

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, leading Statistics New Zealand to comment that no significant conclusions could be drawn regarding this being a turning point in economic activity [3]).

This indicator briefly reviews changes in New Zealand's GDP since March 2005.

Data Source and Methods

Definition

Gross Domestic Product: 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 [4]

New Zealand Trends

Production Based Measure of GDP

In New Zealand, GDP decreased for 5 consecutive quarters from March 2008-March 2009. GDP then increased by 0.1% in the June 2009 quarter. Economic activity for the year ending June 2009 contracted 1.8%, as compared to growth of 2.5% for the year ending June 2008. This was the largest annual contraction in activity since the series began in June 1987 [3] (**Figure 1**).

During the June 2009 quarter, activity in the primary industries increased by 1.5%, an increase mainly driven by fishing, forestry and mining. Activity in goods producing industries contracted 0.5%, with the decrease being driven by manufacturing (down 1.3%) and construction (down 1.9%). A 5.9% increase in electricity, gas and water partly offset



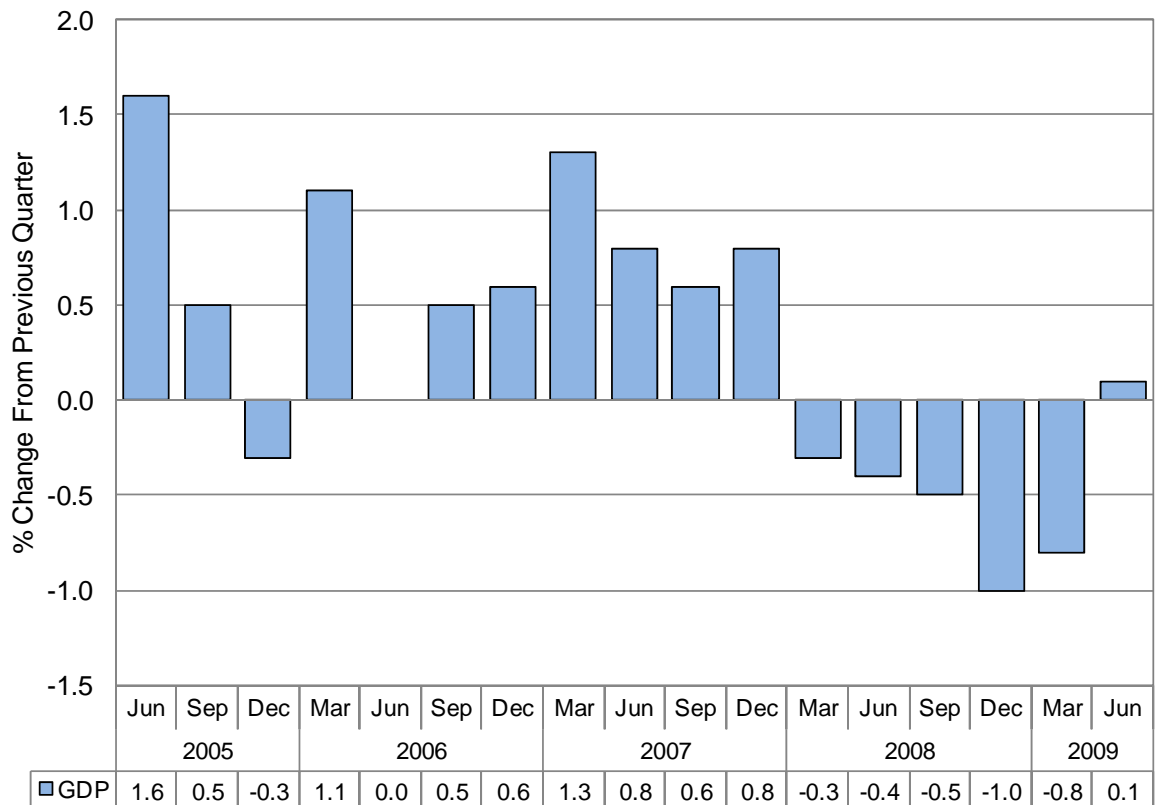
these decreases. Service industries were largely flat, with increases in real estate and business services, and communications being offset by declines in wholesale trade, transport and storage, and government administration and defence [3].

Thus 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. Because growth of 0.1% is extremely close to zero (and thus may be subject to revisions (including downwards) in future quarters), Statistics NZ indicated that no significant conclusions could be drawn regarding this being a turning point in economic activity [3].

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 2009 quarter. During this period, household consumption expenditure increased by 0.4%, with expenditure on services increasing 0.6% and expenditure on non-durable goods increasing 0.8%. Expenditure on durable items however, decreased by 0.9%. On an annual basis, in the year ended June 2009, household consumption expenditure decreased 1.1% [3].

Figure 1. Gross Domestic Product (GDP): Percentage Change from Previous Quarter, New Zealand June 2005-June 2009



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

Summary

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. Because growth of 0.1% is extremely close to zero (and thus may be subject to revisions (including downwards) in future quarters), Statistics NZ indicated that no significant conclusions could be drawn regarding this being a turning point in economic activity [3].



References

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4. 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.

