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Contents

Editor's note	3
Articles	
The impact of fiscal policy on the business cycle <i>Ashley Dunstan, David Hargreaves, and Ozer Karagedikli</i>	5
New Zealand's productivity performance and prospects <i>Aaron Drew</i>	19
Emerging Asia and global inflation <i>Chris Hunt</i>	34
Tradables and non-tradables inflation in Australia and New Zealand <i>Andrew Coleman</i>	45
Economic and financial chronology 2006 <i>Gina Williamson</i>	54
Reserve Bank workshop on 'Housing, savings, and the household balance sheet'	58
For the record	
Discussion papers	60
News releases	62
Publications	67
Articles and speeches in recent issues of the Reserve Bank <i>Bulletin</i>	68

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Editor's note

The spending and revenue activities of the Government – often known as ‘fiscal policy’ – can have an important bearing on the path of the economy, particularly when major new initiatives occur. When assessing the economic outlook for monetary policy purposes, the Reserve Bank must take these activities into account. In the first article of this issue, Ashley Dunstan, David Hargreaves, and Ozer Karagedikli of the Economics Department explain the importance of fiscal policy to the business cycle and set out a framework for considering how changes in fiscal policy affect the economy. The authors also review the available empirical evidence. A key message is that the effects of various fiscal measures can vary greatly and their impact partly depends on the state of the economy at the time they occur. The article concludes by noting that fiscal policy could be a significant source of stimulus to the New Zealand economy over the next few years.

New Zealand's longer-run growth prospects and standard of living depends critically upon its productivity performance. Traditional aggregate measures of productivity for New Zealand have tended to reveal a relatively poor performance. In our second article, Aaron Drew of the Economics Department examines the country's productivity record, drawing on new data recently released by Statistics New Zealand. Aaron shows that the measurement of productivity is very sensitive to which sectors are included in the analysis. The new data suggests that when ‘hard-to-measure’ sectors are excluded, New Zealand's productivity performance appears to have been better than hitherto believed and compares favourably with Australia's. But this finding raises another issue – by implication, productivity in the hard-to-measure sectors appears to have been particularly poor. Whether this reflects reality or is due to measurement issues remains an unresolved question.

In our third article, Chris Hunt of the Economics Department considers how emerging Asia has affected inflation in advanced economies over recent years. Chris notes a pronounced decline in consumer goods prices over this period, but shows that higher commodity prices arising from rapid growth in the region has recently created some inflationary headwind.

In our fourth article, Andrew Coleman from the Economics Department undertakes a comparison of price movements in New Zealand with those in Australia, drawing on detailed data from each country's Consumers' Price Index. The main finding is that price movements in both countries follow a similar medium-term path. Sectors that have had large price increases in New Zealand have tended to have large price increases in Australia, and sectors that have had small price increases in New Zealand have tended to have small price increases in Australia.

Finally, we include in this *Bulletin* a chronology of economic and financial events for New Zealand over 2006, prepared by Gina Williamson, a summer student in the Economics Department. A chronology for the full period since 1993 can be accessed on the Reserve Bank's website at <http://www.rbnz.govt.nz/about/bankhistory.html>.

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