

Adjusting for Price Change

Q and A

Dr Ganesh Nana

Senior Economist
Editor, *BERL Forecasts*

SOLGM Financial Management Seminar

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Outline

- why, what and how
- the economic climate
- limitations

Price level adjustors – why?

- to translate service delivery (or quantity) numbers over planning horizon into budgeted costs over that horizon
- different components of plans will require different adjustment factors

Price level adjustors – what?

- planning budget comprises two elements
 - * projection as to service delivery (quantity or volume)
 - * projection as to 'unit cost'
- price level adjustors provide projection of 'unit cost'
 - * for broad categories of expenditure

Price level adjustors – how?

- adjustors developed using
 - * combination of input and output cost elements
 - * historical relationship between price level changes and selected indicators of economic activity
 - * forecasts of economic activity based on mix of modelling and judgement

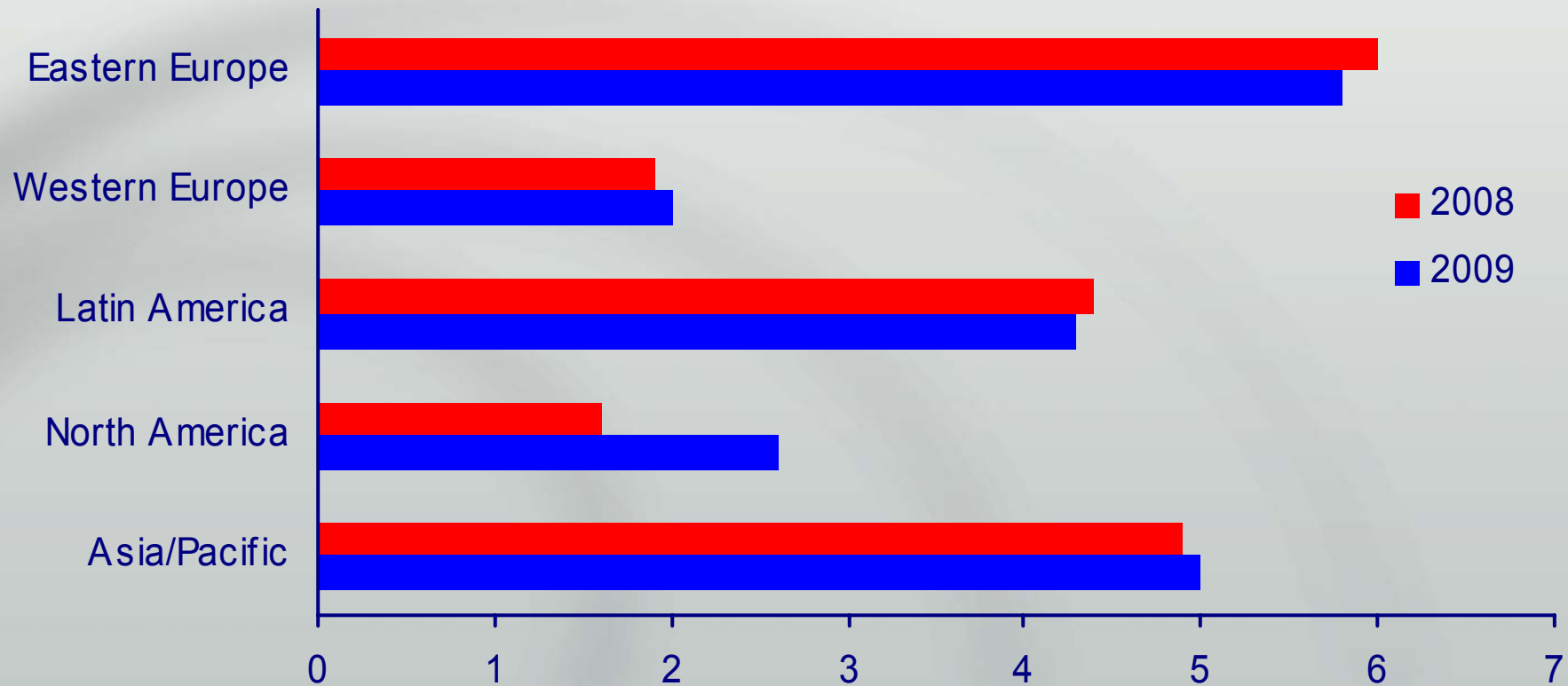
The short- (and medium-) term economic climate

- high interest rate and NZ\$ exchange rate
- inflation concerns
- global financial market uncertainty
- low business and consumer confidence
- a growing world
- skill shortage, not helped by exodus
- a large external deficit



The world is our oyster

Consensus forecasts for growth (%pa)



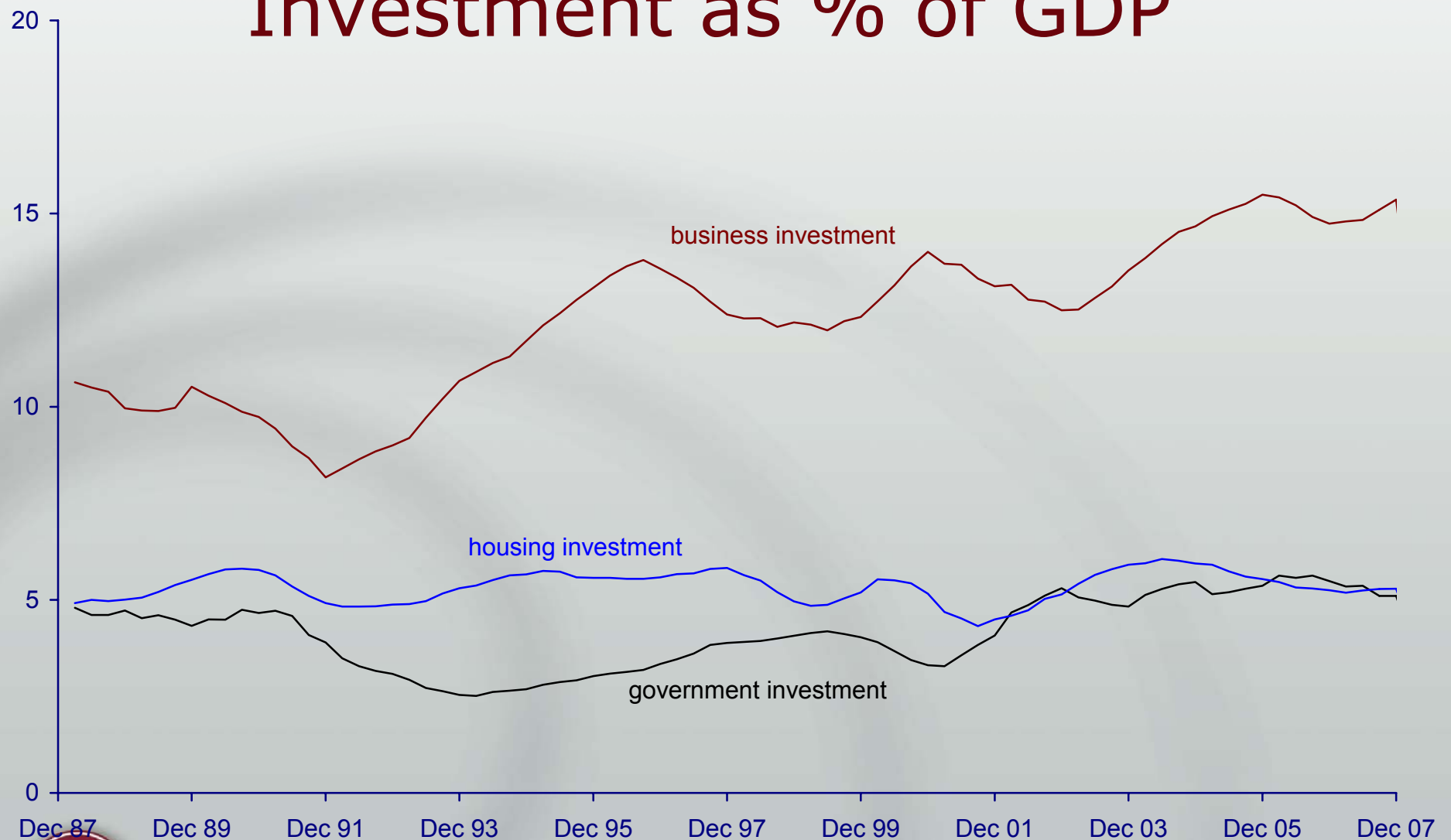
The economic climate over the coming LTCCP period

- two elements driving NZ over past few years:
 - * changes in labour force behaviour
 - * non-housing investment expenditure

Participation in labour market (%)



Investment as % of GDP



economics

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The economic climate over the coming LTCCP period

- two elements driving NZ over past few years:
 - * changes in labour force behaviour
 - * non-housing investment expenditure
- key aspects facing NZ, and its constituent areas
 - * labour skills, supply, and reward
 - * addressing the on-going infrastructure deficit

New Zealand's Achilles' Heel

The Current Account Balance of the Balance of Payments
as a % of nominal GDP



Limitations

- one size does not fit all
- application of adjustors still requires activation of common sense
- LAs may well have better information on factors peculiar to local situation
- limitations of forecasts

Advantages

- independent
- relevant to economic situation
- service delivery planning consistent with cost outlook