



# NEW ZEALAND ECONOMIC UPDATE

October 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.

### ANNUAL INFLATION WAS STRONG

Statistics New Zealand's (SNZ) Consumer Price Index (CPI) grew by 1.5% over the September 2008 quarter, which was greater than the 1.3% increase expected by the Reserve Bank of New Zealand (RBNZ). This followed an increase of 1.6% in the June 2008 quarter and resulted in annual inflation standing at 5.1% for the year ended September 2008, the highest level recorded in 18 years. Notably, the last time that annual CPI was around 5.0% was in 1990 when GST was introduced.

Nine out of eleven industry groups recorded price increases over the September 2008 quarter, with food prices making the largest contribution to the CPI movement. Following rises of 2.2% in the March 2008 quarter and 1.8% in the June 2008 quarter, food prices increased by 3.7% in the September 2008 quarter.

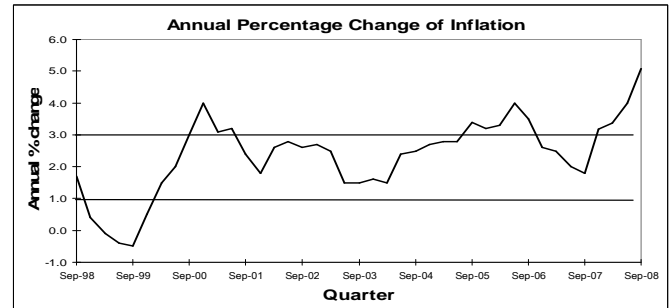
In particular, prices in the fruit and vegetable subgroup rose 14.2%, largely due to unusually wet weather conditions. Had food prices remained unchanged, the CPI would have increased by only 0.8%. On an annual basis, food prices grew by 9.5% in the September 2008 year.

The housing associated group made the next biggest contribution to the quarterly CPI surge. Prices in this group increased by 1.4%, partly caused by the annual increase of local authority rates (up 4.7%). Other upward price movements in this group included prices for buying new houses (up 1.3%) and housing rentals (up 0.8%). Prices in the housing associated group were 4.7% higher in the September 2008 quarter compared to the September 2007 quarter.

Following an increase of 4.9% in the June 2008 quarter, prices in the transport group increased by 2.0% in the September 2008 quarter. Key price drivers came from petrol prices (up 4.6%), diesel prices (up 5.1%), motor vehicle licence fees (up 16.1%), international airfares (up 3.7%) and domestic air tickets (up 5.4%). However, a fall of 8.0% in the price of second hand cars partly offset the upward trend.

On an annual basis, the transport group increased by 11.3%, largely attributable to increases in petrol prices (up 29.3%). Annual inflation would have only been 3.7% if petrol prices had remained constant over the past 12 months.

Apparel (down 0.4%) and communication (down 1.1%) were the only two groups which recorded downward price movements in the September 2008 quarter.



Source: Reserve Bank of New Zealand and Statistics New Zealand

### OCR CUT BY 100 BASIS POINTS

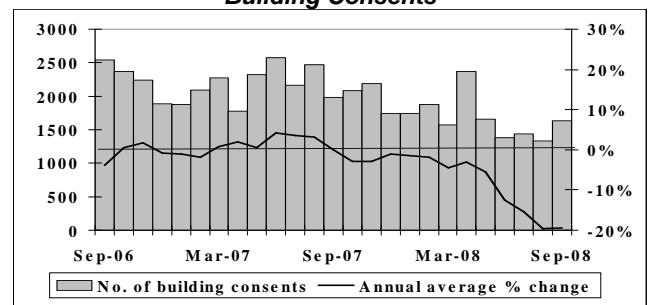
The RBNZ cut the Official Cash Rate (OCR) by 100 basis points from 7.5% to 6.5% in late October 2008, despite the fact that the annual headline inflation stood at 5.1% for the September 2008 year, well above the RBNZ's upper limit of 3.0%.

The OCR cut was aggressive but was expected by the market. RBNZ Governor Alan Bollard pointed out that "ongoing financial market turmoil and deteriorating outlook for global growth have played a large role in shaping the RBNZ's decision".

The current financial crisis has affected the global economy so badly that major central banks, such as the Federal Reserve and the Reserve Bank of Australia, have sharply cut their interest rates. On the domestic front, weak retailing activity and a subdued housing market along with the recent lower fuel prices have made some room for the RBNZ to further cut the OCR.

## KEY INDICATOR TRENDS

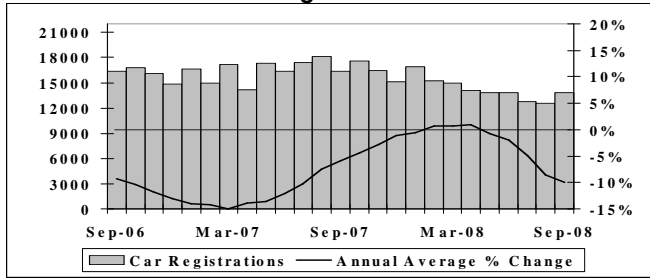
### Building Consents



Source: Dept of Statistics Building Surveys and Vitals Section

There was a total of 1,635 new building consents valued at around \$441.5 million issued for residential dwellings in New Zealand during September 2008. This was greater than the 1,328 (a 15 year low) consents issued in August 2008, but less than the 1,988 consents issued in September 2007. The annual average growth rate in the number of new building consents issued for residential dwellings in New Zealand was negative 19.3% for the year ended September 2008.

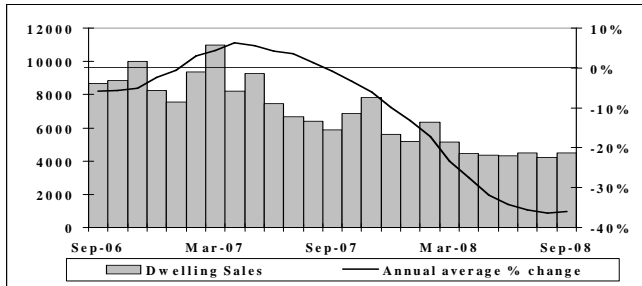
### Car Registrations



Source: Land Transport Safety Authority

There was a total of 13,829 cars (including both new and ex-overseas car types) registered in New Zealand during September 2008, the greatest level recorded over the past five months. However, September 2008's level was less than the 16,388 cars registered in September 2007. The annual average growth rate in the number of new and ex-overseas cars registered in New Zealand was negative 9.9% for the year ended September 2008.

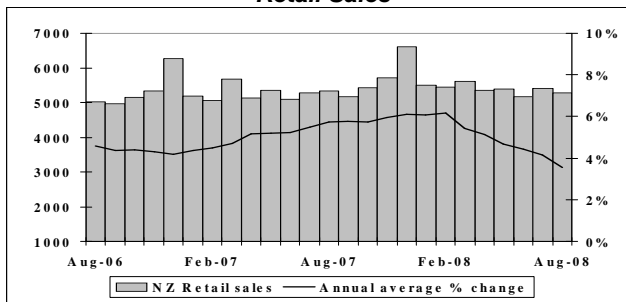
### Residential Real Estate Sales



Source: Real Estate Institute of New Zealand

Around 4,500 houses were sold in New Zealand during September 2008. While September 2008's level was greater than the 4,220 houses sold in August 2008, it was less than the 5,894 houses sold in September 2007. The annual average growth rate in the number of houses sold in New Zealand was negative 36.0% for the year ended September 2008.

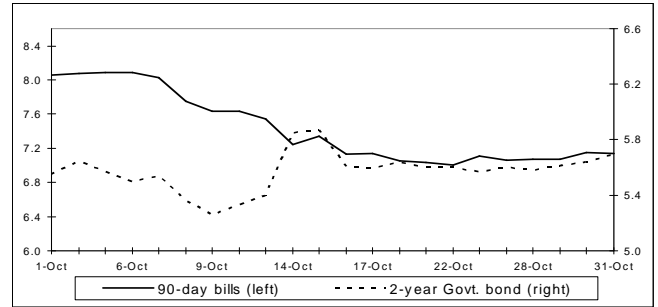
### Retail Sales



Source: Business Statistics Section, Statistics New Zealand

The nominal value of New Zealand's retail sales totalled \$5,279.4 million during August 2008, down from the \$5,410.8 million and the \$5,328.6 million recorded in July 2008 and August 2007 respectively. The annual average growth rate in the nominal value of New Zealand's retail sales has slowed from 4.2% for the year ended July 2008 to 3.6% for the year ended August 2008.

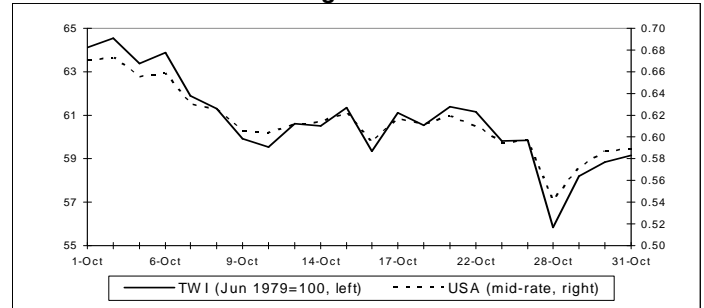
### Interest Rates



Source: Reserve Bank of New Zealand

New Zealand's interest rates started to trend down in October 2008, following the RBNZ's OCR cut. By the end of October 2008, the 90-day bill rate had declined from 7.96% on 30th September 2008 to 7.14%.

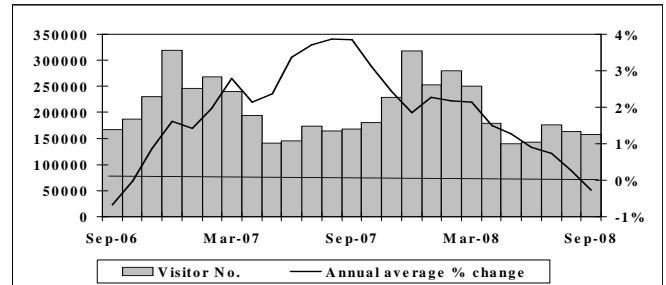
### Exchange Rates



Source: Reserve Bank of New Zealand

New Zealand's exchange rates declined over October 2008, affected by the poor domestic economic outlook and the worsening of the global financial crunch. However, the market responded positively to the RBNZ's OCR cut in late October 2008, with the Trade-Weighted Index (TWI) settling at 59.2 points by the end of the month.

### International Arrivals



Source: Statistics New Zealand

A total of 157,704 visitor arrivals to New Zealand was recorded in September 2008, which was a decline from the 162,485 visitors recorded in August 2008. September 2008's level was a decrease of 6.6% compared to the number of visitors recorded in September 2007. The annual average growth rate in the number of international visitor arrivals to New Zealand for the first time since October 2006 fell in negative territory, standing at negative 0.3% for the year ended September 2008.

## SUMMARY AND COMMENTARY

The current international financial crisis remained a focus in October 2008. The New Zealand economy is in a technical recession (ie; GDP has declined for two consecutive quarters) and annual Inflation for the September 2008 year stood at 5.1%. Given these facts it is not surprising that business confidence fell sharply in October 2008.

The percentage of respondents in the National Bank's October 2008 Business Outlook Survey who expected that general business conditions will deteriorate in 12 months' time exceeded the percentage who expected an improvement by 42% (i.e. a net negative 42%). This result stood in sharp contrast to September 2008's result when the number of survey respondents who were optimistic

about future economic conditions exceeded those who were negative by 1.6%.

The September 2008 Quarterly Survey of Business Opinion (QSBO), published by the New Zealand Institute of Economic Research (NZIER), indicated that on a seasonally adjusted (s.a.) basis, a net 32% of firms reported a decrease in their own activity over the September 2008 quarter. This result was much worse than the net 19% of businesses surveyed who reported a decline in NZIER's previous QSBO survey, and was the greatest decline recorded since March 1991. In addition, a net 13% (s.a.) of firms expected their own level of trading activity to decrease in the December 2008 quarter, compared to the level experienced in the September 2008 quarter.

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