

Monthly Economic Review

For April 2015

Economic developments in the global arena was supportive of domestic economic growth and low inflation over the month of April. Unemployment rates in the U.S fell, while rising over the month in Australia. Improvements in the New Zealand economy saw the New Zealand dollar strengthening against the US dollar. Global oil prices rose by 3.1% over the month due to a cut in production.

The local economy was vibrant over the month of April. Agricultural exports volume increased by 12.9% due to a rebound in root vegetable exports. Proceeds collected during the month from agricultural exports also showed an increase of 18.3%. The formal trade sector was lively owing to a 9.9% increase in business container registrations which was supported by an increase in business lending; while private container registrations remained stable. The tourism sector was also strong, with official statistics for total visitors both by air and by sea showing a 13.1% increase during the month. The transportation sector, especially tour operators, are expected to benefit from this strengthening tourism sector. An increase of 4.8% in vehicle registrations, mainly due to taxis and rentals registrations more than doubling over the month, also supports this notion.

Prices rose by 2.5% over April as a result of both Domestic and Imported prices increasing. In particular, Housing, Transportation and Domestic Fuel & Power prices rose due to recovering global oil prices. Additionally, Domestic Food prices increased further contributing to the monthly rise in CPI. In contrast, Imported

Food prices fell slightly despite the depreciation of the Tongan Pa'anga against the New Zealand Dollar.

In annual terms, the headline inflation rate decreased by 1.5% due to global energy prices being 25% lower than the previous year. As a result, the Household Operations, Housing, and Transportation components declined reflecting the yearly decline in world oil prices. In contrast, food prices increased due to a rise in Fruit & Vegetables, and Meats, Fish & Poultry prices. Furthermore, imported prices for Tobacco, Clothing & Footwear, and Miscellaneous goods & services rose over the year.

Over the month of April, the value of the Pa'anga appreciated against the US but depreciated against the New Zealand dollar and Australian dollar. Consequently, the Nominal Effective Exchange Rate (NEER) fell by 0.5%. The Real Effective Exchange Rate (REER) index, rose by around 2% indicating local commodities were more expensive against our trading partners over the month due to higher local inflation over the month. In year ended terms both the NEER and REER fell by 1.0% and 4.3% respectively.

Import payments, which make up a significant portion of the Current account, fell by 30.2% over the month of April. This was due to fewer payments made for oil, wholesale and retail goods and motor vehicles. Total Export receipts were 35.9% less than last month, with a decline in the proceeds for fish and other marines offsetting the rise in proceeds of agricultural exports. Travel receipts, rose over the month by around 15% supported by a rise in international air arrivals.

Remittances rose by around 4%, with funds from NZ sources rising the fastest followed closely by Australian sources.

The balance of Overseas Exchange Transactions over the month of April was a surplus of \$0.7 million, a turnaround from a deficit of \$11.0 million in March. This surplus in the overall balance stemmed from a surplus in the Current Account, which was a deficit last month. Foreign reserves rose by 0.7% over the month of April to \$272.1 million, sufficient to cover 7.5 months of imports, well above the NRBT's minimum range.

Broad Money rose over April due to an increase in net domestic assets more than offsetting a slight decline in net foreign assets. The increase in net domestic assets was driven by a rise in domestic credit while net foreign assets fell due to a rise in foreign liabilities. Total domestic demand deposits and currency in circulation also increased in line with the rise in broad money. Banking system liquidity also increased over the month.

Total lending rose slightly over April by 0.2% due mainly to a 0.9% increase in business loans. Additionally, about 12 new loans were approved from the managed funds during the month. Over the year, total bank lending rose by 9.8% driven by a 10.3% and a 9.9% increase in household and business lending respectively. Including loans extended by non-banks, total lending rose by 6.2%, reflecting lower on-lent loans by the government.

Weighted average interest rate spread narrowed over the month from 6.33% to 6.25% due to a decline in weighted lending rates and a rise in the weighted deposit rates. The decline in weighted lending rates was driven by an increase in low interest rate loans to low risk customers,

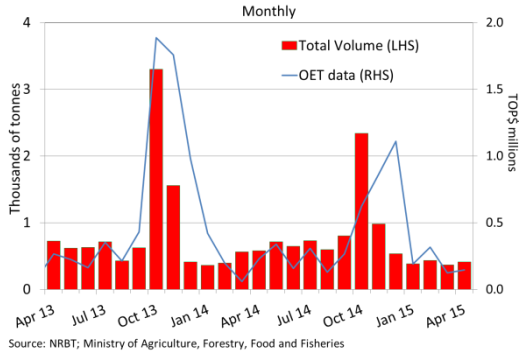
whilst an increase in demand and term deposit rates drove the rise in weighted average deposit rates.

Net credit to government continued to increase by over 9% over April, due to lower government deposits.

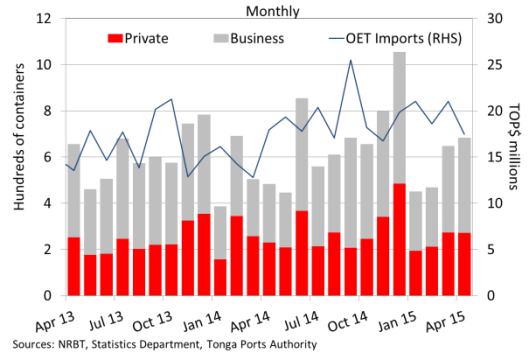
The outlook for domestic economic activities remain broadly positive supported by the global developments. Inflation is expected to remain low reflecting weak global commodity prices. The lower prices in turn support economic activities. Foreign reserves will continue to be monitored and kept above the NRBT's minimum range of 3-4 months of imports. The banking system continued to remain relatively stable and profitable, with reported credit growth and strong liquidity and capital positions. The existing monetary policy setting is therefore considered appropriate in the near term.

The NRBT will continue to promote prudent lending, closely monitor credit growth and be mindful of the impact of a continued deflation. The NRBT will closely monitor the country's economic developments and financial conditions to maintain internal and external monetary stability, promote financial stability and a sound and efficient financial system to support macroeconomic stability and economic growth.

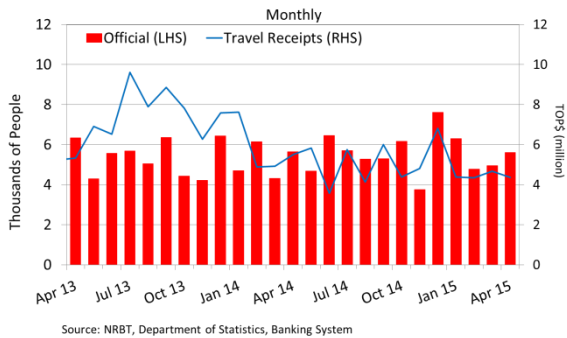
Total Agricultural Exports



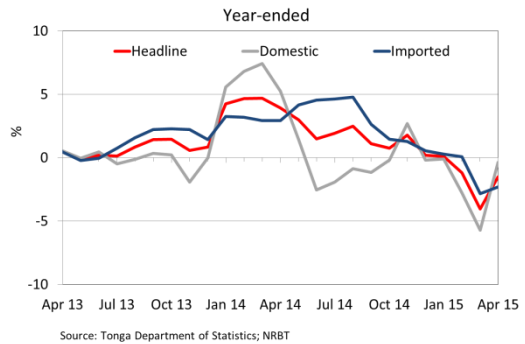
Total Container Registrations



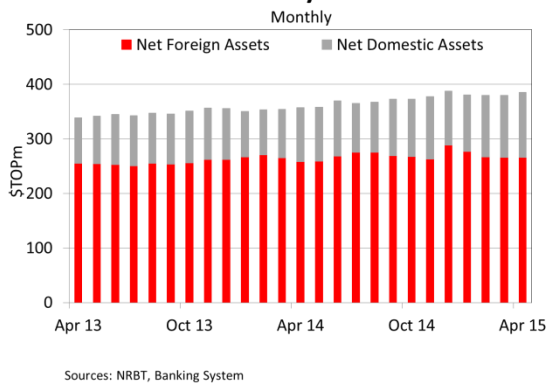
Total Visitors - Air and Sea



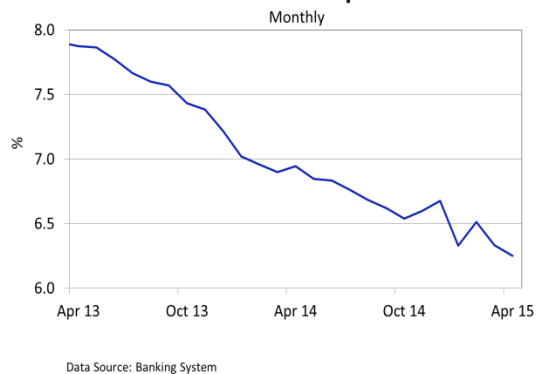
Inflation



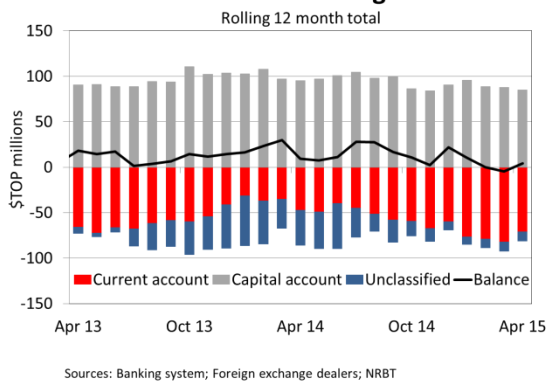
Broad Money Formation



Interest rates spread



Balance of Overseas Exchange Transactions



Gross Official Foreign Reserves

