Economic Overview

November 2011

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Cork on the ocean

Welcome to the November 2011 edition of Westpac's Economic Overview.

The past few months have been a tumultuous time on global financial markets, as all and sundry weigh the possible consequences of Greece defaulting on its government debt. The International Outlook section explains how, one way or another, the likely outcome for Europe will be recession. With the US still in the doldrums and Asia's juggernaut economies cooling, New Zealand exporters are clearly in for a rougher ride over the next year or so. We are bracing for dip in export commodity prices, although we retain our unbridled optimism regarding the long run outlook. Where commodity prices go the exchange rate goes, so we also anticipate a dip in the New Zealand dollar to around USD 70 cents.

Export prospects may be dimming, but the New Zealand Economy section describes how construction and investment activity are about to pick up the baton of growth. The Christchurch reconstruction boom will bring higher GDP growth and lower unemployment. But bottlenecks, cost increases and rising interest rates mean some sectors of the economy will benefit more than others.

There is one nuance to the New Zealand outlook that I find particularly intriguing. As the Australian unemployment rate rises, we can expect fewer New Zealanders to cross the Tasman, meaning higher net migration. Net migration is always a critical swing factor for the New Zealand economy, so this is definitely something to watch for over 2012.

The Financial Markets section reiterates our key message that New Zealand interest rates will go up significantly over the next few years. But in the near term this could involve fewer OCR hikes and a wider spread between the OCR and retail interest rates, as banks eventually pass on recent increases in the cost of international funds.

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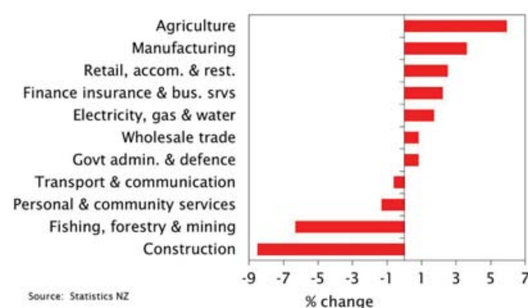
Winds of change

The recovery has rolled on, albeit in patchy fashion. We continue to expect growth to accelerate next year, but it will remain uneven, with Christchurch reconstruction and business investment increasingly the focus.

A bumpy recovery has continued

New Zealand's economic recovery continued in recent months, but it can best be described as patchy. Over late 2010 and early 2011 the economy grew fairly rapidly, as farmers enjoyed favourable climatic and market conditions, the housing market started to improve, and consumers cracked open their wallets. Those themes continued in the June quarter, but overall growth disappointed, with GDP expanding just 0.1%. While farm output and related sectors such as food processing grew strongly, and consumer-oriented industries such as retail trade also continued to expand, other parts of the economy did poorly. A sharp drop in tourist arrivals contributed to lower spending on recreation and leisure, the construction industry remained moribund, and non-primary manufacturing continued to struggle.

Figure 1: GDP growth, first half of 2011



Since June, there have been signs of a renewed slowdown in housing and retail turnover. Some of that may be due to the cross-currents of the Rugby World Cup (RWC). It's now increasingly clear that the Rugby World Cup has both generated and displaced economic activity. It has certainly brought in the numbers – at the time of writing we've seen over 70,000 more overseas tourist arrivals since August compared to last year, and at least 20,000 Kiwis have stayed at home instead of travelling overseas. And electronic cards data show that the visitors have been spending. But we suspect that some tourist activity has simply been concentrated into the RWC period: the weak recreation and leisure spending in the June quarter GDP figures may in part be due to local and foreign rugby fans postponing spending until the RWC, and by the same token we could see a weaker than usual summer holiday season. Meanwhile, other forms of economic activity may have been crowded out – for example, housing turnover and car sales dipped in September in game hosting cities such as Auckland. But the domestic economy has been slowing for some months now, suggesting an underlying loss of momentum.

A notable exception to the slowing trend has been the quake-hit Canterbury region, which has been gradually coming back to life. Retail activity in Canterbury is still appreciably below pre-quake trends, but both business and consumer confidence are higher than in the rest of the country. And the Canterbury housing market has begun to lift since the government announced its compensation package for homeowners in the devastated 'red zones' in July. It's worth noting that a lot of the pickup in housing turnover in the region to date has been outside Christchurch itself, and most of the lift in building consents has not been directly attributed to earthquake reconstruction. But it's clear that we are now seeing homeowners with the confidence (and funds) to resettle starting to do so.

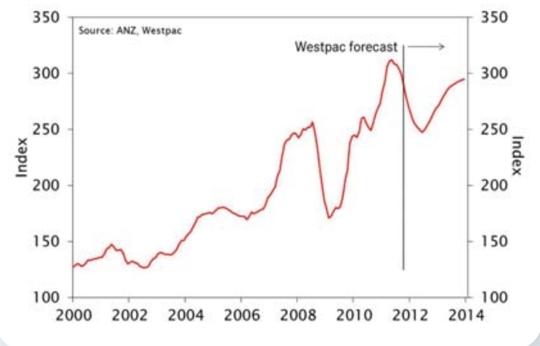
Growth is set to pick up, but will remain uneven

The darkening storm clouds hanging over the global economy have had limited impact on the New Zealand economy so far, though business confidence has come off quite sharply over the past three months. But we're likely to see more tangible effects. Weaker global growth will mean

lower commodity prices and more difficult market conditions for exporters generally. Perhaps even more worryingly, as we explain in the Financial Markets section, the European sovereign debt crisis could lead to interest rates rising independently of changes in the Reserve Bank's Official Cash Rate.

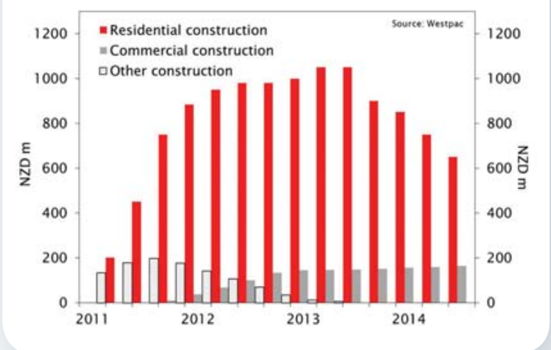
There are two main reasons why we don't think this spells an end to economic growth. First, we continue to view the coming declines in commodity prices as temporary setbacks to a powerful long-run trend of historically high food prices, and hence high national income – the graph below puts our forecast in perspective.

Figure 2: World prices of New Zealand's export commodities



Secondly, the rebuilding of quake-hit Christchurch will inject reinsurance payments and already earmarked government money into the economy over the next few years, irrespective of global developments. The timing of the rebuild is highly uncertain, but the influx of a very large sum of money is not. That sum now looks even larger since the Earthquake Commission (EQC) bumped up its liability estimates to $8bn. Our best estimates, based on conversations with those on the ground and New Zealand's last construction boom in the 2000s, are for a gradual ramp up in residential reconstruction from late this year, beginning with those who are able to do so now, and only later moving on to those with greater land damage or more delayed insurance payouts. Infrastructure repairs are already underway. Commercial reconstruction is likely to be a much more drawn-out process. But even a slow initial trickle of the roughly $20bn we're now penciling in as the total spend is enough to push annual GDP growth to 3.7% by end 2012.

Figure 3: Forecast quake-related construction



But as we've warned in the past, this growth won't look like the growth we saw last decade. All the construction activity we expect will create bottlenecks, labour shortages and cost increases. Interest rates must eventually rise in such an environment, from currently very low to above average levels. Rising interest rates, cost increases, and a more difficult global environment will squeeze other parts of the economy. We forecast rising incomes but cautious spending; a construction boom in parts of the country while the housing market remains lack-lustre overall; and an ongoing focus on saving and paying down debt.

Exporters will face more challenging times. Farm output has been growing strongly this year, and early season growing conditions so far continue to look very favourable across much of the country. But global dairy prices have already fallen, and are likely to fall further as the global economy slows. Meat and wool prices are also likely to moderate by next year. That should see the NZ dollar move lower as well, shifting some of the pain from exporters onto consumers – but not all. Following last year's $8.25/kgms Fonterra dairy payout, we now expect a payout of $7.00/kgms for 2011/12, and further falls in 2012/13. Conditions could prove harder still for non-commodity exporters. In particular, New Zealand's manufacturing and tourism sectors will feel an additional chill wind blowing from across the Tasman, as Australian households hunker down amid a belated housing market slowdown.

Reconstruction aside, general construction and investment are likely to grow as well, if not as rapidly. That much is needed simply for a gradual catch-up to trend after several years of

under-investment and under-building. Recent increases in building consents, and strong increases in capital goods imports this year, suggest this catch-up is finally getting started.

The existing housing squeeze could get worse if, as we expect, migration starts to lift from its current lows. New Zealand migration patterns depend crucially on how many Kiwis move across the Tasman – and a slowing Australian economy is likely to make more New Zealanders think twice before moving. Unemployment in Australia has started to rise and is likely to rise further, against the backdrop of a shaky global economy. Coupled with the draw on construction workers in Christchurch, that's enough for us to expect the migration tide to turn sharply in New Zealand's favour over the next couple of years.

Figure 4: New Zealand migration flows (annual total)

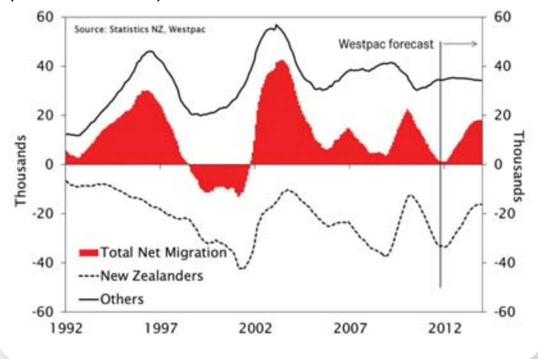
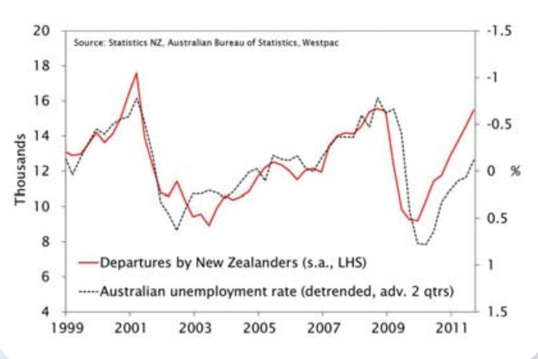


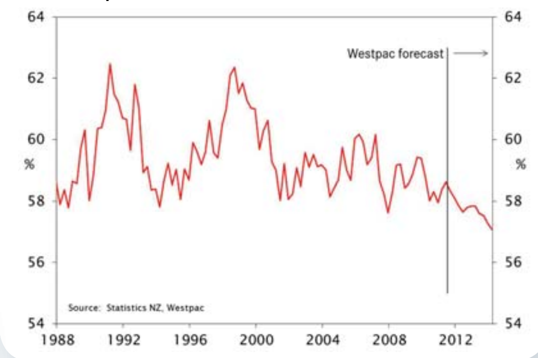
Figure 5: NZ migration and the Australian labour market



An existing undersupply of housing, combined with our forecast of a stronger migrant inflow, and the temporary shortages due to the Christchurch earthquake, will put pressure on rents. We expect rents to rise well above the rate of inflation by late next year. For house prices, the outlook is more ambiguous. Supply and demand conditions will tend to support prices, but rising interest rates will have a dampening effect. A burst of house sales earlier this year seems to be petering out, leaving us comfortable with our long-held prediction that house price inflation will be 4% in 2011, and zero in 2012.

As the economy picks up, unemployment will fall gradually and households should see more robust income growth. But they will also face rising interest rates, sagging property prices and, in all likelihood, ongoing volatility in global financial markets. Because of the size of the income boost over coming years, we expect a situation where households can slowly increase their spending while continuing to pay down debt. At a national level, that means consumer spending growing, but more slowly than overall GDP. That's similar to what Australia has seen recently, as a mining boom coincided with very cautious household spending.

Figure 6: Nominal consumption (share of GDP)



Meanwhile, the government sector is likely to be an outright drag on growth in coming years – more so than we thought three months ago. In itself, the upwards revision to the earthquake spending bill doesn't pose a threat to the Government's target of a return to surplus by 2014-15 – the extra costs are one-offs for which the Government has already secured financing. September's credit rating downgrades, and the weaker world growth outlook, are a bigger concern. Weaker growth combined with rising interest rates could easily confront the government with the choice of either relaxing its debt target – which the current government has maintained it's unwilling to do, and which would attract the attention of the rating agencies – or of even tighter spending over coming years than signalled in this year's Budget.

Mix and match

With activity picking up and the rebuild of Christchurch set to place a heavy demand on the nation's resources, the case for higher interest rates remains intact. But in the near term this is likely to involve a trade-off between OCR moves and changes in international funding costs. Turmoil on global financial markets has weighed on the New Zealand dollar recently. In time falling prices for New Zealand's export commodities could become a second drag on the currency.

For the last several months financial markets have been swinging between despair about the sovereign debt woes of Europe and the US, and hopes of a major rescue mission by policymakers. The massive daily gains and losses in equities, commodities and currencies have much less to do with fundamentals than with the rumour mill around who will bear what losses, the size of proposed bailout packages, and whether an agreement can be reached on either of these factors.

This has seen both the New Zealand dollar and interest rates worldwide fall sharply since August, only to recover some ground more recently while hopes of a bailout are in the ascendancy. Our view is that markets will face more disappointment in the months to come; the issue is not whether a rescue plan will be put in place, rather that markets may have too much faith in policymakers' ability to avoid harm to the real economy, which is already in motion. For New Zealand's financial markets, that means a global backdrop of very loose monetary policy for some time, a period of weaker commodity prices, and a halting improvement at best in credit markets.

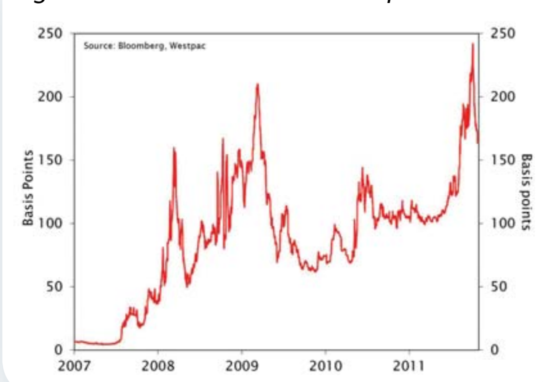
Interest rates and inflation

The deterioration in global conditions came just as the Reserve Bank was preparing the market for increases in the OCR, starting with a reversal of the 50bp cut in March that was meant to insure against a broader economic fallout from the Christchurch earthquake. The case for higher interest rates over the medium term is still intact today, but two things have happened in the last few months to reduce the need for direct action from the central bank.

The first is that funding in international markets has become costlier for banks, due to concerns about the stability of European banks as they own up to losses in Greece and other troubled euro zone nations. While we think the European banks will avoid collapse, there is a growing risk that they will look to shore themselves up by reducing their exposures, including to far-flung markets like New Zealand.

The cost of five-year funding for Australasian banks briefly spiked to 242bps above the swap rate in September (figure 7), even higher than at the height of the global financial crisis in early 2009. On both occasions the increased cost was only indicative, as the banks avoided tapping the market under such conditions. The margin has eased back in recent weeks, but unless this runs much further it is likely that banks will eventually have to seek funds at higher cost. Our forecasts assume that some of this will be passed through to retail interest rates independently of any moves in the OCR. And since the RBNZ has indicated that it is setting monetary policy with the level of retail rates in mind, this implies less immediate need for OCR increases.

Figure 7: Australian bank CDS spread



The second factor is that activity and inflation measures have surprised on the downside in the past couple of months. Annual inflation has pulled back from a peak above 5%, and is set to fall back to around the middle of the 1-3% target

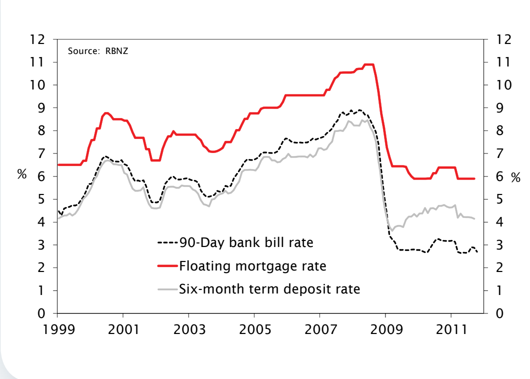
range by mid-2012 as last year's GST increase and other one-off government charges drop out of the equation. Some softening in world commodity prices is also expected to take the edge off domestic inflation over the first half of next year. Inflation expectations have been uncomfortably high in the last few quarters, but the RBNZ has taken the view that these are being influenced by the temporary spike in current inflation, and will ease back as the headline rate falls.

Figure 8: Inflation and inflation expectations

We now expect the next OCR hike to be delayed until June 2012, with three 25bp hikes over the course of next year and another four moves in 2013. The weaker world economy argues for caution in the early stages, but rebuilding in Christchurch will act over time to soak up some of the economy's spare capacity and add to inflation pressures. Our view on the start date for hikes lies somewhere between the RBNZ's forecast and current market pricing. The RBNZ signalled a March start to hikes in its September Monetary Policy Statement, and did not explicitly change that view at the October OCR review. Meanwhile, interest rate markets are priced for hikes to begin around September.

The key point of difference in our forecasts is the extent of the tightening cycle. We expect the OCR to reach a peak of 6% (albeit not until 2015), compared to the RBNZ's most recent projection of a peak around 4.5% by early 2013, and current market pricing of around 4%. There are two facets of our thinking on this matter. First, the sheer magnitude of the reconstruction task in Christchurch argues for interest rates rising into outright "tight" territory, rather than simply returning to "neutral". And second, we doubt that New Zealand's neutral OCR has changed much since the global financial crisis – it may be around 5.5%. The squeeze in global credit markets has resulted in a wider spread between the OCR and retail lending rates (figure 9). But this is not something that can be permanently offset by lowering OCR. The essence of the problem is that the world is less willing to lend to New Zealand at any given level of interest rates; in order to restore the savings/investment balance, domestic interest rates must rise on average over economic cycles. New Zealand has been struck by a genuine global shock that will have genuine implications for interest rates. The central bank cannot simply rewrite global realities by permanently reducing the OCR.

Figure 9: Wholesale and retail interest rates



Exchange rates

Conditions in global credit markets are also a factor for New Zealand dollar exchange rates. In a more uncertain environment, attracting investors may require a mix of higher yields and a lower exchange rate to make NZD-denominated assets cheaper (and offer the potential for future gains on the currency).

That link is particularly clear against the US dollar, which appears to have reassumed its safe-haven status once the brinkmanship over the national debt ceiling was resolved in August. During periods of heightened volatility the US dollar has risen; but in the absence of fresh crises the USD will tend to fall, as it is seen as the country most likely to run loose monetary policy for an extended period.

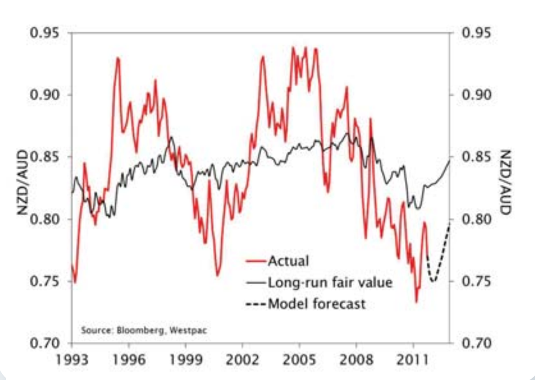
World prices for our main commodity exports have eased back in recent months, but are still broadly consistent with an NZD/USD exchange rate around 80c (figure 10). We expect both of

these to soften further through the first half of next year as the world economy slows, taking the NZ dollar to around 70c. However, in the longer term we still expect both to remain in a higher range than the average of the last few decades.

Figure 10: Inflation adjusted commodity prices

Credit conditions also matter for our exchange rate against our neighbour (and close substitute) Australia – New Zealand has a relatively larger overseas borrowing requirement, so any difficulties in accessing international credit markets will argue for a larger downward adjustment in the NZD than in the AUD. Three months ago we noted that our modelling, which includes bank credit default spreads as a proxy for global credit conditions, was arguing against the rise in the NZD/AUD exchange rate. That rise has since been unwound, and our latest estimate suggests it could have further to go in the near term (figure 11). However, going into the second half of next year, relative GDP growth, commodity prices and net migration flows are expected to turn in the NZ dollar's favour.

Figure 11: NZD/AUD fair value model



Financial Markets Forecasts (end of qtr)

	OCR	90 day bill	2 year swap	5 year swap	NZD/ USD	NZD/ AUD	NZD/ EUR	NZD/ GBP	NZD/ JPY	TWI
Dec-11	2.50	2.80	3.30	4.00	0.73	0.768	0.56	0.48	55.5	66.0
Mar-12	2.50	2.80	3.50	4.30	0.71	0.763	0.56	0.47	54.0	65.2
Jun-12	2.75	3.00	3.80	4.50	0.69	0.758	0.57	0.46	52.4	64.2
Sep-12	3.00	3.30	4.10	4.70	0.74	0.771	0.58	0.48	57.7	67.5
Dec-12	3.25	3.60	4.40	4.90	0.77	0.786	0.60	0.49	62.4	70.0
Mar-13	3.50	3.80	4.60	5.10	0.78	0.796	0.61	0.49	65.5	71.2
Jun-13	3.75	4.00	4.80	5.30	0.79	0.790	0.61	0.47	64.8	71.1
Sep-13	4.00	4.30	5.00	5.40	0.78	0.796	0.61	0.47	63.2	70.7
Dec-13	4.25	4.70	5.30	5.60	0.76	0.792	0.61	0.46	62.3	69.8
Mar-14	4.75	5.10	5.50	5.70	0.75	0.792	0.61	0.46	62.5	69.6
Jun-14	5.00	5.40	5.60	5.80	0.75	0.793	0.61	0.45	62.6	69.4

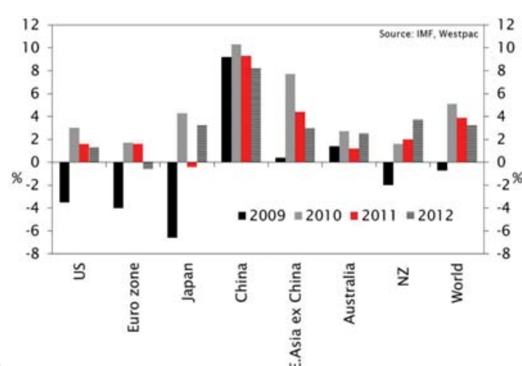
Welcome to the danger zone

The outlook for the world economy has deteriorated in recent months. The European sovereign debt crisis has worsened, casting a shadow of uncertainty over growth prospects and financial system stability worldwide. Growth is set to slow most severely in Europe while closer to home we also expect a more moderate slowdown in key Asian economies. In Australia households remain under pressure.

The deterioration in global growth we identified in July's Economic Overview has intensified during the last three months. In the words of IMF Chief Christine Lagarde, the world has entered a "dangerous phase" as debt burdens threaten to suffocate the recovery. The upshot of recent developments is that economic growth is expected to slow to varying degrees over the next year amongst almost all of New Zealand's key trading partners, with fiscal retrenchment the most common theme. The most severe slowdown is anticipated in the euro zone – which we expect to fall back into recession in 2012 – but growth in other countries is also set to slow appreciably. The US economy should remain in expansion mode, although only just, as policy makers continue to muddle though a disappointing recovery with interest rates approaching zero and creative new monetary policy tools in play. Australia faces quite different challenges to its northern hemisphere contemporaries. The key tension is between the booming mining sector and the battered Australian consumer. Add to the mix our long held view that we will see a clear cyclical slowing in Asian growth over the next twelve months and the world is looking far less supportive for NZ exporters of all persuasions.

But we would also issue a reminder that we're not expecting another Global Financial Crisis to herald a second worldwide recession within the space of 4 years (figure 12). Instead we're expecting a period of sub-par growth driven in part by a sharp reduction in fiscal spending as governments seek to address budget blow outs.

Figure 12: Key trading partner GDP growth



Europe

In Europe, the sovereign debt crisis which has been simmering for well over a year edged closer to boiling point in recent months. The crisis has been driven by heightened concerns about the ability of sovereigns to repay debt and the implications for fragile European banks.

The cost of financing government debt has ballooned for Greece in particular as it has become clear to markets that the country has no hope of meeting budget deficit reduction targets. A default of some kind is inevitable. But this is not the biggest threat for the global economy. Greece is a relatively small country and in theory managing an orderly default there is doable. Rather it is the risk of contagion to the funding costs for much larger European economies (Italy and Spain are the most vulnerable), and the ability of fragile European banks to cope with losses which pose the greatest threats to global financial stability and growth. Highly indebted countries remain susceptible to shifts in market sentiment around their ability to repay this debt, meaning their ability to sustain any given debt level can deteriorate sharply as rising risk premia push interest rates higher.

Indeed, in recent months markets have started not only reassessing the riskiness of lending to Italy and Spain, but also to banks and corporates more generally. This has driven up the cost of funds for NZ banks, as discussed in the Financial Markets section of this document.

With these risks in mind, European politicians and bureaucrats have been searching for a

solution to the euro zone debt crisis which not only apportions the cost of bailing out weak sovereigns between the public and the private sectors, but also shores up the balance sheets of European banks, and acts as firebreak against the risk of contagion to other European sovereigns. Exactly how this will happen remains unclear, but the unequivocal upshot is that governments across Europe will have to tighten up spending for an extended period. Banking system stress may result in tighter credit conditions via a combination of higher interest rates and/or credit rationing, which will also act as a drag on growth. Tighter credit, tight fiscal policy, and the associated negative impact on business confidence, will be a severe drag on growth throughout the euro zone, pulling the region into a recession.

US

A contraction in government spending in the US will also be a key feature of the economic environment there – eventually. The politics around such a necessary retrenchment are likely to remain difficult, as S&P noted in its historic downgrade of US sovereign debt in August (an issue that is due to reignite when the bipartisan "Super Committee" charged with finding a further US$1.2 trillion in budget cuts reports back in November). Data flow over the last few months has shown little sign of a material change in direction. Labour market weakness remains stubbornly ingrained and the housing market shows few signs of improvement. It should be no surprise then that consumer sentiment in the US is dismal. The business sector is in broadly better shape. Key surveys have managed to remain in expansionary territory, but against the backdrop of deteriorating global environment, considerable risks to the outlook remain. The Fed remains committed to providing stimulus but this is not a panacea for the country's structural problems, which will ensure a sustained period of sub-par economic growth.

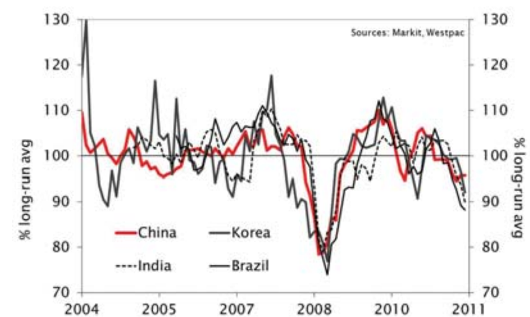
China and Asia

With growth prospects looking decidedly sour in the Northern hemisphere, those in search of a positive story have often turned East in recent years, and more often than not the Chinese juggernaut has provided more than just a glimmer of hope. But right now, growth is slowing in China too – though for quite separate reasons. Authorities have been actively trying to cool credit growth and parts of the housing market since last year. Steps taken have included tightening credit conditions and raising interest rates in attempts to dampen inflation pressure and head off the risk of bubbles developing.

At its heart, China is an investment led economy, dominated by internal drivers of growth. However external developments do still matter and China is not immune to the slowing global economy. After all, the country does make things that get progressively harder to sell as the going gets tough – in particular consumer durables. Exports to Europe and North America (places where the going is expected to get toughest) comprise a significant chunk of total exports.

Other smaller economies in Asia are even more reliant on Western growth and trade and of course will also feel the downdraft from a slowing China. Already business surveys have shown softening in the manufacturing sector across the region.

Figure13: Emerging markets manufacturing PMIs



In turn, slowing growth in China and other parts of Asia will put further downward pressure on commodity prices (although importantly, with few signs of disruption to trade credit facilities and no worldwide recession, prices should remain above Global Financial Crisis lows). This will have consequences for commodity producing countries like Australia and New Zealand which have been benefitting from rising demand for the commodities they produce.

Australia

China's almost insatiable demand for raw materials has catapulted Australia's terms of

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trade to a multi decade high. While this is fundamentally a good news story, the associated investment boom brings its own unique challenges. Such a strong performance by one sector of the economy squeezes out other areas. While the mining sector is strong, other domestically focused sectors have been weak as households and the non-mining sector have shouldered the burden of rising interest rates and an elevated exchange rate.

Arguably, this squeeze has to date been most evident in the household sector, where rising interest rates have combined with falling house prices and fiscal belt tightening. We expect these pressures to lead to an appreciable slowing in domestic demand growth over the coming quarters. We give more weight to this domestic weakness than other forecasters and are thus are more pessimistic on Australian consumption growth, which we expect to slow from 3% in the year to December 2011, to 2% over the year to December 2012.

Adding to the cautious tone adopted by the household sector is an increasing sense of fragility in the labour market. Employment has contracted in recent months, and we expect unemployment will rise toward 6% over the next year. This will weigh on wage growth, consumer sentiment and in turn, consumer spending. With these domestic developments set against a clearly deteriorating global environment and softening business confidence, the RBA is expected to cut interest rates later this year.

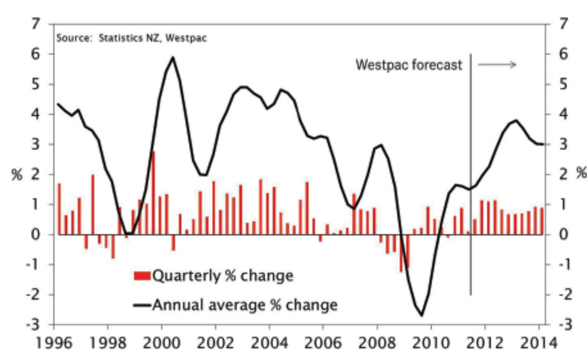
Economic and Financial Forecasts

Economic Forecasts (Calendar Years)	2007	2008	2009	2010	2011f	2012f
New Zealand						
Real GDP % yr	2.9	-0.1	-2.0	1.6	2.0	3.7
CPI inflation % annual	3.2	3.4	2.0	4.0	2.7	2.4
Unemployment %	3.4	4.5	7.0	6.7	6.3	5.1
Australia						
Real GDP % yr	4.6	2.6	1.4	2.7	1.2	2.5
CPI inflation % annual	3.0	3.7	2.1	2.7	3.6	3.1
Unemployment %	4.4	4.3	5.6	5.2	5.1	5.6
United States						
Real GDP %yr	1.9	-0.3	-3.5	3.0	1.6	1.3
Consumer Prices %yr	2.9	3.8	-0.3	1.6	3.1	2.0
Unemployment Rate %	5.8	5.8	9.3	9.6	9.1	9.4
Japan						
Real GDP %yr	2.2	-1.5	-6.6	4.3	-0.4	3.2
Consumer Prices %yr	0.1	1.4	-1.3	-0.7	0.2	0.6
Unemployment Rate %	3.9	4.0	5.1	5.1	4.6	4.5
Euroland						
Real GDP %yr	2.8	0.3	-4.0	1.7	1.6	-0.6
Consumer Prices %yr	2.1	3.3	0.3	1.7	2.5	1.0
Unemployment Rate %	7.5	7.5	9.5	10.0	10.3	11.0
United Kingdom						
Real GDP %yr	2.7	-0.1	-4.9	1.4	0.8	0.3
Consumer Prices %yr	2.3	3.6	2.2	3.2	4.0	2.2
Unemployment Rate %	5.3	5.6	7.6	7.8	8.0	8.2
China						
Real GDP %yr	14.2	9.6	9.2	10.3	9.3	8.2
Consumer Prices %yr	4.8	5.9	-0.7	3.3	5.5	2.9

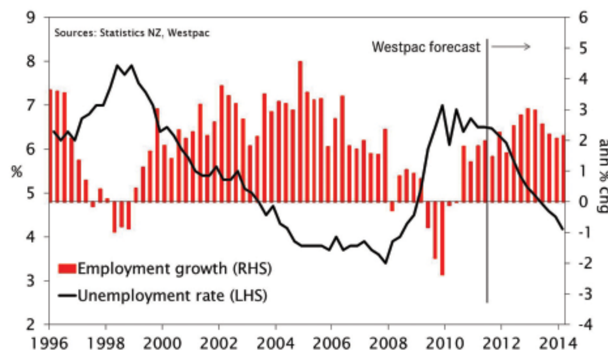
Forecasts finalised 26 October 2011

Annual Average % change	March years				Calendar years			
	2011	2012f	2013f	2014f	2010	2011f	2012f	2013f
Private consumption	2.0	1.5	1.6	2.1	2.2	1.7	1.5	2.0
Government consumption	3.8	0.8	-1.6	-0.4	3.4	1.7	-1.3	-1.1
Residential investment	2.3	-4.5	40.1	10.0	2.8	-10.0	39.3	13.2
Business investment	6.9	7.8	10.4	5.4	2.0	8.7	10.5	6.2
Stocks (% contribution)	1.4	0.1	0.5	0.0	2.0	-0.3	0.7	0.1
GNE	4.5	3.1	4.8	2.8	4.2	2.6	5.1	3.0
Exports	1.9	3.0	2.1	3.2	2.9	3.0	2.1	2.8
Imports	10.5	5.5	4.2	2.5	10.3	5.9	4.8	2.6
GDP (production)	**1.6**	**2.3**	**3.8**	**3.0**	**1.6**	**2.0**	**3.7**	**3.0**
Employment (% annual)	1.8	1.6	3.0	2.1	1.3	2.3	3.0	2.0
Unemployment rate (% s.a. end of period)	6.5	6.1	5.0	4.2	6.7	6.3	5.1	4.5
Labour cost index (all sectors, % annual)	1.9	2.4	3.1	3.1	1.7	2.1	3.0	3.1
Inflation (% annual)	4.5	2.4	2.7	2.7	4.0	2.7	2.4	2.9
Current account balance (% of GDP)	-3.6	-4.6	-6.3	-5.1	-3.5	-4.0	-6.2	-5.5
Terms of trade	6.7	-3.7	-1.5	4.0	12.3	-1.0	-3.9	4.0
90 day bank bill (end of period)	3.00	2.80	3.80	5.10	3.18	2.80	3.60	4.70
5 year swap (end of period)	4.54	4.30	5.10	5.70	4.60	4.00	4.90	5.60
TWI (end of period)	67.2	65.2	71.2	69.6	67.8	66.0	70.0	69.8
NZD/USD (end of period)	0.76	0.71	0.78	0.75	0.76	0.73	0.77	0.76
NZD/AUD (end of period)	0.75	0.76	0.80	0.79	0.77	0.77	0.79	0.79
NZD/EUR (end of period)	0.55	0.56	0.61	0.61	0.56	0.56	0.60	0.61
NZD/GBP (end of period)	0.47	0.47	0.49	0.46	0.48	0.48	0.49	0.46

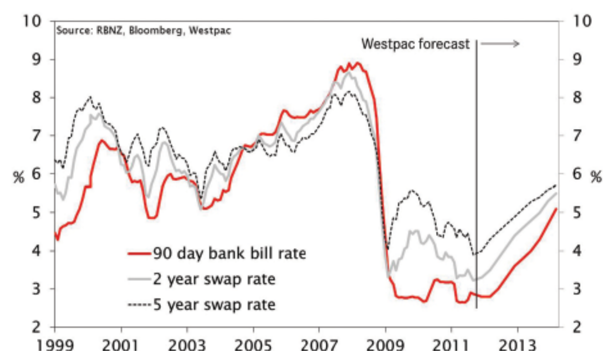
New Zealand GDP growth



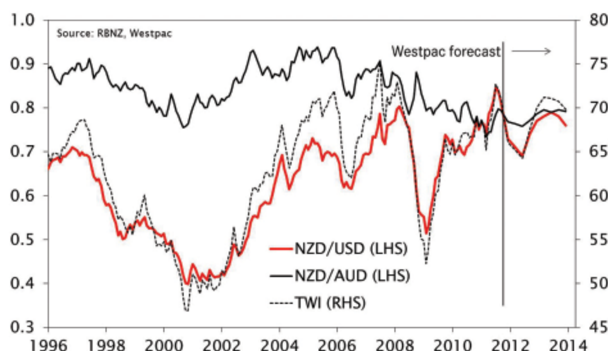
New Zealand employment and unemployment



90 day bank bill, 2 year and 5 year swap rates



NZD/USD, NZD/AUD and TWI



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