

Tracking the Economy

Global pressures rising

New Zealand faces growing global pressures. Exports have been resilient, but cracks are appearing in our key markets, China and Australia. Europe's problems are beginning to spill over, fuelling uncertainty and driving down our dollar. Net migration is negative, sapping domestic demand. With a slow local economy, global risks and little inflation, the RBNZ will hold interest rates until 2013. Indeed, the RBNZ may have to cut the OCR if the global situation deteriorates further.

Exports resilient, but cracks appearing

Exports remain resilient, rising 7.2% in October from a year earlier. But the strength is narrow. Half of this growth was driven by just three commodities to two countries: dairy, forestry and oil exports to Australia and China.

The European crisis hasn't caused much harm yet. Europe accounts for 13% of exports, so the direct impact is manageable. A greater risk is that the European crisis will infect global growth. There is emerging evidence of this, with signs of weakness in both Australia and China.

Encouragingly, the news isn't all bad. Imports of machinery and equipment into New Zealand are rising. This suggests businesses see opportunities to invest, despite the risks.

Global uncertainty drives dollar down

The NZD has fallen sharply in recent weeks, driven by spreading global uncertainty. For example, bond yields are rising across many countries as contagion from Europe spreads. Even the latest German bond sale had low demand. There is a political deadlock in the United States. A special committee charged with finding ways to reduce their deficit has failed to find any agreement. This structural imbalance will continue to stifle the American recovery. Chinese manufacturing also contracted in November, falling to its worst level since early 2009.

More Kiwis leaving

More Kiwis are leaving New Zealand. Net migration has been negative in six of the last seven months, meaning there will be little impetus to the economy from this source. Positive net migration tends to spur house sales and retail spending. Net emigration has been particularly sharp in Canterbury, but also broad based across all regions except Auckland.

World Cup boost in visitors, but some displacement

The Rugby World Cup (RWC) drew 133,000 overseas visitors to New Zealand. However, this displaced other visitors. NZIER estimates a genuine boost of 73,000 visitors. Spending by foreigners rose during the RWC, but displaced other activity. For example, the number of hotel and other accommodation guest nights rose for foreigners, but were fully offset by fewer Kiwis travelling domestically. This displacement means the benefits of the Rugby World Cup aren't as large as they first appear.

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