Business|NZ

Business Planning Forecasts

21 February 2005

FORECASTS: MARCH QUARTER 2005

Introduction

This bulletin is designed to help plan your business. It brings together forecasts of important indicators to help you prepare budgets and business plans.

The forecasts are drawn from two main sources. The New Zealand information is based on a survey of the five main trading banks (ANZ, ASB, BNZ, National, and Westpac). The Australian information is based on consensus forecasts put together by the UK based magazine "The Economist". Sources of other information are as shown.

We stress that the information in this publication is by its nature uncertain. Your firm is unique, and you will need to make your own decisions. However, we believe the better informed you are about the way various business people see the future, the better decisions you can make.

Where appropriate we have not only included the average value across all forecasters, but also the highest and the lowest forecast. This gives some idea of the spread of forecasts, and therefore an idea of the uncertainty involved.

Business New Zealand
February 2005

Part 1: The New Zealand Economy

1.1. Economic Growth (GDP)

Most recent outcome: +4.6% for the year-ended September 2004.

Gross Domestic Product (GDP) is a measure of total economic activity for a country over a given period. GDP growth has averaged 3.8% per annum over the past five years, with only one quarter of decline out of the last 20 (June 2000).

GDP growth in the September 2004 quarter was again more subdued than the previous quarter, rising by 0.6%, following increases of 0.8% and 2.1% for the June and March 2004 quarters respectively. Growth in the September quarter was due to a lift in internal demand, with household spending rising (up 1.7%), business investment increasing (up 4.2%) and a build-up in inventories (up $555 million). Growth was evident across most industry groups, as manufacturing recovered from a fall during the June quarter to experience a slight increase (up 0.1%) in September, while construction came off a healthy increase to show a fall during the September month (-2.2%)

While short-term forecasts for economic growth have been revised down, medium-term forecasts have been revised up since the December quarter business planning forecasts. They now suggest that GDP will increase by a strong 4.4% for the year ended March 2005. It will fall to around 2.4% by March 2006, but pick up to around 2.8% by March 2007.

Forecasts: Real GDP % Growth

	Years Ending		
	Mar 05	*Mar 06*	*Mar 07*
Highest	4.4	2.8	3.3
Average	3.9	2.4	2.8
Lowest	2.4	2.0	2.5

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

Key factors to influence GDP over the next two years will include:

Global economic recovery

China continues to be the stand out performer in terms of growth, which is helping the rest of the Asian region. The continued (albeit slow) improvement of the US economy will also play a vital role in how 2005 shapes up. Although growth in the Euro zone almost ground to a halt during the last quarter of 2004, some countries within the zone (i.e. Germany) are expecting brighter times ahead by the middle of the year.

Interest rates

On the 9th of December and 27th of January, the Reserve Bank left its Official Cash Rate (OCR) at 6.50%, after six consecutive increases since the start of 2004. The holding pattern by the Reserve Bank has been largely expected among economists. The Reserve Bank viewed that New Zealand's economic conditions were generally proving at least as strong as they had anticipated, although a slowdown was still expected sometime over 2005. Inflation would be close to 3 per cent, before easing back later in 2006. However, recent labour market tightness and the persistent nature of the current housing market has caused some economists to increase the possibility of further interest rate increases in the near future. Given the current outlook, there certainly appears little scope for an easing in policy in the foreseeable future.

The Dollar

Between November 2000 and February 2004 the New Zealand Dollar (NZD) appreciated by almost 50% on the Trade Weighted Index (TWI) and by almost 80% against the US Dollar. After reaching a peak of 69.0 against the TWI on 18 February, the NZD fell back sharply to 61.5 on 18 May. Since that time the NZD has gradually climbed upwards to reach around 69.4 by mid February, thus outperforming the peaks of 2004 and 1996/97. Despite the continued strength in the NZD, most economists expect the NZD to drop considerably over the next year, before easing back further the year after.

Tourism and net migration flows

Over the past two to three years strong tourism numbers have helped maintain retail sales growth, and large migration inflows have boosted domestic consumer spending, car sales and house building. Migration has also, to an extent, helped mitigate some of the pressures that have built in the labour market. While the prospects for tourism appear good, net migration is continuing to turn downwards at a very sharp rate after significant gains over 2002 and 2003.

Short-term visitor numbers increased 11% for the year ended December 2004. Most Asian markets have now come close to recovering from losses suffered in early 2003, and visitor numbers from Australia, the UK and the USA continue to grow strongly.

The annual net migration gain peaked at 42,500 for the year ended May 2003 but has consistently fallen to an 8,610 gain for the year ended December 2004. While the current net gain is still above the long-run average, falls in net migration is most likely to continue, and may level off somewhere round the 10,000 mark.

The slowdown in migration along with a high interest rate level may dampen the housing market. The interest rate wars towards the end of 2004 helped continue buoyancy in the housing market. The median sell price for a house has increased to hit a new record of $260,000 in December, while the number of sales has improved from overall falls towards the end of the year. However, the number of houses sold in December 2004 was 8,377, below the 8,703 recorded in December 2003, but higher than the 7,766 in December 2002.

Commodity prices and farm incomes

International commodity prices boomed in 2003 and continued to reach even higher levels in 2004 and the start of 2005. ANZ Bank's Commodity Price Index was up 14.4% for the year ended January 2005. These increases have been characterised by rises in prices for dairy and lamb at historically high levels.

The continued strength of the New Zealand dollar has meant that the increases in the commodity price index have been muted when expressed in New Zealand dollar terms. After a period of seven consecutive falls, a slightly weaker New Zealand dollar caused the NZD index to rise 1.9% in January, and 8.7% higher than January 2004.

Higher commodity prices continue to be one of the main reasons economic growth has remained stronger for a longer period than many economic commentators have previously predicted. High commodity prices for diary, lamb and beef are contributing to large sections of the export sector, providing further impetus in New Zealand's economy. Rural incomes have not deteriorated despite the persistent high value of the New Zealand dollar as world demand continues for their commodities.

Business confidence

Business confidence influences the propensity for businesses to invest in capital and employ staff, so is an important determinant for future economic growth. Businesses were generally very pessimistic early in the year but there has been an improvement over recent months.

The December 2004 NZIER Quarterly Survey of Business Opinion reported that the business community was less pessimistic than in the preceding two quarters. A net 6% expected general business conditions to deteriorate over the next six months, an improvement from 16% during the September quarter. Meanwhile, pressure on resources has reached an all time high, with capacity utilisation ay 93% - the highest level since the survey began in 1961. Labour constraints remain as a significant barrier to expand production, as finding skilled and unskilled labour is now at its highest point since 1974.

The National Bank Business Confidence Index showed a similar result, as confidence continued to improve during the last quarter of 2004. During December a net 8% of businesses expected deterioration in general business conditions over the coming 12 months, compared to a net 17% in November. The construction industry was the most optimistic (+3%), while agriculture was the only sector to experience a fall in business confidence, as the effect of the strong New Zealand dollar causes concern.

Meanwhile, the ANZ-Business New Zealand PMI stood at 52.6 for January 2005, after a record high in November (65.9) and similar strong expansion levels in December (58.1). The drop in the level of expansion is typical for the New Year although the results for the last three months have been stronger than the comparable time periods in previous years. New orders continue to lead the way, while employment continues to hover between slight expansion and decline.

Investment

Business investment has remained high over the past couple of years (e.g., up 16.3% for the year ended September 2004). This increase has been assisted by a stronger NZD, which reduces prices for imported plant, machinery and equipment in NZD terms. Increased business investment has occurred in most areas, including intangible assets such as gas and oil exploration, infrastructure assets, transport equipment and plant, machinery and equipment.

The National Bank Confidence survey shows investment intentions for the next 12 months rising across most sectors, although investment in the manufacturing sector has eased back somewhat.

Consumer confidence

The Westpac McDermott Miller Consumer Confidence Index rose to a near record level in the December 2004 quarter (130.2), and just shy of the peak confidence recorded in June 1994 (130.9). The rise in confidence was mainly due to a sharp rise in the number who consider the economy will improve over the next 12 months. An unemployment rate that is below 4%, combined with cheap imported goods, a continuing impressive house market combined with a price war on interest rates during the later half of 2004 have all helped consumers view that all is well with the New Zealand economy. However, after impressive growth during 2004, any further gains will be a considerable task.

1.2 Inflation

Most recent outcome: +2.7% year-ended December 2004

The rate of inflation, as measured by the Consumer Price Index (CPI), provides an indication of the extent to which price levels have increased and a benchmark for wage demands. It is also the key reference point for monetary policy.

Inflation continued to rise over the 2004 quarters after stronger than expected increases. Although increases in transport costs (due to rising air travel prices) were the most recent significant driver of inflation, the booming housing market continues to be one of the main inflation drivers over the past two-three years, with the housing group of the CPI increasing by 5.6% for the year ended December 2004. The main reasons for the increase have been rise in the costs of real estate agents (+15.4%), construction (+7.3%), local authority rates (+3.9%) and rents (+2.8%). The dominance of the housing group in terms of inflation in New Zealand is best illustrated when it's taken into account that the December 2004 quarter was the first time in 10 quarters that the housing group was the most significant upward contributor to inflation.

The strengthening NZD over the past two years has acted as a dampener on overall inflation, although that pattern is beginning to change. Previously, 'tradable' inflation was in negative territory, acting as a counterbalance for a high level of 'non-tradable' inflation. This meant the CPI had appeared to be at a comfortable level given the two-speed economy of 2002-03. However, from the June quarter onwards 'tradable' inflation has been in either neutral or positive territory when comparing quarter-on-quarter. 'Non-tradable' inflation continues to increase at pace, causing a double whammy effect on inflation (although historically the two types of inflation are still wide apart). This risks a breach in the Reserve Bank's 1-3% inflation target.

CPI forecasts have generally remained the same since the last quarter for the short term, but have eased slightly for 2006 that will continue through to 2007. With inflation continuing to edge closer to the upper limit of 3%, the Reserve Bank will be closely monitoring any further movements upwards. However, a persistent high value of the New Zealand dollar may give the Reserve Bank some breathing space as it could dampen 'tradeable' inflation movements, although any easing of monetary policy would probably not be line for some time yet.

Forecasts: % Change in Inflation (CPI)

	Years Ending		
	Mar 05	*Mar 06*	*Mar 07*
Highest	2.9	2.9	2.7
Average	2.7	2.5	2.3
Lowest	2.6	2.3	2.2

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

1.3 Labour Costs

Most recent outcome: +2.5% year-ended December 2004

Statistics NZ produces an index that measures movements in the total cost of employing labour, the Labour Cost Index (LCI). The LCI has fixed industry and occupation weights and measures changes in wages and salaries for a fixed quantity and quality of labour input. As such, the LCI is preferred by the Reserve Bank as a measure of labour costs.

Stronger demand for labour has caused skills shortages in a number of industries and regions, which has continued to push up average labour costs. The increase in salary and wage rates (including overtime) of 2.5% for the year-ended December quarter was the largest annual increase since the June 1997 quarter. The last three-year end quarter results have seen particularly strong rises in overtime rates, while ordinary time rates have also remained high.

The industry groups that experienced the largest labour cost increases for December 2004 compared to December 2003 was construction (+3.9%), personal & other services (+3.4%) and education (+3.1%). The continued strong increases in wages and salaries in the construction industry reflect the continuing skill shortages, which show that the last three quarters have seen year-on-year wage increases approaching 4%. The industry groups with the smallest increases were forestry & logging, communication services and local government administration (all at +1.4%).

The occupational groups experiencing the largest increases were again lead by trades workers (+3.6%), followed by elementary occupations (+3.1%) and professionals (+3.0%). The occupational groups with the smallest increases were legislators, administrators and managers (+1.6%), service & sales workers and agriculture & fisheries workers (+2.1%).

Wage inflation pressures are likely to remain high as labour market shortages continue with a record low unemployment rate, which will place further wage pressure throughout 2005.

Forecasts: Labour Cost Index % Change

	Years Ending		
	Mar 05	*Mar 06*	*Mar 07*
Highest	2.7	2.6	2.4
Average	2.5	2.3	2.1
Lowest	2.3	2.0	1.8

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

An alternative measure of labour costs is the Quarterly Employment Survey (QES). The QES tends to be much more volatile than the LCI, mainly because it reflects compositional changes in the labour force. The most recent QES release shows that average hourly earnings grew by 2.1% for the year-ended December 2004, which was down from a 3.4% increase for the year-ended September 2004, as well as the 4.4% increase for the year-ended June 2004.

1.4 Employment

Most recent outcome: +4.4% year-ended December 2004

Employment growth has been strong over the past five years, and over the last year has been particularly robust. According to the Household Labour Force Survey, from December 1999 the number employed has grown by around 16.4%, while the unemployment rate has fallen from 6.3% to 3.6% - the lowest rate since the Household Labour Force Survey began in 1985 and currently the lowest unemployment rate in the OECD.

2004 saw strong growth in the labour market, with the December quarter data continuing to surprise on the upside. There was a much stronger than expected quarterly increase in employment (up 1.6%) and a larger than expected drop in unemployment (from 3.8% to 3.6%). The labour market clearly remains very tight, consistent with the results of the NZIER Quarterly Survey of Business Opinion and the ANZ Job Advertisements series.

Over the December 2004 year there were 87,000 more people employed. With unemployment falling by 18,000 and the working age population increasing by 46,800, the labour force participation rate increased from 66.5% to 67.7% for the first time. Although such a rate is another indication of a tighter labour market, there is still scope to increase labour force participation of both men and women, particularly those aged over 60. The substantial fall in unemployment over recent years has been broadly based across the sexes, ethnic groups, and regions, although Maori unemployment bucked the trend by rising during the December quarter.

Comparing December 2004 with December 2003, the industry groups recording the largest increases in employment were education (+8.7%), health & community services (+7.9%), and business & financial services (+7.0%). In contrast, agriculture, forestry and fishing experienced a minor fall in employment (-1.2%).

The forecasts below were received prior to the latest HLFS release. With HLFS unemployment again surprising on the downside, it is possible that short-medium term forecasts for unemployment will again be revised downwards, although the amount of resources still available in the unemployment pool is beginning to wane.

Forecasts: Unemployment % (HLFS)

	Years Ending		
	Mar 05	*Mar 06*	*Mar 07*
Highest	4.1	4.5	4.8
Average	3.7	4.1	4.4
Lowest	3.3	3.5	3.9

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

1.5 Interest Rates (90-day bill rate)

Most recent outcome: 6.84% as at 17 February 2005

In general, overdraft and mortgage interest rates move in line with the 90-day bill rate, which is in turn heavily influenced by the Reserve Bank's OCR (although they may be in variance if the markets price in future increases or decreases in the OCR).

During 2004, the Reserve Bank increased the OCR on six occasions (each time by 0.25%), while leaving it unchanged for the two most recent OCR announcements. This has meant the OCR currently stands at 6.5%. The Bank has been concerned for some time that the strong domestic economy is generating inflationary pressures, but until recently it took comfort from a higher New Zealand dollar pushing down import prices. It was therefore prepared to accommodate non-tradable inflation more than it would have had the New Zealand dollar been at a lower level.

The rate of appreciation of the exchange rate has eased over the last few months and it appears tradable inflation is back on the rise, which would lead to a 'double-whammy' inflation effect. However, the Bank expects the current policy position will keep inflation within the 1-3% band over the medium term, as past interest rate and exchange rate rises will eventually constrain the economy for the period ahead. Despite these constraints, the Bank has cautioned that further tightening cannot be ruled out if inflation remains near the top of band.

Most economists have revised down their forecasts of 90-day interest rates for the remainder of 2005 and 2006. This implies that on balance there is not likely to be further tightening by the Reserve Bank. Interest rates are expected to also be lower in 2006.

Forecasts: Interest Rates (90 day bills)

	As at End of		
	Mar 05	*Mar 06*	*Mar 07*
Highest	6.8	6.4	6.1
Average	6.7	6.2	5.9
Lowest	6.6	5.8	5.7

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

1.6 Exchange Rates

Most recent outcome: NZD = US$0.7137 as at 17 February 2005
NZD = AU$0.9087 as at 17 February 2005
TWI = 69.4 as at 17 February 2005

After falling sharply from mid-February to mid-May, the NZD has continued to rise against almost all major currencies over the past three months. Since the December business forecast, the NZD has appreciated by +5.6% against the USD, +2.5% against the Euro and +2.3% against the Japanese yen. There were also smaller gains of +0.7% against the Australian dollar and +0.4% against the UK pound. Against the TWI, it has increased by +2.5%.

Comparative interest rates are just one of a number of factors that can influence exchange rates. Others include current account deficits and relative growth rates. With New Zealand's growth rates having been higher than most OECD countries over the past few years it is perhaps not surprising that the NZD has increased in value.

Consistent with a rising exchange rate, export values fell consistently during 2002 and 2003, with import values also being relatively flat. However, during the later half of 2003 and into 2004 both exports and imports rose strongly despite the higher exchange rate. This was mainly due to increasing world commodity prices as a global recovery has taken shape. After mid 2004, exports have remained relatively flat while imports have continued to increase (albeit at a more modest level). New Zealand's strong domestic economy continues to help prop up import values so far.

All economists agree that accurately forecasting changes in exchange rates is fraught with difficulty – currency forecasts must always be treated with caution. The ongoing appreciation of the NZD since the December planning forecast has resulted in short term forecasts being revised up, while medium-long term forecasts have been revised down.

AUD (cents)			
	Mar 05	*Mar 06*	*Mar 07*
Highest	93.7	88.0	85.0
Average	91.4	86.0	84.0
Lowest	90.0	82.0	81.9

USD (cents)			
	Mar 05	*Mar 06*	*Mar 07*
Highest	74.0	66.0	59.0
Average	70.5	60.0	55.5
Lowest	67.0	53.0	52.0

TWI			
	Mar 05	*Mar 06*	*Mar 07*
Highest	70.5	63.4	59.3
Average	68.2	59.9	57.6
Lowest	66.3	54.3	55.0

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

In practice, buying forward foreign currencies can reduce the risk in cross rate movements. Forward cover rates are based on the exchange rate when it is bought, so it pays to watch daily movements and buy at the right time, particularly in light of recent movement in the exchange rate with Australia and the United States. Forward cover rates can be obtained from banks.

Part 2: The Australian Economy

Monitoring the performance of the Australian economy is critical in that firstly, it provides a measure of how well New Zealand exporters are likely to fare (a stronger Australian economy will be generally 'suck in' imports) and secondly, it provides an indication of the likely strength of competition from Australian sourced products on the domestic market.

2.1 Economic Growth (GDP)

Most recent outcome: +3.0% for the year-ended June 2004.

Forecasts (averages):
- November 2004: +3.6%
- November 2005: +3.2%

Source: The Economist

Much like the New Zealand situation, the Australian domestic economy continues to grow at a robust pace, but is weighed down somewhat against a weaker external sector, as export performances have been modest. In other ways the Australian economy parallels New Zealand's, with a tighter labour market, inflation rising, and household spending that is still forging ahead. One of the key differences however is that much of the steam has gone out of the housing market, as house prices have begun to rapidly cool after the heady heights reached in 2003. Falling house prices will have flow on effects in consumer spending as consumers watch their wealth decrease. The same result is expected in New Zealand throughout 2005.

Some key recent economic statistics:

- Real retail sales up 6.3% for August 2004 compared to August 2003.
- Motor vehicle sales up 2.5% for December 2004 compared to December 2003.
- Manufacturers sales up 1.7% for September 2004 compared to September 2003.
- Dwelling unit approvals down 7.2% for August 2004 compared to August 2003.
- Employment up 2.9% for December 2004 compared to December 2003.
- Unemployment rate of 5.1% as at January 2005 – a fall from 5.6% in September.
- Company profits before tax up 5.6% for September 2004 compared to September 2003.

The latest Australian PMI results show the pace of manufacturing activity has remained moderate, with a reading of 54.9 for January (down from 60.8 in December). The Australian PMI has been below the New Zealand PMI for most of 2004, but it is important to bear in mind that the Australian PMI is seasonally adjusted, whereas the New Zealand PMI is not at the same stage of development.

2.2 Headline Inflation

Most recent outcome: +2.6% for the year-ended December 2004

Forecasts:
- December 2004: 2.3%
- December 2005: 2.4%

Source: The Economist

After breaching the higher limit of the Reserve Bank of Australia's 2-3% target in March 2003, inflation has steadily eased as the economy slowed and the appreciation in the AUD (particularly against the USD) has taken effect. However, underlying inflation has probably reached its low point and may start rising again during 2005, with many predicted inflation to be just below or above the 3% threshold.

Australia's wage price index increased by 3.5% for the year ended September 2004, while Australia's unemployment rate fell to 5.61% - still some way above New Zealand's rate of 3.6%.

2.3 Interest rates (90-day bills)

Most recent outcome: 5.68% as at 17 February 2005

In late 2003 the Reserve Bank of Australia (RBA) increased its OCR twice (from 4.75% to 5.25%) but during 2004 and so far for 2005 have left it unchanged.

Some economists suggest that further increases in the Australian OCR are unlikely in the short-medium term, as the two 25 basis point rate hikes at the end of 2003 were enough to stabilise house prices without causing a serious economic downturn.

However, given the RBA's focus on circumstances likely to prevail in a year or two, continuing falls in unemployment, higher employment growth, import prices adding to inflation and possible renewed interest in property, there is the strong possibility that inflation will track higher in the year ahead, which would put renewed impetus on the RBA tightening monetary conditions further.

Part 3: Rest of the World

The economic picture in the rest of the world is very important for New Zealand. Generally speaking, the international climate was not particularly favourable over the period 2000-03, but it now appears that a sustained recovery is underway – although record high oil prices continue to be a cause for concern.

United States

2004 saw the strongest economic growth in the USA since 1999. The average annual change in real GDP between the USA and New Zealand was strikingly similar. Both countries experienced an average annual change of 4.6% for the year-on-year September quarter, and 4.4% for the June equivalent. Whereas both New Zealand and Australia have enjoyed strong GDP levels for the last 2-3 years, the USA has come off a low base rate that is likely to continue upwards. The USA unemployment rate for January (5.2%) is in contrast to the 5.4-5.5% figures that were prevalent during most of 2004, while 2004 saw 2.2 million jobs created with pace likely to increase translating into 2.5 million new jobs for 2005. Manufacturing in the USA enjoyed strong activity, with 2004 monthly indicators consistently showing healthy expansion.

The Federal Reserve increased its Federal Funds Rate from 2% to 2.5% since our last forecast, which was widely picked by commentators. The Federal Reserve considered that with output growing at a moderate pace despite the rise in energy prices, and labour market conditions improving, any short-medium term inflation expectations remain well contained.

Despite the gradually improving US economy, the USD remains weak, and on balance will probably continue to be for some time yet. The growing fiscal and trade deficits pose an increasing long-term threat to the value of the USD and the long-term stability of the US economy. Recent announcements by the US Government regarding future tightening of specific fiscal spending may in fact undercut the economic growth needed to fill the gap.

Japan

For over a decade the Japanese economy has been stagnating and suffering from prolonged deflation. However, there have more recently been signs of a rebound, with strong data on industrial production and GDP, a reduction in unemployment, and signs that deflation may soon become mild inflation. Many are suggesting that this improvement in fortunes is being driven by demand generated by the Chinese economy.

Recent economic news provides good new and bad news for the Japanese economy. Japan's unemployment rate fell from 4.9% in December 2003 to 4.4% in December 2004, while the December current account surplus was larger than expected. However, annualised GDP for December came out at –0.5%, while forecasts for GDP over 2005 is only believed to reach +1.6%. Overall, the true path of its economic direction continues to remain blurred.

Asia

Asian economies were hit hard by the impact of SARS in 2003, but most have since bounced back and are now growing strongly, largely due to very strong increases in industrial production. Current annual growth rates include 9.5% for China, 7.2% for

Hong Kong, 6.8% for Malaysia, 6.6% for India and 5.4% for both Singapore and the Philippines.

On balance Asia is continuing to exhibit strong economic performance, which is largely helped by China's continuing good run. In fact China's trade surplus widened to US$38.4 billion for the January 2005 year, compared with US$26.8 billion for the same period last year. China's growth is expected to remain over 9% for some time yet.

Europe

Inflation in the Euro zone region grew to a rate of 2.1% for the January 2005 year, up from 1.9% the same time the previous year. Also, Euro zone growth almost ground to a halt during the December 2004 quarter, as GDP rose only 0.2%. This left output 1.6% higher than the December 2003 quarter. GDP fell in Germany, Italy and the Netherlands, but grew 0.7% and 0.8% respectively in France and Spain. Although Germany experienced negative growth, industrial production rose 0.9% and expectations are that the economy will pick up there by around the middle of the year.

During the December 2004 quarter average wages in Britain were up 4.3% on the year before, well above the 1.6% rise in consumer prices. In real terms, British wages are rising faster than most other countries in Europe and the OECD. Britain's industrial production also rose by 0.5%, while the country's trade deficit narrowed by more than expectations for the December quarter

World Outlook

Most economists are predicting that 2005 should be a broadly similar year to 2004, with some countries having their growth targets revised up, others to experience a slight downturn in growth. An improved global outlook would obviously be good news for New Zealand to sustain healthy growth here, but unexpected events (e.g., SARS, war, terrorist attacks etc) show how fragile economies can be.

The usual sticking point will be how the US economy fares over 2005, with predictions of a 3.5% growth rate. Although the election result last year will bring some stability, the ever-growing current account deficit remains a prime concern, with expectations of it rising to 5.9% of GDP in 2005.

Forecasts: World GDP Growth (Selected Trading Partners)

Country	*2004*	*2005*
Australia	3.4%	3.1%
Canada	2.7%	3.0%
Japan	3.0%	1.6%
United Kingdom	3.0%	2.4%
United States	4.3%	3.5%
Euro Area	1.8%	1.6%

Source: Economist

Inflation forecasts in most countries have general decreased slightly since our December forecast, although it is still predicted to be well above 2% in the US for 2005.

Forecasts: World Consumer Price Inflation (Selected Trading Partners)

Country	*2004*	*2005*
Australia	2.3%	2.4%
Canada	1.9%	2.0%
Japan	0.0%	0.3%
United Kingdom	1.5%	1.7%
United States	2.7%	2.4%
Euro Area	2.1%	1.7%

Source: Economist