others favoured deferring until later in the year.

The US dollar has continued to fall throughout July, with declines of almost 3% in the month. This brings the USD to its lowest value in over a year and amounts to a 10% decline since the start of the year. The continued decline is primarily the result of political uncertainty, particularly with Senate Republicans unable to pass a healthcare reform bill, raising questions about the ability of Republicans to pass other legislation that the market had previously assumed would help lift US growth.

US data outturns this month have been mixed, with stronger jobs growth and GDP but weaker inflation and wage growth. Non-farm payrolls came in stronger than expected, but showed that wage growth continues to lag behind employment growth. The employment report showed a net 222,000 new jobs compared to 155,000 in May. A higher participation rate meant that the unemployment rate ticked up from 4.3% in May to 4.4% in June, though it remains around the lowest levels in over a decade. Despite this, wage growth continues to remain low with hourly earnings up 2.3% yoy in June, down from 2.4% in May. Inflation was flat in June, leaving full year inflation at a weaker-than-expected 1.6%, down from 1.9% in May. Core inflation was unchanged from May at 1.7%. The Fed's target measure of inflation, the core PCE deflator, also suggests inflationary pressures remain muted, with the June quarter outturn showing full year inflation of 1.5%, falling from 1.7% in March.

US GDP growth in the June quarter was 0.6%, up from a downwardly revised 0.3% in March. This brought full year growth up slightly to 2.1% in June from 2.0% in March.

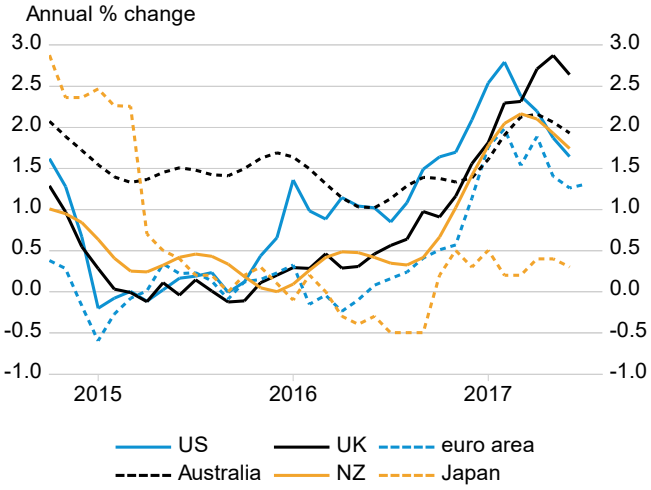
Market expectations of monetary tightening continue to remain more subdued than the Fed's forecasts, with an additional hike not fully priced in for more than a year. The next rate decision by the Fed is in September and will be accompanied by an updated set of economic forecasts.

Weaker inflation and wage growth dampens monetary policy outlook in the UK…

The labour market puzzle of low wage growth despite a falling unemployment rate has continued as a global theme, with the UK being no exception. The UK unemployment rate fell to 4.5% in May, its lowest level in more than 40 years. This puts it in line with the Bank of England's current estimate for the NAIRU. However, annual average earnings (including bonuses) rose just 1.8% in May, down from 2.1% in April and well below current annual CPI inflation despite a softening in June.

Inflation was flat in June, bringing annual inflation to 2.6% down from 2.7% in May. Annual core inflation also fell, to 2.4% from 2.6% in May.

Figure 10: Global inflation downturn continues



Source: Haver

The initial estimate of UK GDP in the June quarter showed annual growth slowing in line with market expectations. GDP growth slowed to 0.3% in the second quarter, following a weak 0.2% in March and down from 0.7% in December. This brought annual GDP growth down to 1.7%, from 2.0% in March.

Some analysts have noted that weaker data this month will dampen the outlook for monetary policy. In particular Governor Mark Carney recently stated that he would want to see wage growth pick up before he voted to raise interest rates. Implied market probabilities of a rate increase have fallen over the month, and are now less than 50% by the end of 2017.

...in Australia…

Australia experienced another strong month of jobs growth in June, with annual employment growth steady at 2%. The participation rate edged up slightly to leave the unemployment rate unchanged at 5.6% (after an upwards revision to the rate in May). However, the Australian Bureau of Statistics' estimate of trend unemployment fell from 5.7% to 5.6%, suggesting a continued tightening in the labour market. Globally, wages have been fairly unresponsive to tightening labour markets and analysts will be watching Australian wage growth to see if this trend persists.

Annual headline inflation fell outside the Reserve Bank of Australia's (RBA) target range of 2-3%, to 1.9%, down from 2.1% in March. Annual core inflation was 1.8% down from 2.1% in March but in line with market expectations. The weaker outcome was largely driven by deflation in fuel (down 2.5%) and food prices (down 0.3%). Following the release the Governor of the RBA, Philip Lowe, delivered a speech that highlighted that spare capacity in the labour

market would need to be used up before any significant change in wage pressures occurs. He also noted that the monetary tightening cycles beginning to take hold around the world have “no automatic implications for monetary policy in Australia”.

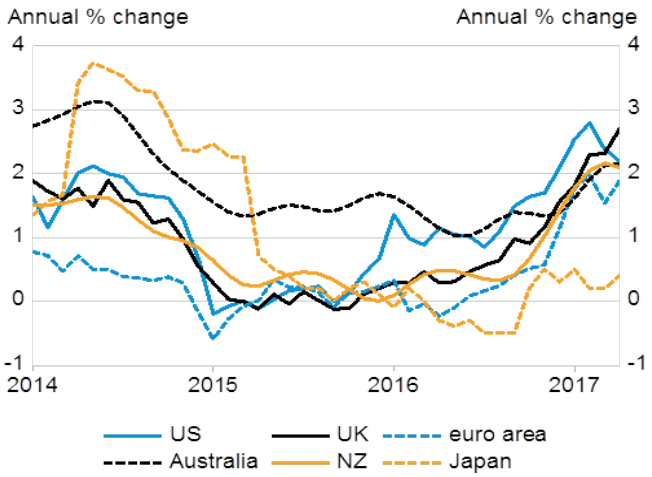
The RBA left rates on hold in July, as widely expected. However, the Australian dollar weakened slightly on release, possibly reflecting that some analysts were expecting the Bank to adopt a more hawkish tone in line with a growing trend from central banks globally. The implied market probability of a rate rise had increased over most of July but unwound recently, partly due to the weak inflation data and Lowe’s comments on capacity and global monetary policy. Market pricing currently implies that an interest rate increase still is unlikely in the near term, with a less than 50% chance of an increase in the next year.

…and in Europe.

In Europe, headline inflation fell in June, but by less than expected. Annual headline inflation fell from 1.4% in May to 1.3% in June, while annual core inflation rose from 0.9% in May to 1.1% in June. The European Central Bank (ECB) left rates on hold in July, as widely expected. However, they did not remove the current guidance around quantitative easing (QE) as some analysts had expected. The minutes of the previous meeting showed discussion around the removal of a reference to QE from the announcement but decided not to drop it in order to avoid causing “premature tightening of financial conditions”. At the July meeting ECB President, Mario Draghi, did note that financial conditions were improving and remained appropriate to bring inflation back to target, adding to perceived hawkishness from central banks globally.

The initial estimate of euro area GDP showed growth picking up in the June quarter to 0.6%, up from 0.5% in March. This brought annual GDP growth up to 2.1% from 1.7% in March.

Figure 11: GDP growth remains mixed in advanced economies



Source: Haver

China beats growth targets

GDP growth in China showed the economy is continuing to perform above the official target level as annual GDP growth in the June quarter remained unchanged from March at 6.9%. This was stronger than markets had anticipated and above the official target for 2017 of 6.5%.

The strong growth figure was supported by robust underlying data with fixed asset investment, retail sales and industrial production all beating expectations. Full year growth in industrial production was 7.6% in June, up from 6.5% in May. Retail sales growth also rose with full year growth at 11.0% in June, up from 10.7% in May and above the 2017 target of 10%. Annual growth in fixed asset investment was 8.6%, unchanged from May and slightly below the official target of 9.0%. The strong results provide China some flexibility in the second half of 2017 to achieve their overall growth targets.

CPI inflation fell 0.2% in June leaving the annual rate unchanged from May at 1.5%. Behind the headline number was less deflation in food prices which was more than offset by weaker inflation in non-food prices.

Weak inflation in Japan pushes out return to target

Annual headline inflation in May was unchanged from April at 0.4%. The Bank of Japan’s preferred measure of core CPI was flat from a year ago, with annual core inflation at 0.0%, slightly below expectations. As widely expected, the Bank of Japan left rates on hold in July. While the Bank upgraded its forecasts for near term growth, it downgraded its forecasts for inflation. In particular, the Bank pushed out the date it expects to bring inflation back to target by a year to 2019.

Special Topic: Adjusting for level shifts in labour market data

Statistics New Zealand updated the design of the Household Labour Force Survey (HLFS) in the June 2016 quarter to improve the relevance of the survey. Some of the key changes included a new questionnaire that increased the amount of information on employment conditions and more effectively identified those that are employed, particularly self-employed, and including in the survey coverage parts of the armed forces that were previously excluded.

The change in the survey created level shifts in some of the HLFS series, including key indicators such as the number of people employed and the total actual number of hours worked each week, which have made annual and historical comparisons challenging. Recently, Statistics New Zealand have published estimates of the size of these level shifts.[1] This Special Topic uses these estimates to re-estimate recent trends in employment growth, hours worked and labour productivity (GDP per hour worked).

Methodology

To re-estimate the recent trends in the series in question, the central estimate of the level shift is used to calculate what the quarterly percentage change in the series would have been without the survey change (Table 1). This "adjusted" quarterly percentage change is then used to estimate the series' in the March quarter 2016 and then the official quarterly percentage changes are used to back out previous quarters. This is done all the way back to 1986, although the results may not be accurate more than a few years back if changes in the structure of the labour market mean the level shift is not a fixed proportion over time. In our view however, the method is likely to provide a reasonable approximation over the past year or so when the structure and dynamics in the labour market are likely to have remained fairly stable. A greater source of uncertainty is the confidence interval around the level shift estimates.

The above methodology generated adjusted series for number of people employed, number of people not in the labour force and total actual hours worked per week.[2] The labour force was then calculated as the working age population less those not in the labour force. Finally, employment, participation and unemployment rates were recalculated.

Table 1: HLFS for June 2016 quarter

	Level Shift Estimate (000s)*	Official Outturn (000s)
People Employed	50 (7 to 92)	2,454.3
Not in the Labour Force	-24 (-58 to +7)	1,134.4
Total Actual Hours Worked	2,550 (-370 to 5,470)	85,005

* Main figure is the central estimate, figures in brackets are the range at the 95% confidence interval

Source: Statistics NZ, Treasury

Number of people employed

The level shift in the number of employed was estimated at +50,000 (29,000 males and 21,000 females) in the June quarter 2016. This contributed to annual employment growth running at or near 6% over the second half of 2016 and into early 2017. Adjusting for the level shift, annual employment growth looks to have been closer to 3.5-4.0% over that period of time (Figure 1).

Figure 1: HLFS Employment (annual percentage change)

Source: Statistics NZ, Treasury

The nature of the survey design change meant that most of the data variation was concentrated in the employment and labour force measures. The re-estimated unemployment rate is virtually identical to the published unemployment rate, with any differences close to zero on average and well within the margin of error.[3] The level shift does appear to have affected the employment and participation rates,

[1] Investigation on the impact of the 2016 redevelopment on the Household Labour Force time series. http://on-cue.co.nz/Vinyak%20Anand-Kumar.pdf

[2] It is worth noting that the level shift estimate for hours worked was not statistically significant. Nonetheless, given its importance for labour productivity measures, adjusting for the level shift provides useful insights.

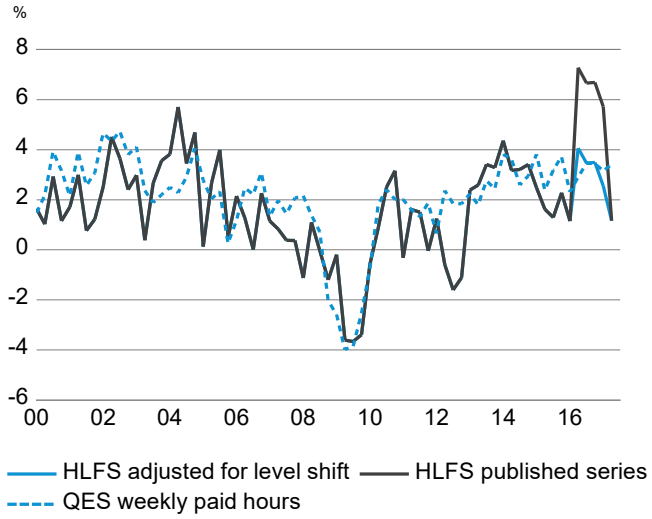
[3] There was a separate change to the definition of unemployment that also occurred during the June 2016 quarter. This change was backdated in the official unemployment series. The re-estimated series uses the new definition. For further information see: http://www.treasury.govt.nz/publications/research-policy/staff-insights/revised-household-labour

which are approximately 1.3 and 0.7 percentage points higher respectively based on these calculations. Both the employment and participation rates are currently at or close to record highs even after "adjusting" for the level shift.

Total actual hours worked per week

Total actual hours worked per week followed a similar pattern to the number of people employed, with annual growth around or above 6% through most of 2016. After adjusting for the level shift, annual growth was around 3.5% over the second half of 2016, easing to 1.2% by June 2017 (Figure 2). This appears to line up better with Quarterly Employment Survey (QES) total weekly paid hours annual growth of around 3.0-3.5% over the past year (although there is a material divergence by June 2017).

Figure 2: Total hours worked per week (annual percentage change)



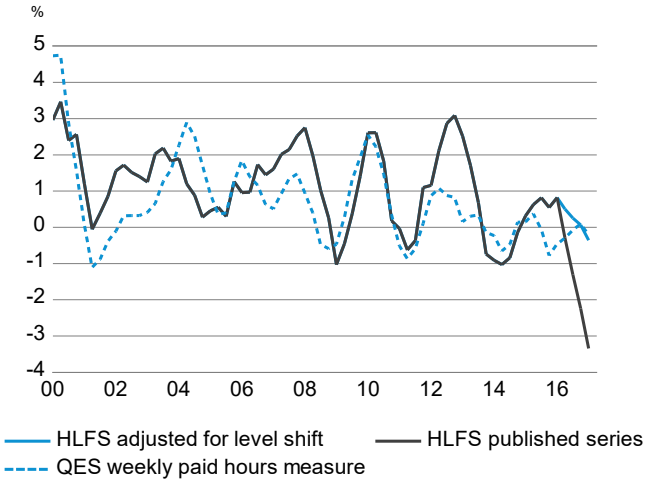
Source: Statistics NZ, Treasury

Labour productivity (GDP per hour worked)

A common and relatively timely measure of labour productivity is GDP per hour worked. Given that there has been no level shift in GDP (real production measure), the level shift upwards in hours worked meant that labour productivity underwent a level shift down. As a result, labour productivity growth was negative through most of 2016 and by March 2017 was 3.3% lower than a year ago (Figure 3).

Using the adjusted total hours worked series suggests that labour productivity didn't experience the large decline that earlier data implied. Nonetheless, labour productivity growth was estimated to still be negative in the year to March 2017 (-0.4%) and average productivity growth over the past four March years was essentially flat (-0.03%). Using the QES weekly paid hours series as the hours component of labour productivity gives similar results (-0.2% growth in the year to March 2017 and slightly negative labour productivity growth on average over the past four years), suggesting the adjusted HLFS measure is a reasonable approximation.

Figure 3: GDP per hour worked (annual average percentage change)



Source: Statistics NZ, Treasury

Conclusion

There were some relatively large changes to the HLFS last year that have an impact on some of the key economic indicators that the Treasury monitors (and show in the MEI Chart pack). The changes do not impact on economic growth itself but on its drivers: labour input and labour productivity. Now we have a few quarters of data under the new HLFS, Statistics New Zealand have been able to estimate the impact of the change. Their central estimates suggest that growth in labour input is lower (but still strong) and growth in labour productivity is less negative (but still weak) once the change in the HLFS survey is adjusted for. These changes will not be incorporated into the headline HLFS results given the wide range of uncertainty around the estimates (the old and new surveys were not run together), but are useful to help understand recent labour market developments.

Separate but less timely official productivity statistics are due to be published in March 2018. These statistics, which draw on different primary data sources (such as QES and the Linked Employer-Employee Data), will provide a better steer on productivity growth for the year to March 2017.

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

		2015Q4	2016Q1	2016Q2	2016Q3	2016Q4	2017Q1	2017Q2
Gross Domestic Product (GDP)								
Real production GDP	qtr % chg[1]	1.1	0.7	0.8	0.8	0.4	0.5	...
	ann ave % chg	2.5	2.4	2.7	3.0	3.1	3.0	...
Real private consumption	qtr % chg[1]	1.4	0.3	2.0	1.3	0.4	1.2	...
	ann ave % chg	2.9	2.8	3.2	3.9	4.1	4.6	...
Real public consumption	qtr % chg[1]	-0.1	1.2	0.2	1.2	1.0	1.0	...
	ann ave % chg	2.6	2.7	1.9	1.9	2.4	2.6	...
Real residential investment	qtr % chg[1]	1.3	4.8	4.9	0.7	0.1	-1.6	...
	ann ave % chg	2.0	2.8	6.3	9.0	11.1	10.2	...
Real non-residential investment	qtr % chg[1]	-2.4	1.8	0.9	0.6	1.9	2.3	...
	ann ave % chg	2.2	2.4	2.4	1.7	3.2	3.7	...
Export volumes	qtr % chg[1]	0.2	-0.5	3.5	-1.1	-3.2	-0.4	...
	ann ave % chg	6.8	5.5	4.9	3.3	1.9	1.0	...
Import volumes	qtr % chg[1]	0.5	0.6	2.5	1.5	1.8	1.3	...
	ann ave % chg	3.7	2.1	1.1	1.8	3.4	5.1	...
Nominal GDP - expenditure basis	ann ave % chg	3.3	4.1	4.1	4.4	5.4	5.6	...
Real GDP per capita	ann ave % chg	0.5	0.4	0.7	0.9	1.0	0.9	...
Real Gross National Disposable Income	ann ave % chg	1.4	1.9	2.5	3.0	3.9	3.9	...
External Trade								
Current account balance (annual)	NZ$ millions	-8,321	-7,821	-7,371	-7,618	-7,192	-8,132	...
	% of GDP	-3.4	-3.1	-2.9	-3.0	-2.8	-3.1	...
Investment income balance (annual)	NZ$ millions	-9,207	-8,752	-8,337	-8,221	-7,948	-8,308	...
Merchandise terms of trade	qtr % chg	-2.0	4.2	-2.0	-1.1	5.7	5.1	...
	ann % chg	-3.2	-0.4	-3.8	-1.1	6.7	7.7	...
Prices								
CPI inflation	qtr % chg	-0.5	0.2	0.4	0.3	0.4	1.0	0.0
	ann % chg	0.1	0.4	0.4	0.4	1.3	2.2	1.7
Tradable inflation	ann % chg	-2.1	-1.2	-1.5	-2.1	-0.1	1.6	0.9
Non-tradable inflation	ann % chg	1.8	1.6	1.8	2.4	2.4	2.5	2.4
GDP deflator	ann % chg	0.3	1.0	0.2	1.4	4.2	4.0	...
Consumption deflator	ann % chg	0.7	0.8	0.8	0.1	0.7	1.6	...
Labour Market								
Employment (HLFS)	qtr % chg[1]	1.0	1.2	2.4	1.4	0.7	1.1	-0.1
	ann % chg[1]	1.4	2.0	4.5	6.1	5.8	5.7	3.1
Unemployment rate	%[1]	4.9	5.2	5.1	4.9	5.2	4.9	4.8
Participation rate	%[1]	68.2	68.8	69.7	70.1	70.5	70.6	70.0
LCI salary & wage rates - total (adjusted)[5]	qtr % chg	0.4	0.4	0.4	0.5	0.4	0.4	0.4
	ann % chg	1.5	1.6	1.5	1.7	1.6	1.6	1.7
QES average hourly earnings - total[5]	qtr % chg	0.3	0.3	0.5	0.5	-0.1	0.5	0.6
	ann % chg	2.1	2.4	2.1	1.7	1.3	1.5	1.6
Labour productivity[6]	ann ave % chg	0.5	0.8	-0.2	-1.2	-2.1	-3.3	...
Retail Sales								
Core retail sales volume	qtr % chg[1]	1.5	0.8	2.5	0.2	0.7	1.2	...
	ann % chg	5.2	4.8	6.4	5.0	3.8	3.8	...
Total retail sales volume	qtr % chg[1]	1.3	0.8	2.2	0.7	0.9	1.5	...
	ann % chg	5.3	4.9	6.0	5.1	3.9	4.6	...
Confidence Indicators/Surveys								
WMM - consumer confidence[3]	Index	111	110	106	108	113	112	113
QSBO - general business situation[4]	net %	14.7	1.7	18.6	25.7	28.3	17.1	17.8
QSBO - own activity outlook[4]	net %	21.6	3.8	16.8	39.2	27.0	20.6	18.4

Monthly Indicators

		2017M01	2017M02	2017M03	2017M04	2017M05	2017M06	2017M07
External Sector								
Merchandise trade - exports	mth % chg[1]	1.7	-2.8	-3.6	17.1	-6.8	3.3	...
	ann % chg[1]	1.0	-5.3	9.3	8.5	7.9	10.7	...
Merchandise trade - imports	mth % chg[1]	3.7	0.8	-3.4	5.8	1.0	-3.0	...
	ann % chg[1]	7.2	4.8	7.9	4.7	14.9	7.7	...
Merchandise trade balance (12 month total)	NZ$ million	-3373	-3782	-3709	-3527	-3796	-3661	...
Visitor arrivals	number[1]	305,840	300,750	308,070	316,050	311,760	327,720	...
Visitor departures	number[1]	301,070	302,430	306,840	315,220	315,320	308,680	...
Housing								
Dwelling consents - residential	mth % chg[1]	3.7	15.5	-1.1	-8.1	6.9	-1.0	...
	ann % chg[1]	3.4	1.6	20.0	-10.8	10.9	-7.0	...
Private Consumption								
Electronic card transactions - total retail	mth % chg[1]	2.4	-0.4	-0.3	0.9	-0.4	0.0	...
	ann % chg	5.6	2.6	5.6	4.5	5.2	4.5	...
New car registrations	mth % chg[1]	1.6	0.5	3.3	-2.5	3.7	-2.7	...
	ann % chg	12.2	7.3	16.5	3.0	13.7	11.1	...
Migration								
Permanent & long-term arrivals	number[1]	11,280	11,010	10,810	10,930	11,130	11,500	...
Permanent & long-term departures	number[1]	4,940	5,080	4,660	5,120	5,190	5,150	...
Net PLT migration (12 month total)	number	71,305	71,333	71,932	71,885	71,964	72,305	...
Commodity Prices								
Brent oil price	US$/Barrel	54.58	54.87	51.59	52.31	50.33	46.37	...
WTI oil price	US$/Barrel	52.56	53.46	49.48	51.08	48.51	45.19	46.61
ANZ NZ commodity price index	mth % chg	-1.1	0.6	3.4	0.5	4.0	-1.6	...
	ann % chg	8.6	9.2	16.5	20.4	22.3	20.1	...
ANZ world commodity price index	mth % chg	-0.1	2.0	0.4	-0.2	3.2	2.1	...
	ann % chg	19.1	20.9	23.0	23.7	26.3	24.6	...
Financial Markets								
NZD/USD	$[2]	0.7126	0.7220	0.7009	0.6975	0.6937	0.7226	0.7350
NZD/AUD	$[2]	0.9547	0.9428	0.9197	0.9259	0.9334	0.9560	0.9434
Trade weighted index (TWI)	June 1979 = 100[2]	78.55	78.78	76.54	76.01	75.50	77.92	78.4100
Official cash rate (OCR)	%	1.75	1.75	1.75	1.75	1.75	1.75	1.7500
90 day bank bill rate	%[2]	1.98	2.02	1.98	1.97	1.98	1.95	1.9600
10 year govt bond rate	%[2]	3.23	3.29	3.28	3.05	2.93	2.77	2.9700
Confidence Indicators/Surveys								
ANZ - business confidence	net %	...	16.6	11.3	11.0	14.9	24.8	19.4
ANZ - activity outlook	net %	...	37.2	38.8	37.7	38.3	42.8	40.3
ANZ-Roy Morgan - consumer confidence	net %	128.7	127.4	125.2	121.7	123.9	127.8	125.4
Performance of Manufacturing Index	Index	53.2	55.7	58.1	56.7	58.2	56.2	...
Performance of Services Index	Index	59.4	58.6	58.8	53.0	58.8	58.6	...