



# NEW ZEALAND ECONOMIC UPDATE

July 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.

### INFLATION STILL HIGH

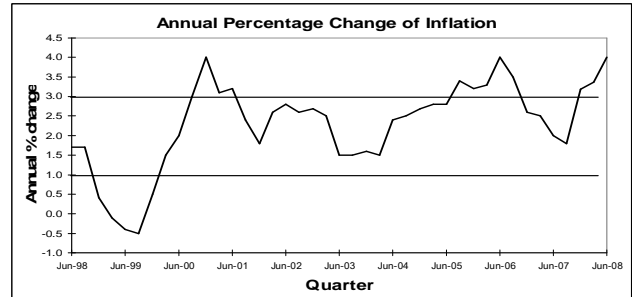
Statistics New Zealand's Consumer Price Index (CPI) climbed 1.6% in the second quarter of 2008, the highest quarterly rise over the past 10 years and exceeding the RBNZ's expectation of 1.4% for the same period. Annual inflation recorded 4.0% for the year ended June 2008.

Eight out of 11 CPI groups recorded upward movements in the June 2008 quarter. The most significant upward contributions came from food, transport, housing and household utilities. Prices for the transport group rose 4.9% over the quarter, driven largely by rises of 12.8% and 29.0% in petrol and diesel prices respectively. Increased fuel costs have triggered prices to rise in other associated goods and services such as domestic (3.9%) and international (1.7%) airfares. However, the CPI would have been 1.0% higher than the first quarter even if petrol prices remain unchanged. A fall of 0.9% in used car prices partly offset the upward movement of transport prices. Transport prices jumped 9.6% over the year to June 2008 and were driven most significantly by a 25.9% rise in petrol prices over the period.

Following a 1.8% rise in the March 2008 quarter, food prices rose by 2.2% in the June 2008 quarter. All five food subgroups showed upward price movements. The grocery food subgroup recorded the most significant upward contribution of 2.3%, followed by fruit and vegetables (4.9%), fast food (2.0%), meat, poultry and fish (1.3%), and non-alcoholic beverages (0.6%). Food prices increased 6.9% from the June 2007 quarter to the June 2008 quarter.

Housing and household utilities increased 1.2% in the June 2008 quarter on top of a 1% rise in the March 2008 quarter. Electricity prices rose 3.6% and new housing increased 1.1% in the June 2008 quarter. For the year ended June 2008, prices in the housing and household utilities group increased 5%.

Prices for the recreation and culture subgroup fell 0.5% driven mainly by lower prices for audio-visual and computing equipment (down 4.4%). There was a small price decrease in the alcohol and tobacco group, yet no changes were recorded in the education category.



Source: RBNZ and SNZ

### MONETARY POLICY EASES

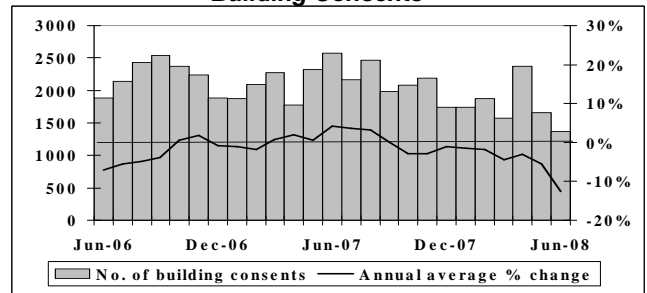
The RBNZ cut the Official Cash Rate (OCR) by 25 basis points to 8.0% in late July 2008. This was the first time the OCR has been moved since July 2007 when it was raised by 25 basis points.

The offshore sub-prime credit crisis has intensified since June 2008 pushing up the premium that banks pay for raising funds and adding to the borrowing rates faced by firms and households. The OCR cut acts to counter this potential upward movement in interest rates. The cut is also a reaction to the contracting New Zealand economy. Leading economic indicators point to a fall in GDP for the second quarter and given the fall in first quarter GDP, New Zealand could be technically in recession (defined as two quarters of declining GDP).

The RBNZ may have signalled the start of an easing cycle in monetary policy. However, the extent of any easing will be dependent on inflation expectations which will prove challenging to contain in the current environment.

### KEY INDICATOR TRENDS

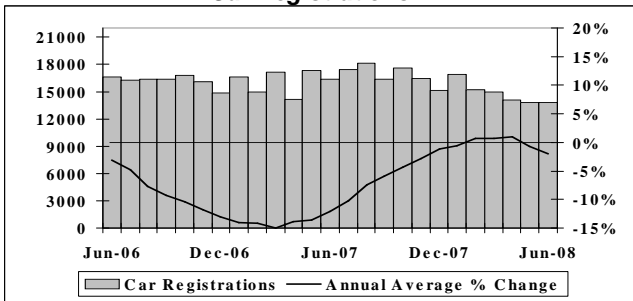
#### Building Consents



Source: Dept of Statistics Building Surveys and Vitals Section

Only 1,362 consents valued at around \$362.1 million were issued for new dwellings during June 2008. This was the first time since March 2001 that the monthly number of consents issued dipped below 1,400. The annual average growth rate in building consents was negative 12.6% for the year ended June 2008.

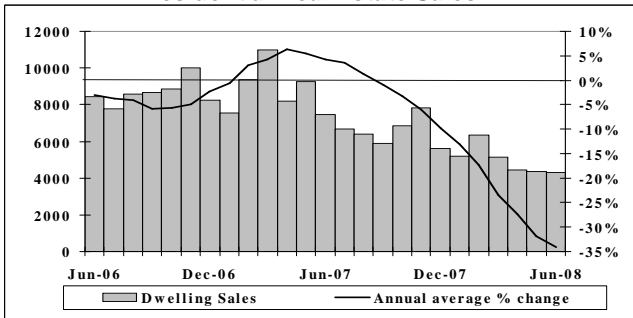
### Car Registrations



Source: Land Transport Safety Authority

A total of 13,802 cars (including both new and ex-overseas types) were registered nationwide during June 2008, marginally above the 13,783 cars registered in May 2008, but much worse than the 16,406 cars registered in June 2007. Accordingly, the average annual growth rate in car registrations was negative 1.9% for the year ended June 2008.

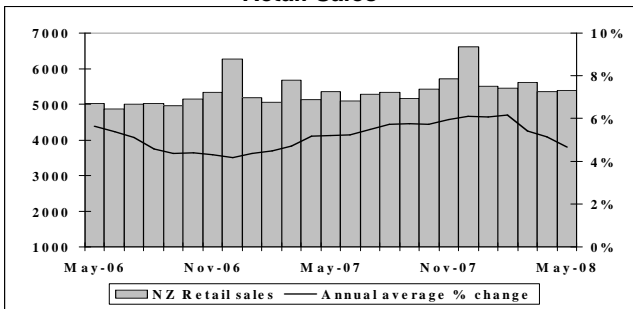
### Residential Real Estate Sales



Source: Real Estate Institute of New Zealand

With only 4,307 houses changing hands, trading volumes reached a new low in June 2008 to be below the 14-year low of 4,373 house sales recorded in May 2008. The median sale price also fell by \$5,000 to \$340,000 as at June 2008. This has taken the annual average growth rate in the number of houses sold to negative 34.2% for the year ended June 2008.

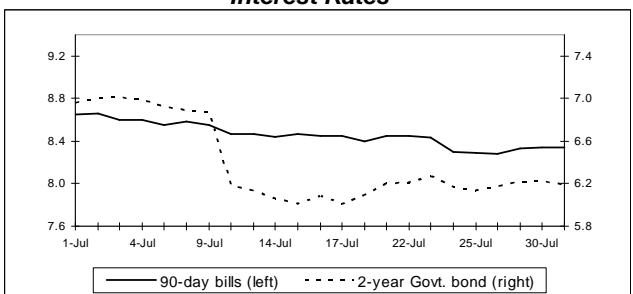
### Retail Sales



Source: Business Statistics Section, Statistics New Zealand

The value of retail sales value increased from \$5,347 million recorded in April 2008 to \$5,399.4 million in May 2008, which was also above the \$5,346.1 million recorded in May 2007. However, average annual growth has slowed from 5.2% for the year ended April 2008 to 4.7% for the year ended May 2008.

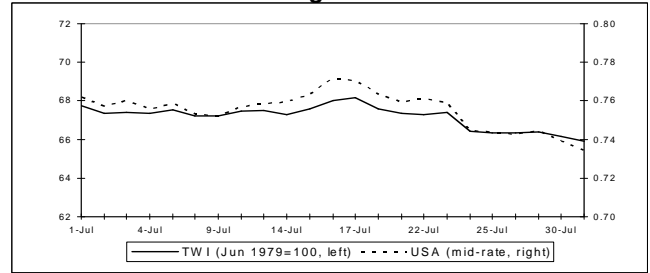
### Interest Rates



Source: Reserve Bank of New Zealand

Both the wholesale interest rate and the bond markets started to fall over July 2008. By the end of the month the 90-day bill rate had eased by 0.33 percentage points from the end of June to 8.34%.

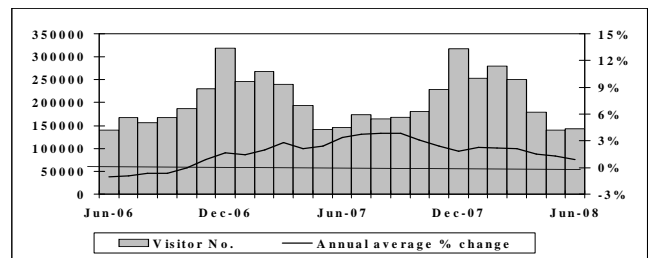
### Exchange Rates



Source: Reserve Bank of New Zealand

By the end of July 2008 NZ\$1.00 could buy US\$0.73 and the trade-weighted index (TWI) eased to 65.9 points.

### International Arrivals



Source: Statistics New Zealand

There were 142,413 overseas arrivals to New Zealand in June 2008. While the arrivals exceeded the 140,483 visitors recorded in May 2008, they fell by 3,085 (or 2.1%) on June 2007. The annual average growth rate in international arrivals was 0.9% for the year ended June 2008.

### SUMMARY AND COMMENTARY

According to the Quarterly Survey of Business Opinion (QSBO) published by the NZIER, business confidence hit a 33-year low in the second quarter of 2008, with a net 64% of firms expecting the general economic conditions to deteriorate over the next six months. Firms' expectation on their own business activity worsened, with a net 18% of firms negative about their own business future over the next three months.

Capacity utilisation remained high at 92.4%, and price intentions were quite strong with a net 49% intending to increase prices over the next three months. In addition, a net 6% reported that it was easier to find unskilled labour in the last three months, the first positive figure in the past nine years.

Similarly, the National Bank's survey showed that a net 43% of firms anticipated hard times over the next 12 months, worse than a net 39% taking this negative view in June 2008. Outlook for firms' own business activity also slipped from a net negative 4% in June 2008 to a net negative 8% in July 2008.

**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.