

## Tracking the Economy

### **Economic situation weak**

The economic situation remains weak. Consents for new homes were at a historic low in 2011, perhaps the lowest since the Great Depression of the 1930s. Continued net emigration is also reducing demand in the economy, particularly for new homes. Encouragingly, global manufacturing has perked up in recent months after worrying contraction in late 2011. But the European sovereign debt crisis continues to fester. There is little in the outlook for the RBNZ to change the interest rate in the next year.

### **Global manufacturing perkier**

Global manufacturing picked up. The JP Morgan Global Purchasing Manager Index expanded in December and in January, following three months of contraction. Europe continues to contract, but USA and Asia have improved.

The outlook for the global economy remains tied to the sovereign debt crisis in Europe. Europe is almost certainly in recession, but it would be worse with sovereign debt defaults. These could lead to financial market dislocation and a renewed global recession. This would weigh on investments in New Zealand by raising the cost of borrowing and depress exports and tourism.

### **Net migration a drag**

There are more people leaving New Zealand permanently, than arriving. This is a drag on the economy, in particular the housing market. Net migration is weak in most regions outside of Auckland. Outflows remain particularly worrisome from Canterbury and are mainly to Australia.

Canterbury's population outflows are both to other regions and internationally. Since the initial September 2010 earthquake a cumulative 3,645 people (net of arrivals) have left for offshore. We estimate around 10,000 may have migrated to other regions, particularly Auckland, Wellington and Otago. Population and job losses are the key concerns for Canterbury's economic recovery.

### **Building consents at historical lows**

Residential building consents remain depressed, despite a small lift in recent months. In 2011, there were less than 14,000 houses and apartment units consented, the lowest on current records. Relative to population, the number of consents issued in 2011 was the lowest since the Great Depression of the 1930s.

While there have been tentative signs of improvement in recent months, the level of activity is indubitably low. Very low rates of new building means new supply is slow, but new demand is also repressed by a weak economy and net outflow of migrants. Also, many young adults are delaying leaving home and many continue to flat beyond the 'typical' household formation age.

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