



PARLIAMENTARY LIBRARY  
Te Pātaka Rangahau a Te Whare Pāremata

# MONTHLY ECONOMIC REVIEW






August 2014

(Latest data as at 7 August)

Parliamentary Library Research Paper

## A Overview

### Recent trend

	2012/13	2013/14	
 Economic Growth	2.3%	3.3%	Annual average GDP Growth (March year)
 Unemployment	6.4%	5.6%	Unemployment Rate (June quarter)
 Inflation	0.7%	1.6%	Annual Inflation Rate (June year)
 Current Account Deficit	\$8.3b	\$6.3b	Current Account Deficit (March year)
 Interest Rates	2.64%	3.67%	90 Day Bank Bills (July month)

### Latest data and events

New Zealand's annual inflation rate was 1.6 percent in the year ended in the June 2014 quarter, continuing its rise in 2014 from the low of 0.7 percent a year earlier. Over the year, costs associated with the purchase of new housing rose by 4.6 percent, while housing rental costs rose by 2.2 percent. The increase in the tobacco and tobacco products excise duty from 1 January 2014 was a significant driver of inflation over the year to date. As a result, the price of cigarettes and tobacco was 10.2 percent higher in the June 2014 quarter than the June 2013 quarter.

The unemployment rate fell to 5.6 percent in the June 2014 quarter, down 0.3 percentage points from the previous quarter. There was also an increase in employment in the quarter, rising by 0.4 percent. The OECD average unemployment rate was 7.4 percent in May 2014.

Reserve Bank Governor, Graeme Wheeler, increased the official cash rate by a further 0.25 percent in July to 3.5 percent. The Governor also noted that *"with the exchange rate yet to adjust to weakening commodity prices, the level of the New Zealand dollar is unjustified and unsustainable and there is potential for a significant fall."*

International commodity prices for New Zealand's main commodity exports recorded a fifth successive monthly decline in July, down 2.4 percent in the month (down 3.5 percent after currency appreciation is taken into account), according to the *ANZ Commodity Price Index*. International dairy product prices have continued to fall, down 8.4 percent in the latest auction. In response to the most recent auctions Fonterra has reduced its 2014-15 forecast payout by \$1 to \$6 per kilogram of milk solids. The seasonally adjusted value of goods exported fell 7.4 percent in the June 2014 quarter driven by milk powder, butter and cheese.

### Outlook

Economic indicators suggest continuing economic growth for 2014 and into 2015. The Reserve Bank, in its latest Official Cash Rate decision, forecast a growth rate of 3.7 percent over 2014. It signalled a pause in interest rate rises noting that *"it is prudent that there now be a period of assessment before interest rates adjust further towards a more-neutral level"*. Business optimism is continuing to decline from its previous high levels but remains above average.

**Topic of the month:** Census Housing Tables

# 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

Economic activity increased by one percent in the March 2014 quarter, and by 3.3 percent in the year to March 2014. Real gross national disposable income (RGNDI), which measures the real purchasing power of New Zealand's disposable income, rose 1.6 percent in the March 2014 quarter. RGNDI increased 7.3 percent for the March 2014 year, compared with an increase in GDP of 3.3 percent over the same period. This is the largest annual rise in RGNDI since the series began and reflects an increase in the terms of trade.

## Other data

Retail card spending was flat in June 2014 with fuel and hospitality seeing the largest rises but spending on durables falling. International visitor arrivals were the highest ever for a June month with growth driven by visitors from Asia, especially Japan and China.

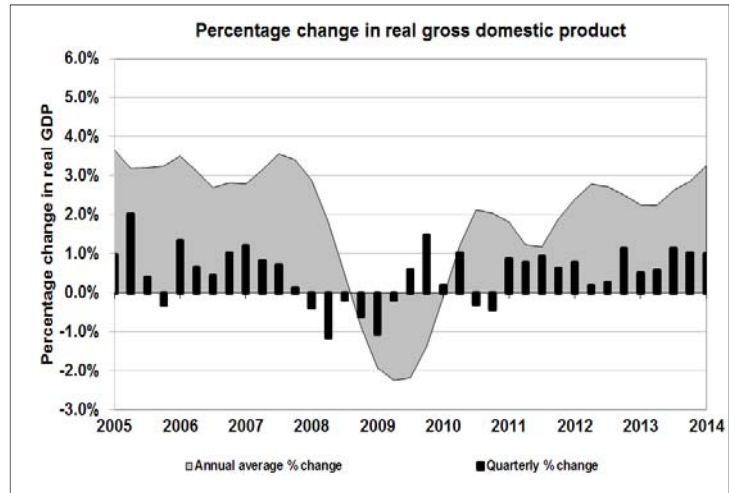
NZIER's *Survey of Business Opinion* commented that "the economic recovery moderated a little in the June 2014 quarter" with this moderation apparent across all indicators. The pace of growth remains robust however despite this slowing in momentum.

Business confidence fell again in July, as surveyed by the *ANZ Business Outlook Survey*. A net 40 percent of firms expect an improvement in trading conditions in 12 months' time, down from a net 43 percent in June's survey. Consumer sentiment increased for the second month according to the July *ANZ-Roy Morgan* survey but only by a minimal amount.

The seasonally adjusted *BNZ-BusinessNZ Performance of Services Index* for June was up slightly from May at 54.7 points, averaging 56.1 so far in 2014. The equivalent seasonally adjusted *BNZ-BusinessNZ Performance of Manufacturing Index* for June was 0.7 points higher than in May at 53.3 points with a slight pick-up in activity levels.

## Outlook

The Treasury's *Pre-Election Economic and Fiscal Update 2014* will be released on 19<sup>th</sup> August. Its July 2014 *Monthly Economic Indicators* noted that recent data shows that "confidence in the economic outlook has slipped, export growth weakened and housing market activity slowed". It stated that "net exports are expected to make a negative contribution to real GDP growth in the June quarter".



Year ended March 2014	Nominal GDP
Expenditure GDP	\$226,551 million
GDP per capita	\$50,457

Source: Statistics New Zealand.

ANZ Business Outlook Survey	Jun-14	Jul-14
Net % expecting an improvement in business conditions in 12 months' time	42.8	39.7
Net % expecting an improvement in their own firm's activity in 12 months' time	45.8	45.1

Source: ANZ Bank, Business Outlook survey.

GDP growth (%)	Mar-13	Jun-13	Sep-13	Dec-13	Mar-14
Annual (year-on-year)	2.3	2.2	2.6	2.7	3.3
Quarterly (seasonally adjusted)	0.5	0.6	1.1	1.0	1.0

Source: Statistics New Zealand.

**Next Release:** Gross Domestic Product: June 2014 quarter.

**Date:** 18 September 2014

# C Employment and Unemployment

## Background

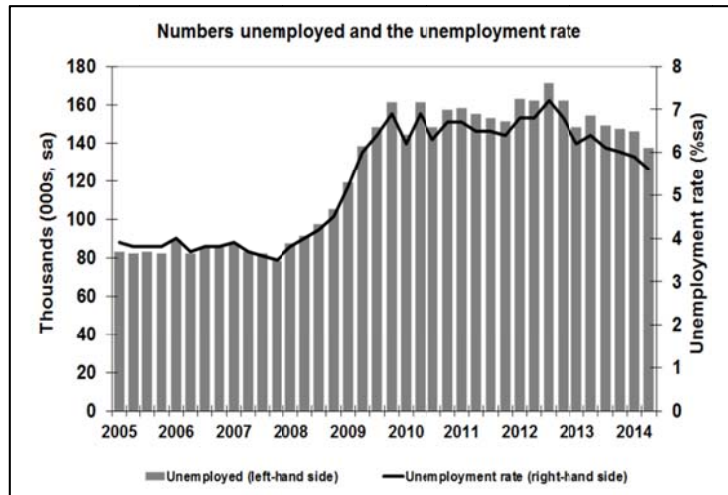
The unemployment rate measures the number of people unemployed as a proportion of those in the labour force. The labour force is the number of people of working age (15 years and over) who are working for wages or a salary, working for a family business, or who are unemployed and seeking work. In New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

## Employment and unemployment

New Zealand's unemployment rate was 5.6 percent in the June 2014 quarter, with 137,000 people unemployed in seasonally adjusted terms down from 146,000 people the previous quarter.

During the June quarter, the number of those employed rose by 0.4 percent while the working-age population (which also includes those unemployed) rose 0.6 percent. The unemployment rate fell by 0.1 percentage points.

The labour force participation rate (which measures the proportion of those aged 15 years and over who are in the labour force), decreased 0.3 percentage points to 68.9 percent in the June quarter.



In the year to the June 2014 quarter, full-time jobs increased 4.6 percent, the highest since the September 2004 quarter. Filled jobs increased 2.3 percent in the year to the June quarter.

New Zealand's unemployment rate was 9<sup>th</sup> in the 34 OECD countries. The average OECD rate was 7.4 percent.

ANZ Business Outlook Survey	Jun-14	Jul-14
Net % expecting to increase employment in their business in 12 months*	23.6	25.4
Net % expecting the unemployment rate to rise in 12 months*	-36.2	-30.3

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

## Other data

Job advertisements rose 5.7 percent in June after a 4.8 percent fall in May according to the ANZ New Zealand Job Ads survey. Job advertising has lifted 0.6 percent since April and is at the highest level since October 2008.

The Ministry of Business, Innovation and Employment's *Jobs Online* reported a 11.2 percent increase in online vacancies in June in seasonally adjusted terms, with a 14.5 percent increase in skilled job vacancies. The number of vacancies is 17.5 percent higher than at the same time last year.

Quarter	Jun-13	Jun-14
Average ordinary time weekly earnings for FTEs (pre-tax) (\$)	\$1,035.12	\$1,062.74
Labour Cost Index - % change in salary and wage rates (including overtime) from the same quarter of the previous year	+1.7	+1.7

Source: Statistics New Zealand.

## Outlook

The unemployment rate is expected to trend down slowly, according to the latest *Short-Term Employment Prospects* published by the Ministry of Business, Innovation and Employment. According to their forecasts, the unemployment rate will fall to five percent by the March 2015 quarter and 4.8 percent in the March quarter 2016. The food processing, retailing, accommodation, business services and construction industries are expected to create most of these opportunities amongst lower skilled workers.

Household Labour Force Survey	Jun-13	Sep-13	Dec-13	Mar-14	Jun-14
Unemployment Rate (seasonally adjusted, %)	6.3	6.2	6.0	5.9	5.6
Employment Growth (annual, %)*	0.7	2.4	3.0	3.7	3.7

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

**Next Release:** Household Labour Force Survey: September 2014 quarter. **Date:** 5 November 2014

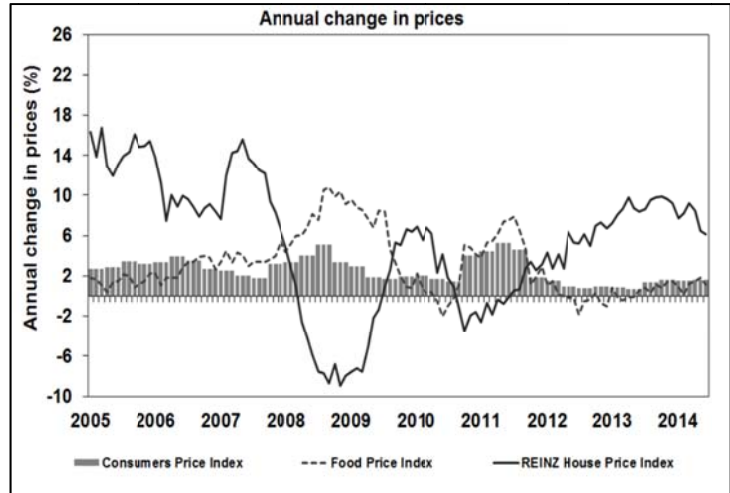
## Background

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

Annual inflation in the year ended in the June 2014 quarter was 1.6 percent, with the price of tradable goods and services rising by 0.1 percent over the year, while non-tradable goods and services prices rose by 2.7 percent.

Higher prices within the housing and household utilities group accounted for just over half the increase in inflation over the year. Within this group, costs associated with the purchase of new housing rose by 4.6 percent over the year, while housing rental costs rose by 2.2 percent. Also during the year, cigarette and tobacco prices rose by 10.2 percent, driven by higher excise duties on tobacco and tobacco products from 1 January 2014. Property rates and electricity prices rose, by 4.1 percent and 4.5 percent respectively.



In the quarter, consumer prices rose by 0.3 percent overall. Prices for housing and housing utilities were the largest upward contributor to consumer prices with the latest quarterly rise the largest since December 2010. Costs associated with the purchase of new housing rose by 1.2 percent in the quarter, with costs rising by 1.7 percent in Canterbury. Rental costs in Canterbury rose by 1.4 percent over the June quarter, and by 0.6 percent nationally. Electricity prices rose by 4.2 percent while package holidays fell 6.5 percent.

## Other data

There were 5,763 dwellings sold in June 2014 according to the Real Estate Institute of New Zealand, with a national median sale price of \$427,250. All regions saw sales fall compared with May. The REINZ *Stratified Housing Price Index* for New Zealand rose by 6.2 percent over the year with Auckland rising 6.5 percent, Christchurch up 5.5 percent and Wellington down 3.1 percent.

Food prices over the year to June 2014 increased 1.2 percent with fruit and vegetables falling 2.3 percent and meat, poultry and fish prices increasing 2.8 percent.

## Outlook

The Reserve Bank expects the annual rate of inflation to peak at 2.1 percent over its projection period out to June 2017. The July ANZ *Business Outlook Survey* noted that a net 59 percent in the construction sector expected prices to rise.

Annual Percentage Change (%)	Jun-14	Jul-14
Quotable Value – Residential property values*	8.0	7.6
REINZ Stratified Median Housing Price Index**	6.2	n/a
Food Price Index**	1.2	n/a

\*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	Jun-14	Jul-14
Net % of respondents expecting to increase prices in 3 months' time*	24.8	26.0
Inflation expected in 12 months' time	2.52	2.62

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

Inflation (%)	Jun-13	Sep-13	Dec-13	Mar-14	Jun-14
Consumers Price Index - Annual	0.7	1.4	1.6	1.5	1.6
<i>Tradables inflation</i>	-1.6	-0.5	-0.3	-0.6	0.1
<i>Non-tradables inflation</i>	2.5	2.8	2.9	3.0	2.7
CPI - quarterly	0.2	0.9	0.1	0.3	0.3

Source: Statistics New Zealand.

**Next Release:** *Consumers Price Index: September 2014 quarter.*

**Date:** 23 October 2014

## 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, international income, and current transfers (e.g. 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 \$6,323 million in the year ended March 2014, equivalent to 2.8 percent of GDP. This compares with a deficit equivalent to 3.9 percent of GDP a year earlier.

New Zealand's net international investment positions, the net amount we owe the rest of the world includes net external debt which is primarily held by the private sector. As at 31 March 2014, the banking sector held net external debt of \$97.1 billion, and other private sector held net external debt of \$31.4 billion. Monetary authorities held net lending assets of \$16.6 billion, while the general government held net external debt of \$27.1 billion.

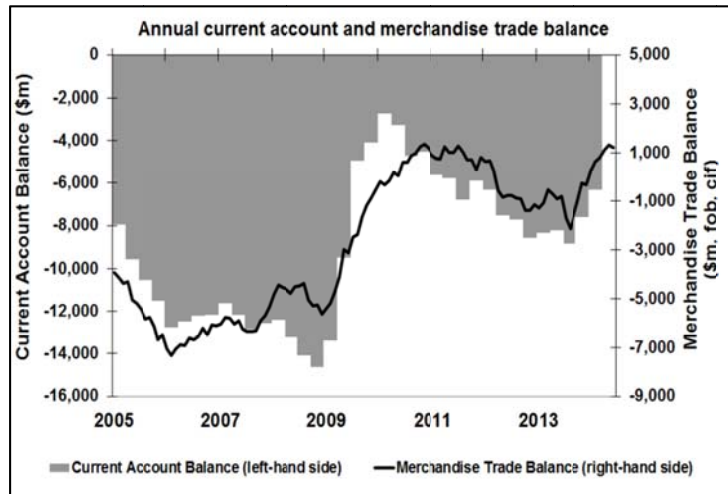
### Other data

International commodity prices fell by 2.4 percent in July according to the latest *ANZ Commodity Price Index*, with international prices 3.3 percent lower than a year ago. Once changes in the New Zealand dollar have been taken into account, international commodity prices are 11.6 percent lower than a year earlier primarily driven by lower whole milk prices.

International dairy product prices fell 8.4 percent according to the latest Fonterra *Global Dairy Trade* auction results. Prices have fallen in all but one of the auctions since February 2014. As a result, international dairy prices are at their lowest price since August 2012. In response to the most recent auctions Fonterra has reduced its 2014-15 forecast Farmgate Milk Price by \$1 to \$6 per kilogram of milk solids.

### Outlook

The *NZIER Consensus Forecasts* has forecast a current account deficit of \$10,100 million for the year ended March 2015. The *Budget Economic and Fiscal Update* forecast a deficit of 4.4 percent of GDP in March 2015 and 5.9 percent in March 2016.



Annual Change (%)	Jun-14	Jul-14
World Commodities Prices*	-0.3	-3.3
NZ\$ Commodities Prices*	-7.8	-11.6
Overseas Visitors**	5.7	n/a

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

Balances (\$m)	Mar-13	Jun-13	Sep-13	Dec-13	Mar-14	Jun-14
Quarterly Current Account (seasonally adjusted)	-1,784	-2,220	-2,564	-921	-585	n/a
Annual Current Account	-8,349	-8,244	-8,868	-7,623	-6,323	n/a
Goods	567	267	-294	1,306	2,893	n/a
Services	1,060	1,101	1,099	1,114	1,233	n/a
Income	-9,484	-9,026	-9,084	-9,522	-9,932	n/a
Current transfers	-492	-586	-589	-521	-517	n/a
Net international investment position (as at date)	-151,197	-151,279	-149,434	-146,908	-147,964	n/a
Annual Merchandise Trade Balance (fob-cif)*	-521	-819	-1,559	-317	798	1,201

\* 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: June 2014 quarter.* **Date:** 17 September 2014

## Background

The trade weighted index (TWI) is an index of the New Zealand dollar's value against a basket of five overseas currencies, where each currency is weighted by a combination of the size of the associated country's 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

Reserve Bank Governor, Graeme Wheeler, lifted the official cash rate by a further 25 basis points in July, the fourth increase this year. The official cash rate is now 3.5 percent, having previously remained at 2.5 percent from March 2011 through to March 2014.

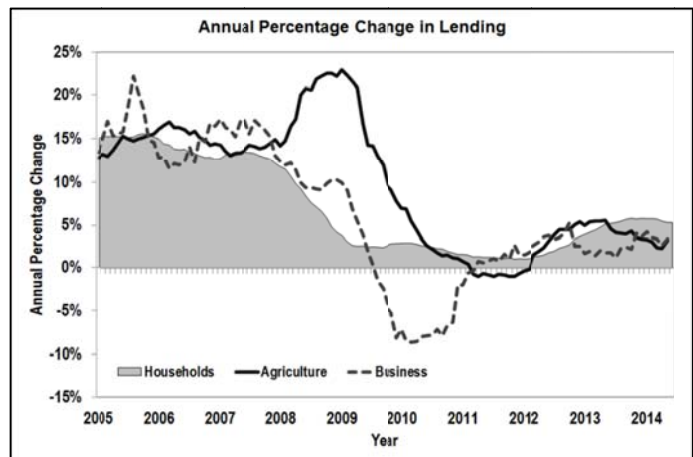
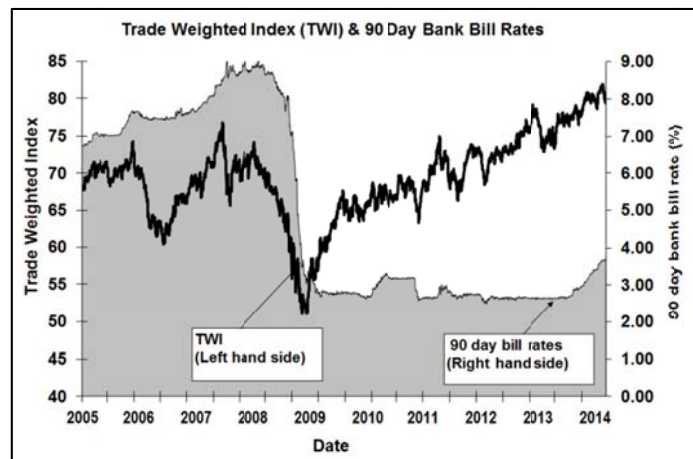
In raising the official cash rate, the Governor suggested a pause in future rises stating that "encouragingly, the economy appears to be adjusting to the monetary policy tightening that has taken place since the start of the year."

The exchange rate, on a trade weighted index (TWI) basis, reached a new post-float high on a monthly average basis in July, when it averaged 80.93 index points. It fell back towards the end of July due to a combination of weaker commodity prices, reduced payments to dairy farmers, a pause in future interest rate rises and speculation that the Reserve Bank may intervene in the market.

Household lending rose by 0.4 percent in June on a seasonally adjusted basis while business lending fell by 0.4 percent. High loan-to-value (LVR) lending accounting for 6.7 percent of new mortgage lending undertaken during the month. This was well within the target of ten percent set by the Reserve Bank although at its highest level since the target was implemented.

## Outlook

The Reserve Bank announces its next official cash rate decision on 11 September. It is expected that there will be no change in the current rate until later in the year.



Core Crown borrowing as at	31-May-14 (\$m)	31-May-14 (%GDP)
Gross sovereign-issued debt *	82,150	36.3
Net core Crown debt **	59,465	26.2

\*Excluding Reserve Bank settlement cash and Reserve Bank bills.

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

Monthly averages	Mar-14	Apr-14	May-14	Jun-14	Jul-14
90 Day Bank Bill rate	3.05	3.24	3.38	3.52	3.67
10 Year Government Bond yields (secondary market)	4.58	4.55	4.29	4.42	4.37
Effective mortgage rate	5.55	5.64	5.73	5.80	n/a
Business lending rate	5.53	5.58	5.67	5.90	n/a
Trade Weighted Index (TWI) exchange rate	79.68	80.20	80.09	80.31	80.93
NZX 50 index	5110	5110	5173	5161	5146

Sources: Reserve Bank; NZX.

**Next Official Cash Rate (OCR) decision: 11 September 2014**

## 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

In the June 2014 quarter, the United States economy grew by one percent after falling 0.5 percent in the previous quarter. Activity in China has also increased by some measures in recent months after a government stimulus earlier in 2014. Despite this the International Monetary Fund (IMF) warned at the end of July that without reforms, *"the hard-landing risk continues to rise and is assessed to be medium-likely over the medium term."*

Rising inflation is occurring in some countries owing to country-specific factors such as higher domestic demand in the United States, a sales tax rise in Japan and stronger tradable inflation in Australia while six out of 18 member states in the Eurozone are at or close to deflation.

Quarterly economic growth rates (%)			
Country*	Dec-13	Mar-14	Jun-14
Australia	0.8	1.1	n/a
Japan	0.1	1.6	n/a
NEW ZEALAND	1.0	1.0	n/a
United Kingdom	0.7	0.8	0.8
United States	0.9	-0.5	1.0
Euro area	0.3	0.2	n/a
OECD Total	0.6	0.3	n/a
China	1.7	1.5	2.0

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

## Unemployment

The harmonised unemployment rate within the OECD area remained static at 7.4 percent in May. United States unemployment rose slightly by 0.1 percentage points in July to 6.2 percent, with 209,000 non-farm jobs added in the month. Australia's unemployment rate was 6.4 percent in July in seasonally adjusted terms, up from 6.1 percent in June. The Reserve Bank of Australia noted in July that *"it will probably be some time yet before unemployment declines consistently while growth in wages has declined noticeably"*.

Harmonised unemployment rates (%)			
Country	May-14	Jun-14	Jul-14
Australia	5.9	6.1	6.4
Japan	3.5	n/a	n/a
NEW ZEALAND	n/a	5.6 (qtr)	n/a
United Kingdom	6.6 (Mar)	n/a	n/a
United States	6.3	6.1	6.2
OECD Total	7.4	n/a	n/a

Sources: OECD; Australian Bureau of Statistics.

## Central banks

The United States Federal Reserve announced in July that it was continuing to reduce the size of its quantitative easing programme by US\$10 billion per month. It will now purchase \$25 billion per month of agency mortgage-backed securities and Treasury securities. This compares with a monthly purchase of US\$85 billion at the peak of the quantitative easing programme.

The Bank of Japan decided unanimously in July to continue increasing its monetary base at an annual pace of 60 trillion yen to 70 trillion yen and lowered growth outlook for the fiscal year of 2014 to 1 percent.

Central Bank interest rates (as at 7 August 2014)				
Central Bank	Key Rate	Interest Rate (%)	Effective from	Direction (Basis points)
Australia	Cash Rate	2.50	7-August-13	-25
China	Benchmark lending rate	6.00	6-Jul-12	-31
European Central Bank	Main Refinance Rate	0.15	11-Jun-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.

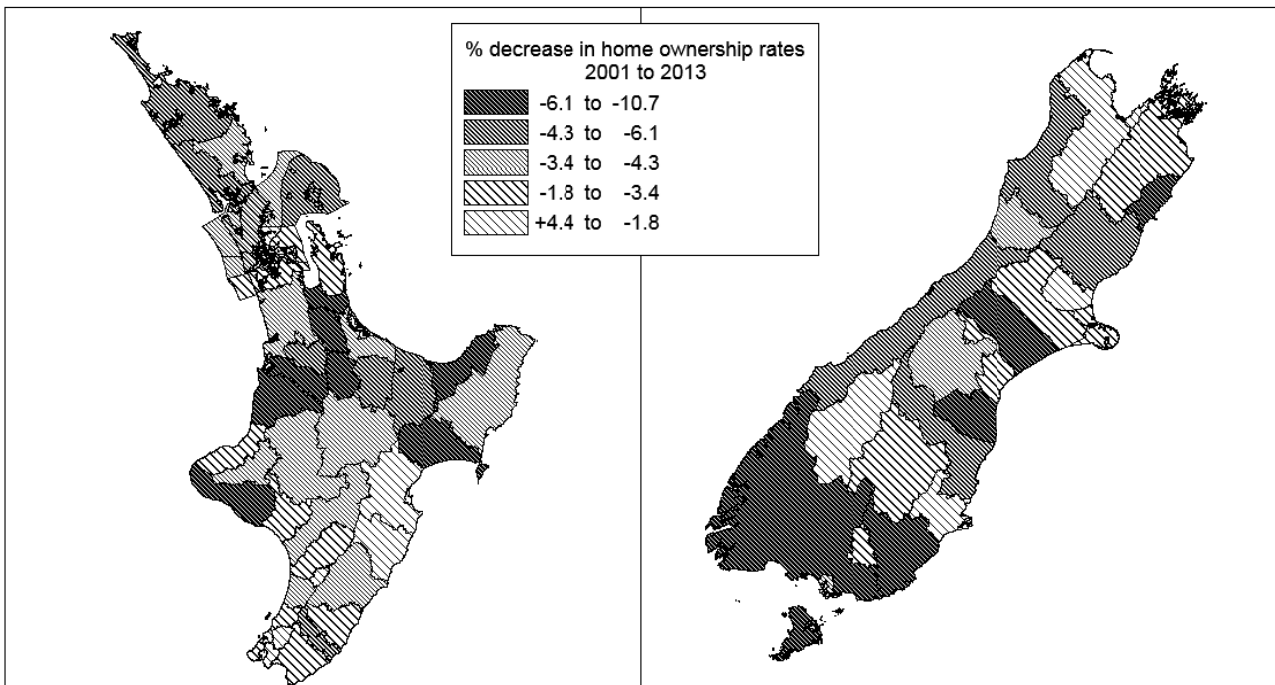
## Census Housing Tables

Earlier this month Statistics New Zealand released the *2013 Census housing tables* from information collected during the 2013 census. These tables contain information on household tenure, median rents and median household incomes.

The data showed a continuing trend of lower home ownership. The recent census revealed 64.8 percent of households owned their home or held it in a family trust, down from 66.9 percent in 2006 and 67.8 percent in 2001. This includes households who made mortgage payments and households who did not. However, internationally New Zealand still has relatively high rates of home ownership.

The map below shows the percentage decrease in home ownership over 2001-2013 on a territorial authority basis. Although there is a focus on housing affordability in larger metropolitan centres, the biggest decreases in home ownership have actually taken place in smaller urban and rural areas. The largest decrease in home ownership was in Southland with a 10.67 percent decline while the biggest increase was in the Central Hawkes Bay District, which reported a growth in the rate of home ownership of 2.83 percent.

These declines in home ownership are despite the fact that rent as a proportion of household income is the highest in metropolitan centres (Auckland and Wellington) and lower in outlying and rural areas.



Emma Doherty and Charles Feltham  
Research Services Analysts – Economics  
Economics, Society and Infrastructure Team.  
Parliamentary Library



This work is licensed under the Creative Commons Attribution 3.0 New Zealand licence. In essence, you are free to copy, distribute and adapt the work, as long as you attribute the work to the Parliamentary Library and abide by the other licence terms. To view a copy of this licence, visit <http://creativecommons.org/licenses/by/3.0/nz/>.