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Te Pātaka Rangahau a Te Whare Pāremata

MONTHLY ECONOMIC REVIEW






June 2015

(Latest data as at 5 June)

Parliamentary Library Research Paper

A Overview

Recent trend

	2013/14	2014/15	
 Economic Growth	2.3%	3.3%	Annual average GDP Growth (December year)
 Unemployment	6.0%	5.8%	Unemployment Rate (March quarter)
 Inflation	1.5%	0.1%	Annual Inflation Rate (March year)
 Current Account Deficit	\$7.4b	\$7.8b	Current Account Deficit (December year)
 Interest Rates	3.00%	3.50%	Official Cash Rate (end of May)

Latest data and events

Thirteen of 14 regions recorded an expansion in economic activity in the March quarter according to the ANZ Bank's *Regional Trends* publication. The only region not to record an increase was the Taranaki region, where economic activity contracted by 1.4 percent in the quarter. Nationwide, economic activity expanded by 1.1 percent over the quarter.

Fonterra further reduced its forecast payout for the 2014/15 season in May to \$4.40 per kilogram of milksolids (kgMS). The dividend for a fully paid-up farmer remains at 20 to 30 cents per kgMS, resulting in a forecast total cash payout of \$4.60 - \$4.70 per kgMS. The revision was due to international dairy prices remaining lower than expected. Fonterra also announced its initial forecast payout for the 2015/16 season of \$5.25 per kgMS (excluding any dividend payments). International dairy prices fell further in Fonterra's latest *Global Dairy Trade* auction undertaken in early June, with prices at their lowest levels since 2009.

New Zealand's terms of trade rose by 1.5 percent in the March quarter. Terms of trade measures the quantity of imports that can be purchased with a fixed quantity of exports. The rise in the terms of trade was predominantly due to a decrease in the price of petrol and petroleum product imports, which was partially offset by a decrease in dairy produce export prices. Looking ahead, New Zealand's terms of trade are expected to fall on the back of lower international commodity prices and a rise in international oil prices.

The volume of residential building activity undertaken in the March quarter rose by 2.6 percent, while the value of residential building work rose by ten percent over the year to \$2,447 million. Total building work put in place in the quarter totalled \$3,864 million, with about a third occurring in the Auckland region.

Outlook

Solid economic growth is forecast for the March quarter, despite the flow-on effect of the drought experienced earlier in the year. An increase in household consumption and growth in value-added output of industries supporting the household sector are expected to support growth. The unemployment rate has been forecast to decline slowly, despite the pressure of an expanding labour market. There are few inflationary pressures within the economy currently (excluding Auckland house price inflation). As a result, the Reserve Bank has not ruled out a rate reduction to its official cash rate in the near future. The next review is on 11 June.

Topic of the month: Household Balance Sheet statistics from the Reserve Bank

B Economic Growth

Background

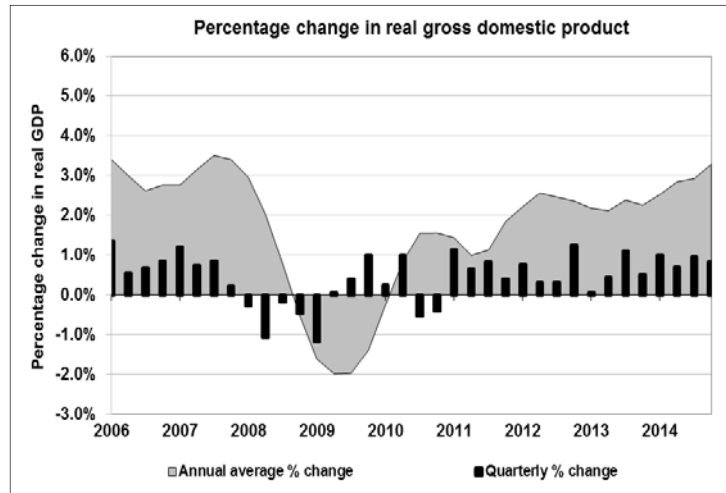
A country's gross domestic product (GDP) is a measure of economic activity during a set period of time, normally reported on a quarterly and an annual basis. It is the sum of money values of all final goods and services produced in an economy over a set period. The primary indicator used for tracking economic performance over time is known as real gross domestic product, or real GDP. Real GDP is gross domestic product adjusted for changes in prices. New Zealand's official gross domestic product figures are sourced from Statistics New Zealand.

Gross domestic product

Gross domestic product expanded by 0.8 percent in the December quarter, with the economy expanding by 3.3 percent over the 2014 calendar year. The economy has expanded in each of the last 16 quarters.

Growth was wide-spread in the December quarter, with 12 of the 16 sectors recording growth. The retail trade and accommodation industry expanded by 2.3 percent over the quarter (due to increased tourist spending), and the information media and telecommunications industry expanded by two percent. The electricity, gas, water, and waste services contracted 2.5 percent, due to lower hydro-electricity generation.

Exports of goods and services rose by 6.1 percent over the quarter, and was the largest contributor to expenditure GDP growth. This rise was driven by an increase in the spending of overseas visitors.



Other data

There was a significant fall in business confidence in May, with the ANZ Business Outlook survey's headline business confidence indicator falling 15 points. However, confidence remains above its long-term average level. While firms' confidence in their own outlook over the coming 12 months also fell in May, it did not fall to the same extent. The ANZ Bank concluded that "...the economy is transitioning into a more modest pace of expansion".

There was a strong increase in retail sales in the March quarter, with retail trade volumes rising by 2.7 percent in the March quarter (the largest percentage increase since 2006). The Cricket World Cup and lower petrol prices were factors behind the increase in retail spending.

Year ended December 2014	Nominal GDP
Gross Domestic Product	\$237,924 million
GDP per capita	\$52,715

Source: Statistics New Zealand.

ANZ Business Outlook Survey	Apr-15	May-15
Net % expecting an improvement in business conditions in 12 months' time	30.2	15.7
Net % expecting an improvement in their own firm's activity in 12 months' time	41.3	32.6

Source: ANZ Bank, Business Outlook survey.

Outlook

Solid economic growth is expected in the March quarter, driven by an increase in household spending on the back of sizeable net immigration levels, further employment growth, and low levels of inflation. The Treasury in the *Budget Economic and Fiscal Update 2015* has forecast a growth rate of 0.8 percent for the March quarter, resulting in an annual growth rate of 3.3 percent for the year ended in the March quarter.

GDP growth (%)	Dec-13	Mar-14	Jun-14	Sep-14	Dec-14
Annual (year-on-year)	2.3	2.5	2.8	2.9	3.3
Quarterly (seasonally adjusted)	0.5	1.0	0.7	0.9	0.8

Source: Statistics New Zealand.

Next Release: Gross Domestic Product: March 2015 quarter. **Date:** 18 June 2015

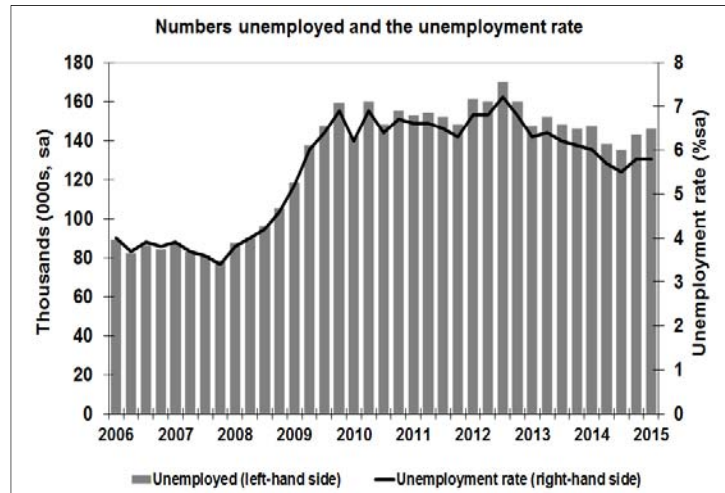
C Employment and Unemployment

Background

The unemployment rate measures the number of people unemployed as a proportion of those in the labour force. The labour force is the number of people of working age (15 years and over) who are working for wages or a salary, working for a family business, or who are unemployed and seeking work. In New Zealand, the official unemployment rate is sourced from Statistics New Zealand's quarterly Household Labour Force Survey.

Employment and unemployment

Following the Global Financial Crisis, New Zealand's unemployment rate peaked at 7.2 percent in the September 2012 quarter, with 170,000 people unemployed (in seasonally adjusted terms). Over the next two years, the unemployment rate dropped to 5.5 percent in the September 2014 quarter, with 135,000 people unemployed. It has since risen slightly, with a current unemployment rate of 5.8 percent in the March quarter, and 146,000 people unemployed. Over recent quarters, an increase in the size of the labour market (due to increases in both the population and labour force participation rate) has been greater than employment growth, leading to an increase in the unemployment rate.



Employment grew by 0.7 percent in the March quarter, with growth in both full-time and part-time employment. Over the year to the March quarter, employment expanded by 3.2 percent (73,700 people). Approximately a half of total employment growth over the year was in the Auckland region (36,700), with the Canterbury region accounted for another 16 percent of employment growth (11,800). Employment fell in two regions over the year, the Northland region and the Wellington region.

Other data

The ANZ *New Zealand Job Ads* showed a slight decline in total job advertising in April, with a lift in newspaper advertising outweighed by a drop in internet job advertising. There were higher numbers of jobs being advertised in Auckland than a year earlier, but lower numbers in both Wellington and Canterbury. In contrast, the Ministry of Business, Innovation & Employment's *Jobs Online Monthly Report* showed an increase in online job vacancies in April, with advertisements for skilled vacancies rising by 0.9 percent over the month.

ANZ Business Outlook Survey	Apr-15	May-15
Net % expecting to increase employment in their business in 12 months*	21.8	16.9
Net % expecting the unemployment rate to rise in 12 months*	-21.1	-14.3

*equal to the % of respondents expecting an increase minus the % expecting a decrease. Source: ANZ Bank

Quarter	Mar-14	Mar-15
Average ordinary time weekly earnings for FTEs (pre-tax) (\$)	\$1,064.55	\$1,085.48
Labour Cost Index - % change in salary and wage rates (including overtime) from the same quarter of the previous year	+1.6	+1.7

Source: Statistics New Zealand.

Outlook

The rate of employment growth is expected to ease over the coming year on the back of slower economic growth and increased difficulty in sourcing skilled workers. The Ministry of Business, Innovation & Employment's *Short-term Employment Forecasts* has employment increasing by 2.5 percent in the year ended March 2015, with the unemployment rate falling gradually over the year to 5.4 percent in the March 2016 quarter. The Treasury has forecast a lower unemployment rate of 5.1 percent for the March 2016 quarter.

Household Labour Force Survey	Mar-14	Jun-14	Sep-14	Dec-14	Mar-15
Unemployment Rate (seasonally adjusted, %)	6.0	5.7	5.5	5.8	5.8
Employment Growth (annual, %)*	3.8	3.6	3.2	3.6	3.2

*change since the same quarter of the previous year based on seasonally adjusted data. Source: Statistics New Zealand.

Next Release: *Labour Market Statistics: June 2015 quarter.* **Date:** 5 August 2015

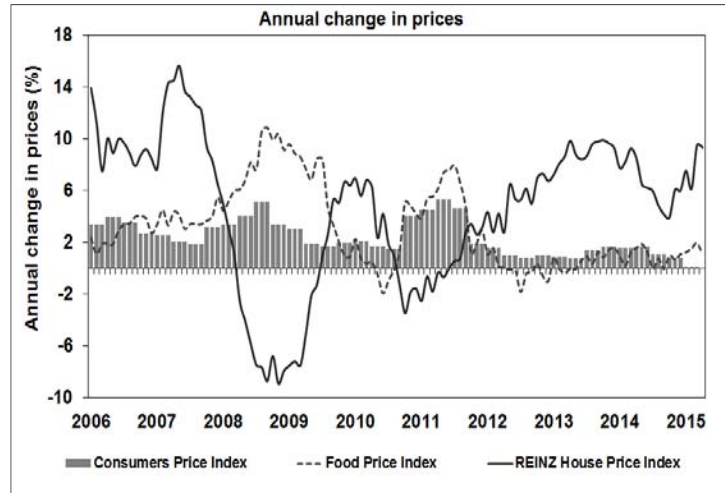
Background

Inflation is the change in prices of goods and services over a certain period of time. The official rate of consumer inflation is measured by Statistics New Zealand's Consumers Price Index (CPI). The CPI tracks the price of a basket of household goods and services over time.

Consumers Price Index

The Consumers Price Index rose by 0.1 percent over the year ended in the March 2015 quarter. This annual inflation rate was the lowest recorded since the year ended in the September 1999 quarter.

The prices of tradable goods and services fell by 2.8 percent over the year, led by lower petrol prices (down 15 percent) and lower audio-visual and computing equipment (down 13 percent). Non-tradable goods and services prices rose by 2.3 percent over the year, their lowest annual rise since the year ended in the September 2012 quarter. During the year to March 2015, cigarette and tobacco prices rose by 14 percent, driven by an increase in the excise duty on tobacco and tobacco products from 1 January.



The Consumers Price Index fell by 0.3 percent in the March 2015 quarter, due to a 10.6 percent fall in petrol prices. The average price of a litre of 91-unleaded petrol was \$1.79 in the March quarter, down from an average of \$2.00 per litre in the December quarter.

Other data

The national median dwelling sale price was \$455,000 in April, up \$22,750 from a year earlier, according to the *Real Estate Institute of New Zealand*. Auckland's median dwelling sale price was \$720,000 in April, up \$108,500 from a year earlier.

Inflation expectations continue to fall, with firms expectations of annual inflation in 12 months time falling to a new low of 1.6 percent in the latest *ANZ Business Outlook* survey. Household inflation expectations as surveyed on behalf of the Reserve Bank have also fallen, with expectations of annual inflation in a year's time falling to a new low of 2.4 percent.

Outlook

There is limited inflationary pressure in the economy, with inflation expectations and forecast annual inflation rates both at low levels. The Treasury has forecast that the annual inflation rate will remain under the Reserve Bank's two percent target midpoint until the 2016 December quarter in the *Budget Economic and Fiscal Update 2015*. The NZIER's latest *Quarterly Predictions* publication has forecast inflation to remain under two percent until the September 2017 quarter.

Annual Percentage Change (%)	Mar-15	Apr-15
Quotable Value – Residential property values*	7.7	8.3
REINZ Stratified Median Housing Price Index**	9.5	9.3
Food Price Index**	1.9	1.0

*change since the same three months ended in the month of the previous year
 **change since the same month of the previous year. Sources: Quotable Value; REINZ; Statistics New Zealand

ANZ Business Outlook Survey	Apr-15	May-15
Net % of respondents expecting to increase prices in 3 months' time*	23.1	22.6
Inflation expected in 12 months' time	1.76	1.62

*equal to the % of respondents expecting an increase minus the % expecting a decrease. Source: ANZ Bank.

Inflation (%)	Mar-14	Jun-14	Sep-14	Dec-14	Mar-15
Consumers Price Index - Annual	1.5	1.6	1.0	0.8	0.1
<i>Tradables inflation</i>	-0.6	0.1	-1.0	-1.3	-2.8
<i>Non-tradables inflation</i>	3.0	2.7	2.5	2.4	2.3
CPI - quarterly	0.3	0.3	0.3	-0.2	-0.3

Source: Statistics New Zealand.

Next Release: *Consumers Price Index: June 2015 quarter.*

Date: 16 July 2015

Background

The balance of payments is the record of the receipts and payments between a country's residents and the rest of the world, over a given period. The current account is that part of a country's balance of payments which embraces its transactions of goods, services, primary income (i.e. international income), and secondary income (i.e. current transfers such as foreign aid). A "balance of payments deficit" refers to a deficit of the current account.

Current account deficit

New Zealand's current account deficit totalled \$7,822 million in the year ended December 2014, equivalent to 3.3 percent of GDP.

As at 31 December 2014, New Zealand's net international investment deficit position, the net amount we owe the rest of the world in net debt and equity, was \$153,920 million (equivalent to 64.7 percent of GDP).

The total value of international reinsurance claims associated with the Canterbury earthquakes has been estimated at \$20,188 million, of which \$4,351 million remained outstanding at 31 December 2014.

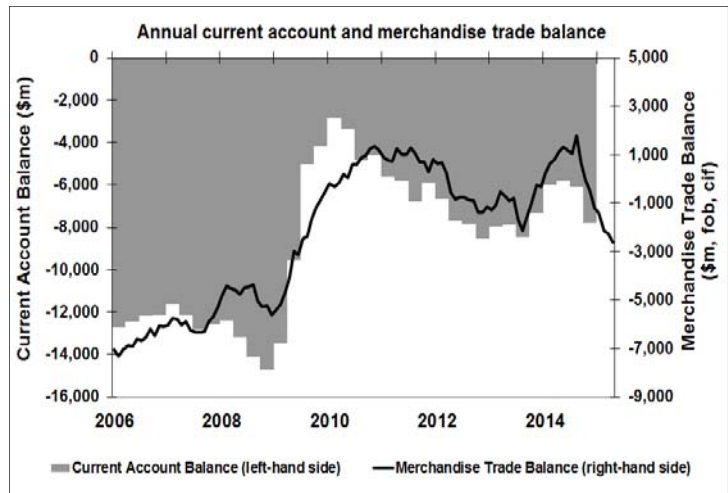
Other data

New Zealand's merchandise terms of trade, which measures the quantity of imports that can be purchased with a fixed quantity of exports, rose by 1.5 percent in the March quarter. Over the quarter import prices fell to a greater extent than export prices. The fall in import prices was due to lower petrol and petroleum product prices, which fell 28.7 percent. Dairy product export prices fell by 6.3 percent over the March quarter.

The *ANZ Commodity Price Index* fell by a further 4.7 percent in May, resulting in a 17.8 percent fall in the index over the year. A drop in dairy prices led the decline, followed by lower meat prices.

Outlook

The current account deficit is forecast to rise as a percentage of GDP. This is due to continuing demand for imports as households and firms take advantage of the high New Zealand dollar, a drop in the price for certain commodity exports, along with a partial rebound in international oil prices from recent lows. The NZIER has forecast a deficit equivalent to four percent of GDP in the year ended March 2015, while the Treasury in the *Budget Economic and Fiscal Update 2015* has forecast a deficit equivalent to 4.1 percent.



Annual Change (%)	Apr-15	May-15
World Commodities Prices*	-15.3	-17.8
NZ\$ Commodities Prices*	-6.9	-7.9
Overseas Visitors**	6.7	n/a

*change since the same month of the previous year. **change since the previous year-end. Sources: Statistics New Zealand; ANZ.

Balances (\$m)	Dec-13	Mar-14	Jun-14	Sep-14	Dec-14	Apr-15
Quarterly Current Account (seasonally adjusted)	-915	-7.7	-2,043	-2,446	-2,621	n/a
Annual Current Account	-7,349	-6,004	-5,813	-6,093	-7,822	n/a
Goods	1,207	2,680	3,221	3,056	1,063	n/a
Services	1,075	1,268	1,326	1,452	1,883	n/a
Primary income (i.e. investment income)	-9,200	-9,517	-9,920	-10,093	-10,225	n/a
Secondary income (i.e. current transfers)	-430	-435	-441	-508	-543	n/a
Net international investment position (as at date)	-145,083	-150,559	-151,099	-152,011	-153,920	n/a
Annual Merchandise Trade Balance (fob-cif)*	-317	798	1,189	667	-1,183	-2,624

* CIF – Cost of goods imported, including insurance and freight to New Zealand. FOB – Free on board, the value of goods at New Zealand ports before export. Source: Statistics New Zealand.

Next Release: *Balance of Payments: March 2015 quarter.* **Date:** 17 June 2015

Background

The trade weighted index (TWI) is an index of the New Zealand dollar's value against a basket of 17 overseas currencies, where each currency is weighted by a combination of the size of the associated country's bilateral merchandise trade with New Zealand (including the Euro group of countries) and their gross domestic product. The official cash rate (OCR) is the interest rate that applies to overnight borrowing and lending between banks and the Reserve Bank. It is currently a key operational feature of monetary policy in New Zealand. The NZX 50 is the main share index of the New Zealand Exchange. It tracks changes in the share prices of the top 50 publicly listed companies by free float market capitalisation on the NZX market. It is a gross index, so it includes the payout of dividends in its calculation.

Recent trends & data

There was no review of the official cash rate in May, and it remained at 3.5 percent. Short-term interest rates eased slightly in May, with the 90-day bank bill rate falling ten basis points to 3.53 percent on a monthly average basis.

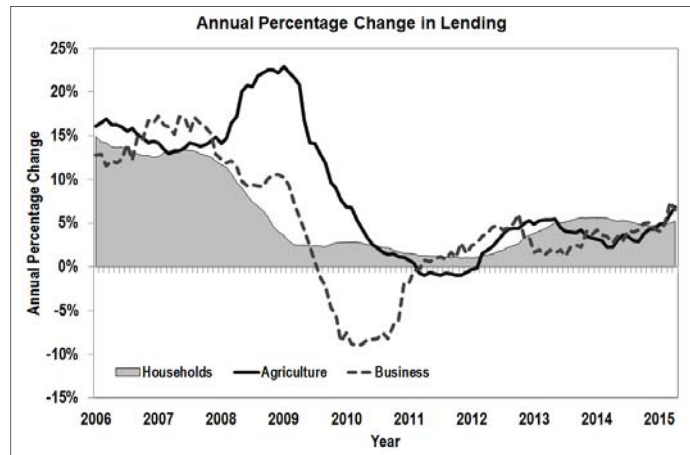
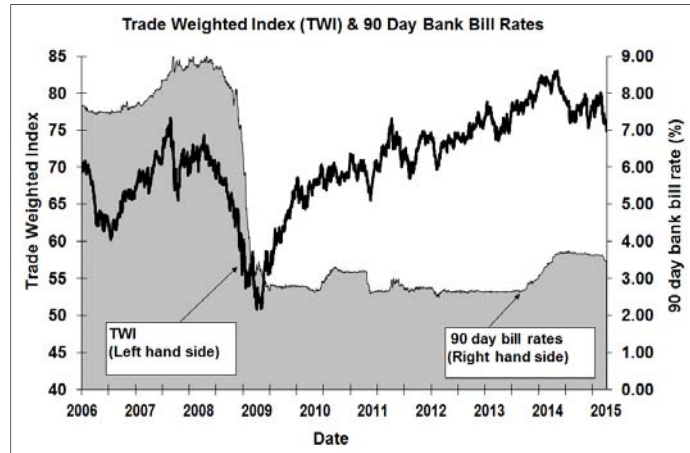
Longer-term government bond yields rose during May, with the 10-year government bond yield rising 40 basis points to 3.65 percent on a monthly average basis. The increase in longer term rates has been driven by higher longer-term rates internationally, as the United States Federal Reserve moves towards tightening monetary policy (expected to commence later this year).

The New Zealand dollar fell 3.3 percent on a trade weighted index (TWI) basis during May, and was around 4.5 cents lower against the Australian dollar (averaging A\$0.9369 in May). When compared with a year ago, the New Zealand dollar is six percent lower on a TWI basis, and just over 14 percent lower against the United States dollar.

Lending growth by the agricultural and household sectors has been rising in recent months, with the value of agricultural sector lending increasing by 6.9 percent to \$55,407 million over the year to April 2015. Household sector lending rose by 5.2 percent to \$215,935 million, the majority of which is mortgage lending.

Outlook

Some economists expect the Reserve Bank to reduce the official cash rate this year. The ASB Bank expects a rate reduction of 25 basis points in both September and October, whereas the NZIER expects the Reserve Bank to hold interest rates steady in 2015 and 2016.



Core Crown borrowing as at	31-Mar-15 (\$m)	31-Mar-15 (%GDP)
Gross sovereign-issued debt *	88,155	37.1
Net core Crown debt **	63,036	26.5

*Excluding Reserve Bank settlement cash and Reserve Bank bills.

** Excluding NZ Super Fund and other advances. Source: The Treasury.

Monthly averages	Jan-15	Feb-15	Mar-15	Apr-15	May-15
90 Day Bank Bill rate	3.67	3.63	3.63	3.63	3.53
10 Year Government Bond yields (secondary market)	3.42	3.26	3.30	3.25	3.65
Effective mortgage rate	6.01	6.01	5.99	5.97	n/a
Business lending rate	6.01	5.98	5.96	5.96	n/a
Trade Weighted Index (TWI) exchange rate	78.18	77.16	78.27	79.17	76.52
NZX 50 index	5648	5779	5873	5822	5768

Sources: Reserve Bank; NZX.

Next Official Cash Rate (OCR) decision: 11 June 2015

Background

New Zealand's economic growth rate, unemployment rate and central bank interest rates are compared with our main OECD trading partners. The first table below illustrates the seasonally adjusted quarterly growth rates in economic activity. The second table below shows the harmonised unemployment rate in each OECD country/area, while the third shows the main central bank interest rates for various countries (and currency group in the case of the Euro), along with the date and direction of the latest movement for each.

Economic growth

Economic growth in the OECD area has fallen over recent quarters, with economic activity within the area expanding by 0.3 percent in the March quarter, down from 0.5 percent in the December quarter.

The Australian economy expanded by 0.5 percent in the December quarter, with household consumption rising by 0.9 percent. Investment in non-dwelling construction and in machinery and equipment both fell by 0.8 percent.

The United States economy contracted by 0.2 percent in the March quarter, due to a decline in exports (due to port disputes disrupting exports), and a reduction in investment at the state and local government levels.

Quarterly economic growth rates (%)			
Country*	Sep-14	Dec-14	Mar-15
Australia	0.4	0.5	n/a
Japan	-0.5	0.3	0.6
NEW ZEALAND	0.9	0.8	n/a
United Kingdom	0.6	0.6	0.3
United States	1.2	0.5	-0.2
Euro area	0.2	0.3	0.4
OECD Total	0.6	0.5	0.3
China	1.9	1.5	1.3

* Seasonally adjusted growth rate from the previous quarter. Source: OECD.

Unemployment

The unemployment rate within the OECD has been trending downward over the last couple of years, and averaged 6.9 percent on a harmonised basis in March. Unemployment rates within member countries range from 3.4 percent in Japan to 25.7 percent in Greece. The unemployment rates for women, at 7.1 percent, are higher than those for men (6.8 percent), while youth unemployment is 14.2 percent (for those aged 15 – 24 years). Youth unemployment in both Greece and Spain remains at over 50 percent.

Harmonised unemployment rates (%)			
Country	Feb-15	Mar-15	Apr-15
Australia	6.2	6.1	6.2
Japan	3.5	3.4	n/a
NEW ZEALAND	n/a	(5.8 qtr)	n/a
United Kingdom	5.5 (Jan)	n/a	n/a
United States	5.5	5.5	5.4
OECD Total	7.0	6.9	n/a

Sources: OECD; Australian Bureau of Statistics.

Central banks

The Reserve Bank of Australia left its cash rate steady at two percent in early June, following a 25 basis point cut in the cash rate in May. The Bank believes that their economy is growing below its long-term average, with continuing weakness in business investment in both the mining and non-mining sectors. Dwelling prices are rising strongly in Sydney, and the Bank "...is working with other regulators to assess and contain risks that may arise from the housing market". Despite a decline in the Australian dollar, the Bank believes that the rate of inflation will remain consistent with its target rate over the short to medium term.

The People's Bank of China reduced its benchmark lending rate by 25 basis points to 5.1 percent in May on the back of slowing economic growth, while the Reserve Bank of India reduced its policy repo rate by 25 basis points to 7.25 percent in early June on lower economic growth projections.

Central Bank interest rates (as at 5 June)				
Central Bank	Key Rate	Interest Rate (%)	Effective from	Direction (Basis points)
Australia	Cash Rate	2.00	6-May-15	-25
China	Benchmark lending rate	5.10	11-May-15	-25
European Central Bank	Main Refinance Rate	0.05	10-Sep-14	-10
Japan	Uncollateralized overnight rate	0.00 - 0.10	5-Oct-10	-10
NEW ZEALAND	Official Cash Rate	3.50	24-Jul-14	+25
United Kingdom	Bank Rate	0.50	5-Mar-09	-50
United States	Federal Funds Rate	0.00 - 0.25	16-Dec-08	-75

Source: Central Bank interest rates as at the date stated.

Household Balance Sheet statistics from the Reserve Bank of New Zealand

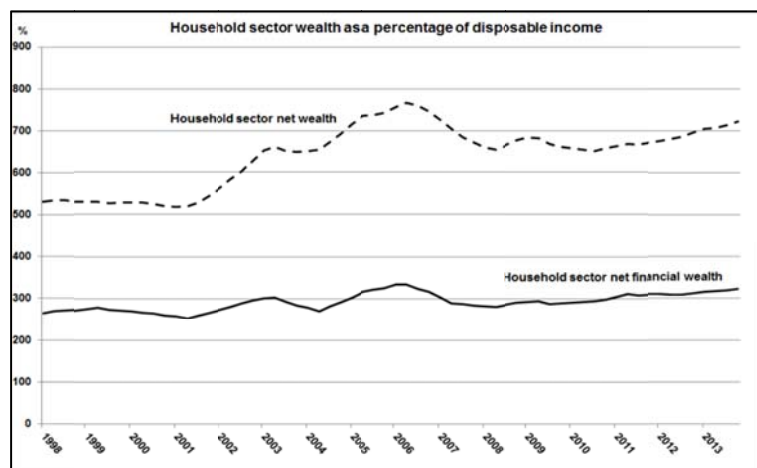
In March 2015 the Reserve Bank of New Zealand (RBNZ) made improvements to its statistics on the household sector financial position and particularly the Household Balance Sheet statistics (table C22). According to the RBNZ there are two major changes:

- A wider coverage of household assets, which now include currency holdings, equity in unincorporated and unlisted incorporated businesses and some unfunded superannuation benefits.
- A narrower definition of the household sector. In particular, residential rental property assets and associated liabilities no longer appear on the household sector balance sheet. Instead, only the equity that households hold in these businesses is included in the balance sheet of the household sector.

The RBNZ notes that “...many unincorporated and unlisted incorporated businesses are owned by the household sector. Therefore the equity (assets less liabilities) in these businesses is recorded on the household balance sheet. This change does not alter household sector net wealth, but does materially alter the gross assets and liabilities of this household sector”.

As at September 2014 the value of housing and land was revised down (by \$182 billion) to remove the value of rental properties which are now treated as businesses. In addition the value of housing loans was reduced (by \$73 billion) to remove the mortgage debt held against rental properties which now appears on the business sector balance sheet.

In contrast equity in unlisted incorporated businesses increased by \$142 billion and equity in unincorporated businesses increased by \$170 billion. The changes added an additional \$213 billion of net wealth to the previously reported household net wealth estimates.



As at September 2014 the key components of total assets were as follows:

- Housing and land – 48 percent
- Equity in unincorporated businesses – 15 percent
- Equity in unlisted incorporated businesses – 12 percent
- Registered bank deposits – 11 percent

If rental properties were included in assets (rather than just rental property equity) the share of housing and land investment increased to 60 percent of total assets.

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