18 January 2023

New Zealand in 2023

'Rock star' needs rehabilitation

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Economics - New Zealand

- The high inflation challenge has seen interest rates rise rapidly, delivering a sharp correction in the housing market
- We expect a recession in New Zealand in 2023, before rate cuts later in the year to support some stabilisation
- There are deeper challenges – in the lead up to the election, policymakers ought to focus on reform and growth drivers

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Focus ought to be on economic rehabilitation

Over the short run, things look tough for the New Zealand economy.

Inflation is too high and has embedded itself in the system with signs of a wage price spiral. The RBNZ has lifted rates substantially and rapidly – delivering 400bp of tightening so far – and needs to slow growth markedly to get inflation down. A key result is that housing prices are falling sharply. We see a recession in New Zealand in 2023 and have concerns about risks to financial stability, given our forecast for a 20-25% fall in housing prices.

This is bad news for households. But, it may be necessary for the long-run, if it helps reach a more sustainable growth path. Of course, demand management is important, but policymakers also need to focus on reform to boost potential growth.

Nine years ago we described the New Zealand economy as a 'rock star'. However, even prior to COVID-19, growth had slowed, highlighting deeper challenges facing the economy. These include sluggish productivity growth, over-valued property assets, a lack of capital and infrastructure, and the limits of a small population and isolated geography – policy can help address some of these challenges.

With the right economic rehabilitation, though, we are upbeat on New Zealand's medium-term growth outlook. We believe it could once more be a 'rock star'.

A general election is likely to be held in 2H23. While we expect much of the election focus to centre on cost of living issues, there is an opportunity for policymakers to consider the longer-term outlook for the New Zealand economy.

These should be: (1) enhanced migration policy, which is better integrated with both the skills and education systems; (2) further trade policy changes, which could see a renewed focus on services, higher value-add, and future-proofing agricultural exports; (3) policy focused on financial market deepening, particularly as more offshore investment would help bolster infrastructure; and (4) New Zealand could be a world leader in policy for addressing the issues surrounding high methane emissions.

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The high inflation challenge

- New Zealand's high inflation challenge saw the RBNZ lift its cash rate by a hefty 400bp to date, already cooling the housing market
- We expect a recession through mid-2023, which is likely to be needed to lower inflation, but financial stability risks are heightened
- It is not all bad news – the services sector and supply-side are likely to continue to benefit from the re-opened international border

A cyclical downturn is needed and expected

High CPI inflation…

The high inflation challenge in New Zealand, which has now been apparent for more than 18 months, remains the main economic challenge in 2023. Despite the RBNZ having been the first G10 central bank to start lifting interest rates this cycle and having done so aggressively – with 400bp of hikes so far – inflation is still too high and seems to have become too embedded.

For a country with high household debt and an over-inflated housing market – the RBNZ has been labelling housing prices as 'unsustainable' since mid-2021 – this could be a damaging combination.

We have been expecting that a recession was likely in 2023 since mid-2022, and had flagged the 'hard landing' risk even earlier – it is still our central case.

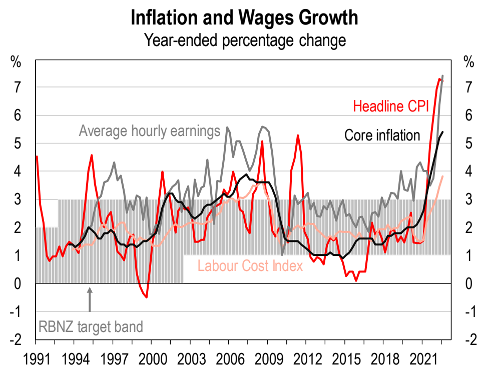
…has become somewhat embedded into expectations and wages growth…

Annual headline and core CPI inflation were high in 3Q22 and well above the RBNZ's 1-3% target range (Chart 1). High inflation has embedded itself in inflation expectations and the wages-setting process, with inflation expectations reaching new record highs for the inflation-targeting period, in 4Q22. Likewise, wages growth rose to near record-highs, with positive real wages on some metrics.

The pick-up in inflation has reflected both supply constraints and strong demand.

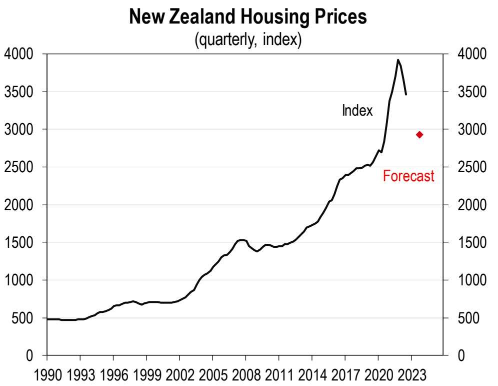
…reflecting both supply- and demand-side factors

1. CPI inflation and wages growth rose sharply through 2022



Source: Statistics New Zealand, RBNZ, HSBC

2. The RBNZ's tightening is driving a substantial housing market correction



Source: RBNZ, Refinitiv Datastream, HSBC estimates

A key factor on the supply side was the closed international border through much of the pandemic. However, strong demand, partly driven by the early-pandemic large fiscal and monetary stimulus, was also a factor.

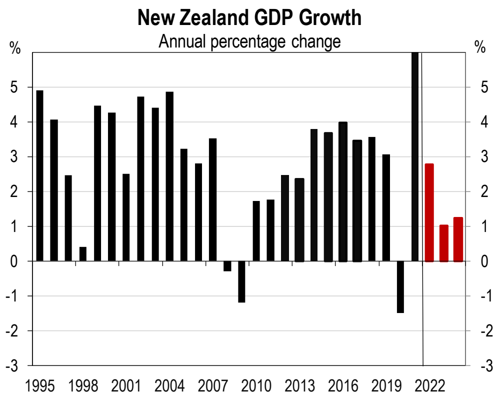
The RBNZ's cash rate hikes…

In response to the inflation challenge, the RBNZ has hiked its cash rate substantially. Hikes began in October 2021, with the cash rate rising from 0.25% to 4.25% (as of January 2023), delivering 400bp of tightening in a short timeframe. We expect a further hike in February 2023 then a pause, before a cut in 4Q23.

…are cooling the housing market…

Rising interest rates have cooled the housing market rapidly, with national prices falling 11%, to date, from their November 2021 peak (Chart 2). However, with the bulk of outstanding mortgages fixed, the full impact of the RBNZ's tightening on households is only likely to become apparent in 2023, likely cooling housing prices further and weighing on consumption.

3. We expect a recession in 2023…



Source: Statistics New Zealand, HSBC estimates

4. …with unemployment set to rise

Source: Statistics New Zealand, HSBC estimates

…such that we expect a recession in 2023

We expect GDP growth of 2.8% in 2022, slowing to 1.0% in 2023, and 1.2% in 2024, with a recession starting in 1H23 alongside a rising unemployment rate (Chart 3 and Chart 4).

Housing market is a key risk

A key factor of concern is that the fall in housing prices starts to cause broader financial challenges, particularly to households and potentially for the financial system.

As we pointed out in recent work, when we look across the world for economies where a significant housing price correction gets us concerned about broader macroeconomic and financial challenges, New Zealand is high up on the list.

We expect housing prices to fall by 20-25% from their peak…

We expect housing prices to fall by a total of 20-25%, given our expectations for interest rates, and for this to weigh on consumer spending and inflation. Once the unemployment rate rises, which we also expect in the coming quarters, the housing market risk is likely to increase.

…with elevated financial stability risks

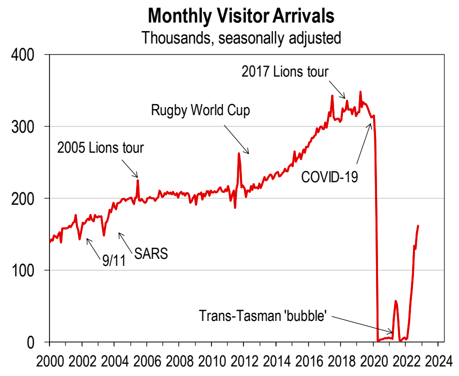
The RBNZ's own stress tests in 2022 suggested the banking system can handle a 42% fall in housing prices and a rise in the unemployment rate to 9.3% before financial stability becomes a concern. However, we expect risks to emerge before that point, given household heterogeneity, non-linearities, and liquidity risk. A collapse of this magnitude is not our central case, but it is a risk we are watching carefully.

Some sectors are doing well

The services sector is being supported by the reopened international border…

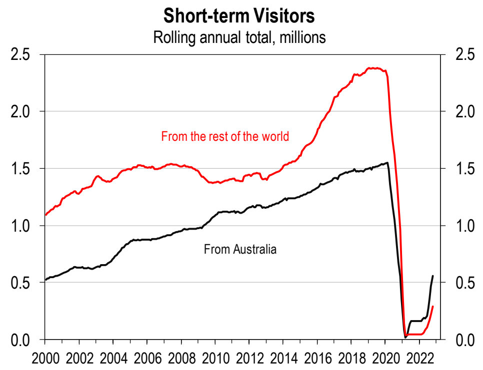
Not all sectors of the economy will be impacted by rising interest rates to the same extent. Some sectors have been doing well recently, particularly as a result of the border re-opening, which is supporting exporters and services industries. Border crossings have already risen sharply (Chart 5 and Chart 6). Much of this is being driven by arrivals from Australia, as we had expected.

5. The reopened border may buffer the weakness in domestic demand…



Source: Statistics New Zealand, HSBC

6. …supported by the arrival of Australian tourists in particular



Source: Statistics New Zealand, HSBC

…which should, eventually, improve the supply-side

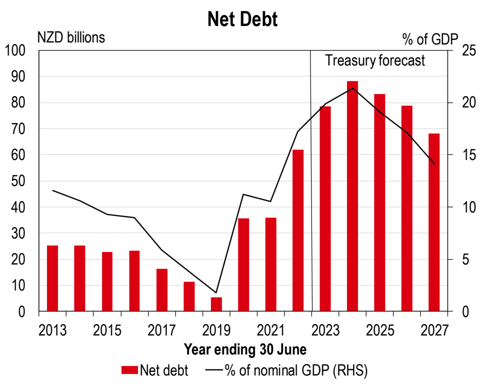
This should also lead to an improved supply-side as population growth recovers, although in the short-run it seems to be adding more to demand than supply (largely as we had expected).

Fiscal policy also has a role to play

Fiscal policy is shifting to consolidation

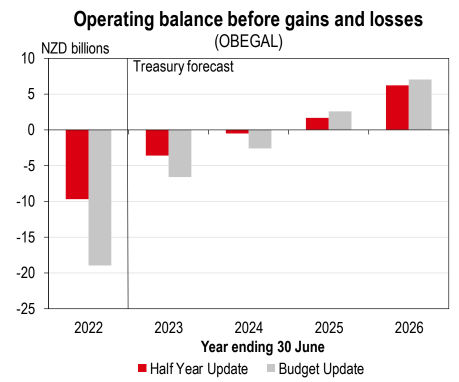
The near-term challenge for policymakers is bringing inflation back to the RBNZ's target range, by transitioning the current over-heated economy to a more sustainable growth path. Current supply constraints also mean that fiscal policy is somewhat constrained over the near term, which should favour fiscal consolidation to help get inflation under control (Charts 7 and 8).

7. Government debt rose sharply through the pandemic…



Source: NZ Treasury estimates, HSBC

8. …but the focus is now shifting to fiscal consolidation



Source: NZ Treasury estimates, HSBC

While much of the focus over the near term rests on the RBNZ's cash rate – the key cyclical policy tool for the economy – it is also worth considering the supply side of the economy and what can be done with economic reform and fiscal policy to improve it. This is particularly important in an election year.

The 'rock star' economy…

The New Zealand economy was a 'rock star'…

Nine years ago, we described New Zealand as a 'rock-star' economy. Indeed, for a few years, New Zealand's economy was one of the fastest-growing economies in the OECD, supporting its 'rock star' reputation, benefitting from strong demand for global food products, a post-earthquake reconstruction effort in the Canterbury region, and a local housing boom.

Business and consumer confidence were high, there was a substantial upswing in construction activity and, although dairy prices fell, farmers' production volumes soared. Rising house prices, an increasingly strong labour market, and strong population growth all drove greater household consumption, which spurred a rise in business investment, providing both near-term activity and greater capacity for future production.

…but there were challenges prior to the pandemic…

However, a slowdown in the years just prior to the pandemic took the shine off New Zealand's rock-star image. Partly, the slowdown was cyclical. However, it also reflected some of the structural challenges New Zealand faced.

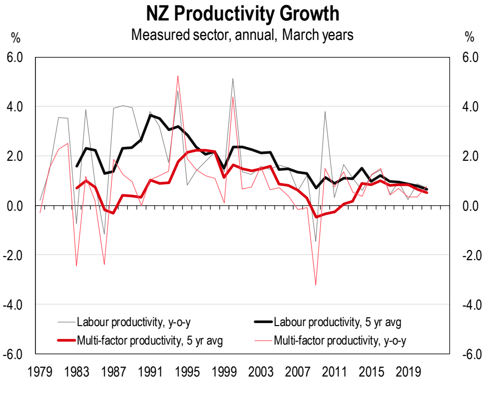
…now needs some economic 'rehabilitation'

Indeed, it was perhaps a long time coming, given economic reform clearly lost momentum in New Zealand after the initial burst from the mid-1980s to the early-1990s. New Zealand faces a number of structural challenges, including sluggish productivity growth, overvalued property, lack of capital and infrastructure, and a lack of policy reform.

…which policymakers can help to address

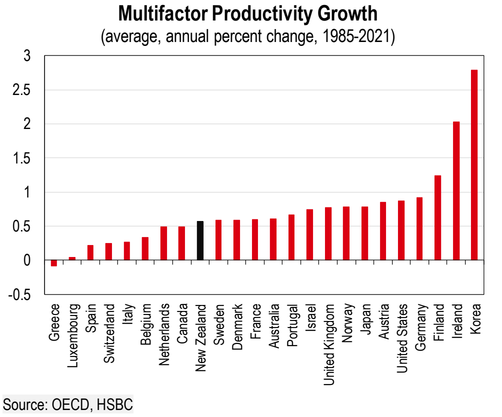
New Zealand's low productivity growth has been well documented (Charts 9 and 10). The decline in productivity growth has been attributed to a range of factors including low rates of business investment (capital shallowness), low domestic savings, tax and welfare settings, migration, the education system, insufficient infrastructure, limited trade exposure, weak competition, and remoteness from global markets (Conway, 2018).[1]

9. New Zealand has faced sluggish productivity growth…



Source: OECD, HSBC

10. …when compared across the OECD



Source: OECD, HSBC

1 Conway, P., (2018), 'Can the Kiwi Fly? Achieving Productivity Lift-off in New Zealand', International Productivity Monitor, Centre for the Study of Living Standards, vol. 34, pages 40-63, Spring.

Tips for an economy formerly known as a ‘rock star’

- A general election in 2023 is likely, where the cost of living will be the focus, but New Zealand’s long-term growth opportunities are key
- Opportunities include improved migration and education policies, ‘future-proofing’ agri-exports, and attracting more foreign investment
- Reducing high methane emissions is a climate challenge – New Zealand has the opportunity to be a global policy leader

2023 New Zealand general election: A cost-of-living vote

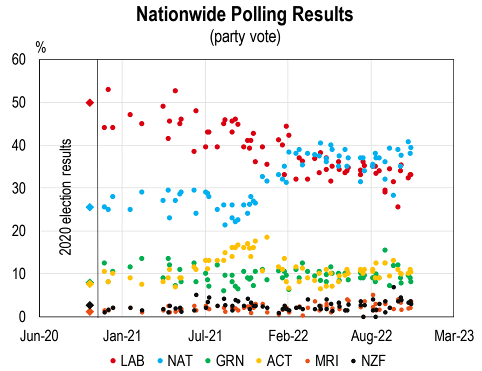
An election is likely in the second half of 2023…

The next New Zealand general election will be held no later than 13 January 2024, but typical historical timing would suggest it will be held in late 3Q23 or early 4Q23. New Zealand’s (centre-left) Labour government, led by Prime Minister, Jacinda Ardern, has been in government since the 2017 general election, with the first three years as a coalition, then as a majority government for the past three years.

…with recent polls favouring a change in government

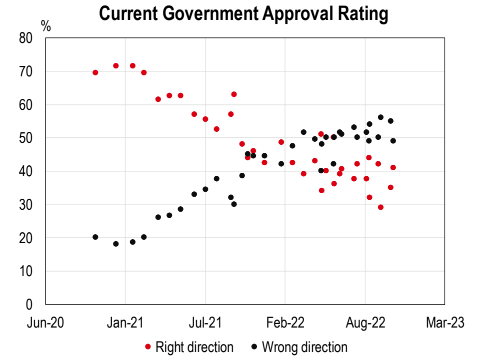
However, since its landslide victory in 2020, key polls have suggested the Labour government’s popularity has been declining (Charts 11 and 12). There was a notable shift in poll results through 2H21 amid the changing approach to managing the pandemic. It has also coincided with Labour passing controversial policies, such as the ‘three waters’ policy to reform governance of water supplies, an effort to price farming emissions, new ‘hate speech’ legislation, and a national media merger.

11. The centre-right opposition party…



Source: Roy Morgan, Taxpayers' Union–Curia, 1 News–Kantar Public, Talbot Mills, Horizon Research, HSBC

12. …National, has gained in the polls



Source: Roy Morgan, Taxpayers' Union–Curia, Talbot Mills, HSBC

The latest Roy Morgan New Zealand Poll, in November 2022, showed support for a potential National/Act NZ coalition surging to 50%, ahead of a Labour/Greens coalition on 37.5%. In addition, a record high 55% of respondents said New Zealand was 'heading in the wrong direction'.

Cost of living is likely to be a key focus…

Ahead of the upcoming election we expect both major parties to focus on the cost of living. We see the Labour party focusing on lower-income support, healthcare, and childcare, with the benefit of Budget 2023-24 announcements through the year. We expect the National party to focus on tax, infrastructure, and crime.

…but we hope policymakers can look beyond the cyclical challenges

However, we also hope that, given the growth challenges above, there is some focus on policies that help to support longer-term growth opportunities and generate meaningful productivity growth.

We outline some of these opportunities below.

We suggest four key areas of focus: (1) enhanced migration policy; (2) further trade policy changes; (3) policy focused on financial market deepening; and (4) climate policy aimed at New Zealand's high methane emissions, and the pathway to reducing them.

Human capital: Migration, skills, and education

Migration policy can support longer-term growth and productivity…

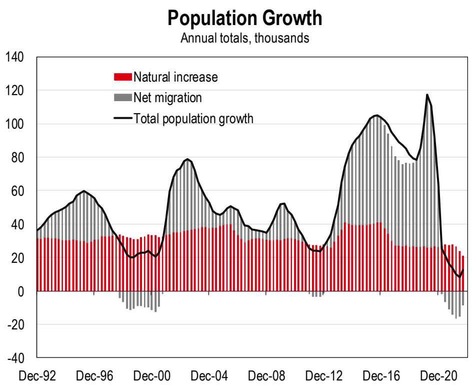
Migration has been a key growth engine for the New Zealand economy throughout its history. Even as far back as the 1870s and 1880s, where migration formed a core part of an expansive economic development strategy (Productivity Commission, 2021). In more recent times, high net migration has supported New Zealand's growth, partly through the housing market.

With the international border largely shut to migration from early 2020 through to 2022 – in response to the pandemic – inward migration to New Zealand fell sharply, and net migration dropped into negative territory as more New Zealander's left overseas (Chart 13 and Chart 14).

…with an opportunity to 'reset' following the closed border

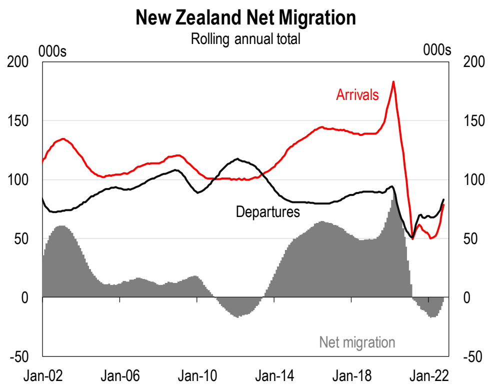
The border fully re-opened in August 2022, but patterns of migration are still very different to the pre-pandemic ones. There are opportunities for migration policy changes that could help to grow New Zealand's economy faster and lift productivity growth.

13. Population growth was high through the late 2010s…



Source: Statistics New Zealand, HSBC

14. …reflecting a sharp uptick in the number of arrivals



Source: Statistics New Zealand, HSBC

Our view is that a focus on attracting migrants from overseas can form a core part of New Zealand's sustainable economic growth, given the right policy settings and integration with other policy areas, such as skills and education.

The government is already aware of the opportunities here, having recently directed the Productivity Commission to conduct an inquiry into migration settings back in 2021. In April 2022, the Productivity Commission provided the government with 24 recommendations for the future of migration policy, noting:

> **Transitions to higher productivity activities do not happen overnight, requiring sustained investments in physical and community infrastructure alongside training and workforce development efforts.**
>
> **Productivity Commission, April 2022**

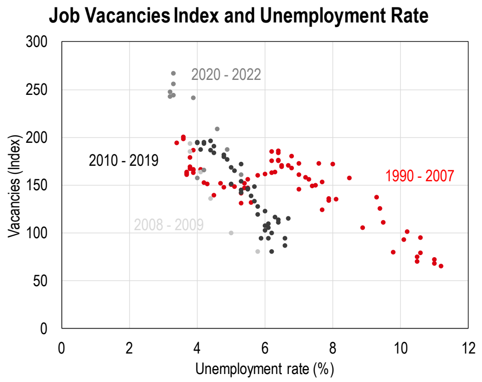
A focus on high-skilled migration…

We see a number of areas where migration policy could be adjusted to facilitate growth over the long term.

First, is a focus on suitably skilled immigration.

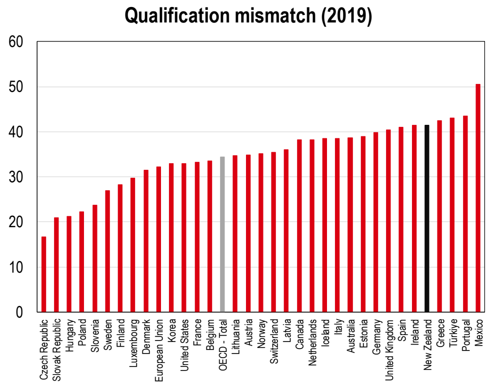
The New Zealand economy has a relatively high skills mismatch, and heads into 2023 with a constrained supply side and high job vacancies (Chart 15 and Chart 16). High-skilled migration coud help address this, while also contributing positively to firm-level productivity. Removing barriers to entry for high-skilled individuals to enter New Zealand, and speeding up the visa approval process, are policy changes that could help here.

15. Labour market matching efficiency has deteriorated…



Note: MBIE's Jobs Online series dates back to 2007. Prior to this, the ANZ job vacancies index (scaled to the MBIE data) was used.
Source: Statistics New Zealand, MBIE, Refinitiv Datastream, HSBC

16. …with New Zealand having a relatively high skills mismatch



Source: OECD, HSBC

…supported by better labour market data and dynamic policy…

Second, there should be a greater focus on a more dynamic migration policy adjustment mechanism, including better integrating information from the local labour market conditions into policy settings.

Improvements in this areas could be as simple as better data and statistics, where the current quality of New Zealand's labour market data lags its international peers. However, this information would also need to be tied into policy, such as rolling evaluations of current shortages, to inform visa categories, or the government's monitoring role of the impact of migration on the domestic economy.

…and better tied to the skills and education systems, would help

Finally, the migration system could be better integrated with New Zealand's education and skills systems, and absorptive capacity.

New Zealand's poor returns to education and its impact on productivtiy has been well documented. As such, improved skills programmes would diminish the risk of displacement of local workers from higher migration numbers. More education funding with a focus on ICT could help here too. Better availability of high-speed internet connections in rural areas is also important, particularly for agricultural productivity.

Absorptive capacity is a constraint that can be addressed

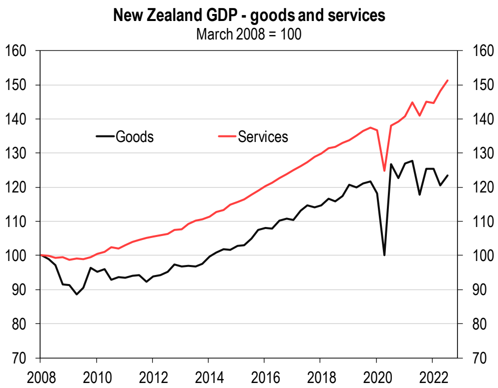
In addition, there is a clear need for policymakers to address New Zealand's absorptive capacity – this requires remedial and ongoing attention – to ensure the benefits of migration, without the stresses on infrastructure and housing availability that were evident pre-pandemic.

Trade: Services and agricultural exports

Services and agriculture are key growth drivers

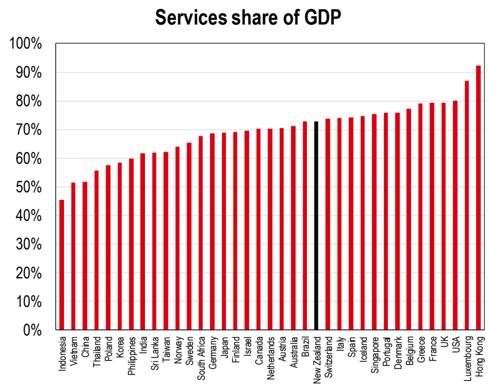
The New Zealand economy is largely dominated by two sectors – services and agriculture. Services account for around 70% of GDP, while, prior to the pandemic, tourism itself generated a total contribution of around 10% of GDP, and employed over 8% of the labour force. In terms of exports, services typically account for around a third of the value of total exports (in 2019), while agriculture makes up around 40% of merchandise exports.

17. Services have grown strongly in New Zealand…



Source: Statistics New Zealand, HSBC

18. …and are an important component of the economy



China = mainland China.
Source: OECD, HSBC

Despite this, New Zealand's services sector has low productivity, performing below the OECD (Productivity Commission, 2014). Given the dominance of services in the economy, even small improvements to productivity in the services sector are likely to have significant longer-term impacts.

We see a number of opportunities here.

First, an improvement in competition policy.

Competition policy can boost productivity, domestically…

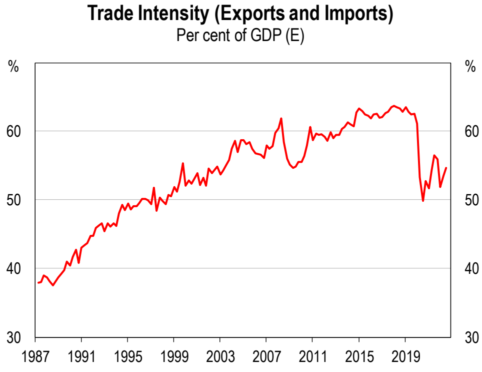
New Zealand's services sector tends to have less intense competition than goods-producing or primary industries. New Zealand's competitive environment is also hampered by being a small, distant economy. The main opportunities come from reducing barriers to trade, enhancing the role of the consumer, and a general improvement in competition law.

Second, there may be an opportunity to tap into the greater global 'servicification' as economies around the world switch back from goods consumption towards services, following the sharp change in behaviour as a result of COVID-19.

…as well as a growing focus on services trade

This involves marketing New Zealand on a global scale. However, 'servicification' has given rise to new types of barriers, where, for instance, restrictions on data flows will have a disproportionately negative effect on smaller countries such as New Zealand. As such, policymakers should also ensure services are adequately captured in trade agreements.

19. Trade accounts for a large share of GDP…



Source: Statistics New Zealand, HSBC estimates

20. …with goods exports dominated by agriculture

Source: Statistics New Zealand, HSBC

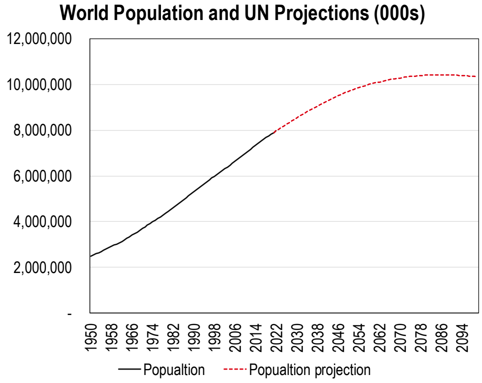
High-quality food products are expected to be in demand…

As for trade, New Zealand's exports suggest it has a comparative advantage in agriculture, with the country having the highest 'revealed comparative advantage' in food and beverages of major exporters (MBIE, 2018).[2] Likewise, New Zealand already farms a reasonable proportion of its total land area, similar to France or Italy. Given New Zealand's comparative advantage in agriculture, we expect trade to remain a key growth engine for the New Zealand economy.

…as the global population continues to grow…

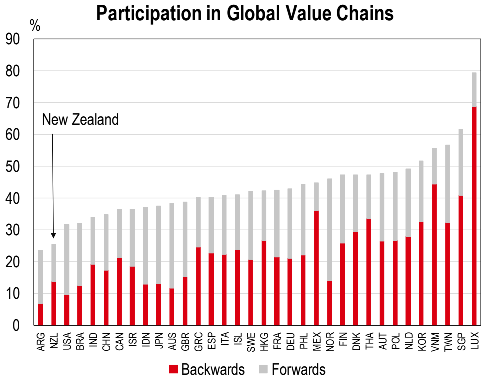
A significant part of agricultural production is devoted to satisfying food demand for human consumption. As the UN noted in its latest demographic projections last year, it expects global population to peak in the 2080s (see *Global Demographics: How soon will the world's population be shrinking?*, 12 July 2022) (Chart 21). This gives New Zealand a considerable period for growth in agriculture to meet demand from a growing population.

21. Demand for New Zealand's exports is likely to continue…



Source: UN, UN estimates

22. …but New Zealand should aim to move up the value chain



CHN = mainland China.
Source: OECD

2 A metric can be used to provide a general indication and first approximation of a country's competitive export strengths, based on Ricardian trade theory (UNCTAD, 2021).

…but productivity improvements and 'future proofing' will help

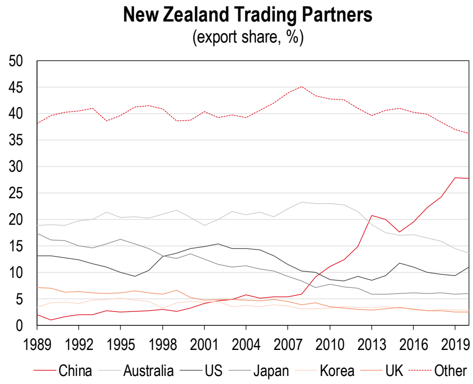
However, rather than expanding the industry through land use, policymakers could assist with a focus on land intensity. Only a small amount of New Zealand's land is currently used at high productivity to create significant value per hectare. A move to higher-productivity agricultural products, such as poultry, aquaculture, or plant-based foods, offers an opportunity for productivity gains.

Policymakers and industry could also focus on moving New Zealand up the value chain in trade (Chart 22). New Zealand is already on the back foot for global value chain linkages, given its small size and distance. However, New Zealand's food and beverage exports tend to be over-weighted to low value-added, unprocessed ingredients. The key here will be transitioning to more complex, more consumer-ready products higher up the value chain, which require policymakers and industry to look forward to grow suitable amounts of the right raw materials.

23. New Zealand's trade outlook is influenced by mainland China's demand…

China = mainland China.
Source: WITS

24. …but other, smaller, markets are still important



Source: WITS. China = mainland China.

Financial markets: Deepening capital and business investment

Shallow financial markets have been a challenge…

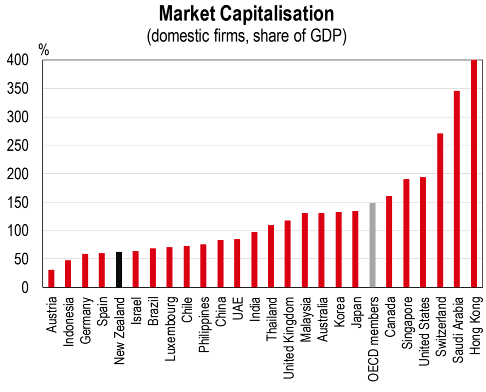
One of New Zealand's key challenges, partly related to its size and distance, has been difficulty in attracting foreign investment. Business capital investment in New Zealand is low in comparison with other OECD countries, and financial markets are shallow, even when accounting for size of the economy (Chart 25). Venture capital, stock and bond markets are relatively thin, although this in part reflects low saving. Poorly developed financial markets constrain the ability of innovative firms to attract resources and grow, while a lack of venture capital restricts net job creation through reduced entry and slower growth of entrants and incumbents (Calvino et al., 2015).

As such, New Zealand is particularly susceptible to 'home bias', for example from a lack of understanding of New Zealand opportunities amongst foreign investors. Young and small firms – the majority of New Zealand firms – are likely to fund through equity, and be relatively more impacted than those funding with debt (Cameron, Chapple, Davis, Kousis and Lewis, 2007).

…that policymakers can overcome

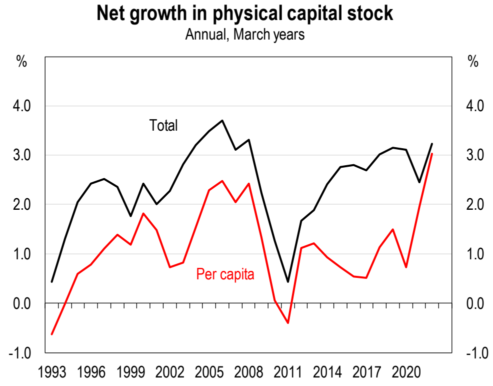
Clearly, further reductions in barriers to foreign direct investment would help here. Current policy involves a comprehensive foreign investment screening process, something not seen in other countries, making it more difficult than elsewhere to invest. This is despite the 2015 establishment of an investment attraction taskforce, which aims to identify and package investment opportunities and match them to foreign investors (NZ Government, 2015).

25. New Zealand's financial markets are small…



Note: China=mainland China. Hong Kong market cap is over 1773 percent of GDP. Data is from 2020, or latest available.
Source: World Bank

26. …and business investment has been weak



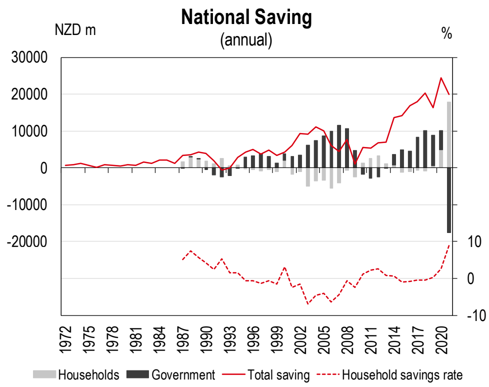
Source: Stats NZ

Incentivising further savings coud help over the longer term

New Zealand also has a low savings rate, and large net international investment liabilities (Chart 27). Policymakers could work to encourage higher savings, which would help the economy over the long term by making New Zealand more resilient by reducing high net external debt and vulnerability to external shocks.

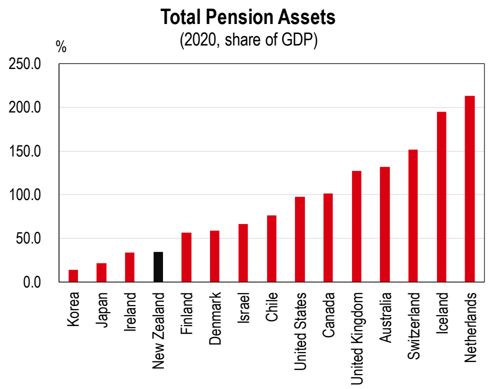
New Zealand is heading in the right direction, with 78.5% of the working age population having a KiwiSaver plan in 2020, 13 years after starting enrolling newly hired employees automatically into this programme. However, the overhead from pre-Kiwisaver, and still-low savings rates need to be addressed, particularly in the context of population ageing and the associated risk to public debt (Chart 28). Policy adjustment, such as raising the pension eligibility age by linking it to life expectancy, or increasing the compulsory savings rate in Kiwisaver over time, could help here.

27. New Zealand historically has a low private savings rate…



Source: RBNZ

28. …meaning limited pension assets available



Source: OECD

Climate and emissions challenges

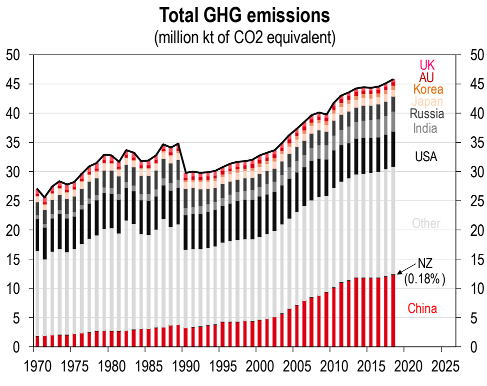
New Zealand has a 'clean, green' image around the globe…

Despite its 'clean and green' image, New Zealand has significant challenges in meeting its greenhouse gas emission goals, in large part due to its large agricultural sector.

…but struggles with high per capita emissions, due to methane emissions

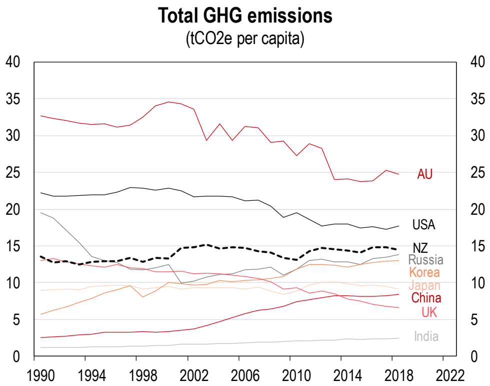
New Zealand contributes only 0.18% to total global greenhouse gas emissions (Chart 29). On a per capita basis, however, it is a different picture. New Zealand has the seventh-highest level of emissions in the developed world, ahead of countries like Japan, the UK, and China (Chart 30). This reflects New Zealand's unique emissions profile – sheep and cows outnumber humans almost 10-to1. High emissions from agriculture, including methane and nitrous oxide, are produced and these have a greater warming effect than carbon dioxide.

29. New Zealand is a small contributor to total global greenhouse gas emissions…



Note: Data pre-1990 are sourced from Carbon Dioxide Information Analysis Centre.
Source: World Bank, CAIT data: Climate Watch, HSBC

30. …but contributes a large amount per person



Source: CAIT data: Climate Watch, HSBC

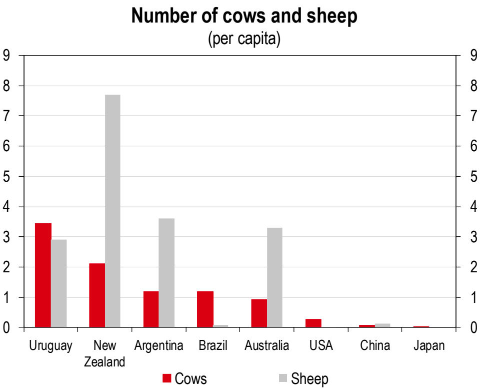
Government policy is shifting to focus on reducing emissions…

The government has signalled for some time that the country must take action to address the climate crisis. In 2022, the government set out its emissions reduction plan – a set of policies aimed at achieving the targets in New Zealand's Emissions Budgets – including a focus on EVs, energy efficiency, forestry, and agriculture. Keep in mind, New Zealand already has a broad, market-based approach to emissions, in the Emissions Trading Scheme.

…although the precise pathway is controversial

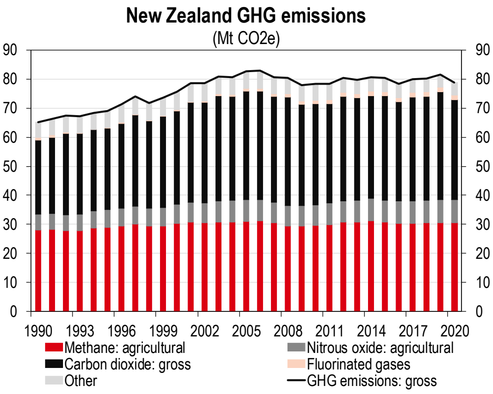
For agriculture specifically, the current Labour (centre-left) government has also recently proposed taxing methane emissions from farms from 2025. This proposed tax on methane has been highly contentious and is politicised. We expect that it will be a key issue of debate in the New Zealand 2023 general election, with the opposition National Party (centre-right) stating that it plans to repeal the tax, if elected.

31. New Zealand's economy is heavily reliant on agriculture…



Source: Statistics New Zealand, beef2live, FAO, HSBC

32. …meaning methane accounts for a large share of total emissions



Source: Statistics New Zealand, HSBC

33. HSBC's forecasts for New Zealand

	Year-average				Year-ended							
	2021	**2022e**	**2023e**	**2024e**	**2Q22**	**3Q22e**	**4Q22e**	**1Q23e**	**2Q23e**	**3Q23e**	**4Q23e**	**1Q24e**
%*												
NEW ZEALAND												
GDP	6.1	2.8	1.0	1.2	0.3	6.4	3.7	4.1	1.7	-0.6	-1.0	-0.2
Consumption	7.8	2.4	-2.9	0.9	-0.6	6.5	1.9	-3.6	-1.6	-2.6	-3.7	-2.0
Govt consumption	8.2	4.5	0.2	-0.8	6.9	3.2	0.4	-0.9	-0.7	1.2	1.1	0.8
Investment	12.6	4.8	-1.2	-1.0	2.8	11.7	0.5	0.4	1.1	-2.6	-3.8	-3.8
Final domestic demand	9.0	3.3	-1.9	0.1	1.6	7.1	1.3	-2.1	-0.8	-1.9	-2.8	-1.9
Domestic demand	10.2	3.2	-1.7	0.1	2.5	5.1	2.2	-1.7	-0.5	-1.8	-2.8	-1.9
Exports	-3.2	0.8	14.7	5.0	-7.5	6.8	10.6	31.8	15.1	8.5	7.1	6.1
Imports	14.6	2.6	1.9	0.6	4.1	0.5	0.3	3.0	3.8	1.9	-1.1	-0.9
GDP (% quarter sa)	--	--	--	--	1.9	2.0	0.2	-0.1	-0.4	-0.3	-0.2	0.7
CPI	3.9	7.2	5.3	2.8	7.3	7.2	7.3	6.7	6.0	4.7	3.9	3.1
Unemployment rate	3.8	3.3	4.4	5.0	3.3	3.3	3.3	3.7	4.3	4.7	4.9	5.0
Labour price index	2.2	3.6	5.0	3.9	3.4	3.7	4.4	4.9	5.1	5.2	4.8	4.3
Current A/C (% GDP)	-5.8	-7.1	-3.5	-2.6	-6.4	-5.3	-7.0	-3.8	-3.6	-3.5	-3.2	-3.0
Budget balance (% GDP)	-1.4	-2.7	-1.1	-0.3	--	--	--	--	--	--	--	--
NZD/USD (end period)	0.68	0.64	0.69	--	0.62	0.56	0.63	0.64	0.65	0.67	0.69	--
Cash rate (end period)	0.75	4.25	4.25	4.00	2.00	3.00	4.25	4.50	4.50	4.50	4.25	4.25

Source: Statistics New Zealand, RBNZ, HSBC forecasts. *unless otherwise specified

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