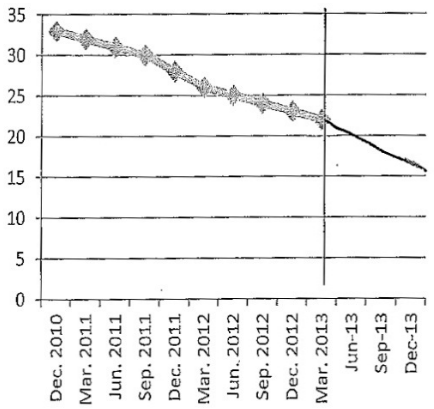
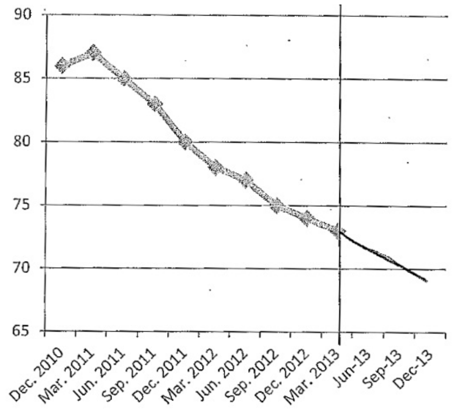
4

Extrapolations:

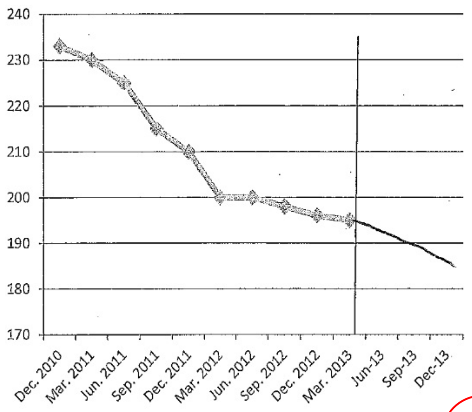
BUSINESS CONFIDENCE INDEX



CONSUMER CONFIDENCE INDEX



HOUSE PRICE INDEX



4

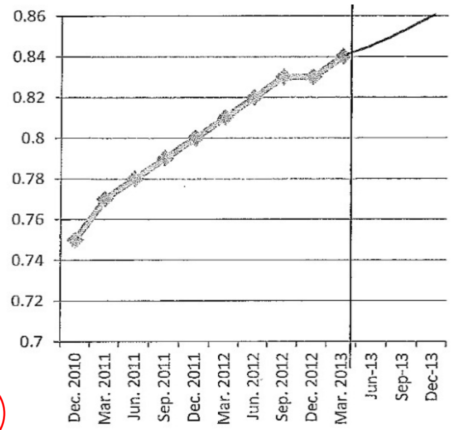
Forecast:

I think the economy is heading into a **downturn** for the second half of 2013.

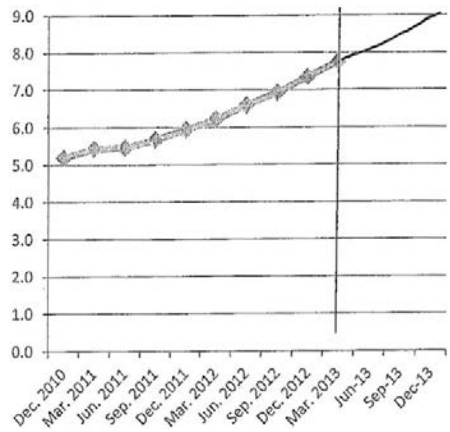
[Student processed and presented data, and explained in detail the relationships and inter-relationships in the inflation and unemployment statistical data using economic concepts and models].

4

EXCHANGE RATE ($NZ/$US)

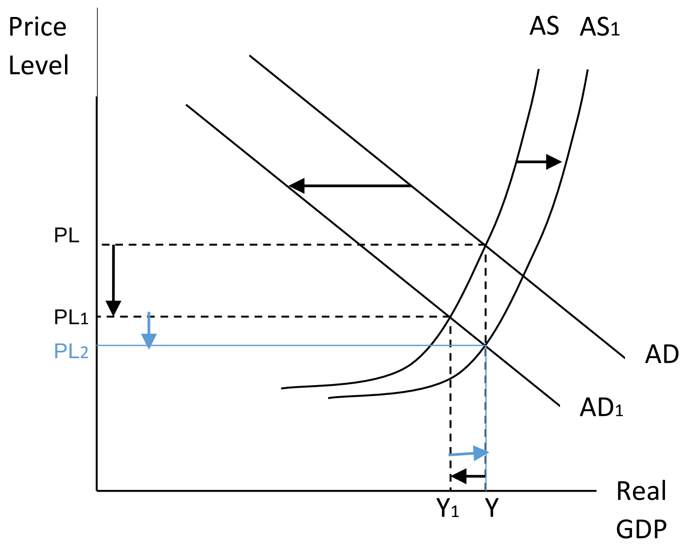


UNEMPLOYMENT RATE (%)



I have projected that the Business Confidence Index will continue to decrease. With the decrease in the Business Confidence Index AD is affected as 'I' (investment spending) will change.
The AD equation is AD = C+I+G+(X-M) and if a component of AD changes AD will have a corresponding change. The decrease in business confidence will cause a decrease in the number of planned new projects a business has, due to this, investment spending will fall as less projects are being implemented. The fall in 'I' will decrease AD which reduces the economy's real GDP or the amount of g/s the economy produces, the decrease in the real GDP is common within the downturn stage of the business cycle. The decrease in AD to AD1 on the model has reduced our real GDP from Y to Y1.

5



The Consumer Confidence Index will continue to decrease. This will also affect AD negatively as from AD = C+I+G+(X-M), 'C' will be affected which will cause an overall decrease within AD. Since consumer confidence has decreased, there will be a decrease in their willingness to spend, as there has been a fall in their job security so they will not be sure if they will have a job in the future economy. This will decrease consumption spending which decreases AD and reduces our real GDP, again common in a downturn, as is seen on the model above as a shift left of AD and a decrease in real GDP from Y to Y1.

5

The Exchange Rate from $NZ to $US will continue to increase, and again AD is affected as net exports (X-M) which is export receipts minus import payments will decrease. The increase in the exchange rate

($NZ/$US) is also an increase in the value of the $NZ and causes a decrease in export receipts (X) as the foreign currency exporters earn converts to less $NZ. However, it will increase import payments (M) as it is now more profitable to import raw materials. This reduces the cost of imported raw materials, which decreases a firms COP. This increases AS to AS1 and increases our GDP from Y1 back to Y. This is more common with an upturn in the business cycle, but with the other extrapolated data, it is more evident that our economy is moving into the downturn stage of the business cycle. 5

I have predicted the House Price Index will continue to decrease. This means that the mortgages for first homebuyers is decreased as the cost of buying a house has decreased. This will decrease consumption spending by existing homeowners though, and as 'C' is a component of the AD equation, it will cause a decrease in AD towards AD1, decreasing Y to Y1. This is more common in a downturn as less g/s are being produced as shown in the decrease of real GDP.

I have predicted the Unemployment Rate to continue increasing in the future. Less workers are needed to produce g/s because there is less consumption spending. The demand for labour is a derived demand and as less workers are hired by employers and firms lay off staff this will increase the unemployment rate… 6