NZCTU
Te Kauae Kaimahi

Economic Bulletin

December 2024

NEW ZEALAND COUNCIL OF TRADE UNIONS
union.org.nz

Economic Bulletin

January 2024

Welcome to the January edition of the Economic Bulletin. In our monthly feature, we discuss the labour market outlook for the year, setting the forecast rise in unemployment in the context of the new government's reforms to employment relations. The Treasury expects that, by mid-2025, around 65,000 more people will be unemployed than in mid-2022, when unemployment was at record lows. Meanwhile, with the reimposition of 90-day trials for all businesses, the repeal of the Fair Pay Agreements Act, and proposed changes to employment law and the welfare system, the new government is setting about removing what security does exist for workers and the unemployed in New Zealand. The government has also announced that the minimum wage will only increase by 2% this April. Because inflation is forecast to be around 4–4.5% for the year ending March 2024, this means that minimum wage workers will experience a real terms pay cut.

In our regular updates, we examine the latest inflation, household living costs, migration, and government accounts data. Consumer inflation continues to fall faster than expected. This is good news for working households and may bring some interest rate relief later in the year. It also shows that the government's planned spending cuts are unnecessary. The government has argued that high levels of government expenditure has driven inflation, and so we need to cut this spending to bring inflation under control. But inflation has been steadily falling for a year now and is forecast to continue to do so without these cuts.

For the employment and wages data for the September 2023 quarter, please see the October/November 2023 Bulletin. For the GDP and balance of payments data for the September 2023 quarter, please see the December 2023 Bulletin.

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

CRAIG RENNEY
Policy Director & Economist
craigr@nzctu.org.nz

JACK FOSTER
Policy Analyst
jackf@nzctu.org.nz

NZCTU Te Kauae Kaimahi

Contents

4 A dismal outlook for the labour market in 2024?

9 Wages and prices

9 Consumer prices

11 Household living costs

12 Central bank interest rates

13 Food prices

14 Property rent prices

15 Fuel prices

16 Economy

16 Migration

17 Overseas merchandise trade

17 Consumer and business confidence

18 Performance indexes

19 Building consents

20 Real estate

21 Government accounts

Copyright © New Zealand Council of Trade Unions Te Kauae Kaimahi 2024

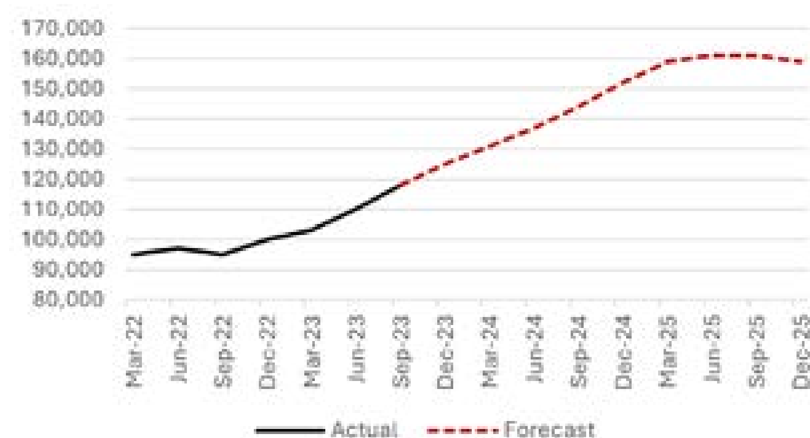
ISSN 3021-1891

A dismal outlook for the labour market in 2024?

2024 is already proving to be quite a year on the economic front. Inflation is falling faster than predicted. The government accounts are in better shape than many expected – including the Treasury. Stock exchanges in the US and Europe are trading at record highs, meaning bonuses all around for Fortune 500 executives. Closer to home, dairy prices are up 40% from their lows in August last year. It is increasingly thought that the Reserve Bank will start to cut interest rates later this year, rather than continue to increase them.

The question we at the CTU ask is, "does all this translate into good news for workers?" Here, the story is much less clear. The lastest forecasts for New Zealand show unemployment increasing over 60% between 2022 and 2025. The Treasury expects that, by mid-2025, around 65,000 more people will be unemployed than in mid-2022, when unemployment was at record lows.

Figure 1: *Number of people unemployed, forecast.*



Source: *Treasury.*

But that's not the only problem facing workers this year. The Treasury's forecasts don't include the likely impact of the new government's public spending cuts. Savings of around 8.5% in total are being required from government departments. This is to pay for the tax cuts promised by National at the last election, which were forecast to cost $14.6 billion. New spending cuts totalling $2.4 billion were programmed to help pay for this, with most government departments targeted for change.

The Minister of Finance has announced that the targets of individual agencies will be informed by staffing growth since 2017. This means that the departments that have grown the most will be asked to cut even more than 8.5%. This will likely push thousands of people into unemployment, both as a direct impact of the cuts and through second-round effects as the cuts reduce demand in the wider economy.

That in itself would be bad enough. But the context in which these newly unemployed people will find themselves is also changing. The government has reintroduced

the ability for all employers to use 90-day trials when hiring new staff; it claims that this will make it easier for people at the margins of the labour market to find a job, because employers will be more likely to 'take a punt' on a hire they deem risky. Only, the evidence doesn't support this. A report produced for the Treasury in 2016, which reviewed the impacts of 90-day trial periods, found "no evidence that the ability to use trial periods significantly increases firms' overall hiring". Indeed the main benefit of the scheme was found to be "a decrease in dismissal costs for firms, while many employees faced increased uncertainty about their job security for three months after being hired".

The government has also removed the ability for Fair Pay Agreements (FPAs) to be negotiated for industries. FPAs would have created industry-wide minimum terms and conditions, particularly for those industries where workers face systematic disadvantages. These are industries where there is a race to the bottom for terms and conditions, where workers in need employment are taken advantage of by unscrupulous employers. Fair Pay Agreements would have helped end that. Sadly, this government has chosen to end FPAs, rather than to protect workers.

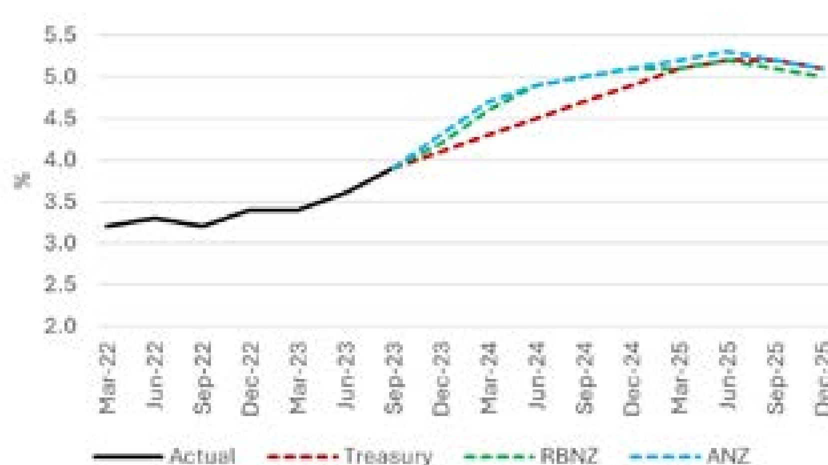
Further changes to employment law are still in the pipeline. The National/Act coalition agreement states that it wants to "Maintain the status quo that contractors who have explicitly signed up for a contracting arrangement can't challenge their employment status in the Employment Court". Firstly, that's not the status quo. Workers – such as those working for Uber – have successfully taken their employers to court to prove they are not contractors. What the new government is actually doing here is proposing a *change* to the law. Secondly, this change would mean that employers could force a contracting arrangement onto any employee, and then forever be able to treat them as a contractor. That would mean no annual leave; no Kiwisaver; no ACC payments. All without the ability for a worker to go to court to have their rights upheld. In the context of rising unemployment, employers would have plenty of leverage to force such arrangements onto employees.

This proposed change to employment law disregards the recommendations made by the tripartite working group – consisting of the CTU, BusinessNZ, and MBIE – on how to establish better protections for contractors. One of the central recommendations of this group was to allow "judicial determinations on employment status to cover other workers performing similar work for the same hiring entity under similar contractual terms (even if only one worker seeks a judicial decision)". The policy outlined in the National/Act coalition agreement will take us in precisely the opposite direction.

The National/Act coalition agreement also commits to introducing new compliance sanctions for welfare recipients. The National/NZ First coalition agreement goes even

further, requiring the government to "consider time limits for under 25s". This punitive approach to welfare is likely to make life harder for those who receive benefits. The Welfare Expert Advisory Group, a body set up by the previous government, was clear that there was "little evidence in support of using obligations and sanctions . . . to change behaviour; rather, there is research indicating that they compound social harm and disconnectedness". Indeed, the research on the use of benefit sanctions in New Zealand finds that "A high number of obligation failures are disputed (46 percent) and almost all (98 percent) of these disputes are upheld with the failure being overturned".

Figure 2: *Unemployment rate forecasts.*



Source: *Treasury; Reserve Bank; ANZ bank.*

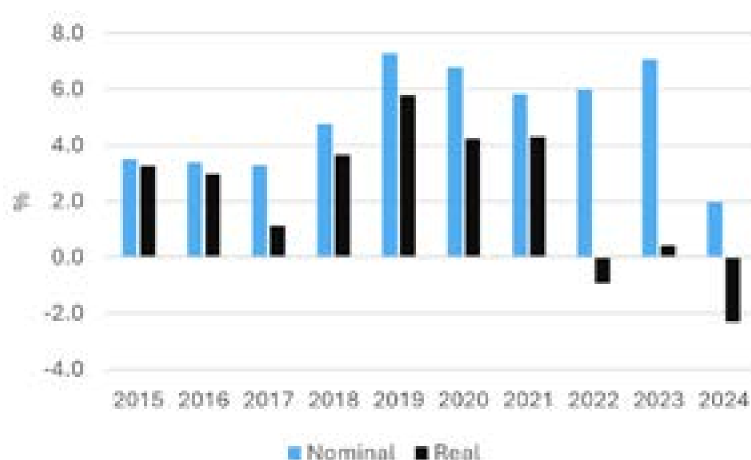
All of this wouldn't matter so much if the consequences of losing your job weren't as high in New Zealand, or if the likelihood of losing your job was extremely low. Unfortunately, neither is true. New Zealand has a high job turnover rate, relative to our OECD peers, meaning large numbers of workers cycling into and out of unemployment every year. We also experience a high rate of "wage scarring" – a term that economists use to describe the way losing a job impacts a person's income in the long term. Wage scarring occurs when someone loses their job and is forced to take whatever new job comes their way as quickly as possible – even if it means taking a big pay cut – because they have bills to pay and no savings. According to the OECD, "the average annual personal income for displaced workers in New Zealand (including government income transfers and redundancy pay) is about 20% lower in the second and third year after displacement than for non-displaced workers with similar characteristics". New Zealand research finds that, five years after displacement, displaced workers experience an earnings deficit of between 14–20%. This is some of the highest wage scarring in the developed world.

We could have addressed this problem with the income insurance programme that the previous government – in conjunction with unions and business – developed. This would have provided displaced workers with up to seven months of financial support

after losing their job, at 80% of their ordinary wages or salary. This financial support would mean that displaced workers could take their time to look for a job that best matched their skills, or to retrain and upskill. However, this programme has also been scrapped by the new government, and with it an opportunity to better protect workers has been lost.

Finally, this week the Minister for Workplace Relations and Saftey, Brooke van Velden, announced that the minimum wage would only increase by 2% this April, an increase of 45 cents per hour to $23.15. However, annual inflation is forecast to be between 4–4.5% for the year ending March 2024, meaning that minimum wage workers will be getting a real terms pay cut this year. This will be the second real-terms pay cut that minimum wage workers have received over the past three years, and by far the largest. If inflation comes in at 4.3% for the year ending March 2024 – as the Reserve Bank has forecast – then minimum wage workers will have experienced a cumulative 2.8% real wage cut since 2021.

Figure 3: *Minimum wage increases, nominal and real, 2015–24.*



Source: *MBIE. Note that the real figure for 2024 is a forcast based on the Reserve Bank's projected inflation of 4.3% for the year ending March 2024.*

The Minister ignored MBIE's advice that the minimum wage should be raised 4%, to $23.60 an hour. MBIE noted that this would better protect the real income of minimum wage workers and would not be expected to have any negative impacts on the level of employment. The CTU's position is that the minimum wage should be set at the living wage – which is currently $26 an hour.

Table 1: *Options for minimum wage increase from current level of $22.70.*

	Percentage increase	Hourly rate	Hourly $ increase	Yearly income
Government's decision	2.0%	$23.15	$0.45	$48,160
MBIE's recommended option	4.0%	$23.61	$0.91	$49,105
Matching projected inflation*	4.3%	$23.68	$0.98	$49,246
Living wage	14.5%	$26.00	$3.30	$54,080
* Based on the Reserve Bank's forecast of 4.3% for the year ending March 2024.				

Source: *MBIE; Reserve Bank.*

We can see a clear theme emerging with this new government: removing security for workers where it still exists. This is all justified by the claim that a "flexible" labour market is key to economic success. This is not a new strategy. New Zealand already has some of the most relaxed labour laws in the developed world – the product of the 1990s reforms. Workers' protections against dismissal in New Zealand are just behind those found in Paraguay when last measured by the OECD. Colombia is just below us. Slipping further down these ranks shouldn't be seen as an aspiration. What we need is a fresh approach, one which places a high value on security of employment, security of income, and worker voice.

Wages and prices

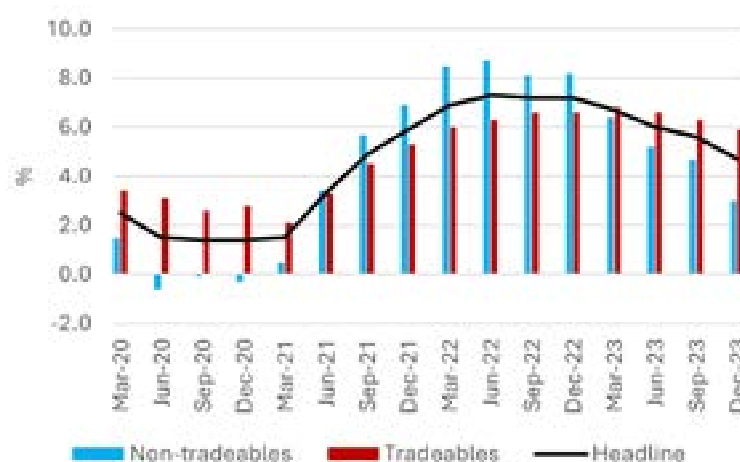
Consumer prices

Consumer inflation continued its rapid descent, falling to 4.7% annually in the December 2023 quarter, down from 5.6% in the September quarter. Quarterly inflation is now back in the Reserve Bank's target range; from a rate of 1.8% for the September quarter, it fell to 0.5% in December. Inflation in New Zealand is falling fast and is now below the OECD average of 5.4%, though higher than Australia (4.3%), the United Kingdom (4%), the United States (3.4%), and the Eurozone (2.4%).

This decline in the rate of inflation has been driven by the very rapid reduction in tradeable inflation (goods and services that are imported or are exposed to international competition). Annual tradeable inflation is down from 4.7% to 3% annually, and down from 1.8% to -0.2% quarterly, meaning tradeables prices actually fell, on average, in the December quarter. By contrast, non-tradeable inflation (goods and services that do not face foreign competition) has remained "stickier"; it is down from 6.3% to 5.9% annually, and from 1.7% to 1.1% quarterly.

As Figure 4 shows, our recent experience of inflation was initially driven by rising tradeable inflation – in other words, inflation was caused by global shocks beyond our control (the pandemic and the war in Ukraine) and this was "imported", in a sense, to New Zealand. As the impact of these shocks has unwound, so too has tradeable inflation. However, this "imported" inflation flowed through into domestic price-setting by making the cost of various inputs more expensive. Therefore, it is unsurprising that non-tradeable inflation is taking longer to come down.

Figure 4: *Annual consumer price inflation, 2020–23.*



Source: *Statistics NZ.*

Non-tradeable inflation has been consistently higher than tradeable inflation in New Zealand over the past couple of decades. From 2000 to 2019 – a period in which inflation was relatively low and stable – non-tradeable inflation averaged 3.1% annually

(0.8% quarterly) compared to an average of 0.9% annually (0.2% quarterly) for tradeable inflation. As Figure 5 shows, non-tradeable inflation has tended to be relatively stable, while tradeable inflation has been far more volatile.

Figure 5: *Annual tradeable and non-tradeable inflation, 2000–23.*

Source: *Statistics NZ.*

The largest contributors to the quarterly inflation figure by group were:

- Housing and household utilities, up 0.8% – the cost of renting increased 1.1%, the cost of construction increased 0.7%, and the cost of energy increased 1.9%.
- Food, down 1.2% – fruit and vegetables fell 6.4% in price, grocery food fell 0.7%, and meat, poultry and fish fell 1.1%.
- Miscellaneous goods and services, up 1.5% – this was almost completely driven by the rising cost of insurance, which rose 3.3% overall, with both property and vehicle insurance up 5.4%.

The largest contributors to the annual inflation figure by group were:

- Housing and household utilities, up 4.8% – the cost of rent rose 4.5% and the cost of building rose 3.6%, while local authority rates increased 9.8% and energy costs increased 5.9%.
- Food, up 5.7% – driven by a 6.7% rise in the cost of grocery food and a 7.4% rise in the cost of restaurant and ready-to-eat meals.
- Alcohol and tobacco, up 8.1% – the price of tobacco increased 11.5%, while the price of spirits rose 9%, wine 5.8%, and beer 5.6%.
- Transport, up 3.3% – this was driven by a 11.7% increase in the cost of petrol; however, the cost of passenger transport services fell 7.1%, due to a 2.1% drop in the cost of domestic flights and a 15.1% drop in the cost of international flights.

That inflation is falling steadily is good news for households that have struggled with the rising cost of living in recent years. It may bring some interest rate relief later in the year, in the form of a cut to the Official Cash Rate. It also shows that the cuts to

public spending announced by the new government are wholly unnecessary. The government has argued that high levels of Crown expenditure has driven inflation, and so we need to reduce this spending to bring inflation under control. But the data shows that inflation has been steadily falling for a year now and is forecast to come back within the Reserve Bank's target range of 1–3% per annum by the final quarter of this year.

This indicates that there is no economic rationale for the spending cuts, the likely outcome of which will simply be a reduction in the level of services provided to the public. Indeed, because these reductions in spending are being used to fund tax cuts, rather than to drain money from the economy, they will likely have an *inflationary* impact.

Household living costs

The household living-costs price indexes (HLPI) detail changes in the cost of living for different household groups. Unlike the consumers price index (CPI), the HLPI includes interest payments that households make on debt such as mortgages. The HLPI therefore provide a more accurate picture of actual changes in the cost of living for different households than the CPI does.

Figure 6: *Annual household living costs inflation, 2020–23.*

Source: *Statistics NZ.*

Figures for the December 2023 quarter show that the cost of living for all household groups has increased 7% (compared to CPI of 4.7%). Households in the top income quintile continue to experience a slightly sharper increase in the cost of living, at 7.3%. However, these households are also the best positioned to absorb the impact of rising prices, due to their higher incomes. Living costs increased 6.7% for households in the lowest income quintile, 7.1% for Māori households, 6.2% for beneficiary households, and 6.1% for superannuitants.

As we have noted in previous Bulletins, while high-income households have experienced a greater increase in the cost of living recently, over the long run it has

been superannuitants, beneficiaries, and low-income households who have faced the most consistent increase in the cost of living. Since 2008, when the HLPI was first collected, the cost of living has increased 53.7% for superannuitants, 51.4% for low-income households, 51% for beneficiaries, and 48.9% for Māori households. By contrast, high-income households have only experienced a 42.8% increase in the cost of living over this period. The all groups HLPI has risen 46.4%.

Table 2 breaks down the annual increase in living costs for key cost groupings, such as food, housing, and interest payments for the year to December 2023. As Table 2 shows, one of the main drivers in the high cost of living over the past year has come from the huge increase in the cost of interest payments on debt – a result of the Reserve Bank's interest rate hikes. Since the final quarter of 2021, when interest rates were near their low point, the cost of interest payments has increased a whopping 90% for the all-households group.

Table 2: *Annual increase in cost of key HLPI groups, December 2023.*

	Food	Housing & utilities	Health	Transport	Interest payments
All households	5.7%	6.0%	1.3%	4.6%	31.2%
Highest income quintile	5.9%	5.9%	3.5%	3.8%	31.1%
Lowest income quintile	5.6%	6.1%	-2.7%	5.3%	30.4%
Beneficiary	5.5%	5.5%	-5.4%	6.7%	30.1%
Superannuitant	5.3%	6.7%	1.2%	4.1%	30.4%
Māori	5.9%	5.8%	0.2%	5.7%	31.4%

Source: *Statistics NZ.*

In better news, the quarterly data shows that household living costs are on their way down. The HLPI all-households group increased 1.2% from the September quarter, well down from the previous quarterly increase of 2.5%, and below the average increase of 1.9% per quarter for the past two years. Living costs increased 1.3% for the highest income quintile, 1% for the lowest income quintile, 1.3% for Māori households, 1.1% for beneficiaries, and 0.8% for superannuitants.

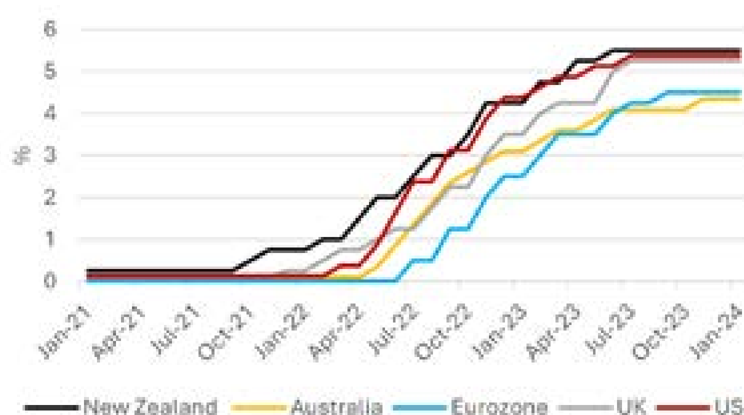
Central bank interest rates

The Official Cash Rate (OCR) remains unchanged since our last Bulletin, at 5.5%. While the Monetary Policy Committee – the arm of the Reserve Bank that sets the OCR – took a slightly more aggressive stance in its November 2023 announcement, forecasting a further rate hike in 2024, the private banks have begun to forecast that the first cut to the OCR will come later this year. Barring an unforeseen economic shock that

either drives inflation up or threatens the stability of the New Zealand economy, the consensus position seems to be that interest rates will fall slightly through 2024 but remain high relative to their 2021 levels. The next OCR announcement will be on 28 February.

As Figure 7 shows, the Reserve Bank has raised rates faster and higher than other wealthy country central banks over the past two years. This contradicts the new government's claim that the Reserve Bank's employment mandate contributed to the higher levels of inflation we have experienced in recent years – an argument the government used to justify the repeal of the employment mandate, under urgency, last year. We discussed this issue in detail in the December 2023 Bulletin.

Figure 7: *Central bank interest rates, 2021–24.*



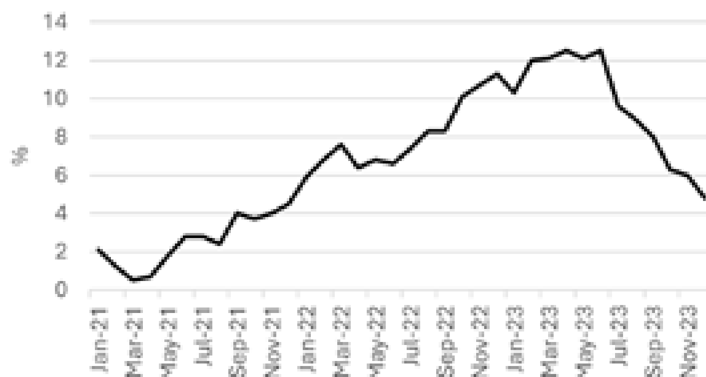
Source: *Bank for International Settlements.*

Food prices

From November to December 2023, overall food prices were flat after seasonal adjustment. Grocery food fell 0.3% in price; the meat, poultry, and fish group fell 1.0%; vegetables fell 1.2%; and fruit increased 1.7%.

For the year ended December 2023, the cost of food increased 4.8% overall; this continues the steady drop in food price inflation since the high of 12.5% reached in mid-2023. The cost of grocery food increased 5.4% annually, with bread rising 4.7%, breakfast cereals rising 6.2%, and eggs rising 35%. However, cheese fell 16.2% in price, while fresh milk fell 4.2%, due to weak dairy prices globally. The cost of fruit and vegetables rose 4.8% overall, with the cost of fruit increasing 7.4% but the cost of vegetables falling 2.5%. The meat, poultry, and fish group increased a modest 2.3% in price for the year; the cost of pork rose 10.5% and the cost of chicken rose 4%; however, beef and veal fell 0.7% in price and mutton, lamb, and hogget fell 4.6%. Finally, restaurant and ready-to-eat food increased 7.1% in price for the year.

Figure 8: *Annual food price inflation, 2021–23.*



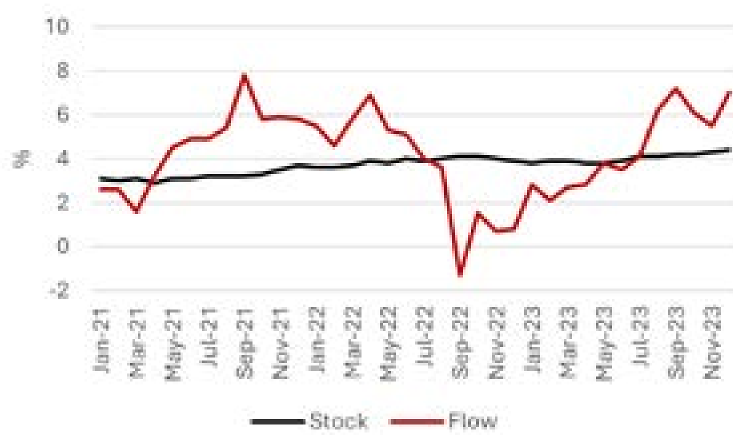
Source: *Statistics NZ.*

Property rent prices

Rent price inflation remained high in December, at 7% annually on the flow measure and 4.4% annually 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.

On the flow measure, rental inflation has been particularly strong in Auckland (7.1%), Canterbury (7.9%), and the rest of the South Island (8.7%). It has been lower, though still strong, in Wellington (3.7%) and the rest of the North Island (5.1%). The slower rental inflation in Wellington may be because Wellington is not experiencing the same level of migration-driven population growth as other major centres.

Figure 9: *Rental price inflation, 2021–23.*



Source: *Statistics NZ.*

Fuel prices

The price of fuel fall through November and December 2023. For the week ending 26 January, MBIE's fuel-price monitoring had regular petrol at $2.79 per litre, premium petrol at $2.99 per litre, and diesel at $2.18 per litre. Oil is currently trading around $75–80 per barrel.

Economy

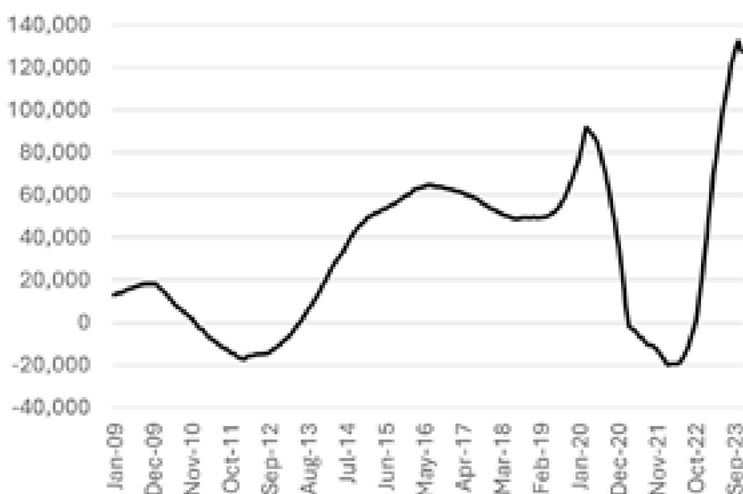
Migration

Estimated international migration has continued its break-neck pace. For the year ending November 2023, there were an estimated 249,500 migrant arrivals, which is significantly above the pre-COVID average of 120,900 and 135% up from the previous year. Migrant departures were also up, estimated to be 122,100, a 29% increase from the previous year. This produced an estimated net migration gain of 127,400 people.

The Reserve Bank has noted that the high level of net immigration is contributing to inflationary pressures. The new government needs to be stepping up its investment in public infrastructure and housing to ensure we can accommodate this population growth. However, recent decisions by the government – from the cancellation of Cook Strait Ferry funding to the scrapping of Three Waters to the back-peddling on medium density residential standards that would enable more housebuilding in urban centres – suggests it is moving in the opposite direction. In the near term, this will put upwards pressure on house prices and rents; in the long-term, it will further sweat our physical infrastructure and our health and education systems.

The net immigration surge has been driven by citizens of India, with an estimated 44,978 net arrivals (compared to 9,824 in 2019), the Philippines, with an estimated 34,268 arrivals (compared to 9,032 in 2019), and China, with an estimated 16,408 net arrivals (compared to 3,210 in 2019). There was an estimated net outflow of 44,500 New Zealand citizens, many of whom are leaving the country for the higher wages and more affordable housing offered in Australia.

Figure 10: *Net annual immigration, 2009–23.*



Source: *Statistics NZ.*

Overseas merchandise trade

For the year ending December 2023, total good exports were valued at $68.7 billion, down $3.3 billion from the year ending December 2022. Total goods imports were valued at $82.3 billion, down $4.3 billion from the previous year. This produced a goods trade deficit of $13.6 billion.

Of the major goods New Zealand exports, the value of milk powder, butter, and cheese exports fell 4.9% to $19.4 billion for the year; exports of meat and offal fell 10.5% to $8.8 billion; timber exports fell 9.9% to $4.7 billion; exports of fruit fell 7.7% to $3.5 billion; and exports of wine fell 5.8% to $2.1 billion. Exports of preparations of milk, cereals, flour, and starch increased 1.2% to $2.5 billion; exports of mechanical machinery and equipment increased 12.3% to $2.4 billion; and fish and seafood exports increased 6.5% to $1.9 billion.

On the import side, the value of petrol imports rose 19.4% to $11.8 billion; imports of mechanical machinery and equipment fell 2.6% to $11.2 billion; imports of electrical machinery and equipment fell 1.8% to $7.3 billion; textile imports fell 13.4% to $3.1 billion; plastics imports fell 20.3% to $2.5 billion; iron and steel imports fell 31.7% to $1.8 billion; and furniture and furnishings imports fell 20.4% to $1.4 billion, which may be due to households pulling back on discretionary spending in the face of higher interest rates.

Of our major trading partners, the value of exports to China fell 8.4% to $18.4 billion; exports to Japan fell 9.1% to $3.8 billion; exports to the Republic of Korea fell 10.3% to $2.4 billion; exports to Singapore fell 6.7% to $1.7 billion; and exports to Indonesia fell 23.5% to $1.6 billion. The value of exports to Australia rose 1.6% to $8.8 billion, while exports to the US rose 6.1% to $8.3 billion. The value of imports from China fell 14.9% to $17 billion and imports from Australia fell 7.3% to $8.9 billion. The value of imports from the US increased 3.7% to $8 billion; imports from the Republic of Korea increased 12% to $6.2 billion; imports from Japan increased 3.6% to $5.6 billion; and imports from Singapore increased 5.5% to $4.5 billion.

Consumer and business confidence

The ANZ–Roy Morgan consumer confidence index rose 1 point from December 2023 to January 2024, to 93.6. 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.

A net 19% of those surveyed reported it was a bad time to buy a major household item, an improvement from December, but still negative. This question is seen as a leading indicator of consumer confidence and future economic activity. A net 12% of those surveyed reported they were worse off financially than one year ago – again, a slight improvement from the December survey. A net 19% expect to be better off financially

by this time next year, which is down slightly from December. Inflation expectations lifted slightly, with consumers expecting a 4.3% increase per annum over the next two years. This is wildly different from the forecasts of the Reserve Bank and Treasury, which both predict that inflation will fall below 3% before the end of this year.

As Figure 11 shows, over the past year there has been a wide divergence between confidence in current and future conditions. This gap appears to be closing, as consumer confidence in current conditions lifts, albeit very slowly.

Figure 11: *ANZ–Roy Morgan Consumer confidence index, 2022–24.*

Source: *ANZ.*

Business confidence continued to lift in January, likely due to the preference for National-led governments in the business sector. ANZ's index had business confidence rising 4 points to +37 in January. Confidence is in positive territory across all industries, as is the 'own activity' outlook. However, there were notable falls in the own activity outlook in manufacturing, down 7.5 points to +30.8; agriculture, down 12.3 points to +11.5; and construction, down 13.9 points to +11.8. Employment intentions were mixed: the outlook was positive in retail, at +2.0, manufacturing, at +19.6, and services, at +5.5; however, it was negative in agriculture, at -7.4, and in construction at -8.8.

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.

The manufacturing sector continues to report contraction, according to the PMI. The seasonally adjusted PMI for December was 43.1, down 3.4 points from the November reading, driven largely by low production and low demand. The PMI has now been in contraction for 10 consecutive months.

The PSI is also in contractionary territory, having fallen 2.3 points to 48.8 in December. Activity/sales and employment both recorded negative readings, although new orders/business was in positive territory, at 51.2. Across both the PMI and the PSI, the proportion of negative comments in the December surveys outweighed the proportion of positive comments.

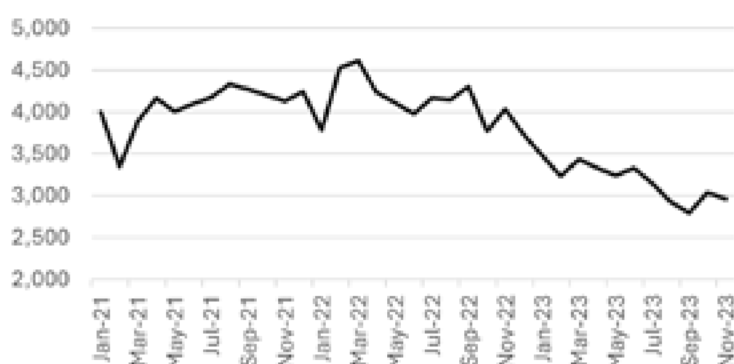
Figure 12: *BNZ–BusinessNZ PMI and PSI, 2021–23.*

Source: *BusinessNZ.*

Building consents

For the year ended November 2023, there were 38,209 new residential dwellings consented, down 24% from the previous year. Of the major centres, consents were down 27% annually in Auckland, 26% in Waikato, 28% in Wellington, and 19% in Canterbury. Nationally, consents per 1,000 residents have fallen from 9.8 to 7.3 for the year. This downswing in new consents is likely driven by the Reserve Bank's interest rate hikes. Combined with the high level of net immigration over the past year, this fall in building consents will likely put upwards pressure on house prices.

Figure 13: *Monthly residential building consents, 2021–23.*



Source: *Statistics NZ.*

Real estate

As of December 2023, the REINZ house price index (HPI) was up 0.5% from the same time last year, but down 14.7% 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 December 2023 was $779,830. This is down 0.7% annually. Overall, the monthly indicators show house prices lifting and the housing index climbing northward. This is likely being driven by the combination of high net immigration, the sense that mortgage rates have topped out, and the return of a housing-speculator-friendly government.

Table 3: *REINZ house price index, percentage increases, December 2023.*

	3 months	1 year	5 years*	From peak
National	0.9%	0.5%	5.9%	-14.7%
National excl. Auckland	1.4%	0.4%	7.4%	-11.1%
Auckland	-0.1%	0.5%	4.0%	-19.8%
Wellington	2.4%	2.7%	5.3%	-20.6%

* Compound annual growth rate

Source: *REINZ.*

Government accounts

The interim financial statements of government for the five months ended November 2023 show that the fiscal position is better than forecast. Core Crown tax revenue was $49.1 billion, which is 1.1% above the Treasury's Half-Year Economic and Fiscal Update (HYEFU) forecast. This was due to wage growth being slightly stronger than expected, higher-than-forecast tobacco, alcohol, and fuel duty excises, and a higher-than-forecast number of taxpayers in the country. Core Crown expenses were $56.8 billion, which is 0.6% lower than forecast. This difference is attributed to lower-than-forecast expenditure on core government services, housing and community development, and social security. The operating deficit was 29.1% lower than expected, at $2.8 billion.

Table 4: *Interim government accounts for the five months ended 30 November 2023.*

	Nov 2023	HYEFU forecast	Nov 2022
Core Crown Tax revenue ($m)	49,149	48,605	45,428
Core Crown revenue ($m)	54,933	54,191	49,954
Core Crown expenses ($m)	56,779	57,118	51,727
Net debt (% of GDP)	20.9%	21.4%	19.2%
OBEGAL* ($m)	-2,797	-3,944	-2,438

* Operating balance before gains and losses

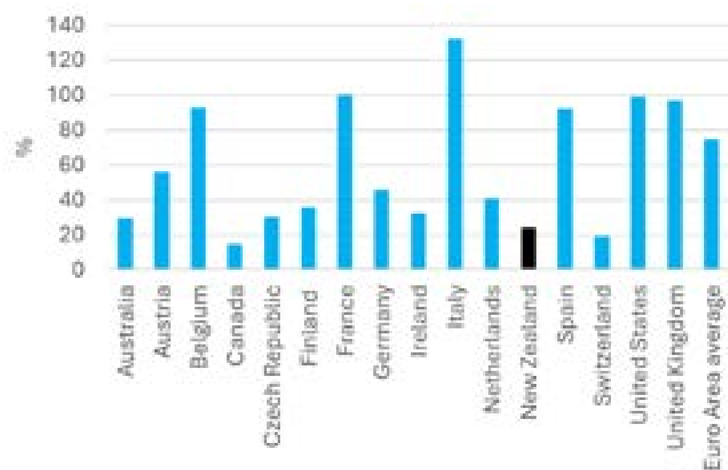
Source: *Treasury.*

Compared to the five months ended November 2022, core Crown tax revenue was $3.7 billion (8.2%) higher. The was largely the result of the relatively strong labour market and strong wage growth, with income tax receipts rising $2.4 billion over the period. As we discussed in our feature article, however, all signs are pointing towards a more difficult outlook for workers in 2024. Other direct income tax revenue was up by $0.8 billion, due to higher deposit interest rates, which the Crown taxes. GST revenue also rose, up $0.3 billion due to high inflation driving higher nominal consumption. Corporate tax revenue was down $0.1 billion from 2022.

Core Crown expenses increased $5.1 billion (9.8%) from the same period last year. The largest changes came from higher debt-servicing costs for government, up $1.4 billion; higher social security costs, up $1 billion due to rising superannuation entitlement rates; higher education costs, up $0.7 billion due to lump-sum wage payments made to primary and secondary school staff following the conclusion of bargaining; and higher core government services costs, up $0.7 billion due to the North Island extreme weather events of early 2023.

Net Crown debt remains low, at 20.9% of GDP ($83.9 billion). This is higher than the year to November 2022, but lower than the HYEFU forecast. This level of debt remains among the lowest in the OECD, which is important to remember in the context of the new government's claims that public debt has risen unsustainably; the data simply doesn't back this claim up.

Figure 14: *Net government debt as a percentage of GDP, 2023/24.*



Source: *IMF. Note that the IMF uses a different measure of net government debt to the New Zealand Treasury.*

NZCTU
Te Kauae Kaimahi

Economic Bulletin

December 2024

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.

Craig Renney

Economist and Director of Policy

craigr@nzctu.org.nz

Jack Foster

Policy Analyst

jackf@nzctu.org.nz

NZCTU Te Kauae Kaimahi

Contents

Key data for trade unionists 3

The only thing you can count on is more cuts 4

Macroeconomic shocks and political preferences 7

Prices 9

Monthly indicators 9

Central bank interest rates 9

Real estate 9

Economy 10

Gross domestic product – September quarter 10

Retail trade – September quarter 12

Balance of payments – September quarter 12

Merchandise trade 13

Performance indexes 14

Consumer and business confidence 14

Migration 15

Government accounts 16

Copyright © New Zealand Council of Trade Unions Te Kauae Kaimahi 2024

ISSN 3021-1891

NZCTU Te Kauae Kaimahi

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.

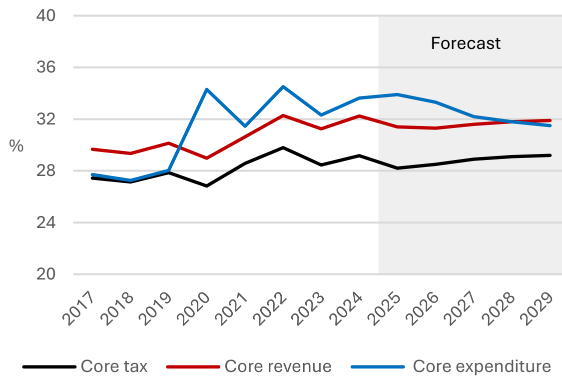
NZCTU Te Kauae Kaimahi

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.

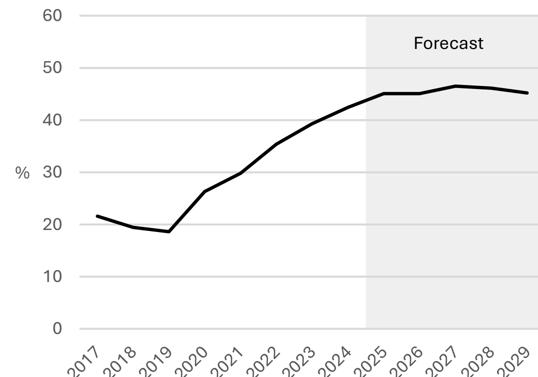
The indicators show very clearly that the government's strategy is not working. From a fiscal perspective, the government books are now much deeper in the red than they were when the coalition took office. In Treasury language, "All key fiscal indicators are expected to be weaker across all years compared 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

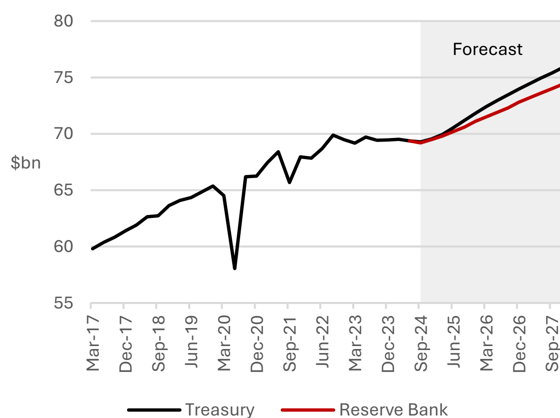
Source: Treasury.

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.

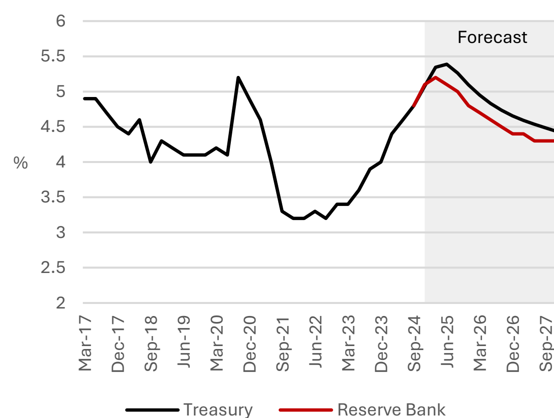
Meanwhile, net migration is forecast to basically halve next year, from 58,000 to 29,000. This means that New Zealand is expected to lose what has been the main driver of growth through the recessionary period. Even house prices are forecast to fall by 0.1% in the year to June 2025, though are expected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

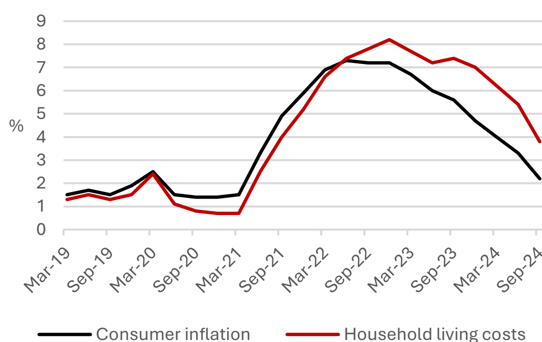
The quote “When the facts change, I change my mind. What do you do, sir?” is attributed to the economist John Maynard Keynes. Keynes’s prescriptions for investment famously helped drag countries such as the UK and the USA out of the depths of the Great Depression. In New Zealand, it was the Keynesian-influenced 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.

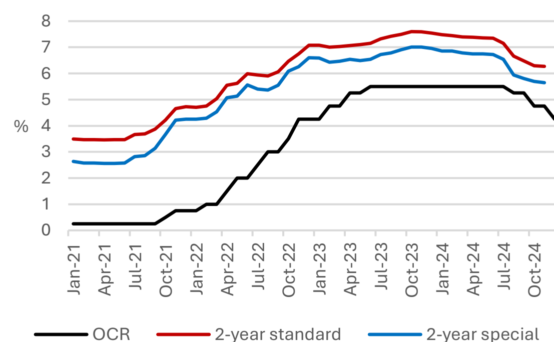
Compounding matters, the Reserve Bank's actions to reduce inflation have not only increased the cost of living for many (by hiking mortgage rates), but also caused a severe recession. This has intensified economic hardship for working households and businesses. Rising job insecurity has made households 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.

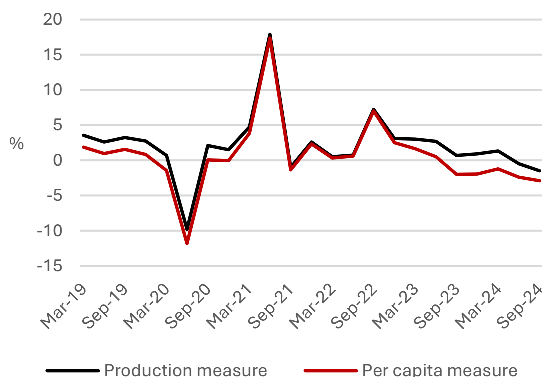
These figures reflect some major revisions by Statistics NZ to its earlier estimates. Previously, it had estimated that the New Zealand economy experienced a technical recession (two consecutive quarters of negative GDP growth) during the December 2022 and March 2023 quarters, and then limped along through 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.

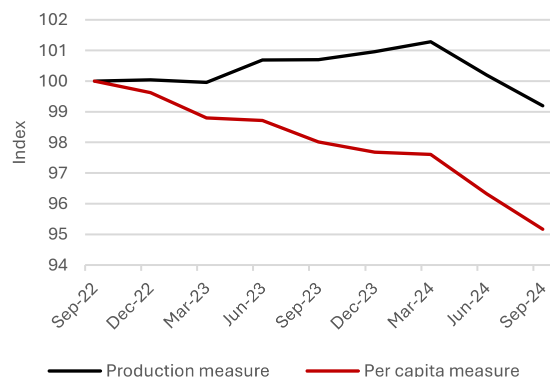
As we have discussed in previous Bulletins, the difference between the comparatively shallow downturn in headline GDP and the steep fall in per capita GDP over the past two years is largely because of strong migration-driven population growth. This is now tailing off, which means New Zealand is losing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

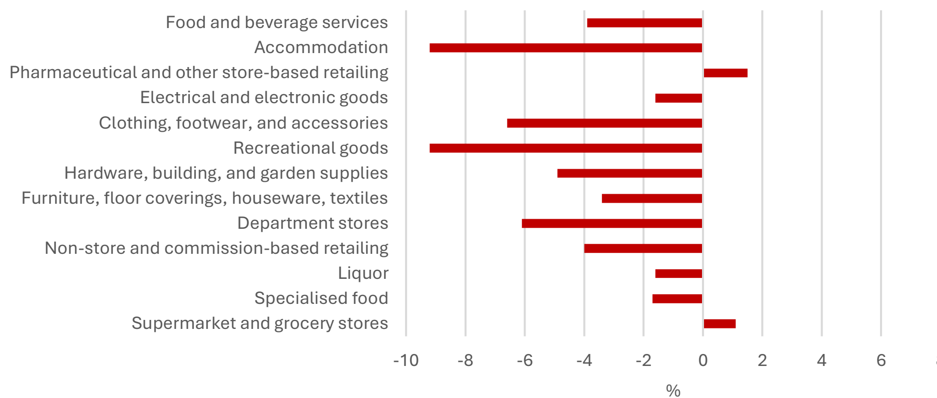
	Dec 23	Mar 24	Jun 24	Sep 24
Household consumption	0.5	0.3	–0.2	–0.3
Non-durables	–0.5	0.4	1.0	–1.2
Durables	1.8	–1.7	–2.8	0.6
Services	0.5	0.5	–0.4	–0.1
Central government	–0.7	0.5	–0.3	–2.7
Business investment	0.2	–0.5	0.9	–2.5
Gross fixed capital formation	–0.7	–0.8	–0.7	–2.9
Total expenditure on GDP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

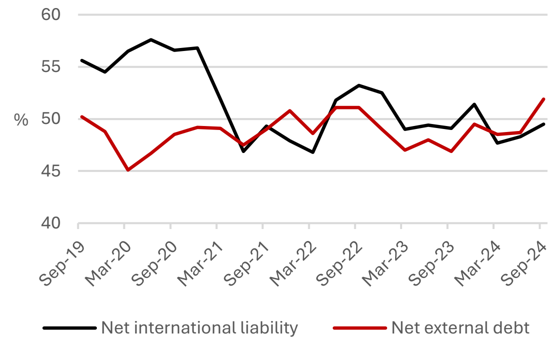
These deficits show that the total cost of imports into New Zealand exceeds the total earnings from New Zealand exports, and that more profits, interest payments, and dividends ("primary income") are

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

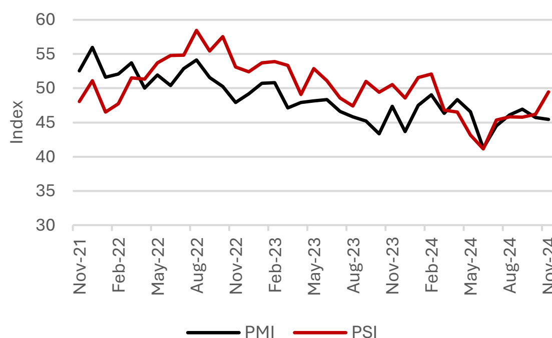
Source: Stats NZ.

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.

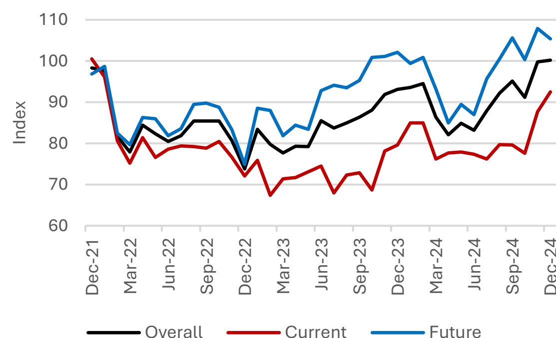
The manufacturing index fell 0.2 points to 45.5, which is firmly in contraction. The key sub-index of production fell 1.5 points to 42.5, while the employment sub-index increased 0.9 points to 46.9. The PSI, on the other hand, increased 3.3 points, to 49.5 – this puts it on the cusp of expansion. The 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.