Monthly Economic Indicators

THE TREASURY
Kaitohutohu Kaupapa Rawa

October 2008

Executive Summary

- **Financial market turmoil continues in October provoking government, central bank and IMF responses.**
- **Forecasters revise outlook for world economy.**
- **Domestically, indicators of activity point to soft economic growth in the September quarter.**
- **Annual CPI inflation reached its peak at 5.1% in the September quarter.**

The financial market turmoil that intensified in September spread further in October. It is apparent the crisis is no longer confined to developed western economies, with Asia and Eastern Europe now affected. Uncertainty over the quality of financial assets owned by banks saw the cost of financing for banks rise in early October, but eased later in the month as governments and central banks moved to prevent further erosion of confidence in financial markets. Actions by governments and central banks included insuring bank liabilities, recapitalising banks, providing liquidity and acquiring troubled assets. Central banks also cut their official rates to mitigate the impacts of the crisis on the real economy, with the Reserve Bank of New Zealand cutting the official cash rate 100 basis points to 6.5%.

Concerns about the impact of the financial crisis on real economic activity saw both *Consensus Forecasts* and the International Monetary Fund revise down their outlooks for world growth. This month's special topic focuses on how episodes of financial distress have affected the real economy historically. The weaker outlook for world growth saw a drop in commodity prices, including oil. This fall in commodity prices, coupled with a preference for the perceived safety of US assets in an environment of falling risk appetite, saw a sharp decline in the New Zealand dollar against the US dollar.

Domestic data pointed to continued weakness in the New Zealand economy in the September quarter. In the September *Quarterly Survey of Business Opinion* more firms reported their own activity fell in the September quarter (32%) than in the June quarter (19%). Nominal retail sales rose in the August month but growth in their trend remains flat – even in the presence of rising prices. Indicators of manufacturing and service sectors' activity are consistent with both sectors contracting.

Forward-looking indicators in the September *Quarterly Survey of Business Opinion* and the October *National Bank Business Outlook* were consistent with activity remaining subdued in the December quarter, with the *National Bank Business Outlook's* business confidence measure recording its biggest fall in the survey's history.

The Consumers Price Index rose 1.5% in the September quarter, bringing annual inflation to 5.1%. Falling petrol prices, following on from the drop in oil prices, mean this represents the peak in annual inflation in the current cycle. Housing data pointed to continued easing in that market, which will put downward pressure on non-tradables inflation.

New Zealand Government

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Commentary

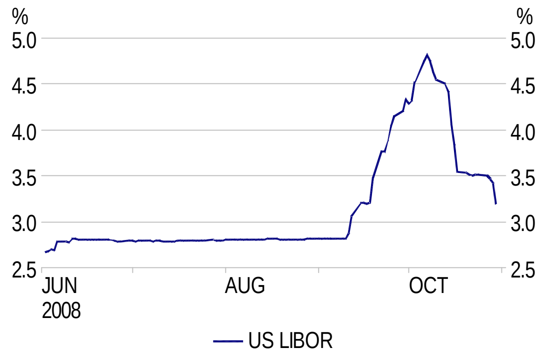
The month of October saw further development of the turmoil in financial markets that began in mid-September. The crisis is now truly global with Asian and Eastern European economies now affected. The intensification of the crisis prompted policy responses from governments and central banks worldwide, as well as action from the International Monetary Fund. Concerns about the impacts of the turmoil on the real economy saw forecasters revise down their forecasts for global growth as well as sharp reductions in commodity prices.

Domestically, the data released this month confirmed economic growth in New Zealand will be weak in the September quarter, while confidence data point to a similarly sombre outlook. However this slowing in activity, coupled with falling petrol prices, means that annual inflation, on a CPI basis, reached its peak in the current cycle at 5.1% in the September quarter.

October saw the intensification of the global financial turmoil ...

The renewed loss of trust and confidence in the quality of financial assets and concerns about creditworthiness of some institutions in a weaker profit environment that began late in September spread further in October.

Figure 1 – US interbank lending rate



Source: Reuters

The lack of trust in other banks' financial assets meant that banks required higher compensation to lend to one another. As *Figure 1* shows, the US interbank rate rose to elevated levels in early October. The rate did fall later in the month in response to initiatives announced by governments, which are outlined below.

Falling share values have exacerbated the funding problems for banks, making it more difficult for banks to raise funds in wholesale markets because of concerns about their solvency. Share markets have fallen around the world on weak economic data driving fears about corporate profits, with the Dow Jones and the Australian Stock Exchange both down 15% in the month. Domestically the New Zealand Stock Exchange (on an NZX50 basis) fell 11% in the month.

... provoking actions from governments ...

In response to the turmoil, some governments and central banks worldwide have implemented a number of measures to prevent further erosion of confidence in financial markets. These include insuring bank liabilities, recapitalising banks, providing liquidity and acquiring troubled assets. Salient actions by certain governments are outlined below.

The US Senate and House of Representatives passed a Troubled Assets Relief Programme which commits up to US$700 billion to purchase distressed assets, especially mortgage-backed securities from US banks.

Rather than buying troubled assets, the UK government has implemented a plan to get banks to lend to each other. In this three-pronged plan, the government can buy up to £50 billion in preference shares in banks, provide a guarantee of around £250 billion for inter-bank lending and push additional liquidity of £200 billion of cash into the system. The US and Euro-zone have also approved schemes which will see them take shares in banks and thus provide banks with capital. In another move to keep banks lending to one another, the US government announced that it would support the commercial paper market where large corporates and New Zealand banks source some of their funding.

Some governments announced they will guarantee funds borrowed on wholesale markets by their banks, lessening the possibility of banks defaulting on repayment and thus encouraging institutions to lend to them. In other moves to keep confidence in the banking system, some governments, including New Zealand, have introduced retail deposit guarantees.

... and central banks action worldwide...

Central banks have also moved to keep liquidity in the financial markets. Major central banks (for example, the US) have offered unlimited dollar funding for banks at fixed interest rates for periods up to 3 months. Domestically the Reserve Bank of New Zealand announced it would temporarily expand its security programme, saying it will be prepared to lend to banks against Residential Mortgage-Backed Securities prior to them being formally rated. So far the RBNZ has agreed to accept mortgages from two banks as security.

In line with similar agreements with other central banks, the Federal Open Market Committee has approved the Reserve Bank of New Zealand's request for a swap facility. If called on the swap facility will assist in mitigating difficulties in obtaining US dollar funding in the New Zealand markets. The arrangement has been authorised through to 30 April 2009.

Central banks around the world cut their official rates in the month to mitigate the impacts of the crisis on the real economy. Notably the Reserve Bank of Australia cut their official rate by 100 basis points and there was a co-ordinated easing by the US Fed, European Central Bank, Bank of England, Bank of Canada, Swedish Riksbank (all 50 bps) and Swiss National Bank (25 bps). In a subsequent move on 29 October the Federal Reserve lowered its federal funds rate 50 basis points to 1%.

The Reserve Bank of New Zealand (RBNZ) cut its official rate 100 basis points on 23 October to 6.5%. In doing so the RBNZ noted that "ongoing financial market turmoil and a deteriorating outlook for global growth... played a large role in shaping today's decision" but also noted that "domestically generated inflation (particularly in labour costs, local body rates, electricity prices and construction costs) is remaining stubbornly high". Analysts are predicting another 50 points of cuts before the end of the year.

... as well as the International Monetary Fund

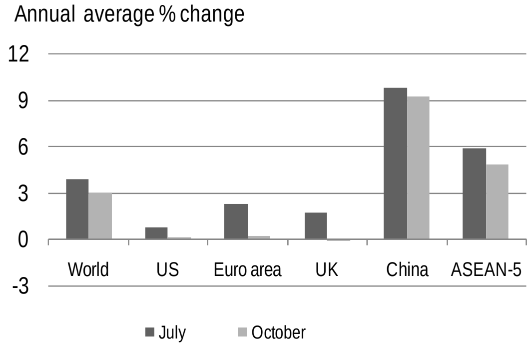
The International Monetary Fund (IMF) announced in October that they are providing assistance to a number of highly indebted countries facing problems attracting funds. In a press release on 26 October the IMF said it has reached a tentative agreement with Ukraine to lend them US$16.5 billion to help it combat a series of economic problems tied to the international financial turmoil. The IMF also announced it had reached broad agreement with Hungary on a financing package.

These announcements followed closely an agreement to lend Iceland US$2.1 billion through a two-year facility to help restore confidence in its banking system and stabilize its currency.

Growth forecasts revised...

The intensification of the financial crisis has seen revisions to the outlook for world growth by both the IMF and *Consensus Forecasts*. Compared to the September edition, October *Consensus Forecasts* saw expected GDP growth of our trading partners revised to be 0.2 percentage points lower in 2008 at 2.8% and 0.6 percentage points lower in 2009 at 2.2%. The IMF now sees the world economy growing at 3.9% (4.1%) in 2008 and 3.0% (3.9%) in 2009 (previous July forecasts in brackets).

Figure 2 – IMF forecasts calendar year 2009



Source: International Monetary Fund

On a country-by-country basis, the IMF revised their forecasts across the board. For the 2009 year the outlooks for UK and Europe were revised down markedly (*Figure 2*) reflecting the tightening of financial conditions there. The outlook for Asia has also been revised down, with the IMF expecting more weakness in response to slowing export demand from advanced economies and growing strains in regional financial markets.

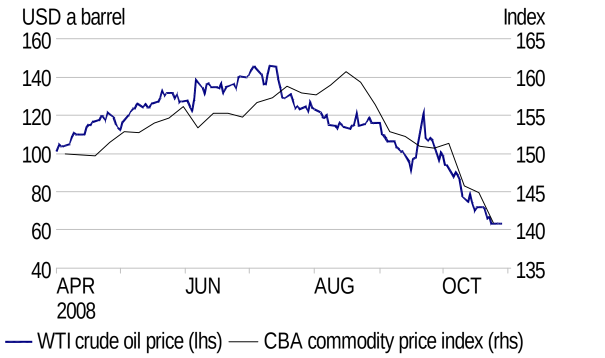
... and financial market participants have concerns on the outlook for Asia

The focus of financial markets moved to Asia in late in October. The aforementioned concern about the outlook for Asia's exports as well as concerns about currency realignments saw Asian stock markets fall. The Nikkei fell to a 26-year low on 27 October (although they have since rebounded strongly) and trading halts were put in place on the Philippines and Thailand stock markets. In response the Bank of Korea cut interest rates 75 basis points at an emergency meeting, while the People's Bank of China cut its official rate to 6.66% from 6.93%. Additionally China's central bank and finance ministry said they will deposit 30b yuan (US$4.4b) of the Treasury's cash with commercial lenders to make more funds available for lending.

Commodity prices are falling ...

As the effects of the financial crisis on the real economy have become more apparent, commodity prices have fallen across the board on fears of weaker future demand (*Figure 3*).

Figure 3 –Commodity prices



Source: CBA, Datastream

Oil prices, on a West Texas Intermediate basis, have fallen nearly 35% in the month to be US$65.84 a barrel (close 30 October). The fall in oil prices occurred despite OPEC saying that they would cut production in response to falling prices. Lower commodity prices are an important channel through which the crisis will affect New Zealand. The CBA commodity price index in world price terms has fallen 13.6% on a year earlier but the rapid depreciation of the New Zealand dollar means it is up 13.1% in New Zealand dollar terms.

... and the New Zealand dollar is down

The fortunes of the Australian and New Zealand dollars typically depend on commodity prices and the risk appetite of financial markets, as well as interest rate differentials. As outlined above, commodity prices have been on a downward trend in the month, while increasing fears of a world recession, as well as falling stock markets, have seen investors preferring the perceived safety of US assets. These events led to a fall in the value of the Australian and New Zealand currencies over the month. One NZ dollar is now (11am 31 October) buying 58.8 US cents (having been as low as 53 US cents compared to 82 US cents at its most recent peak in mid March. The Australian dollar has been more heavily sold against the US than the NZD meaning that the NZD actually appreciated to 87 cents against the AUD.

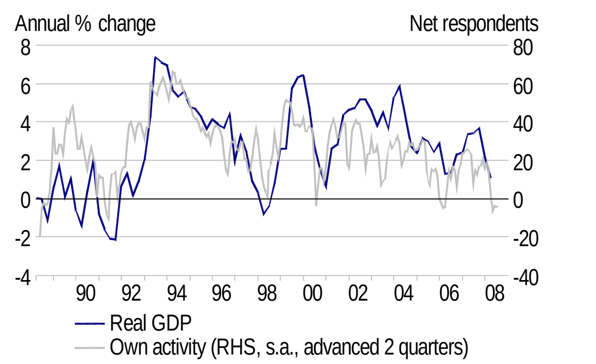
In the month, the New Zealand dollar depreciated sharply against the Japanese Yen to be buying 58 yen at the end of the month as investors exited carry trade positions. The New Zealand dollar has also fallen against the British Pound and Euro. On a Trade Weighted Index basis, the New Zealand dollar has dropped from 63.3 at the end of September to 59.2 at 11am 31 October.

Expected activity measures point to economic growth remaining soft in the near term ...

Reflecting the renewed financial market volatility the *National Bank Business Outlook* more than reversed its September month rebound with a net 11.4% of respondents now expecting worse times ahead for their own business in October, compared to a net 16% expecting better times in September. The business confidence measure fell 44 points to a net 42.3% of respondents expecting the economy to deteriorate over the next 12 months – the largest one month fall in the survey's history.

Although the headline business confidence figure and expected domestic trading activity in the next 3 months recovered in September's *Quarterly Survey of Business Opinion* (QSBO), they remain at low levels. The survey was completed before the renewed financial market volatility and thus may overstate the current level of confidence. Notwithstanding this, expected domestic trading activity in the next 3 months is still at levels not seen since the 1991 recession (see *Figure 4*) with, a net 13% of firms expecting their activity to deteriorate in the next three months in seasonally adjusted terms.

Figure 4 – Expected domestic trading activity in the next 3 months



Source: NZIER

... as do other partial indicators

In the September QSBO a net 32% reported their activity fell in the September quarter, up from 19% in June. Other indicators revealed a similar theme.

Total retail sales increased 0.4% in August, following a fall of 0.7% in July. Core retailing, which excludes the four vehicle related categories, rose 0.8%, following a flat July. The biggest rises were in supermarket and grocery stores (1.2%) and department stores (2.5%). Given food prices rose 2.7% in the August month (according to the Food Price Index), it is likely that supermarket and grocery store volumes were flat or fell. Trend growth in total retail sales has been below zero for three months, indicating that households have entered a period of consolidation.

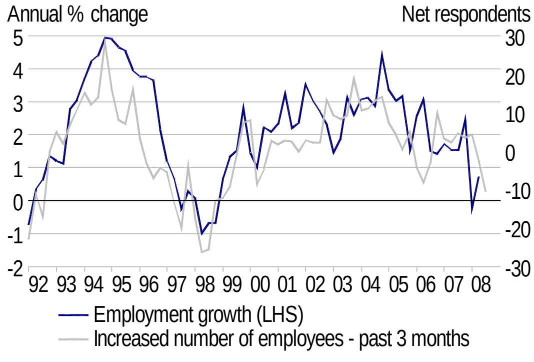
Although up 1.3 points on August, the seasonally adjusted Performance of Manufacturing index remained below 50 (an indication the sector is in contraction) in September for the fifth consecutive month. The seasonally adjusted Performance of Service index also remained below 50 in September (46.9). This index has been below 50 for 6 months.

Firms are looking to consolidate

In the September QSBO, a net 44% of firms reported a drop in profits in the September quarter and a net 23% of firms expect a drop in the next 3 months.

Such an outlook for profits means firms are consolidating staff numbers. A net 11% of firms reduced staff in the September quarter up from a net 3% in June. This points to little growth in annual employment in the September quarter (*Figure 5*). A net 7% of firms expect to lay off staff in the next 3 months compared to a net 5% in the June quarter.

Figure 5 – Employment intentions and employment growth



Sources: Statistics NZ, NZIER

Labour market data for the September quarter is released in early November and will provide more information on the extent to which conditions in the labour market have eased.

Pricing intentions ease...

Cost and price pressures appeared to be easing in the September quarter. The net percentage of respondents who experienced higher costs in the quarter fell from 68% to 59% and firms' expectations of cost increases in the following quarter decreased from 71% in June to 62% in September. The fall in oil prices, on a West Texas Intermediate crude basis, from US$145 a barrel in mid-July to around US$107 a barrel at the end of the September quarter, will have been a major contributor to this assessment.

The net percent of firms that increased their prices fell from 47% in June to 36% in September, and the percent intending to increase their prices in the following quarter fell from 49% in June to 28% in September (*Figure 6*). Similarly, in the October *National Bank Business Outlook* a net 21% of firms expected to increase prices in the next 12 months, down from 35% in September.

...meaning that annual CPI inflation has peaked

The Consumers Price Index (CPI) increased 1.5% in the September quarter. This result lifted annual inflation from 4.0% in the June quarter to 5.1% in the September quarter 2008. The annual increase was the largest since June 1990.

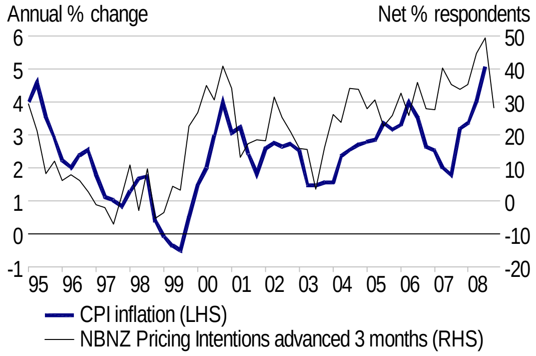
Food, transport and housing drove the quarterly increase in the CPI in the September quarter. Vegetable prices increased 20.0% in the September quarter, as the result of wet weather in August reducing supply. The strong increase that has occurred in commodity prices since 2006 ensured that the meat, poultry and fish group rose 2.6% and the grocery food group increased 2.2% in the quarter.

The average weekly petrol price in the September quarter was 4.6% higher than the June quarter average. The housing and housing component contributed 0.3 percentage points to the quarterly outturn, reflecting annual adjustment of local authority rates as well as construction costs.

However, falling commodity prices, notably oil and food mean that 5.1% represents the peak in annual inflation in the current cycle. Reflecting the fall in oil prices, petrol prices (on a 91 unleaded basis) have fallen around 25c a litre already in the December quarter compared to their September quarter average.

Falling world prices of cereal and dairy products and a return to more normal growing conditions domestically will also contribute to a moderation in food price inflation, although the impact on vegetable prices of the reduced supply is likely to persist into the December quarter. There is also likely to be downward pressure from further discounting of consumer durables in the weak retail environment.

Figure 6 – CPI inflation and pricing intentions



Sources: Statistics NZ, NZIER

Consistent with the above factors and the pricing intentions from the QSBO (*Figure 6*), we expect the quarterly CPI growth to be flat-to-negative in the December quarter. The previous large run-ups in food and petrol prices that occurred earlier this year mean the annual inflation rate is likely to remain around 4.0% in the December quarter.

Housing market continues to weaken

The sustained strength in the housing market has been a consistent driver of non-tradables inflation over recent years through rapidly increasing construction costs. The latest Real Estate Institute of New Zealand housing market data show that the housing market continues to slow, suggesting that some drivers of housing-related inflation will also slow over the next 12 months, although pressures from rates are likely to remain.

Although the seasonally adjusted number of house sales was up 2.7% month-on-month in September, they are still down 28.3% compared with the same period last year. In a similar vein, monthly growth in the median selling price was unchanged month-on-month in September, but was down 6.1% on last year. Quotable Value New Zealand's house price index fell 4.5% in the June quarter.

September dwelling consents (excluding the volatile apartment series) remain weak with the number of consents down 39% on September last year.

Weaker housing activity has seen weaker growth in household borrowing. Borrowing for housing purposes grew 6.8% year-on-year in September 2008. This compares to 7.3% in August.

Net migration eases

One factor that has assisted in slowing the housing market has been a slowing in permanent and long-term migration. This continued in September with the annual net gain slipping to 4,400 in September from 4,900 in August. The annual net gain is the lowest since October 2001.

Reflecting the slowing world economy reducing discretionary incomes, visitor arrivals fell 6.2% in the month to be down 6.1% on September last year, with the fall being driven by a fall in arrivals from Asia and the Americas. Short-term departures of New Zealanders fell 5.7% in the month and are down 7.3% on last September.

Annual trade deficit increased in September

The annual merchandise trade deficit increased to $5.0 billion in September, up from $4.4 billion in August but well below its peak of $7.3 billion in February 2006.

Seasonally adjusted export values increased by 5.4% in the September quarter after a decrease of 0.1% in the June quarter. The increase was driven by a 16.3% seasonally adjusted increase in the value of logs, wood and wood products and a 2.6% increase in the value of milk powder, butter and cheese. Both of the increases in these categories reflect growth in volumes exported rather than higher prices. The value of exported crude oil (mainly from the Tui oil field) fell 9% and reflects lower volumes (down 19%).

Seasonally adjusted, oil imports (up 38.4%) were the major driver of the 2.1% increase in import values in the September quarter. The value of consumption goods (3.1%) and passenger motor cars (4.4%) imported also rose in the quarter. Machinery and plant imports fell by 11.0% and transport equipment imports fell 7.1%.

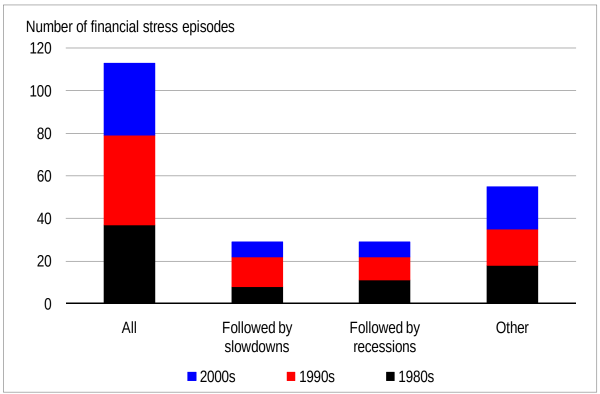
Special Topic: The Links between Financial Stress and the Real Economy

The recent turmoil in global financial markets is not the first crisis that the world economy has experienced. A quick look at history gives us many examples of banking, currency, twin (concurrent banking and currency) crises, and current account reversals (a sharp change in the current account deficit after a period of foreign capital inflows). These episodes are often but not always a precursor to economic slowdown. Given the financial nature of the current situation, this special topic provides an analysis of the links between financial distress and the real economy based on similar past conditions and discusses the potential channels through which tight financial conditions can be transmitted to the real economy. The topic draws on material from the IMF's latest Global Economic Outlook.

Not all financial stress episodes lead to economic downturns

An analysis of financial distress in 17 advanced countries in the past three decades shows that around half the episodes of financial stress were followed by an economic downturn, i.e., a slowdown or a full-blown recession (*Figure 7*).

Figure 7 – Number of Financial Stress Episodes



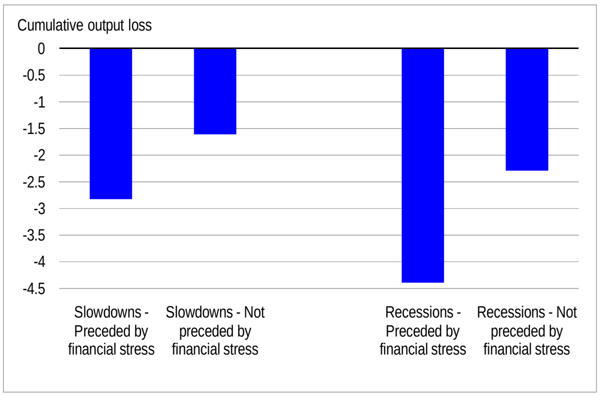
Source: IMF Global Economic Outlook, October 2008, Ch 4

Economic downturns preceded by financial distress are more severe

Economic downturns associated with episodes of financial stress tend to be longer and deeper than those which are not preceded by a financial crisis *Figure 8* shows that the average output loss in recessions associated with an episode of financial stress has been around 4 percent of GDP against 2 percent for all the other recessions.

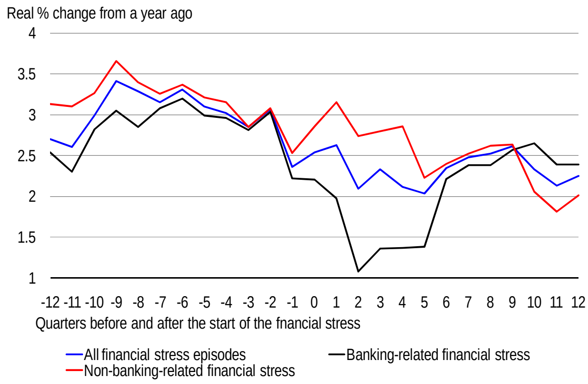
There are several other facts to note from past financial stress episodes. *Figure 9* shows that output losses tend to be even larger if the crisis is banking-related (vs. securities or foreign exchange markets). In most cases, the impact on the real economy materialises soon after the crisis has started but there are examples of longer lags. The average duration of a downturn associated with banking related financial stress is around 8 quarters.

Figure 8 – Financial Stress and Output Loss



Source: IMF Global Economic Outlook, October 2008, Ch 4

Figure 9 – Real GDP



Source: IMF Global Economic Outlook, October 2008, Ch 4

There can be several transmission mechanisms to the real economy

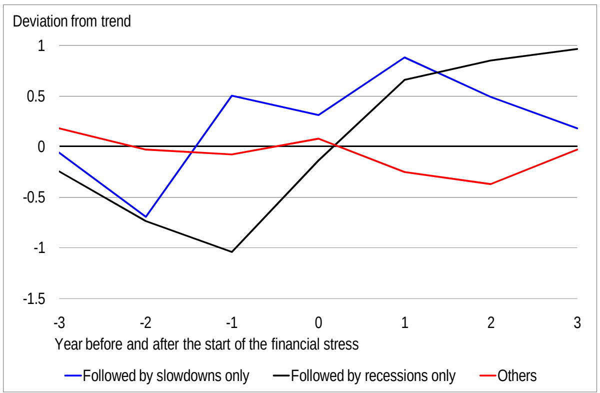
The potential transmission mechanisms from financial distress to the real economy include tighter financial conditions (drying up of market liquidity and having no room to differentiate across the credit spectrum might lead to limited access to capital by firms and lower investment and even bankruptcies of some firms, leading to high levels of unemployment), decline in investment due to uncertainty, decline in consumption due to loss of consumer confidence as a result of tighter credit conditions and wealth effects from falling asset prices (houses, shares), and decline in exports and the price of commodities due to a fall in world demand.

Several factors make a country more vulnerable to these transmission mechanisms

One way to think about these different channels is to look at how macroeconomic variables have behaved in previous episodes of financial crises. Asset prices, credit ratios and household financial positions are good indicators of how vulnerable an economy is to financial distress.

The effects on the real economy are more severe if there has been a build-up of house prices and credit as well as firm borrowing. Household and firm exposures to the financial sector (external funding) have been the most important channels that have led to a decline in real economic activity. *Figure10* shows that financial stress episodes followed by recessions tend to be preceded by rapid build-ups in net borrowing by households.

Figure 10 – Household Net Lending/Borrowing

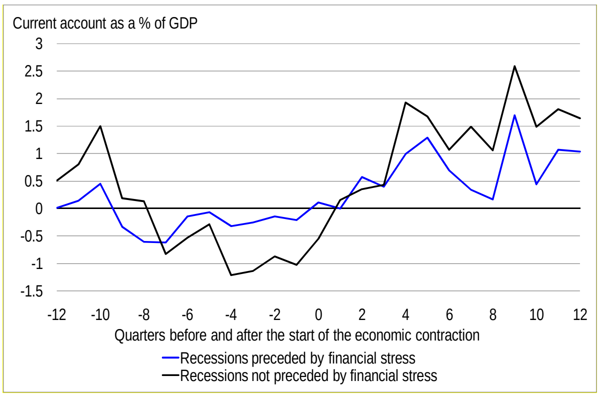


Source: IMF Global Economic Outlook, October 2008, Ch 4

On average, countries with current account and fiscal deficits are more vulnerable to financial distress and downturns. *Figure 11* shows that current account deficits prior to a recessions are larger in those economies which also experience financial stress prior to a recession.

The impact of the current crisis on growth

During the Great Depression, industrial production collapsed – US industrial production dropped by 48% between 1929 and 1932, and German industrial production dropped by 39% – and the rates of unemployment peaked at 25% in the US and 44% in Germany. These numbers suggest that the current crisis is far from such dire circumstances. That is partly because policy responses exacerbated the Great Depression. The nature of the current crisis is similar to that of the Asian crisis. Both crises share the following common causes: inadequate transparency in the financial sector; excessive leverage as a result of lax bank regulation and an overly accommodating monetary policy prior to the crisis. So far the economic impact of the current crisis has been more widespread than the case was in the Asian crisis. The analysis above shows that all crises are different and the extent to which each country is affected by a crisis depends on whether the underlying economy is sound or not.**Figure 11 – Current Account/GDP**



Source: IMF Global Economic Outlook, October 2008, Ch 4

For a small open economy like New Zealand, the most prominent transmission channels from the current financial crisis to the real economy are tighter credit conditions, increased risk aversion, lower world export prices and a decline in exports due to weaker global demand.

Having a flexible exchange rate, and room for expansionary monetary and fiscal policy to address these transmission channels, puts New Zealand in a relatively good position to deal with these impacts on the real economy. Some empirical evidence suggests that countries with a strong resource base perform better during a financial crisis in comparison with other countries. However, a larger current account deficit and household indebtedness constitute some vulnerability, if these imbalances were to unwind drastically due to tightness in global credit conditions.

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

31 October 2008

		2007Q1	2007Q2	2007Q3	2007Q4	2008Q1	2008Q2	2008Q3
Gross Domestic Product (GDP)								
Real production GDP	qtr % chg[1]	1.2	0.9	0.6	0.9	-0.3	-0.2	...
	ann ave % chg	1.8	2.3	2.9	3.2	3.2	2.6	...
Real private consumption	qtr % chg[1]	1.8	0.5	0.5	0.6	-0.4	-0.3	...
	ann ave % chg	2.9	3.4	3.9	4.1	3.3	2.4	...
Real public consumption	qtr % chg[1]	0.3	1.3	1.5	0.5	1.5	0.5	...
	ann ave % chg	4.0	3.8	3.7	3.6	4.1	4.2	...
Real residential investment	qtr % chg[1]	0.5	4.6	0.5	-2.3	-5.2	-8.1	...
	ann ave % chg	-2.7	1.6	3.6	4.5	3.8	-2.4	...
Real non-residential investment	qtr % chg[1]	3.7	-1.3	0.1	4.8	-0.5	6.1	...
	ann ave % chg	-1.6	0.8	2.3	4.7	4.4	5.6	...
Export volumes	qtr % chg[1]	3.0	-0.8	-0.4	4.5	-1.8	-0.2	...
	ann ave % chg	3.1	3.3	2.1	3.3	2.3	2.1	...
Import volumes	qtr % chg[1]	4.3	2.5	0.7	4.0	1.4	3.3	...
	ann ave % chg	-1.6	1.7	5.3	8.7	9.7	9.7	...
Nominal GDP - expenditure basis	ann ave % chg	5.2	6.5	7.0	7.4	7.5	6.2	...
Real GDP per capita	ann ave % chg	0.6	1.2	1.7	2.1	2.1	1.6	...
Real Gross National Disposable Income	ann ave % chg	1.9	2.9	3.5	4.9	5.4	5.0	...
External Trade								
Current account balance (annual)	NZ$ millions	-13785	-14096	-14892	-14372	-14211	-14968	...
	% of GDP	-8.3	-8.4	-8.7	-8.2	-8.0	-8.4	...
Investment income balance (annual)	NZ$ millions	-11964	-12135	-12796	-12837	-13388	-13931	...
Merchandise terms of trade	qtr % chg	1.5	0.4	3.7	2.9	4.2	-0.5	...
	ann % chg	4.5	2.3	8.4	8.8	11.6	10.6	...
Prices								
CPI inflation	qtr % chg	0.5	1.0	0.5	1.2	0.7	1.6	1.5
	ann % chg	2.5	2.0	1.8	3.2	3.4	4.0	5.1
Tradable inflation	ann % chg	0.8	-0.5	-0.3	2.8	3.4	4.8	6.3
Non-tradable inflation	ann % chg	4.0	4.1	3.7	3.5	3.5	3.4	4.1
GDP deflator	ann % chg	3.1	4.3	3.8	5.6	5.8	3.6	...
Consumption deflator	ann % chg	2.0	1.4	1.2	2.1	2.5	3.4	...
Labour Market								
Employment (HLFS)	qtr % chg[1]	1.4	0.3	-0.1	0.9	-1.3	1.3	...
	ann % chg[1]	1.8	1.5	1.5	2.5	-0.2	0.7	...
Unemployment rate	%[1]	3.7	3.6	3.5	3.4	3.7	3.9	...
Participation rate	%[1]	68.7	68.7	68.3	68.6	67.7	68.6	...
LCI salary & wage rates - total (adjusted)[6]	qtr % chg	0.6	0.6	1.0	1.0	0.8	0.7	...
	ann % chg	3.2	3.1	3.1	3.3	3.4	3.5	...
LCI salary & wage rates - total (unadjusted)[6]	qtr % chg	0.8	1.0	1.7	1.4	1.2	1.1	...
	ann % chg	4.5	4.6	4.8	5.0	5.4	5.5	...
QES average hourly earnings - total[6]	qtr % chg	1.0	0.8	1.3	1.0	1.5	1.4	...
	ann % chg	4.6	4.3	4.0	4.2	4.6	5.3	...
Labour productivity[7]	ann ave % chg	1.3	1.6	2.1	2.7	3.3	2.7	...
Confidence Indicators/Surveys								
WMM - consumer confidence[3]	Index	118	111	114	110	97	82	105
QSBO - general business situation[4]	net %	-15.3	-36.6	-27.3	-26.4	-64.1	-63.7	-19.3
QSBO - own activity outlook[4]	net %	16.1	8.8	15.4	13.9	-9.7	-22.9	-8.3

Monthly Indicators

		2008M 4	2008M 5	2008M 6	2008M 7	2008M 8	2008M 9	2008M10
External Sector								
Merchandise trade - exports	mth % chg[1]	16.0	-11.2	15.9	-2.6	11.8	-14.7	...
	ann % chg[1]	20.7	11.6	31.9	29.7	35.0	7.9	...
Merchandise trade - imports	mth % chg[1]	10.8	-2.7	0.6	2.4	0.9	2.8	...
	ann % chg[1]	21.5	16.7	17.4	22.1	22.9	24.9	...
Merchandise trade balance (12 month total)	NZ$ million	-4604	-4782	-4478	-4475	-4374	-4985	...
Visitor arrivals	number[1]	189630	206990	204340	208660	207100	194630	...
Visitor departures	number[1]	201580	203410	209100	204570	206440	193850	...
Housing								
Dwelling consents - residential	mth % chg[1]	81.4	-42.1	-12.6	-2.0	-6.8	8.4	...
	ann % chg[1]	30.6	-26.7	-46.0	-34.4	-42.9	-28.4	...
House sales - dwellings	mth % chg[1]	13.1	-17.0	15.3	10.6	-10.1	2.7	...
	ann % chg[1]	-44.9	-53.2	-42.5	-32.4	-33.7	-23.8	...
REINZ - median dwelling price	mth % chg	-1.1	0.2	-1.0	0.4	-2.3	-0.2	...
	ann % chg	-1.2	-1.3	-2.2	-1.4	-5.6	-6.1	...
Private Consumption								
Core retail sales	mth % chg[1]	-0.1	0.7	0.0	0.0	0.8	...	...
	ann % chg[1]	1.5	1.7	2.1	1.8	1.9	...	...
Total retail sales	mth % chg[1]	1.3	-1.2	0.9	-0.7	0.4	...	...
	ann % chg[1]	3.3	1.2	2.4	1.1	1.3	...	...
New car registrations	mth % chg[1]	9.0	-11.5	1.2	-7.4	-3.8	11.3	...
	ann % chg	-1.1	-20.6	-15.9	-27.1	-30.5	-15.6	...
Electronic card transactions - total retail	mth % chg[1]	-0.3	1.3	-0.3	0.9	1.0	0.0	...
	ann % chg	6.0	8.7	2.6	7.3	5.9	4.0	...
Migration								
Permanent & long-term arrivals	number[1]	7320	7860	7570	7640	7810	7110	...
Permanent & long-term departures	number[1]	6820	6900	7110	6850	7430	7100	...
Net PLT migration (12 month total)	number	4666	4931	4732	5201	4938	4403	...
Commodity Prices								
Brent oil price	US$/Barrel	110.03	123.86	132.76	133.59	113.80	98.76	73.1
WTI oil price	US$/Barrel	112.34	125.67	133.93	133.96	116.70	104.44	77.2
ANZ NZ commodity price index	mth % chg	1.1	2.5	2.1	2.8	2.1	-0.9	...
	ann % chg	13.4	13.2	12.5	14.4	6.2	3.6	...
ANZ world commodity price index	mth % chg	-0.3	1.0	-0.1	1.8	-3.3	-4.9	...
	ann % chg	20.7	18.7	11.8	8.7	3.6	-1.9	...
Financial Markets								
NZD/USD	$[2]	0.7900	0.7769	0.7607	0.7553	0.7102	0.6748	0.6149
NZD/AUD	$[2]	0.8500	0.8188	0.7997	0.7848	0.8031	0.8224	0.8814
Trade weighted index (TWI)	June 1979 = 100[2]	70.31	69.32	68.11	67.18	65.52	63.82	60.82
Official cash rate (OCR)	%	8.25	8.25	8.25	8.00	8.00	7.50	6.50
90 day bank bill rate	%[2]	8.87	8.71	8.68	8.46	8.20	7.95	7.44
10 year govt bond rate	%[2]	6.48	6.43	6.42	6.18	6.13	5.82	5.85
Confidence Indicators/Surveys								
National Bank - business confidence	net %	-54.8	-49.7	-38.7	-43.2	-20.5	1.6	-42.3
National Bank - activity outlook	net %	-3.8	-4.4	-4.0	-8.2	4.7	16.7	-11.4
One News[5] - consumer confidence	net %	-34	-33	-25	-27	6	23	-5

qtr % chg	quarterly percent change
mth % chg	monthly percent change
ann % chg	annual percent change
ann ave % chg	annual average percent change

1 Seasonally adjusted
2 Average (11am)
3 Westpac McDermott Miller
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