



NEW ZEALAND COUNCIL OF TRADE UNIONS
Te Kauae Kaimahi

CTU Monthly Economic Bulletin

No. 216 (January 2020)

Happy New Year everyone. This is not only the first Bulletin for the year but the first Bulletin produced by Andrea Black the new Policy Director and Economist.

Happy New Year

Hello everyone.

Andrea Black here – the new Policy Director and Economist for the CTU.

Continuing the multidisciplinary approach started with Bill Rosenberg and his origins in mathematical psychology, I am coming to you following a career in policy, accounting and tax – including tax enforcement.

It is a delight to be returning to economics as a discipline.

My love of economics started in London in the 90's reading [Samuel Brittan in the Financial Times](#) before lunch. Because reading the FT always counted as 'work' in the accounting team.

I was trying to understand what had caused the [ERM recession](#) I was living through as well as a confusion that - in New Zealand - the 1984 promise of my ECON 101 lecturer of 'everything would be fixed in 18 months' hadn't happened.

Returning to New Zealand, pregnant with my first child, I proceeded to study economics part time while having and then raising two small children.

Coming into this job, I am amused to find I am unable to revisit the technical side of economics without the personal also coming back. This included the learning of the:

- Capital asset pricing model alongside introducing solids to number one son
- IS/LM/BP model while heavily pregnant with number two son and
- Wicksell's natural rate of interest while nursing number two son who wouldn't take a bottle.

As well as finding that several of the underlying behavioural assumptions in principal/agent theory were the same ones I was trying to socialise out of my toddler.

From that study though I found that the ERM recession was caused by a reduction in the money supply – leftward shift in LM curve – to remove inflation with German reunification. And the 80's reforms hadn't fixed everything in 18 months because real people's expectations are *adaptive* rather than *rational*.

My study also brought home the importance of capital – including human capital – to fully thrive in our economy. I know the term 'capitalism' is a bit of a give away. But what can I say – I am slow.

But underlying all economics is real people and their lives. The greek letters that qualify any factor in a tricky formula ultimately come down to human behaviour.

And my time raising the next generation was probably the most socially productive thing I have done.¹ Work that is not captured in any [official metrics](#).

Also reflecting on that time of my life, I realise it was only possible because the **housing market enabled four people to be supported on one income**. True it was a professional income but increasingly the value in the New Zealand economy is being transferred to the owners of land.

I no longer read Samuel Brittan.

I do read [Michael Reddell](#), [Jess Berenton- Shaw](#) and [Isabelle Sin](#). And while I am a member of the Labour Party, I never met a TOP policy I didn't like.²

So why have I told you all this?

Because all analysis is coloured by our life experiences and those are mine. And now I commence a role that has 'economist' in its title and the production of the CTU's monthly economics bulletin.

While we are committed to social justice generally, the CTU and the union movement's part in the progressive ecosystem is on everyone who needs to sell their labour, and cannot rely on income from capital, to get by. As I get to grips with this role I will come back to this as a touchstone.

Also, as I am new, I am looking to unpack what success – or at least 'not failure' – looks like for everyone who goes to paid work every day, or wants to.

This is what I have come up with – so far. There is no particular science to any of it.

- 1) Come home every day uninjured.
- 2) Paid what they are legally owed – no wage theft.
- 3) Treated respectfully in the workplace so are able to thrive and meet their potential.
- 4) Receive all entitlements from the government.
- 5) Roof over one's head and cost does not crowd out other necessities.
- 6) Food to eat and cost does not crowd out other necessities.
- 7) Everyone pays tax progressively according to their income. Not just those in the PAYE system.
- 8) Receive access to public services according to need.

I agree it isn't quite *Give me bread, but also give me roses*. But I am only nine days in - and inherently a technocrat – so bear with me.

But I will treat it as a work in progress and hope to develop the theme as the months go by.

Interested in all feedback. andreab@nzctu.org.nz

¹ Although making large foreign companies pay tax would have to be up there.

² The cat stuff was never TOP policy. Just Gareth.

I am looking to refine the information and analysis in the Bulletin along these lines. What that will mean is greater emphasis on housing costs, workplace injuries and fatalities and all things labour and employment related.

For the more standard economic analysis I will be attaching the [Monthly Economic Review from the Parliamentary Library](#).³

A document that serendipitously comes out two weeks before this one. It may mean that the odd bit of economic data in the month gets missed but it will get picked up the following month. And for those who can't wait – I'd recommend signing up for [Stats NZ's information releases](#).

In fact I'd recommend that anyway. As I have been finding my way into this role – I have been extremely impressed by the analysis, commentary and insights from Stats NZ.

This month I look at food and housing prices as well as the different price indices produced by Stats NZ. This is very important as – who would have thought – the basket of goods purchased by low income earners is different from high income earners. And both are different to the CPI.

But otherwise the [November Bulletin](#) can be found here and I hope to talk with you again next month.

Kia Kaha

Andrea

The [NZIER consensus forecast](#) was released on 16 December 2019.

Annual Percentage Change (March Year)	2019/20	2020/21	2021/22	2022/23
GDP	2.2	2.6	2.5	2.2
CPI	2.1	1.8	1.9	1.9
Private Sector average hourly wage	3.5	3.1	3.3	3.4
Employment	1.5	1.6	1.5	1.4
Unemployment rate (% of labour force)	4.3	4.3	4.1	4.0

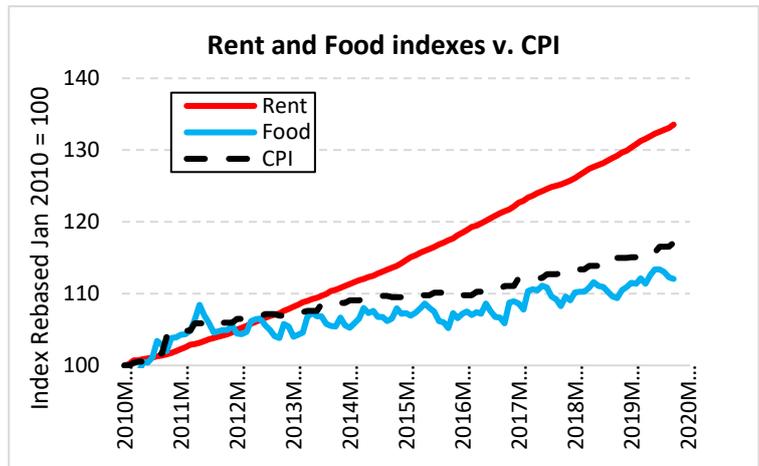
³ I am attaching it in its entirety as I have received feedback that people appreciate being able to print it out. I have hopes of ultimately making it all digital so I will need to bear those needs in mind.

Prices are an inequality issue

In a month where the constrained property market does its thing again through [record rent increases](#), it seems opportune to debut a few new graphs I have been working on. Because as Bill so correctly said in the [November 16 Bulletin](#) - *Prices are an inequality issue*.

Reflecting on the importance of affordable food and rent to those in paid work, or want to, be these graphs look the indices – or cumulative effect – of price changes.

In many ways they speak for themselves. Rent has been outpacing food and general price changes for the last ten years.

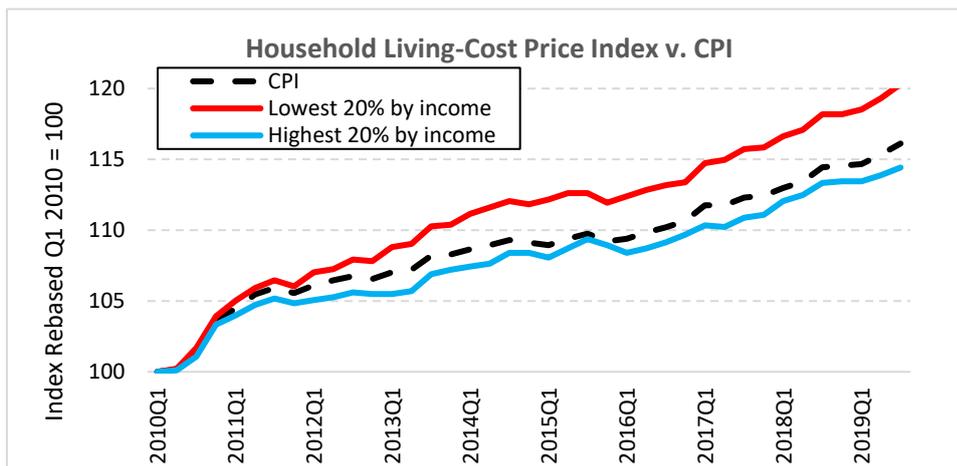


Source:
 CPI009AA - CPI All Groups (Rebased)
 CPI045AA - CPI Monthly Rents (National) - Actual rentals for housing - Stock (Rebased)
 CPI004AA - Food Price Index for New Zealand - Food (Rebased)

The recent increase in [Kainga Ora's debt levels](#) giving them greater capacity to build social houses - while welcome and a step in the right direction - is still not nearly enough to cause the red line to start to slope down again.

I recently came across the concept of [Living Rent](#) from an article by Brendon Harre. This where 12 hours work should be all that is needed to pay the rent for someone in full time paid work. In many ways it is a repackaging of the idea of *affordable rent* or what does housing stress look like – but it is a tangible way of thinking about the issues.

I like it. I like it a lot. Maybe Minister Woods would like to add it to the Government's aspirations for the sector?



For the indexes that relate to high- and low-income households, the effects are not as stark. Possibly because they are over a shorter time period. But the cost of living increases for low income households continues to be

greater than that of high-income households.

This is particularly relevant as benefits, until recently, have increased by CPI and not the index that relates to the household concerned.⁴ The key differences between the two groups is that low income households spend proportionately more on housing, energy and other housing costs than high income households. And high-income households spend proportionately more of their income on interest and transport – cars and air travel – than low income households.

Bill discussed the different new household living cost indices in the [November 16 bulletin](#) when the indices came out. Essentially, since late 2016, Stats NZ is tracking the actual basket of goods consumed by different groups in society.

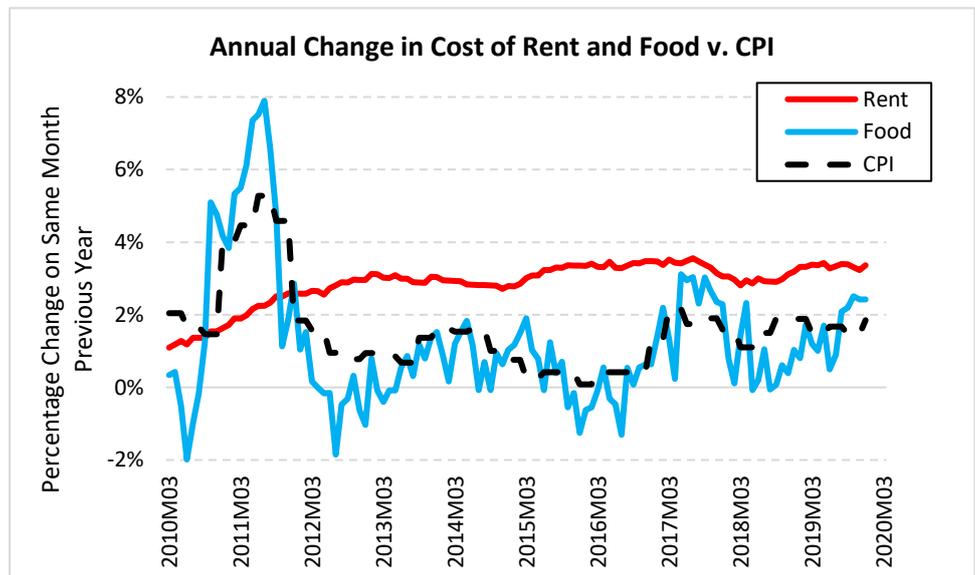
This is an excellent initiative and one I commend them for.

While Stats publishes data on several groups, Bill has previously focussed on is the low- and high-income households⁵. I will be continuing this approach.

Changes in Rent, Food and the Consumer Price Indexes

Statistics New Zealand recently released its figures for the [December 19 quarter](#). The key drivers of the change were rent and air travel. There was a year on year increase in CPI of 1.9%.

Rent increased by 3.1%⁶ and food increasing by 2.5%. Recent food prices, however, decreased by in the December quarter by 0.6% due to a 6.3% seasonal fall in the prices of fruit and vegetables.



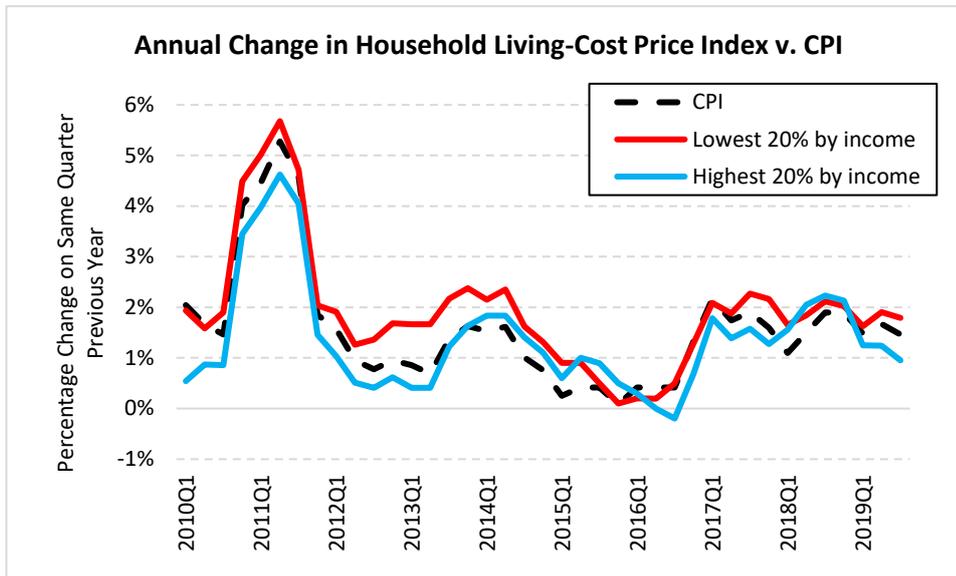
Source:
 CPI009AA - CPI All Groups (Rebased)
 CPI045AA - CPI Monthly Rents (National) - Actual rentals for housing - Stock (Rebased)
 CPI004AA - Food Price Index for New Zealand - Food (Rebased)

⁴ The index for beneficiaries is a separate one to that of low-income households but the effects are similar, and the point still stands.

⁵ Stats NZ provides commentary on low and high expenditure groups rather than the low- and high-income groups which is the basis of these graphs. There are subtle differences between the two groups, and I will expand as needed.

⁶ My calculations give an increase of 3.4%. I am querying this with Stats NZ.

Changes in the Low- and High-Income Household Living-Cost and Consumer Price Indexes



Source:
 CPI009AA - CPI All Groups (Rebased)
 HPI001AA - Household living-costs price indexes All Groups (Rebased)

At the time of writing, while the consumer price index data has come out for December 19, the Household Living-Cost Price indexes had not. These are not expected until early February. However as the key drivers of the CPI were [rising rents and airfares](#), we can expect differing impacts on the low and high income prices indices.

Notes

This bulletin is available online at <http://www.union.org.nz/economicbulletin216>. For further information contact [Andrea Black](#).



MONTHLY ECONOMIC REVIEW

DECEMBER 2019

(Latest data as at 9 December)

Parliamentary Library Research Paper

A Overview

Recent trend

	2017/18	2018/19	
 Economic Growth	3.2%	2.4%	Annual average GDP Growth (June year)
 Unemployment	4.0%	4.2%	Unemployment Rate (September quarter)
 Inflation	1.9%	1.5%	Annual Inflation Rate (September year)
 Current Account Deficit	\$9.3b	\$10.2b	Current Account Deficit (June year)
 Interest Rates	1.75%	1.00%	Official Cash Rate (9 December)

Latest data and events

New Zealand's terms of trade, which measures the volume of imports which can be purchased with a fixed volume of exports, rose by 1.9 percent in the September quarter. The terms of trade returned to near record highs, at just 0.7 percent below its peak in the December 2017 quarter. Dairy products and meat export prices rose in the September quarter while forestry products and non-fuel crude materials export prices fell. Import prices remained steady during the quarter. Lower prices for imported petrol and non-fuel crude materials, plastics and plastic articles were offset by higher prices for textiles, clothing and footwear, along with iron and steel.

Retail sales volumes rose by 1.6 percent in the September quarter, with retail sales growth higher than market expectations. Retail volumes of electrical and electronic goods rose by 4.4 percent in the quarter, reflecting increased sales of electrical appliances, mobile phones, and computer and technical equipment. Departmental stores sales volumes rose by 3.5 percent, which followed a 3.1 percent decline in the previous quarter. Retail sales values rose by 1.4 percent over the September quarter, with the West Coast, Bay of Plenty and Hawke's Bay regions recording the highest growth rates in sales values (in contrast, retail sales values fell by 6.3 percent in the Tasman region).

The Reserve Bank said global financial stability risks and domestic debt vulnerabilities remain a concern in its November *Financial Stability Report*. Household financial liabilities were equivalent to 125 percent of household disposable income in the June 2019 quarter (the highest level recorded since the current series commenced in December 1998). The Bank has decided that its current restrictions on low deposit loans (high loan-to-valuation ratios) for mortgage lending will remain in place for the time being. Global interest rates are expected to remain low, which may result in asset prices to overheat in some sectors over the medium to long-term (e.g. property and share prices), while some borrowers may find themselves overleveraged when interest rates finally rise.

Business confidence improved in November's *ANZ Business Outlook* survey. A net 13 percent of responding firms expect conditions faced by their own business to improve in 12 months' time, compared with a net four percent of firms who were expecting conditions to deteriorate in the previous month's survey. The retail and agricultural sectors had the greatest improvement in 'own activity' business confidence, while the construction sector was the only sector that remained pessimistic regarding its own activity outlook.

The United States and China have yet to successfully complete negotiations on a trade deal, with the possibility of further tariffs on Chinese exports into the United States being introduced on 15 December. The United States President has said that he is in no rush to complete a deal. The President has also announced that he was placing tariffs on steel and aluminium imports from Argentina and Brazil due to perceived manipulation of their currencies.

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 Stats NZ.

Gross domestic product

The economy expanded by 0.5 percent in the June quarter, and by 2.4 percent on an annual average basis. New Zealand's economic growth has been declining on an annual average basis over the past year.

In the June quarter, ten of the 16 industries reported an increase in value-added output, with the utility services industry (electricity, gas and water) expanding by 3.1 percent. In contrast, the mining industry contracted by 4.4 percent. In terms of contribution to overall GDP growth, the rental, hiring and real estate services industry expanded by one percent in the June quarter.

In terms of expenditure GDP, economic growth in the June quarter was driven by an increase in consumption spending (by both government and private sector) along with an increase in the value of inventories. Investment in residential building and other fixed assets fell in the quarter.

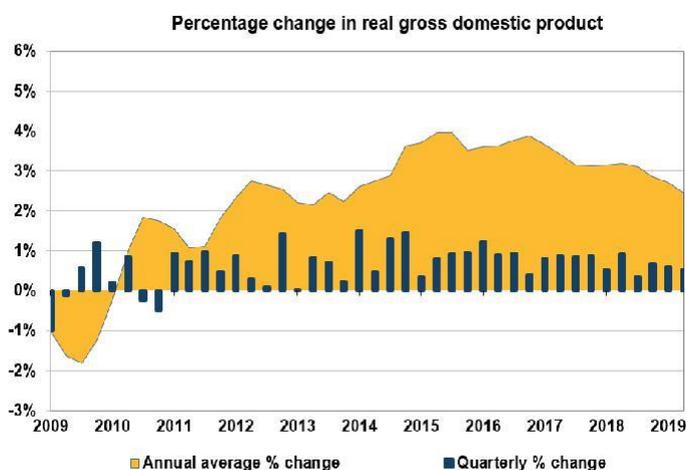
Other data

The volume of building activity undertaken rose by 0.4 percent in the September quarter according to Stats NZ. A 1.1 percent reduction in the volume of residential buildings built in the quarter was offset by a 2.4 percent increase in non-residential building volumes. The value of building work put in place in the year ended September 2019 totalled \$24.9 billion, up 12 percent from a year earlier. The increase in the value of building work undertaken during the year, at \$2.6 billion, was evenly split between an increase in the value of building work undertaken on residential buildings and non-residential buildings.

Retail sales volume rose by a sizeable 1.6 percent in the September quarter, with 11 of the 15 industries reporting an increase in sales volumes. In seasonally adjusted terms, the amount spent in supermarkets and grocery stores rose the most, followed by food and beverage services. The amount spent of fuel fell in the September quarter due to lower fuel prices and volumes.

Outlook

Heightened uncertainty was the main driver behind NZIER reducing their economic growth forecasts slightly in their latest *Quarterly Predictions*, with annual average growth easing to 2.2 percent in the year ended in the March 2020 quarter. The major banks have also forecast lower economic growth, with the ANZ forecasting growth to "stabilise and begin to recover gradually in early 2020". The ASB believes businesses' "hesitancy to hire and invest" is a factor behind moderating economic growth, with firms continuing to report that their profit margins are being squeezed.



Year ended June 2019	Nominal GDP
Gross Domestic Product	\$300,032 million
GDP per capita	\$61,447

Source: Stats NZ.

BNZ-Business New Zealand	Sep-19	Oct-19
Performance of Manufacturing Index	48.8	52.6
Performance of Services Index	54.5	55.4

Seasonally adjusted. A figure over 50 indicates an expansion in activity.
Source: BNZ-Business New Zealand.

ANZ Business Outlook Survey	Oct-19	Nov-19
General 'Business Confidence'	-42.4	-26.4
Own 'Activity Outlook'	-3.5	12.9

Net percentage expecting an improvement in 12 months' time.
Source: ANZ Bank, Business Outlook survey.

GDP growth (%)	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19
Annual average (year-on-year)	3.2	3.1	2.8	2.7	2.4
Quarterly (seasonally adjusted)	0.9	0.3	0.7	0.6	0.5

Source: Stats NZ.

Next Release: *Gross Domestic Product: September 2019 quarter.* **Date:** 19 December 2019

C Employment and Unemployment

Background

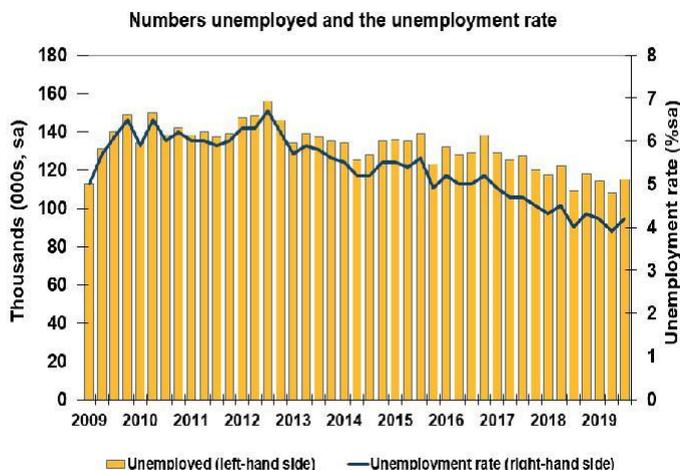
The unemployment rate measures the number of people unemployed as a proportion of those in the labour force. The labour force is the number of people of working age (15 years and over) who are working for wages or a salary, working for a family business, or who are unemployed and seeking work. In New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

Labour market

New Zealand's seasonally adjusted unemployment rate was 4.2 percent in the September 2019 quarter, up 0.3 percentage points from the previous quarter. There were 115,000 people unemployed in the quarter according to Stats NZ (seasonally adjusted).

The unemployment rate has been generally trending downward since a post-global financial crisis peak of 6.7 percent in the September 2012 quarter where 156,000 people were unemployed.

The number of those employed rose by 0.2 percent in the September quarter as a result of an increase in full-time employment. On an annual basis, employment rose by 0.9 percent between the September 2018 and 2019 quarters (again, due to an increase in full-time employment).



Other data

Stats NZ has released a new monthly employment indicator, which is based on tax data. The series measures the number of filled jobs and gross earnings in the economy. According to the series, the number of filled jobs eased by 0.4 percent in October, with decreases across all sectors (primary industries, goods-producing industries, and services industries).

There was a significant increase in firms' employment intentions in the latest ANZ Business Outlook survey, with a net three percent of firms expecting to increase employment in their business over the coming 12 months. This compared with a net nine percent expecting to reduce employment in the previous month's survey. The construction sector was the only sector with a negative employment sentiment in the November survey.

ANZ Business Outlook Survey	Oct-19	Nov-19
Net % expecting to increase employment in their business in 12 months*	-9.4	3.2
Net % expecting the unemployment rate to rise in 12 months*	40.8	32.6

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

Quarter	Sep-18	Sep-19
Average ordinary time weekly earnings for FTEs (pre-tax) (\$)	\$1,189.46	\$1,233.27
Labour Cost Index - % change in salary and wage rates (including overtime) from the same quarter of the previous year	+1.8	+2.4

Source: Stats NZ.

Outlook

The Reserve Bank expects subdued employment growth over the second half of 2019, with employment growth recovering in 2020 due to an increase in capacity pressures. Overall, the Bank expects employment will remain near its maximum sustainable level. As a result, the unemployment rate to "remain around or slightly below" current levels over its projection period. NZIER's latest *Quarterly Survey of Business Opinion* reported that firms had cut back hiring in the September quarter, but were more confident about the December quarter. The NZIER's *Quarterly Predictions* expects the unemployment rate to remain around four percent, with annual employment growth of around one percent. Westpac has the unemployment rate rising to 4.4 percent in the near term, before easing to 3.6 percent in 2022.

Household Labour Force Survey	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19
Unemployment Rate (seasonally adjusted, %)	4.0	4.3	4.2	3.9	4.2
Employment Growth (annual, %)*	2.3	1.9	1.3	1.4	0.9

*change since the same quarter of the previous year based on seasonally adjusted data. Source: Stats NZ.

Next Release: Labour Market Statistics: December 2019 quarter. **Date:** 5 February 2020

D Inflation

Background

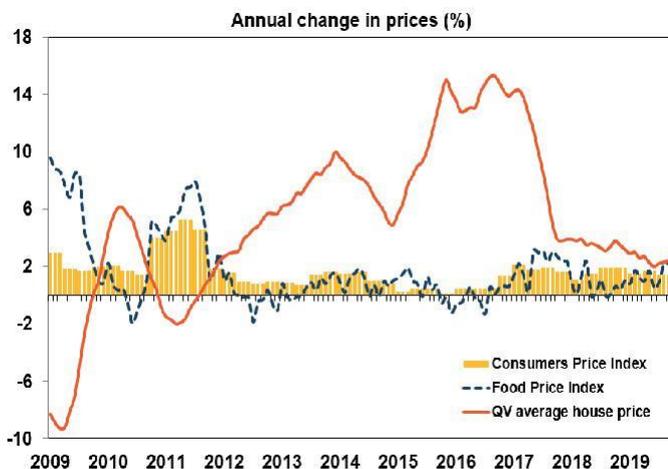
Inflation is the change in prices of goods and services over a certain period of time. The official rate of consumer inflation is measured by Stats NZ's Consumers Price Index (CPI). The CPI tracks the price of a basket of household goods and services over time on a quarterly basis.

Consumers Price Index

Annual inflation was 1.5 percent in the year ended in the September 2019 quarter, within the Reserve Bank's medium term target band of 1 – 3 percent, but below the two percent midpoint.

There is a significant divergence between annual tradable and non-tradable inflation. Tradable goods and services prices fell by 0.7 percent over the year ended in the September quarter, while non-tradable goods and services prices rose by 3.2 percent.

In the September quarter, local authority rates and payments rose by 4.9 percent, while vegetable prices rose by 9.5 percent.



Stats NZ reported that beneficiary, superannuitant and low income households faced the largest increase in household living costs over the year ended September 2019. Higher housing rental costs adversely affected beneficiary and low income households, while an increase in property rates was a significant factor behind higher household costs for superannuitant households.

Other data

House prices rose by 3.3 percent over the year to November according to QV's *House Price Index*. QV confirmed that a fresh upswing in house prices was underway, assisted by lower mortgage rates. Nationally average house prices rose above \$700,000, while house prices in Dunedin rose by 17 percent over the year to \$505,461. Average house prices are now higher in Dunedin than in Christchurch.

Inflation expectations fell in the latest Reserve Bank *Survey of Expectations*. Average inflation expectations, one year ahead, fell from 1.71 percent to 1.66 percent in the latest quarterly survey. Average two year ahead inflation expectations fell from 1.86 percent to 1.8 percent. Expectations of house price inflation over the next year and two years also rose.

Outlook

The Reserve Bank has forecast annual inflation to briefly rise above two percent in the year ended in the March 2020 quarter due to temporary factors, thereafter easing to a range between 1.7 – 1.9 percent over 2020-21. Annual inflation is then forecast to reach two percent in the December 2021 quarter. NZIER has annual inflation reaching two percent in 2020 due to the lagged effects from a lower New Zealand dollar on import prices.

Annual Percentage Change (%)	Oct-19	Nov-19
Quotable Value – Residential property values*	2.8	3.3
REINZ House Price Index**	3.9	n/a
Food Price Index**	2.5	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; Stats NZ.

ANZ Business Outlook Survey	Oct-19	Nov-19
Net % of respondents expecting to increase prices in 3 months' time*	23.6	23.8
Inflation expected in 12 months' time	1.62	1.72

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

Inflation (%)	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19
Consumers Price Index - Annual	1.9	1.9	1.5	1.7	1.5
Tradables inflation	1.0	0.9	-0.4	0.1	-0.7
Non-tradables inflation	2.5	2.7	2.8	2.8	3.2
CPI - quarterly	0.9	0.1	0.1	0.6	0.7

Source: Stats NZ.

E External

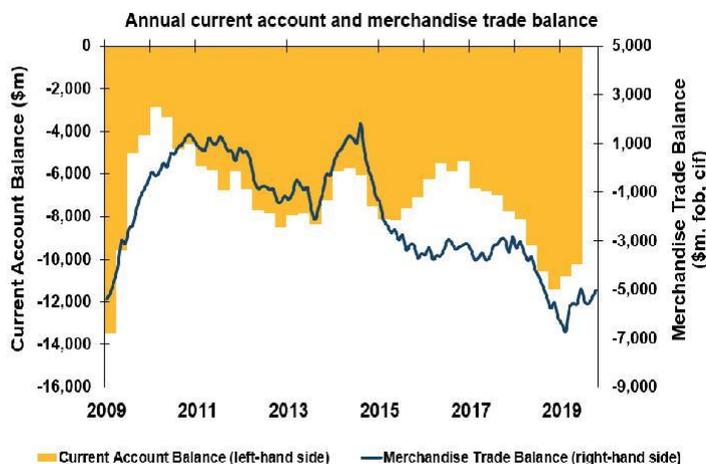
Background

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 balance

New Zealand's annual current account deficit totalled \$10.2 billion in the year ended June 2019, with the deficit equivalent to 3.4 percent of gross domestic product. The seasonally adjusted current account deficit for the June quarter equalled \$2.4 billion, which was \$140 million less than the previous quarter. The goods deficit improved by \$285 million in the quarter.

Foreign investors earned \$19.6 billion on their New Zealand investments in the year ended June 2019, which included \$8.3 billion of interest, \$8.1 billion of dividends, and \$3.1 billion in retained earnings. The majority of these earnings were direct investment income (\$10.3 billion), followed by portfolio investment income (\$5.4 billion), and other investment income of \$3.9 billion.



Other data

Flat import prices and a 1.9 percent increase in export prices were behind a 1.9 percent increase in our terms of trade in the September quarter. Stats NZ reported that lamb and beef export prices reached a new high, while forestry products prices fell by 9.7 percent. Global demand for meat has risen as a result of the African swine fever outbreak in China reducing pork supplies.

Annual Change (%)	Oct-19	Nov-19
World Commodities Prices*	7.2	12.4
NZ\$ Commodities Prices*	9.7	18.8
Overseas Visitors**	2.5 (Sep)	n/a

*change since the same month of the previous year. **change since the previous year-end. Sources: Stats NZ; ANZ.

The price of beef rose by 19 percent in November according to the *ANZ Commodity Price Index*, which was a factor behind an overall increase of 4.3 percent in the index during the month. The strong increase in beef prices was due to China and the United States competing for New Zealand manufactured beef. When movements in the New Zealand dollar are taken into account, international commodity prices rose by 19 percent between November 2018 and 2019.

Outlook

The NZIER expects New Zealand's terms of trade to ease in 2020 on the back of lower export prices and a rise in import prices. The current account deficit is forecast to remain around current levels in the near term before rising over the medium term, reaching 4.3 percent of GDP in the year ended March 2022. Westpac has forecast the deficit to decline in the short term to \$9.4 billion in the year ended March 2020 (around three percent of GDP).

Balances (\$m)	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Oct-19
Quarterly Current Account (seasonally adjusted)	-2,824	-2,614	-2,780	-2,521	-2,381	n/a
Annual Current Account	-9,331	-10,563	-11,437	-10,801	-10,233	n/a
Goods	-3,518	-4,567	-5,225	-4,564	-3,887	n/a
Services	5,938	5,437	5,003	4,625	4,236	n/a
Primary income (i.e. investment income)	-11,510	-11,260	-10,927	-10,559	-10,087	n/a
Secondary income (i.e. current transfers)	-241	-172	-288	-303	-495	n/a
Net international investment position (as at date)	-154,630	-156,092	-168,806	-163,922	-165,880	n/a
Annual Merchandise Trade Balance (FOB-CIF)*	-4,206	-5,309	-6,161	-5,739	-4,987	-5,037

* 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: Stats NZ.

F Finance

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 S&P/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

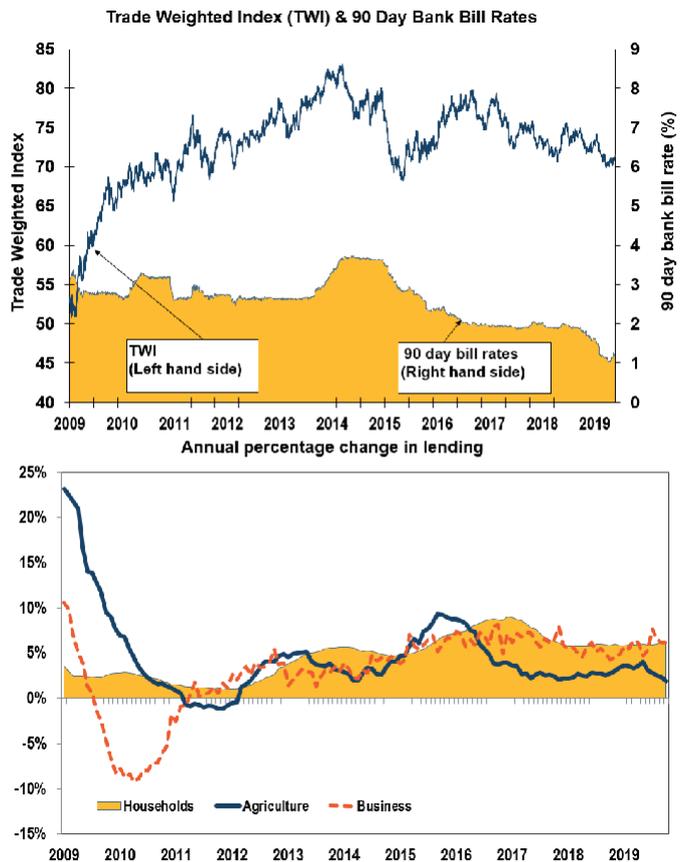
Having surprised the markets with a 50 basis point reduction in the official cash rate in August, the Reserve Bank's Monetary Policy Committee surprised markets again on 13 November. The Bank kept the official cash rate steady at one percent when a 25 basis point reduction had been expected. As a result, short-term interest rates rose by 15 – 18 basis points. The 90-day bank bill rate averaged 1.18 percent in November, up from 1.05 percent in October (on a monthly average basis).

In announcing the official cash rate would remain on hold in November, the Monetary Policy Committee said that *“Economic developments since the August Statement do not warrant a change to the already stimulatory monetary setting at this time”*. The Committee said that interest rates will need to remain low for a *“prolonged period”*, and that it would add further monetary stimulus if required.

The New Zealand dollar appreciated by 0.5 percent during November on a monthly average basis, rising against all the major currencies apart from the U.K. pound sterling. Following an appreciation in the pound sterling in recent months, the New Zealand dollar is at its lowest level against that currency since June 2016.

Outlook

There is a mix of views regarding the future direction of monetary policy. As a result of an improvement in business confidence, ASB believes that there will be a further cut in the official cash rate in May 2020, as opposed to an earlier forecast of two additional rate cuts. The bank expects the official cash rate will trough at 0.75 percent in 2020. Westpac also expects the official cash rate to drop to 0.75 percent next year, whereas the NZIER expects that the Reserve Bank will keep the official cash rate on hold at one percent until late 2021.



Core Crown borrowing as at	31-Oct-19 (\$m)	31-Oct-19 (%GDP)
Gross sovereign-issued debt *	89,471	29.8
Net core Crown debt **	60,616	20.2

*Excluding Reserve Bank settlement cash and Reserve Bank bills.

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

Monthly averages	Jul-19	Aug-19	Sep-19	Oct-19	Nov-19
90 Day Bank Bill rate	1.55	1.25	1.15	1.05	1.18
10 Year Government Bond yields (secondary market)	1.55	1.13	1.16	1.16	1.35
Floating mortgage rate*	5.73	5.26	5.26	5.26	5.26
SME overdraft rate*	9.34	9.00	9.00	9.00	9.00
Trade Weighted Index (TWI) exchange rate	73.32	71.76	70.78	70.53	70.86
S&P/NZX50 index	10703	10731	10925	10948	10947

*Last business day of the month. Sources: Reserve Bank; NZX.

Next Official Cash Rate (OCR) decision: 12 February 2020

G International

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

Below trend economic growth for New Zealand's trading partners is expected over the next few years. The Reserve Bank has trading partner growth averaging 3.2 percent over its projection period, with the domestic economies of our trading partners supported by tight labour markets and low unemployment. These factors are offset by declining manufacturing output growth as a result of global trade tensions.

The OECD in its latest *Economic Outlook* has forecast global economic growth of 2.9 percent in 2019, the weakest level of global growth since the global financial crisis. Global growth is projected to remain around three percent in 2020-21, while annual economic growth in the Chinese economy is forecast to ease to around 5.5 percent by 2021.

Quarterly economic growth rates (%)			
Country*	Mar-19	Jun-19	Sep-19
Australia	0.5	0.5	n/a
Japan	0.5	0.4	0.1
NEW ZEALAND	0.6	0.5	n/a
United Kingdom	0.6	-0.2	0.3
United States	0.8	0.5	0.5
Euro area	0.4	0.2	0.2
OECD Total	0.6	0.4	0.3
China**	1.4	1.6	1.5

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

Unemployment

The OECD noted that the harmonised unemployment rate for the OECD area remains at a 40-year low, with the unemployment rate below its long-term sustainable rate in many OECD economies. The unemployment rate in the United States was 3.5 percent in November, returning to 50-year lows after a 3.6 percent rate in October.

The OECD has forecast median employment growth within the OECD area to ease to 0.6 percent per annum in 2020-21, less than half the 1.3 percent growth rate recorded in 2018-19. The OECD unemployment rate is forecast to drop slightly to 5.1 percent in 2020 and 2021.

Harmonised unemployment rates (%)			
Country	Sep-19	Oct-19	Nov-19
Australia	5.2	5.3	n/a
Japan	2.4	n/a	n/a
NEW ZEALAND	4.2 (qtr)	n/a	n/a
United Kingdom	3.8 (Jul)	n/a	n/a
United States	3.5	3.6	3.5
European Union	6.3	n/a	n/a
OECD Total	5.2	n/a	n/a

Source: OECD.

Central banks

The People's Bank of China eased monetary policy in late November, dropping its benchmark lending rate (the one-year loan prime rate) by five basis points to 4.15 percent. The Bank also eased a range of other interest rates, and injected funds into the financial system to alleviate liquidity concerns.

The Reserve Bank of Australia left its cash rate steady at 0.75 percent in early December. The Australian unemployment rate is expected to remain around current levels in the near term, while annual inflation is expected to rise gradually. An extended period of low interest rates is expected by the Bank.

Central Bank interest rates (as at 9 December)				
Central Bank	Key Rate	Interest Rate (%)	Effective from	Direction (Basis points)
Australia	Cash Rate	0.75	1-Oct-19	-25
China	Loan Prime Rate	4.15	20-Nov-19	-5
European Central Bank	Main Refinance Rate	0.00	16-Mar-16	-5
Japan	Uncollateralized overnight rate	-0.10 to 0.00	16-Feb-16	-10
NEW ZEALAND	Official Cash Rate	1.00	7-Aug-19	-50
United Kingdom	Bank Rate	0.75	2-Aug-18	+25
United States	Federal Funds Rate	1.50 to 1.75	31-Oct-19	-25

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

H Topic of the month

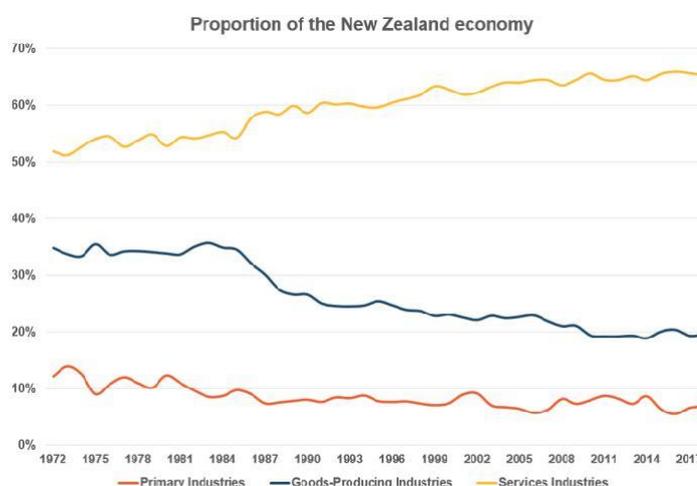
New Zealand's changing economy

Stats NZ has released industry benchmark data up to the year ended 31 March 2018 in their *National Accounts (Industry production and investment)* publication. This publication provides the contribution to New Zealand's nominal gross domestic product by industry for years ended 31 March 1972 to 2018.

Over this time period, and particularly since the early 1980s, the contribution to gross domestic product (GDP) from the goods-producing sector has fallen. Contribution to GDP from this sector fell from around 36 percent of GDP in 1983 to 19 percent in recent years. Within the sector, the contribution to GDP from petroleum, chemical, polymer and rubber product manufacturing fell from 6.4 percent of nominal GDP in 1983 to 1.9 percent of nominal GDP in 2018. In contrast, the contribution to nominal GDP from the construction industry rose from 5.8 percent of GDP in 1983 to 6.4 percent in 2018.

While falling as a proportion of overall GDP from 1983, each industry within the sector (apart from the textile, leather, clothing and footwear manufacturing industry) experienced an increase in their nominal GDP contribution over this period.

While the proportion of GDP sourced from the goods-producing industry has fallen, the proportion sourced from the services sector has trended upwards over the 1972 to 2018 period. In the year ended 31 March 2018, the services sector contributed 65 percent of New Zealand's nominal GDP, up from 51 percent in the year ended 31 March 1973. Within the sector, the largest increase in contribution to nominal GDP has come from the business services industry (up from 2.6 percent of GDP in 1973 to eight percent of GDP in 2018), and the rental, hiring, and real estate services industry (up from 3.4 percent of GDP in 1973 to 7.3 percent of GDP in 2018).



Sector and selected industry contribution to nominal GDP				
Sector/selected industry	2018 (\$m)	%GDP 1973	%GDP 1983	%GDP 2018
Primary industries	19,694	13.9	8.5	6.8
<i>Agriculture</i>	12,431	11.2	5.8	4.3
Goods-producing industries	56,181	33.7	35.6	19.4
<i>Food, beverage and tobacco product manufacturing</i>	10,602	6.4	6.4	3.7
<i>Textile, leather clothing and footwear manufacturing</i>	674	2.5	2.5	0.2
<i>Petroleum, chemical, polymer and rubber product manufacturing</i>	5,452	5.1	6.4	1.9
<i>Transport equipment, machinery and equipment manufacturing</i>	4,897	3.3	3.8	1.7
<i>Construction</i>	18,540	6.8	5.8	6.4
Services industries	188,446	51.2	54.6	65.2
<i>Rental, hiring, and real estate services</i>	21,171	3.4	3.1	7.3
<i>Business services</i>	23,152	2.6	3.2	8.0
Total (incl. taxes)	289,104	100	100	100

Source: Stats NZ, National accounts (industry production and investment): Year ended March 2018.

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 Parliamentary Library, Research and Information

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