

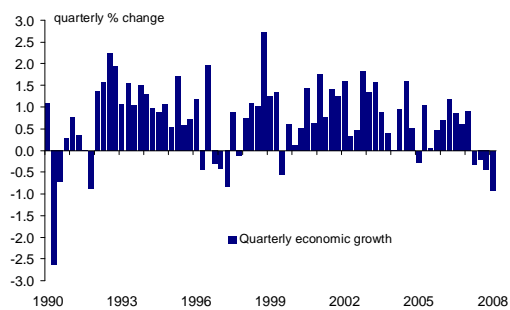


ECONOMIC GROWTH – DECEMBER 2008 QUARTER

Economic activity declined by 0.9% in the December 2008 quarter, which was slightly more positive than market expectations of a 1.0% fall (*Figure 1*). The 0.9% quarterly fall was the largest since the September 1992 quarter. Real GDP fell in all four quarters of 2008 and is down 1.9% over the calendar year (*Figure 2*).

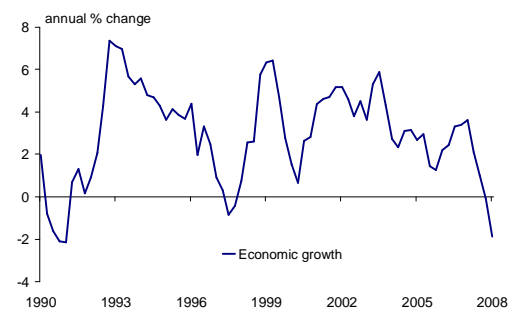
The fall in output over the December 2008 quarter was broad based with declines in real GDP recorded across a range of industries. Manufacturing activity declined sharply (down 3.8%) due to weak demand, both domestically and globally, while construction activity continued to fall (down 4.4%). This was driven by a fall in residential construction with non-residential construction recording an increase over the quarter. Activity in wholesale trade also fell strongly (down 4.9%).

Fig 1: Quarterly Economic Growth



Source: Statistics New Zealand

Fig 2: Annual Economic Growth



Source: Statistics New Zealand

Consumer spending remained flat in the December 2008 quarter after declining in the previous three quarters. This helped output in the retail sector to rise by 0.3%. It is possible that factors such as lower interest rates, tax cuts and lower fuel prices held consumer spending up over the quarter. Also on the positive side, activity increased in agriculture (up 4.0%) driven by increased dairy production while finance, insurance and business services rose by 2.2%.

Although the New Zealand economy entered recession relatively early, it has not been affected by the global financial crisis as much as many other countries. In the December 2008 quarter, real GDP fell by more in the UK (-1.5%), the US (-1.6%) and Japan (-3.3%), although New Zealand recorded a larger fall than Australia (-0.5%).

Economic activity is expected to be weak over 2009 due to weak global growth. The average expectation in the NZIER Consensus Forecasts is for the economy to contract by 0.6% in the March 2009 quarter. Looking further ahead, NZIER Consensus Forecasts show the economy is expected to contract by 0.6% in the year to March 2010 before growing by 2.7% in the next year. As a result of the weak economic outlook, NZIER Consensus Forecasts show the unemployment rate is forecast to rise to 6.8% in the March 2010 quarter. Nonetheless, there continues to be considerable downside risks to the outlook for the labour market.