

# Economic Overview

A quarterly overview of the New Zealand economy

May 2009

<b>01</b>	<b>Feature Article</b> Cold comfort
<b>04</b>	<b>Economic Outlook</b> Save the worst 'til last
<b>06</b>	<b>Sectoral Trends</b> Widespread contraction
<b>08</b>	<b>The Markets</b> All guns blazing
<b>10</b>	<b>International</b> Green shoots or noxious weeds?
<b>12</b>	<b>Economic Forecasts</b>
<b>12</b>	<b>Key Charts</b>

## Highlights

- The NZ economic outlook has deteriorated further in the past three months as our trading partners implode. The only cold comfort in these times is schadenfreude that others have it worse than us. The lower NZD, NZ's export mix, robust banking sector and relatively modest wealth hit have provided some limited protection from the worst of it so far.
- Nonetheless we have revised down our forecasts for 2009 GDP growth to a grim -2.8%, with lower investment and net exports. The only growth bright spot in the near term is government spending. We have also revised down the outlook for 2010 to a mere 1.1%, with no decent recovery in GDP growth until 2011.
- With fiscal policy now rapidly running out of room in the face of a potential ratings downgrade, monetary policy must step up to the plate. And Dr Bollard has done that, cutting the OCR to 2.5% and promising rates "at or below" this level until late 2010. Despite some gyrations, the exchange rate is also on the whole doing its part to cushion the blow to NZ exporters, and we expect it to fall below US50c by the end of the year.
- We now see the unemployment rate rising to 7.7% by early next year, a key factor keeping consumption subdued for a long time.

## Cold comfort

*There are numerous factors that have helped to insulate the NZ economy from the worst of the international mayhem – to date. In this article, we discuss these factors, but also take a look at a couple of the major risks facing the economy.*

NZ is already over a year into a protracted recession. And make no bones about it, this recession is a ripshorter. When this down-turn has finally run its course, it will probably be at least as bad as our 'big 2'

recessions of the past 50 years (the early 90's, and late 70's). Desperate times require desperate measures to put a rosy tint on these events!

The only way that we can make

ourselves feel better is to compare NZ's experience to what is occurring in many other countries. It is cold comfort, but NZ has in fact come off relatively lightly compared to many other nations – so far.

### Remember others are not so fortunate

Times are tough in New Zealand. But they're worse elsewhere. Figures 1 to 4 show how NZ ranks on a range of economic indicators.

New Zealand has had the advantage of starting with a low unemployment rate and less of deterioration in employment than has occurred in other countries (see

Figure 1). Although New Zealand was in recession for all of 2008, employment increased by almost 1% in the year. While we fear that this is about to change

**Westpac**





















