Overview

Recent trend

<table>
<thead>
<tr>
<th></th>
<th>2016/17</th>
<th>2017/18</th>
</tr>
</thead>
<tbody>
<tr>
<td>Economic Growth</td>
<td>3.7%</td>
<td>2.7%</td>
</tr>
<tr>
<td>Unemployment</td>
<td>4.9%</td>
<td>4.4%</td>
</tr>
<tr>
<td>Inflation</td>
<td>2.2%</td>
<td>1.1%</td>
</tr>
<tr>
<td>Current Account Deficit</td>
<td>$7.1b</td>
<td>$7.9b</td>
</tr>
<tr>
<td>Interest Rates</td>
<td>1.75%</td>
<td>1.75%</td>
</tr>
</tbody>
</table>

Latest data and events

The economy expanded by 0.5 percent in the March 2018 quarter, in line with consensus expectations. Thirteen out of 16 industries recording an expansion in value-added output in the quarter. Household spending was flat in the quarter despite an increase in spending on services (spending on both durables and non-durables declined). The volume of imports rose by 1.2 percent in the quarter, despite a 4.6 percent drop in the volume of passenger motor cars imported. Stats NZ noted that the discovery of stink bugs had disrupted the delivery of, and spending on, imported vehicles. On a per capita basis, economic growth was flat, with GDP per capita remaining at a similar level to the December 2017 quarter. On an annual average basis, the economy expanded by 2.7 percent.

New Zealand recorded a current account deficit of $3.0 billion in the March 2018 quarter (in seasonally adjusted terms), the highest quarterly deficit recorded since the December 2008 quarter. The increase in the deficit was due to a drop in exports, along with an increase in the value of imports. During the March quarter, the goods deficit increased to $1.7 billion, “due to strong imports of petroleum and machinery and equipment (such as tractors)”. On an annual basis the current account deficit totalled $7.9 billion in the year ended March 2018 (equivalent to 2.8 percent of GDP). The services balance recorded a surplus of $5.0 billion during the year, reflecting on-going high international tourism revenues.

Reserve Bank Governor Adrian Orr left the official cash rate steady at 1.75 percent in late June. The official cash rate has been held at this level since November 2016. The Governor said that continuing supportive monetary policy was required as annual inflation remains below the two percent mid-point of the Bank’s 1 – 3 percent target range, while employment is around its sustainable level. Following an increase in the near-term due to higher international oil prices, annual inflation is expected to return to the two percent mid-point over the medium term. The Reserve Bank Governor said that the next change in monetary policy could be in either “up or down”.

Business confidence fell in the June quarter according to the NZIER Quarterly Survey of Business Opinion. A net 19 percent of respondents expect economic conditions to deteriorate in the second half of 2018, although firms were more optimistic regarding their own firm’s outlook. The retail sector was the most pessimistic, with a net 34 percent of respondents in this sector expecting a deterioration in economic conditions. Retailers reported difficulty in passing on higher input costs to consumers, therefore placing pressure on their profit margins. Stats NZ’s latest retail trade survey reported that retail sales volumes rose only 0.1 percent in the March 2018 quarter.

Average house prices rose 5.7 percent to $675,680 over the year ended June according to QV, with average prices in the Auckland area rising by 0.8 percent to $1,053,575. Average property prices in the Ruapehu District rose by 18.9 percent over the year to $194,365, while average prices remain the highest in the Queenstown Lakes District at $1,152,201.

Topic of the month: The International Monetary Fund’s Global Debt Database
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 March quarter, while remaining steady on a per capita basis. Both the primary industries and services industries expanded by 0.6 percent in the quarter, while value-added output growth in the goods-producing industries was flat in the quarter.

Better weather conditions lead to in a rebound in milk production, resulting in the agriculture industry expanding by 0.4 percent. The construction industry contracted by one percent in the March quarter, with investment in residential buildings falling by 0.2 percent. Household consumption remained steady in the quarter, with reductions in consumption of both durable and non-durable goods. Stats NZ noted that the discovery of stink bugs in car shipments had resulted in a reduction in household spending on second-hand vehicles. Households also spent less on petrol and clothing.

On an annual average basis, the economy expanded by 2.7 percent over the year ended March 2018. The annual average growth rate has been declining from a recent peak of four percent in the 2016 calendar year. The only industry to contract during the year was the mining industry, with a 2.2 percent fall in value-added output.

Other data
The BNZ-Business New Zealand Performance of Manufacturing Index eased in May, but remained at a level consistent with a "moderating rate of expansion". The BNZ-Business New Zealand Performance of Services Index is also at a level consistent with an expansion in the sector. The index rose 0.9 points to 57.3 index points in May, its second highest level in 11 months.

Consumer confidence remains slightly above its long-term average according to the latest ANZ-Roy Morgan NZ Consumer Confidence index. According to the ANZ, "households are feeling pretty good due to a strong labour market and still-low interest rates". Consumer confidence was the highest in Wellington, and in the South Island, while the Auckland region was the least confident region.

Outlook
Latest NZIER Consensus Forecasts expect economic growth to pick up over the next couple of years to 3.2 percent in the year ended March 2020. A reduction in the rate of household consumption growth (due to slower population growth), is expected to be offset by an increase in housing construction, although the NZIER notes that capacity constraints remain within the sector. Westpac bank has economic growth easing to 2.5 percent in the 2018 calendar year, before rising to 3.3 percent in the year ended March 2020.

GDP growth (%)

<table>
<thead>
<tr>
<th></th>
<th>Mar-17</th>
<th>Jun-17</th>
<th>Sep-17</th>
<th>Dec-17</th>
<th>Mar-18</th>
</tr>
</thead>
<tbody>
<tr>
<td>Annual</td>
<td>3.7</td>
<td>3.3</td>
<td>3.0</td>
<td>2.8</td>
<td>2.7</td>
</tr>
<tr>
<td>Quarterly</td>
<td>0.8</td>
<td>0.9</td>
<td>0.6</td>
<td>0.6</td>
<td>0.5</td>
</tr>
</tbody>
</table>

Source: Stats NZ.

Next Release: Gross Domestic Product: June 2018 quarter. Date: 20 September 2018
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 unemployment rate, at 4.4 percent in the March 2018 quarter, is at its lowest level since the December 2008 quarter. There were 119,000 people unemployed in the March quarter in seasonally adjusted terms.

Employment rose by 0.6 percent in the March 2018 quarter, with an increase in both full-time and part-time employment. The total number of hours worked rose by 1.7 percent in the quarter, having fallen by 0.5 percent in the December quarter.

Employment rose by 3.1 percent over the year, or by an additional 79,400 people. Employment in the business services sector expanded by 22,300 people during the year, while an extra 20,000 people were employed in the retail trade, accommodation and food services sector. Employment in the agriculture, forestry and fishing sector fell by 10,400 people during the year.

Stats NZ’s Labour Cost Index (including overtime), which measures the change in salary and wage rates for a fixed employment position, rose by 1.8 percent in the year ended in the March 2018 quarter. Within the public sector, the labour cost index (including overtime) rose by 1.5 percent, with those employed in the health care and social assistance industry experiencing an increase of 0.9 percent over the year. The same industry within the private sector recorded an increase of 6.1 percent over the year as a result of The Care and Support Worker (Pay Equity) Settlement Act 2017.

Other data
The ANZ noted that their latest ANZ New Zealand Job Ads survey results were consistent with “soft employment growth” despite a 2.2 percent rise in job advertisement numbers in May.

MBIE’s Jobs Online reported a 0.7 percent increase in the number of vacancies in May, with vacancies increasing across all industry groups. Healthcare and medical vacancies rose by 1.7 percent in the month, while vacancies for education and training rose by 1.3 percent.

Outlook
The ANZ believes that their survey data is consistent with the unemployment rate holding steady around its current level of 4.4 percent. The latest NZIER Consensus Forecasts expects the labour market to remain tight, with labour shortages generating higher wage inflation through to 2021. An average unemployment rate of 4.3 percent is forecast for the years ended in the March 2019 and 2020 quarters.
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
Consumer prices rose 0.5 percent in the March 2018 quarter and by 1.1 percent over the year ended in the March quarter. This is the lowest annual inflation rate recorded since the year ended in the September 2016 quarter.

Costs associated with the purchase of a new home rose by 4.7 percent during the year, while housing rental costs rose by 2.1 percent. Petrol prices were five percent higher due to higher international oil prices and a falling exchange rate. Tertiary and other post-school education costs fell by 16 percent due to the introduction of the policy providing fee-free education for the first year from provider-based tertiary education or industry training institutions.

Other data
REINZ reported that the national median dwelling sale price increased by $27,000 over the year to $562,000 in May 2018. After adjusting for the quality of the properties being sold, the REINZ House Price Index recorded an increase of 3.7 percent for the year. All regions apart from Canterbury recorded an increase in their house price index over the year. The Canterbury house price index eased by 0.9 percent during the year.

Food prices remained stable in May according to Stats NZ’s Food Price Index, with prices down 0.1 percent when compared with a year ago. Compared with May 2017 vegetable prices are 17.9 percent cheaper, while the price for mutton, lamb and hogget has increased by 8.5 percent. The price of fresh milk has risen by 1.2 percent over the year to $3.53 for two litres of standard homogenised milk.

Outlook
The latest NZIER Consensus Forecasts expects the annual inflation rate to “track close to 2 percent over the next few years”. The Consensus Forecasts noted that retailers continue to struggle to pass their rising input costs onto the consumer, resulting in an increase in pressures on their profit margins. The annual inflation rate is forecast to rise from its current 1.1 percent to 1.9 percent in the year ended March 2019.

Next Release: Consumers Price Index: June 2018 quarter.
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 current account deficit totalled $3.0 billion in the March 2018 quarter (in seasonally-adjusted terms), the largest deficit recorded since the December 2008 quarter. The increase in the deficit during the March quarter was the result of a fall in export revenues (lower dairy prices and reduced volumes of meat exports) along with an increase in the value of imports (higher crude oil prices and increased import volumes for a range of products).

The annual current account deficit totalled $7.9 billion in the year ended March 2018, equivalent to 2.8 percent of GDP. This compared with a deficit of $7.2 billion a year ago (2.6 percent of GDP). During the year, an increase in the earnings of foreign investors in New Zealand (as a result of greater profitability and higher international interest rates) was partially offset by a rise in tourism revenue and an improvement in the goods deficit.

New Zealand’s net international investment position, the net amount we owe the rest of the world, totalled $156.1 billion at 31 March 2018, which was equivalent to 54.5 percent of GDP. As a proportion of the annual economic output, the net amount we owe the rest of the world is at its lowest level since the current series commenced in mid-2000.

Other data
International dairy prices fell five percent on a trade weighted basis in Fonterra’s latest Global Dairy Trade (GDT) auction, with whole milk prices falling by 7.3 percent. International dairy prices, based on the GDT price index, have fallen in the last three consecutive auctions.

Outlook
The BNZ expects the current account deficit to increase to around 3.5 percent of GDP in the 2018 calendar year. The ANZ believes it is “an open question” whether the current account deficit is on the verge of widening further. The banks refers to the high terms of trade and a lower exchange rate on one hand, which will support export growth. On the other hand they noted higher global prices for imports, such as oil, and rising global trade tensions. They also referred to higher international interest rates, which will increase the costs of our international debt. The ASB commented that everyone would lose if a full-blown trade war develops between the United States and China, including New Zealand.

Next Release: Balance of Payments: June 2018 quarter. Date: 19 September 2018
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
Reserve Bank Governor Adrian Orr again left the official cash rate unchanged at 1.75 percent at the end of June, stating that “we are well positioned to manage change in either direction – up or down – as necessary”.

The New Zealand dollar fell against the US dollar to 67 US cents at the beginning of July, the lowest rate in two years. It has since returned to over 68 cents but trade tensions between the United States and China may continue to affect currency markets.

The New Zealand Stock Exchange’s S&P/NZX50 reached a record 9084 index points at the beginning of July but has since eased slightly. The Dow Jones Industrial Average in the United States has also risen to above its close at the end of 2017 despite trade concerns.

Lending in the housing market has grown in 2018 and in May 2018 was 5.9 percent higher than a year earlier, although down from the eight percent growth in the year to May 2017. Consumer lending has flattened off recently although was still up 6.4 percent over the year, while business lending has started to increase again (up 5.3 percent over the year to May 2018).

Outlook
The Reserve Bank Governor said in June that “the best contribution we can make to maximising sustainable employment, and maintaining low and stable inflation, is to ensure the OCR is at an expansionary level for a considerable period”. The ANZ’s Economic Forecast has the official cash rate at two percent in the December 2019 quarter. It forecasts both trade weighted index (TWI) and the NZD/USD exchange rate to ease over the next year while the NZD/AUD remains stable.

Next Official Cash Rate (OCR) decision: 9 August 2018
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
The OECD’s Composite leading indicators are pointing towards stable growth momentum in the OECD area. The indicators continue to point towards an easing in growth momentum for the United Kingdom, while easing growth momentum is now forecast for France, Germany and Italy. The OECD reported that there are tentative signs of growth gaining momentum in China.

Unemployment
Australia’s unemployment rate eased to 5.4 percent in May, due to an increase in part-time employment, and a decrease in the labour force participation rate. The unemployment rate fell in all states apart from Tasmania, where it rose from 6.1 percent in April to 6.6 percent in May.

Central banks
The United States Federal Reserve announced that they were increasing the federal funds rate by 25 basis points to a range of 1.75 to 2 percent in mid-June. Federal Reserve chairman Jay Powell said that “the main takeaway is that the economy is doing very well”. He referred to the low levels of unemployment and inflation in the U.S. economy. The Bank’s economic projections indicate that an additional two more hikes are possible this year, with the Bank projecting a federal funds rate of 2.4 percent later in the year.

In a speech on Productivity, Wages and Prosperity in June, Australian Reserve Bank Governor Philip Lowe noted that if wage growth was to continue around current levels in Australia, then it is unlikely that the annual rate of inflation would hit the inflation target midpoint in the period ahead. He said that “wages growth of 2 per cent and reasonable labour productivity growth are unlikely to make for 2½ per cent inflation on a sustained basis”. He also noted that low inflation results in real debt burdens remaining higher for longer, and diminishes the sense of shared prosperity. Therefore, “some pick-up in wages growth would be a welcome development”.

The Governing Council of the European Central Bank announced that it was it was reducing its quantitative easing programme, reducing its monthly purchase of securities to €15 billion from 1 October 2018 (from €30 billion currently), and then ending the purchase of net securities at the end of the year. They expect to keep interest rates at their current levels until “at least” mid-2019.

<table>
<thead>
<tr>
<th>Country*</th>
<th>Sep-17</th>
<th>Dec-17</th>
<th>Mar-18</th>
</tr>
</thead>
<tbody>
<tr>
<td>Australia</td>
<td>0.5</td>
<td>0.5</td>
<td>1.0</td>
</tr>
<tr>
<td>Japan</td>
<td>0.5</td>
<td>0.3</td>
<td>-0.2</td>
</tr>
<tr>
<td>NEW ZEALAND</td>
<td>0.6</td>
<td>0.6</td>
<td>0.5</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>0.4</td>
<td>0.4</td>
<td>0.2</td>
</tr>
<tr>
<td>United States</td>
<td>0.8</td>
<td>0.7</td>
<td>0.5</td>
</tr>
<tr>
<td>Euro area</td>
<td>0.7</td>
<td>0.7</td>
<td>0.4</td>
</tr>
<tr>
<td>OECD Total</td>
<td>0.7</td>
<td>0.6</td>
<td>0.5</td>
</tr>
<tr>
<td>China**</td>
<td>1.8</td>
<td>1.6</td>
<td>1.4</td>
</tr>
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Quarterly economic growth rates (%)
* Seasonally adjusted growth rate from the previous quarter. ** non-OECD. Source: OECD.

<table>
<thead>
<tr>
<th>Country</th>
<th>Apr-18</th>
<th>May-18</th>
<th>Jun-18</th>
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<tbody>
<tr>
<td>Australia</td>
<td>5.6</td>
<td>5.4</td>
<td>n/a</td>
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<tr>
<td>Japan</td>
<td>2.5</td>
<td>2.2</td>
<td>n/a</td>
</tr>
<tr>
<td>NEW ZEALAND</td>
<td>(4.4 Mar qtr)</td>
<td>n/a</td>
<td>n/a</td>
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<tr>
<td>United Kingdom</td>
<td>(4.1 Mar-18)</td>
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<td>n/a</td>
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<tr>
<td>United States</td>
<td>3.9</td>
<td>3.8</td>
<td>4.0</td>
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<tr>
<td>European Union</td>
<td>7.0</td>
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<tr>
<td>OECD Total</td>
<td>5.3</td>
<td>5.2</td>
<td>n/a</td>
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</table>

Harmonised unemployment rates (%)
Source: OECD.

<table>
<thead>
<tr>
<th>Central Bank</th>
<th>Key Rate</th>
<th>Interest Rate (%)</th>
<th>Effective from</th>
<th>Direction (Basis points)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Australia</td>
<td>Cash Rate</td>
<td>1.50</td>
<td>3-August-16</td>
<td>-25</td>
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<tr>
<td>China</td>
<td>Benchmark lending rate</td>
<td>4.35</td>
<td>23-Oct-15</td>
<td>-25</td>
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<tr>
<td>European Central Bank</td>
<td>Main Refinance Rate</td>
<td>0.00</td>
<td>16-Mar-16</td>
<td>-5</td>
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<tr>
<td>Japan</td>
<td>Uncollateralized overnight rate</td>
<td>-0.10 to 0.00</td>
<td>16-Feb-16</td>
<td>-10</td>
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<tr>
<td>NEW ZEALAND</td>
<td>Official Cash Rate</td>
<td>1.75</td>
<td>10-Nov-16</td>
<td>-25</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>Bank Rate</td>
<td>0.5</td>
<td>1-Nov-17</td>
<td>+25</td>
</tr>
<tr>
<td>United States</td>
<td>Federal Funds Rate</td>
<td>1.75 to 2.00</td>
<td>13-Jun-18</td>
<td>+25</td>
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</tbody>
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Source: Central Bank interest rates as at the date stated.
**Topic of the month**

The International Monetary Fund’s Global Debt Database

The International Monetary Fund (IMF) has recently published a *Global Debt Database*, which provides “a cutting-edge dataset” of gross debt levels since 1950 for 190 advanced economies, emerging market economies and low-income countries. In the accompanying working paper the IMF noted that the database is the result of a multiyear process “and an extensive standardization effort to produce consistent time series of debt”. A number of indicators are available for both public debt and private debt. The level of coverage differs depending upon the indicator. The coverage in the database grows from 45 countries in 1950 (covering 60 percent of global output) to 99 percent of GDP in 2016. The following indicators are available (all shown as a percentage of GDP):

**Private debt**
- Private debt, loans and debt securities (*)
- Household debt, loans and debt securities (*)
- Nonfinancial corporate debt, loans and debt securities (*)
- Private debt, all instruments
- Household debt, all instruments
- Nonfinancial corporate debt, all instruments

**Public debt**
- Central government debt (*)
- General government debt
- Nonfinancial public sector debt
- Public sector debt

As a result of including both public and private sector debt, the IMF said that the new database allows for the comparison of total debt levels over time. Currently, total debt levels have reached a new high, standing at around US$164 trillion, or 225 percent of global GDP.

Three economies account for more than half of total global debt – the United States, China and Japan. China accounted for around three percent of total debt in 2001 (US$2 trillion), and now holds debt of around US$26 trillion, or over 15 percent of total debt in 2016.

Total global debt as a percentage of GDP has risen by 12 percentage points since its previous peak in 2009. The IMF noted that global debt ratios have been on the rise since World War Two. Private sector debt has nearly tripled since 1950.

In regards to New Zealand, three private debt indicators are available and one public debt indicator (these have an ‘*’ beside them in the table above).

Since 1960, central government debt in New Zealand has fallen as a percentage of GDP from 60 percent in 1960 to 28 percent in 2016, while private sector debt has ballooned from 29 percent of GDP in 1960 to 174 percent of GDP in 2016.

The chart shows private debt, loans and debt securities, along with central government debt, as a percentage of GDP for New Zealand for selected years.

Grant Cleland and Emma Doherty
Research Services Analysts
Economics, Society and Infrastructure Team
Parliamentary Library

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**Selected countries and income group: Total Debt (Trillions in US dollars)**

<table>
<thead>
<tr>
<th>Countries and groups</th>
<th>2007</th>
<th>2016</th>
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<tbody>
<tr>
<td>United States</td>
<td>34</td>
<td>48</td>
</tr>
<tr>
<td>China, Mainland</td>
<td>5</td>
<td>26</td>
</tr>
<tr>
<td>Japan</td>
<td>16</td>
<td>18</td>
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<tr>
<td>Advanced Economies</td>
<td>100</td>
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<tr>
<td>Emerging Market Economies</td>
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<td>44</td>
</tr>
<tr>
<td>Low-Income Developing Countries</td>
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<td>1</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>116</strong></td>
<td><strong>164</strong></td>
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