

April 2019

Executive Summary

- ▶ **Partial indicators suggest GDP growth over the first half of 2019 might be slightly lower than forecast in the Half Year Update**
- ▶ **Unemployment dipped in the March quarter, but wage growth was strong over the quarter**
- ▶ **Annual CPI inflation fell to 1.5% in the March quarter, largely due to lower petrol prices**
- ▶ **While global equity markets recover, uncertainties remain large**

The improvement in business sentiment seen late last year did not carry over into 2019, according to the Quarterly Survey of Business Opinion (QSBO). Headline QSBO business confidence fell a net nine percentage points to 27% of respondents expecting a deterioration in business conditions over the next six months. Businesses reported rising costs and falling profitability. Feedback from firm visits indicated that uncertainty around potential tax policy changes contributed to the decline in sentiment, suggesting a possible recovery in sentiment in June given the Cabinet decision not to proceed with a capital gains tax. Consumer confidence fared better, with partial indicators pointing to private consumption remaining near the level forecast in the *Half Year Update*.

The unemployment rate fell to 4.2% in the March quarter from 4.3% in the previous quarter, however, this was off the back of a 0.2% fall in employment and a 0.5 percentage points decline in the participation rate. The decline in employment may reflect an easing in economic activity seen over the second half of 2018. However, the growth in wages and a rebound in hours worked will provide support to economic activity over 2019.

Headline inflation eased in the March 2019 quarter to 1.5%, from 1.9% in December. The fall was largely due to lower fuel prices. Domestic fuel prices over the March quarter were near their level a year earlier, despite the increase in fuel taxes. Oil prices have been volatile over this month, adding to the uncertainty around our inflation forecasts. Measures of core inflation suggest underlying inflation is stable.

Auckland house prices continued to decline, falling 2.9% in the year to March 2019. National house prices however, rose 2.3% over the same period. On monthly basis, house prices fell in Auckland by 0.9% in March and by 0.3% nationwide.

April's monthly release of revised migration estimates showed continued growth in estimated annual net permanent long-term (PLT) migration. The new migration estimates have proven to be subject to considerable revisions for the most recent months, prompting us to treat the most recent outturns with a degree of caution.

On the global front, US GDP growth picked up in the March quarter, but showed signs of weakening domestic demand. Growth in China stabilised at 6.4% in the March quarter, reversing the trend of easing growth rates over the last year. Growth in the euro area picked up, as Italy pulled out of a recession and Spain grew strongly. Indicators of June quarter economic activity are supportive for China and the US, but remain weak in the euro area.

Australian activity picked up in February and March, and the Australian budget included significant household tax cuts, which will support consumption later in the year. However, inflation remained subdued and this puts further pressure on the RBA to cut interest rates later this year. Other central banks maintained an accommodative approach to monetary policy at their meetings this month.

This month's Special Topic explores recent trends in New Zealand's productivity performance using recently released productivity data from, Statistics NZ

Analysis

Recent data indicate that economic activity over the first half of 2019 might be slightly lower than forecast at the *Half Year Update*. While business confidence softened, consumer confidence was more resilient.

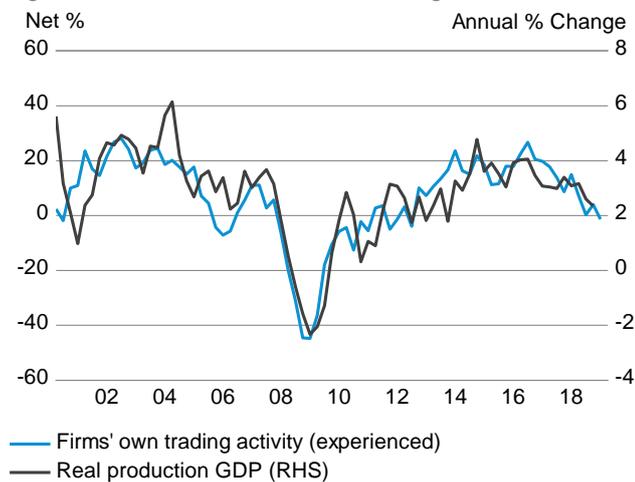
Annual inflation fell in the first quarter of 2019. However, the decline was largely due to lower global oil prices with core inflation remaining stable. Fuel prices over the quarter were near their level from a year ago, as increases in taxes were offset by lower global oil prices.

Economic growth in New Zealand’s major trading partners slowed more than expected but commodity prices continue to recover, providing support to export revenue.

Business confidence weakens...

The improvement in business sentiment seen late last year did not carry over into 2019, according to the Quarterly Survey of Business Opinion (QSBO). Firms’ own trading activity, which tends to be a good lead indicator for GDP growth, deteriorated over the March 2019 quarter, and suggests annual GDP growth of around 2.0% over the first half of 2019 — below December annual growth of 2.3% (Figure 1). The latest outturn suggests GDP growth over the first half of 2019 might be slightly lower than forecast in the *Half Year Update*.

Figure 1: Business sentiment and GDP growth



Sources: NZIER and StatsNZ

Headline business confidence in QSBO fell a net nine percentage points to 27% of respondents expecting a deterioration in business conditions over the next six months. All sectors surveyed reported a deterioration in expected conditions, reversing the improvement in sentiment seen in the December 2018 quarter.

The manufacturing sector remained the most pessimistic about the outlook, although manufacturing export sales reportedly held up over the March quarter. Plant and machinery investment

intentions fell to their lowest level since the March 2012 quarter. Sentiment also declined in the building, retail and services sectors.

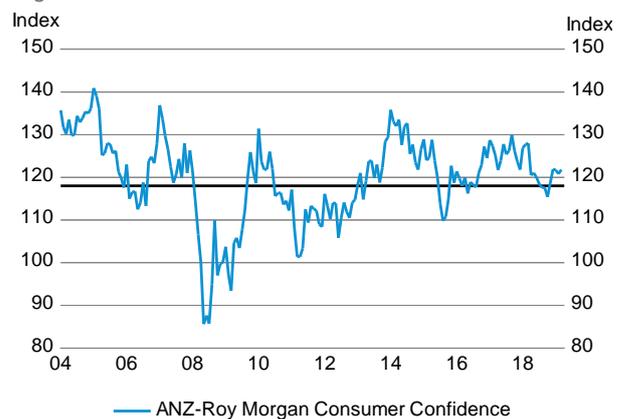
Feedback from firm visits indicated that businesses across a variety of sectors continue to indicate strong cost pressures, with more firms expecting costs to rise over the coming quarter. Profit growth remains weak as businesses struggle to raise prices. Heightened uncertainty about potential tax policy changes might have explained some of the decline in sentiment over the quarter. Business confidence might recover over the June quarter as the uncertainty around tax policy changes wanes.

Other sentiment indicators were less downbeat. The Business NZ services and manufacturing Combined Index showed sentiment returning to its average level over the past six months (down 1.9 points to 54.1 in February compared to January). The component manufacturing index increased 2.4 points, and the services index decreased 2.4 points.

...while consumer confidence fared better...

ANZ Roy Morgan Consumer Confidence showed continued upward momentum from earlier in the year. Consumer confidence remains slightly above its long-term average (Figure 2). Perceptions of the future however, fell slightly (0.9 points) to 118.8 in April from March 2019.

Figure 2: Consumer Confidence



Source: ANZ

A net 46% of respondents stated that now is a good time to a buy a major household item (up 8 points from March), and a net 14% of respondents said they were better off now than they were last year, increasing 2 percentage points from March.

On the other hand, Westpac’s McDermott Miller Survey showed a mixed picture last month for consumer confidence over the first quarter of 2019. However, Westpac analysts noted that spending

appetites remain resilient, and the drop in consumer confidence may not fully translate to lower spending.

...supporting consumer spending

Growth in private consumption over the first half of 2019 is expected to remain close to our Half Year forecasts. The total value of electronic card transactions increased 1.0% (s.a) in the March 2019 quarter from the December 2018 quarter. Fuel transactions fell 6.2% (s.a) on the back of lower fuel prices, while spending in all other measured industries increased from the previous quarter, indicating that consumer appetite for spending remains positive.

Unemployment fell in the first quarter of 2019...

The unemployment rate fell to 4.2% in the March quarter from 4.3% in the previous quarter, off the back of a 0.2% fall in employment and a 0.5pp fall in the participation rate. The fall in employment growth comes following a weak December quarter (0.1%), with annual employment growth easing to 1.5%, its lowest rate since December 2015. The decline in employment may reflect the easing in economic activity seen over the second half of 2018, which survey measures of sentiment suggest have persisted into 2019. Total hours worked rebounded in the March quarter, despite a decline in employment. Total hours worked were up 4.9% in the quarter (3.4% on an annual basis)

...with strong wage growth

According to the Quarterly Employment Survey (QES), private sector average hourly earnings were up 1.1% in the quarter seeing annual growth stable at 3.7%. Other labour market conditions were positive, wage growth was above expectations, up 1.2% in the quarter and 3.7% on an annual basis. The tightness in the labour market now appears to be feeding through into wages.

The strong growth in wages and a rebound in hours worked will provide support to household incomes and broader economic activity over 2019. Wages are expected to continue to see solid growth, supported by labour market tightness and a range of government labour market policies.

House prices fall in Auckland...

The REINZ house price index showed Auckland house prices continued to decline, falling 2.9% in the year to March 2019. National house prices however, rose 2.3% over the same period. On monthly basis, house prices fell in Auckland by 0.9% and by 0.3% nationwide. The easing of loan-to-value ratios may have supported market activity early in the year but momentum has since waned. Recent cuts in

mortgage rates should provide further support for the housing market this year. Sales were also weak across the country. House sales declined 6.6% (s.a.) in March 2019 from February, continuing last month's decline from a strong performance in January 2019.

House prices in Auckland are currently near their mid-2016 levels, while house prices in the rest of the country have kept increasing, albeit at a slower rate. Auckland house price inflation was particularly strong over the period 2014—2016. Since then, regulatory and proposed tax changes and lower net migration seem to have had a larger impact on house prices than in other regions.

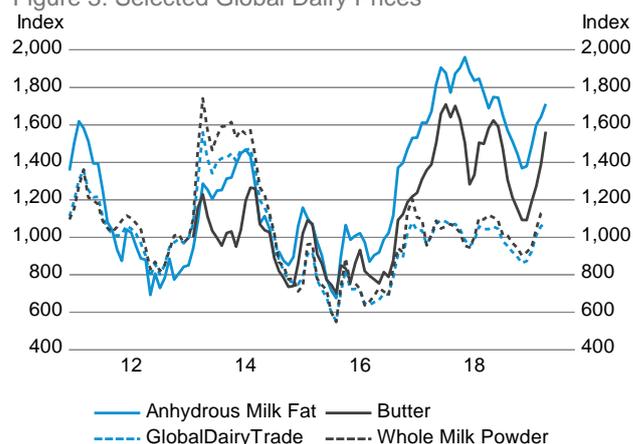
Trade surplus widens...

The monthly trade balance was \$922 million for March 2019, the highest since April 2011. Exports provisionally increased \$899 million from March 2018 to reach \$5.7 billion. Imports were down slightly (\$174 million) from March 2018, further contributing to the trade surplus.

...led by recovering dairy prices

Dairy exports increased by \$264 million in March, owing to more supportive prices. Average global dairy prices increased 0.5% in the latest GlobalDairyTrade auction—the tenth consecutive increase since November 2018. Anhydrous milk fats (high quality milk fat used in a high value products) continue to perform strongly, increasing 4.2% since the previous auction. Butter also posted strong gains of 3.5% from the previous auction (Figure 3).

Figure 3: Selected Global Dairy Prices



Source: Haver

Weaker global production owing to difficult climatic conditions in several key exporting regions supported the recent increases in global dairy prices.

...other commodity prices are also on the rise

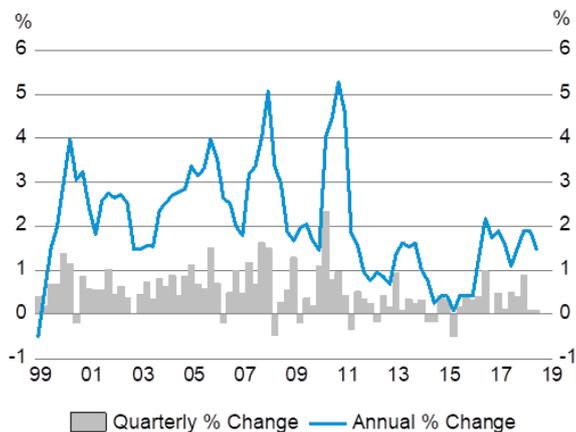
The ANZ World Commodity Price Index increased 1.4% in March from February, continuing this year's upward track. Prices in the agriculture and forestry

sectors rose 1.1% and 0.4% respectively from February, driven by US demand for meat and Chinese demand for logs.

CPI inflation eased in March...

Annual inflation fell to 1.5% in the March 2019 quarter from 1.9% in the December 2018 quarter. On a quarterly basis, headline inflation was unchanged from 0.1% in the December 2018 quarter (Figure 4).

Figure 4: Quarterly and Annual Headline Inflation



Source: Stats NZ

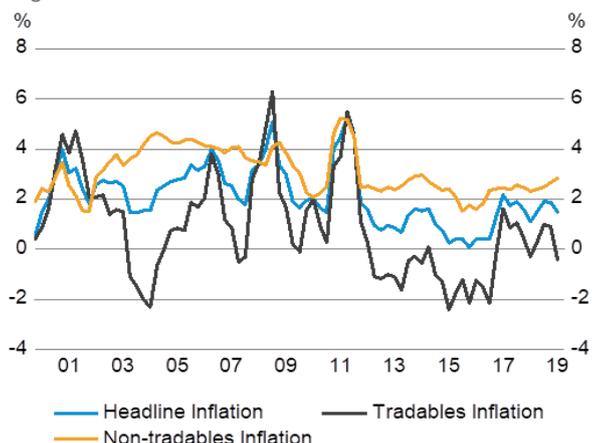
...but underlying inflation is stable

The trimmed-mean measures of annual inflation ranged from 1.7 to 1.9%, indicating that underlying inflation was higher than the headline 1.5% recorded for the year ended in March 2019. The Reserve Bank’s sectoral factor model estimate of annual core inflation was unchanged from the previous quarter at 1.7%. Different measures of underlying inflation point to relatively stable core inflation, with the easing in headline inflation attributable to transitory downward effects in some tradables goods and services.

Most inflation came from non-tradables

Annual non-tradables inflation reached 2.8% this quarter, the highest level since the March 2014 quarter (Figure 5).

Figure 5: Tradables and Non-tradables Inflation



Source: Stats NZ

On the other hand, annual tradables inflation dipped to -0.4% compared with 0.9% in the year to December.

Petrol prices drag inflation down...

Most of the decline in tradables inflation was due to lower petrol prices. Petrol prices fell 7.0% in the March 2019 quarter from the December 2018 quarter, which translated to a 3.7% drop in transport prices. World oil prices fell sharply at the end of 2018, contributing to the lower retail fuel prices seen over the quarter. Oil prices have been volatile over this month, adding to the uncertainty around our inflation forecasts.

...falling to their levels in the same quarter last year

On an annual basis, retail fuel prices were largely unchanged from the March 2018 quarter, despite the introduction of the Regional Fuel Tax and the increase in national petrol excise tax.

Increased excise duties pushed cigarettes and tobacco prices higher

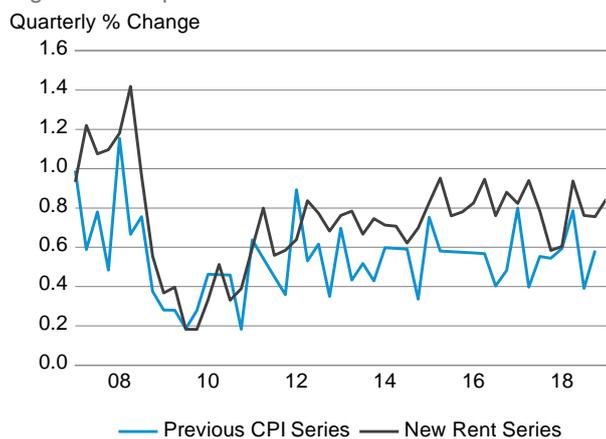
Alcoholic beverages and tobacco prices increased 4.2% in the year to March 2019, with cigarette and tobacco prices increasing 7.7%, contributing 0.2 percentage points to headline inflation. On a quarterly basis, alcohol and tobacco prices increased 4.7%, largely owing to the increase in excise duty on cigarettes and tobacco that took effect in January. One more increase in tobacco excise is legislated to take place in January 2020.

A new measure of rental price inflation is likely to result in higher CPI inflation

Stats NZ has recently introduced a new measure for rental price inflation. The new measure is derived from tenancy bond data, instead of the old survey-based method. CPI inflation data will incorporate the new rent series beginning from the June 2019 quarter. The new rent price data tends to produce higher rent inflation figures (Figure 6) compared to the previous method, which we expect will provide a small boost (of around 0.1 percentage points) to annual non-tradables inflation. There will be no revisions to past CPI inflation figures resulting from this change.

According to the new measure of inflation for the existing stock of renters, rent prices increased 3.4% in the year to March 2019, slightly higher than the increases seen over the year to December 2018.

Figure 6: Comparison of rent inflation measures

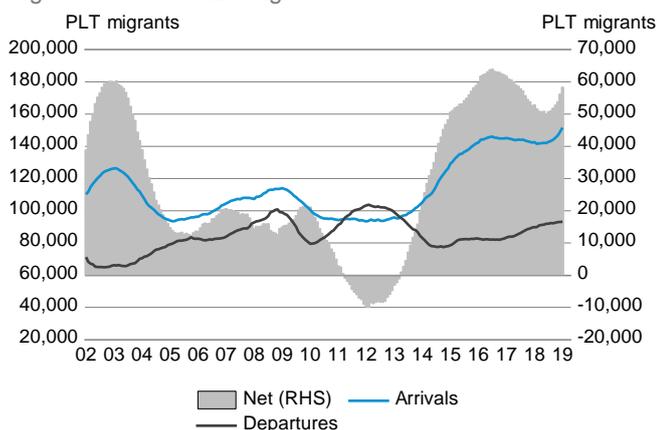


Source: Stats NZ

More uncertainty around net migration

April's monthly release of revised migration estimates showed continued growth in estimated annual net permanent long-term (PLT) migration (Figure 7), with PLT migration in the February month coming in above expectations at 6,570 (s.a) — up from a revised 6,100 in January. The total number of visitor arrivals was 417,900 in February 2019, down slightly (5,500) from February 2018, in part due to lower arrivals from China (down 18,100) likely as a result of the timing of Chinese New Year. The new migration estimates have proven to be subject to considerable revisions for the most recent months, raising the uncertainty about the level of net migration and prompting us to treat the most recent outturns with a degree of caution.

Figure 7: Annual PLT Migration



Source: StatsNZ

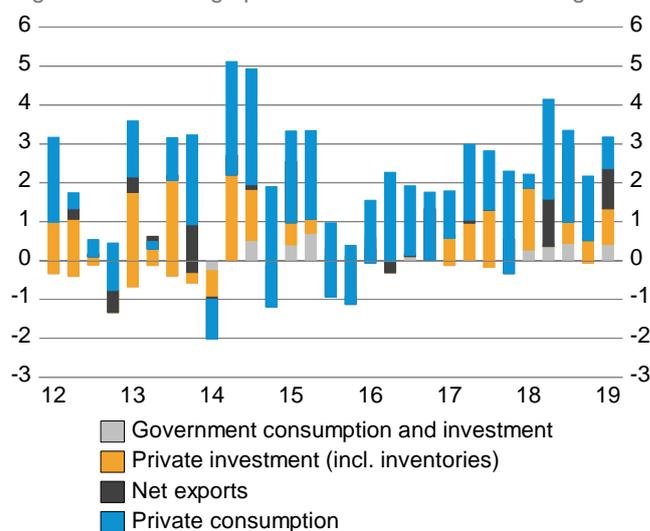
US growth points to softening domestic demand...

US GDP growth was 3.2% (annualised) in the March quarter 2019, following 2.2% annualised growth in the December 2018 quarter (Figure 8). Overall, the data paints a mixed picture of the US economy with softening domestic demand being offset by government spending, net exports (owing to lower

imports) and stockpiling of inventories. The latter two are likely to be temporary and reverse in coming quarters. On the demand side personal consumption was weak, decelerating to 1.2% on an annualised basis, from 2.5% in the December 2018 quarter. Business investment also slowed to 2.7%, from 5.4% previously.

The core personal consumption (PCE) deflator (the Fed's preferred measure of inflation) fell to 1.4% (from 1.9% previously) – another indication that the domestic economy is weakening.

Figure 8: Percentage point contributions to US GDP growth



Source: Haver Analytics

Despite easing domestic demand and inflationary pressures, the US labour market remains tight. US non-farm payrolls rose by 196,000 in March, from a soft 33,000 gain in February. Hourly earnings increased slightly in February, but slowed on an annual basis, from 3.4% to 3.2%. The unemployment rate remained steady at 3.8%. The strength in the labour market may help ease fears of a broader US economic slowdown, although labour markets tend to lag other measures of economic activity.

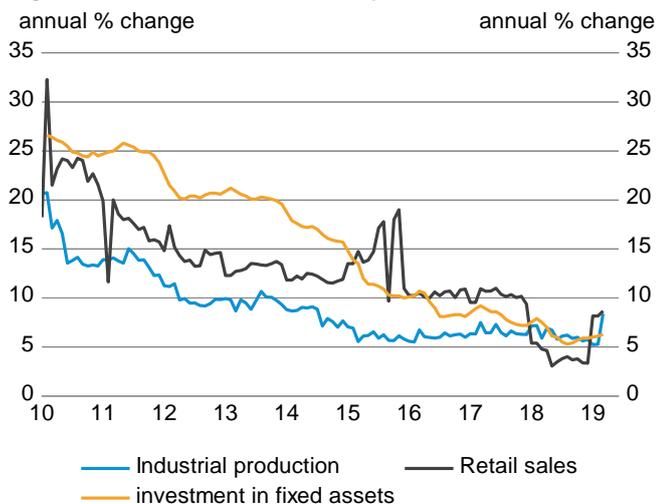
US core annual CPI fell to 2.0% in March, from 2.1% previously. The fall was driven by the volatile 'apparel' category. The weakness in both wage growth, core inflation and the core PCE deflator suggests there is little pressure for the Federal Reserve to resume monetary policy tightening.

...while growth in China stabilises...

Annual growth in China was 6.4% in the March 2019 quarter, unchanged from 6.4% in the December quarter and halting the trend of easing growth rates over the last year. Growth is still significantly below the rates seen over the last couple of years, but is consistent with the Chinese authorities' growth target of 6.0-6.5%. The outturn was driven by strong industrial production, which rose 8.5% on an annual basis in March, up from 5.3% over the first two months of the year. Fixed asset investment was

strong in the March quarter, up 6.3% (previously 6.1%) and retail sales rose 8.7% (previously 8.2%) (Figure 9).

Figure 9: Chinese domestic activity



Source: Haver Analytics

The pick-up in growth follows stimulus measures implemented by Chinese authorities (such as tax cuts, easing monetary policy and providing additional funds for local government) as well as an easing in trade tensions, with expectations of a deal between the US and China growing.

...but doesn't spill over into other Asian economies...

The stabilization of growth in China has yet to spill over to other Asian economies. South Korean GDP unexpectedly fell 0.3% in the March quarter, from 1.0% in the December quarter. The annual growth rate fell to 1.8%, from 3.1%. This outturn was the weakest since the GFC. The weakness reflects the recent slump in global trade, with the sharp decline in exports (which account for around half of Korea's GDP) feeding through to domestic demand (particularly investment). Nevertheless, stable growth in China (and to some extent the US) should help stabilise Korean growth in the June quarter.

Industrial production in Japan continued to fall in March amid slowing demand for exports of automobiles and manufacturing equipment. Industrial production is now down 3.0% on an annual basis. The outturn raises the risk that GDP contracted in the first quarter of 2019. Similarly industrial production fell in Taiwan (-8.6% annually) and Singapore (-5.5% annually). As with Korea, growth stabilisation in China should support a recovery in production in these countries.

...while in the euro area

Euro area GDP growth was 0.4% in the March quarter (previously 0.2%) and remained at 1.2% on an annual basis. The highlights in the euro area included Italy,

which appears to have emerged from a recession and grew 0.2% and Spain, which continued to grow strongly at 0.7%. Unemployment in the euro area continued its downwards trend, falling from 7.8 to 7.7% in March. The unemployment rate is now at its lowest level since September 2008.

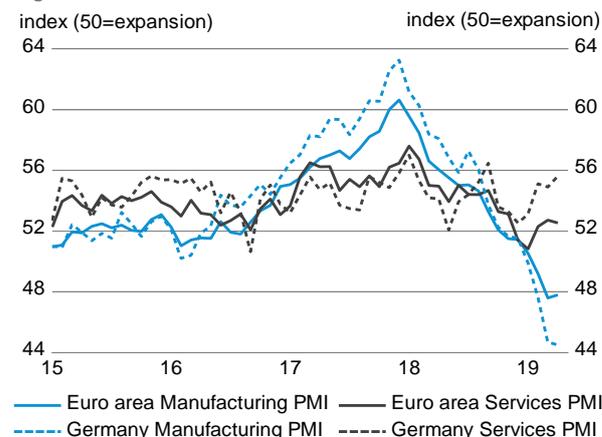
Supportive June indicators for US and China...

In China, both the manufacturing and non-manufacturing PMIs fell in April, but remain in expansionary territory and show an improvement over the overall March quarter average of 49.7. Encouragingly, the new export orders index advanced to 49.2 (from 47.1) in April, the highest level in eight months. In the US, both manufacturing and services activity fell in April, but both indices remain well in expansionary territory, at 52.4 and 52.9 respectively, according to preliminary estimates of IHS Markit PMIs.

...but less so for the euro area

April manufacturing and services PMIs were broadly flat in the euro area (figure 10), aside from ongoing improvement in services activity in Germany. If the current manufacturing PMI levels are maintained through the rest of the June quarter, it is likely that GDP in the euro area will remain weak.

Figure 10: Selected IHS Markit PMIs



Source: NAB/Haver Analytics

The UK manufacturing PMI lifted sharply in March, from 52.9 to 55.7, although analysts noted this was driven by stock building ahead of Brexit.

UK Prime Minister Theresa May has agreed to the proposal of European leaders to grant the UK a "flexible extension" of Article 50 until 31 October 2019. The flexible extension means that the UK can exit the EU earlier, should the UK Parliament pass a Withdrawal Agreement.

IMF downgrade growth forecasts

The IMF downgraded their forecasts for global growth in 2019 from 3.5% (in January) to 3.3% in the April World Economic Outlook, citing ongoing weakening momentum from the second half of 2018. The revisions were concentrated in the US, where growth

forecasts were revised from 2.5% to 2.3% in 2019, the euro area (from 1.6% to 1.3%), and the UK (from 1.5% to 1.2%). On a positive note, Chinese growth forecasts were revised up, from 6.2% to 6.3% and global growth forecasts were unchanged for 2020.

Australia activity picks up...

Domestic activity appears to have picked up in Australia, raising the possibility that weakness in the latter half of 2018 was just temporary. Australian nominal retail sales lifted 0.8% in February, following a 0.1% rise in January. On an annual basis sales lifted to 3.2%, from 2.7%. Business conditions recovered in March from a dip seen in February, according to the NAB Monthly Business Survey. The index is back around its January level (which is above its long run average). The labour market also remains tight, with the unemployment rate broadly stable at 5.0% in March.

Monthly housing market activity saw an uptick in February, but the data can be volatile. Residential building approvals increased 19.1% in February, driven by a 62.4% increase in multiunit development approvals (a volatile series) however still remain down 12.5% on an annual basis. Similarly, the value of housing finance jumped 2.7% in February, driven by finance to owner-occupiers, following six consecutive monthly falls. Home finance approvals still remain down 18.6% on an annual basis.

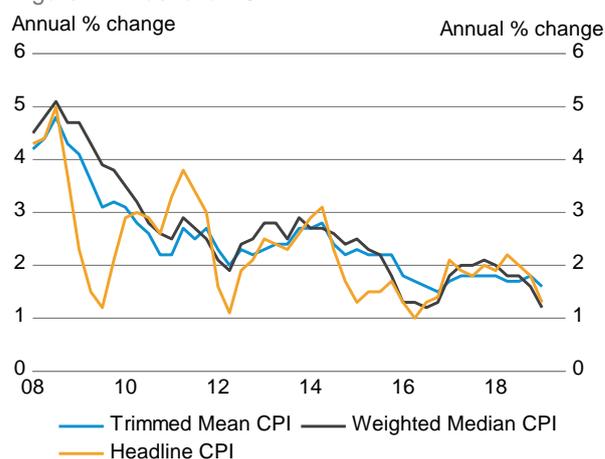
...and the Budget promises tax cuts ...

The Australian Budget delivered in April included \$3.4 billion dollars of extra spending over the next 5 years compared with the Mid-year Economic and Fiscal Outlook (December). In addition, the Government announced significant household tax cuts and rebates, which are expected to support consumption later in the year and offset some of the impact of falling house prices. Since the peak in July 2017, Sydney house prices are now down 13.9%. Houses prices are down 15.2% and unit prices are down 11%.

...while inflation remains subdued

March 2019 quarter Australian CPI inflation fell to 0.0% (previously 0.2%), and to 1.3% (previously 1.8%) on an annual basis. The weakness was driven by lower fuel prices, which fell 8.7% in the quarter, on the back of lower global oil prices, but are expected to bounce back in the June quarter. Both the trimmed-mean and weighted-median measures of inflation were weak too (Figure 11), and will add pressure for the Reserve Bank of Australia (RBA) to cut interest rates (markets are pricing a full 25bps rate cut by July this year). The RBA maintained the cash rate at 1.5% at their April meeting and noted that the housing downturn was weighing on consumption.

Figure 11: Australian CPI

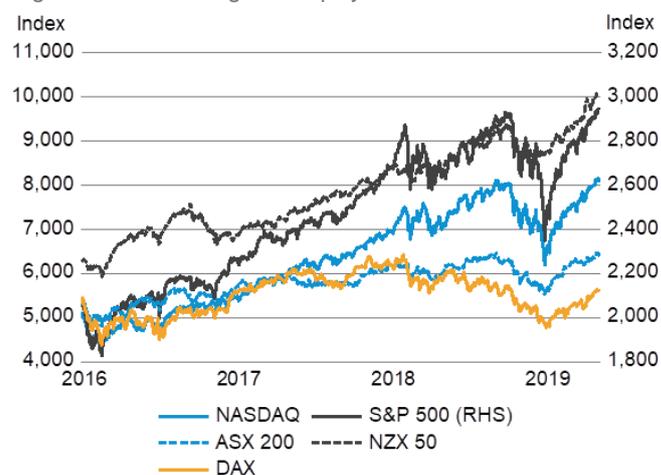


Source: ABS/Haver Analytics

Equity markets rally...

Equity markets in the United States also rallied this week with some reaching record highs on the back of better than expected corporate earnings. The positive market sentiment helped support Australian and New Zealand markets reach new highs too. Global equity markets have generally recovered from sharp falls seen through the second half of 2018, which analysts suggest has been supported by easing trade tensions and accommodative monetary policy from many central banks.

Figure 12: Selected global equity markets



Source: Haver Analytics

...and central banks remain accommodative

Global central banks have maintained their accommodative approach to monetary policy, with most banks taking either a 'neutral' or 'easing' stance. This month, the Bank of Japan and the Bank of Canada kept policy rates unchanged. Analysts noted that both Banks adopted more 'dovish' outlooks in their policy statements. The ECB left their refinancing rate unchanged this month too, and reiterated that the balance of risks to the euro area was to the downside. The ECB expect to keep rates on hold 'at least through to the end of 2019'.

Special Topic: Recent Trends in New Zealand's Productivity

Productivity measures how efficiently production inputs, such as labour and capital, are used in an economy to produce outputs, or goods or services. Productivity growth is a key driver of incomes and higher incomes, both at a household and country level, enable greater financial wellbeing and affordability of higher living standards, such as improved healthcare and education.¹

Statistics New Zealand have recently released new annual productivity statistics, for the year to March 2018, that cover the measured sector of our economy. The measured sector covers around 80 percent of the New Zealand economy and excludes those sectors, particularly government services, in which productivity is difficult to measure. These estimates therefore differ to economy-wide productivity data used in some publications.

This Special Topic will discuss recent trends in labour and multifactor productivity (MFP) growth and capital deepening. Labour productivity refers to the quantity of goods and services produced in an economy per hour of labour worked:

- Multifactor productivity (MFP)
The quantity of goods and services produced per unit of capital and labour input.
- Capital deepening
The increase in capital per hour worked

MFP reflects the overall efficiency with which labour and capital inputs are used together in the production process. MFP is unobservable and so measured as the residual growth in output unaccounted for by the growth in capital and labour input. Changes in MFP reflect the effects of changes in a number of unobserved inputs, which can range from management practices and organisational change to general knowledge, economies of scale and measurement error.

Capital includes buildings, machinery and equipment, including ICT equipment. Capital investment can improve labour productivity by allowing more output to be produced with the same labour input. Capital investment also has spill over effects that improve MFP growth e.g. new equipment may require workers to learn new skills or require improvement to work practices.

Together, increases in capital per worker and increases in the efficiency with which both labour

and capital are used will increase labour productivity.

Latest estimates show New Zealand's productivity growing at a slower rate

Labour productivity and MFP in the measured sector both increased in the year to March 2018, but at the slowest rate since 2009 when the impact of the Global Financial Crisis (GFC) led to falls in productivity.

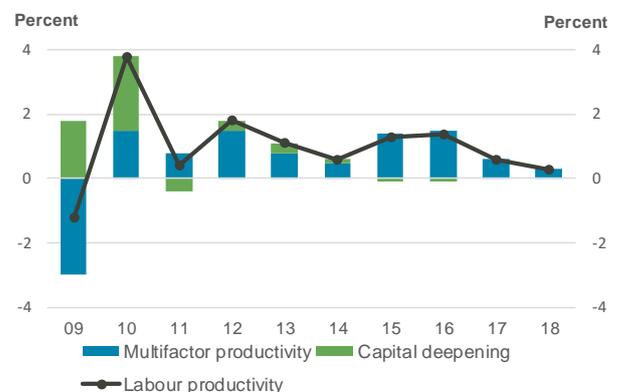
Labour productivity grew by 0.3 percent in the year ending March 2018, while output grew by 3.2 percent. Output grew at a much higher rate than labour productivity as there was a large increase in hours worked of 3.0 percent. MFP also grew by 0.3 percent in the same period.

Productivity growth can be volatile year-on-year and so productivity performance should be considered over a period of time. Since 1996, labour productivity growth has averaged 1.4% per annum and MFP has averaged 0.8%. Over the last decade, annual averages are 1% and 0.6% respectively, suggesting productivity has slowed in recent years.

Capital deepening consistently contributing less to productivity growth

As can be seen in Figure 13, since the GFC labour productivity growth has been almost completely driven by growth in MFP as there has been little change in capital per hour worked. Prior to the GFC, investment and subsequent growth in capital was greater than the growth in labour input and the capital-labour ratio grew.

Figure 13: Decomposed annual labour productivity growth 2009 - 2018, market sector, annual percentage change

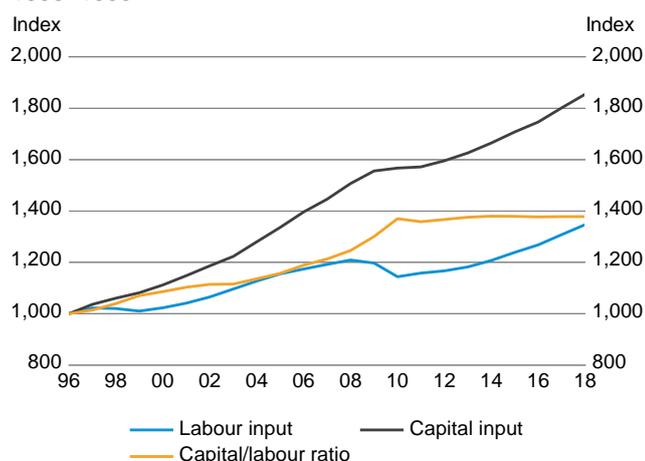


Source: Stats NZ

¹The [Productivity Commission](#) provide a more detailed explanation about why productivity is important and the Treasury's [Living Standard Framework](#) explains what is meant by living standards.

Since the GFC, both capital and labour have grown at a similar rate, while the growth in the capital to labour ratio has plateaued, as seen in Figure 14.

Figure 14: Capital and labour input growth, market sector, 1996=1000



Source: Stats NZ

New Zealand's productivity performance in an international context

New Zealand's labour productivity growth has kept up with that of OECD countries over recent years². However, the level of labour productivity has been below the average of high-income OECD countries for some time and has not caught up.³

Globally there has been a widespread and persistent slowdown in productivity growth across advanced, emerging, and low-income countries following the GFC.⁴ The United Nations (2017) describe the slowdown in productivity growth following the GFC as being one of the most prominent features of the world economy in recent years.⁵

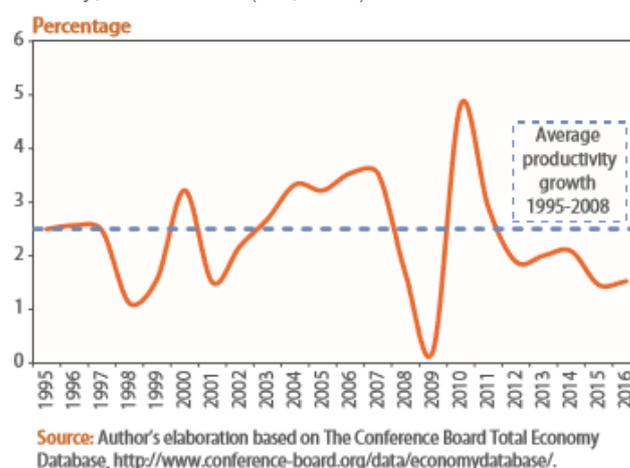
Declining MFP growth and weak capital investment are considered the main contributors in advanced economies for low productivity growth relative to pre-crisis trends (IMF, 2017). However, causes of the slowdown are highly debated and other causes could include slowing technological progress, slowing international trade and changing demographics.

Over reliance on the labour market as a driver of economic growth is also considered a factor in New Zealand. Since 2000, our labour market growth has been more than twice the OECD average³. Whilst a strong labour market is important for many outcomes,

including incomes and wellbeing, sustained employment growth, together with relatively weak capital investment can lead to weaker labour productivity and MFP growth.

Issues with productivity measurement are also frequently discussed and although there is general consensus that the global slowdown is not wholly a measurement issue, difficulties in measuring new services and outputs (such as those relating to the so-called Gig-economy) could also be contributing to the slowdown, as these activities may not be accurately captured in output measures.

Figure 15: Growth of labour productivity in the world economy, 1995 – 2016 (UN, 2017)



Source: Author's elaboration based on The Conference Board Total Economy Database, <http://www.conference-board.org/data/economydatabase/>.

Labour productivity growth is expected in the future

Whilst forecasts are subject to uncertainty, both RBNZ and the Treasury predict labour productivity growth to return to just over 1 percent per annum by 2021.⁶ These measures refer to the whole economy rather than just the measured sector as examined in the official productivity data above.

The Treasury expect that firms will adjust to recent increases in labour input and capacity constraints with higher capital investment and that this steady investment growth, combined with lower labour supply growth, will lift the capital-to-labour ratio.

The Treasury will update its forecast in the Budget Economic and Fiscal Update 2019, published on 30 May 2019.

² Discussions about international comparisons and predicted productivity growth relate both to market and non-market sectors.

³ Paul Conway (2018) "[Can the Kiwi Fly? Achieving Productivity Lift-off in New Zealand](#)", New Zealand Productivity Commission

⁴ International Monetary Fund (2017) "[Gone with the Headwinds: Global Productivity](#)" IMF Staff Discussion Note

⁵ United Nations (2017) "[The Slowdown in Productivity Growth: A View from International Trade](#)" Development Issues No. 11

⁶ RBNZ [Monetary Policy Statement 2018](#) and the Treasury [Half-Year Economic and Fiscal Update 2018](#)

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

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Contact for enquiries:

The Treasury
PO Box 3724, Wellington
NEW ZEALAND

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

New Zealand Key Economic Data

Quarterly Indicators

		2017Q3	2017Q4	2018Q1	2018Q2	2018Q3	2018Q4	2019Q1
Gross Domestic Product (GDP)								
Real production GDP	qtr % chg(1)	0.9	0.8	0.5	0.9	0.3	0.6	...
	ann ave % chg	3.1	3.1	3.1	3.2	3.1	2.8	...
Real private consumption	qtr % chg(1)	0.8	1.1	0.2	1.0	1.0	1.3	...
	ann ave % chg	5.1	4.7	4.0	3.7	3.5	3.3	...
Real public consumption	qtr % chg(1)	2.2	-0.5	0.4	1.3	-0.5	0.7	...
	ann ave % chg	3.0	2.9	2.8	3.1	2.3	2.2	...
Real residential investment	qtr % chg(1)	2.9	0.5	-0.3	0.7	0.6	2.1	...
	ann ave % chg	2.1	0.9	1.0	2.6	2.5	2.7	...
Real non-residential investment	qtr % chg(1)	2.2	3.3	1.7	-0.8	-1.9	1.3	...
	ann ave % chg	3.3	4.7	6.4	7.1	6.4	4.3	...
Export volumes	qtr % chg(1)	0.8	0.5	-0.1	2.0	-0.3	1.1	...
	ann ave % chg	0.3	1.8	3.0	3.6	3.6	3.0	...
Import volumes	qtr % chg(1)	2.7	3.5	1.2	1.2	-0.9	-0.7	...
	ann ave % chg	6.3	6.9	7.1	7.9	7.6	5.5	...
Nominal GDP - expenditure basis	ann ave %...	6.6	6.2	5.7	5.7	5.0	3.9	...
Real GDP per capita	ann ave %...	1.0	1.0	1.0	1.1	1.1	0.9	...
Real Gross National Disposable Income	ann ave %...	4.4	3.7	3.8	3.5	3.3	2.8	...
External Trade								
Current account balance (annual)	NZ\$ millions	-7370	-8180	-8540	-9548	-10565	-10974	...
	% of GDP	-2.7	-2.9	-3.0	-3.3	-3.6	-3.7	...
Income balance (annual)	NZ\$ millions	-9218	-10221	-10343	-10815	-10557	-10085	...
Merchandise terms of trade	qtr % chg	1.3	1.4	-2.0	0.4	-0.1	-3.0	...
	ann % chg	12.6	7.9	1.8	1.2	-0.3	-4.7	...
Prices								
CPI inflation	qtr % chg	0.5	0.1	0.5	0.4	0.9	0.1	0.1
	ann % chg	1.9	1.6	1.1	1.5	1.9	1.9	1.5
Tradable inflation	ann % chg	1.1	0.5	-0.3	0.3	1.0	0.9	-0.4
Non-tradable inflation	ann % chg	2.6	2.5	2.3	2.4	2.5	2.7	2.8
GDP deflator	ann % chg	3.9	3.3	1.4	2.2	1.1	-0.1	...
Consumption deflator	ann % chg	1.6	1.6	0.7	1.2	1.8	1.5	...
Labour Market								
Employment (HLFS)	qtr % chg(1)	1.9	0.6	0.7	0.5	1.0	0.0	-0.2
	ann % chg(1)	4.1	3.7	3.1	3.7	2.8	2.3	1.5
Unemployment rate	%(1)	4.7	4.5	4.4	4.4	4.0	4.3	4.2
Participation rate	%(1)	71.0	70.9	70.9	70.9	71.0	70.9	70.4
LCI salary and wages - total (adjusted)(5)	qtr % chg	0.6	0.4	0.3	0.5	0.5	0.5	0.4
	ann % chg	1.8	1.8	1.8	1.9	1.8	1.9	2.0
QES average hourly earnings - total(5)	qtr % chg	1.2	0.8	0.9	0.1	1.1	0.9	1.2
	ann % chg	2.2	3.1	3.5	3.0	2.9	3.1	3.4
Labour productivity(6)	ann ave %...	-1.4	-0.4	0.1	-1.1	-0.7	0.1	...
Retail Sales								
Core retail sales volume	qtr % chg(1)	1.0	1.5	0.6	1.2	0.7	2.0	...
	ann % chg	5.2	5.6	4.6	4.5	3.7	5.0	...
Total retail sales volume	qtr % chg(1)	0.8	1.1	0.2	0.9	0.3	1.7	...
	ann % chg	4.6	5.4	2.8	3.1	2.7	3.5	...
Confidence Indicators/Surveys								
WMM - consumer confidence(3)	Index	112	107	111	109	104	109	104
QSBO - general business situation(4)	net %	5.2	-11.8	-10.7	-20.0	-30.4	-17.3	-28.8
QSBO - own activity outlook(4)	net %	35.2	18.7	10.9	6.9	18.9	19.4	0.4

Monthly Indicators

		2018M10	2018M11	2018M12	2019M01	2019M02	2019M03	2019M04
External Sector								
Merchandise trade - exports	mth % chg ¹	-6.7	1.5	4.0	-7.9	6.0	11.5	...
	ann % chg	6.0	5.3	-4.0	1.6	5.9	18.7	...
Merchandise trade - imports	mth % chg ¹	-4.8	-2.4	1.2	-1.0	0.0	-1.3	...
	ann % chg	13.7	0.4	7.9	6.9	12.2	-3.5	...
Merchandise trade balance (12 month total)	NZ\$ million	-5774	-5556	-6161	-6432	-6689	-5616	...
Visitor arrivals	number ¹	331,010	337,540	327,370	326,500	321,450	...	...
Visitor departures	number ¹	331,720	332,030	...	...	...	...	...
Housing								
Dwelling consents - residential	mth % chg ¹	1.8	-1.6	5.4	13.6	1.9	...	...
	ann % chg	14.8	-4.4	9.8	30.3	28.4	...	...
House sales - dwellings	mth % chg ¹	28.4	-7.2	-14.4	13.0	-6.2	-6.6	...
	ann % chg	20.5	6.3	-8.5	-0.6	-7.3	-12.9	...
REINZ - house price index	mth % chg	0.4	0.1	0.4	0.1	0.7	-0.3	...
	ann % chg	3.8	3.1	3.1	2.8	3.0	2.3	...
Private Consumption								
Electronic card transactions - total retail	mth % chg ¹	0.0	-0.5	-2.3	2.0	0.6	-0.3	...
	ann % chg	6.2	4.6	0.6	3.5	3.4	0.7	...
New car registrations	mth % chg ¹	7.6	-7.9	-5.2	5.7	1.2	-2.6	...
	ann % chg	-5.4	-17.9	-15.8	-12.1	-3.9	-2.9	...
Migration								
Migrant arrivals	number ¹	13,040	13,310	13,960	13,650	13,230	...	...
Migrant departures	number ¹	8,110	7,560	7,750	7,540	6,660	...	...
Net migration (12 month total)	number	53,265	54,904	56,909	58,658	61,577	...	...
Commodity Prices								
Brent oil price	US\$/Barrel	81.03	64.75	57.36	59.41	63.96	66.14	71.03
WTI oil price	US\$/Barrel	70.76	57.00	48.95	51.45	54.96	58.14	63.91
ANZ NZ commodity price index	mth % chg	-1.5	-4.4	-0.7	2.6	2.0	1.4	...
	ann % chg	1.7	-4.1	-2.0	3.6	3.2	2.5	...
ANZ world commodity price index	mth % chg	-2.4	-0.5	-0.2	2.0	2.8	1.4	...
	ann % chg	-5.6	-5.1	-3.4	-2.2	-2.2	-2.1	...
Financial Markets								
NZD/USD	\$ ²	0.6530	0.6766	0.6829	0.6776	0.6835	0.6832	0.6664
NZD/AUD	\$ ²	0.9186	0.9342	0.9503	0.9479	0.9571	0.9651	0.9461
Trade weighted index (TWI)	June 1979 = 100 ²	71.67	74.10	74.73	73.59	74.14	74.24	72.86
Official cash rate (OCR)	%	1.75	1.75	1.75	1.75	1.75	1.75	1.75
90 day bank bill rate	% ²	1.90	1.98	1.98	1.91	1.90	1.88	1.81
10 year govt bond rate	% ²	2.62	2.69	2.45	2.33	2.18	2.02	1.91
Confidence Indicators/Surveys								
ANZ - business confidence	net %	-37.1	-37.1	-24.1	...	-30.9	-38.0	-37.5
ANZ - activity outlook	net %	7.4	7.6	13.6	...	10.5	6.3	7.1
ANZ-Roy Morgan - consumer confidence	net %	115.4	118.6	121.9	121.7	120.8	121.8	123.2
Performance of Manufacturing Index	Index	53.6	53.4	54.7	52.9	53.4	51.9	...
Performance of Services Index	Index	55.4	53.4	53.0	56.3	53.6	52.9	...