

March 2019

## Executive Summary

- ▶ **Real (production) GDP rose 0.6% in the December 2018 quarter, with annual average growth easing to 2.8%**
- ▶ **Annual current account deficit widened to 3.7% of GDP, while net liability position widened to 57% of GDP**
- ▶ **Annual PLT migration is now increasing, according to revised data**
- ▶ **Global weakness at the end of 2018 has continued in 2019 and central banks have placed prospective rate hikes on hold.**

Real GDP increased by 0.6% in the December 2018 quarter, with annual average growth easing to 2.8%. This result was broadly in line with market expectations and was broadly in line with our Half Year Update forecast. Growth was relatively broad-based, led by the retail, transport, real estate and construction industries, partly offset by falls in the primary industries. Per capita GDP grew 0.1% in the quarter, with annual average growth coming in at 0.9% - the slowest rate of growth in eight years.

The annual current account deficit widened to 3.7% of GDP in the December quarter, broadly in line with forecasts. The seasonally adjusted goods balance deteriorated slightly, widening \$109 million on the back of lower dairy prices and reduced volumes of meat exports. More recent merchandise trade data shows that exports have increased over the past two months.

New Zealand's net international liability position increased to \$167.3 billion (57.0% of GDP), mainly because of falls in market prices for our overseas assets resulting from volatility in global equity markets. International equity markets have already recovered much of their value over the beginning of the year, so this deterioration in the net investment position may partly reverse in the March quarter.

Revised migration estimates from Statistics NZ suggest that annual net permanent and long-term migration has been increasing over recent months, whereas previously it was thought to have been flat. Due to a change in methodology, migration numbers have been subject to considerable revision, and we are treating recent migration data with a degree of caution.

The RBNZ left the OCR unchanged at 1.75%, but stated that the weaker global economic outlook and reduced momentum in domestic spending meant that the more likely direction of their next OCR move is down.

In Australia, GDP growth remained soft at 0.2% in the December 2018 quarter, following growth of 0.3% in September. December quarter growth also eased in the US, the UK, Canada and India. Weakness in late 2018 spilled into early 2019 activity indicators; particularly manufacturing in Asia and the euro area. In China, the latest domestic activity data also showed slower momentum in the economy.

The US Federal Reserve and the European Central Bank downgraded their growth outlooks and placed prospective rate hikes on hold. The Bank of Japan and the Bank of England both remained on hold, alongside monetary authorities in the Philippines and Indonesia.

This month's special topic reports on the results of recent Treasury visits to firms.

## Analysis

GDP growth came in broadly in line with forecasts, up 0.6% in the December 2018 quarter and 2.8% over the year, although annual per capita GDP growth slowed to its lowest rate (0.9%) in eight years. The annual current account deficit came in broadly in line with expectations at 3.7% of GDP. Volatility in global equity markets meant that New Zealand's net liability position widened to 57% of GDP, although this may improve as global equity markets have recovered the lost ground in the early part of 2019.

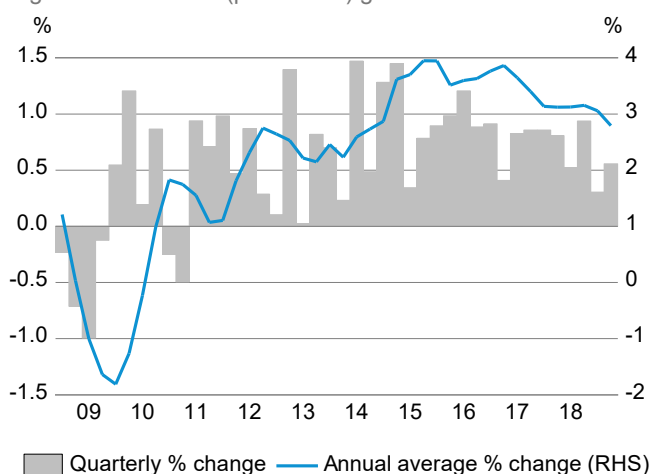
There are positive signs for commodity prices, with GDT prices increasing for the eight consecutive auction since December, and recent merchandise trade data pointing to stronger meat prices.

Building activity was strong over the December quarter, and strong consents data over 2018 point to continued strength in the construction sector, although capacity constraints in this sector may limit growth.

### GDP growth broad-based across industries...

Quarterly GDP growth of 0.6% (Figure 1) was supported by growth in ten of the sixteen industries, led by retail trade and accommodation services, each recording their largest increases since the Rugby World Cup in 2011. Construction activity also recovered, following fairly flat output over the past year, reflecting increases in both residential and non-residential construction activity.

Figure 1: Real GDP (production) growth



Source: Stats NZ

### ...although activity in primary industries subsided

Activity in primary industries experienced modest falls in activity over the quarter, coming down marginally off relatively strong growth earlier in the year. Mining activity was impacted again by maintenance outages at the Pohukura field, with these set to continue into the March 2019 quarter.

### Expenditure GDP growth also broad-based

Real expenditure GDP increased by 0.5% in the quarter, with positive contributions from all the components with the exception of the change in stocks. Strength in construction activity was reflected in strong growth in residential investment, with the 2.1% increase following a run of softer results.

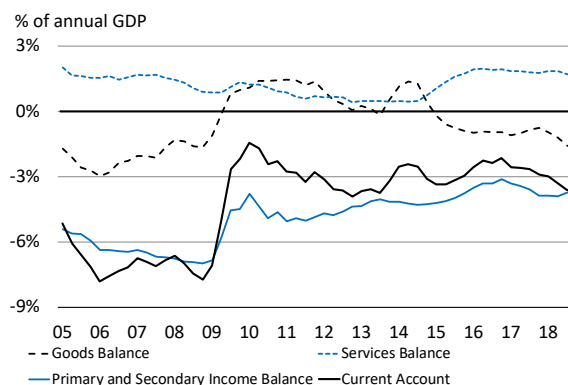
Private consumption increased 1.3%, the largest increase in just over two years. Recent electronic card transactions data for January and February point to continued strength in spending on consumables, apparel and hospitality and indicate that consumers' appetite for spending has remained solid.

There was also solid growth in business investment (other fixed assets), although this was dampened by a fall in investment in transport equipment which fell 8.9% following a 6.6% increase in the September quarter.

### Current account widened slightly...

The annual current account deficit widened from a revised \$10.6 billion (3.6% of GDP) in the September 2018 quarter to 11.0 billion (3.7% of GDP) in the December 2018 quarter, broadly in line with forecasts (Figure 2). The seasonally adjusted goods balance deteriorated slightly, widening \$109 million on the back of lower dairy prices and reduced volumes of meat exports.

Figure 2: Current account components (annual)



Source: Stats NZ

The seasonally adjusted services balance rose marginally (up \$16 million) in the quarter, with continued strength in tourist spending in New Zealand (up \$143 million) contributing to an increase in services exports. There are some signs that international visitor growth is moderating from recent strong results, with seasonally adjusted short term visitor arrivals falling in the months of December (down 2.7%) and January (down 0.1%). The recent tragic events in Christchurch might pose some short-term risk to inbound tourism spending.

### ...while our net liability position worsened

New Zealand's net international liability position increased to \$167.3bn (57.0% of GDP) in December, from a revised \$156.3bn (53.6% of GDP) in September (Figure 3), mainly due to a fall in market prices for our overseas assets and liabilities.

The value of our assets held abroad fell \$8.1bn over the quarter due to falling global equity markets over the December quarter. New Zealand equity markets were also affected over this period, meaning that the value of overseas investments in New Zealand also fell, albeit by a smaller amount (down \$2.3bn).

Figure 3: Net international investment position



Source: Stats NZ

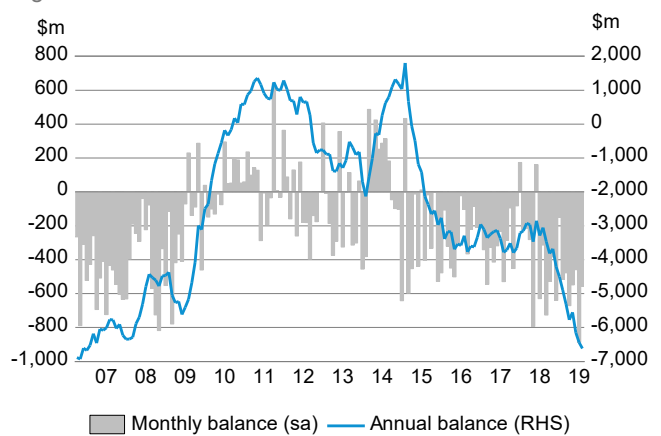
International equity markets have already recovered much of their value over the beginning of this year, so this deterioration in the net international investment position is expected to reverse in the March quarter.

### Merchandise trade deficit widens

The annual merchandise trade deficit widened to \$6.6 billion in February from \$6.4 billion in January (Figure 4). Strong dairy export values (up 10.8% in February on a seasonally adjusted basis) were driven by volume growth, with prices flat over the period. This contrasts with the outturn for meat exports, where solid volume growth (up 6.4% in February) combined with strong prices to give a 14.7% increase in the value meat exports. Lamb prices were particularly high, leading to record export values being recorded in February.

The strong export outturn in February led to a narrowing of the monthly seasonally adjusted merchandise trade deficit, which reduced \$316 million to \$458 million, although the strength in imports over the year means the annual trade deficit increased \$177 million to \$6.6 billion.

Figure 4: Overseas Merchandise Trade Balance



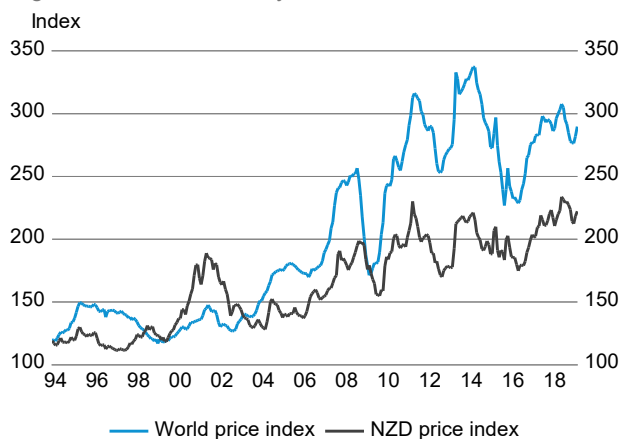
Source: Stats NZ

Imports of capital goods remain strong, with machinery and plant imports up 6.4% over the year, while transport equipment imports rose 22.4% over the year. Part of the annual increase in imports of transport equipment was due to February 2018 vehicle imports being affected by delayed deliveries due to stink bug discovery on a car transport vessel.

### Commodity prices on the rise

The ANZ World Commodity Price Index rose 2.8% in February, following January's 2.0% increase (Figure 5). Dairy was again the main driver of the increase with prices up 6.6% on the back of higher skim milk powder prices (up 8.9%) and whole milk prices (up 7.9%).

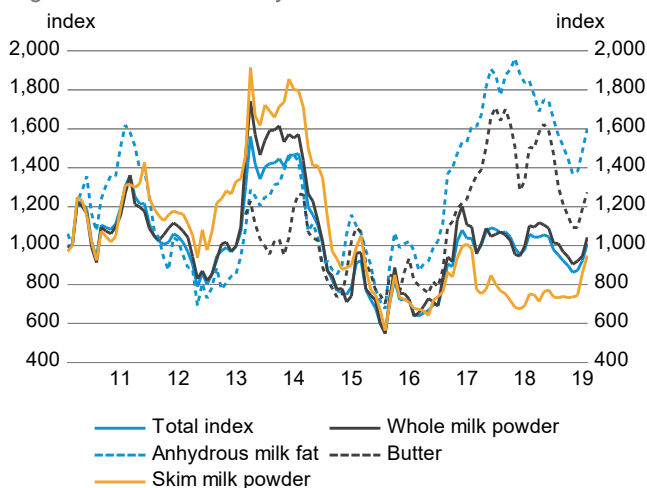
Figure 5: ANZ Commodity Price Index



Source: ANZ

Dairy prices have experienced a sustained recovery since December, with last Tuesday's *GlobalDairyTrade* (GDT) auction result recording the eighth consecutive rise in global dairy prices since early December. Skim milk powder prices have been particularly strong, regaining most of the discount they have been trading at relative to whole milk powder since 2017 (Figure 6).

Figure 6: ANZ Commodity Price Index



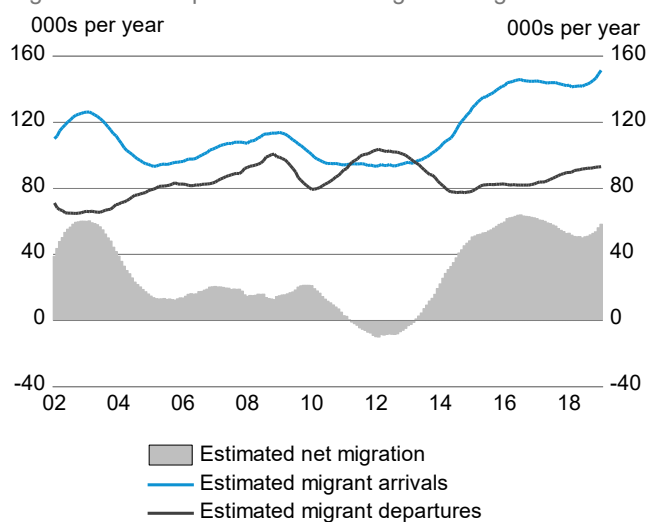
Source: GDT/Haver

### Permanent and long term migration revised up (again)

Annual PLT net migration for the year ended January 2019 was an estimated 58,391 up from 52,880 for the year ended January 2018 (Figure 7).

Annual PLT net migration peaked in July 2016 at around 64,000 and declined largely owing to an increase in departures. More recently, strong growth in annual PLT arrivals of non-New Zealand citizens has seen annual net migration increase.

Figure 7: Annual permanent and long-term migration



Source: Stats NZ

Statistics NZ new method for deriving PLT arrivals and departures is based on modelled estimates for the most recent 12 months of the series, and has so far proven to be subject to considerable revision for these modelled periods. Over time the new outcomes-based series should give a more accurate estimate of PLT migration, however there is a risk of substantial revisions to recent migration figures on a monthly basis.

We will be closely monitoring data revisions following new releases and treating the most recent month's data with a degree of caution.

### Building activity strengthened...

Building activity rose 2.7% in the December quarter, driven by a 5.0% increase in the lumpy non-residential sector. Residential building activity rose 1.2% in the December quarter, broadly in line with our expectations. Auckland contributed strongly to the December quarter growth, with 9.8% growth in non-residential building and 3.2% growth in residential building values.

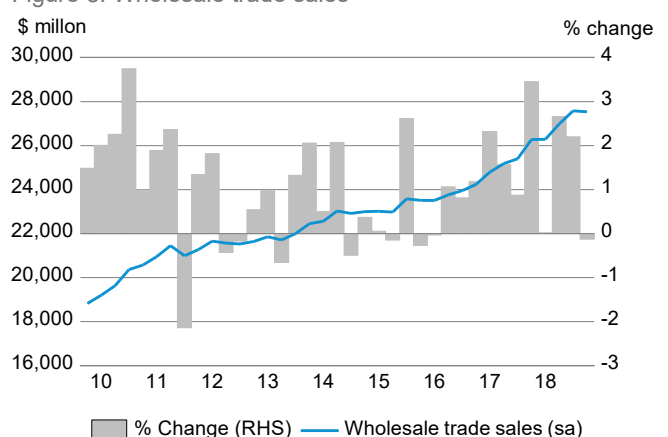
Strong consents data over 2018 point to continued strength in the construction sector, although capacity constraints in this sector may limit growth.

### ...while manufacturing and wholesaling activity were subdued

Manufacturing sales volumes increased 2.0% in the December quarter following two consecutive quarterly falls. Total manufacturing sales volumes were 0.2% up on December 2017. Meat and dairy manufacturing rose 4.0% recovering some of the 5.9% decrease recorded in the September quarter. Excluding meat and dairy, manufacturing sales volumes have been sluggish, down 0.4% in the December quarter – unchanged from December 2017.

Wholesale trade sales values were soft in the December 2018 quarter, falling 0.1% in seasonally adjusted values, following two preceding quarters of strong growth (Figure 8). Machinery and equipment wholesaling activity was the main driver of the fall in wholesale activity, falling 2.1% from September.

Figure 8: Wholesale trade sales



Source: Stats NZ

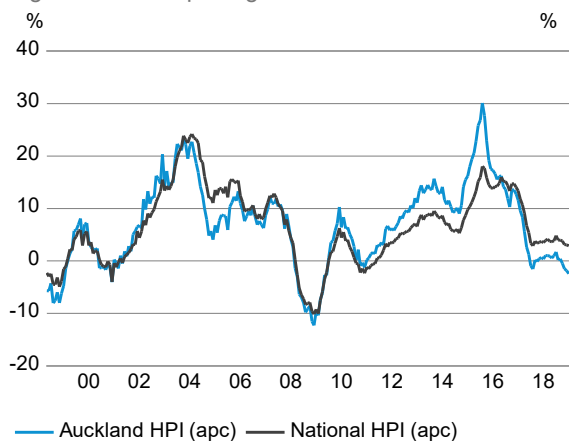
## Food prices were on the up...

Food prices increased 1.7% in the year ended February 2019, with price increases across all food groups with the exception of fruit and vegetable prices, which fell 0.6%. This month's result is strong relative to recent history, and will provide upward pressure on tradables inflation for the first quarter of 2019.

## ...while house prices slipped in Auckland

The REINZ House Price Index (HPI) rose 3.2% in February, with prices outside of Auckland increasing 8.1%, in contrast to the HPI for Auckland, which fell 2.0% over the year (Figure 9)

Figure 9: House price growth



Source: REINZ

## March quarter indicators mixed

Consumer confidence eased to 103.8 in the March quarter, down 5.3 points from the December quarter, according to the Westpac McDermott Miller Consumer Confidence survey. Consumer confidence is now below its long-term average. However, Westpac analysts noted that spending appetites remain resilient, and the drop in consumer confidence may not fully translate to lower spending.

The BusinessNZ Combined Performance Index (PCI) returned to its average level over the past six months, down 1.9 points to 54.1. The Performance of Manufacturing Index (PMI) increased 2.4 points while the Performance of Services Index decreased 2.4 points from January. The PMI's suggest that growth will remain solid in the March quarter.

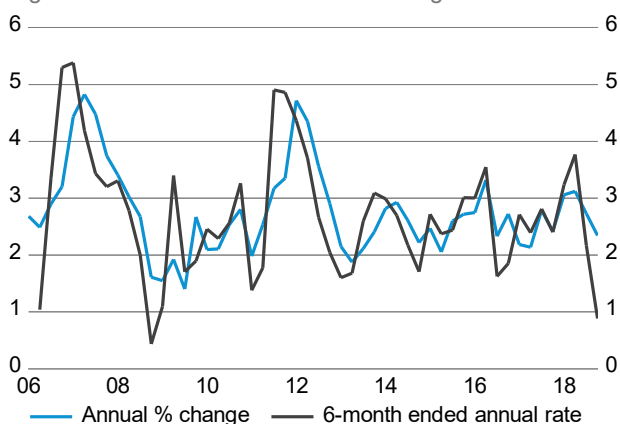
## RBNZ leave rates on hold...

The RBNZ left the OCR unchanged at 1.75%, but stated that the weaker global economic outlook and reduced momentum in domestic spending meant that the more likely direction of their next OCR move is down. Markets reacted swiftly to the change in tone, with the NZD falling by over a cent against the USD, and 2-year swap rate falling 16bps.

## Growth in Australia slows...

In Australia, GDP growth was 0.2% in the December 2018 quarter, following growth of 0.3% in September. Annualised growth over the second half of 2018 slowed to 1.0%, the slowest pace since 2009 (Figure 10). Annual growth eased to 2.3% (from 2.7%). The household sector weighed on growth in December, with weak housing construction (-3.4%) and subdued household spending (0.4%). Public spending (1.5%) and non-mining business investment (2.4%) were supportive of growth.

Figure 10: Below-trend Australian GDP growth

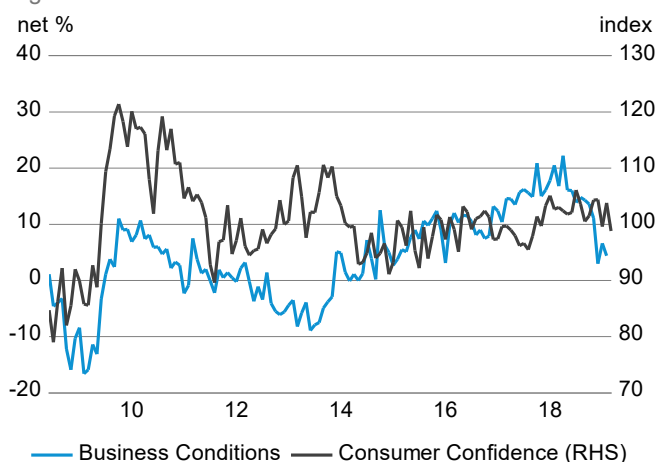


Source: Haver Analytics

## ...along with 2019 activity indicators

Home finance approvals fell 2.1% in January (down 20.6% on an annual basis). House prices continued to decline, down 0.9% in February, steepening the annual decline to 7.6% from 6.9% previously. Australian business sentiment continued to be weak in February, according to the monthly NAB business survey. The closely watched business conditions index is currently sitting slightly below average levels (Figure 11).

Figure 11: Australian sentiment

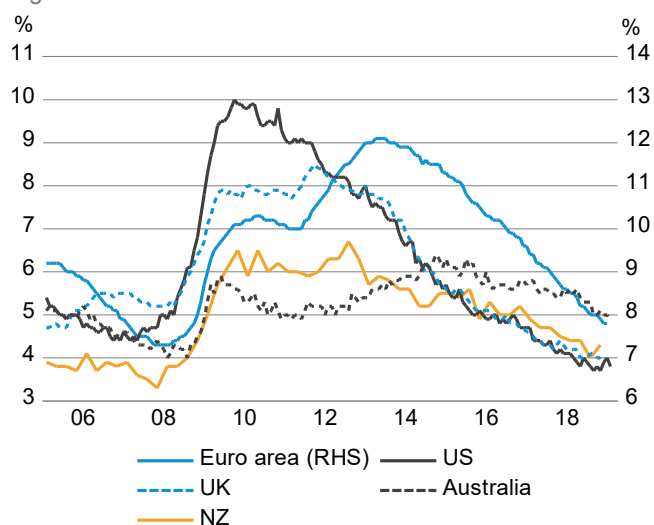


Source: NAB/Haver Analytics

Consumer confidence fell in March, but remains around its long-run average, according to the Westpac-Melbourne Institute Consumer Sentiment Index. The weakening sentiment likely reflects softer economic momentum in Australia as well as deteriorating housing market activity.

The RBA continued to keep rates on hold at 1.5% at their March meeting. Governor Lowe suggested that falling expectations about future income growth are the main risk to the Australian outlook. The weaker than expected GDP report raises the risk that the RBA will ease monetary policy later this year, however the Australian labour market continues to remain tight. In February, employment rose by 4,600 jobs (following last month's 360,000 rise). The unemployment rate fell from 5.0% to 4.9%.

Figure 12: Global labour markets

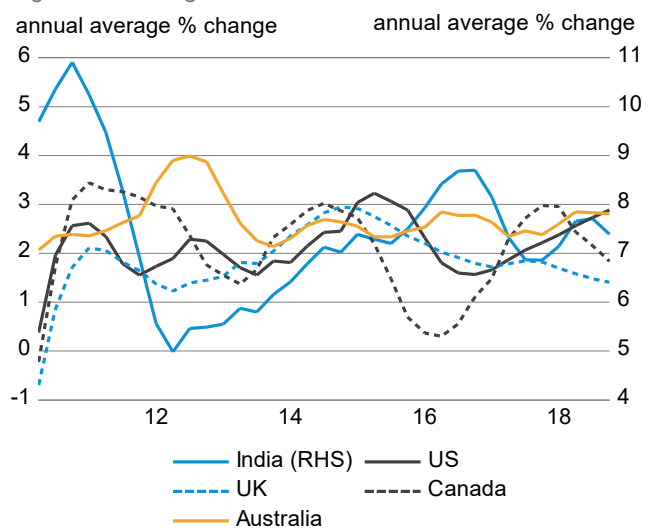


Source: Haver Analytics

### Slower growth elsewhere too...

US GDP growth lifted 0.6% in the December 2018 quarter to be 2.6% (annualised), down from 3.4% and 4.2% annualised growth in the previous two quarters. Growth was driven by private consumption (which accounts for 70% of the economy), while weak residential investment weighed on activity. Growth in India and Canada both came in below market expectations in December. Growth in India was 7.4% on an annual average basis, down from 7.7% in September, while growth in Canada slowed to 1.8%, from 2.2%. Indian GDP was driven by investment spending, while growth in private consumption moderated. UK GDP growth was 1.4% on an annual average basis in 2018 (Figure 13).

Figure 13: GDP growth rates



Source: Haver Analytics

### ...with weakness spilling over to 2019...

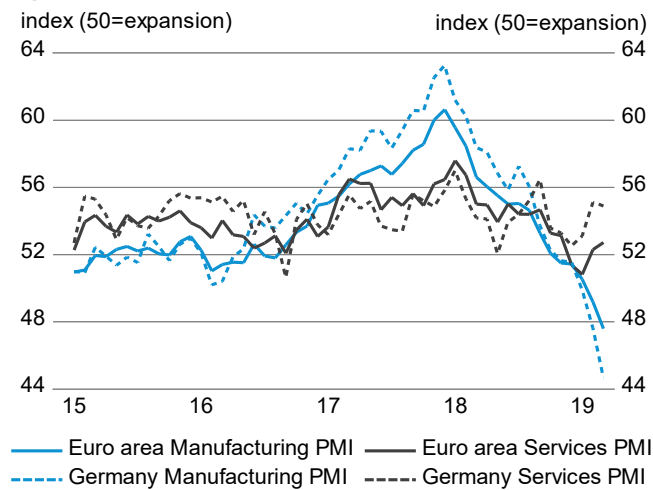
Latest data suggest that December quarter 2018 global growth weakness has spilled over into 2019, most notably in the euro area. In its interim Economic Outlook, the OECD downgraded global growth forecasts, including revisions to the euro area where growth is now expected to be 1.0% in 2019 and 1.2% in 2020 (down from 1.8% and 1.6% in November). The downgrade to the Eurozone was driven by Germany, where the OECD expect growth to be 0.7% for 2019.

Manufacturing continued to weaken in the euro area, with the March Markit Purchasing Managers Index (PMI) for Germany falling to 44.7 (from 47.6) (Figure 14). Respondents cited external factors for the slowdown, including softer global demand and uncertainty around US-China trade and Brexit. Services activity also fell (to 54.9, from 55.3) but remains in expansionary territory (a reading above 50). The composite euro area PMI fell to 51.3 (from 51.9). Persistent weakness in manufacturing raises the risk that the euro area slowdown may be broader than initially expected.

On a more positive note, sentiment improved in the March German IFO survey. This comes after six consecutive monthly falls. The business climate, expectations and current assessment sub-components all rose.

The European Central Bank (ECB) left rates unchanged at their latest meeting but cut their forecasts for 2019 GDP growth to 1.1% from 1.7%. The ECB now expects to keep rates on hold 'at least through the end of this year', three to six months longer than previous guidance.

Figure 14: Euro area PMIs



Source: Haver Analytics

### Global labour markets remain tight...

Strong labour markets, despite slowing GDP growth, are apparent in other advanced economies (Figure 12). The US labour market remained tight in February, with the unemployment rate falling to 3.8% (from 3.9%). Employment growth slowed sharply, possibly reflecting colder weather (affecting construction jobs) and payback from a strong January gain. Annual wage growth was steady at 3.4%. In the UK, the unemployment rate fell to 3.9% in the three months to January 2019 (from 4.0% in December).

### Fed downgrades outlook...

The US Federal Reserve left the cash rate target range unchanged at 2.25% - 2.5%, amid signs of slower household and investment spending. The Fed's policy rate projections (the 'dot-plot') showed no hikes expected in 2019 (down from two in December 2018), and just one expected in 2020. Fed Chair Powell stated that it could be 'some time' before a change would be warranted, re-affirming the Fed's patient approach to monetary policy. The projections also saw modest downgrades to growth and unemployment, reflecting weaker outlooks for household spending and business investment, as well as 'global economic and financial developments'.

US headline CPI inflation remained at 1.5% in February. Stripping out food and energy prices, core CPI eased slightly to 2.1% (from 2.2%). An easing in core inflation suggests there is little pressure for the Fed to resume monetary tightening.

### ...and other central banks acknowledge weak activity

The Bank of Japan kept rates on hold at -0.1% at their March meeting. The Bank reiterated that they expect inflation to reach its 2% target by 2019. Early 2019 indicators for Japan have been weak. Japan's

industrial production fell at its fastest pace in a year, down 3.7% in January from the previous month. The Manufacturing PMI was also negative, raising the risk of a second consecutive quarter of negative GDP growth. In addition, earlier data showed Japanese exports fell 8.4% in January, the largest fall since 2016, driven by reduced exports to China.

The Bank of England kept rates at 0.75% at their March meeting, noting the outlook is subject to considerable Brexit uncertainty. Prime Minister Theresa May recently accepted a proposal from the EU Council, under which the EU will grant an extension of the Brexit date to 22 May if the Withdrawal Agreement passes its next meaningful vote in the UK Parliament. If the UK does not pass the Agreement, the EU will provide an extension to 12 April.

### Slower domestic momentum in China...

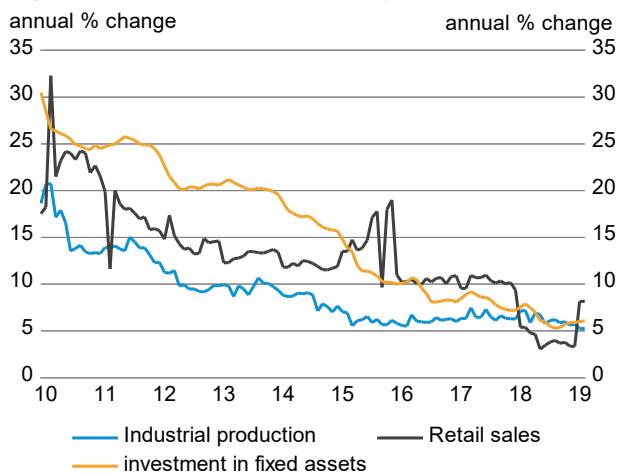
The latest activity data from China was largely consistent with other indicators of slower momentum in the economy. Annual industrial production growth fell to 5.3% in February (from 5.7% previously). Trade data for February was weak too, with import and export figures falling sharply. The unemployment rate lifted to 5.3%, from 4.9% previously, and China's manufacturing sector contracted for a third consecutive month in February, according to the official PMI.

On a more positive note, retail sales were steady at 8.2% and annual fixed asset investment in China lifted 6.1% in February (previously 5.9%) (Figure 15).

The pickup in investment is likely to reflect supportive policy measures implemented by Chinese authorities at the end of 2018 (including easing monetary policy, tax cuts, and additional funds for local government) and may stabilise Chinese growth in the short term. The weakness in industrial production, import and employment figures is an indication that some of these measures are yet to feed through to the broader economy.

Chinese authorities announced a GDP growth target for 2019 between 6.0% – 6.5% at the annual National People's Congress. This is down from a target of 6.5% over the past two years. China's premier Li Keqiang cited trade tensions between the USA and China as a reason for the lower target. Authorities also announced a CPI target of 'around 3%' and aim to create 11 million jobs in 2019 (lower than last year's actual of 13.6 million). The official fiscal deficit target was lifted to 2.8% of GDP for 2019, up from 2.6% in 2018, while off-budget spending also increased, and will provide further stimulus to the economy.

Figure 15: Chinese domestic activity



Source: Haver Analytics

### ...and mixed Asian PMI's

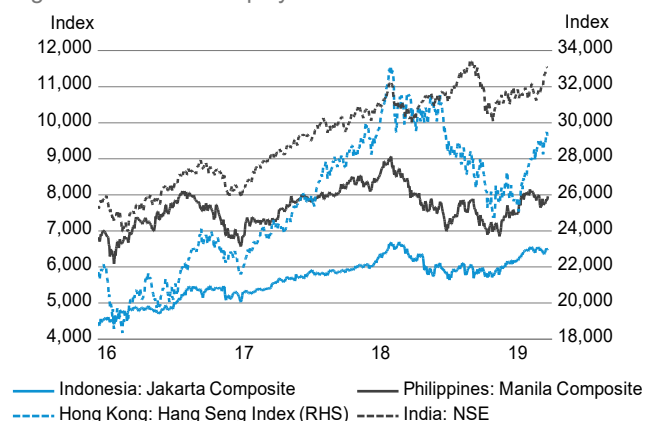
Manufacturing across Asia remained reasonably weak in February, despite a few bright spots. In India, the manufacturing PMI improved from 53.9 to 54.3 in February. In Indonesia, the manufacturing PMI lifted slightly into expansionary territory and now sits at 50.1. Japan's PMI on the other hand fell below 50 for the first time in two and a half years, and PMI's in Korea, Malaysia and China remain in contractionary territory.

### Pressure off some emerging markets

The patient approach adopted by the US Federal Reserve has helped market sentiment in emerging market (EM) economies over recent months (Figure 16), which often come under pressure during US monetary tightening cycles as a higher US dollar makes US dollar-denominated debt harder to service. The pause in the Fed's tightening cycle may also take

pressure off some EM central banks to raise interest rates (to support their domestic currencies). Monetary authorities in the Philippines left their policy rate unchanged at 4.75% at their latest meeting, and Bank Indonesia kept its 7-day reverse repo rate unchanged at 6.0%. Although market sentiment in emerging economies may be supported by a dovish Federal Reserve, upcoming elections in many of these countries (Thailand, India, Indonesia, Philippines) could increase market volatility.

Figure 16: Selected equity market indices



Source: Haver Analytics



## Special Topic: BEFU 2019 Business Talks

During the first two weeks of March, officials from the Treasury met with a range of businesses and business organisations around the country to discuss the outlook for the economy. The information gathered informs the Treasury’s 2019 Budget Economic and Fiscal Update (BEFU). This special topic summarises the views of businesses we visited.

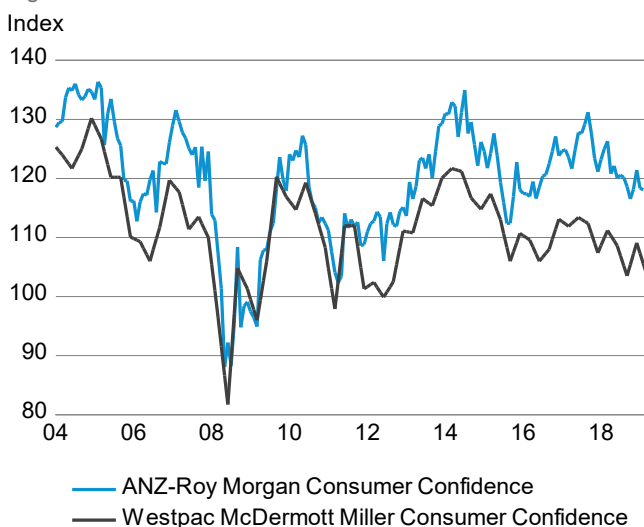
The focus of these talks was on four sectors that are important in the current economic environment: construction, tourism, retail and agriculture. Officials were interested in the current state of the whole economy, but these sectors particularly, and what the prospects are for both short- and long-term activity.

Most of the businesses visited have seen slower growth over the past year but remain optimistic about the outlook. While growth is generally expected to be reasonably flat in the coming year, businesses reported that they do not expect to see a significant deterioration. Many companies added that business conditions have been very good over the past few years.

### Sales activity weakened

Businesses told us that, over the past 6 months, weakened consumer sentiment (Figure 17), rent inflation, slower house price growth, the rising cost of living and uncertainty around capital gains taxes have weighed on retail growth. The Retail Trade Survey shows that total retail sales were softer in the September quarter but bounced back in December, however, values and volumes continued to weaken in some industries in the December quarter.

Figure 17: Consumer Confidence



Source: ANZ, Westpac

There has been a noticeable shift in consumer spending patterns; while November sales surrounding Black Friday and Cyber Monday were strong, Christmas sales were slow and have softened further through the start of

the year. Sales in large centres remain competitive but have slowed in smaller regions. This may in part reflect sentiment of farmers and smaller communities. Consumers are more reluctant to take on interest-accruing debt, opting instead for interest-free and part-pay programmes or curbing spending on more expensive discretionary items, in favour of consumables and travel. Online sales continue to grow.

Overall businesses expect flat growth through the rest of the year.

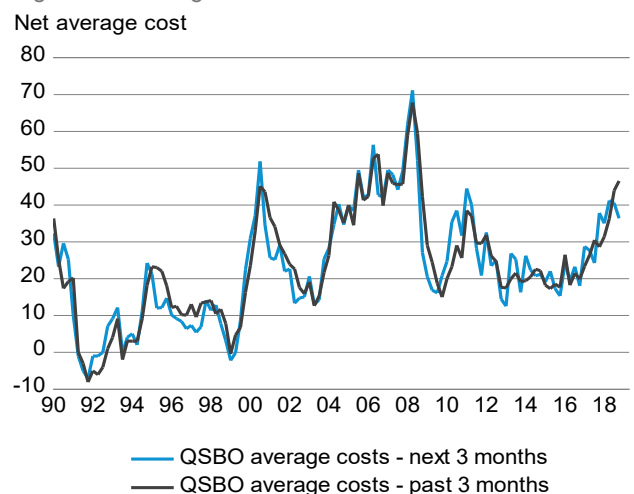
### International travel remains strong but growth in tourism is weaker

The travel sector has seen strong growth in discretionary international travel over the past year and expects favourable conditions to continue, but messages around domestic travel spending were mixed, with some seeing continued growth in spending and others experiencing reduced demand. Tourism has passed its peak growth phase and while inbound tourism is still positive, there is a heightened sense of geopolitical risk and an associated downturn in visitor arrivals, particularly from China. Note that the business talks took place prior to the tragic events in Christchurch; this may add further short-term downside risk to tourism.

### Cost pressures are mounting...

Businesses reported higher cost pressures and compressed margins across all sectors of the economy (Figure 18).

Figure 18: Average costs



Source: NZIER

Some expressed concerns about increasing costs associated with shipping and lower sulphur emissions requirements, and the extent to which the associated costs can be passed on to consumers.

Increased competition and a higher level of price transparency in the retail sector means that cost

pressures need to be absorbed, squeezing margins. Some companies aim to raise profitability by increasing the volume of goods they sell in this competitive price environment.

Growth in the construction sector has come off its peak but is still above its long run average. Market conditions are getting tougher with competition putting pressure on margins, increasing the risk that we could see further company failures in this industry. While firms are optimistic that the new retentions regime is a good policy in the long term, they did raise concern that margins would have to increase for firms to remain profitable due to costs associated with higher capital requirements. Construction firms reported opportunity and momentum in Auckland and the lower North Island, with weaker growth elsewhere.

### ...and the labour market remains tight

Firms reported wage pressures and difficulty finding the right skills, particularly in information technology, finance and construction.

Some firms reflected that changes to migration settings are placing further constraints on business growth. Some businesses feel that tighter migration settings have led to lower productivity as they rely on migrant workers for night shifts.

Many businesses reported that the expectations of unions have increased, raising the risk of further wage pressure in coming years. Employment numbers remain broadly stable, however some firms are planning to reduce employee numbers over the next year as they close unprofitable branches and introduce automation and other productivity enhancing measures to offset rising wage costs.

While a number of firms already pay above the minimum wage and do not expect increases to the minimum wage to materially affect them, others are concerned about their impact on the rising wage bill. These firms hope to introduce measures such as new remuneration structures and business practices to better align with profitability.

Companies are also hoping to attract or retain employees by introducing more flexible working arrangements, including part-time roles.

### Business investment has slowed...

Most of the firms we visited are not planning expansion or large scale investment in the near term while others are scaling back operations. Uncertainty around upcoming policy changes is holding back investment for some, particularly in the agriculture sector. Businesses continue to invest in IT solutions and automation as well as improving their stores, refreshing their brands and advertising. Many firms expressed a desire for more investment in infrastructure, hotels and airports as these are constraints to their business growth potential.

The agriculture industry has been doing well but uncertainty around government policies is holding back investment. High dairy and sheep and beef prices continue to support spending on farm.

### ...but credit availability is good

Credit conditions remain good for most businesses we visited but it is getting harder to borrow in the agriculture and construction sectors. Many businesses continue to look for efficiency gains, including merger and acquisition opportunities.

### Government policy has a part to play

Generally the businesses we visited still seemed positive about their current activity but many are increasingly concerned about maintaining profit margins. Some expressed concern that this challenging outlook is being compounded by uncertainty surrounding policy proposals such as Capital Gains Taxes.

Many businesses told us that they feel that Government has a part to play in general infrastructure improvement, smoothing business cycles, and providing more certainty around proposed policy changes.

### Talks largely confirmed our judgements

The business talks largely confirm our judgements about the current economic environment. While business and consumer sentiment has been weaker and the outlook for growth is fairly muted, businesses do not expect a significant deterioration in their outlook.

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# New Zealand Key Economic Data

## Quarterly Indicators

		2017Q2	2017Q3	2017Q4	2018Q1	2018Q2	2018Q3	2018Q4
<b>Gross Domestic Product (GDP)</b>								
Real production GDP	qtr % chg(1)	0.9	0.9	0.8	0.5	0.9	0.3	0.6
	ann ave % chg	3.4	3.1	3.1	3.1	3.2	3.1	2.8
Real private consumption	qtr % chg(1)	1.0	0.8	1.1	0.2	1.0	1.0	1.3
	ann ave % chg	5.6	5.1	4.7	4.0	3.7	3.5	3.3
Real public consumption	qtr % chg(1)	0.1	2.2	-0.5	0.4	1.3	-0.5	0.7
	ann ave % chg	2.6	3.0	2.9	2.8	3.1	2.3	2.2
Real residential investment	qtr % chg(1)	-0.4	2.9	0.5	-0.3	0.7	0.6	2.1
	ann ave % chg	4.2	2.1	0.9	1.0	2.6	2.5	2.7
Real non-residential investment	qtr % chg(1)	2.0	2.2	3.3	1.7	-0.8	-1.9	1.3
	ann ave % chg	2.0	3.3	4.7	6.4	7.1	6.4	4.3
Export volumes	qtr % chg(1)	2.7	0.8	0.5	-0.1	2.0	-0.3	1.1
	ann ave % chg	0.2	0.3	1.8	3.0	3.6	3.6	3.0
Import volumes	qtr % chg(1)	0.6	2.7	3.5	1.2	1.2	-0.9	-0.7
	ann ave % chg	6.1	6.3	6.9	7.1	7.9	7.6	5.5
Nominal GDP - expenditure basis	ann ave % ...	6.3	6.6	6.2	5.7	5.7	5.0	3.9
Real GDP per capita	ann ave % ...	1.2	1.0	1.0	1.0	1.1	1.1	0.9
Real Gross National Disposable Income	ann ave % ...	4.4	4.4	3.7	3.8	3.5	3.3	2.8
<b>External Trade</b>								
Current account balance (annual)	NZ\$ millions	-7117	-7370	-8180	-8540	-9548	-10565	-10974
	% of GDP	-2.6	-2.7	-2.9	-3.0	-3.3	-3.6	-3.7
Income balance (annual)	NZ\$ millions	-8582	-9218	-10221	-10343	-10815	-10557	-10085
Merchandise terms of trade	qtr % chg	1.1	1.3	1.4	-2.0	0.4	-0.1	-3.0
	ann % chg	9.7	12.6	7.9	1.8	1.2	-0.3	-4.7
<b>Prices</b>								
CPI inflation	qtr % chg	0.0	0.5	0.1	0.5	0.4	0.9	0.1
	ann % chg	1.7	1.9	1.6	1.1	1.5	1.9	1.9
Tradable inflation	ann % chg	0.9	1.1	0.5	-0.3	0.3	1.0	0.9
Non-tradable inflation	ann % chg	2.4	2.6	2.5	2.3	2.4	2.5	2.7
GDP deflator	ann % chg	3.1	3.9	3.3	1.4	2.2	1.1	-0.1
Consumption deflator	ann % chg	1.3	1.6	1.6	0.7	1.2	1.8	1.5
<b>Labour Market</b>								
Employment (HLFS)	qtr % chg(1)	0.0	1.9	0.6	0.5	0.6	1.1	0.1
	ann % chg(1)	3.1	4.1	3.7	3.1	3.7	2.8	2.3
Unemployment rate	%(1)	4.7	4.7	4.5	4.4	4.4	4.0	4.3
Participation rate	%(1)	70.1	71.0	70.9	70.8	71.0	71.0	70.9
LCI salary and wages - total (adjusted)(5)	qtr % chg	0.4	0.6	0.4	0.3	0.5	0.5	0.5
	ann % chg	1.7	1.8	1.8	1.8	1.9	1.8	1.9
QES average hourly earnings - total(5)	qtr % chg	0.6	1.2	0.8	0.9	0.1	1.1	0.9
	ann % chg	1.6	2.2	3.1	3.5	3.0	2.9	3.1
Labour productivity(6)	ann ave % ...	-1.6	-1.4	-0.4	0.1	-1.1	-0.7	0.1
<b>Retail Sales</b>								
Core retail sales volume	qtr % chg(1)	1.4	1.0	1.5	0.6	1.2	0.7	2.0
	ann % chg	5.2	5.2	5.6	4.6	4.5	3.7	5.0
Total retail sales volume	qtr % chg(1)	1.3	0.8	1.1	0.2	0.9	0.3	1.7
	ann % chg	5.8	4.6	5.4	2.8	3.1	2.7	3.5
<b>Confidence Indicators/Surveys</b>								
WMM - consumer confidence(3)	Index	113	112	107	111	109	104	109
QSBO - general business situation(4)	net %	17.8	5.2	-11.8	-10.7	-20.0	-30.4	-17.3
QSBO - own activity outlook(4)	net %	18.4	35.2	18.7	10.9	6.9	18.9	19.4

## Monthly Indicators

		2018M08	2018M09	2018M10	2018M11	2018M12	2019M01	2019M02
<b>External Sector</b>								
Merchandise trade - exports	mth % chg(1)	-6.0	7.8	-7.0	1.4	4.2	-8.6	7.7
	ann % chg	7.8	12.1	6.0	5.3	-4.0	1.3	8.3
Merchandise trade - imports	mth % chg(1)	-3.3	9.4	-4.8	-2.3	1.3	-0.9	0.7
	ann % chg	14.0	17.7	13.7	0.4	7.9	6.9	12.9
Merchandise trade balance (12 month total)	NZ\$ million	-4894	-5309	-5774	-5556	-6159	-6445	-6621
Visitor arrivals	number(1)	323620	318720	331130	337250	328150	327700	...
Visitor departures	number(1)	318750	321360	331720	332030	...	...	...
<b>Housing</b>								
Dwelling consents - dwellings	mth % chg(1)	7.1	-1.4	1.8	-1.6	5.4	16.5	...
	ann % chg	-2.9	-7.6	14.8	-4.4	9.8	30.3	...
House sales - dwellings	mth % chg(1)	3.2	-10.7	28.4	-7.5	-14.2	13.2	-7.0
	ann % chg	5.3	-0.6	20.5	6.3	-8.5	-0.9	-9.3
Reinz - house price index	mth % chg	0.3	0.4	0.4	0.1	0.4	0.2	0.7
	ann % chg	4.0	4.0	3.8	3.1	3.1	2.9	3.2
<b>Private Consumption</b>								
Electronic card transactions - total retail	mth % chg(1)	1.2	0.9	0.0	-0.5	-2.3	1.8	0.9
	ann % chg	6.3	5.7	6.2	4.6	0.6	3.5	3.4
New car registrations	mth % chg(1)	-1.7	-4.9	7.7	-8.0	-4.9	5.4	1.4
	ann % chg	-4.7	-10.8	-5.4	-17.9	-15.8	-12.1	-3.9
<b>Migration</b>								
Estimated migration arrivals	number(1)	12380	12360	12930	13090	14580	14010	...
Estimated migration departures	number(1)	7970	7750	8130	7870	7700	7710	...
Estimated net migration (12 month total)	number	51016	51868	52831	53788	56230	58391	...
<b>Commodity Prices</b>								
Brent oil price	US\$/Barrel	72.44	78.89	81.03	64.75	57.36	59.41	63.96
WTI oil price	US\$/Barrel	67.99	70.20	70.76	57.00	48.95	51.47	54.96
ANZ NZ commodity price index	mth % chg	0.4	-1.1	-1.6	-4.2	-0.9	2.8	1.8
	ann % chg	8.9	5.9	1.6	-4.0	-2.1	3.7	3.2
ANZ world commodity price index	mth % chg	-1.1	-2.4	-2.4	-0.5	-0.2	2.0	2.8
	ann % chg	-0.5	-3.6	-5.6	-5.1	-3.4	-2.2	-2.2
<b>Financial Markets</b>								
NZD/USD	\$(2)	0.6671	0.6595	0.6530	0.6766	0.6829	0.6776	0.6835
NZD/AUD	\$(2)	0.9100	0.9160	0.9186	0.9342	0.9503	0.9479	0.9571
Trade weighted index (TWI)	June 1979 = 100(2)	72.32	71.79	71.67	74.10	74.73	73.59	74.14
Official cash rate (OCR)	%	1.75	1.75	1.75	1.75	1.75	1.75	1.75
90 day bank bill rate	%(2)	1.91	1.90	1.90	1.98	1.98	1.91	1.90
10 year govt bond rate	%(2)	2.64	2.60	2.62	2.69	2.45	2.33	2.18
<b>Confidence Indicators/Surveys</b>								
ANZ - business confidence	net%	-50.3	-38.3	-37.1	-37.1	-24.1	...	-30.9
ANZ - activity outlook	net%	3.8	7.8	7.4	7.6	13.6	...	10.5
ANZ-Roy Morgan - consumer confidence	net%	117.6	117.6	115.4	118.6	121.9	121.7	120.8
Performance of Manufacturing Index	Index	52.2	52.0	53.6	53.5	54.8	53.0	53.7
Performance of Services Index	Index	53.6	54.3	55.5	53.5	53.2	56.2	53.8
1 Seasonally Adjusted								
2 Average (11am)								
3 Westpac McDermott Miller								
4 NZIER Quarterly Survey of Business Opinion								
5 Ordinary Time								
6 Production GDP divided by HLFS hours worked								
Sources: Stats NZ; Reserve Bank of NZ; NZIER; Haver; Westpac McDermott Miller; ANZ-Roy Morgan; REINZ; BNZ-Business NZ								