



# NEW ZEALAND ECONOMIC UPDATE

November 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 EASED IN THIRD QUARTER

According to Statistics New Zealand's (SNZ) Household Labour Force Survey (HLFS), the labour market eased over the September 2008 quarter. On a seasonally adjusted basis, the number of people employed increased by 3,000 (0.1%) to 2,172,000 people over the September 2008 quarter. The unemployment rate increased from 3.9% in the June quarter to 4.2% in the latest quarter.

Standing at 1,683,000 in the September 2008 quarter, full-time employment increased by 8,000 people (0.5%) compared to the number of people employed in the June 2008 quarter, while part-time employment declined by 2,000 people (0.5%) over the same period. Between September 2007 and September 2008, full-time employment grew by 24,000 people (1.4%) and part-time employment grew by 2,000 people (0.3%).

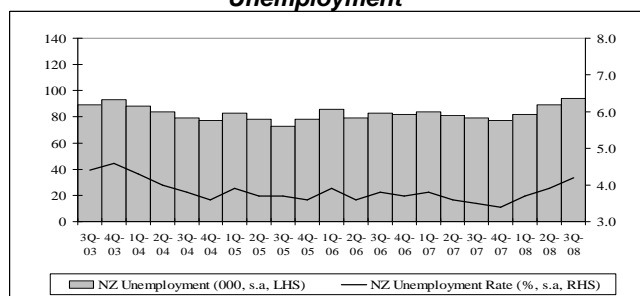
Female employment grew by 8,000 (0.8%) over the September 2008 quarter, reaching a high of 1,015,000. A total of 6,000 (0.9%) more females were employed full time while 2,000 (0.5%) were females employed in part time jobs.

Male part-time employment decreased by 5,000 people over the September 2008 quarter while full time employment grew by just 0.1%. The level of male employment declined by 0.7% between the September 2007 and the September 2008 quarters.

The number of people unemployed increased by 6,000 (or 6.3%) to 94,000 over the quarter, pushing annual total unemployed up by 16,000 people (19.7%) for the year to September 2008.

New Zealand's unemployment rate increased by 0.3 percentage points over the September 2008 quarter to 4.2%, the highest level recorded since the December 2003 quarter. The number of males unemployed increased by 4,000 to 51,000 over the quarter while female unemployment increased by 2,000 to 43,000.

### Unemployment



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

## AGGRESSIVE OCR CUT

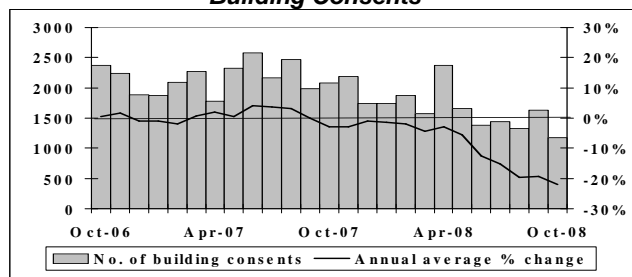
The Reserve Bank of New Zealand (RBNZ) cut the Official Cash Rate (OCR) by a large 150 basis points in early December 2008. This decrease represented a shift to expansionary policy. The OCR has fallen from a high of 8.25% to 5.0% currently over the past few months.

The size of the OCR cut, was at the top end of economists' expectations. As the RBNZ revealed in its Monetary Policy Statement, "ongoing financial market turmoil and the marked deterioration in the outlook for global growth have played a large role in the decision to cut the OCR".

The US, Japan and Europe all expect recessions next year, and New Zealand's major trading partners' growth is expected to average around 1.1% over the coming year. It is this weak external demand that will affect the New Zealand economy and help bring headline inflation back to the 1% - 3% target range.

## KEY INDICATOR TRENDS

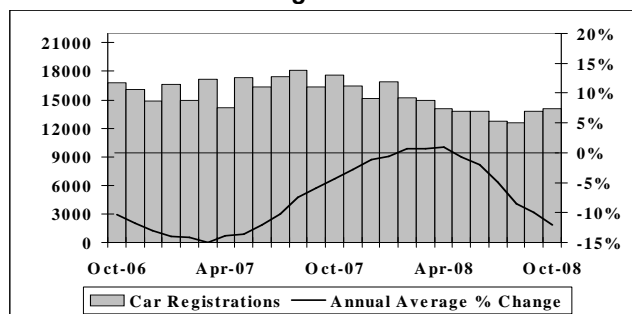
### Building Consents



Source: Dept of Statistics Building Surveys and Vitals Section

A total of 1,173 new building consents worth \$329.1 million were issued for residential dwellings in New Zealand during October 2008. This was the lowest level recorded over the past 14 years. The annual average growth rate in the number of new building consents issued for residential dwellings in New Zealand was negative 21.9% for the year ended October 2008.

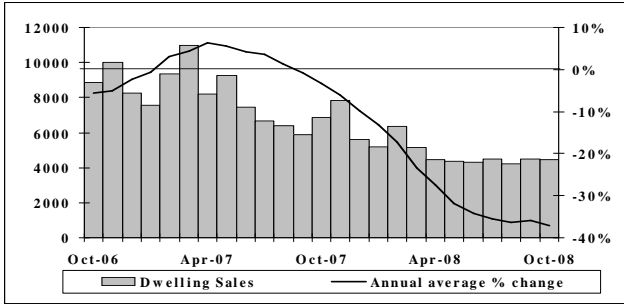
### Car Registrations



Source: Land Transport Safety Authority

A total of 14,091 cars (including both new and overseas car types) were registered in October 2008 in New Zealand, up from 13,829 cars registered in September 2008 but less than the 17,583 cars registered in October 2007. The annual average growth rate in the number of cars registered in New Zealand was negative 12.0% for the year ended October 2008.

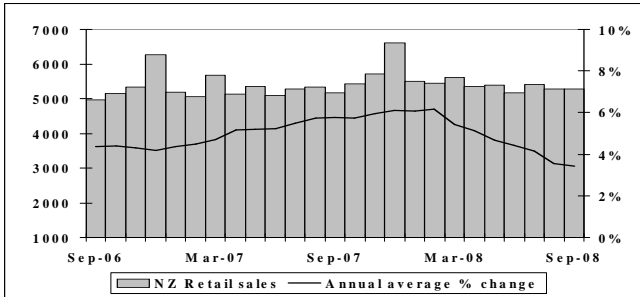
### Residential Real Estate Sales



Source: Real Estate Institute of New Zealand

There was a total of 4,469 houses with a median sale price of \$335,000 sold in New Zealand during October 2008. October 2008's sales were less than the 4,499 houses sold in September 2008 and the 6,854 houses sold in October 2007. The annual average growth rate in the number of houses sold in New Zealand was negative 37.1% for the year ended October 2008.

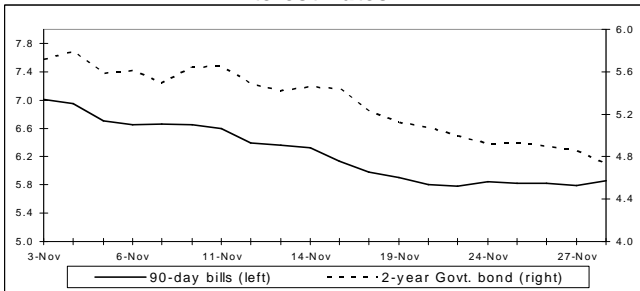
### Retail Sales



Source: Business Statistics Section, Statistics New Zealand

Retail sales totalled \$5,285.6 million during September 2008, a rise of \$6.2 million from August 2008's level. September 2008's level was also greater than the \$5,171.4 million recorded in September 2007. The annual average growth rate in the nominal value of New Zealand's retail sales was 3.46% for the year ended September 2008.

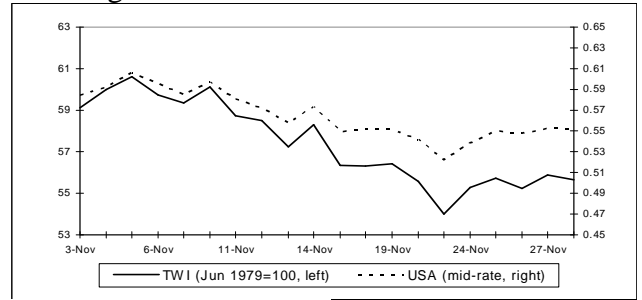
### Interest Rates



Source: Reserve Bank of New Zealand

Wholesale interest rates declined over November 2008 attributable to expectations of another big OCR cut by the RBNZ (which was confirmed in early December 2008). By the end of the month, the 90-day bill rate stood at 5.86%.

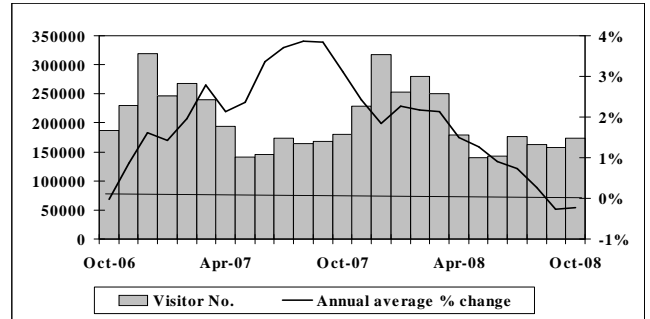
### Exchange Rates



Source: Reserve Bank of New Zealand

Speculations about an aggressive OCR cut and the prospect of worsening economic conditions locally and offshore caused New Zealand's exchange rates to rapidly descend over November 2008. By 21 November 2008 the TWI stood at 54.0 points and NZ\$1.0 traded against US\$0.53. However, the market regained some ground after 21 November, with the Trade-Weighted Index (TWI) standing at 55.7 points by the end of the month.

### International Arrivals



Source: Statistics New Zealand

There was a total of 173,938 international visitor arrivals to New Zealand during October 2008. This was a large increase from 157,704 visitors recorded in September 2008. However, October 2008's level was less than the 179,947 visitors recorded in October 2007. The annual average growth rate in the number of visitor arrivals to New Zealand was negative 0.2% for the year ended October 2008.

### SUMMARY AND COMMENTARY

The majority of economic institutions forecast a shallow recession that will reach its nadir in the March 2009 quarter. From thereon however, the outlook will become brighter. According to the December 2008 Quarterly Predictions published by the New Zealand Institute of Economic Research (NZIER), GDP will grow by 1.6% in the year to March 2010 and will accelerate to 3.3% in the following year. The growth will primarily be driven by stronger internal demand. In other words, the recovery will be consumption led.

Factors that will boost depositable income include tax cuts (in October 2008 and April 2009), declining petrol prices (down by 36% in the nine months to date) and lower interest rates. Inflation may be kept in check by modest wage increases.

According to the National Bank's November 2008 Business Outlook Survey, Business confidence is still subdued with a net 43% of firms expecting general economic conditions to deteriorate in 12 months' time. This was a similar level of confidence as that reported in last month's survey.

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