NZCTU
Te Kauae Kaimahi

Economic Bulletin

December 2024

NEW ZEALAND COUNCIL OF TRADE UNIONS
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Economic Bulletin

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Welcome to the December 2024 Economic Bulletin. We have two monthly features in this edition. In the first, we discuss what the Half Year Economic and Fiscal Update from Treasury and the Budget Policy Statement from the Minister of Finance tell us about the fiscal position and what to expect in 2025. The indicators show very clearly that the government's strategy isn't working. The Crown accounts are now much deeper in the red than they were when the coalition took office, and the economy remains in the doldrums. Yet the only plan appears to be a further round of cuts.

In the second feature, we examine some recently published research from the International Monetary Fund, which finds economic shocks that reduce standards of living shift people's political preferences to the right of the spectrum – a finding holds across different countries, timespans, and political regimes. This research is relevant in the context of the twin macroeconomic shocks New Zealand has experienced in recent years – the "cost-of-living crisis" and the accompanying recession.

In our main data updates, we discuss the GDP data for the September quarter, which shows the New Zealand economy has rapidly deteriorated – the past two quarters have seen the steepest decline in GDP since the beginning of the 1991 recession. This demonstrates that the government's approach of cutting public investment in a procyclical manner simply isn't working. Rather than getting the New Zealand economy "back on track", it is actively derailing it.

We also look at the balance of payments data and provide our regular monthly updates on prices, migration, and consumer and business confidence. Finally, we summarise the latest Crown accounts.

For breakdowns of the latest wage, benefit, and unemployment data, please see the October/November Bulletin.

Wishing you a very happy holidays.

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Key data for trade unionists

Key economic indicators – September quarter 2024 (annual % change)

Consumer prices	Household living costs	Average wages	Unemployment rate	Official cash rate (current)
2.2%	3.8%	3.9%	4.8%	4.25%

Annual wage growth – September quarter 2024

	Nominal	Real (consumer inflation)	Real (h.h. living costs)
All sectors – average ordinary time hourly wages	3.9%	1.7%	0.1%
Public sector	5.1%	2.9%	1.3%
Private sector	3.2%	1.0%	–0.6%
Female	5.5%	3.3%	1.7%
Male	2.7%	0.5%	–1.1%

Source: Stats NZ. Real (consumer inflation) is deflated by consumer inflation. Real (h.h. living costs) is deflated by household living-costs inflation. Household living-costs inflation includes interest costs, so provides a fuller picture of the change in the cost of living compared to consumer inflation.

Annual inflation forecasts

	Reserve Bank	Treasury	Average
Dec 2024	2.1%	2.0%	2.1%
Mar 2025	2.0%	1.8%	2.0%
Jun 2025	2.1%	1.8%	2.1%
Sep 2025	2.5%	2.1%	2.3%

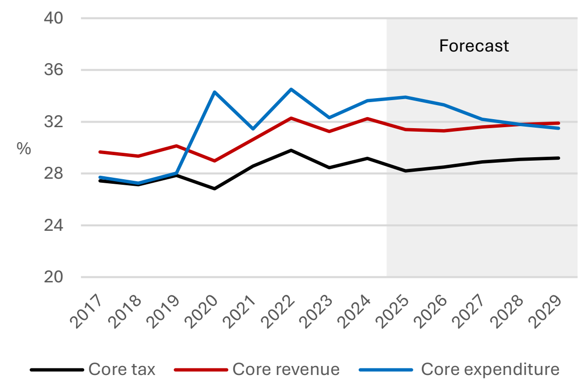
Source: RBNZ, Treasury, ANZ, ASB, BNZ, Westpac. The Average measure is the average of forecasts from the RBNZ, the Treasury, and the commercial banks.

The only thing you can count on is more cuts

The Treasury released its Half Year Economic and Fiscal Update (HYEFU) on Tuesday, and the Minister of Finance her Budget Policy Statement – which outlines the "plan" for the Budget 2025. It has been a little over a year now since this government took office, so it's a reasonable point to ask if its policies are working, or if its strategy needs to change.

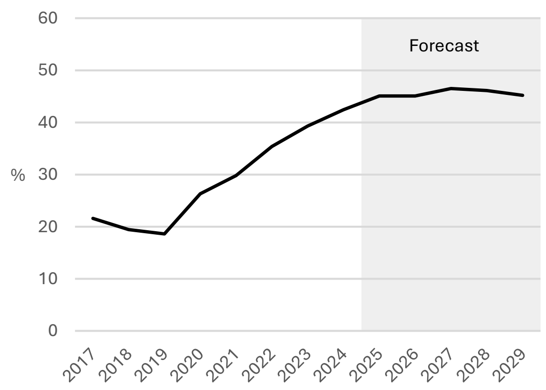
The indicators show very clearly that the government's strategy is not working. From a fiscal perspective, the government books are now much deeper in the red than they were when the coalition took office. In Treasury language, "All key fiscal indicators are expected to be weaker across all years compared to the Budget Update", which was in May this year. That means net core Crown debt is expected to rise by over $58 billion across the next five years and to continue to increase as a percentage of GDP until 2027. Core Crown finance costs – the cost of interest payments on government debt – also increase slightly as a percentage of GDP over the forecast period.

Figure 1: Core Crown revenue and expenditure (% of GDP).



Source: Treasury.

Figure 2: Net core Crown debt forecast (% of GDP).



Source: Treasury.

Absent new accounting tricks, the operating balance excluding gains and losses (OBEGAL) doesn't come back into surplus by 2029 – the end of the forecast period. (The government has adopted a new OBEGAL measure, which excludes ACC revenue and expenses from the calculation – "OBEGALx". On this measure, the operating deficit is lower and comes back into surplus by 2029.)

Rising debt and an OBEGAL deficit are exactly the things the now government pilloried the previous government for. Although the NZCTU has been critical of the single-minded focus on reducing net debt and the OBEGAL deficit – there is no government debt crisis in New Zealand! – judged on its own metrics of success, the government is clearly failing.

Table 1: Fiscal indicators forecast, June years (% of GDP).

	Actual	Forecast				
	2024	2025	2026	2027	2028	2029
Core Crown tax revenue	29.2	28.2	28.5	28.9	29.1	29.2
Core Crown revenue	32.2	31.4	31.3	31.6	31.8	31.9
Core Crown expenses	33.6	33.9	33.3	32.2	31.8	31.5
OBEGAL	–3.1	–4.1	–3.1	–1.7	–0.9	–0.5
OBEGALx	–2.1	–3.0	–2.3	–0.9	–0.1	0.4
Net core Crown debt	42.4	45.1	45.1	46.5	46.1	45.2

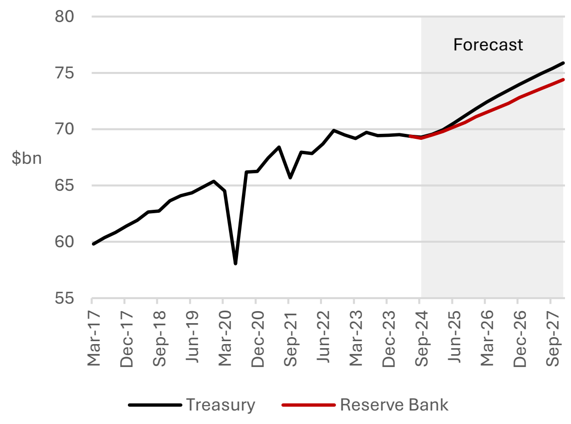
Source: Treasury.

The economic outlook is grim. The data shows that the economy is growing more slowly than forecast just six months ago. At the Budget in May, GDP growth was forecast to be 1.7% for the year ending June 2025. Now it's only forecast to be 0.5%. GDP is forecast to be $20 billion lower by 2028. And GDP per capita is forecast to fall 0.6% in the year to June 2025. Good numbers are very hard to find.

The number of people on Jobseeker Support is higher than currently in every year of the forecast, with a further 20,000 more people on Jobseeker Support by 2026. Unemployment is expected to rise to a peak of 5.4% next year – which will be its highest level since 2016. It isn't forecast to fall below 5% until 2026. The Treasury states that this is one of the biggest reasons why government spending continues to grow. More people unemployed means lower tax revenue and higher levels of welfare payments, which makes it harder for the government to reduce the fiscal deficit.

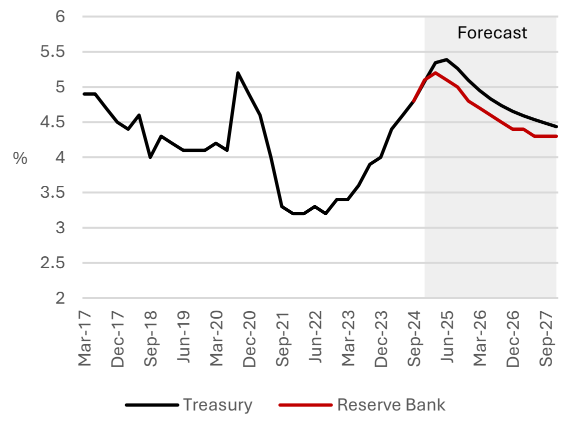
Meanwhile, net migration is forecast to basically halve next year, from 58,000 to 29,000. This means that New Zealand is expected to lose what has been the main driver of growth through the recessionary period. Even house prices are forecast to fall by 0.1% in the year to June 2025, though are expected to start growing again from 2026.

Figure 3: Real production GDP forecasts ($billions, 2010/11 prices).



Source: Treasury; Reserve Bank.

Figure 4: Unemployment rate forecasts.



Source: Treasury; Reserve Bank.

The government's solution to its self-made problems appears to be to double down on its misguided approach. The Budget Policy Statement shows that the plan is to cut spending again at Budget 2025 – as it states, "savings will need to found, beyond those identified in the previous Budget". Next year, the government has only $700 million to pay for new cost pressures outside of health. That's nowhere near enough. That is why the government states that, "with a small number of exceptions, government departments should expect to receive no additional funding in the Budget". So we should expect a fresh round of real-terms cuts across the board.

The government can try and claim that it is has inherited a difficult situation. But we have clear evidence now that its approach – cuts to public investment and tax breaks for landlords – is only making things worse. This is a sentiment that businesses seem to share. Despite falling inflation and falling interest rates, the Treasury states that "business investment is forecast to continue falling into next year, contracting by 3.2% in the June 2025 year". There is no sense in the government's Budget Policy Statement about how the government is going to encourage growth, nor how it is going to tackle unemployment.

The HYEFU numbers were complemented by a minimum wage change that will see minimum wage workers receive a cut in real terms in 2025. Full time minimum wage workers will be $235 a year worse off as a consequence. Meanwhile, the GDP figures (discussed on page 10) show that New Zealand has just had the worst six months on record since early 1991 in terms of GDP growth. This lack of growth will in turn deliver poorer fiscal outcomes, and less public investment. That in turn will lead the government to push for bigger cuts to balance the books. Round and round we go.

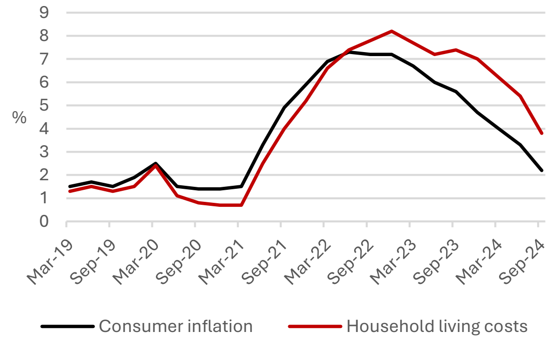
The quote “When the facts change, I change my mind. What do you do, sir?” is attributed to the economist John Maynard Keynes. Keynes’s prescriptions for investment famously helped drag countries such as the UK and the USA out of the depths of the Great Depression. In New Zealand, it was the Keynesian-influenced policies of the First Labour government that did that work. The current government’s policies are making the problem worse, and the forecasts released on Tuesday show that problem writ large. It should change its mind.

Macroeconomic shocks and political preferences

With annual consumer inflation back around its pre-COVID levels, the inflationary shock that began in 2021 is now softening. However, this doesn't mean that the cost of living has become more affordable. The cost of food is 22% higher than it was at the beginning of 2021; petrol is 28% more expensive; rental costs are 16% higher; and rates have increased by over 40%. Prices haven't fallen, it's just that the rate of acceleration has slowed down to a more normal level.

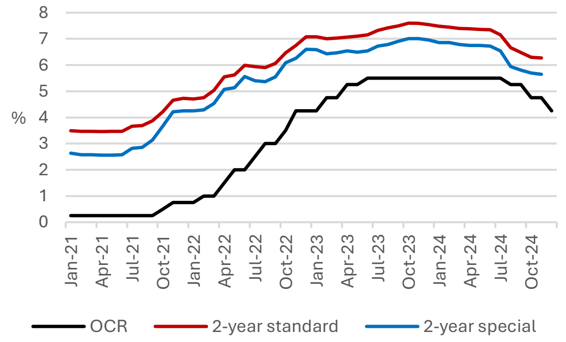
Compounding matters, the Reserve Bank's actions to reduce inflation have not only increased the cost of living for many (by hiking mortgage rates), but also caused a severe recession. This has intensified economic hardship for working households and businesses. Rising job insecurity has made households already struggling with the cost of living even more precarious. Meanwhile, lower consumer spending has eaten into businesses' operating margins, many of which were already squeezed by rising inflation.

Figure 5 Annual rate of inflation.



Source: Statistics NZ.

Figure 6: Official Cash Rate and average mortgage rates.



Source: Reserve Bank of NZ.

Both the inflationary shock and the recession have impacted politics. The "cost-of-living crisis" was the centrepiece of the 2023 election and, according to recent polls, "relieving cost of living pressures" remains the number one priority for New Zealanders. This same dynamic has played out across the globe. The recent US election, for example, also had inflation at its centre. Despite the relative strength of the US economy at the macro level, Trump's team was able to capitalize on the fact that many Americans were still struggling to afford groceries and petrol.

In addition to upending politics in the present, the experience of economic shocks can also have long-lasting impacts on people's behaviour. For example, the Great Depression had the effect of shaping the savings habits of those who lived through it: the experience of economic hardship encouraged thrift; it also influenced corporate management strategies, with corporate boards who experienced the Depression more likely to take a conservative approach to managing debt.

But it isn't just world-historic shocks that catalyze changes in people's preferences and beliefs. At the national (and regional) level, deep recessions, trade shocks, and inflation can all have lasting effects on citizens' behavior and political preferences.

A recently published review of the literature on this topic, from economists at the International Monetary Fund, highlights an important finding: economic shocks that reduce standards of living tend to shift people's political preferences to the right of the spectrum. This finding holds across different countries, timespans, and political regimes. Recessions, financial crises, and trade shocks have all been shown to have this effect. For example, one of the studies cited, which used over 140 years of data covering 20 countries, found that the vote share of far-right parties increased on average by 30% in the wake of significant financial crises.

Importantly, macroeconomic shocks are found to have the greatest effect on the political preferences and beliefs of young voters. It is less likely, for example, that someone who has voted for left-wing parties all their life will switch political allegiances because of an economic shock. But for those at the impressionable age of young adulthood, the experience of a shock can have lifelong impacts, permanently shaping how they approach questions of, for example, fairness and distribution.

The finding that negative macroeconomic shocks shift people's political beliefs to the right is not necessarily an obvious one. Recessions, for example, cause a permanent decrease in income (at the aggregate level). It would be reasonable to expect that this loss of income would shift people's political preferences to the left – for example, one might expect that the experience of declining living standards would increase support for government interventions that maintain living standards. Additionally, one might expect that, with poverty increasing during a recession, people would be more likely to be empathetic to vulnerable groups and therefore support redistributive policies.

But what the research finds is that macroeconomic shocks are in fact correlated with a *decline* in what are called, in academic jargon, "prosocial" preferences. Essentially, when times are tough, people on average become more concerned with guaranteeing their own material interests and security, and less inclined to support policies that help vulnerable groups.

Another factor that may explain the correlation between macroeconomic shocks and a shift in political preferences to the right is the impact that scapegoating can have. Blaming immigrants for the loss of jobs, for example, is a tried-and-true strategy of right-wing politicians seeking to exploit hard times. Likewise, blaming inflation on "reckless" government spending is a common tactic – and one we have seen the National and ACT parties use to great effect in recent years (of course, reckless government spending can stoke inflation, but the recent inflationary shock was primarily driven by global supply chain shocks).

Related to scapegoating is the tactic of channeling economic discontent into nationalist identity politics. This diverts attention away from the fact that economic shocks aren't felt evenly across the population – for example, the twin economic shocks in New Zealand have tended to hit those lower down the socio-economic ladder the hardest. A great example of this in action is Donald Trump's MAGA movement, which has used xenophobia and nationalism as strategies to capitalize on economic discontent in rust-belt states that have lost manufacturing jobs to globalization.

This research suggests that, in the context of a severe macroeconomic shock (or shocks), the deck is somewhat stacked against progressive organisations. It can simply be harder to persuade people that redistribution, fairness, and equity, for example, are priorities when they are deeply worried about their own financial security and ability to pay the bills. This poses a challenge for trade unions and our allies going into 2025. With the "cost-of-living crisis" and accompanying recession still dominating New Zealand politics, progressive political organisations must be able to speak to, and communicate solutions for, the immediate, material concerns of working people – the fact that groceries and petrol remain too expensive, that rent continues to rise faster than wages, that access to medical treatment is becoming more difficult, and that financial insecurity is a daily experience for a large number of people.

Prices

Monthly indicators

Table 2 breaks down the rate of inflation for November 2024 for some of the key goods and services that we get high-frequency price updates on.

Table 2: Monthly price indicators, Nov 2024.

	% change compared to previous month	% change compared to previous year
Food	–0.1	1.3
Fruit and vegetables	–2.9	–8.5
Meat, poultry, fish	–0.2	1.8
Groceries	0.2	2.5
Rent (stock measure)	0.2	4.1
Petrol	1.5	–10.1
Domestic air transport	10.8	9.6
Domestic accommodation	6.9	–7.7

Source: Stats NZ.

For the week ending 13 December 2024, MBIE's fuel-price monitoring had regular petrol at $2.78 per litre and diesel at $2.06 per litre – both are up slightly from last month. Oil is currently trading around US$70 per barrel on the West Texas Intermediate; this level has been broadly stable since mid-October.

Central bank interest rates

The Official Cash Rate (OCR) was cut 50 basis points in late November, to 4.25%. Cuts are expected to continue in 2025, with the Reserve Bank and commercial banks forecasting another 50-basis point cut in February, and further moderation through the rest of the year to a low of between 3.25% to 3.5%. These cuts to the OCR have led to a reduction in mortgage rates. Central banks have been cutting interest rates across the globe.

Real estate

The housing market remains weak, but there are some signs that activity and prices are picking up again. As of November 2024, the REINZ house price index was down 1.4% from the same time last year, and down 14.9% from its late-2021 peak. Wellington has seen the largest decline in prices, with the index falling over 24% from its 2021 peak. Prices remain stagnant in Wellington compared to the recent growth seen in other major centres. It is expected that the reduction in interest rates will stimulate more activity in the housing market through 2025, with house prices forecast by the Treasury to grow strongly again from the second half of that year.

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

	3 months	1 year	5 years*	From peak
National	2.2	–1.4	4.6	–14.9
Auckland	3.3	–3.0	3.1	–20.4
Wellington	0.9	–3.9	2.7	–24.1
Canterbury	1.4	1.3	8.1	–3.8

Source: REINZ. ** Compound annual growth rate.*

Economy

Gross domestic product – September quarter

On the headline measure, GDP was estimated to have fallen a full 1.0% compared to the June 2024. This follows an earlier decline of 1.1% from the March to the June quarter. This is the fastest decline over a period of six months since the beginning of the 1991 recession.

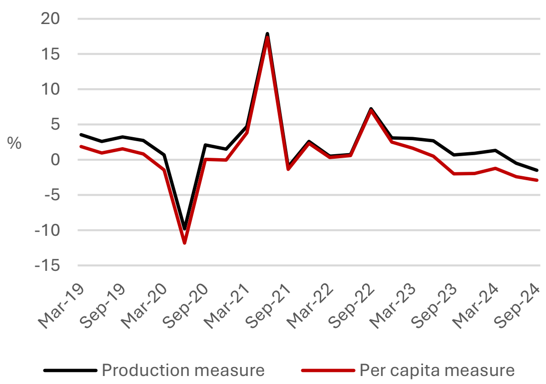
These figures reflect some major revisions by Statistics NZ to its earlier estimates. Previously, it had estimated that the New Zealand economy experienced a technical recession (two consecutive quarters of negative GDP growth) during the December 2022 and March 2023 quarters, and then limped along through 2023 and into 2024. Readers will recall that this "recession" was an important feature of the 2023 election.

However, on the revised estimates, GDP growth simply stalled in late-2022, before picking up again (albeit sluggishly) across 2023 and early 2024 (see Figure 8 below). It then dropped *precipitously* during the June and September quarters of this year. This indicates how policy-driven the current economic downturn has been: it is the result, above all, of the pressure that has been placed on households and businesses by the Reserve Bank's interest rate policy. But this has been exacerbated by the government's pro-cyclical cuts to public expenditure, particularly in infrastructure investment and public service employment. The New Zealand economy has been squeezed hard by both monetary and fiscal policy, and working households are bearing the brunt of the pain.

On the less discussed (but arguably more informative) per capita measure, quarterly GDP has fallen steadily since September 2022. However, the largest declines have come in the past two quarters, as shown in Figures 7 and 8 below. In the June quarter of this year, GDP per capita fell 1.3%, followed by a 1.2% fall in the September quarter. In total, GDP per capita has fallen 4.8% since September 2022. This makes it the most severe per capita recession since at least that of the early 1990s.

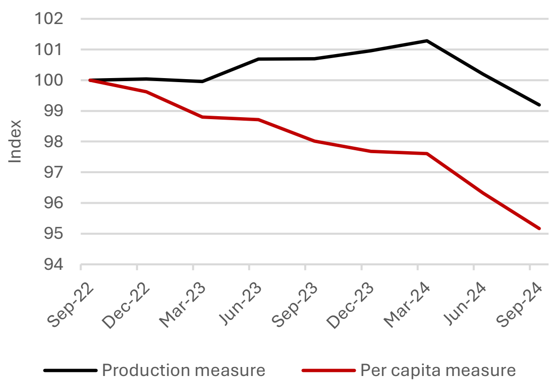
As we have discussed in previous Bulletins, the difference between the comparatively shallow downturn in headline GDP and the steep fall in per capita GDP over the past two years is largely because of strong migration-driven population growth. This is now tailing off, which means New Zealand is losing its only remaining growth engine.

Figure 7: Annual GDP growth rate.



Source: Stats NZ.

Figure 8: GDP index from pre-recession peak (Sep 2022 = 100).



Source: Stats NZ.

On a quarterly basis, the primary industries were estimated to have grown 1.0%, the service industries were estimated to have contracted 0.5%, and goods-producing industries were estimated to have contracted a whopping 2.8%. Annually, primary industries were estimated to have grown 3.2%, with this led by strong growth in agriculture, forestry, and fishing. Service industries were estimated to have grown by 0.8% overall, though this masks steep declines in wholesale trade, retail trade and accommodation, transport, postal, and warehousing, and business services. By contrast, goods-producing industries have shrunk 2.5% annually, led by a 1.4% contraction in manufacturing and a 4.5% contraction in construction. A breakdown of the quarterly and annual movements by industry is provided in Table 4.

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

	Quarterly % change	Annual average % change
Agriculture, forestry, and fishing	1.4	5.4
Mining	–2.2	–7.8
Manufacturing	–2.6	–1.4
Electricity, gas, water, and waste services	–3.7	–0.4
Construction	–2.8	–4.5
Wholesale trade	–0.2	–5.1
Retail trade and accommodation	–1.1	–2.9
Transport, postal, and warehousing	–1.2	–2.2
Information media and telecommunications	0.7	0.3
Financial and insurance services	0.2	1.9
Rental, hiring, and real estate services	1.0	4.1
Business services	–1.5	–1.7
Public administration and safety	–1.8	3.2
Education and training	0.1	2.3
Health care and social assistance	–0.9	4.2
Arts, recreation, and other services	–2.9	1.2
Gross domestic product	**–1.0**	**0.1**

Source: Stats NZ. GDP is real production measure.

Expenditure on GDP fell 0.8% compared to the June quarter. Household consumption contracted for another quarter, which indicates household budgets are still under considerable pressure. Central government expenditure fell 2.7% for the quarter, compounding the decline in household spending. Rounding out the picture, business investment declined 2.5% – this was driven by a 3.9% decline in non-residential building investment, a 5.7% decline in plant, machinery, and equipment investment, and a 9.5% decline in transport equipment. On an annual basis, expenditure on GDP rose 0.1% compared to the year ended September 2023.

Table 5: Expenditure on GDP, quarterly percentage change.

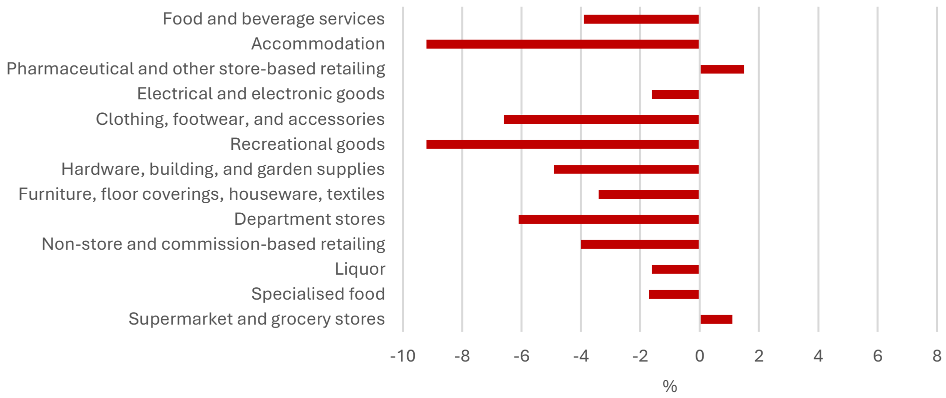
	Dec 23	Mar 24	Jun 24	Sep 24
Household consumption	0.5	0.3	–0.2	–0.3
Non-durables	–0.5	0.4	1.0	–1.2
Durables	1.8	–1.7	–2.8	0.6
Services	0.5	0.5	–0.4	–0.1
Central government	–0.7	0.5	–0.3	–2.7
Business investment	0.2	–0.5	0.9	–2.5
Gross fixed capital formation	–0.7	–0.8	–0.7	–2.9
Total expenditure on GDP	**0.1**	**0.5**	**–0.8**	**–0.8**

Source: Stats NZ.

Retail trade – September quarter

Consumer spending continued to fall in the September 2024 quarter. Measured in 2010 prices, the total volume of seasonally adjusted sales fell 0.1% from the June 2024 quarter. On an annual basis, the total volume of actual sales (again, measured in 2010 prices) was down 2.5% from the same time one year ago. On the "core industries" measure, which strips out consumer spending on fuel and motor vehicles and parts, sales fell 0.8% from the previous quarter and 2.8% from the previous year.

Figure 9: Annual percentage change in retail sales volumes, September 2024 (core industries).



Source: Stats NZ.

On an annual basis, retail sales volumes have now been falling for two years straight. This decline in retail sales volumes has largely been driven by higher interest rates, which are a drain on household budgets.

On a quarterly, seasonally adjusted basis, retail sales volumes fell in all categories except for liquor, non-store and commission-based retailing, hardware, building, and garden supplies, electrical and electronic goods, and motor vehicles and parts.

Compared to the same quarter of the previous year, actual retail sales volumes fell in all categories except for supermarkets and grocery, pharmaceutical and other store-based retailing, and motor vehicles and parts (no change). Big declines were registered for recreational goods, accommodation, clothing, footwear, and accessories, and department stores, as shown in Figure 9. These large declines in more discretionary areas of expenditure indicate the effect of higher interest rates and inflation on households' budgets.

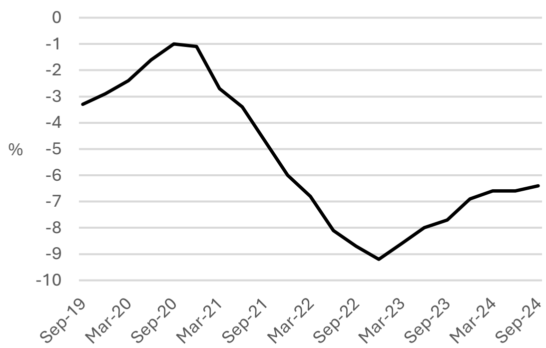
Balance of payments – September quarter

The seasonally adjusted current account deficit narrowed an estimated $892 million in the September quarter, to a total of $6.2 billion. The current account deficit for the year ended September 2024 was estimated to be $27 billion, or 6.4% of GDP. This is down slightly from the previous quarter.

On an annual basis goods imports exceeded goods exports by $9.8 billion (down from $11 billion the previous quarter); services imports exceeded services exports by $1.9 billion (up from $1.3 billion the previous quarter); and primary income outflow exceeded primary income inflow by $14.1 billion (down from $14.4 billion the previous quarter).

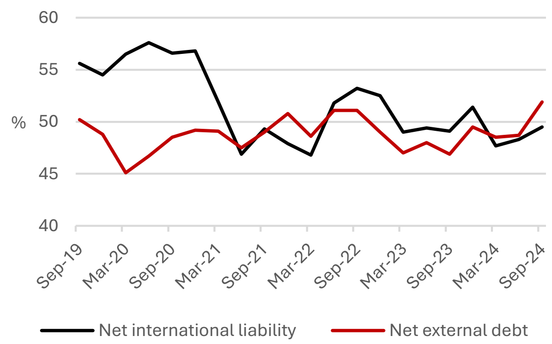
These deficits show that the total cost of imports into New Zealand exceeds the total earnings from New Zealand exports, and that more profits, interest payments, and dividends ("primary income") are flowing out of the country to overseas investors than New Zealand residents are earning from their foreign investments. For the year ended June 2024, New Zealand's net international investment liability was –$208.6 billion, or 49.5% of GDP. This net liability is up about $6 billion from the previous quarter. 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.

Figure 10: Current account deficit as % of GDP.



Source: Stats NZ.

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



Source: Stats NZ.

New Zealand's net external debt position was –$218.8 billion, or 51.9% of GDP. This is up more than $14 billion 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 $122 billion to the rest of the world (up $1.7 billion from the previous quarter). General government's net debt liability was $73 billion (up $9.1 billion from the previous quarter), while the Reserve Bank recorded a net asset position of $24.5 billion (up $0.6 billion from the previous quarter).

Merchandise trade

In the year to November 2024, the value of goods exports was up compared to the previous year, while the value of imports was down. Total good exports were valued at $70.1 billion, up 1.3% from the previous year. Total goods imports were valued at $78.3 billion, down 5.9% from the previous year. This produced an estimated annual goods trade deficit of $8.2 billion. The decline in imports has been broad-based, as shown in Table 7. This would appear to reflect the weak economic conditions in New Zealand, with households pulling back on spending and businesses pulling back on investment.

Table 6: Main goods exports by value, year ending November 2024.

	$ millions	% change from previous year
Milk powder, butter and cheese	19,514	–2.3
Meat and edible offal	8,467	–2.9
Fruit	4,735	35.2
Logs, wood, and wood articles	4,728	0.4
Preparations of milk, cereals, flour, and starch	2,664	5.8
Mechanical machinery and equipment	2,446	2.7
Wine	2,044	–4.8
Fish, crustaceans, and molluscs	1,990	3.4
Electrical machinery and equipment	1,572	3.3
Aluminium and aluminium articles	1,513	–2.6

Source: Stats NZ.

Table 7: Main goods imports by value, year ending November 2024.

	$ millions	% change from previous year
Mechanical machinery and equipment	10,701	–5.0
Petroleum and products	10,643	–5.9
Vehicles, parts, and accessories	8,776	–23.6
Electrical machinery and equipment	7,106	–4.3
Textiles and textile articles	3,099	–2.0
Optical, medical, and measuring equipment	2,756	0.8
Plastic and plastic articles	2,625	1.4
Pharmaceutical products	2,379	–1.6
Aircraft and parts	1,830	–6.5
Iron and steel, and articles	1,607	–15.4

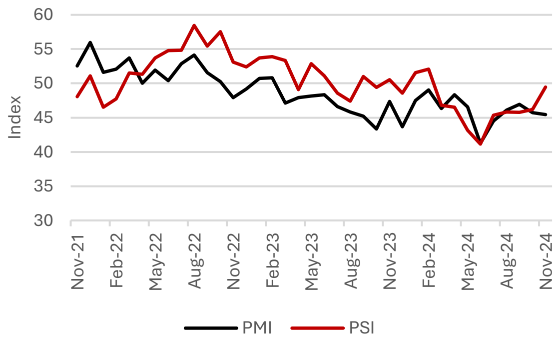
Source: Stats NZ.

Performance indexes

The BNZ–BusinessNZ performance of manufacturing index (PMI) and performance of services index (PSI) show that economic activity remained weak in these sectors in November. A figure above 50 indicates that activity is generally expanding, while a figure under 50 indicates it is generally declining.

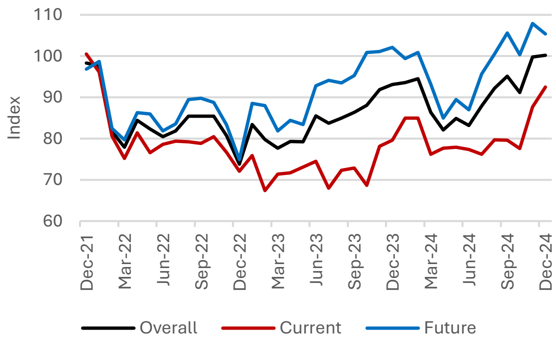
The manufacturing index fell 0.2 points to 45.5, which is firmly in contraction. The key sub-index of production fell 1.5 points to 42.5, while the employment sub-index increased 0.9 points to 46.9. The PSI, on the other hand, increased 3.3 points, to 49.5 – this puts it on the cusp of expansion. The activity/sales sub-index increased 4 points to 48.6, and the employment sub-index increased 0.2 points to 46.8. Overall, these indexes suggest that the economy remains in recessionary territory.

Figure 12: BNZ–BusinessNZ PMI and PSI.



Source: BusinessNZ.

Figure 13: ANZ–Roy Morgan Consumer Confidence Index.



Source: ANZ.

Consumer and business confidence

The ANZ–Roy Morgan Consumer Confidence Index moved into positive territory in December, rising to 100.2. 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.

Confidence in future economic conditions fell 2 points 105.4, while confidence in current economic conditions increased 5 points to 92.5 – its highest level since the beginning of 2022. A net 1% of those surveyed think it is a bad time to buy a major household item – a question that is seen as a leading indicator of consumer confidence and future economic activity. Though still negative, this is significantly improved from earlier in the year.

Business confidence remains strong, though fell back 3 points in December to +62, according to ANZ's Business Outlook Survey. Confidence is strong across the five industry groupings reported on (retail, manufacturing, agriculture, construction, and services), as is the "own activity" outlook. However, reflecting the recession, "employment vs same month one year ago" is negative across all industry groupings.

Migration

On an annual basis, migrant arrivals have continued to decline rapidly, while migrant departures have continued to rise, with many New Zealand citizens leaving the country. For the year ending October 2024, there were an estimated 170,00 migrant arrivals and an estimated 131,000 departures. This produced an estimated net migration gain of 39,000 people for the year (compared to the net gain of 136,000 the year prior). All up, an estimated 78,000 New Zealand citizens departed the country in the year to October, while an estimated 25,000 returned, for a net outflow of 53,000. It is likely that the poor economic conditions and rising unemployment in New Zealand have been driving this high net outflow of New Zealand citizens.

Government accounts

For the four months ending October 2024, the government accounts were slightly weaker (though only marginally) than was forecast at the Budget in May. Core Crown tax revenue was slightly lower than expected, with a lower GST take due to weak consumer spending. Core Crown expenses were a touch higher than forecast. The debt level was also slightly higher than forecast, at 43.2% of GDP, while the OBEGAL deficit was almost $1 billion larger than forecast.

Compared to the same time last year, core Crown tax revenue was 1.8% higher, due to still robust income tax revenue and increased revenue from interest income, which is taxed. Core Crown expenses were 3.7% higher than the same time last year, partly due to $1.1 billion higher social security and welfare spending as Superannuation entitlement rates and numbers have increased, as well as more Jobseeker Support recipients. Health expenses were also up $1.1 billion on the previous year. The OBEGAL deficit was almost $1 billion larger than the same period last year, and net core Crown debt was $12.6 billion higher.

Table 8: Interim financial statements of government for the three months ended 31 October 2024.

	2023 actual	2024 actual	2024 BEFU forecast
Core Crown tax revenue ($bn)	38.6	39.3	39.4
Core Crown revenue ($bn)	43.2	43.9	44.1
Core Crown expenses ($bn)	44.7	46.4	46.2
OBEGAL ($bn)	–3.9	–4.6	–3.8
Net core Crown debt (% of GDP)	42.0%	43.2%	43.0%

Source: Treasury. BEFU = Budget Economic and Fiscal Update.