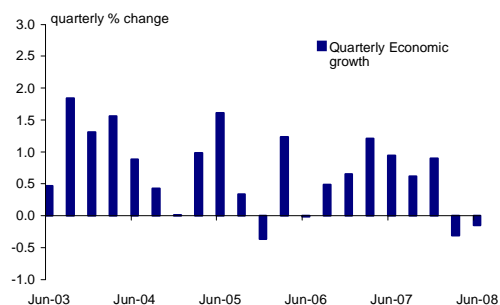




## ECONOMIC GROWTH – JUNE 2008 QUARTER

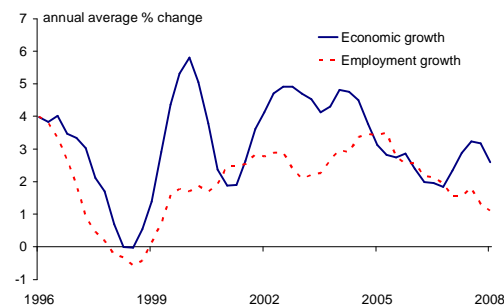
- 1 Economic output fell by 0.2% in the June 2008 quarter following a 0.3% fall in the March 2008 quarter. This is the first time since 1998 that GDP has fallen for two consecutive quarters. Annual average economic growth remained relatively high at 2.6%, reflecting strong economic growth over 2007.
- 2 The June 2008 quarter decline in economic output was driven by a number of factors. The slowdown in the housing market affected construction activity (down 3.8%) and the real estate & business services sector (down 1.6%). Consumer spending fell by 0.3% causing output in the retail, accommodation and restaurants industry to decrease by 1.9%. The drought continued to have an impact on the primary sector (down 0.6%), and on electricity, gas and water activity (down 1.6%), as a greater proportion of generation was produced from thermal sources.

Fig 1: Quarterly Economic Growth



Source: Statistics New Zealand

Fig 2: Economic and Employment Growth



Source: Statistics New Zealand

- 3 Today's GDP figures can also provide a crude measure of labour productivity growth at the economy-wide level<sup>1</sup>. Economy-wide labour productivity (GDP per hour worked) rose by 2.7% in the year to June 2008. Although this represents an easing from 3.3% in the year to March 2008, it remains a high rate of annual growth in labour productivity across the economy, partly reflecting the cyclical upturn last year and partly due to the recent strength of business investment.
- 4 After the falls in GDP seen in the first two quarters of 2008, we expect there may also be a decline in the September 2008 quarter. The average expectation in the latest NZIER Consensus Forecasts was for GDP to fall 0.1% in the September 2008 quarter.
- 5 Consumer confidence has seen some improvement recently according to a number of surveys, suggesting that growth in consumer spending will return in the December 2008 quarter. The average expectation in the NZIER Consensus Forecasts was for GDP growth to rise from 0.2% in the year to March 2009 to 2.1% the next year and 3.1% in the year to March 2011.
- 6 As a result of the slowing in economic growth over 2008, employment growth is expected to ease and the unemployment rate is expected to rise to 4.4% in March 2009 and 4.9% in March 2010.

<sup>1</sup> Official labour productivity data only cover the measured sector of the economy, so exclude industries in which productivity is hard to measure. The official measure is released with a time lag of around a year so the latest figures available are for the year to March 2007.