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Te Pātaka Rangahau a Te Whare Pāremata

MONTHLY ECONOMIC REVIEW






November 2008

(latest data as at 7 November)

Parliamentary Library Research Paper

A Overview

Recent trend

	06/07	07/08	
 Economic Growth	2.3%	2.6%	Annual GDP Growth (June year)
 Unemployment	3.5%	4.2%	Unemployment Rate (September quarter)
 Inflation	1.8%	5.1%	Annual CPI Growth (September year)
 Current Account Deficit	\$14.1b	\$15.0b	Current Account Deficit (June year)
 Interest Rates	8.68%	7.43%	90 Day Bank Bills (October month)

Latest data

New Zealand's unemployment rate rose to its highest level in almost five years, rising by 0.3 percentage points in the September 2008 quarter to 4.2 percent. However, there was also an increase in employment over the quarter (+0.1 percent), with an increase in full-time employment outweighing a drop in part-time employment. The annual rate of inflation, at 5.1 percent for the year ended in the September 2008 quarter, reached its highest level since the year ending June 1990 (when it was 7.6 percent due to an increase in GST from 10 percent to 12.5 percent from 1 July 1989). Higher petrol prices had a significant influence on the consumers price index, with the cost of a litre of petrol rising by 29.3 percent over the year. The Reserve Bank of New Zealand reduced its official cash rate by 100 basis points to 6.50 percent, and noted that further reductions were likely, depending on "evidence of actual reductions in domestic cost pressures as well as how the global financial developments play out". Businesses are pessimistic, with results from the NZIER's latest *Quarterly Survey of Business Opinion* consistent with further declines in economic activity over the second half of 2008.

Outlook

Equity and financial markets are expected to remain volatile over the short term, as investors adjust to the extent of the global slowdown, and the impact that this slowdown will have on them and their investments. Like a wide number of other developed countries, New Zealand's unemployment rate is expected to continue rising, as businesses lay off staff as demand for their goods and services falters. Other countries are likely to join New Zealand in economic recession, with the most likely candidates being the United Kingdom and the United States. However, it is not all bad news. The income tax cuts from 1 October 2008 will provide a stimulus to the economy, along with falling interest (and mortgage) rates, and dropping petrol prices. Further reductions in the official cash rate are likely, with the extent and timing of these based on developments overseas, movements in the exchange rate, and prices in New Zealand.

Topic of the month: Australia's economic outlook

B Economic Growth

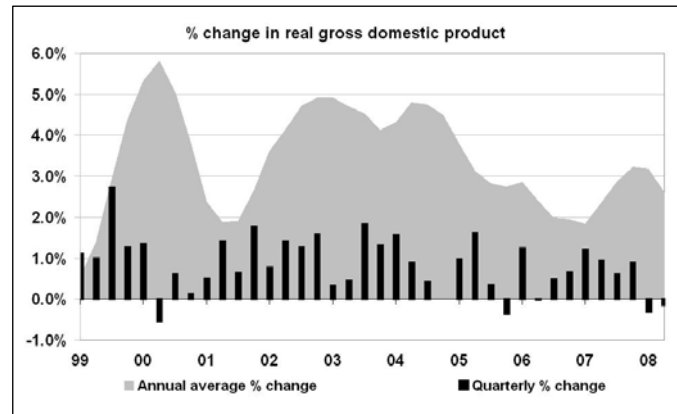
Background

A country's gross domestic product (GDP) is a measure of economic activity during a set period of time, normally reported on a quarterly and an annual basis. It is the sum of money values of all final goods and services produced in an economy over a set period. The primary indicator used for tracking economic performance over time is known as real gross domestic product, or real GDP. Real GDP is gross domestic product adjusted for changes in prices. New Zealand's official gross domestic product figures are sourced from Statistics New Zealand.

Recent trend

The gross domestic product figures for the June 2008 quarter confirmed that the economy experienced a technical recession during the first half of 2008 (defined as two consecutive quarters of easing economic activity). Over the June 2008 quarter the economy eased by 0.2 percent, which followed a fall of 0.3 percent over the March 2008 quarter. Over the June 2008 quarter, economic activity in the construction industry eased by 3.8 percent, while the value-added output from the retail, accommodation and restaurants industry grouping fell by 1.9 percent.

On an annual average basis, the economy expanded by 2.6 percent over the year to June 2008. Value-added output from the fishing, forestry and mining industries expanded by 27.4 percent over the year, due to the commencement of production from the Tui oil field in late 2007.



Latest monthly data

Business confidence took a hit during October, with pessimism returning. The National Bank's *Business Outlook* survey experienced the largest monthly fall in its history, with a net 42 percent of respondents now expecting general business conditions to deteriorate over the coming year. Results from the latest NZIER *Quarterly Survey of Business Opinion* results are consistent with a continuing decline in economic output over the second half of 2008.

Year ended June 2008	Nominal GDP
Expenditure GDP	\$179,190 million
GDP per capita	\$42,150

Source: Statistics New Zealand.

Outlook

It is most probable that the economy contracted again in the September 2008 quarter. The Treasury has forecast the economy expanded by only 0.1 percent in the year ended March 2009, in their *Pre-election Economic and Fiscal Update* (forecasts finalised in August 2008). Lower interest and mortgage rates, lower fuel prices along with the tax cuts from 1 October 2008 are currently providing a stimulus to the economy. Looking further ahead, the fall in the New Zealand dollar will make our exports more competitive and encourage tourism.

Net % expecting economic improvement in 12 months	Sep-08	Oct-08
NBNZ – Business Confidence	1.6	-42.3
NBNZ – Own Activity	16.7	-11.4
One Network News – Colmar Brunton survey	3	1

Source: National Bank.

GDP growth (%)	Jun-07	Sep-07	Dec-07	Mar-08	Jun-08
Annual (year-on-year)	2.3	2.9	3.2	3.2	2.6
Quarterly (seasonally adjusted)	0.9	0.6	0.9	-0.3	-0.2

Source: Statistics New Zealand.

Next Release: *Gross Domestic Product: September 2008 quarter.*

Date: 23 December 2008

C Employment and Unemployment

Background

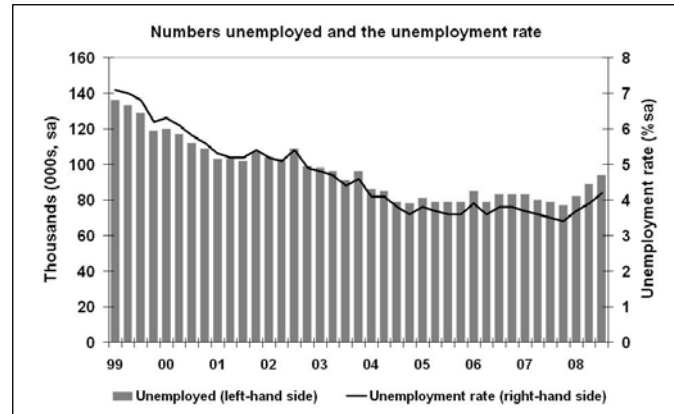
The unemployment rate measures the number of people unemployed as a proportion of those in the labour force. The labour force is the number of people of working age (15 years and over) who are working for wages or a salary, working for a family business, or who are unemployed and seeking work. In New Zealand, the official unemployment rate is sourced from Statistics New Zealand's quarterly Household Labour Force Survey.

Recent trend

New Zealand's unemployment rate rose by 0.3 percentage points to 4.2 percent in the September 2008 quarter. This is the highest unemployment rate recorded in almost five years. However, it compares favourably against the OECD average of 6.0 percent (for those 27 OECD countries that produce a standardised unemployment rate).

In the September 2008 quarter, employment rose by 0.1 percent, with full-time employment rising by 9,000 and part-time employment falling by 3,000. The number of those unemployed rose by 5,000 to 94,000 people (on a seasonally adjusted basis).

The number of those employed rose by 1.0 percent between the September 2007 and 2008 quarters. Between the two quarters, employment in the agriculture, forestry and fishing industry fell by 7.3 percent, and by 0.4 percent in the wholesale and retail trade industries. Strong employment growth was recorded in the education industry (+4.6%) and health and community services industry (+3.5%).



Latest monthly data

Businesses' employment intentions continue to deteriorate, with a net 21 percent of respondents to the latest National Bank *Business Outlook* survey expecting to decrease employment within their own business over the coming year. A net seven percent of firms who responded to the latest NZIER *Quarterly Survey of Business Opinion* intended to decrease staff numbers over the next quarter, compared with a net 11 percent that reported that they actually decreased staff numbers over the previous quarter. Firms reported that they were finding it much easier to fill both skilled and unskilled labour requirements than had previously been the case.

Quarter (%)	Sep-07	Sep-08
Average ordinary time weekly earnings (pre-tax)	\$852.22	\$895.97
Percentage change in hourly earnings from the same period of the previous year	+3.9	+5.1

Source: Statistics New Zealand.

Outlook

The labour market outlook has deteriorated, with a rising unemployment rate being forecast over the short-term. The retail sector in particular is expected to face a difficult trading environment over the coming year, and this will place pressure on employment within that industry. The Treasury in the *Pre-election Economic and Fiscal Update* has forecast an unemployment rate of 4.4 percent in the March 2009 quarter, rising to 5.1 percent in the March 2010 quarter.

Net % expecting increase in 12 months*	Sep-08	Oct-08
Employment in their business	-5.7	-20.6
Unemployment rate	69.3	79.1

*equal to the % of respondents expecting an increase minus the % expecting a decrease. Source: National Bank.

Household Labour Force Survey	Sep-07	Dec-07	Mar-08	Jun-08	Sep-08
Unemployment Rate (seasonally adjusted, %)	3.5	3.4	3.7	3.9	4.2
Employment Growth (annual, %)*	1.5	2.5	-0.2	0.7	1.0

*change since the same quarter of the previous year. Source: Statistics New Zealand.

Next Release: *Household Labour Force Survey: December 2008 quarter. Date: 5 February 2008*

D Inflation

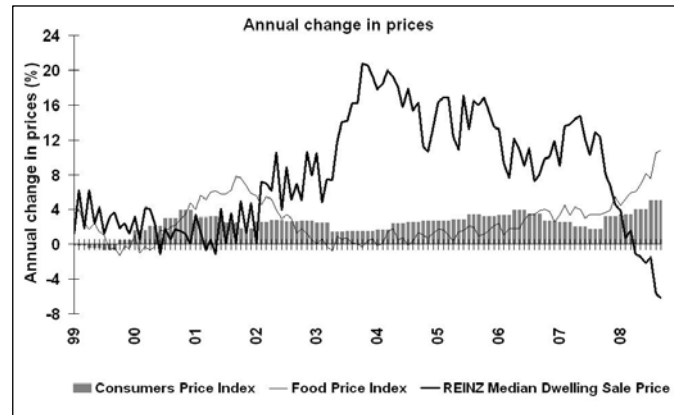
Background

Inflation is the change in prices of goods and services over a certain period of time. The official rate of inflation is measured by Statistics New Zealand's Consumer Price Index (CPI). The CPI tracks the price of a basket of household goods and services over time.

Recent trend

Consumer prices rose by 1.5 percent over the September 2008 quarter, following increases of 1.6 percent over the June quarter. The food group within the consumers price index recorded the largest increase in prices over the September quarter, up 3.7 percent, followed by a 1.4 percent rise in costs associated with the housing and housing utilities group. The largest individual contribution to price increases came from a 4.6 percent rise in petrol prices, followed by a near doubling in the price of a lettuce (up 94.9 percent).

The annual rate of inflation looks to have peaked at 5.1 percent in the year ended in the September 2008 quarter. The annual rate of inflation has not been this high since the year ended June 1990, when it was 7.6 percent (which was assisted by the increase in the level of GST from 10 percent to 12.5 percent from 1 July 1989). On an annual basis, petrol prices have risen by 29.3 percent. The annual rate of inflation would have been 3.1 percent if petrol prices had remained constant over the year.



Latest monthly data

Median house prices continue to ease. From a peak of \$352,000 in November 2007, median house prices were \$330,000 in September 2008 according to the REINZ. Sales numbers have also been dropping, with 4,499 properties changing hands during September 2008 (down from 5,894 in September 2007). According to the Labour Cost Index, salary and wage rates rose by 3.6 percent in the year to the September 2008 quarter (including overtime). This is the largest annual increase since the series began in the December 1992 quarter.

Annual Percentage Change (%)	Aug-08	Sep-08
Quotable Value – Residential property*	-4.5	-5.8
REINZ – National median house sale price**	-5.7	-6.1
Food Price Index**	10.6	10.8

*change since the same three months ended in the month of the previous year **change since the same month of the previous year.

Sources: Quotable Value; REINZ; Statistics New Zealand

Outlook

The annual rate of inflation is forecast to drop from its current level, due to lower commodity prices, a reduction in demand, and associated falls in capacity constraints. However, the drop in the exchange rate will lead to higher costs for imports, partially offsetting declines in international commodity prices. The Reserve Bank expects that the annual rate of inflation will return within the 1 – 3 percent target band around the middle of 2009.

National Bank Business Survey	Sep-08	Oct-08
Net % of respondents expecting to increase prices in 3 months time*:	35.4	20.3
Inflation expected in 12 months time:	3.65	3.60

*equal to the % of respondents expecting an increase minus the % expecting a decrease. Source: National Bank.

Inflation (%)	Sep-07	Dec-07	Mar-08	Jun-08	Sep-08
Consumers Price Index - Annual	1.8	3.2	3.4	4.0	5.1
Tradables inflation	-0.3	2.8	3.4	4.8	6.3
Non-tradables inflation	3.7	3.5	3.5	3.4	4.1
CPI - quarterly	0.5	1.2	0.7	1.6	1.5

Source: Statistics New Zealand.

Next Release: Consumers Price Index: December 2008 quarter. **Date:** 20 January 2008

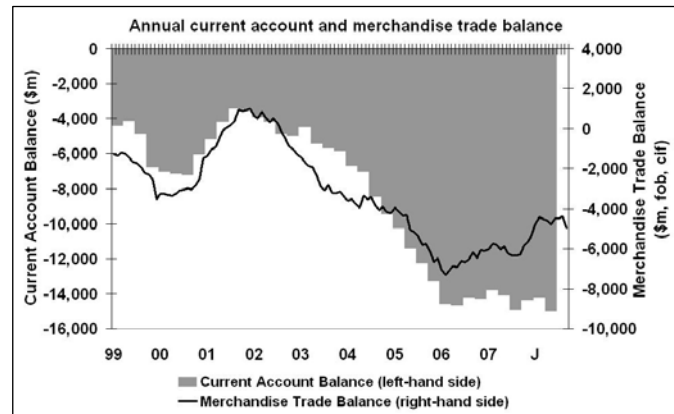
Background

The balance of payments is the record of the receipts and payments between a country's residents and the rest of the world, over a given period. The current account is that part of a country's balance of payments which embraces its transactions of goods, services, international investment income, and current transfers (e.g. foreign aid). A "balance of payments deficit" refers to a deficit of the current account.

Recent trend

The current account deficit for the year ended June totalled \$14,967 million (equivalent to 8.4 percent of gross domestic product). Over the year the deficit rose by \$871 million (but remained as the same percentage of gross domestic product).

Over the year the investment income deficit rose by \$1,795 million as foreign investors' income earned from their investments in New Zealand rose to a greater extent than New Zealanders' income from their overseas investments. The goods deficit improved by \$1,143 million, as the increase in the value of goods exported outweighed the increase in the value of goods imported.



Latest monthly data

International commodity prices fell for the third consecutive month, according to the *ANZ Commodity Price Index*. Compared with the same month in 2007, international commodity prices were 10.9 percent lower in September 2008. After taking account of movements in the New Zealand dollar, prices remain 8.2 percent higher than a year ago (and remain near the all-time high reached in August 2008).

Annual Change (%)	Sep-08	Oct-08
World Commodities Prices*	-2.1	-10.9
NZ\$ Commodities Prices*	3.3	8.2
Overseas Visitors**	-0.3	n/a

*change since the same month of the previous year. **change since the previous year-end. Sources: Statistics New Zealand; ANZ.

Outlook

Exporters will benefit from the decline in the exchange rate over recent months; however the slowdown in the global economy will dampen demand in the near term. The fall in the exchange rate has also put upward pressure on the price of imports (for some commodities, their international price has also been falling due to a downturn in global demand, offsetting to various degrees the effect of the depreciating dollar). The tourism industry is forecast to have a rough time over the short term, as the downturn in the global economy impacts upon job security. Looking ahead, a lower currency will make New Zealand more attractive as a tourist destination.

Annual Balances (\$m)	Jun-07	Sep-07	Dec-07	Mar-08	Jun-08	Sep-08
Current Account	-14,096	-14,892	-14,372	-14,211	-14,967	n/a
Merchandise trade	-2,977	-3,174	-2,381	-1,745	-1,834	n/a
Services	421	430	288	189	-64	n/a
Investment income	-12,135	-12,795	-12,836	-13,387	-13,930	n/a
Current transfers	595	647	557	732	860	n/a
Current Account (quarter*)	-3,682	-3,823	-3,184	-3,526	-4,623	n/a
Merchandise Trade (fob-vfd)	-3,738	-3,827	-2,856	-2,031	-1,897	-2,275
Merchandise Trade (fob-cif)	-6,231	-6,287	-5,312	-4,528	-4,479	-4,985

* Seasonally adjusted. VFD – The value of imports before insurance and freight costs. CIF – Cost of goods imported, including insurance and freight to New Zealand. FOB – Free on board, the value of goods at New Zealand ports before export. Source: Statistics New Zealand.

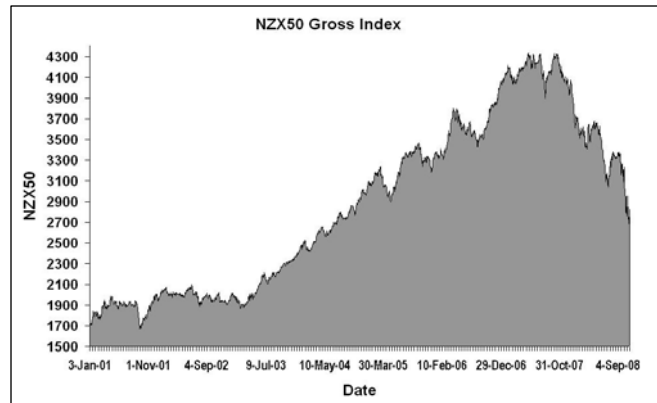
Next Release: *Balance of Payments: September 2008* **Date:** 22 December 2008

Background

The trade weighted index (TWI) is an index of the New Zealand dollar's value against a basket of five overseas currencies, where each currency is weighted by a combination of the size of the associated country's trade with New Zealand (including the Euro group of countries) and their gross domestic product. The official cash rate (OCR) is the interest rate that applies to overnight borrowing and lending between banks and the Reserve Bank. It is currently a key operational feature of monetary policy in New Zealand. The NZX50 is the main share index of the New Zealand Exchange. It tracks changes in the share prices of the top 50 publicly listed companies by free float market capitalisation on the NZX market. It is a gross index, so it includes the payout of dividends in its calculation.

Recent trend & latest monthly data

The Reserve Bank of New Zealand reduced its official cash rate by 100 basis points in October, the largest single reduction since the official cash rate was introduced as the Bank's main monetary policy tool in 1999. Commencing in July this year, the official cash rate has been reduced on three separate occasions, and has dropped by a total of 175 basis points to 6.50 percent. Further reductions look likely, but are dependent on "evidence of actual reductions in domestic cost pressures as well as how the global financial developments play out".

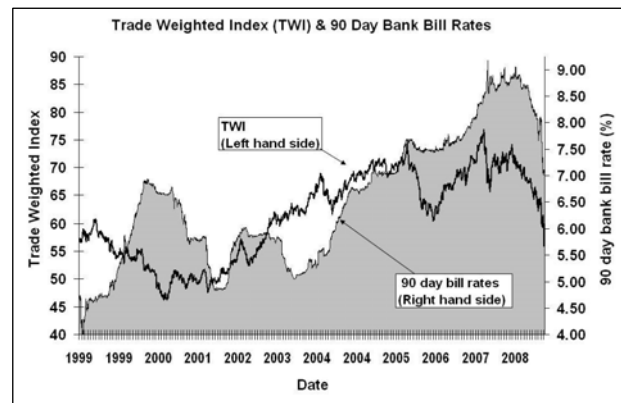


In that vein, the Reserve Bank of New Zealand along with the Federal Reserve of the United States announced that they have agreed to a United States dollar swap facility to be available until 30 April 2009 (up to a maximum of US\$15 billion). This will provide additional United States dollar liquidity to the New Zealand market, should the international financial markets become dysfunctional and it be required.

New Zealand equities did not escape the international turmoil in equity markets during October. The NZX50 commenced October at 3090 index points, and finished the month at 2821 index points, a drop of 8.7 percent (at one stage during the month the NZX50 was down 13.1 percent from the opening index level). The New Zealand dollar also took a tumble during October, falling by 6.5 percent on a trade weighted index basis (and by 16.5 percent against the Japanese Yen, as Japanese investors transferred their deposits home, and in the process ditched the New Zealand dollar).

Outlook

Further reductions in the official cash rate look most likely, with the next scheduled review on 4 December 2008. The Reserve Bank may find it hard to explain the absence of any further reduction, given that the Australian Reserve Bank dropped their cash rate by a further 75 basis points in early November. There are early signs that the credit markets are beginning to function properly again. International financial confidence is likely to improve further if there is a successful outcome to the G20 countries meeting in Washington in mid-November.



Monthly averages	May-08	Jun-08	Jul-08	Aug-08	Sep-08	Oct-08
Trade Weighted Index (TWI) exchange rate	69.32	68.11	67.18	65.52	63.82	60.74
90 Day Bank Bill Rate	8.71	8.68	8.46	8.20	7.95	7.43
Official Cash Rate*	8.25	8.25	8.00	8.00	7.50	6.50
NZX50	3618	3398	3166	3335	3281	2903

* actual rate at end of month, the Official Cash Rate is an interest rate set by the reserve Bank to implement monetary policy.

Sources: Reserve Bank; NZX.

Next Official Cash Rate (OCR) decision: 4 December 2008

Background

New Zealand's economic growth rate, unemployment rate and central bank interest rates are compared with our main trading partners. The first table below illustrates the seasonally adjusted quarterly growth rates in economic activity. The second table below shows the standardised unemployment rate in each OECD country/area, while the third show the main central bank interest rates for various OECD countries (and currency group in the case of the Euro), along with the date and direction of the latest movements for each.

Economic growth

According to advance estimates, economic activity declined by 0.1 percent in the United States over the September 2008 quarter. The decline was driven by weaker consumer spending, along with negative contributions coming from residential fixed investment, and equipment and software investments. Economic activity eased by 0.5 percent over the September 2008 quarter in the United Kingdom (compared with no change in economic activity over the previous quarter). Internationally, economic growth continues to be revised downwards, with *Consensus Forecasts* forecasting that the economies of our trading partners will expand by 2.8 percent in 2008 and by 2.2 percent in 2009.

Quarterly economic growth rates			
Country	Mar-08	Jun-08	Sep-08
Australia	0.7	0.3	
Japan	0.7	-0.7	
NEW ZEALAND	-0.3	-0.2	
United Kingdom	0.3	0.0	-0.5
United States	0.2	0.7	-0.1
OECD Total	0.5	0.1	

Sources: OECD

Unemployment

The standardised unemployment rate in the OECD was six percent in August 2008, 0.2 percentage points higher than in the previous month, and 0.4 percentage points higher than a year earlier. The unemployment rate in Australia remained steady at 4.3 percent in October. Employment rose by 34,300 during the month, with a 9,200 reduction in full-time employment more than offset by a 43,500 increase in part-time employment.

Standardised unemployment rates			
Country	Aug-08	Sep-08	Oct-08
Australia	4.1	4.3	4.3
Japan	4.1		
NEW ZEALAND		4.2	
United Kingdom	5.4(Jun)		
United States	6.1	6.1	6.5
OECD Total	6.0		

Source: OECD

Central banks

Central banks around the world are dropping their official interest rates substantially in order to ease monetary policy as a response to the global financial crisis. The Bank of England's Monetary Policy Committee decided to reduce its official bank rate by a considerable 150 basis points to three percent on 6 November 2008, in the face of marked deterioration in the outlook for their economy. It looks likely that the United Kingdom will experience a technical recession. The Bank of Japan decided on 31 October 2008 to reduce its uncollateralized overnight call rate by 20 basis points from 0.5 percent to 0.3 percent, in the first downward move of its official interest rate in seven years. The Reserve Bank of Australia reduced its cash rate by 75 basis points in early November, following a 100 basis point reduction in October. From a recent peak of 7.25 percent in March 2008, the Australian cash rate now sits at 5.25 percent. The European Central Bank reduced its main refinancing rate by 50 basis points to 3.25 percent (effective from 12 November).

Central Bank interest rates (as at 7 November 2008)				
Central Bank	Key Rate	Interest Rate (%)	Effective from	Direction (Basis points)
Australia	Cash Rate	5.25	5-Nov-08	-75
European Central Bank	Main Refinancing Rate	3.25	12-Nov-08	-50
Japan	Uncollateralized overnight rate	0.30	31-Oct-08	-20
NEW ZEALAND	Official Cash Rate	6.50	23-Oct-08	-100
United Kingdom	Bank Rate	3.00	6-Nov08	-150
United States	Federal Funds Rate	1.00	29-Oct-08	-50

Sources: Central Bank interest rates as at the date stated.

Australia's economic outlook

Australia is our largest trading partner, taking almost a quarter of our merchandise exports in the year ended September 2008 (24%), while providing 19 percent of our merchandise imports. As at 31 March 2008, Australia had \$87.5 billion worth of total investment in New Zealand, while New Zealand has \$34.1 billion of total investment in Australia. There is a high level of people movement between the two countries also, with 42,316 New Zealand citizens moving to Australia in the year ended September 2008 for a period of at least 12 months, while 8,307 New Zealand citizens moved back across the Tasman to New Zealand.

In Australia, the Charter of Budget Honesty Act 1998 requires the Treasurer to publicly release and table a *Mid-Year Economic and Fiscal Outlook (MYEFO)* report, which is typically released in November each year. The Australian Government released their *Mid-Year Economic and Fiscal Outlook 2008-09*, on 5 November 2008. The outlook for the Australian economy is as follows (although the publication does state that due to the high level of international volatility present, there is a higher than normal degree of uncertainty in the forecasts made):

- The Australian economy is forecast to grow by two percent in 2008-09, down 0.75 percentage points from the level forecast in the 2008 Budget.
- Economic growth for the 2009-10 year is forecast at 2.25 percent.
- The investment in dwellings is expected to remain subdued over the short-term, before recovering in 2009-10.
- Inflationary pressures are likely to ease as global growth slows. The annual rate of inflation in Australia is forecast to fall to 3.5 percent in the year ended in the June 2009 quarter, and to three percent in the year ended in the June 2010 quarter.
- Employment growth is forecast to slow to 0.5 percent in the year to the June 2009 quarter, with growth in employment numbers not sufficiently large enough to absorb the total numbers entering the labour market over this period.
- The unemployment rate is forecast to rise to five percent by the June 2009 quarter, and increase to 5.75 percent by the June 2010 quarter.
- Import growth of goods and services is forecast to slow from 12.2 percent in the 2007-08 year, to seven percent in the 2008-09 financial year.
- The underlying cash surplus of the Federal Government for the 2008-09 financial year has been revised downward from the A\$21.7 billion forecast on Budget day to A\$5.4 billion in the MYEFO.

Usually, the New Zealand Treasury prepares a *Half Year Economic and Fiscal Update (HYEFU)* each year, which updates the economic and fiscal forecasts made at the time of the Budget. The Public Finance Act 1989 states that the HYEFU has to be published between 1 November and 31 December. However, in election years where a *Pre-Election Economic and Fiscal Outlook* is published between the dates of 1 October and 31 December, a *Half Year Economic and Fiscal Update* is not required to be published (Section 26S of the Public Finance Act). Given the extent of international upheaval since the forecasts in the *Pre-election Economic and Fiscal Update 2008* were prepared in August 2008, there is a high likelihood that a HYEFU will be published this year.

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