

Reference: 20160009

11 March 2016



Thank you for your Official Information Act request, received on 18 January 2016. You requested:

- *Any advice produced by Treasury for Ministers or Ministerial offices regarding the economic outlook and/or Treasury forecasts since October 1 2015, excluding previously published advice (e.g. Monthly Economic Indicators)*

On 29 January 2015 I sought an extension of 20 working days. A response to your request is due on 15 March 2015.

Information Being Released

Please find enclosed the following documents:

Item	Date	Document Description	Decision
1.	6 October 2015	Initial View: Quarterly Survey Of Business Opinion (QSBO) September Quarter 2015	Release in part
2.	7 October 2015	Initial View: Another Increase In Dairy Prices At GDT	Release in part
3.	16 October 2015	Consumers Price Index Review - September 2015	Release in part
4.	19 October 2015	Aide Memoire: Half Year 2015 Economic Forecasts As At 15 October	Release in part
5.	20 October 2015	Migration Trends, Causes And Macro Implications	Release relevant part
6.	27 October 2015	Initial View: Overseas Merchandise Trade September 2015	Release in part
7.	30 October 2015	RE: Initial View: Building Consents September Quarter	Release in part
8.	4 November 2015	Initial View: Global Dairy Trade Auction 3 November	Release in part
9.	4 November 2015	Labour Market Review - September 2015	Release in part
10.	5 November 2015	Update On Half Yearly Economic Financial Update 2015 Forecasts And Fiscal Strategy	Release in part

11.	10 November 2015	RE: Initial View: Electronic Card Transactions: August	Release in part
12.	16 November 2015	Initial View: Retail Trade Survey: September 2015 Quarter- Solid Retail Sales Volumes Growth Led By The Motor Vehicle Industry	Release in part
13.	17 November 2015	Explaining Changes To The Treasury's Economic Forecasts From Budget	Release in full
14.	20 November 2015	Initial View: Annual National Accounts	Release in full
15.	25 November 2015	Half Yearly Economic Financial Update 2015 - Final Macroeconomic And Tax Forecasts	Release in part
16.	26 November 2015	Initial View: Overseas Merchandise Trade - October 2015	Release in part
17.	30 November 2015	Aide Memoire: Half Year 2015 Final	Release in part
18.	1 December 2015	Initial View: November ANZ Business Outlook	Release in full
19.	1 December 2015	Initial View: Overseas Trade Indexes - September Quarter 2015	Release in full
20.	2 December 2015	Final Budget Ministers Slides (8 December 2015)	Release relevant part
21.	3 December 2015	FW: Initial View: Value Of Building Work Put In Place	Release in part
22.	8 December 2015	Initial View: Economic Survey Of Manufacturing	Release in full
23.	10 December 2015	Initial View: Fonterra Forecast Milk Price	Release in part
24.	16 December 2015	Balance of Payments Review - Sept Quarter 2015	Release in part
25.	17 December 2015	Federal Open Markets Committee Decision	Release in full
26.	17 December 2015	RE: Initial View: Gross Domestic Product September 2015 Quarter	Release in part
27.	17 December 2015	Gross Domestic Product Review - September 2015 Quarter	Release in part
28.	21 December 2015	Initial View: Westpac-McDermott Miller Consumer Confidence: December 2015 Quarter	Release in part
29.	11 January 2016	Initial View: Building Consents November 2015	Release in part
30.	Multiple Dates	Weekly Economic Outlooks	Release relevant part

I have decided to release the documents listed above, subject to information being withheld under one or more of the following sections of the Official Information Act, as applicable:

- personal contact details of officials, under section 9(2)(a) – to protect the privacy of natural persons, including deceased people, and

- names and contact details of junior officials and certain sensitive advice, under section 9(2)(g)(i) – to maintain the effective conduct of public affairs through the free and frank expression of opinions.

Information to be Withheld

There is one additional document covered by your request that I have decided to withhold in full under the following sections of the Official Information Act, as applicable:

Item	Date	Document Description	Proposed Action
31.	11 November 2015	Outlook for the Canterbury Rebuild	Withhold in full

- advice still under consideration, section 9(2)(f)(iv) – to maintain the current constitutional conventions protecting the confidentiality of advice tendered by Ministers and officials.

In making my decision, I have considered the public interest considerations in section 9(1) of the Official Information Act.

Please note that this letter (with your personal details removed) and enclosed documents may be published on the Treasury website.

This fully covers the information you requested. You have the right to ask the Ombudsman to investigate and review my decision.

Yours sincerely

Angela Mellish
Manager, Forecasting

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From: s9(2)(g)(i)
Sent: 6 Oct 2015 10:24:32 +1300
To: @Forecasting;^Parliament: Simon Duncan
Subject: Initial view: Quarterly Survey of Business Opinion (QSBO) September Quarter 2015

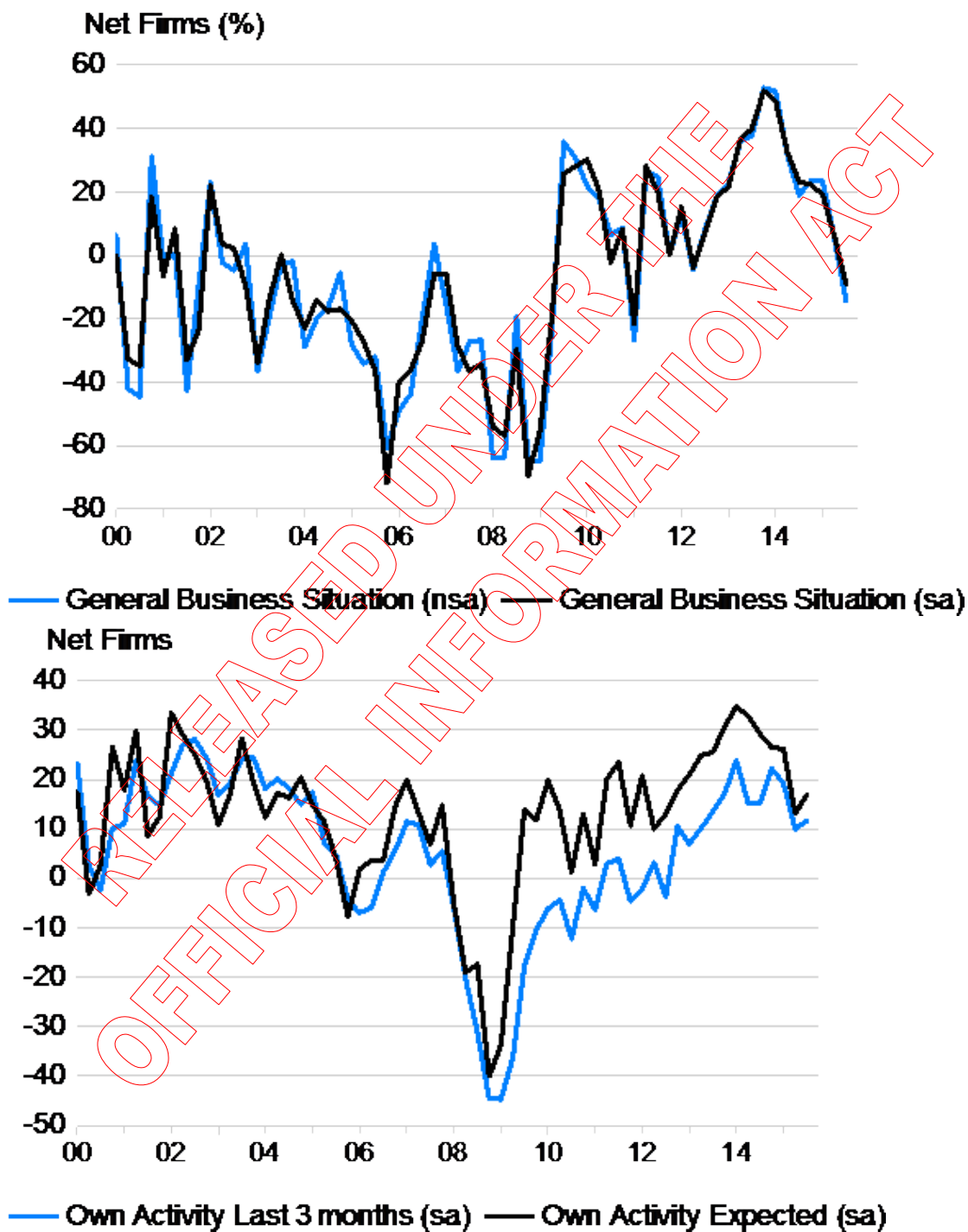
[IN-CONFIDENCE]

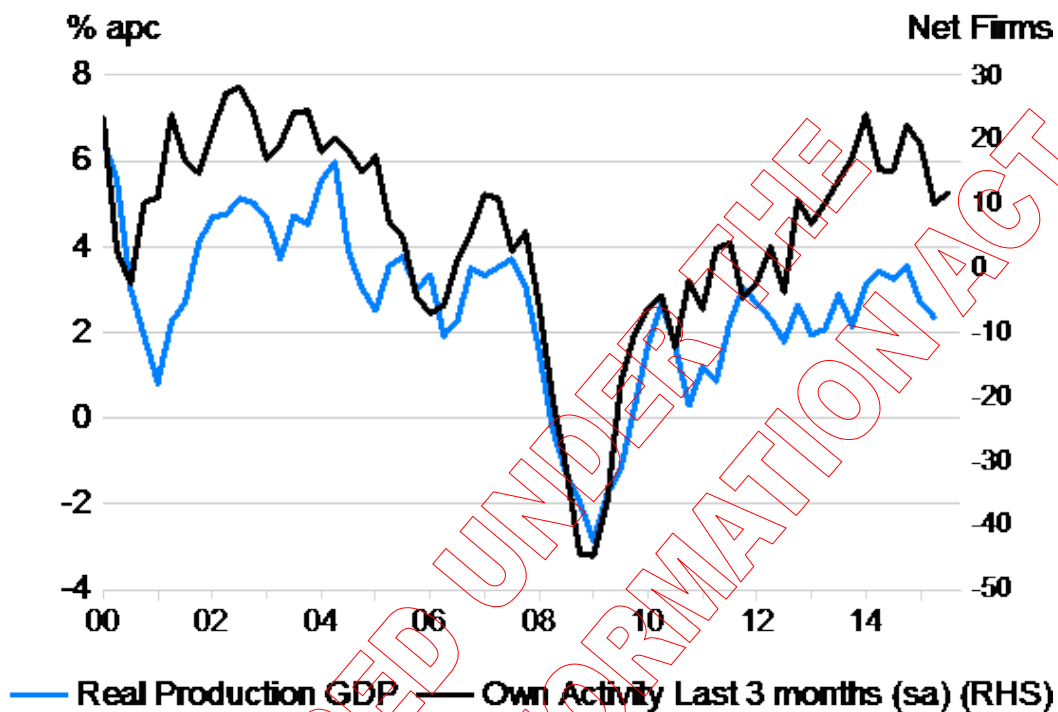
Quarterly Survey of Business Opinion – September Quarter 2015

- Underlying QSBO measures pointed to modest stabilisation
- The headline general business situation measure fell, with net -9% (s.a.) of firms expecting the business situation to improve (from +6% in the June quarter)
- However, the more important measures of domestic trading activity experienced rose modestly to +12% (s.a, from +10%) and domestic trading activity expected rose to +17% (s.a, from +13%)
- Capacity constraints eased slightly, with CUBO down to a still high 91% and both skilled and unskilled labour slightly easier to find
- Inflation indicators remain low, with a net 6% of firms reporting reduced selling prices in the September quarter and just 0.5% expecting to increase prices in the coming quarter, the lowest level since the GFC
- Investment intentions eased but remain positive for both buildings (+3%) and plant and machinery (+11%), while employment intentions increased from +10% to +15%

Implications

Taken together the QSBO measures are consistent with the outlook of modest economic activity with weak pricing pressures. Both the backward and forward looking measures support our view of around trend economic growth in the September and December quarters. The uptick in trading activity is consistent with the modest rebound seen in the ANZ business outlook last week. It is worth noting that QSBO does not measure the agricultural sector where confidence is weakest, which may account for the divergence between the general business situation and domestic trading activity indicators.





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From: s9(2)(g)(i)
Sent: 6 Oct 2015 20:21:47 +0000
To: @Forecasting;^Parliament: Simon Duncan;Girol Karacaoglu [TSY];Tim Ng [TSY];Lucy Greig [TSY];Martin Fukac [TSY]
Subject: Initial view: Another increase in dairy prices at GDT

[IN-CONFIDENCE]

The GDT price index rose for the fourth consecutive auction, with the index up 9.9% and the average GDT price settling at US\$2,834/mt. The increase in price appears to be mostly supply driven. Volumes offered at auction were 36% lower than the equivalent auction a year ago and season to date volume on the auction is down 24%. This was also the first auction since Fonterra's annual results announcement where they revised down their forecast of milk production from 1-2% decline to a 5% decline (and market expectations are for an even larger decline).

Prices were up for most products, with milk powders driving most of the increase. WMP and SMP were up 12.9% and 13.4% to \$2,824/mt and \$2,267/mt respectively. Cheese prices were relatively flat while butter prices fell, although they remain above the \$3,000 mark.

I haven't seen any revisions to farm price forecasts this morning but given the general upward revision after the last auction most analysts will probably be happy where they are, with forecasts ranging from \$4.25-5.00/kg MS. The NZX agri seasonal calculator is now sitting at \$5.39/kg MS. I'm yet to be convinced that prices can be sustained to hit the top end of the market range given the global supply overhang remains relatively unchanged but this is something I'd be happily wrong about. I think the main risk at this stage is that we have a repeat of earlier this year, where prices rallied above \$3000 on supply concerns then collapsed again when increased demand failed to materialise.

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From: GDT Results Alerts [mailto:alerts@globaldairytrade.info]
Sent: Wednesday, 7 October 2015 3:50 a.m.
To: s9(2)(g)(i)
Subject: GDT Event 149 results



Event Results

GlobalDairyTrade Event 149 concluded with the GDT Price Index up 9.9%

Key Results

AMF index up 9.9%, average price US\$3,763/MT

Butter index down 2.3%, average price US\$3,037/MT

BMP index up 13.8%, average price US\$1,945/MT

Ched index up 0.5%, average price US\$3,234/MT

LAC index up 5.9%, average price US\$524/MT

RenCas index up 4.0%, average price US\$6,048/MT

SMP index up 13.4%, average price US\$2,267/MT

WMP index up 12.9%, average price US\$2,824/MT

Full results have been published on www.GlobalDairyTrade.info.

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· New Zealand

Economic Brief



Consumers Price Index – September quarter 2015

16 October 2015

CPI +0.3 qpc / +0.4% apc

- Inflation slightly above expectations
- Higher housing-related prices drive quarterly increase
- Annual non-tradables inflation still lowest since December 2001

The CPI increased 0.3% in the September quarter

The Consumers Price Index (CPI) increased 0.3% in the September quarter, above our latest forecast and the median market expectation of 0.2% (Table 1).

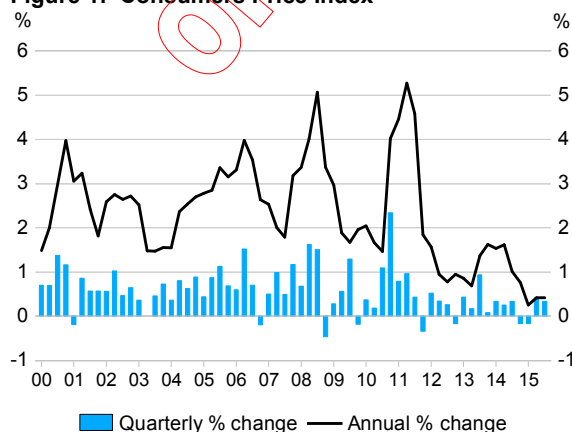
Table 1: Inflation results

Consumers Price Index September 2015 quarter	Quarterly % change	Annual % change
Actual outturn	0.3	0.4
Treasury latest estimate	0.2	0.3
Treasury BEFU forecast	0.4	0.3
Reserve Bank September MPS*	0.3	0.2
Market Median	0.2	0.3
Market forecast (range) *	0.1 - 0.5	0.2 - 0.6

**Bloomberg poll of economists, 13 October 2015

The annual rate of inflation was 0.4%, unchanged from the June quarter (Figure 1). Non-tradables inflation was in line with our estimate of 0.0% in the quarter and 1.5% annually. On the other hand, quarterly tradables inflation was marginally stronger (0.7% than our estimate of 0.6%, but in line with our annual forecast of -1.2%.

Figure 1: Consumers Price Index



Source: Statistics NZ

Main contributions much as expected

The main contribution to the quarterly increase came from housing and household utilities (+0.3% points), partially offset by transport (-0.2% points) (Table 2).

Table 2: Contribution by group
2015Q3 CPI

Group	Quarterly % change	% point contribution	Annual % change
Food	0.6	0.1	0.8
Alcoholic Beverages and Tobacco	0.3	0.0	5.1
Clothing and Footwear	0.0	0.0	0.0
Housing and Household Utilities	1.2	0.3	2.7
Household Contents and Services	1.1	0.1	0.8
Health	-0.6	0.0	0.2
Transport	-1.5	-0.2	-5.8
Communications	-0.8	0.0	-4.6
Recreation and Culture	0.8	0.1	0.4
Education	0.0	0.0	3.8
Miscellaneous Goods and Services	0.5	0.0	1.3
All Groups	0.3	-0.3	0.4
Tradables	0.7	0.3	-1.2
Non-tradables	0.0	0.0	1.5

Source: Statistics NZ

The quarterly increases for food, housing and household utilities, and transport groups were in line with our latest forecast, while price changes for other groups were mixed relative to our expectations. Communication prices fell less than expected (-0.8% vs. -2.4%), due to a smaller than expected decline in telecommunication equipment prices. Household contents and services prices increased 1.1% in the quarter compared to our expectation of a 0.1% fall, chiefly owing to less discounting in the quarter, while health prices fell slightly compared to our forecast of a modest increase, largely owing to increased subsidies for children's GP visits. Clothing and footwear, recreation and culture, and education prices all increased slightly more than expected. On the other hand, alcoholic beverages and tobacco and miscellaneous goods and services prices increased slightly less than expected.

Seasonal vegetable prices drive quarterly increase...

The largest contribution to quarterly inflation came from a seasonally high increase in vegetable prices, up 0.2% points (14% qpc). Owing to the lower NZD, package holidays and petrol prices

also made significant positive contributions, both around 0.1% points. These were partially offset by other private transport services contributing -0.3% points (-24% qpc), a result of the decrease in vehicle licensing fees.

...with housing-related costs also making a large positive contribution

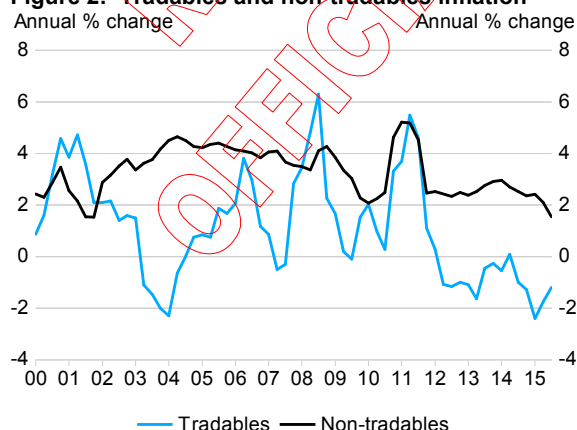
Housing and household utility costs increased 1.2% in the quarter. This was led by local authority rates rising 5.7%, reflecting the almost 10% rise by the Auckland City Council. Purchase of new housing and rental costs continued rising at a robust pace, 1.4% and 0.6% respectively.

On an annual basis, the cost of building a new house in Auckland jumped from 7.6% in the June quarter to 8.5%, in contrast to Canterbury where it slowed from 4.0% to 3.7%, reflecting the plateauing of the Canterbury residential rebuild and pick-up in Auckland construction. On the other hand, rental price increases were highest in Canterbury (3.1% apc vs. 2.3% in the rest of the country).

Tradable prices rise in quarter...

Tradable prices increased 0.7% in the September quarter, driven by vegetables, package holidays, and petrol prices. Annual tradable price falls have slowed from 2.4% in the March quarter (largely fuel price driven), to 1.2% in the September quarter (Figure 2). This was led by lower petrol prices, with milk, eggs and cheese, and international airfares also making significant negative contributions. These were partially offset by higher prices for package holidays.

Figure 2: Tradables and non-tradables inflation



Source: Statistics NZ

...as annual non-tradables inflation slows

Non-tradables prices were flat in the quarter, the smallest quarterly change since the March 2001. The weak outturn was a result of lower prices for vehicle licensing fees offsetting higher housing-

related costs. Excluding the reduction in vehicle levies, non-tradables inflation was 0.6% in the quarter. Annual non-tradables inflation slowed from 2.1% in the June quarter to 1.5% – the slowest pace since December 2001. Housing-related costs, and cigarettes and tobacco made the largest contributions to the annual increase.

Little sign of higher underlying inflation

The trimmed mean measure of quarterly inflation was slightly higher than headline at 0.5%, reflecting the skew caused by vehicle levy reductions and suggesting underlying price pressures were slightly higher than the headline measure indicates. That said, the weighted median measure for the quarter is in line with the headline measure.¹

We expect inflation to rise in coming quarters

Tradables inflation is expected to continue to track up towards zero as the recent exchange rate depreciation increases the price for goods and services with an imported component. Non-tradables inflation is expected to remain subdued in 2015, as capacity indicators suggest muted inflationary pressure in the near term. Overall, we expect annual headline inflation to pick up in December, although remain below 1.0%.

While today's outturn keeps annual inflation below the Reserve Bank's target range, it was in line with their September Monetary Policy Statement forecast for the quarter. Prior to the release, the market was pricing around a 50% probability of another 25 basis point cut by the end of the year.

On release, the NZD rose about 20 points against the USD before tracing back to its pre-release level.

For further information, contact: s9(2)(g)(i)
Forecasting Team, NZ Treasury

¹ The 10% trimmed mean excludes the top and bottom 5% of price changes which are assigned their item weights and ranked in order of percentage change. The weighted median is the middle increase of the items in the Index given their expenditure weights and ranked in order of price change.

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Reference: T2015/2423

BM-3-6-1

Date: 16 October 2015

To: Minister of Finance
(Hon Bill English)

Associate Minister of Finance
(Hon Steven Joyce)

Associate Minister of Finance
(Hon Paula Bennett)

Deadline: None
(if any)

Aide Memoire: Half Year 2015 Economic Forecasts as at 15 October 2015

Summary

Table 1 – Forecast Summary

		2015	2016	2017	2018	2019	2020
March years, %		Actual	Forecast	Forecast	Forecast	Forecast	Forecast
Economic growth ¹	HYEFU15	3.2	2.0	2.4	3.7	3.0	2.2
	BEFU	3.3	3.1	2.8	2.8	2.4	
Unemployment rate ²	HYEFU15	5.8	6.5	6.2	5.3	4.6	4.5
	BEFU	5.6	5.1	4.7	4.5	4.5	
CPI inflation ³	HYEFU15	0.3	1.3	2.1	1.9	2.1	2.2
	BEFU	0.2	1.4	2.1	2.0	2.1	
Current account balance ⁴	HYEFU15	-3.5	-4.9	-6.0	-4.5	-3.9	-4.3
	BEFU	-4.1	-5.6	-4.9	-5.1	-5.3	
Nominal GDP (\$billion, June years)	HYEFU15	\$241	\$245	\$255	\$271	\$285	\$296
	BEFU	\$240	\$250	\$263	\$275	\$286	
Difference		\$1	-\$5	-\$8	-\$4	-\$1	

1. Production GDP, annual average % change 2. March quarter 3. Annual % change 4. Annual as % of GDP

Over the first half of the year growth in the domestic economy was weaker than anticipated in the Budget Economic and Fiscal Update (BEFU). Household consumption growth was particularly soft. Other contributing factors included reduced impetus from the Canterbury rebuild and lower mining related investment. This was only partially offset by stronger than expected net exports. The unemployment rate increased and inflation remained low.

The global economic outlook was also weaker than expected. There is a notable divergence developing as US economic conditions improve while China's economic outlook deteriorates, with flow on impacts to trading partners including emerging Asia and Australia. The growth outlook for the EU and Japan remains stable but weak.

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Global inflationary pressures remain low and, aside from expected US monetary policy normalisation, monetary policy looks likely to remain stimulatory for longer than anticipated in the Budget Update.

Declines in dairy auction prices have been accompanied by lower business and consumer confidence. More recent indicators show confidence has stabilised and dairy auction prices have risen. Past falls in dairy auction prices are expected to pass through to a lower terms of trade in coming quarters. The Reserve Bank has eased monetary policy and the exchange rate has depreciated in response to the weaker outlook, with further monetary policy easing expected. Further exchange rate adjustment is necessary to continue rebalancing the economy.

Economic growth in 2016 is expected to be around 2% and the unemployment rate around 6.5%. El Nino climatic conditions are also expected to have a small negative impact on growth in 2016. With growth anticipated to be below trend until mid-2016, and more spare capacity in the economy, domestic inflationary pressures are weaker. In these circumstances, more stimulatory monetary conditions, including both lower interest and exchange rates, are required to return inflation to the mid-point of the target. This monetary stimulus, together with a recovery in the terms of trade and the improving international outlook lead to a pick-up in growth from late 2016. Also, in the year to March 2018, the contribution from government consumption increases reflecting the higher operating allowances.

The income and price effects associated with the weaker terms of trade and slower real GDP growth flow through to a \$17 billion cumulative reduction in nominal GDP over the forecast period compared to the Budget Update. Nominal GDP growth is revised down to 2.7% (from 3.3%) and 2.9% (from 5.3%) in the years ending March 2016 and 2017 respectively and is higher in subsequent years. The current account deficit widens to 6% of GDP in 2016 in response to the decline in the terms of trade before narrowing to 4 – 4.5% in the latter part of the forecast.

Next Steps

- The economic forecast will be discussed at Fiscal Issues on 21 October 2015
- Advice on Fiscal Strategy will be provided on 6 November 2015
- Forecasts will be refreshed for major developments in late November 2015
- The Reserve Bank Monetary Policy Statement will be released 10 December 2015
- The Half Year Economic and Fiscal Update will be published 15 December 2015
- September Quarter GDP and Balance of Payments data are released 16-17 December 2015

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Summary Graphs

Economic Outlook – Discussion and Analysis including risks

Table 2 – Summary of Economic Forecasts - March Years

Table 3 – Change in Forecasts from Previous Round - March Years

Table 4 – Key economic assumption for Fiscal Forecasts – June Years

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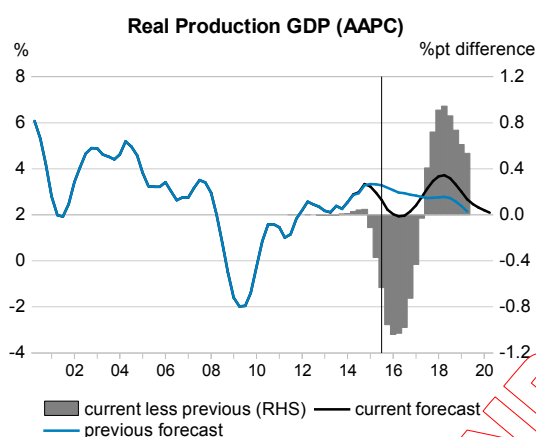
Angela Mellish, Manager, Forecasting, 04 890 7290

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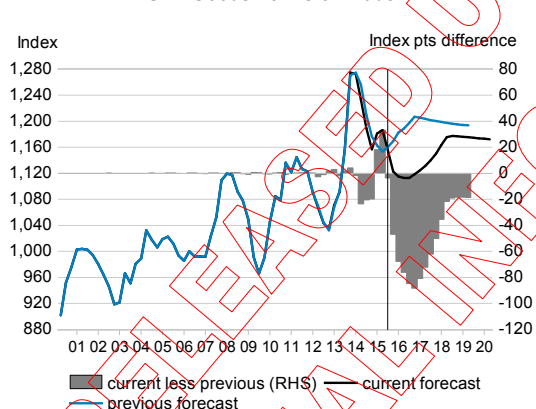
Summary Graphs

1. Real GDP growth is weaker in 2016 and 2017...



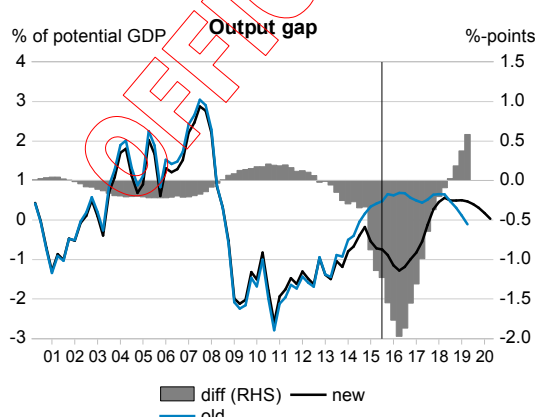
- Slower growth reflects the lower terms of trade and weaker domestic demand.
- El Nino also reduces growth in the short term.
- Easier monetary conditions and a recovery in the terms of trade see growth around 3.7% in 2018.
- Migration and services activity support growth in the shorter-term, while exports play a greater role in the medium-term.

2. ...as the terms of trade fall



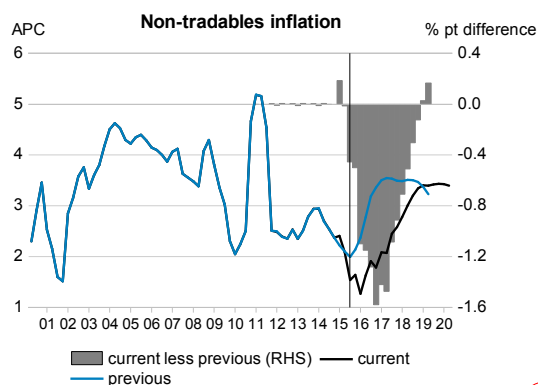
- Lower dairy prices reduce farm incomes and domestic demand.
- Investment is lower due to reduced profit expectations.
- The terms of trade are a little lower at the end of the forecast period as the structural fall in dairy prices outweighs the impacts of lower oil prices.
- The current account deficit widens to 6% of GDP in 2016 before narrowing as the terms of trade recover and in response to the lower exchange rate.

3. Persistent spare capacity...

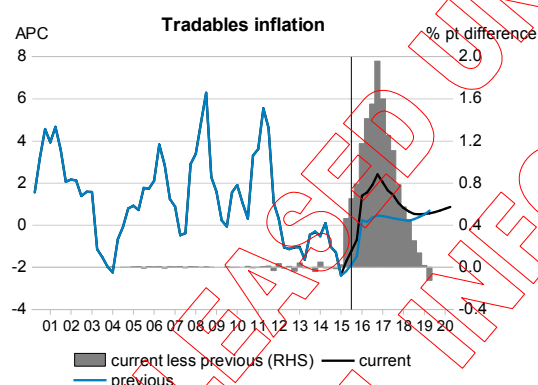


- Slower GDP growth suggests the output gap has remained negative.
- Weaker demand keeps the gap negative.
- The gap begins to close as demand recovers.
- Unemployment rises to 6.5%.

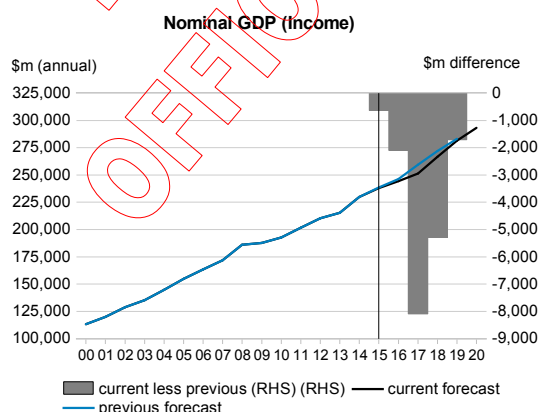
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4. ...reduces pressure on non-tradables inflation...

- Headline CPI inflation is little changed.
- Non-tradables inflation remains weak and rises only gradually.
- Surveyed pricing intentions and inflation expectations are subdued.
- Monetary policy has become more stimulatory as it seeks to ensure inflation returns to target.
- The responsiveness of non-tradables inflation is uncertain.

5. ...but the weaker exchange rate drives tradables inflation up...

- Tradables inflation reaches 2.4% in 2016.
- The effect of lower oil prices drops out.
- The strength and timing of the pass through from the exchange rate is uncertain.

6. ...and nominal GDP is lower

- Nominal GDP is around \$17 billion lower across the forecast period.
- Compensation of employees is around \$2.5 billion lower in each of the March 2018 and 2019 years, while the change in growth is largest in 2016 (growth of 2% is forecast down from 4% in the BEFU).
- Net operating surplus is around \$6 billion lower in the March 2017 year and \$2 billion lower in the 2018 year.

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Economic Outlook – Discussion and Analysis

International Conditions and Outlook

The outlook for the world economy is becoming more uncertain as divergent trends develop: growth in emerging economies (which have been the driver of growth since the GFC) is slowing, while amongst major advanced economies the US and UK are strengthening but Japan and Europe are still languishing. The IMF and World Bank have lowered their global growth forecasts for 2015 and 2016, largely owing to lower growth in China and other developing economies. The emerging market economies' slowdown is affecting commodity-exporting advanced economies including Canada and Australia. Forecasts of New Zealand's trading partner growth are lower than anticipated in the Budget Update.

Slower global economic growth is expected to flow through to lower inflationary pressures and in some cases a more gradual recovery towards target inflation levels. Aside from anticipated monetary policy tightening in the US, monetary conditions are expected to remain stimulatory for longer in response to the weaker inflation outlook. International interest rates are forecast to be lower than in the Budget Update and in some cases the expected long run (terminal) rates have also been reduced in line with guidance from the relevant monetary authority.

Commodity prices have fallen since earlier in the year as a result of weaker growth in emerging market economies, leading to further weakness in some of them. High stock levels, as well as increased supply, have also led to lower prices for many commodities. Oil prices (West Texas Intermediate) are down by more than 50% from a year ago from around US\$100/bbl to below \$50/bbl. Iron ore prices have fallen by around one third from US\$85/tonne a year ago to around US\$57/tonne currently. The Commodity Research Bureau Index is down 15% from a year ago.

The weakness in commodity prices extends to key New Zealand exports, notably dairy. Dairy prices fell to a much lower level than was anticipated, as demand weakness compounded the effects of strong global supply. While some recovery in prices is apparent, they remain some way below our BEFU assumption. Despite the sharp fall in dairy auction prices, the terms of trade increased over the first half of the year. This increase reflects both the rally in dairy prices over the first quarter as well as lower import prices. The impacts of lower dairy auction prices will become increasingly evident from the September quarter onwards.

Domestic Conditions

Over the first half of the year growth in the domestic economy was much more sluggish than anticipated in the Budget Update. Household consumption growth was particularly soft and per capita consumption of services fell. Other contributing factors included reduced impetus from the Canterbury rebuild, and lower mining related investment. Net exports were a little stronger than expected, led by higher services exports. Available indicators suggest that conditions have stabilised somewhat but that growth remains moderate.

The supply side of the economy has continued to expand, most notably in the labour market, where the labour force is currently over 0.5% larger than expected. Employment growth has slowed following a period of strong growth over 2014, and the

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unemployment rate has continued to drift higher. Elevated rates of labour force participation have contributed to the rise in the unemployment rate. The large inflow of work-ready migrants may be providing a modest boost to participation, but other, more persistent, forces may also be present. Measures of labour costs remained steady, and growth in the compensation of employees remained strong – somewhat at odds with the weaker data on household consumption.

There has been some offset on the supply side through lower investment. In addition, there has been some reduction in agricultural stock in anticipation of lower farm revenues and from the previous summer's drought. More recently, expectations of drought in the coming summer may be influencing desired stocking rates. The reduction in agricultural stock is reflected in lower commodity export volumes over the next year or so.

Consumer price inflation was close to forecast and remains at low levels. The CPI outturns, combined with weaker activity and increased labour supply, suggest that the output gap is likely to have widened rather than closed as expected in the Budget Update. The economy is expected to operate with a significant degree of spare capacity for some time.

The Reserve Bank has responded to the weaker outlook by reducing the OCR 75 basis points to 2.75% and has indicated a further reduction is likely. Lower interest rates are acting to support lending in the housing market. House sales have risen strongly across the country and credit growth has quickened somewhat. Dwelling prices in Auckland have continued to rise rapidly, but in other regions price trends have been more varied. Regulatory measures to help contain risks in the Auckland housing market, and new national tax measures, are likely to be influencing recent data.

The exchange rate is adjusting to easier monetary conditions and the fall in commodity export prices, and the lower dollar is providing some assistance to non-commodity exporters. The lower exchange rate is expected to put upward pressure on prices of imported goods, although there is considerable uncertainty around the timing and magnitude of these effects.

Domestic Outlook

In October dairy prices moved up from their August lows. Although we expect the recovery to be sustained, some of the recent strength may reflect concerns about impact of the current El Nino on future supply, and prices may retrace as conditions return to normal. We assume that dairy prices recover slowly but steadily, reaching our (lowered) medium-term anchor in 2017. Other export commodity prices are also expected to remain weak before picking up in response to recovering global demand. The long run oil price assumption has been lowered from US\$80/bbl to \$70/bbl in line with international forecasters.

These assumptions on balance result in lower terms of trade than in the Budget Update. At the end of the forecast period that difference narrows to around 1.5%. The lower end-point reflects our view that lower production costs and other structural changes in the dairy market outweigh the price effects of lower oil prices (and other commodities) on the terms of trade.

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Strong El Nino conditions are expected to persist through the summer and autumn. El Nino frequently leads to drought. Together with the falling terms of trade this is expected to lead to lower agricultural production in 2016. El Nino is also likely to affect hydroelectric production. While these are expected to lower economic growth in 2016, the impacts unwind in subsequent years as climate conditions return to normal. There is considerable uncertainty about this judgement given uncertainty over the impact of El Nino and the degree of resilience in the economy.

Net migration has remained high in recent quarters and is expected to remain at its current level through to the March 2016 quarter. Migration declines thereafter, but remains higher than assumed in the Budget Update over 2016.

Demand growth is expected to remain modest as consumers and businesses adjust to the loss in income through the dairy sector and the weaker dollar. For consumers, much of this adjustment occurs through lower consumption expenditure. The household saving rate is assumed to ease slightly but to remain around 2% through the latter part of the forecast period – a little higher than in previous forecast rounds. This adjustment reflects the change in household saving behaviour apparent following the 2007/08 recession.

Market investment is expected to ease as the lower terms of trade puts downward pressure on business profitability and as the price of investment goods increases with the lower exchange rate. In the medium-term, accommodative monetary conditions, improving trading partner growth and an increase in the terms of trade help stimulate investment and, by the end of the forecast period, potential output is similar to the previous forecast.

Residential investment growth is assumed to be slower over the year to March 2016 but picks up in following years in response to low interest rates and increased migration. We intend to reclassify some components of the Canterbury rebuild from residential to other investment to better reflect Statistics New Zealand treatment of earthquake related land repairs.

In the shorter-term, weaker demand produces an output gap that remains negative for some time. The unemployment rate is forecast to rise to 6.5% in 2016 and to remain over 6% until mid- 2017. Weekly wage growth falls below 1% in the year ending March 2017 and, while growth subsequently picks up, weekly wages remain lower than previously expected.

Weaker inflationary pressures mean that non-tradables inflation is lower than expected in the Budget Update, although an offset from higher tradables inflation (as a result of the lower exchange rate) means the overall inflation path is broadly similar. A small positive output gap opens up over 2017 as demand responds to monetary stimulus, then eases as monetary policy is tightened.

Monetary conditions are assumed to become more accommodating over the period ahead as the policy interest rate is reduced further and the exchange rate continues to depreciate. Short-term interest rates begin to move higher in early 2017, rising steadily to 4.5% at the end of the forecast period. The exchange rate is assumed to fall slightly over 2016, as monetary policy tightens in the US, before rising gradually as domestic monetary stimulus is withdrawn.

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The current account deficit is expected to widen to 6% of GDP in 2016 in response to the declining terms of trade. The deficit narrows to 4 – 4.5% of GDP in the latter part of the forecast in response to the recovery in the terms of trade and the lower exchange rate. The net international investment position increases from -62% of GDP to -70% of GDP in 2019, compared to -76% in the Budget Update.

The income and price effects associated with the weaker terms of trade and slower real GDP growth flow through to a \$17 billion cumulative reduction in nominal GDP over the forecast period. Nominal GDP growth is revised down to 2.7% (from 3.3%) and 2.9% (from 5.3%) in the years ending March 2016 and 2017 respectively and is higher in subsequent years.

Risks

The El Nino weather pattern is well embedded and weather forecasters believe it is almost certain to persist until early 2016. However, the nature and severity of any drought impacts are uncertain. The eventual impact on economic growth could be greater or smaller than that factored into these forecasts. The effects of the El Nino are highly uncertain not only for the domestic economy but for a number of economies across the Asia Pacific region.

Net migration is assumed to begin declining from 2016 as the weaker outlook for the NZ economy reduces its attractiveness for those on work visas, for returning NZ citizens and for Australian citizens. It is difficult to gauge the strength and timing of these effects and risks appear biased towards higher migration. A further large increase could materially alter the economic outlook, for example, unemployment maybe significantly higher.

Current low rates of CPI inflation, combined with lower inflation expectations are generating considerable uncertainty around the strength of inflation pressures in the economy.

Debt levels in China remain an ongoing source of uncertainty for the growth in China's demand, including for some of New Zealand key exports. In Australia, the transition in the drivers of growth from mining to non-mining sectors is proving to be more gradual than anticipated. Persistent weakness in Australian demand growth is a risk, particularly for non-commodity goods exports, and for migration flows.

In the US, the prospect of an increase in interest rates this year continues to influence market sentiment and has the potential to cause significant market volatility, particularly in emerging markets.

The outlook for commodity prices is a key source of uncertainty for both trading partners and New Zealand. Prices for many key commodities are expected to remain subdued for an extended period of time. The effects of this are uncertain. Previously we have taken the view that low oil prices were, on balance, beneficial for growth in our trading partners. However, this positive effect may, at least temporarily, be largely offset by weaker export commodity prices within those countries.

For New Zealand dairy exports, the evolution of supply and demand pressures continues to generate uncertainty. Concerns of a temporary reduction in domestic supply may be boosting prices at present. Growth in international production may also ease in response to lower prices, although supply remains ample at present.

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Table 2 – Summary of Economic Forecasts - March Years

(Annual average percent change, unless specified otherwise)

March Years	2012	2013	2014	2015	2016	2017	2018	2019	2020
					Forecast	Forecast	Forecast	Forecast	Forecast
Private consumption	2.7	2.5	3.1	3.1	2.6	2.3	2.4	2.5	2.2
Public consumption	1.5	-0.6	2.7	2.8	2.3	0.8	2.5	1.9	1.0
TOTAL CONSUMPTION	2.4	1.7	3.0	3.0	2.5	1.9	2.4	2.4	1.9
Residential investment	-0.2	17.7	16.6	12.3	5.7	7.1	5.0	2.8	1.4
Market investment*	9.8	7.0	8.3	4.6	3.4	3.3	4.2	6.4	3.4
Non-market Investment**	-9.0	-21.1	12.4	2.1	10.7	8.0	3.0	-9.5	-0.8
TOTAL INVESTMENT	5.5	7.1	10.4	6.5	3.5	4.6	4.4	4.5	2.7
Stocks (contribution to GDP growth)	0.3	-0.3	0.2	0.1	-0.3	-0.1	0.2	0.2	0.3
GROSS NATIONAL EXPENDITURE	3.5	2.4	4.8	3.8	2.6	2.6	3.1	3.1	2.4
Exports	2.2	3.1	-0.1	4.2	2.8	0.3	4.4	4.2	2.7
Imports	6.7	1.3	8.1	7.5	3.7	0.7	2.4	4.3	3.3
EXPENDITURE ON GDP	2.2	2.9	2.5	3.0	2.1	2.5	3.7	3.0	2.2
GDP (PRODUCTION MEASURE)	2.2	2.2	2.5	3.2	2.0	2.4	3.7	3.0	2.2
- annual % change, March quarter	2.7	1.9	3.1	2.7	1.9	3.0	3.8	2.5	2.0
Other Output Measures									
Real Gross National Disposable Income	3.1	1.1	6.0	3.1	0.8	1.7	4.7	3.6	1.9
Nominal GDP (Expenditure Basis)	4.3	2.4	6.8	3.6	2.7	2.9	6.1	5.6	4.1
Output gap (March qtr,% of potential)	-1.3	-1.4	-0.8	-0.5	-1.1	-0.8	0.5	0.5	0.2
Per Capita Output Measures									
Real GDP per capita (Production basis)	1.5	1.6	1.6	1.6	0.1	0.8	2.6	2.1	1.3
Real Gross Nat. Disp Income per capita	2.4	0.5	4.9	1.5	-1.0	0.1	3.6	2.7	1.0
Nominal GDP per capita (Expenditure basis)	3.6	1.8	5.8	1.9	0.8	1.2	5.0	4.6	3.2
Labour Market									
Employment	1.2	0.1	2.4	3.4	1.9	0.9	1.9	2.4	1.6
Unemployment Rate (March quarter)	6.8	6.3	6.0	5.8	6.5	6.2	5.3	4.6	4.5
Labour Productivity (Hours worked basis)	1.2	1.8	0.2	-0.2	1.3	2.2	2.2	0.8	0.7
Wages (QES average hourly ord time earnings, APC)	3.8	2.1	2.5	2.1	2.7	1.6	2.1	2.8	3.3
Unit Labour Costs (Hours worked basis)	2.0	0.8	2.3	2.6	1.1	-0.5	-0.3	1.8	2.5
Monetary Conditions									
90-day Bank Bill Rate (March quarter ave)	2.7	2.7	3.0	3.6	2.6	2.6	3.4	4.2	4.5
10-year Bond Rate (March quarter ave)	4.0	3.7	4.6	3.3	3.3	3.5	4.2	4.6	4.8
TWI (March quarter ave)	73.5	75.9	80.0	77.9	68.5	66.4	68.2	69.6	69.6
- annual % change, March quarter	6.6	3.3	5.4	-2.7	-12.0	-3.1	2.7	2.0	-0.0
Price Measures									
CPI Inflation (ann % change, March quarter)	1.6	0.9	1.5	0.3	1.3	2.1	1.9	2.1	2.2
Consumption Deflator	2.3	0.6	0.6	0.8	0.9	2.0	1.5	1.6	1.7
GDP Deflator	2.0	-0.5	4.2	0.6	0.6	0.4	2.3	2.5	1.9
House Price Inflation (ann % change, March quarter)	3.6	7.6	8.0	8.9	16.4	5.0	2.3	2.0	2.0
Key Balances									
Current account balance (\$ million)	-6,718	-7,894	-5,858	-8,251	-11,938	-15,016	-11,902	-10,892	-12,548
Current account balance (% of GDP)	-3.2	-3.7	-2.5	-3.5	-4.9	-6.0	-4.5	-3.9	-4.3
Terms of Trade (goods) - SNA Basis	1.4	-6.0	13.8	-0.8	-3.8	-2.4	2.6	2.6	-0.2
Household saving ratio (% of HHDI)	1.5	2.3	2.2	2.8	2.6	1.9	1.8	1.8	1.8

* Includes Local Government and Non-profit Organisations

** Central Government (includes Crown Entities but not SOEs)

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Table 3 – Change in Forecasts from Previous Round - March Years
(Annual average percent change, unless specified otherwise)

March Years	2012	2013	2014	2015	2016	2017	2018	2019	2020
					Forecast	Forecast	Forecast	Forecast	Forecast
Private consumption	-0.0	0.0	0.3	-0.5	-1.3	-0.5	-0.3	-0.3	NA
Public consumption	-0.0	-0.0	-0.0	-0.4	1.4	0.3	0.2	0.1	NA
TOTAL CONSUMPTION	-0.0	-0.0	0.2	-0.5	-0.7	-0.3	-0.2	-0.2	NA
Residential investment	-0.0	-0.0	-0.0	-1.5	-6.2	1.8	-1.0	2.6	NA
Market investment*	0.0	0.0	-0.0	-2.1	-2.0	-1.8	1.3	4.0	NA
Non-market Investment**	0.0	0.0	-0.1	8.5	8.1	5.6	0.6	-12.0	NA
TOTAL INVESTMENT	0.0	0.0	-0.0	-0.9	-4.6	-0.4	0.7	2.7	NA
Stocks (contribution to GDP growth)	0.0	0.0	0.0	-0.2	0.1	-0.4	-0.0	0.1	NA
GROSS NATIONAL EXPENDITURE	0.0	0.0	0.2	-0.8	-1.6	-0.6	-0.0	0.6	NA
Exports	-0.0	-0.0	-0.3	2.0	2.3	-3.2	1.2	0.9	NA
Imports	-0.0	0.0	0.1	0.5	0.2	-3.8	-1.6	1.0	NA
EXPENDITURE ON GDP	-0.0	-0.0	0.0	-0.2	-1.2	-0.4	0.9	0.6	NA
GDP (PRODUCTION MEASURE)	0.0	-0.0	0.0	-0.1	-1.0	-0.4	0.9	0.6	NA
- annual % change, March quarter	0.0	0.0	0.0	-0.6	-1.0	0.2	1.0	0.5	NA
Other Output Measures									
Real Gross National Disposable Income	-0.0	0.0	0.2	-0.1	-0.9	-2.3	1.8	1.5	NA
Nominal GDP (Expenditure Basis)	0.0	-0.0	0.0	-0.3	-0.6	-2.4	1.3	1.4	NA
Per Capita Output Measures									
Real GDP per capita (Production basis)	0.0	-0.0	0.0	-0.1	-1.2	-0.9	0.8	0.6	NA
Real Gross Nat. Disp Income per capita	-0.0	0.0	0.2	-0.1	-1.0	-2.7	1.7	1.4	NA
Nominal GDP per capita (Expenditure basis)	0.0	-0.0	0.0	-0.1	-0.8	-3.1	1.2	1.4	NA
Labour Market									
Employment	-0.0	-0.0	0.0	0.1	-0.4	-0.7	0.5	1.3	NA
Unemployment Rate (March quarter)	-0.1	-0.0	-0.1	0.2	1.4	1.5	0.8	0.2	NA
Labour Productivity (Hours worked basis)	0.0	-0.0	0.0	-0.3	0.1	0.5	0.6	-0.6	NA
Wages (QES average hourly ord time earnings, APC)	-0.0	-0.0	0.0	-0.6	0.2	-1.3	-1.0	-0.4	NA
Unit Labour Costs (Hours worked basis)	-0.0	-0.0	-0.0	0.1	-0.1	-1.5	-1.6	-0.0	NA
Monetary Conditions									
90-day Bank Bill Rate (March quarter ave)	0.0	0.0	0.0	0.0	-1.0	-1.1	-0.9	-0.6	NA
10-year Bond Rate (March quarter ave)	0.0	0.0	0.0	0.0	-0.2	-0.7	-0.6	-0.5	NA
TWV (March quarter ave)	0.0	0.0	0.0	0.0	-9.4	-11.5	-9.7	-7.5	NA
- annual % change, March quarter	0.0	0.0	0.0	0.0	-12.1	-3.1	2.7	3.1	NA
Price Measures									
CPI Inflation (ann % change, March quarter)	0.0	0.0	0.0	0.1	-0.1	-0.1	-0.1	0.0	NA
Consumption Deflator	0.0	0.0	-0.0	0.1	0.1	0.4	-0.0	0.1	NA
GDP Deflator	0.0	-0.0	0.0	-0.1	0.6	-2.0	0.3	0.8	NA
House Price Inflation (ann % change, March quarter)	0.0	0.0	0.0	2.1	11.2	2.0	-0.1	0.0	NA
Key Balances									
Current account balance (\$ million)	3	48	140	1,541	1,801	-2,215	1,854	4,193	NA
Current account balance (% of GDP)	0.0	0.0	0.1	0.6	0.7	-1.0	0.6	1.5	NA
Terms of Trade – SNA Basis	0.0	0.0	0.0	-1.0	-0.9	-5.3	2.5	3.1	NA
Household saving ratio (% of HHDI)	0.0	0.0	0.0	0.4	1.3	0.1	0.3	1.2	NA

* Includes Local Government and Non-profit Organisations

** Central Government (includes Crown Entities but not SOEs)

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Table 4 – Key Economic Assumptions for Fiscal Forecasts - June Years

June Years	2012	2013	2014	2015	2016	2017	2018	2019	2020
					Forecast	Forecast	Forecast	Forecast	Forecast
Real GDP (production measure)									
\$million in 2009/10 prices	201,077	205,315	211,239	217,478	221,686	227,786	236,264	242,593	247,668
Annual average % change	2.6	2.1	2.9	3.0	1.9	2.8	3.7	2.7	2.1
Nominal GDP (expenditure measure)									
\$million in current prices	212,326	216,602	233,964	240,591	244,817	254,933	271,104	284,760	296,077
Annual average % change	4.2	2.0	8.0	2.8	1.8	4.1	6.3	5.0	4.0
\$m change from previous forecast	-8	12	-220	820	-5,073	-7,892	-4,103	-1,005	NA
Headline CPI									
Annual average % change	2.2	0.8	1.5	0.6	1.0	2.0	1.9	2.1	2.2
Annual % change	1.0	0.7	1.6	0.4	1.6	1.9	1.9	2.1	2.3
Interest Rates and Exchange Rate (ann ave)									
90 day bank bill rate	2.7	2.6	2.9	3.6	2.7	2.6	3.2	4.1	4.4
5 year bond rate	3.5	2.9	4.1	3.6	3.0	3.4	4.0	4.5	4.7
10 year bond rate	4.1	3.6	4.5	3.8	3.3	3.5	4.2	4.6	4.8
Trade Weighted Index	72.6	75.0	78.9	77.9	69.0	66.6	67.9	69.4	69.6
Current account balance									
\$million	-7,675	-7,762	-5,745	-8,383	-13,756	-14,336	-11,271	-11,221	-13,177
% of GDP	-3.6	-3.6	-2.5	-3.5	-5.6	-5.6	-4.2	-3.9	-4.5
Labour Market (average year ending June)									
Employment growth (ann ave % change)	0.9	0.2	3.2	3.2	1.3	1.0	2.1	2.3	1.3
Unemployment rate	6.6	6.7	6.0	5.7	6.3	6.3	5.4	4.7	4.5
Working Age Population (000s)	3,437	3,464	3,513	3,586	3,668	3,728	3,770	3,810	3,849
Labour Force (000s)	2,349	2,355	2,412	2,484	2,532	2,556	2,587	2,627	2,657
Total Employed (000s)	2,194	2,198	2,268	2,341	2,372	2,397	2,448	2,504	2,536
Total Unemployed (000s)	155	158	145	143	160	160	140	123	120
Average Total Weekly Paid Hours (QES)	38.3	38.4	38.5	38.4	38.2	37.9	37.8	37.8	37.8



Net migration – trends, causes and macroeconomic implications

Outlook and Implications

- Net migration continues to exceed our expectations, hitting a record high in August. We expect net migration to hold up over the remainder of 2015 around its current high (61,000) before turning down in June 2016 as a combination of slower relative growth and employment prospects along with a rise in departures from those on temporary working and student visas kicks in. However, the risk is that net migration holds up for longer.
- In the past, the key triggers for a sharp correction in net migration have been immigration policy changes and/or a turnaround in NZ's relative growth prospects. Decisions on NZRP coming up with the ability to influence policy.
- Research suggests increased non-NZ citizen net arrivals have a greater impact on housing demand and consumption than fewer NZ citizen net departures. With the former flows now dominating, all else equal, the risk is toward a greater demand impulse than we have seen to date.
- While the skill level of net inflows is concentrated in high skilled workers and construction workers, students and those on working holidays have also been high with these groups likely employed in low skilled jobs. At the margin, this may have had contributed to higher-than-otherwise benefit numbers, although there is no clear evidence of migrants displacing local workers.

From: s9(2)(g)(i)
Sent: 26 Oct 2015 22:35:22 +0000
To: @Forecasting;^Parliament: Simon Duncan
Subject: Initial view: Overseas Merchandise Trade - September 2015

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Overseas Merchandise Trade – September 2015

- The seasonally adjusted merchandise trade deficit widened in September to \$454 million, from \$336 million in July. The result was driven by seasonally adjusted exports falling faster than imports. In non-seasonally adjusted terms the deficit was \$1,222 million, considerably wider than market expectations of \$800 million deficit (range \$700-1,214 million).
- For the September quarter, the seasonally adjusted deficit widened by around \$400 million to \$1,013 million. The annual trade deficit was \$3,235 million, slightly smaller than the annual deficit in August (a large deficit in September 2014 dropped out of the total).
- Seasonally adjusted exports fell by 8.6% (\$383 million) in the month to \$4,059 million. The fall was largely driven by dairy, which was down \$172 million (16.0%) largely on a 12.4% decline in volumes. For the quarter, seasonally adjusted exports rose 6.4% from the June quarter to \$13,898 million in September quarter. For the quarter, both dairy and meat posted strong gains in values (+9.8% and +16.5% respectively) mostly on higher volumes (+11.1% and +13.1% respectively). Most other major exports also gains in values in the quarter, aided by the lower NZD.
- Seasonally adjusted imports fell 5.5% (\$264 million) in September to \$4,513 million. For the September quarter however they rose by \$1,166 million (9.2%) compared to July. The increase in the quarter was bolstered by two large aircraft arrivals (worth \$455 million) as well as strong machinery and plant capital goods imports (+10.2%) and consumption goods imports (+10.1%). Fuel imports (not seasonally adjusted) were also considerably stronger, driven by a lift in crude oil volumes.

Quarter 3 Forecast vs OMT

	QPC	
	HYEFU15	OMT
Exports	5.0%	6.4%
Imports	8.2%	9.2%
Quarter (\$ millions)		
Balance	-1,055	-1,013

Based on the OMT, both goods exports and imports look stronger than my HYEFU forecast. However these offset to leave the quarterly goods balance not far off. I'll take a look at the next level down later today but at a first glance dairy and meat both look stronger than in my HYEFU forecast.

s9(2)(g)(i)

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From: Brendon Riches [TSY]
Sent: Friday, 30 October 2015 11:42 a.m.
To: s9(2)(g)(i) @Forecasting; ^Parliament: Simon Duncan
Subject: RE: Initial view: Building Consents September Quarter

Categories: OIA

[UNCLASSIFIED]

Building Consents – September 2015

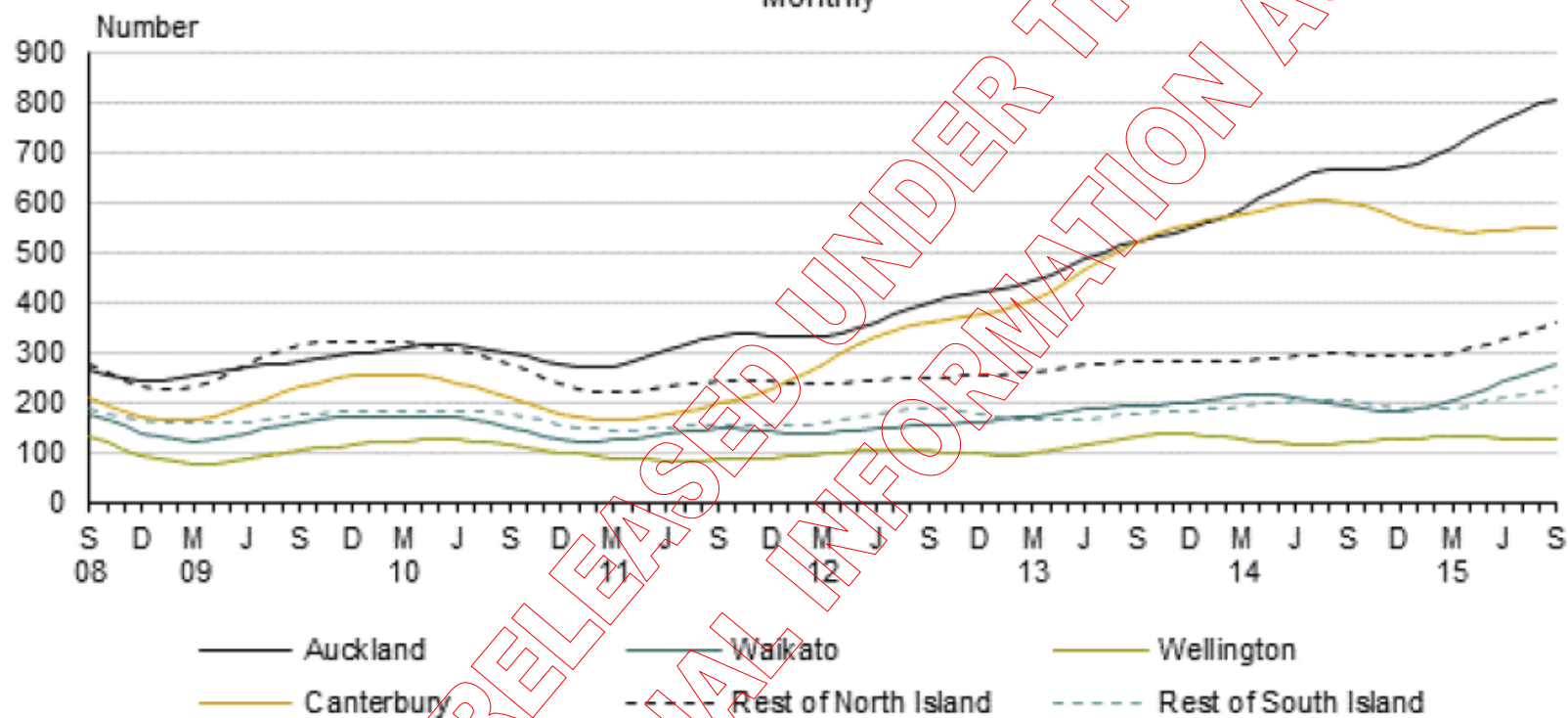
- Total residential building consents fell 5.7% in September, driven by a fall in consents for apartments.
- The less volatile number of housing consents rose 1.5% in the September month.
- The trend for new dwellings consented is at its highest level since November 2004, with recent increases driven by the Auckland region, where consents are also at their highest level since 2004. The level of consents in Canterbury is stable, but at a lower level than over 2014H2 (see graph below).
- For the September quarter house dwelling consents rose 11.7% (12.1% including apartments), the strongest increase since 2011Q3, this follows a 5.1% rise in the June quarter.
- Non-residential building consents rose 28% on a year ago, boosted by a large education building consent.

Implications

- Over the first half of 2015 residential investment increased just 0.5%. Today's data, combined with the increase in the June quarter, point to a markedly stronger end to the year.
- Along with other more positive recent indicators, including retail sales data, today's data increases the prospects of a return to trend-like growth over the second half of the year.

Trend for new dwellings consented

By region
Monthly



Quarter 3 Forecast vs OMT

	QPC	
	HYEFU15	OMT
Exports	5.0%	6.4%
Imports	8.2%	9.2%
	Quarter (\$ millions)	
Balance	-1,055	-1,013

Based on the OMT, both goods exports and imports look stronger than my HYEPU forecast. However these offset to leave the quarterly goods balance not far off. I'll take a look at the next level down later today but at a first glance dairy and meat both look stronger than in my HYEPU forecast.

ss(2)(g)(i)

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From: s9(2)(g)(i)
Sent: 3 Nov 2015 20:21:14 +0000
To: @Forecasting;^Parliament: Simon Duncan;Girol Karacaoglu [TSY];Tim Ng [TSY];Lucy Greig [TSY];Martin Fukac [TSY];Daniel Cruden [TSY]
Subject: Initial View: GDT Auction 3 November

[IN-CONFIDENCE]

Dairy prices posted a moderate fall on the GDT auction overnight, with the index falling 7.4% and the average price settling at US\$2,569/mt. The decline was probably a little larger than the market was expecting, with NZX WMP futures indicating something under 5%, although the NZD/USD reaction was only 0.3 cents which has since been unwound. The fall at this auction and the last one are largely being attributed to a retracement after the rally through end of August and September got a bit carried away. My view is that a price in the mid 2000s is reasonable given the current supply and demand fundamentals and that we should see some stabilisation in the auctions shortly before a gradual recovery next year. Quarter average prices are a little higher than those pencilled into the HYEUFU forecasts after 3 of 6 auctions (see table below).

The fall in prices was broad based with all products on offer declining by between 4.6 – 11.2%. Unfortunately milk powders were among the worst performers, posting 8.0% declines each to \$2,453 for WMP and \$2,018 for SMP. Butter, the other major contributor to Fonterra's farm gate price calculation, posted a 5.6% fall. One point of concern was that some short dated WMP and SMP contracts on offer were listed as "not published" i.e. sold at the starting price which is set 15% below the previous auction price. ANZ suggested some of this particular weakness was related to Fonterra offering two new contracts from December with a shorter age profile (i.e. fresher product), with buyers sitting out of the market to wait for details on these.

Volumes remain low, falling 1.5% compared to a month ago and with season to date volume sold 25% lower than the equivalent period last year.

There remains a wide range of estimates on the farm gate price, from ANZ's \$4.25-4.50/kg MS (similar to my estimate from HYEUFU) to Westpac's \$5.30/kg MS with ASB and BNZ sitting on \$5.00/kg MS. The AgriHQ seasonal calculator estimate has fallen from \$5.38/kg MS a month ago to \$4.71/kg MS now. Fonterra will need to provide an update on their farm gate price forecast in December.

	GDT Average				WMP			
	BEFU 15	BEFU 15 Scenario 1	HYEFU15 Prelim	GDT Actual	BEFU 15	BEFU 15 Scenario 1	HYEFU15 Prelim	GDT Actual
2015Q1	3064	3064	3064	3064	2837	2837	2837	2837
2015Q2	2707	2203	2529	2529	2652	2159	2399	2399
2015Q3	2776	2058	2157	2157	2616	1939	1987	1987
2015Q4	3065	2091	2500	2713*	2828	1930	2500	2657*

* After 3 of 6 auctions

s9(2)(g)(i)

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From: GDT Results Alerts [mailto:alerts@globaldairytrade.info]

Sent: Wednesday, 4 November 2015 2:44 a.m.

To: s9(2)(g)(i)

Subject: GDT Event 151 results



Event Results

GlobalDairyTrade Event 151 concluded with the GDT Price Index down 7.4%

Key Results

AMF index down 5.7%, average price US\$3,647/MT

Butter index down 5.6%, average price US\$2,574/MT

BMP index down 9.4%, average price US\$1,844/MT

Ched index down 4.6%, average price US\$2,987/MT

LAC index not available, average price not available

RenGas index down 11.2%, average price US\$5,469/MT

SMP index down 8.0%, average price US\$2,018/MT

WMP index down 8.0%, average price US\$2,453/MT

Full results have been published on www.GlobalDairyTrade.info.

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· New Zealand

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Economic Brief



Household Labour Force Survey, Quarterly Employment Survey, Labour Cost Index – September 2015 quarter

4 November 2015

- Employment much weaker than expected, falling 0.4% in the quarter
- With a fall in the participation rate, unemployment lifted only modestly to 6.0%
- LCI wage growth flat at 1.6%, but remained well above the rate of inflation (0.4%)

Table 1: Summary results

	Actual (Q3)		Market*		Previous (Q2)	
	6.0		6.0		5.9	
	68.6		69.3		69.3	
Unemployment rate						
Participation rate						
	qpc	apc	qpc	apc	qpc	apc
HLFS employment	-0.4	1.5	0.4	2.5	0.2	3.0
QES filled jobs	0.7	1.7	-	-	-0.9	1.9
QES total weekly paid hours	0.9	3.1	-	-	-0.6	2.4
QES total weekly gross earnings	1.1	5.5	-	-	0.6	5.3
QES average hourly earnings#	1.0	2.3	-	-	0.8	2.8
LCI salary and wages#	0.4	1.6	-	1.7	0.5	1.6

*Retuers poll of economists' expectations, 1 November 2015; R = revised; # ordinary time; qpc - quarterly % change; apc - annual % change; all qpcs seasonally adjusted except average hourly earnings

Labour supply outpaces labour demand

Today's labour market data were weaker than expected, although the unemployment rate was in line with Treasury's and the market's expectation. Lower employment (-0.4%) was accompanied by a fall in participation (-0.7% points), resulting in the small increase in the unemployment rate. Wage inflation remained subdued, partly reflecting the responsiveness of labour supply to increased demand over recent quarters and subdued price inflation. However, total earnings growth remained robust.

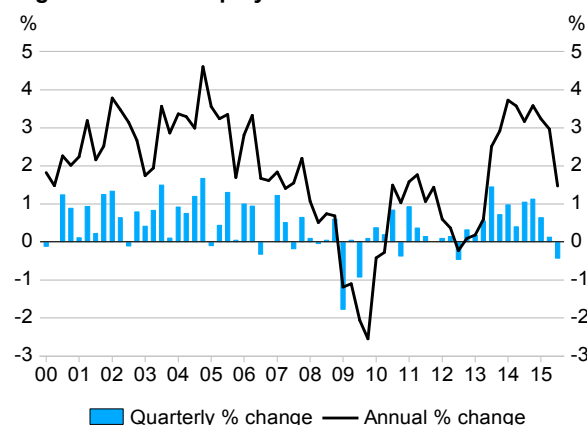
Headline employment growth negative ...

After eleven consecutive rises, employment fell in the September quarter. According to the Household Labour Force Survey (HLFS), the total number of people in employment fell by 11,000 (0.4%) in the September 2015 quarter (Figure 1). The fall followed a 0.2% rise in the previous quarter, to be up 34,000 (1.5%) in the last twelve months, the weakest annual rise since June 2013.

Part-time employment more than accounted for the fall in total employment, down 22,000 in the quarter (-4.1%), while full-time employment was up

4,000 (+0.2%) (series are separately seasonally adjusted). In the past year, full-time employment rose by 39,000 (+2.2%), while part-time employment was down 6,000 (-1.1%).

Figure 1: HLFS Employment



A fall in male employment was the main driver over the quarter, declining by 7,000, while there were 4,000 fewer females employed. As a result, both the male and female employment rates (the proportion of the male/female working-age population in employment) fell, to 59.2% and 70.2% respectively.

By industry, construction continues to dominate growth in employment, with an extra 20,500 people employed in the sector over the past year, although this is down slightly from June (22,700). Of this, 25% of the growth was in the Canterbury region and 72% in the Auckland region, in contrast to the June year with contributions of 23% and 38% respectively.

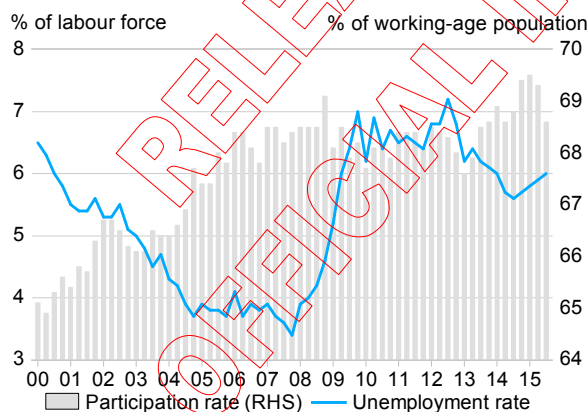
...but other demand measures up in the quarter

Labour demand indicators from the Quarterly Employment Survey (QES) were all positive in the quarter: paid hours (up 0.9%), full-time equivalent employees (up 0.7%) and filled jobs (up 0.7%), although these all fell in the prior quarter and only just regained their March quarter levels. Similarly, hours worked in the HLFS rose 0.4% in the quarter, to be up 1.5% from a year ago, the same as the annual employment growth.

A fall in the labour force...

A sharp drop in the participation rate, from 69.3% to 68.6%, led the labour force to fall by 7,000 people (-0.3%). The decline in participation was owing to a decline in both male and female participation by 0.6% points. Participation of those in younger age groups (15-29) and older age groups (60+) has risen over the past year, while participation of middle age groups has been falling.

Figure 2: Unemployment and participation rates



...leads to a small rise in unemployment

The drop in employment was larger than the fall in labour supply, leading to the unemployment rate rising modestly from 5.9% to 6.0% (up 3,000 to 151,000). The unemployment rate has been steadily increasing from a low of 5.6% (revised from 5.5%) in the September 2014 quarter.

Hourly earnings and wage growth still modest

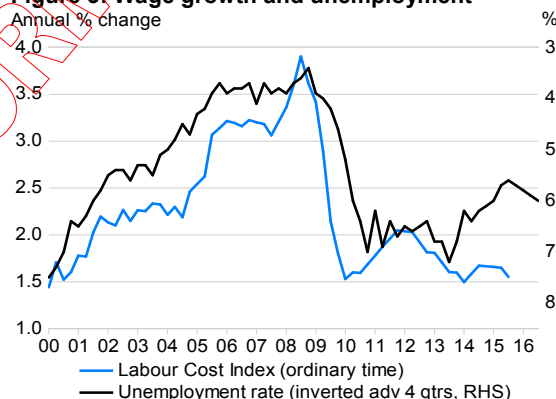
Annual growth in QES ordinary time hourly earnings slowed from 2.8% in the June quarter to

2.3%. The moderation reflects a fall in private sector earnings growth from 3.2% in the year to June to 2.7% in September, while annual public sector earnings grew a more subdued 2.0% but this is up from 1.6% in the previous quarter.

Total weekly gross earnings remained solid, rising 1.1% in the September quarter with annual growth increasing from 5.3% to 5.5%, partly a result of a 2.4% increase in full-time equivalent employees. This remains positive for consumption growth and PAYE source deductions.

Annual growth in the ordinary time Labour Cost Index, which measures changes in wages and salaries for a fixed quantity and quality of labour (i.e. approximates unit labour costs), remained steady at 1.6%. The subdued nominal wage growth to date is consistent with ample supply and weaker labour demand in the September quarter, and with soft pricing pressures in the economy. However, annual CPI inflation of just 0.4% shows that real wage growth remains robust.

Figure 3: Wage growth and unemployment



Implications

Today's data continued to paint a picture of the labour market weakening. The large fall in employment (and associated fall in participation) was unexpected. Whether these figures reflect volatility in the survey or genuine falls is unclear at this stage. QES measures of labour demand were stronger than HLFS and total gross earnings growth was solid, up 5.5% in the past year. That said, the pace of growth has slowed and more slack is present in the labour market.

Looking ahead, Treasury expects the unemployment rate to continue rising, with soft employment growth unable to keep up with growth in the labour supply.

For further information, contact: s9(2)(g)(i)
Forecasting Team, The Treasury, s9(2)(g)(i)

BUDGET-SENSITIVE



Treasury Report: Update on HYEFU 2015 Forecasts and Fiscal strategy

Date:	5 November 2015	Report No:	T2015/2484
		File Number:	MC-1-0

Action Sought

	Action Sought	Deadline
Prime Minister (Rt Hon John Key)	Discuss at Budget Ministers	11.30am Tuesday 10 November 2015
Minister of Finance (Hon Bill English)	Discuss at Budget Ministers	11.30am Tuesday 10 November 2015
Associate Minister of Finance (Hon Steven Joyce)	Discuss at Budget Ministers	11.30am Tuesday 10 November 2015
Associate Minister of Finance (Hon Paula Bennett)	Discuss at Budget Ministers	11.30am Tuesday 10 November 2015

Contact for Telephone Discussion (if required)

Name	Position	Telephone		1st Contact
Donna Purdue	Principal Advisor	04 917 6000 (wk)	N/A (mob)	✓
Mark Vink	Manager	04 917 6006 (wk)	s9(2)(a)	

Actions for the Minister's Office Staff (if required)

Return the signed report to Treasury.

Note any feedback on the quality of the report

Enclosure: No

BUDGET-SENSITIVE**Treasury Report: Update on HYEPU 2015 Forecasts and Fiscal Strategy****Executive Summary**

This report summarises the current economic, tax and partially updated expenditure forecasts underpinning Treasury's 2015 Half Year Economic and Fiscal Update (HYEFU), and looks at the implications for the fiscal outlook and strategy. Full fiscal forecasts will be available on 12 November.

Economic outlook

Real economic growth in the first six months of the calendar year 2015 was much weaker than Treasury anticipated in the 2015 Budget Economic and Fiscal Update (BEFU) and indicators suggest growth will continue to be weaker over the coming year. A combination of global and domestic factors have contributed to the weaker outlook. Annual average real GDP growth is forecast to slow from 3.2% in March 2015 to 2.0% in March 2016 and to remain at a relatively subdued 2.4% in March 2017. Stronger growth is forecast in the March 2018 and 2019 years, resulting in a similar level of real GDP by the end of the forecast period.

The unemployment rate has risen from a cyclical low of 5.5% in the September 2014 quarter to 6.0% currently. This reflects a weakening in demand at the same time as labour supply has been increasing. The unemployment rate is forecast to reach 6.5% in March 2016 and remain above 6.0% until the second half of 2017.

With growth anticipated to be below trend until mid-2016, and more spare capacity in the economy, inflationary pressures remain weak and inflation is forecast to remain below 2.0% until late 2016. As a result, interest and exchange rates are expected to be lower than forecast in the BEFU.

While real GDP growth has been weaker than expected so far this year, nominal GDP growth has been stronger than expected driven largely by a higher-than-expected terms of trade. This outperformance is expected to be short-lived as the previous sharp falls in dairy prices see the terms of trade decline in the second half of 2015 and real GDP growth will remain weak. Overall, nominal GDP growth is forecast to slow in 2016 and 2017. Cumulatively, nominal GDP is expected to be \$18 billion lower across the 2016 to 2019 June years compared to the BEFU.

As always, considerable uncertainty surrounds the economic outlook. The key risks relate to the global outlook, the severity and impact of El Nino, the duration and magnitude of the net migration cycle, persistent weakness in inflation and the effect of the lower exchange rate on inflation.

Not Relevant to Request

BUDGET-SENSITIVE

Not Relevant to Request

Recommended Action

We recommend that you:

a **note** that the economic outlook has deteriorated since the BEFU

b Not Relevant to Request

c

d

e

f

g

h

i

BUDGET-SENSITIVE

Treasury Report: Update on HYEFU 2015 Forecasts and Fiscal Strategy

Purpose of Report

1. This report summarises the current economic and tax forecasts underpinning Treasury's 2015 Half Year Economic and Fiscal Update (HYEFU), along with key developments since the 2015 Budget Economic and Fiscal Update (BEFU). It also outlines the implications for your fiscal strategy. Cabinet decisions on the Government's revenue and expenditure plans will need to be received by 23 November 2015 in order to be incorporated into the final HYEPU forecasts.
2. As noted in Aide Memoire T2015/1984, a change in the forecasting process means that the fiscal forecasts and projections will not be available until 12 and 13 November 2015, respectively. However, this report provides an indicative fiscal outlook to help inform your thinking on the fiscal strategy.
3. The economic forecasts provided in this report were completed on 15 October 2015, while the tax forecasts were completed on 28 October.

Analysis

Economic forecasts

4. Economic growth in the first six months of the calendar year 2015 was much weaker than Treasury anticipated in the 2015 Budget Economic and Fiscal Update (BEFU), with real GDP outturns for the March and June 2015 quarters in total some 0.9 percentage points lower than expected. Key economic indicators such as business and consumer confidence, while showing some recovery in recent weeks, suggest growth will continue to be weaker over the coming year (Figures 1 and 2).

Figure 1 – Real GDP growth

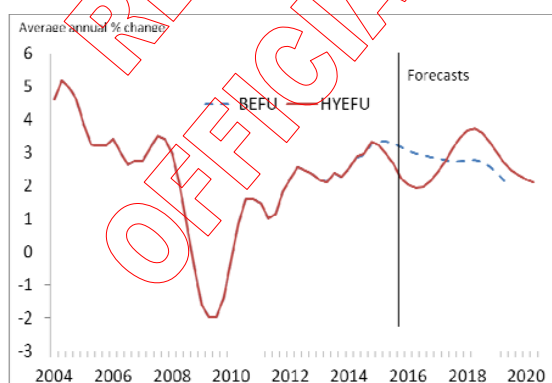
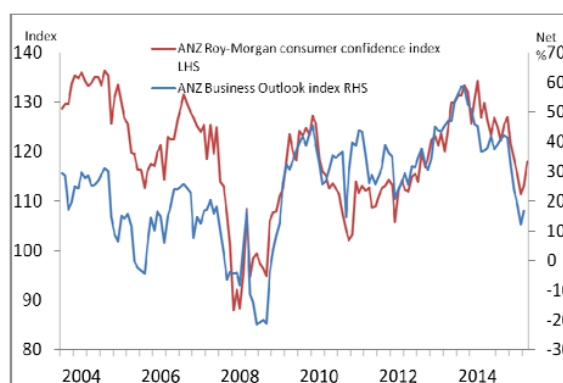
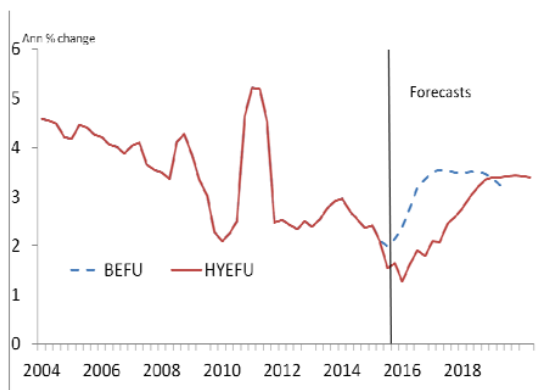
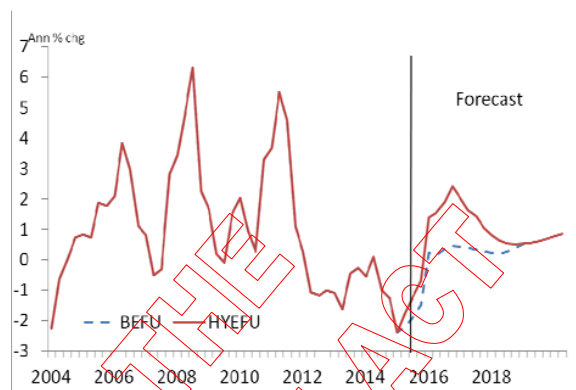


Figure 2 – Confidence indicators

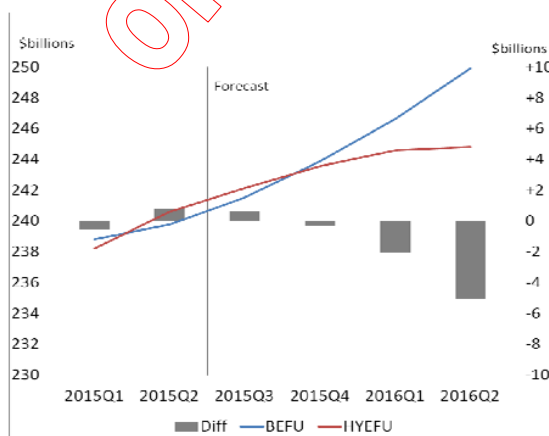
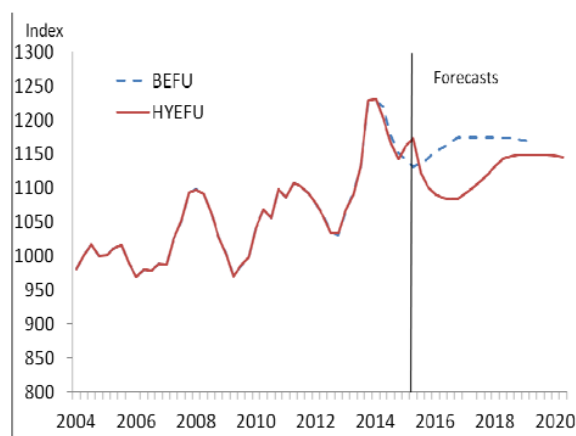


BUDGET-SENSITIVE

5. Aide Memoire T2015/2423 provided updated economic forecasts for the Half Year Economic and Fiscal Update (HYEFU). The forecasts show annual average real GDP growth slowing to 2.0% in March 2016 and remaining at a relatively subdued 2.4% in March 2017. This compares to the BEFU forecast of 3.1% and 2.8%, respectively. Most of the downward revision reflects weaker consumer spending, business investment and exports, with some offset coming from stronger residential investment and weaker import growth. Stronger growth is forecast in the March 2018 and 2019 years (at 3.7% and 3.0% versus 2.8% and 2.4% respectively in BEFU), triggered initially by an improving net export position and eventually supported by stronger business and residential investment growth relative to BEFU. Real GDP growth is forecast at 2.2% in the final year of the forecast horizon.
6. Notwithstanding the weaker starting point for growth, a number of key developments since the BEFU have influenced the revisions to the growth outlook. These include a more subdued and uncertain global outlook, falling commodity prices (dairy in particular) contributing to a lower terms of trade, lower business and (to a lesser extent) consumer confidence, an earlier than expected peak in the Canterbury residential rebuild, and the onset of El Nino. These are partially offset by a number of positive developments, including stronger net migration and tourist arrivals, higher house prices, and more stimulatory monetary conditions.
7. Although demand has softened, the supply side of the economy has continued to grow, most notably in the labour market. The ongoing rise in net migration and high participation rates have contributed to stronger than expected growth in the labour force. However, with employment growth slowing in response to weaker domestic activity, the unemployment rate has risen from a cycle low of 5.5% in the September 2014 quarter to 6.0% currently. The unemployment rate is forecast to reach 6.5% in March 2016 and remain above 6% until the second half of 2017. This is in contrast to the BEFU, where the unemployment rate was forecast to peak at 5.5% before gradually declining toward 4.5% by mid-2017. Strong growth in the labour supply (a combination of stronger net migration and higher levels of participation) and slightly weaker employment growth are the key factors driving the change in view.
8. The higher unemployment rate suggests there is material slack in the labour market. The Treasury estimates the medium-term NAIRU (ie, "full employment") to be an unemployment rate of 4.5% and the Reserve Bank's estimate is 5%. Against this backdrop, wage and earnings growth remains subdued. Growth in average hourly earnings is forecast to slow from 2.3% currently to 1.7% in the year ending March 2017, before gradually picking up to 3.2% by March 2020.
9. With economic growth expected to be below trend until mid-2016, and more spare capacity in the economy (i.e., the output gap remains negative for sometime), inflationary pressures remain weak. As a result, more stimulatory monetary conditions than forecast in the BEFU, in the form of both lower interest and exchange rates, are required to return inflation to the mid-point of the target. Overall, headline inflation remains broadly in line with that forecast in the BEFU. However, the composition has changed with non-tradables inflation expected to be weaker (Figure 3), offset by stronger tradables inflation largely in response to the lower NZD (Figure 4).

BUDGET-SENSITIVE**Figure 3 – Non-tradable inflation****Figure 4 – Tradable inflation**

10. This process of adjustment is well underway with the Reserve Bank lowering interest rates by 75bps through the middle of this year, taking the OCR to 2.75%. Although the Reserve Bank held the OCR steady at the October Review, the Governor continues to indicate further easing may be necessary.
11. The drop in interest rates to date has fed through to lower retail interest rates and is assisting households and businesses in adjusting to the current economic weakness. The NZD (on a TWI basis) has also declined, and at current levels is around 7% lower than forecast in the BEFU.
12. Short-term interest rates are forecast to begin moving higher in early 2017, rising steadily to 4.5% at the end of the forecast period. The exchange rate is assumed to fall slightly over 2016, as monetary policy tightens in the US, before rising slightly as domestic monetary stimulus is withdrawn.
13. While real GDP growth has undershot expectations so far this year, nominal GDP growth has held up better than anticipated, driven largely by a stronger-than-expected terms of trade (Figures 5 and 6). However, this outperformance is expected to be short-lived as the previous sharp falls in dairy prices see the terms of trade decline sharply in the second half of 2015 and real GDP growth remains weak. Overall, nominal GDP growth is forecast to slow in 2016 and 2017. Cumulatively, nominal GDP is \$18 billion lower across the 2016 to 2019 June years compared to the BEFU, with the biggest reduction occurring in the 2017 June year.

Figure 5 – Nominal GDP**Figure 6 – Terms of trade**

BUDGET-SENSITIVE**Forecast uncertainty and risk**

14. As always, much uncertainty surrounds the economic and fiscal outlook. The main risks relate to the judgements we have made around key economic variables. The most significant are as follows:
- a. **El Nino:** An El Nino weather pattern is now well established but the severity and impact of it on agricultural production and prices remains uncertain. A small net negative effect (-0.2% to -0.3%) has been incorporated in the economic forecasts.
 - b. **Net migration:** there are risks around the magnitude and duration of the current cycle (upside) as well as the timing and pace of adjustment towards the long-term average (downside).
 - c. **Inflation:** The forecasts assume that inflation pressures will reassert themselves as spare capacity in the economy is reduced. However, persistent weakness in inflation, combined with lower inflation expectations, is generating considerable uncertainty regarding the relationship between the output gap and non-tradables inflation, and the pass-through from the lower NZD to tradables inflation.
 - d. **Commodity prices/terms of trade:** There is much uncertainty around the speed of recovery in dairy prices given concerns around a drought-induced reduction in domestic supply possibly boosting current prices, and continued uncertainty around demand and high milk production in Europe, the US and Australia. Meanwhile, El Nino also appears to be boosting global commodity prices for products such as grains, dairy, and meat. On the import side, the future direction of oil prices and the impact on consumer demand remains uncertain.
 - e. **US monetary tightening:** Tightening of the policy rate by the US Federal Reserve has the potential to cause significant market volatility, particularly in emerging markets as a result of tighter financial conditions.
 - f. **A hard landing in China:** If economic growth is much weaker than official figures suggest and authorities do not act to support activity, economic growth in China would slow sharply. This would affect other Asian economies, Australia and New Zealand directly, with additional impacts on New Zealand via those other economies.

Not Relevant to Request

From: s9(2)(g)(i)
Sent: 10 Nov 2015 12:22:43 +1300
To: @Forecasting;^Parliament: Simon Duncan
Subject: RE: Initial view: Electronic Card Transactions: August

Electronic Card Transactions: October 2015

- **Core retail electronic card transactions values rose 0.2%** in October, following the 1.2% rise in September. Growth was driven by consumables expenditure with durables expenditure providing the main offset.
- **Total retail (core retail plus fuel and vehicles) transactions values were flat**, following the 0.9% rise in September. Total retail growth was slower owing to lower fuel industry transactions values reflecting lower fuel prices.
- **Total (total retail plus services & non-retail industries) transaction values were also flat** in October following the 0.6% rise in September. A decline in services transactions values were offset by a rise in non-retail industry transactions values.

Implications

- Indicators to date point to reasonable nominal private consumption growth in the September quarter. Note: retail trade data (the direct input for GDP) for the September quarter will be released Monday 16 November firming up the September quarter estimate for private consumption growth.
- Although transactions values were flat in the month, the outturn follows decent gains in August and September and holds the higher level of transactions values. Although still early days, the data points to slower, but still moderate nominal consumption growth in the December quarter. That said, across the second half of 2015 growth is still expected to be softer than forecast in the Budget update.
- Looking forward, private consumption growth is expected to remain slower than forecast in the Budget update. Consumer confidence remains below long-run average levels (although has risen from its trough over recent months) and the softer labour market, and labour market outlook is expected to slow income growth impacting household expenditure growth.

Cheers,

[IN-CONFIDENCE]

s9(2)(g)(i)

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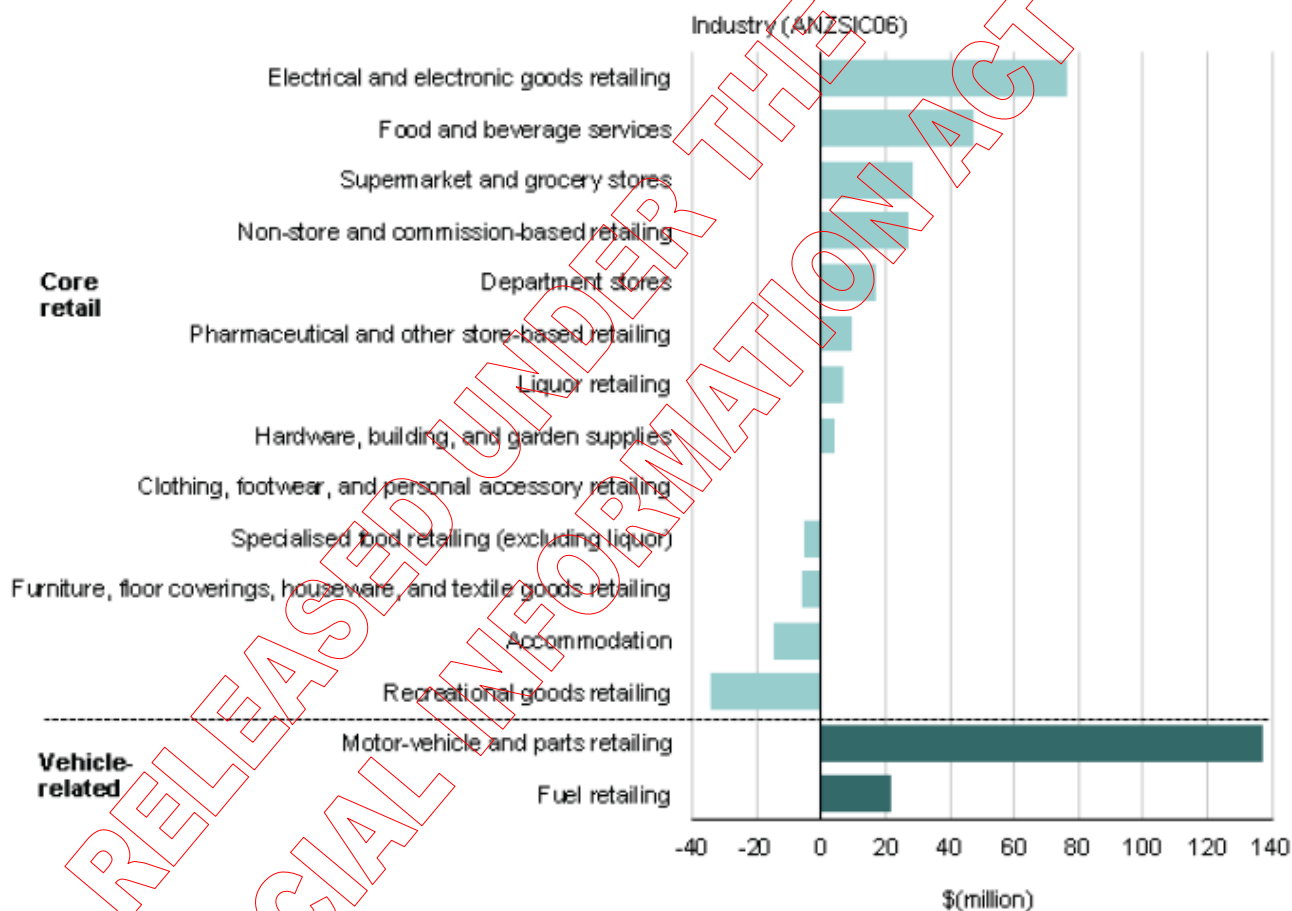
From: s9(2)(g)(i)
Sent: 16 Nov 2015 11:46:39 +1300
To: @Forecasting;^Parliament: Simon Duncan
Cc: Daniel Cruden [TSY]
Subject: Initial View: Retail Trade Survey: September 2015 quarter- Solid retail sales volumes growth led by the motor vehicle industry

Retail Trade Survey: September 2015 quarter

- **Core retail sales volumes rebounded 1.0% in the September 2015 quarter**, following the flat outturn in the June quarter. Volume growth was supported by electrical and electronic goods, food and beverage services and supermarket and grocery sales. Recreational goods sales provided the largest offset.
- **Total retail sales volumes (incl. motor vehicles and fuel) rose 1.6%**, following the 0.1% rise in the June quarter. Motor vehicles sales volumes rose 5.0% in the quarter (Figure), providing the largest contribution to quarterly sales volumes growth. The outturn was considerably stronger than implied by car registration numbers.
- **Total retail sales values rose 1.4%**. The retail deflator fell 0.2% in the quarter consistent with still benign inflation.

Retail industry contributions to the change in seasonally adjusted sales volumes

Change from June 2015 quarter



Source: Statistics New Zealand

- On a quick run, the Retail Trade Survey indicator models points to some upside risk to the real private consumption growth pick of 0.6% in the September quarter. Growth is expected to be supported by durables and services consumption.
- That said, last week's Electronic Card Transactions values for October indicated growth could be slower than forecast in the December quarter. So these outturns support some degree of re-phasing to the growth outlook in 2015H2.
- Looking forward, we expect private consumption growth to slow reflecting the softer labour market, and labour market outlook which is expected to slow income growth impacting household expenditure growth.

Cheers,

[IN-CONFIDENCE]

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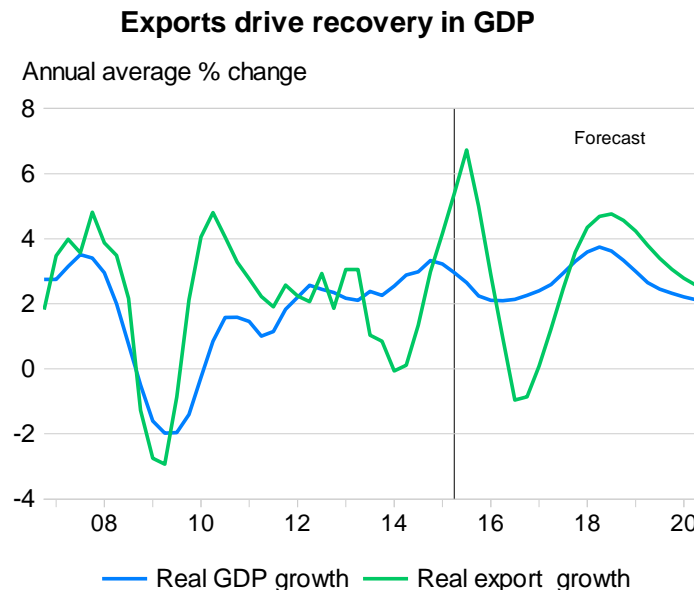
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Explaining changes to the Treasury's economic forecasts from Budget

Slower growth in 2016 – driven by the triple “d”: dairy, demand and drought

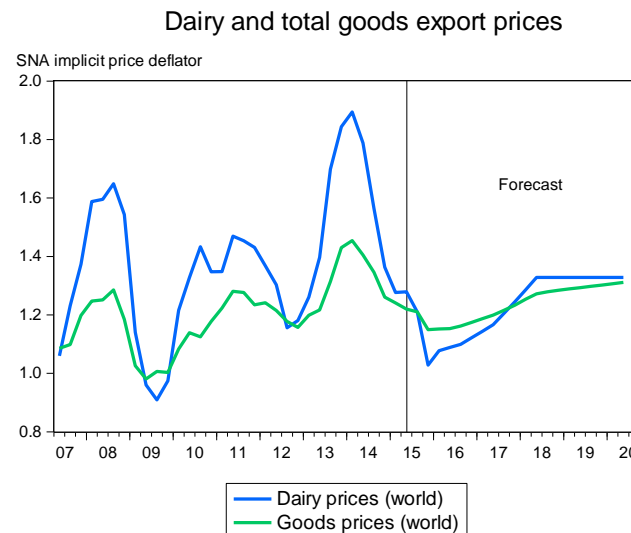
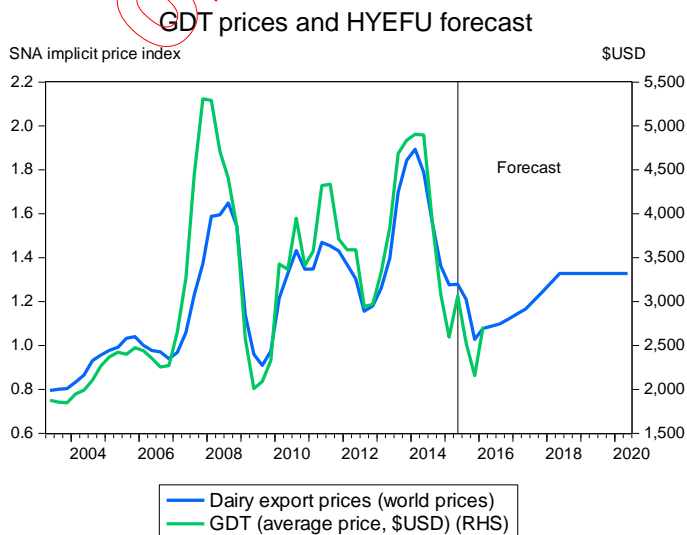
Compared to Budget:

- Dairy export prices have fallen faster and further
- GDP growth has been weaker; unemployment has increased
- Strong El Nino has developed
- Interest rates are lower
- The exchange rate has depreciated
- Export-led recovery in 2017/2018



Implications: dairy export prices...

- GDT prices -17% in Q2 and -15% in Q3 – 1 qtr lag – impacting terms of trade over 2015H2
- GDT prices have risen 22% in 2015Q4 to date
- Dairy prices forecast to be broadly flat over much of 2016 (implies GDT prices move materially higher over 2016H2)
- Overall, goods export prices rise slightly higher over 2016 (but are lower than BEFU)



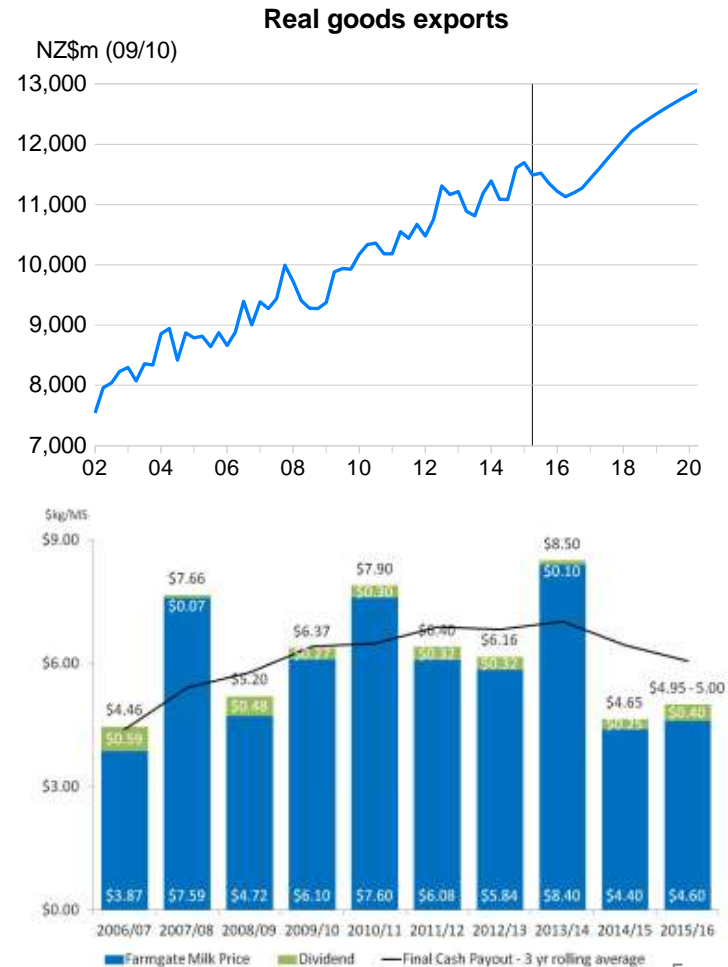
...NZD movements and hedging also affect farmgate price...

- Weaker NZD...
- ...but Fonterra hedged up to 18 months ahead, so effects are gradual



Tough season ahead for farmers

- Whole milk powder prices need to average USD\$3,000 per tonne over rest of season to meet Fonterra forecast, up from USD\$2,148
- Production down 5% season to date – El Nino may lower it further
- Industry break-even est. \$5.80 kg/MS – \$2 billion working capital required
- 2016 seasonal revenue \$6 billion less than 2014; indirect impacts may be as large again
- Total household farm income \$3.1b lower
- Total goods export volumes fall 3.1% in the year ended September 2016
- Reflected in lower nominal GDP



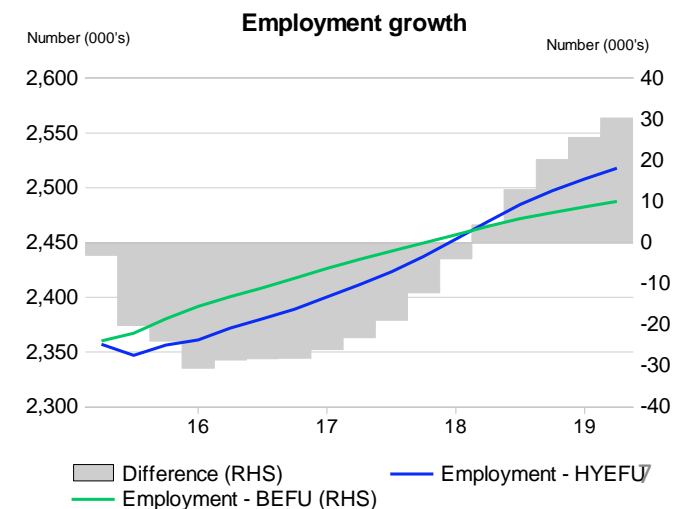
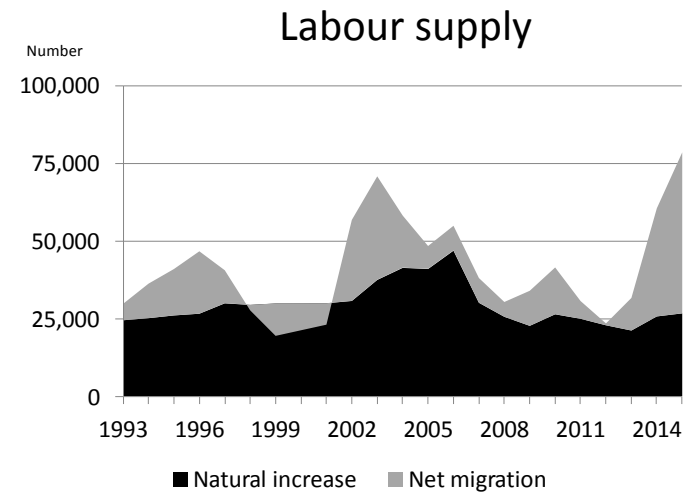
Not just dairy prices...

Lower dairy prices interact with other components:

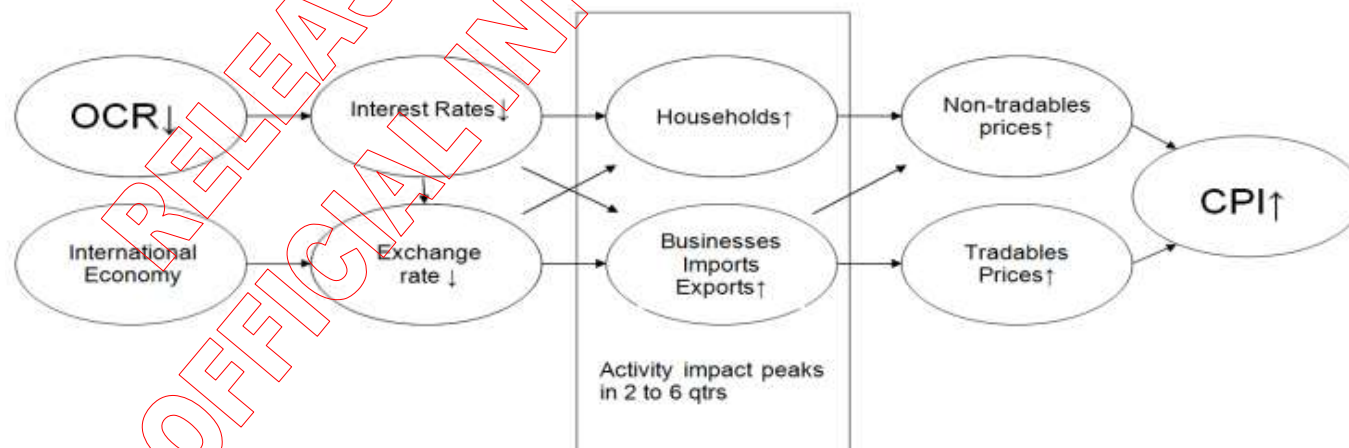
- **Domestic demand** and **labour market** weaker; slower international economy
- **Business investment:** reduction in spending on plant, machinery and equipment, mining investment
- **Net exports:** lower dairy export volumes – higher feed costs, less-profitable farms reduce inputs generally (lower stocking rates etc)
- **Import volumes** lower due to lower demand (eg feed), overseas holidays
- **Public demand:** dairy industry company and personal income tax important part of tax revenues, capital gains and share prices also affected
- **Private expenditure** – labour income – direct effects limited, but spillover effects may be large eg rural towns; and farm profits including milk payout
- Households may lower saving particularly if impacts expected to be temporary

Labour market balance has shifted...

- In the two years to March 2015, labour supply and demand were balanced
- Labour supply has remained strong – the working-age population grew by a record 80,000 in the year ended September 2015
- Labour demand has eased – there were 34,000 more people employed in 2015Q3 than 2014Q3, this compares with an annual increase of 84,000 in 2014Q4
- Slower employment growth in coming quarters, then stronger
- Higher unemployment (average of 6.4% over 2016), slower wage growth



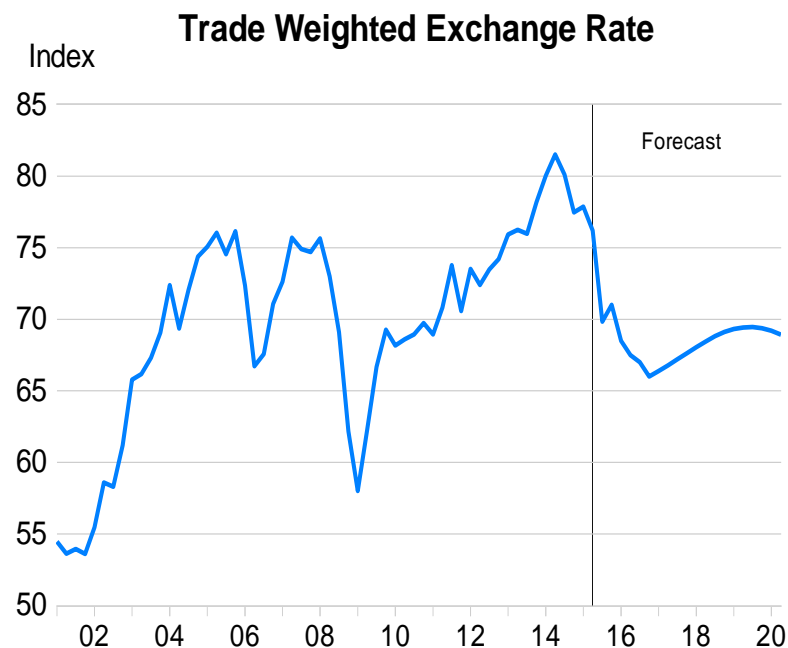
Lower interest rates will take time to lift demand...



- Weaker demand outlook: lower OCR to return inflation to target
- Investment and activity: 2 to 6 quarters (weak direct effect and growing concerns around effectiveness)
- Household consumption: peak impacts 5 to 8 quarters from change
- Uncertainty: Expectations are important – how long will change last? Why are interest rates lower?
- Not static – new data and developments mean the outlook is constantly evolving

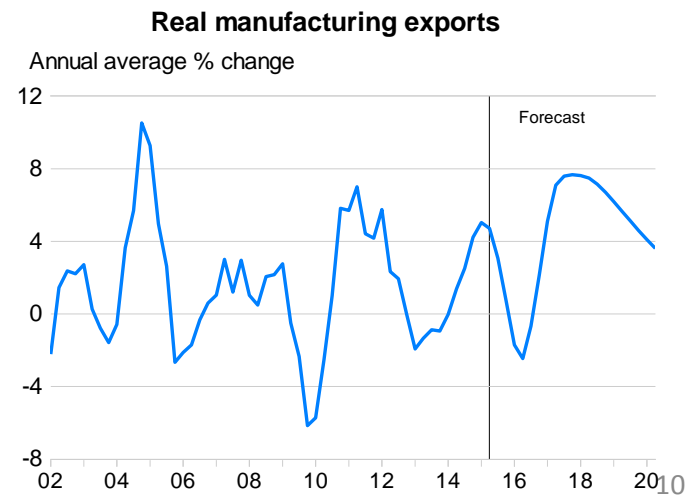
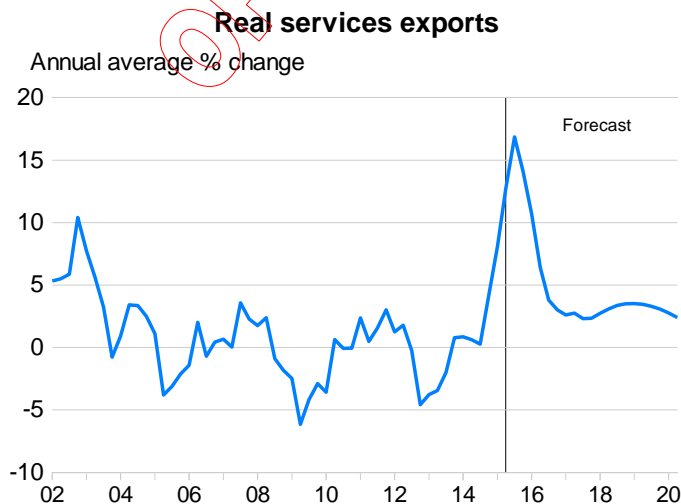
...lower exchange rate also helps...

- Impact of depreciation in order:
 1. Import prices increase
 2. Export receipts increase
 3. Activity responds with a lag of 2 – 6 quarters as firms respond to demand from within NZ and in export markets.
 4. Persistent depreciation may increase investment in tradable sectors
- Inflation: prices for traded goods will rise
 - Tradable inflation will be higher for some time
 - Uncertainty around strength of the impact



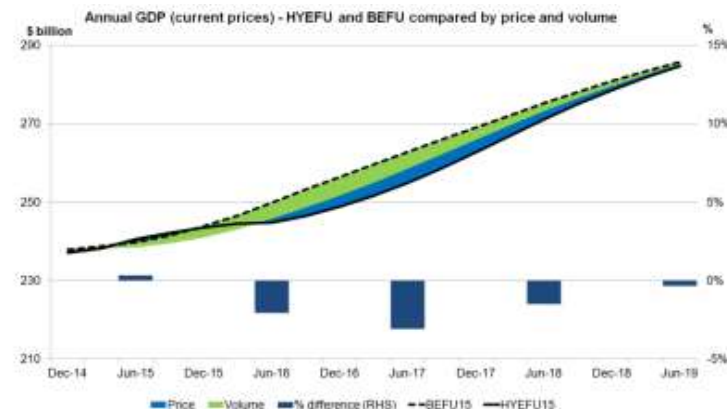
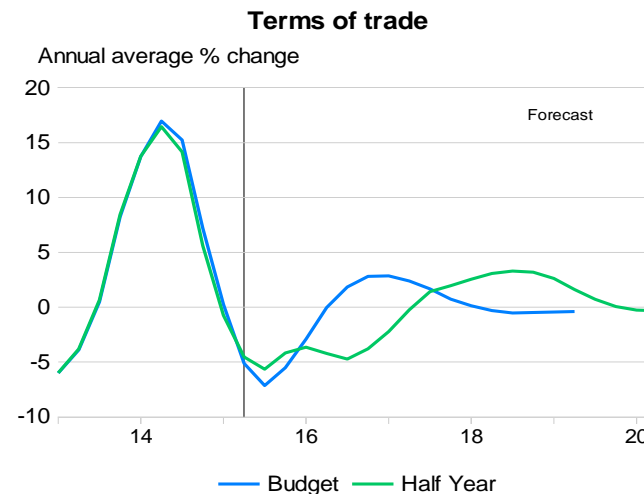
...to shift drivers of growth to exports and domestic consumption

- Services volume growth remains strong – recent data suggest upside
- Rebalancing towards domestic production

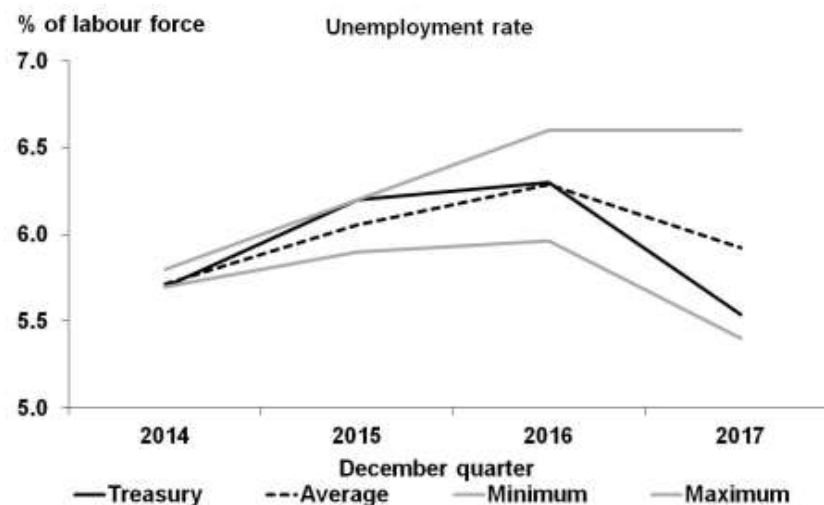
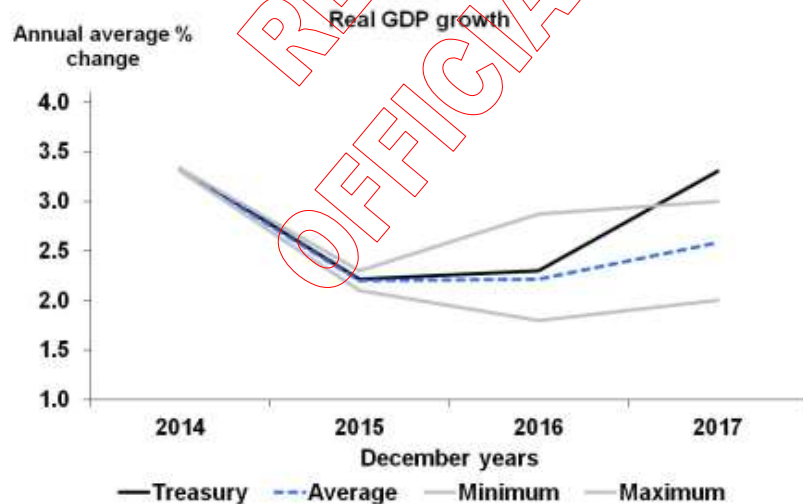


Output and income is lower

- Economy still growing but at slower pace
 - Labour supply is expanding strongly
 - Terms of trade and income growth is slower
 - In sum, less domestic pressure on prices
 - Current price GDP is \$17 billion (1.3%) lower than Budget across the next 5 years
 - Real effects (cumulative) – \$10 billion
 - Price effects (cumulative) – \$8 billion
- mainly lower export prices
- Uncertainty around price/volume split due to interaction between components



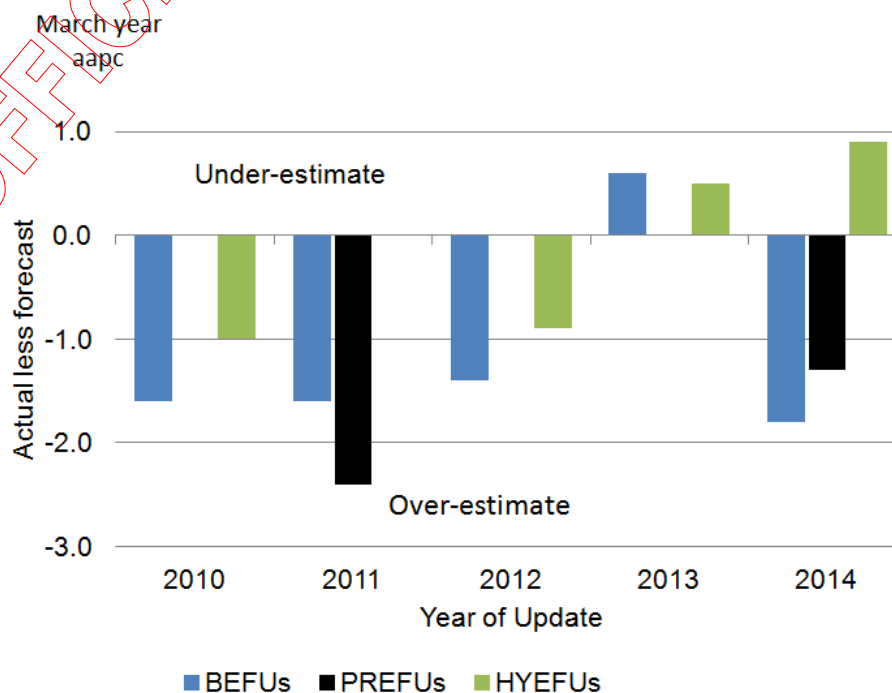
Treasury forecasts middle of the pack for 2016 but more positive in 2017



Small variance in GDP growth forecasts

- No strong bias in recent nominal GDP growth forecasts
- Errors usually well within 3% margin
- Balance of risks tilted to weaker nominal growth – persistently weak inflation, lower terms of trade and increased spare capacity

Nominal GDP: One-year-ahead forecast errors



From: Brendon Riches [TSY]
Sent: 20 Nov 2015 13:17:38 +1300
To: @Forecasting;^Parliament: Simon Duncan
Cc: @Macroeconomic & Fiscal Policy [TSY];Girol Karacaoglu [TSY]
Subject: Initial view: Annual National Accounts

[IN-CONFIDENCE]

National Accounts (Income and Expenditure): Year ended March 2015

- The annual National Accounts release draws on a richer data set than the quarterly GDP releases. It is expressed only in current prices. Implications for real GDP growth will be incorporated into the September quarter GDP release. There are no immediate implications for tax revenue.

Highlights

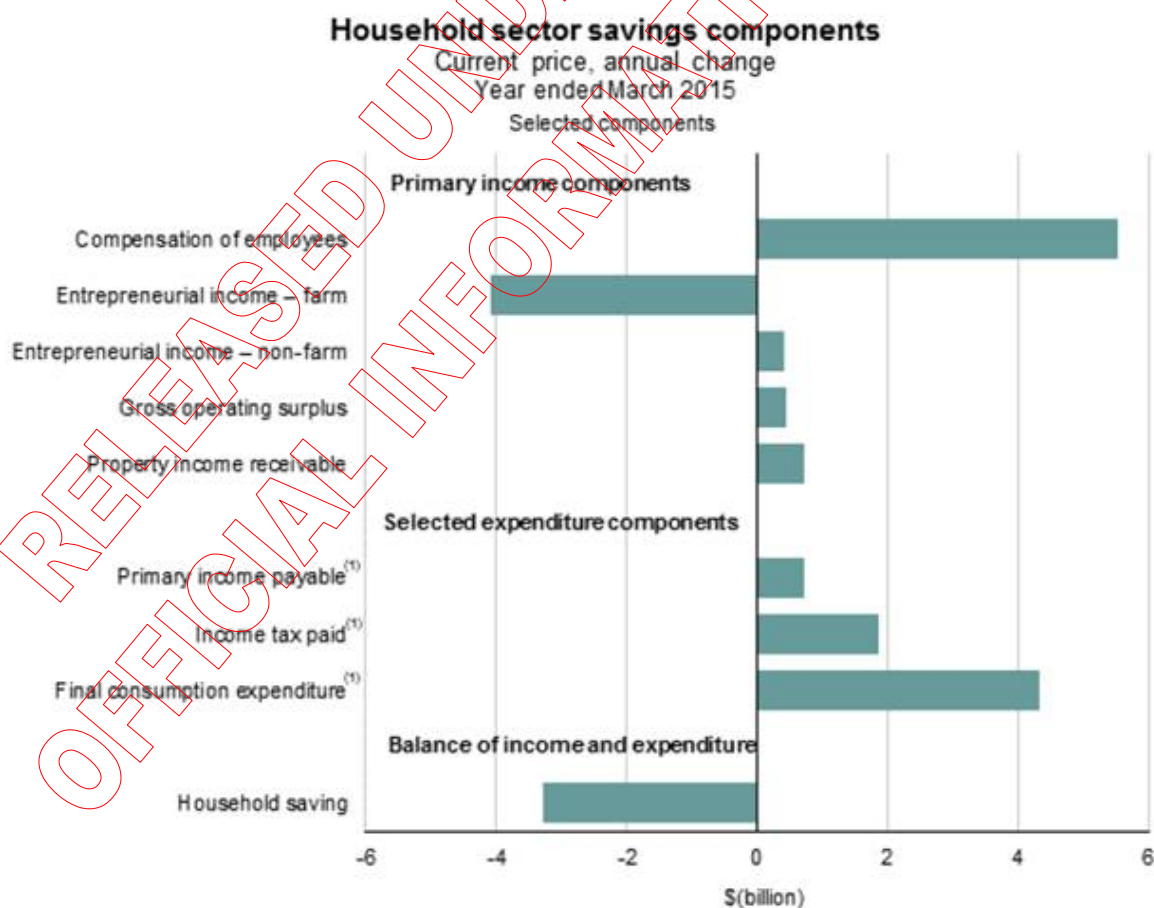
For the year ended March 2015:

- GDP (income) was \$241.2 billion, up 3.7% from 2014 (\$232.5 billion) (note there is no equivalent quarterly income measure);
- GDP (expenditure) increased to \$239.5 billion, \$1.2 billion higher than the previous estimate, and up 3.6% from 2014 (\$231.1 billion);
- Private consumption expenditure was the main driver of the increase, \$2.3 billion higher than previously estimated. This mostly reflected revisions to the base, which was revised higher through history owing to improved information (from the 2013 Census) on housing services. The growth rate of private consumption expenditure was revised to 3.4% from 3.9% previously. Investment spending was lower than previously estimated, providing a partial offset.
- Household saving was negative for the first time since 2009, at \$-0.9 billion. Lower farm income was the main driver of the fall (see graph below).
- Government saving increased on higher tax revenue and National saving was \$1.1 billion higher over the year.

Limited implications for HYEPU forecasts

- This release is largely historical and information for the year ended March 2015 is provisional. This is particularly relevant for estimates of income – that is, final profits for many entities, including farms, will not be included in the data.

- The downward revision in nominal consumption growth was a surprise, but consistent with the direction of movements in income growth.
- Farm income has fallen more sharply than we anticipated, driving the saving rate down. As noted above the 2015 income (and expenditure) measure is an estimate, and not too much should be read into it at this time.
- Over the year to March 2016, we expect nominal GDP growth to slow to 2.7%, reflecting weak inflationary pressures and further declines in farm income.



1. An increase in expenditure components has a negative impact on savings.

Source: Statistics New Zealand

Disclaimer: This information is intended to help readers understand the economic implications of the release and respond to queries. It does not necessarily reflect the Treasury's final view.

Brendon Riches | Senior Analyst | **The Treasury**

Tel: +64 4 917 6297 | brendon.riches@treasury.govt.nz

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From: s9(2)(g)(i)
Sent: 25 Nov 2015 14:55:44 +1300
To: ^Parliament: Simon Duncan
Cc: Daniel Cruden [TSY]; Mark Blackmore [DPMC]; @Forecasting; Girol Karacaoglu [TSY]; Tim Ng [TSY]; @Macroeconomic & Fiscal Policy [TSY]
Subject: HYEFU 2015 - Final Macroeconomic and Tax Forecasts

[SEEMAIL][SENSITIVE]

Hi Simon,

Please see below update on the final macroeconomic and tax forecasts for the Half Year Update.

Macroeconomic Forecast

The final Half Year economic forecasts are little changed from the draft forecasts. The final forecasts incorporate the September quarter outturns for inflation and the labour market as well as updated fiscal forecasts. The economic forecasts do not include the National Accounts data for the year to March 2015 released on 20 November but they do not significantly change the outlook presented in these forecasts, despite the negative saving rate in the provisional data (we'll provide more information on this in the Aide Memoire).

Real GDP growth is forecast to average around 2.7% over the forecast period, as in the draft forecasts. Similarly, the outlook for CPI inflation and the terms of trade are not significantly changed. Consequently, the growth rate of nominal GDP is largely preserved. However, the level of nominal GDP is now slightly higher than in the draft forecast throughout the forecast period, for the reasons given below. Nominal GDP is forecast to be cumulatively \$17 billion lower than in the *Budget Update* (to the nearest billion).

The most significant changes in the economic forecasts, which reflect recent data, are:

- The near term GDP outlook is slightly stronger based on recent economic indicators, with annual average growth lifting 0.1 percentage points to 2.1% in the year to March 2016 (compared to the draft forecast).
- Employment growth is revised slightly lower in the near term, reflecting the fall in September quarter employment, but recovers thereafter. Overall, the unemployment rate remains similar to the draft forecast. However, lower employment growth reduces compensation of employees and consequently lowers the household savings rate in 2016 compared to the draft forecast.
- Public consumption has been revised upwards based on guidance from the fiscal forecasts. Growth is higher in the near term but lower in the latter part of the forecast.
- The draft forecast "looked through" increases in dairy prices in late August and September; declines in the past three GDT auctions have returned dairy prices to previously expected levels. The dairy export price forecast is not significantly different as a result.

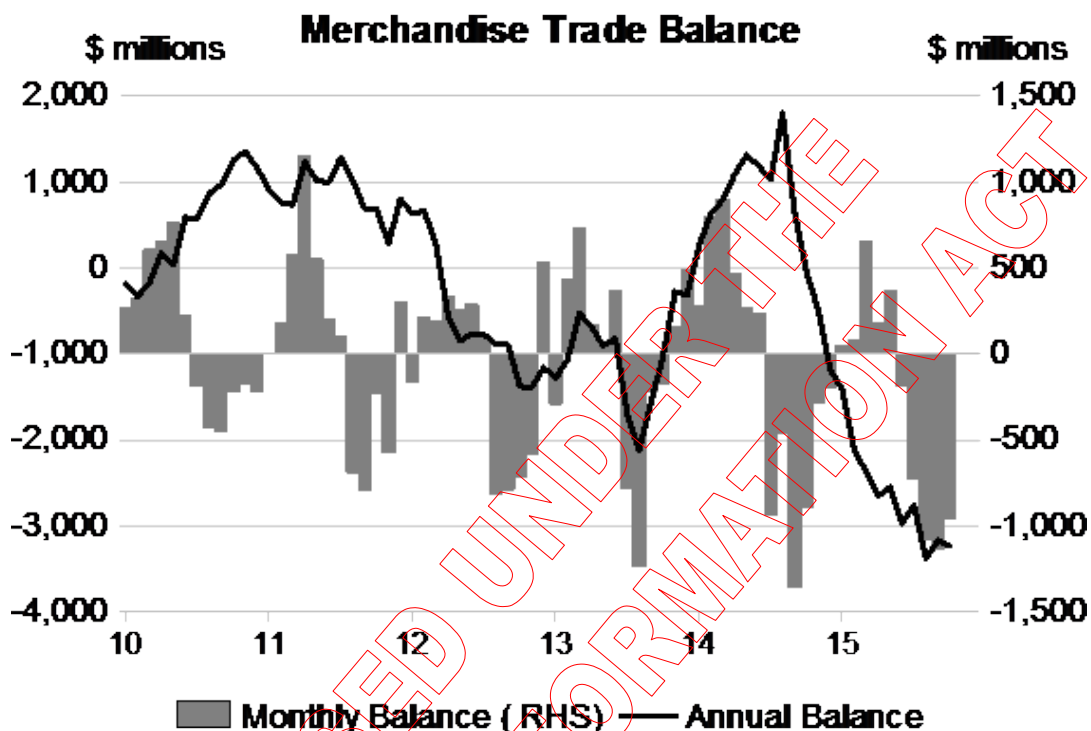
Not Relevant to Request

From: s9(2)(g)(i)
Sent: 25 Nov 2015 22:58:25 +0000
To: @Forecasting;^Parliament: Simon Duncan
Cc: @Macroeconomic & Fiscal Policy [TSY]
Subject: Initial View: Overseas Merchandise Trade - October 2015

[IN-CONFIDENCE]

Overseas Merchandise Trade – October 2015

- The seasonally adjusted merchandise trade deficit widened slightly in October to \$445 million, from \$411 million in September. The result was driven by a modest fall in seasonally adjusted exports and even more modest rise in imports. In non-seasonally adjusted terms the deficit was \$963 million in October, fairly similar to the median market expectation of \$937 million (Reuters poll).
- On an annual basis the deficit widened further to \$3,237 million in October, from \$3,165 million in September, slightly smaller than market expectations of \$3,370 million (Reuters poll). The widening of the deficit was driven by exports declining by more than imports.
- Seasonally adjusted exports decreased 0.6% (\$26 million) on a month ago to \$4,004 million. The decline was driven by dairy, meat and log exports, each down by \$23-28 million, with fruit exports providing the largest offset, up \$26 million. The 3% decline in dairy was driven by a 4.9% decline in prices, as falls on the GDT auction in the middle of the year continue to flow through. Log prices were also down heavily (-17%) while the decline in meat export values was driven by both volume and price declines (-1.5% and -2.0% respectively).
- Seasonally adjusted imports increased by 0.2% (\$8 million) to \$4,449 million. Imports ex-oil were down 2.1%. Oil and fuel imports rose slightly in non-seasonally adjusted terms from a month ago but were well down on a year ago (-32%). There were no big items this month.



Implications: Early days with just 1 month of the December quarter, but so far the HYEPU forecasts look OK with price declines in dairy, meat and forestry as expected. Falling meat and rising forestry volumes also as expected. Dairy volumes are the main exception (rising modestly with the quarter as a whole expected to fall) but I think this may just be timing issue as milk production and GDT volume figures for October and November are down. Harder to tell on the imports side – actual import values were down sharply in the month but seasonally adjusted were flat, against an expectation of a seasonally adjusted fall in HYEPU.

Disclaimer: This information is intended to help readers understand the economic implications of the release and respond to queries. It does not necessarily reflect the Treasury's final view.

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Reference: T2015/2750

BM-3-6-1



Date: 30 November 2015

To: Minister of Finance
(Hon Bill English)

Associate Minister of Finance
(Hon Steven Joyce)

Associate Minister of Finance
(Hon Paula Bennett)

Deadline: None
(if any)

Aide Memoire: Half Year Economic and Fiscal Update 2015 Final

Summary

- The final economic forecasts are little changed from the draft forecasts. Real GDP growth is forecast to average around 2.7% over the forecast. Nominal GDP is forecast to be cumulatively \$17 billion lower than in the *Budget Update*.

- Not Relevant to Request

-

Economic Forecast

The final Half Year economic forecasts are little changed from the draft forecasts provided to you on 16 October 2015 (see Aide Memoire T2015/2423). The final forecasts incorporate the September quarter outturns for inflation and the labour market as well as updated fiscal forecasts. Real GDP growth is forecast to average around 2.7% over the forecast period, as in the draft forecasts. Similarly, the outlook for CPI inflation and the terms of trade are not significantly changed. Consequently, the growth rate of nominal GDP is largely preserved. However, the level of nominal GDP is now slightly higher than in the draft forecast throughout the forecast period, for the reasons given below. Nominal GDP is forecast to be cumulatively \$17 billion lower than in the *Budget Update* (to the nearest billion). The attached slides outline the key drivers of the changes since the *Budget Update*.

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The most significant changes in the economic forecasts, which reflect recent data, are:

- The near term GDP outlook is slightly stronger based on recent economic indicators, with annual average growth lifting 0.1 percentage points to 2.1% in the year to March 2016 (compared to 2.0% in the draft forecast).
- Employment growth is revised slightly lower in the near term, reflecting the fall in September quarter employment, but recovers thereafter. Overall, the unemployment rate remains similar to the draft forecast, peaking at 6.5% in March quarter 2016. However, lower employment growth reduces compensation of employees and consequently lowers the household savings rate in 2016 compared to the draft forecast.
- Public consumption has been revised slightly upwards for the year to June 2016 based on guidance from the fiscal forecasts. Growth is higher in the near term as a result but lower in the latter part of the forecast.

The economic forecasts do not include the provisional National Accounts data for the year to March 2015 released on 20 November 2015 but they do not significantly change the outlook presented in these forecasts. The largest difference compared to the final forecast is in the household savings rate in 2015, which we believe may be a phasing issue related to the fall in farm incomes.

The finalised economic forecasts and changes from the draft forecast are summarised in Tables 1 -3.

Not Relevant to Request

Pages 3 - 4 not relevant to request

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Table 1: Summary of Economic Forecasts - March Years

(Annual average percent change, unless specified otherwise)

March Years	2012	2013	2014	2015	2016	2017	2018	2019	2020
					Forecast	Forecast	Forecast	Forecast	Forecast
Private consumption	2.7	2.5	3.1	3.1	2.7	2.3	2.3	2.5	2.1
Public consumption	1.5	-0.6	2.7	2.8	2.7	1.0	1.9	1.9	0.9
TOTAL CONSUMPTION	2.4	1.7	3.0	3.0	2.7	2.0	2.3	2.3	1.8
Residential investment	-0.2	17.7	16.6	12.3	5.9	6.7	4.9	2.8	1.4
Market investment*	9.8	7.0	8.3	4.6	3.5	3.4	4.2	6.3	3.3
Non-market investment**	-9.0	-21.1	12.4	2.1	10.7	8.0	3.0	-9.5	-0.8
TOTAL INVESTMENT	5.5	7.1	10.4	6.5	3.6	4.6	4.4	4.4	2.6
Stocks (contribution to GDP growth)	0.3	-0.3	0.2	0.1	-0.3	-0.1	0.2	0.2	0.3
GROSS NATIONAL EXPENDITURE	3.5	2.4	4.8	3.8	2.8	2.6	2.9	3.0	2.4
Exports	2.2	3.1	-0.1	4.2	2.9	0.1	4.3	4.2	2.8
Imports	6.7	1.3	6.1	7.5	4.1	0.7	2.2	4.2	3.2
EXPENDITURE ON GDP	2.2	2.9	2.5	3.0	2.1	2.4	3.6	3.0	2.2
GDP (PRODUCTION MEASURE)	2.2	2.2	2.5	3.2	2.1	2.4	3.6	3.0	2.2
- annual % change, March quarter	2.7	1.9	3.1	2.7	2.2	2.7	3.9	2.5	2.1
Other Output Measures									
Real Gross National Disposable Income	3.1	1.1	6.0	3.1	1.1	1.7	4.5	3.6	1.9
Nominal GDP (Expenditure Basis)	4.3	2.4	6.8	3.6	2.7	3.0	6.0	5.6	4.1
Output gap (March qtr,% of potential)	-1.3	-1.4	-0.8	-0.5	-1.1	-0.8	0.5	0.5	0.2
Per Capita Output Measures									
Real GDP per capita (Production basis)	1.5	1.6	1.6	1.6	0.2	0.7	2.5	2.1	1.3
Real Gross Nat. Disp Income per capita	2.4	0.5	4.9	1.5	-0.8	-0.0	3.4	2.7	1.0
Nominal GDP per capita (Expenditure basis)	3.6	1.8	5.8	1.9	0.7	1.3	4.9	4.6	3.2
Labour Market									
Employment	1.2	0.1	2.4	3.4	1.4	1.3	1.9	2.4	1.6
Unemployment Rate (March quarter)	6.8	6.2	6.0	5.8	6.5	6.1	5.3	4.7	4.5
Labour Productivity (Hours worked basis)	1.2	1.8	0.2	-0.2	1.0	1.6	2.1	0.8	0.7
Wages (QES average hourly ord time earnings, APC...)	3.8	2.1	2.5	2.1	2.6	1.8	2.2	2.8	3.3
Unit Labour Costs (Hours worked basis)	2.0	0.8	2.3	2.6	1.4	0.2	-0.1	1.7	2.4
Monetary Conditions									
90-day Bank Bill Rate (March quarter ave)	2.7	2.7	3.0	3.6	2.6	2.6	3.4	4.2	4.5
10-year Bond Rate (March quarter ave)	4.0	3.7	4.6	3.3	3.3	3.5	4.2	4.6	4.8
TWI (March quarter ave)	73.5	75.9	80.0	77.9	68.5	66.4	68.0	69.3	69.2
- annual % change, March quarter	6.6	3.3	5.4	-2.7	-12.0	-3.1	2.5	1.9	-0.2
Price Measures									
CPI Inflation (ann % change, March quarter)	1.6	0.9	1.5	0.3	1.4	2.1	1.9	2.1	2.2
Consumption Deflator	2.3	0.6	0.6	0.8	0.9	2.0	1.5	1.6	1.7
GDP Deflator	2.0	-0.5	4.2	0.6	0.5	0.5	2.3	2.5	1.9
House Price Inflation (ann % change, March quarter)	3.6	7.6	8.0	8.9	16.0	5.4	2.3	2.0	2.0
Key Balances									
Current account balance (\$ million)	-6,718	-7,894	-5,858	-8,251	-11,836	-15,027	-12,076	-10,930	-12,495
Current account balance (% of GDP)	-3.2	-3.7	-2.5	-3.5	-4.8	-6.0	-4.5	-3.9	-4.3
Terms of Trade (goods) - SNA Basis	1.4	-6.0	13.8	-0.8	-3.7	-2.2	2.5	2.6	-0.3
Household saving ratio (% of HHDI)	1.5	2.3	2.2	2.8	2.2	1.7	1.8	1.8	1.8

* Includes Local Government and Non-profit Organisations

** Central Government (includes Crown Entities but not SOEs)

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Table 2: Change in Forecasts from Draft forecast - March Years

(Annual average percent change, unless specified otherwise)

March Years	2012	2013	2014	2015	2016 Forecast	2017 Forecast	2018 Forecast	2019 Forecast	2020 Forecast
Private consumption	0.0	0.0	0.0	0.0	0.1	0.0	-0.1	-0.0	-0.0
Public consumption	0.0	0.0	0.0	0.0	0.5	0.2	-0.5	-0.1	-0.1
TOTAL CONSUMPTION	0.0	0.0	0.0	0.0	0.2	0.1	-0.2	-0.1	-0.0
Residential investment	0.0	0.0	0.0	0.0	0.2	-0.3	-0.1	0.0	0.1
Market investment*	0.0	0.0	0.0	0.0	0.1	0.1	0.0	-0.1	-0.1
Non-market investment**	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
TOTAL INVESTMENT	0.0	0.0	0.0	0.0	0.1	-0.0	0.0	-0.1	-0.0
Stocks (contribution to GDP growth)	0.0	0.0	0.0	0.0	0.0	-0.0	-0.0	-0.0	0.0
GROSS NATIONAL EXPENDITURE	0.0	0.0	0.0	0.0	0.2	0.0	-0.1	-0.1	-0.0
Exports	0.0	0.0	0.0	0.0	0.1	-0.2	-0.0	0.1	0.1
Imports	0.0	0.0	0.0	0.0	0.4	0.0	-0.3	-0.1	-0.1
EXPENDITURE ON GDP	0.0	0.0	0.0	0.0	0.1	-0.0	-0.1	-0.0	0.0
GDP (PRODUCTION MEASURE)	0.0	0.0	0.0	0.0	0.1	-0.0	-0.1	-0.0	0.0
- annual % change, March quarter	0.0	0.0	0.0	0.0	0.2	-0.3	0.1	-0.0	0.0
Other Output Measures									
Real Gross National Disposable Income	0.0	0.0	0.0	0.0	0.2	-0.0	-0.2	0.0	0.0
Nominal GDP (Expenditure Basis)	0.0	0.0	0.0	0.0	-0.0	0.1	-0.1	0.0	0.0
Per Capita Output Measures									
Real GDP per capita (Production basis)	0.0	0.0	0.0	0.0	0.1	-0.0	-0.1	-0.0	0.0
Real Gross Nat. Disp Income per capita	0.0	0.0	0.0	0.0	0.2	-0.1	-0.2	0.0	0.0
Nominal GDP per capita (Expenditure basis)	0.0	0.0	0.0	0.0	-0.0	0.0	-0.1	0.0	0.0
Labour Market									
Employment	0.0	-0.0	0.0	0.0	-0.5	0.4	0.0	-0.0	0.0
Unemployment Rate (March quarter)	0.0	-0.1	0.0	0.0	-0.0	-0.1	0.0	0.0	0.0
Labour Productivity (Hours worked basis)	-0.0	0.0	0.0	0.0	-0.4	-0.6	-0.1	0.0	0.0
Wages (QES average hourly ord time earnings,...)	0.0	-0.0	-0.0	-0.0	-0.1	0.2	0.1	-0.0	-0.0
Unit Labour Costs (Hours worked basis)	0.0	-0.0	0.0	-0.0	0.3	0.7	0.2	-0.0	-0.0
Monetary Conditions									
90-day Bank Bill Rate (March quarter ave)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
10-year Bond Rate (March quarter ave)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
TW1 (March quarter ave)	0.0	0.0	0.0	0.0	0.0	-0.0	-0.1	-0.3	-0.4
- annual % change, March quarter	0.0	0.0	0.0	0.0	0.0	-0.0	-0.2	-0.2	-0.2
Price Measures									
CPI Inflation (ann % change, March quarter)	0.0	0.0	0.0	0.0	0.1	0.0	-0.0	0.0	0.0
Consumption Deflator	0.0	0.0	0.0	0.0	0.0	0.1	-0.0	0.0	0.0
GDP Deflator	0.0	0.0	0.0	0.0	-0.1	0.1	0.0	0.0	0.0
House Price Inflation (ann % change, March qu...)	0.0	0.0	0.0	0.0	-0.5	0.4	0.0	-0.0	-0.0
Key Balances									
Current account balance (\$ million)	0	0	0	0	102	-10	-174	-38	53
Current account balance (% of GDP)	0.0	0.0	0.0	0.0	0.0	0.0	-0.1	-0.0	0.0
Terms of Trade - SNA Basis	0.0	0.0	0.0	0.0	0.1	0.2	-0.1	-0.0	-0.1
Household saving ratio (% of HHDI)	0.0	0.0	0.0	0.0	-0.4	-0.2	-0.1	-0.0	-0.0

* Includes Local Government and Non-profit Organisations

** Central Government (includes Crown Entities but not SOEs)

IN-CONFIDENCE

Table 3: Key Economic Assumptions for Fiscal Forecasts - June Years

June Years	2012	2013	2014	2015	2016 Forecast	2017 Forecast	2018 Forecast	2019 Forecast	2020 Forecast
Real GDP (production measure)									
\$million in 2009/10 prices	201,077	205,315	211,239	217,478	222,027	227,784	236,313	242,581	247,733
Annual average % change	2.6	2.1	2.9	3.0	2.1	2.6	3.7	2.7	2.1
Nominal GDP (expenditure measure)									
\$million in current prices	212,326	216,602	233,964	240,591	244,923	254,972	271,233	284,874	296,300
Annual average % change	4.2	2.0	8.0	2.8	1.8	4.1	6.4	5.0	4.0
\$m change from previous forecast	0	0	0	0	196	39	129	114	223
Headline CPI									
Annual average % change	2.2	0.8	1.5	0.6	1.1	2.0	1.9	2.1	2.2
Annual % change	1.0	0.7	1.6	0.4	1.7	1.9	1.9	2.1	2.3
Interest Rates and Exchange Rate (ann ave)									
90 day bank bill rate	2.7	2.6	2.9	3.6	2.8	2.6	3.2	4.1	4.5
5 year bond rate	3.5	2.9	4.1	3.6	3.0	3.4	4.0	4.5	4.7
10 year bond rate	4.1	3.6	4.5	3.8	3.3	3.5	4.2	4.6	4.8
Trade Weighted Index	72.6	75.0	78.8	77.9	69.2	66.5	67.8	69.2	69.2
Current account balance									
\$million	-7,675	-7,762	-5,745	-8,383	-13,586	-14,483	-11,396	-11,234	-13,109
% of GDP	-3.6	-3.6	-2.5	-3.5	-5.5	-5.7	-4.2	-3.9	-4.4
Labour Market (average year ending June)									
Employment growth (ann ave % change)	0.9	0.2	3.2	3.2	0.8	1.5	2.1	2.3	1.3
Unemployment rate	6.6	6.7	6.0	5.8	6.3	6.2	5.4	4.7	4.5
Working Age Population (000s)	3,437	3,464	3,513	3,586	3,666	3,728	3,769	3,809	3,849
Labour Force (000s)	2,349	2,355	2,412	2,484	2,517	2,553	2,586	2,626	2,655
Total Employed (000s)	2,194	2,197	2,267	2,341	2,359	2,395	2,446	2,502	2,535
Total Unemployed (000s)	156	157	145	143	158	158	140	124	120
Average Total Weekly Paid Hours (QES)	38.3	38.4	38.5	38.4	38.4	38.1	38.0	38.0	38.0

Pages 8 - 10 not relevant to request

From: Brendon Riches [TSY]
Sent: 1 Dec 2015 10:33:19 +1300
To: @Forecasting
Cc: ^Parliament: Simon Duncan
Subject: Initial view: November ANZ Business Outlook

[IN-CONFIDENCE]

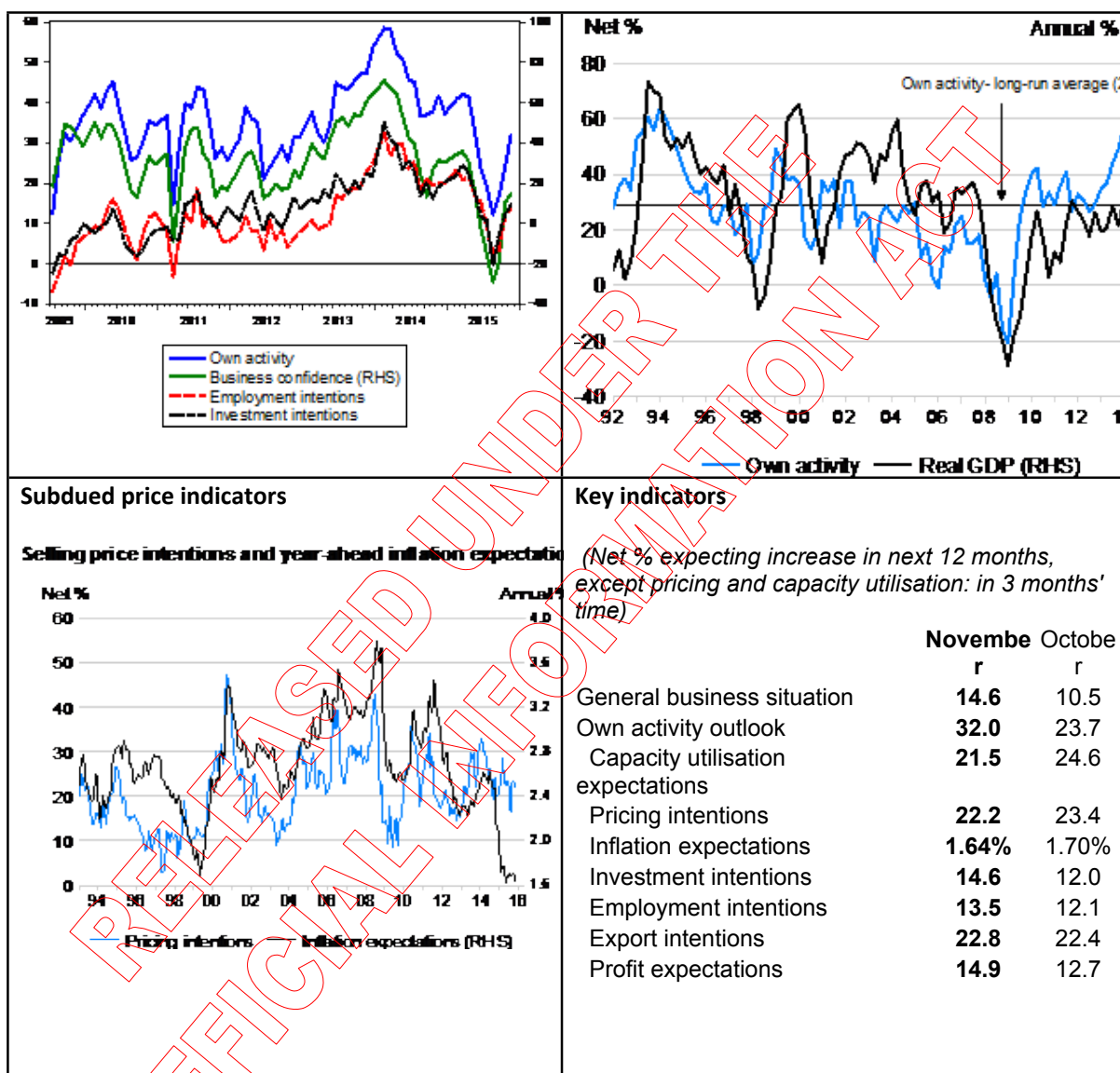
ANZ Business Outlook: November (released 30 November)

- Business confidence improved in November
- Firm's own activity expectations, employment intentions, and investment intentions rose
- Pricing gauges remained weak

Implications

- Key activity indicators are now generally a little firmer than average historical readings. Price and inflation indicators remain subdued, easing a touch.
- We view these indicators as confirming that activity is picking up a little from what has been a pretty lacklustre performance through most of 2015, but not yet generating additional upward pressure on prices.
- Since 2009 or so, the historical indicators averages have been associated with slower-than-average growth. With this in mind, we view the indicators as suggesting growth could be around 2½% over the second half of 2016, which is consistent with our HYEPU forecasts. However, growth needs to be a little stronger before we can be confident that unemployment will trend lower and inflation will be maintained around 2%.
- The economy continues to face challenges from El Nino and returns to dairying remain below breakeven. Given the close correlation between dairy prices and confidence, further falls in dairy prices could see confidence ease. The next GDT auction is on Wednesday 2 December.

Firmer activity indicators	Growth strengthening to 2½% in 2016
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From: s9(2)(g)(i)
Sent: 30 Nov 2015 22:50:58 +0000
To: @Forecasting;^Parliament: Simon Duncan;@Macroeconomic & Fiscal Policy
[TSY]
Subject: Initial View: Overseas Trade Indexes - September quarter 2015

[IN-CONFIDENCE]

Overseas Trade Indexes – September quarter 2015

Goods

- The merchandise terms of trade fell 3.7% in the September quarter and was down 3.4% on a year ago. The quarterly fall was driven mostly by a large rise in import prices, up 7.3%, with export prices providing only a partial offset, up 3.4%. It was a similar story in an annual sense, with import prices rising 3.1% on a year ago and export prices falling 0.3%. For reference the TWI depreciated by 8.4% in the quarter.
- The rise in export prices was fairly broad based. Meat and forestry posted solid quarterly gains of 8.1% and 7.5% respectively and seafood and food and beverages also increased, although this was mostly driven by depreciation of the dollar in the quarter. Dairy prices were largely flat, down just 0.1%, and aluminium prices also fell, down 3.4%.
- Increases in export prices were similarly broad based, with all the major categories increasing in the quarter, although again much of this would be due to the depreciation of the dollar. Capital goods prices increased 7.9%, consumer goods prices increased by 7.0%, and petrol and petroleum products by 13.4%. Most intermediate goods categories rose between 1.6 and 12.1%, with the exception of processed foods and beverages which fell 5.7%.
- Export volumes increased by 3.7% in the quarter, which together with the increase in prices saw export values rise 6.5%. The volume rise was driven by dairy (+11.0%), meat (+9.8%), food and beverages (7.2%) and non-food manufactures (6.1%). Forestry volumes contracted by 1.2%.
- Import volumes increased by 0.7% in the quarter and import values rose 7.2%. Transport equipment volumes rose strongly (44.5%), reflecting the arrival of two Boeing 787s in the quarter plus a number of smaller aircraft. Consumption goods volumes were 3.8% higher, spread fairly evenly across all the sub-groupings, while petrol volumes were down 20.8% (although this is not seasonally adjusted). Intermediate goods sub-groupings were a mixed bag but are not seasonally adjusted, making it hard to read much into them. However, seasonally adjusted total intermediate goods volumes (including fuel) were 1.1% higher.

Services

- The services terms of trade fell 5.4% in the September quarter and 8.1% on a year ago. The quarterly fall was mostly driven by imports, which rose 7.3%, while exports rose only 1.6%. The annual fall was also driven by imports, up 11.0%, with exports up just 2.1% on a year ago.
- The increase in service export prices is mostly owing to transportation services, which rose 5.6% in the quarter. Travel service exports were 0.7% higher.
- The increase in service import prices was more broad based, with all four sub-groups rising by between 5.0% and 12.7%.

Implications: The solid increase in export volumes with a more modest increase in import volumes suggests a solid contribution from net goods exports to September quarter GDP, although this may be partially offset by services. The fall in the goods and services terms of trade are directionally consistent with our expectations, though it looks to have been stronger and more driven by imports than I had anticipated. The merchandise trade balance also looks to have widened further, in line with expectations.

Disclaimer: This information is intended to help readers understand the economic implications of the release and respond to queries. It does not necessarily reflect the Treasury's final view.

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Update on Budget 2016

Budget Ministers meeting
8 December 2015

BUDGET-SENSITIVE

2016
BUDGET

CONTENTS

- **ECONOMIC AND FISCAL CONTEXT**

- Economic context for HYEPU 2015
- Fiscal context for HYEPU 2015
- Budget Policy Statement: fiscal priorities

- Not Relevant to Request
- 

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2015 Half Year Economic and Fiscal Update – 15 December 2015

ECONOMIC & FISCAL CONTEXT

ECONOMIC CONTEXT FOR HYEUFU 2015

- The NZ economy continues to expand: growth is set to average 2.7% per annum over the next 5 years.
- The economy hit an unexpected soft patch in the first half of 2015, when global concerns and falling dairy prices knocked business and consumer confidence.
- Looking ahead, real GDP growth is expected to be weaker over the next two years than in the Budget, although stronger in 2018 and 2019.
- This lower-than-expected near-term growth, together with weaker export prices, means the nominal economy (the dollar value of what New Zealand produces) is around \$17 billion lower over the five years to June 2019 than was expected in the Budget.
- In turn, this flows through to slightly less tax revenue and therefore slightly lower operating balances, compared to forecasts in the Budget.

Graph 1 - Economic growth (real GDP)

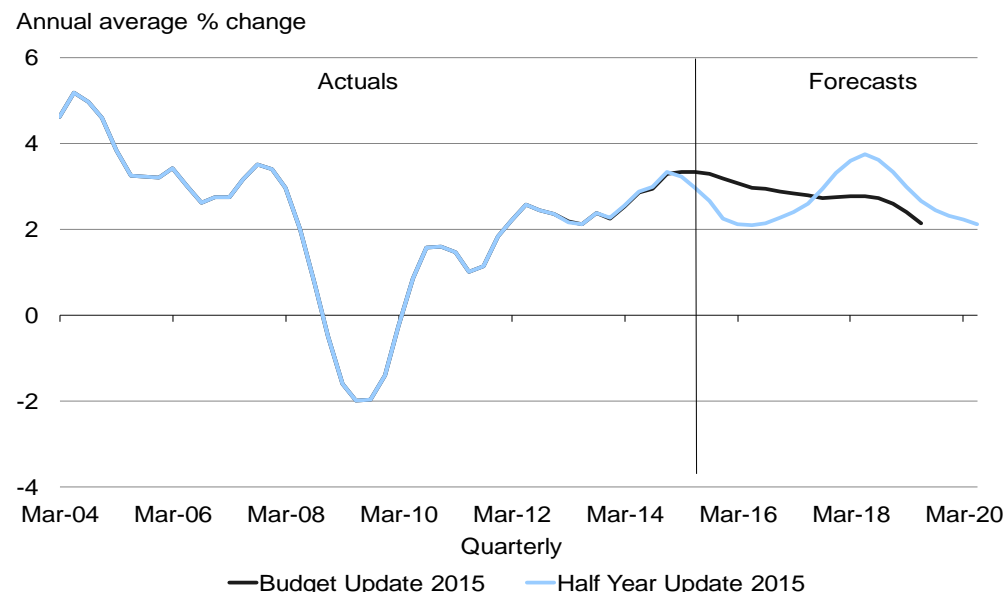


Table 1 – Summary of the Treasury's economic forecasts

	2015	2016	2017	2018	2019	2020
March years	Actual	Forecast	Forecast	Forecast	Forecast	Forecast
Real GDP (ann average % chg)	3.2	2.1	2.4	3.6	3.0	2.2
CPI inflation (ann % chg)	0.3	1.4	2.1	1.9	2.1	2.2
Employment growth (ann % chg)	3.2	0.3	1.7	2.2	2.2	1.2
Unemployment rate (March qtr)	5.8	6.5	6.1	5.3	4.7	4.5
Wage growth (ann % chg)	2.1	2.6	1.8	2.2	2.8	3.3
Current account (% of GDP)	-3.5	-4.8	-6.0	-4.5	-3.9	-4.3

From: Brendon Riches [TSY]
Sent: 3 Dec 2015 12:04:01 +1300
To: ^Parliament: Simon Duncan;@Forecasting
Subject: FW: Initial View: Value of Building Work Put in Place

[IN-CONFIDENCE]

Value of Building Work put in place: September quarter 2015

- This survey is the key indicator of quarterly construction activity. It is not usually market moving.

Real (ie after price changes are removed) seasonally adjusted activity in the September quarter:

- Residential activity **rose** 2.9% (the value of activity increased 4.2%)
- Non-residential activity **fell** 2.6% (the value fell 1.6%)
- All building activity rose **0.5%** (the total value increased 2.1%)
- The trend measure of total building activity reached a 10-year high

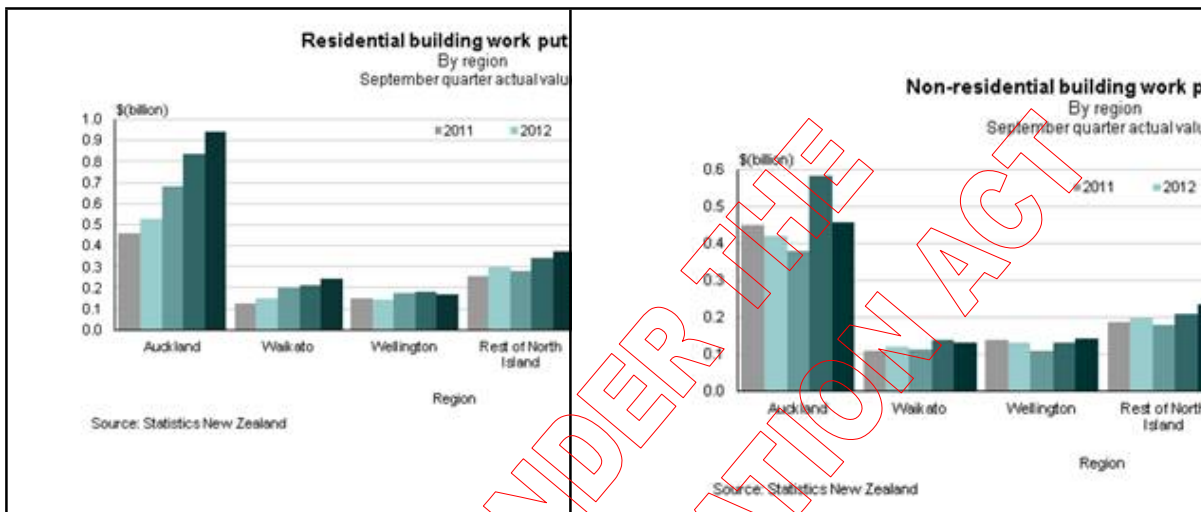
Residential activity continued to rise, a little more strongly than we expected. Consistent with other indicators, this survey shows an easing in residential construction activity in Canterbury (down 1%) and a rise in Auckland (up 3%). Similar movements were evident in non-residential activity, although the fall in Canterbury was small and followed a 25% rise over the first two quarters of the year. In fact most of the weakness in non-residential activity was attributable to the South Island. The increase in the value of building work activity was strongest in the Waikato, up 6.5% - mostly reflecting stronger residential building activity.

The outlook is for a continuation of these trends, although easing house sales and prices in the Auckland market may negatively affect investor confidence and have a temporary dampening effect on residential construction growth in that region.

Implications

Stronger residential building activity is consistent with other indicators, including retail sales, pointing to increased household expenditure over the quarter. However, weaker non-residential activity and the relatively weak overall construction result, combined with lower milk production, point to a modest contribution to GDP from the agricultural and goods producing sectors.

Currently we expect growth of around 0.6%, next week's manufacturing and wholesaling releases will firm up our view on quarterly GDP growth .



Disclaimer: This information is intended to help readers understand the economic implications of the release and respond to queries. It does not necessarily reflect the Treasury's final view.

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From: Brendon Riches [TSY]
Sent: Tuesday, 8 December 2015 11:43 a.m.
To: @Forecasting; ^Parliament: Simon Duncan
Subject: Initial View: Economic Survey of Manufacturing

Categories: OIA

[IN-CONFIDENCE]

Initial View

Economic Survey of Manufacturing: September quarter 2015

- This survey is the key indicator of quarterly manufacturing activity.

In the September quarter (seasonally adjusted):

- Total manufacturing sales volumes **rose 3.5%** (the value of sales rose 4.2%)
- Excluding meat and dairy product manufacturing, sales volumes **rose 1.9%** (sales values rose 3.0%)
- Meat and dairy product manufacturing sales volumes **rose 6.3%** (sales values rose 7.7%)

Comment

Food and beverage sales volumes, up 9.9%, led a broad-based rise in manufacturing sales in the quarter (10 of 13 industries recorded higher sales volumes). The rise in food and beverage volumes, and in meat and dairy, were evident in the quarterly export sales data released last week.

The increase in meat and dairy sales volumes were partly met from a run-down in stocks. The rise in food and beverage sales follows a 5.5% fall in the June quarter, suggesting some of that increase is likely to have been met from a run-down in inventories. For both industries, the implication of lower inventories is that quarterly production activity was more modest than implied by the rise in sales figures.

Nonetheless, non-meat and dairy manufacturing sales volumes are on a rising trend (see figure below), supported by growth in the construction industry and, more recently, by improved international competitiveness.

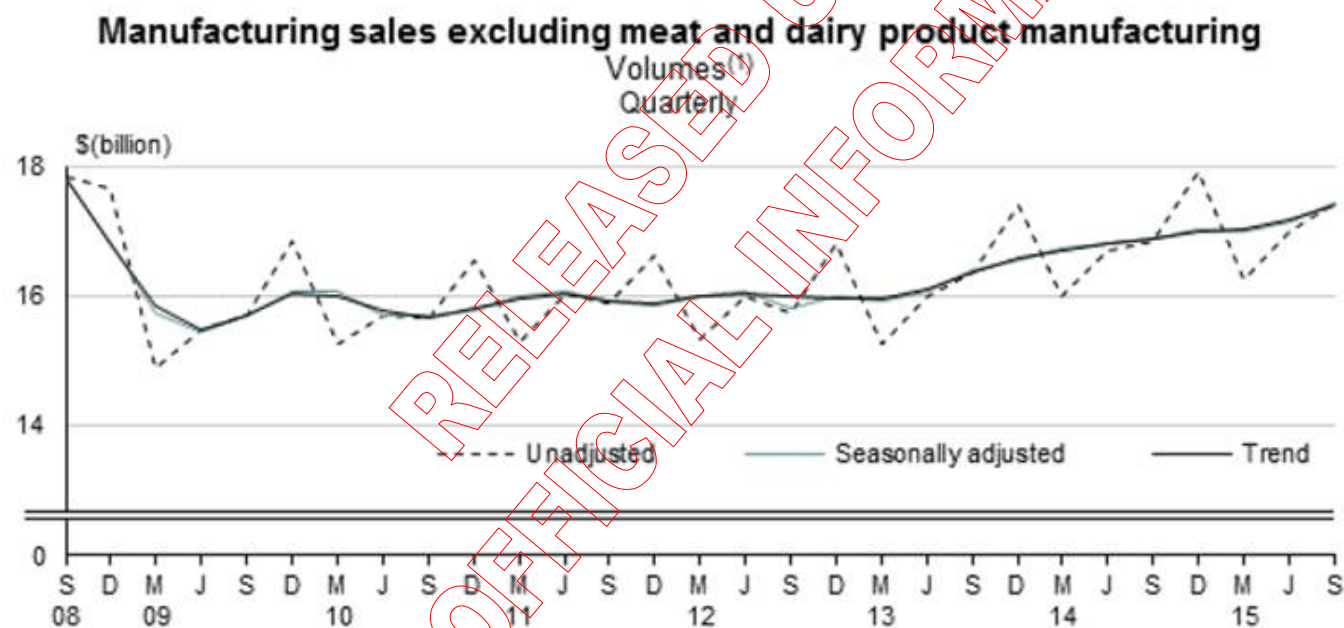
Implications

We estimate the rise in non-manufacturing sales volumes will likely make a small positive contribution of quarterly GDP growth (around 0.1% point, or quarterly ex-meat and dairy manufacturing growth of around 1.0%).

We estimate meat and dairy sales volumes to be flat in the quarter as lower milk production and processing offset a rise in meat processing.

The Manufacturing Survey completes the suite of production GDP indicators and, coming on the back of yesterday's 3.1% rise in wholesale sales, points to some (modest) upside risk to our HYEFU pick of 0.6% growth.

A full GDP and BoP preview will be provided with the WEU on Friday this week. September quarter GDP will be released on 17 December.



1. Volumes (constant dollar series) are at September 2010 quarter prices.

Source: Statistics New Zealand

Disclaimer: This information is intended to help readers understand the economic implications of the release and respond to queries. It does not necessarily reflect the Treasury's final view.

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From: s9(2)(g)(i)
Sent: 9 Dec 2015 21:00:27 +0000
To: @Forecasting;^Parliament: Simon Duncan
Subject: Initial View: Fonterra forecast milk price

[IN-CONFIDENCE]

Fonterra Farmgate Milk Price Forecast

- Fonterra maintained its forecast farm gate price at \$4.60/kg MS. Together with previous dividend guidance this leaves the total cash payout also unchanged at \$4.95 – 5.00/kg MS.
- Analyst views were mixed on whether they would change the forecast but the result is unlikely to surprise (and any market reaction will be overshadowed by the OCR cut this morning).
- Fonterra's view on domestic production turned slightly more negative, with at least a 6% decline now expected (compared to a 5% decline previously).
- The Support Loan was also reviewed, with a decision made to restrict it to milk production up to 31 December. This was on the basis that the farm gate price is higher than when the loan was first offered (when the farm price was \$3.85/kg MS).

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Economic Brief



Balance of Payments – September 2015 quarter

16 December 2015

- Annual current account deficit narrowed to 3.3% of GDP...
- ...as a widening services surplus offset the widening goods deficit
- Net international liability position rose slightly to 61.9% of GDP

Table 1: Current account summary - September 2015 quarter

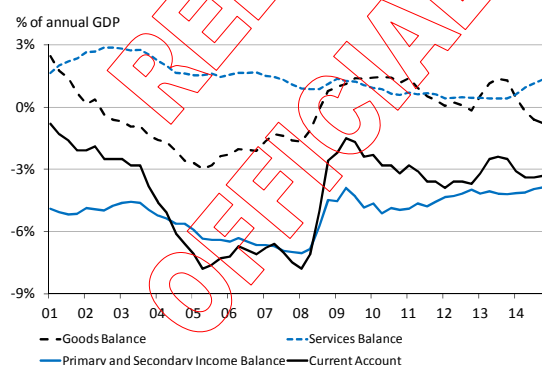
	Quarter balance (s.a. \$ billion)	Annual balance (\$ billion)	Annual balance (% of GDP)	NIIP ¹ (% of GDP)
Actual	-\$1.8	-\$8.1	-3.3%	-61.9%
Previous (revised)	-\$1.6	-\$8.3	-3.4%	-61.3%
Treasury forecast (HYEFU)	-\$3.0	-\$9.1	-3.8%	-63.1%
Market expected (median) ²	n/a	-\$8.3	-3.5%	n/a
Market range ²	n/a	-\$7.7 to -\$8.6	-3.2% to -3.6%	n/a

1. Net International Investment Position. 2. Reuters poll of economists' expectations 11/12/2015.

Current account deficit narrowed

The annual current account deficit narrowed in the September quarter to 3.3% of GDP, from 3.4% in the previous quarter (revised from 3.5% previously published). The outcome was a narrower deficit than forecast in the *Half Year Update* and was within the range of market expectations.

Figure 1: Current account deficit widens



Source: Statistics NZ

The annual services surplus continues to widen...

The seasonally adjusted services surplus increased by \$0.1 billion in the quarter, largely owing to a \$0.2 billion increase in travel services exports. Travel service exports have remained at high levels for four quarters now. Travel services imports were fairly flat in the quarter by

comparison, possibly reflecting the weaker dollar making overseas holidays more expensive.

The annual services surplus continued to widen, lifting from \$2.8 billion (1.1% of GDP) in June to \$3.3 billion (1.4% of GDP) in September. Travel services exports were the main driver of the increase, accounting for \$0.7 billion of the \$0.8 billion increase in annual service exports. Most of this was in turn from other personal travel services (chiefly tourism), which were 37% higher in the year to September. This is consistent with strong visitor arrivals (which were 8.5% higher in the year to September) and implies a large increase in average spend per visitor. The increase in service exports was only partly offset by a \$0.3 billion increase in annual services imports.

Travel services exports are expected to remain buoyant over coming quarters, reflecting the continuing growth in Chinese visitors as well as the competitiveness boost from a lower New Zealand dollar. This is expected to keep the services surplus at high levels in coming quarters.

...offsetting the widening goods deficit...

The annual goods deficit continued to widen, lifting from a \$1.5 billion deficit (-0.6% of GDP) in June to a \$1.9 billion deficit (-0.8% of GDP) in September. The widening annual deficit is the result of annual goods imports increasing by \$1.1 billion, while goods exports increased by \$0.6 billion.

Seasonally adjusted goods exports increased by \$0.7 billion in the quarter, driven by dairy (with higher volumes offsetting lower prices) and meat. Seasonally adjusted goods imports also increased by \$0.7 billion, with the main drivers electrical machinery (laptops and mobile phones) and transport equipment (a further two Dreamliners for Air New Zealand's fleet upgrade).

Looking forward, the annual goods deficit is expected to widen further over the coming year as the impact of falls in dairy prices continues to flow through. The very low dairy auction prices in July and August will be mostly reflected in the December quarter export figures. Furthermore, dairy and meat production are expected to decline in coming quarters in response to lower livestock numbers, weak price signals and drier weather (particularly if El Niño leads to drought).

...while the income balances remain unchanged

The annual primary income deficit (investment income flows) was unchanged at -3.8% of GDP (-\$9.3 billion), with only modest changes in the quarterly deficit. The annual secondary income deficit decreased by \$0.2 billion but was unchanged as a ratio to GDP of -0.1%.

Net international liability position increased

New Zealand's net international liability position rose slightly to 61.9% of GDP (\$151.0 billion) at the end of the September quarter from a downwardly revised 61.3% of GDP (\$148.0 billion) in June. Most of the increase reflected financial derivative valuation changes, which on balance increased New Zealand's liabilities by \$3.0 billion

more than they increased assets, and market price changes which reduced New Zealand's assets by \$3.4 billion more than liabilities. This was partly offset by a \$2.4 billion net financial account outflow.

The financial account outflow is conceptually challenging, as an inflow would be needed to offset the quarterly current account deficit. This accounts for much of the large net errors and omissions in the September quarter.

Canterbury reinsurance claims fall

Insurance settlements of \$0.3 billion are estimated to have taken place in the September quarter, down from \$0.5-0.6 billion recorded in each of the preceding five quarters. \$3.0 billion of claims remain outstanding at the end of September.

Outlook

In the *Half Year Update*, the current account deficit is forecast to widen to 6.0% of GDP in 2016. This is driven by an increasing annual goods deficit, largely as a result of weak dairy prices and lower agricultural export volumes. However, today's outturn may see the current account deficit peak at a lower level than forecast.

The strong performance of service exports also has implications for tomorrow's GDP release. These exports should support service industry growth and put some upside risk on our *Half Year Update* GDP production growth estimate of 0.6%.

For further information, contact:

s9(2)(g)(i)

Table 2: Current account components and Net International Investment Position

	Sep-14	Dec-14	Mar-15	Jun-15	Sep-15	Ann Tot	% GDP
<i>Actual \$ million</i>							
Goods Balance	-2,027	-959	845	688	-2,476	-1,902	-0.8
Exports	10,969	12,532	12,385	12,743	11,588	49,248	
Imports	12,996	13,491	11,540	12,056	14,064	51,151	
Services Balance	-594	576	2,299	503	-71	3,307	1.4
Exports	3,621	4,773	6,154	4,538	4,451	19,916	
Imports	4,215	4,197	3,855	4,036	4,522	16,610	
Primary Income Balance	-2,139	-2,643	-2,220	-2,236	-2,210	-9,309	-3.8
Income inflow	2,055	1,793	1,884	2,107	1,992	7,776	
Income outflow	4,194	4,437	4,104	4,343	4,202	17,086	
Secondary Income Balance	-144	26	-103	-128	8	-197	-0.1
Quarterly Current Account Balance	-4,905	-3,001	821	-1,174	-4,749	-8,103	-3.3
Annual Current Account Balance	-5,913	-7,464	-8,064	-8,259	-8,103		
% of Nominal GDP	-2.5	-3.1	-3.4	-3.4	-3.3		
Net International Investment Position	-151,399	-153,814	-152,208	-148,027	-150,962		
% of Nominal GDP	-64.2	-64.5	-63.7	-61.3	-61.9		

Source: Statistics New Zealand. Data may not add due to rounding.

From: Patrick Conway [TSY]
Sent: 17 Dec 2015 10:31:12 +1300
To: ^Parliament: Simon Duncan; Mark Blackmore [DPMC]
Cc: @Forecasting; @Macroeconomic & Fiscal Policy [TSY]; @ELT (Executive Leadership Team) [TSY]
Subject: Federal Open Markets Committee decision

[IN-CONFIDENCE]

Initial View: Federal Reserve increased funds target rate 25 basis points (8 am, NZT)

- As widely anticipated, the US Federal Reserve Open Markets Committee (FOMC) raised its funds target rate by 25 bps from a range of 0.-0.25% to 0.25-0.50% at 8 am this morning (NZT).
- It is the first increase in the funds rate in a decade and it is 8 years since it was lowered to 0.0-0.25%.
- The increase in the rate reflects the continuing recovery in the US economy; this expansion is expected to continue with "gradual adjustments in the stance of monetary policy".
- The risks to the outlook for economic activity and the labour market were seen as "balanced" and "inflation is expected to rise to 2% over the medium term as the transitory effects of declines in energy and import prices dissipate and the labour market strengthens further."
- The Statement emphasised that monetary conditions remain "accommodative" and that the pace of tightening will be "gradual". Some saw the statement as dovish and the pace of tightening was reduced slightly in 2017 from the previous projections (the "dot plot").
- This has reassured markets which have remained stable following the announcement: following the release, US interest rates were modestly lower, while the US dollar and US equities were little changed.
- The NZD fell 0.6% immediately after the Fed announcement but recovered again just as quickly and continued to strengthen above 0.68 US cents (from 0.679 immediately prior to the announcement). It has since fallen back again and at 10:30 am was back to its pre-8 am level of around 0.678 US cents.
- In our HYEPU forecasts we expected the Fed to raise rates in December (or March next year) and by 100 bps over 2016 and 100 bps in 2017 (the same as the Fed projections).
- For some time in our forecasts we have expected the tightening of US monetary policy to lead to a gradual easing in the NZD/USD exchange rate as interest rate differentials decline. We did not expect this to be an immediate market reaction.
- In our HYEPU forecasts we expect the NZD TWI to decline from an estimated 71.0 average in the current December quarter to 66.0 in December qtr 2016 (-7.0%) but to strengthen again slightly from there as the NZ economy recovers. The fall against the USD is expected to be slightly greater as it appreciates against the other major currencies (JPY, EUR), implying a lesser depreciation of the NZD against them.
- Fed tightening was discussed as a risk to the global economy in the HYEPU, in particular the impact it might have on capital flows in emerging markets. This would be a more gradual reaction to this morning's rate increase as markets digest the implications of the move. Market reactions so far bode well for limited impact. It will be interesting to see what the reaction is in Asian markets when they open this afternoon.

- September quarter GDP for NZ is due to be released at 10:45 am this morning and may influence financial markets. We will provide an Initial View on the release and a commentary later in the day.

Disclaimer: This information is intended to help readers understand the economic implications of the release and respond to queries. It does not necessarily reflect the Treasury's final view.

Patrick Conway

Patrick Conway | Principal Advisor | **The Treasury**

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From: Brendon Riches [TSY]
Sent: 17 Dec 2015 11:54:52 +1300
To: s9(2)(g)(i) @Forecasting;^Parliament: Simon
 Duncan;@Macroeconomic & Fiscal Policy [TSY]
Subject: RE: Initial View: GDP September 2015 quarter

[IN-CONFIDENCE]

Gross Domestic Product – September quarter 2015

- Real GDP (production) **rose 0.9%** in the quarter led by services industries (also up 0.9%), a little above the market's expectation.
- Real GDP (expenditure) **rose 1.2%**, driven by net services exports. Services exports volumes **rose 2.1%** in the quarter, up 20.7% from the same quarter a year ago, while services imports volumes **fell 4.6%** in the quarter.
- Real private consumption expenditure **rose 0.6%** in the quarter, up 2.1% from the same quarter a ago – just keeping up with population growth.
- Nominal GDP rose **0.6%** in the quarter, with the terms of trade down 3.9%. For the year ended September 2015, nominal GDP was close to the HYEPU forecast, slowing to 2.7% from 7.1% in the year ended September 2014.
- The NZD rose on release but has been volatile following the Fed decision to increase rates and has since fallen back to USD\$0.678, where it was prior to the GDP release

Real GDP (production)	Quarterly % change	Annual % change	Annual average % change
Actual (production)	0.9	2.3	2.9
Previous (revised)	0.3	2.7	3.0
HYEPU forecast	0.6	2.0	2.7
Market forecast (median) *	0.8	2.3	2.7
Market range *	0.5 to 1.1	1.9 to 2.6	2.6 to 2.8
Real expenditure GDP (actual)	1.2	3.5	3.4
Nominal expenditure GDP (actual)	0.6	3.9	2.7
HYEPU f'cast Nominal expenditure GDP	-1.4	2.5	2.5

* Reuters poll of economists' expectations 11 December

Comment

The quarterly outturn was well above our HYEPU estimate, reflecting more recent information on services exports that were incorporated into the market's expectation. However domestic demand was weaker than expected, contracting 0.3%, as public consumption spending fell and inventories were lowered. Although indicators point to an improved domestic backdrop over the December quarter, net exports are likely to be a drag on growth. Our HYEPU forecast of 0.6% quarterly growth in the December quarter remains appropriate for now.

A more detailed note will follow this afternoon.

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Economic Brief



GDP Review – September 2015

17 December 2015

- Real GDP (production) rose 0.9%, following just 0.5% growth over the first half of the year, led by services and manufacturing
- Real expenditure on GDP rose 1.2%, buoyed by net exports
- Nominal GDP growth eased to 2.7% in the year ended September as the terms of trade resumed their downward trajectory
- Indicators suggest domestic demand growth remained moderate in the December quarter and, with net exports likely to drag on growth, we expect 2015Q4 growth of 0.6%

Table 1: GDP summary

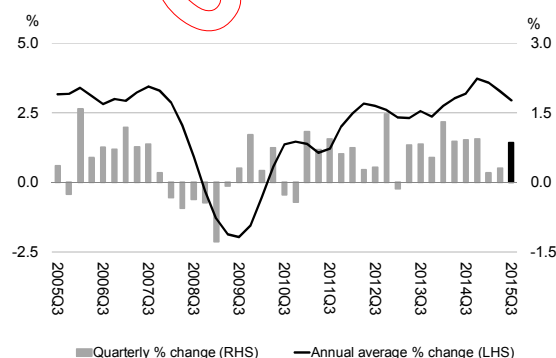
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* Reuters poll of economists' expectations 11 December

GDP recovers from weakness

Real production GDP rose 0.9% in the September quarter (Figure 1), a little above the market forecast and our HYEFU forecast (Table 1). Compared to the same quarter a year ago, growth eased slightly, from 2.4% to 2.3%, in line with the market estimate. The incorporation of annual benchmarks increased the level of real GDP and growth in the year ended September was higher than expected in the HYEFU.

Figure 1: Real GDP (production) growth



Source: Statistics NZ

Real expenditure on GDP rose 1.2%, propelled by net exports, which contributed 1.3% points to the quarterly increase. The terms of trade fell 4.1% in the quarter, reflecting lower dairy prices, holding nominal GDP growth to 0.6%. Annual benchmarking increased the level of nominal GDP by around 0.5%, although growth in recent quarters was revised down. Altogether, nominal GDP growth in the year ended September was a little above our HYEFU forecast.

Services industries drive growth

Growth in the services industries of 0.9% drove growth in the quarter. Nine of the 11 service industries recorded growth, led by business services, wholesale trade, retail trade and accommodation, and transport (Table 2). Increased short-term visitor arrivals provided support to related service industries.

Manufacturing posted its largest quarterly gain since 2012Q4, driven by food and beverage manufacturing. This increase was reflected in higher exports and higher domestic consumption.

Construction activity fell in the quarter, with declines in all components: residential, non-

residential and civil. Construction activity was flat on the same quarter a year ago.

Increased sales activity in the housing market was reflected in the rental, hiring and real estate industry, and in residential investment, which increased despite lower construction activity.

Table 2: Production GDP by industry

Industry	%-age point contribution	% change from previous qtr
Agriculture, Forestry and Fishing	0.0	0.0
Mining	0.0	0.9
Manufacturing	0.3	2.8
Electricity, Gas, Water and Waste Services	0.0	-0.7
Construction	-0.2	-2.9
Wholesale trade	0.1	2.2
Retail Trade and Accommodation	0.1	1.6
Transport, Postal and Warehousing	0.1	2.6
Information Media and Telecommunications	0.0	-1.4
Financial and Insurance Services	0.0	0.5
Rental, Hiring and Real Estate Services	0.1	0.5
Prof, Scient, Tech, Admin & Support Services	0.2	2.0
Public Administration and Safety	0.0	1.1
Education and Training	0.0	0.2
Health Care and Social Assistance	0.1	0.1
Arts, Recreation and Other Services	0.0	-0.7
Unallocated and balancing item	0.2	
Gross Domestic Product	0.9	0.9

Source: Statistics NZ

Net exports drive real expenditure GDP

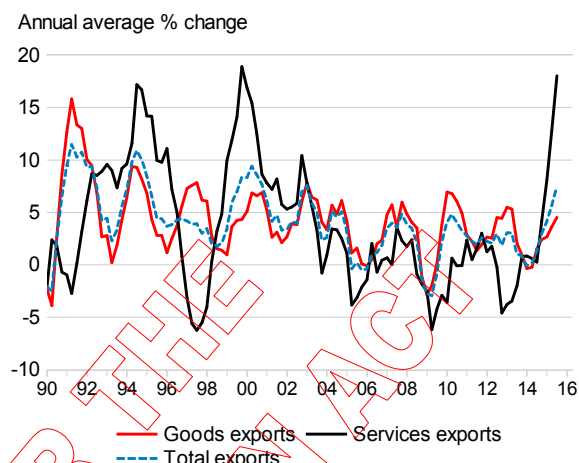
Net exports drove the 1.2% rise in real expenditure GDP (Table 3), led by a fall in imports of goods and services (down 2.8%). Lower volumes of intermediate goods, fuel and services were evident, partly offset by increases in capital and consumption goods. The fall in services likely reflects the effect of the lower exchange rate, with services import values broadly flat in the quarter. Lower intermediate goods imports may be partly attributable to reduced demand for dairy feed.

Table 3: Real Expenditure on GDP

Component	%-age point contribution	Quarterly % change
Private consumption	0.4	0.6
Public consumption	-0.1	-0.4
Residential investment	0.1	0.9
Other fixed assets	0.4	2.6
Exports of Goods and Services	0.5	1.9
Imports of Goods and Services	0.8	-2.8
Change in inventories and balancing item	-0.9	-
Expenditure GDP	1.2	1.2

On the exports side, dairy and meat were the main contributors to the quarterly rise, although this was met from lower inventories, pointing to lower volumes in coming quarters. Services exports rose 2.1% in the quarter, and 20.7% from the same quarter a year ago. Over the year ended September, growth in services exports volumes (up 18.0%) was the main contributor to total export volume growth (up 7.5%) (Figure 2).

Figure 2: Real export volume growth



Private consumption expenditure (which excludes non-resident spending) rose 0.6% in the quarter and grew 2.4% in the year ended September, a little above population growth of 1.9%. Growth in household services consumption remains particularly sluggish, up 0.8% in the year, and down 1.0% in per capita terms. This may partly reflect an increased proportion of services expenditure allocated to tourists.

Public consumption spending fell in the quarter and growth in the year ended September slowed to 2.0%, from 2.9% in the prior year.

Business investment growth remained healthy, rising 2.6%, following a 2.1% rise in the previous quarter.

Nominal GDP growth eased as terms of trade declined

Nominal GDP rose 0.6% in the quarter as the weaker terms of trade (down 4.1%) offset some of the strength in real GDP. The price deflators for private and public consumption picked up a little, which may reflect the weaker exchange rate, and could be transitory.

Implications

Much of the unexpected strength in growth was due to net export volumes. With the currency appreciating over December and inventories now cleared net export growth is likely to slow. December quarter indicators suggest domestic demand growth remained moderate and, with net exports likely to weaken, our HYEPU forecast of GDP growth of 0.6% remains appropriate.

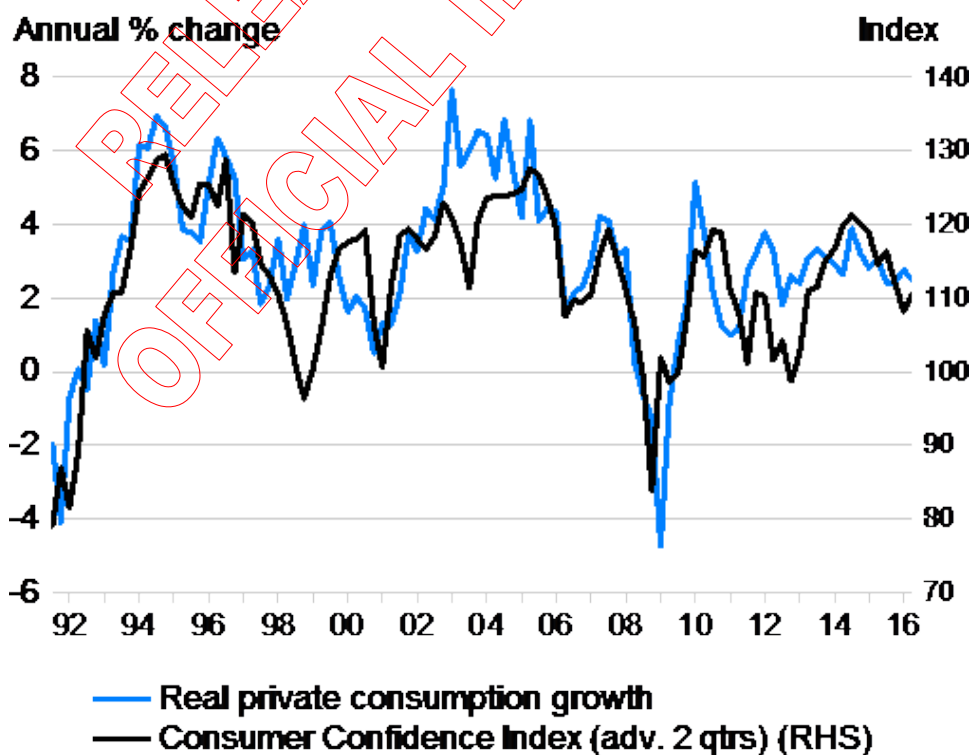
Contact: [Brendon Riches](#), Forecasting Team, (04) 917 6297

From: s9(2)(g)(i)
Sent: 21 Dec 2015 11:16:32 +1300
To: @Forecasting;^Parliament: Simon Duncan
Subject: Initial View: Westpac-McDermott Miller Consumer Confidence: December 2015 quarter
Attachments: oledata.mso

[IN-CONFIDENCE]

Westpac-McDermott Miller Consumer Confidence – December quarter 2015

- Headline consumer confidence rose 3 points to 111 in the December quarter* – slightly below the historical average and consistent with the monthly ANZ-Roy Morgan consumer confidence measure.
- Improvement was seen across both present and expected conditions. Other business sentiment and consumer confidence measures have also been more upbeat over the December quarter.
- Overall, consumer confidence has improved from its September quarter lull reducing some of the downside risk to the HYEPU private consumption forecasts over 2016H1. The measure is at levels broadly in-line with the HYEPU forecast for private consumption growth (Figure). Note that private consumption growth was close to forecast in the September quarter.



* Readings above 100 indicate optimists outweigh pessimists

Disclaimer: This information is intended to help readers understand the economic implications of the release and respond to queries. It does not necessarily reflect the Treasury's final view.

Cheers,

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From: [REDACTED]
Sent: Monday, 11 January 2016 12:37 p.m.
To: ^Parliament: Simon Duncan
Cc: @Forecasting
Subject: Initial View: Building Consents November 2015

Categories: OIA

[IN-CONFIDENCE]

Building Consents – November 2015

- The seasonally-adjusted number of new residential building consents rose 1.8% in November 2015, driven by an increase in the relatively volatile apartments. Growth in new residential consents has fallen from its surge in the September 2015 quarter.
- The less volatile number of housing consents eased 0.3% in the November month.
- The trend for new dwellings consented increased 0.6% in November, to its highest level since July 2004.
- The recent rise in consents was driven by the Auckland region, where the number of new consents has tripled since the GFC. Other regions in the North Island, including Waikato and Wellington, also showed a pick-up. Meanwhile, consents in Canterbury are stable despite an easing following the late-2014 peak in the residential earthquake rebuild (See figure).
- New dwelling consents expanded 9.1% in the year to November 2015 from the year to November 2014, driven by 19% growth in apartment consents. New dwelling consents in the November 2015 month were 17% higher than the November 2014 month.
- Non-residential building consents rose 25% from a year ago, boosted by a large education building consent.



- Housing data point to residential investment growth in the March quarter 2016 of around 2%, similar to the Treasury's Half-Year Update forecast (1.9%).
- Construction activity picked up in regions experiencing strong housing demand, including Auckland and its surrounding regions. The greater surge in apartment consents than house consents over the past year reflected the gradual shift in construction activity from the residential rebuild in Canterbury to apartment development in Auckland.

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Weekly Economic Update



2 October 2015

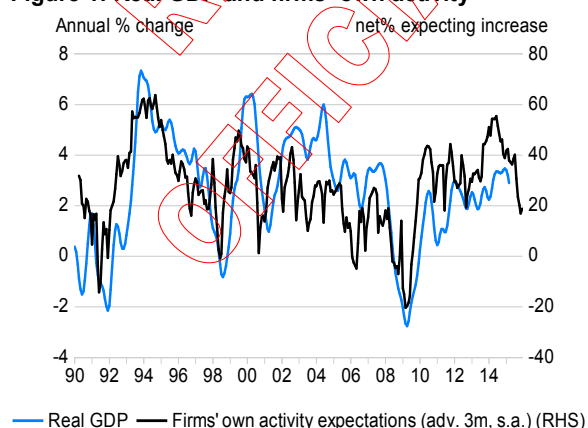
Domestic developments

This week's data showed some stabilisation in the outlook for the NZ economy, with business confidence recovering most of August's sharp fall and building consents retracing part of July's sharp rise. The ANZ commodity price index rose 5.5% in September, driven by dairy prices rebounding, but the index remains 18% down on a year ago.

Business confidence bounces in September

Business confidence rose in September for the first time in five months, with a net 19% of firms pessimistic about the next three months, largely recovering the fall in August to a net 29%. While all industries remain firmly in the red, agriculture, the most pessimistic sector, provided much of the improvement with a net 54% of firms pessimistic compared to a net 76% previously. Agricultural confidence is likely to lift further following dairy price rises and Fonterra's announcements last week. Similarly, firms' expectation of their own activity ticked up 5 points to a net 16.7% of firms expecting an increase, but remains below the average of a net 28%. Likewise, other activity indicators also ticked up, including profit expectations, investment and employment intentions, and construction activity.

Figure 1: Real GDP and firms' own activity



Sources: Statistics NZ, ANZ

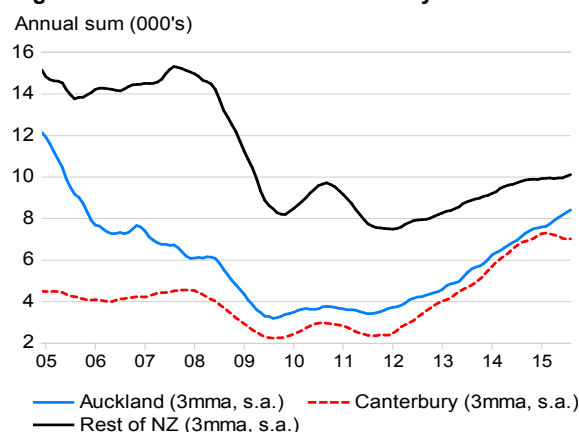
We expect GDP growth to follow a similar trend – growth may be a little under 2% by the end of the year but stabilise in early 2016 at around 2% (Figure 1). The outturn removes some of the risk of a more substantial slowdown, with the NZIER quarterly

survey (out next Tuesday) providing a detailed picture of firms' activity expectations over the second half of 2015.

Residential consents partly retrace surge in July

Seasonally adjusted new dwelling consents retraced part of July's rise (20.3%), falling 4.9% in August. The fall was broad-based, led by multi-dwelling buildings (a volatile series), with housing down a more subdued 2.7%. That said, dwelling consents were still up 3.4% on a three month moving average basis (3mma), after rising 5.8% in July, suggesting a pick-up in residential building activity in the December quarter. On a regional basis, Canterbury consents were up 5.6% in August (3mma, s.a.) but up only 0.6% on a year ago – further indication the residential part of the rebuild is past its peak (Figure 2), in contrast, consents in Auckland were up 1.1% (3mma, s.a.) in August but 18.4% on a year ago. The regional share of total consents is slowly switching, with Auckland and Canterbury accounting for 34% and 26% of total NZ consents respectively in August compared to 31% and 33% in December.

Figure 2: Residential consent levels by area



Source: Statistics NZ, Treasury estimates

Nationally, the value of non-residential consents continued to trend higher, up 0.4% in August, to be up 9.3% (3mma) in the year. Reflecting the change in composition of the Canterbury rebuild, non-residential consents in Canterbury accounted for 62% of the national total and were up 32% on a year ago (3mma), although this partly reflects the consent for a large project at the University of Canterbury.

Weekly Economic Update



9 October 2015

Domestic developments more positive

The week's data showed some stabilisation in the outlook for the NZ economy, with activity indicators ticking up in the September Quarterly Survey of Business Opinion (QSBO) despite confidence falling further. Dairy prices rose further at this week's auction, climbing back to the levels seen before the mid-2015 slump.

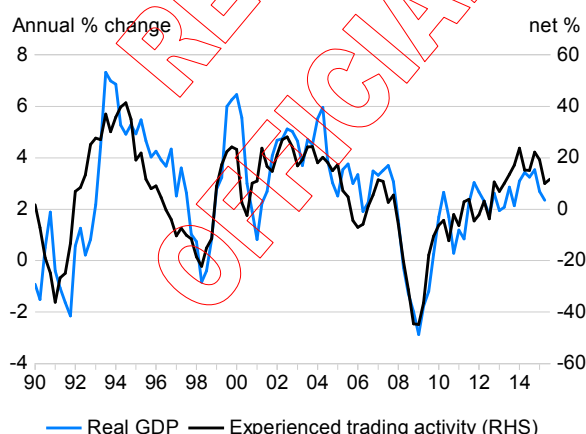
Firms less confident about the outlook...

Headline confidence in the QSBO fell a further 15 points in September, with a net 9% of firms pessimistic about the economy's prospects over the next six months. The fall was broad-based, with those regions most exposed to dairy notably weaker, and is now at its lowest level since 2011.

...but activity indicators tick-up...

On the other hand, more firms expanded their own activity in the quarter (up 2 points to a net 12%) and expect it to increase further in the December quarter (up 4 points to a net 17%). Both of these were slightly above historical averages, and point to around trend growth of 0.6% in the September quarter (Figure 1).

Figure 1: Real GDP and own activity experienced



Sources: Statistics NZ, NZIER

Similarly, firms' hiring intentions ticked up and an increased number of firms reported hiring over the quarter. Despite increased labour demand, firms found both skilled and unskilled labour easier to find, likely reflecting continued strong migration in prime age groups (25-45 years). Both skilled and

unskilled labour remain hard to find relative to history.

...and cost pressures remain subdued

Capacity utilisation fell slightly in the quarter and cost pressures fell further. A net 6% of firms reduced their selling prices in the quarter and a net 0.5% of firms expect to increase their selling prices, the lowest level since the GFC. This is despite a net 17% of firms expecting higher input costs (but down from 22%), mostly as a result of the lower NZD, suggesting further squeeze on margins. That said, firms expect profits to increase in the December quarter and investment intentions remain above historical averages, despite easing a touch.

Trend growth still expected for second half of 2015

Overall, QSBO measures point to weak pricing pressures and around trend growth in the September and December quarters. The rise in activity is consistent with the modest rebound in the ANZ business outlook, although the divergence in confidence measures is likely owing to QSBO not directly surveying the agricultural industry.

Dairy prices continue upward trajectory

The GDT price index rose 9.9% at this week's auction, with the average GDT price up to US\$2,834/mt. Milk powder prices led the rise, with whole and skim milk up 12.9% and 13.4% respectively. The price increase appears to be driven by supply, with auction volumes 36% below last year's equivalent auction and season-to-date volume down 24%. The most recent auction price is similar to our *Budget Update* December quarter forecast, although there is a risk of a repeat of early 2015, when prices rose strongly to US\$3,000/mt due to supply concerns only to collapse again when demand failed to materialise.

Consumer spending continues strengthening

Total electronic card transaction spending rose 0.7% in September, to be up 2.2% in the September quarter. Underlying the gain was the 2.1% rise in core retail, with all components rising in the quarter.

Weekly Economic Update



16 October 2015

Domestic developments more positive again

The week's data continued to show a more positive outlook for the NZ economy. Inflation in the September quarter surprised on the upside and momentum in the housing market continued in September. Consumer confidence also ticked up in October and the PMI lifted in September.

Inflation surprises market on the upside

The CPI increased 0.3% in September, to remain at 0.4% on an annual basis, with tradables prices up 0.7% and non-tradables prices flat in the quarter. The main drivers of the quarterly increase were housing related prices (including the larger than usual local authority rate rise), vegetable prices and package holidays. These were partially offset by the decline in ACC vehicle levies (-0.3 ppts). The outturn surprised the market on the upside, largely owing to more exchange rate pass-through to tradables inflation than expected. This resulted in interest rates rising around 1-2 bps and the NZD initially rising 0.2 US cents before tracing back to its pre-release level (the NZD held on to the near one cent rise against the USD overnight). See CPI Review for further discussion.

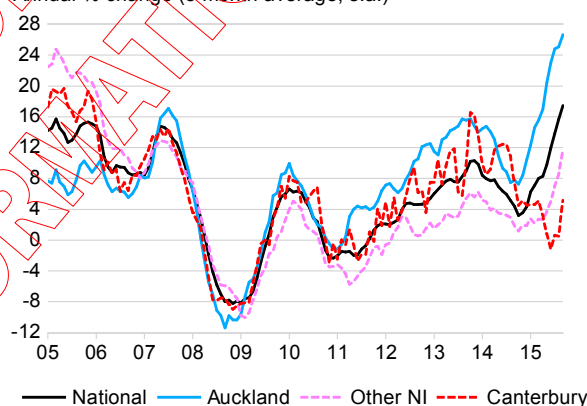
Housing market strength continues...

The REINZ September release showed a continuation of recent themes, with sales and prices both continuing to rise strongly – particularly in areas surrounding Auckland. The national stratified house price index rose 2.6% in the September month, to be up 20.2% in the year (Figure 1). The monthly rise was driven by North Island areas excluding Auckland and Wellington (4.7%), and by Canterbury (9.4%), with the latter rebounding following falls in mid-2015 to be up 10.7% in the year. Auckland house price growth (3.3%) was still higher than the national monthly rise and the annual increase on a three month moving average rose further to 26.6% – the fastest pace of growth in Auckland since May 1996.

House sales lifted 1.3% (s.a.) in September, taking annual sales growth to 38.2%. The monthly growth was driven by other North Island areas (Waikato/Bay of Plenty, Hawkes Bay, Taranaki), with Otago and Otago Lakes also making very

strong contributions. On the other hand, Auckland sales were up only 0.9% in September but still up 37.7% on a year ago. Robust house price and sales growth across large parts of the country continue to suggest a stronger demand and price outlook in the housing market than forecast in the *Budget Update*, consistent with higher net migration and lower interest rates.

Figure 1: Stratified house price index by area
Annual % change (3 month average, s.a.)



Source: REINZ

...consumers are more confident...

Following a stabilisation in September, the ANZ-Roy Morgan consumer confidence index rose 4 points in October to 114.9, although remains below its historical average. The rise was largely driven by improved expectations for future economic conditions, with one-year-ahead expectations lifting from a net 12% pessimistic in September to a net 2% positive. While earlier indicators point to weaker private consumption growth than forecast in the *Budget Update* over the next few quarters, this outturn removes some of the downside risk for private consumption growth for the first half of 2016.

...and the manufacturing sector expands

The BNZ-BusinessNZ PMI lifted 0.3 points in September to 55.4 (s.a.), the highest level of activity since February. This, combined with robust July and August outturns, points to a positive contribution from the manufacturing sector in the second half of 2015, following the decline in output in the June quarter.

Weekly Economic Update



23 October 2015

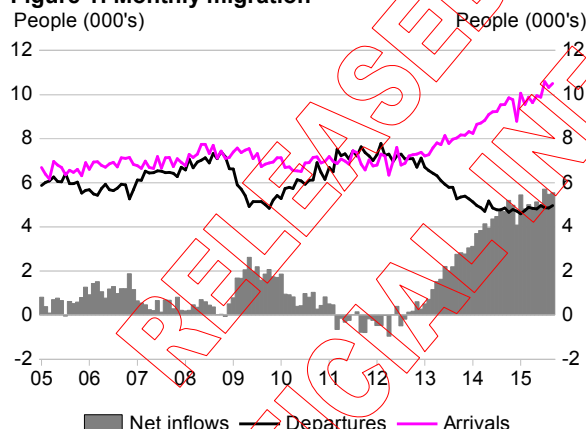
Domestic developments positive on balance

The week's data were positive on balance. Both PLT net migration and visitor arrivals continued strongly in September. On the other hand, dairy prices surprised the market by falling slightly at the latest auction.

Migration continues surprising on the upside...

PLT migration was broadly flat on the previous two months, with a net 5,600 people arriving in September (Figure 1). Arrival numbers were largely unchanged, although with the step increase in July the trend continues rising. Arrivals of students, work visas and NZ and Australian citizens were all up over 10% from September a year ago. Departure numbers were slightly up on the previous month, with the trend flattening out.

Figure 1: Monthly migration



Source: Statistics NZ

Annual net migration hit a record of 61,200 people, with the gain from the previous year driven chiefly by more non-NZ citizen arrivals. The quarterly net gain of 16,800 is well above our *Budget Update* forecast (10,200), likely leading to a larger supply of labour. As a result, for a given participation rate and number of jobs created, the unemployment rate is likely to be higher than in the *Budget Update*.

...with visitor arrivals also strong in September

Visitor arrivals were up 12.2% on September a year ago, with Australians and Chinese accounting for the majority of the gain. Arrivals in the year to September were up 8.5% to over 3 million. The robust outturn implies strong tourism export volumes growth will continue.

Job ads up in September month

ANZ New Zealand job ads were up 2.1% in September but down 0.7% over the quarter, owing to both weaker internet and newspaper advertising. While the monthly improvement was positive, the overall trend suggests moderate employment growth over the remainder of 2015.

Dairy prices fall at latest auction

Following large gains in the previous four auctions, the GDT index fell 3.1% at this week's auction, with the average price at US\$2,735/mt. Prices fell for most products, with whole milk powder and skim milk powder down 4.6% and 4.5% respectively. Auction volumes remain low, with season-to-date volume down 25% and this week's auction 32% down on a year ago – lower than indicated by the 4.1% season-to-date fall in NZ milk production. On the other hand, Northern Hemisphere milk supply has not shown any fall in response to weak prices.

Figure 2: GDT average auction prices



Source: GlobalDairyTrade

The outturn was weaker than the market was expecting (flat to modestly up), with the NZD falling around one cent against the USD following the auction. No local forecasters changed their farm-gate milk price forecast (within a range of \$4.25/kg MS to \$5.30/kg MS) following the release, as they expect a gradual rise in prices over the remainder of the season. Analysts forecasts are generally higher than Fonterra's forecast of \$4.60/kg MS, with the majority of farmers expected to make negative cash-flows even with the more positive analyst forecasts.

Weekly Economic Update



30 October 2015

The week's data developments were mixed which was echoed by the Reserve Bank's decision to keep the OCR unchanged, albeit with an easing bias. Building consents point to continued strength in residential investment while business confidence continues to recover. However, the merchandise trade deficit continues to widen.

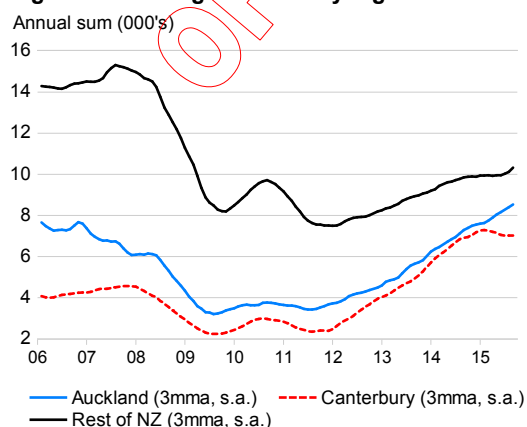
Interest rates remain on hold...

The Reserve Bank left the OCR at 2.75% at its October review. The Reserve Bank expects CPI inflation to return to well within the target range by early 2016, as oil price effects drop out of the annual figure and as depreciation boosts tradables inflation, but noted the recent appreciation of the dollar as a risk to this occurring. However, to support demand and lift inflation back towards the midpoint of its 1-3% target range, some further reduction in the OCR is likely. The market is pricing a 40% chance of a cut in December, with a full cut priced in by March.

...as building consents hold up at high levels...

High levels of building consents issued continue to point to stronger construction activity in coming months. Although the total number of residential building consents contracted in the September month, they were still 12.9% higher than a year ago. Consents for the year to September were 8.5% higher than the previous year. Non-residential consents by floor area were 23.3% higher than a year ago and 10.6% higher in the year to September.

Figure 1: Building consents by region



Source: Statistics New Zealand

Trends in consent issuance by region show strong growth in Auckland and surrounding regions, reflecting strong housing demand in Auckland that is spilling over to Waikato, Northland and the Bay of Plenty (Figure 1). The trend in Canterbury has flattened, consistent with the residential rebuild having reached a peak and stabilised.

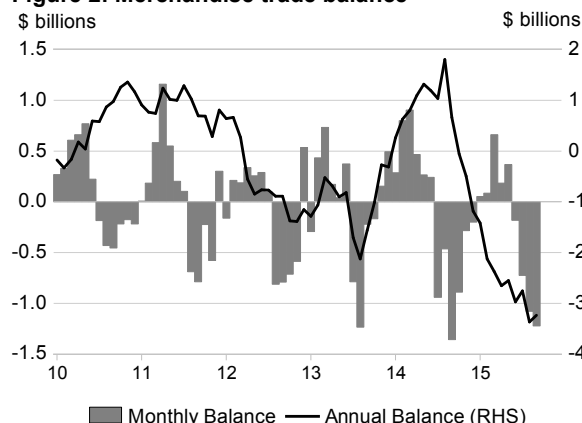
...and business confidence continues to recover

Business confidence rebounded strongly in the ANZ Business Outlook, from a net 19% pessimistic in September to a net 11% optimistic in October. Confidence improved notably amongst agricultural participants in response to recent gains in dairy prices, although they remain net pessimistic. Firms own activity expectations increased by 7 points to a net 24%, close to the longer run average. Pricing, employment and investment intentions all increased.

The monthly merchandise trade deficit widened

The seasonally adjusted merchandise trade deficit widened in September to \$454 million, as exports declined faster than imports. The 8.6% monthly decline in seasonally adjusted exports was driven by a 12.4% fall in dairy volumes which saw dairy values decline 16.0%. Fruit exports also fell sharply (-17.5%). Seasonally adjusted imports fell 5.5%. The non-seasonally adjusted merchandise trade deficit for September was \$1.2 billion, a much larger deficit than expected by the market, while the annual trade deficit narrowed slightly to \$3.2 billion (Figure 2).

Figure 2: Merchandise trade balance



Source: Statistics NZ

Weekly Economic Update



6 November 2015

Domestic developments

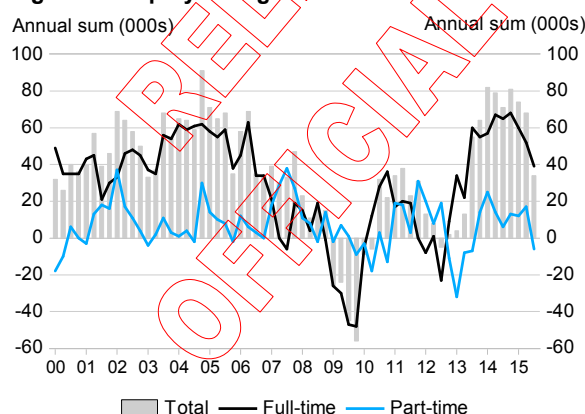
This week's data were on the weak side.

September quarter labour market data reflected the weak growth in the New Zealand economy in the first half of the year. The ANZ commodity price index rose in October due to dairy price rises, although dairy prices fell at the November GDT auction.

Weak demand for labour...

In the Household Labour Force Survey, the total number of people in employment fell by 11,000 (0.4%) in the September quarter, with part-time employment (down 22,000) more than accounting for the fall. The decline in employment followed a rise of just 3,000 (0.2%) in the June quarter and led to the annual increase slowing from 68,000 (3.0%) to 34,000 (1.5%) (Figure 1). QES indicators of labour demand – paid hours, full-time equivalent employees and filled jobs – were all positive in the quarter but, as they only just regained March quarter levels, this showed a consistent message of slowing demand for labour.

Figure 1: Employment growth



Source: Statistics New Zealand

...leads to more spare capacity in the labour market...

The fall in employment was associated with a 0.7% point decline in the participation rate to 68.6%, suggesting those who lost jobs also exited the labour market. With a slightly greater fall in employment than in the labour force, the unemployment rate increased from 5.9% to 6.0%,

up from the recent low of 5.6% in September 2014. Looking ahead, Treasury expects the unemployment rate to continue rising, with soft employment growth unable to keep up with growth in the labour supply.

...consistent with subdued wage inflation

Consistent with the increased spare capacity in the labour market, growth in the ordinary time Labour Cost Index (a measure of wage inflation) fell from 1.65% to 1.55%. Similarly, annual growth in QES ordinary time hourly earnings slowed from 2.8% in the June quarter to 2.3%, reflecting a moderation in private sector earnings growth. With full-time equivalent employees up 2.4% in the year, annual growth in total weekly gross earnings ticked up from 5.3% in June to 5.5%. As CPI inflation increased only 0.4% in the year, real wage growth remains robust.

Dairy drives commodity price rise in October...

The ANZ world commodity price index rose 6.9% in October, owing to dairy prices rebounding 17.9%, as indicated by GDT auction price rises since August. Prices excluding dairy fell 2.2% in the month, dragged down by beef prices falling 12.5% - possibly from NZ supply to the US approaching the quota limit. As the NZD appreciated in the month, the NZD index was up a more subdued 2.9% in October. The NZD index is up 3.4% in the October year, in contrast to the world price index which is down 11.8% in the year.

...but dairy prices down again at November auction

The GDT price index fell 7.4% at this week's auction, the second consecutive decline. All product prices declined, with skim and whole milk powders among the worst performers, both 8.0% lower. The average price is now at US\$2,569/mt, reflecting slow global demand growth and strong supply out of Europe and the US. Futures prices suggest a further fall at the next auction. However, no analysts changed their farm gate price estimate, with Fonterra's current forecast price of \$4.60/kg MS within the analyst forecast price range (\$4.25-\$5.30/kg MS).

Weekly Economic Update



13 November 2015

Domestic developments

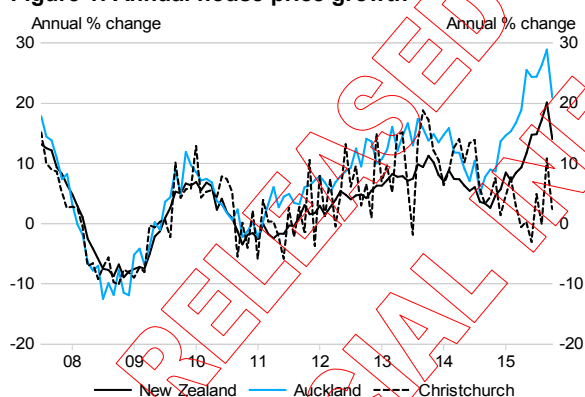
This week's data showed a sharp slowing in housing market activity in the October month, while the Reserve Bank's Financial Stability Report (FSR) showed that the financial system continues to perform well despite heightened risks.

Consumer confidence rose to its highest level in six months, lessening some of the downside risks to the private consumption growth outlook.

House sales and prices fall in October...

REINZ data for the October month showed that housing market activity slowed sharply following strong growth in activity through the middle of 2015.

Figure 1: Annual house price growth



Source: REINZ

The seasonally adjusted stratified house price index fell 4.2% – the largest price decline on record for a single month – led by 4.7% and 6.2% falls in Auckland and Canterbury respectively. Although annual house price growth slowed from over 20%, it remains high at 14.1% (Figure 1). The seasonally adjusted number of house sales fell 5.1%, led by a hefty 15.3% fall in the number of sales in Auckland. Outside of Auckland, sales fell 2.6% in the month.

The sharp fall in the number of sales in Auckland may reflect greater caution as the market adjusts to regulatory changes, including tighter rules around property taxation and the implementation of the Reserve Bank's regional LVR policy.

Housing market activity over recent months has likely been bolstered by the bringing forward of activity to beat these regulatory changes. This may

be affecting the usual seasonal patterns for housing market activity and could explain the strong growth earlier and large falls in October.

As a consequence, it is too early to tell what effect these measures are and will have on the underlying trend in activity. Overall though, Treasury expects that the dampening in demand in Auckland will be offset by increased demand elsewhere given the loosening in LVR restrictions in other regions.

...as RBNZ notes increased risks to financial stability from the Auckland housing market

The FSR noted that the financial system continues to perform well despite increased risks from both global and domestic factors. Risks included concerns around China's growth (and the flow-on impact to funding costs) and stretched price to income ratios in the Auckland housing market.

As expected, risks from indebted dairy farms were also highlighted as the dairy sector faces its second consecutive season of low farm gate milk prices. With the majority of dairy farmers expected to be in negative cash flow, an increase in non-performing loans is expected. The Reserve Bank is currently undertaking stress tests of dairy lenders to test resilience.

Card transactions values flat in October

Seasonally adjusted total electronic card transactions values were flat in October as a small rise in core retail transactions values, led by consumables, was offset by lower fuel expenditure reflecting lower fuel prices. Although card transactions values were flat, they follow large gains in the September quarter and point to slower but still moderate nominal consumption growth in the December quarter.

ANZ Roy-Morgan consumer confidence rose to a six month high in November, on both current and future conditions. The index is now in line with long-run averages, lessening risks to the private consumption growth outlook and supporting our view that households will maintain consumption levels despite the squeeze on national income from the lower terms of trade.

Weekly Economic Update



20 November 2015

Domestic developments mixed

Retail sales data point to moderate growth for September quarter real private consumption. Business price indexes rose owing to the weaker NZD, suggesting higher import prices. Dairy prices fell further at this week's auction, as expected.

Retail sales rebound in September quarter...

The seasonally adjusted volume of core retail sales rebounded 1.0% in the September quarter, following the flat June quarter outturn. The rise was driven by volume growth in electrical and electronic goods, food and beverage services, and supermarket and grocery sales, while recreational goods sales provided the largest offset.

Total retail sales volumes were up 1.6%, boosted by motor vehicle sales volumes rising 5.0% in the quarter, stronger than implied by car registrations. Total sales values rose 1.4% in the September quarter, with the retail deflator falling 0.2%, consistent with the low inflation environment.

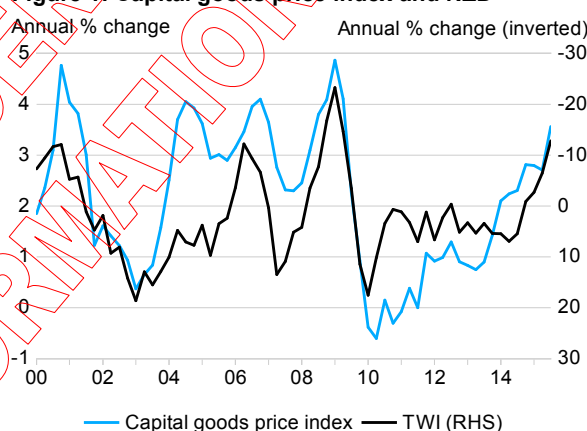
For GDP, this outturn supports our view of real private consumption growth in the September quarter to be similar to the prior quarter (0.9%), supported by durables and services consumption. Looking ahead, we expect private consumption growth to slow, reflecting the softer labour market outlook and slower income growth.

Weaker NZD boosts business price indexes

Producer prices rose in the September quarter, with the input and output indexes up 1.6% and 1.3% respectively. Both indexes were heavily influenced by the NZD depreciating 12.5% against the USD (based on the rate in the middle of the quarter). As well as the lower NZD, both indexes were boosted by higher commodity prices (meat and crude oil) and farm gate milk prices, although excluding these components both indexes were still up around 1.0% in the quarter. On an annual basis, input prices were down 0.2% and output prices were up 0.2%, a sharp turn-around from June when prices were down 3.3% and 2.2% respectively. Annual output price growth for construction eased a further 0.3% points to 2.3%, largely owing to slowing growth in engineering construction costs.

The capital goods price index rose 1.4% in the quarter, to be up 3.6% in the year (Figure 1). The quarterly rise was driven by plant, machinery and equipment prices rising 2.4%, boosted by the lower NZD. Residential building costs increased from 5.0% in the year to June to 5.2% in September.

Figure 1: Capital goods price index and NZD



Sources: Statistics NZ, RBNZ

Dairy prices continue to fall at auction

the GDT price index declined 7.9% at this week's GDT auction, its third consecutive decline, although the average price (US\$2,345/mt) is still 29% above the August low. The fall was driven by whole and skim milk powder prices, down 11.0% and 8.1% respectively, partially offset by a rise in butter. Season-to-date volume sold on the auction is down 25% on the previous season, as Fonterra responds to falling milk production.

Following the auction, some bank analysts revised down their farm gate milk price forecast, with the analyst range now \$4.25-4.60/kg MS (vs. \$4.25-5.30/kg MS prior to the auction). Fonterra's current farm gate milk price forecast of \$4.60/kg MS requires WMP prices to rise to around US\$3,000/mt by the end of the season, although Fonterra will review its farm gate milk price forecast on December 9. Earlier in the week, Fonterra revised its dividend guidance up by five cents, as it shifts some of its product mix away from WMP to more profitable product streams, lifting gross margins as a result.

Weekly Economic Update



27 November 2015

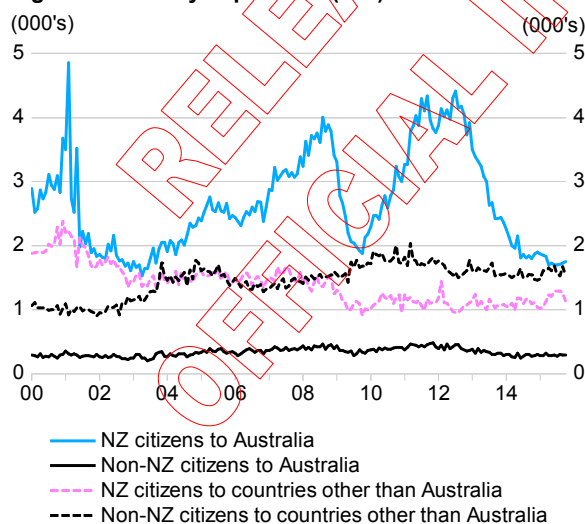
Record arrivals, wider trade deficit

Arrivals to NZ continued to grow strongly, with both net migration and short-term visitor arrivals reaching record annual highs. On the other hand, the overseas merchandise annual trade deficit continued widening in October, pointing to an increase in the current account deficit.

Net migration reaches new record high...

A net 6,200 (s.a.) PLT migrants arrived in October, the fourth consecutive month above 5,500 and surpassing the previous record set in July of 5,700. Increased net inflows were owing to both fewer departures (lowest since January) and a record high of 10,900 migrants arriving. Fewer departures were largely due to fewer NZ citizens leaving, the lowest since 2009 (Figure 1). By visa type (not seasonally adjusted), students and work visa arrivals were both up by around 450 on a year ago (+30% and +11%). NZ and Australian citizen arrivals also continue to pick up, albeit to a lesser extent.

Figure 1: Monthly departures (s.a.)



Source: Statistics NZ

As a result, annual migration reached a new record high of 62,500, with the first annual net gain from Australia in almost fourteen years. Annual inflows are expected to remain around this level until the middle of next year, before declining with the weaker NZ economic outlook and somewhat lower unemployment in Australia reducing the

attractiveness of NZ as a destination and encouraging an increase in departures to Australia.

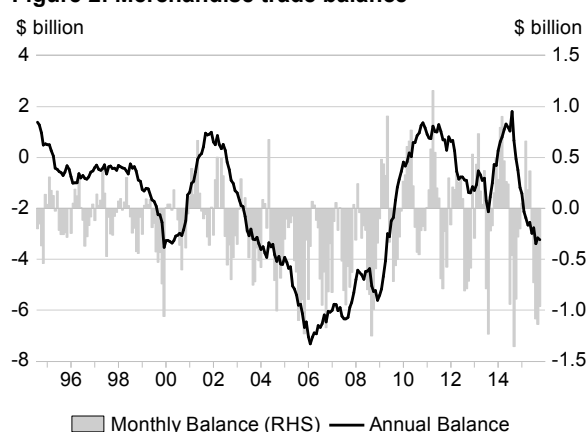
...as high visitor arrival numbers continue

Short-term visitor arrivals were up 8.9% in October on a year ago, driven by Chinese and Australian arrivals, accounting for 32% and 17% of the increase respectively. Spending per visitor has also increased according to the International Visitor Survey, which showed a 38% increase in foreign visitor spending values in the year ending September 2015. Continuing strength in visitor arrivals and spend will help offset some of the loss in dairy income this year.

Goods trade deficit continues widening

The seasonally adjusted trade deficit widened from \$400 million in September to \$450 million in October, largely owing to exports falling by 0.6% to \$4 billion. The fall in exports was driven by dairy, meat and log values, each down by around \$25 million. Log and dairy falls were price-driven, with prices down by 17% and 5% in the month. Fruit export values provided the largest offset, up \$26 million. Total import values were broadly flat but imports excluding oil were down 2.1%.

Figure 2: Merchandise trade balance



Source: Statistics NZ

On an annual basis, the goods trade deficit widened slightly to \$3.2 billion in October (Figure 2), smaller than market expectations of \$3.4 billion. The goods trade deficit is expected to continue widening over 2016, driving an increase in the current account deficit.

Weekly Economic Update



4 December 2015

Lower terms of trade, but positive outlook

Both the goods and services terms of trade declined in the September quarter, with prices boosted by the weaker NZ dollar. September quarter residential building activity was robust and October consents point to this holding up in early next year, but falling non-residential building activity is likely to provide a partial offset. Firms' own activity expectations suggest a pick up in growth in the middle of next year.

Goods terms of trade decline in September

The OTI goods terms of trade fell 3.7% in the September quarter, owing to import prices rising (7.3%) by more than the export prices (3.4%), with both boosted by the 8.4% depreciation in the TWI from the prior quarter. All major import category prices rose, with capital and consumer goods prices up 7.9% and 7.0% respectively. The rise in export prices was also broad-based, driven by meat and forestry prices, while dairy prices were broadly flat with the decrease in the dollar offsetting the fall in international dairy prices.

Export goods volumes increased 3.7% in the September quarter, led by dairy, meat, and food and beverages. Import goods volumes rose a more subdued 0.7%, with transport equipment up 44.5% (owing to the arrival of several aircraft) and consumer goods up 3.8%. Overall, these data point to less of a drag from net exports to GDP than we were previously expecting.

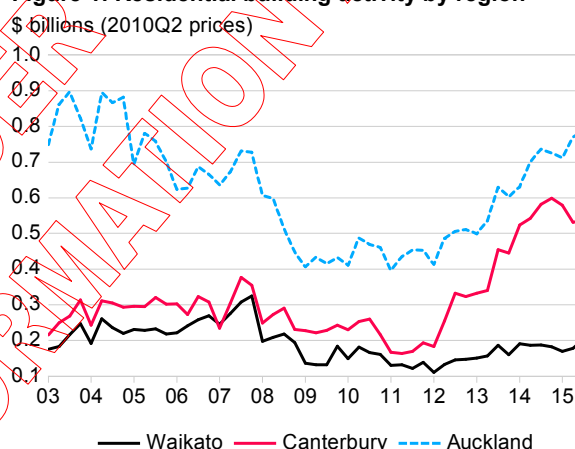
The OTI services terms of trade fell 5.4% in the September quarter, as the lower NZ dollar boosted import prices by more than export prices, with the latter largely measured in NZ dollars.

Residential activity stronger than expected

Real residential construction activity rose 2.9% in the September quarter (s.a.), stronger than consents suggested. By region, the largest boosts came from Auckland and Waikato, while Canterbury provided a partial offset (Figure 1). Stronger residential building activity is consistent with other indicators, including retail sales, pointing to increased household expenditure over the quarter. On the other hand, non-residential building activity fell 2.6% in the quarter. The weakness was largely attributable to the South

Island, although Canterbury only fell slightly after rising 25% over the first half of the year. All building activity rose 0.5% in the quarter, with growth easing from 10.4% to 5.6% in the September year, reflecting the broadly weaker investment outlook.

Figure 1: Residential building activity by region



Source: Statistics NZ, Treasury estimates

The outlook for residential construction remains positive. Following the 11.0% rise in the September quarter, residential dwelling consents rose 5.1% in October, driven by an increase in multi-dwelling buildings. Dwelling consents in Auckland and surrounding areas continue to pick up, while issuance in Canterbury keeps trending lower.

Renewed confidence for businesses

In the ANZBO survey, a net 15% of businesses were confident about the economy over the next year, a six-month high, with confidence for most of the sectors rising in the month. Similarly, firms' own activity expectations rose 8 points to a net 32%, in line with the five-year average, suggesting growth of 2.0% to 2.5% over the coming year.

Dairy prices rise at auction

At this week's GDT auction, dairy prices were up 3.6%, with average prices now just over US\$2,400/mt. The rise was led by milk powders and butter, with whole milk powder lifting 5.3%. Fonterra will make an announcement on their farm-gate payout forecast next week, with the current payout (\$4.60 kg/MS) requiring prices for the remainder of the season to average around US\$3,000/mt.

Weekly Economic Update



11 December 2015

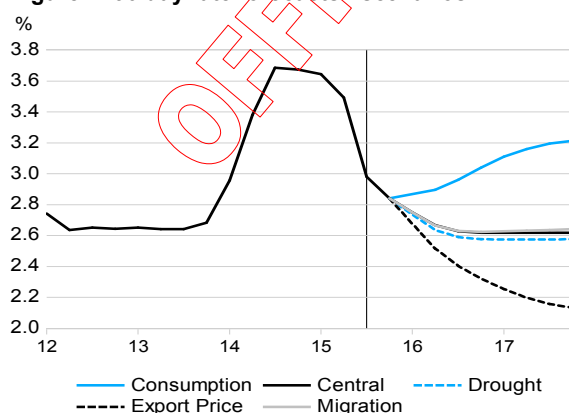
OCR cut, upside risk to GDP growth

The RBNZ reduced the OCR back to the previous low of 2.5% to help get inflation back to the target range. The final GDP indicators released this week indicate reasonable growth in the September quarter, following weak growth in the first half of 2015. Consumer confidence eased 4 points from November to 118.7, in line with the historical average. Fonterra maintained its forecast farm gate price at \$4.60/kg MS and expect domestic production to decline 6% this season (vs. 5% previously).

RBNZ reduce OCR back to low...

In line with analyst expectations, the Reserve Bank reduced the OCR by 25 bps to 2.5% at the December MPS and stated that current interest rate settings are expected to get future average inflation near the middle of the target range. Their 90 day rate track is little changed from the September MPS but, with a higher exchange rate forecast, inflation does not get back to the 2.0% target midpoint until December 2017 (vs. September 2016). The Bank identified four key risks to the forecasts – higher net immigration, a moderate drought impact from El Niño, further falls in export prices and households spending more freely – and produced alternative scenarios showing the 90 day rates from these impacts in isolation (Figure 1).

Figure 1: 90 day rate forecasts - scenarios



Source: RBNZ

Although the cut only being 60% priced in, the NZD strengthened over a cent against the USD,

and at 9am today was up slightly more to 67.5 cents, likely because the Bank has only a very weak easing bias. The market has an additional 10 bps of cuts priced in by August 2016, slightly less than prior to release (13 bps). Most analysts are expecting 2.5% to be the trough, although Westpac and ASB expect the OCR to be reduced to 2.0% and see the cooling Auckland housing market as a condition for this.

...as housing market continues to soften

REINZ data showed a continued softening in the Auckland housing market in November. National house sales fell 2.6% in the month (s.a.), driven by Auckland sales declining 11.6%. Despite being the third consecutive monthly fall, national sales were up 20.6% on a year ago (three-month moving average), with Auckland up a more subdued 7.0%.

The REINZ national stratified house price index (s.a.) rose 0.5% in November, dragged lower by Auckland prices falling 1.9%. Other North Island areas provided the largest increase, with the Hamilton and Tauranga house price indexes up 2.1% and 1.7% respectively, a continuation of the theme of a strengthening housing market in areas surrounding Auckland. On an annual basis, national house price growth eased from 14.1% to 12.5%, driven by price growth in Auckland slowing a further 3.5% points to 17.5%.

Spending ticks up modestly in November

Seasonally adjusted total electronic card transactions values were up 0.2% in November, following the flat October outturn, led by hospitality and apparel expenditure, while a fall in durables spending partially offset. Indicators to date point to moderate consumption in the December quarter.

Reasonable GDP growth expected

Wholesale trade sales rose 3.1% in the September quarter (s.a.), following a 0.1% rise in the June quarter. Manufacturing sales volumes rose 3.5% in the September quarter (s.a.), after the flat June outturn. Excluding meat and dairy, sales volumes rose 1.9%. These reports provide modest upside risk to our forecast of 0.6% real GDP growth in the September quarter due to be released on 17 December.



Weekly Economic Update



18 December 2015

Major releases exceed expectations

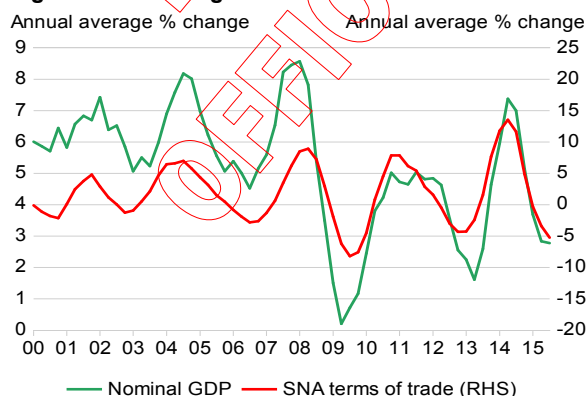
Real production GDP grew 0.9% in the September quarter, although the annual pace of growth continues to slow. The current account deficit narrowed slightly to 3.3% of GDP, below our *Half Year Update* forecast.

Real growth robust in September quarter...

Following growth of only 0.5% over the first half of 2015, real production GDP grew 0.9% in September quarter, exceeding our *Half Year Update* forecast (0.6%) and the median market expectation (0.8%). The incorporation of annual benchmarks increased growth by 0.4% points in the December 2014 year to 3.7%, meaning an even sharper slowdown in the pace of growth in the year to September (2.9%). Services industries drove quarterly growth, with part of the strength attributable to tourism while domestic demand growth remains subdued, particularly in per capita terms. Manufacturing also increased strongly, after declining in the first half of 2015.

Similarly, real expenditure GDP surprised on the upside, rising 1.2% in the quarter, with net exports contributing 1.3% points, owing to both lower imports and higher exports. Business investment growth was also healthy, while the main pull-back came from a decline in inventories, an offset to higher exports.

Figure 1: Nominal GDP and terms of trade



Source: Statistics New Zealand

Much of the unexpected growth was owing to net export volumes but with inventories reduced and the currency appreciating over December, export growth is likely to slow. This, along with December quarter indicators pointing to domestic demand remaining

moderate, suggests our *Half Year Update* forecast of 0.6% remains appropriate at this stage.

...although terms of trade dampens nominal growth

Nominal GDP rose a more subdued 0.6% in the quarter, owing to the 4.1% fall in the terms of trade (reflecting lower dairy prices) partly offsetting strength in real growth (Figure 1). Overall, nominal GDP in the year to September was a little above our *Half Year Update* forecast, with annual benchmarking increasing the level while decreasing growth in recent quarters.

Current account deficit narrows marginally

The annual current account deficit narrowed from 3.4% of GDP in June to 3.3% in September, narrower than forecast in the *Half Year Update* and at the lower end of market expectations. The narrowing was owing to the annual services surplus widening further, driven by travel service exports (chiefly tourism) up 37% in the year. Partially offsetting this was the widening goods deficit, with import values increasing by more than export values in the year. The current account deficit is expected to continue widening over the next year, driven largely by weak dairy prices, which remained low at the latest auction (up 1.9% to US\$2,458/mt), and lower dairy and meat export volumes.

Business confidence finishes year on high note

Business confidence rose 8 points to 23.0%, the highest level since April, with firms own activity outlook ticking up slightly. More upbeat businesses, along with a consolidation in consumer confidence, points to a pick up in growth in the next year.

Figure 2: ANZ confidence

