



4 October 2005

## ECONOMIC GROWTH - JUNE 2005 QUARTER

### Background

- 1 This report is a summary of Gross Domestic Product (GDP) data for the June 2005 quarter, which were released on 29 September 2005 by Statistics New Zealand. GDP data are expressed in real terms, production figures are the preferred GDP measure and quarterly data are seasonally adjusted. A table containing key statistics is available in the appendix.

### Key points

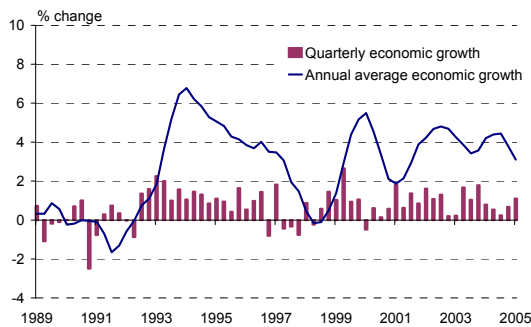
#### Economic growth bounces back in the June 2005 quarter...

- 2 Economic growth strengthened to 1.1% in the June 2005 quarter after a run of moderate growth in the preceding four quarters (*Figure 1*). This result exceeded both the 10-year average and the average forecast of 0.8%.
- 3 However, growth of 1.1% was not quite as strong as it appeared. Revisions to data lowered growth in the previous six quarters by a total of 0.4 percentage points and one-off factors helped to boost growth in the June quarter (eg British & Irish Lions rugby tour, the early timing of Easter).
- 4 Services drove growth in the June quarter (*Figure 2*), especially wholesale trade (up 2.5%), government administration & defence (up 1.6%), retail & hospitality (up 1.5%), and finance, insurance & business (up 0.9%).
- 5 The primary and goods-producing sectors grew moderately overall but with mixed results. Agriculture grew 1.0% thanks to strong dairy production and a good grape harvest, while non-residential construction grew 18.9% due to growth in infrastructure and commercial building and more than offset a fall in residential construction. However, output fell in forestry, fishing & mining and in manufacturing for the third consecutive quarter.

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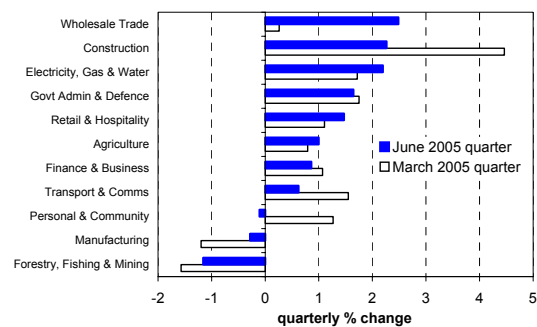
- 6 Growth in services and non-residential construction reflected the resilience of domestic demand, which rose 2.1% in the June quarter and 6.3% in the June 2005 year. However, apart from a 6.1% rise in business investment, the key driver of domestic demand in the quarter was the largest build-up of inventories since 1989 (a bad sign if it was an unintentional build-up due to lower sales).
- 7 The primary and manufacturing sectors have struggled because of the weak export sector. Exports rose just 0.5% and imports rose 10.1% in the year to June 2005, due largely to the strong New Zealand dollar.

**Fig 1: Economic growth**



Source: Production GDP, Statistics New Zealand

**Fig 2: Economic growth by industry**



Source: Production GDP, Statistics New Zealand

**...but underlying pace of growth has slowed and is set to slow further...**

- 8 The up-tick in economic growth in the June 2005 quarter has not stopped the downward trend that started in mid-2004, especially because special factors boosted growth in the latest quarter. Annual average growth slowed from 4.4% at December 2004 to 3.1% at June 2005, the lowest since 2001, and quarterly growth averaged 0.6% per quarter in the year to June 2005, compared to 1.3% per quarter in the previous year (*Figure 1*).
- 9 New Zealand's rate of economic growth of 3.1% has fallen and is likely to fall further, but it still compares well with other developed nations for the year to June 2005: 3.7% in the US, 3.5% in South Korea, 3.2% in Canada, 2.5% in Sweden, 2.4% in the UK, 2.3% in Australia, 1.8% in France, 1.5% in Japan, 1.3% in the Netherlands, 0.8% in Germany, and 0.4% in Italy.
- 10 The key factors slowing economic growth in New Zealand are a strong Kiwi dollar, high oil prices, rising interest rates and lower population growth. The strong labour market, high commodity prices, solid economic growth among our trading partners and higher government spending have helped support economic growth at an underlying pace of around 2½% per annum.
- 11 A further slowing in economic growth is forecast to 2.2% in the March 2006 year and 2.1% the next year according to NZIER Consensus Forecasts for September 2005. Moreover, only a net 16% of firms in the National Bank Business Outlook for September 2005 expected a rise in their own activity in the year ahead, which is in line with these Consensus Forecasts of economic growth.

### **...and labour productivity growth has remained modest**

- 12 Economic growth can be split into labour utilisation (ie hours worked) and labour productivity (ie output per hour worked). Economic growth of 3.1% in the year to June 2005 was made up of hours worked growth of 2.6% and labour productivity growth of 0.5% (*Table 1*). Labour productivity growth of 0.5% is low, although is up from 0.3% in the year to December 2004.

*Table 1: Economic output, hours worked and labour productivity (annual average % change)*

Years to June	2004-2005	1999-2005	1993-1999
Output	3.1%	3.9%	3.5%
Hours worked	2.6%	2.4%	2.4%
Output per hour worked	0.5%	1.4%	1.0%

Source: National Accounts and Household Labour Force Survey, Statistics New Zealand

- 13 The recent weakness of labour productivity growth can largely be explained by the state of the business cycle. Hours worked lag economic growth so it is important to look over a longer period than a year.<sup>1</sup> Since 1999, labour productivity growth has averaged a solid 1.4% per annum, up slightly from 1.0% over the previous six years. Strong business investment growth over the last two years is expected to support a rise in labour productivity growth over the next two years.
- 14 Australia has had a similar experience. Economic growth in Australia slowed to 2.3% in the year to June 2005, from 4.0% the year before, but growth in hours worked has risen. Hours worked rose by 2.9% in Australia during the year to June 2005, implying a fall in labour productivity of 0.6% over this time compared to our increase of 0.5%.

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<sup>1</sup> These are high-level estimates of labour productivity growth. Statistics New Zealand are working on improved productivity measures to be released at the end of 2005.

## APPENDIX: ECONOMIC GROWTH - JUNE 2005 QUARTER

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<b>All figures are percentage changes</b>	<i>Quarterly</i>	<i>Annual</i>	<i>Annual average</i>
	<b>Mar-05 quarter to Jun-05 quarter</b>	<b>Jun-04 quarter to Jun-05 quarter</b>	<b>Jun-04 year to Jun-05 year</b>
<b>Production GDP</b>			
Agriculture	1.0	0.3	-0.5
Fishing, Forestry & Mining	-1.1	-2.4	-2.1
Manufacturing	-0.3	-1.3	0.2
Electricity, Gas & Water	2.2	-1.9	1.0
Construction	2.3	2.3	3.9
Wholesale Trade	2.5	4.6	5.9
Retail, Accommodation & Restaurants	1.5	5.8	6.0
Transport & Communication	0.6	4.3	5.1
Finance, Insurance & Business	0.9	3.9	3.1
Government Administration & Defence	1.6	7.4	8.0
Personal & Community	-0.1	2.1	3.4
<b>Total Production GDP</b>	<b>1.1</b>	<b>2.6</b>	<b>3.1</b>
<b>Expenditure GDP</b>			
Private Consumption	0.7	5.2	5.8
Government Consumption	-0.5	4.1	5.2
Gross Fixed Capital Formation			
Residential Buildings	-2.9	-8.7	-2.9
Business Investment	6.1	11.5	9.3
Exports of Goods & Services	1.0	-2.9	0.5
Imports of Goods & Services	4.2	7.2	10.1
<b>Total Expenditure GDP</b>	<b>1.3</b>	<b>2.5</b>	<b>2.9</b>

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*Source: Statistics New Zealand*

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