

Tracking the Economy

Recovery stalled

The RBNZ has left the OCR unchanged in the face of global risks and a stalled domestic economy. Interest rates will remain on hold for an extended period of time. Building activity fell further in the September quarter, as did sales of wholesale and manufacturing goods. Inventories are building unintentionally. Christmas retailing may not bring the desired relief for retailers.

Lower growth for longer

The recovery will slower than previously thought, according to the NZIER *Consensus Forecasts*. But the economy will still grow: 2.2% in the year ending March 2012 and then accelerate to 3.0% in 2013 and 2014. The Canterbury reconstruction will be a key driver, with the rest of the economy growing more modestly, averaging 2.2% over the next three years. A darkening global economic outlook and a later rebuild in Canterbury were the two key drivers of a weaker economic outlook.

Reserve Bank firmly on hold

The RBNZ left the OCR, citing recent easing in inflationary pressures, muted domestic growth and growing global risks. The RBNZ will not raise interest rates for some time. In the event of weakening global growth, interest rates will stay low for even longer. However, interest rate cuts are not likely in the near term. The RBNZ would only cut rates if the global situation turned a much deeper shade of ugly.

Less building, manufacturing and wholesaling

The September 2011 quarter was not good for building, manufacturing or wholesaling. Building construction activity fell by 2% in the quarter and was down 13% from a year earlier. Non-residential construction fell sharply, while residential construction remains at a depressed level. Wholesale sales fell by 2% in the quarter and inventories rose. Manufacturing sales volumes fell by 1% and inventories have surged. Demand in the September quarter was less than firms expected, leaving them holding excess stock.

Post-RWC slowdown & relief

The RWC created volatility in spending. Retail spending on electronic cards fell by 0.5% in November, after rising by an average of 1.0% per month during the RWC. The outlook for Christmas retailing is challenging. Retail spending growth is slowing and consumer confidence has trended lower for the past six months.

There was some post-RWC relief. House sales have rebounded in November, after weakness through the RWC months. The latest lift in house sales were mainly in Auckland and Canterbury, the rest of New Zealand remains moribund.

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