

NEW ZEALAND

The global crisis hit New Zealand just as it was undergoing a difficult domestic adjustment. The multiple blows of housing market correction, collapsing world trade, rising risk spreads, tighter credit conditions and unsustainably high private-sector debt suggest a recession of atypical length. However, major policy stimulus should contribute to modest positive growth next year.

Receding inflation has enlarged the scope for monetary easing, which remains the front line of macroeconomic stabilisation. The deteriorating outlook for public finances, with high external debt, has led the government to trim the initially planned policy stimulus in its recent budget. It should realign spending with the now postponed but still desirable cuts in marginal tax rates, which would improve persistently low productivity growth.

New Zealand: Demand, output and prices

	2005	2006	2007	2008	2009	2010
	Current prices NZD billion	Percentage changes, volume (1995/1996 prices)				
Private consumption	92.0	2.6	4.0	0.1	-1.9	-0.3
Government consumption	28.0	4.6	3.9	4.0	3.2	3.1
Gross fixed capital formation	37.4	-0.4	5.0	-5.7	-18.8	-2.5
Final domestic demand	157.4	2.2	4.2	-0.5	-4.6	0.0
Stockbuilding ¹	0.0	-0.5	-0.8	-1.4	-1.6	0.0
Total domestic demand	158.8	1.4	4.5	-0.3	-7.0	0.0
Exports of goods and services	43.4	1.8	3.8	-1.8	-4.9	1.3
Imports of goods and services	46.7	-2.6	8.6	2.5	-17.1	-0.7
Net exports ¹	- 3.2	1.3	-1.5	-1.2	4.1	0.6
GDP at market prices	155.6	2.6	3.0	-1.6	-3.0	0.6
GDP deflator	—	2.2	4.2	4.7	0.2	0.9
<i>Memorandum items</i>						
GDP (production)	—	2.0	3.2	0.2	-2.9	0.6
Consumer price index	—	3.4	2.4	4.0	1.9	1.8
Core consumer price index ²	—	2.5	2.1	2.2	2.1	1.8
Private consumption deflator	—	2.8	1.6	3.4	1.8	1.2
Unemployment rate	—	3.9	3.7	4.2	6.3	7.9
General government financial balance ³	—	5.9	5.0	2.9	-2.8	-5.0
Current account balance ³	—	-8.7	-8.2	-8.9	-7.0	-6.6

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. Consumer price index excluding food and energy.

3. As a percentage of GDP.

Source: OECD Economic Outlook 85 database.