NEW ZEALAND MINISTRY OF
FOREIGN AFFAIRS & TRADE
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Quarterly Trade and Economic Indicators – March 2008

1. This report provides an overview of the New Zealand economy in the March 2008 quarter as well as an outlook for the economy over the next two years.[a] All figures are in New Zealand dollars unless specified otherwise. An appendix contains data on New Zealand's major trading partners and the main commodities that were exported and imported in the year to March 2008.

Executive Summary

2. Economic activity decreased 0.3 percent in the March 2008 quarter. Annual growth was 2.9 percent for the year to March 2008.
3. The quarterly contraction in the New Zealand economy was the first since June 2006. Growth rates are predicted to remain low throughout 2008, as the effects of the global credit issues, slowing housing markets and the drought continue to play out.
4. Annual inflation was 3.4 percent for the year to March 2008, driven by increasing oil and food prices. Inflation is likely to remain above the Reserve Bank's 1-3 percent target band throughout 2008, but inflationary pressures are predicted to ease as the global economy slows and domestic spending eases. The Reserve Bank expects to lower the OCR later this year.
5. Since March 2008, the New Zealand dollar has depreciated to seven-year lows against the Australian dollar, and has also fallen against the US dollar and most other major currencies. The New Zealand dollar is predicted to continue to depreciate in 2008 and 2009.
6. The current account deficit continues to narrow. The deficit was $13.8 billion, or 7.8 percent of GDP, for the year to March 2008.

Analysis

The New Zealand economy contracts in the March 2008 quarter…

7. Economic activity decreased 0.3 percent in the March 2008 quarter. Annual growth was 2.9 percent for the year ended March 2008, compared to economic growth of 1.6 percent for the year ended March 2007. *(Figure 1)*
8. The quarterly decrease in economic activity was the first since June 2006. It was in line with most forecasts, and commentators predict continued low growth over the next two years.

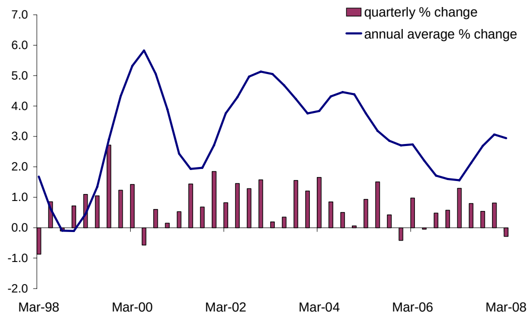
[a] The latest GDP data was released on 27 June 2008 and was for the year ending March 2008. Economic data from after March 2008 has been used where relevant.

…as agriculture and construction activity falls significantly…

9. Two key contributors to the negative growth in the March 2008 quarter were agriculture and construction. Agricultural activity fell 5.6 percent in the March 2008 quarter, due in part to the drought experienced in early 2008.

10. Construction activity declined 5.2 percent in the March 2008 quarter, following a 1.6 percent increase in the December 2007 quarter.

Figure 1: Economic Growth



Source: Statistics New Zealand

11. Some sectors experienced positive growth in the March 2008 quarter. Service industries grew 0.3 percent in the quarter, driven by personal and community services. Despite concerns about global credit markets, finance and insurance services continued to grow, increasing 0.8 percent in the quarter. In the manufacturing sector, petroleum, chemical, plastic and rubber manufacturing grew 7.9 percent in the March 2008 quarter, driven by the Tui oilfield.

… household spending and investment declines…

12. Household spending decreased 0.4 percent in the March 2008 quarter, following a 0.5 percent increase in the December 2007 quarter. The decrease in household spending was the first since the June 2004 quarter, and was driven by decreased investment in new housing (down 5.5 percent) and lower spending on durable goods (down 3.4 percent).

13. Business investment fell 1.2 percent in the March 2008 quarter, following strong growth of 5.1 percent in the December 2007 quarter. For the year ended March 2008, business investment increased 4.4 percent, compared with a decrease of 1.6 percent for the year ended March 2007.

14. The major contributors to the decrease in business investment in the March 2008 quarter were non-residential building investment (down 7.2 percent) and investment in intangibles (down 5.3 percent, due to reduced exploration activity). Partially offsetting these decreases was a 5.9 percent increase in investment in plant, machinery and equipment.

…and exports fall due to dairy and food.

15. The volume of exported goods and services fell 1.8 percent in the March 2008 quarter, after a 4.5 percent increase in the December 2007 quarter. Export volumes increased 2.3 percent in the year to March 2008, compared with a 3.1 percent increase in the year to March 2007.

16. The decrease in export volumes in the March 2008 quarter was driven by three factors. First, dairy exports fell 3.8 percent, following a 23.3 percent increase in the December 2007 quarter. Second, food and beverage exports fell 4.0 percent. Third, service exports continued to decline, with a 1.2 percent decrease reflecting a fall in the spending of international visitors to New Zealand. These decreases were partially offset by increases in exports of agriculture and fishing (up 5.1 percent) and meat products (up 3.6 percent).

17. The volume of imported goods and services continued to increase in the March 2008 quarter, rising 1.2 percent. This increase was driven by rising imports of machinery and plant (up 8.8 percent in the March 2008 quarter and up 16.6 percent in the year ended March 2008) and intermediate goods (up 4.6 percent).

The Official Cash Rate remains at 8.25 percent…

18. The OCR has remained unchanged at 8.25 percent since July 2007. Inflation for the year to March 2008 was 3.4 percent, and forecasters predict that inflation will remain above the Reserve Bank's target band of 1-3 percent throughout 2008, driven primarily by increasing food and oil prices. The Reserve Bank states that inflationary pressures will ease in the medium term, and notes the weak outlook for economic activity. It expects to lower the OCR later this year.

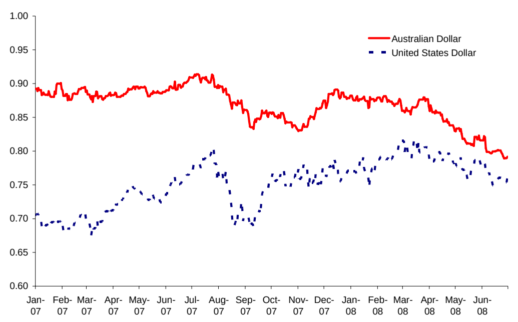
…the unemployment rate increases…

19. The unemployment rate increased to 3.6 percent in the March 2008 quarter, compared to 3.4 percent in the December 2007 quarter. Employment declined 1.3 percent in the March 2008 quarter, following a 0.9 percent increase in the December 2007 quarter. Forecasters expect unemployment rates to continue to increase, reaching 4.2 percent in March 2009 and 4.6 percent in March 2010.

…and the New Zealand dollar depreciates.

20. The New Zealand dollar averaged US$0.79 and A$0.87 in the March 2008 quarter. Since March 2008, the New Zealand dollar has depreciated against most major currencies. The New Zealand dollar has reached seven-year lows against the Australian dollar, but remains high by historical standards against the US dollar and other major currencies.

Figure 2: Exchange Rates



Source: Reserve Bank of New Zealand

21. The current account deficit for the year to March 2008 was $13.8 billion, or 7.8 percent of GDP, compared to 8.2 percent of GDP for the year to March 2007. The deficit is continuing to narrow from its peak of 9.7 percent of GDP in the year to June 2006.

Forecasters expect weak economic growth and a depreciating dollar.

22. Key economic indicators, setting out the current state of the New Zealand economy, are summarised in Table 1.

23. NZIER's latest Consensus Forecasts predicts zero growth in the June 2008 quarter. Annual growth is expected to fall to 1.0 percent in the year to March 2009, with a 9.8 percent fall in residential investment, and low growth in business investment and private consumption (*Table 2*).

24. Inflation is expected to reach 3.9 percent in the year ended March 2009, peaking at 4.3 percent in the September 2008 quarter, before easing to 2.7 percent in the year to March 2010. The New Zealand dollar is predicted to depreciate throughout 2008 and 2009. Interest rates are expected to fall, although remaining at high levels by historical standards.

Table 1: Summary of Economic Indicators

March year	2006	2007	2008
Real GDP – annual average % change	2.7	1.6	2.9
Real GDP per capita, $US, PPP[a]	25,202	26,379	27,172
Merchandise exports, $ billions	31.1	35.3	38.1
Merchandise imports, $ billions	38.2	41.1	42.7
Service exports, $ billions	12.2	12.6	12.7
Service imports, $ billions	11.8	12.1	12.4
Current Account Balance, $ billions	-14.5	-13.5	-13.8
Current Account Balance - % of GDP	-9.2	-8.2	-7.8
Consumer price index – annual % change	3.3	2.5	3.4
Wage growth – annual % change[b]	3.3	3.1	3.4
Employment – 000s, sa[c]	2,109	2,146	2,141
Employment – annual % change	2.6	1.8	-0.2
Unemployment – 000s[c]	85	83	81
Unemployment rate - % of the labour force, sa[c]	3.9	3.7	3.6
$NZ/$US – average for March quarter	0.67	0.72	0.79
$NZ/$AUS – average for March quarter	0.90	0.88	0.87
TWI – average for March quarter	68.3	68.8	71.9
90-day bank bills – average for March quarter	7.55	7.78	8.82
10-year Govt stock – average for March quarter	5.71	5.91	6.35

a. Year ended December; IMF estimates for 2007 and 2008.
b. Labour Cost Index, all salaries and wage rates
c. March 2008 quarter
Notes: Where relevant, figures are in New Zealand dollars; sa (seasonally adjusted), PPP (Purchasing Power Parity); data sourced from Statistics New Zealand, the Reserve Bank of New Zealand, and the IMF.

Table 2: Consensus Forecasts, June 2008

March years, annual average % change	2009	2010
Real GDP	1.0	2.4
Exports, goods & services	1.7	3.7
Imports, goods & services	1.5	3.0
Consumer Price Index – annual % change	3.9	2.7
TWI – average for year to March	67.0	63.5
90-day bank bill – average for year to March	8.3	7.2
10-year Govt stock – average for year to March	6.2	6.2
Employment – annual % change	0.4	0.9
Unemployment rate - % of labour force, March qtr	4.2	4.6

Source: NZIER

APPENDIX

Table A1: Exports and Imports by Trading Partner[a]

Rank	Market	March Year 2007 ($NZ, billions)	March Year 2008 ($NZ, billions)	% Share 2008	% change 07-08
Top Ten Import Sources[b]					
1	Australia	8.4	8.5	20.0	1.3
2	European Union	6.9	7.1	16.6	2.8
3	China	5.2	5.7	13.3	9.7
4	Japan	3.7	4.0	9.4	7.7
5	United States	4.7	3.9	9.2	-17.1
6	Singapore	1.9	2.1	4.9	12.1
7	Malaysia	1.1	1.3	3.1	19.6
8	Thailand	1.0	1.1	2.7	10.6
9	Korea, South	1.3	1.1	2.6	-10.2
10	Taiwan	0.8	1.0	2.2	18.8
	APEC[c]	30.9	31.6	74.0	2.1
	ASEAN[d]	5.4	6.1	14.3	12.5
	Top Ten	35.0	35.9	84.1	2.4
	All Countries	41.1	42.7	100.0	3.8
Top Ten Export Destinations[b]					
1	Australia	7.1	8.5	22.2	19.1
2	European Union	5.6	5.4	14.2	-4.1
3	United States	4.6	4.1	10.7	-10.8
4	Japan	3.6	3.3	8.7	-7.1
5	China	1.9	2.0	5.3	7.6
6	Korea, South	1.4	1.3	3.5	-6.2
7	Indonesia	0.6	0.9	2.3	35.8
8	Singapore	0.6	0.8	2.0	38.2
9	Taiwan	0.8	0.7	2.0	-5.6
10	Philippines	0.5	0.7	1.9	32.2
	APEC[c]	24.3	26.3	69.0	8.3
	ASEAN[d]	3.0	4.1	10.9	36.4
	Top Ten	26.8	27.8	72.9	3.8
	All Countries	35.3	38.1	100.0	8.0

a. Exports are Free on Board (FoB) and Imports include Cost, Insurance and Freight (CIF). Figures may not sum to totals because of rounding.
b. Ranked for the year to March 2008.
c. APEC includes the 21 members of APEC.
d. ASEAN includes the 10 members of ASEAN.

Source: Statistics New Zealand

TableA2: Exports and Imports by Product[a]

Rank	HS2	Product	March Year 2007 (NZ$, billions)	March Year 2008 (NZ$, billions)	% share	% change 07-08
Top Ten Import Products[b]						
1	27	Fuel and Oil	5.9	6.5	15.2	9.6
2	84	Machinery	5.3	5.4	12.8	3.2
3	87	Vehicles	4.8	5.3	12.4	10.3
4	85	Electrical Machinery	3.7	3.7	8.8	2.0
5	39	Plastic	1.6	1.6	3.7	-0.1
6	90	Medical Equipment	1.2	1.2	2.7	-5.2
7	30	Pharmaceutical Products	1.0	1.0	2.4	3.9
8	48	Paper Articles	1.0	1.0	2.3	-2.0
9	73	Iron and Steel Products	0.8	0.8	2.0	9.8
10	89	Ships And Boats	0.2	0.8	2.0	380.2
		Top Ten	25.4	27.4	64.2	7.9
		All Imports	41.1	42.7	100.0	3.8
Top Ten Export Products[b]						
1	04	Dairy Produce	6.5	8.4	22.0	28.7
2	02	Meat	4.8	4.4	11.6	-8.2
3	44	Wood	2.2	2.1	5.4	-6.3
4	27	Fuel and Oil	0.5	1.9	5.1	282.7
5	84	Machinery	1.9	1.9	5.0	1.2
6	76	Aluminum	1.5	1.5	3.8	-4.7
7	08	Edible Fruit And Nuts	1.2	1.3	3.4	9.0
8	35	Albumins	1.0	1.1	3.0	10.2
9	03	Fish And Seafood	1.2	1.1	2.9	-8.0
10	85	Electrical Machinery	1.1	1.0	2.7	-6.0
		Top Ten	21.9	24.7	64.8	12.5
		All Exports	35.3	38.1	100.0	8.0

a. Exports are Free on Board (FoB) and Imports include Cost, Insurance and Freight (CIF). Figures may not sum to totals because of rounding.
b. Ranked for the year to March 2008.
c. Covers HS0401–0406.

Source: Statistics New Zealand