Te Kauae Kaimahi

Economic Bulletin

June 2024

NEW ZEALAND COUNCIL OF TRADE UNIONS
union.org.nz

Economic Bulletin

June 2024

Welcome to the June 2024 Economic Bulletin. In our monthly feature we compare the current, 'post-COVID', recession to the other significant recessions of the last three-and-a-half decades: the 1991-92 recession, the 1997-98 recession, and the 2008-09 recession.

This analysis helps set the current economic situation in context – it provides a sense of how 'bad' the current recession is compared to others in recent memory; it also highlights the importance of active policy to mitigate rising unemployment in the current recession.

In our regular updates, we look at the GDP figures for the March 2024 quarter. These show a return to growth at the headline level, but a continuation of the decline in GDP per capita, which has now fallen further than during the 2008-09 recession.

We also update our rent-to-minimum-wage index, which shows a slight fall in the number of hours worked to pay rent on the minimum wage from the same time last year. This fall in the index is likely the result of the previous government's decision to increase the minimum wage by 7.1% in 2023.

We also examine the latest inflation, migration, balance of payments, consumer and business confidence, and housing statistics. And we summarise the latest set of government accounts for May 2024.

For the latest employment, wages, social welfare, and consumer inflation data, please see the April Bulletin.

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

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Key data for trade unionists

Economic indicators (annual percentage change)

	GDP	CPI	Wages, public sector	Wages, private sector	Unemployment	Official Cash Rate
Jun 2023	3.0	6.0	4.1	7.7	3.6	5.5
Sep 2023	1.2	5.6	5.4	7.1	3.9	5.5
Dec 2023	0.6	4.7	7.4	6.6	4.0	5.5
Mar 2024	0.2	4.0	6.2	4.8	4.3	5.5

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

Economic forecasts (annual percentage change, June years)

	GDP			CPI			Wages*			Unemployment			Official Cash Rate**		
	RBNZ	Treasury	Average	RBNZ	Treasury	Average	RBNZ	Treasury	Average	RBNZ	Treasury	Average	RBNZ	Treasury	Average
Jun 2024	–0.1	–0.2	–0.2	3.6	3.4	3.5	3.8	5.9	3.9	4.6	4.9	4.7	5.6	5.7	5.5
Jun 2025	1.7	1.7	1.5	2.6	2.2	2.3	3.4	3.8	3.5	5.1	5.2	5.2	5.5	4.5	5.1
Jun 2026	2.9	3.2	2.8	2.0	2.0	2.0	3.2	3.1	3.3	5.0	4.8	5.0	4.4	3.5	4.0

Source: RBNZ, Treasury, ANZ. The Average measure is the average of forecasts from the RBNZ, Treasury, and ANZ.
* 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 and ANZ.

Wage growth to March 2024 (annual percentage change)

	Nominal	Real
All sectors/sex (average ordinary time hourly wages)	**5.2**	**1.2**
Public sector	6.2	2.2
Private sector	4.8	0.8
Female	6.9	2.9
Male	3.8	–0.2
All sectors/sex (average ordinary time + overtime hourly wages)	**5.2**	**1.2**
Public sector	6.3	2.3
Private sector	4.7	0.7
Female	7.0	3.0
Male	3.7	–0.3

Source: Stats NZ. Real is deflated by consumers price inflation for the year ending March 2024.

The current recession in perspective

The GDP figures published last week showed that New Zealand's economy grew 0.2% in the March quarter. This meant that, after contracting for the second half of 2023 the New Zealand economy had technically come 'out of recession'. However, these headline GDP figures tell us relatively little about the wider state of the economy – it is unlikely, for example, that many working households felt much better off during the March quarter than they did in 2023 just because the economy was technically growing again.

Indeed, this return to growth at the headline level masks the very deep contraction that continued to occur at the per capita level. In total, GDP per capita has now fallen 4.3% from its September 2022 peak. This marks a larger decline than that experienced during the big recession of 2008-09. And even if growth at a per capita level returns soon, unemployment is forecast to continue to rise through the rest of the year.

In this note, we compare the current, 'post-COVID', recession to the other significant recessions of the last three-and-a-half decades: the 1991-92 recession, the 1997-98 recession, and the 2008-09 recession. This analysis helps set the current economic situation in context – it provides a sense of how 'bad' the current recession is compared to others in recent memory, and also highlights the importance of active policy to mitigate rising unemployment.

Causes of the recessions

New Zealand has experienced four significant recessions since the beginning of the 1990s – periods in which there was a significant decline in economic output, accompanied by a marked increase in unemployment. Each of these recessions was caused by multiple different factors, both global and local, and each had different effects on the New Zealand economy. The summary provided below is very brief, and necessarily glosses over many important details.

Domestically, the key driver of the 1991-92 recession was the fourth National government's historic programme of cuts to public expenditure when it came to power in late 1990 (this included the infamous 'mother of all budgets' in 1991). These cuts exacerbated an already fragile economic position. The economy had been in and out of recession in the latter part of the 1980s, which was punctuated by the share market crash of '87. As a result, unemployment rose rapidly through the second half of the 1980s. High interest rates globally were also putting pressure on the New Zealand economy in the early '90s. The result was a very deep recession in 1991-92, in which unemployment rose to 11.2% – its highest level since the Great Depression.

The 1997-98 recession was also caused by a mix of global and local factors. On the global side, the emerging market economies of east Asia experienced a financial crisis in 1997. This caused these economies to contract, which affected demand for New Zealand exports. Domestically, this downturn was exacerbated by successive droughts, which reduced agricultural output over 1997/98 and 1998/99. This recession was far milder than the earlier one. Unemployment rose to a peak of 7.9% – a level that we would consider very high by today's standards – but this was from a pre-recession low of 6.2% (unemployment averaged 8% through the 1990s).

The principal cause of the 2008-09 recession was the meltdown of the American and European banking systems in late 2008. Although the New Zealand economy had entered recession at the start of that year – partly due to another drought – the near collapse of the American and European financial systems dramatically exacerbated this. It caused the global supply of credit to dry up, which in turn caused a global economic slowdown, often referred to as 'the Great Recession'. In New Zealand, GDP per capita fell 4.2% and unemployment rose from 3.4% at the end of 2007 to 6.6% two years later.

The current, post-COVID, recession can also be understood as the result of both international and domestic factors. The direct cause of the recession is the large increase in interest rates that we have experienced over the past two years. In this respect, it is an intentional, 'policy-driven' recession – the Reserve Bank has deliberately engineered a downturn to reduce inflation. The inflationary shock itself was initially caused by the supply chain problems generated by the global pandemic. On a per capita basis, output began to contract sharply from the last quarter of 2022 and is still in recession. However, at a headline level, GDP has been up and down over the past year and a half, because the population has grown at a rapid clip. Unemployment has risen from 3.3% to 4.3% and is forecast to peak somewhere between 5–5.5%. The post-COVID downturn is, of course, ongoing. We don't yet know how long it will last, nor how severe the economic impacts will ultimately be.

Table 1: Four recessions, key indicators.

	1991-92	1997-98	2008-09	2022-current*
Recession starts**	1991Q1	1997Q3	2007Q4	2022Q4
GDP decline	–3.1%	–0.9%	–2.7%	–0.8%
GDP per capita decline	n/a	–1.7%	–4.2%	–4.3%
Total increase in unemployment rate	+2.3%	+1.1%	+3.2%	+1.0%
Unemployment peak	11.2%	7.9%	6.6%	4.3%
People unemployed at peak	189,000	150,000	152,000	134,000

** The numbers in this column are provisional as the recession is potentially ongoing.*
*** The start of the recession is the first quarter of negative GDP growth (either headline or per capita).*
Source: Stats NZ.

The impact of the recessions

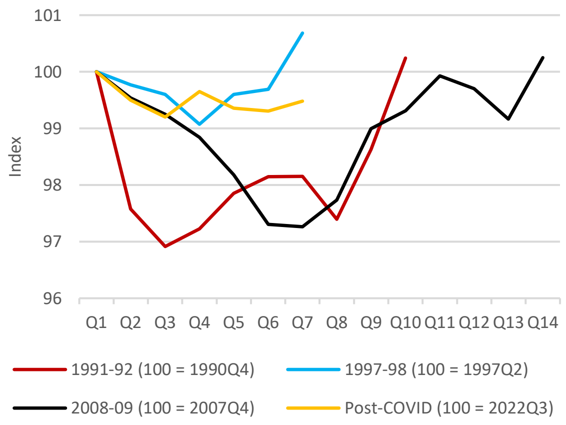
In this section, we look in more detail at how each of these different recessions occurred. There are many different indicators we could look at here, but this note focuses on just four key ones: GDP (headline and per capita), unemployment, wages, and – given the weight they carry in our political economy – house prices. These indicators don't provide a full picture of the economic dynamics at play in these periods, but they do provide a crude means of judging the scale of the current recession.

The 1991-92 recession

Measured by headline GDP, the 1991-92 recession was the deepest of the four discussed here, with output falling 3.1% from the last quarter of 1990 to the second quarter of 1991. This was a very rapid decline in output. The economy started to grow again from the second half of 1991 and had returned to its pre-recession size by the first quarter of 1993. Unfortunately, we can't measure the per capita impact of this recession, as the data series only goes back to 1991. However, judging by the pattern in the other recessions discussed below, it is possible that the per capita contraction was even deeper than the fall in headline GDP.

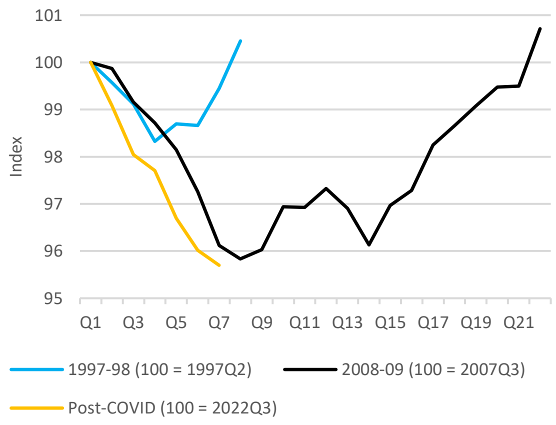
Starting from an already high level of 8.9% at the onset of the recession, unemployment rose rapidly over this period. The unemployment rate rose 2.3 percentage points overall, to peak at 11.2% in the third quarter of 1991. It remained above 9% until 1994. It's important to note that while unemployment was certainly exacerbated by this recession, it had already been rising steadily through the 1980s and the early 1990s. This was in part a reflection of the wrenching structural transformation that the New Zealand economy was undergoing, courtesy of the policies of the fourth Labour government.

Figure 1: Real production GDP – recession to recovery.



Source: Stats NZ.

Figure 2: Real per capita GDP – recession to recovery.



Source: Stats NZ.

Real wages grew ever-so-slightly over 1991-92, but this was only because annual inflation fell to around 1%. In general, real wages were essentially flat over the course of the 1990s. This likely reflects the weaker bargaining power of workers during this time of high unemployment and the introduction of the Employment Contracts Act.

House prices fell slightly during the 1991-92 recession and remained flat for the next three years. But they began picking up steam in 1993 – the first of a numerous house-price bursts over the past three decades – and had increased 50% by the time the Asian Financial Crisis hit in 1997.

The 1997-98 recession

By comparison, the 1997-98 recession was relatively mild and short. Output fell only 0.9% from peak to trough and had returned to its pre-recession level by the last quarter of 1998. Growth fell slightly further on a per capita basis, declining 1.7% from peak to trough, but had returned to its pre-recession level by the first quarter of 1999.

Unemployment only rose 1.1 percentage points from the onset of the recession to its peak of 7.9% in the second quarter of 1998. However, as with the previous recession, the unemployment level was already quite high at the onset of the recession – the economy was still adjusting to structural change. Indeed, unemployment did not fall below 7% again until just before the new millennium.

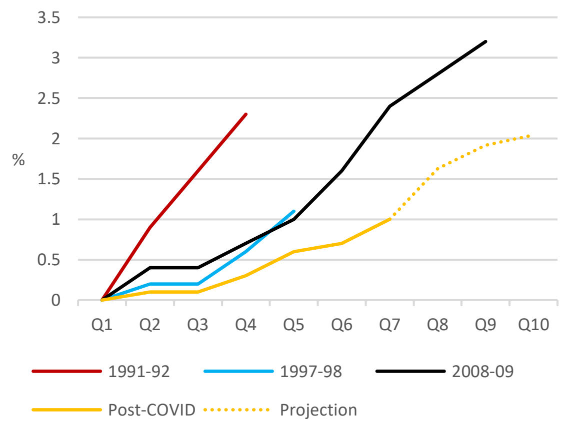
As with the 1991-92 recession, real wages grew weakly over the 1997-98 downturn, but this was again the result of a very low rate of inflation, rather than strong nominal wage growth. Real wages didn't really pick up steam until the early 2000s, as unemployment fell, the Employment Contracts Act was replaced with the Employment Relations Act, and the New Zealand economy benefitted from strong international demand for our exports.

Having increased 50% from 1993 to 1997, house prices fell over 5% through 1998, and remained flat until 2001. From this point until the onset of the 2008 financial crisis – a period of just seven years – house prices doubled.

The 2008-09 recession

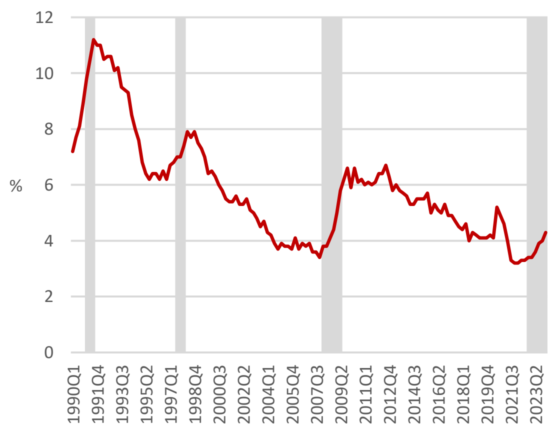
The 2008-09 recession was the longest lasting of those discussed here. Beginning in the first quarter of 2008, headline GDP contracted for six consecutive quarters, falling 2.7% from peak to trough. Again, the per capita decline was more severe. Beginning in the December 2007 quarter, GDP per capita shrunk for seven consecutive quarters, falling 4.2% from peak to trough. Although the overall size of the economy had returned to its pre-crisis level by the start of 2011, GDP per capita took almost two years longer to fully recover, as shown in Figure 2.

Figure 3: Unemployment increase from onset of recession.



Source: Stats NZ; Treasury.

Figure 4: Unemployment rate, 1990–2024.



Source: Stats NZ. Note the shaded bars represent recessions.

Unemployment rose sharply during this period, with the rate almost doubling from the pre-recession low of 3.4% to a peak of 6.6% at the end of 2009 (it fell back slightly through 2010-11 but then rose again to 6.7% in the second half of 2012). Although the rate of increase wasn't as fast as during the 1991-92 recession, the absolute increase was higher (see Figure 3). The effects of this downturn on employment levels were long-lasting, as shown in Figure 4. While unemployment had averaged 3.8% from 2004-07, it did not return close to this level until 2018.

As with the two recessions of the 1990s, real wage growth was sluggish over this period, but did increase marginally. However, a surprise burst of inflation in 2010-11 saw real wages fall steeply, at a rate comparable to the recent experience. (See the February Bulletin for a detailed breakdown of real wages over the COVID period.)

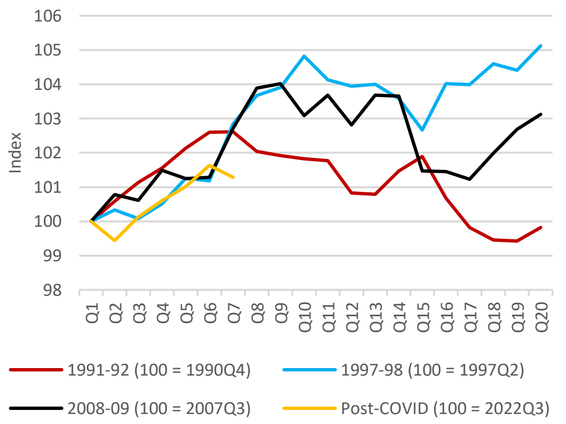
House prices fell significantly during this downturn, dropping 10% from their pre-crisis peak. The house price index didn't recover to its pre-recession level for a full five years (see Figure 6). From there, however, house prices exploded, increasing 150% from the end of 2012 to the end of 2021.

The current recession

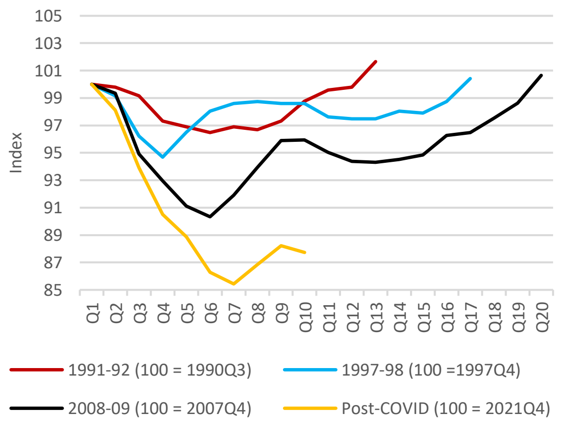
The current recession began in the fourth quarter of 2022, when both headline GDP and GDP per capita began to fall. However, a general sense of economic malaise had already begun to spread around the country due to the high rates of inflation in late 2021 through 2022 and the policy response to this – rising interest rates. As discussed above, headline GDP has only declined moderately over this period; by contrast, GDP per capita has fallen steeply, down 4.3% overall. With business and consumer confidence very low (discussed in the regular updates below), there is every chance that this per capita recession has further to go yet.

Somewhat unusually, the unemployment rate has risen relatively slowly so far. It has increased one percentage point from its pre-recession low and is forecast to rise a further percentage point, to peak somewhere between 5–5.5%. If this forecast plays out, this will see the unemployment rate increase at a level comparable to the 1991-92 recession, but at a far slower pace. In real terms, this increase will represent around 50,000 more New Zealanders unemployed compared to the pre-recession low. As we saw over the 2010s, it can take a long time for the unemployment rate to fall back to pre-recession levels.

Figure 5: Real wage growth, from recession onset to five years after. **Figure 6:** House price index, from recession onset to recovery.



Source: Stats NZ.



Source: Reserve Bank; Core Logic.

As with the other recessions discussed above, real wage growth has been sluggish over the past year-and-a-half. Overall, deflated by consumer inflation, wages have grown 1.3% from the onset of the recession in late 2022 to March 2024 (the latest available data). However, this comes off the back of large declines in real wages through 2021 and 2022, due to the inflation surprise generated by the pandemic and the war in Ukraine. When this decline is taken into account, real wages have effectively been stagnant since the end of 2020.

Finally, house prices have declined reasonably steeply from their late-2021 peak. Different from the previous three recessions discussed above, this house price decline set in well before the recession itself. It was precipitated by the Reserve Bank's decision to increase interest rates rapidly beginning in late-2021. Overall, house prices have fallen around 15% from their peak – with larger declines in some areas such as Wellington and Auckland. Forecasters currently expect house prices to remain flat over the next year or so. Although it is highly undesirable that house prices return to their 2021 peak, declining house prices matter for at least two reasons. First, when house prices are growing, people feel richer, and may spend at higher rates than they otherwise would, thus stimulating economic activity. Second, when rapidly falling prices combine with rising interest payments and higher unemployment, this can put households who bought a property close to the peak of the boom in a very precarious financial position. If they are forced to sell up because they can no longer service their mortgage, then they may end up losing their deposit and therefore their ability to get 'back into the market' later.

The upshot?

Overall, this comparison shows that the current recession is comparable in depth to the 1997-98 recession when measured by headline GDP – in other words, it's been relatively shallow so far.

However, when measured by GDP per capita, the current recession is deeper than that of 2008-09, with the added kicker of stagnant real wage growth over the past couple of years. This raises the question of whether the current fiscal approach – of reducing government expenditure to assist the Reserve Bank in reducing overall demand – is an appropriate means of delivering economic recovery?

A key difference between the current recession and that of 2008-09 is that the unemployment rate has risen rather slowly – at least so far. But as we saw in the years following 2008, the unemployment rate doesn't automatically fall back to its pre-recession levels once the economy starts growing again. During the 2010s, unemployment stayed above 5% for many years, with severe long-term consequences for the wellbeing of those unemployed workers. This was in large part a consequence of the fifth National government's approach to economic policy.

In our view, the current policy focus should be on minimizing the downturn and the increase in unemployment associated with this downturn. That means investing in jobs programmes and active labour market policies to get people who have lost their job back into secure, well-paid employment. The recent Budget did not appear to adopt that strategy.

This analysis also highlights some long-standing questions for the New Zealand economy that, in the CTU's view, require better answers:

1. How can we better tailor the policy response to the drivers and impacts of different recessions?
2. How can we manage recessionary periods in a more equitable manner, to ensure that those with the broadest shoulders carry the largest burden?
3. And how can we improve our economic resilience so that we are in a better position to withstand economic shocks in the first place

Answering these questions is, of course, no easy task. But the current government's apparent lack of interest in doing so is a cause for concern. Its strategy for addressing the post-COVID downturn appears to be to cross its fingers and hope that the Reserve Bank will reduce interest rates in 2025. This may indeed happen. But in the short term, it will mean more pain for working households and thousands more people unemployed; in the long term it will do nothing to improve our ability to better manage the next downturn.

Prices

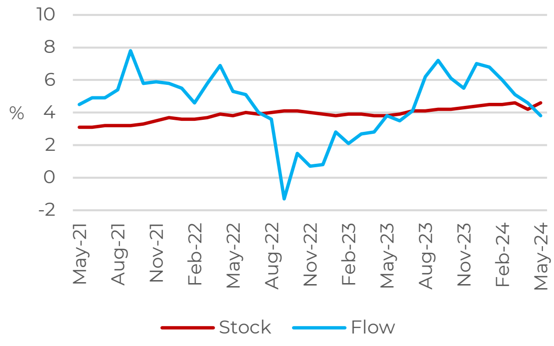
Monthly price indicators

Food price inflation remains low compared to overall inflation. Overall food prices were only 0.2% higher in May 2024 than they were a year ago. The price of fruit and vegetables fell 11.4% for the year, the price of meat and fish fell 1.2%, and the price of grocery food increased 1.3%.

Figure 7: Annual food price inflation.

Source: Stats NZ.

Figure 8: Annual rent price inflation.



Source: Stats NZ.

Compared to May 2023, rents increased 3.8% on the flow measure and 4.6% 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.

Table 2: Monthly price indicators.

	Monthly % change	Annual % change
Food	–0.2	0.2
Fruit and vegetables	–1.1	–11.4
Meat, poultry, fish	0.0	–1.2
Groceries	–0.6	1.3
Alcohol	–0.2	4.4
Rent (stock)	0.3	4.6
Rent (flow)	–0.1	3.8
Petrol	–2.6	17.1
Domestic air travel	–7.9	–0.7
International air travel	–8.2	–8.5
Domestic accommodation	–8.7	–1.5

Source: Stats NZ.

As the Reserve Bank pointed out in its May Monetary Policy Statement, rent inflation, along with council rates and insurance, has been one of the major contributors to inflation over the past year. These prices are relatively insensitive to interest rates, which means that intervention from government is needed to help alleviate price pressures in these areas.

On the flow measure, rent price inflation was 3.4% in Auckland, 1.6% in Wellington, 4.4% in the rest of the North Island, 6.4% in Canterbury, and 5.4% in the rest of the South Island. The comparatively slow rate of rent price inflation in Wellington may reflect the weak job market there, which is partly the result of the government's cuts programme. It may also reflect slower population growth compared to other regions.

In transport, the cost of domestic air travel has fallen 0.7% for the year, while the cost of international air travel has fallen 8.5%. The price of petrol has increased 17% compared to the same time last year, while the price of diesel has increased 11%.

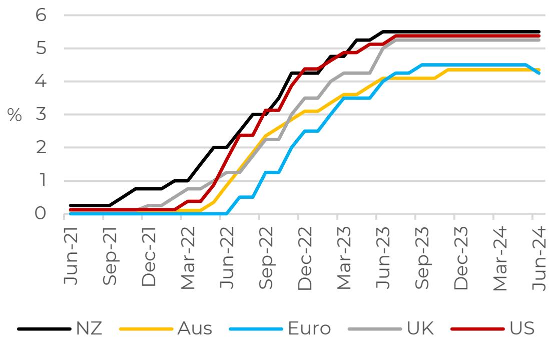
For the week ending 28 June 2024, MBIE's fuel-price monitoring had regular petrol at $2.82 per litre, premium petrol at $3.01 per litre, and diesel at $2.17 per litre. Oil is currently trading around US$84 per barrel on the West Texas Intermediate, which is a leading indicator of price pressures in New Zealand. This is up from around $75 at the start of June.

Central bank interest rates

The Official Cash Rate (OCR) remains unchanged since our last Bulletin, at 5.5%. As discussed in the May Bulletin, the Reserve Bank's Monetary Policy Statement was more aggressive than had been anticipated by economic commentators. According to the Reserve Bank, rate cuts shouldn't be expected until mid-2025, and it is still possible that there will be a further rate hike later this year.

Internationally, however, some other developed economy central banks have started to ease interest rates, with the Bank of Canada and the European Central Bank both cutting their rates in June.

Figure 9: Central bank interest rates.



Source: BIS.

Minimum wage to housing index

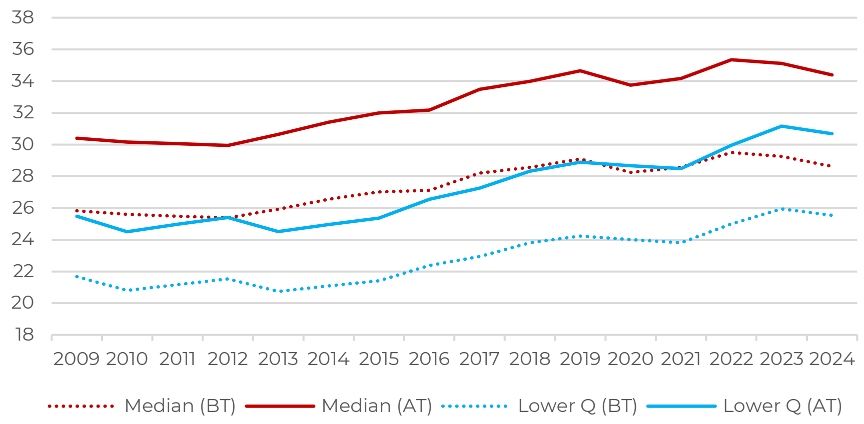
We have updated the rent-to-minimum-wage index for the January 2024 quarter (the latest available data). This index tracks how many hours a minimum wage worker in New Zealand needs to work to pay the rent. We calculate this for the median and lower quartile (cheapest) rents for a three-bedroom house, as this enables a stable comparison over time.

As Figure 10 shows, a minimum wage worker needs to work 34.4 hours to cover the median rent (down half an hour from January 2023), or 30.7 hours to cover lower quartile rent (also down half an hour from the same time last year). This slight fall in the index is likely the result of the previous government's decision to increase the minimum wage by 7.1%, to account for high inflation.

Compared to January 2023, the median rent for a three-bedroom house increased 4.8% to $650 (up $30), while lower quartile rent increased 5.5% to $580 (also up $30). 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 (excluding KiwiSaver payments).

As Figure 10 shows, over the past decade-and-a-half, rents have risen faster than the minimum wage. From January 2009 to 2024, the minimum wage increased 89%, while the median rent rose 110% and lower quartile rent rose 123%. The result is that a minimum wage worker now needs to work 4 hours more per week than they did in 2009 to pay median rent, and 5 hours more to pay lower quartile rent (using the after-tax measure).

Figure 10: Hours worked to pay rent on minimum wage, before tax (BT) and after tax (AT).



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.

Real estate

As of May 2024, the REINZ house price index (HPI) was up 2.3% from the same time last year, but down 15.9% from its late-2021 peak. It is up an annual compound growth rate of 5.5% from five years ago. The national median house price for May 2024 was $770,00, which is down 1.3% annually. The monthly indicators show a weakening of house prices across the country. Previously, forecasters had expected house price growth to pick up pace again in 2024. These expectations have been downgraded and forecasters are now expecting house prices to remain flat over the rest of 2024 and possibly through 2025.

Table 3: REINZ house price index, percentage change, May 2024.

	3 months	1 year	5 years*	From peak
National	–2.9	2.3	5.5	–15.9
National excl. Auckland	–2.4	2.6	6.8	–11.8
Auckland	–4.2	1.4	3.7	–22.0
Wellington	–2.8	4.3	4.5	–22.8
Canterbury	–1.8	4.1	8.4	–5.5

** Compound annual growth rate*

Source: REINZ.

Economy

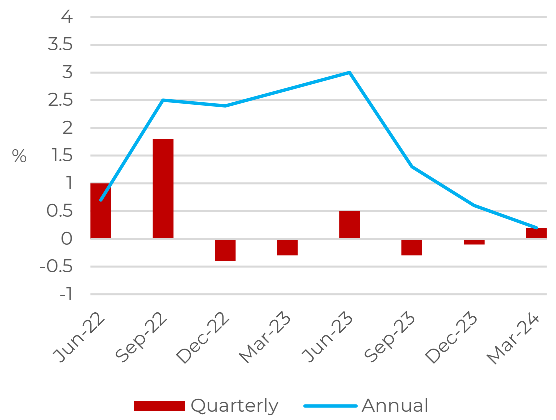
Gross Domestic Product

Overall, GDP was estimated to have increased 0.2% in the March 2024 quarter. GDP had fallen slightly for the previous two quarters. This return to expansion, however, masks the very deep contraction that is continuing to occur at the per capita level, as shown in Figure 12. GDP per capita fell 0.3% for the March 2024 quarter, which makes for six consecutive quarters of contraction. In total, GDP per capita has now fallen 4.3% from its September 2022 peak.

As we've discussed in previous Bulletins, this difference between the headline and per capita GDP figures is the result of population growth. With record levels of immigration, the New Zealand population has grown rapidly, and this has somewhat masked the severity of the current downturn.

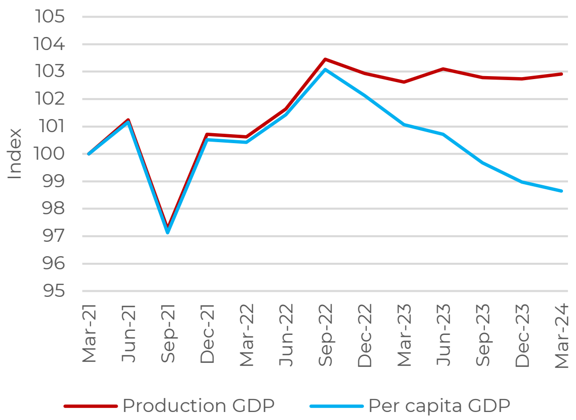
The increase in headline quarterly GDP growth was driven by primary industries, which grew 0.2%. In the goods-producing industries, output was estimated to have fallen 1.3% for the quarter. In the service industries, output was estimated to have fallen 0.1%. Table 4 provides a fuller breakdown of these quarterly movements.

Figure 11: Production GDP, quarterly and annual growth.



Source: Stats NZ.

Figure 12: Production GDP and GDP per capita growth.



Source: Stats NZ.

Annually, GDP grew 0.2% in the year to March 2024, which is significantly weaker than the 2.7% expansion recorded in the year to March 2023. This weaker performance was driven by the large fall in output from goods-producing industries, which declined 2% annually, and weaker growth in service industries. A full breakdown of annual movements by industry is provided in Table 4 overleaf.

Expenditure on GDP was flat in the March 2024 quarter. Household expenditure on durables fell, which indicates household budgets are under pressure. Central government expenditure fell for the third quarter in a row. Business investment declined, as did gross fixed capital formation. A breakdown of quarterly movements in expenditure is provided in Table 5 overleaf.

Overall, the GDP data indicates that the New Zealand economy continues to struggle under the strain of high interest rates.

Table 4: Gross domestic product by industry, March 2024.

	Quarterly % change	Annual % change
Agriculture, forestry, and fishing	0.4	1.1
Mining	–1.7	2.7
Manufacturing	–1.2	–4.1
Electricity, gas, water, and waste services	2.9	2.2
Construction	–3.1	–1.2
Wholesale trade	–0.3	–3.6
Retail trade and accommodation	0.2	–4.0
Transport, postal, and warehousing	0.2	–2.8
Information media and telecommunications	0.2	2.6
Financial and insurance services	–0.7	2.4
Rental, hiring, and real estate services	0.9	3.5
Prof, scientific, technical, admin, and support	–1.1	0.1
Public administration and safety	–1.2	5.1
Education and training	0.6	1.8
Health care and social assistance	–0.2	2.4
Arts, recreation, and other services	0.3	2.9
Gross domestic product	0.2	0.2

Source: Stats NZ. GDP is real production measure.

Table 5: Expenditure on GDP, quarterly percentage change.

	Jun 23	Sep 23	Dec 23	Mar 24
Household consumption	–0.2	–0.7	0.5	1.6
Non-durables	0.1	–0.7	–0.6	0.8
Durables	1.1	–3.4	0.3	–1.3
Services	0.2	–0.2	0.6	1.6
Central government	3.4	–0.9	–0.8	–0.3
Business investment	0.8	–4.5	0.6	–0.5
Gross fixed capital formation	–0.3	–2.7	–0.1	–1.3
Exports	5.8	–2.5	3.2	–0.4
Exports less imports	–1.4	–0.4	–2.8	6.1
Total expenditure on GDP	0.6	–0.4	0.1	0.1

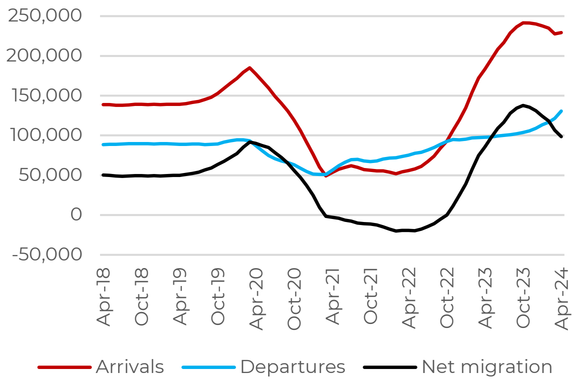
Source: Stats NZ.

Migration

Net immigration remains very high. For the year ending April 2024, there were an estimated 229,100 migrant arrivals and an estimated 130,600 migrant departures. This produced an estimated net migration gain of 98,500 people for the year (compared to 85,800 the year prior). As Figure 13 shows, net immigration is very high by historical standards, though appears to be tapering off somewhat. This tapering off is a mix of slowing immigration and rising outflows of New Zealand citizens, many of whom have moved to Australia.

The high level of net immigration has been driven by citizens of India, with an estimated 43,700 net arrivals, the Philippines, with an estimated 28,800 net arrivals, and China, with an estimated 18,100 net arrivals for the year ending February. The net outflow of New Zealand citizens keeps breaking records, with an estimated net outflow of 56,500 New Zealanders in the year to April.

Figure 13: Annual migration flows.



Source: Stats NZ.

Balance of payments

The March 2024 figures show that New Zealand's current account deficit remains essentially unchanged from the previous quarter. The seasonally adjusted quarterly current account deficit increased $300 million to $7.3 billion. The current account deficit for the year ended March 2024 was $27.6 billion, or 6.8% of GDP (see Figure 14 below).

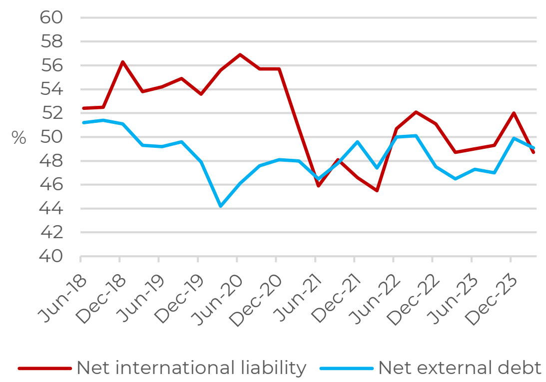
On an annual basis goods imports exceeded goods exports by $10.9 billion (down from $12.2 billion the previous quarter); services imports exceeded services exports by $3.1 billion (down marginally from the previous quarter); and primary income outflow exceeded primary income inflow by $13.1 billion (up from $12.6 billion the previous quarter).

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 (i.e., 'primary income') are flowing out of the country to overseas investors than New Zealand residents are earning from their foreign investments.

Figure 14: Current account deficit as % of GDP.

Source: Stats NZ.

Figure 15: Net liability and external debt as % of GDP.



Source: Stats NZ.

For the year ended March 2024, New Zealand's net international investment position was -$199 billion, or 48.7% of GDP. This net liability has fallen $11 billion from the previous quarter, because New

Zealand's international assets have grown. 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 was -$201 billion, or 49.1% of GDP. This is down slightly from the previous quarter. 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 $119 billion to the rest of the world (down $2 billion from previous quarter). General government's net debt liability was $60 billion (up $7 billion from previous quarter), while the Reserve Bank recorded a net asset position of $20 billion (and increase of $7 billion).

Overseas merchandise trade

The value of goods exports and imports are down significantly compared to the previous year. For the year ending May 2024, total good exports were valued at $68.9 billion, down 5.3% from the previous year. Total goods imports were valued at $78.9 billion, down 12.1% from the previous year. This produced a goods trade deficit of $10.1 billion, which is down from the deficit of $17.1 billion recorded in the year ended May 2023. The tables below detail the annual movement in our 10 major exports and 10 major imports by value.

Table 6: Main goods exports, year ending May 2024.

	$ millions	% change from previous year
Milk powder, butter and cheese	19,297	–8.5
Meat and edible offal	8,646	–7.3
Logs, wood, and wood articles	4,726	–6.3
Fruit	3,950	3.9
Preparations of milk, cereals, flour, and starch	2,414	–12.2
Mechanical machinery and equipment	2,401	6.7
Wine	2,110	–12.6
Fish, crustaceans, and molluscs	1,963	1.4
Casein and caseinates	1,564	–18.7
Aluminium and aluminium articles	1,548	–1.7

Source: Stats NZ.

Table 7: Main goods imports, year ending May 2024.

	$ millions	% change from previous year
Petroleum and products	11,187	–11.2
Mechanical machinery and equipment	10,646	–9.3
Vehicles, parts, and accessories	10,605	–9.1
Electrical machinery and equipment	7,070	–8.5
Textiles and textile articles	3,105	–10.8
Optical, medical, and measuring equipment	2,758	0.0
Plastic and plastic articles	2,547	–15.2
Pharmaceutical products	2,338	–7.7
Iron and steel, and articles	1,676	–29.0
Food residues, wastes, and fodder	1,473	–23.5

Source: Stats NZ.

Consumer and business confidence

Consumer confidence fell a further 2 points in June to 83. 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. The long-run average of the survey is 114. The last time consumer confidence was in positive territory was September 2021.

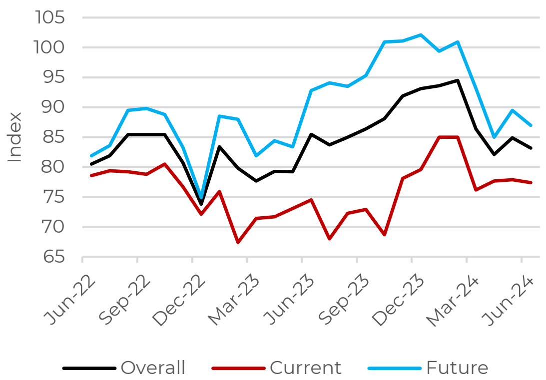
Confidence in future economic conditions fell 2 points to 87 and confidence in current economic conditions remained relatively unchanged, at 78.4. That confidence in future economic conditions continues to fall is likely a reflection of the severe impact that higher interest rates are having on household budgets and may also reflect a general lack of confidence that the coalition government's Budget will make life easier for the majority of New Zealanders.

A net 23% of those surveyed reported it was a bad time to buy a major household item, which is up slightly from the last survey but still in deeply negative territory. This question is seen as a leading indicator of consumer confidence and future economic activity. A net 22% of those surveyed reported they were worse off financially than one year ago, but a net 8% expect to be better off financially by this time next year. A net 39% of respondents expect mostly 'bad times' are ahead for the New Zealand economy over the next 12 months.

NZIER's Quarterly Survey of Business Opinion found that business confidence has continued to deteriorate over the past quarter. A net 35% of firms surveyed expected that economic conditions would continue to deteriorate in the next couple of months. This sentiment was widespread across construction, manufacturing, and services. Firms' own activity fell, driven by low demand. Firms' investment and hiring intentions were also broadly negative.

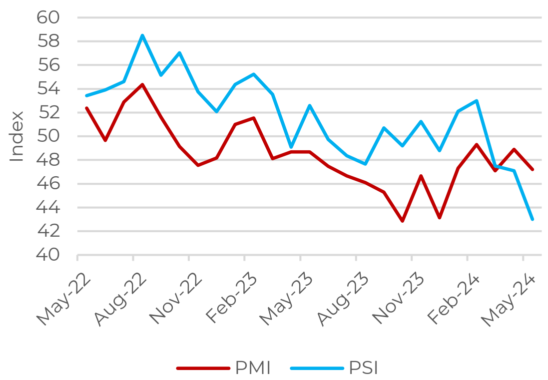
ANZ's Business Outlook Survey for June also recorded a fall in business confidence, down 5 points from the previous month to +6. Confidence rose 10 points in retail to +25 and 7 points in construction to +12. Confidence fell 8 points in manufacturing to +20; confidence in agriculture fell 19 points to -35; and confidence in services fell 11 points to +1. The "own activity" outlook was weakly positive across the five sectors. Employment intentions were mixed, with intentions negative in retail, agriculture, and services, flat in construction, and positive in manufacturing.

Figure 16: ANZ–Roy Morgan Consumer Confidence Index.



Source: ANZ.

Figure 17: BNZ–BusinessNZ PMI and PSI.



Source: BusinessNZ.

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 May 2024, the manufacturing index moved down 1.6 points to 47.2. The PMI has now been registering a contraction for a full year, driven by low demand and low production. The PSI also fell in May, down a further 3.6 points to 43.0. This is the lowest level of activity that has been recorded in the PSI, outside of a Covid lockdown month. In both the PMI and the PSI, the proportion of negative comments continue to outweigh the proportion of positive comments, with respondents commonly citing the slowdown in demand and "tough recessionary times" as their major concerns.

Building consents

In May 2024, the seasonally adjusted residential dwelling consents fell 1.7% from the previous month, having fallen 2.1% the month prior. For the year to May 2024, consents fell 23% to 34,851. Building consents are now hovering around their 2017 levels, which is a big concern given New Zealand's chronic housing shortage and growing population.

Of the major regions, consents were down 26% annually in Auckland, 25% in the Waikato, 36% in Wellington, and 15% in Canterbury. Nationally, consents per 1,000 residents were 6.6, compared with 8.7 the same time one year ago. This ongoing downswing in construction is being driven by the Reserve Bank's interest rate hikes which is driving up the cost of borrowing.

Government accounts

The interim financial statements of government for the eleven months ended May 2024 show that the Crown accounts are slightly stronger than was forecast by Treasury at Budget 2024.

Core Crown tax revenue was $111.1 billion, which is $1.5 billion higher the Treasury's Budget Economic and Fiscal Update (BEFU) forecast. Corporate tax revenue was $0.7 billion above forecast, and other direct taxes revenue was $0.7 billion above forecast. Overall core Crown revenue was $122.7 billion, which is $1.1 billion higher than forecast due to the higher-than expected tax revenue. However, revenue from the Emissions Trading Scheme was lower than forecast.

Core Crown expenses were $125.1 billion, which is $0.4 billion lower than forecast. Expenditure was slightly lower than expected across core government services, environmental protection, transport and communications, housing and community development, and law and order.

The OBEGAL (operating balance before gains and losses) deficit was $7.7 billion, which is $1 billion lower than the BEFU forecast. Finally, the net core Crown debt position was $173.6 billion (42.5% of GDP), which is $0.7 billion below forecast.

Table 8: Interim government accounts for the eleven months ended 31 May 2024.

	May 2024	BEFU forecast	May 2023
Core Crown tax revenue ($m)	111,124	109,552	103,344
Core Crown revenue ($m)	122,715	121,589	113,405
Core Crown expenses ($m)	125,086	125,520	115,076
Net debt (% of GDP)	42.5%	42.6%	39.4%
Operating balance ($m)	–7,749	–8,754	–6,510

Source: Treasury.

Compared to the eleven months ended May 2023, core Crown tax revenue increased 7.5%. This was driven by the high employment level and strong nominal wage growth, with income tax receipts rising 11% over the period. Other direct tax revenue increased 102%, due to higher deposit interest rates, which the Crown taxes. GST revenue increased 3.3% due to high inflation driving higher nominal consumption. But, as with last month's accounts, the Treasury notes that "the rate of increase in GST is lower than CPI inflation, indicating that consumers have cut back their real spending in response to mortgage interest rate and price increases". Finally, corporate tax revenue was 5.2% lower than in May 2023.

Core Crown expenses were 8.7% higher than the same period last year. Social welfare costs rose $2.8 billion, largely due to increased superannuation payments and rising entitlement rates. Finance costs on government debt rose $2.3 billion compared to the previous year, due to higher interest rates. Education costs rose $1.7 billion, due to lump sum payments made in the primary and secondary education collective agreements and increased depreciation costs for the school property portfolio. Finally, core government services expenditure rose $1.7 billion compared with the same time last year, largely due to costs associated with the extreme weather events of early 2023.

The OBEGAL deficit was $1.2 billion lower than the same time last year, due mostly to the movements discussed above in core Crown revenue and expenses. Finally, net core Crown debt was $20.6 billion higher than the same time last year, and up slightly as a percentage of GDP. As always, it's worth remembering that New Zealand's level of government debt remains very low by international standards.