November 2009

QUIPS

New Zealand Quarterly Trade and Economic Indicators

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NEW ZEALAND MINISTRY OF
FOREIGN AFFAIRS & TRADE
MANATŪ AORERE

New Zealand Government

Gross Domestic Product

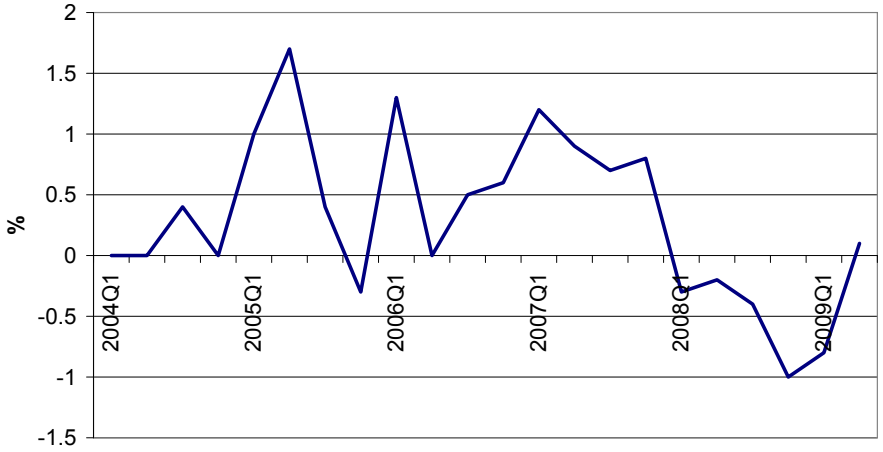
The New Zealand economy grew marginally in the June quarter, with GDP rising 0.1%. This technically ended the recession after five consecutive quarters of contraction.

In the June 2009 quarter, increased logging and oil production offset declines in manufacturing and construction. Additionally, the April 1 tax cuts boosted household disposable income, which flowed through to higher consumer spending.

On an annual average basis, the economy contracted 1.8% in the year to June 2009 – the largest decline in the current GDP series (since 1987).

Treasury expects moderate growth in the September and December quarters. The composition of this growth is likely to be tilted towards the internal (as opposed to the external) side of the economy, which Treasury expects will do little to unwind domestic macroeconomic imbalances over the medium term.

Gross Domestic Product



GDP growth 2008	
2008 Q2	-0.2
2008 Q3	-0.4
2008 Q4	-1.0
2009 Q1	-0.8
2009 Q2	0.1

Inflation

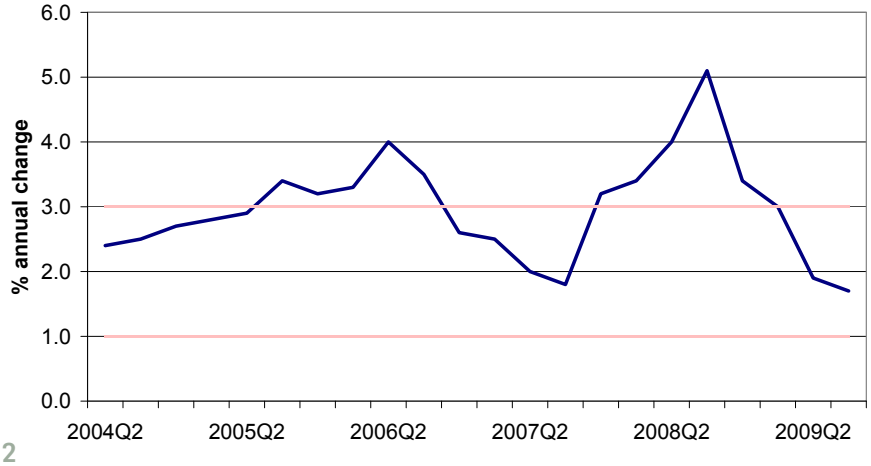
Annual inflation fell to 1.7% in the September 2009 quarter, down from 1.9% in the June quarter of 2008. This is the smallest annual increase since the March 2004 quarter.

The most significant upward contributions came from higher prices for the purchase of second-hand cars (up 12.9%), local authority rates and payments (up 6.6%), and electricity (up 4.5%). Overall food prices also increased significantly (up 5.4%).

The most significant downward contributions came from lower prices for petrol and diesel (down 19.0% and 38.8% respectively), international air transport (down 15.1%), and overseas package holidays (down 11.9%).

While the 1.7% annual CPI inflation was higher than the 1.1% that the market expected, inflation is expected to remain comfortably within the RBNZ's 1.0-3.0% target range in 2009.

Consumer Price Index inflation



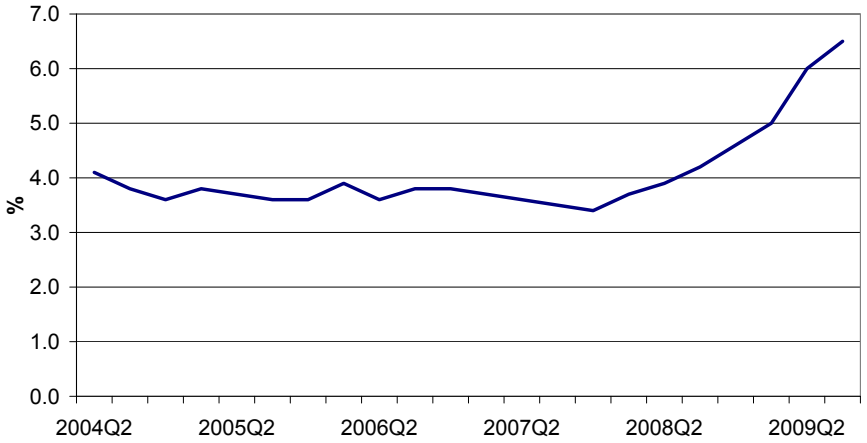
CPI inflation 2008	
2008 Q3	5.1
2008 Q4	3.4
2009 Q1	3.0
2009 Q2	1.9
2009 Q3	1.7

Unemployment

Unemployment has increased, for the seventh consecutive quarter, to 6.5% in the September 2009 quarter. The number of unemployed now stands at 150,000. This is the highest level since the March 1994 quater.

Many firms have reduced staff numbers. Also in an effort to cut costs, and retain staff, workers' hours have been reduced. This has been achieved through a mixture of overtime restrictions, job-sharing, and reduced working weeks. Some firms expect to resume or increase hiring in 2010.

Unemployment rate, quarterly



Unemployment rate 2008	
2008 Q3	4.2
2008 Q4	4.6
2009 Q1	5.0
2009 Q2	6.0
2009 Q3	6.5

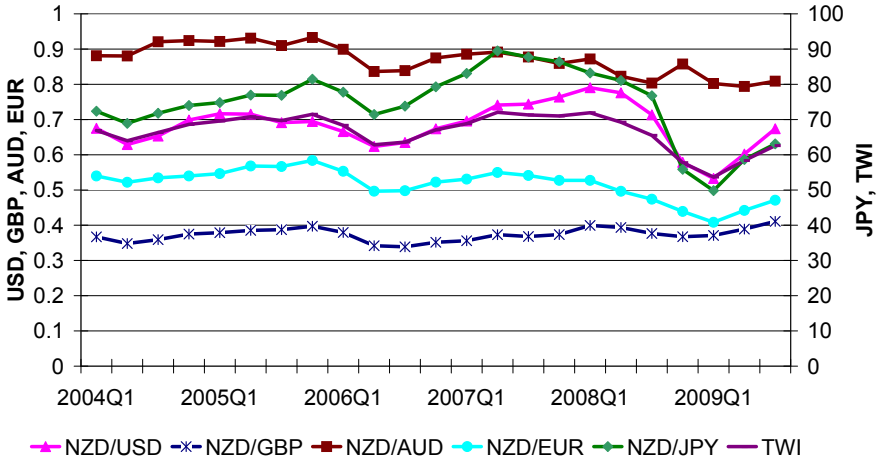
Exchange rate

The NZ dollar has continued to strengthen through October against the US dollar (up 5% on September average), the UK pound (up 6%) and the Euro (up 3.3%). The NZ dollar was relatively stable against the Australian dollar over October.

The Trade Weighted Index (TWI) rose 2.2 percentage points in October 2009, and has risen over 14 percentage points since February 2009.

The strength of the NZ dollar reflects the recent stronger performance of the Australian and New Zealand economies and higher retail interest rates which have led to increased demand for the NZ dollar.

Exchange rates



Economics concept

Trade Weighted Index (TWI) measures the value of the NZ$ relative to the currencies of NZ's major trading partners weighted 50% on the trading partner's GDP and 50% on their share of NZ's bilateral trade. The TWI is based on the USD, JPY, EUR, AUD, and GBP.

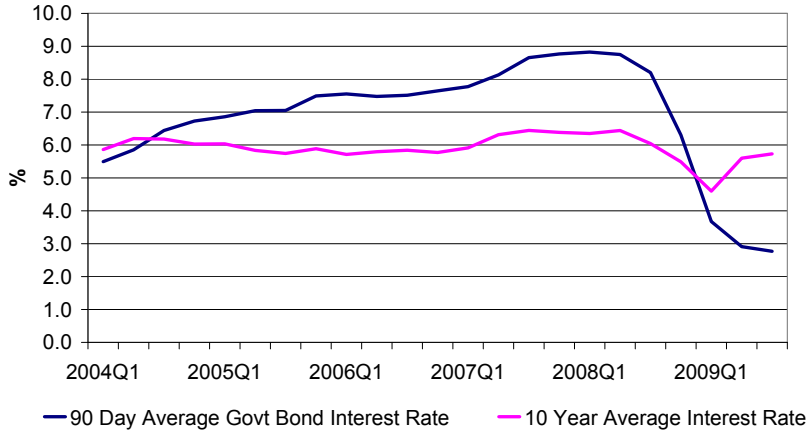
Interest rates

The Reserve Bank of New Zealand (RBNZ) held the Official Cash Rate (OCR) constant at 2.5% on 29 October 2009 following the meeting of the Monetary Policy Committee. The RBNZ's October review confirmed that the OCR was likely to remain at the current level until the second half of 2010.

The 90-day interest rate, a popular medium-term indicator of interest rate trends, has fallen from 8.8% in the January 2008 quarter to 2.8% in the September 2009 quarter. This is the lowest level since the series began in 1985.

The 10-year government bond rate, the standard long-term indicator, has risen from its historic low of 4.6% in the March 2009 quarter to 5.7% by the September quarter.

Interest rates



Interests rates	90day	10year
2008 Q3	8.20	6.04
2008 Q4	6.30	5.49
2009 Q1	3.67	4.60
2009 Q2	2.91	5.60

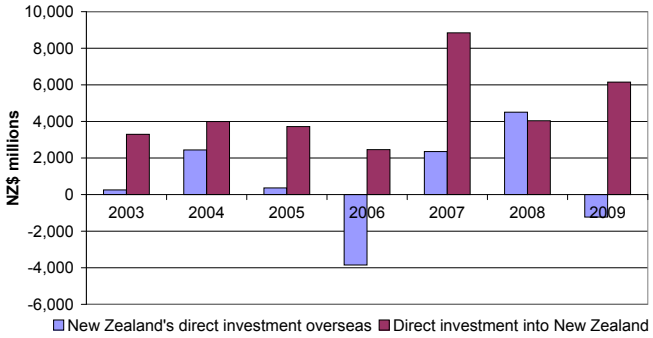
International Direct investment

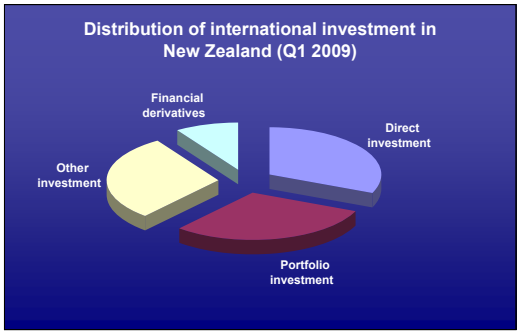
The flow of international direct investment into New Zealand rose from NZ$4.0 billion in the year to March 2008 to NZ$6.1 billion in the year to March 2009. Inward direct investment flows are still significantly lower than the NZ$8.8 billion spike in the year to March 2007.

New Zealand investment abroad contracted by NZ$1.2 billion in the year to March 2009.

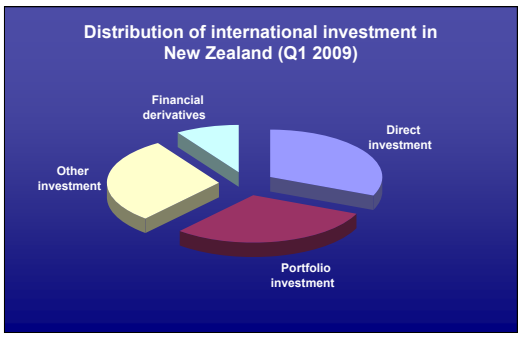
Australia was the main source of direct investment in New Zealand, while the US and UK remained the main sources of portfolio investment. Australia, the UK, and the US accounted for 67.8% of the value of foreign investment in New Zealand.

Flow of direct investment





International direct investment flows		
NZ$ millions	NZ Direct Investment Abroad	Overseas Direct Investment into NZ
2005	365	3,717
2006	-3,849	2,459
2007	2,201	8,843
2008	4,508	4,037
2009	-1,231	6,149

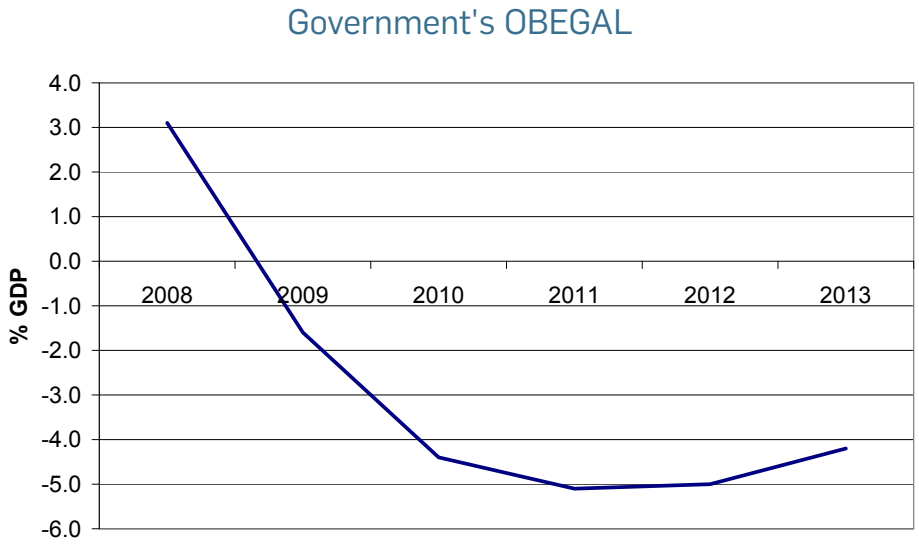


Government operating balance

Treasury's 2009 Budget Forecasts forecast that the Government's Operating Balance before Gains and Losses (OBEGAL) would be in deficit for the forecast period (2009-2013).

The New Zealand economy is generally performing better than expected in the Budget Forecasts. The pick up in economic activity over the last few months has led to higher-than-expected personal tax and GST revenues, but corporate taxes are weaker than forecast. This means that the Government's fiscal situation has remained relatively unchanged despite the generally positive signs.

PREFU: Pre-Election Economic + Fiscal Update **BEFU**: Budget Economic + Fiscal Update



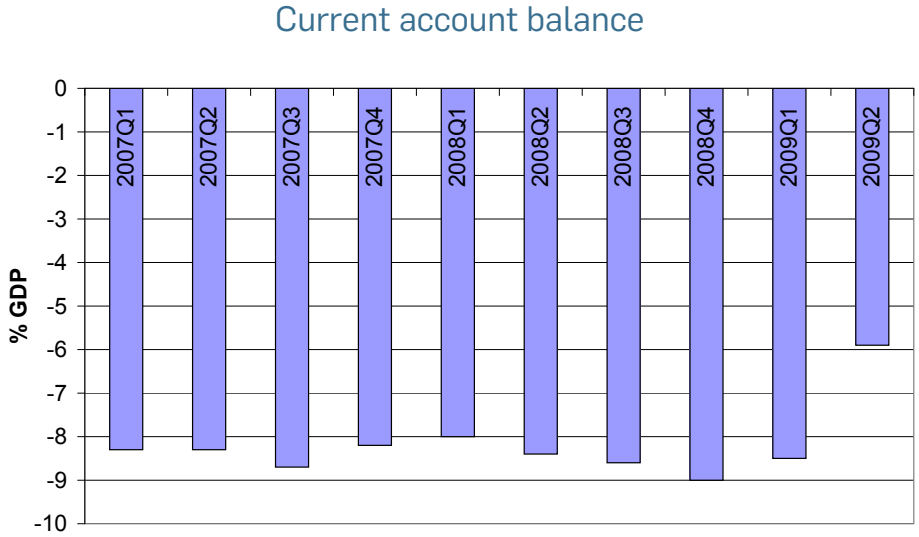
Government's operating balance (%GDP)		
	PREFU08	BEFU09
2008	3.1	3.1
2009	-0.3	-1.6
2010	-2.2	-4.4
2011	-3.1	-5.1
2012	-3.1	-5.0
2013	-2.9	-4.2

Current Account balance

In annual terms, New Zealand's current account deficit narrowed to 5.9% of GDP in June 2009, down from a revised 8.1% of GDP in March 2009.

The largest drivers of the reduction were a fall in the investment income deficit and lower import values, both reflecting a weak New Zealand economy over the first half of 2009.

Treasury expects the current account deficit to fall towards 5.0% in the coming year, before increasing again as the investment income deficit widens and demand for imports picks up due to the strong NZ dollar.



Current account deficit (% GDP)	
Dec 07	-8.2
Jun 08	-8.4
Dec 08	-9.0
Mar 09	-8.1
Jun 09	-5.9

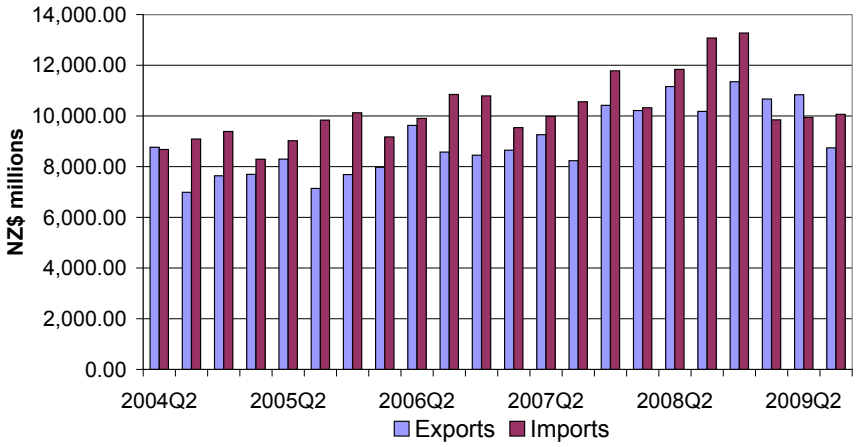
Merchandise exports and imports

The value of exports decreased 6.8% to $9.4 billion in the September 2009 quarter compared with the June 2009 quarter, following a 5.5% fall in the June quarter. Exports have fallen 15.5% since the December 2008 quarter.

According the the Overseas Trade Index, export prices fell 11.6% in the June quarter, impacted by higher exchange rates. The decline in export prices was the largest decline since 1951, reflecting generally lower world prices for export goods. The fall in prices impacted significantly on the value of dairy (despite increases in quantity) and meat and edible offal exports. More recently, however, Fonterra's latest two online auctions have registered a cumulative 56% increase in average dairy prices.

The value of imports fell 8.1% to $9.5 billion in the September 2009 quarter compared with the June 2009 quarter, following a 3.4% decline in the June quarter. The June quarter includes the one-off import of several large aircraft which affects comparisons with adjacent quarters. The seasonally adjusted value of imports would have decreased only 2.8% in Q3 2009 if the one-off import of aircraft was excluded from the June 2009 import value.

Merchandise trade



Merchandise trade (% change q on q)	Export values	Import values
2008 Q3	5.5	2.2
2008 Q4	4.4	1.5
2009 Q1	-4.0	-12.8
2009 Q2	-5.4	-3.4
2009 Q3	-6.8	-8.1

Latest available trade statistics September 2009

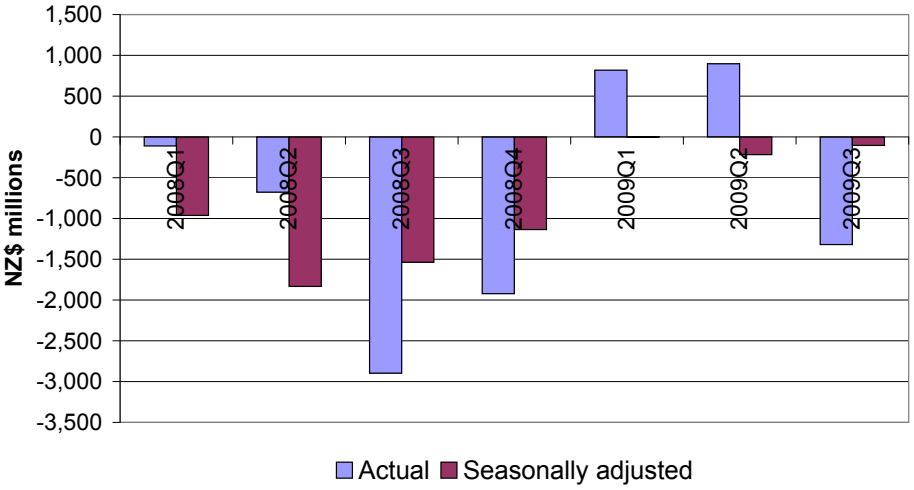
- Merchandise exports fell 10.9% in Sep 09 compared with Sep 08, the fourth consecutive monthly fall in exports compared with the same month of the previous year.
- The decrease in exports was led by milk powder, butter and cheese, down 18.0% by value despite quantities being up 55.5%. Aluminium and aluminium articles was down 34.3%, led by unwrought aluminium down 37.2%, mainly because of price.
- Merchandise imports fell 26.2% in Sep 09 compared with Sep 08.
- Petroleum (down 34.4%, due to lower prices) and vehicles, parts and accessories (down 42.5% mainly due to passenger cars) showed the largest decreases.

Monthly trade					
	Month	June 2009	July 2009	August 2009	September 2009
Exports	% change yoy	-10.0	-7.5	-23.3	-10.9
Imports	% change yoy	-6.4	-20.8	-21.7	-26.2

Merchandise trade balance

The merchandise trade balance was a deficit of $104 million (1.1% of exports) in the September 2009 quarter, following a 2.1% deficit in the June 2009 quarter. Prior to the March 2009 quarter, trade deficits of less than 5% of exports had not been seen since the first half of 2002. If it had not been for the one-off imports of aircraft during the month of June, the June quarter would have had a seasonally adjusted surplus of $354 million (3.5% of exports). The most recent seasonally adjusted quarterly trade surplus was in the December 2001 quarter.

Merchandise trade balance



Trade balance	NZ$ millions	% of exports
2008 Q3	-1,537	-14.1
2008 Q4	-1,136	-10.0
2009 Q1	-1	0.0
2009 Q2	-217	-2.1
2009 Q3	-104	-1.1

NZIER Consensus Forecasts (September 2009)

The NZIER Consensus Forecasts set out an average of New Zealand economic projections, drawn from a survey of economic and financial agencies.

Economic forecasters expect the New Zealand economy to contract by 1.3% in the March 2010 year, before expanding by 2.7% in the following year.

The unemployment rate is expected to keep rising, to around 7.3% by March 2011.

Exports are expected to fall by 1.1% in the year to March 2010. Uncertainty has increased, however, most likely due to a range of views about the NZ dollar. Imports are forecast to fall by 12.4% in the year to March 2010.

Average forecasts expect inflation to be 1.9% in the year to March 2010 and to remain flat through to 2012.

There are diverse views on the NZ dollar but most forecasters expect the TWI to remain stable between 60.0 and 60.5 through to 2012.

NZIER forecast: main indicators

Annual average % change (March yrs)	2009/ 2010	2010/ 2011	2011/ 2012
GDP growth rate	-1.3	2.7	3.4
Unemployment rate (%)	7.1	7.3	6.7
Exports, goods and services	-1.1	2.5	5.2
Imports, goods and services	-12.4	4.5	5.9

Top 10 Export Destinations

Rank	Country	Year to June 2008 (NZ$ billions)	Year to June 2009 (NZ$ billions)	% of total exports	year on year % change
1	Australia	9.17	9.72	22.58	5.94
3	United States	4.02	4.81	11.17	19.70
5	Japan	3.36	3.37	7.84	0.43
6	China	2.09	3.36	7.81	60.68
7	United Kingdom	1.63	1.76	4.08	7.58
8	Korea, South	1.36	1.28	2.98	-5.95
9	Indonesia	0.96	1.06	2.47	11.03
10	Germany	0.85	0.86	2.00	1.30
11	Hong Kong	0.62	0.82	1.91	33.62
12	Malaysia	0.85	0.80	1.85	-6.81
	ASEAN	4.59	4.22	9.80	-8.08
	EU	5.70	5.94	13.81	4.26
	Total	40.03	43.03	100.00	7.50

Top 10 Export Commodities

Product (HS Code)	Description	Year to December 2008 (NZ$ billions)	Year to December 2009 (NZ$ billions)	% of total exports	year on year % change
0401-0406	Dairy	8.76	8.97	20.85	2.42
02	Meat	4.68	5.53	12.84	18.05
44	Wood	2.00	2.33	5.42	16.56
27	Oil and mineral fuel	2.66	2.15	5.00	-19.00
84	Machinery	1.91	1.84	4.28	-3.39
98	Special Other	1.21	1.65	3.82	35.56
08	Edible Fruit And Nuts	1.38	1.61	3.75	17.09
35	Casein (incl albumins	1.10	1.30	3.03	18.44
03	Fish and seafood	1.13	1.30	3.03	15.64
22	Beverages	0.97	1.16	2.71	19.69

Top 10 Import Sources

Rank	Country	Year to June 2008 (NZ$ billions)	Year to June 2009 (NZ$ billions)	% of total exports	year on year % change
1	Australia	8.67	8.11	17.57	-6.54
2	China	5.82	6.66	14.43	14.33
3	United States	4.13	4.65	10.07	12.55
4	Japan	4.05	3.62	7.85	-10.50
5	Germany	1.98	1.98	4.30	-0.05
6	Singapore	2.25	1.86	4.03	-17.47
7	South Korea	1.06	1.48	3.21	39.35
8	France	0.70	1.39	3.02	98.26
9	Qatar	0.86	1.35	2.92	56.48
10	Malaysia	1.84	1.34	2.90	-27.48
	ASEAN	7.04	6.21	13.47	-11.70
	EU	7.16	7.91	17.14	10.47
	Total	44.51	46.14	100.00	3.67

Top 10 Import Commodities

Product (HS Code)	Description	Year to December 2008 (NZ$ billions)	Year to December 2009 (NZ$ billions)	% of total exports	year on year % change
27	Oil and mineral fuel	7.12	7.35	15.92	3.20
84	Machinery	5.88	5.77	12.51	-1.92
85	Electrical Machinery	3.78	4.33	9.38	14.55
87	Vehicles (not railway)	5.33	3.96	8.58	-25.72
39	Plastic	1.59	1.67	3.62	4.81
90	Optical, photographic, and medical instruments	1.19	1.40	3.04	17.53
88	Aircraft	0.79	1.38	3.00	75.19
30	Pharmaceutical Products	1.05	1.19	2.57	13.05
48	Paper and paperboard	1.00	1.03	2.23	2.51
73	Iron and steel products	0.87	0.96	2.09	10.87

Glossary of economics terms and concepts

Balance of payments

The balance of payments measures the payments that flow between any individual country and all other countries. It is the sum of the current account, the capital account, and the financial account.

Capital account

The capital account shows capital transfers (receivables and payables) and acquisition and disposal of non-produced and non-financial assets.

CPI

The Consumer Price Index provides a measure of the change in the prices of a "bundle" of goods and services bought by households. It also provides a measure of inflation and therefore plays a crucial role in the setting and monitoring of monetary policy (such as reviewing the OCR).

Current account

The current account is the difference between a nation's exports of goods and services and its imports of goods and services.

Financial account

The financial account records transactions that involve financial assets and liabilities and that take place between residents and non-residents.

Gross domestic product

GDP is the gross domestic product. It is the monetary value of all final goods and services produced in a country's borders in a given year.

HS coding system

The Harmonized System is an international trade classification system. HS Codes from the 2- to 6-digit level are consistent across all countries. The more detailed 8- and 10-digit levels (or "tariff line") breakdowns are country specific and relate to tariff charges or customs restrictions.

Inflation

Inflation is a sustained increase in the price level.

NZIER

New Zealand Institute of Economic Research is a Wellington-based think-tank.

OCR

The Official Cash Rate (OCR) is the interest rate set by the Reserve Bank of New Zealand to meet the inflation target specified in the Policy Targets Agreement. The OCR is reviewed eight times per year. The OCR influences the price of borrowing money in New Zealand and provides the Reserve Bank with a means of influencing the level of economic activity and inflation.

Trade weighted index

The TWI measures the value of the NZ$ relative to the currencies of NZ's major trading partners weighted 50% on the trading partner's GDP and 50% on their share of NZ's bilateral trade. The TWI is based on the USD, JPY, EUR, AUD, and GBP.

Unemployment rate

The unemployment rate is the percentage of the labour force that is unemployed.