Te Kauae Kaimahi

Economic Bulletin

March 2024

NEW ZEALAND COUNCIL OF TRADE UNIONS

union.org.nz

Economic Bulletin

March 2024

Welcome to the March 2024 NZCTU Economic Bulletin. In our monthly feature we look at the Budget Policy Statement (BPS) that the new government released in late March. The role of the BPS is to outline the government's fiscal strategy and what it will be spending over the next few years. However, this year's BPS is short on detail. Particularly concerning is the lack of detail on the government's tax cut programme. We are still none the wiser as to what tax changes are going to be made, how they will be paid for, and when they will occur. Our view is that the BPS was a missed opportunity for the new government to demonstrate some economic leadership, and reinforced the sense that it doesn't have an economic plan.

We also introduce a new Bulletin feature – a summary of key economic statistics for trade unionists. This is intended as a one-page, quick reference guide for trade unionists on key economic indicators, the latest forecasts, and annual wage growth by sector, sex, and industry. We will update this each month as new data comes in.

In our regular updates, we discuss the GDP data for the December 2023 quarter. This shows that the New Zealand economy was in "technical recession" for the second half of last year. It also shows that the growth we have experienced in the past year or so has largely been driven by population growth. On a per-capita basis, GDP has fallen 1.6% in the past year.

We update our rent-to-minimum-wage index, which shows that someone on minimum wage needs to work 34.5 hours just to cover the median rent. Our index shows that rents have consistently risen faster than the minimum wage for the past decade-and-a-half. From 2009 to 2023, the minimum wage increased 82%, while the median rent rose 110% and lower quartile rent rose 117%. The new government's real terms cut to the minimum wage will only exacerbate this problem.

We also summarise the latest inflation, migration, balance of payments, consumer confidence, and housing data and summarise the government accounts. The overall picture is of a weakening economy.

For the consumer inflation and household living costs data for the December 2023 quarter, please see the [January 2024 Bulletin](). For the wage and employment data for the December 2023 quarter, please see the [February 2024 Bulletin]().

As always, please get in touch if you have any feedback or suggestions for areas of future investigation.

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Budget Policy Statement still missing in action

Last week, the government released its Budget Policy Statement (BPS). It's not normally a document that garners much attention. Its job is to outline the government's fiscal strategy and what it will be spending over the next few years. These are the self-imposed guidelines that the government sets itself to help manage its finances in the future. The BPS should also set out the wellbeing objectives of the government – which should inform its spending choices.

This year, the BPS gathered much more coverage than usual. Firstly, it was very late. It's normally published in December, and this year it was published in March. It also was the second time this government has had the opportunity to show how it will pay for many of the commitments that it made on the campaign trail, such as the proposed tax cuts. The first time being the mini budget in December.

Sadly, readers looking for guidance would have found it lacking. No information was provided on the government's spending plans in the future – save that they will be provided at some point in the future. No detail was provided on the cuts programme currently being implemented across government departments. No data was provided on the deficit, or the debt levels – beyond high level statements. While the BPS is always written with political considerations in mind, this one was almost entirely a political document, rather than a financial management paper.

After fearmongering for so long while in opposition that government debt was out of control, the government's BPS now accepts that our debt levels are within the bounds of "prudence on debt sustainability". The government's proposed debt ceiling is 50% of GDP. We are currently around 40%. A debt-to-GDP ratio of 50% would still place us well below most of the countries that we normally compare ourselves to. There is no public debt crisis in New Zealand.

In the 2023 BPS, the previous government outlined a set of wellbeing objectives that focused on New Zealanders' physical and mental wellbeing, child poverty, and the just transition. As Table 1 overleaf shows, the new government has replaced these objectives with cuts to public services and fiscal consolidation measures.

In short, the 2024 BPS has taken us away from the previous approach of using fiscal tools to deliver better social outcomes (in health, education, and climate change, for example) to using fiscal tools to deliver accounting outcomes (debt, surplus, and investment). It's a return to the narrow thinking and rhetoric of the previous National-led government, which delivered us fiscal surpluses but mouldy hospitals. It's an approach that knows the cost of everything, but not its value.

The government was also very keen to tell us that the economy had slowed since the last fiscal update in December. Unusually, the BPS came with an "Economic and Tax Outlook" from the Treasury. This was a "sneak peek" at the government's numbers ahead of the Budget in May this year.

These numbers showed a much-anticipated deterioration in the financial position of the government and the economy generally. GDP growth is expected to be much lower in the near future, falling from 1.5% annual growth to 0.1%. Consequently, inflation is forecast to fall more quickly than previously expected, to just above the Reserve Bank's target rate by June this year.

This in turn is expected to lead to unemployment being slightly lower than expected just a few months ago. It is now forecast to peak at 4.9%, rather than 5.2%. Whether this is realistic is subject to much debate. If the economy is slowing as rapidly as predicted, this would normally result in higher unemployment. This is especially the case if migration continues to be as strong as it is, and with the significant cuts in public sector employment that are expected. During the last National-led government, unemployment averaged 5.7%. This seems a much more likely scenario than that set out by the Treasury.

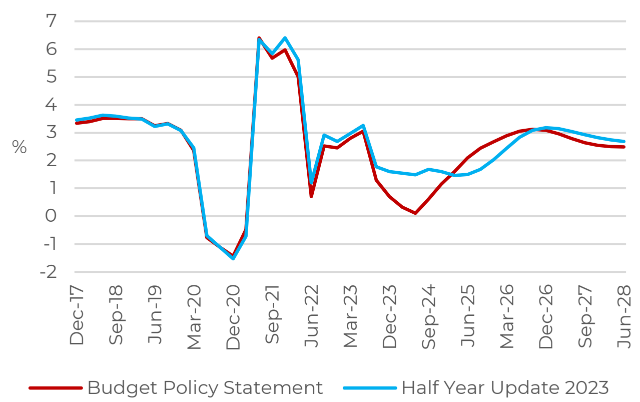
Table 1: BPS Wellbeing Objectives, 2023 and 2024.

BPS 2023	BPS 2024
1. Just Transition: supporting New Zealanders to transition to a climate-resilient, sustainable, and low-emissions economy. 2. Physical and Mental Wellbeing: supporting improved health outcomes for all New Zealanders, particularly the mental wellbeing of our young people. 3. Future of Work: equipping New Zealanders and enabling New Zealand businesses to benefit from new technologies, and lift productivity and wages through innovation. 4. Māori and Pacific Peoples: lifting Māori and Pacific peoples' incomes, skills, and opportunities, including through access to affordable, safe, and stable housing. 5. Child Wellbeing: reducing child poverty and improving child wellbeing, including through access to affordable, safe, and stable housing.	1. Delivering meaningful tax reductions to provide cost of living relief to New Zealanders, who have seen no change in personal income tax rates and thresholds since 2010. Tax reductions will be funded by reprioritisation, savings and new revenue measures, and this package will not add to debt. 2. Identifying enduring savings across government departments and agencies. 3. Improving public services by shifting spending to higher-value areas and focusing on results. 4. Keeping tight control of government spending while funding a limited number of high priority Government policy commitments and urgent cost pressures that cannot be funded through reprioritisation. 5. Developing a long-term, sustainable pipeline of infrastructure investments.

Source: New Zealand Government.

When you look at the small print of the Treasury forecasts, some additional challenges hove into view. These forecasts don't include the last set of GDP numbers (for the December 2023 quarter), meaning that these weaker-than-expected numbers aren't in this forecast. No announced or proposed policy changes from government have been incorporated into the forecasts either. This means the impact of the government's tax package aren't in there. All this suggests that the final numbers in May could be far worse than those presented in the BPS package.

Figure 1: GDP forecasts: Budget Policy Statement Outlook 2024 and Half Year Update 2023.



Source: Treasury

This BPS lacks the detail usually provided by the government. The lack of detail on spending suggests that the government either doesn't know what it wants to spend, or it doesn't want you to know what it wants to spend, or it can't agree between itself on what to spend. All these options should worry New Zealanders.

The lack of detail about the tax cut programme is particularly worrying. We still don't know what tax changes are going to be made, how they will be paid for, and when they will occur. Analysis from Westpac bank suggested that $15 billion of new borrowing would be required as a consequence of the BPS. That's an identical number to the amount of money needed to pay for the tax cuts. The government was at pains to say these two things were unrelated. However, it remains the case that without those tax cuts, there would be the need for that borrowing.

All in all, the BPS was a missed opportunity for this government to demonstrate some economic leadership. There is nothing in the BPS about how to grow a more productive, sustainable, and inclusive economy. Nothing about how to support the creation of good work and thriving communities. Instead, the document further reinforces the sense that this government doesn't have a plan. It demonstrates that the parties to the coalition can agree on what they don't like, but not what a better Aotearoa can be.

Key data for trade unionists

Table 2: Economic indicators, annual percentage change.

	GDP	CPI	Wages, public sector	Wages, private sector	Unemployment	Official Cash Rate
Mar 2023	2.7	6.7	4.9	8.2	3.4	4.5
Jun 2023	3.0	6.0	4.1	7.7	3.6	5.5
Sep 2023	1.3	5.6	5.4	7.1	3.9	5.5
Dec 2023	0.6	4.7	7.4	6.6	4.0	5.5

Source: Stats NZ, RBNZ. GDP is production measure, seasonally adjusted, real. Wages are average ordinary time hourly earnings.

Table 3: Economic forecasts, annual percentage change, March years.

	GDP			CPI			Wages*			Unemployment			Official Cash Rate**		
	RBNZ	Treasury	Average	RBNZ	Treasury	Average	RBNZ	Treasury	Average	RBNZ	Treasury	Average	RBNZ	Treasury	Average
Mar 2024	0.5	0.3	0.3	3.8	4.0	4.0	5.9	6.2	5.2	4.2	4.3	4.3	5.5	5.7	5.5
Mar 2025	1.9	1.6	1.0	2.6	2.3	2.5	4.6	5.1	3.9	5.0	5.1	5.3	5.5	5.3	5.3
Mar 2026	3.2	2.9	2.7	2.0	2.1	2.1	4.2	3.9	3.4	4.9	4.9	5.2	4.5	3.9	3.9

Source: RBNZ (MPS February 2024), Treasury (HYEFU 2023), ANZ, ASB, and BNZ. The Average measure is the average of forecasts from the RBNZ, Treasury, ANZ, BNZ, and ASB.
* The RBNZ and Average wage forecasts are private sector average ordinary time hourly earnings; the Treasury wage forecast is all sectors average ordinary time hourly earnings.
** Treasury is 90-day interest rate, which closely tracks the OCR; the Average measure is the average of the OCR forecasts from the RBNZ, ANZ, BNZ, and ASB.

Table 4: Annual wage growth to December 2023 (%).

	Nominal	Real
All sectors/sex (average ordinary time hourly wages)	**6.9**	**2.2**
Public sector	7.4	2.7
Private sector	6.6	1.9
Female	7.9	3.2
Male	6.2	1.5
All sectors/sex (average ordinary time + overtime hourly wages)	**6.8**	**2.1**
Public sector	7.7	3.0
Private sector	6.4	1.7
Female	6.0	1.3
Male	7.7	3.0

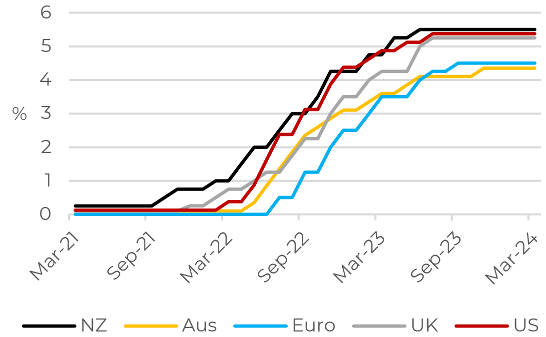
Source: Stats NZ. Real is deflated by consumers price inflation for the year ending December 2023.

Prices

Central bank interest rates

The Official Cash Rate (OCR) remains unchanged since our last Bulletin, at 5.5%. A further rate hike is still visible in the Reserve Bank's forecast, but it is uncertain whether this will happen. Other developed economy central banks have also held their interest rates steady, and it is expected that some will begin to cut rates later this year.

Figure 2: Central bank interest rates.



Source: BIS.

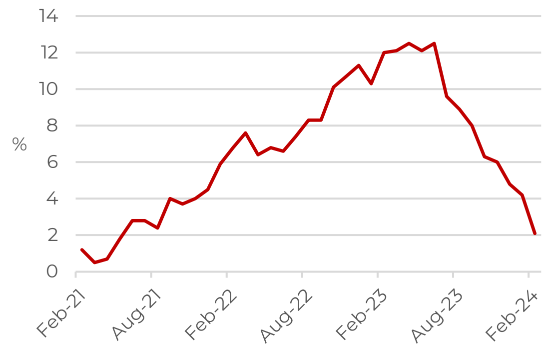
Food prices

Food price inflation for the year ending February 2024 was 2.1%, which is back within the Reserve Bank's target range for consumer inflation. This continues the rapid decline in food price inflation since mid-2023.

The price of fruit and vegetables fell 9.3% for the year, with the price of vegetables down 16.7% and the price of fruit up 1.9%.

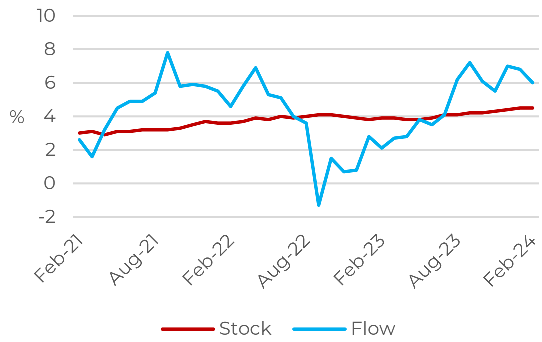
The price of the meat, poultry, and fish category was effectively flat for the year, only increasing 0.2%. The cost of beef and veal fell 1.9%, the cost of chicken fell 0.5%, and the cost of mutton, lamb, and hogget fell 9.1%, while the cost of pork increased 7.8% and the cost of fish and seafood increased 2.5%.

Figure 3: Annual food price inflation.



Source: Stats NZ.

Figure 4: Annual rental price inflation.



Source: Stats NZ.

Grocery food increased 3.9% for the year, making it the main driver of food price inflation. Bread increased 4.7% in price, oils and fats increased 3.1%, yogurt increased 11.5%, and eggs increased 17.6%, while the cost of fresh milk fell 1.9% and the cost of cheese fell 15.4%.

Restaurant and ready-to-eat food increased 6.7% in price. The cost of non-alcoholic beverages increased 4.3%, while the cost of alcohol increased 5%.

Property rent prices

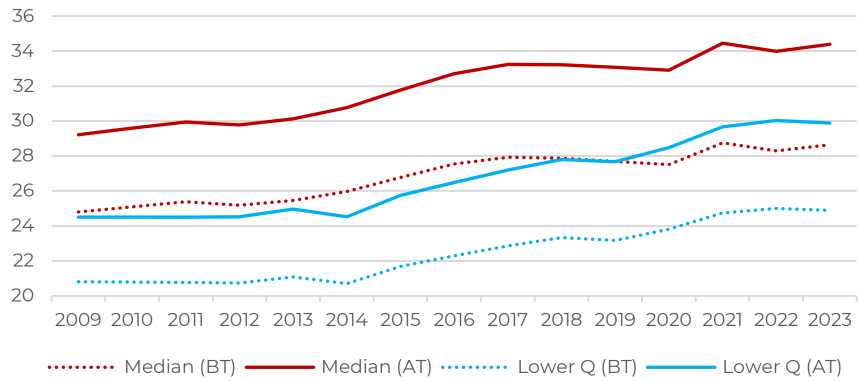
Rent price inflation remained high in February. Compared to February 2023, rents increased 6% on the flow measure and 4.5% on the stock measure. The flow measure captures price changes of new tenancies while the stock measure captures price changes across the whole rental population. The flow measure usually increases at a faster rate than the stock measure because landlords have more leverage to set higher prices for new tenants than existing tenants and new rentals are more likely to be of higher quality. We examined the drivers of rent price inflation in the September 2023 Bulletin.

On the flow measure, rent price inflation was 7.3% in Auckland, 2% in Wellington, 5.9% in the rest of the North Island, 9.9% in Canterbury, and 4.8% in the rest of the South Island. The slower rate of inflation in Wellington may be because Wellington is not experiencing the same level of migration-driven population growth as other parts of the country.

Rent-to-minimum-wage index

We have updated the rent-to-minimum-wage index for the December 2023 quarter (the latest available data). This index tracks how many hours a minimum wage worker in New Zealand needs to work to pay the rent. We calculate this for the median and lower quartile (cheapest) rents for a three-bedroom house, as this enables a stable comparison over time. As Figure 5 shows, a minimum wage worker needs to work 34.5 hours to cover the median rent (up half an hour from December 2022), or 29.9 hours to cover lower quartile rent (unchanged since December 2022).

Figure 5: Hours worked to pay rent on minimum wage, before tax and after tax.



Source: Employment New Zealand; Tenancy Services; NZCTU calculations. After-tax rates are calculated using the paye.net.nz calculator; after-tax rates for years prior to 2018 are calculated using 2018/19 tax rates.

Compared to December 2022, the median rent for a three-bedroom house increased 8.3% to $650 (up $50), while lower quartile rent increased 6.6% to $565 (up $35). Over this same period, the minimum wage increased 7.1%, from $21.20 per hour to $22.70. For a full-time worker, this meant an extra $60 per week before tax, or approximately $50 extra after tax (but excluding KiwiSaver payments). This means that a minimum wage worker paying median rent has seen the entirety of their after-tax pay increase go straight to the landlord, while a minimum wage worker paying lower quartile rent has seen 70% of their after-tax pay increase go to the landlord.

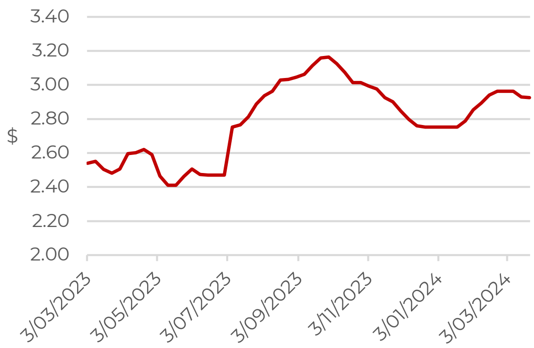
As Figure 5 shows, over the past decade-and-a-half, rents have consistently risen faster than the minimum wage. From 2009 to 2023, the minimum wage increased 82%, while the median rent rose 110% and lower quartile rent rose 117%. The result is that a minimum wage worker now needs to work 5.3 hours more per week than they did in 2009 to pay median rent, and 5.5 hours more to pay lower quartile rent (using the after-tax measure).

This long-term trend runs contrary to the coalition government's claim that restoring mortgage interest deductibility on investment properties (in plain English: tax cuts for landlords) will help to moderate rent price inflation. For most of the period shown in Figure 5, landlords have been able to claim interest deductibility, with this only beginning to change in late 2021. Additionally, the government has decided to only increase the minimum wage by 2% this year, which will mean a real terms pay cut for workers on the minimum wage.

Fuel prices

The price of fuel increased has remained steady over March. For the week ending 22 March 2024, [MBIE's](#) fuel-price monitoring had regular petrol at $2.93 per litre, premium petrol at $3.12 per litre, and diesel at $2.29 per litre. Oil is currently trading around US$85 per barrel.

Figure 6: 91 unleaded price per litre.



Source: MBIE.

Real estate

As of February 2024, the [REINZ](#) house price index (HPI) was up 3.2% from the same time last year, but down 13.5% from its late-2021 peak. It is up an annual compound growth rate of 5.9% from five years ago. The national median house price for February 2024 was $790,00, which is up 3.1% annually. Overall, the monthly indicators continue to show house prices lifting across most of the country. The fall in residential building consents since mid-2022 (discussed below) will likely put upward pressure on house and rent prices.

Table 5: REINZ house price index, percentage increases, February 2024.

	3 months	1 year	5 years*	From peak
National	0.3	3.2	5.9	-13.5
National excl. Auckland	1.0	2.7	7.2	-9.9
Auckland	-0.7	3.7	4.2	-18.5
Wellington	0.8	3.0	4.9	-20.4
Canterbury	1.2	5.8	8.7	-3.9

** Compound annual growth rate*

Source: REINZ.

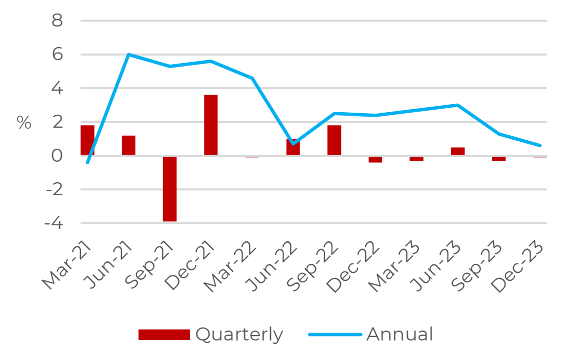
Economy

Gross domestic product

GDP continued to contract in the December 2023 quarter, falling 0.1% from the September quarter. This means the New Zealand economy was in "technical recession" – defined as two consecutive quarters of negative real GDP growth – for the second half of the 2023. However, it is important to note that these figures are estimates and may be subject to revision by Stats NZ later in the year. Additionally, economists often distinguish between a technical recession and a genuine recession, the latter of which can be defined as "a significant decline in economic activity spread across the economy" with declines in production, employment, and real incomes.

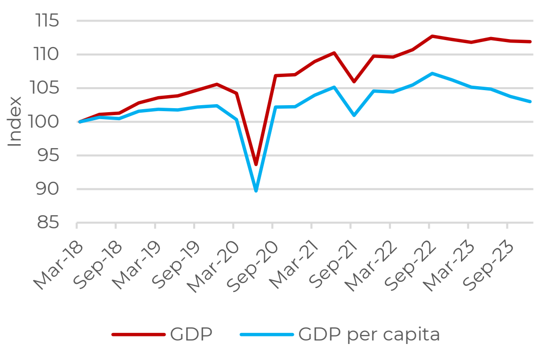
The fall in quarterly GDP growth was driven by the goods-producing industries, which declined 0.1% overall. Manufacturing output fell 0.4% while construction grew 0.1% and electricity, gas, water, and waste services grew 0.3%. Primary industries grew 0.3%, driven by a 0.7% expansion in agriculture, forestry, and fishing, with the volatile mining industry contracting 3.4%. Service industries grew 0.3% overall, with growth flat or negative in 6 out of the 11 industry categories. Output declined 1.8% in wholesale trade, 0.9% in retail trade and accommodation, 0.7% in transport, postal, and warehousing, and 0.8% in arts, recreation, and other. Output was flat in information media and telecommunications and education and training. Output increased 0.7% in financial and insurance services, 1% in rental, hiring, and real estate services, 0.6% in professional, scientific, technical, admin, and support services, 2.8% in public administration and safety, and 0.4% in healthcare and social assistance.

Figure 7: Production GDP, quarterly and annual growth.



Source: Stats NZ.

Figure 8: Production GDP and GDP per capita growth.



Source: Stats NZ.

Annually, GDP grew 0.6% in the year to December 2023. This is significantly weaker than the 2.4% growth recorded in the year to December 2022. This weaker performance was driven by the large fall in output from goods-producing industries, which were down 2.2% annually. Manufacturing contracted 5.2%, and construction contracted 0.1%, while electricity, gas, water, and waste services grew 0.1%. By contrast, primary industries grew 1.6% for the year, with agriculture, forestry, and fishing growing 1.5% and mining growing 2.7%. The service industries grew 1.4% overall. Wholesale trade contracted 2%, retail trade and accommodation contracted 3.5%, and education and training was flat. However, output increased 0.3% in transport, postal, and warehousing, 3.7% in both information media and telecommunications and financial and insurance services, 2.4% in rental, hiring, and real estate services, 1.3% in professional, scientific, technical, admin, and support services, 4.7% in public administration and safety, 2.5% in healthcare and social assistance, and 4.6% in arts, recreation, and other.

Table 6: Expenditure on GDP, quarterly percentage change.

	Mar 23	Jun 23	Sep 23	Dec 23
Household consumption	0.8	-0.5	-0.9	0.5
Non-durables	-2.9	-0.1	-0.7	-0.7
Durables	-0.6	1.5	-3.4	0.6
Services	1.8	-0.3	-0.6	0.5
Central government	-1.6	3.8	-2.2	0.0
Business investment	1.4	1.0	-4.7	0.6
Gross fixed capital formation	1.0	0.0	-3.0	-0.3
Exports	-0.2	5.4	-2.4	3.2
Exports less imports	-1.0	-1.3	-0.5	-2.9
Total expenditure on GDP	-0.5	0.5	-0.4	0.0

Source: Stats NZ.

Expenditure on GDP was flat in the December quarter. A breakdown of quarterly movements in expenditure is provided in Table 6.

The economy looks even more sluggish when GDP growth is measured on a per capita basis, as shown in Figure 8. On this measure, the economy is estimated to have contracted 1.6% annually. Real gross national disposable income per capita – that is, the volume of goods and services that New Zealand residents can purchase – has declined 2.8% annually. These figures indicate that the growth we have experienced over the past year has largely been driven by record high net immigration. The economy has gotten bigger in an absolute sense, but the product produced per head of population has fallen, as has our purchasing power.

Overall, the GDP data indicates that the New Zealand economy has weakened significantly under the strain of high inflation and high interest rates. Together with the weakening retail trade data discussed in last month's Bulletin and the slackening labour market, this suggests tougher times ahead. This should cause the government to rethink its planned cuts to public investment, as these cuts will further exacerbate the economic slowdown.

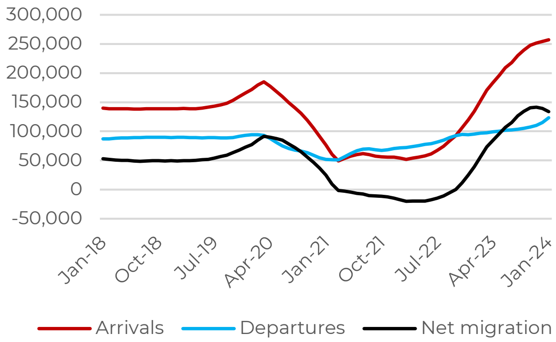
Migration

Net immigration remains very high. For the year ending January 2024, there were an estimated 257,200 migrant arrivals and an estimated 123,300 migrant departures – both are provisional records. This produced an estimated net migration gain of 133,800 people for the year. Stats NZ also revised its estimates for 2023 upwards. On the revised estimates, the year ending November 2023 saw the highest level of net immigration on record, at 141,400 people.

The high level of net immigration has been driven by citizens of India, with an estimated 45,100 net arrivals, the Philippines, with an estimated 35,200 arrivals, and China, with an estimated 20,100 net arrivals for the year ending January 2024. The net outflow of New Zealand citizens remains at record highs, with an estimated 46,900 New Zealanders leaving the country in the year.

In early March, the CTU released a report on the potential public investment gap that could open over the next four years if government does not invest in line with our rapidly growing population. This potential public investment gap will only be exacerbated by the government's planned cuts.

Figure 9: Annual migration.



Source: Stats NZ.

Balance of payments

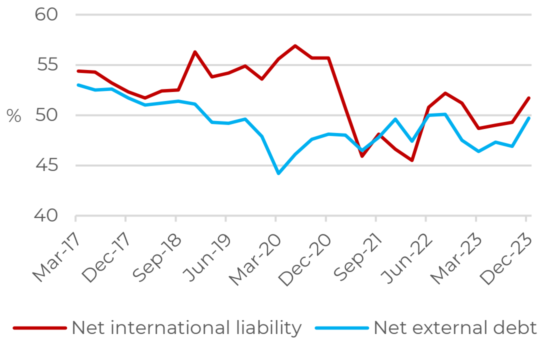
The balance of payments figures for the December 2023 quarter show that New Zealand's current account deficit remains large. The seasonally adjusted quarterly current account deficit was $6.9 billion, up $0.2 billion from September. The current account deficit for the year ended December 2023 was $27.8 billion, or 6.9% of GDP.

For the year ended December 2023, goods imports exceeded goods exports by $12.2 billion; services imports exceeded services exports by $3.2 billion; and primary income outflow exceeded primary income inflow by $12.5 billion. These deficits show that the total cost of imports into New Zealand exceeds the total earnings from New Zealand exports, and that more profits, interest payments, and dividends are flowing out of the country to overseas investors than New Zealand residents are earning from their foreign investments.

Figure 10: Current account deficit as % of GDP.

Source: Stats NZ.

Figure 11: Net liability and external debt as % of GDP.



Source: Stats NZ.

For the year ended December 2023, New Zealand's net international investment position was -$209.6 billion, or 51.7% of GDP. This net liability has increased $14.7 billion since the year ending December 2022. This position shows the value of financial claims held by New Zealand residents on non-residents against the financial liabilities of New Zealand residents to non-residents.

New Zealand's net external debt position is -$201.3 billion, or 49.7% of GDP. This is up $20.3 billion from the year ending December 2022. This means that New Zealand is a net debtor to the rest of the world. Over half of this deficit is accounted for by the commercial banks, who collectively recorded a net debt liability of $115.2 billion (down $11.1 billion) to the rest of the world. General government's net debt liability was $53.4 billion (up $18.1 billion), while the Reserve Bank recorded a net asset position of $13.9 billion (down $2.2 billion).

Overseas merchandise trade

For the year ending February 2024, total good exports were valued at $68.9 billion, down 4.7% from the previous year. Total goods imports were valued at $80.9 billion, down 8.2% from the previous year. This produced a goods trade deficit of $12 billion, which is down from the deficit of $15.8 billion recorded in the year ended February 2023. The tables below detail the annual movement in our 10 major exports and 10 major imports by value.

Table 7: Main goods exports, year ending February 2024.

	$ millions	% change from previous year
Milk powder, butter, and cheese	19,657	-5.1
Meat and edible offal	8,761	-7.3
Logs, wood, and wood articles	4,792	-9.2
Fruit	3,516	-7.1
Mechanical machinery and equipment	2,442	11.4
Preparations of milk, cereals, flour, and starch	2,429	-5.3
Wine	2,075	-11.4
Fish, crustaceans, and molluscs	1,969	8.0
Casein and caseinates	1,602	-15.8
Electrical machinery and equipment	1,544	5.5

Source: Stats NZ.

Table 8: Main goods imports, year ending February 2024.

	$ millions	% change from previous year
Petroleum and products	11,158	-0.4
Vehicles, parts, and accessories	11,132	-2.9
Mechanical machinery and equipment	10,916	-5.7
Electrical machinery and equipment	7,278	-3.4
Textiles and textile articles	3,130	-12.3
Optical, medical, and measuring equipment	2,776	4.0
Plastic and plastic articles	2,535	-19.3
Pharmaceutical products	2,445	-6.1
Iron and steel, and articles	1,779	-30.9
Aircraft and parts	1,729	75.8

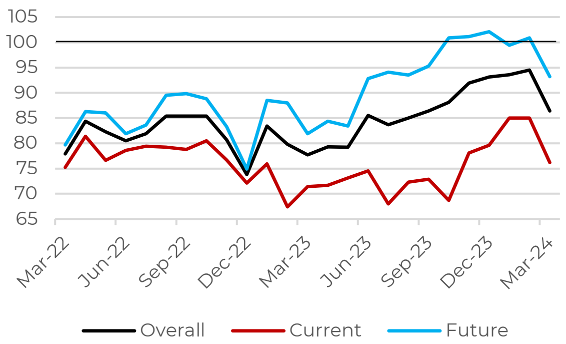
Source: Stats NZ.

Consumer and business confidence

The ANZ–Roy Morgan consumer confidence index took a dive in March, falling 9 points to 86.4. This reversed the slow upward trend in confidence since mid-2023. A score above 100 on the index demonstrates that consumers have confidence in current and future economic conditions; less than 100, and they are pessimistic. Consumer confidence has been below the 100 mark for over two years.

Confidence in current conditions was very pessimistic, falling 9 points to 75; confidence in future conditions is also fell, down 8 points to 93. A net 24% of those surveyed reported it was a bad time to buy a major household item, which is down from February. This question is seen as a leading indicator of consumer confidence and future economic activity. A net 23% of those surveyed reported they were worse off financially than one year ago, but a net 19% expect to be better off financially by this time next year.

Figure 12: ANZ–Roy Morgan Consumer confidence index.



Source: ANZ.

Business confidence also took a dive, falling 12 points, though it is still in positive territory at +23. In retail, overall confidence fell 1.8 points to +30.2; in manufacturing it fell 9.3 points to +20.5; in agriculture it fell 33.4 points to +8.3; in construction it rose 3 points to +33.3; and in services if fell 15.5 points to +22.4.

In retail the "own activity" outlook rose 4.9 points to +18.9; in manufacturing it fell 6.9 points to +25; in agriculture it fell 4.1 points to +16.7; in construction it fell 21.5 points to +2.7; and in services it fell 8 points to +29.4.

Employment intentions remain mixed. In retail, employment intentions rose 11.5 points to +7.5; in manufacturing they fell 10.5 points to +9.1; in agriculture they rose 8.4 points to -8.3; in construction they rose 1.3 points to -10.8; and in services they fell 7.4 points to +5.3.

Performance indexes

The BNZ–BusinessNZ performance of manufacturing index (PMI) and performance of services index (PSI) provide an indication of the levels of activity in these sectors. A figure above 50 indicates that activity is generally expanding, while a figure under 50 indicates it is generally declining.

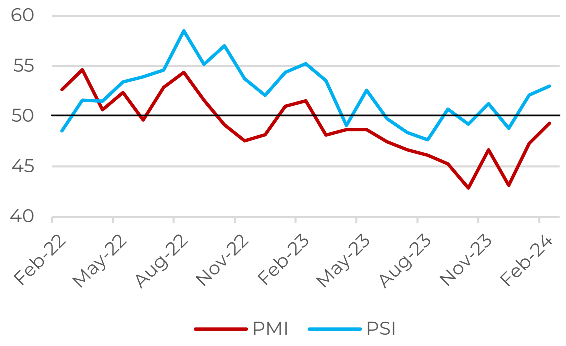
For February 2024, the manufacturing index continued to indicate contraction, at 49.3 (up 1.8 points from January). The PMI has now been registering a contraction for a full year, driven by low demand for new orders and low production.

The PSI, however, continued to register expansion, up 0.8 points to 53, driven by stronger results for activity/sales and new orders/business. Across both the PMI and the PSI, the proportion of negative comments in the surveys continues to outweigh the proportion of positive comments, with the cost of living and general economic slowdown commonly cited issues.

Building consents

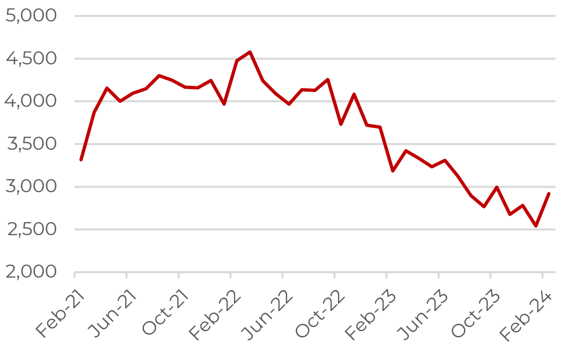
The seasonally adjusted monthly residential dwelling consents rose 15% from January to February 2024. However, for the year ended February 2024 new consents fell 25%, to 36,276. Of the major centres, consents were down 27% annually in Auckland, 28% in Waikato, 40% in Wellington, and 21% in Canterbury. Nationally, consents per 1,000 residents have fallen from 9.4 to 6.9 for the year. This downswing in construction has been ongoing since mid-2022 and is likely being driven by the Reserve Bank's interest rate hikes. In the context of rapid population growth, this downswing will likely put upwards pressure on house prices and rents.

Figure 13: BNZ–BusinessNZ PMI and PSI.



Source: BusinessNZ.

Figure 14: Seasonally adjusted monthly residential consents.



Source: Stats NZ.

Government accounts

The interim financial statements of government for the eight months ended February 2024 show that, while the fiscal forecasts have deteriorated somewhat in recent months, the government's current fiscal position remains relatively robust.

Core Crown tax revenue was $78.8 billion, which is only slightly below the Treasury's Half-Year Economic and Fiscal Update (HYEFU) forecast. Corporate tax revenue was $0.6 billion below forecast, while GST revenue was $0.1 billion below forecast. However, source deduction revenue (income tax) and other direct taxes, such as taxes on interest revenue, were $0.1 billion and $0.3 billion higher respectively.

Core Crown expenses were 1.3% lower than forecast, at $89.3 billion. This difference is attributed to lower than forecast expenditure in core government services, housing and community development, environmental protection, and transport and communications.

The OBEGAL (operating balance before gains and losses) deficit was $4.2 billion, which is 1% higher than forecast at HYEFU. Finally, the net debt position was 41.2% of GDP, which is essentially as forecast. (Note that the government has reverted to using the older measure of net Crown debt, which excludes the NZ Super Fund from the calculation of the government's assets. This is why the net debt position looks so much higher than last month's.)

Table 9: Interim government accounts for the eight months ended 29 February 2024.

	Feb 2024	HYEFU forecast	Feb 2023
Core Crown tax revenue ($m)	78,760	79,265	73,255
Core Crown revenue ($m)	87,372	88,020	80,553
Core Crown expenses ($m)	89,347	90,530	81,663
Net debt (% of GDP)	42.4%	42.3%	39.4%
Operating balance ($m)	–4,211	–4,168	–3,212

Source: Treasury.

Compared to the eight months ended February 2023, core Crown tax revenue increased 7.5%. This was mostly driven by the relatively robust labour market and nominal wage growth, with income tax receipts rising 13.6% over the period. Other direct tax revenue was up 72.8%, due to higher deposit interest rates, which the Crown taxes. GST revenue increased 4.9% due to high inflation driving higher nominal consumption. By contrast, corporate tax revenue was down 7.2%.

Core Crown expenses were 9.5% higher than the same period last year. The largest changes came from higher debt-servicing costs for government, higher social welfare costs, and higher education costs.

The OBEGAL deficit was $1 billion higher than the same time last year, and net Crown debt as a percentage of GDP also rose, up from 39.4% to 42.4%. New Zealand's level of government debt remains very low by international standards.