

# NEW ZEALAND ECONOMIC UPDATE

**September 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.

### NEW ZEALAND RECESSION CONFIRMED

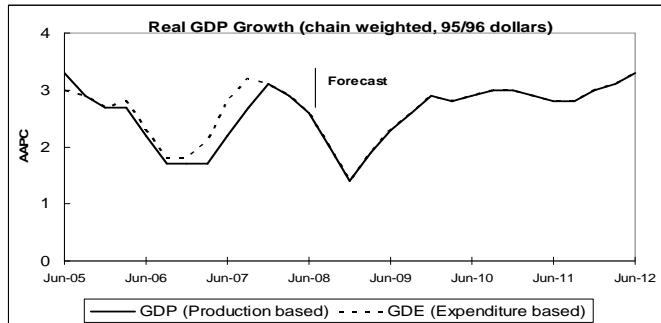
According to Statistics New Zealand (SNZ), New Zealand's Gross Domestic Product (GDP) declined by 0.2% in the June 2008 quarter. While this was better than a decrease of 0.5% expected by the market, it confirmed that New Zealand's economy is in a technical recession (ie GDP has declined for two consecutive quarters). On a year-on-year basis, economic activity grew by 2.6% for the year ended June 2008, slowing from 3.2% recorded for the year to March 2008.

The latest GDP results are not surprising given adverse conditions that have been present in the economy in the first half of 2008 such as drought conditions, tight monetary policy, a slowing housing market and escalating oil and food prices. As a result of these factors, activity in seven out of eleven industry sectors declined over the June 2008 quarter.

Value added in primary industries decreased by 0.6% in the June 2008 quarter following a 4.6% decrease experienced in the March 2008 quarter. Driven by dairy farming (down 4.2%) and beef cattle production (down 7.8%), agricultural output contracted by 0.6% over this period. Valued added by primary industries declined by 2.5% in the June 2008 year compared to the June 2007 year declined.

Valued added by goods-producing industries decreased by 0.2% over the June 2008 quarter largely caused by a subdued level of activity in the construction sector (down 3.8% in this period). Production in electricity, gas and water decreased 1.6% over the latest quarter, due to lower value added by thermal power generation as a result of the drought. However, manufacturing (up 1.4%) partly offset the lower level of activity in the goods-industry in the June 2008 quarter. Food, beverage and tobacco manufacturing grew by 2.6% in this period.

Value added by service industries contracted 0.4% in the June 2008 quarter, the first fall recorded since the December 2002 quarter. Facing hard times, activity in the real estate and business services declined by 1.6%, however finance and insurance services partly offset the decline (up 0.4%). Downward movements were recorded in retail, accommodation and restaurants (down 1.9%), and wholesale trade (down 1.2%) sectors. Transport and communications (up 1.2), government administration and defence (up 1.0%) and personal and community services (up 0.4%) sectors all experienced positive growth over the June 2008 quarter.



Source: New Zealand Institute of Economic Research (NZIER) and Statistics New Zealand (SNZ)

### REVIEW OF ECONOMIC AND FISCAL UPDATE

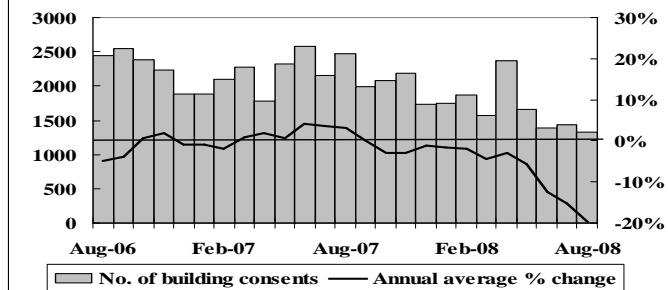
Based on the Economic and Fiscal Update (EFU) released by Treasury, the government operating balance is projected to change from a surplus (as observed over the past 14 years) to a deficit over the period 2009 through to 2018.

This outlook is the result of a much weaker economic outlook which is based on a slowing housing market, rising costs and worsening global financial markets. The Treasury has revised down projected GDP growth from 1.7% (as reported in the May 2008 Budget) to 0.5% for 2008 and 1.2% for 2009 (down from a previous projection of 2.0%).

The government intends to provide fiscal stimulus in the year ahead. This will boost government borrowing (ie; the bond programme) from \$4 billion for the year to June 2009 to \$9 billion for the year to June 2011. As a result, government debt will increase from 17.4% of GDP for the 2008 June year to 24.3% of GDP in five years' time.

## KEY INDICATOR TRENDS

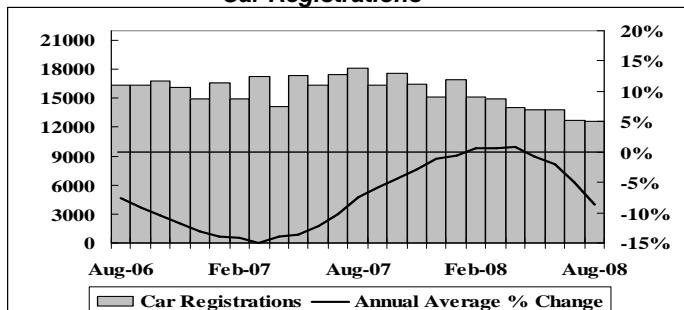
### Building Consents



Source: Dept of Statistics Building Surveys and Vitals Section

A total of 1,328 new building consents with a combined value of around \$349.7 million were issued for residential dwellings in New Zealand during August 2008. This was the lowest level recorded over the past 15 years. The annual average growth rate in the number of new building consents issued for residential dwellings in New Zealand was negative 19.7% for the year ended August 2008.

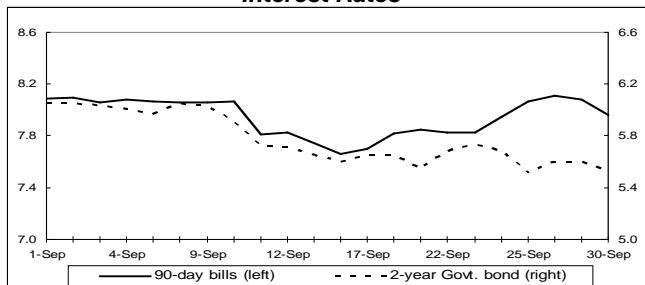
### Car Registrations



Source: Land Transport Safety Authority

There was a total of 12,594 cars (including both new and ex-overseas car types) registered nationwide during August 2008. This was the lowest level recorded since July 1998, taking year-on-year growth to negative 8.6% for the year ended August 2008.

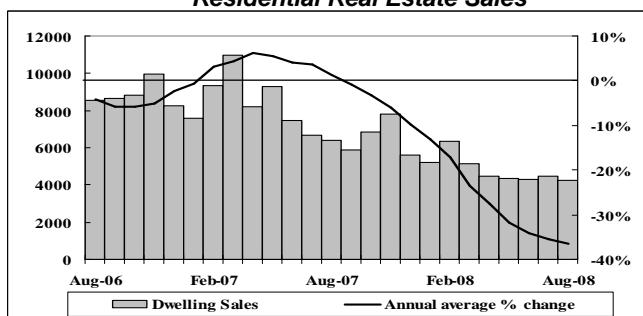
### Interest Rates



Source: Reserve Bank of New Zealand (RBNZ)

As the international financial crisis deepens and overseas central banks start to cut interest rates, the Reserve Bank of New Zealand (RBNZ) also faces pressure to further cut the Official Cash Rate (OCR). Therefore, it is not surprising that 90-day bill rates descended to 7.96% by the end of September 2008.

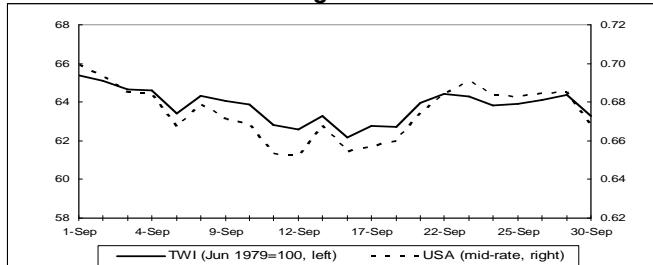
### Residential Real Estate Sales



Source: Real Estate Institute of New Zealand

A total of 4,220 houses with a median sale price of \$330,000 were sold in New Zealand during August 2008. This was the lowest monthly trading volume recorded since REINZ started to collect housing data 26 years ago. The annual average growth rate in the number of houses sold in New Zealand was negative 36.4% for the year ended August 2008.

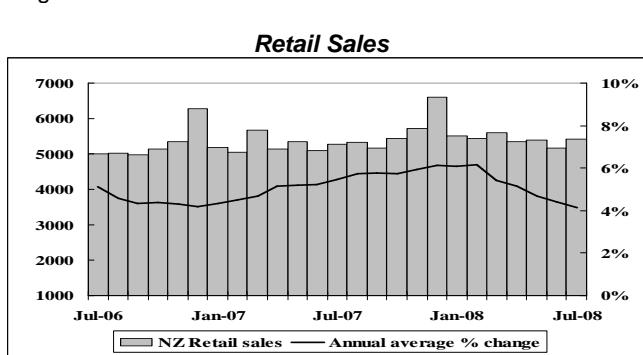
### Exchange Rates



Source: Reserve Bank of New Zealand

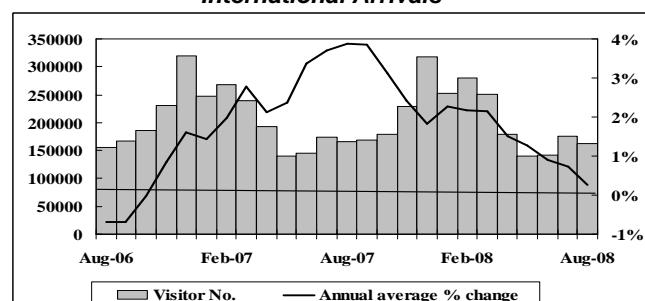
Although the New Zealand economy is technically in recession, a weak economic outlook for our major partners, along with positive interest rate differentials between New Zealand and overseas markets, have limited the decline in the value of the Kiwi dollar. By the end of September 2008, NZ\$1.00 traded against US\$0.67 and the Trade-Weighted Index (TWI) stood at 63.3 points.

### International Arrivals



Source: Business Statistics Section, Statistics New Zealand

The total nominal value of New Zealand's retail sales increased from \$5,170.9 million recorded in June 2008 to \$5,410.8 million recorded in July 2008. June 2008's level was an increase of \$131.8 million (or 2.5%) compared to the value recorded in July 2007. The annual average growth rate in the total nominal value of New Zealand's retail sales was 4.2% for the year ended July 2008.



Source: Statistics New Zealand

There was a total of 162,485 overseas visitors to New Zealand during August 2008, down from 175,738 visitors recorded in July 2008 and 164,775 visitors recorded in August 2007. The annual average growth rate in the number of overseas visitor arrivals to New Zealand was 0.3% for the year ended August 2008.

## SUMMARY AND COMMENTARY

In September 2008 the RBNZ surprised the market by cutting the Official Cash Rate by 50 rather than 25 basis points, while as expected the New Zealand economy entered a recession. Internationally, the US sub-prime credit crunch spread to a global financial crisis. The US government took control of Fannie Mae and Freddie Mac (mortgage finance institutions), Lehman Brothers, which was the fourth biggest US investment bank went bankrupt and the Merril Lynch was sold. The US Federal Reserve bailed out the American International Group (AIG) by

offering it an emergency loan of US\$85 billion (NZ\$128.8 billion). Late September 2008, Washington Mutual (a US loan and savings bank) also collapsed. This bankruptcy was the largest in history of America's banks.

Understandably, due to a lack of business confidence global share markets have suffered huge losses. The US congress has agreed to a US\$700 billion relief programme, and major central banks across the world are cooperating to cut interest rates and thereby stimulate economic growth.

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