

May 2008

## Executive Summary

- **Softening domestic demand and labour market indicate GDP contraction in March**
- **However, labour market weakness likely overstated and positives such as tax cuts and high dairy payout to support economy in second half of 2008**
- **Inflation will be higher than forecast with inflation pressures remaining intense**
- **Worst of financial market turmoil possibly over but real economy effects still relevant**

Treasury's *Budget Update* forecasts were released in May and predict that real GDP growth will fall to 1.5% in the year to March 2009. Factors behind the slowdown in growth include pressure on households from high interest rates, rising food and energy prices and falling house prices. Drought also negatively affects agricultural production over this period.

Weak retail sales growth in the March quarter suggests that consumption growth may be a little slower than forecast, contributing to the likelihood that real GDP will contract slightly more than the 0.1% we forecast for the March quarter. Private consumption growth is likely to remain weak in the June quarter but positive factors such as tax cuts, a high dairy payout (which is likely to remain elevated into next year) as well as continued labour income gains should help stimulate moderate private consumption growth later in the year.

March quarter labour market data were noticeably weak, with the fall in employment, measured by the Household Labour Force Survey (HLFS), the largest since 1989. The unemployment rate increased to 3.6% while the participation rate fell to a 3-year low of 67.7%. The degree of weakening in the HLFS is likely to be overstated and partly reflects data volatility. Data volatility has particularly affected the results for women in the past year. Wage growth remains elevated and is unlikely to ease significantly in the near future, providing support for consumption growth during a time of rising prices elsewhere in the economy.

Continuing price pressures were apparent in the retail sales, capital goods price index, and producer price index releases in May. With input prices rising faster than output prices, firms' margins are being squeezed and profits coming under pressure. A net 36% of firms in the May National Bank Business Outlook expect to increase prices over the coming year, including a net 55% of retailers. Recent increases in oil and petrol prices mean that inflation will almost certainly be higher than forecast and annual CPI inflation will likely exceed 4% in September.

Despite a particularly high near-term inflation outlook, the Reserve Bank kept the OCR on hold in its June Monetary Policy Statement as it expects a prolonged period of weak economic growth.

With the possibility that the worst of the international financial market turmoil is over and March quarter growth in a number of countries a little ahead of expectations, central banks have become increasingly concerned about rising inflation. Interest rates have started to increase in the US as the Federal Reserve is considered to be on hold, with a rate increase expected by year-end.

This month's special topic examines the economic performance of Australia.

The New Zealand economy is currently undergoing a period of weak growth. There is, however, uncertainty as to the depth and length of the current economic slowdown. Treasury's view on the economic outlook was released as part of the *Budget Update*.

### **During a time of considerable uncertainty...**

At a time of significant economic uncertainty volatility in economic data increases, making any assessment of where the economy is heading over the medium term more subject to judgement. In addition the combination of a leap year and Easter falling in the March quarter also clouds recent data. With this in mind, we assess how data released over May and the first week of June influence our view on the economic outlook. A fuller assessment will require continued close monitoring of the data in the months to come. Developments abroad will play an important role in how the New Zealand economy performs over the next few years. This MEI's special topic considers the performance of our largest trading partner, Australia.

### **...growth is expected to halve over the next year**

Treasury's Budget economic forecasts show that after real GDP growth of 3.1% in the year to March 2008, the economy is forecast to record two years of sub-trend growth of 1.5% and 2.3% in the years to March 2009 and 2010 respectively (*Table 1*). Growth is forecast to rebound to 3.2% in 2011 and then return to trend of around 3% in 2012.

**Table 1 – Budget Update forecasts**

	2009	March quarter		
		2010	2011	2012
Real Production GDP (aapc)	1.5	2.3	3.2	3.0
Nominal GDP (aapc)	3.6	3.2	4.9	5.0
CPI Inflation (apc)	3.2	2.8	2.8	2.8
Unemployment rate (s.a.)	3.7	4.4	4.5	4.3

Source: Treasury

Weak growth in the March 2009 year results from households being under pressure from high interest rates, rising food and energy prices, and falling house prices, which have a negative impact on consumption and residential investment. Tax reductions provide some offset. Drought lowers agricultural production and exports, and exporters also face pressure from the high exchange rate and weaker world demand.

The expected pick-up in 2010 is largely associated with a return to more normal levels of agricultural production as well as a reduction of the negative impacts of tight credit conditions in financial markets. A falling exchange rate maintains strong export growth into 2011, while falling interest rates boost growth in investment.

### **Consumption looking weak in March ...**

With consumers facing cost increases from several areas, consumption growth is expected to be weak over the March and June quarters before receiving a boost from tax cuts that will be implemented from 1 October but may spur a modest increase in expenditure in the quarter leading up to this. Fonterra's announcement of an increased dairy payout of \$7.90 per kilogram of milk solids and \$7.00 for next year will also support consumption in dairying regions.

### **... as retail sales fall ...**

Total retail sales volumes fell 1.2% in the March quarter, the largest fall in 11 years. A 6.0% decline in motor vehicle retailing played a key role in this decrease, meaning that when motor vehicle-related industries were excluded, core retail sales volumes rose 0.2%. Weakness was widespread, with 17 of the 24 retail industries recording decreased volumes. The only store-type to experience any noticeable increase was supermarket and grocery stores, which experienced a 3.3% increase in sales volumes.

The retail sales data pose downside risk to our *Budget Update* real private consumption forecast of 0.2% growth in the March quarter. Data on electronic card transactions and credit card billings provide somewhat mixed indications for April retail sales.

### **... and prices continue to increase**

Price increases meant that, despite the fall in total retail sales volumes, the nominal level of total sales was flat, while core retail sales grew 0.9%. Household budgets have come under particular pressure from rising petrol and food prices, with automotive fuel retailing prices increasing 3.9% in the March quarter to be up 18.4% in the year and supermarket and grocery store prices increasing 1.6% in the quarter to be up 4.7% in the year.

While store-types that consumers frequent the most regularly (eg, supermarkets and petrol

stations) have experienced rising prices, prices at a quarter of all store-types fell over the past year, led by an 8.5% decline in appliance retailing.

### Positives should gain traction

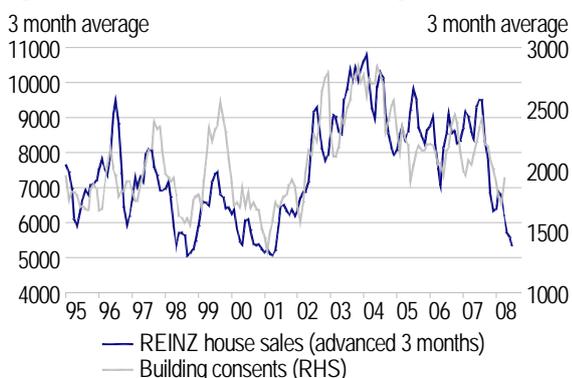
While consumer confidence is currently weak, positive factors such as continued income growth, tax cuts and high dairy payouts should increasingly play a role in stimulating private consumption in the second half of the year.

### Faltering housing market consistent with forecasts

The *Budget Update* forecasts incorporate a near 10% decline in residential investment volumes in the year to March 2009 as low net migration inflows, falling house prices and high interest rates constrain the demand for new housing. Housing market data released over the past month are consistent with this weakness.

REINZ house sales for the 3 months to April were down 44% compared to the same period last year (*Figure 1*). The average number of days to sell a house has increased to 45 days (seasonally adjusted) from under 30 in early 2007 as potential purchasers have become more cautious.

**Figure 1 – House sales and building consents**



Sources: REINZ, Statistics NZ

Easing demand is flowing through to lower selling prices with the REINZ reporting that the median selling price was 1.1% lower in April 2008 than a year ago – the first annual fall in house prices since May 2001. The QVNZ monthly measure (based on an average over a rolling 3-month period) showed annual house price inflation of 4.9% in April, down from 6.5% in March.

Confidence indicators, such as the ASB's Survey of Housing Confidence, suggest that house prices will fall further. The *Budget Update* forecasts incorporate a 7% fall in house prices over the March 2009 year.

### Volatile building consents spike

Seasonally adjusted building consents for new dwellings increased 82.1% in April. Several large apartment projects contributed to the increase but when apartments are excluded the increase was still 33.8%. The timing of Easter this year means these monthly numbers should be treated with caution. Ex-apartments consents for March and April were still down 14.7% from a year ago but the result does point to an easing in the downward trend. A levelling-off in this trend could be explained by potential home-builders who previously were unable to find a suitable builder for their project having more success as builders complete existing projects.

Annual net migration levels steadily declined over 2007 and into 2008, reducing additional demand for housing. Over the past 3 months annual net migration levels appear to have stabilised at around 4,700. At current levels net migration will not provide a significant boost to housing demand, but - having stabilised - a further easing in demand may be less likely.

### Labour market data weaker than expected ...

The *Budget Update* forecasts predict that labour market weakening is going to be relatively modest by historical standards with businesses reluctant to shed staff due to their recent experience of difficulty finding and retaining staff.

Labour market conditions weakened in the March 2008 quarter, albeit from a position of strength. The Household Labour Force Survey (HLFS) estimated that employment fell 1.3% in the March quarter following a 0.9% rise in December. The March quarter fall in employment was the largest since 1989. Annual growth of -0.2% was the first negative result on an annual basis since 1998.

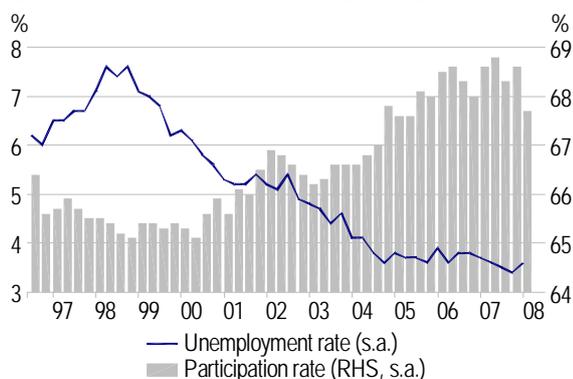
Falling employment contributed to a 1.9% drop in total hours worked in the March quarter, while the QES measure of hours paid was flat. The fall in hours worked may partly reflect workers taking more leave in the summer months (this was the first summer since the introduction of a minimum of four weeks annual leave) and, in addition, the early timing of Easter and warm summer may also have had an impact.

### ... with unemployment rate increasing and participation falling

The unemployment rate rose to 3.6% in the March quarter, up from an HLFS record low of 3.4% in December 2007 but below 3.7% a year ago. At

3.6% the unemployment rate is slightly above the *Budget Update* forecast of 3.5%. The labour force contracted by 1.1% in the March 2008 quarter as the participation rate fell from 68.6% in the December quarter to a 3-year low of 67.7% in the March quarter (*Figure 2*).

**Figure 2 – Unemployment and participation**



Source: Statistics NZ

The market reacted strongly to the weak HLFS figures with many financial participants bringing forward their expected date of rate cuts by the Reserve Bank.

### ... but weakness likely overstated

Volatility in the HLFS has particularly affected the figures for women in the past year. The degree of weakening in the HLFS was likely overstated based on other labour market data for the March quarter (eg, the QES pointed to a smaller fall in employment and no fall in hours paid). Some technical rebound in employment is likely in the June 2008 quarter. At this stage we remain comfortable with our *Budget Update* outlook for the labour market, which would still see the underlying trend in the labour market remaining negative over the coming year. This negative trend is reinforced by the latest National Bank Business Outlook (NBBO) with a net 9% of firms expecting to decrease employment over the next year.

### Households still benefiting from strong wage growth

Wage growth remains elevated and is unlikely to ease significantly soon. Annual growth in ordinary-time wages rose slightly in the Labour Cost Index (LCI) and Quarterly Employment Survey (QES) to historically high rates. Annual growth in the adjusted LCI, which excludes merit increases and holds the composition of employment constant, increased to a record 3.4% in the March quarter. The unadjusted LCI, which

includes merit increases, recorded an annual rate of increase of 5.4%, up from 5.0% in December. Annual growth in QES average ordinary time hourly earnings increased to 4.6% in March.

With wages growing on average faster than inflation, wage growth should remain supportive of modest consumption growth, particularly for those people in paid employment with relatively small mortgages or who are mortgage free.

### Short-term inflation pressures intense ...

The capital goods price index increased 0.5% in the March 2008 quarter, taking annual capital goods inflation to 2.5%. Price pressures remain for non-tradable capital goods such as buildings and land improvements. By contrast, traded capital goods prices either fell or experienced modest increases in the past year with a high New Zealand dollar a muting factor on these prices.

Rising oil, electricity and dairy prices helped drive producer price inflation higher in the March quarter. The price of inputs used by firms increased 2.3% in the quarter to be up 7.4% in the year, while output prices increased 1.8% in the quarter to be up 6.1% in the year.

With input prices rising faster than output prices, firm margins are continuing to be squeezed, putting downward pressure on profits of firms that are not experiencing significant output growth. A net 25% of firms surveyed in the May NBBO expected profits to fall over the year ahead, a modest improvement from the net 30% expecting a decline in April. To reduce the impact of rising input prices on profits, a net 36% of firms in the May NBBO are expecting to increase prices, including a net 55% of retailers.

Given these rising cost pressures, inflation expectations have moved higher. In the May NBBO, the expected inflation rate in a year's time increased to 3.4% in May from 3.3% in April. The Reserve Bank's measure of inflation expectations also increased with average 1-year and 2-year-ahead inflation expectations rising from 3.0% to 3.3% and 2.7% to 2.9% respectively.

### ... meaning stronger than forecast inflation

The *Budget Update* forecast annual CPI inflation to peak at 3.7% in the September quarter. Recent increases in oil and petrol prices mean that inflation will be higher than this and most probably will exceed 4% when September quarter results are released in October. WTI oil prices peaked at US\$135 per barrel but fell to \$US122 per barrel in early June.

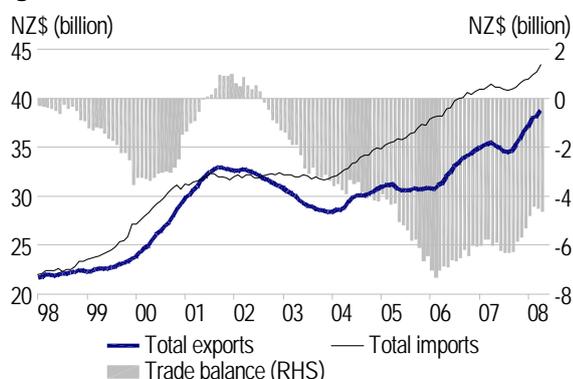
## Reserve Bank keeps OCR on hold

The Reserve Bank kept the OCR on hold at 8.25% in its June *Monetary Policy Statement*. The Reserve Bank now sees a weaker outlook for the economy than previously and than our *Budget Update* forecasts incorporate. The Reserve Bank predicts inflation to peak at 4.7% in September 2008. With little GDP growth predicted over 2008, the Reserve Bank believes that it will be in a position to lower the official cash rate later this year, sooner than they previously expected.

The main reasons for differences between Treasury and the Reserve Bank forecasts centre on different judgements around the terms of trade, house prices and the labour market, with Treasury more optimistic on each of these. Since we finalised the forecasts on 1 May near-term risks to real growth have slightly tilted to the downside (with March quarter GDP likely to contract slightly more than the 0.1% forecast and June quarter GDP possibly affected by low hydro electricity production) and risks to inflation have tilted to the upside. However, we still expect real GDP growth will be around 1.5% in the March 2009 year.

## Oil impacts on trade figures

Figure 3 – Merchandise trade



Source: Statistics NZ

Monthly trade data for April 2008 showed a monthly trade deficit of \$334 million, taking the annual deficit to \$4.6 billion (*Figure 3*). Oil-related items played an important role in this. On the import side, \$477 million of oil production equipment was imported as well as \$287 million of crude oil. On the export side, crude oil exports recovered from a weak March result of \$130 million to reach a record high of \$311 million. As oil is imported and exported in large, irregular shipments, their timing causes volatility in monthly numbers.

The positive impact that rising dairy export values are having on exports receipts continued this month with the annual value of dairy exports rising to \$8.5 billion in April, up from \$8.4 billion in the year to March. This was despite annual dairy volumes falling slightly, most likely due to drought-affected production and stock levels having been run down. ANZ commodity price data continues to show rising world prices for New Zealand's commodity exports. World prices for New Zealand's commodity exports increased 1% in May to a new record high. The increase was driven by increasing prices for apples (up 23%) and beef (up 7.9%) in the month of May, while world dairy prices fell 1%.

Seasonally adjusted consumption good imports recovered from their decline in March, with the value of consumption goods in the year to April 2008 2.9% higher than in the year to April 2007. Despite the oil production-related imports in April 2008, the value of capital goods imports in the year to April 2008 was 4.3% down on 2007 levels.

Following a seasonally adjusted 0.5% decline in March, arrivals of overseas visitors fell a further 11.8% in April. In the absence of a recovery in future months, tourism export services will come under pressure. Short-term departures of New Zealanders were also weak, falling 1.3% in April after a 4.9% decline in March.

## Worst of financial market turmoil over?

International events in May provided some tentative indications that the worst of the financial market turmoil associated with fallout from the US sub-prime mortgage market may be over.

Attention has shifted to how the financial market turmoil will affect real economic activity.

Consumer confidence is low in many economies but first quarter GDP results were generally higher than expected. US GDP grew at an annualised rate of 0.9% in the March quarter. UK GDP grew 0.4% in the quarter taking the annual percentage change to 2.5%, the slowest since 2005. Euro GDP increased 0.7%, including 1.5% growth in Germany, its fastest growth in 12 years.

Central banks have become increasingly concerned about rising inflation. While the US Federal Reserve cut the funds rate 25 basis points in early May, interest rates have started to increase in the US as the Fed is considered on hold, with a rate increase expected by year-end.

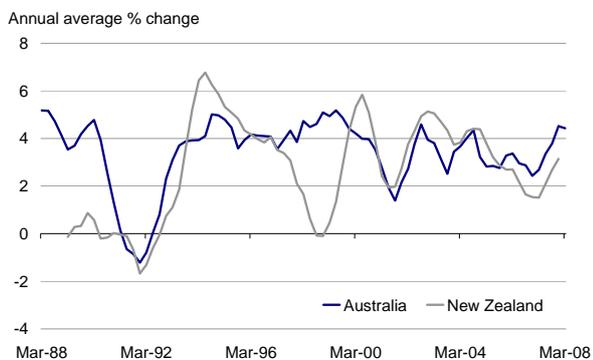
## Special Topic: The Australian Economy

This special topic examines the recent economic performance of Australia. The Australian economy is an important influence on New Zealand due to linkages in trade (Australia is a key market for manufacturing and service exports), migration (the destination for most New Zealand emigrants is Australia) and financial markets (most banks in New Zealand are Australian-owned).

### The Australian economy expanded strongly ...

The Australian economy has experienced a long period of strong expansion (*Figure 4*). Real GDP in Australia has grown in each of the last 16 years at an average rate of 3.7% per annum, making it one of the strongest performers in the OECD over this period. Most recently, Australia has seen a rebound in growth from 2.7% in 2007 to 4.4% in 2008 (March years). By comparison, annual economic growth in New Zealand since 1991 was slightly lower (3.4%) and exhibited more volatility, partly due to a fall in real GDP in 1998 (due to a larger impact from the Asian Financial Crisis, tight monetary policy and consecutive droughts).

**Figure 4 – Real GDP growth**



Source: Statistics NZ, Australian Bureau of Statistics

Domestic demand has driven economic growth in Australia in recent years. While export growth in Australia has been dampened by a high exchange rate and low agricultural production due to drought conditions, consumer spending and investment have risen strongly as a result of factors such as a higher terms of trade, strong employment and wage growth, and high population growth.

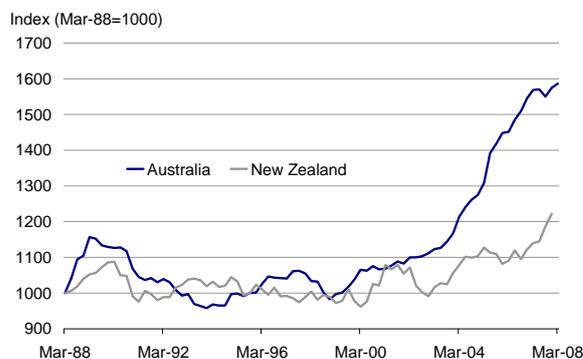
### ... as the terms of trade surged upwards ...

An important driver of recent developments in the Australian economy is a strong rise in the terms of trade. The terms of trade in Australia rose 41% in the past five years after falling over much of the

1990s (*Figure 5*). This strong rise has led to high growth in national incomes.

The terms of trade in Australia have been lifted by sharply rising prices for commodity exports, which have benefited from a range of factors, especially growth in developing economies. World prices for Australian commodity exports rose sharply in the last five years, led by base metals. Prices for food commodities, which dominate commodity exports from New Zealand, also rose but not by as much as non-food commodities, hence the smaller rise in the terms of trade in New Zealand. Prices for Australia's commodity exports have lifted further since the start of 2008 so, given the lags between spot prices and actual export prices, the terms of trade in Australia are expected to continue rising.

**Figure 5 – Terms of trade**



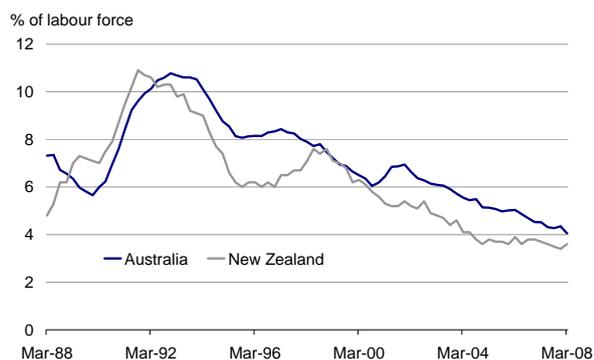
Source: Statistics NZ, Australian Bureau of Statistics

### ... and a tight job market lifted wage growth ...

The labour market has tightened considerably in Australia, with the unemployment rate falling to an historic low of 4.0% and the rate of labour force participation rising to a record high of 65.4% in early 2008. The tight labour market in Australia has seen wage growth rise steadily. New Zealand had a similar experience, with the unemployment rate falling to a 21-year low of 3.4% in late 2007 (*Figure 6*) and the labour force participation rate rising to a record high of 68.8% in early 2007.

Strong population growth has also helped drive the Australian economy. Annual population growth in Australia (1.3%) was higher than in New Zealand (1.1%) over the last decade on average, and it was much steadier (1.0% to 1.5%) than in New Zealand (0.5% to 2.0%). Net permanent and long-term migration exhibited more volatility in New Zealand over this time, partly because of volatility in the number of New Zealanders moving to Australia.

**Figure 6 – Unemployment rate**

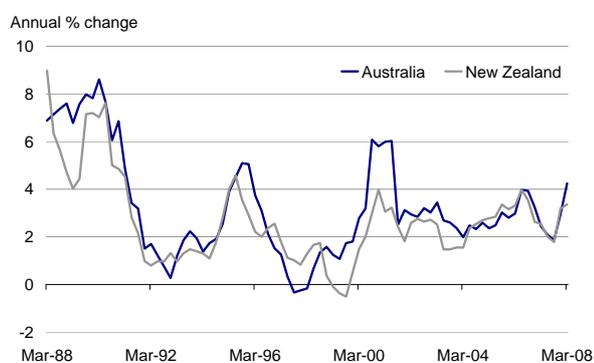


Source: Statistics NZ, Australian Bureau of Statistics

**... leading to growing inflationary pressures ...**

Strong domestic demand has led to heightened capacity constraints and inflationary pressures in Australia, as well as in New Zealand. Consumer price inflation averaged 3.0% per annum in both nations during the three March years from 2005 to 2008, which is at the top of the medium-term target ranges of 2-3% for Australia and 1-3% for New Zealand. Sharp rises in commodity prices, particularly for oil and food, have added further to consumer price inflation recently. In the year to March 2008, consumer price inflation rose to 4.2% in Australia (compared to 3.4% in New Zealand) and may rise further in the short term (*Figure 7*).

**Figure 7 – Consumer price inflation**



Source: Statistics NZ, Australian Bureau of Statistics

**... but the outlook is for weaker growth**

The economic outlook for Australia has weakened since the start of 2008. In the May 2008 Budget, the Australian Treasury forecast economic growth in Australia to decline to 2¾% in the June 2009 year as higher interest rates lead to a slowing of domestic demand, especially consumer spending. Interest rates have risen in the past year as a result of four official interest rate increases by the Reserve Bank of Australia and because of tighter credit conditions in global financial markets.

There are also positive influences that will ensure ongoing, albeit lower, economic growth in Australia. The Australian Treasury forecast the terms of trade to rise a further 16% in the June 2009 year and expect the labour market to stay tight. Ongoing growth in the Australian economy will continue to benefit New Zealand in the coming year, just not as much as in the past year. As outlined in the *Budget Update*, this economic growth, and a lower exchange rate against the Australian dollar, will benefit New Zealand exporters, particularly those exporting non-commodity goods to Australia and providers of export services (ie, tourism). Further, some of the factors that are expected to benefit Australia, including high commodity prices, a tight labour market and recovery from drought, are likely to also benefit New Zealand in the coming year.

However, there are important downside risks to the outlook for the Australian economy, largely stemming from turmoil in global financial markets and the risk of a downturn in the United States economy leading to a sharp slowing of economic growth in Asia. If they eventuated, these risks could see continued credit constraints and a large fall in export prices (and thus the terms of trade) in both Australia and New Zealand.

**Monthly Economic Indicators** is a regular report prepared by the Forecasting and Monitoring team of the Treasury.

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# New Zealand Key Economic Data

## Quarterly Indicators

		2006Q3	2006Q4	2007Q1	2007Q2	2007Q3	2007Q4	2008Q1
<b>Gross Domestic Product (GDP)</b>								
Real production GDP	qtr % chg <sup>1</sup>	0.4	0.7	1.2	0.9	0.5	1.0	...
	ann ave % chg	1.6	1.5	1.5	2.1	2.7	3.1	...
Real private consumption	qtr % chg <sup>1</sup>	0.9	1.3	2.1	0.5	0.4	0.5	...
	ann ave % chg	3.0	2.5	2.7	3.4	4.0	4.3	...
Real public consumption	qtr % chg <sup>1</sup>	0.9	0.7	0.5	1.2	2.1	0.4	...
	ann ave % chg	4.8	4.7	4.3	4.4	4.4	4.4	...
Real residential investment	qtr % chg <sup>1</sup>	3.8	1.7	-0.1	3.2	1.9	-1.6	...
	ann ave % chg	-3.5	-3.0	-2.7	1.6	3.5	4.4	...
Real non-residential investment	qtr % chg <sup>1</sup>	1.6	0.6	4.1	-1.6	0.0	6.1	...
	ann ave % chg	2.1	-1.1	-2.1	0.3	2.1	5.1	...
Export volumes	qtr % chg <sup>1</sup>	3.2	-2.4	2.6	-0.8	-0.1	5.4	...
	ann ave % chg	1.2	1.7	3.1	3.5	2.3	3.6	...
Import volumes	qtr % chg <sup>1</sup>	0.8	1.2	4.2	2.6	0.7	4.3	...
	ann ave % chg	-2.4	-2.8	-1.7	1.7	5.4	8.9	...
Nominal GDP - expenditure basis	ann ave % chg	4.2	4.7	5.0	6.4	7.2	7.7	...
Real GDP per capita	ann ave % chg	0.5	0.3	0.3	0.9	1.5	2.1	...
Real Gross National Disposable Income	ann ave % chg	-0.1	0.4	1.6	2.9	3.6	5.1	...
<b>External Trade</b>								
Current account balance (annual)	NZ\$ millions	-14031	-14004	-13522	-13682	-14280	-13833	...
	% of GDP	-8.8	-8.6	-8.2	-8.1	-8.4	-7.9	...
Investment income balance (annual)	NZ\$ millions	-11832	-12092	-11863	-11880	-12329	-12485	...
Merchandise terms of trade	qtr % chg	-2.2	2.5	1.5	0.4	3.7	2.9	...
	ann % chg	-1.3	3.8	4.5	2.3	8.4	8.8	...
<b>Prices</b>								
CPI inflation	qtr % chg	0.7	-0.2	0.5	1.0	0.5	1.2	0.7
	ann % chg	3.5	2.6	2.5	2.0	1.8	3.2	3.4
Tradable inflation	ann % chg	3.0	1.1	0.8	-0.5	-0.3	2.8	3.4
Non-tradable inflation	ann % chg	4.0	3.9	4.0	4.1	3.7	3.5	3.5
GDP deflator	ann % chg	2.8	2.8	2.9	4.0	3.7	5.3	...
Consumption deflator	ann % chg	3.0	2.6	1.9	1.3	1.3	2.1	...
<b>Labour Market</b>								
Employment (HLFS)	qtr % chg <sup>1</sup>	-0.4	0.0	1.4	0.5	-0.3	0.9	-1.3
	ann % chg <sup>1</sup>	1.5	1.4	1.8	1.5	1.6	2.5	-0.2
Unemployment rate	% <sup>1</sup>	3.8	3.8	3.7	3.6	3.5	3.4	3.6
Participation rate	% <sup>1</sup>	68.3	68.0	68.6	68.8	68.3	68.6	67.7
LCI salary & wage rates - total (adjusted) <sup>6</sup>	qtr % chg	1.0	0.9	0.6	0.6	1.0	1.0	0.8
	ann % chg	3.2	3.2	3.2	3.1	3.1	3.3	3.4
LCI salary & wage rates - total (unadjusted) <sup>6</sup>	qtr % chg	1.4	1.3	0.8	1.0	1.7	1.4	1.2
	ann % chg	5.1	4.9	4.5	4.6	4.8	5.0	5.4
OES average hourly earnings - total <sup>6</sup>	qtr % chg	1.6	0.8	1.0	0.8	1.3	1.0	1.5
	ann % chg	5.0	5.0	4.6	4.3	4.0	4.2	4.6
Labour productivity <sup>7</sup>	ann ave % chg	1.1	0.7	1.0	1.3	1.9	2.6	...
<b>Confidence Indicators/Surveys</b>								
WMM - consumer confidence <sup>3</sup>	Index	112	120	118	111	114	110	97
QSBO - general business situation <sup>4</sup>	net %	-19.1	3.5	-15.3	-36.6	-27.3	-26.4	-64.1
QSBO - own activity outlook <sup>4</sup>	net %	10.5	15.0	16.1	8.8	15.4	13.9	-9.7

## Monthly Indicators

		2007M11	2007M12	2008M 1	2008M 2	2008M 3	2008M 4	2008M 5
<b>External Sector</b>								
Merchandise trade - exports	mth % chg <sup>1</sup>	-2.1	5.5	-0.2	4.2	-18.6	13.7	...
	ann % chg <sup>1</sup>	21.1	24.2	24.1	30.5	3.4	19.7	...
Merchandise trade - imports	mth % chg <sup>1</sup>	-2.9	2.5	-3.1	6.2	-3.9	11.5	...
	ann % chg <sup>1</sup>	10.4	11.3	2.4	15.9	7.2	21.8	...
Merchandise trade balance (12 month total)	NZ\$ million	-5691	-5307	-4793	-4421	-4525	-4645	...
Visitor arrivals	number <sup>1</sup>	206430	204490	206000	216890	215890	190440	...
Visitor departures	number <sup>1</sup>	205260	202780	208480	211140	211430	202380	...
<b>Housing</b>								
Dwelling consents - residential	mth % chg <sup>1</sup>	0.9	-4.1	3.9	-5.5	-14.4	82.1	...
	ann % chg <sup>1</sup>	-4.5	-6.5	-5.2	-17.7	-27.1	30.9	...
House sales - dwellings	mth % chg <sup>1</sup>	0.4	-7.8	-1.8	-1.3	-32.7	13.8	...
	ann % chg <sup>1</sup>	-22.0	-32.2	-31.3	-32.0	-53.5	-44.9	...
REINZ - median dwelling price	mth % chg	-0.4	-0.4	-0.6	-0.8	1.2	-1.1	...
	ann % chg	6.8	4.5	4.0	0.8	1.6	-1.1	...
<b>Private Consumption</b>								
Core retail sales	mth % chg <sup>1</sup>	0.9	0.4	0.4	0.1	-0.5	...	...
	ann % chg <sup>1</sup>	4.4	4.3	4.1	2.0	0.7	...	...
Total retail sales	mth % chg <sup>1</sup>	1.8	0.1	0.2	-0.6	-1.2	...	...
	ann % chg <sup>1</sup>	6.9	5.9	5.9	3.3	0.8	...	...
New car registrations	mth % chg <sup>1</sup>	-3.8	-2.7	10.5	-8.5	-13.1	13.7	...
	ann % chg	2.3	1.4	1.7	1.9	-13.2	-1.1	...
Electronic card transactions - total retail	mth % chg <sup>1</sup>	1.9	0.0	0.3	0.0	0.0	-0.3	...
	ann % chg	10.0	7.3	8.7	10.7	4.4	6.0	...
<b>Migration</b>								
Permanent & long-term arrivals	number <sup>1</sup>	6990	6700	6710	7270	7180	7250	...
Permanent & long-term departures	number <sup>1</sup>	6530	6670	6600	7030	6680	6810	...
Net PLT migration (12 month total)	number	6588	5491	4799	4643	4678	4666	...
<b>Commodity Prices</b>								
Brent oil price	US\$/Barrel	92.73	91.52	92.09	94.72	103.16	110.03	123.86
WTI oil price	US\$/Barrel	94.77	91.77	92.98	95.36	105.50	112.34	125.67
ANZ NZ commodity price index	mth % chg	0.8	-0.9	-1.8	-2.2	2.1	1.1	2.5
	ann % chg	20.9	19.0	15.9	11.4	12.0	13.4	13.2
ANZ world commodity price index	mth % chg	0.8	0.0	-1.4	1.1	2.0	-0.3	1.0
	ann % chg	35.9	30.9	27.4	26.9	26.9	20.7	18.7
<b>Financial Markets</b>								
NZD/USD	\$ <sup>2</sup>	0.7624	0.7686	0.7718	0.7968	0.8027	0.7900	0.7769
NZD/AUD	\$ <sup>2</sup>	0.8499	0.8811	0.8758	0.8733	0.8669	0.8500	0.8188
Trade weighted index (TWI)	June 1979 = 100 <sup>2</sup>	70.26	71.58	71.24	72.96	71.58	70.31	69.32
Official cash rate (OCR)	%	8.25	8.25	8.25	8.25	8.25	8.25	8.25
90 day bank bill rate	% <sup>2</sup>	8.73	8.9	8.75	8.82	8.91	8.87	8.71
10 year govt bond rate	% <sup>2</sup>	6.39	6.4	6.28	6.4	6.36	6.48	6.43
<b>Confidence Indicators/Surveys</b>								
National Bank - business confidence	net %	-19.6	-24.9	-31.5	-43.9	-57.9	-54.8	-49.7
National Bank - activity outlook	net %	15.7	18.2	13.6	2.4	-6.4	-3.8	-4.4
One News <sup>5</sup> - consumer confidence	net %	-6	-10	-13	-16	-25	-34	-33
qtr % chg	quarterly percent change			1		Seasonally adjusted		
mth % chg	monthly percent change			2		Average (11am)		
ann % chg	annual percent change			3		Westpac McDermott Miller		
ann ave % chg	annual average percent change			4		Quarterly Survey of Business Opinion		
				5		One News Colmar Brunton		
				6		Ordinary time		
				7		Production GDP divided by HLFS hours worked		

Sources: Statistics New Zealand, Reserve Bank of New Zealand, National Bank of New Zealand, NZIER, ANZ, Datastream, Westpac McDermott Miller, One News Colmar Brunton