

NEW ZEALAND

Activity accelerated in the second half of 2006, while currency appreciation has set back the return to a more balanced growth path and underlying inflationary pressures have not yet dissipated. Recent further monetary tightening should gradually rein in household spending, and wages are expected to slowly moderate as the unemployment rate rises: growth may be modest over the projection period.

Once excess demand has been eliminated and underlying inflation pressures have been tamed, there should be room to start easing monetary policy early next year. This would reduce the attractiveness of New Zealand dollar assets and facilitate a shift to export-led growth. Additional budgetary stimulus beyond present plans would delay the economy's adjustment to a more sustainable level of domestic demand and should be avoided.

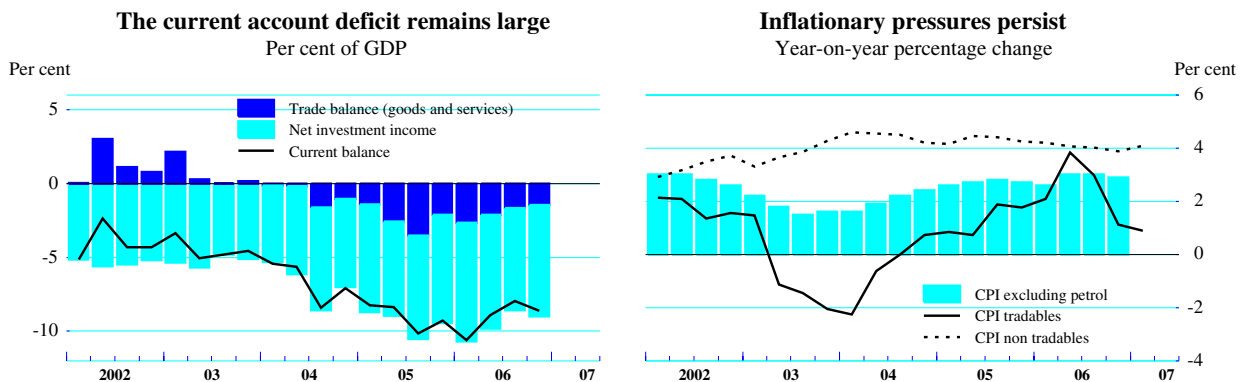
Activity has picked up pace

Domestic demand accelerated in the second half of 2006, with ongoing increases in government consumption and a surge in private consumption in the fourth quarter. Household incomes remain buoyant, with real wage growth running at around 2% and higher government transfers. The housing market has regained momentum, with house prices continuing to move up by around 10% per year. Business fixed investment showed considerable volatility over the course of the year, but remained weak overall. There was also significant inventory accumulation in the final quarter of the year. Imports rose considerably, reflecting not only these demand pressures but also the appreciating exchange rate. Currency movements also curbed exports, offsetting extremely favourable dairy prices. As a result, the current account deficit has diminished only slightly, and the internal and external rebalancing required to return to a sustainable growth path has been postponed.

But underlying inflationary pressures persist

Resource constraints remain tight. Capacity utilisation in the fourth quarter of 2006 was once more above its five-year average. Employment shrank in the third and fourth quarters of 2006, but this was more than offset by labour market withdrawal, reducing the unemployment rate and leaving it well below the OECD's estimated structural rate. These labour

New Zealand



Source: Reserve Bank of New Zealand and OECD, Economic Outlook 81 database.

StatLink  <http://dx.doi.org/10.1787/032478581042>

New Zealand: Demand, output and prices

	2003	2004	2005	2006	2007	2008
	Current prices NZD billion	Percentage changes, volume (1995/1996 prices)				
Private consumption	80.4	6.0	4.7	2.0	2.5	1.3
Government consumption	23.6	5.7	4.1	4.2	4.5	4.0
Gross fixed capital formation	30.4	10.9	3.3	-3.4	-0.2	1.4
Final domestic demand	134.4	7.1	4.2	1.1	2.3	1.8
Stockbuilding ¹	0.0	0.1	-0.2	-0.6	0.4	0.0
Total domestic demand	135.6	7.2	4.0	0.4	3.0	1.8
Exports of goods and services	40.4	5.8	-0.6	2.0	1.7	5.8
Imports of goods and services	39.5	15.8	5.5	-2.5	4.6	6.4
Net exports ¹	0.9	-2.9	-1.8	1.3	-0.9	-0.3
GDP at market prices	136.4	4.0	2.5	1.7	2.1	1.6
GDP deflator	–	3.7	2.2	2.2	3.3	2.1
<i>Memorandum items</i>						
GDP (production)	–	4.5	2.2	1.5	1.5	1.6
Consumer price index	–	2.3	3.0	3.4	2.0	2.3
Private consumption deflator	–	1.2	1.9	2.9	2.0	2.0
Unemployment rate	–	3.9	3.7	3.7	3.9	4.4
General government financial balance ²	–	3.7	4.4	3.9	3.2	2.3
Current account balance ²	–	-6.7	-9.0	-9.0	-8.4	-9.1

Note: National accounts are based on official chain-linked data. This introduces a discrepancy in the identity between real demand components and GDP. For further details see OECD Economic Outlook Sources and Methods, (<http://www.oecd.org/eco/sources-and-methods>).

1. Contributions to changes in real GDP (percentage of real GDP in previous year), actual amount in the first column.
2. As a percentage of GDP.

Source: OECD Economic Outlook 81 database.

StatLink  <http://dx.doi.org/10.1787/035115651617>

market pressures have fed into strong wage growth. Headline inflation fell back at the end of last year, largely as a result of petrol price movements and the rebasing of the consumer price index, and now lies within the Reserve Bank's target range. But non-tradable inflation has barely diminished and remains close to 4% per year. Inflation expectations have eased but remain relatively high.

Monetary policy has been tightened further

Against this backdrop, in March and April the Reserve Bank raised the official cash rate by another ½ percentage point to 7¾ per cent. At the same time, fiscal policy is providing a stimulus to domestic demand, both through higher Working for Families and New Zealand Superannuation transfers and rising government consumption. A period of slow output growth will be needed before inflation pressures dissipate and the Reserve Bank can ease monetary policy: on current projections, there should be room to start lowering the official cash rate in early 2008.

Output growth may be modest...

Given the technical assumption of a high exchange rate, the path to restoring internal and external imbalance is likely to be slow, although the present restrictive stance of monetary policy will eventually rein in household spending and lead to more stable house prices. But the adjustment is expected to involve a further squeeze on exporters' profits, despite recent terms-of-trade gains. Unemployment may rise to its

structural level next year, thereby allowing wage growth to gradually moderate. In this climate, fixed investment is likely to remain anaemic. Government transfers are projected to continue contributing to the expansion of private consumption, while government consumption is set to continue absorbing a growing share of GDP.

*... and the adjustment path
might be bumpy*

Monetary policy decisions at the current point in the cycle will require careful judgements about the strength of competing forces. A stronger pick-up in activity before there are clear signs that inflationary pressures have been extinguished would require a tighter monetary response. A shift in foreign investor sentiment about the external balance could induce a period of heightened financial volatility and a more difficult adjustment path.

Special chapters in recent issues of OECD Economic Outlook

No. 80, December 2006

Has the rise in debt made households more vulnerable?

No. 79, June 2006

Future budget pressures arising from spending on health and long-term care

No. 78, December 2006

Recent house price developments: the role of fundamentals

No. 77, June 2005

Measuring and assessing underlying inflation

No. 76, December 2004

Oil price developments: drivers, economic consequences and policy responses

Saving behaviour and the effectiveness of fiscal policy

No. 75, June 2004

Housing markets, wealth and the business cycle

The challenges of narrowing the US current account deficit

Asset price cycles, "one-off" factors and structural budget balances

Enhancing income convergence in central Europe after EU accession

No. 74, December 2003

Fiscal stance over the cycle: the role of debt, institutions, and budget constraints

Fiscal relations across levels of government

Enhancing the cost effectiveness of public spending

No. 73, June 2003

After the telecommunication bubble

Structural policies and growth

Trends in foreign investment in OECD countries

Foreign direct investment restrictions in OECD countries

Policy influences on foreign direct investment

No. 72, December 2002

Fiscal sustainability: the contribution of fiscal rules

Increasing employment: the role of later retirement

Product market competition and economic performance

Inflation persistence in the euro area

OECD ECONOMICS DEPARTMENT

A wide range of news and information about recent Economics Department studies and publications on a variety of topics is now regularly available via Internet on the OECD website at the following address: www.oecd.org/eco. This includes links to the *Economics Department Working Papers* series (www.oecd.org/eco/Working_Papers), which can be downloaded free of charge, as well as summaries of recent editions in the *OECD Economic Surveys* (www.oecd.org/eco/surveys) series, the Department's new innovative study *Economic Policy Reforms: Going for Growth* (www.oecd.org/growth/GoingForGrowth2007) and the *OECD Economic Outlook* (www.oecd.org/OECD_Economic_Outlook).

OECD ECONOMIC OUTLOOK

The *OECD Economic Outlook Flashfile*, containing a summary of the *Economic Outlook* forecasts is available on Internet at the time of its preliminary publication (a month to six weeks before the final publication date) at www.oecd.org/OECD_Economic_Outlook under extracts. This includes key macroeconomic variables for all OECD countries and regions in Excel format, which can be input directly into most statistical and analytical software. The *Economic Outlook Flashfile* is available free of charge.

Subscribers to the *OECD Economic Outlook*, in addition to the two print editions, also have access to an online (PDF) edition, published on internet six to eight weeks prior to the release of the print edition :

www.SourceOECD.org/periodical/OECD_Economic_Outlook

The full set of historical time series data and projections underlying the *OECD Economic Outlook* is available online as a **statistical database** via SourceOECD and on CD-ROM. It contains approximately 4 000 macroeconomic time series for OECD countries and non-OECD zones, beginning in 1960 and extending to the end of the published forecast horizon. Subscriptions to the database editions can be combined in sets with the subscriptions to the Print and PDF editions and can be made at any time of the year.

For more information, visit the OECD bookshop at www.OECDbookshop.org, or contact your nearest OECD supplier : www.oecd.org/publishing/distributors .

OECD PUBLICATIONS, 2, rue André-Pascal, 75775 PARIS CEDEX 16
PRINTED IN FRANCE
(12 2007 02 1 P) ISBN 978-92-64-03449-5 – No. 55633 2007

OECD Economic Outlook

Twice a year, the *OECD Economic Outlook* analyses the major trends and examines the economic policies required to foster high and sustainable growth in member countries. Developments in major non-OECD economies are also evaluated. The present issue covers the outlook to end-2008. Together with a wide range of cross-country statistics, the *Outlook* provides a unique tool to keep abreast of world economic developments.

In addition to the themes featured regularly, this issue contains two special chapters entitled *Making the most of globalisation* and *Fiscal consolidation: Lessons from past experiences*, which address the following questions:

- How can the benefits of globalisation be maximised while reducing the associated adjustment costs?
- What factors and policies, including fiscal rules, contributed to successful fiscal consolidation efforts? What are the lessons from OECD country experiences, both successful and unsuccessful, with fiscal rules?

OECD's books, periodicals and statistical databases are now available via www.SourceOECD.org, our online library.

This book is available to subscribers to the following SourceOECD theme:

General Economics and Future Studies

Ask your librarian for more details of how to access OECD books online, or write to us at SourceOECD@oecd.org

© Photo: Eric and David Hosking/Corbis

Volume 2007/1
No. 81, June

OECD publishing

www.oecd.org/publishing

ISBN 978-92-64-03449-5
12 2007 02 1 P



9 789264 034495

TABLE OF CONTENTS

Editorial: Achieving further rebalancing	7
Chapter 1. General assessment of the macroeconomic situation	11
Overview	12
An increasingly synchronised expansion	14
Forces acting and risks	17
Solid growth ahead	29
Challenges for macroeconomic policy	36
Appendix 1.A1. Policy options to address future public spending pressures	49
Appendix 1.A2. The medium-term reference scenario	56
Chapter 2. Developments in individual OECD countries and selected non-member economies	61
United States	62
Japan	67
Euro area	72
Germany	76
France	81
Italy	86
United Kingdom	91
Canada	96
Australia	101
Austria	104
Belgium	107
Czech Republic	110
Denmark	112
Finland	115
Greece	118
Hungary	121
Iceland	124
Ireland	127
Korea	130
Luxembourg	133
Mexico	136
Netherlands	139
New Zealand	142
Norway	145
Poland	148
Portugal	151
Slovak Republic	153
Spain	156
Sweden	159
Switzerland	162
Turkey	165
Brazil	168
China	172
India	176
Russian Federation	180
Chapter 3. Making the most of globalisation	185
Drivers of globalisation	186
Effects on material living standards	189
Effects on labour markets	191
Effects on inflation and capital flows	195
Implications for macroeconomic policies	198
Globalisation and progress in structural reform	200
Chapter 4. Fiscal consolidation: lessons from past experience	209
Introduction and main results	210
Stylised features of fiscal consolidation episodes	211
Identifying factors that support fiscal consolidation	217
Experience regarding the design and implementation of fiscal rules	222
Appendix 4.A1. Definition of the main variables	227

Special chapters in recent issues of OECD Economic Outlook	231
Statistical annex	233
Country classification	234
Weighting scheme for aggregate measures	234
Irrevocable euro conversion rates	234
National accounts reporting systems and base-years	235
Annex Tables	237
Boxes	
1.1. The global carry trade	22
1.2. Recent developments in sub-prime mortgage markets	30
1.3. Policy and other assumptions underlying the projections	32
1.4. Assumptions underlying the medium-term reference scenario	60
4.1. Defining consolidation episodes	211
Tables	
1.1. The expansion should remain on track	12
1.2. Labour markets are buoyant	15
1.3. Wage developments remain moderate	16
1.4. Recent house price developments	27
1.5. Growth remains robust	34
1.6. Rebalancing of demand is under way	34
1.7. Robust world trade growth and large external imbalances	35
1.8. Fiscal consolidation is stalling	43
1.9. The contribution of corporate taxes to recent revenue buoyancy	44
1.10. Spending pressures from ageing	47
1.11. Medium-term reference scenario summary	57
1.12. Fiscal trends in the medium-term reference scenario	58
1.13. Growth in total economy potential output and its components	59
4.1. Summary of the main results: parameter estimates	218
4.2. Main fiscal rules currently applied in OECD countries	221
Figures	
1.1. Growth differentials and cyclical positions are converging	14
1.2. Energy prices hover around high levels	17
1.3. Re-spending of petrodollars is firming	18
1.4. Risk may be priced somewhat low	20
1.5. Equity markets are tightly priced	21
1.6. The US current account counterparts and financing	24
1.7. Housing investment is at ten-year highs in many countries	26
1.8. US mortgage equity withdrawal	28
1.9. Confidence points to solid expansion	33
1.10. Policy rates have moved up	37
1.11. Headline and underlying inflation are converging	39
1.12. Core inflation in the euro area has become more synchronised	40
1.13. Bank lending and property prices have both recently picked up in Japan	41
1.14. Successive vintages of fiscal projections	46
1.15. Old age dependency ratios	49
1.16. Total increase in health and long-term care spending by country, 2005-2050	51

1.17.	Implicit tax on continued work: early retirement	52
1.18.	Recipients of disability benefits	53
3.1.	The current episode of globalisation is historically large	186
3.2.	Trade and transaction costs have diminished	187
3.3.	Trade links are strengthening	188
3.4.	Global capital flows are rising much faster than GDP	189
3.5.	Migration has intensified	190
3.6.	Material living standards have increased with trade openness	191
3.7.	Wage dispersion is rising but income inequality shows no general trend	194
3.8.	Fuel exporters and China are saving abroad	196
3.9.	The short-term trade-off between inflation and unemployment has flattened	200
3.10.	Corporation tax has become more broad-based	201
3.11.	Trade-displaced workers must often accept large pay cuts to get a new job	202
4.1.	Initial fiscal positions and subsequent adjustment	212
4.2.	Strength and duration of consolidation episodes	213
4.3.	The relationship between duration, size and intensity of consolidation	214
4.4.	The role of spending and revenue in consolidation episodes	215
4.5.	Comparison of consolidation episodes with and without backtracking	216
4.6.	Factors affecting the probability of starting fiscal consolidation	219

This book has...



StatLinks 

**A service that delivers Excel® files
from the printed page!**

Look for the *StatLinks* at the bottom right-hand corner of the tables or graphs in this book. To download the matching Excel® spreadsheet, just type the link into your Internet browser, starting with the <http://dx.doi.org> prefix.

If you're reading the PDF e-book edition, and your PC is connected to the Internet, simply click on the link. You'll find *StatLinks* appearing in more OECD books.

Conventional signs

\$	US dollar	.	Decimal point
¥	Japanese yen	I, II	Calendar half-years
£	Pound sterling	Q1, Q4	Calendar quarters
€	Euro	Billion	Thousand million
mb/d	Million barrels per day	Trillion	Thousand billion
..	Data not available	s.a.a.r.	Seasonally adjusted at annual rates
0	Nil or negligible	n.s.a.	Not seasonally adjusted
–	Irrelevant		

Summary of projections

	2006	2007	2008	2007			2008				Fourth quarter		
				Q2	Q3	Q4	Q1	Q2	Q3	Q4	2006	2007	2008
	Per cent												
Real GDP growth													
United States	3.3	2.1	2.5	2.5	2.3	2.5	2.5	2.6	2.7	2.7	3.1	2.1	2.6
Japan	2.2	2.4	2.1	1.8	1.9	2.0	2.1	2.2	2.1	2.2	2.5	2.0	2.2
Euro area	2.8	2.7	2.3	2.6	2.5	2.4	2.3	2.2	2.1	2.1	3.3	2.5	2.2
Total OECD	3.2	2.7	2.7	2.7	2.6	2.7	2.7	2.7	2.7	2.7	3.2	2.6	2.7
Inflation													
United States	2.9	2.6	2.2	2.3	2.0	2.2	2.4	2.2	2.1	2.1	2.5	2.6	2.2
Japan	-0.9	-0.4	0.2	-0.4	0.0	0.1	0.2	0.3	0.4	0.6	-0.5	-0.3	0.4
Euro area	1.7	2.0	2.0	1.0	2.0	2.0	2.0	2.1	2.2	2.2	1.6	2.0	2.1
Total OECD	2.2	2.1	2.0	1.9	2.0	2.0	2.0	2.0	2.0	2.0	1.8	2.3	2.0
Unemployment rate													
United States	4.6	4.6	4.8	4.5	4.6	4.7	4.8	4.8	4.8	4.9	4.5	4.7	4.9
Japan	4.1	3.8	3.6	3.8	3.7	3.7	3.6	3.6	3.6	3.6	4.1	3.7	3.6
Euro area	7.8	7.1	6.7	7.1	7.0	6.9	6.9	6.8	6.7	6.6	7.5	6.9	6.6
Total OECD	5.9	5.6	5.5	5.6	5.6	5.6	5.5	5.5	5.5	5.4	5.7	5.6	5.4
World trade growth	9.6	7.5	8.3	7.7	8.2	8.4	8.3	8.3	8.2	8.2	8.6	7.7	8.3
Current account balance													
United States	-6.5	-6.1	-6.2										
Japan	3.9	4.8	5.4										
Euro area	0.1	0.4	0.4										
Total OECD	-1.9	-1.5	-1.5										
Cyclically-adjusted fiscal balance													
United States	-2.5	-2.8	-2.8										
Japan	-2.2	-2.7	-3.2										
Euro area	-1.0	-0.8	-0.7										
Total OECD	-1.7	-1.8	-1.9										
Short-term interest rate													
United States	5.2	5.3	5.0	5.3	5.3	5.2	5.1	5.1	5.0	4.9	5.3	5.2	4.9
Japan	0.2	0.5	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.7	0.4	0.6	0.7
Euro area	3.1	4.1	4.3	4.0	4.2	4.3	4.3	4.3	4.3	4.3	3.6	4.3	4.3

Note: Real GDP growth, inflation (measured by the increase in the GDP deflator) and world trade growth (the arithmetic average of world merchandise import and export volumes) are seasonally and working-day-adjusted annual rates. The "fourth quarter" columns are expressed in year-on-year growth rates where appropriate and in levels otherwise. The unemployment rate is in per cent of the labour force while the current account balance is in per cent of GDP. The cyclically-adjusted fiscal balance is in per cent of potential GDP. Interest rates are for the United States: 3-month eurodollar deposit; Japan: 3-month certificate of deposits; euro area: 3-month interbank rate.

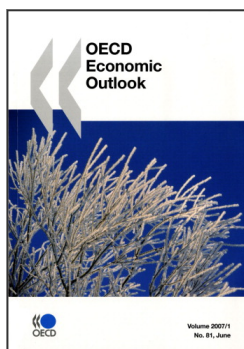
Assumptions underlying the projections include:

- no change in actual and announced fiscal policies;

- unchanged exchange rates as from 9 May 2007; in particular 1\$ = 119.72 yen and 0.74 euros;

The cut-off date for other information used in the compilation of the projections is 15 May 2007.

Source: OECD Economic Outlook 81 database.



From:
OECD Economic Outlook, Volume 2007 Issue 1

Access the complete publication at:
https://doi.org/10.1787/eco_outlook-v2007-1-en

Please cite this chapter as:

OECD (2007), "New Zealand", in *OECD Economic Outlook, Volume 2007 Issue 1*, OECD Publishing, Paris.

DOI: https://doi.org/10.1787/eco_outlook-v2007-1-26-en

This work is published under the responsibility of the Secretary-General of the OECD. The opinions expressed and arguments employed herein do not necessarily reflect the official views of OECD member countries.

This document and any map included herein are without prejudice to the status of or sovereignty over any territory, to the delimitation of international frontiers and boundaries and to the name of any territory, city or area.

You can copy, download or print OECD content for your own use, and you can include excerpts from OECD publications, databases and multimedia products in your own documents, presentations, blogs, websites and teaching materials, provided that suitable acknowledgment of OECD as source and copyright owner is given. All requests for public or commercial use and translation rights should be submitted to rights@oecd.org. Requests for permission to photocopy portions of this material for public or commercial use shall be addressed directly to the Copyright Clearance Center (CCC) at info@copyright.com or the Centre français d'exploitation du droit de copie (CFC) at contact@cfcopies.com.