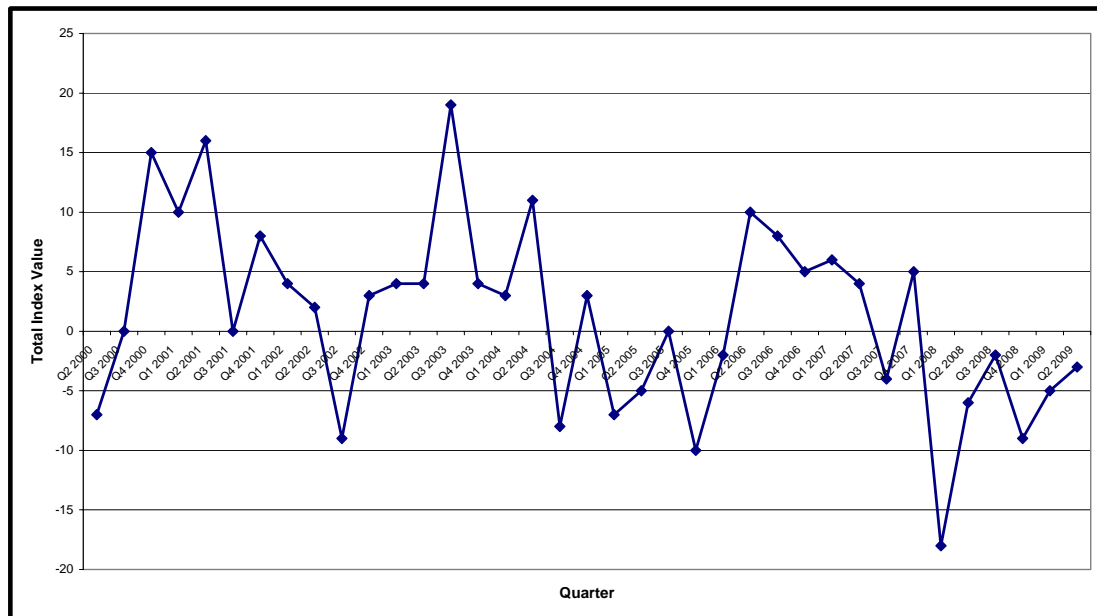


## EXECUTIVE SUMMARY

The overall Business NZ Economic Conditions Index (ECI) sits at -3 for the June quarter 2009, a marginal improvement of two from the previous quarter and up three on a year ago. The overall ECI has been negative since March 2008 although business confidence, a good indicator of future activity, has improved markedly this quarter, albeit from a very low base.

Figure 1: Overall economic conditions index



In terms of the sub-indexes:

1. Economic growth/performance indicators sit at -4, the same as for the last two quarters but down two on a year ago. Negative growth experienced since the March quarter of 2008 is expected to continue until at least the third quarter of 2009. The global economic and financial crisis has stabilised with improved prospects in sight. However the threat of international moves towards protectionism through export subsidies remains. This may impact on New Zealand agricultural exporters, given New Zealand's status as a major player in international trade of dairy products and lamb.

2. Monetary policy/pricing indicators sit at 0, down four on the March 2009 quarter and down one on a year ago. Long term interest rates are starting to increase while the exchange rate has picked up significantly on the back of a weak \$US and news that New Zealand's credit rating is no longer under active review but has been assessed as stable. Expectations for a slow but steady improvement in world commodity prices are evident with the ANZ's Commodity Price Index showing improvement over the last three months. In line with commodity price increases, world demand for oil is also improving, thus putting some upward pressure on prices. Any potential price increases will likely be offset by a rising \$NZ although this has implications for the competitiveness of New Zealand exporters.

3. Business/consumer confidence indicators sit at 7, a significant improvement of six on the March 2008 quarter and an improvement of 10 on a year ago. Deep levels of pessimism which were apparent in the final quarter of 2008 and first quarter of 2009 have evaporated, although business confidence is still relatively low by historical standards. Companies within sectors have differing confidence levels which tend to be obscured by broad sector confidence indicators. Consumer confidence is mixed. On the positive side, reductions in interest rates are impacting positively on household debt servicing costs and total household debt, which has now been in retreat since the March quarter 2008. On the negative side, employment prospects have taken a dive, making people cautious in respect to retail sales and general consumption, and impacting adversely on some sectors.

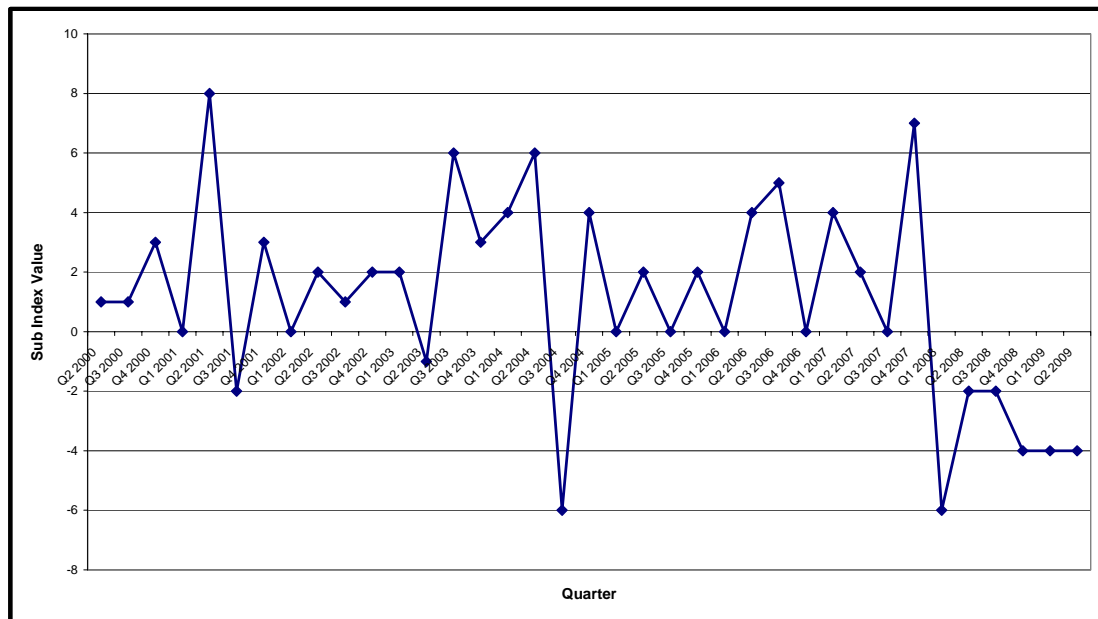
4. Labour market indicators sit at -6, the same as for the March 2009 quarter and a deterioration of four from a year ago. Despite projections for significant employment losses and rising unemployment, the most recent Household Labour Force Survey provided some surprising results – mainly on the upside in terms of unemployment levels. However, when one digs a little deeper into the figures, the “surprising results” largely reflect individuals leaving the labour market altogether as employment prospects decline. Given the general lag between a decline in the economy and labour shedding, it is perhaps ironic that the largest decline in employment (and the associated highest rate of unemployment) will occur when the economy is starting to climb out of the current recession. This means further significant employment losses are inevitable. Despite the negative outlook for the labour market, net migration is lifting as New Zealanders realise that other countries are actually in a worse position and there has been a marginal increase in expat New Zealanders returning home.

**BUSINESS NZ ECONOMIC CONDITIONS INDEX**

**Sub Index 1: Economic growth/performance indicators**

Economic growth/performance indicators sit at -4, the same as for the last two quarters but down two on a year ago. Negative growth experienced since the March quarter of 2008 is expected to continue until at least the third quarter of 2009. Although the global economic and financial crisis has stabilised with improved prospects in sight, the threat of international moves towards protectionism through export subsidies remains. This may impact on New Zealand agricultural exporters, given New Zealand's status as a major player in international trade of dairy products and lamb.

**Figure 2: Economic growth/performance sub index**



After close to a year of negative news surrounding the global economy, there are significant signs that the worst of the biggest global economic and financial crisis since the 1930s is largely over, although the after effects will be apparent for a very long time.

Financial markets have largely stabilised after significant swings over the last six months, while capital flows are being restored at an increasing rate. Markets around the world are showing positive signs of recovery (rather than random swings) and this is reflected in increased world demand. As a result, commodity prices are on the rise and oil prices have also drifted higher.

While the worst effects of the international recession are behind us, the scars from a rapid build up of debt, bailouts and nationalisation of companies and banks on the international stage will take a long time to heal.

One of the worst aspects of the current global recession has been the wholesale moves by governments around the world towards insular policies and greater protectionism. This has significant implications for world trade and adversely affects major international commodity traders such as New Zealand. Decisions by the EU and the US to reintroduce export subsidies are potentially very damaging and send precisely the wrong signals. While some might argue that the amount of product subject to export subsidies might not be great, the danger lies in the potential for such protectionism to be extended resulting in retaliatory actions from other countries.

In New Zealand the impacts of the global recession have been less than in many other countries, reflecting a number of factors including New Zealand's role as a major producer of food and fibre (which wasn't hit so hard as the manufacturing sector internationally). Perhaps also of critical importance is that New Zealand has sound financial institutions and governance arrangements.

Sound institutions and governance arrangements give the public and business sectors confidence to continue to invest. In many respects the decision by the Government to guarantee retail and wholesale deposits was driven by offshore expectations rather than any domestic concerns about the financial credibility of our major financial institutions.

Notwithstanding the above, New Zealand has taken a major hit from the downturn, reflected not only in obvious effects such as increased unemployment but also in terms of overall output which flows through into the government accounts.

The recession has not only impacted on the expenditure side of the equation – increased social welfare spending, principally unemployment benefits - but on the revenue side as well. Tax revenue is down across the board: company, personal and GST. As expected, the Government has sought to address significant forecast budget deficits by postponing the second and third rounds of personal tax cuts and suspending contributions into the New Zealand Superannuation Fund.

Budget projections show that economic activity is expected to remain largely negative on an annual basis over the forecast period out to 2010 before turning positive in 2011. Projections of growth out to 2012 and 2013 are expected to be more robust at 2.9% and 4.0% respectively.

The Government's operating balance as a percentage of GDP is expected to move from the positive position of 3.1% of GDP in the year to March 2008 to a negative of around 5.1% by 2011. Later years are expected to show some improvement, reaching -4.2% by 2013.

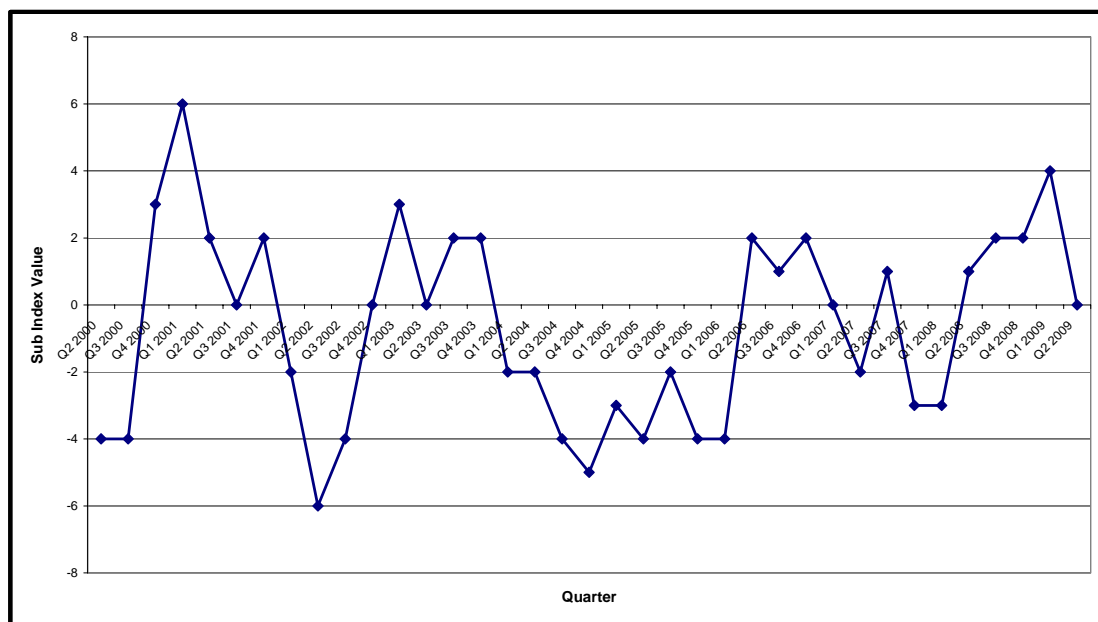
After taking into account the Government's capital programme, core Crown residual cash will record significant deficits over the forecast period while core Crown debt is projected to rise from around 9% currently to around 31% by 2013. Without the changes announced in the Budget, debt would have ballooned out to around 70% by 2023.

While the decision to postpone the tax cuts and suspend contributions to the Super Fund can be debated, it raises significant issues further down the track, namely how a small country like New Zealand can deal with any future global crisis given our vulnerability on both the revenue and expenditure side of the government accounts. There are valid concerns over the affordability of big ticket items like health, education and social welfare (including superannuation) in the long term.

**Sub index 2: Monetary policy/pricing indicators**

Monetary policy/pricing indicators sit at 0, down four on the March 2009 quarter and down one on a year ago. Long term interest rates are starting to increase while the exchange rate has picked up significantly on the back of a weak \$US and news that New Zealand's credit rating is no longer under active review but has been assessed as stable. Expectations for a slow but steady improvement in world commodity prices are evident with the ANZ's Commodity Price Index showing improvement over the last three months. In line with commodity price increases, world demand for oil is also improving, putting some upward pressure on prices. Any price increases would likely be offset by a rising \$NZ although this has implications for the competitiveness of New Zealand exporters.

**Figure 3: Monetary policy/pricing sub index**

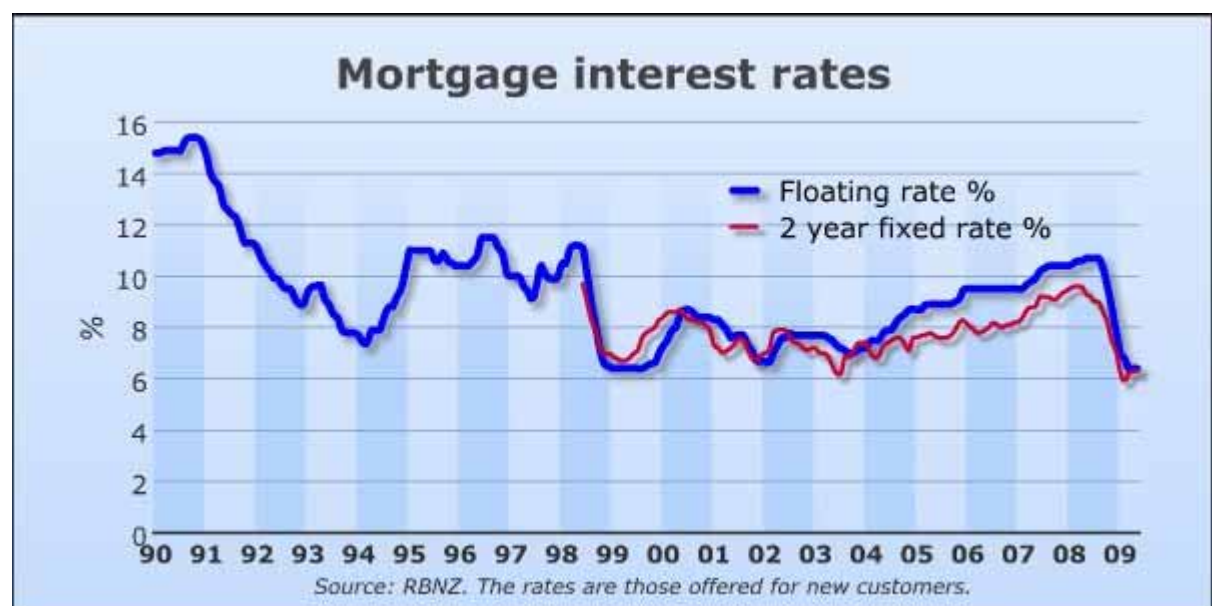


As broadly expected, the Governor of the Reserve Bank left the OCR unchanged at the latest review (11<sup>th</sup> June).

Dr Bollard is likely to be relatively cautious about lowering the OCR further, essentially since further lowering is likely to have little effect.

In light of increased debt levels globally, the need to obtain long term debt means that global longer term interest rates are on the rise anyway so what, if any, effect lowering the OCR would have is a moot point. It could be argued that the last move to lower the OCR from 3% down to 2.5% had little effect on mortgage interest rates, with most banks actually raising rates shortly after the announcement. Banks are sourcing significant money offshore which reduces the impact of the OCR as a tool given long term interest rates are rising and hence mortgage rates are rising not falling as some commentators believe should be the case.

**Figure 4: Interest rates**



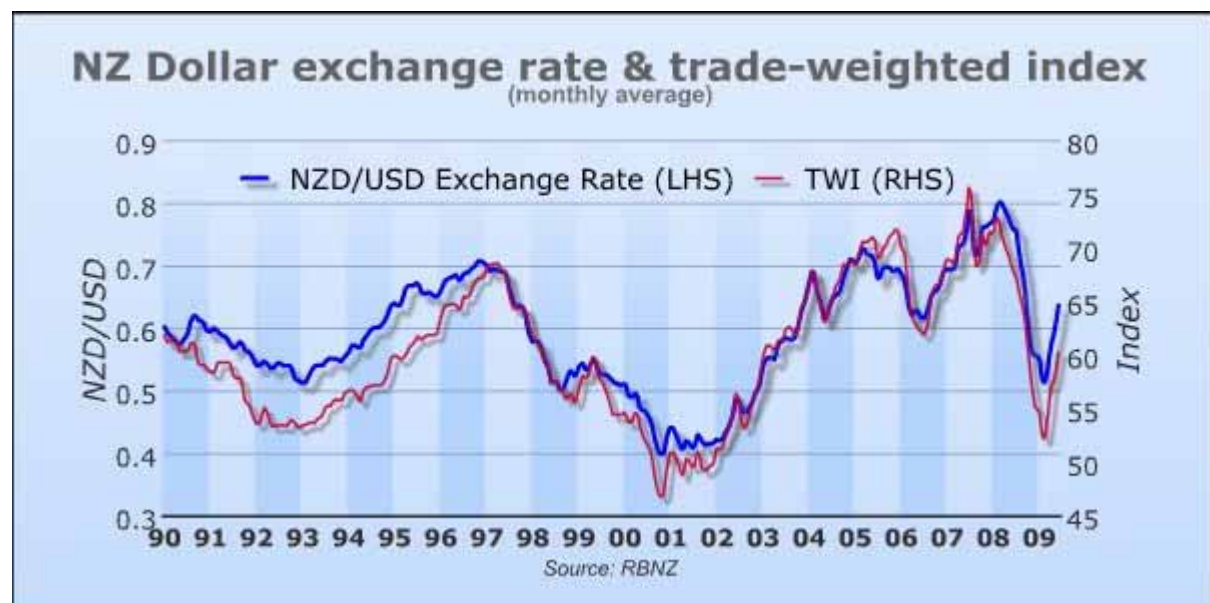
All the main trading banks have increased their medium to long term fixed interest rates by at least a full percentage point. In contrast, short term rates have remained at low levels or increased only marginally.

Further rises in interest rates are inevitable as global demand for credit picks up. It's a simple case of supply and demand conditions operating as they should. Households should be wary of trying to take advantage of relatively low floating rates (compared to fixed rates), given that they may find in a short space of time that floating rates will rise and they will be too late to lock-in effectively for 3-5 years what are still pretty attractive long term fixed rates.

Notwithstanding rising international interest rates, one should not downplay the Government's coup in achieving the blessing of Standard and Poor's on the recent Budget, effectively avoiding the previous likelihood of a credit downgrade. This achievement obviously impacts positively on New Zealand's international standing and has probably resulted in interest rates being between 0.5 and 1 percent lower than they might have been. The test now will be on the Government to continue to improve its long term fiscal outlook over coming years. This won't be easy given the high level of social welfare dependence and taxpayer funding of superannuation.

Perhaps what could be considered a negative effect of New Zealand's credit rating being revised from under active review to stable is that it immediately affected the exchange rate, pushing it higher, particularly against the weak \$US, as international risk appetites return towards commodity currencies such as the \$NZ.

**Figure 5: Exchange rate**



Where the dollar is headed is really anyone's guess if they are honest and this is reflected in the forecasts of the major banks (see below). The Treasury in the Budget took the view that the TWI would remain relatively stable over the forecast period (a foot in both camps).

**Table 1: Forecasts of TWI**

	TWI	
	Jun 10	Jun 11
Highest	65.4	66.1
Average	58.2	60.8
Lowest	50.6	53.6

*Source: ANZ, ASB, BNZ, National, and Westpac*

Improvements in the general world economic outlook have been reflected in improved world commodity prices of late.

The ANZ Commodity Price Index stood at 158.3 in June 2009 (up 0.2% from the previous month) but down 28% from a year ago.

This is the fourth consecutive rise in the index since its recent low in February. Most commodity prices were up, with eight of New Zealand's key exports recording rises for the month of June, and five recording price declines.

**Table 2: ANZ Commodity Price Index  
(July 1986=100)**

Month	World Price Index	NZ Dollar Index
May 2008	219.7	155.6
Jun 2008	219.6	158.8
July 2008	223.5	163.2
Aug 2008	216.0	166.4
Sep 2008	204.9	164.6
Oct 2008	189.4	165.3
Nov 2008	175.4	162.9
Dec 2008	162.5	153.0
Jan 2009	155.5	146.4
Feb 2009	148.3	149.2
Mar 2009	149.8	144.1
Apr 2009	153.7	140.2
May 2009	158.0	138.2
Jun 2009	158.3	131.3

When converted into New Zealand dollars the ANZ Commodity Price Index actually went down 5.0% in June 2009 to 131.3%. On an annual basis commodity prices, when converted into \$NZ were only down 17.3%, reflecting the fact that, until recently, a sliding \$NZ against our major trading partners, particularly the US, has acted as a partial buffer offsetting the slump in international commodity prices. However, over more recent weeks, a rise in the \$NZ is reducing returns to producers as the latest results show. The value of the Kiwi strengthened against all the major currencies in June.

Notwithstanding the above, it is important that changes in commodity prices over the last year or so are put in context. In terms of historical results, international prices are still relatively robust but there some negatives for New Zealand exporters.

A rising dollar, particularly against the US will reduce returns when converted back into \$NZ. Moreover, the increased potential for export subsidies by the EU and US could bring an increased supply of commodities onto the international market, although this will take time.

Fonterra has cut back its forecast payout to dairy farmers to \$4.55 per kilogram of milk solids for the 2009/10 dairy season, citing the rebounding dollar as largely responsible for dragging down the expected payout.

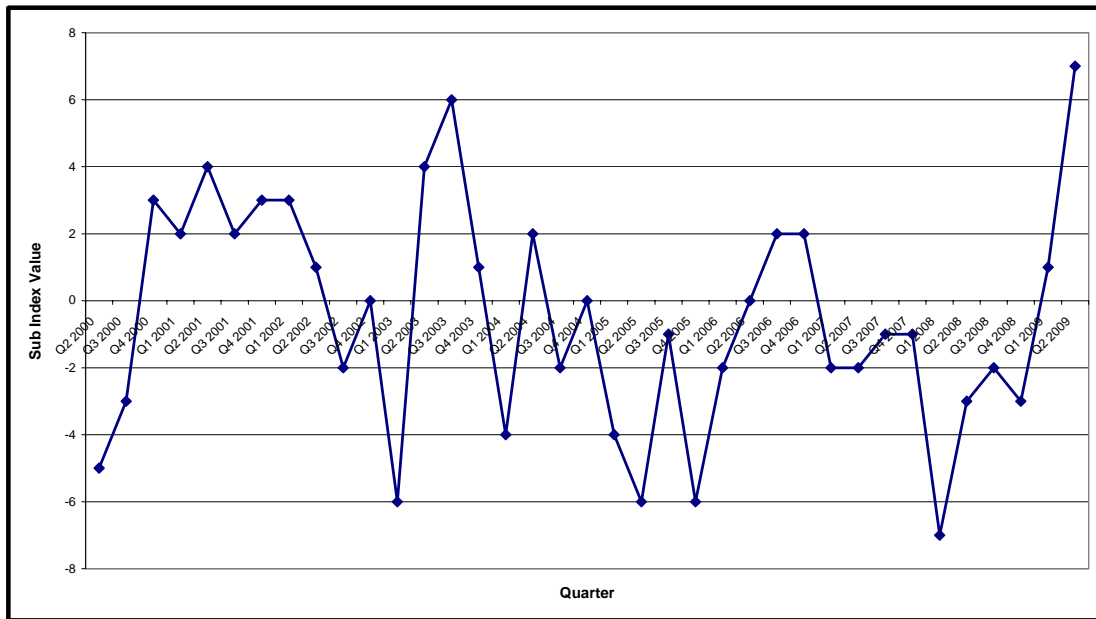
While Fonterra reaffirmed the expected final payout for the 2008/09 season as \$5.20, any returns in excess of \$5.20 are likely to be retained.

One could argue that following the events of last year when Fonterra forecast a payout of \$7.00 for the 2008/09 year, next year's forecast reflects a healthy dose of conservatism. Most commentators are expecting the final payout for 2008/09 will be in excess of \$5.00. Even so, a \$4.55 payout would be consistent with the long term average achieved over the last decade. The \$7.90 payout for 2007/08 was largely the result of particular circumstances and may be considered a "one-off" rather than an indication of likely payouts going forward.

**Sub Index 3: Business/consumer confidence indicators**

Business/consumer confidence indicators sit at 7, a significant improvement of six on the March 2008 quarter and an improvement of 10 on a year ago. Deep levels of pessimism which were apparent in the final quarter of 2008 and first quarter of 2009 have evaporated, although business confidence is still relatively low by historical standards. Companies within sectors have differing confidence levels which tend to be obscured by broad sector confidence indicators. Consumer confidence is mixed. On the positive side, reductions in interest rates are impacting positively on household debt servicing costs and total household debt, which has now been in retreat since the March quarter 2008. On the negative side, employment prospects have taken a dive, making people cautious in respect to retail sales and general consumption and impacting adversely on some sectors.

**Figure 6: Business/consumer confidence sub index**

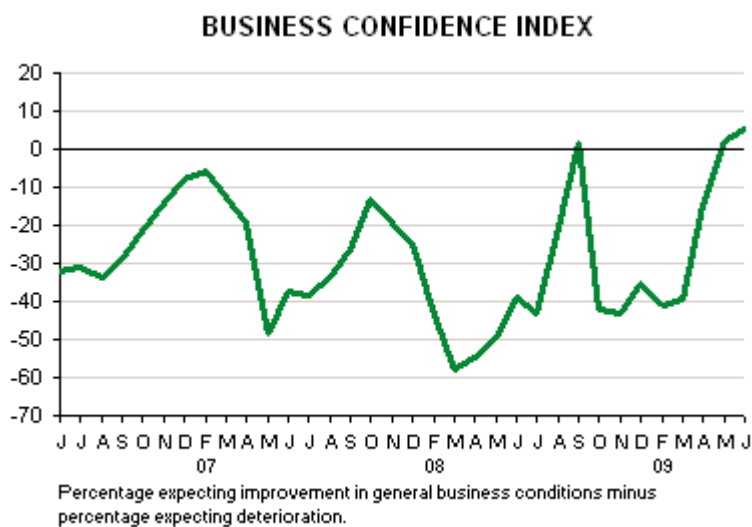


A number of indicators point to business confidence improvements, although it must be acknowledged that these improvements are from a low base.

The National Bank's Business Outlook (June 2009) shows that business confidence continued to lift (across sectors) after being down and out from October 2008 through to March 2009. A net 6% expect general business conditions to improve over the next 12 months, up four percentage points on May.

Perhaps of more fundamental importance, firms' expectations of their own activity has re-entered positive territory with a net 8% expecting better times ahead, up from 4% the previous month and -4% in April.

**Figure 7: National Bank Business Confidence Index**



Results for individual sectors need to be interpreted with a degree of caution as they may not necessarily explain confidence going forward for individual businesses. In almost all sectors there are both very good news stories (e.g. *'What recession?'*) to businesses that are struggling significantly.

Despite general improvements from all established business surveys, sector performance remains mixed.

On the positive side, international demand is improving which is positive for exporters, and capital flows have been unblocked, but on the negative side, issues surrounding the future direction of the \$NZ, the rising cost of capital (albeit from a low base) and rising costs (mainly sector specific) could dampen the enthusiasm of recovery.

Manufacturing activity overall appears to be bottoming out as evidenced by both official statistics, and other surveys such as the BNZ Capital – Business NZ Performance of Manufacturing Index (PMI). The PMI increased from the second lowest level in February 2009 (39.0) to 43.7 in April 2009. However, it has subsequently dropped to 42.7 in May 2009. On the bright side, while the PMI appears to be stabilising it still remains firmly in negative territory. While there are glimmers of hope, it would be disappointing if these signs of improvement are wiped out through significant increases in the value of the dollar, a real concern for some manufacturers.

In terms of services, the Performance of Services (PSI) index has been negative for over a year with the index continuing to bounce around the mid-40s over the last six months. Certainly the index is not getting substantially

worse, but neither is it showing signs of improvement. Activity/sales continue to remain subdued, reflected in indicators such as retail trade, electronic transactions and motor vehicle retailing generally. The hospitality and retail sectors continue to be negatively affected by cautious household spending and depressed conditions have resulted in the closures of a number of retail stores. On the other hand, a number of service providers involved in repairs and maintenance have reported booming activity levels, principally because many consumers are getting machines and whiteware repaired rather than trading it in or disposing of it. This is also relevant in the automotive sector, with reports of high levels of repair activity.

The tourism sector has also been substantially affected, not only in terms of domestic clients, as discretionary spending takes a back seat but also given the depressed international market. Potential international visitors are now simply taking holidays domestically, or not at all, as they tighten their belts as employment conditions deteriorate. On the positive side, significant snow falls have resulted in many New Zealand ski fields opening earlier than usual or anticipating opening earlier than planned. This will likely have positive implications for traditional tourist resorts such as Queenstown in particular and put much needed monies into the region. Furthermore, strong competition between airlines has resulted in significantly reduced airfares which should stimulate travel, at least on the margins.

The construction sector is showing increased optimism although there are mixed messages for this sector. General construction activity is likely to pick up substantially over coming months for a number of reasons. First, the Government signalled increased expenditure on infrastructure and particularly roading in the recent Budget. Second, in respect to residential construction, activity is likely to pick up on the back of increased net migration (see Labour Market). Third, there will be opportunities for further expansion as households continue to get debt levels under control.

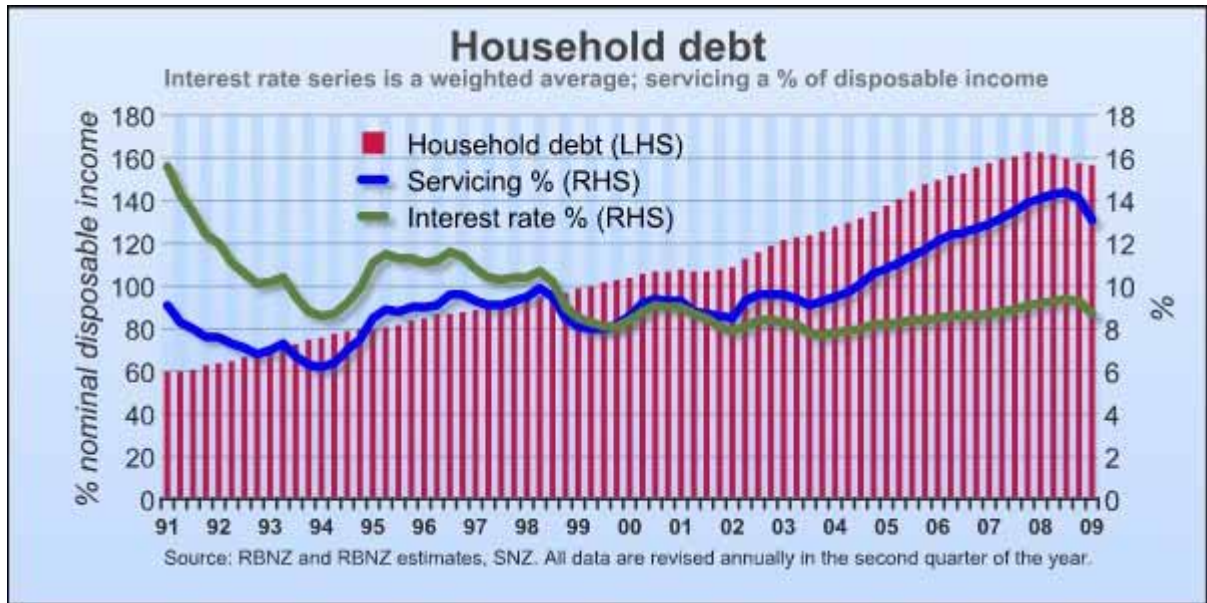
There are mixed fortunes for the agricultural sector. While many in the sector will be disappointed with the projected Fonterra payout for the 2009/10 year, of more pressing concern are added costs affecting the competitiveness of the sector. According to Meat and Wool New Zealand's Economic Service, sheep and beef on-farm inflation was 7.6% in the year to March 2009. Excluding interest, which decreased in price, the underlying rate of on-farm inflation was 10.7%, the highest since 1985-86. Price increases were across the board although on the positive side, the cost of both fuel and interest on farm debt decreased in the year to March 2009. Cost increases and reduced returns obviously have flow-on effects for rural communities and for investment in capital equipment (tractor sales etc). Notwithstanding the above, there is positive news in respect to lamb prices and with the absence of any serious drought conditions, the outlook is generally positive.

Consumer confidence is also rising as evidenced by the latest Westpac McDermott Miller Consumer Confidence Index although it is not all good news.

Positive results such as significant reductions in interest rates (although this is changing), reduced inflationary pressures, significant reductions in household

debt levels and house prices bottoming out are being offset by a relatively bleak employment outlook and associated rises in unemployment.

**Figure 8: Household debt**

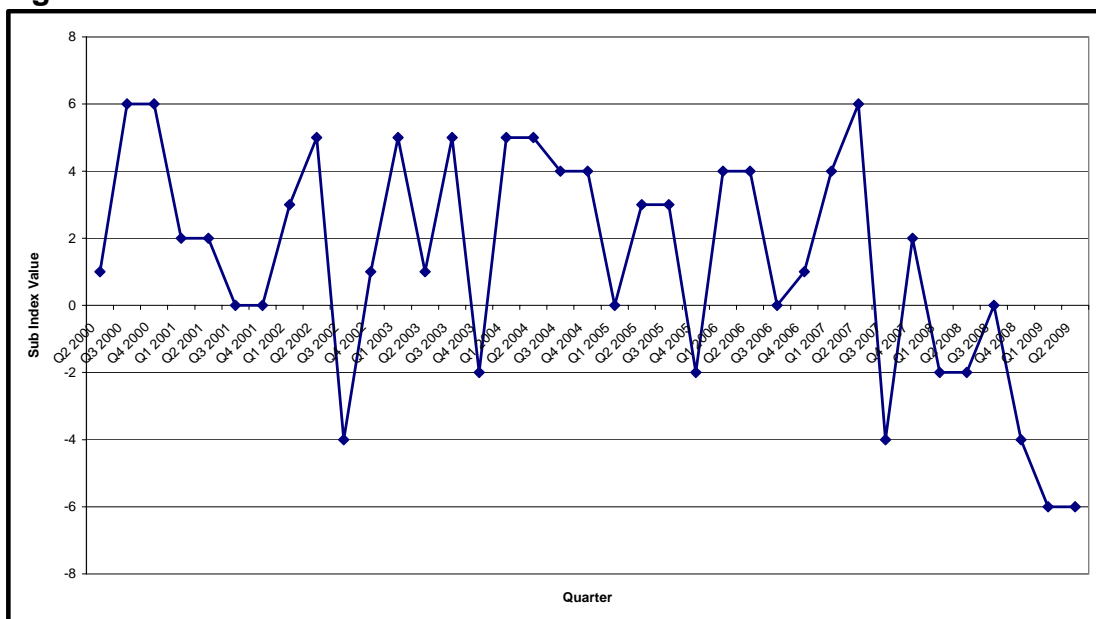


Although long overdue, households are starting to get debt levels under some sort of control although they are still at dizzy heights. Nevertheless, over recent quarters households have made a dent in debt levels, assisted significantly through reductions in debt servicing costs.

**Sub Index 4: Labour market indicators**

Labour market indicators sit at -6, the same as for the March 2009 quarter and a deterioration of four on a year ago. Despite projections for significant employment losses and rising unemployment, the most recent Household Labour Force Survey (HLFS) provided some surprising results – mainly on the upside in terms of unemployment levels. However, when one digs a little deeper into the figures, the “surprising results” largely reflect individuals leaving the labour market altogether as employment prospects decline. Given the general lag between a decline in the economy and labour shedding it is perhaps ironic that the largest declines in employment (and associated highest rate of unemployment) will occur when the economy is starting to climb out of the current recession. This means further significant employment losses are inevitable. Despite the negative outlook for the labour market, net migration is lifting as New Zealanders realise that other countries are actually in a worse position and there has been a marginal increase in expat New Zealanders returning home.

**Figure 9: Labour market sub index**



Recent official labour market statistics tend to provide a rather misleading picture of the labour market.

Despite projections for significant employment losses and rising unemployment, the most recent Household Labour Force Survey (HLFS) provided some surprising results – mainly on the upside in terms of unemployment levels.

It is only when the figures are examined in a little more detail that the nature of the results can be put in context.

The HLFS for the March quarter 2009 shows that the unemployment rate has risen from 4.7% to 5.0%, resulting in an unemployment rise of 7,000 over the previous quarter.

While any increase in the number of unemployed is obviously of concern, the 7,000 increase was well below what analysts had expected, even though employment fell significantly by 24,000 (1.1%) with both full-time and part-time employment decreasing.

**Table 3: Household Labour Force Survey (HLFS)**

Seasonally adjusted	March 2009 quarter	Quarterly change	Annual change
Unemployment rate	5.0%	+0.3	+1.2
Unemployed	115,000	+6.8%	+35.1%
Employed	2,182,000	-1.1%	+0.8%
Not in the labour force	1,061,000	+2.3%	-1.2%
Labour force participation rate	68.4%	-0.7	+0.7%

Underlying these results is the fact that a significant number of people actually exited the labour market altogether so that the number of people not in the labour force actually increased by 24,000 (2.3%) over the previous quarter. This means that a substantial proportion of those made redundant chose not to remain in the labour market and seek further employment but have been lost to the labour market. This is consistent with the general trend of a significantly declining labour market where many individuals simply give up and leave it completely. In this respect the headline rate of unemployment (and numbers of unemployed) for the March quarter masks the real decline in labour market activity over the last quarter.

Forward looking indicators of likely labour market activity such the Westpac McDermott Miller employment confidence index, the NZIER's Quarterly Survey of Business Opinion, and the Department of Labour's Job Ads series show that the employment outlook has turned negative at a rather alarming rate.

The Department of Labour's Job Ad Series shows that the Job Ad Rate (number of Job Ads/Number of employed, from the HLFS) continues to decline along with the number of job ads (both newspaper and internet job ads). While it is important to clearly understand the caveats associated with this data, given that the Job Ad counts are derived from only seven major regional newspapers across New Zealand and four major websites, the direction of job ad rates is clearly down.

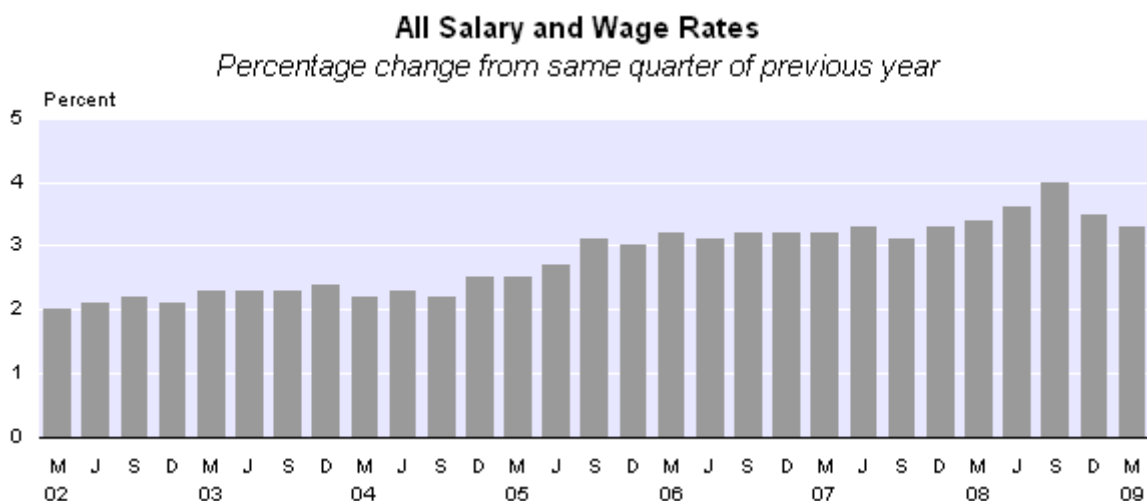
**Table 4: Job Ads: Monthly (Seasonally adjusted)**

Month	Newspaper	Internet Job Ad	Total Job Ad
-------	-----------	-----------------	--------------

	Job Numbers	Ad Numbers	Numbers
Jan 08	23,544	43,398	66,942
Feb 08	21,783	42,757	64,540
Mar 08	19,067	41,117	60,184
Apr 08	21,150	40,058	61,208
May 08	17,294	40,503	57,797
Jun 08	16,082	36,647	52,729
Jul 08	15,406	35,637	51,043
Aug 08	14,163	32,546	46,709
Sept 08	14,015	31,713	45,728
Oct 08	13,617	30,156	43,773
Nov 08	11,520	28,878	40,398
Dec 08	10,876	28,013	38,889
Jan 09	9,632	24,297	33,929
Feb 09	8,432	21,461	29,893
Mar 09	7,844	18,072	25,916
Apr 09	7,384	16,771	24,155

General pessimism about future labour market conditions is starting to impact on wage and salary rates, although by historical standards these are still robust. However, a number of businesses are working from the starting premise of no rises at all for 2009 while in the public sector, wage rises are likely to be tightly constrained as part of capping expenditure.

**Figure 10: Salary and Wage Rates**



Finally, in respect to net migration (which is a good leading indicator of general economic activity for the future), there is increasing evidence that net migration levels bottomed out earlier this year.

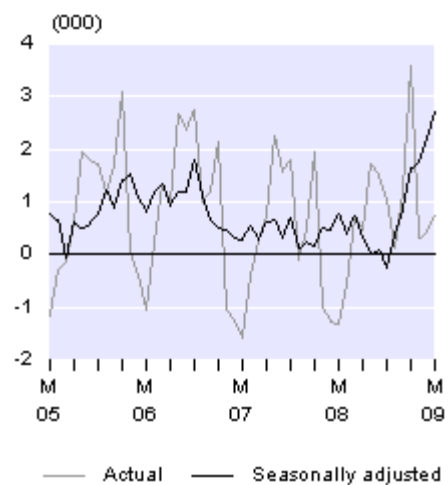
Despite the negative outlook for the labour market, net migration is lifting. There has also been a marginal increase in expat New Zealanders returning home. The overall result is driving up net migration numbers which, while still relatively low by historical standards, nevertheless will result in an increased

demand for goods and services as well as for residential housing. Along with other factors, this will give the housing market a boost.

**Figure 11: Net permanent long-term migration**

**Monthly Net Permanent  
and Long-term Migration**

*May 2005–09*



## **APPENDIX 1: Background to the economic conditions index**

The Economic Conditions Index tracks 32 indicators on a quarterly basis. The overall index value for any particular quarter represents the net balance of the 32 indicators (generally the number increasing minus the number decreasing) thus providing an overall measure of performance.<sup>1</sup>

For the purpose of this index, if an indicator improves it is given a ranking of 1. If it stays the same it is ranked as a 0 (no change) and if it deteriorates it is given a ranking of -1. For example, if 15 indicators improve, 15 deteriorate and two stay the same, then the overall index would state no change (i.e. 0).

The index backdates data to mid-2000 to provide for a reasonable time series.

The 32 indicators contain official quantitative data (e.g. employment/unemployment rates) and more qualitative data (e.g. business/consumer opinion surveys).

In general, increases in an indicator are seen as positive (for example, growth in Gross Domestic Product or employment) while declines in an indicator are generally seen as negative. However, this is not universally the case. For example, declines in unemployment are considered to be positive and increases in unemployment negative.

It should be noted that some indicators are difficult to categorize as good or bad, depending on the relative state of the economy (e.g. a rising/declining exchange rate relative to our trading partners). Therefore, certain indicators have not been included in the index, such as exchange rates, while others, such as net permanent and long-term migration, have been included (increases positive, declines negative).

Similar concerns can be expressed in relation to movements in the Consumers Price Index (CPI) where generally speaking, a rising CPI is considered to be negative for the economy while declines or even negative CPI growth for a quarter or so can be considered positive.

Despite this, significant and persistent declines in the general level of prices can have adverse impacts on asset prices and households' general net wealth, so prolonged deflation can be negative on the economy. For this reason a rising CPI is to be considered negative but smaller quarterly rises are seen as positive.

---

<sup>1</sup> Note: where monthly data only is available (e.g. Business NZ's PMI and some interest rate measures) it has been averaged over the relevant quarter for consistency.

Declines in the CPI are seen as positive for a quarter as well as positive thereafter, providing the CPI decline is relatively smaller. In most cases this has minimal effect on the overall measure of inflation given that the occasions on which measures of the CPI (tradables/non tradables inflation) have been persistently negative, are infrequent.

As there is a significant time-lag between the end of a quarter and obtaining its official data, the last quarter measured in the index will contain only partially official figures with which to identify changes from the previous quarter. For this reason, where updated figures are not yet available at the time of release, the previous quarter's index value will be generally carried forward (e.g. previous quarter 1, current quarter 1; previous quarter -1, current quarter -1; previous quarter 0 (no change), current quarter 0 with the latest quarter being updated as new information comes to hand.

While the Economic Conditions Index provides a useful measure of overall performance, it is desirable to group indicators into sub indexes so the main drivers of quarterly economic performance can be identified. Four sub-indexes (each with eight indicators) record movements in the following categories:

***Sub Index: Economic growth/performance indicators***

- (a) *Gross Domestic Product*
- (b) *Export volumes*
- (c) *Export value*
- (d) *Import volumes*
- (e) *Import value*
- (f) *Current Account balance*
- (g) *NZ's overseas debt*
  - (i) *Corporate sector*
  - (ii) *Official Government debt*

***Sub Index: Monetary policy/pricing indicators***

- (a) *Producers Price Index (Inputs)*
- (b) *ANZ Commodity Price Index*
  - (i) *World Price Index*
  - (ii) *NZ \$ Index*
- (c) *Official Cash Rate (OCR)*
- (d) *90-day Bank Bills*
- (e) *Variable first mortgage housing rates*
- (f) *Inflation (CPI)*
  - (i) *Tradable sector inflation*
  - (ii) *Non-tradable sector inflation*

**Sub Index: Business/Consumer Confidence Indicators**

- (a) *New Zealand Institute of Research Quarterly Survey of Business Opinion (QSBO)*
  - (i) *General business situation*
  - (ii) *Businesses own activity*
- (b) *Westpac McDermott Miller Consumer Confidence Index*
- (c) *BNZ Capital - Business NZ Performance of Manufacturing Index (PMI)*
- (d) *BNZ Capital - Business NZ Performance of Services Index (PSI)*
- (e) *Retail sales*
- (f) *Building permit issues dwellings*
- (g) *Household debt*
  - (i) *% of disposable income*
  - (ii) *debt servicing as % of disposable income*

**Sub Index: Labour market indicators**

- (a) *Net gain/loss from permanent and long-term migration*
- (b) *Labour force participation rate*
- (c) *Employment*
- (d) *Unemployment rate*
- (e) *Labour Cost Index – salary and wage rates*
- (f) *Level of Job Advertising*
- (g) *Job Ad rates*
- (h) *Work stoppages (person days of work lost)*

**Data Sources:** Business NZ, Statistics New Zealand, Reserve Bank of New Zealand, New Zealand Institute of Economic Research (NZIER), ANZ Bank, Westpac, Department of Labour (DOL).

## **APPENDIX 2: Glossary of terms**

### **ANZ Commodity Price Index**

Measures the price of a number of commodities. Two indexes are included. The first provides commodity prices in world price terms. The second provides commodity prices in NZ dollar terms.

### **Job Ad rates**

Measures the percentage of job advertisements compared to the total number of jobs. A greater number of jobs advertised compared to the total number of employed indicates a higher Job Ad rate (%).

### **Level of Job Advertising**

Measures the level of job advertising (seasonally-adjusted) from both newspapers and the internet.

### **Building consents issued (dwellings)**

Consents issued by local authorities for the building of residential dwellings.

### **Business NZ's Performance of Manufacturing Index (PMI)**

A monthly index which measures five significant components of manufacturing activity.

### **Consumer Price Index (CPI)**

Measures the change in prices of goods and services relating to households.

### **Current Account**

The current account balance is the difference between the payments NZ receives from overseas and the payments NZ makes. It includes the balance of merchandise trade, services and investment income.

### **Deflation**

A general decline in the price of goods and services.

### **Disposable income**

Total after tax income.

### **Employment (HLFS)**

The proportion of the labour force employed.

### **Export prices**

Domestic currency export prices.

### **Gross Domestic Product (GDP)**

The total market value of goods and services produced in NZ after deducting the cost of goods and services used in the process of production over a given time period.

**Household debt**

Measures the claims on households. Normally measured either as claims as a percentage of nominal disposable income or as debt servicing (interest) costs as a percentage of nominal disposable income.

**Import prices**

Domestic currency import prices.

**Labour Cost Index (*salary and wage rates*)**

The salary and wage rates component of the Labour Cost Index (LCI) measures movements in base salary and ordinary time and overtime wage rates. The LCI has fixed industry and occupational weights and measures changes in salary and wage rates for a fixed quantity and quality of labour input.

**Labour force participation rate**

The percentage of the working age population in the labour force.

**Net gain/loss from permanent and long-term migration**

Measures the net difference between overseas migrants who arrive in New Zealand intending to stay for a period of 12 months (or permanently), plus New Zealand residents returning after an absence of 12 months or more, minus New Zealand residents departing for an intended period of 12 months or more (or permanently), and including overseas visitors departing New Zealand after a stay of 12 months or more.

**NZ Institute of Economic Research's Quarterly Survey of Business Opinion (QSBO)**

A survey of business opinion reflecting the business outlook for the economy as a whole and for firms actual and intended business activity.

**NZ's Overseas Debt**

Measures corporate and official debt owed overseas. It is a gross figure which includes liabilities only and does not take account of overseas assets held by New Zealanders.

**Nominal Income**

Income without taking account of inflation or other factors which may impact on purchasing power.

**Non-tradables sector inflation**

Inflation for goods and services traded domestically (i.e. goods and services not subject to fluctuations in exchange rates).

**Official Cash Rate (OCR)**

The interest rate the Reserve Bank sets in conducting monetary policy. Commercial banks can borrow cash overnight from the Reserve Bank at an interest rate of 25 basis points above the OCR, and deposit cash at 25 basis points below the OCR.

**Producers Price Index (PPI)**

The PPI outputs index measures changes in prices received by producers. The PPI inputs index measures changes in costs of production excluding labour and depreciation costs.

**Real Income**

Income after taking account of inflation or other factors impacting on the purchasing power of money.

**Retail trade**

Retail trade statistics measure the sales from a wide range of businesses that provide household and personal goods and services. Retailers include supermarkets, bookshops, restaurants, hotel, motels, repairers of household equipment and motor vehicles.

**Seasonal adjustment**

Adjusting a time series to measure and remove the regular seasonal components (e.g. the effect of Christmas on retail sales).

**Tradables sector inflation**

Inflation for goods and services that can be traded on international markets (i.e. those goods and services subject to fluctuations in exchange rates).

**Unemployment rate (HLFS)**

The proportion of the labour force not in work, but actively seeking employment.

**Variable first mortgage housing rate**

Measures the floating cost of borrowing money secured by housing assets as opposed to the fixed rate which measures the cost of borrowing for a specified period of time and does not fluctuate during the length of time the mortgage is on a fixed rate (typically 1-5 years).

**Westpac McDermott Miller Consumer Confidence Index**

Measures consumer responses to a number of questions which reflect consumer confidence levels.

**Work Stoppages (person days of work lost)**

Number of person days of work lost as a result of a strike or lockout.

**90-day bill rate**

Defined as the interest yield on 90-day bank bills. Rates are closely related to movements in the Official Cash Rate (OCR).