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Green shoots?

"Green shoots" is the phrase of the year. It is used to hint that the winter of recession is ending. Newspapers, politicians, and most recently the Governor of the Reserve Bank, are constantly reporting sightings. We find it hard to give them the significance they seem to claim. As reported below, unemployment came in at an unexpectedly high 6.0 percent in June, and Treasury is still forecasting that unemployment will peak at 8 percent in the September quarter next year, 2010. What is even more concerning about those forecasts are that they project that it will take much longer for unemployment to fall than it has taken to rise. Their forecast is for unemployment to be still at 7.5 percent at March 2011 (with 167,000 people looking for jobs), and 6.3 percent in March 2012 (141,000 people).

Yes, there are some signs in the statistics below that things are bottoming out: building permits rose, but are still very low, contraction appears to have stopped in the service sector, and is almost stopped in manufacturing.

Exports may appear to be rising, looking at the 12 month year-on-year comparison, but that is because they still include the high dairy and crude oil prices in the second half of last year. Statistics New Zealand's view is that the export trend is that they are still declining. Manufacturing exports fell 8.1 percent in July compared to June, and 7.1 percent in the three months to July compared to the previous three months. Fortunately for the current account deficit, imports are declining even faster (with the second largest monthly fall since February 1993), but that is in itself a sign of weakness in the economy, with some of the largest falls being in intermediate goods, machinery and plant equipment, indicating a fall off in production and lack of investment. Trade is an important indicator: it was falling international commodity prices, drought, and then the collapse in world trade as a result of the financial crisis that led New Zealand into recession. Unless the government strengthens its stimulus package, it will likely be trade that leads us out, but that will take a long time with world trade in its current dire state. The OECD is forecasting world trade to fall 16.0 percent this year and only grow weakly at 2.1 percent in 2010. Our cause is not being helped by the high dollar, now in the 68 US cent range, with 70 cents a possibility.

Meanwhile we are seeing increasing mortgage foreclosures: there were 289 mortgagee sales in June, the highest monthly total since records began 15 years ago. Job losses continue – those reported in the last month include 100 University staff laid off this year, more middle class people joining the job queue in Auckland, phil&ted's buggy brand Mountain Buggy moving production from Lower Hutt to China with the loss of 45 jobs, Pacific Brands confirming the loss of 90 jobs in Palmerston North and Christchurch, and the expected closure of Winstone Pulp International's Prime Sawmill at Gisborne with 65 staff. And we understand that the number on the unemployment benefit is increasing again at over 1,000 a week. The drop to 400 a week announced by the Prime Minister a few weeks ago was apparently a temporary result of students signing up for the second semester of Polytechnics and Universities.

We continue to be worried that the government is not doing enough. Further evidence was the downgrading by the OECD (in its June Economic Outlook) or its estimate of the size of the New Zealand government's stimulus package from 4.3 percent of 2008 GDP to 3.7 percent. This is below the OECD weighted average whether we look at the 3.9 percent of 2008 GDP average for all the OECD countries or the 4.3 percent average for just those applying a positive stimulus. It was significantly less than Australia's at 5.4 percent. Australia's was quite differently constructed: 4.1 percent was through additional government spending on investment and transfers to households, leaving only 1.3 percent through tax reductions. In contrast, New Zealand's was *negative* 0.3 percent in net *reductions* in government spending, and 4.1 percent in tax reductions. The Australians were able to target their stimulus much more directly than a simple tax reduction, which favours those on higher incomes.

The government could do more in creating jobs such as through the home insulation and clean heating scheme, in providing support for those who lose their jobs, including access to training and assistance with finding a new job, and in encouraging people into (or to stay in) tertiary education.

One action that would have multiple useful effects would be for the Reserve Bank to provide low interest loans for new housing through an expansion in the money supply. There is little risk in these times that it would fuel inflation, and if it is for new homes, it should dampen house prices by increasing the supply of housing. It could be provided through banks on condition they pass through the low interest, or through Housing New Zealand or local government. The construction industry is one of the hardest hit, so this would provide needed jobs. The expansion in money supply, in effect devaluing the currency, may help to bring down interest rates and the exchange rate.

Some commentators regularly remind us, as if it means that we can stop worrying, that unemployment is "a lagging indicator", meaning that it stays around long after the other signs are indicating recovery. While it may be true that one follows another, the real recession is not about "indicators", but about what hits people. For workers, who have carried the burden of recession, the recovery is still a considerable time away.

NZIER Consensus Forecasts[1]

These consensus forecasts were published on 23 June 2009.

March Year Percent Change	**2009**	**2010**	**2011**
GDP	-1.0	-1.6	2.8
CPI	3.0	1.6	1.6
Private Sector Wages (QES)	5.2	2.6	1.7
Employment	0.8	-2.7	0.8
Unemployment	5.0	7.2	7.2

Economic Snapshot

- The **Consumer Price Index** rose by 1.9 percent for the year to June 2009.
- **Food prices** rose 8.4 percent over the year to July.
- **Unemployment** is sitting at 6.0 percent. Maori unemployment is 12.6 percent, Pacific people's unemployment is at 12.8 percent, Asian unemployment is at 7.8 percent, and European/Pakeha unemployment is at 4.0 percent. Youth unemployment (15-19 year olds) is 22.9 percent and the unemployment rate for those aged 20 to 24 is at 11.5 percent. In June 2009, 50,855 people were on unemployment benefits.
- The number of people in **employment** decreased in the year to June by 0.9 percent to a total of 2,169,000.
- **GDP** decreased by 1.0 percent in the March 2009 quarter, the fifth consecutive decline. In annual terms it decreased by 1.0 percent. The next GDP update will be on 23 September.
- The **minimum wage** is $12.50 an hour and $10.00 an hour for new entrants aged 16 or 17 in their first 3 months or 200 hours, whichever ends first.
- **Ordinary time hourly wages**, as measured by the Quarterly Employment Survey (QES) for June 2009, were up annually by 4.5 percent (5.8 percent in the private sector and 3.8 percent in the public sector) and down from the 5.3 percent recorded in the March 2009 year. The QES showed that the average hourly wage is now $25.06 ($23.25 in the private sector and $31.85 in the public sector). The female rate of pay is $23.31 which is 87.9 percent of the male wage of $26.51. The Labour Cost Index (LCI) shows that ordinary time wages went up by 2.9 percent in the June 2009 year (2.6 percent in the private sector and 3.6 percent in the public sector). For those workers who received a pay rise in the year, the median increase was 4.0 percent and the average increase was 5.2 percent.

[1] The consensus is made up of the average of forecasts from NZIER, Berl, ANZ- National Bank, ASB Bank, BNZ Bank, First New Zealand Capital, Deutsche Bank, UBS, Westpac, Reserve Bank of New Zealand and Treasury. Because the consensus forecasts are done only every 3 months, some of the more recent forecasts will be more accurate.

- On 30 July the Reserve Bank of NZ left the **official cash rate** unchanged for the second review in a row at 2.5 percent. The next OCR announcement will be on 16 September.

Unemployment

The household labour force survey (HLFS) showed that unemployment in the June 2009 quarter had risen to 6.0 percent; up from 5 percent recorded in March 2009, the largest quarterly rise since September 1988. There are now 138,000 New Zealanders out of work, an increase of 24,000 people (20.6 percent) people in the quarter and a rise of 48,000 since the same time last year. Unemployment for women is at 6.3 percent, with 15,000 additional women being made unemployed in the quarter compared to 8,000 men. There has been a 1.5 percent fall in full time work for the year and a 1.3 percent rise in part time work, resulting in an increase in the number of underemployed people (part time workers wanting full time work) to 22.2 percent or 114,300, compared to 16.5 percent at the same time last year. Joblessness has also risen steeply (by 38.5 percent) leaving 236,100 people who want a job out of work. The number of hours worked in New Zealand has fallen by 3.5 percent in the year to June 2009. Youth unemployment (15-19 year olds) now has reached 36,600, which is close to a quarter of this segment of the workforce, at 22.9 percent. When expanded to the 15-24 year old age group, unemployment sits at 16.3 percent. There are some quite marked regional differences in unemployment with Northland topping the list at 8.3 percent, followed by Gisborne and Hawkes Bay at 7.3, Waikato at 6.8 percent, Auckland at 6.6 percent, Bay of Plenty at 5.8 percent, Wellington at 5.5 percent, Otago at 5.3 percent, Canterbury at 4.8 percent, Manawatu and Wanganui at 4.5 percent, Taranaki at 4.2 percent, Southland at 3.4 percent, and Tasman, Nelson, Marlborough, and West Coast at 3.1 percent. Australia also released its unemployment figures, which were slightly lower than the NZ's at 5.8 per cent – the first time Australia has had lower unemployment than New Zealand since 1991 according to OECD statistics.

Employment

The Quarterly Employment Survey (QES) released this month showed that the number of full-time equivalent employees decreased by 3.2 percent in the year to June 2009. Annual filled jobs also decreased by 2.1 percent for, but the quarterly figures were up 0.8 percent as a result of seasonal employment. The falls were attributed to declines in the manufacturing industry employment: there has been a 11.6 percent decrease (or 28,200 jobs) since June last year, leaving the number of filled jobs in the industry at 215,600. Building and construction, wholesale, and retail industries also reported falls. The number of seasonally adjusted total paid hours reduced by 1.2 percent for the quarter and 3.4 percent for the year, the biggest annual fall since March 1992. The HLFS showed that although the size of the labour force increased by 0.6 percent for the quarter to 2,307,000, the number of people employed decreased by 10,000 people to 2,169,000. It also highlighted that employment had increased within the older age workforce, with 10,600 more 60–64 year olds employed and 8,700 more 65 years and older employed, indicating a need to return to work in tougher economic times.

Wages

The Quarterly Employment Survey reported for June 2009 that private sector hourly earnings increased annually by 3.7 percent and public sector hourly earnings for the year increased by 5.8 percent. Average ordinary hourly earnings now stand at $25.06 ($31.85 in the public sector and $23.25 in the private sector), an increase of 17 cents since the March 2009 quarter. The average hourly female rate of pay is $23.31 and the male rate is $26.51. Male ordinary time wages increased 0.7 percent for the quarter whereas female wages increased by 0.6 percent, meaning the pay gap widened with the female wage now sitting at 87.9 percent of the male hourly rate. Average weekly paid hours decreased by 0.8 percent in the quarter with falls in both ordinary time and overtime. As a result, average weekly earnings are down 0.1 percent for the quarter. If this were to continue, and even if inflation stays at 1.9 percent over the next year this would represent a fall in real earnings of approximately 2.3 percent or about $22 a week or $1136 a year for a person with average weekly earnings.

The Labour Cost Index (LCI) showed that ordinary hourly earnings increased 2.9 percent (3.6 percent wage in the public sector and 2.6 percent in the private sector) for the year to June 2009. This follows a 3.4 percent increase in the March quarter and a 3.6 percent increase in the December 08 quarter. In quarterly terms, wages grew by just 0.3 percent, indicating slowing wage growth. Only 10 percent of salaries and wages received a pay increase in this quarter and 55 percent of workers (down markedly from the 62 percent peak recorded in September 2008) received an increase in the year to June. For this group, annual ordinary time wages and salaries grew by an average of 5.2 percent and a median of 4.0 percent for the year.

Food Prices

Statistics NZ's monthly food price index rose by 8.4 percent[2] in the year to July 2009 and 0.6 percent for the month. Fruit and vegetables prices led the monthly increase, with a rise of 3.1 percent. This subgroup also increased 12.2 percent for the year. Grocery foods were up 7.9 percent for the year, meat, poultry and fish was up 12.4 percent, (lamb alone increasing by 32.1 percent), restaurant meals and ready-to-eat food up 4.0 percent, and non-alcoholic beverages were up 7.1 percent.

Trade

For the month of July 2009 compared to July 2008 seasonally adjusted import values were down by 20.8 percent and export values were down 7.3 percent. The trade balance for the month sits at a $163 million deficit. This deficit is much less than the average trade deficit for the past 5 years for the month of July of 23.6 percent and is a result of reduced imports. For the month, imported petroleum products were down by $294 million or 35.1 percent and vehicle imports were down $220 million or 46.2 percent for the year. Petroleum products also led the decline in exports, with a $119 million or 37.8 percent fall due to falling prices, and the reduced volume of meat products led to a drop of $50.5 million or 11.5 percent. Exports are down by 7.4 percent against the high recorded in October 2008, but for the 12 months to July 2009 exports values are up by 4.8 percent over the previous 12 months. Imports on the other hand have declined marginally over the last 12 months by -0.1 percent.

Manufacturing Sector

The Performance of Manufacturing Index (PMI) for July 2009 recovered to 49.7[3], up from 46.2 in June and from 42.7 in May. Although this July figure still indicates the sector is contracting, it does indicate that manufacturing activity is recovering and is an improvement from the July 2008 PMI figure of 48.1. The employment index picked up slightly to 44.0 from 40.1 in June, whilst production at 51.0 and new orders at 55.1 both expanded. The Central and Canterbury/Westland regions saw expanding manufacturing activity with PMI values of 52.7 and 54.9 respectively, but the Northern region at 47.4, continued to contract, and Otago and Southland's PMI value dropped from 48.8 last month to a dismal 39.8 this month. The metal product sector reported its best result for a nearly a year at 49.7, the food and beverage sector stood at 51.8 and the petroleum, oil, and chemical sector went into positive territory for the first time in 6 months. Compared to international results, Australia's PMI value was 44.5, the UK PMI was 50.8, and the US PMI was 48.9.

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[2] This figure varies slightly from the CPI food prices as it is measured on a monthly basis as opposed to the CPI that is measured on a quarterly basis.

[3] A figure under 50 shows the manufacturing industry is contracting; above 50 shows that the industry is growing. The index is an early indicator of business activity

Service Sector

The Performance of Services Index (PSI) for July 2009 showed that the service sector expanded marginally with a value of 50.1 for the first time since March 2008. This indicates some stability in the sector and is a decent improvement from 45.0 reported last month. New orders hit 56.5 from 50.8 and the sales index improved from 43.9 to 51.7. Employment continued to contract, with a value of 47.9, although this was the best result since November 2008. Health & community services showed relatively strong expansion at 57.1, followed by transport & storage at 53.5, whilst retail trade continued to improve slowly at 48.8. Canterbury/Westland and the Northern regions showed expanded activity, whilst activity in the Central region and Otago/Southland contracted.

Migration

In the year to July 2009 there were 88,400 permanent or long term (PLT) arrivals and 73,900 PLT departures, resulting in a net gain of 14,500 migrants. This compares with the net gain of 5,200 migrants recorded in July 2008 year when 7,000 more people departed NZ on a PLT basis and 2,300 fewer people arrived. There was a net outflow for the July 2009 year to Australia of 26,900, whilst net inflows for the year came from the United Kingdom (9,300), India (6,000), China (3,400), the Philippines (3,200), Fiji (2,900), and South Africa (2,100) For the month of July there were 2,500 more PLT arrivals than departures, with 900 kiwis heading off to Australia (the lowest figure since July 2003) compared to 2,700 in July 2008.

Housing and Property

Real Estate Institute of New Zealand's (REINZ) new Monthly Housing Price Index, released in conjunction with the Reserve Bank of NZ, showed that house prices increased by 2.2 percent in the 3 months to July and 0.9 percent annually. Although this is the first annual increase since March 2008, house prices are still 7.3 percent down on the peak recorded in November 2007. In July, 6,014 properties were sold, up considerably from the 4,489 sales in the same period of last year. It took 37 days on average to sell a property compared to 58 days last year. REINZ report that the median house price for July was $340,000 (this figure is calculated by stratifying the data to prevent any distortions that may come from exceptionally high property sales).

Although the trend in the number of building consents has been flattening out since the start of 2009, the month of July showed that the number of consents dropped by 15.4 percent from July 2008, with 1,214 new residential dwellings authorised, including 55 apartments (though up on the 1,100 in the previous month).

Retail Sales

For the June 2009 quarter seasonally adjusted retail sales figures increased by 1.1 percent, following a 1.4 percent decline in the previous quarter. Sales volumes also crept up to 0.4 percent for the quarter – the first time since September 2007, but compared to the same quarter in the previous year, sales are still down by 1.8 percent. Core retail sales, (which excludes vehicle retailing sectors) were up 1.1 percent for the quarter, whilst volumes only increased by 0.2 percent, indicating an increase in retail prices. There was a 2.3 percent seasonally adjusted increase in supermarket sales during the quarter and an 8.4 percent increase between this quarter and the same quarter in 2008. Higher prices and volumes led to fresh produce retail sales rising by 4.9 percent in the quarter, takeaway foods sales increased by 7.5 percent, and appliance retailing increased by 4.5 percent. Automotive sales posted their first sales increase of 3.0 percent in nearly two years.

Producer Prices

The Producer Price Index declined by 0.7 percent for the June 2009 quarter, but rose by 2.1 percent for the year. Dairy product manufacturing prices fell by 19.9 percent in the June 2009 quarter and 29.6 percent for the year after a 41 percent gain in the year to June 2008. The finance index rose 13.2 percent for the quarter, boosting its annual rise to 51.6 percent. Although electricity generation supply pricing was up by 11.0 percent for the quarter, its annual prices fell back by 23.8 percent. Input costs for producers remained stable at 0 percent for the quarter, and declined by 1.2 percent for the year.

GDP across the World

This month the OECD reported on GDP growth in the 30 OECD countries. Much of the focus was on the economies that came out of recession, with Japan's GDP up 0.9 percent, France's up 0.3 percent and Germany's up 0.3 percent. Other big OECD economies showed improvements in their second quarter results when compared to the first quarter, but their growth was still negative with the UK down 0.8, the US down 0.3 percent, and Italy down 0.5 percent. Overall, the GDP growth for all OECD countries sat at 0 percent for the quarter, and -4.6 for the year. In addition, *The Economist* reported a rebound in GDP results in the emerging Asian economies, with growth averaging at 10 percent across China, Indonesia, South Korea and Singapore.

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