

Tracking the Economy

Domestic resilience

The economy is resilient outside Canterbury. Retail spending is growing slowly and employment is stable. However, Canterbury is contracting, with employment in the region falling significantly. The recovery is shallow, consistent with very little credit growth. Global risks continue to escalate with accumulating evidence of a recession in Europe. Economic growth, inflation and interest rates will be low well through 2012.

New Zealand resilient, Canterbury lagging

The domestic recovery is resilient. Activity has remained stable outside of Canterbury. Spending on the Paymark network rose 3.7% over the year to October, but 80% of this was in Auckland and likely related to the Rugby World Cup. This lift may be temporary. Spending in Canterbury was down 2.2% over the past year.

Both employment and unemployment increased slightly in the September 2011 quarter. The unemployment rate rose by 0.1% to 6.6%.

However, Canterbury is worryingly weak. There were 26,800 job losses in the year to September, and employment is at the lowest level since June 2004. Job losses have been particularly harsh in the hospitality and services sectors, which are more likely to have been in the CBD. The only sectors to show job gains are construction, utilities and government. Encouragingly, manufacturing remains resilient.

Global instability continues

Global economic, financial and political tensions have heightened further. Latest surveys suggest economic momentum has stalled across the world, but most worryingly in Europe. Financial markets are vacillating between greed and panic, but are increasingly incorporating greater probability of recession in many advanced economies.

Tensions are boiling over in Greece, Italy and Spain, with governments under pressure to resign. The Eurozone is increasingly unstable, as leaders cannot agree on a solution.

Global turmoil matters for New Zealand. Our exports and tourism industries will suffer. Our banks rely on global markets for funds. There will be less money to lend and it will cost more.

Liquidity trap

The economy is in a liquidity trap. Low interest rates usually reduce savings and increase borrowing and investment. Despite very low interest rates, credit growth has stalled and savings are rising. This deleveraging is very necessary, but means slow economic growth for some time to come.

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