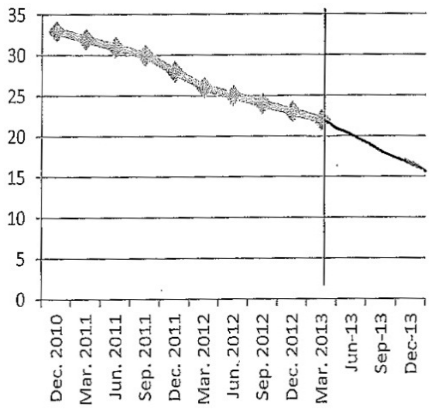
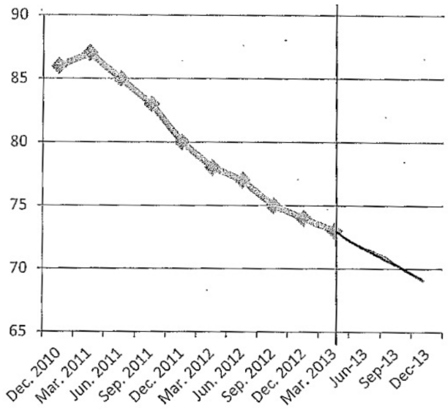
Extrapolations:

1

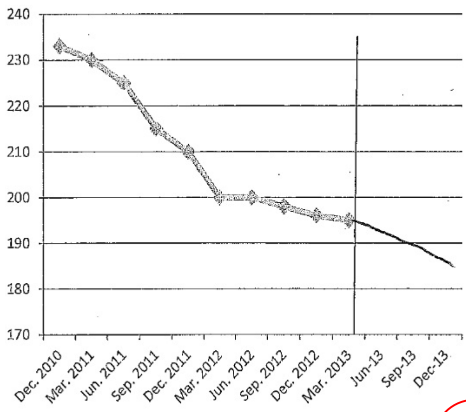
BUSINESS CONFIDENCE INDEX



CONSUMER CONFIDENCE INDEX



HOUSE PRICE INDEX

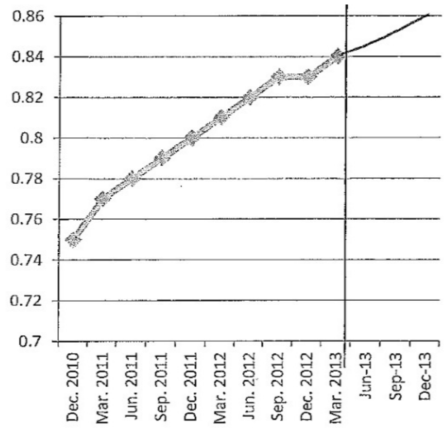


Forecast:

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

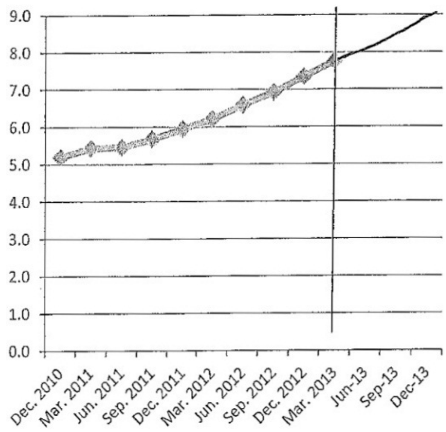
[Student processed and presented data, and explained in detail the relationships and inter-relationships in the inflation and unemployment statistical data using economic concepts and models].

EXCHANGE RATE ($NZ/$US)



UNEMPLOYMENT RATE (%)

1



The business confidence index is decreasing at an alarming rate. It began at 33 in Dec'10 and continued to decrease, ending at 22 in Mar'13. I extrapolated a continual decreasing trend due to these observations. A decrease in business confidence means that firms are uncertain about the future, so they reduce their capital expenditure (purchasing machinery, buildings, etc.) and for projects. This will lead to a decrease in investment spending (I), because (I) is part of the AD equation [AD = C+I+G+(X-M)], then AD will also decrease, therefore shifting the AD curve inwards. Firms will produce less goods and services because of a decrease in business confidence.

2

The Consumer Confidence Index is decreasing steadily; it began at 86 in Dec'10 and continued to decrease, ending at 73 in Mar'13. I extrapolate a continual decreasing trend due to these observations. A decrease in consumer confidence (either because they are uncertain about their job security or they have lost their jobs) means that consumers are less willing to spend. This decrease consumption spending (C) which almost makes up two-thirds of the AD equation [AD = C+I+G+(X-M)]. This will lead to an overall decrease in AD, which shifts the AD curve inwards to AD1, therefore lowering Real GDP from Y to Y1, and this also shows a decrease in price level (PL to PL1).

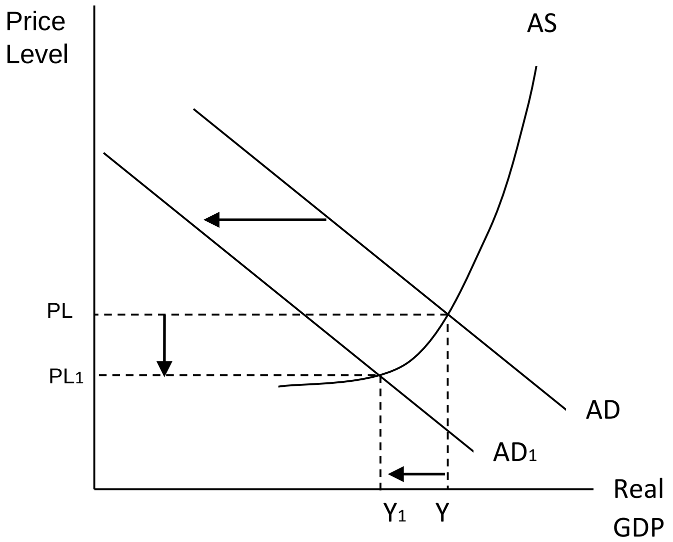
The decrease in inflation is another factor that is reflected in the model…

3

The Exchange Rate began at 0.75 ($NZ/$US) in Dec'10 and increased steadily, ending at 0.84 in Mar'13. I extrapolated a continual increasing trend due to these observations. An increase in the Exchange Rate of $NZ/$US means that the demand for $NZ has increased because it is more profitable for foreign investors to buy $NZ and decreases the supply of $NZ, because existing owners will not want to exchange $NZ for another currency because holding it is more profitable. This increases the value of $NZ, which leads to a decrease in export receipts (X) because the foreign currency exporters earn in now converts to less $NZ, and increases import payments (M) because the cost of importing has decreased, making importing more profitable. This decreases (X-M) and (as NZ relies on its exports overseas as one of its main sources of income) decreases AD, which shifts the AD curve inwards, so Real GDP decreases considerably to Y1, and price level from PL to PL1.

2

This also affects AS, because the cost of importing raw materials has decreased this will then decrease a firms COP. This increases AS, shifting the AS curve outwards to AS1 and increasing Real GDP. However, because NZ is reliant on exports rather than imports for income, this would only be a minor increase in Real GDP, but the increase returns us from Y1 to Y2, and further reduces price level, PL1 to PL2, reducing cost-push inflation.



The House Price Index is decreasing at a fast rate. It began at 233 in Dec'10 and continued to decrease drastically, ending at 195 in Mar'13. I extrapolated a continual decreasing trend due to these observations. A decrease in the House Price Index will affect two groups of society, existing homeowners and first-time buyers. Because the value of houses decreases, existing homeowners will be wary about their spending and will refrain from it, therefore not spending their disposable income. This decreases consumption spending (C) therefore decreasing AD and shifting the AD curve inwards to AD1, lowering the level of Real GDP from Y to Y1, and PL to PL1.

2

However, this can be countered by the spending of first-time homebuyers. Because the value of houses has decreased, they will take advantage of this opportunity to purchase a new home or pay off their mortgages. This will increase their discretionary income and gives them a sense of wealth; they fell inclined to spend more. This increases consumption spending and AD, moving the AD curve outwards and increasing Real GDP back towards Y by a fraction. However, because the number of existing homeowners is considerably larger than the number of first-time homebuyers Real GDP will be more affected by the decrease in consumption spending.

2

The Unemployment Rate is increasing at an alarming rate. It began at 5.2% in Dec'10 and continued to increase, ending at 7.8% in Mar'13. I extrapolated a continual increasing trend due to these observations. When unemployment is high, less goods and services are being produced in the economy. This means less workers are needed and some lose their jobs. This decreases their disposable income (because they are unwilling to spend and save instead), which decreases consumption spending (C). This decreases AD and AD shifts inwards towards AD1, lowering the Real GDP towards Y1 and PL to PL1.

2

A firm's competition to hire skilled workers has decreased, as workers are readily available (idle capacity), they could lower the wage rate to attract people who are desperate to find a job. This would decrease a firm's cost of labour, and there is a movement down the AS curve to a flatter part meaning growth is easier in the future. Although, at this stage of the business cycle, firms will not be interested in hiring new workers, as they would like to keep the employees they currently have, or have had to lay off workers.

The decrease of Real GDP shows this country is heading towards the recession stage of the business cycle. The economy has been in a downturn for almost 2 years, so it will inevitably reach the recession stage of the business cycle.