



NEW ZEALAND COUNCIL OF TRADE UNIONS  
*Te Kauae Kaimahi*

# CTU Monthly Economic Bulletin

## No. 217 (February 2020)

*I have now been in this gig for 5 whole weeks - so I know all about it.*

### Summary

Discussion of the concept *Maximum Sustainable Employment* introduced, by Minister Robertson, to the Policy Targets of the Reserve Bank. Interestingly it doesn't seem to mean any real change in approach and regards - 111,000 people with no paid work; 90,000 people with not enough paid work and 76,000 young people not in education, employment or training – as 'full employment'.

Surprising result on gender pay gap for *Public Sector* - which is broader than *Public Service*. While the *Public Service* gap is declining; over the last ten years the trend for the *Public Sector* gap seems to be increasing. The *Private Sector* gap, however, has been declining. Part of this will be due to the pay equity results in the care and support 'contracted out' sector which is classed as private. While the maths is right, I have no insights as to the reasons and so will continue to explore in the months ahead.

Household Living-Cost Price Indices continue to show that price inflation is higher for low income people than high income people. The main reason is rent and this month I also introduce a graph from Stats NZ on the respective quality of rented v owned housing. Spoiler alert – rental properties are awful.

### ***Maximum Sustainable Employment***

This month I was going to write about all the clawbacks and abatements of tax credits, accommodation supplement and the like. As they, like soaring rents, can seriously undermine the impact any pay increases people receive. And being part of a movement that is quite keen on pay increases; keeping an eye on these 'countervailing forces', I see, as an important part of my role.

But that is going to have to wait for another day.

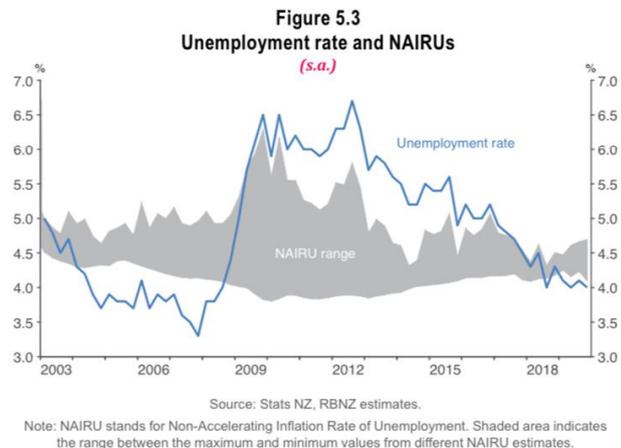
Because as part of the whole 'getting back into economics as a discipline' thing – I read the recent Reserve Bank's [Monetary Policy Statement](#).

Now before Grant Robertson was Finance Minister – the Reserve Bank had one job. [Price stability](#). Aka keeping inflation down.

Now they have two jobs. Price Stability and Maximum Sustainable Employment<sup>1</sup>.

Again, being part of a movement that is all about employment, high wages and decent work – the latter is of great interest to me.

And coming into the idea of *maximum sustainable employment* naively cold, I would have thought that this meant anyone who wanted paid work got it in a way that didn't degrade the environment. Maybe with a bit of 'between jobs' *frictional unemployment* but otherwise it sounds exactly like the world the union movement talks about. And something to indeed aspire to.



But no.

[The indicators](#) seem to say we are either now *at* or *above* this level<sup>2</sup>.

Sorry? What?

We currently have 111,000 people without any paid work, another 90,000 people who want more paid work than they currently have and 76,000 young people who are not in education employment or training (NEET).

And that's full employment? Seriously? We can declare victory and go home?

Now this wouldn't be such an issue if we had welfare benefits or a safety net for these people which enabled any sort of decent life – but as the [Welfare Expert Advisory report](#) clearly showed is absolutely not the case.

So why would the Reserve Bank feel that 111,000 officially unemployed, 90,000 who wanted more paid work, 84,000 who want a job but aren't classed as officially unemployed, and 76,000 young NEETs was the *maximum sustainable employment* level in the economy? It all comes back to the [OG](#) focus on price stability and currently wages are going up faster than general inflation as represented by the consumer price index. And to people receiving the wages – that is a good thing.<sup>3</sup>

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<sup>1</sup> Although I note in the glorious way of bureaucrats, since forever, the new objective has been interpreted as consistent with the old objective. And interestingly in the Minister's press statements he calls it 'maximum employment'.

<sup>2</sup> Page 27

<sup>3</sup> Except if they are renting their inflation is much higher than the average. Or if they have children, an Auckland rent or a student loan – when they will have some of the pay increase clawed back. But generally, wage increases – good thing – as it is the predominant way people get the money they need for a decent life.

But to the Reserve Bank, their concern is that wage rises could pass into prices and prices could go up. And under their mandate that is - a bad thing.

Now it is true prices could go up. Another option is that the higher labour costs could incentivise a greater use of technology or capital, reducing the need for labour – particularly in low wage low productivity sectors of the economy - which in turn reduces the need for such a [reliance on labour from overseas](#)<sup>4</sup>. Then a greater use of capital makes the remaining labour more productive and is the basis for higher wages.

Unfortunately, there didn't seem to be any sign of that story in the Statement. And there was also no change to the OCR with 'full employment' being one of the reasons why. As time goes on, I hope to track the Reserve Bank analysis further in this area.

In the rest of the Bulletin, I introduce some new graphs as a result of the February Labour Market Statistics and make a surprising finding on the gender pay gap and update the rent and Household Living -Cost Price indices with new data – although nothing surprising there. The lines continue to slope upwards and diverge respectively. And finally, I introduce a new graph I found from Stats on why the rent stuff matters so much. The quality of rental property is appalling.

And as always, I welcome feedback to [andreab@nzctu.org.nz](mailto:andreab@nzctu.org.nz).

Kia Kaha

**Andrea**

The [NZIER consensus forecast](#) was released on 16 December 2019.

Annual Percentage Change (March Year)	2019/20	2020/21	2021/22	2022/23
<b>GDP</b>	2.2	2.6	2.5	2.2
<b>CPI</b>	2.1	1.8	1.9	1.9
<b>Private Sector average hourly wage</b>	3.5	3.1	3.3	3.4
<b>Employment</b>	1.5	1.6	1.5	1.4
<b>Unemployment rate (% of labour force)</b>	4.3	4.3	4.1	4.0

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<sup>4</sup> Table 8 International migration. The increase in temporary work visas is also, unfortunately, correlated with the exploitation of the people concerned. <https://www.mbie.govt.nz/dmsdocument/7109-temporary-migrant-worker-exploitation-in-new-zealand>

## Wage increases, labour utilisation, youth NEETs and gender pay equity

This month the quarterly to December 2019 Labour Market Statistics came out from Stats NZ. The two key sets are:

**Household Labour Force Survey** which is a survey of 15,000 households - or 30,000 people – on aspects of their employment: hours; occupation; in or out of labour force etc.

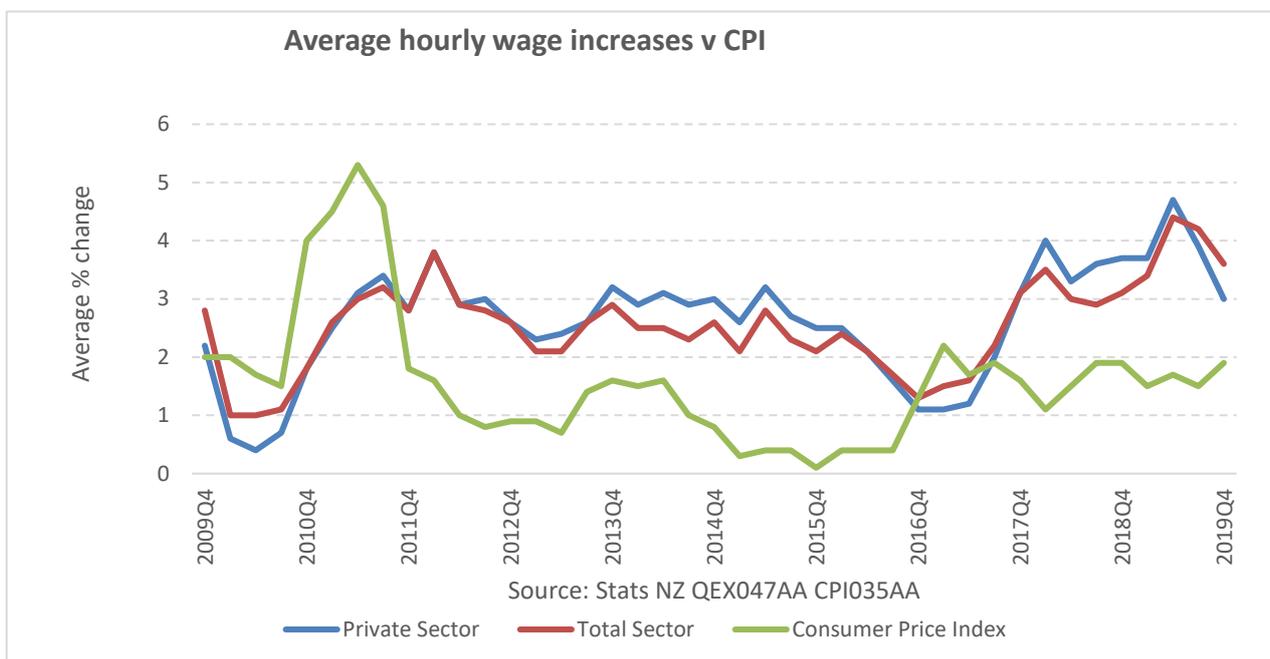
**Quarterly Employment Survey** which is a survey of 3,500 businesses with 18,000 places of employment on average hourly and weekly earnings; average weekly paid hours; all by gender, ordinary and over-time paid hours.

A standard discussion of the effects can be found on page 3 of the Parliamentary Library *Monthly Economic Review*.

I, however, have chosen a few relevant indicators to the people in the labour market and discuss those below.

### Wage increases

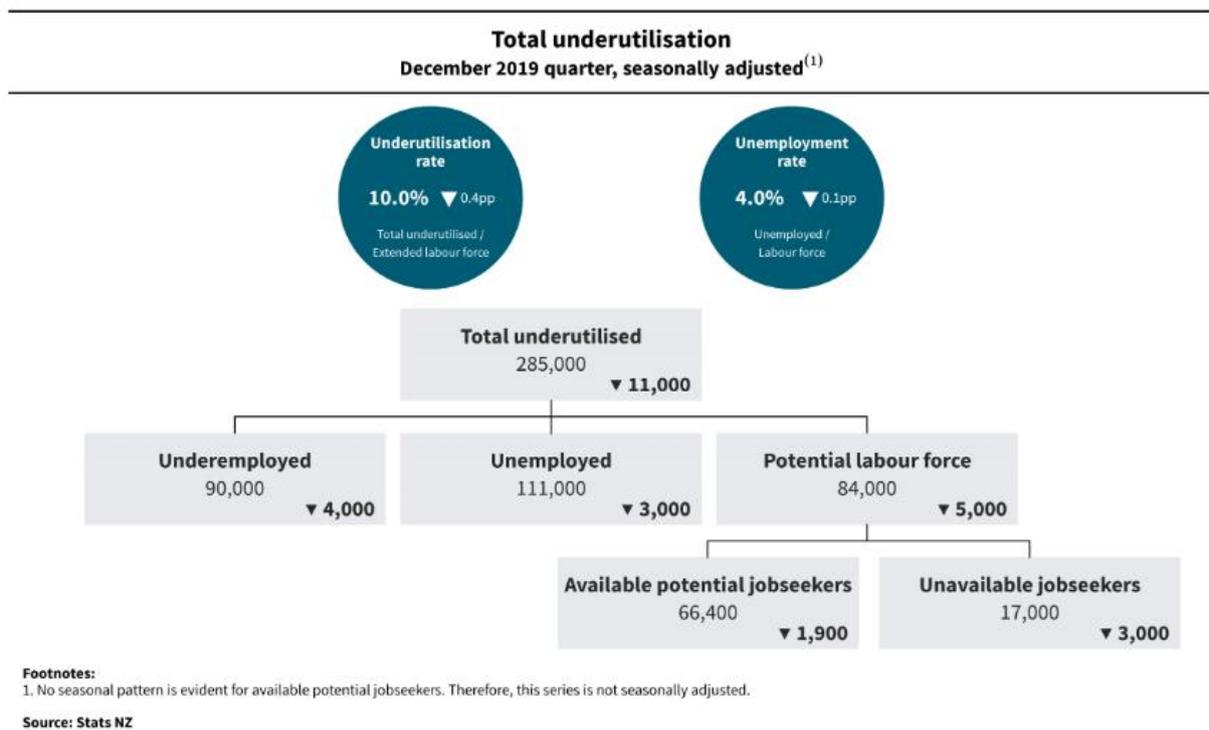
From this data, combined with the CPI, we can see that wage increases on average continue to be higher than the consumer price index and much higher in the last two years than previously.



The key thing to note is that all this is based on averages. As we saw last month and again this month – discussed further on – the inflation rate for those on low income is higher than the average CPI and much higher than those on high incomes.

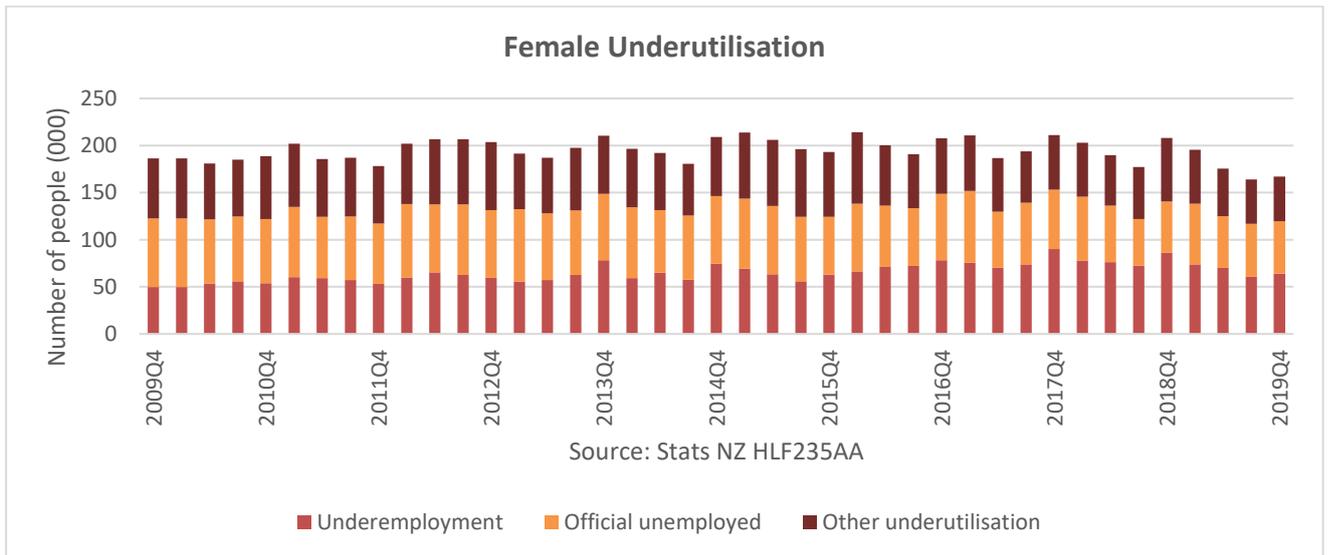
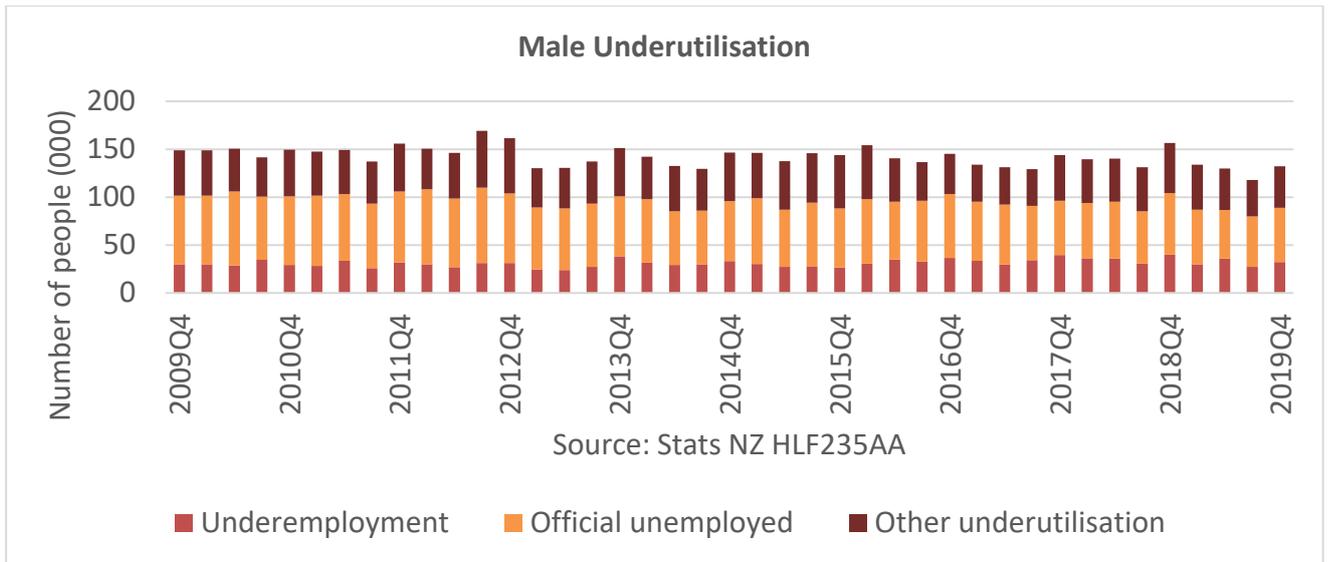
## Labour utilisation

In terms of overall *underutilisation* – such a delightful term – of labour; for both genders it fell compared to December 2018. This includes 7,000 people who had more paid work than previously. And seasonally adjusted, Stats NZ tells us that 12,000 fewer women were ‘underutilised’ than was the case in September 2019.



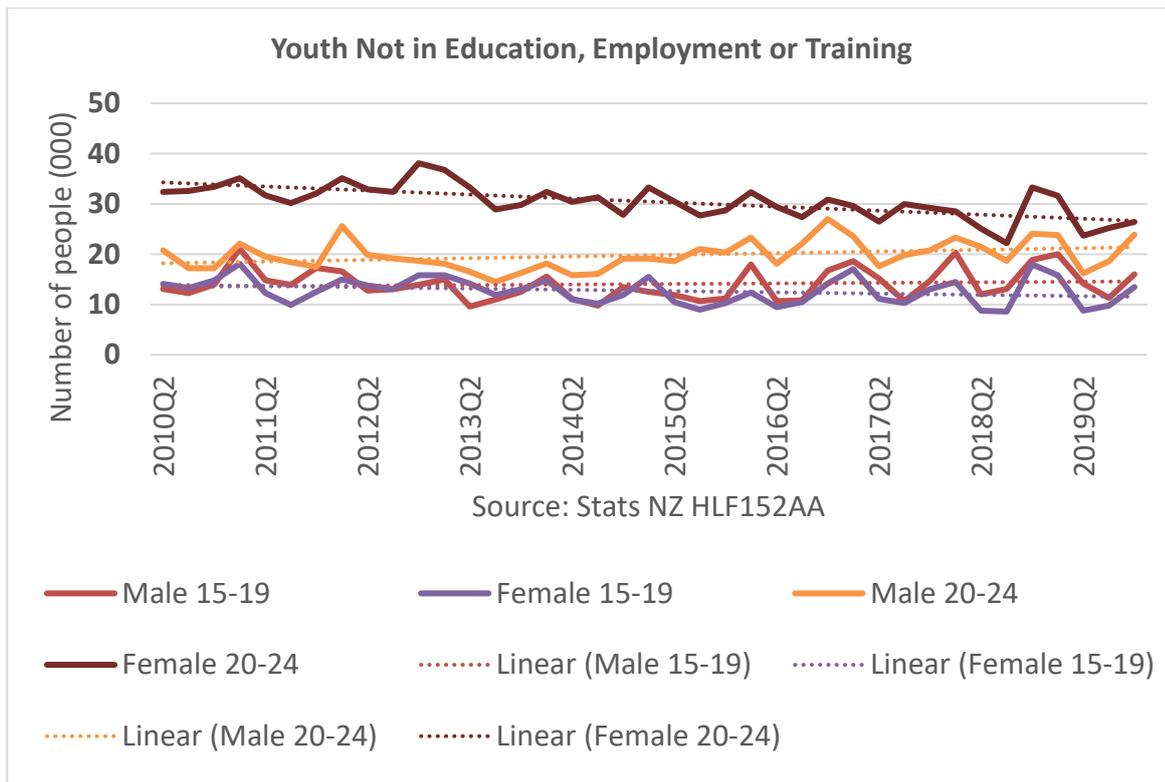
And yes, the official unemployment rate also fell to 4% down 0.1% in the quarter and 0.3% in the year. But I prefer to track the set of the people who would otherwise be in paid work. That of *underutilisation* as well as the actual the numbers of people involved rather than an abstract rate.

As can be seen by the next graphs (not seasonally adjusted) – the numbers for women are structurally higher than for men, albeit falling.



## Youth NEETs

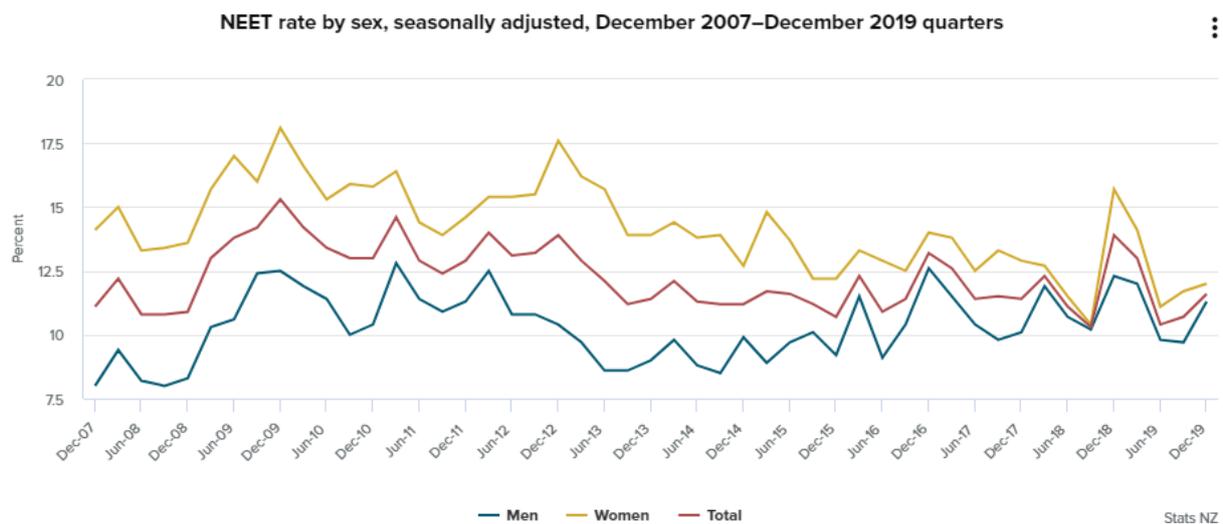
Another measure I am looking to track in terms of the people involved in the labour market is that of the Youth NEETs. The young people who are not in employment, education or training.



The numbers are not seasonally adjusted and are traditionally higher in the December quarters as young people come out of school. So as always, it is the trend that is important.

The largest fall is with Female 20-24 although they continue to have the highest levels in absolute numbers. The other categories are all slightly increasing in absolute numbers.

In percentage terms, Stats NZ in their, seasonally adjusted, graph since 2007 show an increase in male NEETs from 8% to 11.3% and a decrease in Female NEETs from 14.1% to 12% - a trend that aligns with the trend in the absolute numbers.



Then finally as a matter of intellectual interest for me, I ran what I thought would be a fairly ordinary measure of the gender pay gap based on average hourly earnings by sector.

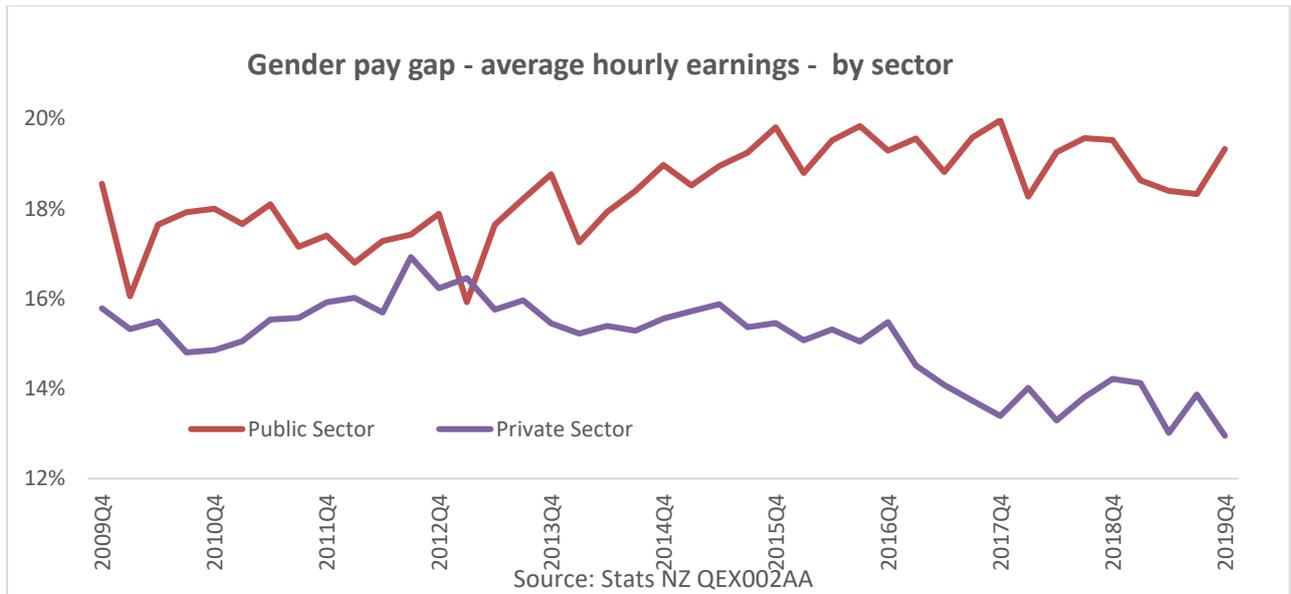
I am aware that parts of government use median wages for this comparison. At the CTU we prefer to use averages in this analysis as using the median cuts out the effect of the top earners. And we regard this as an important piece of the discussion.

I note that *averages* is also what the State Services Commission uses for its comparison.

I was aware that the [Public Service gender pay gap was falling](#) so I fully expected to see this reflected in the respective comparison of the public and private sectors.

But no.

This is what I got. An increasing gap in the Public Sector and a declining gap in the Private Sector.

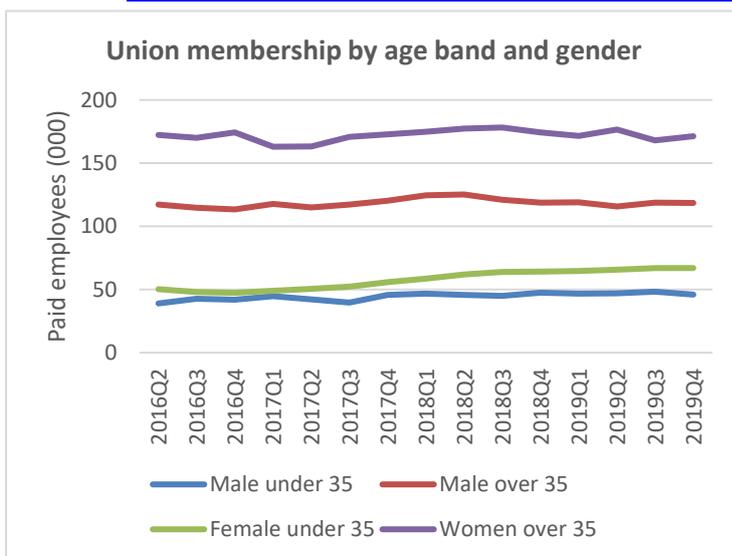


There are a few things here:

- The recent pay equity settlement in the contracted out public sector – Care and Support - is shown in the private sector comparators.
- The Public Sector is far broader than the Public Service. It includes the Police, teachers, nurses and doctors employed in the public system, academics as well as the State Owned and Mixed Ownership model companies. Plus the regional, city and district councils.

Because it is so broad, it is possible that this comparison is relatively meaningless. But as we know that [female academics earn less than male academics for the same skills and experience](#)

and also [that specialist doctors have a 12.5% gender gap](#). I'll leave it up for a while and see what I can find.



And as a final piece of light relief, here are the union membership statistics by age and gender.

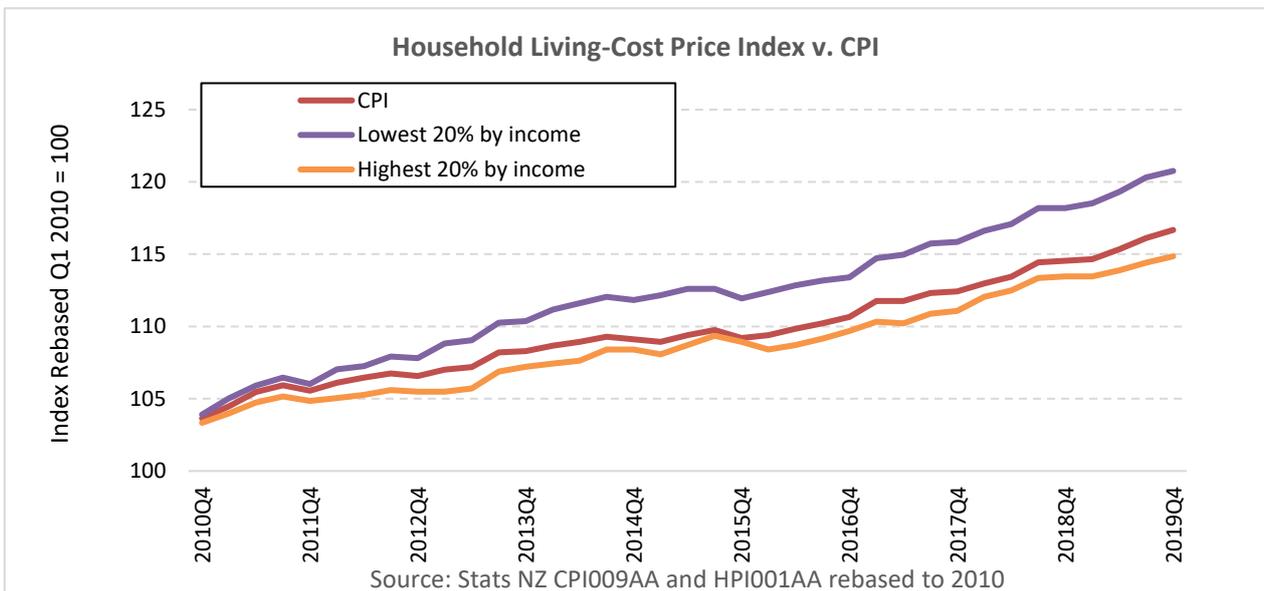
The future is indeed female. Just so long as we all join our union and are paid properly.

## Housing costs, rent and inequality

This month saw:

- the release of the Household Living- Cost Price indices for the December 19 quarter;
- an updated rent index for January 2020;
- advice from Stats NZ that [housing costs were unchanged between December 2018 and 2019](#) and
- not one, not two, but three reports suggesting major change was needed to how we fund and invest in housing. One from [the Helen Clark Foundation](#), one from the [UN special rapporteur](#) and another from [Kay Saville-Smith](#).

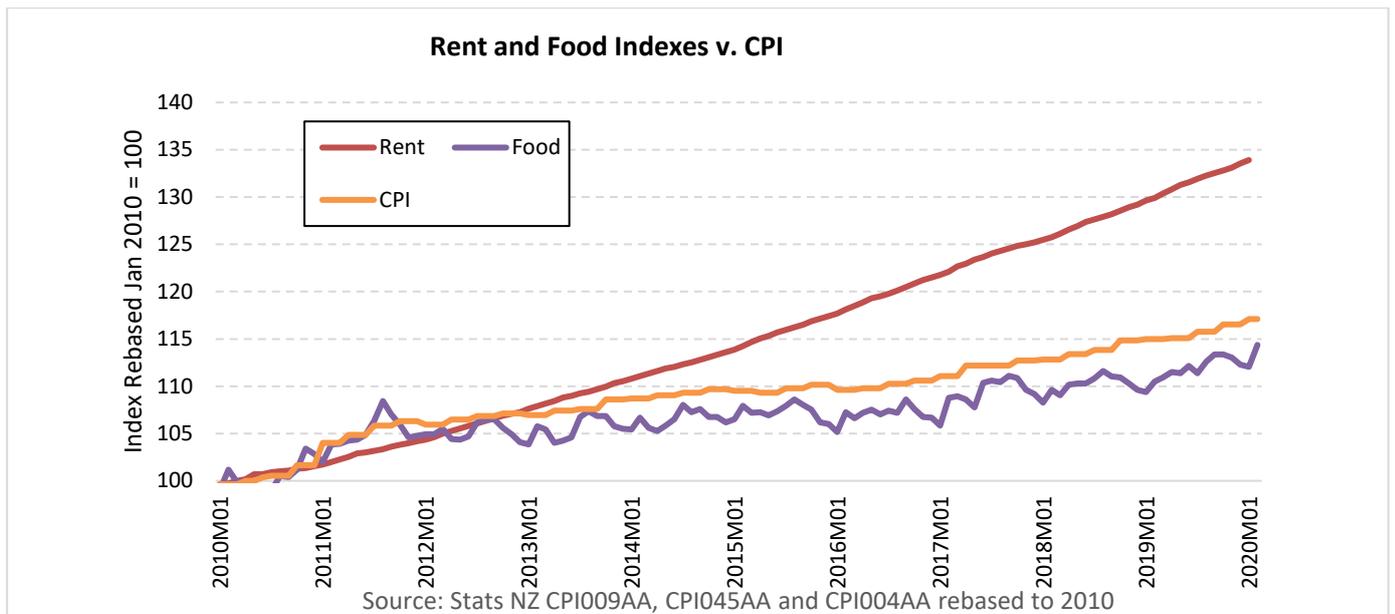
Looking first at the issue of housing costs from Stats NZ. The reason they didn't increase on average in the last year was that while rents went up interest and mortgage costs went down.



However, rents are a significant feature of low-income household's costs while interest is more a feature for high-income households.

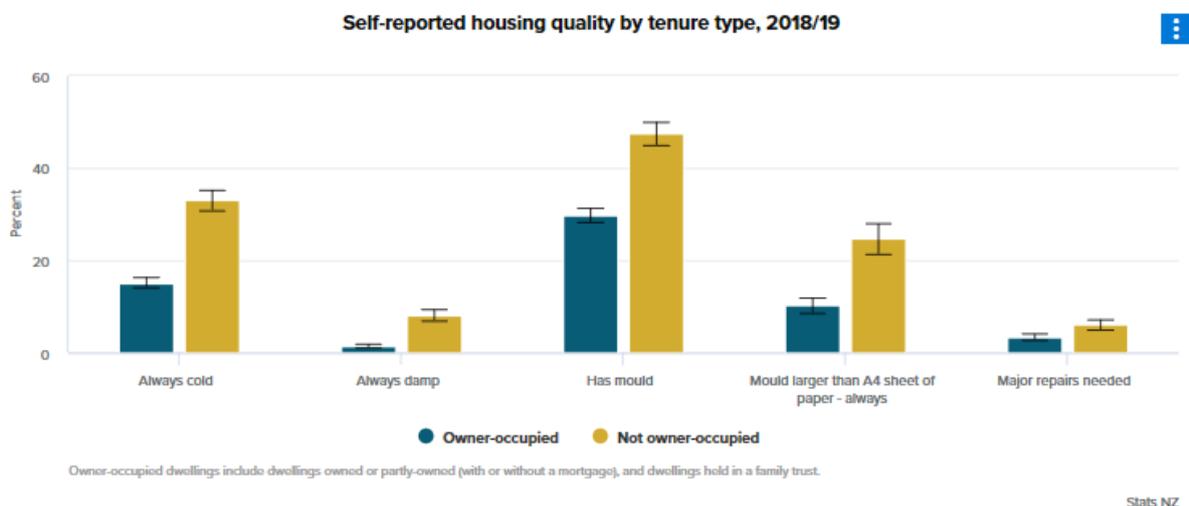
This is reflected in the relative changes to the low- and high-income Household Living-Cost Price indices and continued the disproportionate increase of the low -income price index compared to the high income one and the general consumer price index.

Rents, since December 2019, have increased 0.2% and 3.3% in the year from January 2019.



As well as outpacing general inflation, the [General Social Survey 2018](#) released in June 2019 by Stats NZ showed that New Zealanders who rented were less likely to be satisfied with the quality of their home than home-owners.

And this was because rental properties tended to be twice as likely to be cold, damp, mouldy or require major repairs.



All of which is likely to be the backdrop to the report on [Housing Affordability](#) by the Helen Clark Foundation, the concerns of the United Nations special rapporteur and the report from the Herald

showing that the [housing crisis is pretty much correlated with the reduction in government investment in the area.](#)

And why all this matters is neatly incorporated in the table below from the [In \(paid\) Work Poverty report from AUT](#) commissioned by the Human Rights Commission. 23% of households with children; a single parent in paid work and renting – are in poverty. It makes sense – as shown in Table 14 – as rent takes on average 50% of the income of this group.

All pretty appalling really and mean the changes this government is making can't come fast enough for this group.

**Table 15. Before and after housing costs and in-work poverty rate, for renters**

	Restricted sample			Full sample (from Table 8)	
	Before housing costs	After housing costs	Share	Before housing costs	
	In-work poverty rate	In-work poverty rate		In-work poverty rate	Share
Couple without children	4.5%	8.3%	21.5%	4.8%	25.7%
Couple with child(ren)	7.6%	10.4%	30.1%	6.3%	36.8%
One parent with child(ren)	12.7%	23.2%	12.3%	12.3%	9.6%
Two or more family household	10.3%	12.1%	8.4%	9.6%	6.6%
One-person household	5.7%	11.0%	17.1%	6.4%	15.3%
Other multi-person household	14.0%	20.7%	10.6%	11.6%	6.0%
<b>Total</b>	<b>8.1%</b>	<b>12.8%</b>	<b>100%</b>	<b>7.0%</b>	<b>100.0%</b>

Source: IDI 2019. Notes: In-work poverty as defined in Section 3. Full sample = 725,313 working households. Restricted sample = renters with information on rental expenditure = 244,854 working households. Share = proportion of respective household type from sample of working households.

**Table 14. Monthly share of rent costs for working households**

	Non-poor	Poor	Total
<b>Couple without children</b>			
	24.1%	59.1%	25.1%
	(0.123)	(0.219)	(0.140)
<b>Couple with child(ren)</b>			
	24.6%	44.9%	26.0%
	(0.113)	(0.222)	(0.135)
<b>One parent with child(ren)</b>			
	33.2%	50.2%	35.3%
	(0.149)	(0.222)	(0.169)
<b>Two or more family household</b>			
	22.3%	40.3%	24.2%
	(0.118)	(0.225)	(0.144)
<b>One-person household</b>			
	30.3%	56.1%	31.2%
	(0.141)	(0.233)	(0.153)
<b>Other multi-person household</b>			
	27.5%	64.7%	30.2%
	(0.150)	(0.227)	(0.184)

Source: IDI 2019. Notes: Std dev in parenthesis. Working and poverty status as defined in Section 3 (average in-work poverty rate of 6.5 percent based on sample of 239,610 working households).

## Notes

This bulletin is available online at <http://www.union.org.nz/economicbulletin217>. For further information contact [Andrea Black](#).

# Monthly Economic Review

February 2020



PARLIAMENTARY SERVICE  
Te Ratonga Whare Pāremata

	2018/19	2019/20	
📉 Economic Growth	3.2%	2.7%	Annual average GDP Growth (September year)
📉 Unemployment	4.3%	4.0%	Unemployment Rate (December quarter)
N/C Inflation	1.9%	1.9%	Annual Inflation Rate (December year)
📉 Current Account Deficit	\$10.6b	\$10.3b	Current Account Deficit (September year)
📉 Interest Rates	1.75%	1.00%	Official Cash Rate (11 February)

## Latest data and events

The New Zealand economy expanded by 0.7 percent in the September 2019 quarter, stronger than market expectations. On an annual basis, gross domestic product (GDP) expanded by 2.7 percent over the year ended in the quarter. Revisions to the GDP series following the release of Stats NZ's annual national accounts data resulted in stronger economic growth in 2018, but weaker growth in 2019 than had previously been published. An increase in spending on electronic goods such as appliances, mobile phones and computers resulted in the retail trade and accommodation industry expanding by 2.4 percent in the September quarter. A decline in road transport resulted in a 2.4 percent contraction in value-added output from the transport, postal, and warehousing industry in the quarter.

Annual inflation rose to 1.9 percent in the year ended in the December 2019 quarter, just below the two percent midpoint of the Reserve Bank's 1 – 3 percent medium term inflation target band. In the December quarter, consumer goods and services prices rose by 0.5 percent, driven by an increase in prices for domestic and international airfares, domestic accommodation, petrol, and house rental costs. House rental costs rose by 0.8 percent in the December quarter, and by one percent in the Wellington region. The price of petrol rose by 1.6 percent in the quarter, with a 2.9 percent rise in the North Island partially offset by a 2.6 percent fall in petrol prices in the South Island. Reflecting seasonal availability, vegetable prices fell by 12.6 percent in the quarter, with lower prices for tomatoes, cucumbers, lettuce and capsicums.

The seasonally adjusted current account deficit for the September 2019 quarter was \$2.7 billion, an increase of \$0.3 billion from the previous quarter. This was mainly due to a decrease in the value of exported goods (particularly logs, wood and wood articles) along with an increase in the value of imported goods. The annual current account deficit totalled \$10.3 billion for the year ended September 2019, equivalent to 3.3 percent of GDP. When looking at the components of the current account, the services component recorded a surplus of \$4.2 billion, which was offset by deficits for the other components – goods, primary income, and secondary income. New Zealand's net international debtor position, the net amount we owe the rest of the world in terms of net debt and equity, was \$172.8 billion at 30 September 2019 (equivalent to 56.3 percent of GDP).

New Zealand's unemployment rate fell to four percent in the December 2019 quarter, down from 4.1 percent in the September quarter (in seasonally adjusted terms). Employment growth was flat in the quarter, with an increase in full-time employment offset by a reduction in part-time employment. The labour force participation rate, which measures the proportion of the working age population in the labour force, fell 0.3 percentage points to 70.1 percent.

Topic of the month: **Ownership of equities on the New Zealand Exchange (NZX)**

## Economic growth

### Background

A country's gross domestic product (GDP) is a measure of economic activity during a period of time, normally reported on a quarterly and an annual basis. It is the sum of money values of all final goods and services produced in an economy. The primary indicator used for tracking economic growth over time is known as real gross domestic product, or real GDP. Real GDP is gross domestic product adjusted for changes in prices. New Zealand's official gross domestic product figures are sourced from Stats NZ.

### Gross domestic product

The economy expanded 0.7 percent in the September quarter, and 2.7 percent on an annual average basis. On a per capita basis, GDP rose 0.4 percent over the September quarter and one percent over the year ended in the September quarter.

In the September quarter, ten of the 16 industries reported an increase in value-added output, with the output from a further two industries remaining stable. The primary sector grew 1.1 percent in the

quarter (with an increase in output from agriculture and fishing), while the goods and services industries expanded by 0.5 percent and 0.4 percent respectively.

An increase in household spending on durable goods was a driver of expenditure GDP growth in the September quarter. This was offset by a reduction in exported goods, particularly dairy product exports in the quarter.

### Other data

**Business confidence improved in December according to the ANZ Business Outlook survey and the NZIER Quarterly Survey of Business Opinion. According to the NZIER, "businesses are feeling less downbeat about the outlook".**

### Outlook

It is too soon to quantify the impact on the New Zealand economy as a result of the coronavirus outbreak in China. Increased uncertainty may result in households delaying spending, while both goods and services (i.e. tourism and international education)

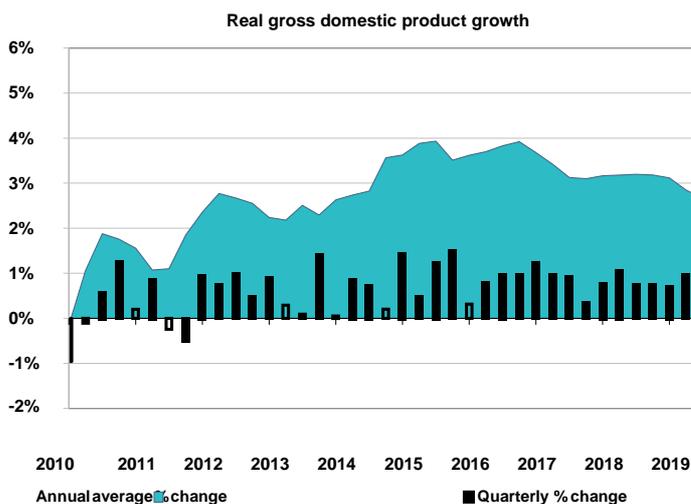
exports will be negatively impacted by the economic disruption in China, along with the imposed travel restrictions.

GDP growth (%)	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19
Annual average (year-on-year)	3.2	3.2	3.1	2.8	2.7
Quarterly (seasonally adjusted)	0.6	1.0	0.4	0.1	0.7

Source: Stats NZ.

Next Release: *Gross Domestic Product: December 2019 quarter.*

Date: 19 March 2020.



Year ended September 2019	Nominal GDP
Gross Domestic Product	\$307,052 million
GDP per capita	\$62,594

Source: Stats NZ.

BNZ-Business New Zealand	Nov-19	Dec-19
Performance of Manufacturing Index	51.2	49.3
Performance of Services Index	52.9	51.9

Seasonally adjusted. A figure over 50 indicates an expansion in activity.

Source: BNZ-Business New Zealand.

ANZ Business Outlook Survey	Nov-19	Dec-19
General 'Business Confidence'	-26.4	-13.2
Own 'Activity Outlook'	12.9	17.2

Net percentage expecting an improvement in 12 months' time.

Source: ANZ Bank, Business Outlook survey.

# Employment and Unemployment

## Background

The unemployment rate measures the number of people unemployed as a proportion of those in the labour force. The labour force is the number of people of working age (15 years and over) who are working for wages or a salary, working for a family business, or who are unemployed and seeking work. In New Zealand, the official unemployment rate is sourced from Stats NZ's quarterly Household Labour Force Survey (produced as part of its Labour Market Statistics).

## Labour market

The unemployment rate fell 0.1 percentage point to four percent in the December quarter, with 111,000 people unemployed in seasonally adjusted terms. New Zealand's unemployment rate has been generally trending downward since the second half of 2012.

During the December quarter employment growth was flat, with an increase in full-time employment offset by a decline in part-time employment. The number of those not in the labour force (those of working age who are neither employed or unemployed) rose in the quarter, with the labour

force participation rate easing by 0.3 percentage points to 70.1 percent as a result.

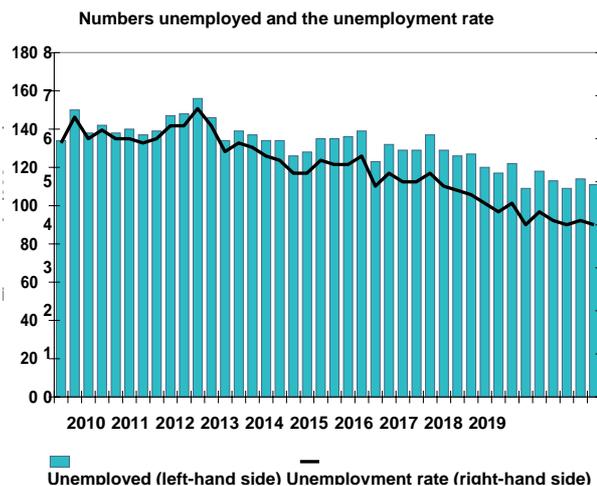
Salary and wage rates (including overtime) rose by 2.6 percent over the year ended in the December 2019 quarter according to Stats NZ's *Labour Cost Index*. This was the highest annual increase since the June 2009 quarter. Collective pay settlements in the public sector for nurses, teachers, and police has resulted in salary and wage rates (including overtime) to rise by 3.3 percent in the sector over the year according to the *Labour Cost Index*.

## Other data

The number of filled jobs rose by 0.2 percent in December according to Stats NZ's new employment indicator. An increase in service industry jobs was partially offset by a decline in the number of filled jobs in the primary and goods-producing industries.

## Outlook

New Zealand's labour market remains tight, with limited supply of employment. The BNZ expects the unemployment rate to rise over the coming couple of quarters due to an increase in uncertainty. However, wage growth is also expected to rise.



ANZ Business Outlook Survey	Nov-19	Dec-19
Net % expecting to increase employment in their business in 12 months*	3.2	7.5

\*equal to the % of respondents expecting an increase minus the % expecting a decrease. Source: ANZ Bank.

Quarter	Dec-18	Dec-19
Average ordinary time weekly earnings for FTEs (pre-tax) (\$)	\$1,200.82	\$1,244.21
Labour Cost Index - % change in salary and wage rates (including overtime) from the same quarter of the previous year	+1.9	+2.6

Source: Stats NZ.

Household Labour Force Survey	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19
Unemployment Rate (seasonally adjusted, %)	4.3	4.1	4.0	4.1	4.0
Employment Growth (annual, %)*	2.0	1.4	1.6	1.0	1.0

\*change since the same quarter of the previous year based on seasonally adjusted data. Source: Stats NZ.

Next Release: *Labour Market Statistics: March 2020 quarter*. Date: 6 May 2020

# Inflation

## Background

Inflation is the change in prices of goods and services over a certain period of time. The official rate of consumer inflation is measured by Stats NZ's Consumers Price Index (CPI). The CPI tracks the price of a basket of household goods and services over time on a quarterly basis.

## Consumers Price Index

Annual inflation rose to 1.9 percent in the year ended in the December 2019 quarter, with goods and services prices rising by 0.5 percent in the December quarter.

The cost of petrol rose by 1.6 percent in the December quarter but remained 0.8 percent lower than a year earlier. A litre of 91-unleaded petrol cost \$2.14 in the December quarter, up from \$2.11 in the previous quarter.

Higher costs and prices in the housing and household utilities group made the largest contribution to annual inflation over the year ended

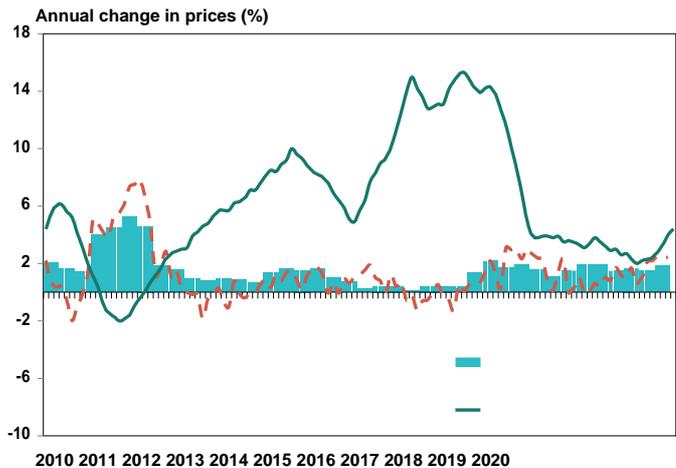
in the December 2019 quarter. Over the year, housing rental costs rose by 3.1 percent, the highest annual increase since September 2008 according to Stats NZ. Local authority rates and payments rose by 4.9 percent, while costs associated with the purchase of a new dwelling rose by 2.4 percent over the year.

## Other data

The national median house price was \$629,000 in December according to REINZ, with five regions recording new median prices – Northland, Manawatu/Wanganui, Taranaki, Tasman and Southland. The West Coast was the only region to record a decrease in the median sale price over the past year. The REINZ's national House Price Index rose by 6.6 percent over the year.

## Outlook

ANZ expects annual house price inflation to reach eight percent in 2020 given low mortgage rates, the tight labour market and continuing population growth. Recent forecasts from the ASB and Westpac has annual inflation rising to 2.2 percent in the year ended in the March 2020 quarter.



Annual Percentage Change (%)	Dec-19	Jan-20
Quotable Value – Residential property values*	4.0	4.4
REINZ House Price Index**	6.6	n/a
Food Price Index**	2.4	n/a
*change since the same three months ended in the month of the previous year **change since the same month of the previous year. Sources: Quotable Value; REINZ; Stats NZ.		
ANZ Business Outlook Survey	Nov-19	Dec-19
Net % of respondents expecting to increase prices in 3 months' time*	23.8	26.8
Inflation expected in 12 months' time	1.72	1.76
*equal to the % of respondents expecting an increase minus the % expecting a decrease. Source: ANZ Bank.		

Inflation (%)	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19
Consumers Price Index - Annual	1.9	1.5	1.7	1.5	1.9
Tradables inflation	0.9	-0.4	0.1	-0.7	0.1
Non-tradables inflation	2.7	2.8	2.8	3.2	3.1
CPI - quarterly	0.1	0.1	0.6	0.7	0.5

Source: Stats NZ.

Next Release: Consumers Price Index: March 2020 quarter.

Date: 20 April 2020

## External

### Background

The balance of payments is the record of the receipts and payments between a country's residents and the rest of the world, over a given period. The current account is that part of a country's balance of payments which embraces its transactions of goods, services, primary income (i.e. international income), and secondary income (i.e. current transfers such as foreign aid). A "balance of payments deficit" refers to a deficit of the current account.

### Current account balance

On an annual basis, the current account deficit totalled \$10.3 billion for the year ended September 2019, having recently peaked at \$11.4 billion in the 2018 calendar year. The lower annual deficit is due to goods exports rising to a greater degree than imports, along with a reduction in the earnings of foreign investors on their New Zealand investments (and increased New Zealand earnings on our overseas investments).

The current account deficit is equivalent to 3.3 percent of GDP, below its long-term average of 3.6 percent of GDP.

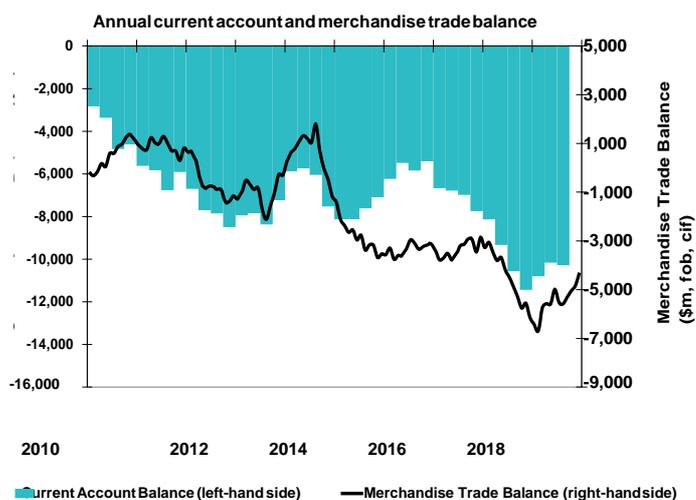
### Other data

Global dairy auction prices fell 4.7 percent on 4 February according to Fonterra's *Global Dairy Auction* results, with whole milk powder prices falling by 6.2 percent. Outbreak of the coronavirus in China was thought to be a factor behind the drop in prices.

### Outlook

Export intentions rose in the latest ANZ *Business Outlook* survey (particularly in the manufacturing

sector), while firms reported an increase in export demand in the NZIER *Quarterly Survey of Business Opinion*. China is our largest trading partner, so the outbreak of the coronavirus will have an impact on export revenue (particularly in the areas of tourism and international education), along with demand for New Zealand goods such as logs.



Annual Change (%)	Dec-19	Jan-20
World Commodities Prices*	8.7	5.7
NZ\$ Commodities Prices*	12.2	9.0
Overseas Visitors**	1.1 (Nov)	n/a

\*changes since the same month of the previous year. \*\*change since the previous year-end. Sources: Stats NZ; ANZ.

Balances (\$m)	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19
Quarterly Current Account (seasonally adjusted)	-2,612	-2,772	-2,479	-2,342	-2,681	n/a
<b>Annual Current Account</b>	<b>-10,563</b>	<b>-11,437</b>	<b>-10,801</b>	<b>-10,164</b>	<b>-10,280</b>	n/a
Goods	-4,567	-5,225	-4,564	-3,894	-4,206	n/a
Services	5,437	5,003	4,625	4,308	4,165	n/a
Primary income (i.e. investment income)	-11,260	-10,927	-10,559	-10,084	-9,629	n/a
Secondary income (i.e. current transfers)	-172	-288	-303	-494	-610	n/a
<b>Net international investment position (as at date)</b>	<b>-156,092</b>	<b>-168,806</b>	<b>-163,922</b>	<b>-166,704</b>	<b>-172,797</b>	n/a
<b>Annual Merchandise Trade Balance (FOB-CIF)*</b>	<b>-5,309</b>	<b>-6,161</b>	<b>-5,739</b>	<b>-4,987</b>	<b>-5,321</b>	<b>-4,309</b>

\* CIF – Cost of goods imported, including insurance and freight to New Zealand. FOB – Free on board, the value of goods at New Zealand ports before export. Source: Stats NZ.

Next Release: *Balance of Payments: December 2019 quarter.*

Date: 18 March 2020

## Finance

### Background

The trade weighted index (TWI) is an index of the New Zealand dollar's value against a basket of 17 overseas currencies, where each currency is weighted by a combination of the size of the associated country's bilateral merchandise trade with New Zealand (including the Euro group of countries) and their gross domestic product. The Official Cash Rate (OCR) is the interest rate that applies to overnight borrowing and lending between banks and the Reserve Bank. It is currently a key operational feature of monetary policy in New Zealand. The S&P/NZX 50 is the main share index of the New Zealand Exchange. It tracks changes in the share prices of the top 50 publicly listed companies by free float market capitalisation on the NZX market. It is a gross index, so it includes the payout of dividends in its calculation.

### Recent trends & data

Short term interest rates rose for the third consecutive month in January. The 90-day bank bill rate averaged 1.27 percent, compared with 1.05 percent in October.

Long term interest rates eased slightly during the month, with the 5-year and 10-year government bond yields easing by six and five basis points respectively. When compared with a year earlier, both short term and long term interest rates were between 59 and 85 basis points lower.

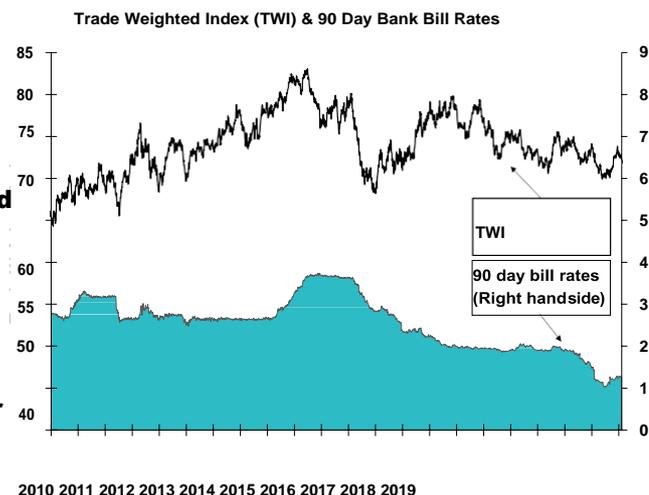
<sup>45</sup> The New Zealand dollar appreciated against the major international currencies in January (the United States

dollar, UK pound sterling, Australian dollar, Japanese yen and European euro), but fell slightly on a trade weighted index basis (down 0.1 percent). One of the currencies the New Zealand dollar fell against was the Chinese yuan.

The S&P/NZX50 ended January at 11,717 index points, up 30.4 percent from a year earlier. This compared with a 5.8 percent increase in the S&P/NZX A-Grade Bond Index over the same period.

### Outlook

Respondents to the Reserve Bank's *Survey of Expectations* have increased their official cash rate forecasts for the end of the March quarter from an average of 0.79 percent to 0.97 percent. They also expect a lower New Zealand dollar in December 2020 against the Australian dollar and United States dollar than was the case at the time of the survey.



Core Crown borrowing as at	31-Dec-19 (\$m)	31-Dec-19 (%GDP)
Gross sovereign-issued debt *	89,105	29.0
Net core Crown debt **	64,461	21.0

\*Excluding Reserve Bank settlement cash and Reserve Bank bills.

\*\* Excluding NZ Super Fund and other advances. Source: The Treasury.

Monthly averages	Sep-19	Oct-19	Nov-19	Dec-19	Jan-20
90 Day Bank Bill rate	1.15	1.05	1.18	1.23	1.27
10 Year Government Bond yields (secondary market)	1.16	1.16	1.35	1.53	1.48
Floating mortgage rate*	5.26	5.26	5.26	5.26	n/a
SME overdraft rate*	9.00	9.00	9.00	9.00	n/a
Trade Weighted Index (TWI) exchange rate	70.78	70.53	70.86	72.73	72.67
S&P/NZX50 index	10925	10948	10947	11378	11699

\*Last business day of the month. Sources: Reserve Bank; NZX.

Next Official Cash Rate (OCR) decision: 12 February 2020

## International

### Background

New Zealand's economic growth rate, unemployment rate and central bank interest rates are compared with our main OECD trading partners. The first table below illustrates the seasonally adjusted quarterly growth rates in economic activity. The second table below shows the harmonised unemployment rate in each OECD country/area, while the third shows the main central bank interest rates for various countries (and the Euro).

Quarterly economic growth rates (%)			
Country*	Jun-19	Sep-19	Dec-19
Australia	0.6	0.4	n/a
Japan	0.5	0.4	n/a
<b>NEW ZEALAND</b>	<b>0.1</b>	<b>0.7</b>	<b>n/a</b>
United Kingdom	-0.2	0.4	n/a
United States	0.5	0.5	0.5
Euro area	0.2	0.3	0.1
OECD Total	0.4	0.4	n/a
China**	1.6	1.4	1.5

\* Seasonally adjusted growth rate from the previous quarter. \*\* non-OECD. Source: OECD.

Harmonised unemployment rates (%)			
Country	Nov-19	Dec-19	Jan-20
Australia	5.2	5.1	n/a
Japan	2.2	2.2	n/a
<b>NEW ZEALAND</b>	<b>n/a</b>	<b>4.0</b>	<b>n/a</b>
United Kingdom	3.8 (Nov)	n/a	n/a
United States	3.5	3.5	3.6
European Union	6.3	6.2	n/a
OECD Total	5.1	5.1	n/a

Source: OECD.

### Economic growth

The ANZ and National Australia Bank are forecasting the Australian economy to contract in the March quarter due to the impact of bushfires and the coronavirus. The Australian Reserve Bank has said that both factors would “temporarily weigh on domestic growth”.

### Unemployment

The harmonised unemployment rate within the OECD area remained at 5.1 percent in December, the same rate as the previous two months.

### Central banks

The People's Bank of China announced in early February that it was injecting 1.2 trillion yuan (approximately NZ\$265 billion) into the economy following the coronavirus outbreak. When it reopened on 3 February following the extended Chinese New Year, the Shanghai Stock Exchange Composite Index fell 7.7 percent (it has since partially recovered, up 5.6 percent).

The Reserve Bank of Australia left its cash rate steady at 0.75 percent in February. Reserve Bank Governor Philip Lowe in a speech noted that the Bank was keeping a watch on borrowing, given the danger of inflating asset bubbles during periods of low interest rates.

Central Bank interest rates (as at 11 February)				
Central Bank	Key Rate	Interest Rate (%)	Effective from	Direction (Basis points)
Australia	Cash Rate	0.75	1-Oct-19	-25
China	Loan Prime Rate	4.15	20-Nov-19	-5
European Central Bank	Main Refinance Rate	0.00	16-Mar-16	-5
Japan	Uncollateralized overnight rate	-0.10 to 0.00	16-Feb-16	-10
<b>NEW ZEALAND</b>	<b>Official Cash Rate</b>	<b>1.00</b>	<b>7-Aug-19</b>	<b>-50</b>
United Kingdom	Bank Rate	0.75	2-Aug-18	+25
United States	Federal Funds Rate	1.50 to 1.75	31-Oct-19	-25

Source: Central Bank interest rates as at the date stated.

## Topic of the month

### Ownership of equities on the New Zealand Exchange (NZX)

**JBWere publishes estimates on an annual basis of the proportion of the New Zealand equities market held by foreign owners. The 2019 survey included 64 companies listed on the NZX, which accounted for 97 percent of market capitalisation of the S&P/NZX All Index. Foreign ownership of New Zealand equities fell 1.3 percentage points in 2019 to 37.6 percent. As at September 2019, foreign ownership of NZX-primary listed companies included offshore strategic stakes of 5.3 percent (where the foreign investor owned more than ten percent of the company) and other offshore owners, who held 32.3 percent of NZX-primary listed companies. Foreign ownership in New Zealand's listed companies was significantly higher in the late-1990s.**

**The reduction in overseas ownership during 2019 was due to a number of factors. Australian investment in the NZX-listed primary companies eased during the year (from 16 percent to 13 percent), while the proportion of NZ equity ownership increased due to the Initial Public Offer (IPO) of the Napier Port and price performance of other utilities (which tend to have a level of central or local government ownership).**

**The proportion of shares held by NZ managed funds continues to climb, reflecting growth in KiwiSaver funds, along with an increase in the New Zealand Superannuation Fund and ACC Fund. New Zealand managed funds held 24.7 percent of NZX-primary listed companies in 2019, compared with 15.6 percent in 2005. This has been partially offset by a decrease in the level of ownership held by New Zealand retail investors over the same time period (down from 23 percent to 17.7 percent).**

As at Sep-19	Ownership of NZX primary listed stocks (%)
<b>NZ managed funds</b>	<b>24.7</b>
<b>NZ strategic stakes</b>	<b>20.0</b>
<b>NZ retail investors</b>	<b>17.7</b>
Total NZ ownership	62.4
<b>Offshore strategic stakes</b>	<b>5.3</b>
<b>Other offshore owners</b>	<b>32.3</b>
Total offshore ownership	37.6

Source: JBWere. Equity Ownership Survey NZ 2019.

As at	Level of foreign ownership of NZX primary listed stocks (%)
Dec-97	60.3
Dec-98	55.1
Dec-99	54.5
Dec-00	47.2
Dec-01	47.1
Mar-03	45.4
Mar-04	46.0
Mar-05	44.3
Mar-06	41.4
Mar-07	39.1
Jun-09	38.1
Jun-10	36.1
Jun-11	35.9
Jun-12	35.1
Jun-13	33.1
Jun-14	33.0
Sep-15	32.6
Sep-16	36.3
Sep-17	37.9
Sep-18	38.9
Sep-19	37.6

Source: JBWere. Equity Ownership Survey NZ 2019.

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