



RESERVE BANK

O F N E W Z E A L A N D

AN INTRODUCTORY GUIDE TO COMMON ECONOMIC TERMS

This guide introduces and explains some of the economic terms used by the Reserve Bank.

Business cycle	The cyclic movement of an economy between periods of high and low growth.
CPI	Consumers Price Index, a measure of the prices of goods and services purchased by consumers, weighted according to the expenditure patterns of the average household. It is calculated by Statistics New Zealand.
Current account balance	This is the difference between what a country spends overseas and what it earns from overseas. If a country spends more than it earns (a deficit), typically it will need to borrow the difference or run down reserves of foreign currency. If it earns more than it spends (a surplus), it may accumulate reserves or lend to another country. It is expressed as the overall net balance between goods & services trade, investment income and transfers (gifts or donations).
EFTPOS	Electronic funds transfer, point of sale.
GDP	Gross Domestic Product, the total market value of all final goods and services produced in New Zealand, less the cost of goods and services used in their production, over a specified time period (usually a year or a quarter).
Growth	The increase in economic activity over a particular period – often measured as percentage change in GDP.
Hyper-inflation	Very rapid increases in prices, a very high rate of inflation.
Inflation/deflation	The percentage increase or decrease in prices over time. In New Zealand, usually measured using the percentage change in the CPI. New Zealand has more commonly experienced inflation, but there have been periods of deflation through its economic history.
Labour force participation	The percentage of the working age population that is working or who are looking for work.
Nominal (value)	A nominal figure is one that is measured in current dollars. Thus, for example, nominal GDP measures the current dollar value of goods and services produced. A nominal interest rate is simply the interest rate in question with no adjustment made for actual or expected inflation.

OCR	The Official Cash Rate (OCR) is the overnight interest rate set by the Reserve Bank. The Reserve Bank transacts with other banks near this rate, and so it influences the rates that other banks offer to their customers.
Output gap	The gap between actual output (GDP) and estimates of potential output. A positive output gap is said to exist if output is greater than potential output, implying inflationary pressure from stretched resources. Potential output is often estimated as the long-term trend in GDP, but is difficult to precisely assess.
Productivity	Measures the amount of output (or GDP) per unit of input to the productive process. There are a range of measures that may be used. Labour productivity, for example, is calculated as GDP divided by labour hours worked.
PTA	Policy Targets Agreement, the document signed by the Minister of Finance and Governor of the Reserve Bank that defines the inflation target required by the Reserve Bank Act 1989.
Price stability	In New Zealand prices are regarded as being “stable” when inflation, as measured by the CPI, falls within the band specified in the PTA (between 1% and 3% at time of writing).
Real [value]	A real figure is one that has been adjusted to remove the effects of inflation. Thus, for example, real GDP measures the quantity, rather than the current dollar value, of goods and services produced. Real data are usually calculated by dividing the nominal data by an appropriate price index. A real interest rate is a nominal interest rate adjusted for inflation. It is often approximated by subtracting an estimate of the expected inflation rate from the nominal interest rate.
Terms of trade	The ratio between the price of exported goods and services and the price of imported goods and services.
TWI	Trade-Weighted Index. This is a value for the exchange rate calculated as a weighted average of the exchange rates against selected trading partner currencies. The weights for each currency reflect the country's share in trade with New Zealand and the overall size of the economy in question. New Zealand's TWI is calculated using exchange rates against the US dollar, Australian dollar, euro, yen and British pound. A broader TWI is also available.

For further information

The Reserve Bank publishes a range of brochures and fact sheets that explain various economic topics, along with significant economic research, commentaries and other economic material of both general and specialist interest. Check our website www.rbnz.govt.nz or contact the Reserve Bank Knowledge Centre for copies, email rbnz-info@rbnz.govt.nz