



# NEW ZEALAND ECONOMIC UPDATE

February 2008

## NATIONAL ECONOMIC UPDATE

This New Zealand Economic Update is produced monthly and presents current information on recent national business events, along with an update of key economic indicators.

## LABOUR MARKET REMAINED TIGHT

The December 2007 Quarter Household Labour Force Survey (HLFS) published by Statistics New Zealand (SNZ) showed that the job market is still very tight.

Employment increased by 23,000 people (or 1.1%) (seasonally adjusted) over the December 2007 quarter. Employment growth was 2.5% between December 2006 and December 2007 while the unemployment rate as at the December 2007 quarter stood at 3.4%, the lowest level recorded over the past 25 years.

Strong labour demand has pushed employment to a record high of 2,173,000 people. On a seasonally adjusted basis a total of 23,000 people were employed as at the December 2007 compared to the number employed as at the September 2007 quarter. Most of this increase in employment was due to an increase in the number of females employed. In fact, female employment increased 26,000 (not seasonally adjusted) over the December 2007 quarter to reach 1,010,000 people.

This was entirely caused by increases in female full-time employment (up 5.2%), compared with a decrease of 0.7% in females employed part-time.

Male employment increased over the December 2007 quarter by 3,000 people (or 0.2%). This was the result of a decrease in males employed full-time (down 0.2%) and an increase of 1.6% in males employed in part-time jobs. On an annual basis, total employment grew by 54,000 (or 2.5%) for the year to December 2007. This result was due to an increase of 40,000 females employed and an increase of 14,000 males employed.

A sectoral analysis of the survey's data showed that employment creation in the wholesale and retail trade along with business and financial service industries, enjoyed more than 5% growth between December 2006 and December 2007. Jobs in the construction sector declined by 5.2% over this period. Regional information showed that most employment growth over 2007 occurred in Auckland and Waikato regions.

The Labour Force Participation Rate as at the December 2007 quarter compared to the September 2007 quarter increased by 0.5 percentage points to 68.8%. This was the highest level recorded since the HLFS began.

The unemployment rate declined by 0.1 percentage points between the September and December 2007 quarters and

0.4 percentage points between December 2006 and December 2007.

**Numbers unemployed and unemployment rate**



Source: Statistics New Zealand, Household Labour Force Survey (HLFS)

## MONTHLY TRADE BALANCE IMPROVED

The latest statistics showed that the monthly trade deficit reached \$320 million in January 2008. While the trade balance was still negative, it actually improved from a deficit of \$825 million recorded in January 2007 and was less than the average deficit of \$372 million recorded for January months over the past decade.

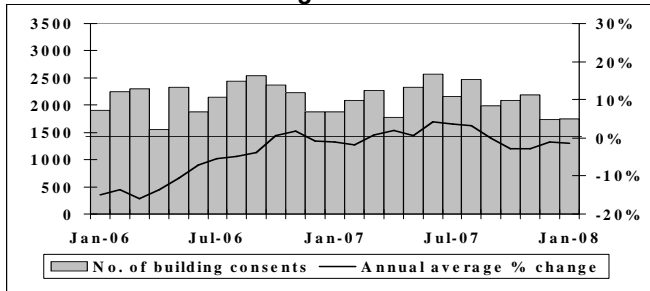
Compared with the value of \$596 million recorded in January 2007, the value of merchandise exported in January 2008 increased by \$596 million (or 24%) to reach \$3.1 billion. Thanks to the strong overseas demand (which has sustained high dairy prices) the value of dairy products exported reached \$861 million despite a fall in the quantities of dairy-related products exported.

Increases in domestic oil production (largely due to the new Tui oilfield) in January 2008 pushed the value of petroleum and associated exports up by \$225 million compared to the value recorded for January 2007. The largest offsetting decrease was in aluminium and aluminium articles exporting which declined by \$40 million over this period.

Imports reached \$3.4 billion in January 2008. This was an increase of \$91 million (or 2.8%) compared to the level recorded in January 2007. January 2008 also achieved a new high for imports recorded in a January month.

## KEY INDICATOR TRENDS

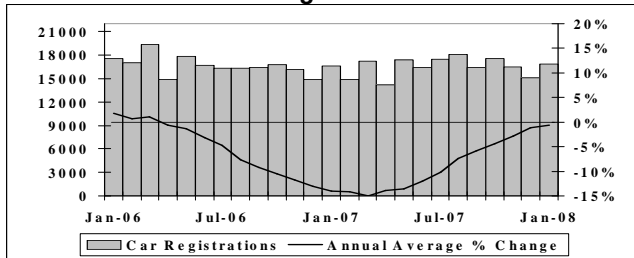
### Building Consents



Source: Department of Statistics Building Surveys and Vitals Section

There was a total of 1,743 new building consents valued at around \$448.6 million issued for new residential dwellings during January 2008 in New Zealand. This was marginally greater than the 1,738 consents issued in December 2007 but was less than the 1,880 consents issued in January 2007. The annual average growth rate in the number of new building consents issued for residential dwellings in New Zealand was negative 1.5% for the year ended January 2008.

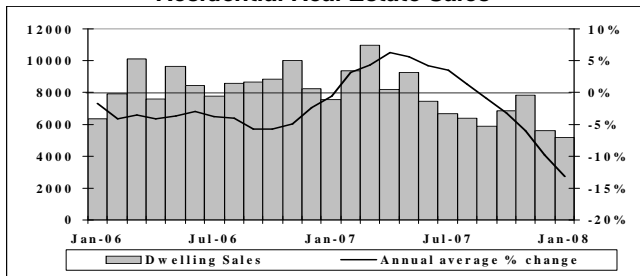
### Car Registrations



Source: Land Transport Safety Authority

There was a total of 16,877 cars (including both new and ex-overseas car types) registered during January 2008, an increase of car 1,753 compared to the number of cars registered in December 2007 and greater than the 16,591 cars registered in January 2007. The annual average growth rate in the number of cars registered in New Zealand accelerated from negative 1.2% for the year ended December 2007 year to negative 0.5% for the year ended January 2008.

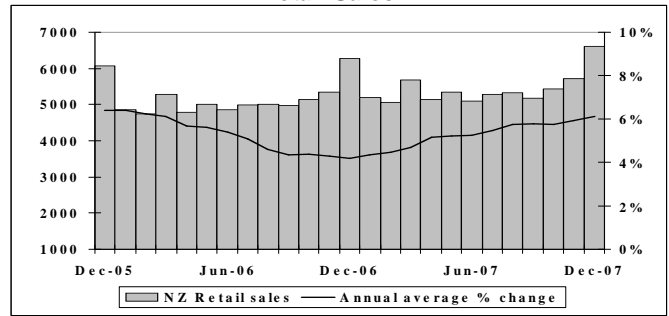
### Residential Real Estate Sales



Source: Real Estate Institute of New Zealand

A total of 5,186 houses with a median sale price of \$340,000 were sold during January 2008, a new low since October 2001. The annual average growth rate in the number of houses sold in New Zealand was negative 13.2% for the year ended January 2008.

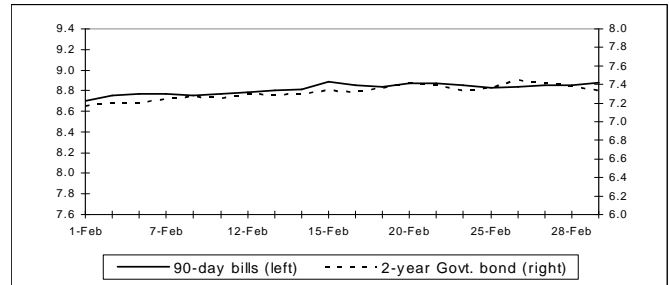
### Retail Sales



Source: Business Statistics Section, Statistics New Zealand

The nominal value of retail sales totalled \$6,600 million in December 2007. This was the highest level recorded in the history of the Retail Trade Survey. The annual average growth rate in the nominal value of New Zealand's retail sales was 6.1% for the year ended December 2007.

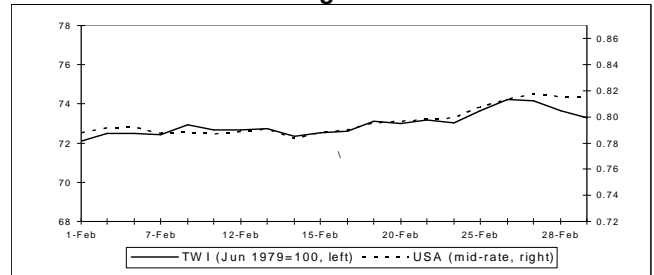
### Interest Rates



Source: Reserve Bank of New Zealand

February 2008 saw New Zealand wholesale interest rates steadily increase. By the end of the month, the 90-day bill rate stood at 8.88%.

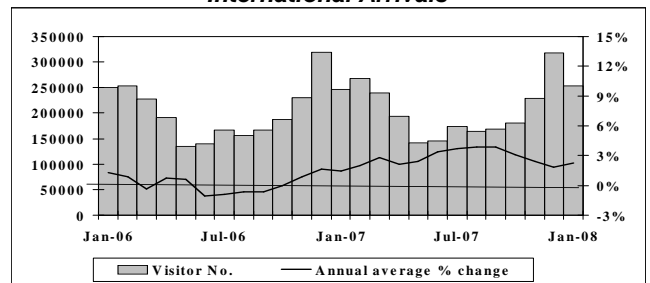
### Exchange Rates



Source: Reserve Bank of New Zealand

Financial turmoil in the US helped New Zealand's exchange rates appreciate over February 2008. By the end of the month, NZ\$1.00 traded against US\$0.82 (2 DP) and the Trade-Weighted Index (TWI) reached 73.3 points.

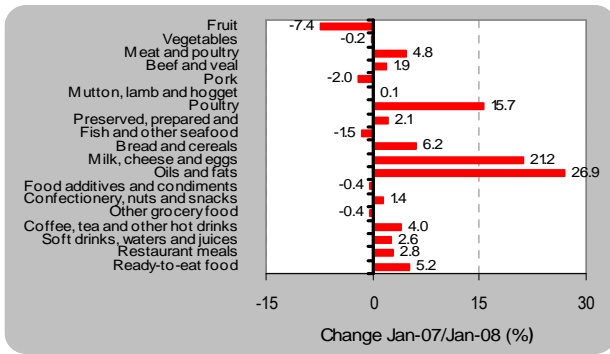
### International Arrivals



Source: Statistics New Zealand

There was a total of 253,500 international visitor arrivals to New Zealand during January 2008, an increase of 6,752 (or 2.7%) compared to the number of visitors recorded in January 2007 when 246,748 arrivals were recorded. The annual average growth rate in the number of visitor arrivals to New Zealand was 2.3% for the year ended January 2008.

## Food prices



Source: Statistics New Zealand, Food Price Index, January 2008

Between January 2007 and January 2008 the greatest increase in food prices was for oils and fats (up 26.9%), followed by milk, cheese and eggs (up 21.2%) and poultry (up 15.7%). The largest decrease over this period was for fruit (down 7.4%) and pork (down 2.0%).

### SUMMARY AND COMMENTARY

On the positive side the labour market remains tight supporting a solid level of employee compensation and tax cuts are a certainty. However, on the down side there are a number of negative factors eroding New Zealanders' disposable income. These are high petrol and electricity prices, rising prices for food and high debt servicing costs.

Given strong expansionary fiscal policy and a tight labour market, inflationary pressures remain robust. Therefore, despite the slowdown in the housing market, the Reserve Bank has little headroom available to loosen monetary policy. Some commentators believe that the lagged effects of current monetary policy may be considerably

stronger than anticipated by the Reserve Bank. The Bank was not considering lowering the Official Cash Rate (OCR) until the end of 2009.

However, if the economy's deceleration is too severe there is the possibility of OCR decreases before the end of 2008. Certainly, tax cuts are now looking like an essential ingredient that will attenuate the severity of the economic slowdown for those with lower incomes.

According to the National Bank's (NB) Business Outlook Survey for February 2008, a net 44% of firms expected the general economic conditions to deteriorate in 12 months' time.

This is a significant decline from a net 25% who took a pessimistic view in December 2007 (note there was no survey published in January 2008). Notably, February 2008's level of confidence was the lowest recorded over the past ten months.

Farmers were the most pessimistic with a net 54% of the respondents expecting the economy to deteriorate in 12 months' time. Confidence among retailers, service people and manufacturers all declined below a net negative 40%. Builders were a little more positive with a net negative 23% expecting the economic conditions to deteriorate.

Firms' expectations on their own level of activity also declined significantly – only a net 2% of firms remained positive about their own level of real business activity in 12 months' time. This result was much worse than a net 18% of businesses who possessed a pessimistic viewpoint when responding to the NB's December 2007 Business Outlook Survey.

**Disclaimer:** This national economic update is produced monthly by APR Consultants. Although the update incorporates the most recent information available, many of the figures are provisional. Accordingly, no liability can be accepted for the accuracy of the material contained. Businesses and individuals are advised to seek professional advice before making major business decisions and any decisions based on the information contained in this report are made entirely at their own risk.