

Both Optimists and Pessimists Are Right

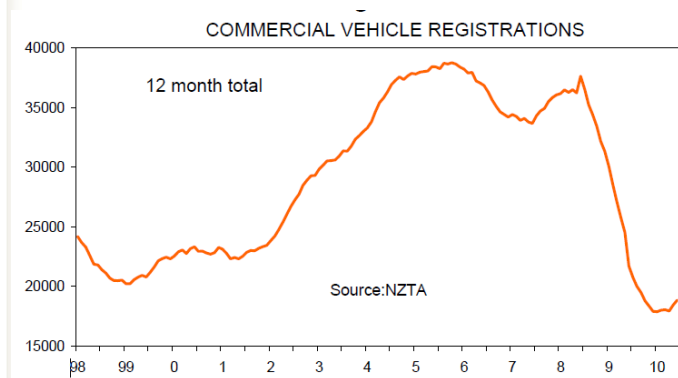
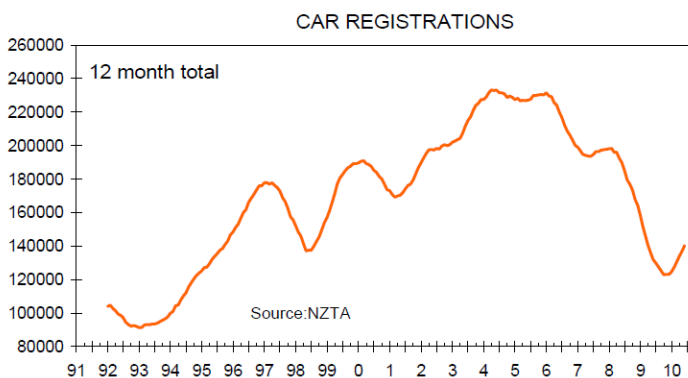
One of the very interesting aspects of the recovery underway in the New Zealand economy is that we economists can easily cite numbers showing that growth is occurring. But people can also quite legitimately say that it does not feel like a recovery is underway. Both sets of comments are right and here is why.

First, here are some numbers showing that growth – as in things becoming larger than they were before – is occurring.

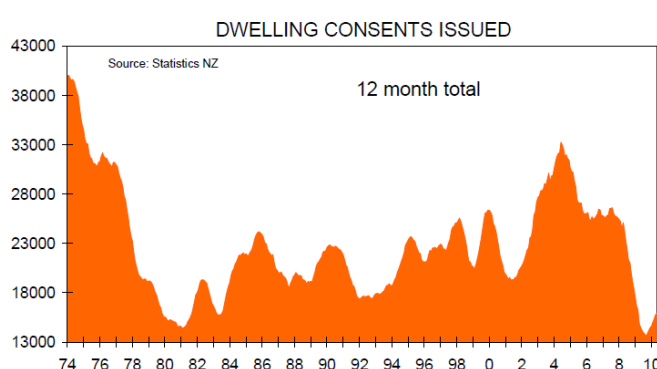
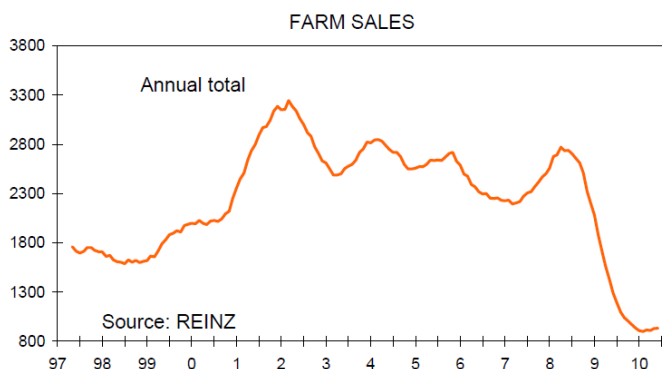
- ❖ Car registrations in the June quarter were ahead 35% from a year earlier and 0.5% roughly seasonally adjusted from the March quarter.
- ❖ Commercial vehicle registrations in the quarter were ahead 16% from a year ago and 11% seasonally adjusted from the March quarter.
- ❖ Farm sales in the June quarter were ahead 6% from a year ago and around 25% seasonally adjusted from the March quarter.
- ❖ The number of consents issued for the construction of new dwellings was up 28% in the three months to May from a year ago and 5% from three months earlier seasonally adjusted.
- ❖ And finally, gross domestic product in the March quarter was 1.9% ahead of a year earlier and up 0.6% in the quarter.

Now consider the same data series in levels terms.

- ❖ Car registrations in the June quarter were 15% below average for the past six years.
- ❖ Commercial vehicle registrations in the June quarter were 31% below average.



- ❖ Farm sales in the June quarter were 45% below average.
- ❖ Dwelling consents in the three months to May were 28% below average.



- ❖ And in the March the level of gross domestic product was still 1.6% below the peak in the December quarter of 2008.

The economy is growing but from a low base. Not all sectors are enjoying the growth occurring in the likes of dairy, forestry, education exports, manufacturing, infrastructure and house building. Access to credit to finance growth is not what it was and businesses are finding they must generate more of their own funds to finance growth – or maybe accept increased offshore ownership given the unwillingness of Kiwis to save and supply the capital our businesses need.

This situation of growth from a low base still leaving many people disappointed with the level of activity is likely to continue into 2011 and we think that is what our survey was picking up this month.

Source: BNZ Weekly Overview by Tony Alexander