Monthly Economic Indicators

THE TREASURY
Kaitohutohu Kaupapa Rawa

February 2015

Executive Summary

- **The New Zealand economy is expected to record strong growth in the December quarter, as robust employment growth supported household demand.**

- **High consumer confidence in early 2015 points to continued strong demand, although the drought may have a negative impact on agricultural output. The inflation outlook remains subdued.**

- **Global market sentiment was more positive and concerns about Greece eased at the end of the month, but risks to market stability remain.**

Data released over February reinforced the *Half Year Economic and Fiscal Update* forecast of strong GDP growth in the December quarter, with retail sales pointing to solid growth in private consumption and a bounceback in services exports from higher tourist spending. Retail sales volumes were supported by robust employment growth in the December quarter, strong earnings growth, elevated levels of net migration, a pick-up in tourist spending and an easing in retail prices. This month's special topic looks at the impact of external migration on the economy.

Since then, a high level of consumer confidence, boosted by lower fuel prices and falling fixed mortgage rates, points to continued solid growth in private consumption in the March quarter. House price growth has continued to increase, partly owing to tight supply and rapid population growth, and is expected to lead to continued solid growth in residential investment in 2015, driven by Auckland and Canterbury.

That said, the drought in the South Island and dry conditions in parts of the North Island are expected to subtract slightly from GDP growth in 2015. The drought is expected to lead to a fall in meat production later in 2015, as farmers bring forward livestock slaughter to the March quarter, as well as lower dairy output, adding to the effect of lower prices. The rebound in dairy prices in February was in line with most forecasts.

Despite solid economic growth, the inflation outlook remains weak. Producer prices showed generally soft growth in both inputs and outputs in the December quarter, and labour cost growth was moderate. However, growth in capital goods prices rose owing to the depreciation of the New Zealand dollar and higher housing construction costs.

Sentiment in global financial markets improved in February, supported by continued recoveries in the US and UK economies and stronger growth in the euro area and Japan. However, weaker conditions in the Australian economy led the Reserve Bank of Australia to cut its policy rate to 2.25%, while low inflation in China facilitated further monetary easing. A moderate rebound in commodity prices also contributed to lower safe-haven demand, leading to higher long-term bond yields. A four-month extension of the Greek bailout programme was agreed, but a longer-term agreement has not been concluded, and the situation continues to pose a risk to market stability.

New Zealand Government

ISSN-1175-6780 – Text and data finalised 25 February 2015

Analysis

Strong demand but weak price pressures

The New Zealand economy continues to show strong activity in a low inflation environment. Robust employment growth, strong earnings growth, elevated net inward migration and higher tourist arrivals boosted growth in retail sales volumes in the December quarter. Strong household demand reinforces the *Half Year Economic and Fiscal Update* (HYEFU) forecasts of solid GDP growth in the December quarter, at around 0.8%. Since then, elevated levels of consumer confidence, led by lower fuel prices and falling mortgage rates, suggest continued solid demand in the March quarter. That said, the drought in the South Island and dry conditions elsewhere are expected to subtract slightly from growth in 2015. The recovery in global dairy prices will provide some support for farm incomes and exports. Meanwhile, low growth in firms' input costs points to a weak inflation outlook, despite rising activity.

Strong growth in employment...

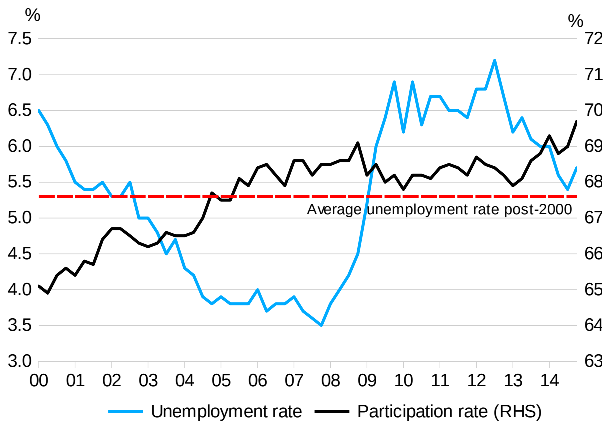
According to the Household Labour Force Survey (HLFS), the number of people in employment rose 28,000 (1.2%) in the December quarter 2014 to be 80,000 (3.5%) higher from a year ago. Employment growth in the quarter was broad-based across full-time (1.0%) and part-time positions (2.9%), males (1.0%) and females (1.5%), and the younger and older age groups. On a regional basis, growth continued to be driven by Auckland and Canterbury, reflecting high levels of inward migration and strong labour demand, particularly from the construction industry.

The Quarterly Employment Survey (QES) showed filled jobs rose 0.1% in the December quarter (to be up 2.5% from a year ago), a slower pace of growth than the HLFS. The variance mainly reflects the difference in survey coverage between the QES and HLFS, with the former not capturing the self-employed. QES jobs growth on a year ago was driven by the construction, utilities, retail trade, transportation and information technology sectors. Total hours paid rose 0.7% in the quarter to be up 3.0% in the year, signalling ongoing strong growth in labour demand.

...and robust increases in labour supply...

Strong employment growth is encouraging more people to make themselves available for work. This was reflected in the HLFS, which showed the labour force rising 36,000 in the December quarter, the largest increase on record. The labour force participation rate surged 0.7% points to a record high of 69.7%, driven by a rise in female participation. Across age groups, the participation rate increased the most for people aged 15 to 24 years. The rise in the labour force exceeded the rise in employment as more people looked for work in the buoyant labour market, and the unemployment rate rose 0.3% points to 5.7% (Figure 1). However, the unemployment rate is expected to decline over 2015 as labour demand catches up with growth in the labour force.

Figure 1: Unemployment and participation rates

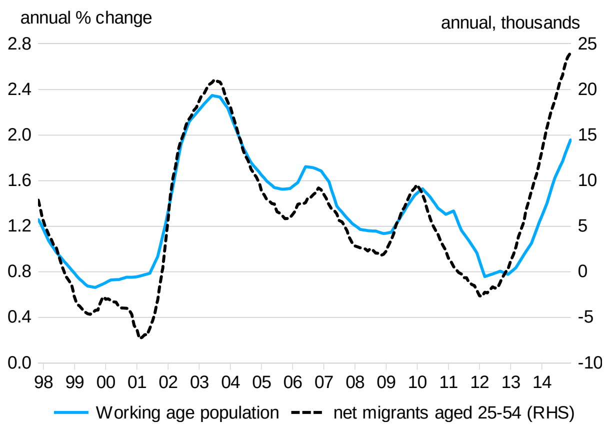


Source: Statistics NZ

...boosted by elevated net migration gains...

The expansion in the labour force also reflects a larger working-age population, underpinned by elevated levels of net migrants in the prime working age between 25 and 54 (Figure 2).

Figure 2: Working-age population and net migration



Source: Statistics NZ

The number of net permanent and long-term migrant arrivals rose to 50,900 in 2014 from 22,500 in 2013, reflecting higher net arrivals from

China, India, the Philippines and France, as well as a continued fall in net departures to Australia. Net migration is expected to boost labour supply as well as domestic demand over the next couple of years. Stronger net migration outturns relative to HYEFU pose an upside risk to forecasts for GDP growth. The special topic examines the composition of net migrant inflows in 2014 and their impact on the New Zealand economy.

...led to rising labour incomes and faster growth in tax revenue than expected

According to the QES, total gross earnings from paid employment rose 1.6% in the December quarter to be up 5.7% annually, owing to solid growth in paid hours and moderate growth in hourly wages. Ordinary time hourly earnings rose 2.6% on a year ago (up from 2.3% in September), driven by private sector earnings (3.0%), with growth in public sector earnings still subdued at 2.0%. Moderate wage growth reflects low inflation and the responsiveness of labour supply to increases in demand. Adjusted for inflation, real wages rose 1.8% in the year, higher than their post-2000 average annual growth rate of 0.9%.

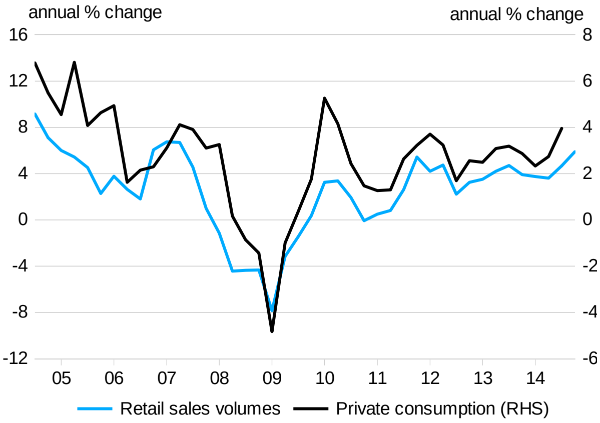
Strong growth in total labour incomes led to increased tax revenue. Core Crown tax revenue in the six months to December 2014 was 1.0% ($323 million) higher than the HYEFU forecasts, driven by GST and corporate tax. However, the unexpected strength in GST revenue is likely to reverse in coming months, as growth in nominal consumption in the December quarter appears to be weaker than forecast, which would flow through to lower tax revenue in the March quarter.

Retail sales volumes strong...

Growth in retail sales values was lower than growth in volumes, at 1.6% in the December quarter and 4.7% from a year ago. This was attributed to a further fall in retail prices of 0.1% in the quarter, and 1.0% from a year ago owing to a 4.6% fall in fuel prices, a high exchange rate and competition among retailers.

The combination of rising incomes, population growth and falling retail prices saw retail sales volumes lift by 1.7% in the December quarter, to be up 5.9% on a year ago. Annual growth in sales volumes was driven by durable goods, including furniture, hardware and electronics, reflecting ongoing residential construction in Auckland and Canterbury, while motor vehicle sales were solid, as car import prices continued to be suppressed by a weak Japanese yen. The volume of sales in food and beverages and accommodation services rose strongly in the quarter, indicating a pick-up in tourism expenditure, which reflects a 5.1% increase in total short-term visitor arrivals in 2014.

Figure 3: Retail sales and private consumption



Source: Statistics NZ

...pointing to solid GDP growth in late 2014

Strong retail sales volumes suggest fast growth in private consumption in the December quarter (Figure 3), although tourism spending will be included in services exports. These indicators support the HYEFU forecast for solid real GDP growth in the December quarter of around 0.8%. The ANZ Regional Trends point to national GDP growth of 1.2% in the December quarter. However, business investment (which excludes residential construction) is expected to return to normal levels following a surge in the September quarter, which would dampen growth.

Since then, high consumer confidence signals continued solid demand...

The ANZ-Roy Morgan Consumer Confidence Survey showed that consumers remained upbeat in February, with the index still at a high level of 122.1. Household sentiment was supported by lower mortgage rates, strong employment growth and faster house price growth. Most retail banks cut their fixed mortgage rates in February, as continued falls in international bond yields lowered the cost of overseas funding, and the Reserve Bank signalled it is likely to hold the Official Cash Rate at 3.5% for longer. The two-year fixed mortgage rates for most commercial banks are currently below 5.5%, the lowest since 2012.

The housing market has continued to pick up since its soft patch in the September quarter 2014. The seasonally-adjusted Real Estate Institute's house price index rose strongly in January, up 1.2% in seasonally-adjusted terms. Annual house price growth rose to 7.5%, from 6.0% in December and a recent low of 3.9% in October. The rebound was led by ongoing supply tightness, strong migration inflows and lower fixed mortgage rates, which offset the restraining influence from the Reserve Bank's limits on the loan-to-value ratio of mortgage lending.

Seasonally-adjusted house sales fell 12.2% in January, partly owing to high sales and lower new listings in December. However, lower mortgage rates and a rebound in mortgage approvals in late January suggest a resumption in sales growth in coming months. On the side of new housing supply, the number of dwelling consents fell 2.1% in December to be up 8.1% on a year ago, following a surge in the November month, and residential investment growth is expected to be largely steady at a high level in 2015, and remain an important driver of GDP growth.

Other indicators also point to solid activity. The BNZ-BusinessNZ PMI showed soft growth in the manufacturing sector in January, but the PSI indicated strong growth in the larger services sector. Real GDP is forecast to expand solidly in the March quarter on the back of solid growth in private consumption, business investment and residential construction.

...although the drought is likely to weigh on farm output and GDP

The drought declared in early February for much of the South Island and dry conditions in parts of the North Island are expected to reduce agricultural output and farm incomes. Meat production is expected to be higher in the December and March quarters as farmers bring forward slaughter of stock, but output is expected to fall in the June and September quarters.

However, drought conditions are expected to lead to lower dairy output in the current season, compounding the effect of lower prices which have reduced the incentive for dairy farmers to purchase supplementary feed to boost production in the later part of the season. Lower meat and dairy production will reduce farm incomes, which is likely to affect spending in other sectors of the economy. The drought is expected to reduce real GDP growth in 2015 by between 0.1% and 0.2% points compared to HYEFU.

Higher dairy prices are a positive offset...

The ANZ commodity price index for January showed a 1.0% increase in dairy prices in NZ dollar terms, reflecting the earlier depreciation in the exchange rate; however, the overall price index fell 1.2%, as meat prices continued to fall from an elevated level. Dairy prices surged 22% at the GlobalDairyTrade (GDT) auctions in February and in line with HYEFU forecasts, continuing to stabilise following their large declines over 2014, but further increases are still needed to achieve the forecast levels. Tighter supply conditions drove the rebound in dairy prices, with auction volumes down 34% from a year ago, as Fonterra reduced offerings and supply from New Zealand fell owing to the drought. The stabilisation in dairy prices is positive for farm incomes and Fonterra retained its Farmgate Milk Price forecasts for the 2014/15 year at $4.70 per kilogram of milk solids. However, the February average of the GDT price index remained 36% lower than in February 2014.

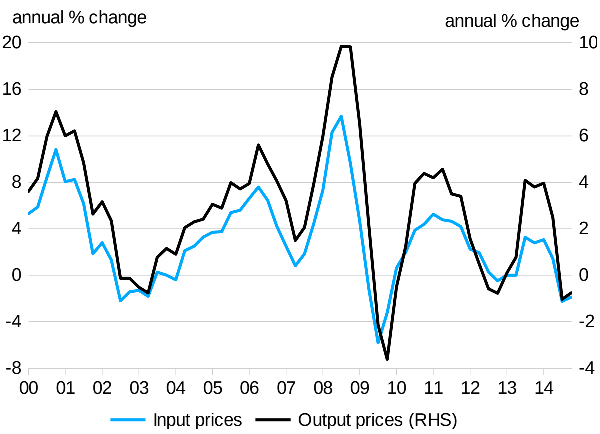
Goods export values were down 6.9% from a year ago in December, as dairy export values fell 25.4% in the period. Dairy export values fell 1.1% in the December month, but dairy volumes rebounded 6.2%. A continued stabilisation in dairy prices and an easing in drought conditions should support export values and volumes later in 2015.

...but the overall inflation outlook is subdued

Despite rising domestic demand, price pressures remain subdued as firms generally face weak growth in production costs (Figure 4). The Producer Price Index (PPI) showed that prices of business inputs fell 0.4% in the December quarter, their third consecutive decline, to be 1.9% lower over the year. However, the headline fall was driven by dairy product manufacturing, and petroleum and coal-based products, owing to lower dairy and crude oil prices.

Output prices eased 0.1% in the quarter, driven again by dairy and petroleum products, and telecommunications. Excluding dairy, input and output prices rose at a modest annual pace of 1.0% and 1.8%, respectively. Labour costs increased by 1.7% from a year ago, a low rate of growth in unit labour costs.

Figure 4: Producer input and output prices



Source: Statistics NZ

In contrast to the PPI, the Capital Goods Price Index rose 1.0% in the December quarter, bringing growth on a year ago to a five and a half year high of 2.8%. The increase reflects a weaker NZ dollar pushing up capital import prices, and also higher residential construction costs. The fall in the exchange rate over the second half of 2014 is likely to lead to higher tradable inflation over 2015, partly offsetting the decline in oil prices.

However, the inflation outlook remains weak, with the Reserve Bank's Survey of Inflation Expectations for the March quarter 2015 showing a fall in expectations, to 1.1% in 2015 from 1.6% in the December quarter survey and to 1.8% in 2016 from 2.1%.

Global market sentiment improves...

Financial markets were supported by continued recoveries in the US and UK economies, as well as an improved outlook for the euro area and Japan. Low inflation allowed the central banks of Australia, China and some other economies to ease policy to support activity. A moderate rebound in oil prices and lower safe-haven demand led global bond yields to increase, and contributed to NZ dollar appreciation. An extension of the Greek bailout programme was agreed, although the situation continues to pose a risk to market stability.

...owing to sustained US and UK recoveries

The recoveries in the US and UK economies continued, although at a slightly softer pace. US GDP grew 0.7% in the December quarter (Q4) and below expectations, slowing from 1.2% in the September quarter, but strong expansion in consumption indicated a sustained pick-up in demand. Non-farm payrolls rose 257,000 in January, taking their average growth in the past three months to 336,000, an 18-year high. However, poor weather dampened activity in some sectors, particularly housing. The UK labour market strengthened, with employment growing 0.3% in Q4 and the unemployment rate down 0.3% points to 5.7%, suggesting a fast reduction in spare capacity. Higher wage growth and low annual inflation (0.3% in January), as petrol prices fell, led to strong growth in real incomes.

...and a pick-up in the euro area and Japan...

Growth in some of the weaker economies picked up. Euro area GDP rose 0.3% in Q4, higher than expected, as consumption growth increased and fiscal policy became more supportive. Growth was driven by Germany (0.7%) and Spain (0.7%), while France (0.1%) and Italy (-0.4%) languished.

The euro area unemployment rate declined 0.1% point to 11.4% in December, and forecasters have revised up growth in 2015 owing to lower oil prices and quantitative easing (QE) by the European Central Bank (ECB). The Japanese economy exited recession with 0.6% growth in Q4, below market expectations. Details showed soft domestic demand still, but a weak yen supported a pick-up in exports. Forecasters have revised up growth for 2015, owing to the delay in the second sales tax rise and lower oil prices.

Chinese inflation falls sharply in January, facilitating further monetary easing...

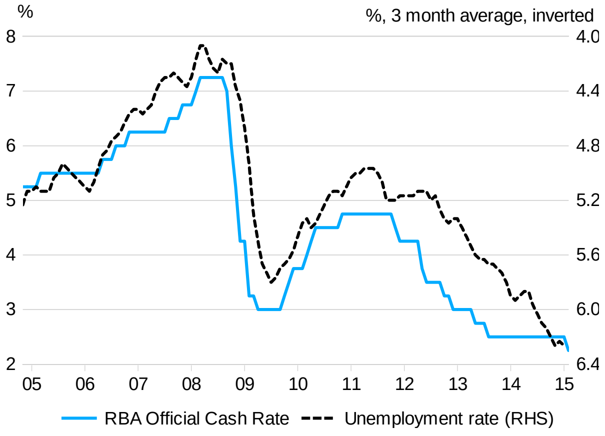
Weak Chinese domestic demand and lower petrol prices led inflation to fall to a post-GFC low of 0.8% in January. Credit growth was subdued over the second half of 2014, owing to lower investment growth and the housing market slowdown, with house prices down 5.1% annually. The People's Bank of China reduced the reserve requirement ratio for selected banks to support activity, and is likely to ease further in 2015 given low inflation.

Activity was mixed across the remainder of emerging Asia. Growth on a year ago in Q4 exceeded expectations for Malaysia (5.8%) and India (7.5%), and their outlooks for 2015 are supported by ongoing reforms. However, growth continued to be soft for Indonesia (5.0% on a year ago) as commodity export prices fell, and South Korea's growth in Q4 was soft at 0.4%. The central banks of Singapore and Indonesia eased policy to support activity and stabilise their exchange rates amidst ongoing QE in Japan.

...and softer Australian conditions led the RBA to cut its policy rate

Activity appears to have softened in Australia. Employment fell 0.1% in January, and the unemployment rate returned to a 12-year high of 6.4%, reflecting weaker business conditions and domestic demand. The Reserve Bank of Australia (RBA) cut its policy rate by 25 bps to 2.25% to support the labour market and investment (Figure 5), as it downgraded its near-term forecasts for growth and inflation in its latest *Statement on Monetary Policy*. Markets have priced in a 50% probability of another RBA rate cut on 4 March.

Figure 5: RBA policy rate and unemployment rate



Source: Haver

A modest rebound in oil prices lifts markets...

Brent crude oil prices rebounded almost 30% over February to US$61.6/bbl, reflecting tighter-than-expected supply conditions, although prices of other hard commodities, particularly iron ore, remained weak. Higher oil prices lifted global equity prices, including in the US and Japan, driven by energy stocks. The Stoxx600 is 12% higher since the start of 2015, boosted also by the ECB's QE. Lower safe-haven demand led bond yields higher, with the US 10-year Treasury yields up 31 bps to 1.99%, and the NZ 10-year yields rose 14 bps to 3.30%. The commodity-based currencies appreciated against the major currencies, leading the NZ dollar TWI to rise 3.6% in February to 78.0. The NZ dollar also rose against the Australian dollar following the RBA's rate cut.

...but Greek debt situation is still a risk

Concerns over the Greek debt crisis eased somewhat but it remains a risk to market stability. After a prolonged negotiation, Greece and the EU agreed to extend the bailout by four months, although a longer extension is conditional on Greece adopting further reforms by the end of April. Despite the initial uncertainty, markets were relatively upbeat and Greek bond yields declined from an elevated level later in February. However, market volatility may increase in coming months if there is difficulty in agreeing on a long-term arrangement.

Special Topic: Composition of migrant inflows and their impact on the economy

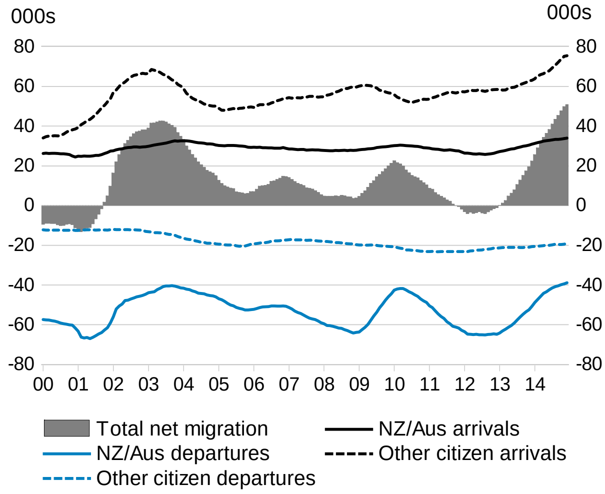
This special topic examines the composition of the current migration cycle using disaggregated permanent and long term (PLT) migration data and its impact on the macro economy. In sum, we find that:

- Fewer departures were the key driver of the current cycle initially, but increased arrivals are now a key influence.
- As a result of the age composition of arrivals, the contribution to the labour force is likely to be higher than in the past cycle.
- The composition of the net inflows also suggests that the pressure on housing demand may be weaker than in the past.

Net PLT inflows are at a record high…

Net PLT migration is at a record high with the net inflow totalling 50,900 in the December 2014 year, which compares with a previous peak of 42,500 in the year to May 2003 (Figure 1). This is a sharp turnaround from the net inflow of 1,200 in the 2012 calendar year. Although net PLT inflows are expected to begin easing in the first half of 2015, the annual total is likely to exceed our Half Year Update forecast of a peak of 52,400 in the March 2015 year.

Figure 1 – PLT inflows by citizenship



Source: Statistics NZ

Initially, fewer departures (primarily to Australia) drove the turnaround, although increased arrivals are now a key influence. The increase in the arrival of non-NZ/Australian citizens (other citizens)[1] is the most significant factor, with arrivals from Asia (India, China and the Philippines) particularly strong. Over history, the arrival of non-NZ/Australian citizens has played a significant role in net migrant flows and in some periods has provided a counter-cyclical offset to movements of New Zealand and Australian citizens.

Almost every region has experienced a net inflow of migrants over the December 2014 year (the exception being Gisborne), with Auckland and Canterbury accounting for 57% of the total net inflow. The fall in departures has been the dominant driver of the annual net gain amongst the provinces, reflecting weaker job prospects in Australia and other countries more generally, although the growth in arrivals has provided a larger contribution over the past year. A breakdown of PLT arrivals by occupation shows that the growth in the current cycle has been concentrated in machine operators and drivers, labourers, and technicians and trade workers, which would have mitigated some of the resource pressures in the construction sector.

…contributing to an expansion in the pool of available labour...

The net influx of working-age PLT migrants accounted for 66% of the growth in New Zealand's total working-age population over the December 2014 year. This is considerably higher than in the early 2000s cycle when the source of growth was more equally shared between net PLT migration and natural increase in the population.

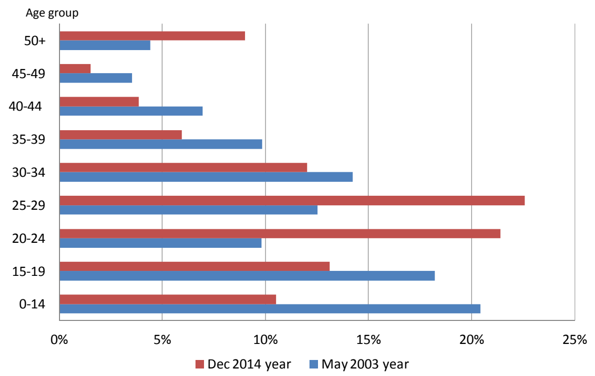
This contribution to the working-age population has consequently had a major impact on labour force growth. To provide a sense of this, the annual growth in the labour force would have been 2.5% (versus 3.2% actual) in the December 2014 quarter if the annual net inflow of migrants was unchanged from a year earlier. This assumes that migrants' rate of participation of in the labour force is the same as the average.

…with the composition suggesting a higher rate of labour force participation...

However, the composition of net inflows in the past two years (ie, with a larger contribution from fewer departures) suggests that the participation rate of net PLT inflows in the labour force is likely to be higher than in the early 2000s cycle. New Zealanders who choose not to depart are likely to be better attached to the labour force, while it usually takes time for migrant arrivals to participate in the workforce.

In addition, the age profile of the net inflow has been concentrated in groups that are more likely to participate in the labour force compared with the previous cycle. In the December 2014 year, the proportion of net inflows in the 0-19 age group — who have low participation rates — has fallen significantly from 39% in the May 2003 year to 24% in the December 2014 year (Figure 2). Conversely, 56% of the total net migrant inflow was centred in groups aged 20-34, compared with only 37% in May 2003 at the peak of the previous cycle. This is reflected in the large share of visas currently being approved for work and study purposes rather than for residency.

Figure 2 – Net PLT migration by age (% of total)



Source: Statistics NZ

These distribution changes likely reflect several factors. The proportion of younger age groups was higher in the early 2000s owing to the surge in English-language students, and older migrants were arriving to settle as residents with their children. Meanwhile, those in prime working-age groups — who are more mobile internationally— have increased as a share given the relatively positive economic conditions in New Zealand compared to the rest of the OECD. This has encouraged many New Zealanders to remain at home or return from overseas, while also attracting foreign arrivals. The Canterbury rebuild, which has stimulated the demand for labour from both local and international sources, is part of this.

Composition of other citizen arrivals is also distinct from the previous cycle...

As with the total net inflow, the growth in other citizen arrivals in the 2014 calendar year has been concentrated in the 20-34 age groups, while the

[1] This special topic focuses on non-New Zealand/Australian citizen arrivals given their large influence on net migration cycles and response to policy changes. They are referred to as 'other citizens' in this special topic.

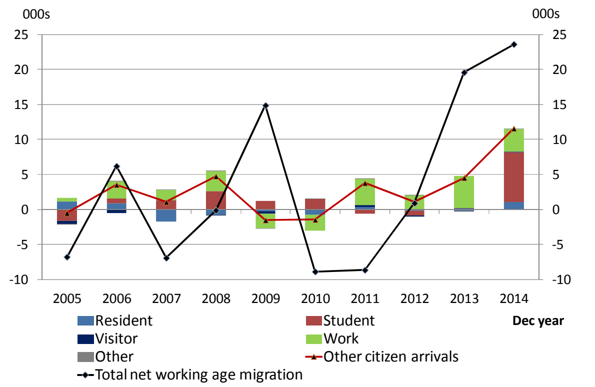
35+ and 15-19 age groups dominated in the early 2000's cycle. A greater proportion of work visas are now approved for the 20-34 age groups — 80% in the 2014 calendar year compared with 74% in 2004. European arrivals currently provide a much greater contribution to the annual growth in other citizen arrivals aged 20-34 year compared to the early 2000's, which may partly reflect workers for the Canterbury rebuild (eg, from the UK) and/or a weaker euro area economy.

...particularly amongst student arrivals...

The contribution of migrants aged 15-19 to the total growth in other citizen arrivals (working-age) about halved from around 20% in early 2000's to 11% in the December 2014 year, with significantly fewer from Asia in this age group arriving. This reflects the extent of the English-language student boom in the previous cycle and the increasing trend over the past decade of student visas being approved for older groups (20-29).

There was a surge in student visas (+7,500) in the December 2014 year which accounted for 61% of other citizen arrivals and 30% of the annual growth in overall net working-age migration (Figure 3). This category was followed by work visas which contributed 26% to the annual growth in other citizen arrivals and 14% to the annual growth in net working-age migration.

Figure 3 - Annual growth in net working-age PLT inflows by visa type



Source: Statistics NZ

The lift in student arrivals has coincided with the extension of work rights which came into effect in December 2013, making it easier for international students to work part-time and undertake full-time work during scheduled holidays. The pathway for obtaining a work visa following graduation is also more accommodating than in the UK, US and Australia.

Students from India appear to be providing the largest contribution, accounting for 59% of the growth in student visas in the December 2014 year, followed by students from China (11%). The increase in Indian students appears consistent with industry data from Education NZ and Immigration NZ, with the majority of enrolments concentrated in Private Training Establishments (PTEs). Education NZ has been promoting in India as it is considered a priority market and many students are attracted by the employment pathways.

...and may mean housing demand affected to a lesser extent

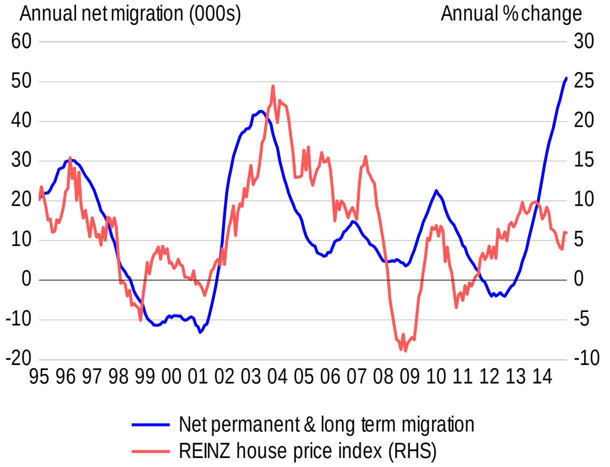
PLT migration can impact on domestic demand both by raising the aggregate level of private consumption, and by increasing demand for existing houses, thereby driving up house prices and increasing household wealth. As households feel wealthier, this can have second-round impacts on aggregate demand as they are able to draw on their housing equity to spend more on goods and services or reinvest in housing.

Preliminary Treasury analysis estimates that the composition of net external migration is important when assessing the flow-on effects on housing demand. Overall, house prices responded more significantly to external migration than do rents, and PLT arrivals recorded a larger impact on house prices and rents than departures. The larger impact on house prices is consistent with the fact that rents are slower to adjust and may be linked to consumer price inflation, which makes them more stable, while house price expectations amplify the response of house prices to population shocks. A similar analysis conducted by the Reserve Bank also found that arrivals have larger house price effects than departures, and that the origin of foreign arrivals also matters.[2]

All told, the impact on house prices and household wealth appears to be more subdued in this cycle, possibly because of the composition of the net inflows (Figure 4). The dominance of falling departures over the current migration cycle and concentration of net inflows in the 20-34 age group suggests that the pressure on housing demand may be weaker than in the past. However, it is possible that the strength in PLT arrivals recently may begin to impact housing demand more significantly over the coming year.

[2] McDonald, Chris., (2013), 'Migration and the housing market,' Reserve Bank of New Zealand Analytical Notes Series AN2013/10, Wellington.

Figure 4 – Net PLT inflows and house prices



Sources: Statistics NZ, REINZ

Composition is helping to explain the different impact on the economy this time

Overall, the large fall in departures in the current cycle and the age composition of the aggregate inflows reinforce that net PLT migrants are likely providing a greater contribution to the labour force than in the past. The current turn-around is also distinctive given the large increase in other citizen arrivals aged 20-34 who now account for a much larger share of the student and work visas approved than a decade ago. Current student arrivals are also older and have greater work rights than previously. A greater flow through to the labour force has positive implications for the productive capacity of firms, allowing the economy to produce more output without increasing price pressures.

The strong net PLT inflow will also be contributing to aggregate demand by raising consumer spending. However, a lower concentration of the net inflow in older age groups who are typically more capital-rich could be limiting the flow-through to housing demand relative to past cycles.

Monthly Economic Indicators is a regular report prepared by the Forecasting team of the Treasury.

Contact for enquiries:
The Treasury
PO Box 3724, Wellington
NEW ZEALAND

information@treasury.govt.nz
Tel: +64 4 472 2733
Fax: +64 4 473 0982

New Zealand Key Economic Data

Quarterly Indicators

		2013Q2	2013Q3	2013Q4	2014Q1	2014Q2	2014Q3	2014Q4
Gross Domestic Product (GDP)								
Real production GDP	qtr % chg[1]	0.4	1.0	0.6	0.9	0.7	1.0	...
	ann ave % chg	2.1	2.4	2.2	2.5	2.8	2.9	...
Real private consumption	qtr % chg[1]	0.8	0.3	0.8	0.3	1.3	1.5	...
	ann ave % chg	2.5	2.8	2.9	2.9	2.8	3.0	...
Real public consumption	qtr % chg[1]	0.6	1.6	0.4	1.2	1.0	0.4	...
	ann ave % chg	0.1	1.1	1.9	2.7	3.5	3.5	...
Real residential investment	qtr % chg[1]	0.9	7.2	0.6	10.9	-0.3	0.0	...
	ann ave % chg	16.4	16.3	16.6	16.6	18.0	16.3	...
Real non-residential investment	qtr % chg[1]	5.5	4.1	-0.5	-0.6	2.7	3.8	...
	ann ave % chg	3.2	4.8	6.2	8.4	8.7	7.2	...
Export volumes	qtr % chg[1]	-3.0	-0.8	3.5	2.9	-4.2	-0.4	...
	ann ave % chg	3.1	1.3	1.1	0.3	0.4	1.5	...
Import volumes	qtr % chg[1]	1.8	4.0	0.2	2.1	3.0	0.3	...
	ann ave % chg	2.5	4.6	6.3	8.0	8.9	8.0	...
Nominal GDP - expenditure basis	ann ave % chg	2.0	3.1	5.4	6.8	8.1	7.7	...
Real GDP per capita	ann ave % chg	1.5	1.7	1.4	1.5	1.6	1.5	...
Real Gross National Disposable Income	ann ave % chg	1.9	3.0	4.3	5.7	6.4	6.2	...
External Trade								
Current account balance (annual)	NZ$ millions	-7,894	-8,476	-7,350	-6,005	-5,814	-6,090	...
	% of GDP	-3.6	-3.9	-3.3	-2.6	-2.5	-2.6	...
Investment income balance (annual)	NZ$ millions	-8,501	-8,507	-9,027	-9,338	-9,770	-9,947	...
Merchandise terms of trade	qtr % chg	4.6	7.5	2.5	1.8	0.1	-4.5	...
	ann % chg	4.3	15.8	20.2	17.3	12.2	-0.2	...
Prices								
CPI inflation	qtr % chg	0.2	0.9	0.1	0.3	0.3	0.3	-0.2
	ann % chg	0.7	1.4	1.6	1.5	1.6	1.0	0.8
Tradable inflation	ann % chg	-1.6	-0.5	-0.3	-0.6	0.1	-1.0	-1.3
Non-tradable inflation	ann % chg	2.5	2.8	2.9	3.0	2.7	2.5	2.4
GDP deflator	ann % chg	-0.1	3.7	7.6	5.8	4.8	1.7	...
Consumption deflator	ann % chg	0.2	0.6	1.0	0.9	1.0	0.6	...
Labour Market								
Employment (HLFS)	qtr % chg[1]	0.4	1.3	0.9	1.0	0.4	0.9	1.2
	ann % chg[1]	0.7	2.5	3.0	3.7	3.7	3.2	3.5
Unemployment rate	%[1]	6.4	6.1	6.0	6.0	5.6	5.4	5.7
Participation rate	%[1]	68.1	68.6	68.8	69.3	68.8	69.0	69.7
LCI salary & wage rates - total (adjusted)[5]	qtr % chg	0.4	0.4	0.5	0.3	0.5	0.5	0.5
	ann % chg	1.7	1.6	1.6	1.5	1.6	1.7	1.7
QES average hourly earnings - total[5]	qtr % chg	0.2	1.6	0.2	0.5	0.2	1.4	0.5
	ann % chg	2.1	2.6	2.9	2.5	2.5	2.3	2.6
Labour productivity[6]	ann ave % chg	1.5	0.4	-0.9	-1.0	-1.1	-0.9	...
Retail Sales								
Core retail sales volume	qtr % chg[1]	1.8	-0.3	1.0	1.1	1.2	1.5	1.5
	ann % chg	4.4	4.3	3.7	3.6	3	4.5	6
Total retail sales volume	qtr % chg[1]	1.2	0.3	1.2	1	1	1.6	1.7
	ann % chg	4.2	4.7	3.9	3.8	3.6	4.7	5.9
Confidence Indicators/Surveys								
WMM - consumer confidence[3]	Index	117	115	120	122	121	117	115
QSBO - general business situation[4]	net %	35.9	37.8	52.8	51.7	31.7	19.0	22.8
QSBO - own activity outlook[4]	net %	0.8	6.1	19.0	33.9	20.1	12.8	30.2

Monthly Indicators

		2014M08	2014M09	2014M10	2014M11	2014M12	2015M01	2015M02
External Sector								
Merchandise trade - exports	mth % chg[1]	-7.6	14.8	-3.3	-6.0	5.9	...	...
	ann % chg[1]	7.2	-5.3	-5.5	-9.0	-6.9	...	...
Merchandise trade - imports	mth % chg[1]	15.0	-9.0	3.8	2.5	-5.2	...	...
	ann % chg[1]	-11.8	23.2	11.2	0.9	7.6	...	...
Merchandise trade balance (12 month total)	NZ$ million	1805	667	-60	-499	-1150	...	...
Visitor arrivals	number[1]	229,440	232,910	241,140	248,690	245,580	...	...
Visitor departures	number[1]	238,890	232,830	240,000	258,250	253,820	...	...
Housing								
Dwelling consents - residential	mth % chg[1]	0.0	-12.2	10.8	10.5	-2.1	...	...
	ann % chg[1]	15.7	6.6	13.8	6.7	8.1	...	...
House sales - dwellings	mth % chg[1]	-4.6	4.8	7.4	2.8	17.6	-15.8	...
	ann % chg[1]	-16.3	-12.0	-2.4	6.5	24.2	2.6	...
REINZ - house price index	mth % chg	0.2	0.1	0.8	2.3	0.4	1.2	...
	ann % chg	4.8	4.1	3.9	6.0	6.0	7.5	...
Private Consumption								
Electronic card transactions - total retail	mth % chg[1]	0.8	0.1	1.0	-0.3	-0.1	-0.4	...
	ann % chg	4.1	5.4	5.7	3.3	3.5	4.0	...
New car registrations	mth % chg[1]	-1.3	3.1	-1.7	0.2	2.1	-0.7	...
	ann % chg	18.7	31.1	21.3	16.5	21.0	17.1	...
Migration								
Permanent & long-term arrivals	number[1]	9,520	9,580	9,900	9,800	8,830	...	...
Permanent & long-term departures	number[1]	4,770	4,860	4,670	4,800	4,730	...	...
Net PLT migration (12 month total)	number	43,483	45,414	47,684	49,836	50,922	...	...
Commodity Prices								
Brent oil price	US$/Barrel	101.61	97.09	87.43	79.44	62.34	48.12	*57.41*
WTI oil price	US$/Barrel	96.54	93.21	84.40	75.79	59.29	47.52	*51.01*
ANZ NZ commodity price index	mth % chg	-0.6	1.5	2.3	-1.4	-3.8	-1.2	...
	ann % chg	-12.5	-9.9	-6.9	-8.6	-13.6	-15.2	...
ANZ world commodity price index	mth % chg	-3.5	-1.3	-0.9	-1.4	-4.4	-0.9	...
	ann % chg	-7.2	-9.4	-11.4	-12.4	-17.1	-18.8	...
Financial Markets								
NZD/USD	$[2]	0.8435	0.8167	0.7869	0.7832	0.7764	0.7640	*0.7429*
NZD/AUD	$[2]	0.9065	0.9001	0.8973	0.9051	0.94	0.9465	*0.9546*
Trade weighted index (TWI)	June 1979 = 100[2]	79.91	78.49	76.76	77.43	78.24	78.18	*77.01*
Official cash rate (OCR)	%	3.50	3.50	3.50	3.50	3.50	3.50	3.50
90 day bank bill rate	%[2]	3.69	3.71	3.68	3.67	3.67	3.67	*3.63*
10 year govt bond rate	%[2]	4.20	4.20	4.04	4.03	3.78	3.42	*3.26*
Confidence Indicators/Surveys								
ANZ - business confidence	net %	24.4	13.4	26.5	31.5	30.4	...	...
ANZ - activity outlook	net %	36.6	37.0	37.8	41.7	37.3	...	...
ANZ-Roy Morgan - consumer confidence	net %	125.5	127.7	123.4	121.8	126.5	128.9	124.0
Performance of Manufacturing Index	Index	57.0	58.7	58.6	55.2	57.1	50.9	...
Performance of Services Index	Index	57.6	57.7	56.9	54.8	56.7	57.8	...

qtr % chg	quarterly percent change
mth % chg	monthly percent change
ann % chg	annual percent change
ann ave % chg	annual average percent change

1 Seasonally adjusted
2 Average (11am)
3 Westpac McDermott Miller
4 Quarterly Survey of Business Opinion
5 Ordinary time
6 Production GDP divided by HLFS hours worked

Sources: Statistics New Zealand, Reserve Bank of New Zealand, NZIER, ANZ, Haver, Westpac McDermott Miller, ANZ-Roy Morgan, REINZ, BNZ-Business NZ