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Are we there yet?

Is the recession over? We're on the way, many economists say. The government gives mixed messages – John Key emphasises things are improving; Bill English that the economy is still fragile. Internationally, "fragile" is certainly the picture with many countries concerned that they will take years to recover and some with fears that they will return to recession or worse.

First, New Zealand. The economy is no longer contracting. For each of the June and September quarters we have had a small 0.2 percent growth in Gross Domestic Product (GDP, a measure of the economy's output). Unofficial performance indexes of manufacturing and service industries indicate growth in those sectors (for more detail, see below). Manufacturing, which along with construction was the hardest hit in the recession with high levels of job losses, is still not increasing its employment however.

Most telling for workers is continued high unemployment. The unemployment rate in December surprised most economists: 7.3 percent or 168,000 workers. Predictions were well below 7 percent. That was not the whole story either: there were 275,900 people including the unemployed who were jobless and a further 114,600 part-timers who would like more hours of work.

Some economists rather brutally describe unemployment as a "lagging indicator", implying that it continues to worsen even when production has begun to grow. Employers use up stocks of raw materials, sell stored products, and increase hours of work rather than take on new employees in the initial stages of the recovery. In addition, some companies are reported to be changing their processes to raise their profitability in the light of the difficult times, such as "just in time" purchase of materials and production. This may raise productivity but produce "jobless growth".

But for many workers, the likelihood is that times will remain tough for 2-3 years. Government forecasts are for unemployment levels to remain well above 6 percent for this period, and consensus forecasts (see below) are for unemployment to still be at 7 percent in March next year. This will make it more difficult for unions to achieve the level of wage increases needed to catch up with Australia. However it is also possible that skill shortages will revive, due either to the government's failure to increase investment in tertiary education and loss of apprenticeships due to unemployment, or to workers moving to Australia, which did not go into recession and for the first time in many years has lower unemployment (5.7 percent) than New Zealand.

While the government uses its operating deficit as a reason for freezes in government expenditure and salaries, the deficit pales in comparison to problems in Europe, Japan and the US.

In Europe, a number of countries are in severe crisis. The unkindly labelled "PIGS" – Portugal, Ireland, Greece and Spain – have government revenue falling far behind the expenditure they needed to prevent free-fall in their economies. In November the OECD forecast New Zealand government would have a financial deficit equivalent to 3.3 percent in 2010. Compare Portugal with a forecast of 7.6 percent, Ireland 12.2 percent, Greece 9.8 percent and Spain 8.5 percent. Financial dealers appear to believe there is a risk Greece will default on its growing debts, in turn putting enormous pressure on the European Union to bail it out. While this can be accommodated in the short run, the precedent threatens the basis under which the Euro operates. In all the PIGS, adopting the Euro as currency has eliminated a vital channel through which their economies could adapt to the sudden crisis. Instead they have growing social crises. Unemployment has risen steeply. Spain has over 19 percent unemployment, Ireland 12.8 percent. Ireland has made steep reductions in public service wages, ranging from 5 to 20 percent. Street marches and strikes in Greece protest expenditure cuts.

The problems are not confined to the Euro area. The U.K. is forecast to have a mammoth 13.3 percent deficit in 2010, the US 10.7 percent and Japan 8.2 percent. In the U.K. there is worry that it will return to recession. Economic growth has been very weak and there have been continued problems in its powerful financial sector including anger that despite the bailouts, banks are still failing to lend to businesses sufficiently. Obama in the US is struggling to get sufficient support for his financial reforms in the face of finance sector opposition supported by (hypocritical) criticism of budget deficits by the Republican opposition. The Japanese government's net financial liabilities are forecast to pass 100 percent of GDP this year; in the US they are forecast at 65 percent and the U.K. 59 percent of GDP.

These are all leading to political problems which will make it more difficult for governments to find lasting solutions. The situation is further complicated by increasing international frictions over trade as the US becomes increasingly sensitive to China's success.

In this light, New Zealand's public finances are far from crisis. It is much more important to ensure that, with the support of government spending, the economy revives, people are protected from a crisis they did not create and given the skills they need, and for the government to take an active role in encouraging productive and sustainable development for the longer run. The greater threat is that a significant section of the world economy – perhaps Europe, perhaps Japan, perhaps the US – descends into financial, economic or political crisis, reigniting recession.

Bill Rosenberg

NZIER Consensus Forecasts[1]

These consensus forecasts were published on 15 December 2009.

March Year *Percent Change*	**2009/2010**	**2010/2011**	**2011/2012**
GDP	-0.4	2.8	3.0
CPI	2.3	2.1	2.3
Private Sector Wages[2]	3.5	2.2	2.4
Employment	-1.8	1.3	2.1
Unemployment	7.0	7.0	6.3

Economic Snapshot

- **GDP** increased by 0.2 percent for the September 2009 quarter. In annual terms GDP declined 2.2 percent.
- The **Consumer Price Index** (CPI) rose by 2.0 percent for the year to December 2009, although it declined by 0.2 percent for the quarter.
- **Food prices** rose 2.2 percent for the year to January 2010 and were up 2.1 percent for the month.
- **Unemployment** was sitting at 7.3 percent in December 2009. Maori unemployment was 15.4 percent, Pacific unemployment was 14.0 percent, Asian unemployment was 9.2 percent and European/Pakeha unemployment was 4.6 percent. Youth unemployment (15-19 year olds) was 26.5 percent. In December 2009, 66,300 people were on unemployment benefits.
- The total number of people in **employment** decreased in the year to December 2009 by 2.5 percent to a total of 2,152,000.
- 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. The rates will rise to $12.75 and $10.20 respectively from 1 April.
- **Ordinary time hourly wages**, as measured by the Quarterly Employment Survey (QES) for December 2009, were up 4.0 percent in annual terms (3.1 percent in the private sector and 5.7 percent in the public sector). The average hourly wage is now $25.37 ($23.45 in the private sector and $32.30 in the public sector). The average female wage is $23.50 which is 87.1 percent of the male wage of $26.98. The Labour Cost Index (LCI) shows that ordinary time wages went up by 1.8 percent in the December 2009 year (1.5 percent in the private sector and 2.4 percent in the public sector). For those workers who received a pay rise in the year, the median increase was 3.7 percent and the average increase was 4.4 percent.
- On 28 January, the Reserve Bank left the **official cash rate** at 2.5 percent for the sixth consecutive review.

[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.

[2] As measured by Statistics New Zealand's Quarterly Employment Survey.

Unemployment

The Household Labour Force Survey recorded a sharp rise in the unemployment rate in the December 2009 quarter to 7.3 percent (the highest in 10 years). This amounts to 168,000 people being unemployed. Jobless numbers (those either officially unemployed, available but not seeking work, or actively seeking but not available for work) rose by 72,200 people during the year and now stand at 275,900. Long term unemployment (people unemployed for longer than 26 weeks) has more than doubled to 40,500 or 25.5 percent of all job seekers in the past year. Unemployment rates for Māori now stand at 15.4 percent, for Pacific Islanders the rate is 14.0 percent, for Asian workers it is percent 9.2 percent and for Pakeha it is 4.6 percent. Youth unemployment (15-19 year olds) now stands at 26.5 percent or 45,300 people. There has been a 30.0 percent fall in the number of people employed in water, electricity and waste services and an 11.7 percent fall in the number of people employed in the manufacturing sector since December 2008. The number of people on the unemployment benefits in December 2009 rose to 66,300 people, up 117 percent (or 36,000) since December 2008.

Employment

The number of full-time equivalent employees (FTEs) decreased 2.5 percent between the December 2008 quarter and the December 2009 quarter to stand at 1.31 million. However, this did indicate a 1.4 percent rise from the low of the previous quarter. Since December 2008, there has been a 3.3 percent fall in full time employment and a 1.3 percent increase in part time employment. There have been large falls in the number of filled jobs in the manufacturing sector (down 10.0 percent), the construction sector (down 8.1 percent) and the financial and insurance sector (down 8.2 percent). Across all sectors the number of filled jobs fell 1.7 since December 2008. Seasonally adjusted paid hours were down 1.8 percent in annual terms, but up 0.3 percent for the quarter. There was a substantial increase in paid hours in the professional, scientific, technical, administrative, and support services industry (up 11.5 percent) but substantial falls in construction (down 14.4 percent) and manufacturing (down 8.2 percent).

Job Tracking Tool

The Department of Labour's Jobs Online, which measures the number of skilled vacancies posted online, reported a 1.7 percent increase in skilled advertisements over the three months to January. Other than declines in Wellington (down 0.1 percent) and the in the South Island excluding Christchurch (down 0.9 percent), job advertisements expanded in all regions. Since October 2009, vacancies have risen 4.6 percent for managers, 6.2 percent for technicians and trades and declined 0.8 percent for professionals. Since October, the biggest increase in advertisement occurred in retail and marketing up (13.7 percent) and shrank the most in education (down 9.3 percent). Although statistics for skilled vacancies are improving, advertisements are still down 19.3 percent when compared to January 2009.

Wages

The Quaterly Employment Survey for December 2009 showed that ordinary hourly wages had decreased by 0.2 percent (or 5 cents) to $25.37 for the quarter. In the private sector ordinary hourly wages fell 0.4 percent (or 10 cents) to $23.45 and in the public sector they rose 0.7 percent (23 cents) to $32.30. In annual terms ordinary hourly wages increased 3.1 percent in the private sector, 5.7 percent in the public sector and 4.0 percent for both sectors combined. This compares to the 5.4 rise percent that was recorded for the December 2008 year. The highest annual average hourly rises were in arts and recreation services (up 20.4 percent), transport, postal and warehousing (up 9.0 percent) and real estate (up 8.0 percent). Declines were recorded in wholesale trade (down 0.2 percent) and retail (down 0.8 percent). Paid overtime hours fell 4.8 percent over the year, following a 12.6 percent decrease in the previous year. Average hourly overtime rates were down 5.7 percent for the year.

Smaller wage increases were also reported in the December 2009 Labour Cost Index[3]. Salary and ordinary wage rates were up 1.8 percent from December 2008, which is the lowest LCI increase since June 2001 and is down considerably on the 3.9 percent high that was recorded in September 2008. There was a 1.5 percent increase in salary and wage rates in the private sector and 2.4 percent increase in the public sector. Overtime rates were up 2.2 percent for the year. For the 44 percent of people who did receive a wage increase in the December 2009 year, the mean increase was 4.4 percent and the median increase was 3.7 percent.

Food Prices

In the month of January 2010, the food price index rose by 2.1 percent, following five consecutive months of decline. All subgroups experienced increased prices, with fruit and vegetables up 4.8 percent, meat, poultry and fish up 3.3 percent, and grocery food up 1.8 percent. Dairy prices rose 3.6 percent, led by a 5.1 percent increase in the price of milk. The biggest individual rise came from poultry, up 7.8 percent. From January 2009 to January 2010 food prices increased 2.2 percent.

Producers Price Index

In the year to the December 2009 quarter, the Producers Price Index (PPI) outputs index (showing the level of prices received by firms) dropped 3.8 percent. This is the biggest annual decline since the index began in the December 1977 and compares to rises of 9.9 percent in December 2008 quarter and 4.0 percent in December 2007. In annual terms, agriculture, forestry and fisheries outputs were down 7.5 percent, and manufacturing outputs were down 11.1 percent, which included a 45.1 percent fall in dairy

[3] The difference between the LCI and the QES is that the QES reports average earnings statistics which include compositional, skill and other changes in the paid workforce on top of the changes in pay rates that the LCI reports.

product outputs. Finance and insurance saw the biggest rise of 14.9 percent. PPI input prices (the cost of materials to firms) fell 3.3 percent in the year to December, led by a 6.8 percent decline across manufacturing and a 12.8 percent decline in transport and storage.

Housing and Property prices

The Real Estate Institute of New Zealand's (REINZ) Monthly Housing Price Index showed that stratified median house prices decreased from $366,500 in December 2009 to $360,700 in January 2010, a 1.6 percent fall. House prices have increased 6.5 percent since January 2009. There were 3,666 residential sales in January, the lowest monthly total since records began in 1992.

Building Consents

In January 2010, there were 1,000 residential building consents (excluding apartments), up 0.7 percent for the month. The value of these consents is 15 percent (or $380 million) above January 2009 figures, but the trend is still low, similar to mid-2008

Manufacturing Sector

The Performance of Manufacturing Index (PMI) continued to show expansion with an index of 52.0[4] for January 2010, although this was down slightly from the two-year high of 52.9 that was recorded in December 2009. The employment index remained just under the 50.0 mark with an index of 49.6. Food manufacturing (40.6), wood and paper (39.5) and petroleum, coal and chemical products (40.0) showed marked contraction on the previous month's indices. However, metal product manufacture (58.5) and machinery and equipment manufacture (50.4) both turned around from their poor results in November.

Service Sector

The Performance of Services Index (PSI) was 53.1[4] in January 2010, marking six continuous months of expansion. Employment reached 52.7, the highest January index since the survey began in April 2007. For the third consecutive month, all regions in New Zealand recorded expansion.

Government Accounts and Debt

Government accounts for the 6 months ending in December 2009, showed that tax revenue was $0.3 billion (1.4 percent) higher than was forecast in the Half Year Economic and Fiscal Update (HYEFU). This included $0.3 billion additional revenue due to the settlement of bank tax avoidance that was publicised in late December 2009. Corporate tax receipts were in line with forecasts, GST receipts were down $0.3 billion or (5.7 percent) on HYEFU and personal tax deductions were down $0.2 billion (1.9 percent). Core

[4] A figure under 50 shows the sector is contracting; above 50 shows that it is growing. The index is an early indicator of business activity

government expenditure was $0.5 billion (1.7 percent) lower than forecast. As a result of these more favourable fiscal conditions, the operating balance before gains and losses (OBEGAL), although still in deficit by $3.7 billion, was $0.8 billion (18.6 percent) smaller than forecast. The operating deficit was $1.5 billion smaller than forecast with net gains of $0.4 billion mainly from the Crown's investment portfolio, with ACC (up $212 million) and the New Zealand Superannuation Fund (up $492 million) both performing better than forecasted. Net debt, the Government's main debt indicator, was $1.0 billion higher than forecast at $26.1 billion or 14.4 percent of GDP, which was due to departments encountering forecasting and timing issues, pushing up the residual cash deficit by $1.0 billion. Gross debt was $3.5 billion lower than forecast at $47.5 billion (or 25.7 percent of GDP).

Retail Sales

Seasonally adjusted retail sales values for the December 2009 quarter were up by 1.0 percent ($171 million). This is the third consecutive quarter of growth in retail sales. Core retail volumes, which exclude sales in the auto industry, increased 0.6 percent ($77 million) over the quarter. The biggest quarterly gains in values were in cafes and restaurants (up 6.3 percent or $61 million) and automotive fuel retailing (up 5.7 percent or $88 million) although retail volumes for automotive fuel sector saw the biggest overall fall (down 2.0 percent). Compared with the December 2008 quarter, the volume of retail sales was down 0.7 percent, but their value was up 1.6 percent.

Migration

Permanent and long-term (PLT) arrivals exceeded departures by 1,400 in the month of December 2009. For the year to December 2009 PLT arrivals (86,400) exceeded departures (65,200) by 21,300. This net gain is the highest since the June 2004 year. 18,000 more PLT migrants left for Australia than New Zealand received from Australia in the 2009 year.

Overseas Merchandise Trade

Compared to January 2009, there was an 11.9 percent ($390 million) drop in imports, which stood at $2.9 billion for January 2010. There was a much smaller annual fall in exports, down 0.6 percent ($19 million) to $3.2 billion. This resulted in a trade surplus of $269 million (8.5 percent of exports) for January 2010, which is the largest trade surplus in a January month since 1989. Leading the fall in imports were diesel (down $105 million), mechanical machinery and equipment (down $102 million) and electrical machinery and equipment (down $79 million). Passenger motor cars (up $67 million) and crude oil (up $106 million) bucked this trend. Crude oil also bolstered the export figures (up $148 million) as did dairy products (up $103 million), while falls came from casein and caseinates (down $88 million), cereals (down $52 million) and meat (down $44 million).

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