

# GROSS DOMESTIC PRODUCT (GDP)

## Introduction

Gross Domestic Product (GDP) is defined as “the total market value of goods and services produced within a given period, after deducting the cost of goods utilised in the process of production” [1]. GDP is often used as a measure of the size of the economy, with nominal GDP being expressed in current dollar prices, and real GDP being expressed in constant dollar prices (i.e. the dollar value of a particular year, after adjustment for inflation).

Changes in real GDP are often used as a measure of economic growth, or the strength of the economy [1], with a recession typically being defined as two consecutive quarters of negative growth [2]. Recessions are often characterised by high unemployment, stagnant wages and a fall in retail sales, and though usually not lasting longer than a year [2], they may have significant implications for child wellbeing.

New Zealand entered a recession at the end of June 2008 (after 2 consecutive quarters of negative growth), and technically left the recession at the end of June 2009 (although growth in the June quarter (0.1%) was extremely close to zero [3]). Since that time New Zealand has had five consecutive quarters of positive growth, although in the most recent quarter, this growth was only 0.2% [4].

The following section briefly reviews changes in New Zealand’s GDP since June 2006.

### Data Source and Methods

#### Definition

*Gross Domestic Product (GDP): Percent Change from Previous Quarter*

GDP is the total market value of all final goods and services produced in a country in a given year, equal to total consumer, investment and government spending, plus the value of exports, minus the value of imports. A recession is defined as 2 consecutive quarters of negative growth (as measured by GDP).

#### Data Source

Statistics New Zealand: The New Zealand System of National Accounts. Produced Quarterly

**Indicator Category:** Ideal B

#### Notes on Interpretation

Three approaches can be used to calculate GDP:

- *Production Approach:* This method calculates what each separate producer adds to the value of final output, by deducting intermediate consumption from gross output. Value added is summed for all producers.
- *Income Approach:* This approach measures the incomes received by the owners of the factors of production. These represent the returns to the labour and capital employed such as wages and salaries, and profits.
- *Expenditure Approach:* This method sums the values of all final demands, that is, final consumption expenditures (of households, government and private non-profit institutions serving households), changes in inventories, gross capital formation, and net exports.

Conceptually, both the production and expenditure approaches of measuring GDP are the same. However, as each series uses independent data and estimation techniques, some differences between the alternative measures arise. The expenditure approach series has historically shown more quarterly volatility and is more likely to be subject to timing and valuation problems. For these reasons, the production-based measure is the preferred measure for short-term quarter-on-quarter and annual changes [5]

## New Zealand Trends

### Production Based Measure of GDP

In New Zealand, GDP decreased for 5 consecutive quarters from March 2008-March 2009. GDP has since increased for five consecutive quarters, with economic activity being up 0.2% in the June 2010 quarter, following a 0.5% increase in the March 2010 quarter. Economic activity for the year ending June 2010 was up 0.7% when compared to the year ending June 2009, with this being the first annual increase in economic activity since a 1.5% rise in the year ended September 2008 [4] (**Figure 1**).

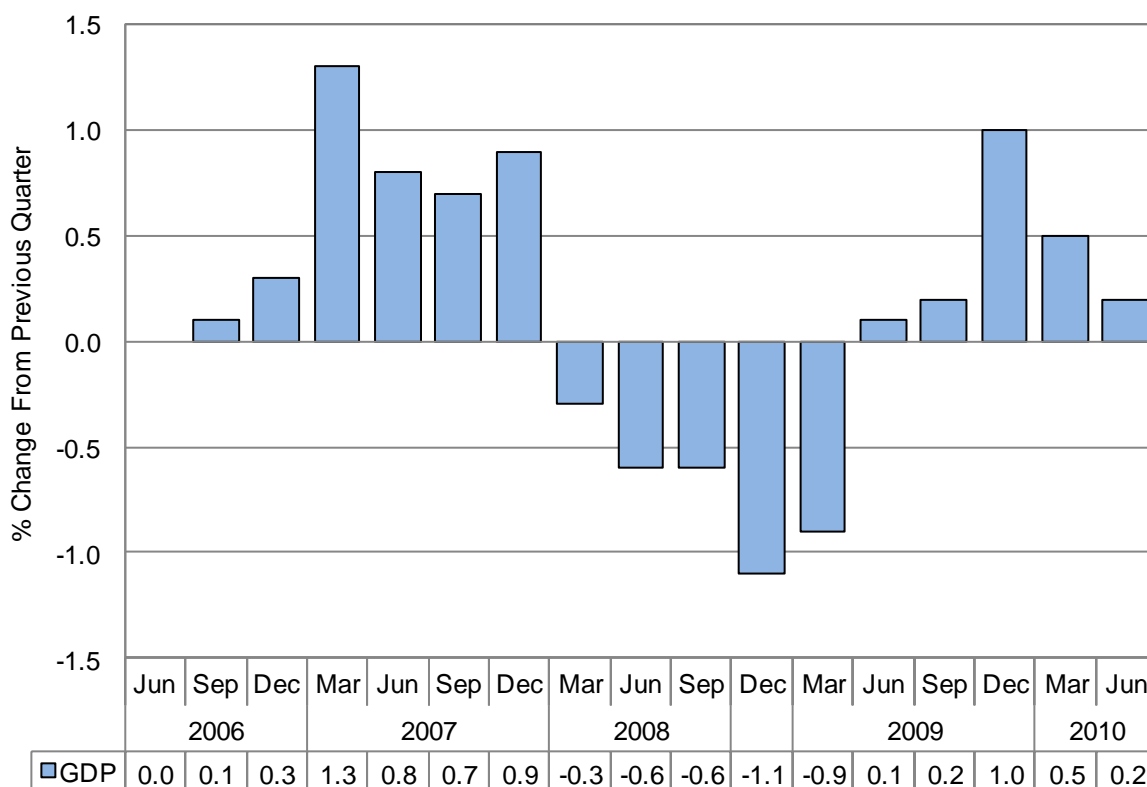


During the June 2010 quarter, construction increased by 6.4%, real estate and business services by 0.9%, and retail trade by 1.5%, while manufacturing declined by 4.0% and communication services by 2.6% [4].

### Expenditure Based Measure of GDP

The expenditure based measure of GDP, released concurrently with the production based measure, increased by 0.4% in the June 2010 quarter. During this period, household consumption expenditure was flat at 0.0%, with gross fixed capital formation being up 6.2% (mainly from increased investment in residential building), exports being up 1.3% but with inventories being run down by \$530 million [4].

Figure 1. Gross Domestic Product (GDP): Percentage Change from Previous Quarter, New Zealand June 2006 to June 2010



Source: Statistics New Zealand: Seasonally adjusted chain volume series measured in 1995/96 prices

## Summary

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## References

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3. Statistics New Zealand, Hot off the Press: Gross Domestic Product June 2009 Quarter, S.N. Zealand, Editor. 2009: Wellington.
4. Statistics New Zealand, Hot Off the Press: Gross Domestic Product: June 2010 Quarter. 2010, Statistics New Zealand: Wellington.
5. Statistics New Zealand. Gross Domestic Product: June 2009 Quarter Technical Notes. 2009 [cited 2009 29th September]; Available from: [http://www.stats.govt.nz/browse\\_for\\_stats/economic\\_indicators/GDP/GrossDomesticProduct\\_HOTPJun09qtr/Technical%20Notes.aspx](http://www.stats.govt.nz/browse_for_stats/economic_indicators/GDP/GrossDomesticProduct_HOTPJun09qtr/Technical%20Notes.aspx).

