

## Tracking the Economy

### **A slow start**

The year has gotten off to a slow start. Recent data shows Christmas retailing was disappointing, subdued construction and waning confidence. A large build-up of inventories is also concerning, as firms are making more goods than they can sell. The global picture has continued to worsen, with the European economy now almost certainly in recession. In this climate New Zealand's economic growth will be subdued in 2012 and the RBNZ will hold the Official Cash Rate at record lows of 2.5% until the middle of 2013.

### **Christmas disappointment**

Retail spending on electronic cards fell 0.3% in December 2011, following a 0.6% fall in November. Spending had grown during the Rugby World Cup (RWC) months of September and October. This was reflected in the NZIER Quarterly Survey of Business Opinion (QSBO), which showed retail sales moderating in the December 2011 quarter. Merchants had expected a surge in retail sales around the RWC, but this did not materialise.

### **Slowing construction**

Building consents remain disappointing. Residential consents slowed in the last three months of 2011, after an anaemic rebound in the six months before that. Non-residential consents are gradually lifting from very weak levels. The outlook for construction remains gloomy outside of the reconstruction work in Canterbury. Architects in the QSBO have become less optimistic about how much work there will be in the next year and builders report fewer new orders and are holding too much stock.

### **Less confident**

Businesses have become pessimistic in the December 2011 quarter, from modest optimism in the previous quarter. This was driven by slowing economic activity, unwanted accumulation of inventories (which will have to be unwound in the future) and a darkening global outlook. Importantly, there is a divergence between a post-earthquake rebound in Canterbury and slowing activity in the rest of the country. Pricing pressures are also easing, suggesting the RBNZ need not worry about inflation yet.

### **Global risks**

Global risks continue to build. Many economies in the Euro zone are contracting and a recession seems almost inevitable. The sovereign debt crisis remains unresolved, despite many summits. Greece appears near default and its bond yields have soared to unsustainable levels. The impact on New Zealand will depend crucially on how Asia and Australia fare, as they provided a buffer during the worst of the Global Financial Crisis.

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