



# NEW ZEALAND ECONOMIC UPDATE

## January 2009

### 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.

### QUARTERLY CONSUMER PRICE INDEX FALLS

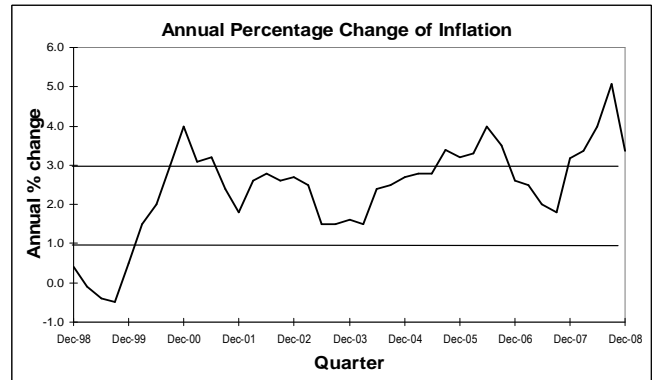
According to Statistics New Zealand (SNZ), the Consumer Price Index (CPI) fell 0.5% in the December 2008 quarter. This contrasted to an increase of 1.5% recorded in the September quarter, and was the first time that the CPI has decreased since March 2007. On an annual basis, inflation slowed from a high of 5.1% for the September 2008 year to 3.4% for the 2008 calendar year, still sitting above the top of the Reserve Bank of New Zealand target band.

The quarterly price deflation was largely driven by a fall in petrol prices. In fact, the price movements were unevenly distributed – with only 2 out of 11 groups recording price decreases and the rest of the 9 groups recording price increases.

Following a rise of 2.0% in the September 2008 quarter, prices for the transport group declined 7.6% in the December 2008 quarter. As a result of sharp falls in international crude oil prices, quarterly petrol and diesel prices in New Zealand declined 22.4% and 26.9%, respectively. Had fuel prices remained unchanged over the quarter, the CPI would have increased 0.9%. The transport group's most significant individual upward contribution to the CPI came from higher prices for international airfares (up 6.9%). The transport group decreased 0.3% from the December 2007 quarter to the December 2008 quarter.

The other group showing a downward movement in the December 2008 quarter was the communication group, which dropped 0.4%. Food prices increased 1.5%, driven by meat, poultry and fish subgroups. However, a fall of 5.9% in the fruit and vegetable subgroup partly offset the total price increases. The food group increased 9.4% from the December 2007 quarter to the December 2008 quarter, accounting for half the increase in the CPI for the year to the December 2008 quarter.

The housing and household utility group increased 0.6%, helped by price increases in electricity (2.0%) and housing rentals (0.4%). On the contrary, prices for purchasing new houses declined 0.2%, the first fall since the March 1999 quarter. Looking ahead, inflation looks set to ease in 2009, leaving more room for the Reserve Bank of New Zealand (RBNZ) to cut interest rates further.



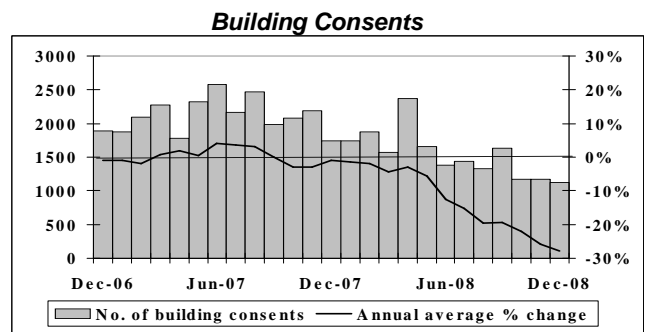
Source: RBNZ and SNZ

### OCR REDUCED TO 3.5%

With many institutions expecting a percentage point cut in the Official Cash Rate (OCR), the Reserve Bank of New Zealand (RBNZ) reduced the OCR by 1.5% in late January 2009. This was the second consecutive cut that the RBNZ has made to the OCR with the current rate standing at a record low of 3.5%.

Both internal and external factors were behind the RBNZ's decision to cut rates. Domestically, inflation has started to ease and is likely to further abate in 2009. Meanwhile, the unemployment rate is expected to increase. Furthermore, Fonterra's recent forecast payout is \$5.1/kg for this season, which means that dairy farmers will get a total of \$3 billion less revenue compared to last season. Internationally, the global economy is forecast to continue to slow. In particular, New Zealand's main trading partners are expected to contract 0.1% in 2009, which is in contrast to growth of 1.3% expected in the December 2008 Monetary Policy Statement (MPS).

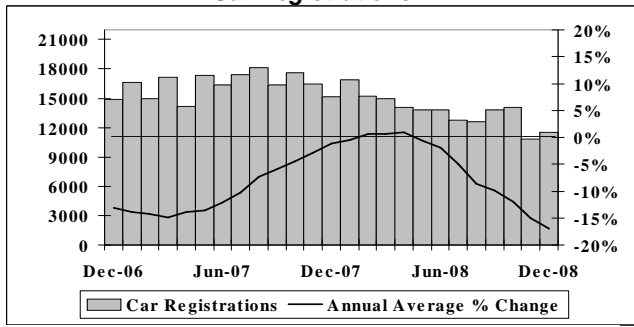
### KEY INDICATOR TRENDS



Source: Dept of Statistics Building Surveys and Vitals Section

There was a total of 1,127 new building consents, with a combined value of around \$320.2 million, issued for residential dwellings in December 2008. This represents the lowest level recorded since SNZ started to collect consent data. The annual average growth rate in the number of new building consents was negative 27.8% for the year ended December 2008.

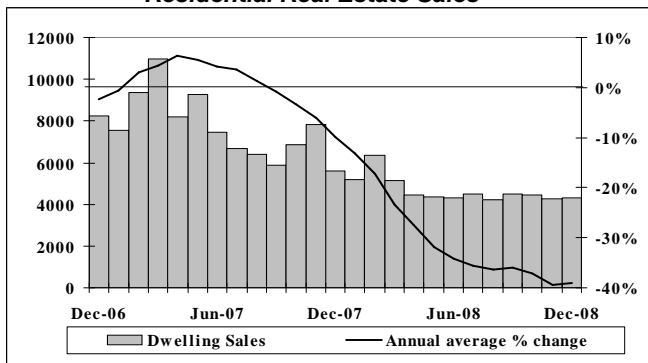
### Car Registrations



Source: Land Transport Safety Authority

A total of 11,547 cars (including both new and ex-overseas car types) were registered in New Zealand in December 2008. This was greater than the 10,821 cars registered in November 2008. However, this was much lower than the 15,124 cars registered in December 2007. The annual average growth rate in the number of new and ex-overseas cars registered in New Zealand was negative 17.0% for the year ended December 2008.

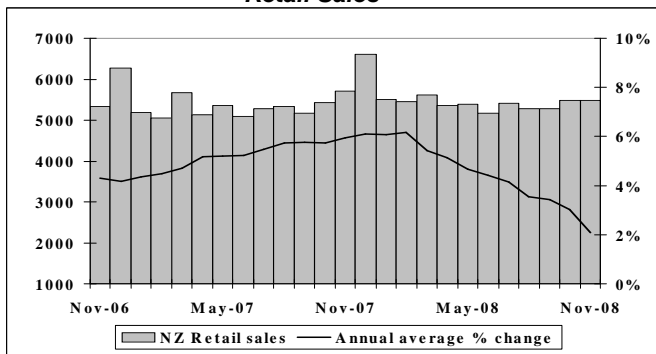
### Residential Real Estate Sales



Source: Real Estate Institute of New Zealand

A total of 4,302 houses, with a median sale price of \$328,500, were sold in New Zealand in December 2008. The number of houses sold in December 2008 exceeded the 4,279 that were sold in November 2008, but was well below the 5,597 houses sold in December 2007. The annual average growth rate in the number of houses sold in New Zealand was negative 39.1% for the year ended December 2008.

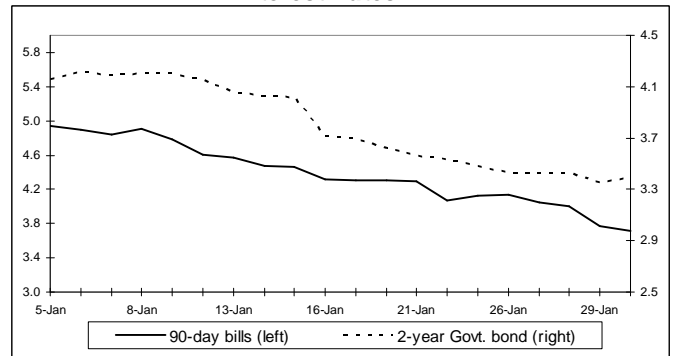
### Retail Sales



Source: Business Statistics Section, Statistics New Zealand

The value of New Zealand's retail sales increased from \$5,477.9 million in October 2008 to \$5,486.7 million in November, but decreased by \$224.1 million (or 3.9%) compared to November 2007. The annual average growth rate in the nominal value of New Zealand's retail sales was 2.1% for the year ended November 2008.

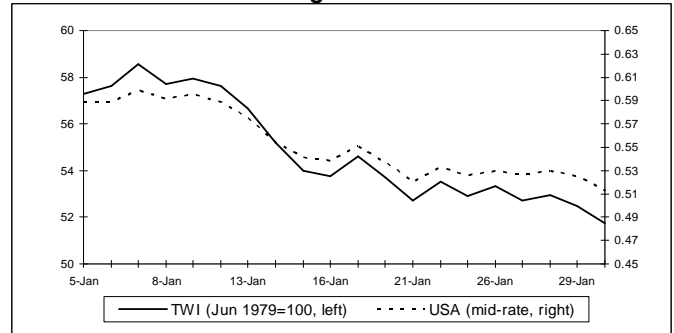
### Interest Rates



Source: Reserve Bank of New Zealand

Wholesale interest rates continued to ease in January 2009 caused by the RBNZ's 1.5% cut to the OCR. By the end of the month, the 90-day bill rate had declined to 3.71%.

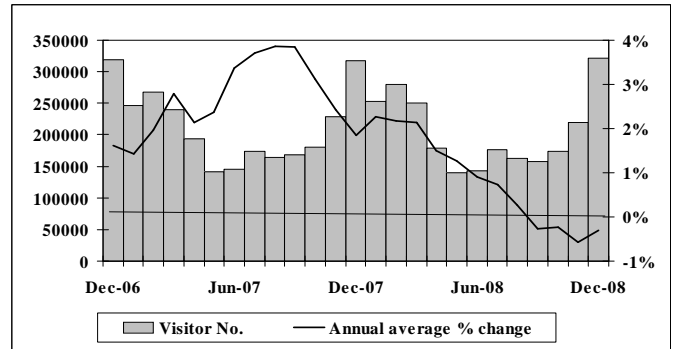
### Exchange Rates



Source: Reserve Bank of New Zealand

New Zealand's exchange rates depreciated in January 2009. This was triggered initially by a downgrade in New Zealand's credit level, followed by the worsening of the New Zealand current account deficit and finally by the 1.5% OCR cut. By the end of the month, NZ\$1.00 traded against US\$0.51 and the Trade-Weighted Index (TWI) fell to 51.74 points.

### International Arrivals



Source: Statistics New Zealand

The number of international visitor arrivals increased from 219,313 in November 2008 to 322,207 in December 2008. December 2008's numbers were greater than the 317,259 recorded in December 2007. The annual average growth rate in the number of international visitor arrivals was negative 0.3% for the year ended 2008.

## SUMMARY AND COMMENTARY

The New Zealand economy is experiencing a fall in commodity prices and a rise in unemployment. The CPI declined 0.5% in the December 2008 quarter while the unemployment rate started to increase.

According to the New Zealand Institute of Economic Research's (NZIER) latest Quarterly Survey of Business Opinion (QSBO), business confidence declined to a record low in the December 2008 quarter. A net 77% of firms (on a seasonally adjusted basis) expected the

general economic conditions to deteriorate over the next six months. This was the most pessimistic outlook since March 1970. More importantly, a net 44% of firms reported a decrease in their own business activity over the past three months (compared with a net 32% who reported a decrease in the previous survey), and a net 43% expect a fall in their own trading activity for the coming three months.

**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.