

## Tracking the Economy

### Interest rates could fall

Latest economic data could clear the way for lower interest rates. Inflation is easing. Domestic activity is subdued, consumer pessimism is entrenched and global risks are rising. If growth fears escalate the RBNZ could eventually cut interest rates. At the very least, the RBNZ will hold the OCR at the record low of 2.5% for some time to come, at least to the middle of 2013.

### Retreating inflation

The Consumer Price Index fell by 0.3% in the December quarter and was up just 1.8% from a year earlier. Prices have moderated across the board; the sharpest falls were in fruit, vegetables, broadband and phone calls.

Much of the living cost increases remain concentrated in necessities like food and fuel, and prices administered by central and local governments like rates and excise duties. Prices charged by other business are barely increasing.

Slowing inflation means the RBNZ can cut interest rates if local and global growth worsens. At current trends the RBNZ would hold interest rates patiently for a protracted period.

### Job ads slow

Job advertisements have fallen in six of the last seven months. While there are more job ads compared to a year ago (9% more), the level is low. There are few vacancies for the many unemployed, meaning the competition for each vacancy is high. This will reduce wage bargaining power of job seekers and suppress wage increases. This will slow the pace of a recovery in household spending, which accounts for around 60% of all spending in the economy.

### House sales lift

House sales have improved in recent months from a historically low level, a rare bright spot in an otherwise slowing economy. House sales' volumes have risen across the country. House prices are broadly stable and remain very high relative to household incomes and rents. Households continue to borrow conservatively, which is limiting the pace of the property market recovery.

### Confidence depressed

Consumer confidence remains depressed, excluding the usual seasonal variations. The two most informative indicators, current financial situation and expected economic growth, remain stuck in negative territory. Consumer confidence is consistent with economic growth slowing over the year ahead.

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